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Allianz Research

Global Insolvency Outlook 2023-25

From maul to ruck?

Executive summary

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Advantage running out and penalties looming: Most countries are seeing double-digit rebounds in business insolvencies as excess cash dwindles, leaving the most vulnerable corporates caught between a rock and a hard place in 2023. While excess cash remained high in the first half of 2023 (EUR3.4trn in the Eurozone and USD2.5trn in the US), it is still highly concentrated among large firms and specific sectors (tech, consumer discretionary). At the same time, net cash positions are dropping faster than economic activity. In this context, 11 countries are already seeing a more than +30% increase in business insolvencies: the US and Canada in the Americas; the Netherlands, Sweden and France in Western Europe; Poland and Hungary in Eastern Europe and Japan, Australia, New Zealand and South Korea in Asia. Besides hospitality, transportation and wholesale/retail, other sectors are catching up fast, in particular construction, where backlogs of work have been almost completed – especially in the residential segment.

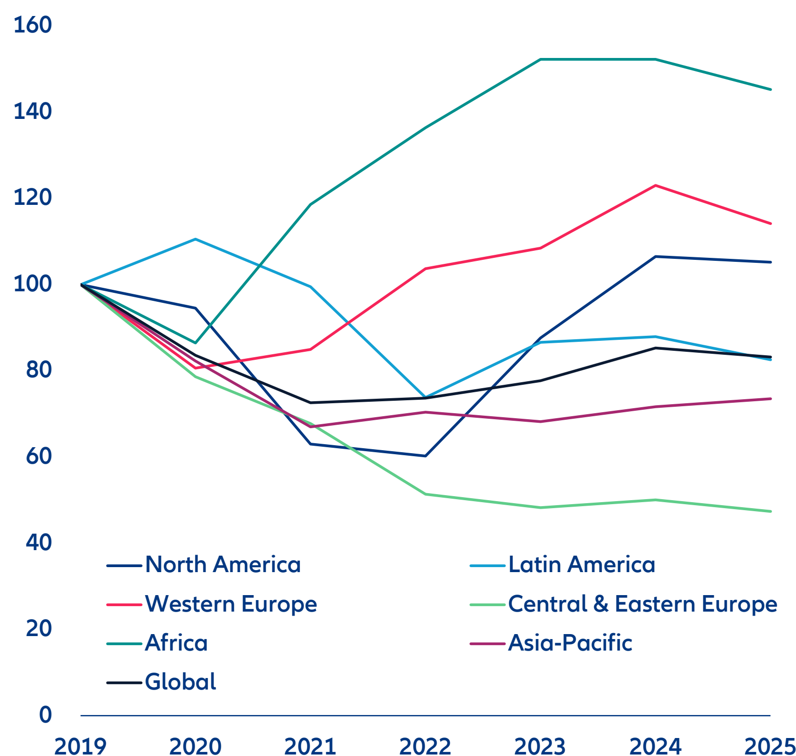
Into the scrum: The ongoing profitability squeeze will challenge corporate liquidity and solvency, while financing is set to remain costlier and less available. The recession in corporate revenues is gaining traction amid lower pricing power and weaker global demand. As a result, corporates' liquidity positions are worsening fast and prospects are not likely to improve before 2025. At the same time, we also expect persistent elevated operating costs, with minimal relief from energy prices and a prolonged recovery in labor costs taking over from decelerating input costs. To add to this, higher-for-longer interest rates are deteriorating the solvency profile of several sectors, with real estate and durable goods, as well as those exposed to structurally high Working Capital Requirements (machinery and transport equipment, pharmaceuticals, electronics, construction) at the forefront. Payment terms are also likely to be an increasing drag in the coming quarters: Global Days Sales Outstanding (DSO) already stand above 60 days in 47% of firms. One additional day of payment delay is equivalent to USD100bn in the US, USD90bn in the EU and USD140bn in China.

Delayed kick-off: Despite the looming deterioration in payment terms, we do not expect any significant changes in insolvency frameworks in the coming two years that would help fend off rising business insolvencies. Changes in insolvency frameworks to limit an increase in business insolvencies (i.e. 'early identifications' of debt distress; 'early restructuring' via for instance out-of-court proceedings) have already been partially implemented in several large economies, such as the UK, France, Italy, South Korea, Japan, Singapore, Hong Kong and China. As it stands, there are no further discussions on strengthening these measures in the coming years as the focus is more on increasing tax receipts through measures such as e-invoicing, for example. The contraction in bank credit and lower profitability, is pushing B2B payment terms higher, thus increasing the role of the invisible bank. This is critical for critical for fragile

firms, notably SMEs. We estimate that 15% of SMEs in the UK, 14% in France, 9% in Italy and 7% in Germany remain at risk to default in the coming four years because of weak fundamentals.

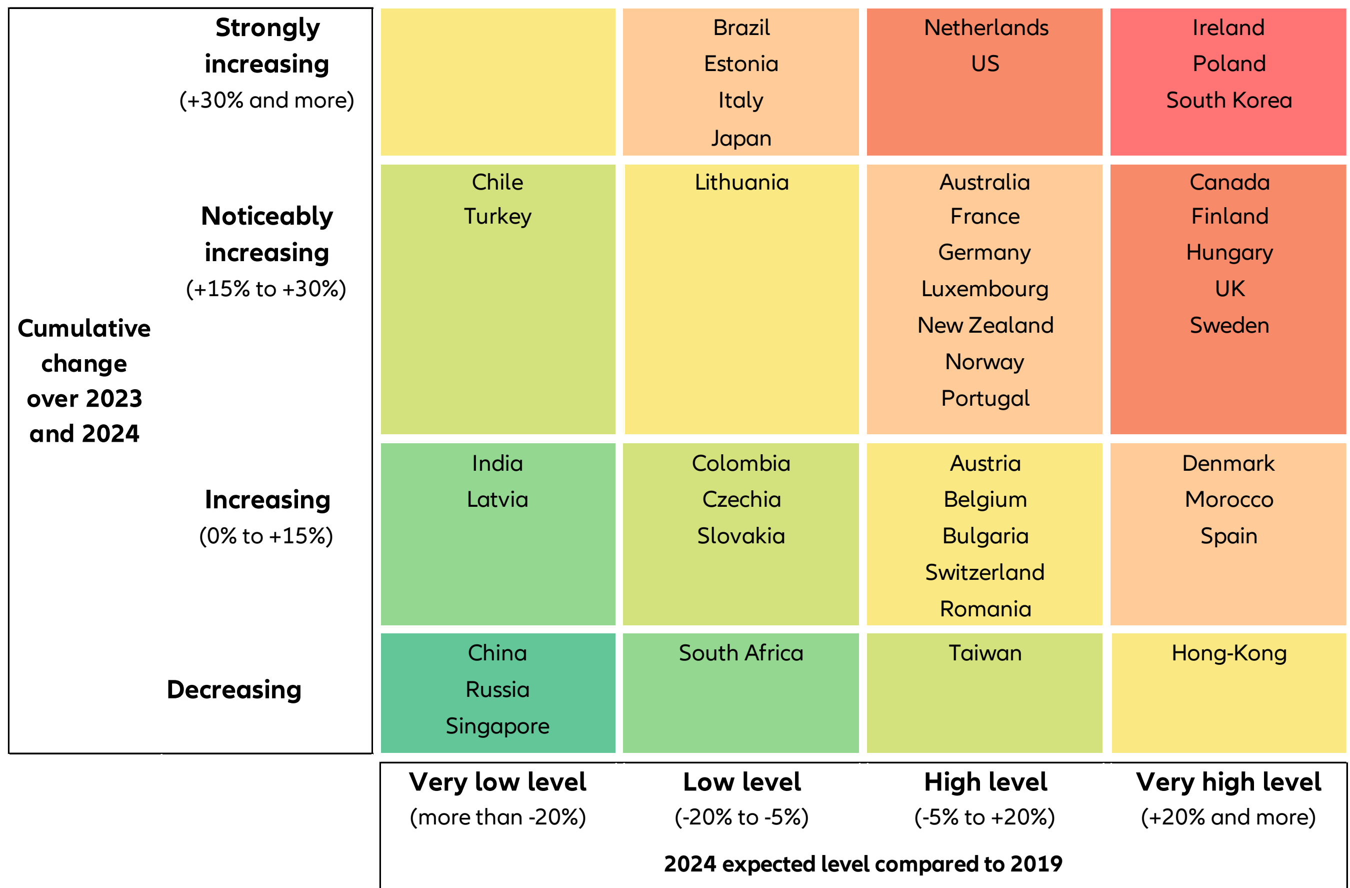
On the bounce: We expect a back-to-back acceleration in global business insolvencies (+6% in 2023 and +10% in 2024). Three out of five countries will reach pre-pandemic business insolvency levels by the end of 2024, including large markets such as the US and Germany. The US (+22%), Italy (+24%) and the Netherlands (+28%) are set to record the largest increases in 2024. Growth figures would need to double to stabilize insolvency figures on both sides of the Atlantic, which will not occur before 2025 (-2% fall in global business insolvencies expected).

Figure 1: Global and regional insolvency indices, yearly level, basis 100: year 2019



Sources: National sources, Allianz Research

Figure 2: Insolvency heat map



Sources: National sources, Allianz Research

Business insolvencies are normalizing at a high speed

Most countries are seeing a sharp acceleration of business insolvencies in 2023. According to data available as of mid-October, the year-to-date number of insolvencies is showing an upward trend in three out of four countries. And most are seeing double-digit rebounds: 11 countries that account for 40% of global GDP registered a more than +30% surge in insolvencies (the US and Canada in the Americas; the Netherlands, Sweden and France in Western Europe; Poland and Hungary in Eastern Europe and Japan, Australia, New Zealand and South Korea in Asia). Our Global Insolvency Index[1] reflects this momentum, with another increase expected in Q3 2023 that would mark the sixth consecutive quarter of positive growth in year-on-year terms. We expect the Global Insolvency Index to jump by between +15% and +20% y/y, following a trend of +18% in Q2, +15% in Q1 and +10% in Q4 2022. This upside trend was expected[2] due to the combination of several factors, including the normalization process post Covid-19, weaker global demand and prolonged pressure on profitability due to higher input and financing costs, impacting mainly SMEs.

The few exceptions are mostly found in emerging markets. China, India, Russia, Turkey and South Africa, as well as a few countries in Central Europe (Bulgaria, Czechia, Latvia, Romania) and Asia (Singapore, Taiwan) are seeing a decline in insolvencies to various degrees (on average, the decrease remained stable at -13% y/y in the first half of this year). Overall, they account for a noticeable share of global GDP (24%) and thus our headline indicator (29%), even when excluding the special case of Spain where the strikes by court workers – now terminated – have created a backlog that is temporarily lowering the number of cases. To this regard, excluding Spain, the increase in insolvencies in Western Europe would have reached +22% y/y in the first half of 2023, instead of +19% as per our regional index.

Overall, the average increase in business insolvencies reached +42% y/y in the first half of 2023, from +32% in the second half of 2022, with a noticeable acceleration in Q2 (to 47% from +38% y/y in Q1).

Figure 3: Business insolvencies - 2023 figures available as of mid-October, in selected countries of America/Western Europe (left) and Central and Eastern Europe/Asia/Africa (right)

Country	Latest point	y/y change in %				Vs 2019 in %	
		1 month	3 months	6 months	12 months	3 months	6 months
U.S.	2023 Q2	-	37%	35%	23%	-21%	-24%
Canada	08-23	30%	27%	33%	33%	29%	18%
Brazil	08-23	53%	34%	25%	11%	-24%	-18%
Chile	08-23	38%	46%	25%	7%	-19%	-26%
Colombia	2023 Q1	-	-4%	12%	5%	2%	63%
Germany	07-23	37%	30%	23%	21%	-2%	-7%
United Kingdom	09-23	15%	10%	13%	17%	37%	42%
France	08-23	29%	29%	34%	41%	11%	8%
Italy	08-23	27%	13%	7%	-5%	-27%	-27%
Spain	08-23	-65%	-29%	-21%	3%	5%	9%
Netherlands	09-23	70%	75%	72%	59%	-12%	-14%
Switzerland	09-23	20%	9%	4%	14%	16%	17%
Sweden	08-23	39%	49%	36%	33%	28%	14%
Belgium	08-23	33%	13%	8%	16%	-2%	-6%
Ireland	2023 Q2	-	38%	30%	25%	59%	6%
Norway	08-23	25%	15%	20%	21%	-13%	-13%
Austria	2023 Q3	-	8%	3%	7%	5%	1%
Denmark	08-23	-16%	5%	8%	25%	25%	17%
Finland	08-23	25%	25%	18%	22%	21%	18%
Portugal	08-23	27%	17%	14%	6%	-11%	-12%
Luxembourg	06-23	39%	26%	12%	5%	5%	-8%

Country	Latest point	y/y change in %				Vs 2019 in %	
		1 month	3 months	6 months	12 months	3 months	6 months
Russia	09-23	-1%	-4%	-21%	-32%	-36%	-40%
Poland	08-23	63%	77%	94%	92%	407%	390%
Romania	08-23	-27%	-21%	-10%	-4%	-13%	0%
Czechia	2023 Q2	-	-6%	-8%	-15%	1%	1%
Hungary	09-23	113%	156%	275%	249%	325%	361%
Slovakia	06-23	2%	8%	3%	-3%	-9%	-17%
Bulgaria	09-23	12%	-5%	-4%	-7%	7%	7%
Lithuania	2023 Q2	-	3%	2%	7%	-39%	-30%
Latvia	09-23	-39%	-29%	-21%	-11%	-52%	-51%
Estonia	09-23	33%	56%	70%	35%	25%	26%
China	09-23	-20%	-16%	-13%	-14%	-41%	-39%
Japan	09-23	20%	41%	38%	30%	3%	2%
India	2023 Q2	-	-35%	-15%	3%	-21%	-15%
South Korea	08-23	58%	62%	60%	37%	94%	68%
Australia	08-23	38%	31%	37%	45%	13%	9%
Taiwan	08-23	-35%	-39%	-32%	-18%	-27%	-22%
Singapore	08-23	-35%	-37%	-21%	-25%	-58%	-37%
Hong Kong	08-23	-14%	-15%	30%	16%	34%	49%
New Zealand	08-23	8%	26%	34%	39%	23%	10%
South Africa	08-23	-10%	-12%	-14%	-7%	-21%	-23%

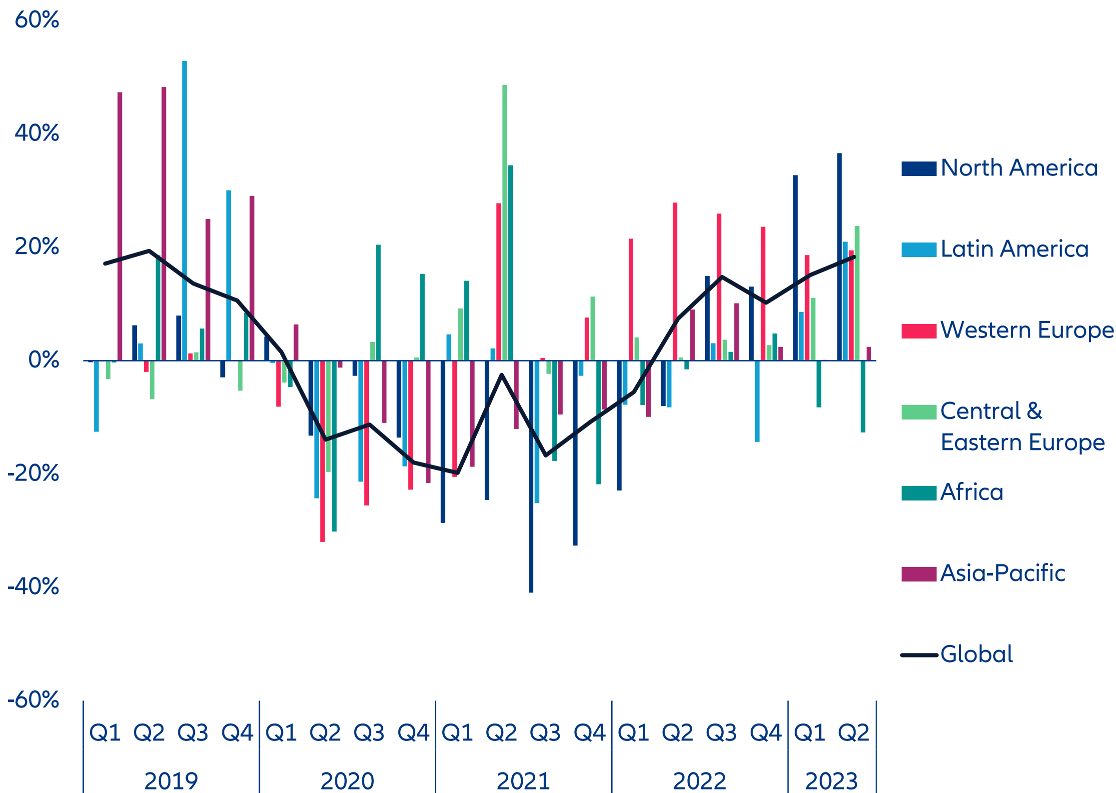
Sources: National sources, Allianz Research

1 Covering 44 countries that account for 85% of global GDP 2022, see statistical appendix
2 Global insovency report 2022

Most advanced markets are already set to end 2023 with insolvencies back to pre-pandemic levels. At the end of 2023, the normalization in business insolvencies will be complete in most advanced economies, in particular in Western Europe[3] , but also in Canada and Asia (Japan, South Korea). The two noticeable exceptions are the US and Germany, but they are expected to follow in 2024.

Looking ahead, a back-to-back acceleration is looming. We expect global insolvencies to further accelerate in 2024 (+10% y/y from +6% in 2023), compared to +4% expected previously, before somewhat stabilizing with a limited improvement in 2025 (-2%). In both years, the global outcome would result from a broad-based dynamic. In 2024, a majority of countries (four out of five) would contribute to the upside trend, with a +9% y/y increase in simple average for the countries concerned. The US (+22%), Italy (+24%) and the Netherlands (+28%) are set to record the largest increases. The global increase would push three out of five countries above their pre-pandemic number of insolvencies in 2024, from slightly less than half of them in 2023. In 2025, a majority of countries (four out of five again) would see a quasi-stabilization or a lower number of insolvencies, with a -7% y/y decrease in simple average for the countries concerned and the largest decreases in the small economies of Western Europe (Ireland, Nordics), alongside a few specific cases (Spain, Hungary, South Korea, Turkey).

Figure 4: Global and regional insolvency index, quarterly change, y/y in %



Sources: National sources, Allianz Research

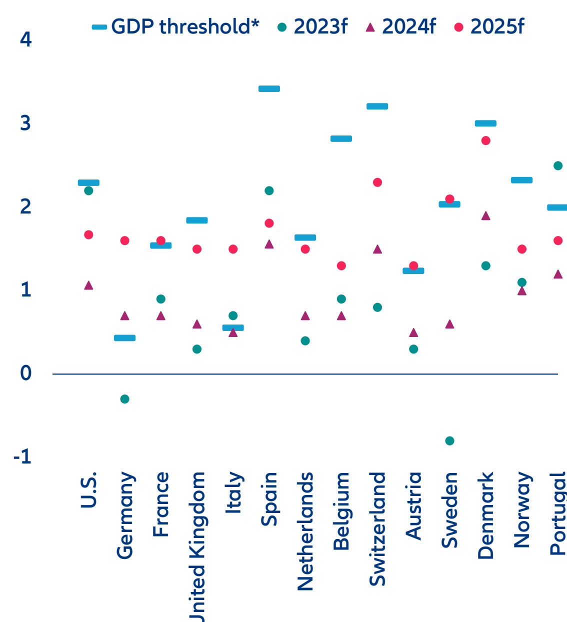
3 Spain already reached pre-pandemic insolvency levels in 2021, while the UK, Switzerland, Denmark and Finland did so in 2022.

Lower-for-longer growth will pressure fragile firms and exacerbate sectorial fragilities

GDP growth would need to double in 2024 to stabilize business insolvencies. Our updated Global Economic Outlook[4] forecasts weaker-for-longer demand and prolonged high financing costs, which will increase corporate risks and push up expectations for the rise of business insolvencies. The total level of activity is unlikely to reach the minimum required to at least stabilize the number of insolvencies. We expect continued below-trend growth in 2024-25 after a trough at the turn of the year, with the US to post its slowest GDP growth since 2009 (+1.1% in 2024), the Eurozone to see another modest year (+0.9%) and emerging markets, including China (+4.7%), to slow down to below pre-pandemic levels. Based on long-term sensitivities, the Eurozone and the US would need +0.7pp and +0.9pp in additional GDP growth on average in 2024-2025 to stabilize the number of insolvencies, with the US significantly enlarging the GDP gap compared to 2023, and Eurozone gradually reducing it.

For corporates, decelerating demand coupled with lower pricing power will raise the risks of a profitability squeeze. The deceleration in demand is likely to imply higher competition, which will translate into lower pricing power and ultimately decelerating – or a drop in – revenue growth. At the same time, we also expect persistent elevated operating costs, with minimal relief from energy prices and a prolonged recovery in labor costs taking over from decelerating input costs. Several sectors – and firms – are most exposed to these challenges. First, those more heavily reliant on business with the US and China, due to the strong deceleration expected in GDP momentum, and to a lesser extent Europe. Second, the manufacturing and retail of non-essential goods and services relying on discretionary spending, such as hotels, restaurants, tourism and other leisure activities. Third, those most exposed to the recovery in wages, i.e. labor-intensive sectors such as construction, road transportation, hotels, restaurants, health care and other personal and business services that are naturally less impacted by automation and technology. The Q2 2023 earnings season already showed that even listed firms, despite being larger and often benefiting from higher pricing power, have started to feel the pinch from waning demand and still-high production costs. On average, global revenues fell by -1.9% y/y in Q2, with all regions recording contractions for the first time since Q2 2020. Global earnings per share (EPS) fell by -1.1% y/y, with stronger declines in Europe and more resilience in Asia.

Figure 5: Level of GDP stabilizing insolvencies vs 2023-25 GDP forecasts, US and selected European countries



Source: Allianz Research
(*) GDP threshold: GDP growth momentum required to stabilize the number of insolvencies prior to the pandemic

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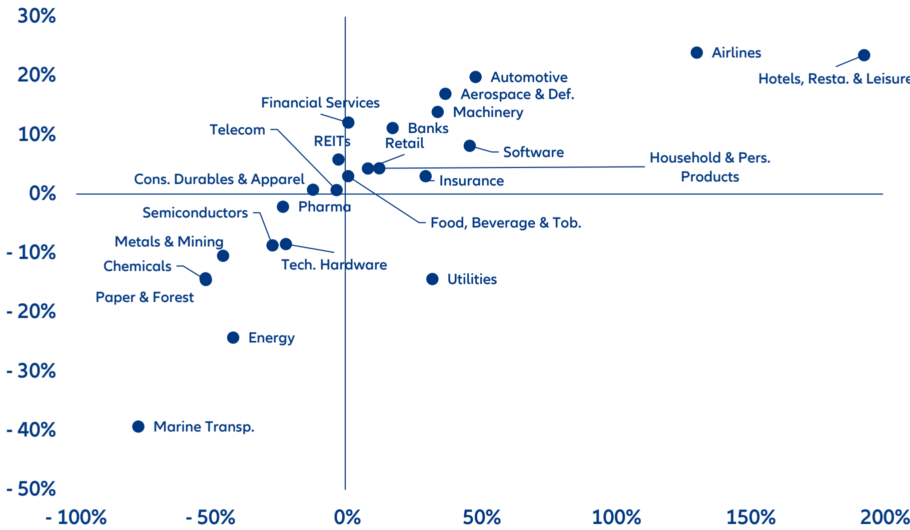
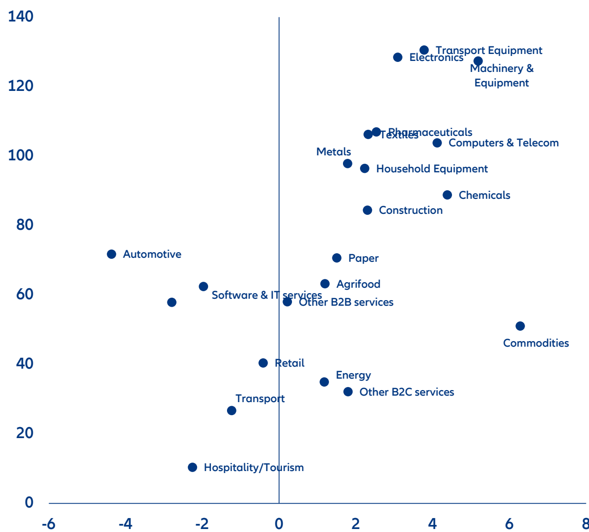
Figure 6: Q2 2023 earnings season, global sectors, revenue (y-axis) and EPS (x-axis) growth, listed firms



Source: Allianz Research

At the same time, financing is set to remain costlier and less available. Higher-for-longer interest rates will erode debt-servicing capacities, while the limited availability of financing will put the most exposed sectors at risk. This includes those that rely heavily on mortgages and loans on the demand side, such as real estate and durable goods, as well as those that will suffer from the indirect impact of foreign exchange depreciation against the USD, which includes most emerging markets, commodity-importers and large US importers. The sectors to watch are those with higher financing needs[5] due to (i) rising operating costs, (ii) overstocking in the first half of the year due to weaker-than-expected sales, (iii) structurally higher Working Capital Requirements (eg. machinery and transport equipment, pharmaceuticals, electronics and construction) or (iv) structural changes in inventories resulting from recent geopolitical developments and supply-chain shocks that prompted companies to adapt their inventory-management strategy (near/friend shoring). Nearly three out of four sectors still recorded higher WCR at the start of Q3 compared to last year, with global WCR standing at a record high of 86 days, more than +2 days above the pre-pandemic level. Firms whose business models rely heavily on debt financing, notably low-rated and highly leveraged industries, and those that will have to roll out their debt by 2025 are also at risk.

Figure 7: WCR by global sectors, Q2 2023 level (y-axis) and y/y change, in number of days of turnover (listed firms)



Source: Allianz Research

The hospitality, transportation and wholesale/retail sectors are on the front line, with construction set to catch up. European figures perfectly illustrate the disparity of situation and momentum from one sector to another across countries. Looking at the eight main economic sectors of our sample of 23 countries, we see 60% of them (i.e. 108 out of the 184 sectors) recording an increase in insolvencies in Q2 2023 compared to 68% in the previous two quarters. Countries with the largest number of sectors already above pre-pandemic levels of business insolvencies (2017-2019 average) are mainly found in Western Europe, notably the UK, Sweden, Spain, Belgium and France. Accommodation and food services, along with transportation are driving the rebound, with a strong catch-up above pre-pandemic levels in several European countries, notably Spain, Sweden, the UK and the Netherlands for accommodation and food services, and adding Belgium to the list when including transportation. Trade, combining wholesale and retail, follows, with a noticeable increase in H1 in Western Europe, in particular in the Netherlands, France, the UK

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and Germany. Looking ahead, construction is likely to boost national numbers of business insolvencies due to the cyclical downturn (backlogs of works have been almost completed – especially in the residential segment), and for business demographic reasons (a high number of firms combined with a high share of SMEs). Historically, construction has most often been the largest contributor to national insolvency numbers, accounting for around 20% of the total number of cases over the last 10 years (17% in Germany, 19% in the UK, 20% in Italy and 22% in France), ahead of trade (17%, 14%, 24% and 21%, respectively) and accommodation/food services (10%, 12%, 7% and 12%, respectively).

sizeable share of SMEs remains at risk of default in the coming four years because of weak fundamentals. Our previous research has identified the three main indicators that can predict corporate distress four years ahead of a bankruptcy[6] (profitability, capitalization and interest coverage). Based on this, we evaluate the financials of over 500,000 SMEs in the four largest European economies. We find that 15% of SMEs in the UK, 14% in France, 9% in Italy and 7% in Germany are still at risk. Although this is a slight improvement from the figures of 2021 (19%, 15%, 11% and 8%, respectively), it suggests that the massive government aid only alleviated challenges for the most fragile firms[7]. Going forward, as interest rates

Figure 8: Europe: Business insolvencies by sector, H1 2023, y/y change in % and comparison with H1-2019, selected countries

	Industry	Construction	Trade	Transport & storage	Accommod. & food service activities	Information & communic.	Finance, insurance, real estate, B2B activities	Education, human health & social work activities	ALL SECTORS
Belgium	14	14	0	4	20	-12	6	2	8
Bulgaria	-29	30	-15	-28	-29	-3	-16	-44	-15
Denmark	-2	0	-15	-24	4	-41	-37	-44	-23
France	44	38	38	26	58	53	36	38	40
Germany	21	15	28	2	32	59	16	25	20
Hungary	221	338	411	265	401	522	389	421	366
Italy	9	-12	-4	-10	-4	12	-2	16	-2
Latvia	-23	-4	3	-67	0	-17	-10	167	-8
Lithuania	16	-19	18	-24	16	-7	2	41	3
Luxembourg	-33	104	6	29	35	-30	31	-35	25
Netherlands	100	32	61	82	200	61	43	27	59
Norway	35	20	49	6	70	16	14	31	30
Poland	70	-20	32	-43	133	-30	58	220	30
Portugal	15	54	7	-7	-11	-18	32	41	16
Romania	-1	-4	0	3	-21	-3	-16	-11	-5
Spain	38	11	58	87	70	4	42	46	46
Sweden	23	33	38	27	40	15	25	36	32
UK	18	5	29	18	48	-5	4	15	16

Sources: Destatis, ONS, SCB, Eurostat, Allianz Research
(*) non-seasonally adjusted numbers; underlined figures indicate a higher level compared to 2017-2019 average (except for Hungary due to missing data)

Heavy government support has not significantly reduced the number of SMEs at risk. Last year, European governments spent about EUR600bn to shield SMEs from the mounting costs of the energy crisis and increasing interest rates by reducing taxes, capping or subsidizing prices, distributing grants or reactivating guaranteed loans – Germany even eased insolvency laws temporarily. But despite this heavy intervention, we estimate that a remain high and government support has receded in 2023 and should continue to decrease, these estimates should increase noticeably.

6 Methodology based on profitability [EBIT/(Net financial debt + Equity)] and interest coverage (EBIT/interest expense); see our report "Three indicators can reveal SME insolvency risk up to four years in advance" for details on indicators and the respective thresholds for each country.

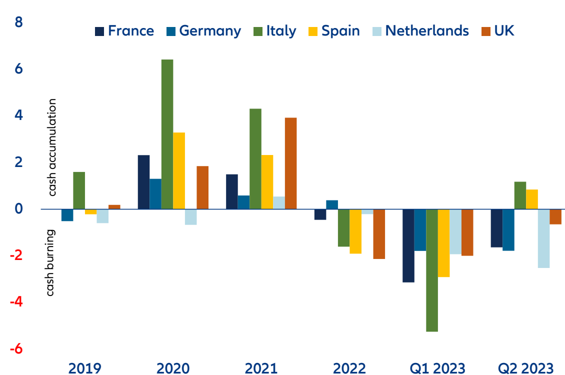
7 It is difficult to estimate what would have been the shares of fragile SMEs without state intervention – unlike the pandemic relief programs, these were targeted towards energy expenses, which vary greatly across firms and sectors. However, it is certain that higher energy expenses would have reduced profitability, interest coverage and potentially also capitalization, which would have taken the share of fragile SMEs higher.

Resilience factors are quickly disappearing

Cash buffers are being depleted. Cash hoardings held by non-financial firms (NFC) remain high in absolute terms at EUR3.4trn in the Eurozone as of July and USD2.5trn in the US as of June, as well as in comparison with pre-pandemic levels (+32% and +43% compared to January 2020, respectively). Yet, they continue to be highly concentrated among the largest firms and within specific sectors (tech, consumer discretionary). At the same time, net cash positions are dropping faster than economic activity as suggested by our cash-burning index[8], which confirmed its negative trend reversal of 2022 in both Q1 and Q2 for several European countries, suggesting an even larger cash depletion for smaller firms.

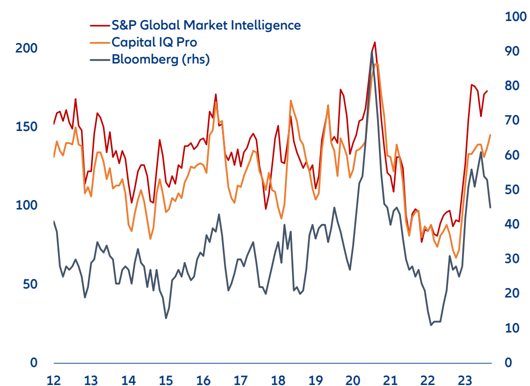
The resilience of large firms is weakening, which could lead to a domino effect, boosting insolvencies of smaller firms, due to their long lists of suppliers. Large firms becoming less stable is adding potentially fatal pressure on firms already running out of steam due to excessive debt or changes in market conditions, notably drastic structural changes created or intensified by the recent succession of shocks. We find another high number of major insolvencies[9] in Q2 2023 (87), above the pre-pandemic average level (85) for the third quarter in a row. The US and Western Europe recorded the biggest cases (in terms of size in turnover), accounting for half of the global count in H1 (78 cases out of 176), ahead of Asia-Pacific (45), which saw a batch of cases in the construction and metals sector in China. In France, business insolvencies of firms with a turnover exceeding EU5mn (+73% for the last 12 months as of August 2023) are outpacing the domestic momentum of all other firms by far (+41%). In the US, September already proved fatal for another noticeable number of large firms when computing Bloomberg and Capital IQ daily monitoring[10] : the former records 14 bankruptcy filings in September and 162 cases since the start of the year, i.e. the second highest number for the start of a year since 2010; similarly, the latter saw 62 cases for September and 516 year-to-date.

Figure 9: Cash-burning index, selected European countries



Sources: Bloomberg, Eikon/Refinitiv, ECB, BoE, FRED, Allianz Research

Figure 10: Insolvencies of large firms in the US, 3m rolling, in number



Sources: Bloomberg, Capital IQ, Allianz Research

8 Cash-burning index: difference in tempo between the change in activity (using nominal GDP as proxy) and the change in net cash position (the latter being measured by the difference between NFC deposits and NFC new loans (up to EUR1mn)). A negative figure indicates a cash-burning period while a positive figure indicates a period of cash accumulation.

9 Firms with an annual turnover exceeding EUR50mn, based in the reporting of Allianz Trade business units

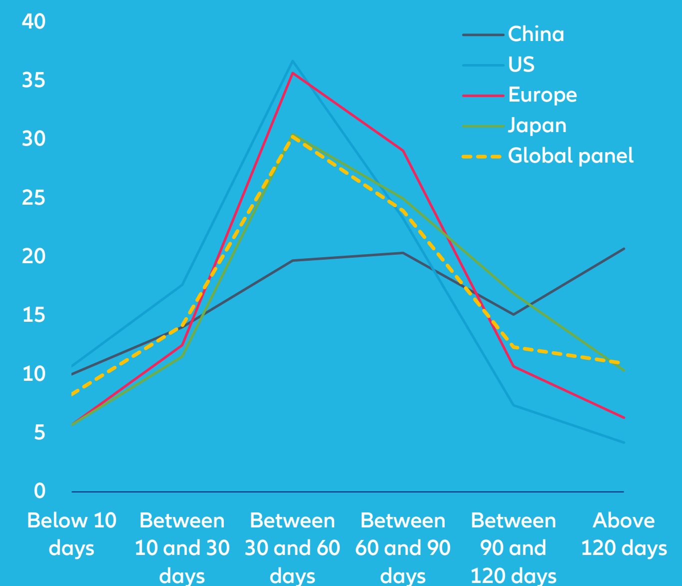
10 Bloomberg: Firms with USD50m+ in liabilities at the time of the bankruptcy filing; Capital IQ: Firms with public debt where either assets or liabilities at the time of the bankruptcy filing are greater than or equal to USD2mn, or private companies where either assets or liabilities at the time of the bankruptcy filing are greater than or equal to USD10mn.

BOX: Delayed kick-off for updated insolvency frameworks

We do not expect any significant strengthening of insolvency frameworks by 2025. The Covid-19 outbreak pushed many countries to introduce various adjustments in insolvency regimes, including moratoria, to drastically contain insolvencies[11] , though there were a few exceptions to speed up processes. However, most of these policies were temporarily and have since been phased out. Discrepancies in insolvency regimes persist but according to our internal survey[12], there are no significant changes that could be implemented in the coming two years, notably with regard to three of the principles listed by Eurogroup in 2016[13] that could lower the number of insolvencies: (i) the 'early identification' of debt distress (via for instance a large diffusion and usage of early warning tools), (ii) the 'early restructuring' (via for instance out-of-court proceedings or via procedures with limited involvement of courts) and (iii) the availability of different types of insolvencies procedures (to better cover the diversity of situations in an easy and affordable way). As it stands, there are no advanced discussions for any major strengthening in countries that have already implemented new measures to increase the efficiency of their insolvency legislation over the last decade, such as the UK, France, Italy, South Korea, Japan, Singapore, Hong Kong and China. And there is no implementation plan by 2025 in other countries.

However, initiatives around payment behaviour are numerous, though we do not expect them to be strongly implemented to avoid a counterproductive effect on businesses. As a result, they will not set the stage for a massive drop in insolvencies in the short term, but rather become a structural factor lowering them in the medium-long run. In Europe, initiatives around payment behaviour are numerous and more advanced, but mainly at an early stage. The EU Observatory of Payments in Commercial Transactions will contribute to a better monitoring and benchmarking of payments across Europe by addressing the asymmetry and inconsistency of information, but it is still under construction. The Late Payment initiative[14] is gaining traction as part of a large package of measures for SMEs (SME Relief package). The key objective is to strengthen payments of commercial transactions in order to promote SME liquidity and reduce the domino effect as one out of four bankruptcies results due to invoices not being paid on time, according to the commission. Yet, diverse outcomes will be discussed, such as completing/ adjusting the current sanction mechanism (i.e. interests and recovery of costs) or revising down the maximum payment term that cannot be derogated from, which currently stand at 60 days under a 2011 EU directive. We do not expect a heavy implementation of a strongly revamped rule to limit the risk of counterproductive outcomes in the short term – i.e. encouraging firms to source more goods from non-European countries (with longer payment terms) and being fatal for already fragile firms. Indeed, Days Sales Outstanding stand above 60 days in 46% of listed firms in Europe (47% at the global level); given the global environment, payment terms are likely to deteriorate in 2024. Overall, one day of payment delay is equivalent to USD90bn in the EU (USD100bn in the US and USD140bn in China).
On payment issues, it is worth mentioning that e-invoicing also aims at reducing suppliers' liquidity problems, and thus the risk of a domino effect, by significantly improving efficiency and accuracy in invoicing, reducing the chance of errors that can lead to payment delays or disputes and accelerating processes. Globally, e-invoicing is in place in an increasing number of countries, but it is so far mandatory only in a limited number of countries, and not planned to be in most of them by 2025. The first step is often for B2G (business to government) invoicing, before a national implementation for domestic B2B (business to business) invoicing. Nevertheless, we do not expect e-invoicing to eliminate payment incidents due in particular to the creditworthiness of the buyer or to fraudulent activities.

Figure 11: DSO dispersion, by country/region, in % of firms, Q2 2023 financials (listed firms)



Sources: Bloomberg, Capital IQ, Allianz Research

11 Key examples: Suspension to file for insolvency under certain conditions, extension of the deadlines in insolvency proceedings, moratoria to prevent certain creditor actions, raising the threshold limit of un-paid debt to initiate bankruptcy proceedings and winding up applications (source: EU discussion paper 182, February 2023).

12 September 2023 survey among local experts of Allianz Trade business units in countries that are part of our global insolvency index – see statistical appendix.

13 Commission proposes new approach to business insolvency in Europe: promoting early restructuring to support growth and protect jobs (europa.eu)

14 09 2023 | A Europe Fit for the Digital Age | Revision of the late payments Directive (europa.eu)

Regional outlook

In **Western Europe**, our insolvency regime-change model indicates that the increase in business insolvencies should exceed +10% in the top four markets (Germany, France, the UK and Italy). At the regional level, we expect another acceleration in 2024 (+13% from +5% in 2023), for the fourth consecutive year, which already pushed the region above its pre-pandemic level of business insolvencies in 2022 (by +4%). Portugal (+19%), Italy (+24%) and the Netherlands (+28%) should see the largest increases, on top of a catch-up in Spain. Most countries would record another increase compared to 2023, albeit softer. But this will lead to some noticeable double-digit numbers: Netherlands (+59% y/y in 2023), France (+36%), Ireland (+28%), Sweden and Finland (+25%), and Germany (+22%). 2025 should see a broad-based but moderate decrease in insolvencies across countries (-7% for the regional index), but this will still mean that the majority of them would still post more insolvencies than in 2019 (8% in average).

In **Germany**, business insolvencies already accelerated in 2023 from the (very) low level posted in past years. In H1, official data showed a +20% y/y increase, with trade (+296 y/y cases in H1, +475 over the last 12 months), hospitality (+194 and +231, respectively) and construction (+193 and +357, respectively), in particular the sub-sector of project development, leading the upside trend. Alternative figures are pointing to the same direction for Q3 (with year-to-date up by +25% and +31% based on Humboldt-University of Berlin and IWH dataset, respectively) and we do expect a continuation of the upside trend in the short term. The weak-for-longer economic activity and the structural challenges in a context of tighter financing conditions should maintain business insolvencies above the level reached in 2019, at around 19,400 cases in 2024 (+9% y/y i.e. +1,600 cases) and 19,100 in 2025 (-2%).

In **France**, the upside trend in business insolvencies has only moderately lost traction all along the year and is about to end with a noticeable surge (+36% y/y) for the second consecutive year (+49% in 2022), with a noticeable return of insolvencies of large firms. The normalization process, expected from the abnormal levels posted in 2020-2021, continues to spread across sectors, with a strong catch-up in those previously massively supported by state measures, such as hospitality, industry and trade. Most sectors now look on track to exceed pre-pandemic levels by 2024, including construction – in sync with the cyclical downturn of residential investment. The re-acceleration of the economy from the second half of 2024 will be too moderate, and too late, to allow for a noticeable improvement in the annual number of insolvencies at a time when financing conditions will remain tight. We expect business insolvencies to remain stable in 2024 at 57,000 cases, before a decrease in 2025 (-4,000 cases i.e. -7% y/y), though insolvencies will still be 3% higher than the 2019 level.

In **the UK**, we expect business insolvencies to stay around 30% above pre-pandemic levels by 2025, with new high numbers in both 2024 (29,850 cases i.e. +5%) and 2025 (28,400 cases i.e. -5%). So far, hospitality, trade and manufacturing are the key contributors to the 2023 increase – expected to reach +16% i.e. +3,900 cases – but all sectors have already and significantly crossed 2019 levels. Domestic firms have been made fragile by the succession of shocks and challenges that they have had to manage over the past years (Brexit-related issues, Covid-19 shock, earlier monetary tightening, rapid and sticky inflation). We expect them to remain so in 2024-25, given that the economic and financing outlook will only moderately improve by 2025 and firms are exposed to the debt-repayment wall.

After standing out with a prolonged low number of insolvencies up to 2022, **Italy** is now at risk of a noticeable acceleration in business insolvencies by 2025. The normalization process began later, in early 2023, and progressed unevenly across sectors up to Q3 2023, with bankruptcies strongly up in manufacturing and most services, but still stable in retail and hospitality and

down in transport/storage and construction. However, construction activity is set to decelerate markedly after being inflated by the superbonus tax credit scheme. Overall, the acceleration of the trend reversal recorded along the year should lead Italy to end 2023 with to 8,250 cases (i.e. +1,090 cases or +15% y/y). We expect the prolonged weakness of the economy till H1 2024 to diffuse across all sectors while firms are also faced with higher costs, higher interest rates and lower funding availability. In this context, business insolvencies should keep on catching up in 2024 (+24% i.e. +1,950 cases) and remain stable in 2025 (10,200 cases). Italy would not close the gap with its 2019 number of insolvencies, but the legal context has changed since the Codice della crisi e dell'insolvenza.

In **Benelux,** the normalization process started sooner in **Belgium** (+49% in 2022) than in the **Netherlands** (+18%), but both countries are on track for another jump in insolvencies in 2023 (+9% and +59%, respectively) and 2024 (+4% and +28%, respectively) – with the Netherlands to witness a more substantial increase, given its higher exposure to the (international) economic cycle. The prolonged weaker economic and financing outlook foreseen for 2024 will materialize in additional insolvencies in most sectors, while accommodation/food activities and transport/storage already returned to pre-pandemic levels in H1 2023 in both countries. We expect Belgium to not fully close the gap with the 2019 level – the second-highest number from a historical perspective – but to return to the 2010-19 average, with 10,500 cases in 2024 and 10,000 in 2025. In the Netherlands, the rebound in business insolvencies (+1,250 cases in 2023 and +950 in 2024) will mean a return to above 2017-2019 levels but not the wave recorded on the back of the great financial crisis (7,900 cases on annual average over 2009-14).

Central and Eastern Europe, as well as Africa, continue to experience different dynamics by country. Instead of a regional trend, we identify three major clusters. First, two large countries with a prolonged low level of insolvencies: South Africa (-3% in 2023 and 0% in 2024), where the macro resilience of the economy is benefiting firms, and Russia (-32% in 2023), where a tough catch-up is looming but will depend on how long the government is willing and able to support businesses. The second cluster covers countries with insolvencies showing a moderate upside trend, which includes those at rather low level from a historical perspective (Czechia, Latvia and Slovakia) and those at a high level (Bulgaria, Romania). The third cluster covers countries that are experiencing a massive increase, including Morocco, where firms are struggling with payment delay issues, notably the SMEs; Hungary, where official figures are boosted by proceedings relating to firms with nil/limited turnover and dormant companies, and Poland.

In 2023, **Poland** is set to post a record number of business insolvencies for the fourth consecutive year in a row, with around 4,400 cases (i.e. +68% y/y). This is the result of changes in insolvency framework that make restructuring procedures easier and faster, as well as the economic downturn pushing more SMEs to fail amid rising input prices, labor costs and competition with larger firms. The gradual return of economic growth should slightly lower the number of insolvencies, with some uncertainties linked to the changes in the law (3,800 cases in 2024 and 3,500 cases in 2025).

In Asia, we expect most countries to witness a moderate increase in insolvencies in 2024 as a result of the weaker regional and global environment, before somewhat stabilizing in 2025. At a regional level, this would translate into a +5% y/y increase in 2024, from -3% in 2023, followed by +3% in 2025, with China mechanically playing a key role in this picture since it accounts for 57% in our regional index.

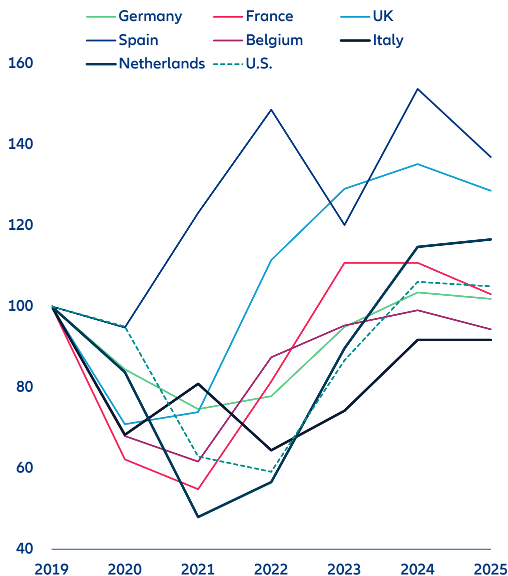
China has so far proved to be successful in maintaining a low number of insolvencies, with around 6,500 cases expected for 2023, i.e. 45% below 2019 levels, though this is still a high level compared to pre-pandemic perspectives (4,700 cases on annual average over 2000-18). Given the sluggishness of the growth outlook, due to softer global demand and prolonged worries in construction activity and real investments, and financing issues, we expect a rebound in insolvencies going further, albeit a moderate one (+5% and +6% in 2024 and 2025, respectively). In Hong Kong, we expect the gradual normalization of the economy since the re-opening of the China border and the lifting of Covid-19 restrictions to finally support a stabilization of business insolvencies after three years of increases (+28% in 2021, +1% in 2022 and +6% in 2023).

14 Our insolvency regime-change models are classification models that uses thousands of decade-long macro-financial data series in order to forecast the range of future insolvencies within one of four "buckets" (i.e. "decrease by more than 10%", "decrease by up to 10%","increase by up to 10%", "increase by over 10%"). Features selection and estimation of our models have been done independently for each country, using expanding windows and performances were assessed through their accuracy scores. For each of our countries, accuracy in forecasting 6-month ahead insolvency growth range stands above 70% (i.e. on an average year, the models predict correctly at least 8 months).

The number of cases would remain around 320 in 2024, but slightly decrease below 300 annual cases by 2025, i.e. close to the 2010-20 average. Yet, in 2024, most other countries in the region should continue to face the various negative impacts from the weaker regional and global environment, notably South Korea (+41% expected for 2023 and +2% in 2024), Japan (+35% and +7% respectively), Australia (+29% and +5%) and New Zealand (+21% and +8%).

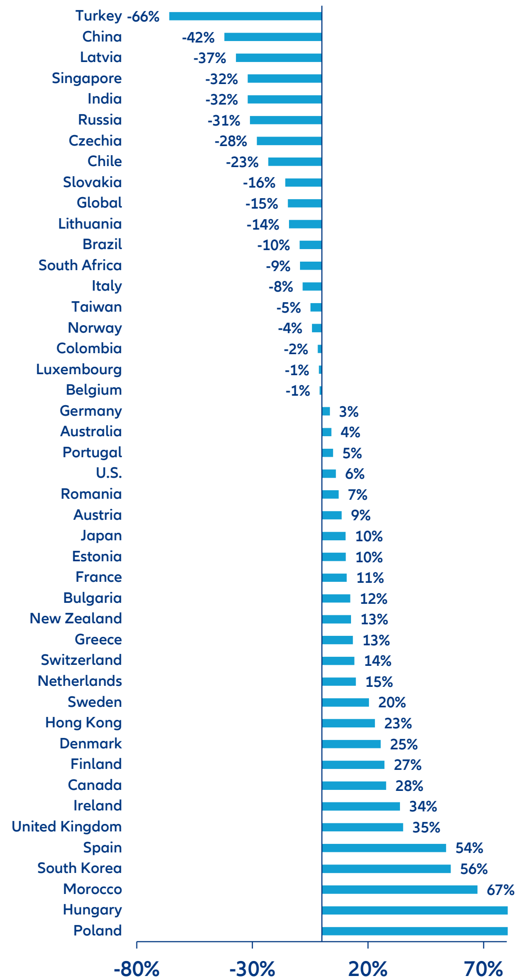
In **the US**, the upside trend reversal from a historical low (less than 13,500 cases in 2022), the legacy of the strong post-Covid recovery combined with the massive support from the Paycheck Protection Programm (PPP), started in 2023, with large firms leading the way. We expect the combination of tighter-for-longer credit conditions and the sharp economic slowdown to lead to another significant increase in 2024 (by +22% y/y from +47% in 2023). SMEs, which have often smaller cash reserves, thinner margins and fewer options for raising capital, should contribute more noticeably. Since February 2020 they have had access to Chapter V which restructuring easier (less expensive and less restrictive) than the standard Chapter 11 process. The overall rebound in business insolvencies in the US should remain contained in 2025, with a quasi-stabilisation at around 23,900 cases, i.e. slightly above pre-pandemic levels (5%).

Figure 12: 2023-25 expected number of insolvencies, selected advanced economies, basis 100: year 2019



Sources: National sources, Allianz Research

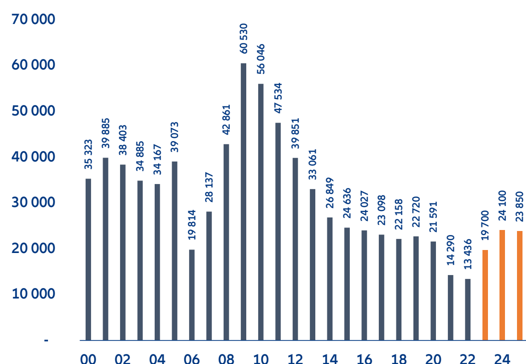
Figure 13: 2024 expected number of insolvencies, compared to 2019, in %



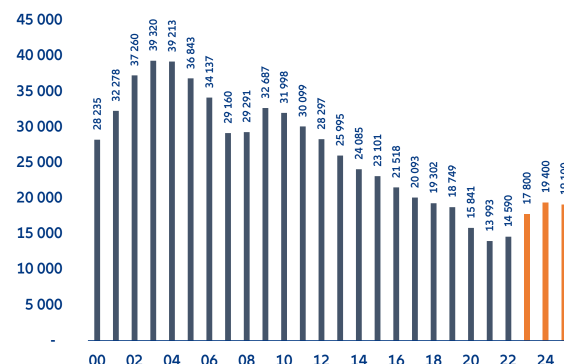
Sources: National sources, Allianz Research

Figure 14: 2023-25 expected number of insolvencies, selected advanced economies

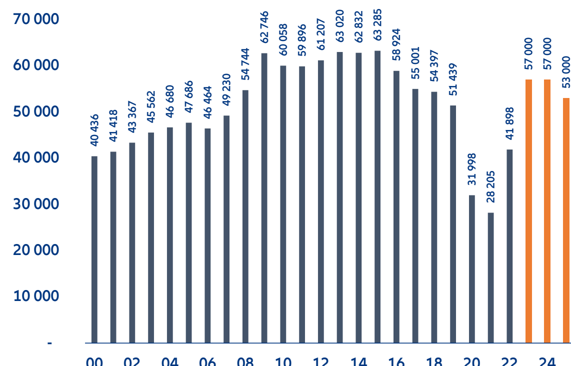
United States



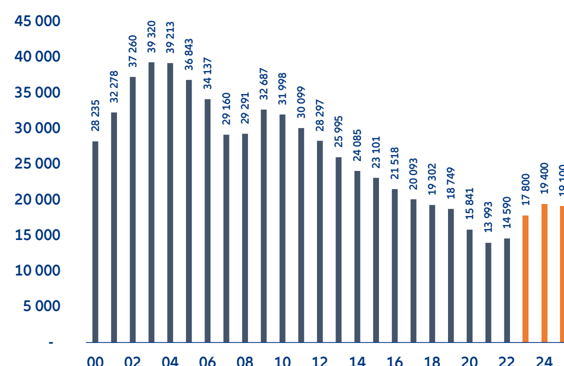
Germany



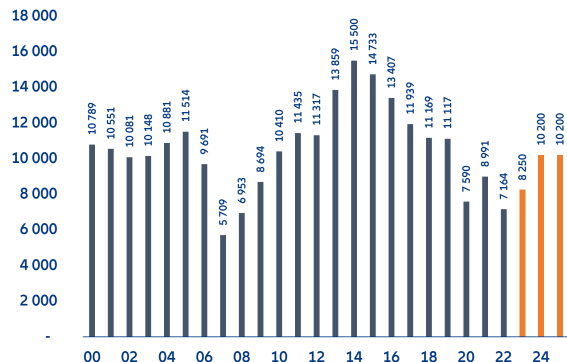
France



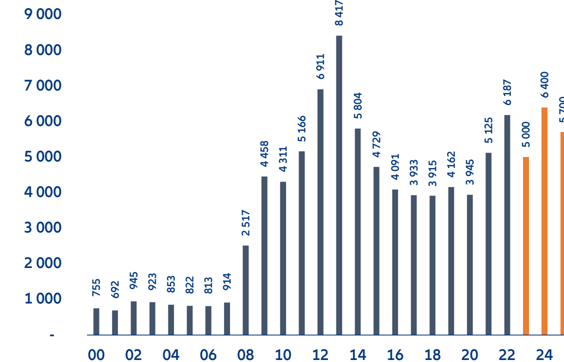
United Kingdom



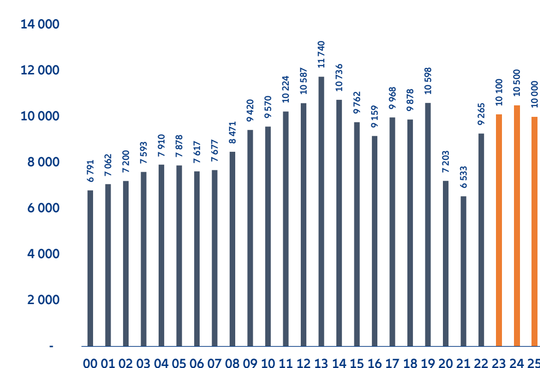
Italy



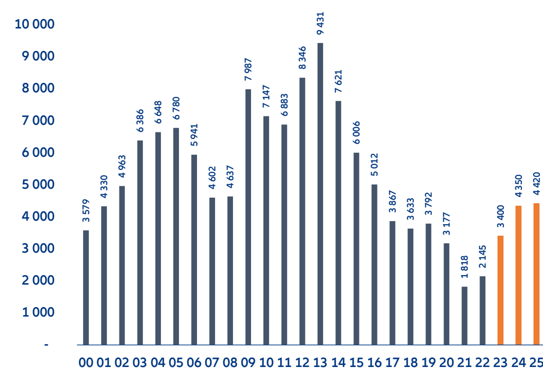
Spain



Belgium



Netherlands



Sources: National sources, Allianz Research

Statistical appendix

	% of Global Index	Business insolvencies level						Business insolvencies growth						Comparison with 2019 level			
		2020	2021	2022	2023f	2024f	2025f	2020	2021	2022	2023f	2024f	2025f	2022	2023f	2024f	2025f
GLOBAL INDEX *	100	116	100	102	107	118	115	-16%	-13%	1%	6%	10%	-2%	-26%	-22%	-15%	-17%
North America Index *	30	58	39	37	54	66	65	-5%	-33%	-4%	46%	21%	-1%	-40%	-12%	7%	5%
U.S.	28	21 591	14 290	13 436	19 700	24 100	23 850	-5%	-34%	-6%	47%	22%	-1%	-41%	-13%	6%	5%
Canada	2	2 108	1 942	2 621	3 330	3 510	3 340	-23%	-8%	35%	27%	5%	-5%	-5%	21%	28%	22%
Latin America Index *	3	235	212	157	184	187	176	11%	-10%	-26%	17%	2%	-6%	-26%	-13%	-12%	-17%
Brazil	2	2 078	1 962	1 857	2 350	2 610	2 770	-28%	-6%	-5%	27%	11%	6%	-36%	-19%	-10%	-4%
Colombia	0	1 885	1 506	1 088	1 310	1 310	1 170	11%	-20%	-28%	20%	0%	-11%	-36%	-23%	-23%	-31%
Chile	0	1 292	1 193	1 219	1 280	1 250	1 180	2%	-8%	2%	5%	-2%	-6%	-4%	1%	-2%	-7%
Europe Index *	29	145	142	147	148	165	153	-20%	-2%	4%	0%	11%	-7%	-19%	-19%	-10%	-16%
EU27+UK+Norway Index *	25	112	119	144	157	173	161	-18%	6%	20%	9%	10%	-7%	5%	14%	26%	17%
EU27 Index *	20	122	131	156	168	187	173	-17%	8%	18%	8%	11%	-8%	5%	14%	27%	17%
Euro zone Index *	17	121	129	155	157	184	171	-20%	7%	20%	2%	17%	-7%	3%	5%	23%	14%
Western Europe Index *	24	111	117	142	149	169	157	-19%	5%	22%	5%	13%	-7%	4%	8%	23%	14%
Germany	5	15 841	13 993	14 590	17 800	19 400	19 100	-16%	-12%	4%	22%	9%	-2%	-22%	-5%	3%	2%
United Kingdom	4	15 657	16 312	24 614	28 500	29 850	28 400	-29%	4%	51%	16%	5%	-5%	11%	29%	35%	29%
France	4	31 998	28 205	41 898	57 000	57 000	53 000	-38%	-12%	49%	36%	0%	-7%	-19%	11%	11%	3%
Italy	3	7 590	8 991	7 164	8 250	10 200	10 200	-32%	18%	-20%	15%	24%	0%	-36%	-26%	-8%	-8%
Spain	2	3 945	5 125	6 187	5 000	6 400	5 700	-5%	30%	21%	-19%	28%	-11%	49%	20%	54%	37%
Netherlands	1	3 177	1 818	2 145	3 400	4 350	4 420	-16%	-43%	18%	59%	28%	2%	-43%	-10%	15%	17%
Switzerland	1	4 887	5 127	6 788	7 300	6 850	6 150	-19%	5%	32%	8%	-6%	-10%	13%	22%	14%	2%
Sweden	1	7 585	6 792	7 189	9 000	9 200	8 100	-1%	-10%	6%	25%	2%	-12%	-6%	18%	20%	6%
Belgium	1	7 203	6 533	9 265	10 100	10 500	10 000	-32%	-9%	42%	9%	4%	-5%	-13%	-5%	-1%	-6%
Ireland	1	575	401	530	680	760	650	1%	-30%	32%	28%	12%	-14%	-7%	20%	34%	14%
Norway	1	4 101	3 325	3 713	4 500	4 800	4 600	-18%	-19%	12%	21%	7%	-4%	-26%	-10%	-4%	-8%
Austria	1	3 034	3 034	4 775	5 250	5 450	5 350	-40%	0%	57%	10%	4%	-2%	-5%	5%	9%	7%
Denmark	0	2 221	2 175	2 834	3 200	3 250	2 900	-14%	-2%	30%	13%	2%	-11%	9%	24%	25%	12%
Finland	0	2 471	2 804	2 993	3 730	3 800	3 410	-17%	13%	7%	25%	2%	-10%	0%	25%	27%	14%
Portugal	0	2 502	2 195	1 928	2 250	2 685	2 954	-2%	-12%	-12%	17%	19%	10%	-25%	-12%	5%	15%
Greece	0	57	53	61	68	71	71	-10%	-7%	15%	12%	5%	0%	-3%	8%	13%	13%
Luxembourg	0	1 174	1 160	1 024	1 180	1 220	1 160	-5%	-1%	-12%	15%	3%	-5%	-17%	-5%	-1%	-6%
Central & Eastern Europe Index *	5	347	299	227	213	221	209	-21%	-14%	-24%	-6%	4%	-5%	-49%	-52%	-50%	-53%
Russia	2	9 930	10 317	9 055	7 280	8 550	11 000	-20%	4%	-12%	-20%	17%	29%	-27%	-41%	-31%	-11%
Turkey	1	2 860	2 299	1 573	1 107	1 306	1 175	-25%	-20%	-32%	-30%	18%	-10%	-59%	-71%	-66%	-69%
Poland	1	1 293	2 187	2 625	4 400	3 800	3 500	32%	69%	20%	68%	-14%	-8%	169%	350%	289%	258%
Romania	0	5 694	6 144	6 649	6 800	7 000	6 750	-13%	8%	8%	2%	3%	-4%	2%	4%	7%	3%
Czechia	0	8 060	7 148	5 882	5 880	6 250	6 000	-7%	-11%	-18%	0%	6%	-4%	-32%	-32%	-28%	-31%
Hungary	0	4 316	5 119	8 450	21 000	11 000	7 000	-18%	19%	65%	149%	-48%	-36%	61%	299%	109%	33%
Slovakia	0	1 889	1 692	1 812	1 946	2 060	2 020	-23%	-10%	7%	7%	6%	-2%	-26%	-20%	-16%	-17%
Bulgaria	0	531	545	548	550	565	575	6%	3%	1%	0%	3%	2%	9%	9%	12%	14%
Lithuania	0	787	738	1 150	1 300	1 380	1 280	-51%	-6%	56%	13%	6%	-7%	-28%	-19%	-14%	-20%
Latvia	0	374	241	308	310	350	350	-33%	-36%	28%	1%	13%	0%	-45%	-44%	-37%	-37%
Estonia	0	145	105	97	140	160	135	0%	-28%	-8%	44%	14%	-16%	-33%	-3%	10%	-7%
Africa Index *	1	141	193	222	248	248	236	-14%	37%	15%	12%	0%	-5%	36%	52%	52%	45%
South Africa	1	2 035	1 932	1 907	1 850	1 850	1 800	0%	-5%	-1%	-3%	0%	-3%	-7%	-9%	-9%	-12%
Morocco	0	6 620	10 552	12 397	14 200	14 200	13 500	-22%	59%	17%	15%	0%	-5%	46%	67%	67%	59%
Asia-Pacific Index *	37	125	102	107	104	109	112	-18%	-19%	5%	-3%	5%	3%	-30%	-32%	-28%	-26%
China	21	11 997	8 689	7 528	6 500	6 840	7 250	1%	-28%	-13%	-14%	5%	6%	-36%	-45%	-42%	-39%
Japan	6	7 773	6 030	6 428	8 680	9 250	9 000	-7%	-22%	7%	35%	7%	-3%	-23%	4%	10%	7%
India	4	736	812	1 237	1 250	1 310	1 350	-62%	10%	52%	1%	5%	3%	-36%	-35%	-32%	-30%
South Korea	2	1 069	955	1 004	1 420	1 450	1 200	15%	-11%	5%	41%	2%	-17%	8%	53%	56%	29%
Australia	2	3 582	3 406	4 940	6 380	6 670	6 400	-44%	-5%	45%	29%	5%	-4%	-23%	0%	4%	0%
Taiwan	1	200	204	211	180	195	190	-2%	2%	3%	-15%	8%	-3%	3%	-12%	-5%	-7%
Singapore	0	200	191	215	185	195	190	-30%	-5%	13%	-14%	5%	-3%	-25%	-36%	-32%	-34%
Hong Kong	0	234	299	303	320	300	290	-4%	28%	1%	6%	-6%	-3%	24%	31%	23%	19%
New Zealand	0	1 580	1 476	1 645	1 990	2 150	2 230	-17%	-7%	11%	21%	8%	4%	-14%	4%	13%	17%

Sources: National figures, Allianz Research (f:forecasts)

(*) Index 100: 2000

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