SA business insolvencies rise by 21.5%

Business insolvencies in the country increased by +21.5% y/y over the first seven months of the year, with 1,162 cases compared to 956 in 2020.

Source: ©nakophography 123rf

This is according to Euler Hermes economists who says that South Africa has already recovered to its pre-crisis level since business insolvencies were reaching 1,140 cases on average since 2014 for the same period (January to July).

South Africa is one of the few countries posting, for the first months of 2021, more business insolvencies compared to 2020 - with notably Italy and Spain and Morocco.

“Q3 liquidations for trade, food and accommodation have been impacted the most as a result of lockdown restrictions and lack of substantial state support. They were at 286 between January to August 2021 versus 229 for the same period last year.

"The majority of the other sectors showed marginal declines or improvements from last year,” says Luke Morawitz head of credit intelligence at Euler Hermes South Africa, which operates through the Allianz Global Corporate & Specialty (AGCS) licence in South Africa.

“Euler Hermes expects business insolvencies in South Africa to reach 2,200 cases for the full year, which would represent more than pre-crisis levels since insolvencies were averaging 1,900 cases over the 2014-2019 period, but much less than the record reached in 2009 and 2001 when business insolvencies exceeded 4,100 at the full year," adds Morawitz.

Decrease globally

Global insolvencies decreased in 2020 (-12%) and will continue to do so in 2021 (-6%) as the extension of many state support measures in a context of generally accommodative monetary policy is helping to manage the pressure on companies' liquidity and solvability.

"Looking at insolvency levels, governments succeeded in helping companies face the crisis: massive state intervention prevented one out of two insolvencies in Western Europe and one out of three in the US in 2020.

Their extension will keep insolvencies at a low level in 2021, but what happens next depends on how governments act in the coming months," says Maxime Lemerle, head of sector and insolvency research at Euler Hermes.

According to Euler Hermes, the withdrawal of support measures for companies sets the stage for a gradual normalisation of business insolvencies.

The credit insurer expects global insolvencies to post a +15% y/y rebound in 2022, after two consecutive years of decline. But with a fine-tuned and step-by-step removal, the return to pre-crisis insolvency levels will take longer: global insolvencies will remain -4% below 2019 levels in 2022.

Emerging markets

Emerging Markets are already seeing a normalisation of business insolvencies amid renewed restrictions in response to new waves of infections and less generous policy support.

It is that those in Africa largely exceed pre-Covid-19 levels as soon as 2021, and those in Central/Eastern Europe and Latin America to do so in 2022.