

French insolvency statistics: *Fluctuat nec mergitur?*

Emmanuelle Inacio takes a closer look at French insolvency statistics



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The 2017 Dun & Bradstreet Global Bankruptcy Report¹ shows that bankruptcy rates have declined in 16² out of 23³ European countries while Economic growth is slowing.

The UK is the only major European economy to record increasing bankruptcy rates in 2016 (10.1%) – due to a spike in the fourth quarter after the referendum voted in favour of a Brexit – and paradoxically also one of the fastest-growing economy.

In compliance with most of the EU countries, the number of insolvency proceedings opened in France in 2016 has seen a decrease of 8.3% according to the 12th edition of the Deloitte Altares Report on the distressed businesses in France⁴.

57,844 insolvency proceedings were opened in 2016 – compared to 63,081 in 2015 – of which 39 263 were liquidation proceedings, 17,288 reorganisation proceedings and 1,293 safeguard proceedings⁵.

If the number of insolvency proceedings opened in the second quarter of 2016 has seen a low increase of 2.7% when compared to 2015 (due to judicial workers' strikes in May and June 2015), the first and third quarter of 2016 have seen a decrease of 10.1% and 12% when compared to 2015, respectively.

The last quarter of 2016 has even seen a decrease of 12.2% with the opening of 13,971 insolvency proceedings, which is close to the rates registered before the previous financial crisis (13,662).

If the terrorist attacks in Paris on 13 November 2015 had immediate short-term economic impacts, the impact did not last⁶.

Since 2009, the hope of returning under the threshold of 15,000 insolvency proceedings for the last quarter, and 60,000 for the year, seemed a more elusive goal than ever. 2016 attained this goal.

A closer look...

If we look closely at the statistics, the number of insolvent companies with more than 10 employees is the lowest since 2008, with a decrease of 34.8% in 2016 when compared to 2015. Similarly, the number of insolvent companies with more than 50 employees has seen a decrease of 31.2% in 2016 when compared to 2015.

It is important to highlight that an important number of insolvency proceedings opened in 2016 concerns small businesses with 1 or 2 employees, which have seen a decrease of 5.3% in 2016. Consequently, the number of threatened jobs has seen a decrease of 17.4% in 2016, which is its lowest rate since 2008 (193,649 threatened jobs in 2016 versus 234,453 in 2015).

On the other hand, if we look at the statistics concerning company creations, 554,000 companies (of which 188,800 companies, 142,400 individual companies and 222,800 self-employed persons) were created in France in 2016 with an increase of 6% when compared to 2015. This means therefore that only 10.44% of the

companies created in 2016 in France have failed.

Significant factors

The insolvency statistics only include the public and collective judicial reorganisation, judicial liquidation and safeguard proceedings. Nonetheless, the 12th edition of the Deloitte Altares Report on the distressed businesses in France raises that 2,467 preventive and confidential proceedings were opened in 2016, with an increase on 3% when compared to 2015 of which 65% are *ad hoc* mandate proceedings.



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612,001 jobs are concerned by these preventive and confidential proceedings with a growth of 5% when compared to 2015 due to increase of the size of the preventive and confidential cases. Preventive and confidential proceedings, which represent 4% of the 2016 proceedings as a whole, concern 76% of threatened jobs. 1 out of 2 preventive proceedings opened do succeed helping to preserve jobs under the best possible conditions.

The increased use of preventive proceedings shows that a rescue culture exists in France, as requested by the European Commission proposal for a Directive on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures and amending Directive 2012/30/EU⁷. Indeed, as the *ad hoc* mandate and conciliation proceedings are opened only at the request of the debtor, the directors now address their financial difficulties at an

early stage, which should be seen as a major step forward in the prevention of insolvency.

Upward trend

Meanwhile, the latest available macro-economic data was surprising, highlighting an underlying improving trend in the French economy. The harmonized unemployment rate has fallen to its lowest value since late 2011, and the Purchasing Managers' Indices in the manufacturing, retail and service sectors are all moving higher, according to the 2017 Dun & Bradstreet Global Bankruptcy Report.

However, the upcoming presidential election of 23 April and 7 May followed by the parliamentary elections of 11 and 18 June 2017, could jeopardise these figures.

Party politics

The incumbent socialist president François Hollande made history by becoming the first president since 1958 to

decide not to seek a second term, due to his unpopularity, despite the encouraging figures.

Conservative anti-welfare, François Fillon (who is under formal investigation on suspicion of embezzling state funds); left and green wing of the socialist party, Benoît Hamon; far-right nationalist, anti-immigrant, anti-EU Marine Le Pen (and whose chief of staff is under formal investigation over the alleged misuse of EU funds to pay parliamentary assistants); pro-EU former investment banker, independent centrist, Emmanuel Macron and eurosceptic, anti-capitalist, radical left wing Jean-Luc Mélenchon are the major candidates.

If opinion polls indicate that Marine Le Pen will easily reach the final round run-off of 7 May, all polls show Marine Le Pen losing against either Emmanuel Macron or François Fillon. But what if the Republican Front of anti-Le Pen voters from across the political spectrum, that has formed in past presidential and legislative elections to block a victory by the far-right National Front, simply might not materialise this time? The chances that France may be about to add a new chapter to the disruptions of Brexit and the Trump presidency are very real indeed.

To be continued... ■

Footnotes:

- 1 <http://www.dnb.com/perspectives/finance-credit-risk/2017-global-bankruptcy-trends-report.html>
- 2 Serbia (-50.8%); Bosnia (-32.5%); Portugal (-22.9%); Bulgaria (-21.8%); Spain (-17.9%); Netherlands (-16.2%); Russia (-13.8%); Turkey (-10%); France (-8.8%); Poland (-8.7%); Italy (-7.7%); Slovakia (-7.5%); Belgium (-6.2%); Germany (-6.1%); Finland (-5.1%); Sweden (-5%).
- 3 Norway (3.9%); Slovenia (4.4%); Austria (6.6%); Switzerland (9.3%); United Kingdom (10.1%); Czech Republic (21%); Denmark (69%).
- 4 http://www.altares.com/fr/actualites/nos-publications/barometres-181/article/12eme-edition-de-l-etude-deloitte-altares-l-entreprise-en-difficulte-en-france?id_rubrique=181&id_article=354
- 5 <http://www.altares.com/fr/actualites/nos-publications/defaillances-et-sauvegardes-186/article/defaillances-d-entreprises-en-france-4eme-trimestre-2016-et-bilan-annuel-2016#up>
- 6 "French Insolvency Statistics" in *Eurofenix*, Winter 2015/16, Issue 63, p. 45.
- 7 http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=50043.



THE CHANCES THAT FRANCE MAY BE ABOUT TO ADD A NEW CHAPTER TO THE DISRUPTIONS OF BREXIT AND THE TRUMP PRESIDENCY ARE VERY REAL INDEED



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