Press release

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 selectively 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.

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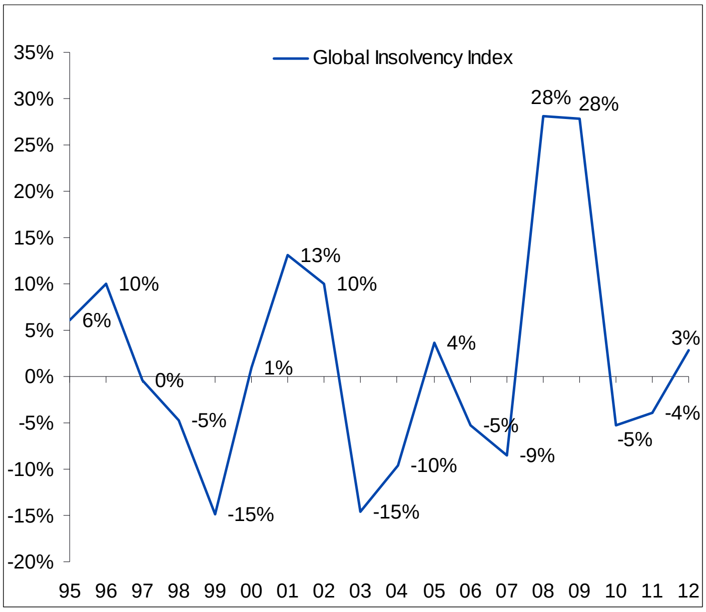
Appendix

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%

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