Corporate insolvencies in Europe

2016/17

Creditreform
Wirtschaftsforschung

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■ 1 Insolvencies in Western Europe in 2016 – Facts and figures

1.1 Introduction

EU economy picking up despite great uncertainties

The economic recovery in Europe is gaining momentum. Sentiment indicators are climbing. At least up to now the political uncertainties do not appear to have generated any sizeable constraints. It is still unclear, though, what consequences for instance Brexit or the political course of the new US administration will have on the development of the European economy. There are even fears of a trade war. Will the upward growth rates in the countries of Europe be sufficient to have a positive influence on the insolvency situation?

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 in other parts of the continent, it is crucial to be aware of the risks involved in conducting business beyond national borders.

1.2 Developments in individual countries 2015/16

Corporate insolvencies: Third decline in succession

The number of corporate insolvencies in Western Europe (EU-15 plus Norway and Switzerland) continues to fall. In 2016, they totalled 169,455 – some 5,700 or 3.3 percent fewer than in 2015 (175,154). The two previous years (2015 and 2014) had also posted declines (minus 3.8 percent and minus 5.5 percent respectively). The rate of the reduction has, however, slowed down slightly. A longer-term look shows that the volume of insolvencies in Western Europe is still higher than it was before the financial crisis of 2008/2009.

Tab. 1: Corporate insolvencies in Western Europe

■	2016	2015	2014	2013	2012	Change 2015/16 in percent
Austria	5,534	5,422	5,600	5,626	6,266	+ 2.1
Belgium	9,170	9,762	10,736	11,739	10,587	- 6.1
Denmark	6,674	4,029	4,049	4,993	5,456	+ 65.6
Finland	2,408	2,574	2,954	3,131	2,956	- 6.4
France	56,288	61,429	60,853	60,980	59,556	- 8.4
Germany	21,560	23,180	24,030	26,120	28,720	- 7.0
Greece	108	189	330	392	415	- 42.9
Ireland	1,032	1,049	1,164	1,365	1,684	- 1.6
Italy	15,057	16,015	16,101	14,272	12,311	- 6.0
Luxembourg	983	873	845	1,016	1,033	+ 12.6
Netherlands	4,399	5,271	6,645	8,375	7,373	- 16.5
Norway	4,544	4,462	4,803	4,564	3,814	+ 1.8
Portugal	7,168	7,288	6,773	8,131	7,763	- 1.6
Spain	4,080	5,097	6,564	8,934	7,799	- 20.0
Sweden	6,019	6,433	7,158	7,701	7,737	- 6.4
Switzerland	6,504	6,098	5,867	6,495	6,841	+ 6.7
UK *)	17,927	15,983	17,660	18,935	21,252	+ 12.2
Total	**169,455**	**175,154**	**182,132**	**192,769**	**191,563**	**- 3.3**

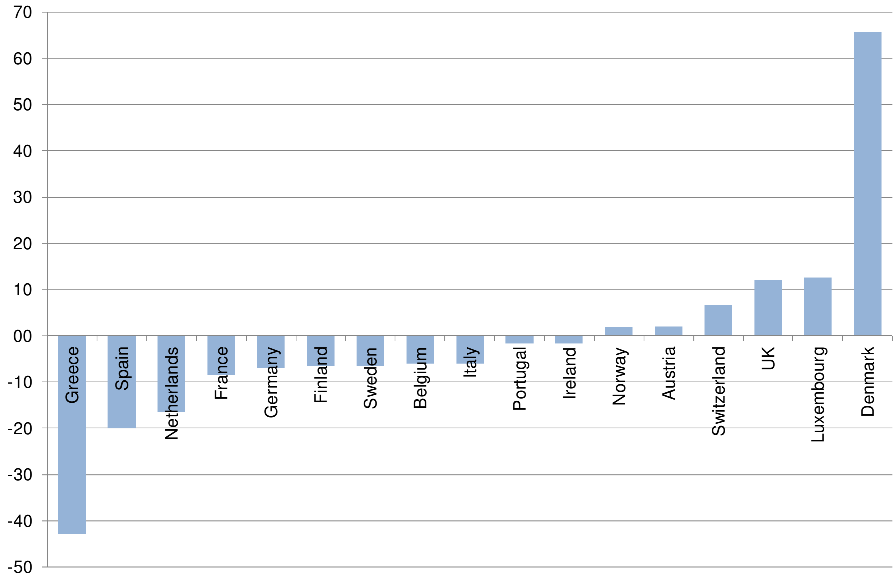
*) New calculation method from 2015; data revision from 2008

Insolvency fall not evident everywhere

Only six of the 17 countries under review registered an increase in the number of corporate insolvencies (cf. Fig. 1). Denmark posted a substantial rise of 65.6 percent. The volume also increased again in the UK (plus 12.2 percent). There was a similar rise in Luxembourg (12.6 percent). Less marked was the growth in Switzerland (plus 6.7 percent), Austria (plus 2.1 percent) and Norway (plus 1.8 percent).

In the southern countries of Europe, such as Greece (minus 42.9 percent) and Spain (minus 20.0 percent), the decline in insolvency figures is not synonymous with any fall in business mortality, especially in view of the fact that the consequences of the financial crisis are still virulent there and firms disappear from the market far more frequently as the result of simply being closed down. The Netherlands (minus 16.5 percent), though, exhibits an ongoing drop in its insolvency volume. In France (minus 8.4 percent), it was the first time in five years that the insolvency total shrank to any notable extent. In Germany, the volume contracted around twice as strongly as the Western European average.

Fig. 1: Development of corporate insolvencies in Western Europe 2015/16



Changes in percent; Source: Creditreform

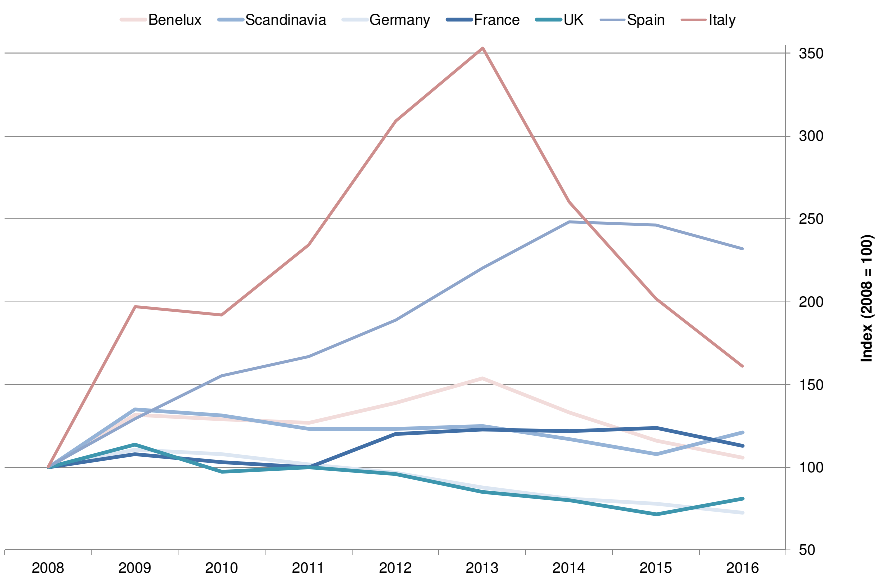
Insolvencies usually represent only a fraction of all business liquidations. In many countries, small firms encountering financial difficulties are often merely closed down without any orderly insolvency proceedings; these tiny firms are then simply erased from commercial registers (closures in Western 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 countries. It can be assumed, though, that such closures total several times the annual number of registered insolvencies.

There are also differences in the way in which the bankruptcies of self-employed persons 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 on the number of creditors. Overall, it can be assumed that in particular small-scale bankruptcies by self-employed persons are not comprehensively registered as corporate insolvencies.

Developments in former crisis countries vary

Following the sometimes-massive climb in insolvency figures in the wake of the economic and financial crisis, a trend towards an easing of the situation is apparent almost everywhere in Europe (cf. Fig. 2). In some countries (e.g. Germany and the UK), the annual insolvency volumes are in fact now well below their pre-crisis levels. In others, like France, the total is still higher than in 2008. In Spain, too, the level remains higher than it was then, despite a distinct improvement. In Italy, the trend – after years of crisis-related rises – now seems to be turning, but this will have to be confirmed in the years ahead.

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



Figures in index points; Source: Creditreform

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

UK: Insolvency trend reversed again

Following the positive development of the year before, the number of corporate insolvencies in the **United Kingdom** (England, Wales, Scotland, Northern Ireland) has climbed again. In 2016, it rose by 12.2 percent (2015: minus 9.5 percent) to 17,927 (2015: 15,983). But the current figure is well below the previous record (2009: 25,288). In 2016, the economy in the UK developed somewhat less robustly than it had the year before.

Gross domestic product (GDP) would appear to have expanded by just under two percent, fuelled mainly by private consumption, with business investment remaining weak in the face of the uncertainties over Brexit.

In **Germany,** the volume of corporate insolvencies in 2016 was lower than at any time since the introduction of the Insolvency Code in 1999, with a total of 21,560 cases (2015: 23,180). The decline has in fact speeded up and the bright economic climate has been maintained. GDP rose by 1.9 percent in real terms, somewhat more than the year before. Growth was driven by both state and private expenditure, meaning that most of the momentum was created internally.

Germany: Strong economic growth, fewer insolvencies

The **Benelux countries** posted a marked fall in corporate insolvencies in 2016. The aggregate number of registered cases in the three countries eased by 8.5 percent to 14,552 (2015: 15,906). This was the third annual decline in succession (2013/14: minus 13.7 percent; 2014/15: minus 12.7 percent). There was a particularly sharp fall in the Netherlands (minus 16.5 percent to 4,399), followed by Belgium (minus 6.1 percent to 9,170), while Luxembourg actually noted an increase of 12.6 percent to 983, the highest level since 2013. In the Netherlands, in the other hand, the volume of insolvencies has settled at around the pre-crisis level, while the result in Belgium represents a continuation of the country's positive course.

Benelux: Only Luxembourg out of step

In 2016, **Switzerland** was again one of the few Western European countries to note a rise in insolvencies. The total increased from 6,098 to 6,504 (plus 6.7 percent). The strength of the Swiss franc vis-à-vis the euro probably spoiled the balance-sheet in regard to exports and tourism. At just over one percent, economic growth was barely higher than the year before.

Switzerland: Weak output drives insolvencies

Austria also registered a slight increase in insolvency figures; these rose from 5,422 to 5,534 (plus 2.1 percent). By long-term standards, though, the total was on the low side: in the past ten years, the annual average has been just over 6,100. And the Austrian economy has been picking up, with the GDP growth rate climbing from 1.0 to 1.5 percent. In particular, domestic demand increased. So insolvency levels should soon flatten out again.

Finland and Sweden set standard for Scandinavia

In the **Scandinavian countries**, a term which within the framework of this survey includes euro-nation Finland as well as Denmark, Sweden and Norway, insolvencies developed in two separate ways in 2016. A reduction in the volume in Finland and Sweden (each: minus 6.4 percent) contrasted with rises in Norway (plus 1.8 percent) and Denmark (plus 65.6 percent) The last time lower totals were noted in Finland and Sweden was in 2007. In Norway, the prior-year recovery was evidently just a passing phase. The number of insolvencies is still almost twice as high as it was ten years ago. In Denmark, the chief reason for the nearly 70 percent surge in the insolvency total was the final processing of the backlog of cases from previous years. Another factor contributing to the rise was probably the introduction (in 2014) of a new mini-form of incorporated enterprise, the IVS (comparable to the UG or entrepreneurial company in Germany).

Situation in France eases

In **France,** the insolvency situation eased significantly in 2016. After peaking the year before (61,429 cases) the total fell by 8.4 percent to 56,288. So after Greece, Spain and the Netherlands, France registered the biggest reduction in insolvency figures. The current total is the lowest since 2011. Most recently, GDP growth has been stable (plus 1.3 percent), fuelled both by business investment and above all by the domestic economy, but the upturn has generally speaking remained rather weak.

Italy remains problem case

Italy is one of the few countries where the volume of corporate insolvencies is still considerably higher than before the start of the crisis. Although the 2016 figure, 15,057, represented a year-on-year decline (minus 6.0 percent), it remains at a high level. In 2008, for instance, the total was 6,498. So the once strong Italian economy has not escaped from crisis mode for almost ten years now. Economic growth and productivity are stagnating and are not much higher than they were 15 years ago. The bank crisis is also endangering business development. Italy's economic structure, especial regarding added value, is shaped by small firms which lack the strength to compete on a global basis.

A similar development on the insolvency front to that in Italy has also been evident for some time now in **Portugal**. Following a rise the year before, the number of corporate insolvencies admittedly dropped slightly in 2016 (minus 1.6 percent) but remains at an appreciably higher level than in previous years. Economic growth in 2016 appears to have been only around one percent, and was anyway driven solely by private consumption. Private enterprise's debt-to-equity ratio remains very high and thus does not provide a good basis for any improvement in corporate stability.

Spain develops favourably

The insolvency situation in **Spain** developed in a more favourable manner. The number of corporate insolvencies fell substantially, by 20.0 percent to 4,080 – just around half of the totals registered in 2012 (7,799) and 2013 (8,934). Now, though, Spanish GDP is growing again vigorously, by just over three percent in both 2015 and 2016. So the crisis definitely seems to be over and done-with.

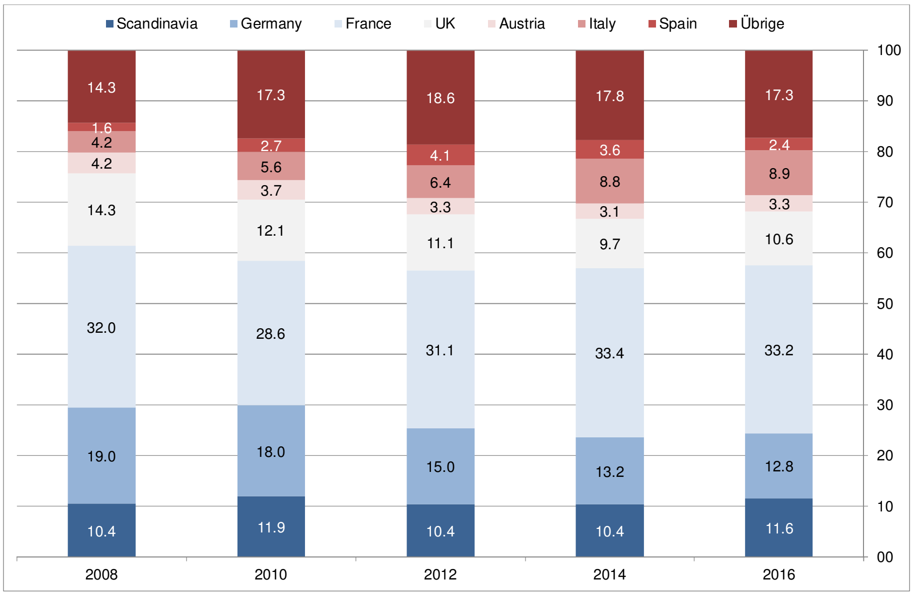
Ireland: Insolvency development takes a break

Despite the improved economic situation in **Ireland,** the number of corporate insolvencies there remains high (2016: 1,032; 2015: 1,049). Although the country remains on the path towards recovery, with a growth rate in 2016 of over four percent, the volume of business bankruptcies did not change that much (minus 1.6 percent). That contrasts with the prior-year decline of 9.9 percent. The greater punch of the Irish economy, based on reforms and cost-cutting measures, evidently claims victims – firms that can no longer compete. An additional risk factor for Ireland in times of Brexit is its direct proximity to the UK.

Italy's share of EU insolvency total grows

In 2016, France accounted for one third of all the corporate insolvencies in Western Europe (33.2 percent). In the wake of the economic crisis, when other countries were also experiencing a marked rise in business failures, the French share of the total fell to 28.6 percent (2010). The German proportion, on the other hand, has been declining for some years, to the present level of 12.7 percent. In 2008, the figure was 19.0 percent. Following the recent increase in insolvency numbers there, the UK's contribution to the Western European total has risen again (to 10.6 percent) but is still well below the figure for 2008 (14.3 percent). 8.9 percent of all Western European companies forced to file for insolvency in 2016 came from Italy, twice the proportion noted in 2008 (4.2 percent). In contrast, Austria's share dropped in the same period from 4.2 to 3.3 percent.

Fig. 3: Distribution of corporate insolvencies in Western Europe



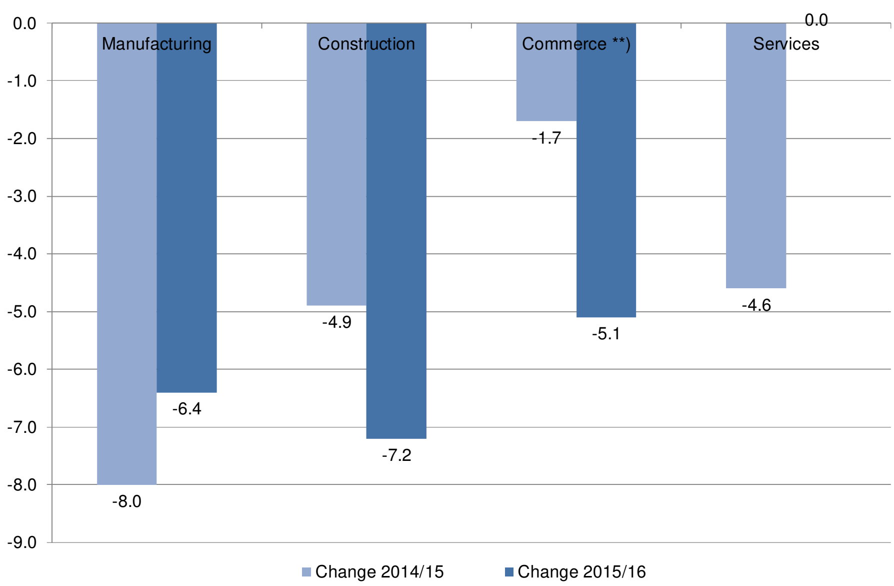
Figures in percent; Source: Creditreform

1.3 Insolvencies according to economic sectors

The incidence of insolvency has also declined in most of the different branches of the economy. Only in the services sector (0.0 percent) was the figure virtually unchanged. This followed a fall of 4.6 percent the year before. The ongoing high incidence of insolvency among service firms was fuelled strongly by the volume in Denmark, where the situation – as mentioned earlier – was due to a backlog effect. In the construction sector and on the retail front, the improvement has accelerated. The former followed the prior-year sharp fall in its insolvency volume (minus 4.9 percent) with an even sharper fall in 2016 (all of minus 7.2 percent), while in the commerce sector, insolvency figures eased by a respectable 5.1 percent. The year before, there had been just a "mini-minus" of 1.7 percent. Insolvencies in the manufacturing sector once again fell robustly (minus 6.4 percent).

Higher insolvency total only in services sector

Fig. 4: Changes in the key economic sectors in Western Europe 2014/15 and 2015/16 *)

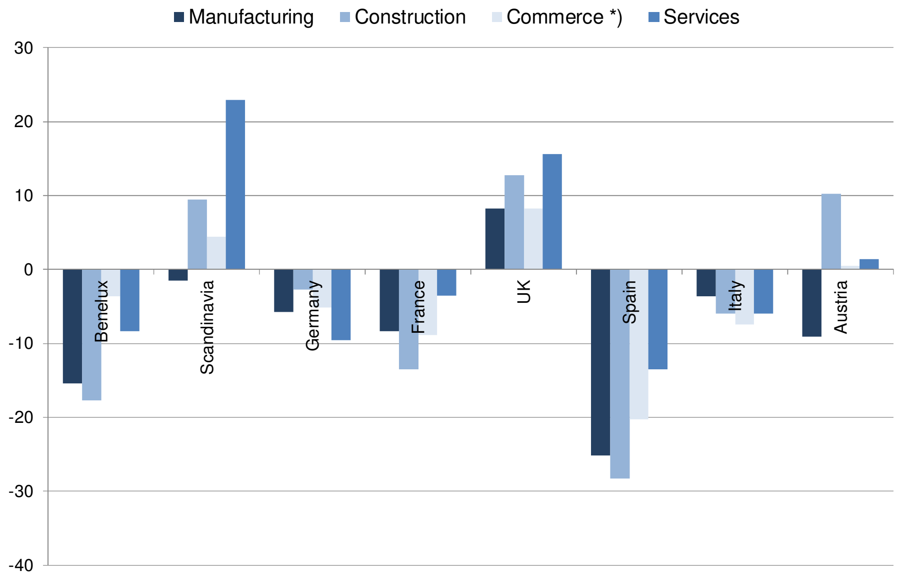


Figures in percent; *) without Ireland or Greece; **) includes hotels/catering
Source: Creditreform

A look at how insolvency totals in the main economic sectors developed in selected Western European countries reveals marked declines above all in Spain. There was a massive reduction, for instance, in particular in the Spanish construction sector (minus 28.3 percent) but also in manufacturing (minus 25.2 percent). In the Benelux countries, too, all the main branches of the economy registered lower figures year-on-year, with the construction sector standing out with a minus of 17.7 percent. This trend was also evident in France: the volume of insolvencies among building firms fell by 13.4 percent, and the other sectors also posted reductions. In Germany, the positive development continued across the entire spectrum of the business world. In commerce, insolvencies shrank by 5.2 percent on 2015, while there were also falls in manufacturing (minus 5.8 percent) and in the services sector (minus 9.6 percent).

Economic sectors: Often in the same direction

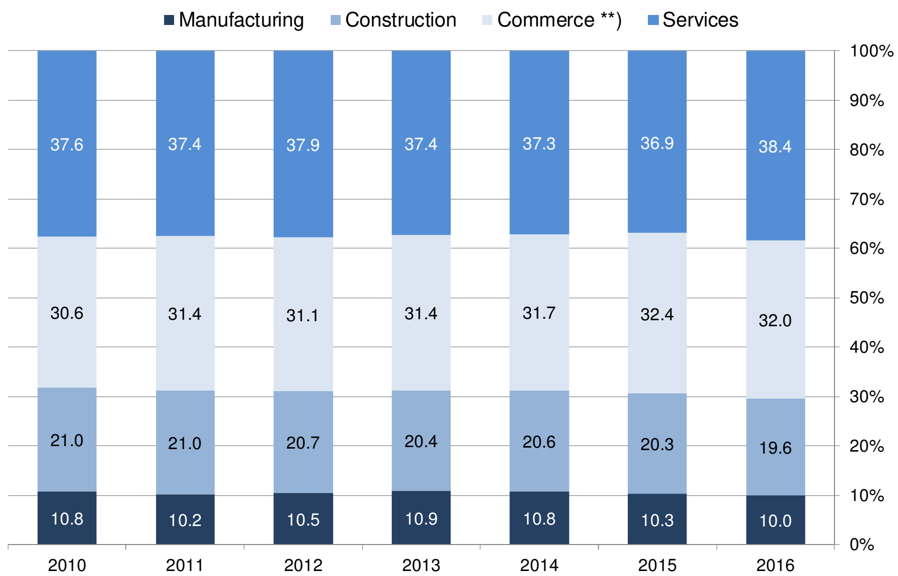
Fig. 5: Chances in the key economic sectors according to countries/regions in 2015/16



Changes in percent; *) includes hotels/catering; Source: Creditreform

In the UK, insolvency totals increased in all the major economic sectors, above all in the field of services (plus 15.8 percent). Massive rises in this sector were also posted in the Scandinavian countries (plus 22.9 percent), while manufacturing there reported fewer business failures (minus 1.5 percent). Contrary to the trend in many Western European countries, the construction industry in Austria noted an appreciable rise in the insolvency total (plus 10.2 percent). The only fall there was in manufacturing (minus 9.1 percent)

Fig. 6: Contribution of the key economic sectors to insolvency in Western Europe 2010 to 2016 *)



Figures in percent; *) without Ireland or Greece; **) includes hotels/catering
Source: Creditreform

The services sector continues to account for the biggest proportion of all insolvencies in Western European (2016: 38.4 percent) and as a result of the increase in the absolute number of insolvencies, this proportion has also expanded considerably (plus 1.5 percentage points compared with 2015). The contribution to the total made by manufacturing has remained more or less steady (2016: 10.0 percent). Seen from the long-term angle, the trend in the field of construction is definitely downward: after all, in the period 2010-2012 this sector was responsible for around 21 percent of the total. In contrast, the proportion generated by the tertiary sector has increased overall by 0.8 percent compared with 2010.

Construction: Sustained cut in insolvency share

The construction industry still makes a strong contribution to the insolvency situation in France (23.8 percent) and Italy (20.8 percent), but the development overall is downward, especially in France. In most of the EU-15 countries plus Switzerland and Norway, manufacturing accounts only for a small slice of the annual volume of insolvencies. In Italy, though, this sector is responsible for over one fifth of all registered cases (20.7 percent); this may possibly be due to the fact that manufacturing firms there tend to be considerably smaller and more vulnerable than in Germany, for instance.

Benelux commerce and Swiss services hard hit

Particularly in the Benelux countries and also in France, commerce accounts for an above-average proportion of the insolvency volume. This does not necessarily suggest any greater susceptibility to insolvency but can result from this sector representing a high share of the relevant country's overall business scene. In most of the Western European countries, though, the insolvency situation is dominated by the services sector. This is especially evident in Switzerland and the United Kingdom, where – respectively – just over half and just under half of all firms filing for bankruptcy are service-providers.

Fig. 2: Sectoral distribution of insolvencies in selected countries/regions in 2015/16

■	**Manufacturing**		**Construction**		**Commerce *)**		**Services**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Benelux	6.2	6.7	14.0	15.6	39.4	37.4	40.3	40.3
Scandinavia	7.9	9.1	19.6	20.1	28.5	30.7	43.9	40.2
Germany	8.0	7.9	15.8	15.1	31.9	31.3	44.4	45.7
France	9.4	9.4	23.8	25.2	35.2	35.4	31.6	30.0
UK	11.0	11.4	17.0	16.9	24.4	25.3	47.7	46.3
Spain	13.1	14.0	18.1	20.2	27.4	27.5	41.4	38.3
Italy	20.7	20.2	20.8	20.8	30.1	30.6	28.4	28.4
Austria	4.9	5.5	18.9	17.5	33.2	33.7	43.0	43.3
Switzerland	6.4	6.5	19.4	19.3	20.9	20.6	53.3	53.6
W. Europe	**10.0**	**10.3**	**19.6**	**20.3**	**32.0**	**32.4**	**38.4**	**36.9**

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

Any ranking of the relative incidence of insolvency (number of insolvencies per 10,000 business enterprises) has to take into account the differences in insolvency legislation within Western Europe and the differences in the way statistics on numbers of companies are compiled. This said, the ranking nevertheless highlights the broad spectrum of proneness to insolvency. Of course, an orderly insolvency procedure represents just one option for market exit – and sometimes, for example in Southern Europe, it is not even the typical option. On the contrary: the standard choices comprise closures or other forms of liquidation, something which distorts any European comparison of insolvency ratios.

Tab. 3: Insolvency ratios in Western Europe in 2016

■	**Insolvencies per 10,000 companies**
Luxembourg	283
Denmark	256
Switzerland	192
Belgium	140
France	138
Norway	123
Austria	95
Sweden	82
UK *)	73
Portugal	71
Finland	68
Germany	67
Ireland	56
Italy	34
Netherlands	31
Spain	12
Total	**70**

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

Source: Eurostat, own calculations

■ 2 Financial situation and liquidity of European companies

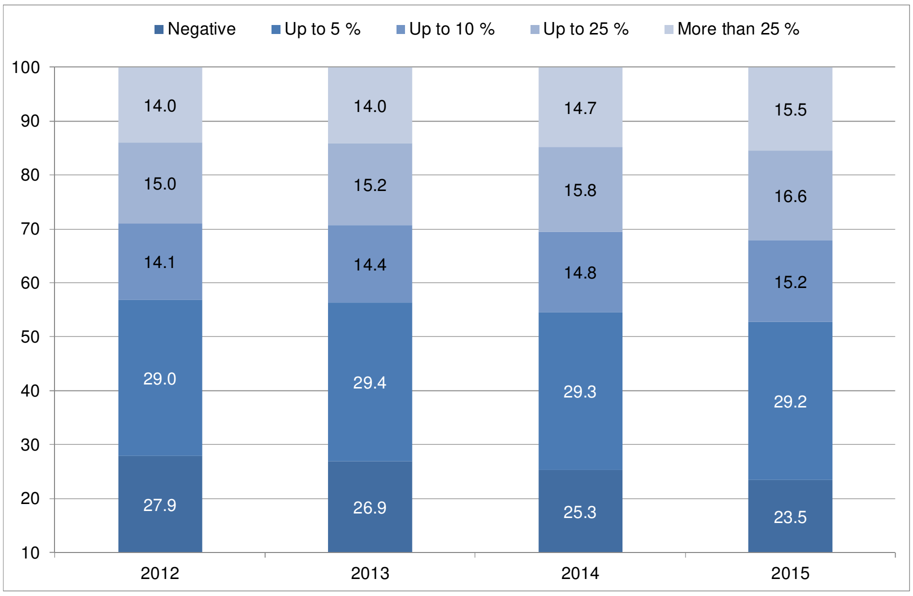
2.1 EBIT margin – Revenues and earnings

Economy recovers, earnings margins rise

On the basis of the disclosed financial statements of around 3.1 million Western European countries, 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 2015 and any changes in comparison with 2014.

The most recent data reveal that earnings margins (the ratio between earnings and turnover) have continued to develop in a positive direction. Some 15.5 percent of all companies in Western Europe can now point to comparatively high earnings margins upwards of 25 percent, as against 14.7 percent of all firms the year before. One sixth of all businesses (16.6 percent) – also a greater proportion than in the prior year – post satisfactory earnings margins of between 10 and 25 percent. On the other hand, there has been an appreciable fall in the percentage of firms exhibiting a negative margin. This has eased from 25.3 to 23.5 percent. In fact, since 2014, the proportion has fallen by 4.4 percentage points.

Fig. 7: EBIT margins in Western European countries



Figures in percent; Source: Creditreform

In the fields of construction and commerce (including hotels/catering), there are admittedly still only few firms registering a high earnings margin (construction 12.1 percent; commerce: 4.8 percent), but overall the development there, too, is positive. But in the commerce sector, the proportion of businesses with a negative EBIT margin remains high (26.0 percent).

Tab. 4: EBIT margins (in %) in selected economic sectors in 2015

■	Construction	Commerce
Negative	22.2 (24.7)	26.0 (28.4)
Up to 5 %	30.7 (31.0)	40.4 (39.7)
Up to 10 %	17.3 (16.7)	16.4 (15.7)
Up to 25 %	17.7 (16.5)	12.4 (11.8)
More than 25 %	12.1 (11.1)	4.8 (4.4)

Figures in percent; ( ) = 2014; Source: Creditreform

2.2 Equity ratios

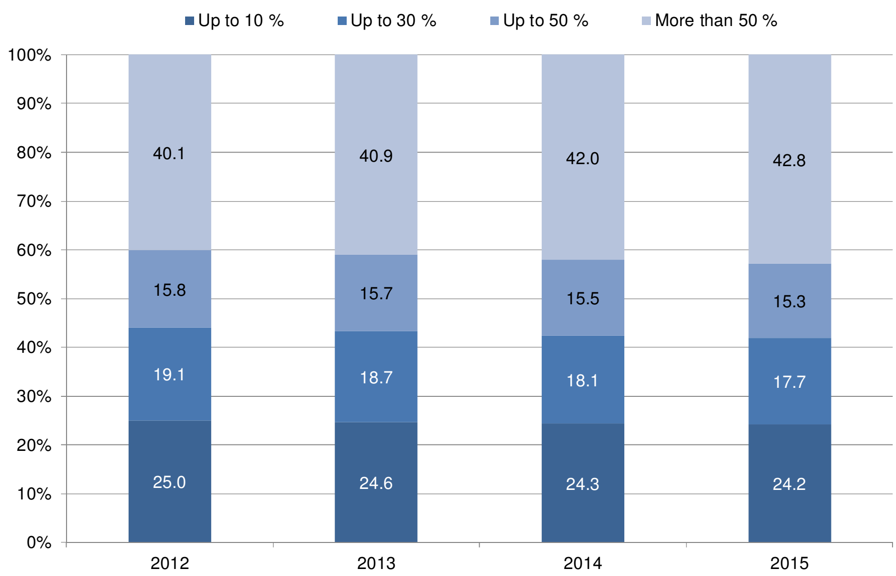
Not as notably as with earnings margins is the way that the economic recovery in Europe is reflected in company financial statements by the figures on “equity capital”. These show that over

Only slow growth in field of equity capital

half of all companies (51.3 percent) have been able to improve their equity ratios (own resources in relation to the balance-sheet total), but the structure in this field remains comparatively unchanged. It is still the case that just under one in four of all firms (24.2 percent) post a very low equity ratio of less than 10 percent – much the same as the year before (24.3 percent). Businesses with an equity ratio of over 50 percent represent 42.8 percent of all firms (prior year: 42.0 percent).

The economic recovery has enabled companies to step up their earnings and profitability, while the still very favourable credit terms produced by the sustained low interest-rate policy of the European Central Bank (ECB) have evidently curbed any further improvement in the equity ratio field, because firms have used the cheap outside capital for credit-financed investments, thus scaling down the relative proportion of their own resources.

Fig. 8: Equity ratios in Western Europe



Figures in percent; Source: Creditreform

In the Western European construction sector, the equity capital situation developed more favourably than it had the year before. One building company in every three (33.6 percent) now has an equity ratio of over 50 percent, as against 32.0 percent of all firms in 2014, and just 29.6 percent in 2012. This fact also reflects the improved stability of the construction sector, something additionally evidenced by the lower insolvency figures. This positive trend is also apparent in the field of manufacturing.

Equity ratios in the construction sector climb

Tab. 5a: Equity ratios of Western European manufacturing companies

■	2015	2014	2013	2012
Under 10 %	23.0	23.5	23.9	24.3
Up to 30 %	21.7	22.0	22.4	22.9
Up to 50 %	18.8	18.9	19.0	19.1
Over 50 %	36.5	35.6	34.7	33.7

Figures in percent; Source: Creditreform, own calculations

In the other key economic sectors, the positive development in respect of equity ratios is not so marked. There has been little movement in commerce or the services sector among those firms with just a weak equity capital position (equity ratio under 10 percent). In the period 2012 to 2015, the proportion of such firms hardly declined at all, with the result that commerce now exhibits the highest proportion of such firms (2015: 28.3 percent).

Tab. 5b: Equity ratios of Western European construction firms

■	2015	2014	2013	2012
Under 10 %	27.5	27.8	28.2	29.0
Up to 30 %	21.0	21.9	22.7	23.1
Up to 50 %	17.9	18.3	18.5	18.3
Over 50 %	33.6	32.0	30.6	29.6

Figures in percent; Source: Creditreform database, own calculations

Tab. 5c: Equity ratios of Western European firms in the field of commerce (including hotels/catering)

■	2015	2014	2013	2012
Under 10 %	28.3	28.7	29.0	29.2
Up to 30 %	22.3	22.7	23.2	23.6
Up to 50 %	17.5	17.5	17.6	17.7
Over 50 %	32.0	31.1	30.2	29.4

Figures in percent; Source: Creditreform database, own calculations

Tab. 5d: Equity ratios of Western European firms in the services sector

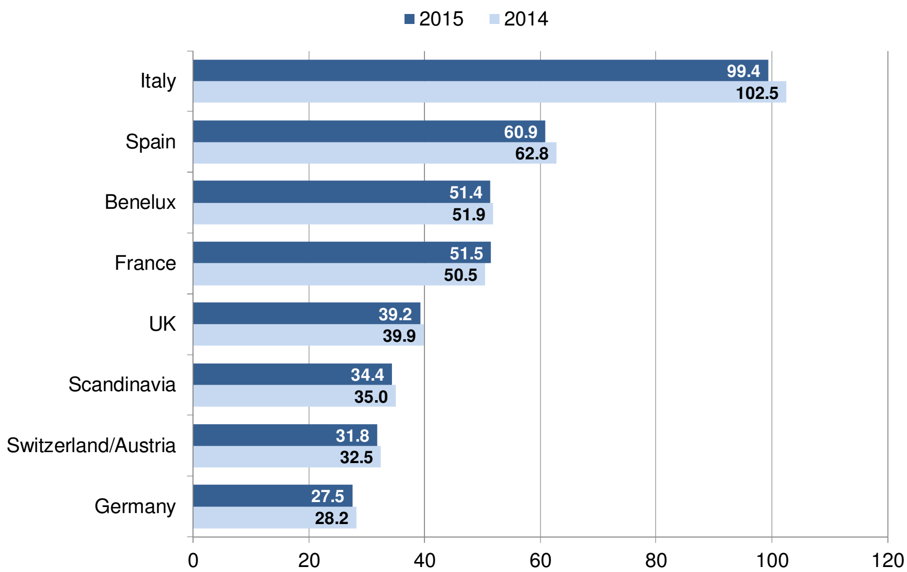
■	2015	2014	2013	2012
Under 10 %	23.1	23.0	23.1	23.3
Up to 30 %	15.7	16.1	16.7	16.9
Up to 50 %	14.3	14.6	14.7	14.8
Over 50 %	46.9	46.3	45.5	44.9

Figures in percent; Source: Creditreform database, own calculations

2.3 Collection periods

In 2015, the average collection period (the total time taken for an invoice to be settled) in Western Europe was 55.4 days. This indicates that payment conduct was slightly better than the year before (2014: 56.2 days).

Fig. 9: Collection periods in Europe (in days)



Median values; collection period min. 1 day; Source: Creditreform

Collection periods shorter

In almost all of the countries surveyed, collection periods had shortened. The only exception was France, where the average period grew (from 50.5 to 51.5 days). Notable improvements were registered in Spain and Italy, but especially in the latter country, the average time it takes for an invoice to be settled remains extremely long (99.4 days). The shortest collection periods are to be found in Germany (27.5 days), followed by Austria/Switzerland (31.8 days) and Scandinavia (34.4 days).

■ 3 Corporate insolvencies in Central and Eastern Europe

Unlike in Western Europe, the countries of Central and Eastern Europe did not exhibit any fall in the total volume of corporate insolvencies. On the contrary: the number of registered cases of insolvency rose from 93,298 in 2015 to 98,668 in 2016, i.e. by 5.8 percent. Just the year before, there had been an appreciable fall (minus 8.3 percent).

No decline in Eastern Europe …

Tab. 6: Corporate insolvencies in Central and Eastern Europe

■	2016	2015	2014	2013	2012	Change 2015/16 in percent
Bulgaria	871	1,083	1,031	1,232	383	- 19.6
Croatia *)	38,052	24,074	7,776	9,019	6,922	+ 58.1
Czech Rep. **)	2,438	3,004	3,563	6,021	8,398	- 18.8
Estonia	335	376	428	469	506	- 10.9
Hungary ***)	41,007	46,967	60,596	46,397	50,224	- 12.7
Latvia	731	802	964	818	881	- 8.9
Lithuania	2,560	2,012	1,594	1,561	1,354	+ 27.2
Poland	597	770	864	926	908	- 22.5
Romania	8,053	10,269	20,696	27,924	26,807	- 21.6
Serbia	2,104	2,072	2,062	n.s.	n.s.	+ 1.5
Slovakia	692	715	831	880	866	- 3.2
Slovenia	1,228	1,154	1,302	941	595	+ 6.4
Total	**98,668**	**93,298**	**101,707**	**96,188**	**97,844**	**+ 5.8**

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

All the same, only four countries actually registered a rise. One, notably, was Croatia: since 2015, it has had new insolvency legislation, and increased and wider use of this was probably one reason for the sharp growth of corporate insolvencies (plus 58.1 percent). A marked rise in corporate insolvencies was also noted in Lithuania (plus 27.2 percent), while smaller relative increases were posted in Slovenia and Serbia.

… but downward trend in most countries

There follows an overview of the current situation in the individual countries of Central and Eastern Europe.

Insolvency proceedings to be speeded up

Bulgaria is this time one of the countries to register an appreciable decline in insolvency figures (minus 19.6 percent). In particular, the number of newly opened proceedings was well below the prior-year level. But probably only a fraction of all liquidations actually go through the elaborate insolvency procedure. Now, though, the law has been amended to shorten the length of the insolvency proceedings. Despite all the domestic political problems it faces, Bulgaria's economy has developed surprisingly well. In 2016, gross domestic product grew by over three percent, fuelled especially by private consumption. There has been a further fall in the unemployment rate.

Many insolvencies initiated by officialdom

Following the strong increase in corporate insolvencies in **Croatia** the year before, triggered by a change in the relevant legislation, the volume in 2016 continued to expand (plus 58.1 percent; 2015: plus 209.6 percent). In line with the new legal position, insolvency cases against distressed firms are de facto initiated by officialdom. In most of these cases, though, there is a lack of any assets. Construction and commerce are among the sectors most affected. Nevertheless, the economy in Croatia – after long years of crisis – is gaining momentum (GDP 2016: plus 2.7 percent) on both the domestic and the foreign trade fronts.

Latvia and Estonia in step with each other

Just like the year before, **Estonia** and **Latvia** reported declining insolvency figures. The reduction in Estonia (minus 10.9 percent) was slightly more marked than that in Latvia (minus 8.9 percent), but in both countries, it took the relevant totals to their lowest level since 2010. This may be because the economic and political uncertainties are probably making business enterprises more reticent about taking risks. Another factor is that in mini-insolvencies where assets are insufficient to cover legal costs, the firms concerned are not subjected to orderly proceedings but simply officially erased from the registers. Latvia experienced a particularly sharp decline in insolvencies in the construction industry but only a slight reduction in the tertiary sector.

Lithuania: The state drives insolvencies

In **Lithuania,** the volume of corporate insolvencies continued to expand in 2016 following legislative changes introduced the year before making it easier to initiate proceedings. Following the substantial increase in 2015 (plus 26.2 percent), the rise in 2016 was on a similar scale (plus 27.2 percent). The climb was particularly marked in manufacturing, following by commerce. An additional explanation for the upward trend was probably also the fact that as from the middle of 2017, the costs of opening proceedings are set to rise. In Lithuania, cases are usually initiated by state authorities such as tax offices and social insurance carriers.

Fewer bankruptcies thanks to economic surge

Poland posted a perceptible drop in insolvency figures (minus 22.5 percent), with a total in 2016 of 597 cases (2015: 770). The positive trend was evident in all the key economic sectors, and there was also an ongoing decline in the number of jobs affected. With economic growth of more than three percent in 2016, Poland is one of the EU countries exhibiting a dynamic upturn. Thanks to higher real-term incomes, private consumption in particular expanded robustly. Investment, on the other hand, remained weak.

Insolvencies at record low

In **Romania,** the insolvency situation continued to ease in 2016 (minus 21.6 percent; 2015: minus 50.4 percent). In all, there were 8,053 corporate insolvencies, the biggest number of them in commerce, followed by the construction industry. These two sectors account for an increasing proportion of the total. Mini-enterprises are the most frequently affected. The overall downward trend was evidently favoured by Romania‘s strong economic growth, which surged to over 5 percent in

2016. Consumption and imports flourished, fuelled for instance by tax cuts and wage increases.

Insolvency applications decline again

In the **Czech Republic,** the distinctly downward trend in the field of corporate insolvencies has continued (2016: minus 18.8 percent; 2015: minus 15.7 percent). So after peaking in 2012, with nearly 8,400 applications for insolvency, the situation has eased appreciably. One factor in this has been the good economic development. However, the pace of GDP growth has slipped from 4.5 percent in 2015 to around 2.5 percent, following a pause in the investment activity dependent on EU funds. Something else is that since 2013, traders can opt for private insolvency proceedings, and that has also tended to curb the number of corporate insolvencies. Year-on-year (2015/16), the reduction in insolvency totals was sharp in the construction industry and in commerce.

In 2016, the volume of insolvencies in **Slovakia** fell only modestly (minus 3.2 percent); that followed a more marked decline the previous year (2015: minus 14.0 percent). Nevertheless, the economy there continues to make progress, with a growth rate of 3.6 percent in 2016, only slightly less than the year before. Thanks to the fall in the unemployment rate to under 10 percent and the creation of many new jobs, private consumption is also picking up.

Hungary: Far fewer construction insolvencies

Hungary, too, posted a fall in insolvency numbers (minus 12.7 percent) and thus continued the positive course noted the year before (minus 22.5 percent). One reason for this is the upturn in the economy, which was sustained in 2016 but flattened out somewhat. Momentum has increasingly been coming from within the country, which presumably benefited small and mid-range companies, with the number of insolvencies in the construction industry, for example, posting the biggest year-on-year fall. Investment activity, on the other hand, has weakened.

Tab. 7: Contribution of the key economic sectors to insolvency in Central and Eastern Europe *)

■	2016	2015
Manufacturing	10.9	10.5
Construction	12.2	12.8
Commerce**)	36.2	35.9
Services	40.7	40.7

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

Services with biggest share, then commerce

Figures from the three Baltic states and from Poland, Romania, the Czech Republic, Bulgaria and Hungary help to provide a picture of how the economic sectors contribute to the insolvency total. They show that the services sector is responsible for the largest share (40.7 percent of all cases), followed by commerce (36.2 percent). Construction accounts for around one eighth of all registered insolvencies in CEE (12.2 percent), which is lower than the figure in Western Europe, while the contribution by commerce is higher than in the western part of the continent.

Tab. 8: Corporate insolvencies in Russia, Turkey and Ukraine

■	2016	2015	2014	2013	2012	Change 2015/16 in %
Russia	12,500	14,624	14,508	13,144	11,279	- 14.5
Turkey	11,038	13,701	15,822	17,400	16,063	- 19.4
Ukraine	19,853	13,696	13,198	8,811	12,016	+ 45.0

Insolvency development shows only partial picture

In 2016, the number of corporate insolvencies in **Russia** fell by 14.5 percent to 12,500, after 14,624 the year before. Part of the background concerned changes in insolvency legislation: since the end of 2015, self-employed persons can under certain circumstances apply for a private insolvency. That tended to lift the relevant numbers in that field while reducing the corporate insolvency total. At the same time, the number of liquidations conducted outside the realm of insolvency proceedings has been on the increase. That reflects the still sluggish economic development – in 2016 the economy stagnated, following on from a fall in GDP the previous year. Above all private consumption is still caught up in crisis. A look at the sectoral spread of insolvency shows that the situation in the construction industry and the field of car dealing remains tense.

Economic slump avoided – insolvencies in decline

In **Turkey,** there was a marked year-on-year reduction in the number of businesses filing for insolvency. After 13,701 in 2015, the total fell by nearly one fifth. But economic growth in 2016 weakened compared with the year before, to just under three percent – only around half of the level seen in recent years. Consumption – backed by state support – helped to sustain the economy and thus avoid any more serious slump in connection with the sometimes-great political uncertainties (attempted coup in July 2016). The number of corporate insolvencies evolved accordingly, with a sharp reduction, for instance, in the construction industry.

Repercussions of the severe recession

Ukraine posted a substantial increase in the volume of corporate insolvencies, reflecting the full force of the sustained severe and deep recession of recent years. In 2015, for instance, GDP had slumped by around 10 percent, and although this fall was halted for the time being in 2016, with the economy recovering slightly, the situation remains tense. The number of corporate insolvencies rose from 13,696 to 19,853 (plus 45.0 percent).

■ 4 Insolvencies in the USA

Economic dip prompts rise in insolvencies

In the United States, the number of corporate insolvencies rose considerably in 2016, by 27.1 percent to just under 38,000, the highest total since 2013. In 2015, the volume had fallen to the lowest level since the start of the financial and economic crisis. The number of filings for protection from creditors under Chapter 11 of the US bankruptcy code fell compared with 2015. Following a weak first half in 2016, the economic development in the United States was well down on that seen in 2015, with private consumption being virtually the sole mainstay. There was no stimulus from foreign trade, since the strength of the dollar curbed demand for US goods. This produced a further downturn in investment activity by private enterprise.

Tab. 9: Corporate insolvencies in the USA

■	2016	2015	2014	2013	2012	Change 2015/16 in %
Companies	37,997	29,897	34,588	44,122	57,768	+ 27.1

■ 5 Summary

In 2016, the number of corporate insolvencies in Western Europe (EU-15 plus Norway and Switzerland) fell year-on-year by 3.3 percent or just over 5,700 cases to 169,455. Most of the 17 countries under review posted a downward trend.

In Spain (minus 20.0 percent), the situation eased for the third year in a row, while in France (minus 8.4 percent), insolvencies fell by a significant margin for the first time in five years. All the same, the total in both these countries was still higher than before the economic and financial crisis. In Italy, the steep rise in insolvency figures since 2008 has now been halted: the total there declined slightly by 6.0 percent, but Italy's share of aggregate insolvencies in Europe has expanded steadily since the crisis. There were increases in Denmark (plus 65.6 percent), followed by Luxembourg (plus 12.6 percent) and the UK (plus 12.2 percent). Germany's contribution to the Western European insolvency total has fallen from nearly one fifth in 2008 to about one eighth.

Services formed the only economic sector not to register any decline in insolvencies. In the construction industry and in commerce, on the other hand, the declines in insolvency figures, 7.2 and 5.1 percent respectively, were actually somewhat sharper than the year before. Construction's proportion of the total insolvency volume in Western Europe – which had once, in 2010, reached 21 percent – now stands at just under one fifth (19.6

percent). In contrast, the proportion generated by the tertiary sector – which accounts for the lion’s share of the total, with 38.4 percent – has grown by 0.8 percentage points in the same period.

The greater resilience to insolvency has not come about by chance. The earnings margins of Western European business enterprises have also been improving. An examination of disclosed financial statements shows that 15.5 percent of all companies can now point to a relatively high earnings margin of more than 25 percent. At the same time, there has been an appreciable fall in the proportion of firms registering negative earnings. This declined from 25.3 to 23.5 percent, and has shrunk by all of 4.4 percentage points compared with 2012.

In the field of equity ratios, the positive trend has not been quite as marked. Almost one business enterprise in every four in Western Europe (24.2 percent) still posts a very low equity ratio of less than 10 percent. It seems that the still very favourable credit terms produced by the low interest-rate policy pursued by the European Central Bank (ECB) have increasingly prompted companies to finance investments and purchases by means of outside capital. The European construction industry, though, has continued to strengthen its equity basis. The biggest proportion of firms exhibiting low equity ratios is now to be found in the field of commerce.

The average collection period in Western Europe is currently just over 55 days. But there are considerable differences between the individual countries. In most of the countries surveyed, the time taken for invoices to be settled has fallen. In Italy, however, the average collection period is still very long, with 99 days. Then comes Spain (61 days). In comparison: in Germany, following the recent downward trend, the figure is now 27.5 days.

The total number of corporate insolvencies in the states of Central and Eastern Europe in 2016 climbed slightly. At altogether 98,668, the prior-year figure (93,298) was exceeded by 5.8 percent. This was due to increases in just a small number of countries, headed by Croatia (plus 58.1 percent) and Lithuania (plus 27.2 percent). In fact, in most of the twelve countries where relevant data is available, the overall figures declined. This was particularly the case in Poland (minus 22.5 percent) and Romania (minus 21.6 percent). Then came Bulgaria (minus 19.6 percent) and the Czech Republic (minus 18.8 percent).

Around one eighth of registered insolvencies in Central and Eastern Europe were in the construction industry (12.2 percent), while commerce accounted for 36.2 percent. The former figure is lower than that in Western Europe, the latter is higher.

The repercussions of the severe recession in Ukraine that had caused a slump the year before continued to make themselves felt in 2016, leading to a substantial increase in the insolvency total (plus 45.0 percent). In Turkey, a slump, with negative consequences for insolvency figures, was avoided, and the volume declined by 19.4 percent. In Russia, amendments in insolvency legislation evidently play a role in easing the situation in this field, with the result that the insolvency total sank (minus 14.5 percent). In terms of the economy, the country just managed to scrape by the risk of stagnation. In the United States, the number of corporate insolvencies rose considerably: with almost 38,000 cases, the prior-year level was exceeded by all of 27.1 percent.

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