INSOLVENCY AND DEBT OVERHANG AT THE TIME OF COVID-19:
RISKS AND POLICY RESPONSES

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Otherwise viable firms could become distressed and will find it hard to service debt.

Note: The sample is restricted to viable firms in the 2018 benchmark year (i.e., firms displaying positive net worth and positive profits).
Source: OECD calculations on Orbis data.

Large heterogeneity across sectors: Sectors such as “Accommodation and food service activities” and “Art and entertainment” are hardly hit, whereas “Information and communication” and “Professional services” much less.
Old and more productive firms are impacted less adversely

Moreover, large firms are better positioned to face the shock compared to their smaller counterparts.

Note: The sample is restricted to viable firms in the 2018 benchmark year (i.e., firms displaying positive net worth and positive profits).
Source: OECD calculations on Orbis data.
Policy options to facilitate the corporate sector recovery

1. Flattening the curve of insolvency while reducing the debt overhang risk
   - Contributing to recapitalise firms
   - Ensuring that equity markets continue to develop
   - Favours new financing to financially distressed firms
   - Ease pre-insolvency procedures and debt restructuring

2. Encouraging timely debt restructuring
   - Ensuring the highest possible recovery rate for creditors
   - Reducing specific barriers to market exit for small firms

3. Improving the efficiency of liquidation procedures
   - Equity and quasi-equity type instruments (e.g. preferred stocks, debt-equity swaps)
   - SMEs: state-contingent loan repayment via future taxes; conversion of government (crisis related) loans into grants
   - Allowance for corporate equity (ACE)
   - Increase financial literacy and streamline listing requirements to boost stock market participation
   - Granting higher priority to new investors
   - Establishing specific procedures for SMEs (e.g., by promoting informal debt restructuring)
   - Establishing specific out-of-court procedures for debt restructuring of large companies (e.g. when the number of creditors are limited)
   - Speeding-up court process
   - Ensuring that liquidation is established by an independent broker
   - Reforming personal insolvency regime
THANK YOU!

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