

THE BUSINESS ENVIRONMENT IN ROMANIA - CHALLENGES AND OPPORTUNITIES IN 2015

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Abstract: : The business environment in Romania this year will face new challenges but at the same time will benefit from new opportunities. Resumption of lending, reducing certain fees while tightening fiscal surveillance measures will determine the economic environment. The companies will be under the influence of external environmental factors, that will have an impact on the performance of each company.

JEL classification: G18, G 20

Key words: lending, taxation, consistency, legislation.

1. INTRODUCTION

This paper aims to present a series of developments in the business environment in Romania that are considered both opportunities and threats by the authors, being identified the following aspects, which will be detailed further on:

- Reduction of social security contribution for the employer in conjunction with two increases of the minimum wage – effects
- Bank loans, between the optimism of authorities and the realities of economy
- The new fiscal code - good news about VAT reduction.
- Foreign direct investments

2. REDUCTION OF SOCIAL SECURITY CONTRIBUTION FOR THE EMPLOYER IN CONJUNCTION WITH TWO INCREASES OF THE MINIMUM WAGE – EFFECTS

In order to explain the evolution of a firm's amount of contributions to the social security system since October 2014, when the CAS was reduced by 5% for the employer, until the 1st of July 2015, when an increase of the minimum wage to 1050 lei will be applied, we have developed a study case of a company that has 70 employees to whom it pays the minimum wage.

Table no.1 Calcul of contributions

for a single employee

for 70 employees

Gross wage	for a single employee			for 70 employees				
		900 lei		900 lei	975 lei	1,050 lei	900 lei	900 lei
		7/1/2014		10/1/2014	1/1/2015	7/1/2015	7/1/2014	10/1/2014
Contributions of the Employee								
Social Security Contributions (CAS)	10.50%	95	10.50%	95	102	110	6650	6650
Health Social Insurance Contributions (CASS)	5.50%	50	5.50%	50	54	58	3500	3500
Unemployment Fund	0.50%	5	0.50%	5	5	5	350	350
Income tax	16%	80	16%	80	90	100	5600	5600
Total		230		230	251	273	16100	16100
Contributions of the employer								
Social Security Contributions (CAS)	20.80%	187	15.80%	142	154	166	13090	9940
Health Social Insurance Contributions (CASS)	5.20%	47	5.20%	47	51	55	3290	3290
Unemployment Fund	0.50%	5	0.50%	5	5	5	350	350
Medical leaves and indemnities (CCI)	0.85%	8	0.85%	8	8	9	560	560
Wage Claims (FGPCS)	0.25%	2	0.25%	2	2	3	140	140
Risk and Accident Fund (AMBP)	0.40%	4	0.40%	4	4	4	280	280
Total		253		208	224	242	17710	14560
Total contributions		483		438	475	515	33810	30660
Net Wage		670		670	724	777	46900	46900
Total expenses of the firm		1153		1108	1199	1292	80710	77560

I. The data presented in the table show the following:

- In July 2014, at a minimum wage of 900 lei, the contributions were amounting to 230 lei, the employee receiving, in hand "a net wage of 670 lei;
- In January 2015, at a minimum wage of 975 lei, the contributions were in value of 251 lei, and the net wage was 724 lei;
- In July 2015, at a minimum wage of 1050 lei, the same employee will pay contributions amounting to 273 lei and will receive a net wage of 777 lei.

II. Contributions paid by the employer:

- a. For a single employee, the company pays the following amounts:
 - 253 lei in July 2014, when at a minimum wage of 900 lei, total expenses of the firm were 1153 lei;
 - **208 lei in October 2014, when, after reducing the CAS from 20.80% to 15.80%, total expenses of the firm were 1108 lei, at which time the fiscal relaxation occurs;**

- 224 lei in January 2015, when at a salary of 975 lei, total expenses of the firm will be 1199 lei.

By now the effect of CAS reduction is canceled by the first wage increase.

- 242 lei in July 2015, at a salary of 1050 lei, with total expenditures of the firm up to 1292 lei, which means with 39 lei more per employee compared to July 2014.

b. For those 70 employees, the company pays the following contributions (employee + employer):

- 80710 lei (33810 lei total contributions + 46900 lei net wages), at the 1st of July 2014

- **77560 lei (30660 lei total contributions + 46900 lei net wages), at the 1st of October 2015, therefore a saving of 3150 lei, equivalent to 3.50 minimum wages of 900 lei.**

The firm's total savings, from October to December 2015 will be 9450 lei;

- 83930 lei (33250 lei contributions + 50680 lei net wages), at the 1st of January 2015;

- **90440 lei (36050 lei contributions + 54390 lei net wages), at the 1st of July 2015, with 10730 lei more than in July 2014.**

The firm needs to have in its current account about 100 000 lei at the 25th of every month, especially if it has employees to whom it does not pay only the minimum wage (RON)

According to the authors, the tax effect of reducing social security contributions was largely canceled by the two increases of the minimum wage and the employer's financial effort remains high. Therefore, the authors believe that will not appear many jobs in the economy because employers will feel the consequences of the previously mentioned salary increases for a while. It is understandable that a fiscal relaxation would be an oxygen balloon for companies, especially if they want to make investments.

3. BANK LOANS, BETWEEN THE OPTIMISM OF AUTHORITIES AND THE REALITIES OF THE ECONOMY

From a theoretical perspective, there are conditions for the renewal of crediting, as proven by the data presented by the National Bank of Romania, which has relaxed the monetary policy and the lending interest rate in successive meetings, thus helping the commercial banks in terms of increased resources for lending.

Table no. 2 Interest rates of monetary policy and permanent facilities

Valid from:	Monetary Policy	Lending Facility	Depositing Facility
5 Feb. 2015	2,25	4,25	0,25
8 Jan. 2015	2,50	4,75	0,25
5 Nov. 2014	2,75	5,25	0,25
1 Oct. 2014	3,00	5,75	0,25
5 Aug. 2014	3,25	6,25	0,25
5 Feb. 2014	3,50	6,50	0,50

Valid from:	Monetary Policy	Lending Facility	Depositing Facility
9 Jan. 2014	3,75	6,75	0,75
6 Nov. 2013	4,00	7,00	1,00
1 Oct. 2013	4,25	7,25	1,25
6 Aug. 2013	4,50	7,50	1,50
(% p.a.)			

Source: www.bnro.ro/ Monetary policy indicators

The authorities are optimistic expecting some funding lines withdrawn from Romania during the crisis to return.

However, there is certain reluctance in the relations between banks and customers. The latter are no longer willing to borrow, although interest rates are favorable and the banks are very careful in selecting the clients and are concerned about the lack of bankable business.

Each side has its reasons. Certain aspects which are quite visible in the economy cannot be ignored: The crisis of the Swiss franc endangers over 75,000 people who have loans in this exotic currency and 14 credit institutions that have credit lines in Swiss francs, straining the relationship between these institutions and their customers who are seeking a solution.

On the 23rd January 2015, the currency from the country of Cantons broke a new record, reaching the historic maximum of 4.5817 lei when the Swiss Bank removed the ceiling of 1.2 francs / euro and the franc was allowed to float freely. Under these conditions, the rates on loans in francs grew over the top and the clients were at risk of not paying the credit.

In total, the arrears on loans to households and firms reached the end of 2014 to 28.8 billion, down by 11.8% compared to the same period of 2013, to a volume of 106.8 billion lei in the case of credits for businesses and a volume of 102.2 billion lei in the case of the credits for individuals during the year 2014.

Not only have the loans in Swiss francs raised problems, so that Romanians' debts to banks in late January 2015 amount to 11.4 billion lei.

4. THE NEW FISCAL CODE - GOOD NEWS ABOUT VAT REDUCTION

Although the business environment is waiting for a real fiscal relaxation, on the long term, the VAT reduction is not easy to apply, with immediate effects on reducing prices. VAT reduction would significantly reduce the contributions to the state budget, many experts saying that this year there is no fiscal solid ground for the long-awaited tax reduction. It must not be forgotten that VAT revenues are the second most important source of income for the consolidated state budget after social security contributions. From the estimated made, the VAT reduction from 24% to 19%, means the decrease of the of revenues to the state budget.

Table no.3 (mld lei) Decrease of revenues to the state budget after VAT reduction

VAT share %	2015	2016	2017
23	-2,3	-2,4	-2,5
22	-4,6	-4,8	-5,0
21	-6,9	-7,3	-7,7

20	-9,2	-9,7	-10,2
19	-11,5	-11,9	-12,3

Source: <http://www.gandul.info/financiar/buget-2015-how-much-would-have-cost-VAT-reduction-19-1371519#>

According to the new fiscal code draft, VAT and excise duties would drop in 2016, but the cuts will start this year, in order not to trouble the state budget revenue collection. VAT will be reduced by 4%, so it will be 20% from 1 January 2016 and a VAT rate of 18% in 2018; it is also stipulated a reduction in VAT on meat, vegetables and fruit to 9% and lower duties on fuel by 16-20 % while the tax on dividends and tax on special buildings are removed.

VAT reduction will determine a decrease in tax evasion, encouraging local producers and boosting consumption. Basically, by reducing VAT to 20%, we will get below the EU average, currently at a rate of 24%, being the fifth country.

5. CONCLUSIONS

Economic recovery, after years of crisis, is a goal of the government that sets as priority directions the development of business environment by stimulating the free initiative and supporting the private entrepreneurs.

The requires for creating a strong business environment is a stable economic environment, marked by coherent economic policies, strong legislation and not least a stable political climate.

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