COFACE PUBLICATIONS

APRIL 2024

CEE Insolvencies 2023

CONTENT

coface FOR TRADE

1 Economic downturn brings the increase of company insolvencies

Regional insolvency trends

In 2023 company insolvencies in the Central and Eastern European (CEE) region continued their growth trend that was initiated back in 2020. While businesses experienced reduced adverse effects from the Covid-19 pandemic in both 2020 and 2021 thanks to wide-scale support measures, next few years brought an even more challenging environment after governments phased out most of this support. As a reminder, the support mentioned included moratoria on insolvency applications as well as various measures to cushion the pandemic impact on the liquidity situation of companies to save them from bankruptcies. Among other measures, those included tax exemptions and deferrals as well as social security contributions, furlough schemes, loans, subsidies and other financial assistance, guarantees, supplementing employees' salary and facilitating and simplifying various administrative procedures. However, not only the specifics in the business world but also macroeconomics triggered a further increase in company insolvencies. While Russia's full-scale invasion of Ukraine resulted in a surge of energy commodity prices, supply chains disruptions and the immediate negative impact on CEE countries due to their geographical proximity to both those countries, the economies in the region proved to be relatively resilient. Nevertheless, such an impact continued to gain momentum and finally dealt a devastating blow on the CEE's economic performance in 2023. Indeed, the region's average GDP growth dropped from 4.0% in 2022 to only 0.5% in 2023, i.e. the lowest rate this century with the exception of recessions during the global financial crisis (2009) and the Covid-19 pandemic (2020). Furthermore, several countries including Czechia, Estonia, Hungary, Latvia and Lithuania recorded negative growth rates in 2023.

The economic downturn was caused by both external and internal factors. The CEE region's main trading partners (i.e. Western European economies) fell into a slowdown or even recession while the dynamics of global trade turned to be less promising, which affected CEE exports. The domestic economy suffered from the surge in inflation which reached the highest levels in decades during first months of 2023. At the same time, central banks promptly responded to accelerated prices by tightening their monetary policy. High interest rates started to curb inflation, however, this also limited economic activity. At the same time, companies were not only suffering from high input costs but also an ongoing tight labour market with labour shortages and the pressure on wage growth. This pressure resulted not only from difficulties in fulfilling vacancies but also growing prices in a number of goods and services categories. Unlike 2021 and 2022, when the economic and business situation facilitated growing turnover and company profits, that could not be continued for the entirety of last year. As a result, businesses experienced delayed effects of previous support measures, which had been phased out, which led to the economic contraction and further insolvencies in 2023.

The total number of business insolvency proceedings in CEE countries covered by our analysis rose from 36,208 in 2022 to 50,199 in 2023, which equates to an increase of 38.6%. That marked another year of double-digit growth of proceedings as dynamics reached 39.2% in 2022. However, compared to our previous report, this time more countries recorded an increase in insolvency cases. As shown in chart 1, in 2023 nine countries experienced a higher number of insolvencies than one year ago (Czech Rep., Estonia, Hungary, Lithuania, Poland, Serbia, Slovakia, Slovenia and Romania – although in Romania this was just one entity more), and three countries recorded a decrease (Bulgaria, Croatia and Latvia). Croatia had the largest decrease in proceedings (by -19%) while the highest surge of insolvencies was recorded by Hungary and Poland (+152% and +71%, respectively). Those two countries experienced not only adverse economic and business conditions but also domestic specifics that triggered an insolvency acceleration. In Hungary, that included restarting cancellation proceedings, which were halted in 2022, and, as a result, non-active companies dominated the statistics. In the case of Poland, the total number of proceedings was already increased significantly due to a surge of dedicated procedures implemented to support companies suffering from liquidity difficulties as a result of the pandemic. Although intended to be temporary, these were permanently enshrined into Polish law and recently restructuration proceedings are widely used even despite the fact that oftentimes it is difficult to avoid insolvencies (see details on Poland's insolvencies on page 11). Despite such a surge, the insolvency rate in Poland (i.e. the share total number of proceedings in the total number of active companies) reached 0.2%, meaning that only 2 in 1,000 companies in Poland went through available official procedures. Much higher insolvency rates were recorded in countries where making use of insolvency procedures is more popular – those rates reached 2.5% in Croatia and 7.1% in Serbia. Nominal insolvency figures especially were diverse across the CEE region, as they were not only affected by their economic situations but also by how insolvency is defined across the specific countries (with amendments to insolvency laws, or more widespread use of insolvency procedures). At the same time, Poland and Hungary due to their specific circumstances, recorded the highest increase of insolvencies in the CEE last year compared to the pre-pandemic level of 2019 (chart 3). However, other countries were also how on their heels, recording figures even higher than in 2019, confirming that companies facing insolvency cannot benefit from support measures any longer, even though they are still trapped by economic challenges. Nevertheless, there are still few countries experiencing fewer insolvencies than before the pandemic, namely Slovenia, Latvia and Lithuania.

Fewer Insolvencies Expected

The increase in insolvency proceedings in the CEE region reflects the weak economic growth that countries recorded last year. Having experienced various challenges and fluctuating demand, not all sectors shared the same business performance. Undoubtedly, the overall increase in prices contributed to opportunities for growing turnover, although increased business costs eroded away at any profits. As mentioned previously, the slowing economic activity was caused by both low domestic demand and weaker external markets. Therefore, it is not only general exports dynamics that suffered but export-focused sectors too, including machine manufacturing, automotive and similar to last year – energy intensive sectors, such as metals, wood and paper. When we take a closer look at the details, the highest shares in insolvencies were taken by the construction and trade sectors. Indeed, both were represented widely in insolvency statistics, but this could be also attributed to a high number of active entities in those sectors. The share construction took in the total number of proceedings reached 30% in Hungary, 28% in Slovenia, 26% in Croatia, 21% in Lithuania as well as Romania. At the same time, insolvency rates in the construction sector were higher than the cross-sectorial average in a number of countries. The latest Coface Payment Survey confirmed the average payment delays for Polish construction companies exceeded the average (56.5 days and 48.7 days, respectively in 2023) compared to previous years. Construction companies experienced various challenges, including labour shortages, wage growth pressure, increasing building material costs as well as slowing demand, which finally started to reverse at the end of last year. In terms of retail trade companies, smaller businesses were not able to offer attractive prices

Chart 1:
Insolvencies in Central Europe

* Share of insolvencies in the total number of active companies

Total Insolvencies					**Dynamics**	**Insolvency rate***
	2020	**2021**	**2022**	**2023**	**2022/2023**	**2023**
Bulgaria	488	516	532	476	-10.5%	0.1%
Croatia	3 806	4 975	5 498	4 467	-18.8%	2.5%
Czech Republic	978	1 035	1 024	1 074	4.9%	0.2%
Estonia	330	268	222	254	14.4%	0.1%
Hungary	4 053	4 359	8 111	20 477	152.5%	4.0%
Latvia	388	268	308	296	-3.9%	0.2%
Lithuania	815	817	1 041	1 060	1.8%	0.7%
Poland	1 040	2 125	2 752	4 701	70.8%	0.2%
Romania	5 564	6 144	6 649	6 650	0.0%	1.0%
Serbia	6 096	4 445	9 149	9 763	6.7%	7.1%
Slovakia	330	388	347	400	15.3%	0.1%
Slovenia	1 125	679	575	581	1.0%	0.3%
CEE Total	**25 013**	**26 019**	**36 208**	**50 199**	**38.6%**	**0.8%**

Source: Coface

[1]*Coface Poland Payment Survey 2023: Slightly shorter payment delays but not for all sectors, December 2023 (https://www.coface.com/news-economy-and-insights/slightly-shorter-payment-delays-but-not-for-all-sectors-in-poland-in-2023)*

for consumers compared to large chains. Despite the fact that nominal wage growth remained solid, it was diminished by high inflation in CEE countries last year. Even though real wage growth took a positive turn in the final months of 2023, consumers remained price sensitive and these retail businesses could not compensate for the period of contracted household demand.

It is expected that the business environment described above will continue into 2024. The room for increasing turnover has become more limited and the pressure on margins will be reducing company profits, especially now that the destocking process has already started. However, households will be more willing to spend money on daily necessities. The IT and electronics segment is the last of the consumer-facing sectors to recover. However the consumer-driven rebound has already begun and this supports economic activity in the CEE region. Still, export companies are not able to benefit fully from their potential as recovery in foreign demand is far off, especially in Germany which remains the main trading partner for the majority of CEE economies. For all companies, the cost factor will remain crucial – not only are they facing a recent increase in commodity prices but, more importantly, an ongoing increase in labour costs. This includes the continuation of minimum wage increases in CEE countries.

Coface expects that insolvencies in the CEE region will increase further in 2024, however; this will be with one-digit dynamics, i.e. at a lower rate than last year. While Hungary is expected to record lower nominal insolvency figures after the accelerated number of enforced cancellation proceedings this year, Poland will still experience a high share of restructuration proceedings and that situation will stabilise again in 2025. In contrast to those technical and legal impacts, insolvency statistics in other countries should reflect the economic environment more. This means statistics are expected to improve, but companies will still not reach their full economic growth potential as a result of the challenges they face in their business activities.

Chart 2:
Total business Insolvencies in CEE region

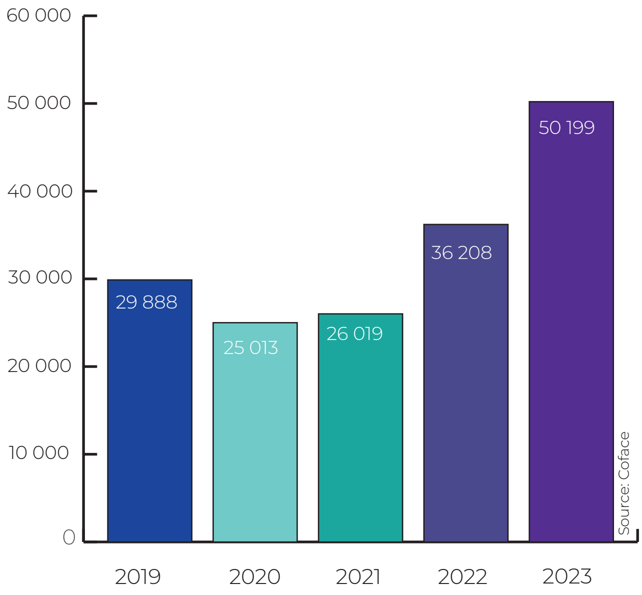
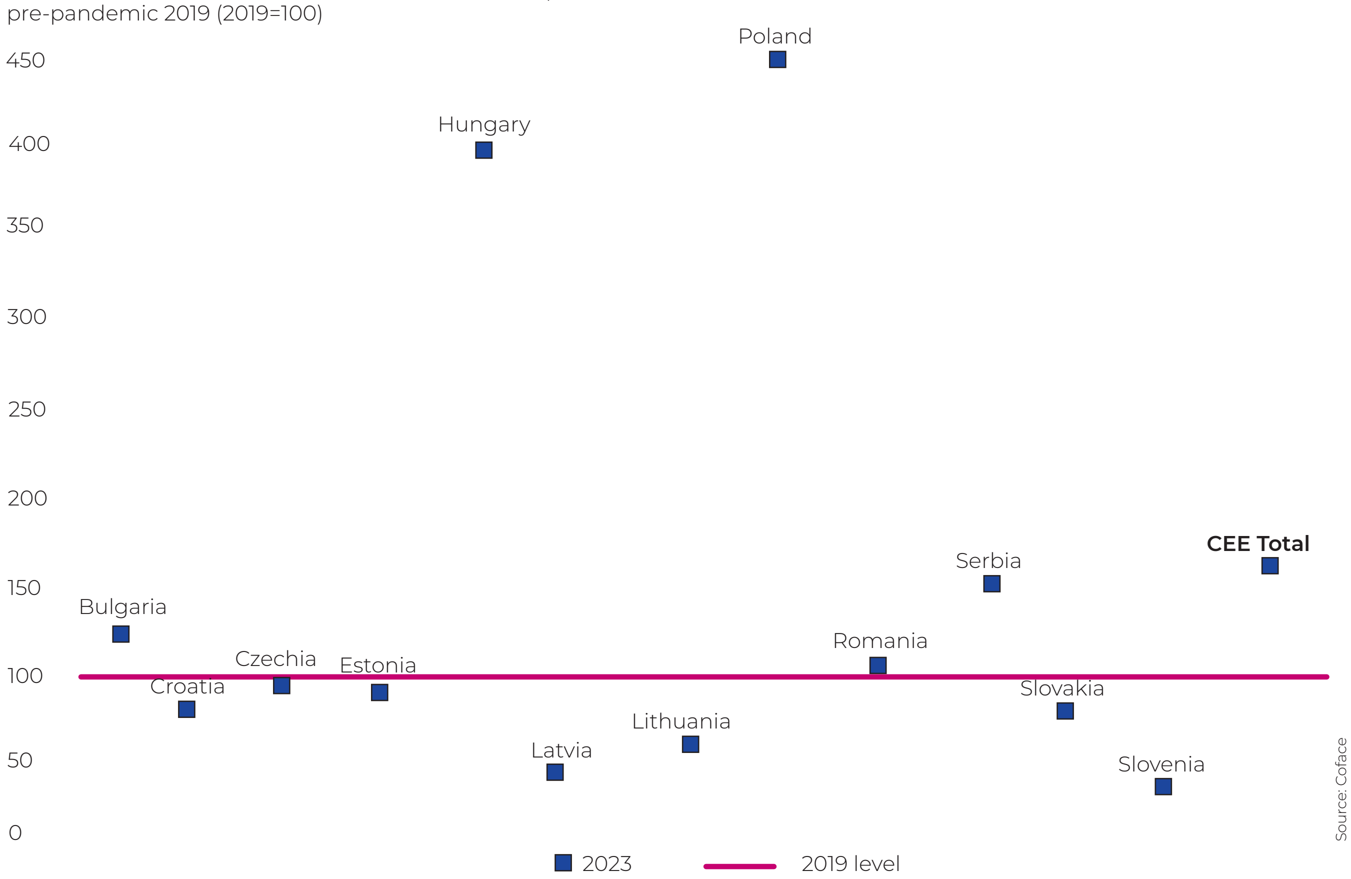


Chart 3:
Business insolvencies in CEE countries in 2023 compared to pre-pandemic 2019 (2019=100)



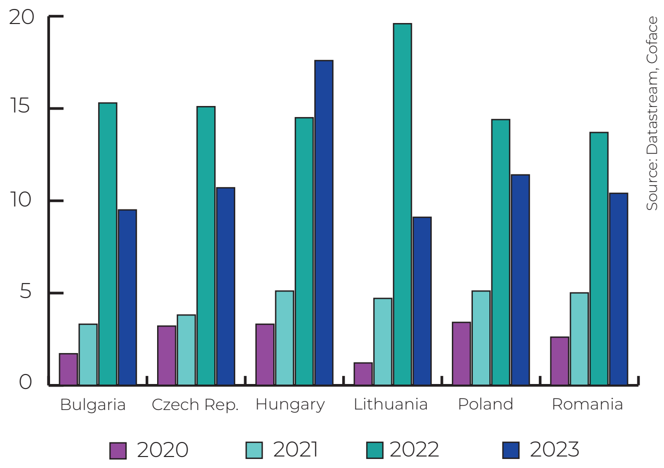
Resilience running out of steam

2023 turned out to be another difficult year for CEE economies. After suffering the effects of COVID-19 in 2020 and 2021, the region's economies were impacted by Russia's invasion of Ukraine in 2022. This invasion led to a significant surge in global energy and food prices, resulting in double-digit inflation for CEE economies. Inflation hit the countries of the CEE region harder than the countries of Western Europe, mainly due to this rise in energy and food prices and even reached two-digit figures. Despite the deteriorating economic backdrop, the region's economies proved themselves to be resilient in 2022.

2023, on the other hand, showed that the CEE economies were running out of steam as the global economy slowed down. Year-on-year inflation, which was already high in 2022, continued to rise in the first few months of 2023, remaining in double-digit until the second (Bulgaria, Romania, Lithuania), third (Czech Republic, Poland) or last quarter (Hungary). While inflation can be explained by food and energy prices in 2022, it spread to the real sector in 2023. This meant that core inflation (inflation excluding prices of food and energy) remained high for CEE countries for a large part of 2023. Faced with persistently high inflation (chart 4) and despite dynamic nominal wage growth (12% in Poland and Lithuania), household consumption slowed in 2023. The increase in nominal wages was not enough to offset inflation, making real wages negative and the result was an erosion of household purchasing power.

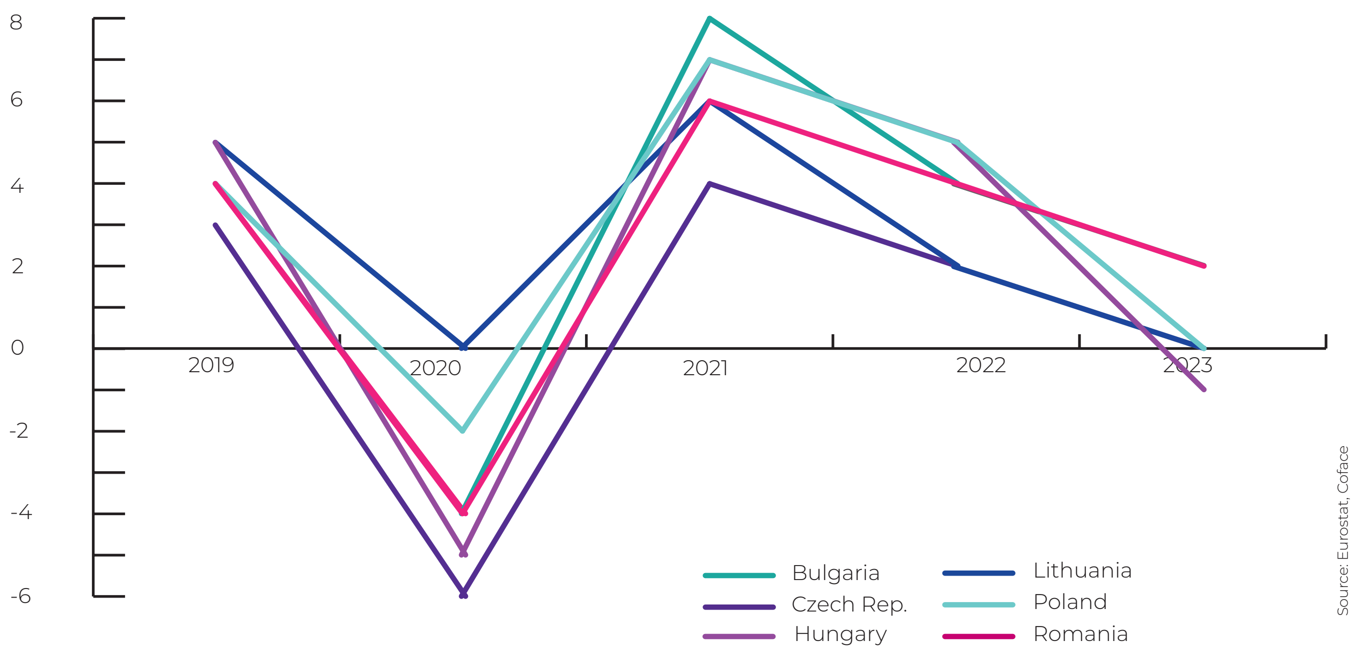
In a case of household consumption – an important component of Gross Domestic Product from an expenditure point of view (from 2/3 to 75% of GDP), this slowdown made its negative contribution to GDP growth in 2023 for most of the countries in the region, with the exception of Romania, Bulgaria and Slovenia. Disparities were observed between countries, with contributions

Chart 4:
Average annual inflation (Year-on-year evolution, in %)



to GDP growth (in percentage points) ranging from -1.5 (Slovakia) to 3.1 (Bulgaria). The weak growth in GDP can also be explained by reduced foreign demand, mainly from Western European countries. Of course, Western European countries also experienced a slowdown of their own, which has led to a fall in foreign demand and has had a direct impact on CEE countries' exports. This means exports made a negative contribution to GDP growth in 2023 for most countries, the Baltic countries being particularly affected (-5.9 percentage points in Estonia, -4.3 in Latvia and -2.9 in Lithuania). Weak demand also had an impact on industrial production in the manufacturing sector, which decreased year-on-year for most CEE countries (from -1.4% in Poland to -4.6% in Bulgaria), with the exception of the Czech Republic (+1%). Despite several negative contributions, GDP growth was not negative for all countries in the region, thanks to positive import demand (chart 5).

Chart 5:
Gross Domestic Product (year-over-year change in %)



2 Commentaries from country experts

Baltics

Insolvency dynamics

+14.4% Estonia

-3.9% Latvia

+1.8% Lithuania

Looking back over insolvency situation in the Baltic states, the causes of bankruptcy have not changed in the last year and the general tendency shows that main reasons for bankruptcy are high level of indebtedness, excessive risk taking and working capital shortage. It is noticeable that bankruptcies do not appear simultaneously across all sectors. Most of the companies that went bankrupt in 2023 were engaged in the activities of "Wholesale and retail trade and repair of motor vehicles and motorcycles" and "Construction". Out of three Baltic state countries, the only visible decrease (however marginal it may be) in number of insolvency cases was in Latvia (-3.90%). The past year for Lithuania did not bring any significant changes as well, since the number of insolvencies was almost the same as in 2022 and has increased only by 1.83 %. Mostly bankrupt companies were already balancing on the edge of survival before the pandemic period began, therefore these companies have simply delayed the start of insolvency processes. The most significant change was observed in Estonia with the number of insolvencies in this country increasing by 14.41%. A sharp decline in activity in main export markets for Estonia (mainly Scandinavian countries) has been felt in the construction, trade and manufacturing sectors the most, which resulted in highest GDP drop between all Baltic countries with further deterioration expected for the year 2024.

Gabrielė Didžiariekytė

SENIOR BUSINESS INFORMATION SPECIALIST
Coface Baltics

Bulgaria

-10.3 % Insolvency dynamics

For the first time in a few years, we have seen a decrease in Bulgarian insolvencies on a YoY basis by 10.53% compared to 2022. Our country is one of the few exceptions for 2023 compared to others in CEE region, but that does not necessarily mean that the situation is stable and getting better for local businesses. We suspect that the actual number of companies unable to pay their bills increased during 2023, as it appears more convenient to either abandon or sell the company rather than initiate insolvency proceedings. Bulgaria has been in political crisis in the last two years and unable to form a stable long-term government. However, the current government is implementing strict financial control and policies to comply with EU regulations and to be accepted in the Eurozone as fast as possible.

The biggest insolvency for 2023 is Galva Metal Bulgaria Ltd. – company involved in wholesale of metal construction materials. As Coface predicted in the beginning of 2024, challenging times are still ahead of the construction sector and those directly involved in it. That might also prove to be the case for Bulgaria.

Plamen Dimitrov

COUNTRY MANAGER
Coface Bulgaria

Hungary

152.5 % Insolvency dynamics

In 2023, 20,477 liquidation proceedings were opened; that is over two and a half times more than in 2022. The figures show a higher level of increase than in the period following the COVID-19 pandemic or the 2008 crisis.

In terms of sectorial breakdown, the number of proceedings increased in almost all the sectors. For the first six, there was no change in 2023 compared to the previous year. Construction remains at the top of the list with 6,073 proceedings (2022: 2,526), followed by services to enterprises with 2,807 (2022: 985) and then the motor vehicles and motorcycles sector taking third place again, with 1,777 (2022: 795).

However, there is a slight change in the sectors that are no longer in the top ranking but still have a significant number of cases. Non-specialized trade finished in 5th place in 2022, but moved up to 4th place in 2023 with 1,389 cases (2022: 485). This year's 5th place goes to private and households' services with 1,343 cases (2022: 522), while the transport sector remains in 6th place with 829 cases (2022: 371).

There hasn't been any significant change in the sectors that appear to be the least vulnerable (petroleum and hydrocarbons, glass and ceramics, leather, paper, and mineral products). It is important to note, however, that the number of insolvency cases within these sectors has tripled compared to 2022 – all except the other vehicles sector, which came in last but still managed to retain the same number of cases in 2023 as in 2022.

Looking at the temporal distribution of liquidation proceedings, nearly 60% of the proceedings opened in 2022 were initiated in the final third of the year. The trend continued with extra high numbers of proceedings until the end of 2023. While in 2022, we could only speculate on how much the establishment of new businesses would be able to offset the number of liquidations, 2023 turned out to be a negative year. With only approximately 26,000 new businesses established, 2023 is down by more than 13% compared to the previous year.

According to data from the Central Statistical Office, 150,235 firms were operating in the construction sector at the end of 2023, and this is the sector where the largest number of liquidation proceedings were observed – not only in terms of number but also in terms of their share: nearly 30% of all liquidation proceedings.

Agriculture was one of the least affected sectors in terms of liquidations. However, it is worth highlighting that the number of family businesses, farmers and sole proprietorships – which were the most numerous in this sector – decreased significantly by the end of 2023.

Andrea Suszter

Team Leader
Classical Information
Coface Hungary

Czech & Slovakia

Insolvency dynamics

4.9% Czech

15.3 % Slovakia

In 2023, CZ&SK economies faced high inflation and weak GDP growth. Companies must face growing basic costs for energy, high pressure to increase salaries, expensive financing and at the same time very weak customer demand. In this context, the increase in number of insolvencies is not surprising.

1,074 insolvencies and restructuring proceedings were initiated in CZ; 50 more than the previous year, +4.9% y/y. The number was 400 in SK; 53 more than the previous year, +15.3% y/y. SK experienced fewer insolvencies in 2022, which was partially driven by changes in insolvency legislation in reaction to COVID.

Most problematic sector is construction, which has an 18.1% share in the total number of insolvencies in CZ and a 12.7% share in total number of insolvencies in SK. What's more, in CZ the share in insolvencies is still on the rise and in H2 was very close to a 20% share on all insolvencies. The Czech economy operated with higher interest rate in CZK – 7.0% compared to 4.5% in EUR, compensation of energy prices wasn't so generous, purchase power of households declined most within the region. These factors contributed to many construction projects being cancelled or postponed. 2024 will also be difficult and a return to normal growth levels is not expected until 2025.

The second highest share of CZ insolvencies (10.9%) was taken by retail sale. Declining demand and increasing costs affected online retailers as much as traditional ones, most of the insolvent companies traded in food, fashion goods and consumer electronics. The share of insolvencies in this sector is still increasing this year.

Third highest share of CZ insolvencies (10.1%) was taken by services. Restaurants&Hotels, Transport, Media&Marketing and Healthcare are not included here. Despite this, it does include a wide range of activities. We can't tell which of them have significantly higher share or trend than the others, but the fields of cosmetics and other personal services, IT services, education or work agencies came up again and again.

High interest rates and difficult access to financial sources combined with growing costs heavily impacted the real estate business as well, which took the 4th highest share in total insolvencies with 9.4%.

A visible declining trend during the year was observed in Restaurants&Hotels (8.38%) and Transport&Logistic (7.64%). In these sectors, we were able to see the visible effect of COVID in Q1 especially, there was also the inability to pay back loans taken out during the COVID period with guarantee of state-owned National development bank. This bank is frequently involved in insolvency proposals.

Wholesale contributed to insolvencies by 6.61%, a surprisingly high share of which was made by what are known as investment companies (4.84%). These companies collected money from investors during bonds or loan contract, but the business plan was very naive or fraudulent right from the beginning.

Martin Procházka

HEAD OF RISK UNDERWRITING CZ&SK
Coface Czech

Furthermore, the largest SK insolvency (measured by the last known value of assets) belongs to this sector; Axe Capital group, which collected over 50 million EUR from investors. The Czech and Slovak market is connected by the complicated case of the Arca Group, company emitting bonds for group financing went to the insolvency. This case including over 150 disputes and receivables over 600 MEUR aspires to be largest insolvency case for many years for both countries.

In terms of employment, the largest insolvencies in SK were the labor agency TT – Controls Slovakia, retailer of household's equipment Studio Moderna and construction companies Projekt Kanskasporr and Projekt Sporrkanska. The insolvency case of radiator producer Korad Radiators, which wasn't able to replace the lost Russian market and aluminum producer Confal, also garnered a lot of attention as the company faced the devastating impact of high energy prices and was forced to enter a restructuring process.

The most significant cases in CZ come from retailer Rosa Market, distributor of mobile phones, Mammoth, and energy supplier, Tameh.

For 2024, we expect insolvencies to only increase, especially in the construction sector. On the other hand, the total number of insolvencies may decline due to a recovery in customer spending and the general stabilization of the macroeconomic environment. However, there are certain conditions to such an optimistic prediction, in that the security situation across the world must first stabilize. Unfortunately, the security situation has been deteriorating for decades and the stability of economic growth is very fragile as a result. Here is significantly changed the meaning. I consider the situation currently as stable. Risk is coming from unexpected escalation of conflicts, which might have impact on flow of goods or commodity prices. Anyway current reality is, that we are observing economic recovery despite intensive conflict close to our border.

Croatia

-18.7 % Insolvency dynamics

On an annual level, the total number of all insolvency procedures opened in 2023 (opened, opened and then revoked, opened and company dissolved due to lack of assets) is 18.8% lower than in 2022. From this total number there were 92.9% bankruptcies opened and immediately closed due to lack of assets (this figure was 96.8% in 2022). Data on the number of opened bankruptcies by activities and groups of activities tells us that the majority of bankruptcies were opened in the Coface sectors of Construction (25.8%), Business and personal services (18.15%) and Motor vehicles, motorcycles, other vehicles and transport (13.38%). Sectors with the fewest opened bankruptcies were Metals, Mechanics and precision, Financial services and Miscellaneous, all 4 with a 0.96% share in the total insolvencies opened.

The biggest bankruptcy procedure in 2023, according to a company's turnover, was opened for company OMS - Upravljanje d.o.o. u stečaju, registered in the sector of activity: Mineral products, chemicals, petroleum, plastics, pharmaceuticals and glass. The second largest was for the company STUDIO MODERNA - TV PRODAJA - trgovina i usluge d.o.o. u stečaju, which was also the biggest insolvency in Slovenia this year for the company STUDIO MODERNA, d.o.o. - v stečaju, both from the sector of Non-specialized trade.

Sergej Simoniti

COUNTRY MANAGER
Coface Adriatic Hub, including Croatia, Serbia and Slovenia

Serbia

6.7 % Insolvency dynamics

The average duration of bankruptcy in Serbia, according to the bankruptcy Licensing Agency, is about three years. The proceedings on social property take five years and eight months, and on private property half as long.
Still, as in previous years, one of the main reasons for the company going into bankruptcy or forced liquidation is over-indebtedness. The inability to pay its bills, causes companies to hill a metaphorical wall, which then leads to bankruptcy itself.
Another problem that Serbia is facing is that in Serbia, according to data from the website of the Serbian Registry (APR), there are currently 330,626 entrepreneurs on the register – this means that there are twice as many entrepreneurs than there are companies. Having in mind their number, and thus their unquestionable importance for the entire economy, it is interesting that Serbia is one of the few countries, not only in the region, but also in Europe, that has not legally regulated the issue of bankruptcy of entrepreneurs. Bankruptcy can only be enforced over a company, but not over entrepreneurs.
In the last two years, more than seventy disciplinary proceedings were carried out against insolvent bankruptcy administrators, according to the line ministry. They announce new amendments to the law in order to further improve the rights and obligations of bankruptcy administrators and creditors, as well as the transparency of the procedures themselves.
However, the good news is that in March last year, the Ministry of Economy began work on a new public policy document – the strategy for the development of small and medium enterprises until 2027.

Slovenia

1 % Insolvency dynamics

In 2023, the effects of the COVID-19 epidemic and the war in Ukraine no longer had a significant direct impact on the Slovenian market, but conditions remained uncertain. In the late summer of 2023, Slovenia was hit with severe floods which impacted almost two thirds of Slovenian municipalities and resulted in damages to infrastructure and personal property. This could have a long-lasting effect on business and the economic market in Slovenia, which may result in new financial difficulties for Slovenian entities, and consequently new insolvency proceedings in the future.
Even with the slowdown in economic activity, the number of new insolvency proceedings in 2023 remain stable compared to 2022 – on annual level, in 2023 in total 581 business entities faced insolvency proceedings (compared to 575 in 2022 and 679 in 2021), of which 14 (2.4%) companies applied for a compulsory settlement and 567 (97.6%) companies faced bankruptcy.
In the total number of bankruptcies initiated during 2023, companies from the construction sector (28.40%) and service industries (27.02%) hold the biggest share (the same as in 2022), while the lowest share was taken by Mineral products, chemicals, petroleum, plastics, pharmaceuticals, and glass (0.52%).

3 Manage your risks

While some of bankruptcies may come as a surprise, strong credit management is helping to protect the business and to limit the impact of insolvencies.

There are multiple factors triggering an insolvency. Coface experts in business information and risk underwriting are continuously monitoring, making sure our partners benefit from these capabilities and reduce the risk of non-payment.

Coface is permanently updating risk assessments (scores). **Score calculates a company's probability of default over the next 12-months.** Scale from 0 (high risk) to 10 (low risk), to guide risk mitigation.

Additionally to score Coface provides global insights like: sector and country risk assessments which are based on our internal methodologies and updated on quarterly basis and **Late Payment Index** which tracks payment behaviours, indicating potencial financial stress.

We share all this expertise in **URBA360** – Coface risk management tool anticipating changes in client or supplier business environment and supporting our partners take the right decisions, in time. Our database contains information on more than 40 million companies in CEE, 200 million world-wide; and we have access to the best available sources to monitor events across multiple geographies and sectors.

Matei Mihailescu

REGIONAL BUSINESS INFORMATION DIRECTOR

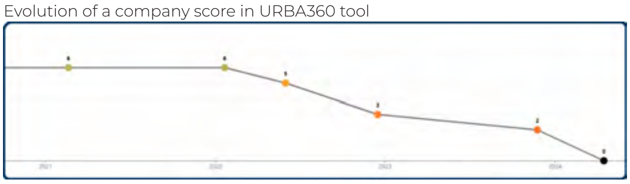
CASE STUDY:

Coface has assessed in 2017, a company engaged in construction materials, with a score of **6**: acceptable risk and average financial stability. The sensitivity to external adverse factors should not be overlooked. Risk of default is average.
Monitoring over time, Coface BI kept the assessment even during Covid 19 period. A series of events started in 2022, determined us to downgrade the score (presented on Chart 6) and inform our partners for effectively handle their bilateral relationships:

- increasing indebtedness year-over-year
- delayed publishing of latest financials
- insolvency petition where acting as creditor (suggesting difficulties in collecting receivables)
- payments overdue.

In March 2024 an **insolvency procedure** for a company has been opened.

Chart 6:
Evolution of a company score in URBA360 tool



POLAND

2023 Insolvencies

4 Insolvencies in Poland

In 2023, there was a further increase in the number of company insolvencies in Poland, reaching record highs compared to the levels in previous years. There were 4,700 businesses insolvencies last year, which is still relatively few when we consider all the active companies in Poland; the figure equates to just 0.2%. However, the increase in the number of proceedings was high throughout 2023, increasing at a double-digit rate in each quarter. Most often, corporate insolvencies resulted not only in problems for the companies against which they were declared, but also worsened the liquidity situation of their counterparties.

The increase in the number of insolvent companies in Poland was a consequence of two main factors. Firstly, companies in a difficult liquidity situation were able to take advantage of the more extensive range of proceedings provided by the Polish legal system. In the early years of the previous decade, bankruptcies were mainly carried out to liquidate assets. Then, in 2016, this was followed by the introduction of judicial restructuring proceedings to facilitate the return to effective business operations. Finally, the pandemic years brought in various support measures and introduced quick proceedings leading to restructuring; this was widely popular, which contributed to it being permanently enshrined into the Polish law. With this in mind, the increase in the overall number of corporate insolvencies should not come as a surprise. However, it has to be said that companies would not need various forms of insolvency if they were not in desperate circumstances. This, in turn, was related to the second main reason for the increase in the overall number of proceedings, namely the macroeconomic environment in which companies operated. 2023 was a difficult year in economic terms. GDP growth reached only 0.2%; the lowest rate in this century except for the pandemic recession in 2020. Last year was expected to bring gradual economic stabilization after the pandemic upheaval and adjusting to the economic consequences caused by Russia launching a full-scale invasion into Ukraine in 2022. However, last year inflation in Poland reached high levels that have not been seen in many previous years, exceeding 18% in the first quarter of 2023, and the cycle of interest rate hikes has become increasingly severe for businesses even despite two rate cuts since last September.

Grzegorz Sielewicz

COFACE CHIEF ECONOMIST in Central and Eastern Europe

The Polish economy is recovering from the recession, but the improvement is slow and quite uncertain, as confirmed by data published in recent months. The biggest risk to the Polish economy at the moment is the foreign market situation. Its main trading partner, Germany, is still unable to recover from its own economic slump, and although economic surveys indicate that the German economy may already have the worst behind it, hard economic data that has been published has not confirmed this yet. In addition, although some Western European economies have already started to show an uptick in economic performance, the situation in the other major economic regions, including the USA and China, as well as global trade, still does not indicate that full recovery is on the horizon.

At the same time, domestic demand is not expected to compensate for the weak performance of Poland's trading partners. Although household consumption will once again be the driving force of the Polish economy in 2024 thanks to falling inflation, low unemployment and the increased amount of the social program, consumers are still careful when it comes to spending and often opt for cheaper substitutes for the products they would have previously purchased. This is reflected in the significant number of retail insolvencies, including the insolvency of a major IT, electronics and whitegoods retailer, indicating that even large entities may struggle if consumers refrain from buying durable goods. This is typical for periods of reduced economic activity and high levels of uncertainty. Moving on, inflation will not continue its downward trend in the second half of the year and will again exceed the inflation target.

Despite the uncertain economic environment Poland faced last year, companies were quite active in investing in fixed assets which should continue this year as well. This will be supported by the unfreezing of EU funds from the Recovery and Resilience Facility, as well as growing investments in automation, robotization and facilitating production processes as companies tackle with labor shortages and rising wage costs.
The Coface forecast assumes that the Polish economy will grow by 2.8% in 2024, which will be much higher than the weak growth of 0.2% last year, but this result will still be below the figure that the Polish economy is capable of. Even despite the improving economic outlook, corporate insolvencies are expected to increase. After the pandemic years where abundant support measures were available, followed by opportunities to generate higher turnover and, in many cases, profits on a wave of general price increases, we are returning to a period of normalization. Not all entities will be able to survive in the market at a time when there is higher pressure on margins and significant operating costs continue to pose a threat. In addition, further increases in insolvencies are also supported by available tools. Already 2023 figures indicated a dynamically increasing number of proceedings for approval of an arrangement, which is another step in successful initial restructuring. The high share of restructurings (92% of the total number of proceedings) provides hope for some companies that they will return to effective business operations, but this is not the case for all. Data from previous years confirms that there were many entities that initiated this type of proceedings but did not manage to bring about a restructuring that proved effective and led to recovery.

Chart 7:
Poland: Insolvencies and restructuration proceedings

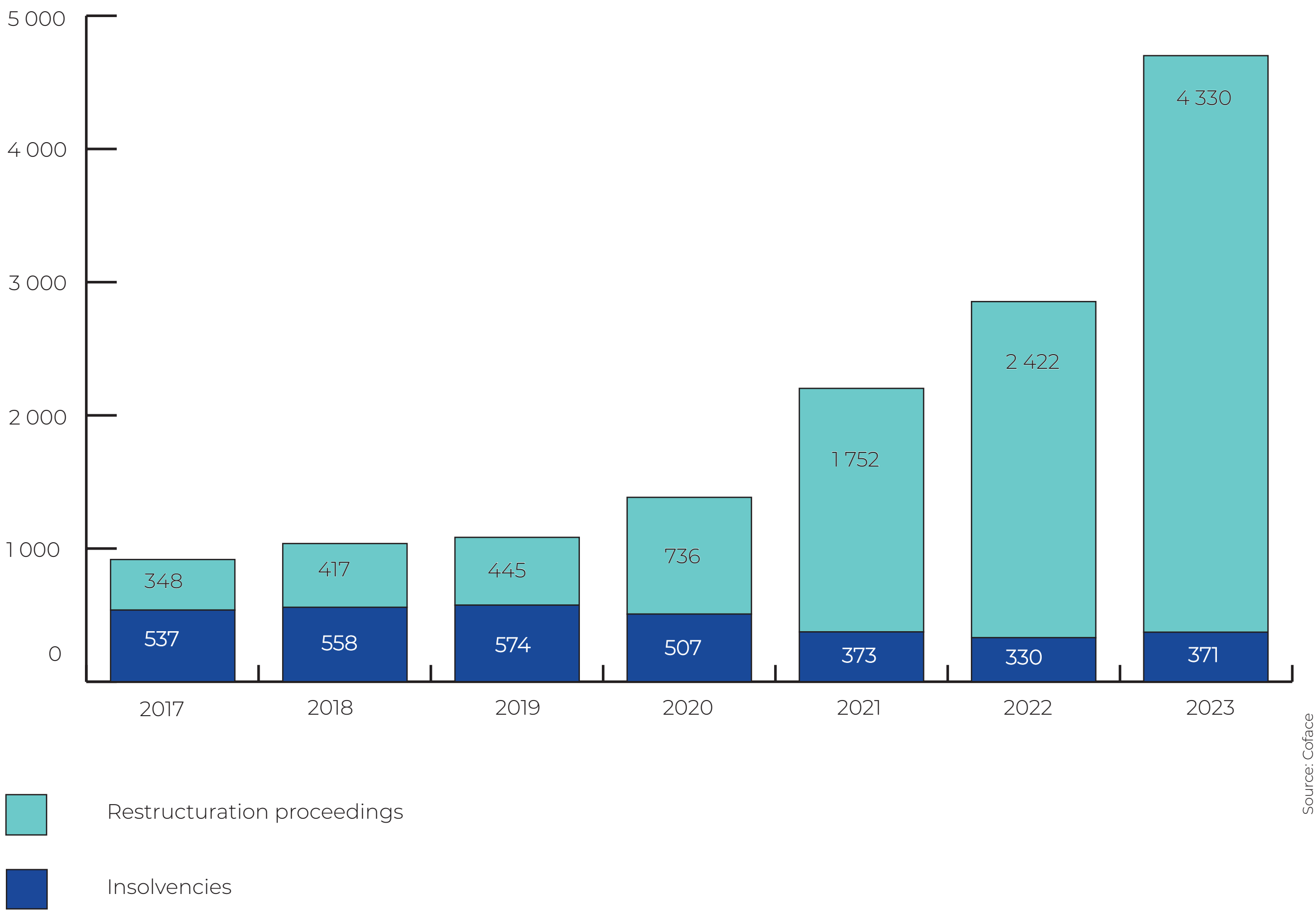


Chart 8:
Poland: Insolvencies and restructuration proceedings in sectors

Sector	Number of proceedings 2022	Number of proceedings 2023	Growth 2023/2022
PRODUCTION	**429**	**746**	**74%**
Manufacturing:	396	698	76%
Manufacture of basic metals and fabricated metal products	87	170	95%
Manufacture of food products and beverages	63	83	32%
Manufacture of wood products, except furniture	24	73	204%
Manufacture of machinery and equipment	29	58	100%
Manufacture of furniture	37	53	43%
Manufacture of clothing and textiles	22	43	95%
Manufacture of rubber and plastic products	24	31	29%
Manufacture of other non-metallic mineral products Other non-metallic mineral products (including building materials)	17	30	76%
Printing and reproduction	18	17	-6%
Manufacture of paper and paper products	12	12	0%
Other manufacturing	63	128	103%
TRADE	**567**	**1023**	**80%**
Wholesale trade	215	357	66%
Retail trade	267	506	90%
CONSTRUCTION	**280**	**638**	**128%**
TRANSPORTS	**273**	**546**	**100%**
AGRICULTURE	**376**	**347**	**-8%**
SERVICES	**827**	**1401**	**69%**
Professional, scientific and technical activities	195	371	90%
Accommodation and food service activities	105	207	97%
Human health and social work activities	120	196	63%
Leasing, administrative and support services	97	181	87%
Information and communication, including software services	77	128	66%
Financial and insurance activities	62	98	58%
Real estate activities	68	87	28%
Education	33	42	27%
Arts, sports, entertainment and recreation	18	25	39%
Other services	52	66	27%
TOTAL	**2 752**	**4 701**	**71%**

ROMANIA

2023 Insolvencies

5 Insolvencies in Romania

Romania's economic evolution was hallmarked by lights and shadows in 2023, which opened the door both to multiple opportunities and challenges for the current year and the upcoming period. Firstly, the real GDP continued its downward trend of recent years, experiencing a real growth of 2.1% in 2023 as compared to 4.6% in 2022 or 5.7% in 2021. Romania's economy has ground to a halt against the general drop in consumption, the progression of retail sales fluctuating between 1% and 2% in the second quarter of 2023. In 2023 as a whole, retail sales increased by a mere 2.2%, which is significantly less than the 6.2% average of the previous year. Quite paradoxically, consumption slowed down in 2023, remaining much under the level of the previous year, although the wage dynamics exceeded the average increase in prices (the available income of the population increased).

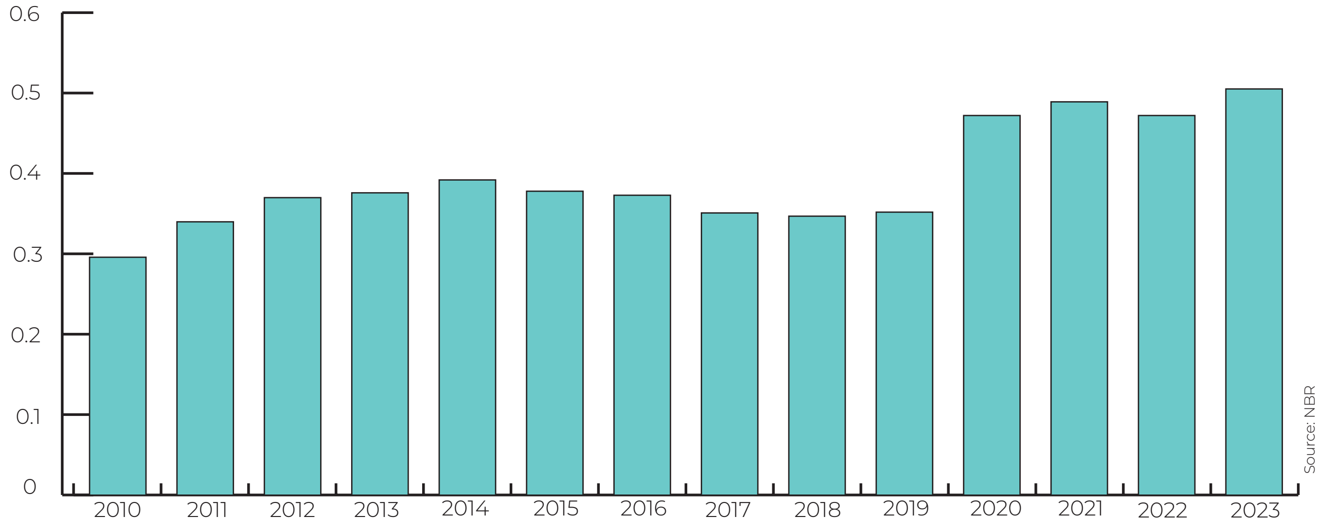
Against a background of mitigated demand and cost pressure reduction in the segment of hydrocarbons, energy, crops and construction materials, inflation continued its downward trend reaching 6.5% in late 2023, much under the level recorded in early 2023 (15%) or under the maximum values of the previous autumn (16.8% in November 2022). Considering that the inflationary pressure in recent years was mainly exerted by non-monetary factors, NBR maintained the interest of the monetary policy at a stable 7% throughout 2023.

The main vulnerability from a macroeconomic perspective in 2023 was the double deficit carried forward, both the fiscal and the commercial one, which exceeded the level projected in the draft budget at the beginning of the year. Thus, the fiscal deficit recorded throughout 2023 amounted to 89.9 billion lei, which is 5.68% of the GDP, remaining under the initial target of 4.4%. Practically, government revenues reached 32.9% of the GDP, while government expenditure reached 38.6% of the GDP in 2023. At the same time, government debt experienced an increased growth rate in 2020 considering the public spending generated by the COVID-19 pandemic, reaching 47.2% of the GDP as compared to 35.2% in 2019 and exceeding the threshold of 50% of the GDP in 2023 according to the chart 11, especially because of the excessive budget deficit.

Tiberiu Chesoi

HEAD OF CLAIMS DEPARTMENT
Coface Romania

Chart 9:
Public debt/ GDP



From a microeconomic perspective, the main challenges for 2024 could be the drop in consumption, the high financing cost, but also the new set of duties and taxes enforced this year, which will generate constant pressure for the economic activity. The main fiscal changes:

- new taxes (a 1% minimum tax on turnover for companies with a turnover higher than 50 million EUR or a 2% turnover tax for credit institutions)
- the increase of already existing duties and taxes (revenue tax increased at 3% for micro-entreprises with revenues of 60 - 500k EUR, increased thresholds for the real revenue of freelancers, increased VAT for certain categories of real estate transactions or properties beyond certain thresholds)
- the elimination of certain exemptions regarding labour taxation (agriculture, IT or constructions being some of the most heavily affected sectors).

Considering the significant fiscal impact on the business environment, we may expect an increased risk of fiscal pressure, a decrease in real consumption or an increase in the subterranean economy. All this could generate a cascade effect, leading to extended payment terms with suppliers, further increasing vulnerable companies' insolvency risk within this context (debt ratio higher than the industry average, high fixed costs, high commercial credit exposure as compared to the company's equity level, aggressive competition, or high employee turnover rate).

According to the data published by the Romanian National Trade Register Office (NTRO), insolvency procedures

Chart 10.
Distribution of insolvencies by sectors for past 2 years*

Sector	Insolvencies 2022	Insolvencies 2023	Insolvencies % Total	Insolvencies per 1.000 companies* 2023
Manufacture of textiles, clothing and footwear	263	222	4%	44
Cleaning and waste removal; sanitation and similar activities	68	69	1%	29
Production and supply of electricity, heat, water and gas	11	24	0%	28
Constructions	1 366	1 446	21%	27
Food & drinks industry	212	173	3%	23
Hotels and restaurants	522	510	8%	21
Manufacture of wood and wood products	229	215	3%	18
Extractive industry	20	15	0%	18
Transportation	599	732	9%	17
Metallurgical industry	163	127	2%	16
Agriculture	242	249	4%	16
Post and telecommunications	46	59	1%	16
Wholesale and distribution	822	815	12%	14
Recreational, cultural and sports activities	88	119	1%	13
Machinery and equipment industry	81	78	1%	12
Retail	874	825	13%	11
Manufacture of chemical substances and products	42	29	1%	10
Other personal services	155	173	2%	9
Other services provided mainly to enterprises	586	502	9%	7
Real estate transactions	75	102	1%	7
IT	79	102	1%	4
Financial intermediation	57	32	1%	4
Health and social care	49	32	1%	2
TOTAL	**6 649**	**6 650**	**100%**	**14**

**By linear extrapolation of the companies that submitted their financial statements to the MPF in the year before the year of becoming insolvent. The first ten sectors in the table have the highest number of insolvencies per 1,000 active companies (only companies with a turnover over EUR 1,000 per year during 2022 were considered active companies)* were initiated for 6,650 trade companies in 2023. It is a result that reflects a 0% increase as compared to 2022 (6,649 insolvencies) and 2% as compared to 2019, when insolvency procedures were initiated for 6,524 companies .It can be noticed that over the past 5 years, the number of insolvencies has been relatively constant, and the quarterly dynamics over the past 2 years has almost equalled 0%, which shows a certain stability of the Romanian entrepreneurial sector.

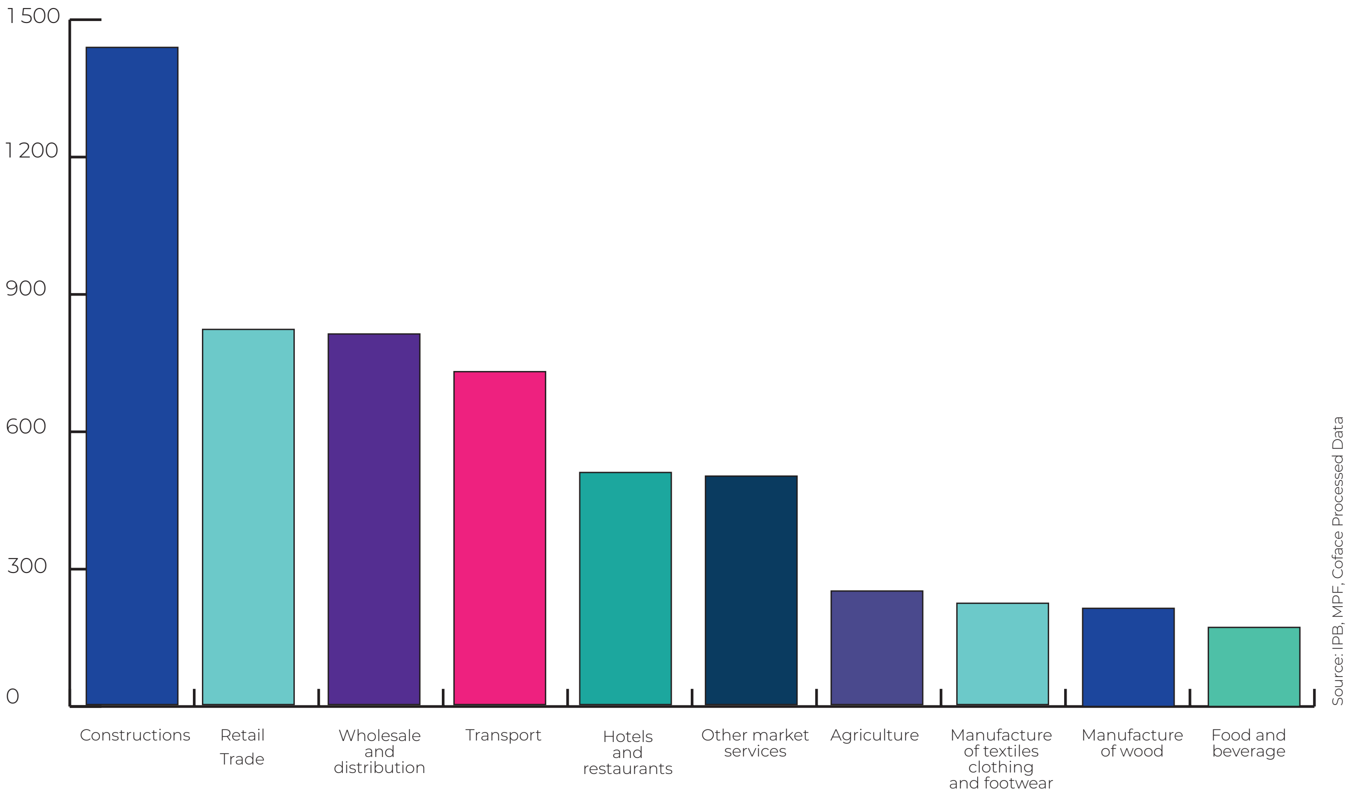
Based on the tax returns submitted in the year preceding the initiation of the insolvency procedures and depending on the main object of activity as per the NACE code, Coface drew up a breakdown of the companies filing for insolvency in 2023, according to the 23 most important activity sectors, with figures available in the table in **chart 10**.

Even if we do not have information about the main activity of all the companies that filed for insolvency in the examined period2, there are two arguments based on which we consider that the sectoral breakdown of the entire portfolio is similar to the examined sample, namely:

- The sample share is statistically significant for both years;
- The sectoral breakdown shares within the sample have similar values with the breakdown shares of the entire portfolio, as recorded in the annual research studies conducted by Coface.

Just as in the past few years, the first 3 sectors by the number of companies filing for insolvency (constructions, retail sales, wholesales, and distribution) sum up approximately 46% of the total number of insolvencies recorded in 2023. This evolution is justified by the fact that these 3 sectors account for approximately 39% of the total number of Romanian companies and thisis precisely why, for each insolvency research study carried out by Coface, we also highlight the first 10 business sectors from the perspective of the number of insolvencies/1,000 active companies.

Chart 11:
Top 10 sectors in terms of number of insolvencies in 2023



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CEE Insolvencies 2023 / April 2024

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e-mail: office-centraleurope@coface.com

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