



Insolvency time bomb defused

10% increase in insolvencies predicted for Australia vs 57% for North America

Australia looks set to have been spared the much-discussed business insolvency ‘tsunami’ thanks to the federal government’s temporary support measures – but the “zombies” will disappear. And insolvencies are expected to rise by 10 per cent this year, which means now’s the time for fragile but viable businesses to focus on ways to remain solvent, urges national business turnaround and insolvency firm Jirsch Sutherland.

According to the [Global Insolvency Index](#) from trade credit insurer Euler Hermes, Australia’s insolvencies are predicted to be 10 per cent higher in 2021 and 10 per cent higher in 2022 compared to 2019. That compares to 1 per cent (y/y increase) in 2019 and a 41 per cent decrease in 2020. New Zealand is also predicted to see a 10 per cent increase in 2021 and 2022 after experiencing an 11 per cent decrease in insolvencies in 2019 and 16 per cent decrease in 2020. The Index also predicts that the Asia-Pacific region will outperform other regions of the world, with a 4 per cent increase in insolvencies in 2021 and 18 per cent next year compared to 2019.

At a global level, insolvencies are expected to rise by 25 per cent in 2021 compared to 2019, with 2022 expected to show a 13 per cent increase compared to the same period. The most severely affected regions will be North America, where insolvencies are predicted to be up 57 per cent by the end of 2022 compared to 2019, while Latin America will be 31 per cent higher. Western Europe insolvencies are expected to be up 23 per cent, while the number of insolvencies in Asia will be 18 per cent higher.

Commenting on the Index, Bradd Morelli, Jirsch Sutherland’s National Managing Partner, said the once-predicted global insolvency time bomb has been defused by massive government support measures around the world and the vaccine roll out, which is predicted to “supercharge global growth”.

“In Australia, government support has cushioned the fall and put the country in a strong position compared with many other regions. But it doesn’t mean there won’t be companies winding up,” Morelli says. “The phasing out of the stimulus measures is expected to start an increase in insolvencies from the second half of this year. And the zombies will be leading the charge – particularly pre-COVID zombies, i.e., companies that weren’t viable before the crisis but were kept afloat by the emergency measures, and COVID-19 zombies – i.e., companies weakened by the pandemic, notably in the sectors most impacted by the pandemic, such as restaurants, hotels, tourism and travel.

“However, there are also still-viable companies that have been scarred by the 2020 hit on cash flow and profitability. The scars will take time to heal but with the right help and solutions they can turn their businesses around and prepare for the future.”

In its report [2021-2022: Vaccine Economics](#), Euler Hermes states: “The broad-based extension of ‘temporary’ support measures into 2021 is likely to keep insolvencies artificially lower for



longer but their phasing out should start an increase in insolvencies as early as H2 2021.”

Euler Hermes also expects most countries will see export gains in 2021, with China, Germany and Italy being the main winners. China, Vietnam, Australia and the Netherlands are expected to recover the fastest, with 2021 exports likely to stand at more than 10 per cent above 2019 levels.

“Vaccine recovery tailwinds could push forward the global trade recovery by one year, with trade in goods [having returned] to pre-crisis value levels by end-2020 and services [returning] by 2022,” the report said.

[*Euler Hermes 2021-2022 Vaccine economics](#)

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About Jirsch Sutherland – www.jirschsutherland.com.au

Established in 1984, Jirsch Sutherland is one of Australia’s leading national independent insolvency specialists. The Jirsch Sutherland team works closely with small and mid-size accounting, finance and legal firms – and their clients – to provide a wide range of expert corporate and personal insolvency services including liquidations, voluntary administrations, receiverships and bankruptcy.

With head offices in Sydney, Melbourne, Brisbane, Newcastle and Perth, supported by a network of regional offices, Jirsch Sutherland’s national reach combined with a local presence underpins the company’s ongoing success. For over three decades, Jirsch Sutherland has earned a well-deserved reputation for protecting and guiding clients through the insolvency process in a fair and ethical way.

In Western Australia, Jirsch Sutherland trades as WA Insolvency Solutions.

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