

Half of Romania's hospitality businesses struggling with indebtedness ratio of 90-plus pct, 7 in 10 at high insolvency risk

With over 50 percent of its companies struggling with an indebtedness ratio of over 90 percent, and seven out of ten businesses facing a high insolvency ratio in 2020, hospitality is definitely the Romanian industry most affected by the coronavirus pandemic, financial analyst Iancu Guda told a press conference on Wednesday.

"Hospitality is definitely the Romanian industry most severely hit by the pandemic. (...) The figures confirm a 39 percent drop in sales and a 77 percent plunge in the average profit in the industry. For you to understand the severity of these figures, let me tell you that sales are virtually at half and the profit is four times less. For every 100 lei in turnover made by the industry in 2020, the correspondent in 2019 is 164 lei, and the profit slumped from 20 lei to only 5 lei. The industry suffers commercially, in terms of sales and profits, but the implications along the economic chain are increased indebtedness due to the companies' decapitalization. Virtually there was no more funding for working capital, profits have slumped and half of the companies in this industry record an indebtedness ratio of over 90 percent. Considering the combined balance result, the very high degree of indebtedness and the very low profitability, seven out of 10 active hospitality businesses are faced with a high risk of insolvency. The situation in 2019 looks far better, as there were only three companies with a high risk of insolvency back then," Guda explained.

According to him, all the measures applied, the fiscal forbearance granted, the furlough aid scheme and the part-time work schedule, but mainly the fiscal credit have given these companies a certain respite without which they would have certainly not resisted.

Guda also pointed out that the most important support scheme for these companies, the 20 percent compensation of loss from the drop in sales, makes up for a part of the unrealized profit, and that without this scheme, most companies with a high insolvency risk would have effectively reached on the brink of bankruptcy.

The financial analyst made it clear that hospitality is a very important employer, with almost 271,000 direct employees and with somewhere around 400,000 jobs if the entire chain is considered (that is about 10 percent of the privately employed workforce).