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Company insolvencies in France: starting to return to normal

- **Second year of decrease in a row: down 2.1% vs. 2014**
- **Company failure rate returns to pre-crisis levels**
- **The situation in two sectors - services to individuals and textiles - is worsening, as are three regions including Ile-de-France**
- **The gradual recovery in the French economy should result in a 3.5% decrease in insolvencies in 2016**

A better year for company insolvencies in France

For the second year running, the number of company insolvencies¹ is down, to 60,800. The decrease was 2.1% compared to 2014 and touched businesses of all type (ranked by turnover). Despite a still-difficult economic situation, several favourable factors were at play. The sharp drop in oil prices, the depreciation of the Euro compared to the dollar and the full effect of tax credits for competitiveness and employment (CICE²) allowed margins to recover to their highest levels since 2011. The low cost of debt boosted growth in loans to non-financial companies, which increased by 5% in 2015.

Another positive sign: the failure rate³ is back to its pre-crisis 2008 level and now represents one company in 77. The cost of insolvencies is also down 15%, as is the number of jobs affected by insolvencies, down 12% over one year. In addition, the increasing age of insolvent businesses - observed in periods of economic slowdown - came to a halt in April 2015, at 8 years 11 months. This stabilisation is proof that the situation is beginning to return to normal.

In Western Europe, company liquidations also improved over the year and their number is down in 10 countries out of the 11 examined. Decreases are particularly noticeable in the Netherlands (-24%), Spain (-20%) and Finland (-13%). Only in Portugal did liquidations increase, due to the difficulties encountered in the construction sector.

There are still some blackspots

The Ile-de-France region, which concentrates 24% of all French companies, suffered 21% of the total number of business insolvencies. Worse yet, insolvencies within companies established in Ile-de-France increased by 5.7%, the highest in France. This poor result is explained mainly by the deterioration in the sectors of construction and services to individuals.

¹ Company insolvencies: liquidations (70% in 2015) and receiverships (30%)

² *Crédit d'Impôt pour la compétitivité et l'emploi*

³ The failure rate is the ratio of the number of failures over the total number of companies

Insolvencies are still on the increase in 2 out of the 11 sectors monitored by Coface:

- For companies active in **services to individuals**, insolvencies increased by 4.2% (19% of the total). Lacklustre household consumption of services weighed down catering (+4.6%) and drinks outlets (+11.6%).
- **Textiles** underwent the worst downturn of the year: up 4.3% (4% of the total). In addition to low consumer demand, it seems that the mild end-of-year weather increased the burden of merchandise stocks on the financial situation of businesses.

Despite a 3.2% decrease in insolvencies, **construction** remains the sector most at risk, with a 2.1% failure rate (2.0% in 2006), i.e. 1 company in 49, compared with 1 in 128 for chemicals. The lack of recovery in demand for real estate and lower investment by local authorities weighed down this sector, which leads the list of the 100 largest insolvencies by turnover, with 18 cases.

Third-time lucky: another increase in 2016

For 2016, Coface is forecasting an accelerated rate of decline in the number of company insolvencies, with a slightly improved economic situation (1.4% GDP growth in France, compared with 1.1% in 2015). Coface's payment experience, which covers a broad range of activity sectors, appears to reflect the current situation for businesses. The likely increase in two other selected variables - business margin rate (estimated at 32.3% by end 2016) and the number of credits granted (estimated at 3.5%) - makes it possible to forecast a 3.5% decrease in the number of insolvencies, down to 58,700, or March 2009 levels.

The gradual loosening of bank credit conditions, the weak Euro, lower oil prices and a more dynamic household consumption in France and in the Eurozone should benefit businesses. However, this scenario has downside risks, such as the high level of volatility in the financial markets, which could affect the confidence of French businesses.

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About Coface

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