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Insolvencies increase sharply as normality returns

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Summary

- We expect insolvencies to increase globally in 2023, driven by continued normalisation after the pandemic and the bankruptcy of zombie firms. This is against a macroeconomic backdrop of high inflation, monetary tightening and less significant government support than during the pandemic years. For 2024 we expect a year of relative stabilisation.
- In 2023, we expect sharply rising business failures in South Korea (154%), Italy (90%), Hong Kong (83%), New Zealand (82%), the Netherlands (79%) and the United States (74%).
- In 2024, we forecast relatively high insolvency increases in New Zealand (62%), South Korea (35%) and Singapore (30%).

After two years of decline during the pandemic years, global insolvencies increased by 9% in 2022. The increase was related to the halting of Covid fiscal support packages and the lifting of temporary changes to insolvency legislation. In some markets, insolvencies have completely normalized or even exceed pre-pandemic levels. But in the majority of countries, we observe that insolvencies are in the process of adjusting back to pre-pandemic levels. For 2023 we predict an increase of 49% in the global level of insolvencies, as 'return to normal' continues. In 2023 we are seeing rising insolvencies across all regions, with North America experiencing a relatively strong increase, while Europe is seeing milder increases. The majority of countries in each region can expect rising insolvencies this year. In 2024, the picture is more mixed. On a global level, we predict that insolvencies rise by 12% compared to 2023. In most markets that we observe, insolvencies are expected to have more or less normalised in 2024.

Subdued global GDP growth expected in 2023 and 2024

The global economy is forecast to grow only 1.7% in 2023. This year global monetary tightening and Russia's invasion of Ukraine continue to drag on the world economy, bringing the US and Europe in particular to stagnation. Inflation has begun easing across major markets, but generally remains above central bank targets. Central banks in Europe and the US are therefore expected to keep policy rates at current high levels and possibly increase rates even further. High inflation, tight financing conditions and dwindling savings buffers suppress demand. In 2024, declining inflation and improved consumers' purchasing power puts the global economy in a better position. We therefore foresee a slightly higher GDP growth of 2.5% in 2024.

Emerging markets as a group are forecast to grow by 3.2% in 2023 and 4.2% in 2024. Russia's invasion of Ukraine and tighter financial conditions weigh on GDP growth across EMEs. Emerging Asia remains the fastest growing region (4.4%). Chinese GDP growth has been revised upwards to 4.5% in 2023 as Covid restrictions have been largely abandoned. A more "proactive" and "pro-growth" government policy is likely to support Chinese private consumption in 2023. At the same time, demand will still be constrained by the property sector slump and weak consumer confidence. In Eastern Europe, the outlook continues to be dominated by the Russia-Ukraine war. Western countries have imposed massive sanctions on Russia, leading to another year of recession there in 2023. The powerful earthquakes that hit Turkey on February 6th are another setback for Turkey and the wider region. The Turkish economy was already struggling with high inflation and lira depreciation, and the economic impact of the earthquake constrains Turkish GDP growth further in the near term.

Growth in advanced economies is just 0.7% in 2023, with 2024 only forecast to be slightly better at 1.2%. The United States economy had a better than expected GDP growth in Q4 of 2022. However, as private consumption has been consistently losing pace, we think it likely that in the second half of 2023 the US economy briefly enters a recession. This brings GDP growth to slightly below 1% in both 2023 and 2024. For the eurozone, the overall picture is one of weak economic growth and substantial downside risks. The most recent estimate of eurozone Q4 GDP indicates that growth has come to a standstill. We are also cautious about the growth outlook for the rest of 2023 as high energy prices and the war in Ukraine continue to weigh on growth. Furthermore, the effects of the monetary tightening underway have yet to be fully felt. We forecast a relatively weak growth in 2023 (0.6%), followed by a slightly better growth in 2024 that is just above 1%.

While government fiscal support related to the pandemic has been largely phased out, the overall fiscal position continues to be expansionary in most advanced markets. Several countries have adopted support packages to counter the negative effects of the rise in energy prices, which gives some support to economic growth. However, there are also new risks, which are mainly the result of recent monetary policy tightening. Major central banks such as the US Federal Reserve and the European Central Bank (ECB) have implemented significant policy rate hikes in the past year. This recently contributed to unrest in the banking sector, with several regional US banks filing for bankruptcy. In Europe, the banking sector looks more robust, but this did not prevent Credit Suisse, a bank with long-standing issues, to be forced into a takeover by the Swiss regulator. Events like this may make central banks more cautious in implementing further rate hikes. If current market tensions do not subside, central banks may very well pause their monetary policy tightening going forward. Credit standards have tightened in both the US and the eurozone in recent months.

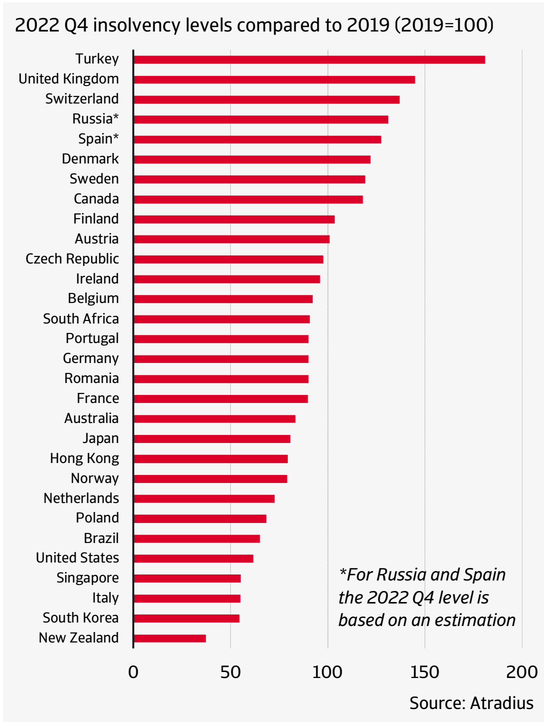
The tightening of financial conditions in advanced markets also has spillover effects to emerging markets. Several emerging markets have experienced sharp currency depreciations since the Federal Reserve started to increase interest rates. In particular countries with high private debt levels (e.g. Turkey) are vulnerable to the tightening of financial conditions.

Insolvencies are adjusting back to pre-pandemic levels

After two years of convincing insolvency declines - which were due to pandemic support packages and temporary changes to insolvency legislation by countries laws - the global number of insolvencies increased by 9% in 2022.

Chart 1 compares the 2022 Q4 insolvency data to the same period in 2019. A value above 100 indicates that the insolvency level in a country is above the (pre-pandemic) 2019 level. A value below 100 means the insolvency level is still lower than in 2019.

Chart 1: 2022 Q4 insolvency levels relative to pre-pandemic situation



We consider a market to have adjusted fully back to 'normal' if the index value is at least 95%. This is the case for Turkey, the United Kingdom, Switzerland, Russia, Spain, Denmark, Sweden, Canada, Finland, Austria, Czech Republic and Ireland. In the majority of markets, however, the adjustment back to normal is still underway. This means insolvency levels remain below the 2019 level.

The list of countries for which the insolvency level in 2022 Q4 was relatively high should not come as a complete surprise. In Turkey, for example, the economy is suffering from high inflation, depreciation of the lira and high corporate debt. In the United Kingdom, the rise of insolvencies can be attributed to ending of government support measures and the weak economic recovery since Brexit. In Switzerland, it is also attributed to the discontinuation of government support and the associated bankruptcy of zombie firms. In Spain, the economic slowdown and the lifting of the moratorium on bankruptcy filings triggered a spike the insolvency level in Q3 of 2022. A new insolvency law that makes it easier for companies to restructure their debt may help in the future to cut high bankruptcy rates. Denmark, Sweden and Czech Republic did not experience a strong decline in insolvencies during the pandemic, suggesting that government support perhaps was somewhat weak or ineffective.

Countries with relatively low insolvency counts relative to pre-pandemic are, for example, New Zealand, South Korea, the United States and the Netherlands. These are all countries which had generous corona support measures, which increased firms' liquidity. We believe that these cash buffers prevented a rise of insolvencies immediately after the government support measures were phased out. As a result, the insolvencies levels in these countries remained low relative to pre-pandemic.

Outlook for full year 2023: a continuation of the adjustment to normal

We base our forecasts for 2023 on the idea that countries will see their insolvency levels return to 'normal' levels with pandemic-related fiscal support being discontinued. We assume that it can take up to eight quarters after government support is discontinued before the insolvency level reaches the normality level. On top of the normalisation, we distribute on the forecasting horizon additional defaults coming from zombie companies. The latter are likely to occur because in the pandemic period the insolvency levels contracted well below their pre-pandemic levels. We believe that these companies will default after the government support is withdrawn.

We now turn to our insolvency forecast for 2023 and 2024, which is given in year-on-year % changes (e.g. 2023 compared with 2022). On a global level, we predict that insolvencies increase by 49% year-on-year in 2023. On a regional level, we foresee a relatively strong increase of insolvencies in North America (71%), which is mainly driven by the United States. For Europe, we expect a relatively mild increase of 27% as the process of normalisation of insolvencies in Europe is already more advanced compared to other regions. For Asia Pacific we predict an increase of 56%.

Chart 2 presents our insolvency forecast for 2023 and 2024 on a country level. The markets are arranged in the same order as in Chart 1. The highest insolvency growth rates in 2023 are recorded in South Korea, Italy, Hong Kong, New Zealand, Netherlands and the United States. The shared characteristic is that all these countries have a very low insolvency level in 2022 compared to the pre-pandemic situation. For these countries, the adjustment to normal largely takes place in 2023. This, in combination with the bankruptcy of zombie firms, pushes up insolvency growth in 2023.

Chart 2 Insolvencies forecast to rise most in countries coming from a low level in 2022

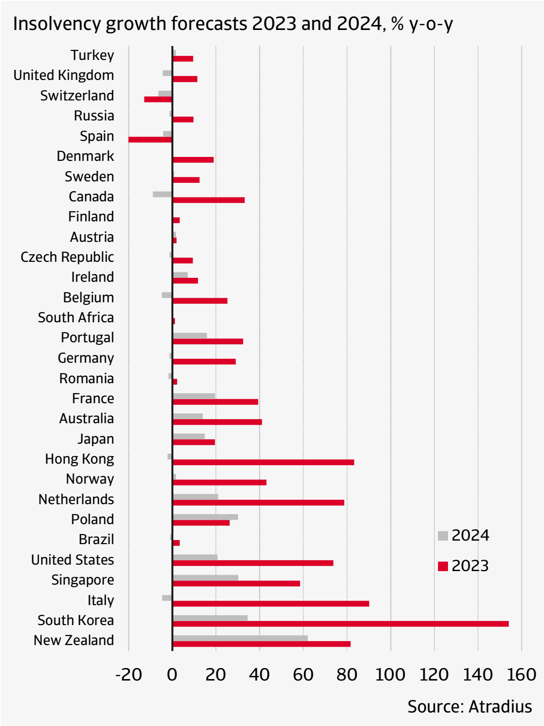
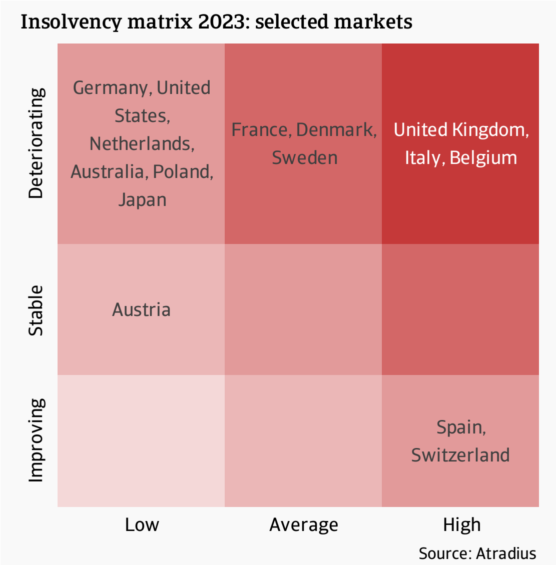


Chart 3: Insolvency matrix 2023



There are also markets with relatively low or negative insolvency growth in 2023. Countries for which we expect a decline in insolvencies in 2023 are Spain and Switzerland. In these countries the insolvency level has increased throughout 2022 to above the normality level. In 2023, we forecast a decline, such that the insolvency level moves closer to the normality level. Countries for which we expect relatively mild insolvency growth include several European countries where insolvencies have already normalised in 2022, such as Austria, Finland, Czech Republic and Sweden.

Chart 3 shows the insolvency developments across another dimension. The vertical axis of the insolvency matrix shows the year-on-year expected change of insolvencies in 2023 compared to 2022. Insolvency growth considered 'Deteriorating' if growth is higher than 2%, 'Stable' if it is between -2% and +2%, and 'Improving' if it is lower than -2%. The horizontal axis shows the level of insolvencies in 2023 compared to 2019. This gives a better impression how the current level of insolvencies compares to the pre-pandemic level. We identify the level as 'High' if in 2023 it is expected to be above 120% of the 2019 level, 'Average' if it is between 95% and 120%, and 'Low' if it is below 95%.

For the majority of countries, the trend is deteriorating in 2023, but the overall level remains low compared to the pre-pandemic level. Spain and Switzerland are the only two countries with an improving insolvency trend, as indicated in the previous paragraph. The United Kingdom, Italy and Belgium are in the most worrisome position from the selected markets, as the trend is deteriorating in 2023 and the insolvency level in 2023 is moving above 120% of the 2019 level. The UK is a particularly interesting case as insolvencies already returned to normal, pre-pandemic levels in 2022, together with the bankruptcy of zombie firms. However, the low growth environment is expected to push insolvencies even higher in 2023. In Belgium, the normalisation of insolvencies started in 2022 and is continuing in 2023. In Italy, the adjustment is very much taking place in 2023, leading to a deteriorating trend.

Outlook for full year 2024: a more mixed picture

In 2024, the picture is more mixed. On a global level, we predict that insolvencies rise by 12% compared to 2023. We see a rise of insolvencies in a number of countries (New Zealand, South Korea and Singapore) where the normalisation continues. However, we also see that in many markets insolvencies will again start to decline or remain approximately constant. This is because insolvency levels will have largely returned to normal and zombie firms that are not able to survive without support, have gone bankrupt already.

Countries with a negative expected insolvency growth in 2024 are, for example, Switzerland, Canada and Russia. In Russia, there is an overshooting of insolvencies in 2023, due to the economic effect of the war with Ukraine and the sanctions that are imposed on Russia. In 2024 insolvencies will partially normalise as the economic situation stabilises. In Canada, there is an overshooting of insolvencies in 2023, largely due to the bankruptcy of zombie firms. In 2024 the situation in Canada also partially normalises. In Switzerland, 2024 brings another year of decrease in insolvencies, as the insolvency level continues to move to a normality level that is comparable with the 2019 level.

The coming years are likely to remain challenging for firms. They have to survive in an environment without the same generous government support that was received during the pandemic. Moreover, they face an environment with significantly tighter financing conditions, which is likely to be a challenge for firms that have taken up a lot of debt during the pandemic.

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Table 1 Total insolvencies - annual percentage change

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022e	2023f	2024f
Australia	2	9	1	2	-19	16	-16	-8	3	3	-41	-9	43	41	14
Austria	-8	-8	3	-10	-1	-5	1	-3	-2	1	-40	0	57	2	2
Belgium	2	7	4	11	-9	-9	-6	9	-1	7	-32	-9	42	25	-5
Brazil	-19	-12	7	8	-1	12	-13	29	0	-1	-25	-10	8	3	-1
Canada	-11	13	-11	-2	-2	-1	-7	-6	-1	3	-23	-10	38	33	-9
Czech Republic	-	-	-	-	-	-	-10	-15	-16	4	-10	21	-6	9	-1
Denmark	-3	-22	4	-15	-21	15	18	-4	7	6	-14	-2	30	19	0
Finland	-13	3	0	6	-5	-14	-6	-10	17	3	-19	16	7	3	0
France	-5	-1	3	3	0	0	-8	-6	-1	-5	-40	-11	50	39	20
Germany	-2	-6	-6	-8	-7	-4	-7	-7	-4	-3	-16	-12	4	29	-1
Hong Kong	-43	-13	2	15	3	1	-9	-14	-6	9	-14	6	-25	83	-2
Ireland	8	7	3	-19	-15	-10	-2	-15	-13	-25	1	-30	25	12	7
Italy	20	8	3	13	11	-6	-9	-11	-8	0	-32	19	-20	90	-5
Japan	-14	-4	-5	-10	-10	-8	-6	0	-2	2	-7	-22	7	20	15
Netherlands	-9	0	19	10	-22	-24	-19	-22	-9	4	-17	-41	14	79	21
New Zealand	-5	-12	-7	-13	-7	4	3	-22	-7	-18	-26	-32	-19	82	62
Norway	-17	0	-13	18	6	-3	-1	4	12	3	-11	-24	13	43	2
Poland	-	4	24	1	-9	-7	-19	-2	4	-5	0	-30	-12	26	30
Portugal	23	63	53	7	-6	-4	-12	-8	-9	-5	-18	-3	6	32	16
Romania	-	-9	36	10	-30	-50	-18	9	-9	-21	-13	8	8	2	-2
Russia	8	-18	-6	9	18	1	-3	7	-3	-6	-19	4	32	10	-1
Singapore	-25	-1	14	14	-12	1	1	-9	1	-1	-41	4	-4	58	30
South Africa	-3	-11	-24	-13	-13	-5	-1	-3	-1	11	0	-5	-1	1	0
South Korea	-21	-13	-10	-18	-16	-14	-23	-11	-5	-12	-29	-37	-19	154	35
Spain	-4	18	37	13	-28	-22	-16	-1	2	11	-10	64	9	-22	-4
Sweden	-4	-4	7	4	-6	-11	-5	6	13	2	-1	-10	6	12	1
Switzerland	20	6	3	-5	-10	4	7	3	22	-3	-14	9	37	-13	-6
Turkey	-	12	7	8	-9	-13	-10	19	-8	3	14	8	41	10	2
United Kingdom	-19	4	-4	-9	-8	-10	1	-1	10	7	-26	11	57	11	-4
United States	-7	-15	-16	-17	-19	-8	-2	-4	-4	3	-5	-34	-6	74	21

Sources: Atradius, Macrobond, national sources

Table 2 Total insolvencies - index, 2010 = 100

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022e	2023f	2024f
Australia	100	109	111	113	92	106	89	81	84	87	51	47	67	95	108
Austria	100	92	95	86	85	81	82	80	78	79	48	48	75	76	78
Belgium	100	107	111	123	112	102	96	104	103	111	75	68	97	121	116
Brazil	100	88	94	102	101	113	98	127	127	126	94	85	91	95	94
Canada	100	113	100	98	96	95	89	83	83	85	65	59	81	108	98
Czech Republic	-	-	-	-	-	100	90	77	65	68	61	74	70	76	76
Denmark	100	78	81	69	54	62	73	70	75	80	69	67	88	104	105
Finland	100	103	103	109	104	90	84	76	89	92	75	86	93	96	96
France	100	99	101	105	104	104	96	91	90	85	52	46	68	95	114
Germany	100	94	88	81	75	72	67	63	60	59	50	44	46	59	58
Hong Kong	100	87	89	102	106	106	97	83	78	85	73	78	58	106	104
Ireland	100	107	110	90	76	69	68	57	50	37	38	26	33	37	39
Italy	100	108	112	126	140	131	120	107	99	99	67	80	64	122	116
Japan	100	96	91	81	73	67	63	63	62	63	58	45	48	58	66
Netherlands	100	100	120	131	102	77	63	49	45	46	38	22	26	46	55
New Zealand	100	88	82	71	66	69	71	55	51	42	31	21	17	32	51
Norway	100	100	87	103	109	105	105	109	123	127	112	85	96	138	140
Poland	-	104	129	130	119	110	89	87	90	86	86	60	53	67	87
Portugal	100	163	249	267	250	239	210	194	176	167	137	133	141	187	216
Romania	-	91	124	136	95	47	39	42	38	30	26	28	31	31	31
Russia	100	82	78	85	100	101	97	105	102	95	78	80	106	116	115
Singapore	100	99	114	130	114	116	117	107	108	107	63	65	62	99	129
South Africa	100	89	68	59	52	49	48	47	46	51	51	48	48	48	48
South Korea	100	87	78	64	54	46	35	31	30	26	19	12	9	24	32
Spain	100	118	162	183	132	102	86	85	87	96	86	142	154	121	116
Sweden	100	96	103	106	99	88	84	89	101	103	102	91	97	109	110
Switzerland	100	106	109	104	94	97	104	107	131	127	109	118	162	141	132
Turkey	-	112	119	129	118	102	92	109	101	105	119	128	181	198	201
United Kingdom	100	104	99	90	83	74	75	75	82	88	65	72	113	126	121
United States	100	85	71	59	48	44	43	41	40	41	39	25	24	42	50

Sources: Atradius, Macrobond, national sources

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