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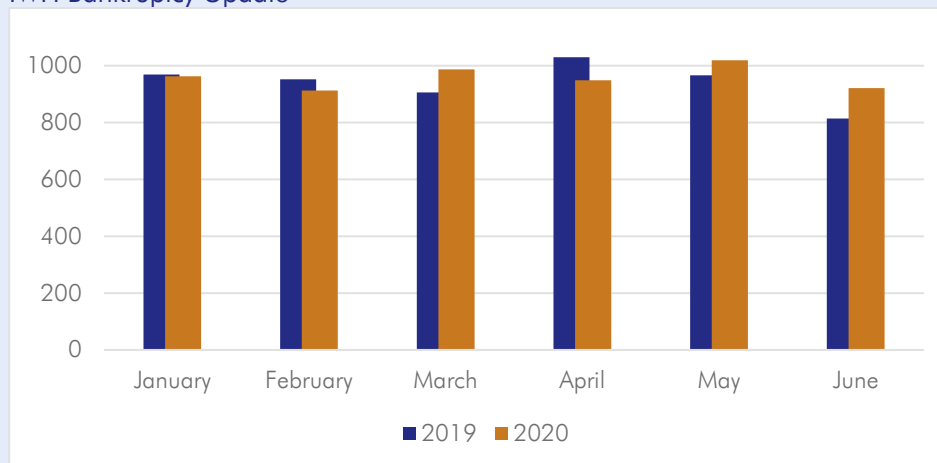
Halle (Saale), 3 July 2020

IWH Bankruptcy Update: Much more jobs affected by corporate bankruptcy in Germany

The number of corporate bankruptcies declines but, compared to the beginning of the year, the number of affected employees per month recently doubled. This is the latest insight from the IWH Bankruptcy Update provided monthly by the Halle Institute for Economic Research (IWH).

According to the third issue of the IWH Bankruptcy Update, 921 companies filed for bankruptcy in June 2020. This is a 10% decline relative to May 2020 and a 13% increase compared to June 2019. Importantly, much more workers have been affected by their employers' bankruptcy. IWH data for June shows that the 10% largest bankrupt firms alone employed 13,400 workers. This sharply contrasts with the first three months of the year where employment in the top 10% bankrupt firms amounted to only 6,700 workers. Concretely, the number of affected employees in June was about 99% higher than the monthly average of the first quarter of the year. Comparing the second quarter of the year with the first quarter, the increase amounts to 81%.

Figure 1
IWH Bankruptcy Update



Bankruptcies of German firms with entry in the commercial register.

Sources: Bankruptcy announcements of German courts; IWH presentation.

The rising number of affected workers despite simultaneously falling bankruptcy counts results from a change in the composition of bankrupt firms, says Steffen Mueller, who is head of the IWH Department of Structural Change and Productivity and the IWH Bankruptcy Research Unit. "We observe more large firms failing and a sharp decline in very small firms filing for bankruptcy," says Mueller. The former is a general phenomenon also observed in earlier crises whereas the latter has much to do with small enterprises

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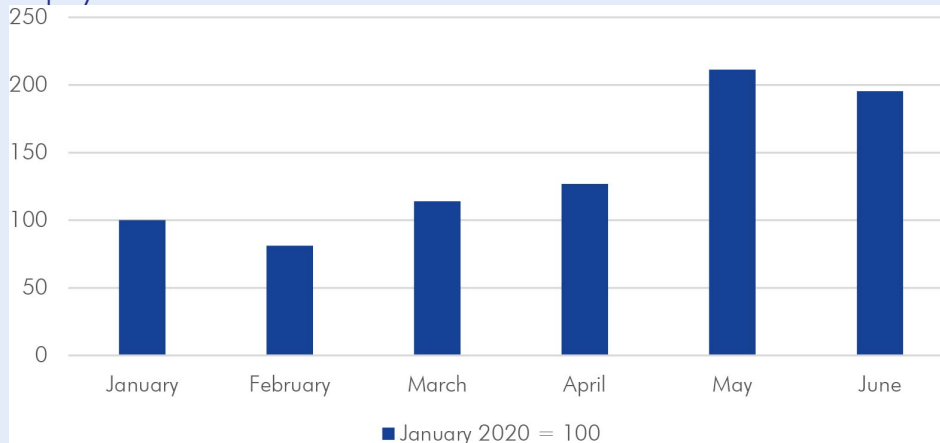
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taking advantage of a temporary change of the bankruptcy law relaxing firms' obligation to file for bankruptcy although they might actually be insolvent. Mueller concludes: "The number of bankruptcies *per se* is currently not a good indicator for the economic burdens of the Corona crisis."

Figure 2

Employment



Employment in the top 10 percent largest bankruptcies. Index January 2020 = 100. Bankruptcies of German firms with entry in the commercial register.

Sources: Bankruptcy announcements of German courts; IWH presentation.

There is a general tendency for small firms to postpone bankruptcy filing until it becomes unavoidable. Therefore, Mueller expects a strong increase in the number of bankruptcies in the months to come. At the latest, the delayed surge in bankruptcy should show up after the above-mentioned legal exemption expires. This is scheduled for September 30, 2020 but the law already entails the possibility to extend the exemption if needed.

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. As there can be substantial delays between filing for bankruptcy and the public bankruptcy announcement, the current numbers partly reflect bankruptcy filings that happened several weeks or even a few months ago. 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/en/bankruptcyresearch

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