



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

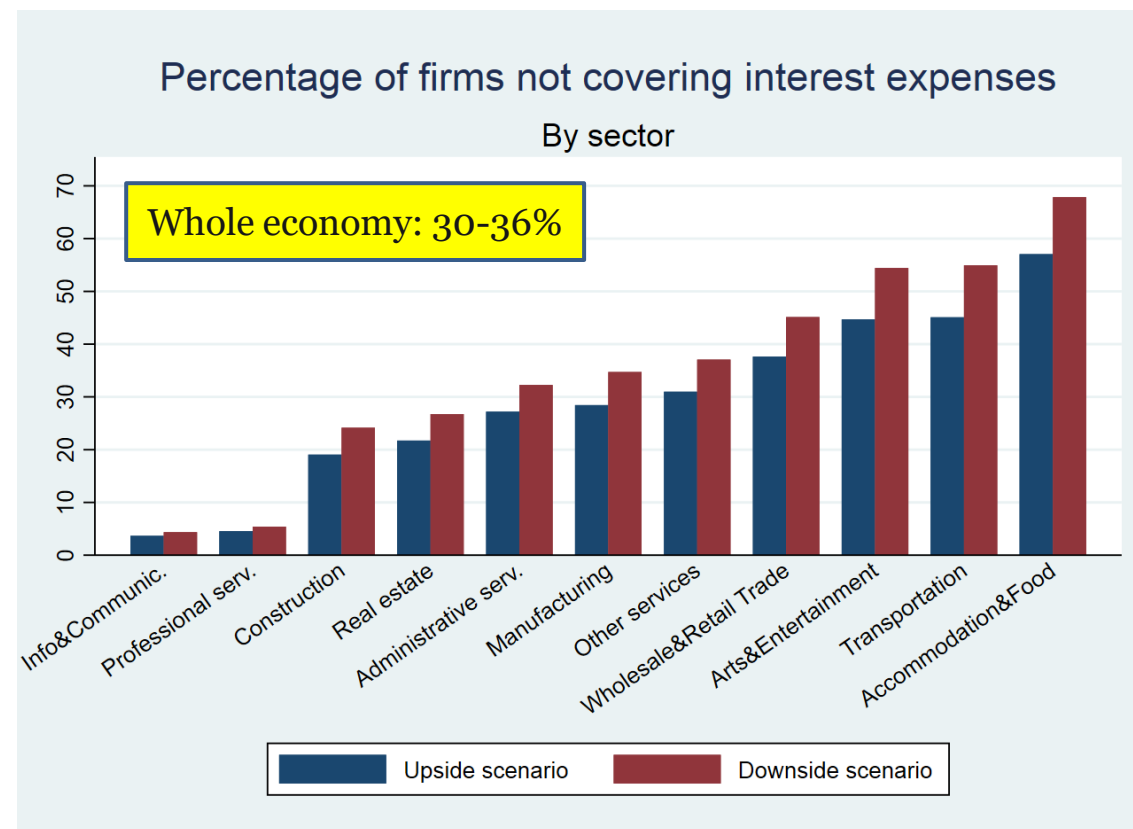
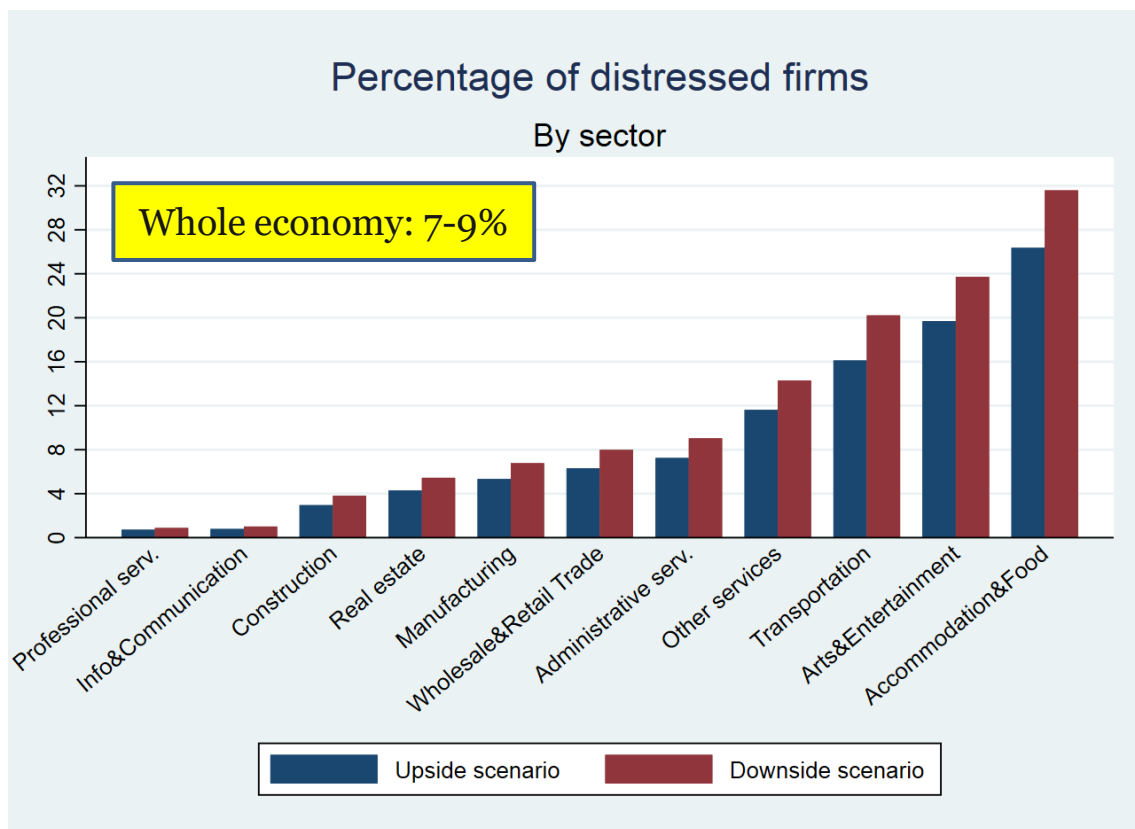
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Otherwise viable firms could become distressed and will find it hard to service debt



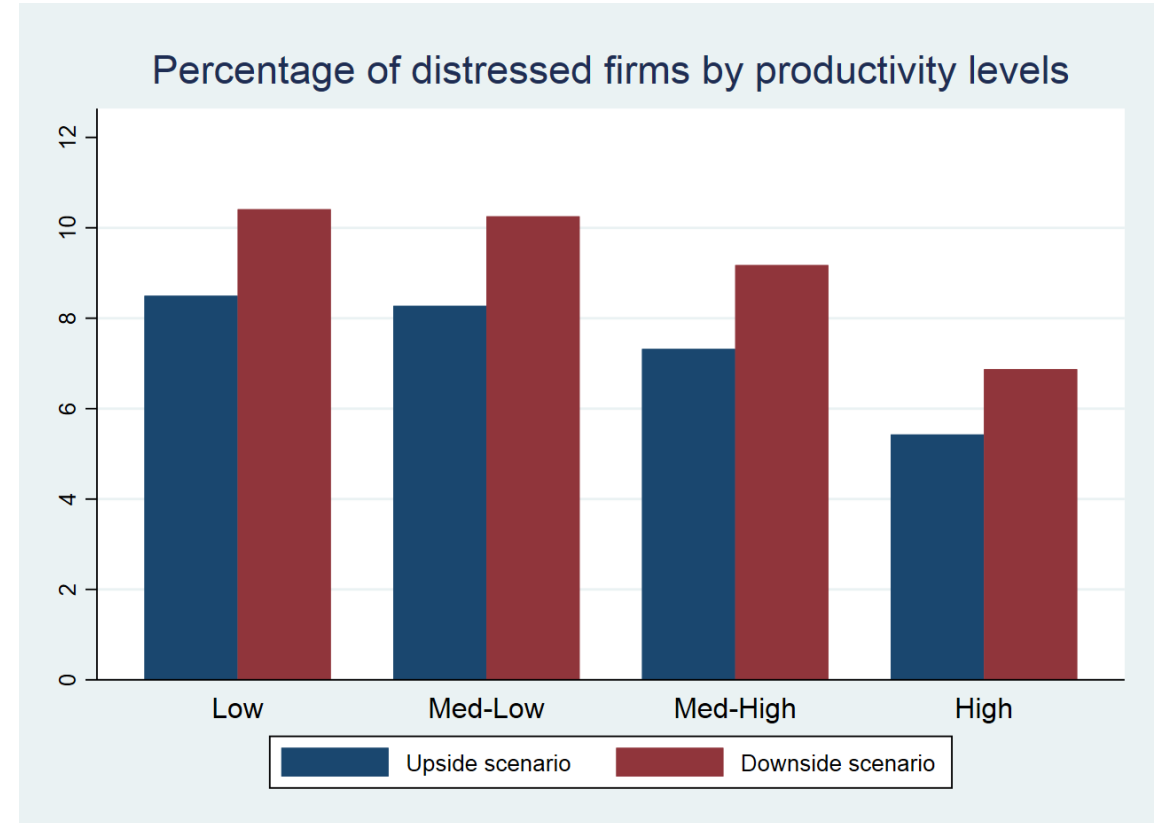
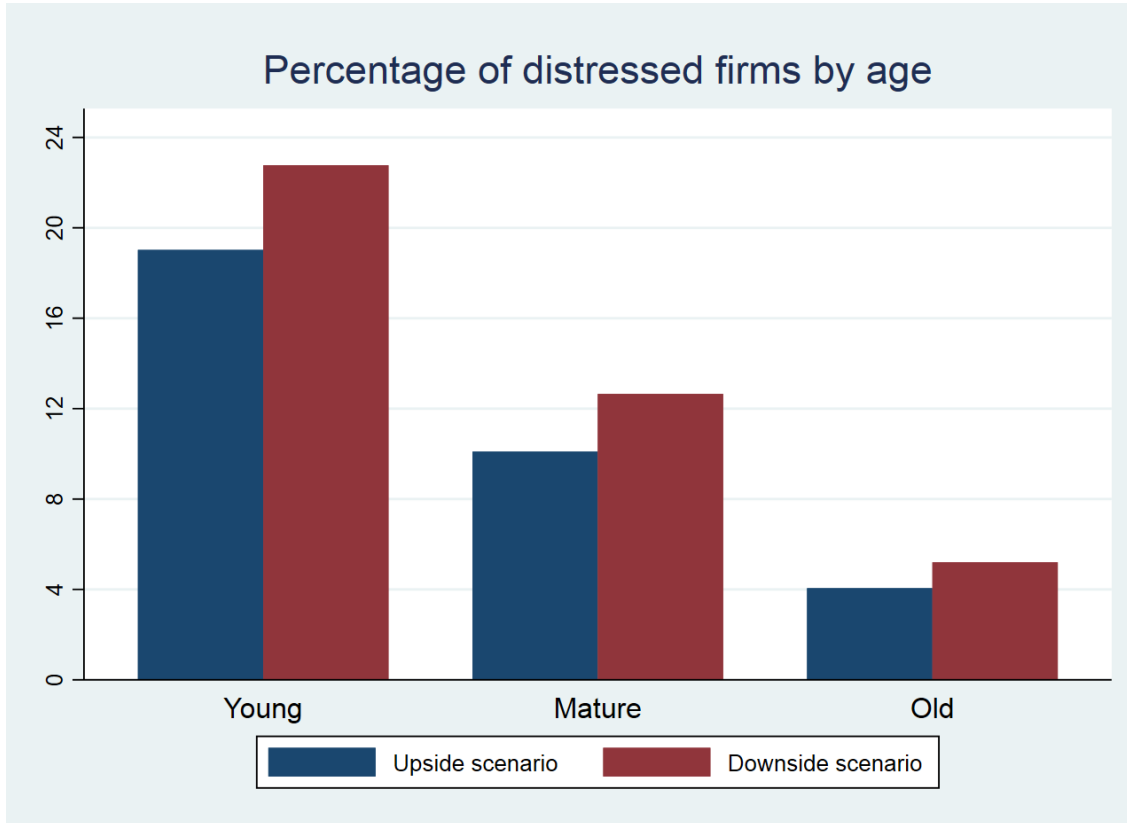
Note: The sample is restricted to viable firms in the 2018 benchmark year (i.e., firms displaying positive net worth and positive profits).

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



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.

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



Policy options to facilitate the corporate sector recovery

1 Flattening the curve of insolvency while reducing the debt overhang risk

Contributing to recapitalise firms

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

Ensuring that equity markets continue to develop

Allowance for corporate equity (ACE)

Increase financial literacy and streamline listing requirements to boost stock market participation

2 Encouraging timely debt restructuring

Favouring new financing to financially distressed firms

Granting higher priority to new investors

Ease pre-insolvency procedures and debt restructuring

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)

3 Improving the efficiency of liquidation procedures

Ensuring the highest possible recovery rate for creditors

Speeding-up court process

Ensuring that liquidation is established by an independent broker

Reducing specific barriers to market exit for small firms

Reforming personal insolvency regime



THANK YOU !



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