

# Romania: Increase in insolvency of high-impact companies



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**CITR Romania report the number of high-impact companies in Romania initiating insolvency proceedings was double in the first half of the year compared to the same period in 2023. Causes are decreasing sales and increasing debts:**

- More than 3,600 companies have initiated insolvency proceedings in the first half of 2024, while 72 are high-impact companies, with assets of over EUR 1 million, compared to 33 in the same period last year.
- 71 applications for initiating proceedings of arrangement with creditors were registered in the first half of the year, out of which 33 are in progress, while 19 were filed by high-impact companies, five more than in the entire 2023 year.

The number of companies which initiated insolvency proceedings in the first half of the year increased to over 3,600, compared to 3,401 in the first six months of 2023.

Out of these, 72 are high-impact companies, with assets of over EUR 1 million, compared to only 33 in the same period of last year.

Regarding the number of restructuring applications via proceedings of arrangement with creditors, there were 71 applications in the first six months of the year, out of which 33 are in progress. 19 applications were filed by high-impact companies. There is no visibility in the market on the restructuring agreement, as this is a confidential procedure.

It is important to understand that these high-impact companies are major contributors to our economy, and in order to help them, we must learn why they are in difficulty, and we need to make sure that both the mechanisms, and the mentality with which we approach them are adequate. The CITR team has identified five

main factors which have caused their decline, namely liquidity problems and increasing operational costs, which caused increasing debts, decreasing demand and sales, and unprofitable management decisions.

## Why did high-impact companies initiate insolvency proceedings in the first half of the year?

The conclusions below are the result of an analysis of the financial and operational problems which companies with assets over EUR 1 million from various sectors of Romanian economy have faced:

- 1. Liquidity problems:** Most companies have initiated insolvency proceedings because of liquidity problems. In particular, small and medium enterprises have faced difficulties in managing cash flows and could not comply with their short-term financial obligations.
- 2. Increasing operational costs:** Increasing costs of raw materials and energy have significantly affected the profit margins of companies and caused them to no longer be able to pay their creditors. The most affected sectors were production and construction.
- 3. Accumulated debts:** The accumulation of long-term debts and the inability to efficiently restructure them has represented another major factor. Numerous companies have not managed to renegotiate their payment terms or to obtain additional funding in order to support their activity.
- 4. Decreasing sales and demand:** Decreasing demand on the national and international markets has led to a significant reduction of

revenues for some companies, especially in the trade area. This has been aggravated by inflation and general economic uncertainty.

- 5. Management decisions:** Inadequate management decisions and the absence of a robust business plan have also been factors contributing to the insolvency of some companies. The absence of a clear strategy for managing crises and for preventing the materialization of risks was obvious in many of the analyzed cases.

In the following period, we will probably see a continuous increase in the number of restructuring measures, considering the resuming of the economic and regulatory context prior to the pandemic. Accessing restructuring facilities in due time is the difference between successful processes and those which unfortunately are implemented too late.

## Which were the most affected business sector in January-June 2024?

CITR has conducted a sectorial analysis of all the companies which initiated insolvency proceedings in the first half of this year, which provides insight into the challenges from each field and supports companies in implementing adequate restructuring strategies.

- 1. Wholesale and retail:** 26% of all the insolvencies was represented by the trade sector, affected by changes in consumer behavior, influenced by inflation and the increase of living costs. The reduction of the purchasing power caused a decrease in sales and, implicitly, forced many businesses to initiate insolvency proceedings.



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2. **Construction:** 20% of all the insolvencies was represented by the construction sector; which faced significant price increases for materials and difficulties in accessing funding. Economic uncertainty and delays in infrastructure projects also contributed to the instability from this field.
3. **Processing industry:** 12% of all the insolvencies was represented by companies from this industry, affected by supply chain problems and increases in production costs. Also, fast technological changes and the need to adapt put additional pressure on the companies from this sector.
4. **Transportation and storage:** 10% of all the insolvencies was represented by the transportation and storage sector, which were affected by the effects of fuel price increases and the global situation of the logistics sector. The decrease of the transportation volume and the increase of operational costs led to an increase in the number of insolvencies.
5. **Hotels and restaurants:** 7% of all the insolvencies was represented by the hospitality industry, which continues to be affected by economic uncertainty and post-pandemic changes in consumer behavior. The

increase of operating costs and qualified personnel shortages were determining factors of the increase in the number of insolvencies in this sector.

### What will the economic evolution be in the next half-year?

The macroeconomic evolution will be good in the next 6-12 months; we expect reasonable economic growth - more than 3%, a continuously decreasing inflation rate, towards the interval targeted by NBR, decreasing interest rates and the stability of the exchange rate against the background of continuing the inflow of European funds and foreign investments. Thus, we do not expect systemic events, such as recessions or crises, neither on a general level, nor on the level of most economic sectors.

The main difficulties of companies will be caused by low capitalization, because of limited resources of shareholders, the absence of an adequate legal framework, and the absence of a pro-business approach of the regulatory authority regarding equity financial brokering. Consequently, these will be affected by two deficiencies – the absence of own development resources and the impossibility of accessing banking funding, because of high indebtedness. An option may be channeling the

available financial resources (e.g., from pension funds) towards areas with high demand and profitability, such as Romanian industrial companies.

### Arrangement with creditors, an increasingly popular solution for companies in difficulty

In the first half of the year, there were 71 applications for initiating proceedings of arrangements with creditors, out of which 33 are in progress. 19 of these are high-impact companies, five more than in the entire year 2023.

The cumulative turnover of the companies which used arrangements with creditors is €408,729,900, while their non-current assets are worth €118,765,815. Moreover, their total number of employees is 4,481.

The first five counties in the country by number of proceedings of arrangement with creditors are: Bucharest and Dolj with 8 proceedings, Cluj and Mureş with 5 proceedings and Ilfov with 3 proceedings. ■



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