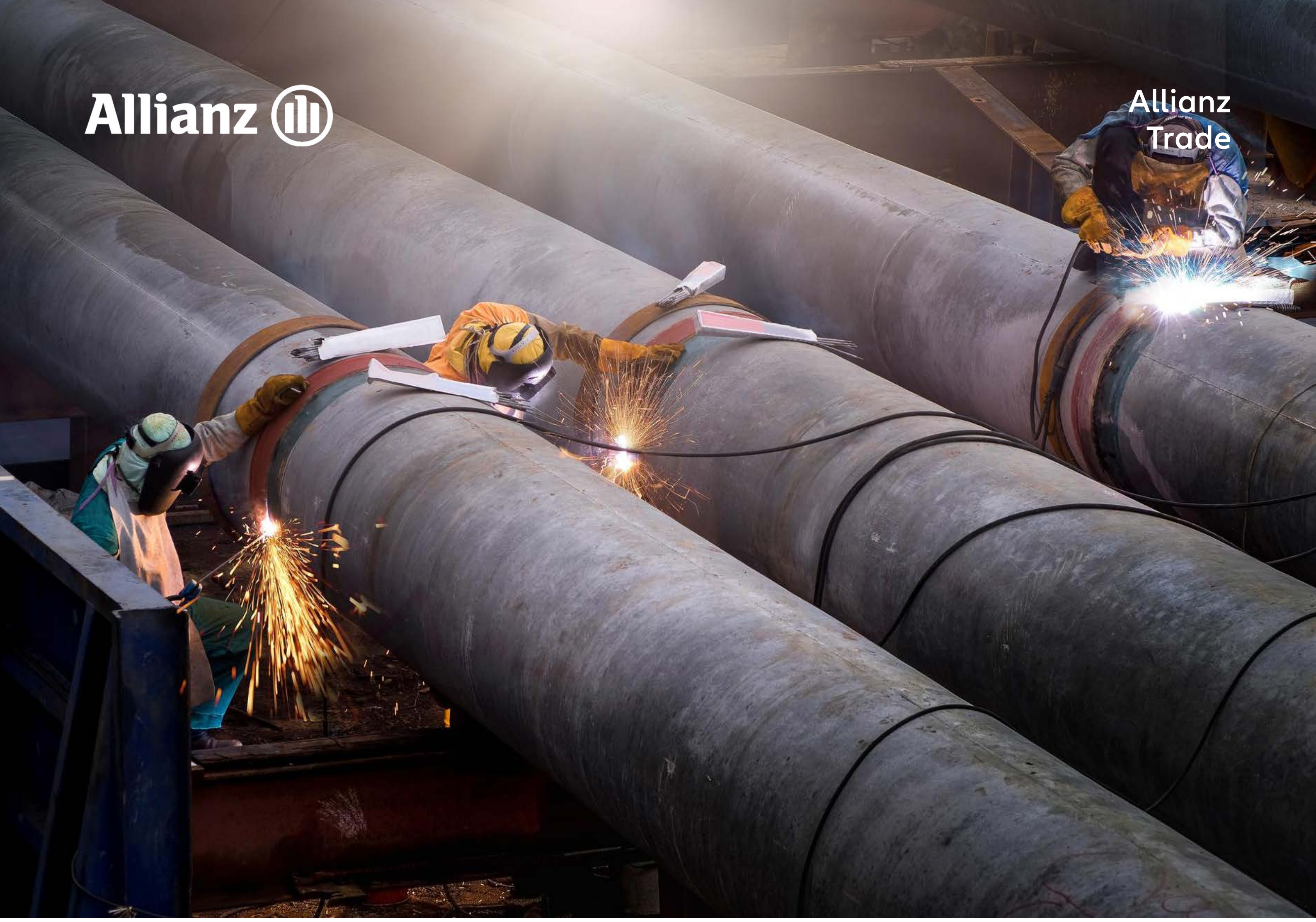

27 October 2022

Allianz Research

Corporate risk is back
Watch out for business insolvencies

Executive Summary

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- **The rebound in business insolvencies is already a reality for most countries, in particular for the top European markets (the UK, France, Spain, the Netherlands, Belgium and Switzerland), which explain two-thirds of the rise.** At a global level, half of the countries we analyze have recorded double-digit increases in business insolvencies in the first half of 2022. However, the US, China, Germany, Italy and Brazil are still registering prolonged low levels of insolvencies. We expect our Global Insolvency Index to accelerate by more than +10% y/y in Q3 from +8% in Q2. Importantly, this normalisation in business insolvencies remains heterogenous across sectors and size of firms. In Europe, we are seeing a rebound in insolvencies in slightly less than 60% of the industries[1], with a return to pre-pandemic levels most often in food/accommodation, manufacturing, and B2C services. At the same time, the global rebound comes mainly from the insolvencies of small corporates, confirmed by the moderate number of major insolvencies[2] (58 cases in Q3 2022 and 182 over the first three quarters, compared to 187 and 332 for the same period of 2021 and 2020).

- **Looking ahead, the high energy bill will remain the largest profitability shock, in particular for European countries.** At current levels, energy prices would wipe out the profits of most non-financial corporates as pricing power is diminishing amid slowing demand. If firms can pass one quarter of energy-price increases to customers, they can withstand a price increase of below +50% and +40% in Germany and France, respectively. Given the nature of the current crisis, governments have chosen to use more cash-based measures to offset the war-induced rise in energy prices. Indeed, for both political and economic reasons (high corporate leverage amid an environment of rising interest rates), promoting corporate leverage to face the crisis could prove to be a policy mistake. Thus, the share of fragile SMEs in the UK, France and Germany is stabilized at respectively 17% of the total, 13% and 6%, or close to 42,000 firms in the UK, 28,400 in Germany and more than 18,700 in France. This means that on average governments will "save" more than 4,500 SMEs.

[1] An industry is defined as a given sector in a given country based, for Europe, on the list of eight sectors (industry, construction, trade, transportation/storage, food/accommodation, information/communication, finance/BtoB activities, education/health/social activities) and 20 countries (Belgium, Bulgaria, Denmark, Germany, Estonia, France, Italy, Latvia Lithuania, Luxembourg, Hungary, Netherlands, Norway, Poland, Portugal, Romania, Slovenia, Slovakia, Spain, UK).

[2] Firms with an annual turnover exceeding EUR50mn, based on the reporting of Allianz Trade business units.

- **The interest rate shock is looming in the first half of 2023, alongside the acceleration in wages. In Europe, this is likely to be equivalent to the Covid-19 profitability shock of -4pps.** As expected, high cash balances for corporates (still 43% above pre-Covid-19 levels in the US, +36% in the UK and +32% in the Eurozone) have provided a significant buffer against the monetary policy normalization in 2022, but the worst is still to come. We forecast that the upcoming rises in key rates in the US, UK and the Eurozone should increase average interest rates for corporates by an additional 200bps by mid-2023, which in turn will cut margins by -1.5pp in the US, -2.2pps in the UK and more than -3pps in the Eurozone countries. Italy, Spain and France are most at risk. Nevertheless, a strong liquidity squeeze in the short-run in Europe should be avoided as banks have stepped in to compensate for the bond market (+22% y/y in new loans YTD) and more than 50% of corporate loans increased their maturity to above five years, with less than 20% below one year. The wage bill is slightly higher for Europe's industrial sectors compared to the US. Hence, an increase of 4-5% in 2023 could wipe out between -0.5pp to -1pp of margins on average. Overall, the rise in financing and wage costs in a context of a low economic growth puts construction, transportation, telecom, machinery & equipment, retail, household equipment, electronics, automotive and textiles most at risk.

- **In order to avoid the highest annual increase since 2009, state support is likely to gain pace in Europe if the recession doubles to -2.4% from a stronger energy crisis.** We estimate that the current fiscal support, more targeted and focused on limiting the acceleration in severity rates[3], is reducing the rise in insolvencies by more than -10pps over 2022 and 2023 for all the largest European economies: -12pps in Germany (i.e. 2,600 firms), -13pps in France and Italy (i.e. 6,700 and 1,900 firms respectively), -15pps in the UK (4,300) and -24pps in Spain (2,100). However, if the energy crisis worsens, intensifying the recession ahead, we would expect governments to increase the size of fiscal support measures as business insolvencies would rise by a further +8pps to +25% in 2023 in the EU – the highest annual increase since 2009. To fully absorb the additional shock, fiscal support measures should increase to 5% of GDP on average. However, these big fiscal leaps would be much more constrained amid restrictive monetary policies.

+19%

Forecast for rise in global business insolvencies in 2023.

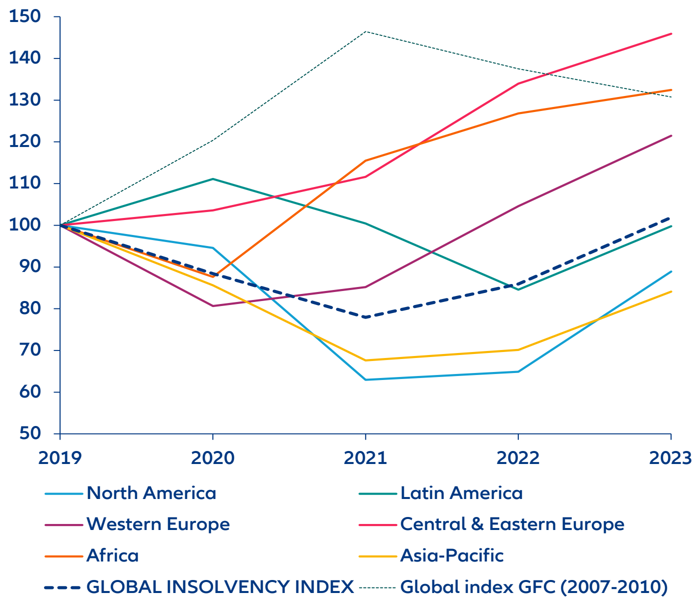
[3] See our report 'Whatever it takes' reloaded? Europe's fiscal response to the energy crisis

2%

Above pre-pandemic level in 2023 globally.

- **Overall, after two years of declines, we expect a broad-based acceleration in business insolvencies (+10% in 2022 and +19% in 2023 at a global level).** In Western Europe, our insolvency regime-change model, which leverages thousands of macro-financial data series using machine learning, indicates that insolvencies should grow by more than +10% for both France and the UK in 2022, while they could decrease by over -10% in Italy, with no major uptick in Germany. We expect insolvencies to exceed 53,000 cases in France in 2023 (+29% from +46% in 2022), 27,000 cases in the UK (+51% and +10% respectively), 17,000 cases in Germany (+5% and +17% respectively) and 10,900 cases in Italy (-6% and +36%). The region should exceed its pre-pandemic level of business insolvencies as soon as 2022 (by +5%) despite mixed dynamics. In Asia, China is expected to register +15% more insolvencies in 2023 on the back of low growth and limited impact from the monetary and fiscal easing. In the US, we expect an increase of +38% in business insolvencies in 2023 as a result of tighter monetary and financial conditions, which will mean a return to more than 20,000 insolvencies per year.

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



Source: Allianz Research

Figure 2a: Insolvency indices by region, contribution to yearly change in global insolvency index

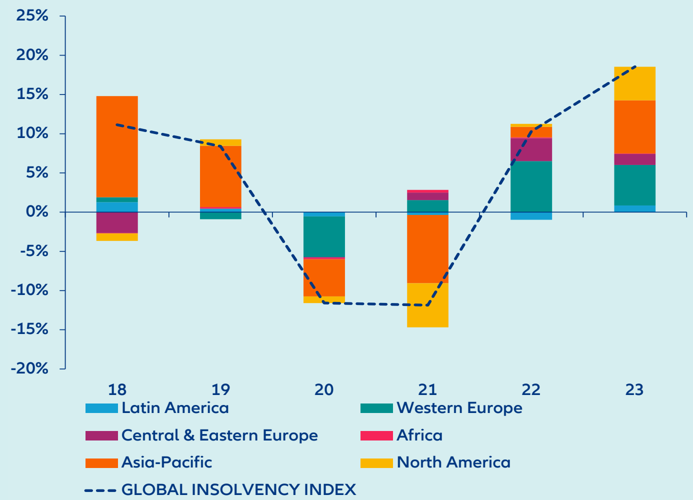
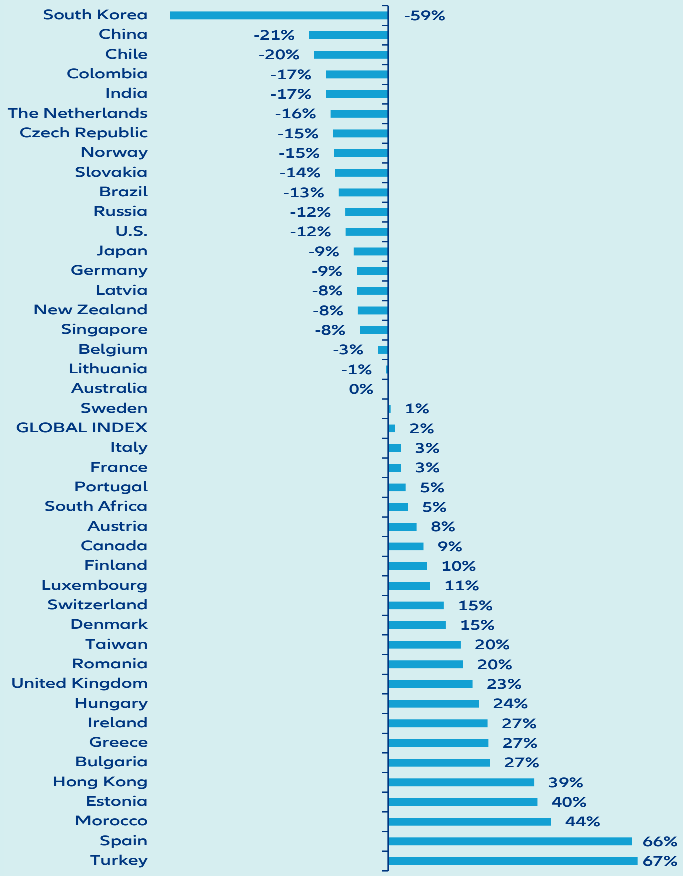


Figure 2b: 2023f level compared to 2019 level by country



Source: Allianz Research

The rebound in business insolvencies is already a reality

As expected, the rebound in business insolvencies is already a reality for most countries in 2022. After two years of declines globally, the latest infra-annual figures for 2022 (see Figure 3 and Table 1) confirm that the rebound in business insolvencies has already intensified for a growing number of advanced economies and emerging markets since the start of the year. Hence, in Q2 2022, our Global Insolvency Index[1] posted its first quarterly increase since 2020 (+8% y/y) and is now close to reaching a double-digit acceleration as soon as Q3. This upside trend was expected[5], given the gradual ending of (Covid-19 related) temporary support measures. The growing liquidity needs as a consequence of inflated working capital requirements, coupled with less fiscal support, have been visible in the first half of 2022 as loans to corporates have increased by more than +20% y/y since the start of the year in the Eurozone. Secondly, the spillover effects of the war in Ukraine, mainly through the spike in commodity prices, and the various episodes of lockdowns in China, have kept pressures on input prices high.

[4] Covering 44 countries that account for 87% of global GDP in 2021, see statistical appendix

[5] See our previous Global Insolvency Report: Growing risks and uneven state support

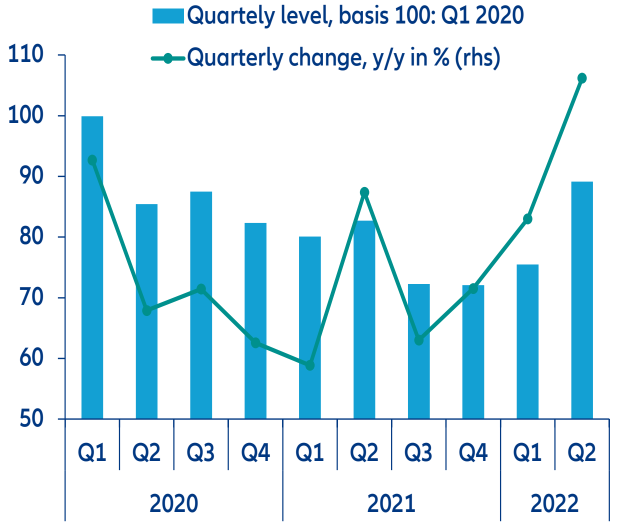
Almost half of the countries we analyse already recorded double-digit rises in business insolvencies for the first part of 2022. In Asia, this is the case for India (+64% YTD as of June), Singapore (+42% as of August), Australia (+104% as of September) and Taiwan (+10% as of August). In the Americas, the rebound reached +36% YTD as of August in Canada. In Central and Eastern Europe, the upside trend is driven by the acceleration in Turkey (+69% as of August), as well as in Bulgaria, Romania and the Baltics. In Western Europe, the rebound is led by Austria (+92% YTD as of September), the UK (+70% as of September) and Belgium (+52% as of August), but double-digit increases are also visible in countries such as Denmark, France, Ireland, Norway, Spain and Switzerland.

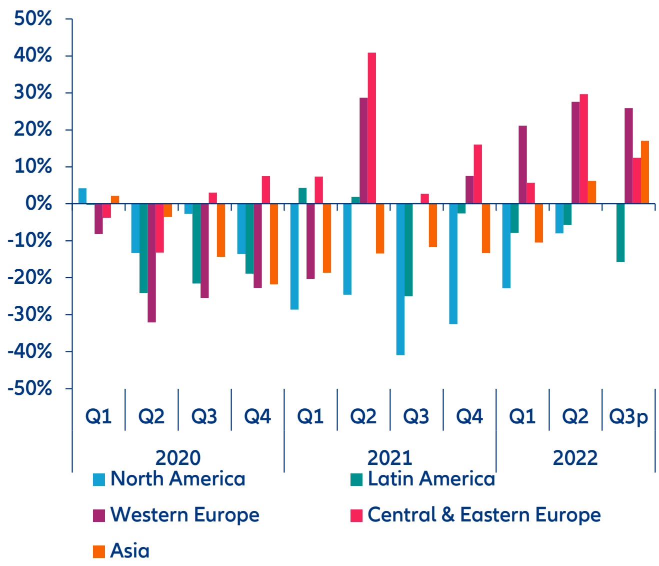
At the same time, slightly more than one-third of countries are still recording prolonged low levels in insolvencies, notably the US (-19% YTD as of Q2), China (-12% as of September) and Germany (-4% as of July). Each region has some countries continuing to record low levels of insolvencies such as Italy, Portugal and Sweden for Western Europe; Czech Republic and Russia in Central & Eastern Europe — with Russia impacted by the introduction of the moratorium starting from April; South Korea, Hong-Kong and New Zealand in Asia and Brazil, Chile and Colombia in the Americas.

Overall, Western Europe stands out as the region with the largest rebound in insolvencies in the first half of 2022 (+24% y/y), ahead of Central and Eastern Europe (+18% y/y). The other regions remained on the downside (-16% for North America, -6% for Latin America and -4% for Asia) despite a softer decline in Q2 in North America (-8% y/y from -23% y/y in Q1) and in Latin America (-6% y/y from -8% y/y in Q1), and a rebound in Asia (+6% y/y from -10% y/y in Q1).

At this stage, despite the signs of normalization, most countries are still recording business insolvencies below pre-pandemic levels. Based on the latest YTD figures, one out of four countries is already back to or above its number of insolvencies for the same period of 2019. Two of the markets are in Asia — Taiwan and Hong Kong — while four are in Western Europe — Spain, the UK, Switzerland and Denmark, with Finland on the borderline to join the list. But Central and Eastern Europe is the key contributor, with half of the countries of the region recording business insolvencies above 2019 levels (Turkey, Poland, Czechia, Romania and Bulgaria) – with the exception of Russia, Slovakia and the Baltics.

Figure 3: Global (left) and regional (right) insolvency index, quarterly change, y/y in %





(p) provisional figure (reporting countries, last three months available, excluding North America due to the lag in reporting for the US)
Source: Allianz Research

Table 1: Business insolvencies – 2022 figures available as of mid-October in America/Western Europe (left) and central Europe/Asia/Africa (right)

Country	As of	Last point (y/y change in %) Last m	Last 3m	Last 6m	Last 12m	Ytd vs 2021	Ytd vs 2019
U.S.	2022 Q2	-	-11%	-20%	-31%	-19%	-44%
Canada	08-2022	63%	50%	38%	24%	36%	-14%
Brazil	08-2022	-9%	-15%	-3%	-4%	-3%	-30%
Chile	08-2022	-34%	-32%	-32%	-37%	-33%	-37%
Germany	07-2022	-4%	1%	-4%	-3%	-4%	-27%
France	09-2022	59%	66%	57%	34%	49%	-22%
United Kingdom	09-2022	18%	39%	55%	66%	70%	21%
Italy	08-2022	-22%	-17%	-19%	-19%	-19%	-32%
Spain	09-2022	90%	48%	17%	7%	11%	48%
The Netherlands	09-2022	20%	25%	13%	0%	8%	-49%
Switzerland	08-2022	30%	33%	36%	28%	37%	11%
Sweden	09-2022	12%	2%	-1%	-3%	-4%	-16%
Norway	08-2022	48%	23%	11%	-1%	11%	-29%
Belgium	08-2022	20%	47%	54%	37%	52%	-15%
Austria	2022 Q3	-	55%	83%	103%	92%	-9%
Denmark	09-2022	40%	54%	49%	25%	28%	4%
Finland	2022 Q3	-	33%	17%	18%	8%	8%
Portugal	08-2022	-3%	-4%	-14%	-13%	-14%	-24%
Ireland	09-2022	-	15%	54%	19%	36%	-14%

Country	As of	Last point (y/y change in %) Last m	Last 3m	Last 6m	Last 12m	Ytd vs 2021	Ytd vs 2019
Russia	09-2022	-24%	-18%	-7%	2%	-2%	-22%
Turkey	08-2022	24%	61%	85%	49%	69%	69%
Poland	09-2022	61%	44%	15%	8%	5%	129%
Czech Republic	06-2022	-	-14%	-14%	-11%	-14%	9%
Romania	08-2022	13%	11%	8%	10%	11%	8%
Slovakia	09-2022	-2%	-16%	2%	9%	11%	-29%
Bulgaria	08-2022	25%	-2%	3%	3%	7%	9%
Lithuania	06-2022	49%	49%	73%	56%	73%	-32%
Latvia	09-2022	68%	62%	68%	9%	40%	-48%
South Africa	08-2022	45%	19%	3%	-11%	1%	-3%
China	09-2022	14%	1%	-5%	-19%	-12%	-29%
Japan	09-2022	19%	10%	7%	-1%	3%	-25%
India	2022 Q2	-	118%	64%	75%	64%	-5%
Australia	09-2022	104%	89%	53%	41%	46%	-24%
South Korea	08-2022	-18%	-41%	-35%	-38%	-29%	-71%
Taiwan	08-2022	0%	15%	15%	8%	10%	16%
Singapore	08-2022	44%	42%	46%	61%	42%	-14%
Hong Kong	08-2022	52%	25%	-3%	-7%	-3%	12%
New Zealand	08-2022	26%	2%	-6%	-7%	-4%	-19%

Sources: : National sources, Allianz Research

In Europe, transportation, construction, B2C services and to a lesser extent manufacturing are the sectors registering the largest increases in business insolvencies. Only a few countries have registered a rebound in insolvencies spread across sectors: Belgium, France and the UK (see Table 2) – all three being part of the list of countries with the largest drop in insolvencies in 2020/2021. In the first half of 2022, for the majority of European countries, business insolvencies started to recover in only two to three out of the eight large sectors representing the overall economy, with transportation/storage as the sector most concerned in terms of number of countries, ahead of construction, B2C services and to a lesser extent manufacturing. At the same time, half of the countries were still recording y/y decreases in insolvencies in trade and food/accommodation, with two other sectors still relatively spared: information/communication and the large bloc compiling finance, real estate and B2B services. In this highly heterogeneous context, we witnessed an overall rebound in insolvencies in slightly less than 60% of the industries[6] in Europe, with a return to pre-pandemic levels for 23% of them – the latter mostly in Western Europe, in particular in Spain, Belgium and the UK.

[6] An industry is defined as a given sector in a given country among the list of 8 sectors (industry, construction, trade, transportation/storage, food/accommodation, information/communication, finance/BtoB activities, education/health/social activities) and 20 countries (Belgium, Bulgaria, Denmark, Germany, Estonia, France, Italy, Latvia Lithuania, Luxembourg, Hungary, Netherlands, Norway, Poland, Portugal, Romania, Slovenia, Slovakia, Spain, UK).

Table 2: Europe: Business insolvencies by sector, H1-2022, y/y change in % (selected countries)

	Industry, construction and market services	Industry	Construction	Trade	Transportation & storage	Accommodation & food service activities	Information & communication	Finance/insurance, real estate, BtoB activities/services	Education, human health and social work activities
EU	-2	-7	6	-1	10	-13	0	-4	-9
EZ	3	0	7	8	15	-10	0	1	-5
Belgium	60	89	33	92	87	51	60	49	63
Bulgaria	21	49	6	18	3	76	19	27	13
Denmark	-17	-11	-7	-11	-10	-24	-14	-23	-9
Estonia	-12	117	-10	-60	-50	-56	-50	23	50
France	44	55	29	48	51	98	40	23	56
Germany	-4	-1	8	-7	9	-24	-13	-2	-15
Hungary	-2	-4	7	-3	2	-27	44	-8	-11
Italy	-19	-21	-19	-21	-18	-5	-31	-15	-32
Latvia	23	100	109	-24	100	80	-25	-9	200
Lithuania	73	29	144	108	19	85	150	49	0
Luxembourg	-20	60	-21	-27	8	12	-22	-33	18
Netherlands	2	50	-1	6	-13	-23	-15	-8	64
Norway	4	17	5	3	-6	4	-8	3	19
Poland	-20	-27	25	-37	17	-60	43	-26	-50
Portugal	-21	-22	-8	-29	45	-23	-21	-19	-36
Romania	-65	-75	-50	-70	-53	-50	-67	-70	-60
Slovakia	-7	-4	-8	-17	-19	-19	-20	4	14
Slovenia	-7	-33	5	-17	35	-26	7	-3	47
Spain	6	-9	33	23	26	-19	7	2	-9
UK	96	106	111	120	97	81	66	77	105

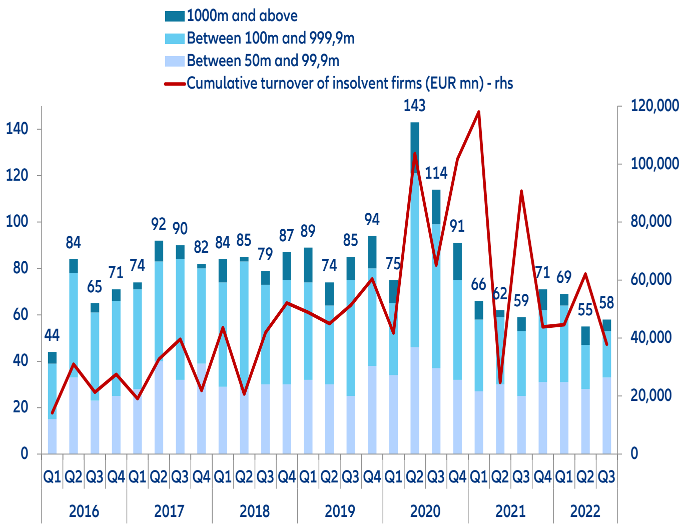
Sources: National sources, Eurostat, Allianz Research

Smaller firms are being squeezed the most.

France is one example where we clearly find the lower the size of turnover, the larger the rebound in insolvencies[7] as smaller firms have less financial buffers and find it harder to access financing. At the global level, this is demonstrated by the prolonged low level of major insolvencies[8] , with 58 cases in Q3 2022 (see Figure 4), and 182 over the first three quarters, compared to 187 and 332 for the same period of 2021 and 2020, respectively.

Nevertheless, we do continue to see the insolvencies of major firms, which always implies a long list of suppliers. These major firms include three types of companies: (i) Companies that were already fragile before the pandemic but failed to survive the discontinuation of the support measures that kept them alive temporarily. (ii) Companies that have not succeeded in adapting their business models to the structural changes created or intensified by the pandemic. (iii) Companies more directly – and too quickly – exposed to the spillover effects of the invasion of Ukraine on the economic and financial cycle. Looking at the first three quarters of 2022, several sectors stand out with an increase in major failures compared to 2021, notably construction (+18 cases to 45 insolvencies), machinery & equipment (+9 to 14 cases), energy (+3 to 16), electronics (+3) and paper (+2).

Figure 4: Major insolvencies*, quarterly number by size of turnover in EURmn



Source: Allianz Research

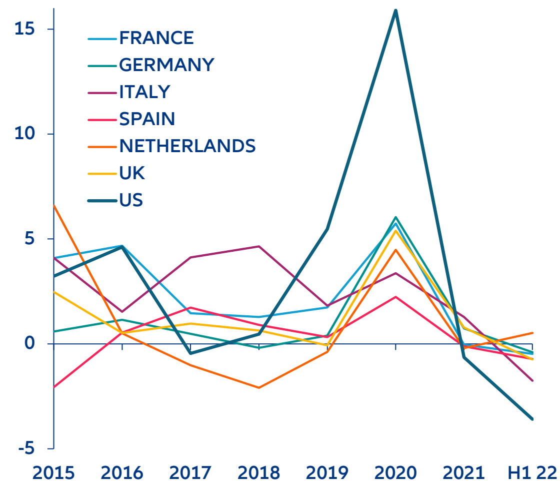
[7] As of September 2022, business insolvencies are up +52% y/y for firms with turnover below EUR500k, +33% y/y for firms with a turnover comprised between EUR500k and EUR2m, +32% between EUR2mn and EUR5mn, +23% between EUR5mn and EUR15mn and +9% for firms with a turnover exceeding EUR15mn.

[8] Firms with an annual turnover exceeding EUR50mn, based on the reporting of Allianz Trade business units.

Energy will be the largest profitability shock

The switch to a trifecta of a mild recession in advanced economies and low growth in the emerging markets; higher inflation and higher rates[1] has increased corporate risks, mainly in the construction, transportation, telecom, machinery & equipment, retail, household equipment, electronics, automotive and textiles sectors. We expect the weakening outlook in demand, the prolonged production constraints (energy and input prices, labor shortages and not yet normalized supply chains) and larger financing issues (access and cost) to weigh on both the profitability and liquidity of non-financial corporates. Previous signs of resilience have already started to weaken and indicate uneven vulnerabilities. The countries and sectors most exposed are those that are cyclical (global slowdown), energy-intensive (energy crisis), lower-rated and highly leveraged (rising interest rates), commodity importers and those dependent on the US for their imports (strong dollar).

Figure 5: Cash-burning index, by country



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

[9] See our latest global economic scenario Lights out! Energy crisis, policy mistakes and uncertainty

[10] See also our report Double trouble? Inflation means less cash and more debt for companies

Profitability is under increasing pressure. The Q2 earnings season already signalled that profitability was weakening for listed firms in advanced economies, even as revenue remained stable. National accounts confirm this, showing that average operating profits dropped from +13% in 2021 to +6% y/y in Q2 the Eurozone, and from +25% to 6% in the US, respectively – pushing the gross operating margin down to 39% in the Eurozone (41% in 2021) and the net operating margin down to 20.7% in the US (21.1% in 2021). Looking ahead, listed firms' guidance from the Q2 earnings season indicates fading momentum in both Q3 and Q4, especially in the US.

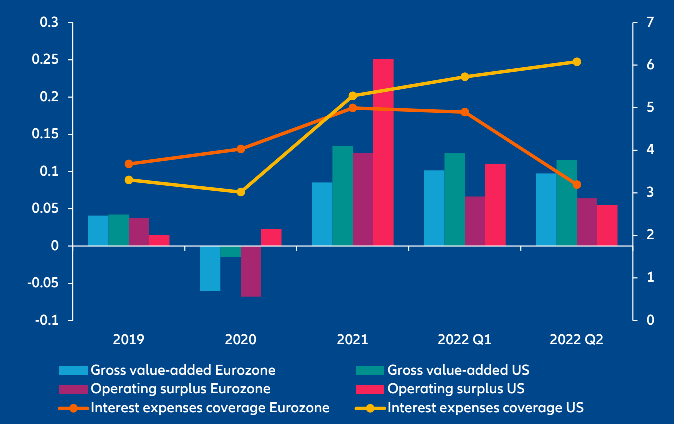
High cash balances provided a significant buffer against the monetary policy normalization in 2022, but the worst is still to come. Even as cash holdings of non-financial corporates remained high in the first half of 2022 (EUR3,508bn in the Eurozone, USD2,167bn in the US, as of Q2), they have dropped noticeably in the US and remain highly concentrated in the hands of the largest listed firms[2]. More importantly, part of the increase in cash reflects an increase in new bank loans taken out either proactively or defensively to face the impact of the surge in inventories and higher input prices on working capital requirements[12]. De facto, changes in net cash positions[13] over the first part of the year are pointing to a drop in the US (-9% y/y as of June) and a broadly stable dynamic in the Eurozone (+9% y/y as of August) and the UK (+5%), with much lower momentum compared to 2020 (respectively +20% and +33%). In this context, the increase in economic activity has not only started to generate a smaller increase in cash positions, but cash depletion is already ongoing, as suggested by our cash-burning index, which turned negative in the first half of 2022 for several European countries and more significantly the US (see Figure 5).

Looking ahead, the rise in NFC financial debt to new records in absolute terms, combined with the global tightening of financial conditions, are set to intensify interest expenses and to add to companies' costs. This poses a risk to lower-rated and highly leveraged firms. The interest expenses coverage already posted a noticeable drop in the Eurozone over the last quarters, down from 5.6 in Q3 2021 to 3.2 in Q2 2022, as well as in several US sectors (plastics and rubber, wood, automotive, transportation and textiles).

We forecast that the upcoming rises in key rates in the US, UK and the Eurozone should increase average interest rates for corporates by an additional 200bps by mid-2023, which in turn will cut firms' margins by -1.5pp in the US, -2.2pps in the UK and more than -3pps in the Eurozone countries. Italy, Spain and France are most at risk (see Figure 7). Nevertheless, a strong liquidity squeeze in the short-run in Europe should be avoided as banks have stepped in to compensate for the bond market (+22% y/y in new loans YTD). In addition, more than 50% of corporate loans increased their maturity to above five years, with less than 20% below one year.

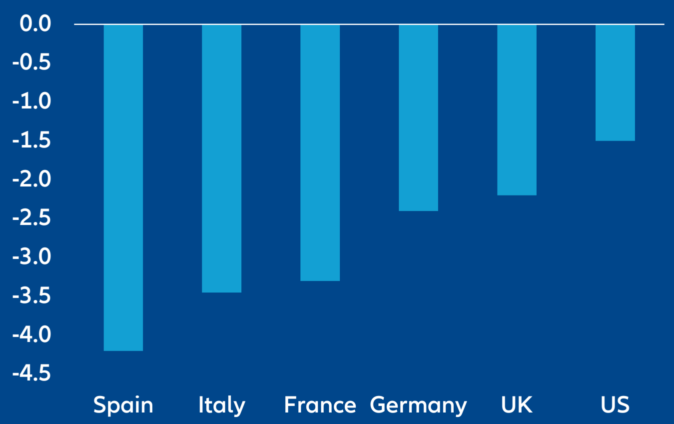
Looking at wages, the bill is slightly higher for Europe's industrial sectors compared to the US. Hence, an increase in wages of 4-5% in 2023 should wipe out between -0.5pp to -1pp of margins on average.

Figure 6: Gross-value added, operating profits and interest expenses coverage in Eurozone and the US



Sources: Eikon Refinitiv, Allianz Research

Figure 7: Loss in margin taking into account the pass-through of rising interest rates (+200bp), in pp of value-added



Sources: Eikon Refinitiv, Allianz Research

[11] However, as of Q2, non-listed firms were hoarding 55% of NFC cash in the UK and France, 56% in Germany, 68% in Italy, 71% in Spain, 76% in Belgium and 78% in the Netherlands.

[12] See our report Double trouble? Inflation means less cash and more debt for companies

Without a price cap on energy, non-financial corporates would not be able to avoid losses as the rise in energy prices would have pushed their intermediate consumption up by more than +70%, notably as their pricing power is diminishing with demand slowing down fast. We calculate that the maximum rise that firms in Germany and France could sustain without EBITDA losses, if they can pass around one fourth of the rise in energy prices to the final customer, is +50% and +40%, respectively. Hence, a price cap was needed to avoid a strong wave of insolvencies. Note that there is heterogeneity among sectors and that European firms were already more vulnerable than their US competition. For instance, a doubling of the energy bill for Eurozone airlines or retail firms from 2021 levels would wipe out all profits – if not compensated by an increase in revenues. Such a situation could be particularly worrying in the absence of policy support as spot electricity prices in Europe have been multiplied by 2.5 compared to the 2021 average. Looking at France more precisely, we find that, excluding micro-enterprises for which the price caps apply, at least EUR9bn of losses are at stake for more than 7000 firms in the four sectors for which current wholesale electricity prices are above our estimated breakeven price, namely paper, metals, machinery and equipment and mining & quarrying. This compares with EUR7bn in Germany and 4000 firms at risk of losses from the rise in the energy bill, mainly in the metals and paper sectors

Our calculations suggest that current fiscal measures do not lead to a boost in profitability for SMEs, which is consistent with the nature of the measures. However, we do notice that they lead to a stabilization in the number of fragile SMEs from 2021 at 17% of the total in Germany, 13% in the UK and 6% in France, or close to 42,000, 28,400 and more than 18,700, respectively, now. This means that on average the fiscal support – which along with energy subsidies includes generous furlough schemes, state-guaranteed loans and in some countries direct grants – will "save" more than 4,500 SMEs.

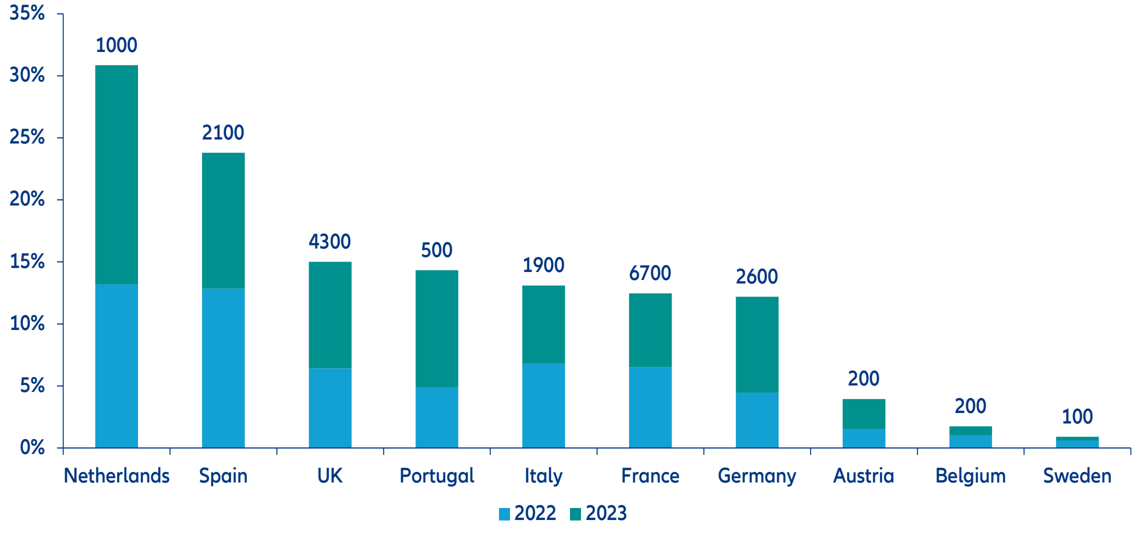
The risks of an acceleration in insolvencies is raising the likelihood of governments extending state support measures, or even introducing new ones. However, we do not expect governments to implement direct support to the same extent as they did quickly and massively after the outbreak of the pandemic in 2019. We expect direct measures to be more targeted and focused on limiting the acceleration in severity rates — and avoiding systemic cases — notably for the energy-intensive (European) sectors. Indirect measures would only limit the process of normalization of business insolvencies. At this stage, we calculate that the overall current fiscal support , which amounts to around half of the Covid-19 packages in most countries, is already noticeably softening the blow on companies, reducing the rise in insolvencies by more than -10pp over 2022 and 2023 for all the largest European economies: -12pp in Germany (i.e 2,600 firms), -13% in France and Italy (i.e. 6,700 and 1,900 firms respectively), -15% in the UK (4,300) and -24% in Spain (2,100).

Figure 8: Share of fragile SMEs in Europe (% of total & number)

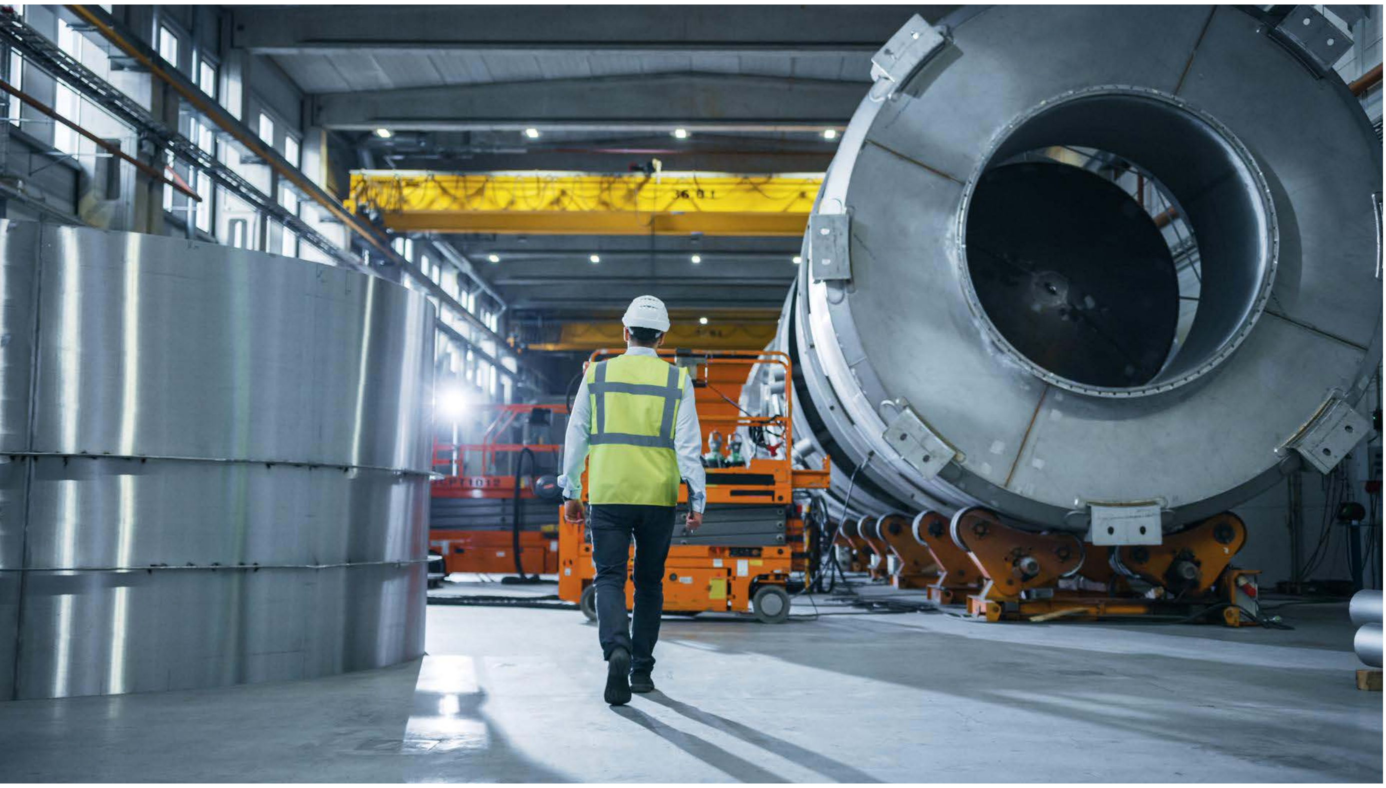
	Share of fragile SME ...in %		...in number		
	without support	with support	without support	with support	Number of SMEs "saved" by the government
UK	20	17	49,240	41,854	7,386
France	14	13	20,105	18,669	1,436
Germany	7	6	33,072	28,348	4,725

Sources: Eikon Refinitiv, Allianz Research

Figure 9: Impact* of fiscal measures on business insolvencies, Europe



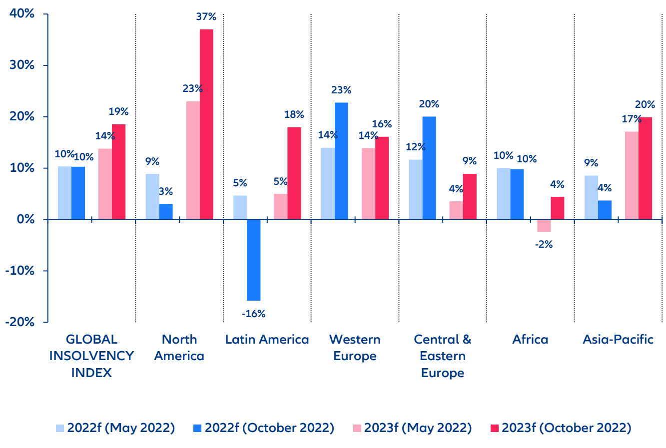
(*) Percentages show the reduction in the rise in business insolvencies per year; absolute figures are the number of insolvencies 'spared' by the reduction in the rise in insolvencies
Source: Allianz Research



One in two countries above pre-pandemic levels in 2023

Overall, we now expect global business insolvencies to rebound by +10% in 2022 and by +19% in 2023 (compared to +10% and 14% expected previously, respectively). The normalization would be broad-based, with all countries to contribute to the upside by 2023, from 25% in 2021 and 84% in 2022.

Figure 10: Global and regional insolvency index, revisions to baseline scenario



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

In **Western Europe**, our insolvency regime-change model[16] indicates that insolvencies should be higher than 10% for both France and UK in 2022, while they should range between 0% and -10% in Germany and decrease by over -10% in Italy. These would suggest no significant change in current dynamics, and especially no major uptick in Germany. In that context, Western Europe is to exceed its pre-pandemic regional level of business insolvencies as soon as 2022 (by 4%) despite mixed dynamics within the region, with Italy posting less insolvencies (-6% y/y), Germany almost stable (+5%), but the UK and France seeing a strong rebound (+51% y/y and +46% y/y, respectively). We expect additional — and often noticeable — increases in all countries in 2023, but to still moderate levels compared to 2019 for several countries, including the large economies of Germany, France and Italy.

In **France,** we foresee insolvencies to increase by +12,000 cases to 53,200 in 2023 and only slightly exceed 2019 levels (+3%) despite a noticeable rebound (+29% y/y). Our baseline scenario is that state support measures will only limit the increase in fragile SMEs, with no objective to reduce the number of non-viable firms but with case-by-case solutions for strategic/systemic firms in order to avoid the domino effect on suppliers. This would continue the normalisation, but additional measures are highly probable if insolvencies were to reach 55,000 too quickly.

[16] 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).

In **Germany,** we expect insolvencies to remain below 2019 levels despite a rebound in 2023 that would reach +17% y/y i.e. +2,450 firms to 17,150 cases. We expect the government to avoid supporting non-viable firms but the massive EUR200bn economic "shield" will limit the impact of the energy crisis on businesses. In addition, we expect the government to remain ready to act in a targeted way, as they did to rescue several most-hit utilities, including by making extra temporary adjustments to restructuring and insolvency laws, and by temporary suspending the obligation to file for insolvency if needed – for instance in case of major extra issues on supply chains in manufacturing.

In **Italy**, the combination of the post-lockdown recovery and the state measures proved to be successful in containing the number of insolvencies well below their pre-pandemic levels, with 7,160 cases in 2020, 8,498 cases in 2021, and around 8,000 cases in 2022 if the rebound expected in Q4 2022 materializes. Indeed, we expect the change in the business environment to kick start the normalisation by the end of 2022 and to lead business insolvencies to rebound significantly in 2023 (+36% y/y) despite the extra support to the economy provided by the government.

In **Spain**, there is a high risk to see new record high levels in insolvencies in both 2022 and 2023. The post-pandemic recovery, the state support and the multiple extensions of the insolvency moratorium did not prevent business insolvencies from rising by +30% y/y in 2021 and by +11% YTD in 2022, as of September. We expect the end of the insolvency moratorium (June 2022) and the new economic shocks to materialize in additional insolvencies, depending on the as yet uncertain impact of the amendments in the insolvency law made recently to facilitate preventive restructuring.

In the **UK**, the rebound in insolvencies should be significant for both 2022 (+51% y/y) and 2023 (+10% y/y). The normalisation quickly started with the phasing-out of support measures in a domestic context made fragile by Brexit-related issues, leading to a bounce-back to pre-pandemic infra-annual levels since end of 2021.

In **Central and Eastern Europe and Africa/Middle East,** business insolvencies are already above their pre-pandemic regional levels. We expect additional increases in 2023 to a new record high, notably due to South Africa, Morocco and Turkey. Russia is at risk of seeing a catch-up after the expiration of the moratorium.

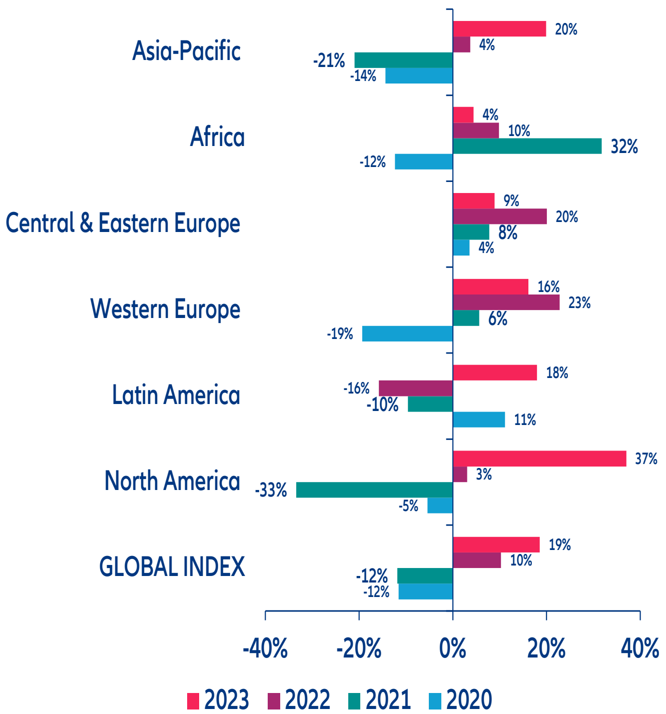
Latin America should not see business insolvencies surpassing pre-Covid-19 levels before 2024 despite a gradual rebound by 2023 in Brazil.

In **Asia**, China is expected to keep its annual level of insolvencies under control in 2022, thanks to a low starting point and despite increased difficulties for companies most exposed to international trade and Covid-19-related restrictions, notably in the construction sector. We expect China to register +15% more insolvencies in 2023 on the back of low growth and limited impact from the monetary and fiscal easing. However, the other countries in the region should see more insolvencies due to the deterioration of the regional and global environment, most often from a low (Australia, Taiwan) or very low level (Japan, South Korea, Hong Kong, New Zealand). India will stand out as it is expected to experience a strong catch-up from the long suspension of courts. Overall, Asia and North America will be the only two regions not back to 2019 levels in insolvencies by 2023, despite seeing an increase in 2023 (+20% y/y and +37%, respectively).

In the **US**, the expected recession and the related (financing) issues should kick start a rebound in insolvencies from the historical lows reached in 2021 (14,290 cases) and about to be prolonged in 2022 (14,570 cases expected). The strong recovery in profits up to mid-2022 and the massive liquidity support coming from the Paycheck Protection Program (PPP) should provide some support in the short term and soften the rebound. At this stage, we expect a return to more than 20,000 insolvencies by 2023, still a pretty low level from a historical perspective, despite a +38% y/y rise. However, the rebound would need to be revised up significantly in case of deeper challenges in the housing market or the financial market.

Overall, we expect less than one out of three countries to see business insolvencies above pre-Covid-19 levels in 2022 (12 countries) and one out of two in 2023 (22 countries).

Figure 11: Global and regional insolvencies indexes, yearly change in %



Source: Allianz Research

Statistical appendix

(*) Index 100: 2000
(**) GDP 2021 weighing at current exchange rates
(***) weighing at 2015 number of active firms per country (OECD and national source figures)
Sources : national figures, Allianz Research (f:forecasts)

	% of World GDP **	% of Global Index	Business insolvencies level					Business insolvencies growth					Comparison with 2019 level		
			2019	2020	2021	2022f	2023f	2019	2020	2021	2022f	2023f	2021	2022	2023
GLOBAL INDEX *	87	100	122	108	95	105	125	8%	-12%	-12%	10%	19%	-22%	-14%	2%
North America Index *	27	31	62	58	39	40	55	3%	-5%	-33%	3%	37%	-37%	-35%	-11%
U.S.	24	28	22,720	21,591	14,290	14,570	20,094	3%	-5%	-34%	2%	38%	-37%	-36%	-12%
Canada	2	2	2,746	2,108	1,942	2,505	3,006	3%	-23%	-8%	29%	20%	-29%	-9%	9%
Latin America Index *	2	3	212	236	213	180	212	12%	11%	-10%	-16%	18%	0%	-15%	0%
Brazil	2	2	2,887	2,078	1,962	2,050	2,500	5%	-28%	-6%	4%	22%	-32%	-29%	-13%
Colombia	0	0	1,272	1,292	1,193	1,230	1,340	2%	2%	-8%	3%	9%	-6%	-3%	5%
Chile	0	0	1,701	1,885	1,506	1,130	1,360	23%	11%	-20%	-25%	20%	-11%	-34%	-20%
Europe Index *	25	29	155	135	143	174	197	1%	-13%	6%	22%	14%	-7%	12%	28%
EU27+UK+Norway Index *	22	26	138	113	120	145	168	2%	-18%	6%	21%	16%	-13%	5%	22%
EU27 Index *	19	22	148	123	131	155	181	2%	-17%	7%	18%	17%	-11%	5%	22%
Euro zone Index *	15	18	147	119	128	154	181	1%	-19%	7%	20%	18%	-13%	5%	23%
Western Europe Index *	21	24	135	109	115	141	164	1%	-19%	6%	23%	16%	-15%	5%	21%
Germany	4	5	18,749	15,840	13,993	14,700	17,150	-3%	-16%	-12%	5%	17%	-25%	-22%	-9%
France	3	4	51,434	31,994	28,191	41,130	53,200	-5%	-38%	-12%	46%	29%	-45%	-20%	3%
United Kingdom	3	4	22,081	15,656	16,309	24,700	27,100	4%	-29%	4%	51%	10%	-26%	12%	23%
Italy	2	3	10,542	7,160	8,498	8,000	10,900	0%	-32%	19%	-6%	36%	-19%	-24%	3%
Spain	2	2	4,162	3,945	5,125	6,200	6,900	6%	-5%	30%	21%	11%	23%	49%	66%
The Netherlands	1	1	3,792	3,177	1,818	2,020	3,200	4%	-16%	-43%	11%	58%	-52%	-47%	-16%
Switzerland	1	1	6,004	4,886	5,123	6,550	6,900	-4%	-19%	5%	28%	5%	-15%	9%	15%
Sweden	1	1	7,358	7,296	6,463	6,650	7,400	2%	-1%	-11%	3%	11%	-12%	-10%	1%
Norway	0	1	5,013	4,101	3,325	3,700	4,280	0%	-18%	-19%	11%	16%	-34%	-26%	-15%
Belgium	1	1	10,598	7,203	6,533	9,200	10,300	7%	-32%	-9%	41%	12%	-38%	-13%	-3%
Austria	1	1	5,018	3,034	3,034	4,800	5,400	1%	-40%	0%	58%	13%	-40%	-4%	8%
Denmark	0	0	2,590	2,221	2,175	2,780	2,990	6%	-14%	-2%	28%	8%	-16%	7%	15%
Finland	0	0	2,989	2,471	2,804	3,100	3,300	1%	-17%	13%	11%	6%	-6%	4%	10%
Greece	0	0	63	57	57	60	80	-23%	-10%	0%	5%	33%	-10%	-5%	27%
Portugal	0	0	2,560	2,464	2,195	2,230	2,680	-5%	-4%	-11%	2%	20%	-14%	-13%	5%
Ireland	1	1	568	575	401	570	720	-26%	1%	-30%	42%	26%	-29%	0%	27%
Luxembourg	0	0	1,236	1,174	1,173	1,250	1,375	7%	-5%	0%	7%	10%	-5%	1%	11%
Central & Eastern Europe Index *	4	5	245	254	274	328	358	1%	4%	8%	20%	9%	12%	34%	46%
Russia	2	2	12,401	9,930	10,319	8,771	10,964	-5%	-20%	4%	-15%	25%	-17%	-29%	-12%
Turkey	1	1	14,050	15,949	17,184	22,500	23,500	3%	14%	8%	31%	4%	22%	60%	67%
Poland	1	1	977	1,293	2,187	2,400	2,650	-1%	32%	69%	10%	10%	124%	146%	171%
Czech Republic	0	0	8,521	7,918	7,028	6,300	7,250	41%	-7%	-11%	-10%	15%	-18%	-26%	-15%
Romania	0	0	6,524	5,694	6,144	7,000	7,840	-21%	-13%	8%	14%	12%	-6%	7%	20%
Hungary	0	0	5,176	4,293	5,005	5,200	6,440	-9%	-17%	17%	4%	24%	-3%	0%	24%
Slovakia	0	0	2,447	1,889	1,692	1,883	2,095	25%	-23%	-10%	11%	11%	-31%	-23%	-14%
Bulgaria	0	0	506	524	527	590	645	6%	4%	1%	12%	9%	4%	17%	27%
Lithuania	0	0	1,609	786	738	1,150	1,600	-23%	-51%	-6%	56%	39%	-54%	-29%	-1%
Latvia	0	0	557	374	241	330	510	-6%	-33%	-36%	37%	55%	-57%	-41%	-8%
Estonia	0	0	271	341	308	360	380	-1%	26%	-10%	17%	6%	14%	33%	40%
Africa Index *	1	1	157	137	181	199	208	31%	-12%	32%	10%	4%	15%	27%	32%
South Africa	0	1	2,042	2,035	1,932	1,980	2,150	11%	0%	-5%	2%	9%	-5%	-3%	5%
Morocco	0	0	8,477	6,620	10,550	11,800	12,200	35%	-22%	59%	12%	3%	24%	39%	44%
Asia-Pacific Index *	32	37	139	119	94	98	117	19%	-14%	-21%	4%	20%	-32%	-30%	-16%
China	18	21	11,826	11,999	8,691	8,100	9,300	12%	1%	-28%	-7%	15%	-27%	-32%	-21%
Japan	5	6	8,385	7,773	6,030	6,350	7,600	2%	-7%	-22%	5%	20%	-28%	-24%	-9%
India	3	4	1,925	737	802	1,120	1,600		-62%	9%	40%	43%	-58%	-42%	-17%
Australia	2	2	6,405	3,582	3,408	5,080	6,400	1%	-44%	-5%	49%	26%	-47%	-21%	0%
South Korea	2	2	414	292	183	155	170	-12%	-29%	-37%	-15%	10%	-56%	-63%	-59%
Taiwan	1	1	205	200	204	225	245	-6%	-2%	2%	10%	9%	0%	10%	20%
Singapore	0	0	287	200	191	245	265	39%	-30%	-5%	28%	8%	-33%	-15%	-8%
Hong Kong	0	0	244	234	299	315	340	-4%	-4%	28%	5%	8%	23%	29%	39%
New Zealand	0	0	1,907	1,619	1,500	1,600	1,750	-11%	-15%	-7%	7%	9%	-21%	-16%	-8%
Global with absolute number of firms	87	100	106	85	80	95	112	1%	-19%	-6%	18%	18%	-24%	-10%	6%
Global with relative number of firms**	87	100	179	163	169	198	224	8%	-9%	3%	18%	13%	-6%	11%	25%

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