



PwC Restructuring Update - Q3 2023

Insolvency levels ahead of 2022

October 2023



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Foreword



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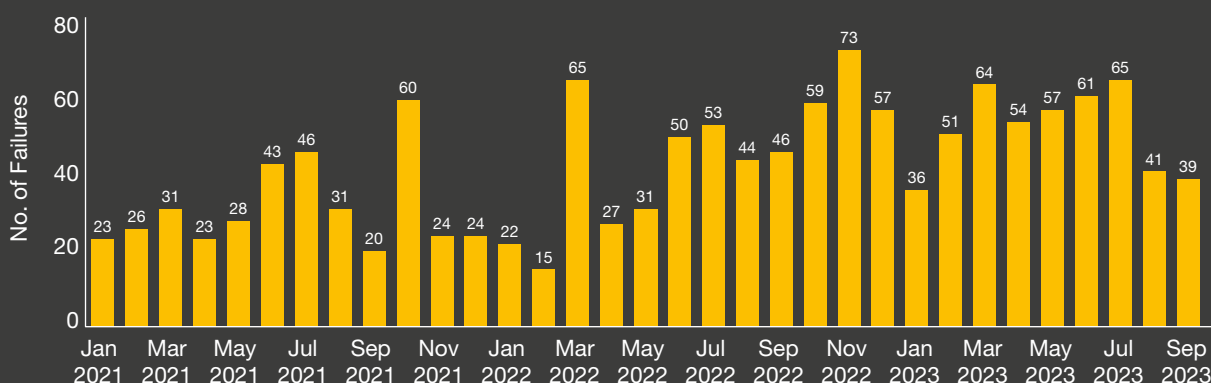
Q3 2023 Highlights

- **There has been a 33% increase in insolvency levels in YTD 2023 when compared to the first three quarters of 2022** - Since the beginning of 2023 there have been 468 insolvencies. This is a 33% increase from the 352 insolvencies recorded in the first three quarters of 2022. Having analysed quarterly figures since 2021, Q4 has historically been the busiest quarter. We are predicting that the total number of insolvencies for 2023 will be in the region of 650.
- **Insolvencies levels in Q3 2023 are on par with the same quarter last year** - There has been a 1% increase in business failures in Q3 2023 when compared to the same quarter in the previous year. The number of businesses which failed in Q3 2022 was 143. During the same period this year, 145 business failures were recorded in total.
- **Quarterly insolvencies have decreased by 16% in Q3 2023 when compared to Q2 2023** - In Q3 2023 the number of businesses which failed was 145. This is a 16% decrease when compared with the previous period where 172 business failures were recorded.
- **Our PwC Insolvency Barometer indicates an annual failure rate of 25 companies per 10,000. This is 79% higher than the lowest level of insolvencies recorded in 2021 but still remains lower than pre pandemic levels** - While there has been an increase in the annual failure rate (from a low point of 14 per 10,000 businesses in 2021 to 25 per 10,000 businesses in the last twelve months), the failure rate remains at historically low levels. The pre pandemic level of insolvency was 36 per 10,000 in 2019.
- **UK insolvency figures dropping for the first time since Q1 2021** - On a per 10,000 business basis Q2 2023 has seen the first decline in the UK

business failure rate since Q1 2021. The Q2 2023 UK per 10,000 businesses insolvency rate is currently 41.63. This is a very slight decline of 0.2% since Q1 2023 where the rate was 41.7. The UK rate is 1.9 times higher than the comparable Irish rate of 21.4 liquidations per 10,000 businesses.

- **In existence now for almost 2 years, SCARP appointments remain relatively low (40 in total), with SCARP accounting for less than 4% of all insolvencies during the past 2 years** - SCARP applications are likely to increase as the 6,000 companies with an average warehoused debt of c. €300k look to enter into negotiations with the Revenue ahead of the May 2024 deadline.
- **In the year to date 2023 the arts, entertainment and recreation sector as well as the hospitality sector remain two of the largest sectors with business failures, as they have consistently for the last few years** - Both sectors have been elevated and experiencing above average business failures since the beginning of our analysis in 2021.
- **In the year to date 2023, two sectors have accounted for over 40% of business failures** - Retail (116) and hospitality (78) are the two sectors with the highest absolute failures, together accounting for 40% of all business failures YTD.
- **Monthly failures are broadly increasing since early 2021** - July 2023 had a significant amount of monthly insolvencies (65). August and September of Q3 2023 had quieter months with 41 and 39 insolvencies respectfully. This is however in line with patterns experienced in 2021 and 2022.
- **In overall numbers, Dublin accounted for 61% of all insolvencies in the last quarter** - Dublin had the highest total number of business failures with 61% of the overall total during the third quarter of 2023. Dublin has on average accounted for roughly 50% of total insolvencies for the past number of years.

Monthly Failures



Local Economic Indicators



Irish inflation at 6.3%

The Irish inflation rate was 5.8% in July 2023 and increased to 6.3% in August. This is the first increase in monthly inflation rates since February 2023, however inflation rates overall continue to decline from months previous in February 2023 (8.0%) and in December 2022 (8.2%). The inflation rates, while still elevated, are gradually decreasing and are anticipated to keep declining in the foreseeable future. Projections indicate that inflation is set to ease to 3.2% in 2024 and 2.3% in 2025.



Unemployment rate slightly increased to 4.1%

The unemployment rate had dropped to an 20-year low of 3.8% in May 2023, however this rate has marginally increased and stabilised to 4.1% in August. The EU unemployment rate was significantly higher at 6.0% in May 2023. The unemployment rate in the UK is similar to Ireland at 4.2% in June from 4% in May.



The ECB has increased their interest rate to 4.25%

In August 2023, the European Central Bank (“ECB”) once again raised its refinancing operation interest rate to 4.25%. The ECB have consecutively increased their interest rates since July 2022, having begun at 0.5% in Jul 22 to 4.25% a year later. This is in addition to an increase of 0.25% to 3.75% which was announced in May. The ECB have raised interest rates consecutively since July 2022; July 2022 (0.5%), September 2022 (1.25%), November 2022 (2.0%), December 2022 (2.5%), February 2023 (3.0%), March 2023 (3.5%), May 2023 (3.75%) and June 2023 (4.0%).



Ireland’s GDP expanded by 0.5% in Q2 2023

Ireland’s gross domestic product expanded by 0.5% quarter on quarter in the three months to June 2023, following a downwardly revised 2.6% contraction in the three months to March.



Consumer sentiment decreased to 62.2

Ireland’s Consumer Confidence reduced for first time in five months. Having been 64.5 in July, from 63.7 in June. Prior to this, sentiment had been increasing from a low of 42.1 September 2022.



Construction index at 44.9 (Aug 23)

BNP Paribas Real Estate Ireland’s construction index measures the growth in Irish construction activity. While in July the index was 45.6, July and August both showed a significantly large decrease from June (50.5). With August’s index shows the lowest reading since Dec 22 (43.2).

Why we use a per 10,000 business measure - Business Failure Rate

Our analysis is based on a per 10,000 measure which has become all too common to hear since the pandemic. It is also widely used when comparing the birth or death rates across different regions or countries. It is a simple yet effective statistic for comparison purposes between different periods, industries, towns, counties or countries with different population sizes. It provides meaningful context to the numbers rather than simply looking at them in absolute terms.

There has been a large increase in the total number of companies registered in Ireland over the past 20 years, which means extra care needs to be taken when comparing annual levels of insolvency

Analysing insolvencies using absolute numbers only can be misleading due to the increasing number of Irish businesses over time. For example, the number of companies registered in Ireland in 2005 and 2022 was 160,707, and 263,835 respectively, an increase of over 64%.

Solely looking at insolvency levels in absolute terms can be misleading given the rise in the total number of companies. For example, if 500 companies failed 20 years ago, the comparable number for today would be 820 given the rise in the total number of companies. Analysing business failures per 10,000 provides a much clearer picture and meaningful context to the analysis of insolvencies and takes account of the increased total number of companies.

Global Headwinds

1. Interest rates

The first half of this year saw the US Federal Reserve continue to increase interest rates to a range of 5.00% to 5.25%. Interest rates are continuing to rise but are likely close to their peak. In July 2023 the benchmark once again lifted to a range of 5.25% - 5.5% from a rate of 0.25% in March 2022. This increase brings the interest rate to a 16-year high. The Bank of England (“BoE”) have also increased their interest rates to 5.25% in August 2023. The July increase is the fourteenth consecutive increase and is higher than any interest rate experienced in the 2008 financial crisis.

2. Inflation

The annual EU inflation rate was 6.1% in July 2023, down from 6.4% in May 2023. The Irish inflation rate is similar to this level at 6.3%. Elsewhere in the EU, certain countries recorded inflation rates which were significantly higher than the EU average: Hungary (17.6%) and Serbia (12.5%). Cyprus and Switzerland currently have the lowest annual inflation rate in the EU at 1.47% and 1.6% respectively. The US inflation rate is currently at 3.7% and the UK at 6.8%. With high inflation rates, pressure is placed on businesses across the globe as consumers tighten their spending habits and wage demands increase.

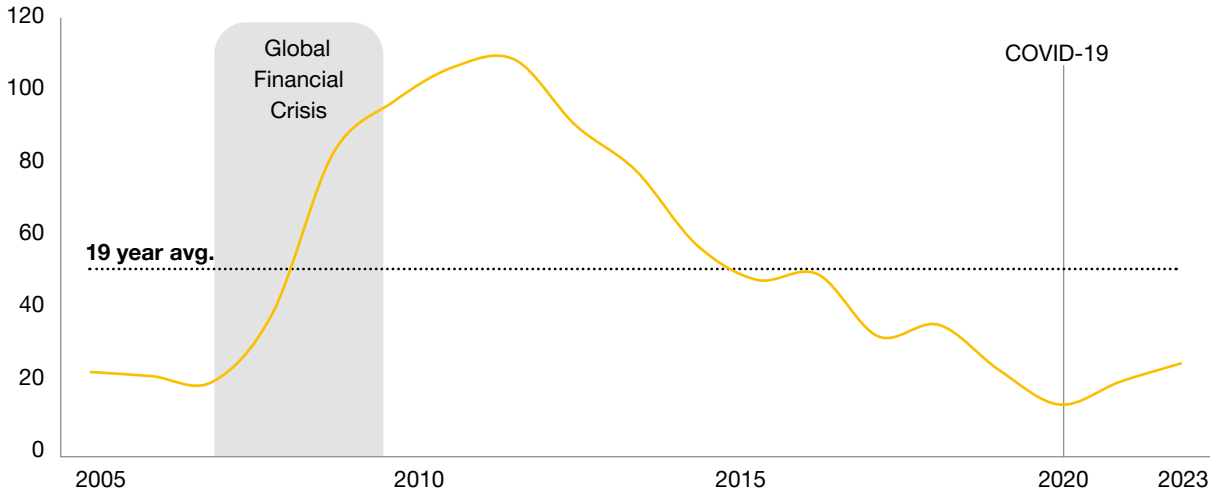


An aerial photograph of a complex multi-level highway interchange. The roads are dark asphalt with white lane markings. Several vehicles, including cars and trucks, are visible on the various levels of the interchange. The surrounding area is lush with green trees and vegetation. A small pond is visible in the lower-left quadrant. The text "Failure Rate Update Q3 2023" is overlaid in white serif font in the center of the image. There are yellow and red decorative squares in the top right corner and a yellow square in the bottom left corner.

Failure Rate Update Q3 2023

Business Failure Highlights

Business Failure Rate per 10,000 companies



PwC Insolvency Barometer

	Business Failure Rate per 10,000	Year
Current	25	2023
19 Year Average	51	Past 19 Years
Highest	109	2012
Lowest	14	2021

1. In absolute terms, insolvencies levels for Q3 2023 are 48% higher than Q3 2021 and 1% higher than Q3 2022 however Q3 2023 is 16% lower than previous quarter Q2 2023

Q3 2023 recorded 145 corporate insolvencies. This is an increase of 48% since Q3 2021 where 98 insolvencies were recorded. When comparing this quarter with the same quarter in 2022 there has been a very slight increase of 1% from 143 insolvencies in Q3 2022 to 145 insolvencies in Q3 2023. There has been a 16% decrease since the most recent quarter Q2 2023 where 172 insolvencies were recorded.

Irish quarterly business failure rate per 10,000 businesses

Insolvency Type	Q3 2023	Q2 2023	Q3 2022	Q3 2021
Total Corporate Insolvencies	5.4	6.4	5.5	3.7
Liquidations	4.7	5.6	4.7	2.7
Receiverships	0.5	0.5	0.5	0.9
Examinerships	0.1	0.0	0.0	0.1
SCARP	0.1	0.3	0.3	N/A

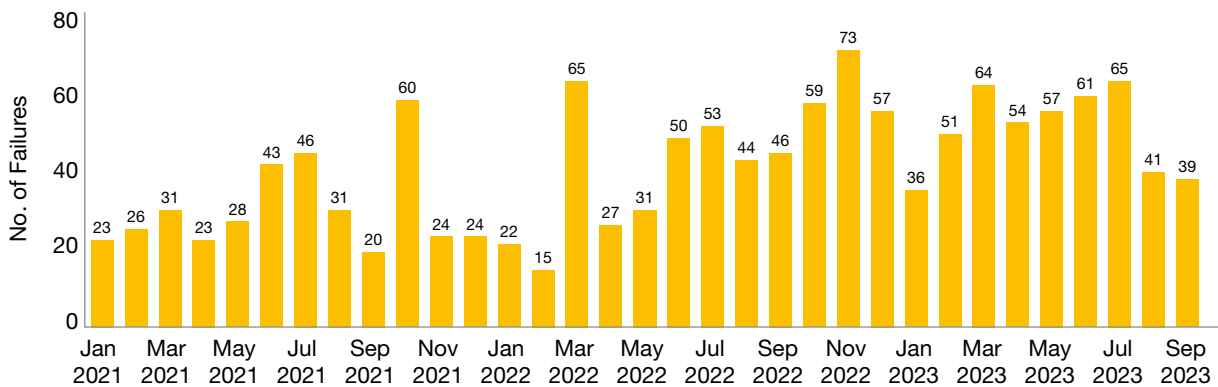
2. Monthly failures had broadly been increasing since the beginning of 2021 but August has seen a downward trend

Overall monthly business failures have generally been on the increase since early 2022. November 2022 saw the highest number of monthly insolvencies since the beginning of 2021 with 73 insolvencies registered. July (Q3 2023) had a significant amount of insolvencies with 65. However August and September showed a decline. This pattern is evident in previous years (2021 and 2022), as depicted in the graph below, where the summer months consistently exhibit lower levels of activity compared to the rest of the year.

3. In existence now for nearly 2 years, SCARP appointments remain low (2 in total for Q3 2023), with SCARP accounting for less than 2% of all insolvencies during the past quarter

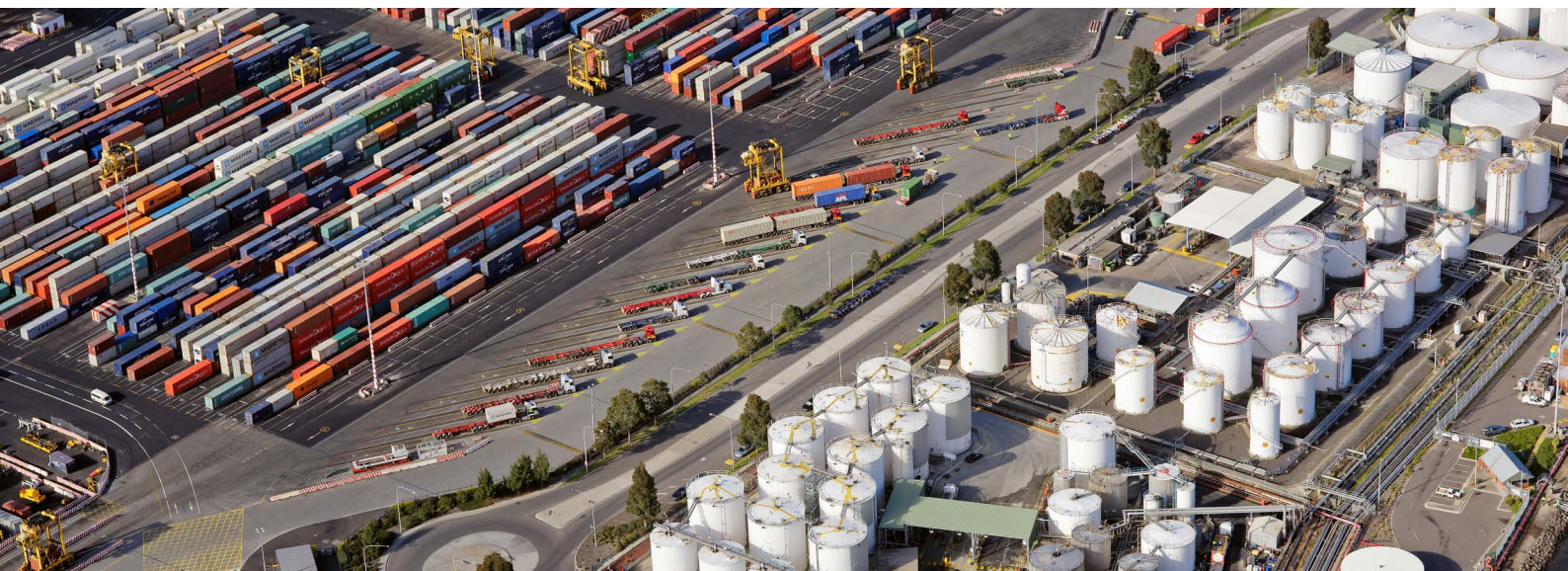
SCARP appointments still remain relatively low and accounted for less than 2% of total business failure in Q3 2023. It has been almost 2 years since SCARP was enacted and there have been only 40 appointments.

Monthly Failures



Total number of Irish quarterly business failures

Insolvency Type	Q3 2023	Q2 2023	Q3 2022	Q3 2021
Total Corporate Insolvencies	145	172	143	98
Liquidations	127	150	123	71
Receiverships	15	14	13	25
Examinerships	1	0	0	2
SCARP	2	8	7	N/A



Business Failures in the UK

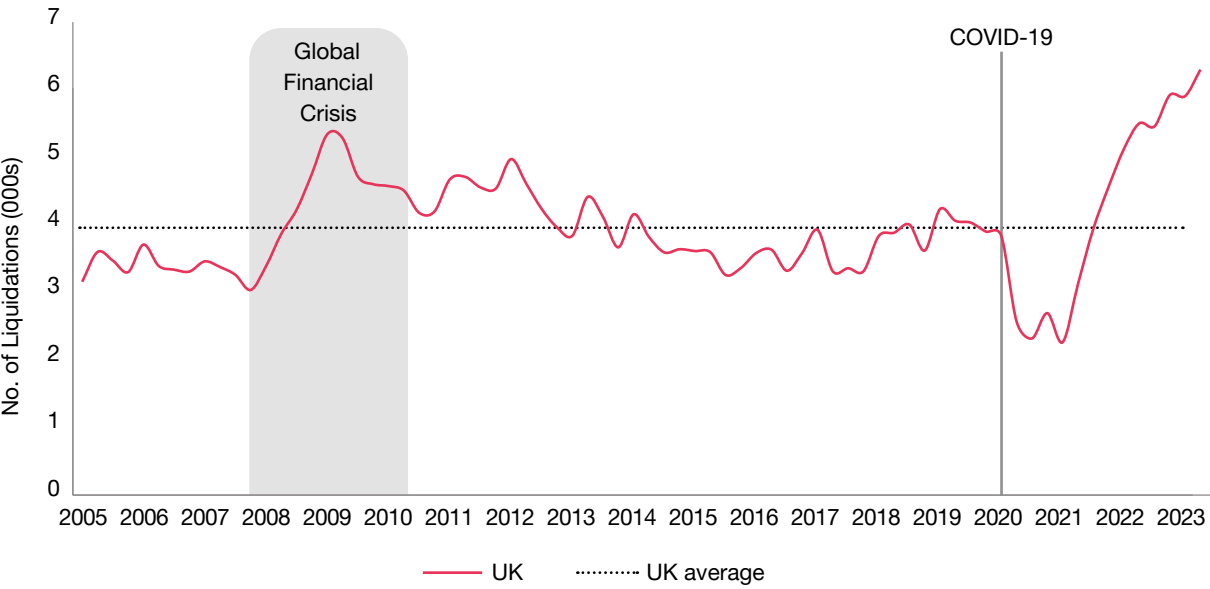


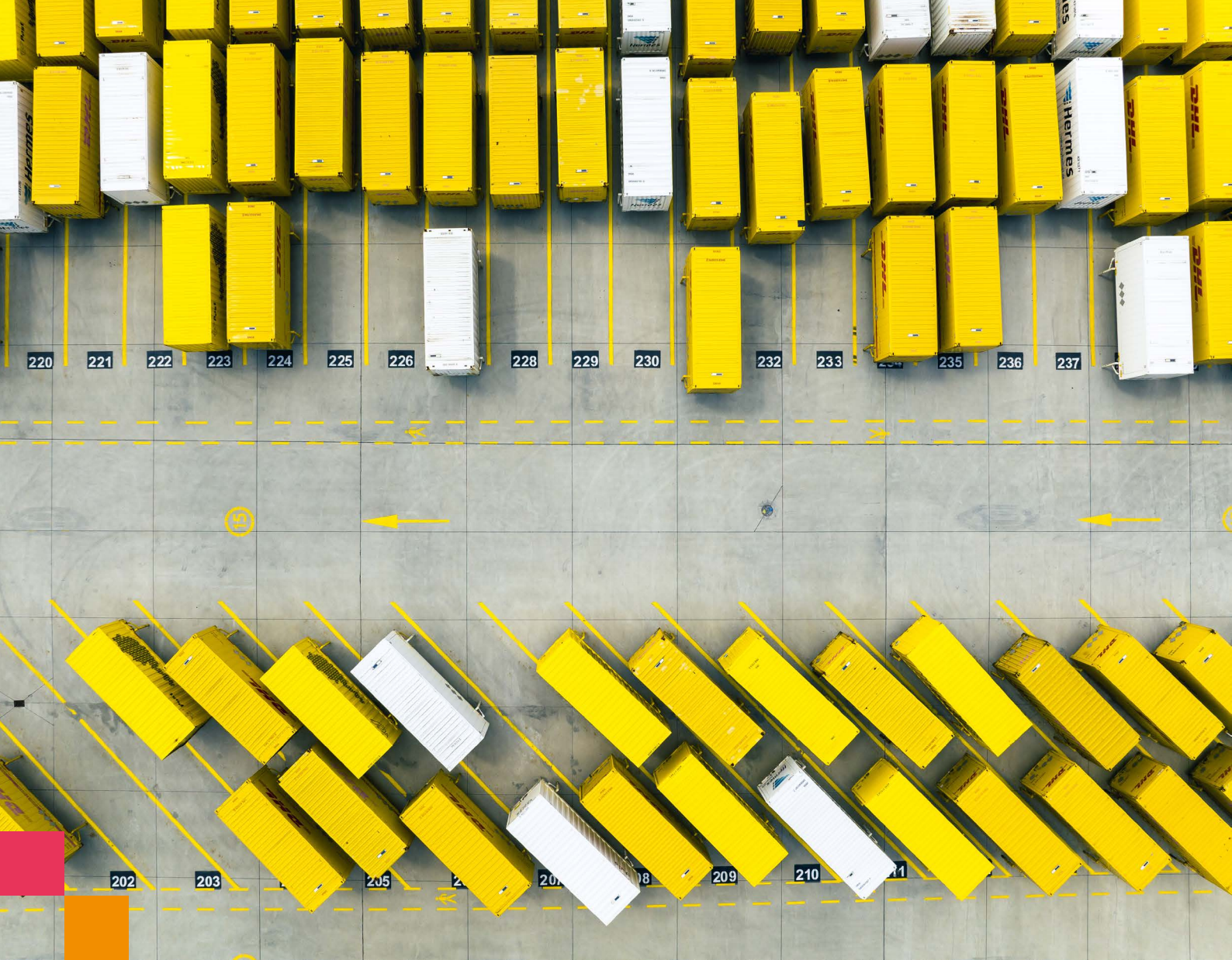
UK insolvencies showing first sign of decline since Q1 2021. UK liquidation rate currently 1.9 times Irish level

The UK has seen its first quarterly decline in insolvencies on a per 10,000 businesses basis since Q1 2021. These levels are still elevated. The Q2 2023 UK per 10,000 businesses insolvency rate is currently 41.63. This is a very slight decline of 0.2% since Q1 2023 where the rate was 41.7.

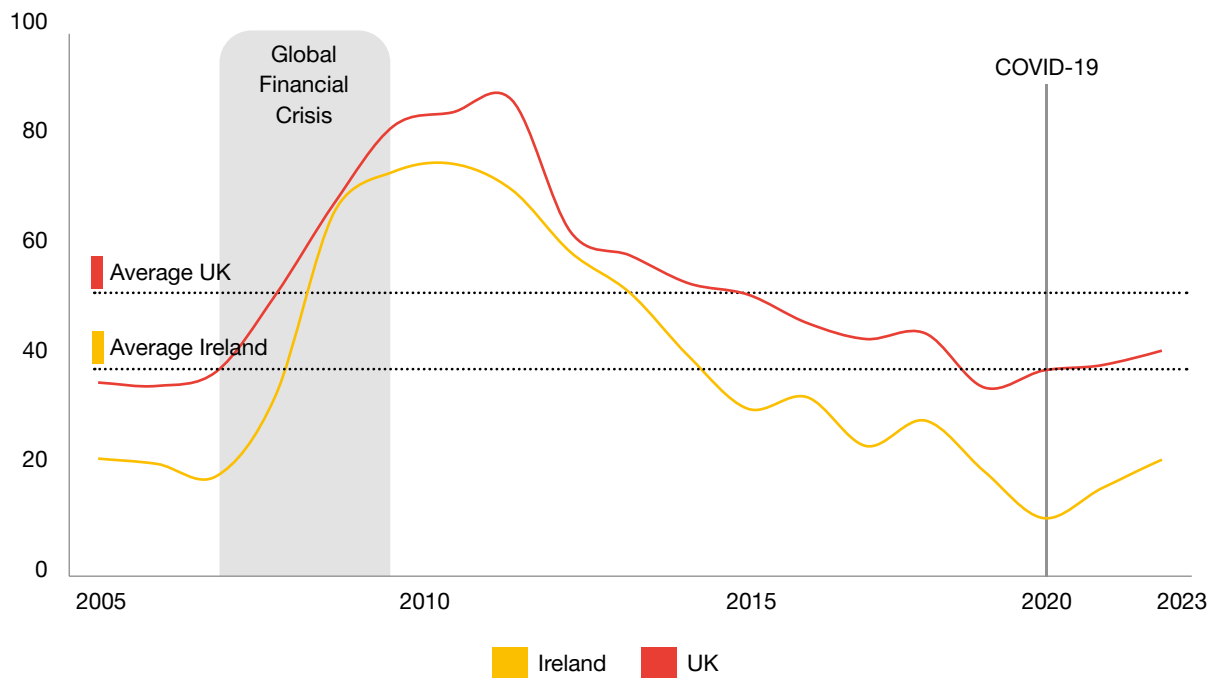
However on an absolute basis, the number of insolvencies experienced by the UK in Q2 2023 was 7% more than the total number of insolvencies recorded in Q1 2023. The UK has recorded 41.7 liquidations per 10,000 over the last twelve months, which is twice the rate recorded in Ireland. CVL's are the most commonly used form of insolvency and accounted for the majority of the filed insolvencies in the UK during the second quarter of the year. Similarly in Ireland, CVL's account for 79% of the total number of insolvencies filed during the same period.

UK Quarterly Liquidations





Ireland's Liquidation Rate Compared to the UK (rolling twelve month average)



Industry Highlights

Quarterly business failure rate per 10,000 by industry:

Industry	Per 10,000 businesses		Absolute figures	
	Q3 2023	YTD 2023	Q3 2023	YTD 2023
Energy and utility	53	64	5	6
Arts, entertainment and recreation	13	63	3	15
Mining and quarrying	42	56	3	4
Hospitality	18	44	32	78
Finance and insurance	13	38	15	43
Education	4	21	2	10
Retail	5	20	27	116
Manufacturing	5	18	9	35
Construction	4	16	16	68
Travel and transport	1	15	1	15
Real estate	6	13	8	19
Health	2	12	1	6
Professional, scientific, and technical activities	4	11	14	44
Information and communication	3	9	7	19
Other	0	7	0	2
Administration	1	2	2	3

1. In the first three quarters of 2023 the arts, entertainment and recreation sector as well as the hospitality sector remain two of the largest sectors with business failures, as they have consistently for the last few years

Both sectors have been elevated and experiencing above average business failures since the beginning of our analysis in 2021. The hospitality sector recorded the highest number of business failures in Q3 2023 in absolute numbers.

2. In the first three quarters of 2023, hospitality has the highest absolute number of business failures while the energy and utility sector has seen the most business failures per 10,000 businesses.

The energy and utility sector has seen the highest business failures with 64 failures per 10,000 businesses in the last three quarters. In absolute terms this equates to just 6 failures. By comparison in absolute terms the retail sector has seen the most business failures with 116 in the last twelve months.



County Highlights

Quarterly business failure rate per 10,000 by county:

County	Per 10,000 businesses		Absolute figures	
	Q3 2023	YTD 2023	Q3 2023	YTD 2023
Dublin	11	31	89	260
Louth	6	24	4	16
Meath	7	23	7	24
Monaghan	0	20	0	7
Kildare	4	19	5	21
Laois	3	18	1	6
Galway	3	17	4	25
Kilkenny	4	15	2	7
Wicklow	5	13	3	11
Cork	4	13	14	38
Cavan	5	12	2	5
Waterford	4	11	2	6
Westmeath	7	10	2	5
Carlow	4	10	2	3
Mayo	4	9	3	7
Kerry	2	9	2	8
Tipperary	1	8	1	7
Offaly	0	8	0	3
Donegal	0	8	0	7
Wexford	1	7	1	6
Roscommon	0	6	0	2
Leitrim	0	5	0	1
Clare	0	4	0	3
Limerick	1	4	1	4
Sligo	0	3	0	1
Longford	0	0	0	0

1. In overall numbers by county and on a per 10,000 businesses basis, Dublin had the highest number of insolvencies in Q3 2023

Dublin had the highest total number of business failures with 61% of the overall total during Q3 2023. Dublin has on average accounted for roughly 50% of total insolvencies for the past number of years.

2. Meath, Westmeath and Louth had the second and third highest failure rates per 10,000 businesses

Meath and Westmeath recorded failure rates of 7 per 10,000 businesses during Q3 2023. Meanwhile, Louth had failure rates of 6 per 10,000 businesses.

3. There were 8 counties in which no business failures were recorded during Q3 2023

There were no business failures recorded in 8 counties during Q3 2023.

4. Dublin has the highest per 10,000 business failure rate for the first three quarters of 2023.

Dublin has the highest total numbers and per 10,000 businesses failures of the first three quarters of 2023. Louth and Meath have the second and third highest business failures per 10,000 businesses for the first three quarters of 2023.

Cash Management Culture

In the face of general market disruption, geopolitical change and high profile challenges across different industries, businesses are feeling the effects of an uncertain market with restructuring activity rising and risk of shocks remaining in the market. Creating a cash-conscious culture is critical to ensure organisations can improve and accelerate their resilience to mitigate the impacts and flourish in the future. To achieve this, everyone in an organisation needs to be focused on cash. This is a collective responsibility from the boardroom and across the business - not just the finance team or treasury to make decisions impacting cash.

Five ways to optimise your company's cash culture

- 1. Make cash the business of everyone in the organisation** - Cash is bigger than the treasury and finance departments; they both have a key coordinating role in effectively managing cash but it's the operations of the business that are making daily decisions that impact cash. Push cash up everyone's agenda.
- 2. Cash can mean different things to different people, so make cash relevant to everyone** - Having a common language of cash across the organisation (operations and finance) is vital to instilling a proactive cash conscious culture:
 - Reliable cash forecasting
 - Effective expenditure management and tactical actions
 - Cash reporting and incentivisation, tailored to audiences across the organisation
 - Management of cash tax and government incentives
 - Centralising management of true cash availability and foreign currency cash
 - Effective management of banking and other financing facilities.
- 3. Forecasting cash and appropriately granular scenario planning** - on both a medium and short term basis should involve both operations and finance teams. These are essential in reflecting and understanding the real operational risks that exist in the current volatile market.
- 4. Understanding and sharing your minimum cash thresholds** - to help the wider business manage the daily decisions and cash commitments that they are making (once the decision is made, the cash is committed).
- 5. Optimising supplier and customer working capital terms and relationships** - to conserve and generate the cheapest form of cash available to you.



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Appendix - Sources

- Bloomberg
- BNP Paribas Real Estate
- Central Bank of Ireland
- Central Statistics Office
- Companies Registration Office
- Courtsdesk
- European Central Bank
- Eurostat
- Experian Gazette
- Financial Times
- Gov.ie
- Gov.uk
- Irish League of Credit Unions
- PwC UK
- Reuters
- Revenue Commissioners
- Vision-net
- Wall Street Journal