



GLOBAL BANKRUPTCY REPORT 2019

*Dun & Bradstreet Worldwide
Network*



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INTRODUCTION



Welcome to the latest edition of the Dun & Bradstreet Global Bankruptcy Report, covering bankruptcy data from 2018. This report is compiled for you by the members of the Dun & Bradstreet Worldwide Network (WWN).

Since 2005, the WWN has offered customers across the world access to the largest global database, with consistent global views on risk and opportunity assessment, whilst maintaining the local granularity available in each market.

The Dun & Bradstreet Worldwide Network exists of 16 members and collects business information from over 245 countries. We work together to help clients improve business performance through data & insights.

This Global Bankruptcy Report covers bankruptcy data from 45 markets and covers two new markets: Colombia and India. I would like to extend a special thanks to the following members who contributed with their local bankruptcy data, to allow the creation of this report:

Altare, Bisnode, CIAL Dun & Bradstreet, CRIF, D&B Hong Kong, D&B India, D&B Indonesia, D&B Israel, D&B Singapore, D&B Taiwan, D&B Thailand, Dun & Bradstreet US/Canada, D&B UK, Huaxia D&B China, ICAP, Informa, Interfax, Nice D&B, and TSR.

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

We hope you enjoy this edition.

Sabine Leferink
Dun & Bradstreet Worldwide Network Leader

OVERALL COMMENTARY

Global Bankruptcy Trends

Markus Kuger | Dun & Bradstreet Lead Economist

**CREDIT RISKS RISE AS HEADWINDS FOR THE GLOBAL ECONOMY INCREASE**

Worryingly, economic challenges for the global economy are rising, and our forecasts for 2019 growth have been revised downwards since the start of the year, as have those of the IMF, the World Bank, and the main central banks. Most regions are now expected to grow more slowly than in 2018, and we have been revising our forecasts down even in regions where we expect growth to increase (e.g. in Latin America, and in the Middle East & North Africa). Economic weakness is becoming increasingly apparent in the major global economies of China, Japan, the euro zone and the US on the back of several headwinds; leading indicators such as global chemicals output signalled that the downturn was concentrated in Europe and Asia-Pacific in early 2019.

The global headwinds include continuing trade frictions – in particular the spat between Washington and Beijing, as well as the worrying risk of the UK's disorderly Brexit from the EU. In addition, we are concerned about the impact of the pronounced industrial and consumer spending slowdown in China, which is set to curtail Chinese imports and debt quality. In the US, Dun & Bradstreet's Overall Business Health Index, based on 25m US company indicators, has retreated to 2015 levels for parts of the US; meanwhile US corporate profit forecasts have been downgraded as sectors such as materials and IT correct. These factors have prompted the US Federal Reserve to halt its interest rate hikes and signal no further rises in 2019, an outlook we share. Indeed, we now expect US interest rates to fall rather than rise into the medium term. Although this

will reduce pressure on sovereign, household and corporate balance sheets, we are concerned about historically-elevated debt levels.

In Europe, the ECB's plan to reinitiate a long-term refinancing programme to encourage loans to the private sector from late Q3 is an admission that the euro zone has not left an emergency post-crisis support framework and that further monetary stimulus is necessary to push inflation upwards towards the target rate. The downturn in the industrial cycle has been sharp, starting in Germany in mid-2018 and spreading to France, Italy and Spain in Q4. In China, policy makers are relieved to have stabilised the yuan, frozen the Sino-US trade war at existing levels, lowered financing costs, and forestalled a sharper credit crunch for private firms. While its policy makers are reprioritising growth over macroprudential risk control again, they are firmly in 'damage limitation' mode and face difficult trade-offs. But financial conditions, labour markets, and the lack of inflationary pressures should remain benign factors globally, helping the pace of adjustment into 2020.

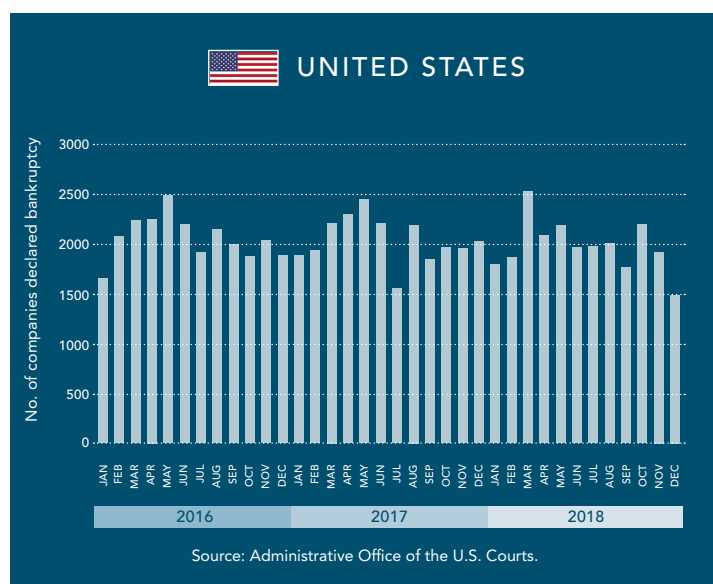
Another worry, in addition to the deteriorating macroeconomic outlook, is that the risk of non-payment has also risen since the previous edition of our Global Bankruptcy Report was published in mid-2017. Back then, 28 out of 46 countries covered (i.e. 60.9% of the total) recorded a falling number of business failures, while 2 countries reported stagnation (4.3%) and 16 economies (34.8%) saw a rise in the number of business failures. This time, the share of countries reporting a rise in the number of business failures (comparing 2018 data against the 2017 figures) is almost as large as the number seeing a drop: while 48.8% of all countries (21 countries out of 43) reported a drop in the number of business failures, 18 economies (41.9%) saw an increase. Meanwhile 4 countries (9.3%) recorded a stagnation.

BUSINESS FAILURES AND CONTEXT IN THE US

Almost ten years into the economic recovery, bankruptcies in the US continue to trend lower. US business have digested higher financing rates, with the survival rates of firms improving to near their best levels since 2015, according to Dun & Bradstreet data. The number of business failures in the US decreased by 3.1% in 2018: overall, around 24,000 companies went bankrupt last year, equivalent to less than 0.1% of the total number of active businesses in Dun & Bradstreet's database.

"Dun & Bradstreet's overall Commercial Credit Score, which measures the likelihood a firm will pay in a severely delinquent manner (91+ DPD) fell to a near five-and-a-half-year low through February 2019, indicating that firms are becoming more stretched."

The calculus for the credit market has changed following a marked shift in tone by the US Federal Open Market Committee in March, when the committee signalled that a peak policy rate of 2.25-2.50% may have been achieved for this economic cycle. Traditionally, when peak rates in an economic cycle are achieved a sustained inversion of the yield curve follows, after which lending conditions tighten and the credit market stalls; and as the credit market stalls, so does the economy.



Looking ahead, a turn in the credit cycle may already be underway. Dun & Bradstreet's overall Commercial Credit Score, which measures the likelihood a firm will pay in a severely delinquent manner (91+ DPD) fell to a near five-and-a-half-year low through February 2019, indicating that firms are becoming more stretched.

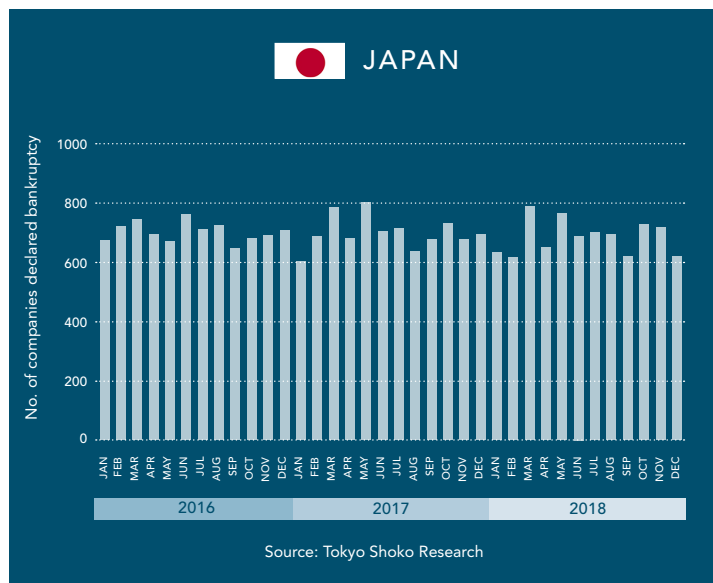
BUSINESS FAILURES AND CONTEXT IN JAPAN

Our 'stable' country risk trend for Japan remained in place for March, despite further evidence of the shock to exports and industrial production since Q4 2018 (mainly from the slowdown in China-led trade). The economy is at full employment and property prices are supportive of confidence. Domestic demand has remained more resilient than exports, and this should continue. Nevertheless, there is room for caution regarding the economic cycle. Wages have failed to track the economy, while households remain risk-averse and mindful of higher social security taxes and the consumption tax rise due in October. Although Q4 real GDP growth was revised slightly upwards, we expect it to slow to under 1.0% in 2019.

Our preferred measure of corporate profits for Japan – including smaller companies – fell 6.9% y/y in Q4, although the level was still close to historic highs. The overall effect of the downward inflection in overseas demand on corporate profits in the current quarter, centred on China, is likely to mean listed company corporate profits fall short of reaching a third consecutive record for the April-March 2018/19 fiscal year.

Data from Tokyo Shoko Research showed that the number of bankruptcies in 2018 – at 8,235 – fell for the tenth consecutive year and was the third-lowest in the past 30 years, behind only 1989 and 1990, the peak years of the 'bubble' economy. However, the number of bankruptcies in January rose 4.8% y/y to 666. Although this cannot have reflected the latest economic turns, it might indicate that the long secular decline in corporate failures is drawing to a close. In any case, in March we revised Japan's credit environment outlook from 'improving' to 'stable', mainly due to export data.

"The economy is at full employment and property prices are supportive of confidence. Domestic demand has remained more resilient than exports, and this should continue. Nevertheless, there is room for caution regarding the economic cycle."



BUSINESS FAILURES AND CONTEXT IN GERMANY

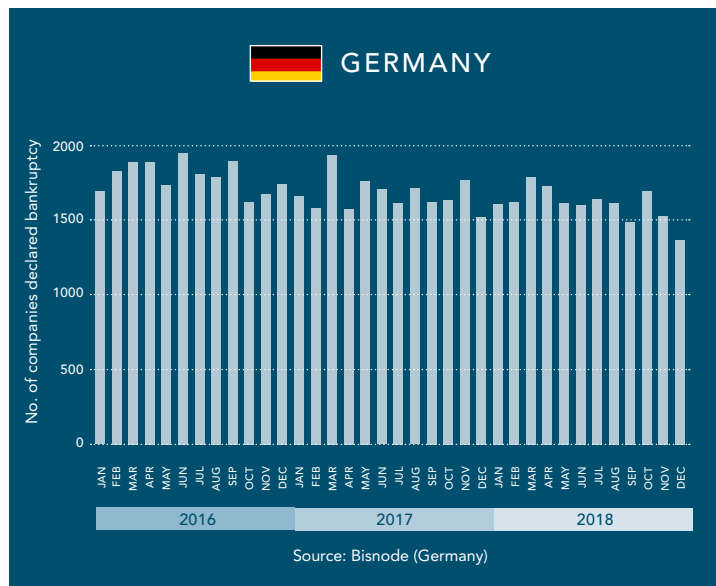
Positively, the number of business failures in Germany remained on a downward trend in 2018. Data from Bisnode, our local World Wide Network partner, shows that 19,302 companies (equivalent to 0.4% of the active business universe) filed for insolvency in 2018, down by 3.9% compared with 2017. This was the ninth consecutive annual drop, and the 2018 reading is the lowest since 1999, when a new insolvency framework came into force. The amount of unsettled bills caused by business failures stood at EUR21.0bn in 2018, compared with EUR29.7bn in the previous year. Data for 2017 from Destatis, the national statistics office, shows that the recovery rate of business failures stood at 6.2% (for every euro owed, creditors could recover 6.2 cents).

Meanwhile, Germany is defending its second position (behind the Netherlands) in our European business to business payments performance analysis. On average, bills in Germany were paid 6.7 days beyond agreed terms in Q4 2018, relatively unchanged against the previous quarter and far better than the European average of 13.3 days.

Worryingly, however, the macroeconomic outlook is currently darkening. Germany only narrowly avoided falling into recession in Q4, when the economy stagnated in quarter-on-quarter (q/q) terms (following a poor Q3 when real GDP contracted by 0.2% q/q). Although labour market conditions are still sound, thus supporting domestic demand, Germany's export- and machinery-orientated growth model is under increasing pressure, given the problems in the domestic car sector and the danger of a trade war involving the US. Slower growth in

key export markets such as the US, UK and Emerging Asia is also weighing on economic performance.

On the political front, Angela Merkel's drawn-out departure from power is also weighing on the country's risk rating. On the back of poor results in state elections in Q3 2018 and the prospect of increasing political fragmentation, Dun & Bradstreet has downgraded Germany's country risk rating from DB1c to DB1d, which means that Germany is no longer our best-rated country (as we have also upgraded Norway by one quartile to DB1c). Overall, however, country risk levels in Germany will remain very low for the foreseeable future, and although a small uptick in the number of business failures in 2019 seems likely, credit risks in the country will remain manageable (and far below the European average) in the quarters ahead.



BUSINESS FAILURES AND CONTEXT IN UK

The UK is one of four countries this year that has seen stagnation in the number of business failures (where 'stagnation' is defined as a year-on-year change of between -1% and +1%). Overall, 16,690 companies filed for insolvency in 2018, equivalent to around 0.3% of the active business universe in Dun & Bradstreet's database and down 0.3% against prior year. However, our proprietary data shows significant regional and (especially) sectoral differences. Retailers are under increasing pressure due to a change in consumer patterns, which includes a shift to online shopping. As a result, House of Fraser and Debenhams, two big department store chains, both fell into administration in 2018, with several smaller outlets

also struggling to remain profitable. The construction sector was hit hard by the liquidation of Carillion, one of the country's largest construction companies in January 2018. This led to a subsequent increase of business failures in the sector as small and medium-sized suppliers and contractors were impacted by Carillion's downfall. Positively, business to business payments performance in the UK has improved throughout the year, but it remains below the European average.

"From a political and macroeconomic point of view, Brexit will remain the key determinant of the country's risk rating as well as its credit risk component."

From a political and macroeconomic point of view, Brexit will remain the key determinant of the country's risk rating as well as its credit risk component. With the departure date having been postponed again (to October 2019), it seems likely that a no-deal Brexit (which would hit the economy severely) is increasingly unlikely. Worryingly, no solution for the current deadlock is evident, and the heightened uncertainty is increasingly weighing on economic performance in the country. Real GDP growth in 2018 was the slowest since the global financial crisis, and forward-looking indicators point towards a challenging 2019 – with corporate investment in particular being adversely affected. In addition, retail spending is weak, despite real wages growing robustly for the first time in a decade due to the low unemployment rate (the lowest since the mid-1970s). All in all, Dun & Bradstreet forecasts the number of business failures to increase in 2019, with retailers remaining a particular source of concern. Companies with a strong supply chain focus (or customer base) in the EU could also suffer severely should, against our current expectations, a hard Brexit materialise.

BUSINESS FAILURES AND CONTEXT ELSEWHERE IN THE EU

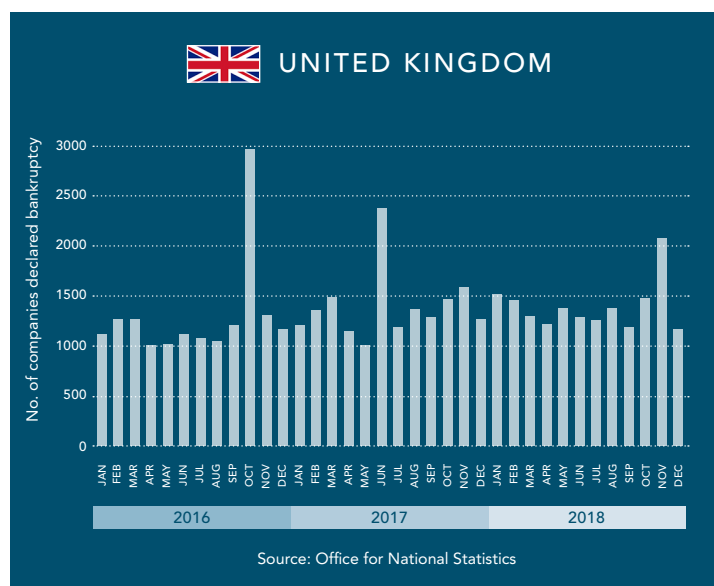
In France, the number of business failures continues to trend downwards, albeit at a slower pace than in previous years: in 2018, 54,751 companies went bankrupt, corresponding to a fairly high 1.3% of the active business universe, according to Altares, our Paris-based World Wide Network partner. Overall, the number of business failures decreased by 1.3%, and is now showing the lowest reading in more than a decade. Positively, the government has implemented some business-friendly reforms since taking office in mid-2017, but recent street protests have slowed down the pace of reform.

In Italy, 11,207 companies filed for bankruptcy last year, down by a significant 5.8%. However, the newly-elected populist government is likely to embark on a series of populist policies that are at odds with improving the country's operating environment. Infrastructure improvements are being postponed, and increasing government spending could, in a worst-case scenario, create concerns about Italy's future in the euro zone.

While Portugal, the Czech Republic, Hungary and Romania recorded a falling number of business failures in 2018, most countries in the region are now seeing a rise, including Spain. Looking ahead, deteriorating macroeconomic conditions in the region (Dun & Bradstreet forecasts real GDP growth to slow in 2019 before expanding at a slightly higher pace again in 2020) are likely to adversely affect the number of business failures in Europe. Positively in this respect, interest rate increases are unlikely until mid-2020 at the earliest, and a new round of monetary stimulus has been announced by the ECB for September 2019, helping to improve refinancing conditions for companies in the euro area.

BUSINESS FAILURES AND CONTEXT IN CHINA

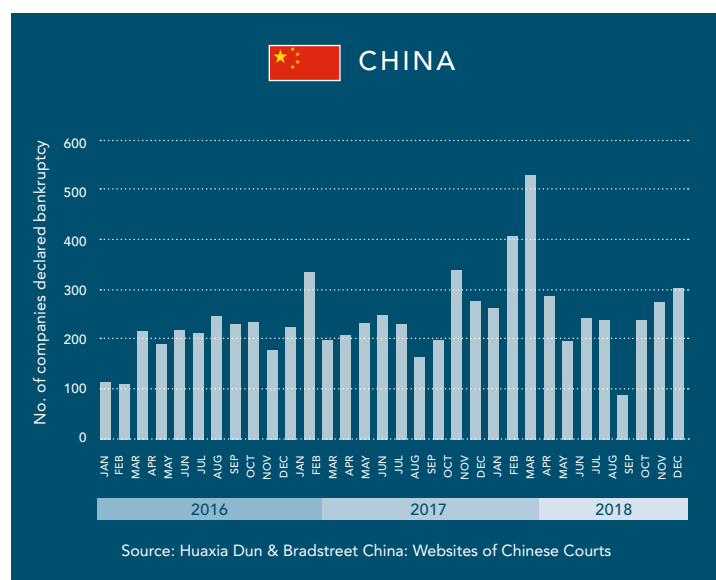
Purchasing manager indices (PMIs) for March suggested that near-term expectations and assessments of current business conditions have stabilised. However, one month of PMI surveys has not pulled our country risk and credit environment outlook trends for China back up from 'deteriorating' to 'stable'. First, we are not certain that the PMI series have been put through a China-specific statistical filter to account for the lunar new year. Second, the US-China 'trade war' continues, with US Section 301 tariffs of 10-25% still in place on about half of US imports from China. Despite encouraging signalling from both sides about a resolution, it is quite possible that US tariffs will persist well into Q2. Third, China's economy is only beginning to feel the second-round effects of



the shocks of 2018, in terms of exports, employment, profits and investment, when credit to the private sector contracted sharply. The scale of the credit crunch in 2018 is only just becoming clear. Fourth, local governments remain heavily debt-burdened. A string of provinces will struggle to service their debts in 2019. It is they, not corporations, that represent the weakest link in China's financial system.

In this context, bankruptcy remains a rarity as a pattern of business cessation in China. An increase is expected to be reported for 2018 after the 19% rise in number of firms in the 12 months to August 2018, to over 3,000, some 0.3% of companies in Dun & Bradstreet's coverage. However, this reflects the fact that resorting to formal bankruptcy procedures is still relatively uncommon in China, with systematic data-gathering as-yet imperfect. Nevertheless, the downturn in the business cycle should result in greater numbers of business failures in 2019, although again this will only be partially reflected in the court records for the bankruptcy process.

"The scale of the credit crunch in 2018 is only just becoming clear."



BUSINESS FAILURES AND CONTEXT IN RUSSIA

According to the latest figures from Dun & Bradstreet and Network partners Interfax, Russia continued to show a decreasing trend in the number of corporate failures in 2018, falling by 21.1% compared with 2017, to 9,224 (representing 0.27% of the active business universe domestically). Statistics show business failures averaged

a total of 11,171 over the last three years, declining at an average annual rate of 14.1% – insolvencies in 2018 also stood 21.1% below this three-year average. On the macroeconomic front, the consumer price index has remained above the central bank's target of 4.0% in 2019, adding to the unpredictability of recent monetary policy decisions. While Russia's export-oriented economy continues to provide robust trade revenues, ongoing tensions with the West and the recent oil price correction will weigh on export earnings.

"Given Russia's impressive current-account surplus, which was USD113.5bn in 2018, we do not see any downside risks significantly altering the path of growth in 2019; despite macroeconomic and political headwinds."

Against this backdrop we expect real GDP growth of 1.5% in 2019, largely reflecting moderate growth in domestic consumption: GDP growth is expected to remain below-potential over our five-year forecast horizon, averaging 1.6% annually in 2019-23. Positively, the government's fiscal policies over recent years have strengthened Russia's already robust external balances, reducing the economy's vulnerability to shocks (mainly from oil prices and sanctions). Nonetheless, President Putin suffered his largest decline in popularity (a 13-year low) after announcing a series of hostile policies, including the VAT hike that started in January 2019. Furthermore, the economy contracted by 0.7% y/y in January following a continued decline in manufacturing business confidence during H2 2018. Given Russia's impressive current-account surplus, which was USD113.5bn in 2018, we do not see any downside risks significantly altering the path of growth in 2019; despite macroeconomic and political headwinds.

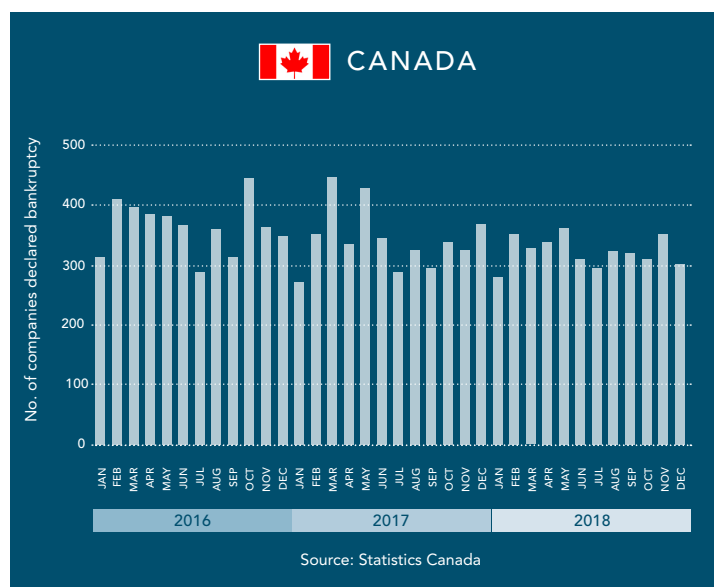


BUSINESS FAILURES AND CONTEXT IN CANADA

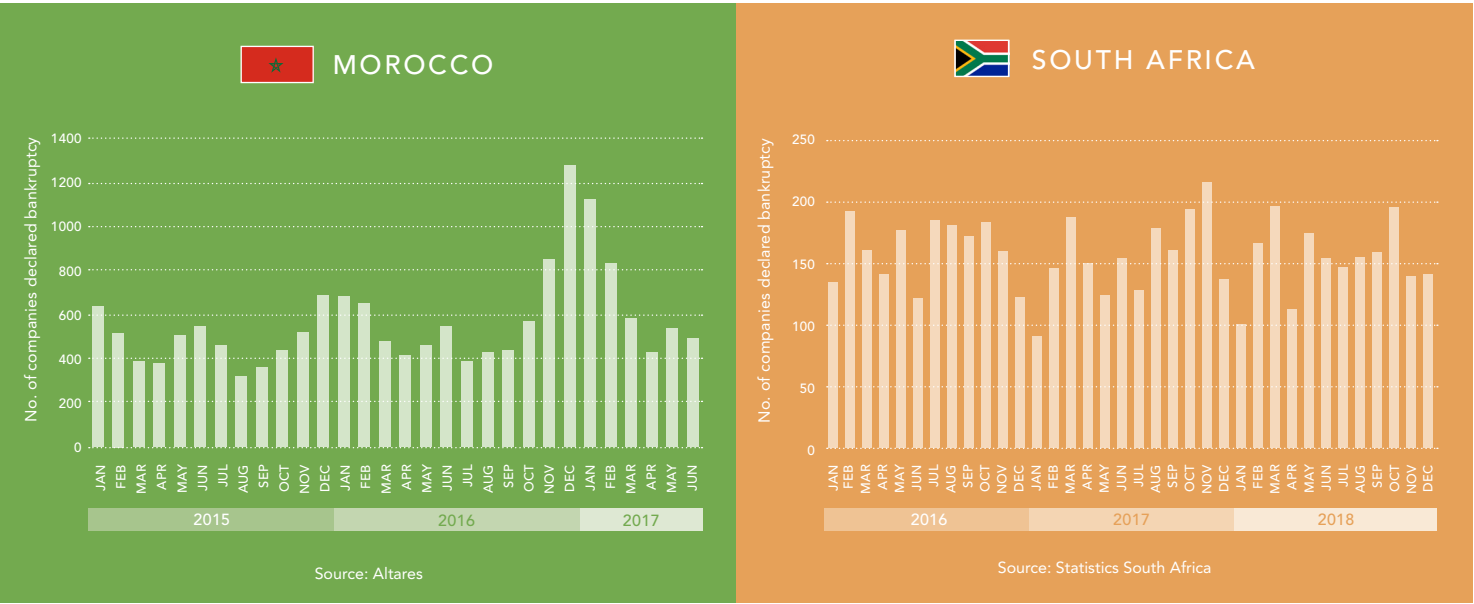
Like the US, Canada's Reserve Bank embarked on quantitative tightening that began in 2017, lifting the policy rate by 125 basis points over a two-year period. According to data from Dun & Bradstreet, businesses have adapted well to higher financing rates, with total bankruptcy filings declining in 2018 compared with 2017; and they have remained on a downtrend over a multi-year period. Overall, the number of business failures fell sharply in 2018: 3,877 companies went bankrupt last year, down by a sizable 6.0% (which makes Canada the best performing G7 economy). While this is still a positive development, the softening macroeconomic backdrop will provide challenges in 2019.

At Dun & Bradstreet we have recently downgraded Canada's country risk rating by one quartile (from DB2b to DB2c) amid a dramatic slowdown in overall economic growth in Q4 2018, weak economic conditions that will linger through H1 2019, and still softening forward-looking indicators. The country is still working through both structural and non-structural issues surrounding its energy sector, in which the lack of transportation capacity sent spot prices for Western Canada Select to historic lows against Western Texas Intermediate in November. Meanwhile, existing production caps on raw crude and bitumen persist in Alberta and will limit non-residential investment and export earnings growth; meanwhile the non-energy sector of the economy continues to weaken. Expect softer growth conditions in 2019 to limit some Canadian firms' chances of survival, especially in the energy segment.

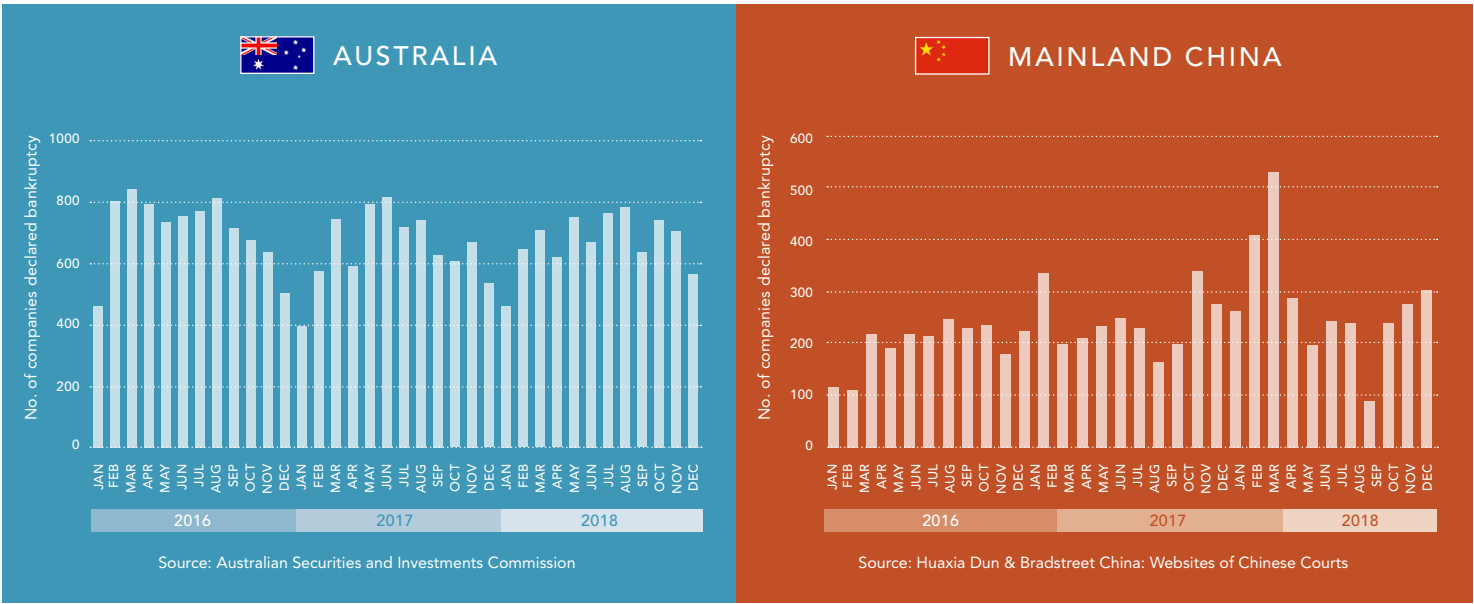
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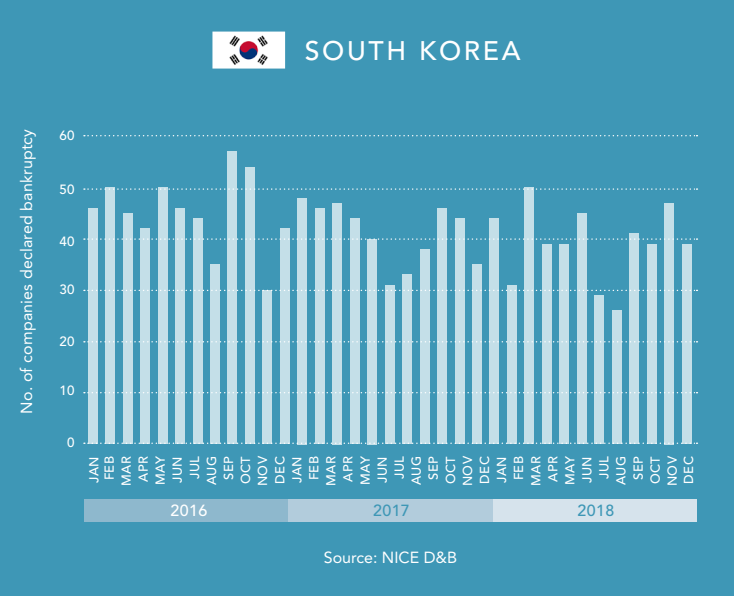
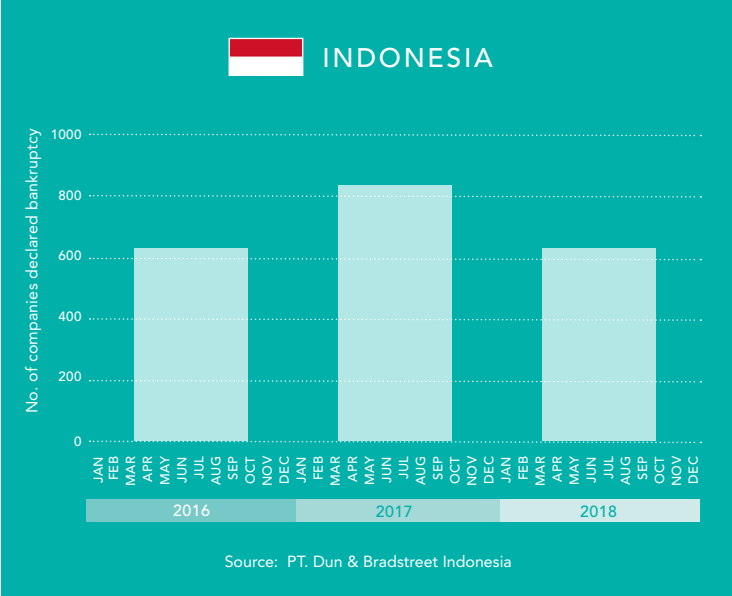
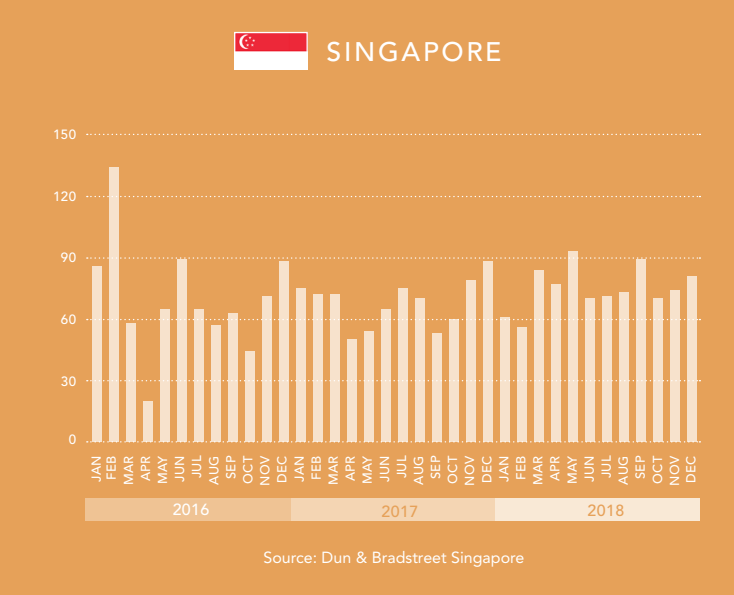
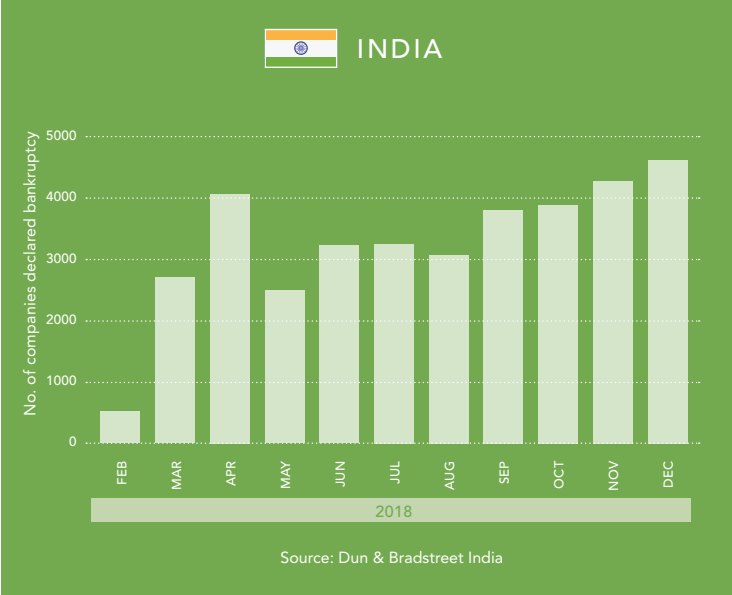
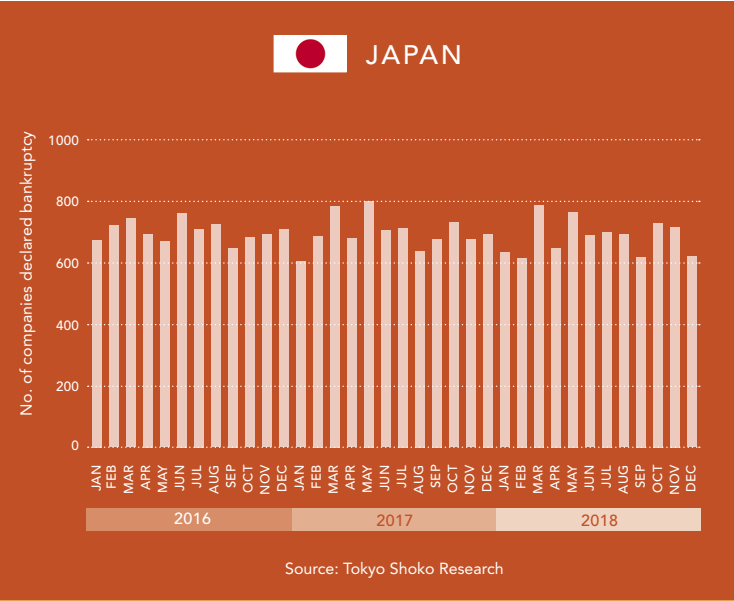
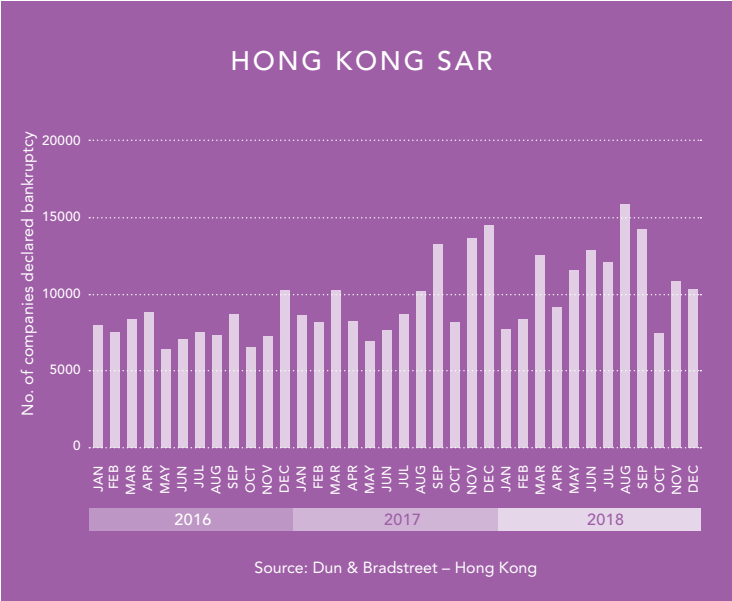
CHARTS – AFRICA



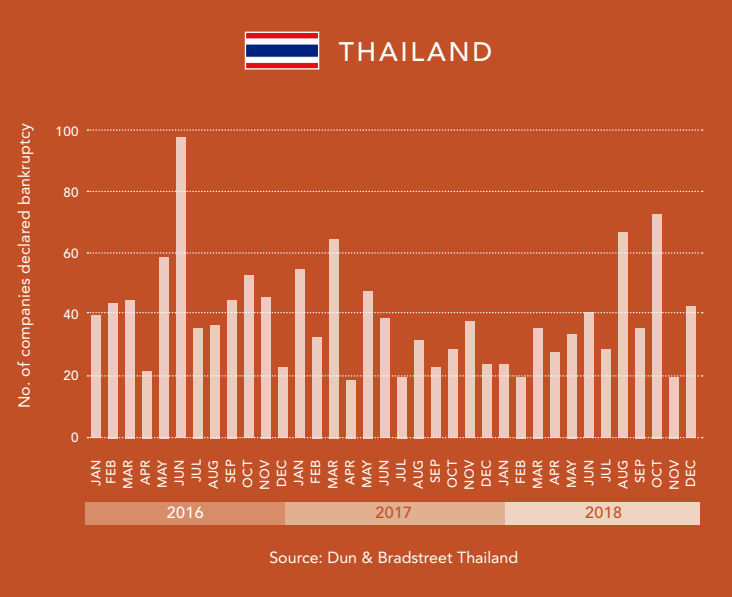
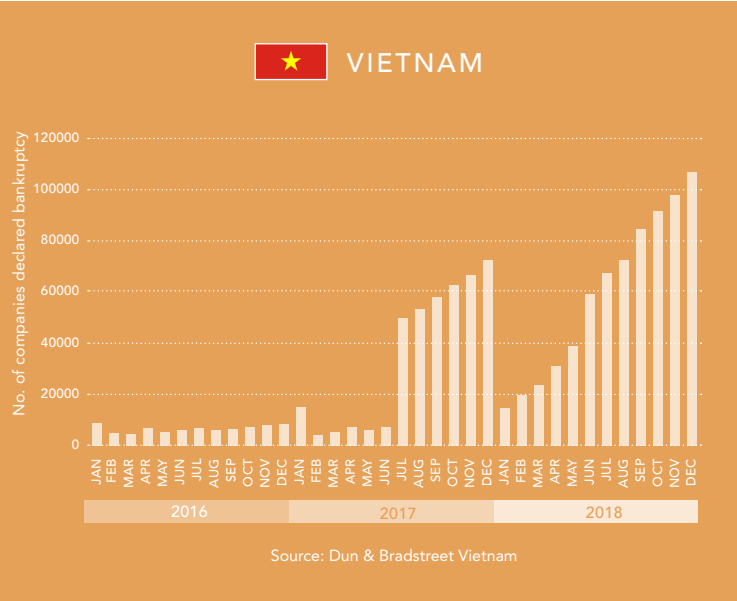
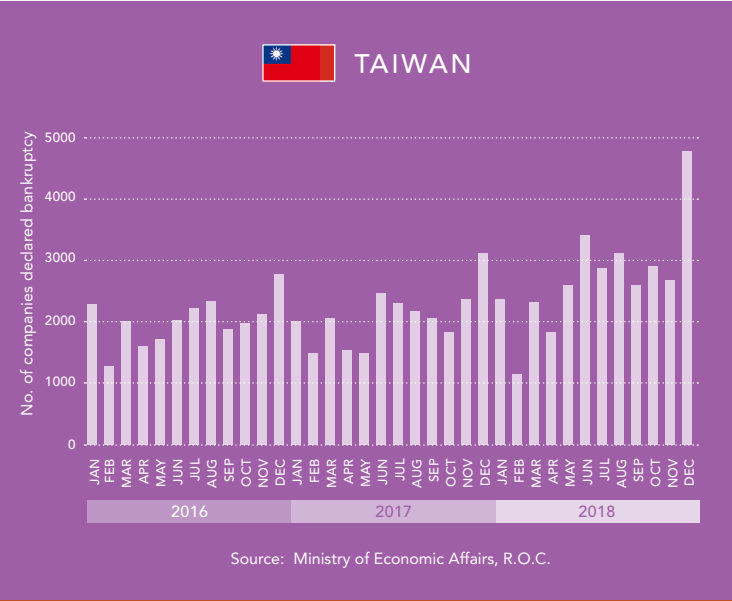
CHARTS – ASIA/OCEANIA



CHARTS – ASIA/OCEANIA

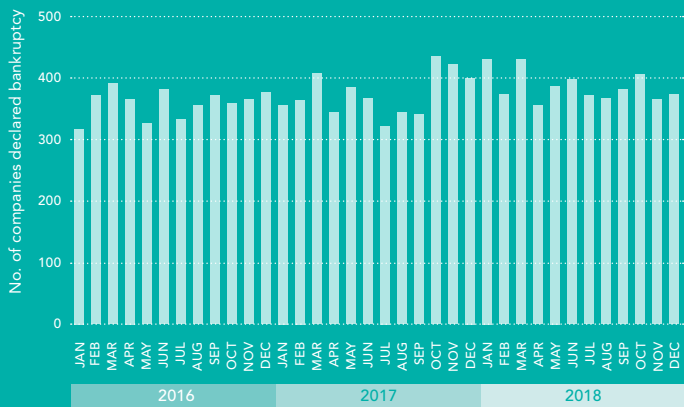


CHARTS – ASIA/OCEANIA



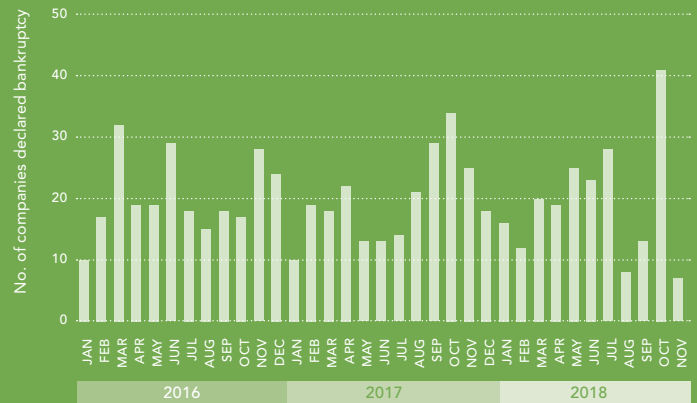
CHARTS – EUROPE

AUSTRIA



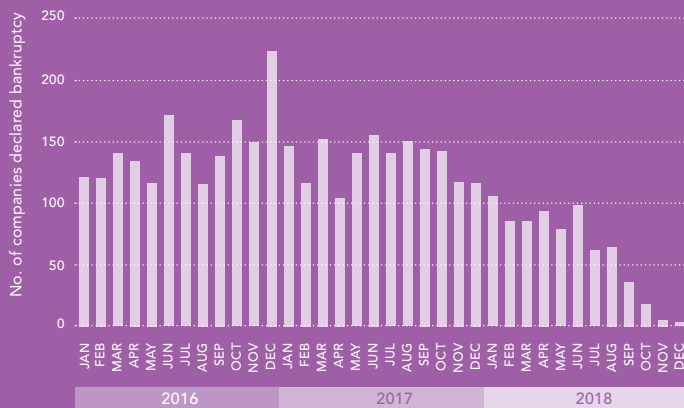
Source: Bisnode (Austria)

BOSNIA



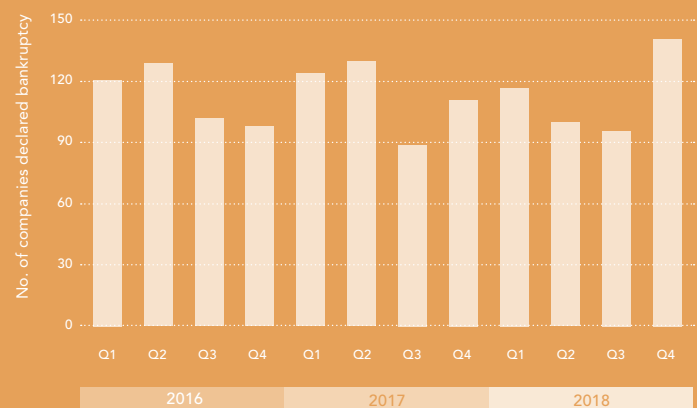
Source: Bisnode (Southern Market: Bosnia)

BELARUS



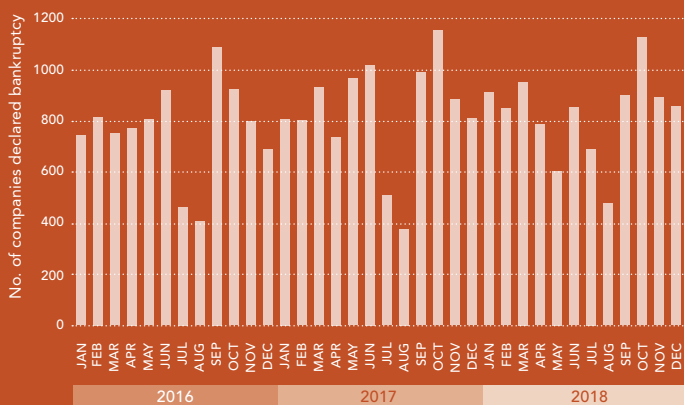
Source: Interfax (Ministry of Economy of the Republic of Belarus)

BULGARIA



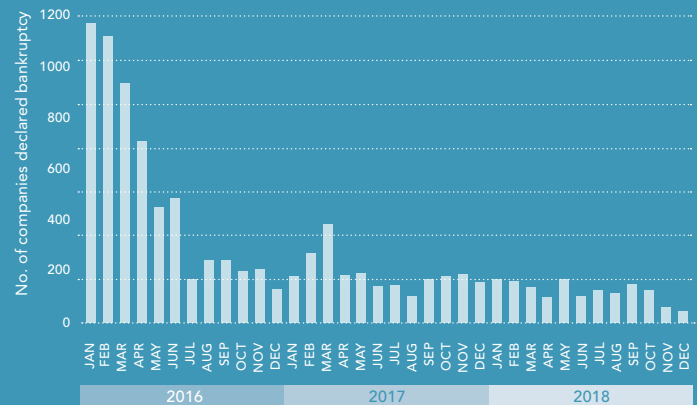
Source: ICAP (Bulgaria)

BELGIUM



Source: BelgoStat

CROATIA

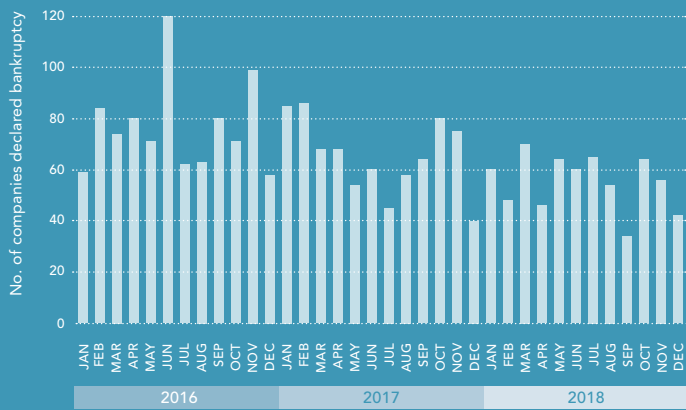


Source: Bisnode (Croatia)

CHARTS – EUROPE



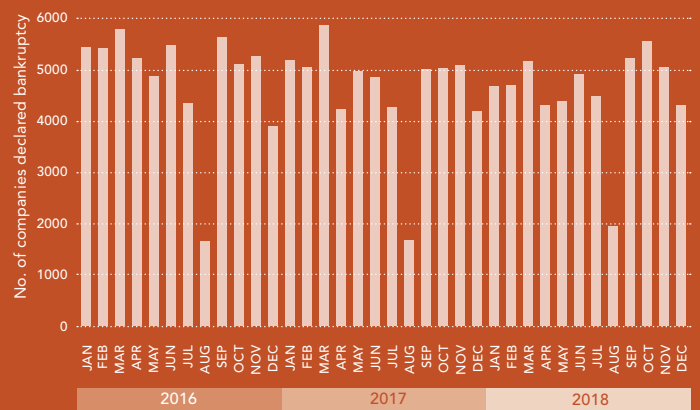
CZECH REPUBLIC



Source: Bisnode (Czech Rep)



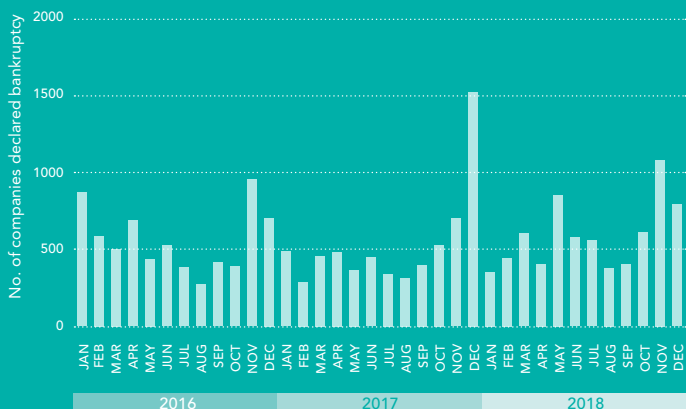
FRANCE



Source: Altares (France)



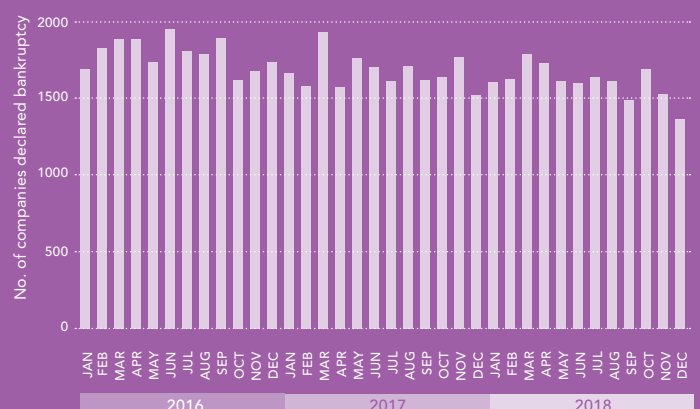
DENMARK



Source: Bisnode (Denmark)



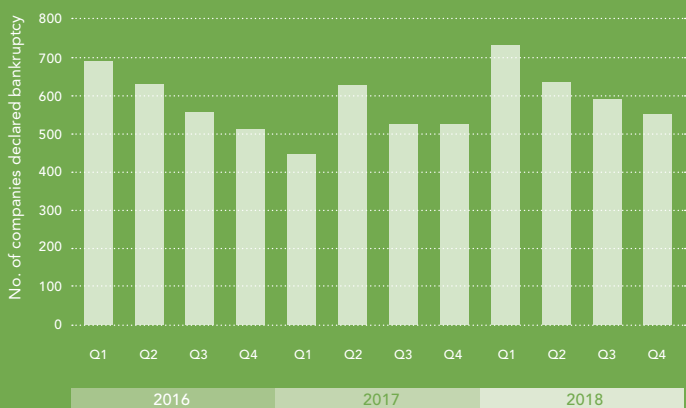
GERMANY



Source: Bisnode (Germany)



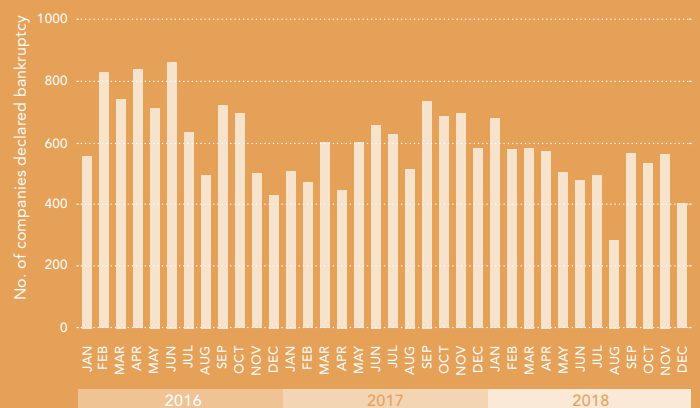
FINLAND



Source: Bisnode (Finland)

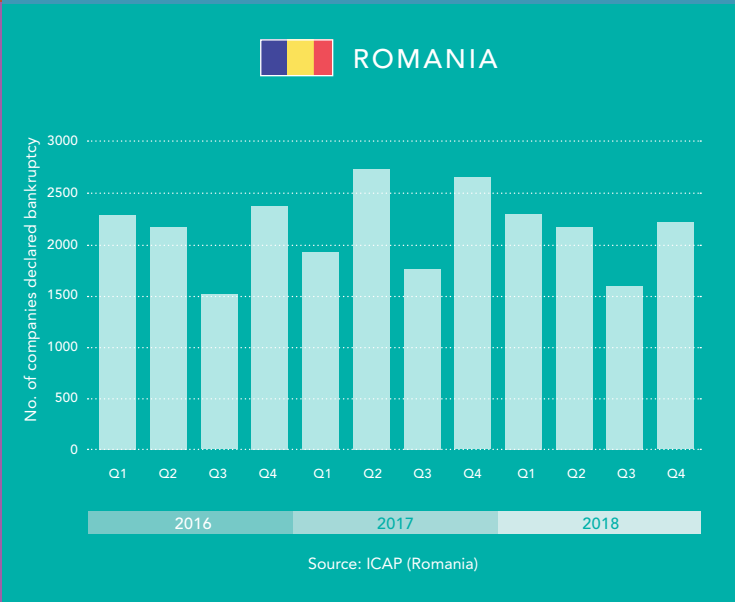
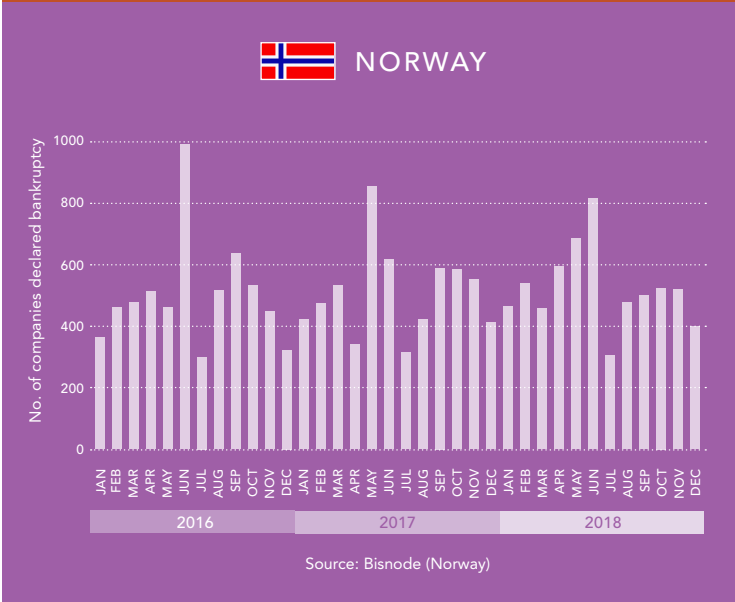
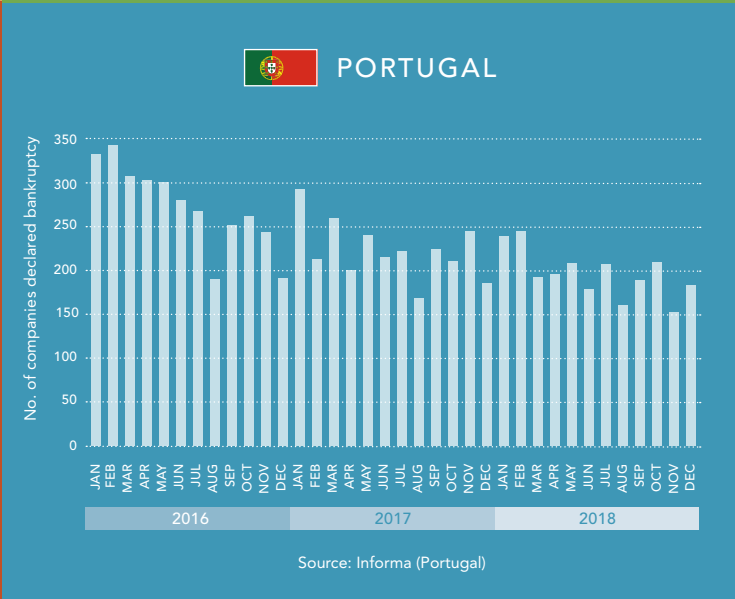
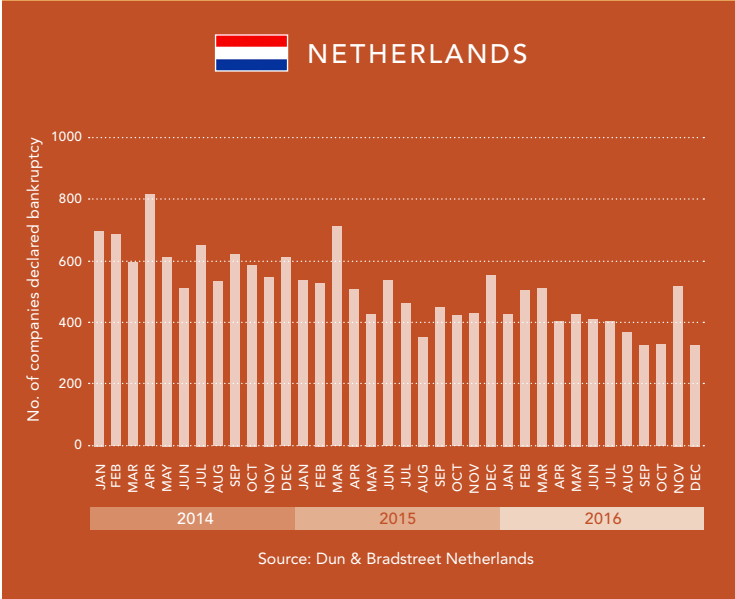
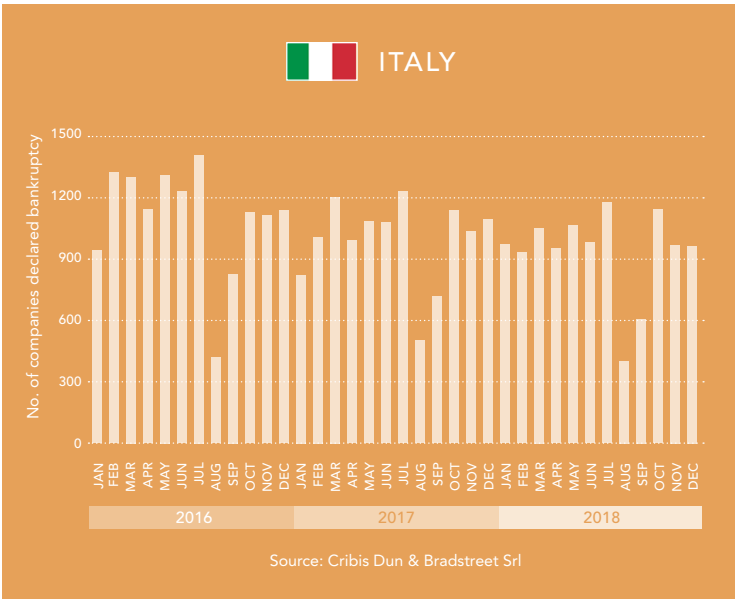


HUNGARY

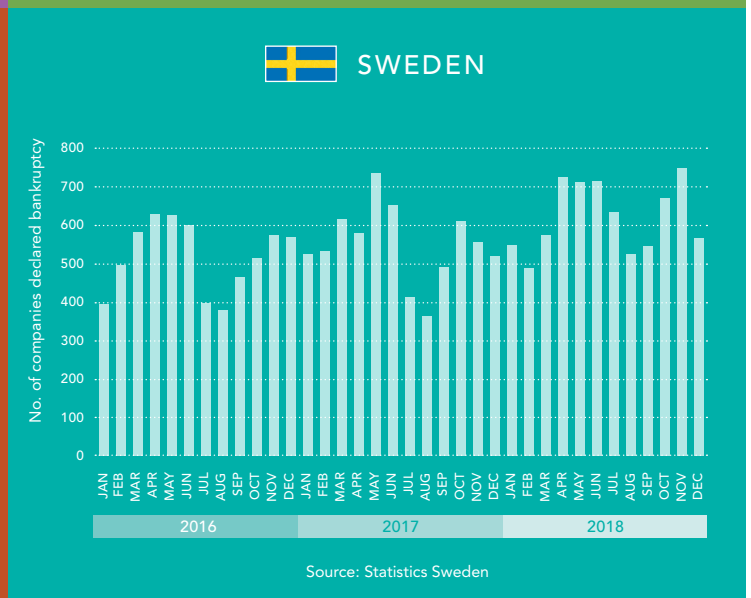
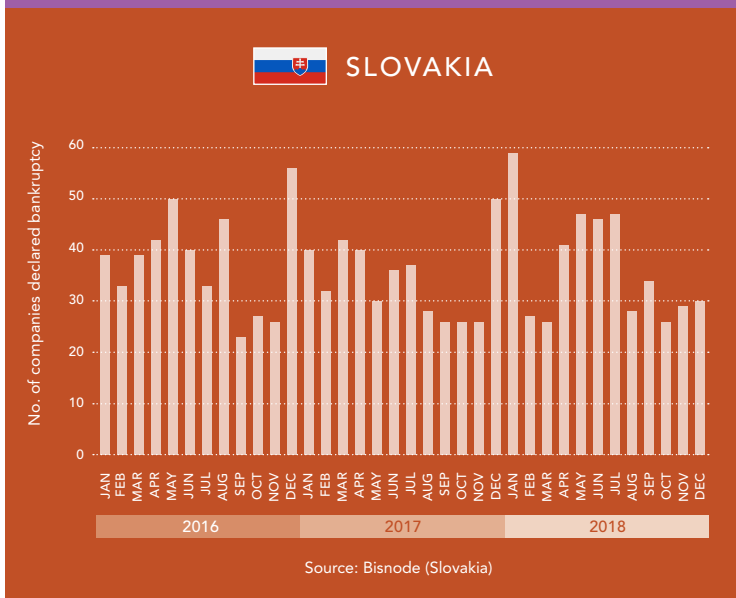
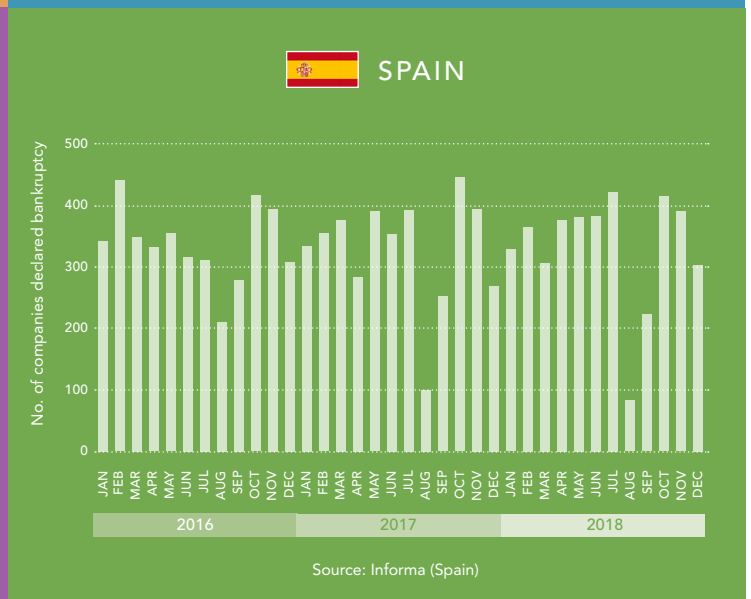
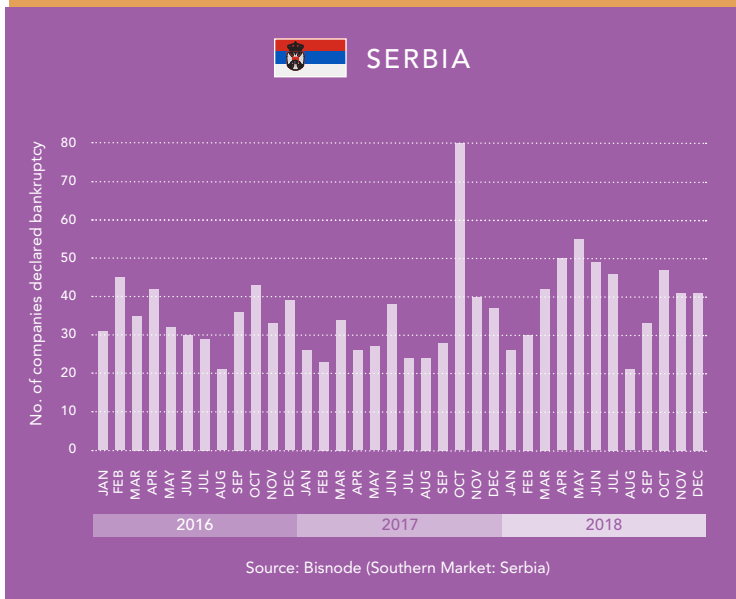
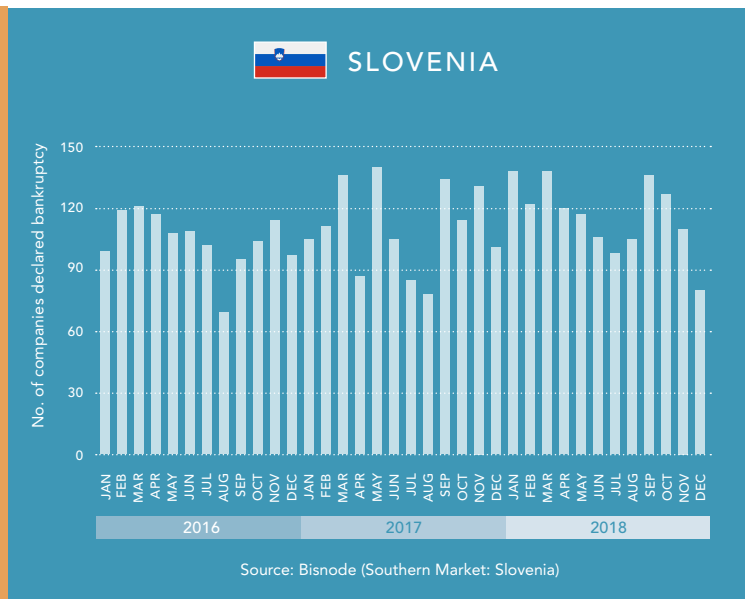


Source: Bisnode (Hungary)

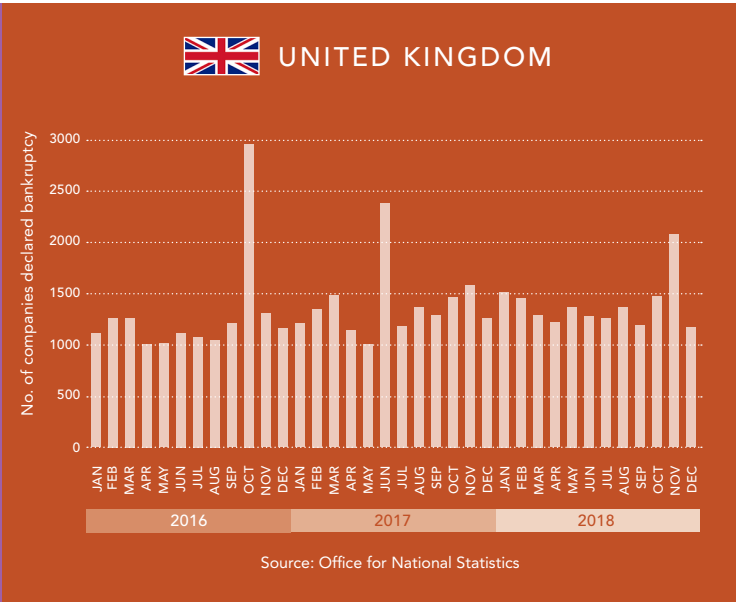
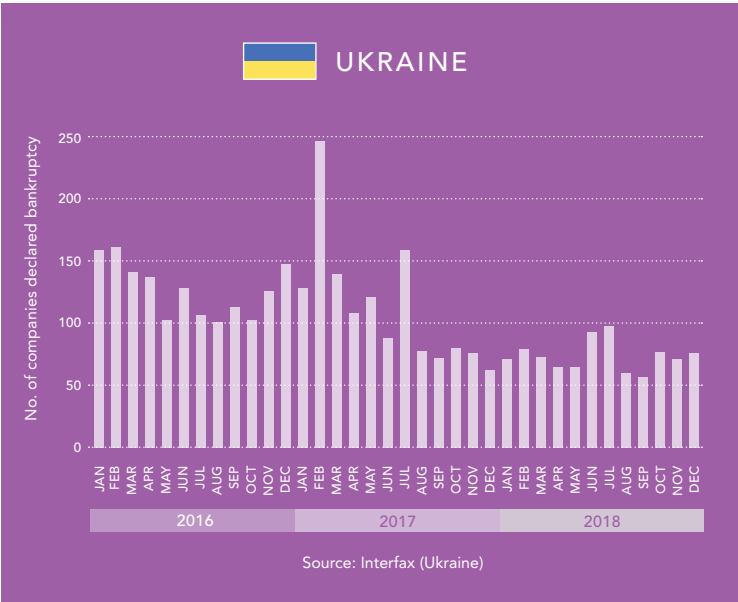
CHARTS – EUROPE



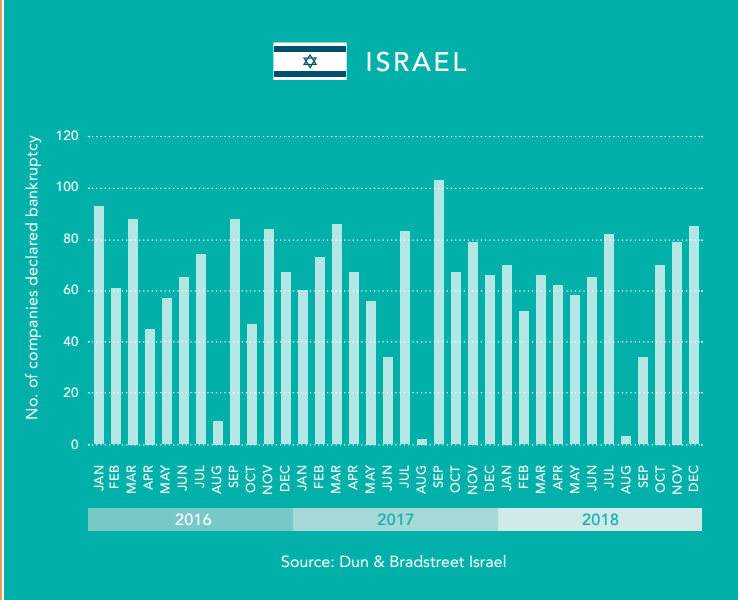
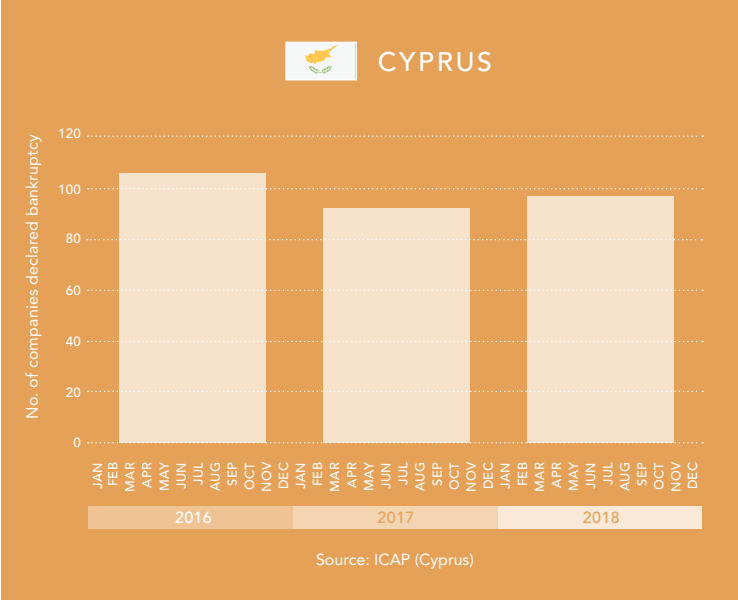
CHARTS – EUROPE



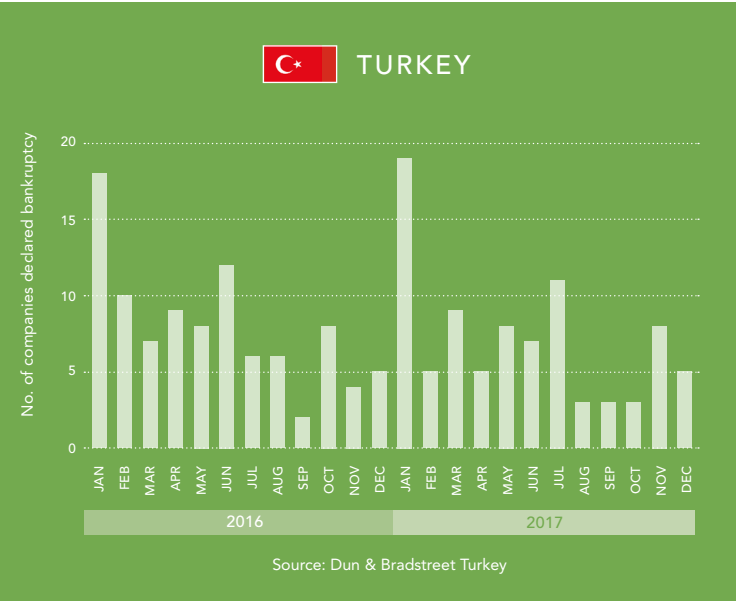
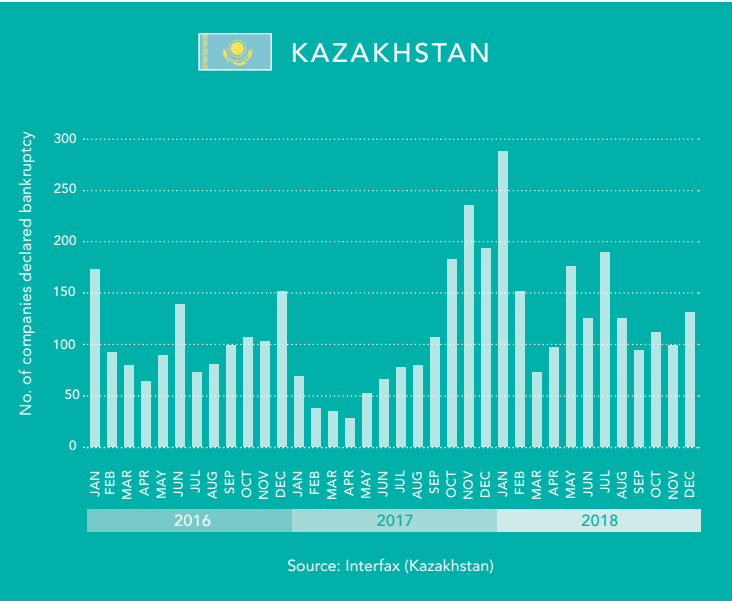
CHARTS – EUROPE



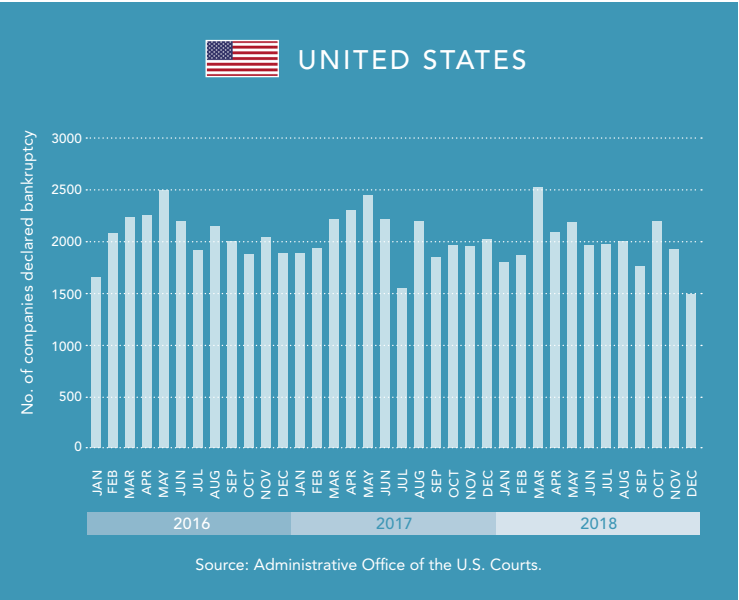
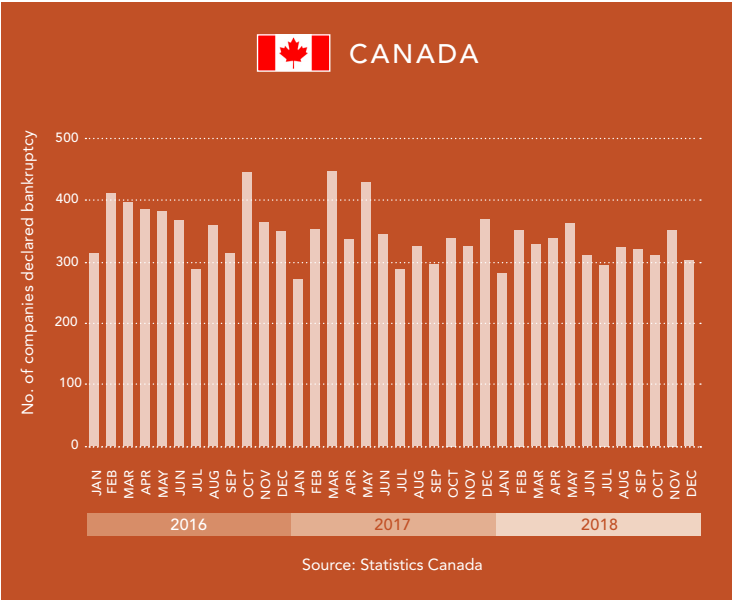
CHARTS – MIDDLE EAST



CHARTS – MIDDLE EAST



CHARTS – NORTH AMERICA



CHARTS – SOUTH AMERICA

