

# panorama

coface

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## STUDY ON THE EVOLUTION OF INSOLVENCIES IN ROMANIA - H1 2013



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## 1. SUMMARY

According to the final data published by BPI and based on Coface methodology, during the first quarter of the current year 12,739 new insolvencies were initiated, by approximately 10% less than during the same term of the previous year, when 14,218 new insolvency proceedings were initiated. The decreasing trend of the number of insolvencies is obvious; whereas the second quarter of 2013 recorded a number of 5,923 newly initiated insolvencies, which represents 16% less than during the same period of time of the previous year, and 13% less than during the first quarter of 2013.

By analyzing the evolution of the pending insolvency cases over the last 5 years, we notice a tendency of consolidating the degree of concentration of volumes in the first 3 and 5 sectors, respectively. Thus, the weight of the first 3 sectors which reported the highest number of pending insolvency files in absolute numbers varied during the last 5 years between 50% and 54%, and the first 5 sectors between 65% and 70%. These weights are not random and are determined by structural factors, such as the sector distribution of all active companies at national level. Thus, the first 5 sectors that register the highest number of insolvencies cover a similar weight also from the point of view of total active companies. Taking into consideration this structural factor, it is important to analyze the number of insolvencies based on the number of total active companies<sup>1</sup> in the relevant sector. From this point of view, the top 5 sectors with the highest level of insolvencies per 1,000 active companies are Constructions, HORECA, Transports, Recreational activities and Metallurgy Industry.

After 5 years of continuous increase of newly initiated insolvencies, the auspices of year 2013 announce a dual change: while the number of insolvencies newly initiated during the current year is estimated to decrease by approx. 10%, we can notice more medium and large companies that become insolvent. Thus, the number of companies with a turnover higher than EUR 1 MIL, which became insolvent during the first semester of 2013, is of 414 companies, almost two times higher than the one registered during the same period of the previous year. During the period of time prior to their insolvency, the insolvent companies of H1 2013 recorded financial indicators better than the financial results recorded by the insolvent companies of the last three-four years. This applies to all size categories of the insolvent companies and the trend shows an increasing systemic risk. Detailed information on this issue can be found at **"Financial and social dimension of the insolvent companies"** section. The data centralized by NBR concerning the unsettled payment instruments reported to CIP support these signals, whereas the number of payment instruments records a decrease, while the value of chargebacks as well as the average thereof reaches new maximum amounts, as we can see in the table below.

Total January - June	Total amounts refused for payment	No. of incidents	Average value per incident	CIP amounts % previous year	CIP number % previous year	CIP average % previous year
Year 2013	4,779,795	83,699	57.11	22%	-8%	32%
Year 2012	3,924,599	90,823	43.21	21%	-28%	69%
Year 2011	3,236,370	126,657	25.55	-33%	-32%	-1%
Year 2010	4,843,915	187,475	25.84	21%	-23%	57%
Year 2009	4,016,929	244,642	16.42	162%	129%	14%
Year 2008	1,534,158	106,921	14.35			

<sup>1</sup>The "Active companies" category only included the companies with a registered turnover > EUR 1,000/ month during 2011.

By analyzing the financial results recorded by the insolvent companies for the last four years, prior to their cease of business, we can notice that these did not face significant P&L problems: the turnover even recorded a slight increase, by approx. 9%, and the loss recorded during the entire analyzed term was a single digit one, and the indebtedness degree, although high, registered subunit values during the entire term, based on shy but positive capitalizations. However, the problems that caused the companies' insolvency are more obvious from the balance sheet point of view, whereas the business indicators depreciated (the turnover of inventories and receivables slowed down), the increase of the indebtedness degree was fueled by the contracted short-term financing lines for the long-term orientation thereof (thus failing to comply with the principle of maturities; permanent resources were used for permanent assignments). All these elements generated the extension of the funds conversion cycle, whereas the liquidity buffer estimated through the working capital registered significant decreases.

The conclusions reached based on the sample of companies individually analyzed by Coface during the first semester of the current year lead to the same signals. Thus, approximately two thirds of the companies individually analyzed by Coface show an extremely high or significantly above the average insolvency risk, while approximately half of the companies make their payments very slow. These conclusions are important, whereas the analyzed sample generates 48% of the turnover of all active companies in Romania. At the same time, by analyzing the companies verified by Coface both in 2012 and in 2013, we can notice:

- The decrease of the risk rating from 4.84, registered in 2012, to 4.42, registered in 2013, the trend showing an increased insolvency risk for the analyzed companies;
- The (average) decrease by 14% of the commercial credit limit for the analyzed companies;
- Both trends can be noticed for all size categories of analyzed companies, but mainly and more intensely at companies with a turnover that exceeds EUR 1 MIL;
- The number of companies downgraded<sup>2</sup> by Coface is by 67% higher than the number of upgraded companies<sup>3</sup>.

Thus, we consider that the numeric decrease of insolvencies newly initiated during 2013 becomes relevant only from a statistical point of view, whereas the main reason of concern consists of the insolvency faced by a record number of medium and large companies, the latter being able to generate a faster and harder to replace negative impact on the economy.

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<sup>2</sup>Downgrade: deterioration of the risk rating by including the subject company in a lower category

<sup>3</sup>Upgrade: improvement of the risk rating by including the subject company in a higher category

## 2. SECTOR AND TEMPORAL DISTRIBUTION OF INSOLVENT COMPANIES

Coface Romania has conducted a new study on the evolution of the number of insolvencies in Romania, this time taking into consideration the new cases registered with the Insolvency Procedures Bulletin (BPI) between January - June, 2013<sup>4</sup>.

According to the final data published by BPI and based on Coface methodology, during the first semester of the current year 12,739 new insolvencies were initiated, by approximately 10% less than during the same term of the previous year, when 14,218 new insolvency proceedings were initiated.

**Table 1. Monthly evolution of insolvencies newly initiated during the last 3 years**

Month	Year 2010	Year 2011	Year 2012	Year 2013 (H1)
January	1,897	1,709	2,159	2,094
February	1,903	1,849	2,420	2,417
March	1,887	2,160	2,560	2,305
April	1,506	1,847	2,340	2,556
May	1,544	2,097	2,396	1,793
June	1,880	2,127	2,343	1,574
July	852	811	1,322	Estimate H2 2013: 10,573*
August	575	658	1,007	
September	2,021	2,061	2,444	
October	1,932	2,202	2,724	
November	2,222	2,379	2,504	
December	1,431	1,599	1,623	
<b>TOTAL Annual (2013 extrapolated)*</b>	19,650	21,499	25,842	23,312
<b>TOTAL Semester I</b>	<b>10,617</b>	<b>11,789</b>	<b>14,218</b>	<b>12,739</b>
<b>Deviation Semester I</b>		<b>11%</b>	<b>21%</b>	<b>-10%</b>

\*The extrapolation multiplier was determined as average of the ratio between Total Insolvencies Semester II/ Total Insolvencies Semester I related to the term 2010-2012, namely 0.83. The decreased number of insolvencies of Semester II is due to the seasonal trend of the set of data, marked by the summer judicial vacation.

Source: BPI, Data processed by Coface

Hereinafter we will correlate the data provided by BPI with the financial statements submitted by the companies which became insolvent with MoF in order to understand the structural elements which caused the cease of these companies' activity.

<sup>4</sup>See Methodology Remarks on page 20

By comparing the data provided by BPI with the ones published by MFP we can notice a gradual increase of the transparency degree recorded by the companies which became insolvent. Thus, if less than 40% of the companies which became insolvent in 2010 and 2011, respectively, submitted their financial statements with MoF, this indicator increased to approximately 47% for the companies which became insolvent in 2012 and to 49% for the first semester of the current year. Thus, we can appreciate that, in average, one of two companies that became insolvent submits the financial statements during the year prior to the insolvency initiation.

**Table 2. Insolvent companies – financial statements**

Total insolvencies 2013 (Semester I)	12,739
of which submitted statements with MoF	6,279
Percentage	49.29%
Total insolvencies 2012 (current figures)	25,842
of which submitted statements with MoF	12,021
Percentage	46.52%
Total insolvencies 2011	21,499
of which submitted statements with MoF	8,153
Percentage	37.92%
Total insolvencies 2010	19,650
of which submitted statements with MoF	7,902
Percentage	40.21%

*Source: MoF, BPI*

Based on the financial statements submitted during the year prior to the insolvency initiation and depending on the main scope of business set out by NACE code, Coface distributed the companies that became insolvent to the 23 most important business sectors, the figures being shown in the following table.

**Table 3. Sector distribution of insolvencies for the last 2 years\***

Business sector	Insolvencies 2013_H1	2013 H1_%	Insolvencies 2012	Insolvencies for every 1,000 companies
Retail trade	2,741	22%	5,890	43
Wholesale trade and distribution	2,094	16%	4,178	46
Constructions	1,867	15%	3,716	68
Other services, provided mainly to enterprises	964	8%	1,889	29

Transportation	931	7%	1,676	58
Hotels and restaurants	917	7%	1,837	61
Manufacture of wood and wooden products	485	4%	973	52
Agriculture	381	3%	686	36
Manufacture of textile products, clothing and footwear	363	3%	837	41
Food and beverage industry	325	3%	665	42
Metallurgic industry	312	2%	578	53
Real estate transactions	231	2%	543	52
Other personal services	227	2%	416	35
IT	146	1%	322	19
Recreational, cultural and sports activities	130	1%	270	55
Manufacture of machinery and equipment	128	1%	308	29
Manufacture of chemical substances and products	118	1%	223	43
Financial intermediations	116	1%	291	30
Sewage and waste disposal, sanitation and similar activities	83	1%	190	35
Post and telecommunications	67	1%	96	35
Extractive industry	53	0%	103	43
Manufacture and provision of electrical and thermal energy, water and gas	32	0%	45	47
Health care and social security	28	0%	110	6
<b>Total</b>	<b>12,739</b>	<b>100%</b>	<b>25,842</b>	<b>44</b>

\*Through the linear extrapolation of the companies that submitted their financial statements with MoF on the year prior to the insolvency initiation, the first ten sectors that record the highest number of insolvencies per 1,000 active companies (and which record a turnover above EUR 1,000/month) were highlighted in red.

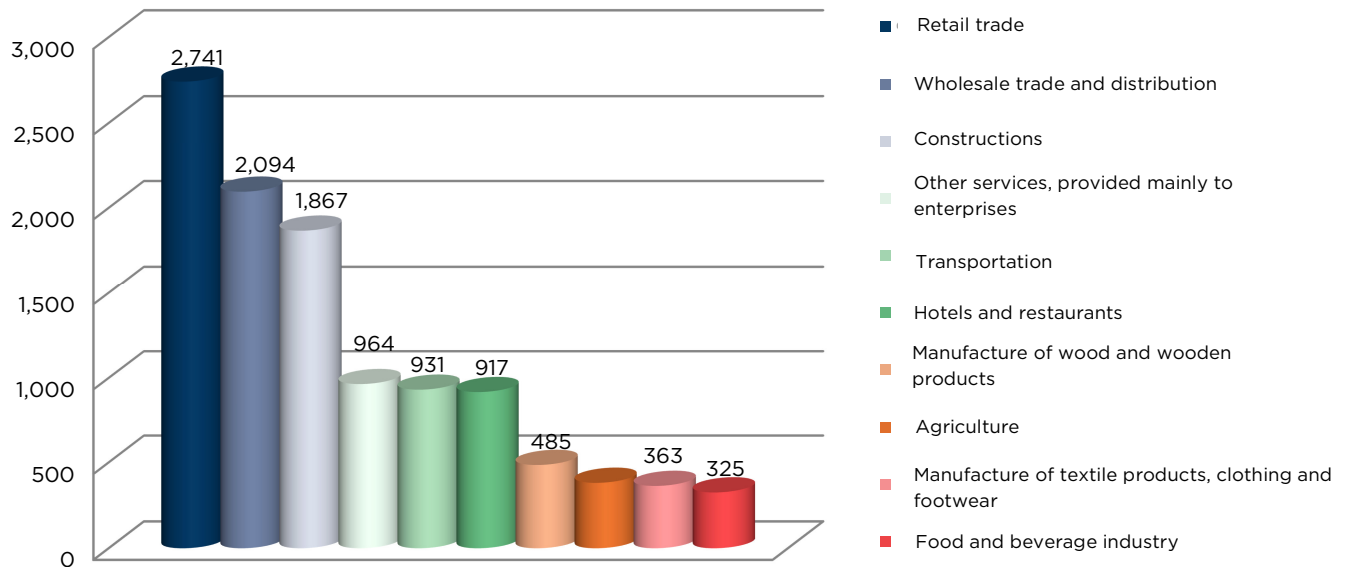
Source: BPI, MoF

Even if we do not possess the information regarding the main business for all companies which became insolvent during the analyzed period<sup>5</sup>, there are two reasons based on which we estimate that the sector distribution at the level of the entire portfolio is similar to the one analyzed for the sample above, namely:

- The weight of the sample is significant from a statistical point of view for both years.
- The weights of the sector distribution within the sample show values similar to the weights of the distribution at the level of the entire portfolio recorded in the studies conducted by Coface for the last three years.

<sup>5</sup>Such data can be computed for approximately half of the insolvent companies.

### TOP 10 SECTORS BASED ON THE NUMBER OF INSOLVENCIES DURING H1\_2013



Source: BPI, MoF, Data processed by Coface

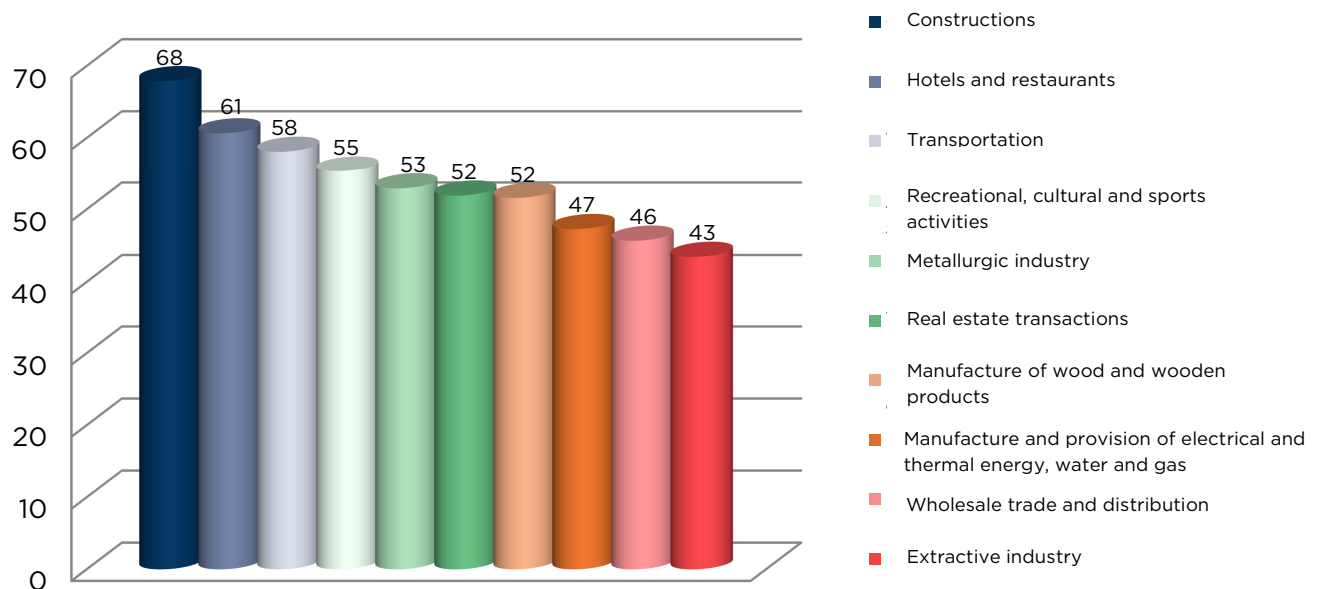
For the third consecutive year, the first ten sectors which report the highest number of insolvent companies are unchanged, as the only modifications relate to the order in the standings, but with variations of one, maximum two positions.

By analyzing the evolution of the pending insolvency cases over the last 5 years, we notice a tendency of consolidating the degree of concentration of volumes in the first 3 and 5 sectors, respectively. Thus, the weight of the first 3 sectors which reported the highest number of pending insolvency files in absolute numbers varied during the last 5 years between 50% and 54%, and the first 5 sectors between 65% and 70%.

These weights are not random and are determined by structural factors, such as the sector distribution of all active companies at national level. Thus, the first 5 sectors that register the highest number of insolvencies cover a similar weight also from the point of view of total active companies. Taking into consideration this structural factor, it is important to analyze the number of insolvencies based on the number of total active companies<sup>6</sup> in the relevant sector. Thus, the first ten sectors that register the highest values related to this indicator are mentioned in the following chart. Constructions, HORECA, Transports, Recreational activities and the Metallurgic Industry are the sectors with the highest level of insolvencies initiated during the first semester of the current year, based on the number of active companies at the end of 2012. It should be noted that the same sectors were also included in the top 5 sectors with the highest value of this indicator in 2012, which shows the persistence of certain systemic structural issues.

<sup>6</sup>The "Active companies" category only included the companies with a registered turnover > EUR 1,000/ month during 2011.

### TOP 10 SECTORS BASED ON THE NUMBER OF INSOLVENCIES DURING H1\_2013



Source: BPI, MoF, Data processed by Coface

### 3. FINANCIAL AND SOCIAL DIMENSION OF INSOLVENT COMPANIES

In this section we analyzed the companies for which the insolvency procedure was initiated during the first semester of the last four years, based on the financial statements submitted with MFP one year before the triggering of insolvencies.

Thus, the most important financial indicators for companies that became insolvent during the analyzed periods of time are computed in the table below.

**Table 4. Financial indicators for the insolvent companies in H1 during the last four years**

Indicator	Insolvencies H1_2013	Insolvencies H1_2012	Insolvencies H1_2011	Insolvencies H1_2010
Average turnover (RON)	2,329,341	1,401,040	1,108,957	1,552,447
Average Number of Employees	9.15	8.84	8.51	10.54
Net Loss % (of the turnover)	-7.59%	-22.77%	-19.53%	-22.12%
Indebtedness level	96.51%	103.00%	112.77%	99.65%
Debts / Turnover	107.37%	178.59%	195.84%	148.32%
DSO (number of days)	139.20	138.70	172.62	172.62

Source: Data processed by Coface



Based on the financial information submitted with MoF for the activity carried out during the year prior to the insolvency initiation, we can notice as follows:

- The average value of the turnover obtained by the companies which became insolvent during the first semester of 2013, further to the activity carried out during the year prior to the one when the company became insolvent, is almost two times higher than the one of the companies which became insolvent during the same period of time of the previous year.
- The social dimension of the companies which became insolvent during the first semester of 2013 is significantly higher than that of the insolvent companies of the previous year, these registering an average of 9.15 employees.
- At the same time, the average debts registered by insolvent companies during the first semester of 2013 only amounted to RON 2.5 mil. /company, an ascending trend compared to the level registered by companies which became insolvent during the similar period of time of the previous years (RON 1.9 mil / company in H1 2011 and RON 2.3 mil /company in H1 2012, respectively).
- Even if from a numerical point of view the weight of medium, large and very large enterprises accounted for only 3% - 4% of the total number of companies which became insolvent during the first semester of the last 3 years, the weight of the turnover recorded by them in the total turnover rose significantly, from 32% in 2011 and 48% in 2012 to 59% in 2013.
- The same trend can be noticed also for the weight of debts depending on the size category of insolvent companies. Thus, the weight of debts recorded by medium, large and very large enterprises rose constantly in the last three years, from 30% in 2011 to 49% in 2013

As we can see in the table above, most financial indicators related to the companies which became insolvent during the first semester of 2013 are better than those computed for the companies which became insolvent during the same period of time of the last three years. This can be caused by the increasing weight of large and very large insolvent companies, because these already reached maturity in the context of an extended term of business (the average term of operation of these companies exceeds 10 years). Thus, we can notice a significant increase of the financial scale of the companies which became insolvent during the first semester of the current year compared to the same period of the previous year, which generated the increase of the turnover and debts of insolvent companies, but at the same time the average decrease of the loss and indebtedness ratio and of the duration of receivables collection.

Taking in consideration the significant impact of large and very large companies on the consolidated financial indicators for the analyzed sample, it is important to determine these indicators solely for SMEs (including micro-enterprises). The related figures are computed again in the table below, and are able to confirm the above mentioned structural issue, namely that more and larger companies become insolvent. This applies to all size categories and can signal an increasing systemic risk.

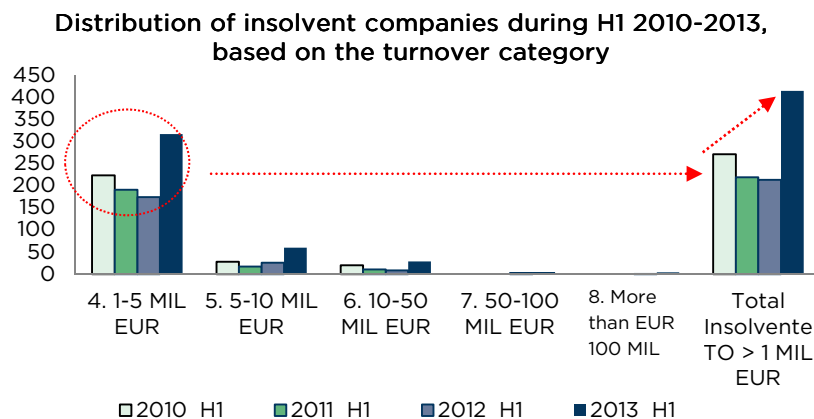
**Table 5. Financial indicators for the insolvent SMEs in H1 during the last four years**

Indicator	Insolvencies H1_2013	Insolvencies H1_2012	Insolvencies H1_2011	Insolvencies H1_2010
Average turnover (RON)	1,662,050	692,693	1,013,923	1,390,326
Average No. of Employees	7.47	4.95	7.14	8.75
Net Loss % (of the turnover)	-6.54%	-29.75%	-19.97%	-18.98%
Indebtedness level	93.32%	114.70%	108.54%	100.12%
Debts / Turnover	123.55%	217.31%	193.23%	150.37%
DSO (number of days)	158.78	218.30	223.67	183.50

\*Including Microenterprises

In the context of the financing restrictions that persisted for the last 3-4 years, and which were more acute for the SMEs, the large and very large companies progressively played a more and more significant "commercial bank" role for their customers, by preferring to accept extended collection terms. Thus, during the last years the SMEs transferred a significant part of the banking credit to the commercial one (supplier's credit), and this intensified the relations between private companies, which started to show a significant financial form, not a merely commercial one. Based on these structural economy changes, the effect of contagion and propagation of negative shocks is much faster nowadays. Furthermore, the insolvency initiation phenomenon of a higher number of large and very large companies, announced by Coface in its recent survey on the dynamics of the first quarter of the current year, is perpetuated and even accelerated at the level of the first semester.

Based on the erosion of sustainability and self-financing capacity, as a consequence of the effects of the financial crisis of the last three years, as well as on the degradation of payment discipline at the entire economy level, the large and very large companies start to show a higher sensitivity to external or internal shock exposure, where the liquidity-related pressure is increasing. This can be noticed in the graphic displays below, where one can notice that the number of companies with a turnover higher than EUR 1 million, which became insolvent during the first semester of the current year, is of 414 companies, almost two times higher than the one registered during the same period of the previous year.



Source: BPI, Data processed by Coface

**Table 6. Companies which became insolvent in semester I, 2010 - 2013**

Turnover Category	2010 H1	2011 H1	2012 H1	2013 H1
EUR 1-5 MIL	223	191	174	316
EUR 5-10 MIL	28	17	26	60
EUR 10-50 MIL	20	11	9	29
EUR 50-100 MIL			3	5
More than 100 MIL EUR			1	4
Total Insolvencies TO > 1 MIL EUR	271	219	213	414

*Source: BPI, Data processed by Coface*

The conclusions obtained from the analysis of the sample of companies which became insolvent during the current year are confirmed by the tendencies noticed at national level. The increased number of medium, large and very large companies which became insolvent determined the increase of the average value of payment incidents reported to CIP, based on an increased value of incidents and a decreased number of chargebacks (the large and very large companies may register a lower number of transactions, but with a much higher average value than the rest of the companies).

Also, according to the data published by CIP<sup>7</sup>, the amounts refused for payment with debit instruments during the first 6 months of the current year had a total worth of RON 4.7 BILLION, by 22% higher compared to the same period of the previous year. While the number of payment incidents during the same analyzed term decreased by 8%, the average value of payment incidents increased by 32%. Thus, the average payment incidents registered between January - June, 2013 amounted to RON 57.11 K, compared to the level registered during the same term of the previous year, namely RON 43 K.

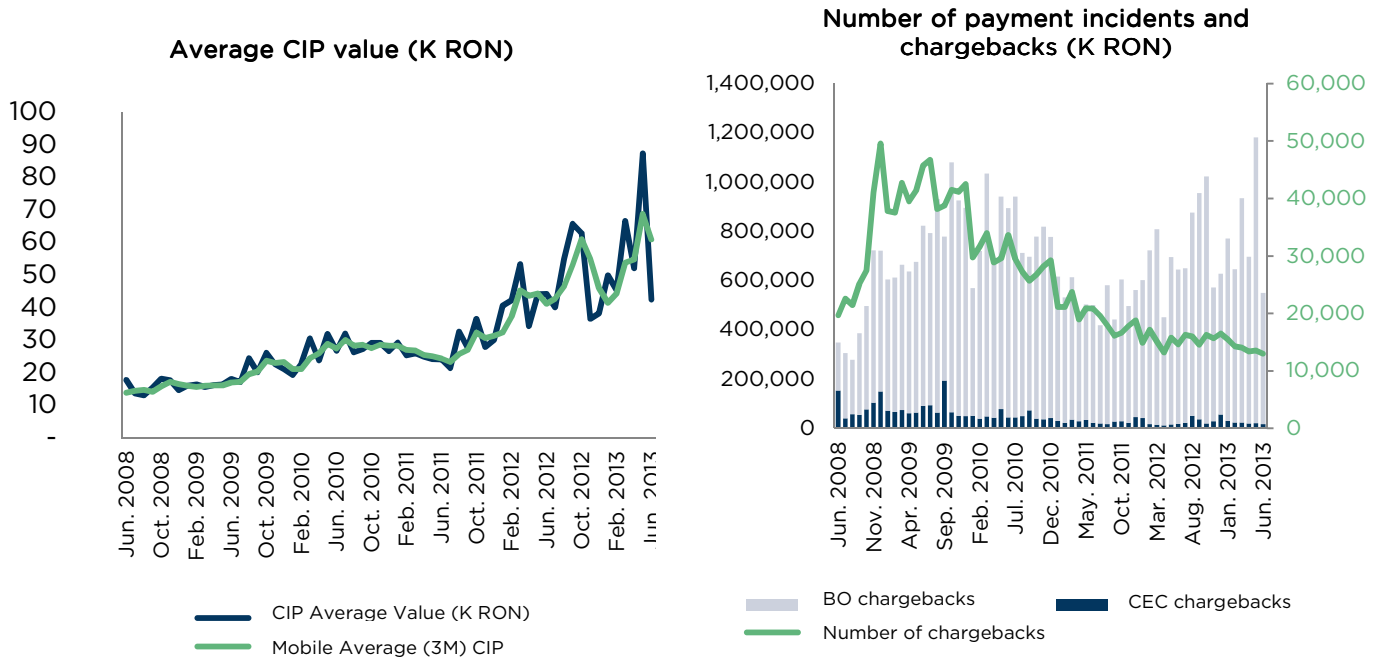
**Table 7. Evolution of payment incidents reported by NBR**

Total January - June	Total amounts refused for payment	Number of incidents	Average value per incident	CIP amounts % previous year	CIP number % previous year	CIP average % previous year
Year 2013	4,779,795	83,699	57.11	22%	-8%	32%
Year 2012	3,924,599	90,823	43.21	21%	-28%	69%
Year 2011	3,236,370	126,657	25.55	-33%	-32%	-1%
Year 2010	4,843,915	187,475	25.84	21%	-23%	57%
Year 2009	4,016,929	244,642	16.42	162%	129%	14%
Year 2008	1,534,158	106,921	14.35			

*Source: NBR (CIP), The amounts are expressed in K RON*

<sup>7</sup>Payments Incidents Register, NBR

In line with the extension of the receivables collection term from economy, the tendency may indicate a deterioration of the payment behavior regarding the observance of debit instruments, which might cause the companies to require the partial or full payment in advance in order to protect themselves against the commercial credit risk.



Source: NBR, data processed by Coface

#### 4. EVOLUTION IN TIME OF INSOLVENT COMPANIES

During the first semester of the current year Coface Romania CMS individually analyzed, upon the request of the business partners or in order to monitor the direct exposures within the Insurance division, a number of 20,943 companies, with a total turnover of EUR 109 BLN, representing approximately 48% of the turnover of all active companies at national level. By analyzing the distribution of companies per risk areas, we can notice as follows:

- 15% of the analyzed companies belong to the NIGA risk zone (Non-Investment Grade Aggravated), namely a category regarding which Coface does not recommend a credit limit due to the extremely high insolvency risk.
- 50% of the analyzed companies belong to the NIG risk zone (Non-Investment Grade), the insolvency risk of these companies being above the average.
- Only 25% of the companies belong to the IG risk zone (Investment Grade), category regarding which the insolvency risk is considered low.

- The remainder of 10% consist of companies that, on the moment when the analyze was performed, had either a filed insolvency claim filed and pending with the courts of law (in which case Coface provisionally suspends the rating and the limit recommendation and the issuance of the final decision) or an already opened insolvency proceeding (in which case the rating is 0, because the risk is already materialized).

In the punctual credit report Coface also includes an indicator on the payment behavior of the subject company. **The regime of payments** is an indicator that directly influences the maximum exposure<sup>8</sup> recommended by Coface and indirectly influences the risk category to which the subject company belongs.

The most frequent observations mentioned at Regime of Payments section, in addition to CIP interrogation (Payment incidents) and debts to the State Budget:

- The financial indicators (indebtedness degree, immediate and current liquidity, solvency, payment days, working capital);
- The collection cases;
- The insolvency applications.

**Table 8. Meaning of the code in Coface regime of payments**

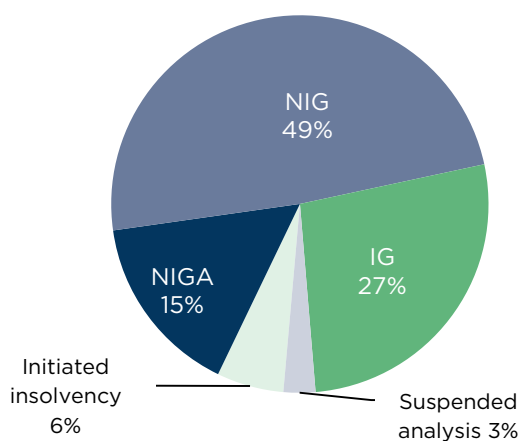
Code	Meaning
0	No relevant payment information available.
1	No available information concerning payment incidents.
12	Based on the current status of the company, at this moment Coface Central Europe cannot provide a final estimation on the payment behavior thereof.
14	Based on the available information, at this moment Coface Central Europe cannot provide a final estimation on the payment behavior thereof.
15	Due to the insolvency/ registered debt collection information, the payment regime cannot be assessed at this moment.
100	The payments are made with extreme precision.
200	The payments are made regularly.
300	The payments are made in compliance with the agreed conditions.
<b>400</b>	<b>The payments are not made regularly.</b>
<b>450</b>	<b>The payments are made slowly.</b>
<b>500</b>	<b>The payments are made extremely slow.</b>
<b>550</b>	<b>The payments are made extremely hard, legal proceedings are required on a regular basis.</b>
<b>600</b>	<b>The payments ceased.</b>

<sup>8</sup>The upper credit limit acceptable for a supplier or service provider with payment within an average 60-day term (It is considered that the subject company has an average number of 5 suppliers/providers that deliver goods or provide services at the same time).

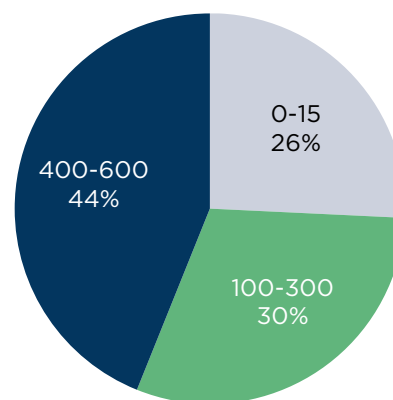
By analyzing the distribution of companies verified by Coface during the first semester of the current year based on the payment behavior, we can notice as follows:

- No rating can be issued for 26% (due to the reasons mentioned in table 9, codes 0-15);
- 44% of the companies fail to make payments on a regular basis;
- 30% of the companies make payments regularly and in compliance with the agreed conditions.

**Distribution of companies analyzed by Coface, based on risk categories**



**Distribution of companies analyzed by Coface, based on payments system**



*Source: Internal Coface data*

As a first conclusion based on the sample of companies analyzed by Coface during the first semester of the current year, we can find that approximately two thirds of the companies show an extremely high or significantly above the average insolvency risk, while approximately half of the companies record extremely slow payments. These conclusions are important, whereas the analyzed sample generates 48% of the turnover of all active companies in Romania.

Whereas most information in this survey show a depreciation signal concerning the companies' payment behavior in general, and of the medium, large and very large companies in particular, we will further focus on the internal data held by Coface and which refer to this segment of companies.

Thus, table 10 shows the companies analyzed by Coface during the first half of year 2013, as well as during year 2012, the distribution of the average rating and recommended credit limits, this being based on various size categories. By analyzing such data we notice that:

- The higher the turnover amount of the analyzed companies, the lower marginal insolvency risk. Despite this, the average rating for all size categories classify the analyzed companies in the category of significantly above the average insolvency risk (NIG, rating 4 or 5).
- All risk categories register an increase of the average insolvency risk, where the largest decrease of the average rating is registered for the companies with a turnover that exceeds EUR 1 MIL.
- At the end of 2012 the companies with a turnover higher than EUR 50 MIL EUR were classified at the lower edge of the IG risk zone, while at the end of the first semester of the current year these were classified at the upper edge of the NIG risk zone.
- All risk categories register a decrease of the average value of the credit limit recommended by Coface, with significant decreases registered mainly for companies with a turnover that exceeds EUR 1 MIL.

**Table 9. Distribution of companies analyzed by Coface based on size category**

Turnover category EUR	Average turnover (EUR)	Average @rating 2013	Average @rating 2012	Average MaxCredit 2013 (EUR)	Average MaxCredit 2013 (EUR)	Deviation MaxCredit 13/12
1. BELOW EUR 0.5 MIL	167,743	3.86	3.98	3,030	3,321	-9%
2. EUR 0.5-1 MIL	712,912	4.86	4.96	15,457	16,012	-3%
3. EUR 1-5 MIL	2,236,195	5.05	5.40	49,949	58,624	-15%
4. EUR 5-10 MIL	6,963,844	5.25	5.60	153,333	185,214	-17%
5. EUR 10-50 MIL	20,883,304	5.40	5.89	435,694	465,694	-6%
6. EUR 50-100 MIL	68,264,198	5.69	6.05	1,181,857	1,281,857	-8%
7. MORE THAN EUR 100 MIL	321,435,328	5.79	6.15	1,417,774	1,617,774	-12%
<b>Grand Total</b>	<b>5,107,040</b>	<b>4.42</b>	<b>4.84</b>	<b>63,245</b>	<b>73,245</b>	<b>-14%</b>

Out of the 20,943 companies analyzed by Coface during the first semester of the current year, a number of 11,781 were also analyzed during 2012. Even though these companies only represent 56% of the total number of companies analyzed in H1 2013, these generate a value weight (turnover) of approximately 90%, and consequently we can consider that the most representative companies were analyzed during both considered periods of time. Furthermore, the 11,781 companies generate an overall turnover of EUR 95 BLN, representing approximately 42% of the turnover recorded by all active companies in Romania.

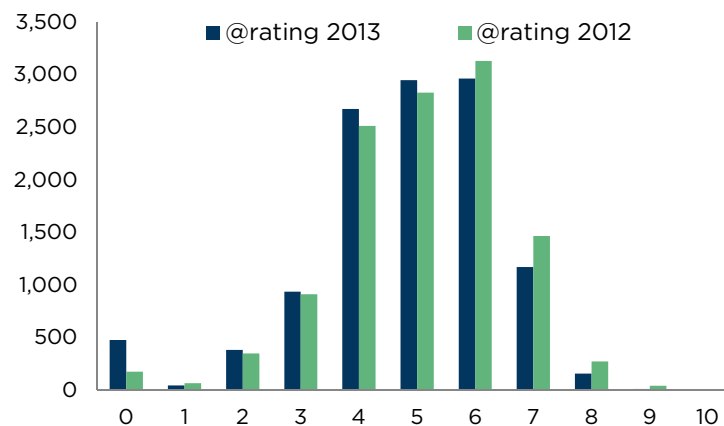
The information related to this sample are extremely important, because we can draw conclusions on the migration of companies from one risk category to another, for the period of time 2012-2013, for approximately 42% of the domestic economy. By analyzing the data of table 10 and also illustrated in the chart below, we can notice that the number of companies classified in the low insolvency risk categories decreased (the total deviation for 6-10 categories being of -617 companies), while the

number of companies classified in the high insolvency risk categories increased (+617 companies for the total of 0-5 categories).

**Table 10. Distribution @rating 2012-2013**

Risk class	@rating 2013	@rating 2012	Deviation 2013-2012
0	478	178	300
1	48	69	-21
2	383	350	33
3	938	915	23
4	2,675	2,513	162
5	2,950	2,830	120
6	2,963	3,133	-170
7	1,172	1,467	-295
8	159	276	-117
9	14	45	-31
10	1	5	-4
<b>Total</b>	<b>11,781</b>	<b>11,781</b>	

**Distribution @rating 2012-2013**

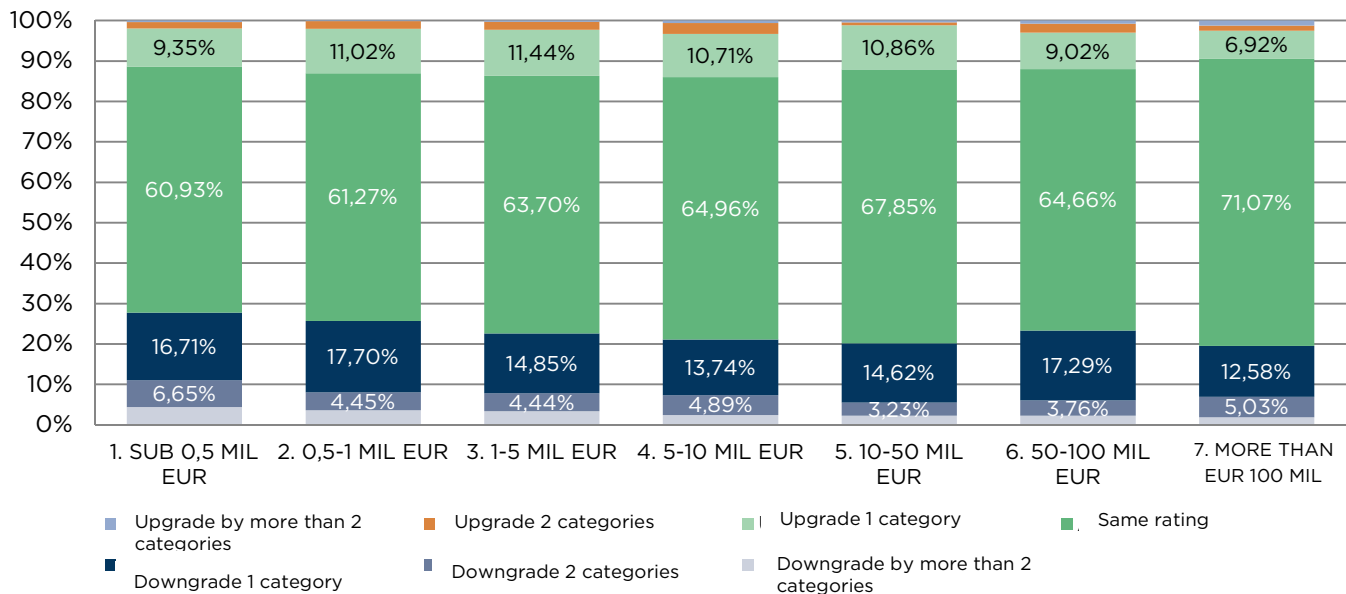


*Source: Internal Coface data*

Thus, by analyzing the distribution of companies in 2012 and 2013 per risk categories, we can notice the generalized downgrade phenomenon, which in most cases is equivalent with a decrease of the recommended commercial credit limit. In order to better understand this phenomenon and the impact on companies of various sizes, the chart below illustrates all 11,781 companies analyzed in 2012, as well as during the first semester of 2013, depending on the severity of the downgrade/upgrade and size of the companies. Thus, for all size categories, we can notice that the weight of downgraded companies shows an average of 25%, two times higher than the weight of upgraded companies, namely 12%.



Companies' migration per risk categories, depending on the turnover





However, as previously mentioned in this survey, the first semester of the current year registers a record number of insolvencies within companies with a turnover that exceeds EUR 1 MIL. Thus, it is important to further analyze the migration of companies from one risk category to another, within this segment.

To this end, the companies with a turnover that exceeds EUR 1 MIL analyzed by Coface during 2012 and the first semester of the current year were extracted. This generated a sample of 5,395 companies, with an average turnover of EUR 17.2 MIL and which represent 41% of the turnover of all active companies in Romania. The figures are set out in detail in the tables below.

Table 11. Migration per risk categories of the companies with a turnover > EUR 1 MIL

	The risk matrix	@rating Companies assessed during H1 2013 with a turnover > EUR 1 MIL												
		0	1	2	3	4	5	6	7	8	9	10	Total	
@rating Companies assessed during 2012 with a turnover > EUR 1 MIL	0	70				1	1	2					74	
	1	1	4	3	3								11	
	2	12	4	41	13	16	7	2					95	
	3	13	2	20	121	68	20	4	1				249	
	4	28	2	31	89	546	140	40	4				880	
	5	28		6	22	162	682	199	13				1,112	
	6	9		4	26	81	231	1160	149	6			1,666	
	7	6			4	16	52	212	739	22	1		1,052	
	8					3	4	22	66	123	1		219	
	9				1	1		6	10	4	12		34	
	10						1	1				1	3	
		NO. INFO	95	2	36	96	263	251	328	151	11			1,233
		<b>Total</b>	<b>262</b>	<b>14</b>	<b>141</b>	<b>375</b>	<b>1,157</b>	<b>1,389</b>	<b>1,976</b>	<b>1,133</b>	<b>166</b>	<b>14</b>	<b>1</b>	<b>6,628</b>

	Number of companies	Average turnover EUR MIL
<b>Total companies analyzed during both 2011 - 2012</b>	<b>5,395</b>	<b>17.20</b>
and that represent <b>41%</b> of the turnover sum of all active companies on 31.12.2012, namely EUR 93 BLN, out of a total of EUR 226 BLN		
out of which:		
	@identical rating	3,499 19.20
	Downgrade 1 class	789 15.00
	Downgrade 2 classes	232 10.00
	Downgrade more than 2 classes	159 34.00
	Upgrade 1 class	595 13.00
	Upgrade 2 classes	99 13.50
	Upgrade more than 2 classes	22 9.00

We can notice that the problems previously referenced in this survey through the record number of insolvencies concerning the companies with a turnover that exceeds EUR 1 MIL are confirmed through the analysis of the sample of companies verified by Coface during 2012 and during the first half of the current year, respectively.

Thus, the number of companies downgraded by Coface from within this segment of companies is by 64% higher than the number of upgraded companies, and the average turnover of the first is considerably higher!

## 5. TERRITORIAL DISTRIBUTION OF INSOLVENT COMPANIES

The territorial distribution of insolvency cases registered during the first semester of the current year did not register significant changes compared to the circumstances of the same period of the previous year. Thus, the most affected three regions based on the number of insolvencies registered during the current year were S-E, S and N-W, respectively, which concentrate almost half of the overall insolvencies registered during the analyzed term.

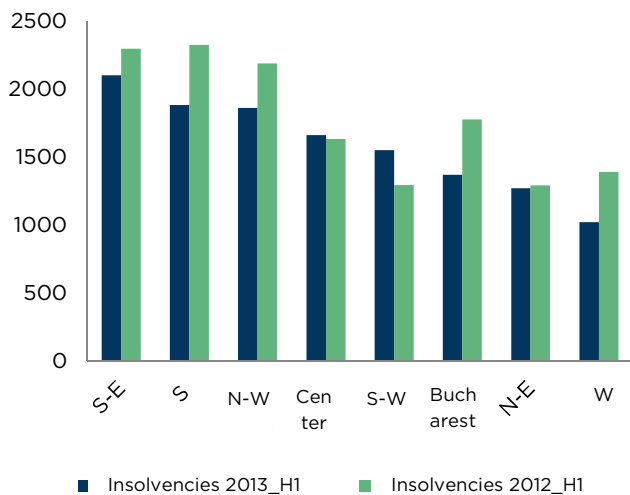
The only region where the number of insolvencies registered during the first semester of the current year increased, compared to the same period of time of the previous year, is the S-W, while the Center region shows certain stabilization. The other regions registered a decreased number of insolvencies, compared to the first semester of the current year, with the highest decrease, of 26%, registered in the W region. It is worth mentioning that the W region registers two times less insolvency proceedings than the S-E region, while the number of active companies in both regions is similar.

Table 12. Regional distribution of insolvent companies

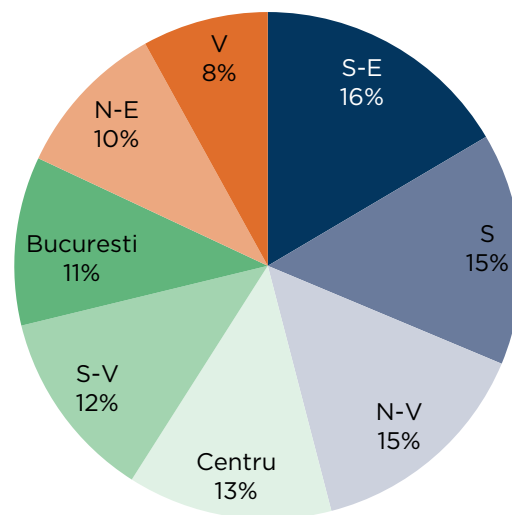
Region	Insolvencies 2013_H1	Weight H1_2013	Insolvencies 2012_H1	Deviation 2013-2012
S-E	2,104	16.52%	2,300	-8.52%
S	1,885	14.80%	2,328	-19.03%
N-W	1,865	14.64%	2,191	-14.88%
Center	1,664	13.06%	1,635	1.77%
N-E	1,553	12.19%	1,296	19.83%
S-W	1,371	10.76%	1,780	-22.98%
Bucharest	1,273	9.99%	1,294	-1.62%
W	1,024	8.04%	1,394	-26.54%
<b>TOTAL</b>	<b>6,381</b>	<b>100.00%</b>	<b>7,139</b>	<b>-10.62%</b>

Source: BPI, Data processed by Coface

Regional distribution of insolvency cases recorded during H1 2013



Insolvencies 2013\_H1



Source: BPI, Data processed by Coface

## 6. METHODOLOGY REMARKS

In this study we took into account the insolvencies newly initiated in each of the analyzed periods (Semester 1 for the past 4 years), based on the data published by BPI (Bulletin of Insolvency Procedures).

For instance, all companies with insolvency procedures initiated between January - June, 2013 (according to BPI) and which are not registered as operating on July 31, 2013<sup>9</sup> (according to ONRC) were considered as insolvencies newly initiated during the first semester of the current year. A one month difference (July, 2013) was allowed for data centralization and enabled the processing of most data registered in ONRC statistics with a certain delay from the publication thereof in BPI.

The analysis of financial indicators for the companies taken into account was exclusively based on the financial statements submitted with MoF during the analyzed period and on the data processed by Coface.

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<sup>9</sup>We only took into account the companies subject to Law 85/2006 whose status is Bankrupt/ Insolvent/ Erased (according to ONRC). We did not take into account the companies subject to Law 359/2004 or 31/1990, neither the companies which were still undergoing reorganization on 31.05.2013.

## Note

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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-to-blue gradient.