

PRESS RELEASE

COFACE STUDY: INSOLVENCIES IN ROMANIA INCREASED BY 7% IN 2022 COMPARED TO 2021

The construction sector reported the largest increase in the number of insolvencies of +20%-

Bucharest, February 22nd 2023 – The latest Coface Romania study shows that 6,531 new insolvency proceedings were opened in 2022, up by 7% compared to 2021, and 2% above the level before the Covid-19 pandemic. The losses caused to creditors in 2022 by insolvent companies were 4.6 billion lei, down by 12% compared to the previous year. The number of insolvent companies with a turnover of over EUR 0.5 million increased from 322 to 357 during the past year.

Economic context

The succession of the Covid-19 pandemic, one of the worst in the last century, by the war started by Russia in Ukraine, generated a series of negative economic effects during 2022: the discontinuity of supply for many sectors of activity, the increase in the price of hydrocarbons, grains or of construction materials, double-digit inflation in many European countries and the deepening of fiscal and external deficits (commercial and current account). Never before has the difference between general inflation and inflation perceived by the population been so great. Thus, the inflation perceived by the population fluctuated between 25%-30% during 2022.

The pace of price growth has outgrown the dynamics of the national average wage, eroding purchasing power. Against this background, retail turnover has seen a continued deceleration throughout 2022, with the annual advance falling from close to 10% in January to close to 2%-3% by the end of the year. At the same time, the average salary increased by 13%, and the number of unemployed people in the economy decreased by 5%.

In 2022, current public revenues represented 28.6% in Romania, while the European average was almost 40%. Revenues from payroll tax, income and social contributions in 2021 were 155 billion lei, increasing to 172 billion lei during 2022. On the other hand, public spending increased by 18%, from 427 billion lei in 2021 to 503 billion lei in 2022.

"Last year was marked by an economic and geopolitical context that put pressure on the local business environment. The figures outline a picture full of challenges in the conditions of slowing economic growth from almost 6% in 2021, to approx. 4% in 2022. Despite avoiding recession, we are facing some imbalances that can generate risks and vulnerabilities for the population and the business environment. And the situation of insolvencies in 2022 confirms the challenges that Romanian companies go through in an attempt to survive in an ever-changing economic scene. As a provider of integrated financial risk management solutions, Coface will continue to carefully follow the main macro and micro economic developments in order to be able to support companies with solutions anchored in real needs", declared Alina Popa, Coface Romania Country Manager.

The evolution of insolvent companies

The top 3 sectors according to the number of insolvent companies are Construction (1,342), Retail Trade (858) and Wholesale and Distribution (807) and account for approximately 46% of the total number of insolvencies registered in 2022. The largest increase in the number of companies that entered insolvency proceedings was recorded in the construction sector (+20% vs 2021), which has the largest share of the total number of insolvencies (21%).

Even if in the last 3 years were reported the lowest values of the number of companies entering insolvency, the increasing trend may indicate that the period marked by the effects of COVID-19, when the Government of Romania supported companies through various financing schemes, and the liquidity in the market was high, ended. It should also be noted that approximately 60% of the companies entering insolvency in 2022 were established before 2016.

According to the data provided by the National Bank of Romania through their publication by the CIP, in 2022 28,814 payment instruments were refused for payment, a level similar to that recorded in the previous year. However, the total amount refused for payment in 2022 increased by 26%, up to 1.56 billion RON.

"Inflation and interest rates, both for the population, companies and those related to government securities, have reached the maximum of the last decade. The period of cheap money is over, retail consumption is strongly slowing down, the disposable income of many households is diminished, which does not stimulate lending and private investment. In this context, it is normal to see the increase in insolvencies and the deterioration of payment behavior among companies, a trend that will most likely continue throughout the current year. On the other hand, we are happy to see the number of startups increasing to a decade high, although this may also lead to increased competition and reduced profit margins. All these challenges can be overcome quickly and with mitigated negative effects only with the help of investments, both from public funds and through national programs or those available through PNRR, opportunities that the public and private sectors in Romania must exploit to the maximum", added Iancu Guda, Services Director Coface Romania.

Overview of the business environment

During 2022, a total number of 131,328 companies ceased their activity, increasing by 12% compared to the previous year. At the same time, last year 156,903 companies were registered, out of which 117,013 were LTD, an increase of 14% compared to the previous year. These are the highest values recorded in the last decade, thus reducing the ratio between the number of companies that stop their activity and that of newly registered LTDs to almost 1, compared to the average of 2.1 over the last 10 years.

The majority of startups are established in the sectors that already have the highest number of active companies, which reflects a preference of the population for certain types of activities. For example, 62% of the companies active in Romania operate in Trade (retail and distribution), Construction, Transport and various services provided to companies (outsourcing), sectors that concentrate at the same time 55% of the newly established companies during 2022.

A gradual decrease in interest in the Trade area (Retail + Distribution) is observed, the share among startups initiated in 2021 being at 23%, while in 2022 it decreased to 19%. In contrast, the IT sector attracts more and more start-ups, with the share among start-ups increasing from 6% in 2021 to 8% during 2022.

On the other hand, there are extremely attractive sectors from the perspective of profit margins, where the number of new businesses remains quite low. For example, in health and social assistance, the average profit obtained by companies active in Romania is 19%, 2.5 times above the national average, but only 4%-5% of new businesses are registered in these branches of activity. The same thing happens with the agricultural sector, where the average profit reported for the year 2021 amounts to 14%, but only 2% of the new businesses registered

during 2022 were attracted by this sector.

In the present study, newly opened insolvencies were considered, based on data published by BPI (Bulletin of Insolvency Procedures). For example, all companies with insolvency procedures opened during 2022 (according to BPI) and which are not listed as being in operation at the beginning of 2023 (according to ONRC), were considered as newly opened insolvencies during the last year.

Study conducted in February 2023.

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COFACE: FOR TRADE

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