Corporate insolvencies in Europe

2015/16

Creditreform International

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■ 1 Insolvencies in Western Europe in 2015 – Facts and figures

1.1 Introduction

Uncertainties pose risk to economic recovery

Even though economic recovery has been resumed recently, Europe has not really come to rest. There were the terrorist attacks in March which hit the continent's political centre, there is the referendum in the UK in June over a possible Brexit, and there is the influx of refugees from civil war regions that is impacting on both the south and the north of Europe.

Against this background, the uncertainties regarding future developments have tended to increase. In retrospect, though, Europe last year enjoyed a stable upward economic trend. Decisive roles in this were played by the favourable oil-price situation and the ECB's continuation of its (not uncontroversial) policy of low interest rates. And so national economies – including those of the former crisis countries of Southern Europe – were able to take a breather.

This present survey examines the stability of business enterprises in Europe with regard to insolvency and the threat that insolvency represents. Especially for small and medium-sized exporters with no manufacturing sites or sales bases of their own outside their national borders, it is crucial to be aware of the risks involved in cooperating with companies in other parts of Europe.

1.2 Developments in individual countries in 2014/15

Western Europe: 2nd decline in succession

Now that Western Europe (EU-15 plus Norway and Switzerland) has returned to the growth track, the number of corporate insolvencies has continued to decline. In 2015, they totalled 174,941 – nearly 7,200 or 3.9 percent fewer than in 2014 (182,132). The year before there had already been a reduction in the number (minus 10,600 cases; minus 5.5 percent). All the same, despite the appreciable improvements in this respect in the past two years, the volume of insolvencies in Western Europe remains higher than it was before the financial crisis (2008: 155,581).

Tab. 1: Corporate insolvencies in Western Europe

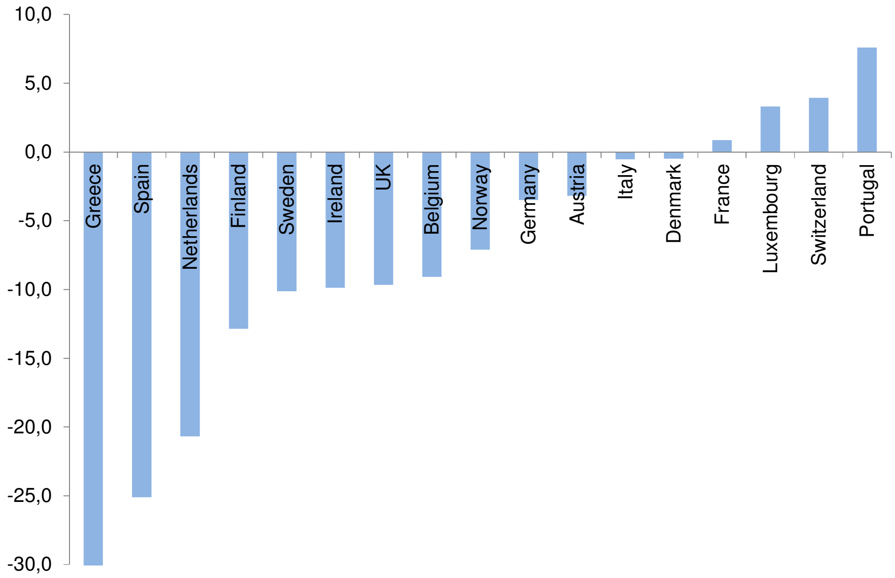
■	2015	2014	2013	2012	2011	Change 2014/15 in percent
Austria	5,422	5,600	5,626	6,266	6,194	- 3.2
Belgium	9,762	10,736	11,739	10,587	10,224	- 9.1
Denmark	4,029	4,049	4,993	5,456	5,468	- 0.5
Finland	2,574	2,954	3,131	2,956	2,944	- 12.9
France	61,379	60,853	60,980	59,556	49,506	+ 0.9
Germany	23,180	24,030	26,120	28,720	30,120	- 3.5
Greece	189	330	392	415	445	- 42.7
Ireland	1,049	1,164	1,365	1,684	1,638	- 9.9
Italy	16,015	16,101	14,272	12,311	10,844	- 0.5
Luxembourg	873	845	1,016	1,033	961	+ 3.3
Netherlands	5,271	6,645	8,375	7,373	6,176	- 20.7
Norway	4,462	4,803	4,564	3,814	4,355	- 7.1
Portugal	7,288	6,773	8,131	7,763	6,077	+ 7.6
Spain	4,916	6,564	8,934	7,799	5,910	- 25.1
Sweden	6,432	7,158	7,701	7,737	7,229	- 10.1
Switzerland	6,098	5,867	6,495	6,841	6,661	+ 3.9
UK *)	15,952	17,660	18,935	21,252	22,175	- 9.7
Total	**174,891**	**182,132**	**192,769**	**191,563**	**176,927**	**- 4.0**

*) New calculation method from 2015; data revision from 2008

Four countries post rises

Year-on-year (2014/15), most of the countries of Western Europe registered fewer corporate insolvencies (cf. Fig. 1). Only four countries posted an increase compared with the year before: Portugal (plus 7.6 percent), Switzerland (plus 3.9 percent), Luxembourg (plus 3.3 percent) and France (plus 0.9 percent). The strongest fall was that noted by Greece, with minus 42.7 percent, but that was due at least partly to the already low baseline. Then came Spain (minus 25.1 percent), the Netherlands (minus 20.7 percent), and Finland (minus 12.9 percent). With a reduction of 3.5 percent, Germany was more or less on a par with the European average.

Fig. 1: Development of corporate insolvencies in Western Europe in 2015 (changes in percent)

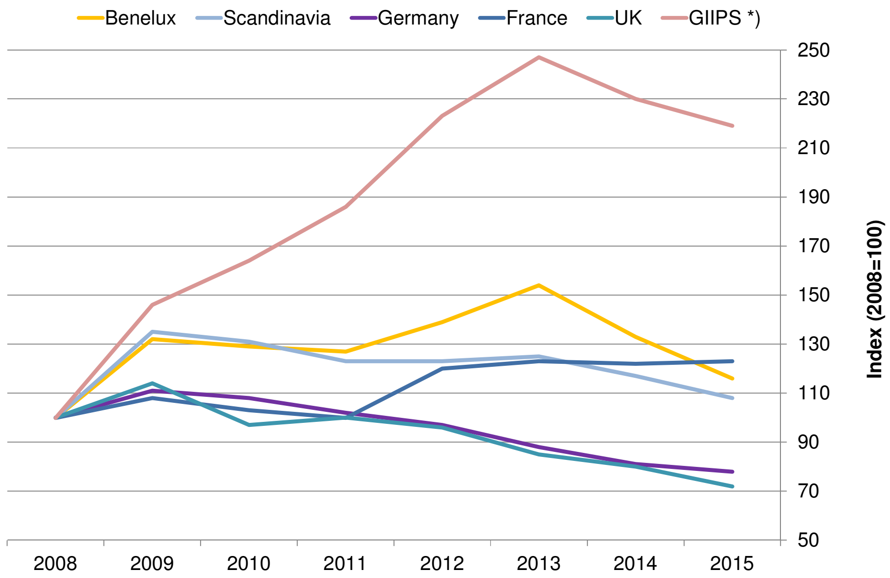


Insolvencies usually represent only a fraction of the total number of business liquidations. In many countries, business difficulties often oblige micro-enterprises, for instance, to be merely closed down without any regular insolvency proceedings; these tiny firms are simply erased from the commercial register (closures in Western and Eastern Europe: 2.2 million firms, 620,000 of them in Eastern Europe). The extent of such occurrences outside the realm of insolvency legislation varies between one country and the next. It can be assumed, however, that especially in the Mediterranean countries, closures of this kind total several times the annual number of registered insolvencies.
There are also differences in the way in which the bankruptcies of self-employed people are handled in insolvency statistics. In some cases, these are not included in corporate insolvency figures but counted as private bankruptcies. In other cases, registration as an insolvency depends on size or the number of creditors. Overall, it can be assumed that in particular small-scale bankruptcies by self-employed persons are not registered comprehensively as corporate insolvencies.

A look at how things have developed over time reveals a marked easing of the insolvency situation especially in the former euro-crisis countries (Greece, Ireland, Italy, Portugal and Spain) where the numbers had climbed massively after 2008 (cf. Fig. 2). Nevertheless, the overall level is more than twice as high as before the financial crisis. In the UK and in Germany, insolvency figures have been falling for some time in line with the economic upswing, and they are now well below the level noted in 2008. In Scandinavia, on the other hand, the scale of insolvencies remains higher than it was then, although the downward trend has continued. In France, the number of corporate insolvencies has remained at more or less the same high level since 2012.

Situation eases in the GIIPS countries

Fig. 2: Development of corporate insolvencies in selected countries/regions



*) Greece, Ireland, Italy, Portugal, Spain

Now, a look at how the insolvency situation has developed in individual countries.

UK: Another steep fall – lowest level since 2007

In the **United Kingdom** (England, Wales, Scotland, Northern Ireland), the trend has once again been distinctly positive. At 9.7 percent, the reduction in the number of corporate insolvencies was greater in 2015 than it had been the previous year (minus 6.7 percent) and also stronger than the

European average. Following a change in the calculation method and an extensive data revision by the Office for National Statistics, corporate insolvencies in 2015 numbered 15,952 (2014: 17,660). That is the lowest total since 2007. And it represents a reduction of more than one third compared with the previous high, noted in 2009 (25,288). This positive development was due to an economic upturn, with gross domestic product (GDP) growth in 2015 of 2.4 percent. Despite a high level of indebtedness on the part of private households, consumer expenditure rose substantially on the back of a rise in real wages.

Germany: Corporate insolvencies at 15-year low

In 2015, **Germany** also continued on the course of economic growth. This was driven by private consumption, which increased more than at any time since 2000. Against this background, with GDP growth of 1.7 percent, the aggregate number of corporate insolvencies fell further. However, the rate of reduction, at 3.5 percent, was appreciably weaker than it had been the year before (minus 8.0 percent). The total came to 23,180, which is the lowest level since 1999.

Benelux continues on recovery track

In the **Benelux countries**, far fewer companies went bankrupt in 2015 than the previous year. Corporate insolvencies totalled 15,906 (2014: 18.226). That corresponded to a decline of 12.7 percent, which more or less matched the fall noted for 2014. Substantial declines were posted by the Netherlands (minus 20.7 percent) and Belgium (minus 9.1 percent), with the former registering the lowest figure (5,271) since 2008, and the latter the lowest level (9,762) since 2010. So it seems that in both countries the scale of insolvencies has normalised again, after rocketing during the crisis years. In Luxembourg, corporate insolvencies actually increased (plus 3.3 percent), but the total was still below the previous highs of 2012 and 2013.

Switzerland was another of the few Western European countries to note a rise in corporate insolvencies in 2015. Within the course of a year, the total climbed from 5,867 to 6,098 (plus 3.9 percent). **Austria,** on the other hand, registered a modest fall (minus 3.2 percent) to 5,422 business failures. This represents a 13-year low. In Switzerland, in contrast, the number of insolvencies remained high by long-term standards, even though even greater totals were posted between 2010 and 2013.

Austria and Switzerland: Contrasting directions

One reason for Switzerland's weak performance was probably the low level of economic growth, of just one percent, following the revaluation of the Swiss franc at the beginning of the year. This impacted on exports and the hospitality/catering business. In Austria, too, though, the scale of economic development was more modest than in the euro-zone as a whole, with weak investment and weak private consumption. And although the number of corporate insolvencies fell slightly, the number of consumer bankruptcies increased.

Finland and Sweden make progress, Denmark less so

In the **Scandinavian countries**, a term which within the framework of this survey includes euro-nation Finland as well as Denmark, Sweden and Norway, the overall number of corporate insolvencies was reduced. Particularly marked declines were noted in Finland (minus 12.9 percent) and Sweden (minus 10.1 percent); in 2015, the latter registered strong economic growth. The insolvency totals in Finland and Sweden fell to their lowest levels since 2007 and 2008 respectively. In Norway, too, the fall in insolvencies (minus 7.1 percent) was greater than the European average, but since that country had registered increases in the two previous years, the absolute number of insolvencies remained higher than before the global financial crisis. In Denmark, the number of corporate insolvencies was virtually unchanged (minus 0.5 percent). Even though the Danish economy has been gaining momentum recently, the effect of the years of stagnation is still making itself felt there.

France: Weak economy as insolvency driver

France continued to exhibit a high number of corporate insolvencies in 2015, in fact registering a new record, with 61,379 cases, as against 60,853 the year before. That makes France one of the few European countries where the insolvency situation has not eased at all. Particularly susceptible were small firms. And the framework for reversing the trend remains unfavourable, with no notable improvement in France's economic situation. Any upturn is on the back-burner. Investment activity has stagnated, with the public sector holding back on expenditure. The unemployment rate has stayed high.

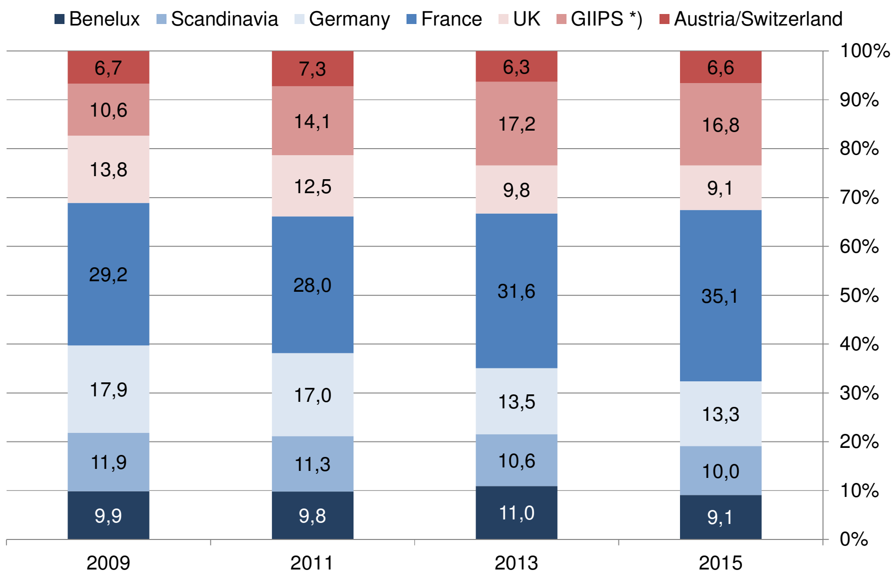
Is Ireland EU's shooting star again?

Overall, the group of **GIIPS states** (Greece, Ireland, Italy, Portugal and Spain) remains on the recovery track. Together, the five countries registered 29,457 corporate insolvencies (2014: 30,932; 2013: 33,094). But that is still around three times as many as in 2007. The only one of these countries country to post an increase was Portugal (plus 7.6 percent), while the others exhibited reductions of varying extents. In this respect, Italy (minus 0.5 percent) was the tail-ender. For the first time in four years, Italy saw its economy growing, but only modestly. And the upswing is still frail, due to the fact that competitiveness has suffered as a result of the lengthy crisis, and also because important trading partners are performing only sluggishly. So the prerequisites for improved corporate stability have not been restored yet. The picture presented by Ireland is much brighter. Its economy has been growing more strongly than in any other country in the EU and now considerably exceeds the pre-crisis level. The number of corporate insolvencies has fallen accordingly (minus 9.9 percent).

In 2015, the GIIPS countries were responsible for about one sixth (16.8 percent) of all corporate insolvencies in Western Europe. Despite the fact that the insolvency situation there has eased slightly, that share was a lot higher than in 2009 (10.6 percent). The contribution to European insolvency statistics made by France has continued to expand, and in 2015 it accounted for more than one third (35.1 percent) of the total (2011: 28.0 percent). This reflects the fact that in contrast to the downward trend evident in many other countries, the number of corporate insolvencies in France has stayed at a high level even though the financial crisis is over.

France as problem child?

Fig. 3: Distribution of corporate insolvencies in Western Europe



*) Greece, Ireland, Italy, Portugal, Spain

Recovery in two major national economies

In Germany, the situation has developed quite differently. In 2015, its share of the insolvency total continued to decline (from 13.5 to 13.3 percent). An even more clear-cut picture is presented by the medium-term development since 2009, when 17.9 percent of all business failures in Western Europe involved German firms. There has also been a reduction in the contribution made by another major European economy, the United Kingdom. It was responsible for just 9.1 percent of all corporate insolvencies registered in

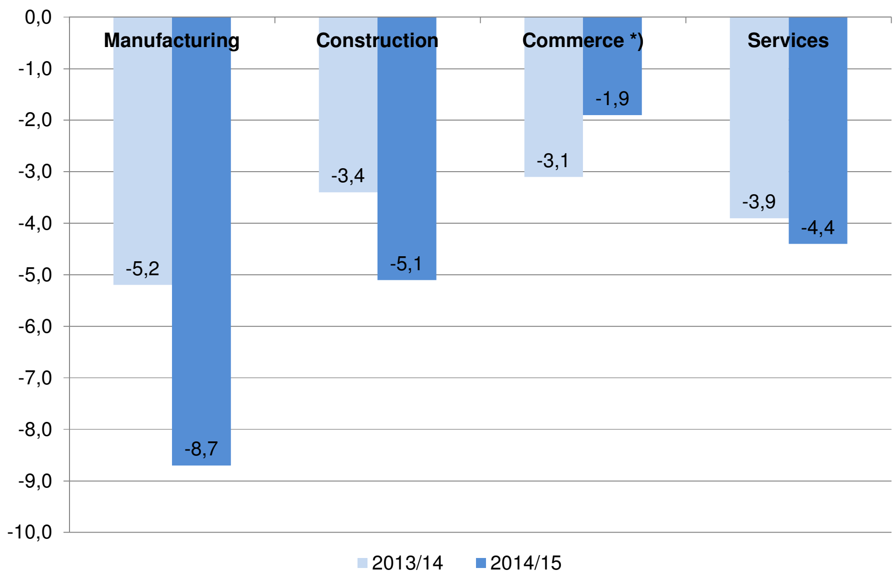
2015 (2009: 13.8 percent). The shares of the total generated by the Benelux states and Austria/Switzerland have remained much the same during this period, while Scandinavia can point to a slight improvement (decline from 11.9 to 10.0 percent).

1.3 Insolvencies according to economic sectors

All four main economic sectors posted year-on-year (2014/15) reductions in the incidence of insolvency. Once again, the sharpest fall was that registered by the manufacturing sector (minus 8.7 percent; prior-year: minus 5.2 percent). Then, with declines of 5.1 and 4.4 percent, came construction and services; in both these sectors, the easing of the insolvency situation has not only continued, it has actually accelerated. In commerce (including retail, hotels/catering), on the other hand, the reduction was low (minus 1.9 percent) and also less marked than it had been a year ago.

Only modest relief on retail front

Fig. 4: Changes in the key economic sectors in Western Europe 2013/14 and 2014/15

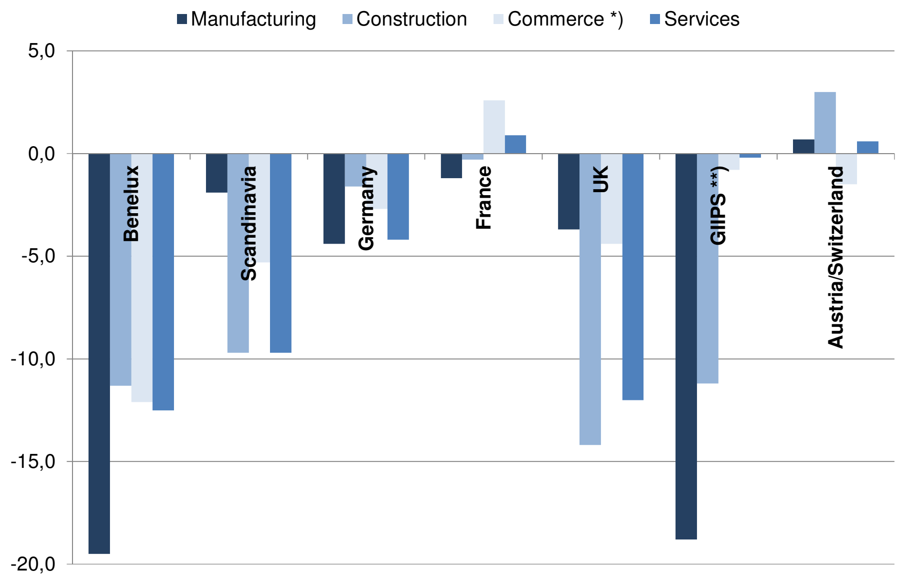


Figures in percent; *) including hotels/catering

In most Western European countries, insolvency figures fell across a broad front. This is shown by a look at how the situation in the main branches of the economy developed in different countries in 2014/15. Insolvencies among manufacturers, for instance, fell to an especially marked extent in the Benelux countries (minus 19.5 percent) and the GIIPS states (minus 18.8 percent). In Austria/Switzerland, they actually increased slightly (plus 0.7 percent), while the declines in France (minus 1.2 percent) and Scandinavia (minus 1.9 percent) were merely modest. In Austria/Switzerland, insolvency figures also rose in the construction industry (plus 3.0 percent), while in some other countries, totals in this sector fell quite considerably. That was the case, for example, in the UK (minus 14.2 percent), the Benelux states (minus 11.3 percent) and the GIIPS countries (minus 11.2 percent). In Germany, the incidence of insolvency in the field of construction eased only moderately (minus 1.6 percent).

GIIPS: Improvement confined to specific sectors

Fig. 5: Changes in the key economic sectors according to countries/regions in 2014/15

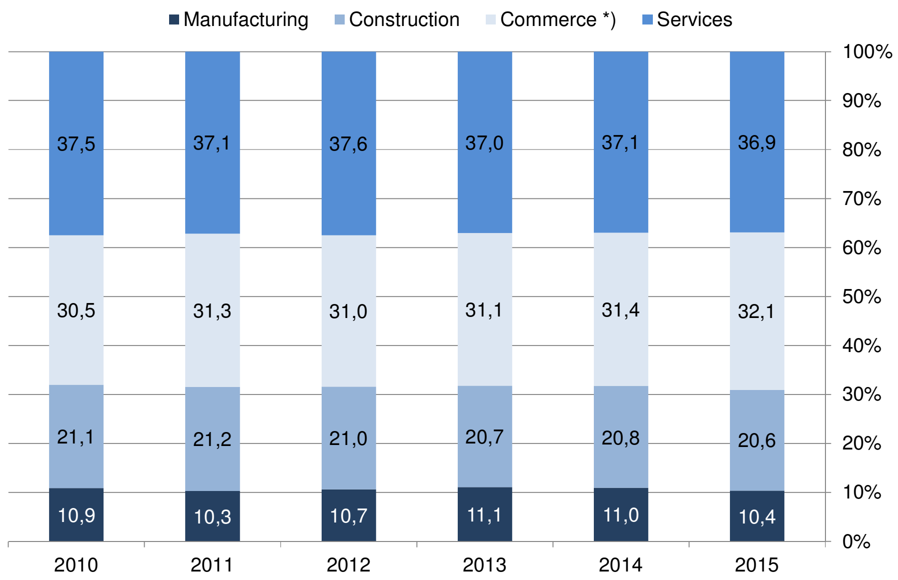


*) including hotels/catering **) Greece, Ireland, Italy, Portugal, Spain

In the field of commerce (wholesale/retail, hotels and restaurants etc.), insolvencies generally remained at a high level. In the GIIPS countries, for instance, there was virtually no change. The only notable reductions in this sector were in the Benelux states (minus 12.1 percent), followed by Scandinavia (minus 5.3 percent) and the UK (minus 4.4 percent). France actually registered more insolvencies in this sector than before (plus 2.6 percent). In the services sector, the incidence of insolvency developed more favourably, although not everywhere. In France, for example, a greater number of firms in the field of services became insolvent (plus 0.9 percent) than the year before. In contrast, significant declines in this sector were registered in the UK (minus 12.0 percent), Benelux (minus 12.5 percent) and Scandinavia (minus 9.7 percent).

France: More insolvencies in commerce and services

Fig. 6: Contribution of the key economic sectors to insolvency in Western Europe 2010 to 2015



*) including hotels/catering

As before, the biggest contribution to overall insolvency in Western Europe was made by firms providing services of any kind: the tertiary sector accounted for 36.9 percent of all registered business bankruptcies in 2015. Compared with 2014 (37.1 percent), that represents a slight fall. Something similar applies to manufacturing: its share of aggregate insolvencies declined from 11.0 to 10.4 percent. The contribution made by the construction sector stayed much the same as before (20.6 percent; prior year: 20.8 percent). On the other

Commerce's share grows

hand, there was a further increase in the proportion of insolvencies posted by commerce/hospitality/catering (from 31.4 to 32.1 percent). This confirms a longer-term trend: in 2010, this sector's share of total insolvencies in Western Europe was just 30.5 percent.

Tab. 2: Sectoral distribution of insolvencies in selected countries/regions in 2014/15

■	Manufacturing		Construction		Commerce *)		Services	
	2014	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**
Benelux	7.3	6.7	15.3	15.6	37.2	37.4	40.2	40.3
Scandinavia	8.5	9.1	20.5	20.1	29.9	30.7	41.1	40.2
Germany	9.1	9.0	16.5	16.8	28.6	28.8	45.8	45.4
France	9.6	9.4	25.5	25.2	34.8	35.4	30.0	30.0
UK	10.6	11.3	17.9	17.0	24.1	25,5	47.4	46.2
GIIPS	20.6	17.9	20.8	19.8	29.7	31.5	28.9	30.9
Austria/Switz.	6.0	6.0	18.0	18.5	27.3	26.8	48.7	48.8
W. Europe	**11.0**	**10.4**	**20.8**	**20.6**	**31.4**	**32.1**	**37.1**	**36.6**

*) including hotels/catering; figures in percent
When sectoral information was lacking, the relevant figures were included under services.

In Western Europe, the growing relative incidence of insolvency in the field of commerce can be seen above all in the GIIPS countries and the UK, and to a certain extent also in Scandinavia and France. Bucking general trends, the construction sector's share of national insolvency totals registered an increase in Austria/Switzerland and the Benelux countries, but also in Germany. In the UK, manufacturing accounted for a growing proportion of insolvencies, while in the GIIPS states, construction and manufacturing were relatively less affected than they had been the year before.

The differing contributions to insolvency totals often reflect the differences between national economic structures in Europe. Notable is the high services proportion, of well over 50 percent, generated by Luxembourg, the Netherlands and Switzerland, while the share produced by commerce (including hotels/catering) is especially marked in Belgium, Portugal and France. In Norway and

France, construction makes an above-average contribution, of more than one quarter in each case.

Tab. 3: Insolvencies in the key economic sectors in 2015

■	Manu-facturing	Con-struction	Com-merce *)	Services
Austria	5.5	17.5	33.7	43.3
Belgium	6.3	18.2	44.5	31.0
Denmark	10.1	15.1	28.4	46.5
Finland	13.2	20.3	28.0	38.5
France	9.4	25.2	35.4	30.0
Germany	9.0	16.8	28.8	45.4
Ireland	9.0	13.3	28.4	49.4
Italy	20.2	20.8	30.6	28.4
Luxembourg	1.6	10.4	29.8	58.2
Netherlands	8.4	11.6	25.6	54.5
Norway	6.2	28.0	29.9	35.9
Portugal	16.6	18.1	36.6	28.7
Spain	14.2	20.2	27.4	38.2
Sweden	8.7	17.6	33.8	39.8
Switzerland	6.5	19.3	20.6	53.6
UK	11.3	17.0	25.5	46.2

*) including hotels/catering; figures in percent;
when sectoral information was lacking, the relevant figures were included under services

Bearing in mind the differences in insolvency legislation in the Western European countries, the following ranking reveals an appreciably greater susceptibility to insolvency on the part of companies in Luxembourg and Switzerland, followed by Denmark, France and Belgium.

Tab. 4: Insolvency rates in Western Europe in 2015

■	Insolvencies per 10,000 companies
Luxembourg	251
Switzerland	180
Denmark	155
France	151
Belgium	149
Norway	121
Austria	93
Sweden	87
Finland	73
Portugal	72
UK	65
Germany	64
Ireland	57
Netherlands	37
Italy	36
Spain	14
Greece	3
Total	**71**

Source: Eurostat, own calculations

■ 2 Financial situation and liquidity of European companies

2.1 EBIT margin – Revenues and earnings

On the basis of the disclosed financial statements of around 3.1 million Western European companies, it is possible to obtain a picture of how the earnings situation of business enterprises has been evolving and then to draw conclusions on their financial stability and any associated insolvency risks. The following evaluations and findings are based on balance sheets for 2014 and show changes in comparison with 2013.

Profitability improves …

Overall, earnings margins (the ratio between earnings and turnover) have continued to develop in a positive direction. Over half of all the Western European companies surveyed (51.1 percent) have stepped up profitability, as against 49.1 percent the year before. 48.6 percent of the surveyed businesses revealed a lower EBIT margin and thus declining profitability (2013: 50.6 percent).

The proportion of firms exhibiting a negative EBIT margin, i.e. a loss in the year concerned, has fallen from 26.9 to 25.3 percent. At the same time, a growing number of companies (2014: 14.7 percent; 2013: 14.0 percent) can point to strong earnings power, with margins upwards of 25 percent.

Tab. 5: EBIT margin (in %) of Western European companies in 2014

■	Negative	25.3 (26.9)
	Up to 5 %	29.3 (29.4)
	Up to 10 %	14.8 (14.4)
	Up to 25 %	15.8 (15.2)
	More than 25 %	14.7 (14.0)

Figures in percent; ( ) = 2013
Source: Creditreform database, own calculations

… but margins in commmerce stay low

The positive development of earnings is also apparent in the different economic sectors, but the actual situation varies. Commerce (including hotels/catering) continues to feature a comparatively high number of firms with a negative EBIT margin, but the relative proportion of such firms has fallen from 30.4 to 28.4 percent. In addition, four out of every ten firms in this sector (39.7 percent) have a low (but positive) earnings margin of under 5 percent. At the same time, the proportion of firms in this sector with a high earnings margin of over 25 percent is very modest (4.4 percent).

Highly profitable firms are also in the minority in construction, although the proportion has actually risen from 10.4 to 11.1 percent. The incidence of losses in this sector, though, is below the average for the business community as a whole, and involved 24.7 percent of the relevant enterprises as against 25.9 percent in 2013.

Tab. 6: EBIT margins (in %) in selected economic sectors in 2014

■	Construction	Commerce
Negative	24.7 (25.9)	28.4 (30.4)
Up to 5 %	31.0 (31.2)	39.7 (39.2)
Up to 10 %	16.7 (16.5)	15.7 (15.1)
Up to 25 %	16.5 (16.0)	11.8 (11.2)
More than 25 %	11.1 (10.4)	4.4 (4.1)

Figures in percent; ( ) = 2013
Source: Creditreform database, own calculations

2.2 Equity ratios

Higher equity ratios

The economic recovery in Europe is also reflected in company financial statements, with the item "equity capital" becoming stronger. Over half of all companies have been able to improve their equity ratio and there has also been an increase in the proportion of companies positing a very high equity ratio of more than 50 percent of the balance-sheet total – this rose year-on-year from 40.9 to 42.0 percent. But the proportion of firms that can be considered under-capitalised, i.e. with a very low equity ratio of less than 10 percent, stayed at around one quarter (2014: 24.3 percent; 2013: 24.6 percent).

Tab. 7a: Equity ratios of Western European firms

■	2011	2012	2013	2014
Under 10 %	25.3	25.0	24.6	24.3
Up to 30 %	19.5	19.1	18.7	18.1
Up to 50 %	16.0	15.8	15.7	15.5
Over 50 %	39.2	40.1	40.9	42.0

Figures in percent
Source: Creditreform database, own calculations

In the period 2011 to 2014, the equity situation of firms in the manufacturing sector developed particularly positively, with the proportion of equity-strong firms (equity ratio >50 percent) expanding by three percentage points.

Tab. 7b: Equity ratios of Western European firms in the manufacturing sector

■	2011	2012	2013	2014
Under 10 %	24.8	24.3	23.9	23.5
Up to 30 %	23.3	22.9	22.4	22.0
Up to 50 %	19.3	19.1	19.0	18.9
Over 50 %	32.6	33.7	34.7	35.6

Figures in percent
Source: Creditreform database, own calculations

There has also been a gratifying development in this respect in Western Europe's construction sector. Close to one third of all firms in this sector (32.0 percent) can now point to a very high equity ratio, as against just 28.5 percent in 2011 (plus 3.5 percentage points). 27.8 percent of firms report a low equity ratio of under 10 percent; that is a decline of 1.8 percentage points in four years.

Tab. 7c: Equity ratios of Western European firms in the construction sector

■	2011	2012	2013	2014
Under 10 %	29.6	29.0	28.2	27.8
Up to 30 %	23.5	23.1	22.7	21.9
Up to 50 %	18.4	18.3	18.5	18.3
Over 50 %	28.5	29.6	30.6	32.0

Figures in percent
Source: Creditreform database, own calculations

In the fields of commerce and services in Western Europe, the positive equity capital trend has not been so marked. Among firms in the commerce sector, 28.7 percent can still be regarded as equity-weak, and in the period 2011 to 2014 this proportion has improved only marginally. Something similar applies in the services sector, where the proportion of firms whose equity ratio is too low has shrunk only slightly, from 23.5 to 23.0 percent. On the other hand, the proportion of equity-strong firms in the field of commerce has grown: from 28.7 percent in 2011 to 31.1 percent in 2014. And in the services sector, high equity ratios of over 50 percent are frequent anyway – that is now the case for 46.3 percent of the firms surveyed (2011: 44.6 percent).

Tab. 7d: Equity ratios of Western European firms in commerce (including hotels/catering)

■	2011	2012	2013	2014
Under 10 %	29.2	29.2	29.0	28.7
Up to 30 %	24.1	23.6	23.2	22.7
Up to 50 %	18.0	17.7	17.6	17.5
Over 50 %	28.7	29.4	30.2	31.1

Figures in percent
Source: Creditreform database, own calculations

Tab. 7e: Equity ratios of Western European firms in the services sector

■	2011	2012	2013	2014
Under 10 %	23.5	23.3	23.1	23.0
Up to 30 %	17.0	16.9	16.7	16.1
Up to 50 %	14.8	14.8	14.7	14.6
Over 50 %	44.6	44.9	45.5	46.3

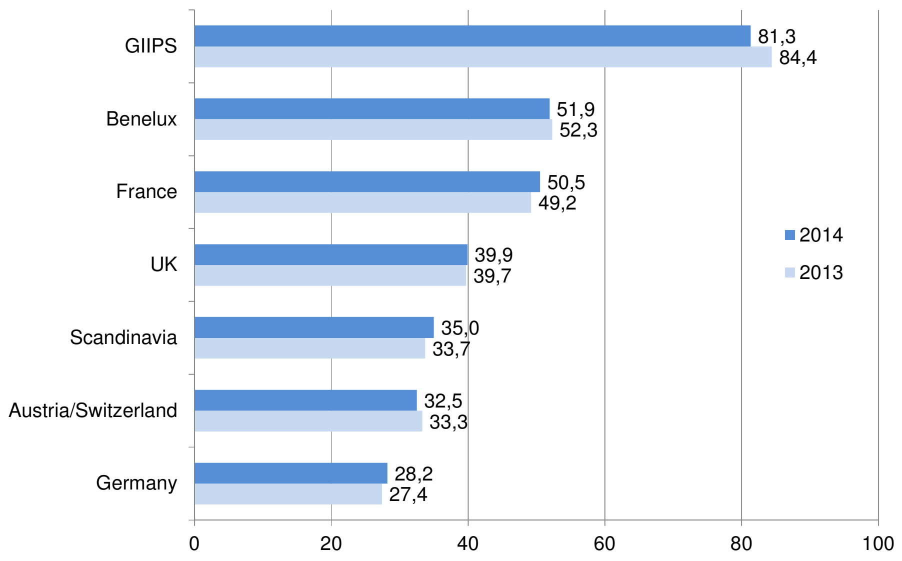
Figures in percent
Source: Creditreform database, own calculations

2.3 Collection periods

Delays reduced in Southern Europe

On average, the customers of Western European took 56.2 days to settle their bills in 2014, which was almost exactly the same as the year before (56.3 days). Despite improvements in this respect, it was still the GIIPS states (Greece, Ireland, Italy, Portugal and Spain) which posted the longest average collection period in Western Europe, of 81.3 days (prior year: 84.4 days). Modest collection-period reductions were posted by Switzerland, Austria and the Benelux countries. In contrast, the time taken for invoices to be paid has lengthened in Germany (from 27.4 to 28.2 days) and in Scandinavia (from 33.7 to 35.0 days), but in both regions long waiting periods remain rare. In France, too, payment delays have become more frequent year-on-year. The average collection period rose from 49.2 to 50.5 days, meaning that firms there have to wait more or less twice as long for their money as those in Germany.

Fig. 7: Collection periods in Europe (in days)



Source: Creditreform database; median values;
collection period: min. 1 day

3 Corporate insolvencies in Central and Eastern Europe

Eastern Europe over the worst: Insolvency lower

Insolvency was also on a downward trajectory in the countries of Central and Eastern Europe in 2015. The number of corporate insolvencies fell from 101,707 to 90,069, equivalent to a reduction of 11.4 percent, which was in fact more marked than that in Western Europe. But there is definitely some catching-up to be done – after all, the year before, the volume of corporate insolvencies had continued to rise (in contrast to Western Europe), climbing by 5.7 percent to a new record of 101,707. That was around twice the total in 2010 (53,351). Meanwhile, though, economic recovery has kicked in. The Russia embargo, which the previous year must have impacted strongly on Eastern European countries because of their geographical proximity, has evidently become less significant. And Eastern Europe is also benefiting from the higher rate of growth in the West. Trade relations are now close, for instance where the supplier industry is concerned.

Developments in Eastern Europe varied however. Four countries registered rises in insolvency totals. The increase in Serbia, though (plus 0.5 percent) was marginal, while the marked increase in Croatia (plus 164.0 percent) was largely the result of structural factors, since the country introduced new insolvency legislation in 2015. The appreciable rise in Lithuania (plus 26.2 percent) was also due to a legislative change making it easier to open insolvency proceedings. Eight countries noted a decline in the number of corporate insolvencies, with the biggest fall being that posted in Romania (minus 50.4 percent). So overall, the reduction in aggregate insolvencies in Eastern Europe was broadly based.

Tab. 8: Corporate insolvencies in Central and Eastern Europe

■	2015	2014	2013	2012	2011	Change 2014/15 in percent
Bulgaria	1,083	1,031	1,232	383	685	+ 5.0
Croatia *)	20,531	7,776	9,019	6,922	4,878	+ 164.0
Czech Rep. **)	3,004	3,563	6,021	8,398	6,753	- 15.7
Estonia	376	428	469	506	623	- 12.1
Hungary ***)	47,131	60,596	46,397	50,224	30,757	- 22.2
Latvia	878	964	818	881	813	- 8.9
Lithuania	2,012	1,594	1,561	1,354	1,302	+ 26.2
Poland	844	864	926	908	762	- 2.3
Romania	10,269	20,696	27,924	26,807	22,650	- 50.4
Serbia	2,072	2,062	n.s	n.s	n.s.	+ 0.5
Slovakia	715	831	880	866	870	- 14.0
Slovenia	1,154	1,302	941	595	675	- 11.4
Total	**90,069**	**101,707**	**96,188**	**97,844**	**70,768**	**- 11.4**

*) since 2015 new insolvency legislation, so limited comparability with prior-year figures **) since 2013 some bankruptcies by self-employed persons are included under private insolvencies ***) bankruptcies and other liquidations

More firms file for insolvency

In 2015, **Bulgaria** registered a slight increase in insolvency figures (plus 5.0 percent); this followed an appreciable fall the year before (minus 16.3 percent). It seems possible that a greater number of firms unable to pay their debts have been opting for the still elaborate and lengthy insolvency proceedings. It is often the case that failed businesses are simply erased from the register. The economic situation in Bulgaria has improved; joblessness has been reduced, which should strengthen domestic demand. The increase in corporate insolvencies took the total to 1,083; this, though, is still below the high of 1,232 reached in 2013.

Insolvency backlog now overcome

The development in **Croatia** really stands out, but the massive year-on-year increase of 164.0 percent was due to a legislative change, so that only to a limited extent are the current figures comparable with those posted in previous years. In line with the new legal position, insolvency proceedings against a distressed company are de facto initiated by officialdom. And it is evident that after several years of recession, there is a backlog, which has now been promptly reflected by the insolvency statistics. Meanwhile, though, the economy in Croatia is back on a growth track, with foreign trade developing especially dynamically in 2015, and so the overall business environment has improved.

Recovery in Baltic states

In the **Baltic states,** insolvency figures in 2015 tended downwards. **Estonia** registered a respectable reduction of 12.1 percent; this followed a fall the previous year as well (minus 8.7 percent). So the pre-crisis level should now have been reached again. However, the lower insolvency totals might also reflect reticence on the part of business enterprises, for instance regarding the risks involved in investment. In 2015, consumption was probably a mainstay of economic growth in Estonia.

The volume of insolvencies also declined in **Latvia** (minus 8.9 percent). However, that only partially compensated the strong rise recorded the year before, when the Russia-Ukraine crisis had impacted severely on the economies of the Baltic states. In the meantime, business companies have reacted and are focusing more on trade with EU countries and this, together with an increase in domestic consumption, has brought Latvia above-average growth. But the sharp falls caused by the financial crisis have not yet been overcome in real terms.

In **Lithuania,** legislative changes make it easier since 2015 to initiate insolvency proceedings, and this is something that creditors such as social insurance carriers and tax offices have been taking advantage of. Accordingly, the number of registered cases of insolvency rose steeply (plus 26.2 percent). Against this background, the increase may definitely seem exaggerated but the fact is that since as early as 2012, insolvency totals have been climbing steadily, evidently indicating weaknesses among business enterprises. In 2015, although the economy continued to grow, it did so at a slower rate than before.

Situation in Poland continues to ease

Poland has registered a modest fall in the development of insolvency (minus 2.3 percent). This follows a somewhat steeper prior-year decline (minus 6.7 percent). But in 2015, the number of affected jobs was far lower than it had been the year before. This provides positive evidence of the recovery of the Polish economy: in 2015, the country achieved GDP growth of 3.5 percent, with investment developing especially dynamically. A contribution to growth was also made by domestic demand in the wake of wage rises and declining unemployment. But the number of corporate insolvencies is still above the 2010 level (665).

Following the insolvency law reform the year before, **Romania** continues to exhibit a significant downward trend in the number of corporate insolvencies (minus 50.4 percent). Since it is mainly larger companies with turnovers of above 1 million euros which make their way to the courts, the damage to creditors is unlikely to have been reduced to the same extent as the insolvency numbers. Other factors helping to producing fewer insolvencies have been a respectable level of economic growth and a surge in investment. Alongside Latvia and the Czech Republic, Romania is one of the Eastern European countries where the volume of insolvencies has shrunk most sharply since 2010.

A more or less equal rate of reduction in the number of corporate insolvencies was registered in the **Czech Republic** (minus 15.7 percent) and **Slovakia** (minus 14.0 percent). Whereas the positive development in Slovakia has come somewhat late and only gradually, in the Czech Republic there had already been marked declines in this respect in previous years. Since the number of affected jobs has fallen sharply, it can be assumed that fewer large companies went bankrupt, and that the figures concerned a greater number of small firms. Something else is that in the Czech Republic, sole traders have had the possibility since 2013 of filing for a private insolvency. Considerable use has been made of this option. One reason for the decline in aggregate insolvencies is that in 2015, the Czech Republic was one of the fastest-growing countries in Europe (GDP: plus 4.5 percent). Slovakia also registered strong economic growth, thanks to a marked increase in investment.

Strong economic growth in Czech Republic and Slovakia

Another country where insolvencies declined in 2015 was **Hungary** (minus 22.2 percent), where the year before the volume had risen substantially (plus 30.6 percent) following several years of crisis in the economy. That situation seems to have been overcome now; the economy is enjoying an upturn, with the export industry in particular regaining some of its former strength. GDP growth in 2015 was above the EU average.

Fewer liquidations in Hungary thanks to upturn

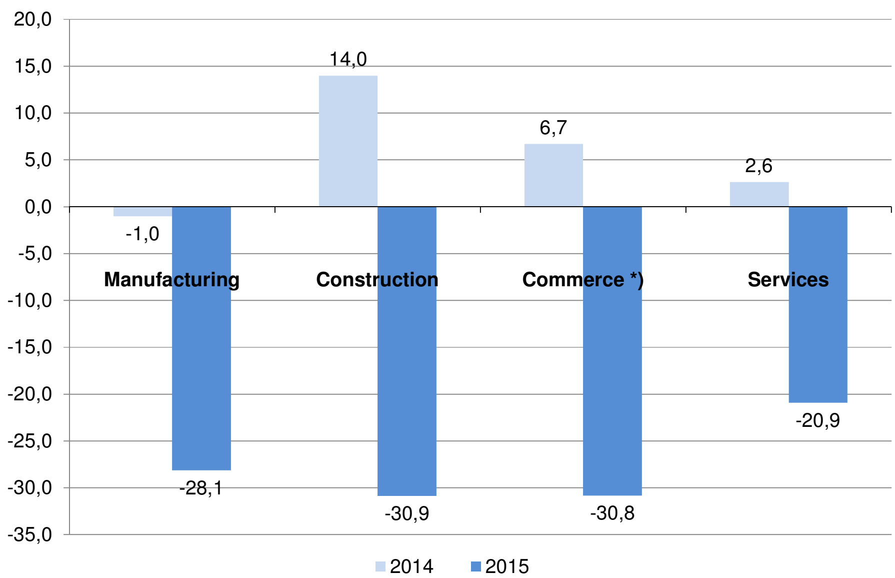
Tab. 9: Contribution of the key economic sectors to insolvency in Central and Eastern Europe *)

■	2014	2015
Manufacturing	10.7	10.5
Construction	13.7	13.0
Commerce **)	38.1	36.0
Services	37.5	40.6

*) Calculations on the basis of eight CEE countries
**) including hotels/catering

Insolvency in Eastern Europe primarily involved the sectors commerce and services; together, these accounted for 76.6 percent of all registered insolvencies. While the other two sectors reduced their shares of the total – manufacturing from 10.7 to 10.5 percent, construction from 13.7 to 13.0 percent – the field of services in particular posted a higher proportion than before.

Fig. 8: Insolvencies in Eastern Europe *) according to economic sectors; changes 2014/15 in percent



*) without Croatia

Overall, insolvency figures in Eastern Europe have fallen appreciably in all branches of the economy. Compared with 2014, the most marked reductions were in construction and commerce, each with a fall of 31.0 percent. Even though the decline in the services sector (minus 21.0 percent) was below average, it was still substantial. The year before, three sectors had registered higher year-on-year totals: construction (plus 12.8 percent), commerce (plus 5.9 percent) and services (plus 1.9 percent).

Tab. 10: Corporate insolvencies in Russia, Turkey and Ukraine

■	2015	2014	2013	2012	2011	Change 2014/15 in %
Russia	14,624	14,508	13,144	11,279	12,794	+ 0.8
Turkey	13,701	15,822	17,400	16,063	21,849	- 13.4
Ukraine	13,696	13,198	8,811	12,016	17,178	+ 3.8

Russia cannot free itself from crisis

Against the background of the drop in commodity prices and the trade sanctions, the **Russian** economy continued to contract perceptibly in 2015. Accordingly, the number of corporate insolvencies in Russia remained at a relatively high level, with a 2015 total of 14,624, after 14,508 the year before (plus 0.8 percent). In the course of the year, though, the situation eased somewhat. Since October 2015, following changes in insolvency legislation, one-man firms can opt for private bankruptcy proceedings. This should tend to reduce the number of corporate insolvencies. At the same time, though, the rights of creditors were strengthened, and this could trigger greater interest in filing for insolvency. The economic crisis impacted especially on tourism, and one of the more sizeable business failures in Russia in 2015 was the airline Transaero. The automobile market is also caught up in recession, and many car dealers are in danger of going broke; the market shake-out is continuing.

In **Turkey,** insolvency figures declined; this was due to the country's good economic development. Over the past ten years, the country has registered average growth of 4.7 percent, and in 2015, despite the threat of war and terror, Turkey's GDP expanded by a further 4 percent.

Ukraine in deep recession

The severe economic crisis in **Ukraine** is persisting. In 2015, GDP shrank by 10 percent, business relations with neighbouring Russia have cooled down even further, and the country's financial sector is weak. There has been a corresponding decline in investment and consumption and a rise in the number of corporate insolvencies, to a total of 13,696 cases.

■ 4 Insolvencies in the USA

Horror of the financial crisis gradually paling

The number of corporate insolvencies in the USA fell significantly in 2015, by 13.6 percent to 29,897 new cases. That was the lowest total since the start of the financial and economic crisis. The positive economic development continued, with GDP growth of around 2.5 percent. With population figures increasing, private consumption was one of the main growth drivers. Around one fifth of the corporate insolvencies in 2015 involved filings for protection from creditors under Chapter 11 of the US bankruptcy code.

Tab. 11: Corporate insolvencies in the USA

■	2015	2014	2013	2012	2011	Change 2014/15 in %
	29,897	34,588	44,122	57,768	74,251	- 13.6

■ 5 Summary

In Western Europe (EU-15, Norway and Switzerland), activity on the insolvency front has continued to ease. In 2015, the number of corporate insolvencies was 4.0 percent down on the prior-year figure. But at 174,891 (2014: 182,132), the total is still higher than before the start of the financial crisis in 2008.

Only four of the 17 Western European countries covered by this survey posted a year-on-year rise (2014/15) in insolvencies: Portugal, Switzerland, Luxembourg and France. The strongest fall was that noted by Greece, but that was from an already low baseline. Then came Spain and the Netherlands.

The situation eased particularly in the Mediterranean countries and in Ireland (the so-called GIIPS states) where the financial crisis and the subsequent recession had made corporate insolvency totals climb sharply. By long-term standards, however, the number there still remains high.

In the UK and in Germany, the favourable economic climate continued, with the volume of insolvencies falling back to below the pre-crisis level. France, in contrast, registers an ongoing high scale of insolvencies, reflecting the country's sluggish economic development.

The contribution to aggregate insolvencies in Western Europe made by the GIIPS states has fallen modestly, from 17.2 to 16.8 percent. The biggest proportion was generated by France, with 35.1 percent and an upward trend (2014: 31.6 percent). Germany's share has stayed virtually static, at 13.3, while the UK's share fell from 9.8 to 9.1 percent.

The economic sector with the steepest reduction in insolvency figures was manufacturing (minus 8.7 percent). Then, each with declines of 5.1 percent, came construction and the field of services. In commerce (included hotels and catering), the fall – at 1.9 percent – was less marked than it had been the year before; accordingly, this sector's contribution to the overall volume of insolvencies in Western Europe has increased slightly (from 31.4 to 32.1 percent).

The positive trend in key financial figures – such as earnings margins – among firms in Western Europe has continued. A growing number of the companies which are obliged to disclose balance-sheets now post a very high earnings margin upwards of 25 percent of turnover. At the same time, fewer firms than the year before registered losses. In the commerce sector, the proportion of such firms was above-average, although there has been an improvement in this respect. However, only rarely do firms in this sector post high earnings margins.

Equity ratios also reflect the growing economic recovery in Western Europe. The proportion of companies with high equity ratios of more than 50 percent rose year-on-year (2013/2014) from 40.9

to 42.0 percent. But around one quarter of all firms (24.3 percent) must be considered undercapitalised, with equity ratios of below 10 percent.

Shorter collection periods are an expression of greater liquidity and more stability. But in the Southern European countries and Ireland, it still takes more than 80 days on average for invoices to be settled. In Germany, collection period have lengthened slightly, and that is also true of France and Scandinavia

The countries of Central and Eastern Europe have also been registering a fall in their insolvency figures, and at 11.4 percent this was in fact even more marked in Western Europe. Aggregate corporate insolvencies declined from 101,707 to 90,069. The year before, the number had continued to rise. The reduction is broadly based, with eight countries in Eastern Europe posting reduction. The biggest improvement was that exhibited by Romania. Developments were also very positive in Slovakia, the Czech Republic, and in the Baltic states (with the exception of Lithuania).

Insolvency in Eastern Europe primarily involved the sectors commerce and services. These were together responsible for three-quarters of the overall total of registered insolvencies, with the trend pointing upwards.

The sustained deep recession in Ukraine and Russia has kept the number of corporate insolvencies in these countries at a high level. In contrast, the number of business bankruptcies in the USA has fallen significantly.

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