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Insolvencies: Financial losses reaching a new record

Although the severe recession appears to have been overcome in Germany, companies still remain under pressure. Accordingly, the number of corporate insolvencies will surge by more than 15 percent to 33,800 this year, accompanied by a dramatic rise in lost receivables to a new negative record.

In their latest forecast, the experts at Euler Hermes Kreditversicherungs-AG project a 162 percent surge in court-registered receivables from companies to EUR 58 billion in 2009. This is higher than the previous record of EUR 51.8 billion recorded in 2002. The numerous large-scale insolvencies are the reason for this trend.

“The loss of receivables in conjunction with a decline in order volumes is particularly hitting small and mid-size companies with full force and can drag even healthy companies to the brink of insolvency”, explains Dr. Gerd-Uwe Baden, CEO of Euler Hermes Kreditversicherungs-AG.

Further increase in insolvencies also expected in 2010

Euler Hermes does not expect any reversal of this trend in 2010 and assumes that corporate insolvencies will continue to rise. In fact, its most recent estimate points to a 9.2 percent increase to 36,900. At the same time, bad debts are likely to come to a total value of EUR 45 billion, down 22.4 percent on this year but still twice as high as in 2008.

Individual sectors: industry hit the hardest

The wave of insolvencies will afflict the principal sectors of German industry the most severely, with the number of corporate failures likely to widen by 49.9 percent in 2009 and by 24.2 percent in 2010, compared with the decline of 4 percent recorded in 2008. A particularly sharp increase has been registered in the automotive industry (up 339 percent), iron and steel (up 146 percent) and machinery and equipment (up 109 percent) this year. Euler Hermes forecasts less pronounced rises in insolvency numbers of 42 percent in the electrical engineering industry and of 37 percent in the IT and electronics industry.

They are followed by retailing and services, which will also exhibit significant rises of 15.9 and 15.4 percent, respectively, this year and just on 9 percent next year. However, with around 25,000 failures in 2009 and 27,000 in 2010, these two sectors will account for the bulk of corporate insolvencies. With below-average growth of around 5.5 percent this year and next, the construction industry has fared reasonably well.

The increase in insolvencies on the part of small businesses is also below the average at 6 percent this year and next. On the other hand, insolvencies of non-incorporated and incorporated entities are expected to rise by 26.0 percent in 2009 and by 12.4 percent in 2010.

Strong regional differences

Insolvency rates, i.e. the number of insolvencies per 10,000 companies, are higher in the eastern German states than in the west. The exception to this is North Rhine-Westphalia, which with a rate of 166 ranks highest, ahead of Saxony-Anhalt (154) and Saxony (144). At the opposite end of the scale, Hesse and Bavaria have both recorded figures of 77 and Baden-Württemberg 71. With a ratio of 96, Hamburg is mid-field but remains below the national average of 108.

International situation: trading partners also severely affected

Corporate insolvencies in Germany's main trading partners have also climbed drastically in 2009. Thus, the experts at Euler Hermes project an increase of 16.9 percent in France this year and 1.8 percent in 2010. The United Kingdom (up 25.0 percent in 2009, flat in 2010), the Netherlands (up 75.8 percent in 2009, up 5.3 percent in 2010) and Italy (up 37.0 percent in 2009 and 15.0 percent in 2010) face the prospect of considerably higher corporate insolvencies according to Euler Hermes estimates, although the trend will level off somewhat next year. Insolvencies across Western Europe as a whole are expected to rise by 24.5 percent this year, climbing by a more moderate 3.0 percent in 2010.

Meanwhile, experts forecast a 44.9 percent increase in corporate insolvencies in the United States this year, although this figure will drop to 3.8 percent in 2010. Insolvency figures in Japan may also contract slightly in 2010 for the first time since 2005.

More information on this study is available in the Press section at www.eulerhermes.de.

Euler Hermes is the worldwide leader in credit insurance and one of the leaders in the areas of bonding, guarantees and collections. With 6,200 employees in over 50 countries, Euler Hermes offers a complete range of services for the management of B-to-B trade receivables and posted a consolidated turnover of €2.2 billion in 2008.

Euler Hermes has developed a credit intelligence network that enables it to analyse the financial stability of 40 million businesses across the globe. The group protects worldwide business transactions totalling €800 billion.

Euler Hermes, subsidiary of Allianz (France) and a member of the Allianz group, is listed on Euronext Paris. The group and its principal credit insurance subsidiaries are rated AA- by Standard & Poor's.

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