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Worldwide Network

ANNUAL REPORT

European Bankruptcy Report – 2023

EUROPEAN BANKRUPTCY REPORT – 2023

Content

Preface

Historically, economic downturns were accompanied by a precipitous increase in business bankruptcies. The COVID-19-induced downturn was an anomaly. Contrary to the widely held expectation that the real-economy freeze prompted by the pandemic would lead to an avalanche of bankruptcies, there were fewer bankruptcies in 2020 and 2021 compared to 2018 and 2019.

Fiscal packages, monetary policy easing, access to low-cost liquidity, and creditors' forbearance kept businesses afloat during COVID-19. That said, there was an underlying understanding that the tide would turn; factors that kept bankruptcies at artificially low levels are no longer in force. In 2022, the number of bankruptcies grew in ~60% of the monitored countries, compared to ~50% in 2021, and ~30% in 2020.

We have observed an increase in credit card spending by small business, signaling the worsening of credit availability through traditional channels. As credit disbursement and standards tighten, small businesses with a longer cash-to-cash cycle may experience significant challenges in cash flow management. Zombie firms, which rely on revolving credit to stay afloat, are likely to be the first to falter.

The global decline in the number of funds raised in 2022 led to a funding winter for businesses in sectors such as technology, finance, and consumer. This situation has been compounded by

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the collapse of large banks in early 2023. Although these recent events may not be the turning point for bankruptcies, uncontained significant collapses could amplify funding constraints, suppress investment, reduce corporate earnings, impair debt servicing capabilities, and eventually culminate in a surge in bankruptcies.

Economic growth will be asymmetric in 2023, posing risks and presenting pockets of opportunity. The impact of the economic cycle will be amplified by the depth of corporate linkages, including suppliers, vendors, and customers, spread across other regions. Even companies operating in countries experiencing economic slowdown may be partially immune if most of their corporate family tree (subsidiaries, joint-ventures, affiliates) is operating in countries experiencing rapid economic expansion and vice versa. Corporate linkages may act as a risk deterrent or amplifier depending on their geographical and sectoral characteristics.

As a result, businesses must quickly recognize that the current economic landscape necessitates a more proactive approach to credit risk mitigation. Getting back to the basics with the 5Cs of credit management – Capacity, Capital, Character, Collateral, and Conditions – is vital during these volatile times. By working with trusted analytics experts, businesses have access to dynamic data that can be used to answer questions such as:

- **What is the business' financial capacity to pay its invoices?**
- **What is the business' present capital structure and how has it changed over time?**
- **Does the business have a track record of paying suppliers on time?**
- **Is there sufficient collateral that can be liquidated in case of bankruptcy, and how favorable are the industry and economic conditions for the business' growth plans?**

In addition to monitoring credit information, businesses also need to consider supply chain linkages to have a comprehensive view of their upstream and downstream risks. Having visibility into the credit risk across the entire global portfolio can help inform treatment strategies and prioritize collections.

Thousands of professionals worldwide rely on Dun & Bradstreet to identify hidden risks in their portfolio, anticipate cash flows in any economic cycle, and gain valuable insights into their pipeline risks. With the global economy in a state of constant flux, it's more important than ever to have access to reliable information that can help you make informed decisions. This report aims to serve as a valuable source of information to assist you in navigating the complex world of credit risk management and maximizing opportunities.

We value your feedback so don't hesitate to get in touch if you have any questions or comments. We can help you achieve your goals and thrive in even the most challenging economic conditions.

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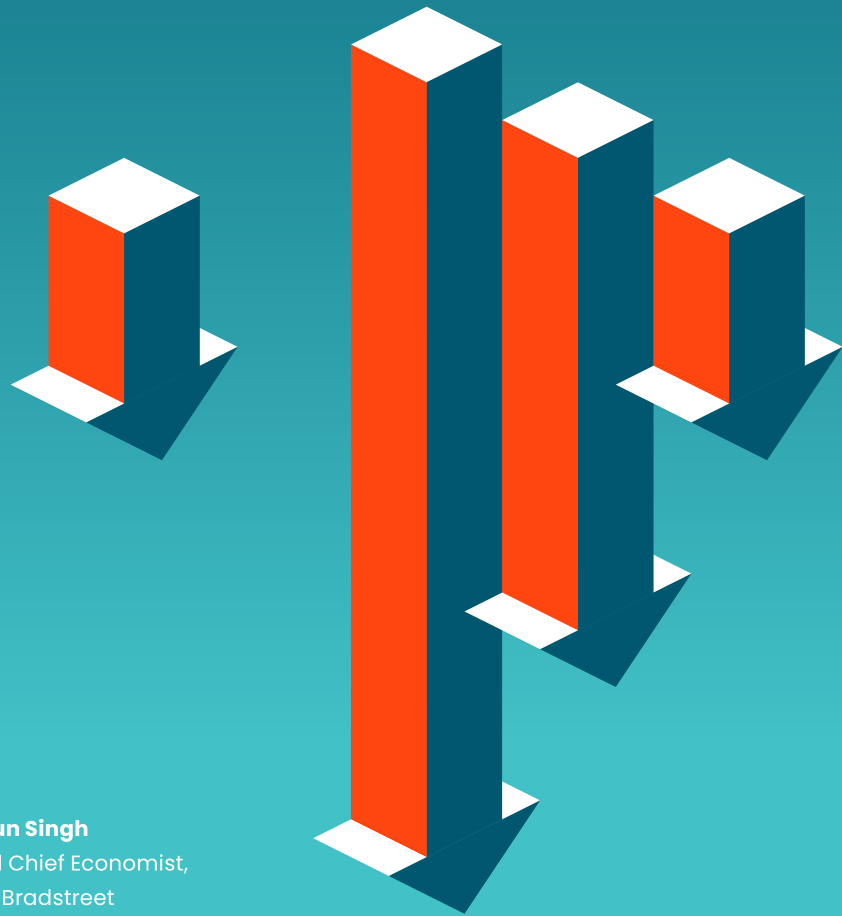
Julian Prower
Chief Operating Officer,
Dun & Bradstreet International

Breaking Point: The Escalating Trend of Bankruptcy Rates



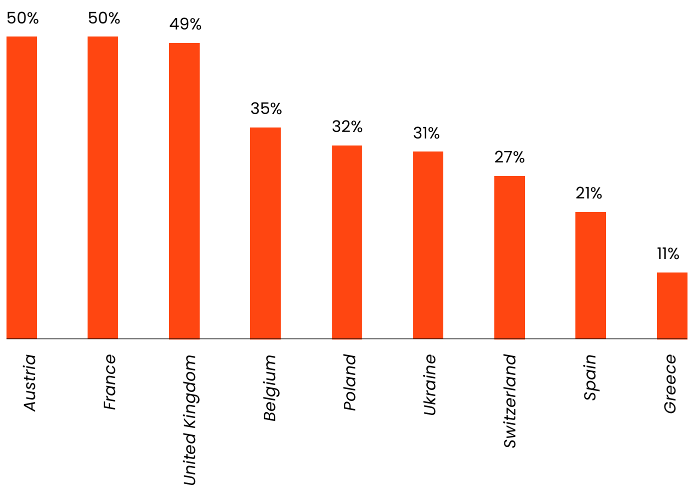
—

Dr. Arun Singh
Global Chief Economist,
Dun & Bradstreet

Nearly three-fifths of the 48 countries monitored by Dun & Bradstreet and its Worldwide Network witnessed an increase in business failures during 2021. Of these, 13 registered the highest bankruptcy filings since the turn of the decade.

In 2022, the global economy was on the mend, but then it was struck by two further shocks: the Russia-Ukraine crisis and monetary policy tightening. The fallout from these events had far-reaching implications that derailed the progress of economic growth and elevated the likelihood of bankruptcy across the board.

Economies that reported a spike in bankruptcies during 2022



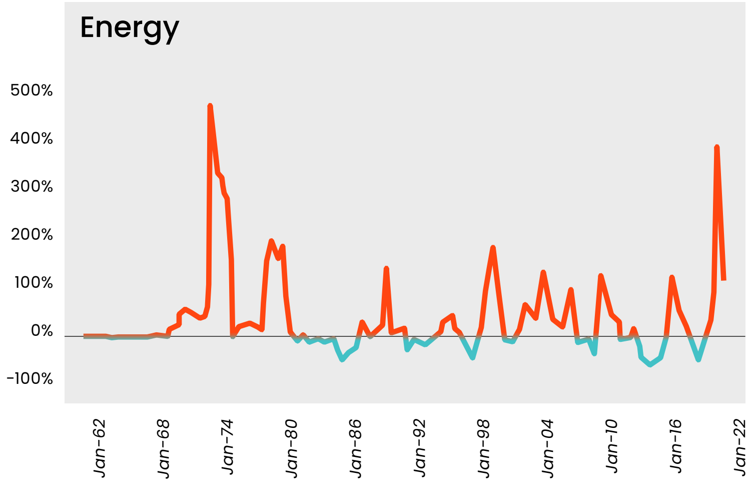
Source: Dun & Bradstreet Worldwide Network

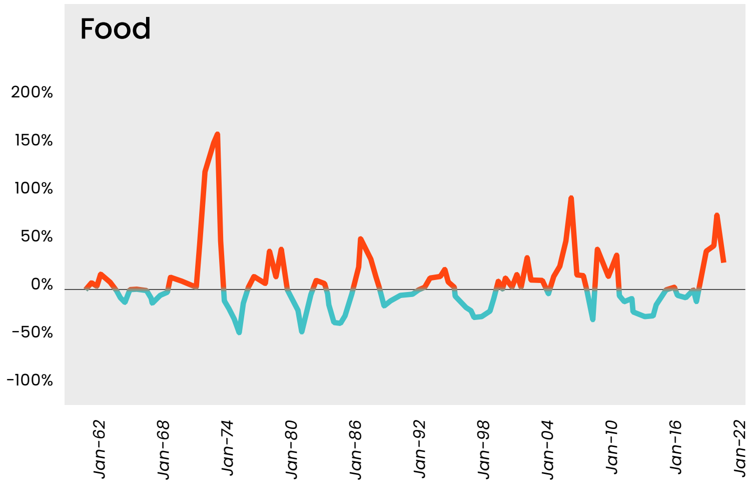
The Bankruptcy Quagmire: Exploring the Cause

Ensuing supply chain disruptions and sanctions on Russia, following its invasion of Ukraine, triggered a massive spike in the prices of energy, food, metals, and minerals. Prices of key commodities such as aluminum, zinc, coal, natural gas, urea, palm oil, soybean oil, soybean meal, maize, and wheat rose to their highest levels ever. As the prices of other key commodities such as brent crude oil, iron, copper, and nickel also increased significantly, the world witnessed a widespread surge in inflation. This unprecedented price escalation persisted across several major countries, spanning from the UK, where it peaked at three decades, France, Spain, and Italy, where it peaked at four decades, to Germany, where it peaked at five.

This was a double whammy for businesses. On one hand, rising input costs hurt the bottom line of businesses, while on the other, the increase in energy and food bills created a cost-of-living crisis for billions of people across the world. As consumers scaled back on discretionary spending, businesses struggled to maintain their revenue streams, thereby impacting their topline as well.

Changes in Commodity Prices (Over a 24-Month Period)





Source: World Bank, Dun & Bradstreet Worldwide Network

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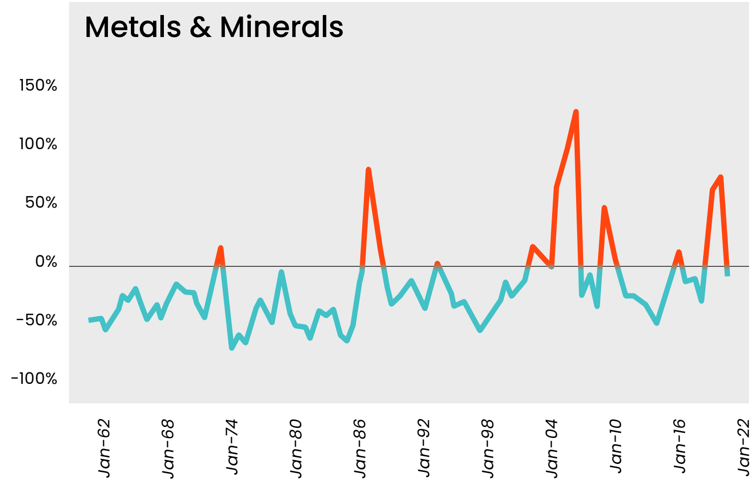
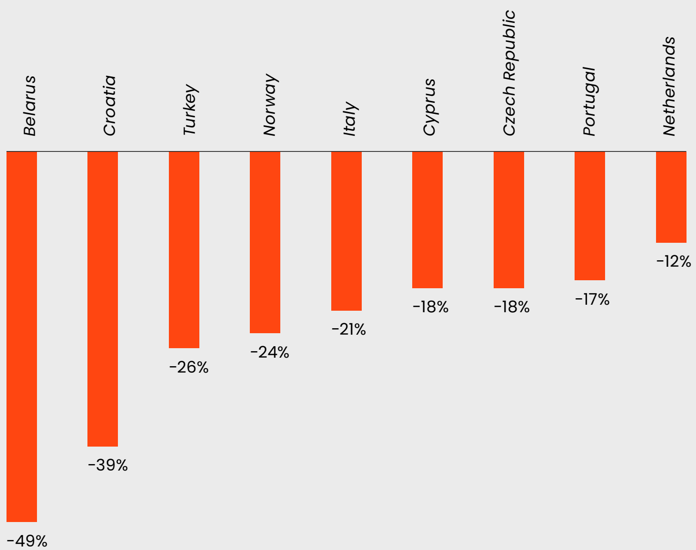


In a bid to curtail inflation, central banks worldwide raced to hike interest rates. A staggering 33 out of the 37 economies tracked by the Bank for International Settlements (BIS) responded by raising their interest rates by an average of 381 basis points (bps) in 2022, propelling the global economy into one of the most internationally synchronous episodes of monetary policy tightening of the past half century. This marked the end of an era of low-cost debt and abundant market liquidity, throwing firms that relied extensively on an accommodative monetary policy to extend their cashflow runway into an uncharted territory. The outstanding amount of total debt securities – which includes the amount borrowed in the domestic and international markets – raised by non-financial corporations declined to US$ 18.13 trillion as of September 2022, an eight-month low. It is worth noting that this amount had surged 18.2% from March 2020 to March 2022, marking a significant uptick from the 6.3% average annual growth rate witnessed over the preceding five years.

The Calm Before the Storm

Some countries loosened their purse strings to help consumers and firms weather the cost- ofliving crisis. For example, Turkey increased its minimum wage by 30% in a midyear adjustment, the Netherlands reduced valueadded taxed on energy from 21% to 9% and announced a one-off energy subsidy of €1,300, while Norway capped electricity bills and covered 90% of power bills above a certain rate.

Economies that reported a decline in bankruptcies during 2022



Source: Dun & Bradstreet Worldwide Network

The Path Ahead: What You Need to Know

Tight global financing conditions reflect the broader economic challenges in the world today and will likely persist until there is a sustained recovery in global economic growth. Given the persistently high levels of inflation, it is expected that nominal interest rates will continue to remain elevated in the near term. Higher borrowing costs, coupled with low market liquidity, could pose significant challenges in cash flow management.

The recent turmoil in the banking sector could make it challenging and more expensive for banks to access nondeposit funding. Small and midsized banks could be subjected to stricter regulatory scrutiny, which may limit their risk-taking and operating margins. The upshot of all this is that we may see more bank failures in the months to come. It is worth highlighting that more banks folded up in 2009 and 2010 – two years after the fall of Washington Mutual and Lehman Brothers – than in 2008 at the peak of the Global Financial Crisis.
Energy prices are expected to remain high and be influenced by geopolitical events, impacting businesses, particularly those in Europe. Diminished pricing power and rising energy costs will cause significant financial strain in Europe. Dun & Bradstreet’s analysis shows that there are over 3.4 million entities across 18 sectors and 18 European countries with medium to high levels of energy intensity.
The level of bankruptcies will differ with sectors and countries. The hospitality and transportation industries are already showing signs of stress, and more industries may follow suit. Accelerating wages also pose a big risk to the bottom line of firms. Without a concurrent increase in productivity levels, the increase in wage price will wipe off profits for several small and midsized businesses. These factors will likely fuel a widespread surge in bankruptcy cases in 2023.

Key Takeaways

Bankruptcies, as defined by Dun & Bradstreet and its Worldwide Network Partners, increased in more than half of the economies monitored in 2022, compared with 2021. A reverse of what was observed in 2021 vs. 2020, when almost half of the monitored economies had shown a decline. An outcome indicated in Dun & Bradstreet's 2021 Global Bankruptcy Report.

Businesses are facing different challenges in 2023, post withdrawal of pandemic-related government/ regulatory support, as well as due to tight monetary policy across economies amid inflationary pressures and stricter credit environment, over and above the higher cost of living and operating expenses.

2023 could be the year of reckoning for business bankruptcies, due to stricter credit standards (even more so after the SVB and Credit Suisse crises).

The draught of liquidity from debt markets, constriction of fiscal packages, tight monetary policy and general economic slowdown could add to the liquidity pressures.

Out of 48 monitored markets, 14 reported higher than 10% year on year increase in bankruptcies in 2022.

20 monitored economies reported the highest level of bankruptcy in 2022 in the 3-year period (2020-2022), whereas 12 economies witnessed consistent decline in bankruptcies from 2020.

Out of 132 countries covered by D&B Country Risk Ratings in December 2022, 68 were categorised RED and 54 AMBER risk rating bands whereas in December 2021, only 63 were rated in RED and 50 AMBER risk categories, depicting an overall increase in risks at country level in the last year.

Bankruptcies alone cannot reflect credit and supply chain risks as accurately as a source of business intelligence during the pandemic, making actionable firm-level insights and monitoring more crucial.

Global bankruptcies increased

10.8%

in 2022 vs.

0.6%

in 2021.

Bankruptices in Austria, France, and the UK increased about

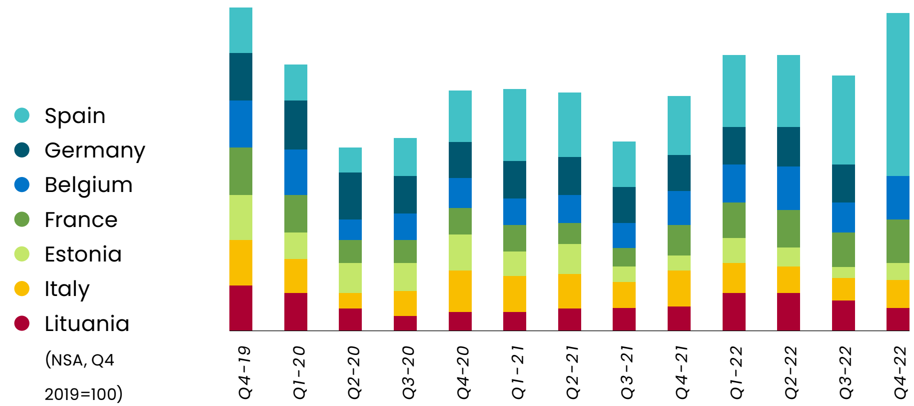
50%

in 2022 vs. 2021.

Business Failures and Context in Europe

In Q4 2022, bankruptcies in Europe reached their highest level since 2015, though there was no significant homogeneity in this trend across the region.

Bankruptcies in the Europe – select countries
(Q4 2019=100)



Bankruptcies in Spain, for instance, have been increasing steadily since Q1 2022 and grew massively in Q3 2022 (186% higher than in Q4 2019) and Q4 2022 (350% higher than in Q4 2019). This is starkly different than what was observed in some other major European economies (e.g., Italy, Germany, and France), where bankruptcies are still significantly below the pre-pandemic levels (and have been throughout 2020, 2021, and 2022). Among large European countries, Spain and the UK seem the only two where bankruptcies are on an upward trend, which could be strengthened by recent inflation and growth developments in Europe.

February Eurostat flash estimates show that headline inflation in the Eurozone is still strong (8.5%, unchanged from January). Moreover, core inflation accelerated, with inflationary pressure being higher in most basket items, implying that inflation might become more engrained. On top of roaring core inflation, the risk of a wage-price is still high, leading the ECB on a hiking trajectory that could bring interest rates to 4-4.5%.

Business Failures and Context in France

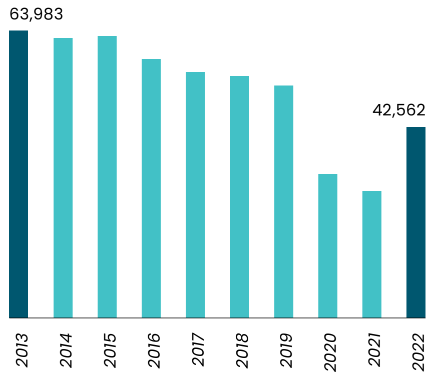
Bankruptcies in France are rising as the government has revoked the protection measures implemented during COVID-19 pandemic and as the slowdown concerns mount. This is pushing many small and medium enterprises in energy-intensive industries towards insolvency. Higher cost of credit and weak market demands are also forcing incompetitive firms towards insolvencies.

In France, corporate bankruptcies grew 49.9% in 2022 with rapid escalation observed in Q4 2022. Post the outbreak of COVID, a total of 103k firms have defaulted in France. The rate of default could have been higher in the absence of extensive government support on COVID-19 protection and subsequently on energy price.

Along with recessionary pressures and rising interest rates, the escalating energy prices were primarily responsible for rising bankruptcies. This also exposed the underlying economic fragility.

A total of 3,214 proceedings were opened in 2022, and the cases of bankruptcies were significantly higher (+78%) among SMEs with fewer than 100 employees. Companies that are less than three years old appear particularly vulnerable: Bankruptcies have almost doubled (+94%) in this category. Along with high energy prices, high labor cost is also driving bankruptcy cases.

France



Bankruptcies were also driven by a sudden build-up of order books, especially among small and medium enterprises engaged in manufacturing activities and fraught with inaccessibility of labor and capital, supply chain issues, and the subsequent inability to honor contracts.

The French government extensively supported businesses through monetary incentives and relaxations in regulatory compliance. However, the end of this support mechanism in 2022 contributed to higher bankruptcies. The government extended support to the tune of EUR 240 billion in the form of loans – including EUR 145 billion in state-backed loans to 700,000 companies – and subsidies. Over 2020 and 2021, the French government's 'whatever-it-takes' policy kept the number of insolvencies at a historically low level; only 5,500 companies filed for bankruptcy with the number of insolvencies in Q3 2021 being the lowest in 25 years.

In 2022 however, reversal of policy support led to spike in reported firm insolvencies. In France, smaller firms have been affected the most by bankruptcies.

Business Failures and Context in Germany

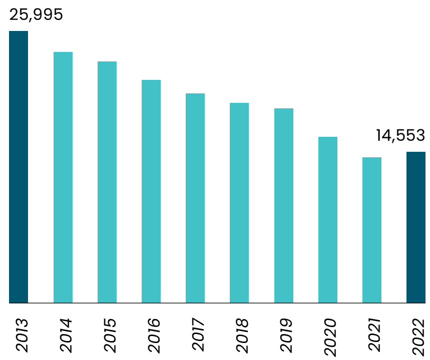
As higher interest rates feed through the real economy, the modest increase in insolvencies seen in 2022 (4% year on year relative to 2021) might give way to substantially higher business failure rates. The German government has repeatedly stated its willingness to suspend bankruptcy laws if deemed necessary.

Business bankruptcies in Germany grew just 4% year on year in 2022, reaching slightly higher than 14,500, a low number in historical terms and when compared with pre-pandemic levels.

While bankruptcies have been on a declining trend over the last decade, this trend accelerated markedly at the outset of the pandemic, with the number of bankruptcies faring at around 70% of their pre-pandemic level (Q1 2019) between the end of 2020 and Q1 2021. By the end of 2021, bankruptcies had started to moderately grow, though remaining considerably below historical levels and just at around 80% of the pre-pandemic one.

Several factors might help rationalize the behavior of bankruptcy rates in Germany. First, pandemic restrictions dramatically altered business dynamics and courts' ability to rule on bankruptcies. Second, because Germany was strongly hit by the pandemic toward the end of 2021, the government kept economic support for firms and incomes well beyond the end of the year. Third, since the invasion of Ukraine and the energy shock that struck Europe, Germany deployed around 7% of its GDP to support firms and households. This is more than Italy, the UK, or France spent over the same period for the same purpose (5.2%, 3.8%, and 3.7%, respectively).

Germany



On one hand, the massive support implemented by the German government will work to further postpone the normalization of business dynamism in the country in 2023, while on the other, interest rates rising from 0% to 3% in less than a year is a push in the opposite direction, by making the fulfillment of payment obligations more difficult. Which force will come to dominate will also depend on the willingness of the government to suspend bankruptcy laws.

Moreover, the European Central Bank hiked rates by 50 bps in February 2023. Since monetary policy works with a lag, part of the effects of tighter policy on the real economy will likely manifest in 2023 and beyond, with price growth dynamics determining, more than anything else, the course of monetary policy. With core inflation in the Eurozone being more stubborn than expected, we expect headline inflation in Germany to average at around 7% in 2023. This is lower than in 2022 (8.7%) but still elevated and far from the ECB's target, which will lead the monetary policy on a hiking trajectory in the near term, pushing up credit risk.

In a nutshell, the evidence suggests that bankruptcies in Germany will rise gradually over the course of 2023 but remain below pre-pandemic levels, in a context where EU bankruptcies also will rise.

Business Failures and Context in Italy

A slow adjustment towards pre-pandemic levels of business failures is taking place in Italy, with insolvencies increasing by 18% y/y in 2021 and 21% y/y in 2022. As energy-related support measures are possibly withdrawn and tighter monetary policy transmits through the real economy, insolvencies could increase dramatically in 2023.

After rising 18% year on year in 2021, business bankruptcies in Italy fell 21% year on year in 2022, reaching slightly higher than 7,000 – a lower number than pre-pandemic levels.

While bankruptcy rates have been on a declining trend over the last decade, Italian bankruptcies have shown elevated volatility from the onset of the pandemic. In Q1 2020, bankruptcies bottomed at around 30% of their pre-pandemic level (Q1 2019), before reaching more than 16% above it by the end of 2020. Since then, bankruptcies have been constantly below pre-pandemic levels on a quarterly basis, reaching slightly above 67% in Q4 2022.

Multiple factors might help explain the behavior of bankruptcy rates in Italy. First, pandemic restrictions prevented courts from normally ruling on bankruptcies, somewhat freezing the country's business dynamism. Second, some of the income support and debt relief measures introduced at the onset of the pandemic were in place for most of 2021. Third, since the invasion of Ukraine and the energy shock that struck Europe, Italy deployed around 5.2% of its GDP to support firms and households. This is less than what Germany spent over the same period for the same purpose (7%) but more than what countries such as the UK and France spent (3.8% and 3.7%, respectively).

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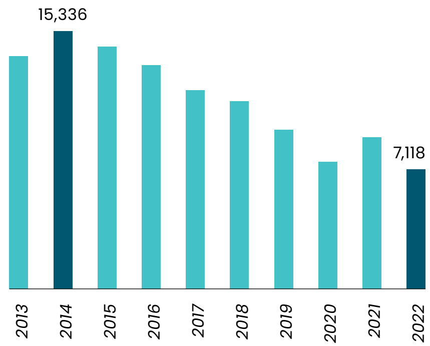
Italy



The sizeable support implemented by the Italian government will likely continue to alter business dynamism in 2023. At the same time, interest rates rising from 0% to 3% in less than a year will be a push in the opposite direction, by making the fulfillment of payment obligations more difficult. Importantly, in February 2023, the Italian government scrapped the so-called Superbonus introduced during the pandemic, a tax credit scheme that allowed homeowners to avail a tax credit of up to 110% on the cost of improving their property, which had led to a wave of building renovations in the country. The abrupt termination of the scheme is likely to be felt strongly in the construction sector and may affect thousands of firms.

Moreover, the European Central Bank hiked rates by 50bps in February 2023. Since monetary policy works with a lag, a part of the effects of tighter policy on the real economy will likely manifest in 2023 and beyond, with price growth dynamics determining, more than anything else, the course of monetary policy. With core inflation in the Eurozone being more stubborn than expected, we expect headline inflation in Italy to average at around 6% in 2023. This is lower than in 2022 (8.7%) but still elevated and far from the ECB's target, which will lead the monetary policy on a hiking trajectory in the near term, pushing up credit risk.

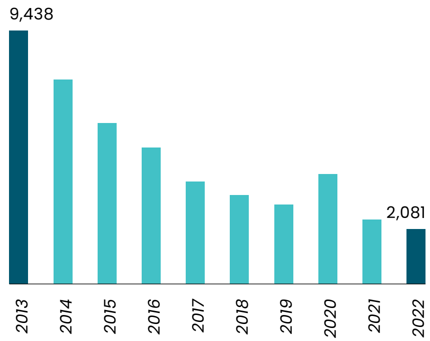
To sum it up, evidence suggests that bankruptcies in Italy could rise significantly over the course of 2023, albeit remaining below pre-pandemic levels, in a context where EU bankruptcies will also rise.

Business Failures and Context in the Netherlands

The Netherlands has fared better than peers, but we anticipate a rise in bankruptcies in 2023. The Central Planning Bureau has warned that although the massive fiscal support was successful in keeping bankruptcies low, there is a risk of a sharp uptick once the measures are withdrawn, increased financing costs and input prices.

The Netherlands outperformed its peers yet again in 2022 as the number of bankruptcy filings was lower than even 2021. We had anticipated a small uptick in the number of liquidations, but the data surprised us positively, showing a decline of 12.4% over 2022 to 2,081 which is the lowest on our records. Several European peers, such as France, Belgium, and Spain, have seen an increase in bankruptcies over the same period, but the Netherlands has bucked the trend, likely due to the government's extensive support measures. Businesses benefitted significantly from several key support measures implemented in response to the pandemic; for example, the fixed costs grant scheme (TVL), the temporary emergency scheme for job retention (NOW), and the general tax payment deferral option were all extended until April 2022.

Netherlands



We anticipate the number of bankruptcies to increase sharply in 2023, as the final effects of the government's coronavirus support measures will have worn off. That, combined with rising inflation, interest rates, and energy costs, will push many companies toward liquidation. Having said that, we think the number will still be significantly lower than the peak of 9,438 reached in 2013.

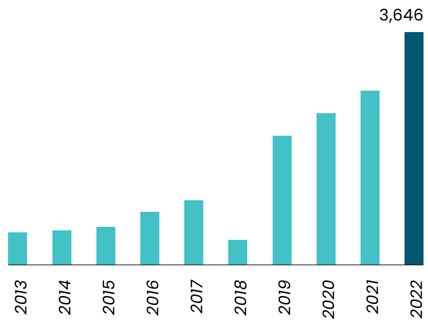
Our findings are consistent with bankruptcy statistics provided by the Dutch Central Bureau of Statistics, which estimates an 18% drop in businesses and institutions (including sole proprietorships) that were declared bankrupt in 2022. Bankruptcies were the highest in the trade sector, followed by construction. The most bankruptcy filings occurred in industries that were most severely impacted by the pandemic, particularly retail and wholesale commerce, and food manufacturing. This indicates that, despite significant fiscal support, there are still fault lines in the financial health of corporates.

Bankruptcies might also be impacted by the collapse of Credit Suisse in Switzerland. Although the direct exposure of Dutch banks to Credit Suisse is small, the collapse may lead to a Euro-wide systemic crisis. One of the biggest markets for "contingent convertible" bonds, the banks in Netherlands are under pressure as well following the write-off of Credit Suisse bonds. Although the ECB has taken precautions to guarantee that there is an appropriate buffer in the system to survive any shock, this might have unfavorable effects on businesses in the euro region.

Business Failures and Context in Poland

Bankruptcy in Poland rose 32% year on year in 2022 due to worsening economic scenarios, especially for businesses in the transportation, manufacturing, trade, construction, and services sectors.

Poland



Bankruptcies in Poland grew 32% from 2,752 in 2021 to 3,646 in 2022. Corporate insolvencies are expected to rise with a sharp increase in the use of out-of-court procedure (OCR). Insolvencies are rising across industries due to worsening economic scenario especially for businesses in transportation sector which is the worst hit, followed by trade, construction, and services. The manufacturing sector remained resilient to some extent in 2022, mainly because the economy is facing a demand slowdown and business confidence is diminishing due to high operating costs and increased interest rates.

Despite healthy household consumption sustaining economic growth, the high inflation has dampened consumer confidence. Firms in wholesale and retail trade are facing higher bankruptcies on account of high interest rates and uncertain business environment causing insolvencies to rise as much as 57% in 2022. The transportation sector remains another weak spot where insolvencies nearly doubled from last year. With these uncertain macroeconomic environments, the number of insolvencies is set to further rise, especially as the government is withdrawing some of the support mechanism it earlier provided.

The Polish government introduced the National Register of Debtors (KRZ) for submission of bankruptcy applications electronically and correspondence with the court. The introduction of the register lengthened bankruptcy procedures and positive conclusion of cases, thereby reducing the number of insolvencies for most part of 2021 and H1 2022.

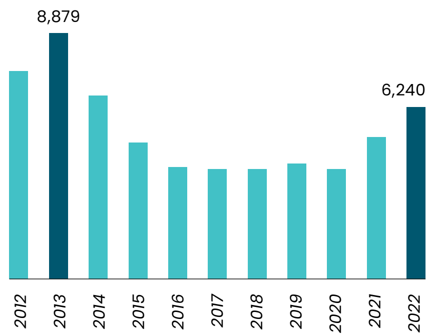
Business Failures and Context in Spain

The number of bankruptcy filings are expected to remain elevated as firms take advantage of the changes to the country's insolvency law. In addition, increase in financing costs and high input prices also heighten the risk of payment delays and insolvencies in 2023, especially for small businesses.

Data from Dun & Bradstreet's Worldwide Network partner, Informa, showed a 21% jump in Spanish bankruptcy filings in 2022 with the number of filings at the highest since the 2013 Euro crisis. This was driven by a particularly sharp increase in H2 2022, after changes to the country's insolvency law. Business liquidations grew 49% between July and December of 2022, compared with the same six-month period in 2021.

Spain overhauled the Recast Insolvency Act of 2003 in September 2022 ("Act 16/2022") in compliance with EU directives making it easier for companies to restructure their debt. The reform has resulted in significant changes to insolvency legislation, especially when it comes to pre-insolvency, as well as a more flexible insolvency process. Some of the major reforms include: (1) the expanded scope and importance given to pre-insolvency; (2) tools that encourage and facilitate businesses to resort to restructuring, giving creditors more power; and (3) the introduction of a new specific set of rules governing the sale of productive units. Steel company Celsa, which is undergoing a legal process to restructure its €2.8 billion debt, is one of the first significant Spanish corporations to test the new rules.

Spain



We believe that the modification of the Insolvency Law will lead to a further increase in the number of firms requesting restructuring in the short term. Empowering creditors will make it simpler to pursue debt settlement processes, which, in our opinion, will encourage the acquisition of struggling businesses and lead to more M&As. Particularly, debt holders will find it simpler to purchase equity interests in troubled companies as shareholders struggle to prevent their holdings from being eroded.

The implosion of Credit Suisse in Switzerland has further ramifications on bankruptcies. Though the direct exposure of Spanish banks to Credit Suisse is limited, estimated at under EUR 1billion, the collapse has the potential to translate into a systematic crisis that might rattle markets. Spain also has one the largest 'contingent convertible' bond markets, which have come under intense pressure after the write-off of Credit Suisse bonds. This could potentially have negative consequences for businesses in the euro area, though the ECB has taken steps to ensure that there is adequate buffer in the system to withstand any shock.

Notwithstanding the distortion in data brought about the reform, we were expecting an increase in bankruptcy filings after the government decree suspending the obligation to declare bankruptcy, introduced post COVID, expired in June 2022. The results are consistent with our observations in the 2021 report, when the Delinquency Risk Predictor for Spanish companies – which predicts the likelihood that a company will pay in a severely delinquent manner or seek legal relief over the next 12 months – had detected an increase in stress levels. We believe that the reform to the insolvency law will induce more Spanish firms to declare bankruptcies in 2023, and businesses, especially MSMEs, will continue to remain vulnerable to failure given the near-term prospect of rising financing costs and high input prices.

Business Failures and Context in Switzerland

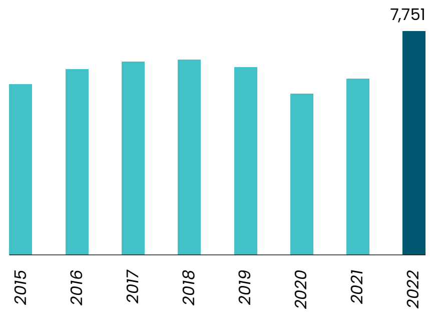
Bankruptcies in Switzerland grew 27% in 2022 year on year and the curve was steeper towards Q4 2022. Bankruptcy rate is expected to go up even higher in Q1 2023 as the export markets slow down and the regulators further relax bankruptcy proceedings and remove some of the benefits provided during COVID-19 pandemic.

Bankruptcy among Swiss firms grew 27% to 7,751 in 2022 compared with 2021. The steep rise is partially attributed to COVID-19-related delinquencies, while a general demand slowdown in user industries among export markets could have led to additional insolvencies. The inability to hedge against rising commodity and energy prices, along with disruptions witnessed in supply chain during 2022 also caused higher rates of bankruptcy filings among small and medium enterprises.

In 2023, it is expected that insolvency filings would rise further due to economic uncertainties sparked by the Ukraine war, the increase in energy costs, high inflation in the euro area, and likely recessions in many countries.

Bankruptcies were more severe in case of small and medium enterprises that were left defenseless due to the sudden rise in energy and electricity prices, along with high prices and interrupted supplies of industrial commodities. A high proportion of small and medium firms do not hedge on energy prices and were subject to extreme volatilities of energy prices witnessed in 2022.

Switzerland



As per Dun & Bradstreet data, insolvency filings were the highest in the Zurich region (816 cases, +38%) and Central Switzerland (546 cases, +25%), although no region has been spared. With 975 cases, the Lake Geneva region recorded an increase of 21% in bankruptcies – a figure similar to the national average. Next in line are Mittelland (704 cases, +19%), Ticino (300 cases, +17%), Northwestern Switzerland (536 cases, +11%), and Eastern Switzerland (472 cases, +10%).

The Swiss construction, building services, and real estate sectors had the highest number of bankruptcy proceedings filed in 2022, followed by the wholesale trade and food and beverage sectors. Other sectors at risk were wood and furniture, crafts, hotels and restaurants, and land transport and logistics. Mechanical engineering, IT, banking, finance, and insurance providers also witnessed higher bankruptcy filing than the previous year. Conversely, organizations and associations, training services, real estate, and architectural firms are the areas least threatened by bankruptcy.

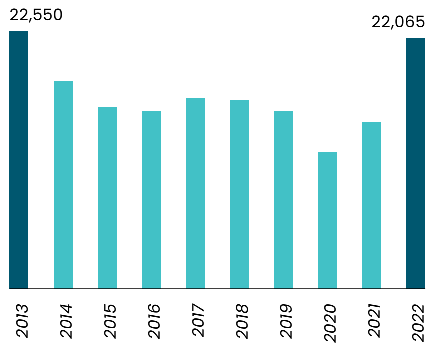
Business Failures and Context in the UK

After constantly increasing throughout 2022 (49% year on year relative to 2021), because of fading energy-related support measures, weak growth and the (lagged) effects of tighter monetary, insolvencies are set to increase also in 2023, albeit at a possibly slower pace than in the previous year.

Business bankruptcies in the UK grew 49% year on year in 2022, reaching slightly higher than 22,000, a level not seen since 2013. Interestingly, over 2019-2022, UK bankruptcies exhibited a wing-shaped pattern, which appears to be markedby key shocks and policy interventions.

In Q1 2020, when COVID hit, bankruptcies dropped to about 60% of their pre-pandemic level (Q1 2019) and remained well below it at until Q3 2021, when most of the COVID-related support measures ended and restrictions on people's mobility were eliminated. However, by Q4 2021, bankruptcies had rebounded to pre-pandemic levels, to reach 50% higher than pre-pandemic levels, by the end of 2022.

United Kingdom



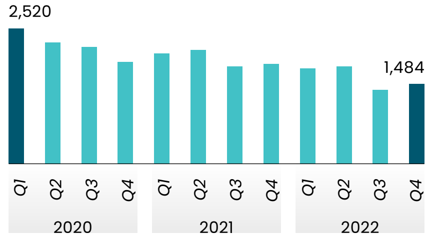
The Bank of England hiked rates by 50 bps in February 2023. Since monetary policy works with 'long and variable lags', whether rates will continue to raise or not, the effects of tighter policy on the real economy have not yet fully manifested. At the same time, the future rates trajectory will primarily hinge upon price growth dynamics. After robust growth in 2022, we expect the economy to contract 0.3% in 2023 and inflation to decline to 6.5%, from 9.1% in 2022, indicating that the battle against inflation is far from won.

While bankruptcy rates had started to increase ahead of the Bank of England's tightening cycle (December 2021), the interest rate hike from 0.10% to 4% in the space of a little over a year has contributed dramatically to increased credit risk: businesses found and will find it more difficult to meet payment obligations. The same businesses also had to bear the brunt of the surge in input prices, in a context where demand was strongly depressed by double-digit inflation, which also contributed to business insolvencies.

Taken together, the evidence on lead indicators of bankruptcy dynamics suggests that they will continue to rise in 2023, albeit at a possibly slower pace than in the previous year, as some of the driving forces lose steam.

Charts Europe

Czech Republic



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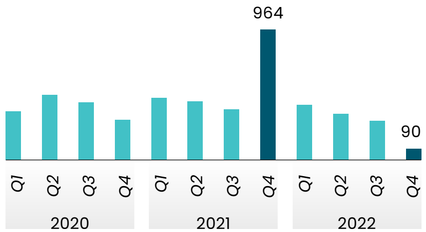

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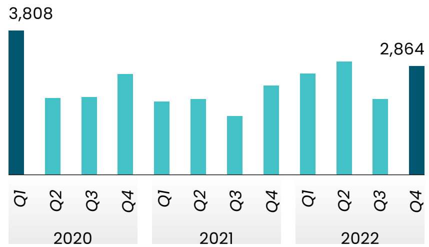

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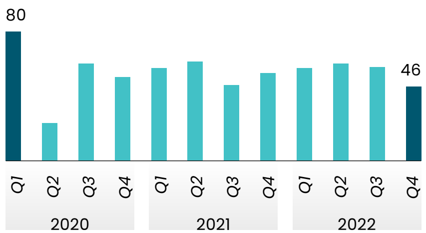

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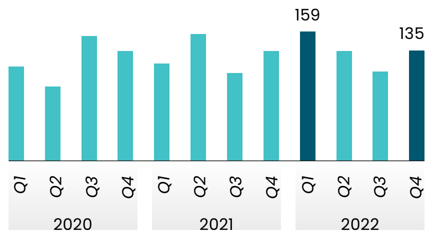

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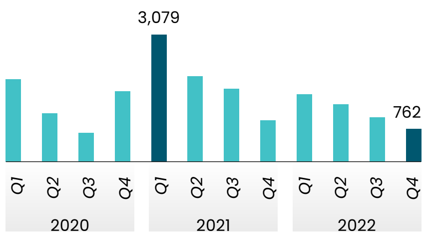

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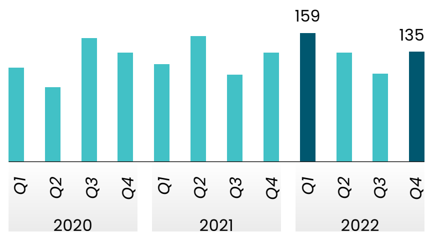

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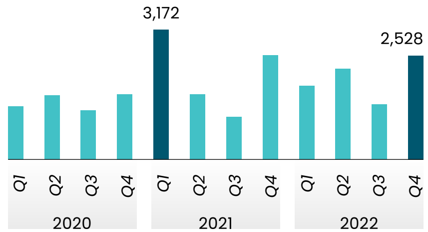

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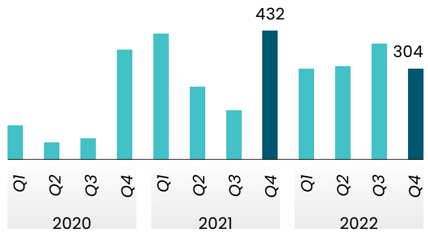

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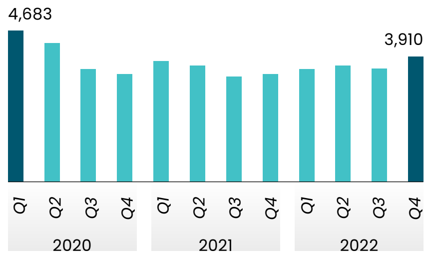

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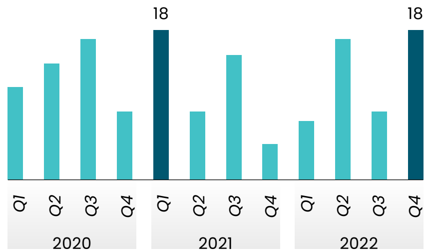

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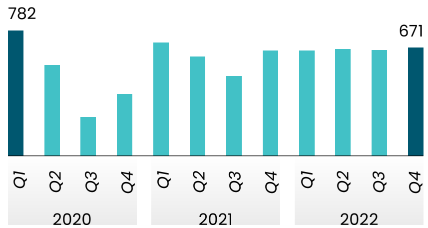

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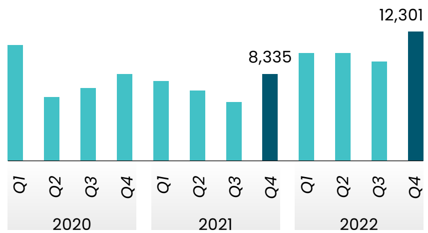

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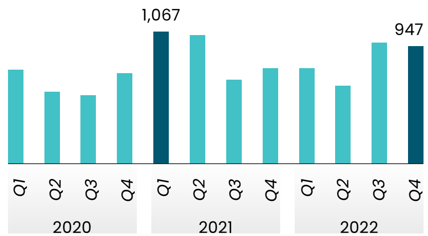

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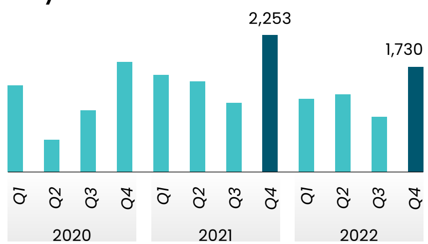
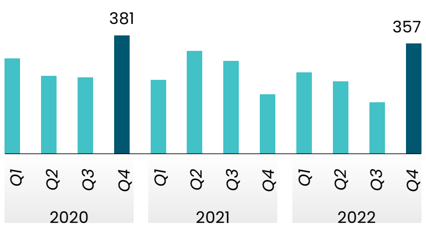


Luxembourg



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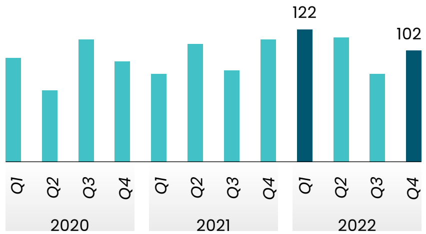

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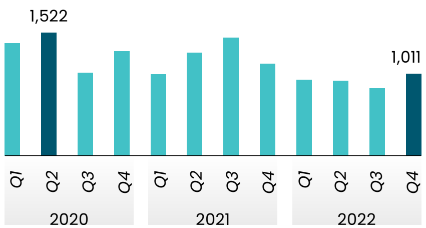

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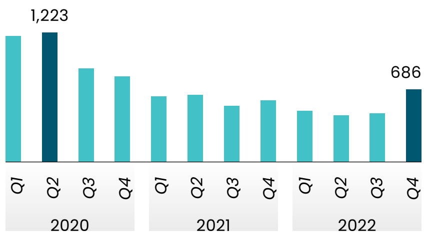

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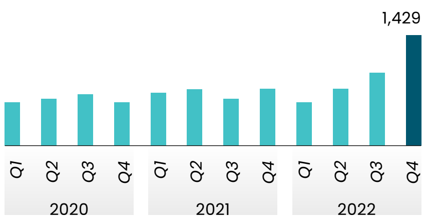

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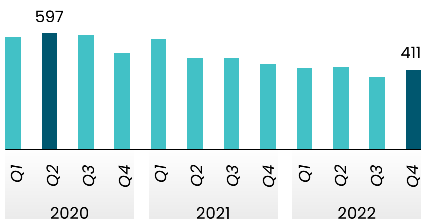

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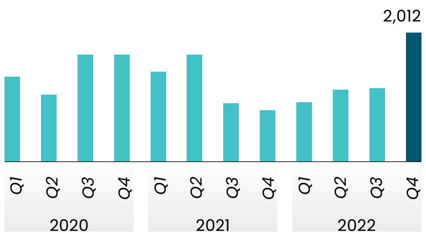
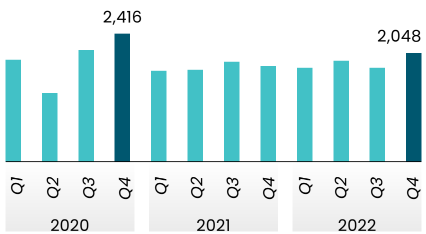
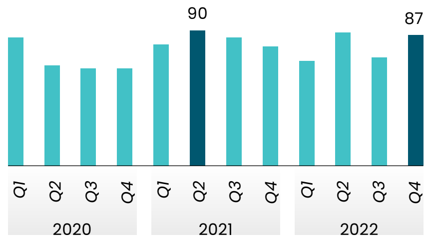


Russian Federation



EUROPEAN BANKRUPTCY REPORT – 2023

Slovakia



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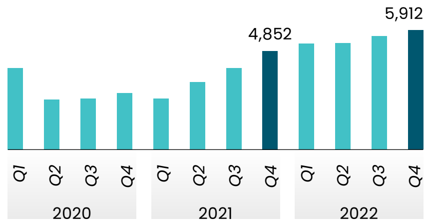

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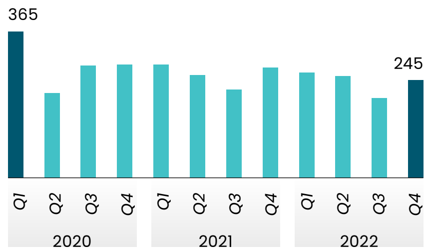

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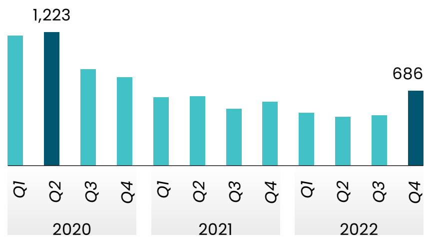

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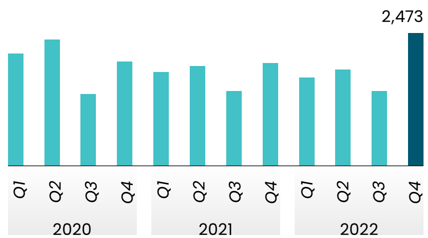

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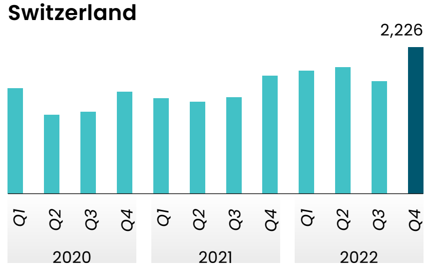

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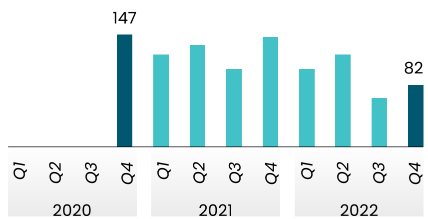

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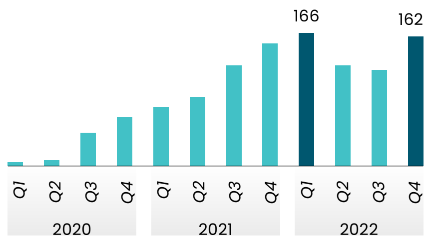

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