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IWH Bankruptcy Update: Increase in large firm bankruptcies

no press embargo

With overall corporate bankruptcies remaining constant, ever more employees are subject to employer bankruptcy in Germany. This is the latest insight from the IWH Bankruptcy Update provided monthly by the Halle Institute for Economic Research (IWH).

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Political departments
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According to the second issue of the IWH Bankruptcy Update, 1,019 companies filed for bankruptcy in May 2020. This is a moderate increase relative to April 2020 and to May 2019. Interestingly however, the largest bankruptcies reported for May employed much more workers. Based on the IWH data, the five biggest bankrupt firms alone employed more than 10,000 workers whereas observing failing firms with more than 1,000 employees was the exception in previous months.

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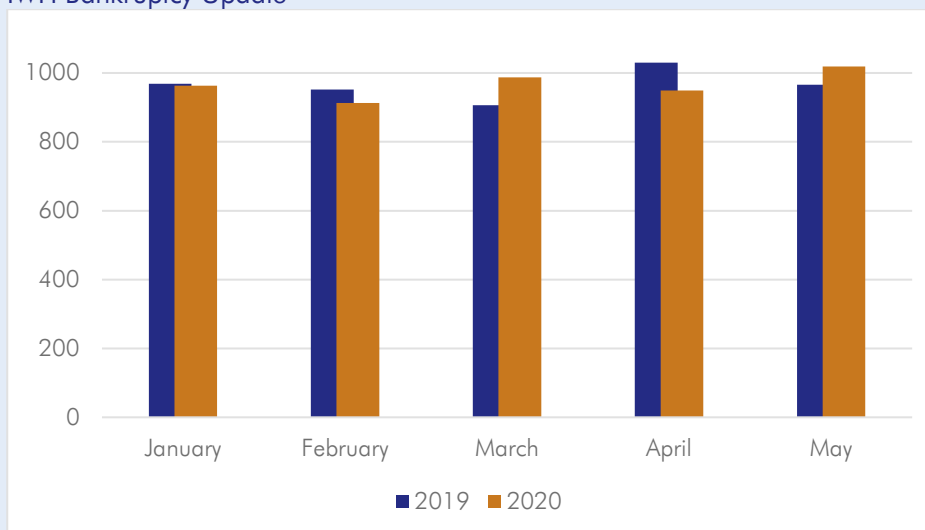
This development does not come as a surprise to Steffen Mueller. “During the course of the financial crisis of 2008/2009 we also observed increasingly large firms filing for bankruptcy,” says the head of the IWH Department of Structural Change and Productivity and the IWH Bankruptcy Research Unit. Absent of economic crises, struggling larger firms usually restructure early and often avoid bankruptcy, Mueller says. If an economic crisis becomes acute, however, many distressed larger firms lack the time to adjust. “Ultimately, the Corona crisis and the bankruptcies associated with it will be visible in increased job loss even if the bankruptcy numbers should stay moderate.”

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Figure
IWH Bankruptcy Update



Bankruptcies of German firms with entry in the commercial register.

Sources: Bankruptcy announcements of German courts; IWH presentation.

Mueller warns that the current numbers just reflect the beginning of the crisis. He expects bankruptcies due to Corona to appear in the statistics in the coming months. The delayed increase in bankruptcies in the face of the crisis is due to a temporary change of the bankruptcy law relaxing firms' obligation to file for bankruptcy although they might actually be insolvent. The enormous state aid provided by the German government will prevent some bankruptcies and postpone others. What is more, German bankruptcy procedures lead to a time gap between firms filing for bankruptcy and the official bankruptcy notifications by German courts, which is the basis for the statistics published by the Halle Institute and official statistics alike. Hence, some of the May notifications refer to firms that filed for bankruptcy in February or March.

Considerably faster than the official statistics, the IWH Bankruptcy Update issued by the Halle Institute for Economic Research (IWH) provides a monthly update on corporate bankruptcy. Results only marginally deviate from official statistics, the latter drawing a comprehensive picture of the situation with a two months delay. The IWH Bankruptcy Update therefore is a reliable flash indicator for corporate bankruptcy in Germany. It is generated by analysing the public bankruptcy announcements of German courts and combining it with balance sheet information. Due to its longstanding expertise, e.g. visible in the publications of the IWH Bankruptcy Research Unit, the Institute belongs to Germany's leading investigators of causes and consequences of corporate bankruptcy.

More about the IWH Bankruptcy Research Unit:
www.iwh-halle.de/bankruptcyresearch

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The Halle Institute for Economic Research (IWH) – Member of the Leibniz Association was founded in 1992. With its four research departments – Macroeconomics; Financial Markets; Structural Change; Laws, Regulations and Factor Markets –, IWH conducts economic research and provides economic policy recommendations, which are founded on evidence-based research. With the IWH's guiding theme "From Transition to European Integration", the institute's research concentrates on the determinants of economic growth processes with a focus on efficient capital allocation in a national and European context. Particular areas of interest for the institute are macroeconomic dynamics and stability, microeconomic

innovation processes, productivity and labour markets, the dynamics of structural adjustment processes, financial stability and growth and the role of financial markets for the real economy.

The Leibniz Association connects 96 independent research institutions that range from the natural, engineering and environmental sciences via economics, spatial and social sciences to the humanities. Leibniz institutes address issues of social, economic and ecological relevance. They conduct knowledge-driven and applied basic research, maintain scientific infrastructure and provide research-based services. For further information, see <http://www.leibniz-gemeinschaft.de/en/home/>.