# Coronavirus pandemic leads to a worldwide wave of insolvencies of +20%

- Global economy in 2020 is at -3.3% prior to the biggest recession since World War II. This corresponds to losses in global gross domestic product (GDP) of USD 9 trillion
- Global trade is in a deep recession in 2020 at -15%, losses are expected to amount to USD 3.5 trillion
- Wave of bankruptcies in sight: Global insolvencies likely to rise by 20% in 2020, USA (+25%) and Europe (+19%) main drivers, China with +15
- Germany: at least 10% more bankruptcies expected in 2020, without government measures would be much higher
- Corporate debt mountains increase due to the Coronavirus - solutions for reducing the debt burden must be found in the medium term

**Hamburg, 19 May 2020 –** The coronavirus pandemic is leaving deep scars on the global economy. According to the world's leading credit insurer Euler Hermes, this will likely to lead to a deep recession in world trade and the global economy – and consequently to a wave of insolvencies worldwide. Globally, the number of insolvencies is therefore likely to rise for the fourth time in succession in 2020 – albeit at an unprecedented rate of +20%. By comparison: in 2019 the increase was at 8%.

Global trade is threatened with losses of USD 3.5 trillion. This means a 15% drop in the volume of goods and services traded, and an even more severe setback in the value of goods at -20%. The global gross domestic product (GDP) is in the deepest recession since World War II with an estimated -3.3% due to the pandemic.

## 2020 originally promised to be a rather quiet year - but then came Covid-19

"2020 originally promised to be a rather quiet year," says Ludovic Subran, Chief Economist of Allianz and Euler Hermes. "With some geopolitical uncertainties, a still smoldering trade conflict – but also with a slight growth in world trade and the global economy. A year of 'cheating'. Originally. But then came the Coronavirus. A textbook black swan – and suddenly everything was different: one piece of bad news follows another, from one export crisis to a quake on the financial markets, from an oil price shock to a virtually global consumption shock. According to our current forecasts, the global economy is expected to collapse twice as hard in 2020 as it did during the financial crisis. The losses are as high as the economic power (GDP) of Germany and Japan combined. This leaves traces like a meteorite impact that will not disappear overnight."

This development is not without consequences for companies either. Never before has there been such a severe slump in so many countries and industries at the same time.

In most cases, it is therefore not possible to find alternative customers or alternative sales markets to cushion the slump.

**Global insolvencies: +20% more bankruptcies expected in 2020 – in Europe +19%**

*"An unprecedented wave of bankruptcies is rolling in on companies worldwide,"* says Ron van het Hof, CEO of Euler Hermes in Germany, Austria and Switzerland. *"We currently expect a 20% increase in the number of insolvencies worldwide in 2020 – more than three times as high as expected before the corona pandemic (+6%). Besides the USA (+25%), Europe in particular is in the eye of the storm (+19%). In this situation, it is extremely important for companies and the economy to create confidence. This is why the joint protective shield for the German economy, companies and their employees is crucial – especially for small and medium-sized enterprises. Trade will be stabilized as a result. This is an important basis for ensuring that German companies are in a relatively good starting position for an upswing after the crisis."*

Currently, the German economy, among others, is restarting after the standstill due to the containment measures, but the difficulties are far from over. With German GDP contracting by -8.9%, the German economy is also sliding into recession. Euler Hermes' economists therefore forecast at least 10% more insolvencies in Germany compared to the previous year.

Without government measures in many countries, Euler Hermes' economists expect a much higher increase in insolvencies. In Germany, companies benefit not only from the protective shield for the German economy but also from numerous liquidity measures – much of it in the form of loans.

**Postponement does not mean lifted: Debt burden for many is overwhelming; solutions must be found**

"The liquidity and stabilization measures are an enormously important first step towards stabilizing the economy quickly," says Van het Hof. "The flip side of this coin, however, is that the debt burden for many companies will be much greater than before. In order to prevent these mountains of debt from crushing companies, the second step is to identify solutions and the relevant timeframe for companies to subsequently reduce or restructure these debts. The problem may be postponed for the time being, but it does not mean it is cancelled."

**Beware of zombies: In the eurozone there are an estimated 13,000 companies on life support**

For companies that were already in financial difficulties before Covid-19, however, the Coronavirus pandemic makes it increasingly difficult to escape the downward spiral. In the eurozone alone, there are an estimated 13,000 so-called "zombie companies" with total sales of around 500 billion euros. They have managed to keep their heads above water thanks to the ongoing phase of low interest rates. However, the Coronavirus could make things tight for many.

Many companies in the textile retail trade, for example, have been hanging by a thread for years and the electronics industry has also been struggling with numerous problems for a long time. In the metal and automotive industries, too, have been facing structural challenges signaling that the situation was already bad for many sectors before the Coronavirus. Perhaps, the effects of the virus are the straw that breaks the camel's back.


**Press contact**

**EULER HERMES GROUP**

Sophy Hunter
+33 (0)1 84 11 61 33
Sophy.hunter@eulerhermes.com

**EULER HERMES HAMBURG, DEUTSCHLAND**

Wolters, Antje
+49 40 88 34 10 33
Antje.Wolters@eulerhermes.com


**Social media**

- Follow us on Twitter @eulerhermes
- Follow us on LinkedIn Euler Hermes
- Follow us on YouTube eulerhermes

**Euler Hermes** is the global leader in trade credit insurance and a recognized specialist in the areas of surety, collections, structured trade credit and political risk. Our proprietary intelligence network analyses daily changes in corporate solvency representing 92% of global GDP. We give companies the confidence to trade, and be paid. We compensate your company in the event of a bad debt, but more importantly, we help you avoid bad debt in the first place. Whenever we provide trade credit insurance or other finance solutions, our priority is predictive protection. But, when the unexpected arrives, our AA credit rating means we have the resources, backed by Allianz to provide compensation to maintain your business. Headquartered in Paris, Euler Hermes is present in 50+ countries with 5,800 employees. In 2019, our consolidated turnover was €2.9billion and insured global business transactions represented €950billion in exposure.

For more information, please visit: eulerhermes.com

**We predict trade and credit risk today, so companies can have confidence in tomorrow.**

of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the euro/US-dollar exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures, and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.