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CEE insolvencies: so far, so good despite an increasingly challenging global economic environment

As seen often in insolvency trends, the economic situation is experienced in statistics of company insolvencies with a delay. In the CEE region, businesses were able to benefit from solid demand experienced both domestically and externally in recent years. A period of favourable macroeconomic environment has brought effects on solvency of companies in the CEE region. GDP-weighted average insolvencies dropped by 4.2% in 2018, contrary to an increase of proceedings recorded a year prior. 2018 saw a decrease in insolvency proceedings in ten countries, whereas they grew only in four countries. The regional breakdown indicates a wide variety of dynamics, ranging from a 35% decrease in insolvencies in Ukraine to a 42% surge of in Croatia.

However, CEE economic perspectives appear much less buoyant: the eurozone slowdown, the escalating US-China trade war, and the unclear process of the United Kingdom's withdrawal from the European Union are worrying exporters due to the potential impact on both their businesses and CEE economies. In effect, a weaker pace of growth expected in the CEE region will be mostly due to the impacts, both direct and indirect, of slower external demand. CEE average growth is projected to reach 3.6% in 2019 and 3.2% in 2020.

As CEE economies are mostly highly open to external markets, weaker foreign demand will manifest not only in growth rates, but also gradually via insolvency statistics. In this regard, sectors that are strongly

exposed to foreign markets will suffer, such as the automotive industry and ones supplying it with parts and components, namely respective subsectors of chemicals and metals. Moreover, transports are going to be hit as well and it mostly applies to countries with a strong presence on foreign markets, like Poland, Baltics, Hungary and Romania. For example, an increase of proceedings in transports has been already recorded this year in Poland.

The domestic side is not free of constraints either. The CEE region continues to experience a strong increase of employees' wages, which is supportive for household consumption but a concern for companies. Labour shortages became the most significant obstacle for companies' current operations, which limits potential expansion. Overdue payments remain a concern for companies and can trigger insolvencies. Even though the retail sector has been one of the main beneficiaries of solid economic activity in recent years (fuelled mostly by household consumption), CEE companies in the retail sector have registered insolvencies. High competition, low margins, and further pressure on wages are among the brakes preventing companies from fully benefitting from the latest economic acceleration. Insolvencies in consumer demand-driven sectors will likely be recorded once again, affecting predominantly smaller companies, who find current challenges harder to tackle than their larger competitors.