PRESS RELEASE

CEE COMPANY INSOLVENCIES ON THE RISE

- **Corporate insolvencies in Central & Eastern Europe (CEE) increased in 2021, almost reaching pre-pandemic levels in most countries, after a drop of proceedings in 2020.**
- **Seven countries experienced a higher number of insolvencies (Bulgaria, Czech Republic, Hungary, Lithuania, Poland, Romania and Slovakia), and five countries recorded a decrease (Croatia, Estonia, Latvia, Serbia and Slovenia).**
- **Due to COVID support measures being phased out and the consequences of the Russia-Ukraine war, CEE corporate insolvencies are expected to rise in the coming quarters.**

Vienna, May 5th, 2022 – Various economic conditions, support measures and legal changes have affected insolvency trends in the Central and Eastern Europe region over the last two years. The COVID pandemic triggered an economic downturn, with a 4% drop to regional growth. Although corporate insolvencies in CEE countries dropped during this contraction, this was thanks to massive state support measures for households and companies. "*In 2021, the region saw increased growth (5.5%), but this momentum is expected to dissipate this year with a forecast growth rate of 3.2%*", said Grzegorz Sielewicz, Coface economist for Central and Eastern Europe. "*All CEE countries are likely to suffer from the consequences, direct and indirect, of the Russia-Ukraine war. The Baltic countries are set to record the weakest growth rates due to their trade links with Russia.*"

Winding down support measures & a still-challenging environment trigger rise in insolvencies

After a drop of business insolvencies in the region in 2020, insolvency proceedings increased in 2021, almost returning to pre-pandemic levels. This surge was expected, due to governments' intentions to wind down the massive scale of support measures. The regional GDP weighted average calculated from countries' insolvency dynamics indicated an increase of 34.7% in 2021 compared to the prior year (+1.5% increase excluding Poland where the total number of proceedings soared mostly due to new procedures).
Seven countries experienced a higher number of insolvencies than in the previous year (Bulgaria, Czech Republic, Hungary, Lithuania, Poland, Romania and Slovakia), and five countries recorded a decrease (Croatia, Estonia, Latvia, Serbia and Slovenia). Poland experienced an almost doubled number of proceedings, in large part due to a surge of dedicated procedures implemented to support companies suffering from liquidity difficulties due to the pandemic. Even 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 0.06%, meaning that only 6 out of 10,000 companies in Poland went through available official procedures.
Much higher insolvency rates were recorded in countries were the usage of insolvency procedures is more popular, i.e. +1.61% in Croatia and +3.31% in Serbia.

Insolvencies in Central and Eastern Europe

Total Insolvencies				Dynamics	Insolvency rate*
	2019	2020	2021	2020/2021	2021
Bulgaria	405	488	516	+5.74%	0.12%
Croatia	n.a.	5,445	5,101	-6.32%	1.61%
Czech Republic	1,081	978	1,035	+5.83%	0.20%
Estonia	264	330	268	-18.79%	0.11%
Hungary	5,187	4,053	4,359	+7.55%	0.22%
Latvia	590	388	268	-30.93%	0.18%
Lithuania	1,641	815	817	+0.25%	0.36%
Poland	1,019	1,040	2,054	+97.50%	0.06%
Romania	6,384	5,564	6 113	+9.87%	1.16%
Serbia	6,446	6,096	4,445	-27.08%	3.31%
Slovakia	445	330	388	+17.58%	0.14%
Slovenia	1,294	1,125	679	-39.64%	0.33%
			CEE (GDP weighted average)	+34.7%	0.44%

Source: Coface

* Share of insolvencies in the total number of active companies

The global economic situation over the past 2 years presented a challenging environment for CEE companies. The economic recovery that started mid-2020 was faster than expected and triggered soaring demand, especially from the manufacturing sector. Prices of energy commodities, transport, and various metals and inputs used in the production process shot up. In some cases, shortages limited output levels. The most evident example comes from semiconductors, the shortages of which led to a decreased number of shifts and temporary closures of the vehicle plants of various automotive brands. Higher energy and fuel costs amid increased production input prices reduced companies' profitability. These global developments have applied to CEE companies due to their inclusion in various supply chain issues, and the region's significant trade links with Western Europe.

From one crisis to another

Even though the coronavirus pandemic is ongoing, there is another challenge affected economies and businesses: Russia's full-scale invasion of Ukraine contributed promptly to soaring energy prices, as Europe remains dependent on oil, natural gas, and coal imports from Russia. Moreover, both countries are significant producers and exporters of agricultural commodities. Agri-food production is also subject to fertilizer prices, which accelerated as well, and the CEE region is dependent on fertilizers imported from Russia & Belarus. Additionally, higher global prices & shortages of metals due to the war further exacerbated supply chain disruptions. These factors have led to a further increase in energy and input prices for businesses, including those in CEE. Furthermore, household purchasing power erosion is also a concern for their possible client base. CEE economies have experienced accelerated inflation mostly due to increased energy prices, but also growing food prices.

Russia remains an important trading destination for the CEE region, especially for the Baltic countries. Total exports and imports with Russia represented 15.1% of Lithuania's GDP in 2021. Moreover, the Russian invasion of Ukraine triggered a huge humanitarian crisis with economic repercussions. Although all CEE countries are expected to record lower growth rates in 2022 compared to those estimated before the war, the influx of Ukrainian refugees could support regional growth at least in the short term.

“Considering these challenges, we expect the rise in corporate insolvencies to continue over the next quarters”, explains Jarosław Jaworski, Regional CEO for Coface Central and Eastern Europe. *“The consequences of the Russia-Ukraine war will accelerate this increase, especially as the large scale of support programs for local companies is unlikely to be implemented as was the case during the coronavirus lockdowns.”*

MEDIA CONTACT

COFACE MEDIA RELATIONS

Verena Schwarz: +43 1 515 54-540 – verena.schwarz@coface.com
Corentin Henry: +33 (0)1 49 02 23 94 – Corentin.henry@coface.com

COFACE: FOR TRADE

With over 75 years of experience and the most extensive international network, Coface is a leader in trade credit insurance and adjacent specialty services, including Factoring, Single Risk insurance, Bonding, and Information Services. Coface’s experts work to the beat of the global economy, helping ~50,000 clients in 100 countries build successful, growing, and dynamic businesses. With Coface’s insight and advice, these companies can make informed decisions. The Group' solutions strengthen their ability to sell by providing them with reliable information on their commercial partners and protecting them against non-payment risks, both domestically and for export. In 2021, Coface employed ~4,538 people and registered a turnover of €1.57 billion.