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The slippery slope of financial distress

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Negative economic news stories appear in the media on a daily basis, and seemingly each day brings word of yet more company closures, with more jobs being shed, and with the general consensus that the South African economy is floundering.

One can be forgiven then for expecting that Stats SA's latest liquidations numbers would record a bloodbath of liquidations. However, the liquidation statistics, up to July 2025, present a surprisingly puzzling picture in the context of the prevailing sentiment.

Since the start of this calendar year until July, and across all sectors, there have been 908 liquidations. If the numbers keep to the average for the balance of the year, we will see an almost identical number of liquidations as in 2024. If so, both 2024 and 2025 will have fewer liquidations than any of the five years from 2019 to 2023.

The overwhelming majority of liquidations are voluntary, with only approximately 12.5% of liquidations of a compulsory nature.

Things are looking up, say those pointing to the recent 0.8% GDP rise, and the steadily reducing interest rate. Perhaps, but the number of liquidations of South African entities, with consequent rising unemployment figures, remains a concern.

What might give some pause is an indication of a recent upward trend in the number of liquidations: in 2 of the last 3 months, there has been a month-on-month increase in the number of liquidations. July 2025 saw 16.5% more liquidations than the same month a year ago. A similar percentage increase applies to the preceding three-month period of this year, compared to the same period last year. The increases

are small, but liquidations are trending upwards of late, and if there is to be a start of a spike in the rise in liquidations, then it might look like these numbers.

If a spike in liquidations does in fact materialise, and if the economy's performance starts to mirror the dire economic headlines that scream at us every day, then it is even more reason for the need for managers of entities to be on their guard.

At the first inklings of financial distress, they need to take decisive steps, failing which they not only place the viability of the company at risk, but they put themselves in the personal liability firing line. If directors carry on a company's business recklessly or with gross negligence, or continue business operations when it is clear that the company is in financial distress, then they might be accused of a failure to comply with their legal obligations to exercise care, skill and diligence, and of failing to act in the best interests of the company. If so, it is common for creditors to look to directors personally, to make good any such losses suffered under the directors' watch.

If caught early enough, liquidation can be avoided: a restructuring of debts can be put in place, arrangements with creditors can be negotiated, extensions to payment terms can be explored, and litigation can be avoided or opposed. If necessary, business rescue (which comes with the benefit of a moratorium on legal proceedings) can be initiated, given the company the opportunity of finding its feet.

Directors need to obtain legal, commercial and financial advice, early on at the first signs of trouble, and not wait until it is too late. Failure to do so might result in the company, quite literally, becoming a liquidation statistic.



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