

COMPANIES VULNERABILITIES IN THE CONTEXT OF COVID 19 CRISIS. ANALISYS AND POLICY RESPONSES

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Abstract:

In this paper we refer to the main obstacles that Romanian companies have faced lately, especially the risk of liquidity shortages, and discuss the steps that the government can take to reduce these risks and to relaunch the activity of the Romanian business environment. In this respect, we will analyse the current situation of the business environment in Romania, the economic measures adopted in several EU member states regarding the activity of companies, respectively measures proposed to support companies in Romania, using the most recent reports / documents and databases of the specialized bodies (National Bank of Romania, Institute of Statistics, OECD, Keysfin)

Keywords: firms, economic measures, liquidity shortages

JEL Classification: G 33, G 38, H32

Introduction

As the economy evolved in the first two months of the year, Romania seemed to register in 2020 the 10th year of economic growth after the global financial crisis of 2008-2009. But here are unexpected events that sent us back in time, at least from the perspective of economic growth, to the situation in 2009, when Romania recorded a decrease in real GDP of 5.5%.

For this year, analysts estimate a decrease in real GDP of about 5%, after an increase of 4.1% last year. It is the lowest level since the crisis in 2008-2009, caused by the sharp decline in global demand, but also by the significant reduction in the supply of products and services due to the closure of economic activity.

In Romania, the restrictions imposed in the state of emergency have strongly affected private consumption and the services sector, especially hospitality, tourism, air and passenger transport. Therefore, the authorities intervened through the Support Package, which is among the lowest in the EU, at about 3% of GDP, due to the limited fiscal space, compared to the Czech Republic, which allocated 20% of GDP, Hungary 18%, Poland 16% or Bulgaria 12%.

Most Romanian companies, being small and medium, are strongly affected by the decrease in demand for products and services globally and locally; large local companies or part of multinational groups will also suffer and will most likely postpone or cancel their planned investments.

The faster or slower recovery of the Romanian economy depends both on external factors, on how quickly Romania's trading partners recover, but also on internal factors such as measures to reduce the budget deficit, support measures for the business environment, in the long run in short, where there is the greatest need, but also for the medium and long-term vision of the government for a sustainable development of the economy.

In this paper we refer to companies, in general, the objective being the analysis of the measures proposed by other states regarding companies and possible solutions for relaunching the business environment in Romania. In this sense, we will address the current situation of the Romanian

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business environment, the economic measures adopted in several EU member states on the activity of companies, respectively measures proposed to support companies in Romania.

The current situation of the business environment in Romania

The number of insolvencies, suspensions, dissolutions and deregistrations of companies remains in the first 7 months of 2020 lower than that recorded in the same period in 2019.

In the first 7 months of this year, 60,634 companies were established, 31% less than in the same period in 2019, but the decline moderated from minus 47% and 29,780 newly established companies in the first 4 months of 2020.

Even if the effects of the pandemic are still being felt, the latest data show that the economy is starting to recover, and entrepreneurs and investors are always paying attention to what works and generate revenue and profit, as evidenced by their rapid focus on the energy sector and transport and storage, in the context of increasing online orders. Decreases of over 50% in the number of new companies are noticeable in agriculture, culture & entertainment and manufacturing (62.6%, 60.7% and 52.4%, respectively).

From a geographical point of view, most companies were established in Bucharest (9,810 companies, 7.5% less than in the first 7 months of 2019), Cluj (3,116 companies, 23% less than in the same period in 2019) and Ilfov (2,878 companies, respectively with 5% fewer registrations than in the first months of 2019 and also the smallest percentage decrease in the county). On the other hand, Argeş, Dâmboviţa and Gorj registered the largest percentage decreases, between 45% and 48%.

The number of suspended companies decreased by 30% in the first 7 months of 2020 compared to the same period in 2019, to 6,177 companies. Also, the number of companies that went into insolvency also decreased by 15% in January-July 2020, compared to the same period in 2019, to 3,179 companies.

Deletions and dissolutions decreased by more than half, respectively by 53% in the first 7 months of 2020 compared to the same period in 2019, to 42,802, and the number of active entities (PFA and legal entities) increased this year by 4%, to 1,398,611 as of July 31, 2020.

Regarding trade and construction, two of the engines of the Romanian economy, according to the Ministry of Finance, approximately 222 thousand companies (30% of the total) that reported their results in 2018 had as main field of activity one of the CANE codes related to trade (retail and wholesale) and had a cumulative turnover of 597 billion lei (39% of the total). Also, approximately 75 thousand companies (10% of the total) that reported their results in 2018 had as main field of activity one of the CANE codes related to the construction sector and recorded a turnover of 84 billion lei (5% of the total).

Economic measures to support the activity of companies in some EU Member States

There are two stages of the crisis caused by the Covid virus 19 in which both the authorities and the companies take measures in order to survive / maintain economic activity, as well as post-crisis measures. We refer to the stages of shock and recovery. The pace of recovery of the world's economies will depend on the policies that governments and companies have taken and will continue to take in each of the two stages of the current crisis.

We are still in the phase where maintaining as many jobs as possible and production and commercial chains are essential. Now, all government policies are about liquidity and solvency, for individuals and companies. Thus, fiscal and monetary stimulus packages have been adopted by almost all governments in the world in an attempt to limit the negative impact of this lockdown: technical unemployment, postponement of tax payments, suspension / postponement of credit installments or their maturity.

Therefore, the analysis of the measures taken by different states indicates which are the best practices globally. However, the intensity and, implicitly, the effect of these measures, depend on the specifics of each economy; developed countries have the capacity to "flood" economies with money to mitigate the implications of the crisis; but emerging economies (such as Romania) have fewer opportunities to provide liquidity, and dependence on global investors will increase.

To ease liquidity constraints, many countries have introduced measures to defer taxes, social security payments, debt payments and rent and utility payments. The provision of loan guarantees has also been introduced, extended or simplified to allow commercial banks to extend lending to SMEs; in some cases, countries have stepped up direct lending to SMEs through public institutions; grants and aids are provided to SMEs and other companies to cover declining incomes.

There are countries implementing structural policies to help SMEs adopt new (digital) working methods and technologies and find new markets and sales channels to continue operations under existing containment measures. These policies aim to address short-term challenges, such as the introduction of teleworking, but also help to strengthen the resilience of SMEs in a more structural way and support their further growth.

The following table shows that the most used instruments in response to the crisis are deferrals on income and profit tax, guaranteed loans, direct loans to SMEs and wage subsidies. Structural policies have been used sporadically, with a focus on teleworking and digitalisation, although in time the number of countries establishing such policies has increased.

Table 1

Implemented measures by some states in UE and OECD in order to cope with the Covid 19 crisis

State	Work			Defferals					Financial instruments			Structural politics			
	Temporary layoffs	Wage incentives	Freelancers	Tax on income/profit	VAT	Social contributions	Rent/ utilities	Debt	Guaranteed credits	SMEs direct lending	Grants and aids	New markets	Teleworking/digitalization	Innovation	Training and employment
Austria	X	X		X				X	X	X	X				
Belgia	X	X	X	X	X	X	X	X	X		X	X			
Cehia		X		X				X	X	X	X	X		X	
Danemarca		X	X	X	X			X	X		X				
Franta	X	X	X	X		X	X	X	X	X	X	X	X	X	
Germania	X	X	X	X					X	X	X			X	
Grecia		X		X	X	X			X	X			X		
Italia	X	X	X	X				X	X	X	X	X	X		
Letonia	X	X		X				X	X	X			X	X	
Lituania		X		X			X		X	X					
Portugalia	X	X		X	X	X			X	X		X			
Polonia		X	X	X		X			X	X				X	
Romania		X		X			X	X	X						
Slovenia		X	X	X			X	X	X	X		X	X		
Slovacia		X	X	X					X		X				
Spania		X	X	X		X	X	X	X	X	X		X		
Ungaria	X	X		X		X	X	X	X	X					
* UK		X	X	X			X	X	X	X	X				
SUA		X	X	X						X	X				
Rusia			X	X		X		X		X					
China		X		X		X	X	X		X	X		X	X	X

Source: OECD, 2020, SME Policy Responses

We observe, therefore, that European states provide significant sums to support companies in difficulty and, in addition, we see other measures aimed at minimizing the risk of an economic crisis (deferral of payment of taxes, non-collection of interest and late fees, temporary reductions of taxes, measures for the most affected sectors, technical unemployment).

Proposed measures to support companies in Romania

We believe that the main concern of companies is to adapt to the new context in which the world will be placed, after the initial phase of the coronavirus effect will be overcome; in the short term, it means survival; on long-term, rehabilitation.

It is well known that in the economy, there are severely affected industries and industries that are still experiencing business growth. At the level of sectors activity, we have sectors that are closed in proportion of over 80%, but there are sectors that are still active, but at low capacity, or sectors that are reinventing themselves to cope with the shock produced.

The most affected companies are those in the hospitality industry (hotels, restaurants, cafes), directly targeted by the restrictive measures taken by the authorities. In the category of severely affected companies are those of passenger transport (air, road), tour operators, real estate, fashion, retail (less products of strict necessity), event organizers, other services for the population. In addition, the automotive industry and some of its service sectors fell sharply amid declining consumption and the closure of production in China. Similarly, the household appliances sector is declining in the current period. To all these companies are added the service and goods suppliers of the above, which are indirectly affected by the explosion of market risk and non-collection.

On the other hand, among the less affected companies or those that record increases are: carriers of food and equipment and other goods used to prevent and combat COVID-19; companies in the production and distribution of pharmaceutical products; IT companies, in particular those that develop software or provide equipment and services; retail companies (especially online marketing) for food and basic necessities; courier companies.

Table 2

Measures taken by Romanian companies in the shock phase

Firm type	Companies strongly affected by the measures of the authorities	Companies indirectly affected	Companies with growing business or similar to the period January-February 2020
Operational measures	<ul style="list-style-type: none"> -availables / technical unemployment -renegotiation of leases and other contracts with various suppliers / postponement of rent payments -reorientation towards other types of activities -implementation of teleworking (where possible) 	<ul style="list-style-type: none"> -implementation of teleworking (where possible) -reduction of employees' salaries -technical unemployment - renegotiation of leases and other contracts with suppliers 	<ul style="list-style-type: none"> -implementation of telework (where possible) - reduction of purchases or expenses that are not strictly necessary in the next period (3-6 months) -focus on increasing the capacity to purchase goods and delivery (especially for online retailer and courier companies) - focus on increasing local production capacity (production of food and goods needed to combat and prevent Covid 19) - focus on increasing the capacity to provide services, in the case of companies providing services critical to the continuity of services

Financial measures	-“freezing” payments to suppliers in some cases -contracting credit lines / other types of loans / financing from group companies or banking companies	-contracting credit lines / other types of loans / financing from group companies or banking companies	-supplementing current credit lines to increase purchases / production.
Fiscal measures	-deferment of tax payments - requesting to benefit from fiscal measures for the reimbursement of VAT and other taxes due to the state budget, of the compensation for technical unemployment	partially, postponement of taxes and dues payments - requesting to benefit from fiscal measures for the reimbursement of VAT and other taxes due to the state budget, of the indemnity for technical unemployment	- requesting to benefit from fiscal measures for the reimbursement of VAT and other taxes due to the state budget

Source: Andrei, A., *Tax & Transfer Pricing Partner al Cabot Transfer Pricing, What measures have taken the companies affected by the COVID-19 crisis?*, <https://doingbusiness.ro/articol/ce-masuri-au-luat-companiile-afectate-de-criza-covid-19-dar-de-cele-care-nu-sunt-afectate-deocamdata-5098>

The main measures needed to overcome this crisis situation concern:

- a state aid program to support subsidies of up to 75% for the payment of salaries in areas affected by the crisis and the full and direct payment of sick leave allowance for coronavirus or quarantined employees (without payment from the employer and subsequently to recover the money from the Health House).

- With regard to proposals on tax, social, labor or law issues, it is necessary to apply support measures for SMEs to all categories of employers / employees: NGOs, sheltered units, social enterprises.

- Regarding modern public policies, it is necessary to develop the necessary clarifications on telework, work at home, work with flexible / staggered / temporary schedule. An example of this is the “Kurzarbeit” system in Germany, through which, in crisis situations, the employer agrees with the employees on the reduction of the work schedule and, proportionally, of the salary, and the Government takes over the difference.

- **fiscal credit.** Not all companies are in difficulty paying taxes and related taxes; the tax credit must be granted according to the size of the companies (inversely proportional). In a polarized business environment, in which the first 5,000 companies (the largest in terms of turnover, representing 1% of all companies active in Romania) concentrate almost 70% of consolidated revenues in the business environment, we need of measures to redistribute money to vulnerable companies.

- **trade credit** is the main element for financing working capital, which cannot be consistently postponed because it generates chain arrears and increases the risk of contagion. Companies that have temporarily reduced / ceased their activity, due to measures to prevent the spread of coronavirus, are unable to pay the commercial debts that have now matured.

- **bank credit and leasing.** Given the uncertainty about the future evolution of the coronavirus phenomenon, companies that are already adversely affected by declining turnover need stability in terms of bank financing.

We consider that the direct intervention of the state with liquidity and financial support is essential, by implementing an extensive scheme of government guarantees for financing / refinancing / rescheduling companies / individuals in difficulty by banks in more favorable conditions of costs and grace periods. Authorities should also grant facilities for the payment of taxes and fees in the most affected sectors, but not in all sectors. With regard to the behavior of non-payment in the economy, in general, and non-payment of taxes and dues in particular, it should not be encouraged, as the companies that have been affected tend not to comply with taxes.

We must mention that a factor that positively influenced the activity of companies was the SME Invest program. Thus, employees did not lose their jobs, companies paid taxes and duties, continued to operate and support the Romanian economy.

The main obstacles faced by companies

The coronavirus pandemic significantly affected the Romanian business environment, one and so fragile, with over 90% of poorly capitalized companies, many of them in the survival zone, without medium and long term financial resources.

At national level, the situation of companies has worsened compared to the previous year, among the (external) influencing factors being the economic situation at national level, the situation of the sector they belong to and the economic and financial situation of their company. However, the development prospects, the relationship with business partners (suppliers or customers) or the relationship with the financial institutions they work with have remained largely unchanged.

The problems that companies have felt are the most pressing in recent times (according to the NBR, June 2020, Financial Stability Report) are production or labor costs, the availability of well-trained labor and lack of demand. The main sources of financing used by companies remained the domestic ones, which became more important during this period than external resources, mainly due to the substantial advance recorded by the reinvestment of profits and the sale of assets. Bank loans remain a much less used option, and the number of companies opting for commercial loans and bank overdrafts continued to decrease in the analyzed period.

Also, large corporations are more pessimistic, compared to SMEs, in terms of the national economic situation, the business sector and their own company, but are less affected by factors such as the company's development prospects and the relationship with business partners or financial institutions they work with.

Depending on the field of activity, the most affected by the worsening of the factors influencing the activity are industry and the services and utilities sectors, while at the opposite pole are sectors such as construction and real estate or agriculture.

Regarding the internal obstacles, the decrease of sales largely affected the activity of the companies, followed by the non-collection or closure of the activity, due to the shutdown of the pandemic. The Covid crisis has hit hard in the economic chains in almost all areas of activity. Given the weak capitalization of the economy, many of the firms were and are engaged in trade credit / supplier credit mechanisms, and the sharp decline in consumption of goods and services in 2020 has significantly affected relations between companies. The financial blockage has intensified and many companies have entered into major financial difficulties. Therefore, the facilities granted by the authorities saved many of these companies.

At the same time, this fact led entrepreneurs to readjust to the newly created situation (According to the Sierra Quadrant barometer), by restructuring businesses, reducing supplier credit, reducing operating costs, staff reductions and digitizing companies' activities.

One of the facilities granted by the Government to the companies consisted in requesting the Emergency Situation Certificates (CSU). By September 15 (the deadline for requesting certificates) more than 60.000 Emergency Certificates were requested, the applicants generating almost a fifth of the turnover obtained nationally in 2019.

Thus, at least a fifth of the revenues generated by Romanian companies (319 billion lei obtained in 2019) was strongly affected by the macroeconomic situation in 2020 and there is a risk of significant decreases.

In addition to companies directly affected by the state of emergency, whose revenues have fallen directly, the entire business environment has had and continues to suffer.

The more than 60.000 companies that applied for CSU paid their debts in 2019 more than 50 days faster than the companies that did not apply for a certificate, and, at the same time, recovered their debts by about 26 days rapidly. This indicates that the measures taken during the emergency and alert period affected the entities with a more correct payment behavior and less on the rest.

In terms of solvency, companies that have applied for an Emergency Certificate have a solvency that is more than 0.9 points lower than those that have not applied for this document. Thus, an applicant for C.S.U. had at the end of 2019 a solvency of 1.44, while a company that did not request a certificate (ie was less or not affected at all) had, at the end of 2019, a solvency of over 2.3.

The lower the solvency, the closer the insolvency. However, the values recorded at the end of 2019 are high, even in the case of those who requested the CSU there are all the prerequisites to be able to overcome the current crisis in good conditions.

Conclusions

The negative effects of the pandemic are strongly felt at the level of Romanian companies. In such times, reaction time is essential, and one of the most convenient levers is the tax facility. Support measures are needed to avoid the blockage or bankruptcy of healthy sectors or companies; in this regard there are two types of requests: the state to intervene directly with liquidity and financial support, respectively to postpone the payment of tax obligations.

Among the effects of the crisis generated by the Covid 19 pandemic on the business environment are the reduction of both demand and supply of goods and services, drastic decrease in sales volume, reduction of the employment rate / increase of unemployment, reduction of private investments, blockages in supply chains.

In this context, states around the world have intervened with concrete measures to help companies and guide them through a prompt action plan. The measures taken by Romania seem to be similar to those taken at the level of other member states of the European Union. We note that European states offer significant sums to support companies in difficulty and, in addition, we see other measures aimed at minimizing the risk of an economic crisis (postponement of taxes and fees, non-collection of interest and late fees, temporary reductions of taxes, measures for the most affected sectors, technical unemployment).

The pace of recovery of the world's economies will depend on the policies that governments and companies have taken and will continue to take in each of the two stages of the crisis generated by the COVID-19 pandemic (shock and recovery). We are still in the first phase of this situation, in which maintaining as many jobs and production and commercial chains as possible are essential, when the purpose of economic measures concerns the liquidity and solvency of companies and individuals.

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