



THE ECONOMIC CRISIS AND THE EVOLUTION OF THE ECONOMIC AND FINANCIAL ACTIVITY OF THE SME

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Rezumat

Efectele principale ale crizei economice asupra IMM sunt: îngreunarea finanțării (accesibilitatea redusă la credite „omooară” afaceri viabile); scăderea exporturilor; diminuarea cererii interne; blocajele financiare create de stat, pe de o parte, prin datoriile către sectorul privat, și de alte companii care înregistrează dificultăți financiare, pe de altă parte; diminuarea investițiilor; efectul psihologic („sindromul crizei” se manifestă în plan psihologic prin inhibarea investițiilor derulate de către IMM).

Criza nu trebuie văzută ca o catastrofă, ci ca o mișcare amplă de schimbare la nivel global, cu efecte nu doar la nivel economic, ci și în plan social și politic. Pare tot mai evident că aceasta este mai mult decât o simplă criză economică: este semnalul unei schimbări majore de sistem.

Abstract

The main effects of the economic crisis on the SMEs are a more difficult financing (the low accessibility of credits “smoothers” viable businesses); lower exports; lower domestic demand; financial blockage created by the state, on the one hand, by the duties towards the private sector, and by other companies experiencing financial

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difficulties, on the other hand; decrease of investments; the psychological effect (“crisis syndrome” which acts at the psychological level by inhibiting the investments run by SMEs).

The crisis must not be seen as a catastrophe, rather as a broad movement of global change, whose effects are not just economic, but also social and political. It is increasingly obvious that this is more than just an economic crisis: it is the signal for a major change in the system.

Keywords: SMEs, economic crisis, economic activity, obstacles to then SMEs

JEL classification: H25, H32, K34

1. Macroeconomic retrospectives

Fiscality is one of the areas which underwent multiple transformations over the past two decades in Romania. These transformations were either too often, or too slow, or too sudden, so that the Romanian fiscal environment is perceived by all taxpayers as a factor of instability for the development of the Romanian economy.

Tax paying and the fiscal burden are often smothering. When the taxes exceed specific limits of tolerability, various phenomena occur which affect dramatically the capacity of the state to collect these revenues: decrease of the taxpayers number, shrinking taxable matter and basis, inefficiency of the related macroeconomic policies.

The proportion of the fiscal revenues within the GDP decreased throughout the EU over the recent years of severe economic crisis, although about half of the member states increased the VAT between 2008 and 2011. The fiscal burden remains high, compared to the USA and Japan, according to the most recent report by Eurostat.

In 2009, the proportion of the fiscal revenues within the GDP decreased in the EU to 38.4%, from 39.3% in 2008. Most of this evolution was determined by the economic recession.

At the level of the EU member states, the fiscal burden varies from lower values, below 30%, to more than 45%. The lowest values of the fiscal burden are in Latvia (26.6%) and Romania (27%), while the highest values are in Denmark (48.1%) and Sweden (46.9%).

From the beginning of the economic crisis, the average value of the standard VAT rate increased by 1.3% in EU-27 (from 19.4% in

2008, to 20.7% in 2011). In 2011, the standard VAT rates varied between 15% in Cyprus and Luxemburg and 25% in Denmark, Sweden and Hungary. The highest increase of VAT rate was noticed in Hungary (5 percent points), Romania (5 percent points), Greece (4 percent points) and Latvia (4 percent points).

The taxation of the natural person's income decreased, at EU level, from 37.6% in 2010 to 37.1% in 2011. In 2011, the highest taxation rates were in: Sweden (56.4%), Belgium (53.7%), the Netherlands (52%) and Denmark (51.5%), while the lowest were in Bulgaria (10%), Czech Republic (15%), Lithuania (15%) and Romania (16%). Romania has the fourth lowest taxation rate of the natural person's income in EU-27 in 2011.

The taxation of companies continued to decrease in 2011. In 2011, the highest taxation rates were in: Malta (35%), France (34.4%) and Belgium (34%), while the lowest were in: Bulgaria (10%), Cyprus (10%) and Ireland (12.5%). Romania has the sixth lowest taxation rate for the companies, of EU-27, in 2011.

The implicit labour taxation rate continued to decrease at the European level. In 2009, it decreased to 32.9%, from 33.8% in 2008. The lowest implicit labour taxation rates varied in 2009 between 20.2% and 41%. Malta (20.2%), Portugal (23.1%), Romania (24.3%) and the UK (25.1%) had the lowest implicit labour taxation rates. Italy (42.6%), Belgium (41.5%), France (41.1%) and Hungary (41%) had the highest implicit labour taxation rates.

2. Impact of the economic crisis on SMEs activity in Romania

2.1. SMEs activity from October 2008 to March 2011

The world economic crisis which started in 2008 was felt at full rate in Romania too. Many specialists consider that this is a large international economic crisis, with many adverse effects on the world economies.

Many of the Romanian small and medium enterprises were confronted with huge problems because of the strong economic depression. As in other parts of the world and in the EU, they coped with much difficulty with the economic crisis because the SMEs generally are more vulnerable than the larger companies to the contextual disturbances.

If we consider the **year of organisation**, we will notice that many of the companies younger than 5 years run within the same

parameters (48.16%) while some even increased in value (17.71%). Meanwhile the SMEs of 5-10 years hold a significant proportion of the companies which reduced their activity during the analysed period (51.39%).

Table 1
Dynamics of SMEs activity from October 2008 to March 2011, by company age

Dynamics o SME activity	SME age			
	Below 5	5-10 years	10-15 years	Over 15 years
1. SMEs which decreased their activity	34.13%	51.39%	46.88%	49.11%
2. SMEs running at the same parameters	48.16%	35.52%	44.27%	42.75%
3. SMEs expanding their activity	17.71%	13.10%	8.85%	8.14%

SMEs analysis according to the **regional affiliation** reveals the following relevant aspects:

- The companies from south-west region (SV) reported a higher proportion of enterprises which decreased in activity (56.74%);
- The central region (C) holds the highest proportion of SMEs running at the same speed (50.88%) and the lowest proportion of enterprises which decreased in activity (35.67%);
- If we consider the organisations which developed from October 2008 to March 2011, the south-east (SE) companies hold a lower proportion (7.61%), while the north-west (NV) units reported the highest level (22.67%).

Table 2
Dynamics of SMEs from October 2008 to March 2011, by region of development where they are located

Dynamics o SME activity	SMEs grouped by regions of development							
	NE	SE	South	SV	West	NV	C	Bucharest - Ilfov
1. SMEs which decreased their activity	42.25%	48.73%	47.08%	56.74%	47.06%	37.79%	35.67%	39.20%
2. SMEs running at the same parameters	38.73%	43.65%	43.30%	32.58%	42.65%	39.53%	50.88%	48.74%
3. SMEs expanding their activity	19.01%	7.61%	9.62%	10.67%	10.29%	22.67%	13.45%	12.06%

The examination of the economic agents by their **area of activity** reveals the following elements:

- The construction enterprises record the lowest proportions of organisations functioning at the same parameters (31.94%) and of expanding SMEs (8.33%), as well as a higher proportion of companies which reduced their activity (59.72%), because of the drastic decline of this sector during the recent period, following the lower purchasing power of the population and the limitation of credit;
- The SMEs from transportation recorded a higher proportion of companies which preserved their volume of activity (51.18%);
- The industrial units recorded the highest proportion of SMEs which expanded their activity (19.34%), while the enterprises engaged in tourism have a lower proportion of economic agents which decreased their activity (35.29%).

Table 3

**Dynamics of SMEs from October 2008 to March 2011, by
branch of activity**

	Dynamics o SME activity	SMEs by branch of activity					
		Industry	Constructions	Trade	Transport	Tourism	Services
1.	SMEs which decreased their activity	41.04%	59.72%	47.13%	39.37%	35.29%	41.34%
2.	SMEs running at the same parameters	39.62%	31.94%	42.89%	51.18%	48.04%	40.94%
3.	SMEs expanding their activity	19.34%	8.33%	9.98%	9.45%	16.67%	17.72%

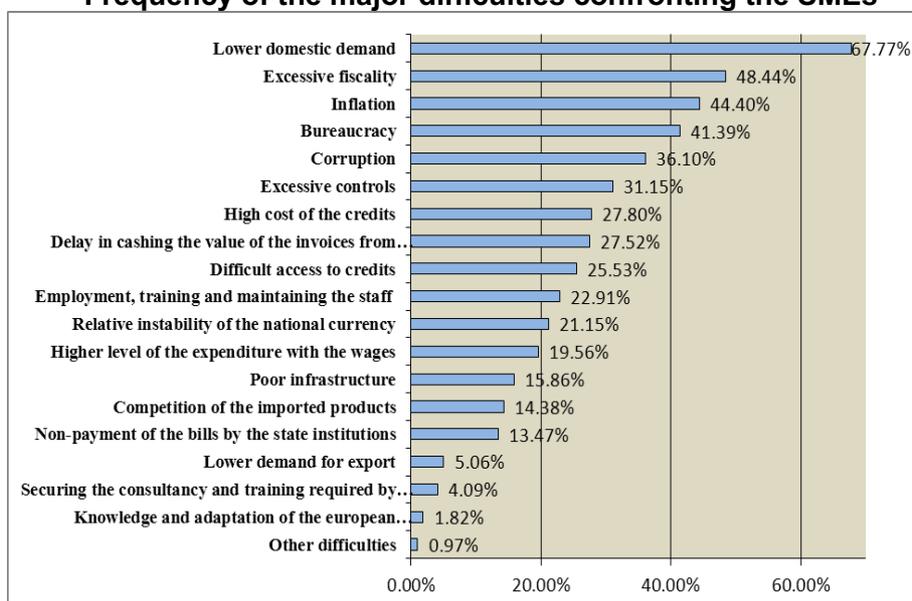
Note: The study was conducted by the Romanian National Council of the Small and Medium Enterprises (CNIPMMR) on a sample of 1723 SMEs.

2.2. Obstacles to the development of SMEs activity

The survey conducted by the Romanian National Council of the Small and Medium Enterprises (CNIPMMR), reported the following difficulties mentioned by the SMEs managers for the current period: lower domestic demand (mentioned by 67.77% of the SMEs); excessive fiscality; inflation; bureaucracy; corruption; excessive controls; high cost of the credits; delay in cashing the value of the invoices from private companies; difficult access to credits; employing, training and maintaining the staff; relative instability of the national currency; higher expenditure with the wages; poor infrastructure; competition of the imported products; non-payment of the bills by the state institutions; lower demand for export; securing the consultancy and training necessary for the company; knowledge

and adaptation of the European community *acquis*. The small and medium enterprises have also mentioned other difficulties, such as: unlawful competition, very high cost of the commercial areas, economic crisis, high cost of the raw materials, lower standard of living of the population which reflects in the decreasing number of customers, discrimination, by the fiscal organisations, of the smaller companies in relation with the bigger companies, poor training of the state officials etc (see Chart 1).

Chart 1
Frequency of the major difficulties confronting the SMEs



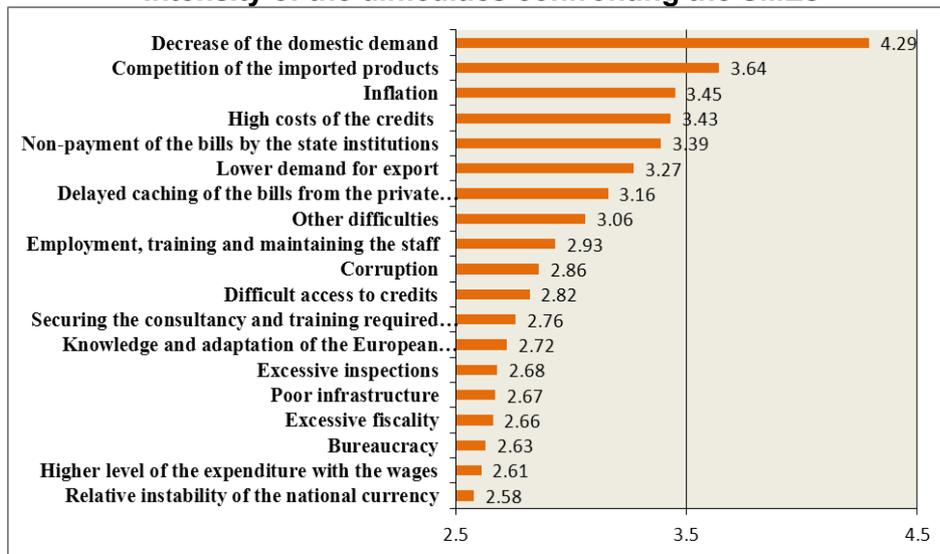
Source: White Chart of Romania, 2011.

In terms of the **intensity of manifestation of these difficulties**, on a scale from 1 to 5, the top position is taken by the decrease of the domestic demand with an average of 4.29, followed by the competition of the imported products, inflation, high costs of the credits, non-payment of the bills by the state institutions, lower demand for export, delayed caching of the bills from the private enterprises, other difficulties, employment, training and maintaining the staff, corruption, difficult access to credits, securing the consultancy and training required by the company, knowledge and

adaptation of The European Community acquis, excessive inspections, poor infrastructure, excessive fiscality, bureaucracy, higher level of the expenditure with the wages, relative instability of the national currency (see Chart 2).

Chart 2

Intensity of the difficulties confronting the SMEs



Source: White Chart of Romania, 2011

Depending on the **regional location of the SMEs**, some interesting differentiations may be noticed:

- The proportion of SMEs for which the lower domestic demand is a major problem is higher in north-west and lower in west (53.95%);
- The excessive fiscality is mentioned as one of the main difficulties by 56.58% of the enterprises from west and 42.80% of the SMEs from south-west;
- Bucharest-Ilfov has the highest number of organisations claiming the high level of corruption (47.11%), the extent of bureaucracy (50.83%), the excessive inspections (40.08%) the difficulties in securing the consultancy and training for the company (6.61%);
- The delays in cashing the invoices from the private companies are mentioned most often in west (36.84%) and more rarely in north-west (10.38%);

- The proportion of the SMEs affected by the high costs of the credits is higher in west (36.84%) and lower in north-west (15.85%);
- The largest number of economic units confronted with inflation is in north-west (71.04%), and the fewest in south-west (29.22%);
- This higher level of the expenditure with the wages was more often mentioned by the companies from the central area (28.93%) and more rarely mentioned by the companies from south-west (15.64%).

3. Possible solutions for a more efficient fiscal system

Measures of fiscal reform are necessary in order to assist both the taxpayer and the state, by creating a predictable, “friendly” and competitive fiscal system.

In present, Romania doesn't have a fiscal model; the fiscal domain is represented by several acts of legislation which change in a chaotic manner, depending on who is governing and, which is sad, there is no long-term perspective on the fiscal strategy which Romania should implement so that we can really talk of a long overdue “economic fresh start”. The fiscal legislation in Romania is regulated by the fiscal Code – Law 571/2003, the Methodological Norms for the application of the Fiscal Code – HG 44/2004, the Code for Fiscal Procedure – OG 92/2003 and other 200 acts of legislation.

The legislative reform is a complex process, on the medium term, relying on principles and objective focusing on modernization and efficiency. Within this context, we need **simplification** – the fiscal law must be simple and easy to enforce; **predictability**, at least at the level of one fiscal year and with a dynamic consistency (legislative body properly structured and universally applicable); **consistency**, by removing the exceptions; **rationality**, by knowing the reasons for taxation; and **equitable**, equal treatment for all taxpayers.

The **objectives** which a true fiscal reform should have are: lower number of fiscal and parafiscal¹ taxes; enlargement of the taxation basis (measurable and observable), elimination of exceptions and privileges, lower tax evasion, unification of the taxation basis and of

¹ Between 30 June 2009 - 31 May 2011 several legislative acts have been approved, by which the number of non-fiscal taxes/fees was reduced from 491 identified initially, to 254 by the end of May 2011.

the social contributions or simplified fiscal measures and expanding their area of applicability.

Specific principles (immutable laws) which would improve the state-taxpayer relation

1. Before being “good” or “bad”, the Fiscal Law must be “equal for all”;
2. The social taxes are not fiscal duty, rather “commitment of solidarity”;
3. Taxation is an exercise of “rationality” acknowledged by the taxpayers;
4. The fiscal strategies are interdependent with the budgetary policies, but their ultimate goal is to “stimulate the business”;
5. The Fiscal Law is the promoter of the “moral capitalism” (adoption of ethic standards which increase the value and reputation of the fiscal administration, make the taxpayer law-abiding);
6. The Fiscal Law will have no „exceptions” and „privileges”;
7. The Fiscal Law will not „discriminate” the taxpayers in their relation with the state;
8. No norm of application „will exceed” the Fiscal Law;
9. The „fiscal inspection” will first be „indicative” and „corrective”, and only ultimately „coercive” and „punitive”;
10. The „error” in formulating the Fiscal Law is an „attack to the national safety” (The law must be elaborated with responsibility, competence and in full harmony with the objectives of the budgetary policies).

Other proposal of fiscal reforms:

- Introduction of „differentiated quotas” for profit taxation (10%) and of the income of any kind (15%), including the pensions and state allocations paid from specific budgets;
- A mobile VAT rate: between 0%, a low level (5% for basic products and services), a medium rate (no more than 22%) and a high rate (at least 30%, with limited deduction for the products whose real quality and value cannot be estimated correctly);
- Introduction of the simplified VAT norms for all products with excise and for the products/values without physical movement and instant transaction (green certificates);
- Introduce the legislation of the *holdings*, with objectives focusing on fiscal consolidation, business and capital concentration,

development of the services for holding administration, of the financial services etc.;

- Reduction of the dividend taxation for the natural persons to 5% and no tax on company dividends;

- Introduction of the annual statement of wealth for all taxpayers natural persons (definition of the "wealth" in fiscal terms); monitoring the evolution of the wealth in order to catch in good time the fiscal frauds;

- No taxation on the reinvested profit and of the profit used to self-finance the production cycles;

- No taxation on the profit from the exploitation of a new facilities (during the first three years, in any field) and of the modernized facilities (first year, for modernizations in excess of one million euro, VAT included);

- Define the „zero" moment for the introduction of a general fiscal amnesty with the following main objectives: introduction of an unprecedented fiscal discipline and rigour, doubled by tough coercion measures for non-voluntary fiscal contribution, taxation by 5% of the repatriated incomes, taxation by 5% on the medium term of the wealth with no fiscal justification.

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