

Atradius Insolvency Report forecasts 27% climb in UK business failures

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Cardiff, UK, 1 September 2020: Insolvencies in the UK are forecast to jump by 27% this year, slightly higher than the global average rise of 26%, reveals a new economic research report by top trade credit insurer Atradius (<https://atradius.co.uk>).

The latest Atradius Insolvency Report (<https://atradius.co.uk/publications/>) analyses the economic impact of the Covid-19 pandemic and the knock-on effect on insolvencies. Every major economy, except for China, is expected to enter recession this year with global GDP forecast to contract by 4.5%, making this recession more acute in magnitude than the Great Recession of 2009. The UK is expected to see the largest GDP contraction in Northern Europe following a stringent lockdown and high Brexit uncertainty. Atradius economists report that the depth and length of the global recession will be determined by the ability of economies to manage health regulations and either achieve exit from lockdown or find a way to thrive with social distancing.

In response to global economic decline, every market is expected to experience a rise in insolvencies in 2020, led by Turkey with a 41% forecast increase, followed by the United States and Hong Kong with a forecast rise of 39%. Portugal, Russia, the Netherlands and Spain are the next worse affected regions with insolvencies up between 30% and 36%. A 27% increase is forecast for both South Africa and the UK, which has the ninth highest insolvency forecast out of 31 global markets. Meanwhile, insolvencies are forecast to rise 19% in Ireland, 17% in Italy and 15% in France. Germany is expected to see the smallest increase at just 6% year on year.

Atradius economists highlight that Southern European economies such as Spain, Italy, France, Portugal and Greece are experiencing a larger coronavirus impact than Northern Europe as they typically rely more heavily on tourism. By comparison, Germany, Denmark, Austria and the Netherlands are less dependent on tourism and have fared better in containing new infections, with their economies seeming to adapt better to social distancing regulations. Across the countries reported on, there is a wide range of insolvency projections, depending on the severity of the economic contraction and the insolvency elasticity – the percent responsiveness of insolvencies to one percent GDP change.

In the first half of the year, insolvency levels have not reflected the economic decline experienced in many markets. In fact, Atradius' research demonstrates insolvencies fell, with UK insolvencies down more than 20% year-on-year in H2 and similar patterns replicated globally. However, Atradius explains this peculiarity by changes to the insolvency regime in most countries, designed to protect companies from going bankrupt. These include temporary suspensions of insolvency applications, preventing creditors from starting insolvency procedures or raising the debt threshold for bankruptcy notice. In addition, governments and central banks have taken measures to counteract the economic impact on businesses such as SME lending programmes, subsidies - including furlough payments - and tax suspensions. As measures and programmes begin to expire, Atradius forecasts that the brunt of the recession will be more fully reflected with a rapid climb of insolvency levels in the second half of the year.

Atradius Chief Economist John Lorie commented: "Government measures have reduced the anticipated

increase in bankruptcy filings in a range of ways. They have either shifted the threshold for filing, reduced debtor's ability to force bankruptcy, or provided sufficient financial support to delay filings. However as the support programs begin to expire, the number of filings should climb rapidly."

Looking forward, Atradius' Insolvency Report forecasts Spain to see the greatest rise in bankruptcies in 2021 at 26% year on year, followed by Australia at 22% and France at 5%. Finland, Norway, the Netherlands, Canada, Switzerland and Sweden are also forecast to see a small rise in insolvencies of between 2% to 4% with most regions expected to see a fall. The UK's insolvency rate is forecast to drop by 1% in 2021. However, this is still a cumulative growth of 25% between 2019 and 2021. Over two years, global insolvencies are forecast to have risen by an average of 21%. The future outlook is predicated on a baseline scenario where global lockdown measures are gradually eased, GDP recovers in all countries in 2021. It also assumes availability of a vaccine and an environment where the effects of social distancing on economic activities are largely overcome. However, this is not guaranteed.

Simon Rockett, Senior Underwriting Manager for Atradius UK, commented: "The coronavirus pandemic has been indiscriminate in its spread across the globe, resulting in lockdowns and containment measures which have had a tangible impact on economic markets. This has included delays in production, a drop in business and consumer demand and widespread business closures. While many countries have implemented fiscal stimulus measures to soften the blow, these cannot last forever and worldwide economies are starting to realise the true economic impact in the form of recession and a bleak return to rising insolvency levels.

"Real-time monitoring of global markets and the impact on individual businesses, together with agility in response are critical factors in navigating today's uncertain climate. The continuation of trade is essential to rebuilding business growth while a robust risk strategy to protect the bottom line is as important today as it has ever been"

For the full report, visit the publication pages of the Atradius website <https://atradius.co.uk> (<https://atradius.co.uk>). You can also follow @AtradiusUK on Twitter and AtradiusUK on LinkedIn.

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Atradius is a global provider of credit insurance, surety and collection services, with a strategic presence in over 50 countries. The credit insurance, bond and collection products offered by Atradius protect companies around the world against the default risks associated with selling goods and services on credit. Atradius is a member of Grupo Catalana Occidente (GCO.MC), one of the largest insurers in Spain and one of the largest credit insurers in the world. You can find more information online at <https://atradius.co.uk>

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