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The impact of Covid-19 Pandemic on Romania's business environment.

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Abstract

Our paper tries to have an image on companies in Romania through the official statistical data of the National Office of the Romanian Trade Register (ONRC) regarding the authorized individuals and legal entities active in Romania, then some more data and opinions vis-à-vis provided by National Institute of Statistics(INSSE) and finally several surveys conducted by consulting companies in the same area of studying. We'll even attempt to 'draw' a kind of behavioural 'portrait of Romanian business people' to find then how much these subjects saw themselves affected by the current Covid-19 health crisis. Basically, this latest is supposed to have a major impact on the international business environment. More about what is here happening beyond company registrations, insolvencies and other company related events and legislation is needed. Existing descriptions in the press and literature need improvements either. We will equally take into account, in the text below, the responsibility of companies' shareholders face to: expectations, businesses financing options, difficulties and difficult periods facing solutions, plans and strategies for near future. The impact of some measures taken by government authorities to support the business and entrepreneurs will also be taken into account.

Key words: new companies formation, entrepreneurship, Covid19 economic impact, Romanian business environment

Jel classification :I15, M1,M13,M14,M2

1. Introduction

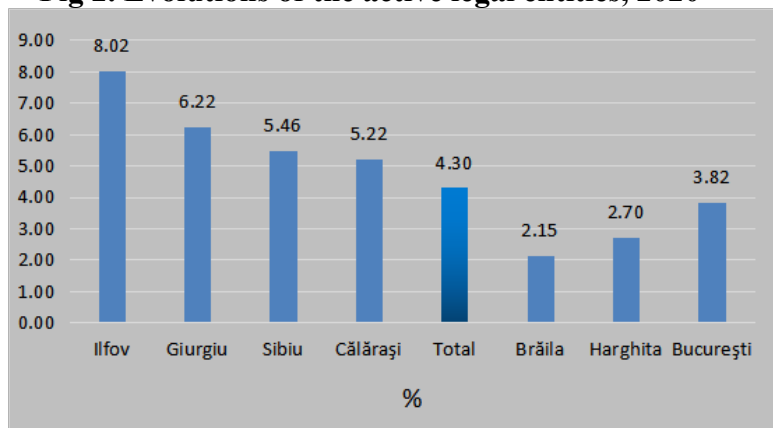
The Corona virus pandemic proves a major impact not only on people's lives, but also on global economies. Most activities carried out by Romanian firms met a decline in March-April 2020, then a slight return in the following May-June. But there isn't yet any sudden end of crisis to talk about. On the contrary, specific crisis effects are still to be expected the next year, as well. It seems that the real impact of the epidemic on business environment is yet too little captured by the current statistics. Roughly the same for the surveys addressed to companies' shareholders, despite their higher potential of identifying difficulties of the Romanian business environment, e.g. regarding funding sources, staff related issues, debt management, planning and long-term strategies.

2. The Romania's business environment. A short description

In total, there were over 1.4 million legally active companies in Romania at the end of October 2020, as 4.48% (60,809) more than in the same period of the previous year (1,027,219 active legal entities and 392,319 authorized persons / II / IF). More than 428,235 people were involved in these enterprises as holders or authorized persons / II / IF, and these along with another 1,475,008 shareholders / associates of active legal entities.

The total number of legal entities¹ increased by 4.30% in 2020, compared to 2019, the highest rates coming in Ilfov 8.02% (3592), Giurgiu 6.22% (596), Sibiu 5.46 (1017), Călărași 5.22% (435), and the lowest ones in Brăila 2.15% (210) and Harghita 2.70% (291).

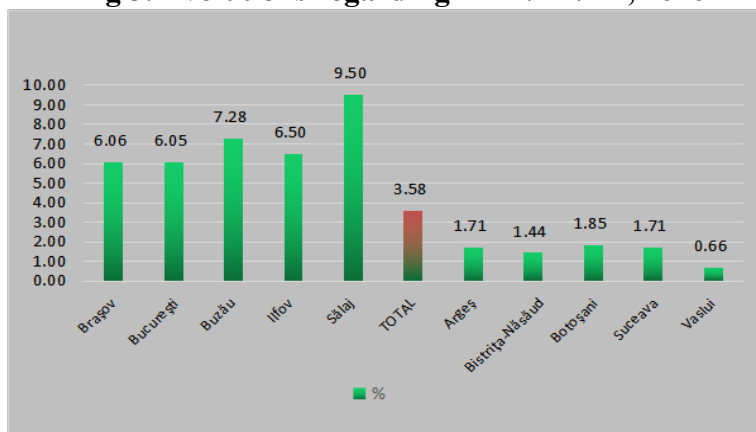
Fig 2. Evolutions of the active legal entities, 2020



Source: Calculations based on ONRC data, 2020

The total number of active authorized persons² PFA / II / IF increased in 2020 by 3.58%, as compared to the end of 2019, the highest increases being registered in Bucharest 6.05% (1582), Brasov 6.05%, (574), Buzau 7.28% (484), Ilfov 6.50% (352), Sălaj 9.50% (617), and the smallest ones in Argeș 1.71% (167), Bistrița-Năsăud 1.44% (118), Botoșani 1.85% (140), Suceava 1.71% (169) and Vaslui 0.66% (41).

Fig 3. Evolutions regarding PFA / II / IF, 2020



Source: Calculations based on ONRC data, 2020

Beyond the preponderance of men in business, there are counties in Romania where, in terms of percentage, women leading authorized persons/ II / IF are significantly present, see, over 40% in Bihor, Brasov, Constanta, Dambovita, Maramures, given that the national average for

¹ ONRC, Legal entities: General partnership, limited partnership and limited liability company, Debutable limited liability company (SRL-D), Economic interest group, Joint stock company and limited partnership, National company and company, European Holding Company, European Merger, Autonomous Administration, Credit Union, 1st and 2nd Grade Cooperative Society, 1st and 2nd Grade Agricultural Cooperative, European Cooperative Society, European Merger Cooperative, European Society - subsidiary, Branch company or GIE based in Romania, Branch of autonomous administration, Branch of cooperative society, Branch of a company based abroad, Submission of prospectus for the issue of shares

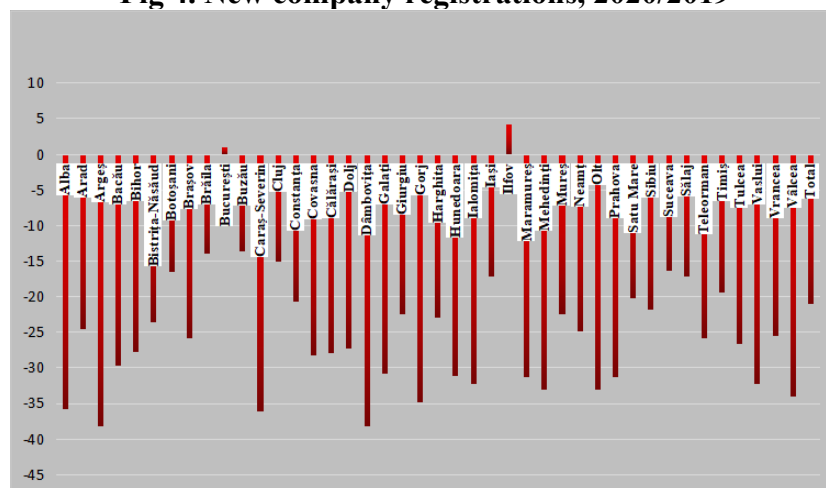
² See also Annex 1 for a few details.

this category is 39.71%. In the county of Tulcea the share of women as authorized persons / II / IF is the lowest 29.89%.

3.The Covid-19 pandemic context for 2020

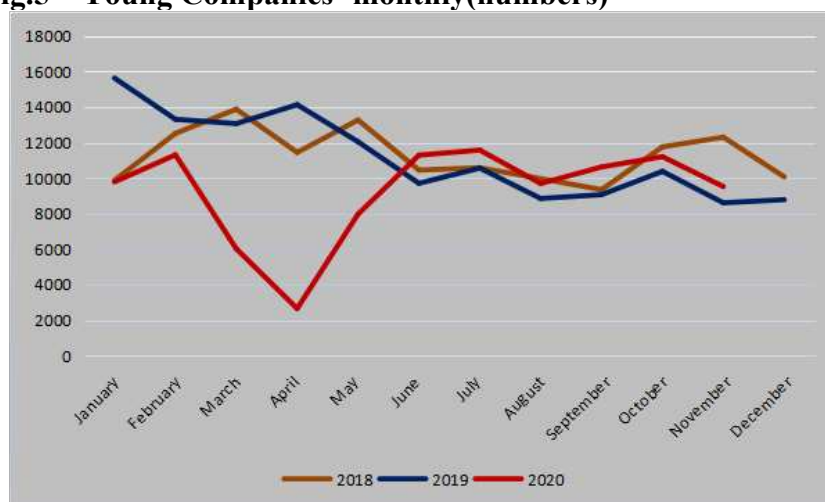
The number of new registered companies, of authorized individual (person) and all the other legal entity registrations decreased in the first ten months of 2020 by 21.09%, compared to the similar period of 2019, to 92,179 companies, most of which are limited (Ltd) 64,833, then authorized persons 19,452 and the rest to the other categories of companies mentioned above in the first part of the study, according to the data centralized by the National Office of the Trade Register. Most registrations were done in Bucharest, respectively 15,623, but in dynamics, it represents an increase of only 1.02%, compared to 2019, in reality, rather stagnation or reluctance. An increase in absolute number but also in dynamics is observed in Ilfov (4.26% increase, approx. 220 companies). Bucharest and Ilfov are the only territorial districts that meet a timid growth in registrations, compared to the previous year, the rest of the counties meeting dramatic decreases in this respect, see 13% -38%

Fig 4. New company registrations, 2020/2019



Source: Calculations based on ONRC data, 2020

Fig.5 Young Companies- monthly(numbers)



Source: Calculations based on ONRC data, 2020

Interesting here might be where the number of newly created companies is highlighted monthly, here trying to capture the shock that the pandemic had on the Romanian

business environment. Even in the midst of the lockdown of the global pandemic, on average about 9,000 new companies were formed each month during 2020. Despite a clear activity decline in April 2020, when only 2651 companies appear to be created, the next May then came with 7964 new companies. However, this is a figure equalling those of January and February, before meeting COVID-19.

Back to April 2020, this month showed the most significant decrease in the number of new companies. This may simply reflect many people still struggling with the reality of the lockdown without an action plan. Surprisingly, there was not an overall decrease in the number of new companies due to the pandemic. The virus has certainly affected the economy as a whole, but people still live, work and shop at home, ensuring a constant demand to companies for meeting their needs. According to ONRC data, in Bucharest in the first ten months of 2020, 15,623 new companies were registered, of which 464 companies in April, the month in which the pandemic shock was most manifested. As compared to April the number of registrations doubled in the next May, i.e. 1100 companies.

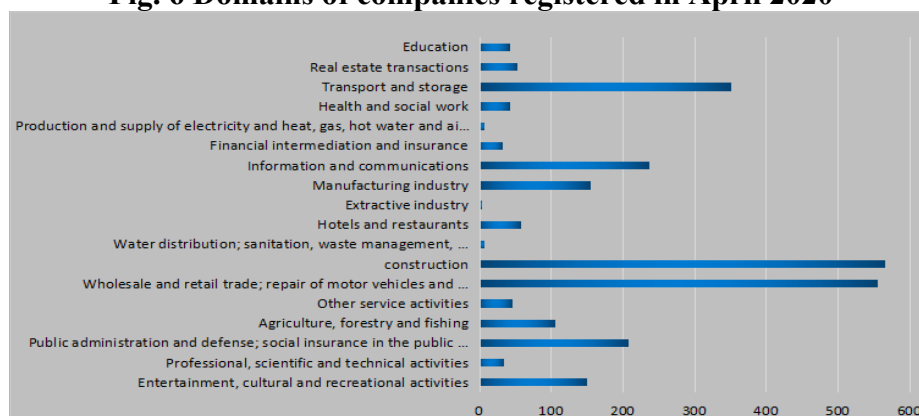
Why has the number of new companies decreased? The reluctance of entrepreneurs may be due to the limitation of the movement during the state of emergency, but also the fact that they asked themselves if the year 2020 would still be suitable to start a business. Even in "perfect" economic conditions, no business is guaranteed to be successful. The opening of a new business depends on the own evaluation of the potential of the new enterprise and on the prediction of the possible risks. The ONRC data for 2020 show, in 2020, and especially in the acute moment of the crisis that is March and April 2020, the creation of new businesses continued. These businesses are already starting up confronting with difficulties and are supposed to have better ability to adapt and change as the crisis eases.

Table 1. Counties with over 100 new companies per month in the 1.01.2020-31.10.2020 interval (number of companies)

County	Jan	Febr	March	April	May	June	July	August	Sept	Oct
București	1596	1888	1063	464	1109	1647	2043	1757	1994	2062
Bihor	298	416	194	130	232	397	379	321	332	361
Ilfov	458	536	260	138	352	517	617	493	546	588
Cluj	489	651	298	122	385	599	572	536	549	594
Constanța	383	416	252	118	273	446	383	353	371	430
Iași	479	521	260	126	281	413	478	401	494	472
Timiș	360	484	298	123	356	467	556	442	537	481
Brașov	305	396	199	107	238	336	376	359	374	420

Source: Calculations based on ONRC data, 2020

Fig. 6 Domains of companies registered in April 2020



Source: Calculations based on ONRC data, 2020

4.1 The companies' behaviour during the emergency and alert state against pandemic

During the state of emergency³(due to the impact of the Covid epidemic -19), the Romanian authorities have adopted a series of exceptional measures. These were consisting in restrictions imposed against virus spread – the ones meaning restrictions, up to fully stopping some activities with their natural and expectable consequences --, then in measures taken in order to limit these last economic consequences of the pandemic, e.g. temporary suspension of bank loan and leasing instalments payment at demand; the State supporting technical unemployment benefits.

Although the pandemic crisis and their corresponding measures taken had profoundly affected the business environment, the legislative framework on insolvency and bankruptcy then remained largely unchanged up to next May 2020.

Many economic operators stopped their activities as totally or partly as affected by the authorities' measures taken. Despite that, the existing legal insolvency procedure – i.e. the obligation of insolvency procedure opening in maximum of 30 days since the de facto insolvency by the entity/company – was kept in force unchanged onwards.

Then a real law providing concrete and very specific protection that was Law number 55 on 2020, called as 'providing measures of preventing and fighting the Covid-19 pandemic effects' came to be voted by the Romanian Parliament on 13 May 2020. Two categories of companies were here targeted: those meeting financial difficulties (e.g. of liquidities; of debt increasing) and those already meeting pre- or full insolvency. And here there are the provisions brought by this Law:

/ suspending the obligation of procedure opening required in maximum 30 days after the de facto insolvency and that for both such a state existing and occurring during the declared state of alert;

/ for creditors, on the other hand, they get able to file the request to open insolvency proceedings, but this is compulsorily basing on the evidence of previously attempting all possible payment agreements with their debtors;

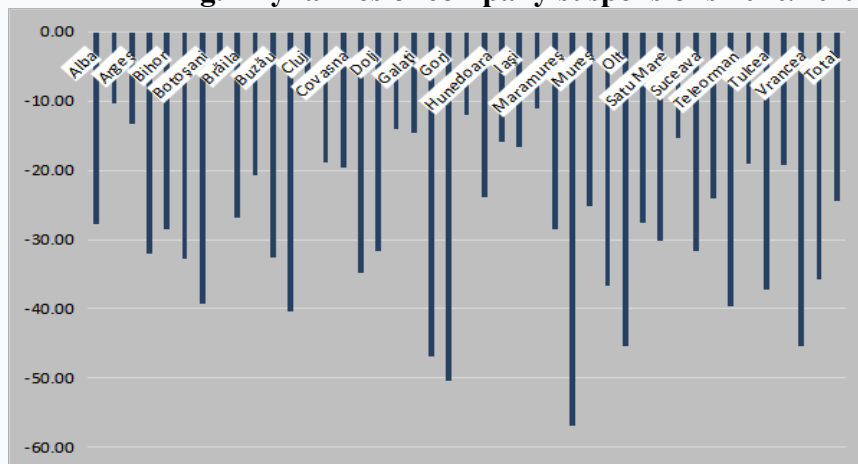
/ such a request to open insolvency proceedings, for both debtors and creditors, meets the limit of minimum 40 – 50 thousand RoN;

³ Actually the first economic measures taken in this pandemic new context. They refer to insolvency and its preventing.

<https://www2.deloitte.com/ro/en/pages/business-continuity/articles/procedurile-de-prevenire-a-insolventei-si-de-insolventa-pe-durata-starii-de-alerta-primele-masuri-adoptate-in-contextul-actualei-pandemii.html>

/ besides, all enforcement on insolvencies will be banned for cases of debts of more than 60 days.

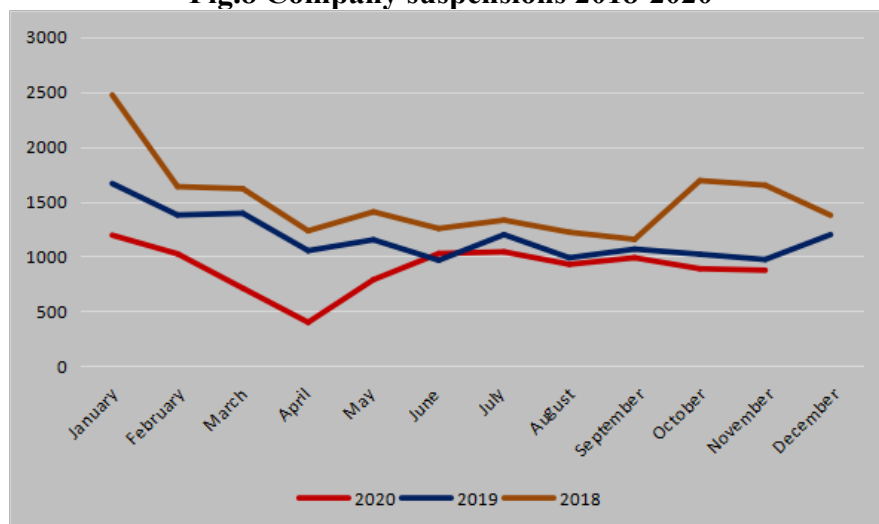
Fig.7 Dynamics of company suspensions 2020/2019



Source: Calculations based on ONRC data, 2020

4.2 Fewer companies suspended their activity. An interesting case

Fig.8 Company suspensions 2018-2020

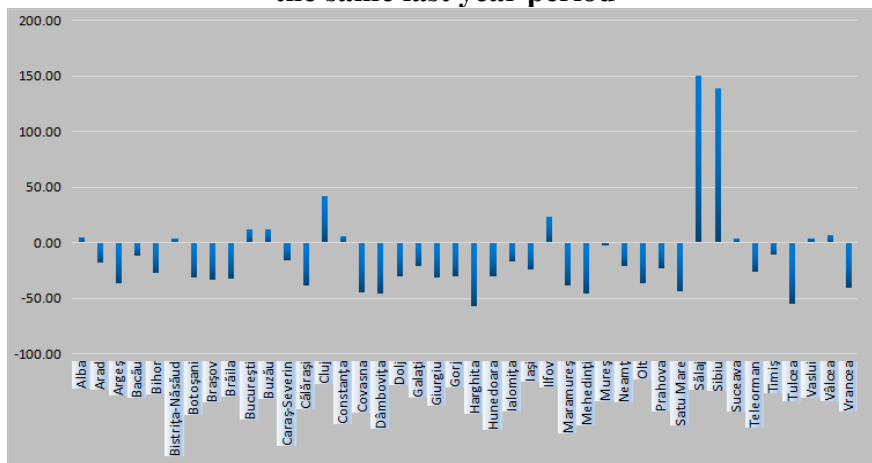


Source: Calculations based on ONRC data, 2020

An explanation for this activity suspensions' diminishing might be that there was not about suspensions, but about simply interrupting activity in the emergency state declared. According to the 'Deloitte' consultants' estimations number of Romanian companies acted on their own to prevent the Covid-19 threat be it by such activity interruption, by alternative forms of activity, e.g. online, or by continuing existing activity with harsh precautionary measures applied against specific risks⁴.

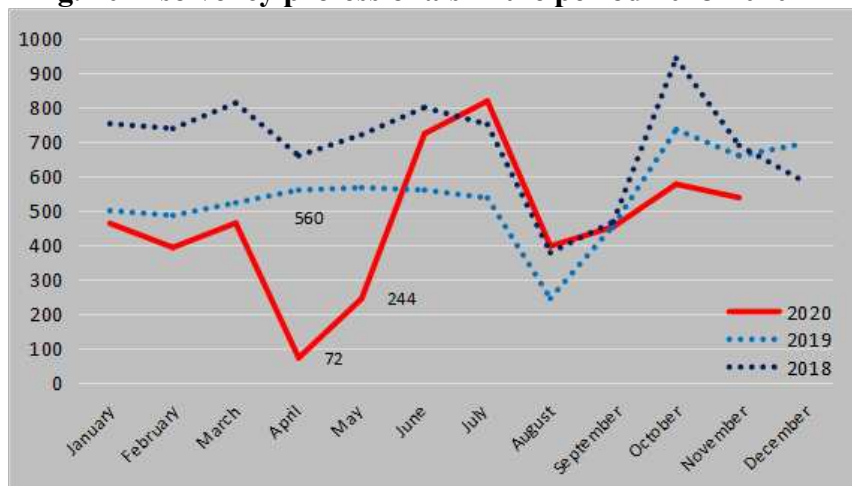
⁴ What is the company's manager supposed to do to diminish risks afferent to his/her responsibility in Covid-19 pandemic circumstances? (Deloitte). https://www2.deloitte.com/ro/en/pages/business-continuity/articles/ce-poate-face-managementul-societatii-pentru-a-diminua-riscul-raspunderii-personale-in-contextul-pandemiei-COVID-19.html?fbclid=IwAR2Cf02S9Bih_R5oB49uexjxKGtNpybmGP9b2b3b-XN8WxpKHeQLJ2aIRuc

Fig. 9 Professionals entered insolvency between 01.01.2020 - 31.10.2020 compared to the same last year period



Source: Calculations based on ONRC data, 2020

Fig. 10 Insolvency professionals in the period 2018-2020



Source: Calculations based on ONRC data, 2020

There cannot be excluded the truth that there equally are companies that succeeded to adapt and fast to newly available ways of products and services providing to their client companies and/or individuals while the whole rest of the economy got devastated – e.g. activities assuming the people’s free movement.

Actually, even the lockdown proved able to boost market demand for some goods and services to be delivered some ways. ‘One month after the emergency state declared about 40% of companies were continuing activity, 37% of companies were reducing it and 23% of companies stopped it. Then, about 20-30% of the active companies in Romania have got exposed to insolvency’.⁵

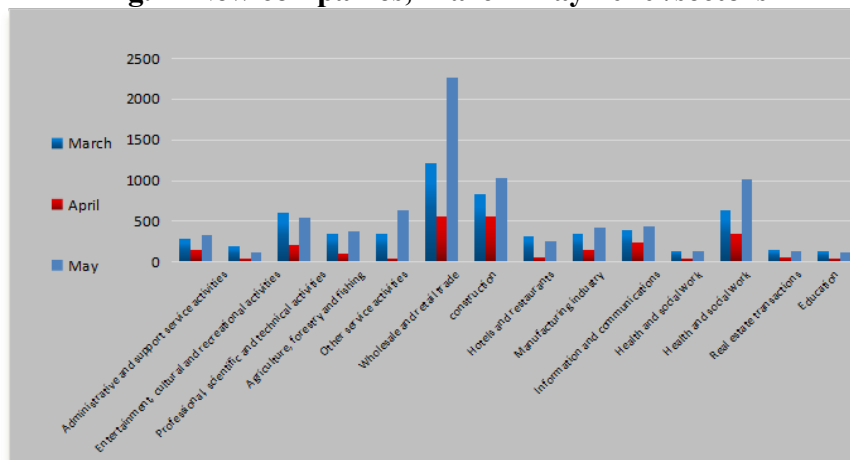
4.3 Attractive areas for investment in 2020

The most attractive areas for investment, judging by the number of newly established companies in 2020, are those in trade and car services (22,561 companies, of which 4046 only in the period March-May 2020), construction (11695 companies, of which 2441 in the interval March-May), information and telecommunications (5811 companies of which 1080 in the

⁵<https://www.musat.ro/ro/concordatul-preventiv-mecanism-de-salvgardare-a-companiilor-afectate-financiar-de-covid-19/>

period March-May 2020), transport and storage (9704 companies of which 2004 in the period March-May 2020).

Fig.11 New companies, March-May 2020 /sectors



Source: Calculations based on ONRC data, 2020

If we look at the counties where the new companies originated from, we see that Bucharest is by far the champion of the newly established companies, followed by Ilfov, Cluj, Timiș and Constanța. At the other end we find Mehedinți, Sălaj, Harghita, Ialomița and Covasna. We added to those presented above a recent study conducted by the consulting firms Frames and Sierra Quadrant⁶, based on which surveys from November 2020, we can draw other conclusions that available statistical data can not provide.

These data are related to financial aspects that companies face in the midst of a pandemic, they are linked to strategies and plans for overcoming the crisis, but also to the perception of entrepreneurs on the evolution of their business and the economy in general.

4. Conclusions

The ONRC's data⁷ indicate some advancing interest of Romanians for business despite challenges of all kind in the first 10 months of the year in study – i.e. 2020, with 92179 companies and authorized persons; it is true about 21.09% less than in the same period of the previous 2019. The pandemic pushed many companies to close gates, but on the other hand there also were those finding their best moments to start different business – this is what the ONRC's data reveal beyond the more than 90 thousand new firms hoping for profit. It is equally true that there won't be for all of these to survive. The National Institute of Statistics' data⁸ say that 4 of 10 new firms are over after one year functioning – survival rate of a business in Romania one year after its establishment is about 60%. New entrepreneurs are the ones with a business idea upon which they then built a firm to develop it or the ones

⁶ This study is called 'Barometer of the economic state' was done in the 10-15 November interval of the year 2020 using on-line, e-mail and by phone questionnaires to a number of 300 companies of diverse activity areas, e.g. trade, financing, agriculture, energy production and distribution, ready-made clothes, IT.

⁷ The National Office of the Romanian Trade Register is a public institution with legal personality, organized under the Ministry of Justice. It maintains, organizes and manages central computerized business records. The trade register offices are organized under the subordination of the National Trade Register Office and operate in Bucharest and in each of the 41 counties in Romania. They keep, organize and manage local commercial records. In accordance with Law no. 26/1990, the trade register contains information on registered professionals,

⁸ INSSE 2020, *Intreprinderi noi si profilul intreprinzatorilor din Romania*

previously losing their jobs and so seeing themselves forced to join the entrepreneurship alternative.⁹As for the domains chosen by entrepreneurs, the first option was trade – as already shown above.

As for difficulties facing, firms mention first the ‘lack of funds’, then the one of customers, the customers’ delaying payments, finally the similar lack of skilled workers. Highly frequent demand related difficulties are high competition, ‘this business is yet unknown’ and ‘low resources customers’.

Statistics of the first 10 months of 2020 confirm an economic phenomenon that even widened in the last years – enclaving business around big cities¹⁰. “The Romania’s economic development brings some ‘extremes’ in territory. Some big cities collect the most investment flows, while other regions themselves abandoned by investors and that despite enough lowered specific costs of investments. The problem might belong to missing infrastructure and labour, that last migrating first to the big cities. And this explains the fact that districts like Botoșani, Vaslui, Tulcea, Covasna, Harghita, Olt, Teleorman, Mehedinți and even others met a real step back in their economic development. And that was not only business, but obviously the people’s life standard” say the analysts. Lastly the companies’ restructuring gets obviously needed as the very solution for the business’ survival on the short term in 2021, no matter the pandemic end or not.

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⁹ <https://m.hotnews.ro/stire/24319304?amp>

¹⁰ Studiu Frames, 2019

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