Abstract
This paper studies the relationship between macroeconomic fluctuations and corporate
defaults while conditioning on industry affiliation and an extensive set of firm-specific factors.
By using a panel data set for virtually all incorporated Swedish businesses over
1990-2009, a period which includes a full-scale banking crisis, we find strong evidence
for a substantial and stable impact from aggregate fluctuations on business defaults. A
standard logit model with financial ratios augmented with macroeconomic factors can
account surprisingly well for the outburst in business defaults during the banking crisis,
as well as the subsequent fluctuations in default frequencies. Moreover, the effects of
macroeconomic variables differ across industries in an economically intuitive way. Out-
of-sample evaluations show that our approach is superior to models that exclude macro
information and standard well-fitting time-series models. Our analysis shows that firm-
specific factors are useful in ranking firms' relative riskiness, but that macroeconomic
factors are necessary to understand fluctuations in the absolute risk level. (JEL: C35,
C52, E44, G33)