Press release

Euler Hermes Economic Outlook: Companies to suffer from non-payment risk in emerging markets and flat top lines in Europe

PARIS – 21 APRIL 2015 - The number of corporate insolvencies globally is set to decline, but the rate of decline is slowing as economic headwinds increase bankruptcies in emerging markets, according to Euler Hermes, the worldwide leader in credit insurance.

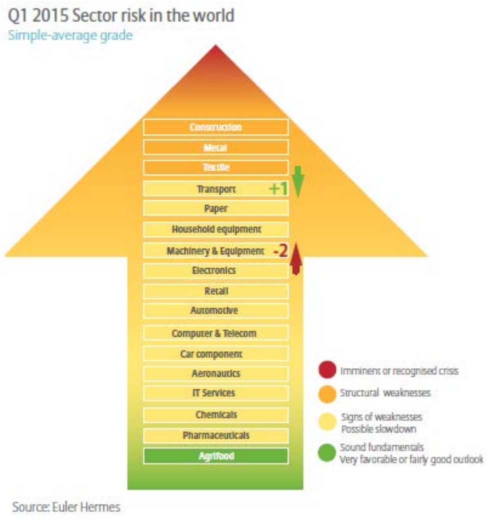
The report, titled *Focus on the signal and ignore the noise,* predicts that global insolvencies will fall by 2% in 2015, a significant slowdown from the 14% reduction in 2014. The trend is attributed to a 'multi-speed' global economy: steady growth in developed countries is offset by downward forecasts for emerging markets.

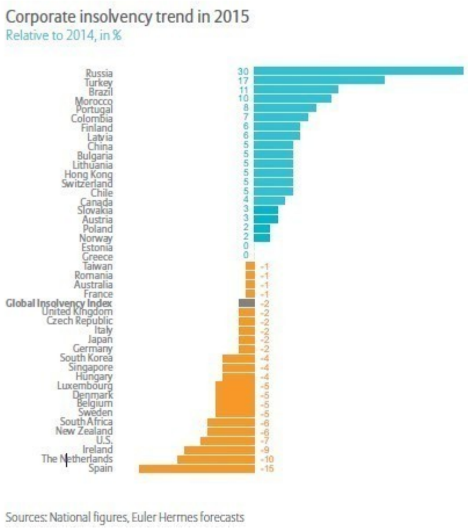
"Financial pressures and counterparty risk remain significant challenges for economies worldwide," said Ludovic Subran, chief economist at Euler Hermes. "Emerging markets experiencing 'boom and bust' are not helping the private sector."

Chronic underinvestment in Brazil, volatile policies in China, external vulnerability in Mexico and South Africa, and domestic issues in Russia typify the reasons behind higher non-payment and industry risks for companies in large emerging markets.

The report anticipates increasing sector risk across Russia and neighboring countries, for the machinery and equipment sector for oil-producing countries, and for exporters in Switzerland.

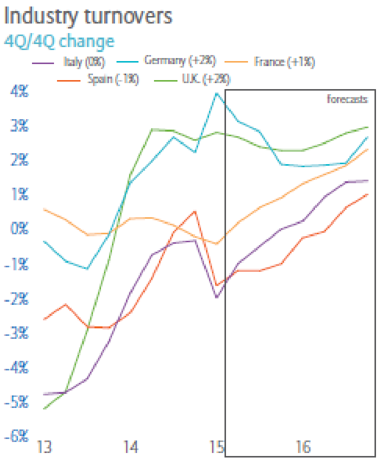
Businesses in emerging markets face serious headwinds as country risk components deteriorate, already creating a deteriorated rating for Brazil and Ghana. Euler Hermes expects Russia to experience an estimated 30% increase in business failures, followed by Turkey (17%), Brazil (11%), Morocco (10%) and Portugal (8%). In 2015, seven out of 10 countries globally will still have insolvency rates higher than in 2007.





There is a contrasting, declining insolvency trend among advanced economies, particularly in the U.S., Ireland, Spain and the Netherlands. However, the dull global recovery in 2015 (+2.7%) suggests that global demand still lacks much spark. In Europe, downward price pressures are expected to prevail in 2015, then loosen significantly in 2016 to leave maneuvering room for companies to better price their products. Economic activity (nominal GDP growth) and company turnover fates are tied. As a result, turnover growth in 2015 is expected to remain weak (around +2% in Germany and the U.K., +1% in the U.S. and France), flat (Italy) or even become negative (-1% in Spain).

"After six years of intense depression, it seems that a weaker euro, lower oil prices and cheap financing costs are slowly doing the trick: Europe is finally on the mend," said Ludovic Subran. "However, without nominal growth, there is no turnover growth and no incentives to investment massively yet. In the Eurozone, the investment gap is around EUR240bn for the private sector."



Sources: National accounts, Eurostat, Euler Hermes forecasts

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Another recent report by Euler Hermes *Global Trade: What's cooking*? noted that the lack of pricing power was very applicable for exporters: in 2015, trade growth should be 4% in volume, and only 1.8% in value.

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