PANORAMA

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INSOLVENCIES IN CENTRAL AND EASTERN EUROPE

THE COFACE ECONOMIC PUBLICATIONS

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Challenging macroeconomic conditions have been a determining factor in companies' business activities in recent years. These challenges included weak growth in domestic demand, due to difficult situations in the labour market and the reluctance of companies to make investments in fixed assets. On the external side, companies have suffered from the contraction of their main export destination, the Eurozone, while Russia's recently deteriorated economic performance, along with its officially imposed embargo, led to significantly lower trade volumes.
Companies in the CEE region have started to actively search and tap into other external markets, although full substitution was not possible.

2014 brought better conditions for the business activities of companies in the CEE, thanks to a rebound in domestic demand (especially household consumption in most CEE economies), as well as improved Eurozone prospects. These improvements were also confirmed on the microeconomic side. The CEE's regional average for company insolvencies dropped by 0.5%, although insolvency dynamics vary between CEE economies. A strong rise in insolvencies was recorded in Slovenia and Hungary, whereas Serbia and Romania enjoyed a much lower number of bankruptcies than in the previous year. These fluctuations in insolvencies are determined not only by different economic conditions in particular countries, but also by their differing insolvency law regulations.

As the macroeconomic environment impacts the business performance of companies with some delay, we expect that insolvencies will further decline in the course of this year. With stronger signs of a Eurozone recovery and the ongoing improvement in domestic demand in many CEE economies, Coface forecasts that insolvencies will fall by 6% in 2015, compared to the level recorded last year. Nevertheless, detailed economic conditions will affect the results recorded in specific countries.

DOSSIER

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"Company insolvencies stabilized with a just minor drop by 0.5% as the regional average. Our scenario assumes that companies should experience further gradual decline of insolvencies this year facing good prospects for internal demand and more visible recovery of Eurozone as the CEE's main trading partner."

1 INSOLVENCIES IN CENTRAL AND EASTERN EUROPE IN 2014

Companies in the Central Eastern Europe region have gone through turbulent times over the last few years. Internally they saw the contraction of private consumption, due to rising unemployment and the ongoing deleveraging process, while externally they were affected by the double dip recession of their main trading partner, the Eurozone. Insolvency statistics generate a more positive picture. The number of insolvencies stabilized and recorded a modest decrease in 2014 of 0.5%. Company insolvencies varied at different rates among CEE economies. A strong deterioration was recorded in Slovenia and Hungary, whereas Serbia and Romania enjoyed significant improvements. In most CEE economies, companies benefited from rising household spending, thanks to the improved situation on the labour market. External prospects were less clear due to the weak Eurozone recovery and the Russian slowdown, combined with an official ban on exports of selected merchandise to Russia. In most cases, companies were able to switch to other markets as an alternative to eastern export destinations, whereas a better outlook for Eurozone economies has started to deliver a more optimistic assessment of the CEE's external performance.

This third edition of the CEE Insolvencies Panorama looks at the regional economic situation that companies in the region focused on during the course of last year. It then hightlights particular economies within the CEE, with a more detailed view on insolvencies, including the best and worst performing sectors, as well as the largest insolvencies. The final part of the report concludes with the business environment that CEE companies faced in 2014, along with our outlook for business insolvencies in 2015.

Last year brought improvement to the CEE region[1]. This is confirmed by the higher pace of economic activity, with the average regional GDP growth soaring from 1.3% in 2013 to 2.5% in 2014. Lower unemployment rates, rising wages, the support of low inflation and falling oil prices all contributed positively and made household consumption the main driving force for growth in most CEE economies. The propensity of households to spend has increased - as shown by rising consumer confidence indicators. Throughout most of last year, consumers were rather prudent with regards to spending on durable goods. Bearing in mind the unstable employment situation in recent years (and government actions to stabilize their countries' fiscal positions which also affected consumers), households focused spending on purchasing daily necessities. The deleveraging process has been continued, with low dynamics in new loans, as households are still trying to pay off high instalments (which in many cases consume an important part of their income).

CEE countries are active exporters. This is especially the case with the region's smaller economies which cannot rely on a solid domestic consumer base and therefore look for growth potential from outside. An educated workforce, attractive labour costs and the region's geographical proximity to the deep markets of the Eurozone and CIS countries, have all been crucial factors enabling the CEE to produce goods demanded by external markets and to be included in global supply chains. Nevertheless, exposure to foreign markets also brings risks related to the economic performance of foreign economies. In this context, CEE economies are affected by economic activity in the Eurozone - and particularly Germany - as their main export destination. The weak (and questionable) recovery of the Eurozone in 2014 was

[1] The following countries are included as the CEE region: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Serbia, Slovakia, Slovenia, Ukraine.

reflected in fluctuations in export volumes. This raised concerns on the CEE's growth potential, especially as Germany could have entered a technical recession after recording -0.1% q/q growth in the second quarter of 2014. This turned out not to be the case, but the Eurozone's recovery has remained weak.

CIS generated fair growth in the past - especially the huge Russian market which offers 140 million potential consumers and a growing middle class. However the slowdown of Russian economy, its tenser relations with the EU and the official ban on particular exports to Russia, have resulted in a significant contraction of country's foreign trade.

Table 1: Insolvencies in Central Europe 2013/2014

	Total insolvencies		Dynamics	of which Bancruptcies		Total number of active companies*	Insolvency rate**
	2014	2013	2014/2013	2014	2013	2014	2014
BULGARIA	644	834	-22.8%	n.a.	n.a.	400,000	0.16%
CROATIA	2,764	3,227	-14.3%	719	807	253,000	1.09%
CZECH REPUBLIC	12,772	11,070	15.4%	9,050	6,031	1,470,929	0.87%
ESTONIA	523 1)	514	1.8%	n.a.	n.a..	139,000	0.38%
HUNGARY	17,461 1)	13,489	29.4%	17,377	n.a.	595,000	2.93%
LATVIA	853	818	4.3%	n.a.	612	229,600	0.37%
LITHUANIA	1,636	1,552	5.4%	n.a.	n.a.	93,017	1.76%
POLAND	823	883	-6.8%	701	718	1,795,000	0.05%
ROMANIA	20,120	27,924	-27.9%	n.a.	n.a.	443,616	4.54%
SERBIA	4,773	8,498	-43.8%	1,831	n.a.	115,692	4.13%
SLOVAKIA	522	507	3.0%	407	394	628,569	0.08%
SLOVENIA	1,446	999	44.7%	1,302	941	198,521	0.73%
UKRAINE	1,081	1,029	5.1%	1,063	963	1,318,00	0.08%

1) Coface estimation
* Expert organisations' estimation, average
** Share of insolvencies in a total number of active companies

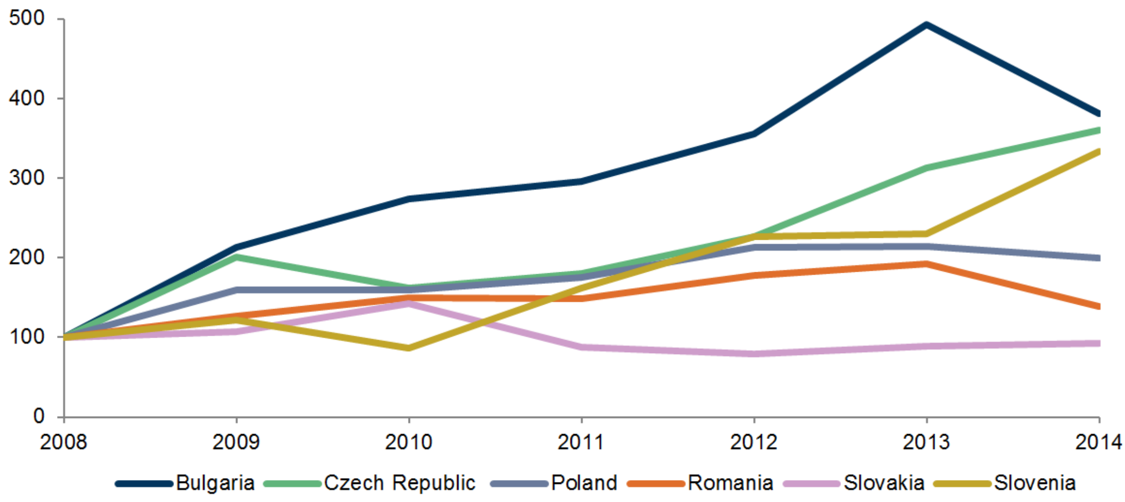
Bankruptcy proceedings: This term refers to insolvency proceedings that are directed to achieve the orderly windup of an insolvent enterprise with the objective of liquidating or reorganising the business.

Against the above backdrop, companies in the CEE region have been experiencing an improved (although still challenging) business environment. The average number of insolvencies in 2014 decreased by 0.5%, compared to 2013, but this regional stabilisation conceals differences between countries. For example there were strong rises in insolvencies in Slovenia (+45%) and Hungary (+29%), in contrast to falls in insolvencies in Serbia (-44%) and Romania (-28%). Overall, CEE enterprises have started to benefit from the improvement in general economic conditions. Households became more willing to spend money, which translated into higher demand for products and services. In most CEE countries, a trend of rising investments in fixed assets was recorded, due to the rebound from the previous contraction and the region's increasing capacities for addressing growing demand. Despite better prospects on the labour market and a strenghtening in private consumption, households are still spending money cautiously and are not emotionally-driven in their purchasing decisions. This is confirmed in the retail sector - a sector which is widely represented in insolvency statistics, due to intense competition and lower margins which limit its full recovery. The negative performer in terms of bankruptcies remains the construction sector, which although it has started to deliver signs of improvement in some countries, still has a long way to full recovery, following its significant contraction during recent previous years.

The Russian embargo on meat, fish, fruit, vegetables and milk products from the EU, US, Australia, Canada and Norway, which was implemented in August 2014, negatively impacted companies in the CEE region. This was especially the case for businesses which focus on trading merchandise banned by Russia. The Baltics accounted for high volumes of exports to Russia in the total foreign trade portfolio : Lithuania (20% of total exports in 2013), Latvia (16%), Estonia (11%) and Poland (5%). Obviously this share was the highest in the Ukraine, also covered in our insolvency report, which amounted to 24%. The deterioration of the Russian economy and the ban on selected merchandise also negatively affected the manufacturing and transport sectors. In terms of the latter, a rise in insolvencies can already be seen. CEE transport companies are widely exposed to international services, with routes to Russia and the Ukraine which are usually more profitable than carriage within the European Union. This has been confirmed by Poland's insolvency statistics, where bankruptcies of transport companies have jumped by 32% since 2013. Nevertheless, the impact of the Russian embargo has been relatively mitigated, thanks to clearer signs of a Eurozone recovery closer to the year-end, as well as the efforts by CEE companies to look for alternative markets.

Insolvency figures vary between countries, as they are not only affected by the economic situation but also by insolvency definitions in specific countries. Hungary recorded more than 17,000 insolvencies in 2014, with the insolvency term determined as being the 'debtor request for assistance to meet its financial commitments in order to ensure its own survival, if possible'. At the same time Poland, the largest economy in the region, recorded one of the lowest insolvency numbers within the CEE region – just 823 entities. However the full scale of Polish companies' liquidity problems is much larger - with liquidations, the suspension of activities, or going out of business without conducting official insolvency proceedings, being more common. It therefore makes more sense to compare the insolvency figures as an indicator of the micro situation faced by companies exposed to the recovery and slowdown cycles, either domestically or globally. It should be also noted that dynamics recorded in some countries were subject to amendments to insolvency laws, or more common usage of the insolvency procedure.

Chart 1: Change in insolvencies in the CEE region since 2008 (2008=100)



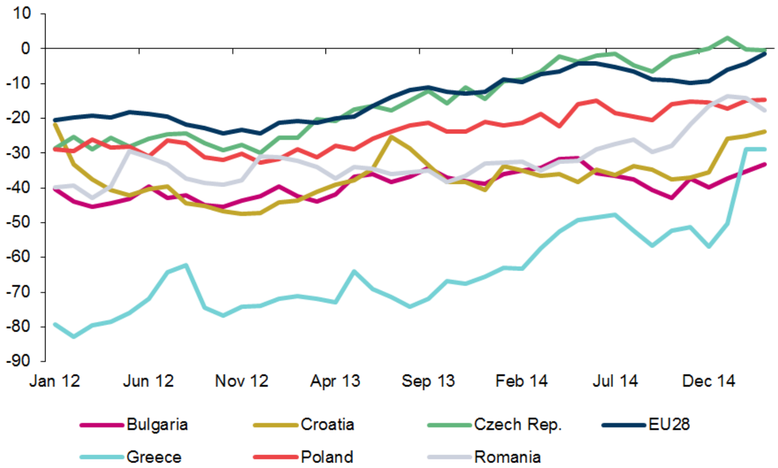
Source: Coface

2 FOCUS ON COUNTRIES

Bulgaria

Bulgaria's economic growth in 2014 was sluggish and we forecast that the pace of GDP growth (i.e. 1.4%) will be continued this year. Drivers of economic growth will be household consumption and net exports. The competitiveness on external markets will be lifted to some extent, thanks to the fact that the Bulgarian lev is pegged to the euro and the latter is expected to depreciate as a result of the ECB's quantitative easing programme. On the domestic side, consumers are benefitting from deflation which is imported, rather than caused by domestic factors. Although nominal wages are the lowest in the entire European Union, their growth has been noticed over the last two years due to an increase in the minimum wage and compensations in the public sector. Nevertheless, other indicators in the labour market are causes for concern. Despite its contraction, the unemployment rate remains high. A level of 10.2% was recorded in February 2015, which is above the EU average of 9.8%. There are further negative messages from the consumer confidence indicator, which is stuck at the lowest level in the entire EU - even lower than the indicators for Greece, Cyprus and Croatia who are suffering from structural difficulties.

Chart 2:
Consumer confidence indicator



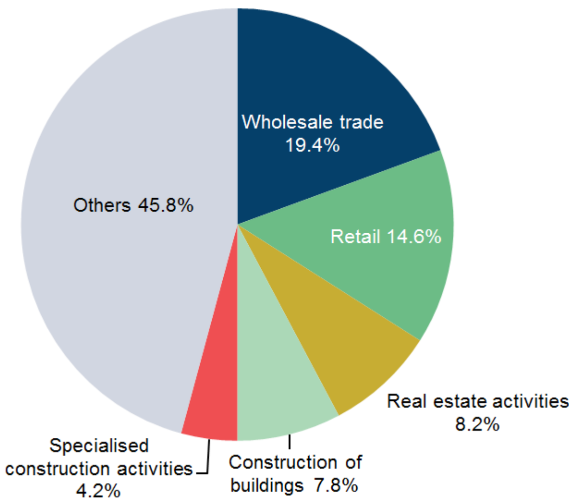
Source: Eurostat

The crisis in the banking sector led to the closure of the Corporate Commercial Bank and the start of its bankruptcy procedure. This also impacted public finances, as the guarantee fund was unable to meet EU obligations of refunding deposits of up to EUR 100,000. The deterioration of the fiscal balance was also caused by lower revenues in an environment of deflation. As a result, the expected budget deficit of 3.7% of GDP could be higher.

The instability in the Bulgarian political scene resulted in the early elections held in October last year, which returned Boyko Borisov to the position of Prime Minister. The new, diversified, coalition does not guarantee that Bulgaria's political instability will be resolved. Nevertheless, the new government has proposed ambitious reforms aimed at making Bulgaria more competitive and moving the country towards a more innovative economy with a favourable business climate.

The corporate sector is already benefitting from the economic improvement. The insolvency statistics show that bankruptcies in Bulgaria declined by 22.8% in 2014 compared to 2013. Companies mainly benefited from a rebound in internal demand. Private consumption turned from negative growth recorded in 2013, to a fair increase of 2.0% last year. The same applied to gross fixed investments which saw an even stronger rise, up by 2.8% in 2014. Nevertheless, this important component of GDP growth cannot be treated as a sustainable contributor to economic improvement. The unclear prospects for domestic households, with low-level confidence indicators, translated into a high number of insolvencies within the retail trade. The share of retail companies among the total number bankruptcies rose from 11.7% in 2013, to 14.6% in 2014. The wholesale sector, which depends on demand generated by the retail sector, is also impacted. Insolvencies represent a significant number of active companies in these sectors. Companies involved in building construction, specialized construction activities and real estate, were also among the negative performers in terms of insolvencies.

Chart 3:
Company insolvencies by sectors in 2014



Source: Coface

One of the most biggest reasons for insolvencies in Bulgaria, is that company indebtedness remains high. At the end of 2014, corporate loans were equivalent to 38% of Bulgarian GDP. Exposure to foreign currency is strong, with 55% of corporate loans in foreign currency. Most, however, are euro loans and thanks to the pegging of the Bulgarian lev to the euro, the risk is relatively mitigated. Other factors that triggered insolvencies include poor liquidity management, overall company management and less financing opportunities.

Top 5 sectors
Information service activities
Fishing
Pharmaceuticlas
Manufacture of chemicals and chemical products
Sewerage

Flop 5 sectors
Wholesale trade
Retail trade
Real estate activities
Construction of buildings
Specialised construction activities

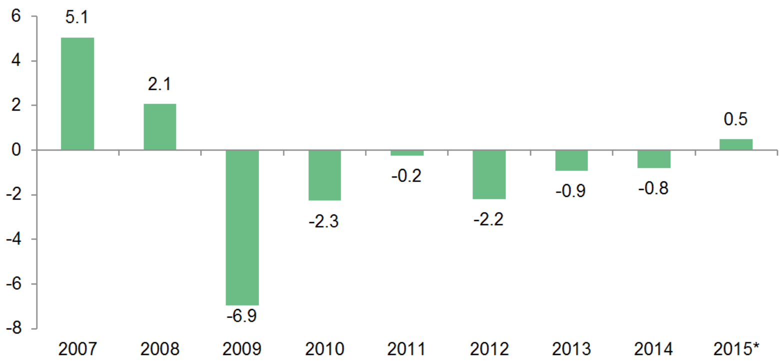
	Company Name	Sector	Total liabilities in euro	Town
1.	HOLDING ROADS	construction/infrastructure	72,220,490	Sofia
2.	VARNA TOWERS	construction	39,504,456	Targovishte
3.	PATNI STROEZHI	construction	38,934,877	Plovdiv
4.	MACANTHONY REALTY INTERNATIONAL CONSTRUCTION 2	Real estate/construction	18,981,200	Sofia
5.	MACANTHONY REALTY INTERNATIONAL CONSTRUCTION 1	Real estate/construction	13,424,480	Sofia

Croatia

Economic activity in Croatia is finally returning to positive growth. After six consecutive years of recession, Coface forecasts that Croatia will record growth of 0.5% this year. This still weak result is caused by crucial factors. Household consumption remains subdued, due to the unemployment rate which increased to a record high level of 18.5% in February 2015. This is one of the worst results in the entire EU, along with Spain and Greece. The registered unemployment rate which uses the national methodology remains even higher, despite the recent deletions of a number of people from the unemployment register due to non-compliance with legal provisions.

Fixed capital formation - another important component of domestic demand – is also subdued. Its contraction has been continuing for several years, as is the case for private consumption. Only foreign trade is driving economic growth in Croatia. Last year exports and imports rose by 7.9% and 3.4%, respectively. Whereas exports were supported by sales of clothing, vehicles, rubber and plastic products, there was a significant drop in exports of ships – which were previously a major Croatian export product. Of course the joining of the European Union by Croatia, in mid-2013, supported the country's position in foreign markets and within foreign entities.

Chart 4:
Croatia's GDP growth (%)



* Coface forecast
Source: Coface

On the fiscal side, the general government balance reached -5% of GDP, mainly thanks to increased revenues from excise duties and value-added taxes. The government expects that the general government deficit will decrease to 3.8% of GDP, benefitting from more conservative government spending. However, during the election year of 2015, this prudent approach will be more difficult to adopt. At the beginning of 2015, the Croatian government decided to introduce a specific measure aimed at writing off debts (the equivalent of a maximum of EUR 5,000 for each citizen) for the country's poorest citizens who have no savings or property. The purpose of this measure was to bring relief to the poorest debtors, as well as to stimulate household spending. Within the total economy, the non-performing loans ratio still remained at a high level of 17.2% at the end of 2014, despite the continued deleveraging process.

Against the above backdrop, insolvency statistics are generating a much more positive outlook. In 2014, company insolvencies in Croatia dropped by 14.3% compared to the previous year. However these good statistics are mainly caused by the high number of insolvencies in 2013. A new legal act was introduced at the end of 2012, called the pre-insolvency settlement procedure. This act is a judicial composition which aims to achieve creditor agreements with companies regarding settlement of their receivables. 2013 was thus a peak year in statistics resulting from the new regulations, whereas relative stabilisation was recorded in 2014. The law introduced an obligation for entrepreneurs to pay their due monies within 60 days. If the deadline is not adhered to, an administrative procedure of another 60 days is opened and the company's bank accounts are blocked - which usually leads to a triggering of pre-bankruptcy agreements. Additionally, the insolvency procedure can be initiated in line with "fast bankruptcy procedures based on official duty" in the case of lack of assets or employees, or not providing financial statements to the authorized body for two consecutive years.

Nevertheless, the above law changes are not the only reasons for insolvencies in Croatia. The high indebtedness of local companies, as well as bad management and liquidity problems, are also causes of bankruptcies. The construction sector recorded an improvement. Construction company insolvencies decreased by 14% compared to the previous year, although they still have the largest representation in insolvency statistics and constitute one quarter of all bankruptcies in Croatia. The challenging situation of metals in worldwide markets has also been mirrored in Croatia, where insolvencies jumped by 47% in one year.

Top 5 sectors	Flop 5 sectors
Utilities and public services	Textiles, leather and clothing
Financial services	Wood and furniture
Miscellaneous	Non specialised trade
Mineral products, chemicals, petroleum, plastics, pharmaceuticals and glass	Agriculture, meat, agro food and wines
Mechanics and precision	Construction

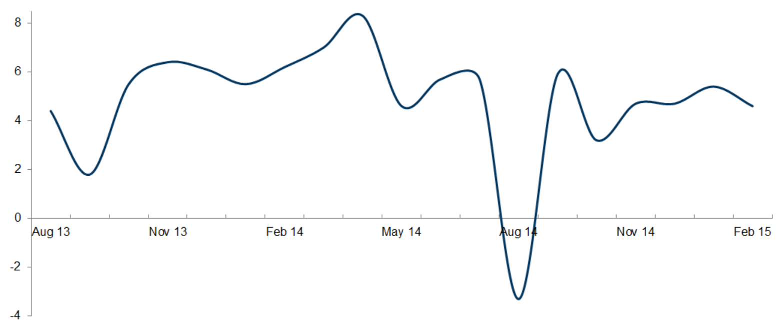
	Company Name	Sector	Total liabilities in euro	Town
1.	SPORTSKI GRAD TPN	Construction	78,668,211	Split
2.	ZDRAVSTVENO REKREACIJSKI CENTAR LIPIK	Business and personal services	60,491,245	Lipik
3.	TEMPO	Construction	48,802,798	Zagreb
4.	EUROYACHTING	Non specialised trade	42,619,549	Zagreb
5.	MD PROFIL	Construction	25,303,043	Đakovo

Czech Republic

The Czech economy is finally recovering from the recessive effects of fiscal consolidation. GDP grew by 2.0% in 2014 and a higher growth rate of 2.5% is forecast to be reached this year. As a manufacturing hub for European brands, especially German ones, the Czech Republic has benefitted from becoming a significant part of supply chains. Although it still relies, to some extent, on the assembly of foreign imported components and services, the Czech economy has undoubtedly benefitted from a strong foreign presence. Domestic added value has risen with the higher sophistication of exports, due to significant technology transfers. Despite some challenges, such as the erosion of the working population, delays in infrastructure development and insufficient Research and Development, the Czech Republic retains its competitiveness and remains attractive for foreign investors. Dependence on external demand is strong, as exports account for 84% of country's GDP, making the Czech Republic subject to the economic performance of foreign economies.

The Czech Republic's exports benefit from having a national currency – the koruna. Its depreciation made exports more competitive and this is further supported by the strategy of keeping the CZK/EUR exchange rate over 27, through foreign exchange rate interventions. Despite the positive effects of this strategy, export dynamics gradually declined during the course of 2014. The disappointing recovery of the country's main trading partner (the Eurozone) and the deterioration of trade to eastern destinations had a strong impact. Nevertheless, the Eurozone recovery should dwarf the negative impact of low volumes of exports to Russia and ensure positive growth levels for exports.

Chart 5:
Industrial production in the Czech Republic (%, annual changes)



Source: Eurostat

The domestic side is benefitting from growing private consumption, resulting from increasing employment levels, supportive fiscal measures and low inflation. The unemployment rate fell to 5.5% in February 2015 - the lowest level since 2009. Consumer confidence indicators have reached their highest level for eight years. Solid household spending and the appetite for investment will support Czech growth this year.

The supply side is also benefitting from these improvements. The latest PMI[1] figures rank the Czech Republic among the best performing CEE economies, while industrial production recorded growth in recent months exceeding 5%. The economy is benefitting from its strong involvement in the automotive supply chain, especially in Germany, however growth of other parts of the manufacturing sector should bring a more balanced mix this year.

In terms of insolvencies in the Czech Republic, the year 2014 brought a strong rise in bankruptcies of 15.4%, with nearly 13,000 insolvencies. Two specific developments contributed to this high number of bankruptcies. Firstly, a significant level of insolvencies was announced among inactive, self-employed persons. Secondly, the substantial systemic amendments to the Czech Insolvency Act became effective on 1 January 2014. These amendments include a less restrictive reorganization procedure (without prior approval of company's creditors by lowering the minimum amount of necessary company turnover and number of employees), amendments to the discharge form (which concerns over 90% of insolvency proceedings), allowing creditors to vote and the deletion of a company from the Commercial Register when there are not enough assets for an insolvency proceeding (in the past approximately one quarter of all insolvency proceedings were dismissed due to lack of property)[2].

Among other factors impacting company insolvencies in the Czech Republic last year were non-paid receivables, overestimated investment plans and the challenging situation in the construction sector despite its growing confidence indicators.

[1] Purchasing Managers' Index (PMI) is a business confidence index based on surveys in the private sector economy
[2] Selected changes from a report "Changes to the Czech Insolvency Act" by Radim Ranič, Attorney at Law, Schoenherr, Czech Republic

Top 5 sectors
Scientific research and development
Programming and broadcasting activities
Manufacture of basic pharmaceutical products and pharmaceutical preparations
Water transport
Insurance, reinsurance and pension funding, except compulsory social security

Flop 5 sectors
Remediation activities and other waste management services
Civil engineering
Mining of metal ores
Office administrative, office support and other business support activities
Manufacture of textiles

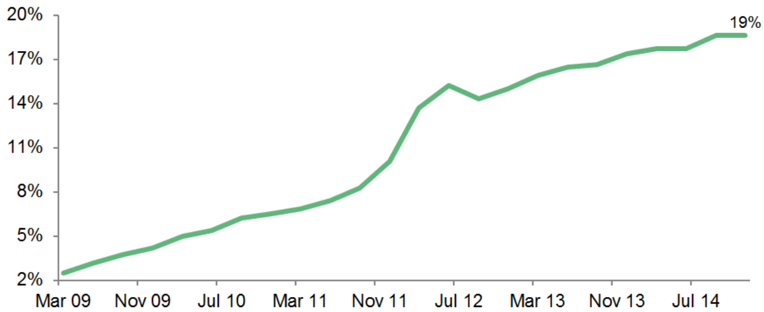
	Company Name	Sector	Town
1.	TATRA, a.s.	Manufacture of motor vehicles, trailers and semi-trailers	Kopřivnice
2.	NELUMBO spol. s r.o. "v likvidaci"	Electricity, gas, steam and air conditioning supply	Praha
3.	LESS & TIMBER s.r.o.	Forestry and logging	Bohdaneč
4.	CGM Czech a.s.	Construction of buildings	Hradec Králové
5.	Plynostav - regulace plynu, a.s.	Civil engineering	Pardubice

Hungary

Although the Hungarian economy recorded a weak growth of around 1%, or even recession, during the previous five years, in 2014 it expanded by 3.6% - the highest growth rate in the entire CEE region. Several factors lay behind this rapid improvement. 2014 was a year of triple elections in Hungary, with parliamentary, EU parliament and local elections. As a consequence, outstanding and new investment projects were implemented. Strong support also came from EU funds, which translated to a boost in fixed investments of 12% in 2014. Households benefitted from the higher activity in Hungarian business, which led to a strong rise in employment. Unemployment fell by a quarter from 2013 levels, down to 7.7% in 2014. This substantial fall in unemployment was the highest achieved in the whole of the EU last year. These results are also due to a substantial enlargement of public workforce programmes and changes in calculations of the labour force staying outside the country. In real terms, employees benefitted from a 3% growth in wages.

Compared to other countries in the region, especially Poland, Hungarian households also benefitted from amendments related to foreign denominated mortgage loans, including those in Swiss francs. The conversion scheduled for this year locked debtors at exchange rates fixed on 7 November 2014 (CHF/HUF 256, EUR/HUF 309 i.e. lower by 12% and 21% respectively than the levels recorded after the Swiss National Bank announced the abandoning of their cap on the EUR/CHF exchange rate). Following these developments, installments on CHF mortgage loans slumped by around one quarter, resulting in a stimulus for household spending. While relieving households from FX mortgage loans was the Hungarian Prime Minister Victor Orban's election promise, the measure also lowered the significant systematic risks related to these loans.

Chart 6:
Share of loans overdue more than 90 days in total FX housing loans



Source: The Central Bank of Hungary

However this positive message for consumers is negative for banks, as the 'fair banking' law generates a cost for the sector of around 2% of GDP. Last year banks in Hungary experienced a number of measures that worsened their financial situation. Fiscal consolidation led the government to introduce an extremely high bank tax and a financial transaction tax. However, in February this year, the policy towards the financial sector changed. The government announced that it will gradually decrease the bank tax and adjust it to EU norms as from 2019.

According to our forecasts, in 2015 Hungary will record a decreased pace of economic growth of 2.5%. The factors that boosted economic activity last year were mainly one-off effects. Nevertheless, the higher disposable income of domestic households, together with positive developments on the labour market, will continue to positively affect consumer spending. The huge injection of EU funds is unlikely to be repeated this year, not least due to the lengthy procedures. Nevertheless, assuming there is still some room for utilizing funds in the last year of using them from the 2007-2013 EU budget (the utilization rate is 78% so far), these funds should be still be able to support Hungarian growth to some extent. However, local businesses are suffering from various weaknesses. This is visible in the case of investment projects co-financed by the EU, with low transparency and reliability of public procurement. Local companies have to be ready to deal with various taxes on their activities and the centralization of government decisions, while somehow staying out of the EU stance on relations with Russia.

The fluctuating legal environment was one of the reasons for the high increase in Hungarian insolvencies, which jumped by 29.4% in 2014. The unfavourable economic conditions that companies experienced in the previous year continued to have an effect on insolvencies. It should also be noted that insolvency procedures in Hungary are becoming faster and the possibilities for debtors to extend or avoid insolvency procedures are less frequent. Forced deletion has become a more widely used procedure. Examples of this include situations where a company does not comply with reporting requirements for financial data, or when the Hungarian tax office is not able to communicate with a company so it cancels the VAT number as a first step in starting the forced deletion procedure. The use of this alternative to typical insolvency procedures significantly increased during the course of 2014, namely by 86% compared to 2013.

[4] wiiw's estimation

Top 5 sectors 👍	Flop 5 sectors 👎
Healthcare	Security
Education	Tourism and hospitality
Electronics and Computer activity	Food
Energy	Cleaning
Engineering	Wholesale

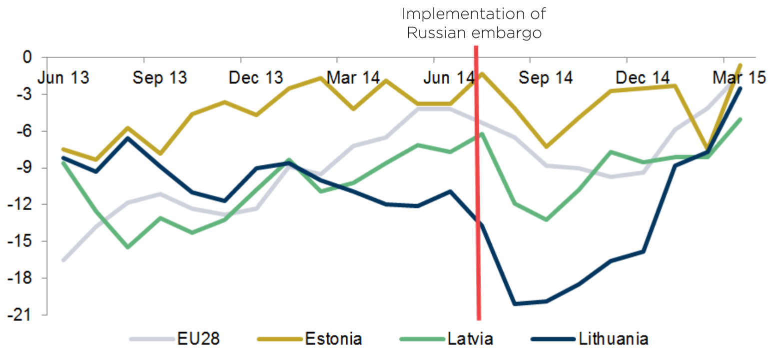
	Company Name	Sector
1.	STENSON	Wholesale
2.	BUDAFER	Wholesale
3.	INTERWEST-TRADE	Wholesale
4.	Révai Nyomda Kft.	Printing and publishing
5.	KLANEX	Wholesale

Baltic States

Among the CEE economies, the Baltics States are the most exposed to trading with Russia. Thus the ban on food imports and the deterioration of the Russian economy pose significant risks for Baltic economies and local businesses. On the other hand, these ex-members of the Soviet Union are well integrated into the European Union. All of them have adopted the euro – the last one being Lithuania, which entered the Eurozone on 1st January 2015 as its 19th member. Lithuania has the strongest trade ties with Russia, with exports exceeding 20% of its total structure. This made Lithuania the third most-reliant European country on trade with Russia in 2014, after Belarus and Ukraine. Nevertheless, the structure of exports means that in practice around 5% of Lithuanian exports are assigned to Russia as the final destination, with the remainder being transit goods. As such the risk is mitigated, but it should be noted that the manufacturing, transport and wholesale sectors have particularly suffered from deterioration in external markets.

Lithuania is benefitting from rising domestic consumption. The unemployment rate has been decreasing (it stood at 10% in February 2015) and it is anticipated that this trend will continue. Other developments on the labour market are also supportive. They include the growth of net wages by 4% in real terms last year, the raising of the minimum wage (which will be increased by a further 7% to EUR 320 in mid-2015) and the increase in wages of some public administration employees. The full recovery of household consumption will be constrained by the geopolitical risk which concerns the Baltic economies on a wider scale. This is confirmed by Lithuania's willingness to decrease its dependency on Russian gas by building a LNG terminal and interconnections with Poland and Sweden.

Chart 7:
Consumer confidence indicator



Source: Eurostat

Latvia is also recording mixed economic results. The industrial and construction sectors are declining but the biggest insolvency in 2013 – Liepajas metalurgs, Latvia's largest steel producer - resumed production in 2015 after being taken over by the Ukrainian KVV group. The plant has already started its operations with a wide exposure to foreign markets and plans to reinstate about 1,300 employees. On the domestic Latvian market, the supply side is not showing significant improvement. Fixed capital investments are in stagnation and only support from EU funds can bring an upturn in public and private investments. Similarly to Lithuania, Latvian households are benefitting from several positive developments. They include a growth in wages of over 7% last year and a gradual decrease in the unemployment rate as well as, both implemented at the beginning of this year, lowering of the flat income tax rate by 1 percentage point to 23% and a 12.5% increase in the minimum wage to EUR 360. Further measures are scheduled to be effected in 2016.

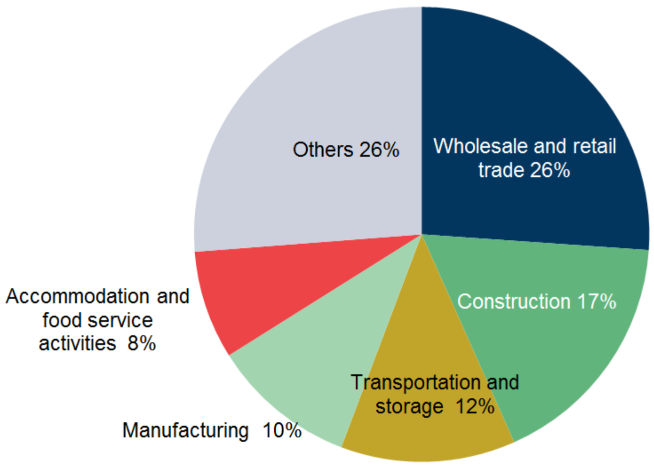
Within the group of Baltic economies, Estonia enjoys the most diversified structure of export destinations. Thanks to this, compared to Lithuania and Latvia, Estonia's risk of strong dependence on the contracting Russian economy is mitigated. Estonia can benefit from the improving Swedish economy as its main trading partner but it is also linked by external trade with Finland, which is slowly rebounding from a three year recession, with an anticipated growth of 0.9% this year. The weak performance of external markets translated into a moderate performance on the supply side. Economic growth has been driven by household consumption and the forecast expects this to continue. Support comes from the falling unemployment rate (6.2% in January 2015), growth in wages (exceeding 6% in real terms in 2014), lowering of the personal income flat tax rate to 20%, the rise in pensions and social measures.

Companies in the Baltic States are suffering from the deterioration in foreign trade with Russia, although they are actively trying to substitute alternative trade destinations. Company insolvencies show that deteriorated economic conditions translate into an increased number of bankruptcies. Whereas official data available for Lithuania shows that insolvencies rose by 5.4% in 2014, our estimation assumes that one-digit growth was also recorded in Latvia and Estonia, at 4.3% and 1.8%, respectively. As changes in the macroeconomic environment have an impact on the microeconomic side with some delay, we forecast a further rise of insolvencies in the Baltics, which will reach 8-10% by the year end.

Detailed insolvency statistics on Lithuania show that the construction sector continued to suffer from high insolvency rates last year, similar to the statistics for 2013. In 2014, 40% of construction companies were declared insolvent. The sector breakdown of insolvencies is dominated by wholesale and retail entities, in line with their strong representation in the overall economy. Transport companies also figure in the insolvency statistics. Due to their strong exposure on international routes (90% of total haulage in 2012 in the case of freight transport), including Russia, they are directly impacted by the lower demand for their services. Insolvencies of transport companies increased by 15% during the course of last year.

In 2015, the Baltics will continue to be subject to the economic recession of their important trading partner, Russia. Coface forecasts that Russia will suffer from growth of -3.0% this year. As such, anticipated growth rates for the Baltic economies were gradually decreased in consecutive forecast revisions. On the other hand, anticipated 2015 growth rates remain at relatively solid levels, with 2.5% for Lithuania, 2.0% for Latvia and 2.0% for Estonia. Thanks to better prospects for households, the main driving force for Baltic economies will come from internal demand. Reduced geopolitical risk would not only have a positive effect on household confidence and its spending as a consequence. If combined with an improved economic situation in Russia, it would trigger better performance in the Baltics, both in macro terms and as a boost for local businesses.

Chart 8:
Company insolvencies in Lithuania by sectors in 2014



Source: Coface

Lithuania: Top 5 sectors
Public administration and defence; compulsory social security
Other service activities
Human health and social work activities
Education
Arts, entertainment and recreation

Lithuania: Flop 5 sectors
Construction
Accommodation and food service activities
Administrative and support service activities
Transportation and storage
Water supply; sewerage, waste management and remediation activities

	Company Name	Sector	Town
1.	METOIL UAB	Wholesale of solid, liquid and gaseous fuels and related products	VILNIUS
2.	TORLINA UAB	Wholesale of waste and scrap	KAUNAS
3.	MELESTA UAB	Wholesale of metals and metal ores	KAUNAS
4.	ERTRESA UAB	Non-specialised wholesale trade	SIAULIAI
5.	TVISTERIS UAB	Wholesale of electrical household appliances	KAUNAS

Poland

2014 saw an improvement in the economic situation in Poland. Earlier, in 2013, the Polish economy experienced a slowdown due to the second dip of the Eurozone recession and the contraction of internal demand, with nearly flat growth in private consumption and a slump of fixed investments. As such, GDP growth reached 1.7% in 2013 - one of the weakest levels in recent years. During the course of 2014, the improved prospects of Poland's foreign trade partners, combined with a rebound in internal demand, brought more optimism to the country. Companies started to be more willing to expand their businesses and fixed assets investments rose noticeably, averaging above 9% last year. The improvement was also felt on the demand side. Polish companies have started to recruit more staff and to increase wages. The unemployment rate fell to 8.3% in February 2015, according to Eurostat's methodology.
External markets were turbulent during the course of 2014. There were concerns that Germany, the most important market for Poland (representing 26% of total exports) could fall into a technical recession. Indeed, Germany's quarterly GDP growth decreased by 0.1% in the second quarter of 2014 and then grew by a weak 0.1%. To the east, Polish exports were partly affected by the situation between Russia and Ukraine, as well as by the slowing Russian economy. The official embargo implemented by Russia in August 2014 further affected export volumes.

Although geopolitical risks have been impacting the confidence of Polish households and companies, improvements from the domestic side continued. Along with the better situation on the labour market, households enjoyed lower prices. Deflation has been present in the Polish economy since July 2014. It reached -1% in December 2014, before going even deeper, down to -1.6% in February 2015. Deflation is not caused by consumers' decisions to postpone their purchases, but mostly by external factors, such as lower commodity prices. The lower prices are also a result of a decrease in food prices, triggered by abundant harvests thanks to good weather conditions and the oversupply of agro-food production due to the Russian embargo.

In macro terms Poland is performing well. Despite a questionable recovery in the Eurozone and the Russian ban on exports, the Polish economy managed to grow by 3.4% in 2014. Total exports increased by 5.7%, while agro-food exports rose by 4.5% to reach a record total nominal level of EUR 21 billion, despite the Russian embargo. However in micro terms, closing the 5th biggest export market was harmful, as many Polish companies focus on trading with Russia. Insolvencies of companies producing food and beverages increased by 38% in 2014. The negative impact has also reached Polish transport companies, whose exposure to international services is high. Eastern routes were, historically, popular, due to their geographical proximity and their usually higher profitability. The slump in export volumes to Russia and the Ukraine contributed to a sizeable increase of 34% in transport company bankruptcies during 2014. The sector is also subject to recent, but not yet finalized, decisions covering German minimum wage regulations covering freight to and via Germany.

Chart 9:
Insolvencies in the construction sector

Year	Construction insolvencies	Construction share in all insolvencies
2014	168	20,0%
2013	213	24,1%
2012	218	24,9%
2011	143	19,8%
2010	98	15,0%
2009	82	11,9%
2008	59	14,3%

Source: Coface

Nevertheless, the total number of insolvencies finally discontinued its rising trend which began back in 2008. Last year company insolvencies decreased by 6.8%, to 823 entities. However, this number is still twice as high than the pre-crisis level. The construction sector was previously a negative performer in the insolvency statistics. In 2011 and 2012, high dynamics of construction companies bankruptcies were recorded (46% and 52%, respectively). The year 2013 brought stabilisation to the sector's insolvencies and they subsequently started to decrease in 2014, by a rate of 21%. Although the construction sector remains challenging, with delays in payments and liquidity problems within many entities, there are signs of the sector's recovery. This includes the improvement in the housing market, with a growing number of dwelling constructions and permits issued for more. This is supported by the lowest historical interest rates and rising wages. Further positive impacts will come from the new EU budget, with significant funds (enhanced by domestic funding) planned to be spent on various infrastructural projects.

Top 5 sectors 👍	Flop 5 sectors 👎
Pharmaceutical industry	Construction
Telecommunications	Wholesale
Fuel and petrochemical industry	Retail sales
Energy	Food manufacturing
Chemical industry	Steel - production

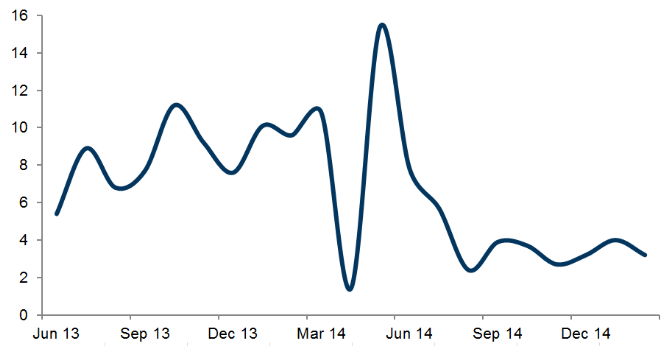
	Company Name	Sector	Town
1.	DOMEX Sp. z o.o.	Retail sale	Tarnobrzeg
2.	Infrastruktura Kapuściska S.A	Production of chemicals	Bydgoszcz
3.	FAGORMASTERCOOK S.A.	Productions of AGD	Wrocław
4.	ALPINE BAU GMBH Sp. z o.o. Polish branch	Construction	Poznań
5.	HENPOL Sp. z o.o.	Construction	Lublin

Romania

Economic growth remains solid in Romania. It reached 2.9% in 2014 and will record 3.0% this year. Private consumption remained a driving force of the economy during both these years. It benefitted from rising wages, both in public and private sectors (growth exceeded 6% in January 2015), and also in real terms, thanks to low inflation (CPI of 0.4% in February 2015). Other indicators on the labour market also show a positive picture. The unemployment rate narrowed to 6.4% in February 2015 (compared to the EU average of 9.8%), while consumer confidence indicators rose during the year to reach levels previously recorded in early 2008. Household spending is to receive another positive stimulus. As from 1 June 2015, the value added tax rate for food products will be decreased from 24 percent to 9 percent. The government has accelerated the introduction of this measure which aims to boost household consumption, as disposable income will increase as a consequence of the VAT cut. Private consumption represents 63% of Romanian GDP. Further changes are also scheduled as a part of a new fiscal code. They include lowering the VAT rate on non-food products (a decrease from 24 percent to 20 percent), scrapping the tax on dividends as from 1 January 2016 and increasing the competiveness of enterprises via lower wage costs and taxes on active micro-enterprises, as well as cuts in excise duties on fuel and alcohol.

Household indebtedness remains high, at over 102 billion lei in February 2015. This accounts for 49% of total private sector loans and 15.3% of the country's GDP. Household loans in foreign currencies (mostly in euros) account for 60%. Banks have taken steps to write off, or sell at a discount, non-performing loans. The NPL ratio remains high, with 14.3% in February 2015, although NPLs exceeded 20% at the beginning of 2014. The higher disposable income of households is likely to be used for more spending but a part of it will be dedicated to servicing debts and further deleveraging.

Chart 10:
Industrial production in Romania (%, annual changes)



Source: Eurostat

The fiscal situation in Romania remains comfortable. The country's budget has narrowed from the 7.2 percent recorded in 2009, to 1.8 percent last year. The latest European Commission forecast target is 1.5 percent for 2015. This deficit target is based on Romania's Medium-Term Objective, an obligation under the preventive arm of the EU Stability and Growth Pact and the IMF precautionary stand-by agreement. One of the most disciplined fiscal policies in the EU, it has also resulted in the modest public debt level of 39.6 percent of GDP at the end of 2014.

Romania is not highly effective in using available EU funds, mainly due to ineffective public procurement laws. At the end of 2014, the rate of utilisation of structural and cohesion funds reached only 52%, before speeding up to 60% in April 2015. Nevertheless, it is estimated that 20%-25% of the allocated amount for Romania will be lost, as this year is the final year for using funds from the EU budget of 2007-2013.

According to our forecasts, exports will increase at a rate of 5%-6% this and next year. However the contribution of net exports to GDP growth will be weak, as imports should rise at a similar rate. As with most of the other CEE economies, Romanian exports are subject to the momentum of recovery in the Eurozone. The main export products include transport equipment, vehicles (with plants of Ford and Dacia located in Romania) and food and beverages, while the main external markets are Germany, Italy, France, Turkey and Hungary.

The insolvency statistics confirm that positive developments were also recorded on a micro level. Insolvencies in Romania fell by 27.9% in 2014, compared to 2013. Nevertheless, the insolvency rate, at 4.5%, remains the highest in the CEE region. Despite the better performance of sectors dependent on consumer demand, retail companies are widely represented in the insolvency statistics. Their share in total bankruptcies is equal to 23%. It should be noted this also results from the high number of retail entities within the overall structure of Romanian companies. Also as regards to insolvency rates within sectors, the construction sector continues to be the negative performer, where 1 in 10 companies became insolvent last year. Challenges remain in other supply side sectors, as industrial production slowed down to a lower pace of growth compared to the previous year. Despite the improvement in general insolvency statistics, Coface has seen that business in Romania is still suffering from long receivable collection terms.

Top 5 sectors	Flop 5 sectors
Health and social care	Constructions
IT	Manufacture of textiles, clothing and footwear
Other personal service activities	Sewage and garbage removal; sanitation and similar activities
Other services rendered to enterprises	Hotels and restaurants (HORECA)
Financial intermediation	Food and drinks

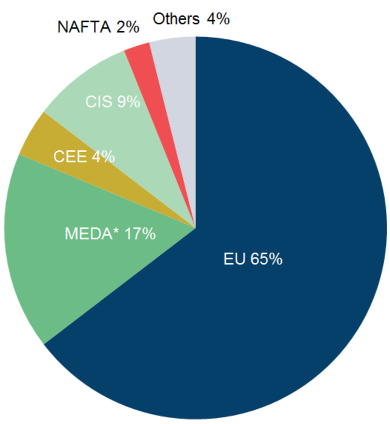
	Company Name	Sector	Total liabilities in euro	Town
1.	COMPANIA DE SUPRAVEGHERE IG SRL	Wholesale and distribution	159,481,902	Buzau
2.	EOLENVEST SRL	Production and supply of electricity and heat, water and gas	151,504,754	Bucuresti
3.	BIO FUEL ENERGY SRL	Manufacture of chemicals and chemical products	105,540,691	Teleorman
4.	TEHNOLOGICA RADION SRL	Constructions	86,078,573	Bucuresti
5.	ALPINE BAU GMBH AUSTRIA SUCURSALA MOGOSOAIA	Constructions	81,745,919	Ilfov

Serbia

Serbia is rebounding from the recession in 2015, but the process is slow and many challenges remain. Last year, the Serbian economy contracted by 1.5%, with a deterioration on both supply and demand sides. Industrial production decreased by 6.8%, while household spending was negatively affected by high unemployment (close to 18%) and real wages weaker by 0.3%. Private consumption will be subdued, especially as nominal wages in the public sector were cut by 10% and further measures for the sector include planned lay-offs. The government has also decided to decrease pensions.

Falls in gross added value were recorded in the supply of electricity, gas and steam, mining, construction and within the financial sector and insurance. The value of construction works decreased by 4.1% in 2014. The positive, although weak, contribution came from exports, which increased by 1.6% in USD terms last year. Serbia's most popular export destinations include Italy, Germany, Bosnia and Herzegovina, Russia and Romania. In all of these cases, apart from Russia, increased dynamics were recorded compared to 2013 (with the highest growth, at 8.3%, for Italy). The deterioration in trade to Russia (Serbian exports there decreased by 3.2%) was much milder than for other CEE economies. This is a consequence of the Serbian economy, as a non-EU country, being excluded from the Russian embargo. Serbia also benefitted from increased volumes of particular merchandise being exported to Russia. This mainly comprised agricultural production, as Serbia partially replaced former EU suppliers to the Russian market.

Chart 11:
Serbia's exports structure (2014)



Source: Statistical Office of the Republic of Serbia

Wage decreases and redundancies in the public sector are a part of the country's fiscal consolidation reforms. The agreement signed with the IMF in February this year assumes that the budget deficit will be cut by 3.3 percentage points of GDP by the end of 2017. A number of adjustments are planned for 2015, with the budget deficit targeted at 5.9% of GDP. The government intends to stabilise public debt at a level of 80% of GDP in three years, whereas it reached 70% at the end of last year. It is anticipated that public investments will increase, especially with projects following the floods in May last year (although so far their implementation is moving relatively slowly).

This year some rebound in fixed capital formation should be recorded in Serbia, although most of this process will be attributed to the low base effect of recent years. Private consumption will remain subdued and the biggest factor in the GDP upturn will come from net exports (weak imports with a slight increase in exports).

The insolvency statistics for Serbian companies appear to be in contrast to the challenging economic conditions. Company insolvencies decreased by 43.8% last year. However it should be noted that this is preliminary data on the business performance in 2014. Moreover there were a number of amendments to the Serbian Insolvency Act in August last year. These changes brought more efficient realization of insolvency creditors' claims, thanks to the elimination of vague and incomplete provisions. Other amendments include increased transparency, broader competencies of insolvency receivers, the introduction of collateralised creditors and additions to the content of the reorganization plan[5].

[5] Selected changes from a report "key features of the New Insolvency Proceedings Rules in Serbia" by Jovan Barovič and Aleksandra Petrovič Schoenherr, Serbia

Top 5 sectors	Flop 5 sectors
IT sector	Construction
Oil Industry	Pharmaceutical Industry
Telecomunication	Trade
Agriculture	Processing industry
Food Industry	Road Transport

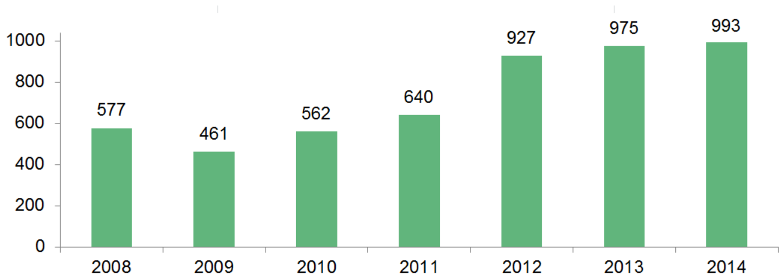
	Company Name	Sector	Town
1.	KONCERN FARMAKOM M.B.	Wholesale	Šabac
2.	Univerzal Banka AD	Financial services	Beograd
3.	TOZA MARKOVIĆ	Construction	Kikinda
4.	GP AUTO-SHOP DOO	Motor vehicles, motorcycles, other vehicles and transport	Lazarevac
5.	AD KERAMIKA MLADENOVAC	Construction	Mladenovac

Slovakia

Over the past five years, household consumption in Slovakia has been in stagnation. It increased by 2.2% in 2014, thanks to improving conditions on the labour market. As fixed investments also recorded positive growth (by 5.6%), internal demand became a driving force of the Slovak economy. However, these improvements on the labour market are relatively limited. Despite the growth in wages, the minimum wage and employment levels, the full recovery in household spending is subdued by the unemployment rate (12.3% in February 2015), which exceeds the levels recorded in peer economies. On the external side, exports grew by a weak 1.1%, with significant dynamics of 7% generated by the main export destination of Germany. Sizeably lower volumes were noticed in exports to Russia and the Ukraine (18.5% and 31.9%, respectively). The impact of this was, however, compensated in macroeconomic terms, as even before the deterioration of these export destinations, their share in total exports was low (4.0% and 0.7%, respectively in 2013).

The automotive sector, which is the Slovak economy's largest sector, generated smaller growth than in previous years, increasing by 2.9% in 2014. Car production rose by just 1.8%, but the number of cars produced in 2014 (993,000) broke the all-time high record level. Total industrial production increased by 3.4%, with the strongest dynamics generated by manufacturers of basic metals, fabricated metal products and electrical equipment. The construction sector has been in contraction for the last six consecutive years and continued in 2014, when construction output decreased by 4.2%.

Chart 12:
Car production in Slovakia (thousands)

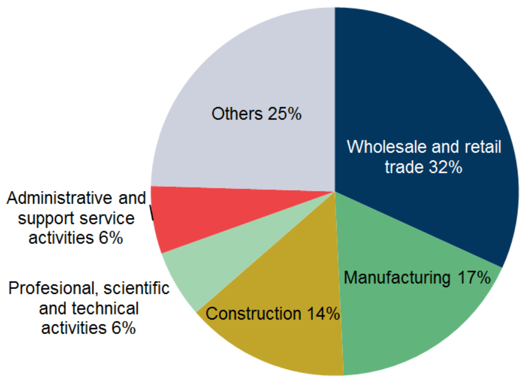


Source: OICA

Slovakia's public finances remain at manageable levels, with a general government deficit of 2.9% and debt of 53.6% in 2014. The budget target of 2.5% for 2015 seems to be ambitious, especially as the government has announced a number of social measures to be implemented due to the parliamentary elections coming next year. Slovakia's absorption rate of 60.4% of the EU funds for 2007-2013 puts the country among the least effective economies in using allocated funds.

GDP growth in 2015 will reach 2.5% - similar to last year. Increased government spending will be recorded in the pre-election period. This will further support the rise in household consumption, thanks to wages increases for teachers and public administration employees, as well as the introduction of minimum pensions. The automotive sector will benefit from relatively good prospects on global markets, as the majority of Slovakian car production is exported. Overall, exports should rise at a stable level. Better Eurozone prospects will enhance export growth and not only in the case of car exports.

Chart 13:
Company insolvencies by sectors in 2014



Source: Coface

Although the pace of GDP growth in Slovakia more than doubled between 2013 and 2014, up from 0.9% to 2.4%, companies suffered from a rising number of insolvencies during the same period. However improved economic conditions are already starting to be experienced on the microeconomic side and the increase of insolvencies was relatively moderate (3%). As previously mentioned, construction output is suffering from the sector's long-term deterioration. The turbulent and challenging conditions resulted in the insolvencies of two leading construction companies last year - Doprastav and Vahostav - with aggregated liabilities exceeding EUR 300 million. Factors triggering construction insolvencies are the consequences of past managerial decisions, such as inadequate quoting of contracts which did not reflect changes in cost levels and made many contracts unprofitable. Despite increasing consumer spending, the share of insolvencies from retail and wholesale companies increased from 25% to 32%.

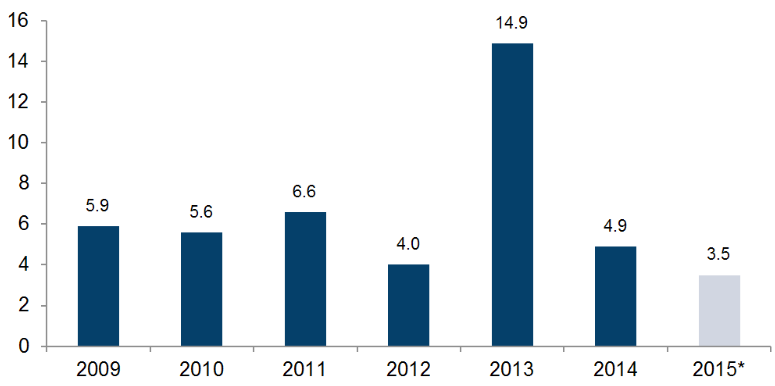
Top 5 sectors	Flop 5 sectors
Mining and quarrying	Electricity, gas, steam and airconditioning supply
Education	Wholesale and retail trade
Arts, entertainment and recreation	Accomodation and food service activities
Health and social work	Administrative and support service activities
Financial and insurance activities	Manufacturing

	Company Name	Sector	Total liabilities in euro	Town
1.	Doprastav, a.s.	construction of roads and motorways	189,000,000	Bratislava
2.	VÁHOSTAV - SK, a.s.	construction of roads and motorways	112,000,000	Bratislava
3.	Dubnický Metalurgický Kombinát, s. r. o.	manufacture of basic iron and steel and of ferro-alloys	33,000,000	Dubnica nad Váhom
4.	Kúpele Brusno, a.s.	other human health activities	31,000,000	Brusno
5.	ASTRUM Laus, s.r.o.	artistic creation	20,000,000	Levice

Slovenia

Slovenia recorded a solid growth rate of 2.5% in 2014, following two years of contraction. Household consumption increased for the first time since 2010, although a weak increase of just 0.3%. The unemployment rate decreased to 9.4% in February 2015, but it has remained close to 10% since mid-2012. Nevertheless, consumers feel stronger and the consumer confidence indicator is 10 points higher than a year ago, thanks partly to a moderate growth in real wages. The main contribution to improved economic activity came from external demand and fixed investments which rose by 6.3% and 4.8%, respectively. Gross fixed capital formation was supported by EU funds, helping the construction sector to record positive growth dynamics compared to the previous year, although it was nearly 30% lower than the average recorded in 2010. The growth in industrial production was mainly supported by the strong rise (27%) in car production, which surpassed the dynamics recorded in other CEE economies. However, the total number of 118,600 cars assembled in 2014 did not make Slovenia a significant vehicle producer.

Chart 14:
General government deficit (%)



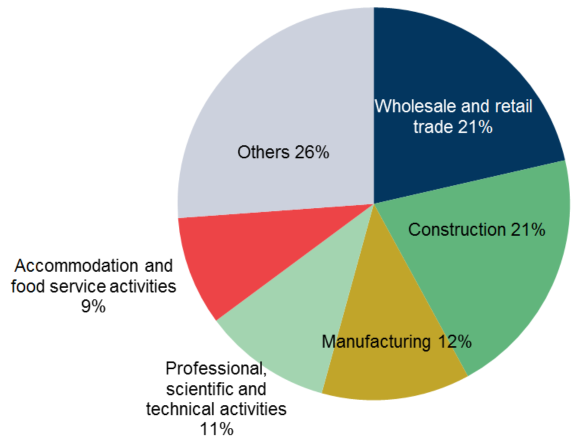
* Coface forecast
Source: Coface

The privatization of state-owned companies is underway and remains a hot topic . Slovenia plans to finish selling most of the 15 state-owned companies it has slated for the private ownership by the end of 2015. These actions should bring the state budget proceeds of around 1 billion euros, earmarked for reducing Slovenia's public debt which reached 81% of GDP last year. So far, privatised companies have been reflected in FDIs, which soared last year. The budget deficit narrowed to 4.9% of GDP in 2014, down from last year thanks to improved economic activity, higher revenues and increased inflows from the EU budget. The government has forecast a further reduction in the general government deficit, to 2.9% this year, with the further support of EU budget inflows.

The stabilisation of the banking sector remains in progress. Further non-performing assets have been transferred to the Slovenian asset management company (BAMC). The three major state-owned banks returned to profit at the beginning of 2014. As the deleveraging process is being continued, banks experienced a decrease in lending to both households and corporates during the course of last year. The profitability and capitalization levels of the banking sector remain weak. NPLs remain above 13% and they are more than three times higher than pre-crisis levels. Larger transfers of NPLs to the BAMC would be supportive for the banking sector.

In 2015 the Slovenian GDP growth will slow down due to shrinking public consumption, although the economy will grow by a relatively fair rate of 2%. A larger contribution should come from private consumption, which is benefitting from higher real wages, improved consumer confidence indicators and lower oil prices. GDP growth is limited due to a gradual increase in imports.

Chart 15:
Company insolvencies by sectors in 2014



Source: Coface

So far companies have not experienced visible business improvements. Slovenia's insolvencies grew by 44.7%, the highest level in the entire CEE region. Inadequate investment decisions, lack of adjustment to current economic conditions and the high indebtedness of companies were most frequently quoted reasons for entities becoming insolvent. The construction sector and related activities, such as the real estate business, remain present in insolvency statistics, with high insolvency rates and a large share in total insolvencies. The same applies to the retail and wholesale sectors, as the ongoing household deleveraging process is resulting in subdued demand.

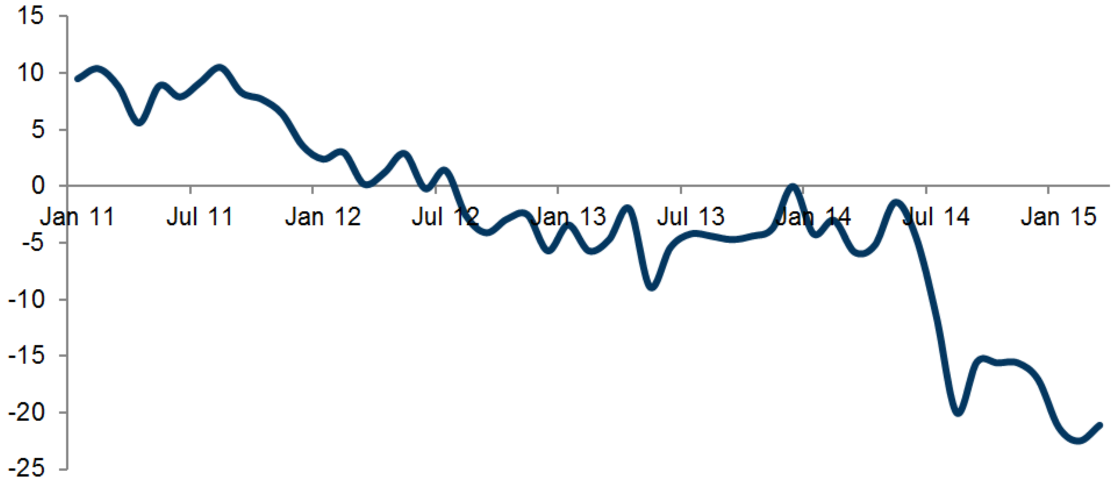
Top 5 sectors	Flop 5 sectors
Human health and social work activities	Real estate activities
Other service activities	Mining and quarrying
Arts, entertainment and recreation	Construction
Education	Accommodation and food service activities
Agriculture, forestry and fishing	Wholesale and retail trade

	Company Name	Total liabilities in euro	Town
1.	MERKUR D.D.	400,306,000	Naklo
2.	CIMOS d.d.	398,304,190	Koper
3.	GREP d.o.o.	185,514,026	Ljubljana
4.	AVTOTEHNA d.d.	89,105,955	Ljubljana
5.	CIMOS TAM Ai, d.o.o.	71,793,804	Maribor

Ukraine

Faced with war-related destruction, the Ukrainian economy has significantly deteriorated. The recession of 6.5% experienced last year will continue at a similar pace, with Ukrainian growth decreasing by 6% in 2015. Industrial production dropped by 11% last year, mostly due to the contraction recorded in Donetsk and Luhansk (30% and 40%, respectively). The Donbas region is of significant importance to the Ukrainian economy, with its concentration of coal mining and metal industry activities. Both of these sectors suffered from a huge contraction, due to the ongoing military conflict which is mainly taking place in Donbas. The weaker output also resulted in the contraction of exports, which dropped by 21% in US dollar terms in 2014. The biggest slump in exports was to the Ukraine's main trading partner, Russia, which accounts for a quarter of all exports. The slowdown of the Russian economy and tense relations resulted in a decrease in exports there of 33% last year.

Chart 16:
Industrial production (%, yearly dynamics)



Source: State Statistics Service of Ukraine

The local currency remains under pressure, while actions to defend it made by the central bank met with little success. As at March this year, foreign reserves were at just three weeks of imports, whereas three months is considered to be the minimum level. On the fiscal side, falling revenues and increased defense spending contributed to the widening budget deficit which reached 14% of GDP. A large part of this was financed by the central bank. Structural reforms are slowly being implemented, while the IMF has revised its program from two years to four years, assuming the external financing of EUR 36 billion until 2018.
Domestic consumption is also deteriorating, due to currency depreciation, high inflation, hikes in energy prices and weak consumer confidence. Companies are suffering from challenging business conditions and a slump in demand. Against this backdrop, insolvencies have not rallied so far. The official number shows a relatively weak increase of 5.1%. However many companies went out of the business without filing for insolvency. We anticipate that the number of company insolvencies in Ukraine will increase during the course of 2015.

3 CONCLUSION

2014 was a year of improvement for most CEE economies. The average pace of GDP growth increased from 1.3% in 2013, to 2.5% last year. The engine of economic growth has become fueled by the very crucial factor of internal demand. This is especially visible in the case of household consumption, which is benefitting from lower unemployment rates, growing wages and improved consumer confidence. Low inflation, or even deflation, has reached many economies in the region. This has mainly been caused by external factors, including lower prices of commodities. As CEE economies are oil consumers, the benefits of this are being enjoyed by both households and companies.

Improvements have also been recorded within local businesses. Whereas our 2013 CEE Insolvency Panorama showed an average growth in insolvencies of 7%, last year the rise in bankruptcies stabilised, recording a moderate decrease of 0.5%. Nevertheless, this still represented a sizeable number of over 65,000 companies declared as insolvent last year. Improving domestic consumption was not a sufficient-enough factor to bring insolvencies to their pre-crisis levels. In Poland it was twice as high as in 2008, while in the Czech Republic and Bulgaria it is nearly 4 times higher. Many CEE companies are suffering from low margins, intense competition and liquidity problems, due to lengthier times in obtaining receivables. The insolvency statistics are a consequence of past economic conditions dating back not only to last year, but to 2013 and even before. The rebound following contraction takes much more time than the opposite action – which is a rapid slump in business activity due to market deterioration.

The average dynamics of insolvencies in the CEE hide regional disparities. The highest rise in bankruptcies was recorded in Slovenia (45%) and Hungary (30%). Although the Slovenian economy recorded solid economic growth last year, the business environment remains challenging, with the ongoing results of two years of recession. Similarly, the weak economic activity in Hungary in previous years triggered the current rise of insolvencies, which are also impacted by the increased use of forced deletion procedures. 5 out of 13 countries recorded a fall in company insolvencies. The best performers in this respect were Serbia (by 44%) and Romania (by 28%). Despite last year's floods which hurt the country's economy as well as its inhabitants, Serbia was able to finish the year with a relatively minor contraction of GDP growth, by 0.5%. Last year, Serbia's local businesses, especially from the agro-food sector, benefitted from increased volumes of exports to Russia, due to its status as a 'non-banned country'. Romania's solid economic activity, supported by stronger household consumption and increased utilization of EU funds, has also translated into improvements on the corporate side. Nevertheless, companies are still suffering from long receivable collection terms.

Company insolvencies in the CEE region will continue to see an improving trend this year and we forecast the average number of bankruptcies will decrease by 6% at year-end. Household consumption will remain the main driving force behind most CEE economies. There should be better perspectives for sectors dependent on consumer demand, although a specific country situation with consolidation processes taking place could diminish this positive impact. Companies in the CEE region are active exporters. The embargo implemented last year was a strong negative factor, especially for agro-food sectors. However it did encourage companies to look for alternative markets and to address growing local demand. On the crucial export destination of the Eurozone, CEE economies are benefitting from higher volumes of foreign trade, as many Western European countries enjoy clearer signs of recovery.

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