Press Release

Slow-down in world growth pushes up number of business insolvencies

Macro-economic and insolvencies outlook by trade credit insurer Euler Hermes

- World economic growth will not exceed 2.5% in 2012 but is expected to improve moderately to 2.9% in 2013.
- After contracting by 0.4% in 2012, the euro-zone economy should recover from recession in 2013 (+0.8%).
- Euler Hermes forecasts global business insolvencies to increase by 4% in 2012.

PARIS – 13 August 2012 – Hit by an economic downturn in Europe, especially in its peripheral countries, world growth will continue to slow slightly in 2012 to 2.5% (after 2.9% in 2011) before rebounding to 2.9% in 2013, according to Euler Hermes' forecasts. The outlook for the world's principal geographical regions is fairly mixed (see chart 1), and slow-growing OECD countries are not expected to contribute more than a third of world growth in 2012 and 2013. "The resilience of world trade, which is forecast to grow by 4.3% in 2012 and by 5.7% in 2013, is one piece of good news. It is becoming a priority for companies to seek out growth wherever it can be found", says **Wilfried Verstraete, Chairman of Euler Hermes**.

Euro zone: "Losing time in playing for time"

The euro zone is expected to be in recession in 2012 (-0.4%) owing to weakening activity in southern countries and soft growth in the second quarter across the rest of the region, hurt by the economic downturn in Greece, Spain and Italy. Other European Union countries, particularly the UK, but also most Eastern European countries, are also likely to see their growth decelerate as they pay for the price for weaker export demand. "The major risk is a failure to resolve the euro-zone crisis: financial stress and deteriorating trade balances are costing 0.1 of a point in growth every two months in the euro zone and, by a domino effect, 0.1 of a point in world growth every six months", says **Ludovic Subran, Chief Economist** at Euler Hermes. In 2013, Euler Hermes expects euro-zone growth to stage a timid post-crisis recovery to 0.8%, with a continued recession in the south (Portugal -0.2%, Spain -0.5%, Italy -0.1% and Greece -1%) and a very slow recovery in the north (France +0.9%, Germany +1.7%, Netherlands +0.8% and Belgium +1%).

North America: moderate growth

GDP growth in the US and Canada is forecast to reach 2% in 2012 and 2% and 2.3% respectively in 2013. The US economy continues to make a stuttering recovery. Household spending is resilient despite high unemployment and slow income growth. Company investment and earnings are expected to continue weakening.

Are emerging countries really coming to the rescue?

While emerging countries are unquestionably slowing, they are nonetheless proving resilient since they still have macroeconomic policy tools at their disposal. The BRICs, which are major emerging-market contributors, notably have monetary and fiscal room for manoeuvre. The Chinese, Indian and Brazilian central banks have eased their monetary policies in response to the slowdown in global demand. Fiscal taps can generally be opened, especially in China, where a number of measures (support for the automotive and steel industries) were announced in May, and in Russia, which has budgeted on higher public spending (support measures for government employees and a fringe of the private sector, plus an increase in student grants).

Among emerging countries, the BRICs are experiencing a slowdown, excluding Russia, which was buoyed by the high oil price in the first quarter. Annual growth rates are revealing in this respect. Chinese growth slowed to 8.1% year-on-year in the first quarter (from 9.2% previously), Brazilian growth to 0.7% (from 1.4%) and Indian growth to 5.3% (from 6.1%, its weakest growth in the past nine years).

Business insolvencies: the second-round effect of the economic slowdown

In full-year 2012, Euler Hermes' Global Insolvencies Index, which tracks the change in business insolvencies across the world, is forecast to rebound by 4%. This is a trend shift after a decline in insolvencies in 2010-2011.

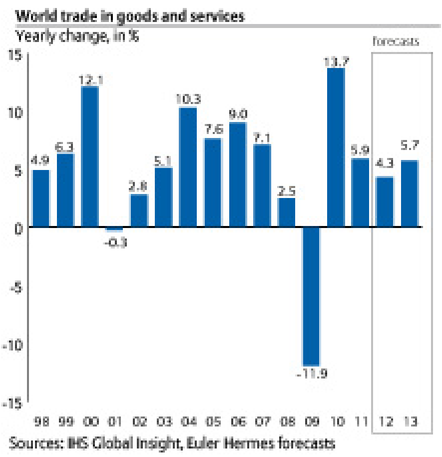
While the trend should remain downward in 2012 in **the Americas** (-9%), despite a sharp increase in Brazil, albeit at a weaker pace than a year earlier (-15%), insolvencies are heading upwards in all other regions. This trend should be limited in **Asia** (+4% after -6% in 2011). In contrast, another major jump in insolvencies is forecast in **Mediterranean countries** (+20% after +16% in 2011), which, taken as a whole, are set to post a new record after five consecutive years of increase. The **rest of Europe** will not be spared (+7% for northern Europe, +4% for France and +1% for Germany, Austria and Switzerland), resulting in a weak performance for the entire euro zone (+14%).

Overall, global insolvencies in 2012 will once again be well above the trough of 2007, though without a repeat of the record level of 2009. For all countries in Euler Hermes' sample (which represent 86% of world GDP), this would amount to more than 331,500 insolvencies, compared with 354,800 (the last peak) in 2009 and just 250,000 in 2007 (the last trough).

"These trends are a reminder that a minimum level of growth is necessary for insolvencies to fall and that there is an inevitable time lapse between an economic policy decision and its impact on the real economy. In this respect, the slowdown in the world economy, together with the timing and magnitude of various fiscal and monetary policy measures across the world, do not point to any improvement on the business insolvency front in the short term. The industrial fabric is in danger and it will take time to rebuild", concludes **Ludovic Subran**.

Appendix

1. Evolution in World Trade (1998-2013)



2. Euler Hermes Global Insolvency Index (1995-2012)

3. Insolvency and Worlds Gross Domestic Product (2000-2012)

4. Euler Hermes Global Insolvency Index (GII): Statistics by Country

Country	% of global GDP	% GII	Δ GII 2011	Forecast 2012
Australia	1,7	2,0	9%	10%
Austria	0,7	0,8	-8%	4%
Belgium	0,9	1,0	7%	8%
Brazil	2,7	3,2	-6%	28%
Canada	2,6	3,0	-11%	0%
China	7,5	8,7	-18%	-1%
Czech Republic	0,4	0,4	11%	5%
Denmark	0,6	0,7	-15%	-1%
Finland	0,5	0,5	1%	0%
France	4,9	5,7	-3%	4%
Germany	6,3	7,3	-6%	0%
Greece	0,6	0,7	33%	30%
Hong Kong	0,4	0,4	-24%	2%
Hungary	0,3	0,3	12%	16%
Ireland	0,5	0,5	7%	10%
Italy	4,0	4,6	7%	12%
Japan	8,5	9,8	-4%	1%
Korea (South)	1,6	1,9	-13%	3%
Lithuania	0,1	0,1	-22%	-8%
Luxembourg	0,1	0,1	5%	10%
Netherlands	1,5	1,8	-1%	25%
Norway	0,8	0,9	-2%	-4%
Poland	0,9	1,1	7%	15%
Portugal	0,4	0,5	19%	50%
Russia	2,9	3,4	-20%	5%
Singapore	0,3	0,4	-20%	13%
Slovak Republic	0,2	0,2	12%	5%
Spain	2,8	3,2	17%	20%
Sweden	0,8	1,0	-4%	6%
Switzerland	0,8	1,0	6%	3%
Taiwan	0,7	0,8	-4%	9%
UK	4,6	5,4	4%	0%
USA	24,6	28,6	-15%	-10%

Sources : national figures, Euler Hermes forecasts

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The complete Euler Hermes Economic Outlook publication is available upon request.

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