

CRIFBÜRGEL EXPECTS SIGNIFICANT INCREASE IN CORPORATE INSOLVENCIES DUE TO THE CORONA PANDEMIC



After 10 years of decline in corporate insolvencies, the corona crisis will cause significantly more companies in Germany to slide into bankruptcy again in 2020, according to projections by the information service provider CRIFBÜRGEL. Last year, a total of 19,005 companies applied for bankruptcy; the number of insolvencies had therefore fallen for the tenth time in a row in 2019. "For the current year, however, we expect a significant increase at CRIFBÜRGEL. Assuming that the effects of the Coronapandemic on the economy are as strong as in the financial crisis of 2008, we expect over 29,000 corporate insolvencies this year," explains Managing Director Dr. Frank Schlein. Before the outbreak of the corona virus, CRIFBÜRGEL was still expecting 19,500 cases for 2020.



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In a scenario analysis, CRIFBÜRGEL compared the overall economic situation of companies in Germany and the corporate insolvencies from 2008, i.e. the peak of the financial crisis, with the situation in 2019. The factor generated by this calculation is 1.54, i.e. in the worst case, there could be 54 percent more insolvencies in Germany in 2020.

Liquidity assistance and KfW loans are not included in the analysis. However, a large proportion of the aid is in the form of loans, i.e. debts that will have to be repaid at some point. This raises the question of how even hitherto successful companies, which due to their business model generated little profit and rather low reserves, should pay off additional loans.



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"Since the insolvency statistics always reflect the past, i.e. to a certain extent a look in the rear-view mirror, the exact effects of the Corona crisis will probably not become apparent until the second half of the year and next year. The wave of insolvencies will continue into 2021. The extent is still open and also depends on the duration of the pandemic," Schlein said. It was similar during the financial crisis: The peak of the wave of bankruptcies was not reached until 2009 with 33,762 corporate insolvencies.

CRIFBÜRGEL sees a high increase in insolvencies especially in the tourism, gastronomy and event industry. In addition, exhibition stand builders, automotive suppliers, cinemas and also the retail trade and export-dependent industry will feel the consequences of the lockdown. Companies from these sectors with low liquidity reserves are unlikely to get back on their feet.

Insolvency caused by the corona pandemic does not necessarily mean that the company disappears from the market. Insolvency law in Germany offers many possibilities. It is not just about winding up or closing down companies. One option is also to restructure the company under the previous owners' own management, for example as part of an insolvency plan under which the company must agree with the creditors on which part of the debts they can waive and how much the company can repay. Companies may also aim to attract new investors into the company.

However, there are also industries that benefit from the Corona pandemic. These include online and mail order companies, delivery services, companies in the pharmaceutical and medical technology industries, as well as online services and software providers for remote working solutions.