P R E S S E S E R V I C E

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Coface bankruptcy report: Insolvencies on the rise throughout Central Europe

- **After a slight recovery in 2011, countries report a difficult economic environment again. Insolvency figures increased again in CEE in 2012 – except Latvia, Estonia and Ukraine**
- **Economic crisis finally hits Poland – record level of insolvencies in 2012**
- **Further increase of insolvencies in 2013 and 2014 expected**
- **Top Sectors: IT, telecommunications, education and health**
- **Flop Sectors: construction, manufacturing, whole and retail trade**

Insolvencies opened in Central Europe 2011 / 2012

	Total Insolvencies		Deviations	Judical Compositions		Bankruptcies		Total number of active companies	Insolvency rate
	2012	2011	2011/2012	2012	2011	2012	2011	2012	2012
Bulgaria	1.339	390	243,3%	n.a.	n.a.	1.339	390	380.000	0,35%
Croatia	3.033	1.106	174,2%	8	n.a.	630	306	125.000	2,43%
Czech Republic	7.142	5.627	26,9%	n.a.	n.a.	3.800	2.621	1.513.556	0,47%
Estonia	588	623	-5,6%	n.a.	n.a.	588	623	80.000	0,74%
Hungary	22.840	20.412	11,9%	196	204	22.644	20.208	595.000	3,84%
Latvia	881	914	-3,6%	n.a.	n.a.	881	914	197.000	0,45%
Lithuania	1.339	1.273	5,2%	n.a.	n.a.	1.339	1.273	170.000	0,79%
Poland	877	723	21,3%	166	103	711	620	2.100.000	0,04%
Romania	23.665	21.499	10,1%	n.a.	n.a.	n.a.	n.a.	417.582	5,67%
Serbia	8.333	14.828	-43,8%	5.686	12.067	2.647	2.761	105.105	7,93%
Slovakia	536	500	7,2%	73	86	463	414	552.000	0,10%
Slovenia	980	704	39,2%	40	33	940	671	150.000	0,65%
Ukraine	1.077	1.547	-30,4%	33	46	1.044	1.501	1.342.000	0,08%
Total	**72.630**	**70.146**	**3,5%**					**7.727.243**	**0,94%**

Economic Crisis hits Central Europe hard

The impacts of the economic crisis are severely felt in the Central European countries. The insolvency figures and rates are on the rise. In total the insolvencies in Central Europe increased by 3.5% in 2012. Mainly responsible for this upward movement were Bulgaria and

Croatia which both showed a dramatic growth last year. The only real positive developments show Estonia and Latvia. The region showed an upward insolvency trend during the last years. Compared to 2009 (the crisis year after the collapse of Lehman) in 2012 the numbers were 38.7% higher.

The most affected sector in 2012 was construction. The companies suffer from the austerity programs and lack of investments in private housing. Similarly hit was the manufacturing industry as well as whole and retail trade. The latter experience the negative effects of the high unemployment rates and the decrease of household spending.

On the other hand IT, telecommunication, education and health were the sectors least affected. They showed the lowest insolvency rates in 2012.

It has to be mentioned that the insolvency data is not completely comparable as the associated laws are quite different in the respective countries. Some like the Baltic States have an insolvency law that equals European standards whereas others like Bulgaria or the Ukraine still need reforms.

Countries in troubles 2012: Bulgaria, Croatia and Slovenia – Poland affected too

In **Bulgaria** the total number of companies that went insolvent in 2012 was 1,339 compared to 390 insolvent companies in 2011. This implies an increase of 243%. A high financial and operating leverage, high financial expenses, volatile prices of basic material and poor liquidity were the main reasons for insolvencies in Bulgaria in 2012. Moreover, Bulgaria still struggles with ineffective insolvency procedures. Compared to 2011, the insolvency rate almost tripled. For 2013 and 2014, a further increase is expected.

In **Croatia**, the number of insolvencies increased dramatically by nearly 175 percent 2012 implying that the insolvency rate almost tripled to 2.43 percent in 2012 (from 0.88 percent in 2011). Main reasons for insolvencies are failing to keep in touch with a changing business environment, lack of consistent government strategy, the small domestic market and still non-competitive product prices for foreign markets. The Croatian economy remains in recession, stuck in the downturn that started in 2009. The crisis in the Eurozone affected the Croatian economy twice: the drop in exports and the uncertainties related to foreign banks' involvement in the country.

In **Slovenia** insolvency procedures for 980 companies were opened in 2012. Compared to 2011, this figure increased by 39.2% which results in an insolvency rate of 0.65%. The main issues are still long-lasting procedures (it may take up to 10 years or more for the bankruptcy procedures to end) with very low dividend among the ordinary creditors since valuable assets are normally always encumbered with mortgages. Slovenia's GDP dropped by 2.3% mostly because of a stagnation in exports and a decrease of domestic consumption.

Poland and its economy still stands out by constant growth in important macro-economic indicators, but a slowdown is becoming increasingly visible. The insolvency ratio is still the best in the CEE-region (0.04 percent), but the number of bankruptcies increased by 21.3 percent in the preceding year. The result of 2012 is the highest in eight years and 113 percent higher than in 2008. Even in 2009, at the peak of the crisis, there were 25 percent fewer bankruptcies than in 2012. The construction sector is mainly responsible for those figures as it constituted 25 percent of all bankruptcies, followed by retail trade.

In **Romania** in 2012 the insolvency proceeding was opened for a total number of 23,665 companies which equals a rise by 10% compared to 2011. The companies' sustainability erodes because of the effects of the financial crisis in the last three years, of the high financing constraints and of the deterioration of the payment discipline at the level of the entire economy. Therefore the companies represent a higher vulnerability degree to the exposure to internal or external shocks and liquidity pressures increase.

Also in the **Czech Republic, Slovenia** and **Lithuania**, the number of insolvent companies increased considerably.

Best results in Latvia, Estonia and Ukraine – Serbia ambivalent

Latvia, which was most affected by the crisis in the region, had a very high increase in insolvency cases in 2009, could stabilize in 2010 and the number of insolvencies has been dropping since then – in 2012 by 3.6 percent. At the same time, Latvia showed the highest growth rate in Europe in 2011 as well as in 2012.

In **Estonia**, the number of insolvencies decreased by 5.62 percent holding a midrange insolvency rate of 0.74 percent.

Ukraine impresses with 30 percent less insolvencies in 2012 than in 2011, equalling an insolvency rate of 0.08 percent. Nevertheless, the country has to struggle with highly ineffective insolvency proceedings with very low average recovery rates and a very long average duration. In 2012 the World Bank ranks Ukraine as 157th (158 in 2011) among 185 countries on the ease of resolving insolvency, whereas the regional average (Eastern Europe & Central Asia) rank equals 80. Thus, the insolvency proceedings in Ukraine are almost twice less effective compared to the regional average benchmark.

Serbia can show a decrease of insolvencies by 43.8 percent. But this is only due to a governmental act: the application of automatic bankruptcy (which caused plenty of deletions from the Register of Economic Entities in 2010 and 2011) was suspended in 2012. In reality Serbia is facing the problem of an unrealistic pre-crisis expansion now causing a very high insolvency rate of 7.93 percent in 2012.

Forecast: Further increase in 2013 and 2014 expected

For 2013 Coface predicts a worsening situation. Insolvencies will rise in most countries of the CEE region – e. g. in Poland, where in 2013, the global crisis is expected to be felt to a much greater extent and also concludes in a higher level of insolvencies. Also in Bulgaria, where insolvencies almost tripled from 2011 to 2012, a further increase is expected and in countries such as Hungary, a rise in the number of insolvency procedures in 2013 cannot be ruled out.

Positive outlooks are hard to find in the region, but e. g. Latvia is one of the examples where the future development of the economy is assumed to be mainly positive.

About Coface

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