

Bucharest, 3rd February 2016

The evolution of the Romanian economy in 2015 - macro balance coupled with challenges within the business environment

Coface has kept the country risk assessment for Romania to B, a risk class indicating an unstable macroeconomic environment, capable to affect a company's historical payments. Despite the macroeconomic balance, the kickback in the euroisation and nominal convergence criteria, Romania remains vulnerable due to structural imbalances in the domestic microeconomic, through:

- **the high level of the trade credit (historical maximum),**
- **the very high interdependence between companies (the domino effect), by interrupting accelerated activity for many companies, compared to new registered companies (ratio 2:1),**
- **the high level of rejected payment instruments.**

During January-September 2015, Romania registered a growth in real GDP of 3.7%, supported by the following factors:

- **Private consumption growth**, which registered an advance of 5.4% year-on-year and contribute approximately three quarters of real GDP growth registered in this period;
- **The dynamic of the construction sector**, which registered in the first nine months of 2015, an advance of 5.5% year-on-year (gross series), retrieved more in common repairs and less in construction of new buildings;
- **The private investments**, which are included in gross capital formation, registered an advance of 6.8%, found more in construction than in industry (the latter registering a marginal advance to GDP);
- **The agriculture and the net export** had a negative impact on GDP growth in the first three quarters.
 - According to data published by INS in the first 11 months of 2015, the annualized advance in exports is almost similar to that of imports, 6% and 6.2% respectively;
 - The agriculture registered a decrease of about 10% in GDP for the first three quarters of 2015 amid bad weather, still slightly above the long-term trend (average agricultural production registered in the last 10 years).

Thus, the economic growth for 2015 will be close to 4%, and this year will register an uptrend amid the advance consumption. Interest rates in the interbank market for government securities registered historic lows amid excess liquidity on the market and high attractiveness

of government securities to foreign investors. Despite this, the monetary policy remains in standby and the monetary policy rate (1.75%) is estimated stable by the market consensus for the full year 2016, the main reason being procyclical fiscal policies. The latter is marked by increasing spendings (by increasing the salaries for the budget staff) coupled with the pressure on revenue (by reducing VAT and certain taxes, such as on dividend reinvested profit or for special constructions) so the budget deficit for 2016 could exceed the margin of 3%.

Unfortunately, macro balance almost universal on the most directions (the only exceptions being procyclical fiscal policies, foreign political tensions and volatility in the financial markets, which may spread in Romania through dynamic channel foreign capital) does not materialize by the improvements in payment behavior visible at the micro level, private companies registering a series of symptoms that report multiple financial challenges.

From Coface analysis, based on data provided by the Bulletin of Insolvency Proceedings (BPI), indicates that in 2015, 9,886 new insolvencies procedures were registered, a decrease of approximately 51% over the previous year, when 20,170 insolvencies were opened and 43% compared to the average of the last 10 years. However, Romania still has an incidence of insolvencies per 1,000 active companies, which is 4 times higher than the average for regionally; the media of the market was 45 insolvencies per 1,000 active companies, the first position in this regard.

Yet, the number of large companies who interrupt their activity remains very high, respectively 577 companies with a turnover over 1 MIL EUR, which became insolvent in 2015. Also, although increased by 13% the number of newly registered companies in the first 11 months of 2015, Romania still register over 2 companies who interrupt their work at every newly company.

Textiles, Sanitation and Construction - Top 3 insolvent sectors (see the chart into appendix)

In terms of **sectorial distributions**, textiles, sanitation, construction, food and beverage, hospitality and manufacturing of chemicals are in the top 5 sectors with the highest number of insolvencies newly opened in 2015, reported 1,000 active companies.

In terms of **territorial distribution**, 2015 has not undergone significant changes compared to the same period of the previous year. The Bucharest and North - Western areas remained the first two regions with the highest number of insolvencies, while North-Eastern and South - Western remained in the last position from this point of view.

Companies became insolvent in 2015 registered a doubling in the average debt collection

Out of 9,886 of companies insolvent in 2015, 5,372 companies have submitted financial statements for work done in 2014. For these companies, preliminary financial indicators were calculated for the whole 2008-2014 period. We noticed that:

- One of the main causes which accelerated the risk of insolvency was the gradual disruption of the balance sheet structure. These companies attracted additional financial resources (the indebtedness' increased from 76% in 2008 to 123% in 2014), prioritize on the long-term investment;
- The latter have generated additional income or increase productivity by improving operational edge. On the contrary, the average income fell by almost 5.3% in 2014, the dynamic that was not coupled with a corresponding adjustment expenses, the consolidated loss increasing to 7.9%;
- In this context, coverage of debt by operating revenue decreased from 108% (2008 level) to 69% (level in 2014);
- Despite this, the average payment to suppliers almost tripled in 2015, increasing from 74 days in 2008 to 235 days in 2014.

According to ONRC, the ratio of companies that have ceased operations related to the number of newly registered companies (SRL) increased nearly five times in 2015, down from 0.48 in 2008 to 2.32 in 2014. This shows that the dynamics of business interruptions was superior to new company registrations, amid very low entrepreneurial spirit and a fiscal framework that does not have a long-term predictability and sustainability.

“Even if the number of the insolvencies registered in 2015 halved compared with 2014, the total number of the companies that have ceased operations increased by 7% and it is two times larger than the number of newly registered companies. This dynamic is explained by the huge increase of small businesses that prefer to dissolve (up with 46% in 2015 versus 2014) than open the insolvency (a more expensive process). The evolution mentioned above is coupled with a high volume of rejected payment instruments, their level for 2015 excess of 8 B RON and is comparable to the peak of the financial crisis. This painting depicts a microeconomic context of the business environment that remains weak and disconnected with positive macroeconomic development”, stated Iancu Guda, Services Director, Coface Romania.



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

MEDIA CONTACT:

Emilia MUSCALU - T. +40/21/231 60 20 – emilia.muscalu@coface.com

About Coface

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2014, the Group, supported by its 4,400 staff, posted a consolidated turnover of €1.441 billion. Present directly or indirectly in 99 countries, it secures transactions of 40,000 companies in more than 200 countries. Each quarter, Coface publishes its assessments of country risk for 160 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 350 underwriters located close to clients and their debtors.

In France, Coface manages export public guarantees on behalf of the French State.

www.coface.com

Coface SA. is listed on Euronext Paris - Compartment
ISIN: FR0010667147 / Ticker: COF



APPENDIX

Top 10 sectors in terms of number of insolvencies in 2015, related to 1,000 active companies

