

## BUSINESS INSOLVENCIES IN EUROPE: DIVERGING TRENDS

Stéphane Colliac

Our Western Europe business insolvencies index has risen above its pre-COVID level. However, it is still far below the peaks seen after the 2008 crisis and during the eurozone crisis (between 2011 and 2015).

In most countries, the business insolvencies level is now higher than it was before the pandemic. This has been the case since 2022 for the UK and Sweden, which were joined by France, Belgium and Germany during 2023. However, in Germany, Italy and the Netherlands, the insolvency levels are still far below their pre-COVID peaks.

These diverging evolutions are also being reflected in sectors, with sharper deterioration in construction, trade and real estate agencies in the countries that have suffered the steepest decline in business activity.

WESTERN EUROPE: INSOLVENCIES INDEX

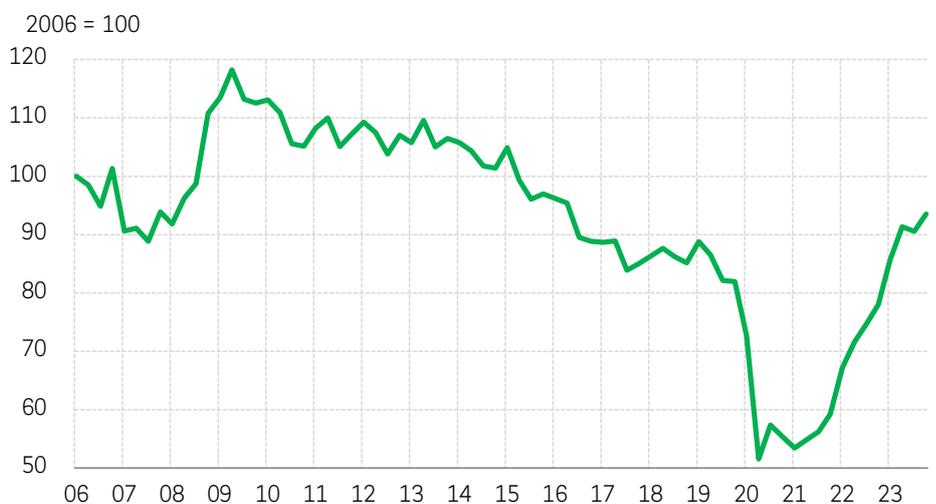


CHART 1

SOURCE: NATIONAL SOURCES, BNP PARIBAS CALCULATIONS

Business insolvencies continued to rise in Europe in 2023 (*chart 1*<sup>1</sup>), increasing by an annual average of 24% from 2022 (following 2022's annual average rise of 30% on 2021). They rose above their 2019 level in Q2 2023 and, in Q4 2023, stood close to the Q2 2016 figure.

This trend is due to the gradual withdrawal of the exceptional support measures put in place during the COVID-19 period and the impact of significant inflation and rising interest rates between 2021 and 2023. However, the index shows that insolvencies are still far below the levels seen after the 2008 crisis, as well as the high level throughout the eurozone crisis (2011-2015).

### DIVERGENCES BETWEEN EUROPE'S MAJOR COUNTRIES

Like any average, our index conceals major disparities between countries, with some experiencing larger rises in insolvencies than others. A dispersion index (standard spread of normalised insolvency figures<sup>2</sup>, calculated across the seven countries in the study) even hit a record level in 2023 (*chart 2*). This suggests that the recent period is more likely giving way to greater heterogeneity between countries than observed during the 2008 financial crisis or the eurozone crisis.

<sup>1</sup> This study covers Belgium, France, Germany, Italy, the Netherlands, Sweden and the UK. Spain is not included in the study due to a reform of court-ordered insolvency proceedings, preventing a long-term comparability of statistics. The figures discussed for the European average relate to the index (GDP-weighted average of national statistics) shown in *chart 1*.

<sup>2</sup> For each country, normalising the figures involves dividing the insolvency data over a given quarter by their average value over the entire period (2006-2023).

ECONOMIC RESEARCH



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The rise in insolvencies came early and sharply in the UK and Sweden, which exceeded their pre-COVID levels in 2022, in contrast to eurozone countries (where the picture was still relatively homogeneous at that time, however). In the UK and Sweden, surging inflation and an earlier monetary policy response have been behind this sharp rise in insolvencies starting in 2022. This trend continued in 2023, marked by a further increase in insolvencies in the UK and Sweden from 2022 of 13% and 29% respectively (based on annual average figures).

In 2023, the different countries of the eurozone experienced more contrasting fortunes than in 2022, with a very sharp deterioration in France, a more moderate rise back above the pre-pandemic level in Belgium and Germany in Q4, and figures remaining better than prior to COVID in the Netherlands and Italy (chart 3<sup>3</sup>). When comparing the latest insolvency data against their previous peaks (with the dates differing from country to country), Germany, the Netherlands and Italy are still in a much more positive position, unlike the other countries (with insolvencies in Sweden even exceeding their former peak).

Italy has benefited from the relatively resilient performance of the property market (which consolidated over the 2010s following the eurozone crisis and was therefore not overheating before the recent ECB monetary tightening occurred<sup>4</sup>), as well as from an outperformance in terms of growth compared to the European average. Germany and the Netherlands have benefited from some of the lowest payments delays in Europe (of approximately 6 days and 5 days at the end of 2022, according to Altarès, compared to the European average of 13 days).

According to Altarès, in France, while this number of days (12) has not increased on average over the past few quarters, the proportion of very late payments (over 30 days of delay) rose to 7.6% during the first half of 2023 (compared to 5.7% one year earlier). The INSEE construction sector survey also indicated an increase in the proportion of late payments in the second half of 2023 (standing at 34% on average, compared to 28.7% during the first half of 2023).

## RETAIL TRADE AND CONSTRUCTION ARE CONTRIBUTING TO THE DIVERGING TRAJECTORIES BETWEEN THE COUNTRIES

Retail trade and construction are the two sectors that, structurally, generate the highest number of business insolvencies. However, these two sectors have been particularly exposed to the recent shocks, due to inflation and its negative impact on demand for trade, and as a result of rising interest rates (as well as increasing construction costs) for construction.

Insolvencies in these two sectors have even hit their highest levels (or close to them) in the UK and Sweden, while in Belgium, this is the case for construction alone. In France, they have significantly risen from the pre-COVID period, but are still far below their peaks (2009 for construction and 1997 for trade). In Germany and the Netherlands, both sectors have remained at similar levels to prior to the pandemic (chart 4<sup>5</sup>).

Furthermore, as shown in chart 5, the real estate sector has seen the sharpest deterioration over the past six months in most countries (compared to pre-pandemic period), which is due to the drop in housing sales.

<sup>3</sup> The data stop at Q4 2023 for Germany and Q3 2023 for Italy. 24ytd relates to January-February 2024.

<sup>4</sup> See G. Dérien (2024), "The residential property market in the eurozone put to the test of monetary normalisation", Conjoncture, BNP Paribas

<sup>5</sup> In chart 4, for example, in France, in retail trade, the orange dot indicates that insolvencies have hit 80% of their previous maximum level (1997) over the last six months. The black bar indicates that during the last six months prior to COVID, they had hit 63% of this 1997 maximum level.

### WESTERN EUROPE: INSOLVENCIES' STANDARD DEVIATION

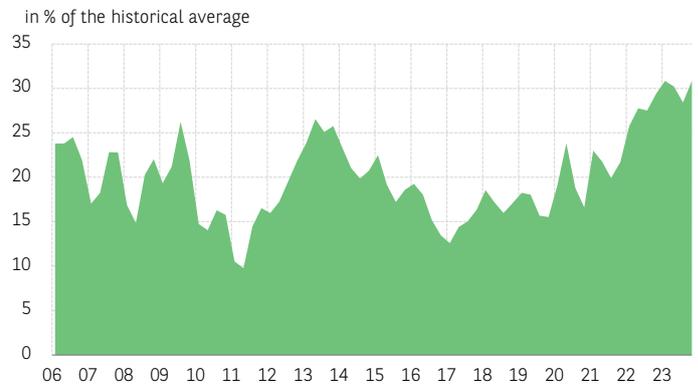


CHART 2

SOURCE: NATIONAL SOURCES, BNP PARIBAS CALCULATIONS

### INSOLVENCIES CHANGE COMPARED TO 2019 LEVEL

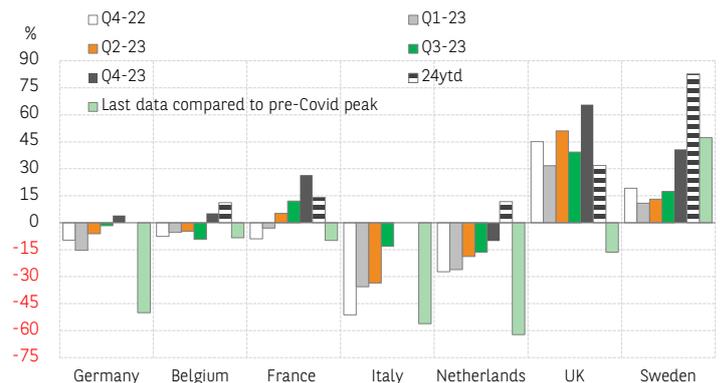


CHART 3

SOURCE: NATIONAL SOURCES, BNP PARIBAS CALCULATIONS

### INSOLVENCIES DURING THE LAST 6 MONTHS AND DURING THE SAME PERIOD PRE-COVID

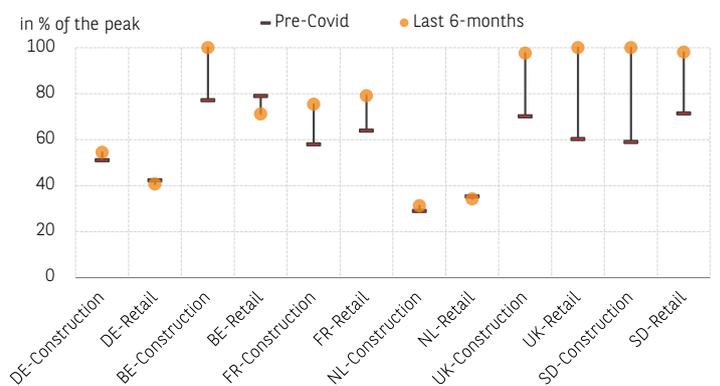


CHART 4

SOURCE: NATIONAL SOURCES, BNP PARIBAS CALCULATIONS



In the UK, the information and communications sector is also experiencing a very sharp deterioration. Conversely, in Germany, the Netherlands and Belgium, some sectors are seeing an improvement, such as business services in the Netherlands and transportation services in Germany. Low levels of late payments and the relative lack of deterioration in this area have contributed to this strong performance.

Against a backdrop of low growth, trends in business insolvencies must be monitored as, should they rise significantly, they would have adverse consequences, on employment, in particular.

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**INSOLVENCIES: LEAST/MOST FAVOURABLE SECTORAL EVOLUTION**

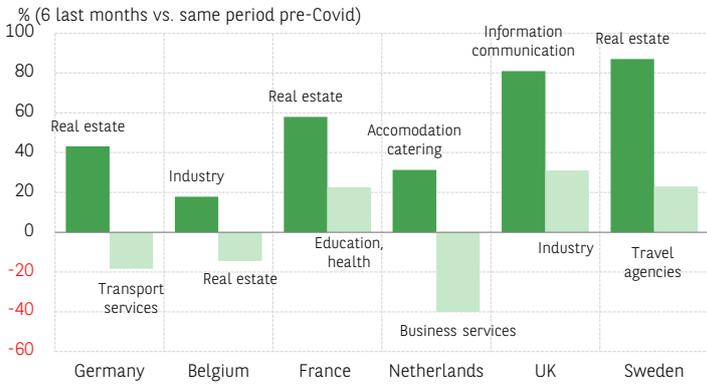


CHART 4

SOURCE: NATIONAL SOURCES, BNP PARIBAS CALCULATIONS



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