

PRESS RELEASE

NUMEROUS CHALLENGES FOR COMPANIES IN CEE RESULT IN AN INCREASED NUMBER OF INSOLVENCIES

- **Corporate insolvencies in Central & Eastern Europe (CEE) increased in 2022 due to high prices when it comes to energy, inputs, series of prompt interest rate hikes, the highest inflation in decades and the uncertainty related to the war in Ukraine.**
- **Eight countries experienced a higher number of insolvencies (Bulgaria, Croatia, Hungary, Latvia, Lithuania, Poland, Romania and Serbia), and four countries recorded a decrease (Czech Republic, Estonia, Slovakia and Slovenia).**
- **After a drop in insolvencies in 2020, proceedings increased in 2021 and accelerated in 2022.**

Bucharest, April 27th, 2023 – The Central and Eastern European (CEE) region has undergone significant economic changes over the past three years. A great heterogeneity, various support measures and legal changes have impacted significantly the insolvency trends. The Covid-19 pandemic and subsequent economic downturn, as well as the economic impact of the war in Ukraine, have brought concerns not only on the macroeconomic activity and commodities markets but also on the companies' payment liquidity.

CEE economies have shown signs of recovery in 2021 and in the first half of 2022, with most countries recording higher growth rates despite the significant volatility. *“The year 2022 brought mostly solid economic activity, with Croatia's and Slovenia's GDP growth exceeding 5% and growth rates in Poland, Romania, and Hungary close to it”,* says **Grzegorz Sielewicz, Coface's Head of economic Research for Central and Eastern Europe.** *“On the other hand, Estonia fell into recession with a growth rate of -1.3%.”*

In terms of insolvencies, the support measures introduced by governments in 2020 contributed to the drop of business insolvencies. The process of termination of these measures was gradual with companies still benefiting from them amid low interest rates in 2021. *“However, in 2022 we saw a clear increase of insolvencies as companies faced several challenges, including high prices of energy, inputs, series of prompt interest rate hikes, the highest inflation in decades, and the uncertainty related to the war in Ukraine”,* explains **Grzegorz Sielewicz.**

Coface estimates that the total number of business insolvency proceedings in CEE countries rose from 25,917 in 2021 to 36,090 in 2022, a 39.3% increase. Eight countries experienced a higher number of insolvencies in 2022 than the year before (Bulgaria, Croatia, Hungary, Latvia, Lithuania, Poland, Romania and Serbia), and four countries recorded a decrease (Czech Rep., Estonia, Slovakia and Slovenia). The high surge of insolvencies was recorded by Serbia and Hungary (+106% and +86%, respectively) while the largest drop of proceedings was in Estonia (by -17%).

* Share of insolvencies in the total number of active companies

Total Insolvencies					Dynamics	Insolvency rate*
	2019	2020	2021	2022	2021/2022	2022
Bulgaria	405	488	516	532	3.1%	0.13%
Croatia	5,132	5,445	5,101	5,498	10.5%	2.08%
Czech Republic	1,081	978	1,035	1,024	-1.1%	0.25%
Estonia	264	330	268	222	-17.2%	0.08%
Hungary	5,187	4,053	4,359	8,111	86.1%	1.54%
Latvia	590	388	268	308	14.9%	0.21%
Lithuania	1,641	815	817	1,041	27.4%	0.85%
Poland	1,019	1,040	2,054	2,752	34.0%	0.08%
Romania	6,384	5,564	6,113	6,531	6.8%	1.12%
Serbia	6,446	6,096	4,445	9,149	105.8%	6.69%
Slovakia	445	330	388	347	-10.6%	0.17%
Slovenia	1,294	1,125	679	575	-15.3%	0.27%
CEE Total	29,888	25,013	25,917	36,090	39.3%	0.54%

Source: Coface

Insolvencies increased across all sectors and not only in energy-intensive ones

Unsurprisingly, the energy-intensive sectors are the ones that suffered most from soaring commodity prices, hence higher operating costs. For instance, in Poland, the chemicals, metals, paper-wood, and agri-food sectors have reported longer payment delays than the average, with a bulk of them experiencing lengthening of delays compared to the prior year. These sectors were also widely represented in regional insolvency statistics: metals, paper, wood and agri-food have seen high and accelerating insolvency rates.

The construction sector has also been significantly impacted. The insolvency rates are especially high in Croatia, Estonia, Hungary, Latvia, Lithuania and Poland, due to the high prices of building materials and inputs. This sector also saw a slow housing market due to interest rate hikes and soaring inflation, while labor shortages have also been an obstacle.

Eventually, retail is another sector with a sizeable share of insolvencies in most countries, though its insolvency rates and growth of proceedings remained relatively limited in 2022. The persistent inflation is taking an increasing toll on consumer spending, which should lead to an increased number of insolvencies in this sector.

“The economic outlook remains uncertain to say the least. Our experts forecast a slowdown in inflation for the months to come but still, a bulk of the CEE region economies should experience weaker growth in 2023. Indeed, the inflation will remain well above central bank targets. As such, they will continue to raise rates and this will have negative effects on the solvency of companies. We believe the number of companies in a situation of insolvency should therefore continue to increase in 2023”, adds **Jarosław Jaworski, CEO of Coface in the Central & Eastern Europe Region.**



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