Features of SMEs in Romania in the Context of European Integration and Implications of the Current Crisis

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Abstract
SME sector has an important role in national economies, contributing significantly by creating added value and increasing labor employment. This paper aims to highlight the main features of the SME sector in Romania; it`s recorded positive developments, but also the effects of the European integration. The recorded progress shows that the SME sector development in Romania is part of the trends in the European Union where this sector has a significant role in developing Member States.
However, based on the surveys of representative institutions at national and international level, this paper aims to highlight also the main difficulties faced by SMEs, the effects of the crisis on their activity and measures adopted to support this sector.In the context of the current crisis, a significant part of the SME sector in Romania is severely affected. Thus, in this paper there are shown the effects of the current crisis on the SME sector and the main problems faced by them.
The central role of the SME sector in national economies has led the national authorities, and some European and international institutions to adopt anti-crisis measures, to support this sector. However, in order to restore normal functioning of the SME sector including the normal functioning of the national economy it is vital not only the adoption of measures but choosing the most appropriate ones taking into account each country particularities, tracing how they are implemented and strengthening the collaboration between authorities and institutions that work togheter to support the SME sector.

Keywords: small and medium sized enterprises, European integration, global economic crisis, anti-crisis measures.

JEL Classification Codes: F36, G01, O12

Introduction

SMEs constitute the dominant form of business organization, holding, for example, in OECD member countries, a share between 95 and 99% in total number of enterprises and a share between 60 and 70% of the jobs created (OECD, 2006, p.1). Similarly, in European Union countries 99% of the enterprises are SMEs.

According to economic literature and practice in different countries doesn`t exist a universally accepted definition of the concept of small and medium sized enterprises. The definition of SMEs varies according to the international organization that aims through its mission to support SMEs in the Member States, also varies according to the country and even the sector of activity. For example, according to the World Bank, a firm is micro, small and medium if it meets at least two of the three following criteria: the number of employees, the asset value or the annual value of turnover (see Table 1). Global Financial Markets Department of the International Finance Corporation used as the criterion for size classification of SMEs the credit amount because some banks are unable to make reports taking into account the size of the enterprise.

Table 1: World Bank definitions of MSMEs

Firm size	Employees	Assets	Annual sales
Micro	< 10	< 100,000 USD	< 100,000 USD
Small	< 50	< 3000,000 USD	< 3000,000 USD
Medium	< 300	< 15,000,000 USD	< 15,000,000 USD
Loan size proxies			
Micro	< 10,000 USD		
Small	< 100,000 USD		
Medium	< 1,000,000 USD (< 2,000,000 USD for some advanced countries)		

Source: International Finance Corporation, 2009(a), p.10

In the OECD publications and, in particular, in those of the Centre for Entrepreneurship, SMEs and Local Development there are used two definitions of SMEs, namely: national and regional definitions, and Eurostat definitions to ensure a degree of international comparability.

In the European Union the single market without internal frontiers and the interaction between national measures and those imposed by the European Union to support SMEs, required to establish a common definition for these companies. Thus, on April 3, 1996, the European Commission adopted a Recommendation (Commission Recommendation 96/280/EC of 3 April 1996), which established the first definition of SMEs; applied throughout the European Union. On May 6, 2003, the European Commission adopted a new definition of SMEs, taking into account the economic development of EU countries since 1996. This definition came into force on January 1, 2005 (see Table 2) and is applied to all policies, programs and measures for SMEs launched by the European Commission.

Table 2: European definition of SMEs

Type of SME	Number of employees	turnover	**Or**	Balance sheet total
Medium-sized	< 250	≤ 50 million EUR (40 million EUR in 1996)		≤ 43 million EUR (27 million EUR in 1996)
Small	< 50	≤ 10 million EUR		≤ 10 million EUR
Micro	< 10	≤ 2 million EUR		≤ 2 million EUR

Source: European Commision, 2004

In Romania, from January 2006, the legislation on SMEs (Law 346/2004 on stimulating the creation and development of small and medium amended and supplemented by Government Ordinance no. 27 of 26.01.2006) is entirely harmonized with the Recommendation European Commission nr.2003/361/EC.

The paper is structured as follows: section two highlights the role of SMEs in the European Union economies, especially through the contribution to creating added value and jobs. The third section presents the main developments in the SME sector in Romania in the context of EU accession, the benefits of dealing with European integration, and, also the main barriers faced by SMEs in conducting theiy activity. Section 4 deals with issues relating to access to finance for SMEs, implications of the current crisis on this sector and supportive measures. Our study ends with conclusions.

The role of small and medium sized enterprises in the European Union

The SME sector has an important role in a national economy by contributing significantly to its economic and social development. Such an assessment results from the following arguments (Nicolescu, 2009, p. 20): SMEs generate most of the GDP of each country, usually between 55% - 95%; provide jobs for most occupied population; present the largest dynamism, aspect demonstrated by the evolution of their number, the volume of turnover and the size of employment, high sensitive than the large companies;they have a high degree of adaptability to market requirements due to their smaller size and the direct involvement of the entrepreneur in the current activities; offer professional and social fulfillment of a significant proportion of the population.

The significant contribution of the SME sector to economic and social development of countries permits the assessment according to which the functionality and the performance of an economy are conditioned by its companies, mainly by SMEs.

In the European Union there are 23 million SMEs, which have a share of 99,8% in the total number of enterprises. Micro-enterprises hold an overwhelming share of 90% in the total number of the enterprises. SMEs produce 58% of EU-27 economy added value and provide more than two thirds of total employment. On average, there is a density of 40 SMEs per 1,000 inhabitants (Münz, 2009). The place and the role of SMEs sector in the economies of European Union countries can be analized using data from Table 3.

The data from Table 3 show that the importance of the SME sector varies considerably from country to country. For example, in terms of the number of persons employed we observe that SMEs use more than two thirds of the labor force in seven countries, which is well above the EU average (67.1%), namely: Cyprus (84%), Portugal and Greece (82% and 81.9%), Italy (81.3%), Spain (78.7%) and Estonia (78.1%). Taking into account the contribution to the added value we remark especially the countries that are well below the EU average (57.6), namely: Slovakia (44.5%), Romania and Poland (48.4%). Regarding the density of SMEs, it appears that this indicator register very high values in countries like the Czech Republic (86.0%) and Portugal (80.5%), Greece (74.0%) and Italy (65.3%) while in Romania and Slovakia are recorded the lowest values, 18.9% and respectively 7.7%.

Table 3: Key indicators for SMEs in the EU-27,2005

	% share of SMEs in national total			Density of SMEs*
	Number of enterprises	Number of persons employed	Value added	
EU-27	**99.8**	**67.1**	**57.6**	**39.9**
Belgium	99.8	66.6	57.8	37.8
Bulgaria	99.7	72.6	53.2	30.9
Czech Republic	99.8	68.9	56.7	86.0
Denmark	99.7	66.0	64.8	37.2
Germany	99.5	60.6	53.2	20.0
Estonia	99.6	78.1	75.1	28.1
Ireland	99.5	67.5	58.2	20.7
Greece	99.9	81.9	69.6	74.0
Spain	99.9	78.7	68.5	59.1
France	99.8	61.4	54.2	36.3
Italy	99.9	81.3	70.9	65.3
Cyprus	99.9	84.3	80.0	57.0
Latvia	99.7	75.6	71.1	26.8
Lithuania	99.7	72.9	58.5	27.3
Luxembourg	99.6	70.8	58.5	47.1
Hungary	99.8	70.9	50.2	55.1
Malta	:	:	:	:
Netherlands	99.7	67.6	61.5	30.2
Austria	99.7	67.4	60.0	33.2
Poland	99.8	69.8	48.4	36.8
Portugal	99.9	82.0	67.8	80.5
Romania	99.5	60.8	48.4	18.9
Slovenia	99.7	66.4	60.6	44.1
Slovakia	98.8	54.0	44.5	7.7
Finland	99.7	58.5	53.9	35.7
Sweden	99.8	63.2	55.6	58.0
United Kingdom	99.6	54.0	51.0	25.6

Source: Eurostat, 2008
**** number of SMEs per 1 000 inhabitants***

An extremely important moment in European policy for SMEs is the adoption on June 25, 2008 the initiative called the Small Business Act (SBA), aimed at enhancing sustainable growth and competitiveness of European SMEs. Also, the Small Business Act propose, for the first time, the establishment of a comprehensive policy framework for EU Member States and aims at establishing irrevocably the principle "Think Small First" in policy development - from legislation to public services - and promoting the growth of SMEs by assisting them in solving problems which hamper their development (Commission of the European Communities, 2008).

Developments of the SME sector in Romania in the context of European Union integration and implications

Romania's accession to European Union on January 1, 2007, marks the end of the transition to a functioning market economy and highlights the achievement of significant structural reforms. Changes recorded in the real economy can be evidenced by a synthetic indicator calculated by EBRD, the evaluation of enterprise sector reform. The index has values between 1 and 4+ and have the following and meaning: the value of 1 signifies reduced progress in the reform process, and the 4+ reflects the full convergence with International Standards and Performance of Advanced Industrial Economics. EBRD indicator values show the significant progress made by the Romanian economy (see data in Table 4) in the period previous to European integration, and secondly the need to continue them.

The changes in the structure of the Romanian economy can be highlighted, in particular, by increasing private sector contribution to GDP and employment (see data in Table 4).

Table 4: The evolution of the main structure indicators of the Romanian economy during 2003-2009

	2003	2004	2005	2006	2007	2008	2009
Privatisation revenues*	8.9	9.2	9.5	9.8	9.9	10.0	Na
Private sector share in GDP (in %)	65.0	70.0	70.0	70.0	70.0	70.0	70.0
Private sector share in employment (in %)	56.5	58.0	64.9	66.3	68.0	69.0	Na
Investment/GDP (in %)	21.8	23.8	22.6	26.5	31.6	31.4	Na
EBRD index of enterprise reform	2.0	2.0	2.3	2.7	2.7	2.7	2.7

Source: EBRD, 2009
****cumulative, in per cent of GDP.***

We observe that the SME sector in Romania has made significant positive developments in the first year of EU membership. Thus, the SME sector has been growing, both on the total number of SMEs active and in structure on size categories and economic sectors. Such developments indicate that the SME sector development in Romania is part of the trends in the European Union where this sector plays a significant role in developing Member States.

In 2007, was recorded the highest number of active SMEs after 2000, respectively 487.628, which means an increase of 18.2% compared to 2000 and 5.2% over the year preceding the accession to the EU (see data in Table 5).

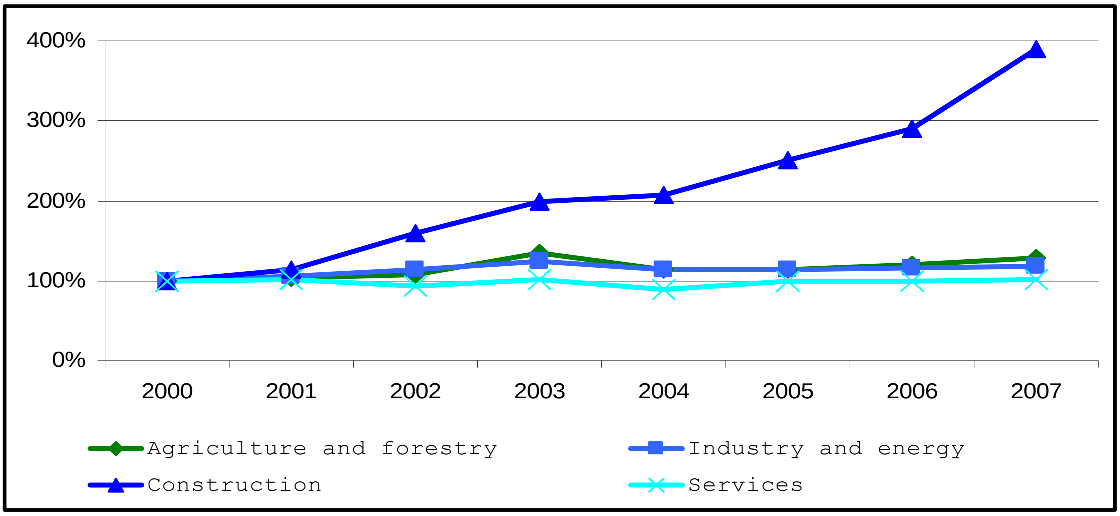
Table 5: The evolution of number of active SMEs*, on total and on size categories, during 2000- 2007

Type of SME	**2000**	**2003**	**2004**	**2005**	**2006**	**2007**
Micro	375.804	417.366	358.787	386.561	410.763	431.029
Small	29.121	33.856	36.392	39.128	43.419	47.022
Medium-sized	7.504	8.147	9.121	9.158	9.322	9.577
Total	412.429	459.369	404.300	434.847	463.504	487.628

Source: *Ministry* ***for*** *Small* ***and*** *Medium-**Sized*** *Enterprises, Commerce, Tourism* ***and*** *Liberal Professions* ***of Romania, 2008, p. 32***
****which submitted balance sheet for 31 december 2007, with a turnover different of zero.***

Taking into account the distribution of active SMEs by economic sector, we observe the increase of number of SMEs in all sectors (see Figure 1), but an accelerated growth has been registred in the constructions sector, due mainly to develop of residential real estate sector and business sector.

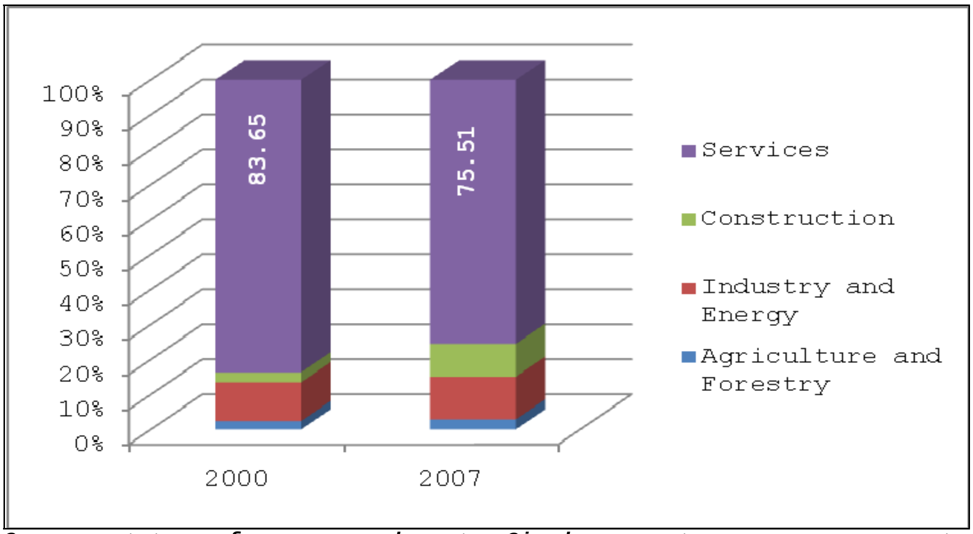
If we analyze the percentage distribution of SMEs by sectors of activity (see Figure 2), we observe that the services sector has the highest share in total SME assets (75.51% in 2007). Therefore, the SME sector in Romania has the characteristics of a type of service-based economy, like many other EU countries.



Source: *Ministry* ***for*** *Small* ***and*** *Medium-****Sized*** *Enterprises, Commerce, Tourism* ***and*** *Liberal Professions* ***of Romania, 2008, p. 35***

Figure 1: Evolution of SMEs on sectors of activity, compared to reference year 2000

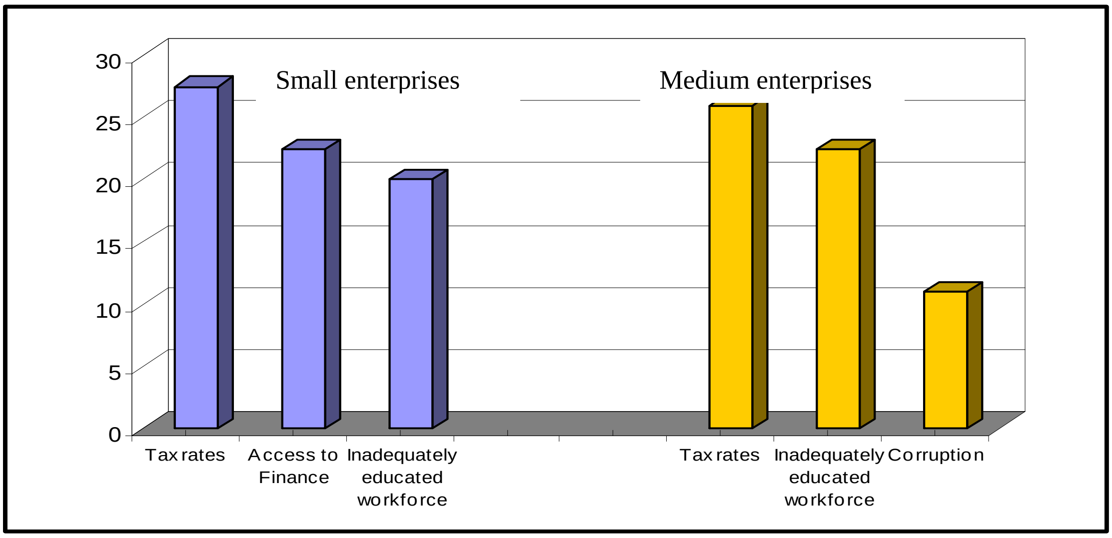
The evolution of the SME sector can be highlighted through another significant indicator, namely the density of SMEs, which means the number of SMEs per 1.000 inhabitants. This indicator is seen as a "barometer" of the entrepreneurial spirit of initiative of people and the economic environment attractive to investors. In Romania, the average density had in 2007 the value of 23 SMEs per 1.000 inhabitants, growing from 17 SMEs per 1.000 inhabitants in 2003 and 21,7 in 2006. However, the level is well below the one recorded in other EU countries such as Czech Republic, Cyprus, Greece, Hungary, Italy, and Sweden, which reported values around 70 SMEs per 1.000 inhabitants (Ministry for Small and Medium-Sized Enterprises, Commerce, Tourism and Liberal Professions of Romania, 2008, p. 46).



Source: *Ministry* ***for*** *Small* ***and*** *Medium-****Sized*** *Enterprises, Commerce, Tourism* ***and*** *Liberal Professions* ***of Romania, 2008, p. 36***

Figure 2: Percentage Distribution of SMEs by sector in 2000 and 2007

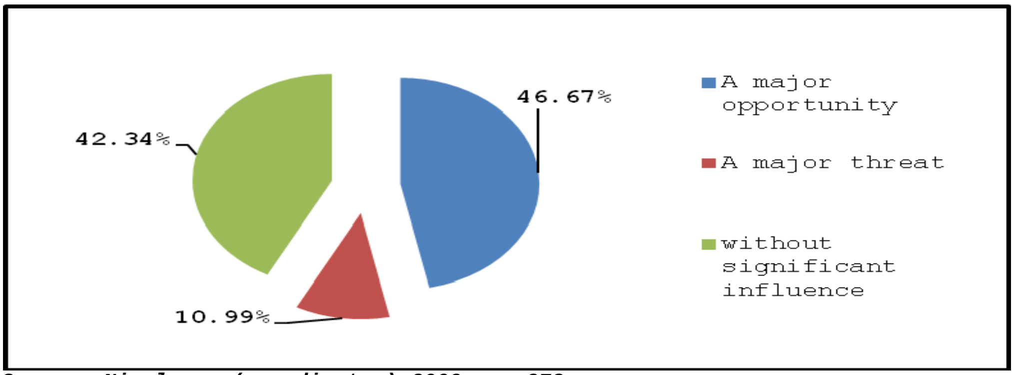
To analize the characteristics of the SME sector in Romania is important to consider the most important constraints identified by SMEs as barriers to conduct their business, thus, we may identify the areas in which the national public authorities should adopt new regulations to support these enterprises. These main constraints can be observed in figure 3.



Source: processed data after World Bank, Enterprise Survey, Romania - country profile, 2009

Figure 3: Three most important constraints identified by SMEs in Romania as an obstacle in their activity

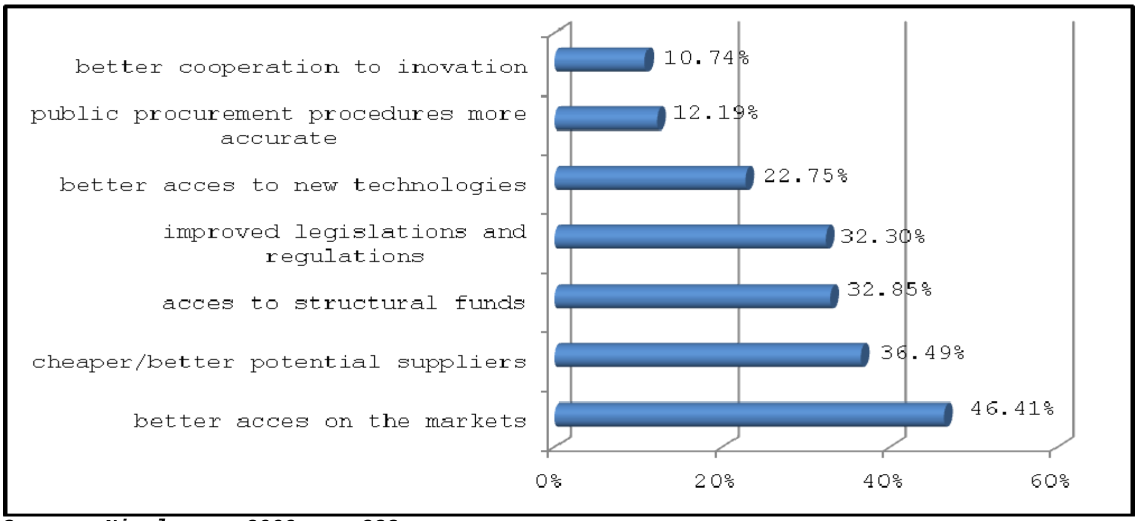
Regarding the effects of Romania's EU integration, in 2007, the survey results conducted by the National Council of Private SMEs in Romania on a representative sample of SMEs (1.178 entrepreneurs), indicates that Romania's EU integration is seen generally positively by employers, although there are difficulties in alignment with European standards and requirements. We can note that almost half of SMEs (46.67%) appreciate that European integration represents a major opportunity for their activities, while only about 11% of enterprises seen this as a major threat (see Figure 4).



Source: Nicolescu (coordinator),2009, p. 278

Figure 4: The structure of perception of the effects of Romania`s EU integration on SMEs

The results of the same survey conducted by National Council of Private SMEs in Romania also highlighted the main positive effects of Romania`s EU integration (see Figure 5) on the SME sector (Nicolescu, 2009, p.288).

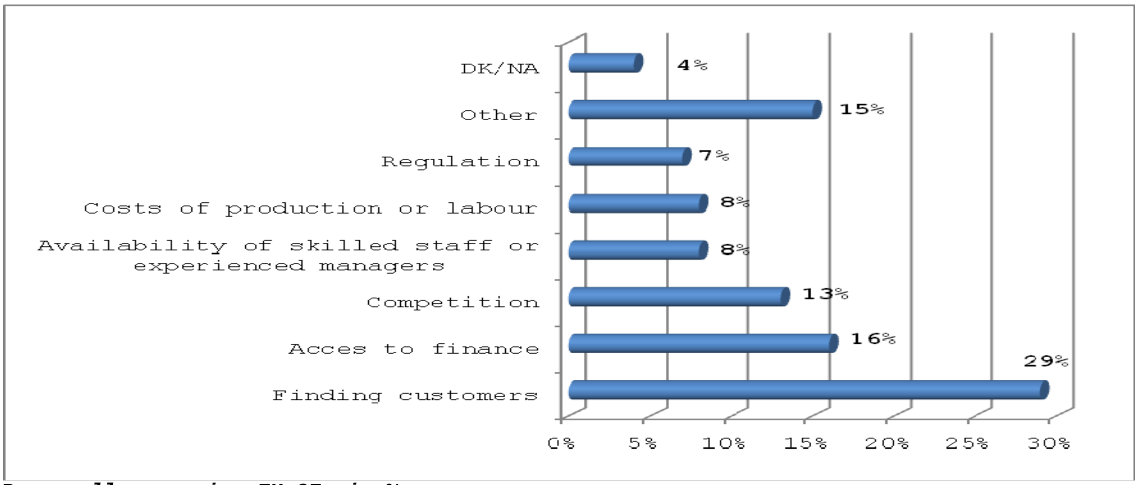


Source: Nicolescu, 2009, p. 288

Figure 5: The positive effects of Romania`s EU integration on SMEs sector

Access to finance for SMEs and implications of the current financial crisis on the SME sector in Romania compared with other countries of Central Europe and East Asia

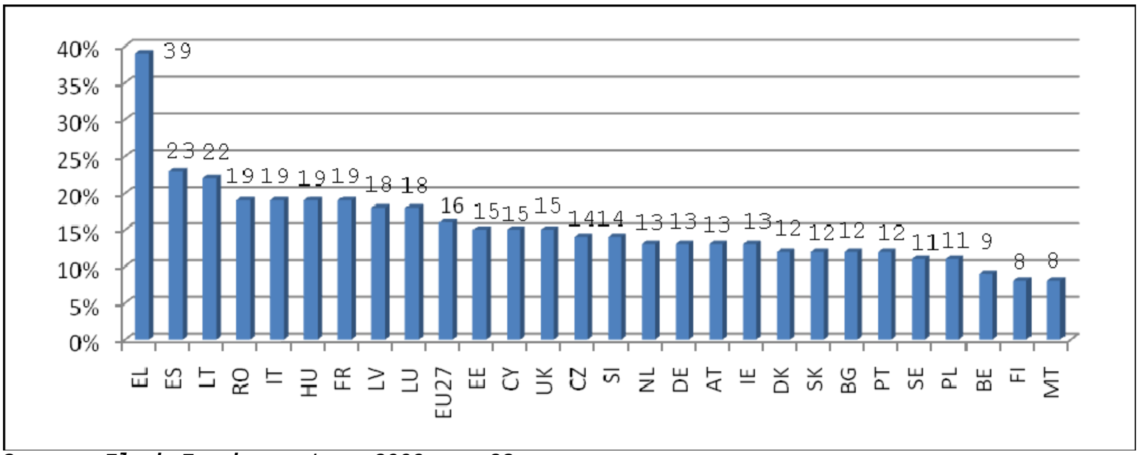
One of the fundamental problems of any company and, in particular of the small and medium enterprises is access to finance, as a condition for their creation, survival and development. Compared with large firms, SMEs face a number of difficulties when aiming to procure financial resources. Such difficulties are related, in particular, to insufficient guarantees offered for creditors and even to fully inform them about the situation and development prospects of SMEs.
Access to finance of the firms is their main concern, as shown in the Flash Eurobarometer survey, from June 17 to July 23, 2009, on a sample of 9.063 companies from EU countries, Croatia, Iceland and Norway. Thus, to the question "What is currently the most pressing issue your firm is facing?” 29% of companies surveyed identified the most pressing problem finding customers, and access to finance was considered as the second pressing issue, as identified by 16% of respondents (see figure 6).



Base: all companies EU-27, in %
Source: Flash Eurobarometer, 2009, p. 27

Figure 6: Companies' most pressing problem

Regarding the response of the managers of the companies from different countries to the mentioned question, the survey results show significant differentiation between some countries (see figure 7). For example, Greece detaches significantly from other countries because 39% of Greek companies surveyed considered access to finance as the most pressing problem.

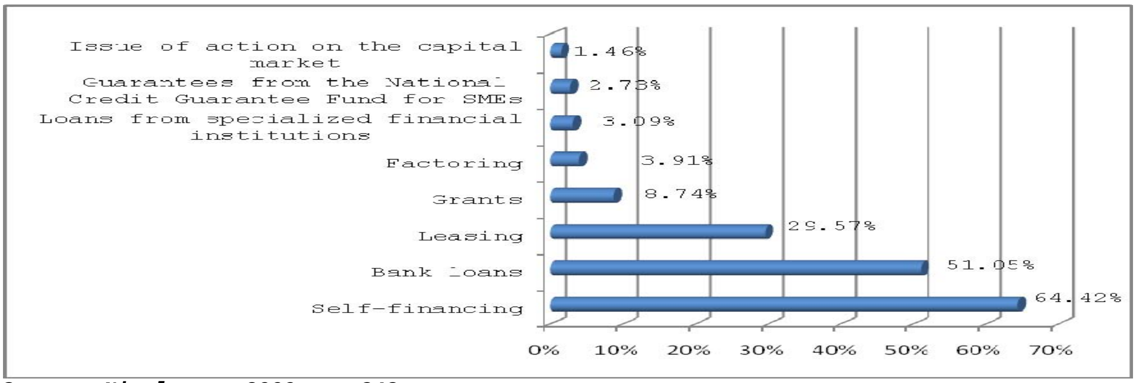


Source: Flash Eurobarometer, 2009, p. 28

Figure 7: Companies identifying access to finance as the most pressing problem

Regarding the modalities of financing SMEs activity in Romania, survey results conducted by National Council of Private SMEs in Romania, during 2008, shows that the main sources of funding are: self-financing (64.42% of companies have self-financed), bank loans (51.05% of companies have taken bank loans) and leasing (29.57% of companies have used leasing). Compared to these sources, a far smaller contribution to SME financing has: grant funds (8.74% of companies have resorted to this type of financing), factoring (3.91% of SMEs used factoring), loans from specialized financial institutions (3.09% of the companies obtained such loans), guarantees from the National Credit Guarantee Fund for SMEs (2.73% of SMEs have asked this guarantees) and issue of shares on the capital market (see Figure 8).

In the context of the current economic and financial crisis, access to credit for SMEs and, in general, for individuals and companies has become extremely difficult because of the growth of bank interest rates, tightening lending standards by banks and even the suspension of lending by some banks.



Source: Nicolescu, 2009, p. 348

Figure 8: The frequency of using the methods of financing the economic activities by SMEs

The global economic crisis has dramatically changed the market conditions in which firms operate. The redemption of debts by the financial institutions increased capital costs and reduced credit availability, while the exchange rate adjustments have raised the price of imported inputs and exports become more competitive.

Even in "normal" economic conditions the governments have recognized that in order to survive and grow, SMEs need specific policies and programs, hence the full range of measures for SMEs in force in most countries of the world. However, now SMEs were particularly hard hit by the global crisis. These companies are now vulnerable for several reasons: in addition to traditional challenges regarding access to finance, which continues to apply, appear new capital supply difficulties.

It is important to note that SMEs are generally more vulnerable in times of crisis for several reasons, among which we mention: it is harder for them to reduce their activities since they are already small; they are less diversified individual within their business; thay have a weaker financial structure (eg lower capitalization); they have a lower credit rating; they are strongly dependent on credit and have fewer financing options.

To examine the effects of financial crisis on SMEs in Romania, we consider the results of the investigation conducted by the World Bank Group entitled "The Financial Crisis Survey”, which aims to measure the effects of financial crisis on firms. The first wave of survey covers six countries in Eastern Europe and Central Asia - Bulgaria, Hungary, Latvia, Lithuania, Romania and Turkey. The interviews for the survey on the financial crisis were conducted in June and July 2009 and took into account 1.686 companies. We consider this study by the World Bank as being relevant to our research because, as we observe in the table 6, over 60% of firms in the sample selected from those six countries are SMEs. While only one third of the firms analyzed are large enterprises. Moreover, the data obtained in the study showed significant differences between how the effects of the financial crisis on small and medium enterprises, on the one hand, and on large enterprises, on the other hand.

Table 6: The composition of the sample analyzed in the study conducted by World Bank

		The composition of the sample depending on the firms size (in %)			
Country	Number of observation	Small enterprises	Medium enterprises	Large enterprises	Total SMEs
Bulgaria	150	47	35	18	82
Hungary	187	34	30	36	64
Latvia	226	36	31	33	67
Lithuania	239	39	34	27	73
Romania	370	30	36	34	66
Turkey	514	25	42	33	77

Source: processed data after the study of World Bank: Financial crisis survey

In addition to the questionnaires about the financial crisis, all baseline survey respondents were contacted to determine if the company was still in active or have become inactive. Based on the responses were determined exit rates of the firms from the market in 2009 compared to 2008. These exit rates can be analized in the table 7 and figure 10.

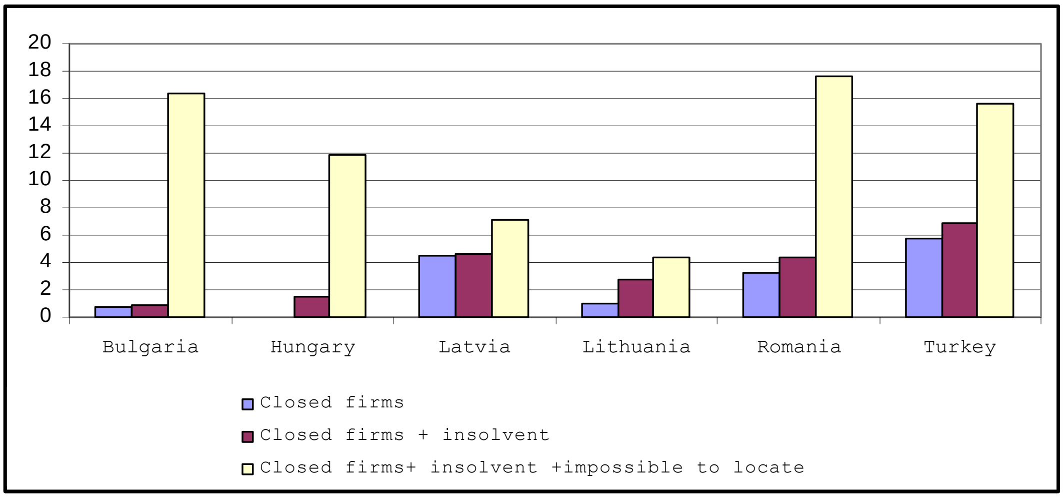
Tabelul 7: Exit rates of the firms in the context of the financial crisis in the selected countries(in%)

	BG	HU	LV	LT	RO	TR
Closed firms	0.69	0.00	4.54	1.01	3.28	5.79
Closed firms +insolvent	0.87	1.49	4.67	2.76	4.36	6.85
Closed firms +insolvent+ impossibile to locate	16.39	11.92	7.17	4.35	17.59	15.57

Source: processed data after the study of World Bank: Financial crisis survey

As we can see from Table 7 and Figure 9, the percentage of firms closed in 2008-2009 was highest in Turkey (5.79%), followed by Latvia (4.54%) and Romania (3.28 %). Hungary is the country that has not closed any fimr in the analysed period. If we consider the closed companies, insolvent and the ones impossible to locate, we see that the situation changes a little, Romania is on the first place with a rate of 17.59%, followed by Bulgaria and Turkey 16.39% 15.57 %. On last place is Lithuania with 4.35%.

The intensity of the effects of the financial crisis on the firms the six countries examined has varied by country and sector. The drop in demand was the main effect of the financial crisis in all countries (as can be seen in Figure 10). The survey showed that about 75% of firms considered that drop in demand was the most important effect of the crisis. In Hungary and Turkey the drop in demand was slightly lower (70.3% and 71.3%), while in Bulgaria and Romania had higher values (78.12% and 78.47%).



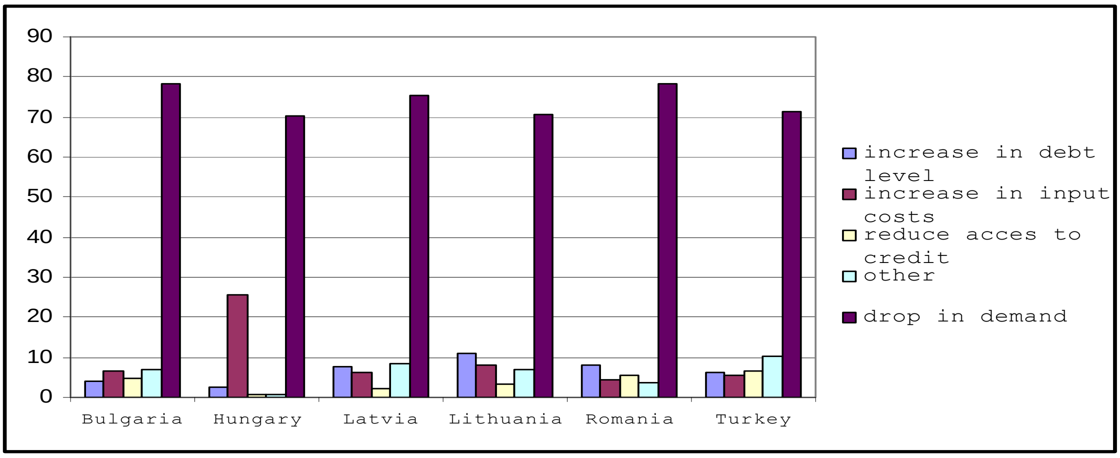
Source: processed data after the study of World Bank: Financial crisis survey

Figure 9: Exit rates of the firms in analyzed countries during 2008-2009

Regarding the second effect of the financial crisis on firms the situation has not been the same in all countries. For example in Lithuania and Romania the second most important effect of the financial crisis on firms was considered the increase in debt level while in Hungary has been considered the increase in input costs. In addition, it was surprising to note that access to credit was considered the effect of the crisis with the greatest impact only a small number of firms in all countries.

The effects of the crisis on firms were different not only across countries but also on other characteristics of firms. For example, in Romania and Lithuania a large proportion of companies with domestic capital say that debt increase was the second most important effect of the crisis than those with foreign capital. Moreover it seems that foreign capital firms were immune to this effect.

As a result of the financial crisis, the average decrease of sales in the analysed period was significant in all countries, but higher values were recorded in Latvia and Lithuania (48.4% and 48). In Romania, sales dropped as a result of the crisis with 35.90%. In six countries, financial crisis effect measured by the percentage change in sales was presented as an inverse relationship with firm size: large firms have reduced sales less than medium-sized firms and medium firms have reduced sales less than small firms. Thus firms with few than 5 employees experienced an average reduction of 36.7% of sales while larger firms have experienced a contraction in sales of 33.1%

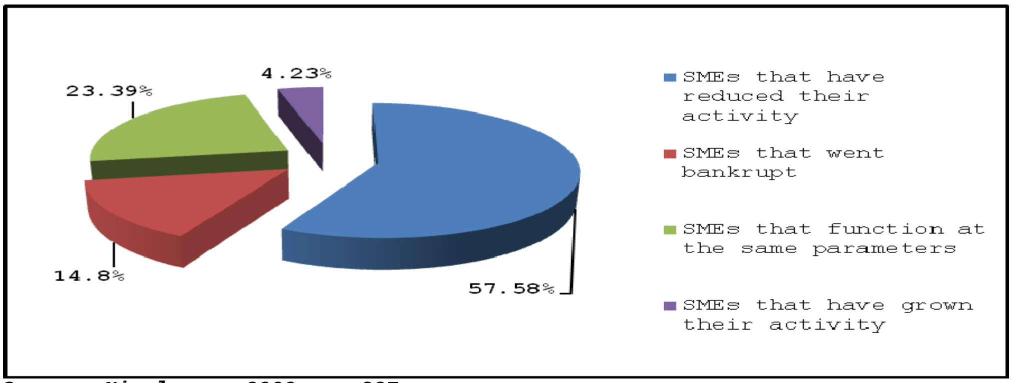


Source: processed data after the study of World Bank: Financial crisis survey

Figure 10: The main effects of the financial crisis experienced by firms

Regarding loans granted to SMEs, as a result of financial crisis, has been a clear slowdown for various reasons. Because the credit crisis, banks have no access to long-term funds from international capital markets, the parent banks or international financial institutions as were before the crisis. Funds are more expensive and riskier loans are due to higher chance of default. The slowdown of exports to the occiddentale markets and increasing unemployment is a sign that there is less demand for products of SMEs. Meanwhile, another important factor with major impact on SMEs is the situation of the real estate market which was also affected by the decrease in mortgage lending.

Focusing the research on Romania, we observe that the analysis realized by the National Council of Private SMEs in Romania on a sample of 1.099 SMEs in all industries, from all age groups and developing regions show that between October 2008 - March 2009, over half of SMEs (57.58%) reduced their activity and about 15% of firms went bankrupt (see Figure 11).



Source: Nicolescu, 2009, p. 227

Figure 11: The impact of the global economic crisis on the activity of SMEs from Romania during octomber 2008- march 2009

As shown in Figure 12, a significant part of the SME sector in Romania is strongly affected by the current crisis, also as are other countries around the world.

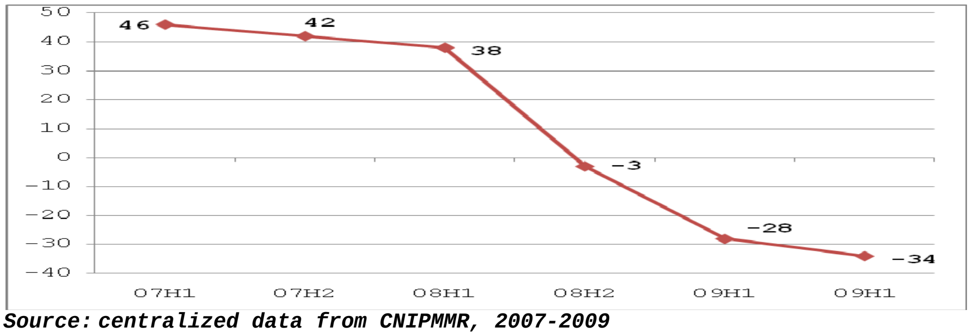
The evaluation of the situation of the SMEs sector in Romania, in the context of the current crisis, can be conducted on the basis of the evolution index of SMEs, calculated by CNIPMMR by summing up the scores of 11 indicators(registrations of commercial companies, number of defunct commercial companies, number of profitable companies, number of SMEs with losses, SMEs debts, average turnover per SME, average profit per SME, average loss per SME, average number of employees per SME, SMEs investments, exports of private enterprises). The maximum value for this index is 100 and its significance is presented in table 8.

Table 8: Score grid, according to the index of evolution of SMEs

Index of the evolution of SMEs	Grade
- 64 – o points	Very unsatisfactory
0 – 20 points	Unsatisfactory
20 – 45 points	Satisfactory
45 – 70 points	Good
Over 70 points	Very good

Source: CNIPMM, 2009

As we may notice in figure 12, the evolution of the situation of the SMEs sector in Romania has been subjected to a descending trend, especially in the second semester of 2009, being evaluated as extremely unsatisfactory. According to the National Trade Register Office, the number of firms which have suspended their activity in January-February 2010 increased more than four times over the same period of 2009. Thus, compared with January-March 2009 when have been registred 4,354 suspension of the activity across the country, from January to March 2010 there were 19,868 firms that have suspended their activity, so we observe an increase of 356.32% (The National Trade Register Office, 2010). Consequently, in the context of the current crisis, the economic environment in Romania has considerably deteriorated, thus representing the extremely serious impact of the current crisis on the Romanian economy. This statement is also illustrated in figure 13, which points out the significant slowdown of the economic growth and even an extremely unfavorable evolution, with deep implications on companies, employment and the living standards of the population.



Source: centralized data from CNIPMMR, 2007-2009

Figure 12: Index of the evolution of the SMEs sector in Romania over the period 2007 - 2009

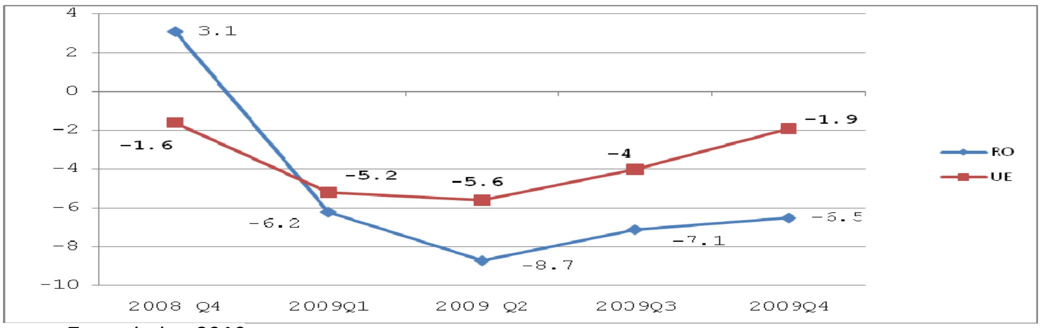
As regards the SME sector, the main problems facing by firms in the context of the current crisis are mainly low domestic and enternal demand of goods and services, late payments from customers, increased cost of bank loans, tighter bank lending standards.

In the context of the current crisis, worsening macroeconomic imbalances led national and international authorities to take meaningful steps to restore macroeconomic stability and ensure economic revival. In this regard, the biggest investors and multilateral lenders in Eastern Europe, the European Bank for Reconstruction and Development (EBRD), EIB Group and World Bank Group, had to pay up to 24.5 billion euro to support banking sector in the region and to finance lending the firms affected by global economic crisis. This initiative completes national anti-crisis responses and support the real economy through lending by private banking groups and it`s particularly addressed to small and medium enterprises.

Deteriorating the business environment in Romania has imposed, as well as in other states, the adopting of a set of anti-crisis measures from the Government, including: non-taxation of reinvested profits, the possibility of compensation of recoverable VAT with payable VAT, outstanding deffered payment obligations to the state budget, state aid, support for export production by guarantee and indemnity (in particular, by Eximbank), CEC Bank and Exim Bank capitalization to support SMEs, the establishment of the Contragarantations Loan Fund for SMEs, improving the investment law, including by reducing the amount of investment eligible for facilities from 50 million to 10 million Euro, etc.

In order to relaunch the Romanian economy and, directly, the resumption of bank lending, the central bank reduced interest rate monetary policy and bank reserve requirement rates. However, deteriorating ability to pay the bank customers, especially SMEs, still causes negative economic outlook for banks to be reluctant to grant credit.

Shortly after the outbreak of the crisis, the EBRD granted a loan of 100 million to Transilvania Bnak. The loan, which was paid in full in December 2008, aimed at helping the client to continue to provide loans for small businesses. With a total of over 125,000 SME customers, BT is perceived as "the SME Bank" in Romania, with an estimated 18% market share in terms of SME financing. In March 2009 the EBRD granted the same amount of money and credit to another Romanian bank, Romanian Commercial Bank, which represents another form of credit lines for SMEs.



Source: Eurostat, 2010

Figure 13: Evolution of the GDP (Q/Q-4 %) over the period 2008- 2009

In the context of the current crisis, the increased difficulties faced by SMEs in obtaining funding resources, following the significant restriction of the lending activity of banks and the increase of the risk aversion determined the European Commission to grant considerable importance to the adoption of measures meant to support the access to finance of the SMEs. In this respect, it is worth mentioning the adoption of the Communication "Temporary Community framework for State aid measures to support access to finance in the current financial and economic crisis", which offers to all the member states of the EU, Romania inclusively, additional possibilities in the field of state aids, especially for SMEs, in order to cope with the effects of lending restrictions.

Conclusions

Romania's EU accession has led to some positive effects on the SME sector, so there are observed, in particular easier the access to markets, the posibily of finding cheaper suppliers, better access to financing (especially the Structural Funds), improving the legal and institutional framework on SMEs, improving access to new information and communication technologies.

Although small and medium enterprises in Romania have registred notable positive developments they also encounter difficulties in carrying on their activities such as: high taxation, limited opportunities for funding, excessive bureaucracy. In the context of the current crisis, a significant part of the SME sector in Romania is strongly affected, as also in other world countries. The effects of the current crisis on SMEs business is are primarily a significant decrease of the revenue, the reduced opportunities to enter on new markets, reduced access to finance and thus reduce opportunities to develop and even to survive.
The deterioration of international and domestic economic environment has resulted in new barriers to the way that SMEs conduct their activity, including, primarily, the decreased domestic and external demand of goods and services, late payments from customers, significantly reducing access to credit, due to increase their costs and tighter bank lending standards. Banks have reduced lending, not only because of increased risk, but also because they face difficulties in securing financial resources both from outside the country and the inter-banking market. The cost of these resources is high, especially that due to significant deterioration of bank loan portfolio. In order to relaunch the Romanian economy and, directly, the resumption of bank lending, the central bank reduced interest rate monetary policy and bank reserve requirement rates. However, deteriorating ability to pay the bank customers, especially SMEs, still causes negative economic outlook for banks to be reluctant to grant credit.

Restore of the normal functioning of small and medium enterprises sector and hence the national economic recovery depends very much on the implementation of appropriate economic policy measures and strengthening cooperation between the banking and financial institutions and small businesses.

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