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Germany: More insolvencies in the pipeline, despite significant aid

Insolvencies in Germany dropped significantly in 2020 compared to 2019, despite the worst recession since 2009. This is largely thanks to public support programmes. However, the early-announced applications for regular insolvency proceedings (Regelinsolvenzverfahren) at courts already increased sharply in February and March, signaling a pending increase in corporate insolvencies in the next months. Coface's forecasting model shows that up to 4030 insolvencies were prevented by the State-support in 2020, which is now in single parts being withdrawn, and could take place in 2021/22. From a corporate perspective, the crisis is far from over.

2020 Recap: Insolvencies decreased, but not everywhere

In 2020, 15,840 companies became insolvent in Germany. Thanks to public support, this is the lowest level of insolvencies since 1993, and the sharpest decrease (-15.5% compared to 2019) since 1975. The gap between both years became particularly important from July 2020 onwards. 2021 started as 2020 ended, with very low insolvency numbers.

Not every sector or region benefited from this favourable situation. In order to receive state support, companies had to prove that their business model was working before the pandemic, i.e. December 2019. As the metals and automotive sectors had been in recession since late 2018, some companies did not meet this criteria, did not get State-support, and went insolvent. The insolvencies in the metals sector increased by 7.1% in 2020, while the increase in automotive reached 31.6%. These increases in specific sectors have not changed the overall structure of insolvencies in Germany: the majority of the insolvencies come from business services, construction, and hospitality, as well as retail sales and transport. Metals accounts for only 3% of all insolvencies in 2020 and automotive for barely 0.5%.

A worrying increase in insolvency claims

The insolvencies are concentrated in microenterprises and small- to medium-sized companies (SMEs). But the pure number of insolvency does not give any information about the economic damage. Indeed, the German statistical office (Destatis) estimated that although the numbers decreased drastically, the anticipated claims out of corporate insolvencies added up to EUR 44.1 billion in 2020 – the highest level since the recession in 2009.

In 2020, claims rose by 65% compared to 2019. Some sectors stood out in the comparison, especially the ICT sector¹. This sector reported an increase of 2767% year-on-year due to the insolvency of a big prescription clearing office (AVP), with which many pharmacies had worked. The hospitality industry reported an increase in claims of 383% YOY, the trade and retail sector 116%, and the finance and insurance sector 124%. On the other end of the spectrum, claims in construction only increased by 7% YOY, while claims in transport actually fell by 84%.

¹ ICT – Information and Communication Technology



P R E S S R E L E A S E

Sufficient support measures?

The German federal government implemented measures to support companies during the pandemic. Loans were the most-used during the first year of the crisis, reaching EUR 49 billion (1.5% of GDP). While the loan program was initially only for medium-sized companies, the range increased to very small companies at the beginning of the second lockdown in November 2020. The economic stabilization fund for big companies, one of the main support pillars, was only slightly used (from the available EUR 600 billion, only EUR 8.4 billion was used) and mainly by the travel sector.

Even with significant public support, it is very likely that these measures were either insufficient or too slow to keep the corporate finances in balance. Hospitality and retail sales seem to be two sectors where the financial buffer is used up and in which more insolvencies are likely, after a 6-week lockdown in spring 2020 and another 5 to 6-month lockdown in winter/spring 2021.

According to Coface group simulation, total insolvencies should have increased by 6% in 2020 compared to 2019. In reality, insolvencies fell by 15.5%. Therefore, a share of up to 21.5% (or 4030 insolvencies) could be in the pipeline (including furlough into this estimate, but keep all other support measures aside). The bulk should come from hospitality, where we expect around 660 “hidden insolvencies”, followed by transport and construction with around 420 each, manufacturing (230) and retail (190). This shows that even with a low number of insolvencies in 2020, the corporate bill for the pandemic has yet to be paid.

The full study is available [here](#).

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