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IWH Bankruptcy Update: Ongoing Decline in Bankruptcy Statistics

After hitting an all-time low in July, the number of firms declaring bankruptcy in Germany fell yet again in August. A new low was also registered in the number of impacted jobs. These are the headline findings of the IWH Bankruptcy Report, published by the Halle Institute for Economic Research (IWH), which provides a monthly update on German bankruptcy statistics.

According to IWH statistics, 570 firms based in Germany filed for bankruptcy in August. This was 11% lower than the record low set in July (see figure 1). The August 2021 figure was also 15% lower than the equivalent figure from August 2020. This is particularly notable given that the obligation to file for bankruptcy was suspended at that time, due to the Corona pandemic.



The largest 10% of firms declaring bankruptcy in August employed a total of 3,000 individuals – yet another all-time low. This was 23% lower than the previous record from June 2021 and 82% lower than the equivalent figure from one year prior (see figure 2).

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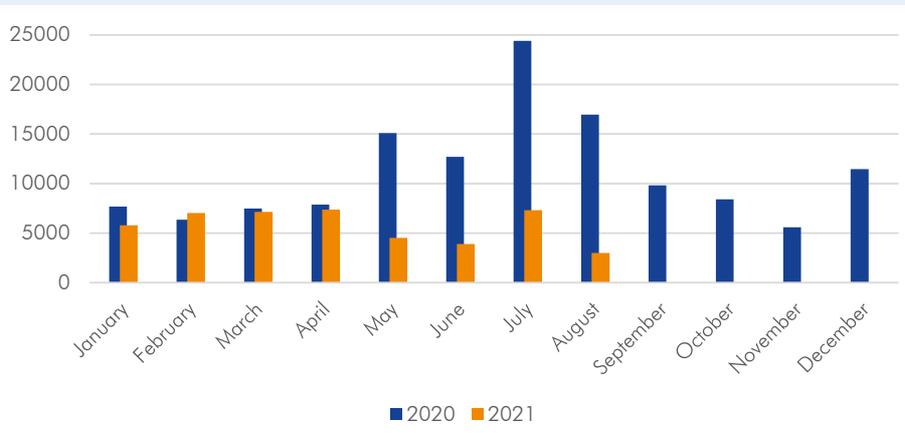
Governmental Departments
Federal Ministry for Economic Affairs and Energy (BMWi), Federal Ministry of Finance (BMF), Federal Ministry of Justice and Consumer Protection (BMJV), Federal Chancellery

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Figure 2
Affected Employees



Employment in the largest 10% bankruptcies. Bankruptcies of German firms with entry in the commercial register.

Sources: Bankruptcy announcements of German courts; IWH presentation.

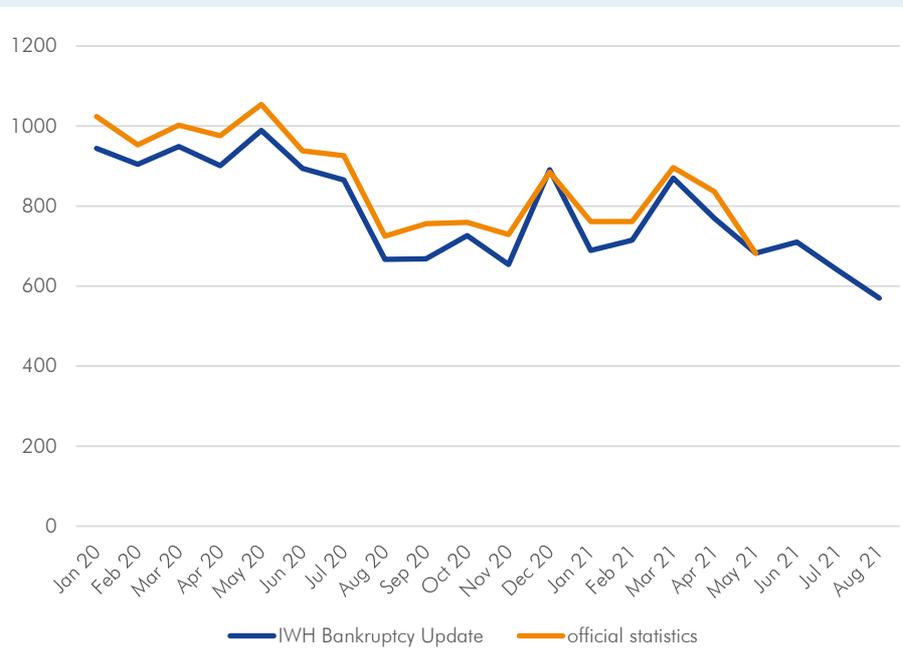
These numbers are also extremely low from a long-term perspective. Some 20 years ago, an average of 2,000 firms declared bankruptcy each month in Germany, IWH's head of Bankruptcy Research, Steffen Müller, notes. "Government support mechanisms are holding bankruptcy rates at an artificially low level," he explains. That the current recovery is not solely responsible for the record-low figures is indicated by the bankruptcy statistics from the last macroeconomic expansion: Between 2010 and 2018, an average of 1,000 firms declared bankruptcy each month.

"In order to prevent the current backlog of bankruptcies from growing ever larger, policymakers should conduct an immediate review of ongoing economic support measures," Müller argues. While Müller applauds the generous short-time work measures that were instituted at the start of the pandemic, given their importance for stabilising the economy, he criticises the undifferentiated way in which support is granted, as even failing firms in booming subsectors can receive assistance. This type of government intervention is misplaced, as it prevents the creative destruction that is so important for the long-term health of the economy, Müller explains.

The IWH Bankruptcy Update is a flash indicator, delivering fast, reliable information on insolvencies of firms with entry in the commercial register in Germany two months ahead of the comprehensive official statistics. It is based on public bankruptcy announcements of German courts combined with balance sheet information of the concerned firms. Deviations from official statistics are small (see figure 3). The IWH Bankruptcy Research Unit is among Germany's leading investigators of the causes and consequences of corporate bankruptcy.

Figure 3
IWH Bankruptcy Update vs. Official Statistics

Registered firms only



Bankruptcies of German firms with entry in the commercial register.

Sources: Official statistics; bankruptcy announcements of German courts; IWH presentation.

For more on the IWH Bankruptcy Research Unit and the methodology underlying it, please visit <https://www.iwh-halle.de/en/research/data-and-analysis/iwh-bankruptcy-research/>.

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The IWH [list of experts](#) provides an overview of IWH research topics and the researchers and scientists in these areas. The relevant experts for the topics listed there can be reached for questions as usual through the IWH [Press Office](#).

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“From Transition to European Integration”, the institute’s research concentrates on the determinants of economic growth processes with a focus on efficient capital allocation in a national and European context. Particular areas of interest for the institute are macroeconomic dynamics and stability, microeconomic innovation processes, productivity and labour markets, the dynamics of structural adjustment processes, financial stability and growth and the role of financial markets for the real economy.

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