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

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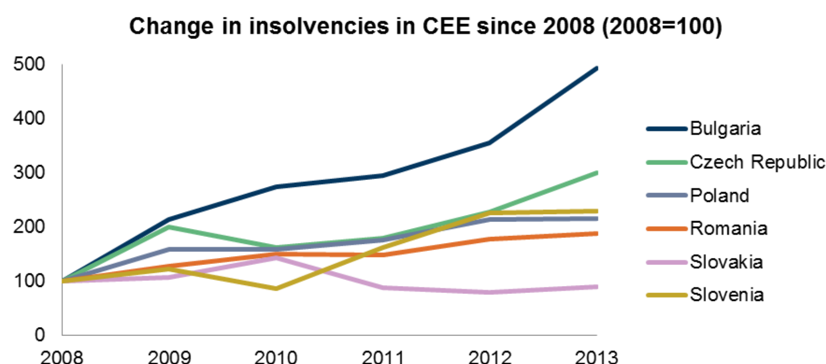
CEE Insolvency Report 2013: Increased insolvencies due to weak economic framework

- **The record year of 2012 was even topped in 2013: 5% more insolvencies in 2013 in CEE due to the slowdown of the Eurozone and fiscal measures**
- **Top Sectors: IT, Education and Health Care**
- **Flop sectors: Construction, Wholesale and Retail Trade**
- **Positive outlook for 2014 and 2015: insolvency rate finally stabilized?**

Companies in the CEE region faced a challenging year in 2013: The already weak economic situation deteriorated and the household consumption decreased due to fiscal measures to tackle rising budget deficits. Access to credit was further constrained in line with reduced supply and demand for new loans. This situation affected companies directly and forced them to revise downward their sales targets. Moreover export, the expected contributor to the GDP growth, suffered from the Eurozone slowdown where Central and Eastern European economies traditionally conduct most of their foreign trade.

This economic picture was reflected in insolvency statistics with nearly 70,000 entities becoming insolvent in 2013. For all countries within the CEE region, excluding Hungary, the number of insolvencies increased on average by 9%. Bulgaria recorded the highest increase in insolvencies with 834 companies (+39%). This can be traced back to the decrease in the demand, the difficult access to credit and to the lack of programs supporting business activities. Latvia is the bright spot in the CEE insolvency report with a shrinking number of insolvencies of 7%. This positive result mirrors the GDP growth of an estimated 4.6% and the rising private consumption of this Baltic country.

"The CEE countries have faced a challenging environment in their business activities in the course of last year. They suffered from low household spending but also experienced the Eurozone recession, the main trading area for most of them. The Czech Republic as a country strongly dependent on exports to the advanced EU countries confirmed that picture fully – both on a macro side with the two-year recession and on the micro side with insolvencies sharply rising by 26% in 2012 and then by 32% in 2013, explains Grzegorz Sielewicz, Economist Coface.



Considering the number of new insolvencies opened during 2013 in CEE countries, Romania has the second highest rate of insolvencies compared to the number of active companies, 6,44%, the only country with a higher percentage is Serbia, where the percentage of 7,61% is explained by a base effect (a reduced number of active companies). Moreover, Romania has registered a total number of 27.145 new opened insolvencies during 2013, which is double than the level recorded in Hungary, although the number of active companies (with turnover different than zero) is 30% lower than in Romania. The comparison becomes more eloquent by analysing the figures registered in Romania, in relation to the case of Poland, which registers 300% fewer insolvencies (only 818 new insolvency procedures opened in 2013) in terms of active companies, 4 times higher compared to Romania.

"*The phenomenon of insolvencies amplified in Romania, especially within the post-crisis period of the last 5 years, generating approximately 40% of all insolvencies opened during 2013 in CEE, while registering only 6% of the total active companies in the region. This is due to a very permissive legislative framework for the debtor that encourages the insolvency as an effective protection measure against creditors.*", explains Constantin Coman, Country Manager, Coface Romania.

The economic framework continues to bear down on the construction sector

Subdued demand, decreased household spending and growing competition have a direct negative impact on the retail and wholesale trade sectors. During the second half of 2013 a slow rebound had already begun from the doldrums, supported by low inflation and signs of returning consumer confidence.

The construction sector remains a constraint in the CEE countries and the long-term poor performance of the sector has not improved during 2013. With the ‘domino effect’ it also affected other industries linked to construction, i.e. manufacturers of metals, machinery and other products and equipment used by construction companies. Factors supporting the improvement of the construction sector are not foreseen in the near future. The inflow of EU funds from the new budget for 2014-2020 will be noticed in the companies’ financial situation at the end of this year at the earliest. Additionally, companies are still reluctant to start fixed asset investments as they are not convinced about a definite end to the economic slowdown and an economic revival.

Insolvency rates drift apart in 2014

The start to 2014 reads more positive in terms of economic outlook. Coface anticipates that the average growth rate of CEE countries will nearly double, increasing from 1.1% in 2013 to 2.0% in 2014. The engine of this improvement will continue to be fuelled by the Baltic States with Latvia and Lithuania at the top of the CEE region and forecasted to grow 4.2% and 3.4%, respectively. Nevertheless the other CEE economies will also experience higher growth rates compared to 2013. The main source of growth will come from increased exports and private

consumption. In this improving environment companies should feel more comfortable with their business decisions and return to fixed capital formation.

Although a recovery in Western Europe is predicted, its growth rate will be at the moderate level of 1.0% in 2014. Two stable economies will be the main drivers of this growth – Austria and Germany, which should record growth rates of 1.7% each. Both of these countries will benefit from the upturn in household consumption supported by the lowest unemployment rates within the EU, rising wages as well as growing external demand for their products.

Companies in the CEE region will benefit from the improved situation of their main foreign trading partners. It will take time before companies become less restrained with their business activities and results be seen in their financial results. While Poland and Latvia should notice a decrease in the number of insolvencies this year, other economies will experience a further increment of bankruptcy proceedings. Czech Republic, Hungary, Romania as well as Croatia and Slovenia will record the highest increases for the entire year.

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