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Euler Hermes International Insolvencies Outlook
A remarkable acceleration in business insolvencies

Number one credit insurer Euler Hermes is forecasting a 35% increase in corporate worldwide insolvencies for 2009, after +27% in 2008. This dramatical rise is the consequence of the financial and economic crisis.

“In the current recessionary economic environment, we will witness a sharp worsening of the insolvency trend everywhere in the world, at least up to the end of 2009. We expect our Global Insolvency Index to rise by 35%, stated Karine Berger, head of research, Euler Hermes. As for next year, it is unlikely that the levels of business insolvencies will abate: they may stop rising in some countries, but the very light winds of recovery we anticipate will not save many more businesses in 2010 than they will in 2009.”

2008: a significant 27% increase in the Global Insolvency Index

In its latest *International Insolvencies Outlook*, which is published twice a year, Euler Hermes gives a detailed description of registered and expected business failures for 29 countries. The Euler Hermes Global Insolvency Index, which reflects the change in business insolvencies across the globe (see “our methodology” at the end of the document), rose sharply by 27% in 2008 (against our forecast of +25% in the last edition of Euler Hermes Insolvency Outlook in November 2008). The trend of acceleration in insolvencies began in 2007 (+4%), due to a growing number of countries already hit by an increase in business bankruptcies: the US (+44%), Japan (+6%), France (+6%), Spain (+3%), Ireland (+3%) and Denmark (+21%). The slowing in the world economy in the first half of 2008 (in a difficult environment of exploding commodity prices), and then its abrupt and violent collapse in the second half of the year, brought a rapid deterioration in business finances, an acceleration in payment defaults and in the end a surge in insolvencies, especially in the last quarter. While the scenario was almost the same in all the major countries, except Germany, it took an exceptional turn in a number of countries, such as Spain, where insolvencies rose by 187%, Portugal (+67%), Ireland (+113%), the UK (+31%), Italy (+45%), Denmark (+67%) and in the United States (+45%).

A record year for insolvencies in 2009

After a very depressed first quarter of 2009, in line with the end of 2008, the major global recession taking shape for the whole of 2009 – the biggest ever seen since the end of the Second World War – is forcing businesses into a long and painful process of adjustment. By prolonging its duration and spreading progressively to most sectors of activity, the contraction of the economies of the developed countries and at best the sharp deceleration in the emerging economies threatens to accentuate the rise in insolvencies. This has already been confirmed over Q1 2009, with yr/yr increased in excess of 15% in France, Austria and Switzerland, 20% in Belgium, 30% in Portugal, 40% in the UK, and even worse situations yet, with a doubling of insolvencies in Ireland and Denmark, and even a tripling in Spain. With some countries are moving towards new insolvency records, the Euler Hermes Global Insolvency Index should rise very significantly in 2009, increasing by 35% on annual average.

“For numbers of businesses that have drawn heavily on available cash in order to outlast the shock of the last three quarters, it only needs a few more months of empty order books or failing sales to send them on their way to insolvency, said Karine Berger. On this point, we have seen a genuine change at work in the recent months: whereas, in our last survey of global insolvencies, in autumn 2008, we could state that the two major sectors hit by the shock were finance and construction, we now see the main part of business insolvencies in industrial sectors: automotive, chemicals, intermediate goods

and telecommunications. Retailing, wholesaling and transport are also feeling the full brunt of the crisis. Alongside this, the average turnover per business insolvency has risen greatly.”

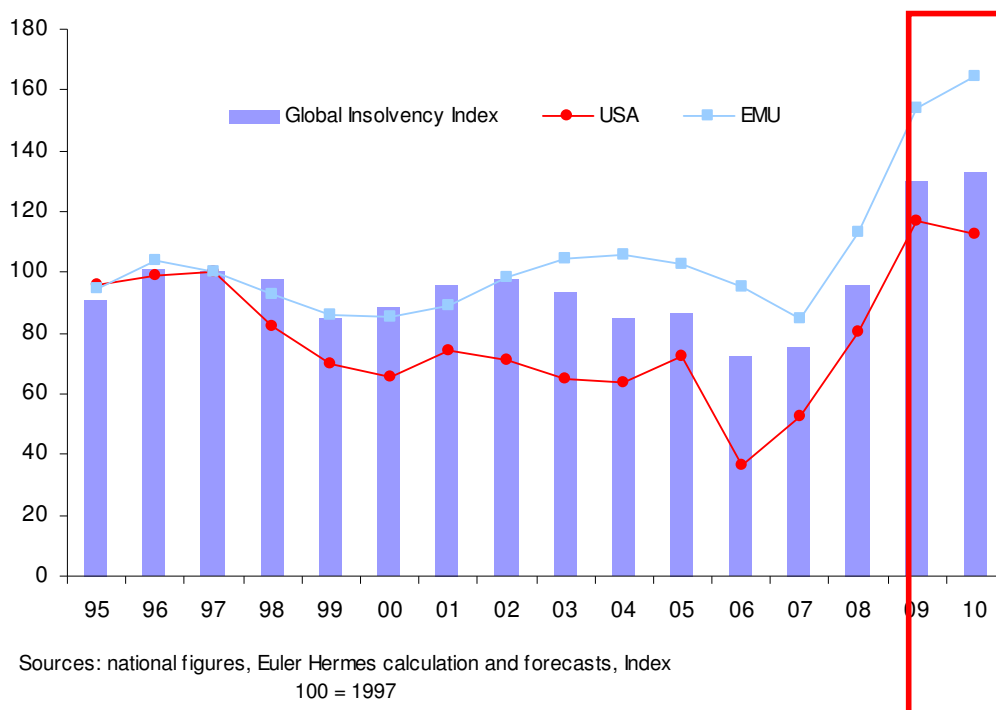
Further explanations

In many countries, there is a close correlation between the business cycle and insolvency figures. Generally, it takes GDP growth of 2% to 3% to stem the rise in insolvencies, and there is a very high elasticity of insolvencies to growth. A GDP growth reduction of 1 percentage point implies a 5% to 10% increase in insolvencies. In fact, the slowdown in growth posted in 2008, below the level generally needed to keep the number of insolvencies just stable, was accompanied by a fairly widespread, and upwards, trend reversal in the number of business insolvencies. Over the long term, different countries have enjoyed very different average rates of growth, and this is reflected in diverging long-term insolvency trends. Thus, from 1991 to 2005, insolvencies fell by half in the US and the UK, but remained fairly steady in France and rose by a factor of 4.5 in Germany. Over the same period, growth averaged 3.3% in the US and 2.8% in the UK, compared to 1.9% in France and 1.3% in Germany.

Besides being affected by cyclical fluctuations, business insolvency figures can experience large variations due to changes in the provisions governing new business creations (because of the higher insolvency risk for start-ups) and even more changes in laws governing insolvency procedures. As in Slovakia in 2005, the change in the US bankruptcy legislation in October 2005 triggered a wave of anticipatory insolvencies in that country followed by a sharp fall in insolvencies in the first quarter of 2006, resulting in marked volatility in the annual US figures for 2005, 2006 and 2007.

Charts

Euler Hermes Global Insolvency Index



Statistics per country

	% of World GDP (*)	% of Euler Hermes Global Insolvency Index (*)	2008		Forecasts	
			Number	Change	2009	2010
USA	26.2	31.7	43,546	54%	45%	-4%
Canada	2.7	3.3	6,164	-2%	10%	5%
Japan	8.4	10.2	15,646	11%	15%	5%
Germany	6.4	7.7	29,291	0%	19%	11%
France	5.0	6.0	57,650	15%	30%	10%
Italy	4.0	4.9	8,800	45%	31%	15%
Spain	2.8	3.3	2,528	187%	58%	-3%
Netherlands	1.5	1.8	4,635	1%	75%	10%
Belgium	0.9	1.1	8,472	10%	18%	5%
Austria	0.7	0.9	6,315	0%	15%	7%
Portugal	0.4	0.5	3,344	67%	30%	20%
Finland	0.5	0.6	2,919	14%	32%	4%
Greece	0.6	0.7	563	10%	15%	11%
Luxembourg	0.1	0.1	583	-12%	15%	4%
Ireland	0.5	0.6	773	113%	55%	-8%
UK	5.2	6.3	29,994	31%	56%	11%
Denmark	0.6	0.7	3,709	54%	40%	-9%
Sweden	0.9	1.1	6,298	9%	35%	5%
Norway	0.8	0.9	3,637	28%	66%	-5%
Switzerland	0.8	1.0	4,221	-2%	16%	4%
Poland	0.8	1.0	430	-10%	26%	13%
Hungary	0.3	0.3	11,181	15%	30%	15%
Czech Republic	0.3	0.4	1,110	-3%	28%	5%
Slovak Republic	0.1	0.2	582	-27%	55%	-11%
Lithuania	0.1	0.1	928	53%	40%	-5%
Latvia	0.1	0.1	1,226	21%	50%	-10%
Estonia	0.0	0.0	429	112%	40%	-5%
Brazil	2.5	3.1	2,243	-18%	-8%	-10%
China	6.2	7.5	4,555	5%	10%	5%
Taiwan	0.7	0.9	805	-23%	18%	-5%
Korea (South)	1.8	2.2	2,735	19%	25%	-5%
Hong Kong	0.4	0.5	468	3%	71%	6%
Singapore	0.3	0.4	132	25%	37%	4%
Sources :						
national figures, Euler Hermes forecasts						

Our methodology

To overcome the heterogeneous nature of national statistics and circumstances, we employ the change in insolvencies over time rather than their absolute numbers. For each country, we have calculated an insolvency index, using a basis of 1997=100. We have then constructed our Global Insolvency Index (GII), which is the weighted sum of the national indices. Each country is weighted according to its share of the total GDP (at current exchange rates) of the countries included in our study, which accounts for more than 80% of world GDP at current exchange rates for 2007.

The detailed, country by country analysis of the insolvencies is featuring in the *International Insolvencies Outlook* N° 1 2009, available on request at Euler Hermes.

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Euler Hermes has developed a credit intelligence network that enables it to analyse the financial stability of 40 million businesses across the globe. The group protects worldwide business transactions totalling €800 billion.

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