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Coface Romania Analysis: Vulnerability of the business environment in the context of the Covid-19 pandemic

The latest Coface analysis was launched at the Country Risk Conference which brought together over 350 participants

Coface Romania launched an analysis of the business environment in the context of Covid-19 during Country Risk Conference, a business event with tradition, now in its 16th edition, held on April 21. According to the data, 4 out of 10 companies active on the domestic market were already vulnerable before the negative economic impact caused by the Covid-19 pandemic during 2020.

In the context of declining sales, discontinued business and later collection of bills, about 11% of active companies with a favorable situation before the pandemic could go into bankruptcy during 2020, leading to doubling unemployment and deepening the economic recession by another 6pp, amplifying the economic decline by almost -10%. This situation was avoided due to the significant liquidity generated in the market by state aid schemes.

The crisis of 2008 vs the crisis of 2020

Companies active in Romania were at the beginning of 2020 in a more vulnerable situation compared to the previous financial crisis. The reflection of the consolidated financial situation at the end of 2019 compared to that of 2007 (the years before the economic crises of 2008 and 2020, respectively) for companies active in Romania indicates five problems:

- Positive working capital (2007) => Negative working capital (2015 - 2019)
- Decrease of the degree of capitalization, from 35% (year 2007) to 28% (year 2019)
- Increasing the share of short-term debt in total debt, from 58% (2007) to 75% (2019)
- Net divestments, fixed assets decreasing from 63% (2007) to 48% (2019)
- Increasing the receivables collection period to 115 days (2019) compared to 60 days (2007)

Vulnerable business environment in the context of Covid-19

In order to better understand the situation of companies in 2020 and the impact of the lack of government support measures, two generalized negative shocks were applied, namely, the decrease of the turnover and the increase of the companies' receivables. A 6% decrease in turnover was estimated at the economy level as well as a potential increase of 14% in the receivables of companies active in Romania in the absence of support measures provided by the authorities.

Applying these variables to companies active in Romania, there is a sample of companies with a favorable situation before the pandemic, but which encountered difficulties during 2020, of 25,837 businesses, concentrating approx. 390,000 employees and 11% of the income of the

entire business environment. The vulnerability of companies has increased in direct proportion to their size.

The sectors most severely affected by this phenomenon are wholesale and retail, the extractive industry, transport and HoReCa. On the other hand, the least vulnerable sectors are health and social care, IT, the food and beverage industry or agriculture.

"Although the way things are evolving nowadays indicates a better recovery than we could have anticipated during 2020, we must not ignore the hidden risks. Coface's analyses show that due to the real deterioration of the financial situation of a part of the business environment, there are a number of companies in the economy that have an imminent risk of insolvency. These "hidden" insolvencies did not materialize due to the significant liquidity put on the market by governments, but, depending on the economic developments in the next period, they may come to effect in the shorter or longer term. It is essential that we remain realistic and able to constantly adapt, taking into account both the risks and the opportunities," declared Eugen Anicescu, Country Manager, Coface Romania.

Coface Country Risk Conference

The 16th edition of the Country Risk Conference brought to the attention of the more than 350 participants, the main evolutions and trends of today's economy, as well as the possible scenarios of the post-Covid-19 return. The debates were attended by: Declan Daly, Chief Operating Officer, Coface Group, Daniel Dăianu, President of the Fiscal Council, Economist, Member of the Romanian Academy, Eugen Anicescu, Country Manager, Coface Romania, Grzegorz Sielewicz, Chief Economist, Coface Central and Eastern Europe, Dumitru Nancu, General Manager, FNGCIMM, Ionuț Dumitru, Chief Economist, Raiffeisen Bank, Ciprian Dascălu, Chief Economist and Research Director, BCR, Adrian Tănase, CFA, General Manager, Bucharest Stock Exchange, Mihai Nichișoiu, Global Senior Macro Strategist, Tradeville, Iulian Stanciu, Executive President, eMAG, Iancu Guda, CFA, EMBA, Services Director, Coface Romania.

Roger Bootle, Leading Authority in the World Economy and Financial Markets, presented in a special slot the state of the economy after Covid.

The Coface Country Risk Conference brought together experts in country risk, specialists in the academic area, banking field, Romanian and foreign investors, as well as representatives of the business environment.



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

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Coface: for trade

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