

Bankruptcy and Restructuring Disputes in the Baltics - 2024 Overview

The economic challenges of 2024 have led to a significant rise in bankruptcy and restructuring disputes across Estonia, Latvia, and Lithuania. As financial pressures continue to mount, companies are increasingly seeking legal avenues to manage insolvency, either through bankruptcy proceedings or restructuring plans aimed at stabilizing operations. While bankruptcy remains a common outcome, the growing number of restructuring cases reflects a shift toward alternative recovery mechanisms.

This article provides an overview of key developments in bankruptcy and restructuring disputes in the Baltics, highlighting major trends, legal proceedings, and significant cases that have shaped the landscape in 2024.

Economic Impact and Rising Bankruptcy Cases

Throughout 2024, bankruptcies have increased across multiple industries, particularly in sectors vulnerable to economic fluctuations, regulatory changes, and rising operational costs.

- Estonia saw a 14% rise in bankruptcies compared to 2023, with the construction, industrial and commerce sectors experiencing the most difficulties. Many affected companies struggled with cash flow issues, debt accumulation, and decreased demand.
- Latvia recorded a 17% increase from 242 bankruptcies in 2023 to 283 in 2024 with the construction and trade industries being among the most impacted. A notable case was the insolvency of Baltic International Bank SE, which demonstrated the complexity of financial sector bankruptcies, involving asset reassessments and legal proceedings linked to criminal investigations.
- Lithuania experienced a 14.9% rise in bankruptcy cases, particularly affecting transport, manufacturing, and wholesale trade. Economic policies, such as minimum wage hikes and the removal of VAT benefits for catering services, further contributed to financial strain.

Despite this rise in bankruptcies, many businesses are exploring restructuring as an alternative, aiming to avoid liquidation and maintain operations.

The Shift Toward Restructuring Proceedings

Amid the increasing financial distress, restructuring proceedings have gained traction as a preferred legal tool for companies with viable recovery prospects.

- In Estonia, restructuring cases reached a record high of 28 in 2024, reflecting a growing acceptance of restructuring as a means to avoid bankruptcy.
- Latvia saw restructuring proceedings rise from 90 in 2023 to 137 in 2024, partly due to the EU Restructuring Directive, which extended the preparation period for restructuring plans from two to four months.
- Lithuania recorded a 7.7% increase in restructuring cases, with 28 proceedings initiated, indicating a shift in approach to financial recovery.

To initiate restructuring, companies must submit a detailed financial and recovery plan outlining:

- The economic situation of the business.
- The measures planned to restore financial health.
- The anticipated impact on creditors and employees.
- A timeline for implementation and expected results.

Despite the increase in restructuring applications, only a small percentage of restructuring plans are successfully implemented, highlighting the challenges companies face in executing financial recovery strategies.

Legal Considerations and Challenges

Both bankruptcy and restructuring proceedings in the Baltics involve strict legal frameworks designed to protect creditors while offering businesses a chance to recover.



Key Legal Aspects of Bankruptcy Proceedings

- 1) Court Oversight - Once bankruptcy is filed, courts appoint a bankruptcy administrator to manage the company's assets and oversee liquidation.
- 2) Creditor Claims - Creditors must file claims, which are reviewed based on legal priority rules before assets are distributed.
- 3) Asset Liquidation - If no viable recovery plan exists, assets are liquidated to cover outstanding debts.

Key Legal Aspects of Restructuring Proceedings

- 1) Reorganization Plan - Companies must propose a legally sound restructuring plan that outlines how financial recovery will be achieved.
- 2) Judicial Approval - Courts must approve the plan before implementation, ensuring it is realistic and beneficial for creditors.
- 3) Ongoing Monitoring - A court-appointed restructuring adviser oversees implementation, ensuring compliance with the plan.

If restructuring fails, companies face automatic transition into bankruptcy proceedings, making the successful execution of restructuring plans crucial for survival.

Future Outlook for Bankruptcy and Restructuring in the Baltics

As economic conditions remain uncertain, Baltic businesses will continue to face financial instability and legal challenges. Key factors influencing future bankruptcy and restructuring trends include:

- 1) Regulatory Changes - New EU and national-level legal frameworks will play a critical role in shaping restructuring and insolvency processes.
- 2) Economic Pressures - Rising costs, geopolitical tensions, and supply chain disruptions will impact businesses' financial health.
- 3) Investor Confidence - High-profile cases like Planet42's restructuring will likely affect risk assessment and financing decisions for startups and SMEs.

While restructuring provides a path to recovery, its success depends on effective financial planning and legal execution. Early intervention remains crucial, and companies must proactively seek legal and financial guidance to avoid insolvency.

Conclusion

The rise in bankruptcy and restructuring disputes in 2024 underscores the financial pressures facing Baltic businesses. While bankruptcy remains a common resolution, the increase in restructuring cases suggests a growing shift toward recovery-oriented legal strategies. However, the success rate of restructuring remains low, emphasizing the need for well-structured financial plans and proactive decision-making.

As legal and economic landscapes continue to evolve, businesses must stay informed and prepared to navigate financial distress effectively.

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