

Directorate G: Business and trade statistics

G2 – European Businesses

G3 – Business cycle; Short-term statistics

September 2020

Methodological notes on quarterly registrations and bankruptcies

Background and Data sources

The data on the absolute number of registrations of new businesses and bankruptcies on quarterly basis is provided by the national statistical institutes of the EU and EFTA Member States, on a voluntary basis. In accordance with the provisions of the Regulation (EU) 2152/2019 on European business statistics, quarterly data will be compiled by EU and EFTA countries on a mandatory basis starting from the first quarter of 2021. In the current context of the COVID-19 crisis, the European Statistical System Committee agreed to make efforts to anticipate the provision of the quarterly data on registrations and bankruptcies.

It is therefore expected that the geographical coverage will progressively improve in the short run and before the formal entry into force of the new data requirements. At the same time, improved and broader meta data collection is expected to better address the emerging methodological issues.

The current publication on quarterly registrations and bankruptcies is the first one published in the domain. It is based on voluntary data collection across EU Member States. Eurostat will continue publishing these data on quarterly basis as experimental statistics until 2021 when quarterly registrations and bankruptcies will be covered by EBS regulation as mandatory data collection.

Methodology and definitions; differences between quarterly and annual business demography data

Registrations on new businesses:

The number of entered legal units in the registration register at any time during the reference quarter Q, according to the respective administrative or legal procedure.

Registrations is an early indicator to measure business intentions. In every country, administrative rules of registrations differ, so the quarterly data are presented as index series to improve comparability.

Registrations cannot be directly compared with the birth of an enterprise. Registrations of businesses are part of administrative procedures, while annual data on enterprise births are based on the start-up of business activity in terms of having turnover, employment or investment. The registration of a legal unit can be considered as a declaration of intent but does not necessarily mean it follows business activity in line with annual business demography concept. Registration data are not based on the enterprise demography characteristics 'date of commencement of activities' but rather on the 'date of registration' that is not necessarily equal to 'date of commencement of activities'.

The statistical unit in annual business demography statistics on births is the enterprise while quarterly data on registrations refer to legal units (several legal units can constitute one enterprise, a registration of a new legal unit therefore does not necessarily mean the birth of a new enterprise). In some countries the coverage of legal forms or of NACE activities in quarterly registrations compared to annual births in business demography may differ. Annual business demography may have a threshold with respect to turnover in order to be included in the statistics concerned. Registrations and births may also be recorded in different reference periods or years.

Due to the methodological differences, there is no direct comparability to annual business demography statistics on births of enterprises.

Bankruptcies:

The number of legal units that have started the procedure of being declared bankrupt, by issuing a court declaration, at any time during the reference quarter Q (which is often provisional and does not always mean cessation of an activity).

Bankruptcies is an early indicator to measure situation in business environment. Quarterly bankruptcies are frequently different from annual business demography statistics on deaths of enterprises, because they cover deaths of enterprises due to bankruptcies as well as other enterprises which ended their activity for other reasons. Bankruptcies that were filed do not necessarily mean closing of the business. Even if an enterprise has declared for bankruptcy, it does not always mean that it ceases all activity when it enters into bankruptcy procedure. In order to be recorded as enterprise death in annual business demography typically all production factors have been dissolved / terminated.

There are several methodological differences between the concepts of bankruptcies and enterprise deaths. Quarterly business demography data on bankruptcies are based on legal units, while annual business demography data on deaths is based on the statistical unit enterprise. Moreover, in some

countries self-employed persons as businesses are rarely subject to bankruptcy procedure. There may also be significant differences between countries with respect to bankruptcy laws. In some countries, when a business declares itself bankrupt, it means that it has to cease immediately all activities whereas in other countries, they can continue to trade under a certain operation control. Some businesses declaring themselves bankrupt may therefore eventually recover, and would therefore not be considered as enterprise death.

The proportion of bankruptcy procedures that finally end up as an enterprise death varies therefore across countries depending on the bankruptcy laws. In addition, minimum thresholds of e.g. turnover may apply to annual business demography data, but not necessarily to quarterly data on bankruptcies, that on the other hand have the other restrictions.

To conclude, the scope and contents of annual business demography statistics on deaths of enterprises may differ considerably from quarterly data on bankruptcies, the levels of these two statistics may therefore vary considerably. In general, bankruptcies represent only a fraction of all enterprise deaths. They cannot be directly compared with annual business demography data on deaths of enterprises.

Respective strengths of quarterly and annual data: The quarterly data on registrations and bankruptcies reflect the intention of a business to start economic activities or to close down activities. The annual data reflect the economic reality in terms of enterprises having turnover, employment or investment.

Calculation of indexes and EU aggregates

The available **national indices** are calculated by dividing the absolute figures of each period by the average of the base year (2015). National absolute figures are not directly aggregated because of different legislations, administrative practices and economic structures of the Member States.

The **EU aggregates** are calculated by weighting the national indices by the number of active enterprises, taken from structural business statistics of the reference year 2015. Even if the data of many EU countries are still missing, the estimates of the European aggregates are nevertheless based on more than 75% of the total Europe (in terms of weights).

Missing data of the countries that have provided data at least for the period 2015 – 2018 have been estimated using an ARIMA forecast in JDemetra+ software v. 2.1.0. Countries that have not provided data for the year 2015 have been excluded from the EU aggregates.

Seasonally adjusted EU series are calculated by directly adjusting the weighted average of the available non-adjusted national indices.