Corporate insolvencies in Europe

2018/19

Creditreform
Wirtschaftsforschung

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■ 1 Insolvencies in Western Europe in 2018 – Facts and figures

1.1 Introduction

Economy in Europe loses momentum

Economic development in Europe slowed in the course of 2018. One factor was Brexit, which developed into a burden for the economy after the failure to agree on a deal by the turn of the year 2018/2019. However, the largely stable domestic economy kept the upswing in Europe alive for the time being. The unemployment rate remained low, wage increases with moderate inflation and rising government spending provided further impetus. In the important eurozone, the growth rate of gross domestic product (GDP) is likely to have been just under 2 percent again in 2018. But Europe's vulnerability to negative influences has also increased. Thus, the economic upswing is likely to lose further momentum in the coming months and eat away at the stability of business companies.

This 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 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 Western Europe 2017/18

First rise in corporate insolvencies since 2013

In the countries of Western Europe, which in this analysis include the EU-15 plus Norway and Switzerland, insolvency figures have risen slightly again. A total of 165,213 corporate insolvencies were recorded in 2018. Compared to the previous year's figure (2017: 164,798 cases), this represented a marginal increase of 0.3 percent (plus 415 cases). This was the first increase since 2013, but the absolute number of corporate insolvencies remained well below the all-time high (2013: 192,769 cases).

The main reason for the current increase in Western Europe was the development in Scandinavia.

Tab. 1: Corporate insolvencies in Western Europe

■	2018	2017	2016	2015	2014	Change 2017/18 in percent
Austria	5,224	5,318	5,534	5,422	5,600	- 1.8
Belgium	9,878	9,968	9,170	9,762	10,736	- 0.9
Denmark	7,155	6,383	6,674	4,029	4,049	+ 12.1
Finland	2,534	2,160	2,408	2,574	2,954	+ 17.3
France	53,887	54,515	57,953	61,429	60,853	- 1.2
Germany	19,410	20,140	21,560	23,180	24,030	- 3.6
Greece	84	123	108	189	330	- 31.7
Ireland	767	874	1,032	1,049	1,164	- 12.2
Italy	13,695	14,108	15,057	16,015	16,101	- 2.9
Luxembourg	1,195	935	983	873	845	+ 27.8
Netherlands	3,145	3,291	4,399	5,271	6,645	- 4.4
Norway	5,010	4,557	4,544	4,462	4,803	+ 9.9
Portugal	5,888	6,284	7,195	7,288	6,773	- 6.3
Spain	4,131	4,261	4,297	5,097	6,564	- 3.1
Sweden	7,599	6,714	6,019	6,433	7,158	+ 13.2
Switzerland	6,878	6,684	6,504	6,098	5,867	+ 2.9
UK *)	18,733	18,483	17,976	15,983	17,660	+ 1.4
Total	**165,213**	**164,798**	**171,413**	**175,154**	**182,132**	**+ 0.3**

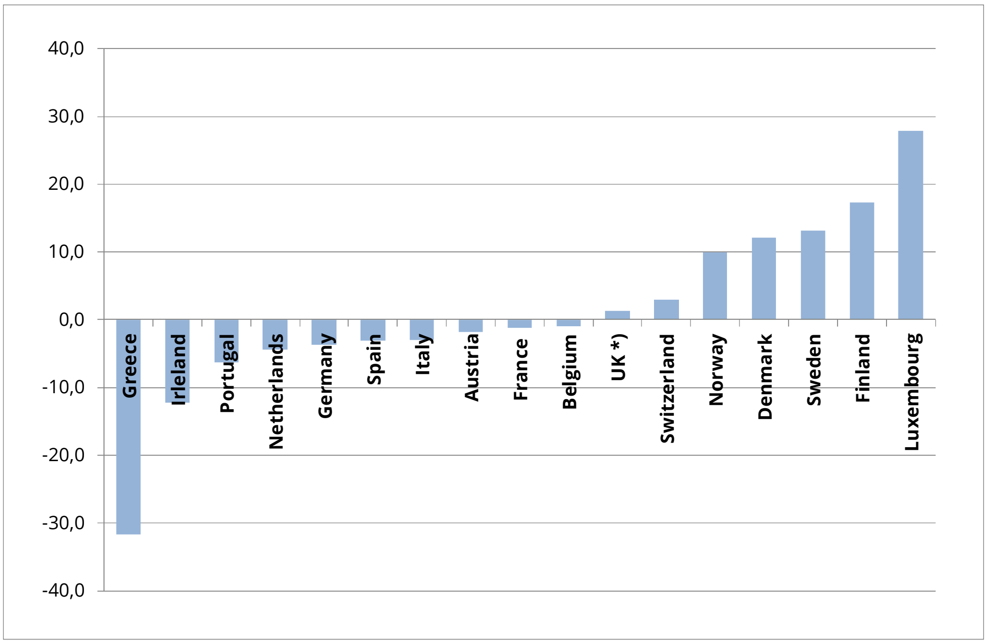
*) New calculation method since 2015; data revision from 2008

Development in Scandinavia determines the trend

In altogether seven of the 17 countries surveyed, there was a rise in corporate insolvencies (see also Fig. 1). Notable increases were registered by Luxembourg (plus 27.8 percent), Finland (plus 17.3 percent), Sweden (plus 13.2 percent), Denmark (plus 12.1 percent) and Norway (plus 9.9 percent). It is above all the rise in the Scandinavian countries that has been driving the insolvency figures in Western Europe as a whole, as these countries also registered significant rises in absolute numbers. More insolvencies year-on-year were also reported in Switzerland and the United Kingdom.

In contrast, there were far fewer insolvencies in Greece (minus 31.7 percent) and Ireland (minus 12.2 percent), which had previously been problem countries. In Portugal, too, overall insolvency eased (minus 6.3 percent), as it did in the Netherlands (minus 4.4 percent), Spain (minus 3.1 percent) and Italy (minus 2.9 percent). There was also a fall in totals in Austria, France and Germany, albeit only on a smaller scale.

Fig. 1: Development of corporate insolvencies in Western Europe 2017/18

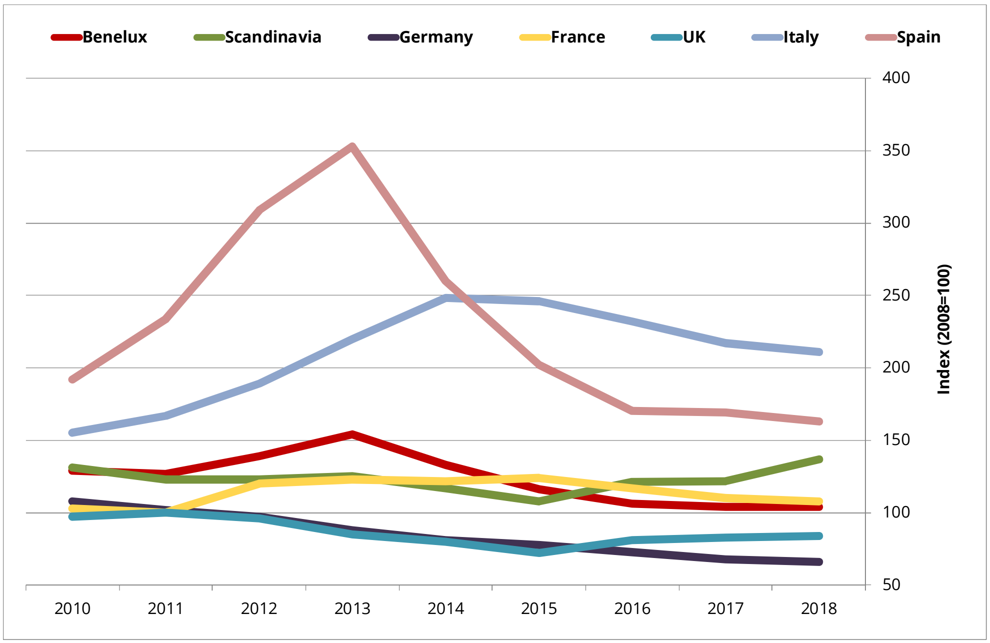


Changes in percent; *) new calculation method since 2015; data revision from 2008; Source: Creditreform

After a sharp increase in insolvency figures in wide parts of Europe from 2009 onward in the wake of the financial crisis, the situation then eased again in the years that followed. In countries like Germany (cf. Fig. 2), insolvency totals are now back below their pre-crisis level. France and the Benelux countries have more or less regained their 2008 level. In Italy and Spain, volumes remain notably greater than before the crisis, but have nonetheless fallen well below their highest mark. Scandinavia has been exhibiting an upward trend, and so, since 2015, has the United Kingdom.

Renewed rise in the UK

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

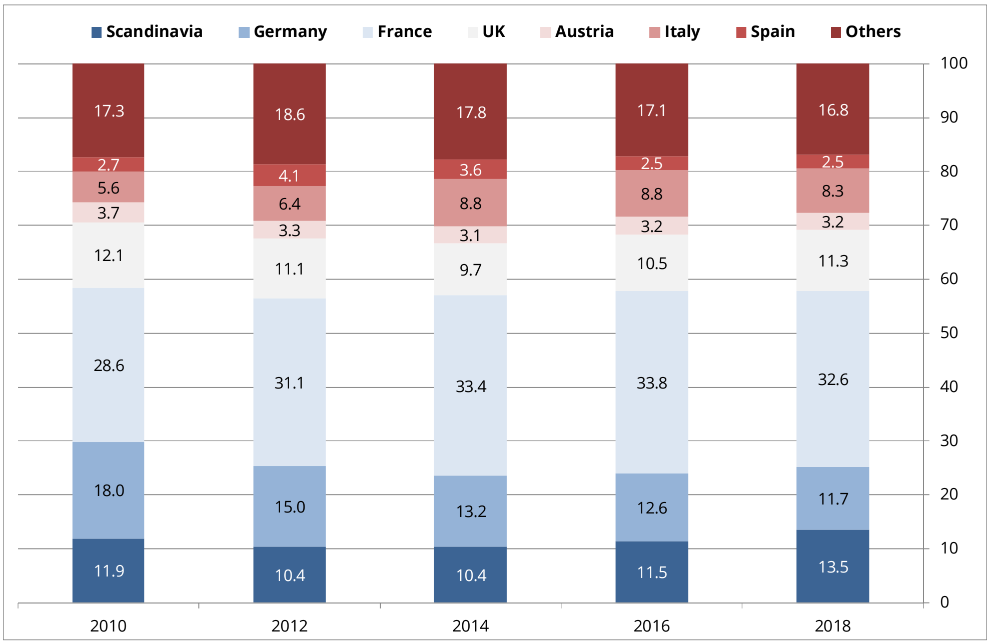


Figures in index points; Source: Creditreform

Germany's share of total insolvencies lower

Due to the rising number of insolvencies in Scandinavia, this geographical area's share of all insolvencies in Europe rose to 13.5 percent (2012: 10.4 percent). Germany's share, on the other hand, has fallen significantly in recent years - from 18.0 percent in 2010 to under 12 percent. France continues to account for the bulk of Western European corporate insolvencies, with just under a third (32.6 percent) of the overall total. The UK's share has increased again, to 11.3 percent. About one-sixth (16.8 percent) of all insolvencies occur in the remaining countries, such as Ireland, Portugal or Greece.

Fig. 3: Distribution of corporate insolvencies in Western Europe



Figures in percent; Source: Creditreform

Now comes a look at the way insolvencies have developed in individual countries:

British economy sluggish

The United Kingdom (England, Wales, Scotland, Northern Ireland) has been recording an increase in insolvencies for the past three years. In 2018 there was a rise of 1.4 percent to a total of 18,733 cases. The development of insolvencies in the UK probably already reflects the effects of Brexit. Since the referendum, the British economy has been slowing down; in 2018 it is likely to have shown only a growth rate of just over 1 percent. Business and consumer uncertainty is extensive, which is likely to have had a significant impact on the business climate. Investments are being postponed and private consumption is restrained despite the robust labour market. The rise in insolvency figures can probably also be attributed to this.

In **Germany**, the number of corporate insolvencies continued to decline in 2018 for the ninth year in succession. At 3.6 percent, however, the reduction was smaller than in previous years. 19,410 corporate insolvencies were recorded in the course of the

Only slight fall in total insolvency

year (2017: 20,140). So the strong economic surge of recent years would seem to over for the time being. In 2018, Germany recorded economic growth of only 1.4 percent - after 2.2 percent in the previous year. Particularly in the second half of the year, the German economy only narrowly steered clear of a recession, as exports weakened considerably. The domestic economy was largely stable. Rising wages and a low unemployment rate continued to provide positive impetus.

Over 1,000 insolvencies in Luxembourg

The **Netherlands** (minus 4.4 percent) and **Belgium** (minus 0.9 percent) recorded a slight decline in insolvencies in in 2018. In **Luxembourg,** on the other hand, the total rose significantly (plus 27.8 percent) to more than 1,000 cases for the first time since 2013. The figure for the Netherlands was under 3,200 – a record low. Belgium reported 9,878 corporate insolvencies – the last time that figure was undercut was in 2010.

Insolvencies rise despite dynamic economy

Switzerland (plus 2.9 percent) was one of the seven Western European countries where insolvency figures moved higher in 2018, with the total climbing to 6,878 (2017: 6,684). This was the highest level since 2012, despite the fact that Switzerland is actually enjoying a boom: economic growth in 2018 is expected to have amounted to 3.0 percent, a far more dynamic margin than the year before. In particular, the domestic economy flourished, while demand from abroad benefited from the favourable exchange rate for the Swiss franc.

In **Austria,** there was another decline in insolvency figures (minus 1.8 percent), after a fall of 3.9 percent the previous year. In the course of the year, 5,224 firms went bankrupt (2017: 5,318). That was a 17-year low. Small and micro-enterprises with fewer than 10 employees were particularly affected. Austria’s economy remains in very fine form. The growth rate in gross domestic product (GDP) of around 2.7 percent was probably once again above the European average in 2018. The upturn in the manufacturing sector had a positive impact. Austria's focus on Eastern Europe evidently help to mitigate the consequences of Brexit. Private consumption also continued to expand.

In all the **Scandinavian countries,** the insolvency situation deteriorated noticeably. The 2018 increases in Finland (plus 17.3 percent), Sweden (plus 13.2 percent), Denmark (plus 12.1 percent) and Norway (plus 9.9 percent) were well above the average for Western Europe. In Sweden, insolvencies (7,599 cases) rose to their highest level since 2013, in Norway (5,010 cases) to their highest level since way back in 2009. Denmark (7,155 cases) also registered more corporate insolvencies than it has had for a long time. Although the Scandinavian economy developed positively, its momentum eased. Growth in Norway remained below 2 percent in 2018, and Denmark also experienced a marked slowdown in economic activity. All in all, Sweden recorded a growth rate of 2.5 percent in 2018.

Totals reach multi-year highs

France recorded 53,887 corporate insolvencies (2017: 54,515), a slight fall. As in other parts of Europe, economic momentum there slowed perceptibly. The cooling of the global economy, but also internal conflicts and strikes, meant that economic growth in 2018 was probably only 1.5 percent. France had only just recovered from years of stagnation and had stepped up capacity utilisation. Positive impetus in 2018 came from investment, which benefited from the low interest rate environment and from government subsidies.

Weaker economy but decline in insolvencies

In **Italy**, the decline in corporate insolvency figures continued. In 2018, the total fell by just under three percent. At 13,695, however, the number is still higher than before the financial crisis of 2009. Economic development in Italy in 2018 was restrained and did not reach the previous year's growth rate of a good 1.5 percent. The country even scraped close to a recession. The domestic sector developed more weakly than in other European countries. There was widespread uncertainty among consumers and investors.

Trend reversal fragile

In **Portugal,** too, total insolvency continued to shrink in 2018. The number of corporate insolvencies fell by 6.3 percent to 5,888. In the previous year, however, the decline had been even more pronounced. Economic development in Portugal weakened somewhat in 2018. The growth rate of the gross domestic product (GDP) is likely to have been a good 2 percent - after a plus of 2.8 percent the year before. Growth was driven by private consumption and corporate investment.

Spain's economy recovering

The insolvency situation in **Spain** also continued to improve, with the corporate insolvency total in 2018 falling further to 4,131 cases (minus 3.1 percent); this is well below the previous highs (2012: 7,799; 2013: 8,934). In 2018, the Spanish economy again grew at an above-average rate (GDP: plus 2.5 percent) – the fifth consecutive increase. This dynamism is also impacting favourably on the corporate sector.

Ireland enjoys boom

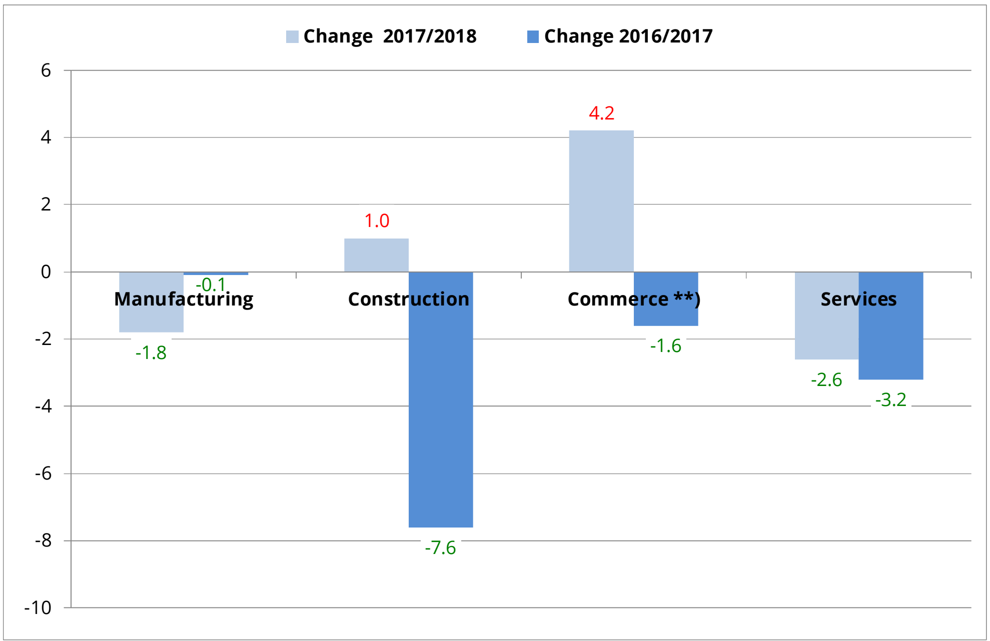
Ireland registered a sharp drop in the number of corporate insolvencies (minus 12.2 percent), with a total of 767 cases in 2018 (2017: 874). Ireland's economy has been booming for several years now and in 2018 the country reported dynamic growth of more than 6 percent. One reason for this is foreign direct investment. In addition, the increasing diversification of exports is likely to have spared business companies some of the impact of the imponderables associated with Brexit. Employment and private consumption reported increases.

1.3 Insolvencies according to economic sectors

Commerce generates more insolvencies

Year-on-year (2017/2018), there were fewer insolvencies in manufacturing (minus 1.8 percent) and the service sector (minus 2.6 percent). Figures rose in the construction industry (plus 1.0 percent) and in commerce (plus 4.2 percent), both of which had recorded declines the year before.

Fig. 4: Changes in the key economic sectors in Western Europe 2016/2017 and 2017/2018 *)

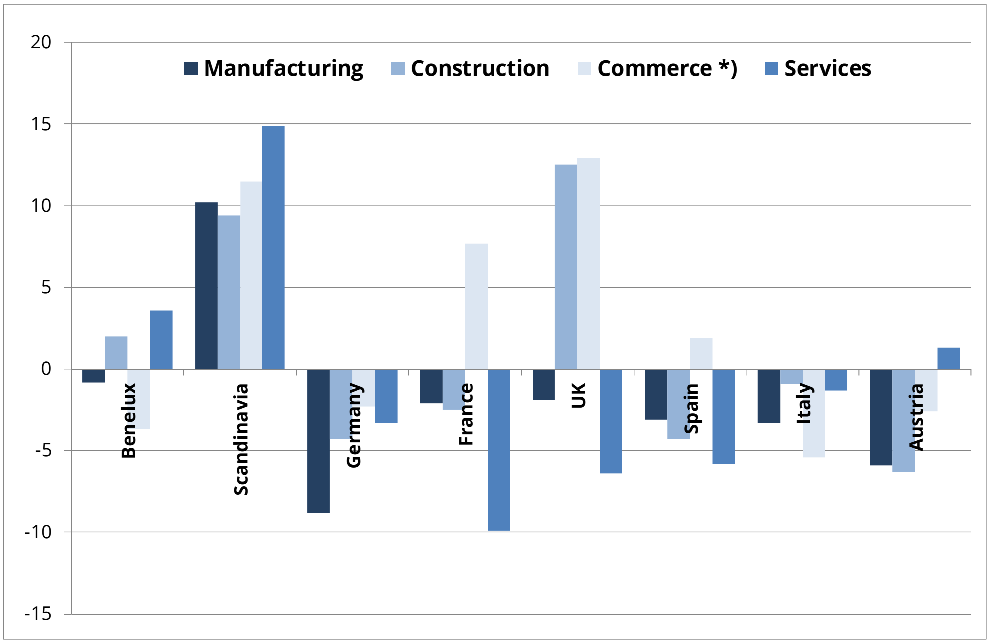


Changes in percent; *) without Ireland or Greece **) incl. hospitality business; Source: Creditreform

The insolvency situation in the individual key economic sectors varied between countries. In Germany and Italy, for instance, the trend was downward in all of them, while in Scandinavia, all sectors reported increases. In the UK, there were more insolvencies in construction and in commerce than there had been the year before; commerce was also affected in France and Spain, while in the Benelux countries, and also in Austria, the service sector was particularly impacted.

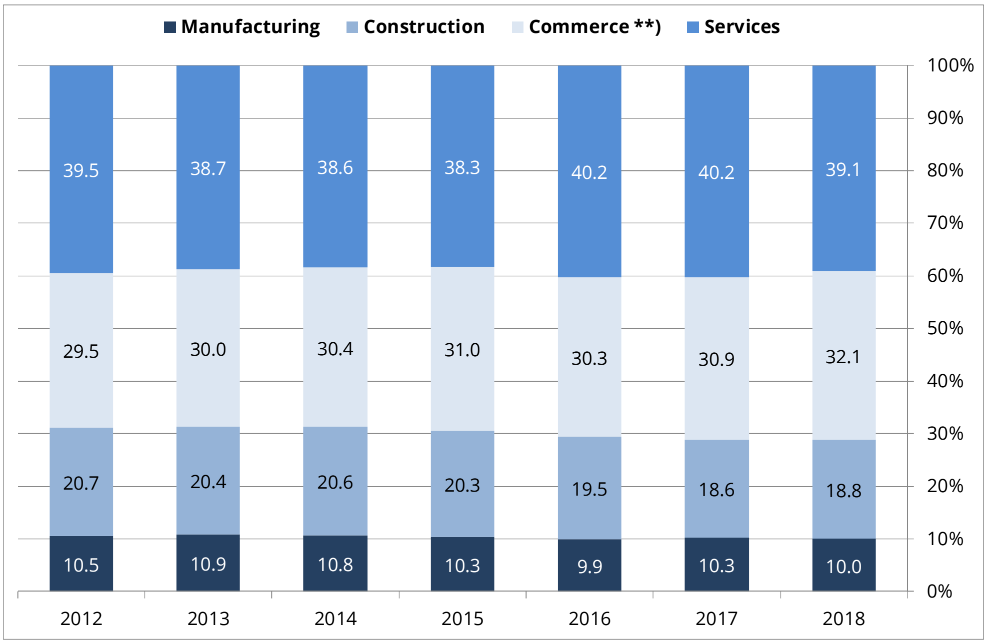
Scandinavia: All sectors with higher totals

Fig. 5: Changes in the key economic sectors according to countries/regions in 2017/2018



Changes in percent; *) incl. hospitality business; Source: Creditreform

Fig. 6: Contribution of the key economic sectors to insolvency in Western Europe 2012 to 2018 *)

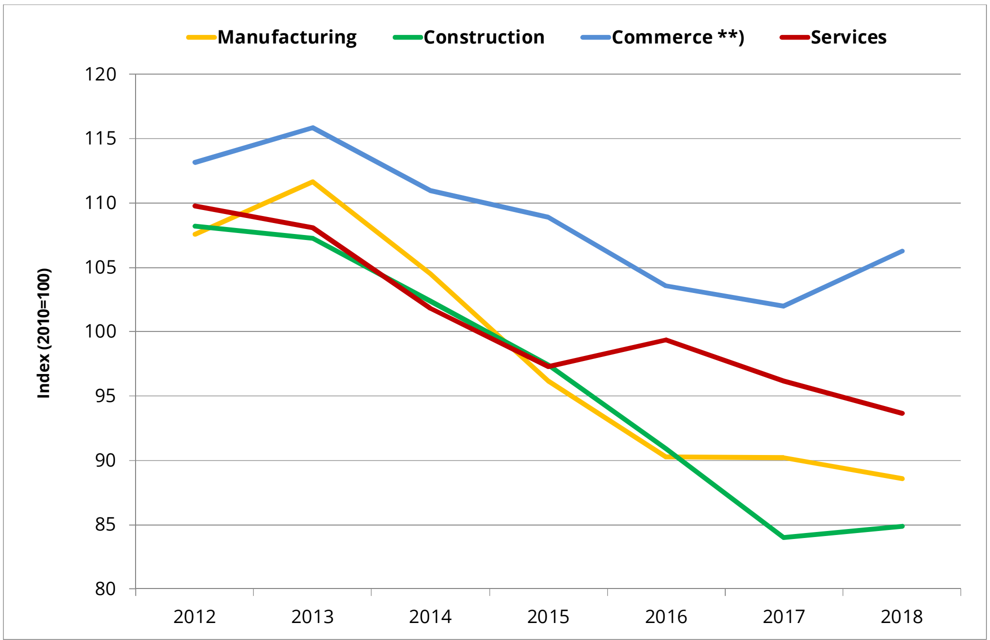


Figures in percent; *) without Ireland and Greece; **) incl. hospitality business; Source: Creditreform

In Western Europe as a whole, the service sector generates the largest number of insolvencies. In 2018, it accounted for 39.1 percent of the total (previous year: 40.2 percent). The contributions made by manufacturing (2018: 10.0 percent; 2017: 10.3 percent) and construction (2018: 18.8 percent; 2017: 18.6 percent) remained largely constant – however, in recent years the share generated by construction had already declined considerably. Almost one third of all insolvencies (32.1 percent) were in the field of commerce (retail plus hotels and restaurants). The figure was higher than the year before (30.9 percent), thus continuing the prior-year development.

Services generate biggest proportion

Fig. 7: Development of insolvencies in the key economic sectors 2012 to 2018 *)



Figures in index points; *) without Ireland and Greece
**) incl. hospitality business

A look at the national statistics reveals differences in the way individual sectors were affected. Commerce (including the hospitality business) dominates the insolvency scene in France (39.0 percent), the Benelux countries (38.9 percent) and Austria (33.5 percent). On the other hand, in France (22.1 percent), Italy (19.9 percent) and Switzerland (21.1 percent), the contribution made by the construction industry is well above the Western European average. With the exception of France and Italy, it is the service sector which accounts for by far the biggest slice of the insolvency total in all the countries surveyed. In

Service sector dominates insolvency scene in Germany some countries, one insolvency in every two concerned a firm in the service sector.

Tab. 2: Sectoral distribution of insolvencies in selected countries/regions 2017/18

■	Manufacturing		Construction		Commerce *)		Services **)	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Benelux	5.5	5.5	15.3	15.0	38.9	40.4	40.4	39.0
Scandinavia	6.8	7.0	18.7	19.3	29.6	29.9	44.8	43.9
Germany	7.0	7.4	14.7	14.8	21.5	21.2	56.8	56.6
France	9.9	10.0	22.1	22.4	39.0	35.8	29.0	31.8
UK	9.2	9.5	17.1	15.4	25.4	22.8	48.3	52.3
Spain	14.4	14.4	15.2	15.4	28.9	27.5	41.5	42.7
Italy	24.5	24.6	19.9	19.5	30.9	31.7	24.6	24.2
Austria	4.3	4.5	16.6	17.4	33.5	33.8	45.6	44.3
Switzerland	6.4	7.0	21.1	19.2	18.8	20.3	53.7	53.5
W. Europe	**10.0**	**10.3**	**18.8**	**18.6**	**32.1**	**30.9**	**39.1**	**40.2**

Figures in percent; *) incl. hospitality business; **) when sectoral information was lacking, the relevant figures were included under services

Even allowing for differences in insolvency laws in the countries of Western Europe and in statistics on the aggregate number of companies, the ranking of insolvency ratios shows clear variations in relative insolvency incidence. In this context, it should be noted that regulated insolvency proceedings are only one way to exit the market. In some cases, as in Southern Europe for example, insolvency proceedings are not the typical way to do this. On the contrary: closures and other liquidations are generally chosen; this distorts the Europe-wide comparison of insolvency ratios.

Tab. 3: Insolvency ratios in Western Europe in 2018

■	Insolvencies per 10,000 companies
Luxembourg	344
Denmark	274
Switzerland	203
Belgium	150
Norway	136
France	132
Sweden	103
Austria	90
UK	77
Finland	72
Germany	61
Portugal	58
Ireland	41
Italy	31
Netherlands	22
Spain	12
Total	**67**

Source: Eurostat, own calculations

■ 2 Financial situation and liquidity of European companies

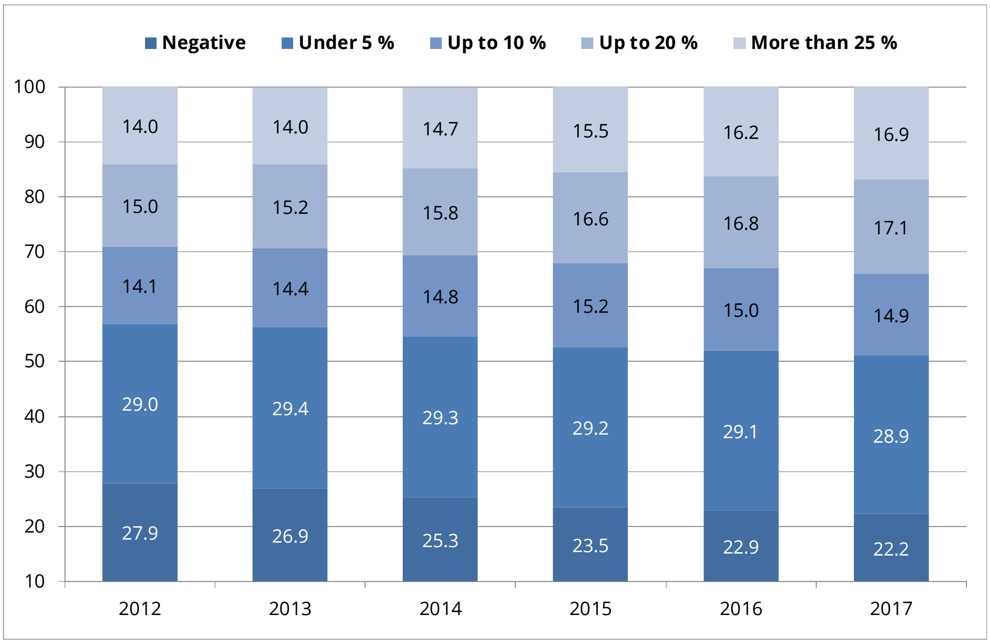
2.1 EBIT margin – Revenues and earnings

Based on the disclosed balance-sheets of around 3.1 million Western European companies, the earnings situation of business firms and the way that this changes over time enable initial conclusions to be drawn on possible insolvency risks. The following evaluations and findings are based on balance-sheets for 2017 and changes compared with the year before.

Profit margins continue to climb

The profit margins of Western European countries (earnings as a percentage of sales) have gone on improving. 16.9 percent of companies (prior year: 16.2 percent) have a high profit margin of more than 25 percent. Another 17.1 percent of firms show profit margins in the range between 10 and 25 percent, which also represents a year-on-year improvement. A negative profit margin was reported by 22.2 percent of firms – in 2016 the figure was 22.9 percent. So the ongoing upbeat state of the economy is also reflected by company financial statements – something highlighted by a comparison over a longer period of time: since 2012, the proportion of companies with negative margins has declined by 5.7 percentage points.

Fig. 8: EBIT margins among Western European companies



Figures in percent; Source: Creditreform

An analysis of the financial and liquidity ratios provides important information on corporate stability and identifies possible causes of insolvency developments in the economic sectors. In commerce (including hotels and restaurants), for example, many companies (24.2 percent) still showed a negative profit margin. High profit margins of more than 25 percent are still rare (5.6 percent of companies). Nevertheless, the situation in this traditionally low-margin field has improved gradually. In 2016, 25.0 percent of the firms in this sector were still struggling with negative margins. Corporate stability also recovered in the Western European construction sector. Only 20.2 percent of companies still showed a weak profit margin in 2017 (2016: 21.4 percent).

Tab. 4: EBIT margin (in %) in selected economic sectors in 2017

■	Construction	Commerce *)
Negative	20.2 (21.4)	24.2 (25.0)
Up to 5 %	30.6 (30.6)	41.0 (40.9)
Up to 10 %	17.6 (17.5)	16.2 (16.3)
Up to 25 %	18.7 (18.0)	13.0 (12.7)
More than 25 %	13.0 (12.6)	5.6 (5.2)

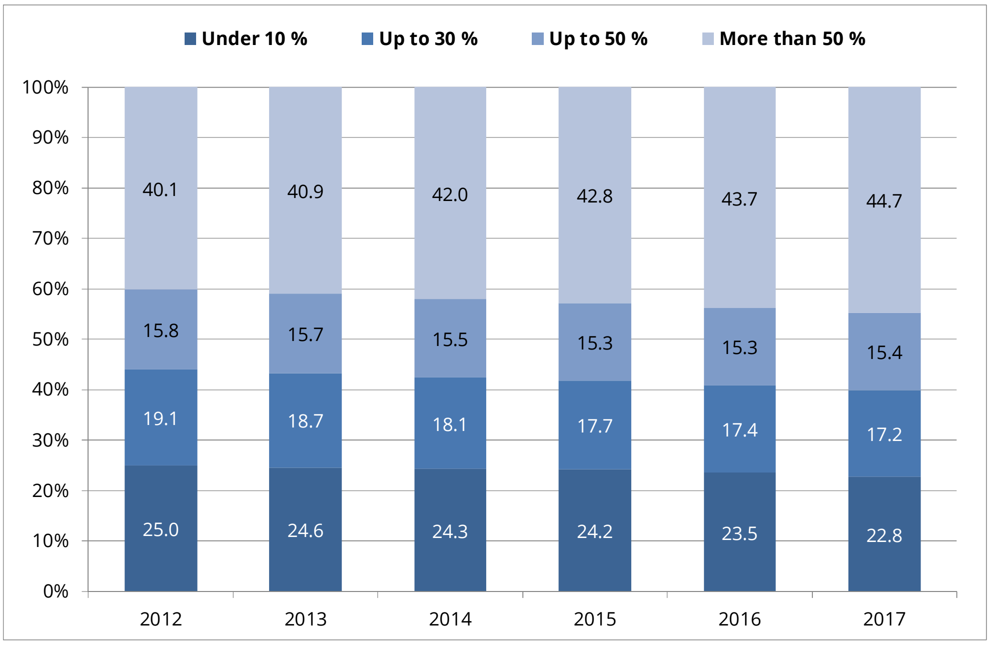
Figures in percent; ( ) = 2016; *) incl. hospitality business;
Source: Creditreform

2.2 Equity ratios

The positive economic development of recent years is also reflected in the equity ratios of Western European business companies. In 2017, more and more firms exhibited a very high equity ratio of over 50 percent. The proportion of such companies grew by one percentage point year-on-year, from 43.7 to 44.7 percent. 22.8 percent of companies still had a low ratio of less than 10 percent (previous year: 23.5 percent). A look at developments since 2012 shows a steady improvement in this respect in the Western European corporate sector: in 2012, one in four companies (25.0 percent) reported a weak equity position; since then, the share of companies with strong equity capital has increased by almost five percentage points (2017: 44.7 percent; 2012: 40.1 percent).

Firms accumulate equity capital

Fig. 9: Equity ratios in Western Europe



Figures in percent; Source: Creditreform

In the manufacturing sector, 38.2 percent of companies exhibited high stability, with an equity ratio of over 50 percent. For comparison: in 2013, this applied to only 34.7 percent of companies. A good one in five companies (21.4 per cent) had a low equity ratio in 2017 (< 10 per cent). Four years earlier, this was the case for 23.9 percent of companies.

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

■	2017	2016	2015	2014	2013
Under 10 %	21.4	22.3	23.0	23.5	23.9
Up to 30 %	21.3	21.5	21.7	22.0	22.4
Up to 50 %	19.1	18.9	18.8	18.9	19.0
Over 50 %	38.2	37.3	36.5	35.6	34.7

Figures in percent; Source: Creditreform database, own calculations

In the period since 2013, the equity situation in the construction industry has also improved noticeably. The proportion of companies with an equity ratio below the 10 percent mark fell from 28.2 percent in 2013 to 25.4 percent in 2017. A good third of construction companies (34.9 percent) had an equity ratio of over 50 percent in 2017. In 2016 this applied to only 33.7 percent and in 2013 to just 30.6 percent.

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

■	2017	2016	2015	2014	2013
Under 10 %	25.4	26.7	27.5	27.8	28.2
Up to 30 %	21.0	21.3	21.0	21.9	22.7
Up to 50 %	18.7	18.4	17.9	18.3	18.5
Over 50 %	34.9	33.7	33.6	32.0	30.6

Figures in percent; Source: Creditreform database, own calculations

Commerce is also a beneficiary of the economic boom in Europe. The proportion of companies with strong equity capital rose significantly, from 30.2 percent (2013) to 33.5 percent (2017). However, the proportion of firms with an equity ratio of less than 10 percent is still the highest of all economic sectors. In 2017, 26.8 percent of companies recorded such a low equity ratio. However, this share has been declining. For comparison: in 2016, 27.8 percent and in 2013 29.0 percent of companies in this field were still affected.

Tab. 5c: Equity ratios of Western European firms in the field of commerce (incl. hospitality business)

■	2017	2016	2015	2014	2013
Under 10 %	26.8	27.8	28.3	28.7	29.0
Up to 30 %	22.0	22.1	22.3	22.7	23.2
Up to 50 %	17.7	17.4	17.5	17.5	17.6
Over 50 %	33.5	32.6	32.0	31.1	30.2

Figures in percent; Source: Creditreform database, own calculations

In the service sector, there have been many companies with strong equity capital for quite a long time now. The proportion has recently risen further to 49.0 percent. In 2017, a low equity ratio (less than 10 percent) was observed among 21.7 percent of service firms.

Tab. 5d: Equity ratios of Western European service firms

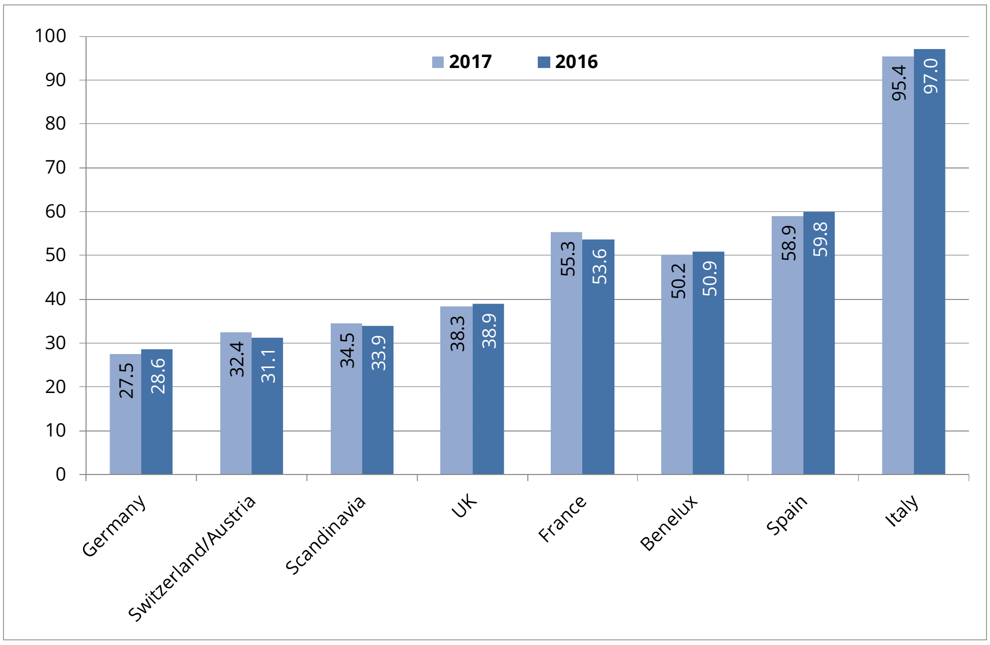
■	2017	2016	2015	2014	2013
Under 10 %	21.7	22.4	23.1	23.0	23.1
Up to 30 %	15.1	15.4	15.7	16.1	16.7
Up to 50 %	14.2	14.3	14.3	14.6	14.7
Over 50 %	49.0	47.9	46.9	46.3	45.5

Figures in percent; Source: Creditreform database, own calculations

2.3 Collection periods

The average collection period in Western Europe in 2017 was 53.5 days, compared with 53.9 days in the previous year. For suppliers and service providers, this meant not least a faster settlement of their invoices.

Fig. 10: Collection periods in Europe (in days)



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

Collection periods in Italy and Spain still very long

However, developments in individual countries varied. In France, Austria/Switzerland and in Scandinavia, for example, the days sales outstanding increased recently. There were further declines in this respect in Italy and Spain, where creditors received their money considerably faster than in past years.

Nevertheless, the collection period in Italy was still above-average (95.4 days). In Germany, the collection period in 2017 was fairly short by European standards (27.5 days on average).

■ 3 Corporate insolvencies in Central and Eastern Europe

Downward trend continues

In Central and Eastern Europe, the decline in insolvencies continued. Excluding Hungary, the number of cases registered in 2018 was 46,698 (minus 6.6 percent). Seven countries reported fewer insolvencies, six countries a higher total than before (Bulgaria, Latvia, Macedonia, Poland, Slovenia, Ukraine). The strongest percentage increase was in Macedonia (plus 309.2 percent). After a change of government, many companies there that had cooperated with the old regime had to file for bankruptcy. Bulgaria (plus 29.5 per cent) also recorded a significant double-digit increase. On the other hand, the insolvency figures in the Czech Republic (minus 42.4 percent) and Slovakia (minus 29.7 percent) declined noticeably. Data on developments in Hungary was not available in 2018.

Tab. 6: Corporate insolvencies in Central and Eastern Europe

■	2018	2017	2016	2015	2014	Change 2017/18 in percent
Bulgaria	1,112	859	871	1,083	1,031	+ 29.5
Croatia *)	8,094	10,744	18,811	19,543	2,641	- 24.7
Czech Rep. **)	1,039	1,803	2,438	3,004	3,563	- 42.4
Estonia	273	343	335	376	428	- 20.4
Latvia	591	587	731	802	964	+ 0.7
Lithuania	2,219	2,865	2,560	2,012	1,594	- 22.5
Macedonia	581	142	182	n.s.	n.s.	+ 309.2
Poland	629	618	616	770	864	+ 1.8
Romania	8,177	8,256	8,053	10,269	20,696	- 1.0
Serbia	2,080	2,113	2,104	2,072	2,062	- 1.6
Slovakia	260	370	692	715	831	- 29.7
Slovenia	1,497	1,316	1,376	1,154	1,302	+ 13.8
Ukraine	20,146	19,975	19,853	13,696	13,198	+ 0.9
Total	**46,698**	**49,991**	**58,622**	**55,496**	**49,174**	**- 6.6**

*) just new proceedings; since 2015 new insolvency legislation, so comparability limited; **) insolvency applications, since 2013 some bankruptcies by self-employed persons count as private insolvencies

But more insolvencies in service sector

Information from the three Baltic states and from Poland, Romania, Bulgaria and the Czech Republic enables the insolvency situation in Eastern Europe to be seen against the background of the economic structure. In 2018, the commerce sector (incl. hospitality business) accounted for the lion's share of insolvencies (38.4 percent of all cases). But compared with the year before (39.8 percent), the proportion has declined. On the other hand, the number of insolvencies in the service sector increased, with the proportion of the total figure expanding from 25.8 to 30.0 percent. Manufacturing (16.1 percent; minus 2.1 percentage points) reduced its share of all insolvencies in Eastern Europe quite significantly, construction by just a minor margin 15.5 percent; minus 0.7 percentage points).

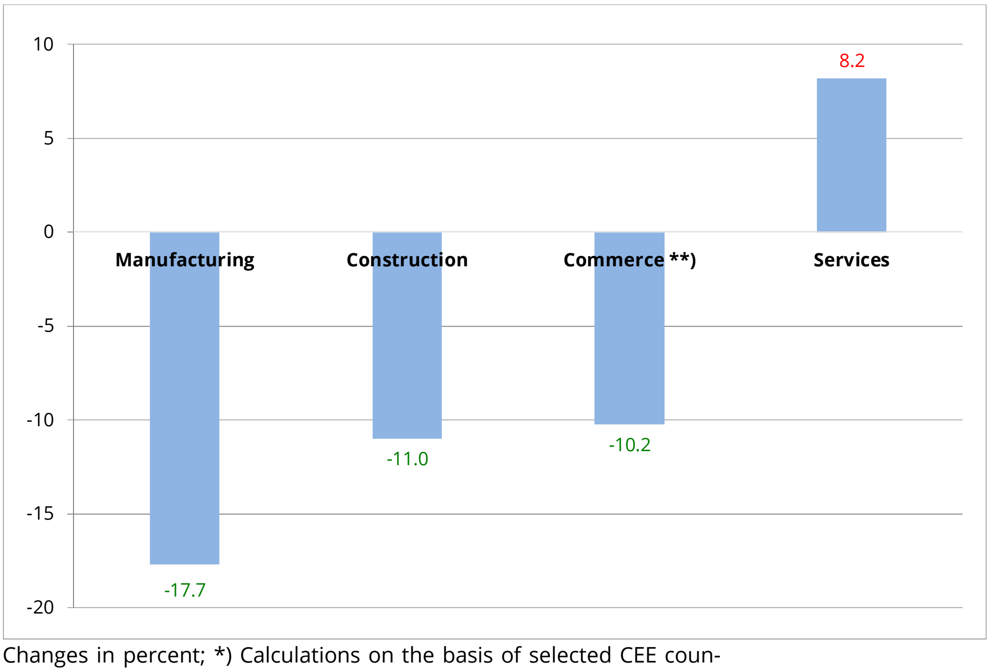
Tab. 7: Contribution of the key economic sectors to insolvency in Central and Eastern Europe *)

■	2018	2017
Manufacturing	16.1	18.2
Construction	15.5	16.2
Commerce **)	38.4	39.8
Services	30.0	25.8

*) Calculations on the basis of selected CEE countries (Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland and Romania)
**) including hospitality business

On this basis, the developments in the four main economic sectors can be compared year-on-year: manufacturing (minus 17.7 percent), construction (minus 11.0 percent) and commerce (minus 10.2 per cent) recorded significant declines on 2017. By contrast, the service sector recorded growth (plus 8.2 percent).

Fig. 11: Development of corporate insolvencies in Central and Eastern Europe 2017/18 according to key economic sectors *)



Changes in percent; *) Calculations on the basis of selected CEE countries (Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland and Romania) **) including hospitality business

Now comes an overview of recent developments on the insolvency scene in individual CEE countries.

Around 10,000 jobs at risk

With an increase of almost 30 percent, **Bulgaria** recorded a total of 1,112 corporate insolvencies in 2018 (2017: 859). Most of these (62.5 percent) were in the service sector, followed by commerce (incl. hotels and restaurants). An estimated 10,000 employees were affected. Insolvency proceedings in Bulgaria are often lengthy and cumbersome for lenders and creditors.

Proceedings mostly without assets

The number of insolvencies in **Croatia** fell significantly again in 2018. Just over 8,000 firms were affected, as against nearly 11,000 the year before. After the reform of insolvency legislation in 2015, the number of cases initially shot up, but the situation has now eased considerably, one reason being the positive development of the economy. In the majority of insolvencies, the companies concerned had no ready assets, so creditors were likely to be left empty-handed.

In **Estonia**, the number of insolvencies also fell sharply (minus 20.4 percent). A total of 273 corporate insolvencies were registered (2017: 343). The decline in the service sector was above average, but the other economic sectors also recorded lower figures.

Insolvency total virtually unchanged

After a strong decline the year before, the insolvency figures in **Latvia** hardly changed at all. A total of 591 cases were reported (prior year: 587). Economic development in this Eastern European country had slowed down somewhat recently and was evidently not sufficient to continue the easing of the insolvency situation. However, the contribution to the total made by commerce (incl. hospitality business) has fallen. In the manufacturing sector, on the other hand, there were more insolvencies than in the previous year.

In **Lithuania,** there were fewer insolvencies in 2018 than the year before - 2,219 companies were affected (2017: 2,865). Most insolvencies were again registered in commerce (including hotels and restaurants) (38.8 percent of all insolvencies), followed by the service sector (36.1 percent).

Construction and manufacturing better, commerce worse

Poland registered a slight rise in the corporate insolvency total in 2018, with 629 cases (plus 1.8 percent). The insolvency situation in the manufacturing and construction sector eased, with figures lower than before. However, the number of insolvencies in commerce, but also in the service sector, has increased recently. The number of affected employees has also risen (2018: 23.000; 2017: 22.000).

More construction insolvencies

The insolvency total in **Romania** changed only slightly in 2018, with just a modest decline (minus 1.0 percent). The year before, the volume had expanded somewhat (plus 2.5 percent). Overall in 2018, 8,177 corporate insolvencies were reported. Declines were stronger than the trend in manufacturing and in commerce, including hotels and restaurants. In the construction industry, on the other hand, more insolvencies were registered than in the previous year. At over 40 percent, commerce and the hospitality business continue to account for the biggest proportion of insolvency activity in Romania. Medium-sized and large companies were less frequently affected by insolvency than in previous years.

Corporate insolvencies reach new low

There was a significant fall in insolvency figures in the **Czech Republic** (minus 42.4 percent). In the course of 2018, there were just over 1,000 corporate insolvencies; the year before there had been more than 1,800, and in 2015 the total had been over 3,000. An estimated 25,000 people were employed in the companies going bankrupt in 2018, as against probably over 30,000 the year before. A large number of insolvencies by small traders in the Czech Republic are counted as private bankruptcies and not taken into account in the statistics. The insolvency volume in **Slovakia** also declined sharply (minus 29.7 percent). 260 insolvency proceedings were filed with the local courts.

Still no improvement on the insolvency front

In **Ukraine,** over 20,000 business insolvencies were registered in 2018. This figure was much the same as that reported the year before (plus 0.9 percent). Overall, though, there has been an upward trend in recent years, as shown by a comparison with the insolvency figures for 2014 and 2015, for instance. The increase is presumably due to the country's still poor economic and political condition.

In **Turkey,** the number of corporate insolvencies fell (minus 7.5 percent) to 13,593. This trend, however, appears to be above all the positive legacy of the previous year. In 2017, Turkey's economy was still growing strongly (plus 7.4 percent) - but at that time largely as a result of government stimulus programmes. Over the course of 2018, however, economic growth slowed markedly, and now there is even a threat of recession. High unemployment and massive inflation impact on consumers and companies alike. The number of insolvencies in the manufacturing sector had recently fallen by an above-average rate. By contrast, the figures for commerce fell only modestly, with almost 5,000 insolvencies in 2018 alone.

Tab. 8: Corporate insolvencies in Turkey

■	2018	2017	2016	2015	2014	Change 2017/18 in percent
Türkei	13,593	14,700	11,038	13,701	15,822	- 7,5

■ 4 Insolvencies in the USA

In the United States, the number of corporate insolvencies decreased only slightly, with a total in 2018 of 37,822. That corresponds to a year-on-year decline of just 0.6 percent (2017: 38,062). In 2017 there had been a marginal increase (plus 0.2 percent). So for the third year in a row, the number of corporate insolvencies in the USA has stayed more or less the same. However, compared with the high levels registered previously, for instance in 2010 (around 92,000 cases), the situation has eased noticeably. The number of filings for protection from creditors under Chapter 11 of the US bankruptcy code fell by five percent. In 2018, the American economy continued to grow. Driven among other things by dept-financed consumption, GDP expanded by nearly three percent (2017: 2.2 percent). A low unemployment rate caused private consumption to increase. Impetus for growth was also generated by the favourable investment climate. However, these trends are unlikely to last.

Credit-financed growth not enough for real change in insolvency trend

Tab. 9: Corporate insolvencies in the USA

■	2018	2017	2016	2015	2014	Change 2017/18 in percent
USA	37,822	38,062	37,997	29,897	34,88	- 0.6

■ 5 Summary

In Western Europe (EU-15 plus Norway and Switzerland), the number of corporate insolvencies rose slightly for the first time since 2013. A total of 165,213 cases were recorded. This was an increase of 0.3 percent compared to 2017 (164,798 cases). In Central and Eastern Europe, on the other hand, the number of corporate insolvencies fell once more, easing by 6.6 percent to 46,698 cases.

The higher insolvency total in Western Europe is largely attributable to the increase in Scandinavia. Finland (plus 17.3 per cent), Sweden (plus 13.2 per cent), Denmark (plus 12.1 per cent) and Norway (plus 9.9 per cent) recorded significant percentage rises. More insolvencies than in the previous year were also registered in Luxembourg, Switzerland and Great Britain.

By contrast, insolvencies declined in Greece (minus 31.7 percent), Ireland (minus 12.2 percent) and Portugal (minus 6.3 percent). Insolvency activity also eased in the Netherlands (minus 4.4 percent), Germany (minus 3.6 percent), Spain (minus 3.1 percent) and Italy (minus 2.9 percent). Austria and France recorded just small declines.

Developments in Eastern Europe were also mixed. Bulgaria, Latvia, Macedonia, Poland, Slovenia and Ukraine recorded an increase in insolvencies against the trend. On the other hand, the insolvency figures in the Czech Republic, Slovakia, Croatia, Lithuania and Estonia declined noticeably.

In Turkey, the number of corporate insolvencies fell to 13,593 (minus 7.5 percent). In the USA, insolvency figures fell slightly in 2018, to a total of 37,822, down 0.6 percent on the previous year.

In Western Europe, the number of insolvencies rose above all in the sector of commerce (plus 4.2 percent). The construction industry also recorded a slight increase (plus 1.0 percent). The year before, both these sectors had registered declines. By contrast, insolvency totals fell in manufacturing (minus 1.8 percent) and the service sector (minus 2.6 percent). About one third of all corporate insolvencies in Western Europe (32.1 percent) were in the field of commerce (retail, hotels and restaurants). Compared to the previous year, this proportion has increased significantly.

In Eastern Europe, the majority of insolvent companies were in commerce (share in 2018: 38.4 percent). Against the overall trend in the CEE countries, insolvencies in the service sector increased (2018: 30.0 percent; 2017: 25.8 percent).

Business companies in Western Europe recorded higher profits and improved equity ratios. In 2017, just over one firm in every six (16.9 percent; previous year: 16.2 percent) recorded a profit margin (EBIT) of more than 25 percent. 22.2 percent of companies generated losses, a lower proportion than in 2016 (22.9 percent). The number of companies in commerce, including hotels and restaurants, posting a negative operating profit was above the general average.

Equity ratios in Western Europe continued to improve. Only just under one firm in every four (22.8 percent) recorded a very low equity ratio of less than 10 percent in 2017 (previous year: 23.5 percent). The economic sector accounting for the highest proportion of equity-poor companies was commerce. 44.7 percent of all companies had a high equity ratio of more than 50 percent (2016: 43.7 percent). Since 2012, this share has increased by almost five percentage points, from 40.1 percent.

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Neuss, 07 May 2019

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