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The Impact of the Pandemic Crisis on the National Economy

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A R T I C L E I N F O

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A B S T R A C T

The pandemic crisis has destabilized the entire national economy, affecting, at the same time, businesses in all fields of activity, regardless of their size and economic strength. This crisis has divided the actors of the Romanian business environment into winners and survivors, even if many of the companies have definitively given up the idea of running a business. The effects of this crisis will be felt for a long time, so in order to remain on the market most businesses will have to reinvent themselves to withstand an extremely dynamic and uncertain economic and social environment.

1. Introduction

The year 2020 was atypical for the entire Romanian economy, the vast majority of companies wanting to act prudently in an unknown and unpredictable context. Most players in the goods and services markets have decided to reduce the volume of investments in order to focus on the current activity that required permanent adjustments during this period.

A difficult year for all entrepreneurs, who have faced extreme measures and blockages in carrying out activities under normal conditions. The pandemic period generated both challenges and opportunities. Some businesses were closed, others survived, and others profited.

Half of the SMEs in Romania reduced their activity in 2020, as a result of the pandemic, and one third sent their employees into technical unemployment. According to the National Council for Small and Medium Private Enterprises in Romania, if in 2019, the main problems of small and medium enterprises were those related to employment, training and retention of staff, bureaucracy, inflation, in 2020 things have changed, and on the first place is uncertainty about future developments, declining domestic demand and the temporary suspension of activity due to the pandemic crisis.

Half of the SMEs have reduced their activity, 38% are at the same parameters and only 13% have amplified it this year. At the same time, a third of the companies sent employees into technical unemployment, 22% postponed the payment of taxes and 14% the rent, 11% took loans through SMEs Invest, 10% postponed the payment of utilities and 7% the payment of loans to banks.

Online commerce is one of the winners of this crisis, and at the opposite pole are the companies that offer market services to the population. Exceptions are courier companies that have not been affected by this pandemic crisis - health and economic - these companies have increased the level of employment, sales volume and implicitly the level of turnover.

Many businesses in the field of public catering - restaurants, pubs, pastry shops, confectioneries - have reduced their activity and focused only on home deliveries, mainly to keep in touch with customers, limit losses and stay afloat. Owners of private schools of dance, acting, music or foreign languages or those who have invested in children's playgrounds have been forced to stop operating, in accordance with the operating restrictions imposed by the state of emergency and alert. They translated their activity online, organizing courses or workshops with students. On the other hand, agricultural products increased sales by 24% in the first half of 2020 compared to the same period last year.

Another business that did even better during the pandemic is the development of applications and websites. Specialists have had quite a lot of work in recent months, many companies and companies that did not focus on the online area before the pandemic were forced to do so, so they turned to professionals to readjust to the new reality.

Many areas of activity have suffered, but there have also been areas such as medical and related services, but also some businesses in the field of HoReCa, which went well during this period, more precisely

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it is a fast food restaurant based on deliveries and lifting orders. Currently, this business has entered the franchise market.

According to data centralized by Hospitality Culture Institute, the profile market, which includes the activity of standard restaurants, fast food, cafes, canteens, pubs and supermarkets will no longer be influenced only by the pandemic evolution, but also by a number of positive factors. which are also related to the business strategies of the cooked food business [1]. In the view of market analysis specialists, the big winners of the crisis will be small restaurants, which have reinvented themselves and moved to take-away and delivery. It is estimated that they will earn 30-40% more than before the crisis, but in terms of profitability, not depending on turnover.

2. Dimensions of the Romanian business environment under the impact of the pandemic crisis

At national level, all sectors of activity, under the impact of the pandemic crisis, registered negative aspects from the perspective of overall economic results - volume of activity, turnover, average number of employees, volume of investment expenditures, etc.

Thus, the retail trade registered at the level of 2020 an increase of 2.2% in gross turnover, [2] compared to the same month of the previous year, amid the increase of the population's income (+ 5% increase of the power of purchase of salaries and + 13% for pensions in Q3 2020).

The evolution of trade was positive, upwards, except for a cyclical stagnation in August 2020. With an increase of 5% in food, beverages and tobacco, and 5.6% in non-food products, respectively, the overall result was only due to the decrease in fuel consumption for motor vehicles (-8.0%), due to travel restrictions and lower international energy prices.

The data presented by the INS show that, against the background of the effects of the pandemic, which led to a significant decrease in GDP (-5% after the first three quarters of 2020), the slowdown in consumption compared to the previous year was reduced to food (-1 percentage point), barely moderated for non-food items (-2.2 percentage points) and only for fuels there was a considerable decline (-14.5 percentage points) [2] results in industry and agriculture were declining significantly. Thus, the trade deficit in external relations rose to about 16.5 billion euros (data available at the level of the 11 months of 2020), the increased domestic demand being fueled to a greater extent by imports. Thus, on the one hand, the maintenance of the result of trade in a positive sense induced a certain attenuation of the economic contraction, given the high share of services in GDP. On the other hand, industrial production (located at a monthly average of -10.2% on the gross series for the first 11 months of 2020) remained far from the evolution of trade.

Table no.1. Dynamics of the main indicators of economic activity by sectors

Activity sector	Number of active enterprises	Average number of employees (thousands of people)	Fiscal value(million RON)	Gross investment (million RON)
	2017 2018 2019	2017 2018 2019	2017 2018 2019	2017 2018 2019
Total	525.660	8.367	1.351.390	115.210
	547.570	8.408	1.526.643	125.945
	563.279	4.126	1.666.385	151.018
Industry	50.851	1.967	478.567	44.744
	53.484	1.947	529.023	48.693
	58.920	1.343	551.939	50.803
Constructions	52.792	691	74.841	16.885
	55.978	683	90.676	18.976
	59.536	394	111.821	23.142
Trade	172.435	1.224	547.276	16.671
	172.856	1.217	617.416	17.934
	170.267	877	667.126	20.649
Market services	249.582	4.485	250.706	36.910
	265.252	4.561	289.528	40.342
	274.556	1.510	335.499	56.604

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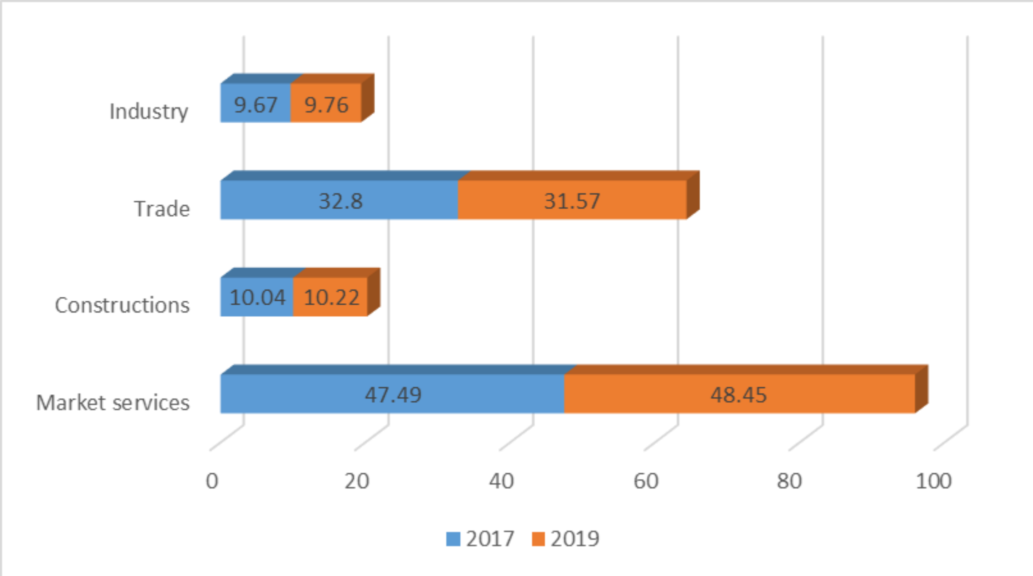
At the level of the European Union, the seasonally adjusted data of Eurostat show a decrease in retail sales of 0.8% in 2020 compared to the previous year, with an increase in the component of sales of food, beverages and tobacco of 5.6% in the same period (to the detriment of fuel sales, which fell by 14.1% in the same period). However, Romania thus ranked 7th in the EU, after the annual developments in Ireland (+11, 1%), France (+ 9.1%), Estonia (+ 5.9%), Poland (+ 4.5%), Belgium (+ 3.6%) and Malta (+ 3.3%) [3].
At the national level, retail trade (gross series) increased by 2.2% in 2020 compared to 2019, and wholesale increased by 3% compared to 2019, despite a total economic decline of 4% in 2020, according to data from the National Institute of Statistics.

Figure no.1. The evolution of the number of active enterprises by activity sectors in 2017 vs. 2019



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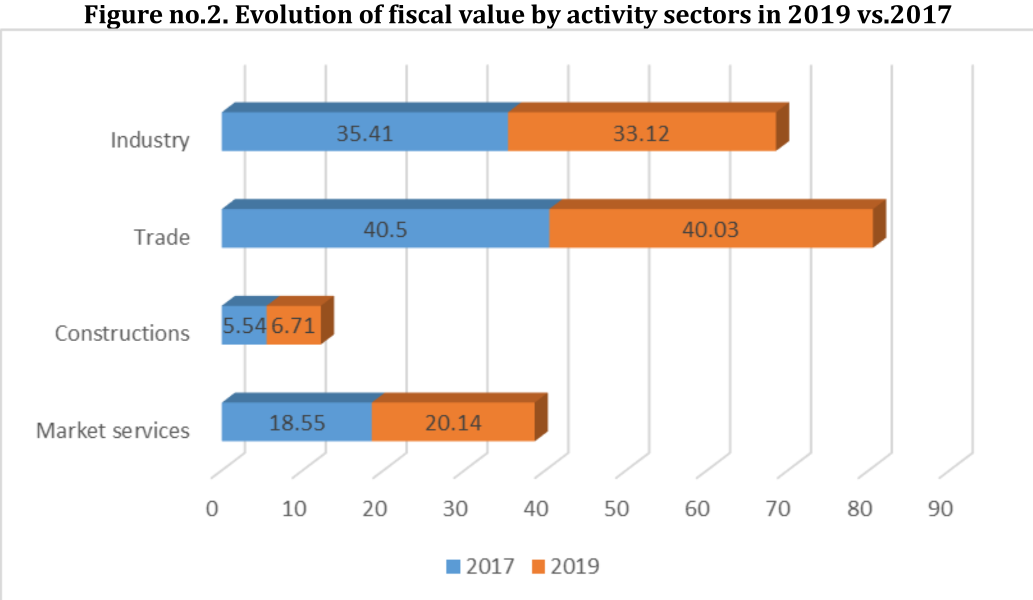
At the level of 2019, a total number of 563,279 enterprises are active in the national economy, increasing by 2.9% compared to 2018 and by 7.15% compared to 2017 [2]. At the end of 2019, the industry sector totaled a number of 58,920 active enterprises, respectively 10.46% of the total active enterprises at national level, while the active enterprises in the market services sector held a share of 48.74%. Compared to 2017, the number of active enterprises in each sector of economic activity registered a positive evolution, but one of insignificant proportions.

At the level of 2019, the fiscal value in the Romanian economy was 1,666,385 million lei, the largest share being held by commercial enterprises by 40%, while construction enterprises held only 6.7% of the total fiscal value [2].

Figure no.2. Evolution of fiscal value by activity sectors in 2019 vs.2017



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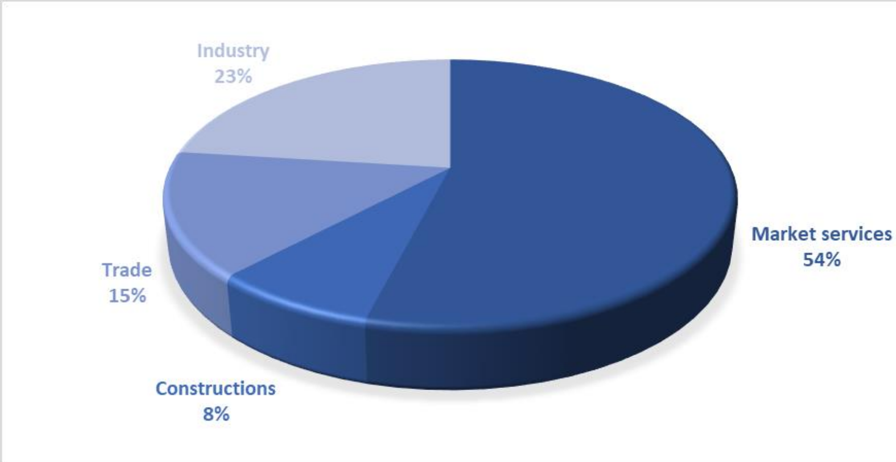
The four activity sectors generated gross investments of 151,018 million lei, and the structure of gross investments within the economic activity sectors is as follows: market services 37.5%, industry 33.6%, constructions 15.3%, and trade 13.6%. In addition, the gross result of the year in 2019 on the total economy was 115,674 million lei, and in the market services sector, the gross result was the highest, amounting to 39,085 million RON [2].

At the national level, all sectors of activity registered an average number of employees of 4,126 thousand, down 51% compared to 2018. At the level of 2017, market services enterprises had the largest share in terms of average number of employees (54%), followed by those in industry (23%).

Figure no.3. Distribution of the number of employees by economic sectors at the level of 2017



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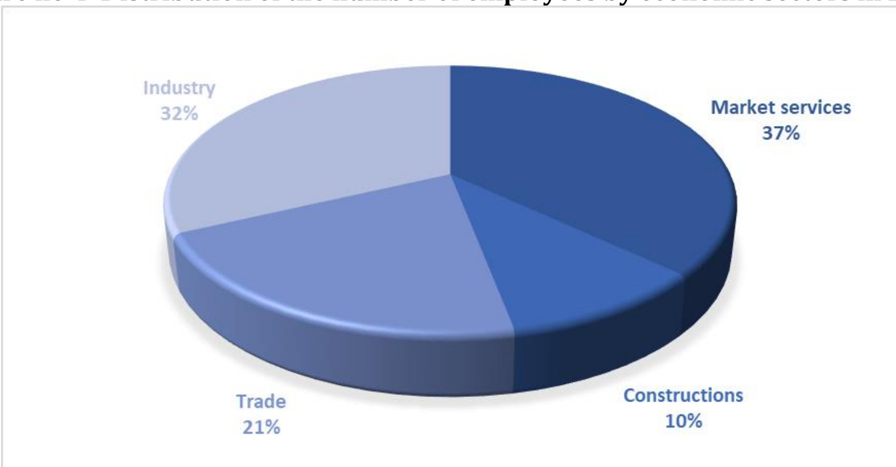
The companies in the market services held in 2019 the highest share in terms of the average number of employees (37%), followed by those in the industry (32%). The average size of an enterprise in the industry was about 22.8 employees, while in trade it was about 5.2 employees.

Figure no.4. Distribution of the number of employees by economic sectors in 2019



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Compared to 2017, the average number of employees increased by 38.11% in the industrial sector, by 45.32% in trade, while market services registered a significant reduction in the number of employees, of approximately 31.5% [2].

Thus, according to the Ministry of Labor, on April 29, 2020, 1,027,117 suspended employment contracts were registered with 327,200 in the manufacturing industry (32%), 185,000 in trade (18%) and 115,000 (11%) in hotels and restaurants. As a rate of damages, the number of suspended work relative to the active population (9.1 million people in Q3 2019) is currently at 11% [4].

Unlike the temporary nature of the suspensions, the evolution of terminated employment contracts (an increase of 143% compared to March 30), to almost 271,000 on April 29, is worrying. The number of unemployed (15-74 years old) also increased significantly in March to 410,000, the unemployment rate increasing by 0.7 percentage points compared to February (the minimum of the '90s), to 4.6%.

Table no.2. Trends in the evolution of economic activity by economic sectors

Sector	Economic activity (production volume)		Average number of employees	
	march-may 2021	april-june 2021	march-may 2021	april-june 2021
Industry	↗	↗	→	→
Constructions	↗	↗	↗	↗
Trade	↗	↗	↗	↗
Market services	↘	↘	→	→

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The conclusions of the conjunctural survey that highlight the development trends in the perspective of the activity sectors at the level of the national economy, carried out by INS in April 2021 are the following [2]:

- in the manufacturing industry a trend of moderate increase of the production level for the next three months (april-june 2021) is expected by 10%, while at the level of the beverage production activity the increase will be of 40%, and for the manufacturing activity of clothing trend will be one of reducing activity by 17%. Regarding the average number of employees, some stability is anticipated, the short term balance being -1%.
- in the construction sector, specialists estimate an increase in production volume by about 28%, and in terms of the average number of employees, their number will increase by an average of 9%.
- at the level of retail trade, the trend of economic activity is increasing, on average by 16%, while the average number of employees will increase by 11%.
- at the level of the market services sector, the trend is to reduce the turnover for the period April-June 2021, while the average number of employees will remain relatively constant.

The data confirmed by ONRC draw attention to the very difficult situation in which the pandemic and the restrictions of the authorities put many businesses in difficulty and in the impossibility to continue their activity. Compared to the situation in 2020, it is clear that the pessimism related to the possible improvement of the situation in the Romanian economy dominates the mood of entrepreneurs, most of them being in the position of giving up the idea of a business completely.

The number of insolvencies, suspensions, dissolutions or canceled of companies remained in the year of the pandemic much lower than the one registered in 2019. Thus, the number of suspended companies decreased in the year of the pandemic by 22% compared to 2019, respectively to 10,913 companies. The number of companies that went into insolvency also decreased by 12.7% in 2020 compared to the previous year, to a new all-time low of 5,694 companies [5].

Deletions and dissolutions decreased by 43% in 2020 compared to 2019, at the lowest level in the last 10 years of 77,099 companies, and the number of active entities (PFA and legal entities) increased last year by 5%, to the highest level in history (at the end of the period), of 1,430,180 as of December 31, 2020.

Table no.3. The evolution of the movements of newly created, closed or insolvent companies in Romania

Year	Erasers	Dissolutions	Suspensions	Insolvency	Firm registrations
31.12.2017	82.295	31.197	16.380	9.102	44.175
31.12.2018	80.181	34.358	18.038	8.304	46.479
31.12.2019	101.601	34.080	14.040	6.524	47.705
31.12.2020	51.715	25.384	10.913	5.694	48.290

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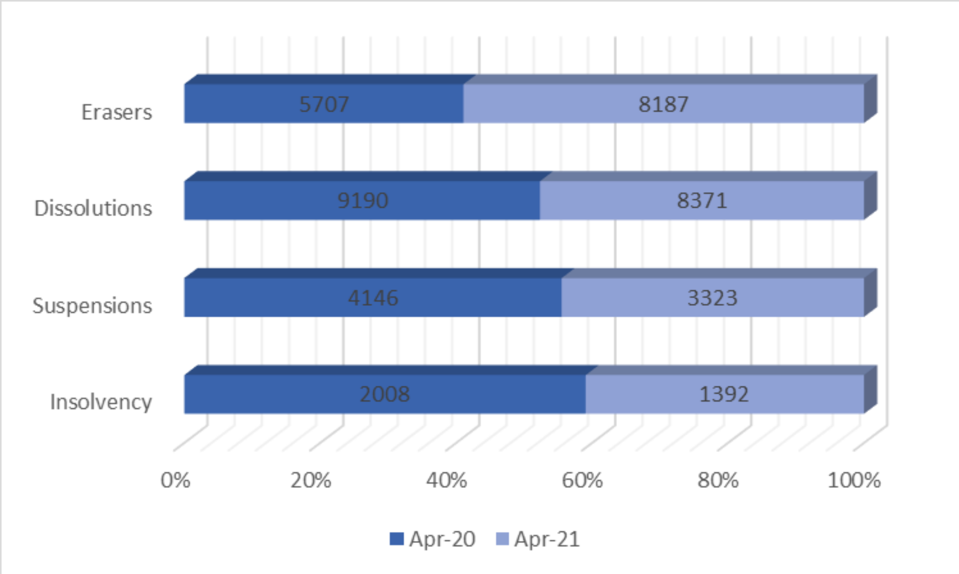
The number of deregistered companies in the country increased by 43.46% in the first four months of this year, compared to the corresponding period of the previous year, to 21,776 deregistrations, according to statistics provided by the National Office of the Trade Register.

Most delistings were recorded in Bucharest - 3,434 (plus 64.38%, compared to January-April last year) and in Timiş counties - 1,013 (+ 62.08%), Constanţa - 951 (+ 33. 19%) and Cluj - 942 (+ 38.53%) [5].

Figure no.5. The evolution of inactive companies at the level of the national economy during April 2020 vs April 2021



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On the contrary, the lowest delistings were registered in Teleorman counties - 169 (in advance by 5.63%, compared to the first four months of the previous year), Ialomiţa - 178 (+ 52.14%) and Calarasi - 199 - 48.51%).

The most considerable increases in the number of deregistrations were recorded in the counties of Alba (+ 91.29%), Dâmboviţa (+ 84.59%) and Vrancea (+ 83.54%).

Depending on the field of activity, the highest number of delistings was recorded in wholesale and retail trade, repair of motor vehicles and motorcycles - 5,998 (+ 47.44% in January-April of the previous year), agriculture, forestry and fishing - 2,003 (+ 60.11%) and construction - 1,967 (+ 41.21%).
In April 2021, 5,707 delisting companies were registered, most of them in the Capital (916) and in the counties of Timiş (290), Cluj (247) and Constanţa (245).

2. Perspectives in the development of the business environment

The pandemic crisis forced those who work in the Romanian business environment to seek and adopt survival solutions in the conditions of the new economic and social context. Thus, some companies have adapted by moving online; others changed their object of activity and tried to stay afloat. The less fortunate suspended work in whole or in part and used state aid to pay technical unemployment to employees.

On the other hand, the pandemic favored certain businesses and entrepreneurs during this time. The most profitable businesses during the health and economic crisis, with development perspectives in 2021 are:

- e-commerce - is considered the sector with the most opportunities offered by the pandemic (online traffic has increased by over 30%), businesses developed in the online environment can be considered solid and well-structured investments.
- home deliveries - a sector that has experienced a significant increase in turnover, given that purchases and home deliveries can be considered a safe and convenient way to make purchases;
- coaching services - a segment that does not require large investments and that becomes profitable from the beginning of personal or professional development activities;
- courier services - a sector that has registered a real success in the local economy, both from the perspective of registered revenues and the degree of development in territorial profile.

The strengths exploited by such businesses are:

- labor force - over 60% of these companies registered staff increases on all levels of business thus developed;
- labor productivity - 51% of companies consider that the productivity of employees in the online system was similar to that of employees outside the system;
- improving the sales system - mainly to compensate for the reduction in consumer demand, difficulties encountered in supplying imported goods;
- maintaining competitiveness - by capitalizing on markets, promoting new channels of communication with customers, the emergence of new products and services;

- digitalization - considered a real asset, both in the development of customer relations and in improving relations with partner public institutions.

For 2021, the vast majority of these companies anticipate changes in their business model, by constantly adapting to market requirements and making new investments that will allow them to obtain high profit margins.

The business idea for 2021 must be focused on capitalizing on opportunities, on achieving objectives, which implies a long-term development vision. Thus, the company of 2021 will place a greater emphasis on digitalization and the intensive increase of labor productivity.

Conclusions

The COVID 19 coronavirus pandemic has deeply affected the Romanian business environment, an extremely fragile environment, with over 90% of poorly capitalized companies, many of them in the survival zone, without qualified personnel and without medium and long-term financial resources. The need to survive in an economic and social context full of challenges and uncertainties will force the entire business environment to reconfigure its business plan, to adapt to market demands and to seek solutions to reduce the negative effects generated by this pandemic crisis. and to progress.

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