



The World Cup and Economics 2014

Goldman
Sachs

The World Cup 2014 Dream Team

(as selected by you!)

Sergio Ramos (ESP)

Real Madrid

The Real Madrid defender can play central defender as well as right back, and is also the highest-scoring defender in La Liga.

Manuel Neuer (GER)

Bayern Munich

The Bayern Munich keeper was a comfortable choice in goal – beating Iker Casillas into second place.

Thiago Silva (BRA)

Paris Saint-Germain

The Brazilian central defender who will be hoping to play in this World Cup after missing out in the 2010 tournament.

Philipp Lahm (GER)

Bayern Munich

The most popular defender, chosen by almost half of you. With Alves in the team, the utility player has reverted to left back for us.

Dani Alves (BRA)

Barcelona

One of the four players to keep his slot from our 2010 Dream Team, the Brazilian again comes in at right back.

Eden Hazard (BEL)

Chelsea

The lightning-fast Hazard is the first Belgian ever to play for our Dream Team.

Neymar (BRA)

(Neymar da Silva Santos Junior) *Barcelona*

Neymar replaces Rooney from our 2010 Dream Team.

Lionel Messi (ARG)

Barcelona

The first name on the team sheet, Messi was chosen in almost 64% of teams. Along with Alves, Ribéry and Ronaldo, he is one of the four players from our 2010 Dream Team.



Andrés Iniesta (ESP)

Barcelona

The most popular midfielder, who scored the winning goal for Spain in the 2010 World Cup final against the Netherlands.

Franck Ribéry (FRA)

Bayern Munich

Along with Alves, Ronaldo and Messi, the Bayern Munich midfielder is one of the four players who keep their place from our 2010 Dream Team.

Cristiano Ronaldo (POR)

Real Madrid

Despite winning FIFA's Ballon D'Or in 2013, Ronaldo was pipped to the post as most popular player in our 2014 Dream Team by Lionel Messi. But only three votes separated the world's two best players.

Here is our 2014 Dream Team, selected by you the client! Once again the team was selected in a strict 4-3-3 formation, which means that some players who otherwise might have appeared didn't quite make it. For example, Yaya Toure was runner-up for the midfield even though he received almost 200 fewer votes than striker Luis Suárez. In any case, our Dream Team would clearly have no problems scoring.

The World Cup and Economics 2014

Welcome to our 2014 book on the World Cup and Economics. This is our fifth edition since the 1998 Paris competition and the first without Jim O'Neill, who pioneered the previous versions over all those years. While it is hard to match Jim's football craziness, the group globally is still full of fans of the beautiful game. And it is now possible to acknowledge open support for teams such as Liverpool and Chelsea.

We present this guide as a companion to the upcoming Rio Cup, with the usual unnatural mix of football and economics. We have turned again to famous guest contributors to help guide you through the competition. Franz Beckenbauer, German legend and World Cup Winner as both player and coach, talks about what it takes to succeed. Four of Chelsea's Brazilian players – Oscar, Ramires, Willian and David Luiz – talk about the excitement and pressure of playing for the host nation. Angel Ubide of DE Shaw talks about the intersection of finance and football, looking at the impact of Spain's crisis on the restructuring of Spanish football. And Paulo Leme, now Chair of Goldman Sachs Brazil, discusses the parallels between the economy and football in Brazil.

We also include our latest version of the World Cup Dream Team, selected by you, our clients from around the world. Based on the 1,700 votes submitted, Dirk Schumacher has narrowed the list down to a line-up of 11.

Alongside our regular country pages from our economists around the world, we have been busy working on beefing up our analytical capability. We have invested much more intensively this year in a model of the probability of success in a match between any two given teams, based on their track record and characteristics. Jan Hatzius, Jari Stehn and Donnie Millar use this to map probabilities of progress through the competition both game by game and to the final. Excitingly, we will be able to update the output as the game comes in. Brazil will be pleased to see it emerges as the clear favourite, helped by a home team advantage, but the likely semi-finalists are Brazil, Germany, Argentina and Spain.

Peter Oppenheimer and our Portfolio Strategy team have also looked at the links between World Cup performance and equity markets and the 'honeymoon bounce' that follows the winners in the weeks after the final. Yu Song and Vishal Vaibhaw look at the two missing giants – India and China – from the World Cup line-up and their hopes for the future. José Ursúa and Kamakshya Trivedi highlight some key macro trends from the history of World Cups, including disinflation in goals and the importance of land as a factor of production in World Cup victories. Seriously.

We could only wish for this level of dedication from our team around the world to their regular tasks.

We hope you enjoy the read, the World Cup and these challenging markets.

May the best team win!

Dominic Wilson and Jan Hatzius

May 27, 2014

Groups and Key Statistics

Team	Odds	FIFA World Ranking	GS Probability	Team	Odds	FIFA World Ranking	GS Probability
Group A				Group E			
Brazil	3/1	4	48.5	Switzerland	100/1	8	0.4
Croatia	125/1	20	0.1	Ecuador	125/1	28	0.4
Mexico	125/1	19	0.1	France	20/1	16	0.8
Cameroon	750/1	50	0.0	Honduras	2500/1	30	0.0
Group B				Group F			
Spain	13/2	1	9.8	Argentina	9/2	7	14.1
Netherlands	25/1	15	5.6	Bosnia and Herzegovina	125/1	25	0.2
Chile	33/1	13	0.5	Iran	2500/1	37	0.1
Australia	1500/1	59	0.1	Nigeria	200/1	44	0.1
Group C				Group G			
Colombia	22/1	5	0.6	Germany	11/2	2	11.4
Greece	300/1	10	0.3	Portugal	20/1	3	0.9
Côte d'Ivoire	125/1	21	0.2	Ghana	200/1	38	0.0
Japan	150/1	47	0.0	USA	250/1	14	0.5
Group D				Group H			
Uruguay	28/1	6	1.1	Belgium	16/1	12	0.6
Costa Rica	3000/1	34	0.0	Algeria	1000/1	25	0.0
England	33/1	11	1.4	Russia	80/1	18	0.5
Italy	22/1	9	1.5	Korea Republic	300/1	55	0.1

Source: Ladbrokes.com, May 20, 2014; FIFA, Goldman Sachs Global Investment Research

Contents

The World Cup and Economics 2014	1
A Statistical Model of the 2014 World Cup	3
The World Cup and Equity Markets	8
An interview with Franz Beckenbauer	10
An interview with Chelsea’s Brazil quartet: David Luiz, Ramires, Oscar and Willian	12
When will China and India Play in a World Cup Final?	14
Algeria	16
Argentina	17
Australia	18
Belgium	19
Bosnia and Herzegovina.....	20
Brazil (includes a contribution from Paulo Leme, Chairman of Goldman Sachs Brazil).....	21
Cameroon.....	24
Chile	25
Colombia	26
Costa Rica	27
Côte d’Ivoire.....	28
Croatia	29
Ecuador	30
World Cup Groups, Calendar and Venues	
England	31
France	33
Germany.....	34
Ghana	35
Greece.....	36
Honduras.....	37
Iran	38
Italy.....	39
Japan.....	40
Korea	41
Mexico	42
Netherlands.....	43
Nigeria	44
Portugal	45
Russia.....	46
Spain (includes a contribution on ‘The restructuring of Spanish football’ by Angel Ubide).....	47
Switzerland.....	51
Uruguay.....	52
USA	53
World Cup trends viewed through a (light-hearted) economic lens.....	54
World Cup Trivia	58
Disclosure Appendix.....	60

A Statistical Model of the 2014 World Cup

Today we introduce our statistical model for predicting the outcome of the 2014 World Cup. At a very high level, our approach is as follows:

- We construct a stochastic model that generates a distribution of outcomes for each of the 64 matches of the 2014 World Cup, from the opener between Brazil and Croatia on June 12 in São Paulo through the final on July 13 in Rio de Janeiro.
- The predictions for each match are based on a regression analysis that uses the entire history of mandatory international football matches—i.e., no friendlies—since 1960.¹ This gives us about 14,000 observations to estimate the coefficients of our model. The dependent variable in the regression analysis is the number of goals scored by each side in each match. Following the literature on modelling football matches, we assume that the number of goals scored by a particular side in a particular match follows a Poisson distribution.²
- The explanatory variables in the regression analysis are as follows:
 1. The difference in the Elo rankings between the two teams. The Elo ranking is a composite measure of national football team success that is based on the entire historical track record. Unlike the somewhat better known FIFA/Coca-Cola rating, the Elo rating is available for the entire history of international football matches. Statistically, we find that the difference in Elo rankings is the most powerful variable in the model.
 2. The average number of goals scored by the team over the last ten mandatory international games.
 3. The average number of goals received by the opposing team over the last five mandatory international games.
 4. A country-specific dummy variable indicating whether the game in question took place at a World Cup. This variable is meant to capture whether a team has a tendency to systematically outperform or underperform at a World Cup. We only include this variable for countries that have participated in a sufficient number of post-1960 World Cup games (including Brazil, Germany, Argentina, Spain, Netherlands, England, Italy and France).
 5. A dummy variable indicating whether the team played in its home country.
 6. A dummy variable indicating whether the team played on its home continent, with coefficients that are allowed to vary by country.
- We generate a probability distribution for the outcome of each game using a Monte Carlo simulation with 100,000 draws, using the parameters estimated in the regression analysis described above. We use the results of this simulation analysis to generate the probabilities of teams reaching particular stages of the tournament, up to winning the championship. We use the rounded prediction of the goals scored to determine the outcomes of each game during the

group stage and the unrounded forecast to pick the winner in the knockout stage.

- To be clear, our model does not use any information on the quality of teams or individual players that is not reflected in a team's track record. For example, if a key player who was responsible for a team's recent successes is injured, this will have no bearing on our predictions. There is also no role for human judgment as the approach is purely statistical.

Exhibit 1: Predicted Group Results

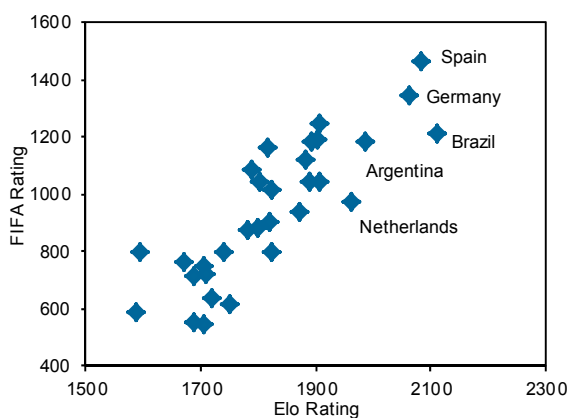
Group	Team 1	Team 2
A	Brazil 4	Croatia 1
A	Cameroon 1	Mexico 1
B	Netherlands 1	Spain 1
B	Australia 1	Chile 1
C	Colombia 1	Greece 1
D	Costa Rica 1	Uruguay 1
D	England 1	Italy 1
C	Ivory Coast 1	Japan 1
E	Ecuador 1	Switzerland 1
E	France 2	Honduras 1
F	Argentina 2	Bosnia 1
G	Germany 2	Portugal 1
F	Iran 1	Nigeria 1
G	Ghana 1	Usa 1
H	Belgium 1	Belgium 1
A	Brazil 4	Mexico 1
H	Korea 1	Russia 1
B	Australia 1	Netherlands 2
B	Chile 1	Spain 2
A	Cameroon 1	Croatia 1
C	Colombia 1	Ivory Coast 1
D	England 1	Uruguay 1
C	Greece 1	Japan 1
D	Costa Rica 1	Italy 2
E	France 1	Switzerland 1
E	Ecuador 1	Honduras 1
F	Argentina 2	Iran 1
G	Germany 2	Ghana 1
F	Bosnia 1	Nigeria 1
H	Belgium 1	Russia 1
H	Algeria 1	Korea 1
G	Portugal 1	Usa 1
B	Australia 1	Spain 2
B	Chile 1	Netherlands 2
A	Brazil 5	Cameroon 0
A	Croatia 1	Mexico 1
D	Costa Rica 1	England 1
D	Italy 1	Uruguay 1
C	Colombia 1	Japan 1
C	Greece 1	Ivory Coast 1
F	Argentina 3	Nigeria 1
F	Bosnia 1	Iran 1
E	Honduras 1	Switzerland 1
E	Ecuador 1	France 1
G	Germany 2	Usa 1
G	Ghana 1	Portugal 1
H	Algeria 1	Russia 1
H	Belgium 1	Korea 1

Source: Goldman Sachs Global Investment Research

1. The database is taken from <http://www.eloratings.net/>. We focus on a post-1960 sample because the average number of goals scored per game was notably higher before then. 2. See, for example, A. Heuer, C. Müller, and O. Rubner, "Soccer: Is scoring goals a predictable Poissonian process?" *Europhysics Letters*, 2010.

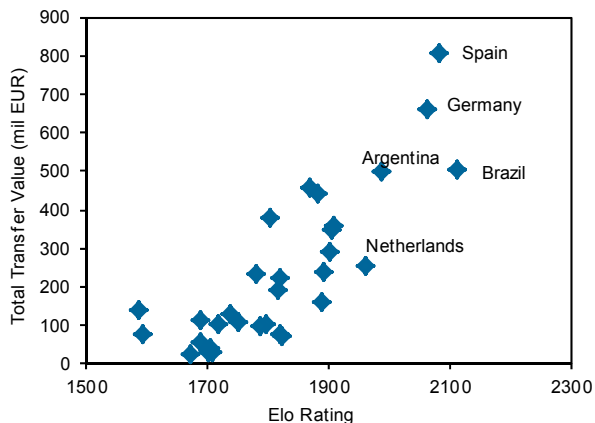
relationship between the Elo rating and the FIFA/Coca-Cola rating. Moreover, Exhibit 6 shows that there is also a decent relationship between the Elo rating and the aggregate transfer value of all the players in the different national squads. (Our statistical analysis does not use either the Fifa/Coca-Cola ratings, which are only available back to 1992, or aggregate transfer values, which are only available as a snapshot.)

Exhibit 5: Elo Rating vs. FIFA/Coca-Cola Ratings



Source: Elo ratings, FIFA, Goldman Sachs Global Investment Research.

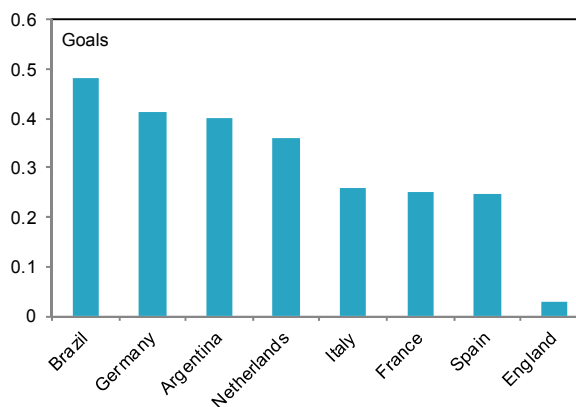
Exhibit 6. Elo Rating vs. Aggregate Transfer Value



Source: Transfermarkt.co.uk, Goldman Sachs Global Investment Research.

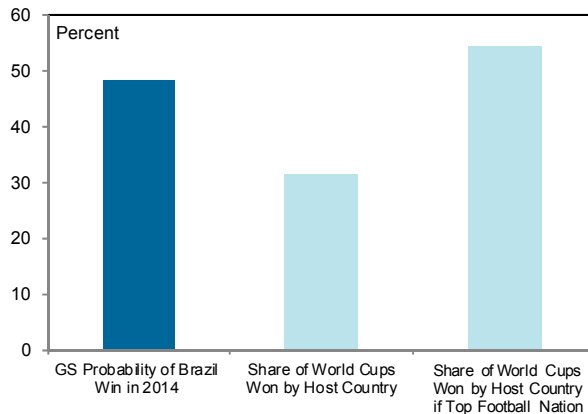
extra 0.4 goals scored per match, adjusting for all the other parameters in the model. Related to this, Exhibit 8 shows that home advantage is a very strong predictor of winning the World Cup. The home team has won 30% of all World Cups since 1930, and over 50% of all World Cups held in a traditional football powerhouse (Brazil, Italy, Germany, Argentina, Uruguay, Spain, France and England).

Exhibit 7: World Cup Effect



Source: Goldman Sachs Global Investment Research.

Exhibit 8: Home Advantage Effect

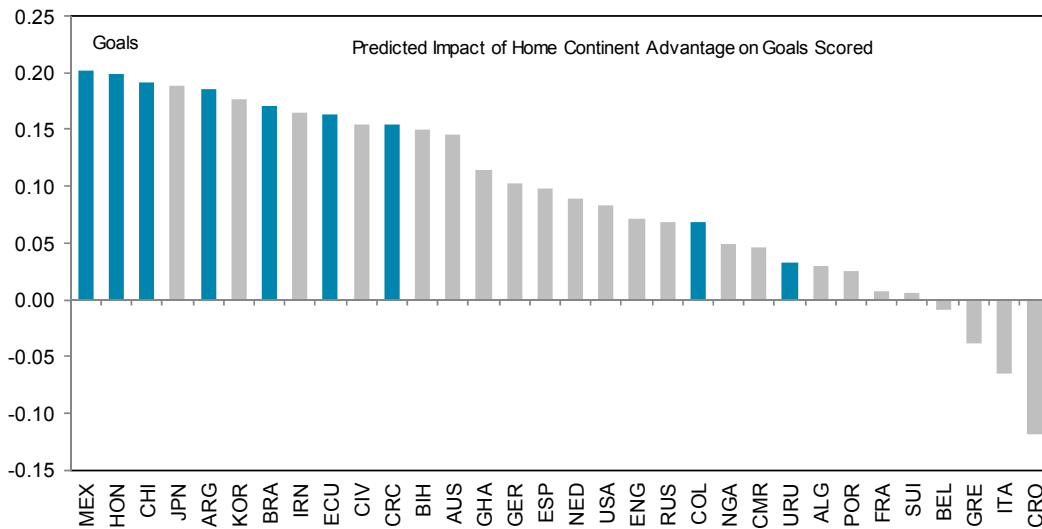


* Argentina, Brazil, England, France, Germany, Italy, Spain, Uruguay
Source: Goldman Sachs Global Investment Research.

- Brazil is a particularly strong performer at World Cup tournaments, relative to other matches. This is, of course, one reason why Brazil has won a record five World Cups. Other teams that tend to perform particularly strongly at World Cups relative to other matches include Germany and Argentina. Among the traditional football powerhouses, England is the only one that does not perform meaningfully better at World Cups than in other matches, adjusting for all the other parameters in the model. The statistical World Cup effects for each of the major teams are illustrated in Exhibit 7.
- Home advantage is an important predictor of international football matches. According to our model, it is worth an

- Home *continent* advantage is also an important factor, particularly for Latin American teams. Exhibit 9 shows the home continent coefficient for all participating teams. Consistent with this, no European team has ever won a World Cup held in the Americas. While past performance is of course no guarantee of future results, this observation is consistent with our model's prediction that the probability of a Latin American team winning the 2014 World Cup is 65%. This implies that the composite home advantage for Brazil—consisting of the home country and home continent effect—is 0.6 goals per game. More generally, we can illustrate the importance of different variables in the model via a set of 'waterfall charts' for the probability of each of the four top teams winning the World Cup. In Exhibit 10,

Exhibit 9: Home Continent Advantage is Particularly Important for Latin American Teams



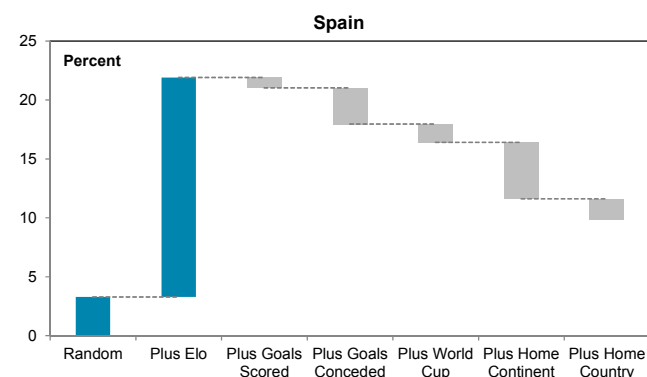
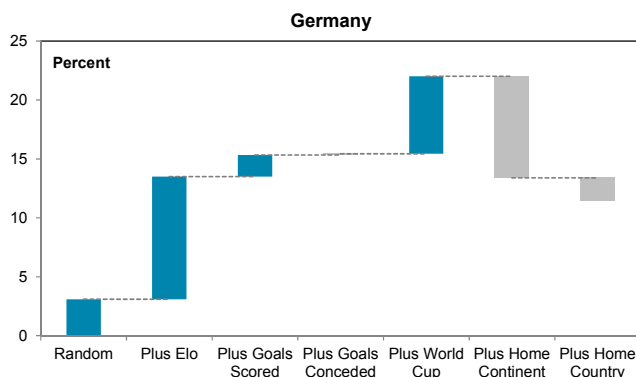
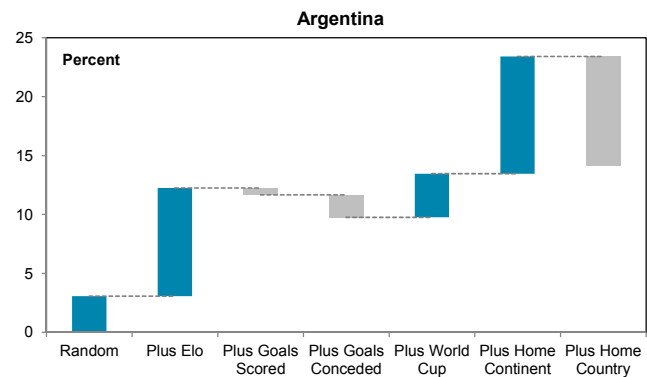
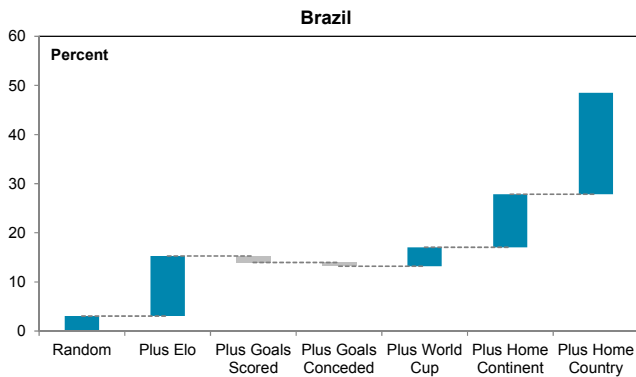
Note: Dark shadings denote Latin American countries.

Source: Goldman Sachs Global Investment Research.

we start from a model that assumes an equal scoring propensity per game which, by construction, results in roughly even probabilities of each team winning the championship. We then bring in subsequently more information, including the actual tournament structure and the Elo rating, goals scored and conceded in recent

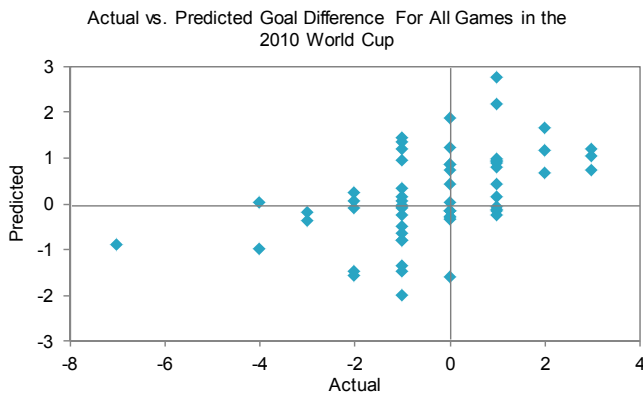
games, the World Cup effect, the home country effect and the home continent effect. The chart illustrates the point above that Brazil draws most of its strength from the Elo rating, the home country and home continent effect, and the World Cup effect.

Exhibit 10: Decomposing Winning Probabilities for Top Teams



Source: Goldman Sachs Global Investment Research.

Exhibit 11: The Fit of Our Model for the 2010 World Cup



Source: Goldman Sachs Global Investment Research.

Having described our model, we can also ask how well the model would have done in predicting the outcome of past World Cups, using only data that were available prior to the tournament. Focusing on the 2010 World Cup in South Africa, Exhibit 11 plots the model prediction for the goal difference in each game against the actual result. Overall, there is a positive and statistically significant relationship between the actual and predicted outcomes. However, the fit of the relationship is not particularly tight with an r-squared of 0.24, because football is ultimately a pretty random game.

Another perspective on past performance is the table of predicted probabilities that our model would have generated at the start of the tournament compared with the actual outcomes of the tournament. Exhibit 12 shows that the model correctly predicted 13 of the 16 teams that advanced to the knockout stages, 5 of 8 teams that advanced to the quarter finals and 3 out of 4 teams that made it to

Exhibit 12: What Our Model Would Have Said for the 2010 World Cup

Team	Second Round	Quarters	Semis	Final	Champion
Brazil	92.5	73.3	51.6	39.2	26.6
Spain	84.9	59.0	40.6	27.7	15.7
Netherlands	88.2	68.9	37.3	25.5	14.9
Germany	83.1	63.1	44.4	24.8	12.7
England	82.8	53.2	33.0	13.7	6.4
Italy	84.8	49.8	22.7	12.1	5.3
France	76.0	49.7	27.4	11.1	4.7
Argentina	71.8	41.3	20.4	8.3	3.2
Mexico	54.7	31.5	15.0	5.0	1.7
Portugal	57.1	20.5	8.9	3.6	1.0
Usa	57.8	23.3	10.1	2.9	0.8
Uruguay	45.5	21.5	8.6	2.5	0.7
Chile	42.4	12.8	5.0	2.0	0.6
Ivory Coast	39.4	13.9	5.4	2.0	0.6
Paraguay	67.9	22.5	5.8	2.1	0.6
Nigeria	45.2	17.9	6.4	1.7	0.5
Switzerland	37.5	11.2	4.3	1.6	0.5
Japan	44.4	18.8	5.7	2.0	0.5
Australia	37.9	15.7	6.2	1.6	0.4
Cameroon	37.6	16.9	4.8	1.8	0.4
Serbia	37.1	16.0	6.5	1.6	0.4
Ghana	41.9	15.7	5.9	1.3	0.3
Korea	48.0	17.8	6.1	1.3	0.3
Greece	35.1	13.0	4.5	1.1	0.3
Denmark	29.8	13.0	3.5	1.3	0.3
Honduras	35.2	7.6	2.4	0.9	0.2
Slovenia	34.1	7.5	2.1	0.4	0.1
Slovakia	36.7	8.9	1.5	0.4	0.1
South Africa	23.7	7.4	1.9	0.3	0.0
Algeria	25.3	5.5	1.4	0.2	0.0
North Korea	11.1	1.7	0.3	0.0	0.0
New Zealand	10.6	1.3	0.1	0.0	0.0

Note: Shaded numbers denote actual advancements in the 2010 World Cup
Source: Goldman Sachs Global Investment Research.

the semi-finals. The model did not, however, correctly predict (*ex ante*) that Spain would win the World Cup. Spain had a 15.7% probability of winning, behind Brazil at 26.6% though narrowly ahead of eventual runners-up Netherlands.

Jan Hatzius, Sven Jari Stehn and Donnie Millar

The World Cup and Equity Markets

There is no doubt that the World Cup captures huge attention and, with it, generates a massive amount of passion. But does it have any impact on stock markets?

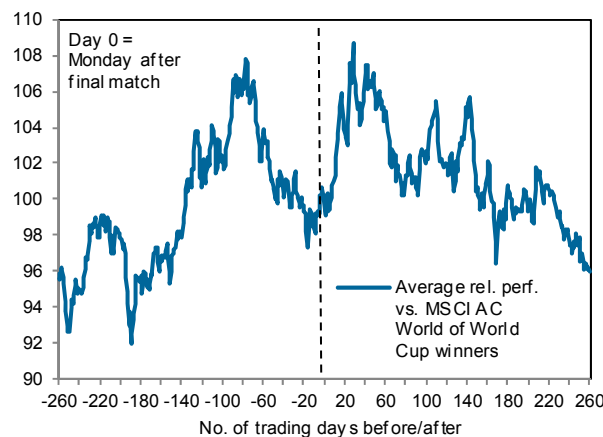
Our overall conclusion is that it does – at least for a brief period. Looking at history, there is a clear pattern of outperformance by the winning team in the weeks after the World Cup final. On average, the victor outperforms the global market by 3.5% in the first month – a meaningful amount, although the outperformance fades significantly after three months. But sentiment can only take you so far, in markets at least – the winning nation doesn’t tend to hold on to its gains and, on average, sees its stock market underperform by around 4% on average over the year following the final. The message seems to be: enjoy the gains while they last...

The pattern of outperformance following victory at the World cup is fairly consistent over time. All the winners since 1974 (for which we have stock market data) have outperformed in the post-final month, with only one exception – Brazil in 2002! However, in this particular case, macro events (a deep recession and currency crisis) overshadowed the impact of victory on the football field. The economic crisis was sufficient to drive the equity market down by 19% relative to the World index in the month after the final and this followed an underperformance of 13% over the previous months. But this does not mean that Brazil hasn’t seen reflected in its market the post-final feel-good factor that tends to be more typical after a World Cup victory. It outperformed the MSCI World index by 21% in just one month after its win in 1994; on that occasion, the bull market continued and the stock market outperformed by 38% over just three months despite a staggering 39% outperformance in the year leading up to the games.

So, in the absence of a severe economic crisis, the winner tends to enjoy the spoils of success in the market for a brief period at least.

Exhibit 1: A boost for the winner

Relative performance of World Cup winners one year before/after championship match



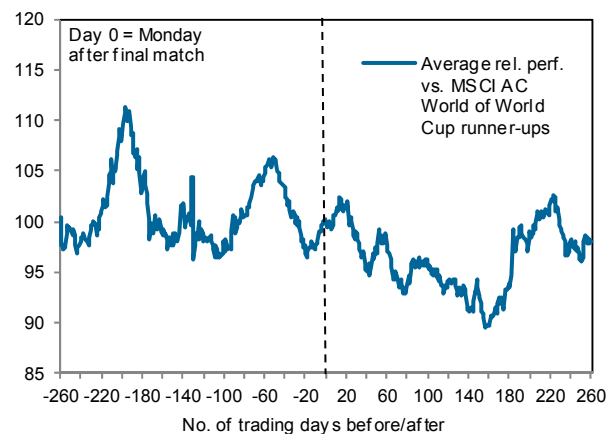
Note: Excluding Argentina in 1978 and 1986.

Source: Datastream, Goldman Sachs Global Investment Research.

But what about the runner-up? Of course, the fans are always disappointed at losing at the last hurdle and, interestingly, the stock market doesn’t tend to react well either. In contrast to the initial post-match rally that the winners tend to enjoy, the runners-up seem to experience a post-final bout of the blues. The average relative outperformance of the runner-up is 2.0% over the first month. However, the average here is misleading as it is heavily skewed by Argentina in 1990, which enjoyed a 33% outperformance in the month after the final (that said, this bounce should be considered in context, since it followed a collapse in its stock market and currency that had reduced the value of Argentine equities by over 90% in US\$ terms between October 1988 and early 1990). Aside from this episode, 7 of the 9 other runners-up underperformed over the first month with an average underperformance of 1.4%. Interestingly, the poor performance doesn’t stop there. Most of the World Cup runners-up have seen their stock markets continue to underperform, with an average relative fall of 5.6% over the first three months.

Exhibit 2: A slump for the runner-up

Relative performance of World Cup runners-up one year before/after championship match



Source: Datastream, Goldman Sachs Global Investment Research.

What about the host nation? The focus on the host tends to bring with it both pride and confidence. As with the winner, there also tends to be a positive impact that lasts for a few weeks. In every case, the host country has enjoyed an outperformance of its stock market in the month after the event. The average outperformance is 2.7%, although this tends to fade fairly quickly, with nearly half underperforming over three months. Being both the host nation and winning is the ultimate goal: but while the performance tends to be very positive for a month, there is no consistent pattern of ongoing outperformance, at least in the stock market – although there are too few examples to read much into the results.

Exhibit 3: One-year relative return in equity markets*

Relative price return of MSCI country indices vs. MSCIAC World, in USD, from Monday after championship match

Year	Winner	pre-1yr return	post-1yr return	Runner-Up	pre-1yr return	post-1yr return	Host	pre-1yr return	post-1yr return
1974	Germany	2.5	21.8	Netherlands	-9.6	21.8	Germany	2.5	21.8
1978	Argentina*	-	-	Netherlands	2.6	2.3	Argentina*	-	-
1982	Italy	-10.0	-14.6	Germany	10.2	-2.3	Spain	-13.7	-43.3
1986	Argentina*	-	-	Germany	25.7	-19.4	Mexico*	-	-
1990	Germany	45.0	-18.5	Argentina	13.1	69.2	Italy	12.1	-25.6
1994	Brazil	38.7	-3.7	Italy	12.7	-16.4	USA	-9.3	13.7
1998	France	27.7	-11.2	Brazil	-37.6	-39.1	France	27.7	-11.2
2002	Brazil	-13.0	12.4	Germany	2.2	-14.1	Japan	0.3	-13.0
2006	Italy	1.1	-3.3	France	6.7	3.9	Germany	9.8	18.4
2010	Spain	-19.7	-14.7	Netherlands	3.4	-9.6	South Africa	7.7	4.1
Average		9.0	-4.0		3.0	-0.4		4.6	-4.4
Year	Winner	pre-3m return	post-3m return	Runner-Up	pre-3m return	post-3m return	Host	pre-3m return	post-3m return
1974	Germany	3.9	17.1	Netherlands	0.2	2.3	Germany	3.9	17.1
1978	Argentina*	-	-	Netherlands	-5.1	-0.3	Argentina*	-	-
1982	Italy	-16.1	-11.1	Germany	-1.8	-9.9	Spain	-13.8	-17.6
1986	Argentina*	-	-	Germany	-7.3	3.9	Mexico*	-	-
1990	Germany	-3.6	-7.9	Argentina	-2.9	6.1	Italy	-1.6	-7.2
1994	Brazil	14.1	37.9	Italy	-7.2	-8.2	USA	-1.2	1.1
1998	France	8.4	-0.8	Brazil	-18.5	-26.9	France	8.4	-0.8
2002	Brazil	-19.4	-25.5	Germany	1.7	-22.6	Japan	20.4	6.7
2006	Italy	2.3	0.5	France	3.4	0.0	Germany	-0.6	0.8
2010	Spain	-8.0	4.5	Netherlands	-1.2	-0.4	South Africa	1.6	8.3
Average		-2.3	1.8		-3.9	-5.6		2.1	1.1
Year	Winner	pre-1m return	post-1m return	Runner-Up	pre-1m return	post-1m return	Host	pre-1m return	post-1m return
1974	Germany	3.4	5.0	Netherlands	-0.9	9.1	Germany	3.4	5.0
1978	Argentina*	-	-	Netherlands	2.1	-2.6	Argentina*	-	-
1982	Italy	-7.2	9.5	Germany	-0.6	2.8	Spain	-14.2	9.0
1986	Argentina*	-	-	Germany	0.0	-2.2	Mexico*	-	-
1990	Germany	7.8	4.2	Argentina	12.4	33.1	Italy	-2.3	1.7
1994	Brazil	9.6	21.1	Italy	1.7	-8.5	USA	-2.6	1.2
1998	France	-1.3	0.7	Brazil	0.7	-6.7	France	-1.3	0.7
2002	Brazil	-13.0	-18.9	Germany	4.0	-4.1	Japan	2.1	2.0
2006	Italy	-0.7	0.5	France	2.3	-0.2	Germany	1.9	-0.5
2010	Spain	9.1	5.7	Netherlands	3.4	-0.5	South Africa	2.4	2.3
Average		0.9	3.5		2.5	2.0		-1.3	2.7

*no data available for Argentina in 1978 and 1986 and for Mexico in 1986

Source: Datastream, Goldman Sachs Global Investment Research.

While there is no obvious trend of outperformance by the winners in the run up to the final it is, nonetheless, interesting to compare recent stock market performance for the countries tipped to do best in the competition. Italy had enjoyed one of the best stock market performances YTD following a rapid recovery in fortunes last year, but recent weakness has pared back its relative gains to around 7% in Dollar terms. Elsewhere among the favourites, there has also been good performance in Spain, which has outperformed the

World index by around 6% in Dollar terms YTD. Argentina has also outperformed, albeit modestly, while Germany's stock market has underperformed relative to the World index. Still, fans shouldn't read too much into recent stock market performance as an indicator of outcomes in the tournament. After all, the Brazilian market had underperformed by nearly 20% in the month before its victory in 2002!

Peter Oppenheimer and Portfolio Strategy Team

Interview with Franz Beckenbauer



Franz Beckenbauer has made 103 appearances for the German national team and played in three World Cups. He has won the World Cup as a player (1974) and as coach for the national team (1990). As a player for Bayern Munich, Franz Beckenbauer also won the European Cup from 1974 to 1976.

Q: You've won the World Cup both as player in 1974 and coach in 1990. Has winning the championship become more difficult over time?

FB: Winning the World Cup was never easy, no matter how far back you look. But, what has changed is that the number of serious contenders has grown.

Q: What kind of chance would the World Cup team from 1974 have today?

FB: That's a hard comparison to make. Back then, the understanding of the game of football was wholly unlike what we see now. We trained different things. The sport today is altogether different.

Q: Where do you see the biggest changes over the past decades – for example, in athleticism, tactics, individual player skill?

FB: Like every other sport, football has continued to evolve rapidly; it has become more and more professional. And more of a science. Nutrition, training methods and objectives, strategy and tactics... there have been massive developments on all fronts.

Q: Ultimately, what is more important for success against the world's best teams: the star power of individual players, the right tactics or attitude/team spirit (or maybe luck)?

FB: Every one of those factors has a role to play. All of them make important contributions to the goal of winning. And, there's even a certain amount of luck involved – without it, a World Cup win is doubtful.

Q: How important is the role of the coach?

FB: A good coach is the nerve-centre of the team.

Q: What is the essence of modern football?

FB: There are several approaches with a proven track record. If you want it in ideal terms: a combination of the short passing game and fast redirection – flowing in both directions down the pitch. That's the most exciting form of the game, and it's what people want to see. All the better if you can couple that dynamic game with solid countering tactics.

Q: Are there major differences between the various continents when it comes to 'style'?

FB: There used to be – back when it was harder to know how the sport was being played around the world. These differences no longer exist, because everyone knows how the others are playing, what the standard is in other places and what kind of line-up will be most effective against them.

Q: When will we see the first World Cup champion from somewhere other than Europe or South America?

FB: We may have to wait a while for that one.

Q: Having witnessed games all over the world, which country would you say is most fanatical about football?

FB: Brazil is absolutely the craziest about the sport – they love football! At least that was always my experience.

Q: What are your expectations for the World Cup in Brazil?

FB: Brazil is one of the world's football capitals, and I'm hopeful that the Brazilians will put on a fantastic, dramatic and exciting World Cup championship. That would be good not only for world football, but for Brazil itself.

Q: Which four teams do you see in the semi-final?

FB: Brazil, Argentina, Spain and Germany.

Dirk Schumacher

Franz Beckenbauer's Dream Team

Lew Jaschin

Carlos Alberto – Bobby Moore – Paolo Maldini – Giacinto Facchetti

Bobby Charlton – Ferenc Puskás – Johann Cruyff

Diego Maradona – Alfredo Di Stefano – Pelé

Lew Jaschin: A legend, as is every player in this squad!

Carlos Alberto: The best defender of all time, in my view, either as a sweeper or any other position in defence.

Bobby Moore: Captain of the last English team to win an international title: the World Cup in 1966. The best centre-back ever. Sadly, he died very early.

Paolo Maldini: He won everything as a player for his club. A giant in defence.

Giacinto Facchetti: He changed the way football is played from a fixed system to a more flexible one. He dared to push forward as a defender. He inspired me to play the sweeper position in a similar way.

Bobby Charlton: A veteran, a dinosaur of English football. World Champion in 1966. One of the best midfielders of all times.

Ferenc Puskás: Captain and playmaker. The Hungarian was part of the legendary national team that did not lose a game for about 4-5 years – until the final of the World Cup in 1954.

Johann Cruyff: An absolute top player and one of the top five players of all times.

Diego Maradona: A genius with the ball and the best player of his time.

Alfredo Di Stefano: Surely one of the most complete players of all time. He was a striker who also defended if need be, took corner kicks, etc. – which was quite unusual at the time.

Pelé: The best player of all time.

Interview with Chelsea's Brazil quartet: David Luiz, Ramires, Oscar and Willian



Our Chief Global Equity Strategist, Peter Oppenheimer, visited Chelsea headquarters to interview four star players who will be representing their national team in Brazil.

Q: Can you say a bit about your childhood and football? Where did you start playing?

Luiz: I started in the street and at home, I loved playing football every day and tried out skills with the ball when I was four years old. I have loved football since that age, and then when I was seven, I went to a school for football. I got into my first team when I was nine or ten. Every afternoon when I came back from training, my dad took me to a small pitch near my home to train more... I think football is in my blood.

Q: Did you imagine playing for your country when you were a child?

Willian: I dreamt about it. I have imagined it since I started playing in soccer school; it was a dream to play for my country and to play in the World Cup. And, hopefully, in the next few days, I'll be achieving my dream.

Luiz: I think our generation in Brazil is lucky, because we have a big, big opportunity to play the World Cup at home. And every single person in the world knows about Brazil and knows about football in Brazil.

So it will be a massive World Cup, a different World Cup – a magic World Cup. I think it will be a more difficult competition for Brazil to win, because the pressure will be on. It's just the most important story. If you get through to the final, playing well, winning many games and then in the end lose.... nobody wants that.

Q: So you think it's different playing with team mates from the same country to playing with team mates from different countries? Is there a different spirit?

Luiz: The main thing in the world is to respect everyone. And to learn about many situations, like when you play for a big club, such as Chelsea, and you have different team mates, different people from different nationalities. It's good to learn about different cultures, different styles, different visions about football and about life. This makes you more intelligent, and a better person. It makes you look at life in a different way. So it's good. It doesn't matter if you're from South America, if you're from Africa, if you're from Europe; everyone has a heart. Everyone has a nice story in life. Everyone can help.

Q: Brazil has won the World Cup more times than any other country, and has amazingly skillful players, but also incredibly strong teamwork. Why have other countries not managed to get teams to work together in the same way?

Willian: Brazilian people, we breathe football and as soon as a child is born, the first gift we get... it's a football. When you go around the streets – when you're in the streets – you see little groups of kids gathered round, always playing football. So it's a nation that is fanatical about football.

And it's in our culture. It's a country that lives for it, lives for the game. And when you see other countries, if they finish fourth or third or second, they have a big party. But for us, if we finish fourth, third or second, the population is not happy. We're not happy. We don't like to lose, so we always aim to win.

And we have hope, we aim to achieve the best, and so that's why we have the five stars.

Oscar: Being united I think is the strongest point. Everyone that represents the nation is living the dream. Being called up is the dream and we play each game as if it was a World Cup game. So union among the players is probably the biggest strength, because we play and we play happy.

Q: You're the favourites. Who do you think you'll most likely play if you're playing in the final?

Luiz: In my dreams, I always dream it is with Argentina in the final. I don't know why. Belgium and Colombia have a fantastic generation, and we have the big names in the world, like Italy, Germany and Spain, who could be in the final as well.

Q: The economy in Brazil has been a little bit weak recently, and some people hope that holding the tournament in Brazil will lift spirits and make things better. Do you think that's true?

Oscar: I hope so. I hope it does help the country. It won't be the World Cup that will change things. But I hope that after the World Cup things get better and I hope this tournament does help.

Q: Growing up, who was your childhood football hero? Did you have one?

Oscar: Growing up it was Kaka; when I went to São Paulo, he was already there and I always looked up to him as my hero.

Q: You have played with three other Brazilians at Chelsea. Has that helped your prospects in the World Cup as a team, do you think?

Ramires: Obviously it's a great help, the fact that four players from the same team, from Chelsea, are going to the World Cup all together. You know, we're all friends. And it helps a lot. Now, obviously when we get there we don't know who's going to be playing and who is going to be in reserves. But it would help to take them onto the World Cup team.

Q: You have played in the World Cup before. Did you take away any lessons from that experience that will help this time around? What's the biggest lesson that you learned from that?

Ramires: Obviously, the biggest lesson was the game that you've lost. I learned a lot. I learned that we cannot sleep – we cannot make even a little mistake, because these little mistakes are costly and we made two in the game where we got knocked out last time around, and it was a big lesson.

Q: And what game do you have the most vivid memories of, or has been most influential for you?

Ramires: I'm going to speak about two games for the national team. The Confederation Cup final against the USA that we won and, at the club level, the second leg in the Champions league with Barcelona.

Ramires: I would say the World Cup, because the World Cup you don't play every year. It comes around every four years. The

Champions League, you get to play every season. And if you don't win this time, you have a chance next season. But as for the World Cup, which is played in a month or two, if you don't win, if you don't do well, then you have a four-year wait for the next one, which makes it harder. So yeah, I would say the World Cup.

Q: How do you feel about playing the World Cup at home? Is that something that really helps? Or is it something that adds more pressure and makes it harder?

Ramires: I think the pressure on winning the World Cup will be regardless. Obviously, being on our home soil, in our nation, the pressure is going to be slightly more. But, it's 23 players and many others who would love to be there, and there are 23 of us who are going to defend our nation.

Peter Oppenheimer

Chief Global Equity Strategist, Goldman Sachs

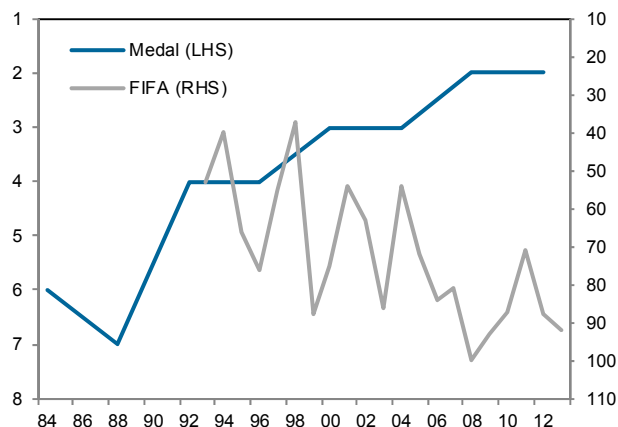
When Will China and India Play in a World Cup Final?

Together, China and India account for more than one-third of the world's population. China's sporting achievements include having won more Olympic medals than any other country, and India has a very young and growing population. Yet, they languish in football rankings because of the small number of players in both countries, China's limited success in team sports, and poor infrastructure and administration in India. While the popularity of the sport is high in China and increasing in India, we think they are unlikely to participate in a World Cup final in the next 20 years unless significant changes are made.

Chinese football: Trend reversal?

Since the reform process started 36 years ago, China's influence on the international stage has increased. In sports, China's ranking in the Olympic medals table has risen steadily. But football is a notable exception: China's world ranking has generally been on a downward trend, and has stayed with a range of 70-100 since 2008.

Exhibit 1: China's world ranking in the Olympics and in football



Source: FIFA, IOC

A foreigner visiting China could easily get the impression that football is very popular if he/she were to switch on a TV, as the Chinese are avid football fans. So, how is it possible that 1.3 billion Chinese have been unable to produce 11 footballers with sufficient talent to take the national team to a World Cup final? In reality, not that many people play football in China. The number of registered players is around half that in the Netherlands, which has a smaller population than either Shanghai or Beijing.

Competitive sports in China are dominated by the state, whose priority has been to maximise the country's medal count, especially in the Olympics. Winning a large number of medals has proved very popular, and it is more efficient to invest in a large number of relatively minor sports than in football. A limited number of medals are on offer in football, and it is also much more difficult to be dominant in the sport.

Moreover, China has been relatively less successful in team sports involving many players. Of the sports where China is highly competitive (such as table tennis, badminton, diving and weight lifting), few involve the participation of more than one or two players.

The country has had some success in sports such as basketball and volleyball but much less so than individual sports. So, while China can produce world-class players like Sun Jihai and Yao Ming, basketball requires four more players, and football requires another 10 of the same calibre, which so far it has failed to produce.

A possible turning point

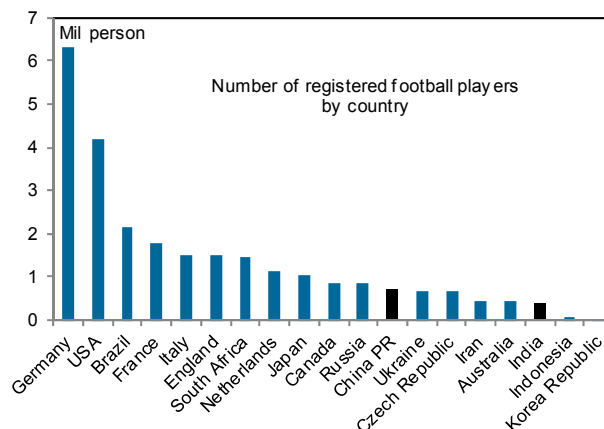
The relatively better performance of Chinese football in the early years of the reform process could have been related to the fact that Deng Xiaoping himself was a football fan. China now has another football fan at its leader, and investment in football has risen dramatically since the power transition in late 2012. A number of big names in world football have worked in China, including Marcello Lippi and Sven Eriksson, and some prominent property owners are supporting the sport financially. However, with the economy slowing and the property market cooling, investment in football is likely to suffer a temporary lull in China.

That said, the aggressive anti-corruption campaign under the new leadership should help to improve the environment for football. The government started to make changes several years ago and a number of officials and players have been gaoled for corruption. These changes should encourage the selection of players and coaches based solely on their ability and performance.

Moreover, Chinese society seems to have become less obsessed with winning Olympic medals, after the point was made when China topped the gold medal table at the Beijing Olympics in 2008. People are more aware of the need to develop sports for the young as obesity is becoming an increasing problem amid the rapid improvement in living standards. This may lead to a rise in the number of children who play football.

China's football performance should improve in the coming years, especially if it is able to develop a sustainable system that offers a high standard of training to a large number of young players. But to become a first-tier football nation with a chance of winning the World Cup will be a long process, and we may need a couple more generations before that can happen.

Exhibit 2: Football not widely played in China and India



Source: FIFA

India: Still playing in the backyard

India is ranked 147 out of 207 countries in the latest FIFA World Ranking, and has never qualified for the World Cup. Much smaller countries in terms of population and territory – such as Senegal, Botswana, Ghana, Rwanda, Gambia and Haiti – are ranked much higher than India. But India seems unable to produce 11 world-class players, even though 30% of its 1.2 billion population are aged between 10 and 24.

Indian football and our growth environment score (GES)

Despite the large amount of open space and a young population, football in India has not been professionally successful. We look at this through the lens of our growth environment score (GES) framework. Our GES captures the political, economic and social indicators that affect an economy's ability to grow. Surprisingly, there is quite a strong correlation between improvement in the GES and the FIFA World Ranking for developing countries. Most of the above-mentioned countries that are placed higher in the FIFA rankings have improved their respective growth environment scores substantially over the years. Meanwhile India, which has seen very little improvement in its growth environment score over the last decade, has remained low in the FIFA rankings.

What is holding back Indian football?

There are reasons for the dismal state of football in India:

- **Poor infrastructure:** India's football stadiums lack basic amenities and infrastructure.
- **Competition from cricket:** Football faces intense competition from peer sports, especially cricket – which is the most popular game and attracts sponsors and media spotlight. Football is not

as popular, and is played professionally only in small pockets of eastern and western India and in Kerala in the south.

- **Less urbanised:** Football is mostly played in rural areas and players generally find it difficult to reach national level due to the lack of support from the state. Most countries with a higher proportion of urban population have a higher football ranking.
- **Weak administration:** Administrators in football bodies are generally not directly linked to the game, and are political appointees. This can potentially lead to indifference towards the game.
- **Lack of training:** Consistent coaching of a high standard is also a significant hindrance for the development of Indian football.

In sum, Indian football still has a long way to go to mark its presence on the world stage. This requires support from the government, the media, business and, most importantly, the general public. Some of the recent steps taken are heartening, such as the establishment of the Indian Super League which unites football bodies, corporates and celebrities on a single platform in India. Moreover, English Premier League teams have launched some talent-hunting schemes in India. Football is becoming increasingly popular in urban schools. However, there is still a lot to be done to lift Indian football to international standards. We think that even a 20-year horizon is probably too short for India to make it into a World Cup final.

Yu Song and Vishal Vaibhaw

Algeria

The 'Desert Fox' could be the dark horse of Group H

After a disappointing World Cup in South Africa in 2010, *Les Fennecs* (the 'Desert Foxes') will be eager to improve on their performance at this year's tournament. Back in 2010, Algeria was knocked out in the group stage after facing England, the USA and Slovenia, and did not manage to score a single goal. The highlight was a draw (0-0) against England. This time around, it will meet Russia, South Korea and Belgium in Group H. Belgium, a team that boasts a number of international star players, including Chelsea's Eden Hazard, is arguably the favourite, but Russia is also likely to prove a very tough opponent.

Algeria, currently 25th in FIFA's World Ranking, has been one of the top performers in African football. The team won the African Cup of Nations back in 1990 and finished in fourth place in 2010. That said, while Algeria could be the dark horse of the group, it will have to raise its game if it hopes to qualify for the second round (for the first time in four attempts). At the very least, the 'Desert foxes' will need to break their goalless World Cup streak.

Where could the goals come from?

The Algerian team has no international superstar players, unlike other African countries; e.g., Didier Drogba (Ivory Coast), Samuel Eto (Cameroon) and Michael Essien (Ghana). But it does have a number of talented players who pose a threat to any defence:

- **Islam Slimani (25):** Slimani is a powerful striker who scored five goals during the World Cup qualification rounds. He looks to be their strongest player up front. Slimani currently plays for Sporting CP in Portugal and has previously represented CR Belouizdad and JSM Chéraga back home in Algeria.
- **Sofiane Feghouli (24):** Feghouli is an exciting midfielder/winger, known for both setting up and scoring goals. He scored three goals during qualification and will be keen to improve his 'stats' at this World Cup tournament. Feghouli currently plays for Valencia in Spain and has previously played for Grenoble in France. Indeed, Feghouli is a former French youth international, but changed his allegiance and now represents Algeria in international competitions.
- **Madjid Bougherra (31):** Bougherra is a tall centre-back and a key figure in defence. But he is also a potential scorer. He showed as much when he scored the winning goal in the second leg against Burkina Faso in the final qualification match that secured Algeria's place in the World Cup. Bougherra moved to Lekhwiya in Qatar in 2011, after having played for Glasgow Rangers for three years, and is Algeria's captain.

Economics: Inflation pressures have subsided...

Algeria's economy has been growing at a pace of around +3% over the past three years. Growth has been driven by the non-hydrocarbon sector, and in particular public sector spending, while the hydrocarbon sector has been contracting. The IMF estimates that growth will accelerate slightly in 2014-15 to around +4%.

Statistics for Algeria

Odds: 1000/1		World Ranking: 25	
1st Round Match Schedule			
Date	Venue	Against	Local Time
17-Jun	Belo Horizonte	Belgium	13:00
22-Jun	Porto Alegre	Korea Republic	16:00
26-Jun	Curitiba	Russia	17:00
Previous Appearances: 3			
Host	Year	Outcome	
Spain	1982	Round 1	
Mexico	1986	Round 1	
South Africa	2010	Round 1	
Previous World Cup Results			
		Games Played	9
		Won	2
		Drawn	2
		Lost	5
		Goals Scored	6
		Goals Against	12
		Yellow Cards	8
		Red Cards	0

Source: Ladbrokes.com, FIFA, Planetworldcup.com

Inflation spiked to 8.9% in 2012 – the highest level in 15 years – following a surge in current spending. Since then, the inflation dynamics have improved, thanks to tighter monetary and fiscal policy, and inflation fell to 3.3% in 2013. But the recent surge in credit and increases in public sector wages pose a risk to the inflation outlook, and the IMF forecasts that inflation will rise to around +5%yoy by end-2014.

... but the economy remains vulnerable to energy prices

Algeria is a major hydrocarbon producer, accounting for 2.1% of the world's oil and 2.5% of its natural gas production, and the economy is vulnerable to changes in global energy prices. More than 50% of the government's revenue is currently derived from the hydrocarbon sector, and oil and gas account for around 97% of total exports.

Like other resource-rich countries, Algeria faces the challenge of transforming finite commodity resources into other drivers of growth to support sustainable development and preserve intergenerational equity. The country has accumulated substantial fiscal and external buffers to date, but the time horizon for oil and gas production is relatively short, and it is questionable whether the current fiscal stance is sustainable in the long run. The IMF recently advised the government to adopt a rules-based fiscal framework to manage hydrocarbon wealth in order to address this issue.

Kasper Lund-Jensen

Argentina

The 2014 World Cup

Argentina is once again a serious contender in the 2014 World Cup, and boasts a roster of impressive players. Nevertheless, it will have to overcome some lingering doubts about its ability to function as a team if it is to top the quarter-final position it reached in the previous two Cups. Argentina shares a not overly challenging Group F with debutant Bosnia and Herzegovina, and Iran and Nigeria, teams against which it has a combined record of 6 wins, 2 draws and 1 loss.

The *Albiceleste* is coached by the pragmatic yet resourceful Alejandro Sabella, a disciple of Carlos Salvador Bilardo, who coached the last team to win a World Cup for Argentina in Mexico 1986. Sabella can rely on what is widely considered an unparalleled offensive line-up that includes Angel Di Maria, Sergio 'Kun' Agüero, Gonzalo Pipita ('Little Pipe') Higuaín and, above all, Lionel La Pulga (the 'Flea') Messi, viewed by many as the world's best player. The team's offensive prowess is such that Carlos *El Apache* Tévez, who has seen well-deserved success in the Italian League, has not been selected for the national team. However, the defensive line-up has yet to find its footing.

The team stands in a loose 4-3-3 formation that flows gracefully when attacking but can tend to waver in defence. The playbook revolves around creating enough space for Messi to unleash his talent, with Fernando Gago and Javier Mascherano distributing the ball deftly from midfield. This strategy secured the team first place in the competitive South American World Cup qualifiers, where it scored the highest number of goals (35 in 16 matches) and conceded the second-lowest number (15).

All hopes are set on Messi to captain the team to its third World Cup victory for Argentina, while establishing himself as one of the best football players of all time. This will not be an easy task even for the gifted Messi, who at 26 years of age has broken several records: he has been awarded the prestigious Ballon D'Or on four occasions, and has won six Spanish Liga Championships, three UEFA Champions Leagues and two Club World Cups with FC Barcelona, as well as the FIFA U-20 World Cup and an Olympic Gold Medal with national teams. Additionally, with 37 goals under his belt, he became all-time runner-up highest scorer for the senior national team, surpassing the legendary Diego Maradona. But it is Maradona who has held the World Cup above his head.

The state of the economy

The imbalances across team lines are insignificant compared with the macro imbalances affecting the economy. After years of macro-economic mismanagement, the country is suffering from a combination of elevated inflation and declining economic activity amid a swift deterioration in its external accounts.

After growing by 3%yoy in 2013, the economy is currently stagnating. Furthermore, the recent evolution of several high frequency indicators is consistent with a recessionary environment and inflation has now accelerated towards a recent peak of 35%yoy. Hefty exchange rate depreciation and upward adjustments to energy tariffs will continue to create inflationary pressures, although a relatively more cautious monetary policy stance and, above all, weakening economic activity should act as countervailing forces to inflation acceleration.

Statistics for Argentina

Odds: 9/2		World Ranking: 7	
1st Round Match Schedule			
Date	Venue	Against	Local Time
15-Jun	Rio De Janeiro	Bosnia and Herzegovina	19:00
21-Jun	Belo Horizonte	Iran	13:00
25-Jun	Porto Alegre	Nigeria	13:00
Previous Appearances: 15			
Host	Year	Outcome	
Uruguay	1930	Runners-up	
Italy	1934	Round 1	
Sweden	1958	Round 1	
Chile	1962	Round 1	
England	1966	Quarter-finals	
Germany	1974	Round of 16	
Argentina	1978	Winners	
Spain	1982	Round of 16	
Mexico	1986	Winners	
Italy	1990	Runners-up	
USA	1994	Round of 16	
France	1998	Quarter-finals	
Korea/Japan	2002	Round 1	
Germany	2006	Quarter-finals	
South Africa	2010	Quarter-finals	
Previous World Cup Results			
		Games Played	70
		Won	37
		Drawn	13
		Lost	20
		Goals Scored	123
		Goals Against	80
		Yellow Cards	99
		Red Cards	10

Source: Ladbrokes.com, FIFA, Planetworldcup.com

This backdrop is exacerbated by a gradually disappearing trade surplus – the main source of hard currency. After posting a meagre US\$120mn in 1Q2014, the (12-month) trade surplus has now fallen to its lowest level since the 2001 economic crisis.

Argentina's prospects in the World Cup appear to be far more encouraging than its short-term economic dynamics.

The state of the nation

President Cristina Fernández de Kirchner is beginning the last 18 months of her second consecutive period at head of state. The end of her mandate will bring to a close more than a decade of *Kirchnerismo*. While the race for the October 2015 election has not yet started, there is a widespread perception that any presidential hopeful would follow a more pragmatic policy approach that would help to solve many of Argentina's social and economic ills.

Nonetheless, we expect Ms. Kirchner, who still has significant electoral support in the polls (20-25%), to make every effort to avoid becoming a lame-duck president. The economy is likely to be a crucial factor in preserving her declining political capital, but the potential boost to sentiment from a World Cup victory in perennial football rival and neighbour Brazil would certainly not hurt.

Mauro Roca and Mariano Cena

Australia

The 2014 World Cup: A tough gig

"Yes, it's a tough group. Yes, we're playing the current World Champions Spain. Yes, we're playing the 2010 Runners-up Netherlands. Yes, we're playing a strong South American opponent in Chile..... But, this is the World Cup and we will embrace the challenge head on."

This rallying cry from Australia's new Head Coach – Ange Postecoglou – was in response to what is surely one of the greatest challenges Australia's 'Socceroos' have faced to date – Brazil's 'Group of Death'.

On any measure, the challenge is immense.

- The Socceroos head to Brazil as the tournament's lowest-ranked side, with a FIFA World Ranking (59) around double that of the combined rankings of its Group B competitors: Spain (1), The Netherlands (15) and Chile (13).
- In the past year, the Socceroos have conceded no fewer than 19 goals over just 5 games against potential World Cup opponents – including demoralising 6-0 defeats to both Brazil and France, which precipitated the sacking of the then coach.
- There has been a slew of recent high profile international retirements, including that of Australia's most capped player (Mark Schwarzer – 109 games), confirming that the sun has all but set on the 'Golden Generation' who underpinned Australia's success over the past decade. Of the 14 players fielded in Australia's last World Cup game, realistically only team talisman Tim Cahill and Marco Bresciano are likely 'starters' in Brazil.

The state of the economy

The passing of the 'Golden Generation' and the enormity of Australia's challenge in Brazil have clear parallels in the domestic economy as, following an unprecedented 22 years of uninterrupted expansion, major risks are now intensifying. Most importantly, the dual booms in commodity prices and mining construction that delivered Australia through the global financial crisis relatively unscathed are now swinging sharply into reverse. And against this backdrop, the stubbornly high AUD and switch to contractionary fiscal policy are acting as handbrakes to a nascent economic recovery.

Ultimately, for Australia to successfully navigate the current period of elevated economic risk would truly be some achievement – unprecedented in the country's long history of commodity booms followed by painful busts. The burden on local policy makers is therefore a heavy one, and the government is taking a significant risk by seeking to underpin Australia's AAA credit rating via a combination of the largest cuts to public expenditure in almost two decades and the introduction of unpopular tax increases. As kick-off in Brazil approaches, the current Prime Minister may reflect with unease that Australia's last appearance in the World Cup on June 23, 2010 coincided with the then Prime Minister being unexpectedly usurped by his Deputy – in large part in response to the government's mishandling of taxation issues.

Statistics for Australia

Odds: 1500/1		World Ranking: 59	
1st Round Match Schedule			
Date	Venue	Against	Local Time
13-Jun	Cuiaba	Chile	18:00
18-Jun	Porto Alegre	Netherlands	13:00
23-Jun	Curitiba	Spain	13:00
Previous Appearances: 3			
Host	Year	Outcome	
Germany	1974	Round 1	
Germany	2006	Round of 16	
South Africa	2010	Round 1	
Previous World Cup Results			
		Games Played	10
		Won	2
		Drawn	3
		Lost	5
		Goals Scored	8
		Goals Against	17
		Yellow Cards	20
		Red Cards	4

Source: Ladbrokes.com, FIFA, Planetworldcup.com

Looking on the bright side

Despite the economic risks being skewed to underperformance, on the football pitch there is some cause for optimism:

- First, Germany is not in Group B.
- Second, Spain has never beaten (... nor played) Australia.
- Third, the United Nations has rated the Brazilian city of Vitoria (the Socceroos home base) as the "fourth best state capital in Brazil to live in" – so, results aside, it should be quite a pleasant stay.
- And, finally, if Australia win Group B, they will be on track to meet Croatia, Mexico or Cameroon in the Round of 16 – 'easy-beats' compared with the 'Group of Death'.

There is also some genuine enthusiasm around Coach Postecoglou's capacity to mastermind generational change, while delivering attractive possession-based football and impressive results. This stems from his unrivalled success in the A-League, taking Brisbane to back-to-back premierships that included a run of 36 consecutive games without defeat – the longest unbeaten run in Australian history of any major sporting team. In Brazil, a mere 7-game unbeaten run would suffice.

Win, lose or draw on the field, one thing is assured – the Australian team will be very well supported from the stands. To date, Australians have snapped up ~41k tickets to World Cup matches – the second-largest foreign take-up of tickets behind the US (154k), and ahead of both England (38k) and Colombia (33k). Cynics may view such demand as merely a function of the purchasing power of an elevated AUD and the drawcard of an exotic beach holiday on Ipanema. However, for the true believers, there is always the hope that Brazil will mark the dawn of another 'Golden Generation'.

Andrew Boak

Belgium

Synergies between football and economics

The next elections in Belgium are scheduled for May 25. With more parties and levels of government than players in the national football team, Belgian coalition negotiations are never simple. And while the formation of a government should be faster this time around, the nation's attention may nevertheless turn to something more straightforward and passion-worthy: Belgium's participation in the World Cup.

The national team, known as the 'Red Devils', is one thing on which the nation is agreed. This year's qualification ends a slump in its performance, making its World Cup appearance even more worthy of celebration. Belgium has made remarkable progress in the FIFA World Ranking, moving up from 71st place in 2007 to 5th in late 2013, and the new team will be looking to rekindle the glory of the golden years of 1980-2002, when Belgium qualified for six successive World Cups (it even finished fourth in 1986), thanks to strong leadership, organisation and discipline, as well as the legendary defence of Jean-Marie Pfaff, and excellent players such as Jan Ceulemans, Eric Gerets, Enzo Scifo and later Marc Wilmots.

The new squad has benefited from the earlier success of Belgium's U-21 teams and the coaching skills of Georges Leekens and Marc Wilmots, and the 'Devils' are once again a force to be reckoned with. They won their qualifiers easily, finishing well ahead of the rest of the group. Moreover, the team has a history of beating reigning world champions and putting up a strong fight against other football giants. This time, the 'Red Devils' will face Algeria, their old rival Russia and South Korea at the group stage. Under the captaincy of Vincent Kompany, who led Manchester City to its first Premier League win in 44 years in 2012 and then again this year, the team has a solid chance of making it to the second stage of the tournament, where it would face one of the top two teams from Group G, the 'Group of Death'.

While generally resilient to the crisis, the Belgian economy has not staged as spectacular a rebound as the national football team. But growth should still reach some 1.4%-1.6% this year and next, thanks to healthy private balance sheets and a high degree of integration with the German economy. The recovery is also becoming more broad-based, thanks to increased investment. In addition, like elsewhere in the Euro area, inflation should remain low.

But policy makers could learn a lot from the national team and the free-market ways of football if they are to strengthen the recovery of this over-regulated economy. Things are made much simpler by the fact that there is only one national football team or league: assembling the national team is usually a fast process (unlike forming a government). And the team comprises players from the tender age of 20 to a more mature 37, whereas the Belgian labour force has one of the lowest retirement ages in Europe. High labour mobility has also helped players hone their skills in top clubs such as Atlético (goalkeeper Courtois), Chelsea (Hazard), Aston Villa (Benteke), Everton (Lukaku) and Manchester United (Fellaini), and adds to the productivity of the squad, whereas there is little labour mobility at a national level. Meanwhile, adaptability and high exposure to competition – which are key to success in football and are an inherent feature of the sport – are also in short supply in the economy.

Statistics for Belgium

Odds: 16/1		World Ranking: 12	
1st Round Match Schedule			
Date	Venue	Against	Local Time
17-Jun	Belo Horizonte	Algeria	13:00
22-Jun	Rio De Janeiro	Russia	13:00
26-Jun	Sao Paulo	Korea Republic	17:00
Previous Appearances: 11			
Host	Year	Outcome	
Uruguay	1930	Round 1	
Italy	1934	Round 1	
France	1938	Round 1	
Switzerland	1954	Round 1	
Mexico	1970	Round 1	
Spain	1982	Round of 16	
Mexico	1986	Fourth place	
Italy	1990	Round of 16	
USA	1994	Round of 16	
France	1998	Round 1	
Korea/Japan	2002	Round of 16	
Previous World Cup Results			
		Games Played	36
		Won	10
		Drawn	9
		Lost	17
		Goals Scored	46
		Goals Against	63
		Yellow Cards	29
Red Cards	1		

Source: Ladbrokes.com, FIFA, Planetworldcup.com

That said, the current and previous governments have scored a few impressive goals. Financial stability risks have been greatly reduced since 2008 and, despite deleveraging, private credit flow has continued unabated. Fiscal consolidation has resumed, but the fiscal players need better control of spending, and to make it leaner. Deficits are unlikely to widen after the elections, and there is a greater likelihood of more spending-based consolidation under a more right-leaning coalition. The government has also completed the sixth Reform of the State, which has shifted more fiscal responsibility to the regions.

But the reformers are also hitting a wall. Some old rules, such as wage indexation and heavy regulation, have strong defenders, as have generous assistance programs that result in high labour costs. And, although it hasn't reached levels paid by football clubs, the high minimum wage hampers demand for labour in some sectors, adding to long-term unemployment. As a result, productivity growth has lagged, damaging the competitiveness of export-dependent Belgium. While Belgian players are currently doing exceptionally well in the European market, the country could do with a few more export hits.

Magdalena Polan

Bosnia and Herzegovina

The 'Dragon' attack

Bosnia and Herzegovina will appear in the World Cup for the first time since becoming an independent nation state in 1995. The *Zmajevi* (the 'Dragons') have highly skilled and experienced players capable of changing the course of a game in an instant. So, under the leadership of their charismatic manager Safet Susic, the team should prove a force to be reckoned with in Group F, where they will be competing alongside Argentina, Iran and Nigeria. The odds of Bosnia winning the 2014 World Cup currently stand at 125/1, lower than for both Nigeria (200/1) and Iran (2,500/1) but below top contenders Argentina (9/2). So, with a bit of luck, Bosnia and Herzegovina should be able to secure a place in the Round of 16.

The team's performance through the World Cup qualifiers was impressive. Bosnia and Herzegovina came top of Group G, on goal difference, ahead of Greece. The team won 8 of its 10 games through its qualifying campaign, scoring 30 goals and conceding only 6. This performance attests to the team's key strengths – a strong attacking line led by powerful strikers Edin Dzeko (of Manchester City) and Vedad Ibisevic (VfB Stuttgart), and backed by a skilled midfield organised by Miralem Pjanic (Roma) and a rock-solid defensive formation anchored around captain Emir Spahic (Bayer Leverkusen) and goalkeeper Asmir Begovic (Stoke City).

Bosnia and Herzegovina will face Argentina in their opening match in Rio de Janeiro, on June 15. They will then meet Nigeria in Cuiaba on June 21 and finally Iran in Salvador on June 25. The first match against Argentina will be challenging. The stamina, resilience and technical abilities of the team's defence will be thoroughly tested by Argentina's gifted forwards Lionel Messi (Barcelona), Sergio Agüero (Manchester City) and Gonzalo Higuaín (Napoli). But if the Bosnian midfield can hold its ground and the defensive players perform well on the day, they may be able to draw against Argentina. Who knows, Bosnia may even produce a surprise, if Edin Dzeko and Vedad Ibisevic can successfully sneak behind Argentina's less-impressive defensive line.

Ultimately, the group matches against Iran and, especially, Nigeria will determine whether Bosnia and Herzegovina will make it through to the last 16 or not. Iran has quite a capable side. But the team is far from the glory days of the 'Golden Generation' of Ali Daei, Karim Bagheri and Mehdi Mahdavi. A focused Bosnian side should be able to snatch a victory from the jaws of the 'Iranian Lions'. The Nigerian 'Super Eagles' will form a more physical yet technically competent adversary. No doubt this will be an intense match, although at the time of writing the odds still seem to favour Bosnia (6/4) against Nigeria (13/8) – but only just.

If the *Zmajevi* do somehow make it through to the Round of 16, though, this will be a moment of great footballing achievement for this small, young European nation, scarred by war just two decades ago. It would symbolise the nation's post-war economic recovery and ongoing political normalisation.

Statistics for Bosnia and Herzegovina

Odds: 125/1		World Ranking: 25	
1st Round Match Schedule			
Date	Venue	Against	Local Time
15-Jun	Rio De Janeiro	Argentina	19:00
21-Jun	Cuiaba	Nigeria	18:00
25-Jun	Salvador	Iran	13:00

Source: Ladbrokes.com, FIFA, Planetworldcup.com

From independence to recovery

Bosnia and Herzegovina has staged a solid post-war recovery. GDP grew from a mere US\$5.3bn in 1996 to US\$17.8bn in 2013. In tandem, per capita income rose to US\$4,600 from a mere US\$1,450 during the same period. As such, the income gap between Bosnia and Herzegovina and the EU-27 has narrowed. In 1996, Bosnian per capita income was a mere 6.5% of the European Union average. By 2013, the income ratio stood at 13.5%.

Of course, there is still considerable scope for further income convergence. The early phases of the recovery were driven primarily by rapid domestic demand (particularly capex) growth, supported by rapid credit expansion and income transfers from overseas. This resulted in large current account deficits, averaging around -12.5% of GDP during 1996-2008.

However, in more recent years, the growth dynamics have been shifting, with the composition of aggregate demand moving away from domestic and increasingly towards net exports. Accordingly, there has been a gradual reduction in current account deficits, towards -7.5% of GDP, notwithstanding unfavourable external demand conditions reinforced by weak European growth.

The current account deficit, at -7.5%, is still high, and may in the longer term prove unsustainable. This suggests that extensive structural reforms aimed at improving the economy's overall competitiveness will become imperative to ensure sustainable long-term economic growth and more robust income convergence. In this context, improving the human capital stock and the infrastructure and technological base of the economy will be extremely important. Also, tackling the chronic unemployment problem (currently at 27%) will be crucial for Bosnia's future economic success and its long-term political stability.

Given its European cultural heritage, its ongoing economic normalisation and the consolidation of its nascent democracy, Bosnia and Herzegovina remains a potential candidate for EU membership. The resulting and institutional convergence could help overcome potential economic challenges with greater ease.

Ahmet Akarli

Brazil

"If you are first, you are first. If you are second, you are nothing... Success is no accident. It is hard work, perseverance, learning, studying, sacrifice and, most of all, love of what you are doing."

Pelé (Edson Arantes do Nascimento; born October 1940); a.k.a. the 'King'; part of three World Cup-winning squads.

The 2014 World Cup

As the host country, Brazil qualified automatically for the 2014 World Cup. Despite being placed 4th in the latest FIFA World Ranking, Brazil is widely viewed as the favourite to win the Cup (for a record 6th time) given the undisputable world-class talent of its roster and the fact that it will be playing at home. Furthermore, no European team has ever won the World Cup in the Americas.

Brazil is drawn with Cameroon, Mexico and Croatia in Group A, which is perceived to be a relatively unchallenging group. It will begin its World Cup campaign in the mega-metropolis of São Paulo on June 12, and the entire country expects from the national team nothing less than to lift the trophy a month later (July 13) after the final in the revamped and iconic Maracanã stadium in Rio de Janeiro.

The Brazilian team is managed by Luiz Felipe Scolari (a.k.a. 'Big Phil'), a very experienced and tactically creative coach, who led the national team to victory in the 2002 Korea/Japan World Cup, and more recently in the 2013 FIFA Confederations Cup by beating no less than defending World Cup champions Spain squarely in the final. The biggest headache for coach Scolari is likely to be the selection of a roster and a starting line-up from a very deep pool of talent, and he is likely fully aware of the tremendous expectations that surround the team. 'Super-star' striker Neymar is expected to dazzle in the stadiums with his skilful dribbling and pinpoint accuracy in passing, supported by a cast of other internationally experienced players such as David Luiz, Thiago Silva, Marcelo, Dani Alves and 'Hulk'. At the back, the team is likely to be anchored by veteran goalkeeper Julio Cesar.

Football in Brazil

Perhaps no two other single words are as tightly associated in the sporting world as 'football' and 'Brazil'. Alongside carnival, football is deeply imbedded in the culture and is the ultimate national passion. Therefore, nothing short of skilful playmaking and ultimate victory is expected from the national team at every single competition. In fact, Brazil is the most successful football team in the history of the World Cup, and its top footballers – Pelé (the 'King'; considered by many experts and fans as the best player of all time), Zico, Rivelino, Cafu, Garrincha and Ronaldo, to name just a few – are true national legends and revered icons, and some have even turned into popular cartoon characters.

Brazil is the only national team to have participated in all 20 World Cups (including 2014) and the *Seleção Canarina* ('little canaries') has won the Cup in three different continents. The team has won the World Cup a record five times (Sweden 1958, Chile 1962, Mexico 1970, USA 1994 and Korea/Japan 2002), finished in second place twice (1950 and 1998) and took the last spot on the podium on another two occasions (1938 and 1978). Brazil has also won the FIFA U-20 World Cup four times, the FIFA U-17 World Cup three times and the FIFA Confederations Cup four times, including in

Statistics for Brazil

Odds: 3/1		World Ranking: 4	
1st Round Match Schedule			
Date	Venue	Against	Local Time
12-Jun	Sao Paulo	Croatia	17:00
17-Jun	Fortaleza	Mexico	16:00
23-Jun	Brasilia	Cameroon	17:00
Previous Appearances: 19			
Host	Year	Outcome	
Uruguay	1930	Round 1	
Italy	1934	Round 1	
France	1938	Third place	
Brazil	1950	Second place	
Switzerland	1954	Quarter-finals	
Sweden	1958	Winners	
Chile	1962	Winners	
England	1966	Round 1	
Mexico	1970	Winners	
Germany	1974	Fourth place	
Argentina	1978	Third place	
Spain	1982	Round of 16	
Mexico	1986	Quarter-finals	
Italy	1990	Round of 16	
USA	1994	Winners	
France	1998	Runners-up	
Korea/Japan	2002	Winners	
Germany	2006	Quarter-finals	
South Africa	2010	Quarter-finals	
Previous World Cup Results			
		Games Played	97
		Won	67
		Drawn	15
		Lost	15
		Goals Scored	210
		Goals Against	88
		Yellow Cards	82
		Red Cards	11

Source: Ladbrokes.com, FIFA, Planetworldcup.com

2013 at home. Curiously, Brazil has never won the Olympic football tournament, although the national team has collected three silver medals (1984, 1988 and 2012) and two bronze medals (1996, 2008).

The state of the economy

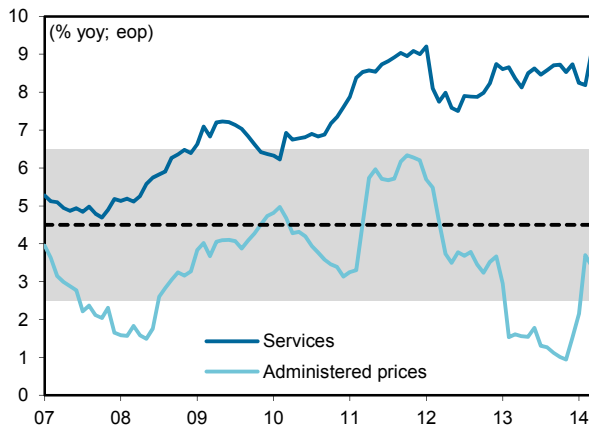
The entire nation hopes that the performance of the national football team during the World Cup tournament will be much better than the performance of the domestic economy. The economy was indisputably in much better shape during the 2010 World Cup than at present. Indeed, it has been struggling since the national team played in South Africa four years ago. For instance, on our estimates, over the period 2011-2014 real annual GDP growth is likely to average less than 2.0% and inflation more than 6.0%. In the meantime, the economy has accumulated a number of important micro and relative price distortions and macro imbalances.

In a nutshell, Brazil is trying to extricate itself from a four-year-long equilibrium of low growth, high inflation, high and internationally uncompetitive unit labour costs, and an overvalued currency (the BRL). Furthermore, in recent years there has been a clear erosion of

the fiscal and current account fundamentals, and policy credibility has been impaired by the subpar performance and heterodox management of the economy.

Macroeconomic and financial resilience to external shocks is unquestionably significant (Brazil's overall external debt is low, it has limited short-term external liabilities and a high stock of international reserves), and this is clearly a positive factor differentiating it from other large emerging economies. Over the past 10 years, Brazil has built significantly more financial resilience to external shocks than real sector (growth) resilience, given, among other things, the still low levels of investment and the lack of major structural reforms to improve productivity growth and lift its still limited potential GDP growth. Therefore, the quest for high, non-inflationary 'home-grown' growth continues, as in Brazil growth remains highly dependent on external drivers such as commodity prices and capital inflows, given, among other factors, perennially low domestic saving and investment rates, an extremely low degree of trade openness, high levels of trade protection, a high and distortionary tax burden, high levels of non-investment government spending, and low levels of human and physical capital. These and other structural shortcomings may have been masked in recent years by a favourable external backdrop characterised by abundant liquidity and rallying commodity prices, but they may become more visible, and lead to increased differentiation in an environment of normalising global monetary conditions and less supportive commodity prices.

Very high services inflation



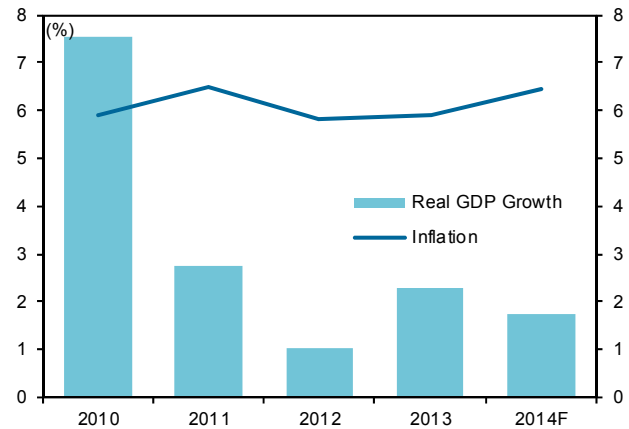
Source: Haver Analytics, IBGE

The state of the nation

Brazilians will go to the polls soon after the World Cup ends. General elections will be held on October 5, 2014, to elect the President, the National Congress, State governors and State legislatures. If no candidate in the presidential and gubernatorial elections receives more than 50% of the valid vote, a second-round run-off will be held on October 26.

The electoral campaign is expected to start in earnest only after the World Cup is over. The incumbent, President Dilma Rousseff, of the Workers' Party (PT) is running for re-election, and will be challenged by centre-right former Governor of Minas Gerais Senator Aécio Neves (PSDB), and centre-left former Governor of Pernambuco Eduardo Campos (PSB). According to recent polls, President Rousseff remains the favourite to win the election, but the recent trend of declining popularity suggests the election may require a second round.

Low growth and high inflation



Source: Haver Analytics, Goldman Sachs Global Investment Research

The approaching elections may have limited the authorities' willingness to pursue a more assertive fiscal consolidation strategy in 2013-14 and also prevented them from tightening monetary policy to the full extent needed to re-anchor inflation expectations and drive inflation back to the generous, but elusive, 4.50% inflation target. Therefore, in order to rebalance the economy, we expect the authorities to deliver a mild fiscal adjustment in 2015, and the central bank to be prompted to tighten monetary policy further and allow the currency to depreciate by intervening less in the foreign exchange market.

Altogether, over the next couple of years the authorities face the challenge of successfully disinflating the economy, realigning inflation expectations, repairing impaired domestic sentiment and forging a path towards solid investment-driven non-inflationary growth against an external backdrop that may not be as supportive as that seen in recent years. In that regard, embracing far-reaching structural reforms (tax, government expenditure, social security, trade, labour market, etc.) and embarking on a much-needed capital-deepening drive are necessary conditions before the large growth potential that we believe remains trapped in the economy can finally be unleashed. This process would be facilitated by a more conventional, disciplined, reformist and trade-friendly set of policies. A shift to such a policy mix would likely generate a positive confidence shock and help to move the economy into a much better position by the time Rio de Janeiro hosts the 2016 XXXI Olympic Summer Games.

Alberto Ramos

Welcome to Brazil 2014!



Paulo Leme is Chairman of Goldman Sachs Brazil. Previously he worked as co-head of the Latin America Economics Research Team based in New York. Before joining Goldman Sachs, Paulo was a senior economist at the International Monetary Fund.

My first World Cup experience was in 1962, when I was growing up in Chile. Although I didn't go to any of the games, I was lucky enough to visit the Brazilian training camp in Valparaíso, where I had the chance to meet some of the world's football greats. I still remember how relaxed, friendly and confident all the players were, including Pelé, Garrincha, Djalma Santos and Didi – just to name a few. After watching practice that afternoon, when Brazil beat Everton (the local team from Viña del Mar) by 9 goals to 1, we drove back to Santiago to enjoy some *empanadas* (a meat pasty or turnover). In that tournament, Brazil won the Jules Rimet Cup for a second time in a row after defeating Czechoslovakia by 3 goals to 1.

Half a century later, I am glad to be working for Goldman Sachs' operation in Brazil. As your host for the 2014 edition of the World Cup, our Brazilian team would like to welcome all our clients and friends to this event, regardless of whether you will be watching live or on TV. Unlike in 1962, this time around I will be going to some of the matches but I won't be lucky enough to meet any of the players!

In establishing parallels between football and the Brazilian economy, greatness, talent and hope come to mind as three important interconnecting variables. Brazil's greatness is evident in the prowess demonstrated by its national football team and in the strength of its economy, with the latter determined by the size of its territory, favourable demographics and an enviable endowment of natural resources. Talent is abundant in the creativity and artistry of Brazilians, and is demonstrated by its football players, entrepreneurs and workers. Lastly, hope is

strong in Brazil – whether in the desire to fulfil a dream by winning its sixth World Cup at home, or in securing for Brazil a position among the global economic powerhouses. With the right policies, Brazil can achieve the latter while attaining better income distribution, lower inequality and broader access to high-quality health and education.

In the football arena, the national team has experienced some ups and downs. After winning its fifth World Cup in 2002, in subsequent tournaments the Brazilian squad faded. But Brazilians are hopeful by nature. And, given that it has a strong team and is playing at home, sports commentators rank Brazil as one of the favourites to win. Moreover, winning at home would put to rest the self-doubt caused by the *maracanazo*, or the sombre day in 1950 when – to the disbelief of 200,000 stunned spectators – Brazil lost the World Cup to Uruguay in its very own Maracanã stadium.

In the economic arena, after achieving remarkable macroeconomic stability, low inflation and rising growth, the Brazilian economy has slipped since the last World Cup, showing renewed signs macroeconomic imbalances, higher inflation and declining growth. If left unattended, these imbalances are likely to widen, undermining the economic outlook for Brazil. However, and like in football, pragmatic leadership and a good game plan can put Brazil back on track if the 'coaches' adopt sound domestic demand management policies and implement structural reforms aimed at boosting productivity.

I conclude with two pearls of wisdom from famous members of the Brazilian squad who won the World Cup in Pasadena in 1994. Striker Romario said "a good coach is one who doesn't interfere". Coach Carlos Antonio Parreira said "if we win all the games by one to nil, we will be champions". Coaches, please take note.

Paulo Leme

Cameroon

Fading memory of 1990 glory

With seven qualifications, Cameroon has been the most successful African nation in reaching the final stages of the World Cup. The 'Indomitable Lions' have now made it to six of the last seven tournaments (bar Germany in 2006). Cameroon is also one of three African nations (the other two being Senegal in 2002 and Ghana in 2010) to reach the quarter-finals.

But 1990 remains the benchmark, when the squad, captained by the unforgettable Roger Milla, defeated the reigning champions, Maradona's Argentina, in their opening game in Italy. This was followed by clear victories against Romania and Colombia before bowing out in the quarter-finals, on a penalty scored by Gary Lineker in the second period of extra time against England.

But the memory of that performance is fading given the team's inability to move past the group stage since then. One of the main assets of the 'Indomitable Lions' is captain Samuel Eto (Chelsea player, four times African player of the year, country all-time top scorer, and household name around the globe). He has scored 55 goals in 112 games for his country since making his international debut 17 years ago.

After participating in the 1998, 2002 and 2010 World Cups, this year's edition gives Samuel Eto a (last) chance to cement his status as Africa's greatest player ever. Nicknamed 'Little Milla' as a child, perhaps the only accolade missing in his impressive career is to replicate the achievement of 'Big Milla' in leading the national team to new heights.

Taming the 'Indomitable Lions'

Four years ago, French coach Paul Le Guen did not succeed in providing Samuel Eto with a coherent and consistent team, as Russian coach Valeri Nepomniachi had done with Roger Milla's team-mates 24 years ago. As a result, the 'Indomitable Lions' were the first team to be eliminated mathematically, going out in their second group match to Denmark after losing it 1-2, following a 0-1 defeat to Japan.

All eyes will now be on German coach Volker Finke (previously SC Freiburg coach for 16 years). He faces an uphill battle in restoring the FIFA World Ranking (50th currently vs. 11th in 2006 and 2009), managing personality issues (notably between Samuel Eto and Alexandre Song from Barcelona) and winning over the critics (notably Roger Milla).

The team did well in the qualifiers after Finke's appointment but did not face strong contenders (Libya, Congo DR, Togo and Tunisia in knockout). Friendlies outside Africa have resulted in scoreless draws in Albania and Ukraine, and a 0-3 loss in Colombia. So it is still unclear whether the German coach can tame the 'Lions'.

Spurring economic reform

Like the various team coaches, policymakers have striven to overcome the country's lacklustre economic performance in recent years. Hopes were high at the outset of the cancellation of the multilateral external debt in 2006, but per capita income has since stagnated and poverty has remained pervasive.

Statistics for Cameroon

Odds: 750/1		World Ranking: 50	
1st Round Match Schedule			
Date	Venue	Against	Local Time
13-Jun	Natal	Mexico	13:00
18-Jun	Manaus	Croatia	18:00
23-Jun	Brasilia	Brazil	17:00
Previous Appearances: 6			
Host	Year	Outcome	
Spain	1982	Round 1	
Italy	1990	Quarter-finals	
USA	1994	Round 1	
France	1998	Round 1	
Korea/Japan	2002	Round 1	
South Africa	2010	Round 1	
Previous World Cup Results			
		Games Played	20
		Won	4
		Drawn	7
		Lost	9
		Goals Scored	17
		Goals Against	34
		Yellow Cards	44
		Red Cards	7

Source: Ladbrokes.com, FIFA, Planetworldcup.com

The main challenge for Cameroon is to use its abundant and diversified natural resource base (including oil, cocoa, coffee and cotton) to address the need for structural and institutional reforms and set the economy on a higher growth path, while managing the growing risks to macroeconomic stability (mainly due to oil subsidies).

The country, like its football team, has no shortage of raw talent and resources but has failed to generate a fundamental transformation while conditions were favourable. The team will come up against the host nation in the first round and will not find it easy to get out of relatively tough Group A (with Brazil, Croatia and Mexico). Similarly, policymakers will have to address the economic weaknesses in an increasingly challenging global environment.

Revenues from oil exports (representing 33% of total exports), in particular, will continue to provide a significant external buffer and the means to support the financing of much-needed infrastructure projects beyond multilateral concessional funding. As such, Cameroon remains a potential Eurobond issuer in the near future. Like the 'Indomitable Lions', it has the potential to deliver a positive surprise.

JF Ruhashyankiko

Chile

Chile is currently placed 13th in the latest FIFA World Ranking and will play in the challenging Group B alongside Australia, Netherlands and defending champions Spain. The hopes of *La Roja* (the 'Red') will likely hinge on a successful start against underdog Australia on June 13 in Cuiaba. A strong showing could boost the Andean squad for the decisive matches against Spain on June 18 in Rio de Janeiro – in Maracanã, the temple of football – and the Netherlands a week later in São Paulo. While many expect the two European contenders to prevail in the group, ardent Chilean fans are convinced that the best generation in the country's football history should fear no-one.

The team is coached by Argentine Jorge Sampaoli (since December 2012), a firm believer in the fast-paced attacking *táctica* once implemented by former coach and compatriot Marcelo Bielsa. The offensive style of play fits perfectly with the skill and talent of star forward Alexis Sánchez and the dangerous Eduardo Vargas, who often outruns defenders in lethal counter-attacks. The creativity and smoothness of attacking midfielders Matías Fernández and Arturo Vidal are also powerful weapons in the Chilean arsenal. Finally, one can never overstate the importance of veterans such as goalie and captain Claudio Bravo and *O Mago* (the 'Magician') Jorge Valdivia, whose experience may prove essential at key moments.

Football in Chile

Chile qualified convincingly for the 2014 World Cup but, as is the case with copper prices, its campaign was not free of large cyclical swings. The team started the qualifying phase on the right foot, picking up 12 of the first 18 points on offer. But three consecutive defeats (including home fixtures against Argentina and Colombia) shortened the tenure of former coach Borghi, also an Argentine. After getting off to a poor start with a loss to Peru, coach Sampaoli found his pace and the team notched up five victories and one tie in the next six games, Chile's best ever run in the World Cup. Altogether, *La Roja* scored 29 goals in the qualifying phase, second only to Argentina (35), although it conceded more goals (25) than any other team in the region.

Chile has made eight previous World Cup appearances, with its best performance a third-place finish in 1962, the only time the country has hosted the event. Coincidentally, *La Roja* lost on that occasion in the semis to Brazil, which subsequently defeated Czechoslovakia to claim the trophy. Given life's little ironies, this may be the time for Chile to win a Cup hosted in Brazil.

The state of the economy

Chile has maintained an enviable track record of orthodox and disciplined macro policies, anchored by a solid and stable institutional framework, earning it the title of the best-managed nation in Latin America. However, as a small open economy heavily dependent on copper exports, it has recently started to grapple with the adverse consequences of what looks to be the beginning of the end of a decade-long boom in commodity prices. The real business cycle has lost momentum over the past few quarters and growth is unlikely to exceed 3.5% this year, far below the 5.3% average recorded since the 2010 World Cup. As a result, the central bank has trimmed the reference rate and has maintained a dovish bias, allowing the Peso to depreciate to smooth the adjustment of the economy to the new

Statistics for Chile

Odds: 33/1		World Ranking: 13	
1st Round Match Schedule			
Date	Venue	Against	Local Time
13-Jun	Cuiaba	Australia	18:00
18-Jun	Rio De Janeiro	Spain	16:00
23-Jun	Sao Paulo	Netherlands	13:00
Previous Appearances: 8			
Host	Year	Outcome	
Uruguay	1930	Round 1	
Brazil	1950	Round 1	
Chile	1962	Third place	
England	1966	Round 1	
Germany	1974	Round 1	
Spain	1982	Round 1	
France	1998	Round of 16	
South Africa	2010	Round of 16	
Previous World Cup Results			
		Games Played	29
		Won	9
		Draw n	6
		Lost	14
		Goals Scored	34
		Goals Against	45
		Yellow Cards	34
		Red Cards	2

Source: Ladbrokes.com, FIFA, Planetworldcup.com

environment. Nevertheless, the authorities could face additional hurdles in their attempts to stabilise growth in the short term. Business sentiment continues to deteriorate as a polemic tax reform bill runs its course through Congress.

The state of the nation

Michelle Bachelet returned to power in March promising to implement an ambitious agenda of economic and institutional reforms aimed at a broader redistribution of the fruits of the bonanza of previous years. The new president has recently unveiled a long-awaited tax reform bill to help finance deep changes to Chile's public education system and to expand the country's social safety net. The business community reacted swiftly, arguing that the proposal strikes at the heart of incentives to save and invest, dealing a blow to the economy's long-term prospects. While President Bachelet's policies may help address some of the most pressing social demands, the new administration will be challenged to ensure its centre-left agenda preserves the pro-market status that has benefited the Chilean economy in recent decades.

Tiago Severo

Colombia

Colombia is currently in an enviable 5th place in the latest FIFA World Ranking and is the leading contender in Group C (along with Greece, Côte d'Ivoire and Japan). A triumph over Greece in the opening match on June 14 in Belo Horizonte would sow the seeds for a successful performance in the group stage. *Los Cafeteros* (the 'Coffee Growers') would also greatly benefit from any points they can harvest in the crucial match against Côte d'Ivoire five days later in the capital Brasilia.

The team is coached by José Pekerman (since January 2012), who led Argentina to three wins in the U-20 World Cup and took the national team to the knockout stage in the 2006 World Cup in Germany. He is well-known for selecting players who fit with his style of play, a strategy that has usually yielded positive results. In addition to the recognition he received after Colombia won 26 out of a potential 30 points in the South American qualifiers, Mr. Pekerman has been credited with the revival of Colombia's squad to its glory days of the 1990s, when it included names such as Carlos Valderrama and René Higuita (famous for his 'scorpion' kick).

The nation is eagerly awaiting the recovery (from an ACL injury) of 'super-star' Radamel Falcao, considered by many to be one of the world's top strikers. But if Falcao is unable to compete, Pekerman will be able to draw on a number of talented players, many of whom play in the major European leagues. Special mention goes to attacker Jackson Martínez and midfielder James Rodríguez, who at the tender age of 22 is capable of dazzling crowds with his technique and creativity. Youth is balanced by experience in the shape of the defensive duo Luis Perea and captain Mario Yepes.

Football in Colombia

Colombia returns to the World Cup after a dry spell that lasted three editions. The team had an impressive run in the South American qualifying round, finishing in second place, just 2 points shy of Argentina. The players gelled well as a team, and this was reflected in their stats: *Los Cafeteros* had the stingiest defence in the region, conceding only 13 goals. The strong showing and the team's exciting and dynamic playing style have instilled a renewed sense of optimism in Colombian football fans.

But the passion for football in Colombia is yet to be rewarded with convincing results by the national squad in the FIFA World Cup. The country has made only four appearances in the tournament so far and except for Italy 1990 – when the 'Golden Generation' was knocked out by Cameroon in the Round of 16 – it has never made it beyond the group stage. But this time could be different: Colombia's journey may not simply be the chronicle of a death foretold.

The state of the economy

The re-emergence of Colombia as a regional football power has coincided with the strengthening of its economy over the last several years. The country has certainly capitalised on external tailwinds in the shape of high commodity prices and abundant capital flows. But the authorities have also done their homework, sticking to orthodox and disciplined macro policies that have oiled the productive machinery of this energy exporter. Real GDP has

Statistics for Colombia

Odds: 22/1		World Ranking: 5	
1st Round Match Schedule			
Date	Venue	Against	Local Time
14-Jun	Belo Horizonte	Greece	13:00
19-Jun	Brasilia	Côte d'Ivoire	13:00
24-Jun	Cuiaba	Japan	16:00
Previous Appearances:			
Host	Year	Outcome	
Chile	1962	Round 1	
Italy	1990	Round of 16	
USA	1994	Round 1	
France	1998	Round 1	
Previous World Cup Results			
		Games Played	13
		Won	3
		Drawn	2
		Lost	8
		Goals Scored	14
		Goals Against	23
		Yellow Cards	17
		Red Cards	0

Source: Ladbrokes.com, FIFA, Planetworldcup.com

expanded 4.7% on average since the 2010 World Cup, a period characterised by low and stable inflation. We remain constructive on the opportunities ahead. Despite the gradually fading boom in commodity prices, the economy continues to evolve at cruise speed, making Colombia one of our preferred macro stories in Latin America.

The state of the nation

As well as mastering the art of macroeconomic stability, the authorities have taken decisive steps to settle the 50-year-old conflict with the FARC guerrilla movement. Ongoing peace negotiations, while slow-moving, have resulted in preliminary agreements on thorny issues including land reform, the future participation of former guerrilla members in politics and drug trafficking.

But progress on this front has failed to materially lift the popularity of President Santos ahead of the May presidential elections. In fact, his bid for a second term in office has been threatened by the recent rise of Oscar Zuluaga (Democratic Centre) in the polls. It's looking increasingly likely that Colombians will need to tear themselves away from the sports channels and head to ballots again in the run-off election on June 15.

Tiago Severo

Costa Rica

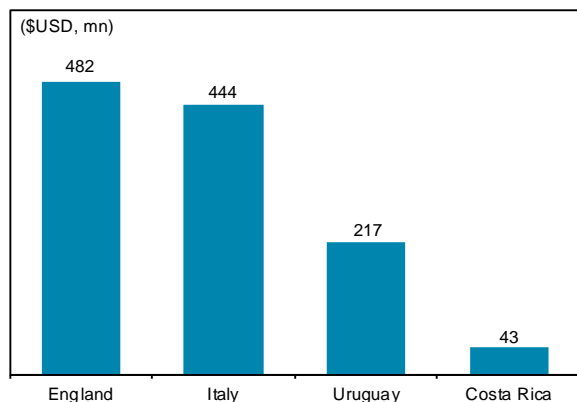
The 2014 World Cup

After missing out on South Africa 2010, Costa Rica managed to qualify for Brazil 2014, marking the fourth time in its football history that it will join the most important sporting event in the world. The Costa Rican national team, affectionately known as *Los Ticos* (a colloquial term for a native of Costa Rica), is the clear underdog in Group D, which also includes former World Cup Champions England, Italy and Uruguay. For example, the estimated aggregate valuation of its players (US\$43mn) is several times lower than that of its group opponents (e.g., England at US\$482mn). Nevertheless, one of the beauties of football is that anything is possible, and surprises do tend to happen, especially in World Cups. Ultimately, as one of the greatest footballers of all time, Alfredo Di Stefano, once said: "Reputations do not win matches and trophies, only goals can do that".

Costa Rica managed to qualify to the 2014 World Cup by finishing second behind the USA in the CONCACAF Qualifying Finals. *Los Ticos* are once again under the guidance of experienced Colombian coach Jorge Luis Pinto, who was sacked during the qualifiers for the 2006 tournament in Germany. Under Pinto's tutelage, *Los Ticos* are known for being a tactically disciplined side, boasting a solid and well-used defence. Attesting to this, Costa Rica conceded the fewest number of goals of any team (7 goals in 10 matches) in the final stage of the qualifiers.

On the field, *Los Ticos* will be led by Bryan Ruiz, a high quality playmaker/forward currently at PSV Eindhoven and with valuable experience playing in the English Premiere League (EPL). Up front, he will be aided by Joel Campbell, a speedy winger/forward currently at Greek club Olympiacos. A fundamental pillar of the defensive line is formidable goalie Keylor Navas, currently in top form and who has been showing off his lightening reflexes week after week for Levante FC in the Spanish league (one of the top two leagues in the world). Finally, it is very probable the team will suffer from the absence due to injury of versatile Bryan Oviedo, who can play in defence and midfield, and who has picked up plenty of playing minutes at Everton FC in the EPL.

Team Market Value



Source: Transfermkt.com; Goldman Sachs Global Investment Research.

Statistics for Costa Rica

Odds: 3000/1		World Ranking: 34	
1st Round Match Schedule			
Date	Venue	Against	Local Time
14-Jun	Fortaleza	Uruguay	16:00
20-Jun	Recife	Italy	13:00
24-Jun	Belo Horizonte	England	13:00
Previous Appearances: 3			
Host	Year	Outcome	
Italy	1990	Round of 16	
Korea/Japan	2002	Round 1	
Germany	2006	Round 1	
Previous World Cup Results			
	Games Played	10	
	Won	3	
	Drawn	1	
	Lost	6	
	Goals Scored	12	
	Goals Against	21	
	Yellow Cards	20	
Red Cards	0		

Source: Ladbrokes.com, FIFA, Planetworldcup.com

As the underdogs against three world class opponents, Costa Rica's tactics will probably be to play with disciplined positioning on the pitch and as defensively as possible, and indeed this is their main strength. Nonetheless, Costa Rica's defence will need to prove they can handle top notch quality forwards such as Suárez (Uruguay), Rooney (England) and Balotelli (Italy).

Economics and politics

Costa Rica has experienced a relatively robust economic recovery since the global financial crisis, with real GDP growth averaging 4.9% from 2010-2012. In 2013 economic growth moderated to 3.5% but, according to IMF forecasts, is expected to undergo a medium-term recovery towards 4.5%. Costa Rica has a well-diversified economy: its main sectors are high-value-added manufacturing, transportation, communication and tourism. The country has long shown a capacity to attract large foreign direct investment (FDI) inflows. More than 200 global companies have set up shop in Costa Rica, helping to maintain steady growth rates and finance the current account deficit.

In April 2014, Luis Guillermo Solís of the centre-left Citizen Action Party (PAC) won the presidential election, breaking with a perennial two-party system. Mr. Solís, a 55-year-old historian and former diplomat, will take over an economy facing important challenges. In particular, he will have to deal with a rising fiscal deficit, which increased to 5.6% of GDP in 2013 from 0.3% in 2008, and ultimately resulting in an increase in public indebtedness. Faced with an unsustainable fiscal path, a prompt and firm commitment to fiscal consolidation will be necessary.

David Reichsfeld

Cote d'Ivoire

The 'Golden Generation' of African football

Football is probably the most popular sport in Côte d'Ivoire (or Ivory Coast) and a strong unifying force in this multi-ethnic nation. Indeed, it was suggested that the national team qualifying for the 2006 World Cup helped bring peace, albeit temporarily, during the civil war.

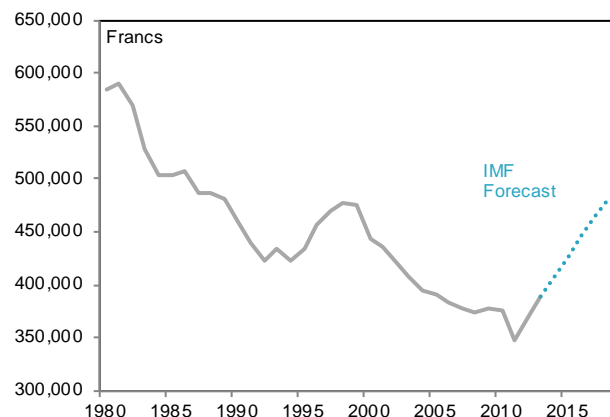
Brazil 2014 will be the third time Côte d'Ivoire's national team, the 'Elephants', will make a World Cup appearance. So far, they have not managed to break through the group stage. But it is hard to blame them given that on both previous occasions they were drawn against some of the toughest opponents: Netherlands and Argentina in 2006, and then Brazil and Portugal in 2010. It isn't going to be an easy task this time either. Colombia, currently placed 5th in the FIFA World Ranking, is anything but an easy rival. The same can probably be said for Greece, ranked 10th and known for its tactical strength and deep defence.

Nevertheless, the coach for the 'Elephants', former midfielder Sabri Lamouchi, is confident that they can "trouble some big teams in the World Cup". He has every right to say so. Côte d'Ivoire is the highest-ranked team on the African continent – currently 21st. And among the 'Elephants' are some of the greatest stars representing the 'Golden Generation' of African football. The team captain, striker Didier Drogba, is the all-time fourth-highest scorer for Chelsea and the first African player to score 100 goals in the English Premier League. 'Colossus' Yaya Touré, a Manchester City midfielder who often switches to the offensive, is one of the Premier League's highest paid footballers.

The Ivorian players are well known for their individual talent and experience. But the key to making their fans back home proud will lie in uniting their efforts and translating individual club level success into excellent performance as a team.

Brighter outlook for Côte d'Ivoire

GDP Per Capita in 2000 Prices



Source: IMF WEO

Statistics for Côte d'Ivoire

Odds: 125/1		World Ranking: 21	
1st Round Match Schedule			
Date	Venue	Against	Local Time
14-Jun	Recife	Japan	22:00
19-Jun	Brasilia	Colombia	13:00
24-Jun	Fortaleza	Greece	17:00
Previous Appearances: 2			
Host	Year	Outcome	
Germany	2006	Round 1	
South Africa	2010	Round 1	
Previous World Cup Results			
		Games Played	6
		Won	2
		Drawn	1
		Lost	3
		Goals Scored	9
		Goals Against	9
		Yellow Cards	14
		Red Cards	1

Source: Ladbrokes.com, FIFA, Planetworldcup.com

State of the nation and the economy: A brighter outlook

After it gained independence from France in 1960, Côte d'Ivoire became one of the most peaceful and prosperous states in Sub-Saharan Africa, and one of the world's leading cocoa producers. The 'Ivorian Miracle' lasted for around 20 years before the global recession at the beginning of the 1980s and a terms-of-trade collapse sent the economy into a long period of stagnation. Following a short recovery in the second half of the 1990s, economic decline continued due to a new terms-of-trade shock combined with political instability and civil unrest. In 2002 the country was effectively split between the north and south but eventually UN-led peacekeepers managed to end hostilities and broker an agreement between the various factions.

Peace was threatened again in 2010 when incumbent President Laurent Gbagbo refused to step down after losing (according to the Electoral Commission) the elections to his rival, ex-IMF economist Alassane Ouattara. This triggered another round of civil unrest, which ended in 2011 with Gbagbo being arrested and sent to The Hague, and Ouattara becoming the new president.

Led by the new government and supported by a 3-year IMF program (which ended recently), the country has started to recover from the political and economic crises. The government has increased infrastructure investment and adopted reforms aimed at poverty reduction, business climate improvement and financial deepening. In 2012-13 macroeconomic performance was remarkable: growth rebounded to 9.8% in 2012 and 8.1% in 2013 on IMF estimates. Moreover, Côte d'Ivoire ranked among the 10 countries with the fastest improvement in business climate, according to the World Bank's 2014 'Doing Business' report. While a lot still needs to be done before Côte d'Ivoire can be considered an 'emerging market', the outlook now looks more promising.

Mark Ozerov

Croatia

The 2014 World Cup: Croatia is back

Croatia is set to make its comeback in the 2014 world football arena. The team led by Niko Kovac hopes to replicate the heydays of its 'Golden Generation' – the team that came third in the 1998 World Cup in France – and make up for its failure to qualify for the 2010 tournament.

Brazil (ranked 4th in the FIFA World Ranking), Mexico (19) and Cameroon (50) will be Croatia's (20) contenders in Group A. The first game – and the opening match in the 2014 tournament – will take place in São Paulo on June 12 against Brazil, host nation and five-time World Cup winner. Needless to say, most observers see defeating Brazil as a Herculean challenge. And the fact that no host country has ever lost its first game lengthens the 'odds' of Croatia winning its inaugural match. The two following games, against Cameroon on June 18 in Manaus and Mexico on June 23 in Recife, will therefore prove decisive for Croatia's progression to the knockout stages.

Judging from its performance in the qualifiers, the Croatian team will need to perfect its strategy before flying to Brazil. The Croats started their campaign on a strong note with six victories and one draw, but then stalled in the four remaining games, prompting the departure of former coach Igor Štimac. After achieving second place in UEFA Group A, Croatia advanced to the play-offs and ultimately emerged victorious in the return fixture against Iceland.

The Croat national squad features a number a world-class players, including Real Madrid's midfielder Luka Modric and Bayern Munich's forward Mario Mandžukic. However, Mandžukic, who was named Croatian Footballer of the year in 2012 and 2013, and best Croat scorer in qualifying rounds, has been banned from playing in one World Cup match after he received a red card in the play-offs and, as such, will miss the tournament opener against Brazil. Mandžukic may prove difficult to replace, highlighting one of Croatia main weaknesses: its over-reliance on a small number of key players.

Second place in Group A would likely imply that Croatia would meet defending champion Spain in a fiercely competed Round of 16.

The never-ending recession

Croatia's economic performance has been one of weakest in the European Union since the onset of the Great Financial Crisis, with GDP shrinking in real terms by 12% from 2008 to 2013. The poor 2013Q4 GDP print (-1.7%qoq ann) will likely take Croatia into its 6th year of uninterrupted economic contraction.

The country's pre-crisis growth model proved excessively vulnerable to external shocks. On the one hand, the high concentration of foreign-owned banks and the rapid accumulation of external/hard-currency debt liabilities put at risk the financing side of the economy. On the other hand, while capital flows mostly benefited non-tradable activities (real estate, finance, public services), its tradable sector (limited to tourism and shipbuilding) remained overly exposed to a handful of European markets.

Statistics for Croatia

Odds: 125/1		World Ranking: 20	
1st Round Match Schedule			
Date	Venue	Against	Local Time
12-Jun	Sao Paulo	Brazil	17:00
18-Jun	Manaus	Cameroon	18:00
23-Jun	Recife	Mexico	17:00
Previous Appearances: 3			
Host	Year	Outcome	
France	1998	Third place	
Korea/Japan	2002	Round 1	
Germany	2006	Round 1	
Previous World Cup Results			
		Games Played	13
		Won	6
		Drawn	2
		Lost	5
		Goals Scored	15
		Goals Against	11
		Yellow Cards	29
		Red Cards	1

Source: Ladbrokes.com, FIFA, Planetworldcup.com

Following the outbreak of the crisis in 2009, Croatia suffered a severe recession. The subsequent processes of private sector deleveraging and public sector fiscal consolidation have suppressed considerable amounts of aggregate demand. In parallel, the anaemic recovery in neighbouring Euro area was unable to offset Croatia's domestic weaknesses.

Against this backdrop, the structural macroeconomic impediments leave Croatian policymakers little room for manoeuvre. On the fiscal side, the government is committed to consolidating further its fiscal stance in sympathy with the EU Fiscal Compact. On the monetary side, the high level of credit euroisation should deter the Croatian National Bank from altering relative prices through exchange rate depreciation and focusing solely on domestic objectives.

Absent significant changes in prices – wages and/or exchange rate – the burden of the adjustment has fallen mechanically on quantities, with unemployment reaching 20.8% in 2014Q1. If not adequately addressed, cyclical challenges may well morph into structural ones as a result of the hysteresis implied by a lingering crisis, and hence prove even harder to combat. Ending economic decline and restoring competitiveness will therefore require the government to undertake long-overdue structural reforms in order to facilitate the reallocation of resources – notably in the labour market; Croatia's recent accession to the EU should help it to achieve these objectives via the provision of additional European structural funds.

Pierre Vernet* and Ahmet Akarli

*Pierre Vernet is an intern with the CEEMEA Economics team, studying at ENS and Sciences Po

Ecuador

The 2014 World Cup

Ecuador is once again back on football's greatest stage, the World Cup Finals. *La Tricolor* (named after the three colours in the nation's flag and strip) will play in the World Cup for the third time in its history. Getting through the group stage is likely to be challenging but not impossible for the team (they will be up against France, Switzerland and Honduras), and they will be hoping to match their best showing so far, in Germany 2006, when the team advanced beyond the group stage. The tournament will have extra meaning for Ecuador, who intend to dedicate their World Cup appearance to team-mate Cristián 'Chucho' Benítez, a great striker with dazzling speed and untiring legs, who died in 2013.

La Tricolor will be led by Manchester United star Antonio Valencia, considered by many to be the best player in Ecuador's footballing history. Valencia is a right-footed winger with remarkable speed, dribbling and passing skills. Supporting Valencia is Ecuador's top scorer in the qualifiers, forward Felipe Caicedo, a threat to any team thanks to his strong physique and impressive ball control.

During the South American qualifiers, Ecuador benefited from playing at home in Quito, given its altitude of 2,800 meters: it won all its matches at home (except for a tie against Argentina) and managed to tie in three away matches. That proved enough for Ecuador to finish level with Uruguay on points but it snatched the last automatic qualifying place thanks to its superior goal difference. Interestingly, Coach Reinaldo Rueda is the third Colombian to guide the nation to a World Cup Final. Under Rueda, the team is better known for its tactical and disciplined positioning in the field rather than for an attacking, fluid style of play; indeed, Ecuador scored the lowest number of goals of all the South American teams who qualified to Brazil 2014. Nevertheless, *La Tricolor* benefits from savvy and speedy wingers Antonio Valencia (Manchester United, England) and Jefferson Montero (Morelia, Mexico), who will be in charge of breaking through their opponents' defence and sending dangerous crosses to striker Felipe Caicedo.

Will Ecuador be able to make it past the first round? On paper, they certainly have the talent to come second in the group, possibly in a matchup against Switzerland, as France is the favourite to earn the top spot. As for Honduras, coach Rueda knows the team quite well as he led and coached them at South Africa 2010, and may prove key in helping Ecuador secure the three points with a win in that match.

Economy and politics

Ecuador's real GDP growth slowed to 4.5% in 2013 from a recent peak of 7.8% in 2011. According to IMF forecasts, the economy is likely to grow at a more moderate pace from here, at slightly below 4.0%. Inflation moderated to 2.7% in 2013 from 5.1% in 2012, thanks to subdued demand and contained food prices. Although the

Statistics for Ecuador

Odds: 125/1		World Ranking: 28	
1st Round Match Schedule			
Date	Venue	Against	Local Time
15-Jun	Brasilia	Switzerland	13:00
20-Jun	Curitiba	Honduras	19:00
25-Jun	Rio De Janeiro	France	17:00
Previous Appearances: 1			
Host	Year	Outcome	
Korea/Japan	2002	Round 1	
Germany	2006	Round of 16	
Previous World Cup Results			
		Games Played	7
		Won	3
		Drawn	0
		Lost	4
		Goals Scored	7
		Goals Against	8
		Yellow Cards	18
		Red Cards	0

Source: Ladbrokes.com, FIFA, Planetworldcup.com

default on US\$3.2bn in global bonds in 2008 locked Ecuador out of international bond markets, the country has been able to rely mostly on credit from China to meet its financing needs. This has provided ample resources to fund the government's spending plans, but has raised concerns over rapidly rising debt levels and a widening fiscal deficit (reaching 4% of GDP in 2013).

President Rafael Correa, from the left-leaning Alianza País movement, has dominated the political scene since 2007. In 2013, Mr. Correa won re-election for a third consecutive presidential term, which will end in 2017. Some local political analysts are of the view that the President may attempt to amend the 2008 constitution again in order to be able to bid for a fourth term in 2017. Even though the Alianza País movement lost some ground against a better organised opposition in local elections earlier in 2014, Mr. Correa's popularity remains high thanks in part to his charismatic style as well as high levels of spending on social projects. Under Mr. Correa, Ecuador can expect policy continuity under a state-led model characterised by high public spending. That said, the continuation of the current heterodox policy approach could be jeopardised by a potential downward correction in oil prices: oil comprises more than 50% of exports and more than one-third of fiscal revenue.

David Reichsfeld

The World Cup 2014: Groups



Group A



Brazil (BRA)



Croatia (CRO)



Mexico (MEX)



Cameroon (CMR)

Group B



Spain (ESP)



Netherlands (NED)



Chile (CHI)



Australia (AUS)

Group C



Colombia (COL)



Greece (GRE)



Côte d'Ivoire (CIV)



Japan (JPN)

Group D



Uruguay (URU)



Costa Rica (CRC)



England (ENG)



Italy (ITA)

Group E



Switzerland (SUI)



Ecuador (ECU)



France (FRA)



Honduras (HON)

Group F



Argentina (ARG)



Bosnia and Herzegovina (BIH)



Iran (IRN)



Nigeria (NGA)

Group G



Germany (GER)



Portugal (POR)



Ghana (GHA)



USA

Group H



Belgium (BEL)



Algeria (ALG)



Russia (RUS)



Korea Republic (KOR)

Round 1 - Group Stage

June

Thu 12	Fri 13	Sat 14	Sun 15	Mon 16	Tue 17	Wed 18	Thu 19
 BRA vs CRO Sao Paulo 17:00 Group A 1	 MEX vs CMR Natal 13:00 Group A 2	 COL vs GRE Belo Horizonte 13:00 Group C 5	 SUI vs ECU Brasilia 13:00 Group E 9	 GER vs POR Salvador 13:00 Group G 13	 BEL vs ALG Belo Horizonte 13:00 Group H 15	 AUS vs NED Porto Alegre 13:00 Group B 20	 COL vs GHA Brasilia 13:00 Group C 13
	 ESP vs NED Salvador 16:00 Group B 3	 URU vs CRC Fortaleza 16:00 Group D 7	 FRA vs HON Porto Alegre 16:00 Group E 10	 IRN vs NGA Curitiba 16:00 Group F 12	 BRA vs MEX Fortaleza 16:00 Group A 17	 ESP vs CHI Rio 16:00 Group B 19	 URU vs GHA Sao Paulo 16:00 Group D 13
	 CHI vs AUS Cuiaba 18:00 Group B 4	 ENG vs ITA Manaus 18:00 Group D 8	 ARG vs BIH Rio 19:00 Group F 11	 GHA vs USA Natal 19:00 Group G 14	 RUS vs KOR Cuiaba 18:00 Group H 16	 CMR vs CRO Manaus 18:00 Group A 18	 JPN vs USA Natal 19:00 Group C 14
		 CIV vs JPN Recife 22:00 Group C 6					

Round of 16

Quarter-finals

June 2014							
Sat 28	Sun 29	Mon 30	Tue 1	Wed 2	Thu 3	Fri 4	Sat 5
1A vs 2B Belo Horizonte 13:00 Round of 16 49	1B vs 2A Fortaleza 13:00 Round of 16 51	1E vs 2F Brasilia 13:00 Round of 16 53	1F vs 2E Sao Paulo 13:00 Round of 16 55	Rest Days		W 53 vs W 54 Rio 13:00 Quarter-final C 57	W 55 vs W 56 Brasilia 13:00 Quarter-final D 59
1C vs 2D Rio 17:00 Round of 16 50	1D vs 2C Recife 17:00 Round of 16 52	1G vs 2H Porto Alegre 17:00 Round of 16 54	1H vs 2G Salvador 17:00 Round of 16 56			W 49 vs W 50 Fortaleza 17:00 Quarter-final A 58	W 51 vs W 52 Salvador 17:00 Quarter-final B 57



Group Stage

2014

Sun 19	Fri 20	Sat 21	Sun 22	Mon 23	Tue 24	Wed 25	Thu 26
<p>IRL vs CIV Brasilia 13:00 21 Group D</p>	<p>ITA vs CRC Recife 13:00 24 Group D</p>	<p>ARG vs IRN Belo Horizonte 13:00 27 Group F</p>	<p>BEL vs RUS Rio 13:00 31 Group H</p>	<p>NED vs CHI Sao Paulo 13:00 36 Group B</p>	<p>ITA vs URU Natal 13:00 39 Group D</p>	<p>NGA vs ARG Porto Alegre 13:00 43 Group F</p>	<p>POR vs GHA Brasilia 13:00 46 Group G</p>
<p>ENG vs USA Sao Paulo 13:00 23 Group E</p>	<p>SUI vs FRA Salvador 16:00 25 Group E</p>	<p>GER vs GHA Fortaleza 16:00 29 Group G</p>	<p>KOR vs ALG Porto Alegre 16:00 32 Group H</p>	<p>AUS vs ESP Curitiba 13:00 35 Group B</p>	<p>CRO vs ENG Belo Horizonte 13:00 40 Group D</p>	<p>BIH vs IRN Salvador 13:00 44 Group F</p>	<p>USA vs GER Recife 13:00 45 Group G</p>
<p>GRE vs NGA Natal 13:00 22 Group E</p>	<p>HON vs ECU Curitiba 19:00 26 Group E</p>	<p>NGA vs BIH Cuiaba 18:00 28 Group F</p>	<p>USA vs POR Manaus 18:00 30 Group G</p>	<p>CMR vs BRA Brasilia 17:00 33 Group A</p>	<p>JPN vs COL Cuiaba 16:00 39 Group D</p>	<p>HON vs SUI Manaus 16:00 41 Group E</p>	<p>KOR vs BEL Sao Paulo 17:00 47 Group H</p>
				<p>CRO vs MEX Recife 17:00 34 Group A</p>	<p>GRE vs CIV Fortaleza 17:00 38 Group C</p>	<p>ECU vs FRA Rio 17:00 42 Group E</p>	<p>ALG vs RUS Curitiba 17:00 48 Group H</p>

Semi-finals

Third place

Final

July 2014

	Sun 6	Mon 7	Tue 8	Wed 9	Thu 10	Fri 11	Sat 12	Sun 13
56	Rest Days		W 57 vs W 58 Belo Horizonte 17:00	W 59 vs W 60 Sao Paulo 17:00	Rest Days		L 61 vs L 62 Brasilia 17:00	W 61 vs W 62 Rio 16:00
59			Semi-final I 61	Semi-final II 62			Third place Play-off 63	Final 64
52								
60								

The World Cup 2014: Venues



City	Stadium	Capacity
Belo Horizonte	Estadio Mineirao	62,254
Brasilia	Estadio Nacional	68,009
Cuiaba	Arena Pantanal	42,968
Curitiba	Arena da Baixada	41,456
Fortaleza	Estadio Castelao	64,846
Manaus	Arena Amazonia	42,374
Natal	Estadio das Dunas	42,086
Porto Alegre	Estadio Beira-Rio	48,849
Recife	Arena Pernambuco	44,248
Rio de Janeiro	Maracana - Estadio Jornalista Mario Filho	76,804
Salvador	Arena Fonte Nova	48,747
Sao Paulo	Arena de Sao Paulo	65,807

Source: FIFA.com



England

England's World Cup record: Pain and puzzlement

The English invented football. They did not bother to attend the first three World Cups because England's Football Association considered the 'Home Nations Championship' – a (now defunct) competition between England, Scotland, Wales and Northern Ireland – to be "a far better World Championship".

Having deigned to appear in the World Cup for the first time in 1950, it has been a persistent source of pain and puzzlement for the English that they have only won the competition once in 16 attempts since then. It is galling to invent a sport only to discover that others are better at it than you.

Since its sole World Cup victory in 1966, English fans have suffered almost 50 years of continual disappointment. Yet, in a repeated triumph of hope over experience, England fans generally have high expectations of success on the eve of most World Cups. Prior to South Africa 2010, Germany 2006 and many championships before these, England expected ... but the English team failed to deliver.

Unusually, England doesn't expect

What is unusual about the lead-up to this World Cup is that the views of English and non-English are very closely aligned regarding the prospects for the England team: pretty much everybody agrees that England will do badly. Even the head of the England's Football Association has sought to play down his team's chances.

Does this mean that the time is right for England to spring a surprise? Having failed to deliver on the many occasions when expectations were high, could England now deliver when expectations are low?

England is in a tough group – with Italy, Uruguay and Costa Rica – so there is a strong possibility that it will even fail to make it past the first round. However, if it does make it into the second round, England would then play the winner or runner-up from the relatively weak Group C (which includes Colombia, Greece, Côte d'Ivoire and Japan). And, if it succeeds there, England would then be in the quarter-finals and only two matches away from the final...

If all of this seems somewhat fanciful, it is worth considering the quality of England's likely First XI: Rooney, Sturridge, Sterling, Wilshere, Gerrard, Henderson, Baines, Cahill, Jagielka, Johnson, Hart – each of them top players in top Premiership teams. As a group of individuals, they are a match for many of the much more highly-rated teams.

The problem for England, as has often been the case in the past, is that the team somehow manages to add up to less than the sum of its parts. However, freed from the burden of high expectations, perhaps this is the World Cup in which the team gels and manages to deliver on the potential implied by its individuals.

Let us be clear: It is not our base case that England will make it to the final stages of this year's World Cup. But, given the long odds currently quoted on England progressing to that point, they might be worth an outside bet for the semis.

Statistics for England

Odds: 33/1		World Ranking: 11	
1st Round Match Schedule			
Date	Venue	Against	Local Time
14-Jun	Manaus	Italy	18:00
19-Jun	Sao Paulo	Uruguay	16:00
24-Jun	Belo Horizonte	Costa Rica	13:00
Previous Appearances: 13			
Host	Year	Outcome	
Brazil	1950	Round 1	
Switzerland	1954	Quarter-finals	
Sweden	1958	Round 1	
Chile	1962	Quarter-finals	
England	1966	Winners	
Mexico	1970	Quarter-finals	
Spain	1982	Round of 16	
Mexico	1986	Quarter-finals	
Italy	1990	Fourth place	
France	1998	Round of 16	
Korea/Japan	2002	Quarter-finals	
Germany	2006	Quarter-finals	
South Africa	2010	Round of 16	
Previous World Cup Results			
		Games Played	59
		Won	26
		Drawn	19
		Lost	14
		Goals Scored	77
		Goals Against	52
		Yellow Cards	47
Red Cards	3		

Source: Ladbrokes.com, FIFA, Planetworldcup.com

Football is more important than economics, as proved by logic

Football, to paraphrase a former Liverpool manager, is more important than life or death. By contrast, economics is rarely, if ever, more important than life or death. So it must follow – as a matter of logical deduction – that football is more important than economics.

If you are not already convinced by this logic, consider this: Pretty much every English man and woman knows that England won the World Cup in 1966. But how many know how the economy performed that year? Not many. (In case you are interested, 1966 was a year of relative underperformance for the economy, with sluggish growth and rising unemployment.)

In the (unlikely) event that England wins the 2014 World Cup, we doubt that many in 2062 will remember whether the economy performed well or badly this year but everyone will remember the World Cup. Business cycles come and go, football is forever.

Football and economic success – some spurious correlations

Is there any link between football and economic success? Almost certainly not. However, we didn't let this mere fact stop us from trawling the data for some spurious correlations between the two.

As it happens, we didn't have to trawl for long. In the accompanying exhibit, we display England's FIFA World Ranking (with a low number implying a stronger ranking) against the UK's relative growth performance (measured as UK real GDP growth vs. Global PPP-weighted GDP growth).¹ As the exhibit shows – sort of – the UK economy tends to do better when England's football team is doing worse.

If England does do well in the World Cup, we may have to adjust our economic forecasts downwards.

The economy: A pleasant distraction from more important matters

The performance of the economy may only be a mere distraction from the more important matter of football, but it has recently been a reasonably pleasant distraction.

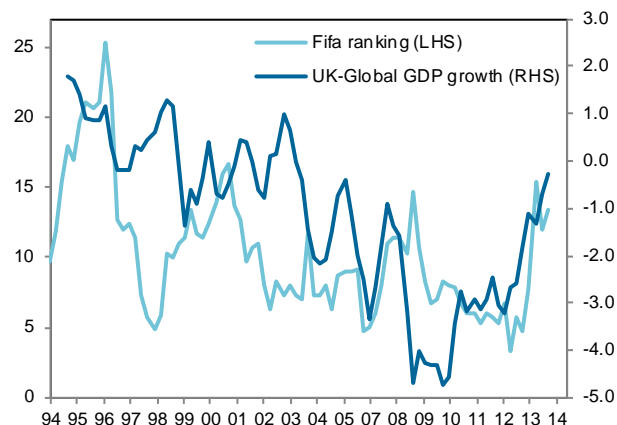
This didn't seem likely one year ago, when there were widespread concerns that the UK economy would fall into an unprecedented 'triple-dip' recession, the government's deficit reduction programme appeared to have stalled and inflation remained stubbornly high.

Yet, in the year since then, the UK has grown faster than any other major advanced economy, the government deficit has fallen sharply and CPI inflation has dropped below the Bank of England's 2.0% target.

What has caused this Lazarus-like transformation? In our view, two factors have been particularly important:

- **There was a significant easing in the price and availability of credit to households and corporates.** This easing followed a sharp reduction in the funding costs for UK banks in the second half of 2012, which, in turn, was a consequence of (i) measures introduced by the Bank of England – including the Funding for Lending Scheme – to reduce banks' funding costs; and (ii) the impact of Mario Draghi's "whatever it takes" commitment in July 2012 on European credit spreads.

Football drives relative economic performance (sort of)



Source: ONS, FIFA, Goldman Sachs Global Investment Research.

- **The reduction of Euro area uncertainty had a direct impact on spending behaviour.** With the removal of the Damoclean threat of a Euro area break-up, households and businesses have re-commenced investment plans that they had previously put off.

Looking forward, our economic forecasts remain above consensus on growth (3.0% vs. 2.7% for 2014), below consensus on inflation (1.8% vs. 2.0% for 2014) and more dovish than consensus on policy (we don't expect the BoE to begin raising rates until 2015Q3, around 6/9 months later than the market is currently pricing). Our relatively dovish stance on rates reflects our sanguine views on potential output and the outlook for inflation, as well as a belief that the BoE is likely to use macro-prudential tools to address housing market risks before reverting to tighter 'conventional' monetary policy at a later stage.

While we continue to forecast that the BoE will delay the first hike until 2015Q3, the strength of recent growth indicators and the – still – disappointing productivity performance suggests that the risks to this forecast are skewed towards an earlier move.

Kevin Daly

1. Readers from Scotland, Wales and Northern Ireland will note the disconnect between our analysis of English football and the UK economy. Our defence is that we do not have quarterly data on the English economy.

France

The volatility of the French economy is low

Since the early 1980s, according to IMF data, the growth performance of the French economy has been the least volatile of all of this year's 32 World Cup participants. The standard deviation of annual real GDP growth stands at 1.4 for France, much lower than the cross-country average of 3.3.

France has a relatively large public sector and, in turn, a relatively small tradable sector. A large public sector reduces the volatility of business cycles, as government spending tends to smooth fluctuations in income and output. The government has played the role of shock absorber, in particular after the 2008/09 crisis, as the countercyclical impact of 'automatic stabilisers' mitigated even larger declines in output and employment. In a similar vein, a relatively small tradable sector has meant that the country's output is more insulated from large swings in global trade and external demand.

But its World Cup performance has been highly volatile

In contrast to the economy, the performance of *Les Bleus* has been fairly erratic since the early 1980s. France reached the semi-finals in the 1982 and 1986 World Cups, but did not even qualify for the 1990 and 1994 competitions.

From peak ... Under the leadership of Didier Deschamps (as captain), France won its first World Cup in 1998, becoming one of the eight national teams to do so while hosting the tournament. Two years later, the team triumphed again in Euro 2000 and became the top team in the FIFA World Ranking for the first time.

Since then France's football record on the international stage has been irregular: the team had a miserable result in the 2002 World Cup (it was eliminated at the group stage without scoring a single goal), but then finished as runners-up in 2006, when they were defeated 5-3 by Italy in a penalty shootout in one of Zidane's most memorable games (1 'Panenka' goal, 1 red card).

... to trough. But the 2010 World Cup campaign, marred by a squad mutiny and failure to win a single match, definitely marked the low point. The team did not make it through the group stage – and the problems in the changing room seemed to be even more acute than those on the pitch. The campaign was finally derailed over the last weekend in the first round when players refused to train after striker Nicolas Anelka was sent home for insulting coach Raymond Domenech at half-time in the match against Mexico. This behaviour led some French companies to suspend advertising campaigns involving the squad and the team has had to fight to regain respect from fans and the general public.

Last minute qualifications, again

As in 2006 and 2010, the team struggled to qualify for the 2014 World Cup. The French qualified for the 2010 World Cup thanks to a controversial goal against Ireland: very late in extra time, Thierry Henry controlled the ball with his hand before passing it on for the goal that secured the team's qualification to South Africa.

Statistics for France

Odds: 20/1		World Ranking: 16	
1st Round Match Schedule			
Date	Venue	Against	Local Time
15-Jun	Porto Alegre	Honduras	16:00
20-Jun	Salvador	Switzerland	16:00
25-Jun	Rio De Janeiro	Ecuador	17:00
Previous Appearances: 13			
Host	Year	Outcome	
Uruguay	1930	Round 1	
Italy	1934	Round 1	
France	1938	Quarter-finals	
Switzerland	1954	Round 1	
Sweden	1958	Third place	
England	1966	Round 1	
Argentina	1978	Round 1	
Spain	1982	Fourth place	
Mexico	1986	Third place	
France	1998	Winners	
Korea/Japan	2002	Round 1	
Germany	2006	Runners-up	
South Africa	2010	Round 1	
Previous World Cup Results			
		Games Played	54
		Won	25
		Drawn	11
		Lost	18
		Goals Scored	96
		Goals Against	68
		Yellow Cards	52
		Red Cards	6

Source: Ladbrokes.com, FIFA, Planetworldcup.com

In our *2010 World Cup and Economics* publication, we noted that "whichever way one looks at it, this is a curse. France will bear the burden of shame all through the World Cup". Sadly for France, that proved to be the case.

In 2014, the team also qualified by the skin of their teeth, winning 3-0 against Ukraine in a play-off (to overturn a two-goal first-leg deficit). But this time could be different; rather than a curse, it could prove to be a blessing. The team displayed an enthusiasm and determination that it has not shown for some time. And they almost won over their fans, although the excitement following the qualifiers was not reflected in the – still depressed – level of consumer confidence.

While there are low expectations for France's 2014 World Cup performance (it is currently ranked 16th by FIFA and has odds of 20/1), we believe a 2006 scenario in which France surprises to the upside is more likely than a 2010 catastrophe. This may not be the second World Cup victory for Didier Deschamps (as coach this time), but France should manage to get through to the quarter- or even semi-finals this year. That said, the French national team and the current fiscal environment certainly have at least one thing in common: unpredictability.

Antoine Demongeot

Germany

The 2014 World Cup

Ever since former player Jürgen Klinsmann took over as manager of the German national team in 2004, the focus of the team has shifted from just ‘winning’ – something the team has been quite good at over the last couple of decades – to also playing ‘beautifully’. Klinsmann’s successor Jogi Löw has reinforced that trend, and expects the team to follow an attacking style when playing. Judging from its FIFA World Ranking as the number 2 team in the world – and the fact that Germany has reached the semi-finals in each of the last two World Cups – this change in style has not come at the expense of success on the pitch.

But, despite two quite successful World Cup appearances, a nagging suspicion has developed among the German public that the team may not be able to reach the next level. In particular, it seems that the new attacking style has come at the expense of a porous defence. The team scored 36 goals in the qualifying round for the World Cup – more than any other European team. But it also conceded an unusual number of goals and showed a tendency to fizzle at critical moments.

The starkest example of this new fragility was the 4-4 draw in the qualifying round against Sweden. The German team was leading 4-0, leaving the Swedish team no room to breathe. But it virtually collapsed in the last 30 minutes of the game, allowing Sweden to score 4 goals. Strengthening its defence and being willing to play less ‘beautifully’ in order to win – which past German teams were fairly good at – is therefore something the new team will have to get right to be a real contender for the title. Moreover, Germany has a difficult first round in Group G, which includes Portugal, Ghana and the USA.

The economy: More stable than the German defence

Compared with the national team, the German economy looks much more stable, and we expect solid growth of around 2% this year and next, with the risk for this year clearly to the upside. German growth is also more balanced than before the crisis, when the economy was mainly dependent on exports and foreign demand.

The main factor behind the weakness in private consumption has been weakness in household income, which, in turn, reflected declining employment and wage restraint over much of the pre-crisis period. In addition, a rising tax burden has weighed on the level of household income. However, since the start of the crisis, household incomes have grown more forcefully, helping to fuel private consumption growth. We expect this trend to continue on the back of a more dynamic wage growth.

Investment spending has also picked up meaningfully recently, although the level of investment spending remains rather low. Given the favourable backdrop for investment spending, in particular the very low funding costs for German corporates, the low level of investment spending implies there is scope for strong investment growth in the years ahead.

Statistics for Germany

Odds: 11/2		World Ranking: 2	
1st Round Match Schedule			
Date	Venue	Against	Local Time
16-Jun	Salvador	Portugal	13:00
21-Jun	Fortaleza	Ghana	16:00
26-Jun	Recife	USA	13:00
Previous Appearances: 17			
Host	Year	Outcome	
Italy	1934	Third place	
France	1938	Round 1	
Switzerland	1954	Winners	
Sweden	1958	Fourth place	
Chile	1962	Quarter-finals	
England	1966	Runners-up	
Mexico	1970	Third place	
Germany	1974	Winners	
Argentina	1978	Quarter-finals	
Spain	1982	Runners-up	
Mexico	1986	Runners-up	
Italy	1990	Winners	
USA	1994	Quarter-finals	
France	1998	Quarter-finals	
Korea/Japan	2002	Runners-up	
Germany	2006	Third place	
South Africa	2010	Third place	
Previous World Cup Results			
		Games Played	99
		Won	60
		Drawn	19
		Lost	20
		Goals Scored	206
		Goals Against	117
		Yellow Cards	64
		Red Cards	6

Source: Ladbrokes.com, FIFA, Planetworldcup.com

Like the German national team, the German economy has undergone a profound reform process, under the Chancellorship of Gerhard Schröder. But while current manager Jogi Löw is fully aware of the weaknesses of the national team, the current German government shows little appetite for addressing the economic challenges. Indeed, the government is now bringing in measures that in our view will hurt Germany’s long-term growth outlook. The planned lowering of the retirement age for certain workers is one example. Depending on how many workers take advantage of this new measure, it could lead to a significant decline in skilled workers at a time when many companies already find it difficult to hire skilled workers. The current policy seems to reflect the old saying that success breeds complacency. That said, the risk of the German national football team falling into this trap is much smaller, as it does not consider itself a favourite to win the World Cup.

Dirk Schumacher

Ghana

Stronger external headwinds

Ghana entered the 2010 World Cup with high hopes. The team's performance did not disappoint and the 'Black Stars' confirmed their reputation as one of the most successful African teams. The team reached the quarter-finals, where they were beaten by Uruguay on penalties, after controversial defensive play by Suárez. The economy has also been performing well: it grew by 8%-15% in 2010-2012 and Ghana has, rather impressively, now attained middle-income status.

However, both the economy and the national football team face much stronger external headwinds this time around.

After winning comfortably in the qualifiers, the 'Black Stars' now come up against Germany, Portugal and the USA in the 'Group of Death'. With such strong opponents, Ghana faces a serious challenge to its dreams of improving on its 2010 performance and becoming the first African nation to win the World Cup.

These dreams are not entirely unfounded. Ghana has shown that it can make ambitious goals a reality, with a number of projects in place worthy of much wealthier countries, including preparations to launch its first satellite. Ghana was the first country to win independence in Africa, and one of the first Sub-Saharan nations to issue international bonds. In football, the 'Black Stars' are one of the most successful African teams: they have won the African Cup of Nations four times and been placed in the top four on another eight occasions. The team has done well on the world stage, too. This is Ghana's third successive World Cup appearance and the national squad can draw on a young talent pool of successful junior players.

The team has slid in the FIFA World Ranking recently and the group stage is likely to be tough, but Ghana will still be a formidable opponent, thanks to the skills of a number of international players, such as Asamoah Gyan (Ghana's top scorer in the 2010 World Cup), Kevin-Prince Boateng, Michael Essien and 'Kojo' Asamoah, who have experience playing in the English, Italian and German leagues. The experience and earlier successes of head coach James Kwesi Appiah should also help the team deal with its daunting opponents at the group stage.

The state of the economy

On the economics side, Ghana's hopes of becoming Africa's new success story also face some external obstacles. Ghana has managed to build strong democratic institutions, improved its business environment and created an oil sector, making growth less dependent on gold and cocoa exports. But its economic performance has deteriorated recently. Deficit overruns, high inflation, negative terms-of-trade shocks and the EM sell-off were met with a delayed policy response. As a result, Ghana's currency, the Cedi, came under strong pressure in late 2013 and early 2014, and the central bank hiked rates to prevent further depreciation. But the Cedi has not retraced its earlier losses and T-bill rates reached a record high in early May. The country still plans to issue a new global bond – which would mark the third time it has accessed global markets – but the conditions are not yet in place.

Statistics for Ghana

Odds: 200/1		World Ranking: 38	
1st Round Match Schedule			
Date	Venue	Against	Local Time
16-Jun	Natal	USA	19:00
21-Jun	Fortaleza	Germany	16:00
26-Jun	Brasilia	Portugal	13:00
Previous Appearances: 2			
Host	Year	Outcome	
Germany	2006	Round of 16	
South Africa	2010	Quarter-finals	
Previous World Cup Results			
		Games Played	9
		Won	4
		Drawn	2
		Lost	3
		Goals Scored	9
		Goals Against	10
		Yellow Cards	29
		Red Cards	1

Source: Ladbrokes.com, FIFA, Planetworldcup.com

The government now needs to show confidence and emulate the forceful attitude of its football team if it is to stabilise the economy and progress with the reform package, and in particular reduce the public wage bill.

The reforms implemented in 2013 should bear fruit soon: growth should pick up more meaningfully in 2015 and the fiscal deficit should stabilise. But to assure Ghana's income convergence to its middle-income peers and stay on the road to prosperity, the government will have to pursue more – sometimes politically unpopular – reforms to support employment creation, private sector development, and the further expansion of its oil and gas sector.

The thrust of the reforms has generally followed earlier advice from the IMF. Ghana's relationship with the IMF has worsened recently, but it should not be difficult to rekindle it. And the government has not ruled out the possibility of a new stabilisation program and a financial backstop, even though it would prefer to do without them. But if the reform effort loses steam and external risk sentiment deteriorates again, instead of the 'Black Stars' bringing back the trophy, it may be the IMF coming back to town, with SDRs and conditionality in tow. This would likely be viewed positively by markets, given the potential for it to anchor the much needed fiscal adjustment and boost policy credibility.

Magdalena Polan

Greece

Not to be written off (in football)

Football is cyclical. In 2004, Greece was experiencing rapid growth, and was about to host the Olympics and win the Euro-vision song contest. And, against all odds, its young and dynamic national football team stormed Europe by winning the Euro-cup.

At the depths of the crisis, Greek football has seen significant budget cuts and does not have equally notable results to boast – at least at the club level, with the possible exception of Olympiakos, which continues to achieve respectable results in the Champions league (including a recent unexpected win over Manchester United).

But the Greek diaspora tends to travel far and wide (including the author of this piece). And Greek players have sought their fortunes away from home. As a result, the national team now boasts players who have made distinguished careers at big European clubs, including Borussia Dortmund (Sokratis Papastathopoulos), Fulham (Mitroglou, Karagounis), Roma (Vasilis Torosidis), Granada (Orestis Karnezis), Levante (Loukas Vyntra), Bologna (Kone, Christodouloupoulos), Genoa (Giannis Fetfatzidis), Celtic (Giorgos Samaras), Kaiserslautern (Kostas Fortounis) and Konyaspor (Gekas, Tziolis). This international talent teams up with a strong vintage of local stars based in Greek teams, such as Olympiakos (Manolas, Paladopoulos, Holebas) and PAOK (Salpingidis, Katsouranis, Tzavellas). Together they constitute a capable set of players who managed to reach the quarter-finals of Euro 2012 and who stand a decent chance of leaving their imprint on what will be Greece’s fourth World Cup appearance.

While the team’s main strength is its solid defensive line, a capable set of midfield players and an agile front line can meaningfully challenge a number of opponents. The team currently combines a mix of young players and more experienced veterans. A key asset for the Greek team is coach Fernando Santos: he has a solid knowledge of Greek football and a successful track record with the national team, and knows how to play to the strengths of the team and accentuate the competitive advantages of the current line-up.

Greece starts the competition playing in Group C, and will face dynamic Colombia, Côte d’Ivoire and Japan. Nevertheless, the chances of progress across the different countries in the group are not severely skewed in one direction or another; in fact, the group is one of the more evenly matched in the tournament. Greece stands a fair chance of achieving some good results within Group C.

If Greece survive the group stage, either as winner or runner-up of Group C, they would face the winner or runner-up of Groups A and B, respectively. Group A includes Brazil, one of the tournament’s favourites. Group B includes Spain (another favourite) and the Netherlands (always a formidable opponent). So, past the group stage, progress for any of the teams in Group C will become much harder.

Statistics for Greece

Odds: 300/1		World Ranking: 10	
1st Round Match Schedule			
Date	Venue	Against	Local Time
14-Jun	Belo Horizonte	Colombia	13:00
19-Jun	Natal	Japan	19:00
24-Jun	Fortaleza	Côte d'Ivoire	17:00
Previous Appearances: 2			
Host	Year	Outcome	
USA	1994	Round 1	
South Africa	2010	Round 1	
Previous World Cup Results			
		Games Played	6
		Won	1
		Drawn	0
		Lost	5
		Goals Scored	2
		Goals Against	15
		Yellow Cards	13
		Red Cards	0

Source: Ladbrokes.com, FIFA, Planetworldcup.com

Even at the depths of the Greek crisis in 2012 we were positive on Greek assets (bonds and stocks). And, despite broad market scepticism, Greek assets have posted strong gains over the last two years. In the same vein, a good performance by the national team can further boost positive sentiment around Greece’s recovery potential following one of the deepest recessions in recent global economic history, which has resulted in a total 25% loss of nominal GDP since 2009. The unemployment rate continues to hover above 25%, with youth unemployment occupying the lion’s share of that sad statistic.

But, as we noted recently in a *Global Markets Daily*, Greece’s Growth Environment Score (GES) improved strongly in 2013, and 2014 may be the first year of growth after a prolonged recession. Summer tourism receipts will constitute a key part of the growth mix for the year, and visitors to Greece will be able to enjoy the delights of a Greek summer together with the festivities that every Greek goal will no doubt trigger. What better opportunity to celebrate the end of a vicious recessionary cycle than with a few wins from the national team!

Themis Fiotakis

Honduras

A less dramatic path to World Cup 2014 ...

Qualifying for the FIFA World Cup is typically a major milestone for most countries, although it is not usually a matter of war and peace as it has been in Honduras. In the qualifying rounds for the 1970 World Cup, following a disruptive set of three qualifying games in June 1969 with El Salvador that involved violence between both sets of fans, El Salvador broke off diplomatic ties with Honduras. A few weeks later, the countries fought the so-called Soccer War (*La Guerra del Fútbol*), although the conflict had its real roots in issues of land reform and migration. The campaign to reach the 2010 World Cup was also dramatic: it occurred against a backdrop of political turmoil that ended in a military coup, with the deposed president taking refuge in the Brazilian embassy in Honduras. Following a victory against El Salvador, and a last-gasp goal in the US-Costa Rica game, Honduras went on to qualify for the first time since 1982, sparking nationwide celebration and uniting the population across the political spectrum.

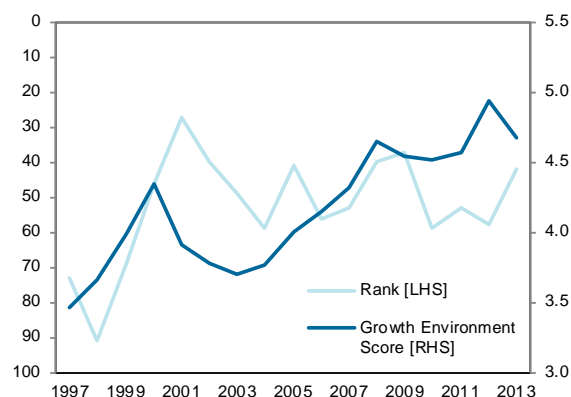
By contrast, qualification for the 2014 World Cup was less tumultuous. Aided by goals from Jerry Bengtson and Carlo Costly, Honduras finished top of their third round group, including a memorable 8-1 thrashing of Canada. They finished third in the fourth round, qualifying automatically from the CONCACAF group, along with the USA and Costa Rica.

... but don't write off La Bicolor in an open group

Having finished without a win and bottom of their group in their last two outings in 1982 and 2010, it would be easy to underestimate the chances of Honduras to qualify out of Group E, which includes France, Switzerland and Ecuador. Easy, but wrong. In both those previous campaigns, Honduras came up against a strong Spanish side. This time France are the favourites in the group, and regular followers of the turmoil in European economics in recent years will recognise instantly that, just as 'Spain is not Greece', 'France is not Spain'. With question marks over France's recent form, Honduras is, together with Switzerland and Ecuador, in one of the more open groups.

Besides, in Brazil 2014, *La Bicolor* (as the team is known) will be powered ahead by Luis Suárez. Not Luis Suárez the top-scorer in this season's English Premier League, but Luis Fernando Suárez, the Colombian player-turned-coach who famously led Ecuador to the Round of 16 in 2006 before the team lost to England 1-0.

A better growth environment goes hand in hand with footballing prowess



Source: FIFA, Goldman Sachs Global Investment Research.

Statistics for Honduras

Odds: 2500/1		World Ranking: 30	
1st Round Match Schedule			
Date	Venue	Against	Local Time
15-Jun	Porto Alegre	France	16:00
20-Jun	Curitiba	Ecuador	19:00
25-Jun	Manaus	Switzerland	16:00
Previous Appearances: 2			
Host	Year	Outcome	
Spain	1982	Round 1	
South Africa	2010	Round 1	
Previous World Cup Results			
	Games Played	6	
	Won	0	
	Drawn	3	
	Lost	3	
	Goals Scored	2	
	Goals Against	6	
	Yellow Cards	8	
	Red Cards	1	

Source: Ladbrokes.com, FIFA, Planetworldcup.com

An 'extra shot' for the coffee powerhouse

Honduras's showing in World Cup 2014 should also be helped by the slow, albeit halting, improvement in its growth environment scores (GES) – our proprietary broad measure of institutional quality and growth conditions. There is a clear statistical relationship between this GES and Honduras's FIFA World Ranking over the years (see chart). The conclusion looks to be inescapable: winning matches at the World Cup goes hand in hand with a better economic growth environment, although unearthing a couple of world class strikers in the mould of Messi and Ronaldo would also help.

Economic growth itself has been fairly volatile in recent years, in part because of its heavy reliance on agricultural exports – in particular, coffee is the biggest export, making up more than 15% of total exports. According to the IMF, in 2013, economic growth decelerated to 2.6%, reflecting a fall in coffee production due to *roya* disease, weaker trading partner growth and low investment. Weaker coffee exports were also expected to worsen a current account deficit that was already more than -8.5% of GDP in 2012, although remittances have improved.

On IMF estimates, GDP growth is forecast to be stronger in 2014, climbing to 3%. At the same time, more favourable terms of trade, a recovering coffee sector and higher growth in Honduras's key trading partners should help lower the current account deficit. Indeed, internationally traded coffee prices are up almost 60% in 2014. If policymakers can use this 'extra shot' to national income to implement needed fiscal reforms and improve the lagging technological and microeconomic environment, 2014 could be the year that sparks a phase of steady improvement in Honduras's growth environment. And it could also be the year when they win their first game at a football World Cup.

Kamakshya Trivedi and George Cole

Iran

Having topped the Asian qualifying group with a victory over Korea, Iran comes into World Cup 2014 as a clear underdog, with the latest odds placing them, at 2,500-1, as the least likely team to win the tournament. The Iranian national team have only played in three World Cup finals before (in 1978, 1998 and 2006), recording just a single victory – a 2-1 win over the USA – in France in 1998.

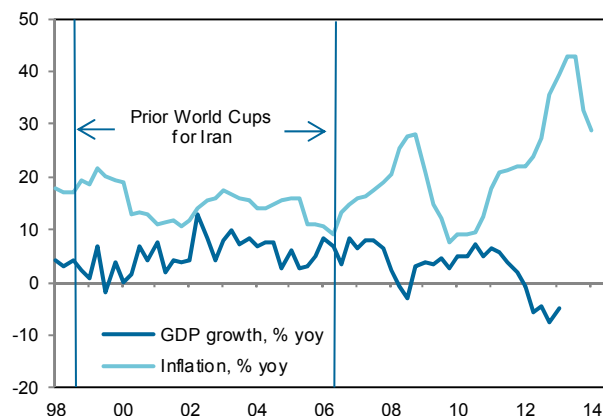
Football has a long and popular history in Iran, with the country boasting a Premier League and three divisions, not unlike the British set-up. But, like much else, there is nostalgia for better times. The area is dominated by the government and has suffered from under-investment, mismanagement and political interference. Local teams are generally publicly funded and, as a rule, loss-making. And in recent years they have often been managed by those with close ties to the military and security apparatus, rather than by former players as is the norm elsewhere.

In 2011, despite growing international isolation, the Iranian national team looked outside for a coach, bringing in Carlos Queiroz – a former manager of the Portuguese national team and of Real Madrid – to take the team to Brazil.

Even locally, hopes are not high. They face a tough challenge with Argentina, Bosnia and Nigeria joining them in Group F. Added to this is the small amount of playing time in preparation since the qualifiers with ‘friendlies’ hampered by lack of funds and the difficulty of getting other teams to visit Tehran.

Some good news for the Iranian team in Brazil would be welcome relief for the local population. The last few years have been extremely tough for the Iranian economy as Western sanctions have tightened. Oil production has fallen sharply, GDP has been contracting since mid-2011, unemployment has risen and inflation accelerated to over 40% in mid-2013 and remains high.

Higher inflation, lower growth than in previous World Cups



Source: Haver Analytics

Statistics for Iran

Odds: 2500/1		World Ranking: 37	
1st Round Match Schedule			
Date	Venue	Against	Local Time
16-Jun	Curitiba	Nigeria	16:00
21-Jun	Belo Horizonte	Argentina	13:00
25-Jun	Salvador	Bosnia and Herzegovina	13:00
Previous Appearances: 3			
Host	Year	Outcome	
Argentina	1978	Round 1	
France	1998	Round 1	
Germany	2006	Round 1	
Previous World Cup Results			
	Games Played	9	
	Won	1	
	Drawn	2	
	Lost	6	
	Goals Scored	6	
	Goals Against	18	
	Yellow Cards	14	
	Red Cards	0	

Source: Ladbrokes.com, FIFA, Planetworldcup.com

There have been some more hopeful signs recently, in part associated with the P5+1 agreement in November 2013, which led to a modest easing of sanctions and may set the stage for a further loosening in the months ahead. The pace of GDP contraction appears to be easing, oil exports show signs of picking up and inflation, while still high, is well off its peaks. With negotiations continuing, further sanction relief may come later in the year, which could finally see the economy return to positive growth.

The story in recent years has mostly been one of opportunity lost. As we have argued since including Iran in our N-11 ('Next 11') group in 2004, the underlying potential of the Iranian economy is in principle quite strong. Beyond its significant oil reserves, it has a large, young and relatively well-educated population. But partly due to the sharp deterioration in its macro conditions, its economic and political isolation and the ongoing rigidity of its political structure, Iran has slipped down the rankings of our Growth Environment Scores (GES) in the last few years.

One of the features of Carlos Queiroz's tenure at the helm of the national squad has been a vigorous but controversial desire to add international talent from the Iranian diaspora. The current squad includes two German Iranians (Daniel Davari and Ashkan Dejagah), a Dutch-Iranian (Reza Ghoochannejhad), a Swedish-Iranian (Omid Nazari) and a Canada-based Iranian-American (Steven Beitashour).

Any signs of success for Iran in Brazil could work as a propaganda coup for the government. Instead, the larger hope is that the experience in Brazil – both the bad and the good – may lend modest support for the notion that investment (if and when sanctions are eased), meritocracy and engagement with the rest of the world can bring real benefits, not just in football but in the broader economy and the country too.

Dominic Wilson

Italy

Can Italy beat the odds and win the 2014 World Cup?

In the history of the World Cup, Italy has won 4 times, but always on European soil, while LatAm teams have won when the Cup was hosted in South America. The *Azzurri* have been runners-up twice and have played twice in semi-finals, often against the odds at the outset of the tournament. The 2014 *Azzurri* are, experts say, a team of good players, with a couple of 'super-stars', but nothing like the team that played in... (name your favourite *Nazionale*).

Criticising the Italian football team is as much a national sport as football itself, but criticisms reflect the passion the nation has for the 'beautiful game'. For Italians, the World Cup is a social event that reinforces their sense of national identity, and a victory makes the most merciless critic of his own country feel proud to be Italian.

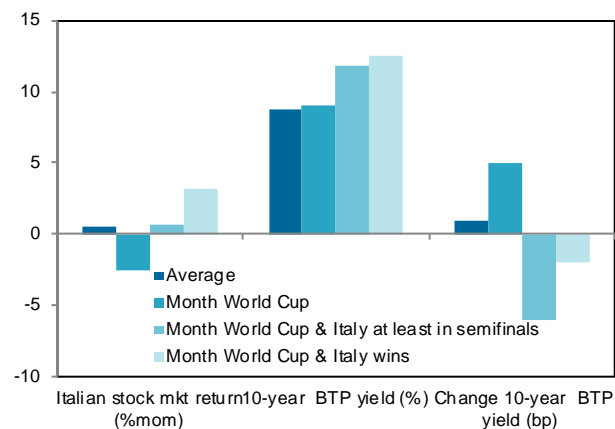
Italy starts off in Group D with England, Uruguay and Costa Rica. The *Azzurri* will rely on 'superman' goalkeeper Buffon. In attack, the star is Balotelli: he is very talented but his performance is not always consistent. Pirlo, the 35-year-old playmaker, could make a difference, as he plays what will likely be the last time in a World Cup and will want to double up on the 2006 victory. But winning against England or Uruguay will not be easy. That said, the *Azzurri* have often surprised in the past – getting off to a difficult start, and then finding the teamwork talent to beat even the favourites. That also reflects the spirit of the nation. Keen to postpone difficult political and economic decisions, Italy has in recent history found the strength to re-emerge from severe crises.

This happened in the 1990s when very few believed Italy could join EMU in the first round, and again in the Summer of 2011. But 'all-star' governments were able to turn the game around and avoid defeat.

But what about 2014? Italy is slowly emerging from a severe and prolonged recession but it is not out of the woods yet. The risk of low growth and deflation is not that remote.

Will the new team in government, captained by Mr. Renzi, play in attack and, as the *Azzurri* did in 2006 with a surprise win in the World, pull off the much-needed and long-awaited political and structural reforms?

When the *Azzurri* win, Italian assets cheer



Source: Goldman Sachs Global Investment Research

Statistics for Italy

Odds: 22/1 World Ranking: 9

1st Round Match Schedule

Date	Venue	Against	Local Time
14-Jun	Manaus	England	18:00
20-Jun	Recife	Costa Rica	13:00
24-Jun	Natal	Uruguay	13:00

Previous Appearances: 17

Host	Year	Outcome
Italy	1934	Winners
France	1938	Winners
Brazil	1950	Round 1
Switzerland	1954	Round 1
Chile	1962	Round 1
England	1966	Round 1
Mexico	1970	Runners-up
Germany	1974	Round 1
Argentina	1978	Fourth place
Spain	1982	Winners
Mexico	1986	Round of 16
Italy	1990	Third place
USA	1994	Runners-up
France	1998	Quarter-finals
Korea/Japan	2002	Round of 16
Germany	2006	Winners
South Africa	2010	Round 1

Previous World Cup Results

Games Played	80
Won	44
Drawn	21
Lost	15
Goals Scored	126
Goals Against	74
Yellow Cards	84
Red Cards	7

Source: Ladbrokes.com, FIFA, Planetworldcup.com

Italy has been our Macro Rates Team's Top Pick government EMU bond market in 2014. So far, the total return on Portugal and Spain bonds has been higher than for Italy. But the year is not yet over and the *Azzurri* and Mr. Renzi could score goals and move up the league table. While we wait for the World Cup, we provide some interesting stats:

- On average, in the month when a World Cup is played, the Italian stock market return is about 2.5% lower than in our sample starting at the beginning of the 1960s.
- But the Italian stock market returned about 3% mom, on average, in July 1982 and 2006, the two months when Italy won the Cup. This was a 'stellar' return relative to the average in the sample.
- In the bond market, 10-year BTP yields have been higher in months when the World Cup has taken place than in a month when there was no World Cup.
- When Italy qualified for the semi-finals or won, 10-year BTP yields were even slightly higher.
- However, relative to the month before the start of the World Cup, yields fell when Italy ranked fourth or better.

In sum, history suggests that if the *Azzurri* beat the odds, buyers of Italian assets will also cheer.

Francesco Garzarelli and Silvia Ardagna

Japan

Football and the Nikkei

Examining the history of the Japanese stock market and Japan's FIFA World Ranking, we find a loose negative correlation between the two. The FIFA ranking tends to indicate the peaks and troughs of the Nikkei index. During the 1999-2000 tech bubble, the Nikkei hit a high of 20,000, while Japan's FIFA ranking, at 57th, was at its lowest. Then, during the 2005-06 Japanese market rally, its FIFA ranking fell to 47th from a high of 15th. Conversely, when the Nikkei was trading below 10,000 from 2009 to 2011, Japan's FIFA ranking improved to 19th. Based on our simple regression model using FIFA rankings and the Nikkei, the current FIFA ranking of 47th indicates that the Nikkei should be 15,100, which would point to an upside of +5.6% as of April 30, 2014.

Faster growth in football than in the economy

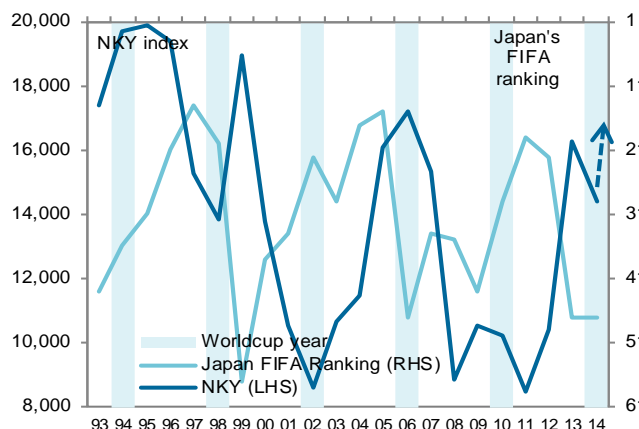
Since the 2010 World Cup in South Africa, Japan's football league, known as the J-League, has expanded at a faster pace than Japan's real economy. The J-League now consists of 3 divisions, with a total of 51 clubs, compared with only 10 clubs in 1993. J-League attendance and revenue have grown at a CAGR of 5.7% and 4.1%, respectively, since 1999. The average attendance per game for J-1 was 17,566 in 2012, making it 11th-highest in the world. The only professional game with a higher attendance in Japan is baseball, which averages 25,518 spectators per game.

The problem of an ageing population

Japan's ageing population is not only a macro problem. J-League players are getting older too, as are their supporters. Exhibit 2 shows the share of the total population aged 50 and above, the percentage of J-league spectators who are 50 and above and the average age of J-League players. Japan's World Cup team, 'Samurai Blue', has an average age of 27 and, while the 2010 World Cup featured 6 teams with an average age of 27 or higher, the odds are stacked against older teams, as since 1950 only one World Cup-winning squad has had an average age above 27.5.

Nevertheless, what 'Samurai Blue' lacks in youth, it makes up for in international experience, with many team members now playing in top European football leagues, including: Shinji Kagawa (Manchester United), Keisuke Honda (AC Milan), Yuto Nagatomo (Inter Milan) and Shinji Okazaki (FSV Mainz).

FIFA ranking and Nikkei 225 are negatively correlated



Source: FIFA, Bloomberg, Goldman Sachs Global Investment Research

Statistics for Japan

Odds: 150/1 World Ranking: 47

1st Round Match Schedule			
Date	Venue	Against	Local Time
14-Jun	Recife	Côte d'Ivoire	22:00
19-Jun	Natal	Greece	19:00
24-Jun	Cuiaba	Colombia	16:00

Previous Appearances: 4

Host	Year	Outcome
France	1998	Round 1
Korea/Japan	2002	Round of 16
Germany	2006	Round 1
South Africa	2010	Round of 16

Previous World Cup Results

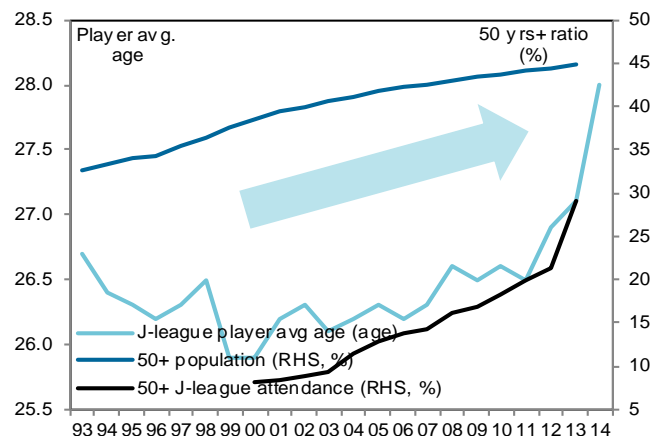
Games Played	14
Won	4
Drawn	3
Lost	7
Goals Scored	12
Goals Against	16
Yellow Cards	27
Red Cards	0

Source: Ladbrokes.com, FIFA, Planetworldcup.com

The 2014 World Cup and Japan's World Cup stats

Following the success of Japan's Women's national team, Nadeshiko Japan, in bringing home the 2011 Women's World Cup, all eyes will turn to 'Samurai Blue.' Japan is in Group C with Colombia, Greece and Côte D'Ivoire, all of whom currently have a higher FIFA ranking. Colombia will be the favourite to advance from the group stage. But Japan comes into the World Cup as Asian champion and this will be its 5th consecutive World Cup appearance – no other team in this group has qualified five times consecutively. Japan is also likely to be popular with some Brazilian fans since the country is home to the largest Japanese population outside Japan (1.5mn) and because of its clean play – the team has never received a red card in a World Cup tournament.

Ageing is a problem: J-League players getting older



Source: J-League, Ministry of International Affairs and Communications, Goldman Sachs Global Investment Research

Tsumugi Akiba

Korea

The 2014 World Cup

The 'Taeguk Warriors' are determined to advance to the second round in Brazil and repeat their stunning success of 2002 when they reached the semi-finals. During the 2006 World Cup in Germany, Korea narrowly conceded the second-round ticket to France and Switzerland, despite scoring 4 points. In the 2010 World Cup in South Africa, the team scored 4 points again and advanced to the Round of 16. Korea is relatively more experienced in advancing to later-round stages than the other teams in its group (Algeria, Belgium and Russia), and has a solid chance of making it to the Round of 16 – and possibly even to the quarter-finals. Given the strong local support for the national team, the synergies from Koreans playing in European leagues and the momentum from the Sochi Olympics (3 gold medals), Korea will be a force to be reckoned with in Brazil.

The state of football

South Korea's performance in World Cup tournaments has been the strongest in Asia. It was the first to represent Asia at the World Cup (1954), and is the first and only Asian country to reach the semi-finals (2002). It is also the most frequent Asian visitor to the World Cup (this is its 8th consecutive entry in the tournament). Such feats are to a large extent due to the devotion of its local fans, the 'Red Devils', who pour into the streets to cheer during tournament games. As evidence of the nationwide enthusiasm for the sport, Korean automakers have sustained long-term sponsorship of FIFA since the 2002 World Cup, while Korean tech companies have invested in World Cup targeted marketing campaigns. Synergies with Koreans playing for European teams will also be crucial to its success. Chu-young Park of Arsenal, a fast-paced striker, is one of the five players selected who also participated in the 2010 World Cup. Other key overseas players include Sung-yong Ki (Sunderland) and Jongwoo Park (Guangzhou R&F), who helped the squad to win a bronze medal at the London 2012 Olympics, and Chungyong Lee (Bolton). Coach Myung-bo Hong will be able to put together a young team of players with ample experience in international competitive leagues.

The state of the economy

While we continue to expect an improvement in the global macro backdrop in coming months, the pace of recovery could be slow and moderate both in exports and domestic demand. Headwinds to Korean exports from weakening demand from emerging markets seem to be gaining momentum, along with the recent depreciation of the Chinese Yuan and China's disappointing export performance in recent months. In the near term, it will be important to monitor the depth and duration of initial cutbacks in private consumption and the extent of headwinds from a recent steep appreciation of the Korean Won. In our view, downside risks remain from Korean Won appreciation, which could offset modest gains from the moderate global recovery. The recent ferry incident and a moderating recovery in local housing markets could also weigh on domestic demand. On the upside, the ongoing recovery in DM and possible policy easing in China should be supportive of external demand, although the effect could be relatively moderate compared with previous expansion cycles.

Statistics for Korea Republic

Odds: 300/1		World Ranking: 55	
1st Round Match Schedule			
Date	Venue	Against	Local Time
17-Jun	Cuiaba	Russia	18:00
22-Jun	Porto Alegre	Algeria	16:00
26-Jun	Sao Paulo	Belgium	17:00
Previous Appearances: 8			
Host	Year	Outcome	
Switzerland	1954	Round 1	
Mexico	1986	Round 1	
Italy	1990	Round 1	
USA	1994	Round 1	
France	1998	Round 1	
Korea/Japan	2002	Fourth place	
Germany	2006	Round 1	
South Africa	2010	Round of 16	
Previous World Cup Results			
		Games Played	28
		Won	5
		Drawn	8
		Lost	15
		Goals Scored	28
		Goals Against	61
		Yellow Cards	53
		Red Cards	2

Source: Ladbrokes.com, FIFA, Planetworldcup.com

The state of the nation

Current president Geun-hye Park has roughly 3.5 years remaining in government. The focus of the remainder of her term will be influenced by the results of municipal elections on June 4, 2014. Local elections, which select city mayors and provincial governors and are the first nationwide elections under the Park presidency, could divert policy focus away from economic recovery and sustainable job creation. The country could enter a post-election stalemate if the ruling party loses key municipalities, including Seoul and Kyunggi province. We also see risks that the parliament delays or rejects economic recovery bills in a run-up to the local elections, slowing or even reversing the housing market recovery and clouding the investment climate, as occurred in late 2012 ahead of the presidential elections. Relations with North Korea remain tense: North Korea has announced a 4th nuclear test and rejected an offer from President Park for economic cooperation in her Dresden speech. Externally, Korea plays an increasingly active role in the world community. It hosted the G20 summit in November 2010, as the first non-G7 host of the summit. In early 2010 Korea became the first aid recipient to join the OECD's Development Assistance Committee. The government is hoping that Korea will become a global hub for free trade, with an economic partnership with India in force in 2010 and free trade agreements with the US, EU and Australia. Korea is currently discussing an FTA with China and has initiated talks on TPP. Korean equities obtained developed country status in 2009 under the FTSE, and the MSCI could follow suit.

Goohoon Kwon

Mexico

The 2014 World Cup

Mexico is currently 19th in the latest FIFA World Ranking and will play in Group A alongside Cameroon, Croatia and top contender Brazil. The key match to watch will likely be the last game at the group stage against Croatia (ranked 20th) on June 23, as it may well decide whether Mexico advances to the knock-out stages. However, to make it to the second round of the competition will most likely demand at least a tie in the opening match against Cameroon (ranked 50th) on June 13.

The national team can rely on a number of high-profile European-based creative and offensive players such as Javier (*Chicharito*) Hernández, and Giovani dos Santos. However, new coach Miguel Herrera (who has so far only coached three games against unchallenging opponents) has shown a strong preference for talented home-based players, such as centre-forward and goal-scorer Uribe Peralta, who led Mexico to a gold medal at the London 2012 Olympic Games. Coach Herrera places great emphasis on ball possession and direct offensive playmaking. Given his short tenure as national coach, Herrera's World Cup core line-up and tactical display is still uncertain.

Football in Mexico

Football is believed to have been introduced to Mexico by English miners at the end of the 19th century and is today the country's most popular sport. The national squad (popularly known as *El Tri*, after the national flag, which has three main colors) underwent several coaching and tactical changes during the unexpectedly challenging qualifying stage. Despite being a regional football powerhouse, the national team won only two of its 10 qualifying games, finishing fourth in the final CONCACAF six-nation group phase courtesy of the USA's late game defeat of the Panamanian side on the final day of the competition. This allowed Mexico to dispute the intercontinental play-off against New Zealand and finally to qualify to the World Cup finals (for the 15th time).

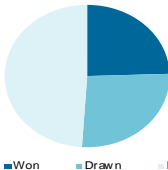
Mexico exited its last 5 World Cup appearances in the Round of 16 (it reached the quarter-finals at home in 1970 and 1986) but claims a much stronger record in other international competitions: it won the FIFA Confederations Cup Mexico 1999, FIFA U-17 World Cup in Peru 2005 and Mexico 2011, and the gold medal at the London 2012 Olympic Games in a thrilling 2-1 victory over group mate Brazil.

The state of the economy

The near- and medium-term macro-financial outlook for Mexico remains constructive: a reflection of the macro resilience built in recent years and overall disciplined market-friendly policy approach. The economy exhibits no visible macro imbalances – it has low and stable inflation anchored by a successful inflation targeting and free-floating exchange rate regime, disciplined fiscal policy and a strong external balance sheet – and policy credibility is high.

Real activity has been sluggish (the economy grew only 1.1% in 2013, down from the 4.3% annual average during 2010-2012) but Mexico is likely to benefit comparatively more than most other emerging economies from the outlook for firmer activity in the US given the strong linkages between the two economies. In addition, Mexico is less exposed to higher global yields and more selective / restrictive access to external financing given its comparatively low

Statistics for Mexico

Odds: 125/1		World Ranking: 19	
1st Round Match Schedule			
Date	Venue	Against	Local Time
13-Jun	Natal	Cameroon	13:00
17-Jun	Fortaleza	Brazil	16:00
23-Jun	Recife	Croatia	17:00
Previous Appearances: 14			
Host	Year	Outcome	
Uruguay	1930	Round 1	
Brazil	1950	Round 1	
Switzerland	1954	Round 1	
Sweden	1958	Round 1	
Chile	1962	Round 1	
England	1966	Round 1	
Mexico	1970	Quarter-finals	
Argentina	1978	Round 1	
Mexico	1986	Quarter-finals	
USA	1994	Round of 16	
France	1998	Round of 16	
Korea/Japan	2002	Round of 16	
Germany	2006	Round of 16	
South Africa	2010	Round of 16	
Previous World Cup Results			
		Games Played	49
		Won	12
		Drawn	13
		Lost	24
		Goals Scored	52
		Goals Against	89
		Yellow Cards	59
Red Cards	6		

Source: Ladbrokes.com, FIFA, Planetworldcup.com

current account deficit and overall moderate gross external financing needs. Furthermore, Mexico should be relatively insulated from the moderation of growth in China and the contained outlook for commodity prices; Mexico is a manufacture-based economy and has very limited trade and financial links to China.

The state of the nation

In 2013 the Peña Nieto administration managed to reach across the aisle and forge the needed consensus in Congress to approve a far-reaching package of market-friendly structural reforms – including in energy (oil, gas, electricity), labour, education, media/telecom and anti-trust – some of which involve Constitutional changes. Congress is currently debating secondary legislation needed to enable some of these reforms. We expect the reforms to attract domestic and foreign investment to key, hitherto highly concentrated, sectors of the economy (oil & gas and telecommunications) and over the medium term to help make the economy more flexible, productive and efficient (i.e., to elevate potential GDP).

Overall, despite the recent growth slump, we remain positive on the macro outlook for Mexico given the business-friendly non-interventionist policy approach, the expected recovery of the US economy and the expected medium-term boost from the recently approved structural reforms. These attributes differentiate Mexico positively from most other large global emerging markets.

Alberto Ramos

Netherlands

Netherlands qualified for the 2014 World Cup with a strong performance, winning all but one of their qualifying games (they drew the other). Of the European teams, the Dutch performance in the qualifiers was second only to – yes, who else? – Germany’s.

Netherlands were runners-up in the 2010 World Cup. The Dutch football tradition is strong and the team has had the unique and dubious ‘honour’ of losing a total of three finals, two of which in the 1970s (1974 and 1978) as the Dutch impressed the world with their ‘total football’.

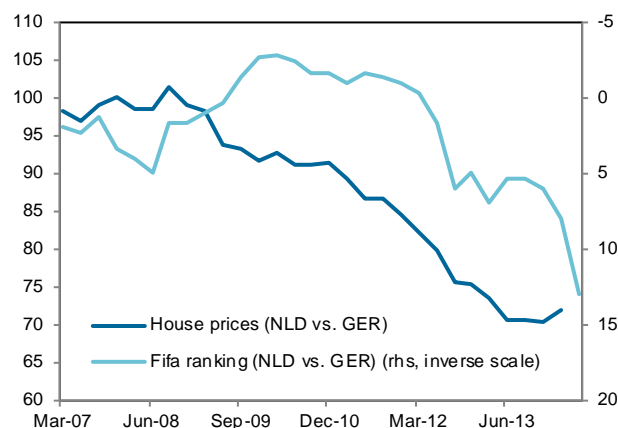
But, perhaps (or perhaps not) reflecting a lagged effect from the Global Financial Crisis in 2008, Dutch football has performed poorly since 2010. As the European debt crisis took hold in the Dutch economy, the Netherlands gained zero points in the European Championship in 2012 and became possibly the biggest disappointment of the tournament. And while its performance in the qualifiers for Brazil World Cup has been impressive, its group was far from the most challenging and it has fallen sharply in the FIFA ranking, from second place in 2010 to 15th currently.

Netherlands will face Australia, Chile and Spain in the group stage in the 2014 World Cup. While a second place behind defending champions Spain seems most likely, we think the risks are skewed to the downside. And Netherlands will probably struggle to move much beyond the first two knock-out rounds. Despite a perfect record so far in reaching consecutive World Cup finals, the data sample is small (!) and the effect is not quite statistically significant; a repeat of the 2010 final seems unlikely.

The economy: What a difference a housing bust makes

The Dutch economy has suffered since 2008: its vulnerability as a result of previously sharply rising house prices and high household indebtedness proved costly as the credit and confidence shock from first the Global Financial Crisis and then the Euro area debt crisis hit. The Dutch economy has underperformed relative to its ‘core’ neighbour Germany; in the past six years, Dutch GDP has shrunk 4% while German GDP is up 5%. Private consumption has been the key area of weakness (German consumption is up 6% since 2008, while Dutch household consumption is down 8%). Dutch private consumption has been held back as households were obliged

Relative house prices (spuriously) lead relative football performance



Source: Eurostat, FIFA.

Statistics for Netherlands

Odds: 25/1		World Ranking: 15	
1st Round Match Schedule			
Date	Venue	Against	Local Time
13-Jun	Salvador	Spain	16:00
18-Jun	Porto Alegre	Australia	13:00
23-Jun	Sao Paulo	Chile	13:00
Previous Appearances: 9			
Host	Year	Outcome	
Italy	1934	Round 1	
France	1938	Round 1	
Germany	1974	Runners-up	
Argentina	1978	Runners-up	
Italy	1990	Round of 16	
USA	1994	Quarter-finals	
France	1998	Fourth place	
Germany	2006	Round of 16	
South Africa	2010	Runners-up	
Previous World Cup Results			
		Games Played	43
		Won	22
		Draw n	10
		Lost	11
		Goals Scored	71
		Goals Against	44
		Yellow Cards	83
		Red Cards	6

Source: Ladbrokes.com, FIFA, Planetworldcup.com

to deleverage following the deterioration of the value of Dutch housing stock: house prices are down by around 20% since 2008.

That said, Dutch investment saw positive and increasing growth in 2013 (although the first quarter of 2014 showed a partial correction) and seems more likely to show a return to further positive growth in 2014, in line with our forecast for an investment recovery in developed markets (DM). And while government activity will likely continue to be a drag on growth, the effects seem to be diminishing. As DM growth increases, Dutch exports should also increase. That said, private consumption is likely to show only muted increases as the Dutch housing market remains depressed and recovers only gradually. This limits the overall upside for Dutch growth in the coming years.

Most recently, Dutch house prices appear to have stabilised, as has private consumption, although Dutch house prices are still down 30% relative to Germany. Moreover, relative Dutch housing performance seems a spurious leading indicator of relative German-Dutch national football performance (see chart). If relative house prices and football performance are anything to go by – and they probably aren’t – the recent stabilisation in the Dutch housing market suggests the worst is behind Dutch football. However, Dutch house prices are likely to remain weak for a number of years, especially relative to Germany. The high ‘house price / FIFA World Ranking’ correlation (at 0.5) would spuriously suggest that the prospects of Netherlands beating Germany and reaching a fourth final is far from imminent.

Lasse Holboell W. Nielsen

Nigeria

Mixed fortunes

Despite five qualifications to the World Cup final stages, on most occasions Nigeria has only been making up the numbers. The team has never reached the knockout rounds, has made it to second round only twice (in 1994 and 1998) and finished bottom of its group in its last two World Cup outings (in 2002 and 2010).

Following a poor showing and early exit in South Africa, the President of Nigeria, Goodluck Jonathan, suspended the national football team from international competition for two years. Three months later, FIFA banned Nigeria from international football due to political and government interference. Eventually, however, the suspension was rescinded and the ban lifted.

For 2014, Nigeria will be looking to emerge as Africa's best team and to confirm its reigning title as 2013 Africa Cup of Nations' champions. Hence, beyond Group F (with Argentina, Bosnia and Herzegovina and Iran), the real competition lies with the other four African nations that qualified to the 2014 World Cup: Algeria, Cameroon, Côte d'Ivoire and Ghana.

Rebasing the potential of the 'Super Eagles'

The Nigerian economy moved into a position of leadership in the continent following a recent 89% rebasing of its GDP that put the country well ahead of Ghana (60%), Cameroon (10%), Algeria (5%) and Côte d'Ivoire (n/a). In reality, however, the size of the jump mainly reflects Nigeria's failure to rebase since 1990, while most countries do so every three to five years. The new nominal GDP (\$510bn) makes Nigeria the largest economy in the continent, and the 26th-largest in the world.

Drawing an analogy with the number of players on the field, the pre-rebasing situation would be equivalent to lining up just 5.8 players for the team, which could help to explain the mixed fortunes of the 'Super Eagles' in the past. Alternatively, it may point to future potential post-rebasing: how would Argentina react to coming up against a team with the confidence of 20.8 players?

Based on the latest FIFA World Ranking, however, the odds look less favourable as Nigeria (45th) is the second-lowest ranked of the five African nations, ahead of Cameroon (50). That leaves Côte d'Ivoire (21), Algeria (25) and Ghana (38) ahead. On a rebased basis, however, Nigeria (23rd) would be the third-highest ranked behind Côte d'Ivoire and Ghana.

With past experience as a guide, Nigeria's main challenge will be to overcome its tendency to shoot itself in the foot. Interference from the footballing federation, strained relations with the coach, intervention in the selection of players and unpaid wages have all hampered the team's preparations for the tournament and could prevent it from fulfilling its potential.

Statistics for Nigeria

Odds: 200/1		World Ranking: 44	
1st Round Match Schedule			
Date	Venue	Against	Local Time
16-Jun	Curitiba	Iran	16:00
21-Jun	Cuiaba	Bosnia and Herzegovina	18:00
25-Jun	Porto Alegre	Argentina	13:00
Previous Appearances: 4			
Host	Year	Outcome	
USA	1994	Round of 16	
France	1998	Round of 16	
Korea/Japan	2002	Round 1	
South Africa	2010	Round 1	
Previous World Cup Results			
		Games Played	14
		Won	4
		Draw n	2
		Lost	8
		Goals Scored	17
		Goals Against	21
		Yellow Cards	24
		Red Cards	1

Source: Ladbrokes.com, FIFA, Planetworldcup.com

Back to the future in group stage

In the group stage, a confident team coached by Stephen Keshi will likely approach a rematch with Argentina with relish rather than reticence. Four years ago, Lille goalkeeper Vincent Enyeama delivered one of the finest performances of his career by preventing Lionel Messi from finding the net. But he was unable to repeat this performance in last year's Confederations Cup, when he caved three times to Spain's firepower, finally giving Spain its revenge for the 3-2 upset in the opening stages of the 1998 World Cup.

Argentina will be aware that Nigeria can cause headaches for its defence and could produce another upset. But although the 'Super Eagles' will likely have a lot of support across African, Argentina poses a serious obstacle to Nigeria finishing at the top of the group. That said, avoiding the bottom (along with the threat of suspension/ban) should be within its reach, provided the team remains vigilant against rookie Bosnia and Herzegovina and unpredictable Iran.

Despite the challenges – and thanks to a rebased optimism and a favourable draw – a break with the past (i.e., reaching the knockout round) and even success (i.e., confirming its status as African champions) is feasible. It is probably fair to say that Nigeria is better placed than ever to go far at the World Cup.

JF Ruhashyankiko

Portugal

Leveraging excellence in one area is easier for an economy than it is in football

The performance of Portugal is likely to be determined by its success in leveraging one player's skills – those of Cristiano Ronaldo – for the benefit of the team. Yet, leveraging 'narrow' excellence in one area for the broader benefit is more difficult in football than it is for an economy.

Leveraging narrow success seems more commonplace in economies than in football. Economies often appear to specialise in one activity or sector, perhaps building on some natural endowment or accumulated 'know-how'. For instance, the Portuguese economy continues to benefit from a strong export performance in the food and beverage sectors, as well as in footwear and clothing.

There are good reasons why economies are prone to specialise in this way. Those reasons suggest doing likewise in football will be more difficult.

The economists' notion – specifically, the idea of David Ricardo – of 'comparative advantage' helps to account for this difference. On this view, economies will indeed specialise and build success around a small number of activities.

Ricardo's original description of comparative advantage accounted for patterns of trade between England and Portugal. Portugal produced both wine and cloth more cheaply than England, but it specialised in producing wine and imported cloth because its relative efficiency – or comparative advantage – was greater in the production of wine than in cloth.

All economies have a comparative advantage in something. When trade is feasible (or sufficiently cheap), economies specialise and build some degree of economic success around one sector.

Football seems different. There are few examples where success has been built around one player. Such examples seem even rarer in international football than at the club level.

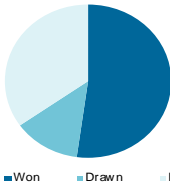
Footballing legends Pelé and Diego Maradona, who were jointly voted FIFA 'Player of the 20th Century', were able to lead their national teams to World Cup success. Yet, the quality of their respective national teams was broad-based, particularly in the case of Pelé's Brazil.

Why narrow excellence works for an economy better than it does in football

Perhaps the best example of team success in football based around one individual player is that of Maradona at Napoli. There, Maradona – who demonstrated more obvious leadership qualities than Ronaldo – led a team with few if any footballing stars to win the Serie A Italian national title in 1986/87 and 1989/90, as well as the UEFA Cup in 1989.

By contrast, Ronaldo's success at club level – at Manchester United and Real Madrid – has seen him form an important part of a team with many individual stars. Real Madrid and its team of *galácticos* is a particularly good example.

Statistics for Portugal

Odds: 20/1		World Ranking: 3	
1st Round Match Schedule			
Date	Venue	Against	Local Time
16-Jun	Salvador	Germany	13:00
22-Jun	Manaus	USA	18:00
26-Jun	Brasilia	Ghana	13:00
Previous Appearances: 5			
Host	Year	Outcome	
England	1966	Third place	
Mexico	1986	Round 1	
Korea/Japan	2002	Round 1	
Germany	2006	Fourth place	
South Africa	2010	Round of 16	
Previous World Cup Results			
		Games Played	23
		Won	12
		Drawn	3
		Lost	8
		Goals Scored	39
		Goals Against	22
		Yellow Cards	42
		Red Cards	5

Source: Ladbrokes.com, FIFA, Planetworldcup.com

There may be good reason why it is easier to build footballing success around an individual player at club level than at national level. And this reasoning may resemble the logic of Ricardo's comparative advantage. First, that logic requires (international) trade to be feasible. In football this is more plausible at club level – where foreign players can be imported into a team – than it is for national teams, where conditions of nationality apply.

Second, by its nature football is a 'zero sum game' where one country's success comes at the expense of another. Nowhere is this more apparent than at the World Cup. Under Ricardo's principle of comparative advantage, all countries benefit from specialisation and trade.

Yet, attempting to leverage one star player's performance leaves a team vulnerable to shocks – at both club and national level. All football players face a non-negligible risk of injury. Even Ronaldo, famed for incurring few injuries, recently picked up a knee injury. This suggests that leveraging 'narrow' excellence in football is not a robust strategy.

It may be easier for an economy to be robust to equivalent shocks. If a 'shock' strikes one sector, resources can be reallocated to other sectors, at least if the economy is 'flexible' and the shock is not too big. The latter is a lesson that the Portuguese economy has learnt through the introduction of a series of structural reforms as part of its IMF/EC/ECB adjustment programme.

Overall, this suggests it will be difficult to leverage Cristiano Ronaldo's exceptional skills to bring success to Portugal in this World Cup.

Andrew Benito

Russia

The rise and decline of Russian Football

This summer, Russia will participate in its first World Cup in 12 years and its third ever as an independent nation, at a time when national interest in football has declined considerably.¹ Despite being the country's most popular sport, there is a perception that corruption is widespread and that players have recently under-delivered. This is perhaps accentuated by the fact that some of Russia's leading sponsors of football – influential businessmen and companies alike – have taken their funds and interest in the sport abroad.

The longer arc of the role played by football in society has mirrored Russia's tumultuous history. According to historian Peter Frykholm, football first came to the Russian empire via the ports of Odessa and St Petersburg in the 1870s, and took root in Moscow at the turn of the century, playing an important social and urban role and "add[ing] to the growing tensions between the bourgeois and working-class residents".² In Soviet times, it flourished and the national team was known for its technical ability, near-scientific orchestration (exemplified by the tactical genius of Valeriy Lobanovskiy) and the precision of its goalkeepers and mid-fielders. However, heavy-handed discipline and the team's lack of creativity arguably prevented it from excelling.

Russian football declined with the fall of the Soviet Union, as many leading players left for their national teams in Ukraine and elsewhere. All told, one could argue that the sport's spirit – in which collective strategies and effective teamwork pay off – may have been more in keeping with that of the Soviet Union than with the uninhibited, individual-centred culture of the 1990s. Vladimir Rodionov, a former General Secretary of the Russian Football Federation, reflected this in an article in *The Times* in 2004: "We were proud, we were patriotic, we played for love of our sport and our country. Now it's all about money. It affects everything."

Russia's football prospects are now improving

But Russia now looks well-placed to make its mark in global football, along with the country's recent re-emergence as an economic power. The decline of football's popularity has likely troughed and should reverse, with Russia's hosting of the 2018 World Cup quickly approaching. Arguably, the Russian national team's odds this year are also better than ever: although it is in a group that looks very similar to the competition it faced in 2002 – Belgium, Korea (Japan in 2002) and Algeria (Tunisia in 2002) – Russia is now placed 18th in FIFA's World Ranking, second only to Belgium in its group. Brazil's tournament could see Russia move to the Round of 16 for the first time, led by a solid defence (Ignashevich and the Berezutsky brothers), innovative midfielders (notably, Dzagoev) and the well-tested, albeit conservative, strategy of the iron-willed Fabio Capello. That said, Russia's strategy is a heavily top-down one and, as with England in 2010, fostering the team's creativity and laying the foundations for more team cohesion and independent thinking – and releasing the team's potential along with it – is likely a pre-requisite for a stronger performance in 2018.

Statistics for Russia

Odds: 80/1		World Ranking: 18	
1st Round Match Schedule			
Date	Venue	Against	Local Time
17-Jun	Cuiaba	Korea Republic	18:00
22-Jun	Rio De Janeiro	Belgium	13:00
26-Jun	Curitiba	Algeria	17:00
Previous Appearances: 9 (2 as Russia, 7 as USSR)			
Host	Year	Outcome	
Sweden	1958	Quarter-finals	
Chile	1962	Quarter-finals	
England	1966	Fourth place	
Mexico	1970	Quarter-finals	
Spain	1982	Round of 16	
Mexico	1986	Round of 16	
Italy	1990	Round 1	
USA	1994	Round 1	
Korea/Japan	2002	Round 1	
Previous World Cup Results			
		Games Played	37
		Won	17
		Drawn	6
		Lost	14
		Goals Scored	64
		Goals Against	44
		Yellow Cards	34
		Red Cards	2

Source: Ladbrokes.com, FIFA, Planetworldcup.com

State of the nation and economy – moving beyond the current crisis

Russia had set itself up for a promising economic recovery in 2014, following a year of lacklustre growth in which tighter fiscal policy, a weaker external environment and political uncertainties held back capital accumulation. However, the recent crisis in Ukraine and related uncertainty has generated a negative shock to confidence and led to a sharp acceleration in private capital outflows in 1Q2014, undermining the budding economic recovery. Until Russia and the international community move beyond this current crisis, Russia's growth prospects are likely to remain challenged.

Russia has for many years underperformed its peers in terms of the development of its economic governance institutions and advancement of the reform agenda, in part due to abundant commodity export revenue. However, macroeconomic fundamentals have recently been on a steady path of improvement – with lower inflation, a more flexible currency, and conservative budget policies that have constrained deficits and public debt and generated precautionary savings. Although progress in some areas (notably corporate governance and reform of state-owned enterprises) has been more limited, policy makers have demonstrated a willingness to tackle some of the larger problems. In our view, this reform agenda – if seen through – should ultimately yield higher potential growth. Much as with football, however, a modern approach to economic management that combines macroeconomic discipline and structural reforms, which improve trust and the quality of institutions, will be needed to unleash higher growth.

Andrew Matheny

1. See, for example, "Popularity ratings of Russian football clubs and players", Russian Public Opinion Research Center, June 7, 2013.

2. Peter A. Frykholm, "Soccer and Social Identity in Pre-Revolutionary Moscow", *Journal of Sport History*, Summer 1997.

Spain

Spain, the reigning World Champions, ranks among the favourites for success in the 2014 World Cup.

In some respects, the challenge facing the national football team resembles that facing the economy, as Spain is on track for ‘success’ both on the football pitch and in its economy, although the scale of these challenges is clearly different. Where the challenges differ is in the strategy required for Spain to deliver success.

In football, Spain aims to repeat past successes, having broken away from previous underperformance

In football, Spain aims to build on past successes based on exceptional technical efficiency. In this it needs to continue with the approach it has taken in the past.

If football can be described through an economist’s production function – admittedly, a big ‘if’ – then Spain’s achievements have been based on a high level of ‘total factor productivity’, the equivalent of technical efficiency. Spain does not have the physical presence of teams such as Germany or the Netherlands (which resorted to an intensely physical approach when losing to Spain in the 2010 World Cup final). Nor does its footballing output depend crucially on high levels of labour input, or effort.

Spain’s playing style is instead based on high levels of possession of the ball. To an economist, that may be close to maintaining high ‘capacity utilisation’. The team’s technical efficiency allows its players to maintain possession while tiring out the opposition as they chase the ball. Confidence in technical efficiency allows the team to wait patiently for a goal-scoring opportunity to arise. And while waiting for an opportunity to arise, maintaining possession forms an effective form of defence.

In its economy, Spain is breaking away from past underperformance and building on recent improvements

On the economic front, rather than continuing to do what it has done in the past, Spain’s strategy must be to refashion its economy. And it is making progress in doing just that.

From an optimistic viewpoint, one could say that Spain’s economy is at a similar point to where the national football squad stood in 2008. With the benefit of hindsight, we can now say that Spain’s decision in 2008 to break from its past (footballing) strategy brought it great success.

In 2008, and following decades of under-achievement, former national coach Luis Aragonés (who died this year) decided that Spain must make a determined break from its past playing style. It would instead move towards a method of play – known as *tiki-taka* – based on technical efficiency. Since then, by winning two consecutive European Championships, the World Cup and the Under-21 World Cup, it has become pre-eminent in the game. The sport has never known such success in Spain. The decision to break from the past has been fully vindicated, and the strategy has been maintained since by current coach Vicente del Bosque.

As a benchmark for the economy’s required transformation, it is a demanding reference point. Technical efficiency is an area where the economy requires special progress. In the pre-2008 period, it was not only Spain’s football that was under-achieving. A credit-

Statistics for Spain

Odds: 13/2		World Ranking: 1		
1st Round Match Schedule				
Date	Venue	Against	Local Time	
13-Jun	Salvador	Netherlands	16:00	
18-Jun	Rio De Janeiro	Chile	16:00	
23-Jun	Curitiba	Australia	13:00	
Previous Appearances: 13				
Host	Year	Outcome		
Italy	1934	Quarter-finals		
Brazil	1950	Fourth place		
Chile	1962	Round 1		
England	1966	Round 1		
Argentina	1978	Round 1		
Spain	1982	Round of 16		
Mexico	1986	Quarter-finals		
Italy	1990	Round of 16		
USA	1994	Quarter-finals		
France	1998	Round 1		
Korea/Japan	2002	Quarter-finals		
Germany	2006	Round of 16		
South Africa	2010	Winners		
Previous World Cup Results				
			Games Played	56
			Won	28
			Drawn	12
			Lost	16
			Goals Scored	88
			Goals Against	59
			Yellow Cards	57
			Red Cards	1

Source: Ladbrokes.com, FIFA, Planetworldcup.com

fuelled boom (above all reflected in the housing market) and strong domestic demand flattered its underlying economic performance. In this pre-2008 period, growth of ‘total factor productivity’ was near-zero. Growth in output was based entirely on higher levels of labour input rather than gains in technical efficiency.

Spain’s success on the football pitch was based on technical efficiency. In its economy, the flaws of the previous economic regime have been laid bare and substantial progress has been made in adjusting to that realisation – starting with the collapse of its credit-fuelled housing boom. However, the lags from the reforms made to the full pay-off are longer for the economy than in football.

Unlike past footballing disappointments, balance sheets cannot be wished away

In an economy, past disappointments have a greater legacy than simply lacking a ‘winning mentality’. During its boom years, Spain accumulated high levels of debt that cannot now be ‘wished away’. That said, the ECB has bought considerable time for the Spanish economy to achieve its required adjustments. Spain has been a key beneficiary of Mr. Draghi’s “*whatever it takes*” intervention made almost two years ago.

Since the previous World Cup, Spain has also made considerable progress in reforming some sources of rigidity that had stifled its

own dynamism and economic flair. The reform of Spain's labour market is widely viewed as one of the 'best in class' among recent European labour market reforms. Despite that, high unemployment is likely to persist for years to come.

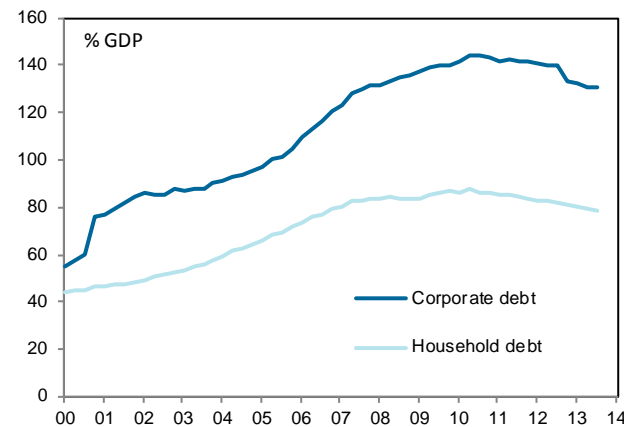
Where football leads, an economy can follow... But the lags are longer

Where does this leave the economy? The legacy of past disappointments – a housing bubble that burst – counts for more in the economy than the legacy of past footballing disappointments.

That said, we think Spain's economy is on the right track. And, having demonstrated its willingness to reform its economy, Spain will benefit from one of the main ways in which economies differ from football. Unlike football, the economy is not a 'zero sum game', where one team's success must come at the expense of another. Rather than come at the expense of other teams, such as Germany and the Netherlands, Spain's success at reforming its economy is likely to be met with further encouragement and support from its European partners – and perhaps also from the ECB.

In this comparison, there are also lessons for Spanish football. Its economy is, after all, making great strides to evolve. And at some stage – if not at this World Cup, then in a later tournament – Spain's position as pioneer on the footballing technological frontier will be replaced by some other country that discovers a way of beating the *tiki-taka* approach.

High corporate and household debt ratios cannot be 'wished away'



Source: Eurostat

As evolution teaches, the dominant force will be overthrown at some stage. In both the economy and in football, striving to evolve and learn from international best practice offers the best hope for progress.

Andrew Benito

The restructuring of Spanish football

The finances

Football is, in theory, a rather easy business to run. Most of the revenues and the expenses are known at the beginning of the season. For the majority of clubs, revenues mostly come from stadium attendance, TV rights and sponsorships, all known well in advance. Expenditures are mostly wages, operational costs and amortization of players' transfers, which are also known in advance. So it should be easy: don't spend more than you earn. But there is one small problem: data show that, on average and over the medium term, performance is directly linked to the wage bill. The market for players is quite efficient, with some exceptions (strikers tend to be overvalued and goalkeepers undervalued, as markets mistakenly price a goal scored higher than a goal not conceded). Spend more, get better players, win more games. The Spanish second division, where budgets are very similar, is a good example of this: the distance between relegation and promotion is just 10 points at the moment. The market for coaches is a bit less efficient – it is a very cliquy world with plenty of barriers to entry and, by definition, rather secretive methods. But there are very few coaches who can be said to have added value to their teams: Sir Alex Ferguson is one of the few, according to Stefan Szymansky's 'Soccernomics' index. So the premise remains: spend more, do better.

At the same time, football presents discontinuities: do very well, qualify for the Champions League, and revenue prospects will increase more than proportionally. If managed well, this windfall can mean a quality quantum leap for the team, now able to consolidate its higher ranking with better players. Do badly and be relegated, and it is the kiss of death, as revenues collapse in a non-linear fashion. Recovering from this to return to the top league can be a very painful, arduous and slow process (on the few occasions that a club has managed a fast promotion back to the top it has been for teams adopted by a wealthy new owner who funded a bigger budget). And generating profits on a consistent basis is difficult, as weaker clubs constantly have to sell their assets (the good players they create in their academies) to be able to compete. In fact, few football clubs generate profits. For the majority, it is a question of running fast to stand still.

Spanish football clubs are also, in many cities, part of the cultural portfolio. Local politicians love to have a winning club, so that they can go to the VIP box on Sunday and mingle with the great and the good, and perhaps one day become president of the club and maybe even a celebrity. If there is a local bank, it is likely to be friendly to the club, providing credit to cover budget gaps. And if that credit is to sign a star player who can take the club – and hence the city – to the next level, how can the bank deny that line of credit, especially if there is valuable real estate collateral (stadium, training grounds, etc.) behind it. Some clubs are just too big to fail.

Does it sound a bit like banking or funds management? If it does, that's because it's very similar. You have an initial capital, make a portfolio allocation decision and hope for returns. If the returns are good, your capital allocation next year is higher, you can place bigger bets, make more money – it is a virtuous circle. If the returns are bad, your capital shrinks, you need to work harder, from a lower base, to return to your high watermark and be paid again. During boom times, leverage is easier to find, especially from local sources that are as bullish as you are, partly as a result of 'groupthink'. Sometimes you

think you can really take the bank to the next level by raising leverage and taking bigger bets, especially if volatility is low.

Spanish clubs were not excessively leveraged or inefficient, with overall financial ratios similar to those of Serie A or Ligue 1, and better than the English Premier League (although the EPL figures are distorted by Chelsea's financial structure). But then a negative shock hit the Spanish economy, and it was downhill from there – first gradually, then suddenly, as the saying goes. This explains the recent history of many Spanish clubs. Some were heavily reliant on local sources, both regional governments and local savings banks, for funding and support. They relied on the eternal appreciation of their real estate holdings to support their leverage and climb the football ladder. A few were being managed in a not very professional way, with weak accountability. Like some Spanish savings banks.

When the crisis arrived, the support from local governments and local savings banks was suddenly curtailed, some sponsors failed and the expectation of appreciation of real estate holdings vanished. All of a sudden, many Spanish clubs, like the Spanish economy, saw themselves in a financial crunch. Some new stadiums remained half built. At the same time, the FEF (Spanish Football Federation) toughened financial conditions on clubs, threatening to relegate some for lack of financial compliance. De facto, they put some Spanish football teams on a Troika-type program. The European Commission opened an investigation into state aid to some football clubs. The parallels between the economy and football are startling.

Clubs had to adjust and restructure rapidly. They had to cut wages, sell assets and reduce leverage. Many players have migrated to other leagues where salaries are higher and, especially, certainty of being paid is higher: below the top 10-15 clubs, arrears in salaries have been very common. The players' association organised an unemployment assistance scheme, with training sessions and showcase games to help players to find jobs. Forced player transfers have been widespread, to reduce leverage – witness the flow of Spanish players migrating to the EPL. And not just the EPL, there are plenty of Spanish players in the leagues of Greece, Cyprus, Thailand, China, Bolivia, Israel, Azerbaijan and many other places. The diaspora of coaches has been as impressive, even if less well known, with Spanish coaches running teams all over the world, and not just the well-known cases of Guardiola at Bayern, Roberto Martínez at Everton, Rafa Benítez at Napoli or Michel at Olympiakos, but many others in distant places such as Canada, Australia, Bolivia, Colombia and Brazil. Like the economy, football had to rebalance via internal devaluation and boosting exports. Corruption cases have been unveiled, with some club presidents resigning or even indicted, and not just among the lower tiers.

The result has been a process of restructuring and recapitalisation of Spanish football, much like the banking sector or the economy. Financial rules have been tightened, reforms have been implemented (for example, game times have been changed to accommodate Asian audiences, even if Spaniards don't like to watch football in the middle of the day and attendances have fallen). Imbalances remain, such as the very lopsided distribution of television rights that perpetuates the power of Real Madrid and Barça. But, like the economy, Spanish football has taken steps in the right direction.

The play

Despite the financial problems, Spain has placed 4 out of 8 teams in the semifinals of the Champions and Europa leagues – and note that Valencia and Sevilla are two of the teams that had to sell a fair number of star players to rebalance their books. The Champions final will be a Madrid derby. La Liga remains a very competitive league, with 3 teams in very close competition for first place. The restructuring of Spanish football has taken place not only via deleveraging, but also via higher ‘productivity’ and ‘competitiveness’ and, probably better than the economy, continues to be in the front line in terms of playing and tactical development.

The core principles of Spanish football – pressing, possession and penetration – remain intact, and are applied in diverse ways. Despite some strange decisions at Real Madrid (if the club had shareholders they would have already fired the management for wasting Casillas, one of their best players, on the bench), it has got very close to perfecting the team with its combination of defensive organisation, possession and fast counterattacks; Barça is undergoing a long overdue transition but is still a global reference in methods and concepts of play; Atlético de Madrid is showing that a system based on pressure and defensive discipline doesn't necessarily make for boring football.

With those core principles as guideposts, the key question for Del Bosque and La Roja in the 2014 World Cup will be the choice of players, and how to adapt these principles to their physical and mental shape. Note that the first principle is pressing, not possession. Because without pressing and ball recovery the team can't possess the ball. And to press, the heart, the lungs and, more importantly, the mind have to be in perfect shape. Recall that Spain won the 2010 World Cup having conceded only 2 goals – it was the best defensive team in the tournament. When Spain loses the ball it is a fragile team. The first principle of defending is that the first defender is the player closest to the ball – and that many times is the striker. Without pressing, Spain can easily become an average team. Top level football, like top level finance, is a game of survival. Up or out. This will be the key challenge for Del Bosque: will he be able to pick the best players for each game, in a squad filled with World Cup and Champions winners, some of whom may no longer be mentally willing to deliver 120%?

There is a debate about whether possession makes the play predictable. Maybe, but the question is not about predictability, it is about creating high probability goal-scoring opportunities. As in finance, it is the difference between trading and gambling. Barça hasn't played better this year when focused on long passes, it has just lost more balls. David Sally and Chris Anderson in their book "The numbers game: why everything you think you know about soccer is wrong" conducted a quantitative study comparing "route one" style (that is, send long balls up front, skip the midfield) vs possession style, and the conclusion is striking: yes, those playing "route one" shoot more at goal; but those playing possession shoot from better positions and score a higher percentage. Possession is first a way of defending, because a team that possesses the ball in an organised way will be in a better position to recover it when it loses it. All teams possess the ball at some point. The difference is what they do with the ball when they have it. Constantly crossing balls looking for headers is as predictable as insisting on only playing *tiki-taka* through the middle. The difficult thing is to create diverse and unpredictable patterns of penetration, to generate optionality. Football is a problem-solving game, brains matter more than brawn, the smarter team typically wins.

Spain should continue to apply its core principles, organise the play around the ball, create superiority in all areas of the field, to then generate high probability scoring chances. And that doesn't preclude fast counterattacks. Who can forget Torres' fast runs at the back of the defensive lines? The key is to have multiple options for penetration and scoring within these core principles. If football were chess, valuing each player at each position, Spain continues to have by far the best squad, and that is why it continues to be number 1 in the FIFA ranking. Del Bosque will have a very difficult time narrowing down the list to just 23 players. The starting point remains the very solid defensive block of 6. Despite some criticism, Del Bosque is right in playing with two holding midfielders to provide balance, watch how much Real Madrid or Arsenal or Barça have suffered at times this year when playing 4-3-3 with only one holder. Busquets is the spare man who provides the bouncing touch to keep possession and sweeps when the opponent breaks a line of pressure, while Xabi Alonso provides the through-balls to break lines of pressure and the spray of long balls to shift the point of attack and take advantage of the space created on the wings. With wingbacks constantly attacking to provide width, the extra holding player ensures there are always at least 3 players in defensive positions in case pressing fails. For the attacking block, Spain can create many variations: a standard 3-1 with a classic 9 like Llorente, Torres or Negredo to pin the central defenders and run into space; 4-0 with Cesc, Silva or Villa playing as false 9 to generate superiorities and triangles into the box; 1-3 with Xavi or Thiago at the top of the midfield triangle and Pedro, Diego Torres and Iniesta, for example, as the trident upfront to open the game (and Navas is always there to open the field even wider). In addition, in most of these formations Spain's players can interchange positions with ease. Yes, teams playing against Spain can just park the bus in front of the goal and hope for the best, but they also have to prepare a multitude of defensive strategies and play against the laws of probability.

Ultimately, it is the technical ability of the players that will make the difference. One of the best football games one could possibly watch is the possession game La Roja plays at practices. I have had the pleasure to watch it and it is superb: for the coaches out there, field 20 by 40 yards, 11 vs 11 with one neutral player and two GKs as target players, 2 touch game. You see the ball moving at the speed of light, one touch, sometimes half a touch, at times 10-15 passes without interception. It is better than a PlayStation game. At some point a player stops the ball first touch and thinks for a second – one second, not two, just one – and Del Bosque immediately goes "come on, let the ball move...". This is the essence of football, let the ball move. And, in that, so far, Spain still has the upper hand.

May the best team win.

Angel Ubide

D.E. Shaw Group and Peterson Institute for International Economics. Former player, and USSF A coaching license.

The views expressed are the author's own and do not represent the views of the D. E. Shaw Group.

The views stated herein are those of the author and do not necessarily reflect those of Goldman Sachs.

Switzerland

Switzerland is turning inwards...

The Swiss nation set itself on a collision course with the EU when 50.3% of voters in a recent referendum voted to limit immigration from the EU, extending a quota system currently in place for non-EU nationals. Negotiations are now in progress and, while there is significant uncertainty over the outcome, the EU is unlikely to take lightly such a violation of the free movement of labour between Switzerland and the EU, enshrined in a bilateral treaty signed in 1999. Indeed, European Commission Vice-President Viviane Reding recently said that *“the single market is not a Swiss cheese. You cannot have a single market with holes in it”*.

... placing at risk a period of stellar economic performance...

Ending large immigration flows into Switzerland could place at risk the strong economic growth that the country has seen in recent years. Despite the ‘safe haven’-driven appreciation of the Swiss Franc, which remains around 40% stronger against the Euro than it was in late-2007, GDP is currently almost 6% above its pre-crisis peak, and rose by a fairly punchy 2.0% in 2013, while the Euro area contracted by 0.4%.

Consequently, the Swiss economy has performed better in the post-crisis period than any other major Western European economy. Even Germany’s GDP is only 3% above its pre-crisis peak.

The foundation for much of this strong growth has been immigration into Switzerland over the past decade. In the ten years to the end of 2013, foreigners accounted for 60% of the rise in employment in Switzerland. Employment of foreigners rose by 40%, while that of native Swiss rose by less than 10%. A consequence of this is that measures of slack suggest that strong economic growth can continue. That said, the construction sector is hitting constraints as it grows to keep up with the boom in house prices, something that the Swiss authorities have been attempting to tame using macro-prudential tools.

... as well as the future of the national football team

Voters in the recent referendum also seem to have overlooked the fact that immigration has been a boon for the national football team as well. Current captain Gokhan Inler was born in Switzerland to Turkish parents, while star players Xherdan Shaqiri and Granit Xhaka were both born in the former Yugoslavia to Albanian parents.

These players have provided the backbone for the team, which qualified comfortably for the World Cup from UEFA Group E. However, the manner of their progression means that fans of free-flowing goal scoring should probably not hold their breath when watching Swiss matches. They only managed 17 goals in their 10 qualifying games, and none of the strikers likely to go to the World Cup has scored more than ten goals for the national side.

Statistics for Switzerland

Odds: 100/1		World Ranking: 8	
1st Round Match Schedule			
Date	Venue	Against	Local Time
15-Jun	Brasilia	Ecuador	13:00
20-Jun	Salvador	France	16:00
25-Jun	Manaus	Honduras	16:00
Previous Appearances: 9			
Host	Year	Outcome	
Italy	1934	Quarter-finals	
France	1938	Quarter-finals	
Brazil	1950	Round 1	
Switzerland	1954	Quarter-finals	
Chile	1962	Round 1	
England	1966	Round 1	
USA	1994	Round of 16	
Germany	2006	Round of 16	
South Africa	2010	Round 1	
Previous World Cup Results			
		Games Played	29
		Won	9
		Drawn	6
		Lost	14
		Goals Scored	38
		Goals Against	52
		Yellow Cards	28
		Red Cards	1

Source: Ladbrokes.com, FIFA, Planetworldcup.com

Making up for the lack of goals in recent times has been Switzerland’s watertight defence, commanded by Arsenal alumni Johan Djourou and Philippe Senderos, which kept a clean sheet in seven of their ten qualifying matches. A solid defence has been central to the team’s recent high profile victories (they beat Spain 1-0 at the last World Cup and Brazil 1-0 in 2013), which have propelled the national team to 8th in the FIFA World Ranking.

Yet this ranking looks optimistic. Bookmakers give Switzerland odds of 100/1 to win the World Cup, and they have not managed to reach a quarter-final since 1954. That looks unlikely again this year, especially as they would probably play Argentina in the last-16 if they were to finish as runners-up to France at the group stage.

A more immediate threat than Argentina will be Switzerland’s fierce footballing rivals Honduras. A 0-0 draw between the two sides in the final group match in 2010 led to Switzerland failing to qualify for the knock-out round, despite their earlier victory over Spain. The *Schweizer Nati* will be looking for revenge in their final group game in this year’s tournament.

Sebastian Graves

Uruguay

The 2014 World Cup

Uruguay finished fifth in the South American World Cup qualifiers for the fourth consecutive time, earning a place in the play-off against a weaker Jordan side. After cruising through 5-0 in Amman, it secured its place in Brazil. But the team ran out of luck in the group-stage draws and it will share Group D with two other former World Cup champions: England and Italy.

For many other national teams this outcome would have been highly demoralising, but less so for *La Celeste* (sky blue, the colour of the team's shirts). Uruguay has a rich and proud football heritage that includes two world titles: it beat perennial rivals Argentina in the 1930 final at home and then surprised hosts Brazil in the famous *Maracanazo* in 1950. Moreover, its confidence is based on the team's *garra* (tenacity) *charrúa* (the *Charrúas* were the indigenous people who fiercely resisted the Spanish explorers in the 1500s). Uruguayan teams have managed to emerge victors against overwhelming odds many times in the past, and a victory in their first match against Costa Rica, the weakest member of Group D, could give *La Celeste* the added boost needed to stand up to England in their second game.

El Maestro (the 'Teacher') Tabárez will once again be aiming to steer the team into the latter stages and, if possible, the semi-finals, which it reached in South Africa 2010. The experienced *El Maestro*, who first coached the team in the late 1980s and since 2006, led *La Celeste* to victory in the Americas Cup in 2011. The team usually adopts a classic 4-4-2 formation, and has significant offensive power in the likes of strikers Luis Suárez (top scorer in the English Premier league) and Edinson Cavani (a prolific goal scorer at PSG). However, given the average age of the squad, *El Maestro* may be forced to play defensively, waiting for opportunities to unleash rapid counter-attacks to exploit the effectiveness of his strikers.

The state of the economy

The renaissance of Uruguayan football in recent years pales in comparison to the economic rebound experienced since the 2002 crisis. After a decade-long period of sustained economic growth based on sound macro policies and successful institutional reforms, Uruguay has earned the investment grade 'triple crown' from the three largest credit rating agencies. The credit upgrade marked recognition of the notable economic progress achieved since the painful days of the banking crisis.

In 2013, the economy grew a healthy 4.4%, although inflation is running at 8.5% and shows no signs of abating. According to LatinFocus Consensus Forecasts, May 2014, growth is expected to remain robust, gradually decelerating towards a more sustainable 3.5%-3.75% range. However, inflation will likely remain well above the upper band of the inflation target (6%) for the foreseeable future in spite of the recent monetary tightening.

Statistics for Uruguay

Odds: 28/1		World Ranking: 6	
1st Round Match Schedule			
Date	Venue	Against	Local Time
14-Jun	Fortaleza	Costa Rica	16:00
19-Jun	Sao Paulo	England	16:00
24-Jun	Natal	Italy	13:00
Previous Appearances: 11			
Host	Year	Outcome	
Uruguay	1930	Winners	
Brazil	1950	Winners	
Switzerland	1954	Fourth place	
Chile	1962	Round 1	
England	1966	Quarter-finals	
Mexico	1970	Fourth place	
Germany	1974	Round 1	
Mexico	1986	Round of 16	
Italy	1990	Round of 16	
Korea/Japan	2002	Round 1	
South Africa	2010	Fourth place	
Previous World Cup Results			
		Games Played	47
		Won	18
		Drawn	12
		Lost	17
		Goals Scored	76
		Goals Against	65
		Yellow Cards	53
		Red Cards	7

Source: Ladbrokes.com, FIFA, Planetworldcup.com

If the football rivalry with its two big neighbours (Argentina and Brazil) were extended to the short-term growth outlook, Uruguay would win comfortably against Brazil and cruise through its match against Argentina. But off the field its fate is largely tied to the performance of its two largest economic partners. Indeed, even though Uruguay has recently diversified its trade base, the lacklustre performance of its neighbours poses one of its main short-term economic risks. Another risk, shared by many other small emerging economies, is the financing of a rising current account deficit as monetary policy accommodation in the US is wound down. Nevertheless, the authorities have also done their bit on this front and the economy now seems more resilient to tighter global financial conditions.

The state of the nation

José 'Pepe' Mujica won the presidential election in 2009 as the candidate of a left-wing coalition. He is well known for an austere lifestyle that includes donating most of his salary to charities and social projects. Since taking office, Mujica has promoted a progressive agenda with a pragmatic policy approach. Some of his policy actions, however, have stirred some controversy, including a government-sponsored bill that has made Uruguay the first country to legalise the production, trade and consumption of marijuana.

Mauro Roca and Mariano Cena

USA

2014 World Cup: Can momentum and optimism tackle travel and strong competition?

The USA enter the 2014 World Cup in 14th place in the FIFA World Ranking, ahead of powerhouses France and Netherlands, and as the highest-ranked team in CONCACAF after topping the regional World Cup qualifiers with 22 points, clinching a trip to Brazil with a 2-0 score line vs. old foe Mexico in Columbus, OH on September 10, 2013. The Yanks were ranked as high as 4th in the world in April 2006 and as low as 36th during the summer of 2012. The final round of qualification started off with a disappointing loss away in Honduras but the team steadily built momentum and their point total to top the region for a third consecutive qualification cycle and 7th straight trip to the World Cup since 1990.

Despite that momentum and the serial optimism of coach Jurgen Klinsmann, the reality of a difficult group stage is impossible to ignore. The USA were drawn into Group G with perennial power Germany, a dangerous Portugal side featuring FIFA world player of the year Cristiano Ronaldo, and a Ghana team that has eliminated the US team from the past two World Cup tournaments. The aggregate FIFA ranking of their group is 56, the most difficult of the eight, and it features two of the three highest-ranked teams in the world in Germany and Portugal. In addition to strong teams, the USA will also face the longest travel schedule in the Cup, with an estimated 8,866 miles during the group stage.

The Yanks are given just a 40% chance of advancing from their group by our Goldman Sachs World Cup prediction model and 0.5% odds to win the tournament, so Klinsmann and his staff will hope preparation gives the team an edge on their competition. In January the team conducted a 2-week training camp in São Paulo as a dry run ahead of this summer's tournament and there should be an element of familiarity when the USA faces Germany, which is led by former Klinsmann assistant Joachim Low, and was beaten 4-3 by the USA in a friendly last year.

A test for domestic manufacturing

With the US economy poised to accelerate to above-trend growth for the first time since before the 2010 World Cup around the time the national football team departs for Brazil in 2014, the squad offers an interesting test-case for two long-term economic narratives: manufacturing renaissance and immigration reform. For most supporters, the test will only be a success if the team can find its way out of the group stage as it did in 2010 and fight for a spot in the quarter-finals, which it reached in 2002 by overcoming Portugal in the group stage and losing controversially to Germany in the last eight.

While the USA has traditionally been known for innovation and high-tech manufacturing, it has typically sent its football players abroad to European professional clubs for value-added inputs. More recently, the economics of rising productivity, subdued labour costs, low energy prices and cost increases abroad have made the US a more attractive place to produce, especially on a relative basis, and arguably made off-shoring less attractive. This has spurred enthusiasm about a domestic manufacturing renaissance. We find little evidence that manufacturing is being structurally 're-shored' but cyclical strength in domestic production is evident in both the economy, where industrial production has outpaced GDP growth, and recent transfers of USA national team players.

Statistics for USA

Odds: 250/1		World Ranking: 14		
1st Round Match Schedule				
Date	Venue	Against	Local Time	
16-Jun	Natal	Ghana	19:00	
22-Jun	Manaus	Portugal	18:00	
26-Jun	Recife	Germany	13:00	
Previous Appearances: 9				
Host	Year	Outcome		
Uruguay	1930	Semi-finals		
Italy	1934	Round 1		
Brazil	1950	Round 1		
Italy	1990	Round 1		
USA	1994	Round of 16		
France	1998	Round 1		
Korea/Japan	2002	Quarter-finals		
Germany	2006	Round 1		
South Africa	2010	Round of 16		
Previous World Cup Results				
			Games Played	29
			Won	7
			Drawn	5
			Lost	17
			Goals Scored	32
			Goals Against	56
			Yellow Cards	46
			Red Cards	4

Source: Ladbrokes.com, FIFA, Planetworldcup.com

Five players with a realistic chance of being chosen for the World Cup squad have recently moved from Europe-based clubs back to Major League Soccer (MLS) in the US, including current captain Clint Dempsey and former AS Roma midfielder Michael Bradley. In an interesting twist, both players are reportedly earning higher wages to play at home than they were in more established leagues abroad. If they lead the USA out of the group stage it could signal that US domestic manufacturing (of football players) is indeed on the upswing.

A testament for immigration reform

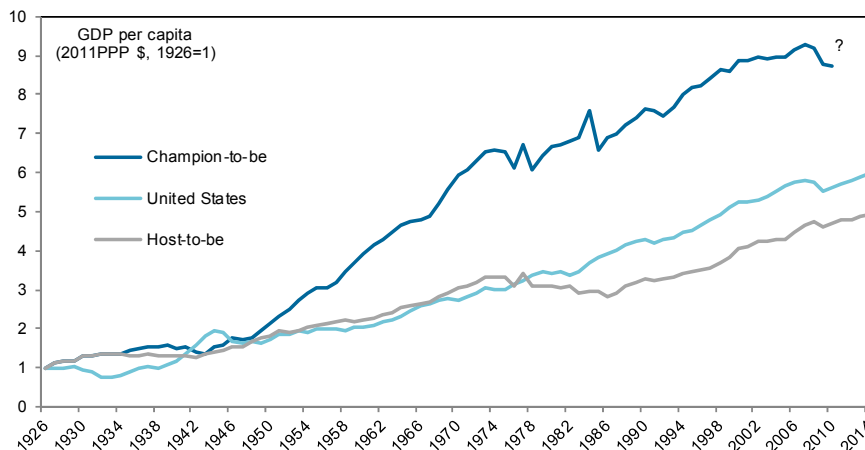
The Yanks aren't putting all of their proverbial eggs in the MLS domestic player-pool basket. Coach Klinsmann, together with trusted European-based assistant Andreas Herzog, have also used the football version of immigration reform to bring in skilled foreign workers to bolster the squad. Among the 38 players who played in the qualifiers, 7 'dual nationals' will be on the plane to Brazil, with supporters particularly excited by the recent call-up of 18-year old German-American striker Julian Green. We continue to see broad-based immigration reform in the US as an uphill climb with low odds of resolution this year, but success in Brazil could inspire Congress to provide avenues for the best and brightest to ply their trades in the USA.

Stuart Kaiser

World Cup trends viewed through a (light-hearted) economic lens

Winner takes it all: Champion economies tend to grow faster

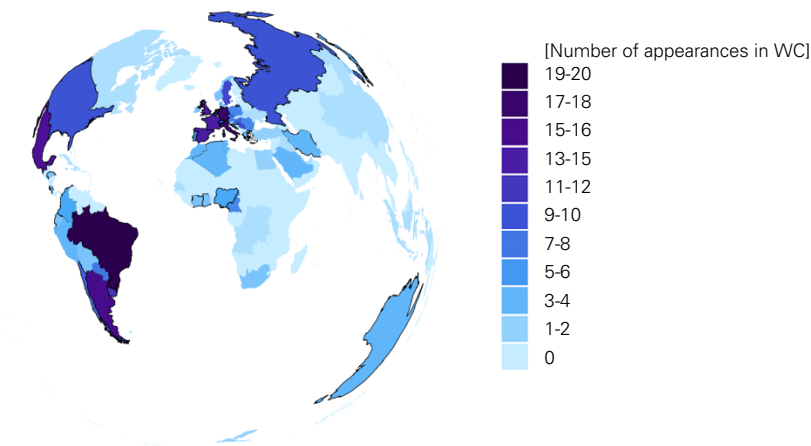
Football world cup winners also tend to be economic winners—at least for a period of years as they build footballing and growth momentum towards their victory. A historical series of GDP per capita for a hypothetical ‘champion-to-be’ economy, built by concatenating the growth rates of countries that we know (ex-post) would be the next champion, would have grown at a rate of 2.7% per year. Because of the magic of compound growth rates, in 2010 the GDP per capita for such an economy would have been roughly 55% higher than for the US, and 85% higher than for a similarly hypothetical ‘host-to-be’ economy.



Source: Barro-Ursua Dataset, Goldman Sachs Global Investment Research.

On a global stage: A multi-continent event

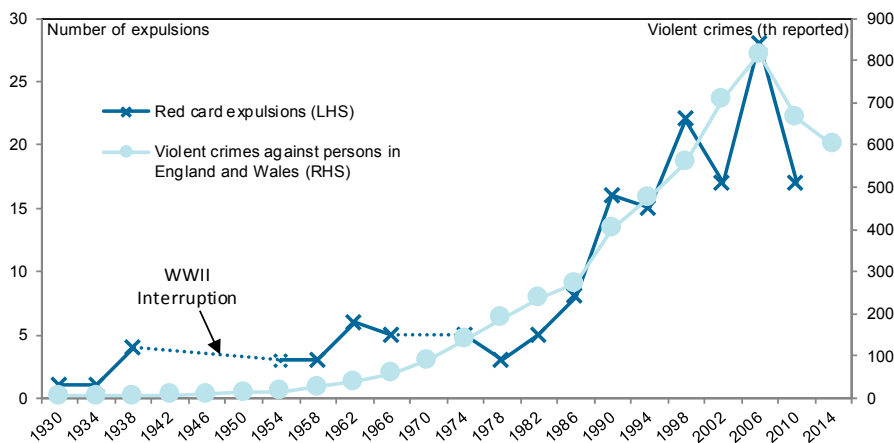
Some estimates place football as the world’s most popular sport: more than 250 million people play football regularly in more than 200 countries. Since the first FIFA World Cup in 1930, over 70 countries have participated in various qualifying rounds. A mapping of those appearances shows that the World Cup is indeed a multi-continent event, but it also reveals interesting patterns. For one, 20% of appearances are concentrated in 5 countries: Brazil, Germany, Italy, Argentina and Mexico. In addition, most activity in terms of hosting the championship takes place in two regions of the world: Latin America and Western Europe. That said, close to 70% of appearances correspond to emerging markets vs. 30% for developed markets.



Source: Planetworldcup.com Goldman Sachs Global Investment Research.

Red cards for rogues, but the future looks more peaceful

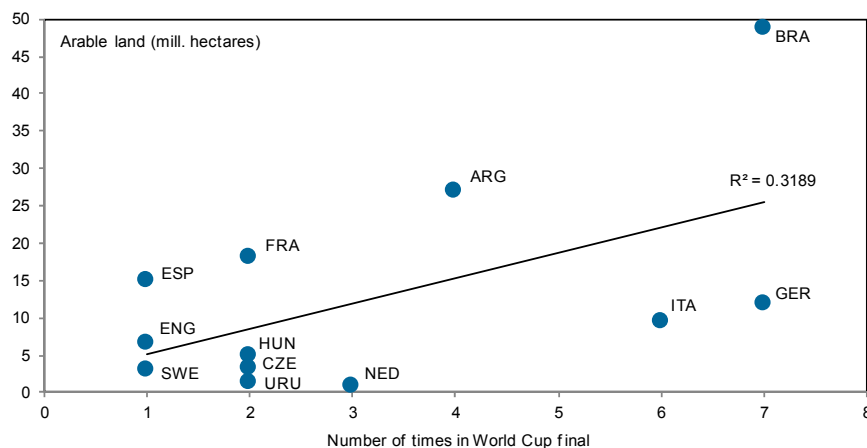
A famous quote by Oscar Wilde goes along the lines of: “Rugby is a game for barbarians played by gentlemen. Football is a game for gentlemen played by barbarians”. In its 80-year history, the number of red card expulsions has tended to increase, from fewer than 4 in the early games of the 1930s to a maximum of 28 in 2006. Even dividing these figures by the number of matches shows an upward trend in expulsions, which closely follows patterns in violent crime against individuals in long-run data. And, while it is true that red card rules have tightened over time, which may account for some of the increase, so have criminal laws off the football field. The good news is that the most recent observations point to a downward trend. Both among citizens and among footballers, behaviour appears to be improving—or at least stronger policing is putting an end to the seemingly inexorable rise in violence against fellow citizens and fellow footballing professionals.



Source: Planetworldcup.com, Goldman Sachs Global Investment Research.

Land: The missing factor of production in World Cup victories

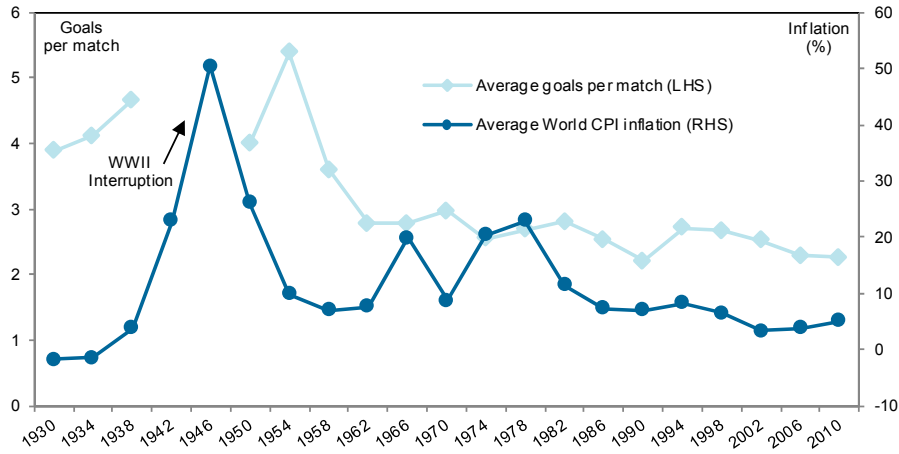
Recent economic theory and debate focus excessively on capital and labour, ignoring that all-important factor of production—land. The extent of arable land has been a key determinant of population growth, economic growth and political power for much of human history, and, as the exhibit below shows, it is also a key determinant of a country’s chances of making it to the finals of the World Cup. It is not only the total-footballing skill of the Brazilian footballers or the creativity of the Argentine front line that makes them consistent finalists, but also the vast open tracts of land available for them to practise. Land may not always be a decisive factor—as Germany exemplifies—but having relatively more than others certainly seems to help.



Source: Planetworldcup.com, World Development Indicators, Goldman Sachs Global Investment Research.

D disinflation in goals, disinflation in prices: The 'great goal moderation'

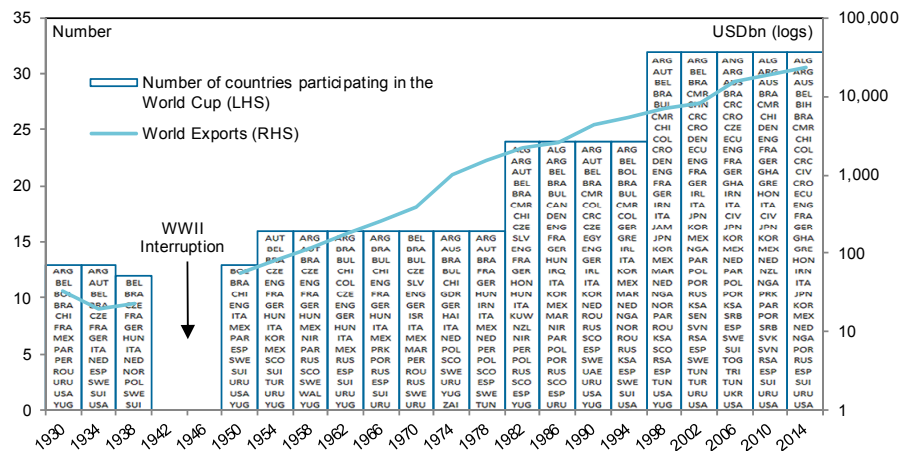
The low rates of price inflation in the Euro area and the developed world have given rise to a number of cyclical and structural explanations, but what is often missing is a recognition that this trend holds more broadly, including for World Cup matches. The number of goals per game used to average between 4 and 5 in the first, heady half of the 20th Century, coinciding with high rates of inflation globally. Since then, better-organised defences and inflation-targeting central banks have led to low and stable inflation rates. In fact, the so-called 'great moderation' that is often discussed in macroeconomic analysis has extended to football matches, with goals per game now averaging in a more moderate range of 2 to 3.



Source: Barro-Ursua Dataset, Planetworldcup.com, World Development Indicators, Goldman Sachs Global Investment Research.

C Countries and more countries: Participation rising with global integration

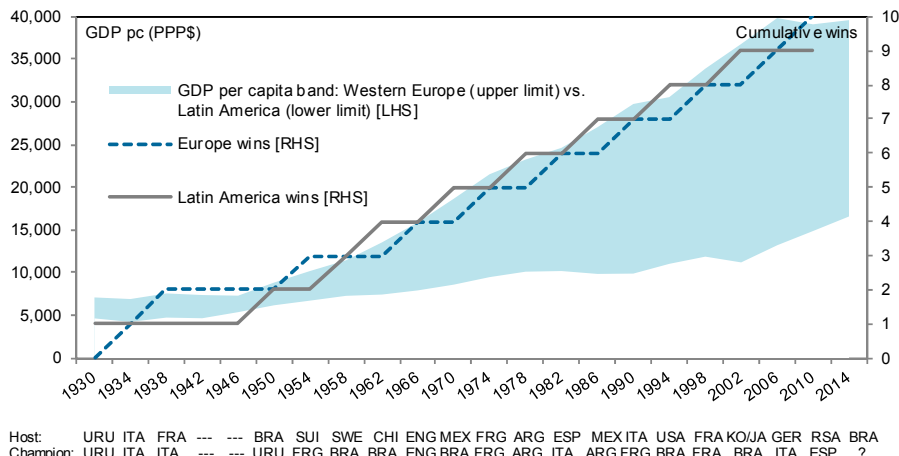
The world has become a much more integrated place, and so has the football pitch. In the early days, only 13 teams participated in the tournament. Nowadays, the number is 32, and there is speculation that it could increase to 40 in the future. At the same time, over the past century or so, the global economy has become much more interconnected. A good measure of this is the size of goods exports, which have increased from less than US\$30bn in the 1930s to more than US\$22,000bn at present. Although the decision on how many countries participate in the World Cup is made by FIFA's governing bodies, the same market forces that are driving up exports are also likely to push for a larger representation of teams, especially as African and Asian nations increase their presence on the global stage.



Source: United Nations, Wikipedia, Goldman Sachs Global Investment Research.

Uneven convergence between Europe and Latin America

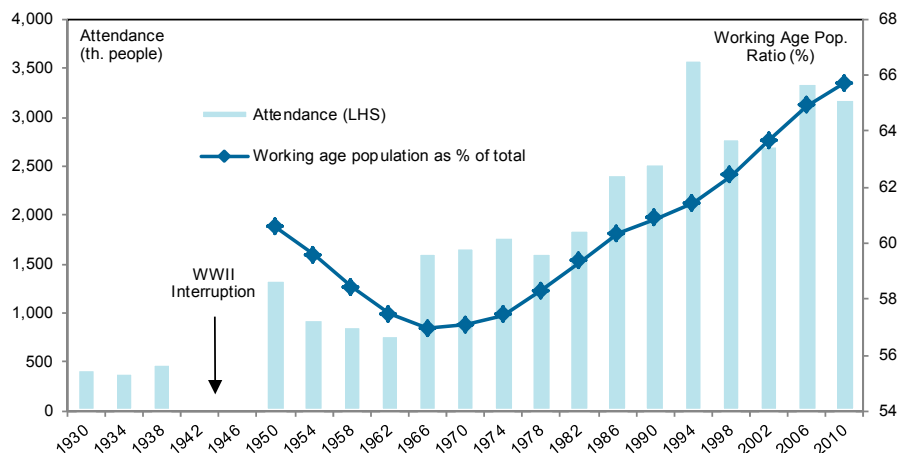
World Cups have been celebrated all over the world. But they have been dominated by two superpowers: Europe (which has hosted 50% of events) and Latin America (which after this year will have hosted 35% of events). Average GDP per capita in these two regions has increased throughout the history of the World Cup, by a factor of 5.6 in Europe and 3.6 in Latin America. Although the spread between them widened through the 2000s, it has narrowed more recently, likely helped by stalling growth in the Euro area and the boost to Latin American growth from tailwinds from economic convergence. Despite these differences in income growth dynamics, there is nothing to separate the two footballing superpowers when it comes to winning World Cups, with victories progressing almost in lock-step. These winning patterns are correlated to the hosting region: in the history of the World Cup, Europe and Latin America have always won on their own soil (except for Sweden in 1958).



Source: Barro-Ursua Dataset, Planetworldcup.com, Goldman Sachs Global Investment Research.

Packed stadiums: It is all about the (working-age) fans

Attendance to World Cup games is estimated to have increased from less than half a million in the 1930s to almost 3.2 million in 2010. Record attendance was attained in 1950, with almost 200,000 people witnessing the Brazil-Uruguay final in Maracanã Stadium (where the final will be held again this year, but with a current capacity of almost 80,000). Interestingly, attendance has followed the increasing share of working-age people as a percentage of the total population (which has risen from 56% to 66% at present). That increasing trend holds even after controlling for the number of teams participating or games played. So this demographic window augurs well for football attendance, at least until age-dependency ratios move in a more unfavourable direction.



Source: Planetworldcup.com, United Nations, Goldman Sachs Global Investment Research.

World Cup Trivia

Did you know?

- After losing 9-0 to Yugoslavia in the 1974 finals, players from the Zaire national team were allegedly told by presidential guards that they would not be able to return home if they lost to Brazil by a score of 4-0 or worse. Luckily, the final score was 3-0.
- In 2006, Ecuadorean shaman Tzamarenda Naychapi was allowed to 'purify' all of the German stadiums by letting out a loud scream to chase away evil spirits. Ecuador made it through the group stage but went on to lose to England in the Round of 16.
- The New York Times refused to report that the USA had beaten England 1-0 at the 1950 World Cup because editors believed the scoreline was a hoax.
- The 'Kaiser' Beckenbauer, who led Germany to a thrilling 2-1 victory over the Netherlands in 1974, went on to coach Germany, and in 1990 became the first person to win the World Cup as Captain and then Coach.
- 19 World Cups: 10 European winners, 9 South American winners. No other continent has produced a world champion. All World Cups that have taken place in Latin America have been won by South American countries. Of the 19 World Cups so far, 6 tournaments have been won by the host country. Perhaps surprisingly, Brazil is not (yet?) one of those 6.
- Romania's 1930 squad was personally selected by King Carol II himself.
- With France trailing Argentina 1-0 in their second game of the 1930 World Cup finals, referee Almeida Rego blew for full time with six minutes remaining on the clock.
- India pulled out of the 1950 finals partly because of financial problems but also because they were not allowed to play in bare feet...
- ...speaking of which, during the 1938 finals, Brazil's Leonidas attempted to remove his boots and play in bare feet during a game against Poland held on a muddy pitch in Strasbourg. The referee told him to put them back on and the striker subsequently scored four goals, and Brazil won 6-5.
- England's opening match against Uruguay in the 1966 tournament (held in England) was delayed because seven England players had left their FIFA registration cards at the team hotel. A police motorcyclist was sent to get them...
- Further delays... the 1974 final was delayed by 10 minutes because officials had forgotten to put in place the corner and centre-line flags.
- Players for the national team of the United Arab Emirates received a Rolls Royce for every goal their team scored at the 1990 World Cup. The UAE managed to win one of its three matches.
- Sir Viv Richards is the only person to have played both World Cup Football and World Cup Cricket. He played for Antigua, appearing in the qualifying rounds in the 1974 World Cup.
- The first FIFA World Cup was held in Uruguay back in 1930 and 13 countries participated in the tournament. The first World Cup was the only one without qualifying rounds, as every country affiliated with FIFA was invited to compete.
- Two World Cup finals have been decided on penalties. Brazil beat Italy in 1994, and Italy beat France in 2006.

Some World Cup records

- Most World Cup appearances (including 2014): 20 for Brazil (every tournament), 18 for Italy and Germany.
- Most World Cups won by a player: Pelé, Brazil in 1958, 1962 and 1970.
- Most tournaments in which a team was eliminated without losing a single match: 3 (England in 1982, 1990 and 2006).
- Most goals scored by a team in one tournament: 27 (Hungary in 1954). Hungary ended up runners-up to Germany that year.
- Just Fontaine of France is by far the highest-scoring 'golden boot' winner of all time. He somehow managed to net 13 goals in the 1958 instalment of the tournament. Sadly, he was forced to retire due to injury a few years later and could not improve on his record. The record number of World Cup career goals is 15 by Brazilian forward Ronaldo.
- Geoff Hurst's hat-trick for England against the German team in the 1966 final remains the highest number of goals scored by a single player in one final.
- Youngest player: 17 years and 41 days – Norman Whiteside (Northern Ireland vs. Yugoslavia in 1982); youngest player in a final: 17 years and 249 days, Pelé (Brazil vs. Sweden in 1958) (also youngest goal scorer, hat-trick scorer and final scorer).
- Oldest player: 42 years and 39 days – Roger Milla (Cameroon vs. Russia in 1994); oldest player in a final: 40 years and 133 days – Dino Zoff (Italy vs. Germany in 1982).
- Fastest goal from kick-off: 10.89 seconds, scored by Hakan Şükür (Turkey vs. Korea Republic in 2002); fastest goal in a final: 90 seconds, scored by Johan Neeskens (The Netherlands vs. West Germany in 1974).
- Most cards: 6 Zidane (France, 1998-2006) and Cafu (Brazil, 1994-2006).
- Highest attendance for a match. There were around 200,000 spectators for the final between Brazil and Uruguay in Rio de Janeiro on July 16, 1950 at the Maracanã Stadium. Despite this strong support, Brazil lost 2-1. The official capacity of the Maracanã stadium today is around 78,000 spectators (seats only).
- The Cup's final game is the single most viewed sporting event on earth. The 2010 match between Spain and The Netherlands was watched by an estimated 700 million people. That's a decent chunk of the world's entire population.

Some football quotes

- In football as in watchmaking, talent and elegance mean nothing without rigour and precision." ~ Lionel Messi
 - For sportsmen or women who want to be champions, the mind can be as important, if not more important, than any other part of the body." ~ Gary Neville
 - "Amongst all unimportant subjects, football is by far the most important." Pope John Paul II
 - Football, a game in which everyone gets hurt and every nation has its own style of play which seems unfair to foreigners." George Orwell
 - "Football is a simple game; 22 men chase a ball for 90 minutes and, at the end, the Germans win." ~ Gary Lineker, after losing the 1990 World Cup semi-final to Germany on penalties.
 - "You can't say my team aren't winners. They've proved that by finishing fourth, third and second in the last three years." ~ Gerard Houllier
 - "Some people believe football is a matter of life and death. I'm very disappointed with that attitude. I can assure you it is much, much more important than that." ~ Bill Shankly.
 - The rules of soccer are very simple, basically it is this: if it moves, kick it. If it doesn't move, kick it until it does." ~ Phil Woosnam
 - "Please don't call me arrogant, but I'm European champion and I think I'm a special one." ~ Jose Mourinho when he introduced himself to the English press after arriving from Porto in summer 2004.
- Because he is an extraordinary striker and one of the most notable absentees from the 2014 World Cup, we include a couple of quotes from Zlatan Ibrahimovic:*
- On refusing a trial at Arsenal: "Arsene Wenger asked me to have a trial with Arsenal when I was 17. I turned it down. Zlatan doesn't do auditions."
 - On considering himself misused at Barça: "You bought a Ferrari but you drive it like a Fiat."

Antoine Demongeot

Disclosure Appendix

Reg AC

We, Peter Oppenheimer, Tsumugi Akiba, Goocheon Kwon, and Stuart Kaiser, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Each county economist has certified as follows: I, name of economist, hereby certify that all of the views expressed in this report accurately reflect my personal views, which have not been influenced by considerations of the firm's business or client relationships.

Disclosures

Global product; distributing entities

The Global Investment Research Division of Goldman Sachs produces and distributes research products for clients of Goldman Sachs on a global basis. Analysts based in Goldman Sachs offices around the world produce equity research on industries and companies, and research on macroeconomics, currencies, commodities and portfolio strategy. This research is disseminated in Australia by Goldman Sachs Australia Pty Ltd (ABN 21 006 797 897); in Brazil by Goldman Sachs do Brasil Corretora de Títulos e Valores Mobiliários S.A.; in Canada by either Goldman Sachs Canada Inc. or Goldman, Sachs & Co.; in Hong Kong by Goldman Sachs (Asia) L.L.C.; in India by Goldman Sachs (India) Securities Private Ltd.; in Japan by Goldman Sachs Japan Co., Ltd.; in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs New Zealand Limited; in Russia by OOO Goldman Sachs; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W); and in the United States of America by Goldman, Sachs & Co. Goldman Sachs International has approved this research in connection with its distribution in the United Kingdom and European Union.

European Union: Goldman Sachs International authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, has approved this research in connection with its distribution in the European Union and United Kingdom; Goldman Sachs AG and Goldman Sachs International Zweigniederlassung Frankfurt, regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht, may also distribute research in Germany.

General disclosures

This research is for our clients only. Other than disclosures relating to Goldman Sachs, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment.

Goldman Sachs conducts a global full-service, integrated investment banking, investment management, and brokerage business. We have investment banking and other business relationships with a substantial percentage of the companies covered by our Global Investment Research Division. Goldman, Sachs & Co., the United States broker dealer, is a member of SIPC (<http://www.sipc.org>).

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

The analysts named in this report may have from time to time discussed with our clients, including Goldman Sachs salespersons and traders, or may discuss in this report, trading strategies that reference catalysts or events that may have a near-term impact on the market price of the equity securities discussed in this report, which impact may be directionally counter to the analyst's published price target expectations for such stocks. Any such trading strategies are distinct from and do not affect the analyst's fundamental equity rating for such stocks, which rating reflects a stock's return potential relative to its coverage group as described herein.

We and our affiliates, officers, directors, and employees, excluding equity and credit analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research.

This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Investors should review current options disclosure documents which are available from Goldman Sachs sales representatives or at <http://www.theocc.com/about/publications/character-risks.jsp>. Transaction costs may be significant in option strategies calling for multiple purchase and sales of options such as spreads. Supporting documentation will be supplied upon request.

All research reports are disseminated and available to all clients simultaneously through electronic publication to our internal client websites. Not all research content is redistributed to our clients or available to third-party aggregators, nor is Goldman Sachs responsible for the redistribution of our research by third party aggregators. For research, models or other data available on a particular security, please contact your sales representative or go to <http://360.gs.com>.

Disclosure information is also available at <http://www.gs.com/research/hedge.html> or from Research Compliance, 200 West Street, New York, NY 10282.

© 2014 Goldman Sachs.

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of The Goldman Sachs Group, Inc.

Who Will Score the Most Goals?

Bookmakers' Odds

