

SIZES OF ROMANIAN ECONOMY'S NON-PERFORMANCE

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Abstract: *Although economic and financial indicators show a relatively good situation at national economy level, however there is a number of tensions at microeconomic level. A profoundly negative issue is the size of losses reported by many Romanian enterprises that largely cancel the profits generated by the other economy, namely sound businesses. Losses are distributed in different shares both at corporate and SME levels, both in public and private companies. In recent years, after the onset of the crisis, the total amount of losses has annually exceeded 40 billion, meaning between 7 and 10% of the national GDP. The negative character of losses in more than a third of Romanian companies along with over 10% of companies with zero outcomes, beyond the idea that almost half of the economy "is not working", with such enterprises that have failed the objective which they have entered the market for, that is making profit, also means a reduction of the GDP, a contamination of sound businesses by non-performance, lower budget revenues and expenditures, a lower potential GDP.*

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1. Introduction

In recent years the Romanian economy appears to have regained its exuberance of 2005-2007, and government statistics fully confirm this.

Table no. 1. Key macroeconomic indicators -%

Indicator	2011	2012	2013	2014	2015	2016VI.
GDP- real annual variation -%	1,1	0,6	3,5	3,0	3,8	6,0
Industrial production – annual variation-%	7,5	2,4	7,8	6,1	2,7	1,1
Number of employees in economy-thousand pers.	4.349	4.443	4.444	4.508	4.571	4.702
Registered unemployment - thousand pers.	461	494	512	478	436	411
Average net earnings-%	3,8	4,4	4,8	7,5	9,5	14,3
Consumer price index-%	105,8	103,3	104,0	101,1	99,6	99,3

Source: National Bank of Romania, Monthly Bulletin, January-August. 2016 www.bnr.ro, publish section, subsection periodicals

The indicators in the table. 1 show an almost uninterrupted growth in the past five years, and provisional data for half of 2016 confirms that this year growth will continue at about the same rates. Real GDP grew by more than 3 percent, industrial production registered increases of 6-7 percent, with the mention that it suffered moderation in 2015, the number of employees has exceeded 4.5 million, the number of registered unemployed is reduced, earnings increases move towards pre-crisis values. The only problem seems to be the segment of the consumer price index which went into negative territory, but officials say the central bank is not talking about deflation, but a "negative inflation (!!!)" (Isărescu, 2015., 2015 b.).

As I said it seems that the economic exuberance that I mentioned will continue in the coming year. Thus, the IMF forecasts for 2017, 2018 etc., lists Romania among the countries with the highest economic growth in the European Union (IMF, 2016). Thus, the autumn forecast of the IMF includes Romania in the leader platoon of in EU countries at the chapter of economic growth for the period 2017-2021, with annual rates between 3.4

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and 4%. Sure, there is a sensitive gap between the level of development of founding states of the EU and Romania, which justifies the imperative for our country to register significant increases, so to flatten the development differences.

All these are signs that the Romanian economy is in a fertile period. Unfortunately, these positive signals are not found everywhere and, what is more important, the positive elements are not added together at the macroeconomic level because a number of negative phenomena annihilates, in part, those favorable.

Table no. 2. IMF forecasts regarding annual real growth of GDP in the EU -%

Country	2016	2017	2018	2019	2020	2021
Austria	1,4	1,2	1,2	1,1	1,1	1,1
Belgium	1,4	1,4	1,4	1,4	1,5	1,5
Bulgaria	3,0	2,8	2,5	2,5	2,5	2,5
Croatia	1,9	2,1	2,2	2,3	2,3	2,0
Cyprus	2,8	2,2	2,3	2,2	1,9	2,0
Czech Republic	2,5	2,7	2,4	2,2	2,2	2,2
Denmark	1,0	1,4	1,7	1,8	1,9	1,8
Estonia	1,5	2,5	2,9	3,1	3,2	3,3
Finland	0,9	1,1	1,3	1,5	1,6	1,6
France	1,3	1,3	1,6	1,7	1,8	1,8
Germany	1,7	1,4	1,4	1,3	1,3	1,2
Greece	0,1	2,8	3,1	2,8	2,4	1,8
Hungary	2,0	2,5	2,4	2,2	2,1	2,1
Ireland	4,9	3,2	3,1	2,8	2,8	2,8
Italy	0,8	0,9	1,1	0,9	0,9	0,9
Latvia	2,5	3,4	3,7	3,9	3,9	4,0
Lithuania	2,6	3,0	3,3	3,6	3,6	3,3
Luxembourg	3,5	3,1	3,3	3,2	3,1	3,0
Malta	4,1	3,4	3,1	3,1	3,0	3,0
Netherlands	1,7	1,6	1,8	1,8	1,7	1,6
Poland	3,1	3,4	3,3	3,1	3,0	3,0
Romania	5,0	3,8	3,3	3,3	3,3	3,3
Slovak Republic	3,4	3,3	3,7	3,8	3,7	3,7
Slovenia	2,3	1,8	1,6	1,6	1,6	1,5
Spain	3,1	2,2	1,9	1,9	1,8	1,6
Sweden	3,6	2,6	2,2	2,2	2,0	2,0
United Kingdom	1,8	1,1	1,7	1,8	1,9	1,9

Source: imf.org, section "Data and statistics"

2. Analysis of specialty literature

In a study in mid-2005, first deputy governor of NBR, Mr. Florin Georgescu (Georgescu F., 2015b) called attention to a "paradox of Romanian economy": economic macroeconomic stability under conditions of tensions at the microeconomic level. Thus, although "the macroeconomic situation is very good (the fulfillment of the Maastricht criteria, as well as 10 of the 11 indicators of the European dashboard regarding macroeconomic stability), there is tension at the microeconomic level, because the distribution of GDP in the economy is inappropriate: (1) those who are disciplined are tensioned (individuals and companies who comply with the law) because they do not experience economic growth, many distribution channels of added value are blocked by indiscipline of other legal entities and individuals; (2) the unruly are relaxed because

they acquire an unreasonably large part of the added value produced in the economy". In the same paper was pointed out the high volume of losses registered by many Romanian businesses.

In the paper "After 20 years: structural changes in the Romanian economy in the first post-revolutionary decades," its authors distinguish three major imbalances at the microeconomic level, which they call "atypical". The three types of atypical would be: "(i) companies reporting zero employees (43 percent of all companies in December 2014); (ii) companies reporting a turnover of zero (27 percent of all companies in December 2014) and (iii) companies that have negative equity (almost half of the companies in December 2014). The last category mentioned is the most problematic because they diminish at the aggregate level the added value produced by other companies and there is an increased risk to transfer the difficulties to their partners" (Neagu F., Dragu F., Costeiu A., 2016). In fact, the third "atypia", companies with negative equity, are the effect of recording of negative results and losses, for years.

The issue of losses incurred by Romanian companies is not new, it manifests even before the economic crisis began in Romania in 2007. Thus, in a study of the National Prognosis Commission, entitled "The level of competitiveness of the Romanian economy" (NPC, 2007) the authors point out that "losses of economic agents from 2006 still remain a problem for the Romanian economy" and that "although the total economic losses increased in 2006 only by 3.8%, however, is not encouraging that the number of units with loss increased by 5.8%.". The same study stated that "economic losses of unprofitable economic agents have exceeded the volume of the state budget deficit, being of 1.2 times higher than the budget deficit," but these were declining relative to those recorded in 2005, "when the losses were about 5 times higher than the state budget deficit", but also in relation to those recorded in 2004," when they were about 6 times higher "compared to the budget deficit.

3. The health of Romanian enterprises

To analyze how healthy Romanian companies are, let us look at the evolution of indicators (Table no. 3), which the central bank also uses to diagnose elements of stability in the companies in our country (NBR 2016).

Table no. 3. Indicators of financial health for enterprises from Romanian%

Indicator	Year	Economy	Corporations	SMEs	Average return rate at new bank loans
Return on equity	2011	8,23	8,54	7,69	9,74
	2012	8,39	8,37	8,39	9,76
	2013	10,97	10,09	12,70	6,84
	2014	11,22	9,07	15,32	5,87
	S1 2015	15,14	14,27	16,39	4,36
Operational result / interest expenses	2012	178,53	349,50	91,50	-
	2013	247,28	467,45	134,06	-
	2014	281,64	548,46	161,52	-
The share of debt in total resources (equity and debt)	2012	70,89	55,93	81,90	-
	2013	70,50	53,28	82,82	-
	2014	68,90	51,22	81,59	-
	S1 2015	61,97	51,45	75,42	-
General liquidity (circulating assets/ short term debt)	2012	86,49	84,62	87,62	-
	2013	88,66	90,64	87,60	-
	2014	90,42	88,67	91,38	-
	S1 2015	101,72	92,33	108,58	-

Source: National Bank of Romania, Financial Stability Report, 2015 April 2016 Monthly Bulletin, August 2016

Return on equity has registered increases over the last five years, both in the economy and at the level of large companies and SMEs. If we compare the indicator with the average interest rate on new bank loans, we note that from 2013, financial profitability is superior, reaching, in 2015, to be more than three times higher, which means a easier access to bank financing. Based on reducing interest rates on bank loans and improved profitability, ratio of operating profits and interest expenses increase, the first being on average almost three times higher. At the corporate level the indicator exceeds almost five times the interest. The same improvement is noticed for SMEs, given that in 2012, operating profit was insufficient to cover the cost of loans.

Progress is also noted at the level of indicators of indebtedness, the indebtedness of all companies is reduced by almost 10%, falling below the threshold of 2/3 critical in financial terms, and at the corporate level it approaches the accepted value by banks for the access to funding granted by them. Also at the SMEs level indebtedness flattens, but continues to be very high (75%). Overall, these developments indicate a higher financial autonomy and better capitalization.

The overall liquidity is improving in all companies with more than 15%, passing into the optimal area (over 10%), which means that there are short-term assets of which obligations maturing during the year are to be covered. At the SMEs level progress is greater, about 20%, this category of businesses having with almost 10% more short-term assets of which same nature debt is to be covered. Corporations continue to witness a global liquidity below 100%, but also in their case the indicator improves.

4. Absolute Profitability of businesses

The big problem of previous indicators is that they are average values and this way of calculating them hides many problems, in particular, that many companies have a reduced capacity to make profits. I mean, in other words, many businesses end every year with financial losses.

Table no. 4. Structure of losses based on categories of companies - billion lei

	Year (June)	Net result	Profit	Loss	Loss/Profit (%)
Total economy	2013	10,80	27,88	(17,08)	61,3
	2014	17,48	30,90	(13,42)	43,4
	2015	22,84	36,17	(13,33)	36,9
	Total period	51,12	94,94	(43,83)	46,2
Corporations	2013	8,92	14,71	(5,79)	39,4
	2014	10,28	14,51	(4,23)	29,1
	2015	14,10	17,80	(3,69)	20,7
	Total period	33,31	47,02	(13,71)	29,2
SMEs	2013	1,88	13,16	(11,29)	85,7
	2014	7,20	16,39	(9,19)	56,1
	2015	8,73	18,38	(9,64)	52,5
	Total period	17,81	47,93	-30,12	62,8

Source: National Bank of Romania, Financial Stability Report, 2015 April 2016

Table number 4 shows the situation of all businesses in the economy but also separated at the corporations and SMEs level, in terms of profits respectively losses registered. We note that the level of total net result of all the companies is positive and growing. An increase of almost 2.2 times in three years. However, if we separate the businesses into profitable and unprofitable ones, we note that, in fact, the profits of some companies must cover the losses of others. Thus, in 2013 the losses of 17 billion consumed

60% of the profit of profitable enterprises, in 2014, losses represented 43%, and in 2015, 37%. It is also noted that although the profits of the two categories of enterprises are relatively equal, each contributing about 47 billion lei to the total profit of 94 billion. Losses are especially counted at the level of SMEs, recording a total loss of 30 billion lei, or approx. 70% of the total loss, and corporations around 14 billion, or 30% of the total loss. This mode of distribution of profits determines that SMEs, although several hundred times higher in number compared to corporations contribute only 35% to the net results of enterprises in Romania, while corporations, counting several thousands, to contribute with approx. 65% to total net income.

Table no. 5 concerns the issue of profit, losses and the net result through the owner of the company: private or state and on a relatively long period, 15 ended financial exercises. The finding is repeated, loss-making enterprises are both state and private. Obviously, most of the losses are localized to the private companies, which are higher in numbers, and the state companies losses are reduced in time as a result of reducing the number of state-owned enterprises, losses of private enterprises increasing. For example, in 2000, losses of state enterprises were about 45% and losses of private companies were 55% so that in 2014 losses of state firms to be 7%, and private companies to own 93% of the total loss.

Table no. 5. Dynamics of profits and losses in the economy and correlations with GDP
billion lei

Year	Total profit			Total loss			Net result			Nominal GDP	% in GDP for		
	total	of which		total	of which		total	of which			Profit	loss	Net result
		State companies	Private companies		State companies	Private companies		State companies	Private companies				
2000	6,04	1,12	4,93	-8,39	-3,69	-4,70	-2,34	-2,57	0,23	81,3	7,4	-10,3	-2,9
2001	10,08	1,28	8,80	-9,97	-2,94	-7,02	0,11	-1,66	1,77	118,3	8,5	-8,4	0,1
2002	13,55	1,44	12,12	-14,08	-5,06	-9,02	-0,53	-3,62	3,09	152,6	8,9	-9,2	-0,3
2003	19,99	1,71	18,28	-14,72	-3,81	-10,91	5,27	-2,10	7,36	198,8	10,1	-7,4	2,6
2004	30,68	2,39	28,29	-11,37	-2,51	-8,86	19,31	-0,12	19,43	248,7	12,3	-4,6	7,8
2005	34,74	2,13	32,61	-11,93	-1,76	-10,17	22,81	0,37	22,44	290,5	12,0	-4,1	7,9
2006	47,23	2,59	44,65	-12,41	-1,92	-10,49	34,82	0,67	34,15	347,0	13,6	-3,6	10,0
2007	55,03	2,87	52,16	-20,98	-2,09	-18,89	34,05	0,78	33,27	418,3	13,2	-5,0	8,1
2008	53,32	3,21	50,12	-42,21	-5,20	-37,01	11,11	-2,00	13,11	524,4	10,2	-8,1	2,1
2009	40,28	1,81	38,47	-48,05	-5,24	-42,81	-7,77	-3,43	-4,34	510,5	7,9	-9,4	-1,5
2010	42,18	2,59	39,59	-43,53	-5,50	-38,03	-1,35	-2,90	1,55	533,9	7,9	-8,2	-0,3
2011	49,89	4,66	45,23	-45,30	-4,21	-41,09	4,59	0,44	4,15	565,1	8,8	-8,0	0,8
2012	51,48	3,17	48,30	-45,81	-4,58	-41,22	5,67	-1,41	7,08	595,4	8,6	-7,7	1,0
2013	57,74	4,50	53,25	-42,02	-3,22	-38,80	15,72	1,28	14,44	637,5	9,1	-6,6	2,5
2014	62,94	5,41	57,53	-42,08	-2,96	-39,12	20,86	2,45	18,41	667,6	9,4	-6,3	3,1
06. 2015	36,17	6,08	30,09	-13,33	-0,84	-12,50	22,84	5,24	17,59	712,8	5,1	-1,9	3,2

Source: National Bank of Romania, Financial Stability Report, 2015 April 2006

Also to be noted the dynamics of these total losses (seen through the current prices). Thus the first two years, 2000 and 2001, they did not exceed 10 billion lei, since 2002 and until 2006 it fluctuates between 11 - 14 billion in 2007, they exceed 20 billion, so that since 2008, the starting year of the financial and economic crisis, to exceed 40 billion annually and do not descend from this level even after the crisis.

The size of these losses makes it that in four years (2000, 2002, 2009 and 2010) they fully absorb the profits of healthy enterprises, the net outcome being entirely negative. The situation is more common for state companies, those in 9 years of 15 have registered losses larger than profits, which resulted in a negative net result, and much more rare with private companies, this situation manifesting in a single year, 2009, during the crisis.

It is also noted that in 9 years out of 15 the total losses have absorbed between 7.5 and 10% of nominal GDP, several times higher in comparison with Romania's budget deficit.

For 2014, the last year with ended financial exercise from the series of data analyzed, it appears that there is information about the ability to produce profit only for less than 85% of enterprises, the rest not having submitted balance sheets. Approx. 35% of enterprises are profitable, other 37% register losses and 12% recorded null net result.

Table no. 6. Structure of profitable and unprofitable enterprises in 2014

Total companies 747.700					
Companies that did not submit balance sheets 147.000	Companies that submitted balance sheets – 600.700 (Net result +16 billion lei)				
	Companies with profit – 268.300 (net profit +58 billion lei)		Companies with null net result (0) 87.500	Companies with loss – 244.900 (net loss -42 billion lei)	
	State companies 580 (net profit +4,5 billion lei)	Private companies 267.720 (net profit +53,5 billion lei)		State companies 380 (net loss -3 billion lei)	Private companies 244.520 (net loss -39 billion lei)

Source: F. Georgescu, Capital in Romania of 2015, Bucharest, 2015, [www. bnr.ro](http://www.bnr.ro),

4. Conclusions

Although at the level of national economy, economic and financial indicators show a relatively good situation, however, at the microeconomic level there is a series of tensions. A problem with profoundly negative character is the size of losses registered by a great deal of Romanian enterprises largely canceling profits generated by the other side of economy, healthy businesses.

Losses are distributed in different proportions both at corporate level and at the level of SMEs, both at state companies and the private ones. In recent years, after the onset of the crisis, the total losses exceeded annually 40 billion, meaning between 7 and 10% of national GDP.

The negative character of losses registered by more than a third of Romanian companies, along with over 10% of firms with null result, beyond the significance that almost half of the economy "does not work", these enterprises not meeting their objective for being on the market, that is to produce profit, also means:

- a diminish in the added value to the national level, so a lower GDP;
- a contamination of healthy enterprises with the nonperformance microbe, the latter not receiving compensation of sales to companies with loss and, thus, the worsening of the economic and financial status and of healthy enterprises;
- lower budget incomes, because as a result of the losses, these companies do not pay income tax;
- lower public spending, due to lower budgetary income;
- a lower potential GDP, due to lower public consumption, due to lower public spending.

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