

Coface Study: Insolvencies in Romania increased in the first semester of 2021 by 23% compared to the same period last year

The number of newly registered companies, of LTD type, increased by 58% in H1 2021 compared to H1 2020

Bucharest, August 12th, 2021 – The latest Coface Romania study shows that in the first six months of 2021, 3,033 new insolvency proceedings were opened, +23% above the level recorded in the same period of the previous year. Insolvencies opened in the first half of this year have returned close to the level before the Covid-19 pandemic and are expected to increase by at least 10% over the previous year. The number of employees reported by insolvent companies in the analyzed period is 11,294.

The evolution of insolvent companies

The financial losses caused by insolvent companies in the first half of 2021 were almost RON 2 billion, 5 times below the corresponding level of 2015 and the lowest in the last decade. There is a gradual decrease in the number of insolvent companies with revenues of over EUR 0.5 million (medium and large), to only 130, the lowest in the last decade. At the same time, over the last 3 years, Romania has registered less than 20 insolvent companies for every 1,000 companies with incomes over 1,000 EUR/month. Thus, Romania is close to the regional average in terms of insolvencies reported to 1,000 active companies, respectively 11, after constantly leading this regional top in the last decade.

“The subsidy and support measures for the companies have worked during 2020, but they did not definitively solve the problems of vulnerable businesses, but rather gained time for them. Thus, last year marked important consequences on the financial situation reported by active companies in Romania: investments decreased, indebtedness increased, while working capital remained negative and vulnerable. If we consider the increase of business interdependence due to intensified commercial credit and extended the terms of payment of invoices for suppliers, the insolvency risk of companies will amplify in the next period, already materialized by the increase by 31% in the number of companies that stopped operating in the first half of this year, and by 23% in the number of the insolvent ones”, declared Iancu Guda, Services Director, Coface Romania.

Sectorial distribution of insolvencies

Most insolvencies opened in the first half of this year were recorded in the construction sector (542), followed by retail (455) and wholesale and distribution (409). The share of the first 3 sectors that registered the most insolvency cases varied in the last 5 years between 50% - 54%, and for the first 5 sectors between 65% - 70%.

The first 5 sectors with the highest number of insolvencies cover a similar share in terms of total active firms. From this perspective, the most affected sector is the textiles, clothing and footwear, manufacturing which recorded an insolvency rate of 24 companies per 1,000 active companies, almost 3 times the national average. It is followed by the constructions sector and HoReCa, heavily affected by Covid-19 restrictions sector. According to the data, the sales of companies active in the HoReCa sector decreased by 39% during 2020, while the profit contracted by 77%.

“The support measures for the population and companies active during 2020 were the main factor for reducing the negative financial effects of the Covid-19 pandemic in the economy. The first half

of 2021 marks, however, a realization of "hidden insolvencies", both as a basis effect and as a result of real losses in certain sectors of activity. Looking at the second half of 2021, we must not ignore a series of challenges that put pressure on the business environment: imbalances in global production and logistics flows, low predictability of commodity and material prices, inflation, political risks, etc. To complete this explosive mix, the imminence of a wave of infections and the gradual withdrawal of support measures will test companies' resilience to shocks and their ability to manage their resources efficiently. It is essential to remain realistic and to approach these new developments with pragmatism. As a provider of credit risk management services, Coface will continue to be actively involved in supporting the business environment", added Eugen Anicescu, Country Manager, Coface Romania.

According to the data published by CIP (Payments Incident Central) provided by the National Bank of Romania, the amounts refused for payment with debit instruments during the first half of 2021 amounted to a total of only 0.55 billion RON, decreasing by 49 % compared to the previous year. Given that the number of payment incidents in the same analyzed period decreased more slowly, respectively by -32%, the average value of payment incidents recorded in the first half was 39 thousand RON, less than half compared to the maximum of the last recorded in 2015. The historical minimum of payment incidents in the economy is favored by the chain effects propagated by the support measures implemented during 2020. However, the financial statements for 2020 confirm an increase in the indebtedness of companies, which covered most the need for financing through the supplier credit, thus amplifying the risk of contagion by invoices non-payment.

Radiography of the business environment

Analyzing the evolution of the business environment in the first semester of 2021, in comparison to the previous years, a favorable situation for the consolidation of the business environment is observed. The ratio between discontinued companies and start-ups has reached almost 1 for the first time in the last decade.

The number of companies that stopped operating in the first half of this year was 55,906, up by 31% compared to the same period of last year. At the same time, the newly registered companies increased to 79,734, of which LTDs account for 53,844, 58% more than the same semester of the previous year, the maximum of the last decade. This dynamic shows that the rapid recovery of the economy encourages the emergence of new businesses that are trying to seize opportunities despite the uncertain business environment.

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