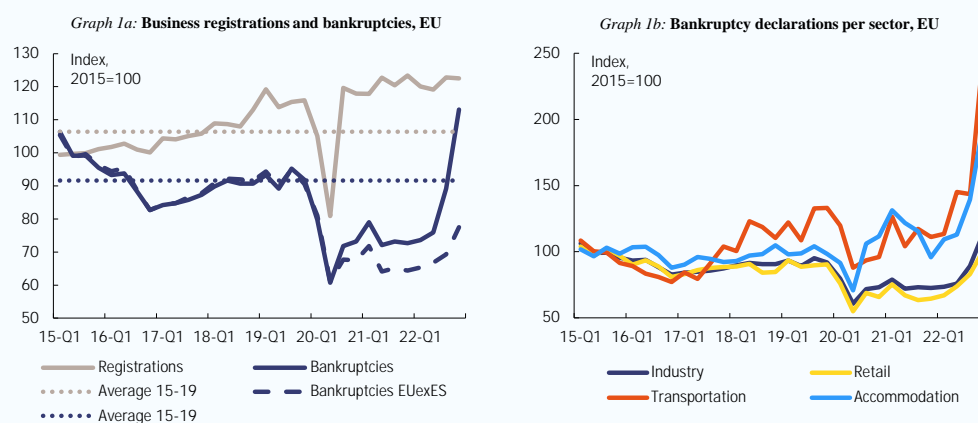


Box 1.2.2: Recent developments in bankruptcy declarations in the EU

This box analyses the drivers behind the surge in bankruptcies in the second half of 2022. The recent surge in bankruptcies is to a large extent driven by developments in Spain, where a new insolvency regulation recently entered into force. Sectors that were most severely hit by the pandemic and energy crisis, notably accommodation and transport, also played an important role in the recent uptick, but likely reflect a catch-up with pre-pandemic trends following the withdrawal of support measures. Beyond these two effects, the increase in bankruptcy declarations in the EU appears contained. Still, the rapid tightening of financing conditions remains a source of risk.

Bankruptcy declarations surged in the second half of last year and are now above their long-term average in the EU. Business registrations in the EU had shown a steady increase before 2019. In the first half of 2020, registrations dropped reflecting the difficult situation of businesses at the beginning of the pandemic. They picked up again as the economy rebounded in 2020-Q3. Since then, the number of registrations has returned to a level well-above the pre-pandemic average (2015-19). The drop of bankruptcies during the first half of 2020 reflected the interruption of administrative services to handle bankruptcy declarations, including outright suspensions of possibility to initiate insolvency proceeding. Bankruptcy declarations picked up again until the beginning of 2021 and remained stable at a relatively low level until 2022-Q2, but have increased sharply thereafter. Two factors explain this sudden surge.



The increase in the bankruptcy rate in the EU is heavily affected by regulatory changes in Spain. Bankruptcy declarations in Spain shot up in the last two quarters. This is largely explained by reforms to the insolvency framework that entered into force in September 2022, which shortened the repayment plan and made bankruptcy proceedings more debtor-friendly. In addition, the end of the insolvency moratorium as from 30 June 2022 contributed to increase the insolvency filings in the third quarter of 2022. As Spain boasts the third highest number of corporations in the EU, developments in Spain have an important weight in the EU aggregate. Several other Member States registered a slight uptick in bankruptcies, but the rate of exits remained below the pre-pandemic average.

The hike in bankruptcies is concentrated in the sectors most likely to be affected by the withdrawal of pandemic support measures. The pick-up in bankruptcies reflects a clearing of the insolvency backlog created by some support schemes during the pandemic. Government liquidity support measures in the acute phases of the pandemic helped many businesses, including those that were already struggling, to stay afloat. Businesses in contact-intensive sectors, like accommodation and transport, have been amongst the main beneficiaries, as contact-intensive services were particularly hit by lockdowns. As support measures are wound down, the number of viable firms is expected to thin out. In this respect, it is noteworthy that in the fourth quarter of 2022, bankruptcy declarations in the transport and accommodation sectors (which incidentally have historically shown higher average bankruptcy rates than other sectors) jumped to record highs (by 72.2% and by 39.4% respectively). These two sectors are also of significant importance in Spain and contribute to the strong increase of bankruptcies in the country.