Press Release

Paris, 17 November 2009

Global corporate insolvencies: after a black year in 2009, Euler Hermes expects corporate insolvencies to stabilise at a high level in 2010

The world's leading credit insurer Euler Hermes is forecasting a 33% rise in corporate insolvencies worldwide in 2009. In 2008, half the global increase in insolvencies resulted from financial restrictions whereas in 2009 the main factor has been the economic recession.

The two major factors underpinning corporate insolvencies are businesses' economic situations and profitability and their financing. It generally requires GDP growth of between 2% and 3% to halt the rise in insolvencies.

"Since mid-2008 the difficulties arising from traditional factors linked to the economic cycle (decline in business outlets) have been severely exacerbated by exceptional factors linked directly to the crisis (such as financing difficulties)", notes Karine Berger, Head of Economic Research at Euler Hermes. "The economic downturn in 2008 accounted for only half the 26% rise in corporate insolvencies worldwide. The other half was probably linked to the financial restrictions faced by companies in the second half of the year. For 2009, we estimate that our global corporate insolvencies index, which summarises the trend in business failures worldwide, will rise by 33%. This increase can be wholly attributed to the slump in economic growth".

2009: Global Insolvency Index rises further

The economic and financial crisis had already resulted in a sudden and dramatic increase in corporate insolvencies in 2008 (revised data shows 26% rise). The global recession, which intensified and spread to the majority of countries and sectors in the first few months of 2009, has been the most severe since World War II. It has been accompanied by an unprecedentedly rapid deterioration in companies' financial situations with the attendant payment difficulties, and accordingly by a leap in corporate insolvencies.

Euler Hermes' Global Insolvencies Index is expected to post a record rise for the second year running, up 33% in 2009. Although insolvencies are on the increase in most countries, the index covers contrasting situations from one country to another:

- Insolvencies have rocketed by more than 75% in Spain, Ireland, the Netherlands and the Baltic countries;
- Insolvencies have soared by more than 35% in the United States and Northern and Eastern Europe;
- They have also increased significantly in Sweden, the United Kingdom, Switzerland and France;
- The acceleration has been limited in Japan and Germany;
- The noteworthy exceptions are Canada (-5%) and South Korea (-7%).

In terms of corporate insolvencies, 2009 is also set to be the worst in more than a decade for some countries, such as Sweden and Finland (1996), the United Kingdom (1993), the United States and Norway (1992); it is expected to be an all-time record for other countries such as France, Spain, the Netherlands, Belgium; Switzerland, Austria, Finland, Ireland and Portugal.

2010: diverse trends but overall the index is expected to stabilise at a high level

"The economic recovery expected in 2010 will be slow and vulnerable as domestic demand in the large industrialised countries will be weakened by rising unemployment and uncertainties relating to household purchasing power", explains Karine Berger. "Output is not expected to return to its pre-crisis levels until 2011. As the direct result of this weak recovery, business insolvencies will remain at high levels in 2010. Businesses will not manage to bring their profitability back to pre-crisis levels before 2011, as the decline in turnover will continue to require significant adjustments".

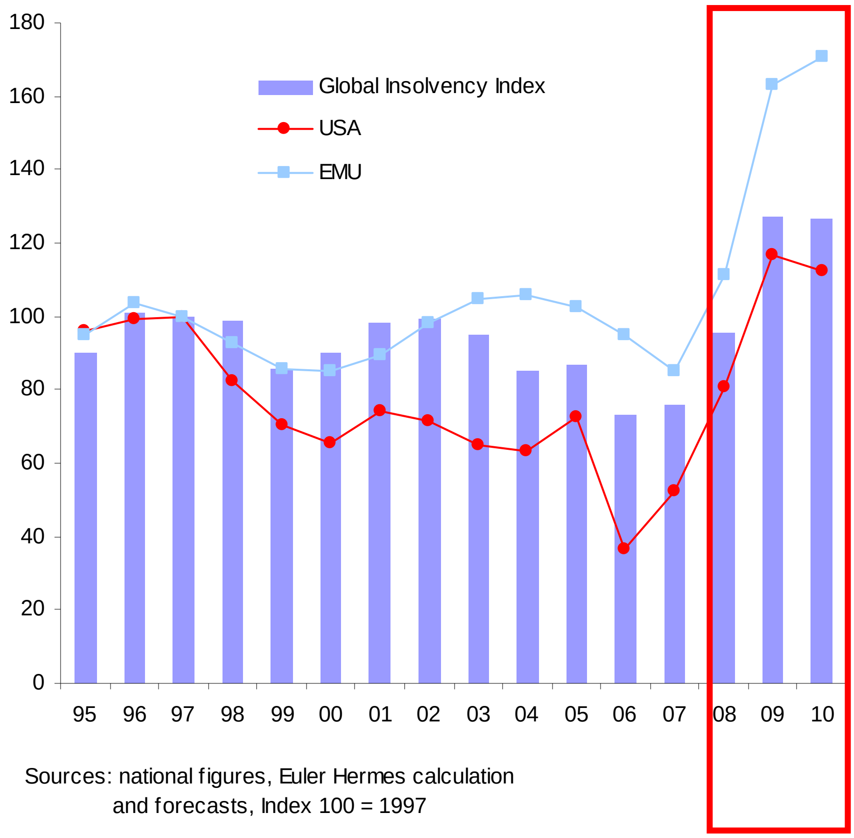
For 2010, Euler Hermes is forecasting a further rise in insolvencies in Western Europe (+3%, after +43% in 2009 and +30% in 2008). Business failures are expected to decline, although still remaining at high levels, in the Americas (United States, Canada and Brazil) and in several Asian countries. The global Insolvencies Index is therefore expected to remain at the same, high level as in 2009.

Methodology

The concept of corporate insolvency is different from one country to another, which makes international comparison difficult. There are two main reasons for country differences. First of all, official procedures do not have the same weight in all countries. Some countries, such as Spain and Italy, where amicable settlement procedures predominate, record very low official corporate insolvency figures that underestimate the real number of businesses in difficulties. Secondly, one-man businesses are in some cases recorded as business insolvencies and in some cases – the United States for example – as personal bankruptcies, making it difficult to separate business failures from purely private insolvencies. This results in a significant underestimation of business insolvencies. Moreover, the line between individual entrepreneurs and very small businesses varies substantially from one country to another. For each country we have used a definition of a business that corresponds as closely as possible to that used in the insolvency survey used to calculate an insolvency rate. To overcome the heterogeneous nature of national statistics and circumstances, we use 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 total aggregate GDP (at current exchange rates) of the 33 countries included in our survey, which represents more than 80% of world GDP at current exchange rates for 2008.

Charts

Euler Hermes Global Insolvency Index



Sources: national figures, Euler Hermes calculation and forecasts, Index 100 = 1997

Statistics by country

	% of World GDP (*)	% of Global Insolvency Index (*)	2008 Insol-vencies	Change	Forecast 2009	2010
Austria	0.7	0.9	6 315	0%	11%	0%
Belgium	0.9	1.1	8 472	10%	18%	5%
Brazil	2.7	3.3	2 243	-18%	11%	-12%
Canada	2.6	3.2	6 164	-2%	-5%	-6%
China	7.5	9.1	4 555	5%	5%	5%
Czech Republic	0.4	0.5	1 110	-3%	40%	-3%
Denmark	0.6	0.7	3 709	54%	51%	-9%
Estonia	0.0	0.0	429	112%	91%	-21%
Finland	0.5	0.6	2 916	14%	38%	4%
France	4.9	6.1	57 665	15%	17%	2%
Germany	6.3	7.7	29 291	0%	15%	9%
Greece	0.6	0.8	563	10%	21%	15%
Hong Kong	0.4	0.5	468	3%	39%	23%
Hungary	0.3	0.3	11 181	15%	52%	0%
Ireland	0.5	0.6	773	113%	85%	-6%
Italy	4.0	4.9	7 300	20%	37%	15%
Japan	8.5	10.4	15 646	11%	2%	-3%
Korea (South)	1.6	2.0	2 735	19%	-7%	-5%
Latvia	0.1	0.1	1 226	21%	83%	-17%
Lithuania	0.1	0.1	928	53%	80%	-20%
Luxembourg	0.1	0.1	583	-12%	23%	3%
Netherlands	1.5	1.8	4 635	1%	76%	5%
Norway	0.8	1.0	3 637	28%	49%	-5%
Poland	0.9	1.1	430	-10%	44%	10%
Portugal	0.4	0.5	3 344	67%	20%	0%
Singapore	0.3	0.4	132	25%	27%	-4%
Slovak Republic	0.2	0.2	582	-27%	55%	-11%
Spain	2.8	3.4	2 528	187%	111%	3%
Sweden	0.8	1.0	6 298	9%	30%	5%
Switzerland	0.8	1.0	4 221	-2%	26%	-4%
Taiwan	0.7	0.8	805	-23%	-50%	-3%
United Kingdom	4.6	5.7	29 994	31%	25%	0%
United States	24.6	30.2	43 546	54%	45%	-4%

Sources : national figures, Euler Hermes forecasts

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