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Insolvencies: Further improvement in Germany

The economic recovery in Germany is also being reflected in the number of corporate insolvencies, which will continue to decline in 2006

This year, the number of business failures will drop by around five percent to about 35,000. In its international insolvency forecast for 2006, global credit insurer Euler Hermes projects a sustained decline following the height of 39,320 insolvencies registered in 2003. The total sum of all receivables registered with the courts will also drop by 8 percent to EUR 21 billions. However, this positive trend could start faltering as early as 2007 given the expected appreciable strain on the economy which will be exerted by mounting burdens.

Although the long-term trend has weakened, this should not be misconstrued as signaling a sustained turnaround for the better. In 2006, the number of insolvencies will still be more than twice as high as the figure registered in 1993 at the end of the unification-induced boom. The insolvency ratio, i.e. the number of failures per 10,000 companies, still stands at 1.2 percent, up from 0.2 percent in 1970.

The reasons for this are not difficult to find: Germany has been suffering from muted growth and pronounced structural weakness for years despite the current cyclical upswing. Nominal gross capital spending today is no greater than it was 15 years ago, with the net capital spending ratio for the German economy one of the lowest of all the OECD countries.

At the same time, small and mid-size companies are suffering from the erosion of their financial resources. Trade credit is playing a greater role in corporate finance than short-term bank loans, with this trend strengthening. "Shortcomings in receivables management, poor payment practices and mismanagement are contributing to a high risk of insolvencies on the part of small to mid-size companies in spite of the favorable economic conditions" comments Dr. Gerd-Uwe Baden, CEO of Euler Hermes Kreditversicherungs-AG in Hamburg.

Breakdown by sector: Sharp recovery in the construction industry

The construction industry is benefiting the most from the brighter economic conditions in Germany, with the number of insolvencies in this sector set to drop by around 12 percent to 6,900 in 2006 according to the Euler Hermes forecast (2005: down 9 percent). A similarly positive picture is being painted in the retail sector, where the number of business failures will reduce by 8 percent to 6,900 as well (previous year: down 4 percent). There is also a slight improvement in the processing industry, with insolvencies down 3 percent to 3,400, following the previous year's sharp 12 percent drop. Services, traditionally the sector with by far the greatest number of insolvencies, will see a 1 percent decline to 17,100 following the previous year's 4 percent drop.

However, viewed in terms of the relative frequency of insolvency, the construction industry was by far the worst sector in 2005 with 254 insolvencies per 10,000 companies. A glance at the individual segments also gives reason for concern as individual areas such as clothing or meat processing as well as forwarders, commercial representatives and pharmacists sustained a sharp rise in insolvencies in 2005 despite the general improvement in the economy.

Breakdown by state: Moderate decline in Hamburg

In Hamburg, the number of insolvencies will drop by only a slight 2 percent to 800 in 2006 according to the forecast published by Euler Hermes, while the total value of receivables registered will drop by 39 percent to EUR 600 million following the 78 percent increase in 2005. Since the 2003 level of 1,010 insolvencies accompanied by registered receivables of EUR 1.21 billion, the number of business failures in Hamburg has thus shrunk by 21 percent, with the volume of defaulting receivables down by some 50 percent.

Measured in terms of insolvency ratios, Hamburg (1.04 percent) ranks fourth amongst the German states after Baden-Württemberg (0.7 percent), Bavaria (0.82 percent) and Hesse (0.94 percent). All in all, there is a clear difference between the Eastern and Western states with respect to insolvency frequencies, with three Eastern German states - Saxony-Anhalt (2.17 percent), Mecklenburg-West Pomerania (1.88 percent) and Saxony (1.81 percent) - followed by North Rhine-Westphalia leading the statistics.

International breakdown: Only slight decline in Western Europe

Turning to Western Europe, Euler Hermes projects only a small decline of 0.7 percent in insolvencies to 166,810 despite the favorable trends in Germany. With its traditionally high figures, France will achieve only a small drop of 0.2 percent (2005: up 0.9 percent) to 49,400 insolvencies. The United Kingdom will sustain an increase of 7.8 percent in 2006, i.e. practically on a par with 2005, to 25,300 insolvencies. In Italy as well, the number of insolvencies will rise by 3.5 percent (2005: up 3.8 percent) to 11,900.

Euler Hermes is the world-wide leader in credit insurance and one of the leaders in bonding and guarantees. With 5,400 employees in 43 countries, Euler Hermes offers a complete range of services for the management of customer receivables. Euler Hermes, subsidiary of AGF and a member of Allianz, is listed on Euronext Paris. The group and its principal credit insurance subsidiaries are rated AA- by Standard & Poor's.

Charts and figures on this topic can be found on the Internet at www.eulerhermes.de under the heading Press.

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