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Bucharest, 14<sup>th</sup> May 2014

**5.929 ROMANIAN COMPANIES BECAME INSOLVENT  
IN THE FIRST 3 MONTHS OF 2014, DOWN BY 14% COMPARED TO THE  
SAME PERIOD OF LAST YEAR**

Coface Romania conducted a new study on the Romanian insolvencies' evolution, taking into consideration the newly opened cases registered within the Bulletin of Insolvency Proceedings for January - March 2014.

Coface's analysis, based on the data provided by the National Trade Register Office, indicates that the first quarter of this year registered 5.929 companies in various stages of insolvency, down by 14% compared to the same period of 2013 when 6.910 insolvencies were opened, and down by 17% compared to the same period of 2012.

**The Production and supply of electricity, water & gas, the Extractive industry and Constructions were the most affected sectors in relation to the number of active companies**

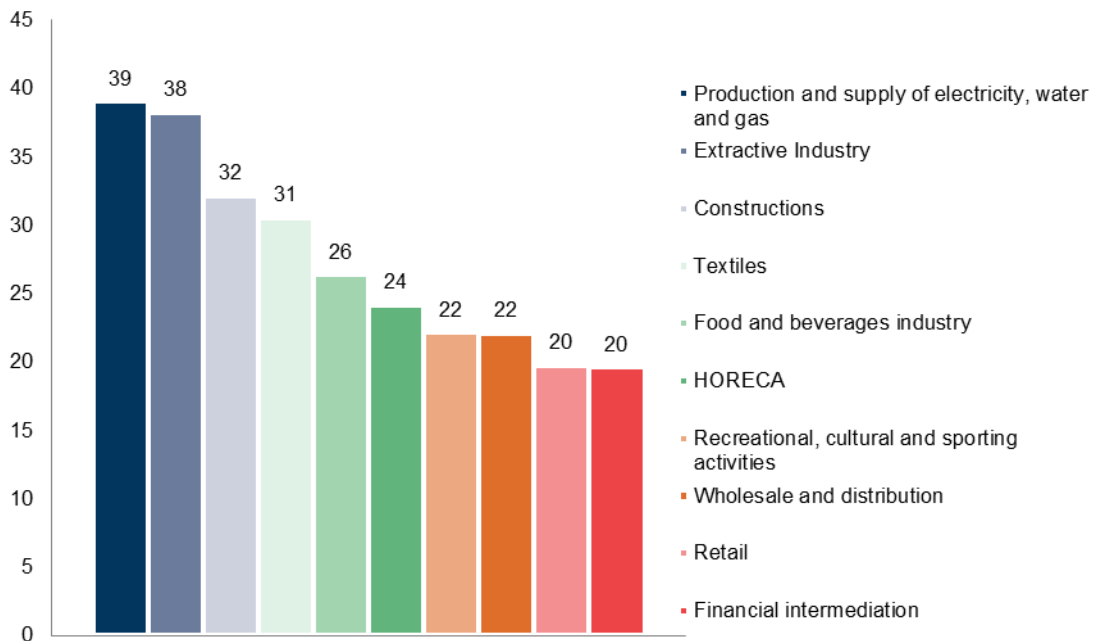
The first 10 sectors that registered over the last years the highest number of insolvent companies remained unchanged and the only modifications are related to the order in the top, but with variations of one, maximum two positions.

By analyzing the evolution of insolvency cases over the last 5 years, we noticed a consolidating trend regarding the volumes concentration degree in the first 3, respectively 5 sectors. Thus, the weight of the first 3 sectors which registered most of the insolvency cases (in absolute figures) ranged in the last 5 years between 50% - 54%, and the first 5 sectors between 65% - 70%.

The top 5 sectors that registered the highest number of insolvencies cover a similar proportion in terms of total active companies. Given this structural factor, it is important to analyze the number of insolvencies compared to all active companies in the sector. The top 10 sectors that registered the highest values for this indicator are listed in the chart below.

The Production and supply of electricity, water & gas and the Extractive industry registered high values for this indicator due to a negative base effect, the number of active companies being quite low. Thus, the following sectors that registered the highest number of insolvent companies related to the number of active companies are: Constructions, Textiles, Food & beverages (especially Meat processing industry) and HORECA. We should mention that for the last 2 years the same sectors were included in the top of the insolvent sectors with the highest values for this indicator, which flags the persistence of some structural problems.

## TOP 10 INDUSTRIES IN TERMS OF NUMBER OF INSOLVENCIES IN Q1 2014 related to the total no. of active companies



Source: BPI, MFP, Coface Data

### **167 insolvent companies with a turnover higher than 1 MEUR were registered in the first quarter of this year, compared to 192 in the same period of the previous year**

Although declining, compared to the previous year, the number of insolvent companies in the first quarter of this year, with a turnover higher than 1 MEUR is still high. But it is important to mention that there were not registered insolvencies among companies with turnover higher than 100 MEUR, given that in the same period of the previous year, 4 such companies became insolvent.

The economic environment is still challenging for private companies in terms of credit risk, but there are auspices indicating a new cycle of stabilization and payment discipline improvement.

The data reported by the NBR regarding the rejected payment instruments confirms a decrease of the payment incidents, given that both the number and the values of the amounts refused to be paid registered in the first quarter of 2014 are down by 30% compared to the same period of 2013. But this decrease cannot be interpreted as a confirmation of the payment discipline improvement, another cause being the companies' reticence of using these

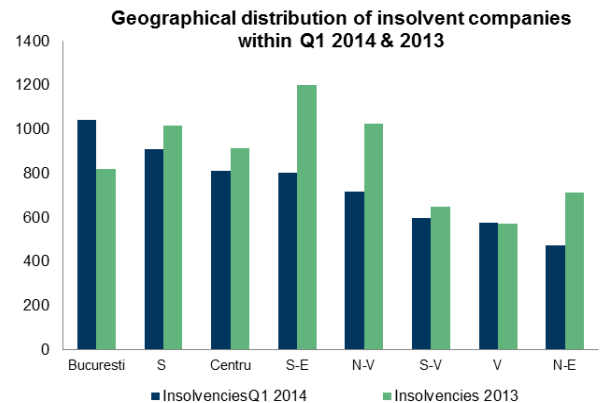
instruments (promissory notes or checks), given that the trust between business partners declined in 2013.

Analyzing also the evolution of financial indicators over the last 5 years there can be noticed several structural causes that led to a pressure on liquidities and payment defaults of the analyzed companies:

- The profit & loss account - a series of analysis indicate small losses and declining marginal sales, but these are not critical problems. The insolvency risk was more affected by a very poor quality of the incomes and the low level of the monetary base.
- The balance sheet - here we can identify some structural problems that have "led" the companies to insolvency: improper rotation of current assets, quality of the working capital and increase of debts to unsustainable levels.

### **Bucharest, South and the Center of Romania are concentrating approximately half of the total insolvencies registered in the first quarter of 2014**

The territorial distribution of the insolvency cases for the first quarter of this year did not suffer significant changes from the existing situation of the same period of 2013. Thus, the most affected 3 areas in 2014 were Bucharest, South and the Center of Romania, concentrating approximately half of the total insolvencies registered in the analyzed period.



The only areas where the number of 2014 insolvencies increased, compared to the same period of the previous year is Bucharest, the advance of 27% being significant. The areas with the largest declines are N-E (-34%), S-E (-33%) and N-W (-30%).

*„The economic growth of 3.5% in 2013 and also the recovery of European markets towards the end of 2013 produced effects on the evolution of the number of insolvencies in the first quarter of 2014. The negative dynamics of 14% less insolvencies, compared to the same period of last year is only demonstrating that 2013 marked the peak of a delayed effect of the financial crisis (the highest number of insolvencies). Those better results from the beginning of the year demonstrate that we can have confidence in the Romanian economy. Despite this, we cannot appreciate that things are still stable; the transition from a poor payment behavior registered in 2013, to a normal one is made gradually, marked by caution. Also an important role in this matter is determined by the pursuit of the implementation of economic, legislative and fiscal reforms. We still noticed a certain risk within commercial transactions and the capitalization structure of Romanian companies has not changed. Although is not easy to*



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*access financing, and the companies show a low bankability level. The use of supplier's credit will remain an important resource for financing the private companies.*”, declared Constantin Coman, Country Manager, Coface Romania.

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