European corporate defaults show signs of levelling off

Risks still tilted to downside; efforts to improve resilience bolster larger firms

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Two years of rating pressure on European corporates is showing signs of easing but credit risk remains tilted to the downside for the rest of 2025 given geopolitical uncertainty, economic head-winds and tough financing conditions for the smallest firms.

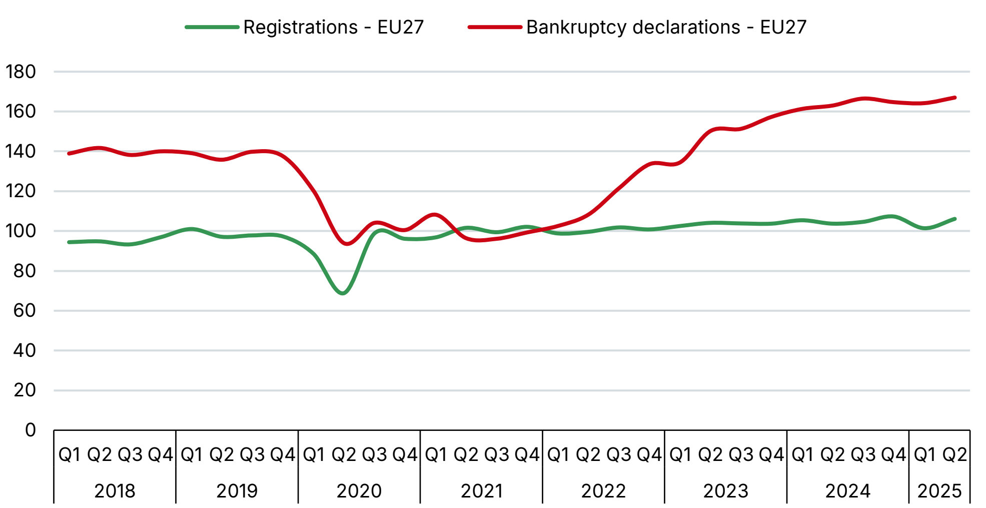
We expect corporate defaults to ease in the second half of 2025 and next year, supported by the region's gradual return to more robust GDP growth after the stagnation of 2023 and 2024 and positive effects from companies' measures to stabilise or even strengthen their balance sheets.

The overall elevated level of corporate defaults disguises the reality that business stress remains concentrated in some countries such as France, Italy, Germany and Switzerland, some sectors – business and consumer services, construction, retail and accommodation and food services – and among the smallest corporates. In contrast, in several economies – including large ones such as the Netherlands, Poland, Sweden and Hungary – default rates are levelling off or improving.

Stabilising or even decreasing default risk is materialising in our ratings coverage across around 300 European corporates. Stability is most visible among investment-grade (IG) corporates. How-ever, the bias remains towards negative ratings migration in the high-yield rating spectrum.

The credit environment remains fragile due to geopolitical risks. However, we may be close to the peak in default rates and negative rating migration given the prospects for stronger GDP growth across larger economies and moderating inflation, combined with lower interest rates and easier access to funding[1]. Further consolidation in Europe's business sector is another favourable factor.

Figure 1: Defaults settling at high level while new registrations stagnate
Seasonally adjusted data, 2021 = 100



Source: Eurostat, Scope

[1] See ECB's latest quarterly euro area bank lending survey, Jul 2025

1. Europe’s default cycle finds fragile plateau

Two-sided picture of credit outlook emerges in 2025

Corporate defaults across Europe in the first half of 2025 have painted a complex, two-sided picture of company creditworthiness. Default rates across major markets remain high compared with pre-pandemic levels, marking another year of financial strain for European corporates. Yet, the relentless upward trajectory that defined the past two years is showing signs of plateauing. The headline numbers mask a growing divergence across economies.

In southern and core European markets – Italy, Spain, France, Germany, Austria, Switzerland, and Finland – default rates recorded year-on-year increases of 3% to 15% in H1 2025 (YoY). In contrast, rates in other countries have started to stabilise or even improve. The Netherlands, Hungary, Poland, Portugal, Sweden, Norway, and Denmark illustrate these trends (**Figure 2, Figure 3**).

Defaults run high in France’s fragmented corporate sector

Relative default rates remain low in most major economies, typically running at less than 1% (significantly less than 100 out of 10,000 companies) a year (**Figure 4**). France stands out as the exception, with defaults edging just beyond this threshold, a reflection of its distinctive business structure, dominated by very small and micro-sized firms highly exposed to shifts in credit conditions.

Signs of easing credit stress ...

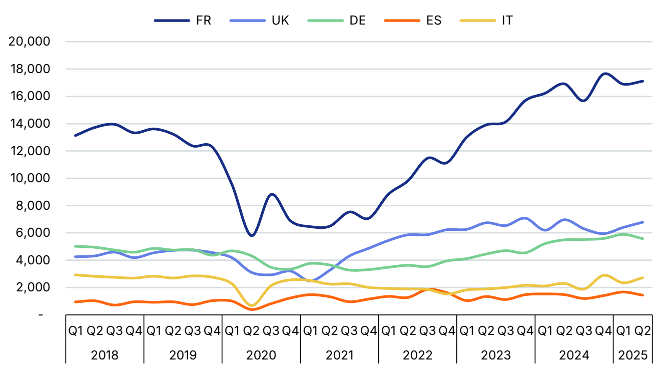
The outlook for default rates in Europe is improving. We expect corporate defaults to ease in the second half of 2025 and through 2026, supported by the region’s gradual return to more robust GDP growth after two years of stagnation. We forecast 1.5% in the euro area for next year, 1.25% in the UK and even solid growth rates of 2%-3% in parts of Central and Eastern Europe (**Figure 5**; see also Global Economic Outlook Mid-Year 2025, June 2025).

... but environment remains fragile

Easier financing conditions, as interest rates fall, moderating inflation, and continued sector consolidation are supporting business activity. Many firms are also showing resilience by shoring up balance sheets, extending debt maturities, and focusing on cash preservation. Still, the environment remains fragile. Geopolitical uncertainties and ever-changing developments on US-tariffs could quickly interrupt the path toward stabilisation.

Figure 2: France outlier in large-economy corporate defaults

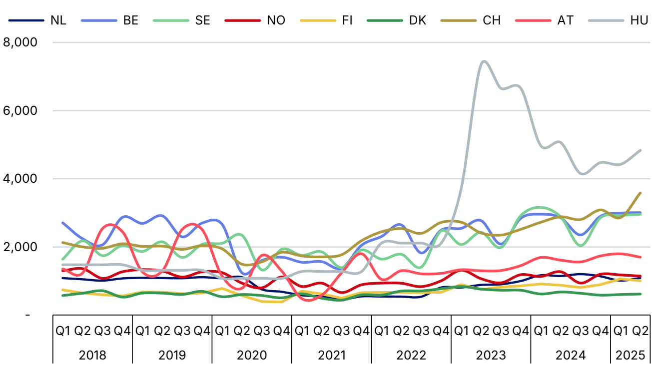
Number of company failures



Source: Macrobond, CRIBIS, Registradores de Espana, Gov.UK, DESTATIS, Scope

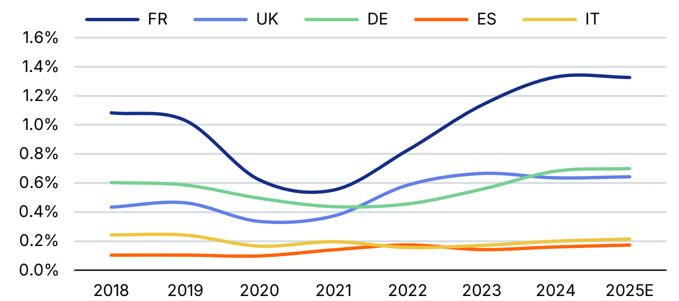
Figure 3: Defaults running high in Hungary; below 2023 peak

Number of company failures



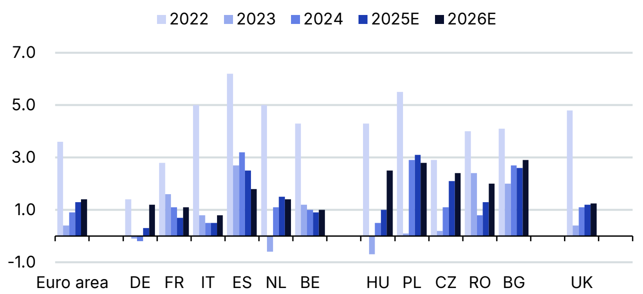
Source: Macrobond, OPTEN, Scope

Figure 4: Corporate default rates remain low in major economies



Source: Scope Ratings based on Macrobond, Company House, DESTATIS, Banque de France, CRIBIS, Registradores de Espana. Note: default rates are estimates.

Figure 5: Europe returns to real GDP growth (%)



Source: Scope Macroeconomic Council

2. Systemic default risk concentrated among small, micro enterprises

Defaults among large corporate remain exception

News headlines are naturally dominated by large corporate failures such as the UK's energy conglomerate Prax Group, French retailer Claire's, larger fashion labels such as Gerry Weber, Closed and Palmers, restaurant chains Sausalitos in Germany and Taco Bell in the Netherlands, Austria's real estate empire Signa, Belgium's cargo airline Air Belgium, telecoms operators Altice France and Virgin Fibra, Sweden-based battery maker Northvolt, and machinery supplier Meyer Burger in Germany. These cases illustrate how large company defaults across major European economies have risen above their long-term average. However, they remain the exception rather than the rule.

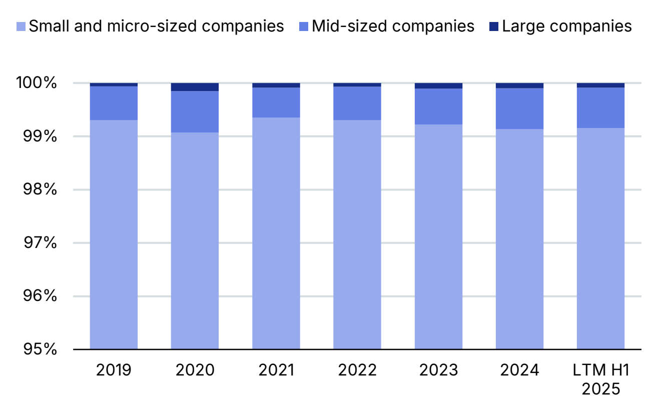
In practice, corporate distress is overwhelmingly concentrated among very small and micro-sized businesses. France provides a striking example, with the highest absolute number of corporate defaults in Europe, but almost 99% of these attributable to failed micro-sized firms[2]. Larger companies account for less than 0.5% of annual defaults, underlining their resilience compared with smaller peers (**Figure 6**) and signalling the below average default rate for larger companies.

The divergence highlights a dual reality in Europe's corporate default landscape. Large failures create the headlines, but systemic default risk is primarily borne by the smallest firms, shaping overall market dynamics.

Consolidation bolsters surviving firms, slows down default rates

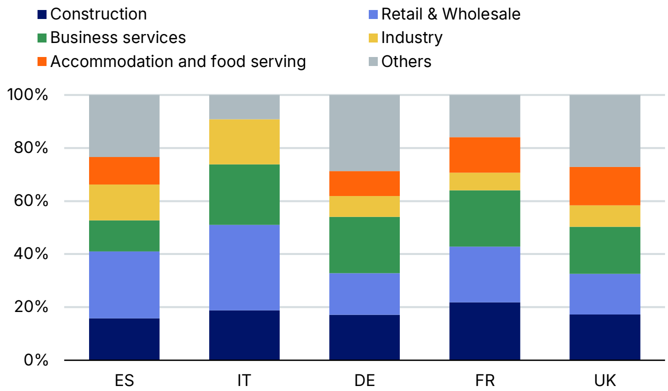
Market consolidation is continuing in the region, as the rising number of corporate defaults over the last few years (~more than 200,000 a year across the EU) is not offset by what is a stagnating level of new company registrations, albeit at a significantly higher level of around 1m a year. Consolidation in the most affected sectors and the restructuring of defaulted companies are gradually strengthening surviving businesses and will eventually slow down default rates.

Figure 6: France: defaults concentrated in smallest companies



Source: Banque de France, Scope

Figure 7: Defaults by sector across major European economies



Source: Scope based on data for FY 2023 – H1 2025

3. Default risks remain concentrated in cyclical, fragmented sectors

Uneven distribution of default risk across sectors in Europe

Default risk remains concentrated in the most cyclical and fragmented corners of the economy even as the overall pace of failures has eased slightly. Accommodation and food services stand out with one of the steepest relative increases in bankruptcies, reflecting sector sensitivity to shifts in consumer spending and lingering cost pressures. Information and communication companies, along with providers in education, health and social services, have also seen rising insolvency numbers, pointing to stress in areas once viewed as more sheltered (**Figure 8**). Pressures confronting transportation and storage firms, caught between weaker trade flows and higher operating expenses, have contributed to the upswing in default rates.

Credit risk concentrated in certain sectors

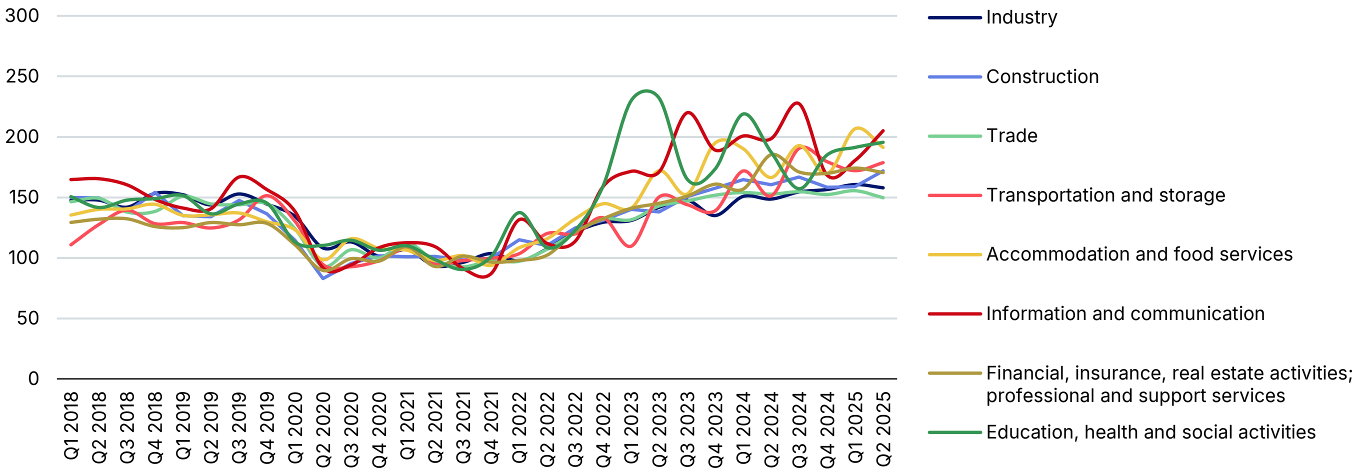
In this uneven picture of corporate stress in Europe, retail, construction, business and consumer services, together with accommodation and food services, still account for more than 70% of total

[2] Small and micro-sized companies defined as companies that have less than 50 employees and annual turnover of less than EUR 50m or balance sheet of less than EUR 43m.

bankruptcies (**Figure 7**). These sectors share the common traits of fragmentation, intense competition, and heavy exposure to shifting demand cycles, leaving them disproportionately exposed when economic conditions tighten.

Figure 8: Declarations of bankruptcies across EU

Seasonally adjusted data, 2021 = 100



Source: Eurostat, Scope

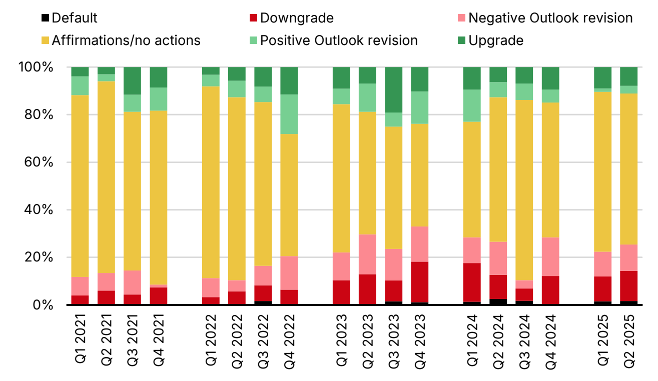
4. Slightly eased ratings pressure; high-yield issuers still under strain

Corporate credit outlook starts to turn up after two years of stress

The outlook for credit quality shows signs of improvement this year after two years of pronounced stress, yet risks of negative rating actions continue to predominate. Our rated portfolio of roughly 300 corporates still has a negative rating bias, though the pace of downward actions has slightly moderated compared with 2024 and 2023. In H1 2025, the number of rating downgrades and Outlook revisions was slightly lower, representing about 20% of our ratings on non-financial corporates compared to 25-30% in the previous two years (**Figure 9**).

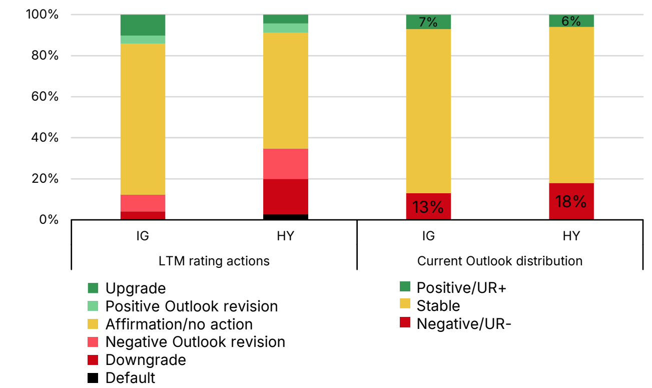
The improvement is visible in IG-rated corporates, which are well able to whether the various economic challenges given their robust business setups, solid credit metrics and unrestricted access to financing. LTM rating actions for IG-rated companies remain very balanced with negative rating actions on par with negative action of about 10-15% of the covered portfolio (**Figure 10**).

Figure 9: Rating direction for Scope-rated IG and HY issuers



Source: Scope

Figure 10: LTM rating actions, current Outlook distribution



Source: Scope. Note: for Scope's rating portfolio of IG-rated, HY issuers

By contrast, high-yield corporates remain under marked stress: 35% of LTM rating actions for high-yield companies with a negative bias (downgrade or negative Outlook revision) and around 20% of speculative-grade ratings accompanied by a Negative Outlook or Under Review for a possible downgrade.

Operating profitability improving overall as inflation eases

Several factors explain the somewhat softer overall ratings pressure. Companies are experiencing less strain from interest costs following the stabilisation or even reduction of central bank rates. Operating profits have recovered modestly as inflationary cost pressures ease, while the gradual impact of corporate measures aimed at stabilising balance sheets has begun to take effect.

Broader geopolitical, macroeconomic context remains worrying

Still, vulnerabilities remain significant. Geopolitical uncertainty, macroeconomic headwinds and a fragile environment for SMEs continue to weigh on corporate credit quality. Immediate pressure has moderated, but ratings risks remain tilted to the downside, especially for leveraged issuers.

Related research

Global Economic Outlook Mid-Year 2025, June 2025

European corporate defaults still months from stabilising after sharp rise in second quarter, August 2024

Europe faces further rise in corporate defaults Insolvencies level off only late 2024, early 2025 amid financing squeeze, October 2023

EU firms face growing interest-cost headache Higher rates combine with bulge in maturing 2024-26 capital-market debt, October 2023

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