

# Insolvencies in Europe

■ 2010/11

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A survey by the  
Creditreform Economic  
Research Unit



<b><u>CONTENTS</u></b>	<b><u>PAGE</u></b>
<b>1 Introduction</b>	<b>1</b>
<b>2 Insolvencies in Western Europe in 2010</b>	<b>2</b>
2.1 Corporate insolvencies	2
2.2 Private insolvencies	8
2.3 Business sector structure of insolvency	11
<b>3 Financial and economic environment</b>	<b>17</b>
3.1 Earnings situation	17
3.2 Equity capital situation	18
3.3 Payment conduct of customers	20
3.4 Financing conditions	21
<b>4 National reports Europe</b>	<b>23</b>
4.1 Germany	23
4.2 United Kingdom	24
4.3 France	25
4.4 Spain	26
4.5 Benelux countries	27
4.6 Scandinavia	28
<b>5 Central and Eastern Europe</b>	<b>30</b>
<b>6 USA</b>	<b>35</b>
<b>7 Summary</b>	<b>37</b>
<b>List of sources</b>	<b>41</b>



## ■ 1 Introduction

Europe in upswing, Europe in (debt) crisis – both could be headlines of an economic review of 2010. After the financial crisis shock the previous year, Europe's economy as a whole rebounded. The signs of recovery in foreign trade and investment are unmistakable. But last year also saw a divided Europe: while industrial countries like Germany profited from the boom in global economic activity and recorded sharp growth rates again, countries such as Greece and Ireland were left groaning under the weight of their debts. In these countries, austerity packages and insecurity in the financial markets are significantly curbing economic dynamism.

The economic recovery gained in breadth in the course of 2010. In many places, GDP is again running close to pre-crisis levels. With the economic upswing, company revenues and earnings improved, market insecurity diminished and firms – especially in industry – now assess their business situation far more positively than a year ago. These developments are also reflected in insolvency figures. Insolvency and default risks, for example, are steadily falling across Europe. Nevertheless, the effects of the 2008/09 global economic crisis continued to be felt in 2010. In many respects, there can as yet be no talk of a return to normality.

***Upswing and debt crisis:  
The issues in 2010***

***Insolvency risks reduced***

## ■ 2 Insolvencies in Western Europe in 2010

### 2.1 Corporate insolvencies

***Insolvencies lower but still at second-highest level in the past ten years***

The impact of the recession continued to make itself felt well into 2010 and even now still influences the insolvency scene in many countries of Europe. Although the total number of corporate collapses in the Western European states (EU15 plus Switzerland and Norway) declined last year, the aggregate figure is still the second-highest in the past ten years: 175,677. That is just 1.4 percent lower than the 178,235 registered in 2009.

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

■	2010	2009	2008	2007	2006	Change 2009/10 in percent
Austria	6,657	7,076	6,500	6,362	6,854	- 5.9
Belgium	9,620	9,382	8,476	7,678	7,617	+ 2.5
Denmark	6,460	5,710	3,709	2,401	1,987	+ 13.1
Finland	2,870	3,275	2,612	2,254	2,285	- 12.4
France	51,060	53,547	49,723	42,532	40,360	- 4.6
Germany	32,100	32,930	29,580	29,150	34,040	- 2.5
Greece	355	355	359	524	532	+/- 0.0
Ireland	1,525	1,406	773	363	304	+ 8.5
Italy *)	10,923	8,354	6,498	5,518	8,827	+ 30.8
Luxembourg	918	698	590	680	634	+ 31.5
Netherlands	7,340	8,040	4,635	4,602	5,941	- 8.7
Norway	4,480	5,013	3,637	2,845	3,032	- 10.6
Portugal	5,144	4,450	3,267	2,123	2,400	+ 15.6
Spain	4,770	4,984	2,528	880	853	- 4.3
Sweden	7,510	7,892	6,298	5,791	5,243	- 4.8
Switzerland **)	6,255	5,215	4,222	4,314	4,528	+ 19.9
United Kingdom	17,690	19,908	16,268	12,893	13,686	- 11.1
<b>Total</b>	<b>175,677</b>	<b>178,235</b>	<b>149,675</b>	<b>130,910</b>	<b>139,123</b>	<b>- 1.4</b>

\*) Since 2006, the insolvency statistics compiled by the register of companies in Italy include only company headquarters and no longer the individual branches of a company. \*\*) Since 1.1.2008, companies can be officially closed down and deleted from the register by means of bankruptcy proceedings: Section 731b OR.

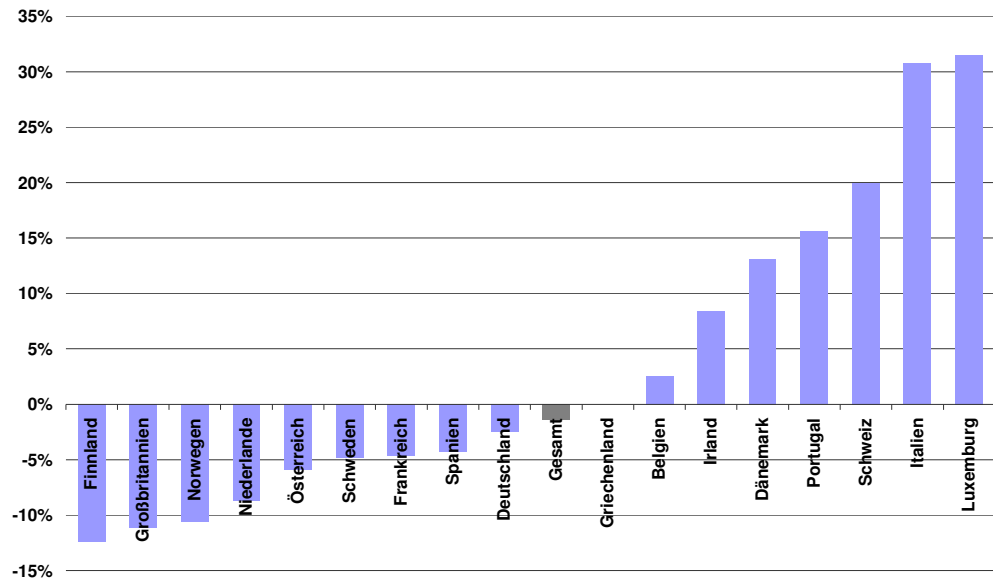
In spite of the economic recovery throughout Europe, several countries again reported an increase in the number of corporate collapses, for example Italy, Ireland, Portugal and Denmark. Others registered lower figures, in some cases considerably lower in fact, such as the United Kingdom, the Netherlands and the Scandinavian countries. The increase in Switzerland (plus 19.9 percent) was due largely to a legal amendment in 2008 which is now being applied more frequently. It lays down that companies can officially be deleted from the register via insolvency proceedings for instance because of so-called organisational deficiencies. But even excluding such cases, the number of insolvencies in Switzerland was still 14.5 percent higher than the previous year.

***Seven countries with increases***

In practically all the EU countries, the insolvency scene in 2010 was still overshadowed by the economic crisis. Even though the Eurozone is now reporting strong growth again, the often substantial slumps in the economic output of individual countries have not been offset yet. It is especially during the upturn that the stability of many companies reveals a certain shakiness. One reason is that well into last year, the financing of business enterprises was difficult. In Europe as a whole, a considerable proportion of companies found it hard to obtain third-party finance. Many still do. By the end of 2010, not all of these influencing factors were totally overcome. As a result, 2010 was on the one hand a year of economic upswing with a reduction in the overall number of company collapses, but on the other hand a year in which insolvency remained at a historically high level.

***Corporate stability still shaky despite upturn***

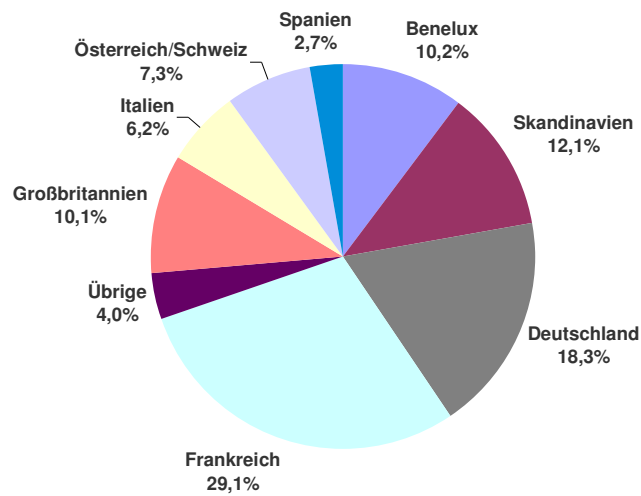
### III. 1: Development of corporate insolvencies in Western Europe



#### ***Development varies between countries***

The extent to which the development of insolvency varied between the different states of Western Europe is shown by the rates of change. Compared with 2009, a considerable increase was registered in Luxembourg (plus 31.5 percent), Italy (plus 30.8 percent), Switzerland (plus 19.9 percent) and Portugal (plus 15.6 percent), whereas in Finland (minus 12.4 percent), the United Kingdom (minus 11.1 percent) and Norway (minus 10.6 percent), the figures in Year 1 after the recession were already falling substantially (cf. III. 1). This shows quite clearly the strength and intensity of the economic rebound, from which, though, the European countries benefited in differing degrees. What remains a fact, however, is that despite the falls, the absolute number of corporate insolvencies generally remains at a high level. Not until there has been economic growth over a lengthier period of time can a significant reduction in the number of business collapses be expected.

### III. 2: Distribution of corporate insolvencies in Western Europe



Just under three out of every ten business failures in Western Europe in 2010 were in France (29.1 percent). In second place came Germany with 18.3 percent, followed by Scandinavia with 12.1 percent. The Benelux states and the United Kingdom both had shares around the ten percent mark, with 10.2 percent and 10.1 percent respectively.

***France with biggest slice***

**Tab. 2: Insolvency ratios in the individual Western European countries in 2010**

■	Insolvencies per 10,000 companies
Greece	7
Spain	14
Italy	24
Portugal	47
United Kingdom	69
Sweden	72
Ireland	75
Netherlands	87
Germany	89
Finland	89
Norway	93
France	102
Switzerland	123
Belgium	160
Austria	163
Denmark	207
Luxembourg	321
<b>Average</b>	<b>68</b>

Source: National registers of companies

***Low insolvency ratios in Southern Europe***

Compared with the total number of business firms, the insolvency ratio was highest in Luxembourg, with 321 cases for every 10,000 firms. Then comes Denmark with 207. The insolvency ratio in Germany – at 89 cases per 10,000 firms – is above the European average, which is 68. This puts Germany in the direct proximity of the Netherlands (87), Finland (89) and Norway (93). Countries with insolvency ratios in the triple-digit range are France (102), Switzerland (123), Belgium (160) and Austria (163).

In fact, though, this depiction is distorted by the fact that the insolvency statistics in the individual European countries are only comparable with one another to a limited extent. One reason the ratio is so low in the countries of South Europe, for instance, is that the overall number of business firms includes a large proportion of small traders

and freelance professionals, who only rarely opt for orderly insolvency proceedings. Usually, they simply give up their business (voluntarily).

**Tab. 3: Insolvency-related job losses in Europe \*)**

■	Job losses (in millions)
2000	1.1
2001	1.4
2002	1.6
2003	1.7
2004	1.6
2005	1.5
2006	1.4
2007	1.2
2008	1.2
2009	2.0
2010	1.4

\*) Creditreform estimate

The changes in the volume of company collapses in Europe are also reflected by the number of jobs affected. The lower volume and the smaller scale of individual insolvencies have led to a reduction in aggregate insolvency-related job losses. Whereas in 2009, some 2.0 million employees across Europe lost their jobs when their employer went broke, the relevant figure in 2010 was far lower, at just 1.4 million (minus 30.0 percent), due to the fact that there were fewer large-scale insolvencies involving many thousands of people.

***Fewer insolvency-related job losses***

Nevertheless, this positive development cannot conceal the fact that, in 2010 as before, insolvencies usually resulted in jobs being lost. For a bankrupt company, the customary end is liquidation. Even when an insolvent firm is sold off or restructured, there are usually many dismissals. With the labour market situation in many parts of Europe still tense, this imposes fresh strains. Something else is that jobs are lost not just in the company concerned – suppliers and business

partners are also often forced to reduce their workforce.

## **2.2 Private insolvencies**

### ***2010: More private insolvencies***

In most European countries, with the exception of Germany, the crisis caused a sharp rise in unemployment. As a direct consequence of this, 2010 brought a further increase in the number of private bankruptcies. Jobs losses, accompanied by a sudden fall in income, are considered the chief cause of over-indebtedness and private insolvency. The total number of private bankruptcies in 2010 in those European countries which compile the relevant data was 384,895, representing a rise of 5.2 percent on the prior-year figure (2009: 365,966 individuals).

### ***Indebtedness in the Eurozone is high***

The conspicuous increase in private bankruptcies is linked to a sharp rise in the indebtedness of private households in the Eurozone. According to the European Central Bank, the volume of debt involved now amounts to almost 100 percent of the household's disposable gross income. Ten years ago, the figure was only 75 percent. In the next few years, the growing burden of interest payments is likely to result in a further increase in the number of consumers getting into payment difficulties.

**Tab. 4: Private insolvencies in Europe**

■	2010	2009	2008	2007	2006	Change 2009/10 in percent
Austria	10,296	10,245	9,561	8,616	7,583	+ 0.5
Finland *)	3,040	2,854	2,851	3,038	3,708	+ 6.5
France *)	44,360	41,045	33,378	27,959	24,190	+ 8.1
Germany	139,800	129,940	126,330	135,600	127,280	+ 7.6
Netherlands *)	10,450	8,966	9,206	14,947	14,928	+ 16.6
Spain	910	995	404	114	52	- 8.5
Sweden *)	7,860	6,589	6,528	6,831	3,830	+ 19.3
Switzerland	5,719	5,691	6,007	6,140	5,840	+ 0.5
United Kingdom	162,460	159,641	127,241	120,775	120,926	+ 1.8
<b>Total</b>	<b>384,895</b>	<b>365,966</b>	<b>321,506</b>	<b>324,020</b>	<b>308,337</b>	<b>+ 5.2</b>

\*) Debt relief plan/ restructuring process

The overall year-on-year rise in the number of private insolvencies – which in absolute terms is around 19,000 – is fuelled largely by the results in Germany (plus 9,860 individuals) and the United Kingdom (plus 2,819). But in percentage terms, the growth was highest in Sweden (plus 19.3 percent), followed by the Netherlands (plus 16.6 percent) and France (plus 8.1 percent).

***Growth equivalent to the population of a small town***

Just as in 2009, private insolvency in 2010 was highest in the United Kingdom, where 162,460 people had to file for bankruptcy. That was 1.8 percent more than the year before, when the figure was 159,641. But the rate of increase has declined quite considerably – in 2009 the figure had risen by 25.5 percent. This positive development reflects the increasing normalisation of economic conditions in the UK, where, for instance, GDP probably grew slightly last year. On the other hand, the annual number of insolvent consumers is very high compared with other countries and this remains worrying. The number has in fact more than doubled since 2005 (79,426). In view of the still high level of unemployment – with a jobless rate of almost eight percent – no swift reduction fall in the insolvency total is to be expected.

***UK and Germany with highest volumes***

***France: Debt relief plan heavily used***

Since it introduced an arrangement for debt restructuring (procédure de établissement personnel, PRP) in 2003, France has seen a rapid increase in the use of this instrument which enables private individuals to seek relief from their debts. In 2010, the number of insolvent consumers reached a new record level, at 44,360. That is more than twice the total in 2005 (19,259) and represents an increase of 8.1 percent on 2009.

***Increasing debt potential***

In Germany, too, the number of private insolvencies increased once again in 2010, by 7.6 percent to 139,800. This means that the improved economic situation is – as yet – not reflected in consumer insolvency figures. On the contrary: the Creditreform SchuldnerAtlas 2010 (Debtor Atlas) reveals that private indebtedness has increased even further. This indicates that there was a time lag before the recession of 2009 impacted on private consumers. Another factor is that during an upswing phase, private insolvency figures tend to go on rising initially in the wake of an increasing total of business collapses. At any rate, Germany registered the second-highest volume of private bankruptcies in 2010 after the United Kingdom.

***No uniformity in insolvency legislation***

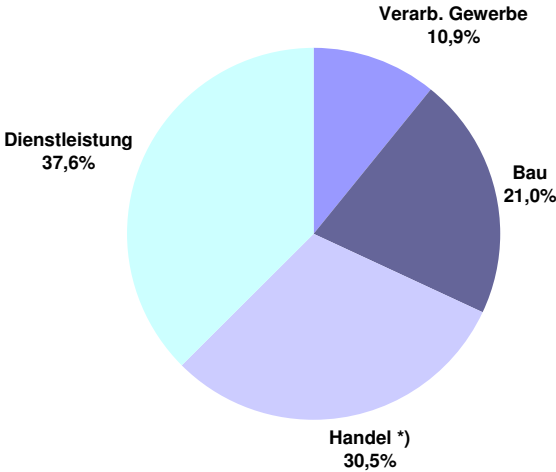
Not all European countries offer private individuals the chance to file for bankruptcy in order to free themselves of debt. In Italy, for instance, an option of this kind is available only to the partners in a business company when that company goes broke. The legal prerequisites for a private insolvency, and its implementation, also vary between one country and another, sometimes quite considerably. At the moment, Europe is far removed for any harmonisation of the relevant legislation. The differences thus continue to offer scope for "debtor tourism".

### 2.3 Business sector structure of insolvency

Any talk of industry in Europe being in dire straits was evidently premature. In 2010, the manufacturing sector was actually able to reduce its relative contribution to the continent's aggregate insolvency volume. The figure fell to just over one insolvency in every ten (10.9 percent) as against one in every nine the year before (11.4 percent). This positive trend reflects the fact that industry – which had suffered especially severely in the crisis year of 2009 – has already benefited from the incipient economic recovery. This has resulted in lower insolvency figures for this sector. The total in 2010 was around 19,100, as against about 20,300 the year before.

***Lower insolvency figures in manufacturing***

#### III. 3: Contribution of the key economic sectors to overall insolvency in Western Europe in 2010



\*) including hotels and catering; Source: Creditreform, NACE Rev. 2, own calculations

The percentage contributions to (Western) European insolvency totals made by the construction sector and by commerce (wholesale/retail including catering/hotels) showed hardly any year-on-year change.

**Stable contributions from construction and commerce**

Three out of every ten insolvency candidates in 2010 were firms in the sector of commerce (30.5 percent; 2009: 30.5 percent). Just over one business failure in every five in Western Europe in 2010 involved a firm in the construction industry (21.0 percent as against 20.9 percent in 2009). The absolute figures were around 36,900 building firms and 53,600 wholesalers/retailers or catering firms. In both cases, the totals are lower than those registered in 2009 (around 37,300 and just over 54,400 respectively).

**2010: Over 66,000 service-providers go broke**

The percentage contribution made by the service sector, on the other hand, was higher than the year before. It rose by 0.4 percentage points, from 37.2 percent of all registered cases of insolvency in 2009 to 37.6 percent in 2010. This development is an indication that last year it was especially smaller firms – like those in the services sector – which ran out of money, whereas in 2009 the recession frequently also hit more sizeable companies, such as those in industry. All the same, the economic recovery in 2010 in wide parts of Europe did bring about a reduction in the absolute number of insolvent service-providers, but only to a very marginal extent: the figure fell from 66,300 to 66,000.

**Tab. 5: Contribution of the key economic sectors to overall insolvency in Western Europe in 2010**

■	Contribution to insolvency volume	Insolvencies per 10,000 companies
Manufacturing	10.9 ( 11.4)	63 ( 66)
Construction	21.0 ( 20.9)	100 (101)
Commerce *)	30.5 ( 30.5)	85 ( 87)
Services	37.6 ( 37.2)	52 ( 52)
Total	100.0 (100.0)	68 ( 69)

\*) including hotels and catering; figures in percent, ( ) = 2010

In the field of manufacturing in Europe, the reduction in the absolute total of insolvencies also brought about a fall in the relative incidence of business collapses, i.e. the number of firms going

bankrupt for every 10,000 companies in this sector. In 2010, the insolvency ratio in manufacturing declined to 63, after 66 in 2009.

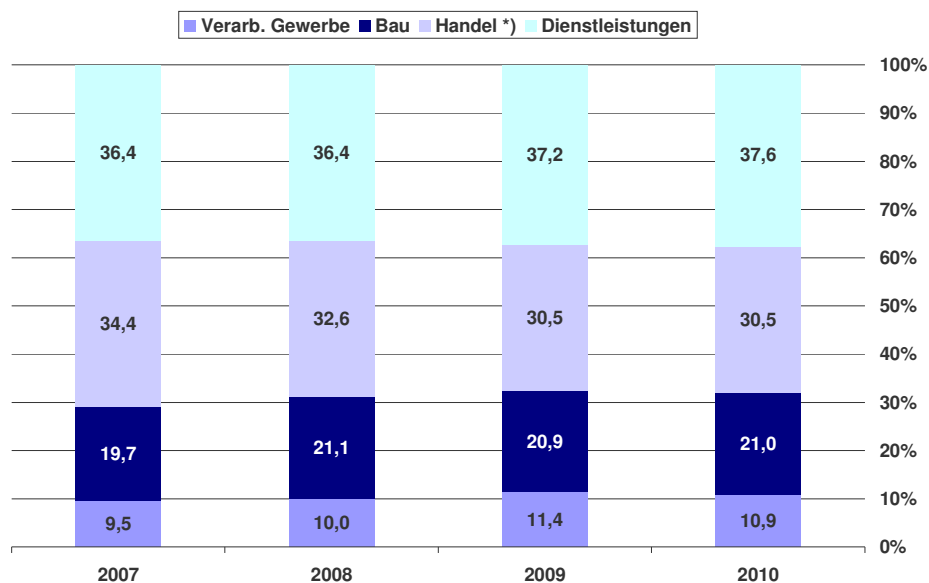
The construction sector is still the branch of the economy that is most prone to insolvency. For every 10,000 companies in this sector, there are currently 100 insolvencies (2009: 101). The insolvency ratio is also above average in commerce and catering. At 85 cases for every 10,000 firms, though, last year's figure was slightly lower than that recorded the year before (87). Just as in 2009, it was the service sector which registered the lowest incidence of business failures: 52 cases for every 10,000 firms.

Looking at the development of insolvency from 2007 onwards, it is apparent that the contribution of the manufacturing sector to overall insolvency in Europe peaked in 2009 at 11.4 percent and then fell the following year, while the proportion generated by the service sector in those four years rose steadily by 1.2 percentage points. The contribution to the total by commerce and catering was last year well below its 2007 figure.

***Insolvency hits  
construction hardest***

***Contribution by services  
now higher***

### III. 4: Year-on-year changes in contribution to insolvency in Western Europe by the key economic sectors



\*) incl. hotels, catering; Source: Creditreform, NACE Rev. 2, own calculations

#### ***Insolvencies in S. Europe: More frequent in construction and manufacturing***

In Europe, the distribution of insolvency among the different branches of the economy varies, sometimes considerably. In 2010, for instance, the Southern European states continued to register large numbers of bankrupt firms in the field of manufacturing: Portugal (28.7 percent), Spain (21.3 percent) and Italy (24.1 percent) – proportion which were above the European average. However, the incidence of insolvency among industrial companies in these countries was lower last year than in 2009. That actually applies to the whole of Western Europe with the exception of the Netherlands.

In the main industrial countries of Europe, the emphasis in 2010 shifted from manufacturing to the services. In Germany, for example, the relative contribution of manufacturing fell from 10.5 to 9.4 percent, in France from 8.3 to 7.7 percent and in the United Kingdom from 13.4 to 12.5 percent. At the same time, there was an increase in many European states in the relative contribution to insolvency totals by service-providers – in Spain by 4.6 percentage points, in Denmark by 3.9 and in Ireland by 3.8 percentage points.

**Tab. 6: Insolvencies in the key economic sectors in 2010**

■	Manu- facturing	Con- struction	Com- merce *)	Services
Austria	7.9 ( 8.4)	15.4 (16.7)	36.5 (36.9)	40.2 (38.0)
Belgium	6.9 ( 7.8)	16.0 (14.5)	46.7 (46.5)	30.4 (31.2)
Denmark	7.8 ( 8.3)	15.6 (17.2)	22.5 (24.3)	54.1 (50.2)
Finland	12.7 (13.0)	25.8 (23.0)	25.3 (23.0)	36.3 (40.9)
France	7.7 ( 8.3)	28.0 (28.0)	34.2 (34.0)	30.0 (29.7)
Germany	9.4 (10.5)	15.9 (16.5)	30.6 (30.3)	44.1 (42.7)
Ireland	10.3 (12.1)	31.0 (29.7)	26.8 (30.0)	32.0 (28.2)
Italy	24.1 (24.2)	18.5 (19.0)	26.2 (26.0)	31.3 (30.8)
Luxembourg	1.9 ( 2.3)	10.0 (13.8)	31.3 (27.1)	56.9 (56.9)
Netherlands	14.0 (13.2)	16.1 (12.4)	27.3 (27.9)	42.6 (46.5)
Norway	7.9 ( 8.1)	24.1 (24.1)	30.5 (32.2)	37.5 (35.7)
Portugal	28.7 (30.1)	19.1 (17.6)	35.3 (35.9)	16.9 (16.4)
Spain	21.4 (25.0)	32.5 (33.5)	19.3 (19.3)	26.8 (22.2)
Sweden	8.9 ( 9.3)	14.3 (12.9)	28.0 (30.2)	48.8 (47.7)
Switzerland	- ( 8.8)	- (22.5)	- (22.1)	- (46.7)
UK	12.5 (13.4)	18.5 (17.7)	21.8 (21.4)	47.1 (47.7)

\*) including hotels, catering, figures in percent, ( ) = 2009

In most Western European countries, the construction sector maintained its prior-year proportion. But within the continent, this proportion varies sharply – from one seventh, as in Sweden (14.3 percent) to almost one third, as in Spain (32.5 percent). In Spain and Portugal, but also in Ireland (31.0 percent of all registered insolvencies there are in the construction sector), the bubble in the property and building sectors is still deflating, which is why these countries feature a relatively high ratio of insolvent construction firms. But the percentage contribution to construction is also higher than the European average (21.0 percent) in France (28.0 percent) and Finland (25.8 percent).

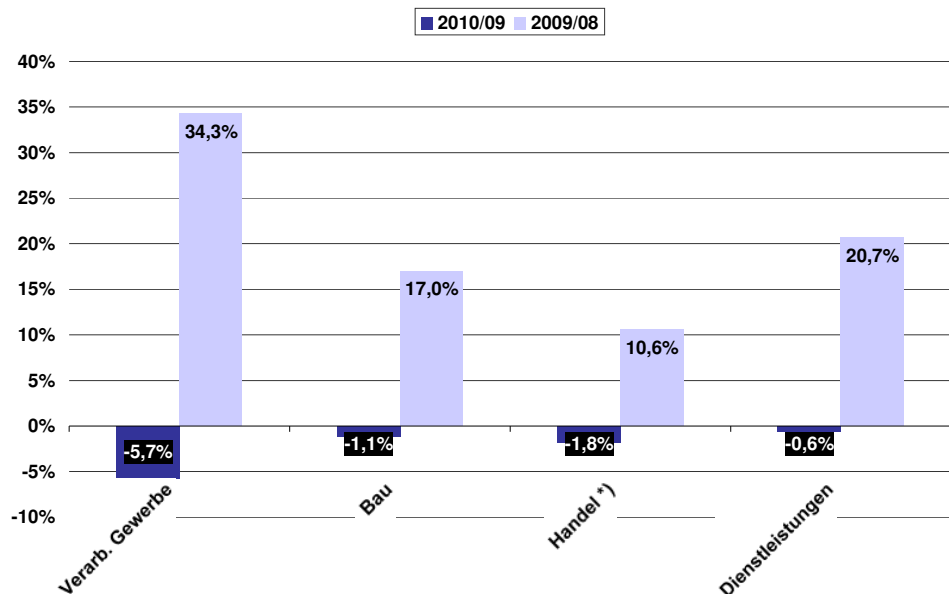
***Marked fluctuations in construction sector***

**Service sector usually the biggest block**

In most European economies, the service sector once again accounted for the biggest share of insolvency, mainly for the simple reason that service firms represent the biggest branch of the economy. Countries where this sector makes a particularly high contribution to total insolvency are Luxembourg (56.9 percent), Denmark (54.1 percent), Sweden (48.8 percent) and the United Kingdom (47.1 percent). The European average is 37.6 percent.

Commerce and catering have kept their contribution to insolvency steady – across Europe the figure averages 30.5 percent. The incidence of corporate collapses in this sector rose appreciably in particular in Finland (from 23.0 to 25.3 percent) and the United Kingdom (from 21.4 to 21.8 percent). On the other hand, some countries showed a notable decline in this field, such as Ireland (from 30.0 down to 26.8 percent), Sweden (from 30.2 to 28.0 percent) and Denmark (from 24.3 to 22.5 percent).

**III. 5: Changes in insolvency in the key economic sectors**



\*) including hotels, catering; figures in percent

Whereas in 2009, the absolute numbers of business bankruptcies had risen by double-digit percentage margins in all four main branches of

the economy – in manufacturing alone by 34.3 percent compared with 2008 – last year brought lower figures. Here, too, the biggest change was in manufacturing, where the total fell by 5.7 percent on 2009. The reduction of insolvency totals was considerably lower in construction (minus 1.1 percent) and in commerce (minus 1.8 percent). The marginal decline of the absolute insolvency volume in the service sector (minus 0.6 percent) is basically equivalent to stagnation in this respect. In this sector, the economic upturn appears to be arriving later.

***Industry benefiting from upswing***

### ■ 3 Financial and economic environment

In the field of corporate insolvency, the trends are determined mainly by the financial and economic environment. The following sections look at the stability of European business companies last year and how the economic rebound has influenced the earnings situation of firms and the payment conduct of their customers.

#### 3.1 Earnings situation

The economic crisis of 2008/09 left scars on the balance sheets of European companies, and in 2010, the situation in the field of corporate stability remained tense. During the crisis, many firms produced losses and this ate up their capital resources. Earnings margins came under pressure. This is revealed by an evaluation of the 2009 annual financial statements of around three million European firms. It shows that 27.8 percent of the firms surveyed had a negative EBIT margin. In 2008, the year in which the global recession got underway, the figure was 26.0 percent, compared with only 23.9 percent in 2007. At the same time, 2008 produced a fall in the number of companies reporting high earnings margins – of between ten and 25 percent or upwards of 25 percent. In 2008, these levels were achieved by 16.1 and 14.5 percent of European enterprises respectively,

***Over one in four firms with negative EBIT***

whereas a year later, the relevant figures were just 15.5 and 13.9 percent respectively (cf. Table 7).

**Tab. 7: EBIT margin (in %) of Western European companies in 2009 \*)**

■	negative	27.8 (26.0)
	up to 5 %	28.1 (27.9)
	up to 10 %	14.7 (15.5)
	up to 25 %	15.5 (16.1)
	more than 25 %	13.9 (14.5)

\*) Figures in percent; ( ) = 2008; Source: Creditreform database, own calculations

The degree to which business profitability suffered during the crisis varied. The number of industrial firms showing a negative profit margin rose particularly strongly. In 2008, the proportion was one quarter (24.9 percent), while in the crisis year of 2009, the proportion of manufacturing companies suffering losses had risen to three out of every ten (30.4 percent). The corresponding increase in the European construction sector was only from 22.1 to 24.9 percent; in commerce it was from 27.5 to 28.8 percent.

In the course of 2010, the earnings situation of European joint stock companies improved significantly. According to the European Central Bank (ECB) in Frankfurt, earnings rose by more than 30 percent compared with the year before. Market observers expect earnings to continue moving upwards, something indicated by the now higher share prices on European stock exchanges.

### **3.2 Equity capital situation**

A strong equity ratio and reserves of capital help to business firms to maintain their stability – and not just in times of crisis. Although the earnings situation improved again in 2010 in most business sectors, it has not yet returned to pre-crisis levels everywhere. This means that a company's own

### ***Perceptible improvement in 2010***

equity situation continues to play a major role in its ability to obtain financing.

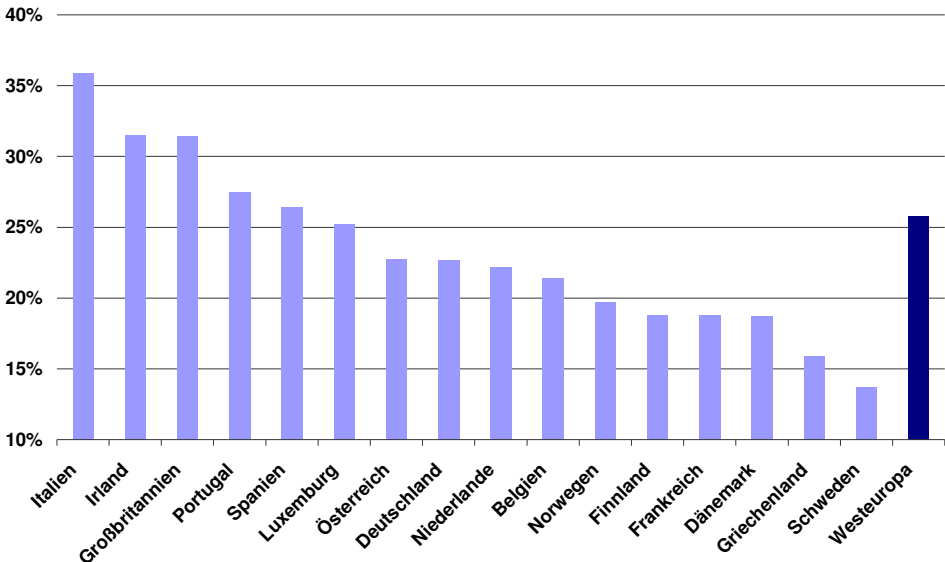
The equity ratio is a key factor in credit appraisals, for instance in connection with trying to obtain a loan from a bank. It is a factor to which lenders pay particular attention.

***Equity ratio important credit-standing factor***

The evaluation of the 2009 financial statements of around 4.3 million European companies shows marked differences between individual countries where capital resources are concerned. Financing problems become particularly apparent in countries where a large number of companies have equity ratios of less than ten percent in relation to the balance-sheet total (cf. III. 6). This is especially the case in Southern Europe, such as in Italy (35.9 percent of all companies), Portugal (27.4 percent) and Spain (26.4 percent), but it also applies to the United Kingdom (31.4 percent) and Ireland (31.5 percent). In these countries, the equity ratio falls below the ten percent mark in up to one third of all firms active in the market.

***Financing weaknesses when equity ratio lower than ten percent ppercent-***

**III. 6: Proportion of firms with equity ratio < 10%**



\*) Figures for 2009 in percent; Source: Creditreform database, own calculations

### ***Stable Scandinavia***

In contrast, firms in Scandinavia exhibit a more stable financial basis. In Sweden, for instance, only 13.7 percent of all companies have an equity ratio of less than ten percent. In Germany, the proportion of under-capitalized firms in this survey was 22.7 percent, putting the country in a mid-range position.<sup>1</sup>

### ***Weak capital resources = insolvency***

In Western Europe as a whole, around one firm in every four (25.8 percent) cannot point to an equity ratio of ten percent or above. In such companies, the degree of indebtedness and the dependence of external creditors are correspondingly high – creating the risk of shaky stability. The direct connection between weak capitalisation and the danger of insolvency is highlighted by a study carried out by the Creditreform Economic Research Unit (cf. [Creditreform Beiträge zur Wirtschaftsforschung Nr. 9](#) – Creditreform Contributions to Economic Research No. 9).

### **3.3 Payment conduct of customers**

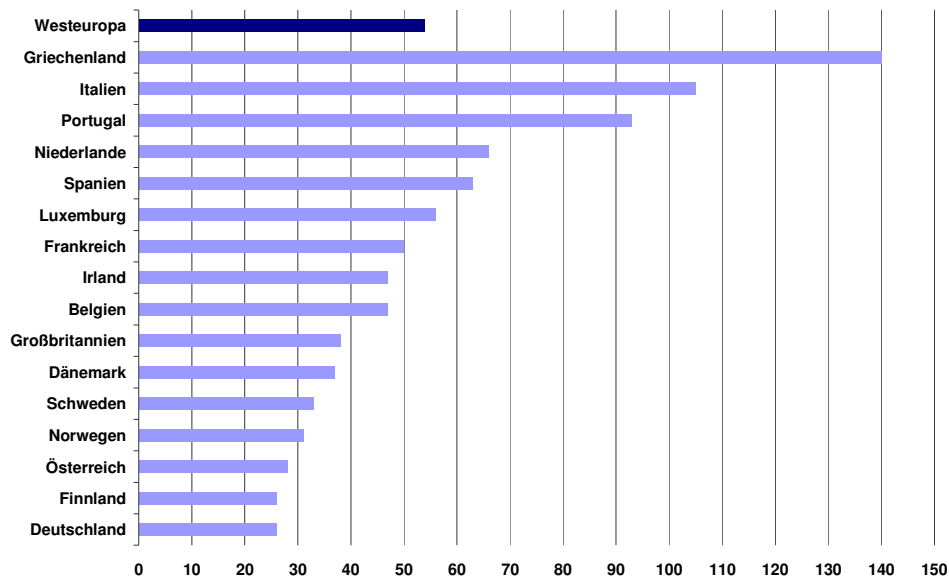
### ***Payment conduct: Varied picture***

The length of time which companies in Europe have to wait before their bills are paid varies according to the country they are based in. The longest waiting periods are those experienced by firms in Greece (average 140 days) and Italy (105 days). At the other end of the scale, payment for goods or services is much faster in Germany (26 days), Finland (26 days) and Austria (28 days). In the Western European mid-field position, with an average waiting period of 54 days, are countries like France and Luxembourg.

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<sup>1</sup>Differences in equity ratios can be due in part to the fact that balance-sheet obligations vary between countries, for instance regarding the legal form and size of firms required to submit financial statements.

### III. 7: Collection period \*) in Europe in days



\*) Averages for 2009; Source: Creditreform database, own calculations

Especially for small suppliers and service-providers, long waiting periods before receiving payment can have dramatic consequences, particularly because they themselves often have to pay in advance. Payment delays and defaults can create liquidity bottlenecks. So export firms have to be prepared to cope with differing payment practices and risks in the individual European states.

### 3.4 Financing conditions

The economic/financial crisis had a significant impact on financing terms for business companies. How lasting has this development been? On the one hand, lending conditions have now eased considerably – firms regard loan allocation at banks as less restrictive than just one year ago, while financing costs in real terms remain low. On the other hand, obtaining third-party capital on acceptable conditions is still proving difficult in some areas of business. The ways in which a firm's credit-standing are checked are now tougher and more intensive. Here, regulatory changes in the banking system are

#### *Loan allocation easing*

***Tougher appraisals and higher provision for risks***

making themselves felt. Credit institutions are obliged to make higher provisions for risk and maintain a higher level of own capital, and to an extent this reduces the volume of money they can lend.

***Progress in the field of corporate bonds***

Financing costs – that is to say interest on loans and promissory notes – are still at a historically lower level, as the European Central Bank (ECB) pointed out in its monthly report in December 2010. But the very low interest rates look likely to become a thing of the past. In the second half of 2010, the interest payable on new loans rose slightly – and this trend is set to continue in 2011. On the other hand, the conditions governing the issue of corporate bonds, especially in the high-interest segment, have eased in comparison with those at the height of the financial crisis, something indicated by the decline in the yield gap on secure euro sovereign bonds.

***Short-term loans still in short supply***

Since the granting of loans to business firms is a late-cycle phenomenon, with a time lag on the general economic development, growing loan business can be anticipated as the economic rebound in the Eurozone proceeds. Up to now, this has applied only to long-term loans. In contrast, up to the end of 2010, short-term third-party financing in Europe was in decline, something largely attributed to demand-side effects. However the ECB warns that in some EU countries, access to bank loans is still limited and subject to more stringent conditions.

## ■ 4 National reports Europe

### 4.1 Germany

The momentum for the European upturn in 2010 came mainly from Germany, which played the role of economic dynamo. This fact is reflected in German insolvency statistics. The number of corporate insolvencies in 2010 as a whole fell by 2.5 percent to 32,100. Up until the middle of the year, this had not looked likely. The German business community, in particular small and medium-sized enterprises (SMEs) needed a certain length of time to recover from the crisis. Now, though, the economic signals have switched to green. 2010 brought record GDP growth of 3.5 percent, and in 2011, a growth rate of between 2.0 and 2.5 percent is expected. This should lead to a further decline in the corporate insolvency total.

It is above all manufacturing which is benefiting from the upswing. The number of company collapses in this sector fell exceptionally strongly, by 12.8 percent. The year before, the number had risen by more than 44 percent. At the same time, the large insolvencies in 2010 were also registered in the industrial sector – the top ten included five automotive suppliers, for instance. In the German construction industry, there were also fewer business failures – the total fell by 6.1 percent compared with 2009. Only the service sector failed to generate a decline (plus 0.7 percent).

Tab. 9: Insolvencies in Germany

■	2010	2009	Change in %
Total	171,900	162,870	+ 5.5
Companies	32,100	32,930	- 2.5
Private individuals	139,800	129,940	+ 7.6

But economic recovery has not made itself felt everywhere yet. The number of private insolvencies exhibited another marked year-on-

***Germany's economy needed growth***

***Automotive suppliers still at risk***

***Germany is also a land of debtors***

year rise – of 7.6 percent to 139,800 (2009: 129,940). Even though the improved situation in the labour market should help to ease the strain on consumers facing payment liabilities, the renewed increase in the debtor quota generates substantial potential for a further rise in private insolvencies. The Creditreform SchuldnerAtlas (Debtors' Atlas) points out that 9.5 percent of all German adults have lasting payment problems.

## 4.2 United Kingdom

What is the state of the British economy? Even though the country's worst economic crisis in 60 years now appears to have been overcome, the consequences of the recession are deep-seated and continue to be felt. The number of unemployed, for instance – at around 2.2 million – is at a historically high level, while the number of private insolvencies rose once again in 2010, by 1.8 percent to 162,460.

The new government under David Cameron is combating the high budget deficit by means of massive austerity measures, which will, for example, lead to a marked reduction in the size of the civil service. Fears continue to be voiced that the cutbacks will in the long run impact adversely on domestic consumption in the UK. In view of this, the end of the insolvency spiral has probably not been reached yet.

**Tab. 10: Insolvencies in United Kingdom**

■	2010	2009	Change in %
Total	180,150	179,549	+ 0.3
Companies	17,690	19,908	- 11.1
Private individuals	162,460	159,641	+ 1.8

In the meantime, though, the situation in business has improved somewhat. The devaluation of the pound is lifting exports. However, GDP growth of 1.4 to 1.8 percent in 2010, which is what is currently estimated, would not be enough to

***Hand in hand:  
Unemployment and private  
insolvency***

***No end to the  
insolvency spiral?***

***UK: Exports boost GDP***

produce any significant reduction in unemployment or to restore companies to their pre-crisis level of stability. The number of corporate insolvencies, however, has already fallen in comparison with 2009: from 19,908 to 17,690, corresponding to a decline of 11.1 percent. There was a particularly marked fall in business failures in the manufacturing sector (minus 17.1 percent), and a considerable decline in the field of services (minus 12.3 percent). All the same, though, the total number of corporate insolvencies is the second-highest in the past ten years. However, against the backdrop of the upswing in Europe as a whole, the "English patient" should be able to recover gradually.

***Hopes for the  
"English patient"***

### **4.3 France**

In France, corporate and private insolvencies developed in opposite directions. The former declined by 4.6 percent, while the latter – handled under the PRP debt relief plan for consumers – rose by all of 8.1 percent. A total of 51,060 French firms ran out of money in 2010 (2009: 53,547) in a trend close to the European average.

***France: Private figures up,  
company total lower***

The Grande Nation is among the beneficiaries of the economic rebound and that is helping business companies get back on their feet. However, the growth of around 1.5 percent in GDP in 2010 is far from offsetting the fall of 2.8 percent in 2009. Recovery is proceeding only slowly. Gross investment in plant and equipment in 2010 was down on the figure for the prior year, while exports were already producing positive signals again. This is also reflected in the insolvency statistics: business failures in manufacturing registered a year-on-year fall of 11.5 percent; the other branches of the economy also posted fewer insolvencies but the rate of decline there was considerably lower.

***Industry helps  
to ease the situation***

**Tab. 11: Insolvencies in France**

■	2010	2009	Change in %
Total	95,420	94,592	+ 0.9
Companies	51,060	53,547	- 4.6
Private individuals	44,360	41,045	+ 8.1

***More private bankruptcies  
year after year***

Private consumption is traditionally a mainstay of the French economy. However, as a result of the crisis-fuelled rise in unemployment (average unemployment rate in 2010: around 9.5 percent), the purchasing power of consumers has suffered. But with the labour market now picking up, people are likely to start spending more money again. However, the PRP debt relief plan for private individuals, established in 2003, remains a popular form of retreat, with the numbers of those using it rising year after year. Given the likely backlog, this trend looks set to continue.

#### **4.4 Spain**

***Spain has a  
growth problem***

Spain is having a lot of difficulty finding its way out of the severe economic crisis. Since it is one of the European countries with a lower level of industrialisation, its output in 2010 will not rise; it will, at best, stagnate at the prior-year level. This development also reflects the process of deflating the bubble in the real estate and construction sector in Spain. Investment activity on the part of business companies is also still on the decline. The boom on the Iberian peninsula is unlikely to return for some time to come. The country is still waiting for positive growth impulses.

***Number of business failures  
remains high***

Although the number of corporate insolvencies in Spain in 2010 was down on the record level of the year before (2009: 4,984), the number – 4,770 – was almost twice as high as in 2008. One in every three of the registered insolvencies involved a firm in the construction sector. Nevertheless, the total number of company collapses in this sector declined last year, by 7.5 percent. In the service sector, on the other hand, the number of bankrupt

businesses was higher than the year before (plus 15.6 percent).

**Tab. 12: Corporate insolvencies in Spain**

■	2010	2009	Change in %
	4,770	4,984	- 4.3

In Spain, as in some other countries in Europe, private individuals not involved in business activities can seek to free themselves of their debts by means of orderly bankruptcy proceedings. In 2010, an estimated 910 individuals took advantage of this, as against 995 the previous year. In view of the still very high unemployment rate (approx. 20 percent in 2010) and the heavy scale of indebtedness among Spanish households – an encumbrance left over from the boom phase – no significant fall in private bankruptcy figures is to be expected yet.

**4.5 Benelux countries**

The Benelux states are also in the process of recovering from the economic slump, but the pace of recovery there is hesitant, achieving at best a level close to the EU average. GDP growth in the Netherlands and Belgium in 2010 was probably only around a meagre 1.3 percent. In this respect, the two countries developed in parallel to one another, but in the field of insolvency the opposite was true. In the Netherlands the corporate insolvency total fell by 8.7 percent on 2009, while in Belgium the figure increased by 2.5 percent. In the Netherlands, there were higher insolvency figures in the construction sector (plus 18.6 percent) but considerably lower totals in the other main business sectors. In commerce/catering, the aggregate number declined by 10.7 percent, while the fall in the service sector was all of 16.4 percent. In Belgium, the overall rise in insolvency was fuelled especially by the construction industry (plus 13.2 percent compared with 2009), while

***Benelux countries with contrary trends***

business failures among manufacturing firms in Belgium are already falling (minus 9.3 percent).

**Tab. 14: Corporate insolvencies in the Benelux countries**

■	2010	2009	Change in %
Belgium	9,620	9,382	+ 2.5
Netherlands	7,340	8,040	- 8.7
Luxembourg	918	698	+ 31.5

In the Netherlands, the official statistics also register private insolvencies. Here, as in neighbouring Germany, there was a notable increase in this field. The total rose by 16.6 percent to 10,450 new cases, compared with 8,966 in 2009. Insolvency legislation in the Netherlands foresees a debt relief plan which includes a three-year period of good conduct; after this the individual concerned can get off to a fresh start.

In Luxembourg, the number of corporate bankruptcies rocketed, rising by 31.5 percent to a new record of 918 (2009: 698). Marked increases were posted above all in the fields of commerce and services.

***cekord level in  
Luxembourg***

**4.6 Scandinavia**

In 2010, there was a year-on-year fall in corporate insolvencies in Finland (minus 12.4 percent), Norway (minus 10.6 percent) and Sweden (minus 4.8 percent). In Denmark, on the other hand, the total rose, with 6,460 firms going broke, an increase of 13.1 percent on the previous year. This testifies to the late effects of the severe crisis in 2009, when the Danish economy contracted by almost five percent. Although output rose again in 2010 (by 2.1 percent), economic momentum remains weak. In comparison with 2009, insolvencies increased especially in the service sector (plus 21.9 percent). But the other branches of the economy also generated a larger number of business failures.

***Situation in Scandinavia  
eases except in Denmark***

**Tab. 15: Corporate insolvencies in Scandinavia**

■	2010	2009	Change in %
Denmark	6,460	5,710	+ 13.1
Finland	2,870	3,275	- 12.4
Norway	4,480	5,013	- 10.6
Sweden	7,510	7,892	- 4.8

In the other Scandinavian countries, too, the global economic crisis caused marked downturns in output and a corresponding increase in corporate insolvencies. But in these countries – Finland, Norway and Sweden – the situation eased again more quickly and last year all three reported lower figures on the insolvency front. This was most marked in Finland. In this state with a population of just 5.3 million, both manufacturing and services were on an upward trajectory and their insolvency totals fell by an above-average extent, with falls of 14.6 percent in manufacturing and all of 22.2 percent in the field of services.

***Norway: Crisis now  
a thing of the past***

Norway was one of the few countries in Europe to suffer only relatively minor effects in the 2008/09 recession. In Norway, the production and processing of such coveted natural resources as oil and natural gas account for over one fifth of the country's economic output and help to ensure stability even in difficult times. A comparatively small dip of 1.4 percent in GDP was followed in 2010 by modest growth of 1.0 percent. This development is mirrored by the country's insolvency statistics: the number of corporate collapses fell from 5,013 in 2009 to 4,480 in 2010 (a decline of 10.6 percent). In the field of commerce, the year-on-year decline was all of 15.4 percent; in manufacturing it was 12.8 percent.

***Good prospects for Sweden***

Sweden is the Scandinavian country with the highest absolute number of corporate insolvencies. In 2010, the total fell to 7,510 – a drop of 4.8 percent compared with 2009 (7,892). The volume of business failures in commerce declined by 11.7 percent and in manufacturing by 9.0 percent. The only increase in 2010 was in the construction sector (plus 5.5 percent). Overall, Sweden has put the economic crisis behind it. The slump of five percent in GDP in 2009 has already been offset: economic output in 2010 is estimated to have risen by around five percent. And the prospects for further growth are good.

Swedish consumers, however, will not benefit from the economic upswing until later. In 2010, the unemployment rate probably recorded a year-on-year increase and only this year is any significant fall to be expected as recovery makes itself felt. Last year, 7,860 Swedish consumers joined the debt-relief plan, after just 6,589 the year before.

■ **5 Central and Eastern Europe**

***CEE with bright and dark features***

The sharp wounds inflicted by the recession of 2008/09 have not healed entirely yet. Nevertheless, the economies of the Central and Eastern European states are recovering quite visibly. Since the upturn began in the export markets, the pace of recovery is fastest in those countries which already possessed economic thrust and international competitiveness before the crisis. What this means is that the rate of recovery in the CEE states varies a great deal.

**Tab. 16: Corporate insolvencies in Eastern Europe**

■	2010	2009	Change 2009/10 in %
Croatia	1,300	1,050	+ 23.8
Czech Republic	4,852	4,570	+ 6.2
Estonia	504	693	- 27.3
Hungary *)	17,600	14,832	+ 18.7
Latvia	2,428	2,322	+ 4.6
Lithuania	1,496	1,168	+ 28.1
Poland	631	702	- 10.1
Romania	5,430	4,543	+ 19.5
Slovakia	830	900	- 7.8
Slovenia	510	414	+ 23.2
<b>Total</b>	<b>35,581</b>	<b>31,194</b>	<b>+ 14.1</b>

\*) Bankruptcies and other liquidations

This is also shown by the way in which corporate insolvencies in this region have developed. Altogether, these exhibited a rise of 14.1 percent on 2009, to a total of 35,581 (2009: 31,194). The biggest increases were registered in Lithuania (plus 28.1 percent), Croatia (plus 23.8 percent) and Slovenia (plus 23.2 percent). The statistics for Hungary include liquidation proceedings as well as the registered bankruptcies of companies which continue their operations. Since most of the (usually smaller) insolvencies in Hungary end in liquidation, the numbers involved are high. This example also illustrates the differences in insolvency legislation between the individual CEE countries, which in turn makes any direct comparison between countries difficult.

In Estonia, there was a marked fall in the number of business insolvencies. At 504, the total was 27.3 percent lower than in 2009. The only other countries posting a decline on the insolvency front were Poland (minus 10.1 percent) and Slovakia (minus 7.8 percent). In Russia, where valid insolvency figures became available for the first time, around 16,600 firms went broke in 2010. The year before, the figure was just under 15,500.

***14 percent rise in  
business insolvencies***

***Russia also included  
in statistics***

Tab. 17: Corporate insolvencies in Russia

■	2010	2009	Change in %
	16,600	15,473	+ 7.3

***Eastern Europe has seen better times***

In the past 18 months, following the historic recession, the countries of Central and Eastern Europe have been returning to positive growth rates. GDP growth in the region as a whole in 2010 is likely to have been between 3.3 and 3.5 percent. But there are big differences. While a strong surge has been in evidence in particular in Poland, the Czech Republic and Estonia, countries like Hungary, Bulgaria and Romania started their recovery later and with less dynamism.

***Arriving in the real world***

In this, a role was played by the imbalances already apparent before the crisis, such as a high level of foreign debt and the strongly increasing level of private indebtedness in the CEE states. In many cases, the growth problems facing the Eastern European threshold countries are similar to those in Western Europe: the rise in unemployment and the reticence on the part of banks to grant loans, but there is also the now lower level of competitiveness compared with other emergent regions. In sum, the post-crisis period has produced an increase in risks and in proneness to volatility.

***Little scope for consumers to obtain debt relief***

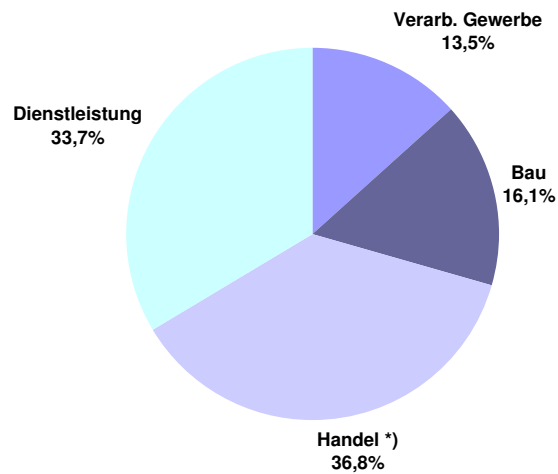
In most Eastern European countries, the possibilities for private individuals to obtain debt relief via orderly insolvency proceedings are limited or even non-existent. Insolvency legislation in Croatia, Lithuania, Romania and Russia, for example, contains no stipulations allowing over-indebted consumers to file for bankruptcy. That is an option confined to people actively engaged in business.

One exception in this respect is the Czech Republic, where last year lively use was made of private insolvency proceedings and a total of 9,066 individuals appeared in court to declare themselves bankrupt. That marks a sharp increase compared with 2009, when the figure was 3,824 (2008: 1,687). More private insolvencies were also registered in Latvia, where the total rose from 153 cases in 2009 to 264 last year. Other CEE countries are now following suit on the legislative front and seeking a way to give over-indebted private individuals a chance to apply for insolvency proceedings. That is the case, for instance, in Romania, where draft legislation is now waiting for final approval.

The basic trends in the development of business insolvencies outlined earlier are also to be found in Eastern Europe. The contribution to the overall total made by manufacturing, for example, fell last years from 15.1 to 13.5 percent, while the share generated by services increased. 33.7 percent of all registered cases of insolvency concerned a firm in the service sector (2009: 33.6 percent). Unlike in Western Europe, though, the worst-hit sector in the CEE countries was commerce and catering (which includes hotels). This accounted for 36.8 percent of all insolvent companies (2009: 36.8 percent).

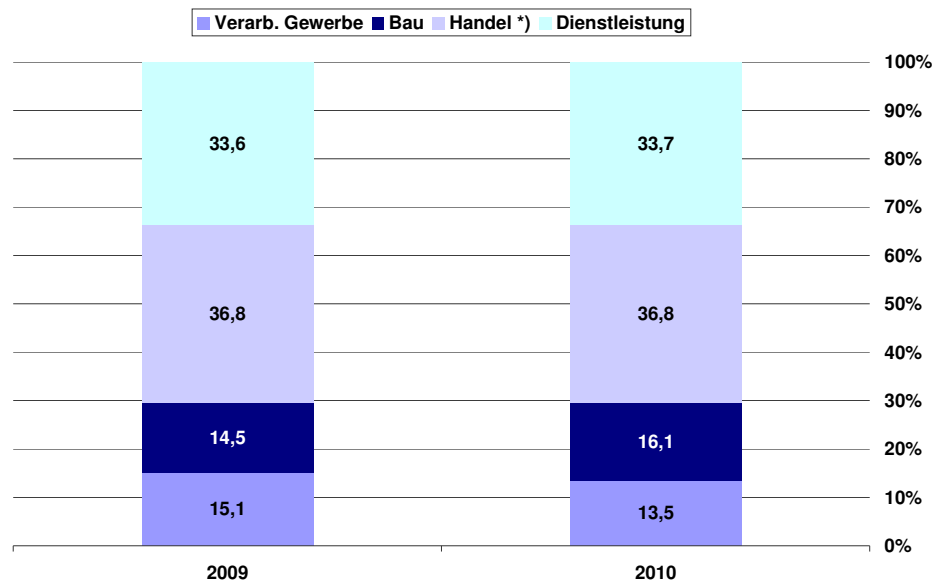
***Sectoral trends similar to those in Western Europe***

**III. 8: Contributions to insolvency in Eastern Europe in 2010 by the key economic sectors**



\*) incl. hotels, catering; Source: Amadeus Database, NACE Rev. 2, own calculations

**III. 9: Changes in shares of total insolvency generated by the key economic sectors in Eastern Europe**



\*) incl. hotels, catering; Source: Amadeus Database; NACE Rev. 2; own calculations

The 10.4 percent year-on-year increase in the total number of corporate insolvencies was not spread evenly across the main branches of the economy. The lowest rises were posted by manufacturing, with 3.7 percent, and commerce

with 5.2 percent, as compared with double-digit percentage increases in the construction sector (plus 17.5 percent) and the service sector (plus 18.5 percent).

Following the model established in German insolvency law, some CEE countries offer distressed firms so-called reorganisation proceedings. One example is the Czech Republic, where a reform of insolvency legislation has opened up this possibility since 2008 for companies with at least 100 employees. But similarly to originator Germany, where a restructuring process is anchored in insolvency legislation together with the insolvency schedule, the use of this instrument remains very limited. Since the option became available in the Czech Republic two years ago, only 41 reorganisations have been carried out.

***Well intended – but reorganisation rarely used***

In several CEE countries, data is available on the number of insolvency-related job losses. These countries include the Czech Republic (45,000), Poland (38,000), Latvia (20,500), Estonia (6,300), Hungary (30,000) and Slovenia (8,000). Using these figures as a yardstick for the region as a whole (excluding Russia), it can be estimated that the number of people made jobless when their employer went broke totalled around 200,000. That is far fewer than the year before (2009: 240,000).

***200,000 jobs lost***

## ■ 6 USA

Economic policy-makers in the USA can currently feel envious when they look at Europe. Whereas the economy in the Old World has picked up again after the crisis, the outlook for growth on the other side of the Atlantic is still gloomy. The lack of dynamism is also impacting on the country's budget. US Secretary of the Treasury Timothy Geithner recently warned his fellow citizens in drastic words of the possibility of sovereign default. The national debt, which is now equivalent

***USA: Bank rescues inflate national debt***

to almost 100 percent of GDP, is moving rapidly towards its statutory limit. The rescue measures undertaken during the financial crisis massively increased the mountain of debt. In 2010 alone, the current national deficit came to around eleven percent of overall economic output. In this present year, it will probably fall only just under a double-digit percentage. This imposes enormous constraints on the administration's ability to act.

***The American trauma***

The labour market symbolizes the present American trauma. One employable person in every ten is jobless – and the total includes many people who have been out of a job for a long time. The severest economic crisis since the Second World War eliminated around 8.4 million workplaces altogether. One consequence of this: a high proportion of households are over-indebted, with consumers still feeling the effects of the burst property bubble. With the real estate market still in decline, their assets are disappearing fast. There has been a corresponding ongoing increase in the number of private bankruptcies. In 2009, the total had already climbed to more than 1.4 million; in 2010 this rose by a further 11.3 percent when around 1.57 million American were forced to declare themselves bankrupt. That figure is only just slightly lower than the previous high of 1.63 million in 2003 – and the end of the road has probably not been reached yet. In this present year, US growth looks set to slow down again.

***Increase in private insolvencies***

**Tab. 18: Insolvencies in the USA**

■	2010	2009	Change in %
Total	1,630,300	1,473,675	+ 10.6
Companies	57,300	60,837	- 5.8
Private individuals	1,573,000	1,412,838	+ 11.3

***Slight easing in corporate sector***

In the corporate sector, though, the worst appears to be over for the time being. The number of business failures dropped by 5.8 percent in 2010, to 57,300. All the same, that is still a very high

level, and looks to be the second-biggest total since the mid-90s.

The structural weaknesses in the American economy made evident and intensified by the crisis are still a cause for concern. Industry in the US is still groggy, while dynamism is a phenomenon to be found elsewhere, especially in Asia. The construction and real estate sector, which was particularly hard hit by the recession, is continuing to slim down. This results in company closures and job losses. Then there are the financing problems facing business enterprises: banks are still not making it easy to obtain loans and firms are finding it difficult to raise sufficient capital.

### ***Structural weaknesses and financing: Problems for the future***

## ■ 7 Summary

In the course of the general economic recovery, insolvency in Europe is falling. Nevertheless, in 2010, the impact of the economic and financial crisis continued to be felt. In the EU15 countries plus Norway and Switzerland, a total of 175,677 corporate insolvencies were registered, which was just marginally fewer (minus 1.4 percent) than in the prior year (178,235). All the same, the number of company collapses was still the second-highest recorded in the last ten years.

Particularly in the upswing, the stability of many companies proved fragile. Italy, Portugal, Ireland and even Denmark noted an increase in corporate bankruptcy. The sharpest rises were registered in Luxembourg (918 cases; plus 31.5 percent), Italy (10,923 cases; plus 30.8 percent), Switzerland (6,225 cases; plus 19.9 percent) and Portugal (5,144 cases; plus 15.6 percent). Set against these, with significantly reduced insolvency figures, are countries such as Finland (2,870 cases; minus 12.4 percent), the UK (17,690 cases; minus 11.1 percent) and Norway (4,480 cases; minus 10.6 percent). Across most of

Europe, however, there has still been no major reduction in business failures. For instance, the number of company bankruptcies in the two largest EU countries – Germany (32,100 cases, minus 2.5 percent) and France (51,060 cases, minus 4.6 percent) – remained at a high level despite vigorous economic growth.

The number of jobs threatened by insolvency decreased in 2010 by 30.0 percent to 1.4 million (2009: 2.0 million). This was due to two developments: a fall in the absolute number of corporate insolvencies and a significant reduction in the scale of the bankruptcies that occurred: 2009 had produced a greater number of major insolvencies affecting many thousands of employees.

Insolvency totals in all four main business sectors were down on 2009. The sharpest fall was in manufacturing (minus 5.7 percent), followed by commerce (wholesale/retail) and catering (minus 1.8 percent). Only moderate changes were noted in construction (minus 1.1 percent) and the services sector (minus 0.6 percent). In absolute terms, insolvency forced the closure of around 19,100 companies in the manufacturing sector across Europe. That is 10.9 percent of all the bankruptcies registered. 21.0 percent of insolvency in Europe occurred in the construction sector, where around 36,900 cases were reported. Commerce and catering accounted for 30.5 percent (53,600 cases) and the services sector 37.6 percent (66,000 cases).

The highest relative insolvency rate – the number of cases of insolvency per 10,000 companies – is still registered in the construction sector. The number of bankruptcies there is currently 100 for every 10,000 companies. Then comes commerce, with 85 insolvencies per 10,000 companies. The lowest insolvency rate in 2010 was in the service sector (52).

As a result of increased unemployment across Europe, the incidence of private insolvency rose. In the countries that compile data on private insolvencies, a total 384,895 persons went bankrupt in 2010, which is 5.2 percent more than the 365,966 recorded in 2009. When people lose their jobs, growing private debt and correspondingly high interest charges often lead to insolvency proceedings and ultimately bankruptcy. The largest clusters of private insolvency by far are in the United Kingdom (162,460 cases) and Germany (139,800 cases) and last year both countries registered an increase: plus 7.6% in Germany and plus 1.8% in the UK. Sweden (7,860 cases; plus 19.3 percent) and the Netherlands (10,450 cases; plus 16.6 percent) noted the steepest rises in the numbers of private bankruptcies.

In contrast to developments in Western Europe, the countries of Central and Eastern Europe recorded a marked rise in corporate insolvency in 2010. After 31,194 business failures in the region in 2009, last year produced a 14.1 percent increase to 35,581 cases. Exceptionally sharp upturns in corporate insolvency were noted in Lithuania (1,496 cases; plus 28.1 percent), Croatia (1,300 cases; plus 23.8 percent) and Slovenia (510 cases; plus 23.2 percent), while significant downturns were reported for Estonia (504 cases; minus 27.3 percent), Poland (631 cases; minus 10.1 percent) and Slovakia (830 cases; minus 7.8 percent). In Russia, valid insolvency figures were available for the first time in 2010. They showed around 16,600 corporate bankruptcies across the Russian Federation – an increase of 7.3 percent compared to 2009.

In Eastern Europe, just as in Western Europe, the manufacturing sector reduced its share of insolvency – from 15.1 percent to 13.5 percent. The construction sector, on the other hand, was affected more severely than in 2009, accounting for 16.1 percent of all insolvencies (2009: 14.5

percent). Virtually no change was seen in the figures for commerce (36.8 percent, 2009: 36.8 percent) and the services sector (33.7 percent, 2009: 33.6 percent). Insolvency-related job losses across Eastern Europe last year totalled around 200,000 (2009: 240,000).

In the two major economic blocs EU and USA, insolvency moved in the same direction in 2010 but at different speeds. Corporate insolvency in the United States – down 5.8 percent at 57,300 cases – showed a more marked decline than in Western Europe (minus 1.4 percent). On the other hand, the number of private bankruptcies there (plus 11.3 percent) rose more than twice as sharply as in the "Old World" (plus 5.2 percent). Both figures – for corporate as well as private insolvency – are still at an all-time high.

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Neuss, 08 February 2011

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