managing risk, enabling trade

market monitor

Adapting to the challenging economic environment

February 2010

A mixed insolvency outlook

The outlook for economic activity is that of a modest recovery in developed markets during 2010, although there are visible differences in expectations of performance across regions. The United States, which was first to succumb to the slump, is expected to out-perform the Eurozone this year. The US economy is expected to grow 2.7% in 2010 while, at 1.2%, growth projections of Eurozone output are much more modest. There are still considerable differences in performance across European markets.

The rate of growth in insolvencies in 2009 has rested on a number of factors, including each country's specific economic and financial profile, Central Bank and fiscal measures taken to combat the credit crisis, and the extent to which firms have been able to adjust to their new environment. As a result, we have seen insolvency rates rise by more than 70% in the Netherlands and by rates ranging from 10% to 65% in other countries.

The likely pattern of emerging economic recovery is that of a moderation in insolvency growth throughout 2010. We expect several advanced economies to see slight improvements in their number of insolvencies, although a few large Eurozone countries are expected to continue witnessing increasing numbers. For the USA, the UK and France we forecast a decrease of 5% in 2010, while Germany (+10%) and the Netherlands (+2%) are expected to continue their deteriorating trends.

Despite the expected improvements, a prolonged period of weak corporate credit conditions is anticipated. Economic recovery will not herald an immediate return to the benign insolvency conditions that prevailed before to the onset of the crisis.

In this issue…

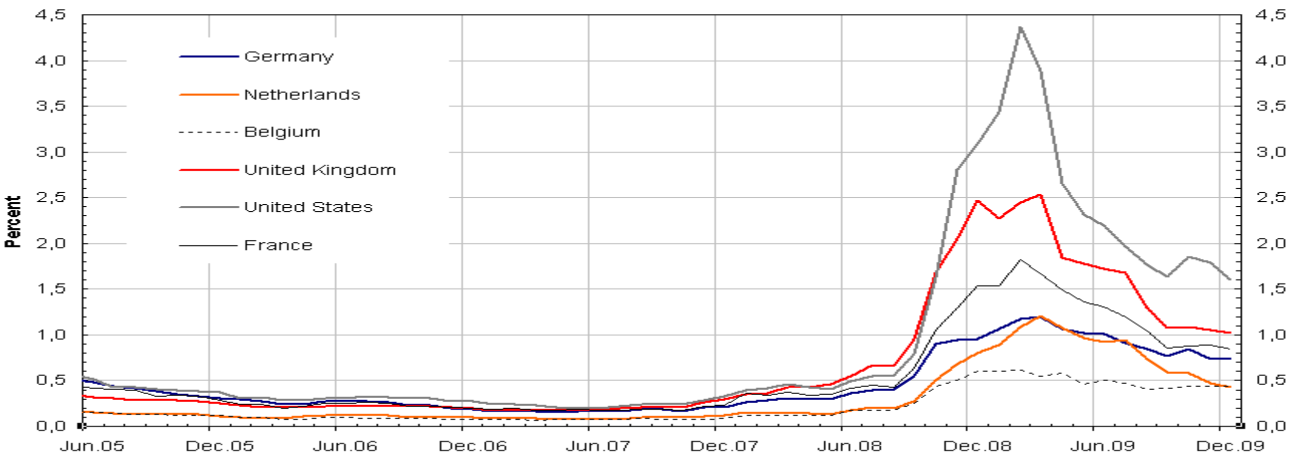
…we feature the following markets:

- The Netherlands – with a spotlight on the electronics/IT and food sectors
- Switzerland – with a spotlight on the metals and chemicals/pharmaceuticals sectors
- USA
- Belgium
- Poland
- Singapore
- Japan

Expected default in Western Europe and USA

One of the most important factors that any business needs to know is the trend in insolvencies in their markets. The following Expected Default Frequency (EDF) chart is based on listed companies in the markets referred to, and the likelihood of default across all sectors within the next year. In this context, default is defined as a failure to make a scheduled payment, or the initiation of bankruptcy proceedings. Probability of default is calculated from three factors: market value of a company's assets, its volatility and its current capital structure. As a guide, the probability of one firm in a hundred defaulting on payment is shown as 1%.

Median EDF evolution by country



Source: KMV Credit Monitor and Atradius Economic Research

The December 2009 median EDF again showed a generally decreasing trend. The US again recorded a double-digit fall of 19 basis points - to 160 - while the major European economies registered either a levelling-off (Germany) or slight decrease of 3-4 basis points compared to the previous month. All monitored countries recorded the lowest EDF figure for the whole of 2009, except Belgium, whose median EDF was consistent for the third consecutive month.

Despite these improvements, most stock exchange listed companies are still considered to have significantly higher default risk compared to the previous years.

On the following pages, we assess the impact of expected default in key markets. As well as the expert view of our underwriters, we indicate the general outlook for each market and sector featured using these 'weather' symbols:

Excellent

Good

Fair

Gloomy

Bleak

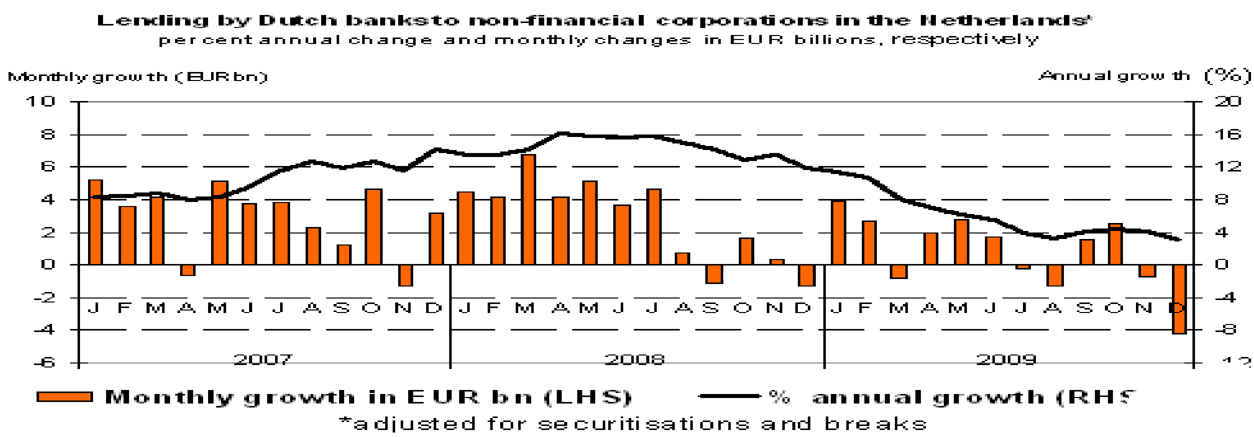
The Dutch economy gradually recovers

The recovery of the Dutch economy gained momentum in the second half of 2009. According to the first provisional estimate by the Central Bureau of Statistics (CBS), GDP increased 0.3% in Q4 of 2009. Although growth was lower than in Q3 (0.5%), this is the second consecutive quarter with a positive quarter-on-quarter growth after four quarters of contraction. After the GDP drop of 4.0% in 2009, Consensus Economics forecast growth of 0.9% in 2010. Producer confidence has increased considerably from its all-time low of -22.9 index points in February 2009. Although it fell again slightly - to -8.3 in January 2010 from -8.1% in December - manufacturers were much more optimistic about their competitiveness in export markets, especially in the EU. According to CBS, exports have gradually recovered after months of decline. In November 2009, the volume of goods exported was 2% lower than in November 2008 (-6% year-on-year in October 2009), and exports to non–EU markets were notably higher year-on-year.

Over the past eleven months, consumer spending has continued to decrease year-on-year. Food has suffered least, with only a small decline, while non-food sales showed a 10% decrease in November 2009 compared to November 2008. However, consumer confidence has continued to bounce back from its index low of -34 in March, with a further improvement in January 2010 (-10) compared to the previous months. The unemployment rate rose to 5.3% in Q4, compared to 3.7% in the same period in 2008, and, although we have seen a continuous month-on-month rise, this increase is much less than had been expected some months ago. As a consequence, the expectations for unemployment in 2010 have been revised downwards from 8% to 6%-7%.

As trade in commodities for energy, steel and oil-related products has again increased, the Port of Rotterdam's goods throughput recovered in the second half of 2009. This has also helped the transport services industry to recover. In the real estate/housing sector, sales of new-build houses have yet to pick up, and the adverse weather conditions this winter are an additional blow to the construction sector.

According to the Nederlandsche Bank (DNB), year-on-year growth in lending to businesses by Dutch banks declined further, to less than 4% in December 2009: the lowest figure for 3 years. On a monthly basis, lending decreased during 5 months in 2009 compared to 2 months in 2007 and 2008 (see chart below).



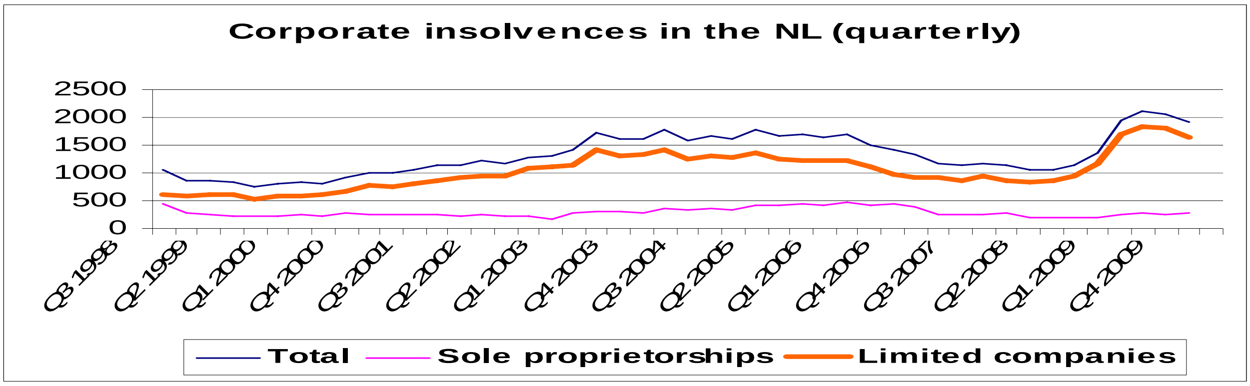
Source: DNB

Currently, the main victims of tighter credit conditions are SMEs. The Ministry of Economic Affairs has therefore financially supported two pilot projects, providing companies with concrete practical and administrative help in thoroughly preparing their requests for (additional) funding before submission to banks. The projects will start in April, with a focus on around 2,000 SME businesses that are also eligible for a governmental guarantee of up to Euro 250,000. The government has also announced a working capital guarantee for companies active in the agriculture sector, with agreements having also been concluded with the banks.

Although lending conditions have tightened, we see that banks, besides scrutinising companies´ balance sheets, are also reviewing the market situation and the operational efficiency when assessing risk. As a result, we do not foresee the risk of a credit crunch in the short term.

Much lower insolvency increase in 2010

Overall in 2009, company insolvencies increased 73%: to more than 8,000. However, in the first quarter of 2009 the increase had been at its steepest - at 100%. The decrease in corporate insolvencies recorded in Q3 continued in the last quarter (see chart below).



Source: Statistics Netherlands

Looking at sectors, we still see a continued high level of insolvencies in the financial and business services sectors. Insolvencies in the construction sector, while also high, have started to level off, but some concerns remain for construction as, besides the low sales and production level, the hard winter has taken its toll. This suggests that the insolvency rate may increase again in early 2010. In the transport sector, a third of companies reported a loss in 2009, and concern remains, as the sector faces price increases for both fuel and labour.

In December 2009, the Expected Default Frequency (EDF) indicator for listed companies in the Netherlands dropped to its lowest level in 2009 (see chart page 2). Currently, we expect corporate insolvencies to increase only 2% this year compared to 2009, but, in view of recent developments, even a year-on-year decrease is not inconceivable.

Electronics and IT

How has the economic downturn affected the electronics and IT industries?

Although the electronics sector was hit hard right from the start of the credit crisis, with a steep decline in orders and production, the tide has now turned. Major companies like Philips and ASML have announced a return to profitability. Photolithography machines manufacturer ASML foresees an increased order book and expanded production in 2010, with previously laid off staff returning to their jobs. What's more, companies in the IT sector expect investment to increase after two years of stagnancy.

What is the current trend in payment delays, payment default and insolvencies?

The number of insolvencies in the electronics and IT sectors was not as high as expected and it's certain that payment delays or default will decline further. That said, as business volumes are again growing, the new concern is whether companies have sufficient funding to finance growth. As the added value in these sectors is relatively high (up to 40% or more), any payment delay should be seen as an important warning sign.

What is Atradius' short term (6 months outlook) for the electronics and IT industries?

Currently the outlook is positive for these sectors, with a forecast of increased turnover and results in 2010.
After two years of stagnation, sales of consumer electronics have increased. This has led to orders from the semiconductor industry for new and advanced machines for chip production, to meet demands for increased speed and capacity. On the back of this investment, sales of machinery to produce chips have almost doubled. To build these machines, ASML is supported by a huge network of regional suppliers, all benefitting from the increase in demand, and this gives a boost to the semiconductor supply industry in the Southeast of the country. In the IT sector, companies are also reviewing the current status and plan to invest in upgrades, new applications and hardware.

Food

How has the economic downturn affected the food industry?

The food industry has remained fairly robust throughout this crisis. Consumer spending on food decreased only slightly, and exports remained on virtually the same level as the previous year, with only a small decrease of around 1%. Lower commodity prices and consistent volumes have made this sector a stable element in the Dutch economy. In contrast, in the agricultural sector, vegetable and horticultural producers have been hit by overproduction, price decline and deteriorating demand. Together with the heavy investments in expansion, financed by loans, many players in the sector face tight liquidity problems.

What is the current trend in payment delays, payment default and insolvencies?

The number of insolvencies in the food industry has remained low throughout 2009, while, in the agricultural sector, insolvencies have increased substantially.

What is Atradius' short term (6 months outlook) for the food industry?

The prospects for the Food Industry are reasonably good, as consumer spending on food products was only slightly affected and consumer confidence has continued to improve over the last 10 months. For the agriculture sector, however, the prospects are pretty grim. In the short term it is all about survival, with a particular focus on cash flow in the flower, plant and vegetable production.

New stimulus package to revive the labour market

Switzerland has been less affected by the global crisis than other industrialised countries, as some important Swiss export sectors, such as pharmaceuticals, are less dependent on economic volatility, and also because the domestic economy has not been directly affected by a sharp deterioration of house/real estate prices. Forecasts have been revised upwards in the last couple of months: according to the State Secretariat for Economic Affairs (SECO), GDP will contract 1.6% in 2009 (from an estimate in June 2009 of -2.7%). That said, unemployment remains high, at 4.4%.

After two stimulus packages were launched in November 2008 (worth Swiss Francs 982 million) and February 2009 (worth Swiss francs 710 million), mainly to sustain construction and improve infrastructure, a third, worth 300 million Swiss francs, was introduced at the end of 2009, aimed at reviving the labour market.

Many companies damaged by falling orders since the end of 2008/beginning of 2009 subsequently exhausted their financial resources and were forced to file for insolvency last year. Altogether in 2009, 5,100 companies went insolvent, a 26.7% increase on 2008. December saw an all-time high of 558 insolvencies. While in the first half of 2009 it was mainly export-dependent companies and the financial sector that were affected, the picture changed in the second half, as a growing number of businesses in retail, the handicraft industry, and in the catering and hotel sector went insolvent. This came as no surprise to us, as, in the September Market Monitor, we foresaw that rising unemployment would dampen private consumption and, consequently, hurt those industries in the later part of the year. According to Dun & Bradstreet, investment companies experienced record levels of insolvency in 2009 (107% year-on-year/223 companies) while some sectors actually registered a decrease: in the case of wood and furniture, by -6.3%.

After a sharp deterioration at the beginning of 2009, payment behaviour improved in the second half of the year, but we still recorded a high rate of payment delays in the automotive and textile sectors.

In general, neither Swiss companies nor banks expect a severe worsening of lending conditions - or a credit crunch - in the future. However, some industries, such as machinery, automotive supplies and construction, could face a liquidity freeze. We expect loan conditions to tighten after companies have disclosed their 2009 annual accounts, simply because, in many cases, this will lead to a downgrading of borrowers' ratings. The consequence will be higher costs for borrowers, shorter credit periods, shortened lines of credit and more collateral required by lenders.

A modest recovery with some risks

In 2010 we expect a modest recovery, based on domestic consumption (private consumption is estimated to increase by 0.9%) and a rebound of exports, as growth has picked up again in Switzerland's main export markets - Germany, France and the US. Nevertheless, the pace of recovery could slow down in the course of the year as the stimulus packages in Switzerland and in other countries expire. Many companies currently face empty order books or a pessimistic outlook for new orders. This will subdue comprehensive investments for the time being, as companies restrict themselves to necessary replacement investment. SECO forecasts GDP growth of 0.7% this year, and an increase in unemployment to 4.9% (see chart below), which could adversely affect private consumption in the second half of 2010. We expect insolvencies to level off or even decrease slightly compared to 2009. A real and persistent recovery is not expected until 2011 at the earliest.

Selected forecasts, swiss economy
Comparison of forecasts: December 09 and September 09
Year-to-year variation in %, quotas

	2009		2010		2011
	Dec. 09	Sept. 09	Dec. 09	Sept. 09	Dec. 09
GDP	**-1.6%**	-1.7%	**0.7%**	0.4%	**2.0%**
Consumption expenditure:					
Personal Consumption	**1.3%**	0.8%	**0.9%**	0.3%	**1.5%**
Government Consumption	**1.5%**	1.6%	**0.4%**	-0.4%	**-0.1%**
Construction Investment	**0.5%**	2.0%	**1.5%**	0.5%	**0.0%**
Investment in Equipment and software	**-4.0%**	-8.0%	**-1.0%**	-2.5%	**4.0%**
Exports	**-9.7%**	-9.5%	**3.7%**	3.2%	**5.2%**
Imports	**-5.5%**	-6.1%	**4.2%**	2.1%	**4.8%**
Employment (full time equivalents)	**-0.2%**	-0.4%	**-0.4%**	-1.3%	**0.5%**
Rate of unemployment	**3.7%**	3.8%	**4.9%**	5.2%	**4.9%**
Consumer price index	**-0.5%**	-0.4%	**0.8%**	0.9%	**0.7%**

Source: Business Cycles Experts Group, Swiss Confederation

Metals

How has the economic downturn impacted the metals industry?

The metal and machines sector is the most important manufacturing industry in Switzerland, and highly dependent on demand from the machines, automotive and construction industries at home and abroad. Last year, some metal producers´ turnover decreased by up to 50%, with export dependent subsectors, such as steel producers, being hit earlier and harder than domestic-oriented foundries or producers of metal goods, which could still rely on orders, for instance from the Swiss construction sector, for the time being. However, even those sectors didn't entirely escape the effects of the downturn in 2009.

What is the current trend in payment delays, payment default and insolvencies?

Insolvency of metals and machinery producers rose by more than 15% in 2009. Payment morale is still bad, with invoices often settled late.

What should companies selling products into the metals industry pay particular attention to?

Buyers are increasingly seeking trade credit from their suppliers to safeguard short-term liquidity. Therefore, a comprehensive and regular check of customers´ creditworthiness is of prime importance.

What is Atradius' short term (6 months outlook) for the metals industry?

With current overcapacity, expiring stimulus packages and a reluctant investment sentiment in other industries, there will be no fast recovery, and the level of incoming orders will remain low in the short-term.

Chemicals/pharmaceuticals

How has the economic downturn impacted the chemical/pharmaceutical industry?

This sector, the second largest industry in Switzerland, did not avoid the economic crisis. Pharmaceuticals are less affected than chemicals by economic fluctuations, as demand for health products is relatively stable, because of increasing health expenses worldwide and higher life expectancies. In contrast, the chemical industry, as a major supplier to other sectors, is generally much more dependent on overall industrial production. As a consequence, the Swiss chemical sector has been severely hit by the deteriorated global demand.

What is the current trend in payment delays, payment default and insolvencies?

While the number of insolvent companies in this sector increased sharply in 2009 (on average, insolvencies have always been low in this sector), the overall payment behaviour (average payment delays in the chemical/pharmaceutical sector: 10 days) is still one of the best, when compared to other Swiss sectors.

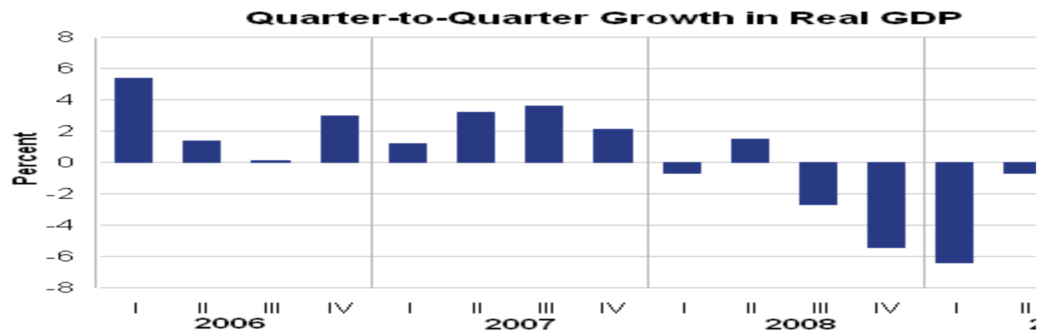
What is Atradius' short term (6 months outlook) for the chemical/pharmaceutical industry?

The outlook for the Swiss pharmaceutical sector is relatively good, despite tough global competition and pressure on prices. Switzerland is an international leader in research and development in this industry. In fact, with high labour productivity and a broad diversification of exports, the Swiss pharmaceutical sector has renewed growth potential in the coming months. By contrast, growth potential in the chemical sector is lower, as in general this industry is less technology-driven than pharmaceuticals and more prone to price pressure.

USA

Signs of recovery persist

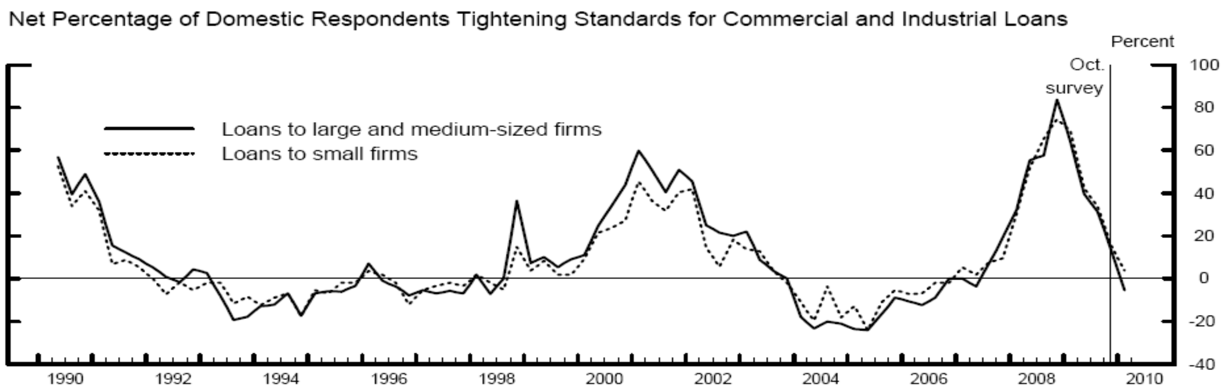
In the last quarter of 2009, real GDP increased 5.7% compared to Q3, according to an advance estimate by the US Bureau of Economic Analysis (see chart below), representing the fastest quarter-to-quarter growth in the US economy since 2003. The recorded increase was driven primarily by private inventory investment (investments in equipment and software increased 13.1%), exports (18.1%) and personal consumption (2.0%); the latter not unsurprisingly boosted by the holiday sales elements. An increase in private inventory investment is perhaps a sign that companies are preparing for an upturn, combined with a necessary re-stocking requirement. That said, expectations for GDP growth over the forthcoming quarters is tempered, with estimates of an increase of about 3% in Q1 of 2010.



Real GDP growth is measured at seasonally adjusted annual rates.

U.S. Bureau of Economic Analysis

According to the January 2010 Federal Reserve Senior Loan Officers Survey on Bank Lending Practices, commercial banks in general relaxed their lending standards on many loan types in Q4 of 2009. However, this is still relative to their earlier and highly restrictive attitude, and many are yet to unwind to anything close to pre-crisis levels. The net percentage of banks reporting tighter loan terms continued its downward trend from the peaks reached in late 2008 and into 2009 (see chart below). Nevertheless, we see that many banks are still tightening their terms for business and household loans. According to the survey, banks reported that loan demand from both businesses and households weakened further in the last quarter of 2009.



Source: Federal Reserve Board

Tightened credit standards and lower credit demand have translated into a marked decline in corporate and household lending. Growth in US corporate lending has fallen from around 20% in October 2008 to -17% in November 2009.

We expect that lending standards will remain tight, relative to pre-crisis levels, throughout 2010. While the Chapter 11 filing of CIT late in November 2009 did not have as much of a negative impact as immediately feared, in terms of a widespread removal of credit for small businesses, regional banks still face commercial real estate loan portfolio concerns. Access to credit will remain a challenge to small businesses – especially those serving difficult end markets such as automotive, construction, and those sectors where discretionary consumer spending drives revenue.

What's more, in 2010 many consumers will face what could be potentially significant payment increments under Adjustable Rate Mortgages (ARM), raising fears of another wave of foreclosures as unemployment persists (the jobless rate was still at 9.7% in January 2010) and those out of work for 12 months or more have already exhausted their savings.

The bottom line is that we believe that a sustainable trend of economic growth and an upturn in employment will be required to persuade many banks to relax lending standards to any significant degree. That means that, for the foreseeable future, the credit environment will certainly remain restricted.

Corporate insolvencies to decrease in 2010 as the economy picks up

For the whole of 2009 we expect corporate insolvencies to have increased 40% to 60,000, with many small to medium sized businesses struggling in the wake of falling consumer demand and in an environment where bank facilities and lines were being tightened or pulled. Those businesses with an inflexible cost base, an inability to manage inventory levels effectively or an inability to generate organic cash flow, featured prominently among the casualties. Construction (especially new-build residential) will continue to struggle as unemployment persists and if a second wave of foreclosures occurs as a result of ARM mortgage rate increases.

In December 2009, the Expected Default Frequency (EDF) indicator for listed companies in the US again dropped compared to the previous month (see chart page 2), by 19 basis points to 160, reaching its lowest level since October 2008. We forecast a 5% decrease in insolvency levels in 2010 as the economic recovery continues: The International Monetary Fund (IMF) has recently revised its forecast for 2010 US GDP growth upwards to 2.7%

As a means of providing additional support to our customers, we have invested in information gathering resources to obtain more financial insight on their buyers. This is essential in a market where, while a willingness to pay can continue right up to a bankruptcy, the ability to pay needs to be fully understood – and, for that, in depth financial insight is critical. Our commitment to this investment means that we can write business sustainably and confidently for our customers and mutually capitalize on the opportunities that present themselves as we climb out of recession.

Consumer pessimism grows over fears about the future

The tentative signs of improvement we recorded in our last Belgium analysis in November 2009 have continued in the last three months. Belgium has technically overcome recession, and the National Bank of Belgium (NBB) has revised its estimate for 2009 GDP upwards from -3.5% to -3.1%. Exports still remain under pressure, but the year-on-year deterioration slowed in Q3 of 2009 to -8.8% (-15.5% in Q2 of 2010) as exporters benefited from the general economic improvement worldwide.

Nevertheless, economic development remains subdued because of low private consumption. The consumer confidence index deteriorated sharply in December 2009, and, despite a rebound in January 2010, consumers´ pessimism about the economic situation and unemployment trends in Belgium grew. This is no surprise, in light of GM's announcement of the closure of the Opel plant in Antwerp. Besides job losses for 2,300 workers, this decision will also severely hit the local economy, with Opel sub-contractors mainly affected, while other local businesses, including retail and service, will also suffer. Despite an increase to 8.2% in December 2009 the Belgian unemployment rate is still lower than the eurozone average, but the jobless rate is expected to increase further, reaching between 9% and 10% in 2010.

According to the latest NBB figures, loans provided by residential banks to companies declined further in November 2009, by 2.8% year-on-year. The Belgian banking system is still under pressure, and stress tests on the banks have revealed that they are still vulnerable and may require additional capital. As elsewhere, small and medium-sized companies suffer more than large enterprises from this restricted access to credit. While this severely affects companies´ liquidity and investment, we do not see any imminent danger of a credit crunch, as we expect the Government to take the necessary actions to avert any real deterioration.

After several consecutive quarters of deterioration, overall payment behaviour improved surprisingly in the last quarter of 2009 (see chart below). This suggests that companies´ application of tighter credit management measures, which we observed at the end of 2009, is finally taking effect. At the same time, state related bodies have further improved their payment behaviour (76% of their invoices were paid on due date in Q4 2009 – a new all-time record after the 71% in Q3 2009 - but still with 8% of invoices paid more than 90 days after the due date).

	Invoices paid on due date	Invoices paid more than 90 days after due date
Q4 2009	67.73%	10.38%
Q3 2009	62.86%	12.43%
Q2 2009	63.47%	10.69%
Q1 2009	65.65%	9.69%
Q4 2008	66.48%	8.69%

Source: Graydon

Belgium

According to our own observations and experience, construction, transport, retail, domestic appliances and ICT improved their payment behaviour during the last quarter of 2009. In contrast, services, engineering, hotel & catering, and timber show a deteriorating trend.

According to the Belgian Statistics Office, 9,420 Belgian companies became insolvent last year, a 10.7% increase on 2008. Those most affected were manufacturing (20.1% increase), construction (16.1%), hotels/restaurants (12.9%) and transport/other services (11.5%). Hard hit subsectors were wood/timber (200%) and metal manufacturing (50%). Small companies (of less than 10 employees) were worst affected, with an 11.2% increase. January 2010 figures show a rise in insolvencies in the hotel/restaurant and general services sectors, a clear sign of the impact of low private consumption. The Belgian government is seeking to support the hotel/restaurant sector by reducing the VAT on its services.

Insolvency increase will slow down in 2010

For the current year, the NBB forecasts output growth of 1%. The increasing unemployment rate will probably have a negative impact on (still weak) domestic consumption. The government should, in our view, maintain its supporting measures to stabilise the economy, and even increase its support, budget permitting.

In December 2009, the Expected Default Frequency (EDF) for Belgium remained level for the third month in a row, still indicating elevated default risk among listed companies (see chart page 2). Currently, we expect corporate insolvencies to increase by 5% this year compared to 2009.

Looking at specific sectors, we still assess the overall performance of chemicals, food and agriculture to be satisfactory, while construction, metals and transport continue to face problems. If domestic consumption remains weak - or deteriorates - directly related sectors such as retail, ICT and consumer durables may be rapidly and severely affected.

Poland the only EU country to register economic growth in 2009

Poland was the only EU country to register economic growth last year, at 1.7%, according to the preliminary estimate of the Polish Central Statistics Office. Robust domestic consumption was the main driver of this development, as unemployment had decreased over the past couple of years, and both households and companies are, in general, less indebted than in other countries. In November 2009, there was an increase in unemployment to 8.8%, due to seasonal fluctuations, but the average wage increase (7.3% in December 2009 compared to the previous month) is indicative of a relatively stable labour market. While both exports and imports have decreased in the last 12 months, exports have exceeded imports. Polish exporters continue to benefit from a weak zloty, especially in price sensitive segments and markets, which compensates in part for the overall decrease in foreign demand. However, the zloty has shown an appreciating trend since end of 2009, and we forecast a further strengthening against US-$ and Euro in the course of 2010.

For the average Polish company the main issue is liquidity, as payment delays pile up, creating a domino effect along the supply chain. The same sectors as in 2009 will be affected in the coming months by above-average payment delays and defaults: steel distribution, steel construction, construction materials, construction transport and consumer electronics. Construction has been severely affected by adverse weather conditions in recent months. The retail sector has suffered from disappointing consumer spending at Christmas, especially in the household electronics sector. In contrast, we see pharmaceutical and food as the most stable industries.

Companies face tougher borrowing requirements

Polish companies still face tough negotiations with their banks to extend lines of credit, and many suffer from increased financial burdens, as banks seek to strengthen their balance sheets. Banks also seem to be shying away from ´critical´ sectors, and are steadily reducing their exposure to them. We also have concerns about the effect that audited 2009 company results will have on banks’ decisions to prolong available credit lines and on capital costs. Consumer credit loans will also suffer from tighter credit conditions.

Consensus Forecasts currently predict GDP growth of 2.2% in 2010, subject to a recovery in exports and spending of EU funds to improve infrastructure (the government plans to modernise roads and railways and to build about 2,000 km of new fast roads in time for the Euro 2012 Football Championships, co-hosted by Poland). However, rising unemployment and decreasing credit growth could further dampen consumer spending.
We still expect an increase in the number of insolvencies in 2010, especially in the steel and construction industries, as those sectors are traditionally most exposed to payment delays.

Currency volatility remains a risk factor. That said, Prime Minister Donald Tusk’s recently announced austerity measures, designed to bring the budget deficit (6.9% of GDP in 2009) below the Maastricht criteria of 3% by the end of 2012, have improved international investors´ sentiment and strengthened the currency. Whether the government can contain the fiscal deficit hangs largely on the outcome of this year’s presidential election. Depending on whether the Poles choose a liberal or conservative president, the necessary legislative changes could be blocked by presidential veto (the current conservative President Lech Kaczynski has repeatedly blocked economic reforms in the past).

Singapore

Little increase in default or insolvency in 2009

After its rebound in Q2 of 2009, the Singapore economy continued to perform strongly in Q3 of 2009, with GDP growth of 14.9% compared to the previous quarter - and 0.8% year-on-year, according to Singapore's Ministry of Trade and Industry (MTI). In the last quarter of 2009, GDP grew 3.5% year-on-year, although this was down 6.8% on the third quarter. This drop was due mainly to a decline in the pharmaceutical manufacturing and the biomedical sectors, whose contribution to output had been high in the two previous quarters. In contrast to manufacturing, construction and services continued to grow. The slowdown in GDP in the last quarter of 2009 is generally not viewed as a backward trend, or as a signal of a return to recession. To most observers, this was an expected correction of the rapid recovery seen in earlier months as the economy rebounded from the weakness of the previous year.

The seasonally adjusted unemployment rate increased only slightly: to 3.4% in September 2009 from 3.3% in June 2009. Consumer confidence continues to rise on the back of resilient employment, and retail sales (seasonally adjusted) increased by 1.2% in November 2009 compared to October. Excluding motor vehicles, retail sales increased by only 0.3%.

For the whole of 2009, the Singapore economy is estimated to have contracted 2.1%. This is in line with MTI's forecast of a contraction of 2.0 to 2.5%, which was regularly revised downwards from the 8.0 to 10% contraction projected in the early part of 2009. Despite the recovery in the course of the year, inflation has remained low at 0.2%.

Our experience of B2B payments in Singapore remained favourable, with no notable increase in notifications of non-payment. The rate of corporate insolvencies remained low in 2009 (see chart below) and we expect it to continue so in 2010, with no increase in any particular industry.

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Petitions Filed	15	11	11	17	10	20	23	15	13	15	17	14
Cos Wound-up	13	9	9	9	13	7	17	12	8	17	9	12

Source: Singapore Insolvency and Public Trustee's Office

Banks have remained resilient throughout the crisis, maintaining high capital and liquidity ratios. Local banks' earnings have dipped, but remain above market expectations. This, together with success in raising capital during the crisis, leaves the local banking system well placed to increase its risk appetite if the recovery continues.

Fiscal support for companies will continue

Monetary and fiscal stimuli have aided local business and appear to have helped prevent a prolonged economic downturn. The Singapore government continues to provide business programmes to counter any limitations in the provision of credit facilities, including loan guarantees, credit insurance premium offsets and credit insurance top-up cover. In December 2009, it extended by a year its financial support for companies introduced during the global crisis in a bid to keep the fragile economic recovery afloat.

This extension of credit support through the 'Special Risk-Sharing Initiative' is effective from February 2010 to the end of January 2011. The move will direct up to 8.4 billion Singapore-$ (US-$ 6.0 billion) to spur a recovery in commercial lending and ensure that companies in need of financing can access loans.

At the same time, indications are that the Singapore government will take a cautious approach by withdrawing fiscal support for the economy. Under the new financing support, companies - especially smaller ones - will continue to receive financing support under a bridging loan programme, but the maximum loan per company will be reduced to Singapore-$ 2 million from the Singapore-$ 5 million available under the former scheme. The government will shoulder only 50% of the risk involved in the loans, down from 80%, with private banks and other involved parties sharing the remainder. Interest on the government-supported loans will also rise: from 5.0% to 5.5%.

The government expects the economy to rebound sharply in 2010, with 5% growth, while inflation is estimated to increase 2.8% on the back of the economic upswing. We believe that Singapore's economic recovery remains on track, but there are some downside risks. While Asia's expected economic growth should have a positive impact on Singapore's economy, some economists are concerned about the second half of the year, when major Western economies may decide to pull back on their stimulus packages. Singapore's reliance on foreign demand and global trade leaves it exposed, and so we will be closely monitoring the effect of any winding down of stimulus packages by its main trade partners.

Japan

Support from banks has prevented higher insolvency

Following its sharp deterioration in the first half of last year, Japan's economy is recovering slowly, driven by increased exports to the Asia Pacific region. The IMF expects GDP to have declined 5.7% in 2009.

Corporate insolvencies increased 4.9% year-on-year in 2009. The industries worst affected were steel/metal (50% increase year-on-year), machinery (70%), rubber (88%), leather and general trading (50%), and wood and textiles (20%). However, the frequency of bankruptcies decreased in the second half of the year, thanks to the government's emergency guarantee programmes and the fact that the banks have remained supportive during the crisis.

Payment morality in Japan is very high and it is usual for buyers to settle their invoices on or before due date. But, because so many Japanese businesses continue to pay diligently right up until the point of entering bankruptcy, punctual payment isn't necessarily indicative of healthy cash flow generation by a Japanese customer. For many businesses, those punctual payments are possible only because banks have been generous with funding, leading to a weak and leveraged balance sheet. As a result, it would take very little for those businesses to fail.

Outlook for recovery looks fragile

The IMF forecasts that Japanese GDP growth will rebound 1.3% in 2010. But the recovery still looks fragile, with many adverse aspects to bear in mind. The strength of the yen against international currencies will dampen further export growth - and may price Japanese export goods out of the market. Japan's government debt has been steadily rising for the last few years, reaching 174% of GDP in 2008, and may even reach 220% in 2010 as a result of new spending plans. Unemployment is at post-war record levels (5.1% of the labour force in December 2009), wages are falling, businesses are deferring capital expenditure, and the risk of deflation is increasing, as Japan's consumer prices fell for the tenth consecutive month in December 2009 (-1.7%). Standard & Poor's warned Japan at the end of January that it would reduce its country rating From AA stable to AA negative outlook if economic data remains weak, medium-term growth is not boosted, and given the country's high government debt burden and its weak demographic profile.

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