COFACE PUBLICATIONS APRIL 2022

# CEE Insolvencies 2021


coface

CONTENT

# 1 Company insolvencies on the rise

## Regional insolvency trends

Insolvency trends in the Central and Eastern European (CEE) region have been subject to various economic conditions, support measures and legal changes over the last two years. Indeed, the Covid-19 pandemic that triggered the economic downturn and officially implemented lockdowns brought concerns not only for the macroeconomic activity but also the companies' payment liquidity. In the pandemic year of 2020 growth in regional Central Europe dropped by 4% after increasing 4% in 2019. In 2020, all CEE countries recorded recessions, ranging from -8.1% in Croatia which deeply suffered from a slump of tourism proceeds taking a sizeable share of country's GDP to a minor drop of 0.1% recorded in Lithuania. The unprecedented crisis forced governments to introduce unprecedented measures to support households and companies. In terms of the latter, it included moratoria on insolvency applications as well as various measures reducing consequences of pandemic impact on companies' liquidity situation to save them from bankruptcy. Among other measures, those included exemptions and deferrals of taxation and social security contributions, furlough schemes, loans, subsidies and other financial assistance, guarantees, employees' salary supplementary payments and facilitating and simplifying various administrative procedures. Although it could be seen as a paradox during such a significant crisis, business insolvencies in CEE countries dropped in 2020 thanks to the massive scale of support measures. The largest decreases were recorded by Lithuania and Latvia (by 50.3% and 34.2%, respectively) as well as Slovakia (-25.8%).

Despite the pandemic still being with us, companies adapted their business operations and activities accordingly while lockdowns have been eased in most of European countries. The regional Central Europe growth increased by 5.5% in 2021 while it is expected to lose the momentum and reach 3.2% this year. The weakest growth rates will be recorded by Baltics due to their trade links with Russia however all countries are likely to suffer from direct and indirect consequences of Russia-Ukraine war. Unwinding support measures already triggered an increase of business insolvencies in the CEE region. CEE regional GDP weighted average calculated from countries' insolvency dynamics indicated an increase of 34.7% in 2021 compared to a prior year (+1.5% excluding Poland where the total number of proceedings soared mostly due to new procedures as explained below). Statistics in a number of countries confirm that after a drop of business insolvencies in 2020, those proceedings increased in 2021 reaching back levels close to ones recorded in the pre-pandemic year of 2019. Seven countries experienced a higher number of insolvencies than a year before (Bulgaria, Czechia, Hungary, Lithuania, Poland, Romania and Slovakia), and five countries recorded a decrease (Croatia, Estonia, Latvia, Serbia and Slovenia). During the course of 2021, Poland experienced nearly a doubled number of proceedings however that was strongly contributed by a surge of dedicated procedures implemented to support companies suffering from liquidity difficulties due to the pandemic. Although intended to be temporary, those measures were still in force up to late 2021 when there were implemented into Polish law permanently (see details on Poland's insolvencies on page 12). Even despite such a surge, the insolvency rate in Poland i.e. the share total number of proceedings in the total number of active companies reached 0.06%, meaning that only 6 in 10,000 companies in Poland went through available official procedures. Much higher insolvency rates were recorded in countries where the insolvency procedures are more popular – those rates reached 1.61% in Croatia and 3.31% in Serbia. Nominal insolvency figures were particularly diverse across the CEE region, as they were not only affected by their economic situations but also by the definitions of insolvency in specific countries (with amendments to insolvency laws, or more widespread use of insolvency procedures).

## Unwinding support measures and more challenging environment have already led to insolvency growth

As stated above, the increase of insolvency proceedings in the CEE region was expected due to governments' intentions to unwind the massive scale of support measures. That has been already seen in business liquidity trends. For example, the latest Coface Payment Survey[1] confirmed that average payment delays for Polish companies increased to 56.7 days in 2021 from 48 days in 2020. As a result, payment delays came close to the pre-pandemic level as they had reached 57.2 days in 2019. Moreover, the global economic situation led to a more challenging environment for CEE companies. The economic recovery that started in the mid-2020 was somehow faster than expected and triggered soaring demand, especially from the manufacturing sector. Prices of energy commodities, transports as well as various metals and inputs used in the production process accelerated. In a case of some of them, shortages were limiting output levels. The most evident example comes from semiconductors which along with other components shortages made a decreased number of shifts and temporary closures of vehicle plants of various automotive brands. As a result, higher energy and fuel costs amid increased prices of inputs used in the production process affected companies' profitability. At the same time, businesses were not fully convinced if all those costs increases could be transferred to their counterparties and end clients. They could lose their market share if the same would not be followed by their competitors.

This kind of global picture has applied to CEE companies due to their inclusion in various supply chains issues, CEE economic openness and its intense trade links with Western Europe. Countries with the highest share of exports in their GDP include Slovakia (93% of exports of goods and services in GDP), Slovenia (84%), Hungary (81%), Estonia (81%), Lithuania (80%), and the Czech Republic (73%). However others focusing more on domestic demand as well have perceived global challenges affecting both foreign trade activity and domestic economies.

## From one crisis to another

Even when the coronavirus pandemic had not yet ended, another challenge affected economies and businesses. The full-scale Russian invasion of Ukraine, which started in late February, resulted in economic consequences for both the global situation and CEE activity. The Russia-Ukraine war quickly contributed to soaring energy prices as Europe remains dependent on oil, natural gas and coal imports from Russia. Moreover, both countries are significant producers and exporters of a number of agricultural commodities while agri-food production is also subject to prices of fertilizers which accelerated as well. The CEE region is dependent on fertilizers imported from Russia and Belarus. Additionally, higher global prices and shortages of metals due to the war exacerbated even further supply chain disruptions. All of that made the additional acceleration of energy and inputs prices for corporates, including CEE ones. Furthermore, the eroding purchasing power of households became also a concern for their possible client base. Indeed, the latest available data confirmed that CEE economies have experienced accelerated inflation mostly due to increased energy prices. Several CEE countries recorded a double-digit annual price growth. In March 2022 inflation reached 15.2% year-over-year (an increase of 2.7% in one month) in Estonia, 15.7% in Lithuania (+2.4% compared to February 2022), 12.7% in the Czech Rep., 11.0% in Poland and 10.2% in Romania. While fuel and natural gas prices mostly led the inflation acceleration, increasing food prices were also reported.

Facing increasing inflation CEE central banks have continued monetary tightening. Since the Russian invasion of Ukraine, Czech and Romanian central banks hiked interest rates by 50 basis points, while the Polish ang Hungarian central banks already implemented two hikes each by 175 and 200, respectively basis points in total, making financing costs higher for both households and companies. The effectiveness of those moves on reducing inflation growth is not expected to be fully successful as domestic rate setters are not able to impact energy and agricultural commodities prices quoted globally. However, price increases in the CEE region has partly already come from growing core inflation which is likely to be affected by domestic monetary policy decisions. Last but not least, CEE currencies suffered from the depreciation since the Russia-Ukraine war started. While in mid-April 2022 the Czech koruna already regained its average value recorded in January 2022, the Polish zloty and Hungarian forint were still slightly weaker.

It should be also noted that while not the largest, Russia has still remained an important trading destination for the CEE region. The foreign trade's dependence on Russia is especially high in case of Baltic countries – total exports and imports with Russia took 15.1% of Lithuanian GDP last year. Admittedly, a part of that was re-exports to Russia, however the Baltic economies especially are expected to suffer directly from the Russian downturn.

The Russian invasion of Ukraine triggered a huge humanitarian crisis but also economic repercussions. All CEE countries are expected to record lower growth rates in 2022 compared to those estimated before the war. Nevertheless, the inflow of Ukrainian refugees could support regional growth at least in the short term. Poland's economic activity is expected to benefit from it the most as it has hosted the largest number of refugees: 2.9 million Ukrainians have entered Poland since the full-scale Russian invasion started (in total 5.3 million refugees fled Ukraine, as of 26th April 2022).

To sum up the above challenges, an insolvency increase is expected to continue in next quarters. Consequences of Russian-Ukraine war will make this process even faster, especially now that large scale support programmes for local companies are not likely to be implemented as it was the case during coronavirus lockdowns.

[1] *Coface Poland Payment Survey 2022: Return to normality – unwinding support programs, longer payment delays, February 2021 (https://www.coface.com/News-Publications/Publications/Poland-Payment-Survey-2022)*

Chart 1:
Insolvencies in Central Europe

| **Total Insolvencies** | | | | **Dynamics** | **Insolvency rate*** |
|---|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2020/2021** | **2021** |
| Bulgaria | 405 | 488 | 516 | +5.74% | 0.12% |
| Croatia | n.a. | 5,445 | 5,101 | -6.32% | 1.61% |
| Czech Republic | 1,081 | 978 | 1,035 | +5.83% | 0.20% |
| Estonia | 264 | 330 | 268 | -18.79% | 0.11% |
| Hungary | 5,187 | 4,053 | 4,359 | +7.55% | 0.22% |
| Latvia | 590 | 388 | 268 | -30.93% | 0.18% |
| Lithuania | 1,641 | 815 | 817 | +0.25% | 0.36% |
| Poland | 1,019 | 1,040 | 2,054 | +97.50% | 0.06% |
| Romania | 6,384 | 5,564 | 6 113 | +9.87% | 1.16% |
| Serbia | 6,446 | 6,096 | 4,445 | -27.08% | 3.31% |
| Slovakia | 445 | 330 | 388 | +17.58% | 0.14% |
| Slovenia | 1,294 | 1,125 | 679 | -39.64% | 0.33% |
| **CEE (GDP weighted average)** | | | | **+34.7%** | **0.44%** |

Source: Coface

* Share of insolvencies in the total number of active companies

Chart 2:
Evolutions in insolvencies in selected countries in the CEE region (2011=100)

# 2 Commentaries from country experts

## Croatia

***-6.32 % Insolvency dynamics***

In the last two years, the COVID-19 pandemic has disrupted common trends that were visible in previous periods regarding the number of opened bankruptcies. When looking at all legal forms, the total number of all opened bankruptcy procedures in both years is significantly higher when compared to data from 2018 (i.e. + approx. 22%), but at the same time, the number of total opened bankruptcies decreased by 6.32% in 2021 compared to 2020. From the total number, in 2021 there were 93% of bankruptcies opened and closed due to lack of assets (72% in 2020).

The decrease compared to the previous year could be attributed to the reduced activity of the courts and due to the measures of the Government of the Republic of Croatia, which may have postponed the opening of a large number of bankruptcy proceedings and terminations of business entities.

On the other hand, with the exception of 2020, there is still a downward trend in the number of bankruptcies. In recent years, a downward trend in the number of opened bankruptcy proceedings is noticeable, although there are some oscillations across the individual years.

The year 2020 brought a significant disruption to the trend present until then, and it is likely that the indicators in 2021 are the result of the pandemic.

Data on the number of open bankruptcies by activities show that the Coface sector with least amount of opened bankruptcies was Financial Services, and the majority of bankruptcies were opened in the Coface sector Construction, followed by Business and Personal Services and Non-specialized Trade. The biggest bankruptcy procedure in 2021 according to company turnover was opened for ADRIATIC dioničko društvo za hotelijerstvo i turizam u stečaju acting in Hotels and similar accommodation NACE code of activity. **(Sergej Simoniti)**

# Serbia

***-27.08 % Insolvency dynamics***

Bankruptcy in Serbia lasts on average for about three years, but three companies have been in a bankruptcy procedure for more than two decades.

Why do bankruptcy proceedings take years?
„One of the objective reasons is that property is subject of restitution or some other law procedure and company cannot be sold until these proceedings are completed. At the same time, there are a large numbers of law procedures for disputed claims that last too long.

The main reason that most of companies cannot be recovered (when they fall into crisis) is that many of the owners and management are not familiar with the reorganization plan.

**Sergej Simoniti**

COUNTRY MANAGER
Coface Adriatic Hub, including Croatia, Serbia and Slovenia

In the last 3 years, there has been a noticeable drop in the number of initiated bankruptcy proceedings, (monthly average in 2012 was 80 initiated proceedings).
„The main reason for the reduced number of proceedings was the Constitutional Court's decision on the unconstitutionality of automatic bankruptcy, also in the last year the number was decreased by the influence of the COVID-19 pandemic", as it was stated in the White Book for 2020.''

# Slovenia

***-39.64 % Insolvency dynamics***

The outbreak of the Covid-19 pandemic in 2020 had a significant impact on global economic activity, as well as on Slovenia. The difficult operation of a number of economic activities in 2020 significantly affected the service sector and sole proprietors (service activities -most catering, other miscellaneous business activities and cultural, entertainment and recreational activities). Although a recovery process was started, insolvency may increase significantly in the coming years. The health crisis could have deeper negative effects on the business results than the available data for 2021 now shows. The number of opened insolvency procedures in the 4th quarter of 2021 was 18.8% higher than in the previous quarter. It increased across all activities except in accommodation and food service activities and in information and communication activities. The number increased the most in transport and storage (by 107.7%), followed by industry (by 50%) and education, health, social work, culture and other services (by 46.8%). At the annual level, there were still fewer bankruptcies in 2021 than in 2019. **(Sergej Simoniti)**

# Hungary

***+7.55% Insolvency dynamics***

After the initial impact of the COVID-19 pandemic, there has been no significant change in the number of liquidation proceedings in 2021 at industry level compared to 2020, with an increase of around 7% in the overall figures (4,359 proceedings in 2021 compared to 4,053 in 2020).
The top six sectors with the highest number of liquidations remained unchanged, the first place claimed by Construction with 1,280 proceedings (compared to 1,094 in 2020).
With significantly fewer cases, Services to Enterprises follows next with a total of 584 proceedings (484 in 2020), after that Motor vehicles and motorcycles come in with 324, which is rather less than in 2020 but still enough to be awarded third place on the podium. However, Private and Household services is only marginally behind this with 318 liquidations, which in turn represents an increase of around 13% compared to last year (281 in 2020). Slightly behind in fifth and sixth place is Non-specialized trade with 255 (243 in 2020) and Transport with 222 (213 in 2020) still made the list.
As for the sectors that appear to be the least vulnerable, there has also been no substantial change, with one or two liquidations having a significant impact making the podium. For example, there were no liquidations in the Leather sector in 2021 at all, while Mineral products and Other vehicles were in a tie for second place with 2-2 liquidations.

**Henrietta Kiss**

ENHANCED INFORMATION SENIOR ANALYST
Coface Hungary

# Lithuania

***+0.25% Insolvency dynamics***

In 2020, the number of company bankruptcies in Lithuania decreased by half when compared to 2019. The key reasons for this kind of substantial decrease are: the onset of the COVID-19 pandemic; limitation clauses of the Enterprise Bankruptcy Law adopted by the Seimas of the Republic of Lithuania (this allowed the postponement of bankruptcy proceedings during the quarantine period and was applied until the end of 2020); state tax aid, exemptions and subsidies for business. The same trend continued in 2021.
State authorities remained the main initiator of bankruptcies in 2021 with 43 % of all initiated insolvency cases, followed by the managers of companies (33 %), and other creditors (15 %). Bankruptcy proceedings initiated by employees comprised just 4 %; however, that being said, similar numbers are seen every year. The average lifespan of a company until bankruptcy was 9.2 years.
According to the type of economic activity, the largest number of bankruptcies initiated in 2021 was in "Wholesale and retail trade" and "Construction". In these sectors, 42 % of all the bankruptcies initiated throughout the year occurred.
Similar trends of bankruptcy regulation and figures prevailed in all Baltic countries in 2020 and 2021, which caused the situation of insolvencies seen in all Baltic region today.

**Mindaugas Puodžiukas**

INFORMATION, CLAIMS & DEBT COLLECTION DIRECTOR
Coface Baltics

# BULGARIA

2021 Insolvencies

# 3 Insolvencies in Bulgaria

Insolvencies in Bulgaria continue to increase in number in 2021 and despite trend slowdowns by the end of the year, this still could not be an indicator for the situation during 2022. This year we expect there to be more and more insolvencies , also due to recent turbulences in economy. For the analyzed period (2019-2021), the economic situation was very dynamic: from an economy strongly boosted by private consumption and growing incomes to full lockdowns and particularly limited demand for some sectors. The spread of the virus left businesses and economies in a situation of calculating losses of various degrees, while governments struggling to limit the spread of the virus introduced unpopular measures, which limited economic life and investments. It was precisely these choices that were among the main factors that influenced the number of bankrupt companies. And since the coin has two sides, COVID actually also opened up some business opportunities, especially for delivery/transport and storage companies and other similar businesses. These companies, however, which were established with minimum capital requirements and have unstable business models might suffer in the current situation of rising fixed costs. Their performance may quickly deteriorate and they may even fall into bankruptcy.

When it comes to factors that influent the trend in insolvencies, it has to be emphasized that in Bulgaria, we traditionally have a slow and heavy insolvency procedure, which more or less softens the statistic in comparison to the real business. Also similar to the rest of the economies in EU we have the “zombie” effects of state financing, which maintains companies on “artificial respiration”, while currently geopolitical tensions are rising and the price volatility of key products such as petroleum, gas and energy is quickly changing the rules of the game. Undoubtedly, all these factors will not only make their mark on the trend in future insolvency, but they will be the main factor behind them.

Concerning the number of insolvent companies - during 2021, they increased by “only” **5.74%**, which is a clear decrement compared to almost 20% during 2020.

**Rumen Shikov**

HEAD OF ENHANCED INFORMATION CENTER
Coface Bulgaria

The reason behind that must be sought in the relatively long and time-consuming procedure, which means that impact of wide state support is rather visible in 2021 (not 2020), as a slowdown of the trend and in line with the recovering economy. When it comes to the main reasons for bankruptcy, to the familiar circumstances of high indebtedness, less financing opportunities, bad management and growing personal costs (even during COVID), we have to added the quarantine shocks and action of the state (particularly for the largest case of New Games JSC) to the list.

### Sectors with the highest share in all insolvencies in 2021

| | |
|---|---|
| Personal service activities | 15.50% |
| Construction and real estate | 14.15% |
| Non specialised trade | 10.66% |
| Business services (except financial) | 9.50% |
| Clothing | 6.59% |

As could be expected, the sectors with highest share of new insolvencies in 2021 are those most strongly and directly affected by COVID restrictions, such as hospitality (hotels, restaurants etc.), non-specialized trade (for example, stores located in shopping centers), clothing (due to problems in that sector caused by COVID) etc. Delayed payments, fixed costs during lockdowns and suppressed demand were main factors that led to increment of insolvencies in those sectors. On the other side we have sectors resilient to quarantine reality, sectors with traditionally higher add value, or similar sectors, which despite decrement of volumes were able to offset insufficient demand in one of their business lines with increment in other. These are:

| Sector | Insolvency Rate* |
|---|---|
| Leather | 0.19% |
| Telecommunication services | 0.19% |
| Electrical domestic appliances | 0.39% |
| Measure and precision instruments | 0.39% |
| Alcoholic beverages | 0.39% |

* Share of insolvencies in the total number of active companies

The sectors of metal, mineral products, petroleum and meat are traditionally marked by higher insolvency rates, while leather producers are a newcomer for 2021 in the light of limited demand in that untraditional for Bulgarian economy sector.

The reason why leather production is in the group of sectors with a higher insolvency rate and also lowest new insolvencies is simply due to the number of the companies that are currently in operation – the low base makes rates higher. Insufficient financing, limited investments, unstable regulation and a challenging environment are main contributors for the higher rates of mentioned sectors. The common thing for all of them is that their performance was strongly affected by COVID – closure of automotive and machine-building industries affected the price of metals and limited transport and commerce reduced demand of petroleum and mineral products. The meat segment suffered from restricted export and closure of HoReCa channels.
Similar to the trends in the new insolvency, sectors with lower number of insolvent companies also include those listed below, which have high added value and were unaffected by restrictions.

During 2021, the largest insolvency case in Bulgaria was New Games JSC and the curious thing here is that this company did not go under as a result of insufficient financing or liquid problems. New Games JSC was a lottery organization. In beginning of 2020 the state changed the legal framework and banned private lotteries. Left without options, New Games JSC entered into an insolvency procedure.

| Flop 5 sectors (the highest insolvency rates in 2021) | Insolvency rate 2021 | Insolvency rate 2020 |
|---|---|---|
| Metals | 0.62% | 0.41% |
| Leather | 0.60% | 0.00% |
| Mineral products | 0.58% | 0.78% |
| Petroleum & other hydrocarbons | 0.42% | 0.32% |
| Meat | 0.32% | 0.65% |

| Top 5 sectors (the lowest insolvency rates in 2021) | Insolvency rate 2021 | Insolvency rate 2020 |
|---|---|---|
| Motors vehicles and motorcycles | 0.06% | 0.04% |
| Telecommunication services | 0.06% | 0.11% |
| Financial services | 0.06% | 0.06% |
| Utilities and public services | 0.07% | 0.07% |
| Consumer electronics | 0.08% | 0.04% |

# POLAND

2021 Insolvencies

# 4 Insolvencies in Poland

The year 2021 ended with the highest number of corporate insolvencies in over 20 years. Compared to the previous year, the increase in insolvency proceedings reached as much as 71 percent. Undoubtedly, the negative impact of the pandemic and its economic consequences on companies in Poland is visible in the insolvency statistics. However, it should be remembered that a dedicated solution to support companies in liquidity distress - simplified proceedings for approval of an arrangement - was introduced to the Polish legal system in June 2020. Since then, this type of proceedings has become very popular due to its speed and the fact that the court does not have to announce the decision. In 2021, simplified proceedings for getting an arrangement approved have already accounted for more than half of the total number of proceedings (56%). As the following quarters progressed, companies in a difficult liquidity situation were more and more willing to reach for fast forms of restructuring provided by law, which protect them from enforcement proceedings against the debtor. However, the degree of their use does not equal their effectiveness. Only a part of simplified proceedings translated into the number of approved agreements, and this despite the huge increase in the number of proceedings for approval of an arrangement as one of the "traditional" judicial forms of restructuring.

It is important and significant that in Poland - as in most other countries - a lower number of judicially declared bankruptcies of companies is recorded. In 2021, there were 26% fewer of these kinds of proceedings than the year before and they concerned only 373 companies, which was a result comparable to 2008, just before the financial crisis triggered by the collapse of Lehman Brothers. The broad scale of the relief measures introduced stemmed the surge in bankruptcies that could have been expected after such a widespread crisis caused by the COVID-19 pandemic.

The popularity of the simplified arrangement approval proceedings resulted in their permanent entry (with some modifications) into the Polish legal system from 1 December 2021 and their designation as the first stage of arrangement approval proceedings. Currently, they can only be initiated through the National Debt Register. Unfortunately, restructuring advisers and legal advisers indicate that they encounter technical obstacles when starting restructuring proceedings for the approval of an arrangement. As a result, the use of this most attractive restructuring procedure may be lower until the technical problems are eliminated, but these proceedings will still represent an important part of the overall number of arrangements.

**Grzegorz Sielewicz**

COFACE CHIEF ECONOMIST in Central and Eastern Europe

Gradually, we will observe a "normalization" of the statistics of corporate insolvency in Poland. The fluctuating dynamics will no longer be so high, but the number of traditional forms of restructuring and bankruptcy with the aim of liquidating assets will increase. In particular, some entities, deprived of support measures they could make use of previously, will not be able to survive on the market. The macroeconomic environment has deteriorated in recent weeks. The consequences of Russia's invasion of Ukraine have already been and will continue to be felt, not only in humanitarian terms, but also in economic terms. Russia, as well as Ukraine, are significant producers and suppliers of many raw materials: energy, agriculture or various types of metals used in the production process in many industries and supply chains. Increased energy costs and supply disruptions have already been a constraint for many companies in previous months, and the economic consequences of the war will further exacerbate this. Recent surveys confirm that most industries in Poland are pessimistic about their business prospects. Inflation reached 11% in March 2022, i.e. the highest level in more than two decades. Despite the fact that the influx of refugees to Poland generates higher demand, Coface expects that Poland's economic growth to be at least 1 percentage point lower this year compared to the forecast prepared before Russia's invasion of Ukraine. Further developments in the situation, including further changes in raw material prices, could result in an even more pessimistic outlook for Poland, as well as its main trading partners.

Chart 3 :
Poland: Insolvencies and restructuration proceedings

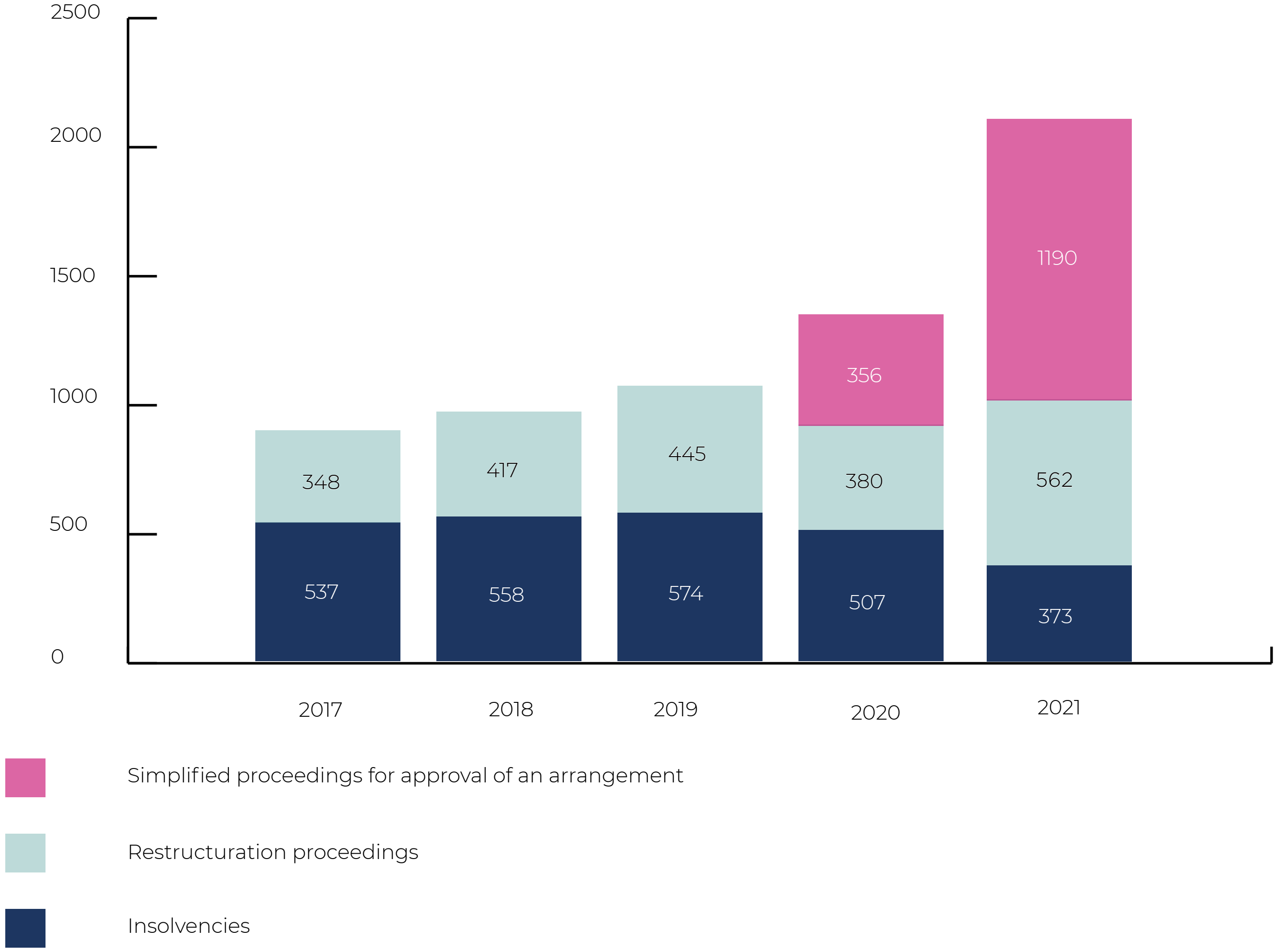


Chart 4:
Poland: Insolvencies and restructuration proceedings in sectors

| Sector | Number of proceedings 2020 | Number of proceedings 2021 | Growth 2021/2020 |
|---|---|---|---|
| **PRODUCTION** | **268** | **385** | **44%** |
| Manufacturing: | 248 | 350 | 41% |
| Manufacture of basic metals and fabricated metal products | 51 | 79 | 55% |
| Manufacture of food products and beverages | 43 | 51 | 19% |
| Manufacture of wood products, except furniture | 23 | 33 | 43% |
| Manufacture of electrical machinery and equipment | 25 | 26 | 4% |
| Manufacture of clothing and textiles | 8 | 23 | 188% |
| Manufacture of furniture | 15 | 22 | 47% |
| Manufacture of rubber and plastic products | 14 | 16 | 14% |
| Manufacture of other non-metallic mineral products (including building materials) | 11 | 15 | 36% |
| Printing and reproduction | 13 | 13 | 0% |
| Manufacture of paper and paper products | 7 | 11 | 57% |
| Other manufacturing | 38 | 61 | 61% |
| **TRADE** | **264** | **399** | **51%** |
| Retail trade | 134 | 184 | 37% |
| Wholesale trade | 107 | 170 | 59% |
| **CONSTRUCTION** | **137** | **205** | **50%** |
| **TRANSPORTS** | **99** | **133** | **34%** |
| **AGRICULTURE** | **137** | **414** | **202%** |
| **SERVICES** | **338** | **589** | **74%** |
| Professional, scientific and technical activities | 65 | 145 | 123% |
| Accommodation and food service activities | 63 | 92 | 46% |
| Leasing, administrative and support services | 40 | 84 | 110% |
| Human health and social work activities | 37 | 74 | 100% |
| Real estate activities | 38 | 69 | 82% |
| Financial and insurance activities | 31 | 40 | 29% |
| Information and communication, including software services | 29 | 36 | 24% |
| Education | 9 | 17 | 89% |
| Arts, sports, entertainment and recreation | 13 | 10 | -23% |
| Other services | 13 | 22 | 69% |
| **TOTAL** | **1,243** | **2,125** | **71%** |

# ROMANIA

2021 Insolvencies

# 5 Insolvencies in Romania

Most governments and companies all over the world experienced unprecedented social and economic challenges due to the effects of the Covid-19 pandemic. Against the backdrop of the restrictions taken to reduce the spread of Covid-19, and of the side effects propagated in the business environment, the economic outcome for the past two years reflects a paradox: 2020 was marked by a strong recession but with few insolvent companies (a historical minimum), followed by unprecedented economic growth during 2021, but with more companies shutting down operations. According to the preliminary data published by BPI and based on Coface methodology, 6,113 new insolvency proceedings were opened in 2021, up by 10% when compared to the previous year, but still below the level registered before the impact of the Covid-19 pandemic at local level. Nevertheless, the losses produced by the companies that became insolvent registered an accelerated increase, exceeding the pre-pandemic level of 2019.

The challenges for companies have amplified during the past year due to the pressure of rising costs for wages, raw materials, energy, gas, fuel, or the rising interest rates. In this context, we are able to notice an increase in the number of insolvent companies with revenues above EUR 0.5 million (medium and large). Therefore, their number was 322 in 2021, compared to 301 companies in the previous year. This is also reflected in the increase in financial losses of almost RON 5.3 billion (estimated by the difference between the debts and the fixed assets reported by the insolvent companies), as well as in the number of lost jobs, of almost 30,000. The number of companies that shut down in 2021 stood at about 118,000, up by 26% compared to the previous year. At the same time, the number of private limited companies (LTD) newly registered in 2021 increased by 31%, to about 100,000. Moreover, the total number of LTD companies established in 2021 was close to 150,000, which is the highest it has been for the past decade. All these reflect the positive sentiment of many start-up entrepreneurs, factor that can be fuelled also by the opportunities created by the Covid-19 pandemic through the removal of some companies. At the same time, the labour market shows an accelerated recovery, with almost 10% of the employees in the private sector changing their jobs in 2021, while the number of those seeking a job on online recruitment platforms doubled during early 2022.

**Iancu Guda**

SERVICES DIRECTOR
Coface Romania

Looking to the future, the challenges posed by the general economic context are summarised below:

### Important challenges for the Government

- Major economic imbalances that may be exacerbated by the accelerating rise in the cost of energy, gas, fuel or raw materials (price-to-price and cost-to-price spiral inflation)
- Inflationary pressures eroding the purchasing power of the population and diminished traction of the consumption-fuelled economic growth
- Acceleration of the reforms and modernisation of the public administration in order to implement the investment projects included in the PNRR, so that the deceleration of consumption is compensated by the increase of investments
- Fiscal consolidation by reducing the fiscal deficit by improving the collection of public revenues and keeping social spending under control
- Increasing cost of financing for rescheduled or future debts. The cost of government funding doubled in the past half of 2021 on all funding horizons
- There are still some health risks posed in the context of the Covid-19 pandemic, which can have unforeseen fluctuations and can quickly turn into economic risks for the stability of the business environment. The risk of a more severe variant emerging has not disappeared.

### Important challenges for companies

- Widespread increase in the costs of raw materials, energy and capital for financing business. Companies with low profit margins, high indebtedness and fixed costs are at risk of insolvency
- Logistical planning of stocks and long-term investment projects in a context with lot of uncertainties. Budgets have to be built on multiple scenarios, with a focus on liquidity and back-up plans for negative shocks
- The ability to respond to new consumer requirements or behaviours following the impact of the pandemic (online sales, high quality). The marginal available income of the population will be zero at best, since the increase in wages will be offset by the increase in the costs of maintaining the standard of living
- Adaptation to the new requirements on the labour market (adjustment to long-term teleworking)
- Development of some agile systems for the purpose of managing risk matrices of increasing complexity (credit risk of business partners, short-term liquidity challenges, adverse environment for operational plans
- or related to the implementation of investment projects).

### Sectorial distribution of insolvent companies

Based on the financial statements submitted during the year preceding the insolvency year and depending on the main business object indicated by the NACE code, Coface classified the companies that became insolvent in 2021 by the most important 23 business sectors. The figures are presented in the table below.

Chart 5.
Distribution of insolvencies by sectors for past 2 years[2]

| Sector | Insolvencies 2021 | Insolvencies % Total | Insolvencies 2020 | Insolvencies per 1.000 companies* |
|---|---|---|---|---|
| Constructions | 1,115 | 18% | 810 | 34 |
| Retail trade | 847 | 14% | 807 | 13 |
| Wholesale and distribution | 833 | 14% | 905 | 17 |
| Transport | 565 | 9% | 527 | 19 |
| Hotels and restaurants | 564 | 9% | 446 | 30 |
| Other market services rendered mainly to enterprises | 470 | 8% | 446 | 11 |
| Manufacture of textiles, clothing and footwear | 284 | 5% | 257 | 54 |
| Agriculture | 258 | 4% | 267 | 19 |
| Food and beverage industry | 167 | 3% | 127 | 28 |
| Metallurgical industry | 160 | 3% | 117 | 26 |
| Wood and wood working | 158 | 3% | 163 | 16 |
| Other personal services | 136 | 2% | 99 | 13 |
| Recreational, cultural and sport activities | 99 | 2% | 84 | 19 |
| IT | 81 | 1% | 102 | 7 |
| Real estate transactions | 77 | 1% | 76 | 8 |
| Machinery and equipment industry | 61 | 1% | 71 | 12 |
| Waste collection, treatment and disposal activities | 54 | 1% | 36 | 25 |
| Financial intermediation | 45 | 1% | 36 | 8 |
| Post and telecommunications | 36 | 1% | 38 | 14 |
| Healthcare and social services | 34 | 1% | 36 | 4 |
| Manufacture of chemicals | 29 | 0% | 38 | 11 |
| Extractive industry | 22 | 0% | 25 | 29 |
| Production and supply of electricity and heat, water and gas | 18 | 0% | 51 | 20 |
| **TOTAL** | **6,113** | **100%** | **5,564** | **18** |

*[2]By linear extrapolation of the companies that submitted financial statements to the MFP during the year preceding the insolvency year. The first ten sectors with the highest number of insolvencies per 1,000 active companies (only the companies with a turnover above 1,000 EUR/ month during 2020 were taken into account as active companies) are highlighted in green*

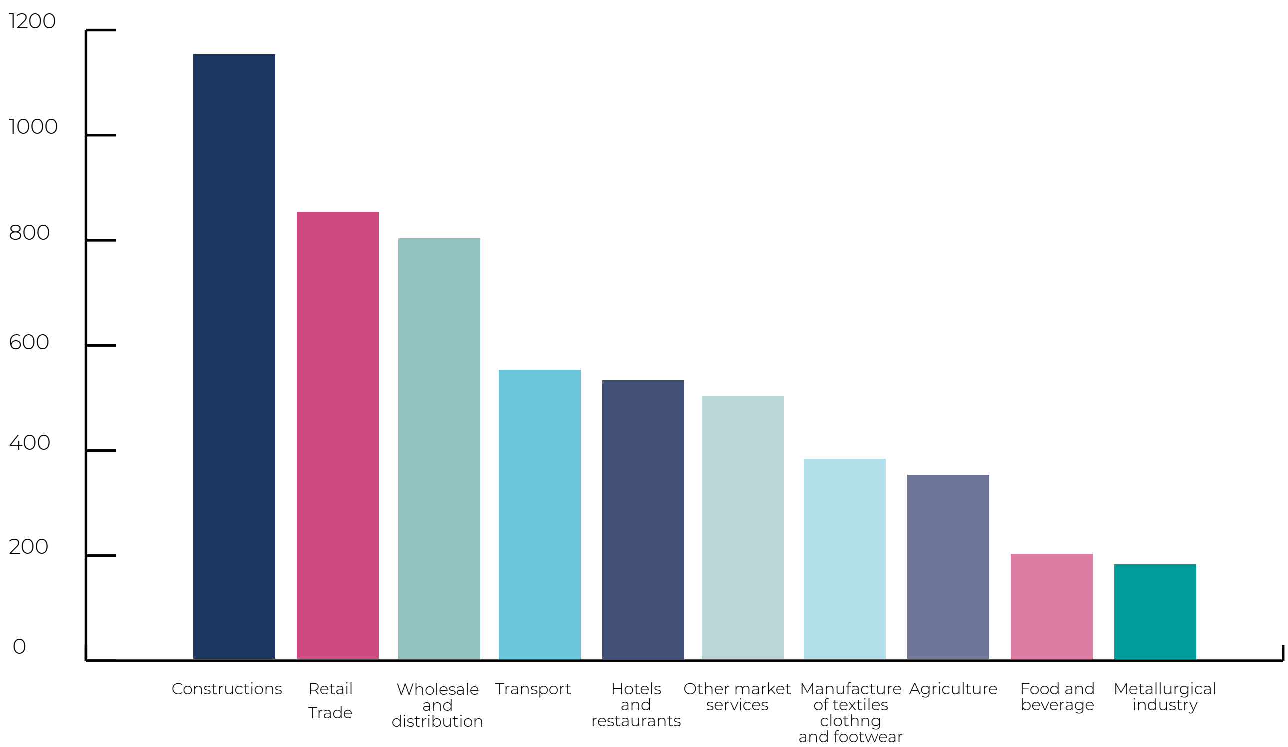
Although we do not have information regarding the main business object for all the companies that became insolvent during the period under analysis[3], there are two reasons why we consider that the distribution per sector for the entire portfolio is similar to the sample analysed. Namely, this includes:

- the share of the sample is statistically significant for both years;
- the shares in the distribution per sector for the sample have values similar to the shares in the distribution for the entire portfolio, according to the studies conducted by Coface for the past 3 years.

In most of the studies conducted by Coface related to the evolution of insolvencies, the top 10 sectors with the highest number of insolvent companies remained largely unchanged, the only changes being the order of ranking, with variations of one or a maximum of two positions. Most of the insolvencies opened in 2021 were registered in the construction sector (1,115), followed by retail trade (847) and wholesale distribution (833). Analysing the evolution of insolvency cases pending in the past 5 years, a trend of consolidation of volumes can be noticed for the first 3 and 5 sectors, respectively. In this regard, the share of the first 3 sectors that registered the highest number of pending insolvency cases in the past 5 years varied between 50% and 54%, and for the first 5 sectors between 65% and 70%. These shares are not accidental and are determined by structural factors, such as the sectoral distribution of all the companies active at national level. Therefore, the first 5 sectors with the highest number of insolvencies cover a similar share from the point of view of total active companies.

Given this structural factor, it is important to analyse the number of insolvencies compared to the total number of active companies[4] in a certain sector. The top 10 sectors with the highest values for this indicator are listed in the following chart. From this point of view, the most affected sector is Manufacture of textiles, clothing and footwear, with an insolvency rate of 54 companies per 1,000 active companies. This relates to 3 times more than the national average. The very low activity in this industry and the declining utilization of production capacity in many companies amid shrinking demand hit hard the companies of this sector, which had high fixed costs, low profit margins and a high level of indebtedness. The Construction sector registered 34 insolvencies per 1,000 active companies in 2021, 90% of which were small companies with revenues below 0.5 million euro that could not withstand the shocks of rising raw material costs and increasing wage pressures. HoReCa tops the podium of industries with the highest number of insolvencies per 1,000 active companies, being the business most strongly affected by the restrictions against the Covid-19 pandemic.

Chart 6:
Top 10 sectors in terms of number of insolvencies in 2021




[3]These data can be calculated for approximately half of insolvent companies.
[4]Only the companies with a turnover > 1,000 EUR/month during 2020 were included in the category "Active companies".

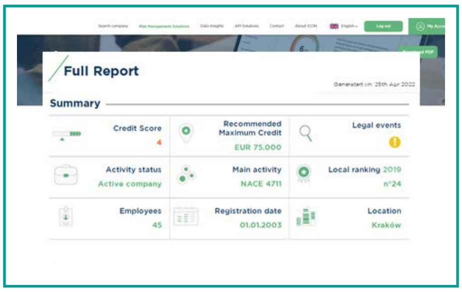
# 6 Manage your risk

Non-payment risk prevention begins with gathering relevant and up-to-date information on buyers and their environment. Analyzing this information helps with the strategic decision process. This **CEE insolvencies study** is based on business information database and well-founded quantitative and qualitative assessments carried out by our Regional economists and provides you macro-economic insights and commercial developments in the CEE countries.

As a leading provider of business information and credit insurance, we know that running a business and ensuring financial growth can be challenging at times. Insolvent buyers, political unrests, import and export regulations can significantly affect your financial bottom line. As such, appropriate safety measures need to be implemented. Our international risk underwriting and economic research teams assess and monitor business risk on a daily basis. In addition to global data sources and financial information on more than 200 million companies across the world, including 40 million in Central Europe, Coface has unique information deriving from our experience in trade credit insurance and debt collection activity such as late payments or non-payment data. Coface offers the most comprehensive data overview for global credit risk management. With **Coface Business Information** solutions, we share this expertise with our clients in order to help them in managing risk and develop business.

**Dorota Angotti**

REGIONAL BUSINESS INFORMATION DIRECTOR

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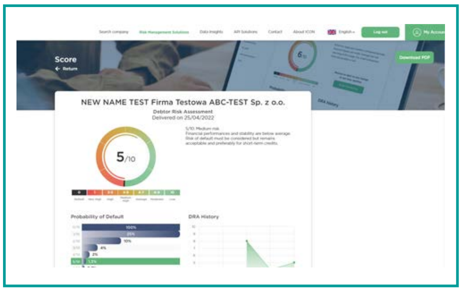


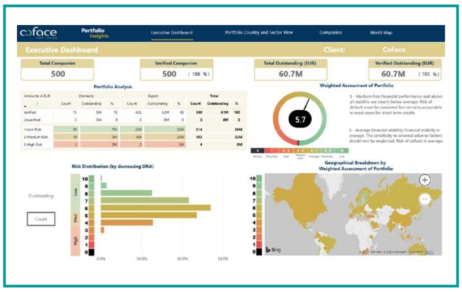


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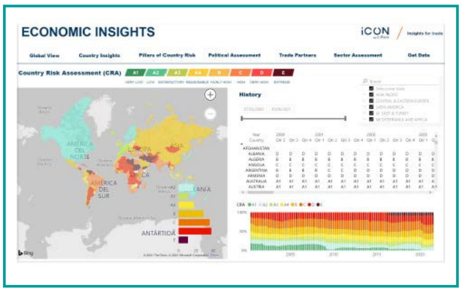


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Coface Central Europe Holding GmbH,
Marxergasse 4C, 1030 Vienna
Contact: www.cofacecentraleurope.com,
office@cofacecentraleurope.com

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