



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

Bucharest, 12 November 2013

## **18,321 COMPANIES BECAME INSOLVENT IN THE FIRST 9 MONTHS OF 2013, WITH 3.5% LESS THAN IN THE SAME PERIOD OF 2012**

**In the first nine months of 2013, 18,321 insolvency proceedings were registered in Romania. Although the number is down 3.5% considering the same period of last year, their rhythm has accelerated in the third quarter, given that the balance at the end of the first semester announced a 10% contraction. One of the causes was the companies' decision to speed up the process, taking into account changes related to the Code of Civil Procedure.**

Because of the insolvencies' rhythm acceleration from the last period, we will probably have a number of insolvencies comparable to the one registered last year. The most worrying fact is that 2013 will register a record number of insolvencies among medium and large companies.

**The recent evolution of insolvencies indicates a relative stagnation, but the negative effects are significant and will be propagated in the private economy.**

After analyzing the financial data related to insolvent companies, alongside the macroeconomic environment and business practices within the companies, we identified several causes that led to the amplification of the systemic risk:

- The increasing importance of trade credit, due to a higher share of receivables in the current assets, considering the companies' balance sheets.
- Extending the invoices' deadlines due to a more aggressive growth of receivables versus a dynamic turnover. This indicates a loosening of credit conditions between private companies by developing business partnerships with partners who pose a higher risk. Thus, the insolvent companies from the first nine months of this year registered a 13% drop in turnover in 2012 compared to 2011, while the value of receivables increased by 3%. Aforementioned trend is observed mainly in the large companies that have the capacity to act as a net creditor in this loop of commercial transactions, and were affected by a record number of SMEs insolvencies in 2012.
- A high level of arrears and the negative impact they have on companies working with the state.
- A much more precarious financial situation of the companies and of the self-financing perspectives, due to their own eroded reserves and funding restrictions that have persisted over the last 3-4 years.

### **Impact on business insolvencies' evolution and society**

The impact is and will continue to be a major one, given the record number of insolvencies regarding the medium and large companies and it follows two negative shock distribution channels:

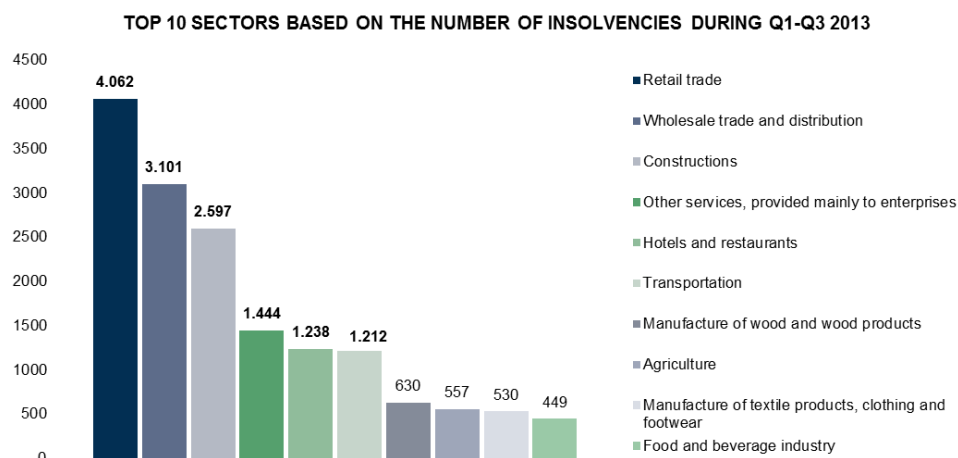
- From a *financial* standpoint - based on its own calculations, Coface considers that in the first nine months of this year approximately 13 B RON were registered as unpaid debts. About 40% of them impacted the banking system, a main reason for the increasing rate of non-performing loans to companies. The remaining 60% will have an impact on other partners (clients, suppliers etc.), which in turn can be found in default by their suppliers, due to the domino effect two times faster than in the previous year.
- From a *social* standpoint - 18,321 insolvent companies in the first nine months of this year resulted in the loss of about 77,000 jobs, 60% of which are concentrated in the following five sectors: The manufacture of textile products, clothing and footwear items; Constructions; Manufacture of chemical substances and products; Other personal services; Metallurgic industry. The social impact of the insolvent companies during the first nine months of the current year is with 10% higher, compared to the same period of time of 2012, and with 53% higher compared to 2011.

### Retail, Wholesale & distribution and Construction - recorded the highest number of insolvencies

In the studies conducted by Coface regarding the insolvencies' evolution in the last three years, the top ten sectors that recorded the highest number of insolvent companies remained mostly unchanged; the only changes were related to the order at the top.

Analyzing the insolvencies' evolution from the last five years, we observed a trend to strengthen the volumes' concentration in the first 3 or 5 sectors. Thus, the share of the first 3 sectors with most of the insolvencies cases (in absolute numbers), varied in the last 5 years between 50% - 54% and for the top 5 sectors, between 65% - 70%.

The largest increases regarding the newly opened insolvencies of the first nine months of this year, compared to the same period of 2012, were recorded in the following sectors: *Retail* 22.17%, *Wholesale & Distribution* 16.93%, *Construction* 14.17% and *HORECA* 6.76%.



*Source: BPI, MFP, Coface data*

### **SE, NW and S - Romanian regions that registered the highest number of insolvencies**

Three areas of the country registered the highest number of insolvent companies: SE and NW, both with 16% and S with 15%, concentrating about half of all insolvencies analyzed in the period.

The only areas where the number of insolvencies for the first 9 months of this year increased, compared to the same period of 2012 are Central and SW, given that the NE area indicated a poor stabilization.

Other areas registered declines in the number of insolvencies for the first 9 months of this year; the biggest drops were recorded in the W area (18%) and in Bucharest (17%). We should mention that W area registered twice less insolvencies than the SE, given that the number of active companies is similar in both of the regions.

### **Credit risk management and the impact on the insolvency risk**

- The sectors that presented a growing operational cycle during 2011 - 2012, also registered a number of insolvent firms per active companies higher than the ones with a declining operational cycle: 60 insolvencies/ 1,000 active companies vs. 50 insolvencies/ 1,000 active companies.
- Considering the financing perspectives and the self-financing capacity, only 4 out of 10 companies have a working capital over 50% of the operational need, including 2 companies that registered declining limit values. The remaining 6 companies either register a negative working capital (70% of them), or they cannot cover the current liabilities of the current assets liquidation.
- Domestic firms show a rather flawed financing structure due to the short-term debts' directions (7 out of 10 companies have seen an increase in short-term debt at the expense of long-term) and the low level of capitalization.

*„Even if the first nine months of the year bring approximately an equal number of insolvencies compared to 2012, suggesting a regulation of the business environment, 60% of them came from medium and large companies, with a turnover of over 1 MEUR. 2013 showed deterioration in the real economy, marked by a high social impact due to massive job losses. The 50,000 newly started company of this year do not counterbalance the loss of 110,000 companies and unfortunately we do not see sustainable economy regeneration. The payment discipline deteriorated due to fewer transactions with promissory notes and checks, compared to 2012. However, retention value is 16% higher than a year ago and even higher than in 2009, which shows that Romania actually did not get out of the economic crisis and it will be very difficult to do so in the next period.“, declares Constantin Coman, Country Manager, Coface Romania.*



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

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