

Insolvencies in Europe

■ 2008/09

A survey by the
Creditreform Economic
Research Unit

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■ 1 Introduction

The year 2008 will be remembered for the collapse of formerly renowned major banks and the rapid economic downturn around the world. Around the middle of the year, many politicians, economists and bankers believed that the worst was already over, but then in September 2008, the failure of the investment bank Lehman Brothers in New York swept the international banking sector, and with it the global economy, into a dangerous crisis. It took concerted rescue programmes by governments and central banks around the world to ward off the threat of an imminent meltdown in the banking sector. In the meantime, though, the real economy was also caught up in a downward course of unprecedented speed and scale. The first to be affected were export-oriented branches of the economy, such as the automotive industry. There has been a total slump in orders and the number of business collapses is increasing rapidly. Now, the wave has also started to endanger small and medium-sized enterprises.

Banking crisis: Word of the year in 2008

In the second half of 2008, the recession that had begun in the USA had Europe in its grip. Many business sectors have started to shrink in size, and this process is likely to continue well into 2009, one reason being that the turbulence in the credit markets is now impacting on the real economy, too. The effects extend from increasingly stringent lending terms and higher risk mark-ups for corporate loans and bonds through to the frequently cited credit crunch. Together, these factors have been cutting off the supply of capital to the business community and intensifying the burdens placed on both large corporations and SMEs.

Europe on downward course

Despite the economic measures quickly launched by policy-makers in Europe and the billions pumped into stimulating the economy, it seems that the best that can be hoped for is to soften the recessionary blows. For European business companies, the negative repercussions of the dynamic economic downturn were already evident in 2008 in the form of rising insolvency figures.

■ 2 Insolvencies in Western Europe in 2008

2.1 Corporate insolvencies

Last year, the trend towards lower numbers of corporate insolvencies in Europe which had been in evidence since 2005 was reversed. More than 150,000 company collapses were registered in Western Europe alone in the course of 2008. That corresponded to a rise of almost eleven percent on the year before, when around 135,500 firms in the EU-15 states plus Norway and Switzerland had filed for bankruptcy – the lowest level since the early 1990s.

Tab. 1: Corporate insolvencies in Western Europe

■	2008	2007	2006	2005	2004	Change 2007/08 in percent
Austria	6,500	6,362	6,854	7,136	6,328	+ 2.2
Belgium	8,300	7,677	7,617	7,878	7,836	+ 8.1
Denmark	3,710	2,401	1,987	2,497	2,620	+ 54.5
Finland	2,660	2,300	2,285	2,278	2,385	+ 15.7
France	49,100	42,532	40,360	41,930	40,776	+ 15.4
Germany	29,800	29,150	34,040	36,850	39,270	+ 2.2
Great Britain	14,880	12,893	13,686	13,462	12,813	+ 15.4
Greece	530	510	520	580	577	+ 3.9
Ireland	700	317	304	327	321	+ 120.8
Italy	7,130	5,518	8,827 *)	17,150	17,500	+ 29.2
Luxembourg	590	680	634	682	665	- 13.2
Netherlands	6,580	7,952	5,941	6,780	6,648	- 17.3
Norway	3,640	2,845	3,032	3,540	4,297	+ 27.9
Portugal	3,500	3,350	3,400	3,300	3,123	+ 4.5
Spain	2,100	880	853	869	561	+ 138.6
Sweden	6,300	5,791	5,243	5,865	6,588	+ 8.8
Switzerland	4,220	4,314	4,528	4,751	4,955	- 2.2
Total	150,240	135,472	140,111	155,875	157,263	+ 10.9

*) Since 2006, the insolvency statistics compiled by the register of companies in Italy include only company headquarters and no longer individual branches.

Most European countries have yet to feel the full brunt of the insolvency wave. In 2009, the worldwide economic crisis and the turbulence in the financial sector are set to generate a sharp rise in the number of business failures throughout Europe. Last year's insol-

veny figures show what a massive impact the global downturn has already had on some countries. The biggest increases in company collapses were in Spain (plus 138.6 percent), followed by Ireland (plus 120.8 percent) and Denmark (plus 54.5 percent). In Spain, the sectors most affected, after financial services, were property and construction firms. In Ireland, manufacturing industry was also hit.

Volume doubled in Spain and Ireland

Double-digit rises were also registered in the two large countries of France and Great Britain (each plus 15.4 percent). In France, the insolvency total is now approaching the high levels last registered in the late 1990s. In Britain, the financial market turbulence generated more business failures than at any time in the last five years. In Italy, insolvencies rose by almost 30 percent. After an adjustment in 2006 in the way the statistics are handled, the number of business collapses in Italy declined in the following year but last year, and the impact of the global downturn, sent them higher again.

Compared with the other large European countries, the increase in insolvencies in Germany was relatively moderate, at 2.2 percent. All the same, the rise represents a clear break with the downward trend of bankruptcies in Europe's biggest economy in recent years. Declines in insolvency figures were registered in the Netherlands (minus 17.3 percent), Luxembourg (minus 13.2 percent) and, to a lesser extent, in Switzerland, too (minus 2.2 percent).

Germany: Insolvency wave yet to impact with full force

Tab. 2: Insolvency ratios in the individual Western European countries

■	Insolvencies per 10,000 companies
Greece	6
Spain	7
Italy	18
Portugal	40
Great Britain	76
Ireland	82
Germany	96
Netherlands	103
Finland	107
Sweden	108
Switzerland	113
Belgium	115
Norway	142
Denmark	149
France	215
Austria	224
Luxembourg	233
Average	83

The highest relative incidence of insolvency (number of insolvencies per country in relation to the total number of firms in that country) was to be found in Luxembourg (233), followed by Austria (224) and France (215). The general picture is distorted, however, by the fact that the insolvency statistics in Spain, Greece and Italy are not really comparable with those of other countries. For a start, the hosts of micro-firms there push the average ratio down. Then there is the fact that in these countries, insolvent or over-indebted companies are less likely to file for judicial bankruptcy proceedings.

With a ratio of 96 cases of insolvency for every 10,000 firms, Germany lies slightly above the European average. Insolvency ratios in the Scandinavian countries are in the triple-digit range, but so too are those in the Netherlands (103) and Switzerland (113).

Tab. 3: Insolvency-related job losses in Europe

■	Job losses (in millions)
1999	1.4
2000	1.1
2001	1.4
2002	1.6
2003	1.7
2004	1.6
2005	1.5
2006	1.4
2007	1.2
2008	1.4

The increasing number of business collapses has generated a rise in the total of insolvency-related job losses, to around 1.4 million – after 1.2 million in 2007. For the time being, the labour markets have been able to absorb the losses reasonably well: average unemployment rates in 2008 remained at a relatively low level. However, the growing number of major insolvencies, with the loss of several thousands of jobs, and the deteriorating prospects on the labour market mean that many employees face an uncertain future.

1.4 million jobs at risk

2.2 Private insolvencies in Europe

While business insolvency increased significantly in 2008, there was a slight fall in the number of private bankruptcies. In those countries where a relevant time series exists, 3.6 percent fewer cases than in 2007 were recorded, to produce a total of around 291,400.

Private insolvencies take a breather

The decline is due chiefly to the way in which the figures developed in Germany and the Netherlands. In the latter, Europe's most densely populated country, the number of private insolvencies fell from 15,060 to 9,500, equivalent to a drop of just under 37 percent. However, this was mainly the result of changes in the law imposing a stricter definition of the criterion of indebtedness and thus reducing the numbers of individuals to whom it applies. In Sweden, the introduction

of a new debt clearance procedure in 2007 led to a big leap in the volume of private insolvencies. Last year, the total declined again somewhat (minus 7.8 percent), suggesting that the 2007 figure had included a sizeable backlog of cases from earlier years. Against this background, the present total must be seen as high.

In Germany, the fall in the private bankruptcy figures was somewhat more moderate, at 6.4 percent. In absolute figures this represents almost 9,000 fewer cases. Despite this decline, though, Germany still has the largest total (126,900), closely followed by Great Britain (121,440). There was a marked – double-digit – rise in private insolvency proceedings in Finland (plus 24.7 percent) and Austria (plus 11.0 percent).

**Marked increase in
Finland**

Tab. 4: Private insolvencies in Europe

■	2008	2007	2006	2005	Change 2007/08 in percent
Austria	9,560	8,616	7,583	6,462	+ 11.0
Finland	11,680	9,370	no data	no data	+ 24.7
Germany	126,900	135,600	127,280	99,720	- 6.4
Great Britain	121,440	120,775	120,926	79,426	+ 0.6
Netherlands	9,500	15,060	14,928	14,666	- 36.9
Sweden	6,300	6,831	3,830	4,178	- 7.8
Switzerland	6,000	6,140	5,840	5,714	- 2.3
Total	291,380	302,392	280,387	210,166	- 3.6

The relative incidence of private insolvency is obtained by setting the number of such cases in any one country against the size of the population there. The highest figure is that in Finland, with 22 consumer bankruptcies for every 10,000 inhabitants. In neighbouring Sweden, in contrast, the number was only seven. This form of calculation gives Germany a ratio close to the European average (15). The figure for Great Britain is above the European average: in 2008, 20 individuals in every 10,000 inhabitants there had to declare themselves bankrupt.

Tab. 5: Insolvency ratios (private individuals) in the individual Western European countries

■	Insolvencies per 10,000 private individuals
Netherlands	6
Sweden	7
Switzerland	8
Austria	11
Germany	15
Great Britain	20
Finland	22
Total	15

Since 2008 was marked by high losses in almost all asset classes and since the recession is likely to make unemployment increase strongly, the coming months will probably bring a greater number of private proceedings for over-indebtedness.

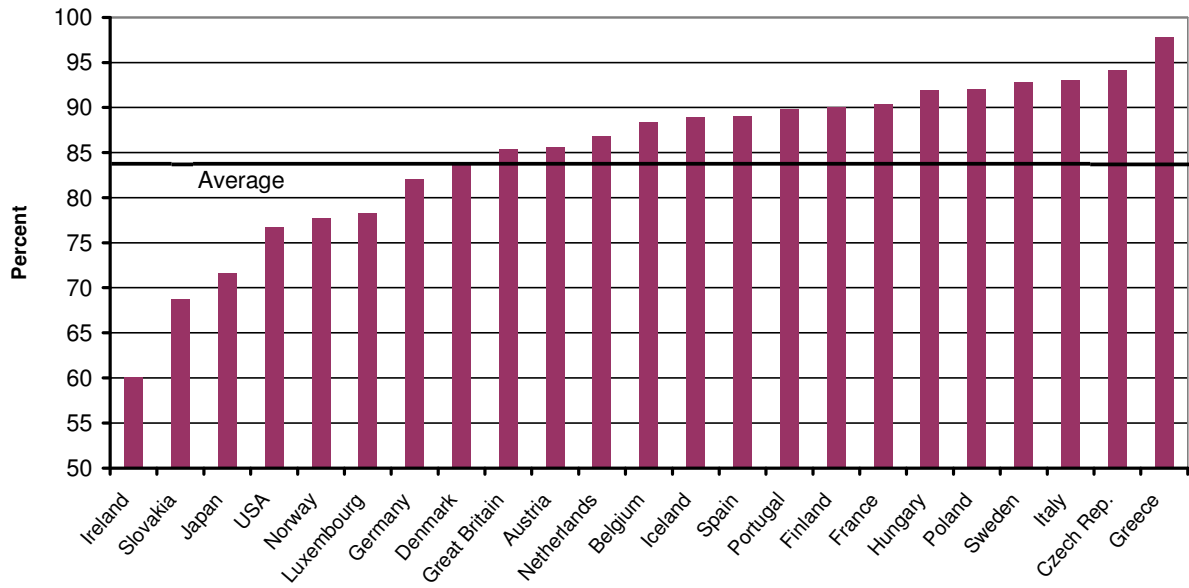
■ 3 SMEs and financing

3.1 Importance of the SME sector for Europe

The overwhelming majority of the approximately 20 million firms in Europe are small and medium-sized enterprises. According to OECD statistics, about 85 percent of European industrial companies employ fewer than 20 people. With a figure of some 82 percent, Germany takes a mid-range position among the countries of Europe. The differences between the corporate size categories within Europe are due to various structural, institutional and historical conditions. In Southern Europe, for instance, many firms operate as sole traders and there is generally a higher degree of fluctuation in the corporate sector, with many start-ups and closures. In the traditional industrial countries such as Germany, Great Britain and Japan, on the other hand, there is a not-inconsiderable proportion of medium-sized and larger companies. In certain business sectors, above all in those geared to exports, this is the result of necessary concentration.

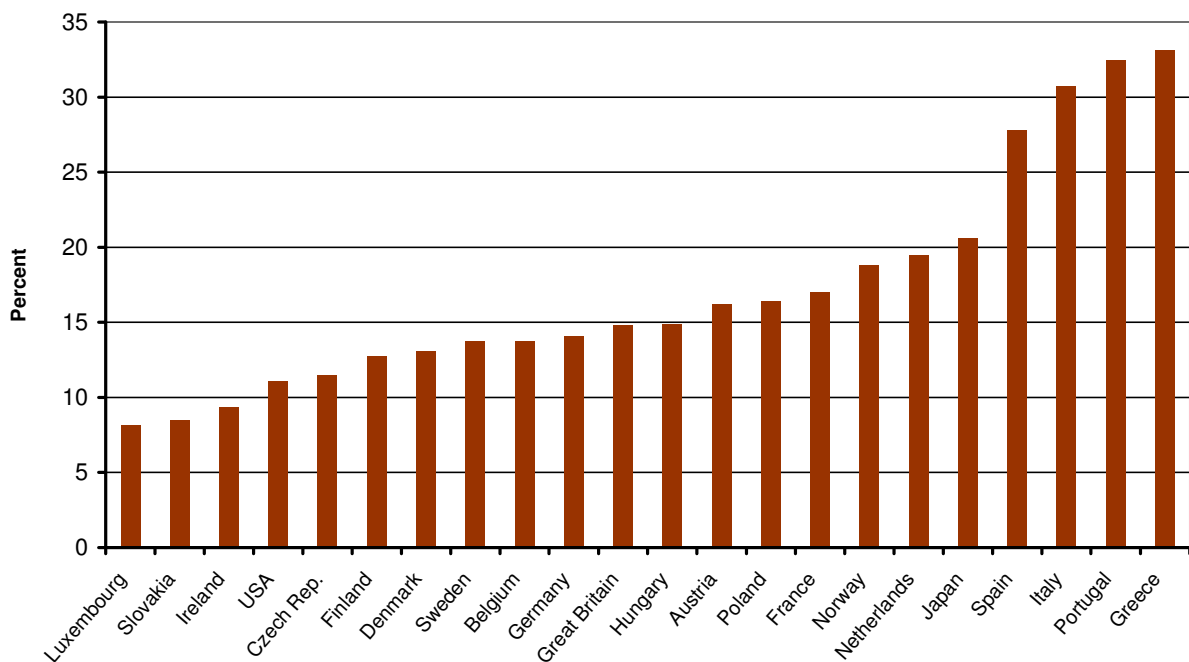
SMEs represent the majority of all firms

Proportion of companies with fewer than 20 employees



The contribution which SMEs make to employment also varies considerably between one European country and another. In Germany, for example, firms with fewer than 20 employees are responsible for more than one seventh of all industrial jobs. In Portugal and Greece, the relevant figure is one third.

Significance of small firms for the labour market



3.2 Current financing conditions

At a time of global crisis in the financial markets, the financing of small and medium-sized enterprises plays a decisive role in ensuring their stability. Unlike large corporations, such firms frequently have no access to the capital markets. For SMEs all over Europe, the most important sources of financing are their own cash flow, retained earnings and bank loans. In the course of last year, financing conditions became much tougher for them, first because the costs of obtaining loans rose massively after years of historically low interest rates and took the risks of default into consideration more strongly, and secondly because their own earnings suffered as a result of the weaker economy.

Financing represents acid test for SMEs

In the field of debt capital, short-term financing arrangements in particular are now subject to far higher costs and risk mark-ups. Then there is what could be called a credit-worthiness crunch, because banks are not only restricting lending but are also attaching more stringent conditions to loans, for instance in respect of collateral, equity ratio and credit-standing. However, SMEs also face difficulties from another direction in regard to their scope for financing: the global economic downturn has pushed most European states into recession, which means that the financing bottlenecks are posing a threat to SMEs precisely at a time when their business is not doing so well anyway and their profits are disappearing. Moreover, the outlook for 2009 is anything but rosy.

Higher risk mark-ups and collateral requirements

3.3 SMEs and their equity capital

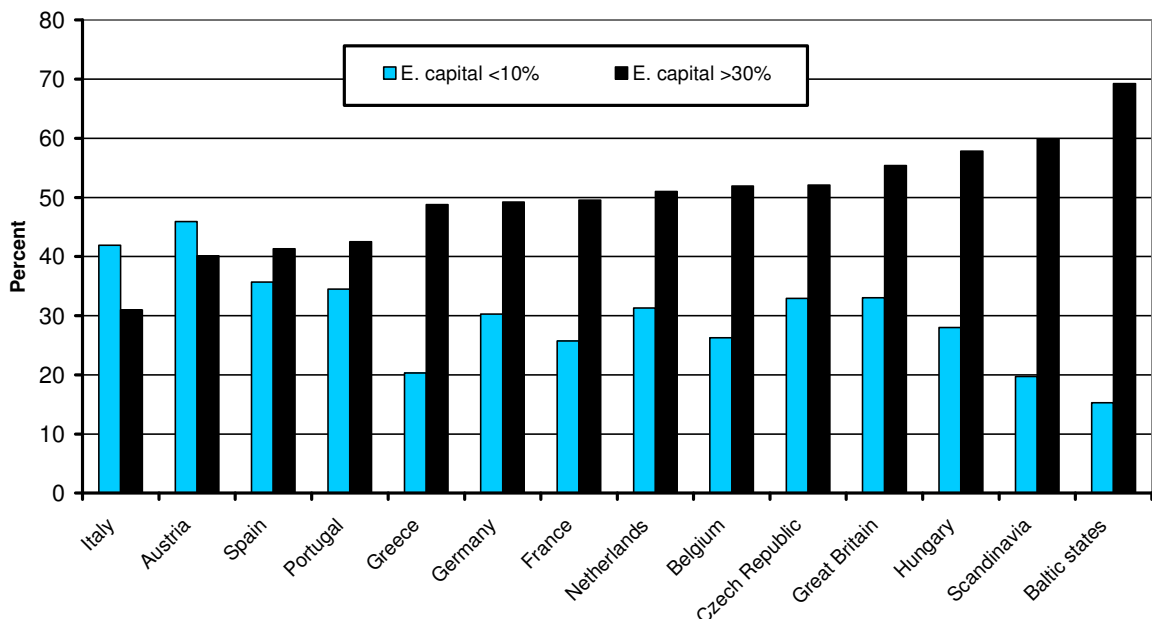
When it comes to obtaining financing, a firm's own equity resources play a significant role as a credit-standing indicator. Firms with poor credit-standing fare badly when banks make decisions on granting loans. This is shown by a recent survey by the Creditreform Economic Research Unit among German SMEs. It reveals that firms with an equity ratio of less than ten percent of their balance-sheet total find it much more difficult to obtain fresh funding. 42 percent of these

Equity resources as important credit-standing indicator

firms report that the terms for obtaining debt capital have become much stricter in recent months. The relevant figure for firms with an equity ratio of over 30 percent is far lower, at just under 16 percent. This marked difference reflects the great security-consciousness on the part of lenders. When firms are under-capitalised, the risks of default are simply higher.

The table on P. 11 shows the equity ratio position of European firms. For many years, German firms were rightly accused of having an unfavourable balance-sheet position in regard to the ratio between equity and debt capital, making them more prone to payment defaults and turnover slumps. But many companies in other European states are also weak in terms of equity resources. In Spain and Italy, for example, the proportions of firms with an equity ratio of less than ten percent are 36 percent and 42 percent respectively. The relevant figures for companies in the Baltic states and Scandinavia are far more favourable, with a much lower proportion of under-capitalised enterprises (Baltic states: 15.3 percent; Scandinavia: 19.7 percent).

Equity capital ratios in Europe



Source: Amadeus Bilanzdatenbank, Bureau von Dijk/Creditreform.

Although the average equity ratio has improved slightly in recent years as a result of the good economic climate, there is an increasing gap between those firms with good equity backing and those which present a poorer picture. Around one firm in every two in the SME sector in Europe can be considered solidly financed; the proportion has in fact grown moderately against the background of the brighter economy of 2006 and 2007. On the other hand, though, there are still large numbers of small and medium-sized firms which are drastically under-capitalised. In Europe as a whole, the proportion is about one third, but there are marked differences between individual countries in this respect. All the same, this highlights the potential danger created by the present combination of economic downturn and financing bottlenecks. This is likely to intensify the insolvency spiral in Europe even further.

One third of all SMEs under-capitalised

Another factor making everything even worse is the level of debt among European companies. According to a recent ECB analysis, the overall indebtedness of the corporate sector has rocketed to around 85 percent of GDP. In the period between 2000 and 2005, the relevant figure was between 70 and 75 percent. At the same time, the net interest payment burden faced by European firms has also increased. Without favourably priced fresh loans and a cash flow sufficient to cover interest and debt repayment, this could mean ruin for many companies.

European companies heavily indebted

Business firms are urgently advised to reduce the scale of their debts and increase their equity ratio. At the same time they should seek to extend their range of financing options and be looking at such alternatives as private outside equity or offers by business promotion banks in order to avoid too great a dependence on traditional bank loans.

3.4 Payment conduct

For years, many companies in Europe have had to cope with delayed payments – which is a problem that usually tends to worsen in economically difficult times.

Italians take their time

In 2008, that was the case. The longest waits for payments for goods and services are in Italy (92 days), France (58 days) and Britain (53 days). Delays can extend this period even further. Compared with the year before, that represents a slight increase in the time it takes before an invoice is settled. Firms in the Netherlands and Switzerland are better off in this respect; there, business bills are paid within 24 days, or within 40 days at most. The situation in Germany is similar. The longer a firm has to wait for a payment to arrive, the greater the strain on its own liquidity. A comparison between payment periods and corporate insolvencies highlights the relationship: in the Netherlands and Switzerland, the number of business failure declined last year, whereas in Italy and France it rose.

Tab. 6: Payment conduct in Europe in days

■	Payment terms	Payment delay	Total
Italy	66 (66)	26 (23)	92 (89)
France	44 (43)	14 (14)	58 (57)
Great Britain	34 (35)	19 (19)	53 (54)
Belgium	33 (33)	15 (13)	48 (46)
Austria	29 (30)	13 (11)	42 (41)
Netherlands	25 (24)	15 (15)	40 (39)
Switzerland	24 (23)	16 (16)	40 (39)
Germany	25 (25)	14 (12)	39 (37)
Sweden	27 (28)	8 (8)	35 (36)

() = 2007

■ 4 Sectoral distribution of insolvencies

In 2008, the biggest contribution to the volume of insolvency in Europe was made by the services sector. It accounted for more than 36 percent of all business failures. However, since the services sectors is by far the biggest of the four main branches of the economy, the high number of business bankruptcies in absolute terms is hardly surprising. But the proportion generated by this sector was over two percentage points higher than the year before. This was probably due to the considerably higher insolvency rates in the fields of transport, the real estate business and B2B services,

especially those in the financial services, i.e. those fields which were the first to feel the full brunt of the financial crisis and the economic deterioration.

The European construction sector also posted a higher contribution to the insolvency total than the year before. Whereas in 2007, 17.6 percent of all bankrupt firms were in this sector, the figure last year was 19.3 percent. The collapse of the over-heated property markets in Spain and Great Britain was responsible for a good many insolvencies in the bloated building sector in those countries. In other parts of Europe, construction activity remained weak and the significance of this sector declined somewhat.

Larger number of building firms go broke

Tab. 7: Contribution to the insolvency volume by the key economic sectors in Europe in 2008 (average)

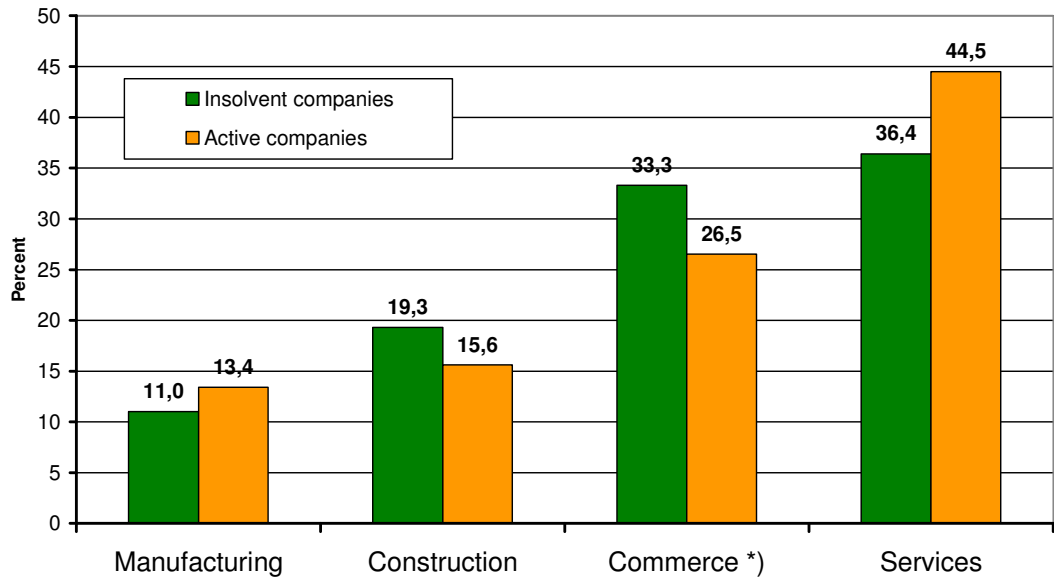
■	Contribution to insolvency
Manufacturing	11.0 (12.4)
Construction	19.3 (17.6)
Commerce *)	33.3 (35.7)
Services	36.4 (34.3)

*) including hotels, restaurants and cafés; figures in percent, () = 2007

In relative terms, manufacturing companies were less hard hit last year than in 2007, with a contribution of 11.0 percent to the total, as against 12.4 percent the year before. This development becomes evident again if one looks at the differences in economic structure between insolvent and still active firms: companies from the sectors of commerce and constructions are to be found in the insolvency statistics far more frequently than their share of the economy as a whole might lead one to expect. In 2008, for example, one business failure in every five (19.3 percent) involved a building firm, while such firms represent only 15.6 percent of the overall European economy (cf. chart).

Commerce and catering especially hard hit

European economic structure



*) including hotels, restaurants and cafés, figures in percent

Commerce, including wholesale and retail firms and also those in the catering trade, played less of a role in the generation of insolvency in 2008. After a share of 35.7 percent in 2007, the 2008 contribution was only one third. Nevertheless, this sector still accounts for an above-average number of bankruptcies.

In the individual European countries, the relative contributions of the economic sectors to insolvency varied. One notable fact is the high incidence of business collapses in the construction sector in France (26.5 percent) and Spain (25.9 percent), but also in Denmark (23.1 percent).

Tab. 8: Insolvencies in the key economic sectors in 2008

■	Manu- facturing	Construc- tion	Com- merce *)	Services
Austria	6.7 (6.5)	17.7 (16.6)	37.6 (38.8)	38.0 (38.1)
Belgium	7.7 (8.5)	14.5 (13.3)	49.6 (51.0)	28.2 (27.2)
Denmark	10.1 (11.7)	23.1 (21.2)	31.3 (32.7)	35.5 (34.3)
France	8.6 (9.1)	26.5 (25.8)	36.0 (36.0)	28.8 (29.1)
Germany	8.4 (8.7)	16.1 (17.0)	34.6 (34.6)	40.9 (39.7)
Great Britain	12.8 (13.1)	18.5 (17.8)	26.4 (26.7)	42.3 (42.5)
Netherlands	11.0 (11.9)	13.7 (13.4)	31.5 (31.8)	43.8 (42.9)
Norway	9.3 (8.7)	16.5 (14.7)	40.1 (44.9)	34.0 (31.7)
Spain	26.7 (35.5)	25.9 (21.0)	19.1 (22.7)	28.3 (20.8)
Sweden	10.5 (10.3)	15.4 (15.6)	36.9 (37.6)	37.3 (36.5)

*) including hotels, restaurants and cafés, figures in percent, () = 2007

■ 5 National reports

5.1 USA

For around a year now, the United States has been caught up in a serious economic crisis. The burden left behind for the new US president, Barack Obama, is enormous. In the past twelve months, some 2.5 million jobs have been lost, especially in industry. The unemployment rate has shot up to its highest level since the early 1990s. Important American industries – first and foremost the automotive industry – are in dire straits. The banking crisis has left the financial sector in chaos and produced a credit crunch. For the first time, some major financial institutes have disappeared from the scene or have been nationalized. In other words: in the land of unlimited opportunities, nothing is the way it was before.

The causes of the combined crisis of bank collapses and economic downturn are easy to identify. For years, US consumers financed their lifestyles on credit. Cheap money and frantic speculation – in which everyone joined in or else chose to ignore – led to huge price bubbles, especially in the property market. But the titles to many of the acquired assets were actually illusory. As long as the housing market boomed, any debtor who got into arrears could sell his home at a

USA facing serious crisis

Mortgage burden paralyzes entire country

profit and pay off his mortgage that way. Now, though, in one US household in every three, the level of the outstanding mortgage is higher than the value of the house. The bubble has burst – and with it, the dreams of millions of Americans have been shattered.

One natural consequence has been a slump in private expenditure on consumption, which in the USA accounted for almost 70 percent of total economic performance. The increase in unemployment, the expiry of tax vouchers and the now greater need to make provision for old age and sickness are forcing many US households – which have often lost a great deal of their assets anyway – to do everything they can to save money.

Tab. 9: Insolvencies in the USA

■	2008	2007	Change in %
Total	1,089,950	850,912	+ 28.1
Companies	39,950	28,322	+ 41.1
Private individuals	1,050,000	822,590	+ 27.6

Last year, the US economy already began to feel the massive consequences of all this. The number of insolvencies rocketed, with a year-on-year increase of more than 41 percent in the number of corporate collapses. Almost 40,000 US companies filed for insolvency, while the number of private insolvencies passed the one-million threshold. And: with the economy still in the doldrums, the risk of further bankruptcies is still rising. The level of indebtedness among consumers and business firms remains high. Refinancing arrangements or follow-up loans are either not available at all or else only on much more rigid terms.

Despite the repeated bail-out moves on the part of the US administration and a 700 billion dollar economic stimulus package, the turbulence in the financial markets is not over yet. That was made more than apparent by the quarterly reports of the credit institutions in Q4, disclosing more and more billion-dollar gaps. Merrill Lynch was forced to post a loss of 21.5 billion dollars, while the Bank of America and Citigroup also

Will 700 bn US\$ be enough?

went deep in the red. There is a possibility that the creation of “bad bank” for toxic assets may be needed to ensure the survival of many American credit institutions and enable them to re-start lending the money which business firms so urgently need. At the moment, though, banks are still very reluctant to grant loans. The capital aid that has been doled out by the state in the past has done nothing to change this situation. It proved largely ineffectual and has anyway been swallowed up by the huge losses.

5.2 Germany

In Germany, the number of business failures rose again for the first time in five years. In the course of 2008, almost 30,000 German companies had to make their way to the bankruptcy courts – more than two percent more than the year before. The media were full of the news of major bankruptcies, such as those of SinnLeffers and Hertie around the middle of the year, and of the first automotive suppliers to be hit by the crisis towards the end of the year. On the other hand, the number of private individuals going broke in 2008 fell by 6.4 percent to just under 127,000. That number includes consumer bankruptcies (98,500 cases) and also other insolvencies, such as the bankruptcies of estates and of personally liable partners (28,400 cases). In 2007, the number of consumer insolvencies had been well over the 100,000 threshold (105,300). However, the reduction is due only in part to any improvement in the financial situation of German consumers; it is frequently because the law courts have pruned their advisory activities.

Germany yet to feel full impact of bankruptcy wave

Tab. 10: Insolvencies in Germany

■	2008	2007	Change in %
Total	156,700	164,750	- 4.9
Companies	29,800	29,150	+ 2.2
Private individuals	126,900	135,600	- 6.4

2009 will be a year of recession

2009 will be a difficult year for the German economy. The government now expects to see negative growth of 2.25 percent – which is worse than at any time since the Second World War. Many companies are revising their forecast downwards, the financing situation for business firms will deteriorate and the number of firms defaulting will increase. Credit insurers are withdrawing from some parts of the market, either entirely or to a certain extent. For many firms with low credit-standing, the fall in demand coupled with limited scope for borrowing money will cause difficulties. Against this background, Creditreform anticipates that in 2009, the number of cases of business insolvency could increase to between 33,000 and 35,000.

To soften the impact of the recession, the German government has already passed two extensive economic packages, intended on the one hand to stimulate demand and on the other to ease the financial situation faced by the business community. In the course of this year, these measures should start to take effect and prevent any truly disastrous crash. Help also comes from the now lower prices for energy and fuel, which promote consumer demand and thus act like an additional stimulus package. Nevertheless, as the final months of 2008 already showed, the downswing will make itself felt particularly in the automotive industry, together with the SME automotive suppliers and car dealers. The transport and logistics industries and many B2B services, such as call centres and employment agencies, will also be hit by a marked climb in the volume of insolvencies.

5.3 Great Britain

Base rate cuts and stimulus packages not enough

The British economy already slipped into recession in the middle of 2008. The property and financial market bubbles burst and that, together with the high level of consumer indebtedness, caused a massive slump. For the United Kingdom, 2009 is likely to be the most difficult year in the last 25 years or more. Even massive base rate cuts by the Bank of England have so far done little to halt the downward slide. The result has

been a sharp increase, of more than 15 percent, in the number of insolvencies, taking the total to just under 15,000 cases. Headline-grabbing collapses, such as those of the British Woolworth chain or Waterford Wedgwood, represent just the tip of the iceberg.

The volume of private insolvencies remains at a high level and in fact rose last year by 0.6 percent to a total of 121,440. In view of the high mortgage burden borne by British households and the rapid rise in unemployment to over six percent at present, this trend is likely to pick up speed in 2009. The level of debt among private households is enormous: on average each of the some 15 million indebted households owes 60,000 pounds. That makes millions of people in Britain prone to getting into arrears if they lose their jobs, fall ill or their life-partnerships break up.

Tab. 11: Insolvencies in Great Britain

■	2008	2007	Change in %
Total	136,320	133,668	+ 2.0
Companies	14,880	12,893	+ 15.4
Private individuals	121,440	120,775	+ 0.6

The response by the British government includes a temporary reduction in VAT and an economic stimulus programme aimed, for instance, at encouraging consumers to start spending money again. However, the package of measures, with a total value of around 22 billion euros, is unlikely to make any swift impact. In this coming year, GDP is expected to fall by almost three percent. In particular the property and construction sector, together with banks and financial services, will shrink in size. Important credit institutions have already had to be nationalized – and in the motherland of capitalism, that is a truly awesome development.

5.4 France

Private consumption supports French economy

France was the only large European country not fully caught up in recession in 2008. Nevertheless, Europe's second-biggest economy cooled down to a very marked extent, in particular with a massive fall in exports. On the other hand, private consumption remains relatively robust and is a mainstay of economic activity. GDP in France is expected to post a slight increase of 0.2 to 0.5 percent this year. All the same, at the end of 2008, French President Nicolas Sarkozy presented a 26 billion euro economic support programme. It is aimed in particular at helping such industrial sectors as the automotive industry and construction and creating 100,000 new jobs. There is a real danger that the economic crisis could quickly start to impact on the labour market.

However, the stimulus package increases state indebtedness. France last year probably already violated the Maastricht rule that new debt must not exceed three percent of a country's GDP in any one year. That severely restricts the scope for further action by policy-makers.

Tab. 12: Corporate insolvencies in France

■	2008	2007	Change in %
	49,100	42,532	+ 15.4

The economic downturn is already reflected by the insolvency statistics. In 2008, there were more than 49,000 corporate insolvencies in France – a year-on-year increase of over 15 percent, a new negative record and a further expansion of the anyway substantial bedrock of business failures.

5.5 Spain

End of the property boom

The economic situation in Spain worsened massively in the course of 2008. GDP growth was probably only 1.3 percent, after 3.7 percent in 2007. This year GDP is very likely to contract by around 1.0 percent. The

downturn was due chiefly to the abrupt ending of the lengthy property boom. The lack of investment in housing made the construction sector shrink substantially – perhaps to a healthier level. Following the collapse of Martinsa Fesa, Spain’s biggest property firm, in July last year, the decline in the construction industry accelerated. In Spain’s largest-ever insolvency, the debts amounted to 5.2 bn euros. The crash also dashed the dreams of tens of thousands of families of owning a home of their own.

The repercussions of the economic downturn and the much more restrictive financing conditions already made themselves felt massively in 2008 in the number of business bankruptcies. The total more than doubled, to 2,100. In order to cope with this explosive development, the Spanish government has initiated an amendment to insolvency legislation. This will mean that a firm’s total assets will be allowed to fall below 50 percent of the basic capital without this being considered over-indebtedness and necessitating the opening of insolvency proceedings. Distressed companies will in future be given two years to get their balance sheets back in order. Despite this, though, the high level of debt among Spanish firms and the highest credit default rate for more than nine years are likely to produce a further increase in business collapses in 2009.

139 percent more bankruptcies

Tab. 13: Corporate insolvencies in Spain

■	2008	2007	Change in %
	2,100	880	+ 138.6

To counter the paralysis in the economy, the state has launched another eleven billion euro rescue package. This is on top of the multi-billion programme already initiated last spring. The chief aim is to support public investment in the ailing building sector. In addition, many thousands of new jobs are to be created in the civil service. This may help to compensate to a certain extent for the loss of jobs in the private sector, but unemployment in Spain – which is anyway high by international standards – is still likely to go on growing. Together with the property and stock market losses

which the Spaniards have sustained, this will probably have a negative effect on their urge to spend money and thus reduce private consumption in general.

5.6 Italy

For some time now, Italy has been going through a phase of weak economic growth. Last year, it was only in the first quarter that GDP was able to post a modest rise. In 2008 as a whole, GDP probably declined slightly. The year before, the growth of the Italian economy had already been relatively poor when compared with that of most of the other European states. The main reason for this slowdown was the weak level of internal demand, a factor intensified by the strong surge in inflation which extended into the second half of the year and the substantial losses sustained as a result of the feeble performance of the real estate and stock markets. The impact of the weaker demand is reflected by a decline in the pace of corporate investment, accompanied by falling exports. However, Italy has a not insubstantial shadow economy and so - especially in the services sector and the construction business – a sizeable proportion of actual economic output is not registered.

Italy structurally weak

Tab. 14: Corporate insolvencies in Italy

■	2008	2007	Change in %
	7,128	5,518	+ 29.2

With its heavy burden of debt, Italy has so far taken only relatively minor efforts to counter recession and the threat of weaker growth. The present crisis package, which includes tax relief measures and shopping vouchers, totals only six billion euros. The government's hesitant reaction has come in for severe criticisms from all sides.

5.7 Japan

Unlike the rest of the world, Japan enjoyed only a relatively weak economic upturn in 2006/07. For a while, the high level of demand from abroad, especially from the USA, and the dynamic scale of corporate investment had been able to compensate for scanty internal consumption. Then, around the middle of last year, the country's economic performance already slackened again as the pace of export activity slowed down. In line with this development, the volume of business insolvencies in Japan showed a year-on-year rise of 15.7 percent to almost 12,700 cases.

Export nation feels global crisis

Tab. 15: Corporate insolvencies in Japan

■	2008	2007	Change in %
	12,681	10,959	+ 15.7

At the end of last year, the Japanese government presented an extensive package of measures to boost the economy and the banking sector (tax relief and consumer vouchers for ordinary citizens, guarantees for small and medium-sized enterprises), worth a total of 220 billion euros. But the price it has to pay is enormous. The injection of billions in capital, the bail-outs, the huge support for liquidity and the economic stimulus measures will force Japan even deeper into debt than it already is and thus impose strict limits on the state's ability to act in the future. Basically, though, because of the outstanding significance of banks for the functioning of any modern economy, there was no alternative.

■ 6 Central and Eastern Europe

The Eastern Europe states are proving unable to cut themselves off from the worldwide economic downswing. In the past, the region – which serves as a production location for the automotive industry and other branches of manufacturing – has performed extremely well, with annual growth rates of up to seven percent. But in 2008, industry, as the dynamo of the region's

Eastern Europe cannot evade downswing

growth, already started spluttering heavily. This year, large parts of Eastern Europe are likely to be completely caught up in the downward trend and demonstrate initial signs of recession.

An analysis of the insolvency scene in the region's most important countries reveals a marked increase in the number of business failures in 2008. The figure for Eastern Europe as a whole was 21,500, equivalent to an increase of 11.6 percent on 2007. An above-average rise was posted by Slovenia (plus 17.3 percent) and Hungary (plus 16.4 percent). In Hungary, the slump in industrial production made the country's growth rate fall, with higher numbers of insolvencies a natural consequence.

Tab. 16: Corporate insolvencies in Eastern Europe

■	2008	2007	2006	2005	Change 2007/08 in percent
Czech Republic	4,513	4,250	4,227	3,882	+ 6.2
Estonia	366	333	352	429	+ 9.9
Hungary	11,322	9,723	9,447	7,983	+ 16.4
Latvia	1,277	1,272	1,174	830	+ 0.4
Lithuania	731	647	808	773	+ 13.0
Poland	411	447	576	793	- 8.1
Slovakia	2,300	2,100	2,150	2,200	+ 9.5
Slovenia	657	560	577	o. A.	+ 17.3
Total	21,577	19,332	19,311	16,890	+ 11.6

Baltic states with highest incidence of insolvency

In Latvia, the volume of insolvencies was more or less on a par with that the year before, with 1,277 cases. In 2007, the volume had already risen to the high level of 1,272. Overall, the Baltic countries are the worst hit in relative terms. In Lithuania, there were 115 corporate failures for every 10,000 companies. The figure for Estonia was 108 and for Latvia it was also high, at 99. This development illustrates the serious problems faced by the economy of this region. Business investment, especially cross-border investment, has more or less come to a standstill – a development that cannot be offset by private consumption. The downward trajectory is set to continue this year as well. The Baltic region is likely to face a frosty 2009.

Although the relative incidence of insolvency in the Czech Republic (50) is lower than in neighbouring Slovakia (83), this cannot hide the fact that the Czech insolvency figures have also risen. For three years, this country – most of whose exports go to Western Europe – had profited from the boom in foreign trade. Last year, however, the pace in this field slowed down considerably. Nonetheless, the Czech Republic looks set to remain on a positive growth course in this coming year.

Tab. 17: Insolvency ratios in individual Eastern European countries

■	Insolvencies per 10,000 companies
Poland	3
Czech Republic	50
Slovenia	72
Slovakia	83
Hungary	92
Latvia	99
Estonia	108
Lithuania	115
Average	52

■ 7 Insolvency risks in Europe 2009 – Results of a business survey

Whereas banks feel the impact of the financial crisis immediately, business companies are usually affected only somewhat later. The media have already focused on the problems which the automotive and mechanical engineering industries are facing, but what about the rest of the broad spectrum of German exporters? How badly have they been hit by the difficulties in the global financial markets? To find out, the Creditreform Economic Research Unit conducted a survey of export-oriented German firms in the second half of January this year. Almost 360 firms took part in the survey. Almost one in two of these companies has been active in the field of foreign trade for more than 25 years.

Survey reveals insolvency risks

Foreign trade and the financial crisis

Where their foreign business transactions are concerned, a notable 41 percent of the firms surveyed have already felt the repercussions of the turbulence in the financial markets and the real economy. The majority (48.3 percent) of the companies report only very little impact so far and nine percent say that their export business has not been directly affected at all.

Tab. 18: Strong impact of the financial crisis on foreign trade in these areas ... (multiple selections possible)

■	
Order intake	62.8
Turnover development	53.8
Payment conduct of customers	46.2
Raising capital	13.1
Customer insolvencies	19.3
Other	2.1

Source: Creditreform, figures in percent

The effects of the financial crisis are reflected by a variety of indicators. The survey reveals that the business areas most affected are order intake (62.8 percent of the firms surveyed) and turnover development (53.8 percent). Almost one in every two of the exporters (46.2 percent) report that the crisis has had a negative influence on the payment conduct of their customers. 20 percent have already been affected by the insolvency of a customer or customers. This is true in particular of medium-sized and small firms employing between 21 and 100 people. A high proportion of these (27.9 percent) have been hit by customers going broke. The relevant figure for firms with over 250 employees is just 8.8 percent.

Payment conduct worsens

The effect on payment conducts actually plays a central role in this connection. Especially for smaller firms, a high level of receivables can quickly pose a threat to their survival. In fact, though, the situation among most of the export-oriented companies surveyed is less dramatic than might have been expected. Asked whether they have recently observed deterioration in the payment conduct or even signs of a liquidity bottleneck among their customers, 69.3 percent said that this had been “only minor”. However, almost 15 per-

cent say that they have been affected by payment delays to a “very marked” extent. 14.6 percent have not registered any worsening of the liquidity position at all.

Tab. 19: Deterioration in the payment conduct of foreign business partners

■ Field of activity of the foreign customers:	Yes, very marked	Only minor	None at all
Industry	15.6	66.2	18.2
Construction	22.0	65.9	12.2
Commerce	12.6	75.9	11.5
Services	13.8	62.1	24.1
Public sector	26.3	47.4	26.3
Transport, logistics	17.4	69.6	13.0
Total	16.1	69.3	14.6

Source: Creditreform, figures in percent

The picture varies according to the sector in which the foreign business partner operates. Among firms dealing with customers in the services sector in other European countries, one in four have so far not observed any worsening of payment conduct. Generally speaking, the same applies to firms with customers in the public sector, although here, 26 percent have noted a marked deterioration in payment conduct. Where business transactions with European construction firms are concerned, almost 88 percent of the surveyed exporters report that they have been affected to a marked or more minor extent by liquidity problems among their customers. A similarly high figure, of almost 87 percent, applies in the European transport and logistics sector.

European construction firms pay badly

Tab. 20: Payment conduct abroad

	No delays	Up to 10 days	Up to 30 days	Over 30 days
Austria	35.2	40.0	20.0	4.8
Baltic states	20.7	26.0	35.1	18.2
Benelux	24.2	37.1	25.8	12.9
Eastern Europe	18.2	29.1	33.6	19.1
France	14.3	30.2	34.5	21.0
Great Britain	19.4	28.7	34.3	17.6
Italy	12.3	17.0	34.0	36.7
Russia	33.3	18.9	22.2	25.6
Scandinavia	35.3	33.3	24.5	6.9
Spain	16.8	27.7	27.7	27.8

Source: Creditreform, figures in percent

Austrians pay fastest

A country-by-country analysis show that for German firms exporting goods or services to other parts of Europe, the biggest payment delays occur in Italy. Only one eighth of the firms surveyed have not registered any delays in the way in which Italian companies settle their invoices; in the case of one in three firms, Italian customers are more than 30 days late in paying. The most punctual customers are those in Austria and the Scandinavian countries: one third of the German exporters covered by the survey have not noted any delays in payment at all, while in both areas delays of more than 30 days are very much the exception. As was expected, customers in Southern Europe perform badly in this respect.

Credit-standing reports are a must

There have been many reports on the consequences of the financial crisis, and there have been many calls for state credit guarantees in response. But what is the position where counter-action and preventive measures are concerned? What is being done in the credit management departments of business companies to avoid payment defaults in international trade? Before they conclude a transaction, more than three-quarters (76.6 percent) of the exporters surveyed obtain commercial reports providing information on the credit-standing, the financial situation, the structure and the business environment of the customer concerned. An-

other viable instrument is cash in advance: 66.2 percent of the firms in the survey no longer grant supplier credits to their business partners or else (63.4 percent) do so only to a limited extent. One quarter of the exporters supply their goods or services only to customers they know and who have proved reliable in the past. Alongside essential credit and receivables management, German firms take advantage of state export credit guarantees to protect themselves against payment defaults by foreign customers. According to the German Ministry of Economics, the financial crisis has so far had no impact on the scale of such defaults or the relevant compensation payments.

**Tab. 21: Measures to avoid payment defaults abroad
(multiple selections possible)**

■	
Commercial/credit-standing reports	76.6
Cash in advance, no supplier credits	66.2
Credit ceilings	63.4
Security-backed credit/credit insurance	62.1
Delivery only to reliable business partners	24.8
Shorter periods for payment	24.1
None	2.8

Source: Creditreform, figures in percent

In most European countries, the key economic ratios are likely to be considerably worse this year than in 2008, when the majority of European economies achieved at least moderate growth. This means that 2009 will be a year of increasing insolvency totals.

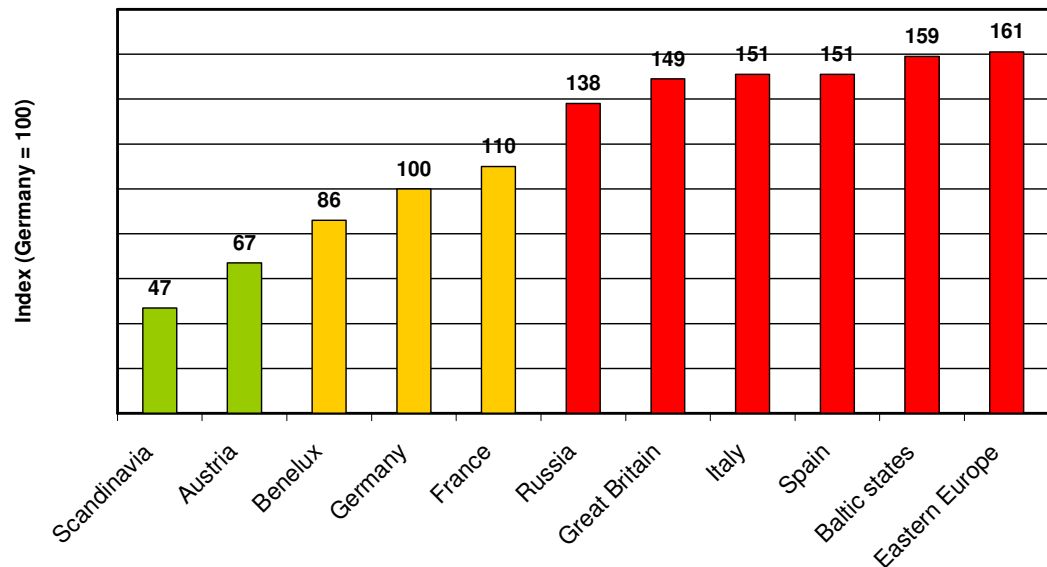
The question as to how German export firms assess the insolvency risk in other European countries in comparison with that in Germany produces the following picture: the firms surveyed see the insolvency risk in Eastern Europe, the Baltic states, Spain and Italy as being higher than that in Germany (see chart). In Austria, the Benelux countries and Scandinavia, the danger of companies having to file for bankruptcy is considered lower than here. This assessment corresponds with the insolvency situation in the countries concerned. Whereas business failures in Italy and Spain showed a year-on-year increase of 29 percent and 139

2009: the year of insolvency

Baltic and Eastern Europe in focus

percent respectively, the number of cases in the Netherlands actually fell and in Austria rose only moderately. The positive assessment of the Scandinavian countries is probably due to the good payment conduct of customers there.

Assessment of insolvency risks 2009 *)



Source: Creditreform Balance-sheet of the assessments "Insolvency risks higher" and "Insolvency risks lower"

■ 8 Summary

Last year, the trend towards lower corporate insolvency totals in Europe, which had been in evidence since 2005, was reversed. The number of insolvencies in the EU-15 states plus Norway and Switzerland rose to over 150,000. That corresponds to a rise of almost eleven percent on 2007, when around 135,500 companies in Western Europe became bankrupt. Only in three of the 17 countries surveyed did the incidence of insolvency decline last year: the Netherlands, Luxembourg and Switzerland recorded fewer cases than in 2007.

The biggest rise was in Spain, where the number increased by 138.6 percent to 2,100 cases. It was followed by Ireland, with growth of 120.8 percent to 700 (prior year: 317 affected companies) and Denmark, where the total climbed by 54.5 percent to 3,710 (pre-

vious year: 2,401). The dramatic development shows that these European countries were already hit hard in 2008 by the global economic slump and the more difficult financing conditions for business enterprises. Most European countries, though, have yet to fill the full brunt of the insolvency wave.

The highest relative incidence of corporate bankruptcy (number of companies in a country compared with the number of insolvencies there) was registered by Luxembourg (233 business failures for every 10,000 firms), Austria (224) and France (215). The average insolvency ratio in Western Europe was 83. Germany finished slightly above the average, with a ratio of 96.

While business insolvency increased significantly in 2008, there was a moderate decline in the number of private bankruptcies. In those countries where a relevant time series exists, 3.6 percent fewer debt clearance proceedings were recorded than the year before. This trend is due chiefly to the way the figures in Germany and the Netherlands developed. In Germany, for instance, the total volume of private bankruptcies fell by 6.4 percent in the course of the year, to 126,900 cases, while in the Netherlands it fell by all of 36.9 percent as the result of changes in the law. Finland (plus 24.7 percent) and Austria (plus 11.0 percent) both posted higher totals last year. Altogether, 291,380 private individuals in Western Europe (prior year) filed for bankruptcy in 2008, as against 302,392 in 2007. A survey of the relative incidence of consumer insolvencies (obtained by comparing the number of such cases in any one country with the size of the population there) shows that last year, the countries with the highest incidences were Finland and Great Britain, with 22 and 20 cases respectively for every 10,000 inhabitants. At the other extreme was the Netherlands, with just 6 cases. Germany took a mid-range position in Europe with 15.

In line with the overall volume of insolvencies, the number of people in Europe who lost their jobs when the firm they worked for went broke rose in 2008 to 1.4 million. In 2007, the figure had been 1.2 million.

The biggest contribution to the volume of insolvency in Europe was made by the services sector. It accounted for an average of 36.4 percent (previous year: 34.3 percent) of all corporate collapses. The increase in this sector's share of the total is due to the significantly higher insolvency rates in those businesses particularly hit by the financial crisis and the economic downturn: transport, real estate and B2B services. The construction sector also registered a greater share of total insolvency: after a contribution of 17.6 percent in 2007, it last year accounted for 19.3 percent. With just eleven percent (previous year: 12.4 percent), manufacturing was the least-affected branch of the economy. Commerce (wholesale and retail) accounted for one third of the total (33.3 percent, after 35.7 percent the year before).

For about a year now, the USA has been going through what is surely its worst economic crisis since the Second World War. The slump has also hit the corporate sector and in 2008 it forced 39,950 firms into bankruptcy – after just 28,322 the year before. In Japan, the number of business failures rose by all of 15.7 percent in the course of the year to a final figure of just under 12,700.

The Central and Eastern European states of Estonia, Latvia, Lithuania, Slovakia, Slovenia, Czech Republic and Hungary also registered increasing numbers of corporate insolvencies in 2008, posting a total volume of 21,600 cases. That represents a rise of 11.6 percent. The up-and-coming countries of Eastern Europe, which form an important manufacturing location for the export market, have not been spared the impact of the global economic crisis and the slump in orders from abroad. Above-average increases in business bankruptcy were reported in Slovenia (plus 17.3 percent to 657 cases) and Hungary (plus 16.4 percent to 11,322 cases). The highest incidences of firms going broke were in the Baltic states of Lithuania (115 out of every 10,000 firms), Estonia (108) and Latvia (99).

In January 2009, Creditreform conducted a survey among German exporters to ascertain their assess-

ments of the present situation and their current experience in the field of foreign trade. All of 41 percent of those surveyed report that the financial and economic crisis has definitely impacted on their export business. Only nine percent said that the crisis had not had any direct influence on their operations.

Negative repercussions on the payment conduct of foreign business partners are reported by 85.4 percent of German exporters. 16.1 percent of those surveyed have already been affected by a significant deterioration in payment conduct, 69.3 percent by a slight worsening of the situation. In particular those companies which supply foreign building firms and retailers/wholesalers report marked delays in getting their invoices settled. One exporter in every five has been hit in recent months by customers going broke.

The surveyed companies regard insolvency risks in 2009 as greatest in Eastern Europe, especially in the Baltic states. The danger of insolvency is also judged to be higher in Spain, Italy and Great Britain than in Germany. Only in the Scandinavian countries, Austria and the Benelux states is the insolvency risk in 2009 regarded more positively than in Germany.

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Netherlands:	Statistics Netherlands
Norway:	Statistics Norway
Portugal:	Instituto Nacional de Estatistica
Spain:	Instituto Nacional de Estadistica
Sweden:	Statistics Sweden
Switzerland:	Statistik Schweiz
UK:	Office for National Statistics, London

German chambers of commerce abroad

Deutsch-Belgisch-Luxemburgische Handelskammer, Brussels
Deutsch-Finnische Handelskammer, Helsinki
Deutsch-Griechische Industrie- und Handelskammer, Athens
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Business information companies

Coface Austria, Coface Central Europe
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Economic information services

bfai Bundesagentur für Außenwirtschaft

Bundesministerium für Finanzen

Bundesministerium für Wirtschaft und Technologie

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Deutsche Bundesbank monthly report, various editions

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Various newspaper and magazine articles

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