A closer look at...
2020 statistics on business failures

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Emmanuelle Inacio compares the insolvency statistics of several major jurisdictions that have been impacted by the COVID-19 pandemic

> *Business failures seem to mark a "pause" around the world while the global health emergency continues*

The Dun & Bradstreet 2020 Global Bankruptcy Report[1] shows that the number of business failures have decreased in Q1-Q3 2020 of 28[2] of the 36[3] countries monitored despite the impact of the pandemic crisis.

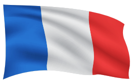
Business failures seem to mark a "pause" around the world while the global health emergency continues. Indeed, businesses are still very dependent on public aid to survive today: emergency loans, debt moratoriums, suspension of the opening of collective proceedings, etc.

United Kingdom

In the UK, business failures fell by 26.8% in Q1-Q3 2020 compared to the same period in 2019 with a 12.9% fall in machinery manufacturing, and a 35.9% reduction in wholesale trade failures. However, the government support measures to prevent companies from going out of business artificially masked the impact of the pandemic on credit risk levels. The report forecasts a rise in the risk of non-payment as the gross operating surplus of the UK, including company profits, fell by 2.9% in 2020.

Germany

In Germany, business failures have declined by 13.1% y/y in Q1-Q3 2020, and then continued to drop y/y through November, contributing to a 15.9% fall in failures for the first 11 months of the year. The wholesale, retail and construction sectors are particularly severely affected by the COVID-19 pandemic (each accounting for circa 16% of the total), followed by accommodation and food services. However, the duty to file for insolvency after the company became insolvent as a consequence of the COVID-19 pandemic was suspended in 2020. Moreover, in 2021, new measures allow distressed companies an extended six-week period before filing for insolvency. Nonetheless, payment delays and insolvencies are expected to rise in 2021 given the damage inflicted to cashflows in certain sectors.



France

In France, business failures dropped by 38.1% for 2020 as a whole, with the lowest rate of insolvency proceedings for 30 years. However, the wholesale, retail, construction and accommodation sectors are the most severely affected by the COVID-19 pandemic. The deferral or exemption of certain taxes, employment support, the availability of state-guaranteed loans and the temporary easing of filing requirements in March-August 2020 explain the low rate of business failures. Moreover, the creditors appear to be seeking preventive and confidential debt agreements with distressed companies, rather than filing for liquidation. As the COVID-related economic shock has affected cashflows in many businesses and has already pushed up payment delays (averaged 15.24 days in Q3 2020), the failure rate is expected to accelerate in 2021-22 as the prolonged period of cashflow damage takes its toll.

Russia

In Russia, business failures fell by 12.9% y/y; and 25.6% y/y in

January-July 2020. The government introduced a range of support measures in early 2020 in an effort to help SMEs reduce the negative impact of the COVID-19 pandemic and they have been extended to 2021. However, the government is not able to extend them for much longer as state finances have deteriorated significantly due to the COVID-19 pandemic. Not only revenues have been hit by a reduced tax base as a result of the economic fall, but also by a sharp slide in the oil sector receipts, because of the COVID-19 pandemic-induced drop in global energy demand and prices. As a consequence, in 2020 Russia registered its first fiscal deficit in three years. Thus, credit risks will remain elevated in 2021 and 2022.

United States

In the US, the overall number of commercial insolvencies declined by 11.9% in Q1-Q3 2020, whereas the insolvency applications were largely filed by businesses in the services, retail trade, finance, insurance and real estate sectors. However, within this period, with the exception of February, total Chapter 11 insolvency filings were higher for each month of the COVID-19 pandemic compared to 2019, as businesses reorganised their operations and restructured debt in order to be able to continue operations as solvent companies when commercial activity improves. The government's Paycheck Protection Program (PPP) helped to contain the rate of business failures even if some sectors continued to suffer, such as the small businesses in the mining sector, that demonstrated the highest rate of payment delinquency at 12% compared to other sectors. The second round of PPP funding and other government measures are expected to support economic recovery in 2021 and help to further contain insolvency rates.

Conclusion

The Dun & Bradstreet 2020 Global Bankruptcy Report states that business failures are expected to increase at the end of 2021, whether from a continuation of the COVID-19 pandemic or a recovery in business exit patterns. However, the report concludes that the most serious risk is that the pressures of the COVID-19 pandemic are such that insolvency procedures are permanently impaired, in a deeper microeconomic change. ■

Footnotes:

1 www.dnb.com/content/dam/english/economic-and-industry-insight/global-bankruptcy-report-for-2020.pdf

2 Only in a few jurisdictions business failures increased including Portugal, Bulgaria, Poland, the Czech Republic, Hong Kong, Sweden and Taiwan Region.

3 Austria, Belarus, Bosnia, Bulgaria, Croatia, Czech Republic, Denmark, Finland, France, Germany, Hungary, Italy, The Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Kingdom, Canada, Colombia, USA, Australia, Hong Kong SAR, India, Japan, Singapore, South Korea.

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