

## **Aspects regarding the dynamic of the SMEs Sector in the Romanian West development Zone, during the Economic Crisis**

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### **Abstract**

Regional development is a complex process that needs to sustain the development of each city from the region taking into account, modeling and developing the human activities and so, it contributes to the reduction of the economic gaps of different regions. Among the areas of interest of regional policies, since the establishment of the development regions in Romania were the development of the SMEs sector.

In the Western part of Romania, the number of SMEs has increased continuously until 2008, the beginning of the economic crisis. If in 2005, in the Western region operated around 42,000 SMEs, at the end of 2008 their number reached over 62,500, which shows a 50% increase.

During the economic crisis, by using statistical data, we will find out in the dynamic of the new SMEs a reduction of their number, in Romania. This study proposes an analysis of the SMEs sector in West Romania, during the 2008-2012 economic crisis, underlining also the importance of the anti-crisis measures initiated in October 2010.

**Keywords:** SMEs, economic crisis, economic growth, regional development

### **Introduction**

The actually global economic crisis began in July 2007, since the loss of investor confidence in the U.S. mortgage securitization<sup>1</sup> led to a liquidity crisis, which caused a substantial injection of capital into the financial markets by the U.S. Federal Reserve, the Bank of England and the European Central Bank. TEDSpread<sup>2</sup> index increased significantly in July 2007, oscillated a year and then increased again in September 2008, reaching a record of 4.65% at October 10, 2008. The crisis got worst in 2008 as the world's stock markets collapsed and than went into a period of acute instability. A large number of banks, lenders and insurance companies went bankrupt in the weeks that followed.

SMEs have paid the heaviest price in the period 2008-2011. Only in the western part of Romania, because of the economic crisis, thousands of companies have disappeared and their employees have thickened unemployed people.

In Arad County, in the period 2008-2011, 5,000 companies were suspended, between 800 and 1,000 were in liquidation or bankruptcy. Only 1,500 of 12,000 companies have profit.

A good management and a good market orientation may allow the SMEs not to feel the consequences of the financial crisis and can improve them, financially.

The West region has - by the number of inhabitants - 8.94% of the total Romanian population. That means a density of 21 SMEs/1000 inhabitants<sup>3</sup>.

The economic and financial crisis, which began in 2008, has changed quite dramatically the economic landscape of Europe's economy.

Research work on the economic crisis and its effects on western development area are few. Therefore, in our paper, based on statistical data, we make a research of the economic-financial crisis phenomenon for this area of development and we come up with some ideas able to avoid in the future disastrous phenomena for an economy, especially for the population.

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<sup>1</sup> Mortgage securitization in general involves creating securities, i.e. securities that mortgage based on mortgage claims. These can be based and other receivables, in which case no longer called mortgage securities

<sup>2</sup> Perceived credit risk in the general economy

<sup>3</sup> Source: own processing based on NTC and INS.

### **Material and Methods**

The materials used in our research are mainly statistical data of different institutions, covering the 2008-2010 periods. The method used is an economic investigation on a representative sample of SMEs in the West Region of Romania.

### **The Romanian SMEs sector development during the economic crisis**

An analysis on the SMEs in 2008-2010 is presented in the White Paper on SMEs in Romania, which appears under CECCAR and CNIPMMR, yearly.

This study investigates, using a representative sample, the condition and prospects of the entrepreneurial phenomenon in Romania and shows the future trends of the SMEs sector.

An exhaustive analysis of the SMEs sector in Romania is carried out in the works of Nicolescu (2010), Roman and Vreja (2011), Rizea (2010) and Ionete (2010). At the same time, in the Economic Tribune review (2011), the above mentioned authors underlined the main causes of the economic crisis in the SMEs sector, in Romania. This are:

- major difficulties in ensuring the necessary funding, liquidity and credit block;
- drastic decline in the demand of products and services at national and international level, reflected in the reduce of the exports and domestic sales;
- high taxation;
- large increases in the prices of raw materials, energy and food;
- fluctuations of the exchange rate and inflation;
- the financial blockage caused by delayed payments, by costly and difficult law procedures for settling trade disputes;
- unstable legal framework, bureaucracy and a huge number of administrative barriers in the activity of the SMEs;
- low absorption of the EU funds;
- a lack of measures to improve the SMEs activity, during the crisis.

Marchis highlights the development trend of the SMEs in 2009.

Studying the impact of economic crisis on SMEs in Romania<sup>4</sup>, the analysis reveals that, between March 2008 and March 2010, 44.5%

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<sup>4</sup> [www.immromania.ro](http://www.immromania.ro)

of the companies have reduced their activity, 43% of the economic units operate at the same parameters and 12.7% of the companies have had an upward trend.

The SMEs activity during 2008 and December 2010 shows that the young economic units (under 5 years) works at the same level like before in a percentage of 48.16% and 51.39% of the SMEs operating for 5-10 years have reduced their activity in the analyzed period.

**Table nr. 1<sup>5</sup>.** An analysis of SMEs, by age

Nr.	Dynamic of the SMEs activity during October 2008-March 2011	The age of SMEs			
		Under 5 years	5-10 years	10-15 years	Over 15 years
1.	SMEs which reduced the activity	34,13 %	51,39%	46,88%	49,11%
2.	SMEs that works at the same level	48,16%	35,52%	44,27%	42,75%
3.	SMEs which raised activity	17,71%	13,10%	8,85%	8,14%

Depending on the regional distribution of SMEs, that study reveals that 89% of the SMEs from the West of Romania have a reduced activity, while only about 10% of them have raised their economic activity<sup>6</sup>.

Following the structure of the values and weights of turnover recorded in 2008-2010 in the SMEs sector of the eight development regions from Romania, we can analyze the evolution of the economic performance in terms of the global crisis.

### **Aspects regarding the SMEs sector development in Western Romania, during the economic crisis**

For this research, we have made an analysis of the financial records and statistical data relating to a number of over 1300 SMEs in West Romania, from 2008-2010.

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<sup>5</sup> Study conducted by the National Council of Private Small and Medium enterprises of Romania (CNIPMMR), 2011

<sup>6</sup> Ibidem

The business situation of the SMEs in the West region during 2008 - 2010 can be characterized as worrying, because only 5% of the SMEs are considered prosperous. Regarding the reasons for reducing the activity of SMEs we must mention the bad Romanian economic environment. In the analyzed period the taxes are increasing while the facilities to develop business decreased substantially, with all the opportunities created by the EU funds.

Analyzing the distribution by counties, we can see major discrepancies between different geographical areas<sup>7</sup>.

A very small contribution to the job creation (less than one percent) in the West was registered in Caraş-Severin.

Trade Registry Office data from the four counties of Western Region - Arad, Timis, Caras-Severin and Hunedoara showed that in the first quarter, during January-March 2009, there has been a total of 838 companies which was recorded opening the bankruptcy procedure. In Arad County, a total of 226 companies have applied for bankruptcy, in Timiş 157 companies, in Caraş-Severin 88 and in Hunedoara County 367 SMEs. Taking into account the field of these businesses, the most affected companies are in retailing (60) and industrial production (36).

Studying the evolution in the number of SMEs, in 2008, the Western Region had a total of 62,358 SMEs and at the end of 2010 their number was 57,171.

In the West Region, the SMEs structure on the main areas of activity indicates that 34% of the companies operates in services (compared to 33% at national level) and 33% in trade (vs. 37% at national level). Industry, energy and construction, transport and agriculture, have around the same weight as the national level.

In the West Region we record a similar trend in the number of SMEs in areas like construction and trade. It means that for all the companies operating in these sectors; their number has declined from 2008 to 2009. The evolution of these fields in the West Region is similar to the evolution at national level. In agriculture it can be seen a return of the number of enterprises in 2010, compared with 2009. At the same time, the medium and large entities continue to decline in number in 2010, in contrast with the evolution at national level.

The structure of the SMEs in the West Region is identical with the national trend: almost 92% are micro enterprises, 7% are small and

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<sup>7</sup> <http://jdre.ase.ro/>

medium enterprises, 1.4% have practically the same state of affairs like the business environment at the national level.

### **Results and Discussion**

The analyses conducted by the National Council for SME in the previous years have shown that SMEs in Romania were hit hard by the economic crisis.

Our study concluded that 70% of the SMEs in the Western Region have adopted measures to deal with the crisis of 2008-2010. Among the measures adopted, we mentioned:

- reducing the cost of services provided by third parties;
- reducing the cost of utilities.

The change Romania has to make in this sector is to take a long-term economic strategy and structural reforms, to bring stability and to increase the absorption of structural funds.

Romania has negotiated with the IMF, World Bank and European Bank for Reconstruction and Development a financial strategy designed to support the economy. Measures aim to reduce the budget deficit to 4.4% in 2011 and below 3% in 2012.

The agreement signed with the IMF has, in previous years, positive results.

For the SMEs sector, out of the crisis requires:

- Political stability;
- Tax reduction;
- Government support;
- European funds.

The SMEs offer a significant number of jobs and a lot of measures which can influence the flexibility and dynamism of local parts, the process of adapting the production to the market requirements.

Given the economic and financial crisis, SME's can assure macroeconomic stability and growth.

### **Conclusion**

To sustain the SMEs sector in the current economic crisis is an apt solution to counteract the adverse effects of the economic recovery:

- the activity of SMEs in Romania faces many difficulties caused by the economic situation, the delaying privatization and the economic restructuring;

- the SMEs have to be the most profitable economic sector in Romania, with the largest growth perspective;
- private SMEs can create jobs to absorb redundant staff;
- private SMEs requires a strategy and policies different from those used in the public sector;

So, in order to improve the economic situation of the SMEs, the following measures have to be taken: elimination of flat tax, increasing access to finance the SMEs, simplifying and improving the administrative and legislative measures, reducing bureaucracy, encouraging a competitive business environment, reducing taxation, stimulating the creation of new jobs, exporting and implementing new technology, stimulating production investment.

To obtain economic growth, the government must take further steps to improve the business environment. Such measures may include tax exemption for the SMEs, on reinvested profits, reducing labor taxation.

In order to sustain this sector, the state has to pay debts, to encourage the absorption of European funds, to invest in infrastructure. Moreover, the business environment needs a stable fiscal framework, get from investment and attracting the European funds.

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