

A closer look at... The post-pandemic swell of business failures

Emmanuelle Inacio reports on the latest statistics from the 2024 Dun & Bradstreet Global Bankruptcy Report



EMMANUELLE INACIO
INSOL Europe
Chief Technical Officer

The 2024 Dun & Bradstreet Global Bankruptcy Report covering bankruptcies in 2023 was published in June 2024.¹

Dr. Arun Singh, Global Chief Economist of Dun & Bradstreet reports that many countries are seeing a sharp rise in business insolvencies. During 2023, a little over half of the 45 countries/regions monitored by Dun & Bradstreet and its Worldwide Network saw an increase in business failures. Of these, 14 recorded rates of bankruptcy above pre-pandemic levels, including in the US, the UK, France and Canada. The few exceptions, where bankruptcies fell, have been in parts of Europe, such as Italy, Spain, Türkiye and Croatia. A confluence of factors caused this rise in businesses going under, including dwindling cash reserves, the post-Covid normalization process, prolonged

pressure from higher interest rates and soft global demand. The global economy held up better than expected in 2023 and is forecast to gradually improve through 2024.

The rising tide of bankruptcies: exploring the cause

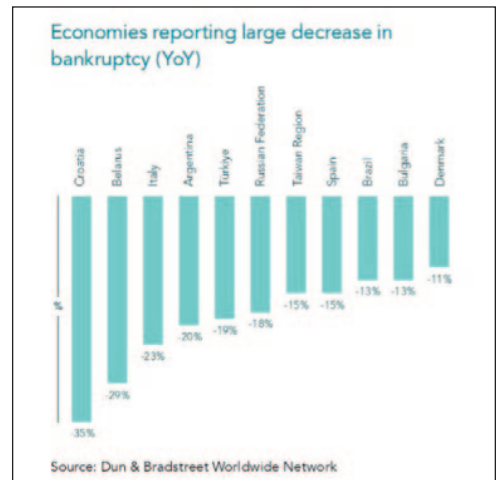
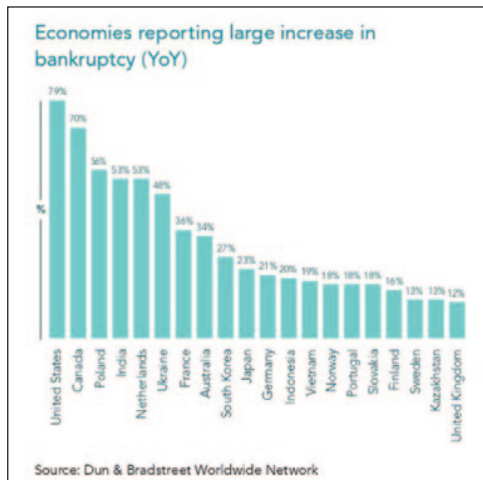
Having soared in 2022, commodity prices moderated through 2023 on the back of softer global demand and improving supplies. Natural gas and coal prices tumbled from record highs, while base metal and agricultural goods prices also eased, though they remain vulnerable to export restrictions and adverse weather impacts. Crude oil prices fell by around 20% compared with a year earlier and subsiding commodity pressures helped broader measures of inflation to gradually moderate through 2023. Similarly,

underlying measures of inflation, which capture the durable part of consumer price inflation, have also steadily eased, but more slowly.

On the face of it, this should have been something of a boost for businesses: lower input prices improve operating costs and, when passed on, consumers enjoy real income growth, increasing spending power. However, disinflation was achieved, in part by central banks unleashing the steepest series of interest rate hikes in decades. Aggressive policy tightening is yet to bring inflation to target on a sustainable basis and major central banks may keep interest rates higher for longer, prolonging the squeeze on consumers and businesses alike by making financing costlier and less available. Worsening payment terms will weigh on liquidity and solvency in the near term, but this should improve as the year progresses.



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**The path ahead:
navigating choppy seas**

The global economy has started 2024 stronger than was expected a year ago and the chances of a so-called soft landing, lower inflation without meaningful recession, have increased. We forecast either marginally softer or slightly stronger growth in the major global economies this year compared with the last, including in the US, Germany, Japan, Mainland China, India and Brazil. Having said that, we expect weaker-for-longer growth, which will put a strain on corporations and could prompt a further rise in business insolvencies. However, where there will be downturns, they are expected to be mild and growth will accelerate through the year as policy becomes more supportive.

Inflation is likely to fall more slowly and in a less linear way in 2024. Central banks have done most of the heavy lifting to dampen demand over the past couple of years and higher energy prices in 2022 have fallen out of the annual inflation rate measure

(while remaining high in absolute terms). But risk-averse central banks will be cautious about the path towards price stability targets, given limited spare capacity in some economies, with the upshot that most nominal interest rates will continue to remain elevated in the near term, putting the most exposed sectors at risk.

Countries such as Brazil, Norway, New Zealand and Poland started to tighten monetary policy before the U.S. Federal Reserve and the European Central Bank (ECB) and are stealing a march on the rest of the world by cutting interest rates. The full effect of high interest rates is still to be felt. Even when they begin to be lowered more broadly, monetary policy will remain tight for an extended period. Sustained higher borrowing costs, coupled with low market liquidity, could pose significant challenges in cash flow management for particularly troubled businesses. The cost of servicing debt, renegotiating finance at new higher rates and limited public spending support in the face of fiscal consolidation will

risk pushing many firms that are already on the brink into administration.

The consequences of these developments will be varied. In Europe, for example, fiscal rules suspended since Covid will tighten and include greater emphasis on sovereign deficit and debt reduction, implying less government support. We may see more modified insolvency frameworks, as have been partially implemented in Germany, the UK and Japan. Businesses most exposed to high energy prices, discretionary spending, or the recovery in wages, such as hospitality and construction, will be challenged across most regions. The current unusually elevated level of geopolitical risk weighs heavily on our outlook for global bankruptcies. Events such as the conflicts in the Middle East and in Ukraine tend to cause the greatest risk to businesses through disrupted supply chains and distressed financial and energy markets. ■

Footnotes:

1 See: <https://www.dnb.com/perspectives/finance-credit-risk/global-bankruptcy-report-2024.html>.

Source: Dun & Bradstreet Worldwide



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