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PANORAMA

INSOLVENCIES IN CENTRAL AND EASTERN EUROPE

THE COFACE ECONOMIC PUBLICATIONS

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Companies in the Central and Eastern Europe region reported solid economic growth rates as well as more structured growth last year. Thanks to the healthy situation of the labour markets, unemployment rates have been decreasing, to reach historically-low levels in many cases. This, combined with rising wages and low inflation, have made private consumption a key driver for growth. Investments, another important component of domestic demand, grew – thanks to businesses' improved expectations and, in particular, the accelerated use of EU funds (during the final year of previous EU budget availability) to co-finance projects. Last but not least, CEE companies have seen improving demand from their main export destination, the Eurozone. Although recovery in the Eurozone is weak, higher exports to the region are compensating for the Russian slowdown and the official ban on exports of selected merchandise to Russia.

Positive macroeconomic conditions have, unsurprisingly, led to an improved situation for CEE businesses. The number of insolvencies decreased over the course of last year in 9 out of 13 countries and the GDP-weighted regional insolvency average was -14%. Obviously, company insolvencies varied at different rates among CEE economies. Double-digit deterioration was recorded in Ukraine and Lithuania, whereas Romania and Hungary enjoyed significant improvements. Some of these huge fluctuations hide country specifics that affected their performances last year and these are explained in this report. The number of insolvencies has not yet returned to the pre-crisis levels of 2008 for most countries. In the Czech Republic, insolvencies were almost 4 times higher than in 2008, in Poland 1.8 times higher and in Slovenia 2.2 times higher. At the same time, company insolvencies in Slovakia and Romania are still below pre-crisis levels. Overall, however, 2015 insolvency statistics paint a more positive picture of CEE companies. This trend should persist, as corporates continue to benefit from the favourable economic environment, especially when compared to the turmoil being experienced by many other emerging economies.

The regional improvement is confirmed by Coface's country risk assessments, which included several upgrades this year. In January, Hungary's assessment was raised to A4, while in June there were upgrades of Latvia to A4, Lithuania to A3, Romania to A4 and Slovenia to A3. Most CEE countries have thus moved to acceptable risk levels.

Businesses will continue to take advantage of supportive conditions this year, although insolvencies will decline at a slower pace than last year. Coface forecasts that company insolvencies will drop by 5.3% for the full year 2016.

The CEE Insolvencies Panorama examines the regional economic situation that companies faced during the course of last year. It then highlights particular economies within the CEE, with a more detailed focus on insolvencies, including the best and worst performing sectors, as well as the largest insolvencies. The final section analyses the business environment that CEE companies faced in 2015, as well as the outlook for activity in 2016.

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