

The insolvency time bomb: prepare for a record-high increase in global insolvencies

- Euler Hermes' global insolvency index is expected to reach a record high of +35% cumulated over a two-year period as the global economy faces a U-shaped recovery from the Covid-19 crisis
- Two out of three countries will post a stronger rise in insolvencies in 2020 than in 2021 – notably the US, Brazil, China, Spain and Italy
- One out of three would record an acceleration in 2021 – notably India, the UK, France and to a lesser extent, Germany

Hong Kong, 29 July 2020 – The Covid-19 crisis will trigger a major acceleration in business insolvencies due to both the suddenness and historic size of the economic shock and its expected lasting effects, according to a new study by Euler Hermes, the world's largest trade credit insurer. These lasting effects are critical for companies that were already the most fragile before the crisis and are now among the sectors hit the hardest by measures to contain the pandemic (ie transportation, automotive, non-essential retail, hotels and restaurants).

At a global level, Euler Hermes' insolvency index is expected to surge to a record high of +35% cumulated over a two-year period (after +17% in 2020 and +16% in 2021) as the global economy faces a U-shaped recovery from the Covid-19 crisis. This would represent a +16% y/y CAGR of insolvencies over the two-year period, similar to the intensity level of the 2008 financial crisis.

Bulk of insolvencies to be recorded between H2 2020 and H1 2021

Unlike in 2007-09, all regions and countries are expected to post double-digit increases in insolvencies, with the biggest surges seen in North America (+56% by the end of 2021), followed by Central and Eastern Europe (+34%), Latin America (+33%) and Western Europe (+32%).

“So far, government interventions to prevent a liquidity crunch for corporates, including tax deferrals, state loans and guarantees, wage subsidies and debt moratoriums, have helped limit the immediate translation of the Covid-19 shock into official insolvencies in many countries. But if this policy relief is withdrawn too fast, we expect the increase in insolvencies to be +5 to +10pp higher,” says **Maxime Lemerle, Head of Sector and Insolvency Research at Euler Hermes**. *“At the same time, prolonging support for too long could prop up ‘zombie’ companies, increasing insolvency risk in the medium to long term.”*

Asia Pacific expected to register +31% more insolvencies by 2021

The study identified two clusters of countries, those that will see a stronger rise in insolvencies in 2020, and those that will see a delayed surge in 2021. Most Asia Pacific economies are in the first group (China, Japan, South Korea, Taiwan, Hong Kong and New Zealand, with India as key exception) mainly because they were the first to be impacted by the Covid-19 outbreak. China tops the list with an expected +40% more insolvencies by the end of 2021, followed by Singapore (+39%), Hong Kong (+23%), Japan (+13%) and Australia (+11%).

Françoise Huang, Senior Economist for Asia Pacific at Euler Hermes, remarks, *“In Asia Pacific, not only have we estimated insolvencies to increase by +31% by the end of 2021, we also marked down the region's 2020 GDP contraction to -1.3% from our estimation of -0.6% made in April. We consider transportation, automotive, retail and textile are the most vulnerable sectors under the latest lockdown measures and environments. On the positive side, economies such as Australia, New Zealand, South Korea and Taiwan are seen*

benefiting from the comparatively earlier recovery of the Chinese economy, as trade data shows that exports to China have outperformed those to the US and the Eurozone.”

Figure 1. Global insolvency forecasts

	% of index	Increase in 2020	Increase is 2021	2021 vs 2019
United States	29%	47%	7%	57%
Canada	2%	15%	9%	25%
Brazil	3%	32%	10%	45%
Colombia	0%	18%	7%	26%
Chile	0%	21%	7%	29%
Germany	5%	4%	8%	12%
France	4%	4%	20%	25%
United Kingdom	4%	8%	33%	43%
Italy	3%	18%	8%	27%
Spain	2%	20%	17%	41%
The Netherlands	1%	29%	10%	42%
Switzerland	1%	6%	9%	15%
Sweden	1%	11%	5%	17%
Norway	1%	12%	11%	24%
Belgium	1%	4%	22%	26%
Austria	1%	10%	10%	21%
Denmark	0%	16%	5%	22%
Finland	0%	19%	8%	29%
Greece	0%	7%	25%	33%
Portugal	0%	30%	10%	44%
Ireland	0%	16%	24%	44%
Luxembourg	0%	18%	12%	31%
Russia	2%	18%	5%	23%
Turkey	1%	22%	7%	31%
Poland	1%	13%	10%	24%
Czech Republic	0%	8%	24%	33%
Romania	0%	4%	18%	23%
Hungary	0%	13%	6%	20%
Slovakia	0%	22%	12%	38%
Bulgaria	0%	3%	17%	21%
Lithuania	0%	-7%	60%	49%
Estonia	0%	76%	27%	123%
South Africa	0%	12%	7%	20%
Morocco	0%	14%	10%	25%
China	17%	21%	16%	40%
Japan	8%	8%	5%	13%
India	2%	-52%	128%	9%
Australia	2%	5%	5%	11%
South Korea	2%	14%	-6%	6%
Taiwan	1%	15%	-4%	10%
Singapore	0%	15%	21%	39%
Hong Kong	0%	19%	3%	23%
New Zealand	0%	14%	6%	20%

GLOBAL INDEX	0%	17%	16%	35%
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Press contact

VAE SOLIS COMMUNICATIONS




Jawad Khatib
+33 (0) 6 12 66 22 49
jawad.khatib@vae-solis.com

Anais Agozo Ndelia
+33 (0) 1 53 92 80 10
anais.agozo-ndelia@vae-solis.com

EULER HERMES ASIA PACIFIC

Jason Wong
+852 3665 8946
jason.wong@eulerhermes.com

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