

Insolvencies in Europe

2000/01

A survey by the
Creditreform Economic
Research Unit

■ 1 Foreword

Will Europe remain stable?

Every year kicks off with economic gurus worldwide delivering forecasts of economic developments. And their principal focus is the US economy. What happens on the economic front across the Atlantic is noted for setting trends and inspiring imitation – not only in stock markets but also in terms of monetary stability, unemployment rates and export ratios. So it is not really surprising to find that the outlook for the US economy - which has been getting steadily gloomier since summer 2000 - has etched a few worry lines on the faces of European as well as American business forecasters. With the USA coming in for what is feared will be a hardish landing after its high-altitude flight over the past ten years, some sobering prospects are being considered. Since the beginning of the year, the Federal Reserve has lowered interest rates by a full percentage point, rolling back the base rate in two stages on 3 and 31 January.

Now, all eyes are on Frankfurt. Will the European Central Bank follow suit and relax interest rates? On 4 January 2000, the ECB's directors showed themselves to be in an independent and confident frame of mind. Interest rates remain unchanged. Explaining its decision, the ECB wrote: "... recent data on economic activity in the euro-zone point to sustained vigorous growth, albeit at a slightly lower level". According to the International Monetary Fund, economic slowdown in the United States will curb world economic growth to just 3.5 percent in 2001 (IMF forecast last year: 4.7 percent). But Europe has its own economic cycle. Germany's Finance Minister Hans Eichel reckons economic growth across the EU will be three percent: "The dynamism of the European economy is undiminished".

The European Single Market is becoming increasingly important. The volume of foreign trade conducted by the member states of the European Union has increased from € 1.18 billion to € 1.97 billion and intra-European trade has upped its share of that total from

Dark clouds over America

33.1 to 37.2 percent, growing in volume from € 390 billion (1990) to € 731 billion (1998). As for German companies, they are not yet making the most of the European market. In November 2000, German exports crossed the magical trillion DM threshold for the first time, but with DM 463 billion of the DM 1,069 billion revenue total coming from non-European countries, there is certainly scope for doing more business within the Single Market. Greater concentration on the European market will particularly help German exporters in the light of the euro's recovery. Not only the US market but also other countries conducting foreign trade in dollars are likely to exercise greater restraint on the import front in 2001.

As the European market and its cyclical developments become increasingly a focus of attention, so too do insolvency figures. General economic data play an important role in corporate stability. Exchange rate risks in trade with non-European countries may be more a factor for major companies, but the interest rates set by the ECB certainly affect the woes or well-being of small and mid-scale companies. Where companies are heavily dependent on borrowed capital - most of it still furnished by banks - even minor interest rate rises can undermine a company's financial security. But insolvency is not just a consequence of general economic conditions; it also impacts on those conditions. Where insolvency figures are high, the economic climate deteriorates. Especially for mid-scale companies, which still don't normally run cross-border operations, even in Europe, the collapse of a foreign associate can have fatal consequences.

Insolvencies break bounds

A report on the insolvency situation in Europe is essentially a study of the business structures of small and medium-sized enterprises (SMEs). But it needs to address more than just developments in individual business sectors, financial structures and the survival rates of young companies in general. Special attention needs be paid to the New Economy and to the opportunities and risks it presents to companies rallying to its glittering flag.

■ 2 Insolvencies in Europe – The latest figures

The total number of insolvencies in Western Europe increased from 183,563 in 1999 to 187,090 in 2000. After the downturns registered from 1997 to 1999, the figure for 2000 marks a reversal, a renewed upswing of 1.9 percent.

Tab. 1: Insolvencies in Europe from 1995 - 2000

■	Absolute						Changes in percent				
	1995	1996	1997	1998	1999	2000	95/96	96/97	97/98	98/99	99/00
Belgium	7,157	7,400	7,700	6,925	7,150	6,500	3.4	4.1	- 10.1	3.2	- 9.1
Denmark	2,621	1,900	1,800	1,800	1,586	1,700	- 27.5	- 5.3	0.0	- 11.9	7.2
Germany	28,785	31,471	33,400	33,947	33,870	40,400	9.3	6.1	1.6	- 0.2	19.3
Finland	4,700	4,300	3,611	3,136	3,080	2,100	- 8.5	- 16.0	- 13.2	- 1.8	- 31.8
France	59,503	64,900	61,068	55,000	41,186	39,000	9.1	- 5.9	- 9.9	- 25.1	- 5.3
Greece	1,395	1,380	1,300	871	694	630	- 1.1	- 5.8	- 33.0	- 20.3	- 9.2
Great Britain	41,000	40,000	37,000	37,500	46,900	47,600	- 2.4	- 7.5	1.4	25.1	1.5
Ireland	600	590	550	686	815	800	- 1.7	- 6.8	24.7	18.8	- 1.8
Italy	16,016	15,866	14,878	15,000	14,760	15,000	- 0.9	- 6.2	0.8	- 1.6	1.6
Luxembourg	320	373	425	423	545	600	16.6	13.9	- 0.5	28.8	10.1
Netherlands	5,847	5,577	5,547	5,031	3,920	4,100	- 4.6	- 0.5	- 9.3	- 22.1	4.6
Norway	3,899	3,800	3,300	3,347	3,342	3,600	- 2.5	- 13.2	1.4	- 0.1	7.7
Austria	5,630	6,610	6,400	7,319	8,934	8,600	17.4	- 3.2	14.4	22.1	- 3.7
Portugal	225	251	302	380	410	460	11.6	20.3	25.8	7.9	12.2
Sweden	12,585	12,200	11,000	9,200	7,261	7,300	- 3.1	- 9.8	- 16.4	- 21.1	0.5
Switzerland	9,761	10,200	9,190	8,850	8,490	8,300	4.5	- 9.9	- 3.7	- 4.1	- 2.2
Spain	1,345	1,432	1,135	896	620	400	6.5	- 20.7	- 21.1	- 30.8	- 35.5
Total	201,389	208,250	198,606	190,311	183,563	187,090	3.4	- 4.6	- 4.2	- 3.5	1.9

The table above includes all insolvencies, i.e. it covers private individuals, small businesses, the self-employed and professionals as well as corporate entities. In every country, one defining feature of insolvency is inability to pay - the situation in which debtors cannot meet their financial commitments. But for companies (in Germany: only incorporated firms), another definition is accepted in many European countries This is a situation called debt overload and occurs where a company's balance sheet shows liabilities exceeding assets. Since the mid-eighties – in a move spearheaded by France and Great Britain –

businessmen, professionals and the self-employed have had the option of restructuring their business and clearing their debts as soon as inability to pay becomes imminent, under the wing of state protection, as it were, and with the help of a receiver. These cases are also included in the insolvency figures in the table above.

Avalanche of consumer insolvencies

On the subject of insolvency totals and what they comprise, special mention needs to be made of the role played in the statistics by Germany. Had it not been for Germany's marked 19.3% increase in total insolvencies in 2000, European insolvency figures would have been lower than in 1999. The upturn in Germany was due to developments in consumer insolvency. In 1999 – the first year in which the new insolvency law was in force – around 2,450 consumer insolvencies were registered; in 2000, the figure rose to 9,000 (+ 267 percent). It has to be said about these figures, however, that in Germany, small businesses and sole traders can also opt for the simplified consumer insolvency proceedings, so that here there is an area of overlap with the corporate insolvencies registered in other countries. However, in countries like France, Great Britain and Austria, a similar option for consumers and small businesspeople has existed for several years longer. "Real" corporate insolvencies in Germany increased by 3.3 percent in 2000, raising the total from 26,600 to 27,500.

The country experiencing the second-sharpest upturn in insolvency is Portugal. Here, 460 bankruptcy petitions were registered - 12.2 percent more than in 1999, when 410 petitions were filed. These are comparatively small figures in absolute terms, but the country at Europe's south-western tip could soon see them increase. Bankruptcy figures there have been rising since 1996: at around four percent, the rate of increase is significantly higher than the EU average. And now, this low-wage country is going to face competition from the Eastern European countries set to join the EU. Finally, it should be noted that Portuguese insolvency law allows debtors to file for bankruptcy not only when they cannot meet their

financial commitments but also when criminal acts have been committed, e.g. assets have been squandered, company directors have disappeared or the principal place of business has been abandoned.

Another country where the absolute number of insolvencies is comparatively small is Luxembourg. But, like Portugal, the Grand Duchy has experienced marked increases in insolvency figures since the mid-nineties.

Increased insolvency is also found in three of the four Scandinavian countries. This marks a trend reversal for Denmark (plus 7.2 percent), Norway (plus 7.7 percent) and Sweden (plus 0.5 percent), all of which enjoyed declining insolvency figures up to 1999. Similarly, Great Britain (plus 1.5 percent), Italy (plus 1.6 percent) and to a greater extent the Netherlands (plus 4.6 percent) also recorded increases.

Trend reversal?

Spain (minus 35.5 percent) and Finland (minus 31.8 percent) present the brightest insolvency pictures. What applies to Portugal, however, also applies to Spain: in many cases, bankruptcy proceedings are not instituted because creditors refrain from asserting their claims in court. The majority of companies set up in Spain are in the form of a "sociedad limitada". The requirements which need to be met to set up this kind of company are very modest; it is comparable in Germany to a cross between a GmbH and GbR. Where a "sociedad limitada" ceases to operate, what frequently happens is that neither liquidation nor bankruptcy proceedings are instituted. Although the company no longer does any business, it continues to be listed in the commercial register as an "active" enterprise. The Finnish figures are more informative and thus more useful. Since the number of petitions for insolvency filed in Finland peaked at 7,391 in 1992, the last eight years have brought steady improvement.

Good developments in the insolvency situation were also seen in Belgium (minus 9.1 percent), euro-candidate Greece (minus 9.2 percent), France (minus

5.3 percent), Austria (minus 3.7 percent), Switzerland (minus 2.2 percent) and Ireland (minus 1.8 percent).

Tab. 2: Total insolvencies in Europe in 2000 compared with 1999

■	Insolvencies	Changes in percent
Spain	400	- 35.5
Finland	2,100	- 31.8
Greece	630	- 92
Belgium	6,500	- 9.1
France	39,000	- 5.3
Austria	8,600	- 3.7
Switzerland	8,300	- 2.2
Ireland	800	- 1.8
Sweden	7,300	0.5
Great Britain	47,600	1.5
Italy	15,000	1.6
Netherlands	4,100	4.6
Denmark	1,700	7.2
Norway	3,700	7.7
Luxembourg	600	10.1
Portugal	460	12.2
Germany	40,400	19.3
Total	187,090	1.9

■ 3 Insolvency patterns in Europe

3.1 Insolvency and company size

The abstract insolvency figures recorded for the various countries, and the developments they reflect, come into focus when viewed in relation to the numbers of companies registered. The table for 2000, however, cannot be compared with those of previous years. Unlike in the past, it is based on corporate insolvencies, not on total insolvencies. Because of the aforementioned differences in insolvency law, total and corporate insolvency figures may be the same (e.g. in Portugal and Ireland). Where a strict dividing line is drawn, however, marked differences are revealed. In Europe as a whole, corporate insolvency is put at 128,390 cases, which is a third less than the total number of insolvencies.

Tab. 3: Insolvencies in Europe in relation to the number of registered companies

■	Registered companies	Insolvencies	Insolvencies per 10,000
Belgium	530,000	5,300	100
Denmark	150,000	1,700	113
Germany	3,515,000	27,500	78
Finland	220,000	2,100	95
France	2,325,000	39,000	168
Greece	620,000	630	10
Great Britain	3,660,000	14,800	40
Ireland	85,000	800	94
Italy	3,940,000	15,000	38
Luxembourg	30,000	600	200
Netherlands	450,000	3,300	73
Norway	205,000	2,100	102
Austria	310,000	5,200	168
Portugal	690,000	460	7
Sweden	385,000	5,600	145
Switzerland	240,000	3,900	163
Spain	2,510,000	400	2
Total	19,865,000	128,390	65

Basis: National statistics 2000

The top four places in the insolvency rate table are still held by the Southern Europeans Spain, Portugal, Greece and Italy. This is because their national economies comprise a comparatively large number of companies. The basis for the corporate figures are national statistics. Whether it is right to assume from these – especially in the light of pan-European statistics – that Spain has a broader corporate base than France, for example, or that Italy has more companies than Germany is a moot point. Basically, the figures probably say more about the importance of the role insolvency law plays in economic life. In highly developed industrial nations (following the example of the United States), it has come to play a key role - one which has been described as follows: "As the worst case scenario for the whole gamut of commercial law, this area of the law plays a latent but very central role" (Prof. Paulus). In Spain or Portugal (at present), its only purpose is to regulate the liquidation of companies that collapse.

Insolvency law plays minor role

Scene dominated by very small companies

Corporate density – i.e. the number of companies in a country – is not the only statistical quantity useful for putting insolvency figures into perspective, however. Anyone talking about insolvency patterns in Europe also needs to consider the statistics for SMEs. From employment figures, Eurostat and OECD have worked out what size of company is dominant in the countries of Europe. What they find is that in countries where insolvency disputes do not occur in connection with the restructuring or "winding up" of companies, very small companies account for a substantial percentage of the whole. Within the group of SMEs, the EU defines very small companies as firms with fewer than ten employees. Five countries are dominated by very small companies: France, Greece, Italy, Spain and Portugal. France comes closest to the ceiling of this segment, with an average of seven employees per company. Spain is second-placed with five, Portugal four, Greece three and Italy four. One interesting thing in this connection is that although the average size of companies increases with prosperity, once a certain level of economic prosperity is reached, a negative correlation occurs, with SMEs evidently finding new (niche) opportunities.

Overall, out of a total of some 19.8 million enterprises in Europe, only 40,000 are classed as large companies – which the EU (unlike Germany) defines as companies employing more than 250 people. Europe's economy is powered mostly by very small companies: 18.5 million firms have fewer than ten employees, 1.18 million have between 10 and 49 employees and 170,000 companies are classed as mid-scale enterprises with between 50 and 249 people on the payroll.

3.2 Insolvency and the labour market

The workforce categories of SMEs need to be compared with the payroll figures of insolvent companies. This reveals that - as in Germany - the average size of companies that fail is slightly greater than the average size of all the companies that exist.

The average failed company in Europe has eight people on the payroll. Unemployment due to insolvency thus mirrors changes in the jobless rate. In the wake of the recession between 1993 and 1997, this reached more than eleven percent. 1997/1998 brought a turnaround: from 10.7 percent in 1998, unemployment decreased to 9.9 percent in 1999 and 8.8 percent in 2000. The number of job losses due to insolvency came down at a similar rate: 1.6 million in 1998, 1.4 million in 1999 and finally 1.1 million last year. Incidentally, gainful activity also showed a marked increase in the same period, rising within the territory of the European Currency Union from an index figure of 101.7 in 1997 to 107.6 in 2000. It should be added that employment growth during the recovery phase was most pronounced in the segment made up of very small companies. For one thing, enterprises employing fewer than ten people had started as early as 1995 to create new opportunities for employment. For another, they also created the most new jobs overall.

Fewer jobs lost through insolvency

Tab. 4: Unemployment due to insolvency in Europe

■	Job losses (in millions)
1996	1.86
1997	1.80
1998	1.60
1999	1.40
2000	1.10

3.3 Major industries and branches of the economy

Another important structural feature of the current insolvency situation is the way in which major economic sectors are affected. Unfortunately, sectoral insolvency figures are not available for all member states of the European Union but a picture based on the majority of insolvency cases can be formed from the figures available for the six countries of Western Europe. It is clear that the tertiary sector – commerce and services – accounts for the vast majority of insolvencies in a country. Together, traders and

Many bankruptcies in manufacturing sector in Britain

service-providers made up around 70 percent of insolvencies in 2000. Lower figures for this sector, which is a very important one for SMEs, were registered only in Germany (57 percent) and Great Britain (55 percent). Particularly high figures were found for commerce in Belgium (41.8 percent) and for the services sector in Denmark (42.5 percent). In Germany, the building sector had a marked impact (31.8 percent) on the insolvency landscape while in Great Britain manufacturing played a special role (27.7 percent). In the case of Great Britain, it should be noted that while manufacturing is dominated by relatively large industrial companies, there are traditional areas where smaller companies play an important role. The food, tobacco and textile/clothing industries comprise small companies which, because of the sheer volume of investment needed, could not contemplate the kind of structural change that has already taken place, for example, in the chemical and metalworking industries.

Tab. 5: Insolvencies in the major business sectors in 2000 (in percent)

■	Manu- facturing	Construc- tion	Com- merce*	Services.
Belgium	11.2	16.5	41.8	30.5
Denmark	8.9	14.5	34.1	42.5
Germany	11.4	31.8	21.5	35.3
France	13.5	19.5	29.4	37.6
Great Britain (Engl./Wales)	27.7	17.7	28.3	26.3
Netherlands	12.9	14.8	33.7	38.6
Norway	13,2	11,2	54,3	21,3

* including hotel and catering trade

Next to retailing, the sector with the smallest companies is construction. In both cases, the average enterprise employs only four people. The high contribution made to the insolvency total in Germany by SMEs in the construction sector is due particularly to the state of the industry in eastern Germany. In the new federal states, almost one in two victims of corporate insolvency is a building firm. The weakness

of the German construction market, with its large number of insolvencies, is only the tip of the iceberg. Germany accounts for around 30 percent of all construction investment in Western Europe. But changes in the levels of this investment show how sluggish the German construction market became in the second half of the nineties. Between 1995 and 1999, per capita investment decreased in real terms by 8.5 percent. The only other country that registered a downturn in construction investment was France. Second to Germany with a construction sector accounting for 19.5 percent of insolvencies, it reported a decrease of 1.6 percent. Overall, the level of investment in construction projects in the EU diminished by 1.9 percent between 1995 and 1999.

Insolvency figures in the construction sector worse due to poor economic conditions

In relation to the number of companies in operation, the service-sector figures are the best – at any rate in the six countries where sectoral figures are available. 46.5 percent of all companies in the EU are service enterprises. These include transport and communications providers as well as specialists in business or consumer services. As the table shows, the percentage of insolvencies accounted for by service enterprises in every country is well below the percentage of companies classed as service-providers.

It is a different story in the construction sector – and not only in Germany. The nearly 2.8 million building companies registered in Western Europe accounted for 14.2 percent of insolvencies. In almost every country – with the exception of Denmark (8.7 percent more construction investment) and the Netherlands (8.6 percent upturn) – insolvency in the construction industry played a major role in overall insolvency totals. The same applies to commerce. Wholesalers and retailers accounted for 28.3 percent of insolvencies. Only Germany's trading community – one which is increasingly dominated by major companies – accounted for a disproportionately small share (21.5 percent) of insolvencies. Finally, apart from playing a special role in Great Britain, manufacturing showed

above-average instability only in France (13.5 percent) and the Netherlands (12.4 percent).

Tab. 6: Relative proportions of economic sectors in Europe in 2000 (as percentages)

■	
Manufacturing	11.1
Construction	14.2
Wholesale trade	7.6
Retail trade	20.7
Services	46.5

3.4 Company startups and closures

It is not only insolvency figures that are needed for official European statistics; business community fluctuation figures tracking company startups and closures are also available in only a small number of member states. The last EU-wide count was in 1995. Since then, pictures of business community fluctuation have relied on estimates. A recent report by the European Commission describes the basis on which the 1995 results are extrapolated: "Company startups and closures each account for around ten percent of all the companies registered". So of the 19.8 million companies in the Community, just under two million will have been deregistered in 2000, and ten percent of these – i.e. around 200,000 "units" – went bust. According to this rough estimate, a total of 2.2 million newly formed companies start up each year. And a considerable number of those new companies face a high risk of insolvency. From studies of the age structure of insolvent companies in Germany and the Netherlands, for example, it can be concluded that around half of all the companies that go to the wall in Europe are no more than five years old. What's more, in Germany and the whole of Western Europe, high business community fluctuation in the tertiary sector - where payrolls are short and capital bases small - means that many of the new companies formed here have little chance of surviving. Even so, around nine million "businesses" in Europe – i.e. nearly half the total – have no employees at all. These "micro-

Live fast, die young

businesses" are the reason why it is so difficult to distinguish between corporate and private insolvency.

There are naturally political reasons for the fact that it is fairly easy to find data published about current corporate startups in a country but it is very hard to find closure and liquidation statistics.

Liquidation is not something countries like to talk about

Tab. 7: New companies formed in Europe in 2000

■	Number of newly formed companies
Belgium	21,643
Denmark	48,329
Germany	832,000
Finland	27,340
France	279,400
Great Britain	182,565
Luxembourg	304
Netherlands	452,450
Austria	23,800
Switzerland	31,454
Spain	115,781
Total	2,015,066

Pretty much the last thing newly formed companies want to hear about is insolvency risk, even where "child mortality" is very high. For all the euphoria felt by business pioneers and politicians - for whom high startup figures are a sign of successful economic policy - it must not be forgotten that larger companies not only have significantly better chances of survival; they also do better in terms of revenue growth and profitability. EIM Small Business Research and Consultancy, for example, estimates that the revenues of very small companies will rise by 2.5 percent a year between 2000 and 2005. Those of large companies will grow by 3.1 percent.

Export offers sales opportunities

The reason is mostly to do with the scenario described at the beginning of this report: rising exports within the European Single Market. Small businesses tend to focus on regional markets and leave export opportunities to bigger companies. Large companies' domestic revenues, for example, are forecast to rise by

only 2.0 percent, whereas those of small and very small firms may grow by 2.2 or 2.3 percent. On the export front, however, large companies are set to boost their income by 6.3 percent a year over the next five years while small companies are likely to step up their export earnings by only 5.5 percent. On the issue of profitability, the EU Commission reckons: "The profitability of very small companies will remain unchanged but that of small, mid-scale and large companies will rise".

Now, hopes are pinned particularly on new business ventures in the modern services sector. These are not so much involved in consumer services, such as health or catering; their principal business focus is modern IT and communications. As for the chances of survival in these industries of the future, it should be noted that they have so far made no appreciable impact on the overall statistics relating to startups and the pool of the self-employed in Europe.

Dubious self-employment ratios

International comparison of self-employment levels - which are often held up by politicians as an indication of the need for action - shows particularly high levels of self-employment in Greece, Italy and Spain. In that trio of chart-topping countries, between 28.6 and 18.6 percent of the national workforce are self-employed. Following up in fourth place is Great Britain, with 11.9 percent. Germany occupies a mid-field position with 8.9 percent.

3.5 Internet bubble about to burst?

In summer 2000, voices were still heard complaining about how much Europe lagged behind the United States in Internet business. But when stock prices nose-dived in Germany's Neuer Markt and similar markets in the United States and Europe, when more and more headlines were made by lay-offs in Silicon Valley and the tally of insolvent Internet companies exceeded 200, scepticism started to spread. What are startups' chances of survival? How prone are they to insolvency?

One thing is certain: such companies will face considerable financial difficulties. Developments at stock exchanges show how mistrustful investors have become. And there is no sign of a rally of returning capital that would put "fresh money" in the pockets of young listed companies. The New Economy – again following America's lead – pins a great deal of hope on venture capital. Even if the venture capital market in Europe does not match the dimensions of its American counterpart, the volume of capital it furnishes increased by nearly five hundred percent between 1995 and 1999 (1995: DM 5.5 billion; 1999: DM 25.1 billion). Current figures taking account of last year's negative developments are not yet available. Innovative service-providers in Europe are also increasingly looking for venture capital and business angels. It is probable, however, that their willingness to take risks was significantly curbed last year. The crashes of letsbuyit.com, EM.TV and Gigabell show that heavyweight investors in the media business or commercial sector are extremely reluctant to bail out a company that has already filed for insolvency.

Money getting tight

Even though highly innovative companies make headlines, the high fluctuation rate of nearly two million companies a year shows that only a few of them are startups. Asked about obstacles and barriers to getting going, however, they point mainly to financing problems. In these future-oriented industries, bank loans are the commonest and, in many cases, the only source of external funding available. A 1999 poll conducted in Europe by ENSR Enterprise Survey shows that 16 percent of highly innovative companies see financing as a primary hurdle (average figure for all companies: 15 percent). 44 percent of this business sector relies on bank loans, which is over four percentage points more than the average for the corporate community as a whole. So the stock market plays only a minor role as a source of funding for the New Economy.

The headwind encountered by insolvency-prone Internet startups at present certainly has positive aspects too: the role of the stock market supervisory

authority is being questioned in the light of insider trading, company supervisory boards made up of friends are being subjected to very close scrutiny and traditional yardsticks of business efficiency – e.g. profitability – are once again playing a prominent role. There will be more insolvencies in the New Economy in 2001 but their contribution to the insolvency picture as a whole is likely to be minor.

Insolvency law for Internet companies

Mention has already been made of the important role played by insolvency law in Europe - a role that will present an even greater challenge in future where Internet companies are concerned. Questions are already being raised about the reach of new insolvency legislation. How will it apply to a virtual company? What assets are available to creditors? And what about restructuring and reorganisation, which play a major role in all bodies of modern insolvency law, in France, in Great Britain and in Germany - how can it be applied in such cases? When companies are appraised in the stock market, there is already a tendency to pay less attention to their future prospects than to their vital statistics and current performance. The creditors of an insolvent Internet company will also want to know what assets can be seized to meet outstanding claims. What is a successful website worth? To what extent is it available to settle debts in the event of insolvency? So far, no one has come up with viable answers to these questions – answers which are needed for a future insolvency law catering specifically to the New Economy and its backers.

■ 4 The reasons for insolvency

4.1 Insolvencies and economic conditions

Impact of economic fluctuations felt faster

A look at developments in the insolvency situation in Europe in the 1990s reveals two things. First, the total number of bankruptcies in Europe stayed at a relatively stable 200,000, plus or minus 20,000 cases. Secondly, comparison of various economic indicators over the last decade – especially GDP as a "summary" of national economic performance – shows not only that economic developments impact on insolvency but also that the timelag is now shorter between an

economic peak and the corresponding low in insolvency or between the trough of a recession and the end of the ensuing escalation of insolvency. In short: recessions now boost insolvency figures the very next year, whereas in the seventies and eighties it sometimes took two or three years before a reaction was seen in insolvency statistics. It should be added, however, that only for a few European countries is there statistical material available which dates back far enough and is detailed enough to confirm the theory that insolvency now reacts faster to the vicissitudes of the economic cycle. A special role is played here by the economic climate in the different business sectors. This has already been shown by developments in the construction sector and the role played by construction investment in determining this sector's positioning in the overall insolvency table.

On the issue of the reasons for insolvency, the focus here should be less on the catalytic effect of the economic climate and more on the question of why an improvement in economic conditions does not produce a corresponding improvement in insolvency totals. Once again, useful parallels can be drawn with the job market: here, owing to good economic conditions, unemployment decreased from 9.9 percent (1999) to 9.0-8.8 percent (2000). Even with rising production figures, better earnings forecasts and the prospect of more tax cuts in the EU, however, the jobless rate is unlikely to drop below eight percent across Europe. Like unemployment, insolvency is also curbed and boosted by economic conditions only within certain limits. Its underlying cause is structural.

Zero insolvency?

4.2 Equity and borrowings

As has already been shown, the place to start looking for the structural cause of insolvency is among SMEs and their financing. Ultimately, it is inadequate financing that lies at the root of insolvency's defining features: debt overload and (actual or impending) inability to pay. Equity structure thus plays a fundamental role. Since the celebrated study by Modigliani and Miller that set out to show that a

company's market value is independent of the way in which it finances its investment, the key issue has been to define the optimum balance between equity and borrowed capital. Incidentally, the theorem put forward by the two economists has recently received a few knocks, especially in the United States.

As the following table shows, SMEs have lower equity ratios than large companies in most European countries. The only exceptions are Belgium and Spain.

Tab. 8: Ratio of equity to balance-sheet total by size of company (figures in percent)

■	Austria	Belgium	France	Germany	Italy	Portugal	Spain
Revenues totalling less than € 7 million	13	40	34	14	26	31	42
Revenues totalling between € 7 and € 40 million	27	38	35	22	25	40	43
Revenues totalling € 40 million or more	31	39	35	31	28	51	37
All sizes	28	39	35	30	27	42	38

Source: Rivaud-Danset, D., Comparison between the financial structure of SMEs versus large enterprises using the BACH databank, Final report, Institutions et Dynamiques Historiques de l'Economie (IDHE), June 1998

Two things need to be said about this chart. First, equity may include undistributed earnings, and - depending on national rules governing financial statements - reserves or provisions. What is more, it is obvious from the revenue categories that the companies in question are corporations, not one-man businesses. This means the majority of European firms are excluded. Two things can thus be assumed: first, that available equity is significantly less, and secondly that the differences between large and small companies are in fact even more marked.

Despite the "fuzziness" of the picture pieced together from the limited statistical material available, it can be said that at least two-thirds of the financial requirements of Europe's SMEs can be met only by borrowing. And it is fair to assume that most loans are furnished by a bank. As the ENSR Enterprise Survey showed in 1999, however, the number of small companies with at least one "house bank" loan varies considerably from one country to another. In Sweden

Who is eligible for a bank loan?

(31 percent), Switzerland (35 percent) and even Greece (29 percent), few businesses are eligible for (or interested in) a bank loan. In Austria (77 percent), Finland (59 percent), Norway and Belgium (57 percent each), significantly more companies with fewer than ten employees have access to such funding.

These figures are surprising – even for countries where the level of financing by banks is high. Shouldn't house banks be the primary financier of business - even for small firms, which do not have access to free capital markets? The answer is that many small businesses stay in the private account segment of a bank's operations, where they do not qualify for the kind of loans granted to commerce and industry. At any rate: from studies of Germany's small businesses and SMEs in general, it is known that even medium-term investments are financed by (expensive) overdraft facilities.

Loans from family and friends also play a role. Known as "love money", they are a significant source of finance for small and medium-sized companies. Studies in Great Britain and Spain indicate that around seven percent of startup loans come from such "informal financiers". A German study dating from 1996 shows that "love money" helps launch 25 percent of new companies .

"Love money"

4.3 Bank loans and very small firms

The significance of these unusual financial tools may also be due to the fact that access to bank loans is problematical. At any rate, the 1999 ENSR study mentioned above clearly shows that the smaller a company, the harder it is for it to secure funding. While access to funding is seen as a major obstacle to business operations by 16 percent of very small firms with no employees, the same view is held by 12.0 percent of small firms with up to ten employees, by 14.0 percent of firms with 10 to 49 people on the payroll and by only 8.0 percent of bigger mid-scale companies with between 50 and 249 employees. The EU Commission reports: "In nearly every country of the

Small businesses face financial hurdles

European Economic Area and Switzerland, entrepreneurs cited access to financing options as one of the biggest obstacles to the development of their business."

Europe's major countries have recognised the problem and reacted: new markets for young entrepreneurs have emerged, venture capitalists now get a good return on investment in Europe and business angels are helping companies find and tap sources of finance. In general, however, it has to be said that such options are available only to the larger innovative companies. They are closed to small firms in Europe (a reminder: the average failed company in Europe has just eight employees). Venture capitalists point proudly to increases in the number and volume of the deals they have concluded. Between 1997 and 1998 alone, for example, they strengthened their market presence by 49.8 percent and reported a 22.0 percent increase in the number of deals finalised. Viewed against the backdrop of nearly two million startups a year, however, the absolute number of venture capitalist deals (7,600) shows that only a tiny percentage of firms actually receive this financial blessing.

On the subject of bank financing for SMEs, mention needs to be made of the conditions contained in the recently published "Basle II" accord. These require banks to gear equity cover for loans to the credit status of the recipient. This means that a bank taking a greater risk – due to a borrower having a lower credit status – needs to back this by having higher equity cover. Credit status is determined by internal ratings – something Europe's banks insisted on instead of the originally planned external rating system adopted in the United States. The aim here is not to revive the debate about whether internal ratings might make loans more expensive for the borrower. It is certain, however, that startups and small companies with low profitability will find it even harder to get bank loans in future. It is probably realistic to assume that the measures stipulated in the "Basle II" accord will cause insolvency figures to rise.

Ratings are crucial

4.4 Liquidity and late payment

Aside from the financing options discussed above, there is another way small companies can keep themselves financially "above water". Making full use of trade credit, i.e. pushing terms of payment to the limit, helps firms - and not only small firms, either - to maintain liquidity. The fact that this can put massive pressure on the liquidity of their suppliers - even to the point of rendering them unable to meet their financial commitments and forcing them into insolvency - is sometimes forgotten. As to the way payment terms are used or abused in Europe at present: there has been a moderate improvement but, generally speaking, the time taken to settle accounts is still excessive. In Italy, France, Belgium, Austria and Switzerland, payment morale has improved - i.e. payments for goods and services are received earlier - whereas in Great Britain, the Netherlands, Germany and Sweden, the situation in the year under review deteriorated.

Tab. 9: Payment periods in Europe in days

■	Time allowed for payment	Delay in payment	Total
Italy	65 (68)	25 (24)	90 (92)
France	47 (47)	11 (13)	58 (60)
Belgium	40 (42)	21 (22)	61 (63)
Great Britain	30 (31)	30 (28)	60 (59)
Austria	26 (27)	19 (21)	45 (48)
Switzerland	22 (24)	17 (17)	39 (41)
Netherlands	27 (26)	19 (18)	46 (44)
Germany	24 (24)	19 (17)	43 (41)
Sweden	23 (24)	9 (7)	32 (31)

() =1999

The problem of payment delay is one well known to the European Parliament. On 12 June 2000, after many years of wrangling, it gave its approval to a directive combatting late payment in commercial transactions. Prior to its passage into law, Germany had already taken the initiative and promulgated a national law governing deferred payment, although this does not work as well as expected. Generally speaking, it has

European law on delayed payments

made little difference – the antagonism remains between creditor and debtor under terms of payment granted out of a desire to keep the customer.

Under the European Directive, a payment is considered overdue automatically, without reminder, 30 days after receipt of an invoice. As in Germany, creditors anywhere in Europe will be entitled to claim collection costs from the debtor as damages for undue delay, as long as they are transparent and reasonable. The Directive also stipulates that interest on the arrears should be seven percent above the base rate of the European Central Bank (under the German Payment Acceleration Act, the interest is currently five percent above the base rate).

The member states of the European Union now have two years to incorporate the Directive into national law. This means that the legislation that has just been enacted in Germany will have to be amended and brought into line with European standards. What it also means, however, is that the statutory requirements may not be met in actual commercial practice.

Success doubtful

It also remains to be seen whether the European insolvency convention approved by the Council of the European Community in May 2000 will be a success. The European Insolvency Code will enter into force in 2002, finally acknowledging the fact that, in a single European market, insolvency is not a matter that should be dealt with at solely national level. At present, it is very difficult to conduct cross-border insolvency proceedings properly because the procedural rules involved are so complex and conflicting. Soon, it will be possible for insolvency law as practised in one country to be enforced in another, even if there is no legal basis in the second country for the procedure in question. One thing is certain: a Europe that has taken the step towards a single currency also needs uniform insolvency legislation to ensure a fair deal for both creditors and companies seeking to restructure. As in the case of the Delayed Payment Act, however, it remains to be seen how successful the new regulation turns out to be.

■ 5 Economic developments and insolvencies in individual countries

5.1 Belgium

The Belgian economy is highly dependent on exports to countries in the euro-zone. So any economic change within the EU has a direct impact on it. Last year, for example, Belgium profited from the good levels of growth attained by its neighbours. GDP growth was 2.8 %, one percentage point more than in 1999. Exports were also vigorous, picking up five percentage points to register a 6 percent upturn in 2000. The average interest rate, slightly higher than in the preceding year, was 3.3 percent (1999: 2.9 percent).

Insolvency rose steadily in Belgium from the beginning of the nineties through to 1997. In that year, it peaked at a total of 7,700 cases. So it is interesting to note that in 1998 a new bankruptcy and composition code was adopted. Was the year's insolvency downturn due to the success of the new rules? The highest incidence of business failure (41.8 percent) is in commerce, followed by the services sector with 30.5 percent. In third place is the construction industry with 16.5 percent. The lowest incidence of insolvency is in manufacturing (11.2 percent).

In the Institutional Investor table of national credit-worthiness, Belgium ranked 20th in September 2000. In March the same year, it had occupied 13th place.

Tab. 10: Developments in insolvency in Belgium

■	Insolvencies	Changes in percent
1992	5,115	
1993	6,154	+ 20.3
1994	6,354	+ 3.2
1995	7,157	+ 12.6
1996	7,400	+ 3.4
1997	7,700	+ 4.1
1998	6,925	- 10.1
1999	7,150	+ 3.2
2000	6,500	- 9.1

5.2 Denmark

Denmark's "No" to monetary union seems to have had a greater impact than expected on this heavily export-dependent country, where exports account for 40 percent of GDP. Compared to other European countries, Denmark's economic growth has been only moderate in the past two years, measuring 1.3 percent in 1999 and 1.5 percent in 2000.

For the first time in six years, the number of insolvencies in Denmark has risen – by 7.2 percent to 1,700 cases. This is still well below the record 3,500 cases registered in 1994 but an economic slowdown in Europe could hit harder here than elsewhere. At 113 insolvencies per 10,000 companies, Denmark's insolvency rate is among the worst in Europe.

With an index rating of 88.9 (plus 2.6 points), Denmark continues to rank 11th in the Institutional Investor credit status table.

Tab. 11: Developments in insolvency in Denmark

■	Insolvencies	Changes in percent
1992	2,895	
1993	3,509	+ 21.2
1994	3,387	+ 5.1
1995	2,621	- 28.9
1996	1,900	- 27.5
1997	1,800	- 5.3
1998	1,800	0.0
1999	1,586	- 11.9
2000	1,700	+ 7.2

5.3 Germany

The failure of big names like Roland Ernst, Bassmann Bau AG and Bast Bau showed that the construction industry is still very much plagued by a high level of insolvency. Nearly a third of all the companies that go bust are in this sector of the economy. Despite good economic performance figures (3 percent up in 2000), the number of insolvencies rose by 19.3 percent to 40,400 cases, putting Germany out ahead in the worst-case field. However, the sharp upturn is largely due to developments in the private insolvency sector, where the number of cases increased by 267 percent to 9,000. In comparison, corporate insolvency more or less stagnated, moving up by just 3.3 percent. (2000: 27,500 cases). In the years ahead too, private insolvency is expected to keep on rising.

A sharp increase in the volume of exports – 6.1 percent more than in 1999 - proved a boon for economic growth. With the economies of the United States and the European Economic Area generally expected to cool down, there are legitimate fears that exports could slump.

With an index rating of 94.6 (plus 1.7 points), Germany continues to rank second in the Institutional Investor credit status table.

Tab. 12: Developments in insolvency in Germany

■	Insolvencies	Changes in percent
1992	15,302	
1993	20,298	+ 32.6
1994	24,928	+ 22.8
1995	28,785	+ 15.5
1996	31,471	+ 9.3
1997	33,400	+ 6.1
1998	33,947	+ 1.6
1999	33,870	- 0.2
2000	40,400	+ 19.3

5.4 Finland

Finland has undergone the radical structural change needed to turn it into a service economy. It is also a country highly dependent on exports. In the telecommunications sector especially, the European Currency Union's northernmost member is a rich source of innovation. Thanks to good economic performance - GDP grew by 4.5 percent in 2000 - and a 7.5 percent upturn in exports, the number of Finnish insolvencies was the lowest for more than 10 years. In 2000, the number of bankruptcies decreased by 31.8 percent to a total of 2,100 cases. This shows a continuation of the dramatic decline seen since insolvency peaked at 7,348 cases in 1992. Even so, at 95 cases per 10,000 companies, Finland's insolvency density remains high.

In the Institutional Investor credit status table, Finland moved up two places to rank 10th with an index rating 3.5 points stronger at 89.1.

Tab. 13: Developments in insolvency in Finland

■	Insolvencies	Changes in percent
1992	7,348	
1993	6,861	- 6.6
1994	5,545	- 19.2
1995	4,700	- 15.2
1996	4,300	- 8.5
1997	3,611	- 16.0
1998	3,136	- 13.2
1999	3,080	- 1.8
2000	2,100	- 31.8

5.5 France

France is a traditional exporting nation back on a positive growth curve. In 1999, export volume had expanded by only 1.8 percent; in 2000, it surged by 6.3 percent. Overall, the French economy grew by 3 percent. Developments on the insolvency front were also positive: the number of bankruptcies decreased by 5.3 percent to 39,000, which is considerably less than the 64,900 cases registered when insolvency reached a peak in 1996. Despite this downward movement, France's insolvency density remains high: 168 of every 10,000 firms go to the wall. Only in tiny neighbouring Luxembourg is the ratio even higher. A look at the individual sectors of the economy shows that commerce (29.4 percent) and the services sector (37.6 percent) account for the lion's share of insolvency.

In the Institutional Investor credit status table, France continues to rank fifth with an index rating of 93.6, which is a 1.9 point improvement on 1999.

Tab. 14: Developments in insolvency in France

■	Insolvencies	Changes in percent
1992	57,795	
1993	60,481	+ 4.6
1994	56,573	- 6.5
1995	59,503	+ 5.2
1996	64,900	+ 9.1
1997	61,068	- 5.9
1998	55,000	- 9.9
1999	41,186	- 25.1
2000	39,000	- 5.3

5.6 Greece

After a tough six-year economy drive, the beginning of this year marked the dawn of a new era for Greece. On 1 January 2001, the country became the 12th member of the euro club. The result of the austerity programme that has been implemented is sustained high economic growth, with an upturn of 4 percent in 2000. The country's insolvency statistics have benefited from this: since 1995, the number of bankruptcies in Greece has steadily decreased – most recently, in 2000, by 9.2 percent to 630 cases. Insolvency density has also improved: only 10 out of 10,000 companies get into terminal financial difficulties.

One thing that could pose a problem for the euro-zone is Greece's extremely high level of public debt. The continued need for action here is shown also by the country's 26th place in the Institutional Investor credit status table. Here, despite a 7.5 point gain, it trails well behind the other EU member states with an index rating of 70 points.

Tab. 15: Developments in insolvency in Greece

■	Insolvencies	Changes in percent
1992	806	
1993	874	+ 8.4
1994	885	+ 1.3
1995	1,395	+ 57.6
1996	1,380	- 1.1
1997	1,300	- 5.8
1998	871	- 33.0
1999	694	- 20.3
2000	630	- 9.2

5.7 Great Britain

It started out as an ambitious project and attracted 160 million dollars of venture capital, but B2C trader boo.com was destined to become the first big financial failure of the New Economy. With economic growth running at 2.7 percent and exports up by 4 percent, Britain's economy was one of those that performed better than the European average.

While the number of corporate insolvencies remained virtually constant (1999: 14,280; 2000:14,467), private insolvencies rose steeply, climbing from 28,806 cases in 1999 to 32,816 in 2000. One interesting feature of the pattern of insolvency across the economy is the high rate of bankruptcy in manufacturing (27.7 percent), which is well above the European average. With insolvency hitting 40 companies in every 10,000, Britain has a low insolvency density - especially compared with the big industrial nations Germany and France.

Dropping two index points, Great Britain slipped back three places to rank 9th on the global credit-worthiness scale with 89.1 points.

Tab. 16: Developments in insolvency in Great Britain

■	Insolvencies	Changes in percent
1992	61,219	
1993	57,411	- 6.2
1994	47,500	- 17.3
1995	41,000	- 13.7
1996	40,000	- 2.4
1997	37,000	- 7.5
1998	37,500	+ 1.4
1999	46,900	+ 25.1
2000	47,600	+ 1.5

5.8 Ireland

The Emerald Isle's economy set a series of European records last year. GDP rose by 10.7 percent – three times as high as the European average. Among the primary factors fuelling this growth were exports by the many subsidiaries established in Ireland by international groups. As for the insolvency situation, though, the economic boom seemed to have little impact. The number of bankruptcies decreased by only 1.8 percent to 800 cases. The lowest insolvency total registered was in 1997, when 550 cases were reported. With 94 companies out of 10,000 failing, Ireland has a high insolvency density. In the Institutional Investor credit status table, the country advanced three places to rank 12th. Its index rating improved by 3.7 points to 88.5.

Tab. 17: Developments in insolvency in Ireland

■	Insolvencies	Changes in percent
1992	787	
1993	700	- 11.1
1994	640	- 8.6
1995	600	- 6.3
1996	590	- 1.7
1997	550	- 6.8
1998	686	+ 24.7
1999	815	+ 18.8
2000	800	- 1.8

5.9 Italy

With economic growth weak in the second half, Italy ranked among Europe's below-average economic performers in 2000. Over the year, the Italian economy grew by only 2.4 percent. This was not just because of the high price of oil; the flood disaster that hit the industrial north was a major factor. 15,000 insolvencies were registered in Italy in 2000 – an increase of 1.6 percent in comparison with 1999. A look at the figures for the last ten years shows that the number of bankruptcies always hovers around the 15,000 mark, sometimes falling below it as in 1999, sometimes rising above it as in 1995. Italy's low insolvency density – 38 insolvencies per 10,000 companies – certainly has to do with the high percentage of small firms in the economy. In the latest Institutional Investor table, although the country gained 2.2 index points, it fell back one place to the 18th slot. What will also be a problem for Italy's economic development in the years ahead is the sharp divide between the rich industrial north and the poor agricultural south.

Tab. 18: Developments in insolvency in Italy

■	Insolvencies	Changes in percent
1992	11,703	
1993	14,094	+ 20.4
1994	16,506	+ 17.1
1995	16,016	- 3.0
1996	15,866	- 0.9
1997	14,878	- 6.2
1998	15,000	+ 0.8
1999	14,760	- 1.6
2000	15,000	+ 1.6

5.10 The Netherlands

Despite a downturn in domestic demand, the Dutch economy remains dynamic (2.7 percent growth in the year under review). In 2000, the only thing slowing the economy down was the weaker rise in consumer spending. But with the tax reforms operative from the

beginning of 2001 and the marked net relief they will bring for private households, it is hoped that consumer spending will revive. In recent years, private consumption has played a primary role in driving the Dutch economy.

Insolvency in the Netherlands increased at the beginning of the nineties, reached a peak of 6,644 cases in 1994 and then went into a steady decline. In 2000, the country registered a trend reversal, which pushed up the total number of cases by 4.6 percent to 4,100. As elsewhere, many young firms in the Netherlands – for the most part products of a flurry of tertiary-sector startups - go bust three to four years after they are formed. In autumn 2000, the Netherlands made third place in the Institutional Investor league table, thus improving its rank by one place in the space of half a year.

Tab. 19: Developments in insolvency in the Netherlands

■	Insolvencies	Changes in percent
1992	5,045	
1993	6,428	+ 27.4
1994	6,644	+ 3.4
1995	5,847	- 12.0
1996	5,577	- 4.6
1997	5,547	- 0.5
1998	5,031	- 9.3
1999	3,920	- 22.1
2000	4,100	+ 4.6

5.11 Norway

As the world's second-biggest exporter of crude oil, Norway profited from the oil price rises in the first half of 2000. However, there was no real boost to private consumption in the country because of the high level of interest rates (5 percent). The number of insolvencies decreased steadily from the early nineties (1992: 5,749 cases) through to 1997 (3,300 cases). In 1998 and 2000, the figures showed an upturn. Last year, total insolvency rose by 7.7 percent to 3,600

cases. In the Institutional Investor table, Norway occupies 7th place with a credit status index of 90.1. This is two slots higher than where it ranked half a year earlier.

Tab. 20: Developments in insolvency in Norway

■	Insolvencies	Changes in percent
1992	5,749	
1993	5,218	- 9.2
1994	4,086	- 21.7
1995	3,899	- 4.6
1996	3,800	- 2.5
1997	3,300	- 13.2
1998	3,347	+ 1.4
1999	3,342	- 0.1
2000	3,600	+ 7.7

5.12 Austria

In Austria, the acceleration of growth first noted in the second half of 1999 continued through 2000. With purchasing power boosted by a better business climate, lower taxes and low inflation, private consumption increased. A 6.2 percent upturn in export demand did the rest. Economic growth for the year was 2.9 percent. Austria's economic upswing was also reflected in the insolvency statistics. For the first time since 1997, the number of insolvencies declined, dropping by 3.7 percent to a total of 8,600. The downturn was largely due to the corporate sector, where 5,200 bankruptcies (minus 8 percent) were registered. As in Germany, however, the number of private insolvencies increased, rising by 10.6 percent to 3,400 cases (1999: 3,074). In autumn 2000, Austria was placed 19th in the Institutional Investor league table. In the spring table, it had ranked 9th.

Tab. 21: Developments in insolvency in Austria

■	Insolvencies	Changes in percent
1992	3,658	
1993	5,082	+ 38.9
1994	4,850	- 4.6
1995	5,630	+ 16.1
1996	6,610	+ 17.4
1997	6,400	- 3.2
1998	7,319	+ 14.4
1999	8,934	+ 22.1
2000	8,600	- 3.7

5.13 Portugal

The first cracks are appearing in the edifice of Portugal's economic development - a success story frequently cited to encourage aspiring EU members. Economic growth, which - at four percent - has so far been running at faster than the EU average, and private consumption are starting to wane. With the European Union's eastward expansion, Portugal will no longer be able to compete as a low-wage country. The unemployment rate – at 4.4 percent last year – could start to rise again as a result.

The number of insolvencies registered in Portugal has been increasing since 1995 and last year reached a new high of 460.

With an index rating of 83.6, Portugal ranked 19th in the Institutional Investor table published in autumn 2000. This was one place higher than its previous rank.

Tab. 22: Developments in insolvency in Portugal

■	Insolvencies	Changes in percent
1993	201	
1994	245	+ 21,9
1995	225	- 8,2
1996	251	+ 11,6
1997	302	+ 20,3
1998	380	+ 25,8
1999	410	+ 7,9
2000	460	+ 12,2

5.14 Sweden

In Sweden, the process of concentration in the retail trade is well advanced. Large food centres and discount stores on greenfield sites have become firmly established. Economic growth in 2000 was 3 percent, so was the interest rate. For the first time since 1992, the number of insolvencies rose, edging up by 0.5 percent to a total of 7,300. In preceding years, the insolvency situation had been marked by sharp decreases, most of them in the double-digit percentage range.

Economic growth, running at an undiminished 3 percent, was boosted by high private spending. The low unemployment rate (4.5 percent) and the tax cuts scheduled for 2001 are stimulating private consumption without (so far) putting pressure on prices.

In September 2000, Institutional Investor gave Sweden an index rating of 87.2 points. The country thus ranked 15th in the table, one place higher than half a year earlier.

Tab. 23: Developments in insolvency in Sweden

■	Insolvencies	Changes in percent
1992	22,449	
1993	18,731	- 16.6
1994	15,666	- 16.4
1995	12,585	- 19.7
1996	12,200	- 3.1
1997	11,000	- 9.8
1998	9,200	- 16.4
1999	7,261	- 21.1
2000	7,300	+ 0.5

5.15 Switzerland

Despite slower growth, the Swiss economy is in better shape than it has been for a good ten years. With GDP growth comfortably topping three percent, an official unemployment rate of 1.8 percent and inflation running at well under two percent, 2000 was Switzerland's best year for a decade in terms of economic prosperity. The good mood in the country could also be seen in the number of newly formed companies. In 2000, 31,872 new firms were registered and 22,137 were deregistered. The net increase of 9,735 was 4.3 percent up on the preceding year's total. The incidence of corporate failure decreased for the third time in succession. The number of companies that went bust in 2000 was lower than any annual total since 1992. The highest insolvency figure was reached in 1993, when 10,513 cases were registered. Companies between two and five years old form the most insolvency-prone group (27.0 percent; 1999: 26.5 percent).

Switzerland won first place in the autumn 2000 Institutional Investor table – just as it did half a year earlier.

Tab. 24: Developments in insolvency in Switzerland

■	Insolvencies	Changes in percent
1992	9,578	
1993	10,513	+ 9.8
1994	10,350	- 1.6
1995	9,761	- 5.7
1996	10,200	+ 4.5
1997	9,190	- 9.9
1998	8,850	- 3.7
1999	8,490	- 4.1
2000	8,300	- 2.2

5.16 Spain

It looks like Spain's five-year economic boom has passed its zenith. Forecasts for 2001 put overall economic growth at 3.6 percent. Compared with the rest of Europe, that is still a very good figure. But after the Spanish economy's record performance in 2000, when GDP grew by 4.2 percent, it is a sign of cyclical slowdown. The previous upswing had been generated by private and corporate demand stimulated by falling interest rates and lighter taxation. Now, the outlook is clouded by smaller falls in unemployment and by inflation rates still high at more than 3 percent.

Insolvency in Spain has been diminishing for four years, after a sharp rise registered in the early nineties (70 percent jump from 1991 to 1992). Spain's Internet industry may be young and relatively small but it has also witnessed its first major failure: in December last year, the Internet trading company Ecuquality declared itself insolvent.

But despite Ecuquality, experts point to a number of smaller suppliers with sounder concepts and reckon Spain's young Internet industry has a future.

In September 2000, Spain ranked 17th in the Institutional Investor table, which was two slots higher than in March.

Tab. 25: Developments in insolvency in Spain

■	Insolvencies	Changes in percent
1992	1,642	
1993	2,064	+ 25.7
1994	1,666	- 19.3
1995	1,345	- 19.3
1996	1,432	+ 6.5
1997	1,135	- 20.7
1998	896	- 21.1
1999	620	- 30.8
2000	400	- 35.5

■ 6 Summary

A total of 187,090 insolvencies were registered in Western Europe in 2000 – 1.9 percent more than in 1999. So for the moment, the positive trend of declining bankruptcy figures that started in 1997 has come to a halt. Corporate insolvencies totalled 128,390 – so around two-thirds of all failures involved companies.

Much of the increase is due to developments in Germany. Here, in the wake of soaring consumer bankruptcy figures, the insolvency total rose by 19.3 percent to 40,400; the number of insolvent consumers and small traders in 2000 jumped by 267 percent to 9,000. Portugal also recorded a sharp increase: at 460 cases, insolvency there was 12.2 percent up on 1999. Luxembourg (10.1 percent), Norway (7.7 percent), Denmark (7.2 percent), the Netherlands (4.6 percent), Italy (1.6 percent), Great Britain (1.5 percent) and Sweden (0.5 percent) registered rising insolvency figures.

Where developments in insolvency were positive was in Spain (minus 35.5 percent) and Finland (31.8 percent). Greece (minus 9.2 percent), Belgium (minus 9.1 percent), France (minus 5.3 percent), Austria (minus 3.7 percent), Switzerland (minus 2.2 percent) and Ireland (minus 1.8 percent) also recorded a downturn in bankruptcy petitions compared with 1999.

Setting insolvency figures against the total number of companies registered provides an indicator of insolvency density. The lowest densities (corporate insolvencies per 10,000 companies) in 2000 were found in Spain (2), Portugal (7), Greece (10) and Italy (38). This is partly due to the large number of businesses registered as companies in those countries. High insolvency ratios were recorded in Luxembourg (200), France (168), Austria (168), Switzerland (163) and Sweden (145).

The number of job losses due to corporate insolvencies decreased to 1.1 million in 2000. The 1999 total was 1.4 million. Each corporate failure cost an average of eight jobs – another clear indication that the risk of insolvency and over-indebtedness is particularly acute for small firms.

There are a total of 19.8 million registered companies in the European Union. Last year, 2.2 million new companies were formed and an estimated 2.0 million firms closed down. The countries with the biggest startup waves in 2000 were Germany (832,000 new companies) and the Netherlands (452,450).

The tertiary sector – commerce and services – is the worst hit by insolvency. Wholesalers, retailers and providers of business or consumer services account for nearly 70 percent of corporate failures. One company in every three going to the wall is in the services sector (34.8 percent). 14.9 percent of firms unable to meet their financial commitments are in manufacturing, 22.5 percent are in the construction industry. Exceptions here are Germany, with a high percentage of insolvent construction companies (31.8 percent), and Britain, where the manufacturing sector accounts for a disproportionately high percentage of insolvencies (27.7 percent).

Financing continues to be problematical for Europe's SMEs. Their equity situation, in particular, is comparatively precarious. Generally speaking, small companies have lower equity ratios than their larger counterparts. In Austria and Germany especially, the

average SME equity ratio – the ratio of equity to balance-sheet total – is just 13 to 14 percent. Companies with a turnover of more than € 40 million in Germany have an average equity ratio of 31 percent. Exceptions are Belgium and Spain, where companies with a turnover of less than € 7 million have high equity ratios (42 percent in Spain, 40 percent in Belgium).

So around two-thirds of the money SMEs use to finance their operations is borrowed – most of it in the form of bank loans. The number of companies with fewer than ten employees that have only one house bank differs from country to country, however. Disproportionately high numbers of such companies are found in Austria (77 percent), Finland (59 percent) and Belgium (57 percent) while significantly fewer rely on only one bank for finance in Sweden (31 percent), Switzerland (35 percent) and Greece (29 percent).

Even though venture capital and business angels are bringing change to financial markets, those who profit are mainly the innovative, not the conventional branches of business, such as craft enterprises. For the majority of small and mid-scale firms, it is still difficult to raise money. The new "Basle II" rules, which will have a major impact on banks' equity cover requirements for loans as from 2004, are perceived at present as a likely source of increased insolvency. Companies with a lower credit status will either be denied loans or will have to pay more for them, with the result that company solvency could be acutely threatened.

Payment morale in Europe has moderately improved but remains very lax. In Italy, Belgium, France, Austria and Switzerland, the time gap between invoicing and payment narrowed by two to three days. In Germany (despite the Delayed Payment Act that entered into force on 1 May 2000), Great Britain, the Netherlands and Sweden, however, invoice settlement times lengthened by one to three days. By delaying payment, customers effectively obtain a cheap loan. For suppliers, however, especially those with a poor equity

ratio, this can cause inadequate liquidity and thus represent a risk to survival.

Focusing on the major industrial nations alone – Germany, Great Britain, France, Spain and Italy account for 80 percent of all enterprises, employees and sales revenues – there is no discernible evidence of a uniform trend in insolvency. In France and Spain, insolvency has been declining for several years, whereas in Germany and Great Britain bankruptcy petition figures have been rising. Between 1998 and 1999, for example, the number of insolvencies in Great Britain rose by 25.1 percent in a year. In France, the number of insolvencies has fallen sharply from the peak of 64,900 cases registered in 1996 to the 39,000 shown in the latest statistics. In Spain, decreases since 1996 have been in the double-digit range; the number of insolvencies recorded that year was 1,432.

Aside from "Basle II", something that will have a profound impact on insolvency figures in the future is the way the Western European economies perform from now on – especially in the light of the single currency due for its final launch in January 2002. Because of the decelerating US economy, Europe could also be dragged into economic downturn. At present, though, Europe's economic dynamo still seems to be running smoothly. The IMF's forecast for the region is for 3.5 percent growth.

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