

ANALYSIS REGARDING THE DYNAMICS OF SMEs IN ROMANIA AND EUROPEAN UNION

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Abstract: *SMEs are a concluding and relevant part of Europe's economy. A comparison between the dynamic of the added value, employment and number of enterprises is followed from 2018 to 2022 in Europe and Romania. This period had its ups and downs with the most notable ones being the Covid-19 pandemic and more recently the Russian invasion against Ukraine, both of which left some deep marks in the economy. Also, SMEs are being contrasted by large enterprises in order to obtain an image of their impact in economy. The food and accommodation sector is briefly debated because of the susceptibility that it may have been one the most affected sector at least in terms of the pandemic influence. Some of the measures taken for supporting the travel and tourism sector in Romania are also briefly debated.*

Keywords: *added value, employment, SMEs, Romania, European Union.*

JEL Classification: *E24; L83; M10; Z30.*

Introduction

European Commission affirms that small and medium-sized enterprises (SMEs) are the backbone of Europe's economy. They represent 99% of all businesses in the EU. They employ around 100 million people, account for more than half of Europe's GDP and play a key role in adding value in every sector of the economy. SMEs bring innovative solutions to challenges like climate change, resource efficiency and social cohesion and help spread this innovation throughout Europe's regions. They are therefore central to the EU's twin transitions to a sustainable and digital economy. They are essential to Europe's competitiveness and prosperity, industrial ecosystems, economic and technological sovereignty, and resilience to external shocks. Rotar et. al (2019) concluded that SMEs have a main part in achieving innovation potential, enhancing employment rate and creating added value which all effects national growth and development.

Discussions on the main indicators of SME development in Romania and the EU

We will analyze the evolution of Romanian SMEs in the European context in relation to the main indicators that reflect economic development, namely: added value, employment rate and number of enterprises. The analysis period starts with 2017 and ends with 2022.

Dynamic regarding added value and employment of SMEs, in Romania and/ or European Union

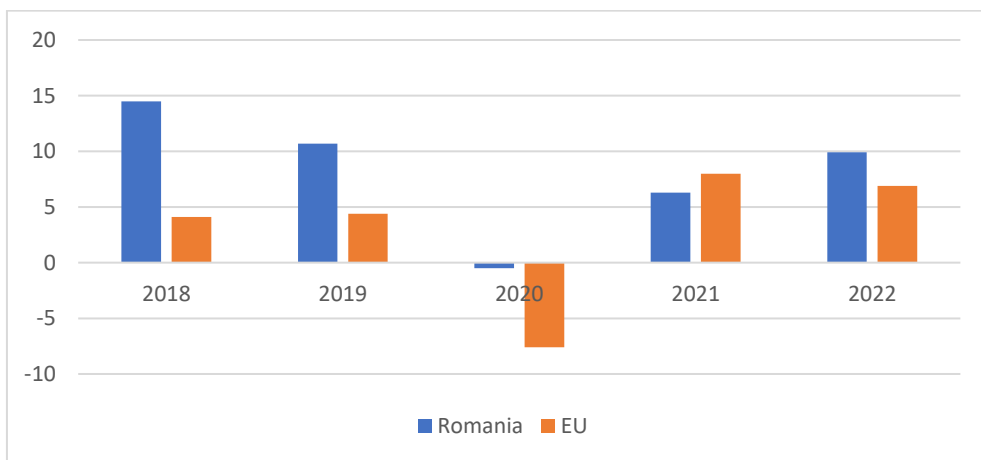


Figure 1: Added value in Romania and European Union in SME business class.
Source: Annual Report on European SMEs (from 2018 to 2022)

In Romania it can be observed that the maximum value registered from year to year, regarding the added value is 14.5 percent in 2018 compared with 2017. In the following year, 2019, the percentage drops to around 10.7, meaning a decline in the growth rate at around 4 percentage points. The year 2020 marks the beginning of the Covid-19 pandemic and a decrease in the value added compared to 2019 of 0.5 percent. In 2021, it can be observed that there is an improvement, translate into a growth of 6.6%. A reason for this might be the ease in the restrictions and a better understanding of the pandemic. For 2022, the results are only expected to reach 9.9% in terms of growth of the added value. But the start of the Russian invasion against Ukraine in February 2022 up to the present moment, that shock the whole Europe, may interfere with the expectation for the 2022 regarding the added value.

In Europe's case the numbers are a bit on a different path. In 2018 and 2019 the growth rate of the added value is between 4.1% and 4.4%, so at a lower rate than Romania's. 2020 brought a huge decrease of around 7.6%. In 2021, Europe's recovery in terms of percentages is better than Romania's, registering around 8%. The expected value for 2022 is lower compared to Romania, at a rate around 6.9 percent. Overall, it may be considered than Romania it's a bit more balanced than Europe, relating only at the added value indicator showed above.

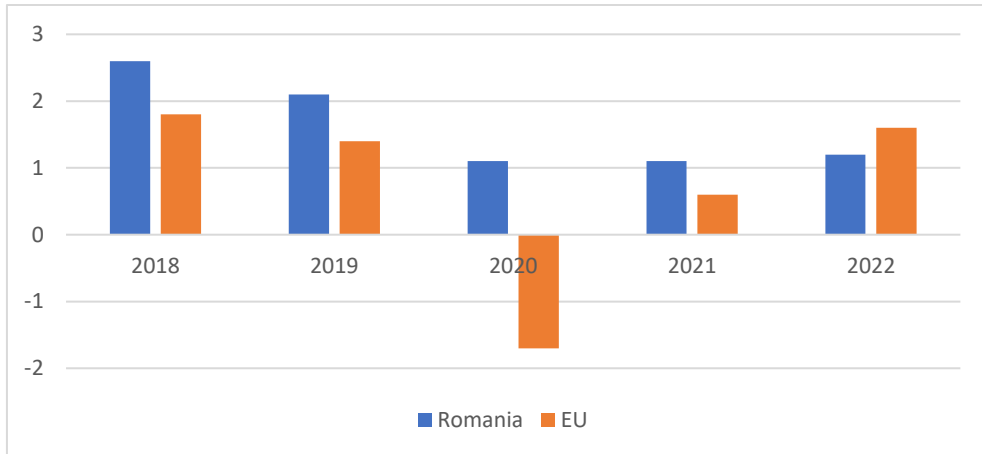


Figure 2: Dynamic of the Employment rate (from year to year) in SME business class.
Source: Annual Report on European SMEs (from 2018 to 2022)

Regarding the employment, this indicator is more or less the same as tendency in Romania and European Union with an exception in 2020. In that year, in EU, was registered a decrease of 1.7 percent compared with 2019 while in Romania's case the dynamic was positive, meaning an increase by 1.1% compared with the previous year. The percentage is higher in EU only in 2022 (which is going to be expected) in the other period analyzed Romania is situated above the EU average. Again, in Romania's case, thigs seem to be more balanced compared to EU, especially regarding the year 2020.

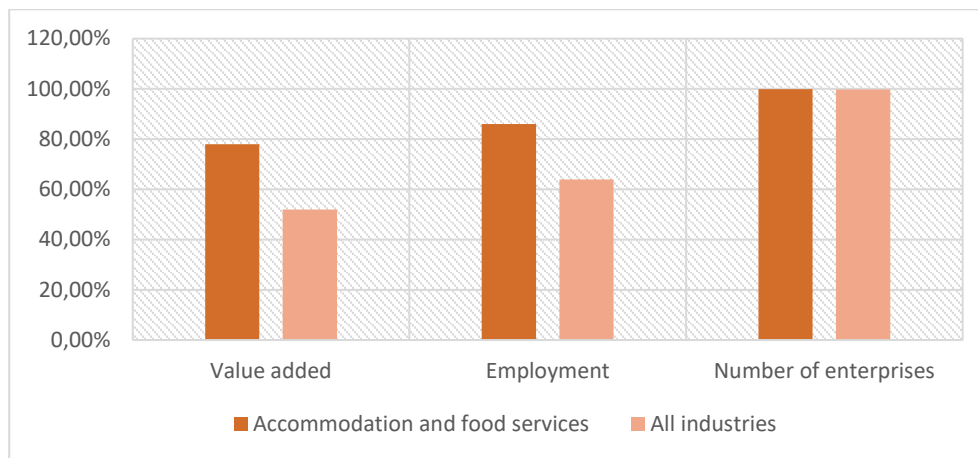


Figure 3: Proportion of total value added, employment and number of enterprises accounted for by SMEs in various EU-27 NFBS industries in 2021.

Source: Annual Report on European SMEs 2021/2022

In all the industries overall (NFBS-non financial business sector) and also in the accommodation and food services area, small and medium enterprises (SMEs) have a tremendous share (between 99.7-99.9%) in the total of enterprises. So, SMEs have a great impact in terms of numbers but if we look at the value added, SMEs only provide around 78% from total in accommodation and food services area and 52% in the entire industries (excepting NFBS). Even thou they are great in number, they are somehow divided and not able to create or to achieve a greater performance based on the added value that they are generating. In other words, large enterprises, that have a share of only 0.1% to 0.3% from the total, generate 48% of the added value in the total of industries in Europe. It can be mentioned that larger companies, generally speaking, are far more efficient and have more efficacy than the SMEs counterpart. Some of the reasons may be the ease of scalability and the economy of scale implemented after reaching a certain level of dimension. This does not mean that SMEs don't show a certain level of the above mentioned (in fact large companies were once SMEs, that went the extra mile thus reaching this status) but maybe by being so divided the results are somehow scatter and not as visible. The next indicator (employment) from Figure 3. is positioned better than the former meaning that accommodation and food services SMEs provide around 86% from the total while generally speaking for all the industries, large enterprises provide 36% and SMEs 64%. Regarding the number of enterprises in both the sectors analyzed the values are starting from a minimum of 99.8%, translated in the fact that the NFBS as an overall or just by concentrating at the accommodation and food sector is dominated by SMEs (as number of enterprises).

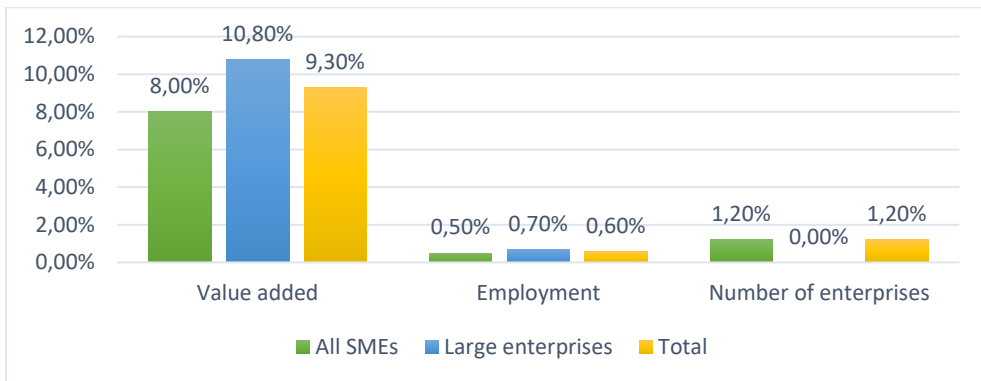


Figure 4: Percentage change in value added, employment and number of enterprises in 2021 compared to 2020 by enterprise size class in the NFBS.

Source: Annual Report on European SMEs 2021/2022

In 2021 compared to 2020 the situation its better looking regarding the added value, employment and number of enterprises. All three categories for all 3 types of business classes recorded an increase (with an exception), again the added value tops with percentages from 8 to 10.8. Meanwhile, employment increased at a lower rate but that may indicate that enterprises are getting more and more efficient, also because of a somehow forced digitalization induced by the pandemic. The number of enterprises is only influenced by the increase of SMEs while large enterprises are at the same level as in 2020.

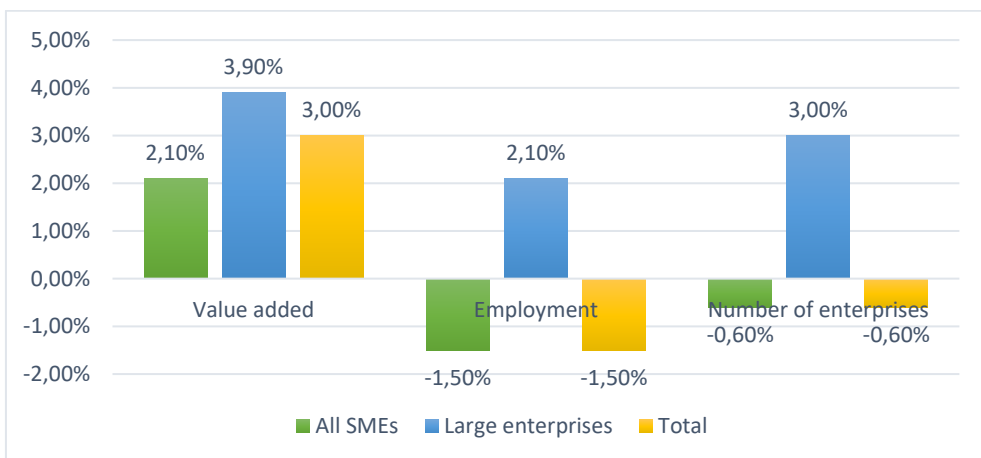


Figure 5: Percentage change in value added, employment and number of enterprises in 2021 compared to 2019 by enterprise size class in the NFBS.

Source Annual Report on European SMEs 2021/2022

Regarding the added value it can be said that all 3 categories analyzed in Figure 7 have grown from 2.1% (for all SMEs) to a high of almost 4% in large enterprises class. On the other hand, large enterprises are the only ones that registered an

increase (speaking in terms of percentages) on all 3 categories analyzed. Meanwhile The employment specific to SMEs sector decreased with around 1.5 percent in 2021 compared to 2019. Also, total employment decreased with the same amount, 1.5%. Based on the number of enterprises, SMES share the same amount of decrease, 0.6%, as the total. Hereby, it can be affirmed that large enterprises somehow managed to handle the pandemic somehow better than SMEs. A reason for this might be by having enough resources (financially mostly but not just that) in order to be able to respond more accurate to the disruptions that the pandemic brought. Meanwhile, SMES looked as being a bit more vulnerable in front of this kind of disruptive stimuli.

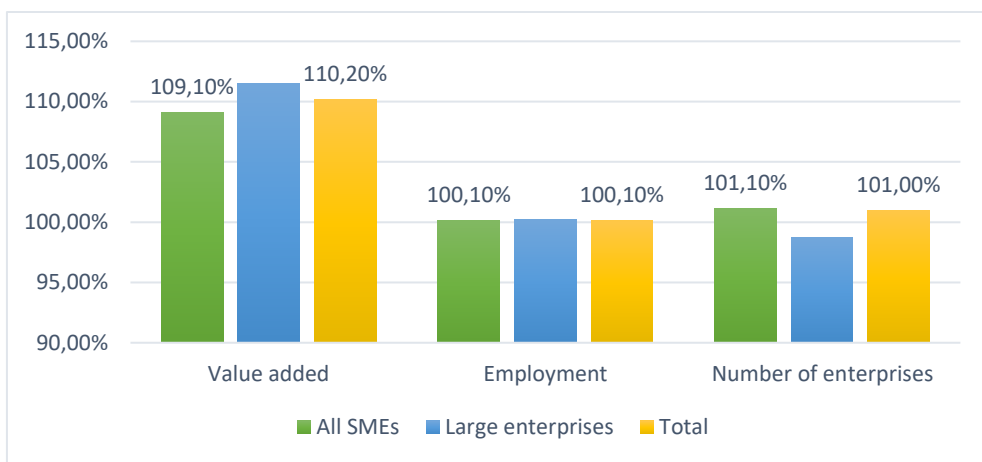


Figure 6: Expected EU-27 value added, employment and number of enterprises in 2022 as a percentage of their 2019 values, by enterprise size class.

Source: Annual Report on European SMEs 2021/2022

For 2022 are expected increases in all but one category, number of large enterprises, which is in a decline of around 1.3% (a share of 98.7% compared to 2019). So far 2019 is a strong point of reference because things have gone better up until then since the last big crisis, the 2008 great recession. So, these number for 2022 are expected but the situation is not fully accurate. Mostly because of the impact that the Russian invasion of Ukraine have on European Union which had ramifications in a lot of areas that are extremely difficult to forecast.

Measures taken to support the tourism and travel sector in Romania during and after the Covid-19 pandemic

The European Parliament through its Transport and Tourism Committee discussed with the European Commission upon the measures to be taken in order to relief control the COVID-19 outbreak. Companies and workers in the tourism sector are benefiting from EU measures adopted in response to the crisis caused by the COVID-19 pandemic, including liquidity support, tax breaks and a relaxation of state aid rules, as well as the temporary suspension of the EU rules on time slots, to avoid flights with empty aircraft (according to the European Parliament).

According to UNWTO (United Nations World Tourism Organization) in Romania during the state of emergency, small and medium-sized enterprises holding the emergency situation certificate issued by the Ministry of Economy, Energy and Business Environment, benefit from the deferred payment for utilities - electricity, natural gas, water, services telephone and internet, as well as the deferred payment of the rent for the building destined for registered office and secondary offices.

Also, an aid scheme worth approximately 3.3 billion euros was introduced to support small and medium-sized enterprises (SMEs) in the context of the COVID-19 pandemic. Tourism businesses benefitting as well.

Some other measures involve a new guarantee scheme of about 1.5 billion lei (0.15 percent of GDP) which was adopted to support the procurement of work equipment by SMEs. Other measures include faster reimbursement of VAT, suspending foreclosures on overdue debtors, suspending tax authorities' control, discounts for paying corporate income taxes, postponement of property tax by three months, exempting the hospitality industry from the specific tax for 90 days.

The emergency ordinance for providing state financial support to entities in the HoReCa sector was another measure, worth 1 billion lei (approximately 200 million euros).

March 2021, the National Council of Private Small, Medium Enterprises of Romania (CNIPMMR) proposes the programme "IMM Restart Romania" with a budget of 1.23 billion EUR to support the SMEs in the context of the economic crisis generated by the Covid-19 pandemics.

In order to support tourism businesses hardly hit by the COVID-19 crisis, the Romanian Government has decided to maintain the Tourist Pass Holiday 13 initiative (holiday vouchers for public employees similar to the meal tickets, with which employees can buy tourist services in Romania, i.e., accommodation, meals and transport), and the validity of vouchers granted between March 19 and December

2019 has been extended by law until 31 May 2021. These vouchers can be granted and managed only to licensed operators, authorized by the Tourism Ministry.

The Economy, Energy, and Business Environment Ministry have launched a campaign meant to support the local hospitality industry and encourage Romanians to rediscover the country as a tourism destination and promote it online.

The campaign, titled Be the ambassador of Romanian tourism!, will feature video messages from various personalities, supporting local tourism. These will be published on the ministry's social media channels.

In conclusion

The year 2020 marks the beginning of the Covid-19 pandemic and a decrease in the value added compared to 2019 of 0.5 percent. In 2021, it can be observed that there is an improvement, translate into a growth of 6.6%. A reason for this might be the ease in the restrictions and a better understanding of the pandemic. Regarding the employment, this indicator is more or less the same as tendency in Romania and European Union with an exception in 2020. In all the industries overall (NFBS-non financial business sector) and also in the accommodation and food services area, small and medium enterprises (SMEs) have a tremendous share (between 99.7-99.9%) in the total of enterprises. So, SMEs have a great impact in terms of numbers but if we look at the value added, SMEs only provide around 78% from total in accommodation and food services area and 52% in the entire industries (excepting NFBS). Even thou they are great in number, they are somehow divided and not able to create or to achieve a greater performance based on the added value that they are generating. In other words, large enterprises, that have a share of only 0.1% to 0.3% from the total, generate 48% of the added value in the total of industries in Europe. It can be mentioned that larger companies, generally speaking, are far more efficient and have more efficacy than the SMEs counterpart. Some of the reasons may be the ease of scalability and the economy of scale implemented after reaching a certain level of dimension.

Some of the measures undergone for better handling the COVID-19 outbreak in Romania's case were that small and medium-sized enterprises benefitted from the deferred payment for utilities, deferred payment of the rent for the building destined for registered office and secondary offices. Also, Implementing a campaign meant to support the local hospitality industry and encourage Romanians to rediscover the country as a tourism destination and promote it online. It can be mentioned also the adopting of a new guarantee scheme to support the procurement of work equipment

by SMEs. And also implementing faster reimbursement of VAT, suspending foreclosures on overdue debtors, suspending tax authorities control, discounts for paying corporate income taxes.

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