

panorama

coface

Study on the status
of insolvencies in
Romania for the
first semester
of 2014



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1. SUMMARY

The new Insolvency law no. 85/2014 regarding the procedures of preventing insolvency and of insolvency has been published in the *Official Gazette, Part I, no. 466 of June 25th, 2014* and entered into force on June 28th, 2014. Section 2 “New amendments to law pertaining to insolvency” reviews the procedure stages and also the advantages brought by the new code. Hence, important updates on the reorganization plan, observation procedure, current and guaranteed receivables, and also enabling of new financing is covered also.

Based on the data published by the IPB and Coface methodology, 12,453 insolvency cases were reported during the 1st Semester of 2014, with a 10% reduction vs. previous time last year, when a number of 13,855 insolvencies had been registered. Linear extrapolation amid historical long term average¹ signals a likely annual level of 23,000 new insolvencies during 2014. This would translate into a 15% decrease of new insolvencies during 2014 as compared to previous year. Considering the new insolvency code entered into force starting with June this year, and that company’s behavioural pattern is still unclear, insolvency dynamics might be still volatile and unpredictable.

From the sector distribution point of view, constructions, textiles, mining and quarrying industry, metallurgy and HORECA are still in the top five ranks by considering the number of insolvencies reported at 1,000 active companies.

Payment discipline improvement is signalled by the reduction with 30% of both value and number of defaulted payment instruments reported within the first semester this year compared to same period last year. In the same time, the number of insolvent companies with turnover above 1 MEUR dropped by 30% within the same considered period, signalling a rebound of negative contagious effect over large companies.

To deepen the understanding of structural causes that triggered insolvency procedures during the first semester this year, Coface appraised the financial declarations that were reported by the insolvent companies for the 2008-2013 activity. A list of most important conclusions following this analysis, are reported bellow:

- The majority of additional debt (3.3 BN RON) were attracted to cover loss (increasing with 2.3 BN RON) and increase in receivables (1.1 BN RON current assets, over 95% represented by receivables) where book value of fixed assets stayed constant;
- Insolvent enterprises have attracted short term capital mostly from suppliers, the balance of the same from total debt balance increasing from 35% (2008) to 50% (2013);
- Long term investment that proved to be unprofitable, with increasing loss during the period under analysis;
- The increasing average DSO indicates an inadequate credit risk policy, the average DSO increasing with 81 days during the interval under analysis, from 79 days (2008) to 160 days (2013);
- This has caused slower supplier payment, the average DPO having increased with 117days, from 112 days (2008) to 229 days (2013).

¹ By considering previous 10 year average, new insolvencies reported during the 2nd semester equaled between 80%-85% from the 1st semester levels. 2013 was an exception, with equal new insolvencies reported between the two semesters, amid high insolvencies reported during fourth quarter (9,189 as compared to previous five years average of 6,000)

Coface has compiled the „invoice” caused by the companies that went bankrupt during the 1st Semester of this year, the list of payers and the impact for each category. Section 5 “Evolution in time of the insolvent enterprises and their impact on the economy” further details and splits the conclusions drawn into two timing stages (2009-2011 and 2012-2013), the final figures being:

1. Private suppliers: **3.25 BN RON**
2. Banks: **2.6 BN RON**
3. Shareholders: **1.7 BN RON** (not a direct cost, but rather the opportunity cost of cancelling dividends during 2008)
4. Government Fiscal Authorities (the state): **0.65 BN RON**

Thus, even if the number of companies that ceased activity during the 1st Semester of this year had dropped by 10% compared to the same period of last year, the number of new recorded companies within the same timeframe has dropped even faster, by 24%. Therefore, we conclude on a gradual recovery of payment behaviour amid the reduction of insolvent companies and defaulted payment instruments, amid a relatively unfriendly economic landscape, for both private investors and entrepreneurship initiative.

2. NEW AMENDMENTS TO LAW PERTAINING TO INSOLVANCY

The new Insolvency law no. 85/2014 regarding the procedures of preventing insolvency and of insolvency has been published in the *Official Gazette, Part I, no. 466 of June 25th*, 2014 and entered into force on June 28th, 2014.

This law applies to professionals, except the ones performing independent professions, as well as the ones for which there are special dispositions regarding the insolvency regime. Also, the procedure applies to autonomous administrations.

The law unifies in a sole normative act:

- General legislation regarding insolvency applicable to all economic operators;
- Special legislation, incident to credit institutions and insurance/reinsurance companies;
- Regulating the insolvency of groups of companies;
- Regulation the cross-border insolvency.

2.1. Stages of performing the procedure

- The request for opening the insolvency procedure.

The insolvency procedure will start based on a request submitted at the court of law by the debtor or by creditors, as well as by any individuals or institutions expressly provided by law, e.g. the Financial Regulator.

The debtor is obliged to address to the court of law a request for opening the insolvency procedure within 30 days since the appearance of the insolvency. The debtor’s request will be solved by the court of law within 10 days since its registration, in the council chamber, without summoning the parties, and it will issue an order of relief. Within 10 days since the receipt of the notice regarding the order of relief,

upon the debtor's request, the creditors may submit a petition to oppose the conclusion of the order of relief. In case of accepting of the opposition of creditors, the syndic judge will revoke through a court decision, the conclusion of the order of relief.

Any creditor is entitled to request the opening of the insolvency procedure if it owes over the alleged insolvency of the debtor an outstanding debt, liquid and chargeable in the amount of RON 40.000 (in the previous regulation the limit was of RON 45.000), older than 60 days (in the previous regulation the age was of 90 days). The syndic judge will communicate to debtor, in a copy, the request for opening the insolvency procedure and the debtor must either appeal, either to acknowledge the existence of the insolvency within 10 days since the receipt of the request. If the syndic judge concludes that the debtor is not bankrupt, it will reject the creditors' request. If the syndic judge concludes that the debtor is bankrupt, it will reject is appeal and will open the procedure through a decision.

- Forms of insolvency procedure

The law regulates two forms of insolvency procedure:

- General procedure, representing the procedure through which a bankrupt debtor, but who does not fulfil the procedure provided by insolvency law in order to come under the simplified procedure, enters successively in the observation period and, subsequently, either in the judicial reorganization, either, directly, in bankruptcy;
- Simplified procedure represents the procedure through which a debtor fulfilling some conditions such as, for example: does not own any good in the patrimony of articles of incorporation or the accountancy documents could not be found, the administrator cannot be found etc., or, upon its request, enters straight into bankruptcy, either once with opening the insolvency procedure, or after a short observation period of maximum 20 days (in the previous regulation the observation period was of maximum 50 days).

The observation period is the period between the date of opening the procedure and the date of confirming the reorganization plan, or, as the case may be, the date of entering into bankruptcy. Within the observation period there will be established the causes leading to insolvency and the responsible for it, of there are chances for reorganizations, as well as what is the debtor's asset and liability.

- Verifying the debts, drafting, displaying and communicating the preliminary debts schedule

The official receiver/liquidator will verify the debts, will draft and register in court a preliminary schedule containing all the debts against debtor's assets.

The debtor, creditors and any interested party will be able to appeal regarding the debts and the rights of first refusal written by the official receiver/liquidator in the preliminary schedule (in the previous regulation the term was of 5 days).

- Observation period

Within the observation period, the debtor may continue its actual activities under the surveillance of the official receiver, if its right of administration wasn't withdrawn, and under the official receiver's command, if the right of administration was withdrawn.

- The debtor may obtain, within the observation period, financing in order to continue its actual activity, and these amounts benefit of priority distribution;
- The debts arisen during the procedure shall be paid according to documents out of which they arise, without being necessary the registration in the statement of affairs. In the additional schedule of debts are recorded only the ones arising during the procedure and unpaid;
- The ongoing contracts are considered to be maintained on the date of opening the procedure. Any contractual clauses of revoking the ongoing contracts, of withdrawing from the spread-out maturities benefits or of declaring the anticipated chargeability for the reason of opening the procedure, are void. Thus, in case the official receiver does not reply within 30 days since the receipt of the contractor's notice, made up within the first three months since opening the procedure, through which it is requested to terminate the contract, the execution cannot be requested and the contract can be considered to be terminated;
- If a consignee owning titles for the goods that are about to be received or for the merchandise, becomes the subject of a request to open the procedure, the principal will be entitled to take back its titles or merchandise. Also, in case of owning quality merchandise by the consignee, the owner will have the right to recover its property. If the merchandise cannot be recovered from its holder, the owner will be entitled to have the debt registered in the debts schedule.

- Settling appeals/ Closing the debts schedule

After all the appeals have been settled, the official receiver/ liquidator will register, immediately, at the court of law and will make sure to be displayed at its headquarter the final schedule of all debts against debtor's assets. The final debts schedule comprises all the debts over the debtor's assets on the date of opening the procedure, accepted in the preliminary schedule and against which there were no appeals, as well as the debts admitted following the appeals' settling.

- Cancelling some legal documents of the debtor

The official receiver/ liquidator may introduce actions for annulment of fraudulent acts and deeds at the expense of creditors in the previous 2 years before opening the procedure (in the previous regulation the term was of 3 years), for the next act: gratuitous transfer documents, concluded with the intention to steal goods from tracking, enter obligations with the intention of hiding the insolvency.

For: operations in which the debtor's performance widely exceeds the received one, the property transfer documents to a creditor in order to terminate a previous debt, incorporation of a rights of first refusal for an unsecured debt, prepayments if their due date was set on a date subsequent to the one of opening the procedure; the cancelation term is 6 months previous to opening the procedure (in the old regulation the term was 120 days).

- The procedure of judicial reorganization

Judicial reorganization is the procedure that applies to the debtor, a legal person, in order to pay his debts, according to the program of debts payment.

Judicial reorganization means drafting, approving, implementing and respecting a plan, called the reorganizational plan.

The execution of the plan may not exceed three years from the day it was confirmed, possibly extending it up to maximum 1 year (in the old regulation this was up to 3 years).

The following persons can suggest a reorganizational plan: the debtor, the official receiver and the creditor, by owning together at least 20% of the total value of the debts contained in the final debts schedule. The debtor who was subjected to the insolvency procedure within 5 years before the drafting of the introductory demands cannot suggest a reorganizational plan.

The plan shall be voted in the creditors' assembly. The plan must be accepted by at least three of the five debt categories, provided that at least one of the disadvantaged categories confirms the plan, and that at least 30% of the total value of the statement of affairs votes for the plan.

The payment deadlines that are set out in the contracts - including the credit or the leasing contracts - can be maintained by the plan, even if they exceed the 3 years period. These deadlines can be also extended, with the clear agreement of the creditors, if they were initially less than 3 years. After meeting all the duties provided in the plan and the closing of the reorganizational procedure, these payments shall continue according to the contracts they result from.

The reorganizational plan contains the following: categories of debts that are not disadvantaged; the manner in which the disadvantaged categories of debts are being handled; whether and in what extent the debtor, the members of the economic interest group, the associates part of the collective societies and the limited associates part of the limited partnership societies shall be exempted from responsibility; what are the remedies that shall be offered to the debt owners, in comparison with the estimative value that might be received through distribution in case of bankruptcy; the estimative value shall be calculated based on an assessment report, drafted by an appointed evaluator; the way in which the current debts are to be acquitted.

The reorganizational plan can be modified at any time during the reorganizational procedure, including extending it, without exceeding a maximum total time of 4 years for performing the plan, starting with its initial confirmation.

The modifications can be suggested by any of the persons who have a turn for suggesting a plan, regardless of the fact that they have suggested the plan or not. The creditors' assembly shall vote the modification of the plan with the debts in the balance sheet, on the date of the vote, in the same conditions as the voting of the reorganizational plan. The modification of the plan must be confirmed by the syndic judge.

The reorganizational plan is subjected to the confirmation done by the syndic judge. During the reorganizational procedure, the debtor shall be managed by the special administrator under the supervision of the official receiver. Starting with the confirmation of the reorganizational plan the debtor's activity is reorganized in an adequate manner, the debts and the rights of the creditors being modified according to the plan. But, in case of bankruptcy, the situation returns to the conditions that were set out in the definitive table, subtracting only the amount of money acquitted by the plan.

The amounts of money obtained from the current activity or from selling the non-encumbered preferential clauses assets shall be distributed pro rata for each debt that has to be acquitted, after deducting the amount of money necessary for paying the debts enforceable against the company and necessary to ensure the working capital.

The creditors preserve their shares for the entire value of the debts, against the co-debtors and the debtor`s guarantor.

During the reorganizational procedure, the debtor shall conduct his activity under the supervision of the official receiver and in compliance with the confirmed plan.

If the debtor does not comply with the plan or the performing of the activity brings losses to its wealth, the official receiver, the creditors committee or any of the creditors, and also the special administrator, can demand, at any time, that the syndic judge approves bankruptcy.

- Bankruptcy and closing the procedure

The bankruptcy procedure means the procedure that applies to the debtor in order to liquidate his wealth and cover the liabilities, being followed by the erasing the debtor from the register he is enrolled in. The syndic judge shall decide, by a sentence, or, depending on the case, by court resolution, the going bankrupt.

The liquidation of assets pertaining to the debtor`s wealth shall be done by the judicial liquidator under the control of the syndic judge. The funds obtained from the selling of the debtor`s assets shall be distributed as follows: taxes, stamps, expenses made to preserve, the assets administration and selling; the utility providers` debts arisen during the performing of the procedure; the salaries of the persons employed for the interest of all the creditors; the debts of creditors that benefit from a preference clause created during the performing of the procedure; the debts of debtors that benefit from a preference clause arisen during the performing of the procedure and before the procedure. If the secured debt is not entirely covered by the sale, the rest of the debt shall be moved in the category of unsecured debts.

In case of bankruptcy the debts are paid in the following order: costs of the proceedings; receivables from financing obtained during the procedure; debts arising from labour relations; debts resulting from the debtor`s continued activity during the procedure; budgetary debts; debts owed to third parties (maintenance obligations, allowances for minors, etc.) - if the debtor is an individual; debts related to the bank loans, those resulted from product deliveries, services, rents; other unsecured debts.

The debtors from a certain category shall receive an amount of money distributed only after the full satiation of those from the higher category, and within the same category, if the money is not sufficient then the debtors shall receive a bankruptcy quota representing the sum that is commensurate with the percentage that their debt has in the given category.

The bankruptcy procedure shall be closed after the syndic judge approves the final report, when all the funds or the assets of the debtor`s wealth were distributed.

- Action for personal liability for going into insolvency

The official receiver/ liquidator can request that the syndic judge forces the debtor`s managers to pay a part of the or all the debts of the society that is insolvent/ bankrupt if: they used the assets or the services for personal benefit; they decided to continue an activity that obviously lead to the cease of payments; they kept fictional accounting records or they have removed some documents; they misappropriated or hide parts of the society`s assets; they used ruining means to procure funds; they preferentially paid a certain creditor in the month before the cease of payments; any other deed committed in bad faith that has contributed to the insolvency.

The action for personal liability can be formulated, if the official receiver does not consider it necessary, also by the creditors` committee president following the decision of the creditor`s assembly or by the creditor who owns more than 50% of the debts` value.

The person who was definitively sentenced to have personal liability cannot be appointed by the administrator or, if the person is the administrator of other societies, he or she shall have his or her rights terminated for 10 years starting with the date of the definitive decision.

2.2. Advantages provided by the new regulation

- Reorganizational plan

The new law regulates a 30% voting threshold of the statement of affairs for the reorganizational plan, besides the condition to vote on categories of debts. In this way, more importance is given to the creditors that have smaller debts; in practice there is the risk that the banks and the state are disadvantaged.

Another positive aspect is the fact that there is a comeback to the amount of debts recorded in the definitive table, if the plan fails, even if the reorganizational plan has diminished or even removed those debts.

Likewise, the amounts of money are distributed by the creditors in a pro rata regime, for each debt that is stipulated to be acquitted during reorganization, from the exceeding of cash remained after the current debts are acquitted and the necessary of work capital, from the cash-ins of the current activity, the selling of the un-encumbered assets, including the success of the action for annulment, during the reorganizational plan.

The execution of the reorganizational plan may not exceed 3 years, calculated from the date when the plan was confirmed. Nevertheless, the plan can be modified and extended at any time during the reorganizational period, without exceeding a total period of 4 years from the initial confirmation.

- 1 year observation procedure

This limitation corrects one of the major deficiencies of the previous legal dispositions, by extending an uncertain period of time, that was neither reorganization, neither bankruptcy, when current debts were accumulated, thus decreasing the chances to implement an effective reorganization.

- Current debts

With regards to the current debts arisen during the observation period, payment requests can be formulated and these shall be analysed by the official receiver and, if contested, by the syndic judge. Not paying the current debts gives the creditors that own these the right to request the bankruptcy of the debtor.

Likewise, in the case of the current debts that are bigger than the value - threshold, certain, liquid and eligible older than 60 days, accumulated during the reorganizational procedure, bankruptcy can be requested. The syndic judge may reject the request in only three scenarios: the current debt is not owed, is acquitted or the debtor has concluded a payment agreement with the current creditor.

The reorganizational procedure cannot be closed if these current debts are missing.

- Secured debts

The financier is the retention close owner for the debts arisen from leasing contracts, in which case, in the case of property transfer, the legal status of its debts is that of a debt that benefits from a preferential clause (legal mortgage), regarding the financed asset. This provision creates an advantage in relation the provisions of Law 85/2006 stating that the debts of the financiers from the leasing contracts benefit only from an unsecured regime.

Likewise, concerning the amounts of money derived from the award of some assets in the favour of some creditors that benefit from preferential clauses, prior to the commencement of the procedure, these shall be paid by the official receiver to the creditors within 30 days, even during the observation periods, and there will be no fees or expenses related to the insolvency procedure for these sums.

The sums of money that represent the object of a real estate mortgages and of cash securities are distributed within 5 days to the creditor, at his or her demand. The sums of money that represent the object of some securities can be used to continue the current activity, but only if the secured creditor agrees. If the creditor refuses to agree, it is possible to force him or her, being necessary to create a protection that corresponds with the security.

Another positive aspect that needs to be mentioned is the protection of the secured creditor by distributing all the sums resulted from selling the security, even if part of the debts was previously recorded as an unsecured debt, in the case when such a sale would have been made for a price higher than the value recorded in the definitive creditors table.

- Financings awarded in the procedure

Those that finance the debtor are protected by the priority satiation positions, which provides safety regarding the reimbursement of the money paid. The restitution of the financiers can be supported by the secured creditors, from the distributions that they are entitled to from the selling of these securities.

- Utility providers

The utility providers (electricity, natural gas, water, etc.) must continue to provide the utilities to the captive consumer debtor. The current debts accumulated by the providers must be paid within 90 days; otherwise the new law allows the providers to stop the provision of services. These debts have the same priority as the expenses related to procedure.

- Budgetary creditors

The new insolvency Law sets out the concept of “testing the private creditor”, which represents a comparative analysis of the satiation level of the budgetary debt by relating to the sums that could be obtained within an insolvency prevention or reorganizational procedure, in comparison with the bankruptcy procedure. In this way, the budgetary creditor is forced to make a fair decision regarding the voting of the reorganizational plan.

The current budgetary debts, that are not acquitted within 60 days, both during the observation period and also during the reorganizational period, benefit from the right to request bankruptcy if the debts are not acquitted by the debtors.

With regards to submitting the debt admission request, the budgetary creditor benefits from a 60 days period starting with the commencement of the insolvency procedure for submitting the request, while the private creditors benefit from a 45 days period. During this longer period of time, the budgetary creditor can finalize the fiscal inspection report.

In addition, the budgetary creditor, prior to the commencement of the insolvency procedure, is informed with regards to the submission of a request to open a procedure, formulated by the debtor or by the creditor. They must attach the communication proof; otherwise the sanction is to reject the request.

- Other significant news

The jurisdiction is given to the Court responsible for the area where the debtor had the head office for at least 6 months prior to the apprehension of the Court (in this way the migration of the bad faith debtors is being limited), through the syndic judge that was appointed, the Court’s decisions being enforceable.

The threshold value is set out at 40,000 RON both for creditors and also for debtors. The debtors may request insolvency only if their debt is bigger than 40,000 RON, within 30 days since insolvency has arisen (the old law provided that the debtor submits to the Court the request to open the insolvency procedure regardless of the value of the debts).

When there is a competition between the request of the debtor and the requests of the creditors, all the requests shall be connected to the debtor’s request and shall be judged within 10 days since the debtor’s request has been submitted.

The debtor that is in an insolvency procedure cannot be prevented from participating to the procurement tenders because of commencing the procedure.

The administrator appointed for the procedure can be forced to support part of the debts produced from the current activities performed during the observation period.

The debts resulted following fiscal inspection controls of the previous activity of the debtor are also considered debts arisen prior to the commencement of procedure.

The person that received a sentence of definitive decision of personal liability can no longer be appointed by the administrator or, if he or she is the administrator of other societies, he or she shall have the rights terminated for a period of 10 years since the definitive decision date.

2.3. Special procedures regulated by the new law

As provided in the title, Law 85/ 2014 reunites also the prevention tools for insolvency, more precisely:

- A. Ad-hoc mandate - is a confidential procedure, commenced at the request of the debtor with financial difficulties, used by an ad-hoc mandate, appointed by the Court, to negotiate with the creditors with the aim of making a deal between one or several creditors and the debtor in order to overcome the financial difficulties.
- B. Scheme of composition between debtor and creditors - an agreement signed between the debtor that has financial difficulties on one hand, and the creditors that own at least two thirds of the value of the debts that were accepted and uncontested on the other hand. This agreement is used by the debtor to suggest a recovery plan and a plan to pay the debts to the creditors, and the creditors accept to support the efforts of the debtor to overcome the difficulty he or she is facing.

Besides the insolvency prevention procedures, the new legislation regulates other special procedures, more precisely:

- C. Insolvency procedure for the group of associations - when a common request is submitted for several members of the associations, the jurisdiction is given to the Court in the location area of the head-office of the mother-company or of the association with the biggest turnover; a separate file is created for each of the group members, but the files are allocated to only one syndic judge. There shall be only one special administrator for all the members of the group and when there are common creditors who own 50% of the statement affair, one official receiver is appointed, and otherwise the official receivers for each of the group members are forced to cooperate.
- D. Bankruptcy of the credit institutions - the procedure applies to credit institutions, Romanian legal persons, including their branches located abroad. The request for commencing the procedure can be formulated by the debtor, creditor or by the National Bank of Romania; the request must be accompanied by the prior approval of the BNR.
- E. Bankruptcy of the insurance/ reinsurance companies - the procedure applies to the insurance/ reinsurance companies provided in Law 32/ 2000, including their branches located abroad and does not apply to the branches of an insurance/ reinsurance company or of a mutual society within a European Union member state who has received an authorization from the monitoring authority of the country of origin. The procedure commences based on a request submitted by the Financial Monitoring Authority, by the insurance/ reinsurance companies or by its creditors. When the debtors or its creditors formulate the request, they shall submit it to the Court only after the request was communicated to the ASF and after drafting a counterstatement that

communicates the condition of the insurance/ reinsurance company. After commencing the procedure, the ASF² withdraws the operating permit of the insurance/ reinsurance company.

F. Trans-border insolvency - sets out the norms that determine the law that apply to a private international law relation in the matter of insolvency.

3. SECTORAL AND TEMPORAL DISTRIBUTION OF INSOLVENT COMPANIES

Coface Romania has issued a new report regarding the evolution of the number of newly recorded insolvency cases in Romania during 1st Semester of 2014 with the Insolvency Proceedings Bulletin³.

Based on the data published by the IPB and Coface methodology, 12,453 insolvency cases were reported during the 1st Semester of 2014, with 10% reduction vs. previous time last year, when a number of 13,855 had been registered.

 Table 1. Monthly distribution of newly recorded insolvency cases over the last 5 years

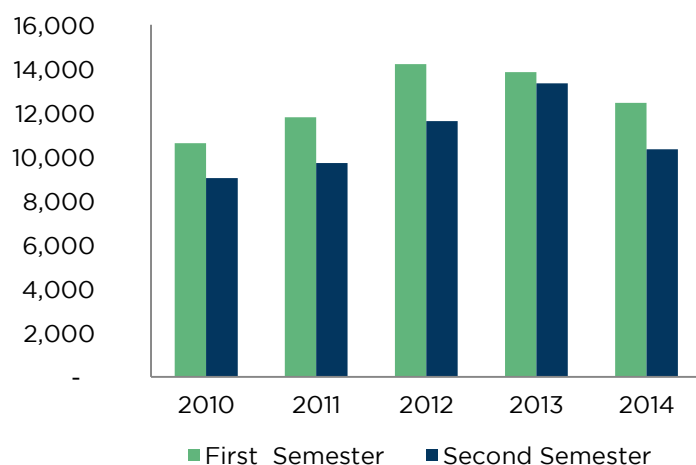
Month	2010	2011	2012	2013	2014
January	1,897	1,709	2,159	2,101	2,064
February	1,903	1,849	2,420	2,441	2,193
March	1,887	2,160	2,560	2,368	2,189
April	1,506	1,847	2,340	2,690	2,021
May	1,544	2,097	2,396	1,945	2,024
June	1,880	2,127	2,343	2,310	1,962
Total 1st Semester	10,617	11,789	14,218	13,855	12,453
July	852	811	1,322	1,517	
August	575	658	1,007	1,050	
September	2,021	2,061	2,444	2,313	
October	1,932	2,202	2,724	4,070	
November	2,222	2,379	2,504	2,976	
December	1,431	1,599	1,623	2,143	
TOTAL	19,650	21,499	25,842	27,924	12,453
Deviation over Semesters		11%	21%	-3%	-10%

Source: IPB, Data analysed by Coface

² Financial Supervisory Authority

³ See Methodological Remarks at page 28

Distribution of Insolvency Cases in 2010 - 2014



Source: IPB, Data analysed by Coface

Considering the average for the last 10 years, the number of insolvency cases reported during the 2nd half of the year has represented 80%-85% of the level recorded during the 1st Semester⁴. If this dynamic continues through the 2nd half of the current year we will witness a total maximum volume of 23,000 insolvency cases recorded during 2014. This will translate into a 15% contraction in the number of insolvency cases in 2014 vs. 2013.

Main reasons that contributed to this reduction are:

- Positive statistical base effect, the 2014 dynamic is being compared with historical records. 1st Semester decrease in the number of insolvencies is reported but in the context of a high volume of insolvency cases recorded during the last 5 years, especially during the 4th Quarter of 2013, mainly because of:
 - The negative chain effect of the insolvency of medium and large size enterprises, causing a rapid and amplified financial and social shock in the private economy;
 - The announcement at that time over the introduction of the new insolvency code procedure, imposing additional eligibility criteria on the debtor side. Thus, there have probably been enterprise administrators that have filed for insolvency earlier than normal to take advantage of the previous insolvency law.
- During 2010-2013 only approximately 95,000 of insolvency proceedings cases have been recorded, generally with enterprises with increasing life span. The revival of the private sector is setting in even though Romania continues to significantly lack in entrepreneurial capabilities, impacting the registration of new profitable businesses.

The comparison between the data provided by the IPB and the MPF reveals an increasing degree of transparency identified about the enterprises that has filed in for insolvency. If in 2010 and 2011 respectively, less than 40% of the enterprises that filed in for insolvency had submitted their financial statements, this indicator increased to 47% in 2012 and to nearly 50% in 2013 and the 1st Semester of 2014. In consequence, we can state that, in average, one out of two of the insolvent enterprises submit their financial statements in the year prior to the year of insolvency filling.

⁴ The year 2013 was an exception to this rule, the number of insolvencies opened during both semesters is similar, the reason being the record number of insolvencies opened in the fourth quarter (9,189 compared to the average of the past five years, respectively 6,000).

 Table 2. Insolvent enterprises - financial statements submitted to the Ministry of Public Finance

Total of insolvency cases 1 st Semester - 2014	12,453
have submitted the financial statements to MPF	6,035
Percentage	48.46%
Total of insolvency cases 2013	27,924
have submitted the financial statements to MPF	13,816
Percentage	49.48%
Total of insolvency cases 2012	25,842
have submitted the financial statements to MPF	12,021
Percentage	46.52%
Total of insolvency cases 2011	21,499
have submitted the financial statements to MPF	8,153
Percentage	37.92%
Total of insolvency cases 2010	19,650
have submitted the financial statements to MPF	7,902
Percentage	40.21%

Source: IPB, MPF

Based on the financial statements submitted in the year prior to the insolvency filing year and the main object of activity indicated by the BAC, Coface has distributed the insolvent enterprises based on their industry sector as per the below.

 Table 3. Sectorial distribution of insolvencies over the last 2 years⁵

Industry Sector	Insolvencies H1 2014	Insolvencies 2014%Total	Insolvencies 2013	Insolvencies/ 1.000 enterprises
Retail	2,817	23%	6,096	46
Wholesale and Distribution	2,107	17%	4,748	46
Construction	1,882	15%	3,998	69
Other service activities provided to enterprises	1,060	9%	2,268	29
Hotels and restaurants (HORECA)	889	7%	1,938	57
Transport	774	6%	1,827	57
Manufacture of wood and wood products	351	3%	976	33
Agriculture	330	3%	831	33
Manufacture of textiles, clothing and footwear	324	3%	766	65
Food and drinks	281	2%	639	47
Metallurgical industry	233	2%	620	58
Real Estate	233	2%	477	31
Other service activities	190	2%	479	25
Recreational, cultural and sporting activities	169	1%	342	45
Manufacture of machinery and equipment	140	1%	273	28
Financial intermediation	138	1%	356	31
IT	128	1%	362	15
Manufacture of chemicals and chemical products	107	1%	249	31
Sewage and refuse disposal; sanitation and similar activities	103	1%	198	49
Post and telecommunications	56	0%	176	27
Mining and quarrying	50	0%	111	60
Health and social care	50	0%	117	9
Production and supply of electric and thermal energy, gas and water	41	0%	77	57
Total	12,453	100%	27,924	42

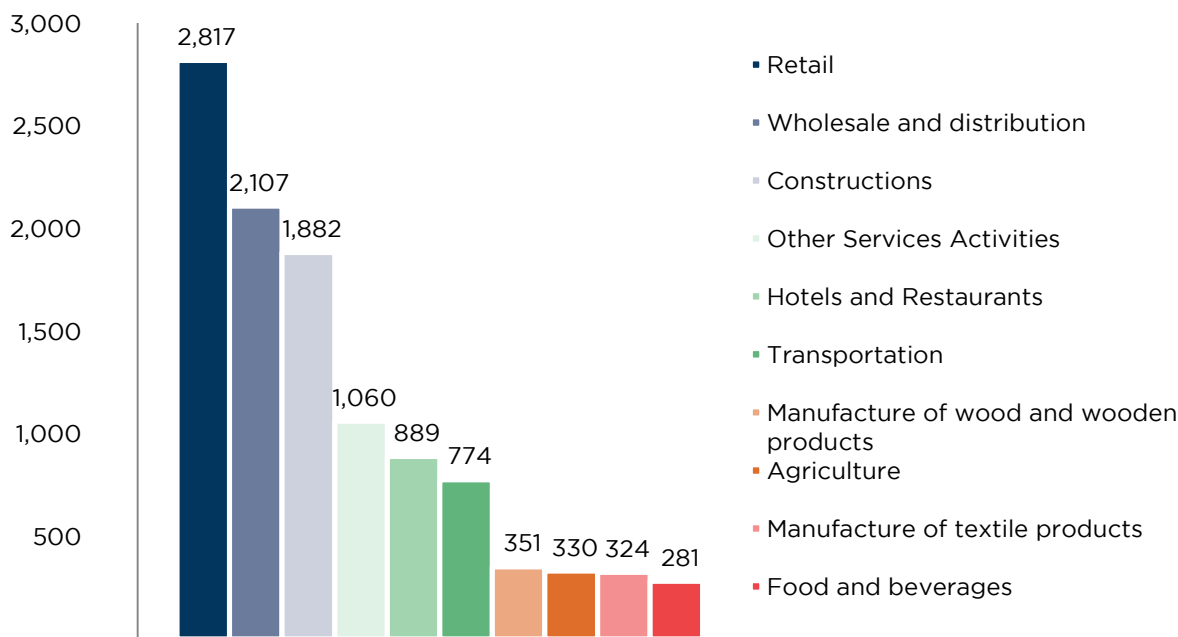
Source: IPB, MPF

⁵ By extrapolation of the enterprises that have submitted their financial statements in the year prior to their insolvency filing year, the enterprises with the highest number of insolvencies for every 1000 active enterprises have been colour marked (for active enterprises we have considered enterprises with a turnover of more than 1000 EUR/month during 2013).

Even though we do not possess information on the BAC in the case of all the enterprises that filed in for insolvency during the period under analysis⁶, there are 2 reasons why we consider that the sectorial distribution at the level of the entire portfolio is similar to the one at the level of the sample we have analysed:

- The sample ratio is statistically significant, for both years;
- The sectorial distribution ratio within the sample records similar values with the distribution at the level of the entire portfolio recorded in the studies made by Coface in the last 3 years.

Top 10 Industry Sectors in terms of the Insolvency Cases Number during the 1st Semester of 2014



Source: IBP, MPF, Data analysed by Coface

In most of the report issued by Coface regarding the evolution of insolvencies, the top 10 sectors experiencing the highest number of insolvency cases remain unchanged, with position shifts in the top, max 1 or 2.

The analysis of the evolution of the insolvency cases during the last 5 years reveals a tendency for the first 3 to 5 top sectors to concentrate most of the insolvency cases volume. Thus, the percentage of the top 3 sectors recording the highest number of insolvency cases in absolute amounts has varied in the last 5 years between 50% - 54% and for the first 5 sectors, between 65%-70%.

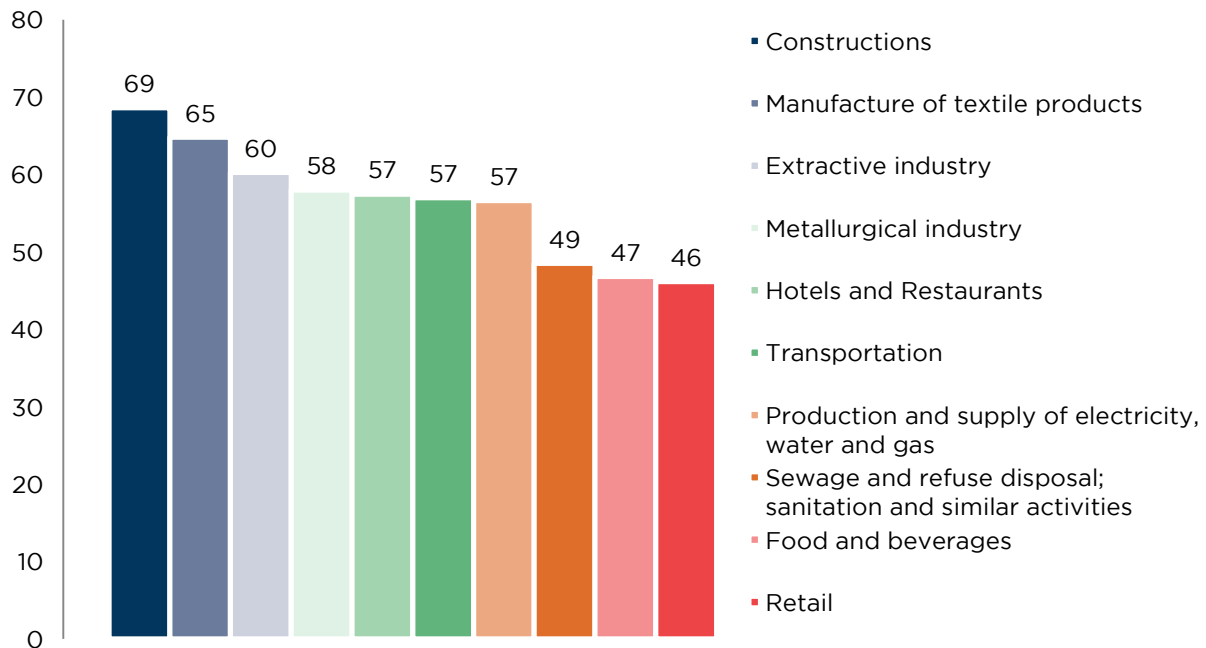
These percentages are not accidental but are determined by structural factors like the sectorial distribution of all active enterprises at national level. Thus, the top 5 sectors recording the highest number of insolvencies cover a similar percentage in terms of total active enterprises. Having considered this structural factor, it is important that we analyse the total number of insolvencies in comparison to the total number of active⁷ enterprises from the respective sector.

⁶ These indicators can be calculated for about half of the insolvent companies.

⁷ Were included in the category "Active companies" only the insolvent companies which registered a turnover > 1,000 EUR/month during 2013.

The top ten sectors that record the highest values for this indicator are listed in the next graphic. We notice that 5 sectors in the graphic record values higher than 100, which means that 10% of the active companies in the respective sector are insolvent.

CO Top 10 Insolvency Cases by Industry Sector for the 1st Semester of 2014 - expressed at 1,000 active enterprises



Source: IBP, MPF, Data analysed by Coface

4. FINANCIAL SIZE OF THE INSOLVENT COMPANIES

From the total of 12,453 insolvent enterprises during 1st Semester of current year, a number of 6,035 have submitted their financial statement for prior year. Based on this information, preliminary indicators have been calculated, both at the level of the entire portfolio and for each turnover range. The results are shown the in the next table.

CO Table 4. Insolvent enterprises in the 1st Semester of 2014 - Financial Indicators

Total insolvent enterprises 1 st Semester of 2014 - based on 2013 financials	Of which:
<p>Preliminary financial indicators:</p> <ul style="list-style-type: none"> - 6,035 enterprises with an average turnover of 1.5MRON - Total debt ratio of 111% - Net loss of -14% - Percentage of total fixed assets from total assets of 42% - 81% debt covered through turnover - Average DSO of 167 days 	<p>Enterprises with a turnover less than 1 MEUR</p> <ul style="list-style-type: none"> - 5,742 enterprises representing numerical percentage of 95% - Turnover percentage of only 17% - Debt ratio of 145% - Net result of -36% - Average DSO of 275 days
<p>Dynamic financial indicators</p> <ul style="list-style-type: none"> - 2 out of 10 enterprises recorded an increased turnover in 2013 vs 2012; - 15% of them recorded a positive financial result for the year 2013; - 4 out of 10 enterprises did not have any fixed asset in their balance sheet; - 4 out of 10 enterprises recorded increased DSO in the period 2012 – 2013, for most of these the extended credit terms was supported by the receivables stagnation while the turnover decreased with 15% during the period under analysis. 	<p>Enterprises with turnover between 1-10 MEUR</p> <ul style="list-style-type: none"> - 260 enterprises representing 4% - Turnover of 34% - Debt ratio 103% - Net result -16% - Average DSO 206 days
	<p>Enterprises with a turnover >10 MEUR</p> <ul style="list-style-type: none"> - 33 enterprises , representing 1% - Turnover of 49% - Debt ratio of 87% - Net result of -6% - Average DSO of 104 days

Source: IBP, MPF, Data analysed by Coface

Based on the financial data of the insolvent enterprises correlated with the macroeconomic context and the business practices observed between enterprises, the following have contributed to the insolvency risk for the case of the enterprises under our analysis:

- The Increasing significance of the supplier credit in the context of an increasing percentage in receivables in current assets;
- The extension of credit terms amid an aggressive increase of receivables in comparison with the turnover dynamic. This indicates more permissive crediting conditions between private enterprises by starting business with partners that carry higher risk. Thus, the enterprises filing for insolvency in the 1st Semester of current year have recorded a turnover decrease of 15% during 2013, compared with 2012, while the value of the receivables has remained unchanged during the period under analysis;
- The high level of arrears and the negative impact that these have had on the enterprises that work with the state;
- The deteriorated financial situation and the poor self-financing resources that have persisted during the last 3-4 years.

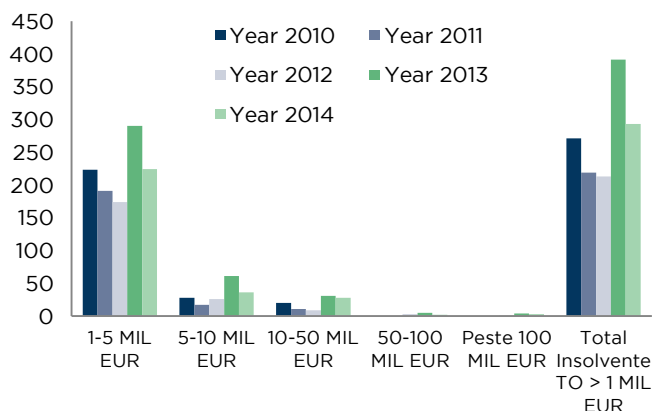
A worrying element signalled by Coface in the last reports on the subject of the insolvency is represented by the increasing number of insolvent enterprises with a turnover of over 1MEUR. Based on the data published by IPB and the analysis made by Coface, the first half of current year signals a decrease in this phenomenon. Thus, the number of insolvencies recorded amongst enterprises with a turnover of more than 1MEUR during the 1st Semester of current year has decreased up to 293, a contraction of 30% compared with the level reported in the same period of last year, 392 enterprises, respectively. Despite this, over 2/3 of this dynamics is due to the decrease in the number of insolvencies among enterprises with a turnover between 1-5MEUR, the incidence of insolvencies among enterprises with a turnover higher than 10MEUR remains though a worrying element (3 times higher than the average recorded during 2010-2012).

Table 5. The distribution of insolvent enterprises by turnover

Turnover Range	2010 1 st Semester	2011 1 st Semester	2012 1 st Semester	2013 1 st Semester	2014 1 st Semester
1-5 MEUR	223	191	174	290	224
5-10 MEUR	28	17	26	61	36
10-50 MEUR	20	11	9	31	28
50-100 MEUR	-	-	3	5	2
Over 100 MEUR	-	-	1	4	3
Total Insolvencies TO > 1 MEUR	271	219	213	391	293

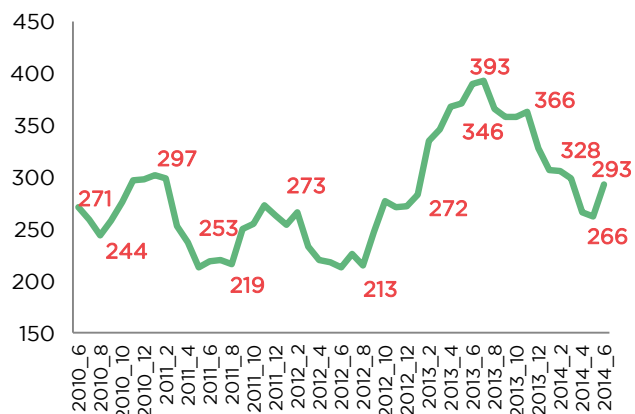
Source: IBP, MPF, Data analysed by Coface

Distribution of over 1MEUR Turnover Insolvent Enterprises for 1st Semester between 2010-2014



Source: IBP, MPF, Data analysed by Coface

Number of insolvent enterprises with a turnover > 1 MEUR



Source: IBP, MPF, Data analysed by Coface

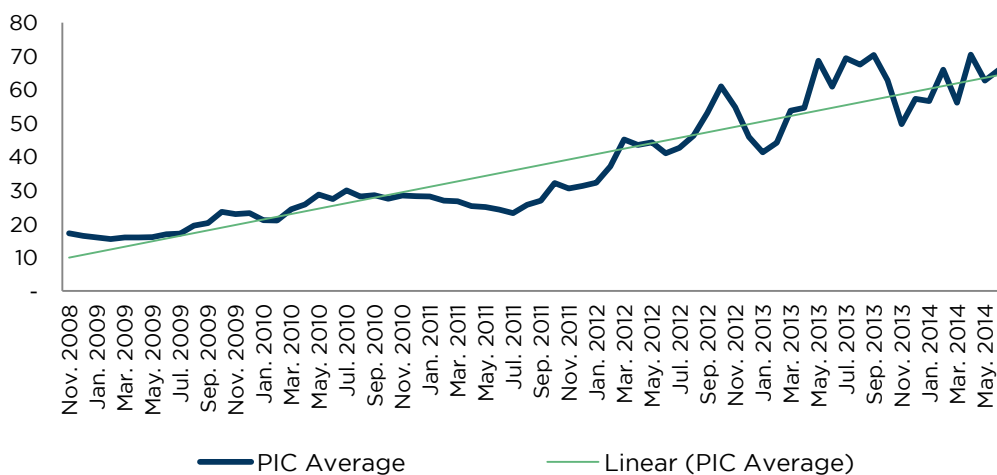
Based on the data made available by Payment Incident Database, the total amount of transactions by direct debit that have come rejected for payment was of 3.5MRON, smaller with 26% than same period last year. While the payment incidents number has decreased with 31% in the same period, the average value of payment incidents has increased with 7%. Thus, the average payment incidents recorded during Jan-June 2014 has been of 61K RON, compared to the level recorded same time last year of 57K RON. To notice the fact that the 1st Semester of current year records a level in the value of payment incidents 2 times higher than that of same period of 2008, while the number of payment incidents is 2 times smaller. Thus, in the period 2008-2014, the average value of a payment incident has increased 4 times.

Table 6. Payment incidents evolution based on data made available by RNB

1 st Semester	Total amount rejected for payment (K RON)	Number of incidents	Average incident value (K RON)
2014	3,543,145	58,062	61
2013	4,779,778	83,692	57
2012	3,924,599	90,823	43
2011	3,236,370	126,657	26
2010	4,843,915	187,475	26
2009	4,016,929	244,642	16
2008	1,534,158	106,921	14

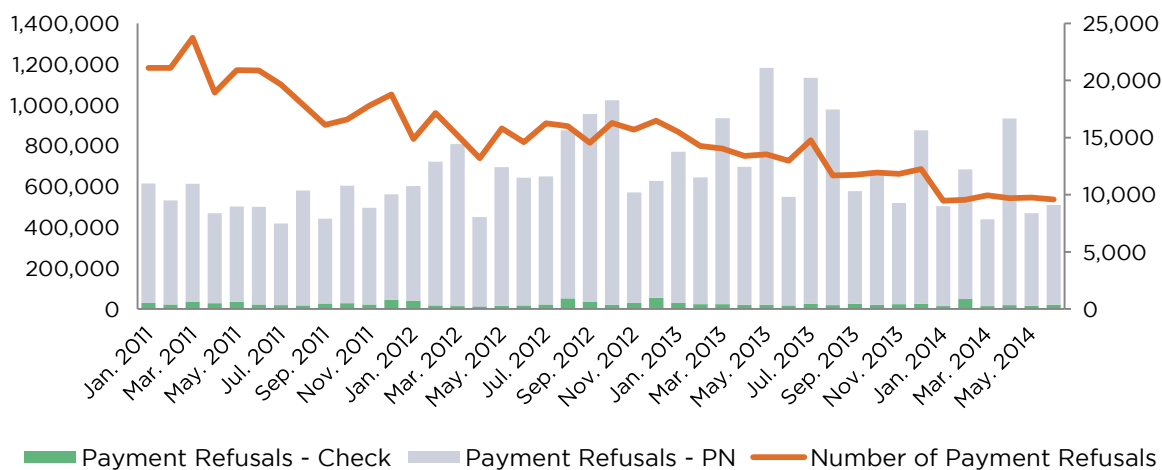
Source: RNB (CIP), Data analysed by Coface, Numbers expressed in K RON

PIC Average Value (K RON)



Source: IBP (CIP), Data analysed by Coface

Number of payment incidents and refused amounts (K RON)



Source: RNB, Data analysed by Coface

Despite this fact, it is premature to interpret this dynamic as a confirmation of payment discipline improvement; given that the total of transacted amounts at national level for the years 2013 and 2014 are yet not known (the figures are expected to be made public in the 2nd half of current year). Thus, the contraction in the value of refused payment instruments can be due as well to a reluctance of enterprises in the use of these instruments (drafts or checks), amid a decreasing trust level among business partners during 2013. The scenario of a contraction in the use of payment instruments at national level is quite probable, given the trend in the period 2010-2012.

 Table 7. Total transacted instruments at national level

Year	Amounts transacted with payment instruments (MRON)	Amounts refused for payment (MRON)	Refusal Percentage %
2008	90,458	4,446	5%
2009	61,165	9,422	15%
2010	91,691	9,570	10%
2011	74,142	6,342	9%
2012	72,445	8,629	12%

Source: RNB, Data analysed by Coface

5. EVOLUTION IN TIME OF INSOLVENT COMPANIES AND THEIR IMPACT ON THE ECONOMY

For a deeper analysis of the causes that have determined the insolvency of enterprises during the 1st Semester of current year, Coface has made an analysis of the financial statements of these enterprises for the period 2008-2013. Thus, out of the 12,453 insolvent enterprises during the 1st Semester of current year, a no of 6,035 have submitted their financial statements for the year 2013. Out of these, 2,854 enterprises have submitted their financial statements to the Ministry of Public Finance for each year in the period 2008-2013, these enterprises being as well the most representative, as they generate a weight (turnover) of 70% of the total range under analysis.

The preliminary financial indicators for the period 2008-2013 corresponding to the 2,854 enterprises are summarized in the following table.

 Table 8. Financial indicators of insolvent enterprises in the 1st Semester 2014, based on activity carried in the period 2008-2013

Indicator	Financials 2013	Financials 2012	Financials 2011	Financials 2010	Financials 2009	Financials 2008
Average Turnover (MRON)	2.3	2.9	3.1	3.1	2.7	2.8
Net Result	-16%	-4%	-4%	-3%	-2%	-1%
Debt Ratio	107%	90%	84%	80%	76%	74%
TO/ Debt	80%	108%	132%	142%	141%	163%
Fixed Assets/ Assets	46%	46%	46%	50%	53%	53%
DSO	160	123	100	91	88	79
DPO/ TO	229	169	138	129	130	112

Source: Data analysed by Coface

The analysis of the financial indicators' evolution in the past 6 years reveals several structural elements that have put pressure on the liquidity and have caused payment incapacity.

Thus:

- Profit & Loss Account - except 2013, the P&L does not represent a worrying element. The average turnover has remained relatively stable during 2008-2013, varying between 2.7-3.1MIL RON. The revenue decrease of 20% during 2013 has been decisive amid 4 time's higher loss. The constant loss for the last 4 years (more so the increased deterioration of the same during 2013) amid a gradual increase of debt without a strong enough capitalization, have pushed these enterprises closer to an end;
- Balance Sheet - several structural issues could be identified, which, amid performance challenges signalled in the P&L, have amplified the difficulties of these enterprises;
- Current asset lengthy rotation: amid a turnover decrease of 20% in 2013, compared with previous year, receivables have increased with 4%. This dynamic, corroborated with the decrease in the income recorded in advance (which would have represented additional liquidity) indicates a deterioration of income amid a rapid non-monetary base increase. Thus, the DSO has recorded a constant increase during the period under analysis, from 79 days in 2008 to 160 days in 2013. The enterprises that have recorded the most abrupt deterioration from this perspective are the enterprises with a turnover below 1MEUR, which have recorded a DSO of 310 days. Moreover, the DPO has increased in the period under analysis from 112 days in 2008 to 229 days in 2013. Thus, the average DPO has extended with 117 days during 2008-2013, with 36 days more than the average DSO, the latter having increased during the period under analysis with 81 days. This dynamic could signal a risk of default in meeting the receivables due date in the sense in which the insolvent enterprises in the 1st semester of 2014 have attracted during the last years more short term financial resources from suppliers and banks than what they would have required to finance their working capital (receivables and inventory). Obviously, an important question is to determine how the resources surplus have been ultimately used, aspect we will be analysing next;
- Unsustainable debt ratio increase: The debt ratio⁸ has increased for the entire portfolio under analysis from 74% in 2008 to 107% in 2013. Obviously, this dynamic was recorded amid a decreased capitalization ratio, a sign that shareholders have not covered the loss from the last 6 years through similar capital increase.

What was the cash circuit from 2008-2013? Who has lost and what are the lessons learned?

As it can be noticed in the table 8, the financial situation of the enterprises that have become insolvent in the 1st half of 2014 looked completely different in 2008 compared to 2013. Table 9 points out and comments on the main differences between the 2 moments.

⁸ Total debt (short term + long term) vs total assets

Table 9. The general situation of the insolvent enterprises in the 1st semester of 2014 at 2 key moments – 2008 vs 2013

Year 2013	Year 2008
Average turnover of 2.3MRON, 18% nominal decrease vs 2008. After adjustment with the buying power, real sales have decreased with 1/3 between 2008-2013	Average turnover of 2.8MRON
Net loss has risen to -16%	Net result vs. turnover was at -1%
Debt ratio has increased to 107% reaching a critical level amid constant loss as a consequence of poor capitalization	Average debt ratio at 74% - although above recommended value, it did not represent a significant worrying level provided that the operating return of the enterprises would have exceeded the financing cost.
Amid increasing debt and decreasing turnover (most important contraction recorded in 2013, -20% respectively), the annual turnover covering only 80% of the total debt value.	Annual turnover exceeded with 63% total debt level
Although the fixed assets book value has remained unchanged during 2008 -2013 (3.5BN RON, amid the covering of amortization through investment and maintenance services or of debatable positive re-evaluations of asset value), the weight of fixed assets from total assets have decreased to 46%, amid 30% increase of current assets during the period under analysis (because of receivables increase).	The percentage of fixed assets from total assets was of 53%. Maybe the only alarm signal for the enterprises under analysis: modest capitalization considering long term significant investment allocation
Average DSO has increased in the period 2008-2013, reaching to 160 days in the last year	Average DSO was at 79 days, a level considered optimal and close to the national average for that period
The DPO increased constantly during 2008-2013, reaching 229 days in the last year	Average DPO was in 2008 at 112 days. Cash conversion cycle was slightly positive at 7 days indicating that the average DSO was equal to the DPO. This indicates a short term working capital financing balance

Table 9 captures a generalized situation among private enterprises, often found in the market in the last 5 years. Amid growing restrictive banking financing conditions starting with the year 2009, private enterprises were forced into depending more and more on the supplier credit. Non-payment risk was amplified during 2008-2013 because:

- The phenomenon was a generalized one, many enterprises promoting same behaviour simultaneously;
- The phenomenon was one amplified on the revenue chain, as the request for pay terms extension was being propagated on the supplier chain;
- The phenomenon increased the interdependency between enterprises, more and more enterprises justifying their temporary payment incapacity through non collection of receivables from important customers;
- The cash conversion cycle increased, while the pressure of converting expenses into payments as well increased, amplifying the pressure on the liquidity of the enterprises.

Given the fact that the insolvent enterprises in the 1st semester of 2014 have constantly postponed payments to suppliers more than it would have been necessary to finance their receivables that were collected more and more slowly, the following essential question becomes obvious: Why? How have these resources been used in the meantime?

To answer this question, the next table summarises for the case of the insolvent enterprises the total balances of financing sources (debt and own capital) compared with the total long and short term investment balances, for each interval of 2008-2013. We can thus distinguish between the following intermediary phases that the insolvent enterprises during the 1st semester have crossed: 2009-2011, 2011-2013, respectively.

Phase I, 2009-2011, characterized by a capital structure destabilization, loss not covered through social capital, long term investment with negative results financed through short term resources and the extension of credit terms.

- The year 2009: additional debt of 700MRON was incurred in order to cover 100MRON capital deterioration (caused by consolidated loss), 300MRON fixed asset investment and another 300MRON in current assets (half in stocks and half in receivables);
- The year 2010: additional debt of 400MRON was incurred in order to cover 100MRON deterioration of capital (caused by consolidated loss) and another 300MRON in current assets (100% receivables). In other words, the difference of 100MRON was covered by cease in investment in fixed assets. In order to sustain the consolidated turnover increase with 15%, which entailed a similar increase in receivables, the enterprises under analysis have redirected part of the long term investment (fixed assets) towards short term (receivables);
- The year 2011: additional debt of 600MRON was contracted in order to cover a 300MRON capital deterioration (caused by consolidated loss), the difference being allocated to finance the current assets with 300MRON (100 receivables), in the context in which the book value of fixed assets remained constant.

Conclusion: in these 3 years, the enterprises under analysis attracted additional debt of 1.7MRON, to cover additional loss of 600MRON (which normally would have been covered through social capital increase), in order to invest on a long term 200MRON and 900MRON in current assets (3 quarters receivables, 1 quarter inventory). We notice 3 additional factors that have destabilized the financial structure of the respective enterprises:

- Receivables have increased with 38%, much faster than the increase in the turnover, 8% respectively;
- Additional debt mostly on short term and from suppliers. Long term investment was not beneficial, given that the average turnover increased with only 8% (basically real time sales have decreased) and the operating loss of the enterprises persisted;
- The consolidated debt ratio reached that year 84%.

Phase II, 2012-2013, characterized by sales decrease, debt and average DSO increase.

- The year 2012: additional debt of 1,000MRON was contracted in order to cover 100MRON capital deterioration (caused by consolidated loss), the difference being allocated to financing an increase with 300MRON in current assets (80% receivables and 20% stocks) while the book value of fixed assets increased with 100MRON. In this year the consolidated turnover figure decreased with 6%, receivables increased with 20%, and the debt ratio reached over 90%.

- The year 2013: additional debt of 600MRON (which mostly represented increasing receivables, thus unpaid invoices) were attracted to finance a consolidated loss of 1.3BN RON, caused entirely by sales decrease with -1.7BN RON, while expenses were adjusted with only -400M RON. The difference of 700MRON was covered through the sale of fixed assets (300MRON) and open receivables balance (350MRON).

Conclusions: The sales decrease in 2013 with -21% caused a 4 times increase of the consolidated loss, while expenses were not adjusted proportionally. Debt ratio reached 107%, given that loss was not covered by additional social capital.

 Table 10. Balance between Financing, Investment and Receivables Due Date

Year	Debt (BN RON)	Equity (BN RON)	Fixed Assets (BN RON)	Current Assets (BN RON)
2008	5.0	1.7	3.6	3.1
2009	5.7	1.6	3.9	3.4
2010	6.1	1.4	3.8	3.7
2011	6.7	1.1	3.8	4.0
2012	7.7	0.7	3.9	4.5
2013	8.3	-0.6	3.6	4.2

Source: Data analysed by Coface

As a general conclusion regarding the evolution of the enterprises that filed for insolvency during the 1st Semester of 2014, by retrospectively analysing the period 2008-2013, we notice that:

- The majority of additional debt (3.3 BN RON) were attracted to cover loss (increasing with 2.3 BN RON) and increase in receivables (1.1 BN RON current assets, over 95% represented by receivables) where book value of fixed assets stayed constant;
- Insolvent enterprises have attracted short term capital mostly from suppliers, the balance of the same from total debt balance increasing from 35% (2008) to 50% (2013);
- Long term investment that proved to be unprofitable, with increasing loss during the period under analysis;
- The increasing average DSO indicates an inadequate credit risk policy, the average DSO increasing with 81 days during the interval under analysis, from 79 days (2008) to 160 days (2013);
- This has entailed slower supplier payment, the average DPO having increased with 117days, from 112 days (2008) to 229 days (2013).

Who assumed the cost of these decisions?

Most probably the message carried out to suppliers during 2009-2013 by the enterprises filing in for insolvency in the 1st Semester of 2014 was that they cannot pay their invoices because of long collection time on their side as well. This is a true fact but it represents only one of reasons for the payment indiscipline. The use of the financial resources coming from late supplier payment for long term investment, proved later to be unprofitable, was, to a similar extent, a cause to payment indiscipline. By analysing the consolidated balance sheet of enterprises going into insolvency during the 1st Semester of 2014 at 2 key moments, 2008 and 2013 respectively, we can answer to the question: Who assumed the cost of these decisions? Thus:

- The marginal interest of shareholders of the insolvent enterprises recorded at the end of 2008 was at 1.7 BN RON, representing the total value of equity. Except situations where this was fuelled by fictive evaluation of fixed assets, this amount could have been monetized to a considerable extent by distribution of dividends;
- The total debt balance at the end of 2013 was of 8.3 BN RON. If 50% of the total fixed asset value could recovered through the insolvency procedure (optimistic scenario if we consider the average of 30% recorded at national level), total debt of 6.5 BN RON remain uncovered (loss). Out of these, 50% is allocated against suppliers, 40% to banks and 10% remain outstanding obligations to the state budget.

1. Suppliers: **3,5 BN RON**
2. Banks: **2,6 BN RON**
3. Shareholders: **1,7 BN RON** (not a real cost but a cost of opportunity from the decision of not paying dividends in 2008)
4. Government Fiscal Authority (the state): **0,65 BN RON**

6. TERRITORIAL DISTRIBUTION OF INSOLVENT COMPANIES AND THEIR IMPACT ON THE ECONOMY

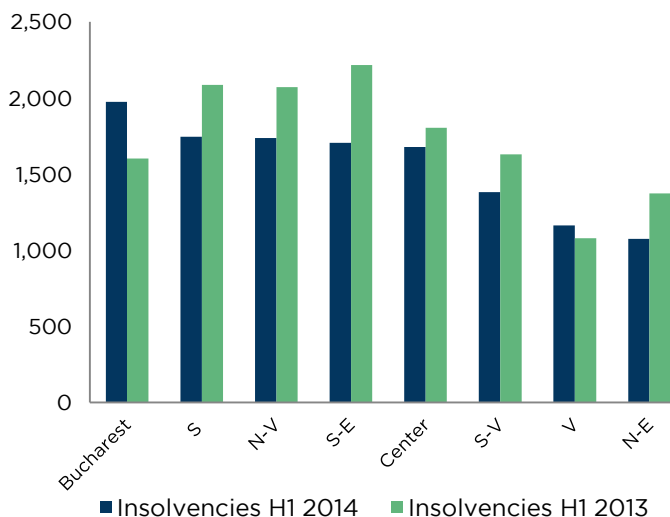
The geographical distribution of insolvent enterprises has undergone several changes vs. same time last year. If in the first half of last year the number of insolvency cases in Bucharest was at 1,602, the number of the same has increased with 23% in the first half of current year, to 1,973. The number of insolvencies has increased though only in Bucharest and the western region (+8%), while the rest of the regions have recorded a decrease in this indicator with the most significant contractions recorded in the South-East (-23%) and the North-East (-22%). Thus, from a point of view of the number of insolvency cases filed in during the first semester of current year, the South-East region occupies the 4th position from a number of 8 regions, while same time last year it occupied the 1st position. In Bucharest the situation is opposite, with the highest number of newly recorded insolvencies in the period under analysis.

Table 11. Distribution of insolvent enterprises by region

Region	Insolvencies 1 st Semester 2014	Insolvencies 1 st Semester 2013	Deviation 2013-2014
Bucharest	1,973	1,602	23%
S	1,745	2,084	-16%
N-V	1,737	2,070	-16%
S-E	1,704	2,216	-23%
Centre	1,678	1,804	-7%
S-V	1,380	1,629	-15%
V	1,162	1,078	8%
N-E	1,074	1,372	-22%
Grand Total	12,453	13,855	-10%

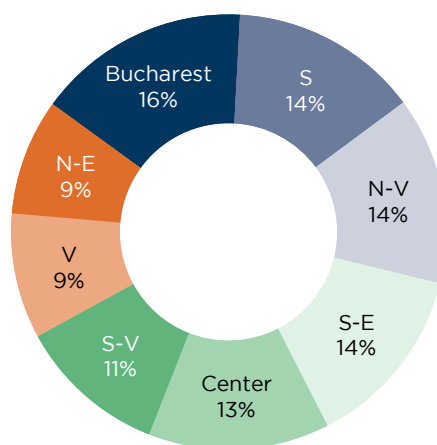
Source: IPB, Data analysed by Coface

Insolvency cases by region during the 1st Semester of 2014 & 2013



Source: IPB, Data analysed by Coface

Distribution by region of newly recorded insolvencies during 1st Semester 2014



Source: IPB Data analysed by Coface

7. THE PRIVATE ENVIRONMENT - WHERE TO?

There are different theories⁹ that promote the beneficial aspect of competitiveness in eliminating non performing players in the markets. The technological progress together with innovation will determine that the less competitive business get eliminated from the market and be replaced by new, competitive ones. In this way, the private business environment is in a continuous dynamic, the so called „creative destruction“.

The applicability of this theory for Romania will have to address:

- The analysis of the number of enterprises that have ceased their activity (not only that have filed in for insolvency) vs. newly registered enterprises, for a given period of time;
- The comparison in terms of the financial and social size of the enterprises ceasing activity vs. newly registered ones.

It is important that all forms of activity interruption are captured: insolvency, suspension, radiation, dissolution.

A. The evolution in terms of newly registered enterprises

Based on data made available by the National Registry of Commerce, the number of newly registered enterprises has decreased with 24% in the first half of 2014 vs. same time prior year. Ilfov is the only county where the number of newly recorded enterprises has increased by 5%, while the most significant decrease was recorded in Bistrita Nasaud (-65%), Gorj (-57%), Botosani (-55%), Alba (-53%), Olt (-51%).

The decrease in the number of newly registered enterprises was significantly impacted by the contraction in the number of Self Employed Persons- PFA's (-43%) and Individual Companies (-29%), whereas the number of newly registered Ltd decreased with 5%.

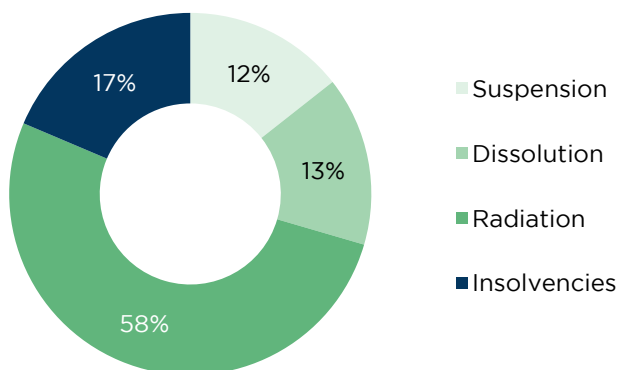
B. The evolution in the number of enterprises that ceased their activity

Based on data published by the National Registry of Commerce, a number of 1,067,417 agents were registered at the end of 2013. After the elimination of Self Employed Persons - PFA's and Individual Companies, 719,258 enterprises are left of which 621,000 submitted their financial statements for the year 2013.

Based on data published by the National Registry of Commerce a number of 71,444 enterprises ceased their activity in the first semester of 2014, less with 10% vs. same period last year when 79,661 ceased their activity. The distribution in the number of insolvencies by root cause is shown in the graphic below.

⁹ The best one is promoted by Joseph Schumpeter, in his work *Capitalism, Socialism and Democracy*, 1942.

☐ Cease of activity during 1st Semester - 2014



Source: National Registry of Commerce¹⁰

☐ Table 12. Cease of Activity during 1st Semester - 2013 & 2014

Type of Activity/ Interruption	1 st Semester - 2014	1 st Semester - 2013
Suspension	8,661	12,308
Dissolution	9,088	12,005
Radiation	41,242	41,493
Insolvency	12,453	13,855
Total	71,444	79,661

Source: National Registry of Commerce, Data analysed by Coface

Consequently, even though the number of enterprises that ceased their activity during the first semester of current year vs. same period last year decreased with 10%, the number in newly recorded enterprises during the period under analysis has suffered an even higher contraction of 24%. We can thus speak about a gradual improvement in the payment discipline and payment instruments in the context of smaller number of enterprises ceasing activity, all this though in an environment yet not attractive from an entrepreneurial standpoint, if we consider the significant decrease in the number of newly registered businesses.

8. METHODOLOGY REMARKS

This report considers the total number of insolvencies recorded during the last five years, based on data published by the IPB. As an example, all the enterprises that filed in for insolvency during the period January to June 2014 (according to IPB) and that do not show up as active at the end of July 2014, were considered to have been newly declared insolvencies for the 1st semester of 2014.

The analysis of the financial indicators pertaining to enterprises that filed in for insolvency were carried out based entirely on the financial statements information submitted by the same enterprises with the Ministry of Public Finances.

¹⁰ <http://www.onrc.ro/romana/statistici.php>

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The logo for coface, featuring the word "coface" in a lowercase, sans-serif font. The "co" is in a dark blue color, and the "face" is in a lighter blue color. The "o" in "co" is stylized with a green circular element.