

## **EFFECTS OF THE COVID-19 PANDEMIC ON ROMANIAN SMEs**

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### **Abstract**

Before the COVID-19 pandemic, the SME sector in Romania was on an upward trend. In this article we set out to analyse the evolution of SMEs in Romania in the period 2017-2020, in the context of the pandemic. In order to do this, we tried to analyse in parallel the economic situation of European SMEs compared to the Romanian ones. The research begins with an analysis of the economic situation created by the health crisis due to the SarsCov-19 virus. It analyses the evolution of macroeconomic indicators in Romania during the pandemic, a pandemic that caused the global economic crisis. We will show how the most affected sectors of the national economy were: transport, hospitality, agriculture, the medical system, the education system, light industry and non-food domestic trade.

The research will show that in all the analysed economic sectors, difficulties related to access to capital for entrepreneurs, supply or sales chains were the most affected by the crisis. Because of the new level of uncertainty arisen new bureaucratic barriers and a limited capacity for adapting appeared in the new financial-economic context.

The research will highlight that in the case of SMEs in Romania, the impact of the pandemic was felt in a significant way, the economic blockade and the social distancing of the population led to major decreases in income and turnover for entrepreneurs / managers.

**Keywords:** Covid-19 pandemic, macroeconomic indicators, unemployment, labour, GDP, inflation, SMEs, sanitary crisis, economic crisis.

**JEL Classification:** E24, E31, F15, F6, G01, J11, I15, M13, M21, O11

### **1. Introduction:**

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The Romanian business environment registered a drastic decrease in 2020, regarding the entrepreneurial opportunities compared to 2019. The general trend recorded since the beginning of the crisis for SMEs is that the Romanian business sector has been severely affected. According to RNIS<sup>79</sup>, It is estimated that for the last two years, the companies' turnover has decreased by 22.5 billion euros, and 1 million people have been forced to go into technical unemployment due to the economic and financial situation of the companies, 35.000 companies from HORECA being closed in Romania. Also, RNIS specifies that the entrepreneurial initiatives of the companies registered on the Romanian territory, regardless of the legal form (LLC, Authorized person) registered a decrease of 74% compared to 2019, the previous year.

But in addition to the negative aspects, the current pandemic situation (COVID-19) has also brought a number of opportunities for SMEs from the Romanian government. With the destabilization of imported products from certain sectors, the sector of local (domestic) producers has seen an increase in sales for local products. An example of this is the Invest SMEs which have been like a real buster for local producers.

SMEs have also been involved in ensuring the acquisition and distribution of medical goods and products (protective equipment and medical equipment), for the public and private sector.

The fields of IT and communications were two other fields that had opportunities for development during this period, through products that would make people's lives easier during this period, ensuring a better online connection, taking into account that telework or work from home for very many companies have represented and represent the new trend on the labour market.

Most of the companies with office activity have changed their way of working, moving to telework starting in March 2020, a period that coincided with the state of emergency.

These and the shocks felt on the labour market, as well as the gap between supply and demand have triggered a global economic and health crisis, the effects of which are increasingly felt on all fronts.

The situation is similar in Europe, with over 90% of European SMEs being economically affected by the Covid-19 pandemic, according to a study conducted in April by SME Europe. Obviously, this impact was also felt at the national level, where many businesses were affected from several perspectives, among which we can mention:

- ✓ the reduction of the consumers' demand and implicitly of the sales due to the quarantine or social distance norms, as well as to the decrease of the purchasing power of the population due to the increase of inflation.
- ✓ the temporary or forced closure for certain production or distribution points due to quarantine rules, as well as forced reduction of operating / production capacity due to the rules of social distance between employees.

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<sup>79</sup> Romanian National Institute of Statistics.

- ✓ the difficulties in the supply or distribution process due to quarantine rules and especially the forced closure of borders between the states of the world, as well as the imposition of barriers to imports.
- ✓ the imposition by certain states of certain safety standards (sanitation, distance, green vaccination certificates) for all citizens of the country.
- ✓ the increase in internal production costs for SMEs, especially operating costs (increased costs for sanitation, insulation etc.).

## **2. COVID-19 Pandemic – the beginning of the sanitary and economic crisis**

SARS-CoV-2 (Coronavirus) in Romania started at the beginning of 2020, more precisely the first cases were registered at the end of February, after the pandemic had already affected other European and world countries. The new Coronavirus first appeared in China in late 2019 in the city of Wuhan, manifesting itself from the very beginning as a rather severe respiratory infection, caused by infection with the SARS-CoV-2 virus.

Coronaviruses are originally part of a large family of viruses, which can mainly affect both humans and animals, with some cases being detected in them as well. In humans, coronaviruses can lead to quite serious respiratory infections, but also to digestive infections, from the mildest to the most severe, with effects felt on the medium and long term. Unlike the 2003 SARS virus, the new coronavirus was considered from the beginning to have a lower mortality rate. The rapid increase in COVID-19 cases in Romania has led government authorities to adopt a set of security measures for citizens to prevent the spread of the SARS-CoV-2 virus throughout the territory, first by establishing a state of emergency from March-May 2020 and its continuation with a state of alert throughout the period 2020-2022.

The economic crisis caused by the coronavirus poses a real threat to the European economy and to the living standards of European citizens. During the health crisis, it is considered important to protect the sectors considered critical for the economy (infrastructure, agriculture, technology, tourism, trade) of the European Union, the rights and freedoms of European citizens, and the jobs of active people available on the labour market.

The economic impact of the coronavirus crisis varies from industry to industry and business to business. It depends on a number of factors, including the ability to adapt to each economic sector or the decisions made by managers. The European Commission is working closely with national authorities, industry and other stakeholders to monitor and assess the impact of coronavirus on the European industrial and trade sectors. [1]

Unlike other known economic crises, the current one, of a sanitary nature (pandemic COVID 19) is the consequence of an unpredictable situation that forced us to reinvent ourselves and make quick decisions in all areas of activity. On the other hand, it is clear that there are sectors that have been more affected than others, but what is even clearer is that the pressure on the health sector is the most important element to control worldwide. [2]

In conclusion, the COVID-19 crisis is the opposite of the economic and financial crisis of 2008, and the role of the decision-maker is very important for all participants in economic activity.

The Romanian authorities should normally and justifiably encourage companies to support them in order to start or continue their activity in order to contribute to the economic growth during this period.

The onset of the COVID-19 pandemic and its relatively rapid spread worldwide, has demanded measures to close or limit the movement of the population, both locally (regionally), nationally and globally.

### **3. The evolution of the main macroeconomic indicators in Romania in the pandemic context**

For the year 2020, against the background of the health crisis that affected the economic activity at world level and implicitly also at the national one, the Romanian economy contracted by 3.9%, respectively by 2.7 percentage points below the euro area contraction (-6.6 %) and 2.2 percentage points below the EU average 27 (-6,1%). On the supply side, all consumer services have been severely affected by the pandemic. Thus, as a result of the administrative measures adopted either during the state of emergency or alert, the activity of certain categories of services was closed or carried out in compliance with certain restrictions. Overall the tertiary sector analysed, the decrease of the gross value added (GVA) from the level of 2020 was 1.8% compared to 2019. [3]

For 2017, there was an increase of 2.5% in the recorded GDP compared to 2018, where the recorded GDP was 4.4%. On average for the years before the onset of the pandemic, it can be seen that the highest economic growth was recorded in 2017, where the GDP was 6, 9%.

<b>Economic growth indicators for the period 2017-2020</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Recorded GDP</b>	6,9	4,4	4,1	-3,9
<b>Nominal GDP</b>	12,6	11,0	11,2	-0,2

**Table no.1. The evolution of Romanian GDP during 2017-2020<sup>80</sup>**

From the table above, it can be seen that Romania registered an economic growth, resulting from the recorded GDP before the pandemic, for the years 2018 and 2019, of 4.4% and 4.1%. Once the Covid-19 pandemic started, from February 2020, the recorded GDP decreased by 3.9% compared to 2018 and 2019.

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<sup>80</sup> Source: Authors' processing according to NIS and the National Commission for Strategy and Forecast (June 2020)

One of the most affected branches of the economy in the current pandemic context was the cultural and sports services sector, registering a decrease of 24.4% in GVA (Gross Value Added), which led to a decrease of 0.8 % in the recorded GDP growth.

A category of services extremely affected by the pandemic health crisis started in 2020 was the economic branch of the tertiary sector (trade, transport / logistics and HORECA), where there was a GVA (Gross Value Added) of 5.2% in 2020 compared to 2019, contributing with a decrease of 0.9% of GDP for the two years. According to the data provided by RNIS, these two categories of services together had a negative contribution to the recorded GDP growth of 1.7 percent, which represented a reduction in GDP of approximately 44% for 2020.

Regarding the annual inflation rate, we can see that for the end of 2017 and 2018 the figures are relatively tight, the difference being 0.05 for 2018, where a lower inflation rate was recorded, respectively 3.27 %. The year 2019 registered an inflation rate of 4.04%, higher than the year 2018, by 0.77%, for the year 2020 registering an inflation rate of 2.06%.

For the year 2021, inflation was forecasted to increase up to 3.1%, as an annual average and 3.2% at the end of the year, the forecast being influenced by the sharp increase in non-food goods in the first 3 months of the year, due to the substantial increase in electricity prices with the liberalization of the market from January 1, 2021. To this we add the inauspicious effects of the return of oil price quotations on international markets, which led to price increases for fuels. [4]

<b>Rate of inflation %</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>-end of the year</b>	3,32	3,27	4,04	2,06
<b>-annual average</b>	1,34	4,63	3,83	2,63

**Table no. 2. The evolution of Romanian inflation during 2017-2020**

As we can see from the Table no. 3, the unemployment rate for 2017 was 4.9%, with 0.7% higher than that of 2018, which was 4.2% according to BIM. If in 2019 the target set by RNIS was exceeded by 0.9 percentage points, the employment rate of the population aged 20-64 reaching 70.9%, in 2020 the restrictions imposed as a result of the health crisis affected to a very small extent its level, the employment rate of the population aged 20-64 decreasing by only 0.1 percentage points, thus remaining above the level of 70% set in the context of the Europe 2020 Strategy. [4]

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Employment rate for the population aged 20-64</b>	68,9	69,9	70,9	70,8

<b>-men</b>	77,4	78,9	80,3	80,3
<b>- women</b>	60,2	60,6	61,3	61,0
<b>Unemployment rate (according to BIM %)</b>	4,9	4,2	3,9	5,0

**Table No. 3. The evolution of the employment rate and the unemployment rate in Romania (2017-2020)<sup>81</sup>**

If for 2019, the unemployment rate in Romania was 3.9%, respectively 0.3% lower than in 2018; the same cannot be said about the year 2020, where there was an increase in unemployment of 5.0%, respectively 1.1% higher than in 2019. This is due to the fact that the onset of the pandemic in February 2020 and the establishment of a state of emergency in Romania, led many entrepreneurs to forcibly close their businesses and send a large number of employees into technical unemployment. The most affected sector being the services sector, in the field of Horeca (hospitality, restaurants, cafes, bars) and the recreational sector (fitness rooms, SPA, cinemas, theaters).

In the medium term, economic growth has all the chances with the end of the pandemic to return to the area of its potential (estimated before the COVID-19 pandemic), approaching 4% by 2024, from the forecasts made by RNIS. Investments will be the main driver of potential economic growth, followed by the total productivity of the factors of production, especially the increase of labor productivity. Regarding the contribution of the labor factor, a slightly positive contribution is estimated, despite the negative demographic trend that has been registered for the last two years. The decline in the working age population is counterbalanced by government measures targeting the labor market, leading to a rising activity rate and a natural unemployment rate (NAWRU) following a downward trend for the next two years (2022-2024), according to RNIS. [5]

#### **4. Romanian SMEs evolution during COVID-19**

The analysis presented above shows that the COVID-19 pandemic caused an economic recession in Romania. In this context, the SME sector has been severely affected by all economic, political, legal, social, demographic, and fiscal changes.

Before analyzing how Romanian SMEs evolved before and in the full pandemic context, it is necessary to make a short presentation on this concept.

In 2003, the Commission of the European Communities in the Official Journal of the European Union defined the company as an entity that carries out any economic activity, regardless of its legal form. Moreover, they can be considered enterprises, authorized individuals, family associations, but also partnerships or associations that regularly carry out economic activities.

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<sup>81</sup> Source: Authors' processing according to NIS and the National Commission for Strategy and Forecast (June 2020)

According to the rules of the European Union we identify three categories of SMEs [6]:

- ✓ *the medium-sized enterprises*: employees between 50 and 249 (turnover less than EUR 50 million and balance sheet total less than EUR 43 million).
- ✓ *the small enterprises*: employees between 10 and 49 (turnover less than EUR 10 million and balance sheet total less than EUR 10 million).
- ✓ *the micro enterprises*: employees between 0 and 9 (turnover less than EUR 2 million and balance sheet total less than EUR 2 million).

SMEs help generate most of the GDP, create new jobs, encourage competition and play a key role in every sector of the economy by creating economic substance and added value.

“SMEs bring innovative solutions to challenges like climate change, resource efficiency and social cohesion and help spread this innovation throughout Europe’s regions. SMEs are very diverse in terms of business models, size, age, and entrepreneurs’ profiles, and draw on a diverse talent pool of women and men. They range from liberal professions and microenterprises in the services sector to middle-range industrial companies, from traditional crafts to high-tech start-ups” [7].

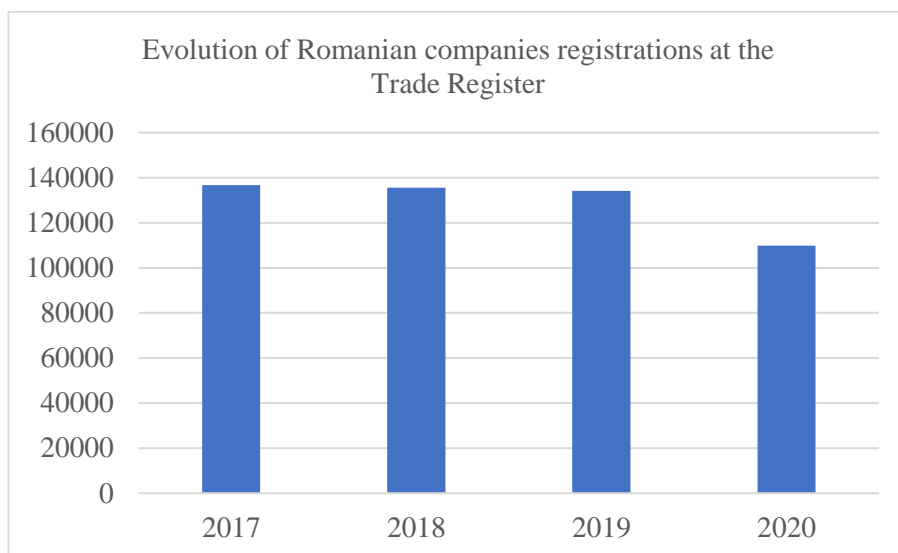
The negative impact of the COVID-19 pandemic on Romanian SMEs was analyzed and explained, taking into account, on the one hand, their importance at the national level, and on the other hand, the measures adopted by the Government to help the Romanian SMEs, starting with 2020.

According to the National Office of the Trade Register (NOTR), the total number of enterprises (individuals and legal entities) had a downward trend in the period 2017-2020, so:

Year	2017	2018	2019	2020	I <sub>2020/2019</sub>	I <sub>2019/2018</sub>	I <sub>2018/2017</sub>	I <sub>2020/2017</sub>
No. of enterprises	136699	135532	134220	109939	0,81	0,99	0,99	0,81

**Table no. 4 Registrations dynamics at the Trade Register of Romanian enterprises during 2017-2020<sup>82</sup>**

<sup>82</sup> Source: <https://www.onrc.ro/index.php/ro/statistici>



**Figure 1- Evolution of Romanian companies' registrations at the Trade Register**

From the analysis of the data presented above, the following conclusions can be drawn: in 2020 compared to 2019, the number of registrations decreased by 19%; in 2020 compared to 2018, the number of registrations decreased by 19% - these phenomena were due to the measures covered by government decisions, decrees, military ordinances, orders of ministers or heads of departments within the ministries, which accompanied the extended state of emergency on the Romanian territory in 2020, and later the extended alert states.

Even if the number of registrations at the Trade Register recorded a decreasing trend in the analyzed period, the number of Romanian enterprises had an increasing evolution during 2017-2019, as we can see from the Table no. 5 and Figure 2, due to the sustained growth of micro-enterprises:

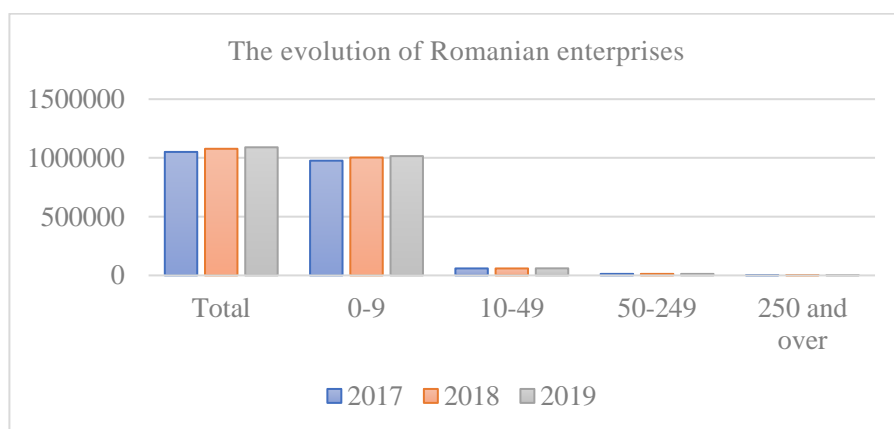
<b>Total</b>	<i>of which: by size class, according to the number of employees</i>				<i>Economic and social operator type (CANE Rev. 2 sections)</i>
	<b>0-9</b>	<b>10-49</b>	<b>50-249</b>	<b>250 and over</b>	
<b>2017</b>					
<b>1050797</b>	<b>976377</b>	<b>59324</b>	<b>12813</b>	<b>2283</b>	<b>Total</b>
<b>553936</b>	494636	48835	8697	1768	<i>Enterprises</i>



<b>19916</b>	17191	2466	235	24	<i>Agricultural holdings</i>
<b>525660</b>	469778	45823	8354	1705	<i>Enterprises from industry, construction, trade and other services</i>
<b>8360</b>	7667	546	108	39	<i>Financial and insurance companies</i>
<b>13315</b>	653	8466	3712	484	<i>Public administration</i>
<b>195564</b>	193106	2023	404	31	<i>Private administration</i>
<b>287982</b>	287982	-	-	-	<i>Private entrepreneurs</i>
<b>2018</b>					
<b>1077536</b>	<b>1003365</b>	<b>59139</b>	<b>12729</b>	<b>2303</b>	<b>Total</b>
<b>576684</b>	517134	49148	8613	1789	<i>Enterprises</i>
<b>20514</b>	17827	2445	219	23	<i>Agricultural holdings</i>
<b>547570</b>	491389	46172	8283	1726	<i>Enterprises from industry, construction, trade and other services</i>
<b>8600</b>	7918	531	111	40	<i>Financial and insurance companies</i>
<b>13299</b>	727	8324	3763	485	<i>Public administration</i>
<b>201045</b>	198996	1667	353	29	<i>Private administration</i>
<b>286508</b>	286508	-	-	-	<i>Private entrepreneurs</i>
<b>2019</b>					
<b>1090287</b>	<b>1015259</b>	<b>60010</b>	<b>12671</b>	<b>2347</b>	<b>Total</b>
<b>591397</b>	531232	49921	8451	1793	<i>Enterprises</i>
<b>19680</b>	17040	2400	218	22	<i>Agricultural holdings</i>
<b>563279</b>	506421	46998	8126	1734	<i>Enterprises from industry,</i>

					<i>construction, trade and other services</i>
<b>8438</b>	7771	523	107	37	<i>Financial and insurance companies</i>
<b>13277</b>	679	8211	3860	527	<i>Public administration</i>
<b>206135</b>	203870	1878	360	27	<i>Private administration</i>
<b>279478</b>	279478	-	-	-	<i>Private entrepreneurs</i>

**Table no. 5. The evolution of Romanian enterprises during the period 2017-2019<sup>83</sup>[8]**



**Figure 2-The evolution of Romanian enterprises**

Romanian SMEs had an upward trend during 2017-2019, as we can see in the following tables and Figure no.3:

<b>Year</b>	<b>Total (total no. of SMEs)</b>	<b>0-9 employees</b>	<b>10-49 employees</b>	<b>50-249 employees</b>
<b>2017</b>	<b>1048514</b>	976377	59324	12813
<b>2018</b>	<b>1075233</b>	1003365	59139	12729
<b>2019</b>	<b>1087940</b>	1015259	60010	12671

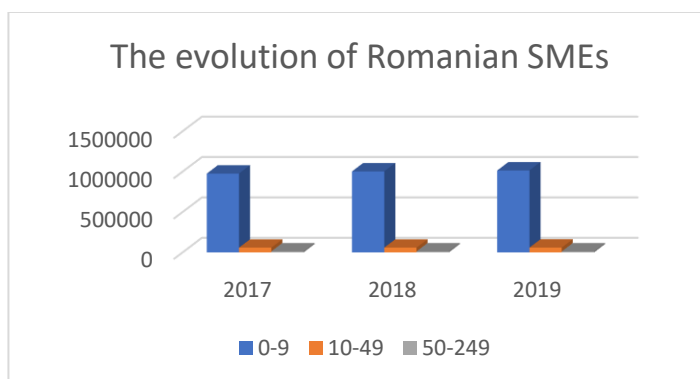
<sup>83</sup> Romanian Statistical Yearbook 2020, Bucuresti, Romania, ISSN: 1220-3246, ISSN – L:1220-3246, p. 498

**Table no. 6. The evolution of Romanian SMEs during the period 2017-2019<sup>84</sup>**

Year	2017	2018	2019
<b>0-9 employees</b>	93,12	93,31	93,32
<b>10-49 employees</b>	5,66	5,50	5,52
<b>50-249 employees</b>	1,22	1,19	1,16
<b>Total no. of SMEs</b>	100	100	100

**Table no. 7. The structure of Romanian SMEs during 2017-2019**

Regarding the structure of SMEs in Romania, during the analyzed period we can see the following aspects: the largest share is represented by micro-enterprises (between 93.12% and 93.32%), which we can explain because of the improved macroeconomic context and the measures adopted by the Government to support entrepreneurship; the share of enterprises that are between 10-49 employees is between 5% and 6% in the total of SMEs; and the enterprises that are between 50-249 employees have an insignificant share throughout the analyzed period because the percentage of SMEs is between 1.16% and 1.22%.



**Figure no. 3- The evolution of Romanian SMEs**

From the point of view of the economic and social operators that are active in the national economy (Table no. 5), we can see that the highest share recorded in every analysed year is given by *Enterprises from industry, construction, trade and other services*, for the micro-enterprises category the percentage is over 94%. A special category in total SMEs (26-27%)

<sup>84</sup> Source: Romanian Statistical Yearbook 2020

is represented by *Private entrepreneurs*, who are found only in the category of enterprises with 0-9 employees.

<b>2017</b>	<b>2018</b>	<b>2019</b>	<i>Activity (CANE Rev. 2 sections)</i>
<b>523955</b>	<b>545843</b>	<b>561545</b>	<b><i>Total</i></b>
1000	1019	976	<i>Mining and quarrying</i>
49066	51700	53060	<i>Manufacturing</i>
1172	1167	1039	<i>Electricity, gas, steam and air conditioning supply</i>
2949	2998	2978	<i>Water supply; sewerage, waste management and remediation activities</i>
52716	55901	59455	<i>Construction</i>
172239	172654	170061	<i>Wholesale and retail trade; repair of motor vehicles and motorcycles</i>
48264	51816	54129	<i>Transportation and storage</i>
26383	27150	27587	<i>Hotels and restaurants</i>
23748	25354	26683	<i>Information and communication</i>
16700	17862	18667	<i>Real-estate activities</i>
63288	66674	69454	<i>Professional, scientific and technical activities</i>
22094	22646	23755	<i>Administrative and support service activities</i>
5811	6393	7178	<i>Education<sup>1)</sup></i>
15232	17092	18565	<i>Human health and social work activities<sup>1)</sup></i>
8982	9928	11123	<i>Arts, entertainment and recreation</i>
14311	15489	16835	<i>Other service activities</i>

Table no. 8. The evolution of active small and medium-sized enterprises from industry, construction, trade, and other services, by activity of the national economy <sup>85</sup>[9]

<sup>85</sup> Romanian Statistical Yearbook 2020, Bucuresti, Romania, ISSN: 1220-3246, ISSN – L:1220-3246, p. 510, 1). It only includes the enterprises whose activity is related to education or to human health and social work, which are organised as commercial-type companies.

From Table no. 8 we can see that during 2017-2019, the largest share was registered by small and medium enterprises that had as object of activity *Wholesale and retail trade and repair of motor vehicles and motorcycles*, followed by a significant share of small and medium enterprises whose object of activity was *Professional, scientific, and technical activities, Construction, Manufacturing and Transportation and storage*. The first cases of coronavirus were registered in Romania at the beginning of 2020. The number of illnesses increased in a relatively short time. Thus, began the state of emergency, which was followed by the state of alert, in which we still are today, at the moment we write this article.

During the emergency and alert period, the following measures were taken to prevent, fight and control coronavirus infections:

- ✓ total or partial suspension of the activity carried out by restaurants, hotels, cafes or other public places inside or outside them.
- ✓ suspension or limitation of the number of people in organizations that carry out cultural, scientific, artistic, religious, sports, entertainment or gambling, spa treatment, personal care activities that are carried out in closed / open spaces.
- ✓ suspension of flights to certain destinations and from certain countries to Romania.
- ✓ suspension of international road transport to certain destinations.
- ✓ total or partial closure of state border crossing points.
- ✓ banning or suspending exports for certain agri-food products.
- ✓ temporary suspension of the commercial activity of certain companies (dental offices, clothing stores, appliances etc.).
- ✓ reducing the working hours in hypermarkets or reducing the schedule of operators who sell food and products of strict necessity.
- ✓ prohibition of the movement of all persons outside the home (state of emergency) or of persons over 65 years of age, with certain exceptions.
- ✓ prohibiting the movement of all persons outside the home / household during the night.
- ✓ quarantine / isolation in case of coronavirus disease / direct contact with a sick person / return to the country.
- ✓ quarantine of certain cities or areas in cities / sectors.
- ✓ the use of “work at home” or telework by employers for their own employees (where this way of carrying out the activity allows the achievement of the object of activity).

- ✓ suspension of activities in preschool, pre-university and university education and carrying out activities in the online environment.
- ✓ the obligation to wear a protective mask in commercial spaces, means of public transport, at work and / or outdoors, with some exceptions.
- ✓ the implementation by the operators of some organizational measures that would allow the access of the people inside the shopping centers or at the workplace.

These measures had an impact on the Romanian economy and thus on the evolution of SMEs.

According to data provided by the European Union, in Romania, the economic decline recorded in 2020 was not very drastic, due to national and EU policy measures taken to fight the pandemic and to support the economy. Based on estimates by DIW Econ [10], in 2020 compared to 2019, the added value of SMEs decreased by only 0.5%, and SME employment registered an increase of 1.1%. In 2020 compared to 2019, there were several sectors affected by the pandemic, such as: manufacturing – where value added decreased by 10.5%, and SME employment decreased by 5.4%; accommodation and food services – where value added decreased by 36%, and SME employment increased by 1.1%. At the opposite pole, in 2020, SMEs in the IT&C sector recorded an increase in value added by 13%, and a decrease of 2.6% in employment.

In 2020, the innovations in Romania are at the lowest level among the European countries, its performance decreased by 5.7 percentage points. According to DESI [11], Romanian companies are between the last places when it comes to digitalisation, with only 23% sharing information electronically, and only 8% using social media, below the EU averages of 34% and 25% respectively. SMEs need skilled workforce to cover the current needs, approximately one million people are needed, due to migration and 'brain drain', according to Europe Direct and the National Council of SMEs in Romania. [10] [7].

A study conducted in the first half of 2020 on a sample of 826 SMEs and presented in the White Paper on SMEs in Romania 2020, found that the main factors that had a negative impact on their activity were: the COVID-19 pandemic (56.17%), the global economic context (43.95%), the reduced possibility to predict the evolution of the entrepreneurial environment (42.13%) and the excessive bureaucracy (41.77%).

Also, the study showed that the entrepreneurs resorted to the following measures to counteract the effects of the pandemic: introducing employees into technical unemployment (33.90%), postponing the payment of taxes (21.79%), postponing the payment of other taxes to the state budget (19.73%), postponement of rent payments (14.04%), recourse to loans that were subsidized or guaranteed through the SME Invest program (11.38%), postponement of utility payments (10.65%), postponement of installments at existing bank loans (7,38%).

In addition, the study highlighted the 2020 profile of the Romanian entrepreneur as follows: married man, age between 45-60 years, with economic and technical training, with university degree and postgraduate studies and has an experience in the field of

entrepreneurship of over 5 years; he is the sole owner of the business, and in order to carry out his activity, he involves family members.

## **5. The effects of the COVID-19 pandemic on Romanian SMEs**

After almost two years of pandemic, Romania remains quite vulnerable in the SME sector. Referring to the situation in the EU, we notice that Romania is on the last place in terms of economic activity of SMEs and turnover. While in Europe the private sector and SMEs account for 2 thirds of jobs, as we have shown above, in Romania there are only about 30 SMEs per 1000 inhabitants in the last two years.

If the average in other years is between 1200 and 1400 in terms of newly established companies, in April 2020 it was observed that about 2500 new companies were established. The easiest way to show the impact that the pandemic has had on SMEs is to refer to the decrease in the number of registered companies and the decrease in new business initiatives.

Due to the fact that most SMEs do not have the necessary capital to cover possible losses in a crisis situation, many of them were closed, at first temporarily, and then permanently. Large companies and corporations have managed to find viable solutions to recover as much as possible from losses, by lowering human resource costs, most of them using teleworking. However, when it comes to SMEs, this solution is not viable in most cases.

During this period of crisis, a series of analysis and research were carried out, directed especially to the managers of the enterprises from the trade, services, constructions industry (NIS 2020 Survey). In order to assess the economic impact of the pandemic, the managers' evaluations were used, as well as the turnover of the enterprises during January 2019 and January 2020, study conducted following an opinion poll among Romanian managers.

The results of the survey conducted by RNIS highlighted that the impact in the manufacturing industry is about 40%, because the managers cannot estimate and plan in advance the production realized and marketed for a determined period of time. In construction, trade, hotel and restaurant industry it is observed that over 25% of the economic activity has been restricted or a good part of the activities have been closed. Among the main problems and difficulties met by managers in the supply chain in SMEs are:

- ✓ difficult access to raw materials and auxiliary materials.
- ✓ cost and quality of raw materials obtained from suppliers.
- ✓ access to certain markets - perishable products lost in transit due to too long delivery times.
- ✓ interruption of the period the products needed to be finished - execution terms much too long compared to those initially estimated.
- ✓ loss of market share - e.g., export markets restricted by logistics activities or replaced by production.

- ✓ the sudden increase of imports for certain product groups.
- ✓ unrealistic budgets made at the enterprise level, due to the impact and duration of the extended period of suspension of economic activity.
- ✓ reduced enterprise productivity along the supply chain.

Already in the second year of the pandemic, in which the population is severely affected, we can already see its long-term effects on SMEs in Romania.

The COVID 19 coronavirus pandemic severely affected the Romanian business environment, especially those with over 90% of poorly capitalized companies, many of them in the survival zone, without too many medium- and long-term financial resources.

The economic impact varies from one sector to another, as well as from one enterprise to another for each manager or entrepreneur in different regions of the country.

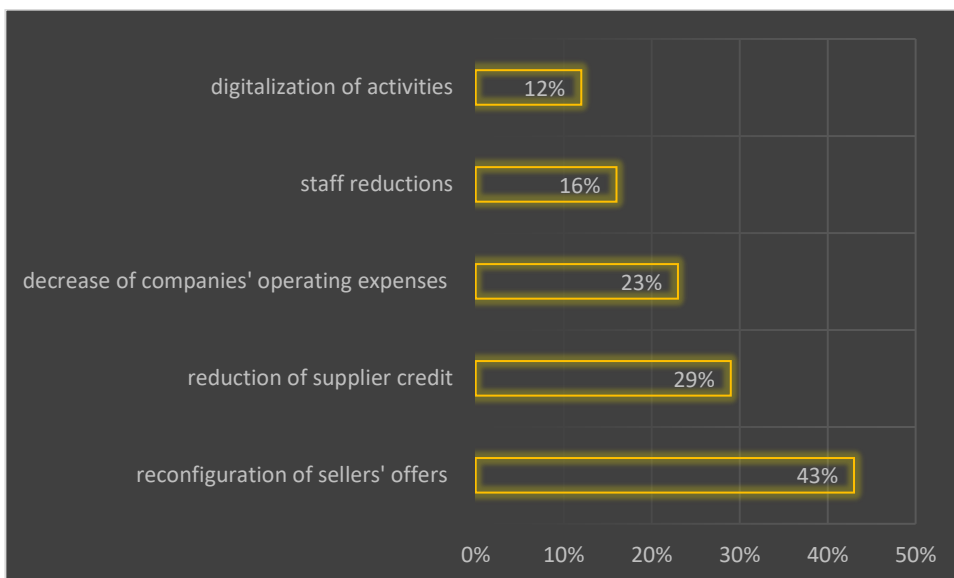
From what has been noted, the SMEs that managed to be affected as little as possible were those that adapted to the restrictions imposed at a given time, in order to minimize as effectively as possible, the effects of COVID-19 on its citizens. As examples: SMEs in the tourism sector have been affected due to travel and movement restrictions of citizens. SMEs in the field of beauty / gym / spa services have been significantly affected by the restrictions that imposed the temporary closure of facilities that did not provide services necessary for daily life.

In order to obtain the most conclusive / realistic data on the Romanian business environment, especially the situation of Romanian SMEs, between January 2019 and January 2020, an opinion poll was conducted among Romanian entrepreneurs with local or national business. We will present the published studies in the next part, and they will be highlighted by the Figure no. 4.

For all the above examples, the decrease was 61%, mainly due to lower consumption and rising prices (inflation).

In order to minimize the effects and to recover as soon as possible on the Romanian economic market, the companies have taken certain measures to restructure most of the production. Among these measures taken by manufacturers, we can mention the reconfiguration of sellers' offers by 43%, the reduction of supplier credit by 29%, the decrease of companies' operating expenses by 23%, staff reductions by 16% and the digitization of companies' activities by 12%.





**Figure no.4. The main measures taken by Romanian companies<sup>86</sup>**

## 6. Conclusions

In the case of Romanian SMEs, the impact of the pandemic was felt in a significant way, the economic blockade and the social distancing of the population led to major decreases in income and turnover for entrepreneurs / managers, SMEs becoming so “on the edge of a precipice”.

Romanian SMEs represent two thirds of the jobs in the Romanian private sector, considering about 30 SMEs per thousand inhabitants in Romania. The effects of the pandemic can be seen in the following example: for example, in January 2020, around 6,900 companies were registered, in February 2020 - 11300, in March 2020 only 6,000 companies were registered.

The most affected sectors of the national economy are: transport, hospitality, agriculture, the medical system, the education system, light industry and non-food domestic trade.

Difficulties in access to capital for entrepreneurs, supply or sales chains most affected by the crisis, with high levels of uncertainty, multiple bureaucratic barriers and a limited ability to adapt to the new economic and financial context, were observed in all the analysed sectors.

In the first months of 2020, almost 80% of Romanian entrepreneurs reported a harmful effect of the pandemic, most SMEs reporting decreases in sales by 75-100%, compared to the same period in 2019. A percentage of 57% small and medium-sized companies have

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<sup>86</sup> Source: NIS survey among Romanian entrepreneurs (January 2019-January 2020), authors' processing.

registered cancellations of orders and contracts from suppliers. SMEs that have been moving towards digitalisation for the last two years have created the opportunity to find new business opportunities, although most of these companies have had major impediments to adopting online services. The biggest problems appearing in the digitization of internal organizational processes, where efficiency would have the most substantial impact (70% of SMEs).

About 50% reported difficulties in identifying the right technologies, and 30% indicated the cost of investing in digitization as a significant barrier to the business environment.

Most SMEs in Romania have been affected by one or more of these factors. For example: the tourism and hospitality businesses were forced to close their business during quarantine and then operate at reduced capacity due to the social distance imposed by the new Covid-19 rules.

Retail businesses have seen a decline in sales due to quarantine, reduced operating hours and a tendency for customers to avoid congestion and stay home as long as possible.

Also, the supply becomes problematic with the closing of the borders (partially or completely) and with the quarantine of certain areas or cities where a high rate of illness has been registered. This effect has been felt by almost all entrepreneurs whose goods or services are based on direct contact (person to person) or where in the process of production, distribution and / or marketing the physical presence between people was necessary.

The economic decline generated by these effects also becomes a major problem that diminishes the demand on different markets for goods and services.

But there is also a minority, happy, who did not feel these effects, at least not to the same magnitude as other entrepreneurs, and even managed to obtain a constant profit throughout this period, referring to online commerce.

Businesses that deliver goods and services online have managed to avoid, at least in part, the negative impact, while for businesses whose products and services meet the needs created by the pandemic, there has even been an opportunity to maximize profits (sanitation and protection products or delivery services, online stores).

Depending on the activity, some SMEs have had a greater impact than in other businesses or other fields of activity.

For SMEs that operate online, the vast majority did not encounter serious problems, on the contrary they recorded a constant or high turnover at certain times of the year (Christmas, Easter). The only effects they feel are of a logistical nature, the supply / delivery part, where orders suffer a series of delays, due to courier companies operating at half normal capacity and this due to the increase in demand coming from the population.

On the other hand, there are companies that have had to stop providing services at the peak of the pandemic (restaurants, gyms, fast food, theaters, cinemas), thus suffering massive losses, leading to layoffs or suspension / closure of the company for a temporary period of time.

Concrete measures appeared relatively late to help SMEs survive in the pandemic context, but from our point of view, many more things could have been done by the Romanian Government to support their activity throughout this period.

In the current pandemic context, the workforce is reduced by half, so there are delays or inability to complete / deliver in time orders for various economic goods and services.

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