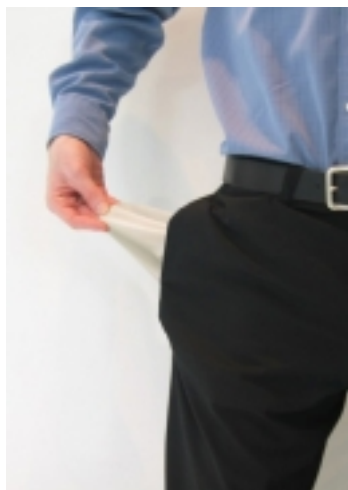


Bankruptcies will increase at a slower pace



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Analysts at credit insurer Euler Hermes, authors of the mentioned study, expect financial state of the corporate sector and its payment discipline to improve slightly also in 2011 due to the visible, although still fragile global economic recovery. It can be attributed to renewal of the economic growth and of course to the previous development. In many countries the corporate sector has undergone a relatively drastic slimming diet, while it had very rigorous impacts for example on the Baltic countries but also in the USA and the Slovak Republic. Our corporate sector has undergone a very similar development, where the number of realized bankruptcies reached a year-on-year growth of 36 % during the last year. This indicator should decrease by 16 % this year and to 9 % in 2011. At the same time, 1,900 companies are expected to find themselves in bankruptcy this year, according to Euler Hermes estimates. While in 2008 the number of corporate bankruptcies reached a mere 1,110 cases, at the start of the decade there were nearly 2,500 of them. (This data doesn't concern the number of insolvency petitions, there are significantly more of those, also due to the fact that they have become an instrument of competition - e.g. the construction company Hochtief has repeatedly faced unjustified petitions.)

The, not in any way ideal, financial health of the Czech corporate sector in comparison with the world, has a global background. The Euler Hermes analysis expects a significantly better "bankruptcy" situation in Asia-Pacific as well as in Americas. On the contrary, it sees Europe as a continuing sore spot of global economy. It is in particular the Eurozone, which is struggling with the public sector financial crisis, which represents not only an economic problem but also political and subsequently psychological.

In this not particularly optimistic context, for the entire Czech economy, the good news of long-term impact are the changes in legislature of insolvency proceedings, in force since this year. Among others, the position of the insolvency trustee can be carried out only by those who obtained the "licence" from the Ministry of Justice. The result brought about by this change is the fact that while there were 3,700 insolvency trustees last year, there are a little more than 200 of them today. The previous appointing of insolvency trustees directly by the bankruptcy judges without any clear rules created a "hotbed" for criminal activity of the judge - administrator tandem. The famous case of the bankruptcy judge Jiří Berka from Ústí nad Labem (he was sentenced to nine years, Daniel Thonat received the same punishment together with the former vice-rector of Vysoká škola Karla Engliš, Vladislav Větrovec - the alleged head of the group) can unfortunately be perceived as the proverbial tip of the iceberg. The frequently criticised lack of transparency in bankruptcy proceedings should be eliminated partially by a publicly accessible register of insolvency.

Bankruptcies worldwide and in CR

(development of bankruptcies, changes in %, Euler Hermes estimate for 2010)

Country	2010	2009
Greece	+ 25	+16
Poland	+16	+57
Czech Republic	+16	+36
Italy	+14	+29
Switzerland	+14	+24
Germany	+1	+12
Slovakia	-4	+35
Japan	-8	-1
Lithuania	-8	+92
Estonia	-8	+149
USA	-10	+40

Source: national statistics, Euler Hermes

The credit insurer Euler Hermes has had its branch, named Euler Hermes Čescob, in the Czech Republic since the 90's. We asked their sales director Hynek Rasocha to comment on the financial health of Czech firms.

The recession has clearly affected the payment discipline in Czech companies. In which sectors is it most visible?

From our perspective, the worst situation is in the construction industry which is far from having overcome hard times. The transport and steel production and distribution sectors are also in a difficult situation.

How has the volume and number of insurance claims evolved in the previous years, how much have you paid for claims? We can just name one indication from our financial statements - the costs of claims rose from CZK 54 mill. in 2007 to 399 mill. last year.

Are behind the rise of insurance "accidents" real economic difficulties or are there also other causes - there had been a lot of talk of payment "unwillingness" in the past, ie. cases when the debtor could pay but didn't want to?!

Today there are mainly real economic difficulties. The payment unwillingness still comes occasionally, but it is not as frequent as in the past. In our insurance company, there has been only one case in Slovakia recently when the buyer deliberately didn't pay their debts in the order of ten of millions crowns. It is appropriate to say that the economic environment is changing fast and payment or debtor levity is no longer considered as acceptable and simply a normal part of economic life. As far as we know, such debtor gets under great pressure, the case harms their reputation in the market and especially with their business partners. Court proceedings have also started, let us believe, that the courts will process similar cases at a higher pace.

Do you see any improvement in the situation this year?

In most sectors, the overall situation is really getting better. We also adapt our evaluation of payment risk and we again insure some previously uninsurable deals.

