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Coface Survey: 33% decrease of Insolvencies in Romania in H1 2019 compared to the same period of the previous year

A new survey conducted by Coface Romania on the evolution of insolvencies in Romania in H1 2019, points out a 33% decrease in the number of insolvent companies during this period, in the context of a real and sustainable economic growth of 5.1%. However, the macroeconomic evolution is not sustainable due to many imbalances: the growth of the fiscal deficit by 81% during the first half of this year compared to the same period of the previous year, the highest annual inflation in the EU of 4.1%, the increase of the trade deficit and depreciation of the national currency. Moreover, Coface's analysis shows that the decline of insolvencies is offset by the increase of the number of radiated companies, the payment delays increase significantly and the large companies are facing a challenging economic environment.

Positive aspects and trends:

- The number of insolvent companies decreased by 33% during H1 of this year compared to the same period of the previous year;
- The number of insolvent companies during H1 2019 generated the smallest financial losses of the last 10 years;
- The regional distribution of insolvency cases during H1 2019 reflects the generalized decrease at national level, all regions recording decreases exceeding 20% in the number of companies that went insolvent.

Foreseen future risks

- Almost three quarters of the decrease in the number of insolvency cases is recorded for the segment of companies that did not file their financial statements (37%), did not record income (14%) or whose turnover recorded in 2018 was under EUR 100,000 (27%);
- The decrease in the number of insolvencies is canceled by the significant increase in the number of companies that have been radiated (+76%), thus the number of companies that suspended their activity during the first half of this year is 85,960 companies, increasing by 36% compared to the same period of the previous year;
- The business environment remains very polarized, the first 1,000 companies (as per their turnover) concentrating half of the income of all 500,000 active companies in Romania;

“After a decade in which approximately a million companies suspended their activity, of which nearly 150,000 that went insolvent, the insolvency phenomenon records a historical minimum. Thus, the number of insolvent companies decreased by 33% in the first half of this year compared

to the same period of the previous year and by almost -40% in the large companies segment, thus causing the smallest financial (debt surplus over the fixed assets) or social (jobs) losses of the last decade. Despite this fact, the business environment is showing signs of weakness as the number of companies that suspended their activity during the first half of this year increased by 36% compared to the same period of the previous year, while the value of the instruments whose payment was refused tripled," **Iancu Guda, Coface Romania Services Director** declared.

According to the preliminary data published by the Insolvency Proceedings Bulletin and on the basis of Coface's methodology, 3,058 new insolvency procedures were initiated during the first half of 2019, a decrease by 33% compared to the same period of the previous year, when 4,562 insolvency procedures were initiated. However, at the same time, the companies that went insolvent during the analyzed period generated the smallest financial losses of the last decade, this being due to the decrease in the number of large companies who entered into payment default.

With regard to the number of large companies (turnover exceeding EUR 0.5 BIL.) going insolvent, it recorded a decrease by almost 40%, reaching 174 insolvencies, thus reaching the minimum level of the last decade. Nevertheless, investments drop, the inventory turnover time increases, debt collection duration remain at a fast pace and profits are reinvested in order to lower indebtedness, these being challenging issues companies face.

Most affected activity sectors in H1 2019

According to Coface's analysis, the first 3 sectors recording the highest number of insolvent companies are: wholesale and distribution (480), construction sector (438) and retail (387).

Analyzing the number of insolvency cases in relation to the total number of active companies in the relevant sector, Coface's analysis identifies the following activity sectors as the top 3 with the highest values for this indicator (in relation to 1,000 active companies): real estate transactions sector, wholesale and distribution and transportation sector.

"The business environment in Romania is in a paradoxical situation where, despite some years of extremely dynamic economic growth, it fails to convey sufficient opportunities due to current challenges and external or local uncertainties, the latter significantly acting at the beginning of this year. The number of active companies has not increased over the last 10 years, and overall companies are more indebted and have higher liquidity pressures. If we look at the peak of the economy, the evolution of the largest 1,000 companies active in Romania (concentrating half of the revenues of all companies) during 2018 reflects major challenges in their development: the decrease in the gross margin (aggressive competition), the decrease of the operational profit costs increase more rapidly than revenues; the pressure on wage costs is to be mentioned) and the deterioration of competitiveness (assets are used for a longer period)," states **Eugen Anicescu, Coface Romania Country Manager**.

Thus, of the total 3,058 insolvent companies during the first half of this year, 1,529 companies filed financial statements for the activity carried out during 2018. The results of Coface's analysis confirm the fact that one of the main causes that fueled the risk of going insolvent was the decrease in liquid assets, which was offset by extending the supplier's credit.

You can find more information on the risks and challenges the companies active on the Romanian market face, the reasons for insolvency and the future behavior recommended to these companies from the enclosed **Coface's Survey on the insolvencies status in Romania – H1 2019**.



P R E S S R E L E A S E

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