Corporate insolvencies in Europe

2013/14

Creditreform
Wirtschaftsforschung

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1 Insolvencies in Western Europe in 2013 – Facts and figures

1.1 Introduction – What is the aim of this study?

No end to the crisis even after five years?

The great European economic crisis: For five years now, it has had the continent firmly in its grip. Recently, though, there were optimistic signs when Greece and Portugal succeeded for the first time in ages in placing substantial government bonds on the capital markets and thus making themselves independent of ESM and Co. For the indebted countries of Southern Europe, news of this kind injects fresh courage. And indeed, the process of economic contraction in the south of the continents appears to have at least slowed down, while the reforms initiated there are starting to making themselves felt. That is the bright side. But the consequences of the lengthy crisis are apparent not just in countries like Greece: ongoing high unemployment, economic decline, a mountain of private and public debt. And it is still not clear that the drastic course of treatment has in fact improved the competitiveness of the countries concerned to such an extent that they can cope with the forces of the market again. In the northern parts of Europe, the effect of the crisis may well have been considerably more moderate, but here, too, a need for action has been revealed, for instance in the form of structural reforms.

Insolvency figures for practitioners

This survey takes a look at corporate stability in Europe with regard to insolvency and the threat it represents. Especially for SME exporters with no manufacturing sites or sales bases of their own outside Germany's borders, awareness of the risks involved in cooperating with companies in other European countries is of crucial importance.

1.2 Developments in individual countries in 2012/13

The insolvency scene in Western Europe in 2013 continued to reflect the impact of the smouldering economic crisis. Corporate insolvencies in the 17 Western European countries (EU-15 plus Norway and Switzerland) totalled 192,340, representing a slight increase of 2,179 on the 2012 figure of 190,161 (+1.1 percent). This means that the spiral has slowed down – the increase the year before had been all of 9.2 percent.

Tab. 1: Corporate insolvencies in Western Europe

■	2013	2012	2011	2010	2009	Change 2012/13 in percent
Austria	5,747	6,266	6,194	6,657	7,076	-8.3
Belgium	11,740	10,587	10,224	9,570	9,382	+10.9
Denmark	4,993	5,456	5,468	6,461	5,710	-8.5
Finland	3,131	2,956	2,944	2,864	3,275	+5.9
France	60,787	59,556	49,506	51,060	53,547	+2.1
Germany	26,120	28,720	30,120	32,060	32,930	-9.1
Greece	392	415	445	355	355	-5.5
Ireland	1,365	1,684	1,638	1,525	1,406	-18.9
Italy	14,272	12,311	10,844	10,089	8,354	+15.9
Luxembourg	1,016	1,033	961	918	698	-1.6
Netherlands	9,456	8,616	7,140	7,211	8,040	+9.7
Norway	4,564	3,814	4,355	4,435	5,013	+19.7
Portugal	9,300	8,605	6,077	5,144	4,450	+8.1
Spain	8,934	7,799	5,910	4,845	4,984	+14.6
Sweden	8,015	7,737	7,229	7,546	7,892	+3.6
Switzerland	6,495	6,841	6,661	6,255	5,215	-5.1
UK	16,013	17,765	18,467	17,468	19,908	-9.9
Total	**192,340**	**190,161**	**174,183**	**174,463**	**178,235**	**+1.1**

Despite the overall rise, eight countries registered lower corporate insolvency figures year-on-year (Austria, Denmark, Germany, Greece, Ireland, Luxembourg, Switzerland, UK), thus suggesting an easing on this front. In Ireland the decline actually came to 18.9 percent. Significant falls were also noted in the UK (minus 9.9 percent), Germany (minus 9.1 percent) and Denmark (minus 8.5

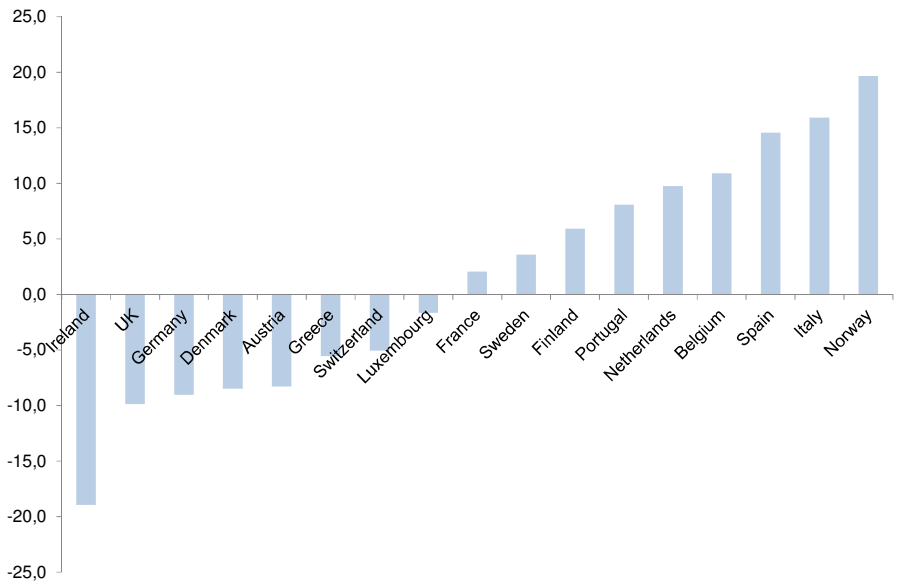
percent). Overall insolvency also dropped in Austria and Switzerland.

On the other hand, nine countries reported an increase in their corporate insolvency figures. The spectrum ranged from substantial growth in Norway (plus 19.7 percent), Italy (plus 15.9 percent) and Spain (plus 14.6 percent) to moderate rises in such countries as Sweden (plus 3.6 percent) and France (plus 2.1 percent).

Nine countries with more, eight countries with fewer insolvencies

It should be borne in mind that in some countries, the cited insolvency figures actually represent only a fraction of all company liquidations. Tiny firms in particular are often simply closed down if they get into financial difficulties, without any regular insolvency procedure being conducted. The extent of company closures of this kind varies between countries, but it is one reason why the aggregate number of business enterprises has fallen considerably in the wake of the long period of recession, especially in the Mediterranean states.

Fig. 1: Development of corporate insolvencies in Western Europe in 2013



Is not even Norway crisis-resistant any longer? The number of insolvencies there rose from 3,814 in 2012 to 4,564 in 2013 (plus 19.7 percent), whereas the year before the country had reported a marked fall. At any rate, the 2013 total was the second-highest since 2007 (exception: 2009). Regionally, the increase was most marked in the capital, Oslo; structurally it was most evident among smaller firms. Weak investment activity and lower private consumption have been impacting adversely particularly on the domestic sectors of the economy.

In the other Nordic countries, developments varied: a decline in the number of corporate insolvencies in Denmark contrasted with modest rises in Sweden and Finland.

Ireland back to health?

Once crisis countries emerge from the vale of tears, they can start moving forward again. The best example of this is Ireland: In 2012, corporate insolvencies on the Emerald Isle totalled 1,684; in 2013, the relevant figure was just 1,365, corresponding to a significant 18.9 percent improvement. This represents the reversal of a trend, because for five years insolvency volumes have developed in just one direction, upwards. Last year, though, investment activity picked up appreciably again for the first time and GDP moved marginally into the black. All the same it should not be forgotten that before the crisis began, annual insolvencies were counted just in three figures, such as in 2007 (363) or even as late as 2008 (773). The upturn is still fragile.

In Greece, the insolvency situation has eased somewhat, with the number falling year-on-year by 5.5 percent to 392. However, only a small proportion of corporate closures are actually registered in the form of insolvencies, so that official statistics do not really cover the masses of small firms which dominate the retail and service sectors. In 2013, the Greek economy continued to shrink, contracting by a further four percent. Private con-

sumption remains in decline. In the past five years, this Mediterranean country has seen its economic output fall by around one third – and this is almost certain to influence the further development of insolvency totals.

Consolidation in Southern Europe making progress

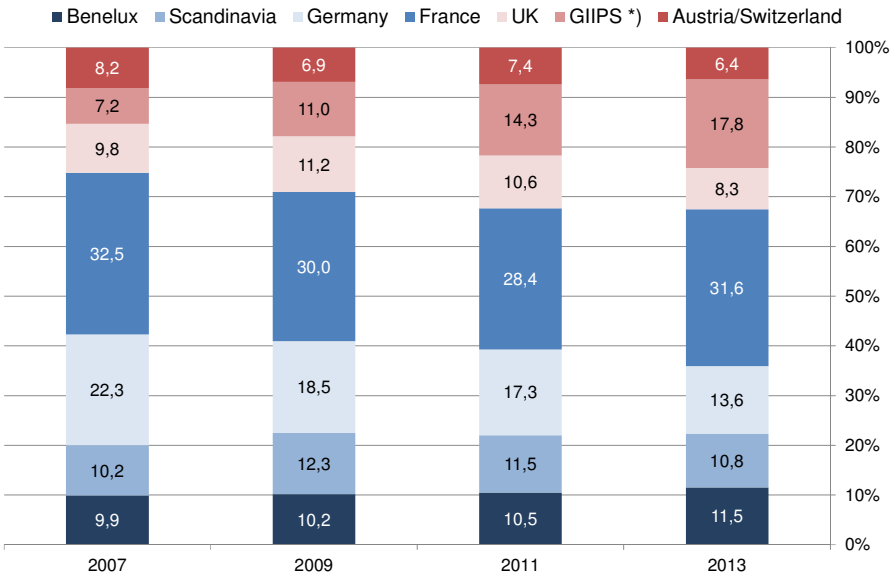
The other countries in the south of Europe also remained firmly in the grip of the crisis in 2013. There were sizeable increases in the number of corporate insolvencies in Italy (plus 15.9 percent) and Spain (plus 14.6 percent), while the figure in Portugal also moved upwards (plus 8.1 percent). Problems here are liquidity bottlenecks and financing difficulties. Something else these countries have in common is that private consumption has been weakened massively by high unemployment and the level of private debt. Another factor is that investment is shrinking and gross domestic product is contracting. One reason among others for the increase in insolvency figures is probably that many of those affected by the strong pressure on the labour market have sought refuge in self-employment – and against this background, long-term stability is questionable.

Fewer bankruptcies in Germany and the UK

Among the three biggest EU-15 countries, the only one with a year-on-year rise in the corporate insolvency volume was France, with a total of 60,787 firms going broke (plus 2.1 percent). In the UK, the relevant figure fell from 17,765 to 16,013; in Germany it dropped from 28,720 to 26,120. In 2013, the German economy developed in generally stable fashion, despite a slight dip, whereas France performed somewhat weakly and faces ongoing strong pressure for consolidation. The country's socialist government recently presented a 50 billion euro austerity programme aimed at curbing the rampant national debt. For the French economy, 2013 was the second year of stagnation in succession. The situation on the labour market remains tense, with unemployment at over eleven percent. In the UK, on the other hand, the economic upturn is gaining in momentum; after a

standstill in 2012, 2013 brought growth of 1.3 percent, while the level of joblessness fell slightly.

Fig. 2: Distribution of corporate insolvencies in Western Europe



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

More and more insolvencies in the GIIPS states

Since 2007, the German contribution to the aggregate number of corporate insolvencies in Western Europe has fallen steadily. In 2013 it came to 13.6 percent, as against 22.3 percent in 2007. This is due to the fact that German business companies quickly put the crisis behind them. The country can point to a record level of employment, one reason being that important structural reforms were carried out as early as the start of this millennium. And then, of course, exports continue to drive the economy.

At the same time as the German proportion of overall Western European insolvency declines, the contribution made by the so-called GIIPS states (Greece, Ireland, Italy, Portugal and Spain) is growing. Between 2007 and 2013 it expanded from 7.2 to 17.8 percent. This reflects the direct consequences which the ongoing economic crisis is having on companies. Weak demand, lack of international competitiveness and financing bot-

tlenecks – these are definitely among the most frequent causes of business bankruptcies in these countries.

The French share of overall insolvency remained relatively steady at around one third of the total. The Benelux countries (11.5 percent) and the Scandinavian nations of Denmark, Finland, Norway and Sweden (10.8 percent) account respectively for just over and just under one ninth of the aggregate volume of corporate insolvencies in Western Europe. The Benelux share actually represents an increase: both the Netherlands and Belgium revealed higher figures in 2013, due especially to pressure on the commercial sector in both countries, including hotels and catering.

Benelux well ahead of UK

On the other hand, the British contribution to the total has declined, falling to just 8.3 percent in 2013 as against 11.2 percent in 2009. In 2008 and 2009, insolvency figures in the UK surged in the wake of the financial crisis; in the past two years, they have dropped. There has been a particularly marked fall in the number of compulsory liquidations. It is notable that the insolvency situation has eased considerably more in Scotland than in England and Wales.

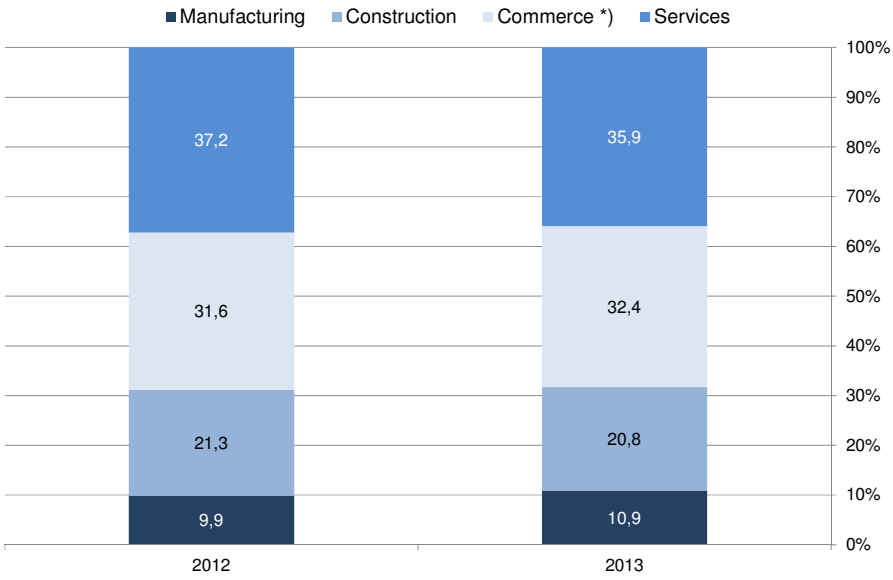
1.3 Insolvencies in the economic sectors

A look at the incidence of insolvency in the four main branches of the economy provides revealing information. Compared with 2012, the picture changed in some respects last year. Commerce, for instance, accounted for a higher share of the total volume of corporate insolvencies in Western Europe. Taking commerce to include hotels and catering as well as retail/wholesale, the proportion generated by this sector rose from 31.6 percent in 2012 to 32.4 percent in 2013. One reason for this was probably the weak scale of private consumption in many countries that resulted from the economic crisis. The share represented by manufac-

Retailers face high risk of insolvency

turing rose by one percentage point, from 9.9 to 10.9 percent.

Fig. 3: Contribution of the key economic sectors to overall insolvency in Western Europe in 2013



*) includes hotels and catering

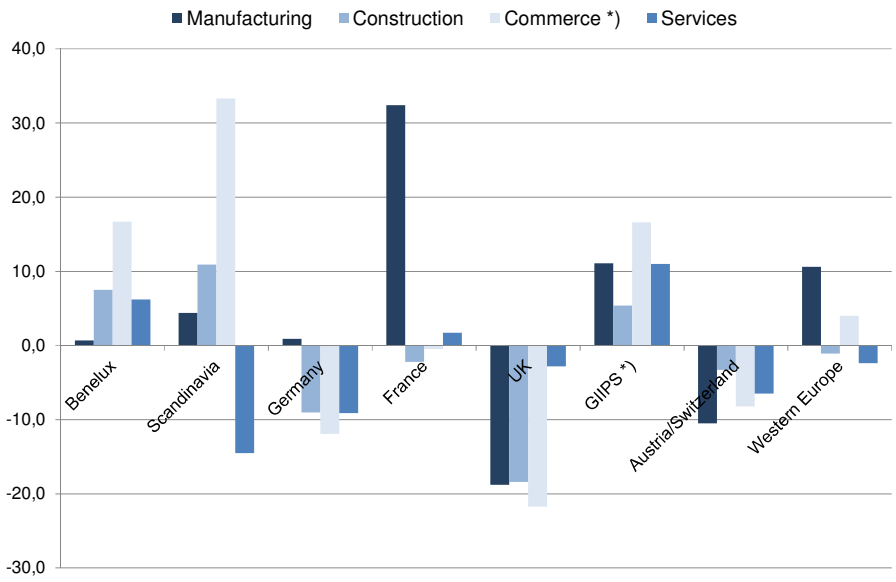
Just like the year before, the construction sector contributed around one fifth to the insolvency total (20.8 percent; 2012: 21.3 percent). The biggest slice of the aggregate volume was once again produced by services, with 35.9 percent of all business failures. Although its relative contribution actually fell somewhat year-on-year, this branch of the economy nevertheless accounted for about 69,000 insolvencies in 2013. The figure for construction firms was just under 40,000, while for commerce (including hotels and catering) it was more than 62,000.

In relative terms, two of the main sectors posted increases compared with 2012, two noted declines. The relevant figures were: manufacturing plus 10.6 percent, commerce plus 4.0 percent; service-providers minus 2.4 percent and construction minus 1.1 percent.

In the Benelux states and the GIIPS countries, the absolute number of insolvencies increased in all four main sectors, whereas in the UK and in Aus-

tria/Switzerland all four sectors contributed to an easing of the insolvency situation. In Scandinavia, only the service sector showed a lower number of business collapses. In Germany, despite all the positive signs, manufacturing registered a slight rise in the number of insolvencies.

Fig. 4: Changes in the key economic sectors according to countries/regions in 2012/2013



*) including hotels and catering

In line with the differing significance of the individual branches of the economy in the countries of Western Europe, the sectoral incidence of insolvency varies. The contribution to the insolvency volume made by construction in Spain, for instance, is well above average (26.6 percent), but the same is equally true of Norway (26.4 percent). Building firms are also responsible for over one quarter of all corporate insolvencies in France (25.3 percent) and Ireland (25.4 percent). In Germany (15.9 percent) and in Denmark (13.9 percent) the relevant contributions to aggregate national insolvency are considerably lower.

Construction in crisis countries still under pressure

Tab. 2: Insolvencies in the key economic sectors in 2013

■	Manu-facturing	Con-struction	Com-merce *)	Services
Austria	6.3	15.5	30.5	47.7
Belgium	6.4	17.0	48.1	28.5
Denmark	8.1	13.9	29.6	48.4
Finland	14.2	22.5	26.0	37.3
France	9.6	25.3	38.2	26.9
Germany	10.1	15.9	28.2	45.8
Ireland	8.8	25.4	28.7	37.1
Italy	22.9	21.1	33.6	22.4
Luxembourg	1.3	9.7	34.4	54.5
Netherlands	11.1	17.5	27.6	43.8
Norway	6.9	26.4	35.5	31.2
Portugal	23.5	18.7	38.4	19.4
Spain	18.3	26.6	22.8	32.3
Sweden	8.1	16.6	34.9	40.4
Switzerland	6.9	22.9	20.9	49.3
UK	4.5	18.1	15.3	62.0

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

In many countries services form the biggest group

Across Europe, retail/wholesale (including hotels, restaurants etc.) registered a rise in insolvency figures, with the result that this sector now accounts for around one third of all corporate collapses. The sector generates a particularly high proportion of the national insolvency volume in Belgium (48.1 percent), Portugal (38.4 percent) and France (38.2 percent). In most countries, though, it is service-providers which still account for the biggest share of insolvencies, with more than half of the total for instance in the UK (62.0 percent) and Luxembourg (54.5 percent), and just under half of the total in Switzerland (49.3 percent), Denmark (48.4 percent) and Austria (47.7 percent).

2 Financial situation and liquidity of European companies

2.1 EBIT margin – Revenues and earnings in Western Europe

Narrower profit margins put firms at risk

The EBIT margin is an important indicator of financial stability – but in the case of companies in Western Europe, it has deteriorated overall. On the basis of the most recent available balance sheet figures, those for 2012, for around 3.3 million businesses in the EU-15 states together with Norway and Switzerland, it is apparent that the proportion of companies with a low profit margin of under 5.0 percent has risen considerably, from 24.3 to 29.0 percent, while the proportion with a margin of up to 10.0 percent has fallen to 14.1 percent after 15.9 percent in 2011. Just over one seventh of Western European companies (15.0 percent) have an EBIT margin of under 25.0 percent – the year before the relevant figure was 16.8 percent. There has also been a decline in the proportion of firms with the very high earnings margin of over 25.0 percent. This has fallen by 1.0 percentage points.

Tab. 3: EBIT margin (in %) in 2012 of Western European companies*)

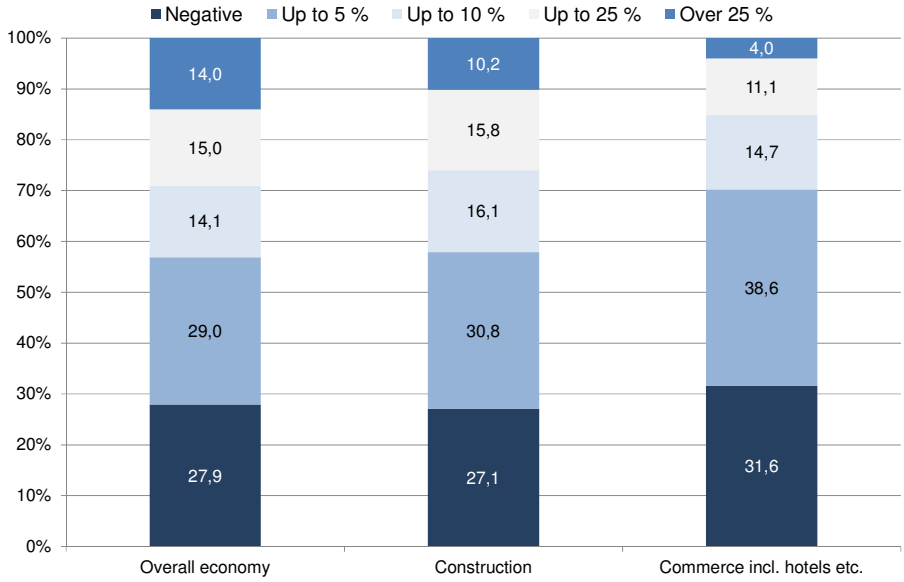
	Negative	27.9 (28.0)
	Up to 5 %	29.0 (24.3)
	Up to 10 %	14.1 (15.9)
	Up to 25 %	15.0 (16.8)
	More than 25 %	14.0 (15.0)

*) Figures in percent, ( ) = 2011;
Source: Creditreform database, own calculations

A break-down by business sector shows that commerce (retail and catering) has an above-average proportion of firms with a negative EBIT margin (31.6 percent of all firms) or a very low margin of up to 5.0 percent (38.6 percent of firms). In fact, only 4.0 percent of all the businesses in this sector in Western Europe have a profit margin upwards of 25.0 percent. In comparison: in the construction sector the relevant proportion is a

more respectable 10.2 percent. Here, too, though, earnings tend to be low but at least they are frequently in the range upwards of 5.0 percent.

Fig. 5: EBIT margins in selected business sectors



*) Figures show percentage of all companies and apply to 2012;
Source: Creditreform database, own calculations

The results of the evaluation of company balance sheets show that even five years after the start of the crisis, European businesses are still in a difficult situation and financially troubled. Many firms can no longer claim to be internationally competitive and they are therefore generating only low earnings. Another factor has been immense cost pressure, for instance in respect of energy and raw materials. In 2012, just under half of all companies (45 percent) were able to improve their profitability compared with 2011, but the other half (55 percent) had to contend with lower earnings margins.

Retail and catering: Low margins are customary

However, initial results from balance sheets in 2013 indicate that the situation has been improving and that more firms are now posting more adequate EBIT margins.

2.2 Equity ratios

An analysis of equity ratios provides an insight into the financial stability of business enterprises regardless of any short-term fluctuations in revenues and earnings. For this, we examined balance sheets from 2012/13 from companies in the EU-15 states, Norway and Switzerland.

The findings reveal a considerable spread between financially weak firms on the one hand and more healthily financed companies on the other. One quarter of the firms investigated (25.0 percent) have an equity ratio of under ten percent. That is more or less the same as the year before (25.3 percent).

One EU firm in every four is under-capitalised

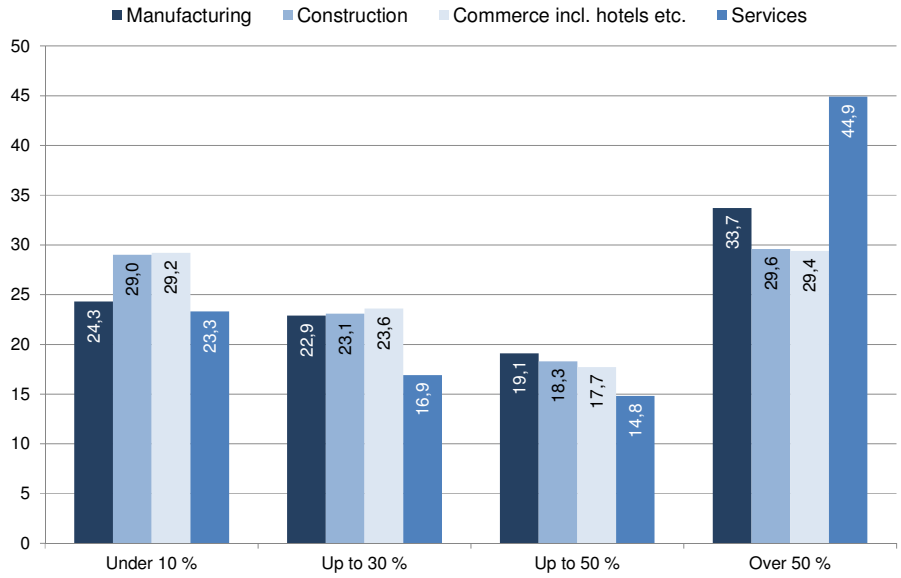
However, there has been an improvement in the number of companies with very good equity resources: in 2012, the proportion of firms posting an equity ratio of more than 50 percent rose to 40.1 percent from 39.2 percent the previous year. It is interesting to note that it is especially firms which already had a good equity ratio which now have an even better one. In fact, the equity ratios of over half of all the companies surveyed showed an improvement between 2011 and 2012.

Tab. 4: Equity ratios of Western European companies in 2012 *)

■	Under 10 %	25.0 (25.3)
	Up to 30 %	19.1 (19.5)
	Up to 50 %	15.8 (16.0)
	More than 50 %	40.1 (39.2)

*) Figures in percentage of companies, ( ) = 2011;
Source: Creditreform database, own calculations

Fig. 6: Equity ratios in 2012 in the economic sectors



*) Figures in percentage of companies;
Source: Creditreform database, own calculations

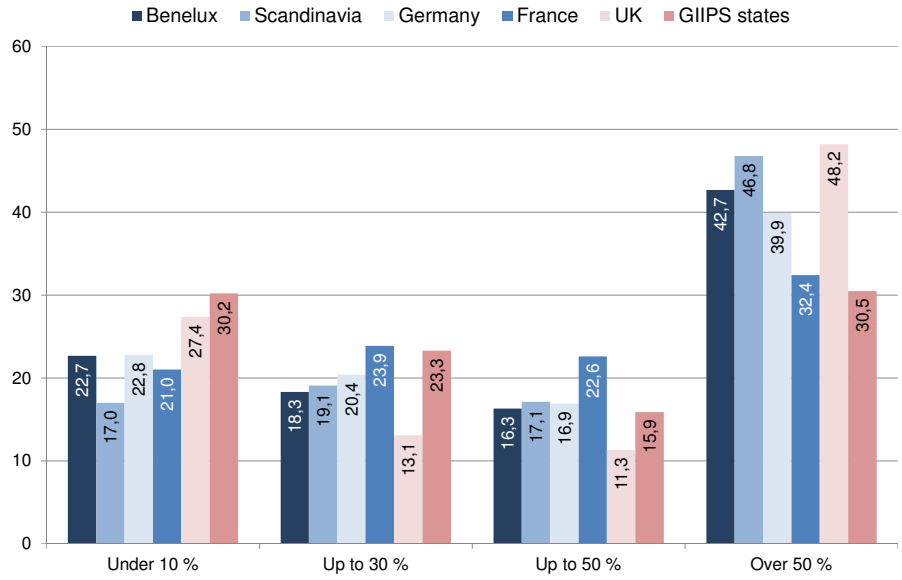
In the four main branches of the economy, there are considerable differences between the haves and the have-nots in terms of equity resources. Companies with an equity ratio of below ten percent are to be found more frequently in the construction sector (29.0 percent) and in commerce including catering (29.2 percent) In contrast stands the group of firms with an equity ratio of over 50 percent – this group contains far more service-providers and manufacturers, while builders and retailers/caterers are more rare.

GIIPS countries: Many firms with low equity ratio

A survey of the equity situation according to countries or regions presents the following picture: the GIIPS states (Greece, Ireland, Italy, Portugal and Spain) have a high proportion of firms with just a low equity ratio. In fact, this is the case with almost one firm in every three (30.2 percent). At the same time, though, roughly the same proportion (30.5 percent) of the companies in these five countries have strong equity resources, with a ratio of over 50 percent. In this respect, the figure for the UK is 48.2 percent. For the Scandinavian countries, it is 46.8 percent, while the proportion of firms there with weak resources is considerably

lower (17.0 percent). In the UK, the spectrum tends in the same direction: while almost half of all British firms have a stable financial base, a sizeable proportion (27.4 percent) are basically undercapitalised.

Fig. 7: Equity ratios in 2012 according to countries/regions



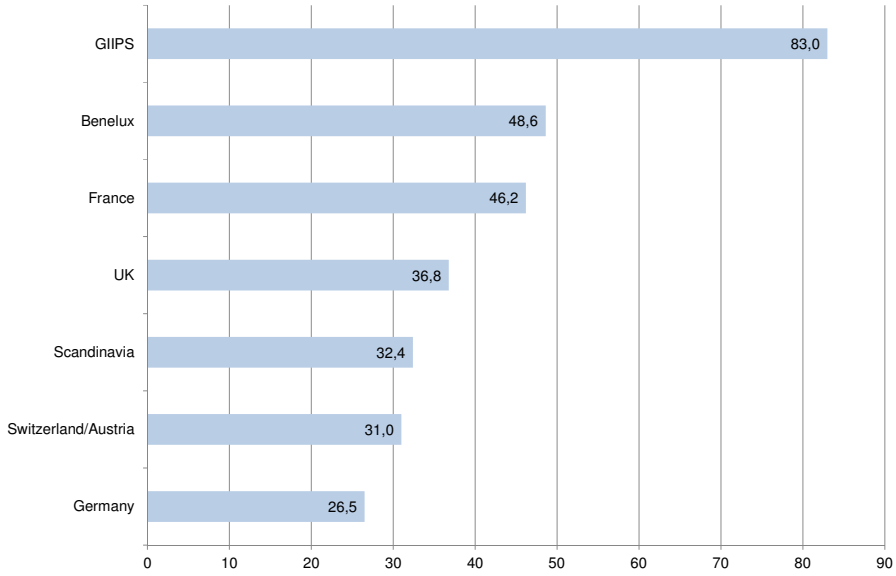
*) Figures in percentage of companies;
Source: Creditreform database, own calculations

2.3 Collection periods

Long collection periods in Southern Europe must be taken into account ac-

The total collection period indicates how many days it takes on average before an invoice is settled. In Western Europe, this varies quite considerably between the different countries and regions, so an overview can give exporters an idea of what kind of payment modalities to expect, together with any relevant trends and tendencies. Collection periods are shortest in Germany, with a mean of 26.5 days; then come Switzerland/Austria with 31.0 days and Scandinavia with 32.4 days. In comparison, collection periods in the Mediterranean states are lengthy, with an average of 83.0 days. That is around two days more than in 2010. In Western Europe as a whole, the average has improved by one day, meaning that the gap between the north and south of the continent has broadened.

Fig. 8: Collection periods in Europe (in days)



Source: Creditreform database; median values for 2012

3 Corporate insolvencies in Central and Eastern Europe

Insolvency totals rise in Eastern Europe too

In the states of Central and Eastern Europe, 2013 brought a rise in the number of corporate insolvencies. These totalled 100,984, which represents an increase of 3.9 percent compared with 2012 (97,169 cases of insolvency). Compared with 2010, the number has in fact almost doubled. Generally speaking, since the economies in these countries often have the role of an extended workbench they remain heavily dependent on international developments. Good investment ratios are frequently ensured mainly by money from the structural funds of the EU.

Tab. 5: Corporate insolvencies in Central and Eastern Europe

■	2013	2012	2011	2010	Change 2012/13 in %
Bulgaria	1,232	383	685	700	+221.7
Croatia *)	6,909	6,922	4,878	1,501	-0.2
Czech Rep.	10,325	7,723	5,880	5,559	+33.7
Estonia	469	506	623	504	-7.3
Hungary**)	47,347	50,224	30,757	17,487	-5.7
Latvia	818	881	813	2,407	-7.2
Lithuania	1,561	1,354	1,302	1,496	+15.3
Poland	915	908	762	665	+0.8
Romania	29,587	26,807	22,650	21,692	+10.4
Slovakia	880	866	870	830	+1.6
Slovenia	941	595	675	510	+58.2
Total	**100,984**	**97,169**	**69,895**	**53,351**	**+3.9**

*) contains previously unconcluded insolvencies from the year before
**) insolvencies and other liquidations

In terms of the absolute number of business failures, the front-runner in 2013 was once again Hungary, with a total of 47,347. All the same that represents a slight year-on-year decline (minus 5.7 percent), probably as the result of domestic market momentum in the pre-election period. The prerequisites for investment in Hungary remain good, although the country has probably recently forfeited some of the trust of foreign investors.

Countries registering substantially higher insolvency figures than the year before were Bulgaria (plus 221.7 percent), Slovenia (plus 58.2 percent) and the Czech Republic (plus 33.7 percent). Adverse influences have been high unemployment and weak private consumption, producing negative economic growth or at best stagnation. Another factor is the increasing shortage of skilled people due to the brain drain. In the Czech Republic and Bulgaria, though, the economy is now slowly tending upwards again, while Slovenia is still stuck in a deep crisis.

Estonia, Latvia but not Lithuania

As well as in Hungary, notable declines in corporate insolvency figures were registered in Estonia (minus 7.3 percent) and Latvia (minus 7.2 per-

cent). In Lithuania, on the other hand, the insolvency total rose (plus 15.3 percent).

The distribution of corporate insolvencies across the main branches of the economy was determined on the basis of seven Eastern European states: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Romania. The analysis shows that the proportion generated by commerce and catering has risen in the course of a year from 37.8 to 40.4 percent. The contribution to corporate insolvency made by manufacturing also grew, from 11.8 to 12.5 percent).

Tab. 6: Contribution of the key economic sectors to corporate insolvency in Central and Eastern Europe in 2013

■	2013	2012
Manufacturing	12.5	11.8
Construction	14.4	14.6
Commerce *)	40.4	37.8
Services	32.7	35.8

*) including hotels and catering

Influence of Ukraine crisis not evident yet

In Russia, the number of corporate insolvencies – after rising the year before – declined moderately (minus 6.6 percent) to 13,144 in 2013. But this figure represents only completed cases – the number of applications for bankruptcy is about three times that. Although the raw materials industry in Russia is still booming, investment outside the state sector remains weak, particularly because of increasing interest rates. Other factors, such as the inadequate financial resources of small and medium-sized firms in Russia, are likely to go on being a source of business failures.

The number of insolvencies in Ukraine fell sharply year-on-year (minus 26.7 percent). But the recent political events in Ukraine actually conceal deep-seated structural problems, while the current tension will certainly not boost the chances of an economic recovery after years of stagnation. Any plans for investment are being postponed, thus

making any hope of renewed growth retreat into the distance.

Tab. 7: Corporate insolvencies in Ukraine, Russia and Turkey

■	2013	2012	2011	2010	Change 2012/13 in %
Ukraine	8,811	12,016	17.178	14,597	-26.7
Russia *)	13,144	14,072	12,794	16.009	-6.6
Turkey	17,400	16,063	21,849	–	+8.3

*) plus applications 2013: 31,921, 2012: 40,864

■ 4 Insolvencies in the USA

USA: Economic situation good – Insolvencies down

While insolvency figures in Europe continued to rise, the situation on this front in the United States has eased notably. The number of corporate insolvencies fell last year to its lowest level since 2007 with a total of 33,212. That corresponds to a year-on-year drop of 17.1 percent (2012: 40,075). Since peaking at 60,837 in 2009, the aggregate total of business collapses in the US has declined steadily in line with the considerable improvement in the economy after the banking and real estate crisis. Thanks at least partly to the Federal Reserve Bank's policy of cheap money, the US registered economic growth of 1.6 percent in 2013, at a time when many parts of Europe were in the grip of recession or at best stagnation.

Tab. 8: Insolvencies in the USA

■	2013	2012	2011	2010	2009	2008	2007
Total	1,071,932	1,221,091	1,410,653	1,593,081	1,473,675	1,117,771	850,912
Companies	33,212	40,075	47,806	56,282	60,837	43,546	28,322
Private individuals	1,038,720	1,181,016	1,362,847	1,536,799	1,412,838	1,074,225	822,590

In parallel to the downturn in corporate insolvencies, the number of private bankruptcies has also fallen. Although the number of US citizens having to file for bankruptcy in 2013 was once again over the one-million mark, the total actually declined by more than 142,000 or 12.0 percent compared with 2012 and reached its lowest level since 2007. Decreasing unemployment and an increase in the

number of available jobs put private consumers in a better position to pay off loans. However, the past few years have shown just how susceptible to risk the once strong US middle class now is – the pressure of high debts makes itself felt the moment an individual's income falls.

Private bankruptcies comprise far the biggest slice of the overall volume of insolvencies in the United States: With the exception of 2009, the proportion has remained above the 96 percent mark (2013: 96.9 percent; 2012: 96.7 percent). Since 2011, the volumes of both private bankruptcies and corporate insolvencies have been moving steadily in the same downward direction.

5 Summary

The number of corporate insolvencies in Western Europe (EU-15 plus Norway and Switzerland) remains high. In 2013, 192,340 companies had to make their way to the bankruptcy courts. That corresponds to a modest rise of 1.1 percent compared with 2012 (190,161). In many parts of Europe, 2013 was distinguished by just weak economic dynamism. Numerous countries had to cope with recession and were still suffering from the consequences of the economic and financial crisis. Nevertheless, in all of eight Western European countries, insolvency figures fell. The most substantial declines were those registered in Ireland (minus 18.9 percent) and the UK (minus 9.9 percent). In contrast, there were appreciable increases in the volume of insolvency in Norway (plus 19.7 percent), Italy (plus 15.9 percent) and Spain (plus 14.6 percent). But the insolvency total also rose in the Netherlands and in Belgium.

In recent years, since the economic crisis, the contribution to overall insolvency figures in Western Europe made by the so-called GIIPS countries (Greece, Ireland, Italy, Portugal and Spain) has expanded massively. Whereas in 2007, these five countries accounted for just 7.2 percent of the

total, in 2013 they generated a share of 17.8 percent. In contrast, the shares registered by German and the UK declined.

When the aggregate number of corporate insolvencies in Western Europe is divided up according to the key branches of the economy, two different developments become apparent. While two sectors posted increases – manufacturing (plus 10.6 percent) on the one hand and commerce (plus 4.0 percent) on the other hand – the number accounted for by construction and the services sector fell slightly. Commerce, including hotels, restaurants etc., last year generated one registered case of insolvency in every three (32.4 percent). The GIIPS countries and the Benelux states saw the level of corporate insolvency rising in all four main economic sectors.

The contribution to national insolvency totals made by the construction industry and building trades remains above average in Spain (26.6 percent) and is high in Norway (26.4 percent) and France (25.3 percent). In Western Europe as a whole, construction accounts for 20.8 percent of all business collapses. The figures for manufacturing and services are 10.9 percent and 35.9 percent respectively.

One probable reason for the ongoing high level of bankruptcies among Western European companies is their now weaker financial basis. The most recent balance sheet details show that profit margins have been tending downwards. The majority of business firms (56.9 percent) posted either a negative EBIT margin or a very low one of up to just five percent. The year before, this was true of 52.3 percent of all firms. Particularly affected have been retail and catering firms. The proportion of companies with a strong profit margin fell accordingly: over half of all businesses had to contend with lower profit margins year-on-year.

An evaluation of the equity ratios of companies in Western Europe reveals a broad spread. Around one quarter of all firms have a low equity ratio of under ten percent, while at the same time there were last year slightly more firms than before with a high equity ratio of over 50 percent (2013: 40.1 percent of all firms; 2012: 39.2 percent). It is interesting to note that especially companies which were already stabile have improved further in this respect. Particularly in the fields of construction and commerce, there is an above-average number of firms whose equity position must be regarded as weak (equity ratio: under ten percent). In the GIIPS states, nearly one firm in every three is basically under-capitalised.

The overall volume of corporate insolvencies also rose in the countries of Eastern Europe. In 2013, the number increased to a total of 100,984 (prior year: 97,169). This means that compared with 2010, the number has in fact almost doubled. Generally speaking, the economies of these countries remain heavily dependent on international developments and last year exhibited only weak intrinsic momentum. The highest absolute number of insolvencies and liquidations was registered in Hungary. In Bulgaria, the volume of insolvencies increased sharply, while the Czech Republic and Slovenia also noted year-on-year rises in the double-digit percentage range. Just as in Western Europe, retailers and caterers stepped up their contribution to aggregate insolvencies (from 37.8 to 40.4 percent). In Russia and Ukraine, the number of business collapses declined. Just how the current political tension will impact on the insolvency situation n these countries remains to be seen.

The USA is exhibiting a distinctly positive trend. In 2013, the total number of insolvencies fell from 1.221 million to 1.072 million, with the volume of corporate failures declining more strongly (by 17.1 percent) than the volume of private bankruptcies (minus 12.0 percent).

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