

Macro Roundup Article

Headline: [Bankruptcy Resolution and Credit Cycles](#)

Article Link: <https://www.nber.org/system/files/chapters/c14994/c14994.pdf>

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Tweet: Data from 39 countries show that countries with low bankruptcy efficiency experience a 3 ppt decline in GDP following a 5-year business credit boom, while in high-efficiency countries GDP barely declines.

Summary: Institutions for business bankruptcy resolve firms' distress and default through two main approaches: terminate firms' operations, liquidate their assets, and pay out the proceeds; or restructure viable firms where "going-concern value" is greater than the liquidation value. Well-functioning restructuring systems reduce inefficiencies from liquidation. We measure bankruptcy efficiency using the total recovery rate, i.e., total payment to claimholders net of total bankruptcy costs normalized by 100 (the full value from continuing operation). In the sample we use for analysis, which is restricted by business credit data from the Bank of International Settlements, the average bankruptcy efficiency is higher at 63%. Even in this case, the average loss of value is substantial. We trace out how economic activities evolve following changes in business credit to GDP, in countries with high and low efficiency of business bankruptcy. Figure 3 visualizes the GDP trajectory following a 10 percentage point increase in business credit to GDP over the past 5 years. A business credit boom on the scale of a 10 percentage point increase in business credit to GDP occurs in roughly a third of our sample observations. Following a boom of this size, real GDP declines by about 3 percentage points in the next 5 years for a country at the bottom quartile of bankruptcy efficiency, whereas real GDP barely declines for a country at the top quartile.

Related Articles: Corporate Debt, Boom-Bust Cycles, and Financial Crises and Credit Allocation and Macroeconomic Fluctuations

Primary Topic: Business Cycle

Topics: Academic paper, Business Cycle, Database, Financial Markets, GDP

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