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## A wave of bankruptcies is coming in Europe

And it will not be pretty

Version 2

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EUROPEAN BUSINESSMEN who filed for bankruptcy used to be treated harshly. The word "bankrupt" derives from *banco rotto*, the practice in medieval Italy of smashing the benches that merchants sold their goods from if they did not pay their debts, to force them to stop trading. Until the mid-19th century defaulters were thrown into debtors' prisons. Bankruptcy proceedings are now less violent, but in many European countries they mostly end in liquidation rather than restructuring.

The fear of multiple bankruptcies and mass unemployment because of measures imposed to contain the covid-19 pandemic is the main reason European governments are subsidising businesses on a vast scale. "No healthy company should go bankrupt because of corona," promised Peter Altmaier, Germany's economy minister, in mid-March when he announced extended credit lines, liquidity guarantees and grants for German businesses amounting to Euro 750bn (\$807bn). At the end of March the German government suspended insolvent firms' obligation to file for bankruptcy until the end of September (and perhaps until March 2021) "provided they can prove their troubles were caused by covid-19. France, Spain and other European countries have introduced similar exemptions.

These emergency measures are buying time. Bankruptcies and unemployment have not yet risen sharply. According to the Institute of Economic Research in Halle (IWH) bankruptcies in March and April in Germany

were no higher than in the same months last year. Yet rescue measures probably just postpone a surge in bankruptcies, says Steffen Mueller of the IWH. Mr Mueller thinks "zombies" will be swept away later this year, but worries that even healthy companies may not survive.

Governments have learned a lesson from the global financial crisis. Bankruptcies increased by 32% in western Europe in 2008. Ludovic Subran of Euler Hermes, a Paris-based credit insurer, is forecasting a rise of 19% compared with 2019 to 178,365 insolvencies this year. The corporate carnage was so brutal in 2008 because of the credit crunch, explains Mr Subran. A sudden slump in the availability of loans sealed the fate of many firms. This time EU governments have reacted far faster by pumping liquidity into the economy. Moreover, the rate of bankruptcies was very low between 2002 and 2007 whereas this time Europe has seen a clean-out in the past five years, with many firms going bust.

Mr Subran's forecast seems optimistic considering that some industries suddenly lost all their business. The most vulnerable firms are in the hospitality, transport and non-food retail sectors. They were among the most insolvency-prone businesses before the covid crisis. Germany's Karstadt Kaufhof, an ailing department-store chain, and France's Orchestra Prémaman, a troubled clothing retailer, both filed for receivership in April. In Britain Carluccio's, a restaurant chain, Brighthouse, a rent-to-own retailer, and Laura Ashley, a fashion chain, tumbled into administration in March.

The other weak link is Europe's 25m small and medium-sized enterprises (defined as firms with fewer than 250 staff), which employ over 90m people. According to SMEunited, a European lobby group, 90% of Europe's small firms are affected by the pandemic and 30% of them say they are losing 80% of sales or more. CPME, France's small-business federation, says 55% of small firms are concerned about bankruptcy. The French government's Euro 7bn solidarity fund for small companies has already been tapped by 900,000 firms.

Behemoths have been rescued by the state, as so many jobs depend on them. France and the Netherlands are providing a taxpayer-funded bail-out of about Euro 10bn to salvage Air France-KLM from bankruptcy. Germany will follow with a bail-out for Lufthansa. Small businesses will suffer most in spite of short-term work schemes, cash payments, delays to tax deadlines and credit guarantees. But never before have governments done

so much to try to help them avoid the Schuldturm "the prison tower that was the destination, in the past, for those who couldn't pay their debts.

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