

Business insolvencies starting to rise again in 2012

The Global Insolvencies Index of credit insurer Euler Hermes
2011 analysis and forecast 2012

- After a drop of 4% in 2011, Euler Hermes expects the Global Insolvencies Index to rise by 3% in 2012
- The economic downturn has ended the two-year decline in business insolvencies across the world
- The euro zone is pushing the Global Insolvencies Index upwards
- Southern European countries remain vulnerable to a very high corporate insolvency rate

Paris, 23 May 2012 – Definitive figures for the year 2011 confirm the continued decline in business insolvencies that began in 2010. At the global level, however, this downward trend is very moderate, with the Euler Hermes Global Insolvencies index recording a drop of 4% in 2011 after falling by 5% in 2010.

After these two successive years of declining business insolvencies, and on the basis of its macro-economic forecasts, Euler Hermes anticipates a reversion of this trend in 2012, with a 3% rise in the Global Insolvencies index that mainly reflects the very worrying situation in the euro zone.

“The decline in corporate insolvencies has lost momentum, hampered by the slowdown in the world economy in the second half of 2011. This reversal of trend is now confirmed, with very weak growth figures in the first quarter of 2012”, says Ludovic Subran, Chief Economist and Director of Research at Euler Hermes. “The global decline in business insolvencies seen in 2011 has been weakened by the much less supportive situation in Europe. In 2012, the increasing complexity of the debt crisis, austerity policies in euro-zone countries and the fresh deterioration in the outlook for Southern European countries will take a heavy toll on already weakened companies. Lower demand, tighter credit conditions and mounting social demands are additional risk factors for companies across the zone”.

2011: business insolvencies fell across the world, except in Europe.

The results in 2011 reveal wide regional disparities in the evolution of the Global Insolvencies Index:

North America recorded in 2011 its second successive year of declining corporate insolvencies (index down 15% after a 7% fall in 2010), which returned to a level close to the past two-decade average. With an index down 6% in 2011, **Asia-Pacific** extended its two-year long improvement (-8% in 2009 and -12% in 2010).

This contrasted with the **euro zone**, which was marked by a fresh increase in business failures (+7%) after a slight improvement in 2010 (-1%).

“After the 40% jump in the insolvencies index in 2009 in the euro zone, the increase in 2011 may appear tame in comparison. But it attests to the worrying disconnect between Europe and the rest of the world, as well as to widening disparities within the euro zone between northern and southern countries, to which Ireland should be added”, said Maxime Lemerle, Head of Macroeconomic and Business Insolvency analysis at Euler Hermes. “The small improvement in Northern European countries in 2011 is far from having healed the surge in business insolvencies in the euro zone in 2008 and 2009”.

While business insolvencies fell slightly in Scandinavian countries, Germany and France in 2011, Spain, Greece, Portugal, Italy and Ireland are the reason for the rebound in the index in the euro zone as a whole.

“Unsurprisingly, economic and fiscal difficulties in Southern European countries have not been slow in impacting companies. In these countries, 2011 was another bad year that tarnished an already very weak picture. Business failures have reached record levels there and economic forecasts do not point to any improvement in 2012, with high risks of contagion if the debt crisis is not resolved”, adds Maxime Lemerle.

In 2012, the Global Insolvencies index is forecast to increase by 3%.

Aside from North America, which should remain on a downward trend (-10% after -15% in 2011), all regions are expected to see the number of business insolvencies stabilise or increase. However, this global picture masks different situations.

The projected 2% rise in the index in **Asia-Pacific** reflects not only the expected economic slowdown in this region in 2012 but also a statistical base effect: starting from a very low level of business failures in 2011, the regional index is showing an automatic increase in the number of insolvencies as the number of companies increases.

Because of the forecast recession in the **euro zone** in 2012, the corporate insolvency index is expected to increase again in the region (+7%). *“Across the entire euro zone, the weakened outlook for sales volumes can only intensify competitive pressures. In these circumstances, companies that have already trimmed their cost structures as far as possible cannot hope to recover by raising the prices of their products”,* says **Maxime Lemerle**. *“Many companies have already exhausted their capacity to make adjustments. The impossibility of offsetting lower demand with price increases is coupled with heightened financing difficulties because of greater selectivity by credit institutions, if not higher interest rates”.*

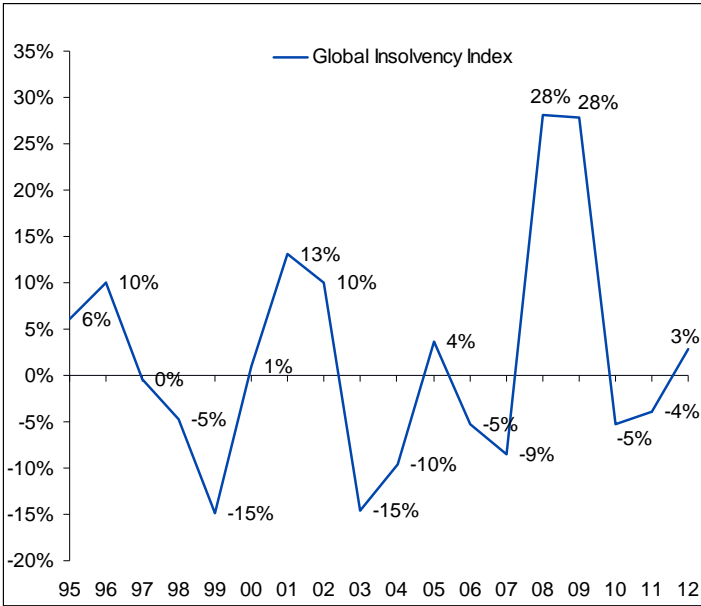
The increase in the business insolvencies index is forecast to be weaker in **Northern Europe** (+4%), where Germany stands out as being the only country to remain on a downward trend (-2%) in 2012. It is in small and very open countries, which are highly dependent on external markets (global and intra-European), that the business insolvencies index is expected to increase most sharply. This is the case in Belgium (+10%) and, in particular, in the Netherlands (+17%).

In **France**, where business failures have already risen in the first months of 2012 (with 21,856 cases up to the end of April, up 2.5% from the same period of 2011), the rebound in business insolvencies should be moderate over the full year (+3.5%) but sufficient to bring the annual total (63,500) close to the highs of 2009 and 1993.

Lastly, and unsurprisingly, corporate insolvencies look set to be particularly high in **Southern European countries** (Italy +17%, Spain +20%, Greece and Portugal +25%), which are facing severe austerity plans and are even more weakened than other euro-zone countries by the deterioration in demand and financing conditions.

Appendix

1. Global Insolvency Index (yearly changes in %, index basis 200=100)



2. Statistics by Country and Euler Hermes Region

Base 100 : 2000	% of World GDP (*)	Weight	2009	2010	2011	2012
Global Insolvency Index	86.0	100.0%	28%	-5%	-4%	3%
Eurozone Index	23.2	27.0%	40%	-1%	7%	13%
Euler Hermes Regions						
Americas Index	29.9	34.7%	37%	-8%	-15%	-10%
USA	24.6	28.6%	40%	-7%	-15%	-10%
Canada	2.6	3.0%	-12%	-25%	-9%	-1%
Brazil	2.7	3.2%	30%	-19%	-6%	17%
Germany-Austria-Switzerland Index	7.9	9.2%	13%	0%	-4%	0%
Germany	6.3	7.3%	12%	-2%	-6%	-2%
Austria	0.7	0.8%	9%	-8%	-8%	0%
Switzerland	0.8	1.0%	24%	20%	6%	9%
France Index	4.9	5.7%	12%	-2%	-3%	4%
Northern Europe Index	14.9	17.4%	33%	-4%	-2%	4%
UK	4.6	5.4%	17%	-17%	4%	-2%
Russia	2.9	3.4%	11%	3%	-20%	0%
Netherlands	1.5	1.8%	73%	-10%	-1%	19%
Poland	0.9	1.1%	57%	3%	7%	8%
Belgium	0.9	1.0%	11%	2%	7%	10%
Sweden	0.8	1.0%	21%	-5%	-4%	6%
Norway	0.8	0.9%	38%	-12%	-2%	0%
Denmark	0.6	0.7%	54%	13%	-15%	0%
Finland	0.5	0.5%	30%	-11%	1%	5%
Ireland	0.5	0.5%	82%	8%	7%	7%
Czech Republic	0.4	0.4%	34%	13%	20%	4%
Hungary	0.3	0.3%	24%	21%	12%	6%
Slovak Republic	0.2	0.2%	35%	13%	12%	-9%
Luxembourg	0.1	0.1%	21%	34%	5%	10%
Lithuania	0.1	0.1%	93%	-11%	-25%	1%
Mediterranean countries Index	7.8	9.1%	65%	1%	15%	20%
Italy	4.0	4.6%	28%	22%	6%	17%
Spain	2.8	3.2%	79%	-4%	17%	20%
Portugal	0.4	0.5%	31%	4%	20%	25%
Greece	0.6	0.7%	15%	25%	33%	25%
Asia-Pacific Index	20.6	24.0%	-8%	-12%	-6%	2%
Japan	8.5	9.8%	-1%	-14%	-4%	1%
Australia	1.7	2.0%	4%	2%	9%	10%
China	7.5	8.7%	-2%	-16%	-18%	-8%
Taiwan	0.7	0.8%	-58%	-21%	-8%	5%
Korea (South)	1.6	1.9%	-27%	-21%	-13%	3%
Hong Kong	0.4	0.4%	22%	-24%	-22%	12%
Singapore	0.3	0.4%	2%	5%	-23%	9%

CONTACTS

Euler Hermes Group press contact
 Bettina Sattler – +33 (0)1 8411 6141
bettina.sattler@eulerhermes.com

Ogilvy contact
 Lorenzo Ricci – +33 (0)1 5367 1283
lorenzo.ricci@ogilvy.com

Euler Hermes is the worldwide leader in credit insurance and one of the leaders in the areas of bonding, guarantees and collections. With 6,000 + employees in over 50 countries, Euler Hermes offers a complete range of services for the management of B-to-B trade receivables and **posted a consolidated turnover of €2.27 billion in 2011**.

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 insured worldwide business transactions totalling **€702 billion** exposure end of December 2011.

Euler Hermes, subsidiary of Allianz, is listed on Euronext Paris and rated AA- by Standard & Poor's.

www.eulerhermes.com

Cautionary Note Regarding Forward-Looking Statements

The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words "may", "will", "should", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Euler Hermes Group's core business and core markets, (ii) performance of financial markets, including emerging markets, and including market volatility, liquidity and credit events (iii) the frequency and severity of insured loss events, including from natural catastrophes and including the development of loss expenses, (iv) persistency levels, (v) the extent of credit defaults, (vi) interest rate levels, (vii) currency exchange rates including the Euro/U.S. Dollar exchange rate, (viii) changing levels of competition, (ix) changes in laws and regulations, including monetary convergence and the European Monetary Union, (x) changes in the policies of central banks and/or foreign governments, (xi) the impact of acquisitions, including related integration issues, (xii) reorganization measures, and (xiii) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

The company assumes no obligation to update any forward-looking statement.