

A photograph of a green wooden door with a white envelope sticking out of a slot. The door has a textured, slightly weathered appearance. The envelope is white and is partially inserted into the slot, with its top flap visible.

no.2
2009

Business insolvency
worldwide

2010, a year of transition

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Insolvency Outlook



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Editorial

Neither better nor worse

Two records in a row: +26% in 2008 and +33% in 2009. These are figures for the increase in business insolvencies across the world, and they are unprecedented. There are many factors to explain these business failures, and one may broadly divide these into two main categories – one that we can label as ‘economic’ factors and the other as ‘financial’ factors. The economic factors include, in particular, a shortage of market outlets, strategic errors, excessive costs, and macroeconomic rigidities specific to a given country or sector. The financial factors that can equally be at the root of bankruptcies include insufficient self-financing, difficulties obtaining payment from customers, and financial costs resulting from excessive debt. We can already draw some ready conclusions about the chain of events at work in 2008 and 2009. Firstly, unlike in previous crises, the financial factor seems to have been an essential element driving the explosion in business insolvencies in 2008; the financial constraints suffered by businesses from summer 2008 probably were at the root of half the increase in insolvencies seen across the world. But, in this, there were marked differences from country to country. The problem was very acute in countries where businesses bore a heavy component of debt in their liabilities, and it was precisely in those countries that the financial crisis caused by overindebtedness was most violent. Such was the case in the United States, the United Kingdom, Spain and undoubtedly several countries in Eastern Europe. On the other hand, in countries such as Germany or France, the financial constraints contributed only slightly to the rise in insolvencies; either because in the end these constraints proved rather weak (Germany), or because businesses resorted to other means of financing, such as business-to-business credit (France). In 2009, the picture was different: nearly all the rise in insolvencies arose from the economic shock, that is, from a collapse in business turnover, the root cause of the descent in business profitability. In normal circumstances, business profitability is the main factor in insolvency. As a result of the crisis, in all countries, the abrupt contraction in markets has halted economic flows, thoroughly compromising the economic equilibrium of businesses and thus their profitability. In such an environment, the outlook for 2010 is at the very least a gloomy one. The wheezy revival in economies that we are anticipating will not be sufficient to compensate for the fall in profits suffered. The blocking up of domestic demand will rule out any tangible exit from the crisis before the end of 2010. Put another way, businesses are facing around ten months of very low turnover – too low to solidly restore their profitability. Moreover, all this will come with many of them having already depleted their cash reserves over quarter upon quarter of economic turbulence. The outcome will be that 2010 will be a year of transition. Overall, there should be no new increase in global insolvency next year, but nor should there be any reduction, notwithstanding some differences from country to country. We do not expect any further skidding out of control, but nor do we see any durable easing in the global situation. No spectacular upturn, no double-dip recession. No miraculous reabsorbing of the gigantic accumulated debt, nor – we pray – any new surge in indebtedness. In this very precariously balanced situation, the budget policy choices facing governments, the monetary policy choices facing central banks, and the growth model choices facing business management are, to say the least, perilous.

Expected change in insolvencies

Annual change in %

	2009	2008
Spain	111%	187%
Estonia	91%	112%
Ireland	85%	113%
Latvia	83%	21%
Lithuania	80%	53%
Netherlands	76%	1%
Slovak Republic	55%	-27%
Hungary	52%	15%
Denmark	51%	54%
Norway	49%	28%
Euro zone	46%	31%
USA	45%	54%
Poland	44%	-10%
Czech Republic	40%	-3%
Hong Kong	39%	3%
Finland	38%	14%
Italy	37%	20%
Global Insolvency Index	33%	26%
Sweden	30%	9%
Singapore	27%	25%
Switzerland	26%	-2%
UK	25%	31%
Luxembourg	23%	-12%
Greece	21%	10%
Portugal	20%	67%
Belgium	18%	10%
France	17%	15%
Germany	15%	0%
Brazil	11%	-18%
Austria	11%	0%
China	5%	5%
Japan	2%	11%
Canada	-5%	-2%
South Korea	-7%	19%
Taiwan	-50%	-23%

Sources : national figures, Euler Hermes forecasts



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