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Spotlight  
| on Country Risk

The first global recession since 1945

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# Economic Outlook



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## Editorial

## On Atlas's shoulders: a world of information

What would happen if Atlas, the legendary Titan of Greek mythology who bears the globe on his shoulders, were to shrug his shoulders and drop his burden? The question is a legitimate but also disturbing one, given the global economy's continuing descent to the depths. In just a few short months at the end of 2008, turnovers fell by as much as 10%, 20%, or even 40% for some companies. This year will bring even worse. We continue to think that recovery in 2010 remains the most likely scenario, given US and Chinese budget and monetary plans. But there is no doubt that the recovery will be slow, fragile, and difficult. And this is because, this year, for the first time since the Second World War, world growth will be negative, and manifestly so. Moreover, the exceptional gravity of the shocks being felt means that we cannot rule out that other possibility: that of a triggering of deflation in the OECD countries next year. This is not the most likely outcome, but it is not beyond the realms of possibility. At such an uncertain juncture, what is the right stance to take? As a credit insurer, we have a responsibility to stem the coming – and indeed already rising – tide of claims and insolvencies. We also have a responsibility to ensure that the security of commercial exchanges is guaranteed, and that forming accurate judgements on the situation of economic agents continues to remain possible. In this current shock of 2008-2009, more than in any past crisis, information plays a critical role. During an economic crisis, one of the key mechanisms of its amplification is a shortage of accurate information about the various economic agents. To use the technical terms, I refer to here to the risks associated with 'adverse selection' or with the 'principal-agent problem' (the 'agency dilemma'). Broadly, because the risk of non-payment strongly increases, and because accurate information gets harder to obtain, bad allocation decisions are made, further worsening the recession...which, in turn, engenders further bad decisions. And so on. In the current situation, whether the crisis is accelerated or, alternatively, whether it is eased, will much depend on the extent of reciprocal information sharing by economic agents and the level of confidence they hold in one another, in particular concerning the scale of latent unpaid debts in their bank balances. The role of the credit insurer is to calculate commercial risks down the last decimal. In the past year, commercial risk has increased by a factor of two or three, irrespective of the initial situation of the businesses concerned. We need to be more selective in order to eliminate the risk of adverse selection, that is, the risk of overreacting to the crisis. This is a difficult, but necessary, balancing act. In February, *The Economist* published delayed and disturbing statistics, showing the correlation between sales of novelist Ayn Rand's US best-seller *Atlas Shrugged* and announcements of recovery programmes. There is a good correlation between them, for at least two reasons. First, Rand was a long-standing friend of former Federal Reserve chairman Alan Greenspan, and there were rumours that his decisions were highly influenced by her book. Economic actors hoped to find the solution to the crisis in its pages, and, more pragmatically, which sector would be the next to collapse. The second reason is that the book tells the story of the collapse of the US economy, sector by sector, and state by state. It tells us how, one day, Atlas decides to shrug his shoulders. But what is the identify of this Atlas, whose action spells the undoing of the world economy? For the answer, I leave it to you to read the story of Dagny Taggart, the main character in Rand's novel.

## Revised forecasts

## GDP growth 2009

	January 2008	March 2009	Revision
World	3.4%	-1.7%	-4.9%
USA	2.3%	-2.6%	-4.8%
Canada	2.2%	-1.8%	-3.9%
Japan	1.9%	-5.7%	-7.5%
Euro zone	1.9%	-2.9%	-4.7%
Germany	1.7%	-3.5%	-5.2%
France	1.9%	-1.8%	-3.7%
Italy	1.7%	-2.8%	-4.5%
Spain	2.5%	-2.3%	-4.7%
Netherlands	2.0%	-2.4%	-4.3%
Belgium	2.2%	-2.6%	-4.7%
Austria	2.3%	-1.8%	-4.0%
Finland	2.5%	-2.2%	-4.6%
Greece	3.8%	0.0%	-3.7%
Ireland	3.9%	-5.1%	-8.7%
Portugal	2.0%	-1.9%	-3.8%
UK	1.8%	-3.2%	-4.9%
Sweden	2.4%	-3.9%	-6.2%
Denmark	1.3%	-2.8%	-4.0%
Norway	2.4%	0.0%	-2.4%
Switzerland	2.0%	-1.2%	-3.1%
Central and Eastern Europe	5.4%	-2.7%	-7.7%
Russia	5.7%	-4.0%	-9.2%
Asia (excluding Japan)	7.9%	3.2%	-4.4%
China	9.3%	6.7%	-2.4%
India	8.0%	4.5%	-3.2%
Latin America	4.3%	-0.9%	-5.0%
Brazil	4.3%	-1.0%	-5.1%
Middle East and Africa	4.9%	2.2%	-2.6%

Sources: National figures, Euler Hermes Forecasts



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