

Economy recovery risks which Romanian companies has to cope with

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Abstract. *In this paper, I propose to identify the effects of the new conditions generated by the new international economic context over the Romanian companies. The high level of unemployment rate, the dry landscape of financing and the persistency of arrears to private companies are some risks that the private sector in Romania has to face. The methodology of the research involves an analysis of companies' access to evolution financing, of tax and regulatory system, of arrears' evolution, of employees number's evolution and of private companies' evolution with financial reports from Romania.*

Keywords: companies, crisis, funding tools, arrears, employment.

JEL Classification: G22, H12, F3, H6, J21.

1. Introduction

The micro stimulation of economy is a complex process and essential for ensuring the macro-and microeconomic level stability. The operational component of this process is the intensive development (the improvement of economic and financial performances of the companies) and the extensive development (their numerical growth), namely the consolidation of the companies and the functioning of the economic mechanism structure (Dinu et al., 2005).

From the perspective of intensive and extensive development of the companies, the statistics support the hypothesis that the states supporting the strong entrepreneurship have a high level of business generation. The model of company specific to European economy and our national economy is the SMEs model. This type of company could have a very important role both in the resumption of economic growth and in the creation of jobs.

According to OECD, in Romania, in 2013, the SMEs have contributed with 66% of total number of employees from private companies and the large companies contributed with 34%.

2. Economy recovery risks

The most difficult problem concerning the business generation, development and support is *the access to funding*. The most common funding tools are: bank loans, venture capital, business angels, private equity, microfinance, State aid, clients, partnership, family and friends, stock exchange, suppliers and crowdfunding. According to Ernst&Young, in Romania, in 2013, the financial tools mostly accessed by entrepreneurs were the bank credits, venture capital and business angels, while in EU, the three most financial tools were: bank credits, State aid and venture capital.

Even if the crisis determined the improvement of credit conditions, the access to funding in Romania is still considered difficult by entrepreneurs. According to National Council of Small and Small-Sized Private Enterprises, at the end of 2013, the interest of credits in LEI was 6.84%, namely a level of 3.1 or less than the level from 2009 January, and the interest for credits in EURO, compared to 2008 October, was 1.77 or less. At the same time, at the end of the year 2013, the interest rate differential between loans in lei and euro reached a historical minimum of 1.95 percentage points. Nonetheless, according to the table below, the credits in EURO granted to companies increased with 6.85 percentage points, while the credits in LEI decreased with 2.83 in the interval 2007 January – 2013 December. This evolution may be due to intensifying business relationships in the Single Market.

Table 1. Structure of credits granted to companies in function of used coin

	2007 January	2013 December
Credits in euro	46.85%	53.70%
Credits in lei	46.44%	43.61%
Credits in other currency	6.72%	2.69%

Source: National Council of Small and Small-Sized Private Enterprises.

If we take into account the due date of these credits of the year 2013, we could observe according to the table below that the due credit is in positive correlation with the volume of credits in Euros and in negative correlation with the volume of credits LEI. In other news, while loans in lei are aimed at serving the needs of corporations, loans in euro are

intended for investment. In other train of thoughts, while the credits in lei are for satisfying the current needs of companies, the credits in Euro are for investment.

Table 2. *Correspondence between used coin and credit due date, 2003*

Due date	Lei	Euro	Other currency	Total
Under 1 year	50.20%	25.45%	57.4%	37.11%
Between 1 and 5 years	28.82%	31.65%	19.65%	30.10%
Over 5 years	20.97%	42.90%	22.95%	32.80%

Source: National Council of Small and Small-Sized Private Enterprises.

The access to different financing instruments depends on business phase. In the first phase of business development, also known as the "Death Valley", the most accessible financial tools are: business angels, venture capital and crowdfunding. The latter represents an innovation of the methods of financing to companies at the beginning and is based on the contributions and donations made by people whom, through an online platform, the entrepreneur present the project. This innovative funding method of start-ups is regarded as being a solution for overcoming the problem concerning the funding at the beginning of business. Worldwide, according to Crowdfunding Industry Report for 2012 April, the crowdfunding collected funds of 2.7 billion dollars for more than 1 million companies. According to the same report, in EU are 19 platforms of crowdfunding, distributed so: 3 in Sweden, Denmark, Finland and Ireland, 2 in Czech Republic and 1 in Austria, Estonia, Latvia, Romania and Hungary. Because the phenomenon of crowdfunding took so many wings at the EU level, the European Commission intends to create a European network of crowdfunding platforms.

The next phase in developing a business is an emerging phase, in which a company begins to create new jobs and develop products and services. Under these conditions, the companies need new injections of capital and the most funding instrument at hand is the business angels. In the phase of fast growth, the companies could demonstrate that they have outlet and make revenues. In this phase the company should have more funding tools at least from theoretical point of view. Among these are bank credits, but the access of the companies to this financing tool is still difficult. This situation is due to the fact that the banks are under the serious supervision of the institutions of regulation for solvability indicators improvement.

Therefore, these are very selective concerning the financial support of the companies. The solution of this problem could be the government through its plan of credits counter-granting or the granting of non-repayable financial allowance. An early risk to relaunch the economic growth to which the companies have to face is that of a dry funding, but the solution could be the access to the innovative funding methods.

Another factor on which the intensive and extensive development of companies depends is the *tax and regulation system*. As the funding tools grow and diversify as a company pass from a development phase to another, the fiscal regulations should stimulate the companies' development in function of the phase they are. In order to support the mature companies, the regulators should provide them deductions from tax on profit, but the

application of such a measure would not have the same effect in the case of small companies. Rather, the latter could be supported by decreasing indirect taxes.

Fortunately, in 2010, the government decided the VAT increase with 5 percentage points, from 19% to 24%. The modifications of VAT system during cashing represent a positive aspect. So since January 1st 2004, the companies with a turnover less than 500 000 Euro could choose this new system or the normal one. In the same measure, the fiscal and financial facilities could be used for research and development activities.

At present, the companies that have intellectual property over assets or that are involved in research and development activities could benefit from the next fiscal facilities (Ernst&Young, 2013): the accelerated harmonisation of assets and the additional deduction of eligible expenditures afferent to C&D activities; it increased with 50% from February 2013;

A common measure for all companies, regardless of the development period in which they are, would be the simplification of the existing rules.

According to the Report Doing Business 2014, from fiscal point of view, Romania is on 134th place out of 189 countries. What does it mean? It means that as a company, you have to do an average of 39 related payments in a year and spend an average of 200 hours for tax calculation, while the effective tax rate of a company is 42.9%. Moreover, the high costs of transition and structural reforms have created the environment necessary for the development of State contingent liabilities (Adam, 2014).

From taxation and regulation system point of view, the main obstacles for starting and developing a business in Romania are the fiscal incertitude, tax burden and bureaucracy, the latter ones being supplied by the lack of clarity and interpretable character of regulations in force (Ernst&Young, 2013). In the expansion phase, many of the companies become profitable and pay tax on profit. The flat tax of 16% had and continued to have a positive impact on the entrepreneurs. In this stage, the companies decide the extent also on other markets, and this could create difficulties related to issues of taxation and regulations existing in other countries.

In order to prevent that the companies deal with these problems, in EU are the so called EUGO Points of Single Contact, namely e-government portals that support the active entrepreneurs in services with information about regulations and rules in force, as well as about the formalities necessary for the activity performance.

Another risk that companies have to face is the *accumulation of arrears*. As result from the table below, the arrears of private companies, expressed as percentage of GDP, started to reduce in 2012 and the decreasing rhythm accentuated in 2013, those reaching to 14.4% of GDP while the arrears of state companies are at the level of 3.6% of GDP. These accumulations of arrears have negative effects over general consolidated budget and over the private sector by reducing the liquidities and braking the economic increase.

Table 3. Evolution of the arrears of non-financial private companies from Romania with financial references

Arrears	2006	2007	2008	2009	2010	2011	2012	2013
Billion.lei	39 101	44 050	53 127	62 406	69 193	88 882	91 536	90 358
%GDP	11.3	10.6	10.3	12.5	13.2	16	15.6	14.4

Source: Fiscal Council, 2013.

The continuous decrease of the number of employees represents another challenge for private companies in Romania. In order to face to the challenges determined by crisis and jobs penury, the labour market should be flexible. The flexibility of work conditions could be possible by making easier the conditions for concluding the contracts for determined period. The labour legislation in Romania is even favourable for employees despite of the modifications contained by Labour Code or Social Dialogue Law from 2011. Even if 2013 is the third consecutive year of the economic growth in Romania according to the following table, the number of employees continued to decreased, being only 3 836 000 in 2013.

Table 4. Evolution of the employees' number of non-financial private companies from Romania with financial references

Number of employees	2006	2007	2008	2009	2010	2011	2012	2013
Thousands	4 351	4 620	4 618	4 019	3 962	4 094	4 066	3 836

Source: Fiscal Council, 2013.

The supporting efforts to increase the occupancy have to be clear both at the individual level, at the level of the company and at the governmental level. At the individual level, the supporting efforts to increase the occupancy should lead to the investment in education, to the participation to continuous professional training, but especially to the empowerment of the individual in carrying out the activities. At the level of the company, these efforts should lead to the increase of the amount of money for research and development activities and to the organization of training programs for employees; and at institutional level, it should lead to the promotion of some active policies of the labour force occupation through which are organized qualification and professional conversion courses by granting subsidies to youth employment, etc. (Aceleanu, 2012). From profit perspective, the companies needed 5 years in order to reach the level recorded before crisis, in 2008.

Table 5. Evolution of gross profit in non-financial private companies from Romania with financial references

Gross profit	2006	2007	2008	2009	2010	2011	2012	2013
Billion lei	42 614	43 008	23 513	19 914	27 934	10 421	15 623	23 856

Source: Fiscal Council, 2013.

The recovery of the profit level recorded before the onset of the crisis reflects an optimistic perception of the entrepreneurs in the economic revival of the national economy.

Social liability mobilisation represents another challenge for companies. So, besides profit, production of goods and services and the creation of new jobs, the companies have to take also into account the environment in which they carry out their activity. The most numerous initiatives of social responsibility to the corporate level refer to domains as education, environment and community support (Popa, 2014). The result of survey conducted by Ernst&Young in 2013 shows the fact that 79% of companies that operate in Romania guide the programs of CSR to education, 56% to health, 68% to social problems and 58% to environment.

Conclusions

To conclude with, the main risks of economic relaunch that companies have to face are: the access to funding in the context of a dry landscape of funding, the new tax and regulation system, the accumulation of arrears that could generate problems of liquidity in market and of economic growth restrain, continuous decrease of employees number and social responsibility mobilization.

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