The spatial and sectoral incidence of Germany's COVID-19 insolvency gap*

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Abstract

In response to the COVID-19 crisis, the German government suspended the obligation to file for insolvency. We investigate how the insolvency gap was distributed across German districts and industry sectors. Further, we analyse whether the insolvency gap was larger in district-sectors with higher pre-crisis insolvency filing intensity. We use court-published insolvency documents provided by the insol database to construct a district-sector-quarter panel of insolvency filings from 2015 to 2022. We estimate counterfactual insolvency filings with a Poisson model using the number of active firms as the offset term. We find that insolvency filings were 21 percent below the counterfactual during the suspension period. This insolvency gap even increased to 31 percent after the suspension period. We further show that the insolvency gap was spread across almost all districts and every industry sector. Finally, we do not find evidence that the insolvency gap is related to pre-crisis insolvency filing intensity. Our results are consistent with a broad hibernation of legal exit. However, we cannot distinguish preserved viable firms from an accumulation of financially distressed firms.

Keywords: German insolvency law, *insol* database, COVID-19 insolvency suspension, insolvency gap, regional firm dynamics.

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