

A MICROECONOMIC ANALYSIS OF THE LATEST YEARS INVESTMENT BEHAVIOUR IN ROMANIA

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Abstract

Our below contribution refers to what is actually happening in Romania, as domestic investments. The individual economic entity is here ultimately targeted. Besides, this text restrains focus to Romanian domestic investments in latest years. References to main currents of thinking, as published in the established literature, will be here replaced by the Romanian analysts' current opinions, as expressed in the local press, so in a different form of expression. These opinions will be accompanied by statistics and extracts of, where the case. Synthetic calculus on such concrete data will be part of references, as much as opinions, including speculations made by these specialists. No polemic objections to these from the author of this text.

Keywords: *domestic investments, small and medium size enterprises(SMSE), demographics of firms, Romanian SMSE*

JEL Classification: *D0, D01, E22*

Introduction

Our paper refers to the analysis of the investment behaviour of small and medium companies in Romania, reflecting trends in the last two or three years, before the Covid 19 crisis, whose drastic repercussions would require a separate study and concrete data.

Shortly, the issues of this paper summarize first of all, whether and how exactly investment indicators could be influenced by policies applied : monetary policies (Pattat 1993), development programs or other government tools, versus whether the companies 'abstinence' towards investing might be the primary reality . Second, whether and how much investment uncertainty and risks – that are pretty obvious for the micro (companies) area – could be actually the expression of the macroeconomic limits of the investments on economic growth impact. Third, whether public investments really keep positive influence on the private ones, versus the 'Freedman incompatibility' between. Finally, the influence in this area of facts from foreign direct and/or portfolio investments.

1.Literature review

According to Marginalists (Hardwick, coord. 1992), investments firstly meet production, its technical capital (Wicksell 1893) and this latest substitution relation with labour – and capital-labour substitution is one of controversial concepts between classics-neoclassic's (there is such substitution) and currents based around JM Keynes (no such substitution) – the classics' camp only apparently believe in growth when investing in technical capital only.

Then, investments deal with development (Harrod 1939; Domar 1946). Harrod & Dommar, with their well-known model on economic development, together with Keynes(1936/2009) and opposite to neoclassics, do not believe in capital-labour substitution and think that development needs investments in both production factors.

Anyway development is the one that changes the appearance of the environment that hosts (once again) production, business, but also social life. This context might be properly called the 'real economy'. Out of this, investments meet the interest rate (Böhm-Bawerk 1890, 1891, 1921), money condition and banks (Fisher, 1907; 1930) – including the banking system –, together with financial companies, as well, on the short term. Actually, the interest rate that here works on the

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savings-investments meeting is either significantly multiple levels (Mankiw 1994) or indirectly influencing even the market price level (Wicksell 1901, 1903, 1907).

To this classical-neoclassical context of thinking JM Keynes (1936/2009) adds a new bunch of items further related to investments: savings feeding them while these last are fed by national income, in their turn, and these on the short term, once again; then, on the short term investments meet interest rate as influenced by, while on longer term they search for their own impact on economic growth – as already mentioned above.

Another ‘bunch’ here brought in by Keynes, as well, contains consumption that influences investments in another ‘triangle’ context with savings – these last opposite to consumption on the short term and feeding investments on the longer one. It is consumption boosting investments, through investments multiplier, while imports lower the same multiplier here accusing the economic openness (Keynes 1936/2009).

Thirdly, investments associate with government spending – here including public investments – and, together with consumption (once again) they form the aggregate demand – ultimately, a premise of the next period national income with growth incorporated. Just a premise is this due to that, though, Keynes is the one who well understands that the growth effect of investments isn’t absolute, but variable and influenced by factors turning them into inflation, the alternative to growth – actually the inflationary effect stays proper to aggregate demand.

The point that is both interesting, on the Keynes’ side, and controversial with classic-neoclassic, is that in his Macro-Model investments appear exogenous for national income and interest rate, in their interaction on the IS curve, which means exactly the opposite to the above classic view of interest rate instrumented by banks in raising/lowering investments. To Keynes investments get able to influence the interest rate in their turn. Actually this is not to blame Keynes for, but something else – in the Macro-Model firms appear as just benefiting from investments, not as making or initiating them; not as paying taxes or as making savings the way households do either. As the result there exist to Keynes the savings and even the investments rates, but not the investment as – gross and net -- capital formation or investment in tangible assets, versus net investment. Investment uncertainty and risks, private to public investments correlations as well as the ones between domestic and foreign direct investments, some of these expressed as rates, are issues and aspects that exceed the Keynesian view. Investments as private initiative are to be found on the classic-neoclassic (liberal) side of economic thinking only.

2.Methodology

The premise of this part of our text is that the investment is/ investments are both the freedom and function of the economic entity – i.e. firm/company/enterprise -, as part of the conceptual construction of this. It is also true that, on the other hand, *investments* to be seen in the text below will so restrict to what companies do.

The Romanian companies - Top companies

The Chamber of Commerce and Industry of Romania (CCIR) made, since 1994, the National Top of Companies, being the only one institution authorized by an organic law to establish such a hierarchy at the level of the entire country. The National Companies Top Catalogue was based on a total of 706,144 firms that were investigated. After selection, this number of firms remain to 225,363 (RCCI mentions, in such a procedural context, here eliminating firms with debts to the State and those with zero employees.)

Then, the last number goes on down to 12,603 firms (Table 1.) , on the top-10 positions of 7 domains and 353 sub-domains of activity. Or, it is this number of firms that claim 178.48 billion Euro turnover – while, back to the total number of firms, these claim about 330 billion Euro turnover.

Table 1. Top-10 companies of 7 domains and 353 sub-domains, in 2019

Ord.	Domain	Number
1	Industry	4466
2	Services	3521
3	Trade	2615
4	Tourism	312
5	Research-development, high-tech	468
6	Agriculture, forestry, fishing	643
7	Constructions	578
	Subtotal	12603

Source: RCCI (2019)

3. An intense polarization in the Romanian economy

According to RCCI , only 5% of the total number of firms are responsible for 54 % of the total turnover of firms. Moreover, 1,000 firms concentrate ½ of the revenues of all firms in Romania. A number of 11,000 firms are still able to fund investments by their own sources and bank credits. “But finally the problem of these firms is that they seem to have stopped investing that much – and here we meet that above description of the GFCF lowering in 2018 and 2019,for the total investments.” (Ionescu,A.d)

3.1 Small, medium size end big firms

For this part of analysis the chosen criterion won't be the turnover, as above, but the revenue of companies . Revenues below 1 million Euro belong to small firms, the ones over 50 million Euro to large and very large companies, thus resulting the range to be called the one of middle size companies, those of revenues of the 1– 50 million Euro revenues .

What is a different behaviour between small and large companies is that the small ones meet a limited access to financing funds, while the large ones still prefer to enjoy some fruition of previous (older) investments made (Ionescu, A.).So, small firms feel the above financing oppressive economic polarization – financing funds distribute in favour of the other firms zone -, while the large ones, on the contrary, do ‘digest’ their competitive advantage effects in context – e.g. economies of scale.

One more word for the largest companies in the area: there is to be noticed, besides a kind of ‘self-sufficiency’ or ‘convenience’ proven by their management, a resistance to the business environment changes, So, al of these , this leads to a general tempering of investments.

Or, it's quite interesting, that just middle size companies (the ones with annual revenues between 1 and 50 million Euro) seem to run investments in tangible assets double than the assets' depreciation one' .The debt of these companies still stay at optimal levels (60-65%), and their profitability is sensibly high .

Then, when shifting the criterion of firms' approaching there will become obvious that the highest investments level – 32.7 billion Ron – belong to the ones founded before 2000. But let us remark, despite this, that this is the zone of investments barely offsetting the assets' depreciation .The companies established in the last five years register the highest level of investments related to the depreciation value, the ratio between the two being 2.79.(Guda I.)

3.2 Micro-firms

“The category of micro-firms is one of sectors by which our economy could be able to grow . See that 43.2% of micro-firms actually are between 10 and 20 years old. This demonstrates that entrepreneurs still want to remain in the market. They have got through an economic crisis already, they prove still active and so they worth all our support to develop

their business matter”, (Diaconu, R.,2019,Instant Factoring). A number of 524,900 such firms were registered in Romania in 2018, which means 2.5% more than in the previous 2017. Their total turnover was 129 billion Ron and profits cumulated at 27.5 billion Ron that, in its turn, was 21% of total turnover and 52,390 Ron average per individual micro-firm.

Micro-firms with turnover up to 250,000 Euro individually actually obtain 72% of the consolidated turnover, namely 82,265 billion Ron (Instant Factoring), from which the ones of 50,000-250,000 Euro individually obtain 37.5% of the consolidated turnover of the whole sector, (a plus of 2.5% as compared to 2017). Then, the firms under 50,000 Euro have 16.2% of consolidated turnover. And finally the micro-firms with 250,000-500,000 Euro turnover get 36.3% of the same consolidated turnover.

According to another criterion, the one of seniority, micro-firms with less than 5 years of age, generated the largest share (24%) of total turnover in 2018, as compared to all the other individual age groups.

By turnover, 62.8% of this is distributed in 2018 on sectors : 25.8 billion Ron of total turnover of 2018 was going to retail trade, 15.4 billion lei for wholesale trade , construction 13.6 billion Ron for construction, 13.2 billion Ron to transport and storage, and 13.0 billion Ron to manufacturing industry, representing 81 billion lei, together.All other sectors have a cumulative turnover of 48 billion lei, actually 37.2% of the total.

Labour force in micro-firms records a decreasing trend since 2014 – 1 million employees in 2018 that was 12% less than in 2017 and 20% less than in 2014. Or, this was, in its turn, distributing to: retail (143.7 thousands =14.7%), manufacturing (139 thousands = 14.2%) and constructions (122 thousands=12.5%). The advance of the average cost per employee of 12% in 2018 compared to the previous year, more accentuated than that of productivity, of 9%, represents an important risk in the medium term, with a direct impact on local competitiveness

On labour force employed, once more, five territorial districts do absorb about 350 thousands that means 35.8% of all employees of this sector of firms – they are: Bucharest (17.7%), Cluj (17.7%), Constanta (4.6%), Timis (4.3%) and Ilfov (3.8%). Last, but not least, about 40% of all micro-firms had zero employees in 2018 and most of these were equally zero turnover, as as the study of Instant Factoring’s shows (Diaconu, R.,2019)

3.3 Some more evaluations and expectations

Guda I.(2019), explains the reduction of the competitiveness of exporting companies in Romania: low age, practically the average life of the company in Romania - respectively 10 years, the lowest level in the EU area -low investments of companies and low degree of capitalization - 25% , the lowest in the EU - leading to high dependence on external financing and vulnerability to financing cost fluctuations

The European Investment Bank (EIB) through EIB Group for Investments’(EIBIS) is responsible for a recent survey on a basis of 12,500 companies. 68% of Romanian companies did invest in the last budget year, as compared to a EU average of 87%, and the immediate explanation of such a handicap roughly consists in the investors’ uncertainty. The share of investments in tangible assets, in total investments, in its turn, was 25% in Romania, as compared again to the 36% EU average. Or here, related to innovation, most of Romanian companies do prefer adopting solutions from elsewhere, than developing their own ones. There is to work on innovation to a greater extent (Deacu, E.)

In 2019 , business environment went through a true general cleaning – i.e. over 135,000 firms being de-registered or dissolved, and that is 26.71% more in 2018, so for 2020 was expected a business reorganization. “The new year (2020) seems to be a turning point – the one of strategic decisions needed to be taken - for a good number of companies, especially for small and medium size ones” (Neacsu O., Bursa)

National Office of Commerce Registry (ONRC's) statistics do illustrate the above mentioned problems of the 'appetite for new investments'. In 2019 the total number of firms and authorized persons newly registered was rather stagnating, as compared to the previous year: 134.220 new companies as compared to 135.532 in 2018. (-0.97%). Relevant is also the reduction of the number of newly established joint stock companies(S.A) , and the reorientation of the business towards SRL and PFA, 76 companies in 2019 , as compared to 99 companies in 2018, (-24%) . Actually, for SRL and PFA, the number of new entities increased with 1554 entities at the end of 2019.

In total, at the end of 2019 , 1.363.651 professionals were active in the Romanian economy, 3.31% more than the same period last year. Although the number of legally active companies and PFAs increased in 2019, the growth rate is below that of 2018 (4.88%), an indicator that shows that there are areas where the problems have intensified.

The 2020 was expected with some specific complications as compared to 2019 and the other previous years - namely macroeconomic ones – unpredictable movements of : exchange rate, inflation, financing, demand-supply of goods and services and especially on the export zone. “Business consolidation – i.e. seen in terms of financial resources and liquidity ensured – will be at the forefront ”(Neacsu O., Bursa).

Tempering investments will follow in an environment of “slowing down signals” in industry, agriculture and other sectors. In context, many companies will reconfigure themselves on product efficiency.Strengthening of financial blockage and the increase of the operational costs, generated by inflation, labour's and utilities' costs will make investors take precautionary measures.

As the “investment risk”, some business in the trade sector had the most problems in 2019, as well: 28,114 firms of this sector were de-registered, 3,954 firms suspended their activity and 1,800 firms went to insolvency in 2019.

Agriculture did not record the expected results in 2019, because unfavourable weather conditions. Manufacturing shows some significant tempering in the last months, constructions are suffering since the State is absent from its former active involvement in programs like “the First-House”. Also 90% of all Romanian firms are still insufficiently capitalized and missing all financial buffer against crisis. The real economy goes on facing multiple challenges and specialists worn about that the one single firm's insolvency could be able to cause risky situations on the whole chain of firms. “Business management problems do persist on a large scale in our economy. In some cases, investors were overestimating their revenues and partner relationships, and their expectations on business performances weren't basing on all needed financial data.” (Neacsu, O.)

3.4 Small and medium size enterprises

This paragraph's subject might need recalling the classic and neoclassic contributions of the late 19th Century. More exactly, it is about the Marginalist Vilfredo Pareto's contribution, with his 'Perfect Competition Model'. (actually, *Marginalism* is about three Schools of thinking in the Europe at that time: the Swiss one with Leon Walras and Vilfredo Pareto, the Austrian one with Wieser and Bohm-Bowerk and, of course, the British one with WS Jevons and A. Marshall (Andrei LC. Economie 2020, p. 66).For this, author uses what is pretty rare in the general economic thinking : mathematic demonstration. Pareto focuses on the efficiency as a criteria of welfare. Today all students know this Pareto's theory-model of macro-efficiency associated to perfect competition. Another observation of the classics were the companies find more favourable their expansion because this will bring them technical and financial advantages.

According to such thinking the firms' expansion, would be equivalent to their physical inequality, and individual influences on the market and also ever destruct both, perfect competition and Pareto efficiency bases.

Actually, this story is about two basic theories here arguing against each other and ends by here identifying two truths that are both vivid and excluding one-another. The Pareto's one in proven accuracy and common sense – i.e. and even nowadays small and medium size enterprises do exist/survive and this as a majority in all national economies even one and a half-centuries after Marginalism. But the other equally couldn't be denied, either: firms are extending due to the truth of the economies of scale – and this leads to the large and gigantic companies world-wide. Nowadays economic progress might be synonymous with large companies in progress and the developed economies of present do confirm this idea. Then, small firms aren't likely to be influential, as individually, and today they aren't influential in their mass either.

However, small and medium size enterprises (SMSE) include in their reality their contribution to all welfare, GDP and employment. Besides, the economic competition idea isn't dead either in the public conscience – the individual consumer's significance and firm's cost efficiency when competition in place are the same as in the classics-neoclassic's time and view.

Plus, the SMSE's economic importance is the same in all national economies, here including the European and EU regions, and certainly here including Romania.

We agree that ideas around the concept of small and medium enterprises in Romania has the European Union origin. Competitive industries and enterprises (firms, companies), jobs creating and economic growth basing on improved business environment belong to the E.U agenda. According to European Union documents, SMSs represent 99% of total number of enterprises in the E.U area and are responsible of 2/3 of jobs in the private economy of the E.U area. Besides, the SMSs sector gives way to concrete E.U policy objectives like: strengthening its industrial base, promoting innovation, as a chance for (new) economic growth, promoting SMEs and entrepreneurship, strengthening the E.U market.

European Commission (E.C) and European Bank for Investments (B.E.I) worked together to launch the so-called *Plan for Investments in Europe*, in which context 360 billion Euro were mobilized for about 850 thousand SMSs to improve their access to finance. As for Romania, the White Paper of SMSE (Carta Alba a IMM), tries a proper description update about this category of firms from several points of research and public surveys. In these surveys, the National Council of Small and Medium Private Enterprises in Romania (CNIPMMR), in partnership with the Ministry for Business Environment, Trade and Entrepreneurship (MMACA) interviewed over 788 entrepreneurs from across the country; the paper transposes the overall situation of the companies, the profile of the entrepreneur, the difficulties they face, the ways in which they are financed or the trends of the current year in terms of internationalization, digitalization or training of human resources.

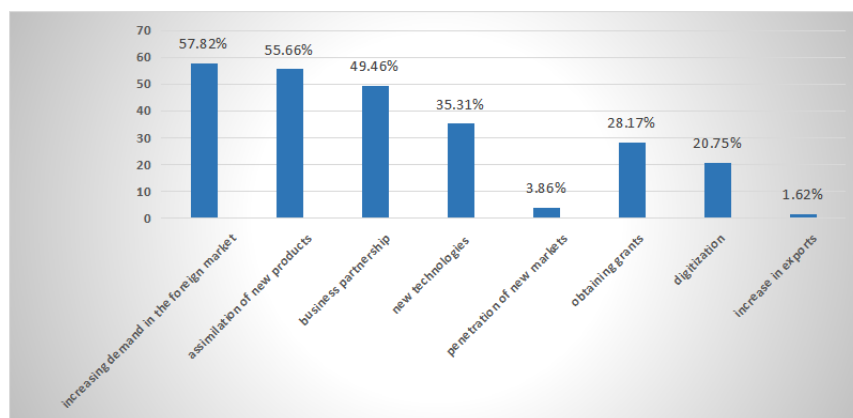


Figure1. SMES business opportunities(survey)

Source : White Paper of SMSE, 2019 Edition

According to the above mentioned survey, most of the interviewed economic agents considered the importance of increasing the demand on the foreign market and least important to obtain grants, penetration on new domestic and international markets or export growth.

Among the major difficulties faced by SMEs in 2019 : employee training and keeping them, bureaucracy, unfair competition, inflation, declining domestic demand, rising wage spending, corruption, difficult access to credit, etc

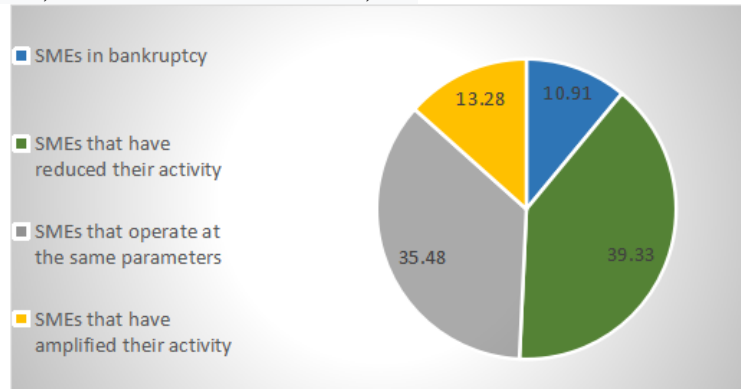


Figure2. SMES dynamics over the last two years of activity(survey)

Source : White Paper of SMSE, 2019 Edition

According to the survey, most SMEs have reduced their activity or remained at the same parameters during 2018 and 2019, while the share of companies that have amplified their activity is almost equal to that of companies that have gone bankrupt in the same period.

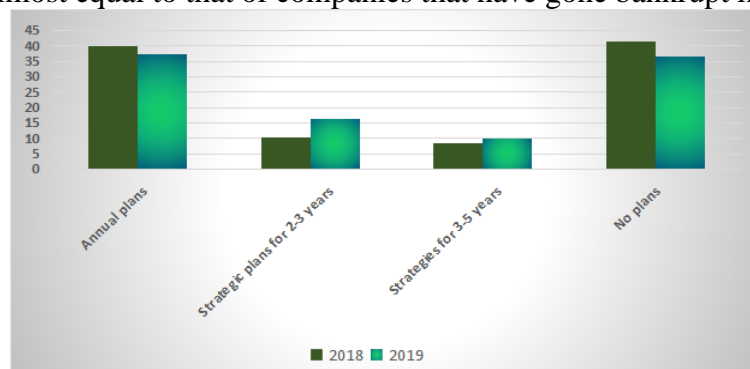


Figure3. SMES- plans and strategies(survey)

Source : White Paper of SMSE, 2019 Edition

Most of the companies did not have a concrete development plan or only had annual, general plans, without strategic approaches for 2, 3 or 5 years, proving a reduced appetite for innovation and future investments. Those that have considered the realization of plans / strategies for 3, 5 years are those that have amplified their activity.

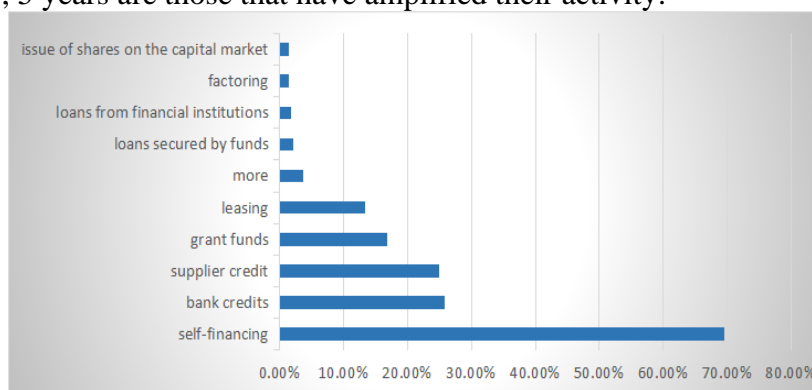


Figure 4. SMES ways of financing economic activities

Source : White Paper of SMSE, 2019 Edition

Self-financing seems to be the main *financing* way available to SMSE to make investments – plus, self-financing exceeds the other two credit financing ways, as cumulated : the bank and supplier credits. The access to non-reimbursable funds is a method taken into account by almost 20% of companies participating in the survey. Funding through guaranteed funds, loans or factoring, remaining at a low level. In addition, SMEs are not concerned about the issuance of new shares - the expansion of the company's activity. The most relevant conclusion about Romanian SMEs might be that they prefer to stay as they are for longer time terms.

5. Conclusions

As we already mention in the introduction of the paper, the article refers to the analysis of the investment behaviour of SMEs in Romania, reflecting trends of the last years, before the Covid- 19 crisis, whose drastic repercussions would require a separate study and concrete data.

Investments in Romania present relatively high degrees of risk. Also last years 2018, 2019, were a period of specific slowdown in the total level of investments, for both large companies and SMEs and for the private sector or for public investment. Investments are not keeping pace with consumer needs, thus will allow consumption to extend to imports, and this leads to effects on the external trade balance; as a consequence the current (however real) economic growth, bases on consumption directly and not on investments as a base for consumption growth.

Gross fixed capital formation (GFCF) benefits from low percentages, among the last by countries in the EU. Investments in tangible assets rather try to keep their value constant. As the result this is less and less about newly created value (in addition to the replacement of amortized technical capital) and innovation. Then the external equilibrium is disturbed by low exporting firms' performances as well as by the harsh imports' competition for the domestic producers.

Small and medium-sized enterprises identifies as main business opportunities: the demand of foreign markets, the assimilation of new products, the business partnership and less the penetration on new markets. They seem to seek and evolve towards reducing or keeping their own activity parameters constant. Companies consider the greatest difficulties in preparing and maintaining their own staff; Most of the companies use the self-financing of up to 70%, the remaining 25% being financed from loans; they make plans and strategies for a maximum of one year at a time or have no forecasts at all.

The objectives of small and medium enterprises for 2021, as shown by the White Paper of SMEs, made by the National Council of Small and Medium Private Enterprises in Romania (CNIPMMR), based on a study conducted in 2019 on a sample of 788 enterprises, were : 56.58% of SMEs in our country expect a moderate growth of business, without this to be the main objective of the company, it coming with the normal development of the activity; 10.64% of them want a rapid expansion of the business, which is mainly based on a solid and complete marketing plan, by diversifying the range of products / services offered to the general public or by adopting new technologies. Other entrepreneurs want to keep the business / enterprise in the current conditions (24.93%), reduce the business (1.54%), closing it (3.08%) or selling it and making a profit from that transaction (3.22%).

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