



CORPORATE INSOLVENCIES IN EUROPE

2020

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■ 1 **Insolvencies in Western Europe in 2020 – Facts and figures**

1.1 Introduction

2020 was one of the most extraordinary years in recent European history. For almost the entire year, the economy in Europe suffered from Corona shock. The economic situation was characterized by multiple lockdowns, the disruption of international supply chains and overall massive uncertainties. From Q1 2020, when the virus reached Europe, the environment for business companies deteriorated tremendously. As a result, economic momentum was set back significantly.

Almost all national governments had to provide extensive aid to companies and sectors severely affected by the Corona-related restrictions. Consequently, government borrowing rose to new highs. Unconventional measures - such as changes in insolvency law - were also necessary to prevent a feared chain reaction of insolvencies. For this reason in particular, the development of corporate insolvencies in Europe does not reflect the true economic situation of many sectors and companies. Only to a limited extent is a comparison of current figures with previous years possible. In addition, the full impact of the Corona-related distortions will probably only become apparent in the years to come.

This survey examines the stability of business enterprises in Europe with regard to insolvency and the threat that insolvency represents. Especially for small and medium-sized exporters with no manufacturing or sales bases of their own in other parts of the continent, it is crucial to be aware of the risks involved in conducting business beyond national borders.

1.2 Developments in Western Europe in 2020

In Western Europe, which for the purposes of this survey comprises the EU-15 plus Norway and Switzerland, around 120,000 corporate insolvencies were registered in 2020. Due to the aid measures undertaken by the various national governments to support the economy and mitigate the consequences of

The economy in pandemic mode

Special effects influence insolvency situation

the pandemic, it was initially possible to avoid a threatened increase in insolvencies. It can also be assumed that there were temporary restrictions on the enforcement of insolvency law by the courts and other competent authorities.

Tab. 1: Corporate insolvencies in Western Europe

	2020	2019	2018	2017	2016	Change 2019/20 in percent
Austria	3,106	5,235	5,224	5,318	5,534	-40.7
Belgium	7,203	10,598	9,878	9,968	9,170	-32.0
Denmark	5,614	8,474	7,155	6,383	6,674	-33.8
Finland	2,135	2,597	2,534	2,160	2,408	-17.8
France	31,212	51,201	53,887	54,515	57,953	-39.0
Germany	16,040	18,830	19,410	20,140	21,560	-14.8
Greece	102	107	84	123	108	-4.7
Ireland	575	568	767	874	1,032	+1.2
Italy	10,173	14,228	13,695	14,108	15,057	-28.5
Luxembourg	1,199	1,263	1,195	935	983	-5.1
Netherlands	2,703	3,209	3,145	3,291	4,399	-15.8
Norway	4,100	5,013	5,010	4,557	4,544	-18.2
Portugal	5,000	5,071	5,888	6,284	7,195	-1.4
Spain	4,097	4,464	4,131	4,261	4,297	-8.2
Sweden	7,695	7,776	7,599	6,714	6,019	-1.0
Switzerland	4,912	6,009	6,878	6,684	6,504	-18.3
United Kingdom	13,200	18,256	18,733	18,483	17,976	-27.7
Total	119,066	162,899	165,213	164,798	171,413	-26.9

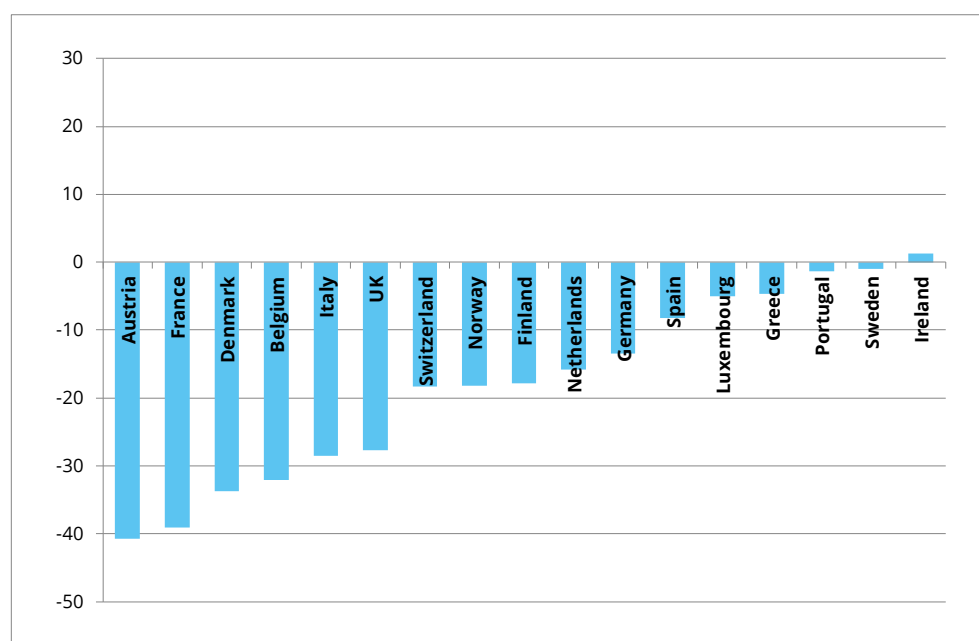
*Around 120,000 companies
insolvent*

Compared to the previous year (2019), the number of corporate insolvencies thus decreased significantly, by 26.9 percent. Many of the firms that actually went broke in the course of the acute Corona crisis were able to survive for the time being because, for instance, the company management did not initially have to report this fact. Evidently, many companies which were actually afflicted did not make it onto the list of insolvency candidates in this memorable year. By way of comparison, 2019 (162,899 corporate insolvencies) was the last year to register a "normal" insolvency situation in Europe, with the number of cases falling to a 10-year low thanks to good economic data. The fact that the number of insolvencies in the crisis year 2020 was so significantly lower can only be

explained by the special effects described above. When the aid measures expire, the insolvency wave is likely to pick up speed.

Insolvency figures declined in almost all Western European countries, with Ireland alone reporting a slight increase (see Fig. 1). Significantly fewer insolvencies than in the previous year were reported in Austria (minus 40.7 percent), France (minus 39.0 percent) and the United Kingdom (minus 27.7 percent). Germany, an economic heavyweight in Europe, also recorded a marked year-on-year (2019/2020) decline of 14.8 percent.

Fig. 1: Development of corporate insolvencies in Western Europe 2019/20

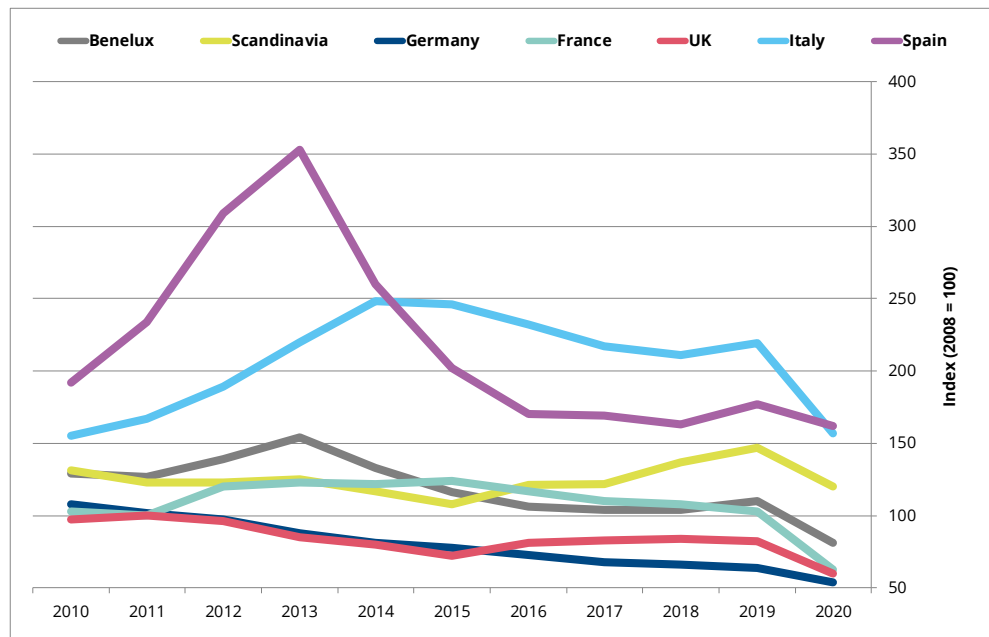


Changes in percent; Source: Creditreform

In large parts of Western Europe, the special situation is making insolvency volumes actually slip below the level of 2008, which – with the financial crisis – serves as the reference point in this survey (cf. Fig. 2). This is true in particular of Germany and the United Kingdom, but corporate insolvencies in France and the Benelux countries are now also below the level of 2008. Although this is not yet the case again in Scandinavia, Italy and Spain despite the recent decline, at least the upward trend of the previous year has been broken for the time being.

Insolvency situation in Europe develops uniformly

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

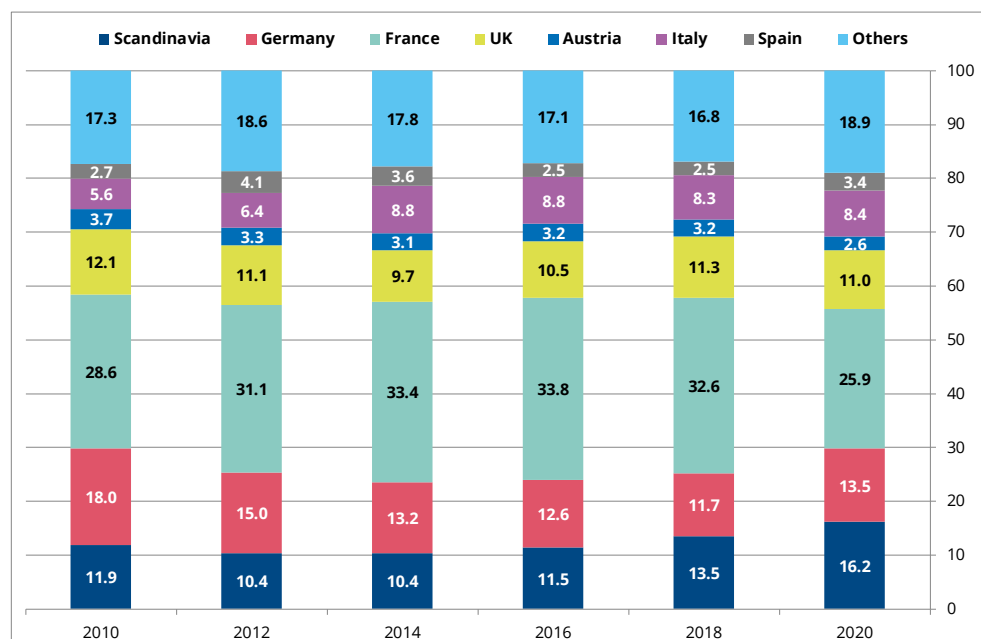


Figures in index points; Source: Creditreform

The North steps up its share of insolvencies in Europe

The Scandinavian countries expanded their contribution to the overall insolvency volume in Western Europe to 16.2 percent. France's share, on the other hand, contracted to just 25.9 percent, after exceeding 33 percent in 2014 and 2016. This is due to the significant decline in insolvency figures compared with previous years. Germany's share levelled off at 13.5 percent, while the UK's share of European insolvencies was slightly lower (11.0 percent). The other countries, such as the Benelux countries and Switzerland, currently account for a combined share of around 19 percent.

Fig. 3: Distribution of corporate insolvencies in Western Europe

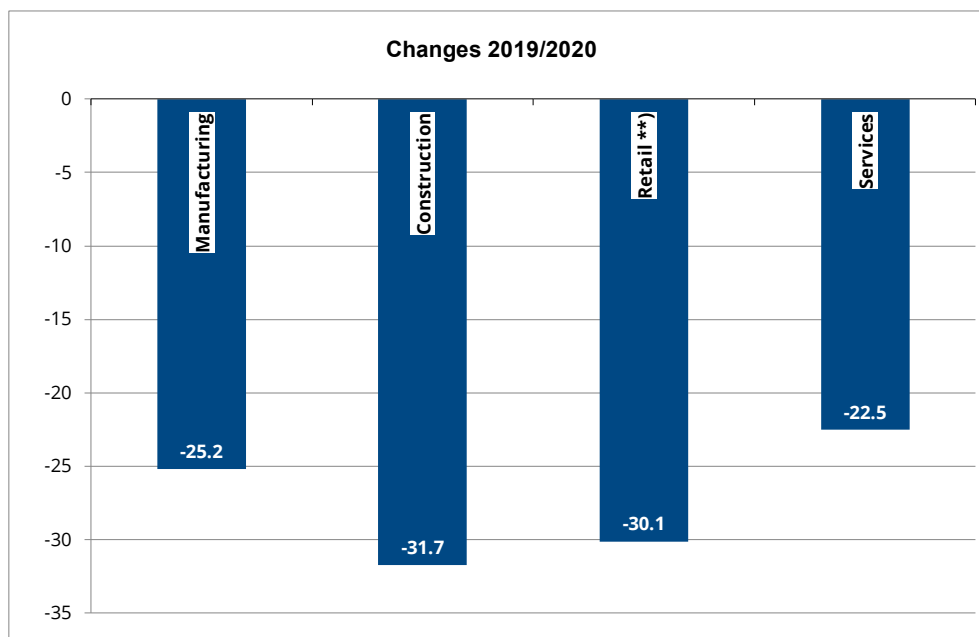


Figures in percent; Source: Creditreform

1.3 Insolvencies according to economic sectors

The marked decline in the number of registered corporate insolvencies is also reflected in the four main economic sectors. With a fall of 31.7 percent, the decline was most pronounced in the construction sector. Then came the retail sector (including hotels and restaurants) with minus 30.1 percent. In the service sector, the decline was 22.5 percent. In manufacturing, after a slight increase the year before, insolvency figures were also down sharply (minus 25.2 percent).

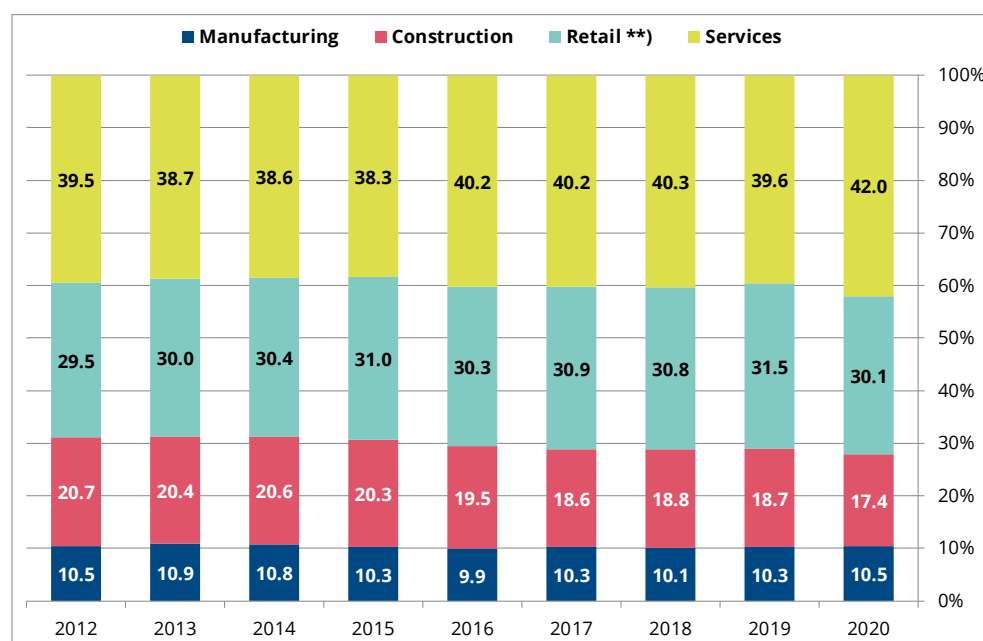
Fig. 4: Changes in the main economic sectors in Western Europe 2019/20 *)



Changes in percent *) without Greece

**) incl. hospitality business; Source: Creditreform

Fig. 5: Contribution of the main economic sectors to insolvency in Western Europe 2012 to 2020 *)



Figures in percent; *) without Greece; **) incl. hospitality business

Source: Creditreform

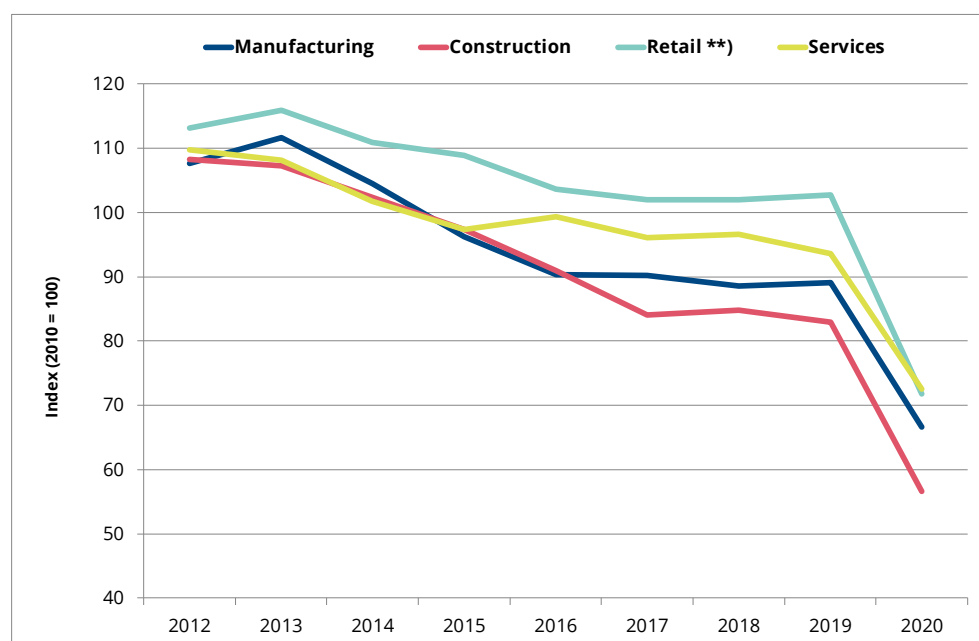
In terms of numbers, the service sector again accounted for the most insolvency cases in 2020, with a total of around 50,000 (2019: 64,500). As the largest

economic sector in Western Europe, services thus account for 42.0 percent of the overall volume of insolvencies. Compared with the previous year (2019: 39.6 percent), this sector's contribution to insolvency has increased again, a trend that has been apparent for several years.

The manufacturing sector's share grew slightly, to 10.5 percent, with a total of 12,500 insolvencies (2019: 16,700). Construction accounted for a share of 17.4 percent - significantly lower than in 2019 (18.7 percent). In absolute terms, 20,700 cases were registered in the construction sector, more than 10,000 fewer than the year before. So the insolvency situation in this sector is continuing to ease (see also Fig. 6). As recently as 2012 to 2015, the proportion was around three percentage points higher than at present. In 2020, the number of insolvency cases was only half as high as ten years ago.

Far fewer insolvencies in construction sector

Fig. 6: Development of insolvencies in the main economic sectors 2012 to 2020 *)



Figures in index points; *) without Greece; **) incl. hospitality business

30.1 percent of all insolvencies were in the retail sector (incl. hotels and restaurants). That represents a year-on-year fall (2019: 31.5 percent). For a long time, the retail sector was more susceptible to insolvency than other sectors of the economy. Corona-related

polices have broken this trend. Nevertheless, as an economic sector that has been particularly hard hit by the Corona restrictions, the retail sector is likely to continue to harbour a high insolvency potential.

1.4 Survey of individual countries

The following section takes a look at the development of insolvencies in the individual Western European countries.

Belgium

In 2020, Belgium recorded a significant drop in corporate insolvencies, with a fall of around one-third. In 2019, there was still an increase of 7.3 percent. A total of 7,203 insolvency cases were registered (2019: 10,598). Particularly in April and May 2020, when the first Covid wave swept through the country, significantly fewer corporate insolvencies than usual were registered; this was again the case at the end of 2020. The largest share of insolvencies was generated by the retail/hospitality sector, which accounted for 41.7 percent of the total. It was followed by the service sector, which accounted for a good third (34.8 percent) of all insolvencies in 2020. Compared with the previous year, the service sector's contribution to the total increased, but overall the absolute figures declined in all four main sectors.

Denmark

In Denmark, too, which the year before had been one of the countries with a sharp rise in insolvency figures, there was also a marked drop of around one-third in the number of insolvencies, to a total of 5,614 (2019: 8,474). The last time the figures were lower than at present was in 2014. Insolvencies fell sharply in all the main sectors of the economy - most significantly in retail (by almost half). As in other countries, however, this development is unlikely to reflect the true economic situation of companies. The service sector accounted for the highest proportion of insolvencies (see Tab. 2).

Germany

16,040 corporate insolvencies were recorded in Germany in 2020. That was 14.8 percent lower than in

the previous year. The background to this development was, among other things, the suspension of the insolvency notification requirement for joint-stock companies. In March 2020, the German government had already responded to the Corona crisis by adopting a whole package of aid measures for the economy, including the amendment to the law. However, a clear downward trend in insolvencies had already been seen in previous years. The special effects due to the Corona crisis reinforced this. The percentage declines were greatest in the retail and construction sectors (16.4 and 16.5 percent respectively). At 58.1 percent, the service sector again accounted for the largest proportion of insolvencies (see Tab. 2).

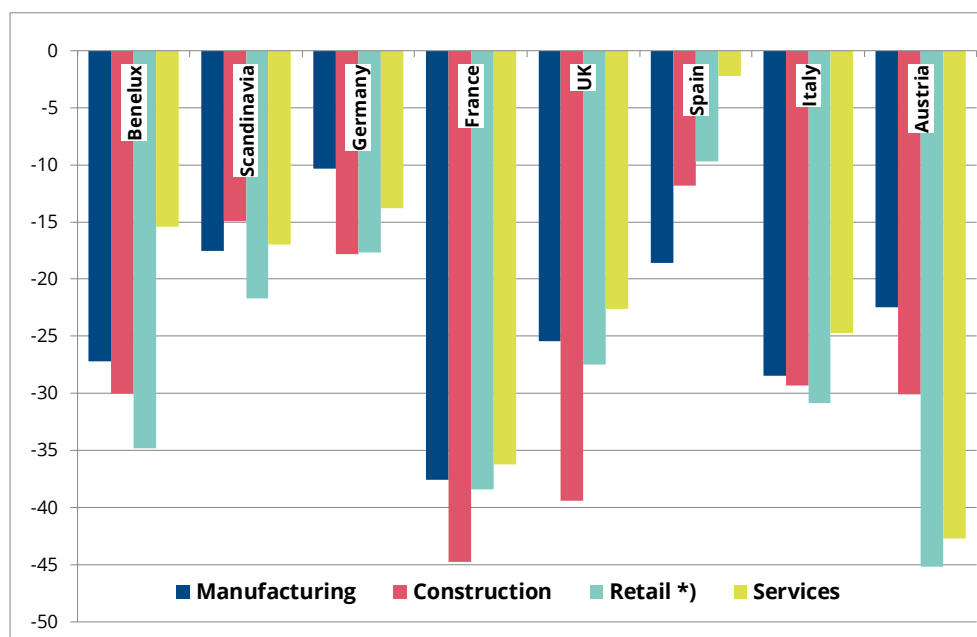
Finland

In Finland, too, insolvency figures fell, declining by 17.8 percent. The year before, in contrast, there had been a slight increase. Once again, the service sector accounted for the largest proportion of the 2,135 cases reported (40.0 percent). It was followed by the retail sector (28.4 percent). Compared with the previous year, all four main economic sectors in Finland showed the same downward trend in insolvency totals. As in other countries, it was noticeable that insolvencies were still significantly higher in the first three months of 2020 than later in the year.

France

France was one of the countries in Europe hardest hit by the pandemic. Economic activity was correspondingly affected and the government had to come to the aid of ailing companies. At 31,212, the number of insolvencies was 39.0 percent lower than in the previous year (2019: 51,201). Insolvency figures fell noticeably in all main sectors of the economy. At 35.6 and 35.0 percent respectively, retail and services continued to account for the largest proportions of the overall volume.

Fig. 7: Changes in the main economic sectors according to countries/regions 2019/20



Changes in percent; *) incl. hospitality business; Source: Creditreform

United Kingdom

The UK recorded 13,200 corporate insolvencies. This was significantly lower than the prior-year figure (2019: 18,256). In the spring of 2020, the Corona pandemic had already spread rapidly in the United Kingdom. The British government was quicker than other European countries to launch a broad vaccination campaign. Nevertheless, the country slid into a severe recession in 2020. Economic output is estimated to have slumped by 10 percent. However, this is not yet reflected by the insolvency figures. Insolvencies in the construction sector declined at an above-average rate.

Ireland

The number of corporate insolvencies in Ireland remained virtually constant at 575 (2019: 568). In previous years, Ireland had seen a rapid recovery in its economic situation, with a corresponding sharp fall in insolvency figures. In 2020, however, Ireland was not spared an economic downturn; this was, though, less severe than in other countries. 47 percent of all insolvencies occurred in the service sector, 36 percent in the retail sector. In both sectors, these proportions were slightly higher than the year before.

Italy

Italy was one of the first European countries to be hit severely by the Corona virus. The economic situation was affected at a correspondingly early stage. For 2020, this resulted in a decline in growth of around 10 percent. Government measures prevented a further fall. Insolvency figures remained below the previous year's levels (2020: 10,173 cases; 2019: 14,228 cases). At almost 32 percent, the retail sector once again accounted for the largest share of insolvencies, but the absolute figures in this sector decreased significantly.

Luxembourg

At 1,200 cases, there was a slight decline in corporate insolvencies in Luxembourg in 2020 (2019: 1,263). Overall, insolvency activity in 2020 remained high in a longer-term context, registering the second-highest level since 2007. The service sector accounted for the largest share, with 73.5 percent of all Luxembourg's cases.

Netherlands

In 2020, there were 2,703 business insolvencies in the Netherlands (2019: 3,209). Compared with 2019, the number of cases decreased by 15.8 percent; this followed a slight increase the year before. Economic development was noticeably shaped by the Corona pandemic. Overall, economic output is likely to have declined by around 5 percent. The insolvency trend continued to impact on the service sector; this accounted for 52 percent, or more than half, of the overall total (see Tab. 2).

Norway

In Norway, the number of insolvencies fell by around 900 to 4,100, the lowest figure since 2012. So far, the Corona crisis has had no negative impact on insolvency figures, although the economy (GDP) declined by around 3 percent. Nevertheless, the country is expected to return to pre-crisis levels as early as 2021 - and thus more quickly than other European countries. There was a sharp drop in insolvencies in the construction sector, but the other sectors of the economy also showed a reduction. Proportionately, the highest number of insolvencies occurred in the retail and service sectors (see Tab. 2).

Tab. 2: Insolvencies according to main economic sectors in selected countries/regions 2019/20

■	2020				2019			
	Manu- facturing	Con- struction	Retail *)	Services **)	Manu- facturing	Con- struction	Retail *)	Services **)
Austria	5.2	19.1	30.0	45.7	4.0	16.2	32.5	47.3
Belgium	5.1	18.4	41.7	34.8	5.1	18.6	47.3	29.1
Denmark	7.6	17.4	25.4	49.6	6.7	13.2	30.8	49.3
Finland	12.0	19.5	28.4	40.0	11.9	19.9	28.3	39.9
France	9.7	19.7	35.6	35.0	9.5	21.8	35.3	33.5
Germany	7.9	13.8	20.2	58.1	7.5	14.3	20.9	57.4
Ireland	6.0	11.0	36.0	47.0	7.0	17.0	32.0	44.0
Italy	24.6	17.6	31.8	26.0	24.6	17.8	32.9	24.7
Luxembourg	0.9	7.7	17.9	73.5	0.2	9.8	20.0	70.0
Netherlands	8.6	9.4	30.2	51.9	9.2	9.1	28.9	52.9
Norway	5.7	23.6	35.0	35.7	5.4	25.5	35.7	33.4
Portugal	24.0	14.0	24.0	38.0	24.0	15.0	24.0	37.0
Spain	13.2	12.0	31.2	43.6	14.9	12.5	31.7	40.9
Sweden	5.9	16.5	29.3	48.3	6.6	17.4	28.0	48.1
Switzerland	6.8	25.5	25.7	42.1	6.2	25.1	27.0	41.8
United Kingdom	10.8	16.3	27.2	45.7	10.5	19.5	27.2	42.8
W. Europe	10.6	17.1	30.3	42.0	10.2	18.5	31.2	40.1

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

Austria

In Austria, almost half of all insolvencies (45.7 percent) were in the service sector. Overall, a total of 3,106 corporate insolvencies were registered. This was significantly fewer than in the previous year (2019: 5,235). In Austria, the dramatic deterioration in the economic situation in the wake of the Corona containment measures led to a lifting of the obligation to file for insolvency. This is likely to be partly responsible for the decline in insolvency figures. The planned reduction in the debt relief period is also likely to have led to a fall in the insolvency total.

Portugal

In Portugal, insolvency figures declined slightly (2020: 5,000; 2019: 5,071). At 38 percent, however, the service sector accounted for a growing proportion of insolvency cases.

Sweden

Sweden recorded almost constant insolvency figures. In 2020, 7,695 cases were registered, compared with 7,776 the year before. This means that insolvency activity in the Scandinavian country remains at a high level. At least there was no intensification as a result of the Corona crisis. However, in the retail sector there were increases, with this sector accounting for around 29 percent of all insolvency cases in 2020. The largest share, though, at 48.3 percent, was once again generated by the service sector.

Switzerland

In Switzerland, corporate insolvencies declined - by 18.3 percent: the total registered in 2020 was 4,912. In 2019, it had been 6,009. A correction was made for 2019 due to a change in the survey methodology (among other things, a distinction can now be made between personal and corporate insolvency in the case of sole proprietorships). One of the reasons for the decline in insolvencies was the suspension of the obligation to declare insolvency in the event of over-indebtedness. However, this regulation ended in October 2020, so insolvencies are expected to rise as a result. Retail/hospitality business accounted for 25.7 percent of the Swiss insolvency volume - slightly less than in the previous year (27.0 percent).

Spain

Spain recorded 8.2 percent fewer corporate insolvencies than the year before. In 2019, the number of cases had still been rising, and reached a total of 4,464. In 2020, the figure was 4,097, which was lower than at any time since 2008. Nevertheless, economic conditions in the country in 2020 were poor. Economic output is expected to have fallen by around 12 percent. Nevertheless, the number of insolvencies fell in all the main sectors of the economy, albeit only slightly in the service sector. This sector now accounts for just under 44 percent of the total insolvency volume.

Tab. 3: Insolvency ratios in Western Europe

■	Insolvencies per 10,000 companies
Austria	76
Belgium	108
Denmark	241
Finland	70
France	78
Germany	49
Ireland	21
Italy	27
Luxembourg	347
Netherlands	22
Norway	138
Portugal	55
Spain	13
Sweden	99
Switzerland	124
United Kingdom	51
Total	52

Source: Eurostat, Stat. Bundesamt, own calculations

Even allowing for differences in insolvency laws in the countries of Western Europe and in statistics on the aggregate number of companies, the ranking of insolvency ratios shows clear variations in relative insolvency incidence. In this context, it should be noted that regulated insolvency proceedings are only one way to exit the market. In some cases, as in Southern Europe for example, insolvency proceedings are not the typical way to do this. On the contrary: closures and other liquidations are generally chosen; this distorts the Europe-wide comparison of insolvency ratios.

■ 2 Financial situation and liquidity of European companies

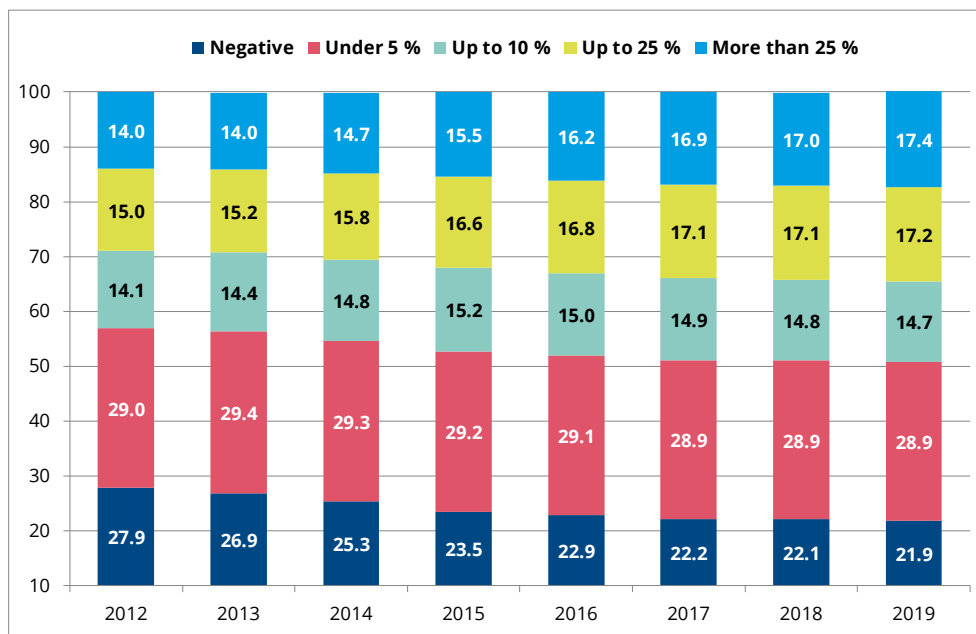
2.1 EBIT margin – Revenues and earnings

Based on the 2019 financial statements of around 3.16 million Western European companies, the earnings situation of business firms and the way that this changes over time enable conclusions to be drawn on possible insolvency risks. The following evaluations and findings are based on balance sheet data.

The year before the Corona pandemic (2019) brought a further improvement in corporate stability in Western Europe. Although this was probably the last year for such a positive development of the key balance sheet figures, it shows that many sectors and companies were stable at the time, which should mitigate economic downturns. The data indicates that compared with 2012 far more business firms achieved a high profit margin (earnings as a percentage of sales) of over 25 percent (2019: 17.4 percent of companies; 2012: 14.0 percent). For a further 17.2 percent of companies, the profit margin was in the range between 10 and 25 percent.

Before the crisis, earnings margins rose further

Fig. 8: EBIT margins among W. European companies



Figures in percent; Source: Creditreform

*More than one in five firms in
the red*

However, the upward trend was not enough to enable all firms to get out of the red. In the period under review, 21.9 percent of companies still reported a negative earnings margin. On the one hand, this represents a significant improvement (especially in the longer period since 2012) - the proportion of companies with negative margins is now 5 percentage points lower than at that time - but it also means that a good fifth of all companies in Western Europe were hit by the Corona crisis without having a solid earnings base to fall back on.

Differences in profit margins are still evident in the various sectors of the economy. Although the trend in both construction and retail (including hotels and restaurants) was once again positive - with only 19.3 percent of construction companies (previous year: 19.7 percent) and 23.4 percent of retail firms (previous year: 24.0 percent) reporting a negative profit margin - almost one in four retailers actually generated no earnings at all. Particularly in view of the immense impact of the Corona pandemic on this sector, that fact is alarming. Only 6.1 percent of retailers achieved a very high profit margin of over 25 percent, while 13.3 percent managed a profit margin of between 10 and 25 percent. The situation in the construction industry was somewhat more favourable: almost one building firm in five (19.2 percent) was able to realize a profit margin in this range, while 13.4 percent of the relevant firms reported a very high profit margin (over 25 percent).

Tab. 4: EBIT margin (in %) in 2019 in selected economic sectors

■	Construction	Retail *)
negative	19.3 (19.7)	23.4 (24.0)
below 5 %	30.6 (30.8)	41.0 (41.0)
up to 10 %	17.6 (17.6)	16.2 (16.2)
Up to 25 %	19.2 (19.0)	13.3 (13.1)
more than 25 %	13.4 (13.0)	6.1 (5.7)

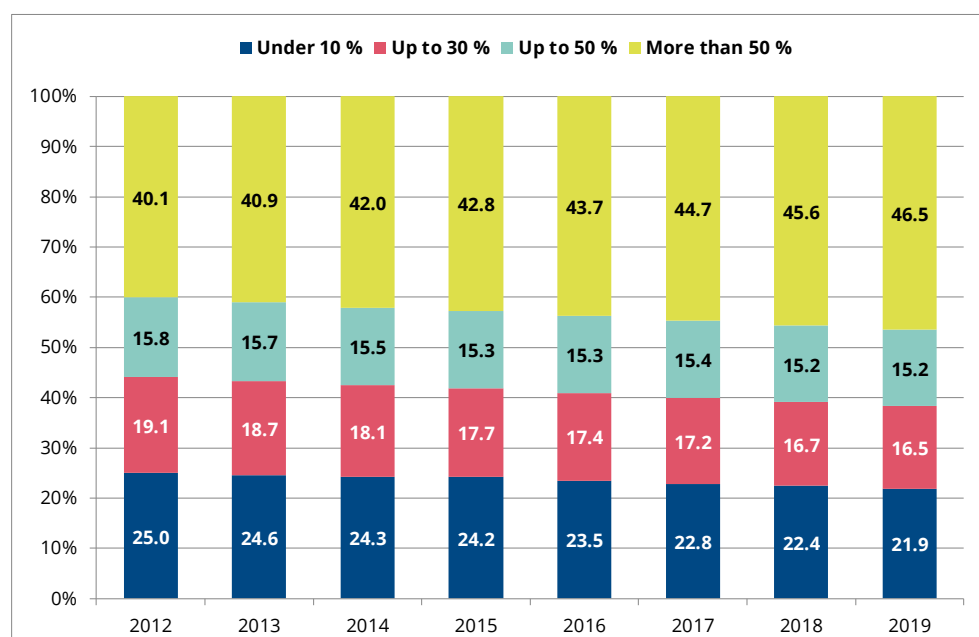
Figures in percent; () = 2018; *) incl. hospitality business; Source: Creditreform

2.2 Equity ratios

In the pre-crisis year 2019, the equity ratios of Western European business companies once again developed positively. Year-on-year, the proportion of companies with an equity ratio upwards of 50 percent rose from 45.6 to 46.5 percent, while at the same time the proportion of companies with a low equity ratio of less than 10 percent underwent a further drop, from 22.4 to 21.9 percent. The improvement is even more pronounced in the longer-term view since 2012, with a decline of 3.1 percentage points over this period (see Fig. 9). This means that the majority of Western European companies are likely to have entered the Corona crisis in a strong position. However, equity ratios will have come under considerable pressure in the course of the economic downturn in 2020.

Firms entered the crisis with good equity ratios

Fig. 9: Equity ratios in Western Europe



Figures in percent; Source: Creditreform

A look at the economic sectors confirms the positive development of the equity situation. According to the balance sheet data, 40.5 percent of companies in the manufacturing sector had a high equity ratio of over 50 percent in 2019 (previous year: 39.2 percent). One in five companies was considered to have low equity (20.1 percent).

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

■	2019	2018	2017	2016	2015
below 10 %	20.1	20.8	21.4	22.3	23.0
up to 30 %	20.5	20.9	21.3	21.5	21.7
up to 50 %	19.0	19.1	19.1	18.9	18.8
more than 50 %	40.5	39.2	38.2	37.3	36.5

Figures in percent; Source: Creditreform database and own calculations

The construction industry did not quite reach these high levels. Nevertheless, 37.7 percent of the companies surveyed had an equity ratio of more than 50 percent in 2019. Compared with the previous year, this proportion had increased once again. The companies have apparently once again succeeded in building up equity. Less than a quarter of companies (23.8 percent) had an equity ratio of less than 10 percent in 2019. Four years earlier, this proportion was significantly higher at 27.5 percent.

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

■	2019	2018	2017	2016	2015
below 10 %	23.8	24.6	25.4	26.7	27.5
up to 30 %	19.9	20.4	21.0	21.3	21.0
up to 50 %	18.6	18.7	18.7	18.4	17.9
more than 50 %	37.7	36.3	34.9	33.7	33.6

Figures in percent; Source: Creditreform database and own calculations

In the retail sector, the proportion of companies with low equity (equity ratio below 10 percent) decreased again (from 26.3 to 25.5 percent). A good third of the companies in the retail sector (35.8 percent) had a high equity ratio. For these companies, the ratio was above the 50 percent mark.

Tab. 5c: Equity ratios of Western European retail companies (incl. hospitality)

■	2019	2018	2017	2016	2015
below 10 %	25.5	26.3	26.8	27.8	28.3
up to 30 %	21.2	21.5	22.0	22.1	22.3
up to 50 %	17.5	17.5	17.7	17.4	17.5
more than 50 %	35.8	34.8	33.5	32.6	32.0

Figures in percent; Source: Creditreform database and own calculations

In 2019, among companies disclosing their balance sheets, the proportion of equity-strong companies was highest among companies from the service sector (50.8 percent). Compared with the previous year, the proportion had increased further. On the other hand, 21.0 percent of service providers had to cope with an equity ratio of less than 10 percent. Accordingly, these companies were predominantly debt financed. Since 2015, the proportion of these companies has fallen by a good two percentage points.

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

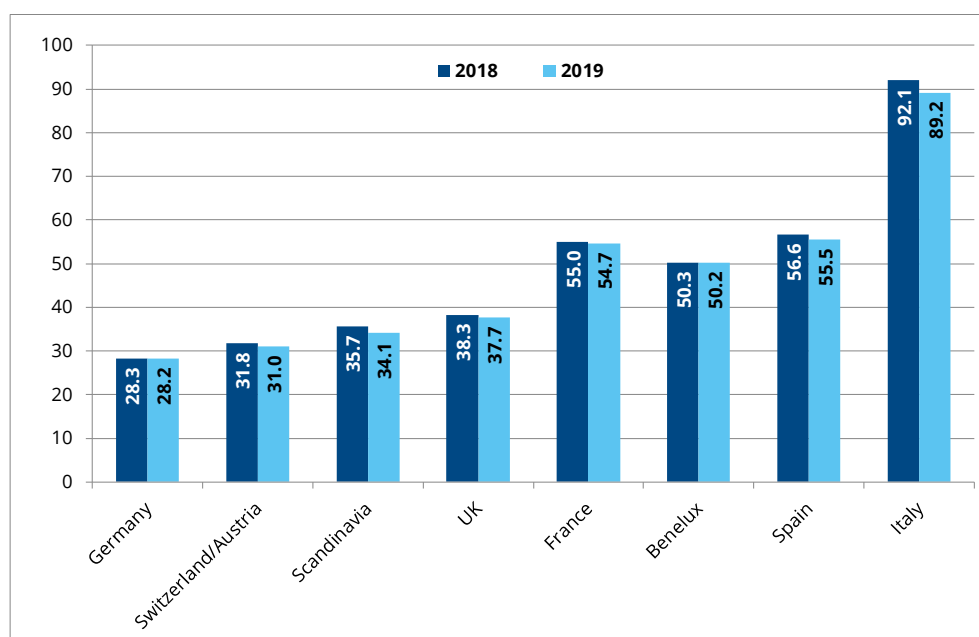
■	2019	2018	2017	2016	2015
below 10 %	21.0	21.3	21.7	22.4	23.1
up to 30 %	14.3	14.6	15.1	15.4	15.7
up to 50 %	13.8	14.0	14.2	14.3	14.3
more than 50 %	50.8	50.1	49.0	47.9	46.9

Figures in percent; Source: Creditreform database and own calculations

2.3 Collection periods

Before the crisis, the average days sales outstanding in Western Europe decreased noticeably, from 52.2 to 50.8 days. Suppliers and service providers were able to realize their receivables more quickly, thus reducing the risk of bad debt losses. This trend was seen in all regions, although Germany and the Benelux countries showed only a slight improvement. Creditors in Italy received their money noticeably faster than in the previous year. The collection period there fell to around 89 days, but remains above average.

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



Figures = median values; collection period: min. 1 day
Source: Creditreform

■ 3 Corporate insolvencies in Central and Eastern Europe

Insolvency figures lower in Eastern Europe too

In Central and Eastern Europe, insolvency figures fell in 2020 as a result of state support measures to combat the pandemic. A total of 44,782 business companies had to file for insolvency, as against 49,119 in 2019. That represents a year-on-year decline of 8.8 percent. However, three countries (Bulgaria, Czech Republic, Estonia) bucked this trend and posted a rise in the number of cases. Just as in Western Europe, most of the countries of Central and Eastern Europe saw the insolvency situation ease (cf. Tab. 6). The other Baltic countries in particular recorded significantly fewer insolvency cases than the year before. In Slovakia, too, the number of corporate insolvencies fell by around a third.

Tab. 6: Corporate insolvencies in Central and Eastern Europe

■	2020	2019	2018	2017	2016	Change 2019/20 in percent
Bulgaria	1,327	996	1,112	859	871	+33.2
Croatia	11,644	11,909	11,881	10,744	18,811	-2.2
Czech Republic *)	1,091	926	1,039	1,803	2,438	+17.8
Estonia	150	148	273	343	335	+1.4
Hungary **)	43	51	n.i.	n.i.	n.i.	-15.7
Latvia	375	560	591	587	731	-33.0
Lithuania	944	2,574	2,219	2,865	2,560	-63.3
North Macedonia	73	1,233	916	142	182	-
Poland	576	645	646	618	616	-10.7
Romania	5,564	6,384	8,304	8,256	8,053	-12.8
Serbia	1,828	2,075	2,080	2,113	2,104	-11.9
Slovakia	167	249	230	370	692	-32.9
Slovenia	1,125	1,294	1,497	1,316	1,376	-13.1
Ukraine	19,875	20,075	20,146	19,975	19,853	-1.0
Total	44,782	49,119	50,934	49,991	58,622	-8.8

*) Insolvency applications excluding self-employed persons

***) Insolvency proceedings initiated

The following is an overview of current insolvency developments in the individual countries of Central and Eastern Europe.

Bulgaria

With 1,327 corporate insolvencies by the end of 2020, the previous year's figure (996) was significantly exceeded. This makes Bulgaria one of the countries in Eastern Europe that recorded an upward trend in insolvencies. The majority of insolvencies in Bulgaria were in the service sector (49.4 percent).

Estonia

The number of corporate insolvencies increased by 1.4 percent (2020: 150; 2019: 148). Overall, the number of cases in the country remains low - especially when compared with previous years.

Croatia

There was little change in insolvency figures in Croatia. In 2019, 11,909 companies were considered insolvent, in 2020, 11,644 - a decrease of 2.2 percent. The positive trend in Croatia thus continued in 2020. Significantly higher numbers of cases had been registered as recently as 2016. In particular, insolvencies had soared following the introduction of the new insolvency legislation five years ago. In the wake of the 2020 pandemic, affected companies were able to make use of payment deferral to secure liquidity. This is likely to have had a positive impact on the insolvency volume.

Latvia

The number of insolvencies in Latvia fell by a third. A total of 375 companies filed for insolvency (2019: 560). So the downward trend of previous years continued in 2020. As recently as 2016, the figures were almost twice as high. The service sector dominated the insolvency statistics with a share of 40.0 percent, followed by retail/hospitality with 36.3 percent (see Tab. 7). In the wake of the economic restrictions imposed by the Corona crisis, the government made changes to the legal framework to protect companies in distress through no fault of their own from insolvency. This meant that creditors could not submit insolvency applications. These corrections led to a decline in the number of insolvencies.

Lithuania

In Lithuania, too, the number of insolvencies fell significantly in the wake of the Corona crisis (minus 63.3 percent). 944 companies had to file for insolvency in 2020 (2019: 2,574). This was partly due to a new version of insolvency law that came into force at the beginning of the year, but above all creditors were prohibited for several months from triggering insolvency proceedings. This was against the backdrop of the Corona pandemic. At 41.7 percent, the retail sector (including hospitality business) accounted for the largest share of national insolvency activity – that was slightly less than the year before. The construction sector accounted for just under 20 percent.

**Tab. 7: Insolvencies according to economic sectors
in selected countries/regions 2019/20**

■	2020				2019			
	Manu- facturing	Con- struction	Retail *)	Services **)	Manu- facturing	Con- struction	Retail *)	Services **)
Bulgaria	16.0	10.2	24.4	49.4	5.0	6.9	25.5	62.5
Czech Rep.	9.2	11.0	45.9	33.9	11.8	10.7	44.4	33.1
Hungary	9.8	14.2	37.0	39.0	10.4	13.3	38.0	38.3
Latvia	9.1	14.7	36.3	40.0	14.1	16.3	37.9	31.8
Lithuania	15.9	19.5	41.7	22.9	11.4	15.9	46.4	26.3
Poland	26.2	13.7	31.4	29.1	26.0	14.9	29.9	28.6
Romania	20.1	14.6	48.3	17.1	19.2	15.2	49.7	15.9
Total	17.8	14.0	42.7	25.5	15.9	14.4	45.0	24.7

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

North Macedonia

Macedonia registered few business insolvencies: in 2020, there were 73 (2019: 1,233). In March 2020, the government had prohibited the opening of insolvencies, citing a state of emergency. Thus, there were effectively no newly opened cases in the course of the year and only a few previously opened cases were dealt with. In previous years, inactive companies were also declared insolvent, which partly explains the high figures at the time.

Poland

Poland recorded a 10.7 percent drop in insolvencies. In 2020, a total of 576 company insolvencies were reported (2019: 645). However, more employees were affected. Overall, insolvency proceedings are rarely used by companies in Poland. The share of insolvencies accounted for by the retail sector rose to 31.4 percent. The construction industry, on the other hand, was less affected than in the previous year and accounted for 13.7 percent of all corporate insolvencies (see Tab. 7). During the Corona pandemic, the Polish government decided to make changes for distressed companies. For example, it was possible to postpone filing for insolvency until after the crisis or to reach an agreement with creditors outside the insolvency proceedings. This is likely to have tended to

reduce the number of cases. However, there is no information on how many companies have made use of these options. Other state aid measures provided support for affected sectors, for example through tax relief.

Romania

Romania was one of the countries in which the number of corporate insolvencies fell year-on-year (minus 12.8 percent). 5,564 insolvent companies were registered in 2020 (2019: 6,384). Insolvency activity declined in the retail sector in particular. Within a year, the proportion generated by this sector fell from 49.7 to 48.3 percent (see Tab. 7). However, retailers still clearly dominate the insolvency statistics in Romania. There was also a marked decline in damage to creditors. Measures to support the economy during the Corona pandemic included liquidity injections for affected companies and the possibility of deferring loan instalments.

Serbia

1,828 corporate insolvencies were recorded in Serbia in 2020. This represents a decrease of around 12 percent compared with the previous year (2019: 2,075). Despite state support measures for companies, insolvency law remained untouched, and insolvencies were opened even during the crisis months. During the pandemic, small businesses, hospitality firms and the entertainment industry were the most affected.

Slovakia

With 167 cases, only a few corporate insolvencies were registered. In the previous year (2019), there were 249 cases. The number of corporate insolvencies thus remained well below the previous highs (e.g. 2015: 715). In 2020, companies affected by the Corona restrictions (such as primarily the catering and retail sectors) were able to apply for creditor protection. It is to be expected that once the moratorium expires, multiple companies will be considered insolvent or over-indebted.

Slovenia

In 2020, there were 1,125 insolvencies - a decrease of around 13 percent compared with 2019 (1,294 cases). In Slovenia, the government had initiated numerous measures to support the economy during the Corona crisis. As a result, insolvency activity is likely to have slowed in the course of 2020. So far, the measures were limited to the end of March 2021.

Czech Republic

With 1,091 corporate insolvencies in 2020 and a year-on-year increase of 17.8 percent, insolvency activity in the Czech Republic bucked the trend in other Eastern European countries. Nevertheless, the number of cases was still well below the previous highs (e.g. 2,438 cases in 2016). The insolvency figures only reflect the bankruptcies of "real" companies; tradespeople are not covered by corporate insolvency law. Around 17,000 employees were affected by insolvency. In 2020, the Czech Republic had a creditor protection scheme in the wake of the Corona pandemic. When this protection expires, the number of cases is expected to rise rapidly. With 45.9 percent of all corporate insolvencies, retail (including the hotel and restaurant sector) was the dominant economic sector (see Tab. 7).

Ukraine

In Ukraine, insolvency figures remained virtually unchanged. In 2020, 19,875 corporate insolvencies were registered, compared with 20,075 in 2019. Due to the Corona pandemic, temporary changes were made to insolvency law there. Small and medium-sized enterprises that were affected by the crisis received state support. Coming on top of the already difficult pre-crisis economic situation, the pandemic is likely to have further aggravated the situation of business companies. It is difficult to predict how insolvency will develop in the future.

Hungary

The country recorded only a few insolvency proceedings opened in 2020 (43). The majority of exits from the market took the form of liquidations and compul-

sory liquidations. The service sector and retail dominated the scene, with 39.0 and 37.0 percent respectively (see Tab. 7).

■ 4 Insolvencies in Turkey

With around 40 percent of all insolvencies in Turkey, retail is the predominant economic sector. A total of around 16,000 corporate insolvencies were recorded in 2020. That represents an increase of 13.5 percent compared with the previous year. This rise was despite the fact that the Corona situation led to insolvency proceedings being suspended for several months by state decree. The insolvency figures in Turkey only include companies. Self-employed persons and sole proprietorships are not included.

Tab. 8: Corporate insolvencies in Turkey

■	2020	2019	2018	2017	2016	Change 2019/20 in percent
Turkey	15,949	14,050	13,593	14,700	11,038	+13.5

■ 5 Insolvencies in the USA

In the United States, the number of corporate insolvencies decreased significantly, by 16.5 percent. A total of 32,506 corporate insolvencies were registered in 2020 (2019: 38,944). In the previous year, insolvency figures had still increased slightly. The number of filings for protection from creditors under Chapter 11 of the US Bankruptcy Code has recently increased substantially and now accounts for more than a quarter of all insolvency proceedings.

Tab. 9: Corporate insolvencies in the USA

■	2020	2019	2018	2017	2016	Change 2019/20 in percent
USA	32,506	38,944	38,032	38,062	37,997	-16.5

■ 6 Summary

In Europe, massive government intervention prevented the Corona crisis from triggering a wave of insolvencies. In Western Europe, the number of corporate insolvencies in 2020 was the lowest in 30 years. A total of around 120,000 corporate insolvencies were registered. This was a significant decrease of more than a quarter (26.9 percent) compared with the previous year (2019: 162,899). To combat the economic consequences of the pandemic, most national governments had launched extensive support measures in spring 2020. These included emergency financial aid and changes to insolvency law. Overall, this led to a significant reduction in the number of registered insolvencies.

Almost all the Western European countries under review (EU-15 plus Norway and Switzerland) recorded declining insolvency figures. Ireland was an exception, with a minimal increase. The most significant year-on-year reductions were registered in Austria, France, Denmark and Belgium.

In all four main economic sectors, the number of insolvencies decreased significantly. The downward trend was particularly marked in the construction sector (minus 31.7 percent) and in the retail sector (including hotels and restaurants), with minus 30.1 percent. Manufacturing (minus 25.2 percent) and services (minus 22.5 percent) also recorded noticeable falls.

The service sector dominates insolvency activity in Western Europe, both in terms of the number of cases (around 50,000) and the proportion of the insolvency volume (42.0 percent). The retail/hospitality sector accounted for 30.1 percent, the construction industry (20,700 cases) for 17.4 percent. A good tenth of all insolvencies (10.5 percent) were registered in the manufacturing sector.

In the countries of Central and Eastern Europe, too, the Corona year of 2020 produced a fall in corporate insolvency figures: year-on-year these declined by 8.8

percent to around 44,800 (2019: 49,119 cases). Bucking the general trend, Bulgaria, the Czech Republic and Estonia recorded rising case numbers. In Central and Eastern Europe, the retail sector dominated the insolvency scene, accounting for 42.7 percent of the total. In Turkey, there was an increase in the number of insolvencies (plus 13.5 percent to around 16,000 cases).

A large proportion of companies in Western Europe entered the Corona crisis in a stronger position. This is shown by an analysis of the balance sheet figures of more than three million companies from the year before the crisis. Rising profit margins and equity ratios had once again led to greater stability for many companies in 2019. Many companies are likely to have benefited from this in 2020. A large proportion of companies (46.5 percent) had a high equity ratio of over 50 percent. This is a significant improvement on 2012 (40.1 percent). 21.9 percent of the companies surveyed are considered to have low equity (a ratio of less than 10 percent). Profit margins had also improved again in the period before the Corona crisis, favouring the build-up of capital reserves. Nevertheless, more than one in five companies in Western Europe (21.9 percent) failed to generate any profit. As a result of the Corona downturn, these companies in particular are likely to have fallen into difficulties and thus represent the insolvency potential for the coming years. In connection with the expiry of government aid measures, this circumstance is likely to lead to an increase in insolvency totals.

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Neuss, 20 May 2021

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