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COFACE FORECASTS A 13% DROP IN SME INSOLVENCIES IN SPAIN AND STABILIZATION IN FRANCE IN 2014

With comparable profiles in terms of entrepreneurial activity, Spain and France are following a worrying trend in terms of company insolvencies. However, SMEs¹ in the two countries have evolved differently since the 2008-2009 crisis, and insolvency forecasts for 2014 further underline this divergence.

SMEs are over-represented in insolvencies in France and still more so in Spain

In France as in Spain, the level of SME insolvencies remains worrying, and its economic impact significant: SMEs employ over a third of wage-earners and account for a significant proportion of added value² - 32% in France and 37.4% in Spain.

Subject to fluctuations (slightly down by -4% over one year³ at the end of March 2014, after a sharp rise of +30% in 2013), Spanish SME insolvencies exceed the level observed in 2009. These 2,765 cases represent 31% of all company insolvencies in the country. In France, the trend is up over one year (+4% at the end of March 2014) and concerns 4,682 SMEs, which represent 7.3% of all companies. However, in contrast to the Spanish case, the number of insolvencies is gradually improving from its record level of 2009 (5,155 insolvencies).

One crisis, two trajectories

The particularly difficult macro-economic climate in Spain seems to explain the difficulties of SMEs. At the same time, the harshness of the crisis (-1.2% growth in 2013) resulted in a profound change in Spanish SMEs. Despite high debt (97.9% of the GDP in Q3 2013), which forced them to reduce their liabilities to the detriment of their capacity to invest, and the significant pressures on cash flow linked to a squeeze on credit, SMEs' profitability increased. Their profitability was close to 45% in 2013, whereas France posted the lowest margin (30%) in Europe. The other positive consequence of the crisis: to offset the sluggishness of domestic demand, Spanish SMEs have had to open up to the international market. Thus, 25% of them are currently exporters (compared to 19% in France), which has softened the recession.

In France, the effects of the crisis have been less marked but although demand has been resilient, French supply has suffered. We note a dangerous atrophy in the situation of

¹ SME: a company with between 10 and 249 employees, with annual sales not exceeding €50 million or a balance sheet total under €43 million

² The added value of business sectors, excluding agriculture, financial activity and public administration. Source: Eurostat.

³ From February 2013 to March 2014, compared with the same period one year previously



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corporates, as shown by the high and persistent level of insolvencies. SMEs have not improved their price-competitiveness, which would have enabled them to win market share in exports and so continue to rely on domestic demand. They would need a significant support from consumption. However, gradually this support is dwindling, shown by the contraction in household expenditure observed in Q1 2014 (-0.5% compared to Q4 2013).

Outlook closely linked to exports and household consumption

Thus, for SMEs, three factors have been identified as key in the forecasting model for insolvencies in France and in Spain. These are: the influence of the construction sector (preponderant in insolvencies), the dependence of SMEs on consumption and on exports of goods (in Spain) or services (in France).

According to Coface's forecasts for Spain - where the recovery is confirmed - under the assumptions of a slight upturn in consumption (+1.1%), a significant increase in exports of goods (+5.5%) and stagnating construction labor costs, SME insolvencies should fall by at least 13%.

In France, the improvement will not be as significant. The number of SME insolvencies should stabilize (-0.5% expected over one year), subject to a moderate pace of consumption (+0.8%), dynamism in exports of services (+3%) and a slight increase (+0.5%) in the cost of labor in construction sector.

MEDIA CONTACT:

Emilia MUSCALU - T. +40/21/231 60 20 - emilia.muscalu@coface.com

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