

Press release

**Euler Hermes: Asia Pacific on the verge of a new cycle;
increased 2013 global business insolvencies (+2%); slight improvement forecast for 2014 (-1%)**

HONG KONG / SINGAPORE – 16 DECEMBER 2013 – Euler Hermes, the global leader in trade credit insurance, recently offered insights into global and Asian economic scenarios to clients, partners and business community leaders in China, Malaysia and Singapore. More than 400 business partners joined Euler Hermes at presentations held in Beijing, Shanghai, Kuala Lumpur and Singapore to discuss developments and forecasts related to the global and Asian economies, emerging export market opportunities and growth risks.

Asia Pacific on the verge of a new cycle

Ludovic Subran, chief economist, Euler Hermes:

- There are signs of economic recovery globally, since growth is improving in all major regions. However, this recovery has so far only been “half-baked” as political issues and on-going labor market weakness in the US are still hampering growth; downside risks – such as refinancing of external debt in Europe – still persist; and growth rates in India and China are expected to be only moderate.
- Asia Pacific is on the verge of a new cycle, which can be summarized as the **3S-Cycle: Solid, Sustainable, but Slower**. Asia Pacific will continue to contribute strongly to the world’s GDP growth (50-60%) with 5 clusters of growth: “*The OECDs*” (Japan, South Korea); *Greater China* (China and hubs); the “*ASEAN-5*”; *South Asia* (India and its neighbors); and *Oceania* (Australia and New Zealand). Whilst Asia will remain the world economic driver and China its main growth engine, Asia will be in low growth mode (+4.5% per year) compared to the past decade (5%), yet this growth will be more sustainable, with resilient intra-regional trade acting as a cushion for the region.
- A smooth landing is expected for China, with GDP growth decelerating in 2014 to +7.5% year-on-year, on the back of a general slowdown in investment. There are concerns over the banking sector, with shadow banking flows expected to reach 34% of GDP in 2014, but the authorities have enough weapons to address the issue, and the main challenge will be reducing overinvestment.
- Chinese imports are forecast to rise by +210 billion USD in 2014, with demand in electronic components to be sustained, and energy to remain the second largest import sector. The impact of this growth in Chinese demand will be widespread, with Asia (in particular Japan, South Korea and Taiwan), the US, the Gulf Countries and Europe all set to benefit. Yet the high dependency on China might impose a drag on GDP growth in the event of a pronounced slow-down, particularly for the TOP5 ASEAN and Oceania.
- In ASEAN, the outlooks for Singapore and Malaysia are positive. In Malaysia GDP growth is expected to accelerate to +4.6% in 2014 driven by rebound in export, with fiscal consolidation to continue to restore confidence and business investment to rise, but at a slow pace. Exports from Malaysia are expected to grow by +24 billion USD, with a quarter of this additional demand coming from China, and electronics and energy companies set to be the main beneficiaries.
- Singapore’s GDP is expected to grow modestly in 2014 (+3.8% year-on-year), supported by modest recovery in global exports, which are expected to rise by +65 billion USD in 2014, with Indonesia, Malaysia and China being the three key export markets and electronics, energy and chemicals being the key sectors. Households in Singapore reflect strong fundamentals (low unemployment rates and rising earnings), which will ensure sustainable consumption.

Renewed rise in insolvencies to +2% in 2013: a wide disparity between regions

Euler Hermes has also published its latest research on global business insolvencies:

- In 2013, global insolvencies are projected to rise by 2%
- Euler Hermes forecasts a slight improvement in 2014 (-1%), with the exception of Europe, where the recovery is too slow to have much impact
- However, by volume, the total number of 2014 insolvencies is expected to be 24% higher vs. the pre-crisis (2000-2007) average.



“For the full year 2013 we expect a renewed rise in our Global Insolvency Index, due to the prolonged global economic slowdown and corporate insolvencies remaining at a historically high level,” explained Wilfried Verstraete, chairman of the Board of Management of Euler Hermes.

This increase in insolvencies nevertheless masks two contrasting trends:

- The continued rise of insolvencies in three main regions:
 - **Latin America** (+10%), in the wake of weaker economic growth, particularly in Brazil
 - **Central and Eastern Europe** (+6%), which is dependent on and reflects sluggish Western Europe growth, and
 - **Western Europe** (+9%), where insolvencies are still on the rise in all countries except Germany and the U.K.
- The continued decline in insolvencies in the **North American** region (-11%) due to GDP growth in the U.S. picking up slightly, and in the **Asia Pacific** region (-4%) where intra-regional prospects have offered a cushion to the private sector.

2014: More favorable outlook for insolvencies (-1%), except in Europe

“We forecast a modest global economic recovery in 2014 at +3%, with brighter prospects in all regions” said Ludovic Subran, chief economist at Euler Hermes. “As a consequence, most countries should see a drop in the number of insolvencies, although the decline will nevertheless remain limited at -1%, as measured by our Global Insolvency Index.”

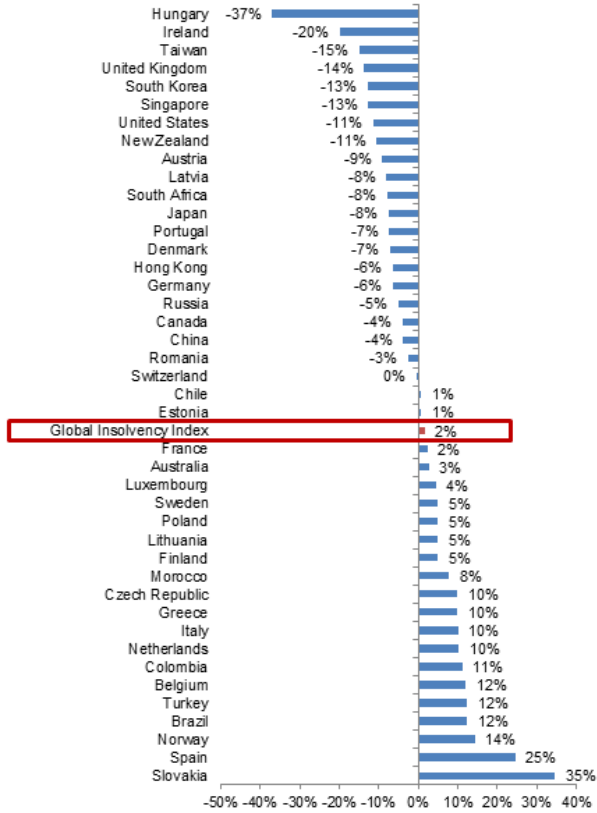
- The **North American** economies are expected to experience higher growth rates in 2014 (+2.9% in the United States, +2.5% in Canada) compared to 2013, which should contribute to a continuing trend of declining insolvencies in the region (-5%).
- The **Asia Pacific** region, where economic activity is expected to gather momentum in 2014 due to exports, should remain the second region to record a decline in insolvencies. However the rate will be less significant (-1%) as necessary economic consolidation is underway, especially in China.
- For the other regions, with the exception of Africa and the Middle East, the trend is merely less unfavorable than in 2013. In **Latin America**, the slight economic recovery expected in 2014, tempered by persistent financial vulnerabilities, is only expected to see stabilization in the number of insolvencies (0%). **Central and Eastern Europe** will continue to suffer (+3%), notably from an insufficiently robust recovery in **Western Europe**, where insolvencies will increase slightly (+1%) given the still-challenging environment in several major countries (Belgium, Italy, Spain, The Netherlands).

“In spite of the slight improvement in our insolvency outlook, the total number of insolvencies will still be 24% higher in 2014 than during pre-crisis years,” concluded Wilfried Verstraete.

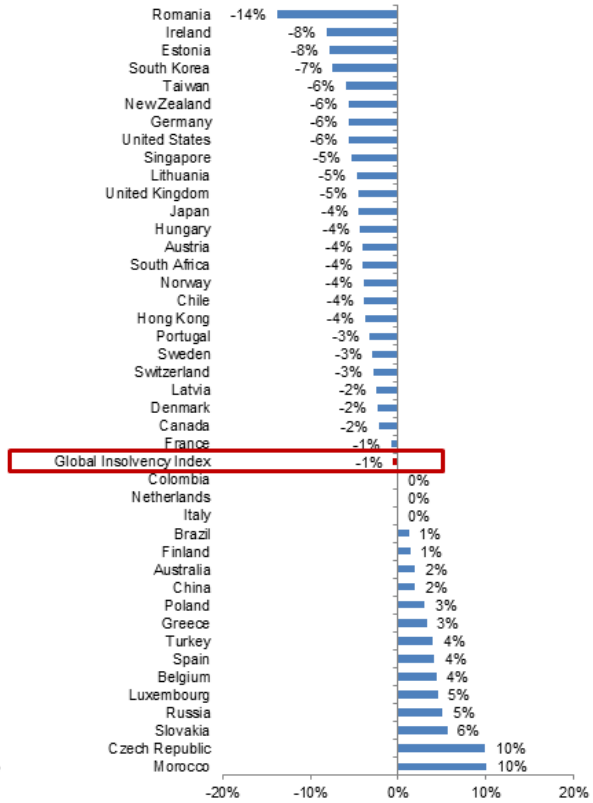
Euler Hermes' Asia Pacific trade credit insurance activities were established in 2000 and today are present either directly or through local partners in Australia, China, Hong Kong, India, Japan, Korea, Malaysia, New Zealand, Singapore, Taiwan and Thailand. More than 250 people are employed in trade credit, bonding and collection services across the Asia Pacific region. Euler Hermes' Asia Pacific headquarters are based in Hong Kong.

Annexes - Sources: national sources, Euler Hermes

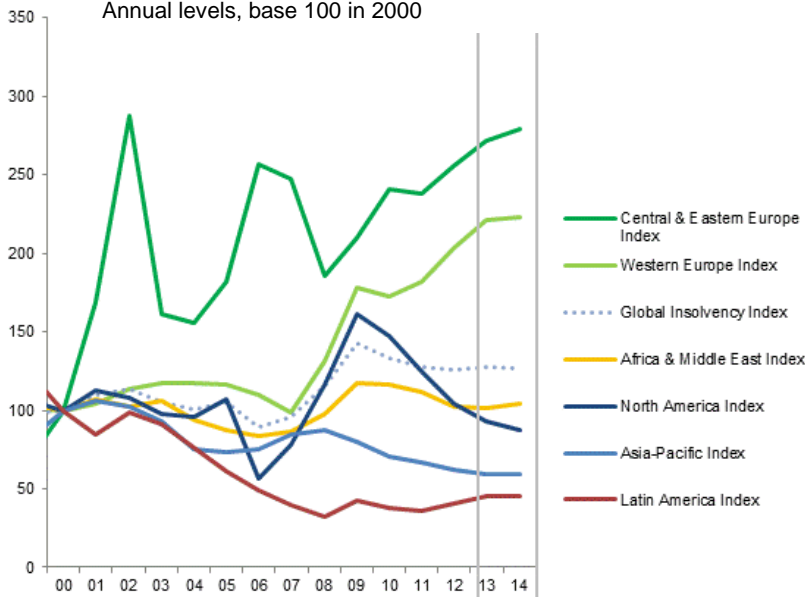
Annex 1: Business insolvency trend in 2013 relative to 2012



Annex 2: Business insolvency trend in 2014 relative to 2013



Annex 3: Regional insolvency indices
Annual levels, base 100 in 2000





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