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Central and Eastern Europe: Less business insolvencies despite temporary headwinds in the construction sector

Despite some slowdown last year, average GDP growth remained at a solid level of 2.9% in Central and Eastern Europe. Economies have been benefiting from the favourable situation on the labour market, with contracting unemployment rates and rising wages. The improving macroeconomic environment has had positive effects on business. Company insolvencies dropped by 14% in 2015 and a further 6% in 2016. Over the course of last year, 6 entities per 1,000 became insolvent. The regional breakdown reveals a wide variety of dynamics, ranging from a fall of 35.6% in proceedings in Bulgaria, through to a minor increase of 2.6% in Poland and a surge of 56.9% in Hungary. Region-wide however, the downturn in construction activities led to companies within this sector being widely represented in insolvency statistics. Construction consequently took first place in the ranking of flop sectors in the CEE region.

Coface forecasts that company insolvencies in the CEE region will decrease by 3.9% in 2017 and by 2.3% in 2018. The acceleration in GDP growth and the rebound in investment activity bring further positive signals for businesses. A new flow of infrastructural projects, stable contributions from household consumption and the exploration of foreign markets will all be economic supporters. Nevertheless, businesses could experience some challenges, subject to the whims of the global economy and political uncertainties. The latter include the eventual negative consequences of Brexit and uncertainties in Western Europe, with unclear election results in Italy. In addition, there have been local political issues, as seen in the Czech Republic, Poland and Romania. 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.