

Paris, 29 May 2007

**In a gradually slowing world economy,  
Euler Hermes forecasts an increase in insolvencies in 2007**

*The Global Corporate Insolvency Index\* created by Euler Hermes SFAC, French subsidiary of the world leading credit insurance firm Euler Hermes, is expected to increase by 7% in 2007, after it fell by 17% in 2006. The sharp reduction in 2006 was largely driven by recent changes in insolvency legislation in particular in the U.S. where insolvencies plunged 50%. According to Euler Hermes SFAC, the economic downturn that began in 2007 will increase risks for companies and higher bad debts.*

**1. Lower corporate insolvencies worldwide in 2006 due to an increase in world growth and changes in insolvency legislation**

▪ **Fluctuations in world insolvencies follow fluctuations in the global economy**

There is a close correlation in certain countries such as France and UK between corporate insolvencies and growth in world GDP. Insolvencies fall when growth rises. **Philippe Brossard, research director of Euler Hermes SFAC** comments: *“But this correlation is less clear-cut in other countries such as Japan and Italy”.*

▪ **Legal changes may have a significant impact on statistical fluctuations**

Following a legal change late in 2005, US insolvencies plunged by 50% in 2006. In Italy, a change in legislation in July 2006 and an economic rally appeared to prompt a reduction that started in 2006 given that the new law exempted very small businesses from legal proceedings. The reduction accelerated early in 2007. In China, a new regulation takes effect on 1 June 2007, which extends insolvency proceedings to all companies and Euler Hermes estimates the number of insolvencies will rise in 2007.

**2. 2007-2008 scenario, a soft landing for the global economy**

▪ **Fall in housing prices in the United States**

Housing prices have fallen for six months in a row... But housing only accounts for 5% of total GDP and the reduction had a marginal negative impact of just -0,3% in the first quarter of 2007. The real estate risk in the United States relates to falling prices and its potential impact on consumption. Rising housing prices had previously led to lower savings rates, with the result that since April 2005, the US savings rate has been negative.

According to **Philippe Brossard** *“Lower housing prices create the risk of a sharp rise in savings rates in the United States. But real estate risk is perhaps higher in certain European countries according to our Euler Hermes SFAC index which measures the relative tension on the real estate market”.*

▪ **Slowdown in the euro zone and the EU**

We expect the euro zone to slow sharply due to three factors: i) the 3% rise in German VAT in January this year, which held back German domestic demand and exports to Germany; ii) the impact of the rise in interest rates, especially in Spain; and iii) the delayed negative impact of the increase in the euro during 2006.

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\* The Global Corporate Insolvency Index, created by Euler Hermes SFAC's research department, compares corporate insolvencies by country avoiding problems due to different country definitions and taking into account the size of each country's economy.

**Philippe Brossard** comments: *“The most probable scenario is a soft landing with world growth reducing from 4% in 2006 to 3.3% in 2007. This slowdown was triggered by the downturn in consumption and construction in the United States, but also in the euro zone, which was hit by budgetary cut-backs in Germany and Italy, and the delayed negative impact of the rise in interest rates on construction in France and Spain. We expect this slowdown in Western demand will be accentuated by lower growth in world trade of +6.9% in 2007, after +9.5% in 2006, which hurts high-export economies such as Asia, Japan and Germany”.*

▪ **The global economy will have no real additional growth capacity in 2008**

Emerging markets led by China will come under growing pressure to reduce their current account surpluses, potentially by a rise in exchange rates. Lower US interest rates, which the financial markets anticipate, may be postponed for a long time and its impact will not be felt until late 2008. The euro zone will still have the past interest rate hikes and the rise in the euro for the last year to cope with.

**Michel Mollard, chairman of the Euler Hermes SFAC management board**, points out: *“The cost of debt of the emerging markets and the companies on the markets, which are standing at historic lows, are liable to rise during 2007, and the economic slowdown will prompt a rise in bad debts”.*

**3. Upward trend in the global insolvency index in 2007-2008**

The global change in the Euler Hermes SFAC global insolvency index was affected by the underlying effects of the bankruptcy reform in the United States, but the underlying trend in 2007-2008 is rising.

▪ **United States, economic downturn and growing impact of the new legislation**

After a spectacular but one-off reduction in insolvencies in 2006, Euler Hermes SFAC forecasts they will rebound in 2007 due to the slowdown in the economy, lower profits and the disappearance of the impact of the change in legislation. We anticipate a return to some 30,000 insolvencies per year.

▪ **Japan, return of insolvencies for the last two years**

Following four years of reductions, the trend in Japan has turned around and insolvencies are up 2.8% over the first 4 months of 2007.

**Maxime Lemerle, economic research manager at Euler Hermes SFAC** comments: *“The poor economic outlook and weak domestic demand are primarily hurting SMEs”.*

▪ **China, change in legislation, insolvencies on the rise**

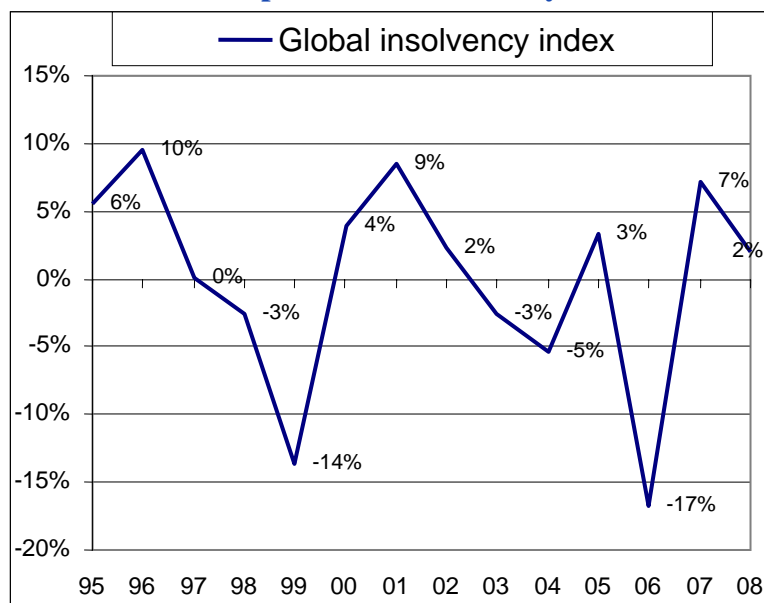
To date, China has followed a very controlled policy with regard to closing loss-making state-owned companies. With effect from June (2007) China will introduce a new law extending legal proceedings to all companies. In anticipation of this law, over 1000 public insolvencies were registered in the first quarter of 2007. The upward trend is expected to continue in the coming quarters.

▪ **France, insolvencies up in 2007**

French corporate insolvencies have been rising since the beginning of the year: + 5,7% over the first 4 months compared to the same period last year. The increase particularly concerns large companies with over €15 million in revenues (+25%). Over the 12 months ended 30 April 2007, we have noted that 187,000 employees were affected by insolvencies, up 8%. For the full year 2007, we expect insolvencies to increase by 2%.

**Michel Mollard** concluded: *“Under the dual effect of an economic slowdown and legal changes, we forecast our global corporate insolvency index will increase by 7% in 2007”.*

**Graph: Global Insolvency Index**



Source: Euler Hermes SFAC, France

**Table 1: World growth**

Change in GDP	Weighting (%)	2004	2005	2006	2007	2008
<b>World</b>	100,0	<b>4,0%</b>	<b>3,5%</b>	<b>4,0%</b>	<b>3,3%</b>	<b>3,5%</b>
<b>United States</b>	32,9	<b>3,9%</b>	<b>3,2%</b>	<b>3,3%</b>	<b>2,2%</b>	<b>2,6%</b>
Canada	2,4	3,3%	2,9%	2,7%	1,8%	2,3%
<b>Japan</b>	15,9	<b>2,7%</b>	<b>1,9%</b>	<b>2,2%</b>	<b>2,1%</b>	<b>2,2%</b>
<b>Euro zone</b>	20,0	<b>1,8%</b>	<b>1,5%</b>	<b>2,8%</b>	<b>2,5%</b>	<b>2,2%</b>
Germany	6,3	0,8%	1,1%	3,0%	2,5%	2,2%
France	4,4	2,3%	1,8%	2,2%	2,0%	2,0%
Italy	3,6	1,0%	0,2%	1,9%	1,8%	1,7%
Spain	1,6	3,2%	3,5%	3,9%	3,6%	2,8%
UK	4,8	3,3%	1,9%	2,8%	2,6%	2,4%
<b>Cent. and East Europe</b>	3,1	<b>7,4%</b>	<b>5,9%</b>	<b>6,6%</b>	<b>5,2%</b>	<b>5,4%</b>
<b>Asia (excl. Japan)</b>	10,1	<b>8,3%</b>	<b>8,5%</b>	<b>8,8%</b>	<b>8,2%</b>	<b>8,1%</b>
<b>Latin America</b>	6,3	<b>6,0%</b>	<b>4,6%</b>	<b>5,3%</b>	<b>4,3%</b>	<b>4,4%</b>
<b>Africa &amp; Middle East</b>	1,9	<b>5,2%</b>	<b>5,3%</b>	<b>5,5%</b>	<b>4,8%</b>	<b>4,9%</b>

Source: Euler Hermes SFAC, France

**Table 2: Insolvencies by country**

	2007	2006		2007	2006
United States	51%	-50%	Greece	0%	-8%
Hungary	20%	18%	Switzerland	-1%	-5%
Luxembourg	11%	-14%	Norway	-1%	-14%
Denmark	11%	-20%	Portugal	-2%	5%
China	10%	14%	Czech Rep.	-2%	0%
Global insolvency index	7%	-17%	Sweden	-5%	-9%
Turkey	5%	7%	Western Europe	-5%	-8%
Spain	4%	-2%	South Korea	-5%	-26%
Taiwan	4%	-16%	Singapore	-8%	-19%
Canada	2%	-10%	Hong Kong	-9%	-35%
France	2%	-4%	Germany	-10%	-18%
Japan	2%	2%	Poland	-14%	-34%
Ireland	2%	0%	Brazil	-15%	-66%
Finland	2%	0%	Netherlands	-15%	-12%
UK	1%	1%	Italy	-20%	-5%
Austria	0%	-5%	Slovakia	-54%	5%
Belgium	0%	-3%			

**Source: Euler Hermes SFAC, France**

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Euler Hermes, a subsidiary of AGF and a member of Allianz, is listed on Euronext Paris. Standard & Poor's rates the group and its principal credit insurance subsidiaries AA-.

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