

Insolvencies in Europe

2001/02

A survey by the
Creditreform Economic
Research Unit

■ 1 Introduction

The world economy and global insolvencies

"We belong together, let's grow closer together" - a decade ago that was the wish and hope expressed for German unity. But even before the end of the millennium, the national process of reunification was overtaken by another process: the increasing coalescence of the global economy. With its focus on markets, sales and earnings, the business community has transcended national and even cultural borders. Admittedly, the economic pragmatism that globalisation represents is meeting opposition. In the industrialised nations - or rather, in the service-oriented societies - of the Western hemisphere, the exchange of goods, services and information has been virtually perfected. In the triad of European Union, the United States and Japan, the interdependencies have reached such a degree that it is truly possible to speak of "One World – One Economy".

But Western Europe, unlike the USA and Japan, is not (yet) a unified entity. The continent is still on its way towards becoming a real Union. Here, too, it is the business community that sets the pace. The smooth introduction of the euro, and its high public acceptance, show how easily those affected by economic developments adapt to the new requirements.

***On the way to
European unity***

As Europe's largest economy, Germany is a leader in this. It is trite but true to state that the country's economy is export-oriented. The provisional figures for 2001 show that, despite the worldwide economic crisis, Germany exported goods worth a total of 641 billion euros, and services worth a further 90.5 billion euros. Germany exports 57 percent of its goods to the European Union (France is still the country's most important trading partner, in front of the USA). Then there is direct investment: whereas exports of goods rose at an average of 6.5 percent over the past ten years, investment abroad increased at a rate of 11.5 percent. A total of over 29,000 foreign companies generate sales revenues of more than one trillion euros for German investors and stockholders. And that only

Profits abroad?

includes wholly owned foreign firms. It is estimated that if smaller holdings by German companies are included, the aggregate sales revenue is another 300 billion euros higher. In the field of direct investment, though, even more than with the export of goods and services, it is evident that this interlocking with foreign economies is dominated by large corporations. The balance sheets of the 15 biggest international business groups in Germany reveal that their foreign sales were more than twice as high as their domestic turnover.

Where are Germany's SMEs?

The figures for Germany's "Mittelstand" - the country's business backbone of small and medium-sized, often family-owned enterprises - look quite different. If and when such firms cross borders, the focus is not on direct investment and setting up subsidiaries, but on trade. And even in the age of the euro, the activity of SMEs is mainly regional in character anyway. In a Creditreform survey of such firms carried out in Spring, 2001, 30.4 percent said they did not expect the new currency to have any impact at all on their business. They see the consequences more on the negative side: 31.2 percent of those surveyed said they feared tougher competition from foreign suppliers. This is especially so in building and construction, where one firm in every two is apprehensive about competition from outside Germany. Only 11.2 percent of German SMEs cite the positive aspect of cross-border expansion of their own activities. In this, a special role is played by the impact of the euro on invoicing: 20.8 percent of the SMEs covered by the survey expect unified, euro-based accounting to simplify foreign business relations considerably.

This present analysis of insolvencies in Europe will give more space than before to the difficulties facing Germany's Mittelstand. Following the depiction of the insolvency situation in Europe as a whole, the focus will be placed on Germany. Against the background of the interlocking nature of the Western economies, a deliberately German standpoint will be adopted in this examination of the overall insolvency picture in Europe.

■ 2 Insolvencies in Europe

2.1 Insolvency figures for Western Europe in 2001

A comparison of the development of insolvencies on the one hand and of gross domestic product on the other in 2001 is very revealing: whereas the growth rate on the insolvency front more than doubled last year (2000: 2.3 percent; 2001: 5.9 percent), the GDP growth rate more than halved (EEC countries 2000: 3.4 percent; 2001: 1.5 percent). But the degree of correspondence is nevertheless very rough and varies significantly between countries. Finland, for example, recorded a fall in the number of insolvencies (minus 3.7 percent), but at the same time was the only country in the eurozone in real recession, with its GDP contracting by 0.4 percent. The other extreme is Ireland: there, GDP grew by all of 8.0 percent in 2001, but the country was also among the negative leaders in respect of corporate stability, with its insolvency volume climbing by 33.1 percent. However, these two countries on the edges of Europe must be seen as exceptions. Overall, there is a correlation between weaker economic growth, with all the resultant problems, and a - sometimes rapidly - climbing insolvency total.

This table shows how the insolvency situation has developed in the Western European countries, specifically the eurozone nations plus Denmark, Sweden and the United Kingdom, and goes beyond the EU to include Norway and Switzerland.

***Weak economy
boosts bankruptcies***

Tab. 1: Insolvencies in Europe 1996 - 2001

■	Absolute						Percentage change				
	1996	1997	1998	1999	2000	2001	96/97	97/98	98/99	99/00	00/01
Austria	6,610	6,400	7,319	8,934	9,006	8,876	- 3.2	14.4	22.1	0.8	- 1.4
Belgium	7,400	7,700	6,925	7,150	6,791	6,991	4.1	- 10.1	3.2	- 5.0	2.9
Denmark	1,900	1,800	1,800	1,586	1,732	2,325	- 5.3	0.0	- 11.9	9.2	34.2
Finland	4,300	3,611	3,136	3,080	2,908	2,800	- 16.0	- 13.2	- 1.8	- 5.6	- 3.7
France	64,900	61,068	55,000	41,186	37,449	36,216	- 5.9	- 9.9	- 25.1	- 9.1	- 3.3
Germany	31,471	33,400	33,947	33,870	41,780	49,600	6.1	1.6	- 0.2	23.4	18.7
Great Britain	40,000	37,000	37,500	46,900	47,404	48,337	- 7.5	1.4	25.1	1.1	2.0
Greece	1,380	1,300	871	694	636	680	- 5.8	- 33.0	- 20.3	- 8.4	6.9
Ireland	590	550	686	815	344	458	- 6.8	24.7	18.8	- 57.8	33.1
Italy	15,866	14,878	15,000	14,760	15,000	15,200	- 6.2	0.8	- 1.6	1.6	1.3
Luxembourg	373	425	423	545	597	752	13.9	- 0.5	28.8	9.5	26.0
Netherlands	5,577	5,547	5,031	3,920	3,726	5,556	- 0.5	- 9.3	- 22.1	- 4.9	49.1
Norway	3,800	3,300	3,347	3,342	3,576	3,595	- 13.2	1.4	- 0.1	7.0	0.5
Portugal	583	621	783	999	1,308	1,385	6.5	26.1	27.6	30.9	5.9
Spain	1,432	1,135	896	620	602	560	- 20.7	- 21.1	- 30.8	- 2.9	- 7.0
Sweden	12,200	11,000	9,200	7,261	7,301	8,012	- 9.8	- 16.4	- 21.1	0.6	9.7
Switzerland	10,200	9,190	8,850	8,490	8,300	8,145	- 9.9	- 3.7	- 4.1	- 2.2	- 1.9
Total	208,582	198,925	190,714	184,152	188,460	199,488	- 4.6	- 4.1	- 3.4	2.3	5.9

***Private insolvencies
and the economic climate***

This present survey focuses primarily on corporate insolvencies in Europe and especially Germany and largely ignores the "private insolvencies" now made possible by law in almost all the countries covered. The number of such private bankruptcies is interesting, though, not only as providing information about the social aspects of national economies but also as permitting conclusions to be made about the general economic climate and consumer behaviour. To this extent, they are similar to unemployment figures. However, the legal prerequisites for private insolvencies vary so much between the individual countries, and experience in Germany in the two years since this possibility was introduced is so unclear, that no hypothesis can be ventured. What makes things even more complicated is that in many countries, the term "private insolvency" also covers the business failure of small traders. Figures on private insolvencies are available from Germany, Finland, Great Britain, Italy, the Netherlands, Austria and Sweden. In Germany, as from this year's reform of insolvency legislation, consumer bankrupt-

cies are clearly distinguished from the insolvencies affecting business companies, professionals, independent craftsmen and the like.

After peaking in 1996 (208,582), insolvency figures declined steadily for several years as the economic climate improved, and in 1999, with the economy booming, reached their lowest level, with 184,152 cases in Western Europe, down by about twelve percent on the year before. The very next year, though, the trend turned. The figure for 2000 rose by 2.3 percent (188,460 cases), and last year grew at an even faster rate, of 5.9 percent, to end up just under 200,000 cases.

Belgium, Greece, Ireland and the Netherlands registered a negative turnaround: whereas in 2000, their insolvency total dropped, last year the situation reversed, in some instances substantially. Above all Ireland (2000: minus 57.8 percent; 2001: plus 33.1 percent) and the Netherlands (2000: minus 4.9 percent; 2001: plus 49.1 percent) exhibited a massive increase. In 2000, both countries had posted high economic growth (Ireland with a European record of 11.5 percent, the Netherlands 3.5 percent). In 2001 the rate of GDP growth fell in both countries: Ireland recorded 6.0 percent, the Netherlands just 1.5 percent. In reference to the Netherlands, the credit insurers Graydon speak of an historic low-point: not since 1983 has this country recorded such a high number of insolvencies, a development certainly due at least partly to the formerly high proportion of startups - many of which were unable to maintain their place in the market as the economy waned. In Ireland, whose GDP growth rate is still the highest in Europe, the government is focusing on preventing over-heating and on developing the country's infrastructure. And it is a fact that in absolute terms, Ireland still registers only a low number of business collapses (2001: 458; 2000: 344).

It is interesting that the three Scandinavian countries, Sweden, Norway and Denmark, which do not belong to the Currency Union, started registering an increase in insolvency totals as early as 2000, bucking the trend of

***Insolvencies as
early warning signal***

***Trend reversal:
Ireland and the Netherlands***

Scandinavia started first

the previous years. And above all in Sweden (2000: plus 0.6 percent; 2001: 9.7 percent) and Denmark, (2000: 9.2 percent; 2001: 34.2 percent) this development has picked up steam as the economic climate blackened. In contrast to the overall trend, five Western European states posted a downturn in insolvency totals. In four cases - Spain, Finland, France and Switzerland - this represented a continuation of a development that began in 1997. The fifth country was Austria, where the total had increased in the years before.

The following table shows the development of overall insolvencies in the countries of Western Europe from 2000 to 2001, ranging from the winners (Spain: minus 7.0 percent) to the losers (Netherlands: plus 49.1 percent). Actually, though, Spain exemplifies how difficult it is to compare European insolvency figures, because there, companies which can no longer pay their bills are not brought to court by their creditors; the relevant proceedings are too elaborate and too costly to the creditors to justify the effort involved - and so such companies are simply left there, as "corporate ruins". To permit a real comparison with, say, Germany, all those cases rejected in this country for lack of sufficient assets to justify proceedings would have to be omitted from the statistics. And currently, that means about half of all cases of insolvency.

***Insolvency applications
not filed***

Tab. 2: Development of overall insolvencies in Europe, comparing 2001 with 2000

■	Insolvencies	Percentage change
Spain	560	- 7.0
Finland	2,800	- 3.7
France	36,216	- 3.3
Switzerland	8,145	- 1.9
Austria	8,876	- 1.4
Norway	3,595	+ 0.5
Italy	15,200	+ 1.3
Great Britain	48,337	+ 2.0
Belgium	6,991	+ 2.9
Greece	680	+ 6.9
Portugal	1,385	+ 6.9
Sweden	8,012	+ 9.7
Germany	49,600	+ 18.7
Luxembourg	752	+ 26.0
Ireland	458	+ 33.1
Denmark	2,325	+ 34.2
Netherlands	5,556	+ 49.1
Total	199,488	+ 5.9

Varying developments

2.2 Against a background of crisis ... Major corporate insolvencies

Insolvency waves not only wash away a host of small firms, they also drown large companies. 2001 again saw several such massive corporate collapses. The impact of the terrorist attacks of 11 September 2001 in New York made itself felt on airlines not just in the USA but also in Europe. These companies reveal how a structural crisis can be covered up by state aid combined with an economic upwind. The fact that large corporations so rarely become insolvent is linked less to their financial clout than to their significance for the economy as a whole, which forces politicians to subsidise operations that are in fact no longer market-conformant.

Excursus: Insolvency legislation in Europe

Europe has a single currency but it does not have any unified insolvency legislation. Especially for companies that operate across borders, this frequently means an uncontrollable level of costs and administrative efforts when insolvency is imminent, which can make it impossible to rescue the distressed company.

The European Commission has recognised this problem and passed a directive on insolvency proceedings that comes into effect in May 2002. Its aim, however, is not to replace national laws but simply to provide a framework for coordinating legal proceedings when corporate insolvencies impinge on more than just one EU member state, with the goal of making such proceedings more efficient and cost-effective and thus more favourable to creditors. It regulates inter-state recognition of court judgements, the parallel opening and coordination of national insolvency cases. This is aimed at preventing assets from being shifted between the member states or insolvency proceedings being initiated in a country whose legal system is supposedly more favourable to the distressed company.

In the case of cross-border insolvencies in future, the "main proceedings" will be opened in the country where the company concerned has its chief focus of operations and be governed by the law of that country. In addition, "secondary proceedings" can be opened in those countries where the company has branches. The crux: the operative term is "branches" and not "subsidiaries". This means that the directive specifically does not cover the important pan-European cases involving corporate parents and corporate subsidiaries. These will still have to be tackled as before, with high costs and effort. So the directive does not meet the demands of practice, because it is precisely for these important incidences of insolvency that unified stipulations are actually required.

Despite globalisation, Brussels is not yet thinking about any truly European insolvency legislation. The reason given is that the present laws in the individual countries are simply too divergent.

One problem that all the national laws have in common is that they offer too little protection from creditors for the companies concerned, thus hampering the chances of successful restructuring and rescue concepts.

More effort is put into finding a culprit than into getting a viable company back on its feet again. Under French or British insolvency law, for instance, banks can initiate insolvency proceedings and have an administrator appointed the moment they learn of any relevant irregularities.

The United Kingdom has reacted to this and put forward various proposals on reforming company and consumer insolvency legislation. Published as a so-called "white paper", the proposed amendments are aimed at making insolvency proceedings simpler, faster and more flexible. Further aims are to modernise the administrative apparatus and introduce out-of-court procedures that will permit those concerned to reach a consensual solution - faster and also more cheaply.

Guidance here could be provided by American law. In the USA, insolvency does not necessarily mean an end to the company concerned. If it files for protection under Chapter 11, it can continue to operate without being placed under pressure by its creditors, and can even obtain further funding. Eastern Airlines, for instance, continued to fly for years under the protection of Chapter 11, completely shielded from the impact of competition. Critics complain that this makes American law too rescue-friendly and creditor-hostile - in contrast to the situation in Europe - and say that the application of Chapter 11 enables unprofitable firms to go on doing business. And from the economic viewpoint, this form of artificial resuscitation does not always make sense.

Another step towards a more unified Europe and towards greater corporate stability was taken in October last year by the EU Council of Ministers: at the end of 2004 there will be rules governing "European stock corporations". These will be companies with a new legal form, different from the present national trading entities but co-existing with them. The prerequisite is a company's internationality. But the new arrangement covers only certain areas, such as the organisational constitution. Other issues will continue to be governed by the national laws of the state in which the company is based. The subscribed capital must be at least 120,000 euros, so it is a legal status conceived only for large companies.

Pan-European measures are also to be taken to stem the growth in consumer indebtedness: the European Commission is to present a proposal for amending the directive on consumer credits. But here too there are obstacles. For a start, there is so far no unified definition of the term "over-indebted". Then there is the fact that at present only ten European countries have legal stipulations on collective debt arrangements for over-indebted consumers.

In addition, the governments of the European countries are aiming to introduce preventive measures, along American lines, to halt over-indebtedness: traders will have to keep borrowers better informed, consumers will have to be made aware of the consequences of contractual violations, and the role of loan brokers and credit agencies will be clarified.

The insolvencies of the big airlines Swissair and Sabena make it clear: whereas deregulation in road transport means the end for hundreds of small hauliers, "greater exposure to the market" in the field of aviation simply means more state subsidies. This can take the form of direct support payments but more usually the introduction of legislative measures to facilitate indirect re-regulation and maintain unprofitable companies. It should be remembered, for instance, that only once in its decades of operation was the Belgian airline Sabena able to post a profit. Swissair, with its over 70,000 employees was the biggest European insolvency in 2001. In both Switzerland and Belgium, the applications for insolvency led to political crises - and in Germany, the vacation airline LTU, which was affiliated with Swissair, could be rescued only by the intervention of the state government of Northrhine-Westphalia, which provided guarantees to enable the distressed company to continue flying.

Airlines nosedive

But the other path is also possible: a state-owned company is privatised, but is prevented from becoming a going enterprise in the open market because of the huge investments it is forced to make in the face of an antiquated rail network: the case is that of Railtrack in the UK, which had to file for insolvency last year. If German Rail were privatised it might well suffer a similar fate. The following table of last year's major European insolvencies features service-providers - two telecommunications companies as well transport firms - and large industrial companies, such as two British automotive suppliers and the well-known French kitchen appliance manufacturer Moulinex. Five of the insolvencies listed are connected with the commerce sector, such as Ernst Brinkmann KG, Hamburg, which operated a retail business with radios, TVs and photographic equipment and household appliances.

Electrical appliances under pressure

Tab. 3: The 20 biggest insolvencies in Europe in 2001

■	Sector	Country	Sales in millions of euros	Number of employees
Swissair	Airline	Switzerland	(10,672)	(72,000)
Railtrack	Railway company	Great Britain	3,051	11,530
Moulinex	Household and kitchen appliances	France	2,600	21,000
Sabena	Airline	Belgium	(2,091)	(7,845)
André	Wholesale: agriculture	Switzerland	1,962	
Federal Mogul	Automotive supplies	Great Britain	1,678	3,214
AOM-Air Liberté	Airline	France	1,280	7,000
Ernst Brinkmann	Retail: radio, TV, audio, photography, metal household appliances	Germany	870	4,000
Hornitex Werke	Timber	Germany	447	2,800
Kinowelt AG	Film distribution	Germany	300	350
Teldafax	Telecommunications	Germany	237	200
SISAS	Chemicals	Italy	217	530
UEF	Automotive supplier	Great Britain	214	1,849
Tempo KF	Retail: electrical appliances	Great Britain	212	941
Max Sebold	Retail and installation: sanitary facilities	Germany	208	1,800
JOTSA	Construction	Spain	191	446
NBBS Reizen BV	Travel	Netherlands	172	600
Sofrer	Telecommunications	France	167	1,165
Europeenne d'Extincteurs	Fire extinguishers	France	159	2,180
Atag Group NV	Household and kitchen appliances	Netherlands	156	2,854

2.3 Insolvencies and the economy – Europe making no headway

The economy in Europe is in a downturn. Whether or not some countries (such as Finland or Germany) are actually already in recession - with a decline in overall economic output for two quarters in succession - is academic at the moment. The fact is, as the German Council of Economic Experts says in its latest annual survey, that the European Union right now is "more shadow than light". Above all manufacturing and construction (in some national statistics the latter is considered part of the former) are facing massive problems. In part, these are "homemade" - connected for example with lower consumption in the wake of BSE and the like; others are the result of the negative development

of the economy worldwide. What's true of Germany is also true of Western Europe as a whole: exports are the decisive factor. In 2001, the EU saw exports increase by just 3.3 percent; the year before the increase had been 11.6 percent in real terms. This development impacts directly both on business confidence and on capacity utilisation, to mention just two factors. Overall, the confidence indicator fell from plus seven in the summer of 2001 to minus ten in the autumn. The growth of gross investment in capital goods slipped from 4.6 percent in 2000 to just 1.0 percent in 2001.

Neither exports ...

Unfortunately, detailed figures on the insolvency situation by business sectors are not available for all European countries. Nevertheless, those that are available, from ten countries, provide a picture of the distribution of insolvency according to the four main areas of the economy. The share accounted for by processing/manufacturing rose from 11.1 percent (2000) to 13.8 percent (2001), an evident reaction to the economic crisis. The proportion of total insolvencies accounted for by construction also increased, by 6.2 percentage points from 14.2 percent (2000) to 20.4 percent (2001). The reason is that, just like investment in general, expenditure on building construction/civil engineering registered only little growth - by just 0.2 percentage points. This development, though, is mainly due to the virtual collapse of new activity in the construction sector in Germany. Another factor here is that France and Italy, which recorded strong growth in construction, of around five percent in recent years as the result of state support, also suffered setbacks in this field.

... nor domestic demand

Tab. 4: Share of insolvency total of the main fields of the economy in Europe in 2001

■	
Manufacturing	13.8 (11.1)
Construction	20.4 (14.2)
Commerce (wholesale, retail)	28.0 (28.3)
Service	37.8 (46.5)

Figures in % () = 2000

Stability in the services sector?

In Europe as a whole (although not in Germany) service-providers were able to reduce considerably their proportion of insolvency totals: from 46.5 percent in 2000 to 37.8 percent last year. In the past decades, the services sector in Europe has boomed. It not only represents over half of gross domestic product, it also provides over half of all jobs: in 1997 (the most recent available figures), 68 percent of all employees in the EU were in this sector. In a recent depiction of the European corporate landscape, Eurostat writes: "The increased outsourcing of non-core business activities to independent service-providers led to rapid growth in such areas as accounting, advertising, cleaning and security services". Two hypotheses about last year's relative decline in this sector's proportion of total insolvencies appear tenable: either the shock-waves caused by global economic problems that are impacting on Europe's processing/manufacturing sector have not yet reached the services sector, or else this sector, which consists largely of flexible SMEs, has been able to react faster to the changes in the economic climate and thus maintain its corporate stability better. One example of the aggressive "mobility" which this implies is to be found - once again - in the field of air transport. While dinosaurs like Swissair and Sabena disappear, small vendors like Ryanair are attracting attention.

This suggests that the increasing level of specialisation that accompanies Europe's economic transformation into a services-oriented society could also lead to greater stability in the face of economic upheavals. However, at the moment this suggestion is more wish than reality. And whether the services sector continues to reduce its insolvency proportion also remains to be seen.

The following table of how the economic sectors in ten European countries are affected by insolvency indicates the catching-up that some countries still have to achieve. Those national economies that have not yet progressed so far along this path report higher insolvency proportions in manufacturing (Portugal: 40.0 percent; Great Britain: 33.4 percent). Germany has Europe's highest share of insolvencies in the construc-

German construction shrinks

tion sector: the figure of 27.3 percent here also points to structural deficiencies. It is the result of inappropriate support for, and over-investment in, the "new" East German states, and also of the bureaucratic obstacles facing both private building clients and commercial construction and infrastructure investors. Highly developed economies in Western Europe have high insolvency proportions in the services sector: Sweden (51.9 percent), Germany (41.0 percent), Denmark (40.0 percent) and the Netherlands (38.9 percent) lead the field both where service-sector wealth generation and job totals are concerned, but also, on the negative front, when it comes to service-sector insolvencies.

Tab. 5: insolvencies in the main economic sectors in 2001

■	Manu- facturing	Con- struction	Com- merce *	Services
Belgium	8.1	14.1	52.5	25.3
Denmark	12.9	15.9	31.2	40.0
Finland	15.8	20.5	33.2	30.5
France	13.5	19.6	29.4	37.5
Germany	11.2	27.3	20.6	41.0
Great Britain	33.4	10.5	22.3	33.8
Netherlands	13.2	15.6	32.3	38.9
Norway	13.2	11.2	42.1	33.6
Portugal	40.0	11.5	35.9	12.6
Sweden	3.2	16.2	28.7	51.9

* includes catering sector; figures in %

The growing numbers of jobs lost as the result of insolvencies also reflect shifts in the business sector insolvency structure. Manufacturing (industry) is a personnel-intensive sector and so an insolvency here puts considerably more people out of a job. In all, 1.4 million jobs were lost in Western Europe last year as the result of corporate collapses; the year before the figure was 1.1 million. It should be noted that this is a conservative estimate. Estimating insolvency-linked jobs losses is difficult anyway: while on the one hand, large insolvent companies - such as the airlines - do not automatically release all their personnel into unemployment, in other cases of near-bankruptcy but

Increase in job losses

without an insolvency application, radical restructuring measures can cause the loss of thousands of jobs.

Tab. 6: Insolvency-linked unemployment in Europe

■	Jobs lost (in millions)
1996	1.86
1997	1.80
1998	1.60
1999	1.40
2000	1.10
2001	1.40

***Unemployment
figures up again***

Altogether, the unemployment rate in the EU fell in 2001 to 7.7 percent (2000: 8.2 percent – EU-harmonised unemployment rate). But there is hardly any question that the rate will rise again, as it has in Germany. This has consequences not only for national state coffers and much-buffed stability policies but also directly on consumption. Last year, this rose by only 2.0 percent on the year before - 0.6 percentage points fewer than in 2000. It was particularly in the strongly expanding national economies, such as Ireland, Portugal and the Netherlands, that private consumption was the driving force, helping, as the economy boomed, to reduce joblessness. But now that internal consumption is sagging, there is little chance of increasing the numbers of people with jobs or of contributing to greater corporate stability. The high growth in insolvency totals in 2001 (Netherlands: 49.1 percent; Ireland: 33.1 percent) will continue in 2002 and this will impact heavily on the labour market.

■ 3 Insolvencies in Germany
3.1 Insolvencies: Current developments

In 2001, Germany registered 32,400 corporate insolvencies, an increase of 16.0 percent on the year before (27,930). This is a new post-war record, which is made all the more disappointing by the fact that in the late 90s it looked as though the corporate insolvency figures would at least stagnate. Although it does not contribute much to the overall European context, it is important here to differentiate between East and West

A steep upward curve

Germany. In the West last year, 22,500 firms filed for bankruptcy (prior year: 18,120), in Eastern Germany the figure was 9,900 (prior year: 9,810). So while Western Germany posted a year-on-year growth rate of 24.2 percent, the situation in the East of the country - with a rise of just 0.9 percent - was calmer.

In Germany as a whole, 13,600 consumer insolvency proceedings were initiated in 2001, a climb of 31.3 percent on 2000 (10,360). Together with those cases that come under the heading of "other insolvencies" (such as those involving non-business institutions like foundations and associations) and 3,600 cases involving the estate of a deceased debtor (up by 3.2 percent), Germany registered a total of 49,600 insolvencies – a rise of 18.7 percent on 2000 (41,780).

***Increase in
private insolvencies***

3.2 Insolvencies and their consequences

The economic repercussions of private bankruptcies in Germany are relatively low in comparison with the total damage caused by insolvencies. In 2001, this was 32.2 billion euros, representing a renewed substantial rise on the year before (2000: 27.1 billion euros). Private bankruptcies by individuals account for between 2.5 and 3.1 billion of the total figure. Around 22 billion euros of the insolvency-linked damage done in Germany in 2001 affected private creditors - on the one hand, financing institutions such as banks but also leasing and factoring companies, and on the other, suppliers. Overall it may be assumed that institutional lenders, particularly banks, not only conduct very detailed assessments before granting credit but also apply wide-ranging measures to secure their loans, even in the case of an insolvency.

***Total damage:
32.2 billion euros***

Earlier, reference was already made to the export-fuelled economy and the growth of direct investment by German firms abroad, and it was pointed out that SMEs are involved in cross-border transactions to a far lesser extent than big companies. Although it is difficult to analyse the foreign trade or direct investment volume according to company size-categories, two figures

do point to the amount of damage suffered by the German Mittelstand in the field of exports:

Last autumn, 52.4 percent of German SMEs registered bad debts as the result of customer insolvencies within the German borders (prior year: 48.6 percent), only 9.8 percent were hit by customers abroad going bankrupt (no prior-year figures are available). This latter figure has more to do with the relatively low level of cross-border business contacts by German SMEs than with the insolvency levels of foreign companies. In Germany itself, the distribution across the business spectrum of losses caused by bad debts is relatively uniform - with the biggest insolvency-linked losses being suffered by commerce (27.7 percent) and the lowest by construction (20.8 percent); when it comes to foreign business transactions, though, the situation is far more varied. Here, it was the manufacturing sector - which is responsible for the biggest proportion of exports - which suffered the most insolvency-linked damage: 71.4 percent of the firms involved had to face an insolvency by a customer in 2001. It is followed by commerce and then, to a far lower extent because of the largely domestic nature of their business, service-providers and construction (6.4 percent and 3.5 percent respectively).

Tertiary sector stays at home

Tab. 7: Bad debt losses due to insolvencies in 2001

■	Customers in Germany	Customers in Europe
Manufacturing	24.3 (25.2)	71.4
Construction	20.8 (19.5)	3.5
Commerce	27.7 (30.2)	17.7
Services	27.1 (25.1)	6.4

Figures in % of those surveyed, () = prior-year figures
52.4% (Germany) and 9.8% (Europe) set at 100 to facilitate interpretation

Just how cautiously German SMEs operate is also indicated by the scale of bad-debt losses. An examination of the level of both domestic and foreign losses from bad debts (not just those linked to insolvencies) shows that low losses (as a proportion of sales figures) predominate. The level of major losses (equivalent to

SMEs cautious abroad

over one percent of annual sales) from bad debts abroad is very low.

Tab. 8: Average bad-debt losses as a percentage of sales

■	Customers in Germany	Customers in Europe
up to 0.1	23.0 (25.0)	34.2
up to 0.5	22.8 (23.9)	41.8
up to 1.0	16.3 (16.1)	8.1
over 1.0	23.7 (19.8)	12.4

Figures in % of those surveyed; the rest: no losses or no information given
() = prior-year figures

Over half a million people (503, 000) lost their jobs in 2001 as the result of their employer going bankrupt. In West Germany, the relevant figure rose by 13.8 percent (2000: 290,000), in Eastern Germany by 9.5 percent (2000: 158,000). For Germany, there are precise figures available to show the size of payrolls in companies that suffered insolvency. These reveal that "micro-firms" predominate: they account for 56.3 percent of business failures in the West of the country and 47.1 percent in the East. The following table indicates that as payroll sizes increase, the relevant proportion falls:

Tab. 9: Numbers of employees in insolvent companies in Germany (business sector average)

Employees in micro-firms

■	West	Ost
1 – 5	56.3 (60.4)	47.1 (48.3)
6 – 10	14.7 (15.8)	19.3 (18.8)
11 – 20	11.2 (11.2)	14.9 (17.1)
21 – 50	7.9 (8.1)	10.6 (11.5)
51 – 100	2.7 (2.8)	3.0 (3.0)
> 100	1.9 (1.8)	1.2 (1.3)

Figures in %, () = prior-year figures; rest = no information available.

By the German definition, firms with over 500 employees no longer form part of the Mittelstand (in the rest of Europe, the dividing line for SMEs is more usually drawn at 250 employees), but in view of the low number of insolvent firms in the category of those with more than 100 people on the payroll, there is little point in any more detailed percentage analysis.

3.3 Insolvency and business sectors

The reason for the rapidly rising number of corporate failures in Germany is the deterioration in the economic situation. Roles are also played by the restrictions in financing possibilities in the wake of consolidation by the banks, and the changes in insolvency law.

At the end of January 2002, the German Federal Statistics Office published data on the gross domestic product of the year before: in real terms it had risen by just 0.6 percent, making it the "weakest economic growth rate in Germany since reunification", after the decline of 1.1 percent in 1993. The GDP figures correspond to the development of insolvencies: In 1993, in the brief "intermediate recession", the number of business insolvencies increased by 38.7 percent (to 15,148). Then, as the economy recovered, the growth rates in company insolvencies declined, until at the end of the century the figure was stagnating at around 28,000.

This is not the place to present any analysis of the economic situation of German SMEs. The issue here is to highlight the links between the level of economic activity in the different business areas and corresponding developments on the insolvency front. The German insolvency figures show that in the boom at the end of the 90s, SMEs were not able to participate in the growth in exports. Nonetheless, the now weakening exports impact directly or indirectly on their stability. SMEs live off domestic demand and this has not increased in either the consumer or the capital goods sector. The autumn survey carried out by Creditreform's Economic Research Unit among 4,600 firms with fewer than 500 employees and annual sales of under 51 million euros produced miserable results: significant falls in sales (2001: 31.3 percent registered lower sales figures, compared with 22.8 percent in 2000) declining payrolls (2001: 21.8 percent of firms dismissed personnel, compared with 12.1 percent in 2000), and finally a collapse in readiness to invest. For the first time, the proportion of SMEs who do not plan

***Insolvencies:
a bundle of causes***

***When the economy
catches a cold ...***

Investment level sags

to invest at all predominates. This a crisis which was already heralded in 2000, when the proportion of SMEs ready to invest fell to 52.1 percent (1999: 64.5 percent). In autumn last year, it dropped again, to just 43.2 percent.

This decline is particularly evident in the services sector: in 2000, 67.6 percent of firms in this sector were ready to invest; in 2001 the figure was just 48.0 percent. This development mirrors the insolvency situation: in 2000, this sector produced around 7,500 insolvencies, in 2001 the figure was over 10,000. In West Germany, the rise was 34.9 percent; in the East of country, it was more moderate, at 11.3 percent. But in both parts of the country, it was this sector that produced the worst negative change compared with the previous year. The economic decline among B2B service-providers that began early in 2001 continued through to the fourth quarter. For that period, the survey of this sector conducted by Creditreform in conjunction with the ZEW (Centre for European Economic Research) revealed a seasonally adjusted annual sales growth of just 1.7 percent - the lowest since this survey was first carried out in 1994.

***Service-providers
lack confidence***

Tab. 10: Insolvencies according to business sectors

■	Absolute	Percentage of total insolvency volume	Percentage change on previous year
Manufacturing			
West	2,535 (2,174)	11.3 (12.0)	+ 16.6
East	1,099 (1,059)	11.1 (10.8)	+ 3.8
Construction			
West	4,925 (4,150)	21.9 (22.9)	+ 18.7
East	3,908 (3,993)	39.5 (40.7)	- 2.1
Commerce			
West	4,992 (4,349)	22.2 (24.0)	+ 14.8
East	1,673 (1,864)	16.9 (19.0)	- 10.2
Services			
West	10,048 (7,447)	44.7 (41.1)	+ 34.9
East	3,220 (2,894)	32.5 (29.5)	+ 11.3
Total			
West	22,500 (18,120)	100.1 (100.0)	+ 24.2
East	9,900 (9,810)	100.0 (100.0)	+ 0.9

() = Figures for prior year

Construction in doldrums

Whereas in Western Germany, the insolvency situation is dominated by the services sector (44.7 percent of the total insolvency volume), in Eastern Germany, this role is played by construction. There, 39.5 percent of all company failures are by building firms. In Western Germany, the weak level of activity in construction puts this sector in second place when it comes to the absolute increase in cases of insolvency. Some 5,000 firms in the building and finishing trades collapsed in West Germany in 2001; in Eastern Germany the figure was just under 4,000. In the first three quarters of 2001, the production volume in the main building trades was 12.1 percent under the level of the year before. Building construction (housing), was especially hard hit: its volume declined by 14.8 percent. And one further figure from the Creditreform autumn survey of SMEs in 2001: in the construction field, only 17.7 percent of firms expect their earnings to increase (prior year: 27.1 percent); 44.4 percent of them expect falling earnings (prior year: 30.4 percent).

The economy in a European context

The cyclical trough currently affecting especially Germany's SMEs, and which - together with the financing problems such firms face - is responsible for the climbing insolvency curve, is not just a German phenomenon. Not only is the term "national economy" antiquated, it is a fact that the only way of understanding Germany's economic and insolvency situation, and discovering whether the problems of corporate stability really are "homemade", is by viewing it in a European context.

■ 4 "Your money or your life" – Financing and insolvencies

The impact of interest rate levels on the stability of small and medium-sized enterprises should not be underestimated. Even though the "house bank" principle found in Germany does not have the same weight in other Western European countries, it is a fact that business companies obtain their financing first and foremost from banks.

So any examination of "SMEs and financing" has to address the question of how interest rates in the money markets are developing. At the beginning of last year, company owners had to pay 6.4 percent for bank loans (with a term of over 12 months); by the end of August the rate had dropped by 20 base points. In view of the way inflation then eased, the rate probably fell even further by the end of the year

Cheap money

It is particularly small firms that depend strongly on outside financing by banks. According to the BACH database, German companies with annual sales of under seven million euros have an average equity of 14 percent. In Austria, the figure is 13 percent. But in France, Italy and Portugal, too, small firms have a lower equity ratio than big companies (= sales upward of 40 million euros). It should be pointed out, though, that German SMEs often have longterm reserves that are not included under equity. The fact that the interest paid on outside financing can be set off against tax plays a role when firms decide not to make direct use of available capital as equity. There is actually no comprehensive overview of the equity ratios in European business enterprises. Especially where small firms are concerned, many surveys fail to provide a complete picture - for example by including only incorporated companies or firms with at least one employee, despite the fact that in the EU, 52 percent of all businesses are one-man shows.

What is equity?

One frequently heard argument in the discussion on equity ratios, particularly in Germany, is that the call for higher levels of own funding simply reflects the wish of banks for better risk coverage. In fact, though, both sides - lenders and SME borrowers - seem to shy off any real debate on the risk situation on the one hand and credit costs on the other. SMEs make use of overdraft facilities as a substitute for bank loans. Above all in Italy (78 percent) and Ireland (70 percent), but also in Denmark (73 percent) and Sweden (70 percent), overdrafts play an important role in financing businesses. 46 percent of all European SMEs state that they finance their business activities by means of traditional bank loans - in Germany und Austria, the

figures are 66 and 65 percent respectively; in Greece, Finland and France the proportions are 68, 64 and 63 percent respectively. Apart from leasing, other forms of financing, such as factoring or subsidies, play a far less significant role.

Tab. 11: External sources of financing among SMEs in Europe in 2001

Living off overdrafts

■	Over-draft	Lea-sing	Out-side in-vestors	Fac-toring	Bank loan	Sub-sid-ies
Austria	42	39	1	6	65	8
Belgium	37	25	12	4	56	14
Denmark	73	25	13	7	24	7
Finland	46	27	15	14	64	11
France	36	47	7	32	63	11
Germany	47	43	5	2	66	7
Great Britain	59	42	11	7	34	10
Greece	23	15	10	8	68	12
Ireland	70	48	19	14	39	10
Italy	78	41	7	17	17	10
Luxembourg	22	33	15	11	44	15
Netherlands	17	31	11	3	50	9
Portugal	16	47	7	10	48	6
Spain	8	48	15	15	58	10
Sweden	70	29	10	3	37	6
Total	50	39	9	11	46	9

Figures in %; more than one option could be mentioned
Source: Exco Grant & Thornton (survey in 2001)

Stock markets do not feature in this table as a source of financing for SMEs - with good reason: for most of them, obtaining money via the open capital market is simply not an option. Even for companies with sufficient substance, or innovative startups in growth sectors, the stock market does not represent an alternative. Against the background of the fall in share prices, the investment volume of German stock issuers declined from 25.6 billion euros (2000) to just 2.9 billion euros in the first three quarters of 2001, and the number of IPOs plummeted from 150 in 2000 to a mere 18 in 2001.

Whereas the trend among big companies is obtaining finance by means of bonds (25 percent growth in the issue of euro-denominated bonds up to the middle of 2001), tiny businesses increasingly have to depend on "microloans". These are granted not by banks but by non-credit organisations such as charities, and the clients are the smallest of small enterprises, with the focus on specific groups, such as the unemployed or startups by women. The European Commission uses the term microloans to describe sums of under 25,000 euros. In Germany and the Netherlands, public-sector banks are often also active in this field. Naturally enough, the actual arrangements and the target groups vary between the different European countries. One factor common to all microloans is that the interest to be paid on them is below that charged by the commercial banks. One other interesting fact about this sector - which according to the EU is growing substantially - is that the repayment ratios are usually above 90 percent and thus often better than is the case with many "professional" credit institutions.

Bonds? Microloans!

Generally speaking, when small businesses are involved, the risk situation is much more critical, and this makes banks more reticent about granting credit to SMEs. Whether the Basel II Accord is the cause of, or simply the opportunity for, such reticence is a moot point; what is, however, obvious is that Europe's credit institutions - and this applies particularly to Germany - have to leave behind them the notion of merely calculating averages when lending money. In the financial services sector, national borders no longer matter; the institutions concerned have to measure their earnings by international standards. Of course, they do not achieve a high return on equity from their lending business. Quite the opposite - other areas of banking are far more lucrative. Just how big the differences among banks in Europe are is shown by the following table. While credit institutions in Great Britain, Finland, Greece and Ireland achieve an earnings-equity ratio of almost 20 percent, the figure for Italy, Germany and Austria is only around five percent - up to now.

Excursus: Basel II and Europe

The proposals made by the Basel Committee on Banking Supervision - in which all the central banks of the G 10 countries are represented - will generate radical changes. In summer 1999, the committee published a consultation paper on its new capital accord; the ongoing consultations will most probably be finished by the end of this year, so that the new rules will come into effect in 2005. The proposals are aimed at improving the stability of the world finance system.

Basel II rests on three main pillars:

- 1) The amended rules on minimum capital requirements for lending banks
- 2) Rules governing national supervisory and internal assessment procedures, i.e. the individualisation of banking .
- 3) Rules aimed at promoting market discipline through the extension of disclosure obligations.

It is the first pillar which is of decisive importance where the financing of SMEs is concerned. The currently valid rules of Basel I lay down that banks have to cover with their own equity the equivalent of eight percent of the loans they grant - i.e. at the moment, if a bank grants a loan of DM one million, it has to allocate DM 80,000 in equity to cover it. And it makes no difference what the borrower's credit-standing is: a loan to DaimlerChrysler has to be backed by the same percentage of equity as money lent to the baker on the corner. Experts have long criticised this lack of any differentiation in line with the actual risk. What this means is that at present, borrowers with good credit-standing are helping to finance those who might well turn out to be bad risks.

And this is the starting point for Basel II: in future, the level of equity backing has to be aligned to the real risk involved, assessed by means of a systematic credit rating. This means that a bank customer with a good credit rating will pay less for his loan, one with a poorer rating more. This risk-related distribution of credit terms makes cross-subsidising loans a thing of the past. Basel II lays down that a borrower's credit status must be determined by means of internal and external rating procedures.

In Germany, more than in other countries, there has been heated debate on Basel II, something indicated by the number of German submissions to the consultation paper. Even German politicians have intervened in the decision-making process. In the other European states, the draft accord is being discussed far more calmly, as far as the guideline on capital adequacy is concerned. There are two reasons for the great German attention being given to the accord. One is that here - unlike in the Anglo-Saxon world - there is as yet no "rating culture" - in the past two years, independent rating agencies have been founded, but everything is still in the early stages.

Then there is the fact that German SMEs are worried about the high costs of an external rating. This is why many companies will probably prefer to go on living with the internal rating conducted by their principal bank. The discussions on the Basel II proposals also draw attention to another characteristic feature of how German SMEs obtain their financing: primarily by means of longterm loans from their "house bank" - and this is why many of them have reduced their equity ratio to a minimum. Obtaining finance via the capital markets - which, as in the USA, would be at least an option for sizable companies in the Mittelstand sector - plays hardly any role at all in Germany.

The consultations on Basel II are not over yet, but it can already be assumed that SMEs will have to have a fresh think about future sources of financing. It is also to be feared that the number of business failures in this sector will increase in future if SMEs with a poorer credit-standing can obtain only "expensive" loans from banks. And that in itself is another pointer to the danger of having an inadequate equity ratio.

Tab. 12: Earnings-equity ratios of banks in Europe in 2001

■	
Italy	4.2
Germany	5.1
Austria	5.3
Portugal	6.9
Spain	7.1
Sweden	7.2
France	8.4
Denmark	9.6
Netherlands	10.4
Belgium	12.4
Luxembourg	13.7
Ireland	16.0
Greece	16.7
Finland	17.6
Great Britain	21.2

Figures in %
Source: Eurostat, OECD

This is problematic above all in countries where the house bank principle is maintained and promoted by means of a dense network of branches and business offices. In addition to Germany and Austria, this applies above all to Spain, Belgium and Portugal. It is certain that departure from the house bank principle will make credit financing for SMEs more difficult in those countries; higher insolvency figures are likely.

As well as bank loans, another form of financing that plays an increasingly big role in Europe is trade credit. According to estimates by the European Commission, SMEs in Europe cover between 20 and 50 percent of the credit volume they need by means of supplier's credits. Many small enterprises which take advantage of exceptionally long payment terms do not seem to realise that trade credit can be expensive. If the possibility of obtaining discounts for early payment is taken into consideration, this is an unprofitable form of financing, quite apart from the risk of having to pay interest in the case of late payment. One motivation, though, seems to be that this form of credit does not require prior appraisal and in most cases no security is asked

Banks have to earn money

The supplier pays

for. Quite the opposite: particularly when market conditions are difficult, payment terms are handled very generously.

Bad-debt losses as cause of insolvencies

Throughout Europe, overdue payments and losses from bad debts take first place when the causes of insolvency are discussed. The dimension they reached in 2001 in Germany was already depicted in the first section of this report. The following table shows the "time to maturity" of supplier's credits - regardless of whether the relevant business transaction is within a country or across national borders.

Tab. 13: Payment conduct in Europe in days

■	Payment terms	Payment delay	Total
Italy	64 (65)	24 (25)	88 (90)
France	45 (47)	12 (11)	57 (58)
Belgium	41 (40)	20 (21)	61 (61)
Great Britain	29 (30)	28 (30)	57 (60)
Austria	25 (26)	13 (19)	38 (45)
Switzerland	24 (22)	16 (17)	40 (39)
Netherlands	26 (27)	21 (19)	47 (46)
Germany	23 (24)	18 (19)	41 (43)
Sweden	24 (23)	9 (9)	33 (32)

() = 2000

Payment conduct: little has changed

Overall, little has changed in the field of payment conduct in Europe. In five countries (Italy, France, Great Britain, Austria and Germany), payment has speeded up somewhat, while Switzerland, the Netherlands and Sweden show poorer figures than the year before, with Belgium remaining the same as before. It is not just the big difference in the speed of payment, of between 88 days (Italy) and 33 days (Sweden), but also the specific relevance to corporate stability overall which has prompted the European Commission to take action. Its first proposals actually date back to the 90s but they always came up against the veto of one country or another. This encouraged Germany to act on its own, but its rules will now be swallowed up by European legislation. By August 8 this year, EU member states must transform the European directive of 29.6.2000 into national law. This imposes severe pe-

nalties in some cases and is aimed at ensuring that the single market functions in a way "benefiting all businesses". It remains to be seen whether this will be achieved and whether it will provide smaller companies in particular greater protection from insolvency. The experience gained with the relevant German stipulations do not provide grounds for excessive optimism.

All the same, in view of increasing insolvency figures and the growing difficulties of SMEs in particular in Germany and Western Europe in obtaining financing, almost any measure that helps to stabilise businesses is to be welcomed, whether this comes in the form of business promotion loans by public-sector banks, the continuation of the house bank principle against a changed background, or new possibilities for "micro-financing". In view of the worldwide "debt culture", such measures are anyway often no more than a drop in the ocean. It is the debtor mentality that causes problems. In its January edition, the Economist provided an explanation for the worldwide economic problems. It said that excessive debt levels by business companies, private households and governments are to be found at the root of almost every economic crisis in the past two decades, from Mexico to Japan and from East Asia to Russia. The periodical pointed out that in the previous two months alone, the world had witnessed the biggest-ever national debt crisis, in Argentina, and the biggest-ever corporate insolvency, Enron - which was followed a week later by an insolvency application filed by Kmart, America's second-largest retail chain. The Economist concluded that although most people agree that the worst of the recent worldwide recession is over - with the USA expected to move into recovery mode this year - there is a danger that the huge mountains of debt piled up in the past few years in many rich economies, in conjunction with virtually zero inflation, could stand in the way of sustained health. All that remains to be added to that summing-up by the Economist is that insolvencies represent just the tip of the iceberg of this problem.

Living off debts

It always works out in the end?

■ 5 Summary

The weak economic development in Europe caused insolvency figures to rise. Compared with 2000, the number of insolvencies in the Western European economic region increased by 5.9 percent to almost 200,000 (2000: 188,500). This survey covers not only the member countries of the European Union but also Norway and Switzerland. After peaking in 1996 (208,600 insolvencies), insolvency figures improved in a good economic climate and the volume bottomed out at 184,200 insolvencies in 1999. But the very next year there was a renewed rise in the total, of 2.3 percent to 188,500.

Since then, the number of countries with a negative development on the insolvency front has risen considerably. Whereas Belgium, Greece, Ireland and the Netherlands were still able to report lower figures in 2000, last year they were on the other side of the trend. The development in Ireland was particularly dramatic: following a decline of 57.8 percent between 1999 and 2000 came a rise of 33.1 percent in 2001. The negative list of countries is led by the Netherlands, which posted a 49.1 percent increase in company collapses in 2001. There were also higher insolvency figures in Denmark (34.2 percent), Luxembourg (26.0 percent), Germany (18.7 percent), Sweden (9.7 percent), Portugal (6.9 percent), Greece (6.9 percent), Belgium (2.9 percent), Great Britain (2.0 percent), Italy (1.3 percent) and Norway (0.5 percent).

Only five countries recorded a positive development in this field compared with 2000: Spain (minus 7.0 percent), Finland (minus 3.7 percent), France (minus 3.3 percent), Switzerland (minus 1.9 percent) and Austria (minus 1.4 percent).

It is the big company collapses which grab the headlines - examples last year were Swissair, Moulinex and Railtrack – but in fact they are rare. The insolvency situation in Europe is determined by small and medium-sized companies. The year 2001 saw more firms in the construction sector being hit - their share of the

total rose by 6.2 percentage points to 20.4 percent. Manufacturing also reacted to the economic crisis in Europe: its 13.8 percent share of the total insolvency volume represents an increase of 2.7 percentage points. The proportion of insolvencies accounted for by commerce (retail/wholesale) remained virtually unchanged (2001: 28.0 percent; 2000: 28.3 percent), while the European services sector posted a significant fall in its contribution to the total - at 37.8 percent this was 8.7 percentage points lower than in 2000.

A glance at the statistics of the individual countries reveals differences that are linked to national economic structures. For instance, in Great Britain and Portugal, manufacturing makes an above-average contribution to the insolvency totals, with 33.4 percent and 40.0 percent respectively. Germany has the highest proportion of construction sector insolvencies, with 27.3 percent, which certainly also reflects the structural problems facing this industry here. Sweden heads the list of the countries with a high proportion of total insolvencies coming from the services sector (51.9 percent), but Germany (41.0 percent), Denmark (40.0 percent) and the Netherlands (38.9 percent) also posted substantial proportions in this sector.

Overall, the situation in the European labour market improved in 2001, but there was a deterioration in the number of jobs lost for reasons linked to insolvency. A total of 1.4 million people lost their jobs when the firms employing them went broke (2000: 1.1 million). This rise is not due solely to the growing insolvency figures overall, but also to the fact that last year manufacturing - with its personnel-intensive operations - made a bigger contribution to the total volume.

With the introduction of the euro, Europe has come closer together. But no harmonisation of insolvency legislation is yet in sight - Brussels has no concrete plans in this direction. However, at the beginning of May this year, an EU directive comes into force that regulates the insolvency proceedings in the case of cross-border corporate failures. It is aimed at ensuring greater efficiency and lower costs. In future, if a com-

pany with cross-border operations collapses, the main proceedings can be opened in the country where the company has its chief base; they are then governed by the national insolvency law of that country, and are used to register the debtor's total assets. Secondary proceedings can be initiated in countries where the insolvent company has any branches. But since the directive does not cover subsidiaries in the company law sense of the term, it merely has a coordinating function; it does not replace national legislation in this field.

In addition to the current economic weakness, another decisive factor affecting corporate stability is that of how SMEs finance their operations. Here, there are considerable national differences. In some countries, the use of overdraft facilities is a major financing instrument - for example in Italy (78 percent) Denmark (73 percent) and Ireland (70 percent). In Europe as a whole, one company in every two takes advantage of overdrafts. Other important ways in which SMEs obtain financing are traditional bank loans (46 percent) and leasing (39 percent). Other forms of financing, such as factoring or external investors, play only a subordinate role.

For businesses, the collapse of a customer is generally associated with - often high - outstanding debts and bad-debt losses. Payment conduct in Europe improved only slightly in Europe last year compared with the year before. In five countries - Italy, France, Great Britain, Austria and Germany - invoices were paid somewhat faster, but in the Netherlands, Sweden and Switzerland companies had to wait longer to get their money. There is a tremendous difference across Europe in the time taken to settle invoices; it ranges from 33 days in Sweden to 88 days in Italy. The European Commission has issued a directive on late payment, and this has to be transformed into national law this year - but it remains to be seen what success this will bring.

In Germany, the discussion on Basel II - the proposals made by the Basel Committee on Banking Supervision

- is much more heated than in other European countries. The debate focuses particularly on the first pillar of the proposals, which is aimed at amending how banks cover their loans by means of equity. In future, this is to be based on a systematic assessment of the borrower's credit status: the cover required will be more aligned to the risk involved. The credit assessment can be by means of an internal or external rating. In future, a bank customer with a good credit rating will have to pay less to borrow money, a customer with poor credit-standing more.

So for SMEs, the costs of obtaining credit could rise - and then a further climb in insolvency totals cannot be excluded. Together with the ongoing economic uncertainty and further consolidation on capital markets and among banks, 2002 can be expected to produce higher insolvency figures in Europe as a whole, possibly around 210,000 cases.

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List of sources

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Denmark:	Danmarks Statistik, Copenhagen
Finland:	Statistics Finland
France:	INSEE, Institut National de la Statistique et des Etudes Economiques
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Portugal:	Instituto Nacional de Estatistica
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Switzerland:	Statistik Schweiz

German Chambers of Commerce

Deutsch-Belgisch-Luxemburgische Handelskammer, Brussels
Deutsch-Finnische Handelskammer, Helsinki
Deutsch-Griechische Industrie- und Handelskammer, Athens
Deutsch-Schwedische Handelskammer, Stockholm
Deutsche Handelskammer für Spanien, Madrid
Deutsch-Amerikanische Handelskammer, New York
Deutsche Industrie- und Handelskammer, Japan

Business information companies

Centro Studi Confindustria, Rom
Creditinform, Oslo
Creditreform Austria, Vienna
Creditreform Switzerland, St. Gallen
EuroCommerce, Brussels
FEBIS Federation of Business Information Services, Amsterdam
FINSKA Suomen Asiakastieto Oy, Helsinki
Gerling Namur, Namur
Graydon Belgium N.V., Antwerp
Graydon NL, Amsterdam

Graydon UK
ICAP, Greece
Intrum Justitia BV, Amsterdam
Experian Ireland Ltd., Dublin
Køebmandstanden, Copenhagen
KSV Kreditschutzverband von 1870, Vienna
OR Telematique, Paris
SCRL Observatoire des Entreprises
Society of Practitioners of Insolvency
UC AB, Stockholm

Economic information services

Banco Bilbao v. Vizcaya, Spain
Banque Nationale de Belgique NBB, Brussels
BDI, Bundesverband der deutschen Industrie, Cologne
BfAi Bundesstelle für Aussenhandelsinformationen, Cologne
BGA, Bundesverband des deutschen Gross- und Aussenhandels, Bonn
BHF-Bank
Bronnoysundregistrene, Bronnoysund, Norway
Bundesanstalt für Arbeit, Nuremberg
Bundesministerium für Wirtschaft, "Tagesnachrichten", various editions, 2001
Centre d'Observation (COE), Paris
Chambre de Commerce, Luxembourg
Department of Trade and Industry, London
DIHT, Deutscher Industrie- und Handelstag, Bonn
DIW Deutsches Institut für Wirtschaftsforschung, Berlin
Institut der deutschen Wirtschaft e. V., Cologne
Konjunkturforschungsstelle Eidgenössische Technische Hochschule Zürich, Zurich
Kreditanstalt für Wiederaufbau, Frankfurt/Main
Organisation für wirtschaftliche Zusammenarbeit und Entwicklung (OECD), Paris
The Insolvency Service, London
The World Bank Group, Paris
US-Department of Commerce, Economics and Statistics Administration, Washington D.C.
WIFO, Österreichisches Institut für Wirtschaftsforschung, Vienna

Publications

Bundesministerium der Finanzen, Volks- und finanzwirtschaftliche Berichte
Commerzbank; Economic Research – Konjunktur international, 2000
Creditreform-Analysen
Deutsche Bundesbank; "Monatsberichte", Frankfurt, 2001
Various newspaper and magazine articles
DTI, Department of Trade and Industry UK

Euler Trade Indemnity, Quarterly Business Review
Euler Trade Indemnity; Quarterly Financial Trends
Grant Thornton International; European Business Survey, London
ifo - Wirtschaftskonjunktur
Institut der deutschen Wirtschaft; "iwd", Cologne, various editions, 2001
Jahn, U. (Hrsg.): "Insolvenzen in Europa", 3rd edition, Economica-Verlag, Bonn, 1998
Køebmandstandens OplysningsBureau A/S, Copenhagen; Quarterly analyses, 2001

EU publications

Unternehmen in Europa (sixth report), Eurostat
DEBA, Data for European Business Analysis, Luxembourg
European Commission, 2001
European Network SME Research
Panorama europäischer Unternehmen