Press release

Euler Hermes global economic outlook: “Insolvency World Cup 2014: Who will score fewer insolvencies?”

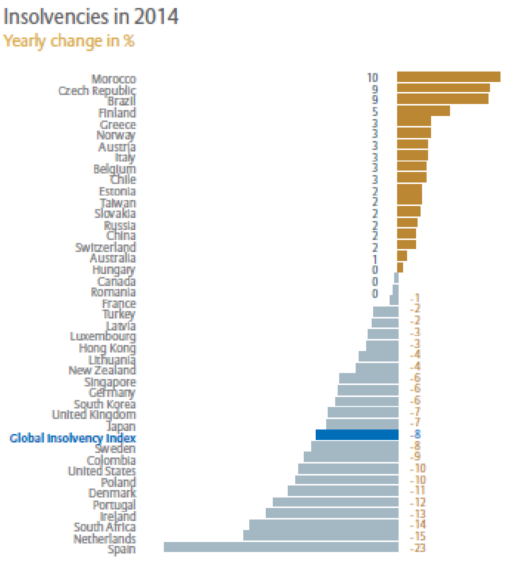
Global insolvencies projected to decrease, but remain above pre-recession totals;
Recovery continues to be uneven as risks persist

PARIS – 12 JUNE 2014 – Global insolvencies are projected to fall 8 percent in 2014, but still remain 13 percent above pre-crisis levels, according to Euler Hermes’ latest global economic outlook.

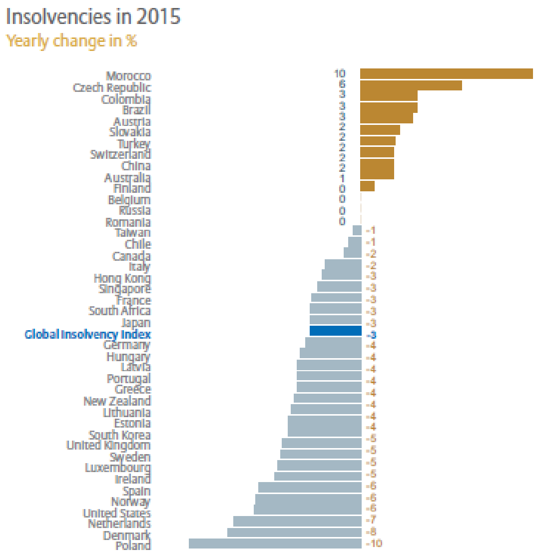
The macroeconomic and financial conditions for 2014-15 underpin the fifth consecutive year of decreasing insolvency numbers worldwide. Growth in advanced economies should pick up (GDP growth expected at 2 percent in 2014), and emerging economies (4.3 percent GDP growth) will continue to prove their resilience after the Quantitative Easing (QE) frenzy.

“In general, 2014 looks promising, but this good news does not necessarily mean that companies are fully back to their A-game,” said Wilfried Verstraete, chairman of the Euler Hermes board of management. “While operating profits are improving, turnover remains flat for many businesses, pointing to fiercer competition and continued turbulence. In addition, even with fewer insolvencies the risk of non-payment remains very real in a fast-growth world.”

Euler Hermes’ study of 42 countries indicates that the global volume of insolvencies is not expected to return to pre-crisis levels by 2015. A projected 2015 drop will be limited (-3%), especially in Europe.



Sources: national figures, Euler Hermes



Sources: national figures, Euler Hermes

Who will score fewer insolvencies?

Euler Hermes’ analyses by country, industry and company size emphasize how unevenly the industrial fabric is recovering, highlighting four major pockets of risk.

- In some countries – Austria, Canada, Germany, Japan and other Southeast Asian countries, Switzerland, the UK and the U.S. – insolvencies have already returned to low levels. They will experience a more limited drop in 2015, or even a potential increase depending on changing business conditions. On top of rapidly changing business backdrops, heterogeneous sector risk profiles could contribute to higher-than-expected total insolvency numbers.

- European countries whose private sectors suffered the most from austerity packages (e.g., Portugal and Spain) will begin to see marked improvements, due to adjustments made in previous years. The return of competitiveness and investor confidence will begin to pay off, with the potential gains of trade inside and outside Europe determining the strength of the positive trend. However, a significant number of industries in these economies face insolvencies including companies weakened by a prolonged period of depressed domestic demand (Southern Europe) or higher sensitivity to the business cycle (Northern Europe).

- Emerging markets like Brazil, China, Russia and Turkey will face external instability and headwinds, along with slower growth due to changing business models. This will continue to significantly impact company profitability and solvency, hampering the development of sound supply chains. As a result the catch-up trend in these economies, in terms of nominal GDP numbers, will increase the number of companies going bust.

- In some Western European countries – including Belgium, Finland, France, Greece, Italy and Luxembourg – company bankruptcies remain at high levels. Central and Eastern European countries face similar challenges due to a domino effect: insolvencies will only decrease by 2 percent in 2014. Targeted and effective cyclical measures, in addition to planned structural reforms, are needed to boost recovery.

"We do expect further insolvency declines in 2014 and 2015, but still see no sign of a return to pre-crisis levels," said Ludovic Subran, Euler Hermes chief economist. "Behind the downward trend in insolvencies, the challenge is to distinguish which countries will actually experience a sharp reduction in the risk of non-payment. Others will continue to suffer from 'zombie companies' that generate cash but are unable to attract enough business to repay debts - potentially affecting suppliers."

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