THE ROLE AND IMPORTANCE OF STATE AID SCHEMES IN FINANCING THE NATIONAL ECONOMY

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Abstrat:

The financing of the national economy is supported by multiple financing mechanisms and instruments such as financing through the issuance of government securities, financing through European funds and with the contribution of the national budget through the capital market, etc. and last but not least through state aid schemes under the direct supervision of the Competition Council and in compliance with the directives of the European Commission.

State aid schemes are national and European funding instruments for the economy, regulated by law, and whose implementation mechanism is presented in governmental programs administered at governmental decision-making level. Moreover, these sources of funding (state aid schemes) are also given in the current context of globalization of financial markets and the emergence of new integrated financial technologies at national and international level ("fintech" digital financial technologies and integrated financial services). The emergence of new financial instruments at national and global level has a direct impact on the sustainability of finances.

Key words: financing instruments, state aid, globalization

JEL Classification: F59, G15 and G28

Introduction

In the current situation, in which the effects of the economic and financial crisis have rapidly spread worldwide, the economies of the EU member states are confronted and will face serious difficulties, both within the banking system and in the real economy.

The overall impact of the financial crisis and other crises (e.g. the migration crisis, etc.) on the real economy is still strong and the real economy as a whole is affected by a substantial slowdown in growth, with a direct impact on the population, businesses and places for work. Such difficulties affect not only domestic companies but also solid societies, which are suddenly confronted with the lack of liquidity and credit. This situation has a negative impact in particular on SMEs, which have generally more difficulties in accessing funding from financial and banking institutions compared to large companies. These difficulties not only seriously affect the economic situation of many companies and their employees in the short and medium term but may also have long-term negative effects as all planned investments may be delayed or even abandoned. In this context, the importance of using public funds, both national and European, is of particular importance. As far as they are properly targeted and dimensioned, they can be an important tool for economic recovery.

Research methodology

In order to base the research methodology on the project, we used classical observation and examination instruments, research methods based on the basic principles of scientific research, respectively: "competence, objectivity, truth, methodical, demonstration, correlation, evaluation of results, utility and psychomorphism "(Ristea and Franc, 2013). We used procedures based on factual analysis, intensive documentation at the level of internal and international literature, using the databases and the scientific material existing in the endowment of libraries of specific institutes in Romania and internationally.

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The methodology of the paper has as direct instruments the collection of data and information from the literature and from the existing practice in public and private institutions, but especially scientific articles published on specialized research networks (ResearchGate, Academia.edu, etc.), articles published in various journals, relevant books in the field of reference, legislation, analyses and studies, official documents of various tax bodies, tax documents and interactive database of the National Bank of Romania, other relevant sources identified in the libraries: CCFM, Academia Romanian, INCE, IEN, BNR, National Library, INS, etc. Moreover, we analysed the documents using the comparative, analytical, descriptive method, the no participative and participatory observation, and the use of a set of informational sources, the collection of financial data in the established databases. The work is also based on annual reports, publications, consolidated statistical data provided by the National Bank of Romania, the European Central Bank (ECB), the International Settlement Bank (BRI), the European Commission, OECD, published annually, data that have been processed for can provide a general and analytical picture of the most important changes taking place in the financial markets in the European Union as a whole but also globally - considered to be representative of the understanding of the phenomena studied, and especially in Romania.

The information support of the research was provided by the monographs, books, scientific articles, materials of the scientific conferences, the balance sheets of SMEs during 2008-2017, as well as other materials, which are presented in the scientific papers and publications displayed on the official pages of the national and international research institutes, international financial institutions (research centres), etc.

Research results

The European and national funding allocations are financial measures designed to support certain categories of beneficiaries and projects. Therefore, provided that these support measures fall under Art. 87 (1) of the EC Treaty, it is absolutely necessary to comply with the Community State aid rules for granting them. Thus, it is ensured that State aid does not allow the Member State to depart from the fundamental principles underpinning the proper functioning of the single market and to affect competition and trade with other Member States to an extent contrary to the common interest.

From the beginning of 2007 until now, 68 state aid schemes and de minimise aid (24 state aid schemes and 44 de minimise schemes) have been developed. Of these, 22 schemes were designed under state aid rules exempted from notification to the European Commission. These have been endorsed by the Competition Council and sent for information to the European Commission and can now is accessed by economic agents for obtaining funding. Particular attention should be paid to European funding of projects by economic agents in Romania, as the national authorities with the attributions in the field have to check both the compliance with the state aid rules and with the ones regarding the European funds. This can increase the complexity of the implementation process, but it ensures compliance with the obligations assumed by Romania as an EU member state and avoids any further shortcomings that might arise from non-compliance with these obligations.

While pursuing in principle the achievement of common objectives (regional development and cohesion, environmental protection, promotion of research, development and innovation activities, development of human capital, etc.), state aid legislation can limit the application of European fund procedures to the eligible areas for funding, the eligible costs of the projects, the maximum level of public funding, the minimum contribution of the beneficiaries, the authorization procedure and the implementation.

Therefore, within each operational program, the managing authorities together with the Competition Council identified the state aids and took measures to comply with the relevant Community rules in order to create the legal framework for accessing European funds by the economic agents. (see Annex 2)

State aid is a form of subsidy that the Romanian state grants to strategic companies that have a major impact on the economy. According to the data presented by the Association of Romanian

Businessmen (AOAR), in the period 2007-2015, about 720 million euro of state aid was granted, the beneficiaries being 91 companies, the majority foreign. They committed to create 27379 jobs.

The average state aid for each new job created is 26,600 euros. For an average salary of about 2,000 lei per month it results that these companies cover their fixed salaries during the 5 years, as is the legal obligation to maintain the jobs. The problem identified by the AOAR representatives was that State aid was granted according to arbitrary criteria. Moreover, foreign companies benefiting from two state aids, for example, received € 28 million in 2008 and € 35 million in 2012. Also from the AOAR study we find out that among the foreign companies that benefited state aid, 6 are multinationals that have also received over the past years cumulative aid of over € 500 million. At the same time, over the period 2007-2015, 18.5% of the total volume of state aid was granted to 2 groups of multinational companies. According to AOAR, 18 companies were set up in the year of receiving state aid, and 12 companies had less than 10 employees. Of the 63 companies that received aid, 19 ended with losses even in the year in which they received the aid. At the same time, the 63 companies that received state aid turnover increased from 29.7 to 57.2 billion lei in 2014. But also in the 63 companies the rate of return fell from 4.51%, as it was before receiving state aid, at 3.84% - after receiving the subsidies.

According to the state aid data published by the Ministry of Public Finance in 2018, the list of those to implement projects funded under the state aid scheme includes six multinationals. It is worth noting that, in total, between July 11 and August 22, 2018, 36 applications for subsidies of 1.98 billion lei have been submitted to the Ministry of Finance for investments totalling ROL 5.47 billion (EUR 1.2 billion).

The Ministry of Public Finance (MFP) selected six investment projects totalling 2.28 billion lei, which are in the final stage of the analysis to benefit from state aid, based on the investment incentive scheme with a major impact economy, says a press release from the Ministry[132].

State aid is a direct form of financing the national economy and supporting the strategic objectives, namely: the restoration of some value chains, especially those that make better use of natural resources; to increase the number of companies with domestic capital qualified to state aid. It should be noted that multinationals with declared 100% exports do not pay VAT. However, we consider that State aid should be granted on the basis of grid / volume - volume relative to the production of local sub - suppliers.

In the current economic situation, granting such aid can play a significant role in reducing the impact of the economic crisis by reducing unemployment and providing a pool of well-trained workforce able to adapt more easily and contribute to the recovery of the economy. Lately, the overwhelming importance of the energy sector in the national and international economy has become increasingly apparent. In this context, we mention that the experts of the SOP Competitiveness Managing Authority, the Intermediate Body for Energy and the Competition Council worked together to develop a state aid scheme meant to support investments for the extension and modernization of the electricity and natural gas distribution networks.

The state aid scheme is currently subject to the pre-notification mechanism with the European Commission, with the formal notice being given, depending on the position of its representatives, to obtain an approval decision. Moreover, the Competition Council cooperates with Exim Bank in order to ensure compliance with the new regulations stipulated in the European Commission's Communication on the Temporary Framework for State Aid Measures to Facilitate Access to Financing in the Current Economic and Financial Period, State aid in the form of guarantees. The scheme targets economic agents currently in a precarious financial situation.

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[132] *According to the communiqué mentioned in the text, out of 36 investment projects, six were selected in total amounting to 2.28 billion lei. The requested state aid amounts to 621.4 million lei. Thus, the six companies whose applications for state aid were selected are Pirelli Tyres Romania SRL, Arctic SA, Clariant Products Ro SRL, Robert Bosch SRL, Safe Med International SRL and Alu Menziken SRL. Thus, the value of the state aid requested by these companies amounted to 621.4 million lei "the score was based on the evaluation criteria provided by GD no. 807/2014: the value of the investment, the type of initial investment, the location of the realization of the investment, the profitability of the turnover (in the case of the enterprises in the activity), the value of the subscribed and paid-up capital (in the case of the start-ups).*

State aid measures temporarily available by other Member States

A significant number of Member States have followed the necessary procedures with state aid schemes available on the basis of the European Commission Communication:

Table 1. The measures adopted for the member state for the state aid schemes

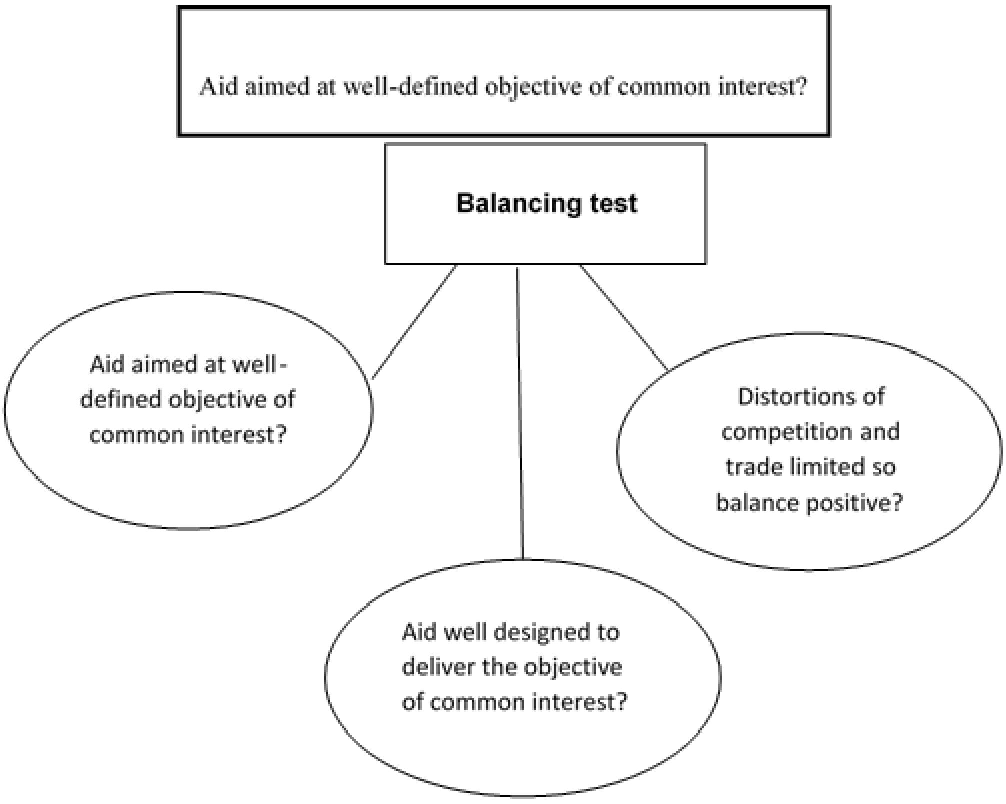
Member State	The measures adopted
FRANCE	*Grant Scheme up to the 500,000 Euros ceiling;* *Scheme for interest rate cuts;* *Scheme for reducing the interest rate for the production of organic products;* *Modifying the risk capital scheme.*
GERMANY	*Scheme for interest rate subsidy;* *Scheme for the granting of limited amounts of compatible state aid;* *Temporary adaptation of the risk capital scheme;* *Guarantee scheme;* *Scheme on interest rate cuts.*
UNGARY	*Guarantee scheme;* *Grant Scheme up to the 500,000 Euros ceiling;* *Scheme for interest rate subsidy.*
LUXEMBOURG	*Grant Scheme up to the 500,000 Euros ceiling;* *Guarantee scheme.*
PORTUGAL	*Grant Scheme up to the 500,000 Euros ceiling.*
AUSTRIA	*Grant Scheme up to the 500,000 Euros ceiling.*
LETONIA	*Grant Scheme up to the 500,000 Euros ceiling.*
UK	*Grant Scheme up to the 500,000 Euros ceiling;* *Guarantee scheme;* *Aid scheme for the production of organic products.*

Source: Av. Raluca Vasilache, FINANCIAL SUPPORT FOR CRISIS EXCLUSION - STATE AID, STRUCTURAL FUNDS. HOW TO SUPPORT THE EUROPEAN COMMISSION, THE MEMBER STATES AFFECTING THE CRISIS

Depending on the priorities of each Member State, State aid schemes should be strictly in line with these macroeconomic stability objectives of each State.

The raising of the quantitative and qualitative level of public goods and services provided to the citizen can be achieved, in the conditions of achieving sustainable economic growth, created in sectors with gross added value and higher competitiveness, as well as by increasing the efficiency of the fiscal-budgetary policy of Romania in to reduce the gap with the developed European Union.

Figure 1. Scheme for targeting State Aid



Sources: European Commission, DG Competition, 2018

Table 2. Structure of the general consolidated budget at U.E. and Romania (% of GDP)

	ROMANIA		U.E.	EURO ZONE
	1989	2016	2016	2016
Total budget revenue, of which:	43.5	34.9	44.9	46.5
Tax revenue, of which:	39.6	28	39.8	41.3
Direct, out of which:	20.8	14.7	26.7	28.2
Income tax	6.3	3.7	0	0
Profit tax	9	2.3	0	0
social contributions	5.5	8.1	13.2	15.3
indirect, out of which	18.8	13.3	13.1	13.1
VAT	18.8	8.1	7	6.8
Excise	0	4	3.7	3.6
Customs tax	0	0.3	0	0.3
Other indirect revenue	0	0.9	2.4	2.4
Non-fiscal income	3.9	6.9	5.1	5.2
Total budget expenditure, of which	36.1	35.7	47.3	48.5
Economic structure:	0	0	0	0
Staff cost	0	7.7	10.1	10.1
Social assistance	0	10.6	16.2	17.2
Debt service	0	1.6	2.3	2.4
Capital	0	5.1	2.9	2.7
Subsidies	0	0.5	1.3	1.5
Materials and other items	0	10.2	14.5	14.6
Functional structure	0	0	0	0
Education	2.1	3	4.9	4.8
Health	2.4	4	7.2	7.3
Infrastructure	0	1.2	0.7	0.7
Defense	1.2	0.8	1.3	1.2
Safety and public order	0.4	2.1	1.8	1.7
Social protection	3.2	11.4	19.4	20.3
Enviroment protection	0	0.8	0.8	0.8
Business (economic) actions	26.3	5.9	4.2	4.4
Culture	0.1	1	1	1.1
Public administration (gen.serv.)	0.4	4.7	6.7	7

Source: Public Finance Statistics, Eurostat, 2017

From the data presented above it follows that, compared to 1989, the volume and structure of the current budget are greatly changed, which reveals the profound changes in the Romanian society. In the structure of spending, the centralized management of the economy before 1989 is highlighted by the very large share of expenditure on economic activity (26.3% of GDP), 3.7 times more than today (5.9% of economic and 1.2% infrastructure). It is also worth noting that the level of social protection expenditures was 3.6 times lower than at present, given that the employment rate was very high (8.2 million employees), which, however, , screening and a certain amount of unemployment.

Conclusions and final remarks

The most important role of state aid schemes is to intervene in the strategic economic activity sectors of the state with economic, social and environmental impact.

Proposed measures regarding the granting of state aid as a form of financing of the Romanian economy. One of the measures that may be taken by the authorities administering and / or implementing aid schemes in force is to modify the budget and the number of beneficiaries when it is needed to meet the current funding needs identified in practice. This measure is preferable to the introduction of new State aid schemes with the same objective in order to make public funding available at a fast pace.

At the same time, taking into account the recent regulations adopted by the European Commission and in line with the support measures adopted by the other Member States, it is possible to draw up aid schemes to grant businesses EUR 500000 in grants for a period of 3 years, guarantees with low annual bonuses or subsidized loans. Moreover, the Competition Council supports the possibility to convert certain de minimis schemes, where the aid is limited to 200,000 euros, in schemes where financial assistance can reach up to 500,000 euros.

Thus, through the Competition Council and its experts, we believe that the authorities as State aid providers can cooperate closely to develop State aid schemes that will obtain the approval of the European Commission and whose implementation will lead to the solution, to the extent possible, of the current problems in the Romanian economy.

The analysis of the current situation of the financial market trends and the inventory of facts and acts, give a picture of the financial market, the emergence of new financial technologies at national and international level (fintech digital financial technologies and integrated financial services) (4).

The identification of financing needs is directly related to the direction of ensuring the financial stability of the financial market through a system for monitoring the use of financial instruments. The analysis also needs to focus on the overall financial system and is considered to be of the utmost importance to identify potential sources of instability in order to limit the risks and avoid high exit costs from potential major risk situations in the context of financial markets global (4).

National funding programs supported through the state aid instrument can actively and sustainably contribute to the strategic sectorial development of the Romanian economy, fully respecting the EU State aid directives of the Member States, which are part of the project structure. It is therefore necessary that these surveillance methods, thereby understanding the combination of monitoring and regulatory activities, are relevant to the envisaged situation in accordance with the objectives, which are targeted, reliable, easy to apply and standardized.

Financial market infrastructure plays a central role because financial stability is greatly influenced by the environment in which financial intermediaries operate. As there are cultural differences, there are also structural differences between countries. Nations have diversity between political and economic systems, legal frameworks and tax structures, which play a central role in the development of their financial systems. Those national influences can certainly interact and certainly affect practices and procedures in the regional financial markets.

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