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PRESS RELEASE

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Insolvencies in Northern Europe:
Positive trends in the Netherlands, Sweden and Germany

- **Coface forecasts fewer insolvencies in 2016: The Netherlands -11.1%, Sweden -8.0% and Germany -2.5%**
- **Nevertheless, the decline will be slower than in 2015, due to slightly weaker GDP growth**
- **Denmark: Insolvencies are expected to rise markedly, by more than 60%**
- **Germany: Insolvency figures, which have been consistently falling since 2010, are now 30% lower than in 2009**

Four countries, two scenarios in 2016

Europe's improved macroeconomic situation has had favourable effects on businesses in most European countries and led to fewer insolvencies in 2015 in the four Northern Europe countries Coface focuses on in a new Panorama: **the Netherlands (-20.7%), Sweden (-11%), Germany(-4%) and Denmark (-0.5%)**. This positive trend is seen in most of the sectors across these countries – with the exception of Denmark, where the developments are more disparate. Throughout these countries, insolvencies were fairly frequent among the Trade, Transport, Accommodation and Construction sectors – both in terms of share of total insolvencies and their share in economic activity. In contrast, business failures in Manufacturing were less frequent.

On the back of slightly weaker average GDP growth for the four economies over the course of this year, the downward trend in insolvencies should continue for three of the four countries, but the rate of decrease will be lower. The strongest declines are expected in the Netherlands (-11.1%), Sweden (-8.0%) and Germany (-2.5%). Denmark, however, shows a contrasting picture. Denmark was already the "poorest" performer in 2015, with a decline of just -0.5%. This year, Danish insolvencies are expected to climb markedly, by more than 60%.

In addition to the four countries analysed, positive trends in insolvencies can be seen in many other European countries, as the macroeconomic situation has improved during recent quarters. Insolvencies in France (-3.2%), Italy (-5%) and Spain (-22%t) are also forecast to decline in 2016.

Sound constitution of Germany's corporate sector

German insolvencies in 2015 were the lowest since the implementation of the country's new insolvency regime, in 1999. Showing a further decrease of around -4% last year, the number of company insolvencies declined to 23,000. Insolvency figures have been consistently falling since 2010. Last year they reached a level of around 30% lower than that recorded in 2009 (the peak of the financial crisis and the collapse of world trade). The German economy's solid macroeconomic framework is reflected in the sound constitution of its corporate sector.

Declining numbers of business failures were reported by nearly all German business sectors last year. The sole exception was in the Financial and Insurance sector, where insolvencies rose by more than 5%. The falling trend in bankruptcies was particularly marked in the Information/Communication segment (-11.1%), as well as in Agriculture, Forestry and Fishing (-9.1%). Improvements were also seen in Trade, Transport and Accommodation, where although the number of insolvencies is traditionally high, business failures lowered by almost -6%. For industry as a whole, excluding construction, insolvencies declined by more than -4% last year. In the sub-sector of Mining and Quarrying, insolvencies increased by more than 40% - but in absolute terms amounted to only 10 in 2015.

Coface's analysis points to a limited, but continuing, decrease in German company insolvencies this year. This forecast is supported by insolvency data for the first two months of this year, as the downward trend in business failures is continuing to slow. Insolvencies recorded until February showed "only" a -2.3% year-to-date decrease. According to Coface's forecasting model for German insolvencies, the year-over-year change in insolvencies will fluctuate around this rate over the course of the coming months. Therefore, for 2016 as a whole, German insolvencies are expected to contract by -2.5%.

Improved macroeconomic scenario for the Dutch economy

Insolvencies in the Netherlands last year decreased markedly, by almost -21%. This shows a continuation of the positive trend, as insolvencies fell by over -20% in 2014. Clearly the much improved macroeconomic scenario for the Dutch economy is being reflected in falling numbers of insolvencies. As a consequence, insolvencies in 2015 were 37% lower than in 2013. Over the course of 2015, the number of insolvencies fell in nearly every sector – with the exception of Culture, Sport and Recreation.

The biggest improvements in insolvency figures were seen in Manufacturing and in Specialised Services. Both of these sectors recorded around -30% fewer insolvencies - much stronger than for the average of the whole economy. A significant improvement in insolvency figures was also achieved by the Dutch property and real estate market, with an above average decline in real estate business failures of approximately -25%. Construction insolvencies fell by around -18%. Insolvencies in the Netherlands are fairly concentrated within four sectors, which together account for around 70% of the total volume. As these include Trade, Transportation and Accommodation, Financial Services and Specialised Services, tertiary sectors are in the fore.

The first three months of 2016 saw the strong downward pressure on insolvencies in the Netherlands continue. Over the year-to-date, the number of business failures fell by -19.4 %, only slightly weaker than the rates recorded in recent years. Over the coming months, however, Coface expects the downward trend in Dutch insolvencies to reach a slower pace. Coface's forecasting model indicates that insolvencies will decrease by -11.1% for the year 2016 as a whole.

Swedish Riksbank stimulates housing and construction sectors

2015 saw Swedish insolvencies fall for the second year in a row. At a good -11%, the decline was even more pronounced than in 2014 (-6.3 percent). The number of business failures was therefore around 17% lower than the peak seen in 2013. Nevertheless, the level is still around 13% higher than the pre-crisis level recorded in 2007. This fall was most pronounced in Construction, at -17%, resulting from the significantly improved situation for housing and real estate in general. Housing investment grew impressively in 2015, by +17%. This growth was clearly supported by the Swedish Riksbank's more expansionary monetary policy.

The decline in insolvencies in the Manufacturing sector was also more pronounced than the average for the Swedish economy as a whole. The country's various Service sectors were somewhat behind, as their declines in insolvencies were smaller than the average. Trade reported a reduction of "only" -4%, while for Accommodation the fall was -6%. The Finance, Property and Rental segment recorded -9%. Although the decline in insolvencies across the Service sectors was lower, business failures in the most important service sub-sectors (Trade, Accommodation, Finance, Property, Rental and Others) account for almost 52% of all Swedish insolvencies. Furthermore, when compared to their weight in the economy, they are significantly over-represented. The same holds true for Construction, where the share in insolvencies stands at over 16%, while its economic weight is only 6.5%. Conversely, insolvencies in the Manufacturing sector account for around 6% of all business failures, while its weight in the economy is 16.8%.

Swedish insolvencies decreased by a further -10% in the year to March 2016. Coface forecasts that the slight deceleration in insolvency improvements will continue over the coming months, reaching around -8%.

Rise in Danish insolvencies mainly linked to small companies

Danish insolvencies contracted by just -0.5% last year. Denmark was thus the worst performer in Northern Europe at first glance. However, caution should be exercised with this evaluation for the following reasons. Firstly, Danish insolvencies have shown a continuous downward trend since 2010. Secondly, the number of business failures was approximately 38% lower than the peak experienced in 2010. The level of insolvencies was therefore quite low in Denmark last year. In contrast to the other economies analysed, the sectorial tendencies in insolvencies were far more mixed in 2015: the evolution ranged from -25.4% in the Financials and Insurance sector, to +50.9% in Agriculture which is suffering from high pressure due to intense competition, challenging debt burdens and problems in obtaining financing. Other important sectors, namely Manufacturing, Trade, Transport and Accommodation, experienced rises in insolvency numbers of 5% or more.

During the first four months of 2016, insolvencies rose sharply, bringing the year-to-date headline number to around +83%. In January especially, insolvencies soared. It is hard to comprehend, in detail, why recent insolvency data has shown this strong upward dynamic. A significant share of this movement can be attributed to strong insolvency increases in unspecified sub-sectors ("Other Businesses" and "Activity not stated"). Even when excluding these (mainly

freelance) businesses, insolvencies still climbed by almost 70% and increases can be seen in all sub-sectors.

However, some differentiations do need to be taken into account in Denmark's insolvency statistics. The increase mainly relates to non-VAT registered companies (approximately +130%) and to companies with a turnover of less than 1 million Danish kronor (approximately +140%). Conversely, insolvencies for companies with higher turnovers fell in the first four months of 2016, in year-to-date terms, by -0.2% for companies with turnovers of between 1 to 15 million Danish kronor and by -61% for enterprises with turnovers of more than 15 million Danish kronor (which numbered just 28 in absolute terms).

Over the coming months, the strong increase in headline insolvency data is expected to somewhat relax. Nevertheless, for the whole year, Coface's forecasting model predicts an increase of more than 64% in insolvencies, driven by inactive companies and small business units, as seen in data already available for the first few months of 2016.

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