10 percent of all German adults heavily indebted

Elizabeth Zimmermann
15 November 2010

The number of the insolvent citizens in Germany has risen for the first time since 2007 with an additional 300,000 personal bankruptcies compared to one year ago, according to a new report released last week by the economic information service Creditreform.

According to the Debtor Atlas 2010 report the number of insolvent citizens rose 4.7 percent, with a total of 6.5 million people affected or 9.5 percent of the adult population in Germany.

The report defines "insolvent" as those facing financial hardships—with income lower than regular expenditures and liabilities—and those unable to repay their debts in the foreseeable future.

In total German citizens owe their creditors €239 billion, of which the overwhelming sum—€229 billion—is consumer credit. Above all, young people are facing increasing financial difficulties. Last year the proportion of 18- to 20-year olds with substantial money problems rose by 38 percent to a total of 197,000.

There is an obvious link between such high levels of debt and the current situation facing very many young people, which is characterized by high unemployment, unstable forms of work usually involving temporally contracts, and low wages for those able to find work. Another recent study by the German Institute for Economic Research concludes, "The decrease in normal working contracts particularly hits the generation of those commencing work."

While men continue to confront the brunt of severe financial strain, the number of women in debt is also rising—by 7 percent last year to a total of 39 percent. According to Creditreform executive committee member Helmut Rödl, this is because "women frequently work in precarious forms of employment—as subcontracted workers or in part-time jobs". During the latest crisis many women workers lost their jobs or suffered wage cuts. Above all, it is single-parent families who face insurmountable financial problems.

The problem of insolvency has increased across Germany, although there are clear regional differences. The lowest debtor ratios are in Bavaria (7.1 percent), Baden-Württemberg (7.5 percent), Saxony (8.4 percent) and Thuringia (8.7 percent). The highest levels are in Bremen (14.1 percent), Berlin (12.7 percent) and Saxony-Anhalt (11.9 percent). The insolvency rates in the states of Mecklenburg-Western Pomerania, Lower Saxony, Schleswig-Holstein, Hamburg, North Rhine-Westphalia and Saarland lie between 10 and 11 percent.

Insolvency rates are particularly high in cities, which have been hit by the downsizing or shutdown of whole branches of industry. In the eastern city of Halle, a center of the chemical industry in the former GDR, debt levels are 16.3 percent. In the Ruhr district, the former center of the West German coal and steel industry, the town of Gelsenkirchen registers an insolvency rate of 14.6, with nearby Dortmund recording 13.4 percent. Frontrunners in the region are Wuppertal with 17.8 percent and Bremerhaven with 18.5 percent.

Surprisingly, the insolvency rate is not higher in eastern Germany despite higher levels of unemployment and poverty than in western Germany. Creditreform executive committee member Rödl accounts for this fact by a greater readiness for inhabitants in the eastern states to refrain from consumer spending. In western Germany many private households accumulated higher levels of debt in the forlorn hope that their financial situation would improve.

On an international level Germany lags behind countries such as Great Britain and the US, where 13.8 and 17.4 percent of all adults respectively are registered as insolvent. But the situation is dramatic in Germany, with Creditreform estimating that debt levels could rise further, despite the fact that the country is currently undergoing a period of economic growth.

The labour market reforms introduced by the Social Democratic Party-Green coalition government and the subsequent explosive growth of the country's low-wage sector led to the sharp rise in insolvency between 2004 and 2007. While the number of total jobs grew, the incomes earned were insufficient to cover living costs.

The latest austerity program passed by the federal government will only serve to exacerbate the problems of the poor and low paid.