

Insolvencies in Europe

■ 2009/10

A survey by the
Creditreform Economic
Research Unit

<u>CONTENTS</u>	<u>PAGE</u>
1 Introduction	1
2 Insolvencies in Western Europe in 2009	2
2.1 Corporate insolvencies	2
2.2 Private insolvencies	7
2.3 Business sector structure of insolvency	9
3 Financial and economic environment	13
3.1 Earnings situation	13
3.2 Equity capital situation	14
3.3 Payment conduct of customers	15
3.4 Financing conditions	16
4 National reports Europe	17
4.1 Germany	17
4.2 United Kingdom	19
4.3 France	20
4.4 Spain	21
4.5 Italy	22
4.6 Benelux countries	22
4.7 Scandinavia	24
5 Central and Eastern Europe	26
6 USA	29
7 Summary	35

List of sources

■ 1 Introduction

2009 was overshadowed by the worst economic crisis since the end of the Second World War. In the early part of the year, this crisis – which had been triggered by property speculation and bank collapses – took the world economy to the brink of the abyss. In all the industrialised countries, economic output plummeted. Germany suffered a fall in GDP of around five percent. Other European states, such as Ireland, were hit even harder.

Rapid and wide-ranging reactions by European governments enabled the impact of the slump to be cushioned somewhat. Nevertheless, the volume of world trade shrank sharply and the abrupt downturn in production created surplus capacities which in turn led throughout Europe to a marked rise in unemployment, which is set to continue in 2010.

Even though the intensity of the blows eased as the year progressed and there were even hesitant signs of growth in some places, the radical downswing inflicted deep wounds on the turnover and earnings figures of business companies. The number of payment defaults and insolvencies rocketed. In particular the export-oriented branches of European industry – above all mechanical engineering – had to cope with order shortfalls in the double-digit percentage range. In most of the European countries, domestic demand stood alone as a supporting pillar of the economy. The billions pumped into economic stimulus packages helped some businesses, such as the automobile industry (“car scrappage incentives”), get back on their feet again fairly quickly. For the financial sector and the construction industry, the boom of the past few years, driven as it was by money obtained on tick, came to a standstill.

World economy on the brink of the abyss

Surplus capacities and unemployment

Deep wounds on business figures

■ 2 Insolvencies in Western Europe in 2009

2.1 Corporate insolvencies

Marked rise in insolvencies in Western Europe

When the crisis in the financial markets began to spill over into the real economy about a year ago and financing terms for business companies became tougher, most European countries experienced a marked increase in corporate insolvencies. In Western Europe alone (EU-15 plus Switzerland und Norway), the total registered in 2009 was more than 185,100. That corresponds to a year-on-year rise of about 22 percent (33,200 more insolvencies). Since bottoming out in 2007, when the Europe-wide total was 134,260, the number of business collapses has grown by all of 38 percent.

Tab. 1: Corporate insolvencies in Western Europe

■	2009	2008	2007	2006	2005	Change 2008/09 in percent
Austria	7,050	6,500	6,362	6,854	7,136	+ 8.5
Belgium	9,430	8,476	7,678	7,617	7,878	+ 11.3
Denmark	5,600	3,709	2,401	1,987	2,497	+ 51.0
Finland	3,310	2,612	2,254	2,285	2,278	+ 26.7
France	55,800	49,723	42,532	40,360	41,930	+ 12.2
Germany	34,300	29,580	29,150	34,040	36,850	+ 16.0
Greece	360	359	524	532	612	+ 0.3
Ireland	1,400	773	363	304	327	+ 81.1
Italy *)	9,098	6,498	5,518	8,827	17,150	+ 40.0
Luxembourg	698	590	680	634	682	+ 18.3
Netherlands	10,500	6,847	7,952	5,941	6,780	+ 53.4
Norway	5,100	3,637	2,845	3,032	3,540	+ 40.2
Portugal	4,450	3,267	2,123	2,400	2,300	+ 36.2
Spain	4,900	2,528	880	853	869	+ 93.8
Sweden	7,600	6,298	5,791	5,243	5,865	+ 20.7
Switzerland	5,215	4,222	4,314	4,528	4,751	+ 23.5
United Kingdom	20,300	16,268	12,893	13,686	13,462	+ 24.8
Total	185,111	151,887	134,260	139,123	154,907	+ 21.9

*) 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.

In 2009, most European countries suffered a real wave of insolvencies. The worst affected were Spain (4,900 corporate insolvencies; plus 93.8 percent), Ireland (1,400; plus 81.1 percent), the Netherlands (10,500; plus 53.4 percent) and Denmark (5,600; plus 51.0 percent). The leap in the number of corporate insolvencies in Denmark in 2009 followed a massive rise of 54.5 percent the year before. This means that last year this Scandinavian country suffered almost three times as many business failures as it had in 2006 (1,987 cases). The only countries to register a sharper relative rise in this period were the foremost victims of the economic and financial crisis: Spain (increase by a factor of 5.7) and Ireland (increase by a factor of 4.6).

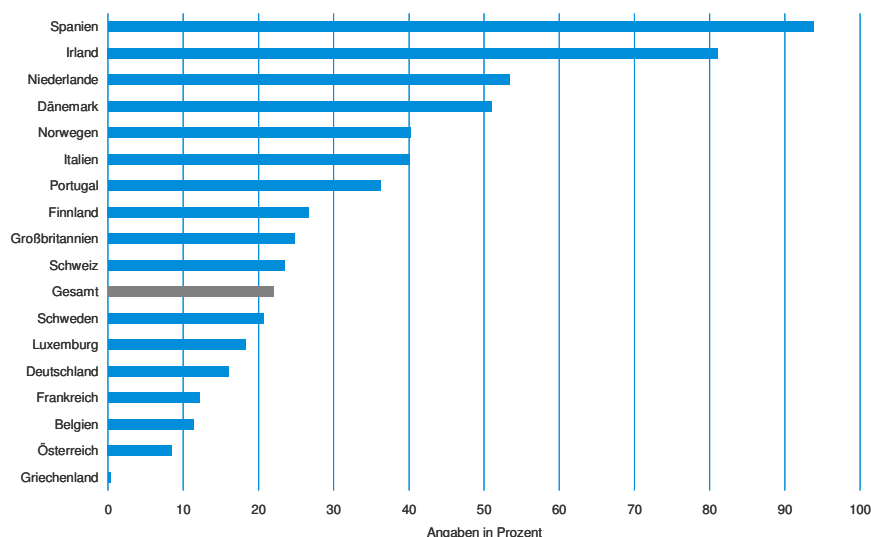
Total in Spain doubles

Ireland and Denmark also hard hit

The highest number of business collapses in absolute terms in any single country in 2009 was recorded in France, with a total of 55,800 cases. In relative terms, though, this represented just a relatively moderate rise (+12.2 percent) compared with the prior year. Other countries with increases in the low double-digit or even single-digit percentage range were Austria (plus 8.5 percent), Belgium (plus 11.3 percent), Germany (plus 16.0 percent) and Luxembourg (plus 18.3 percent).

France with highest number of insolvencies

Tab. 1: Rise in corporate insolvencies in Western Europe



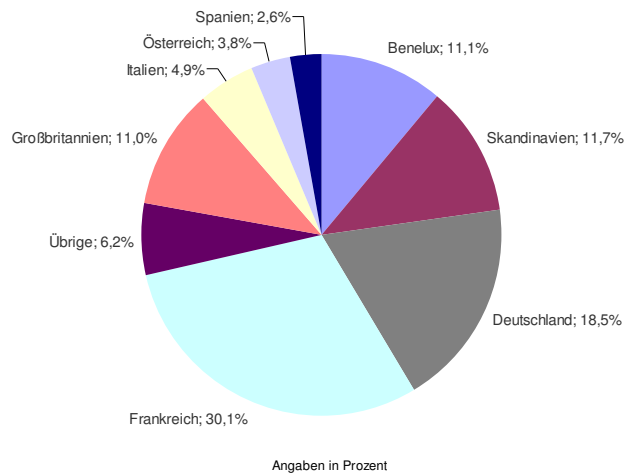
UK with negative record

In a comparison of the development of insolvency in the three biggest EU economies, the United Kingdom comes off worst, with an increase of 24.8 percent last year to 20,300 cases (2008: 16,268 cases). The UK had already experienced a steep rise the year before (plus 26.2 percent), when the increase in Germany had been relatively mild, at just 1.5 percent, and France had registered a rise of 16.9 percent.

Scandinavia: Norway worse than Finland and Sweden

In Scandinavia, the biggest increase in corporate insolvencies was in Norway (plus 40.2 percent). In Finland (plus 26.7 percent) and Sweden (plus 20.7 percent), the total rose by only about half that. All the countries of Southern Europe – Spain, Portugal, Italy and Greece – exhibited an upward trend in business failures in 2009. Spain stood out by virtually doubling its prior-year total, while Greece recorded only a very minor increase. In Italy, corporate collapses rose by all of 40.0 percent. In Portugal, the total also climbed considerably, by 36.2 percent.

Tab. 2: Distribution of corporate insolvencies in Western Europe



After France, which accounts for almost one in three of all corporate insolvencies in Europe (30.1 percent), the second-highest share was that recorded in Germany, with just under one fifth of the total (18.5 percent). The Scandinavian countries (Denmark, Finland, Norway and Sweden) contributed slightly less than one eighth to aggregate insolvencies in Europe (11.7 percent). The Benelux states (11.1 percent) and the United Kingdom (11.0 percent) each accounted for one ninth.

Germany accounts for just under one fifth

Tab. 2: Insolvency ratios in the individual Western European countries in 2009

■	Insolvencies per 10,000 companies
Greece	4
Spain	16
Italy	23
Portugal	40
Ireland	87
United Kingdom	90
Germany	96
Finland	103
Switzerland	105
Norway	109
Sweden	131
Belgium	165
Netherlands	165
Denmark	183
France	188
Austria	235
Luxembourg	242
Average	85

Source: Registers of companies

The highest insolvency ratios (number of cases compared with the total number of active firms) were registered in Luxembourg and Austria, with 242 and 235 respectively for every 10,000 companies. The overall picture, though, is somewhat misleading because the insolvency statistics of the individual states are not entirely comparable with one another. In the countries of Southern Europe, for instance, the insolvency ratios are distorted downwards because of the high number

**“Voluntary” closures in
Southern Europe**

of mini-firms and independent traders. Another factor is that in some countries, insolvent or over-indebted firms are less likely to initiate bankruptcy proceedings than is the case in Germany, for instance; instead, they opt for “voluntary” closures, which are not reflected in the insolvency statistics.

**Insolvency ratio:
Germany in mid-field**

With an insolvency ratio of 96 cases for every 10,000 registered firms, Germany occupied a mid-field position in Europe. Other countries with insolvency ratios in the high double-digit range are the United Kingdom (90) and Ireland (87). Ratios well above the European average of 85 were registered in France (188), Denmark (183), and the Netherlands and Belgium, each with 165 insolvencies for every 10,000 firms.

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

■	Job losses (in millions)
1999	1.4
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	1.7

*) Creditreform estimate

The sharp rise in corporate insolvencies in many European countries has not only stepped up the damage to creditors but also triggered a massive increase in job losses. The high number of major collapses, affecting thousands of employees – in Germany alone more than 500,000 jobs have been lost or are in danger – led to a renewed rise to the record level of 2003: the total number of employees affected by the insolvency of their firms last year was probably around 1.7 million. This means that about half a million more people than the year before face the threat of losing their jobs – in

the course of restructuring efforts or in the event of liquidation, a large number of the affected jobs are likely to be lost. So in wide areas of Europe, insolvency-related job losses are impacting on the already distressed labour market.

2.2 Private insolvencies

The number of consumer insolvencies also registered a considerable year-on-year increase. In those European countries where such data is recorded, the total last year reached almost 361,000. That was 12.4 per cent up on the figure for 2008 (over 321,000 cases).

Twelve percent more consumers insolvent

This marked increase of almost 40,000 was due largely to France and the United Kingdom, both of which experienced rises in the double-digit percentage range, with 42,650 cases (plus 27.8 percent) and 156,850 cases (plus 23,3 percent) respectively. The high number of insolvent individuals in the UK is alarming and a sign of the rapidly deteriorating economic situation there. Since 2005, the number of affected consumers has almost doubled. The crisis has impacted severely on the British labour market and the income situation of consumers. In 2009, three out of every 100 adult Britons were forced to declare themselves bankrupt.

Marked increases in France and the UK

Since the introduction of its debt clearance procedure (procédure de rétablissement personnel, PRP) in 2003, France has seen the use of this instrument climb sharply. After around 16,400 proceedings in 2004, the figure in 2009 was more than two-and-a-half times that – with a total of 42,650.

German figures steady – but new wave threatens

In Germany (plus 0.9 percent) and Finland (plus 0.3 percent), on the other hand, the volume of private insolvencies grew only marginally last year. However, with a total of 127,500 such cases, Germany comes second in Western Europe after the United Kingdom. In fact, up to 2007, Germany headed this ignominious list. Despite the severe recession, with a decline of five percent in gross domestic product, the German labour market has demonstrated amazing robustness, with a relatively moderate year-on-year rise in unemployment to a level well below the historic peak. According to the Creditreform SchuldnerAtlas (Debtor Atlas), 2009 actually brought a further slight improvement in the indebtedness situation of German households. This year, though, is likely to bring a considerable rise in the number of insolvent consumers, one reason being the worsening situation in the labour market.

Tab. 4: Private insolvencies in Europe

■	2009	2008	2007	2006	2005	Change 2008/09 in percent
Germany	127,500	126,330	135,600	127,280	99,720	+ 0.9
Finland	2,860	2,851	3,038	3,708	4,274	+ 0.3
France	42,650	33,378	27,959	24,190	19,259	+ 27.8
United Kingdom	156,850	127,241	120,775	120,926	79,426	+ 23.3
Netherlands	8,650	9,206	14,947	14,928	14,666	- 6.0
Austria	10,350	9,561	8,616	7,583	6,462	+ 8.3
Sweden	6,400	6,528	6,831	3,830	4,178	- 2.0
Switzerland	5,691	6,007	6,140	5,840	5,714	- 5.3
Total	360,951	321,102	323,906	308,285	233,699	+ 12.4

Three European countries actually registered a decline in consumer bankruptcies: the Netherlands (minus 6.0 percent), Switzerland (minus 5.3 percent) and Sweden (minus 2.0 percent). With an increase of 8.3 percent to 10,350 cases, Austria performed better than the European average, which exhibited a rise of 12.4 percent.

Three countries with decline

Not all countries offer private consumers the opportunity to rid themselves of their debts by means of judicial proceedings. In Italy, for instance, only the partners in a company that has gone bankrupt can obtain residual debt relief.

2.3 Business sector structure of insolvency

In the field of manufacturing, there were far more cases of insolvency in 2009 than the year before. The Europe-wide total was 20,800. This means that one insolvency in every nine in Western Europe last year affected an industrial firm (11.2 percent). In 2008, when the number of insolvencies in manufacturing reached about 15,200, the proportion was one tenth.

One insolvency in every nine is an industrial firm

The service sector accounts for a growing share of insolvency activity in Europe. In the period under review, its proportion rose from 36.5 to 37.7 percent and thus, as in 2008, again accounted for the largest number of insolvencies in absolute terms. Some 70,000 firms in this sector had to make their way to the bankruptcy courts. That was 14,500 or one quarter more than the year before (around 55,500 firms).

70,000 service firms file for bankruptcy

In the European construction sector, the situation eased somewhat in 2009. As in 2008, this branch of the economy accounted for just over one fifth of all insolvencies (2009: 20.9 percent; 2008: 21.1 percent). Between 2007 and 2008 this sector's contribution to the total had risen notably. Nevertheless, in 2009 insolvency brought business to an end for about 38,800 European building firms (prior year: 32,000).

Relative contribution of construction sector improves

The incidence of insolvency in Western Europe in the sector of commerce (wholesale/retail and including hotels and catering businesses) was 30.2 percent of the total insolvency volume, with around 56,000 cases. That is 2.2 percentage points lower than in 2008 (32.4 percent), when approximately 49,200 firms in this field of the economy slipped into bankruptcy.

Tab. 5: Contribution of the key economic sectors to overall insolvency in Western Europe in 2009

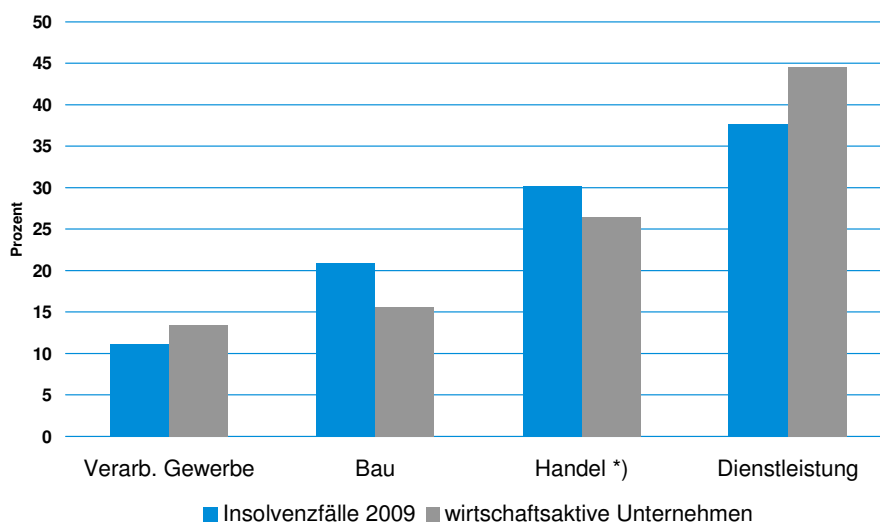
■	Contribution to insolvency volume	Insolvencies per 10.000 companies
Manufacturing	11.2 (10.0)	71 (52)
Construction	20.9 (21.1)	114 (95)
Commerce *)	30.2 (32.4)	97 (86)
Services	37.7 (36.5)	72 (57)

*) including hotels, restaurants and cafés; figures in percent, () = 2008

Commerce affected to above-average extent

Even if the relative contribution of the commerce and catering sector to the overall European insolvency volume has now declined somewhat, it remains a fact that wholesalers, retailers and caterers are affected to a disproportionately high extent: although this sector has a share of just 26.5 percent of the Western European economy as a whole, it accounts for 30.2 percent of all insolvencies.

Tab. 3: Relative incidence of insolvency in the business sectors of Western Europe, in percent



*) including hotels, restaurants and cafés. Source: Amadeus Database, NACE Rev. 2; own calculations

Firms in the building trade also exhibit a disproportionately high risk of insolvency. While the construction sector accounts for 15.6 percent of all active business companies in Europe, it last year contributed just over one fifth (20.9 percent) to the insolvency total. Its insolvency ratio – the number of insolvencies for every 10,000 firms in the sector – is still the highest among the four main branches of the economy.

Construction still has highest insolvency ratio

Within Europe, the contributions made by the different sectors of the economy to national insolvency totals often vary considerably. One notable feature is the high proportion accounted for by manufacturing in Portugal (29.1 percent; prior year: 26.4 percent), Spain (25.6 percent; prior year: 24.0 percent) and Italy (23.2 percent; prior year: 24.1 percent). So in the countries of Southern Europe, a quarter or more of all firms going broke were active in the manufacturing sector, which, however, tends to consist of smaller enterprises. The proportion there is well above the European average of 11.2 percent. In both Portugal and Spain, the relative incidence of insolvency in manufacturing registered a marked year-on-year rise.

Southern Europe: many insolvencies in manufacturing

In the United Kingdom, the proportion of corporate insolvencies in the field of manufacturing is slightly higher than the Europe average. At 11.5 percent, one insolvency in every nine was in this sector. Overall, a large number of Western European countries exhibit an increasing incidence of insolvency in the industrial sector. This also includes Germany, where one bankrupt firm in every ten now comes from this sector. In 2008, the proportion was just 8.1 percent.

Export nation Germany affected

In several countries, the construction sector plays an extremely large role in insolvency activity: Spain (33.1 percent), Ireland (29.7 percent) and France (27.8 percent). However, following the implosion of the overheated real estate market in Spain in 2008, the construction sector there was less affected in 2009 than before. In other countries, too, the contribution to the insolvency volume made by building firms was also down on the prior year. In Germany, for example, the proportion fell from 18.6 to 16.7 percent; in the Nether-

Overheated property sector in Spain and Ireland

***Economic stimulus packages
ease situation***

land, the relevant figure fell from 13.5 to 11.7 percent. The economic stimulus packages geared to the construction sector helped to ease the situation there. On the other hand, the relative contribution of the construction sector to insolvency increased in Norway (24.5 percent; plus 1.6 percentage points), France (27.8 percent; plus 1.1 percentage points) and Belgium (14.5 percent; plus 0.7 percentage points).

Tab. 6: Insolvencies in the key economic sectors in 2009

■	Manu- facturing	Con- struction	Com- merce *)	Services
Áustria	8.0 (6.2)	16.7 (16.3)	35.5 (34.6)	39.8 (42.9)
Belgium	7.7 (7.4)	14.5 (13.8)	46.5 (47.3)	31.3 (31.5)
Denmark	8.3 (7.3)	17.4 (19.5)	24.6 (25.9)	49.7 (47.3)
Finland	13.1 (13.1)	23.3 (24.1)	23.0 (25.3)	40.5 (37.5)
France	8.6 (7.9)	27.8 (26.7)	33.7 (35.5)	29.9 (29.9)
Germany	9.9 (8.1)	16.7 (18.6)	30.6 (31.8)	42.8 (41.6)
Ireland	12.1 (n.s.)	29.7 (n.s.)	30.0 (n.s.)	28.2 (n.s.)
Italy	23.2 (24.1)	19.1 (18.6)	26.7 (28.6)	30.9 (28.7)
Netherlands	13.3 (11.1)	11.7 (13.5)	28.3 (31.1)	46.6 (44.3)
Norway	8.1 (7.7)	24.5 (22.9)	24.9 (25.3)	42.4 (44.0)
Portugal	29.1 (26.4)	17.3 (18.1)	35.3 (35.5)	18.3 (20.0)
Spain	25.6 (24.0)	33.1 (35.9)	19.4 (17.6)	21.9 (22.6)
Sweden	9.9 (8.8)	13.0 (13.0)	30.5 (31.2)	46.7 (47.0)
Switzerland	8.8 (9.0)	22.5 (24.1)	22.1 (22.3)	46.7 (44.6)
UK	11.5 (12.8)	18.7 (18.5)	20.7 (26.4)	49.1 (42.3)

*) including hotels, restaurants and cafés; figures in percent, () = 2008

***Service sector main
insolvency driver***

In most of the “modern” economies of Western Europe, it is the service sector which accounts for the highest proportion of insolvencies. The contribution to total insolvencies is particularly large in Denmark (49.7 percent), the United Kingdom (49.1 percent), Sweden and Switzerland (each with 46.7 percent). But the proportion is also higher than the European average (37.7 percent) in the Netherlands (46.6 percent), Germany (42.8 percent), Norway (42.4 percent) and Finland (40.5 percent).

■ 3 Financial and economic environment

The financial and economic environment is the key factor in the marked increase in the number of insolvencies in wide areas of Europe. In 2009, the stability of the corporate sector in Europe was adversely affected by the poor earnings situation, the rising number of payment defaults, the restrictive financing conditions and such structural factors as a shortage of equity capital.

3.1 Earnings situation

The economic crisis has left heavy scars on the balance sheets of European business companies. Only a few firms were able to form capital reserves. As early as 2008, when the crisis in the financial markets started to impact on the real economy, there was a year-on-year rise in the number of firms with negative earnings. More than one company in every four in Europe (26.0 percent; 2007: 23.9 percent) for which balance sheet figures are available recorded a negative EBIT margin. In 2009, this proportion exhibited another marked increase, but it will only be possible to judge the precise extent of this when the financial statements for the year as a whole become available. The proportion of highly profitable companies with an EBIT margin of over 25 percent has remained virtually unchanged: in 2008, just as in 2007, almost one firm in every seven in Western Europe achieved that level of profitability.

EBIT down – one in four firms suffers losses

Tab. 7: EBIT margin (in %) of European firms in 2008 *)

■	negative	26.0 (23.9)
	up to 5 %	27.9 (28.9)
	up to 10 %	15.5 (16.3)
	up to 25 %	16.1 (16.7)
	more than 25 %	14.5 (14.2)
	<i>Number of companies surveyed</i>	<i>2.91m. (3.52 m.)</i>

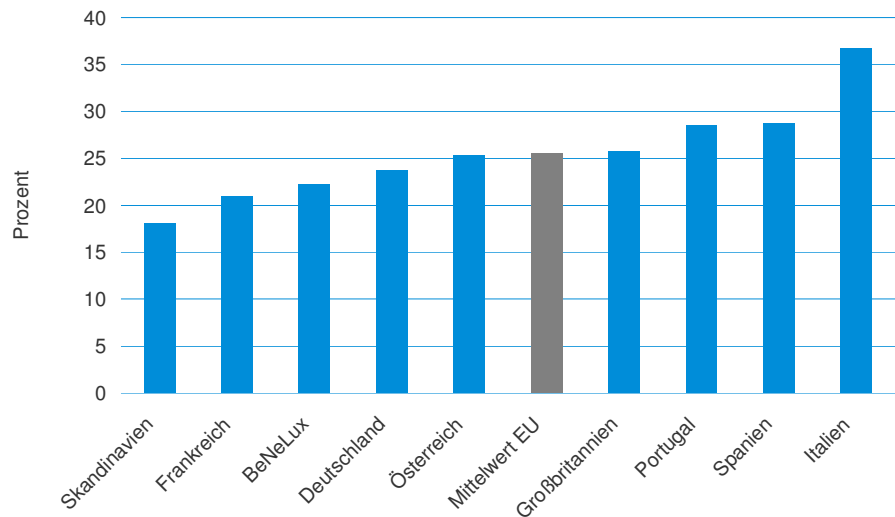
*) EU-15 plus Norway and Switzerland; figures in %; () = 2007
Source: Amadeus Database; own calculations.

Equity ratio: decisive key figure

3.2 Equity capital situation

The now tougher conditions for obtaining third-party financing heighten the significance of equity capital for business companies. At the same time, though, the poor earnings situation is swallowing up any reserves of capital. Equity resources, as an important pillar of corporate stability, are diminishing. But such resources are vital to enable business firms to cope with economic downturns and payment delays or defaults. Against the background of the turbulence in the financial markets, a high equity ratio gives a company better cards when it comes to borrowing money from the bank. When third-party capital is needed, for instance to finance a planned investment, the equity ratio is the decisive key business figure for determining the credit conditions.

Tab. 4: Proportion of firms *) with equity ratio < 10%



*) EU-15 plus Norway and Switzerland; figures for 2008 in %
Source: Amadeus Database; own calculations

Over 5 million financial statements evaluated

At the height of the financial market crisis in 2008, a considerable number of European companies had acute financing problems – that is revealed by an evaluation of the annual financial statements of around 5.15 million firms from the EU-15 states plus Norway and Switzerland. The evaluation shows that one firm in

every four (25.5 percent) exhibited a dangerously high degree of indebtedness or too low an equity ratio.

For such companies, with their strong dependence on third-party credit, the current conditions on the capital market create a real danger to financial stability. The proportion of firms with a poor equity ratio is particularly high in Southern Europe. In Italy, for example, 36.7 percent of business enterprises have an equity ratio of less than ten percent of their balance sheet total. Other countries where firms are more frequently under-capitalised compared with the EU-15 average are Spain (28.7 percent) and Portugal (28.5 percent).

A survey by the Creditreform Economic Research Unit highlights the direct relationship between a weak equity capital position and the risk of insolvency. Firms which had to file for insolvency in 2009 had already exhibited a considerably weaker-than-average equity ratio in the years before that.

3.3 Payment conduct of customers

In the course of the economic crisis, payment defaults have increased notably. This is a situation suppliers and service-providers are familiar with: their customers take longer to pay their bills than they do in economically more favourable times, while their own suppliers shorten payment terms and tighten credit limits. So they themselves are caught between a rock and a hard place. For small and medium-sized enterprises (SMEs) in particular, bad debts can have dramatic outcomes, since the losses have to be offset by higher earnings elsewhere – which in the tougher economic climate, with smaller order backlogs and lower profit margins, is virtually impossible. Consequential insolvencies are often the result.

***Firms in Southern Europe
are under-capitalised***

SMEs caught in the middle

Tab. 8: Collection periods in days among European companies *)

■	Up to 20 days	24.7
	Up to 30 days	8.5
	Up to 45 days	11.9
	Up to 60 days	9.6
	Up to 90 days	14.5
	Over 90 days	30.9
	<i>Number of companies surveyed</i>	<i>2.125 million.</i>

*) EU-15 plus Norway and Switzerland; figures in percent; in (): 2007
Source: Amadeus Database 2008; own calculations

Waiting more than 50 days for one's money

For European firms, the median debt collection period is 52 days. A more detailed look produces the following picture: one quarter of all companies have an average collection period of up to 20 days. In the case of a further 8.5 percent of the firms surveyed, invoices remain unpaid for up to 30 days. One firm in every nine in Western Europe (11.9 percent) has to wait up to 45 days between writing the invoice and getting its money, while three out of every ten suppliers (30.9 percent) have to wait more than three months before their invoice are settled.

3.4 Financing conditions

Post-crisis financing

Even though the recession is diminishing and 2010 is already likely to bring positive growth rates, European firms will have to get used to different terms where financing is concerned. There are signs that the present credit squeeze will remain in place for the time being. Banks which have been weakened by the financial crisis face considerable bottlenecks in the field of equity capital. More stringent equity ratio requirements for banks are on the agenda. And those banks which had to be rescued by state aid packages are now having to toe a tighter line when it comes to what risks they can accept. But for the other financial institutions, too, higher risk provisions and further writedowns in some classes of assets will be indispensable.

Banks with equity capital gap

If the economy continues its recovery, the need for fresh financial resources will grow considerably. Inventories need to be topped up, overdue investments have to be made, marketing activities have to be resumed. Against this background, credit financing plays a decisive role – at a time when the international financial markets are still in turmoil. The restrictions on lending will limit the ability of business firms to obtain the credit they need.

Investment requires capital

For a start, banks will be even more selective in choosing those they accept as borrowers. This will impact adversely on companies of low credit-standing and a tight equity capital situation. Lenders will also be even less willing than before to finance risky or particularly large investments. Then there is the fact that because of the high equity ratio requirements banks themselves now face, the costs of granting credit will tend to climb – and these higher costs will have to be passed on, which in turn makes refinancing more difficult.

Who will get the thumbs down sign?

According to the ECB, the number of banks which in Q4 2009 announced that they were stiffening their loan conditions was still higher than those who said they were easing them. This greater rigidity is due to economic and sector-specific factors and to the equity capital costs which the banks have to bear.

■ 4 National reports – Europe

4.1 Germany

As an export nation, Germany is heavily exposed to the international economic cycle. So global ups and downs impact directly on how business in Germany develops. That was the case in 2009, when the insolvency scene was shaped in particular by business failures in the industrial sector – among automotive suppliers, for instance – and by the number of big bankruptcies affecting well-known companies.

Major insolvencies in Germany

Automotive suppliers among the victims

The biggest insolvency was undoubtedly Arcandor, the retailing and tourism giant. A large part of its mail order business, with Quelle as the flagship, was wound up at the end of 2009; for the Karstadt chain of department stores there is still hope of rescue. Other major collapses last year were discount chain Woolworth, chip manufacturer Qimonda and the Escada fashion company. There were also a number of bankruptcies in the automotive supply industry, where the volume of insolvencies was three times higher than the year before. The biggest and best-known names in this respect were Karmann, Edscha and Aksys.

16 percent more collapses

SMEs were also badly hit by the impact of the economic and financial crisis. Overall, the number of corporate insolvencies rose by 16 percent, from 29,580 in 2008 to 34,300 last year. One tenth of all the firms going broke were in manufacturing – which is two percentage points higher than in 2008. On the other hand, the relative proportion of bankrupt firms in the construction sector fell somewhat, from 19 percent of the total to 17 percent.

Tab. 9: Insolvencies in Germany

■	2009	2008	Change in %
Total	161,800	155,910	+ 3.8
Companies	34,300	29,580	+ 16.0
Private individuals	127,500	126,330	+ 0.9

Although insolvency last year swept away many large and well-established companies, small firms still again accounted for the vast majority of business collapses. 77.2 percent of the firms going bankrupt employed at most five people (prior year: 80.6 percent).

4.2 United Kingdom

In view of the high contribution financial services make to the country's wealth creation, the UK was especially hard hit by the financial crisis. In 2009, economic output declined by a marked 4.5 percent, but this year it is expected to grow again slightly. All the same, the unemployment rate is likely to go on climbing. Last year, at 7.8 percent, it was already high; this year it could rise to 8.7 percent. The measures taken by the British government to stimulate domestic demand, such as temporarily lowering VAT from 17.5 to 15 percent, were unable to prevent a three-percent fall in private consumption. If the impact of the stimulus packages eases, domestic consumption in the UK could well suffer another setback this year, especially since a large proportion of British consumers are over-indebted and therefore likely to be reticent about any major expenditure. The earnestness of the situation is reflected by the sharp increase in the volume of consumer insolvencies – in 2009, this reached a new record level when 156,850 private individuals declared themselves bankrupt.

Economic slump in Britain creates earnest situation

Tab. 10: Insolvencies in the United Kingdom

■	2009	2008	Change in %
Total	177,150	143,509	+ 23.4
Companies	20,300	16,268	+ 24.8
Private individuals	156,850	127,241	+ 23.3

The economic crisis made itself felt on the corporate front, too, with an increase of almost 25 percent in the number of business collapses, to a new total of 20,300. The rise was particularly marked in the service sector, whereas wholesale/retail benefited from the lower level of VAT and generated higher revenues, which reduced the danger of insolvency in this branch of the economy somewhat.

Consumer insolvencies reach record level

4.3 France

**Consumption as mainstay;
unemployment increasing**

In France, private consumption was last year the most important stabilising element for the economy. Expenditure by private households actually exhibited a small but nonetheless significant 0.6 percent rise. However, weak exports and a decline in investment activity led to an overall fall of 2.2 percent in GDP. The poor economic situation is also having an adverse effect on the labour market, and – at ten percent – unemployment remains high. The number of jobs lost in France last year was probably around 580,000 and if it had not been for measures to prop up the labour market, the slump would presumably have been even greater. One element in France's economic stimulus package was the setting-up of an investment fund to support small and medium-sized firms by means of state injections of capital. By the middle of 2009, the fund, run by the French state and the Caisse de Dépôts (which is comparable with Germany's KfW bank), had invested 500 million euros.

Tab. 11: Corporate insolvencies in France

■	2009	2008	Change in %
	55,800	49,723	+ 12.2

In spite of all the efforts undertaken by economic policy-makers, an increase in the insolvency volume in France was inevitable. The number of business collapses last year rose to 55,800. The figure the year before had been 49,723, some twelve percent lower. The biggest contribution to the aggregate volume came from the sector commerce and catering, which accounted for one third (33.7 percent) of the total.

**Problem child: Judicial
restructuring**

The hopes which legislators had placed in the judicial restructuring proceedings introduced at the beginning of 2006 to rescue and safeguard insolvent firms – in a way similar to Chapter 11 in the USA – have not been fulfilled. Just as in Germany with the so-called insolvency planning procedure, only relatively few firms make use of this instrument. Only about one percent of

all the bankruptcy proceedings initiated in France since 2006 have been conducted in line with the Procédure de Sauvegarde, as it is known. To make it more attractive, the relevant stipulations were amended last year.

4.4 Spain

In 2009, just as in 2008, Spain registered the steepest rise in corporate insolvencies of any country in Europe. The number almost doubled (plus 93.8 percent) to 4,900 cases. The highest incidence of insolvency was in the construction sector, with 33.1 percent of the total. Between 1997 and 2007, the private housing boom had made a substantial contribution to economic growth in Spain, but then, construction activity started to decline significantly. Since 2008, for example, the number of applications for building construction permits (housing, industrial and commercial buildings) has halved, according to the country’s statistics office. But not only that: the oversized construction industry imposes a severe burden on the Spanish economy. The consequences of the overheated property market are evident almost everywhere.

Wave of collapses among Spain’s building firms

The years of stalled reforms also play a role, something particularly apparent in the labour market. In 2009, the unemployment rate climbed to 18 percent, which is high by European standards, and this year the figure is likely to reach 20 percent. Another pressing concern: the strained financial situation of the Spanish state. The fall in tax revenues and the high cost of economic stimulus measures led to an increase of probably around ten percent in new state indebtedness in 2009. During the same period, GDP fell by 3.6 percent. The best that can be expected this year is that economic output will stagnate rather than fall further.

Insolvency total doubles

Tab. 12: Corporate insolvencies in Spain

■	2009	2008	Change in %
	4,900	2,528	+ 93.8

4.5 Italy

Home-grown problems in Italy

It is not just the repercussions of the international financial crisis which the Italian economy has to face up to. The country is also confronted with a good many home-grown problems, especially of the structural kind. For quite a long time now, economic experts have been urging not just a lower burden of taxes and social contributions but also the dismantling of excessive bureaucracy and improvements in the country's public infrastructure. In view of the desolate state of public-sector budgets, though, implementing such reforms is difficult.

Tab. 13: Corporate insolvencies in Italy

■	2009	2008	Change in %
	9,098	6,498	+ 40.0

Ongoing difficulties concerning refinancing also impact adversely on the situation particularly of the many small and medium-sized enterprises. It is clear that not all the firms in the SME-dominated industrial sector in Italy will survive the present lean period.

40 percent increase

Last year, manufacturing already accounted for one insolvency in every four. In all, Italy suffered about 9,100 business failures in 2009, equivalent to a year-on-year increase of 40 percent (2008: approx. 6,500).

In view of the general economic framework, there is little prospect of any improvement. The most optimistic forecast for this present year is GDP growth of one percent. Positive factors are a slight increase in export activity and the steady scale of demand among Italian consumers.

4.6 Benelux countries

The economies of the Benelux countries are intertwined with economic developments in Germany, which is a major trading partner. These close ties are manifested by the parallels in the ups and downs of GDP. The international economic and financial crisis

impacted most heavily on Belgium's economy, for example, in the first half of 2009. Then, though, the climate improved (GDP growth in Q3 2009: plus 0.5 percent). Overall, however, the year will probably have ended with a GDP decline of 3.0 percent. The development in the Netherlands was even more dramatic, with a fall of probably 4.7 percent in economic output.

Close ties with Germany

Tab. 14: Corporate insolvencies in the Benelux countries

■	2009	2008	Change in %
Belgium	9,430	8,476	+ 11.3
Netherlands	10,500	6,847	+ 53.4
Luxembourg	698	590	+ 18.3

All this naturally impacted on the development of corporate insolvencies. In Belgium, these rose only moderately, by just over eleven percent to 9,430. Chiefly affected were firms in wholesale/retail and catering, which contributed 47 percent to the total. This was the highest proportion for this business sector anywhere in Europe.

Biggest insolvency rise in the Netherlands

The trade-oriented Netherlands suffered a far steeper increase in corporate collapses; these rose by more than 53 percent, from 6,847 in 2008 to 10,500 last year. Service firms accounted for the largest share, with just under 47 percent (prior year: 44 percent). Holland's financial sector is still a weak point: despite expensive rescue efforts – such as the nationalisation of market leaders Fortis and ABN Amro – the danger of a credit crunch remains. Default-prone companies applying for a loan have poor chances of actually obtaining one, which in turn raises the prospect of a further increase in business failures.

Financial sector as weak point

***Luxembourg: moderate rise
in insolvency volume***

Since financial, real estate and B2B services account for 62 percent of the economic output of Luxembourg, it was particularly hard hit by the financial crisis. The country's economic experts anticipate that the fall in GDP in 2009 will have been around 3.6 percent. The swiftly packaged stimulus measures in the major economies probably helped to cushion the decline in Luxembourg and so the increase in the insolvency total, at 18.3 percent, remained relatively moderate.

4.7 Scandinavia

The global slump affected the Nordic countries in differing degrees. In Denmark, Sweden and Finland, economic performance in 2009 suffered from a sharp fall in domestic demand and in investment activity, while in Norway, with its strong oil and gas industry, the economy remained relatively unscathed.

The data in detail: in the Scandinavian countries it was Finland which was hit most heavily. The estimates for the decline in GDP in 2009 as a whole vary between 6.0 and 7.5 percent. The Europe-wide fall in capital investment in equipment has weakened Finland's key industry, the technology sector, which is dependent on exports. The unemployment rate was 8.9 percent, while private consumption dropped by three percent. The number of corporate insolvencies in Finland increased by 27 percent to 3,310 (2009: 2,612).

***Significant slow-down in
Northern Europe***

In Denmark, economic policy-makers quickly initiated measures to support the country's financial sector but these were unable to prevent GDP plummeting by an estimated five percent in 2009. The chief reason for the fall was the five percent lower level of domestic demand, which accounts for around half of Denmark's overall economic output. At the same time, the unemployment rate almost doubled, rising from 3.4 to 6.4 percent.

The number of corporate insolvencies in Denmark soared by 51 percent to around 5,600, with the increase affecting all branches of the economy. The service sector now accounts for one business failure in every two in Denmark (2008: 47 percent). The relative contribution by the construction sector fell to 17 percent, after 20 percent in 2008.

Tab. 15: Corporate insolvencies in Scandinavia

■	2009	2008	Change in %
Denmark	5,600	3,709	+ 51.0
Finland	3,310	2,612	+ 26.7
Norway	5,100	3,637	+ 40.2
Sweden	7,600	6,298	+ 20.7

In neighbouring Sweden, the situation is similar. Particularly in the first half of 2009, the country was hit hard by the worldwide slump, but then as the year progressed, the development of GDP stabilised. Nevertheless, the estimate for the year as a whole is a decline of up to 4.4 percent in economic output. In the meantime, though, the country’s extensive economic stimulus measures, such the lowering of income and corporate taxes, and incentives for exports, are starting to take effect.

Sweden with the largest number of insolvencies

The number of business insolvencies in Sweden last year increased by 20.7 percent, from 6,298 to 7,600. Prominent victims were automotive manufacturer SAAB and automotive supplier Plastal. In February 2009, in the wake of the failure of its parent company, General Motors, SAAB had to file for bankruptcy. Even though it has now been sold to a Dutch sports car manufacturer, its fate still hangs in the balance. Automotive supplier Plastal became bankrupt in March 2009, pulling its German subsidiary down with it. 2,000 employees are affected. Negotiations on a possible sale are still taking place.

SAAB rescued for the time being

Thanks to the relatively stable revenues produced by its oil and gas industry, Norway suffered less severely from the worldwide recession than its Scandinavian neighbours. Its economic output in 2009 fell by only a

moderate 1.5 percent. All the same, Norway experienced a sharp rise in the number of corporate insolvencies. These totalled around 5,100, representing a year-on-year increase of 40 percent (2008: 3,637).

■ 5 Central and Eastern Europe

In the states of Central and Eastern Europe (CEE), the financial and economic crisis has necessitated substantial adjustments. This region is now strongly integrated into the global economy and so when the crisis started to bite, it was particularly the industrial sectors which suffered, as orders from abroad diminished. One reason is that the rise in wage costs in the CEE states in recent years has had an adverse effect on the region's export competitiveness and its attractiveness for investors. Surplus capacities have had to be reduced and the number of business failures jumped radically.

Integration in global economy proves calamitous

Tab. 16: Corporate insolvencies in Eastern Europe

■	2009	2008	Change 2008/09 in %
Estonia	631	423	+ 49.2
Latvia	2,192	1,296	+ 69.1
Lithuania	1,168	731	+ 59.8
Croatia	940	875	+ 7.4
Poland	590	425	+ 38.8
Romania *)	20,800	14,483	+ 43.6
Slovakia	900	582	+ 54.6
Slovenia	749	657	+ 14.0
Czech Rep. **)	8,394	4,600	+ 82.5
Hungary *)	14,637	11,322	+ 29.3
Total	51,001	35,394	+ 44.1

*) Bankruptcies and liquidations; **) Legal entities and natural persons.

Increase twice that in Western Europe

Even though the comparability of the insolvency statistics in the CEE states leaves a lot to be desired, the great increases in insolvency in wide areas of the region do make it clear that the crisis has demanded a high tribute.

An evaluation of the overall insolvency situation in the CEE countries shows a rise of 44.1 percent in the field of corporate bankruptcies: in 2009, some 51,000 firms had to cease business when they were unable to pay their debts. The figure the year before had been just under 35,400 corporate insolvencies.

The country most seriously affected was the Czech Republic, with an increase of 82.5 percent. A large proportion of this is due to the growth of insolvencies among independent traders and natural persons. All branches of the Czech economy registered an increase in the number of business failures, with the figure for the construction sector climbing particularly strongly.

At the other end of the scale was Croatia, with the smallest rise in the CEE countries. In 2009, it generated an estimated 940 insolvent firms, corresponding to a year-on-year increase of just 7.4 percent. Most of these bankruptcies were in the field of construction and commerce. .

Czech Republic hit hardest...

... Croatia only mildly

Tab. 17: Insolvency ratios in the individual CEE countries

■	Insolvencies per 10,000 companies
Poland	4
Slovakia	15
Croatia	36
Slovenia	49
Czech Republic	92
Estonia	119
Hungary	119
Lithuania	144
Latvia	174
Romania	450
Average	97

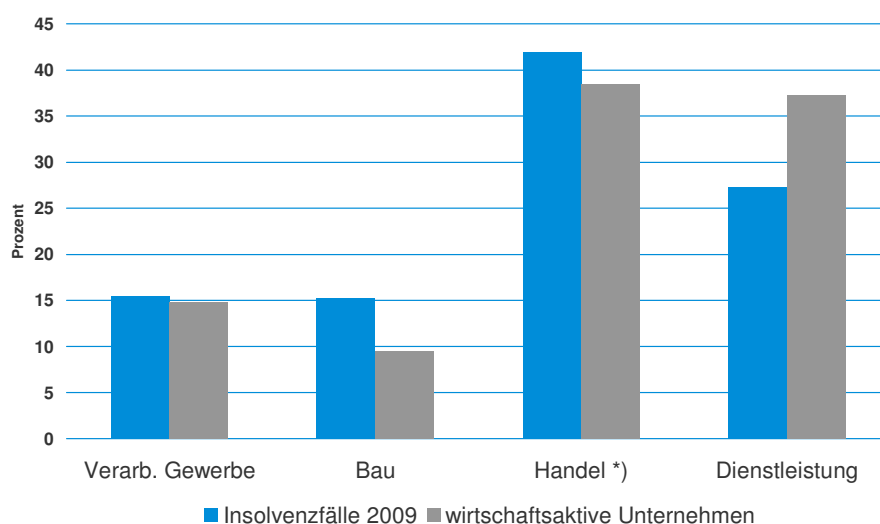
Baltic region: 60,000 jobs lost

In the Baltic region, the increases in corporate insolvency totals ranged between 49.2 percent in Estonia and 69.1 percent in Latvia. Overall, there were almost 4,000 business collapses in the Baltic states in 2009, as against just 2,450 the year before. Insolvency generally poses a threat to jobs and last year, the number of employees in these three Northern European countries who lost their jobs when their firms went broke is likely to have been around 60,000. Up to now, only very few private individuals in the Baltic states have taken advantage of the possibility of obtaining debt relief by means of a consumer insolvency. That is probably why Latvia has shortened the duration of such proceedings from seven to five years.

Hungarian service sector under pressure

In Hungary, the rise in the insolvency volume, at 29.3 percent, was below the CEE average. Nevertheless, far more firms in the country's service sector had to close down than the year before: the sector registered a 41.9 percent increase in corporate insolvencies. In Hungary construction sector, on the other hand, the year-on-year rise was just 18.5 percent.

Tab. 5: Relative incidence of insolvency in the business sectors of the CEE states, in percent



*) incl. hotels, restaurants and cafés, Source Amadeus Database; NACE Rev. 2; own calculations

The number of corporate insolvencies recorded in Poland in 2009 was just 590. Although that was 38.8 percent higher than the previous year, it still represents a ratio of only four insolvencies for every 10,000 active firms. However, since the insolvency procedure in Poland is unattractive, market exit usually simply takes the form of a company closure.

Poland with lowest insolvency ratio

In Central and Eastern Europe, insolvency affects in particular firms in construction and commerce. The contribution of the manufacturing sector to the insolvency total, on the other hand, at around 15 percent, corresponds more or less to the actual proportion of such firms in the economy as a whole.

■ **6 USA**

This year, we have prepared the national report for the United States in cooperation with the FCIB, the American Association of Executives in Finance, Credit and International Business. The FCIB, which has members in 55 countries around the globe, belongs to the National Association of Credit Management (NACM), one of the largest and oldest credit organizations in the world.

FCIB as cooperation partner

Tab. 18: Insolvencies in the USA

■	2009	2008	Change in %
Total	1,481,600	1,117,771	+ 32.5
Companies	60,600	43,546	+ 39.2
Private individuals	1,421,000	1,074,225	+ 32.3

To say that bankruptcy has become much more common in the last couple of years would be an understatement. The recession of 2008-2009 has been deep and has done the job that recessions are supposed to do – purge weaker businesses. Unfortunately, this downturn has been deep enough to affect good businesses and bad.

Deep recession accelerates wave of insolvencies

The trend in bankruptcy in the U.S. has been accelerating for a significant period of time but that pace really began to pick up in the last 24 months. The question that preoccupies businesses today is whether this pa-

ce will continue to accelerate or if there has been a leveling off.

The last four years have been tough for business – not just the last two. Bankruptcies in 2006 in the U.S. were at less than 200,000 in September and grew to well over 600,000 in December. This pace accelerated rapidly from that point and by September of 2009 the number of filings had reached close to 1.5 million. The rise in filings affected all categories of bankruptcy – Chapter 7 filings were up by 45 percent over those filed in 2008, Chapter 11 filings went up by 65 percent. The stress of the economic slump was readily apparent.

There have been sectors of the country that have seen much bigger problems than others and there are sectors that have seen much more stress than others but almost no sector has been untouched.

Where have the problems been most severe and why?

Transportation sector one of the hardest hit

When one looks at the numbers in 2009 there are several industries that stand out as having been hit the hardest in the U.S. and this comes as little shock to those who have been following the economy as a whole. According to the UCLA Law School's Bankruptcy Research Database (BRD), which measures the frequency and percentage of bankruptcy filings, the percentage for the transportation sector was 10.8 percent. Other studies have found similar numbers across the industry – everything from transportation equipment to transportation providers.

This is a sector that traditionally ebbs and flows with the economy and has been referenced as the “canary in the coal mine” as far as the overall economy is concerned. The number of transportation companies that have suffered in this recession is roughly on a par with the closures that took place in the 1990s when deregulation of trucking led to some massive reorganization in the sector in the U.S.

Another sector that also saw serious issues was banking and depository institutions. The BRD percentage for them was at 15.66. This also comes as little surprise as the FDIC has been required to seize over 100 banks in 2009 alone. The estimate is that 2010 will see similar numbers as many of the smaller regional banks in the U.S. have been made very vulnerable to the decline in commercial property values in their communities. The next several months will bring even more bad news on the commercial property front as many communities across the U.S. continue to struggle to escape the ravages of the recession, putting the banks in these communities at risk.

Financial sector: over 100 banks seized

A third sector that has been damaged severely has been construction but most of that damage took place in 2008 and in early 2009. The housing sector crisis presaged the overall collapse and in many respects precipitated the crises that would come to impact banks and real estate operations. The boom in building that took place in the middle of the decade prompted many to start construction companies and when the downturn began, these businesses got in trouble soon. The pace of these bankruptcies fell off in 2009 and will decline further in 2010.

Construction sector now has worst behind it

The massive wave of bankruptcies has also affected different sectors in the U.S. The health care sector, energy and much of the aerospace community seem to have been largely immune while automotive and transportation in general have suffered. In the trucking industry alone, there have been over 150 companies to declare bankruptcy through 2009. The real estate sector has started to recover but there was serious damage done in 2008 and 2007. Retail has seen a 34 percent increase in bankruptcy in 2009 according to the National Retail Federation. The sectors that survived will grow fast in 2010 but even they will be inhibited by the struggles elsewhere.

What was the reason for the large numbers of bankruptcies?

The failure of a business is never simple. There are many businesses that survive deep and severe recessions and there are companies that fail even in the best of times. There is a desire to try to separate out the external factors from the internal factors. It is not an economy wide problem if a business person manages their company badly but it is if a business is essentially well run but is unable to survive.

What are the problems?

There is a general rule of thumb in economics that holds that GDP growth must exceed at least 3 percent for insolvencies to remain stable – much less reduce. The decline in GDP growth in 2009 in the U.S. was precipitous as the year started with a 6.2 percent decrease in Q1 GDP. This was the deepest decline and it was the third quarter to see decline. The reduction in GDP growth continued into Q2 and only recovered by a small amount in Q3. The estimate for GDP growth in 2010 is on the anemic side. The expectations range from 1.5 percent to a maximum of 3 percent and that means that insolvencies are not going to be getting any help from overall GDP growth. There may be some improvement in the last half of the year but nobody expects this recovery in GDP numbers to be impressive enough to affect insolvency rates.

Three percent GDP growth needed

The second motivation for bankruptcy apart from the travails of the economy as a whole has been the crisis that has affected banks and the credit market throughout the last two years. When one looks at the data collected by the National Association of Credit Management, there are some interesting conclusions to be reached. The Credit Manager's Index (CMI) started to show that the credit markets were struggling in the summer of 2008. Anything over 50 indicates that the economy is in an expansion mode and anything under 50 is contractionary. The CMI started to sink in June and was under 50 by September of 2008. The index continued to show declines over the next several months and at one point fell below 40. In the summer of 2009 the index started to move above 50 again and

Financial crisis as trigger

in the last month the index crested to 55.6. This is certainly not the robust growth that was evident a few years ago but it is clearly moving in a more positive direction.

By the end of 2008 the trade credit environment had seized up and businesses that might have been able to survive the reduction in demand faced imminent cash flow disaster as they could no longer access credit. The CMI showed that there was little negative activity at the start of this process. There had not been a spike in the number of bankruptcies or disputes and there had not been an increase in the dollars exposed. All of that came later. The seizure of the credit market was not provoked by many businesses getting into financial trouble and failing to pay their creditors. This was a situation in which lack of credit led to business failure and this problem has continued to escalate through the course of the overall recession.

The collapse of major banks and investment houses in the U.S. like Bear Stearns and Lehman Brothers may have grabbed the headlines but the most devastating loss to small and medium sized business was the collapse of CIT Group. The loss of this major factoring player meant that yet another source of liquidity had evaporated. Some other competitors stepped forward to fill the gap but not with the rates that CIT once featured.

Squeeze in field of supplier credit and factoring

The CIT catastrophe

Stabilization tendencies in 2010

What happens from here in the USA?

The short answer is that 2010 will not be the year that the financial situation corrects itself but it will be the year that the problems plateau. It will also be the year that divisions between regions and industries become stark.

The recession has not been evenly distributed across the country and that is not unusual. While every part of the United States has been affected to some extent, there have been obvious areas of concentration. The four states that have borne the brunt of the downturn have been California, Arizona, Florida and Nevada.

Only a handful of states had remained at the low level of 1 per thousand – Texas, North Dakota, South Dakota, Montana, Wyoming, North Carolina, South Carolina, New York, Pennsylvania, Maine and Connecticut.

Fed exit too early?

There are also some important issues that have as much to do with politics as with the economy. The housing market has been propped up by the Federal Reserve's decision to commit over a trillion dollars to buying up mortgage backed securities. This is a practice the Fed has indicated it will discontinue in March of this year. Thus far these purchases have provided a platform for the sector and if they are removed there is a sense that the housing sector will collapse again or at the very least slow down dramatically. Fannie Mae, Freddie Mac and Ginnie Mae now underwrite seven of every ten mortgages in the U.S., which makes the system extremely vulnerable. It is not at all clear that the economy is ready to be weaned away from the Fed and the Treasury just yet.

Concluding remarks

The other side of the recession

The arrival of a recession is approached by economists with a mixture of dread and enthusiasm. The damage that is done is obvious and this last downturn has been far more damaging than expected. There is the other side of a recession to consider however. This is the most effective process of redistributing produc-

tivity available. Business that fails frees up market share for the better run competitors and the workers that once found employment with that company can go where they may be needed. At least in a perfect world.

There are far more complicating factors this time that have made this recession much less efficient. People cannot migrate as easily as they cannot sell their homes and there are far more issues with a two income family as opposed to the once traditional model of the dominant earner.

The worst of the bankruptcy period is likely over. The recovery from the last two to three years will be slower than it was in the early part of the last decade and slower than the recovery in the 1990s.

Recovery will be slow

■ 7 Summary

The severe recession made the number of corporate insolvencies in the EU-15 states plus Norway and Switzerland climb to over 185,000 last year. Compared with the total of slightly under 152,000 in 2008, that represents an increase of 22 percent. In Central and Eastern Europe, the rise in the volume of business failures was twice as sharp; there, the figure rose by 44 percent, with 51,000 companies having to file for bankruptcy (2008: 35,400).

The wave of insolvencies swept over the countries of Europe with varying degrees of intensity. In Spain, the number of insolvent firms almost doubled last year: 4,900 companies went bankrupt, 93.8 percent more than the year before (2008: 2,528 cases). In second place in the list came Ireland, with a rise of 81.1 percent to 1,400 (prior year: 773), followed by the Netherlands (plus 53.4 percent; 10,500 corporate insolvencies) and Denmark (plus 51.0 percent to 5,600 cases).

Countries with increases below the European average were Austria (plus 8.5 percent; 7,050 cases), Belgium (plus 11.3 percent to 9,430), France (plus 12.2 percent to 55,800) and Germany (plus 16.0 percent to 34,300).

Together with France and Germany, the United Kingdom was one of the three European countries with the highest number of business bankruptcies in absolute terms – it registered a total of 20,300, representing an increase of 24.8 percent, which was only slightly lower than the rise recorded the year before (plus 26.2 percent).

In Scandinavia, the country with the highest increase in insolvency was Norway, where the volume grew by 40.2 percent. Although Finland and Sweden also exhibited substantial rises, these were only about half that scale, with 26.7 percent and 20.7 percent respectively.

The extent to which the recession impacted on the individual branches of the economy varied and this resulted in differences in the development of insolvency totals. Across Europe, some 20,800 manufacturing firms had to make their way to the bankruptcy courts. That corresponds to one ninth (11.2 percent) of all cases of insolvency, as against one tenth the year before (10.0 percent; 15,200). The relative contribution to the overall insolvency volume made by the service sector also increased: the number of firms in this branch of the economy that had to file for bankruptcy last year totalled some 70,000, which represents 37.7 percent of all registered insolvencies (prior year: 36.5 percent; 55,500 cases).

In the European construction sector, the insolvency situation eased somewhat in 2009 in relative terms. Admittedly, the absolute number of building firms becoming bankrupt rose to around 38,800 (prior year: 32,000), but the contribution this sector made to the overall total declined marginally, from 21.1 to 20.9 percent. The relative role played by wholesale/retail in the volume of insolvencies in Europe in 2009 also fell. Firms in this branch of the economy accounted for just 30.2 percent of all cases of business bankruptcy as against 32.4 percent in 2008. However, the absolute number of insolvent firms in this sector climbed from 49,200 to 56,000.

The sharp rise in the incidence of insolvency in industry in 2009 threatened a greater number of jobs than before. In Europe as a whole, an estimated 1.7 million employees were affected when their firms collapsed. In 2008, the figure had been 1.2 million.

There was also a marked year-on-year increase in private bankruptcies. Across Europe, the total number of insolvent consumers rose to 361,000, which was 12.4 percent higher than in 2008 (321,100). This rise was due largely to developments in France (plus 27.8 percent; 42,650 cases) and the United Kingdom (plus 23.3 percent; 156,850 cases). In the UK, the number of private bankruptcies has almost doubled since 2005, when the registered figure was 79,426. For two years now, the UK has headed the consumer insolvency list, ahead of Germany. In 2009, three out of every 100 adult citizens in Britain became bankrupt.

In 2009, Germany registered stagnation in the field of private insolvencies, with just a slight rise of 0.9 percent from 126,330 cases to 127,500. Between 2007 and 2008, the total had fallen quite markedly. Three countries recorded a decline in the number of consumer bankruptcies: the Netherlands (minus 6.0 percent), Switzerland (minus 5.3 percent) and Sweden (minus 2.0 percent). However, when the economic crisis hits national labour markets even more severely than it has up to now, the number of private individuals filing for bankruptcy is likely to increase.

The USA has not yet overcome the impact of what has probably been the worst crisis in the economy since the Second World War. In the corporate sector, business collapses continued. Last year, around 60,600 firms had to seek protection from their creditors, as against 43,546 in 2008 (an increase of 39.2 percent). The number of insolvent consumers once again passed the one million threshold: a total of 1.421 million private individuals declared themselves bankrupt; the prior-year figure was 1.074 million. This increase, of 32.3 percent, was considerably higher than that in Europe (plus 12.4 percent).

In the CEE states, too, the financial and economic crisis has necessitated substantial adjustments. Surplus capacities have had to be reduced and there was a marked increase in the number of corporate insolvencies. The countries most seriously affected were the Czech Republic (plus 82.5 percent; 8.394 insolvencies), Slovakia (plus 54.6 percent; 900 cases) and the Baltic states. Latvia registered a 69.1 percent rise in the number of business bankruptcies, taking the total to 2,192; the figures for Lithuania were 59.8 percent to 1,168, and for Estonia 49.2 percent to 631 cases.

Responsible for the content:

Creditreform Economic Research Unit

Head: Michael Bretz

Telephone: 0049 (0) 2131 109-171

Editor: Dr. Hardy Gude

Telephone: 0049 (0) 2131 109-172

Hellersbergstr. 12, D - 41460 Neuss

e-mail: m.bretz@verband.creditreform.de

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Hellersbergstr. 12, 41460 Neuss

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