

DOI: 10.5281/zenodo.7784966

BUSINESS REGISTRATIONS AND BANKRUPTCY IN THE EU REGION AND ROMANIA DURING COVID-19 PANDEMIC

Dalina-Maria ANDREI, PhD

Institute of Economic Forecasting, Bucharest, Romania
dalinaandrei@yahoo.com

Abstract: *In early 2020, the outbreak and geographical spread of Sars-Cov2 infections made the World Health Organization (WHO) declare the Covid-19 pandemic, and this was automatically meaning calls made to all countries to urge measures taken on all activity sectors from healthcare to economy (Meunier, 2022). Then many economic activities came to be slowed down or even stopped in most world countries. In the cases where activity could be postponed many enterprizes were temporarily closed in order to comply with social distancing measures; other enterprizes proceeded to the online activity variant, where such alternative proved possible. One of the results of this was the digital technology's opportunity to reach control and make activities keep on during the Covid-19 crisis. It was this way that countries with existing online registration systems for companies proved able to support business as such - i.e., basically, through maintaining this system, the pandemic specific restrictions' impact could at least be alleviate (ibidem).*

Keywords: *enterprises, registrations, bankruptcy, European Union, Romania*

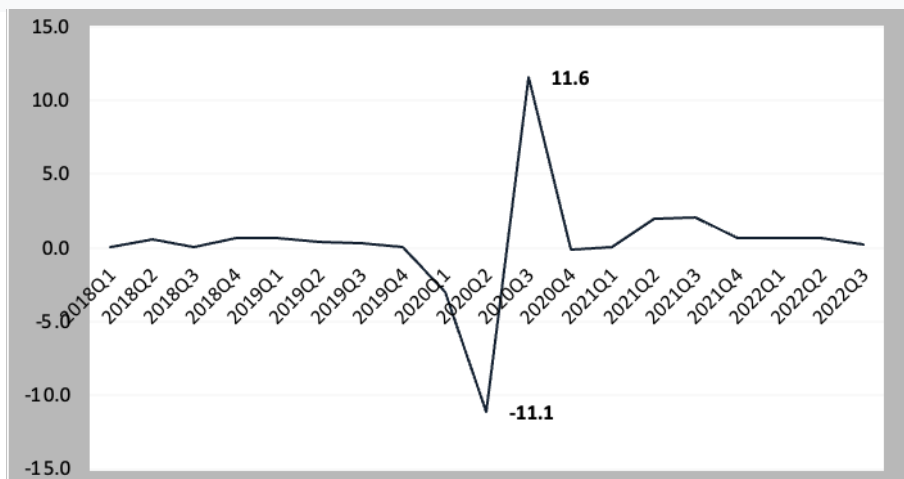
Jel Classification: *M2, M10, M13, M21*

1. Introduction

The EU member countries were making no exception to the worldwide shock felt immediately after the lockdown procedure done in this crisis context. The whole EU's GDP dropped by 3.3% in the first 2020 quarter(Q1/2020), as compared to its previous one (Q4/2019), and then by 11.4% in the second quarter(Q2/2020), as also compared to its previous (Q1/2020), according to Eurostat (2020a,b) as seen in Figure 1. Then, lifting restrictions and their

temporarily attached measures got able to let the same region's GDP finally grow in the next third 2020 quarter(Q3/2020) by 11.3%, in the same order of comparing to its precedent (Q2/2020), that actually may be among the highest recoveries since early 1995 (Eurostat, 2020c).

Figure 1. The EU: Overall GDP in its quarterly growth, as compared to previous quarter



Source: Eurostat-overall GDP [namq_10_gdp]

While existing firms' activities temporarily stopped, the new registrations were also delayed by authorities. Actually, *registration of new firms* is taken as particularly important to the business environment: (i) new firms come up in a likely healthy business environment; (ii) once new firms registered, they get expected as the source of economic growth, new employment and technical innovation in the near future (OECD, 2021). In context, some of the annual data on new registrations are supposed to say about the same on economic activities as well, while quarterly data seem even more precise on the temporary decrease of activities.

Another important indicator for the business environment assessment and belonging to the same category with the new firms' registrations one – i.e. as being basically expressed by individual firms - is the *bankruptcy declarations index*. Or, this last is equally to be mentioned as having been stopped from registering, as for another measure taken by governments during the pandemic interval in order to help firms to overpass specific difficulties related to. In fact, in some countries the bankruptcy administrative procedure documents deposition saw itself postponed, as the government's reaction, coupled with

the financial help offered instead to those firms. Firms were so supported for continuing their activities.

2. Methodology and data

2.1 The business entries' and bankruptcies' registration. Notions and statistical measuring in the EU

The *Eurostat* defines a firm's or another economic activity unit's *registration* as part of an ensemble administrative procedure of measuring the entering business option of potential entrepreneurs. The Eurostat's data for firms' registration are both quarterly and annual. The previous category ones express by percentages in order to facilitate inter-countries comparisons; the latter are aimed to reflect the full individual enterprise's birth – i.e. together with all working units that do belong to.

The business registration procedure is an important process through which the company is legally recognized and can carry out the activity for which it was registered. Once the company can carry out its activity, it will be able to buy actions, to conclude contracts and to legally protect the company and shareholders. Last but not least, the company registration procedure is done to comply with the legislation and fiscal regulations in force on the respective date.

Registrations – i.e. all of them as a whole – are supposed to make real-time information on the whole business environment. The individual firm's registration, as in detail, isn't yet its full birth in all cases – i.e. its activity deployed might not be always for sure. The activity started, people employees, profit earned and all the rest might be delayed in time from the firm's registration, the same as even the firm's real birth.

Bankruptcy is the legal procedure by which a company that cannot pay its debts can be exempted from paying part of them and can be reorganized or liquidated. The objective of the bankruptcy procedure is to enable those who own these companies to fairly distribute the debtor's assets among his creditors. If the company can be saved or the economic activity is viable - its debts can be restructured (usually with the consent of the creditors). This procedure aims to protect the company and preserve jobs. If the economic activity cannot be saved, the commercial company must be liquidated (EU justice, 2022).

Bankruptcy declarations are equally quarterly published (Eurostat, 2022) and this for measuring a(nother) early general feeling against the existing business environment. Also, similarly to registrations – i.e., not being the real firms' activity birth –, bankruptcy declarations aren't necessarily the same thing

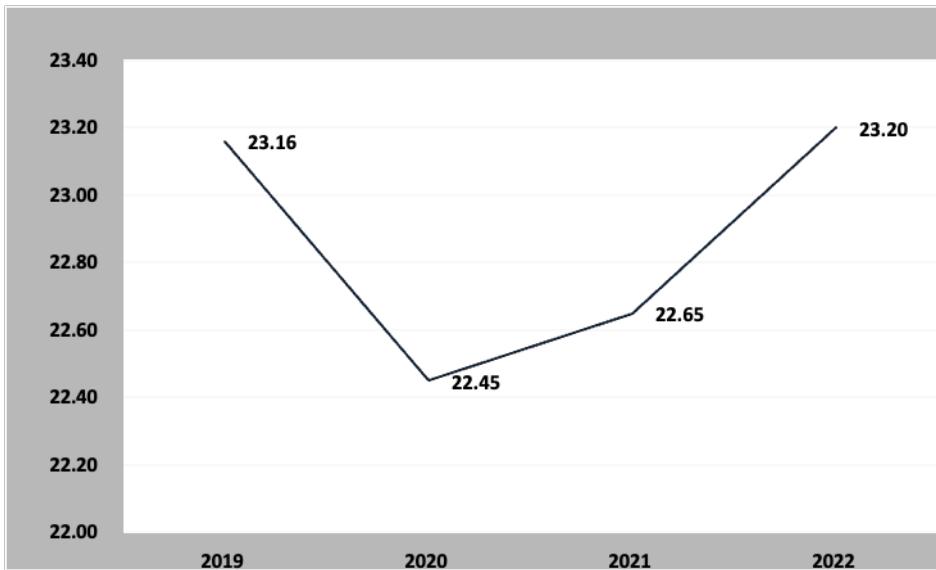
with the firms' death – i.e. they are some kind of just provisional procedural approaches of particular circumstances. Besides, this declaration's referring to a legal unit might also include just part of a firm or company – i.e., the enterprise's death might actually associate to just the whole of it. In fact, the firm's bankruptcy and respectively death might come in different moments. Death comes when the entire activity of the enterprise has been dissolved. Bankruptcy, on the other hand, might be followed not by death, in all cases, but the enterprise may equally recover through restructuring. Moreover, law that rules bankruptcy is different in different countries, here including the EU member States' group – i.e., this is for the obvious and deep difference appeared in the Eurostat statistics between quarterly (bankruptcy declarations filled and deposited) and annual data (enterprises' death confirmed).

2.2 The EU's non-financial sector: micro-enterprises, small and medium size enterprises, large enterprises

An *enterprise* is any entity deploying economic activities, independently from its law status – i.e., in the European Commission's view. Enterprises do classify as micro-, small and medium size (SME) and large, according to some criteria issued by the European Commission (EC) for: (i) number of people here employed and (ii) turnover (balance sheet numbers, in other cases, as alternative). At the 2019 year-end, there were 23.2 million non-financial business entities in the EU area, of which 99.81% SMEs and only 0.19% companies with more than 250 employees. Dominant in their number actually were enterprises with less than 9 employees, i.e., 93.03% of the total, 21.5 million enterprises. Micro-enterprises and SMEs together keep about half (48.4%) of the whole labour employed of the non-financial sector and make about one-third (35.3%) of total value-added of the EU area. There were also 43 thousand large(big) enterprises (with more than 250 employees) in the EU in the same 2019 as for the same non-financial sector (Eurostat, 2021) and these were keeping also about one-third (35.6%) of total people employed of this sector and making 47.6% of value-added in the EU economic area.

For the 2022 year end, a number of 23.2 million enterprises was estimated (Clark, 2021) as pretty close to that of 2019 while passing through all dramatic dynamics and influences of the recent Covid-19 pandemic (See Figure 2).

Figure 2. The EU: Total number of enterprizes of the nonfinancial sector (millions)



Source: Eurostat - TIN00145__custom_3373959

3. Analysis and discussions

3.1 Firms' registration in the EU

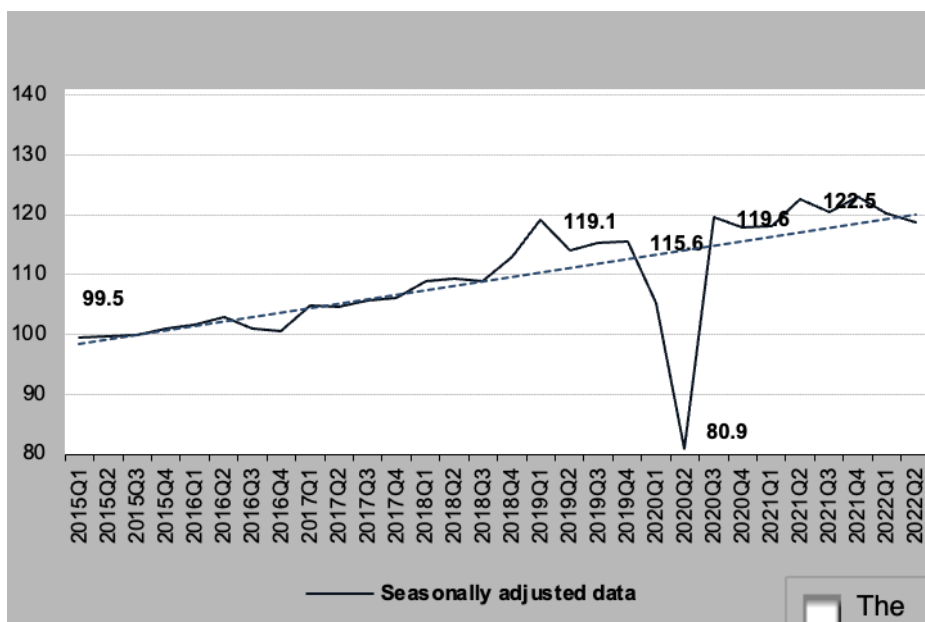
The European statistics on registrations and bankruptcy declarations do refer to the 2015-2020 years interval on the basis of member States' voluntary reporting. Then, since the first quarter of the next 2021 the *European Business Statistics (EBS) Regulation* (Eurostat, 2022a,b) made these reports mandatory for EU member States. It was this way that quarterly data of firms' registrations and bankruptcy declarations made such informations real time ones, on the business environment's demography and for the help of research – i.e., it came to be better than for the traditional statistics case. Or, the usefulness of these new quarterly statistics proved obvious punctually in 2020, when critical information was needed on the Covid-19 pandemic's economic effects for decision makers, here including the European Central Bank. See below two approaches based on the *Eurostat's* available data:

(a) data basing on 2015= 100;

(b) both registrations and bankruptcy declarations in each quarter, as compared to the previous quarter (%).

As for the above (a) approach, data show an upward trend of registrations for the 2015-2019 interval, then a decrease in 2020 due to the Covid crisis' impact on firms' activities. Then, easy to explain the first two 2020 quarters' lack of registrations, i.e., temporary closure or just the absence of authorities responsible during pandemic, facts delaying such formalities. The lowest firms' registration number came for Q2/2020, when -20%, then in the next Q3/2020 it rose to +20%, both as compared to the basic 2015 year average. Since Q3/2020 to the present day new firms' registration came back to the previous pre-pandemic levels and even overpassed them, as seen in Figure 3. Also note that, according to the Eurostat methodology, data here provided are supposed to be seasonally adjusted and were calculated based on an average of the quarters of 2015.

Figure 3. The EU*: firms'/working units' registration by quarters between Q1/2015 and Q2/2022 (2015=100)



* EU member countries with available data.
 Source: the Eurostat/ seasonally adjusted data

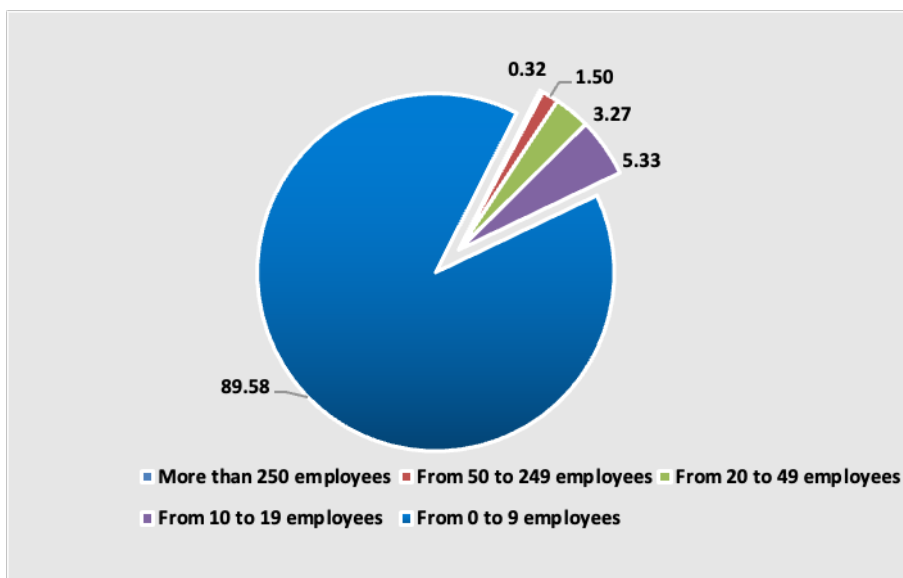
Then there comes the above (b) approach, by which the pandemic shock, then recovery from, are obviously better described – i.e., through percentage changings in registrations from one quarter to the next.

For the EU region (actually, without the Czech Republic, Cyprus, Latvia, Hungary, Austria, Finland and Sweden, with missing data) the most abrupt drops of registrations came up in Q1/2020, as compared to its previous Q4/2019 (-9%), and even more then, in Q2/2020, as compared to its previous Q1/2020 (-23%). For this last Q2/2020, against Q1/2020, the highest registrations' drops were in: Ireland (-44%), Spain (-43%), Portugal (-38.8%), Croatia (-35%), Italy and Luxembourg (-31% both).

3.2 Firms' registration in Romania

There were about 516 thousand enterprizes of nonfinancial sector in Romania at the 2019 year-end. These were 2.23% of the total of nonfinancial enterprises in the EU region. Most of these Romanian enterprises were the SME category (99.68%), the rest (0.32%) was filled by large over 250 employee enterprises. The special under 9 employee enterprises category is 89.5% of total (see Figure 4).

Figure 4. Romania: Enterprizes of the nonfinancial sector, according to the number of employees in 2019 (%)



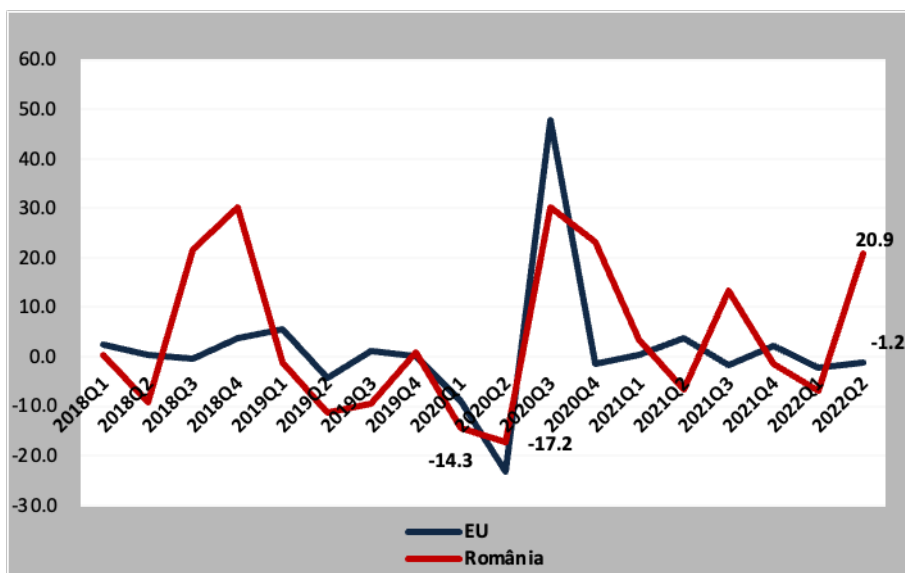
Source: Eurostat / Seasonally adjusted data

Lowering number of registrations in 2020 went also through Romania, at the same with the whole EU region. The entrepreneurs' appetite for business proved equally here affected by pandemic, its effects and related lockdown

days. Similarly to facts in the EU area, here the registrations’ dropping started in Q1/2020 by -14%, as compared to the previous Q4/2019 – i.e., recall that in the EU the same dropping was only -9%, as compared to the same previous quarter –, then in Q2/2020 by -17%, as compared to Q1/2020 – i.e., this time below the EU average of -23%. The next two Q3 and Q4 of the same 2020 in Romania then came to be similar evolving picture with that of the EU region (Figure 5). According to Eurostat, in the next 2021 firms’ registration figures fluctuated from one quarter to another, without a clear trend while, though, those negative results of pandemic never came back.

Here equally considering the most recent data, in the Q2/2022 end the registrations have risen by 20.9%, in the same order of comparing to the previous Q1/2022, and this was correspondingly the highest dynamic in the EU region. Besides, Romania seems to belong to the small group of EU member countries in which these registrations do follow an upward trend (see Figure 6), followed by far by Portugal (+7.7%), Slovakia (+6.7%), Slovenia (+4.6%), Croatia (+3.4%) and Bulgaria (+2.6%). All these countries in the group then recorded rises in registrations in the next Q2/2022, as compared to Q1/2022.

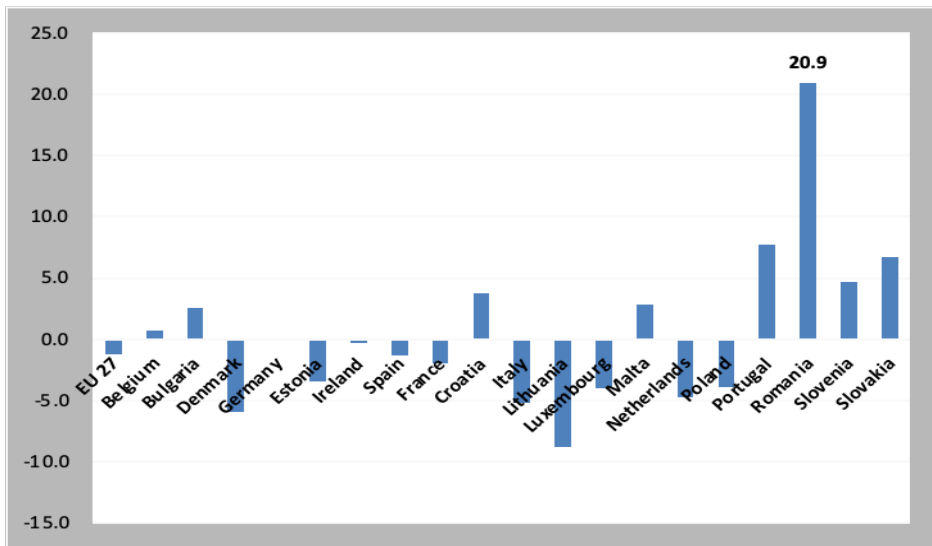
Figure 5. The EU & Romania: New firms’ & working units’ registration (%), as compared to the previous quarter period



Source: the Eurostat/ seasonally adjusted data

The rest of the EU member countries with such data reported actually recorded decreases in the firms' registration within the (-9%) and (-0.3%) interval. The lowest number of registrations in Q2/2022, as compared to its previous Q1/2022, were in Lithuania (-8.8%), Denmark (-5.9%), Netherlands (-4.7%), Luxembourg (-4%) and Poland (-3.9%).

Figure 6. EU: New firms'/working units' registration by country (%) ; Q2/2022, as compared to previous Q1/2022



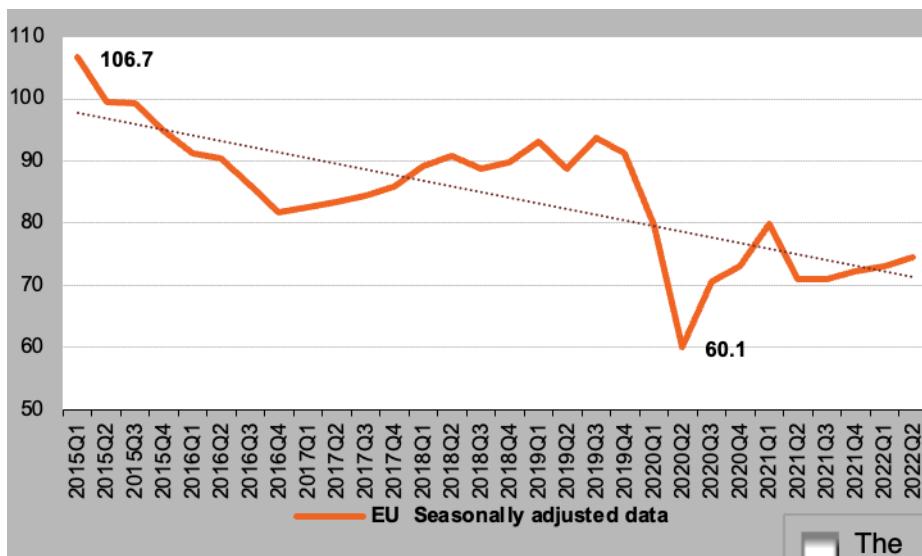
Source: the Eurostat/ seasonally adjusted data

3.3 Bankruptcy declarations in the EU and Romania

As for the nonfinancial enterprises' bankruptcies, a decreasing trend is to be seen for the whole EU along the 2015-2022 interval – i.e., while, on the contrary, some increase was supposed to be expected for the pandemic period. In context, recall from above that most EU member governments decided to delay administrative procedures related to bankruptcy and, instead, to financially support those firms to continue their activities.

In their decreasing trend of filing, the bankruptcy declarations in the EU were the lowest number in Q2/2020, -40%, as compared to those of 2015 – i.e. this was the imposed lockdown moment in the Covid-19 pandemic; registrations were downward sloping as well at that time (see Figure 7).

Figure 7. The EU: Bankruptcy declarations, as percentage of those in 2015



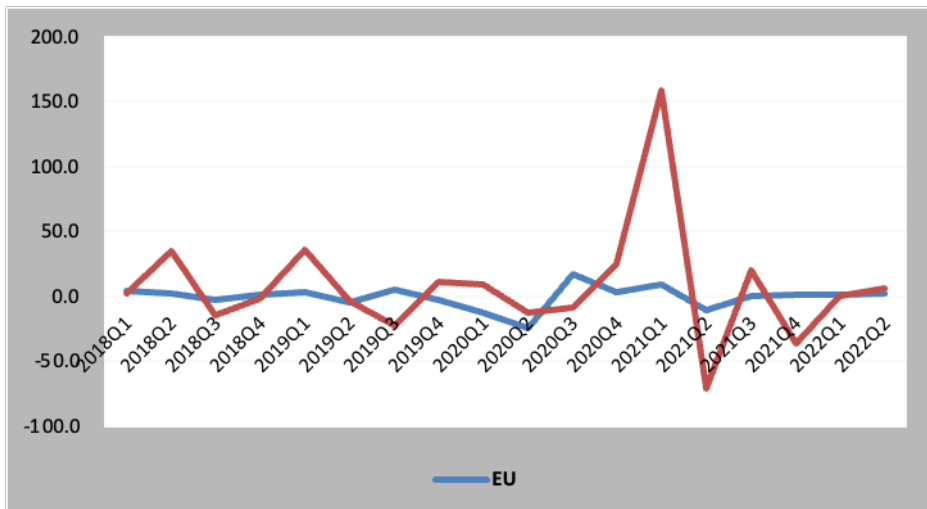
Source: the Eurostat/ seasonally adjusted data

According to the given procedure – i.e., applied to the previous quarters, as well – in Q2/2020, as compared to Q1/2020, bankruptcy declarations went down to their lowest level – i.e., -24%, as seen the Figure 8.

The same number of such declarations varies on individual EU member countries, as caused by law particularities and available government funding for business environment. But this government protection support for its home business environment came to be concomitant and concentrated nearly all over the region when the pandemic started and then went over in Q1 and Q2/2020 – i.e., and this might be enough for explaining what happened on the ground with bankruptcies and their specific declarations.

In Romania, on the other hand, the pandemic crisis’ start met rather delayed measures taken by the authorities, who then made the home business environment suffer – i.e., a lot of firms (economic operators) saw themselves forced to stop their activities, be it even partly. In fact, the existing at that time and formerly ruled procedures for firm’s insolvency was maintained up to May, 2020 – i.e., no more than 30 days from the *de facto* firm’s insolvency.

Figure 8. EU & Romania : Bankruptcy declarations, in percentages, as compared to the previous quarter



Source: Eurostat / Seasonally adjusted data

Then, on the 13th of May the Romanian Parliament voted on Law No 55/2020 related to “measures of preventing and fighting the Covid-19 pandemic’s effects”. This newly coming Law focused on both: (i) firms facing new financial problems during pandemic – e.g., on liquidities, on debts rising – and (ii) firms with such pre-existing problems at that time (i.e., since previously of the pandemic), both of these with the same insolvency type perspectives. Even the latter category of firms so was allowed to delay their declarations’ deposition up to 30 days after the alert period, as officially declared. The direct effects of such an authority reaction’s delay naturally lead to the declarations filing delay itself towards the 2020 year-end.

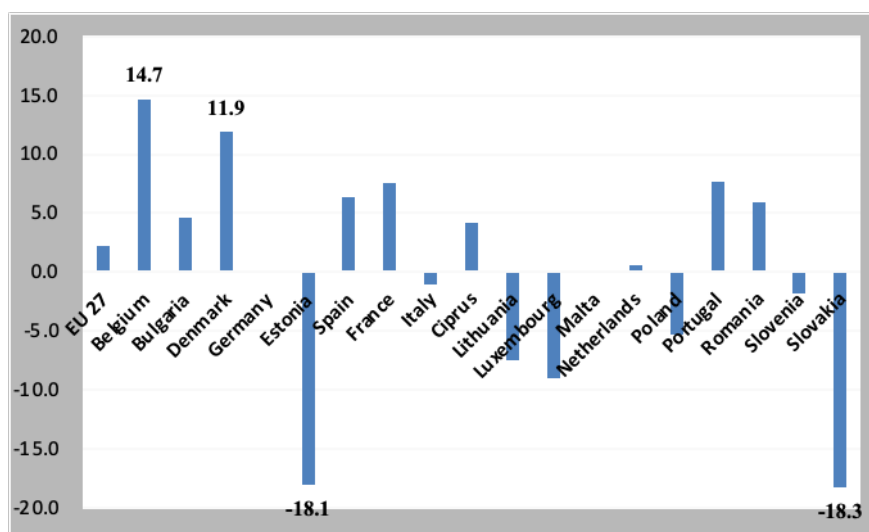
Indirectly, Romania was facing at that Q3/2020 time the highest bankruptcy index – i.e. as compared to the previous Q2/2020 – in the whole EU (+158%). And from this on, this index fluctuated between -70% (Q2/2021) and +5.9% (Q2/2022) without any trend actually reached.

But Romania was not such a unique case in context. Then, in Q3/2020 similarly abrupt increases of this index, as related to the previous Q2/2020, did come in other EU member countries: Cyprus(+175%), Italy(+160%) and Spain(+78%). Similarly for the next Q4/2020, as related to Q3/2020, in: Malta (+266%) and again in Cyprus(+257%). And similarly for the next following Q1/2020, as compared to Q4/2021, in Denmark(+186%) and Romania again (+158%).

Briefly, bankruptcies resulted from both the pandemic and its afferent lockdown, and restrictions were delayed only. And this happened in many countries. Actually, those bankruptcies might even have been stopped, but measures taken by governments proved insufficient – i.e. to cover specific losses due to the same pandemic impact -- too much delayed and/or not existing across the EU region – i.e. so directly causing those bankruptcies.

As one of the epilogues of pandemic, the most recent Eurostat data do show bankruptcies in the EU area growing by 2.2% in Q2/2022, as related to Q1/2022. In this quarter the highest bankruptcy growing percentages went to Belgium (+14) and Denmark (+11.9%); the opposite – i.e. highest decreases of bankruptcies – was for Slovakia (-18.3%) and Estonia (-18.1%), as seen in Figure 9.

Figure 9. The EU: Bankruptcy declarations in EU member countries, Q2/Q1 2022 (%)



Source: Eurostat / Seasonally adjusted data

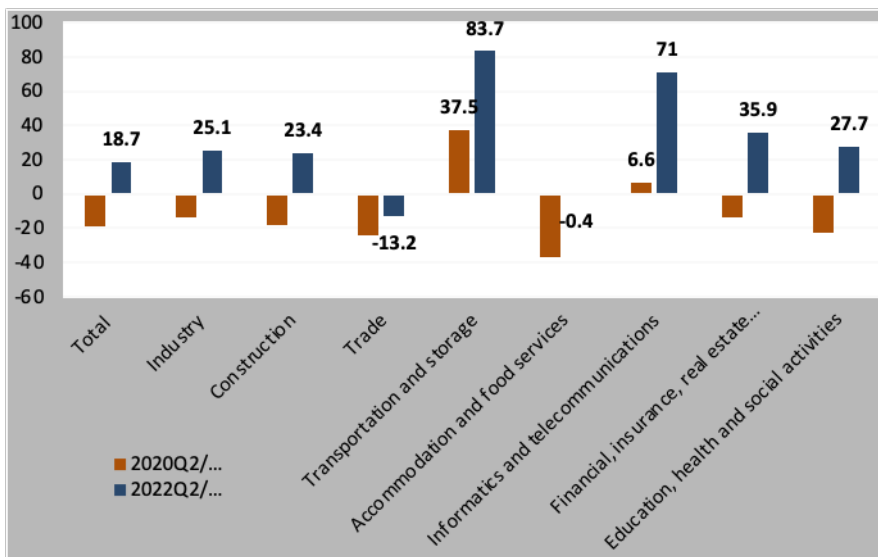
3.4 Firms' registration seen on individual economic activities in the EU area

Recall from above that the newly registered firms in the EU area came to their lowest level (on the basis of the 2015 average throughout the year) in Q2/2020 (i.e., -20%). Or, this was the direct result of happenings in sectors like: „accommodation and food services” – i.e., -37.2%, as also related to 2015 (=100) year average –, „trade” – i.e., -24%, in the same terms –, „education, healthcare and social services” – i.e., -22.6%, in the same terms – and „industry

and construction s” – i.e., -20%, in the same terms. However, let us not omit the opposite part of this picture coming in: ”transportation and storage” – i.e., +37.5%, in the same terms – and „computing and communications” – i.e., +6.6%, in the same terms.

Returning to the present moment, according to the latest data, in quarter 2 2022 there was a return to the pre-pandemic level of the number of the quarterly new companies registered in the sectors of the EU economy, with the exception of the “trade” and accommodation and food services sectors which at the end of Q2 2022 are still below the level of 2015 (Figure 10).

Figure 10. The EU: Firms’ registration on individual economic activities compared to 2015 year average (%)



Source: Eurostat / Seasonally adjusted data

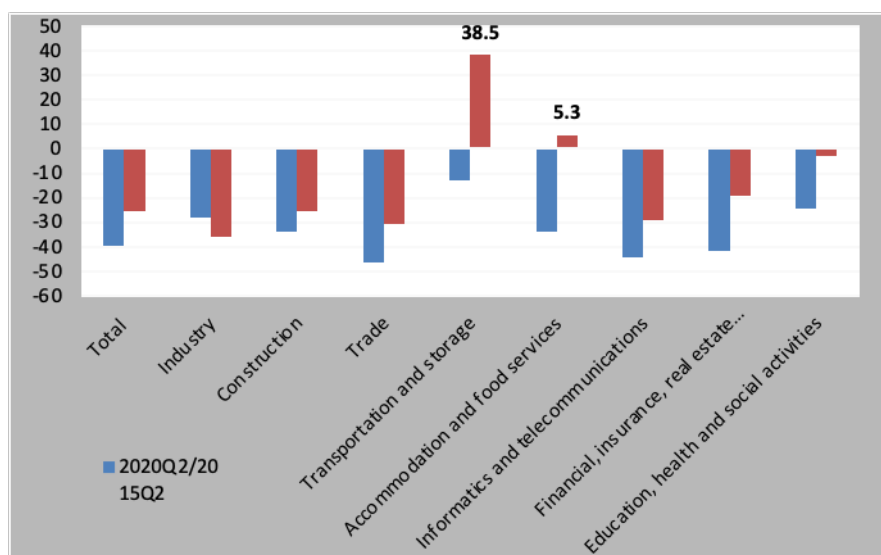
3.5 Firms’ bankruptcy declarations seen on individual economic activities in the EU area

The number of bankruptcy declarations’ evolving along the (whole) 2015-2022 years interval did follow decreasing trends in all economic sectors in the EU member countries. Interesting is that the pandemic, instead of embarrassing this, did the contrary – i.e., in the same sense of lowering bankruptcies. Here, at the same as in the registrations case, recall from above, here including Figure 4, the supporting measures taken by governments that caused the -40% difference of declarations in Q2/2020, as compared to the 2015

year average. Or, this overall percentage came from: “trade” – i.e., -46.5%, as related to the 2015(=100) year average –, „computing and communications” – i.e., -44.4%, as in the same terms –, „financial, insurance, real estate activities” and “professional and support services” – i.e., -41% on average, as in the same terms –, “constructions” and “accommodation and food services” – i.e., -34% on average, as in the same terms -- and finally “industry”, “education, health-care and social services” and “transportation and storage” – i.e., between -28% and -13% on averages, as in the same terms.

And back to the present here for the last time, see in Q2/2022 the come-back to the pre-pandemic levels on the bankruptcies side, as similarly to the ones of registrations, except for “transportation and storage” and „accommodation and food services”, in which bankruptcies started rising by 38.5% and 5.3% respectively, as related to the 2015 year average. See Figure 11.

Figure 11. The EU: Firms’ bankruptcy declarations, on individual economic compared to 2015 year average (%)



Source: Eurostat / Seasonally adjusted data

4. Conclusions

In both theory and historical facts, recessions associate with firms’ insolvencies and bankruptcies. *Insolvency* – i.e., *de facto* financial state of an enterprise unable of repaying debts in due time – and *bankruptcy* – i.e., the official firm’s declaration about impossibility of repaying debts to creditors

– are phenomena that soared during crises. When global financial crisis, insolvencies are likely to multiply, while, however, in this recent pandemic crisis – i.e., be it more profound and not only financial or economic – things appeared a little different(ly) – insolvencies and bankruptcies didn't rise as immediately, as in ordinary financial crisis context. Actually, bankruptcies and insolvencies seemed rather stable amounts during this crisis (Claeys et. al., 2021).

As a response to the Covid-19 crisis, governments preferred to support the companies' activities and to take exceptional as well as temporary legal measures to prevent bankruptcies. For instance, in Germany, France and Spain, the firms' obligation to declare insolvency in limited while after such facts occurred has been temporarily suspended – i.e., such a special kind of measures then came to be lifted at the end of the emergency state declared. Economic blockages provoked by the cessation of activities during the pandemic specific restrictions hit equally sectors/enterprises that had been viable/performing before the crisis and for which risk factor was rather missing at that time. Besides, virulence and rapidity with which the pandemic spread and the measures (that had to be) urgently taken made it extremely difficult to distinguish between viable enterprises in difficulty and non-viable ones. Measures taken in order to avoid the liquidation of viable firms also created opportunities to survive for the other category of firms, the non-viable ones. Inefficiency of financial and the other resources' allocation – i.e. to less productive enterprises and activities – did contribute to slowing down the economic growth (Claeys et. al., 2021).

On the other hand, too early stopping the government support wouldn't be desirable, in its turn, due to the same risk of condemning the “good” stuff to be just “sorted out”. Firms closed mean at least: workers licenced, jobs lost, consumption shortage and, for the national budget, less revenue from wage taxes and more unemployment benefits to pay for. Here recall from the above text Romania's case (and not only) for just delaying bankruptcies due to the pandemic crisis to the 2020 year end. Despite those weaknesses in measures taken, the country proved capable of some economic recovery in Q3/2020, be it a partial one, but remarkable in sectors where it was recorded.

As for the firms' registration in some of the EU member countries during the pandemic period, this equally saw itself forced to delay to Q3/2020, so proving that the same pandemic crisis stayed far from being able to “kill” the entrepreneurial spirit. Then, at present (i.e., in 2022) the registrations' recovery is real, but still timid in the EU region – i.e. there still are member countries with registrations' decreasing (i.e. between 0.3% and even 9%), as delayed from that pandemic time.

Finally, Romania is the country-case with the highest rising firms' registration pace in Q2/2022, as compared to Q1/2022, in the region, here adding its trend of increase as such that stays common to just a few numbers of EU member countries.

References

- Claeys, G., et al. (2021). Corporate insolvencies during COVID-19: keeping calm before the storm', *Bruegel Blog*. [online] Available at: <https://www.bruegel.org/blog-post/corporate-insolvencies-during-covid-19-keeping-calm-storm> [Accessed September 2022].
- Clark, D., et al. (2021). Business enterprises in Europe - Statistics & Facts, [online] Available at: https://www.statista.com/topics/8428/business-enterprises-in-europe/#topicHeader__wrapper [Accessed September 2022].
- DCED - Donor Committee for Enterprise Development (2008). Business Environment Reform [online] Available at: <https://www.enterprise-development.org/implementing-psd/business-environment-reform/> [Accessed September 2022].
- Eurostat (2020a). GDP and employment flash estimates for the first quarter of 2020, [online] Available at: <https://ec.europa.eu/eurostat/documents/2995521/10545332/2-14082020-AP-EN.pdf/7f30c3cf-b2c9-98ad-3451-17fed0230b57?t=1597390805000> [Accessed September 2022].
- Eurostat (2020b). GDP main aggregates and employment estimates, [online] Available at: <https://ec.europa.eu/eurostat/documents/2995521/10545471/2-08092020-AP-EN.pdf/43764613-3547-2e40-7a24-d20c30a20f64?t=1600275872000> [Accessed September 2022].
- Eurostat (2020c). GDP and employment flash estimates for the third quarter of 2020 [online] Available at: <https://ec.europa.eu/eurostat/documents/2995521/10662173/2-13112020-AP-EN.pdf/0ac3f053-f601-091d-ea21-db1ecaca7e8c?t=1605259815000> [Accessed April 2022].
- Eurostat (2020). Increase in business registrations and bankruptcies in the EU [online] Available at: <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20210201-1> [Accessed April 2022].
- Eurostat (2021). Key figures on European business Corselli-Nordblad, L.(editor), Strandell, H.(editor), *Publications Office of the European Union*, Available at: <https://data.europa.eu/doi/10.2785/82544>.
- Eurostat (2022a). Experimental statistics.Why do we need quarterly statistics on registrations of new businesses and declarations of bankruptcies?[online] Available at: <https://ec.europa.eu/eurostat/web/experimental-statistics/quarterly-registrations-and-bankruptcies> [Accessed September 2022].

- Eurostat (2022b). Quarterly registrations of new businesses and declarations of bankruptcies -statistics. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Quarterly_registrations_of_new_businesses_and_declarations_of_bankruptcies_-_statistics [Accessed September 2022].
- Meunier, F. et al. (2022). How did the COVID-19 pandemic influence the pace of new business formation? [online] Available at: <https://blogs.worldbank.org/developmenttalk/how-did-covid-19-pandemic-influence-pace-new-business-formation> [Accessed April 2022].
- OECD (2021). Business dynamism during the COVID-19 pandemic: Which policies for an inclusive recovery? *OECD Policy Responses to Coronavirus (COVID-19)*, OECD Publishing, Paris, <https://doi.org/10.1787/f08af011-en>.
- European Justice (2022). Insolvency/bankruptcy. [online] Available at: <https://e-justice.europa.eu/447/EN/insolvencybankruptcy>[Accessed September 2022].