PRESS RELEASE

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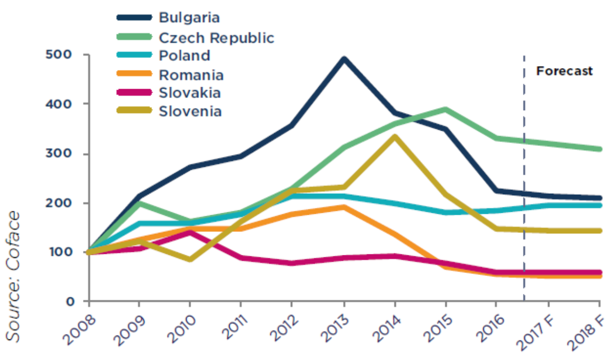
Central & Eastern European insolvencies overview: Less business insolvencies in 2016, but a downturn in the construction sector

- **Company insolvencies dropped by 14% in 2015 and 6% in 2016**
- **Wide variety of dynamics, ranging from a 35.6% decrease in Bulgarian proceedings, to a minor increase of 2.6% in Poland and a hike of 56.9% in Hungary**
- **Construction sector remains among flop sectors**
- **Coface forecasts a decrease in company insolvencies in the region by 3.9% in 2017 and 2.3% in 2018**

2016 showed a continued decline of 6% in the number of company insolvencies in the Central and Eastern European region, following a fall of 14% in 2015. In all, over the course of last year, six entities per 1,000 became insolvent. This improvement was in line with the favourable macroeconomic environment, largely due to the positive situation on the labour market, with lower unemployment rates and rising wages. Despite this, insolvencies are still above the pre-crisis levels of 2008 in most countries. Romania and Slovakia were the only two countries to record lower levels of company insolvencies than before 2008.

Evolutions in insolvencies in the CEE region since 2008 (2008=100)



The dynamics vary widely among the 14 CEE countries covered in this analysis. Eight countries recorded a decline in insolvencies in 2016. **Bulgaria** experienced the strongest fall, with a 35.6% drop in proceedings and hardly any insolvency in the pharmaceuticals, IT or education sectors. On the other hand, in **Hungary** they more than doubled compared to the previous year and in **Lithuania** they grew by +35.2%. In Hungary's case, the rise was mainly due to a higher number of ex officio company cancellations (which were barely present in the 2015 statistics). Lithuania's statistics were impacted by the State Tax Inspectorate and Social Fund's process of "cleaning" the market of companies which had in reality been insolvent for some time. **Poland** recorded a slight increase of 2.6% in proceedings, as its insolvency statistics were affected by legal changes implemented last year to cover insolvencies and the restructuring of companies faced with payment problems.

P R E S S R E L E A S E

Construction fared worst among the flop sectors

A sectorial split shows that while some sectors enjoyed improvements last year, others experienced challenges with liquidity. This varied between countries, although there were some common trends throughout the region. The construction sector faced the most difficult business environment. CEE economies were impacted by the switching to the new EU budget and lower investments in 2016, with a slower pace of GDP growth (down from 3.5% in 2015, to 2.9% in 2016). In terms of construction output, most countries recorded a significant fall in activity which led to deteriorated liquidity conditions for companies in the sector. For some countries, such as Estonia, Hungary and Russia, insolvencies of construction companies represented over 20% of the total proceedings.

Positive trends anticipated over the upcoming years

Coface forecasts continued decreases in company insolvencies in CEE, down by 3.9% in 2017 and a further 2.3% in 2018. *"The acceleration in GDP growth and the rebound in investment activity herald more positive signals for businesses"* underlined Grzegorz Sielewicz, Regional Economist Central & Eastern Europe. *"A new flow of infrastructural projects, stable contributions from household consumption and the development of foreign markets will all be economic supporters."*

The rebound in investments should be particularly beneficial for sectors such as construction, transport and the manufacturing of machinery, construction equipment and construction materials. Nevertheless, labour shortages will remain an obstacle for many expanding businesses.

Finally, businesses could experience some challenges related to developments in the global economy and political uncertainties. The latter include the eventual negative consequences of Brexit and insecurities in Western Europe, such as the unclear election results in Italy. Political issues have also been observed in the Czech Republic, Poland and Romania.

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About Coface

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