Press Release

Euler Hermes macroeconomic scenario 2018:
Is the growth peak behind us?

PARIS –July 6th, 2018 – Each quarter, Euler Hermes, the world's leading credit insurer, reviews its international macroeconomic scenario and updates its growth forecasts by region. As of mid-year, economists at Euler Hermes point out the following: global growth momentum should remain dynamic in 2018 and 2019, but the economic cycle is coming to an end, impacted by the desynchronization of its main drivers.

World: 3 shocks could impact the current growth cycle

Global economic growth should accelerate in 2018 to + 3.3%, versus + 3.2% in 2017. The momentum remains positive, but the drivers of the global economy could desynchronize this year. Indeed, while US growth should accelerate in 2018, a slowdown is expected in Europe and China.

This situation could prematurely put an end to the current cycle, and is caused by 3 shocks with a global outreach: an inflationary shock, with a rise in prices at a global level following the rise in oil prices (expected at 72 USD on average in 2018); an interest rate shock, due to a likely tightening of the Fed's monetary policy to stem the risk of overheating in the US economy; a shock of uncertainty about the stability of economic policies, resulting from the rise of American protectionism.

Euler Hermes believes that the global economy is able to absorb these shocks to limit their impact. The world's leading credit insurer forecasts an economic slowdown in 2019, suggesting that the global growth peak is well behind us. However, this deceleration should be moderate, and global growth should reach + 3.1%.

USA: Budget stimulus works but cannot last

The US economy is responding very well to the fiscal stimulus (tax cut) put in place by the Trump administration. These measures benefit both businesses and households, and should enable growth to accelerate in 2018 to + 2.9% (+ 2.3% in 2017).

But to avoid overheating the economy, the Fed will certainly have to tighten its monetary policy faster than expected. Euler Hermes expects two rate hikes in the remainder of 2018 and two more in 2019, which would slow down residential investment and household consumption. The budgetary generosity of the American state authorities also weighs heavily on the public deficit: while it amounted to 3.7% of GDP in 2017, it is expected at 4% in 2018 and 4.5% in 2019. In the future months, the priority could therefore be given to fiscal rebalancing. For all of these reasons, Euler Hermes estimates that US growth should slow down in 2019 to + 2.4%.

Europe: lower growth, but still above potential

After a strong growth rate in 2017 (+ 2.6%, the highest in 10 years), the European economy should slow down in 2018 and 2019 to + 2.1% and + 1.9% respectively. Intra-zone trade and more generally domestic demand will offset the external slowdown. But the resurgence of protectionism, even if it is currently under control, weighs on business confidence. Internally, political uncertainties (Italy, Brexit) announce a high volatility regime. Finally, the ECB will end the QE program in December and is expected to announce a first increase in the deposit rate in September 2019. Euler Hermes estimates that a rise of + 50bp in the key interest rate will increase the interest charge by 60 billion euros for companies in the euro zone, and 14 billion euros for French companies. In this context, an acceleration of institutional reforms in Europe will be key to reassure about its capacity to integrate further.

Nevertheless, the region still benefits from important safety mattresses, which protect growth: (1) a fiscal policy that will become expansionary in 2019, particularly in Germany, Italy and to a lesser extent in Spain; (2) consumption, supported by the acceleration of wages coupled with contained inflation, which means greater purchasing power as early as the second half of 2018; (3) company margins that remain high; (4) revenue growth which stands above pre-crisis levels; and (5) more than 890 billion euros in cash available.

Excesses are more noticeable in Eastern Europe, where balanced growth has made way to overheating. This is particularly the case in Turkey, where growth is expected to halve in 2018 to reach 3.7%.

Asia: China's transformation benefits the entire region

In Asia, China will play a stabilizing role, thanks to the controlled transformation of its growth model. This transformation will benefit the entire region, the gradual decline of the Chinese current account surplus (expected at 1% of GDP in 2018 against 10% in 2007) being favored by exports from neighboring countries. The restructuring of the Chinese economy is accompanied by an intelligent policy-mix that allows for progressive deleveraging and a reduction of overcapacity without severely penalizing domestic demand. This soft landing of the Chinese economy, coupled with the proliferation of commercial cooperation initiatives, will benefit all of Asia, which should grow at a rate close to + 5% in 2018 and 2019 (vs. 2017).

Vigilance, however, is needed on the financial side. The tightening of the US monetary policy (i) creates pressures on the currencies of countries with twin deficits (such as India and Indonesia, for example), and (ii) encourages their central banks to adopt a proactive policy of increasing rates. These tensions on the exchange rate and this tightening of interest rates (external and domestic) could endanger not only the indebted companies of the region, but also their suppliers.

Latin America: BAMs[1] under financial and political pressure

For Latin America, the takeoff expected for the end of last year is delayed. Growth should accelerate to + 2% in 2018 and + 2.4% in 2019 (+ 1.2% in 2017), but less than initially expected. This is mainly due to downward revisions in growth in Argentina and Brazil. Indeed, the rise in US interest rates has highlighted the region's vulnerabilities, starting with Argentina: inflation over 25% and twin deficits have led to market sanctions (the Argentine peso is depreciated by 45% since the beginning of the year). The situation should remain under control, with growth expected at + 1.4% in 2018 and + 1.7% in 2019 (+ 2.9% in 2017), thanks to IMF support until 2020.

In Brazil, the recovery will be slower than expected, but the country should resist volatility thanks to a favorable external position, with growth expected at + 1.9% in 2018 (+ 1% in 2017). The medium-term outlook remains degraded due to drifting public finances, while no candidate in the presidential election foresees pension reform at the height of the stakes. Finally, Mexico, despite a resilient economy (+ 2.5% growth in 2018 after + 2% in 2017), a proactive monetary policy and a responsible fiscal policy, will continue to be under pressure from the markets. The uncertain renegotiation of the NAFTA treaty in 2019 and the future of the energy sector, a potential target of the new Mexican president, will be a source of prolonged volatility.

Middle East and Africa: growth driven by commodities

The Middle East countries remain convalescent, the period of low oil prices having forced a massive budget consolidation. However, with the rebound in oil, growth prospects are improving, as in Saudi Arabia (+ 1.7% in 2018).

In Africa, the recent rise in commodity prices is expected to have a stabilizing influence for the region as a whole, notably with the expected strengthening in Nigeria (+ 2.5% in 2018). Overall, Euler Hermes expects African growth to accelerate to + 3.9% and + 4.3% in 2018 and 2019 (+ 3.4% in 2017). The problem is not growth itself. Infrastructure projects (hydroelectric dams, ports, roads, rails) remain legions, particularly in East Africa (Ethiopia, Kenya) or West Africa (Côte d'Ivoire, Senegal). But the way these projects are funded is sometimes a problem and can lead to over-indebtedness.

=> Want to know more? Link to the Euler Hermes website with country risk ratings

[1] Brazil, Argentina, Mexico

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