

# INSOLVENCY OUTLOOK

2007 ■ no. 2



EULER HERMES

## Business insolvency worldwide

The cyclical slowdown should contribute to an increase in business insolvency in 2008.

**SPECIAL REPORT: LEGISLATION RISKS**

**EULER HERMES  
INSOLVENCY OUTLOOK**

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## Editorial

# A further rise in insolvencies in 2008

In a 2007 global environment marked by slight slowdown, but which finally proved better than expected, business insolvencies rose by a modest 5%, avoiding a return to the levels of 2005 or earlier. The overall figure, however, disguises contrasting situations in different countries. The US saw GDP growth slow significantly, from 2.9% in 2006 to 2.2% in 2007, and at the same time posted a very big increase in insolvency figures, the latter due admittedly to bankruptcy law changes at the end of 2005. Western Europe presented a varied landscape, with the economies of three large countries in deceleration: Germany, France and Italy – the motors of the euro zone. But Great Britain, Spain, the Netherlands, and especially Ireland all continued to perform remarkably well. In terms of insolvencies, Germany continued to show a reduction in the number of cases, but after four very difficult years from 2002 to 2005. In the UK, the number of cases fell spectacularly, although in France the numbers rose by a considerable 5%. Asia, of course, boasts the most spectacular economic growth rates – at 11.5% in China and 8.5% in India – and Asian insolvency rates are still not very significant. But, clearly, in the years to come such growth can only bring insolvencies or increasingly numerous payment delays. Economic growth leads to the birth and rapid growth of many businesses, but their managers do not necessarily share the entrepreneurial abilities of their founders. Against this very contrasted backdrop, we move into 2008 with many uncertainties. The first of these concerns the situation in the US: the real estate crisis is clearly of serious proportions, impacting on construction and with knock-on effects on consumption-related sectors. Our forecasts for 2008 are therefore for slower GDP growth and rising insolvencies. In the end, however, our greatest uncertainty is over the impact of the US real estate crisis on the situation of all credit institutions potentially involved in the subprime mortgage crisis. And in this regard, transparency has clearly not been the rule to date. As a result, doubts over the real impact of this US-born crisis on the world economy have taken hold – not only among all the analysts but also across all the financial markets (the latter responding by severely sanctioning – without distinction – all credit institutions). More than ever, economic forecasts thus comprise an element of uncertainty. For our part, we take a measured view: the US crisis, in an environment already marked by slowdown – apart from Asia and some small islands of strong growth (Eastern Europe, Brazil, the Middle East) – will impact negatively on world growth, but we foresee no major crisis. Business insolvencies will accordingly follow the same course, increasing on a fairly widespread basis. Our caveat, of course, is that that no major geopolitical upsets occur.

## Expected change in insolvencies (annual change in %)

|                                | 2008      | 2007        |
|--------------------------------|-----------|-------------|
| Italy                          | 27%       | -50%        |
| Hungary                        | 20%       | 20%         |
| Norway                         | 20%       | -1%         |
| China                          | 15%       | 10%         |
| UK                             | 8%        | -15%        |
| Denmark                        | 7%        | 16%         |
| Greece                         | 6%        | -6%         |
| Canada                         | 5%        | 0%          |
| Belgium                        | 5%        | 2%          |
| USA                            | 5%        | 50%         |
| Japan                          | 5%        | 6%          |
| <b>Global Insolvency Index</b> | <b>5%</b> | <b>5%</b>   |
| Spain                          | 5%        | 4%          |
| Luxembourg                     | 5%        | 11%         |
| Ireland                        | 4%        | -5%         |
| <b>Western Europe</b>          | <b>4%</b> | <b>-11%</b> |
| Turkey                         | 4%        | 5%          |
| France                         | 3%        | 5%          |
| Finland                        | 2%        | 0%          |
| Austria                        | 2%        | -3%         |
| Portugal                       | 1%        | 2%          |
| Singapore                      | 0%        | -8%         |
| South Korea                    | 0%        | -11%        |
| Taiwan                         | 0%        | 13%         |
| Germany                        | 0%        | -14%        |
| Sweden                         | -2%       | -5%         |
| Hong Kong                      | -2%       | -13%        |
| Czech Republic                 | -3%       | -10%        |
| Switzerland                    | -3%       | -4%         |
| Poland                         | -4%       | -36%        |
| Netherlands                    | -4%       | -13%        |
| Brazil                         | -12%      | -26%        |
| Slovak Republic                | -37%      | -54%        |

Sources: national figures, Euler Hermes forecasts

Nicolas Delzant

# Business insolvency

Hermes

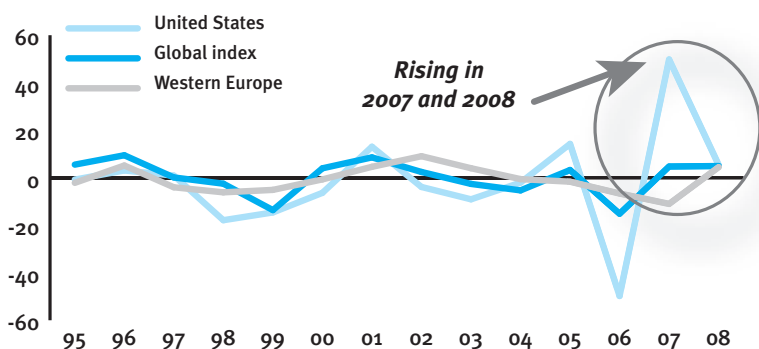
## Global Insolvency Index

| Index 100 = 1997        | share in % | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007  | 2008  |
|-------------------------|------------|------|------|------|------|------|------|------|------|------|-------|-------|
| Global Insolvency Index | 100.0%     | 97   | 84   | 88   | 95   | 97   | 95   | 90   | 93   | 79   | 82    | 86    |
| Western Europe          | 36.3%      | 94   | 89   | 88   | 92   | 101  | 105  | 104  | 103  | 96   | 85    | 89    |
| USA                     | 33.8%      | 82   | 70   | 66   | 74   | 71   | 65   | 64   | 73   | 36   | 55    | 58    |
| Canada                  | 3.1%       | 89   | 82   | 82   | 85   | 78   | 73   | 67   | 62   | 55   | 55    | 58    |
| Japan                   | 12.3%      | 115  | 93   | 114  | 116  | 116  | 99   | 83   | 79   | 80   | 86    | 90    |
| Germany                 | 7.6%       | 101  | 96   | 103  | 117  | 137  | 143  | 143  | 134  | 120  | 104   | 104   |
| France                  | 5.6%       | 88   | 78   | 71   | 71   | 73   | 81   | 80   | 81   | 78   | 82    | 85    |
| Italy                   | 4.8%       | 92   | 82   | 78   | 72   | 72   | 70   | 76   | 82   | 73   | 37    | 47    |
| Spain                   | 3.0%       | 79   | 68   | 73   | 67   | 91   | 89   | 82   | 77   | 75   | 78    | 82    |
| Netherlands             | 1.7%       | 91   | 73   | 81   | 98   | 113  | 145  | 151  | 154  | 135  | 117   | 112   |
| Belgium                 | 1.0%       | 89   | 92   | 88   | 91   | 93   | 98   | 102  | 102  | 98   | 101   | 106   |
| Austria                 | 0.8%       | 95   | 116  | 106  | 102  | 105  | 112  | 125  | 140  | 133  | 129   | 131   |
| Portugal                | 0.5%       | 116  | 134  | 150  | 164  | 186  | 232  | 251  | 168  | 177  | 180   | 182   |
| Finland                 | 0.5%       | 86   | 84   | 81   | 78   | 82   | 81   | 71   | 66   | 67   | 67    | 68    |
| Greece                  | 0.6%       | 69   | 66   | 60   | 53   | 43   | 36   | 44   | 44   | 41   | 38    | 41    |
| Luxembourg              | 0.1%       | 96   | 139  | 139  | 180  | 164  | 157  | 159  | 164  | 141  | 156   | 163   |
| Ireland                 | 0.5%       | 121  | 108  | 74   | 96   | 85   | 75   | 71   | 70   | 70   | 66    | 69    |
| UK                      | 6.0%       | 99   | 105  | 102  | 104  | 105  | 98   | 91   | 99   | 101  | 85    | 93    |
| Denmark                 | 0.7%       | 94   | 93   | 101  | 132  | 140  | 142  | 149  | 142  | 113  | 131   | 139   |
| Sweden                  | 1.0%       | 84   | 64   | 65   | 71   | 76   | 79   | 73   | 65   | 59   | 56    | 55    |
| Norway                  | 0.8%       | 100  | 97   | 107  | 107  | 134  | 157  | 129  | 106  | 91   | 90    | 108   |
| Switzerland             | 1.0%       | 96   | 92   | 84   | 79   | 88   | 100  | 109  | 104  | 99   | 95    | 92    |
| Poland                  | 0.8%       | 109  | 128  | 162  | 211  | 235  | 226  | 129  | 124  | 82   | 52    | 50    |
| Hungary                 | 0.3%       | 101  | 85   | 125  | 148  | 155  | 193  | 196  | 200  | 236  | 283   | 340   |
| Czech Republic          | 0.3%       | 162  | 160  | 199  | 198  | 172  | 138  | 117  | 102  | 102  | 92    | 90    |
| Slovak Republic         | 0.1%       | 166  | 207  | 230  | 240  | 287  | 239  | 188  | 312  | 327  | 152   | 95    |
| Turkey                  | 1.0%       | 167  | 148  | 199  | 260  | 386  | 570  | 807  | 936  | 998  | 1,047 | 1,086 |
| Brazil                  | 2.2%       | 106  | 88   | 64   | 61   | 79   | 69   | 53   | 31   | 10   | 8     | 7     |
| China                   | 6.0%       | 136  | 99   | 127  | 160  | 132  | 106  | 51   | 56   | 64   | 70    | 81    |
| Taiwan                  | 0.9%       | 111  | 108  | 143  | 131  | 173  | 223  | 241  | 282  | 342  | 385   | 385   |
| South Korea             | 2.1%       | 133  | 39   | 39   | 31   | 25   | 31   | 26   | 20   | 15   | 13    | 13    |
| Hong Kong               | 0.5%       | 100  | 99   | 114  | 133  | 162  | 156  | 143  | 106  | 69   | 60    | 59    |
| Singapore               | 0.3%       | 130  | 163  | 128  | 112  | 118  | 102  | 98   | 71   | 57   | 53    | 53    |

Sources: national figures, Euler Hermes forecasts

## Global Insolvency Index

Yearly change in Index



Source: Euler Hermes SFAC

### Global Insolvency Index

To overcome the heterogeneous nature of national statistics and circumstances, we employ the change in insolvencies over time rather than their absolute numbers. For each country, we have calculated an insolvency index, using a basis of 1997=100. We have then constructed our Global Insolvency Index, which is the weighted sum of the national indices. Each country is weighted according to its share of the total GDP (at current exchange rates) of the countries included in our study, which account for 86% of world GDP. The Global Insolvency Index rose considerably in 2001, by 9%, in line with the economic slump, before declining by 3% in 2003 and by 5% in 2004, with acceleration in world growth. Change in US insolvency legislation led to a large 14% increase in the US figures in 2005, followed by a sharp 50% downward correction in 2006. As a result, the Global Insolvency Index fell by 15% in 2006, but it should rise by 5% in 2007 and a further 5% in 2008. ■ ML

# worldwide

## Insolvency Index

Insolvency rate, 2006\* (insolvencies divided by total number of businesses)

|                 | Insolvency rate | INSOLVENCIES, 2006 |  |           | Number of businesses (latest known figure) |
|-----------------|-----------------|--------------------|--|-----------|--|
|                 |                 | Number             | Sources  | Frequency |  |
| USA             | 0.3%            | 19,695             | Administrative Office of US Courts                     | Quarterly | 5,885,784                                  |
| Canada          | 0.3%            | 6,742              | Bureau du surintendant des faillites                   | Monthly   | 2,259,900                                  |
| Japan           | 0.9%            | 13,245             | Tokyo Shoko Research (TSR)                             | Monthly   | 1,529,600                                  |
| Germany         | 1.0%            | 33,000             | DeStatis   | Monthly   | 3,426,612                                  |
| France          | 1.8%            | 47,347             | Euler Hermes SFAC                                      | Monthly   | 2,651,194                                  |
| Italy           | 0.3%            | 10,900             | ISTAT through 2005 (annual series), Movimprese         | Annual    | 4,277,875                                  |
| Spain           | 0.0%            | 853                | INE (Instituto nacional de Estadística)                | Quarterly | 3,336,657                                  |
| Netherlands     | 0.8%            | 5,941              | Centraal Bureau voor de Statistiek (CBS)               | Monthly   | 746,365                                    |
| Belgium         | 1.1%            | 7,617              | INS (Institut national de la Statistique)              | Monthly   | 710,252                                    |
| Austria         | 2.4%            | 6,707              | Kreditschutzverband 1870 (KSV)                         | Quarterly | 279,678                                    |
| Portugal        | 0.2%            | 1,834              | Instituto Informador Comercial                         | Monthly   | 1,221,555                                  |
| Finland         | 1.0%            | 2,285              | Finland Statistics                                     | Monthly   | 236,435                                    |
| Greece          | 0.1%            | 542                | Office national de la Statistique (EYSE), Euler Hermes | Annual    | 795,550                                    |
| Luxembourg      | 2.3%            | 586                | Service Central de Législation (Mémorial)              | Monthly   | 25,300                                     |
| Ireland         | 0.5%            | 354                | Euler Hermes   | Annual    | 66,300                                     |
| UK              | 1.1%            | 24,031             | Department of Trade and Industry (DTI)                 | Quarterly | 2,095,235                                  |
| Denmark         | 0.7%            | 1,987              | Danmarks Statistik (DST)                               | Monthly   | 293,885                                    |
| Sweden          | 0.7%            | 6,160              | Statistiska Centralbyran (SCB)                         | Monthly   | 917,568                                    |
| Norway          | 1.0%            | 3,032              | Statistik Sentralbyra (SSB)                            | Monthly   | 317,446                                    |
| Switzerland     | 1.5%            | 4,528              | Feuille Officielle Suisse du Commerce (FOSC)           | Monthly   | 298,720                                    |
| Poland          | 0.0%            | 648                | Ministère de la Justice                                | Annual    | 3,615,621                                  |
| Hungary         | 1.3%            | 9,447              | Euler Hermes   | Quarterly | 700,000                                    |
| Czech Republic  | 0.1%            | 1,278              | Ministry of Justice - Register of Bankrupts            | Annual    | 2,352,601                                  |
| Slovak Republic | 0.3%            | 1,723              | Ministry of Justice                                    | Annual    | 527,486                                    |
| Brazil          | 0.1%            | 3,374              | Equifax  | Monthly   | 5,668,003                                  |
| China           | 0.1%            | 3,630              | China Court, National Bureau of Statistics             | Annual    | 3,250,000                                  |
| Taiwan          | 0.1%            | 622                | Judicial Yuan of the Republic of China                 | Monthly   | 621,000                                    |
| South Korea     | 0.1%            | 2,529              | Central Bank of Korea                                  | Monthly   | 3,251,058                                  |
| Hong Kong       | 0.1%            | 552                | Official Receiver's Office                             | Monthly   | 681,621                                    |
| Singapore       | 0.1%            | 130                | Insolvency and public Trustee's Office                 | Monthly   | 218,614                                    |

\* The insolvency rate is based on the number of insolvencies in 2006 and the last known figures for the number of businesses (see sidebar entries for each country).  
Sources: national sources, Euler Hermes forecasts

### ► Insolvency rate

The insolvency rate is the number of insolvencies divided by the number of businesses. This facilitates comparisons between countries. Those countries with a greater number of businesses than others risk having more insolvencies than others. However, everything else being equal, they should have the same insolvency rate. In reality, the insolvency rate shows great variation between countries. For the countries included in our study, it averages 0.8%. The rate is very nearly zero in some Mediterranean countries (such as Spain, Portugal and Greece), but can be twice the average in coun-

tries such as France, Switzerland and Austria. The insolvency rate is an indicator of officially recorded insolvencies. It does not necessarily reflect the level of effective insolvencies, since in a number of countries insolvencies are managed through out-of-court arrangements.

### ► Total number of businesses

The number of businesses does not directly depend on the size of a country. Japan, for example, has more businesses than the US, although it has less than half its population and GDP. In fact, the distinction between individual entrepreneurs and very small busi-

nesses varies greatly from one country to another. As far as possible, for each country we use the definition of a business that is used in its insolvency demographics. Thus, the number of businesses used for the US represents solely companies, and does not take account of individual entrepreneurs, estimated to total around 17 million. However, for most countries the number of businesses and the number of insolvencies include the figures for individual entrepreneurs. ■ ML

# Business insolvencies

## National

### Number of insolvencies

| Number of insolvencies | 1998   | 1999   | 2000   | 2001   | 2002   | 2003   | 2004   | 2005   | 2006   | 2007   | 2008   |
|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| USA                    | 44,367 | 37,884 | 35,472 | 40,099 | 38,540 | 35,037 | 34,317 | 39,201 | 19,695 | 29,600 | 31,100 |
| Canada                 | 10,780 | 10,023 | 10,040 | 10,371 | 9,458  | 8,838  | 8,118  | 7,517  | 6,742  | 6,740  | 7,090  |
| Japan                  | 18,988 | 15,352 | 18,769 | 19,164 | 19,087 | 16,255 | 13,679 | 12,998 | 13,245 | 14,100 | 14,800 |
| Germany                | 27,828 | 26,476 | 28,235 | 32,278 | 37,579 | 39,320 | 39,213 | 36,843 | 33,000 | 28,500 | 28,500 |
| France                 | 53,956 | 47,791 | 43,350 | 43,278 | 44,287 | 49,384 | 49,063 | 49,480 | 47,332 | 49,900 | 51,600 |
| Italy                  | 13,740 | 12,178 | 11,641 | 10,767 | 10,683 | 10,463 | 11,312 | 12,148 | 10,900 | 5,500  | 7,000  |
| Spain                  | 896    | 774    | 828    | 759    | 1,037  | 1,012  | 930    | 869    | 853    | 886    | 927    |
| Netherlands            | 4,015  | 3,238  | 3,579  | 4,330  | 4,963  | 6,386  | 6,648  | 6,780  | 5,941  | 5,170  | 4,960  |
| Belgium                | 6,924  | 7,163  | 6,791  | 7,062  | 7,200  | 7,593  | 7,910  | 7,878  | 7,617  | 7,800  | 8,200  |
| Austria                | 4,816  | 5,860  | 5,340  | 5,178  | 5,281  | 5,643  | 6,318  | 7,056  | 6,707  | 6,500  | 6,600  |
| Portugal               | 1,201  | 1,395  | 1,558  | 1,703  | 1,929  | 2,412  | 2,605  | 1,747  | 1,834  | 1,870  | 1,890  |
| Finland                | 2,939  | 2,879  | 2,790  | 2,674  | 2,807  | 2,769  | 2,428  | 2,278  | 2,285  | 2,290  | 2,330  |
| Greece                 | 921    | 886    | 805    | 700    | 576    | 480    | 580    | 590    | 540    | 510    | 540    |
| Luxembourg             | 399    | 581    | 581    | 750    | 682    | 656    | 663    | 685    | 586    | 650    | 680    |
| Ireland                | 610    | 543    | 373    | 483    | 428    | 377    | 361    | 355    | 354    | 335    | 350    |
| UK                     | 23,623 | 25,003 | 24,270 | 24,811 | 25,160 | 23,322 | 21,755 | 23,732 | 24,031 | 20,400 | 22,100 |
| Denmark                | 1,652  | 1,636  | 1,770  | 2,329  | 2,469  | 2,506  | 2,620  | 2,495  | 1,987  | 2,300  | 2,450  |
| Sweden                 | 8,799  | 6,643  | 6,733  | 7,433  | 7,930  | 8,237  | 7,649  | 6,784  | 6,160  | 5,860  | 5,740  |
| Norway                 | 3,347  | 3,243  | 3,576  | 3,562  | 4,473  | 5,223  | 4,297  | 3,540  | 3,032  | 3,000  | 3,600  |
| Switzerland            | 4,363  | 4,196  | 3,842  | 3,613  | 4,002  | 4,539  | 4,955  | 4,751  | 4,528  | 4,330  | 4,200  |
| Poland                 | 864    | 1,017  | 1,289  | 1,674  | 1,863  | 1,798  | 1,025  | 984    | 648    | 415    | 400    |
| Hungary                | 4,032  | 3,403  | 5,010  | 5,919  | 6,204  | 7,718  | 7,840  | 7,983  | 9,447  | 11,300 | 13,600 |
| Czech Republic         | 2,022  | 2,000  | 2,491  | 2,473  | 2,155  | 1,728  | 1,460  | 1,282  | 1,278  | 1,150  | 1,120  |
| Slovak Republic        | 873    | 1,090  | 1,212  | 1,263  | 1,510  | 1,262  | 990    | 1,645  | 1,723  | 800    | 500    |
| Turkey                 | 1,584  | 1,408  | 1,887  | 2,464  | 3,667  | 5,410  | 7,660  | 8,886  | 9,471  | 9,940  | 10,310 |
| Brazil                 | 34,711 | 28,879 | 20,999 | 19,956 | 25,707 | 22,493 | 17,318 | 10,026 | 3,374  | 2,500  | 2,200  |
| China                  | 7,746  | 5,622  | 7,219  | 9,110  | 7,500  | 6,065  | 2,923  | 3,196  | 3,630  | 4,000  | 4,600  |
| Taiwan                 | 202    | 196    | 261    | 239    | 314    | 405    | 438    | 514    | 622    | 700    | 700    |
| South Korea            | 22,828 | 6,718  | 6,693  | 5,277  | 4,244  | 5,308  | 4,445  | 3,416  | 2,529  | 2,240  | 2,240  |
| Hong Kong              | 800    | 795    | 910    | 1,066  | 1,292  | 1,248  | 1,147  | 849    | 552    | 480    | 470    |
| Singapore              | 296    | 370    | 290    | 255    | 267    | 231    | 223    | 161    | 130    | 120    | 120    |

Sources: national figures, Euler Hermes forecasts

#### ► Business insolvency

The concept of business insolvency varies from one country to another, making it hard to give international comparisons. In the following pages, we show the definitions used in each country. The disparities between countries are for two main reasons. First, official insolvency procedures are not of equal importance everywhere. In some countries, amicable arrangements predominate (for example, in Spain and Italy), and the figures for company insolvencies are quite low, thus understating the real picture for business in-

solventcies. Second, individual entrepreneurs are sometimes included in the figures for business insolvencies. But sometimes they are included in the figures for personal bankruptcies (for example, in the US), with no distinguishing between purely personal bankruptcies and sole trader bankruptcies. In the latter case, the number of business insolvencies is significantly understated. ■ ML

# worldwide (2)

## statistics

### Annual change in insolvencies

| Annual change   | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|-----------------|------|------|------|------|------|------|------|------|------|------|------|
| USA             | -18% | -15% | -6%  | 13%  | -4%  | -9%  | -2%  | 14%  | -50% | 50%  | 5%   |
| Canada          | -11% | -7%  | 0%   | 3%   | -9%  | -7%  | -8%  | -7%  | -10% | 0%   | 5%   |
| Japan           | 15%  | -19% | 22%  | 2%   | 0%   | -15% | -16% | -5%  | 2%   | 6%   | 5%   |
| Germany         | 1%   | -5%  | 7%   | 14%  | 16%  | 5%   | 0%   | -6%  | -10% | -14% | 0%   |
| France          | -12% | -11% | -9%  | 0%   | 2%   | 12%  | -1%  | 1%   | -4%  | 5%   | 3%   |
| Italy           | -8%  | -11% | -4%  | -8%  | -1%  | -2%  | 8%   | 7%   | -10% | -50% | 27%  |
| Spain           | -21% | -14% | 7%   | -8%  | 37%  | -2%  | -8%  | -7%  | -2%  | 4%   | 5%   |
| Netherlands     | -9%  | -19% | 11%  | 21%  | 15%  | 29%  | 4%   | 2%   | -12% | -13% | -4%  |
| Belgium         | -11% | 3%   | -5%  | 4%   | 2%   | 5%   | 4%   | 0%   | -3%  | 2%   | 5%   |
| Austria         | -5%  | 22%  | -9%  | -3%  | 2%   | 7%   | 12%  | 12%  | -5%  | -3%  | 2%   |
| Portugal        | 16%  | 16%  | 12%  | 9%   | 13%  | 25%  | 8%   | -33% | 5%   | 2%   | 1%   |
| Finland         | -14% | -2%  | -3%  | -4%  | 5%   | -1%  | -12% | -6%  | 0%   | 0%   | 2%   |
| Greece          | -31% | -4%  | -9%  | -13% | -18% | -17% | 21%  | 2%   | -8%  | -6%  | 6%   |
| Luxembourg      | -4%  | 46%  | 0%   | 29%  | -9%  | -4%  | 1%   | 3%   | -14% | 11%  | 5%   |
| Ireland         | 21%  | -11% | -31% | 29%  | -11% | -12% | -4%  | -2%  | 0%   | -5%  | 4%   |
| UK              | -1%  | 6%   | -3%  | 2%   | 1%   | -7%  | -7%  | 9%   | 1%   | -15% | 8%   |
| Denmark         | -6%  | -1%  | 8%   | 32%  | 6%   | 1%   | 5%   | -5%  | -20% | 16%  | 7%   |
| Sweden          | -16% | -25% | 1%   | 10%  | 7%   | 4%   | -7%  | -11% | -9%  | -5%  | -2%  |
| Norway          | 0%   | -3%  | 10%  | 0%   | 26%  | 17%  | -18% | -18% | -14% | -1%  | 20%  |
| Switzerland     | -4%  | -4%  | -8%  | -6%  | 11%  | 13%  | 9%   | -4%  | -5%  | -4%  | -3%  |
| Poland          | 9%   | 18%  | 27%  | 30%  | 11%  | -3%  | -43% | -4%  | -34% | -36% | -4%  |
| Hungary         | 1%   | -16% | 47%  | 18%  | 5%   | 24%  | 2%   | 2%   | 18%  | 20%  | 20%  |
| Czech Republic  | 62%  | -1%  | 25%  | -1%  | -13% | -20% | -16% | -12% | 0%   | -10% | -3%  |
| Slovak Republic | 66%  | 25%  | 11%  | 4%   | 20%  | -16% | -22% | 66%  | 5%   | -54% | -38% |
| Turkey          | 67%  | -11% | 34%  | 31%  | 49%  | 48%  | 42%  | 16%  | 7%   | 5%   | 4%   |
| Brazil          | 6%   | -17% | -27% | -5%  | 29%  | -13% | -23% | -42% | -66% | -26% | -12% |
| China           | 36%  | -27% | 28%  | 26%  | -18% | -19% | -52% | 9%   | 14%  | 10%  | 15%  |
| Taiwan          | 11%  | -3%  | 33%  | -8%  | 31%  | 29%  | 8%   | 17%  | 21%  | 13%  | 0%   |
| South Korea     | 33%  | -71% | 0%   | -21% | -20% | 25%  | -16% | -23% | -26% | -11% | 0%   |
| Hong Kong       | 0%   | -1%  | 14%  | 17%  | 21%  | -3%  | -8%  | -26% | -35% | -13% | -2%  |
| Singapore       | 30%  | 25%  | -22% | -12% | 5%   | -13% | -3%  | -28% | -19% | -8%  | 0%   |

Sources: national figures, Euler Hermes forecasts

#### ► Annual change in insolvencies

In very many countries, there is a close correlation between the business cycle and insolvency figures. Generally, it takes GDP growth of 2% to 3% to stem the rise in insolvencies, and there is a very high elasticity of insolvencies to growth. A GDP growth reduction of 1 percentage point implies a 5% to 10% increase in insolvencies. Beyond cyclical fluctuations, different countries have for a long period enjoyed very different average rates of growth, and this is reflected in diverging insolvency rates. From 1991 to 2005, insolvencies

fell by half in the US and the UK, but remained fairly steady in France and rose by a factor of 4.5 in Germany. Over the same period, growth averaged 3.3% in the US and 2.8% in the UK, compared to 1.9% in France and 1.3% in Germany. Besides being affected by cyclical fluctuations, business insolvency figures can experience large variations due to changes in the legal provisions governing insolvency procedures. Slovakia thus saw a very massive 67% increase in insolvencies in 2005, in anticipation of new, less debtor-friendly legislation coming into force in 2006. Similarly, in

the US, the change in legislation in October 2005 triggered a wave of anticipatory insolvencies, followed by a sharp fall in insolvencies in the first quarter of 2006. These quarterly variations have led to marked volatility in the annual US figures for 2005, 2006 and 2007. ■ ML

# United States

## Increased risks

### 2007 trend: +50%

In the wake of the subprime mortgage crisis in the US, fears of recession have increased. Household demand will be the first to be affected by the crisis, but strong exports bolstered by the weak dollar should limit the deceleration in GDP growth, to around 2% in 2007. US business profits, which have risen strongly for five years, began to suffer reversals from the second quarter of 2007. Profits should stagnate for 2007 overall; the economic outlook is less promising and insolvencies are clearly up. Over the first nine months of 2007, business insolvencies rose by a spectacular 43% yr/yr. After the exceptional drop in the number of cases in 2006, mainly due to the change in bankruptcy legislation, insolvencies should be up by 50% for 2007 overall, leading to a gradual return to a figure of 30,000 business bankruptcies.

### Sector analysis

Out of a total of 623,000 insolvencies declared by American courts over the first three quarters of 2007 (up by 40% against the same period of 2006), 96.8% were on the part of the self-employed or private individuals, while

3.2% were on the part of companies. Among the latter, company liquidations under Chapter 7, accounting for 64% of company procedures, were up by a sharp 59%. Companies under Chapter 11 reorganisation rose by a far lower 16%. After the difficulties seen in 2004 in air transport and then in 2005 and 2006 in the auto sector, 2007 was the turn of companies directly or indirectly linked to the subprime mortgage crisis. So far more than 80 financial establishments have either ceased activity or taken shelter under Chapter 11 – including New Century Financial, American Home Mortgage Investment Corp, Transland Financial Services Inc, Sentinel Management, First Magnus Financial, Atlanta HomeBanc and others – and the list continues to grow.

### 2008 outlook: +5%

US growth will remain weak in 2008 (1.5%) with a risk of recession for the first half, and lower business profits will boost the number of insolvencies over coming quarters. The increase in insolvencies of overindebted households – due to the increase in interest rates between 2004 and 2006 and the subsequent fall in real estate prices –

will continue to bring bankruptcy to a great number of developers and actors in the real estate market. The effects of the financial crisis have increased the vulnerability of financial establishments, of those sectors more dependent on household demand, and also of companies hit by increased energy and raw materials prices. Company insolvencies should continue to rise in 2008, increasing by between 5% and 10%, returning to above 31,000 procedures, the level seen before the unusually disturbed figures following the the change in US legislation. ■ MCS

### Business bankruptcies by Chapter 2007

|            | Number | Change (*) | Share of total |
|------------|--------|------------|----------------|
| Chapter 7  | 13,220 | 59%        | 64%            |
| Chapter 11 | 4,123  | 16%        | 20%            |
| Chapter 12 | 287    | 2%         | 1%             |
| Chapter 13 | 2,482  | 25%        | 12%            |
| Total      | 20,759 | 43%        | 100%           |

Source: Administrative Office of US Courts  
(\* Jan-Sep '06 to Jan-Sep '07)

### REGULATION

The bankruptcy laws of the United States are set forth in the Bankruptcy Code (1978, Title 11, United States Code) and the Federal Rules of Bankruptcy Procedure. There are several different procedural routes to take, but those known as Chapter 7 and Chapter 11 are most commonly utilised by private businesses.

■ **Chapter 7 – Liquidation:** This provides for company liquidation. It is often utilised in the event that a Chapter 11 reorganisation fails.

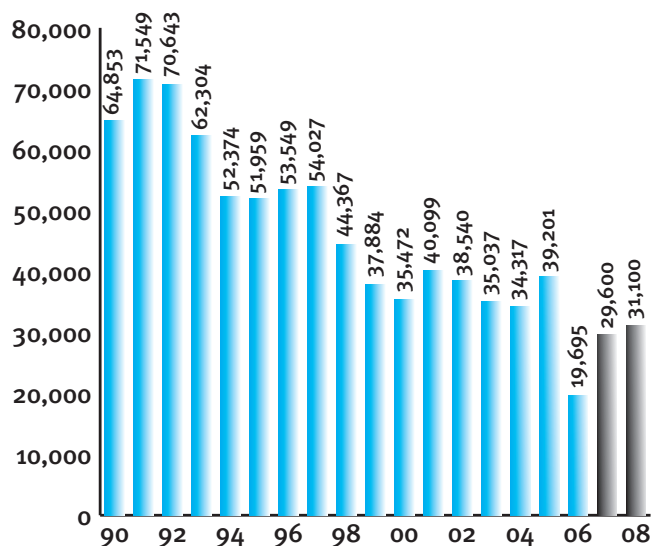
■ **Chapter 11 – Reorganisation:** The main objective here is to attempt to turn the business around and thus avoid liquidation. Companies may voluntarily file for Chapter 11 protection and need not establish that they have stopped making payments to creditors or that they are insolvent. Under this procedure, company/debtors are often able to negotiate more favourable terms with creditors. A Chapter 11 Bankruptcy may also be launched by the creditors, in which case the company/debtor has the right to argue before the bankruptcy court that it should not be placed in Chap-

ter 11. Under both forms of Chapter 11, the directors retain control, and the company is protected from the collection efforts of the creditors, via an automatic stay, whereby all attempts to collect debts are suspended. The company, now known as the “debtor in possession,” retains possession of its assets and continues to run the business but is under the supervision of the judge. Apart from certain exceptions, the company/debtor usually is not placed under the supervision of a court-appointed administrator.

■ In April 2005, the US Congress adopted the Bankruptcy Abuse Prevention and Consumer Protection Act, effective October 2005, which made several changes to the Bankruptcy Code. The new law places greater limitations on debtors and attempts to make it harder to cancel debt. Businesses under Chapter 11 protection will have a maximum of 18 months to present a plan for reorganisation and debt rescheduling. After this period, the creditors may present their own plan and submit it to the court. In addition, limitations are imposed on extraordinary payments in the form of retention bonuses, severance pay, and certain other payments. ■

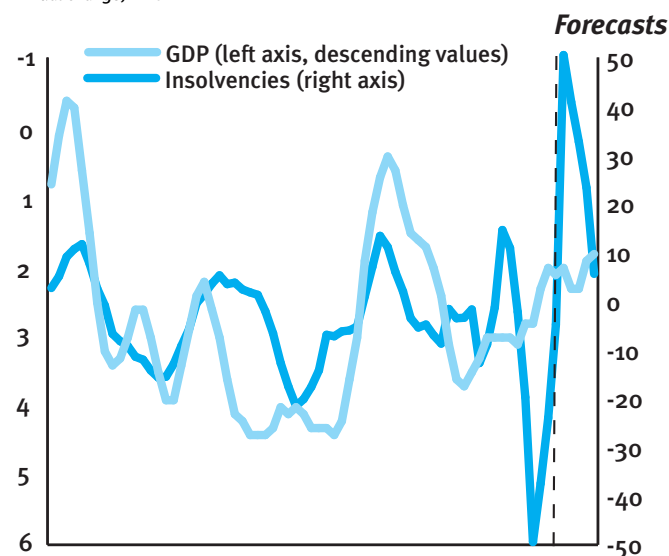
## GDP and insolvencies in the United States

Number of insolvencies



Sources: Administrative Office of the U.S. Courts, Euler Hermes forecasts

Annual change, in %



Sources: Administrative Office of the U.S. Courts, Euler Hermes forecasts

### Number of insolvencies

| Number | 2005   | 2006  | 2007  |
|--------|--------|-------|-------|
| Q1     | 8,088  | 4,179 | 6,444 |
| Q2     | 8,645  | 4,915 | 6,844 |
| Q3     | 9,664  | 5,435 | 7,471 |
| Q4     | 12,804 | 5,166 |       |

Source: Administrative Office of the U.S. Courts (series reconstituted using annual data)

### DEFINITION and sources of statistics

**Businesses:** the US Census Board counted a total of 22.6 million American businesses in 2001, of which there were 5.7 million firms with payrolls, and 16.9 million (or 75%) with no employees. Each year, an average of 587,000 companies with payrolls are created, generating more than 3.25 million jobs, and 528,000 companies cease trading, with job losses of 3.22 million.

**Insolvencies:** The Administrative Office of Courts publishes figures for business and non-business insolvencies each quarter, giving cumulative figures over twelve months, as quarterly figures are often revised. We use only the figures for business bankruptcies, for which the Office provides a breakdown by type of procedure and by state. The annual series gives figures for all procedures (Chapters 7, 11, 12 and 13).

## Major insolvencies

| Company                                | Turnover (millions of euros) * | Activity   | Date of insolvency | Number of employees |
|--|--------------------------------|--|--------------------|---------------------|
| <b>2007 (end of October)</b>           |                                |  |                    |                     |
| Movie Gallery Inc                      | 2,017                          | Motion picture, radio, television and other entertainment activities | 10/2007            | 41,400              |
| New Century Financial                  | 1,939                          | Real estate activities   | 04/2007            | 7,200               |
| Bally Total Fitness Holding Corp       | 840                            | Human health activities  | 08/2007            | 19,200              |
| American Home Mortgage Investment Corp | 829                            | Real estate activities   | 08/2007            | 7,409               |
| Tweeter Home Entertainment Group       | 615                            | Non-specialised retailing trade in stores                            | 06/2007            | 3,200               |
| Citation Corp                          | 462                            | Manuf. of basic iron and steel                                       | 03/2007            | 4,600               |
| Bombay Company Inc                     | 426                            | Non-specialised retailing trade in stores                            | 09/2007            | 4,500               |
| ASC Inc                                | 397                            | Manuf. of parts and accessories for motor vehicles and their engines | 05/2007            | 1,100               |
| Hancock Fabrics Inc                    | 64                             | Non-specialised retailing trade in stores                            | 03/2007            | 6,200               |
| 99 Cent Stuff Inc                      | 45                             | Non-specialised retailing trade in stores                            | 01/2007            | 525                 |

(\*) at 1 euro = USD 1.26

Source: Euler Hermes

# Canada

## Change in trend

### 2007 trend: stabilisation

Growth is slowing gradually and should come to 2.5% for 2007, drawn by strong investment and household consumption. The rise of the Canadian dollar has stimulated imports but slowed exports. High prices of commodity exports for now mask the loss of competitiveness in manufactured goods exports, but the economic deceleration in the US, which accounts for more than 80% of export sales, will weigh negatively on the manufacturing sector. We can already gauge the effects of industry on net incomes, which were down at the end of the second quarter of 2007. The fall in business insolvencies seems to be easing as the months go by, but the number of cases was still down by 6% for the first nine months of 2007 yr/yr. But the difficulties of industrial companies subject to strong Asian competition – notably in textiles and furniture – have increased, and 2007 could end with insolvency figures comparable to 2006, at around 6,700 cases. Liabilities from insolvencies are rising sharply, with cumulative liabilities for the first nine months of 2007 already totalling CAD 5.18 billion, against CAD 3.9 billion for all of 2006, also showing a net increase in the average liability per insolvency.

### Sector analysis

Nearly two-thirds of business insolvencies occur in the two economic centres of Ontario and Quebec. In the former, the number of cases stabilised, while in Quebec, the figures continued to rise, up by 12% and accounting for 31% of the total number of cases in the country. The fall in insolvencies has been seen in many sectors. In construction and real estate, for their part, which together account for 20% of cases, we note a 7% increase in insolvencies in real estate. Industry, which accounts for 2.2% of insolvencies, also shows signs of deterioration, and these are likely to amplify over coming quarters, especially in manufacturing, due to the worsened export outlook.

### 2008 outlook: +5%

Highly dependent on the US market, Canadian industry is readying itself for a further slowing in 2008 and an erosion in profits in manufacturing and in retail & wholesale trading, forced to cut prices to maintain market share. The Bank of Canada's monetary policy could prove more accommodating, and a cut in interest rates would help to partly neutralize the impact of the rise in the Canadian dollar. Consumption

will act to support GDP growth, which is likely to slow to below 2%. A reversal of trend in insolvencies could occur, with the number of cases rising by around 5%, calling a halt to six consecutive years of falling insolvency figures.

■ MCS

### Insolvencies by sector 2007

|                                | Number | Change | Share    |
|--------------------------------|--------|--------|----------|
|                                |        | (*)    | of total |
| Agriculture & related services | 232    | -12.5% | 4.8%     |
| Industry                       | 472    | 2.2%   | 9.9%     |
| Construction                   | 852    | -2.0%  | 17.8%    |
| Transport & communications     | 522    | -12.9% | 10.9%    |
| Commerce                       | 904    | -6.7%  | 18.9%    |
| Financial intermediaries       | 59     | -10.6% | 1.2%     |
| Real estate                    | 121    | 7.1%   | 2.5%     |
| Business services              | 343    | -6.5%  | 7.2%     |
| Consumer services              | 87     | -13.0% | 1.8%     |
| Hotels & restaurants           | 550    | -5.0%  | 11.5%    |
| Other sectors & services       | 643    | -10.2% | 13.4%    |
| Total                          | 4,785  | -6.3%  | 100%     |

(\*) Jan-Sep '06 to Jan-Sep '07

Source: Office of the Superintendent of Bankruptcy

### REGULATION

■ *Company and individual bankruptcies are governed by the 1985 Bankruptcy and Insolvency Act (BIA). Company reorganisation procedures can also be implemented under the 1985 Companies' Creditors Arrangement Act. These are both Federal statutes. Federal banks and insurance companies fall under the Federal Winding-up and Restructuring Act. According to Federal bankruptcy law, the Superior Court of each of Canada's ten provinces enjoys jurisdiction in bankruptcy matters.*

■ *Liquidations and reorganisations can be either voluntary or involuntary. In the first case, the debtor applies under the BIA for an Assignment in Bankruptcy via the Government Bankruptcy Office. In the second case, it is the creditor who initiates the procedure when the debtor owes it at least 1,000 Canadian dollars.*

■ *In bankruptcies under the BIA, a Trustee is appointed who verifies the list of creditors and holds a meeting with all of them within 21 days. The only committee empowered to give rulings is the Board of Inspectors, elected*

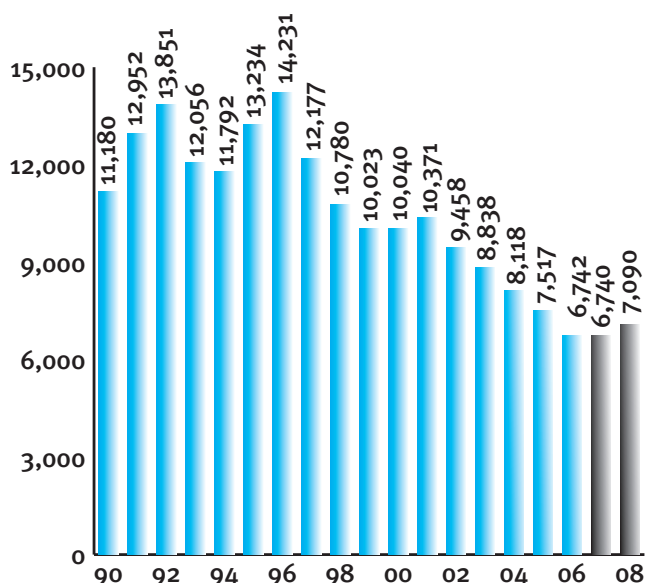
*by the creditors at their first meeting. Generally, the Inspectors examine and verify the concern's operations and finances in the same way that they examine and verify the administration by the Trustee.*

■ *As for the reorganisation procedures carried out under the BIA, these do not specifically require that a Board of Inspectors be set up, although this is very commonly done in such procedures. The Office of the Superintendent of Bankruptcy helps to ensure that estates in bankruptcy, commercial reorganisations, consumer proposals and receiverships are administered in a fair and orderly manner*

■ *Canadian insolvency law was amended in 1992 and 1997. Also, in November 2003, the Senate of Canada Banking, Trade, and Commerce Committee proposed adding some substantial changes to Canadian bankruptcy legislation. Generally, these changes would make Canadian law very similar to the United States Bankruptcy Code, but no timetable has been set for the proposed legislation.* ■

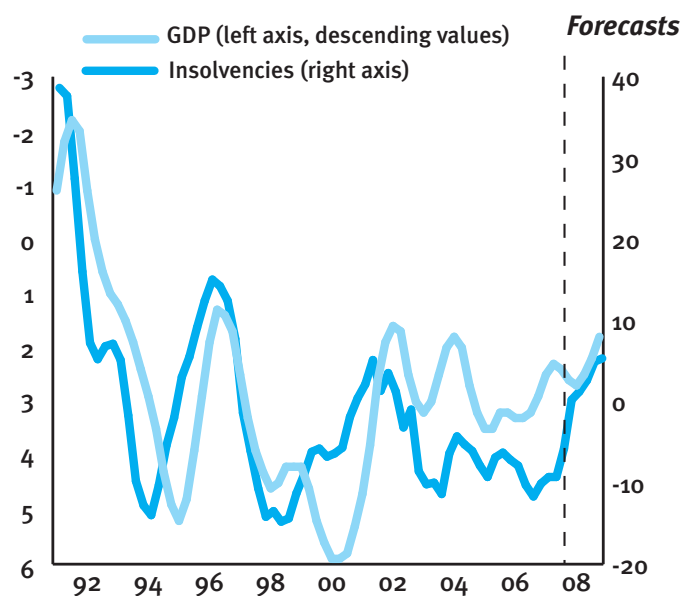
## GDP and insolvencies in Canada

Number of insolvencies



Sources: Office of the Superintendent of Bankruptcy, Euler Hermes forecasts

Annual change, in %



Sources: Office of the Superintendent of Bankruptcy, Euler Hermes forecasts

### Number of insolvencies

| Number    | 2005 | 2006 | 2007 |
|-----------|------|------|------|
| January   | 598  | 624  | 530  |
| February  | 736  | 589  | 599  |
| March     | 788  | 678  | 615  |
| April     | 705  | 553  | 542  |
| May       | 688  | 637  | 532  |
| June      | 625  | 611  | 530  |
| July      | 518  | 445  | 487  |
| August    | 553  | 467  | 501  |
| September | 580  | 501  | 449  |
| October   | 584  | 588  |      |
| November  | 581  | 544  |      |
| December  | 561  | 505  |      |

Source: Office of the Superintendent of Bankruptcy

#### DEFINITION and sources of statistics

**Businesses:** According to the company register of Statistics Canada, there were 2.25 million companies in Canada in 2005. Of these, 47% were with payrolls and 53% undetermined. This latter category includes entities with or without company status that are not registered for salary withholding tax with the Canadian revenue authorities. Their workforce may comprise contract workers, family members or their owners.

**Insolvencies:** The National Statistics Agency has recorded company and individual bankruptcies for ten years, with a breakdown of company bankruptcies by province and type of activity. It also provides figures for the major urban centres, which allows us to get details on every metropolitan region and all the agglomerations monitored. The statistics on major urban centres include data on the subdivisions of Vancouver, Montreal, Toronto and Hamilton. Our series excludes personal bankruptcies.

### Major insolvencies

| Company                              | Turnover (millions of euros)* | Activity   | Date of insolvency | Number of employees |
|--------------------------------------|-------------------------------|--|--------------------|---------------------|
| <b>2007 (mid-November)</b>           |                               |  |                    |                     |
| Genfast Manufacturing Co             | 55                            | Manuf. of fabricated metal products, excl. machinery and equipment | 04/2007            | 200                 |
| Daymonex Limited                     | 29                            | Manuf. of fabricated metal products, excl. machinery and equipment | 01/2007            | 200                 |
| Pega Precision Inc                   | 15                            | Manuf. of fabricated metal products, excl. machinery and equipment | 01/2007            | 60                  |
| Groupe Historia International Inc    | 11                            | Retailing  | 11/2007            | 24                  |
| Mckinnon Micro Distribution          | 10                            | Wholesaling of office machinery and equipment                      | 02/2007            | 23                  |
| 9036-7046 Quebec Inc                 | 7                             | Transport  | 01/2007            | 50                  |
| Jason Furniture Inc.                 | 2                             | Retailing  | 09/2007            | 75                  |
| Amcan Consolidated Technologies Corp | N/A                           | Manuf. of fabricated metal products, excl. machinery and equipment | 11/2007            | 170                 |

(\*) at 1 euro = CAD 1.38

Source: Euler Hermes

# Japan

## A confirmed revival in bankruptcies

### 2007 trend: +6%

After falling for three years between 2002 and 2005, business bankruptcies have been clearly on the rise since 2006. Japan's biggest companies, more exposed to foreign trade, benefited from strong world demand and from the depreciation in the yen, contributing significantly to continued growth in Japanese profits (up by 10% at the end of June 2007). But the country's SMEs, particularly those in rural areas, remained penalised by weakness in domestic demand. More than 11,700 failures were thus recorded over the first ten month of 2007s, with 60% of these in the regions of Kanto and Kinki. In the end, Japan should post an overall figure of 14,100 bankruptcies for 2007, or an increase of 6% following the 2% increase of 2006. In this context, the trend towards increased liabilities per insolvency seen since the second quarter of 2007 should be confirmed, particularly in real estate, raising the average figure per bankruptcy to more than JPY 450 million.

### Sector analysis

Only two major sectors escaped the rise in insolvencies over the first ten months of 2007: real estate, which nonetheless is headed towards a stabilisation in the number of cases after

five years of falling figures, and finance. Every other sector posted a rise in the number of petitions in bankruptcy. There was a net change in trend in manufacturing industry, following five years of falling figures, all the more important given that the sector accounts for 18% of Japan's total business population. The year 2007 has also confirmed the worsening begun in 2005 for the retail sector and in 2006 for all the others. The rise in insolvencies was even more noticeable in transport-communications and wholesaling than in the construction industry. But the short-term outlook for the latter sector, which accounts for nearly 20% of Japanese businesses, has partly worsened since the summer, due to stricter earthquake safety requirements that have lengthened the approvals process for construction permits.

### 2008 outlook: +5%

Despite a surge in the third quarter of 2007, the Japanese economy has overall embarked on a phase of slowdown that should continue in 2008. Continued budgetary efforts, weak private consumption and a braking in exports (which a rebound in the yen could worsen) will act to hold GDP growth at below 2%. Such a growth rate should be too low to prevent a continued rise in

the number of bankruptcies, resulting in the third consecutive yearly increase, to a figure of around 14,800 cases, a rise of 5%. ■ ML

### Insolvencies by sector 2007

|                                  | Number        | Change      | Share        |
|----------------------------------|---------------|-------------|--------------|
|                                  |               | (*)         | (*) of total |
| Agriculture & primary industries | 76            | 8.6%        | 0.6%         |
| Manuf. industry                  | 1,700         | 10.0%       | 14.4%        |
| Construction                     | 3,349         | 3.3%        | 28.4%        |
| Wholesaling                      | 1,724         | 8.6%        | 14.6%        |
| Retailing                        | 1,548         | 5.2%        | 13.1%        |
| Transport & communications       | 704           | 12.1%       | 6.0%         |
| Finance                          | 58            | -6.5%       | 0.5%         |
| Real estate                      | 368           | -4.9%       | 3.1%         |
| Other services & others          | 2,254         | 9.8%        | 19.1%        |
| <b>Total</b>                     | <b>11,781</b> | <b>6.7%</b> | <b>100%</b>  |

(\*) Jan-Oct '06 to Jan-Oct '07

Source: TSR

### REGULATION

■ **Liquidation proceedings** are covered in the *Hasan-ho or Bankruptcy Act* (Law No. 75, 2004) and *Company Act* (Law No. 86, 2005). **Rehabilitation proceedings** are stipulated in the *Corporate Reorganization Act* (Law No. 154, 2002) and *Civil Rehabilitation Act* (Law No. 225, 1999). The *Company Act* became effective in May 2006, replacing all the chapters concerning businesses in the *Commercial Code* (Law No. 48, 1899). In general, a business is deemed to be insolvent when it files for one of the above-mentioned proceedings.

■ **Hansan-ho or Bankruptcy Act**: the most standard liquidation law. Under the supervision of the court, the trustee collects the property of the debtor and sells it and distributes the proceeds to the creditors. Both debtor and creditor can file for this proceeding.

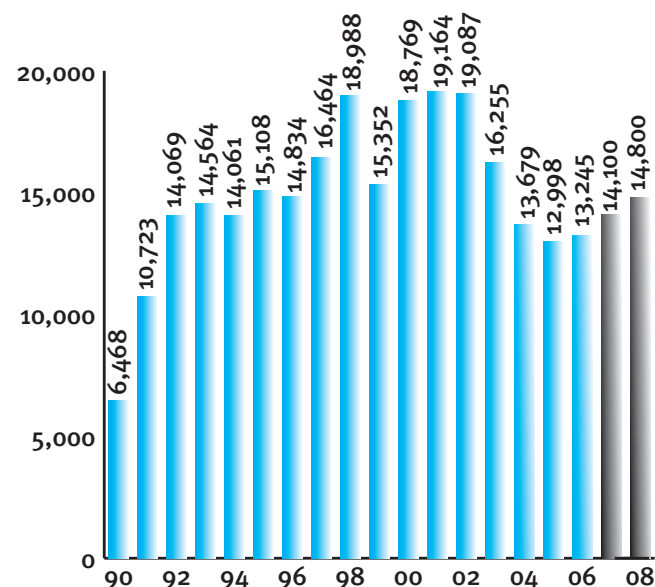
■ **Special liquidation under the Company Act**: the court takes an active role in a company already under some kind of a liquidation process. This is mainly used by companies that are winding up their subsidiaries.

■ **Corporate Reorganization Act**: this is specially reserved to turnaround *Kabushiki Kaisha* (public limited companies). Under the supervision of the court, the trustee will run the company. This can be filed either by the debtor or a creditor (the latter needs to hold receivables equivalent to at least 10% of the capital) or shareholder (who needs to hold more than 10% of the shares issued). Lien and priority interests will be frozen during the reorganization period.

■ **Civil Rehabilitation Act**: this is another option aiming to turn around a business. Any type of business regardless of its size, and even an individual, can file for this. Both debtor and creditor can file, but shareholders cannot. In most cases, the existing management stays to run the business. Lien and priority interests can be exercised during the rehabilitation period. ■

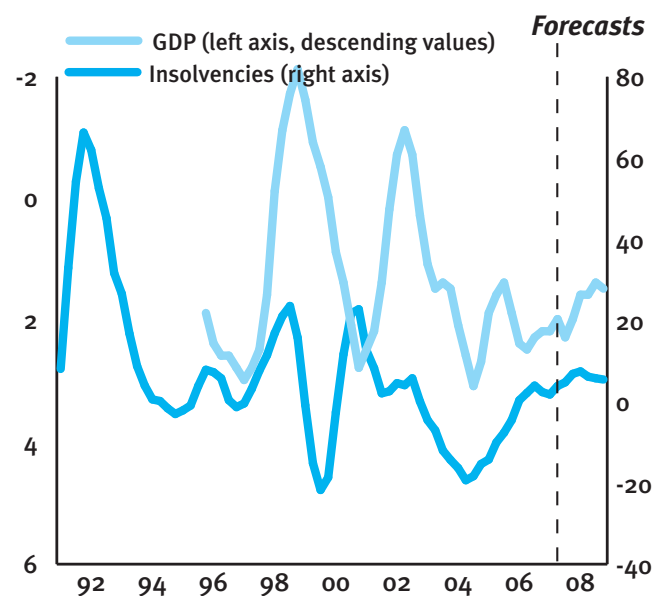
## GDP and insolvencies in Japan

Number of insolvencies



Sources: TSR, Euler Hermes forecasts

Annual change, in %



Sources: TSR, Euler Hermes forecasts

### Number of insolvencies

| Number    | 2005  | 2006  | 2007  |
|-----------|-------|-------|-------|
| January   | 1,022 | 1,049 | 1,091 |
| February  | 1,014 | 1,044 | 1,102 |
| March     | 1,140 | 1,255 | 1,247 |
| April     | 946   | 1,087 | 1,121 |
| May       | 1,072 | 1,083 | 1,310 |
| June      | 1,207 | 1,111 | 1,185 |
| July      | 1,024 | 1,051 | 1,215 |
| August    | 1,152 | 1,169 | 1,203 |
| September | 987   | 1,030 | 1,047 |
| October   | 1,171 | 1,166 | 1,260 |
| November  | 1,114 | 1,091 |       |
| December  | 1,149 | 1,109 |       |

Source: TSR

#### DEFINITION and sources of statistics

**Businesses:** The Statistics Bureau counted nearly 1.53 billion businesses active as of June 30, 2004, across all sectors of activity combined. More than 70% employ fewer than 10 persons. Nearly 40% have issued capital of less than JPY 5 million. Less than 10% have issued capital of more than JPY 30 million or employ more than 30 persons.

**Insolvencies:** Tokyo Shoko Research (TSR) compiles monthly figures for the totality of business failures. The series that we employ covers businesses with liabilities in excess of 10 million yen that are subject to court-ordered reorganisation plans or liquidations (via the Corporate Reorganisation Law, Civil Rehabilitation Law, Corporate Arrangement under Commercial Law, or Bankruptcy Act), or else subject to private procedures (the suspension of bank transactions or amicable arrangements).

### Major insolvencies

| Company                        | Liabilities (millions of euros)* | Activity   | Date of insolvency | Number of employees |
|--------------------------------|----------------------------------|--|--------------------|---------------------|
| <b>2007 (end of September)</b> |                                  |  |                    |                     |
| Azabu Tatemono K.K.            | 3,486                            | Real estate activities   | 06/2007            | N.A.                |
| Shikomu K.K.                   | 677                              | Inland water transport   | 04/2007            | 3                   |
| SSC K.K.                       | 486                              | Real estate activities   | 03/2007            | N.A.                |
| Credia Co., Ltd.               | 467                              | Financial intermediation   | 09/2007            | 415                 |
| K.K. Daiei                     | 393                              | Sporting and other recreational activities                             | 04/2007            | 952                 |
| Mirai Group Co., Ltd.          | 370                              | Construction   | 09/2007            | 12                  |
| Sobu Toshi Kaihatsu K.K.       | 238                              | Sporting and other recreational activities                             | 04/2007            | 134                 |
| Iyo Shoji Corporation          | 235                              | Wholesaling of non-agricultural intermediate products, waste and scrap | 09/2007            | 85                  |
| Tochi Kogyo K.K.               | 198                              | Renting of other machinery and equipment                               | 05/2007            | 19                  |
| K.K. Mirufiyu                  | 196                              | Sporting and other recreational activities                             | 07/2007            | 56                  |

(\*) at 1 euro = YEN 162

Source: Euler Hermes

# Germany

## A further fall in 2007 (but with expected revisions)

### 2007 trend: -14%

The upswing in the German economy has lost some of its momentum in the course of 2007, which was primarily due to the negative impact of the VAT hike from the start of 2007. In addition, the effects of the renewed rise in energy prices, the appreciation of the euro and not least the crisis in the US mortgage markets played a role. In spite of these burdens, the endogenous macroeconomic forces in the German economy have proved to be relatively strong, which on the other hand has allowed the business insolvency trend to improve further. Over the first eight months of 2007, insolvencies showed a continuous fall and totalled 19,020 cases. Financial losses amounted to 11.9 billion euros. Looking at insolvencies by legal form, 9,714 bankruptcies of small and medium-sized enterprises were registered, whereas insolvencies of partnerships and limited liability companies decreased further to 9,306. Despite the generally clear downward trend in insolvencies, it is at present not possible to calculate accurately the rate of change compared with 2006, since possibly substantial corrections will be needed for the insolvency statistics for the whole year 2006, as the Federal Statistical Office (Destatis) announced recently. This is due to incomplete data in one major state, North Rhine-West-

phalia, which accounts for around 30 % of the total in Germany. Although it is not yet clear to what extent adjustments will need to be made, all the signs are that the actual result for the number of corporate insolvencies should be significantly higher in year 2006 than previously reported, representing a smaller decrease compared to 2005. On a very rough first estimate, we reckon with something like 2,000 to 3,000 additional business insolvencies in 2006, which would correspond to an annual figure in the region of some 32,500 to 33,500 cases instead of the previous official result of 30,357. In the whole of 2007, we expect 28,500 companies to file for insolvency proceedings, extrapolating from the 19,020 cases already registered up to August inclusive.

### Sector analysis

Keeping in mind that no accurate figures are currently available for 2006, it is nevertheless to be expected that insolvencies should have gone down in most of the sectors over the first eight months of 2007. In the manufacturing sector, 1,614 cases were registered until August. Construction companies were hit 3,503 times. However, this sector still continued to be at comparatively high relative risk (in terms of insolvencies per 10,000 companies). Trading companies as a whole saw 3,954 failures, with 1,154

cases in the wholesale sector and 2,114 in retail trade. The service sector recorded 9,623 insolvencies. Over 50 % of the total number of corporate insolvencies were suffered by the service sector, followed by trade (21%), construction (18 %) and industry (9 %).

### 2008 outlook: stabilisation

Economic activity is expected to lose momentum in 2008, real growth should slow to 1.8% after 2.6% in 2007. Against this less favourable background, we expect the downward insolvency trend to decelerate noticeably in the course of 2008. All in all, the number of corporate insolvencies should be roughly on the same level as in 2007. ■ RG/ML

### Insolvencies by sector 2007

|                                   | Number<br>(*) | Share<br>of total |
|-----------------------------------|---------------|-------------------|
| Agriculture, forestry & fisheries | 299           | 1.6%              |
| Extractive industries             | 10            | 0.1%              |
| Manuf. industry                   | 1,614         | 8.5%              |
| Energy                            | 17            | 0.1%              |
| Construction                      | 3,503         | 18.4%             |
| Commerce                          | 3,954         | 20.8%             |
| Hotels & restaurants              | 2,032         | 10.7%             |
| Transport & communications        | 1,290         | 6.8%              |
| Finance                           | 303           | 1.6%              |
| Real estate & business services   | 4,326         | 22.7%             |
| Education                         | 150           | 0.8%              |
| Health                            | 452           | 2.4%              |
| Consumer services & others        | 1,070         | 5.6%              |
| <b>Total</b>                      | <b>19,020</b> | <b>100%</b>       |

(\*) Jan-Aug '06 to Jan-Aug '07, excl. data from North Rhine-Westphalia, which are under revision  
Source: Destatis

### REGULATION

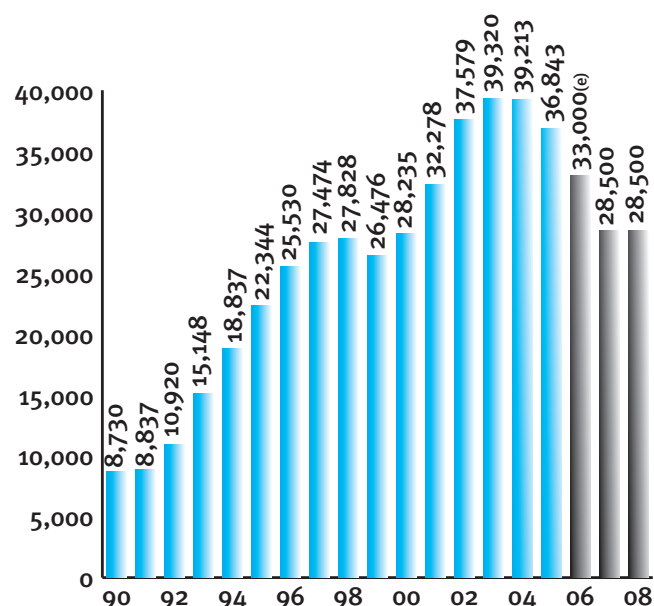
Reforms to the new Insolvency Code (Insolvenzordnung, or InsO) in place since January 1, 1999 came into force on December 1, 2001. Initial provisions of the Code had in practice led to problems, especially in the case of bankrupt small companies and self-employed persons who came under personal insolvency procedures. One important reform is that such small businesses will no longer be subject to the procedure for personal bankruptcy, but will once again go through the standard insolvency procedure set out for companies. Exceptions to this rule will only be made under special circumstances. On first view, this reform would appear to lead to a statistical shift towards a greater number of insolvencies. In fact, however, it has not had a significant effect on the published figures for corporate insolvencies, since the Federal Statistical Office has since 1999 already adjusted the figures to reflect this change.

The reforms to the Insolvency Code have had, however, a substantial impact on official insolvency statistics, especially on the number of private insolvencies registered. What plays a significant role here is the fact that a debtor can now file for insolvency proceedings on the basis of "mitigating circumstances" (i.e., the registration threshold has been lowered by a considerable margin). The latter has led to substantially more insolvency proceedings as from the beginning of 2002 than would have been the case under the former legal provisions.

Besides this, however, the statistical registration of corporate insolvencies has been affected by new legal rules, which particularly make it difficult to define the line of demarcation between insolvencies of private individuals and those of small traders and self-employed persons. It is also necessary to take into account the fact that the mitigating conditions referred to above not only affect private insolvencies, but also those of small traders. From the start of 2002, this makes it difficult to make comparisons of small traders and the self-employed with those of previous years. ■

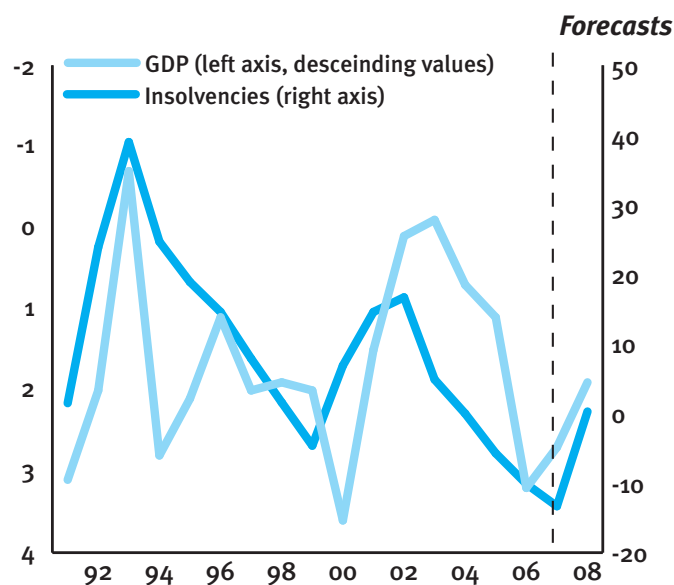
## GDP and insolvencies in Germany

Number of insolvencies



Sources: DeStatis, Euler Hermes forecasts

Annual change, in %



Sources: DeStatis, Euler Hermes forecasts

### Number of insolvencies

| Number    | 2005  | 2006 * | 2007 * |
|-----------|-------|--------|--------|
| January   | 2,826 | 2,588  | 2,416  |
| February  | 2,962 | 2,755  | 2,340  |
| March     | 3,397 | 3,067  | 2,580  |
| April     | 3,422 | 2,596  | 2,224  |
| May       | 3,100 | 2,840  | 2,507  |
| June      | 3,446 | 2,419  | 2,448  |
| July      | 3,121 | 2,327  | 2,361  |
| August    | 3,103 | 2,419  | 2,447  |
| September | 2,877 | 2,360  |        |
| October   | 2,828 | 2,349  |        |
| November  | 2,822 | 2,327  |        |
| December  | 2,939 | 2,310  |        |

Source: Destatis

(\* monthly data, Jan. '06 to Jan. '07, including data from North Rhine-Westphalia, which are under revision

#### DEFINITION and sources of statistics

**Businesses:** The Federal Statistical Office (DeStatis) counted nearly 3,430,000 entities subject to taxation for 2006, according to a tally that included every entity subject to tax and/or contributions and excluding primary sectors (A and B in the EU's NACE economic activity classification codes). Among these, nearly 61,000 have more than 50 employees (or 2% of businesses) and 162,500 have turnovers of at least EUR 2 million (or 5%).

**Insolvencies:** DeStatis tallies all court-ordered bankruptcies for the country, including those of individual persons, who accounted for more than 60% of the total in 2006. Our series covers all business insolvencies, i.e., those of small businesses, public limited companies and private companies; it excludes individual insolvencies, a category that includes the self-employed (who were previously included in the series) and natural persons.

### Major insolvencies

| Company   | Turnover (millions of euros) | Activity   | Date of insolvency | Number of employees |
|---|------------------------------|--|--------------------|---------------------|
| <b>2007 (as of 23 October)</b>                          |                              |  |                    |                     |
| Schieder Möbelwerke GmbH                                | 880                          | Manuf. of furniture  | 06/2007            | 11,000              |
| <b>ISE Industries und ISE Innomotive Systems Europe</b> |                              |  |                    |                     |
| Wiemer & Trachte  | 450                          | Manuf. of parts and accessories for motor vehicles and their engines                             | 01/2007            | 2,800               |
| BBS Kraftfahrzeugtechnik AG                             | 320                          | Building of complete constructions or parts thereof; civil engineering                           | 04/2007            | 1,200               |
| Erich Rohde KG  | 141                          | Manuf. of parts and accessories for motor vehicles and their engines                             | 02/2007            | 700                 |
| Bohlen & Doyen Bau und Service GmbH                     | 130                          | Manuf. of footwear   | 03/2007            | 2,000               |
| Anubis Electronic GmbH                                  | 120                          | Building of complete constructions or parts thereof; civil engineering                           | 04/2007            | 1,800               |
| Deilmann-Haniel GmbH                                    | 100                          | Manuf. of office, accounting and computing machinery   | 04/2007            | 50                  |
| Tiptel AG   | 95                           | Mining and agglomeration of hard coal  | 04/2007            | 1,100               |
| Garant Massivhaus GmbH                                  | na                           | Manuf. of television and radio transmitters and apparatus for line telephony and line telegraphy | 03/2007            | 150                 |
| Oldenbourg Gruppe                                       | na                           | Building of complete constructions or parts thereof; civil engineering                           | 04/2007            | 0                   |
| Flötotto GmbH   | na                           | Publishing   | 05/2007            | 230                 |
|   | na                           | Manuf. of furniture  | 06/2007            | 65                  |

Source: Euler Hermes

# France

## Insolvencies on the rise

### 2007 trend: +5%

French growth was disappointing in the first half of the year and should at best post a figure of 1.9% for the whole of 2007. The small increase in activity, the rise in interest rates, higher energy and commodity prices, and the strengthening in the euro have eroded business profits in many sectors exposed to international competition, and business results for 2007 could prove to be disappointing. After a 4% fall in insolvencies in 2006, the number of cases began to rise, increasing by 7.7% during the first ten months of 2007. For the cumulative 12 months to the end of October, the number of legal procedures returned to over 50,000, up by 4.6% yr/yr. The increase in the number of cases was fuelled in particular by insolvencies on the part of small companies with sales turnover below EUR 250,000, which accounted for more than 80% of procedures. There was also a 12% increase in the number of cases involving businesses with more than 100 employees. The year 2007 overall should thus post at least a 5% increase in the number of insolvencies.

### Sector analysis

The increase in insolvencies, seen across nearly every region of France, affects all sectors apart from transport, which posted a 17% drop in the number

of cases. Over the first ten months of 2007, the increase in the number of petitions in bankruptcy was by far most marked in construction (up by 18.6%), real estate (9.7%), and business services (8%). Construction, where activity remains buoyant, is characterised by the presence of very small and recently created businesses and accounts for nearly a quarter of the total number of insolvencies. By comparison, industry is holding up rather well, with a 4% fall of the number of judgements. The trend in industry, for its part, masks difficulties on the part of businesses with significant turnover and employee numbers: half of 2007's large-scale insolvencies (on the part of companies with turnover in excess of EUR 15 million) were in industry, and particularly in the intermediate goods and the agro-food sectors.

### 2008 outlook: +3%

Economic growth, supported by domestic demand (notably consumption and housing investment) should strengthen in the second half of 2008. It will be limited, however, to 2% for the whole of the year, due to slowing in the world economy. The improvement in activity should allow a stabilisation in the number of insolvencies. However, the strong increase in new business creation in recent years, which continued

in 2007, could contribute to a new increase in insolvencies, by an estimated 3% for 2008. A modification in France's Business Safeguard Act (*la loi de sauvegarde des entreprises*), which came into force on January 1, 2006, is under study, with the aim of extending the safeguard procedure to a greater number of companies. The procedure currently accounts for just 1% of cases opened by the courts, against 66% for liquidations and 33% for judicial reorganisation. ■ MCS

### Insolvencies by sector 2007

|                          | Number | Change (*) | Share of total |
|--------------------------|--------|------------|----------------|
| Industry                 | 4,179  | -3.6%      | 10.1%          |
| Construction             | 10,107 | 18.6%      | 24.5%          |
| Commerce                 | 9,560  | 2.9%       | 23.2%          |
| Transport                | 1,171  | -17.4%     | 2.8%           |
| Real estate activities   | 1,217  | 9.7%       | 3.0%           |
| Business services        | 5,527  | 7.9%       | 13.4%          |
| Other service activities | 5,895  | 6.7%       | 14.3%          |
| Hotels and restaurants   | 4,210  | 7.4%       | 10.2%          |
| Others                   | 3,567  | 20.2%      | 8.7%           |
| Total                    | 41,223 | 7.7%       | 100%           |

(\*) Jan-Oct '06 to Jan-Oct '07  
Source: Euler Hermes SFAC, series restricted to companies at date of publication of BODACC

### REGULATION

■ France's new Business Safeguard Act (*la loi de sauvegarde des entreprises*) of July 26, 2005 entered into force on January 1, 2006. It aims to foster the prevention of and handling of company difficulties when they first appear. The law makes changes to previous procedures as well as introducing new ones, such as the Safeguard procedure.

Prevention procedures: *ad hoc* mediation (*mandat ad hoc*) and conciliation (conciliation), reserved for any company experiencing difficulties of a nature to compromise continued operations, but not having been in cessation of payments for more than 45 days.

■ Judicial procedures:

• *The safeguard procedure (sauvegarde) or judicial restructuring without cessation of payments, for any company that demonstrates problems liable to force it to cease payments. For companies with turnover of more*

*than 20 million euros or 150 employees, it establishes two committees of creditors, one for financial institutions and another for trade creditors, and a plan is drawn up for restructuring following an observation period of a maximum of six months, renewable one time only.*

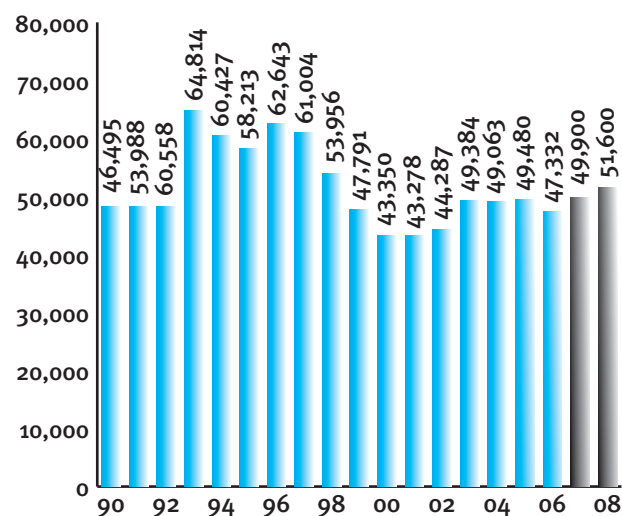
• *Judicial reorganisation (redressement judiciaire) is open to any company in cessation of payments (unable to meet its current liabilities with its available funds) for a (renewable) period of six months. The procedure leads to a plan for restructuring the business and setting up committees (as under the safeguard procedure).*

• *Judicial liquidation (liquidation judiciaire) is applicable to debtors that have ceased payments and are unable to continue running the business.*

• *Simplified liquidation (liquidation simplifiée) is a new procedure for businesses with less than six employees in the six months prior to the judgement, turnover of less than 750,000 euros and no real estate holdings. ■*

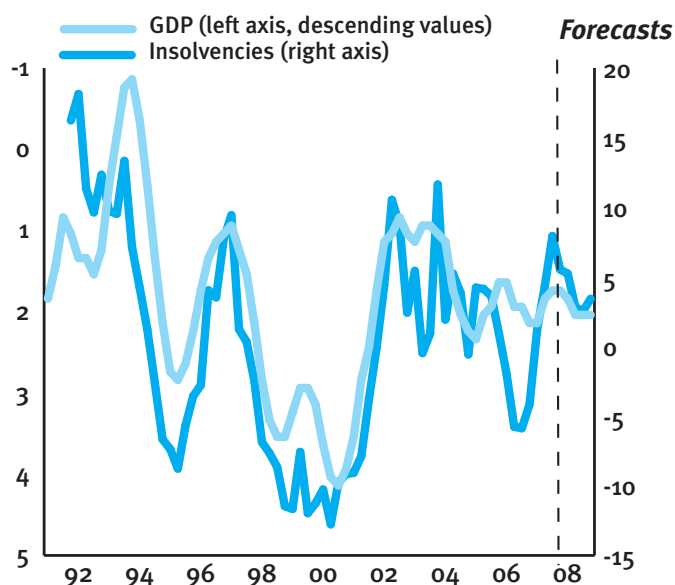
## GDP and insolvencies in France

Number of insolvencies



Source: Euler Hermes SFAC

Annual change, in %



Sources: INSEE, Euler Hermes SFAC forecasts

### Number of insolvencies

| Number *  | 2005  | 2006  | 2007  |
|-----------|-------|-------|-------|
| January   | 3,640 | 3,444 | 4,213 |
| February  | 4,044 | 3,013 | 4,164 |
| March     | 4,614 | 4,627 | 4,194 |
| April     | 5,025 | 4,293 | 3,622 |
| May       | 3,664 | 3,988 | 3,380 |
| June      | 4,468 | 3,780 | 5,368 |
| July      | 4,586 | 4,296 | 5,068 |
| August    | 3,808 | 3,978 | 4,583 |
| September | 1,971 | 1,964 | 2,180 |
| October   | 3,872 | 4,902 | 4,451 |
| November  | 4,961 | 4,506 |       |
| December  | 4,827 | 4,541 |       |

\* series at date of publication by BODACC

Source: Euler Hermes SFAC

### DEFINITION and sources of statistics

**Businesses:** as of January 1, 2006, the number of legal entities listed by INSEE in its Siren system totalled 3.6 million, including 2.651 million businesses with commercial activities in 'Industry, Commerce and Services' (ICS), but excluding around 660,000 businesses in agriculture, fishing and forestry and around 550,000 businesses in financial sectors. Of these 2.6 million businesses, half have no employees and 2.2 million have 0 to 9 persons on their payrolls.

**Insolvencies:** Euler Hermes SFAC has based its series of insolvency figures on bankruptcy court judgements in France. The series, which has just been revised, uses the number of insolvency cases of all types opened by the courts as of the date of publication of the official journal *Bodacc*, which publishes announcements of these and is used to obtain breakdown figures by major sector and by region. A second series identifies the biggest insolvencies, for entities with turnover in excess of 15 million euros.

## Major insolvencies

| Company  | Turnover in millions of euros | Activity  | Date of insolvency | Number of employees |
|--|-------------------------------|---|--------------------|---------------------|
| <b>2007 (end of October)</b>                           |                               |   |                    |                     |
| LERO group   | 1,078                         | Sale, maintenance and repair of motor vehicles and motorcycles; retailing sale of automotive fuel | 02/2007            | 56                  |
| SARL M.S Enterprise Ltd                                | 983                           | Wholesaling (computers)   | 07/2007            | ns                  |
| Smoby group  | 316                           | Manufacture of toys   | 03/2007            | 556                 |
| Toury group  | 250                           | Manuf. of dairy products  | 04/2007            | 80                  |
| Essential Trading                                      | 244                           | Textiles (commerce)   | 05/2007            | ns                  |
| Euralcom France (Lajous Industrie, Fabris, Brea) group | 242                           | Manuf. of basic metals  | 09/2007            | 545                 |
| Nexia Froid  | 193                           | Transport   | 01/2007            | 2,046               |
| Nylstar  | 125                           | Wholesaling of chemical products  | 07/2007            | 345                 |
| Serpie   | 125                           | Catalogue sales   | 04/2007            | 216                 |
| Outiror  | 112                           | Wholesaling   | 05/2007            | 355                 |
| Automotive Parts Manufacturing group                   | 80                            | Automotive suppliers  | 09/2007            | 645                 |

Source: Euler Hermes SFAC

# Italy

## The impact of reform: a fall in the number of bankruptcies

### 2007 trend: -50%

The gradual recovery in activity and the reform of Italian bankruptcy law have brought a significant drop in the number of *fallimenti* since 2006. Indeed, the change in legislation that came into force in July 2006 considerably lowered the number of businesses subject to liquidation on the basis of financial criteria, notably by excluding small companies. On the basis of the last official ISTAT figures, against its count of 12,148 judgements in 2005, the number of *fallimenti* for 2006 are estimated to have fallen by 10% to below 11,000 cases, with the numbers continuing to drop in 2007. Various surveys show a halving in the number of cases for the first half of 2007 yr/yr, which would take number of procedures for the whole of the 2007 to around 5,500 if this trend is confirmed. But comparisons with figures from previous years are difficult, since access to this procedure is now more restricted. Moreover, after just over a year since the new bankruptcy law came into force, the government has made modifications in the criteria for the procedure, which are due to come into force in January 2008.

These changes should increase the number of businesses liable to fall under the provisions of the procedure. The three financial criteria whose minimum thresholds were fixed (assets of EUR 300,000, gross turnover of EUR 200,000 and debt of EUR 500,000) must all be met to allow recourse to the procedure. In cases that fall below these levels, businesses will continue to prefer reaching an amicable agreement (*accordo di ristrutturazione dei debiti*) or preventative one (*concordato preventivo*).

### Sector analysis

According to ISTAT's 2005 assessment, the tertiary sector (retail & wholesale trading) accounted more half of procedures pronounced, followed by industry (23%) and construction (14%). Around half (46%) of the business bankruptcies were in the north of Italy (including 19% in Lombardy, 8% in Veneto and 7% in Piedmont), 28% in Italy's Mezzogiorno and 26% in the centre of the country.

### 2008 outlook: +27%

Italy will not escape the international economic slowdown, trimming its likely growth rate to 1.7% for 2007 and 1.3% for 2008, still short of the euro zone average. With lower growth and the changes to Italy's bankruptcy legislation, the number of insolvent businesses subject to legal procedures could rise by at least 20%. By a correction effect, the trend should reverse towards a total of 7,000 *fallimenti*. ■ MCS

### Insolvencies by sector 2005

|                                | Number | Change (*) | Share of total |
|--------------------------------|--------|------------|----------------|
| Agriculture & related services | 74     | 8.8%       | 0.6%           |
| Industry                       | 2,832  | 7.9%       | 23.3%          |
| Construction                   | 1,667  | 15.4%      | 13.7%          |
| Business services              | 6,832  | 5.1%       | 56.2%          |
| of which restaurants           | 978    | 7.6%       | 8.1%           |
| of which services              | 2,285  | 5.2%       | 18.8%          |
| Transport & communications     | 577    | 14.9%      | 4.7%           |
| Financial intermediaries       | 166    | -4.0%      | 1.4%           |
| Total                          | 12,148 | 7.4%       | 100.0%         |

\* change 2004 to 2005

Sources: Movimprese, ISTAT

### REGULATION

On January 9, 2006 the Italian Government enacted a legislative decree reforming bankruptcy procedures. This decree, effective from July 2006, makes a number of changes: accelerating bankruptcy legal proceedings; enlarging the competence of the creditors committee; reducing the term of exercise of clawback action; reforming the regulations governing the provisional operation of businesses under restructuring; preparation by the receiver of a restructuring plan containing the timing and modalities envisaged for the liquidation of assets; reforming the allocation of assets, shortening the duration of the procedure and simplifying the associated applicable conditions; reforming the rules applicable to arrangements with creditors (*concordato fallimentare*); introducing the debt discharge; abrogating the court-ordered reorganisation procedure and moratorium (*amministrazione controllata*), plus other reforms.

**Pre-liquidation procedures:** Italian bankruptcy law provides a special procedure for debtors facing difficulties (no insolvency) in order to avoid a bankruptcy declaration:

■ **Composition or deed of arrangement** (*concordato preventivo*): supervised by the courts, the debtor enters into a deed of arrangement with its credi-

tors for settling its outstanding debts through available assets. The arrangement can be accompanied by an agreement for debt restructuring (*accordi di ristrutturazione dei debiti*); this is constituted by an agreement between the debtor and creditors representing at least 60% of the debtor's liabilities. A moratorium on payments for companies facing temporary financial difficulties gives them a greater chance of successfully reorganising. This agreement must be accompanied by a feasibility report prepared by an expert. By contrast with an average duration of 8 years for a bankruptcy procedure and a debt repayment rate of 30%, these agreements can guarantee a much higher recovery rate of 55% to 60% and a much shorter recovery period.

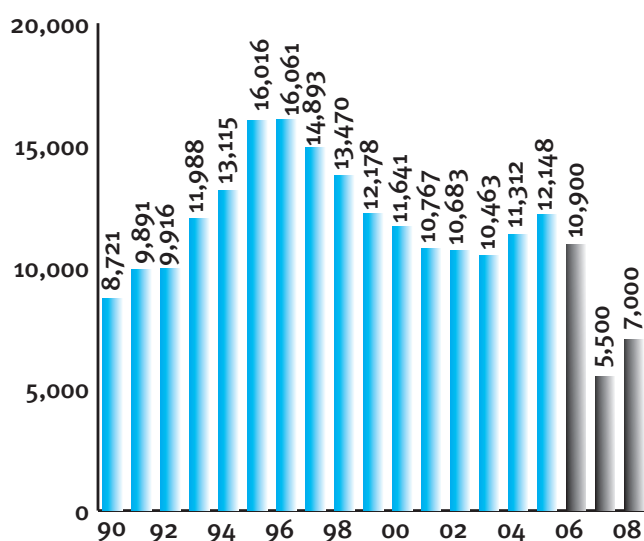
**Special procedures apply to different types of companies:**

■ **Compulsory administrative liquidation** (*liquidazione coatta amministrativa*): this procedure applies to certain types of businesses, depending on both the sector and number of employees, e.g., insurance companies, credit institutions and co-operative societies.

■ **Extraordinary administration** (*amministrazione straordinaria*): this particular insolvency procedure applies to industrial and commercial enterprises with 200 employees or more and whose debts amount to no less than two-thirds both of the assets and of income derived in the latest financial year. ■

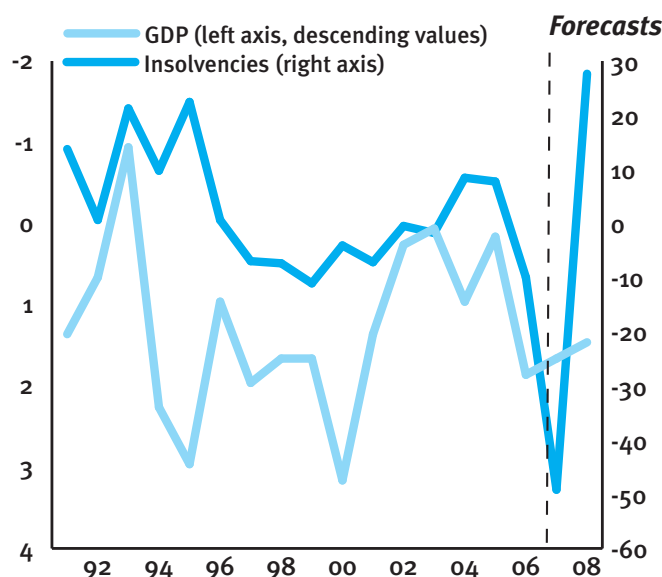
## GDP and insolvencies in Italy

Number of insolvencies



Sources: ISTAT, Movimprese, Euler Hermes forecasts

Annual change, in %



Sources: ISTAT, Movimprese, Euler Hermes forecasts

### Number of insolvencies

|      | Annual figures | Change |
|------|----------------|--------|
| 1995 | 16,016         |        |
| 1996 | 16,061         | 0.3%   |
| 1997 | 14,893         | -7.3%  |
| 1998 | 13,740         | -7.7%  |
| 1999 | 12,178         | -11.4% |
| 2000 | 11,641         | -4.4%  |
| 2001 | 10,767         | -7.5%  |
| 2002 | 10,683         | -0.8%  |
| 2003 | 10,463         | -2.1%  |
| 2004 | 11,312         | 8.1%   |
| 2005 | 12,148         | 7.4%   |

Source: Istat

### DEFINITION and sources of statistics

**Businesses:** Movimprese estimates some 5.093 million businesses active in Italy, of which 3.4 million are individually owned. Some 95% of Italian businesses are micro-businesses, i.e., those with less than 10 employees. ISTAT counts 4.277 million businesses (95% with less than 10 employees) active in industry, commerce and services (excluding agriculture, public services and associations).

**Insolvencies:** ISTAT only publishes annual business bankruptcy figures, and with two years' delay. The average duration of a procedure is seven years before judgement is pronounced. For its part, Movimprese gives quarterly figures for fallimento procedures underway by sector and by region.

## Major insolvencies

| Company   | Turnover in millions of euros | Activity   | Date of insolvency | Number of employees |
|---|-------------------------------|--|--------------------|---------------------|
| <b>2007 (end of September)</b>                                      |                               |  |                    |                     |
| Wega - Società Per Azioni   | 250                           | Wholesaling  | 03/2007            | 4                   |
| Tre Emme Pi - S.P.A.  | 90                            | Wholesaling  | 03/2007            | 100                 |
| GeneralL Buyer Società a Responsabilità Limitata o Più Bre          | 88                            | Finance  | 02/2007            | 25                  |
| Computer Support Italcards S.R.L. Informa Abbreviata (C.S.I. S.R.L) | 74                            | Manuf. of office, accounting and computing machinery                 | 05/2007            | 175                 |
| Techno. A. S.R.L.   | 71                            | Manuf. of basic metals   | 02/2007            | 200                 |
| New Tape S.R.L.   | 52                            | Wholesaling of machinery, equipment and supplies                     | 03/2007            | 6                   |
| Lanificio Luigi Botto - S.P.A.                                      | 48                            | Spinning, weaving and finishing of textiles                          | 01/2007            | 650                 |
| Oran S.P.A. in liquidazione   | 45                            | Manuf. of paper and paper products                                   | 01/2007            | 50                  |
| Premium S.A.S. di D. Rossi E C.                                     | 44                            | Manuf. of other food products  | 04/2007            | 50                  |
| Gessaroli S.R.L., in liquidazione                                   | 37                            | Manuf. of parts and accessories for motor vehicles and their engines | 07/2007            | 170                 |

Source: Euler Hermes

# Spain

## Slower growth and a rise in insolvencies

### 2007 trend: +4%

The Spanish economy, whose dynamism in recent years relied on construction and household consumption, is entering a phase of deceleration that will continue and even accentuate in 2008. The US subprime mortgage crisis has raised fears of a collapse in the Spanish real estate market and the consequences of consumer overindebtedness on the economy at large, whose growth rate should fall from 3.8% in 2007 to less than 3% in 2008. Business activity has up to now profited from Spain's strong domestic demand and from foreign orders, despite still-low profitability gains. Official business bankruptcy figures recorded by the INE are still low, given the country's active business population of 3.35 million, but this is because the formal *concurso* procedures (*voluntario* and *necesario*) are little used, with businesses preferring to settle amicably or cease trading in order to avoid the legal costs that court actions entail. Thus, there were 629 businesses subject to *concurso* procedures in the first nine months of 2007, slightly down on the same period of 2006. But the current tendency rather points to an increase in insolvencies that could accentuate, and the total number of official insolvencies could reach more than 880 cases, a rise of 4%, for 2007, putting an end to four

consecutive years of falling numbers of cases.

### Sector analysis

A breakdown of the number of procedures pronounced since the start of 2007 clearly shows a rise in insolvencies in the business services sector, whilst the figures fell in the other major sectors of the economy. This was true in industry and in retail & wholesale trading, which respectively account for 30% and 18% of petitions in bankruptcy, but the most significant drop in cases came in transport and in the hotel sector. In construction, the number of insolvencies was still down against the corresponding figure for the end of September 2006, but the trend could reverse due to the setbacks in the real estate market. Some three-quarters of insolvencies were on the part of businesses with sales turnover of below EUR 5 million, and around half of bankruptcies involved businesses with fewer than ten employees. Over the first nine months of 2007, there was a sharp 44% increase in insolvencies of businesses with turnover in excess of EUR 10 million, with the number of cases among small businesses continuing to fall. Two-thirds of procedures were pronounced in the five regions that are also home to two-thirds of Spain's business population: Catalonia (23% of cases), Madrid (10%), Valencia (13%), the

Basque Country (12%) and Andalusia (8%), the latter two marked respectively by a 10% and 12% increase in the number of cases.

### 2008 outlook: +5%

The less promising outlook for activity in industry and the net reversal of trend in construction has undercut business confidence in Spain. The slowdown in domestic demand and in exports to the euro zone will limit GDP growth to less than 3%. We can expect a 5% increase in insolvencies, taking the number of officially recorded cases to more than 900, a figure too low to genuinely reflect the true state of health of Spanish businesses. ■ MCS

### Insolvencies by sector 2007

|                                | Number | Change (*) | Share of total |
|--------------------------------|--------|------------|----------------|
| Agriculture & related services | 11     | 83.3%      | 1.8%           |
| Industry                       | 188    | -5.5%      | 30.3%          |
| Construction                   | 107    | -4.5%      | 17.3%          |
| Commerce                       | 114    | -5.0%      | 18.4%          |
| Hotels & restaurants           | 12     | -45.5%     | 1.9%           |
| Transport & communications     | 22     | -31.3%     | 3.5%           |
| Business services              | 66     | 13.8%      | 10.6%          |
| Others                         | 100    | 13.6%      | 16.1%          |
| Total                          | 620    | -2.7%      | 100.0%         |

(\*) Jan-Sep '06 to Jan-Sep '07

Source: INE

### REGULATION

A new law regarding insolvencies and bankruptcies, the Ley Concursal of July 9, 2003, came into force in September 2004, with important consequences for businesses. The principal improvements of the law are the following:

■ Creation of *new courts specialised in commercial law* and reduction in the delays for lodging the claim. As a consequence of this, the insolvency process will take less time.

■ Definition of two *different kinds of concurso* (insolvency): Culpable (blameable) or *voluntario* (voluntary) with different consequences for the managers of the business.

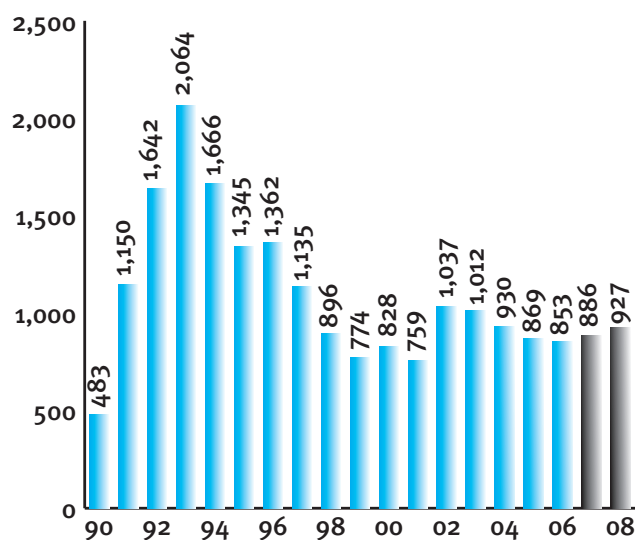
■ *Implementation of new proceedings of insolvency.* If a company has debts for three months with the tax or social security authorities, it will be considered insolvent and it shall voluntarily apply for insolvency.

■ *Toughening of the rules related to liability on the part of the managers of the company.*

The aim of the new law is to supersede the former regulation and to implement a new process that will allow businesses to cooperate with their creditors in order to survive a period of cash crisis. Nevertheless, the new law tries also to protect the interests of the creditors, toughening the rules on managerial liability and forcing the businesses to voluntarily apply for insolvency before their financial situation becomes too serious. ■

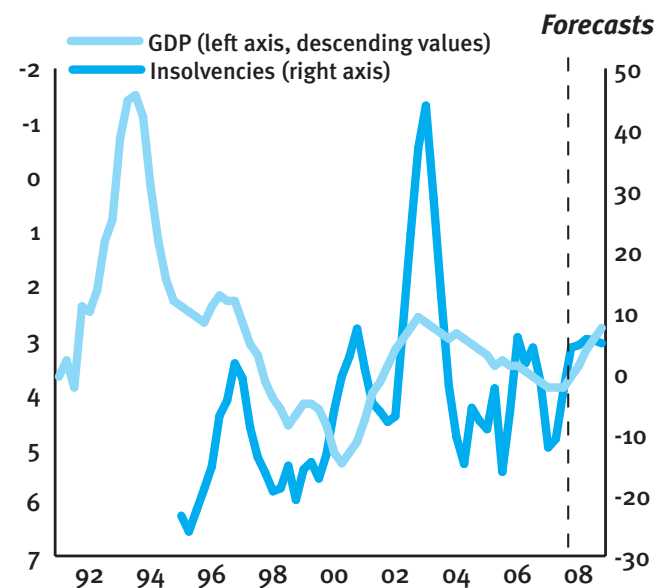
## GDP and insolvencies in Spain

Number of insolvencies



Sources: INE, Euler Hermes forecasts

Annual change, in %



Sources: INE, Euler Hermes forecasts

### Number of insolvencies

|    | 2005 | 2006 | 2007 |
|----|------|------|------|
| Q1 | 196  | 257  | 218  |
| Q2 | 239  | 218  | 212  |
| Q3 | 208  | 162  | 190  |
| Q4 | 226  | 216  |      |

Sources: INE

### DEFINITION and sources of statistics

**Businesses:** Spain's Instituto Nacional de Estadística (INE) annually publishes a census conducted by the Directorio Central de Empresas (DIRCE). On January 1, 2007, there were 3,336,657 businesses (excluding agriculture), of which 94% had fewer than 10 employees and 51% no employees. This list is based on figures from different administrative sources, including company tax and Spanish social security authorities.

**Insolvencies:** Since the fourth quarter of 2004, INE has been publishing a new series of quarterly business insolvency figures, with a breakdown by sector, by region, by business legal status and by size.

## Major insolvencies

| Company                                      | Turnover (millions of euros) | Activity  | Date of insolvency | Number of employees |
|--|------------------------------|---|--------------------|---------------------|
| <b>2007 (end of September)</b>               |                              |   |                    |                     |
| Primayor Foods SL                            | 413                          | Wholesaling of agricultural raw materials, live animals, food, beverages and tobacco                              | 05/2007            | 918                 |
| Vitelcom mobile technology S.A               | 312                          | Manuf. of television and radio receivers, sound or video recording or reproducing apparatus, and associated goods | 05/2007            | 331                 |
| Delphi Automotive Systems España SL          | 259                          | Manuf. of parts and accessories for motor vehicles and their engines  | 05/2007            | 1,854               |
| Incoporc, Sociedad Agraria de Transformación | 106                          | Wholesaling of agricultural raw materials, live animals, food, beverages and tobacco                              | 07/2007            | 4                   |
| Mgr grupo informático SL                     | 96                           | Wholesaling   | 04/2007            | 24                  |
| Proinserga, Sociedad Anónima                 | 92                           | Agricultural and animal husbandry service activities, excl. veterinary activities                                 | 07/2007            | 194                 |
| Tecnimagen SA                                | 84                           | Manuf. of tubes and other electronic components   | 09/2007            | 139                 |
| Electronic World Products, S. L.,            | 75                           | Wholesaling   | 09/2007            | 30                  |
| Nylstar S.a.U                                | 65                           | Manuf. of man-made fibres   | 08/2007            | 279                 |
| Primayor Alimentación Andalucía              | 52                           | Other animal farming; prod. of animal products  | 07/2007            | ns                  |

Source: Euler Hermes

# Netherlands

## A return towards the historical average

### 2007 trend: -13%

For 2007, the Netherlands should post a net fall in insolvencies for the second year running. Swept ahead by a positive growth impulse from all its components, GDP growth remained vigorous into the third quarter, even apart from the exceptional contribution from the country's production and exports of natural gas. Fewer than 3,500 companies filed petitions in bankruptcy over the first nine months of the year, out of an active business population totalling more than 746,000 entities (including 93,000 in primary industries). This represents a drop of more than 20% against the same period in 2006, in large part due to the sharp fall in sole trader bankruptcies. The latter, however, had risen very sharply over the four last years, rocketing by 95% between 2002 and 2006. Insolvencies for other types of companies, which still account for more than three-quarters of the total number of cases, continued to drop at a rate close to that seen in 2006, by 17%. This overall trend should prove to have moderated in the last quarter, in phase with the expected slowing in activity. The total number of bankruptcies should in the end be below 5,200, the lowest figure since 2003 but still above the historical average.

### Sector analysis

Every major sector followed the national downtrend in insolvencies over the first three quarters of 2007, including those two sectors that were still out of the picture in 2006: the hotel/restaurant sector (at the time penalised by difficulties on the part of sole traders) and agriculture. Over 2007, these two sectors posted the strongest fall in bankruptcies. The downtrend eased, however, in industry and the finance/business services component, two sectors that account for more than 40% of insolvencies but respectively just 6% and 23% of the business population. Conversely, the fall in bankruptcies gained pace in transport-communications and in wholesaling, both sectors more directly benefiting from the strength of foreign trade, and in retailing, thanks to the upturn in household consumption. The case was similar for construction, which despite everything accounted for 14% of bankruptcies (against 11% of the business population) and which also saw some large-scale bankruptcy filings.

### 2008 outlook: -4%

The Dutch economy is moving towards a slowdown in 2008, due to its strong dependence on foreign trade, in partic-

ular with Germany, for its part also heading for a slowdown. Even so, robust domestic demand should help to maintain Dutch GDP growth at above an annual 2%, a figure that is generally the turning point for insolvency trends in the Netherlands. The total number of bankruptcies for 2008 should thus fall to below 5,000 cases, gradually approaching the historical average. ■ ML

### Insolvencies by sector 2007

|                                | Number       | Change<br>(*) | Share<br>of total |
|--------------------------------|--------------|---------------|-------------------|
| Agriculture                    | 53           | -50.9%        | 1.5%              |
| Industry                       | 329          | -17.1%        | 9.5%              |
| Construction                   | 481          | -21.4%        | 13.8%             |
| Commerce                       | 876          | -20.7%        | 25.2%             |
| Hotels<br>& restaurants        | 230          | -44.7%        | 6.6%              |
| Transport<br>& communications  | 190          | -39.1%        | 5.5%              |
| Finance<br>& business services | 1,099        | -22.0%        | 31.6%             |
| Others                         | 222          | -15.6%        | 6.4%              |
| <b>Total</b>                   | <b>3,480</b> | <b>-24.7%</b> | <b>100%</b>       |

(\*) Jan-Sep '06 to Jan-Sep '07  
Source: CBS

### REGULATION

■ *Company insolvency falls under the Act dated September 30, 1893 (faillissementswet), which is inextricably linked to the work of the famed legal Professor Molengraaf. This law took effect in September 1896. Applicable to all individual businesses and legal entities, it consists of two chapters: bankruptcy (faillissement) and court-ordered moratorium (surseance van betaling) for the suspension of payments. Both these procedures take place after the Commercial Chamber of the Civil Court (notified either by the debtor, one or more creditors, or by public authorities) has established that the debtor has ceased payments (the debtor being 'apparently unable to meet its liabilities').*

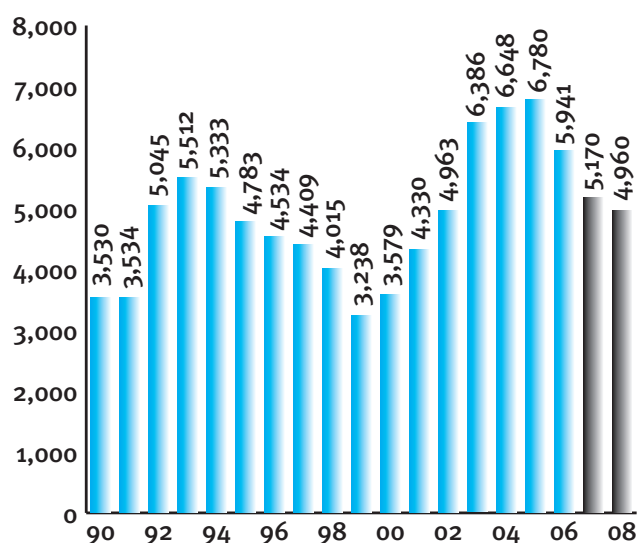
■ *The procedure is designed above all to enable recovery of businesses in temporary financial difficulty via a recovery plan. The plan must be approved by the court and offered to the creditors, who may accept it (with the agreement of 2/3 of the creditors representing 3/4 of total liabilities) or*

*reject it. However, the procedure results in the liquidation of 'unrecoverable' businesses (those with liabilities too high, a poor chance of survival, etc.). Experience has shown that more than 95% of Dutch businesses under legal moratorium end up in liquidation.*

■ *This law was last amended on September 1, 1998, when a new title was added – concerning the 'Debt Rescheduling of Natural Persons' (WetSchuldsanering Natuurlijke Personen). This law is also applicable to sole traders. It provides a three-year moratorium during which the debtor has to put in as many assets as possible in order to pay outstanding debts. This law can be also be applied to sole trader insolvencies. The aim of this law, of course, is to increase the number of individuals who avoid bankruptcy. ■*

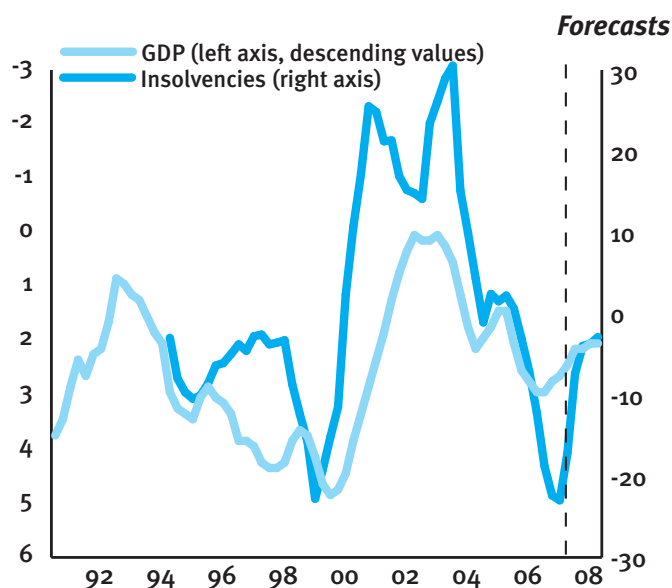
## GDP and insolvencies in Netherlands

Number of insolvencies



Sources: CBS, Euler Hermes forecasts

Annual change, in %



Sources: CBS, Euler Hermes forecasts

### Number of insolvencies

| Number    | 2005 | 2006 | 2007 |
|-----------|------|------|------|
| January   | 546  | 583  | 472  |
| February  | 578  | 558  | 343  |
| March     | 667  | 553  | 351  |
| April     | 528  | 512  | 367  |
| May       | 532  | 522  | 433  |
| June      | 612  | 471  | 334  |
| July      | 524  | 462  | 379  |
| August    | 571  | 515  | 400  |
| September | 589  | 445  | 401  |
| October   | 517  | 455  |      |
| November  | 625  | 457  |      |
| December  | 491  | 408  |      |

Source: CBS

### DEFINITION and sources of statistics

**Businesses:** The Centraal Bureau voor de Statistiek (CBS) puts the number businesses in the Netherlands as of January 1, 2006, all sectors included, at 746,400. Of these, 48% were in services, 22% in retailing and wholesaling, 13% in agriculture, 11% in construction and 6% in industry. Around 85% have more than 5 employees, while fewer than 2% have more than 50 employees.

**Insolvencies:** The CBS registers all bankruptcies ruled on by the bankruptcy courts, including personal bankruptcies, which account for 25% of the total. Our series takes in business failures for all sectors of activity, and includes companies, 'single-owner companies' and partnerships. These account for 75% of bankruptcies. We exclude personal bankruptcies, which account for 25% of the total.

### Major insolvencies

| Company                          | Turnover (millions of euros) | Activity  | Date of insolvency | Number of employees |
|----------------------------------|------------------------------|---|--------------------|---------------------|
| <b>2007</b>                      |                              |   |                    |                     |
| Nijssen Bouw B.V.                | 26                           | Construction  | 03/2007            | 88                  |
| K.Damen Schipyards B.V.          | 17                           | Building and repairing of ships and boats                                   | 03/2007            | 55                  |
| Kloosterman B.V.                 | 11                           | Manuf. of structural metal products, tanks, reservoirs and steam generators | 01/2007            | 69                  |
| Draad Wegenbouw B.V.             | n/a                          | Construction  | 03/2007            | 70                  |
| Boers Aannemings bedrijf         | n/a                          | Construction  | 05/2007            | 170                 |
| Kip Caravans BV                  | n/a                          | Caravans  | 11/2007            | 82                  |
| Wet & Dry Techniek               | n/a                          | Manufacturing   | 03/2007            | 31                  |
| Lundia Nederland BV              | n/a                          | Furniture (trade)   | 05/2007            | 111                 |
| Boeters Glastuinprojecten        | n/a                          | Greenhouses   | 11/2007            | 15                  |
| Installatiebedrijf Middelburg BV | n/a                          | Commerce  | 09/2007            | 74                  |
| H'its International BV           | n/a                          | Commerce  | 07/2007            | 14                  |

Source: Euler Hermes

# Belgium

## Heading for a slight increase in insolvencies

### 2007 trend: +2%

The Belgian economy is in a slowdown phase, with GDP growth dropping from 3% in 2006, its best performance since the start of the decade, to 2.7% in 2007. Business activity in industry and services remains good, but there has already been a noticeable reversal in the construction industry. The less promising export outlook and the political crisis in the country have weighed on both business and consumer confidence. While business finances overall remain healthy, with still comfortable results in the first quarter of 2007, we have seen a slight increase in insolvencies. During the first nine months of the year, 5,549 procedures were pronounced, down by 0.8% yr/yr, and the cumulative 12-month trend to the end of September 2007 suggests an increase in insolvencies for the whole of 2007 to around 7,800 procedures, after two years in which the figures declined. Of the 5,549 cases over the first nine months, most were on the part of small businesses, with only seven on the part of businesses with more than 100 employees (against six in 2006 overall). Nonetheless, the number of people affected by these insolvencies rose by 6.2%, with 11,762 employees directly affected. Of these, nearly half were in Flanders,

with an average of more than 2 employees affected per insolvency.

### Sector analysis

The construction sector has shown the greatest (27.7%) increase in insolvencies, and this trend is likely to continue, given the reversal in the real estate market and a drop in the number of building permits. Industry has also seen a marked increase in the number of insolvencies, up by 7%, but retail & wholesale trading and the restaurant sector have fared better, with a fall in the number of cases. By region, Flanders saw insolvencies rise by 1.3%, contributing to the trend reversal, given that it accounts for half of all insolvencies in the country. By contrast, Wallonia and the Brussels region were still recording falling insolvency figures, down respectively by 3.6% and by 1.9% over the first nine months of 2007.

### 2008 outlook: +5%

The euro zone economic outlook for 2008 is less promising, and will accentuate the braking of Belgian activity, for its part highly dependent on demand from its European partners. With Belgium's GDP growth decelerating to below 2%, we can expect a further increase in bankruptcies in 2008,

especially given the steady increase in new business creation, up by 18% over the first nine months of 2007. Given the fragility of new business start-ups, a good number of these risk falling at the hurdles and swelling the insolvency figures. ■ MCS

### Insolvencies by sector 2007

|                                   | Number | Change<br>(*) | Share<br>of total |
|-----------------------------------|--------|---------------|-------------------|
| Agriculture, hunting and forestry | 86     | 22.9%         | 1.5%              |
| Industry                          | 331    | 7.1%          | 6.0%              |
| Construction                      | 765    | 27.7%         | 13.8%             |
| Retailing & wholesaling           | 1,579  | -4.8%         | 28.5%             |
| Hotels & restaurants              | 1,026  | -6.8%         | 18.5%             |
| Transport & communications        | 1,386  | -0.1%         | 25.0%             |
| Others                            | 376    | 20.1%         | 6.8%              |
| Total                             | 5,549  | -0.8%         | 100%              |

(\*) Jan-Sep '06 to Jan-Sep '07  
Source: INS

### REGULATION

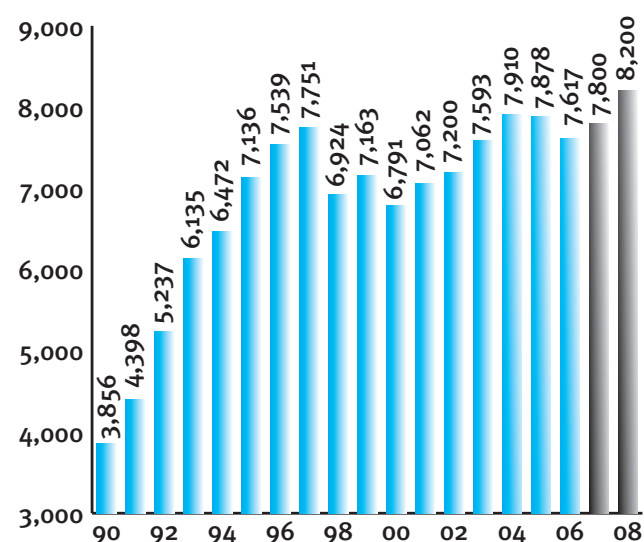
**Faillite (bankruptcy):** this applies to 'any business that has consistently ceased payment and whose credit is weak'. It is defined in the Act of August 8, 1997 (effective from January 1, 1998), which cancels and replaces the Act of April 18, 1851, concerning insolvencies, bankruptcies and payment deferrals; it establishes a procedure for the liquidation of a company. This covers the date payments ceased, appointment of administrators, verification of all debtors, statement of assets of the bankrupt party, temporary partial or total continuance of trading, etc. Bankruptcies are pronounced by the commercial court with jurisdiction for the business, largely based on the statement of the trader to the court registry (in the month when payments ceased) or on the basis of statements from one or more creditors or from the public prosecutor. Bankruptcies can be carried out via a 'short procedure' (once the minutes of the debtor's verification have been finalised) if the bankruptcy is not contested or if the asset value is not material. Alternatively, the bankruptcy may be via a 'long procedure' if the bankruptcy is liable to prejudice the rights of the bankrupt party or his creditors. The process must be completed within three years following the

court's pronouncement of bankruptcy, or with a court decision on any 'reason to excuse' the bankrupt party, which could cancel all existing liabilities from the bankruptcy.

The Act of July 17, 1997 relating to *concordat judiciaire* (legal arrangement), however, is intended to avoid bankrupting a trader acting in good faith who 'temporarily cannot meet his liabilities and whose business is threatened by difficulties liable to lead to a suspension of payments within a more or less short period of time'. The request for a legal arrangement comes either from the debtor or from the authorities following examens d'office, i.e., commercial enquiries, undertaken by the commercial courts on all debtors incurring difficulties identified from certain information including that collected every quarter from the national social security or finance authorities. The court decides either on the rejection of the request without recourse, on immediate bankruptcy, or on a legal arrangement. The latter gives legal protection to the debtor from his creditors for an observation period of a maximum of six months (unless the court extends this period) and gives the right to a temporary suspension. During this time, a recovery plan must be approved by a majority of creditors and the court, with a view to a final suspension, which can last up to 24 or 36 months. ■

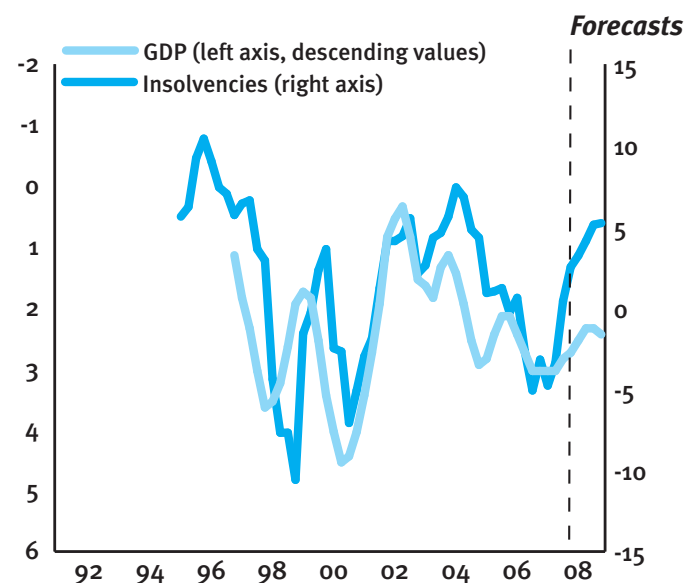
## GDP and insolvencies in Belgium

Number of insolvencies



Sources: INS, Euler Hermes forecasts

Annual change, in %



Sources: INS, Euler Hermes forecasts

### Number of insolvencies

| Number    | 2005 | 2006 | 2007 |
|-----------|------|------|------|
| January   | 695  | 740  | 642  |
| February  | 638  | 690  | 643  |
| March     | 762  | 683  | 719  |
| April     | 635  | 594  | 652  |
| May       | 721  | 729  | 634  |
| June      | 854  | 732  | 731  |
| July      | 418  | 386  | 392  |
| August    | 367  | 330  | 344  |
| September | 824  | 707  | 792  |
| October   | 687  | 716  |      |
| November  | 601  | 657  |      |
| December  | 676  | 653  |      |

Source: INS

#### DEFINITION and sources of statistics

**Businesses:** Ecodata, the database of the Ministry of Economic Affairs and the Institut National de la Statistique (INS) counted 710,252 companies registered for VAT in 2005, including independents and excluding non-profit companies. Of this figure, 95% employed fewer than 10 persons.

**Insolvencies:** INS publishes figures each month on declared business bankruptcies. These figures are broken down by major sector, by the party's legal status (bankruptcies of individual entrepreneurs, cooperatives, public limited companies and private limited companies), and by region.

## Major insolvencies

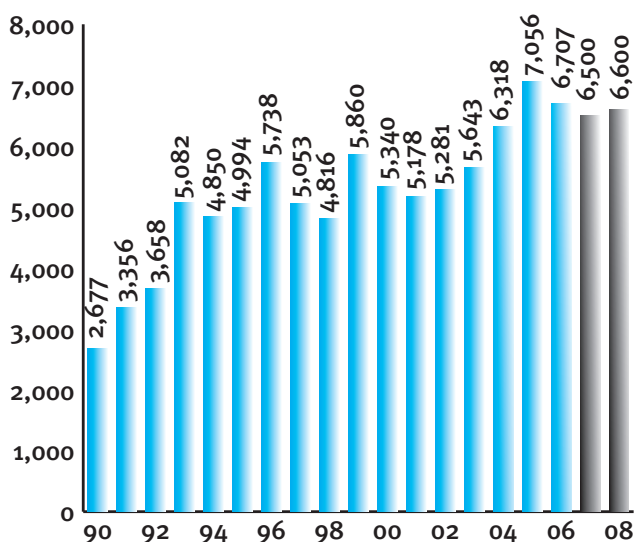
| Company                           | Turnover (millions of euros) | Activity   | Date of insolvency | Number of employees |
|-----------------------------------|------------------------------|--|--------------------|---------------------|
| <b>2007 (end of October)</b>      |                              |  |                    |                     |
| Hermes Trading Co                 | 78                           | Transport  | 05/2007            | ns                  |
| De Boever S Brandstoffen          | 58                           | Gas stations   | 05/2007            | ns                  |
| Château Caravans                  | 54                           | Manuf. of other transport equipment  | 11/2007            | 240                 |
| Nelca                             | 45                           | Textiles   | 03/2007            | 231                 |
| Dejaeghere-Spinning Mills         | 31                           | Textiles   | 03/2007            | 195                 |
| Metaalconstructies Willems        | 28                           | Manuf. of fabricated metal products, excl. machinery and equipment                   | 01/2007            | 215                 |
| Antwerp Shiprepair                | 28                           | Building and repairing of ships and boats  | 05/2007            | 162                 |
| Etablissements de Poortere Freres | 26                           | Textiles   | 06/2007            | 326                 |
| Paulus Henri en Zonen             | 25                           | Wholesaling of agricultural raw materials, live animals, food, beverages and tobacco | 04/2007            | ns                  |
| Dorleska Diamonds                 | 25                           | Other wholesaling (diamonds)   | 09/2007            | ns                  |

Source: Euler Hermes

# Austria

## The fall in bankruptcies is easing

### Number of insolvencies



Sources: KSV, Euler Hermes forecasts

#### 2007 trend: -3%

For 2007, Austrian business insolvencies should fall for the second year running. The economy remained dynamic up to the third quarter, nearly maintaining its rate of growth of 2006, when it reached 3.1% – after having climbed from 0.7% in 2002. In this good environment, insolvencies have continued to fall, with a total of 4,800 petitions in bankruptcy for the first nine months of 2007. However, by comparison with the same period of 2006, liabilities from insolvencies have nearly stabilised, at EUR 1.8bn, and the rate of improvement already seems to have eased, while a slowing in the economy is taking shape. For 2007 overall, we should thus

see bankruptcies drop by 3% to around 6,500 cases, still a high figure. Three of the country's nine regions showed a rise in the number of bankruptcies at the end of September: Lower Austria (up by 7%), Salzburg (up 11%) and Burgenland (up 34%). On a sector basis, the number of bankruptcies was up in four instances: in textiles (by 40%), agroindustry (23%), the hotel/restaurant sector (6%), and business services (6%), the latter sector being the second most affected by insolvencies, after construction.

#### 2008 outlook: +2%

The reversal seen in both business and consumer confidence in the third quar-

#### DEFINITION and sources of statistics

**Businesses:** Statistik Austria counted 279,700 businesses in 2005, (excluding education, health and social services). Business services accounted for 28% of the total, ahead of retailing and wholesaling (28%), the hotel-restaurant sector (16%), industry (10%) and construction (9%). Nearly 87% have fewer than 10 employees. Some 2% have more than 50 employees, but account for more than 60% of the cumulative turnover of all Austrian businesses, estimated at EUR 515bn for 2005.

**Insolvencies:** our series uses data from Kreditschutzverband 1870 (KSV), which gives quarterly figures for the totality of business bankruptcies pronounced, by sector and by region.

ter of 2007 increases the prospects of weakening domestic demand. Also, the economic forecasts have been revised downwards for Austria's trade partners (Germany foremost), and economic growth in these countries is one pillar of Austrian exports. The Austrian economy is headed for a slowdown, but this will be in the form of a soft landing rather than any sharp braking. However, this will be enough to further sharpen the trend in bankruptcies. These should now start to rise by the middle of the new year, taking the annual figure for 2008 overall to close to 6,600 cases. ■ ML

#### REGULATION

Austrian law distinguishes between composition proceedings under its Composition Law (Ausgleichsordnung, or AO) and winding-up under the Bankruptcy Law (Konkursordnung, or KO).

■ Opening of winding-up proceedings presupposes that the debtor is insolvent. Insolvency is in particular to be assumed when the debtor has ceased payments. It is not a precondition for insolvency that creditors are pressing for payment. A situation in which the debtor has satisfied his payment obligations towards individual creditors in whole or in part, or is still able to do so, is not sufficient grounds in itself for the assumption that he is solvent (§ 66, KO). Winding-up proceedings can also be opened on trading companies in which there is no personally liable partner who is a natural person, as well as in respect of the assets of legal entities and bankruptcy proceedings in respect of a deceased's estate in the case of overindebtedness

(technical insolvency = excess of liabilities over assets) (§ 67, KO).

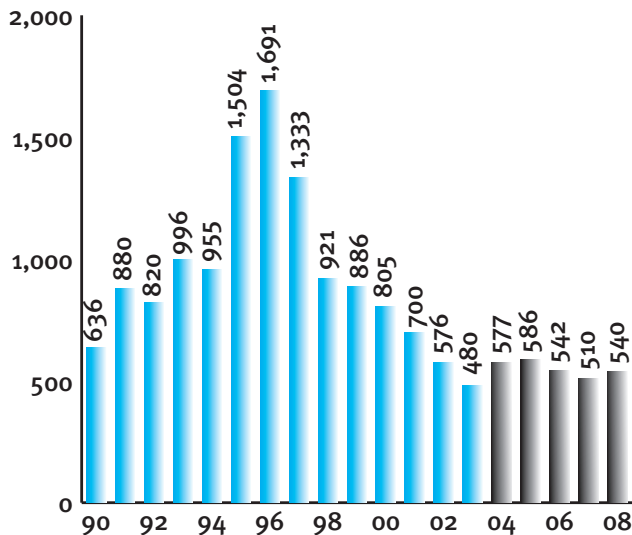
If the preconditions for opening of winding-up proceedings or threatening imminent insolvency are present, the debtor can apply for the opening of composition proceedings instead (§1, AO).

■ The goal of the winding-up proceedings is first of all to satisfy the claims of all creditors equally. Depending on the assets available, each creditor would receive a dividend in the same percentage of the amounts owed to him. Wherever possible, the attempt is made to avoid the break-up of companies that have a chance of restructuring their finances and to give the debtor the chance to get back on his feet again financially. This is the goal when the procedure known as compulsory composition (Zwangsvergleichsverfahren) takes place within winding-up proceedings. The compulsory composition procedure leads to the discharge of the debtor from his residual debt if and when he pays at least 20% of his debts within 2 years. ■

# Greece

## A foreseeable increase in insolvencies in 2008

### Number of insolvencies



Sources: National Statistical Service of Greece, Euler Hermes forecasts

#### DEFINITION and sources of statistics

**Businesses:** By the latest estimates, 795,556 businesses were registered with the National Statistical Service in 2005.

**Insolvencies:** available official data on business insolvencies end in 2003. From 2004 onwards, the figures are Euler Hermes estimates based on various sources (Icap).

#### 2007 trend: -6%

The Greek economy remains dynamic despite a slight deceleration that should trim GDP growth to below 4% for 2007 overall. Consumption, buoyed by credit growth and the fall in unemployment, remained at a good level, although investment fell in the first half of the year. The legislative elections of September 2007 gave victory to the ruling the New Democracy party of Kosta Karamanlis, who remains Prime Minister. The government should continue its policies of economic liberalisation and

needed reforms (in retirements and education) in order to reduce the national debt, which remains one of highest in OECD countries. Among the reforms, there are measures targeting private sector businesses – supporting new business start-ups, easing the labour market, reforming company law and bankruptcy law, and reducing company taxation. These measures, alongside sustained activity in the economy, have helped bring a further fall in business insolvencies, which should total 6% for 2007 overall.

#### 2008 outlook: +6%

Slower growth in the euro zone will trim Greece's export prospects accordingly, while household consumption should ease under the impact of tougher credit conditions and the burden of loan repayments. In a less dynamic economic environment, which should limit GDP growth to 3.5% in 2008, the weak competitiveness of Greek businesses could suffer as a result of stiffer international competition, bringing a likely increase in insolvencies to the level of 2006, at 540 cases. ■ MCS

#### REGULATION

The bankruptcy procedure in Greece has been reformed by the Law No. 3588/2007, in force since 16/09/2007. This Law, having taken into consideration the relevant procedures of the German, French and Spanish Law, abolishes the previous bankruptcy Law, as well as the legal framework of restructuring and winding - up of companies, determined by Law 1892/90 (Art. 44, 45, 46, 46a and 46b), and introduces faster and more flexible procedures.

The main principles of the new Law are the following:

1. First priority is to give the debtor the opportunity to restructure his enterprise and avoid being declared bankrupt. The Law encourages the adoption of the "Re-organisation Plan" of the enterprise, in order to keep it in function. The "Re-organisation plan" can be filed before the Court from the debtor or the trustee in a brief time-limit, it is evaluated by the Court and its acceptance or rejection is decided from the creditors.
2. In case the attempt to re-organise the enterprise fails, the bankruptcy procedure is faster and there are control mechanisms securing the immediate liquidation of the bankruptcy property as well as its distribution to the credi-

tors. The Law settles the immediate beginning of the liquidation after the end of the verification of the claims, as well as the fast hearing of all the bankruptcy cases.

3. The liquidation procedure of the assets is more transparent and there is a new organ in the bankruptcy procedure, the "committee of creditors", consisted of three members, each member elected from one category of creditors. This organ follows the bankruptcy procedure, assists the trustee in his work and secures the control of the procedure for the entity of the creditors.

4. The institution of "reconciliation procedure" is introduced. Aim of this procedure is to reach a settlement between the debtor and its creditors concerning all the debts, and avoid the declaration of the enterprise in bankruptcy.

5. A simpler and faster bankruptcy procedure is introduced regarding the "small bankruptcies" (=concerning cases, when the total value of the debtor's assets does not exceed the amount of 100.000 Euro, providing there is no real estate).

# Finland

## A floor of 2,200 to 2,300 bankruptcies

### 2007 trend: stabilisation

After record expansion in 2006, the Finnish economy – thanks to strength in all its components – maintained a sustained high rate of growth into the first half of 2007, which should again enable it to post growth of better than 4% for the year. In this favourable environment, most major sectors showed low insolvency figures over the first nine months, taking cumulative bankruptcy petitions over the first three quarters to only a little over 1,700 cases, out of a steadily growing business population of more than 236,400 entities. The overall downtrend in the figures, however, masks a less favourable picture for sole traders than for other types of businesses. The latter, constituting the bulk of Finland's SMEs and large companies, saw insolvencies drop by 5%, erasing the 3% increase posted in 2006. Sole trader bankruptcies, on the other hand, having fallen for two years, have now risen by 2% and – with the expected slowing in the economy in the last quarter of 2007 – make possible only a stabilisation in the overall bankruptcy total for the year. With fewer than 2,300 bankruptcies, Finland should remain at its lowest levels of insolvency for the past twenty years.

### Sector analysis

As in 2006, over the first three quarters of 2007 the pattern of business bankruptcies remained very different from

sector to sector. Retail & wholesale trading and the transport-communications component accentuated the downtrend in insolvencies already posted in 2006. Even so, retail & wholesale trading suffered the biggest bankruptcies of the year and continued to account for one in five cases, although accounting for a third of the cumulative sales turnover of all Finnish businesses (against 37% for industry, 8% for transport-communications and 6% for construction). The fall in the number of cases, however, eased in agriculture and as well as in the hotel/restaurant sector (the latter despite good household consumption). Conversely, the picture clearly improved in the only two sectors – each an important component of both the business population and of business bankruptcies – where bankruptcies rose in 2006: services and construction. In services, the number of cases to the end of September fell by 3%, after rising by 6% in 2006. By contrast, in construction the numbers rose by 3%, after rising by 12% in 2006, although confidence remains buoyant thanks to vast urban and infrastructure projects.

### 2008 outlook: +2%

The expected slowdown in activity, with GDP growth gradually returning to an annual rate nearer to 3%, should bring a trend change in insolvencies. This is

especially likely given that it is accompanied by increased risks for margins, arising out of rising wage and raw materials costs and tougher financing conditions. After hitting a record low of fewer than 2,300 bankruptcies yearly between 2005 and 2007, business insolvencies should rise to above this level in 2008, increasing by around 2%.

■ ML

### Insolvencies by sector 2007

|                                | Number       | Change<br>(*) | Share<br>of total |
|--------------------------------|--------------|---------------|-------------------|
| Agriculture & related services | 21           | 31.3%         | 1.2%              |
| Industry                       | 180          | -6.7%         | 10.5%             |
| Construction                   | 373          | 3.0%          | 21.8%             |
| Commerce                       | 306          | -7.8%         | 17.9%             |
| Hotels and restaurants         | 122          | 6.1%          | 7.1%              |
| Transport & communication      | 135          | -16.7%        | 7.9%              |
| Other sectors & services       | 571          | -3.4%         | 33.4%             |
| <b>Total</b>                   | <b>1,708</b> | <b>-3.6%</b>  | <b>100%</b>       |

(\*) Jan-Sep '06 to Jan-Sep '07  
Source: Statistics Finland

### REGULATION

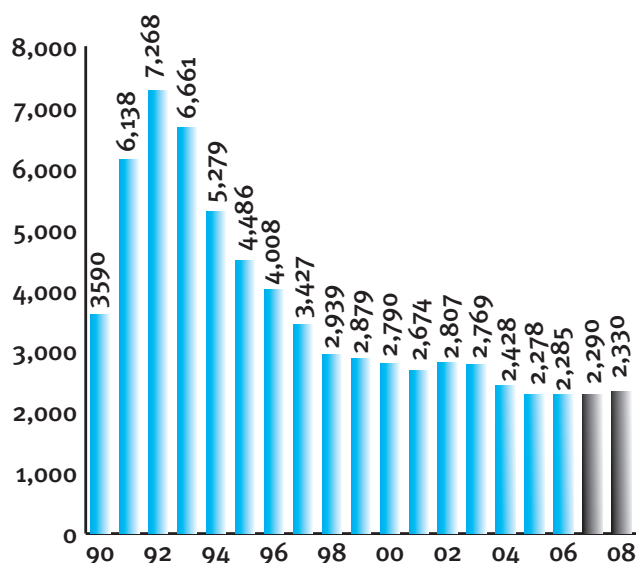
New bankruptcy legislation, replacing the former law of 1868, was introduced on September 1, 2004. This, however, is simply a codification of the praxis of recent years. In practice, this introduces very few changes to current procedures or to the positions of debtors and creditors.

■ **Konkurssi:** this is bankruptcy. A company can be declared bankrupt if it is unable to meet its financial commitments to its creditors. The procedure is initiated at the request of either the creditor or the debtor. It ends with the liquidation of the debtor's business and the sale of its assets at the best price. The proceeds of this sale are then paid over to the creditors in their order of priority.

■ **Yrityssaneeraus:** this is judicial reorganisation and is established in legislation. It begins with a request to the court on the part of either a creditor or debtor. The court appoints an administrator, who is responsible for examining the debtor's financial situation and causes of its insolvency. During this process, the debtor only retains limited possession of its assets. The administrator proposes a reorganisation and recovery plan for the creditors. The court then approves this plan if accepted by a sufficient majority of creditors. ■

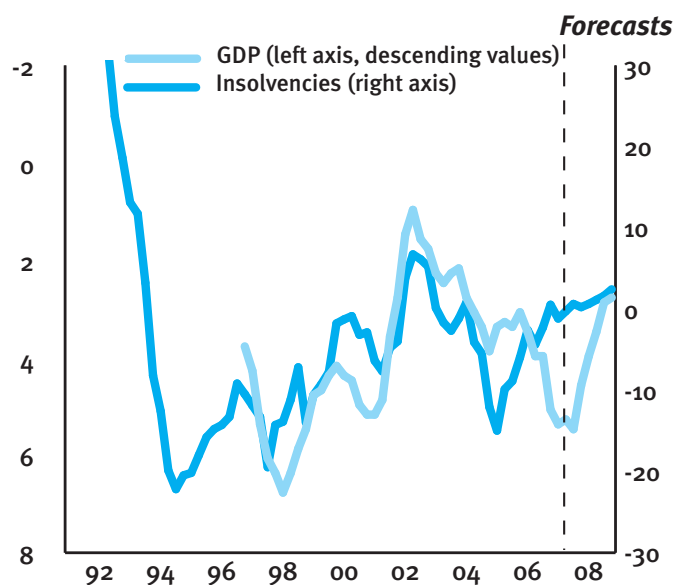
## GDP and insolvencies in Finland

Number of insolvencies



Sources: Statistics Finland, Euler Hermes forecasts

Annual change, in %



Sources: Statistics Finland, Euler Hermes forecasts

### Number of insolvencies

| Number    | 2005 | 2006 | 2007 |
|-----------|------|------|------|
| January   | 223  | 226  | 232  |
| February  | 218  | 215  | 195  |
| March     | 200  | 219  | 212  |
| April     | 204  | 180  | 166  |
| May       | 197  | 204  | 193  |
| June      | 194  | 178  | 193  |
| July      | 145  | 131  | 113  |
| August    | 172  | 213  | 226  |
| September | 214  | 205  | 177  |
| October   | 175  | 184  |      |
| November  | 218  | 201  |      |
| December  | 118  | 129  |      |

Source: Statistics Finland

#### DEFINITION and sources of statistics

**Businesses:** Statistics Finland's Business Registry counted 236,435 businesses in 2005, in all sectors of activities and all legal forms. Of the total, fewer than 3,000 (or around 1%) employed more than 50 persons, but these accounted for more than 66% of the turnover of Finnish businesses, estimated to total almost 320 billion euros in 2005.

**Insolvencies:** Statistics Finland takes a monthly census of all declared bankruptcies, by sector of activity, by turnover and by number of employees. The series we use comprises all business bankruptcies, including sole trader bankruptcies, which account for a fifth of the total. It excludes personal bankruptcies.

### Major insolvencies

| Company                        | Turnover (millions of euros) | Activity                                   | Date of insolvency | Number of employees |
|--------------------------------|------------------------------|--|--------------------|---------------------|
| <b>2007 (end of September)</b> |                              |  |                    |                     |
| Länsi-liha Oy                  | 11                           | Manuf. of food products and beverages      | 06/2007            | 47                  |
| LL-Auto Oy                     | 9                            | Sale of motor vehicles                     | 09/2007            | 5                   |
| Pierre Cavallo Oy              | 9                            | Retail sale of second-hand goods in stores | 05/2007            | 37                  |
| Suomen Farmiliha Oy Ab         | 9                            | Wholesaling of household goods             | 05/2007            | 3                   |
| Bulldog Group Oy               | 8                            | Other wholesaling                          | 05/2007            | 24                  |
| Käkikosken Saha Oy             | 8                            | Sawmilling and planing of wood             | 09/2007            | 26                  |
| Osuma Finland Oy               | 8                            | Retail sale of second-hand goods in stores | 08/2007            | 11                  |
| FBB Kolmikantarakenus Oy       | 7                            | Construction                               | 02/2007            | 63                  |
| Innoplast Oy                   | 7                            | Manuf. of plastics products                | 09/2007            | 47                  |
| Telinemiehet Oy                | 6                            | Building completion                        | 07/2007            | 92                  |

Source: Euler Hermes

# Portugal

## Towards a slight increase in insolvencies

### 2007 trend: +2%

Portugal's economy is recovering slowly and still remains fragile. The bulk of the country's GDP growth, at probably 1.8% for 2007, depends on the strength of exports and a slight improvement in domestic demand. However, budget austerity – to cut the public deficit – and the rise in interest rates are weighing on household consumption and housing investment. But industrial confidence has improved, thanks to better export demand. Hence, the better economic environment of first half of 2007 brought a strong fall in business insolvencies, with the number of cases down by 13.5% against the first half of 2006. But third quarter figures show the number of cases to be rising, taking the total for the first nine months of 2007 to 1,386 cases, close to the 1,400 posted to the end of September 2006. Given this trend, for 2007 overall we expect the total number of insolvencies to be up by 2%.

### Sector analysis

During the first half of 2007, the downward trend in insolvencies was seen across nearly all sectors, with the exception of retail & wholesale trading, where the number of cases rose by 2.6%. In industry, which accounted for 36.5% of all insolvencies, the numbers were down by 15% yr/yr, with industrial ac-

tivity gaining 3% on annual average, driven by export orders. But the fall in the number of cases was more pronounced in transport, services, and even in construction, which is having difficulty in reviving. Geographically, the major centres where insolvencies were recorded were the economic poles of Porto (28% of the total), Lisbon (18.7%) and Braga (13.3%).

### 2008 outlook: +1%

With domestic demand affected by continued restrictive tax policy and with exports hit by slowing in the European economy and the high euro, the growth prospects for 2008 are limited. We expect GDP growth to be maintained at around 1.5%, still below the euro zone average, with business insolvencies either stabilising or even rising slightly (by 1%) in 2008, remaining below the level of 1,900 cases. ■ MCS

### Insolvencies by sector 2007

|                                | Number | Change (*) | Share of total |
|--------------------------------|--------|------------|----------------|
| Agriculture & related services | 13     | 30.0%      | 1.5%           |
| Industry                       | 311    | -14.8%     | 36.5%          |
| Construction                   | 110    | -9.1%      | 12.9%          |
| Hotels & restaurants           | 22     | -26.7%     | 2.6%           |
| Transport & communications     | 33     | -31.3%     | 3.9%           |
| Wholesaling                    | 151    | -9.6%      | 17.7%          |
| Retailing                      | 120    | 2.6%       | 14.1%          |
| Business services              | 67     | -28.7%     | 7.9%           |
| Others                         | 24     | -25.0%     | 2.8%           |
| Total                          | 851    | -13.5%     | 100.0%         |

(\*) Jan-Jun '06 to Jan-Jun '07

Source: Instituto Informador Comercial

### REGULATION

■ Portugal's new Insolvency Code was published on March 18, 2004 (decree law 53/2004) and is applicable from September 2004, replacing the 1993 code of special procedures and of business recovery and bankruptcies.

■ There is now a single procedure for restructuring or liquidating an insolvent business, namely the insolvency request. Under this procedure, the court-appointed administrator is the sole person competent to declare insolvency, replacing the court-appointed manager and the liquidator. His decision to so pronounce is assessed beforehand by the judge, who will pronounce on the determination of insolvency of the business. Also, once the judgement has been pronounced on the declaration of insolvency, the decision to restructure or judicially liquidate the business will go to the

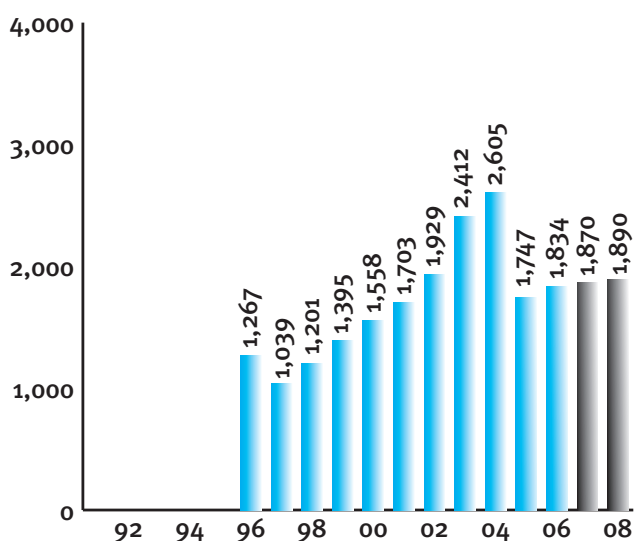
creditors' commission (although this is optional in so-called simple cases) as well as to the creditors' assembly, at which the business's employees are represented.

■ In cases of fraudulent insolvency, the penalties can be as high as 6 years' imprisonment. If the business is judged to be completely insolvent, the process can be terminated with the pronouncement of a declaration of insolvency.

In the opposite case, the pronouncement of a declaration of insolvency allows the creditors' assembly to meet within a period ranging from 45 to 75 days following the judgement. They can thus choose whether to restructure or liquidate the business. Their decision is based on the report drafted by the court-appointed administrator including an inventory of the business's assets, the provisional list of creditors and a report on the business's economic situation. ■

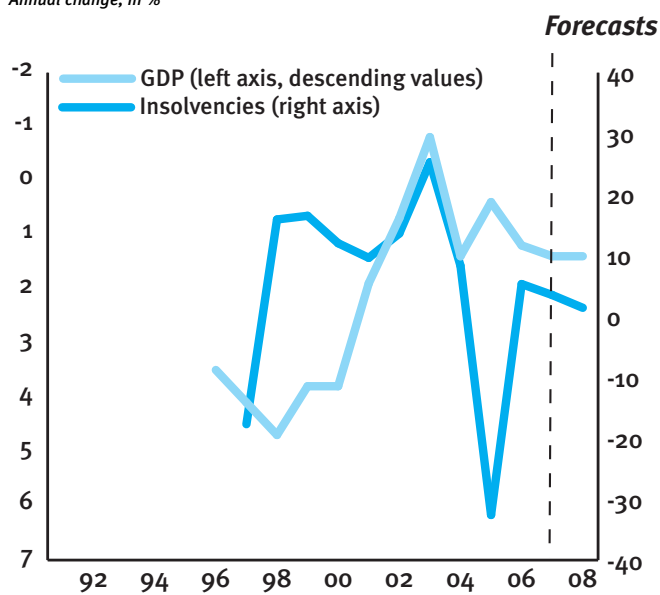
## GDP and insolvencies in Portugal

Number of insolvencies



Sources: Instituto Informador Commercial, Euler Hermes forecasts

Annual change, in %



Sources: Instituto Informador Commercial, Euler Hermes forecasts

### Number of insolvencies

| Number | 2005 | 2006 | 2007 |
|--------|------|------|------|
| Q1     | 490  | 512  | 415  |
| Q2     | 546  | 472  | 436  |
| Q3     | 366  | 416  | 535  |
| Q4     | 345  | 434  |      |

Source: Instituto Informador Comercial

### DEFINITION and sources of statistics

**Businesses:** in 2004, IAPMEI (Instituto de Apoio às Pequenas e Médias Empresas e ao Investimento) counted 1,221,555 businesses, of which nearly 75% were sole traders. Excluding the latter, there are 363,412 companies in Portugal.

**Insolvencies:** the Portuguese Instituto Informador Comercial (IIC) publishes the number of restructuring and bankruptcy procedures on a monthly basis, with breakdowns by region and by sector.

## Major insolvencies

| Company                        | Turnover (millions of euros) | Activity   | Number of employees |
|--------------------------------|------------------------------|--|---------------------|
| <b>2006 (end of September)</b> |                              |  |                     |
| Profitextil                    | 15                           | Manuf. of wearing apparel, excl. fur apparel   | 145                 |
| Imporiba                       | 4                            | Wholesaling of household goods   | 9                   |
| Lusafil                        | 5                            | Manuf. of footwear   | 76                  |
| Edifame                        | 3                            | Manuf. of structural metal products, tanks, reservoirs and steam generators          | 20                  |
| CRB - Distribuição de Bebidas  | 2                            | Wholesaling of agricultural raw materials, live animals, food, beverages and tobacco | 23                  |

Source: Euler Hermes

# United Kingdom

## A rise in insolvencies in sight

### 2007 trend: -15%

The prolonged strength of the British economy into the third quarter brought an unexpected consolidation in the downtrend in insolvencies. Over the first nine months of the year, fewer than 15,000 insolvencies were recorded in England and Wales, against nearly 20,000 over the same period of 2006. This trend is explained primarily by a strong fall in bankruptcies on the part of the self-employed, who in 2006 saw the number rise to nearly 11,000 cases – the highest figure since 1998. But company insolvencies also remained on a downtrend – of 5% to the end of September – despite a 2% rise in the third quarter. Against a company population of just over 2 million, company insolvencies in England and Wales for 2007 as a whole should be between 12,400 and 12,500, or nearly 60% of the total for the year. Slowing activity in the last quarter should only act to ease the trend, with total number of insolvencies in England and Wales for 2007 remaining below 20,500 cases, a net fall of at least 15% for the year.

### Sector analysis

Recent sectoral data, in the course of being adapted by National Statistics to the international Standard Industry Classification (SIC 2003), are not yet available, and the latest published data end with the third quarter of 2006. However, these figures do show that the distribution of insolvencies by sector reflects the structure of the British economy overall, for example for manufacturing industry (which accounts for around 9% of the business population and 9% of insolvencies) or, for example, for the wider field of business services. Retail & wholesale trading for its part recorded a lower than average insolvency rate, but posted some large-scale insolvencies in 2007. By contrast, construction often posts an insolvency rate higher than the average.

### 2008 outlook: +8%

With GDP growth likely to gradually drop to below 2% per annum, the figure at which the number of insolvencies generally stabilise, the number of cases should begin to rise in 2008.

Slowdown in services, increased vulnerability in the real estate market, and easing demand should contribute to a trend reversal in insolvencies both for the self-employed and for companies. After the lowest figures recorded in the series, the number of insolvencies should then return to an annual figure of more than 22,000 cases – an increase of 8% – against an average of 24,200 for the last ten years. ■ ML

### Insolvencies by sector 2006 (\*)

|                            | Number | Change (*) | Share of total |
|----------------------------|--------|------------|----------------|
| Agriculture & horticulture | 205    | -17.0%     | 1%             |
| Industry                   | 2,118  | -4.0%      | 9%             |
| Construction               | 3,966  | 9.9%       | 16%            |
| Transport & communications | 2,096  | 8.5%       | 8%             |
| Wholesaling                | 886    | 6.7%       | 4%             |
| Retailing                  | 2,138  | 9.9%       | 9%             |
| Services                   | 6,622  | 2.2%       | 27%            |
| Others                     | 6,856  | 15.9%      | 28%            |
| Total                      | 24,887 | 7.4%       | 100%           |

(\*) Last available sectorial data: September 2006  
 (\*\*) Companies + self employed, data not seasonally adjusted  
 Source: DTI

### REGULATION

Insolvency legislation falls under the Insolvency Acts of 1986 and 2000, and the Enterprise Act of 2002. The Enterprise Act introduced more emphasis on rescuing businesses. There are four main types of company insolvency:

■ **Administration:** the main aim of this procedure is to rescue or restructure the company, in order to achieve a better outcome for creditors than might be achieved by liquidation. The Administrator is court-appointed and has a duty to act on behalf of all creditors.

■ **Administrative receivership:** an Administrative Receiver is appointed by the holder of a floating charge and acts on behalf of the charge holder, rather than all creditors. This procedure can only be used for floating charges invoked prior to September 15, 2003 when the Enterprise Act was introduced. Exceptionally, some more complex financial transactions, such as those relating to public service companies, still allow for administrative receiverships in all cases.

■ **Company voluntary arrangement:** this is the only procedure that allows a debtor to retain legal control over the company, under the supervision of an Insolvency Practitioner. This is a collective procedure between the company and its creditors, which generally requires that part of the debts are relinquished in order to allow the company to continue operations. Agreement on the part of the creditors is required.

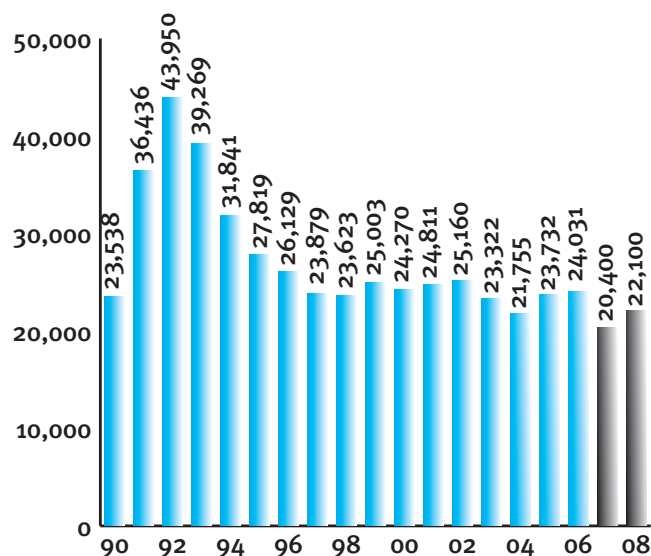
■ **Liquidation:** this procedure is most commonly used when a company cannot be rescued. The company ceases trading and its assets are realised. The liquidator can be appointed by the company, its shareholders or creditors. The liquidator acts on behalf of all creditors and has powers of investigation extending to the conduct of the directors of the business.

Other cases of insolvency

■ **Bankruptcy:** this applies to individuals who are insolvent. An individual can avoid bankruptcy by entering into an individual voluntary arrangement with his or her creditors, which involves a proposal to repay the debts. In the absence of an individual voluntary arrangement, the courts have the power to declare bankruptcy at the request of the individual or his creditors. All the bankrupt person's assets then fall under the control of a trustee (the Official Receiver or an Insolvency Practitioner). ■

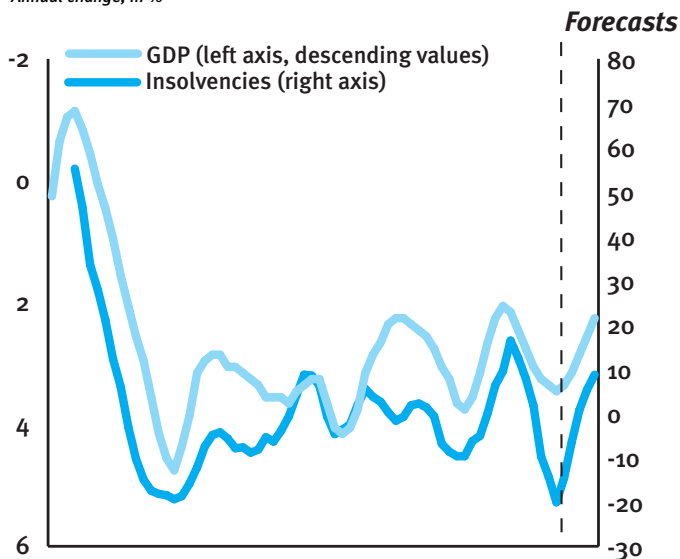
## GDP and insolvencies in United Kingdom

Number of insolvencies



Sources: DTI, Euler Hermes forecasts

Annual change, in %



Sources: DTI, Euler Hermes forecasts

### Number of insolvencies

| Number *        | 2005  | 2006  | 2007  |
|-----------------|-------|-------|-------|
| Companies *     |       |       |       |
| Q1              | 2,959 | 3,520 | 3,097 |
| Q2              | 3,336 | 3,165 | 3,051 |
| Q3              | 3,398 | 3,250 | 3,106 |
| Q4              | 3,200 | 3,202 |       |
| Self-employed * |       |       |       |
| Q1              | 2,446 | 3,150 | 1,981 |
| Q2              | 2,835 | 2,898 | 1,767 |
| Q3              | 2,850 | 2,990 | 1,730 |
| Q4              | 2,708 | 1,856 |       |

(\*) seasonally adjusted data, England and Wales only

Source: DTI

### DEFINITION and sources of statistics

**Businesses:** National Statistics gives estimates of a total of 4.342 million private sector businesses in the UK at the start of 2005, all sectors, organisation types and legal structures combined. Among these, according to the Inter Departmental Business Register (IDBR), less than 2 million were registered for VAT in 2006 in England and Wales, which is compulsory for any business with a turnover in excess of £64,000.

**Insolvencies:** Every quarter, National Statistics registers insolvencies of all types for all of the UK. Our series takes in all company and individually owned business (self-employed) bankruptcies for England and Wales. It excludes the figures for Scotland and Northern Ireland, where legal procedures are different.

**NB:** In previous issues of Insolvency Outlook, we based our figures on the total number of business and individual insolvencies, without being able to distinguish among the latter between individual entrepreneurs or strictly private individuals. Because of this, the figures cited from May 2005 onwards are not directly comparable with those we published previously.

## Major insolvencies

| Company  | Turnover (millions of euros) | Activity  | Date of insolvency | Number of employees |
|--|------------------------------|---|--------------------|---------------------|
| <b>2007 (end of September)</b>                           |                              |   |                    |                     |
| Betonsports Plc  | 1,059                        | Other community, social and personal service activities                       | 05/2007            | 1,811               |
| Dixon Motor Holdings Limited                             | 885                          | Sale, maintenance and repair of motorcycles and related parts and accessories | 07/2007            | 2,391               |
| Wildtower Limited  | 656                          | Restaurants, bars and canteens  | 06/2007            | n/a                 |
| Metronet Rail BCV Limited                                | 500                          | Rail network maintenance and renewal  | 07/2007            | 2,158               |
| Computer Component Marketing Plc                         | 484                          | Wholesaling of household goods  | 07/2007            | 14                  |
| HM Oldco Limited (Burtons Foods Group Ltd)               | 433                          | Manuf. of other food products   | 05/2007            | 3,509               |
| Beltpacker Plc   | 318                          | Retailing   | 01/2007            | 1,508               |
| Global Telecoms Distribution Plc                         | 279                          | Telecommunications  | 05/2007            | 101                 |
| Mice Group Plc   | 271                          | Manuf. of other food products   | 06/2007            | 1,827               |
| AC Realisations (2007) Limited (Adams Childrenswear Ltd) | 266                          | Retailing   | 02/2007            | 2,026               |
| Homeform Group Limited                                   | 264                          | Manuf. of furniture   | 04/2007            | 2,155               |

(\*) at 1 euro = GBP 0.682

Source: Euler Hermes

# Sweden

## Still falling numbers of insolvencies

### 2007 trend: -5%

The downtrend in insolvencies begun in the second quarter of 2003 continues. Economic expansion has certainly lost a bit of speed compared to its peak in 2006, but it has remained largely enough to avoid massively compromising business health. Nonetheless, more than 4,700 insolvencies were recorded over the first ten months of 2007, out of a total business population of nearly 920,000 entities, for the most part SMEs. The year 2007 overall should post fewer than 5,900 insolvencies, the lowest figure since 1989, a drop of 5% over the year, following the 11% fall in 2005 and 9% fall in 2006. However, the overall trend of an easing in the fall in the number of insolvencies does mask some exceptions where they are on the rise. This is the case for Sweden's regions, with 13 out of the country's 25 showing an upturn in the number of insolvencies. In terms of company size or type, there was a slight increase in the number of cases for sole proprietorships, and a more noticeable increase for businesses with five to ten employees and those with more than 50 employees.

### Sector analysis

Nearly all major sectors contributed to an average trend that saw a less of a fall

in insolvencies than in 2006. In line with the trend were manufacturing industry, construction and 'other services' – three sectors that account for more than 40% of insolvencies – whereas the hotel/restaurant sector, transport-communications and finance saw the fall in bankruptcies dropping by half or even more. There were also exceptions – again, three in number: automobiles, wholesaling and retailing. In the auto market, the number of insolvencies began to drop, partly thanks to strong domestic auto demand, which continued rising to more than 330,000 new registrations a year. Wholesaling is the only sector to post an increased drop in the number of insolvencies. As for retailing, this was the sole sector to post a rise in insolvencies, despite strong domestic demand.

### 2008 outlook: -2%

Slowing world demand and a braking in domestic demand, under the combined impact of monetary tightening and higher inflation, should moderate the expansion of the economy. But GDP growth should remain around 2.5%, a rate generally not low enough to reverse the trend of falling insolvencies. Sweden should thus see its fifth consecutive year of lower insolvency figures, although the rate of fall will mod-

erate to around 2%, resulting in a new low of around 5,800 cases. ■ ML

### Insolvencies by sector 2007

|                                  | Number       | Change<br>(*) | Share<br>of total |
|----------------------------------|--------------|---------------|-------------------|
| Agriculture & primary industries | 71           | -19.3%        | 1.5%              |
| Manuf. industry                  | 333          | -9.8%         | 7.0%              |
| Construction                     | 582          | -4.4%         | 12.2%             |
| Automotive                       | 193          | -13.5%        | 4.0%              |
| Wholesaling                      | 395          | -9.8%         | 8.3%              |
| Retailing                        | 568          | 8.6%          | 11.9%             |
| Hotels & restaurants             | 299          | -5.1%         | 6.3%              |
| Transport & communications       | 192          | -10.3%        | 4.0%              |
| Finance                          | 30           | -3.2%         | 0.6%              |
| Real estate                      | 140          | -3.4%         | 2.9%              |
| Other services                   | 1,027        | -9.4%         | 21.5%             |
| Others                           | 945          | 2.5%          | 19.8%             |
| <b>Total</b>                     | <b>4,775</b> | <b>-4.7%</b>  | <b>100%</b>       |

(\*) Jan-Oct '06 to Jan-Oct '07  
Source: SCB

### REGULATION

**Konkurs** is the term used for bankruptcy. A business may be declared bankrupt due to insolvency if it cannot meet its liabilities to creditors. The company is not insolvent if its funds and assets are sufficient to repay the creditors.

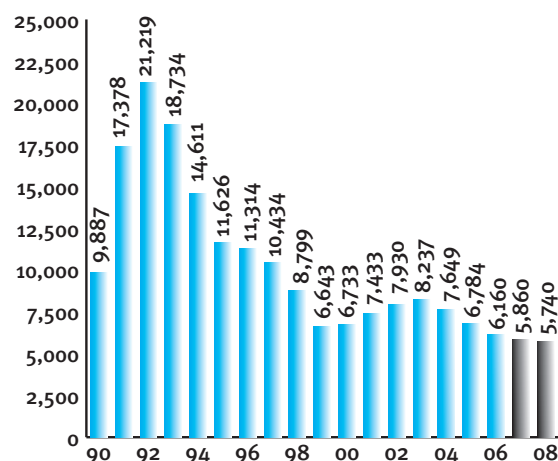
**Företagsrekonstruktion** is the term for public business reorganisation. The procedure is set out by law and influenced by US Chapter 11. The procedure is started by a petition to court for reorganisation of the business, made by either the debtor or a creditor. An administrator (rekonstruktör) is appointed to examine the debtor's financial situation. The reorganisation always includes a proposal. If all creditors not do accept this proposal, the debtor may apply to the court, requesting that public composition proceedings begin. Legal arrangement (offentligt accord) can first be decided under a public business reorganisation procedure.

**Underhandsackord** is an agreement between creditors and the debtor to avoid bankruptcy and continue the business in difficulty as a going concern. It can be established by an agreement between both parties regarding the amount of liabilities due to creditors. To avoid bankruptcy, the dividend to creditors has to be at least 25%

The intention of the new bankruptcy legislation in Sweden, with full effect from 1 January 2005, was to increase dividends in bankruptcies for unsecured creditors. One additional motive was to improve conditions prior to successful reconstructions in Sweden. Some critical voices have been raised however, regarding the unwanted side effects of the 'credit crunch' directed to small and medium sized companies. The credit crunch consists basically of goods financing (leasing and factoring) being offered instead of current account financing and of wider use of guarantees, when banks are dealing with smaller companies. ■

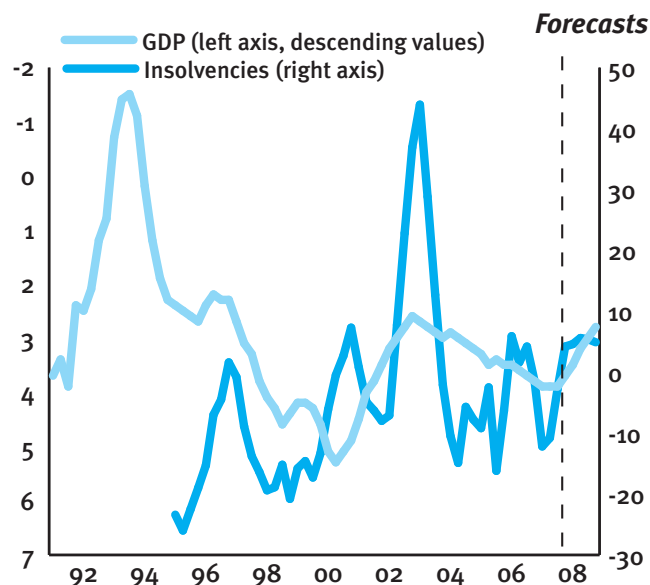
## GDP and insolvencies in Sweden

Number of insolvencies



Sources: SCB, Euler Hermes forecasts

Annual change, in %



Sources: SCB, Euler Hermes forecasts

### Number of insolvencies

| Number    | 2005 | 2006 | 2007 |
|-----------|------|------|------|
| January   | 566  | 493  | 523  |
| February  | 510  | 518  | 422  |
| March     | 661  | 581  | 549  |
| April     | 695  | 492  | 483  |
| May       | 642  | 557  | 542  |
| June      | 602  | 516  | 477  |
| July      | 414  | 402  | 400  |
| August    | 411  | 389  | 405  |
| September | 493  | 444  | 400  |
| October   | 591  | 619  | 574  |
| November  | 628  | 632  |      |
| December  | 571  | 517  |      |

Source: SCB

### DEFINITION and sources of statistics

**Businesses:** Statistics Sweden (Statistiska Centralbyran – SCB) gives a figure of 924,642 businesses active as of January 1, 2007, covering all sectors of the economy included in European nomenclature categories A to Q. Of these, 57% were individually owned businesses (self-employed), 28% were limited companies and 8% were limited partnerships.

**Insolvencies:** Statistics Sweden gathers figures each month for insolvencies of all types, by region, by legal status, by type of activity and by number of employees. The series we use covers the totality of business insolvencies (for companies and individual entrepreneurs). It excludes bankruptcies of strictly private persons, which generally account for 5% of total bankruptcies.

*N.B.: Previously, our published figures were based on the total number of business insolvencies and individual insolvencies, regardless of whether the latter were on the part of individual entrepreneurs or strictly private individuals, given that these were not distinguished from one another. Hence, our published figures since November 2005 are not directly comparable with those in earlier editions of Insolvency Outlook.*

### Major insolvencies

| Company  | Turnover (millions of euros)* | Activity  | Date of insolvency | Number of employees |
|--|-------------------------------|---|--------------------|---------------------|
| <b>2007</b>                                    |                               |   |                    |                     |
| Astoria Cinemas AB                             | 25                            | Motion picture and other entertainment activities | 07/2007            | 162                 |
| Akan of Sweden AB                              | 11                            | Textiles  | 06/2007            | 65                  |
| EUD Teknik AB                                  | 11                            | Computers and telecoms equipment                  | 01/2007            | 25                  |
| Audio-visual-display Technology Scandinavia AB | 8                             | IT sales agents                                   | 09/2007            | 20                  |
| Ottenby Åkeri AB                               | 8                             | Road transport                                    | 06/2007            | 70                  |
| Nya Inlandsgods AB                             | 8                             | Transport via railways                            | 07/2007            | 33                  |
| Rani Metall AB                                 | 7                             | Casting of metals                                 | 07/2007            | 55                  |
| Rosegarden Studios AB                          | 7                             | Radio and television                              | 09/2007            | 0                   |
| Västsvenska Fotolaboratoriet AB                | 7                             | Photography                                       | 02/2007            | 64                  |
| Elektrostore Sverige E AB                      | 7                             | Sales of kitchen appliances, etc.                 | 04/2007            | 4                   |

(\* at 1 euro = SEK 9.25

Source: Euler Hermes

# Denmark

## A net rise in insolvencies

### 2007 trend: +16%

The sharp acceleration of growth in 2005-2006 was accompanied by a net fall in business insolvencies of 5% in 2005 and then 20% in 2006. Correspondingly, the significant deceleration in growth that began in 2007 has already manifested itself, in the opposite direction, in a net increase in insolvencies. Bottlenecks and manpower shortages have limited output volume growth, while increased wage, raw material, and finance costs have trimmed margins. Danish businesses are struggling to maintain their overall profitability at the peak levels reached in the third quarter of 2006. As a result, nearly 1,900 businesses had to file petitions in bankruptcy over the first ten months of 2007, against fewer than 1,600 over the same period in 2006. Half of these insolvencies are still concentrated in the Hovedstaden region, which includes Copenhagen. The overall trend should lead to a 2007 tally of at least 2,300 insolvencies, an increase of more than 15%, marking a return to the average level of insolvencies over the last ten years.

### Sector analysis

The trend reversal in insolvencies has spread to all sectors, apart from agri-

culture and transport-communications, two sectors that respectively account for 16% and 5% of business population. Three sectors posted a rise in insolvencies that was less than the national average over the first ten months of the year: consumer services, retailing, and lastly wholesaling. The latter accounts for nearly 25% of the cumulative sales turnover of all Danish businesses, against 22% for manufacturing industry, 10% for business services, and 6% for construction. These last three sectors all recorded an increase in insolvencies above the national average. This was also the case for the hotel/restaurant sector, which thereby ended two consecutive years of falling insolvencies.

### 2008 outlook: +7%

The slowing in the economy begun in 2007 should continue but not worsen. Pressures in the labour market and more expansionist budget policy should partly compensate for the negative effects of recent interest rate hikes and the expected slowing in world demand. However, GDP growth should remain below 2%, a threshold at which the number of insolvencies generally stabilise. Denmark should therefore see another year of rising insol-

vencies, which could increase by around 7% in 2008, to well above a yearly figure of 2,400 cases. ■ ML

### Insolvencies by sector 2007

|                                | Number | Change<br>(*) | Share<br>of total |
|--------------------------------|--------|---------------|-------------------|
| Agriculture                    | 27     | -30.8%        | 1.4%              |
| Industry                       | 175    | 35.7%         | 9.2%              |
| Construction                   | 347    | 34.5%         | 18.3%             |
| Wholesaling                    | 188    | 8.7%          | 9.9%              |
| Retailing                      | 168    | 14.3%         | 8.9%              |
| Hotels & restaurants           | 120    | 26.3%         | 6.3%              |
| Transport<br>& communications  | 92     | -8.0%         | 4.9%              |
| Finance<br>& business services | 391    | 23.0%         | 20.6%             |
| Consumer services              | 82     | 2.5%          | 4.3%              |
| Others                         | 304    | 40.7%         | 16.1%             |
| Total                          | 1,894  | 21.8%         | 100%              |

(\*) Jan-Oct '06 to Jan-Oct '07  
Source: DST

### REGULATION

There are three procedures relating to bankruptcy:

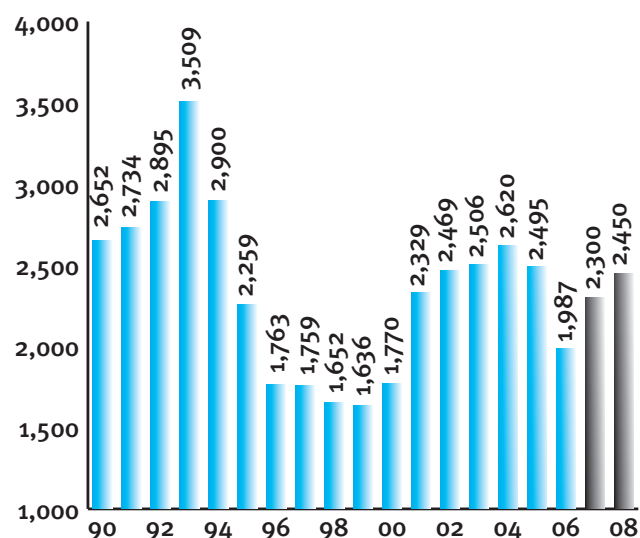
■ **Betalingsstandsning:** this is a suspension of payments to avoid bankruptcy while protecting creditors. During the payment suspension period, the debtor company attempts to find ways to continue as a going concern and is protected from all legal actions from its creditors. A date is fixed to separate transactions and important decisions prior to the payment suspension. If the business cannot continue as a going concern, the payment suspension date is established as the date when the bankruptcy takes effect. During the payment suspension, creditors have no influence on the procedure.

■ **Akkord:** this is an arrangement or agreement between the creditors and the debtor to avoid bankruptcy and continue the insolvent business as a going concern. It is effected via an agreement signed by both sides regarding the amount of liabilities due to creditors. A deadline is established, and the arrangement takes effect for all creditors, who are treated equally.

■ **Konkurs:** this is bankruptcy under the Danish Bankruptcy Act (Konkursloven). It may be declared by the debtor company or by a creditor. The procedure results in the liquidation of the debtor business. An administrator is appointed by the creditor and takes control of the company, with a view to selling the assets at the highest possible price and paying the funds raised to creditors in their order of priority according to Danish bankruptcy law. ■

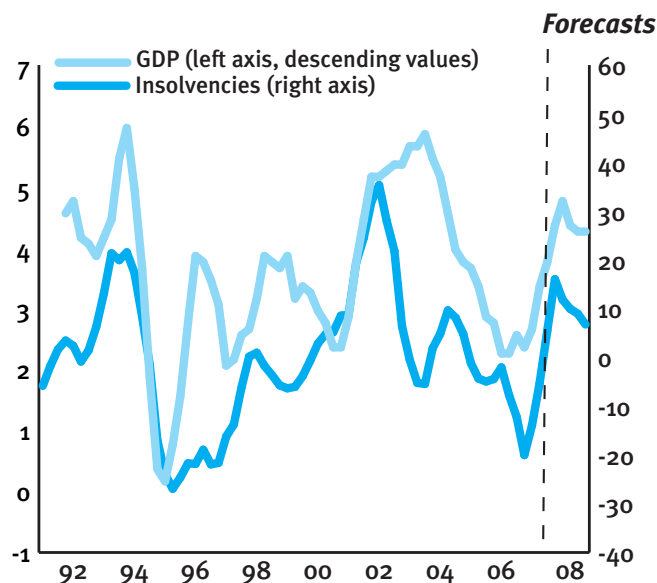
## GDP and insolvencies in Denmark

Number of insolvencies



Sources: DST, Euler Hermes forecasts

Annual change, in %



Sources: DST, Euler Hermes forecasts

### Number of insolvencies

| Number    | 2005 | 2006 | 2007 |
|-----------|------|------|------|
| January   | 152  | 139  | 180  |
| February  | 166  | 148  | 186  |
| March     | 226  | 212  | 246  |
| April     | 194  | 177  | 147  |
| May       | 208  | 144  | 187  |
| June      | 236  | 159  | 210  |
| July      | 197  | 140  | 166  |
| August    | 165  | 118  | 152  |
| September | 192  | 155  | 192  |
| October   | 244  | 163  | 228  |
| November  | 251  | 215  |      |
| December  | 264  | 217  |      |

Source: DST

#### DEFINITION and sources of statistics

**Businesses:** the Statistical Yearbook from Danmarks Statistik (DST) showed nearly 294,000 businesses active in 2005. This figure covers businesses of every legal status (of which around 60% are sole traders) and covers every sector of activity (of which nearly 46,600 are in agriculture, fisheries and the primary extraction sector). Around 90% employ fewer than 10 persons, but 70% of employees work in one of the 4,300 businesses that employ more than 50 persons.

**Insolvencies:** our series draws on figures from DST. Each month, in the Danish Official Gazette, the DST lists the totality of declared business bankruptcies by activity and region for the whole of Denmark (excluding the Faeroe Islands and Greenland).

## Major insolvencies

| Company                                   | Turnover (millions of euros)* | Activity  | Number of employees |
|---|-------------------------------|---|---------------------|
| <b>2007</b>                               |                               |   |                     |
| Afviklingsselskabet af 22.05.06           | 67                            | Real estate activities                                | 0                   |
| Afviklingsselskabet C af 19.Maj 2006 A/S  | 56                            | n/a   | 178                 |
| Afviklingsselskabet D af 19. Maj 2006 A/S | 47                            | n/a   | 402                 |
| Graphx A/S                                | 35                            | Printing and service activities related to printing   | 75                  |
| D&M Trade ApS                             | 22                            | Wholesaling of household goods                        | 2                   |
| Mogens Eichen og Søønner A/S              | 18                            | Construction  | 108                 |
| Bridema A/S                               | 12                            | Wholesaling   | 36                  |
| Jack Of All Games A/S                     | 9                             | Wholesaling   | 0                   |
| Aktieselskabet af 30/3 2007               | 9                             | Dressing and dyeing of fur; Manuf. of articles of fur | 52                  |
| Compare Support A/S                       | 9                             | Business activities                                   | 77                  |

(\*) at 1 euro = DDK 0.134

Source: Euler Hermes

# Norway

## Trend reversal

### 2007 trend: nearly stabilised

Norway will possibly post its fourth consecutive year of falling insolvencies, but with the decline well below what has been seen since 2003. The economy, running at full steam for four years, remained vigorous into the third quarter, and 2007 will record another strong performance with GDP rising by around 3% (or at least 5% for Norway's 'continental' GDP, which excludes maritime transport and hydrocarbons), despite a slowing at the end of the year. Even so, the number of insolvencies barely fell, for at least two reasons that more directly affected sole traders, who account for 36% of the total number of cases. The first of these was the combined impact of less favourable finance conditions, wage pressures and currency exchange rates, while the second was the naturally high level of business mortality arising out of the large amount of new business creation in recent years. Insolvencies showed a slight rise to the end of September, with a 12-month cumulative increase of 1.2%, but then posted a small decline at the end of October. Overall, the number of petitions in bankruptcy for 2007 should approach the 2006 figure of 3,000 (out of a total business population totalling under 300,000 entities,

excluding public administration and primary industries), and should represent a fairly similar cumulative sales turnover of around NOK 7 billion.

### Sector analysis

After a widespread fall across all sectors for two years, the pattern of insolvencies varied sharply over the first nine months of 2007. Overall, the downtrend continued in the hotel & restaurant sector and in transport, accelerated only in wholesaling, and slowed in the auto sector and in manufacturing industry. Three major sectors, on the other hand, which already account for more than 50% of insolvencies, are now seeing an increase in the number of cases: retailing, construction and business services. The sharpest increase will be probably in the latter, which accounts for a third of Norwegian businesses. Construction, for its part, continues to show a relatively higher rate of insolvency, as it makes up only 13% of the business population but always figures in the list of large-scale bankruptcy petitions.

### 2008 outlook: +20%

The Norwegian economy should remain solid but will lose a little impetus in the wake of the monetary tightening

initiated in mid-2005 and the expected slowing in world trade. But operational constraints in the form of wages and commodity prices should continue, along with high business mortality levels, given business creation increases of 11% in 2004, 10% in 2005 and 8% in 2006. Norway could thus see insolvencies rise considerably in 2008, by an estimated 20%, marking a return to its historical average of 3,200 bankruptcies. ■ ML

### Insolvencies by sector 2007

|                                   | Number       | Change (*)   | Share of total |
|-----------------------------------|--------------|--------------|----------------|
| Agriculture, forestry & fisheries | 46           | -19.3%       | 2.1%           |
| Extractive industries             | 1            | -80.0%       | 0.0%           |
| Manuf. industry                   | 120          | -13.7%       | 5.6%           |
| Water & gas                       | 1            | 0.0%         | 0.0%           |
| Construction                      | 465          | 2.4%         | 21.6%          |
| Automotive                        | 80           | -1.2%        | 3.7%           |
| Wholesaling                       | 149          | -20.3%       | 6.9%           |
| Retailing                         | 349          | 0.3%         | 16.2%          |
| Hotels & restaurants              | 163          | -23.1%       | 7.6%           |
| Transport                         | 147          | -12.0%       | 6.8%           |
| Post & telecoms                   | 33           | 106.3%       | 1.5%           |
| Finance                           | 12           | 33.3%        | 0.6%           |
| Other business services           | 413          | 10.7%        | 19.2%          |
| Others                            | 176          | -9.7%        | 8.2%           |
| <b>Total</b>                      | <b>2,155</b> | <b>-4.0%</b> | <b>100%</b>    |

(\*) Jan-Sep '06 to Jan-Sep '07  
Source: SSB

### REGULATION

Business insolvency covers several terms:

■ **Betalingsstans:** this is a suspension of payments to avoid bankruptcy while protecting creditors. During the payment suspension period, the debtor company attempts to find ways to continue as a going concern and is protected from all legal actions from its creditors. A date is fixed to separate transactions and important decisions prior to the payment suspension. If the business cannot continue as a going concern, the payment suspension date is established as the date when the bankruptcy takes effect. During the payment suspension, creditors have no influence on the procedure.

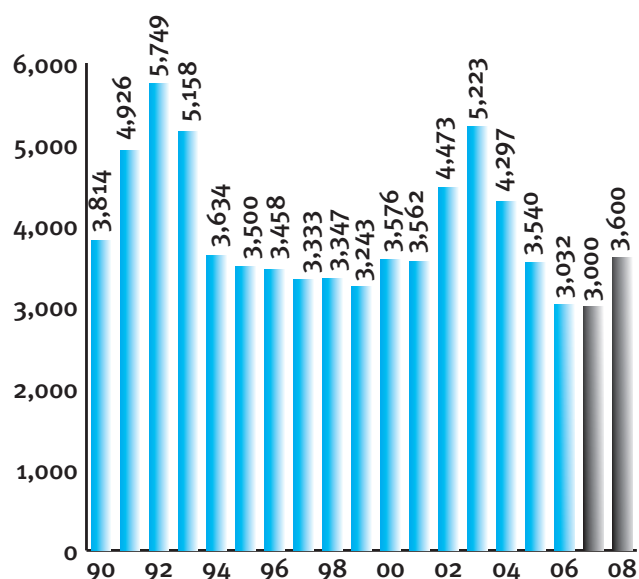
■ **Konkurs:** this is the term used for bankruptcy. A business may be declared bankrupt due to insolvency if it cannot meet its liabilities to creditors. The company is not insolvent if the funds and assets are sufficient to repay its creditors. The business can be declared bankrupt by the creditors or by the business itself (oppbud).

■ **Tvangsoppløsning:** This is the term for liquidation ordered by the court in the event that the business cannot meet its formal obligations.

■ **Akkord:** This is a legal arrangement (tvangsakkord) or agreement between the creditors and the debtor (frivillig akkord) to avoid bankruptcy and continue the insolvent business as a going concern. It requires the written agreement of both parties on the amount of liabilities due to creditors. A deadline is established, and the arrangement takes effect for all creditors, who are treated equally. To avoid bankruptcy, the return to the creditors has to be at least 25%. ■

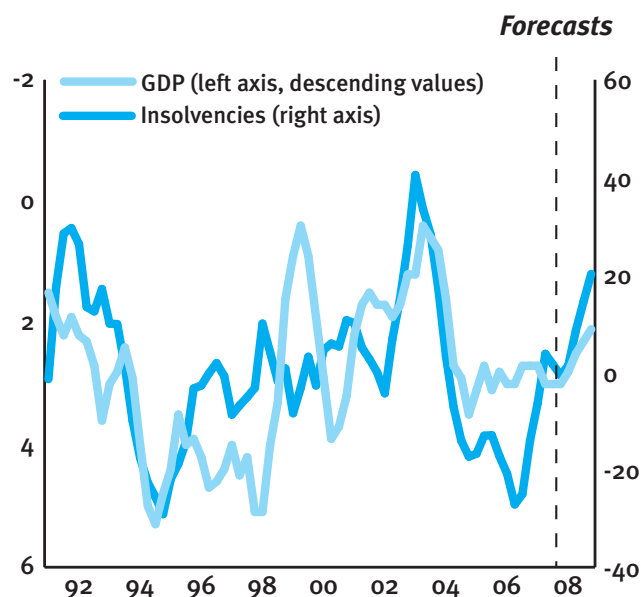
## GDP and insolvencies in Norway

Number of insolvencies



Sources: SSB, Euler Hermes forecasts

Annual change, in %



Sources: SSB, Euler Hermes forecasts

### Number of insolvencies

| Number    | 2005 | 2006 | 2007 |
|-----------|------|------|------|
| January   | 342  | 252  | 271  |
| February  | 400  | 283  | 256  |
| March     | 353  | 310  | 354  |
| April     | 353  | 212  | 202  |
| May       | 333  | 230  | 260  |
| June      | 325  | 247  | 229  |
| July      | 214  | 210  | 155  |
| August    | 290  | 238  | 198  |
| September | 265  | 262  | 230  |
| October   | 246  | 300  |      |
| November  | 241  | 282  |      |
| December  | 178  | 206  |      |

Source: SSB

### DEFINITION and sources of statistics

**Businesses:** Statistics Norway (Statistisk Sentralbyrå – SSB) counted 317,500 businesses active as of January 1, 2007, excluding public entities and the primary industries (totalling around 80,000 units) of agriculture, forestry and fisheries. Of those counted, 43% were private limited companies and 47% sole proprietors-hips.

**Insolvencies:** SSB publishes figures on bankruptcies of all types occurring each month, by region, type of activity, turnover and number of employees, drawn from the Register of Bankruptcies in Bronnoysund and the Value Added Tax Registration List. Our series covers all business bankruptcies (of all legal structures) and personal bankruptcies (on the part of individual entrepreneurs and private persons, which are not distinguished).

### Major insolvencies

| Company                 | Turnover (millions of euros)* | Activity               | Date of insolvency | Number of employees |
|-------------------------|-------------------------------|------------------------|--------------------|---------------------|
| <b>2007</b>             |                               |                        |                    |                     |
| Boerset & Bjerkset AS   | 34                            | Construction           | 09/2007            | 64                  |
| Troenderkylling AS      | 20                            | Farming of animals     | 04/2007            | 30                  |
| PA Marketing AS         | 15                            | Commerce               | 03/2007            | 64                  |
| Vatvedt Mek Verksted AS | 14                            | Construction           | 06/2007            | 58                  |
| Hava Retail AS          | 14                            | Commerce               | 03/2007            | 67                  |
| Traakkaveien AS         | 12                            | Real estate activities | 03/2007            | n/a                 |
| Byggfornyelse AS        | 10                            | Construction           | 04/2007            | 35                  |
| Oslo Bilmegling AS      | 9                             | Sale of motor vehicles | 08/2007            | 2                   |
| Byggpartner AS          | 8                             | Construction           | 05/2007            | 23                  |
| Kramer AS               | 8                             | Business activities    | 06/2007            | 141                 |

(\*) at 1 euro = NOK 7.75  
Source: Euler Hermes

# Switzerland

## A prolonged fall in insolvencies

### 2007 trend: -4%

Buoyed by continued expansion in its economy, with strong GDP growth into the third quarter, for 2007 Switzerland should post another year of falling insolvencies. Some 3,640 businesses filed for bankruptcy over the first ten months of the year, against 3,769 over the same period of 2006, out of an active business population of nearly 300,000 entities (for the most part made up of small businesses in the tertiary sector). Overall, the number of insolvencies should be down by a little more than 4% for the whole of the year, marking a 13% cumulative drop from the record high of 2004. Within this, however, there are some exceptions and disparities, notably on the regional level. Over the first three quarters, the fall in the number of cases was stronger in the regions of Zurich and Eastern Switzerland, which together account for a quarter of Swiss businesses and which had recorded a clear rise of bankruptcies in 2006. The regions of Bern and Tessin, by contrast, saw a net increase in insolvencies, of 10% and 4% respectively.

### Sector analysis

As in 2006, only one major sector went against the overall trend seen over the

first part of the year. This time, however, it was not the construction sector, which despite everything continues to show a higher insolvency rate, accounting for 21% of cases but only 12% of the business population. Instead, the odd one out was the services sector, which ended two years of falling insolvencies and posted a slight rise in the number of cases, mostly in the restaurant sector, fiduciary services and detection and monitoring agencies. Retailing and wholesaling, which together account for nearly a quarter of the business population, benefited from strong domestic demand and continued the fall in insolvencies begun in 2005 (after an increase of 31% between 2001 and 2004). The biggest fall in insolvencies, however, was again in industry, which stayed on track with the improvement seen since 2004, with the number of cases dropping back to its 2002 level, despite another net increase in the number of businesses in the sector.

### 2008 outlook: -3%

The expected slowing in the economy should gradually temper the downward trend in insolvencies, with the acceleration in new business start-ups over recent years also gradually contributing its share of business bankruptcies. For

2008 overall, however, the total number of cases should fall slightly, dropping by at least 5% to 4,200 bankruptcies over the year, a level still higher than the historical average. ■ ML

### Insolvencies by sector 2007

|              | Number | Change (*) | Share of total |
|--------------|--------|------------|----------------|
| Construction | 473    | -3.7%      | 21.0%          |
| Industry     | 177    | -14.5%     | 7.9%           |
| Services     | 1,007  | 0.6%       | 44.7%          |
| Commerce     | 543    | -9.2%      | 24.1%          |
| Others       | 52     | -5.5%      | 2.3%           |
| Total        | 2,252  | -4.3%      | 100%           |

(\*) First half of 2006 to first half of 2007  
Source: FOSC, Creditreform

### REGULATION

■ Swiss bankruptcy legislation is based on the Federal Law of April 11, 1889 on the pursuit of debts and bankruptcies (LP), revised in part in 1994. The legislative changes, notably concerning composition proceedings, came into force on January 1, 1997.

The law applies to all individual or company debtors, i.e., natural or legal persons involved in business and listed on the Register of Commerce. The law provides for several distinct procedures: the Concordat drafted in 1994 for companies; amicable settlement of debts for the reorganisation of the financial position of private persons; and special rules applying, for instance, to insurance companies, banks and others. Creditors must submit a requisition form to the cantonal Office des Poursuites calling to begin proceedings in pursuit of a debtor. The Office sends the debtor an order to pay within 20 days before proceedings for seizure or bankruptcy. Should payment fail to be made, the Office drafts a non-compliance document, and the bankruptcy judge declares bankruptcy. This judgement is sent to the Office des Poursuites, which administers the bankruptcy and proceeds

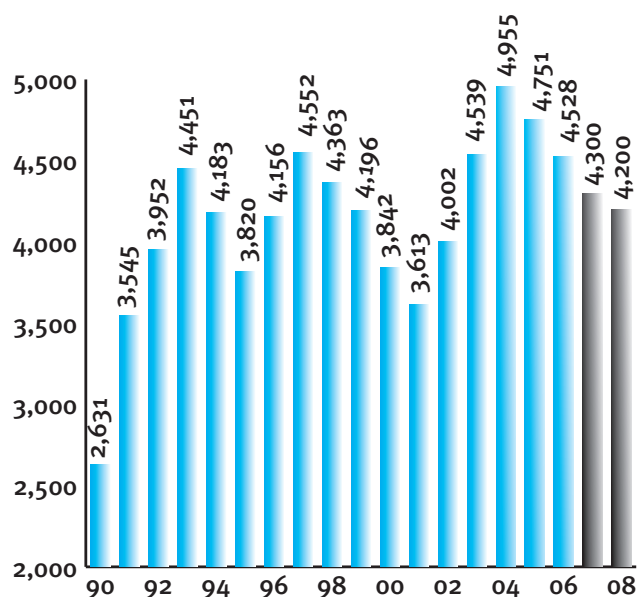
with the liquidation.

■ The Concordat offers debtors a breathing space. It is granted to them on request, without prior consultation with creditors. Debtors gain protection against proceedings or bankruptcy for a period of up to 12 months, and even 24 months in complicated cases. The debtor can declare itself insolvent and request the judge to grant protection against proceedings, and after examination the judge delivers a decision either to reorganise the business or else conduct an orderly liquidation. In the event of judicial reorganisation, a qualified majority of creditors must give their consent. The judge appoints a commissioner to assist the debtor in reaching agreement with the creditors. The director of the business in cessation of payments remains in place, under the control of a commissioner. He may not, however, dispose of assets or conduct financial transactions.

■ Liquidation: liquidation and the division of assets consist of realising the assets of the bankrupt entity and distributing the proceeds to creditors according to the nature and scale of what they are owed. ■

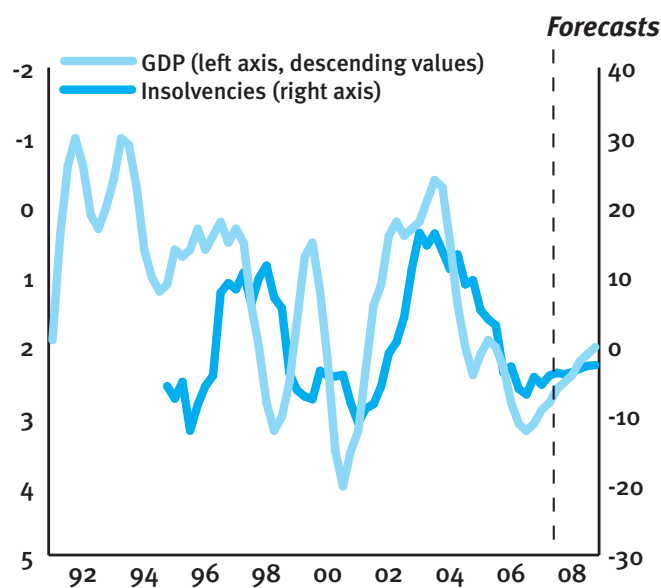
## GDP and insolvencies in Switzerland

Number of insolvencies



Sources: OFS, Euler Hermes forecasts

Annual change, in %



Sources: OFS, Euler Hermes forecasts

### Number of insolvencies

| Number    | 2005 | 2006 | 2007 |
|-----------|------|------|------|
| January   | 431  | 396  | 368  |
| February  | 360  | 338  | 340  |
| March     | 425  | 465  | 422  |
| April     | 473  | 343  | 370  |
| May       | 367  | 355  | 354  |
| June      | 410  | 455  | 398  |
| July      | 421  | 395  | 347  |
| August    | 314  | 267  | 318  |
| September | 403  | 407  | 357  |
| October   | 354  | 348  | 366  |
| November  | 409  | 430  |      |
| December  | 384  | 329  |      |

Source: OFS

#### DEFINITION and sources of statistics

**Businesses:** the Office Fédéral de la Statistique (OFS) counted nearly 299,000 businesses (excluding non-profit businesses) active in Switzerland in 2005, out of a total of more than 372,550 entities. Of the former, one-person businesses accounted for more than 50%, public limited companies 28%, and private limited companies 15%. Around three-quarters are in the tertiary sector, and around a quarter primarily in the secondary sector.

**Insolvencies:** the OFS publishes figures on declared company and personal bankruptcies (sole traders not listed on the Register of Commerce are included in the latter category). In our series, we use only data on the business bankruptcies published in the Feuille Officielle Suisse du Commerce (FOSC), which covers nearly half of all insolvencies and which are periodically reported by Creditreform in a more detailed manner by sector, by region or by legal form.

## Major insolvencies

| Company                        | Turnover (millions of euros)* | Activity   | Date of insolvency | Number of employees |
|--------------------------------|-------------------------------|--|--------------------|---------------------|
| <b>2007 (end of September)</b> |                               |  |                    |                     |
| WTN Group AG in Liquidation    | 150                           | Other community, social and personal service activities            | 04/2007            | 9                   |
| MMG Martigny Sàrl              | 45                            | Manuf. of fabricated metal products, excl. machinery and equipment | 03/2007            | 72                  |
| Gerber Fleischprodukte AG      | 16                            | Manuf. of food products and beverages                              | 06/2007            | 131                 |
| Metallbau Hirsch AG            | 13                            | Building installation  | 08/2007            | 100                 |
| Sultan Reisen AG               | 9                             | Other community, social and personal service activities            | 03/2007            | 14                  |
| C.S.T. Impresa Costruzioni SA  | 5                             | Building installation  | 01/2007            | 70                  |
| Crossarc AG                    | 3                             | Other community, social and personal service activities            | 03/2007            | 28                  |

(\*) at 1 euro = CHF 1.67

Source: Euler Hermes

# Poland

## Insolvencies down

### 2007 trend: -36%

Growth in real GDP remains impressive, at 7.4% in the first quarter and 6.7% in the second, driven by rapid investment growth and by sustained high growth in household consumption. Economic expansion has stoked wage rises and increased inflationary pressures, pushing the monetary authorities to raise the lead interest rate by 25 basis points to 4.75% on August 29, with other rate hikes likely to show a moderately deterrent impact on domestic demand for the second half of the year. GDP growth should hold at around 6% for 2007 overall. October 21 saw the defeat of the Kaczynski twins' Law and Justice (PiS) conservatives in the parliamentary elections and victory for the Civil Platform (PO) liberal-conservatives. Strong economic growth brought a continued fall in insolvencies, for the fourth consecutive year, with an estimated drop of more than 30% in 2007 to below 500 cases. This appears a very low figure given the business population of more than 3.6 million entities, but legal expenses deter most insolvent small businesses from recourse to the courts.

### 2008 outlook: -4%

The PO liberal-conservative party promised in its platform to speed up economic and structural reforms, to create a favourable business environment by lowering corporation tax, and

to adopt the euro as soon as possible. In 2008, investment and consumer expenditure will remain strong, stimulating imports, which are growing faster than exports, and this will continue worsening the current account balance. GDP growth should gradually fall back towards 5% in 2008, suggesting a further fall in insolvencies of around 4%. However there are likely to be heated political relations between President Lech Kaczynski, whose term ends in 2010, and the Parliament. ■ MS/MCS

### REGULATION

■ On October 1, 2003, Poland's new Bankruptcy and Corporate Recovery law came into force. Under the new law, the subjects of a bankruptcy and/or debt composition can be sole traders as well as other businesses. It is still the case, however, that state-owned businesses and public bodies, hospitals and universities cannot be declared bankrupt. A request for a declaration of insolvency can be made by the debtor or one of its creditors. This can be done in the event of non-payment of a debt when due or when the liabilities due exceed the value of a debtor's assets.

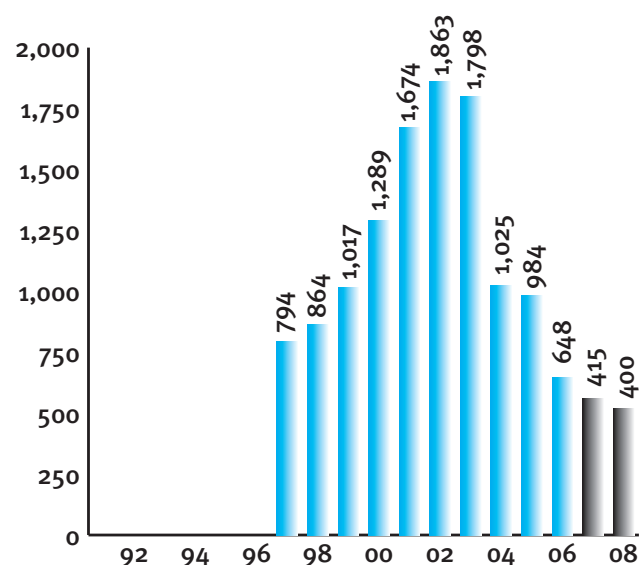
■ Bankruptcy: the new law sets out two possibilities: declaring bankruptcy with liquidation of the debtor's assets, and bankruptcy with the option of debt settlement. Protected creditors have the right to receive the proceeds

from the sales of secured or mortgaged assets, less disposal costs. The request for bankruptcy will be withdrawn by the court in the following cases: overdue payments of the debtor are not older than three months and the amount of the liabilities does not exceed 10% of the balance sheet sum, or if the debtor's assets are not sufficient to cover the cost of the bankruptcy procedure.

■ The law also contains provisions for the rehabilitation of a debtor. The rehabilitation procedure is only available to entrepreneurs threatened with bankruptcy, whose economic and financial situation could rapidly lead to default of payment. A restructuring plan must be drawn up and confirmed by the court, allowing for settlement to the creditors. ■

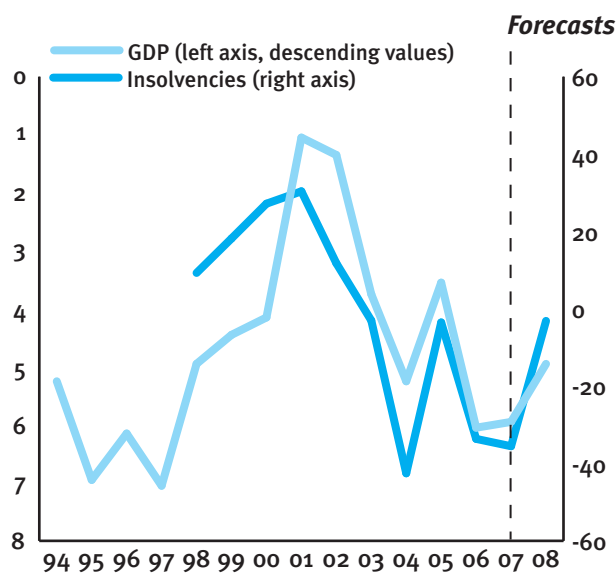
## GDP and insolvencies in Poland

Number of insolvencies



Source: Euler Hermes

Annual change, in %



Source: Euler Hermes

### DEFINITION and sources of statistics

**Businesses:** the Central Statistics Office counted 3,615,621 businesses in 2005, including 2,776,459 individual entrepreneurs.

**Insolvencies:** our series covers insolvencies since 1997 and is based on the number of judgements published in the Ministry of Justice official journal, *Monitor Sadowy i Gospodarczy*.

## Major insolvencies

| Company   | Turnover (millions of euros)* | Activity  | Date of insolvency | Number of employees |
|---|-------------------------------|---|--------------------|---------------------|
| <b>2007 (end of September)</b>                  |                               |   |                    |                     |
| International Investment Trade Service Sp Z o o | 137                           | Business services   | 07/2007            | 300                 |
| Mazur Comfort Sp Z o o                          | 44                            | Furniture manuf.  | 07/2007            | 1,390               |
| Mb Meble Barczewo Sp Z o o                      | 35                            | Furniture manuf.  | 05/2007            | 529                 |
| Onyks Poznan Sp Z o o                           | 26                            | Wholesale of non-agricultural intermediate products, of waste & scrap | 09/2007            | 120                 |
| Pl Tibermec Sp Z o o                            | 25                            | Manuf. of parts and accessories for automotive vehicles and engines   | 05/2007            | 128                 |
| Miejskie Przedsiębiorstwo Robot Drogowych S A   | 25                            | Construction  | 06/2007            | 337                 |
| Tema Polska S A                                 | 20                            | Manuf. of machinery and equipment                                     | 06/2007            | 404                 |
| Werth Holz Polska Sp Z o o                      | 18                            | Furniture manuf.  | 06/2007            | 220                 |
| Mazur Look International Sp Z o o               | 14                            | Furniture manuf.  | 07/2007            | 300                 |
| Fructo Maj Sp Z o o                             | 12                            | Manuf. of food and beverage products                                  | 09/2007            | 267                 |

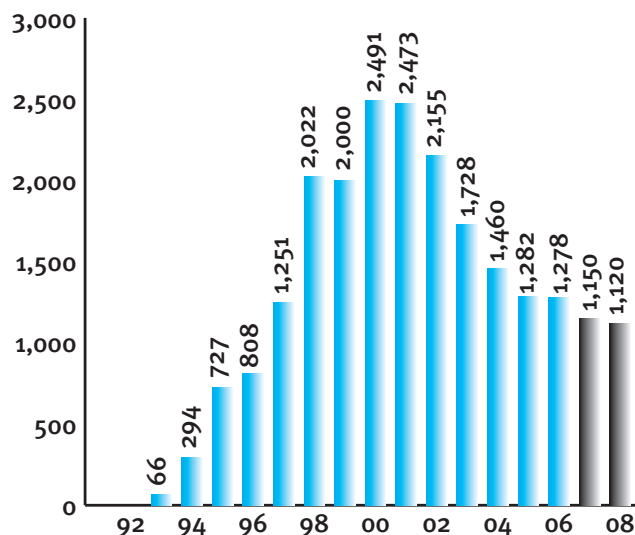
(\* ) at 1 euro = PLN 3.68

Source: Euler Hermes

# Czech Republic

## The sixth year of falling insolvencies

### Number of insolvencies



Sources: Ministry of Justice, Euler Hermes forecasts

#### DEFINITION and sources of statistics

**Businesses:** the Czech Statistical Office counted 2.352 million businesses in 2004, including 1.674 million private entrepreneurs, or 71% of the total.

**Insolvencies:** the number of business insolvencies is taken from the Ministry of Justice register of bankruptcies.

#### 2007 trend: -10%

Growth in real GDP slowed slightly from an annualised 6.4% in the first quarter to 6% in the second. Domestic demand, the major engine of growth, generated a faster growth in imports than in nonetheless strong (auto) exports, but net FDI inflows (of around 4% of GDP) should cover a large part of the current account deficit. Since June 2007 the central bank has raised interest rates on three occasions, concerned over inflationary pressures and exchange rate volatility, and other rate hikes can be expected. The progressive slowing in

the economy should thus continue under the combined impact of monetary tightening, restrictive tax measures that will weigh on domestic demand, and the now less favourable world environment. For 2007 overall, the Czech Republic should post growth of 5.5%, and this should allow a fall in business insolvencies for the sixth year running, with the number of procedures dropping by a further 10% to below 1,200 cases. The country's new bankruptcy law, which came into force in 2007, should strengthen the effectiveness of existing procedures.

#### 2008 outlook: -3%

The economic outlook is a little less promising, with GDP growth likely to slow to 4.5% for 2008. Exports to the EU, which account for two-thirds of total exports, will be certainly less dynamic, but the business environment structurally remains fairly good. The country continues to attract foreign capital, which will sustain investment. The economic environment will be less buoyant in 2008, and so the downtrend in insolvencies will continue but in a less marked fashion. ■ MS/MCS

#### REGULATION

*The Czech Republic's new Insolvency Act (Act No. 182/2006 Coll. on bankruptcies and settlements) came into force on January 1, 2007. It strengthens the position of creditors, limits the incentives for prolonged bankruptcy procedures and offers viable businesses the possibility of continuing in operation. The new law contains a number of innovations. It aims at satisfying creditors more quickly, strengthening their rights and favouring the continuation of the debtor's businesses. The law sets out new procedures.*

■ **The procedure for a business 'threatened with bankruptcy':** here, the conditions under which it is possible to launch a bankruptcy procedure are defined, even in the case where the bankruptcy is only looming.

■ **Moratorium:** this is similar to the already-existing procedure for placing a debtor under protection.

■ **'Minor bankruptcy':** this is a new introduction, which can only be ordered if the debtor is a natural person and not an artificial person or if the debtor's

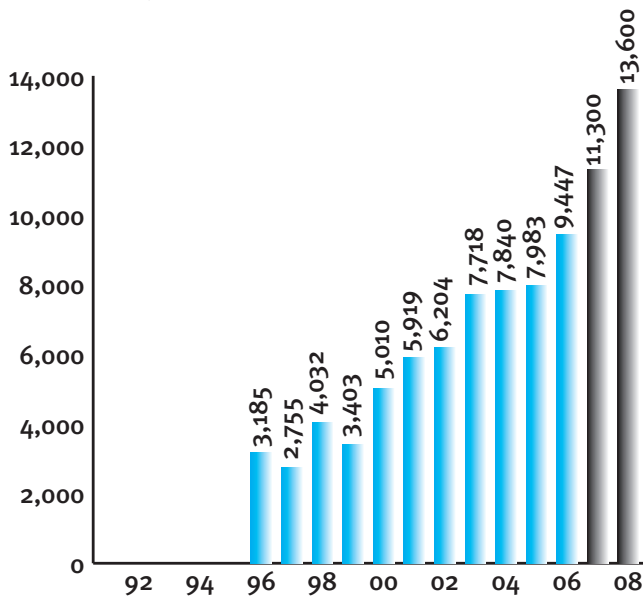
turnover for the last financial year does not exceed CZK 2 million and if, in addition, there are no more than 50 creditors. The advantage here is in providing a considerably simplified procedure.

The new law creates an **Insolvency Register** as the public register kept with the Ministry of Justice. The law sets out new methods for dealing with insolvencies: reorganisation, partial payment of debts, and other special modalities. The court is only called upon to intervene in cases where the above methods have been ruled out. During the reorganisation period, the debtor may of course continue its commercial activity, but only in conformity with the reorganisation plan. The procedure for partial debt settlement only applies to individuals, and the debtor undertakes to pay part of his debt to the creditor (set at a minimum of 30%, unless the creditor agrees otherwise), and the balance of the debt is cancelled. ■ New improvements in the Insolvency Register could come into force in January 2008, with the electronic registration and publication of dossiers.

# Hungary

## A still high level of insolvencies

### Number of insolvencies



Source: Euler Hermes forecasts

#### 2007 trend: +20%

Budget austerity measures in place since 2006 to reduce public deficits, along with interest rate hikes, have had considerable impact on economic activity. Real GDP growth slowed sharply in the second quarter of 2007, dropping from an annualised 2.7% in the first quarter to 1.2% in the second, the lowest rate for ten years, due to a sudden drop in household consumption. Hungary's central bank (the MNB) cut its rate twice since June 2007, by a total of 50 basis points, taking it down to 7.5%, despite inflation remaining high (but slowing) at an annual 8.3%, largely due to austerity measures and notably the rise in VAT. Despite strong export growth, Hungarian GDP should post an increase of no more than 2% for 2007.

The Hungarian forint, after weakening in August, later stabilised but remains vulnerable because of the twin deficits, and further deterioration in the exchange rate cannot be ruled out should world liquidities tighten. The business environment remains good despite the economic slowdown. Foreign currency credits continue to increase and banks and businesses remain highly exposed to exchange rate risk. In this environment, insolvencies have increased, and 2007 should post an increase in the number of cases of around 20%, to more than 11,000 bankruptcies.

#### 2008 outlook: +20%

Government measures to restore public finances and cut the public deficit to around 4% of GDP in 2008 (against

#### DEFINITION and sources of statistics

**Businesses:** Hungary's Central Statistical Office (Központi Statisztikai Hivatal) counted 1,276,076 businesses (including 670,000 sole proprietorships) as of December 31, 2006, of which 55% were in the private commercial (i.e., excluding non-profit) sector, judging from the average ratio observed over 2000-2004.

**Insolvencies:** the annual number of business insolvencies, which includes bankruptcy and liquidation procedures (99.7% of cases), is estimated by Euler Hermes.

9.2% in 2006) will continue to weigh on domestic demand, and exports to the EU will be less dynamic. Cuts in interest rates should continue and compensate partly for restrictive fiscal policy. Economic growth, however, should increase slightly to a yearly 3% in 2008, thanks to a better net contribution from exports. Insolvencies could remain on the uptrend seen since 2005 and exceed 13,000 cases. ■ MS/MCS

#### REGULATION

■ **Liquidation procedures** (under Act no. XLIX of 1991) can be initiated in three ways: when the outstanding debt is acknowledged and not disputed by the debtor; when the debt is not recovered within 60 days after due date; or in case of unsuccessful distraint proceedings.

After the court declares the insolvency of the debtor, a liquidator is named by the court as the head of the debtor company. Creditors' claims must be submitted to the liquidator within 40 days of the publication of the liquidation.

■ **Rehabilitation procedure** (under Act no. XLIX of 1991): if the debtor manages to get the agreement of most of the creditors in accordance with law, the debtor can have a 90-day moratorium with relief from obligation of pay-

ments. This period can be extended by another 60 days. During the period of this moratorium, the debtor has to reach an agreement with all his creditors on debt recovery terms. If the debtor cannot get the agreement of creditors or does not adhere to the agreed conditions, then the rehabilitation process turns into a liquidation process.

■ **Payment ruling** (1952, Law no. III, Sections 313-323).

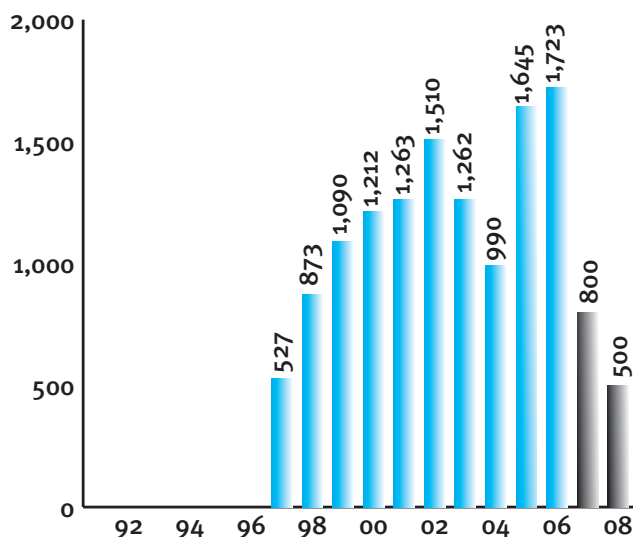
Changes in effect from July 1, 2006 – payment notice can be sent right after the due date:

- in case the debtor acknowledges its debt, or does not answer the notice: liquidation procedure can be initiated,
- in case the debtor disputes its debt: legal action can be initiated. ■

# Slovak Republic

## Insolvencies falling by half

### Number of insolvencies



Sources: Ministry of Justice, Euler Hermes forecasts

#### 2007 trend: -50%

The exceptional performance of the economy in 2006 continued into the first half of 2007. Largely sustained by a positive contribution from net exports, GDP growth rose from an annualised 9% in the first quarter of 2007 to 9.4% in the second. However, surveys show slowing activity for the remainder of the year, taking the overall 2007 growth rate to 8.3%, the same as in 2006. Risks of overheating are fading, given that yearly inflation has fallen below 3%, that consumer credit has grown less strongly than expected, and

that the current account deficit has fallen to more sustainable levels, at between 3% and 5% of GDP in 2007-2008. Since the country's new bankruptcy legislation has come into force, the number of companies lodging applications to the courts has halved, with 517 applications in the first half of 2007. A 50% fall for the whole of the year would limit the number to 800 procedures.

#### 2008 outlook: -38%

GDP growth should slow slightly to around 6% in 2008, due to less vigorous domestic demand and a gradual

#### DEFINITION and sources of statistics

**Businesses:** the Statistical Office of the Slovak Republic counted 527,486 businesses in 2006, of which 74% were sole traders and 26% companies.

**Insolvencies:** Slovakia's Ministry of Justice is responsible for recording the number of insolvencies, which are broken down by type of procedure.

decline in external demand, the latter mainly affecting auto and capital goods exports. The Republic's sustained high growth suggests a further fall in insolvencies, dropping towards 500 cases in 2008. ■ MS/MCS

#### REGULATION

Currently, insolvency proceedings are governed by two laws.

■ All ongoing bankruptcies ordered before January 1, 2006, and also bankruptcies ordered afterwards, but for which court bankruptcy proceedings were requested up to December 31, 2005, are subject to the legislation based on the Czechoslovak Federal Republic's Bankruptcy and Composition Act of 1991, with many further amendments.

■ This Act distinguishes two possible treatments of insolvency: bankruptcy (the sale of all the assets of the company and its liquidation) and settlement (the debtor proposes partial satisfaction; the company keeps running and partially satisfies all the creditors).

■ The new law, the Act on Bankruptcy and Restructuring, came into force on January 1, 2006. Every insolvency proposal brought before the court after this date falls under this new legislation. Its main aim is to make the entire process more effective.

■ The types of insolvency possible are very similar to those used formerly: bankruptcy (the sale of all the business's assets, or else restructuring (the

debtor proposes a settlement plan to the creditors, and the court decides whether to accept or reject it; if accepted, the business continues in operation and satisfies its creditors according a restructuring plan).

■ The new act is more favourable to creditors. It does not mean the debtor goes without any protection. It encourages entrepreneurs to choose to restructure the business rather than liquidate it through a bankruptcy proceeding.

It also should speed up the whole process, which should not take longer than 18 months. Specific deadlines are set out, during which the court must decide on the bankruptcy petition, on the deadlines for the statement of debts, and on the deadlines for contesting these. After this, the stated debts may no longer be contested except by the bankruptcy trustee and not, as before, by any creditor.

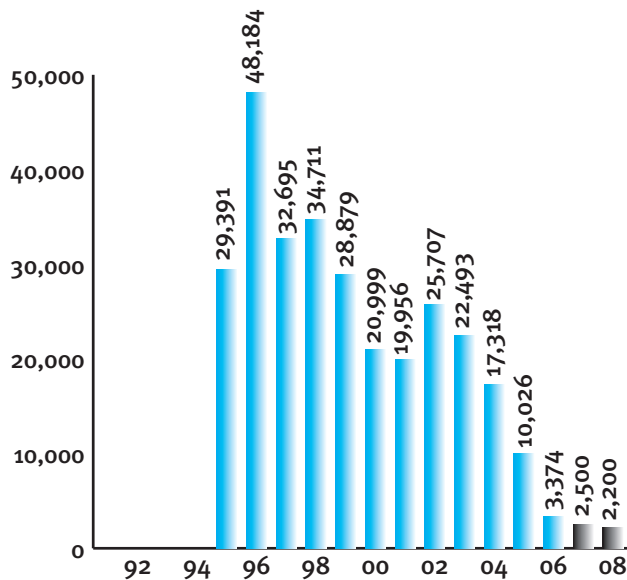
This act is accompanied by a law concerning the bankruptcy trustees. This sets out the exact rules applicable to trustees, who are now chosen by lot from a list of trustees. Before, the court was responsible for this choice. Also, trustees are required to pass an examination.

Under the new legislation, bankruptcy also applies to natural persons. This reflects the current situation, in which ease of access to personal loans has brought an explosion in the levels of personal debt. ■

# Brazil

## Insolvencies still down sharply

### Number of insolvencies



Sources: Equifax, Euler Hermes forecasts

### DEFINITION and sources of statistics

**Businesses:** the central Brazilian business registry counted 5.67 million businesses active in 2004, of which 48% were in commerce, 21% in services and 9% in industry.

**Insolvencies:** the company Equifax publishes monthly the number of business bankruptcies in Brazil

### 2007 trend: -26%

Systemic political stability and an improved external financial position have attracted large inflows of FDI, helping Brazil to resist the turbulence of world financial markets. In addition, continued interest rate cuts by the central bank helped to speed growth in private consumption and in investment during the first half of 2007, also stoking import growth, with appreciation in the Brazilian real weighing on exports. As a result, the foreign trade sector will shave a percentage point from GDP growth in 2007, which should come in at 4.7% for the year. Strong industrial activity has helped to prolong the fall in insolvencies seen in the country for

five years, but especially since 2005 with the implementation of new legislation more favourable to creditors. The number of business insolvencies recorded during the first eight months of 2007 was 30% down on the same period of 2006. For the whole of 2007, number of bankruptcies should total no more than 2,500 cases, representing a fall of at least 25%.

### 2008 outlook: -12%

Growth will continue to slow in 2008 but still be around 4%, thanks to strong consumption and investment, although external demand will moderate. However, any greater world slowdown than expected – depending on

the crisis in world financial markets – could seriously affect Brazil and impede President Lula da Silva's efforts to achieve growth of 5% in 2008 and 2009. The decline in the number of business insolvencies seen already for five years should continue, although at a lower rate of 12%, to around 2,200 cases. ■ DA/MCS

### REGULATION

On February 9, 2005, Brazilian president Luiz Inacio Lula da Silva signed new bankruptcy legislation (Law no. 111.101/05), replacing the legislation of 1945. The new law facilitates the court-ordered or out-of-court rescue of businesses, giving priority to creditors and thus facilitating repayment to banks.

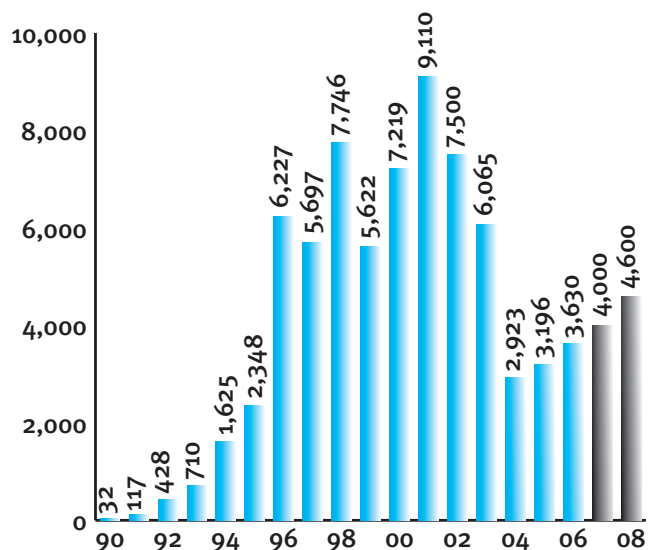
■ **Out-of-court restructuring requires court approval to have effect.** The debtor has to call a meeting of its creditors to negotiate a restructuring plan. The plan will then be approved by the court and by creditors representing a minimum of 60% of the business's debts.

■ **In the case of court-ordered restructuring, the debtor has to present a restructuring plan to the court, to be submitted to a committee of its creditors, with the judge acting as the principal intermediary.** The plan may be approved, amended or rejected by the committee at the meeting. In the event the restructuring plan is rejected, the debtor must declare bankruptcy. If the business is placed in bankruptcy, the law creates a new hierarchy of creditors, giving priority to financial establishments ahead of employees (labour claims are limited to the amount of 150 minimum monthly salaries), and ahead of federal tax claims. Importantly, the new law gives better protection to creditors, while also improving the process of the sale of assets. As already mentioned, the new law took effect in June 2005, and since then, the number of bankruptcy filings has dropped steadily. ■

# China

## Increasing risks

### Number of insolvencies



Sources: China Court, Euler Hermes estimates and forecasts

#### 2007 trend: +10%

China's very rapid pace of expansion has continued, with 2006 posting the fifth consecutive year of double-digit growth. Government measures aimed at rebalancing the economy brought only a slight moderation in the trend, which fell from 11.9% yr/yr in the second quarter of 2007 to 11.5% in the third. This performance, which reinforces the likelihood of government targets being exceeded, has not put any end to the risks of overheating. It was also accompanied by a net rise in officially recorded bankruptcies, totalling more than 3,400 over the first ten

months, with the year overall likely to post 4,000 cases. This may seem a smallish figure in comparison with the size of China itself, but the numbers are largely influenced by the surrounding legal framework and the political will to regulate the situation of insolvent state-owned enterprises (SOEs) before the entry into force of China's new bankruptcy law.

#### 2008 outlook: +15%

The concepts of 'scientific development' and 'harmonious society' advanced at the time of the 17th National Congress of the Communist Party of

#### DEFINITION and sources of statistics

**Businesses:** according to the First National Economic Census published at the end of 2005, China has more than 39 million individually owned businesses (85% of these in the tertiary sector) and more than 5.2 million 'legal person units'. Among the latter, there are 3.3 million companies, of which something under 440,000 are owned publicly (either state-owned enterprises or collectives) and more than 2.8 million whose capital is held by private Chinese or foreign owners.

**Insolvencies:** official figures, published by China Court or the National Bureau of Statistics, are not published regularly or in their entirety. Our series is constructed using these official figures and estimates and crosschecking official figures taken from the media and various economic and legal works covering insolvencies in China.

China (CPC) should inform political decision-making. But the authorities, looking for more balanced growth and solutions to the risk posed by the growing external imbalance, will not risk slamming on the brakes too hard, especially if slowdown in the US should hurt Chinese exporters. GDP growth will remain close to 10% in 2008, although this is no guarantee of profitability, solvency or meeting payment terms. ■ DA/ML

#### REGULATION

Up to the end of May 2007, China's bankruptcy praxis was based on a number of elements: the 1986 Law of the People's Republic of China on Enterprise Bankruptcy (LEB) applicable only to state-owned enterprise (SOEs); the amended 19th chapter of the Code of Civil Procedure: Debt Repayment Order in Legal Entity Bankruptcy; and a number of judicial interpretations by the Supreme People's Court and a series of measures and other regulations implemented by the State Council.

From June 1, 2007, this is replaced by new bankruptcy legislation closer to international standards, adopted on August 27, 2006 by the Standing Committee of the National People's Congress (NPC), after 12 years of debate. This text, which comprises 12 sections and 136 articles, is a unified code applicable to every type of enterprise – public or private, Chinese or foreign owned, including financial institutions.

The new law provides three possible methods of dealing with insolvency: (1) Bankruptcy – the sale of all the business's assets and liquidation in order to repay creditors; (2) Reorganisation – the creditors or the investors (representing a majority shareholding) of the company may petition the court to request the restructuring of the debtor's business; (3) Arrangement – debtors and creditors may come to an agreement on the settlement of debts.

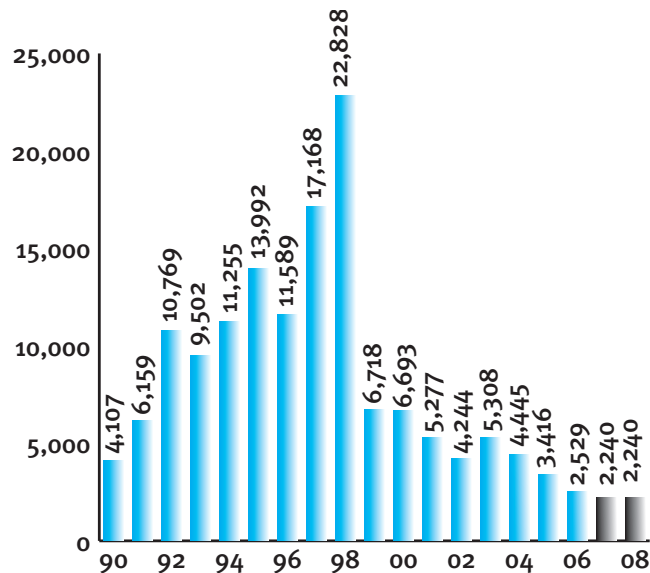
The law gives preference to creditor repayment over payment of laid-off employees, and sets out this order of preference of the various creditors: (1) preferential creditors; (2) expenditure related to the insolvency procedure; administration fees and sales costs; (3) debts incurred on the behalf of creditors in common; (4) unpaid employee wages and social security payments; (5) tax debts; (6) ordinary debts to non-preferential creditors.

The new law made an exception for around 2,000 SOEs announcing bankruptcy before June 2007, allowing them to enter the policy-arranged bankruptcy procedure (where they can be closed down with the aid of government bailouts and could pay laid-off workers first). ■

# South Korea

## A modest fall in insolvencies

### Number of insolvencies



Sources: Bank of Korea, Euler Hermes forecasts

#### 2007 trend: -11%

The South Korean economy proved robust into the third quarter of 2007, confirming the revival in growth enjoyed since mid-2005. Acceleration in private consumption, buoyed by rising real wages and the good employment market, helped to compensate in part for slowing – but still robust – exports and slowing investment. GDP growth will largely exceed 4% for the year, after 5% in 2006, but competition has intensified and cost pressures (from wages, raw materials, etc.) have increased. Against this background, insolvencies continued overall to drop, but by a slower rate of 10% for the year to the end of October, against more than 20% in 2005 and 2006. This was particularly

the case in services, which account for 40% of insolvencies, and in construction, which also posted the biggest insolvencies of the year (Shinil, Hanseung, Sejong and Dongdo). For 2006 overall, the number of bankruptcies should drop by nearly 10% to a little over 2,200 cases.

#### 2008 outlook: stabilisation

GDP growth should more or less stabilise at the average level reached in 2007. The negative effects of the appreciation in the won and slowing in world trade should be eased by favourable sectoral positioning (in particular in shipbuilding and electronic goods). Monetary tightening and consumer concerns over debt should act to

#### DEFINITION and sources of statistics

**Businesses:** the Korea National Statistical Office counted 3,252,000 registered companies in 2005 (against just over 3,000,000 in 2000) in its business population, including a number of large conglomerates (chaebols) but for the most part SMEs, of which some 300,000 are in the manufacturing sector.

**Insolvencies:** our series uses figures from the Bank of Korea, which since 1990 has carried out a monthly count of the number of insolvent businesses ('dishonoured companies').

only slow the revival in domestic demand. Barring any risks of crisis related to the real estate and stock markets, which increased in 2007, or any crisis with North Korea, the trend in insolvencies should stabilise at the record lows posted in 2007. ■ MS/ML

#### REGULATION

The South Korean insolvency system has three types of proceedings under different acts:

■ **The Bankruptcy Act (Pa-san)** covers the liquidation and distribution of assets of a company whose entire debts exceed its total assets. This is analogous to a proceeding under Chapter 7 of the US Bankruptcy Code.

■ **Corporate reorganisation (Hoe-Sa-jeong-Ri)** is analogous to a proceeding under the Chapter 11 of the US Bankruptcy Code and permits the reorganisa-

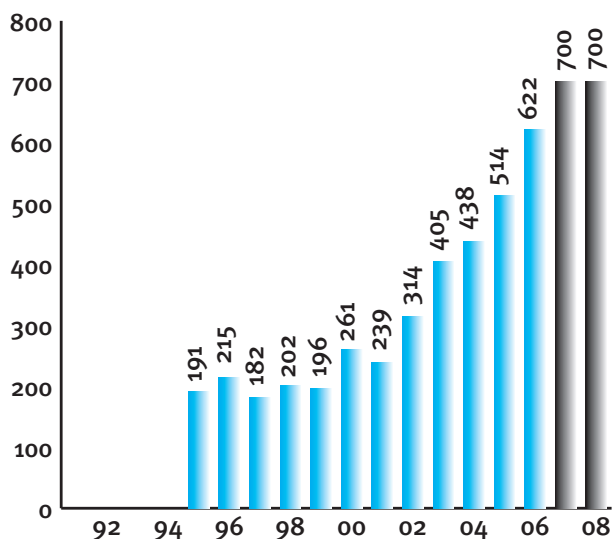
tion of the insolvent company. This proceeding can be requested by the debtor, the creditor or the shareholders. This proceeding is accepted by the court if the company's actualised value exceeds the asset's liquidation value. This Act disqualifies large companies with bank debt in excess of KRW 250 billion from applying for composition.

■ **The composition procedure (Hwa-we),** for SMEs, is a simplified version of corporate reorganisation. This proceeding can be requested only by the debtor, who will plan the reorganisation and the rescheduling of his debts. ■

# Taiwan

## Peaking

### Number of insolvencies



Sources: Judicial Yuan of the Republic of China, Euler Hermes forecasts

#### 2007 trend: +13%

After a new acceleration in 2006, the Taiwanese economy performed very well into the third quarter, at that point even posting the best annualised figure for three years. This was partly due to domestic demand, with stronger support from investment than from private consumption, the latter struggling to accelerate despite nearly full employment in the economy. But, once again, the biggest driver of growth was foreign trade, thanks to the strong demand from China (where many Taiwanese businesses have either offshored or subcontracted parts of their production) and from ASEAN countries, in particular for leading export goods such as

electronic components, optical equipment and precision instruments. This performance, however, was enough to reverse the growth in business insolvency 'petitions presented', which were up for the sixth consecutive year, nearly doubling since 2001.

#### 2008 outlook: stabilisation

A slowing in exports expected in the wake of world economic slowdown should result in GDP growth braking slightly towards 4% in 2008, in the absence of any cyclical reversal in world electronics or aggravation of political uncertainties vis-à-vis mainland China. The net growth impulse from foreign trade should decrease, but domestic

#### DEFINITION and sources of statistics

**Businesses:** the Directorate-General of Budget, Accounts and Statistics counted 1,179,100 'businesses units' at the end of December 2005, including approximately 50% in commerce, 11% in manufacturing industry, 11% in services (excluding transport-communications and finance), and 7% in construction. But the number of registered companies was an average of 621,000 in 2006 and under 606,400 at the end of September 2007.

**Insolvencies:** our series uses figures from the Judicial Yuan of the Republic of China, which annually publishes the number of 'petitions presented', i.e., companies having themselves requested or having been the object of a request for a procedure.

demand should continue its gradual revival thanks to wage rises and despite a rise in inflation. This macroeconomic context should help to maintain insolvencies at their 2007 level, at around 700 business bankruptcies a year.

■ DA/ML

#### REGULATION

*The liquidation of public limited companies is governed by the Company Act, under Section 12, Liquidation (Article 322-356).*

■ **Sub-section 1 – Ordinary Liquidation:** in the case of liquidation of a company, the directors shall become its liquidators. If there are assets to be distributed after the completion of liquidation, the court may, upon application of interested persons, appoint a liquidator to redistribute such assets.

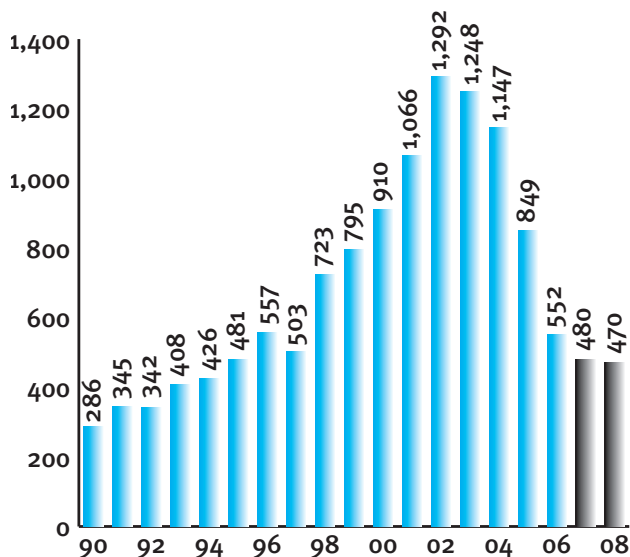
■ **Sub-section 2 – Special Liquidation:** where circumstances exist that apparently impede the execution of liquidation, the court may, upon the application of any creditor or liquidator or shareholder or trustee, order the com-

pany to institute a process of special liquidation. The same shall apply where there is suspicion that the liabilities of the business exceed its assets; but in such a case, only the liquidators may file an application. If, in cases where an order for the institution of a process of special liquidation has been made, there is no prospect of reaching a settlement agreement, the court shall by virtue of the powers vested in it make an adjudication of bankruptcy in accordance with the Bankruptcy Law. The same shall apply where there is no prospect of a settlement agreement being duly executed. ■

# Hong Kong

## The fall in insolvencies continues

### Number of insolvencies



Sources: Official Receiver's Office, Euler Hermes forecasts

### DEFINITION and sources of statistics

**Businesses:** the Companies Registry counted 681,621 businesses at the end of December 2006, up 8% on 630,000 in 2005, which was itself up 6% on 592,000 in 2004. This represents a total that includes Local Companies on Register (591,944), Local Companies Incorporated (81,974), and Overseas Companies (7,703). More than 60% of entities are in retail and wholesale commerce, followed by business services (including finance, insurance and real estate) at 19%, and consumer services at 12%.

**Insolvencies:** Our series uses data from the Official Receiver's Office, which has published monthly figures since 1989 for the number of compulsory winding-up orders made.

### 2007 trend: -13%

After a small bad patch at the start of the year, Hong Kong resumed its robust growth in the second and third quarters. Export performances remained solid, in particular for services (tourism and financial services) and towards mainland China and emerging Asian countries. The major support, however, came from domestic demand, with household consumption boosted by generous tax measures, increases in wages and asset prices, and lower unemployment. The resulting rise in imports brought a further fall in the net growth impulse from foreign trade. In the end, the economy should post growth of more than 6% for 2007 over-

all, slightly down on its 2006 figure of 6.8% and the 2005 figure of 7.1%. Parallel to this, in 2007 insolvencies continued to fall, but at a slower annual rate of 13% to the end of October, a figure that will probably be repeated for 2007 overall, after a 26% drop in 2005 and 35% drop in 2006.

### 2008 outlook: -2%

GDP growth should slow further in 2008 but still prove better than 5%. The economy, highly dependent on exports of goods and services (equivalent to roughly 200% of GDP), will be especially slowed due to easing external demand, particularly from the US and, to a lesser degree, from mainland China –

two countries that account for more than 60% of Hong Kong's exports. This more moderate growth should again be accompanied by a slower decline in bankruptcies. ■ DA/ML

### REGULATION

■ *The aim of the Companies Ordinance and Companies (Winding-up) Rules (Chapter 32) is to create a legal framework for the reorganisation of an insolvent company prior to any eventual liquidation. The law provides for two stages: the petition in bankruptcy and the actual liquidation.*

■ *The business can voluntarily file for winding-up and declare itself bankrupt in the event of financial difficulties. Its creditors may also petition to the court and force the business to do so in similar circumstances.*

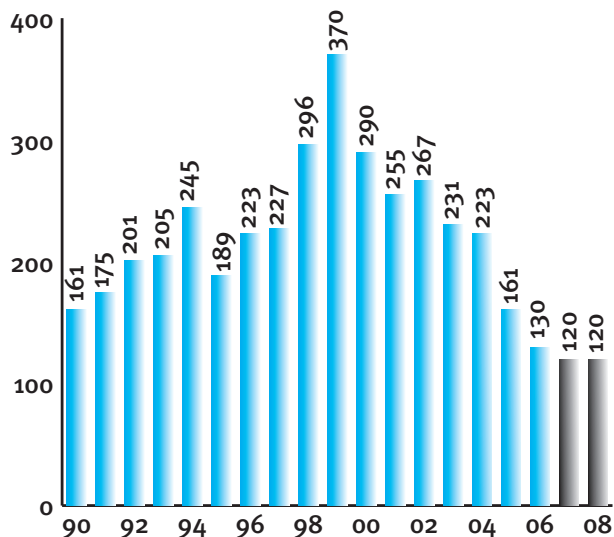
■ *Court-ordered restructuring is implemented after a voluntary petition in bankruptcy or one ordered by the court. The aim here is to reorganise the business and find a solution avoiding liquidation. The petition in bankruptcy takes effect at the point when the business or its creditors complete an official 'winding-up petition' form.*

■ *If the bankruptcy petition is ordered by the court, then the Official Receiver is considered the administrator of the liquidation. However, the Receiver can appoint another person to act in his place in managing the assets and liabilities of the insolvent company.* ■

# Singapore

## A new low in bankruptcies

### Number of insolvencies



Sources: Insolvency and Public Trustee's Office, Euler Hermes forecasts

#### 2007 trend: -8%

Far from slowing down, Singapore's economy performed remarkably over the first three quarters of 2007, with average growth of better than 8%. Domestic demand continued to be spurred by growth in investment and household consumption, including construction investment. Exports, despite appreciation in the Singapore dollar, remained solid, especially for biomedical and electronics goods, as well as for logistical and financial services. This took the current account surplus and foreign exchange reserves to new records, also however raising fears of overheating. Against this backdrop,

the number of company windings-up continued to fall over the first ten months of 2007 and for the year overall should post a record low of 120 cases.

#### 2008 outlook: stabilisation

Highly dependent on international trade flows, Singapore is unlikely to be immune from the slowdown expected in the world economy in 2008. But it has already demonstrated its ability to adapt, as shown, for example, by the growing weight of its pharmaceutical exports (and decreasing weight of its electronics exports) and by its growing role as a platform for trade and financial services for East and Southeast

#### DEFINITION and sources of statistics

**Businesses:** available figures from the Department of Statistics support an estimate of 218,600 businesses active at the end of 2006 (including 86,400 individually owned businesses and 132,200 companies), of which 39% were in retail and wholesale commerce, 8% in industry and 25% in the finance/business services component.

**Insolvencies:** the Ministry of Justice, via the Insolvency and Public Trustee's Office, gives annual figures for the number of businesses subject to a company winding-up, and the number of companies that have filed petitions for winding-up. Our series covers declared windings-up only.

Asia. GDP growth should still exceed 5% in 2008, a figure unlikely to bring any increase in the number of company windings-up. ■ MS/ML

#### REGULATION

■ **The closing of a business can arise out of a petition in bankruptcy or a forced liquidation.** These two procedures mainly involve the creditors and shareholders, who appoint a liquidator, who must evaluate the assets of the business. The actions of the liquidator are governed by Singapore's Companies Act.

■ **Voluntary winding-up:** a business can be voluntarily wound up by its members or its creditors. A member's voluntary winding-up is only possible if the business's assets allow it to pay its debts in full within 12 months of the commencement of the winding-up proceedings. The creditors' voluntary winding-up is possible if the business is unable to meet its debts. In

both cases, those initiating the procedure need to sign a resolution declaring the petition in bankruptcy, and they need to appoint an independent liquidator.

■ **Compulsory winding-up:** under Section 253 of the Companies Act (Chapter 50), the business itself, creditors, shareholders, liquidator (or a court-appointed manager or the Ministry of Justice) may present a petition for winding-up to the High Court (the liquidation dates from this point). The Singapore High Court will rule that a business is insolvent if its total liabilities exceed its total assets. Section 254(1) of the Companies Act states the conditions under which the court may wind up a business. Section 254(2) sets out the specific situations where a business shall be deemed to be unable to pay its debts. ■

# World growth

| GDP growth                 | Weighting (%) | 2005  | 2006  | 2007  | 2008 |
|----------------------------|---------------|-------|-------|-------|------|
| World                      | 100.0         | 3.5%  | 4.1%  | 3.8%  | 3.0% |
| USA                        | 29.1          | 3.1%  | 2.9%  | 2.2%  | 1.5% |
| Canada                     | 2.6           | 3.1%  | 2.8%  | 2.5%  | 1.8% |
| Japan                      | 10.6          | 1.9%  | 2.4%  | 1.9%  | 1.5% |
| EMU                        | 23.2          | 1.6%  | 2.9%  | 2.7%  | 2.1% |
| Germany                    | 6.5           | 1.0%  | 3.1%  | 2.6%  | 1.8% |
| France                     | 4.8           | 1.7%  | 2.2%  | 1.9%  | 2.0% |
| Italy                      | 4.1           | 0.2%  | 1.9%  | 1.7%  | 1.3% |
| Spain                      | 2.6           | 3.6%  | 3.9%  | 3.8%  | 2.7% |
| Netherlands                | 1.5           | 1.5%  | 3.0%  | 3.2%  | 2.4% |
| Belgium                    | 0.9           | 2.0%  | 2.9%  | 2.7%  | 1.9% |
| Austria                    | 0.7           | 2.3%  | 3.1%  | 3.4%  | 2.4% |
| Finland                    | 0.5           | 3.2%  | 5.0%  | 4.2%  | 2.6% |
| Greece                     | 0.5           | 3.8%  | 4.2%  | 3.9%  | 3.6% |
| Ireland                    | 0.5           | 5.9%  | 5.7%  | 5.9%  | 2.8% |
| Portugal                   | 0.4           | 0.7%  | 1.2%  | 1.8%  | 1.7% |
| UK                         | 5.2           | 1.8%  | 2.9%  | 3.1%  | 1.9% |
| Sweden                     | 0.8           | 3.3%  | 4.4%  | 2.7%  | 2.5% |
| Denmark                    | 0.6           | 3.1%  | 3.5%  | 1.6%  | 1.7% |
| Norway                     | 0.7           | 2.3%  | 2.1%  | 3.1%  | 2.7% |
| Switzerland                | 0.9           | 2.4%  | 3.2%  | 2.8%  | 2.2% |
| Central and Eastern Europe | 5.0           | 5.9%  | 6.8%  | 6.5%  | 5.3% |
| Russia                     | 1.8           | 6.4%  | 6.7%  | 7.5%  | 5.8% |
| Asia (excluding Japan)     | 13.9          | 8.5%  | 9.1%  | 9.2%  | 8.0% |
| China                      | 5.2           | 10.4% | 11.1% | 11.5% | 9.8% |
| India                      | 1.7           | 9.0%  | 9.2%  | 8.5%  | 8.0% |
| Latin America              | 5.5           | 4.5%  | 5.4%  | 5.4%  | 4.1% |
| Brazil                     | 1.9           | 3.1%  | 3.8%  | 5.1%  | 3.9% |
| Middle East and Africa     | 2.0           | 5.4%  | 5.4%  | 5.2%  | 4.5% |

# Summary of economic forecasts

| Country |                                       | 2005 | 2006 | 2007 | 2008 |
|---------|---------------------------------------|------|------|------|------|
| USA     | GDP                                   | 2.9  | 2.2  | 1.5  | 2.3  |
|         | Inflation                             | 3.1  | 3.1  | 2.7  | 2.3  |
|         | Unemployment rate                     | 4.6  | 4.6  | 5.2  | 5.1  |
|         | General government balance (% of GDP) | -2.6 | -3.0 | -3.5 | -3.5 |
|         | Public debt (% of GDP)                | 49   | 49   | 51   | 52   |
|         | Current account (% of GDP)            | -6.2 | -5.3 | -3.9 | -3.6 |
| Canada  | GDP                                   | 2.8  | 2.5  | 1.8  | 2.2  |
|         | Inflation                             | 1.8  | 2.3  | 2.1  | 2.3  |
|         | Unemployment rate                     | 6.3  | 6.0  | 6.2  | 6.2  |
|         | General government balance (% of GDP) | 0.8  | 1.3  | 0.8  | 0.5  |
|         | Public debt (% of GDP)                | 67   | 64   | 61   | 58   |
|         | Current account (% of GDP)            | 1.6  | 1.1  | 0.5  | 0.4  |
| Brazil  | GDP                                   | 3.8  | 5.1  | 3.9  | 4.3  |
|         | Inflation                             | 3.1  | 4.2  | 4.0  | 3.9  |
|         | Unemployment rate                     | 10.0 | 9.5  | 9.5  | 9.4  |
|         | General government balance (% of GDP) | -3.0 | -2.2 | -2.5 | -2.4 |
|         | Public debt (% of GDP)                | 46   | 45   | 44   | 43   |
|         | Current account (% of GDP)            | 1.2  | 0.7  | 0.0  | -0.4 |
| Japan   | GDP                                   | 2.4  | 1.9  | 1.5  | 1.9  |
|         | Inflation                             | 0.2  | 0.0  | 0.4  | 0.2  |
|         | Unemployment rate                     | 4.1  | 3.8  | 4.0  | 3.8  |
|         | General government balance (% of GDP) | -4.9 | -4.6 | -4.5 | -4.4 |
|         | Public debt (% of GDP)                | 167  | 170  | 172  | 172  |
|         | Current account (% of GDP)            | 3.9  | 4.6  | 4.3  | 4.4  |
| China   | GDP                                   | 11.1 | 11.5 | 9.8  | 9.3  |
|         | Inflation                             | 1.5  | 4.8  | 4.8  | 3.5  |
|         | Unemployment rate                     | 9.5  | 9.5  | 9.4  | 9.4  |
|         | General government balance (% of GDP) | -0.5 | -0.8 | -1.0 | -1.2 |
|         | Public debt (% of GDP)                | 0    | 0    | 0    | 0    |
|         | Current account (% of GDP)            | 9.5  | 11.5 | 10.5 | 9.5  |
| India   | GDP                                   | 9.2  | 8.5  | 8.0  | 8.0  |
|         | Inflation                             | 5.8  | 5.0  | 4.8  | 4.5  |
|         | Unemployment rate                     | 7.6  | 7.3  | 7.0  | 8.0  |
|         | General government balance (% of GDP) | -6.0 | -5.5 | -6.1 | -6.7 |
|         | Public debt (% of GDP)                | 64   | 61   | 63   | 60   |
|         | Current account (% of GDP)            | -1.1 | -1.3 | -1.5 | -1.8 |
| EMU     | GDP                                   | 2.9  | 2.7  | 2.1  | 1.9  |
|         | Inflation                             | 2.1  | 2.2  | 2.4  | 1.8  |
|         | Unemployment rate                     | 8.2  | 7.4  | 7.0  | 6.8  |
|         | General government balance (% of GDP) | -1.6 | -0.8 | -0.9 | -0.8 |
|         | Public debt (% of GDP)                | 69   | 66   | 64   | 63   |
|         | Current account (% of GDP)            | -0.2 | 0.3  | 0.1  | 0.0  |
| Germany | GDP                                   | 3.1  | 2.6  | 1.8  | 1.7  |
|         | Inflation                             | 1.5  | 2.2  | 2.1  | 1.9  |
|         | Unemployment rate                     | 10.3 | 8.7  | 8.1  | 8.0  |
|         | General government balance (% of GDP) | -1.6 | 0.0  | 0.0  | 0.2  |
|         | Public debt (% of GDP)                | 68   | 65   | 62   | 59   |
|         | Current account (% of GDP)            | 4.9  | 6.2  | 6.0  | 5.6  |
| France  | GDP                                   | 2.2  | 1.9  | 2.0  | 1.9  |
|         | Inflation                             | 1.7  | 1.5  | 2.2  | 1.5  |
|         | Unemployment rate                     | 8.9  | 8.0  | 7.9  | 7.8  |
|         | General government balance (% of GDP) | -2.6 | -2.6 | -2.7 | -2.5 |
|         | Public debt (% of GDP)                | 64   | 64   | 64   | 65   |
|         | Current account (% of GDP)            | -1.3 | -1.2 | -1.8 | -2.3 |
| Italy   | GDP                                   | 1.9  | 1.7  | 1.3  | 1.7  |
|         | Inflation                             | 2.0  | 1.7  | 2.3  | 1.8  |
|         | Unemployment rate                     | 6.8  | 6.1  | 6.0  | 5.7  |
|         | General government balance (% of GDP) | -4.4 | -2.5 | -2.5 | -2.3 |
|         | Public debt (% of GDP)                | 107  | 105  | 104  | 103  |
|         | Current account (% of GDP)            | -2.6 | -2.1 | -2.0 | -2.2 |
| Spain   | GDP                                   | 3.9  | 3.8  | 2.7  | 2.5  |
|         | Inflation                             | 3.5  | 2.7  | 3.6  | 2.6  |
|         | Unemployment rate                     | 8.5  | 8.2  | 8.5  | 8.7  |
|         | General government balance (% of GDP) | 1.8  | 2.0  | 1.3  | 0.8  |
|         | Public debt (% of GDP)                | 40   | 35   | 32   | 30   |
|         | Current account (% of GDP)            | -8.6 | -9.5 | -8.6 | -7.8 |

Sources : Datastream, Euler Hermes forecasts

# Summary of economic forecasts (2)

| Country     |                                       | 2005  | 2006  | 2007  | 2008  |
|-------------|---------------------------------------|-------|-------|-------|-------|
| Netherlands | GDP                                   | 3.0   | 3.2   | 2.4   | 2.2   |
|             | Inflation                             | 1.4   | 1.8   | 1.9   | 2.0   |
|             | Unemployment rate                     | 5.6   | 4.6   | 4.3   | 4.2   |
|             | General government balance (% of GDP) | 0.6   | -0.1  | 0.4   | 0.2   |
|             | Public debt (% of GDP)                | 48    | 47    | 45    | 44    |
|             | Current account (% of GDP)            | 8.3   | 7.6   | 7.3   | 6.5   |
| Belgium     | GDP                                   | 2.9   | 2.7   | 1.9   | 2.2   |
|             | Inflation                             | 1.8   | 1.8   | 2.9   | 1.8   |
|             | Unemployment rate                     | 9.6   | 8.9   | 8.4   | 7.9   |
|             | General government balance (% of GDP) | 0.4   | -0.1  | -0.3  | -0.2  |
|             | Public debt (% of GDP)                | 88    | 86    | 84    | 82    |
|             | Current account (% of GDP)            | 2.7   | 2.8   | 2.5   | 2.8   |
| Finland     | GDP                                   | 5.0   | 4.2   | 2.6   | 2.5   |
|             | Inflation                             | 1.6   | 2.7   | 2.6   | 2.0   |
|             | Unemployment rate                     | 7.7   | 6.9   | 6.6   | 6.3   |
|             | General government balance (% of GDP) | 3.9   | 4.3   | 3.8   | 3.4   |
|             | Public debt (% of GDP)                | 39    | 36    | 35    | 34    |
|             | Current account (% of GDP)            | 5.2   | 6.9   | 6.8   | 6.4   |
| Greece      | GDP                                   | 4.2   | 3.9   | 3.6   | 3.8   |
|             | Inflation                             | 3.1   | 2.9   | 2.9   | 2.8   |
|             | Unemployment rate                     | 8.9   | 8.4   | 8.0   | 8.1   |
|             | General government balance (% of GDP) | -2.5  | -2.7  | -2.4  | -2.3  |
|             | Public debt (% of GDP)                | 105   | 100   | 98    | 95    |
|             | Current account (% of GDP)            | -11.1 | -15.1 | -18.4 | -21.4 |
| Portugal    | GDP                                   | 1.2   | 1.8   | 1.7   | 2.0   |
|             | Inflation                             | 3.3   | 2.4   | 2.6   | 2.4   |
|             | Unemployment rate                     | 7.7   | 8.0   | 7.8   | 7.3   |
|             | General government balance (% of GDP) | -3.9  | -3.3  | -3.2  | -3.0  |
|             | Public debt (% of GDP)                | 66    | 66    | 65    | 65    |
|             | Current account (% of GDP)            | -9.4  | -8.3  | -8.1  | -8.1  |
| UK          | GDP                                   | 2.9   | 3.1   | 1.9   | 1.8   |
|             | Inflation                             | 2.4   | 2.3   | 2.2   | 2.1   |
|             | Unemployment rate                     | 5.5   | 5.4   | 5.8   | 6.3   |
|             | General government balance (% of GDP) | -2.2  | -2.8  | -2.9  | -3.0  |
|             | Public debt (% of GDP)                | 43    | 43    | 44    | 46    |
|             | Current account (% of GDP)            | -3.9  | -4.8  | -5.0  | -5.0  |
| Sweden      | GDP                                   | 4.4   | 2.7   | 2.5   | 2.5   |
|             | Inflation                             | 1.4   | 2.4   | 2.6   | 1.9   |
|             | Unemployment rate                     | 7.0   | 6.1   | 6.5   | 7.0   |
|             | General government balance (% of GDP) | 2.3   | 1.9   | 1.9   | 1.5   |
|             | Public debt (% of GDP)                | 47    | 44    | 40    | 38    |
|             | Current account (% of GDP)            | 7.1   | 6.0   | 5.6   | 5.8   |
| Denmark     | GDP                                   | 3.5   | 1.6   | 1.7   | 1.4   |
|             | Inflation                             | 1.9   | 1.7   | 2.4   | 2.0   |
|             | Unemployment rate                     | 4.3   | 3.3   | 2.9   | 3.0   |
|             | General government balance (% of GDP) | 4.6   | 3.7   | 3.4   | 2.9   |
|             | Public debt (% of GDP)                | 30    | 26    | 23    | 20    |
|             | Current account (% of GDP)            | 2.7   | 1.4   | 1.2   | 2.5   |
| Norway      | GDP                                   | 2.1   | 3.1   | 2.7   | 2.4   |
|             | Inflation                             | 2.3   | 0.7   | 2.7   | 2.0   |
|             | Unemployment rate                     | 3.4   | 2.5   | 2.3   | 2.5   |
|             | General government balance (% of GDP) | 19.2  | 17.5  | 15.0  | 13.0  |
|             | Public debt (% of GDP)                | 44    | 44    | 43    | 43    |
|             | Current account (% of GDP)            | 17.3  | 15.8  | 14.9  | 15.8  |
| Switzerland | GDP                                   | 3.2   | 2.8   | 2.2   | 2.0   |
|             | Inflation                             | 1.0   | 0.8   | 1.6   | 1.1   |
|             | Unemployment rate                     | 3.0   | 2.4   | 2.3   | 2.5   |
|             | General government balance (% of GDP) | 0.5   | 0.2   | 0.2   | 0.1   |
|             | Public debt (% of GDP)                | 26    | 25    | 24    | 23    |
|             | Current account (% of GDP)            | 14.9  | 17.3  | 15.7  | 15.3  |
| Russia      | GDP                                   | 6.7   | 7.5   | 5.8   | 5.7   |
|             | Inflation                             | 9.7   | 9.0   | 10.1  | 8.2   |
|             | Unemployment rate                     | 7.1   | 6.2   | 5.8   | 5.6   |
|             | General government balance (% of GDP) | 8.4   | 4.9   | 2.8   | 1.0   |
|             | Public debt (% of GDP)                | 9     | 7     | 5     | 4     |
|             | Current account (% of GDP)            | 9.7   | 6.0   | 3.3   | 2.4   |

GDP, inflation (change over the period, in %), unemployment rate (in % of labour force)

# Major insolvencies worldwide in 2007

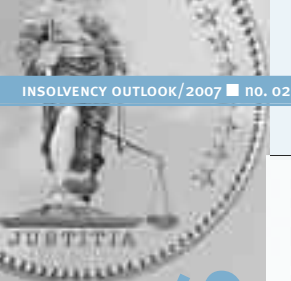
From the 5 biggest business insolvencies in 2006 and 2007 in selected countries: USA, Canada, Japan, Germany, France, Italy, Spain, Netherlands, Belgium, Finland, United Kingdom, Sweden, Denmark, Norway, Switzerland and Poland. (\*) Liabilities

| Date of Insolvency | Country     | Company   | Last known turnover in million of euros | Activity  |
|--------------------|-------------|---|---|---|
| 01/2007            | Germany     | ISE Industries und ISE Innomotive Systems Europe          | 450                                     | Manuf. of parts and accessories for motor vehicles and their engines                              |
| 01/2007            | UK          | Beltpacker Plc  | 318                                     | retailing   |
| 01/2007            | France      | NEXIA FROID   | 193                                     | Transport   |
| 01/2007            | Italy       | LANIFICIO LUIGI BOTTO - S.P.A.                            | 48                                      | Spinning, weaving and finishing of textiles   |
| 01/2007            | Italy       | ORAN S.P.A. IN LIQUIDAZIONE                               | 45                                      | Manuf. of paper and paper products  |
| 01/2007            | USA         | 99 Cent Stuff Inc   | 45                                      | Non-specialized retailing trade in stores   |
| 01/2007            | Canada      | Daymonex Limited  | 29                                      | Manuf. of fabricated metal products, excl. machinery and equipment                                |
| 01/2007            | Belgium     | METAALCONSTRUCTIES WILLEMS                                | 28                                      | Manuf. of fabricated metal products, excl. machinery and equipment                                |
| 04/2007            | Canada      | Genfast Manufacturing Co                                  | 55                                      | Manuf. of fabricated metal products, excl. machinery and equipment                                |
| 01/2007            | Netherlands | Kloosterman B.V.  | 11                                      | Manuf. of structural metal products, tanks, reservoirs and steam generators                       |
| 01/2007            | Sweden      | EUD Teknik AB   | 11                                      | Computers and telecoms equipment  |
| 01/2007            | Canada      | 9036-7046 Quebec Inc                                      | 7                                       | Transport   |
| 01/2007            | Switzerland | C.S.T. Impresa Costruzioni SA                             | 5                                       | Building installation   |
| 02/2007            | France      | groupe LERO   | 1078                                    | Sale, maintenance and repair of motor vehicles and motorcycles; retailing sale of automotive fuel |
| 02/2007            | UK          | AC Realisations (2007) Limited (Adams Childrenswear Ltd)  | 266                                     | retailing   |
| 02/2007            | Germany     | BBS Kraftfahrzeugtechnik AG                               | 141                                     | Manuf. of parts and accessories for motor vehicles and their engines                              |
| 02/2007            | Italy       | General Buyer Sicueta a Responsabilita Limitata O Piu Bre | 88                                      | Finance   |
| 02/2007            | Italy       | TECNO.A. S.R.L.   | 71                                      | Manuf. of basic metals  |
| 11/2007            | Canada      | Amcan Consolidated Technologies Corp                      | N/A                                     | Manuf. of fabricated metal products, excl. machinery and equipment                                |
| 02/2007            | Finland     | FBB Kolmikantarakennus Oy                                 | 7                                       | Construction  |
| 02/2007            | Sweden      | Västsvenska Fotolaboratoriet AB                           | 7                                       | Photography   |
| 03/2007            | Germany     | Tiptel AG   | na                                      | Manuf. of television and radio transmitters and apparatus for line telephony and line telegraphy  |
| 03/2007            | Netherlands | Wet & Dry Techniek  | n/a                                     | Manufacturing   |
| 03/2007            | Netherlands | Draad Wegenbouw B.V.                                      | n/a                                     | Construction  |
| 03/2007            | Japan (*)   | SSC K.K.  | 486                                     | Real estate activities  |
| 03/2007            | USA         | Citation Corp   | 462                                     | Manuf. of basic iron and steel  |
| 03/2007            | France      | groupe SMOBY  | 316                                     | Manufacture of toys   |
| 03/2007            | Italy       | WEGA - SOCIETA' PER AZIONI                                | 250                                     | Wholesaling   |
| 03/2007            | Germany     | Erich Rohde KG  | 130                                     | Manuf. of footwear  |
| 03/2007            | Italy       | TRE EMME PI - S.P.A.                                      | 90                                      | Wholesaling   |
| 03/2007            | USA         | Hancock Fabrics Inc                                       | 64                                      | Non-specialized retailing trade in stores   |
| 03/2007            | Italy       | NEW TAPE S.R.L.   | 52                                      | wholesaling of machinery, equipment and supplies  |
| 03/2007            | Switzerland | MMG Martigny Sàrl   | 45                                      | Manuf. of fabricated metal products, except machinery and equipment                               |
| 03/2007            | Belgium     | NELCA   | 45                                      | Textiles  |
| 03/2007            | Belgium     | DEJAEGERE-SPINNING MILLS                                  | 31                                      | Textiles  |
| 03/2007            | Netherlands | Nijssen Bouw B.V.   | 26                                      | Construction  |
| 03/2007            | Netherlands | K.Damen Schipyards B.V.                                   | 17                                      | Building and repairing of ships and boats   |
| 03/2007            | Norway      | PA Marketing AS   | 15                                      | Retail & wholesale sector   |
| 03/2007            | Norway      | Hava Retail AS  | 14                                      | Retail & wholesale sector   |
| 03/2007            | Norway      | Traakkaveien AS   | 12                                      | Real estate activities  |
| 03/2007            | Switzerland | Sultan Reisen AG  | 9                                       | Other community, social and personal service activities   |
| 03/2007            | Switzerland | Crossarc AG   | 3                                       | Other community, social and personal service activities   |
| 04/2007            | Germany     | Garant Massivhaus GmbH                                    | na                                      | Building of complete constructions or parts thereof; civil engineering                            |
| 04/2007            | USA         | New Century Financial                                     | 1939                                    | Real estate activities  |
| 04/2007            | Japan (*)   | Shikomu K.K.  | 677                                     | Inland water transport  |
| 04/2007            | Japan (*)   | K.K. Daiei  | 393                                     | Sporting and other recreational activities  |
| 04/2007            | Germany     | Wierner & Trachte   | 320                                     | Building of complete constructions or parts thereof; civil engineering                            |
| 04/2007            | UK          | Homeform Group Limited                                    | 264                                     | Manuf. of furniture   |
| 04/2007            | France      | groupe TOURY  | 250                                     | Manuf. of dairy products  |
| 04/2007            | Japan (*)   | Sobu Toshi Kaihatsu K.K.                                  | 238                                     | Sporting and other recreational activities  |
| 04/2007            | Switzerland | WTN Group AG in Liquidation                               | 150                                     | Other community, social and personal service activities   |
| 04/2007            | France      | SERPTE  | 125                                     | Catalogue sales   |
| 04/2007            | Germany     | Bohlen & Doyen Bau und Service GmbH                       | 120                                     | Building of complete constructions or parts thereof; civil engineering                            |
| 04/2007            | Germany     | Anubis Electronic GmbH                                    | 100                                     | Manuf. of office, accounting and computing machinery  |
| 04/2007            | Spain       | Mgr grupo informático SL                                  | 96                                      | Wholesaling   |
| 04/2007            | Germany     | Deilmann-Haniel GmbH                                      | 95                                      | Mining and agglomeration of hard coal   |
| 11/2007            | Canada      | Groupe Historia International Inc                         | 11                                      | Retailing   |
| 04/2007            | Italy       | PREMIUM S.A.S. DI D. ROSSI E C.                           | 44                                      | Manuf. of other food products   |
| 04/2007            | Belgium     | PAULUS HENRI EN ZONEN                                     | 25                                      | Wholesaling of agricultural raw materials, live animals, food, beverages and tobacco              |
| 04/2007            | Norway      | Troenderkylling AS  | 20                                      | Farming of animals  |
| 04/2007            | Norway      | Byggfornyelse AS  | 10                                      | Construction  |
| 04/2007            | Sweden      | Elektrostore Sverige E AB                                 | 7                                       | Sales of kitchen appliances etc.  |
| 05/2007            | Germany     | Oldenbourg Gruppe   | na                                      | Publishing  |
| 05/2007            | Netherlands | Boers Aannemings bedrijf                                  | n/a                                     | Construction  |
| 05/2007            | Netherlands | Lundia Nederland BV                                       | n/a                                     | Furniture (trade)   |
| 05/2007            | UK          | Betonsports Plc   | 1059                                    | Other community, social and personal service activities   |
| 05/2007            | UK          | HM Oldco Limited (Burtens Foods Group Limited)            | 433                                     | Manuf. of other food products   |
| 05/2007            | Spain       | Primayor Foods SL   | 413                                     | Wholesaling of agricultural raw materials, live animals, food, beverages and tobacco              |
| 05/2007            | USA         | ASC Inc   | 397                                     | Manuf. of parts and accessories for motor vehicles and their engines                              |
| 05/2007            | Spain       | Vitelcom mobile technology S.A                            | 312                                     | Manuf. of television and radio receivers, sound or video recording                                |
| 05/2007            | UK          | Global Telecoms Distribution Plc                          | 279                                     | Telecommunications  |
| 05/2007            | Spain       | Delphi Automotive Systems España SL                       | 259                                     | Manuf. of parts and accessories for motor vehicles and their engines                              |
| 05/2007            | France      | ESSENTIAL TRADING   | 244                                     | Textile (commerce)  |
| 05/2007            | Japan (*)   | Tochi Kogyo K.K.  | 198                                     | Renting of other machinery and equipment  |
| 05/2007            | France      | OUTIROR   | 112                                     | Wholesaling   |
| 05/2007            | Belgium     | HERMES TRADING CO   | 78                                      | Transport   |
| 05/2007            | Italy       | COMPUTER SUPPORT ITALCARD S.R.L.                          | 74                                      | Manuf. of office, accounting and computing machinery  |
| 05/2007            | Belgium     | DE BOEVER S BRANDSTOFFEN                                  | 58                                      | Gas stations  |
| 05/2007            | Poland      | MB MEBLE BARCZEWO SP Z O O                                | 35                                      | Furniture Prod.   |
| 05/2007            | Belgium     | ANTWERP SHIPREPAIR  | 28                                      | Building and repairing of ships and boats   |

# Major insolvencies worldwide in 2007

From the 5 biggest business insolvencies in 2006 and 2007 in selected countries: USA, Canada, Japan, Germany, France, Italy, Spain, Netherlands, Belgium, Finland, United Kingdom, Sweden, Denmark, Norway, Switzerland and Poland. (\*) Liabilities

| Date of Insolvency | Country     | Company   | turnover in million of euros | Last known Activity  |
|--------------------|-------------|---|------------------------------|--|
| 05/2007            | Poland      | PL TIBERMEC SP Z O O                                    | 25                           | Manuf. of parts and accessories for motor vehicles and their engines                 |
| 05/2007            | Finland     | Pierre Cavallo Oy                                       | 9                            | Retailing sale of second-hand goods in stores  |
| 05/2007            | Finland     | Suomen Farnilha Oy Ab                                   | 9                            | Wholesaling of household goods   |
| 05/2007            | Finland     | Bulldog Group Oy  | 8                            | Other wholesaling  |
| 05/2007            | Norway      | Byggpartner AS  | 8                            | Construction   |
| 06/2007            | Germany     | Flötotto GmbH   | na                           | Manuf. of furniture  |
| 06/2007            | Japan (*)   | Azabu Tatemono K.K.                                     | 3,486                        | Real estate activities   |
| 06/2007            | Germany     | Schieder Möbelwerke GmbH                                | 880                          | Manuf. of furniture  |
| 06/2007            | UK          | Wildtower Limited                                       | 656                          | Restaurants, bars and canteens   |
| 06/2007            | USA         | Tweeter Home Entertainment Group                        | 615                          | Non-specialised retailing trade in stores  |
| 06/2007            | UK          | Mice Group Plc  | 271                          | Manuf. of other food products  |
| 06/2007            | Belgium     | Etablissements de Poortere Freres                       | 26                           | Textiles   |
| 06/2007            | Poland      | Miejskie Przedsiębiorstwo Robot Drogowych S A           | 25                           | Construction   |
| 06/2007            | Poland      | Tema Polska S A   | 20                           | Manuf. of machinery & equipment  |
| 06/2007            | Poland      | Werth Holz Polska SP Z O O                              | 18                           | Manuf. of furniture  |
| 06/2007            | Switzerland | Gerber Fleischprodukte AG                               | 16                           | Manuf. of food products and beverages  |
| 06/2007            | Norway      | Vatvedt Mek Verksted AS                                 | 14                           | Construction   |
| 06/2007            | Sweden      | Akan of Sweden AB                                       | 11                           | Textile  |
| 06/2007            | Finland     | Länsi-liha Oy   | 11                           | Manuf. of food products and beverages  |
| 06/2007            | Sweden      | Ottenby Åkeri AB  | 8                            | Road transport   |
| 06/2007            | Norway      | Kramer AS   | 8                            | Business activities  |
| 07/2007            | Netherlands | H'its International BV                                  | n/a                          | Retail & wholesale trading   |
| 07/2007            | France      | SARL M.S Enterprise Ltd                                 | 983                          | Wholesaling (computers)  |
| 07/2007            | UK          | Dixon Motor Holdings Limited                            | 885                          | Sale, maintenance and repair of motorcycles and related parts and accessories        |
| 07/2007            | UK          | Metronet Rail BCV Limited                               | 500                          | Transport via railways   |
| 07/2007            | UK          | Computer Component Marketing Plc                        | 484                          | Wholesaling of household goods   |
| 07/2007            | Japan (*)   | K.K. Mirufiyu   | 196                          | Sporting and other recreational activities   |
| 07/2007            | Poland      | International Investment Trade Service SP Z O O         | 137                          | Business services  |
| 07/2007            | France      | Nylstar   | 125                          | Wholesaling of chemical products   |
| 07/2007            | Spain       | Incoporc, Sociedad Agraria de Transformación 1516       | 106                          | Wholesaling of agricultural raw materials, live animals, food, beverages and tobacco |
| 07/2007            | Spain       | Proinserga, Sociedad Anónima                            | 92                           | Agricultural and animal husbandry service activities, excl. veterinary activities    |
| 07/2007            | Spain       | Primayor Alimentacion Andalucía                         | 52                           | Other animal farming; prod. of animal products                                       |
| 07/2007            | Poland      | Mazur Comfort SP Z O O                                  | 44                           | Manuf. of furniture  |
| 07/2007            | Italy       | Gessaroli S.R.L., in liquidazione                       | 37                           | Manuf. of parts and accessories for motor vehicles and their engines                 |
| 07/2007            | Sweden      | Astoria Cinemas AB                                      | 25                           | Motion picture and other entertainment activities                                    |
| 07/2007            | Poland      | Mazur Look International SP Z O O                       | 14                           | Manuf. of furniture  |
| 07/2007            | Sweden      | Nya Inlandsgods AB                                      | 8                            | Manuf. of furniture  |
| 07/2007            | Sweden      | Rani Metall AB  | 7                            | Casting of metals  |
| 07/2007            | Finland     | Telinemiehet Oy   | 6                            | Building completion  |
| 08/2007            | USA         | Bally Total Fitness Holding Corp                        | 840                          | Human health activities  |
| 08/2007            | USA         | American Home Mortgage Investment Corp                  | 829                          | Real estate activities   |
| 08/2007            | Spain       | Nylstar S.a.U   | 65                           | Manuf. of man-made fibres  |
| 08/2007            | Switzerland | Metallbau Hirsch AG                                     | 13                           | Building installation  |
| 08/2007            | Norway      | Oslo Bilmegling AS                                      | 9                            | Sale of motor vehicles   |
| 08/2007            | Finland     | Osuma Finland Oy  | 8                            | Retailing sale of second-hand goods in stores  |
| 09/2007            | Netherlands | Installatiebedrijf Middelburg BV                        | n/a                          | Commerce   |
| 09/2007            | Japan (*)   | Credia Co., Ltd.  | 467                          | Financial intermediation   |
| 09/2007            | USA         | Bombay Company Inc                                      | 426                          | Non-specialised retailing trade in stores  |
| 09/2007            | Japan (*)   | Mirai Group Co., Ltd.                                   | 370                          | Construction   |
| 09/2007            | France      | groupe Euralcom France (Lajous Industrie, Fabris, Brea) | 242                          | Manuf. of basic metals   |
| 09/2007            | Japan (*)   | Iyo Shoji Corporation                                   | 235                          | Wholesaling of non-agricultural intermediate products, waste and scrap               |
| 09/2007            | Spain       | Technimagen SA  | 84                           | Manuf. of tubes and other electronic components                                      |
| 09/2007            | France      | groupe Automotive Parts Manufacturing                   | 80                           | Automotive suppliers   |
| 09/2007            | Spain       | Electronic World Products, S. L.,                       | 75                           | Wholesaling  |
| 09/2007            | Norway      | Boerset & Bjerkset AS                                   | 34                           | Construction   |
| 09/2007            | Poland      | Onyks Poznan SP Z O O                                   | 26                           | Wholesale of non-agricultural intermediate products, of waste & scrap                |
| 09/2007            | Belgium     | Dorleska Diamonds                                       | 25                           | Other wholesaling (diamonds)   |
| 09/2007            | Poland      | Fructo Maj SP Z O O                                     | 12                           | Manuf. of food products and beverages  |
| 09/2007            | Finland     | LL-Auto Oy  | 9                            | Sale of motor vehicles   |
| 09/2007            | Sweden      | Audio-visual-display Technology Scandinavia AB          | 8                            | IT sales agents  |
| 09/2007            | Finland     | Käkikosken Saha Oy                                      | 8                            | Sawmilling and planing of wood   |
| 09/2007            | Sweden      | Rosegarden Studios AB                                   | 7                            | Radio and television   |
| 09/2007            | Finland     | Innoplast Oy  | 7                            | Manuf. of plastics products  |
| 09/2007            | Canada      | Jason Furniture Inc.                                    | 2                            | Retailing  |
| 10/2007            | USA         | Movie Gallery Inc                                       | 2,017                        | Motion picture, radio, television and other entertainment activities                 |
| 11/2007            | Netherlands | Boeters Glastuinprojecten                               | n/a                          | Greenhouses  |
| 11/2007            | Netherlands | Kip Caravans BV   | n/a                          | Caravans   |
| 01/2007            | Canada      | Pega Precision Inc                                      | 15                           | Manuf. of fabricated metal products, excl. machinery and equipment                   |
| 11/2007            | Belgium     | Château Caravans  | 54                           | Manuf. of other transport equipment  |
| 02/2007            | Canada      | Mckinnon Micro Distribution                             | 10                           | Wholesaling of office machinery and equipment  |
| 2007               | Denmark     | Afviklingselskabet af 22.05.06                          | 67                           | Real estate activities   |
| 2007               | Denmark     | Afviklingselskabet C af 19.Maj 2006 A/S                 | 56                           | Real estate activities   |
| 2007               | Denmark     | Afviklingselskabet D af 19. Maj 2006 A/S                | 47                           | Real estate activities   |
| 2007               | Denmark     | Graphx A/S  | 35                           | Printing and service activities related to printing                                  |
| 2007               | Denmark     | D&M Trade ApS   | 22                           | Wholesaling of household goods   |
| 2007               | Denmark     | Mogens Eichen og Søner A/S                              | 18                           | Construction   |
| 2007               | Denmark     | Bridema A/S   | 12                           | Wholesaling  |
| 2007               | Denmark     | Jack Of All Games A/S                                   | 9                            | Wholesaling  |
| 2007               | Denmark     | Compare Support A/S                                     | 9                            | Business activities  |
| 2007               | Denmark     | Aktieselskabet af 30/3 2007                             | 9                            | Dressing and dyeing of fur; manuf. of articles of fur                                |



# Special report Legislation risks

The concept of a debtor's defaulting to all its creditors is difficult to state in a nutshell and has evolved over the course of time. Also, the concept is viewed differently in different countries. The term 'bankruptcy' was taken up from common parlance to indicate many situations. A closer look at its etymology shows that 'banca rotta' was just one stage in the treatment of insolvency, but also that there already existed less radical means of solving cash flow problems. Traditional usage retained only the one word for identifying a misdeed and punishing it, rather than other terms that might reflect offering a second chance for a new beginning and also suggest more an error of management, as we would say today, that could be pardoned and made good. Thus we are left with a double and terrible ambiguity of the term bankruptcy identifying both a fault and a punishment that only a judge can declare and impose, and from which modern commercial laws are desperately trying to free themselves.

This point of this very brief comment is to remind ourselves that even today the exact knowledge of the extent of the insolvency of one's trade partners on the domestic or overseas markets presents genuine difficulties. These difficulties are of course greatly increased by various factors: notably, the extent of one's exposure to international trade and the diverse nature of national laws across the globe.

## IS THERE A SINGLE CONCEPT OF INSOLVENCY PROCEDURE SHARED BY ALL COUNTRIES ?

*Could such a concept be based on common criteria allowing the head of a business, i.e., the exporter, to recognise a court procedure in his customer's country ?*

The criteria could be based on:

- A formal definition of insolvency;
  - The goals of the legislation;
  - The facts triggering the opening of a procedure;
  - The field of application;
  - The initiator of the procedure;
  - The competent court;
  - The intervention of a representative of the law;
- And other criteria.

We employ these criteria in the tables presented here, which reveal a great many differences from country to country. Legislators, aiming to allow for the complexity of situations arising in the modern world, have established various degrees of insolvency and have proposed solutions adapted to the scale of the insolvency.

Such a differentiated approach does not exist, however, in every country, but the lack of wider sample of approaches, and thus of procedures, in the countries we have chosen, is not necessarily a drawback; it does, however, create a vacuum in the concordances that we will attempt to delineate. ■ GdF

## The different types of insolvency procedures

|                                  | Germany                                       | Belgium                           | Denmark              | Spain                                    | Finland          | France   | Greece        | Italy                                  | Norway                            | Netherlands              | Poland   | UK  | Sweden                   | USA                                   |
|----------------------------------|---|-----------------------------------|----------------------|--|------------------|--|---------------|--|-----------------------------------|--------------------------|--|---|--------------------------|---------------------------------------|
| Amicable preventative procedures | Vergleich                                     |                                   | Akkord               |  |                  | Mandat ad'hoc and conciliation                               | Sindialagi    | Accordo di ristrutturazione dei debiti | !                                 | Minneljik Incassotraject |  | exceptionnel  | !                        |                                       |
| Preventative court procedures    |   |                                   | Betalings standsning |  |                  | Sauvegarde   |               | Concordato Preventivo                  | Tvungen akkord / Frivillig akkord |                          | Postepowanie Naprawcze                                 | Company Voluntary Arrangemt                               | Företags rekons-truktion | Informal Liquidation or General Offer |
| Court insolvency procedures      | Insolvenzplanverfahren                        | Gerechtelijk Akkoord Le Concordat | Akkord               | Concurso voluntario & concurso necesario | Yrityssan eeraus | Redres-ement judiciaire                                      | Anadiorganosi | Concordato Fallimentare                |                                   | Surseance van Betaling   | Postepowanie Upadlosciowe z mozliwosciazawarcia Układu | Administration  |                          | Chapter 11                            |
| Court liquidation procedures     | Insolvenz mangels Masse or Insolvenz eröffnet | Het Faillissement / La Faillite   | Konkurs              | Liquidation                              | Konkurssi        | Liquidation judiciaire and liquidation judiciaire simplifiée | Ptochefsi     | Procedura Fallimentare                 | Konkurs / sloven                  | Faillissements procedur  | Postepowanie Upadlosciowe w celu likwidacji Majatku    | Creditors Voluntary Liquidation or Compulsory Liquidation | Konkurs                  | Chapter 7                             |

No procedure

! Frivillig akkord in Norway and Underhands akkord in Sweden have no requirement other than that 25% settlement must be accepted by all parties.

Source: Euler Hermes



Special report  
Legislation risks

Our efforts in classifying insolvency procedures into four main categories enable us to verify the difficulties in achieving a complete unification of procedures and highlights the fact that the full range of situations are provided for only in three of the countries in our selected sample. Among these three countries, Denmark amended its laws on the matter in 1986. Italian legislation was reformed in January 2006 and September 2007. We begin, however, with the most recent significant legislation, that of Business Safeguard Act enacted in France in July 2005.

to give incentives to entrepreneurs to actively anticipate matters and respond to the aims set out, using a completely new procedure: Safeguard. Its minimum features are:

- ▶ automatic stay against creditors and thus non-confidentiality.
- ▶ can be opened at the sole request of the debtor.
- ▶ the debtor has not yet suspended payments.
- ▶ its requirements vis-à-vis creditors:
  - they lose their right to pursue or otherwise act against the debtor.
  - they must declare themselves as creditors.
- ▶ the aim is to present a safeguard plan drawn up by the debtor, approved by the creditors and confirmed by the court.

A COMPARISON USING THE EXAMPLE OF FRENCH LAW

In the first instance, the Business Safeguard Act, which came into force on January 1, 2006, aims at encouraging the entrepreneur to seek the protection of the law as far as possible in advance of becoming irremediably insolvent. The law thus sets out priorities in the following order: safeguarding the business, safeguarding employment, and satisfying the creditors. French law creates conditions

If we find these criteria in other countries' legislation, we can then assert that there is a similar procedure in this regard in other countries that is preventative, at the sole initiative of the debtor, gives an automatic stay against creditors and requires the intervention of a judge.

We may verify these observation in the table below:

NAME OF PROCEDURE

|             |                                       |
|-------------|---------------------------------------|
| Germany     | no existing procedure                 |
| Belgium     | no existing procedure                 |
| Denmark     | Betalingsstandsning                   |
| Spain       | no existing procedure                 |
| Finland     | no existing procedure                 |
| France      | la Sauvegarde                         |
| Greece      | no existing procedure                 |
| Italy       | Concordato Preventivo                 |
| Norway      | Tvungenakkord                         |
| Netherlands | no existing procedure                 |
| Poland      | Postepowanie naprawcze                |
| UK          | Company voluntary arrangement         |
| Sweden      | Förestags rekonstruktion              |
| USA         | Informal liquidation or general offer |

Preventative court procedures

| Significant features  | Germany | Belgium | Denmark | Spain | Finland | France | Greece | Italy | Norway | Netherlands | Poland | UK | Sweden | USA |
|---|---------|---------|---------|-------|---------|--------|--------|-------|--------|-------------|--------|----|--------|-----|
| Is the procedure non-confidential?  |         |         | Y       |       |         | Y      |        | Y     | Y      |             | Y      | Y  | Y      | Y   |
| Is it launched solely by the debtor?  |         |         | N       |       |         | Y      |        | Y     | Y      |             | Y      | N  | N      | Y   |
| Must the debtor have already suspended payments?<br>Must the debtor prove difficulties that are likely lead to suspending payments? |         |         | Y       |       |         | Y      |        | Y     | Y      |             | Y      | Y  | Y      | Y   |
| Are all actions against the debtor suspended ?  |         |         | Y       |       |         | Y      |        | Y     | Y      |             | N*     | Y  | Y      | N   |
| Must creditors declare the liabilities due to them?   |         |         | Y       |       |         | Y      |        | N     | N      |             | N**    | Y  | Y      | Y   |
| Must the repayment and rehabilitation plan prepared by the debtor be approved by the debtors and passed by the court?               |         |         | Y       |       |         | Y      |        | Y     | Y      | Y           | Y      | Y  | Y      | Y   |

\* Only the execution and taking of security are suspended.

\*\* A publication of the judgement is made.

\*\*\* Without intervention by the court

\*\*\*\* The plan prepared by the committee is approved by the debtor and its advisors.

\*\*\*\*\* In Sweden, restructuring procedures can lead to two types of agreements: one which is accepted or one imposed by the court. In Norway, a majority of the creditors can impose the agreement.

Source: Euler Hermes

No existing procedure  
 Yes  
 No



## Cahier spécial Legislation risks

First of all, Germany, Belgium, Spain, Finland and the Netherlands do not have a procedure under their laws that is the equivalent of Safeguard.

Also, for the other countries in our sample, the differences seem to concern non-confidentiality, initiating the procedure, suspending recovery and the declaration of debts by the creditors. There are also significant nuances in terms of drawing up a rehabilitation plan and its approval by the court.

Despite these differences, six countries have a procedure that more or less has the same minimum criteria as those previously stated, a procedure whose aim in those countries is to avoid bankruptcy (in the general sense) for a business where there is still time to do this. But is this the same as stating that other countries have no concept of preventative action to rescue an insolvent business? ■

### THE CONCEPT OF PREVENTION IN THE OTHER COUNTRIES

Few countries have an amicable treatment upstream of procedures that are similar to Safeguard in France.

The following table lists the procedures that are at the sole initiative of the debtor, the amicable and rather confidential nature of which is predominant, even when the debtor has recently become generally insolvent.

Only five countries have a process that is

similar to *Conciliation* in France, with a marginal possibility of this however in the UK, and informal procedures along these lines in Norway and Sweden. One idea, reflecting an new kind of organisation, emerges in the Netherlands with its 'debt agencies', which are public services or private bodies: law firms or others who attempt to find a solution in the framework of the *minnelijk incassotraject* procedure. On examination, the aim of preventing irremediable insolvency and allowing the business to recover appears more in procedures where there is a legal recognition of the state of insolvency. ■

### NAME OF PROCEDURE

|             |  |
|-------------|--|
| Germany     | Vergleich                              |
| Belgium     | no existing procedure                  |
| Denmark     | Akkord                                 |
| Spain       | no existing procedure                  |
| Finland     | no existing procedure                  |
| France      | la Conciliation                        |
| Greece      | Sindialagi                             |
| Italy       | Accordo di ristrutturazione dei debiti |
| Norway      | !                                      |
| Netherlands | Minnelijk incassotrajet                |
| Poland      | no existing procedure                  |
| UK          | !                                      |
| Sweden      | no existing procedure                  |
| USA         | !                                      |

## Amicable preventative procedures

| Significant features  | Germany | Belgium | Denmark | Spain | Finland | France | Greece | Italy | Norway | Netherlands | Poland | UK | Sweden | USA |
|---|---------|---------|---------|-------|---------|--------|--------|-------|--------|-------------|--------|----|--------|-----|
| Is the procedure non-confidential?  | N       |         | N       |       |         | Y + N* | N      | N     | !      | N           |        | !  | !      |     |
| Is it launched solely by the debtor?  | Y**     |         | N       |       |         | Y      | N      | Y     |        | Y           |        |    |        |     |
| Must the debtor have already suspended payments?                                      | Y       |         | Y       |       |         | Y      | N      | N     |        | N           |        |    |        |     |
| Can the debtor choose the creditors that participate in the agreement?                | Y       |         | N       |       |         | Y      | Y****  | N     |        | N           |        |    |        |     |
| Is there a court-appointed representative?  | Y****   |         | N       |       |         | Y      | Y      | N     |        | N           |        |    |        |     |
| Is the agreement approved by the court and is this approval publicly notified?<br>*** | Y       |         | N       |       |         | Y + N  | Y      | Y     |        | N           |        |    |        |     |

\* Confidentiality or security: a very French dilemma (see Focus)

\*\* In some cases banks or large creditors can initiate the opening of a procedure.

\*\*\* The court's approval of the agreement is left to the agreement's participants.

\*\*\*\* A representative of the court may intervene at a later stage, principally when the debtor is a natural person.

\*\*\*\*\* The creditors must represent a majority of the liabilities.

! This type of procedure may be found in the United Kingdom, but it is used more by debtors who definitively cease trading but avoid bankruptcy proceedings; in Norway and Sweden, the procedure is not governed by formal rules.

Source: Euler Hermes

|  |                       |
|--|-----------------------|
|  | No existing procedure |
|  | Yes                   |
|  | No                    |
|  | Yes and No            |



Special report  
Legislation risks

**THE INSOLVENCY CRITERIA REMAINS THE STARTING POINT FOR PROCEDURES**

It is perhaps in the perception of the degree of insolvency and the attempt to find an appropriate way of dealing with it that the relative nuances regarding the possible rescue of businesses emerge. Also, pragmatic considerations mean that procedures are simplified in several countries. A binary approach of either rescue or liquidation can sweep away the uncertainties associated with trying to prevent irremediable insolvency.

**NAME OF PROCEDURE**

|             |   |
|-------------|---|
| Germany     | <i>Insolvenzplanverfahren</i>   |
| Belgium     | <i>Gerechtig akkoord – le concordat</i>   |
| Denmark     | <i>Akkord</i>   |
| Spain       | <i>Concurso voluntario: on sole request of debtor –</i><br><i>Concurso necesario: on sole request of creditors</i> ♦ <i>Legal actions are pursued to the point of judgement. Those with the effect of leading to liquidation are presented to the bankruptcy court.</i> |
| France      | <i>Court-ordered rehabilitation</i>   |
| Finland     | <i>Yrityssaneeraus</i>  |
| Greece      | <i>Anadior ganosi</i>   |
| Italy       | <i>Concordato Fallimentare *</i>  |
| Norway      | no existing procedure   |
| Netherlands | <i>Surseance van betaling</i>   |
| Poland      | <i>Postępowanie upadłościowe z możliwością zawarcia układu</i>  |
| UK          | <i>administration</i>   |
| Sweden      | no existing procedure   |
| USA         | <i>Chapter 11</i>   |

**Court insolvency procedures – the possible rehabilitation and rescue of the business**

| Significant features  | Germany  | Belgium | Denmark | Spain | Finland | France | Greece | Italy | Norway | Netherlands | Poland | UK | Sweden | USA       |
|---|----------|---------|---------|-------|---------|--------|--------|-------|--------|-------------|--------|----|--------|-----------|
| Is the procedure non-confidential?  | Y        | N       | Y       | Y     | Y       | Y      | Y      | Y     |        | N           | Y      | N  |        | Y         |
| Who may initiate a procedure: the debtor (D), creditors (C) or the court (T)?   | DCT      | D       | DC      | DouC  | DC      | DCT    | DCT    | DC    |        | D           | D      | DC |        | DC        |
| Can the debtor benefit from the procedure if it has already suspended payments?   | N        | N       | Y       | N     | N       | Y      | Y      | Y     |        | Y           | N      | Y  |        | Y         |
| Are all actions against the debtor suspended?   | Y        | Y       | Y       | Y♦    | N       | Y      | Y      | Y     |        | Y           | Y**    | Y  |        | Y         |
| Must creditors declare the liabilities due to them?   | Y        | Y       | Y       | Y     | Y       | Y      | Y      | N     |        | Y           | Y      | Y  |        | Y         |
| Does the repayment and rehabilitation plan drawn up by the debtor need to be approved by the creditors and passed by the court? | Y<br>*** | Y       | N       | Y     | Y       | Y      | Y      | Y     |        | Y           | Y      | Y  |        | Y<br>**** |

\* Amministrazione straordinaria is used for major enterprises that have become insolvent; the aim is to satisfy creditors while preserving jobs and the productive apparatus.  
 \*\* Only the creditors who vote for the plan lose the right to separately pursue the debtor.  
 \*\*\* There exist different types of plans that may necessitate ratification by the court.  
 \*\*\*\* The plan is drafted by the debtor's advisors and the creditors committees.  
 Source: Euler Hermes

D: debtor  
 C: creditor  
 T: court

No existing procedure  
 Yes  
 No

**These unique procedures thus have fairly commonly shared traits:**

- ▶ – The opening of a period during which the possibility of rescue is verified, as well as the satisfaction of creditors via a repayment plan, which must be approved by a majority of creditors.
  - ▶ The non-compulsory intervention of a judge.
  - ▶ Liquidation, which sanctions the impossibility of a rescue or the creditors' refusal to agree to one.
- A small difference in some countries is that, should it be impossible to continue the rescue process, a more consensual procedure is provided for the optimisation of assets in preference to liquidation (United Kingdom). ■

**Insolvency**

In the Larousse dictionary of the French language, insolvency is defined thus:

*"The state of a person or company that lacks the means to meet its commitments".*

The use of the plural – 'commitments' – gives the sole and fundamental defining feature, that is, that insolvency does not apply when there is only one unpaid creditor.

In the absence of a precise definition of the extent or the availability of the means and of the number of creditors unpaid, French laws characterised general insolvency as a state of 'cessation of payments'.

But what exactly does 'cessation of payments' mean?

It was only with the Law of January 25, 1985 (article 3) that a definition was given:

*"...the impossibility of being able to meet liabilities due from available assets".*

And so we have come full circle. However, the use of this notion proved to be the source of the inability to rescue businesses, and the Law of 2005 abandoned this notion as the sole criteria for initiating insolvency procedures in the courts. ■



## Special report Legislation risks

### The transnational treatment of insolvency

One example: The European regulation of May 29, 2000

A definition of court procedures:

...based on the insolvency of the debtor that leads to the partial or total divestiture of the debtor as well as the designation of an official receiver

With the following criteria:

- ▶ Individual creditor rights are limited
- ▶ The insolvency of the debtor
- ▶ The divestiture of the debtor
- ▶ The designation of a third party

The objectives

- ▶ To improve and simplify the recognition and execution of commercial decisions
- ▶ To avoid formalities such as footnote clauses
- ▶ To coordinate measures to be taken regarding the debtor's assets

The limits

- ▶ This assumes the existence of assets in various forms
- ▶ The jurisdiction of the state where the principal interests are located must be competent
  - ⊖ The applicable law is that of the state where the procedure is initiated

The procedure must be on the list of insolvency procedures

- ⊖ This is not a case of a single law whose rules apply in all states, but rather the mutual recognition of procedures in foreign countries

La Court of Cassation has confirmed this position

### PROCEDURES FOR BUSINESS REHABILITATION ARE DIFFERENT, BUT DO THEY HAVE THE SAME OBJECTIVES ?

Before addressing liquidation procedures, which broad similarity exists, let us note the objectives of the laws of the different procedures mentioned so far.

#### The hierarchy of priorities under current insolvency legislation

| Country     | Safeguard of the business  | Safeguard of jobs | Payment of creditors   |
|-------------|--|-------------------|--|
| Germany     | 2nd priority   |                   | 1st priority   |
| Belgium     | 1st priority   |                   | 2nd priority   |
| Denmark     | 1st priority   |                   | 2nd priority   |
| Spain       | 2nd priority   |                   | 1st priority   |
| Finland     | 1st priority   |                   | 2nd priority   |
| France      | 1st priority   | 2nd priority      | 3rd priority   |
| Greece      | 1st priority   |                   | 2nd priority   |
| Italy       | 1st priority   | 2nd priority      | 3rd priority   |
| Norway      | 1st priority   |                   | 2nd priority   |
| Netherlands | 2nd priority   |                   | 1st priority   |
| Poland      | 1st priority   |                   | 2nd priority   |
| UK          | 1st priority: Administration, which also comprises saving as many jobs as possible |                   | 2nd priority: sale of assets for maximum repayment of creditors* |
| Sweden      | 1st priority   |                   | 2nd priority   |
| USA         | 2nd priority   |                   | 1st priority   |

\* Should Administration not succeed in achieving its first or second priorities, it then moves on to the liquidation of assets with the aim of maximum repayment of creditors.

Source: Euler Hermes

While creditor rights now compete with employee rights in a nascent or underlying fashion in several countries' legislation, the aim of safeguarding jobs has only been entirely incorporated in the law in France. With the Law of January 25,

1985, this objective was clearly assigned to procedures as the second priority aim, before the repayment of creditors. The wording is not absolutely precise on this, the Court of Cassation having affirmed the respect of the order as so defined,

which was then included in the Business Safeguard Act.

The ordering of the priority of objectives between the repayment of creditors and the safeguarding of the business is extremely difficult to establish. For example, Chapter 11 in the US is often presented a procedure that allows the rescue of a business. In fact, Chapter 11 is intended and allowed only when the restructuring of a business allows for the payment of creditors after they have accepted the payment proposal. ■



## Special report Legislation risks

### LIQUIDATION OF THE BUSINESS: FINALLY, SOME SIMILAR PRACTICES

One thing is certain and, it seems, has continued to be unanimously agreed upon since the Middle Ages: a single approach for dealing with a business that cannot be rehabilitated. This approach is liquidation, i.e., the sale of the assets and disappearance of the commercial entity concerned. The intervention of a

judge and of a representative of the court are compulsory. Moreover, modern laws have introduced state intervention, via the creation of a body of state practitioners or via special procedures, for the liquidation of entities whose disappearance will have a significant public impact. ■

## Court liquidation procedures

| Significant features  | Germany | Belgium | Denmark | Spain | Finland | France | Greece | Italy | Norway | Netherlands | Poland | UK  | Sweden | USA |
|---|---------|---------|---------|-------|---------|--------|--------|-------|--------|-------------|--------|-----|--------|-----|
| Is the procedure non-confidential?  | Y       | Y       | Y       | Y     | Y       | Y      | Y      | Y     | Y      | Y           | Y      | Y   | Y      | Y   |
| Who may initiate a procedure: the debtor (D), creditors (C) or the court (T)?                       | DCT     | DCT     | DCT     | DC    | DC      | DCT    | CT     | DCT   | DCT    | DC          | DC     | DCT | DC     | DC  |
| Must the debtor have already suspended payments before a procedure is opened?                       | Y       | Y       | Y       | Y     | Y       | Y      | Y      | Y     | N      | Y           | Y      | Y   | Y      | Y   |
| Are all actions against the debtor suspended?   | Y       | Y       | Y       | Y     | Y       | Y      | Y      | Y     | Y      | Y           | Y      | Y   | Y      | Y   |
| Must creditors declare the liabilities due to them?   | Y       | Y       | Y       | Y     | Y       | Y      | Y      | Y     | Y      | Y           | Y      | Y   | Y      | Y   |
| Are the assets sold by a liquidator who then distributes the proceeds of the sale to the creditors? | Y       | Y       | Y       | Y     | Y       | Y      | Y      | Y     | Y      | Y           | Y      | Y   | Y      | Y   |

### NAME OF PROCEDURE

|             |  |
|-------------|--|
| Germany     | <i>Insolvenz Mangels Masse –<br/>Insolvenz eröffnet</i>                    |
| Belgium     | <i>Het Fallissement la Faillite</i>  |
| Denmark     | <i>Konkurs</i>   |
| Spain       | <i>Liquidacion judicial</i>  |
| Finland     | <i>Konkurssi</i>   |
| France      | <i>La liquidation judiciaire<br/>and liquidation judiciaire simplifiée</i> |
| Greece      | <i>Ptocheysi</i>   |
| Italy       | <i>Procedura fallimentare</i>  |
| Norway      | <i>Konkurs sloven</i>  |
| Netherlands | <i>Faillissements procedure</i>  |
| Poland      | <i>Postepowanie upadlosciowe<br/>w celu likwidacji mafatku</i>             |
| UK          | <i>Creditor Voluntary<br/>Liquidation or Compulsory Liquidation</i>        |
| Sweden      | <i>Konkurs</i>   |
| USA         | <i>Chapter 7</i>   |

D: Debtor

C: Creditor

T: Court

Yes

No

### A REAL HEADACHE FOR EXPORTERS

While for liquidation procedures this shared approach is manifest, we should note that the seller faces a veritable maze when it comes to determining the actual legal state of insolvency of his client. This is not a matter of solving an intellectual problem, but rather a need to find a response that will determine two important issues for the seller:

- ▶ First, to know how to preserve his right in order to hopefully recover all or at least part of the debt owed to him.
- ▶ Second, to gain some assurances in order to know that he can continue trading with his buyer. ■

Gérald de Filippis

### Confidentiality or security

This is by no means a dilemma faced only in France.

Confidentiality is seen in France as guaranteeing the rescue of an insolvent company. In fact, the fear is that public knowledge of the initiation of a court insolvency procedure will damage the credit of the business concerned and thereby gravely compromise the safeguard attempt.

On the other hand, if no judgement is pronounced to confirm the safeguard agreement, the terms of the agreement can be called into question.

This situation is thus harmful for both the debtor and the creditors who have entered into the agreement.

The French law of July 2005 thus introduces Conciliation procedure, which can remain confidential or to the contrary can be known by all at a later time, i.e., after the agreement has been concluded and approved by the court.

A two-stage procedure also exists in Germany, in the form of the *Vergleich* procedure. ■

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