Corporate insolvencies in Europe

2017/18

Creditreform
Wirtschaftsforschung

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■ 1 Insolvencies in Western Europe in 2017 – Facts and figures

1.1 Introduction

Economic upswing in Europe gains in strength

In 2017, the European economy continued to develop positively. In fact, growth momentum is likely to have been higher than in previous years. The upswing was fuelled chiefly by the domestic economy. Unemployment fell appreciably and incomes rose. In addition, business companies gained confidence in the economic recovery and stepped up their investment. Increasingly, exports are also making an important contribution to growth. But political uncertainties such as the outcome of Brexit and accelerating protectionist trends continue to pose a high risk-potential for European national economies

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 individual countries 2016/2017

Corporate insolvencies: Lowest level since 2008

First, the developments in Western Europe (EU-15 plus Norway and Switzerland). Here, the decline in insolvencies continued. In 2017, corporate insolvencies totalled 164,181, the lowest level since 2008, and 4.2 percent or around 7,200 cases down on the previous year (2016: 171,413 cases). Compared with the historic high of 2013 (192,769 cases), insolvency activity has thus weakened notably (minus 28,600 cases). The crucial factor in this positive development in Western Europe was the continuation of the upturn in the economy, creating a favourable environment overall for business companies.

Tab. 1: **Corporate insolvencies in Western Europe**

■	2017	2016	2015	2014	2013	Change 2016/17 in percent
Austria	5,318	5,534	5,422	5,600	5,626	- 3.9
Belgium	9,968	9,170	9,762	10,736	11,739	+ 8.7
Denmark	6,383	6,674	4,029	4,049	4,993	- 4.4
Finland	2,160	2,408	2,574	2,954	3,131	- 10.3
France	54,470	57,953	61,429	60,853	60,980	- 6.0
Germany	20,140	21,560	23,180	24,030	26,120	- 6.6
Greece	120	108	189	330	392	+11.1
Ireland	874	1,032	1,049	1,164	1,365	- 15.3
Italy	14,108	15,057	16,015	16,101	14,272	- 6.3
Luxembourg	935	983	873	845	1,016	- 4.9
Netherlands	3,290	4,399	5,271	6,645	8,375	- 25.2
Norway	4,557	4,544	4,462	4,803	4,564	+ 0.3
Portugal	6,284	7,195	7,288	6,773	8,131	- 12.7
Spain	4,095	4,297	5,097	6,564	8,934	- 4.7
Sweden	6,394	6,019	6,433	7,158	7,701	+ 6.2
Switzerland	6,684	6,504	6,098	5,867	6,495	+ 2.8
UK *)	18,401	17,976	15,983	17,660	18,935	+ 2.4
Total	**164,181**	**171,413**	**175,154**	**182,132**	**192,769**	**- 4.2**

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

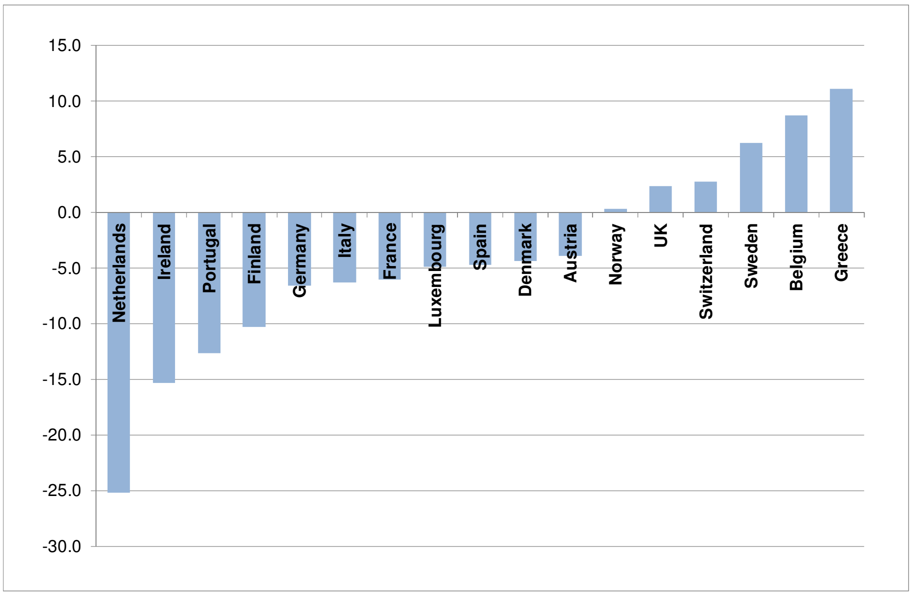
Several countries buck the trend

But the way in which insolvency totals evolved varied between different regions. Six of the 17 countries surveyed bucked the general trend and registered increases (cf. Fig. 1). A significant rise was recorded in Greece (plus 11.1 percent), followed by Belgium (plus 8.7 percent) and Sweden (plus 6.2 percent). Insolvency figures also increased in Switzerland (plus 2.8 percent) and the United Kingdom (plus 2.4 percent), while in Norway the total remained at more or less the prior-year level (plus 0.3 percent).

In contrast, significantly fewer insolvencies were reported by the Netherlands (minus 25.2 percent) and Finland (minus 10.3 percent). Insolvencies also continued to decline in former euro-crisis countries such as Portugal (minus 12.7 percent), Ireland (minus 15.3 percent) and Spain (minus 4.7

percent). Totals were also down in France (minus 6.0 percent) and Germany (minus 6.6 percent).

Fig. 1: Development of corporate insolvencies in Western Europe 2016/17



Changes in percent; Source: Creditreform

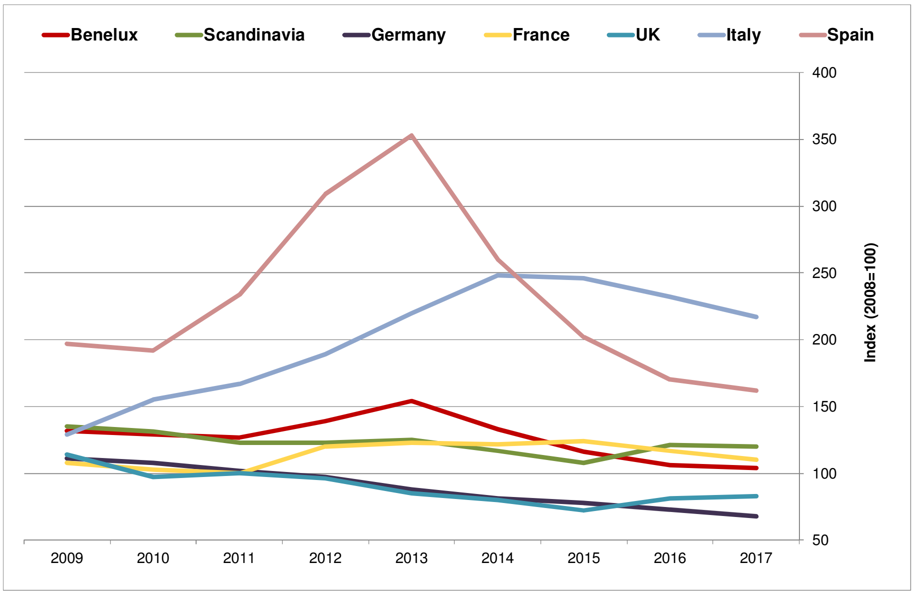
Insolvencies usually represent only a fraction of all business liquidations. In many countries, small firms encountering financial difficulties are often merely closed down without any orderly insolvency proceedings; these tiny firms are then simply erased from commercial registers (closures in Western 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.

In countries like Germany and the United Kingdom, the insolvency situation has improved perceptibly since the height of the financial crisis in 2009, and totals there are well below the pre-crisis level (2008). In the Benelux countries, it is just since 2014 that the numbers of insolvencies have been moving downwards and the totals there are now only slightly above the level of 2008. In France, the development has been similar. Insolvency figures in Italy and Spain remain appreciably higher than before the crisis, although insolvency activity in Spain in particular has eased significantly from its peak in 2013. Italy continues to record more than twice as many insolvencies as before the crisis. So there, a real turnaround is still only an incipient phenomenon.

Insolvency totals in Spain and Italy much higher than before the crisis

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



Figures in index points; Source: Creditreform

Below, a look at how the insolvency situation has developed in individual countries:

Brexit is harming the British economy

In **the United Kingdom** (England, Wales, Scotland, Northern Ireland) the number of corporate insolvencies rose by 2.4 percent to a total of 18,401. There had already been an increase in the previous year (2016), of 12.5 percent. Despite the rise, insolvency figures remain below the previous record level (2009: 25,288). However, the insolvency development already makes the negative impact of the Brexit referendum on the British economy apparent. Economic growth in 2017 was even weaker than the year before. Uncertainties remain high on both sides of the Channel about the future of trade relations after Brexit. Also bad for consumers and thus for the domestic economy are the marked inflationary trends.

Germany: Eighth decline in a row

Strong economic growth of 2.2 percent prompted a further decline of corporate insolvencies in **Germany**, with a 2017 total of 20,140 (2016: 21,560). The new figure was the lowest since 1999 and represented the eighth fall in succession. The main reason for the sustained positive development was the good economic situation, with increasing private and state consumption. Corporate investment has also recently risen sharply. By contrast, hardly any growth impetus came from foreign trade, since imports grew more strongly than exports.

Fewer insolvencies in the Netherlands, more in Belgium

In the **Benelux countries**, the insolvency situation developed in differing ways. The Netherlands registered a notable drop in the number of corporate insolvencies, by one quarter to 3,290, while Belgium, opposing the trend, posted an increase to 9,968 cases, after 9,170 in 2016. The latter figure had actually represented a year-on-year fall of 6.1 percent. Luxembourg noted a decline of close to five percent.

As in the previous year, insolvency figures in **Switzerland** increased (plus 2.8 percent). 2017 brought a total of 6,684 corporate insolvencies (2016: 6,504), the highest level since 2012. For Switzerland, 2017 was a comparatively weak year from the economic angle. At just on 1 percent, the growth rate was actually lower than it had been the year before. The dominant services industry in particular was hardly able to set any positive accents. Industrial production is developing somewhat better, benefiting from the devaluation of the Swiss franc.

Involvency figures in Switzerland move higher

Austria reported a slight decline in its insolvency total (minus 3.9 percent), after an increase in the previous year. In 2017, a total of 5,318 companies went bankrupt (2016: 5,534). That was the lowest level in 15 years. Around 16,000 employees were affected. Austria's economy grew exceptionally strongly in 2017 (plus 3.0 percent). The high export orientation had a positive effect. As more production capacities were built up, corporate investment increased. Private consumption also made a positive contribution to growth.

Finland: lowest insolvency total for 10 years

In the **Scandinavian countries**, a term which within the framework of this survey includes euronation Finland as well as Denmark, Sweden and Norway, notable falls in insolvency figures in Finland (minus 10.3 percent) and Denmark (minus 4.4 percent) contrasted with an increase in Sweden (plus 6.2 percent). But despite this rise, the total was well below the previous high (2009: 7,892), while the 2017 figure for Finland was the lowest for ten years. Although Norway recorded somewhat stronger economic growth in 2017 than it had the year before, the country, which is heavily dependent on raw material exports, continued to struggle with the volatile oil price, which led to a decline in industrial investment. Against this background, the number of corporate insolvencies remained virtually unchanged (2017: 4,557; 2016: 4,544).

France overcomes stagnation

In **France**, corporate insolvencies in 2017 totalled 54,470 (2016: 57,953). So the situation on this front has eased further. The reason for this ongoing improvement was stable economic growth of close to two percent in 2017. The years of stagnation seem to have been overcome. Growth was driven above all by private consumption and investment. The new government is seeking to tackle the structural deficiencies by means of reforms, for instance in the labour market and the field of taxes.

Insolvencies in Italy still at high level

In **Italy**, insolvency figures remained at a high level in 2017. In contrast to the improvement seen in many parts of Europe, in Italy the number of business failures was still considerably above the total registered before the financial crisis. Most recently, 14,108 companies were affected by bankruptcy. For comparison: in 2008, the figure was 6,498. However, economic growth has started to accelerate and in 2017 was at its highest level in seven years. This development was also reflected in a decline in insolvencies (minus 6.3 per cent). Overall, however, Italy continues to be one of the crisis candidates in Europe. The country still suffers from a high scale of debt and a large number of non-performing loans.

In **Portugal**, the decline in insolvency figures continued in 2017. The number of corporate insolvencies decreased by 12.7 percent. 6,284 insolvent companies were registered (2016: 7,195). The business environment has gone on improving and the economic recovery has stabilised. With an increase of 2.6 percent, economic growth in 2017 was dynamic. The domestic economy in particular provided positive impetus. Budgetary consolidation is also making progress. Government bonds again received an investment-grade rating. All the same, the public-sector deficit remains a problem.

Economic recovery in Spain continues

The corporate insolvency situation in **Spain** registered a further improvement, with another fall in the total, this time of 4.7 percent to 4,095 cases. The previous year, the decline had been all of 15.7 percent. Although the number of corporate insolvencies is well below the record levels of 2012 (7,799) and 2013 (8,934), it is still almost twice as high as before the euro-crisis. Along with Germany, Spain was one of the pillars of the European economy in 2017. After high-growth years – in both 2016 and 2017 gross domestic product rose by a good three percent – Spain's economic output exceeded the pre-crisis level of 2008 for the first time.

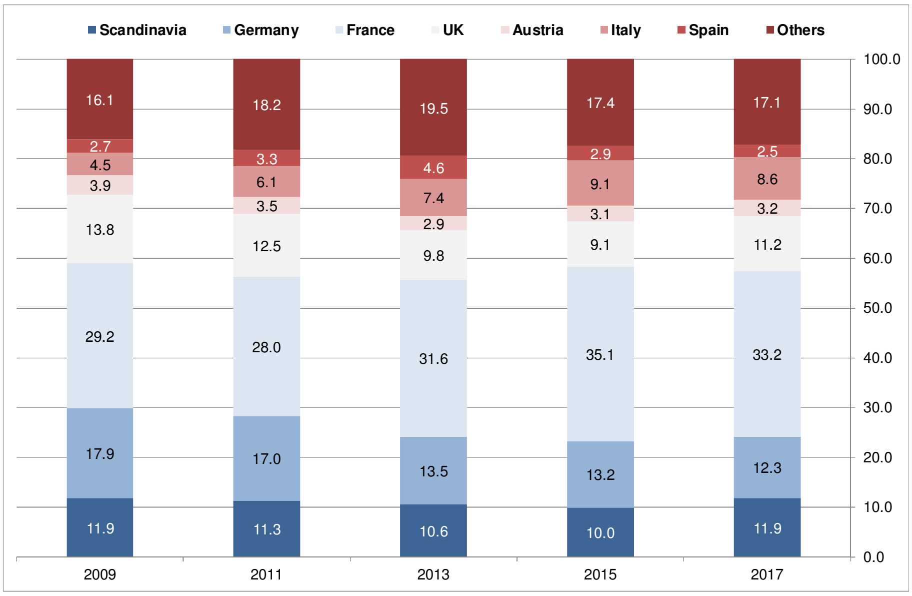
Ireland exhibits strong growth

In **Ireland**, there were fewer corporate insolvencies in 2017 than at any time since 2008. They totalled 874 (2016: 1,032). For some time now, the country has been one of the most dynamically growing regions in Europe. The growth rate in 2017 was around five percent. The Irish economy, which is oriented towards foreign trade, is highly competitive and geared towards the European internal market and the British market. In addition, Ireland attracts a significant amount of foreign direct investment. All this has spurred the economic recovery process in recent years. Brexit, however, continues to be a potential danger.

UK steps up share of total insolvencies

Over the long term, France has accounted for a growing proportion of all corporate insolvencies in Western Europe (rising from 29.2 percent in 2009 to 33.2 percent in 2017). The Scandinavian share has also been tending upwards. In 2017, it represented 11.9 percent of the total, after 10.0 percent two years earlier. The share of the United Kingdom has now increased again, to currently 11.2 percent. By contrast, Germany accounts for a lower proportion than before, with 12.3 percent of Western European insolvencies as against 17.9 percent in 2009. Spain’s share is also decreasing, especially in comparison with the high reached in 2013. Something similar applies to the other countries of Western Europe, including the former crisis countries of Ireland, Portugal and Greece. On the other hand, Italy's proportion of insolvency activity has risen. In 2017 it was 8.6 percent. That is almost twice as high as in 2009.

Fig. 3: Distribution of corporate insolvencies in Western Europe



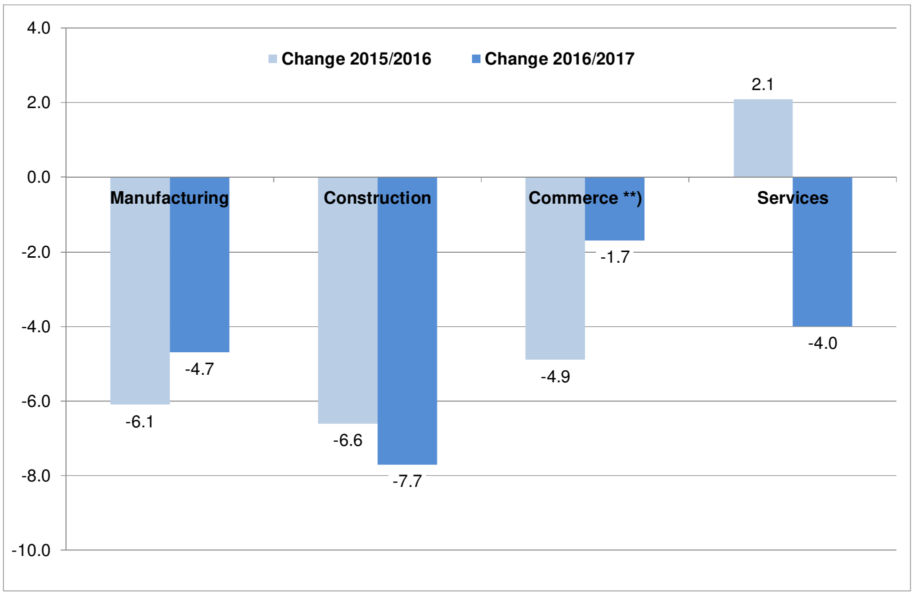
Figures in percent; Source: Creditreform

1.3 Insolvencies according to economic sectors

The decline in the number of corporate insolvencies in Western Europe between 2016 and 2017 was especially marked in the construction industry (minus 7.7 percent). The total in the manufacturing sector also fell considerably (minus 4.7 percent) – but this must be compared with a decline of 6.1 percent the year before. In 2017, the insolvency total among services firms also contracted significantly (minus 4.0 percent after a rise of 2.1 percent in 2016). The decline in the field of commerce in 2017 was just marginal (minus 1.7 percent).

Far fewer insolvencies in European building sector

Fig. 4: Changes in the key economic sectors in Western Europe 2015/2016 and 2016/2017 *)

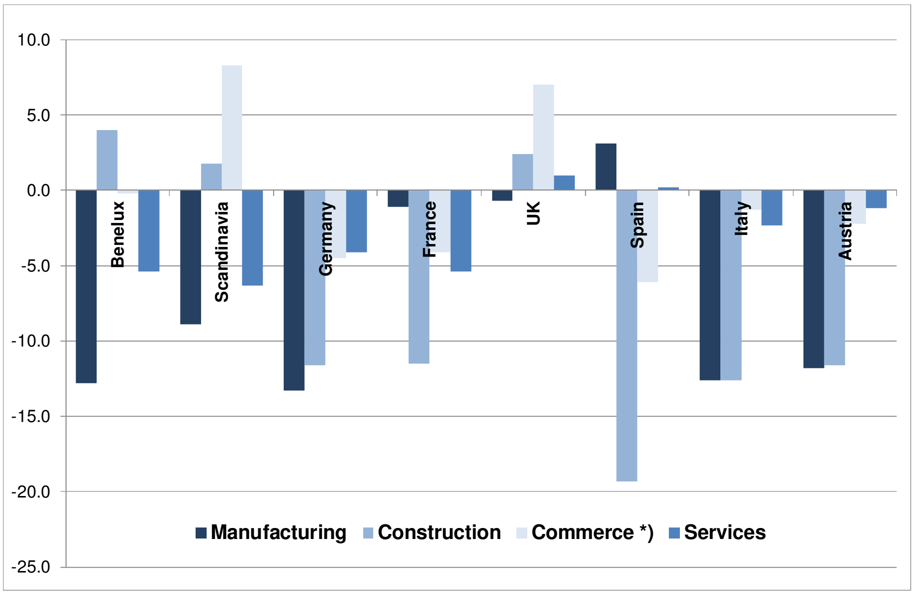


Changes in percent; *) without Ireland or Greece; **) incl. hotels/catering
Source: Creditreform

Manufacturing benefits in many countries

A look at how insolvency totals in the main economic sectors developed in selected Western European counties reveals marked percentage declines in the manufacturing sector in Germany, the Benelux countries, Italy, Austria and Scandinavia. In the construction industry, insolvencies fell sharply in Spain, Germany, Italy, France and Austria in particular. By contrast, there were more insolvencies among building firms in the Benelux countries, the UK and Scandinavia.

Fig. 5: Changes in the key economic sectors according to countries/regions in 2016/2017



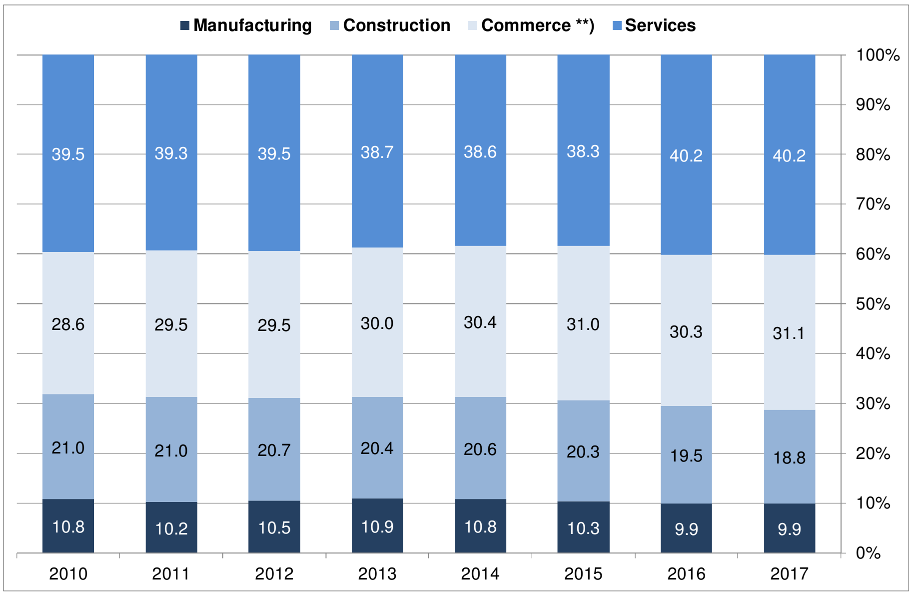
Changes in percent; *) incl. hotels/catering; Source: Creditreform

Developments in the sector of commerce (retail/wholesale and the hospitality business) varied somewhat, with increases in insolvency totals in Scandinavia and the UK contrasting with declines in the other countries of Western Europe. In the services sector, all the countries surveyed reported fewer insolvencies, with the exception of the UK and Italy.

Fewer construction insolvencies

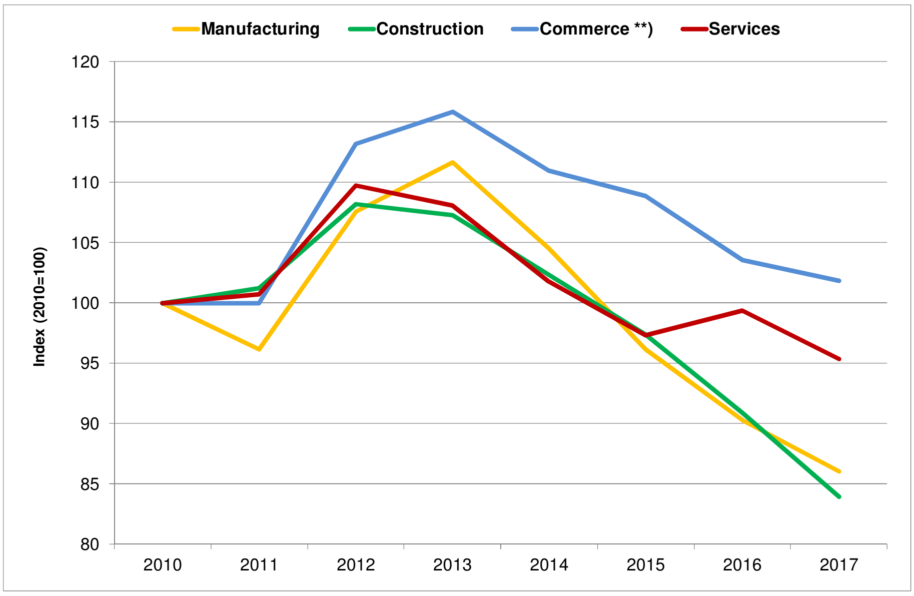
The services sector dominates insolvency activity, accounting for 40.2 percent of all bankrupt companies. Year-on-year, the share has remained the same. The proportion contributed by manufacturing also remained steady, at 9.9 percent. Business-wise, the construction industry is flourishing and in recent years it has significantly reduced its share of overall corporate insolvency figures. Currently, 18.8 percent of corporate insolvencies still originate in the construction industry, but in 2010 and 2011, the figure was all of 21.0 percent. With 31.1 percent of all insolvencies, commerce (retail plus hotels and catering) has the second-highest proportion of all the main economic sectors. In the previous year, the corresponding figure was 30.3 percent, in 2010, it was even lower, at 28.6 percent. This shows that the retail and hospitality sectors have so far benefited less from the economic upswing in Europe than other sectors.

Fig. 6: Contribution of the key economic sectors to insolvency in Western Europe 2010 to 2017 *)



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

Fig. 7: Development of insolvencies in the key economic sectors 2010 to 2017 *)



Figures in index points; *) without Ireland or Greece. **) incl. hotels/catering

Particularly in manufacturing and construction, the annual corporate insolvency totals are now well down on those recorded in 2010. In the field of commerce, though, there has been no decline in the same period.

A look at national insolvency statistics shows differences in the extent to which the economic sectors are affected. The contribution made by the construction industry is above the Western European average especially in France (22.4 percent), but also in Scandinavia (20.1 percent) and Italy (19.4 percent). Commerce dominates the national insolvency situation more strongly in the Benelux countries (40.7 percent) and in France (35.8 percent) than it does elsewhere. In Germany, Switzerland and the UK, services firms account for a very high proportion of corporate bankruptcies, over half in fact.

Construction and commerce head French insolvency table

Tab. 2: Sectoral distribution of insolvencies in selected countries/regions 2016/17

■	Manufacturing		Construction		Commerce *)		Services **)	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Benelux	5.3	6.0	15.1	14.2	40.7	39.8	38.9	40.1
Scandinavia	7.3	7.9	20.1	19.6	31.2	28.5	41.5	43.9
Germany	7.4	8.0	14.9	15.8	21.2	20.8	56.5	55.4
France	10.0	9.5	22.4	23.8	35.8	35.1	31.8	31.6
UK	9.7	10.0	15.4	15.4	23.1	22.1	51.8	52.5
Spain	14.4	13.3	15.4	18.2	26.9	27.3	43.3	41.2
Italy	19.3	20.7	19.4	20.8	31.7	30.1	29.6	28.4
Austria	4.5	4.9	17.4	18.9	33.8	33.2	44.3	43.0
Switzerland	7.0	6.4	19.2	19.4	20.3	20.9	53.5	53.3
W. Europe	**9.9**	**9.9**	**18.8**	**19.6**	**31.1**	**30.3**	**40.2**	**40.2**

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

Even allowing for different insolvency laws in the countries of Western Europe and the comparability of 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 and distort the Europe-wide comparison of insolvency ratios.

Tab. 3: Insolvency ratios in Western Europe in 2017

■	Insolvencies per 10,000 companies
Luxembourg	269
Denmark	245
Switzerland	197
Belgium	152
France	134
Norway	124
Austria	91
Sweden	87
UK	75
Germany	62
Portugal	62
Finland	61
Ireland	47
Italy	32
Netherlands	23
Spain	12
Total	**66**

Source: Eurostat, own calculations

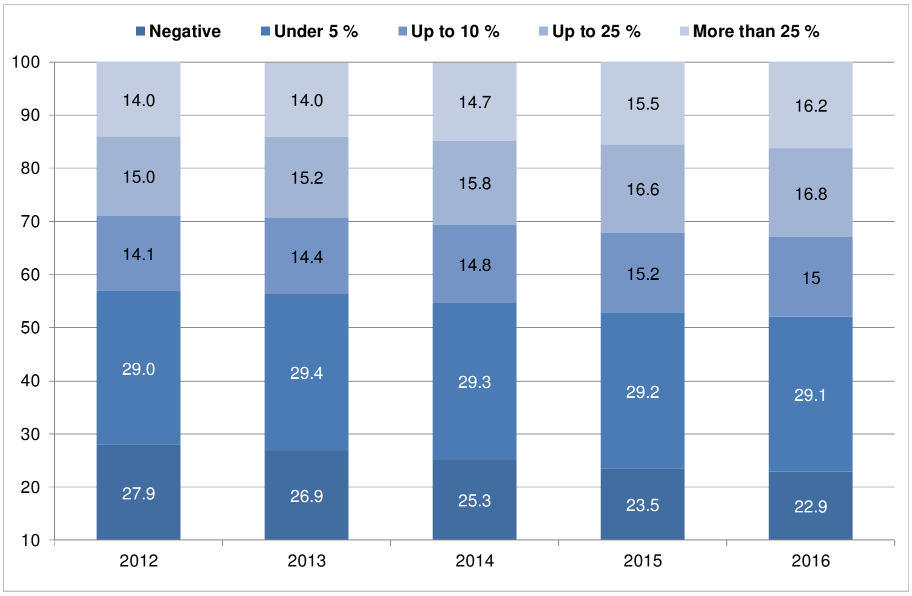
■ 2 Financial situation and liquidity of European companies

2.1 EBIT margin – Revenues and earnings

Business earnings on recovery track

An analysis of financial and liquidity ratios provides important information on corporate stability in Europe and points towards the causes of insolvency developments. Based on the disclosed balance sheets of around 3.1 million Western European companies, the earnings situation of business companies and the way this changes over time enable initial conclusions to be drawn about possible insolvency risks. The following evaluations and findings are based on balance-sheets for 2016 and changes in comparison with the year before.

Fig. 8: EBIT margins among Western Europe companies



Figures in percent; Source: Creditreform

The profit margins of Western European companies (earnings as a percentage of sales) continued to improve in line with the economic recovery. 16.2 percent of companies (previous year: 15.5 percent) have a high profit margin of more than 25 percent. Another 16.8 percent of companies show profit margins in the range between 10 and 25 percent. This was also an improvement on the previous year. Significantly fewer companies in Western Europe have a negative profit margin. In 2016, 22.9 percent of companies were affected – as against 23.5 percent the year before. A comparison with 2012 makes the improvement even clearer: during this period the reduction has amounted to five percentage points. The decline in insolvency is ultimately a reflection of the improved earnings situation of business enterprises.

In the retail/wholesale sector (including hotels and catering) only a few companies have a very high profit margin of more than 25 percent (5.2 percent of companies) but compared to the previous year there is a positive trend. In this traditionally low-margin branch of the economy, more companies than before register adequate profitabiity. At the same time, the proportion of firms with a negative

EBIT margin fell from 26.0 to 25.0 percent, which is, though, still an above-average figure. The earnings situation in the Western European construction industry also continued to improve.

Tab. 4: EBIT margins (in %) in selected economic sectors in 2016

■	Construction	Commerce *)
Negative	21.4 (22.2)	25.0 (26.0)
Up to 5 %	30.6 (30.7)	40.9 (40.4)
Up to 10 %	17.5 (17.3)	16.3 (16.4)
Up to 25 %	18.0 (17.7)	12.7 (12.4)
More than 25 %	12.6 (12.1)	5.2 (4.8)

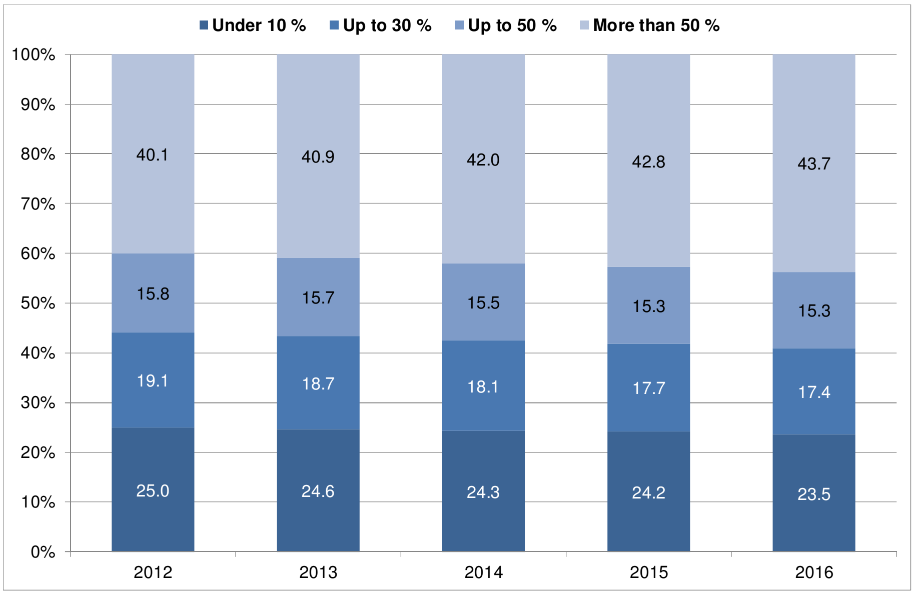
Figures in percent; ( ) = 2015; *) incl. hotels/catering
Source: Creditreform

2.2 Equity ratios

Equity ratios higher

The equity ratios of Western European companies now present a brighter picture. Year-on-year, more firms posted a very high equity ratio of over 50 percent – the proportion of such firms rose from 42.8 to 43.7 percent. At the other end of the scale, 23.5 percent of companies have a very low equity ratio of less than 10 percent – but compared with 2012, the proportion of such firms has decreased by 1.5 percentage points. This development helps to form the background for the positive trends in insolvency figures.

Fig. 9: Equity ratios in Western Europe



Figures in percent; Source: Creditreform

Companies in the manufacturing sector have stepped up their stability quite notably. The proportion of such companies exhibiting a solid equity base (equity ratio > 50 percent) now stands at 37.3 percent, as compared to 33.7 percent in 2012. Only 22.3 percent of companies now feature too low an equity ratio (< 10 percent) (2012: 24.3 percent).

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

■	2016	2015	2014	2013	2012
Under 10 %	22.3	23.0	23.5	23.9	24.3
Up to 30 %	21.5	21.7	22.0	22.4	22.9
Up to 50 %	18.9	18.8	18.9	19.0	19.1
Over 50 %	37.3	36.5	35.6	34.7	33.7

Figures in percent, Source: Creditreform database, own calculations

Construction sector gains in stability

In the period since 2012, the construction industry in particular has significantly improved its general equity situation. The proportion of firms with an equity ratio of below 10 percent has fallen from 29.0 to 26.7 percent. At the same time, more than one building firm in every three (33.7 percent) now posts a ratio of over 50 percent – as against just 29.6 percent of the total in 2012.

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

■	2016	2015	2014	2013	2012
Under 10 %	26.7	27.5	27.8	28.2	29.0
Up to 30 %	21.3	21.0	21.9	22.7	23.1
Up to 50 %	18.4	17.9	18.3	18.5	18.3
Over 50 %	33.7	33.6	32.0	30.6	29.6

Figures in percent; Source: Creditreform database, own calculations

Of all the economic sectors, it is in the field of commerce that the proportion of weak-equity firms is highest, with 27.8 percent. Nevertheless, in this field, too, the situation has improved in recent years. Almost one third of the relevant firms (32.6 percent) now have an equity ratio of over 50 percent. This is a significantly higher figure than in 2012 (29.4 percent).

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

■	2016	2015	2014	2013	2012
Under 10 %	27.8	28.3	28.7	29.0	29.2
Up to 30 %	22.1	22.3	22.7	23.2	23.6
Up to 50 %	17.4	17.5	17.5	17.6	17.7
Over 50 %	32.6	32.0	31.1	30.2	29.4

Figures in percent; Source: Creditreform database, own calculations

In addition, in both commerce and construction, the proportion of companies with a strong equity base is now significantly higher than the proportion of companies with weak equity. In 2012, both shares were still almost equal.

In the services sector, almost half of all firms have for some time revealed a good equity base, and currently the figure is 47.9 percent. The situation in this sector has become even more comfortable.

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

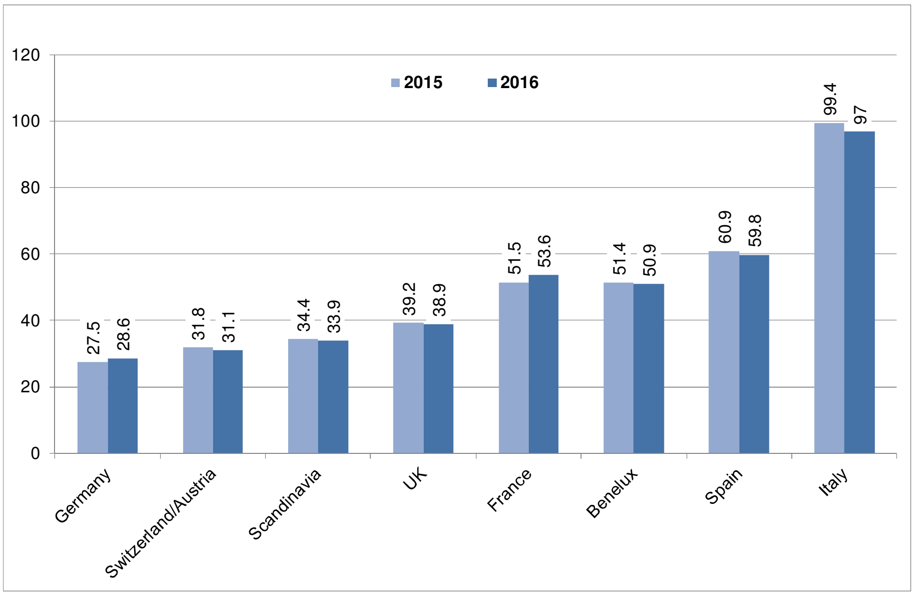
■	2016	2015	2014	2013	2012
Under 10 %	22.4	23.1	23.0	23.1	23.3
Up to 30 %	15.4	15.7	16.1	16.7	16.9
Up to 50 %	14.3	14.3	14.6	14.7	14.8
Over 50 %	47.9	46.9	46.3	45.5	44.9

Figures in percent; Source: Creditreform database, own calculations

2.3 Collection periods

The good economic situation has also helped to reduce the average time needed for invoices to be settled in Western Europe, from 55.4 to 53.9 days. Suppliers of both goods and services report faster receipt of outstanding moneys.

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



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

Collection periods in Germany and France longer

Slightly longer collection periods were registered in France (up from 51.5 to 53.6 days) and Germany (up from 27.5 to 28.6 days). All the same, the time taken in Germany for invoices to be settled remains low by European standards. The longest collection periods are still to be found to Italy (97.0 days), even though there was a slight improvement there recently. Days sales outstanding in Switzerland and Austria as well as in the Scandinavian countries are favourable for the liquidity of suppliers of goods and services. Compared to the previous year, the average duration of outstanding accounts has decreased.

■ 3 Corporate insolvencies in Central and Eastern Europe

Fewer insolvences in Eastern Europe too

Central and Eastern Europe posted a substantial reduction in aggregate corporate insolvencies in 2017. The number of registered cases fell from 99,629 to 86,879 (minus 12.8 percent). However, four countries (Lithuania, Slovenia, Romania and Estonia) recorded an increase against the trend. There was also a marginal rise in Serbia and the Ukraine.

Which countries are dancing out of line?

Insolvency totals fell by an above-average extent in Croatia (minus 42.9 percent), followed by the Czech Republic (minus 26.0 percent) and Macedonia (minus 22.0 percent). In the two previous year, Croatia – which since 2015 has had new insolvency legislation – had suffered a significant increase in bankruptcy figures, so the backlog there seems to have subsided. It is also striking that the decline in corporate insolvencies is continuing in Latvia, where the number of cases has almost halved compared with the peak in 2014. In Lithuania, on the other hand, insolvencies have risen for the fifth year in succession.

Tab. 6: Corporate insolvencies in Central and Eastern Europe

■	2017	2016	2015	2014	2013	Change 2016/17 in percent
Bulgaria	859	871	1,083	1,031	1,232	- 1.4
Croatia *)	10,744	18,811	19,543	2,641	6,220	- 42.9
Czech Rep. **)	1,803	2,438	3,004	3,563	6,021	- 26.0
Estonia	343	335	376	428	469	+ 2.4
Hungary ***)	36,576	41,007	46,967	60,596	46,397	- 10.8
Latvia	587	731	802	964	818	- 19.7
Lithuania	2,865	2,560	2,012	1,594	1,561	+ 11.9
Macedonia	142	182	n.s.	n.s.	n.s.	- 22.0
Poland	593	616	770	864	926	- 3.7
Romania	8,256	8,053	10,269	20,696	27,924	+ 2.5
Serbia	2,113	2,104	2,072	2,062	n.s.	+ 0.4
Slovakia	584	692	715	831	880	- 15.6
Slovenia	1,439	1,376	1,154	1,302	941	+ 4.6
Ukraine	19,975	19,853	13,696	13,198	8,811	+ 0.6
Total	**86,879**	**99,629**	**102,463**	**109,770**	**102,200**	**- 12.8**

*) 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; ***) bankruptcies and other liquidations

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

Marginal fall in insolvency figures

Bulgaria noted a slight decline in total corporate insolvencies in 2017 (minus 1.4 percent), with the figure falling to 859 (2016: 871). In fact, though, the true number of over-indebted and insolvent firms was probably higher. Around 3,000 employees were affected by insolvency. Economic development in Bulgaria continues to be positive. Private consumption and exports were the growth engines in 2017. Gross domestic product is expected to have grown by just under four percent and the deflation phase has come to an end.

Insolvency total cut back significantly

In **Croatia**, aggregate corporate insolvencies fell substantially, following two years with very high totals. A change in the relevant legislation in 2015 had triggered a strong increase in bankruptcy proceedings. In 2017, this trend was halted, and the number of new cases fell by around 43 percent, to 10,744. In the majority of these, there was a lack of any assets. Meanwhile, economic dynamism in Croatia has gained in breadth. Economic impulses came primarily from consumption and investments. The gross domestic product increased significantly by a good three percent. The Croatian economy had already grown similarly strongly in the previous year.

Low insolvency rate in Estonia

In **Estonia**, 2017 once again brought only few cases of corporate insolvency. These totalled 343 (plus 2.4 percent) and affected 3,200 employees. Measured against the overall number of business enterprises in Estonia, the insolvency total is very low. Most of the market shake-out takes place without any insolvency proceedings. The insolvency rate is highest in the hospitality business. Overall, the economy has been developing very dynamically. With a GDP growth rate of a good four percent, Estonia was one of the fastest-growing economies in Europe. In particular, investment has risen sharply.

Latvian economy is doing well, insolvencies are declining

In 2017, **Latvia** once again posted a reduction in insolvencies – and at 19.7 percent, the decline was actually more marked than it had been the year before (minus 8.9 percent). The Latvia economy developed very positively in 2017. The strong growth rate of over four percent was triggered by an investment boom fuelled by EU subsidies.

Lithuania again reported an increase in the number of corporate insolvencies. Following changes in the relevant legislation in 2015 which made it easier to initiate proceedings, insolvency applications increased significantly - by 27.2 percent in the previous year, this time by 11.9 percent. In Lithuania, cases are usually opened by state authorities such as tax offices and social insurance carriers.

In **Poland**, too, corporate insolvency figures were down year-on-year, with a total of 593 in 2017 after 616 in 2016 (minus 3.7 percent). The fall was particularly apparent in commerce and construction. Poland exhibited an impressive economic surge in 2017, with a growth rate of more than four percent, which put it among the leaders in Europe. The main driver was private consumption. Backed by EU funding, investment was stepped up.

Private consumption boosts growth in Poland

Romania saw corporate insolvencies increase in 2017 (plus 2.5 percent). They totalled 8,256 (2016: 8,053). Above-average rises were registered in the building industry and in the transport sector. The chief sufferers were small firms, with mid-range and larger companies less strongly affected than the year before. Romania's economic growth, of between five and six percent in 2017, was driven strongly by the domestic economy, while the scale of business investment remained weak.

Small firms dominate insolvency statistics

With a total of 1,803 cases, the downward trend in corporate insolvencies in the **Czech Republic** continued in 2017 (minus 26.0 percent). In the previous year, the figure had been 2,438. After peaking in 2012, with almost 8,400 applications for bankruptcy, the situation has eased appreciably. Insolvency activity was dominated more strongly than in the year before by the services and the retail sectors. The sharp decline in insolvencies in recent years has been triggered by a dynamic economy. In 2017 alone, growth reached 4.5 percent. In many cases, capacity utilization in the economy is at its limits.

Economic boom in the Czech Republic

Insolvency figures also fell significantly in **Slovakia** (minus 15.6 percent). There, too, the economic recovery continued, with growth of over three percent in 2017, much the same as the year before. Companies and the public sector held back from investing, and EU funds were not drawn on. The shortage of skilled workers intensified.

Hungary, too, posts fewer insolvencies

In **Hungary**, business liquidations totalled 36,576, representing an appreciable decline of 10.8 percent and continuing the prior-year positive trend. The fall was particularly marked in the services sector. The economic upswing, which accelerated in 2017, contributed to this. At 3.7 percent, Hungary's gross domestic product grew much more strongly than in the previous year, with investment in particular showing a plus.

Recovering after recession

Corporate insolvencies in the **Ukraine** remain at a high level. The increase in recent years has been due to the country’s difficult economic situation. In 2017, though, GDP returned to modest growth (plus 2.0 percent), with a rise in private consumption and especially in investment. However, there is still room for improvement in many areas. At 19,975, the company insolvency total was much the same as the year before.

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

■	2017	2016
Manufacturing	12.4	10.9
Construction	12.1	12.2
Commerce **)	34.8	34.7
Services	40.7	42.2

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

Manufacturing produces one insolvency in every eight

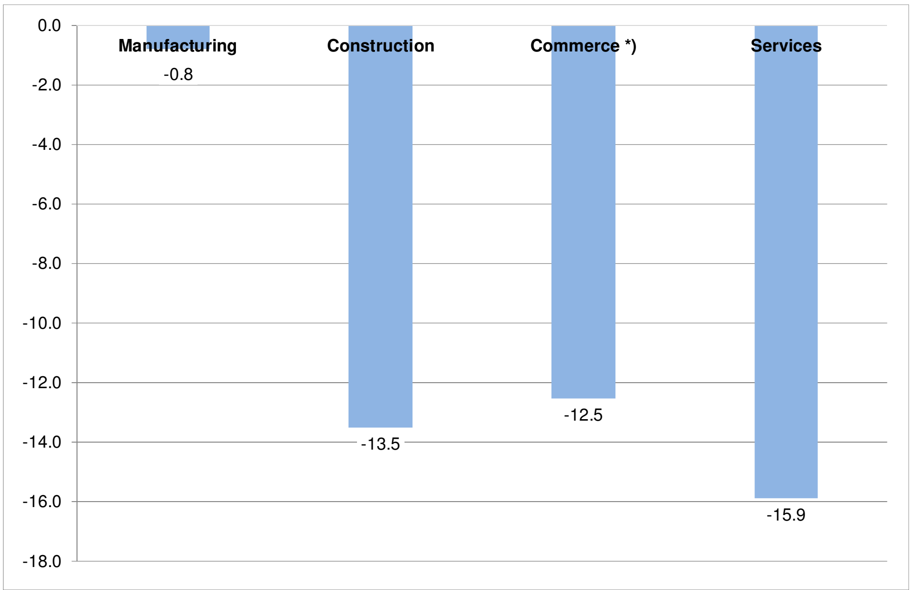
Figures from the three Baltic states and from Poland, Romania, the Czech Republic and Hungary help to provide the following picture of how the different economic sectors contributed to the total number of corporate insolvencies.

The majority of insolvencies in Eastern Europe are in the services sector (40.7 percent of all cases). However, this proportion has decreased compared with the previous year. In contrast, the manufacturing sector increased its share of all insolvencies to about one eighth (from 10.9 to 12.4 percent). Unlike in Western Europe, the proportion generated by the construction industry in

Eastern Europe is lower, that produced by manufacturing higher.

Year-on-year figures show than insolvency totals are declining in all four economic sectors. This development is most pronounced in the field of services (minus 15.9 percent). The construction industry (minus 13.5 percent) and the retail sector (minus 12.5 percent) also saw a noticeable fall in insolvencies. By contrast, the number of insolvencies in the manufacturing sector in Eastern Europe fell only slightly (minus 0.8 percent)

Fig. 11: Development of corporate insolvencies in Central and Eastern Europe 2016/17 according to key economic sectors



Changes in percent; *) incl. hotels/catering

Fuelled by state stimulus programmes, the **Turkish** economy exhibited robust growth in 2017 (plus 7 percent). So the dip experienced the year before seems to have been overcome. Growth was driven by the construction sector and also by exports. As a result, though, inflation and state indebtedness have surged. Without the special government programmes, growth would have been much weaker. And the structural deficiencies remain. **Turkey** also noted an increase in the number of corporate insolvencies in, of around

Economic stimulus programmes cannot save all companies

one third to 14,700 (2016: 11,038). Rises were registered particularly among building firms.

Tab. 8: Corporate insolvencies in Turkey

■	2017	2016	2015	2014	2013	Change 2016/17 in percent
Turkey	14,700	11,038	13,701	15,822	17,400	+ 33.2

■ 4 Insolvencies in the USA

Economy picks up – insolvency figures show little change

In 2017, the US economy picked up. At just over two percent, GDP growth was higher than the year before. Once again, recovery was boosted by private consumption, which benefited from the robust labour market situation. But insolvency figures in the United States have hardly changed at all. Corporate insolvencies in 2017 totalled 38,062, which represented a marginal year-on-year increase: in 2016, the figure was 37,997, following a sharp increase. 2017 also brought an above-average rise in the number of filings for protection from creditors under Chapter 11 of the US bankruptcy code.

Tab. 9: Corporate insolvencies in the USA

■	2017	2016	2015	2014	2013	Change 2016/17 in percent
USA	38,062	37,997	29,897	34,588	44,122	+ 0.2

■ 5 Summary

The economic upturn in Europe has consolidated. As a result of the economic recovery, the number of corporate insolvencies continued to decline. In Western Europe (EU-15 countries plus Norway and Switzerland), 2016/2017 brought a year-on-year fall of around 7,200 (4.2 percent) in the total. In all, 164,181 corporate insolvencies were registered (2016: 171,413). That was the lowest level since 2008. Insolvencies also decreased in Central and Eastern Europe in 2017. Compared to the previous year, a reduction of 12.8 percent to a total of 86,879 cases was recorded (2016: 99,629).

The decisive factor in the decline in insolvency activity in Europe was the good overall business environment. Favourable financing conditions and an improved economic situation provided companies with an economic tailwind. Up to now, risk factors resulting from political uncertainties (Brexit or trade disputes with the USA) have not impacted on insolvency statistics.

Against the trend, six of the 17 Western European countries surveyed recorded a rise in insolvency figures. There was an increase in Greece (plus 11.1 percent), followed by Belgium (plus 8.7 percent), Sweden (plus 6.2 per cent), Switzerland (plus 2.8 percent) and the United Kingdom (plus 2.4 percent). There were also slightly more insolvencies in Norway than in the previous year (plus 0.3 percent).

By contrast, the Netherlands (minus 25.2 percent) and Finland (minus 10.3 percent) recorded noticeable declines. Insolvency totals were also lower in 2017 in former crisis countries such as Spain (minus 4.7 percent), Portugal (minus 12.7 percent) and Ireland (minus 15.2 percent).

In Central and Eastern Europe, Lithuania (plus 11.9 percent), Estonia (plus 2.4 percent), Romania (plus 2.5 percent) and Slovenia (plus 4.6 percent) recorded more insolvencies. In the Ukraine (plus 0.6 percent) and Serbia (plus 0.4 per cent), the previous year's level was exceeded by just a slight margin. On the other hand, Croatia (minus 42.9 percent), the Czech Republic (minus 26.0 percent), Macedonia (minus 22.0 percent), Latvia (minus 19.7 percent), Slovakia (minus 15.6 percent) and Hungary (minus 10.8 per cent) recorded double-digit percentage decreases.

In the USA, the number of corporate insolvencies, 38,062, remained at more or less the prior-year level (37,997) despite the economic recovery. In Turkey, the number of cases increased by about one third to 14,700 (2016: 11,038).

In the construction sector in particular, insolvency activity diminished perceptibly. In Western Europe, insolvency figures fell by 7.7 per cent, after a decline the year before as well, of 6.6 percent. In the Central and Eastern European countries, too, the number of insolvencies in the construction sector fell (minus 13.5 percent), while the insolvency figures in the field of manufacturing barely decreased (minus 0.8 percent). The situation was different in Western Europe, where manufacturing reported a decline of 4.7 percent (previous year: minus 6.1 percent).

This time there were also fewer insolvencies in the services sector. In Western Europe, the decline was 4.0 percent. The year before, the number of insolvencies in this branch of the economy had risen slightly (plus 2.1 percent). In Central and Eastern Europe, insolvencies in the services sector actually fell by all of 15.9 percent. In Western Europe, there was only a small drop in total insolvencies in the field of commerce in 2017 (minus 1.7 percent; previous year: minus 4.9 percent). In Eastern Europe, insolvencies in this sector declined more sharply (minus 12.5 percent).

European companies have achieved greater stability in recent years. Earnings margins have improved and only a small number of companies are suffering losses. As a result, 16.2 percent of Western European companies with balance-sheet accounting (previous year: 15.5 percent) now have an EBIT of more than 25 percent. The proportion of companies with negative operating profits fell from 23.5 to 22.9 percent. Compared to 2012, this proportion has decreased by a clear five percentage points.

Equity ratios are also showing signs of recovery: 43.7 percent of companies in Western Europe have a high equity ratio of 50 percent and more. This is a greater proportion than in the previous year (42.8 percent) and significantly more than in 2012 (40.1 percent). At the same time, there was a fall in the proportion of companies whose equity ratio must be regarded as too low (equity ratio below 10 percent) - just under a quarter of companies (23.5 percent) are affected. The year before, this ratio was 24.2 percent.

Responsible for the content:
Creditreform Economic Research Unit
Head: Michael Bretz, Tel.: (02131) 109-171
Hellersbergstr. 12, D - 41460 Neuss

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