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# CRISIS IMPACT UPON THE ROMANIAN COMPANIES

Empirical  
studies

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## Abstract

*The paper aims at investigating the economic and financial crisis impact which has occurred in the Romanian economy, upon the Romanian companies since 2008. Specifically, its effects are taken into account regarding the number of economic players, the labor force, and the results of business performance: enterprise turnover or gross outcomes. Additionally, this research paper aims at assessing the crisis consequences on corporate behavior in the insecure environment of the crisis regarding the investment process and the value rendered by enterprises.*

*The investigation is made exclusively on the secondary and tertiary sectors of the Romanian economy: industry, construction, trade and services, both from an overall and a sectoral perspective. The analysis also envisages the correlation of progress per the aforementioned economic segments with the overall development of the Romanian economy in terms of economic and financial crisis.*

## Introduction

The concept economic recession defines the state of the economy characterized by decreases in gross domestic product (GDP) decline in investment processes, reduction or stagnation of investments etc. It is also believed that the recession is a step towards reducing the economic activity of a country, inferior as amplitude to depression or crisis (Ciucur et al., 2010).

From the point of view of economic calculation, recession occurs when gross domestic product (GDP) records negative values (negative growth) in two consecutive quarters. Conversely, economic recovery, or recovery of economic growth is considered to be when GDP growth reoccurs.

National Bureau of Economic Research (NBER) in the U.S., believes that the recession is "a significant decline in activity at the national level that lasts longer than a few months and is visible by decreases in GDP, real income of the population, the number of employed in the economy, industrial production and retail sales and wholesale." (Greenspan, 2008).

Other conceptualizations of the term recession consider that this would be a business cycle contraction that occurs after a peak and could continue through a crisis (Greenspan, 2008). Typically, the concept of recession is customary in case the crisis will have modest consequences, while the concept of depression is used for deep and long lasting crises (Lybeck, 2011).

## Manuscript Information

### 1. Developments of the economic crisis in Romania

The economic crisis began to unfold in the Romanian economy since the second half of 2008 (Table no. 1.) , when within the last two quarters were recorded negative growth rates. The crisis continued throughout 2009, in all four quarters having negative rates. The next year, 2010, marked a

contradictory evolution, quarters with negative growth, alternating with those who have been reversals of GDP growth, the first and third marking decreases and the second and fourth positive values. Since the following year, 2011, the first quarter brought a new GDP growth, statistically we can consider that our country got back in the growth area, because there have been registered positive variations of GDP in two consecutive quarters. However, this recovery was not a lasting one, as in the following quarters of 2011, the alternation was maintained, after a quarter of growth following one of decline.

Table no. 1.

*Dynamics of Romanian GDP (%)*

Date	annual change (gross series)	quarterly change (seasonally adjusted series)
2008T1	8,2	3,5
2008T2	9,3	1,7
2008T3	9,2	-0,1
2008T4	2,9	-2,8
2009T1	-6,1	-3,3
2009T2	-8,7	-1,9
2009T3	-7,1	-0,5
2009T4	-6,5	-1,0
2010T1	-2,6	-0,7
2010T2	-1,1	0,4
2010T3	-2,2	-0,8
2010T4	-1,0	0,9
2011T1	1,5	0,7
2011T2	1,2	-0,3
2011T3	4,1	2,3
2011T4	1,6	-0,9
2012T1	0,4	-0,9
2012T2	1,9	1,5
2012T3	-0,5	-0,8
2012T4	1,1	1,1
2013T1	2,2	0,5
2013T2	1,5	0,8
2013T3	4,1	1,6
2013T4	5,2	1,7

Source. INS – press releases and NBR – Monthly Bulletins

Unfortunately, at the end of 2011, Romania goes back into recession due to the fact that in the fourth quarter of 2011 and first quarter of 2012 GDP variation is negative.

But this second recession is of short term-only two quarters, the Romanian economy resuming growth in late 2012. But this time the recovery seems to be lasting, as six consecutive quarters of growth follow, but modest in size. The conclusion is that in Romania, as in many countries the recession started in 2007 had the shape of W.

## 2. Sectoral evolutions of economic crisis in Romania

The analysis of the economic crisis at the level of some economic sectors shows a number of peculiarities in relation to the general evolution of the economy. Note that agriculture was excluded from analysis due to the strong dependence on climatic factors.

Table no. 2.

*Dynamic of supply components in the GDP of Romania (%)*

Date	Industry	Constructions	Services	GDP, quarterly change (seasonally adjusted)
2008T1	1,6	1,7	4,1	3,5
2008T2	1,8	2,6	4,0	1,7
2008T3	0,8	2,5	2,0	-0,1
2008T4	-1,4	2,4	1,5	-2,8
2009T1	-1,8	0,3	-2,4	-3,3
2009T2	-1,1	-1,1	-4,8	-1,9
2009T3	-0,2	-1,3	-3,1	-0,5
2009T4	1,0	-1,7	-3,8	-1
2010T1	0,7	-0,8	-0,9	-0,7
2010T2	1,3	-0,3	-0,4	0,4
2010T3	0,9	-0,8	-2,8	-0,8
2010T4	0,9	-0,2	-2,4	0,9
2011T1	0,2	-0,1	0,7	0,7
2011T2	-0,7	-0,3	1,2	-0,3
2011T3	0,8	-0,6	1,4	2,3
2011T4	-0,2	-1,0	1,8	-0,9
2012T1	-0,5	-0,6	0,9	-0,9
2012T2	0,0	0,3	0,9	1,5
2012T3	-0,4	0,2	3,1	-0,8
2012T4	-0,2	-0,2	2,9	1,1
2013T1	0,7	0,1	1,5	0,5
2013T2	1,5	-0,4	0,4	0,8
2013T3	1,9	0,3	-0,4	1,6

Source. INS - press releases and NBR - Monthly Bulletins

Industry seems to be the sector that has made the strongest impression on the evolution of Romanian economy. Thus, both entries into recession, both the 2008 and the 2011, as timing, they overlap the general evolution of Romania's GDP, though the sector accounts for less than a third of it. Economic recovery occurs more quickly after the first recession after only four quarters, while nationwide resumption was made after 9 quarters. The next fall, the one in 2011 lasted five quarters, and the nationwide four quarters. It should also be noted that the rates of decline were much smaller, both compared to the average at the level of economy as well as in relation to those of other sectors. Constructions sector enters crisis later, in the second quarter of 2009, and the crisis lasted 12 quarters. In this sector statistics do not capture and second recession, but a return to growth is elusive because increasing values are close to 0 and accompanied by contractions every two quarters, it is true also of small amplitude, close to 0.

Also one single contraction can be observed at the level of services sector. The entry into recession is one quarter later than the overall economy, in the first quarter of 2009, being carried over 9 quarters. Output of recession is a quarter later than the overall economy (first quarter 2011), followed by 10 quarters of growth, the growth rates being the highest compared to other sectors. Note the slight contraction in the third quarter of 2013, which does not occur in any other sector or at the level of economy, all of those increasing.

## 3. Effects of the economic crisis in Romania

The magnitude of the crisis can be judged not only by the size of the GDP dynamics, but also through the evolution of absolute indicators that capture the evolution of the real economy. We chose the number of enterprises, number of employees, turnover, profit, investment and added value. The

analysis that we made took into account not only the dimension of any eventual contractions, but also overlapping of Table no. 3.

evolution of these indicators over Romania's GDP growth.

*The evolution of the Romanian economy enterprises during the crisis*

Year	commerce	Constructions	Industry	Services	Total
2007	211.537	46.925	61.463	179.932	499.857
2008	214.138	59.389	61.260	199.738	534.525
2009	197.611	60.135	58.853	202.842	519.441
2010	181.903	49.348	53.448	185.381	470.080
2011	165.100	43.503	49.715	172.290	430.608
2012	169.133	44.447	50.896	183.462	447.938
difference 2009/2008	-16.527	746	-2.407	3.104	-15.084
difference 2010/2009	-15.708	-10.787	-5.405	-17.461	-49.361
difference 2010/2008	-32.235	-10.041	-7.812	-14.357	-64.445
difference 2011/2010	-16.803	-5.845	-3.733	-13.091	-39.472
difference 2011/2008	-49.038	-15.886	-11.545	-27.448	-103.917
difference 2012/2011	4.033	944	1.181	11.172	17.330
difference 2012/2008	-45.005	-14.942	-10.364	-16.276	-86.587

Source. INS – Press releases

The number of enterprises (table no. 3) contracted during the crisis by more than a hundred thousand: Most businesses that were closed during the crisis were in the industry (approximately a quarter of those working in this sector), following the provision of services (almost 20%), construction (third) and industry (about 20%). So at the level of this indicator, number of enterprises, the industry and services sector is the strongest and the most affected is the constructions sector. About the evolution of the crisis regarding the number of enterprises, statistics capture only the first recession in late 2008 and early 2009 (reflected in previous comparison). The second recession, at the end of 2011 and early 2012 is not present in the statistics. The crisis is manifested by a delay in construction and services (from 2010, in 2009 the number of firms in these sectors still registers growths). The relaunching in 2011, also is not evidenced by statistical observations, this moment is present in the number of businesses by continuing the closure of companies (it is true, the number of firms that closed in 2011 was reduced to

about half of 2010). The year 2012 brings an increase in the number of businesses in all sectors, most of which are in the service sector, which proves to be a sector which relaunches Romanian economy. Unfortunately, industry and the construction, sectors creating high added value, although records increases in the number of business, they are modest in size.

The analysis of the number of employees (table no. 4) shows the whole pattern of the economic crisis. Thus, the recession of 2008-2009 is well noticed (to be mentioned that in terms of industrial workers, their number is reduced since 2008), the continued recession in 2010, the resumption of growth in 2011 and the relapse into recession since 2012 (of much smaller scale and absent in the service sector). During the first part of the crisis 700 000 jobs were lost, from which were recovered during the recovery in 2011 approx. 130 000. Sectors that lost most employees are, in order, industry (losing 300 000 employees, or 17 %), trade (176 000, or 18 %), construction (160 000 jobs, or 32 %) and fewer services

(60 000, or only 5% of total employment) . A special mention for the service sector , which during the 2011 relaunch recovered almost integrally the jobs lost in the previous two Table no. 4.

years and the second recession in late 2011 - early 2012, is not present, in 2012 this branch being the only one to set up jobs , being thus a redeem for the Romanian economy.

*The average number of employees in the Romanian economy during the crisis*

Year	Commerce	Constructions	Industry	Services	Total
2007	984.327	505.773	1.715.621	1.130.642	4.336.363
2008	1.019.791	554.399	1.643.676	1.200.847	4.418.713
2009	901.376	469.182	1.423.107	1.170.520	3.964.185
2010	843.752	393.339	1.346.280	1.142.274	3.725.645
2011	857.445	418.202	1.387.110	1.195.838	3.858.595
2012	854.401	399.413	1.379.989	1.218.767	3.852.570
difference 2009/2008	-118.415	-85.217	-220.569	-30.327	-454.528
difference 2010/2009	-57.624	-75.843	-76.827	-28.246	-238.540
difference 2010/2008	-176.039	-161.060	-297.396	-58.573	-693.068
difference 2011/2010	13.693	24.863	40.830	53.564	132.950
difference 2011/2008	-162.346	-136.197	-256.566	-5.009	-560.118
difference 2012/2011	-3.044	-18.789	-7.121	22.929	-6.025
difference 2012/2008	-165.390	-154.986	-263.687	17.920	-566.143

Source. INS – Press releases

The evolution of the turnover of Romanian business enterprises during the crisis indicates a slight delay in its reflection, otherwise normal under the condition that it is

an indicator that measures post factum developments (contracts signed at the onset of the crisis, taking place - completing during the crisis).

Table no. 5.

*Annual Turnover (million lei) in the Romanian economy during the crisis*

Year	Commerce	Constructions	Industry	Services	Total
2007	321.059	66.185	262.470	122.601	772.315
2008	387.645	93.210	320.665	156.445	957.965
2009	343.648	79.736	284.313	148.110	855.807
2010	356.828	72.874	322.283	152.095	904.080
2011	399.109	77.878	366.288	162.890	1.006.165
2012	423.299	77.547	384.882	175.574	1.061.302
difference 2009/2008	-43.997	-13.474	-36.352	-8.335	-102.158
difference 2010/2009	13.180	-6.862	37.970	3.985	48.273
difference 2010/2008	-30.817	-20.336	1.618	-4.350	-53.885
difference 2011/2010	42.281	5.004	44.005	10.795	102.085
difference 2011/2008	11.464	-15.332	45.623	6.445	48.200
difference 2012/2011	24.190	-331	18.594	12.684	55.137
difference 2012/2008	35.654	-15.663	64.217	19.129	103.337

Source. INS – Press releases

Thus, although the year 2009 records the crisis, the turnover of companies in all sectors registering reductions, they are smaller compared to the other indicators

examined above contractions (trade 11 %, construction 14 % , industry 11 %, services : 7 %). In 2010, when the recession continues, this trend is present only in construction, in

all other sectors being recorded growth in sales over the previous year, and in some areas even fully recovering the decrease in 2009 (bringing the industry in 2010 much higher sales than their decrease from 2009). The reviving in 2011 is present in the turnover of the four sectors analyzed, including constructions, so decline since the crisis had fully recovered, except for constructions. To be mentioned that this recovery was done primarily through higher

Table no. 6.

*The gross output evolution (million lei) in the Romanian economy during the crisis*

Year	Commerce	Constructions	Industry	Services	Total
2007	12.106	5.068	18.735	7.630	43.539
2008	9.400	5.156	9.171	8.807	32.534
2009	3.495	3.017	2.484	4.092	13.088
2010	248	1.005	6.042	-1.563	5.732
2011	4.861	763	9.255	769	15.649
2012	5.864	-623	8.638	5.874	19.753
difference 2009/2008	-5.905	-2.139	-6.687	-4.715	-19.446
difference 2010/2009	-3.247	-2.012	3.558	-5.655	-7.356
difference 2010/2008	-9.152	-4.151	-3.129	-10.370	-26.802
difference 2011/2010	4.613	-242	3.213	2.332	9.917
difference 2011/2008	-4.539	-4.393	84	-8.038	-16.885
difference 2012/2011	1.003	-1.386	-617	5.105	4.104
difference 2012/2008	-3.536	-5.779	-533	-2.933	-12.781

Source. INS – Press releases

Profitability of Romanian companies during the crisis seems to have suffered the most. Thus, the reduction in profits starts in industry and commerce since 2008, overall Romanian companies lose a quarter of profits since 2007. The year 2009 continues to reduce profits, but this time in all sectors, overall 60 % of the profits of 2008 (or 50 % of the profits of 2007). In total in 2008, 2009 and 2010, Romanian companies lose 70 % of profits in 2007. At the sectors level we have the following figures: 75 % of profits lost in trade, construction 80 %, industry 20 % (but this branch the critical year was 2009, when profits fell by 25 % , in 2010 having a strong enough recovery) services losing all profits and recorded losses of 1.5 billion. The year 2011 brings a revival of return, except for constructions and comes with a new recession

prices. The second recession, from 2011-2012 is statistically only in the turnover of constructions, the other three sectors recorded increases in sales , but it is true, with about half of the values reported in 2011 for commerce and industry and significantly higher for services. Again the services are better and seem to support the sector and the crisis overcome that toned down contraction in other sectors.

in 2012, but only manifested in industry and constructions, the latter sector recorded losses.

The investment process in the Romanian economy has experienced, like other indicators, significant decreases. The decrease of investment occurs since 2008, except for industry, because in 2009 all sectors would record investment cuts. The year 2010 records new reductions, an exception being the industry, but the plus in this sector is not significant. Investment at the end of 2011 had reduced by more than a third, but the numbers indicate reductions of half or nearly half to the trade sector, constructions and services. It should be noted that it is about gross investment, meaning that both the source of funding depreciation (replacement of existent technical capital) as well as reinvested earnings.

Table no. 7.

*Evolution of gross investment (million lei) in the Romanian economy during the crisis*

Year	Commerce	Constructions	Industry	Services	Total
2007	24.292	24.388	46.992	51.042	146.714
2008	23.299	24.191	53.182	43.359	144.031
2009	14.297	16.943	40.602	27.921	99.763
2010	12.857	12.865	41.382	25.095	92.199
2011	13.586	17.251	83.777	28.749	143.363
2012	12.960	25.760	54.378	27.782	120.880
difference 2009/2008	-9.002	-7.248	-12.580	-15.438	-44.268
difference 2010/2009	-1.440	-4.078	780	-2.826	-7.564
difference 2010/2008	-10.442	-11.326	-11.800	-18.264	-51.832
difference 2011/2010	729	4.386	42.395	3.654	51.164
difference 2011/2008	-9.713	-6.940	30.595	-14.610	-668
difference 2012/2011	-626	8.509	-29.399	-967	-22.483
difference 2012/2008	-10.339	1.569	1.196	-15.577	-23.151

Source. INS – Press releases

The overall imprint of the crisis development occurs in terms of investments, meaning that there is a revival in 2011, but in

2012 is recorded a relapse into recession, industry, trade, services, but curiously, not for constructions.

Table no. 8.

*Evolution of the gross added value (million lei) in the Romanian economy during the crisis*

Year	Commerce	Constructions	Industry	Services	Total
2007	32.241	17.531	64.783	46.629	161.184
2008	44.942	26.671	85.690	65.611	222.914
2009	37.763	21.868	75.052	60.293	194.976
2010	36.792	19.782	83.907	61.792	202.273
2011	37.806	19.490	89.725	66.279	213.299
2012	39.843	18.487	95.379	69.461	223.170
difference 2009/2008	-7.179	-4.803	-10.638	-5.318	-27.938
difference 2010/2009	-971	-2.086	8.855	1.499	7.297
difference 2010/2008	-8.150	-6.889	-1.783	-3.819	-20.641
difference 2011/2010	1.014	-292	5.818	4.487	11.026
difference 2011/2008	-7.136	-7.181	4.035	668	-9.615
difference 2012/2011	2.037	-1.003	5.654	3.182	9.871
difference 2012/2008	-5.099	-8.184	9.689	3.850	256

Source. INS – Press releases

As Romanian corporate profits were strongly contracted during the crisis, it is clear that the investment process will likely take place only in areas that had the technical potential to generate disparagement (depreciation) to maintain acceptable investment dynamics, namely industry and maybe constructions. Moreover, these two branches are the only ones that, at the end of 2012, record investment values slightly higher

than those observed at the beginning of the crisis.

Regarding gross added value (which cumulated with the level of national economy make out the gross domestic product) its contraction begins in 2009 and continues in 2010 only in services and constructions. In 2011, the resumption of growth occurs also in trade, only constructions continued to record decreases in added value. A second recession,

the one from the end of 2011 - beginning of 2012 is observable only in construction, the other three sectors recorded increases in added value. Interestingly, at the end of 2012 the four sectors added value was equal to that of 2008, although industry and services in the four years had brought extra 13.5 billion lei in added value, but was canceled almost entirely (98 %) by negative values recorded in this period of trade and constructions.

### Conclusions

The crisis faced by the Romanian economy after 2008 was actually composed of two recessions. The first one debuted in late 2008 – the beginning, and continued throughout 2009 and 2010, followed in late 2010 - early 2011 a brief comeback modest growth. A second recession began in late 2011 early 2012, continued throughout 2012, revival taking place in late 2012 - early 2013. The crisis is manifested in all economic sectors, industry, constructions, trade, services, but during the crisis Romanian

industry seems more resistant and the services sector seems to be the sector that absorbed the impact of the crisis, also being the branch which created the most new companies offering jobs to those made redundant by other sectors or partially offsetting losses in constructions and trade.

The pattern on which the Romanian crisis evolved is largely observable both in terms of number of companies, employees, changes in turnover, profit, investments, but also added value.

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