Corporate insolvencies in Europe

2014/15

Creditreform
Wirtschaftsforschung

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■ 1 Insolvencies in Western Europe in 2014 – Facts and figures

1.1 Introduction

For Europe, 2014 was a year of economic recovery but also a year shaped by political unrest. The dispute between Russia and Ukraine in the East of the continent intensified further, turning into an armed conflict with an uncertain outcome. On the economic front, Europe and the eurozone appeared to firm up again at long last after a lengthy period of weakness. The recovery is still frail, though, and not in evidence everywhere as yet. And then there is the still unresolved debt crisis which threatens the finances of numerous euro-countries, especially Greece, where the possibility of an exit from the eurozone is under discussion again.

Europe between economic recovery and Russian crisis

This present survey examines the stability of business enterprises in Europe with regard to insolvency and the threat that this represents. Especially for small and medium-sized exporters with no manufacturing sites or sales bases of their own outside Germany's 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 2013/14

The insolvency figures for Western Europe reflect the economic recovery after years of crisis. The number of corporate insolvencies fell by around 10,000, from 189,855 in 2013 to 179,662 in 2014. This was the first marked improvement on the insolvency front since the start of the financial crisis, following a virtual stagnation of the relevant total in 2013 (plus 0.9 percent) and an ongoing upward trend in 2012 (plus 8.6 percent). But despite the easing of the economic situation, the number of insolvencies noted in the course of the year in Western Europe was more or less on a par with

10,000 fewer insolvencies in Western Europe

that recorded in 2009 (178,235) and thus considerably higher than before the financial crisis began (2007: 130,910). In the eurozone, the number of business failures eased by 4.6 percent to 147,649.

Tab. 1: Corporate insolvencies in Western Europe

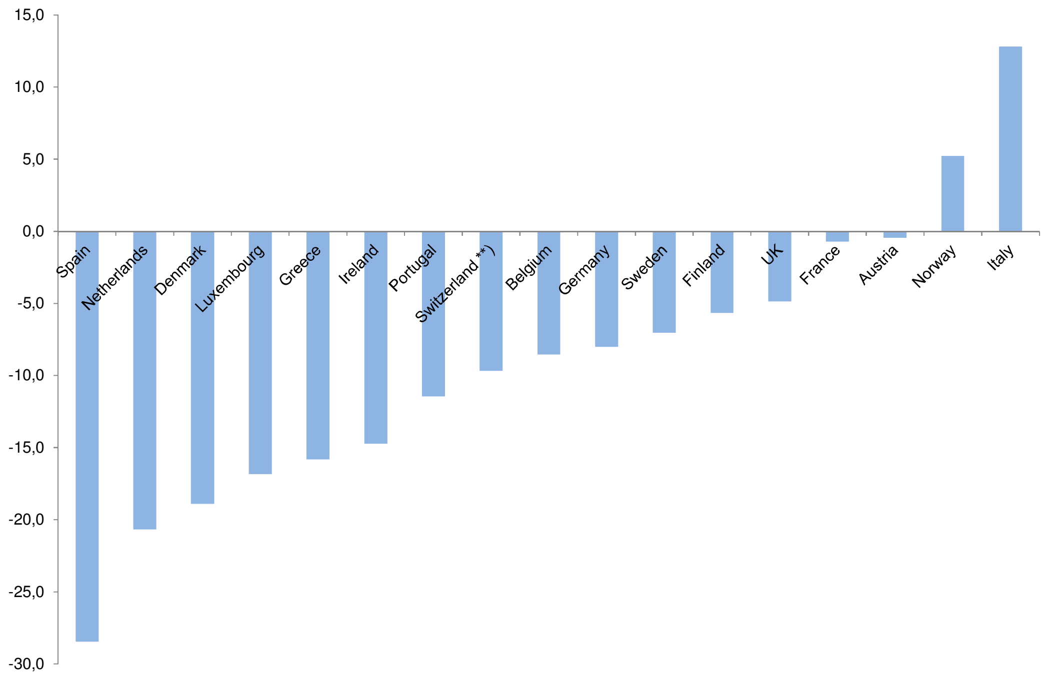
■	2014	2013	2012	2011	2010	Change 2013/14 in percent
Austria	5,600	5,626	6,266	6,194	6,657	- 0.5
Belgium	10,736	11,739	10,587	10,224	9,570	- 8.5
Denmark	4,049	4,993	5,456	5,468	6,461	- 18.9
Finland	2,954	3,131	2,956	2,944	2,864	- 5.7
France	60,548	60,980	59,556	49,506	51,060	- 0.7
Germany	24,030	26,120	28,720	30,120	32,060	- 8.0
Greece	330	392	415	445	355	- 15.8
Ireland	1,164	1,365	1,684	1,638	1,525	- 14.7
Italy	16,101	14,272	12,311	10,844	10,089	+ 12.8
Luxembourg	845	1,016	1,033	961	918	- 16.8
Netherlands	6,645	8,375	7,373	6,176	7,211	- 20.7
Norway	4,803	4,564	3,814	4,355	4,435	+ 5.2
Portugal	7,200	8,131	7,763	6,077	5,144	- 11.5
Spain	6,392	8,934	7,799	5,910	4,845	- 28.5
Sweden	7,158	7,701	7,737	7,229	7,546	- 7.1
Switzerland	5,867	6,495	6,841	6,661	6,255	- 9.7
UK	15,240	16,021	17,765	18,467	17,468	- 4.9
Total	**179,662**	**189,855**	**188,076**	**173,219**	**174,463**	**- 5.4**
Eurozone *)	***147,649***	***154,750***	***150,665***	***135,322***	***138,045***	***- 4.6***

*) without Malta or Cyprus

Only two countries with increases

The insolvency situation is easing across a broad front (cf. Fig. 1). In 2014, only two countries posted year-on-year increases: Norway (plus 5.2 percent) and Italy (plus 12.8 percent). 15 countries registered declining totals, with the number of corporate collapses actually falling by double-digit percentages in seven of them. The most marked drop, of 28.5 percent, was in Spain, followed by the Netherlands (minus 20.7 percent) and Denmark (18.9 percent). More modest falls were posted by France (minus 0.7 percent) and Austria (minus 0.5 percent). Germany occupied a good midfield position with 8.0 percent fewer insolvencies than the year before. In Western Europe as a whole, business failures fell by 5.4 percent compared with 2013. This was the first year-on-year decline since 2010/11, when the fall was only marginal, though, at 0.7 percent.

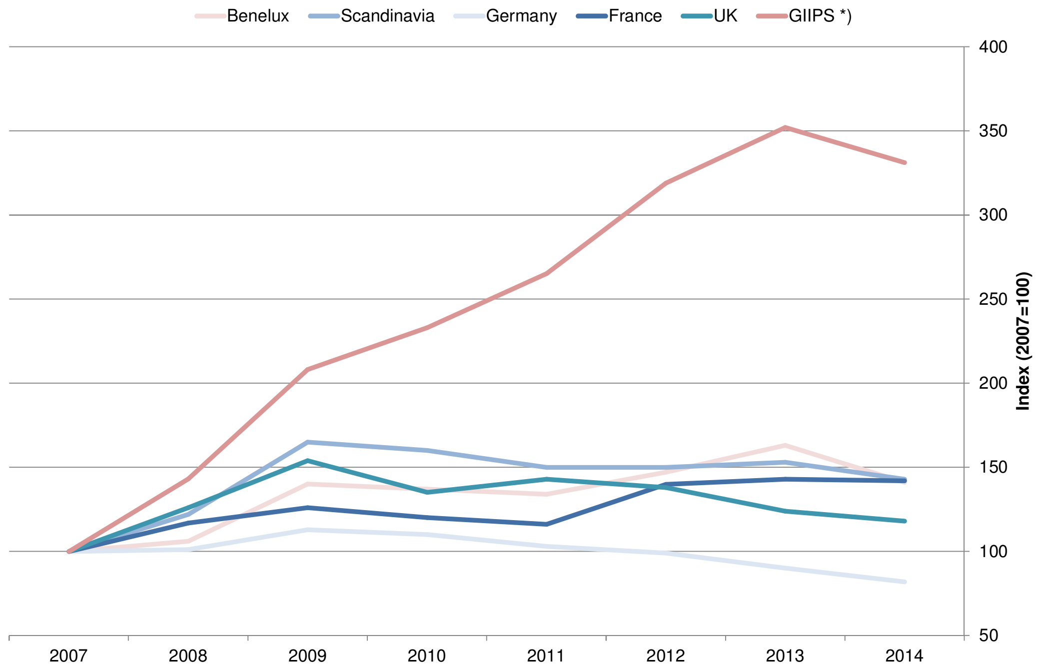
Fig. 1: Development of corporate insolvencies in Western Europe in 2014 (changes in percent)



It must be borne in mind that in some cases insolvencies represent only a fraction of the total number of business liquidations in a country. Business difficulties often lead to the closing down of micro-enterprises, for instance, without any regular insolvency proceedings; they are then simply erased from the commercial register. The extent of such occurrences varies between one country and the next. Especially in the Mediterranean countries, this approach has led to a significant reduction in the total number of firms still in operation following the long phase of recession.

The way in which the bankruptcies of self-employed people are treated also varies. In the United Kingdom, for instance, self-employed persons going broke are not counted under business insolvencies but under private bankruptcies. In Germany, on the other hand, a distinction is made between private individuals in consumer bankruptcies and insolvencies involving people who were previously self-employed. However, if the number of creditors involved in any one case exceeds a certain level, the case is counted as a corporate insolvency (standard procedure). In Belgium, all bankrupt self-employed individuals are registered under normal insolvency statistics. Overall, it can be assumed that in many countries "minor" bankruptcies by self-employed persons are not registered comprehensively.

Fig. 2: Development of corporate insolvencies in selected countries



*) Greece, Ireland, Italy, Portugal, Spain;

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

In the **United Kingdom** (England, Wales, Scotland and Northern Ireland), the decline in the number of insolvencies was 4.9 percent, on a par with the European average. The figure means that compared with the peak total of 19,908 in 2009, aggregate insolvencies have fallen by almost a quarter to 15,240 in 2014. The last time a lower figure was registered was in 2007. This development reflects the UK's economic recovery. In 2014, for instance, gross domestic product (GDP) expanded much more strongly than in the years before, growing by 3.0 percent. This prompted a corresponding recovery in the labour market and in private consumption, which in the UK contributes all of two-thirds to GDP.

Insolvencies in the UK move away from their peak

In **Germany,** too, the economic situation improved in 2014. Following a dip at the mid-year point, overall output picked up again rapidly. The ongoing favourable development has produced a further drop of 8.0 percent in aggregate corporate insolvencies. This fall more or less matched that posted the year before. Altogether, business failures totalled 24,030. This compares with 32,930 in 2009 and is in fact now below the levels noted before the financial crisis. This positive trajectory is quite exceptional in Europe.

Germany: Fewer insolvencies than before the crisis

All the **Benelux** countries reported marked year-on-year declines in corporate insolvency. The fall in the Netherlands was 20.7 percent, the figure for Luxembourg was 16.8 percent and for Belgium it was 8.6 percent. But the severe economic crisis of recent years has left scars. The number of business collapses in all three countries is still considerably higher than it was for instance in 2007 or 2008. In Belgium, for example, corporate insolvencies in 2014 totalled 10,736, as against 7,678 in 2007 or 8,476 in 2008. In the Netherlands, too, the current figure (6,645) is higher than in 2007 (4,602) or 2008 (4,635).

Marked declines in Benelux countries

The positive trend on the corporate insolvency front was also apparent in **Austria** and **Switzerland**. In Austria, the year-on-year improvement was admittedly only very minor, with the total falling from 5,626 to 5,600, but the decline in Switzerland was more marked (minus 9.7 percent to 5,867 cases). GDP growth in Austria in 2014 was just 0.3 percent, which was considerably lower than in the eurozone as a whole, and this was not enough to have any notably favourable influence on the development of insolvencies. In Switzerland, on the other hand, the economy has recently been picking up somewhat, with GDP expanding by around 1.5 percent and the unemployment rate standing at the low level of just three percent. The nominal per capita economic output is one of the highest in the world.

Austria and Switzerland: Same direction, different speeds

In the **Scandinavian countries**, a term which in the framework of this survey includes Finland as well as Denmark, Sweden and Norway, corporate insolvency totals were generally lower than before. The exception was Norway, which registered a further increase of 5.2 percent after a rise of almost one fifth the previous year. In Denmark, on contrast, there was a distinct improvement, with the total falling by 18.9 percent). In Sweden, the year-on-year decline was a respectable 7.1 percent, while in Finland insolvencies fell for the first time since 2010, easing by 5.7 percent.

Distinct improvement in Denmark

Figure in France remains high

In **France,** the number of insolvencies has remained fairly static. The figure in 2014 was 60,548, just 0.7 percent down on the prior-year total of 60,980. This makes France one of the few European countries where the insolvency situation has not really eased. The number of insolvencies there is also high by long-term standards, standing at the second-highest level since 2007. That is in fact hardly surprising, since France has for many years been on the brink of recession again and again. Last year, investment activity in particular remained weak and gross domestic product registered just minimal growth of around 0.5 percent, while the unemployment rate stayed at over ten percent.

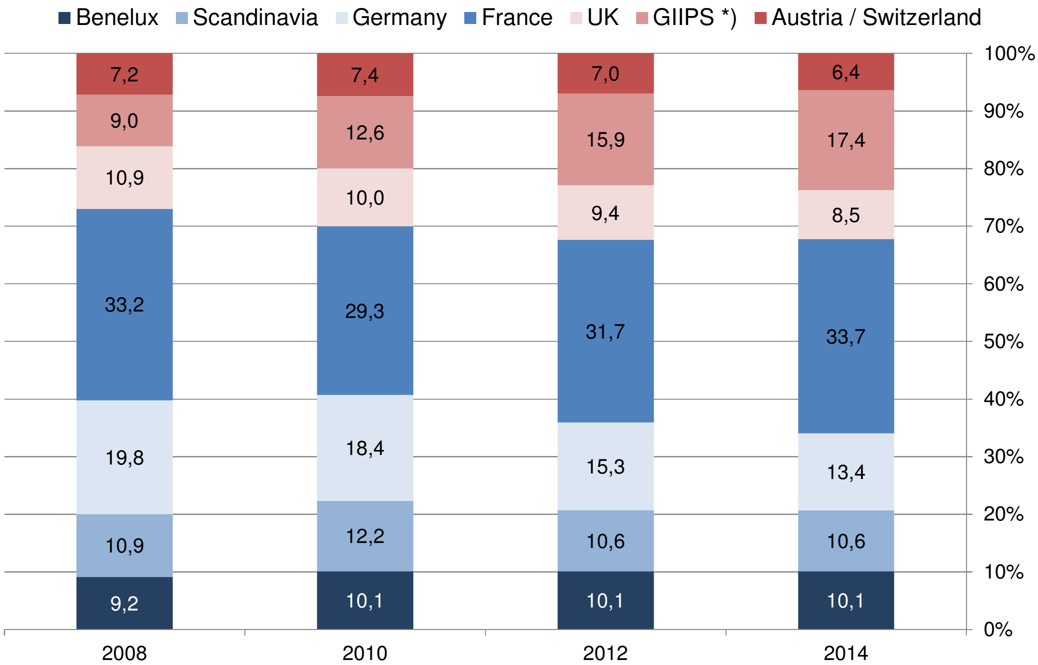
Corporate insolvencies in the **GIIPS states** (Greece, Ireland, Italy, Portugal and Spain) declined by 5.8 percent to 31,187 registered cases – the first positive development on this front since the start of the economic and financial crisis in 2007. However, the absolute number of business failures remains high and has in fact more than trebled since 2007. The most marked fall in insolvency numbers in these states was that posted by Spain (minus 28.5 percent). Then came Greece (minus 15.8 percent) and Ireland (minus 14.7 percent). The decline in Portugal (minus 11.5 percent) was also well above the European average. On the other hand, Italy reported considerably more corporate collapses than in 2013 (plus 12.8 percent) and in 2014 slipped into recession. In particular investment activity has slumped, pushing insolvency figures higher.

Positive news from the South at last

What contribution have individual countries made to the aggregate number of corporate insolvencies in Western Europe? What notable year-on-year changes have there been in this respect? In 2014, France by itself was responsible for around one third of all the business failures in this part of the continent (33.7 percent). And the already high contribution made by France has actually increased in recent years, evidently in the wake of an ongoing economic weakness that forced many firms to give up. The contribution to the Western European insolvency total made by the GIIPS countries (Greece, Italy, Ireland, Portugal and Spain) has also risen significantly compared with 2008, from 9.0 to 17.4 percent; in other words it has almost doubled during this period.

GIIPS countries double their share of total

Fig. 3: Distribution of corporate insolvencies in Western Europe



*) Greece, Ireland, Italy, Portugal, Spain; Figures in percent

UK and Germany generate smaller slice of total

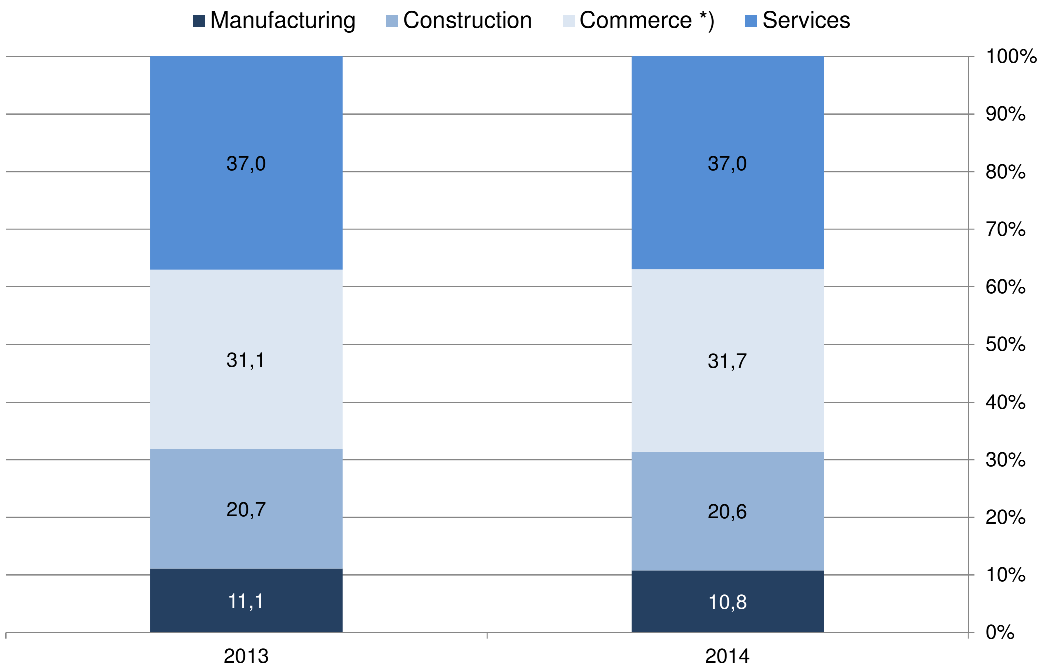
In contrast, the proportion generated by Germany has fallen. Whereas in 2008 it accounted for nearly one corporate insolvency in every five (19.8 percent), its share now is only 13.4 percent. The UK contribution to the total has also dropped, to 8.5 percent, as against 10.9 percent in 2008. The decline in the number of business bankruptcies registered there has been more marked than in other European countries. The shares generated by the Benelux states and Scandinavia have remained more or less the same.

1.3 Insolvencies in the economic sectors

37.0 percent of all business insolvencies in Western Europe are registered by the tertiary sector of firms providing services of any kind. This was exactly the same percentage as in 2013. The contributions made by the other main branches of the economy have also remained much the same as before. The proportion accounted for by manufacturing sank slightly from 11.1 to 10.8 percent, and that generated by construction from 20.7 to 20.6 percent. On the other hand, the share produced by commerce (including hospitality and catering) rose modestly, from 31.1 to 31.7 percent. This trend is in line with the longer-term perspective, with the shares of building and industrial companies falling as the economy recovers, while there is a greater incidence of insolvency among retailers and caterers than in previous years.

Services sector with biggest proportion

Fig. 4: Contribution of the key economic sectors to overall insolvency in Western Europe in 2014



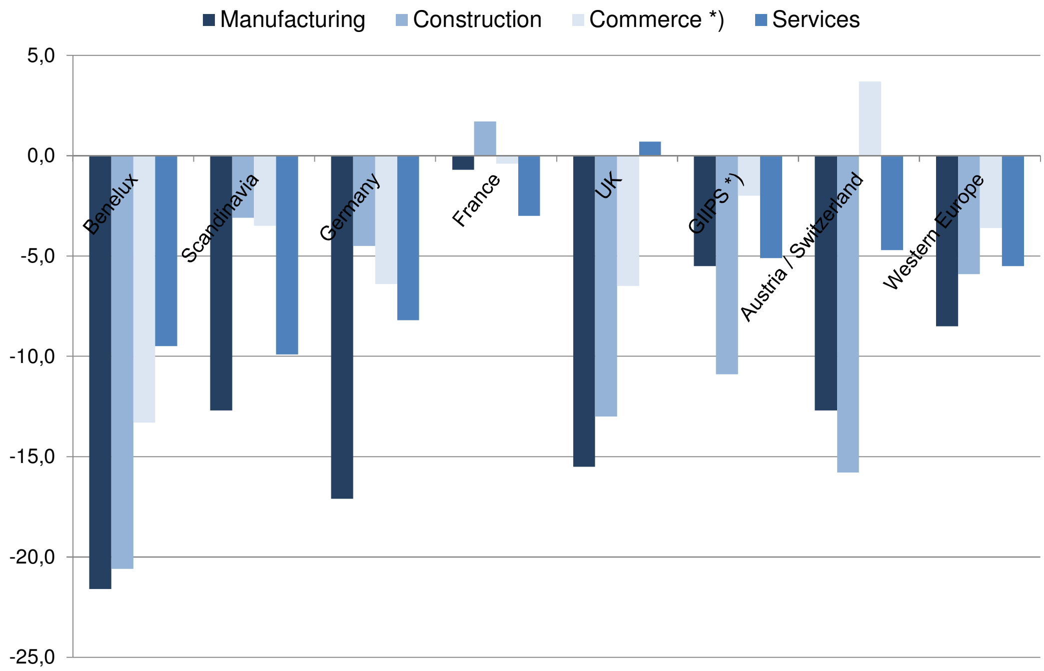
*) including hotels and catering

In all four main branches of the economy in Western Europe, the absolute number of business failures declined compared with the year before. The

Manufacturing posts marked reduction

biggest drop was posted by manufacturing (minus 8.5 percent). A look at different individual countries and groups of states shows that this development occurred virtually everywhere in Western Europe, with distinctly double-digit declines in the Benelux countries (minus 21.6 percent) and Germany (minus 17.1 percent). In the GIIPS countries there was a marked improvement in the construction sector but an increase in insolvency numbers in the field of commerce (including catering). In the UK, there was a slight rise in the insolvency total in the services sector, while there were declines in the other sectors, in some cases by double-digit percentages. France registered fewer failures among services firms than before but a higher number in the construction business.

Fig. 5: Changes in the key economic sectors according to countries/regions in 2013/14



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

Tab. 2: Distribution according to the key economic sectors 2013/14

■	Manufacturing		Construction		Commerce *)		Services	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Benelux	7.3	8.0	15.3	16.7	37.2	37.0	40.2	38.3
Scandinavia	8.2	8.7	19.8	19.0	30.5	29.4	41.4	42.8
Germany	9.1	10.1	16.5	15.9	28.7	28.2	45.7	45.8
France	9.6	9.6	25.7	25.1	35.0	34.9	29.7	30.4
UK	8.7	9.8	14.9	16.3	23.5	23.9	52.8	50.0
GIIPS	20.6	20.5	21.1	22.4	30.7	29.6	27.6	27.5
Austria / Switzerland	6.1	6.6	18.0	20.2	27.4	25.0	48.5	48.2
W. Europe	**10.8**	**11.1**	**20.6**	**20.7**	**31.7**	**31.1**	**37.0**	**37.0**

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

In the Benelux states, bankruptcies in the services sector accounted for a bigger proportion of total corporate insolvencies than they had the year before (2013: 38.3 percent; 2014: 40.2 percent), while construction and manufacturing were less affected in relative terms. In Scandinavia, there were only minor year-on-year changes, with slight increases in the proportions generated by commerce (2013: 29.4 percent; 2014: 30.5 percent) and construction (2013: 19.0 percent; 2014: 19.8 percent). In Germany, one fact worth mentioning is the lower proportion attributable to manufacturing; this fell from 10.1 to 9.1 percent. In France, there were only slight shifts in the way total insolvency was distributed across the four major economic sectors. In the UK, the changes were more marked: there, just as in Germany, manufacturing accounted for a lower share than before, falling from 9.8 to 8.7 percent, while construction was also responsible for a smaller proportion (16.3, after 14.9 percent the year before. On the other hand, the proportion generated by services was higher, climbing from 50.0 to 52.8 percent).

GIIPS: Construction improves, retail and hotels under pressure

In the GIIPS states, the incipient recovery in the building sector resulted in a lower contribution to overall insolvency; this fell from 22.4 to 21.1 percent. In contrast, commerce (including hotels and catering) generated a higher share than before (2013: 29.6 percent; 2014: 30.7 percent). The relative significance of this particular sector also increased, from 25.0 to 27.4 percent, while there were fewer business failures among building firms there.

Tab. 3: Insolvencies in the key economic sectors in 2014

■	Manu-facturing	Con-struction	Com-merce *)	Services
Austria	5.8	18.1	33.7	42.4
Belgium	6.5	18.4	44.5	30.6
Denmark	8.4	13.0	26.3	52.3
Finland	12.8	21.9	28.0	37.3
Ireland	8.2	20.1	29.5	42.2
Italy	21.6	21.4	29.5	27.6
Luxembourg	1.9	8.3	34.2	55.6
Netherlands	9.3	11.3	25.7	53.7
Norway	5.7	27.6	37.7	29.0
Portugal	24.0	18.7	37.9	19.4
Spain	16.8	23.4	25.7	34.2
Sweden	7.9	17.6	29.2	45.3
Switzerland	6.4	17.9	21.3	54.4

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

The differences between the economic structures in the countries of Europe are mirrored by the differences in the way insolvency is distributed across the branches of the economy in these countries. In Luxembourg, Switzerland, the Netherlands, the UK and Denmark, firms in the services sector account for over half of all business bankruptcies, while in Belgium, Norway and Portugal, retailing, including hotels and catering, is responsible for more than one third of the total in each case. And whereas in Portugal, Italy, Spain and Finland, manufacturing accounts for a double-digit percentage of all corporate insolvencies, the corresponding figure in the other countries is generally considerably lower.

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 3.3 million Western European companies, it is possible to obtain a picture of how the earnings situation of business firms has been evolving and then to draw conclusions on their financial stability and the insolvency risks they represent. The following evaluations and findings are based on balance sheets for 2013 and show changes in comparison with 2012.

Profitability exhibits positive trend

Overall, the earnings margin of firms in Western Europe (seen as the ratio between earnings and turnover) exhibits a positive trend. The number of companies with a negative EBIT margin, i.e. losses, is lower than the year before. It has fallen from 27.9 percent to 26.9 percent. At the same time, one firm in every seven in Western Europe (14.0 percent) posts a comparatively high earnings margin of more than 25 percent.

Further evidence of the ongoing recovery is that half of all the companies surveyed (49.1 percent) have been able to improve their earnings margin, as against just 44.9 percent the year before, when the majority of firms reported a downward curve. However, the situation regarding earnings remains fragile: for a substantial number of business enterprises, losses are evidently a persistent topic, while earnings on an adequate scale are still the exception rather than the rule.

Tab. 4: EBIT margin (in %) of Western European companies in 2013 *)

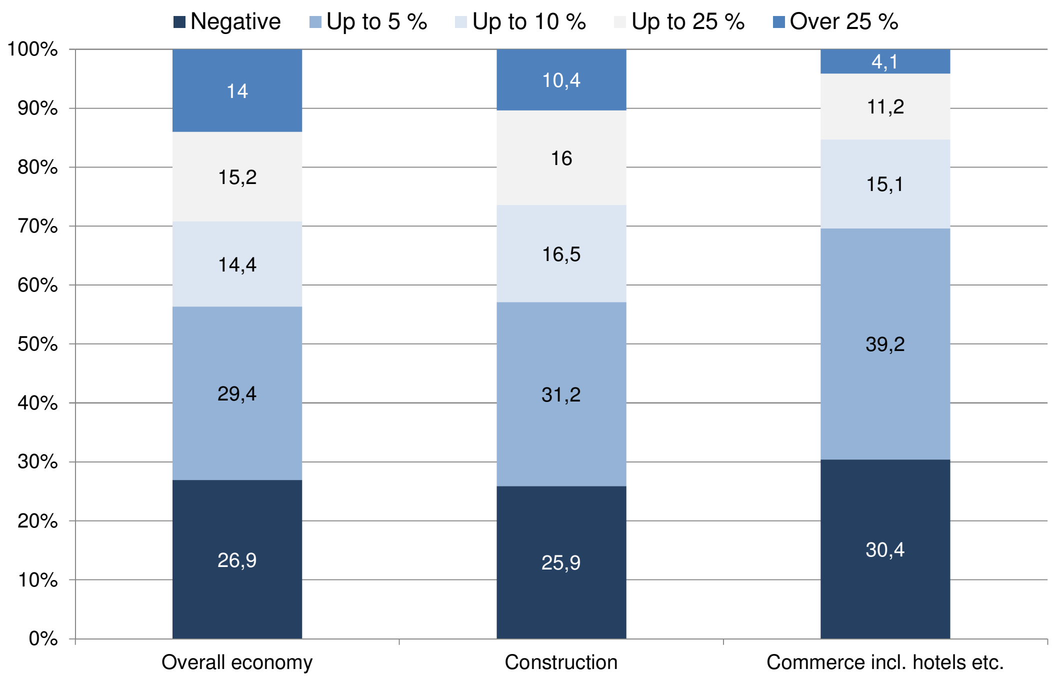
■	Negative	26.9 (27.9)
	Up to 5 %	29.4 (29.0)
	Up to 10 %	14.4 (14.1)
	Up to 25 %	15.2 (15.0)
	More than 25 %	14.0 (14.0)

*) Figures in percent, ( ) = 2012;
Source: Creditreform database, own calculations

Many retailers have low earnings margins

The earnings situation continues to vary between the different economic sectors. Commerce (including catering) exhibits a relatively high proportion of firms with negative EBIT margins (30.4 percent) and only a low proportion (4.1 percent) of firms with strong earnings. Here, too, though, year-on-year improvements are apparent. The Western European building sector also tends to have a low proportion of very profitable companies (10.4 percent), but at the same time, loss-making firms are generally rarer in this sector than in the economy as a whole (25.9 percent as against 26.9 percent). And here, too, the trend is positive.

Fig. 6: EBIT margins in selected business sectors



*) Figures show percentage of all companies and apply to 2013;
Source: Creditreform database, own calculations

Tab. 5: EBIT margin (in %) in selected business sectors in 2013 *)

■		Construction	Commerce
	Negative	25.9 (27.1)	30.4 (31.6)
	Up to 5 %	31.2 (30.8)	39.2 (38.6)
	Up to 10 %	16.5 (16.1)	15.1 (14.7)
	Up to 25 %	16.0 (15.8)	11.2 (11.1)
	More than 25 %	10.4 (10.2)	4.1 (4.0)

*) Figures in percent, ( ) = 2012;
Source: Creditreform database, own calculations

2.2 Equity ratios

One firm in four in Western Europe under-capitalised

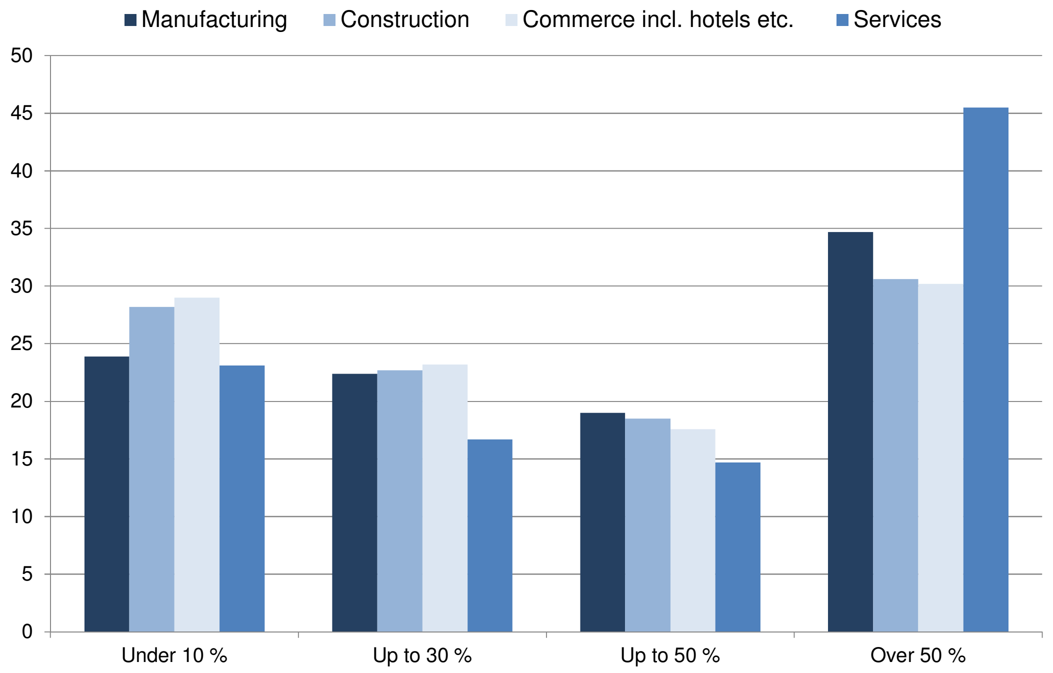
The company financial statements for 2013 were slowly but surely starting to reveal the impact of economic recovery in Europe. The proportion of Western European firms with a weak equity ratio of less than 10 percent continued to shrink, falling to just under one quarter (24.6 percent) of all registered enterprises after 25.0 percent the year before. Simultaneously, there was an increase in the proportion of companies with a very good equity ratio of over 50 percent (40.9 as against 40.1 percent). Another positive factor is that one firm in every two was able to improve its equity ratio compared with the previous year.

Tab. 6: Equity ratios of Western European companies in 2013 *)

■	Under 10 %	24.6 (25.0)
	Up to 30 %	18.7 (19.1)
	Up to 50 %	15.7 (15.8)
	More than 50 %	40.9 (40.1)

*) Figures shows percentage of all companies, ( ) = 2012;
Source: Creditreform database, own calculations

Fig. 7: Equity ratios in the key economic sectors *)

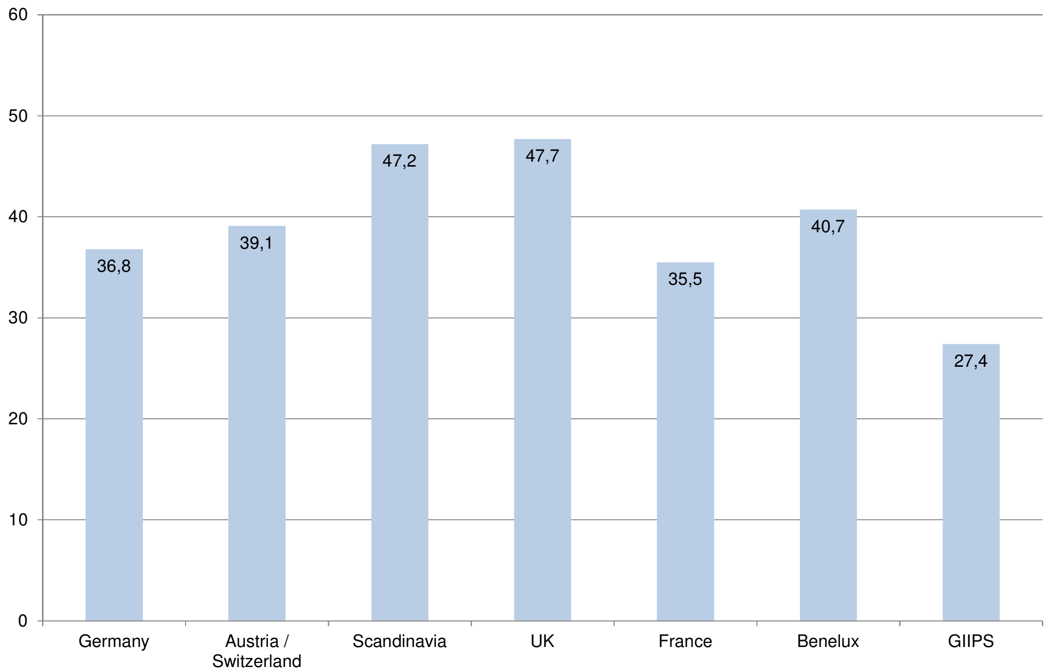


*) Figures show percentage of all companies and apply to 2013
Source: Creditreform database, own calculations

House bank or capital market: Equity ratios vary between countries

The differences between the countries of Western Europe where equity ratios are concerned reflect differing financing traditions but also reveal differences in financial stability. For instance, the greater capital market orientation in the UK and in the Nordic nations is mirrored by higher equity ratios. These reach an average of 47.7 percent in the UK and 47.2 percent in Scandinavia. In the German-speaking parts of Europe and in France, on the other hand, there is a stronger orientation toward bank financing in line with the "house bank" principle. The average equity ratio among German companies is 36.8 percent; in neighbouring France it is 35.5 percent. The lowest equity ratios are to be found in the GIIPS states of Southern Europe, where they average just 27.4 percent.

Fig. 8: Equity ratios according to countries/regions *)



*) Average; Source: Creditreform database, own calculations

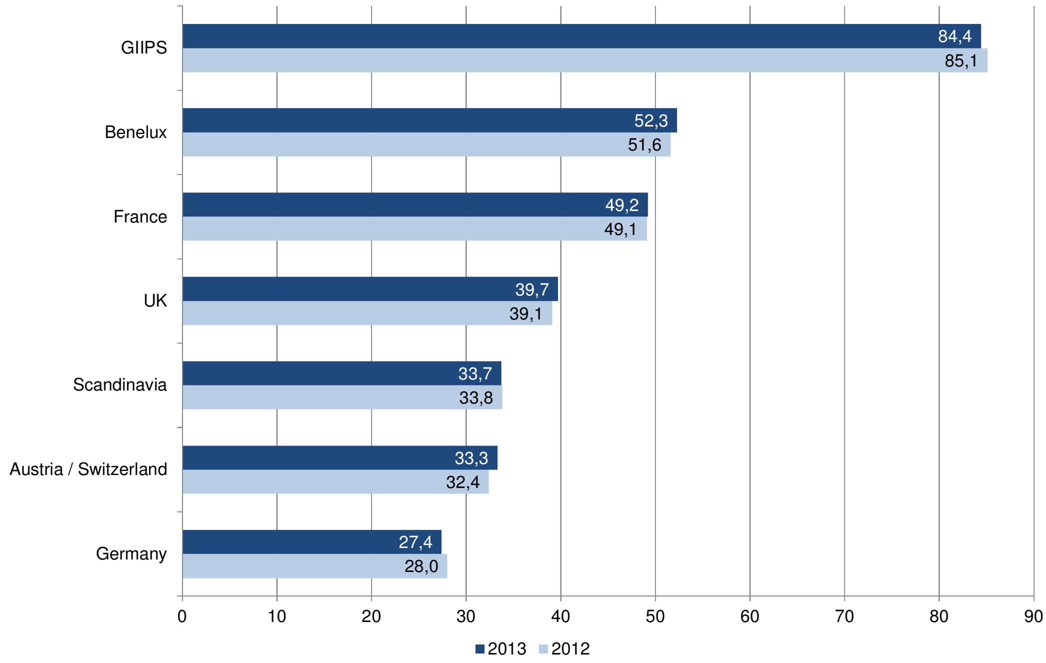
2.3 Collection periods

For Western European firms, the average collection period in 2013 was 56.3 days, marginally less than the year before (56.5 days). Collection periods are longest in the GIIPS countries (Greece, Ireland, Italy, Portugal and Spain), where the average was 84.4 days, which actually constitutes a slight improvement on 2012. On the other hand, the time required for invoices to be settled increased somewhat in the Benelux states (from 51.6 to 52.3 days), the UK (from 39.1 to 39.7 days) and in Austria/Switzerland (from 32.4 to 33.3 days). Collection periods remained virtually unchanged year-on-year in France (from 49.1 to

Collection periods: From 27 to 84 days

49.2 days) and Scandinavia (from 33.8 to 33.7 days). In Germany, the average collection period has been tending downwards, presumably reflecting the influence of this country's good economic situation.

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



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

■ 3 Corporate insolvencies in Central and Eastern Europe

Russian crisis produces insolvency record in Eastern Europe

In Central and Eastern Europe, the way that the insolvency situation developed was more varied than in the West of the continent. Seven countries reported a lower volume of corporate insolvencies and four countries an increase. Overall, the number of business failures in the region rose by 3.6 percent, from 96,188 to 99,671. This represents a new high. The year before, the aggregate number of insolvencies had remained more or less static. The conflict between Russia and Ukraine and the associated trade embargo has impacted severely on the general economy of Eastern Europe, while the long-lasting economic weakness of many Western European countries has also affected the states of Central and Eastern Europe because these are still too heavily dependent on developments for instance in the eurozone. .

A medium-term comparison with the situation in 2010 shows a considerable rise in the number of insolvencies in Croatia and Slovenia, and also in Hungary, where the relevant total includes other liquidations. This shows that the overall growth of the insolvency volume in Eastern Europe – where the number of cases has almost doubled since 2010 – is due to developments in only a few countries. A role in this is quite possibly played by differences between the insolvency legislations of the various countries and changes in the relevant laws.

Tab. 7: Corporate insolvencies in Central and Eastern Europe

■	2014	2013	2012	2011	2010	Change 2013/14 in %
Bulgaria	1,031	1,232	383	685	700	- 16.3
Croatia *)	7,776	9,019	6,922	4,878	1,501	- 13.8
Czech Rep. **)	3,563	6,021	8,398	6,753	5,559	- 40.8
Estonia	428	469	506	623	504	- 8.7
Hungary ***)	60,637	46,397	50,224	30,757	17,487	+ 30.7
Latvia	950	818	881	813	2,407	+ 16.1
Lithuania	1,593	1,561	1,354	1,302	1,496	+ 2.0
Poland	864	926	908	762	665	- 6.7
Romania	20,696	27,924	26,807	22,650	21,692	- 25.9
Slovakia	831	880	866	870	830	- 5.6
Slovenia	1,302	941	595	675	510	+ 38.4
Total	**99,671**	**96,188**	**97,844**	**70,768**	**53,351**	**+ 3.6**

*) contains previously unconcluded bankruptcies from the years before
) since 2013 some bankruptcies by self-employed persons are included under private insolvencies; *) bankruptcies and other liquidations

Slovenia and Hungary head negative list

Slovenia (plus 38.4 percent) and **Hungary** (plus 30.7 percent) were the negative leaders among the countries with higher insolvency totals. In Slovenia, economic growth was actually stronger than expected, but the situation there remains fragile and is influenced in particular by the economic weakness of neighbouring Italy and of Austria. Companies there are also suffering from a credit squeeze. In 2014, Hungary once again benefited from the EU structural funds, which decisively boosted public investment activity. Private consumption, though, remained at a low level. The SME sector is being held back by the growing extent of state influence on business.

Czech Republic and Romania as bright spots

Especially marked declines in the number of insolvencies in the 2013/14 period were registered by the **Czech Republic (**minus 40.8 percent) and **Romania** (minus 25.9 percent). In the Czech Republic, the economy is picking up again and in 2014, gross domestic product expanded for the first time after two years of recession. Czech exports have been reaching record levels and the economy is likely to be given a further boost by a set of measures planned by the government to foster growth. In Romania, economic expansion is being supported by both consumption and exports, but as a result of more limited investment, growth in 2014 was less marked than the year before. One reason for the lower level of insolvencies in Romania was the introduction of new legislation in mid-2014 which had evidently lifted the number of applications for business bankruptcy in 2013.

Bulgaria also posted a sharp reduction in the number of insolvencies (minus 16.3 percent). These fell to 1,031, after 1,232 in 2013. However, only a small proportion of insolvent firms in Bulgaria actually undergo insolvency proceedings, meaning that creditors frequently lose out.

Initial improvement in Poland

For the first time in quite a while, **Poland** reported a slightly lower volume of insolvencies (minus 6.7 percent). This reflects the slow but steady recovery of the Polish economy. The crisis in Ukraine, though, has put the field of commerce under pressure.

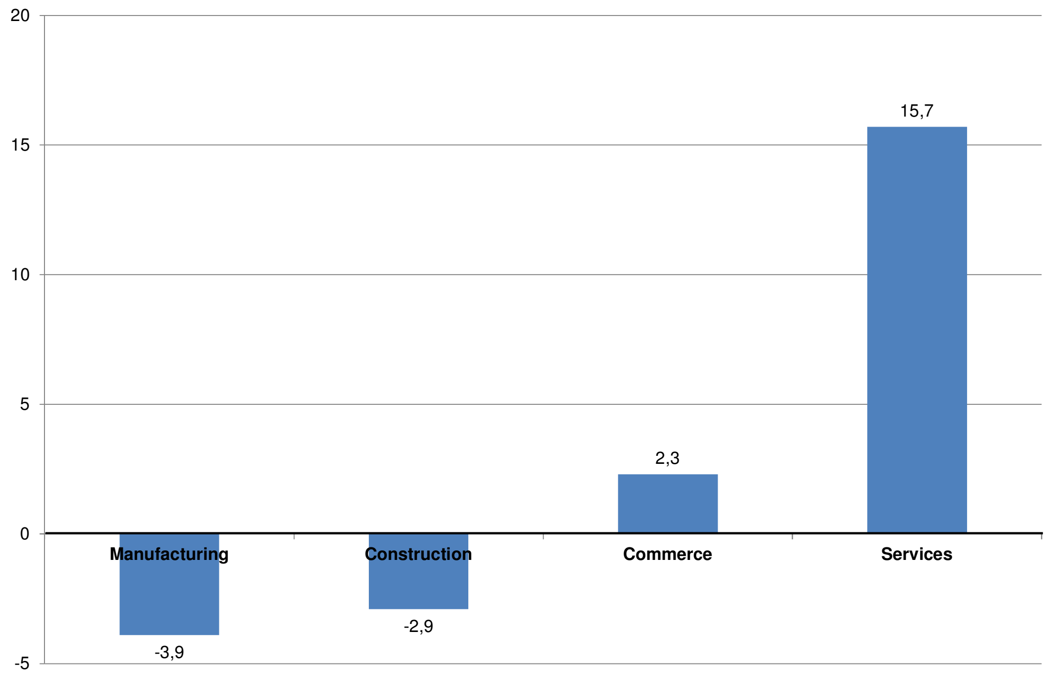
In the **Baltic states,** the insolvency scene developed in different ways. While Estonia registered a decline (minus 8.7 percent), the number of corporate insolvencies in Lithuania rose slightly (plus 2.0 percent) and in Latvia climbed quite considerably (plus 16.1 percent). One reason for this is that the Baltic nations have been more affected by the Russia-Ukraine conflict than any other members of the EU.

Latvia not fully recovered yet

The increase in insolvency figures in Latvia chiefly concerned small firms. Painful structural reforms and lower state expenditure have had a negative influence on wages and thus on domestic demand. The Latvian economy has not yet recovered its pre-crisis strength.

The decline in insolvencies in Estonia took the total to its lowest level since 2008. Imports and experts are booming. Since the 18 percent slump in GDP experienced in 2008/09, the country has gained in competitiveness and economic output is now higher than it was before the crisis. In Lithuania, the slight rise in insolvencies was fuelled by a greater number of business failures in the construction sector and in the field of services.

Fig. 10: Insolvencies in Central and Eastern Europe according to economic sectors (changes 2013/14 in percent)



Insolvency-prone services sector

The year-on-year increase in overall corporate insolvency in Eastern Europe in 2014 was due largely to developments in the tertiary sector; this posted a double-digit rise (plus 15.7 percent). In contrast, there were generally fewer business failures in manufacturing (minus 3.9 percent) and construction (minus 2.9 percent).

Tab. 8: Contribution of the key economic sectors to corporate insolvency in Central and Eastern Europe in 2014

■	2014	2013
Manufacturing	10.3	11.3
Construction	11.6	12.7
Commerce *)	36.2	37.5
Services	42.0	38.5

*) including hotels and catering

The distribution of insolvencies according to the key economic sectors highlights the significance of the services sector. It was responsible for close to half of the registered total (42.0 percent). Then came commerce (including catering), with 36.2 percent. Whereas this was a slightly lower share than before, the service-sector proportion of the overall volume increased compared with the prior-year figure. Lower year-on-year proportions were posted by building firms (11.6 after 12.7 percent) and manufacturing (down from 11.3 to 10.3 percent).

Deep recession in Ukraine – Insolvencies double

In **Ukraine,** the economy reveals the impact of the political conflict with Russia. The country is caught up in a severe recession. In 2014, according to official sources, GDP shrank by 7.5 percent. The propensity to consume has been held back by falling incomes and the high degree of uncertainty. There has also been an increasing fall in foreign investment. Against the background of these negative factors, the number of corporate insolvencies doubled in the course of the year to a total of 17,597, thus reversing the previous positive trend.

Rouble weakness: Russia fights the crisis

Although not quite as strongly, the number of business bankruptcies has also risen sharply in **Russia;** in 2014, it climbed to 14,514, a year-on-year increase of 10.4 percent. The biggest contribution to the insolvency volume was made by retailing, followed by the construction sector. This was because the weak rouble and the sluggish economy have had an adverse influence on the purchasing power of consumers. Imports have become massively more expensive. The uncertain situation and the Ukraine crisis have held back investment activity. As a result, the Russian economy in 2014 was on the brink of recession. The government has initiated a programme worth the equivalent of 18 billion euros to fight the crisis and provide support for the country's businesses and banks.

Tab. 9: Corporate insolvencies in Ukraine and Russia

■	2014	2013	2012	2011	2010	Changes 2013/14 in %
Ukraine	17,597	8,811	12,016	17,178	14,597	+ 99.7
Russia	14,514	13,144	14,072	12,794	16,009	+ 10.4

■ 4 Insolvencies in the USA

US economy returns to former strength

In the United States, the aggregate number of registered insolvencies dropped back below the one-million mark in 2014 for the first time since 2007. They fell by 11.9 percent overall to 910,090. The total includes 34,455 corporate insolvencies, which represents a decline of 21.8 percent. This positive development is due to the fact that the US economy has now been growing again for some time and is returning to its former strength. Recently, both investment and private consumption have been picking up. In 2014, the unemployment rate averaged 6.2 percent (prior year: 7.4 percent). Around three million additional jobs have been created – the biggest increase for 15 years. This also boosts the confidence of consumers.

Tab. 10: Insolvencies in the USA

■	2014	2013	2012	2011	2010
Total	910,090	1,032,572	1,221,091	1,410,653	1,593,081
Companies	34,455	44,083	40,075	47,806	56,282
Private individuals	875,635	988,489	1,181,016	1,362,847	1,536,799

■ 5 Summary

In Western Europe, the economy is gradually recovering. In 2014, the number of corporate insolvencies declined by around 10,000 to 179,662 (minus 5.4 percent). That is the first marked fall since the start of the economic and financial crisis. In 2013, the insolvency volume had remained more or less static (plus 0.9 percent), while 2012 had produced a significant increase in this respect (plus 8.6 percent). But the absolute number of corporate insolvencies in Western Europe is still higher than it was before the crisis.

Only two of the 17 countries under review posted year-on-year increases on the insolvency front in 2014 (Italy and Norway). In contrast, there were sharp, double-digit falls in insolvency totals in Spain, the Netherlands and Denmark. Here is an overview of specific developments:

In the UK (insolvencies: minus 4.9 percent), the economic recovery is continuing. Compared with the peak levels reached during the financial crisis, the number of corporate insolvencies has now fallen by about a quarter. In Germany, insolvency figures have already been declining for some time, and in 2014, a further fall was posted (minus 8.0 percent). In the Benelux countries, the crisis has left scars, and so despite marked reductions in 2013/14, the number of corporate insolvencies remains high. In France, the volume has stayed at more or less the same high level, with 60,548 cases in 2014 as against 60,980 in 2013. Among the Scandinavian countries, Norway is the only one to register more insolvencies than before, while Denmark exhibits a marked improvement in this respect (minus 18.9 percent). In the GIIPS states (Greece, Ireland, Italy, Portugal and Spain), the aggregate number of corporate insolvencies has peaked out. Year-on-year (2013/14), the volume fell for the first time since the start of the financial crisis, generally at a rate higher than the average for the Western European countries. The only exception was Italy; it bucked the trend with an increase of 12.8 percent.

In France, the insolvency volume remains high, and the country is responsible for over one third of all registered corporate insolvencies in Western Europe (33.7 percent). The long years of crisis have resulted in a substantial increase in the contribution made by the GIIPS countries to the total number of European insolvencies: since 2008 this has risen from 9.0 to 17.4 percent. In contrast, the proportion generated by the heavyweight economies of Germany and the UK has fallen.

Just like the year before, the services sector was responsible for the largest slice of the European insolvency volume, accounting for 37.0 percent. The contribution made by manufacturing has eased slightly (from 11.1 to 10.8 percent), with far fewer business failures in this field in particular in Benelux, Germany and the UK. The construction sector contributed 20.6 percent of all registered business bankruptcies in Western Europe; this represented a downward trend, with only France posting higher figures in this respect. In Austria/Switzerland and the GIIPS countries there has been an increase in the proportion of corporate insolvencies produced by commerce (including hotels and restaurants).

An analysis of the financial statements of around 3.3 million European companies provides evidence of the economic recovery. For a start, profitability has improved and a lower proportion of business firms have posted losses (26.9 percent as against 27.9 percent the year before). Moreover, one firm in every two reported a higher earnings margin. Another factor is a reduction in the number of companies with weak equity resources: just under one quarter of all business enterprises in Western Europe (24.6 percent) have an equity ratio of less than ten percent. However, in the fields of construction and commerce, the incidence of equity-weakness remains above-average.

The average collection period for invoices in Western Europe ranges from 27.4 days in Germany to 84.4 days in the GIIPS states. Generally speaking, collection periods have not lengthened.

In contrast to the positive development in Western Europe, Eastern Europe registered more corporate insolvencies than the year before (plus 3.6 percent) and in fact reached a new high with a 2014 total of 99,671. To a greater extent than the West, the East of the continent is affected by the conflict between Russia and Ukraine and the associated trade embargo. Four countries posted higher insolvency figures than before; these included Hungary (plus 30.7 percent) and Slovenia (plus 38.4 percent). In seven countries, on the other hand, there was an improvement on the insolvency front, with, for instance, significantly lower totals being reported by the Czech Republic and Romania. In the Baltic states, developments varied, with Latvia in particular continuing to exhibit crisis symptoms. The higher number of corporate insolvencies in Eastern Europe was due above all to the services sector, which registered a double-digit percentage increase.

The conflict with Russia has impacted massively on Ukraine, and the country has slipped into a deep recession. Within the course of a year, the number of corporate insolvencies there doubled to 17,597. Russia also posted an increase in this respect (plus 10.4 percent).

Fuelled by its strengthened economy, the USA registered a further decline in corporate insolvencies. After 44,083 in 2013, the total fell by 21.8 percent to 34,455 in 2014.

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Neuss/Vienna, 19 May 2015

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