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WORLDWIDE NETWORK

Global Bankruptcy Report 2017

Dun & Bradstreet Worldwide Network

EDITION 1

INDEX

INTRODUCTION

Welcome to the Dun & Bradstreet Global Bankruptcy Report. This report is compiled for you by the members of the Dun & Bradstreet Worldwide Network (WWN).

Since 2005, our network of partner organizations has offered customers across the globe access to the best local data, whilst maintaining a consistent high-quality standard. Today, the network consists of 16 partners and six Dun & Bradstreet-owned markets, collecting business information on over 200 countries. We work together to provide the best data, analytics and insights to help you manage your business relationships.

As cross-border transactions increase, more and more customers have been expressing a need for the analysis of bankruptcy trends to cover global markets as an index of real economic conditions. It was to satisfy this need that we started compiling the Global Bankruptcy Report.

We are pleased to share that the number of markets covered has increased to 38. I would like to extend a special thanks to the following WWN members who contributed local bankruptcy data from their respective markets:

Altares, Bisnode, CRIBIS D&B, D&B Indonesia, D&B Israel, D&B Singapore, D&B Thailand, D&B Vietnam, D&B Turkey, Huaxia D&B China, ICAP, Informa D&B, Interfax, NICE D&B and TSR.

The data compiled has been analyzed and edited by Dun & Bradstreet's Country Insight team of experienced economists.

We hope you find the report beneficial.

Sabine Leferink
Dun & Bradstreet Worldwide Network Leader

OVERALL COMMENTARY

Global Bankruptcy Trends

Oana Aristide | Dun & Bradstreet Economist

ECONOMIC GROWTH IS SLOWING, BUT BUSINESS BANKRUPTCIES ARE DECLINING

Global economic growth forecasts have been revised downwards almost every year since the financial crisis, with a lack of growth engines, fiscally hampered governments, and the preceding overinvestment all playing a part in establishing this pattern. However, despite the sluggish growth environment, global corporate failure rates have declined, reaching record lows in some major economies. And 2016 was no exception: out of a total of 38 countries in our analysis, 26 experienced falling bankruptcy rates relative to the previous year; meanwhile the failure rate stagnated in two countries, and only ten countries saw the rate increase. This two-tier development – low growth but resilient businesses – illustrates on the one hand the severity of the previous financial crisis and the significant debt overhang left in its wake, and on the other the ultra-low interest rates and loose monetary policy across most of the developed world. The latter has not only supported businesses in developed countries, but has also stimulated a surge in capital flows to higher-yield emerging markets. The ensuing capital flow reversal (expected to take place as the Federal Reserve slowly normalizes monetary policy) counts as one of the main global risks in 2017.

Analysis of the results based on the income status of the countries in our sample reveals that bankruptcy rates have declined in a majority of both developed and developing countries. The results are more overwhelmingly positive in the case of developed economies, but the trend is evident in emerging markets as well (more than twice as many countries had declining rather than increasing bankruptcy rates). In terms of regions, failures have declined in 16 out of 23 European countries in our sample, with only one large economy – the UK – represented in the 'deteriorating' group. Nine out of eleven countries in our Asia-Oceania region had declining failure rates, including China (the largest economy in the region and a key global growth engine). The other global economic behemoths – the US, Japan and Germany – also experienced declining failure rates in 2016.

> "Our analysis shows that bankruptcy rates have declined in the majority of both developed and developing countries. Regionally, 16 out of 23 European countries and 9 out of 11 Asia-Oceana countries have seen decreasing bankruptcy rates—a good sign in a slow-growth economy."

BANKRUPTCY TRENDS IN THE UNITED STATES

Failure Rates in the US are Declining, but Much Slower than in 2016

Failure rates in the US declined by 2.3% in 2016, a far smaller improvement than in Dun & Bradstreet's 2016 Global Bankruptcy Trends Report (when bankruptcies were down by 10.7%). This echoes overall macroeconomic developments: economic growth in the US decelerated to 1.6% in 2016, down from 2.4% in 2015. Our proprietary *Small Business Health Index*[1] suggests that the stability of small businesses is a particular concern.

"Failure rates in the US declined by a mere 2.3% in 2016—a far smaller improvement compared to our 2016 report showing a 10.7% decline. Yet, we have upgraded our near-term growth forecast in a positive direction and expect 2.3% growth in 2017 and 2.4% in 2018."

Moreover, when small business performance faltered in 2016, balance sheets followed suit – as reflected in Dun & Bradstreet's *Overall Business Health Index*. Overall balance sheet health declined in 2016, falling from the all-time high recorded in December 2015 to end the year 1.5% lower. However, despite the annual decline the index has stabilized in recent months, and the slowing rate of year-on-year decline may indicate that the trend is starting to switch back towards a positive trajectory. Encouragingly, following four straight quarters of negative or zero growth, fixed investment rebounded strongly in Q4 with 4.2% growth, and added 0.7 percentage points to headline GDP. It remains to be seen whether the pickup in business spending is sustained. The new US administration has promised changes in the tax and regulatory regimes; to the extent that expected corporate tax reform and deregulation aid business continuity and make it easier for US businesses to invest domestically, we will see an acceleration in the growth of business spending. Further, given what we know so far about the potential fiscal policy stimulus expected from the new government, we have slightly upgraded our near-term growth forecast for the US: we now expect 2.3% growth in 2017 and 2.4% in 2018.

BANKRUPTCY TRENDS IN CHINA

Lower Corporate Failures in China are Paired with Predicted Soft Growth Deceleration

Patchy data coverage has prompted us to disregard total failure rates in H2 2016; as such, our China bankruptcy data covers July 2015-June 2016. In this period there were 8.8% fewer corporate failures in China, which is suggestive of the Chinese authorities' efforts to achieve a soft landing for the economy.

Despite the investment slowdown and crisis affecting large swaths of industrial China, economic growth was just 0.2 percentage points lower in 2016 (6.7%, down from 6.9% in 2015). Meanwhile, the People's Bank of China has shifted towards incrementally tightening its monetary policy. It issued directives to banks to keep new mortgage lending growth in Q1 2017 below that of Q4 2016, on pain of financial penalties, and in January it also raised its medium-term lending facility rates. The context for this is that bank credit still rose faster than growth in nominal GDP in 2016. The concern is that debt-servicing problems could proliferate and injure growth: Reuters reported 45 credit stress, and technical or full bond default events, in 2016, including those of state-owned borrowers. These represented the tip of the iceberg of state-owned 'zombie' companies. Lists are being drawn up by bankruptcy courts due to form in at least 11 provinces to implement the (so far) little-used 2007 bankruptcy law, while the large banks are being encouraged to take equity in debt-distressed companies deemed to be of strategic value.

"China saw 8.8% fewer corporate failures from July 2015-June 2016. There are some danger signs regarding credit risk into 2018. Dun & Bradstreet forecasts continued soft deceleration to China, to 6.3% in 2017 and 5.8% in 2018."

The nuanced swing towards policy tightening suggests that the authorities have shifted away from concerns over a short-term hard landing and back toward fears that excess credit growth will endanger financial stability over the medium term into 2018; there are already danger signs around real estate developers' credit risk, as any crunch in the real estate market will severely crimp local government revenues (these depend on land sales for almost half their revenues). Dun & Bradstreet forecasts continued soft deceleration in China, to 6.3% in 2017 and 5.8% in 2018.

[1] The Small Business Health Index measures year-on-year small business performance through payment patterns and credit use. The U.S. Overall Business Health Index provides a year-on-year weighted average of Dun & Bradstreet's Viability Score, Delinquency Predictor and Total Loss Predictor. The index ranges from zero (with all businesses recording high levels of risk) to 100% (with all businesses recording low levels of risk). Data quoted based on data available as of January 30, 2017.

BANKRUPTCY TRENDS IN JAPAN

Corporate Failures are Declining, but More Failures Expected This Year

Corporate failures in Japan continued to decline in 2016, by 4.2%, reaching a new record low. Meanwhile, GDP growth picked up pace over the course of 2016, but the country is yet to achieve escape velocity from the low-growth, low-inflation trap in which it has been mired for the past few decades.

> "Corporate failures in Japan declined by 4.2%, reaching a new record low. Dun & Bradstreet does expect failure rates to increase this year and forecasts economic growth at 1% in 2017 and 1.5% in 2018."

Even when considering the declining failure rate, the evident improvement is not so much due to robust demand conditions as to banks' leniency with regard to rescheduling payments, SME financing facilities, as well as the widespread practice of winding down operations rather than going through a costly legal bankruptcy.

Recent surveys also reveal that many companies have severe difficulties filling positions, which should eventually translate into higher wages – and implicitly higher costs for businesses. Meanwhile, the considerable seesawing of the Yen determines which segment of the economy is most at risk of payment difficulties and bankruptcy: at the current level (a weak yen), the currency benefits large corporations that have export revenue, and hurts small companies that chiefly target the domestic market while relying on imports. Dun & Bradstreet forecasts economic growth of 1.0% in 2017 and 1.5% in 2018, but we also expect failure rates to start increasing as of this year.

BANKRUPTCY TRENDS IN GERMANY

Germany Shows a Positive Growth Trend and Large Decline in Bankruptcies

The number of corporate failures declined by 6.1% in 2016 as the German economy reaped the benefits of the structural reforms it implemented more than a decade ago. The weak euro was also a factor: the country reported the largest current account surplus in the world in 2016 (remarkably, bigger even than China's). Dun & Bradstreet predicts the number of business failures to stay on a generally downward trend in 2017-18, helped by a still supportive monetary policy in the euro zone and robust domestic and external demand. Recently, we upgraded Germany's risk rating outlook from 'deteriorating' to 'stable' due to generally positive economic trends. On the labour market front, the harmonized unemployment rate has dropped below the 4.0% threshold, the lowest rate since the start of the data series. With virtually full employment, domestic consumption is likely to support growth, but companies doing business in Germany should factor in growing wage pressures over the coming years, especially as the country's minimum wage was increased in January 2017.

> "Germany reaped the benefits of structural reforms, experiencing a corporate failure decline of 6.1% in 2016. We forecast German GDP growth of 1.5% in 2017 and 1.9% in 2018, taking into account low unemployment, the election, and monetary policy."

Federal elections are scheduled for September 2017, but these create less cause for concern than in other EU states. The Social Democrats have nominated Martin Schulz, the former president of the European parliament, as new party chairman and lead candidate. While it seems that Schulz's chances of ousting Chancellor Angela Merkel are relatively slim, it is likely that under his leadership the Social Democrats would renew the current EU-friendly Grand Coalition with Merkel's Conservatives. We forecast German GDP growth of 1.5% in 2017 and 1.9% in 2018.

BANKRUPTCY TRENDS IN FRANCE

France's Bankruptcy Rates Declined Significantly, Yet Political Risk is Elevated

In line with most of the EU countries in our sample, France saw bankruptcy rates fall in 2016 (8.8%). Meanwhile, the latest available macroeconomic data surprised on the upside, highlighting an underlying improving trend in the French economy. The harmonized unemployment rate has fallen to its lowest value since late 2011, and the Purchasing Managers' Indices (PMI, compiled by Markit) in the manufacturing, retail and service sectors are all moving higher. However, the upcoming presidential (April/May) and parliamentary (June) elections continue to cause elevated levels of risk. For the presidential elections, Dun & Bradstreet predicts that no candidate will win an outright majority in the first round on April 23, requiring a runoff on May 7.

> "France's bankruptcy rates fell in 2016 by 8.8%. Yet, political risk is likely to stay elevated throughout 2017 regardless of France's election outcome."

Current polls indicate that Marine Le Pen from the far-right Front National and independent centrist Emmanuel Macron (a 39-year-old former banker) will reach the second round. Although a victory for Le Pen (who presents herself as an anti-establishment candidate) cannot be ruled out completely given the evident populist trends around the world, we predict that Macron will eventually secure the presidency.

Both election outcomes, however, are problematic from a country risk perspective: Macron lacks a party to back him and has little political experience apart from a short stint as economics minister in 2014-16. Le Pen, on the other hand, wants to take France out of the EU and is also thinking about ending the country's NATO membership; she is also campaigning against free trade. With parliamentary elections taking place shortly after the presidential elections, and with support being split between three major parties and several smaller political movements, a hung parliament seems to be a realistic outcome. We recommend monitoring the situation closely and frequently as political risk is likely to stay elevated throughout 2017.

BANKRUPTCY TRENDS IN THE UNITED KINGDOM

UK Only Major Economy to Show Increasing Bankruptcy Rates

Despite being the only major European economy to record increasing bankruptcy rates in 2016 (+10.1%), the UK economy is paradoxically also one of the fastest-growing. However, the increase in the failure rate is entirely due to a spike in Q4 2016, which chimes with our view that Brexit clouds the 2017 outlook. Real GDP growth data for 2016 as a whole shows that the economy expanded by a healthy 2.0%, only marginally down from the 2.2% seen in 2015. At the same time, confidence indicators are holding up well, with the Purchasing Managers' Index in the manufacturing sector reaching 55.9 points in January, higher than the euro-zone average of 55.2 and comfortably above the neutral 50-points line. However, input price inflation is building up rapidly, with the relevant sub-index rising at the fastest rate since the start of the data series in 1992.

The lack of impact on macroeconomic data from Brexit so far is unsurprising. Ultra-loose monetary policy, boosted by a further interest rate cut in August 2016 and by the government's fiscal response, have helped maintain good refinancing conditions for companies, while Brexit is yet to produce any concrete effects on trade or on the free movement of labour and capital. Business and consumer confidence has held up well due to optimism about the terms of the eventual Brexit. However, we consider this optimism to be misplaced, and we expect sentiment to deteriorate as Brexit starts producing noticeable effects.

> "The UK is the only European economy to record increasing bankruptcies in 2016 (10.1%). Low growth of 1.5% is expected in 2017 and 2018 due to Brexit."

With the government expected to invoke Article 50 by the end of March, the economic impact of the Brexit vote will be felt harder in the coming quarters, limiting growth to just 1.5% in both 2017 and 2018.

OUTLOOK

Growth to Increase Slowly, Yet Deglobalization Remains a Concern

Returning to the wider global context, overall we expect global growth of 2.7% in 2017 (up from an estimated 2.2% in 2016) and 3.0% in 2018. We believe the risks associated with doing cross-border business in the global economy still remain elevated, the main three being de-globalization, the breakup of the EU, and adverse effects from monetary policy tightening in the US.

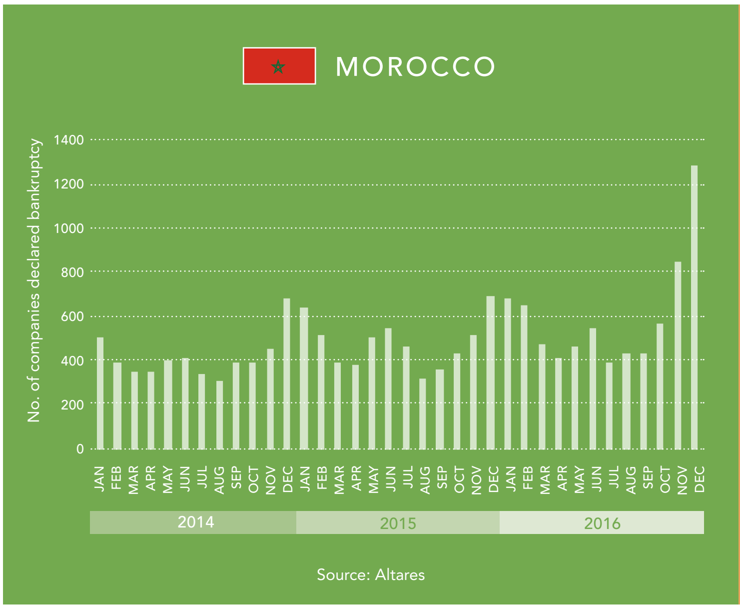
> "We expect global growth to go up 2.7% in 2017 (up from 2.2% in 2016) and 3% in 2018. Cross-border business risk due to deglobalization, the breakup of the EU, and adverse effects from monetary policy tightening are the main gating factors affecting global growth. Fortunately, the overall decline of global bankruptcies is a positive sign."

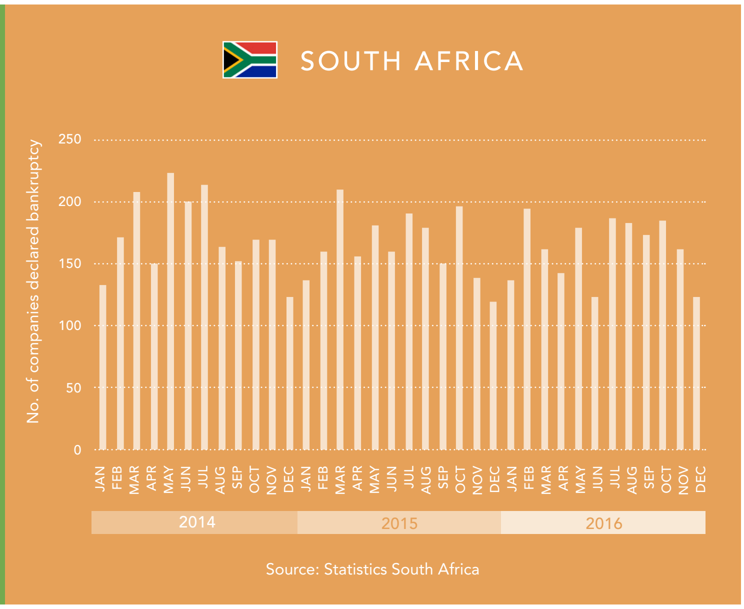
With regard to the first risk, while the popularity of anti-globalization politicians has been surging, there is little reason to believe that protectionism will benefit the world economy. Consequently, should policy-makers address this discontent by tearing up trade agreements and increasing protectionism, rather than by attempting to mitigate the losses of those who are at a disadvantage from globalization, it will be to the detriment of every open economy, and particularly to those sectors most reliant on international trade (manufacturing, whole-sale and retail trade). The second, EU-related risk, is more of a long-term concern, while the US monetary policy tightening chiefly exposes emerging markets to the risk of large capital outflows, and thereby to a reversal of the mostly benign bankruptcy trend we have seen in the past years.

Oana Aristide is a Senior Economist on Dun & Bradstreet's Advanced Analytics team. Based in the UK, she covers three Scandinavian countries as well as Romania, Japan, Malaysia, and the Philippines as a contributor to Dun & Bradstreet's Macro Market/Country Insight Products. She has a background in central banking.

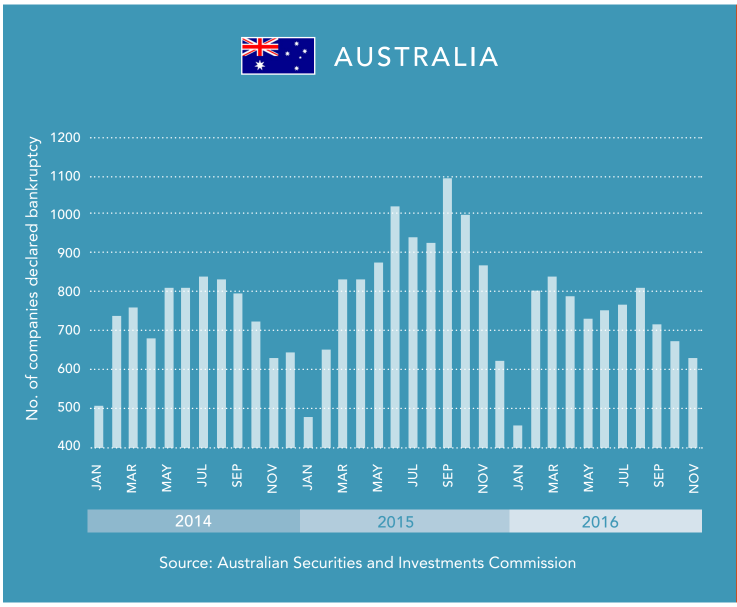
COUNTRY	BANKRUPTCY (%)
SERBIA	-50.8
BOSNIA	-32.5
SOUTH KOREA	-26.9
INDONESIA	-26.3
HONG KONG	-23.2
PORTUGAL	-22.9
BULGARIA	-21.8
SPAIN	-17.9
NETHERLANDS	-16.2
AUSTRALIA	-15.3
RUSSIA	-13.8
THAILAND	-11.3
TURKEY	-10
SINGAPORE	-9.3
FRANCE	-8.8
CHINA	-8.8
POLAND	-8.7
ITALY	-7.7
SLOVAKIA	-7.5
BELGIUM	-6.2
GERMANY	-6.1
FINLAND	-5.1
SWEDEN	-5
CANADA	-4.7
JAPAN	-4.2
ISRAEL	-4
USA	-2.3
SOUTH AFRICA	-1.4
TAIWAN	-1.3
NORWAY	3.9
SLOVENIA	4.4
AUSTRIA	6.6
SWITZERLAND	9.3
UNITED KINGDOM	10.1
VIETNAM	11.8
CZECH REPUBLIC	21
MOROCCO	24.7
DENMARK	69

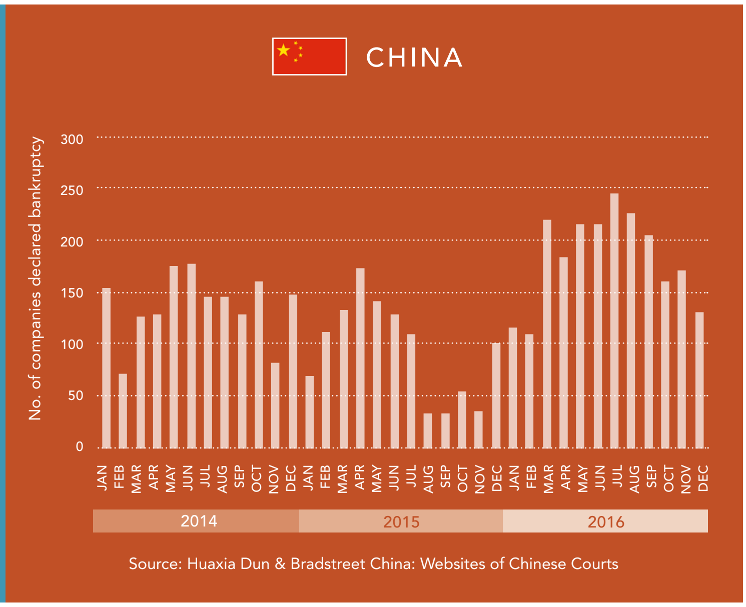
CHARTS – AFRICA





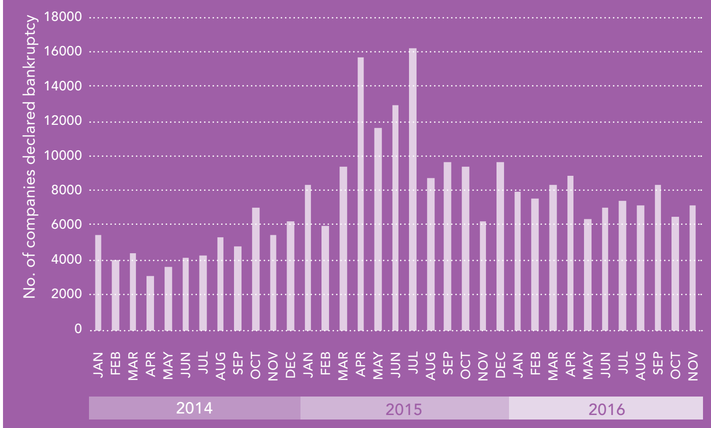
CHARTS – ASIA/OCEANIA





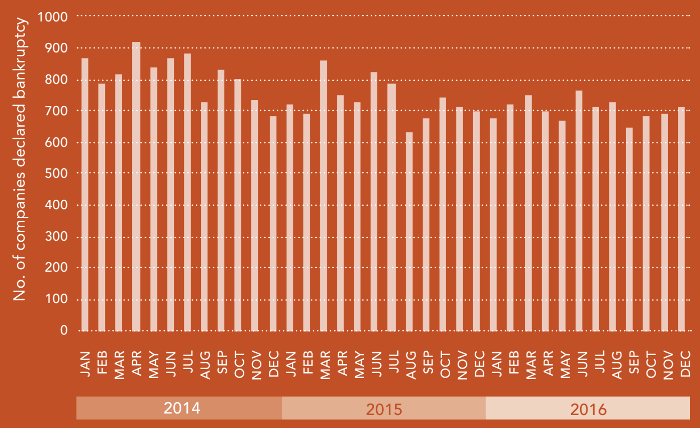
CHARTS – ASIA/OCEANIA

HONG KONG



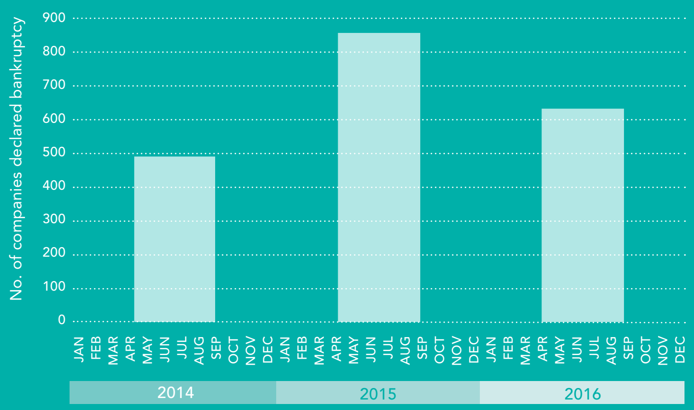
Source: Census and Statistics Department, Hong Kong

JAPAN



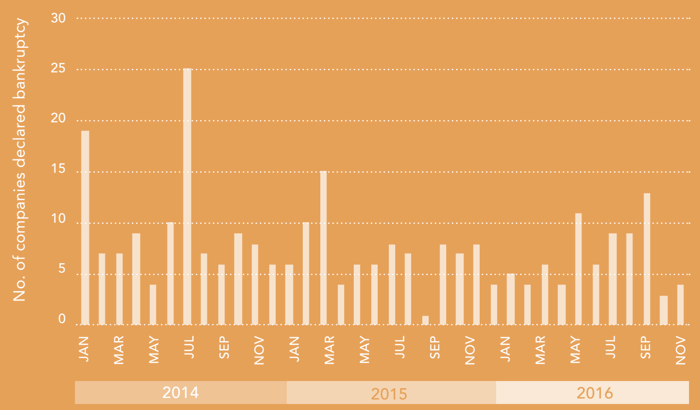
Source: Tokyo Shoko Research

INDONESIA



Source: PT. Dun & Bradstreet Indonesia

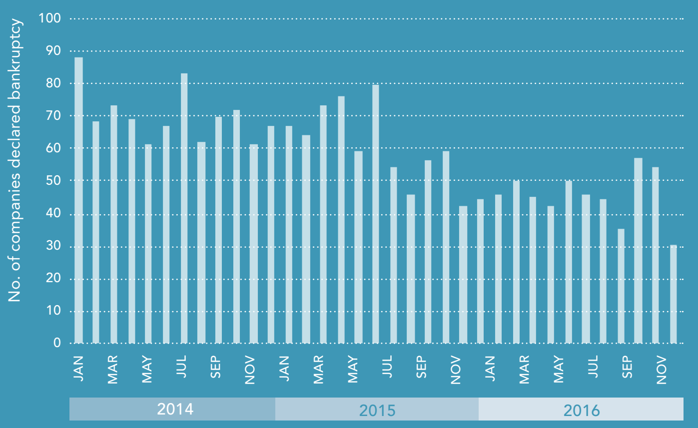
SINGAPORE



Source: Dun & Bradstreet Singapore

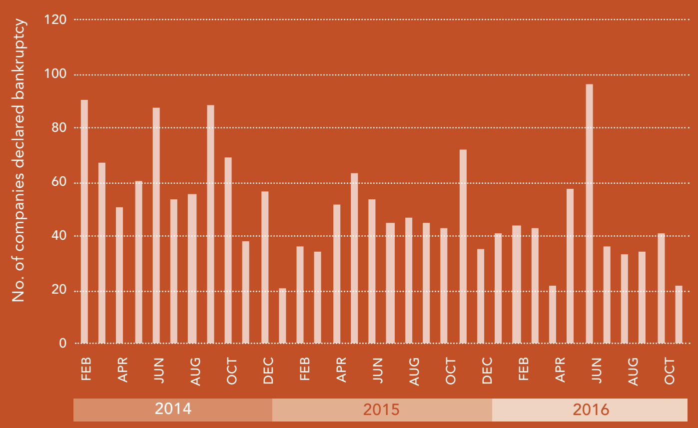
CHARTS – ASIA/OCEANIA

SOUTH KOREA



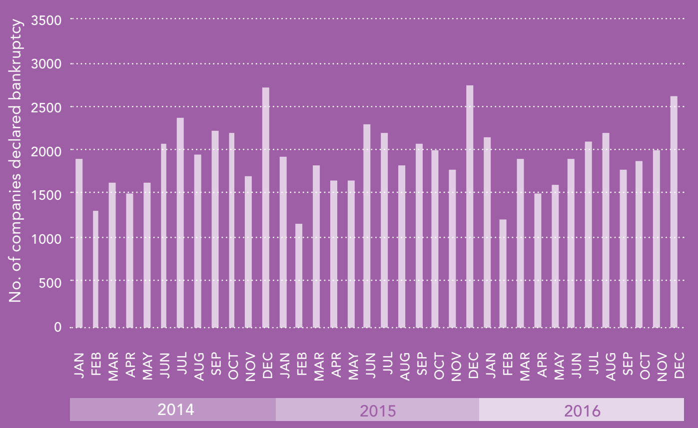
Source: NICE D&B

THAILAND



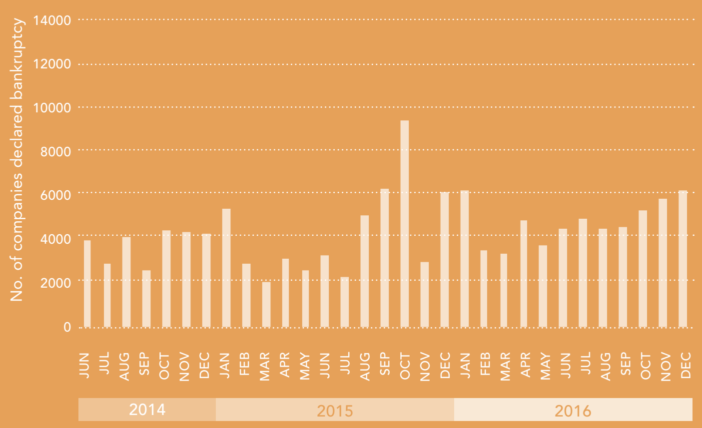
Source: Dun & Bradstreet Thailand

TAIWAN



Source: Ministry of Economic Affairs, R.O.C.

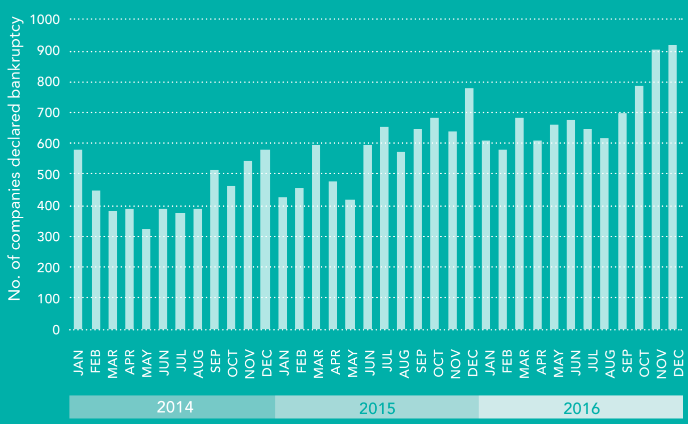
VIETNAM



Source: Dun & Bradstreet Vietnam

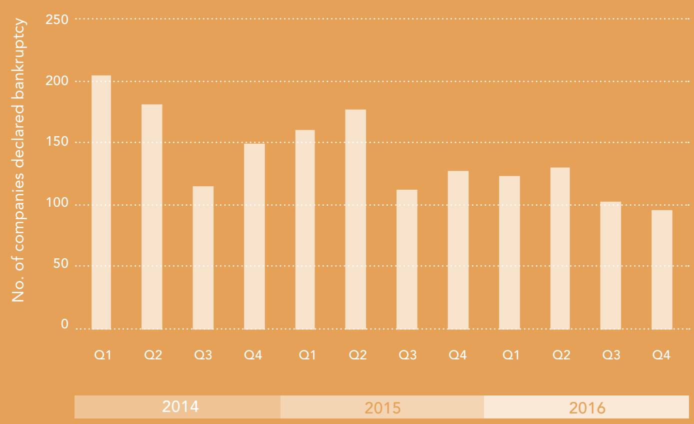
CHARTS – EUROPE

AUSTRIA



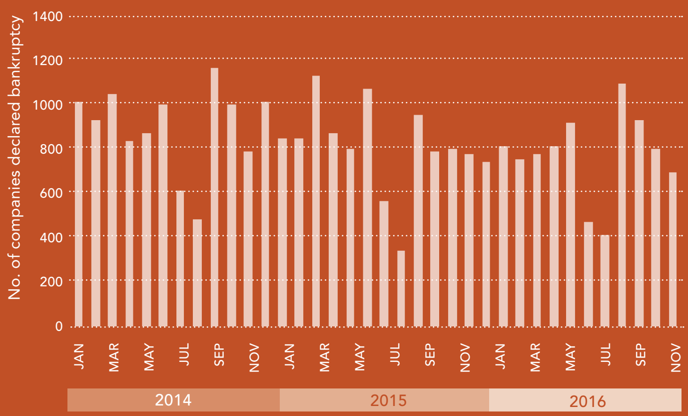
Source: Bisnode (Austria)

BULGARIA



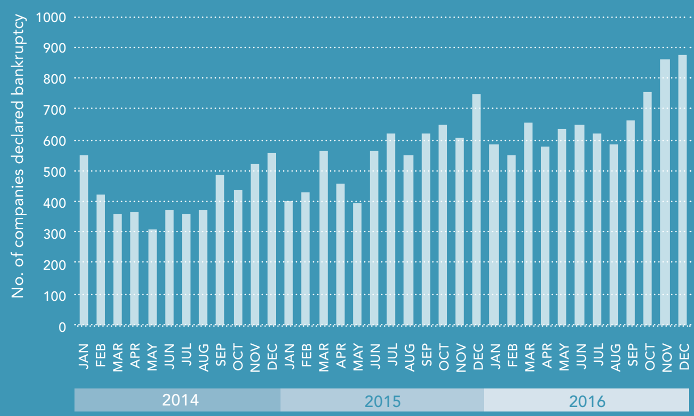
Source: ICAP (Bulgaria)

BELGIUM



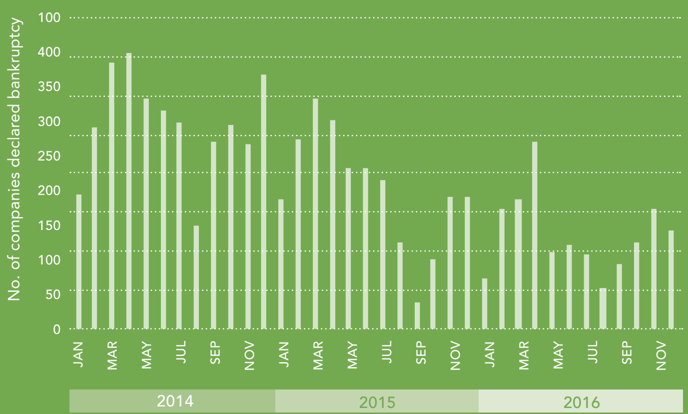
Source: BelgoStat

CZECH REPUBLIC



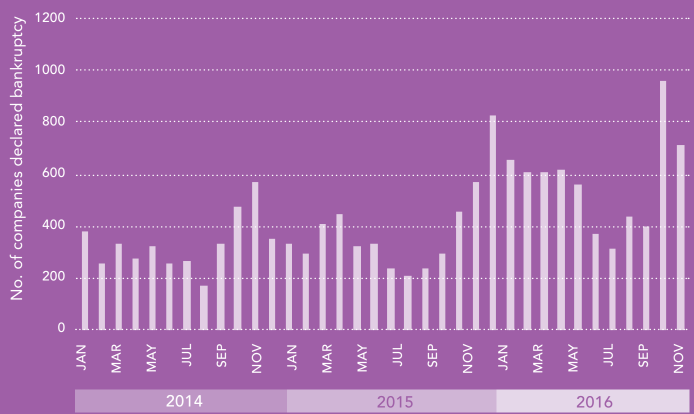
Source: Bisnode (Czech Rep)

BOSNIA



Source: Bisnode (Southern Market: Bosnia)

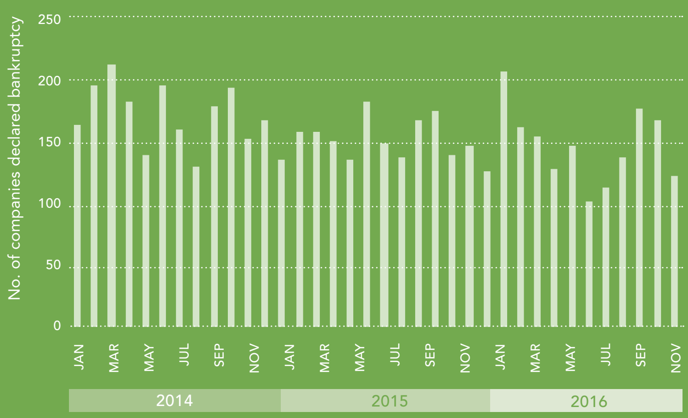
DENMARK



Source: Bisnode (Denmark)

CHARTS – EUROPE

FINLAND



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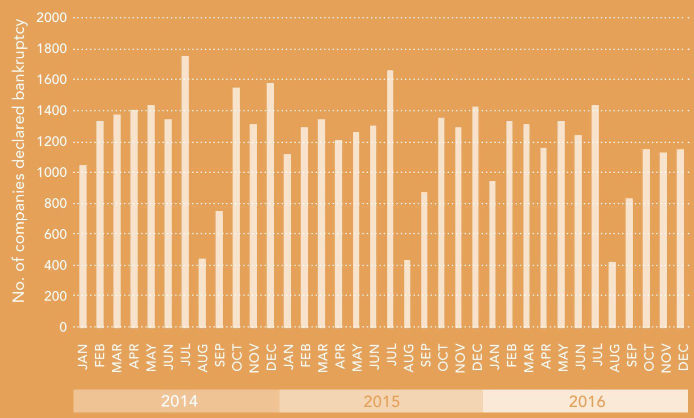
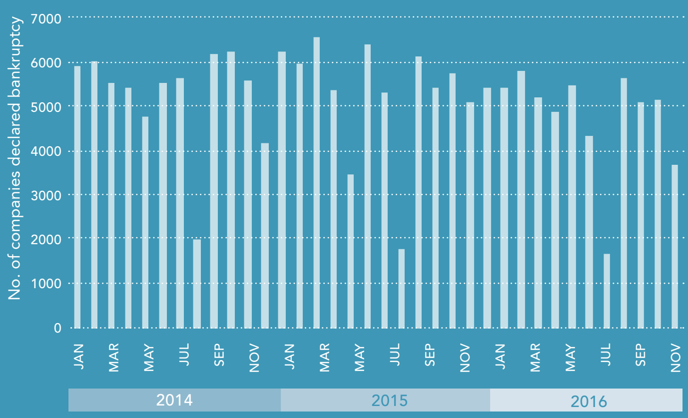
ITALY



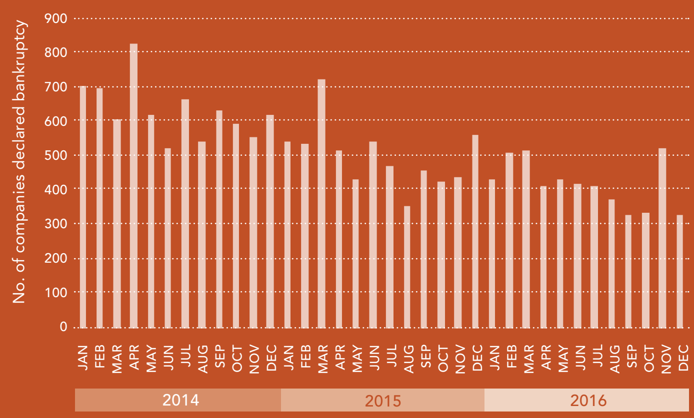
Source: Cribis Dun & Bradstreet Srl

FRANCE



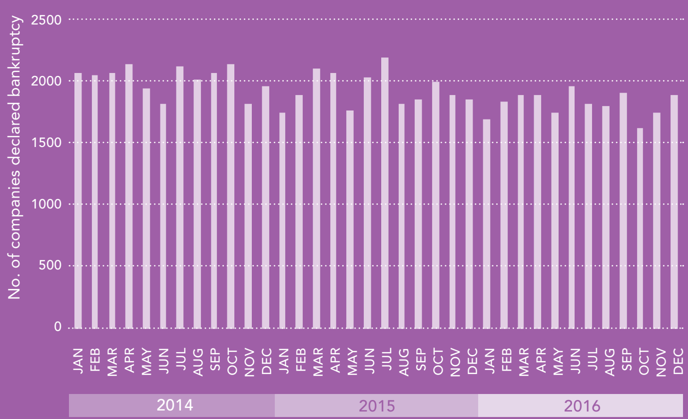
Source: Altares

NETHERLANDS



Source: Dun & Bradstreet Netherlands

GERMANY



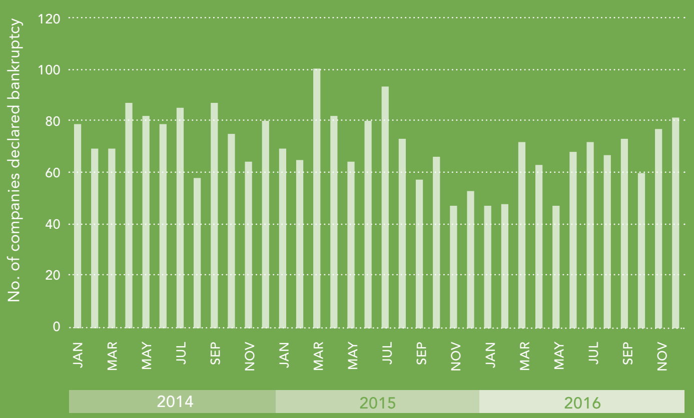
Source: Bisnode (Germany)

NORWAY

Source: Bisnode (Norway)

CHARTS – EUROPE

POLAND



Source: Bisnode (Poland)

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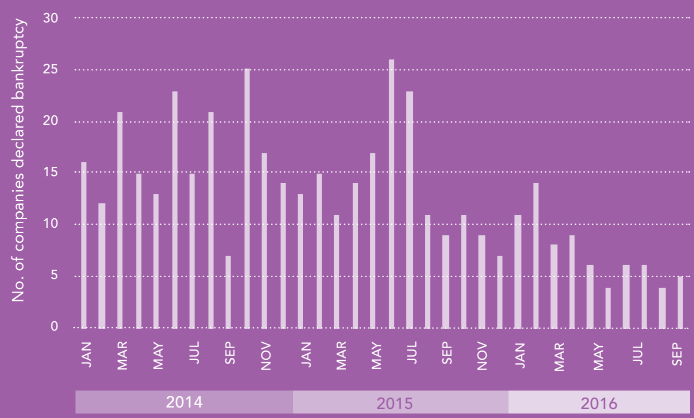
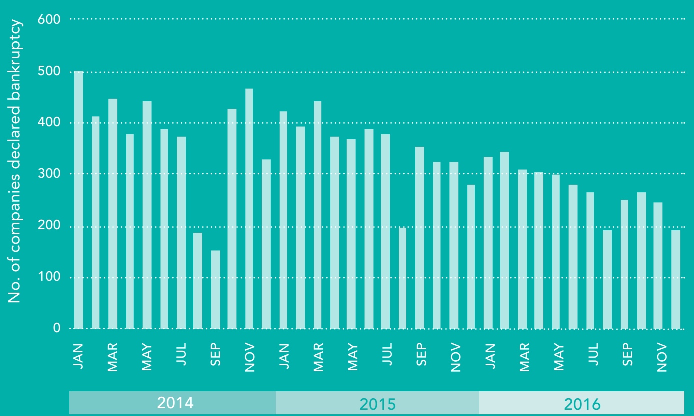


Source: Bisnode (Southern Market: Serbia)

PORTUGAL



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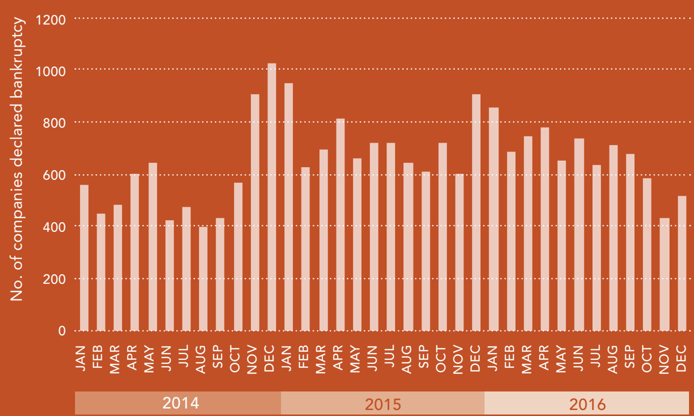
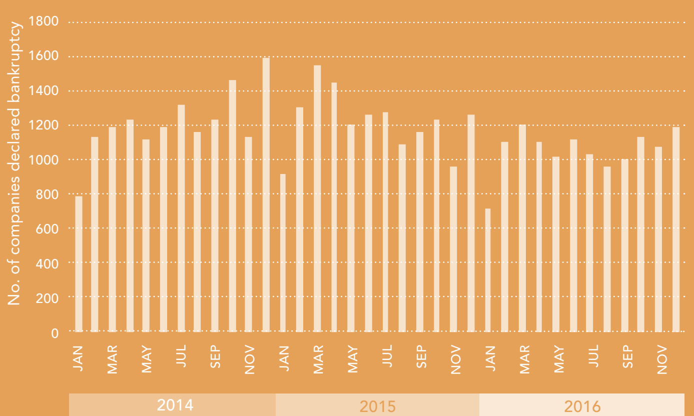
SLOVAKIA



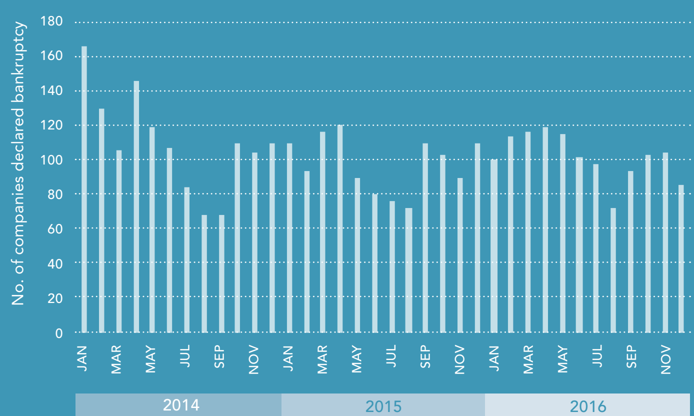
Source: Bisnode (Slovakia)

RUSSIA



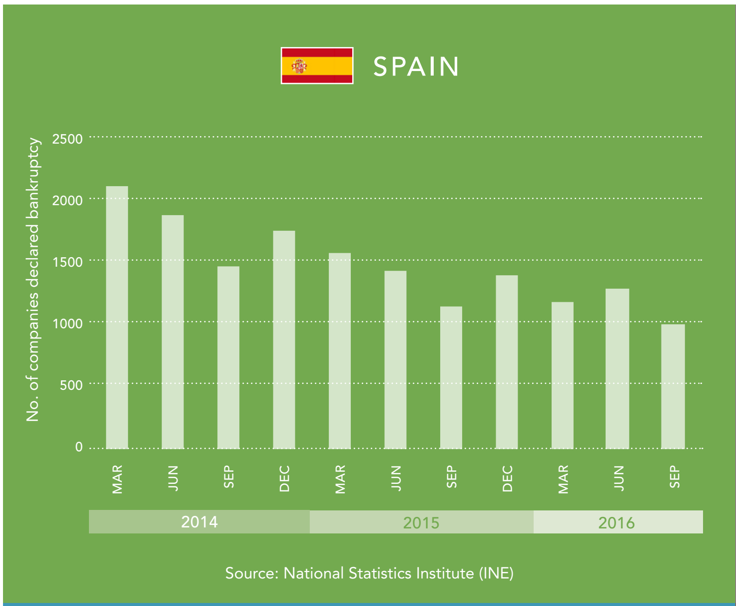
Source: Interfax

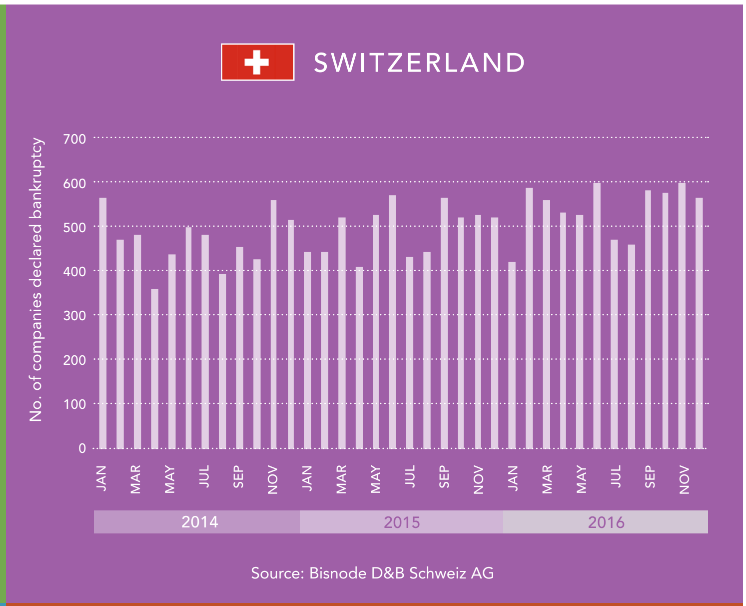
SLOVENIA

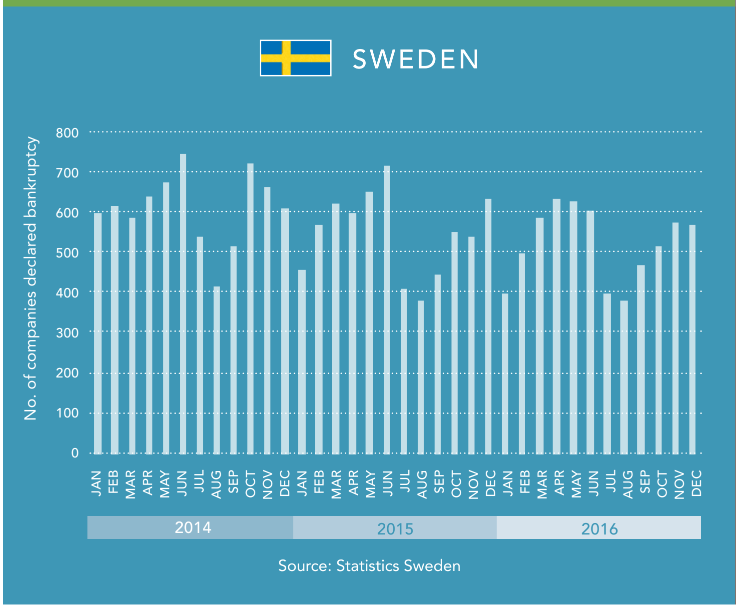


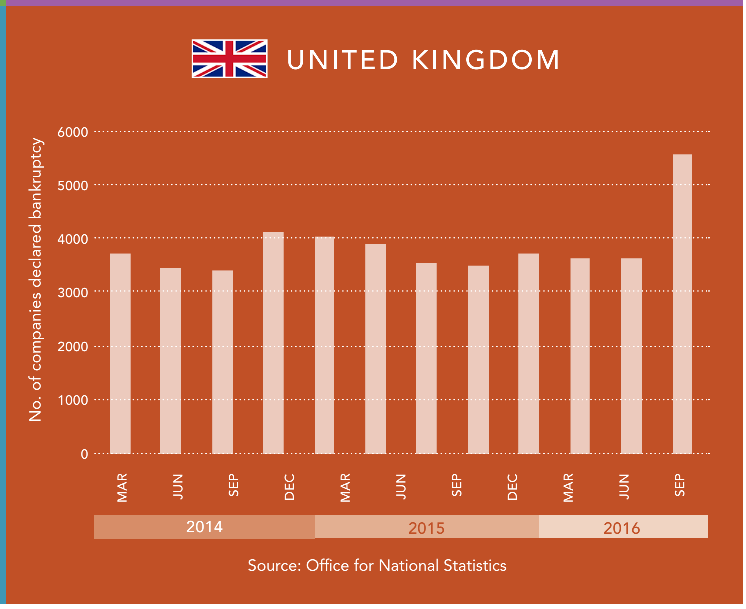
Source: Bisnode (Southern Market: Slovenia)

CHARTS – EUROPE



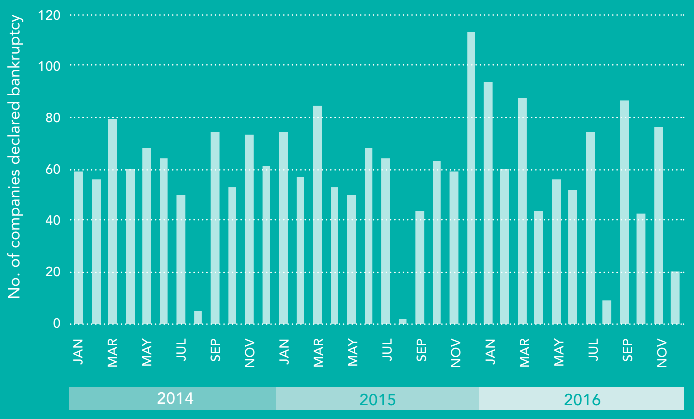






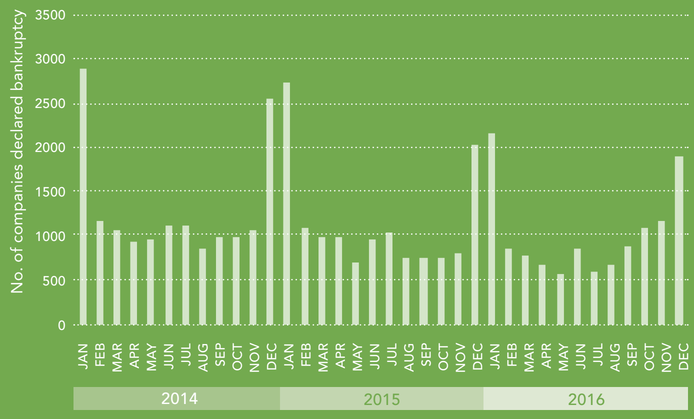
CHARTS – MIDDLE EAST

ISRAEL



Source: Dun & Bradstreet Israel

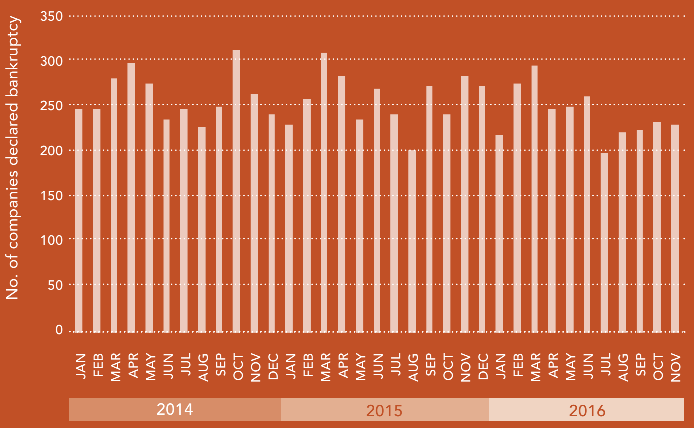
TURKEY



Source: Dun & Bradstreet Turkey

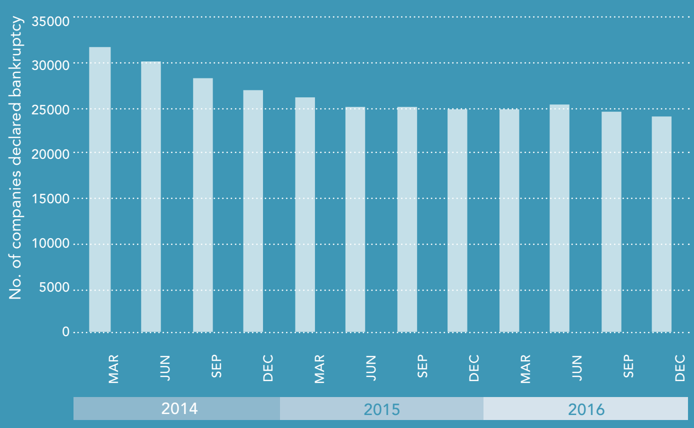
CHARTS – NORTH AMERICA

CANADA



Source: Statistics Canada

UNITED STATES



Source: Administrative Office of the U.S. Courts.

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WORLDWIDE NETWORK

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