

## Press Release 27/2020

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### **Much more bankruptcies expected than currently observed in Germany**

In a recession, the number of bankruptcies usually increases with some delay. However, despite the corona crisis, the number of bankruptcies in Germany is lower than predicted based on the long-term trend. The state aid packages and the suspension of the insolvency rules have led to fewer bankruptcies than expected. The Halle Institute for Economic Research (IWH) has estimated how many bankruptcies would actually have been likely to occur by industry because of the corona recession if the typical economic pattern had been in place. The results indicate that after the end of the state aid and exception rules bankruptcies are likely to pick up.

The corona pandemic has driven the German economy into a deep recession. Since mid-March 2020, important parts of the economy have been in shutdown. Revenues have suddenly declined. In order to prevent an increase in bankruptcies, the German government has introduced exception rules for insolvency registration. In addition, the state granted financial support to affected firms.

According to figures of the German Federal Statistical Office, in the period January to August 2020, there were actually in total 11% fewer bankruptcies than in the same period of the previous year. According to the [IWH Bankruptcy Update](#) they also do not appear to have significantly risen in the period from September to November. However, it should be taken into account that for many years there has been a declining trend for bankruptcies in Germany.

The IWH, therefore, initially calculated how many bankruptcies would have been expected up to August 2020 based on past development, without taking the corona recession into account. Result: In the months January to August 2020, there were 518 fewer bankruptcies than expected. Up to July, the value still fell within the range of the usual fluctuations; however, in August, it was significantly lower. "Compared to the forecast on the basis of the development for the previous years the actual number of bankruptcies is unusually low," says Oliver Holtemöller, Head of the Department Macroeconomics and Vice-President of the IWH.

In a second step, the IWH researcher factored in the corona recession. For his forecast of the development of bankruptcies up to the end of 2020, he used the fact that bankruptcies are cyclically linked to economic development and react to fluctuations in gross value added with a delay of approximately two quarters.

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**Table**

Realised bankruptcies January to August 2020 and conditional forecast for the entire year 2020

Industry	Entities 2018	Bankruptcies 2019	Bankruptcies 2020 Jan-Aug	Forecast 2020	Difference
Total		18 750	11 426	19 037	7 611
Agriculture, Forestry and Fishing		125	73	114	41
Mining, Energy and Water Supply	88 540	150	86	149	63
Manufacturing	231 063	1 488	995	1 790	795
Construction	388 991	3 044	1 839	2 839	1 000
Retail, Transportation and Storage	975 382	6 680	3 973	6 434	2 461
Information und Communication	134 666	623	360	627	267
Financial and Insurance Services	69 887	400	256	358	102
Real Estate and Housing	174 200	504	324	460	136
Business Services	748 796	3 859	2 469	4 213	1 744
Public Services, Health, Education		623	338	630	292
Arts, Entertainment/Recreation, other Services		1 254	713	1 379	666
Sum		18 750	11 426	18 993	7 567

Entities: legal entities per industry in 2018 according to the firm register of the German Federal Statistical Office; for some industries, there is no complete information available. Forecast based on a bivariate forecasting model for bankruptcies per industry. Row "Total": forecasting model for all industries combined; row "Sum": sum of the individual forecasts for the specific industries.

Sources: German Federal Statistical Office; calculations by IWH.

According to that forecast, for the second half of 2020, a significant increase in bankruptcies should be expected, even if the economy quickly recovers. For 2020, Holtemöller expects a total of 19,037 bankruptcies. Therefore, a further 7,611 bankruptcies would be added to the reported 11,426 bankruptcies up to August 2020 if the insolvency dynamic followed the usual economic pattern. The worst-hit sectors of the economy in absolute terms would be manufacturing industry, the construction industry, retail, transportation and storage, the hospitality industry and the business services sector (see table).

However, the current exception rules and fiscal support programmes are dampening the bankruptcy dynamic. The actual bankruptcy figures in 2020 are thus likely to be lower than forecasted here. "Some firms may succeed in adapting to the new circumstances and avoid bankruptcy. However, the exception rules and government transfers will not halt the wave of bankruptcies completely," says Holtemöller.

#### Publication (in German)

Oliver Holtemöller: Unternehmensinsolvenzen in Deutschland im Zuge der Corona-Krise, in: *IWH, Wirtschaft im Wandel*, Jg. 27 (1), 2021.

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