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04 A deteriorated balance of risks for companies

08 Watch out for pockets of fragilities

12 The return of state support

15 One in three countries will see insolvencies bounce back in 2022

Allianz Research

Global Insolvency Report

Growing risks and uneven state support

Executive summary

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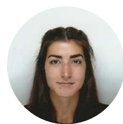

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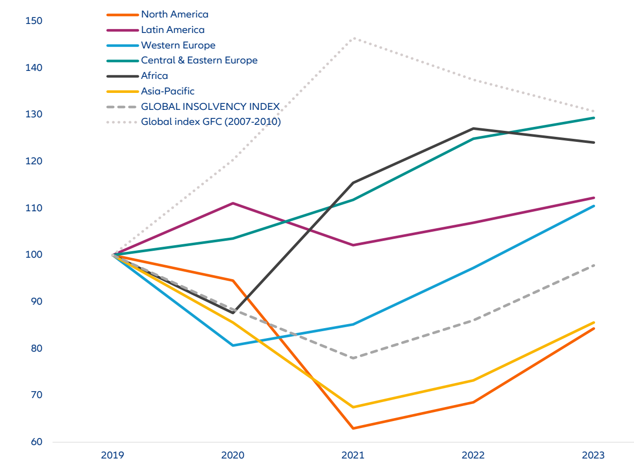
- **The war in Ukraine and new lockdowns in China have significantly deteriorated the balance of risks for companies.** The shockwaves are visible in the extended supply-chain disruptions and transportation bottlenecks, as well as high input costs and shortages, notably for energy and commodities but also labor. To add to this, the global surge in inflation is accelerating monetary tightening, which will increase funding costs for companies.
- **In the very short term, three signs of resilience should help prevent a massive surge in insolvencies.** At the global level, the total cash holdings of listed firms was 30% higher at the start of 2022 than in 2019, and deposits of non-financial corporates (NFC) were 29% higher in the Eurozone and as much as 57% higher in the US. Our proprietary data also show that the number of fragile firms[10] has decreased, particularly in Italy (to 7% from 11%) and France (to 12% from 15%). In addition, the Q1 2022 earning season confirmed that listed companies have been far more capable of passing cost increases onto prices than expected.
- **However, pockets of fragilities and uncertainty over how long the current shocks could last have already sparked the return of temporary support measures in some countries.** First, working capital requirements increased in 2021 particularly in Asia (+2 days), Central and Eastern Europe (+2 days) and Latam (+2 days), and for sectors such as household equipment (+8 days), electronics (+3 days) and machinery equipment (+2 days). Second, non-financial companies in the Eurozone have posted a noticeable deterioration of their debt-to-GDP ratios (+5.2pp compared to +3.5pp for the US). In response, governments in France, Germany and Italy have already extended existing partial unemployment programs and introduced new forms of state-guaranteed loans, with more measures likely the longer this crisis lasts. We expect state support to be more targeted and limited this time around, but it could still delay the full normalization of business insolvencies once again, notably in some European countries.

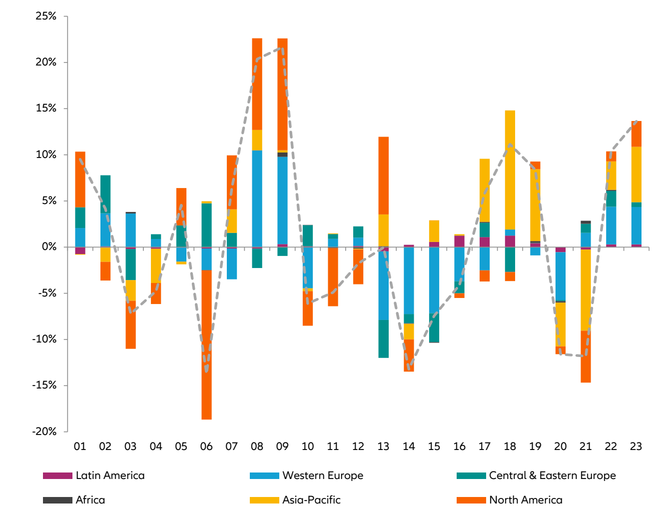
[1] Firms at risk of insolvency in the next four years, based on profitability, capitalization and interest coverage as of 2021.

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



(*) GFC: Great Financial Crisis
Source: Allianz Research

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



Source: Allianz Research

- **Overall, after two years of declines, we expect global business insolvencies to rebound by +10% in 2022 and +14% in 2023, approaching their pre-pandemic level.** While state support will keep insolvencies artificially low in France (32,510 cases) and Germany (14,600) in 2022, the UK could see a sharp rebound in 2022 (+37% y/y to 22,305 cases). One in three countries will return to pre-pandemic levels in 2022 and one in two countries in 2023. Africa and Central and Eastern Europe will both reach new record highs. In Asia, China should be able to maintain insolvencies in check but other countries could see an increase due to the deterioration of the regional and global environment. In contrast, companies in the US (15,500 cases in 2022) should benefit from the buffers accumulated since the pandemic, helped by the Paycheck Protection Program being massively transformed into subsidies and the recovery in profits.

+10%

Forecast for rise in global business insolvencies in 2022.

A deteriorated balance of risks for companies

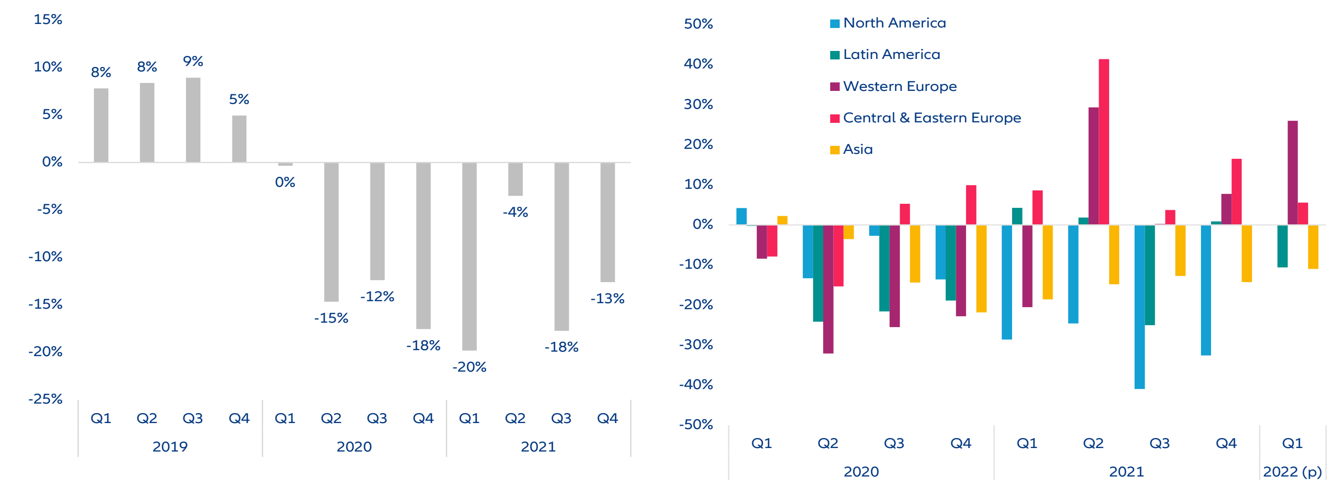
In 2021, our Global Insolvency Index[10] posted its second consecutive annual decline (-12%), dropping to a record low as generous state support continued to shield companies from the after-effects of the Covid-19 pandemic. Out of the 44 countries in our index, 24 registered a decline for the full year, with massive decreases seen in the largest economies: the US (to -34% y/y in 2021 from -5% in 2020), Japan (-22% y/y), China (-28%), Germany (-12%) and France (-12%). As a result, most countries ended 2021 with business insolvencies below the levels recorded before Covid-19.

However, the "grand reopening" of economies did allow some governments to start cutting back on support measures, triggering the beginning of a normalization in business insolvencies in some countries[11]. The return to normal conditions has been more difficult for companies that were already fragile before the pandemic, as well as those that have not been able to adapt their business models to the structural changes created or intensified by the pandemic (eg. new habits in mobility and working, online shopping etc.).

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

[3] We estimate that temporary changes to insolvency regimes and temporary fiscal instruments prevented almost 35% of insolvencies globally over 2020 and 2021, with a lower proportion of 'spared insolvencies' in the two countries that entered the pandemic with a lower number of insolvencies, the US (35% i.e. 19,450 cases over 2020 and 2021) and Germany (27% i.e. 10,900 cases), and a higher proportion in countries that implemented large state intervention, notably the UK (46% i.e. 27,000 cases) and France (52% i.e. 65,600 cases)

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



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

The normalization trend gained traction in the first quarter of 2022. While the latest available infra annual figures for 2022 (see Figure 3 and Table 4) continue to indicate disparities across and within regions, they also point to an upside trend reversal for a growing number of advanced economies and emerging markets. In Asia, China, Japan and South Korea still recorded less insolvencies in Q1 2022, but in Australia (+24% y/y in Q1), India (+26%) and Singapore (+30%) the rebound in insolvencies gained in intensity and posted a double-digit increase for the last 12 months (respectively to +21%, +55% and +39%). In Central and Eastern Europe, the upside trend was around +6% y/y in Q1 for the region as a whole due to the acceleration in Turkey (to +21% y/y in Q1) and Bulgaria (+24%), as well as the increase of cases in Russia (+6%) prior to the introduction of the moratorium starting from 01 April.

However, Western Europe stands out as the region with the largest rebound in insolvencies in Q1 (+26% y/y) despite differences between countries, including:

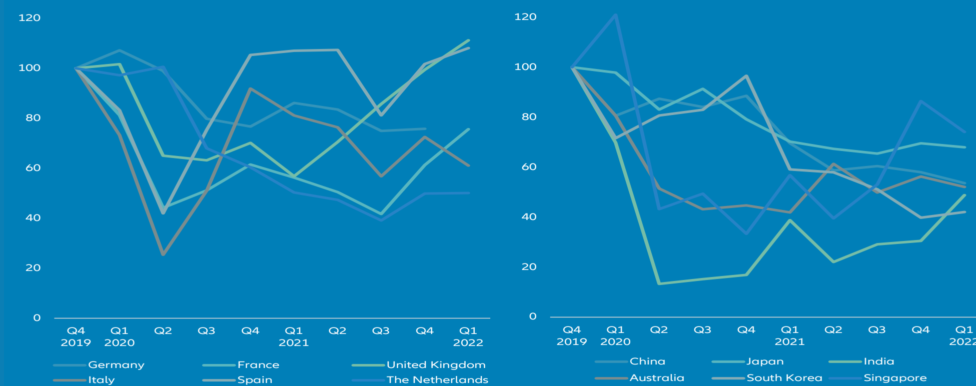
1 A prolonged low level of insolvencies in the Netherlands, Sweden, Portugal and Germany.
2 A lull in Italy after the fast rebound recorded in 2021.
3 Seven countries now posting an increase over the three months (Norway, Ireland) or more importantly over the last 12 months: Austria (+52% as of Q1 2022), Belgium (+20%) and France (+8%).
4 Three countries already facing, on a quarterly basis, more insolvencies than in 2019, namely the UK (+12% compared to Q1 2019), Spain (+39%) and Switzerland (+9%).

Table 4: Business insolvencies – figures available as of May 2022 (selected countries)

Country	Last point (y/y change in %)						
	As of	Last m	Last 3m	Last 6m	Last 12m	Ytd vs 2021	Ytd vs 2019
U.S.	2021 Q4	na	-36%	-40%	-34%	na	na
Canada	03-2022	7%	22%	16%	5%	22%	-24%
Brazil	03-2022	1%	-1%	5%	-5%	-1%	-4%
Chile	03-2022	-40%	-37%	-41%	-29%	-37%	-25%
Germany	02-2022	-5%	-5%	-3%	-8%	-5%	-33%
France	03-2022	42%	34%	16%	8%	34%	-30%
United Kingdom	03-2022	112%	114%	81%	54%	114%	12%
Italy	03-2022	-29%	-25%	-23%	7%	-25%	-33%
Spain	03-2022	-5%	1%	-1%	21%	1%	39%
The Netherlands	03-2022	-3%	0%	-10%	-33%	-48%	-48%
Switzerland	04-2022	38%	37%	30%	17%	37%	9%
Sweden	03-2022	-10%	-9%	-5%	-9%	-9%	-14%
Norway	03-2022	13%	12%	-7%	-7%	12%	-30%
Belgium	03-2022	52%	49%	34%	20%	49%	-14%
Austria	2022 Q1	na	117%	131%	52%	117%	-17%
Denmark	03-2022	43%	-2%	8%	-6%	-2%	-7%
Finland	2022 Q1	na	-8%	18%	16%	-8%	-8%
Portugal	03-2022	-29%	-22%	-17%	-15%	-22%	-25%
Ireland	03-2022	0%	8%	-5%	-22%	8%	-38%
Luxembourg	03-2022	-9%	6%	-1%	7%	6%	-13%
Russia	03-2022	3%	6%	11%	6%	6%	-18%
Turkey	03-2022	40%	21%	29%	21%	21%	-4%
Poland	03-2022	-9%	-15%	1%	34%	-15%	61%
Romania	03-2022	4%	14%	12%	10%	14%	7%
Latvia	03-2022	6%	-5%	-24%	-24%	-5%	-64%
South Africa	03-2022	-16%	-10%	-21%	-11%	-10%	0%
China	03-2022	-19%	-23%	-29%	-30%	-23%	-32%
Japan	03-2022	-6%	-3%	-8%	-17%	-3%	-22%
India	2022 Q1	na	26%	42%	55%	26%	-19%
Australia	03-2022	19%	24%	25%	21%	24%	-42%
South Korea	03-2022	-52%	-29%	-47%	-40%	-29%	-67%
Taiwan	03-2022	53%	16%	0%	3%	16%	45%
Singapore	03-2022	29%	30%	78%	39%	30%	25%
Hong Kong	03-2022	-89%	-36%	-18%	-3%	-36%	-36%
New Zealand	03-2022	-12%	-5%	-12%	-2%	-5%	-27%

Sources: national sources, Allianz Research

Figure 5: Business insolvencies – quarterly levels in selected countries of Western Europe (left) and Asia (right), basis 100 in Q4 2019es available as of May 2022 (selected countries)



Sources: national sources, Allianz Research

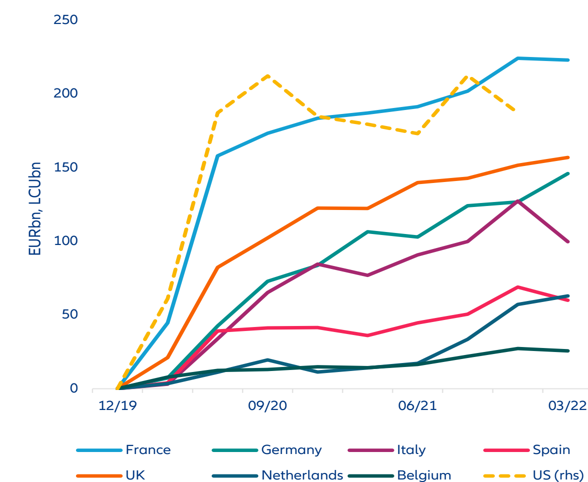
However, the war in Ukraine and new lockdowns in China have significantly deteriorated the balance of risks for companies. Global headwinds emerging from both shocks are multiple[10], from supply-chain disruptions and transportation bottlenecks to shortages and high input costs, notably for energy and commodities. To add to this, companies also now face higher funding costs as an indirect consequence of the global surge in inflation, which has accelerating monetary tightening across the globe. These exceptional circumstances are adding extra challenges to the cyclical issues and structural changes in place.

In the very short term, three signs of resilience should help prevent a massive surge in insolvencies. First, firms have significant cash buffers to absorb the new shocks, providing they remain temporary. The cash holdings of listed non-financial corporates (NFCs) increased by +13% in 2021 compared to 2020, and +30% compared to 2019. At the same time, NFCs started 2022 with deposits 29% above 2019 levels in the Eurozone, 35% in the UK and 47% in the US.

Second, our proprietary data[11] show that the number of fragile companies decreased in 2021, particularly in Italy (to 7% from 11%) and France (to 12% from 15%) in comparison to Germany (to 6% from 7%) and the UK (to 17% from 18%).

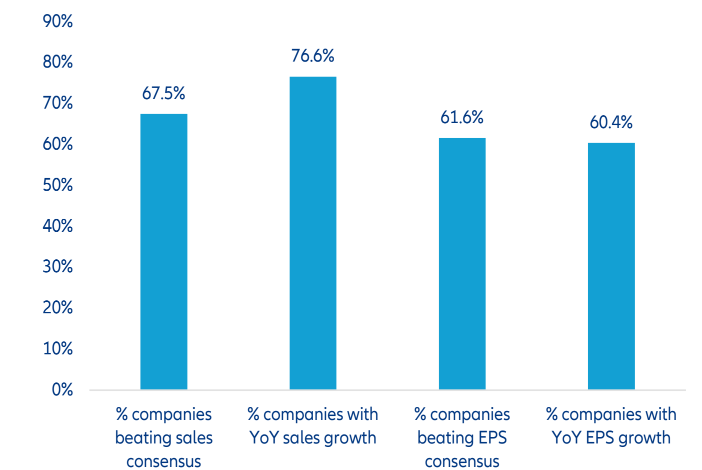
Third, provisional reporting for the ongoing Q1 earning season has confirmed that listed companies have been far more capable of passing cost increases onto prices than expected. As of early May, our monitoring shows that 68% of companies beat expectations on sales and 62% on earnings per share. In addition, 77% of companies beat expectations for year-on-year sales growth and 60% did so with earnings per share growth. In most cases, companies providing guidance for FY2022 are keeping or improving their sales targets, while keeping earning per share growth targets unchanged.

Figure 6: NFC deposits in Western Europe and the US, end of quarter amounts in LCUbntries)



Sources: ECB, BOE, Fred, Allianz Research

Figure 7: Q1 2022 earnings season, reported financial results



Sources: Thomson Reuters Eikon, Allianz Research

As of May 13, panel of 4,900 companies for which Q1 sales figures and equity estimates are available, 4,056 companies for which Q1 EPS and equity estimates are available

⁴ See our Allianz Trade Global Survey "Trouble trade: How will exporters adapt in 2022?"

⁵ See our previous report European SMEs: 7-15% at risk of insolvency in the next four years ; Methodology based on profitability [EBIT/(Net financial debt + Equity)], capitalization [Equity/Total assets] and interest coverage [Ebit/Interest expense]. Historical figures are not fully comparable due to changes in the panel (number of financials available).

Watch out for pockets of fragilities

Looking closer at companies' financial reveals that countries are unevenly exposed[10], with some sectors and types of firms more vulnerable than others. For one thing, despite a limited increase at the global level in 2021, working capital requirements (WCR) increased further in Asia (+2 days), Central and Eastern Europe (+2 days) and Latin America (+2 days), as well as in sectors such as household equipment (+8 days), electronics (+3 days) and machinery & equipment (+2 days). And the risks are on the upside for 2022 due to the rise in input costs and the need for precautionary inventories.

Table 8: Working Capital Requirements (WCR), by global sector and region, in number of days in turnover

	2018	2019	2020	2021	Change
WORLD AVERAGE	66	66	67	68	1
By global sector					
Agrifood	60	59	59	59	0
Automotive	58	58	57	58	1
Chemicals	78	78	79	79	0
Commodities	48	45	46	41	-5
Computers & Telecom	76	78	78	82	4
Construction	64	65	66	64	-2
Electronics	103	107	108	111	3
Energy	37	36	37	39	2
Household Equipment	72	73	72	80	8
Machinery & Equipment	99	101	102	104	2
Metals	75	75	76	75	-1
Paper	69	65	66	64	-2
Pharmaceuticals	103	103	104	101	-3
Retail	31	32	31	32	1
Services - Financials	48	47	47	44	-3
Services - Non financial : HORECA+Tourism	12	8	8	8	0
Services - Non financial : other BtB	52	53	55	54	-1
Services - Non financial : other BtC	34	33	36	36	0
Software & IT services	58	57	58	57	-2
By region					
North America	68	70	73	72	-1
South America	58	58	60	62	2
Western Europe	68	66	66	68	1
Eastern and Central Europe	55	51	52	54	2
Africa & Middle East	60	65	61	61	0
APAC	72	73	73	75	2

Sources: Refinitiv, Allianz Research

[6] See our report "Russian dolls: unwrapping corporate (commodity) dependencies"

Detailed figures of cash holdings also reveal several discrepancies, with clear winners and losers. First, we see that Asian firms are hoarding 50% of the global amount, ahead of North America (24%). In terms of sectors, consumer discretionary leads on cash-hoarding (18%), ahead of industrials (17%) and the tech sector (15%). Second, certain sectors have clearly demonstrated less favorable performance, including such as consumer staples in France, communications in the UK and the Netherlands. Finally, the overall dynamic rarely matches the pace of deposits' for all NFCs, which indirectly suggests that large firms benefited more than SMEs in 2021 in the Netherlands, the UK, Germany and Spain.

Looking at cash burning, we again find an uneven dynamic among European countries, with more periods of cash depletion than cash accumulation, and with average cash depletion gaining in intensity over the last two quarters – notably in Germany, Italy, Spain and the Netherlands in Q4 2021, and France in Q1 2022.

To a certain extent, the prolonged low level of major insolvencies[10], with 68 cases in Q1 2022 and 260 over the last four quarters, is another sign of the greater resilience of large companies. But the large drop observed in the US (-113 cases for the last four quarters compared to the previous four quarters) and in Western Europe (-28 cases) should not overshadow the largely stable number of cases in Asia and China, with the most cases seen in the construction sector.

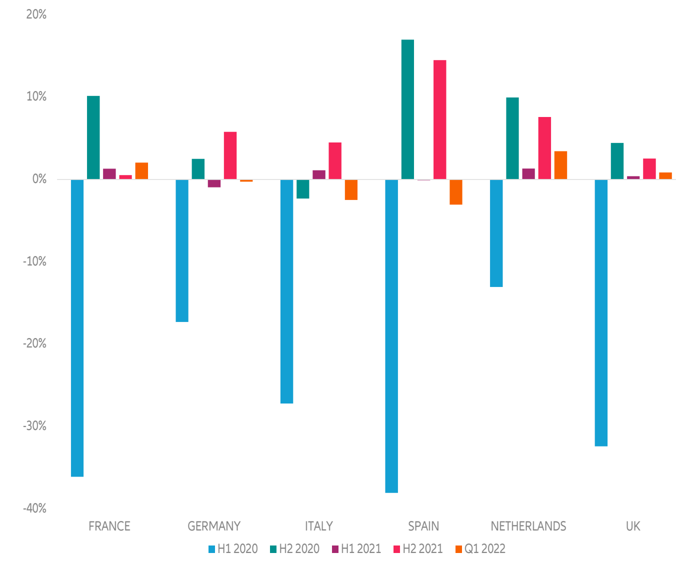
Table 9: Change in cash-holding by sector and country

	US (23%)		China (21%)		Japan (12%)		France (4%)		Germany (4%)		UK (3%)		Italy (1%)		Netherlands (1%)		Spain (1%)		Belgium (0%)		RoW (30%)		GLOBAL (100%)	
	21/20	21/19	21/20	21/19	21/20	21/19	21/20	21/19	21/20	21/19	21/20	21/19	21/20	21/19	21/20	21/19	21/20	21/19	21/20	21/19	21/20	21/19	21/20	21/19
TOTAL	13%	44%	9%	16%	6%	17%	3%	34%	6%	29%	16%	36%	8%	59%	-6%	34%	21%	55%	9%	82%	18%	30%	11%	28%
Financials	16%	55%	7%	10%	5%	15%	5%	38%	4%	22%	19%	40%	9%	66%	-17%	20%	21%	58%	11%	95%	13%	28%	10%	28%
TOTAL (NFC)	**6%**	**26%**	**13%**	**31%**	**12%**	**27%**	**-5%**	**20%**	**9%**	**37%**	**2%**	**16%**	**5%**	**31%**	**37%**	**87%**	**18%**	**42%**	**-6%**	**23%**	**27%**	**33%**	**13%**	**30%**
Utilities	2%	42%	8%	11%	-18%	-24%	23%	26%	91%	117%	111%	129%	7%	11%	0%	0%	37%	77%	244%	147%	16%	21%	20%	27%
Energy	49%	56%	25%	22%	-2%	3%	-20%	0%	2%	22%	10%	43%	-3%	8%	98%	58%	24%	23%	0%	-52%	29%	30%	24%	30%
Consumer Staples	4%	46%	8%	24%	8%	25%	-10%	-12%	3%	30%	-12%	20%	22%	28%	-18%	22%	54%	88%	-13%	68%	14%	26%	6%	27%
Industrials	-2%	32%	18%	32%	5%	8%	2%	19%	7%	35%	1%	35%	2%	41%	-5%	58%	5%	25%	-11%	20%	20%	37%	10%	29%
Communications	0%	20%	28%	39%	29%	46%	16%	8%	-28%	49%	-30%	-38%	47%	117%	-14%	-18%	70%	53%	0%	0%	8%	15%	8%	21%
Consumer Discretionary	18%	81%	18%	50%	15%	32%	-18%	52%	8%	25%	16%	40%	8%	41%	111%	223%	-10%	19%	-16%	-20%	40%	60%	19%	53%
Materials	6%	64%	25%	39%	5%	20%	-11%	30%	-15%	28%	25%	46%	-10%	62%	17%	15%	11%	42%	17%	96%	19%	37%	16%	37%
Health Care	16%	16%	22%	62%	4%	14%	-26%	12%	-2%	62%	-9%	9%	-3%	21%	1%	56%	176%	211%	-42%	-46%	33%	57%	15%	28%
Real Estate	-1%	33%	-1%	6%	1%	12%	-1%	32%	13%	27%	-24%	35%	19%	18%	-31%	-11%	41%	55%	11%	52%	6%	21%	2%	13%
Technology	2%	8%	13%	44%	14%	28%	8%	49%	38%	46%	2%	34%	6%	51%	22%	78%	-15%	105%	-4%	-8%	12%	29%	8%	21%

Sources: Bloomberg (panel of 48,000 listed firms), Allianz Research ; (%) indicates the share of the given country in global cash

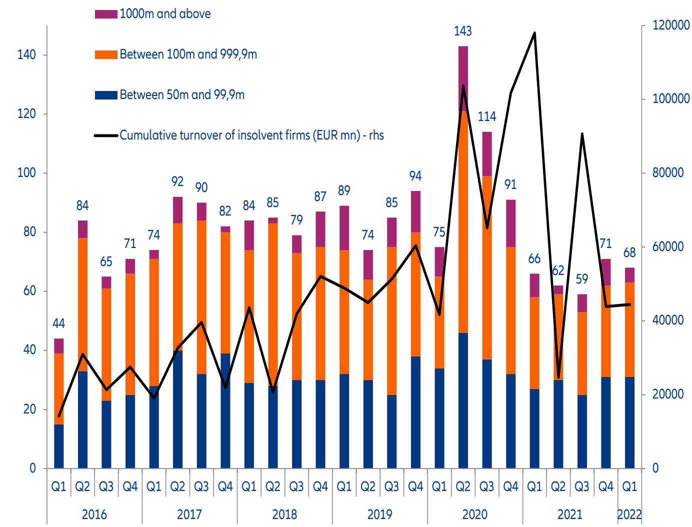
[7] Firms with a turnover exceeding EUR50mn

Figure 10: Cash-burning indicator , selected countries



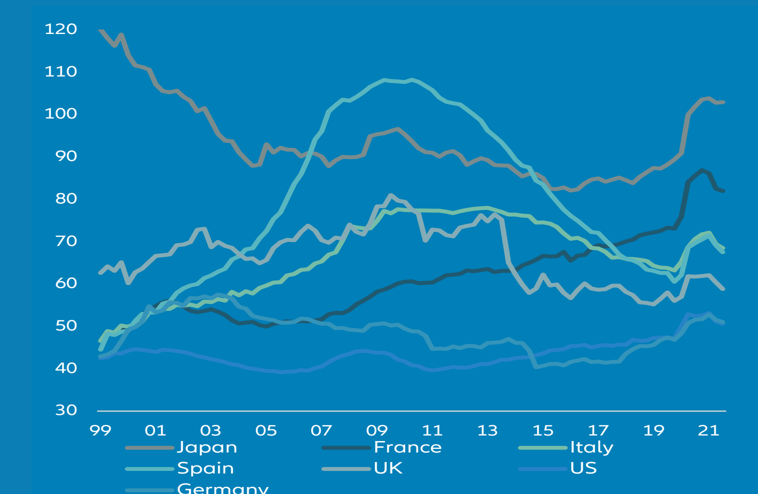
Sources: Bloomberg (panel of listed firms), Eurostat, BOE, Fred, Allianz Research

Figure 11: Major insolvencies, quarterly number by size of turnover in EURmn



Source: Allianz Research

Figure 12: Non-Financial Corporations (NFC) debt ratio, in % of GDP, selected countries



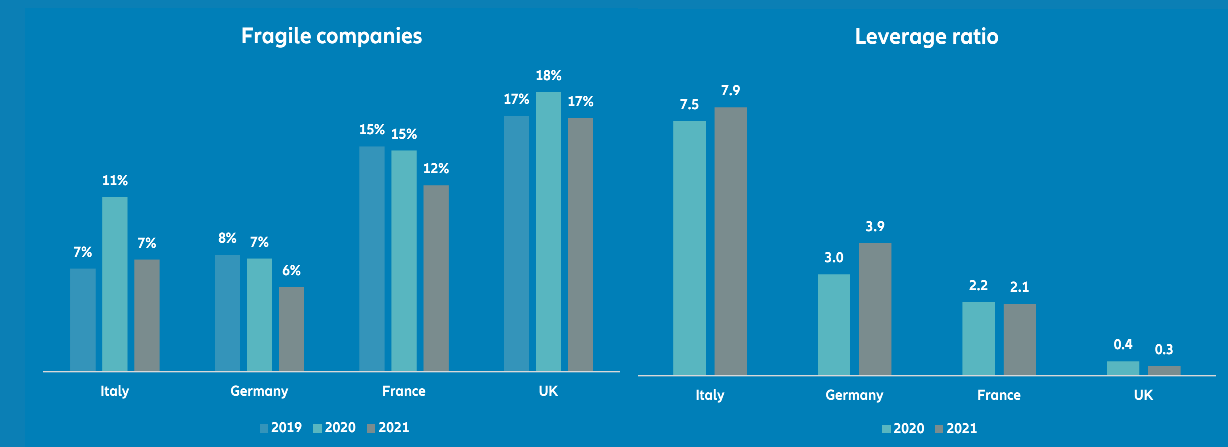
Sources: Banque de France, Allianz Research

Another risk factor is the elevated indebtedness that has resulted from the Covid-19 crisis, which could result in debt sustainability issues as interest rates increase. Japan and the Eurozone posted the strongest deterioration of NFC debt-to-GDP ratios (+13.5pp and +5.2pp, respectively) than the US (+3.5pp), though we notice a wide range within the Eurozone (from +4.2pp in Germany to +8.8pp in France). Our proprietary data also confirm the deterioration of the leverage ratio in Italy and Germany (+0.4pp to 7.9% and +0.9pp to 3.9%, respectively). In a recent study using panel data[10], we found companies will find it increasingly challenging to absorb losses in terms of margins amid high cost inflation and slowing demand, which could lower corporate pricing power in the coming quarters. We calculate that an increase of 100bp in key interest rates would translate into a -2.3pp fall in NFC margins in France compared to -1pp in Germany, -1.5pp in the UK and -1.4pp in the US.

+5.2pp

Deterioration of NFC debt-to-GDP ratio in the Eurozone.

Figure 13: Europe: share of fragile companies and leverage ratio, selected countries



Source: Allianz Research

[8] See our report France: Turn the music off to hear the bells tolling

The return of state support

The global shocks induced by the war in Ukraine and the renewed lockdowns in China could kick start an extended round of support measures, which would delay the normalization in insolvencies. The probability is higher in Europe due to larger public finance capabilities, notably since the European Commission officially adopted a new Temporary Crisis Framework (TCF) on 23 March 2022, completing the extension of various measures of the Temporary Framework decided end of 2021[10]. The TCF will be in place until December 2022 and allows member states to ensure liquidity and access to finance for undertakings in a coordinated economic way while still complying with EU state aid rules.

France and Germany already kicked off the first support packages in March, and Italy followed in May. These packages are a mix of extensions of existing forms of support, such as the partial unemployment scheme and the temporary assistance program in Germany, and the launch of new state-guaranteed loans, such as the 'PGE Resilience' in France. If we take the example of France, the new package could reduce the expected rise in insolvencies to +15% from +30% in 2022. For Germany, it could reduce the increase to +4% from +7%.

At this stage, we expect the uneven initial conditions (in terms of corporate financials and exposure to the current headwinds) and the uneven (fiscal) room for maneuver to result in smaller and more targeted support packages. It is worth mentioning the specific case of Russia since, starting from 1 April, at the request of creditors, the Russian government introduced a moratorium on initiating bankruptcy cases that will last for six months and cover a wider scope of industries. In comparison, the 2020 moratorium targeted companies that were suffering the most from pandemic, as well as strategic enterprises. This new context is already accentuating the asymmetric return of insolvencies, hitting emerging markets at SMEs hardest.

[9] In November 2021, the European Commission prolonged by 6 months until the end of June 2022 the application of its Temporary Framework (TF) in the context of the new waves of Covid-19 and, among other amendments, by 12 months until June 2023 the possibility to convert repayable instruments into other forms of aid.

BOX : EU Temporary Crisis Framework – Key points[10]

Four principles:
1 Limited amounts of aid, up to EUR35,000 for companies affected by the crisis active in the agriculture, fisheries and aquaculture sectors and of up to EUR400,000 per company affected by the crisis active in all other sectors;
2 Limited period of time, currently December 2022;
3 Any form, from direct grants, tax and payment advantages, to repayable advances, guarantees, loans and equity;
4 Exclusion of sanctioned Russian-controlled entities.

Three specific types of aid:
1 Liquidity support in form of state guarantees, up to 15% of the beneficiary's average total annual turnover over the last closed accounting period or 50% of energy costs over the 12 months preceding the month when the application for aid is submitted, with a duration limited to maximum six years unless exceptions;
2 Liquidity support in form of subsidized loans, with the same conditions as for guarantees;
3 Aid to compensate for high energy prices. In any form, to partially compensate companies, in particular intensive energy users, for additional costs due to exceptional gas and electricity price increases. Overall aid per beneficiary limited at 30% of the eligible costs, up to a maximum of EUR2 mn at any given point in time. Additional aid for companies incurring operating losses, to ensure business continuation: for energy-intensive users, the aid intensities are higher and member states may grant aid exceeding these ceilings, up to EUR25mn, and for companies active in particularly affected sectors and sub-sectors up to EUR50mn.

Three types of safeguards:
1 Proportional methodology, requiring a link between the amount of aid that can be granted to businesses and the scale of their economic activity and exposure to the economic effects of the crisis;
2 Eligibility conditions, for example defining energy-intensive users as businesses for which the purchase of energy products amount to at least 3% of their production value;
3 Sustainability requirements. Member states are invited to consider, in a non-discriminatory way, setting up requirements related to environmental protection or security of supply when granting aid for additional costs due to exceptionally high gas and electricity prices.

[10] See the European Commission Temporary Crisis Framework for all details and monitoring of packages by country, as well as the monitoring done by the European Systemic Risk Board for the European countries (ESRB monitoring) and by the IMF for all countries (IMF policy tracker)

Figure 14: Latest support measures to companies by country (to be) approved by EC

Germany	May 2022: **"German umbrella scheme"** under TCF with a budget of EUR11bn TFC to support all sectors in the context of Russian's invasion of Ukraine through (i) guarantees on loans (up to 90% of the loan amount) and (ii) subsidised loans at reduced interest rate. Maximum per beneficiary: (i) 15% of its average total annual turnover over a predefined time period; or (ii) 50% of its energy costs incurred over a predefined 12-month period. Higher amount possible for specific exceptions for a 12 month-period for SMEs and for a 6 month-period for large enterprises. April 2022: **A EUR20bn scheme** to support companies of all sizes and in all sectors (excepted the financial one) affected by the current geopolitical crisis and the related sanctions, through various measures under TCF: (i) a specific loan program of the Kreditanstalt für Wiederaufbau (KfW); (ii) a guarantee programm, up to a maximum of EUR2.5bn per beneficiary with a garantee to cover 80%; (iii) temporary subsidy for businesses affected by rises in energy prices; and (iv) targeted equity and hybrid capital support. February 2022: **Extension of the Economic Stabilization Fund (ESF)** providing (i) federal guarantees for loans, including lines of credit, and capital market products, and (ii) recapitalization measures as a direct means of strengthening capital. Targeted firms : those whose insolvency would have a significant adverse impact on the German economy **Extension of the maximum period for receiving partial unemployment benefits** to 28 months, for a limited period until June 30, 2022. **Extension through June 2022 the Temporary Assistance IV program** that originally ran from January 2022 through March 2022 (Allows companies whose sales have decreased by 30% or more to obtain a grant to cover fixed costs).
Italy	May 2022 (pending to EC approval): **New stimulus package, with a budget of EUR14bn,** to complete the previous package of about EUR20bn via notably: (i) Public guarantees on bank loans and up to 400,000 in grants to thousands of companies; (ii) extension of the 25 cent/l excise tax reduction on fuel prices at the pump from May to July; (iii) some measures to increase the taxation of energy companies benefeting from soaring energy prices, to extend the life of four coal-fired power plants by up to two years, and to accelerating the deployment of renewable energy sources.
France	April 2022: **A new state guaranted loan scheme, namely "Prêt Garanti par l'Etat Resilience" ("PGE Resilience"), in a**ddition to the current PGE established during the health crisis - and to be replaced by a liquidity facility, still guaranteed by the State from June 30, 2022 to December 31, 2022. Coverage up to 15% of average annual turnover over the last 3 years, with no eligibility criteria based on the company's legal form, size or sector of activity. Until the end of June 2022, with a possible extension until end of December 2022. Various measures to compensate for high energy prices: (i) temporary price caps on enerrgy respo gas as well as 4% cap on increases in regulated tariffs; (ii) temporary rebate of EUR0.18/l on gasoline and diesel; iii) EUR3bn energy grants to support energy-intensive companies **"Industrial growth loan"** in partnership with Bpifrance, ranging from EUR 50,000 to EUR 5 million, for industrial sector companies that have been in business for more than three years. The duration of the loan is fixed at 10Y, including 24M of deferred capital repayment. **A subsidized loan** for SMEs and ETIs that have not obtained (or only partially obtained) an "PGE" and are not subject to bankruptcy proceedings.
Spain	April 2022: Spanish scheme under TCF with a budget of EUR169mn to support milk producers (cow, sheep and goat) affected by the input cost increase, through direct grants not later than December 2022, up to EUR35,000 per beneficiary. Various measures to compensate for high energy prices: (i) energy firms shall supply a certain amount of energy in auctions below the wholesale market priuce; (ii) reduction of electricity tax; (iii) tax on excess profits of energy firms.

Source: Allianz Research

One in three countries will see insolvencies bounce back in 2022

Overall, after two years of declines, we expect global business insolvencies to rebound by +10% in 2022 and +14% in 2023, approaching their pre-pandemic level. At this stage, Western Europe should be close to its pre-pandemic level of business insolvencies by 2022 despite mixed dynamics. While state support will keep insolvencies artificially low in France (32,510 cases) and Germany (14,600) in 2022, the UK could see a sharp rebound in 2022 (+37% y/y to 22,305 cases). Another increase, albeit weaker than in 2021, is expected in Italy and Spain (+6% to 8,990 insolvencies and +8% to 5,550 cases, respectively). Portugal (+2%) and Sweden (+6%) should see a moderate rebound.

Africa and Central and Eastern Europe should both reach a new record level of insolvencies in 2022, notably due to Morocco (+12% to 11,800 insolvencies) and Turkey (+12% to 19,200 cases) while Russia is at risk of seeing a catch-up after the expiration of the moratorium (14,200 cases in 2023). Latin America should not see business insolvencies surpassing pre Covid-19 levels before 2023 despite a rebound in 2022 in Brazil (+15%).

After benefiting from its faster exit from the pandemic and its economic recovery, Asia will also see a trend of diverge. China is expected to keep its annual level of insolvencies under control in 2022 (+1% to 8,750 cases), thanks to a low starting point and despite increased difficulties for companies most exposed to international trade. 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). Singapore and India will stand out, the former being back to a high level (275 cases in 2022) and the latter (1,150 cases) experiencing a strong catch-up from the long suspension of courts.

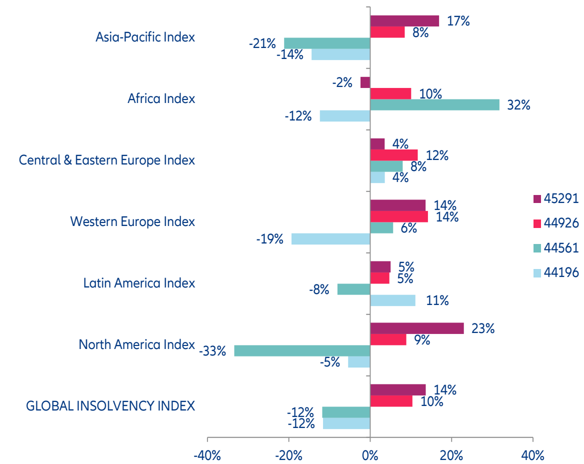
In this context, the US is the main outlier, with a moderate rebound in insolvencies in 2022 and thus a prolonged low number of cases (15,500 cases). We expect US firms to benefit from the buffers accumulated since the pandemic, through the recovery in profits and importantly the Paycheck Protection Program (PPP) government backed-loan that was in place through 2020 and 2021. Indeed, 92% of the total PPP loan value has been forgiven in full or in part (i.e. USD727bn as of early May 2022) and gradually transformed into subsidies, leading to a drop in the financial debt net ratio (to 18.6% in Q4 2021 i.e. a 10-year low) and a rebound in the equity ratio (to 40.9% i.e. a highest since 2014). However, monetary tightening and the economic slowdown should nevertheless contribute to a larger rebound in insolvencies by 2023 (+23% to 19,130 cases).

In our baseline scenario, business insolvencies are likely to remain at low level in most countries by the end of 2022, and even in 2023, with only one in three countries (15) seeing their number of insolvencies back to pre-Covid-19 levels in 2022, and out in two in 2023. In our adverse “black-out” scenario, we would expect insolvencies to increase further in the Eurozone to +19% and +30% in 2022 and 2023, respectively (+21% and +28% for Western Europe as a whole) and in the US to +16% and +40%, respectively, in the absence of an extension of or additional state aid measures.

Figure 15: US Paycheck Protection Program (PPP), USDbn

Sources: SBA, Allianz Research

Figure 16: Global and regional insolvency indices, yearly change in %



Source: Allianz Research

Statistical appendix

	% 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 *	**86.6**	**100**	**122**	**108**	**95**	**105**	**120**	**8%**	**-12%**	**-12%**	**10%**	**14%**	**-22%**	**-14%**	**-2**
North America Index *	26.7	30.8	62	58	39	42	52	3%	-5%	-33%	9%	23%	-37%	-31%	-16
U.S.	24.3	28.0	22 720	21 591	14 290	15 503	19 126	3%	-5%	-34%	8%	23%	-37%	-32%	-16
Canada	2.1	2.5	2 746	2 108	1 942	2 292	2 635	3%	-23%	-8%	18%	15%	-29%	-17%	-4
Latin America Index *	2.3	2.7	212	236	217	227	238	12%	11%	-8%	5%	5%	2%	7%	12
Brazil	1.7	2.0	2 887	2 078	1 962	2 260	2 600	5%	-28%	-6%	15%	15%	-32%	-22%	-10
Colombia	0.3	0.4	1 272	1 292	1 300	1 350	1 400	2%	2%	1%	4%	4%	2%	6%	10
Chile	0.4	0.4	1 701	1 885	1 506	1 550	1 600	23%	11%	-20%	3%	3%	-11%	-9%	-6
Europe Index *	25.0	28.9	155	135	143	162	178	1%	-13%	6%	13%	10%	-7%	5%	15
EU27+UK+Norway Index *	22.4	25.9	138	113	120	137	155	2%	-18%	6%	14%	13%	-13%	-1%	12
EU27 Index *	18.8	21.7	148	123	131	147	168	2%	-17%	7%	12%	14%	-11%	-1%	14
Euro zone Index *	15.2	17.5	147	119	128	143	165	1%	-19%	7%	12%	16%	-13%	-3%	13
Western Europe Index *	20.6	23.8	135	109	115	131	149	1%	-19%	6%	14%	14%	-15%	-3%	11
Germany	4.5	5.2	18 749	15 840	13 993	14 600	16 130	-3%	-16%	-12%	4%	10%	-25%	-22%	-14
France	3.1	3.6	51 434	31 992	28 184	32 510	43 300	-5%	-38%	-12%	15%	33%	-45%	-37%	-16
United Kingdom	3.3	3.8	22 083	15 658	16 310	22 305	23 100	4%	-29%	4%	37%	4%	-26%	1%	5
Italy	2.2	2.6	10 542	7 160	8 498	8 990	10 850	0%	-32%	19%	6%	21%	-19%	-15%	3
Spain	1.5	1.8	4 162	3 945	5 125	5 550	6 250	6%	-5%	30%	8%	13%	23%	33%	50
The Netherlands	1.1	1.2	3 792	3 177	1 818	2 250	3 130	4%	-16%	-43%	24%	39%	-52%	-41%	-17
Switzerland	0.9	1.0	6 004	4 888	5 124	6 170	6 450	-4%	-19%	5%	20%	5%	-15%	3%	7
Sweden	0.7	0.8	7 358	7 296	6 463	6 850	7 350	2%	-1%	-11%	6%	7%	-12%	-7%	0
Norway	0.5	0.5	5 013	4 101	3 325	3 740	4 280	0%	-18%	-19%	12%	14%	-34%	-25%	-15
Belgium	0.6	0.7	10 598	7 203	6 533	9 100	10 000	7%	-32%	-9%	39%	10%	-38%	-14%	-6
Austria	0.5	0.6	5 018	3 034	3 034	4 950	5 500	1%	-40%	0%	63%	11%	-40%	-1%	10
Denmark	0.4	0.5	2 590	2 221	2 175	2 530	2 700	6%	-14%	-2%	16%	7%	-16%	-2%	4
Finland	0.3	0.4	2 989	2 471	2 804	3 100	3 250	1%	-17%	13%	11%	5%	-6%	4%	9
Greece	0.2	0.3	63	57	57	70	85	-23%	-10%	0%	23%	21%	-10%	11%	35
Portugal	0.3	0.3	2 560	2 464	2 195	2 230	2 580	-5%	-4%	-11%	2%	16%	-14%	-13%	1
Ireland	0.5	0.6	568	575	401	560	650	-26%	1%	-30%	40%	16%	-29%	-1%	14
Luxembourg	0.1	0.1	1 236	1 179	1 181	1 300	1 375	7%	-5%	0%	10%	6%	-4%	5%	11
Central & Eastern Europe Index *	4.4	5.1	245	254	274	306	317	1%	4%	8%	12%	4%	12%	25%	29
Russia	1.7	2.0	12 401	9 930	10 319	10 938	14 220	-5%	-20%	4%	6%	30%	-17%	-12%	15
Turkey	0.8	1.0	14 050	15 946	17 184	19 200	18 500	3%	13%	8%	12%	-4%	22%	37%	32
Poland	0.7	0.8	977	1 293	2 187	2 450	2 650	-1%	32%	69%	12%	8%	124%	151%	171
Czech Republic	0.3	0.3	8 521	7 918	7 028	7 650	8 200	41%	-7%	-11%	9%	7%	-18%	-10%	-4
Romania	0.3	0.4	6 524	5 694	6 144	7 150	7 900	-21%	-13%	8%	16%	10%	-6%	10%	21
Hungary	0.2	0.2	5 176	4 293	5 005	6 300	6 800	-9%	-17%	17%	26%	8%	-3%	22%	31
Slovakia	0.1	0.1	2 447	1 889	1 692	1 877	1 995	25%	-23%	-10%	11%	6%	-31%	-23%	-18
Bulgaria	0.1	0.1	506	524	527	610	650	6%	4%	1%	16%	7%	4%	21%	28
Lithuania	0.1	0.1	1 609	789	795	1 000	1 350	-23%	-51%	1%	26%	35%	-51%	-38%	-16
Latvia	0.0	0.0	557	374	241	320	410	-6%	-33%	-36%	33%	28%	-57%	-43%	-26
Estonia	0.0	0.0	271	341	308	360	380	-1%	26%	-10%	17%	6%	14%	33%	40
Africa Index *	0.5	0.6	157	137	181	199	194	31%	-12%	32%	10%	-2%	15%	27%	24
South Africa	0.4	0.5	2 042	2 035	1 932	2 000	2 100	11%	0%	-5%	4%	5%	-5%	-2%	3
Morocco	0.1	0.2	8 477	6 620	10 550	11 800	11 300	35%	-22%	59%	12%	-4%	24%	39%	33
Asia-Pacific Index *	32.1	37.1	139	119	94	102	119	19%	-14%	-21%	9%	17%	-33%	-27%	-14
China	17.8	20.6	11 826	11 999	8 691	8 750	9 700	12%	1%	-28%	1%	11%	-27%	-26%	-18
Japan	5.4	6.2	8 385	7 773	6 030	6 500	7 830	2%	-7%	-22%	8%	20%	-28%	-22%	-7
India	3.1	3.6	1 924	736	770	1 150	1 600		-62%	5%	49%	39%	-60%	-40%	-17
Australia	1.7	2.0	6 405	3 582	3 408	4 400	5 900	1%	-44%	-5%	29%	34%	-47%	-31%	-8
South Korea	1.9	2.2	414	292	183	230	280	-12%	-29%	-37%	26%	22%	-56%	-44%	-32
Taiwan	0.8	1.0	205	200	204	220	230	-6%	-2%	2%	8%	5%	0%	7%	12
Singapore	0.4	0.5	287	200	191	240	250	39%	-30%	-5%	26%	4%	-33%	-16%	-13
Hong Kong	0.4	0.5	244	234	299	299	330	-4%	-4%	28%	0%	10%	23%	23%	35
New Zealand	0.3	0.3	1 907	1 619	1 500	1 600	1 700	-11%	-15%	-7%	7%	6%	-21%	-16%	-11
Global with absolute number of insolvencies	86.6	100	106	85	80	92	105	1%	-19%	-6%	15%	14%	-24%	-13%	-1
Global with relative number of firms **	86.6	100	179	163	169	188	204	8%	-9%	3%	11%	8%	-6%	5%	14

(*) Global (or regional) insolvency index is the weighted sum of national indices, each country being weighted by the share of its GDP within the countries used in the sample (44 countries representing 87% of global GDP in 2021). National indices are based upon national sources or Allianz Trade internal data on insolvencies, using a base of 100 in year 2000. Forecasts are reviewed each quarter. (**) GDP 2021 weighing at current exchange rates
(***) weighing at 2015 number of active firms per country (OECD and national source figures)
(***) weighing at 2015 number of active firms per country
Sources: national sources, OECD, Eurostat, Allianz Research (e:estimate; f:forecasts)
Data are available on the webapp MindYourReceivables

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Allianz Research encompasses Allianz Group Economic Research and the Economic Research department of Allianz Trade.

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