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Press Information

Corporate Insolvencies in Europe in 2021

Corona Countermeasures Prevent Insolvencies

The number of insolvencies in Europe in 2021 were again dominated by the politically motivated measures aimed at combating the Corona pandemic. In Western Europe (EU 14 plus Norway, Switzerland and the UK), a total of 110,451 corporate insolvencies were registered over the course of the year. This was a 5.1 percent decrease compared to the previous year (2020: 116,446). The European economy again found itself in an exceptional situation in 2021. "The pandemic slowed down business development in many sectors. At the same time, numerous aid measures taken by governments helped cushion and postpone the consequences," says Patrik-Ludwig Hantzsch, Head of the Creditreform Economic Research Unit in Neuss. "Consequently, the current insolvency figures do not adequately reflect the true economic situation in many sectors of the economy," adds Gerhard Weinhofer, Managing Director of Creditreform Austria.

The number of corporate insolvencies in Europe is around 50,000 lower than in the year immediately prior to the Corona crisis (2019: 159,832), continuing the downward trend for the second year in a row. "The longer governments continue to subsidise companies, the greater the likelihood of zombie companies arising which can only survive under these special conditions," Hantzsch warns. Changes such as a turnaround in interest rates and the phasing out of the aid measures could greatly intensify pressure on corporate stability. A wave of (catch-up) insolvencies would then become more probable.

Different trends can be observed in the individual countries of Western Europe for 2021. While countries such as Denmark, Finland, Greece, the United Kingdom, Italy and Switzerland are already seeing a rise in insolvencies, in many countries, like Germany, France and the Netherlands, they continue to fall.

Fewer bankruptcies in trade, more in construction

From an industry perspective, sharper declines can be seen in the trade (minus 10.1 percent) and manufacturing (minus 8.5 percent) sectors. This contrasts with the number of insolvencies in the construction industry which were slightly higher than in the previous year (plus 1.2 percent). The figure for the services sector fell by just under 4 percent. "Despite the obvious impact of the crisis on the trade and hospitality sectors during the Corona period, this is not reflected in the insolvency figures," Weinhofer explains. On the contrary: this economic sector currently accounts for 28.5 percent of all insolvencies, significantly lower than before the Corona crisis (2019: 31.5 percent). "This development can only be explained by special effects connected with fighting the pandemic," the Austrian expert continues.

More insolvencies in Eastern Europe

In contrast to the trend in Western Europe, insolvencies increased in Eastern Europe. In the second Corona year 2021, a good 39,000 corporate insolvencies were recorded in the twelve countries under observation. This was a 5.9 percent increase compared to the year before (2020). Croatia, Romania, Slovakia, the Czech Republic and Hungary registered rising numbers of insolvencies. This contrasts with the number of cases in Bulgaria, Poland and the Baltic States, all of which recorded significant falls. Turkey's insolvency figures continued their upward trend in 2021 (plus 7.7 percent), with around 17,200 corporate insolvencies registered there.

Balance sheets impacted by the crisis

The financial statements of companies in Western Europe are already showing the first negative effects of the Corona crisis. In the first year of the crisis, 2020, the share of companies that had negative profit margins and returned losses rose sharply from 21.9 to 26.7 percent. At the same time, however, the number of companies enjoying very high profit margins also rose (2020: 18.0 percent; 2019: 17.4 percent). "Those who realigned their business model during the crisis and successfully exploited the creative potential of structural change were also able to reap greater profits," Hantzsch emphasises. Overall, however, he sees a heightened potential for insolvencies across Europe.

Equity ratios have also suffered from the crisis. 22.6 percent of the companies in Western Europe are considered to have low equity (equity ratio below 10 percent). In the year before the crisis, this share was 21.9 percent – it has therefore recently increased slightly. But many companies (46.2 percent) also continue to enjoy high equity ratios of over 50 percent. "The favourable economic conditions in the run-up to the Corona pandemic resulted in rising equity ratios, allowing stable companies to cushion the severity of the crisis," Hantzsch continues. However, after a second year of economic downturn, the reserves are now often exhausted. Also of concern are the increased days sales outstanding (DSO) in many countries. Suppliers and service providers had to wait longer for invoices to be paid, making them more vulnerable to liquidity bottlenecks.

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