The Impact of the Global Economic Crisis on the Business Environment: Recent European Experience and Support Measures

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Abstract. The aim of our paper is to underline the main characteristics of the business and economical environment and emphasise the negative implications of the recent economic crisis on a panel of EU member countries, namely: Bulgaria, Hungary, Latvia, Lithuania and Romania. The results of our research are pointing out the challenges and difficulties that the business environment from the panel countries is facing and also the need for the decision and policy makers to intensify their preoccupations and efforts in order to help and stimulate the enhancement of the business environment and thus achieve a sustainable long term economic growth.

Key words: Business environment; doing business, European Union member countries; firms; global crisis; support measures.

JEL Classification: E32, E44, F23, F44, M21

1. Introduction

In order to be able to ensure a sustainable long term economic growth and an enhancement of the competitiveness level of the national economy it is of the up most importance the insurance of a viable macroeconomic environment which will favour businesses. This is the reason why in most countries the governmental authorities are developing strategies in order to stimulate and develop the business environment.

A series of recent studies, some of which were undertaken by the World Bank [World Bank, (2011)], underline the fact that the countries which are offering a stable and transparent juridical and regulatory framework to entrepreneurs, combined with an adequate institutional framework which favours businesses and have a cheap and fast business opening process doublet by low corporate taxes are experiencing a much higher dynamic of business creation and development. In spite of these considerations, in the last years, the recent global economic and financial crisis had a profound impact on the businesses from the European Union, triggering major reactions from national and European policy and decision makings alike, embodied in a series of support packages for businesses and companies.

Our paper underlines in the second section the main characteristics of the economic and business environment of some of the EU member countries, namely Bulgaria, Hungarian, Latvia, Lithuania and Romania, using a series of indexes developed by the World Bank, which allow us to outline a series of considerations regarding the easiness of carrying out business in these countries. Starting from the economic reality which underlines the deep consequences of the recent global crisis on the analysed countries, the third part of our paper aims to underline the major negative effects of the global financial and economic crisis on the firms and the measures adopted at European level in order to sustain the businesses and the companies from these countries. Part four of our research contains the concluding remarks.

In the selection of the analysed countries we took into account two main criterions, on the one hand the availability of statistical data, especially regarding the evolutions of firms, and on the other hand the serious implications of the crisis.

In order to obtain our data, we have used mediate techniques for data gathering, like official statistics of the European Commission, the World Bank, different reports and researches.

As a method of data analysis we have used systematisation techniques and also a series of various indexes and indicators. The usage of these methods has been materialised in a series of comparative tables and graphics showing the way in which the competitiveness of the national economies is measured, the easing of doing business and the problems that the business environment is facing and also the effects of the recent global crisis.

2. The macroeconomic framework and the business environment assessment in the analyzed countries

Over the past few years, before the current global crisis, the analysed countries (Bulgaria, Hungary, Latvia, Lithuania and Romania) have registered an accelerated economic growth, often unsustainable, accompanied by a series of macroeconomic and financial imbalances, which largely were amplified on the background of the crisis. Afterwards, in the light of the economic and financial crisis, there has been registered a significant reduction of the economic growth, with major negative effects on businesses and households.

Table 1: The evolution of the main macroeconomic indexes*, in the analysed countries, between 2007 and 2010

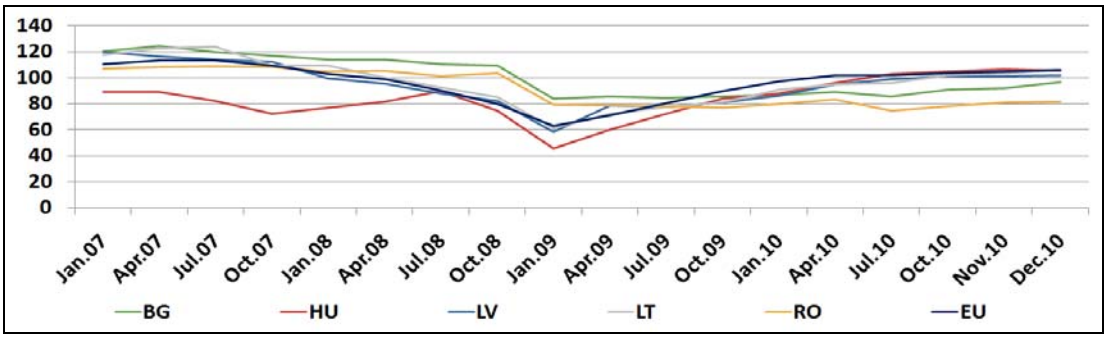
	Growth rate of GDP				Unemployment rate				Current Account Balance to GDP (%)			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
BG	6.4	6.2	-5.5	0.2	6.9	5.6	6.8	10.2	-25.2	-23.2	-9.0	-1.5
HU	0.8	0.8	-6.7	1.2	7.4	7.8	10.0	11.2	-7.0	-6.9	-0.4	1.7
LV	10.0	-4.2	-18.0	-0.3	6	7.5	17.1	18.7	-22.3	-13.1	8.6	3.6
LT	9.8	2.9	-14.7	1.3	4.3	5.8	13.7	17.8	-15.1	-13.1	2.6	1.8
RO	6.3	7.3	-7.1	-1.3	6.4	5.8	6.9	7.3	-13.6	-11.4	-4.2	-4.2
	General government gross debt (% of GDP)				Domestic demand, volume*				Total investment, volume*			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
BG	17.2	13.7	14.6	16.2	8.8	6.5	-12.8	-4.6	11.8	21.9	-17.6	-16.5
HU	66.1	72.3	78.4	80.2	-1.3	0.8	-10.8	-1.1	1.7	2.9	-8.0	-5.6
LV	9.0	19.7	36.7	44.7	-12.4	-10.1	-27.6	-0.9	7.5	-13.6	-37.3	-19.5
LT	16.9	15.6	29.5	38.2	14.1	3.2	-24.6	1.8	23.0	-5.2	-40.0	0.0
RO	12.6	13.4	23.6	30.8	14.2	7.3	-12.9	-1.0	30.3	15.6	-25.2	-13.1

** percentage change from previous year.*
Source: [European Commission (2011)]

The main crisis' effects on national economies have materialized through the significant reduction of the growth rate of GDP and even the registering of a negative economic growth; adjustment of the current account deficit which led, when the crisis started, to a substantial reduction in one of the vulnerabilities of the analyzed countries' economy; increase in unemployment with negative impact on consumption; enhancement of the budget deficit and public debt; lower industrial production and investment, reduction of the firms' profitability and of the net average earning, diminishing of the assets' value, particularly of the real estate ones. Briefly, the main indicators expressing the evolution of the macroeconomic environment in the countries surveyed are highlighted in table 1.

The analysed countries economic environment deterioration, as well as the uncertainties regarding the macroeconomic evolutions have led to a growing distrust in the economic environment in all the researched countries, issue that can be also highlighted based on the indicators of confidence and economic sentiment. Thus, as results also from figure 1, since October 2008, the level of confidence in the economic environment in all of the five countries analyzed, including at the EU level, decreased continuously until January 2009, when it has been recorded the lowest level, due to a worsening of the macroeconomic environment and of the perspectives regarding its evolution. Between October 2009 and December 2010, it worth noting that Romania recorded the lowest level of confidence in the economic environment from the businesses and consumers point of view when compared to the other countries, which highlights the weak concerns of the public authorities for taking measures in order to relaunch the economy.

Fig. 1. The evolution of the confidence and economic sentiment indexes in the case of the analysed countries, between 2007 and 2010



Source: [own simulation based on European Commission (2010b)]

In the context of recent crises, relaunching the national economy, ensuring a healthy economic growth and improving the quality of the business environment is of vital importance. The way the business is assessed in the analysed countries in the current context, which is extremely difficult from the economical and financial point of view, can be highlighted based on the information from the World Bank's Annual Report, Doing Business 2011, which measures the ease of doing business in 183 countries based on 9 indicators, namely: starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business [World Bank (2010a)].

In the case of the analyzed countries (see table 2), it worth noting that the business environment of Lithuania and Latvia held the best position, these countries having the most friendly business environment and it worth also noting that the most significant progresses have been recorded by the business environment of Hungary, which according to Doing business 2011, in June 2010, has occupied the place 46 compared to 52, in 2009, according to Doing business 2010. A special situation arises in the case of Romania, which compared with the other countries that have improved their positions in the ranking (Bulgaria has maintained its position), has recorded a deterioration in the business environment, thus occupying the position 56 in June 2010 compared to 54 in 2009.

Analyzing the changes appeared in the ranking regarding the indicators that measure the ease of doing business in the analyzed countries (see table 2), in 2010 compared to 2009, we can note the following progresses: Bulgaria has made significant progresses in the paying taxes and starting a business indicators; Hungary stands out with major progresses in registering property and paying taxes indicators; Latvia has recorded significant positive changes in the closing a business and registering property indicators and Lithuania in starting a business and paying taxes. As regards Romania, the most important progresses have been made in dealing with construction permits.

Table 2. The evolution of the indexes which measure the ease of doing business in the analysed countries

	DB2011	DB2010	Starting a Business		Dealing with construction permits		Registering Property		Getting Credit		Protecting investors		Paying Taxes		Trading Across Borders		Enforcing contracts		Closing a Business	
			a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b
BG	51	51	7	43	-2	119	-6	62	0	6	-3	44	10	85	1	108	1	87	-4	83
HU	46	52	1	35	0	86	19	41	-2	32	-1	120	9	109	0	73	0	22	-4	62
LV	24	27	-2	53	-2	79	4	57	0	6	-2	59	-3	59	0	16	0	14	9	80
LT	23	26	11	87	1	59	0	7	-2	46	-1	93	6	44	-2	31	-1	17	-3	39
RO	56	54	-3	44	9	84	0	92	-1	15	-3	44	-4	151	1	47	-1	54	-10	102

a- Annual changes in the rankings of the indexes which measure the ease of doing business in the analysed countries (2010-2009); b- the position held in 2010 in the world chart.
Source: [own simulation based on World Bank (2009) and World Bank (2010a)]

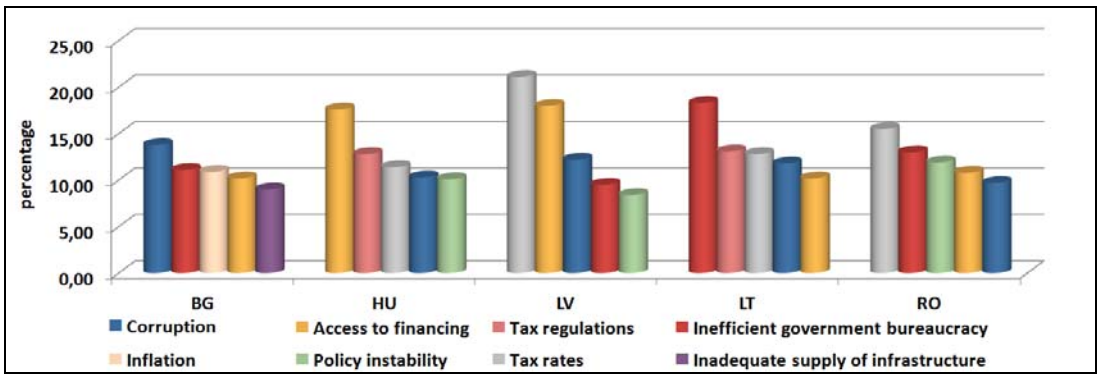
Overall it is noted that Lithuania is the best performer among the analyzed countries, being ranked 23 out of the 183 countries, regarding the following indicators: registering property, enforcing contracts, trading across borders, closing a business and dealing with construction permits. Bulgaria occupies a leading position in terms of getting credit along with Latvia which has the leading position in terms of enforcing contracts. Hungary holds the leading position in terms of starting a business and Romania stands out for protecting investors along with Bulgaria.

The main problems faced by the business environment in the countries under study, considering the nine indicators used to evaluate the ease of doing business, are: Romania, paying taxes and closing a business, places 151 and 102, respectively; Bulgaria, dealing with construction permits and trading across borders, places 119 and 108, respectively; Hungary, protecting investors, paying taxes, places 120 and 109, respectively; Latvia, closing a business and dealing with construction permits, places 80 and 79, respectively; Lithuania, protecting investors and starting a business, places 93 and 59, respectively. The position occupied by each state in the ranking of the 183 countries shows the need to continue and accelerate the reforms towards increasing the quality and the attractiveness of the business environment, as well as the need to get closer to the best practices of the world's economy.

The evaluation of the business environment is of the up most importance in order to identify the main problems faced by it and in order for the national authorities to design and implement appropriate measures to improve it. Taking into account The Global Competitiveness Report 2011-2012 developed by the World Economic Forum, based on the interviews of over 14,000 business leaders from 142 countries [World Economic Forum (2011)] the most problematic five factors out of the main 15 for doing business in the researched countries are presented in figure 2.

Based on the data from figure 2 we can note that in all the analyzed countries, the problems of corruption and the access to finance appear in the five largest obstacles for doing business. Also, other significant obstacles that appear in most of the researched countries are the inefficient government bureaucracy, tax rates and policy instability. In this context, in the post crisis period, identifying and easing the constraints for doing business is of the up most importance in order to enable the economic recovery.

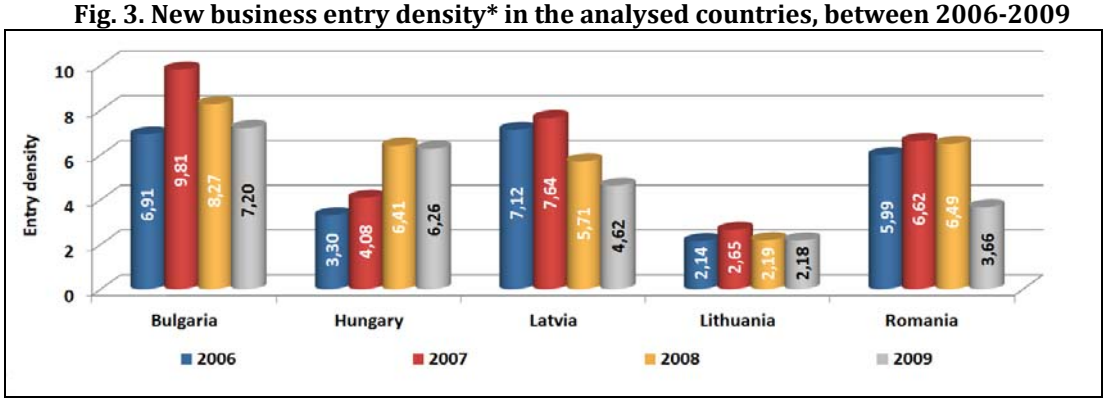
Fig. 2. The most problematic factors for doing business in the case of the analysed countries



Source: [own simulation based on World Economic Forum (2011)]

The development level of the business environment has a significant impact on the creation of new firms. The study conducted by the World Bank shows that in high-income countries were registered, on average, every year about four new companies per 1.000 working-age adults, while in low and middle-income countries the ratio is much lower of one new firm per 1.000 working-age adults [World Bank (2011), p. 12]. Also, statistics show a more dynamic business creation process in the countries that offer entrepreneurs a stable legal and regulatory framework, a faster and less expensive business registration process and low corporate taxes. In the context of the crisis, most of the world countries have registered a sharp diminishing of the business registration, especially the countries with a higher level of financial development and the ones that were strongly affected by the crisis. Regarding the countries under study, whereas the effects of the crisis were felt later, there was a significant decrease in business entry in 2009, especially in Romania, Latvia and Bulgaria (see figure 3). On the other hand, analyzing the data in evolution is noted that the creation of new firms is more dynamic in the countries that have reduced the bureaucracy and are providing a more stable investment environment.

Fig. 3. New business entry density* in the analysed countries, between 2006-2009



** defined as the number of newly registered limited liability companies per 1,000 working-age (15–64) people*
Source: [own simulation based on World Bank (2011)]

3. The effects of the current global crisis on business in the analyzed countries

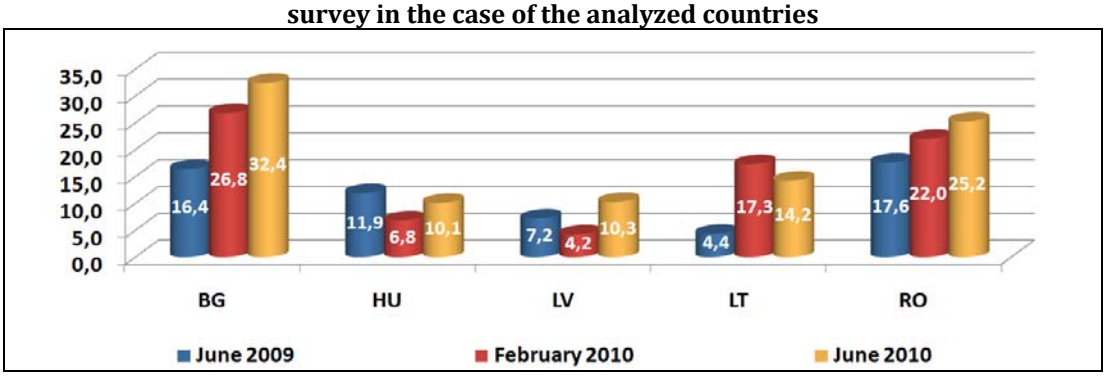
Material and method

In order to emphasis the implications of the recent global crisis on the businesses from the analysed countries we focused on the "The Financial Crisis Survey" undertaken by the World Bank Group, which aims at measuring the effects of the financial crisis on the firms. The survey was undertaken in three rounds (June-July 2009, February-March 2010, and June-July 2010) and included a panel composed from six countries from Central and Eastern Europe (Bulgaria, Hungary, Latvia, Lithuania, Romania, Turkey to which Kazakhstan was added only for the second round). Since our research is focused only on EU member countries, we didn't take into consideration the results for Turkey and Kazakhstan. Overall the survey has used 52 indexes in order to measure the effects of the recent crisis on the key elements of the firm activities, the most important being: sales, employment, finances, research and development, and expectations about the future.

Results and discussions

The first aspect aimed by the survey undertaken by the World Bank Group was to determine the degree to which firms' remained functional or not as a result of the manifestation of the financial crisis. Thus, the percentage of closed or insolvent firms in the financial crisis survey and impossible to locate (see figure 4) is different from one country to another, and between periods. It is worth mentioning that especially in the case of Bulgaria and Romania, the ratio of exited firms rose from one period to another, registering also the highest value when compared to the other countries from the panel.

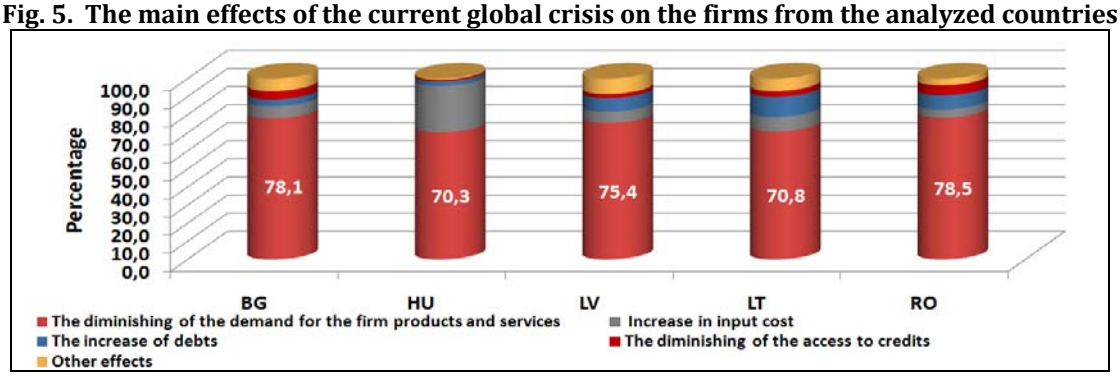
Fig. 4. The percentage of closed, insolvent and impossible to locate firms in the financial crisis survey in the case of the analyzed countries



Source: [own simulation based on World Bank (2010b)]

In regard to the major effects of the crisis on the firms activities (see figure 5), the survey undertaken by the World Bank underlines the diminishing of the demand for the products and services offered by the analysed firms, the increase in input cost, the raise of the debt level and the reduction of access to credit. The survey has also underlined the fact that in June 2009, in every country from the panel over 70% of the firms have reported decrees in demand for the products and services which they provide, this being the most important effect of the crisis. The second effect of the crisis tend to be different from country to country, thus, the firms from Hungary and Bulgaria have reported an increase in input costs, while at the same time the firms from Lithuania and Romanian were registering an increase of their debt level, while in the case of Latvia there has been a mix of effects.

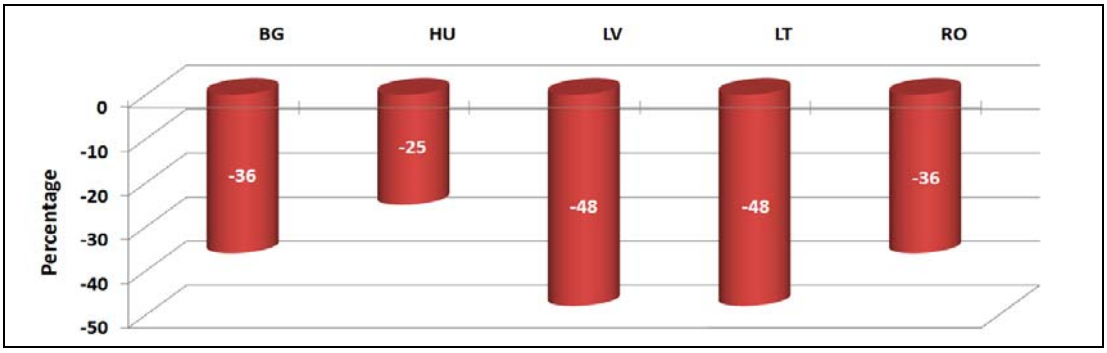
Fig. 5. The main effects of the current global crisis on the firms from the analyzed countries



Source: [own simulation based on World Bank (2010b)]

As a result of the major impact that the crisis has had on the demand for products and services, the analysed firms have registered a significant decrease of 25% of their sales in June 2009 compared with June 2008. But the most pronounced decrease was in the case of Latvia and Lithuania (see figure 6) were the average drop in sales was of 48% during the same period.

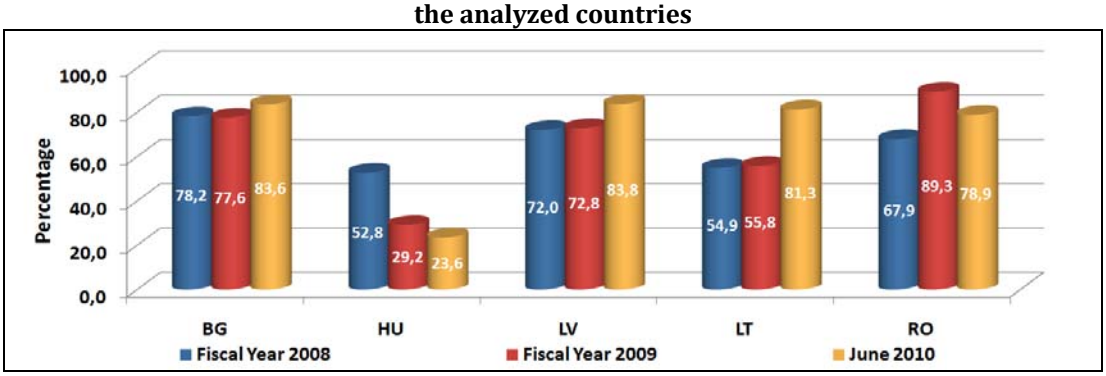
Fig. 6. The average decrease of sales in the analyzed countries between June 2008 and June 2009



Source: [own simulation based on Correa & Iootty (2010), p. 2]

The diminishing of the liquidities due to the manifestation of the crisis has triggered certain reactions from the firms located in the analysed countries. Thus, a first step undertaken by the firms as an effect of the crisis and the restriction of the access to credits was the raise of the usage of internal resources in order to finance the working capital, in all the analysed countries, between June 2008 and June 2010, except for Hungary (see figure 7). In the case of the firms which have applied for a bank loan, the statistical data available have underlined that the granted amount was much smaller than the requested one, especially in the case of Latvia and Lithuania were the average percentage of granted amount was smaller than 50 percent [Correa et. al. (2010)]. Therefore, the current crisis has an extremely negative impact on the access of firms to financing through the usage of bank credits.

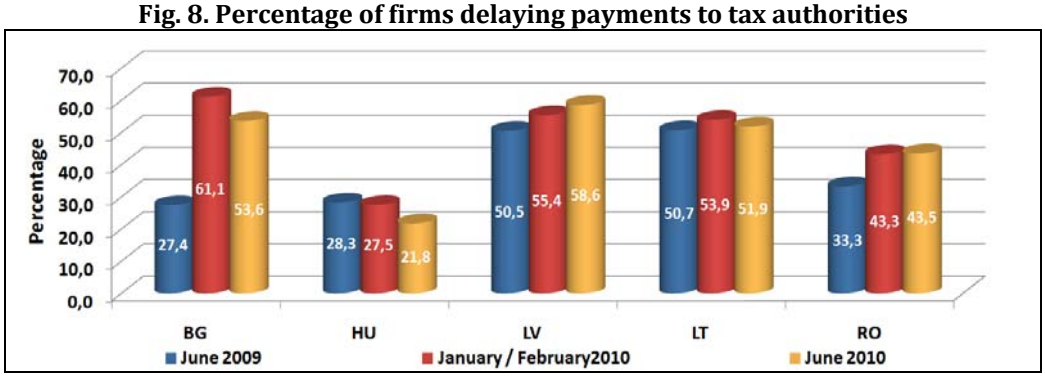
Fig. 7. Proportion of the working capital financed from internal funds in the case of the firms from the analyzed countries



Source: [own simulation based on World Bank (2010b)]

Another reaction of the firms was the postponement of the payments to the fiscal authorities or to their suppliers. Thus, the survey undertaken by the World Bank Group has underlined a raise of the percentage of firms which had overdue payments to the fiscal authorities, in all countries, except Hungary, where during all the three rounds of the survey, this percentage has dropped. Also, in is noteworthy that in four out of the five analysed countries, over 40% of the inquired firms during the second and the third round of the survey have registered overdue payments to the fiscal authorities (see figure 8), as a result of the liquidity problems that they were facing.

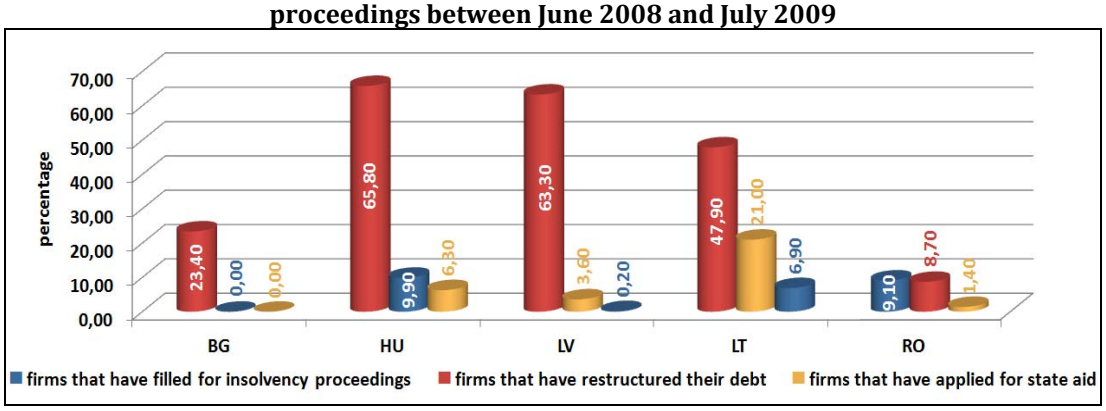
Fig. 8. Percentage of firms delaying payments to tax authorities



Source: [own simulation based on World Bank (2010b)]

Due to the liquidity constrains, the firms have resorted to the restructuring of their debts, especially in Hungary and Latvia, where 65,8% and respectively 63,2% from the firms that have registered overdue debts towards financial institutions have restructured their debts, during June 2008 and June 2009 (see figure 9). On the other hand, a lower percentage of firms have used state aids, and to an even lower extend have filed for insolvency.

Fig. 9. The ratio to which firms have applied for debt restructuring, state aids and insolvency proceedings between June 2008 and July 2009

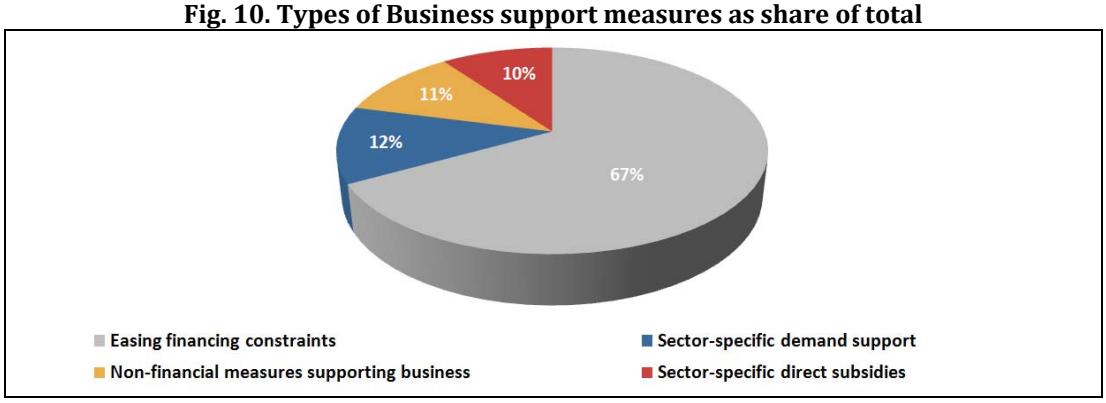


Source: [Correa & Iootty (2010), p. 5]

The major negative implications of the recent crisis on the activities of the firms from all the EU countries determined the European Commission to adopt in November 2008 the European Economic Recovery Plan, which from the perspective of the real economy embodied a series of measures which aimed to support the businesses and the companies. These measures were primarily focused on easing financing constraints for business (see figure 10) and stipulated the extension both in terms of volumes and conditions of credit guarantees, including export credit, particularly for SMEs and the increase in the capital of public development banks to bring this about; easing conditions for access to and repayment of loans; and temporary tax reductions and exemptions [European Commission (2009), p. 79]. Besides these measures there were also adopted a series of sector-specific demand support measures, through temporary tax breaks, permanent changes, and other financial incentives for purchases of sector-specific products in support of environmental and innovation policy objectives; easing regulatory requirements and financing conditions for homeowners and first-time buyers; sector liberalization measures; and the handout of coupons for the consumption of certain goods and services. Another form of help was represented by the sector-specific supply measures (including direct subsidies) which provided direct financial support, such as tax reductions and direct state aid payments, guarantees and loans with

subsidised interest rates. In order to sustain the firms, there have been adopted also a series of non-financial measures, which were primarily aimed at the reduction in administrative burdens for businesses, in particular SMEs, but also to the provision of advice services to business in export activities and trade fair participation. Regarding the analysed countries in our research the national public authorities have adopted at least one of the categories of measures presented, most of adopted measures aiming at the easing of the financing constrains for the businesses, this approach emphasising the serious implications of the crisis on the financial sector.

Fig. 10. Types of Business support measures as share of total



Source: [European Commission (2009), p. 79]

4. Conclusion

The insurance of an environment favourable for businesses has a significant impact on the creation of new firms and on the development of the existing ones. Over the last years, we can note the increasing concern of the decision makers from the analyzed countries in carrying out reforms that contribute to the improvement of the business environment. From this perspective, it worth mentioning, in particular, the focus of their efforts towards registering property and eliminating the obstacles faced by entrepreneurs when they want to close or open a business.

Since 2008, in terms of the number of reforms conducted in order to improve the business environment, the best reformers were Bulgaria and Hungary. In comparison, the number of reforms conducted in Romania is much lower, this fact emphasizing the public authorities reduced concern to improve the business environment from this country. In terms of the ease of doing business in the countries surveyed, Lithuania stands out as the best performer, while at the opposite pole stands still Romania. On the other hand, the business environment of all the five analyzed countries faces several constraints, the problems of corruption and the access to finance appearing in all the countries in the five largest obstacles for doing business. Therefore, there is a vital need for the policy makers to focus their concerns in addressing the problems of corruption and improving the legal and institutional framework related to the instruments for business financing.

The recent global crisis has negatively affected all the firms from the analyzed countries, the magnitude of its effects being however different. Thus, the worst affected were the companies from Latvia and Lithuania, followed by those from Bulgaria and Romania. Therefore, it comes to countries that have accumulated major imbalances and vulnerabilities embodied in an accelerated and unsustainable growth of the credits, especially of those in a foreign currency, the worsening of the current account deficits and the significant dependence on foreign capital flows.

The serious implications of the recent global crisis on business and, in general, on the analyzed countries, highlights the need to intensify the concerns of the decision makers from both national and European level towards making business reforms, as well as the need to implement a mix of economic policies to ensure an economic recovery and a sustainable economic growth.

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