

## **Modifications in the Structure of the Romanian Economy within the Economic Crisis**

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### **Abstract**

*Every economy's mechanism is represented by the existing economic operators and especially by the active ones. Unfortunately, from this point of view, the Romanian economy does not have an advantage, because both the evolution of the number of economic operators and active enterprises and their structure on various characteristics, are not very favourable. This paper presents some theoretical aspects related to clarifying the concepts addressed, but focusing on changes in the evolution and structure of economic operators, after 1990, especially during the financial crisis, triggered by the end of 2008.*

**Key words:** *economic operators, active enterprises, economic crisis, restructuring*

**JEL Classification:** *O11*

### **Introduction**

The level of economic and social development of a country depends very much on the number and especially on the structure of economic agents. The legislation published soon after 1989, Law no. 15/1990 and Law no. 31/1990 with subsequent amendments have legally created a favourable framework for the occurrence and development of various economic operators.

Further development of the Romanian economy, the extensive restructuring that took place over the years, has affected the dynamics and structure of economic operators. On the other hand, the activity of enterprises is heavily influenced by tax legislation, state facilities granted to certain categories of enterprises, credit policy, international economic climate etc.

In Romania, none of the factors listed were not likely to encourage the harmonious development of enterprises, their existence and activity being permanently affected by the climate of economic, political instability, and by the multiple and frequent legislative changes.

In this context, the paper provides a brief analysis of the dynamics and structure of economic operators in Romania, by various characteristics, specifically focusing on the period 2008 – 2011, to highlight the particularities of this sector in the period following the economic crisis.

The analyzed aspects do not highlight a favourable situation in the sector of enterprises in

Romania, nor in terms of the dynamics or either the structure. The analysis illustrates a fragile economy, particularly sensitive to any negative change, internal or external, who folds difficultly in crisis situations.

## Theoretical Aspects regarding the Economic Operators in Romania

Before proceeding to the analysis itself, we should clarify the concepts and content of the analyzed indicators. Thus, the economic operator, according to the definition given in the methodological notes of the Romanian Statistical Yearbook, 2012 edition, in chapter *Enterprise's activity*, represents "the organization (pluridisciplinary or unipersonal) which can be a legal / natural person, created to develop activities defined according to the Law no. 15/1990, Law no. 31/1990, with subsequent amendments and the Government Priority Ordinance no. 4/2008 ". According to the same sources, the social agent is "an organization (consisting of one or several persons) with legal personality established to carry out an activity dedicated to the social interest".

Currently, however, when we refer to the economic activity we refer to the work of individuals or groups of individuals or natural and / or legal persons that are generically called economic agents or enterprises, comprised within the broader category of economic operators.

The enterprise, a fundamental component of the economy, can be defined as an economic entity with autonomy, which ensures its existence and development through manufacture, implementation and marketing of products and services, in order to obtain profit.<sup>1</sup>

Statistically, the enterprise is a group of legal units that constitute an organizational entity that produces goods and commercial services under autonomy of decision, especially to ensure its current resources. An enterprise carries out one or more activities at one or more places (headquarters - local units of the enterprise).

Legally, the company appears as an economic and social organism that constitutes as an autonomous organization of activities, with the help of inputs, and at the entrepreneur's risk, in order to produce goods, to perform works and render services for gaining profit.<sup>2</sup>

Since not all enterprises registered in the Trade Register are economically active, there are two types of companies:

- o active;
- o dormant.

The active enterprise is an economically active entity, carrying goods or services, registering outlay and preparing balance sheet. By analogy, the dormant enterprise is the entity that legally exists, but it is economically inactive.

Private entrepreneurs are freelancers, sole proprietorships, family businesses and persons engaging liberal activities.

Within the public administration there are institutions from both local and central government (ministries, prefectures, municipalities, local councils, etc.) and institutions within the scope of social security (schools, health, social welfare, culture units) and within the private administration there are non-government organizations (unions, political parties, trade unions, employers, foundations, associations, etc.).

In the analysis of the dynamics and structure of the agents, they are grouped after a series of features, the most important being:

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<sup>1</sup> Lazăr, M; Lazăr, C. *Analiză Statistico- Economică*, Economic Publishing House, Bucharest, 2012, p. 191

<sup>2</sup> Cărpenu, S., *Drept comercial român*, Universul Juridic Publishing House, Bucharest, 2008, p.43.

- CANE Activities;
- Legal type;
- Types of ownership;
- Class size;
- Territorial profile (regions, counties).

## Dynamics and Structural Changes of Economic Agents in Romania

In Romania, by the end of 2011 there were 829 170 active economic agents, of which 54.5% were enterprises, 33.8% private entrepreneurs and 11.7 agents of public and private administration (Table 1).

**Table 1.** The structure of active economic operators between 2008 and 2011

Active economic operators	2008	2009	2010	2011	- % -
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	
Enterprises	55,4	57,5	56,1	54,5	
Agricultural holdings	1,4	1,6	1,7	1,8	
Enterprises from industry, construction, trade and other services	53,3	55,1	53,6	51,9	
Financial and insurance companies	0,7	0,8	0,8	0,8	
Public administration	1,5	1,5	1,6	1,6	
Private administration	12,6	8,4	9,1	10,0	
Private entrepreneurs	30,6	32,6	33,2	33,8	

Data source: date and calculations based on Romanian Statistical Yearbook, edition 2012, Chapter Enterprise activity, National Institute of Statistic, Bucharest

Enterprises in industry, constructions, trade and other services are (by the end of 2011) 51.9% of the total of economic agents, being the most important part of the business sector (95%).

Analysing by type the structural changes of economic agents, we find that in the period under review there were no significant fluctuations. The only significant change, resulting in increasing the total share of 3.2% in 2011 compared with 2008, was recorded in the case of private entrepreneurs.

Relating to dynamics, we find significant changes in both directions. Thus, the total number of economic agents is reduced by almost 20% (over 170 thousand) in 2011 compared to 2008, a severe reduction given the very short period of just four years (Table 2).

Obviously, changes in volume occurred amid the economic and financial crisis, the effects of which were felt in this case too.

The data presented show important changes in almost all situations. The most drastic change was recorded for economic agents from private administration, whose number decreased in the period by almost 35% and for enterprises in industry, construction, trade and services by almost 20%.

**Table 2.** The evolution of active economic operators between 2008 and 2011

Active economic operators	Existing at the end of the year (number)				Dynamic 2011 / 2008 (%)
	2008	2009	2010	2011	
<b>Total</b>	<b>1002879</b>	<b>942876</b>	<b>876225</b>	<b>829170</b>	82,7
Enterprises	555128	541836	491956	452171	81,5
Agricultural holdings	13602	15112	15240	15152	111,4
Enterprises from industry, construction, trade and other services	534525	519441	470080	430608	80,6
Financial and insurance companies	7001	7283	6636	6411	91,6

Table 2 (cont.)

Public administration	14644	14115	13928	13400	91,5
Private administration	126228	79148	79381	83222	65,9
Private entrepreneurs	306879	307777	290960	280377	91,4

Data source: date and calculations based on Romanian Statistical Yearbook, edition 2012, Chapter Enterprise activity, National Institute of Statistic, Bucharest

The only category of agents whose number increased by 11,4% was that of the agricultural enterprises.

### Dynamics and Structural Changes of Active Enterprises in Industry, Construction, Trade and Other Services

We will deal with the category of active economic agents, industry, construction, trade and other services enterprises, because this is the most important category, as we previous stated.

By the end of 2011, in Romania there were 430,608 active enterprises in industry, construction, trade and other services, being 3.3 times more than in 1992. Following their progress after 1990, the year when appeared normative acts that regulate the establishment and operation of enterprises, we find a tortuous path, with increases and decreases, which capture some steps towards the Romanian economy (Figure 1).

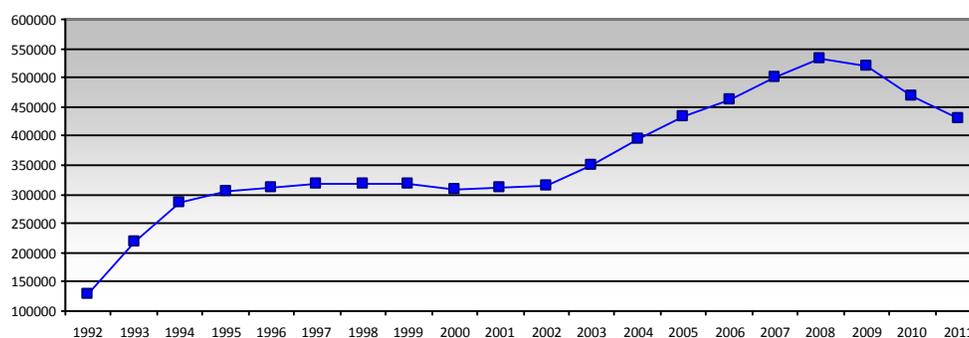


Fig. 1. The evolution of the active enterprises from industry, construction, trade and other services between 1992 and 2011

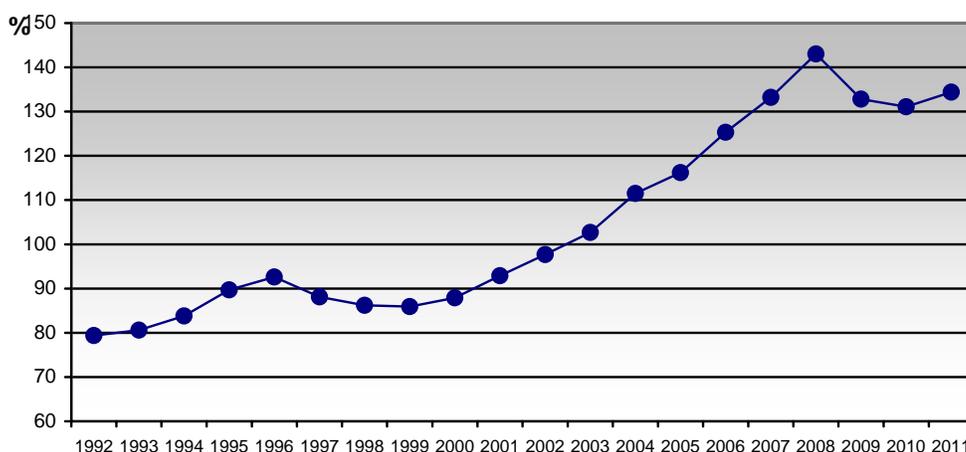
Data source: date and calculations based on Romanian Statistical Yearbook, editions 1995, 1999, 2010 and 2012, Chapter Enterprise activity, National Institute of Statistic, Bucharest

Thus, we find a pronounced ascending evolution between 1992 and 1994, otherwise normal given the recent emergence of the mentioned normative documents, afterwards, the period from 1995 to 2002 is a linear, constant one, without major changes.

2003-2008 was a period of growth and even though rhythm was not as alert as in the first period, it may be noted, however, the consistency of increase and its intensity.

Increasing the number of the most important segment of enterprises active during that period was due to Romania's efforts to join the European Union.

The pre-joining period meant a visible economic growth in terms of GDP evolution (Figure 2), which has created an optimist climate, encouraging the emergence of undertakings and developing the existing ones.



**Fig. 2.** The dynamic of Gross National Product between 1990 and 2011 (year 1990=100)

Data source: Calculations based on the information from Statistic Breviary "Romania in numbers 2012", section National Accounts, INS Bucharest.

Comparing the two graphs we notice the resemblance of the evolution of the number of active enterprises in industry, construction, trade and other services and the Gross Domestic Product. Basically, the two of them are in a relationship of interdependence: a steady economic growth provides the necessary climate for the emergence and development of a growing number of enterprises, implicitly meaning favourable economic results.

Obviously, in both cases we notice the last period, 2009-2011, of pronounced recoil, manifested amid the financial crisis, triggered by the end of 2008.

Focusing on the last period, 2008 - 2011, we find that not even structurally, the sector of enterprises in industry, construction, trade and other services does not reveal a favourable situation.

Thus, analyzing *the structure of active enterprises by size class*, depending on the number of employees (table 3), the situation is striking, particularly negative, given that within nearly 90% of all active enterprises in Romania, the most important and productive activities are micro-enterprises, which generally have low productivity and slow economic growth.<sup>3</sup>

**Table 3.** The structure of the active enterprises from industry, construction, trade and other services, by size classes, between 2008 and 2011

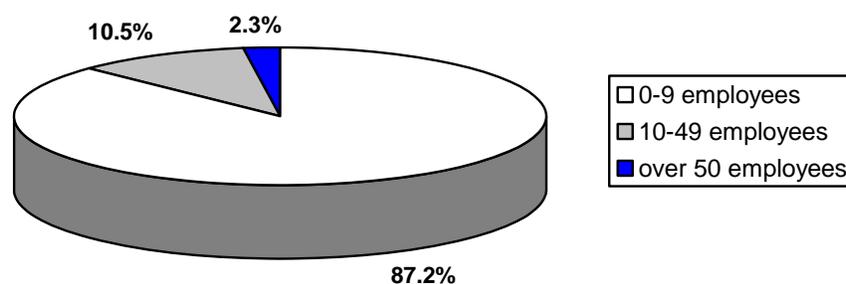
- % -

Size classes according to employees number	2008	2009	2010	2011
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
0 - 9 employees	89,2	89,7	89,2	87,2
10 - 49 employees	8,6	8,4	8,9	10,5
50 - 249 employees	1,8	1,6	1,7	1,9
250 employees and over	0,3	0,3	0,3	0,4

Data source: date and calculations based on Romanian Statistical Yearbook, edition 2012, Chapter Enterprise activity, National Institute of Statistic, Bucharest

This structure, not at all favourable, represents the most suggestive image of the Romanian economy (Figure 3).

<sup>3</sup> Ioniță, I., Popescu, F., Done, I., Andrei, J., Matei, M., Subic, J., Quality – a factor for competitiveness improvement for small and medium enterprises, *The Annals of Dunărea de Jos University of Galați*, fascicle I, Economics and Applied Informatics, Years XV – no. 2, 2009, p.217.



**Fig. 3.** The structure of the active enterprises from industry, construction, trade and other services, by size classes, in 2011 (%)

Data source: data and calculations based on Romanian Statistical Yearbook, edition 2012, Chapter Enterprise activity, National Institute of Statistic, Bucharest

In this situation we ask ourselves what is the economic strength of these companies and what is their ability to make investments? Can these micro-enterprises provide a permanent economy, can they can imprint a sustainable character of development?

A situation as unfavourable is that of *the share of active enterprises in industry, construction, trade and other services in all enterprises*, registered within the Trade Register (table 3).

Thus, if in 2008, from the total number of enterprises in industry, construction, trade and other services, registered within the Trade Registry, nearly 40% were active, in 2011 their share dropped to only 28%.

**Table 4.** The structure of the active enterprises from industry, construction, trade and other services, by the economic situation, between 2008 and 2011

Active economic operators	- % -			
	2008	2009	2010	2011
<b>Total enterprises registered within The Trade Register</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
o active enterprises	39,2	36,7	32,1	28,1
o dormant enterprises	60,8	63,3	67,9	71,9

Data source: data and calculations based on Romanian Statistical Yearbook, edition 2012, Chapter Enterprise activity, National Institute of Statistic, Bucharest

And in this situation we ask ourselves the same question as above: Can Romania have a strong, sustainable economy?

By *ownership*, the structure of active enterprises in the specified activities, in 2011, reveals an overwhelmingly majority of the private sector (99.7%), a situation which has not changed since 2008. We also note that enterprises with integrated foreign capital accounted for 5.1% of the total, in 2011, slightly higher than in 2008 (4.4%).

By *legal forms*, we also witness a massive preponderance of Limited Liability Companies, their share in total exceeding 95% throughout the analyzed period and increasing from 96.9% in 2008 to 97.3% in 2011.

## The Main Economic Indicators of Enterprises<sup>4</sup>

As we mentioned before, enterprises in industry, construction, trade and other services are the most important category of active economic agents. Therefore we will continue to deal with this category from the perspective of the main economic indicators. Specifically, we will highlight the contribution of each category of enterprises to their development.

Thus, referring to the achieved *turnover*, its highest value was recorded in enterprises whose main activity is trade (wholesale and retail), those from industry placing on the second place (Table 5).

**Table 5.** The structure of turnover, by type of enterprises, between 2008 and 2011  
- % -

CANE Activities Rev. 2	2008	2009	2010	2011
<b>Total turnover</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
Industry	33,6	33,4	35,8	36,6
Construction	9,8	9,4	8,1	7,8
Trade	40,6	40,3	39,6	39,8
Market services	16,1	17,0	16,5	15,8

Data source: data and calculations based on Romanian Statistical Yearbook, edition 2012, Chapter Enterprise activity, National Institute of Statistic, Bucharest

In the analyzed period we find that there were no significant changes in the rates of various activities, in the turnover, the evolution being almost linear.

In terms of gross investments, this time, on the first place there are the industrial enterprises, which in 2011 achieved almost 60% of total gross investments of enterprises from this analyzed category (Table 6).

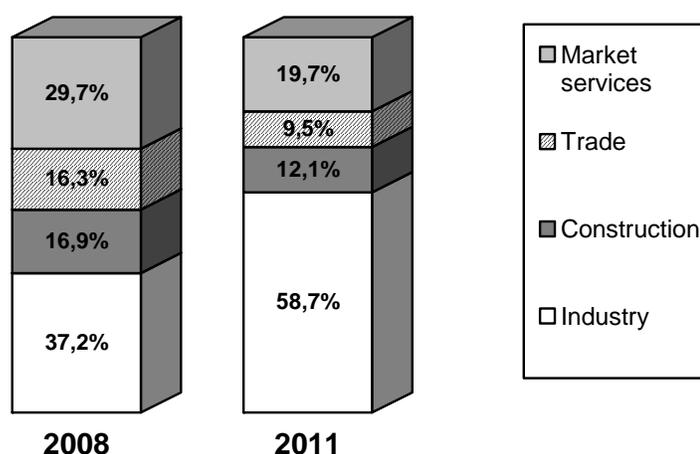
**Table 6.** The structure of gross investments by type of enterprises, between 2008 and 2011  
%

CANE Activities Rev. 2	2008	2009	2010	2011
<b>Total gross investments</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
Industry	37,2	41,0	45,2	58,7
Construction	16,9	17,1	14,1	12,1
Trade	16,3	14,4	14,0	9,5
Market services	29,7	27,5	26,7	19,7

Data source: data and calculations based on Romanian Statistical Yearbook, edition 2012, Chapter Enterprise activity, National Institute of Statistic, Bucharest

Gross substantial investments were also made within companies whose main activity is that of market services (inclusive for population), the share of these being in the analysed period higher than 20%. It should be noted that in 2011, compared with 2008, the only enterprises that experienced higher rates of total gross investments were those with industrial activity, the remaining recording much lower rates (Figure 4).

<sup>4</sup> Enterprises with main activity in industry, construction, trade and market services.



**Fig. 4** The structure of gross investments by type of enterprises, in 2011 compare to 2008

Data source: date and calculations based on Romanian Statistical Yearbook, edition 2012, Chapter Enterprise activity, National Institute of Statistic, Bucharest

In terms of the contribution of different enterprises in foreign trade activity, namely *direct exports*, over 80% of their value was achieved by the enterprises with industrial main activity. This percentage has remained relatively constant throughout the analyzed period.

Another particularly important indicator that we've considered is that of Gross Value Added (GVA).<sup>5</sup> The enterprises with industrial main activity had the most substantial contribution to its creation (Table 7).

**Table 7.** The structure of Gross Value Added by type of enterprises between 2008 and 2011

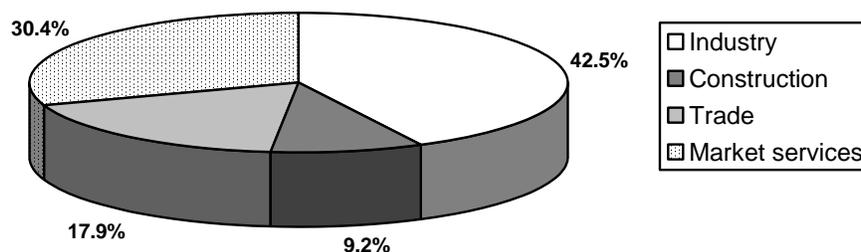
CANE Activities Rev. 2	2008	2009	2010	2011
<b>Total Gross Added Value</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
Industry	38,7	38,8	41,8	42,5
Construction	12,0	11,3	9,9	9,2
Trade	20,3	19,5	18,3	17,9
Market services	29,0	30,4	30,0	30,4

Data source: date and calculations based on Romanian Statistical Yearbook, edition 2012, Chapter Enterprise activity, National Institute of Statistic, Bucharest

In 2011, the gross value added of industrial enterprises represented 42.5% of the total, increasing as compared to 2008, when its share was 38.7%.

Marketing services enterprises (about 30%), followed by trade enterprises (about 20%) had an important contribution to the achievement of GVA.

<sup>5</sup> Gross Value Added to factors' costs.



**Fig. 5.** The structure of Gross Value Added by type of enterprises in 2011 (%)

Data source: Calculations based on the information from Statistic Breviary “Romania in numbers 2012”, section National Accounts, INS Bucharest.

## Conclusions

The analysis on the evolution and structure of economic agents in Romania revealed a number of interesting issues, unfortunately mostly negative.

Firstly it should be noted that, due to financial crisis, the total number of economic agents in Romania has decreased by almost 20% (over 170 thousand) in 2011, compared to 2008. As expected, this significant decrease in the number of economic agents has resulted in a reduction in Gross Domestic Product during the years that followed 2008.

Secondly, it is noted that in the case of enterprises in industry, construction, trade and other services - the most important category of economic agents - about 90% of all active enterprises are micro-enterprises, therefore economic agents with reduced economic potential and financial force.

Another negative aspect with major economic implications is represented by the very small rate (below 30%) of active enterprises active in all businesses, the rest being accounted for dormant enterprises.

Regarding the results of economic agents, we also find an unfavourable structure, resulted in a fairly large share of the trade enterprises, which achieved approximately 40% of total turnover in the period 2008-2011, while operators in the industry achieved about 35% and those from construction achieved only 8%.

However, there are also positive aspects in this analysis. One of these is the distribution of gross investments achieved on activities. In this regard, throughout the period under review, the sector of industry economic agents concentrated most investments, reaching in 2011 almost 60% of total gross investments, which created the basis for the future development of this sector.

Also, another positive aspect is the distribution of Gross Value Added and direct exports by type of economic agents and by activities. In this case, the industrial sector ranks first, with about 40% of Gross Value Added and 80% of total achieved direct exports.

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