

THE IMPACT OF TAX INCENTIVES ON THE PERFORMANCE OF THE CONSTRUCTION SECTOR IN THE CONTEXT OF THE COVID-19 PANDEMIC

Maria Zenovia GRIGORE*

Iuliana UȚĂ**

Abstract

The construction sector plays a key role in the economic development of a country, providing not only essential infrastructure, but also many jobs. In this context, the Romanian government has implemented in 2019 a series of fiscal measures aimed at stimulating growth and ensuring the financial sustainability of this crucial segment. The objective of this paper is to establish whether wage tax reductions for construction employees have contributed to economic growth, whether these tax incentives have provided the necessary support for the pursuit of the construction sector business during the Covid-19 pandemic and to what extent the managers of companies in this sector have been able to protect and even develop their business under these conditions. Macroeconomic analysis of the construction sector in Romania based on data provided by the National Institute of Statistics shows that these tax incentives have had a positive impact on the activity of construction companies. Annual increases in turnover, average number of employees and number of companies in the construction sector have occurred in each year of application of the tax facilities, although the COVID-19 pandemic slowed down the pace of growth in 2020 and 2021. Even though many firms closed down or became insolvent due to the pandemic in 2020 and 2021, the construction sector in Romania generated the highest share of Gross Value Added (GVA) compared to the rest of the EU in 2022. The analysis carried out in the second part of this paper focused on the financial performance of five companies in the specialised construction sector (NACE code 4399) and showed significant increases in profitability and labour productivity in the period 2019-2022. The managers of these companies took full advantage of the tax facilities and managed to develop their business during this period, securing a stable position in the Romanian construction market.

Keywords: tax incentives, Covid-19 pandemic, profitability, rates of return, labour productivity.

1. Introduction

In 2018, the construction sector in Romania was adrift, with contractors in the sector facing a lack of manpower and financial liquidity and implicitly, a reduced capacity to undertake works and thus contribute to public and private investments. In this economic context and considering the revolt of the Construction Employers, GEO no. 114 was adopted at the end of 2018, through which the Government adopted tax measures aimed at recovering this branch of the economy. Although the construction sector was declared a priority for a 10-year period and the facilities provided in the form of salary tax reductions for construction employees were promised until 2028, some of these were eliminated as from 2023.

The objective of this paper is to underline the role the tax incentives played during the period of their application, whether they provided the necessary support for the pursuit of the construction sector business during the Covid-19 pandemic and to what extent the managers of the companies managed to protect and even develop their business under these conditions.

The impact of tax incentives on the financial performance of the Romanian construction sector during the timeframe 2019-2022, marked by the Covid-19 pandemic, is analysed from two perspectives: macroeconomic and microeconomic. The macroeconomic analysis of the activity in the construction sector in Romania under the impact of the tax incentives implemented since 1 January 2019 is based on data provided by the National Institute of Statistics. The study carried out in 2019 outlines that these incentives had a positive impact on the activity of

* Associate Professor, PhD, Faculty of Economics and Business Administration, „Nicolae Titulescu” University of Bucharest (e-mail: mgrigore@univnt.ro).

** Postgraduate student, Master’s program „Accounting management, audit and accounting expertise”, Faculty of Economics and Business Administration, „Nicolae Titulescu” University of Bucharest (e-mail: iulianam40764@univnt.ro).

construction companies: total turnover increased by 27.4% related to 2018, the average number of employees increased in one year by 37,843 and the number of companies in the construction sector increased by 7.37%, all these contributing to an increase in the share of this sector in Romania's GVA from 6.6% in 2018 to 7% in 2019. Annual increases in these indicators also occurred during the following period, although the COVID-19 pandemic slowed the pace of growth in 2020 and 2021.

The microeconomic analysis carried out in the second part of the paper focused on the financial performance of five companies chosen from Top Business Romania 2023 and Top Business Bucharest 2023 in the construction sector - NACE code 4399, considering that large companies have a high potential for carrying out public investment projects, thus contributing more to the development of the national economy. Based on the financial information of these companies, taken from www.risco.ro, we calculated and analysed the evolution of economic, financial and commercial rates of return and labour productivity during the timeframe 2018-2022, using the comparison method. It points out a significant increase in rates of return in 2019 compared to 2018, a downward trend in 2020 and 2021, both due to the challenges brought by the pandemic and the increase in construction material and fuel prices, followed by a further increase in financial performance in 2022. It results from this analysis that payroll tax relief has been instrumental in increasing the profitability of construction companies during the timeframe 2019-2022.

2. Tax incentives granted in the construction sector, from GEO no. 114/2018 to Act no. 296/2023

At the end of 2018, the construction sector became a priority for the government programme, as in recent years the sector has been facing difficulties in providing skilled labour and unfair competition. This led to a decrease in the average number of employees during the timeframe 2016-2018 by 2%, *i.e.*, around 8,000 people¹. At the same time, turnover in the construction sector was declining and more and more companies went out of business.

Under these circumstances, the Romanian Government gave in to pressure from the employers of construction companies and, on 29 November, an agreement was signed for the adoption of sustainable growth measures based on investment over a 10-year period, declaring the construction sector to be a "priority of national importance for the Romanian economy"².

Thus, on 28 December 2018, GEO no. 114 was adopted, which established for employees in the construction sector the increase of the minimum wage and certain tax incentives, valid as from 1 January 2019. These incentives are granted only for salaries obtained from employers with a turnover obtained from the construction sector representing at least 80% of the total turnover. Given that the minimum gross basic salary in 2019 was RON 2,080, GEO no. 114/2018 established a minimum gross wage for the construction sector, not including bonuses and other allowances, of RON 3,000 per month, for normal working hours on average 167.333 hours per month, representing RON 17.928/hour³. At the same time, for gross salary income and similar income between RON 3,000 and RON 30,000, employees benefited from an exemption from paying 10% tax on salaries and 10% health insurance contribution (CASS), as well as a reduction in the public insurance contribution (CAS) rate by 3.75 p.p., from 25% to 21.25%⁴.

At the end of 2022, by GEO no. 168/08.12.2022, the minimum gross basic salary for the construction sector was increased to RON 4,000 per month, for normal working hours comprising on average 165.333 hours per month, for the timeframe 1 January 2023-31 December 2028⁵. At the same time, the maximum salary limit for which facilities are granted was lowered from RON 30,000 to RON 10,000. This change has caused dissatisfaction among employers in the construction sector, as the taxation of salaries above RON 10,000 has been implemented during a period of time when construction materials were on the rise and during the winter period when work in this sector was fewer and harder to carry out due to bad weather.

At the end of October 2023, Act no. 296/2023 is published in the Official Gazette, which provides that as of 1 January 2024, employees in the construction sector „benefit from the reduction of the public insurance contributions (CAS) by the percentage points corresponding to the contribution rate to the privately

¹ <https://federatiaconstructorilor.ro/files/docs/AcordConstructiiFPSC-GuvernulRomaniei.pdf>.

² https://static.anaf.ro/static/10/Anaf/legislatie/OUG_114_2018.pdf.

³ GEO no. 114/2018.

⁴ M. Grigore, V. Ștefan-Duicu, *Fiscalitate*, Publishing House of the „Nicolae Titulescu” University, Bucharest, 2023.

⁵ <https://legislatie.just.ro/Public/DetaliiDocumentAfis/262353>.

administered pension fund provided in Act no. 411/2004 - 4.75.”⁶ Thus, the CAS rate withheld from salary income changes from 21.25% to 20.25% as of January 2024. Although the construction sector was declared a priority sector for a 10-year period and the facilities granted by GEO no. 114/2018 were promised until 2028, at the end of October 2023, Act no. 296/2023 repealed art. 154 para. (1) letter (r), *i.e.*, beginning with November 2023 income, employees in the construction sector no longer benefited from the 10% CASS exemption. Act no. 296/2023 also provides that the wages tax exemption and the reduction of the CAS rate will apply only to the place where the employees’ basic function is located.

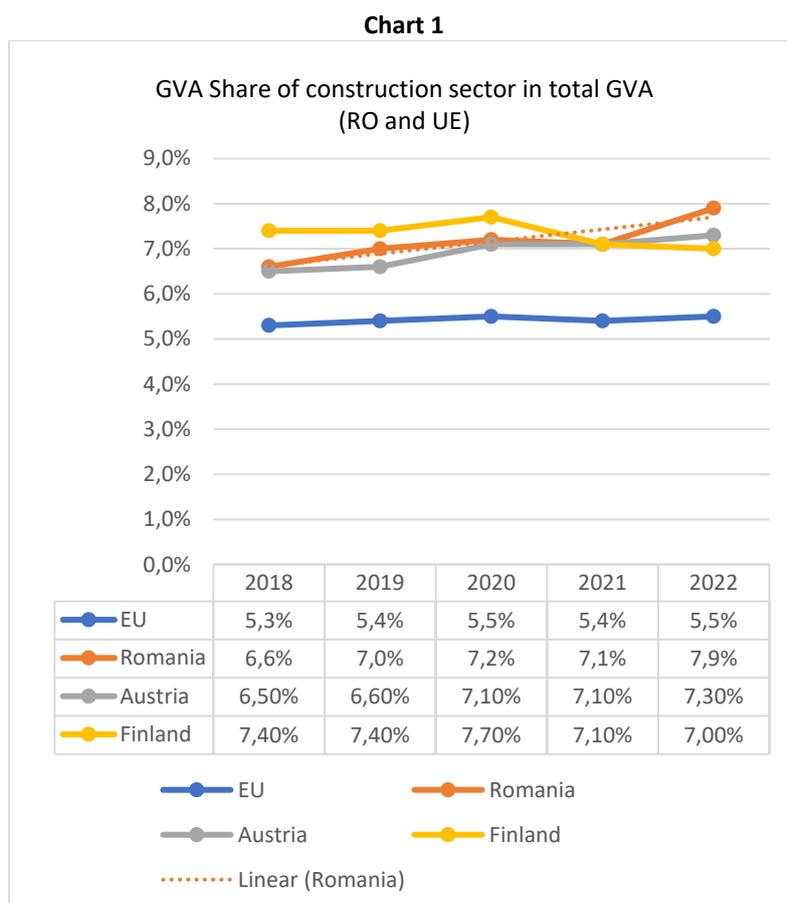
By GEO no. 93/31.10.2023, the Government increased again the minimum salary for the construction sector from RON 4,000 to RON 4,582 per month for normal working hours averaging 165.333 hours per month, representing on average RON 27.714/hour.

This progressive phasing out of facilities granted to employees in the construction sector comes in an unstable political climate, with rising prices for fuel and the main materials used in this sector, due to the war in Ukraine, which was one of the main suppliers of iron to our country.

3. Impact of tax incentives on construction activities in Romania

A way to measure the growth of the construction sector as an impact of the facilities applied during the timeframe 2019-2022 is through GVA, generated by this economic activity as a share of total GVA.

In 2018, the share of this sector in total GVA was 6.6% in Romania, while the EU average was 5.3%. In Romania, the value of this branch of the economy has increased every year, reaching in 2022, pursuant to data provided by Eurostat (chart 1), the highest share in GVA in comparison with the rest of the European Union, namely 7.9%, followed in second place by Austria with a share of 7.3% and in third place by Finland with 7.0%, while the EU average is 5,5%.



Source: Eurostat Housing in Europe - 2023 interactive edition - Eurostat (europa.eu)

⁶ https://static.anaf.ro/static/10/Brasov/Brasov/contributii_296_nou.pdf.

In order to analyse the impact of the tax incentives applicable from 2019 on the construction sector, we will analyse the evolution of the turnover, the number of employees and the number of companies in this sector as from 2018 (when no tax relief was applied) to 2022. The period analysed covers three distinct stages of the Covid-19 pandemic: pre-pandemic, pandemic and post-pandemic.

3.1. The impact of tax incentives on sales in the construction sector in Romania

According to the NIS, in 2019, the first year when tax incentives in the construction sector were granted, turnover increased by 27.4% compared to 2018 (Table 1).

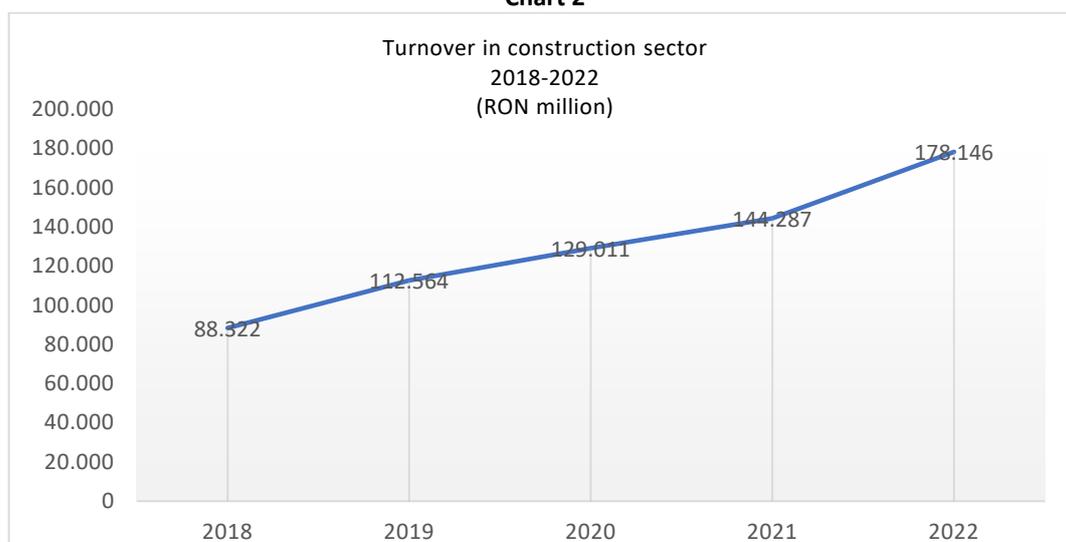
Table 1. Total turnover in construction sector in Romania

Year	Turnover in construction (RON million)	Relative change N/(N-1)
2018	88,322	-
2019	112,564	27.4%
2020	129,011	14.6%
2021	144,287	11.8%
2022	178,146	23.5%

Source: NIS Press release template (*insse.ro*)

Throughout the period of tax relief, turnover increased year-over-year, even though the growth rate during the timespan 2020-2022 was slower than in the first year with tax relief (Chart 2).

Chart 2



Source: NIS Press release template (*insse.ro*)

3.2. Impact of tax incentives on the number of employees in the construction sector in Romania

In compliance with the data provided by NIS, in 2019 the average number of employees increased by 39,921 compared to 2018 (Table 2).

Table 2. Annual increase in the average number of employees

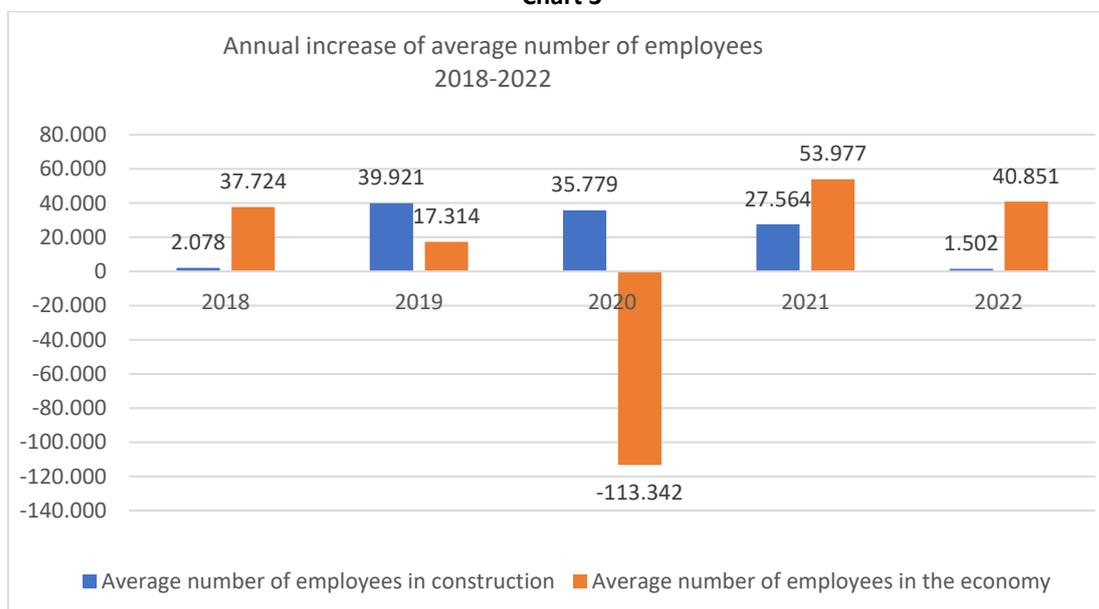
Year	Employees in construction		Total number of employees in the economy	
	Average no.	Absolute change N/(N-1)	Average no.	Absolute change N/(N-1)
2017	354,191	-	4,082.296	-
2018	356,269	2,078	4,120.020	37,724
2019	396,190	39,921	4,137.334	17,314
2020	431,969	35,779	4,023.992	-113,342
2021	459,533	27,564	4,077.969	53,977
2022	461,035	1,502	4,118.820	40,851

Source: NIS Press release template (insse.ro)

The increase in the minimum wage and tax relief have improved competitiveness among construction companies, which have increased their activity, leading to an increase in the contribution of this sector to the total economy in a troubled and particularly difficult period. The construction sector, together with the IT sector, became the engine of the Romanian economy during the pandemic.

Following the implementation of facilities pursuant to GEO no. 114/2018, construction is one of the few sectors of the economy where the average number of employees has increased year over year after 2019, even during the pandemic period. The tax incentives provided have made the development dynamics of this sector in 2020 to be contrary to that of the economy, as can be seen in Chart 3.

Chart 3



Source: NIS Press release template (insse.ro)

The reduction in taxation of salary income has also brought a change in the way of thinking of workers in this industry, who have begun to look for Romanian companies instead of those from the EU. Thus, one of the effects of the tax incentives has been to stabilise the existing labour force, decrease the number of workers going abroad and even the return to Romania of those in this sector.

In early March 2020, when the COVID-19 pandemic locked people in their dwellings and limited travel, many Romanians working abroad decided to return home, scared of the unknown. Some of them looked for jobs with Romanian construction companies, attracted by the increased salary income resulting from tax cuts.

During the pandemic period, when the hotel and catering sector was collapsing and many of the service companies on the market went out of business, both skilled and unskilled labour force was needed in construction. While the slogan „stay at home if you care” was on everyone’s lips and being widely used in the media as a form of protection against the COVID-19 virus, construction company owners were looking for ways to complete contracts they had started and needed people to work on the sites.

The state of emergency in the pandemic brought new challenges and construction companies had to adapt to the new rules that were changing from week to week, forcing the sector to face a new deadlock. As regards the employees working on construction sites across the country, companies had to look for new ways to protect and incentivise them to stay active but healthy. Most companies chose to stay in business, with managers taking responsibility to their workers and to the authorities.

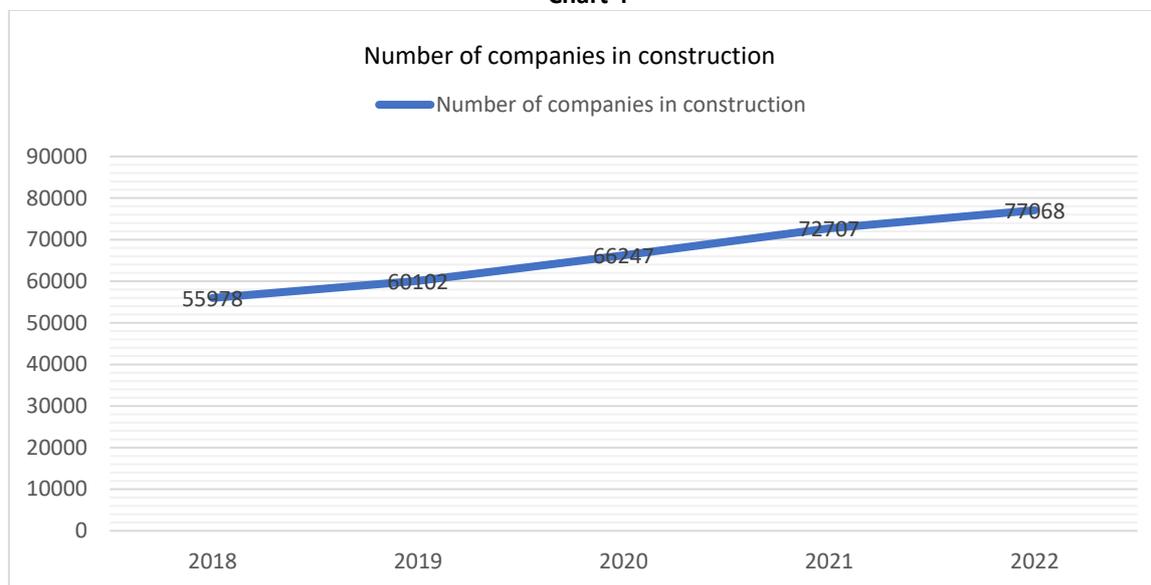
The impact of the COVID-19 pandemic on the construction sector can be seen in the uncertainty of business development, but tax incentives, digitisation programmes implemented by the authorities and private investment contributed to the economic recovery of this sector in Romania.

3.3. Impact of tax incentives on the number of companies in the construction sector in Romania

Pursuant to the National Institute of Statistics, the number of companies in the construction sector increased from 55,978 in 2018 to 77,068 in 2022 as indicated in Chart 4.

The tax incentives provided by GEO no. 114/2018 kept this branch in continuous activity even during the pandemic period, when other companies went out of business. A necessary measure for the pursuit of the business was to adapt the way of working on construction sites to the new rules of protection and social distancing. Companies had to invest money in efficient equipment and sanitary protective materials, disinfectants and change the organisation of work on the site, respecting social distancing and not allowing people to swap between sites. With all these measures, many construction companies suffered financial losses, being unable to meet deadlines, lost contracts due to a lack of employees who were either ill or quarantined and unable to attend sites.

Chart 4



Source: https://insse.ro/cms/sites/default/files/com_presa/com_pdf/actv_intrep_2022r.pdf

In addition to staffing problems, companies were also faced during the pandemic with problems in delivering the materials imported and subsequently, with their prices rising at an alarming rate. Rising prices for building materials and fuel contributed to a fall in profits for the companies in this sector. Ensuring financial liquidity was another real issue during this time span, leading to major delays and even suspension of activity.

The evolution of the construction sector over the timespan 2018-2022 is summarised in Table 3.

Table 3. Evolution of construction sector during timeframe 2018-2022

	Indicators	Unit of measurement	2018	2022	Absolute change (2022/2018)	Relative change (2022/2018)
1.	Number of enterprises	number	55,978	77,068	21,090	37.68%
2.	Average number of employees	persons	356,269	461,035	104,766	29.41%
3.	Turnover	RON million	88,322	178,146	89,824	101.70%
4.	Gross result for the year	RON million	9,755	22,068	12,313	126.22%
5.	Gross investments	RON million	18,873	41,047	22,174	117.49%
6.	Gross value added	RON million	26,139	55,857	29,718	113.69%

Source: NIS

Between 2018 and 2022, the number of businesses in the construction sector increased by 37.68%, leading to an increase in the average number of employees in this sector by 29.41%. We may definitely state that the tax incentives granted have reduced undeclared work and thus in 2022 the average number of employees reached 461,035 people.

Turnover in the construction sector has increased pursuant to data posted on the NIS website by more than 100% during the last 5 years.

The 117.49% increase in gross investment in this sector is reflected in a gross result for the financial year 2022 that is RON 12,313 million higher than in 2018.

4. Evolution of the financial performance of companies in the specialised construction sector (NACE code 4399) during the timespan 2018-2022

The NACE code 4399-Other specialised construction activities class represents about 0.15% of the total number of economic agents in Romania⁷. This class includes specialised construction activities comprising: geotechnical and hydrogeological studies and surveys; construction of foundations; construction of piles, micropiles, braces and injections for land reinforcement and improvement; design and performance of underground water supply; insulation works; rental of cranes and construction equipment for general use with operators; construction of uncovered swimming pools, etc.

The turnover, net profit and number of employees for the 10 largest Romanian companies in this sector in 2022 are listed in Table 4, in descending order by turnover.

Table 4. Main competitors in the specialised construction sector in Romania

	Company	Turnover (RON)	Net profit (RON)	No. of employees
1	Activ Group Management SRL	245,598,906	85,387,412	485
2	Maristar SRL	196,853,373	37,580,270	195
3	Electro Vest SRL	147,779,136	7,263,698	159
4	Deme Macarale SRL	85,620,328	10,513,439	177
5	Presto Steel Construction SRL	82,248,369	1,391,868	34
6	77 Insat Ve Taahhut SA Istanbul Suc Constanta	76,068,000	9,899,034	31
7	Mega Edil SRL	75,589,827	12,451,634	90
8	S.U.C.P.I SA	67,707,127	3,471,863	203
9	Kronstarr BAU Company SRL	67,082,015	3,317,124	41
10	Freyrom SA	62,396,842	8,240,188	64

Source: www.risco.ro

At national level, Activ Group Management is the leading company with a 41% increase in turnover in 2022 compared to 2021 and a net profit of RON 85,387,412, with 485 employees.

⁷ <https://www.topfirme.com/caen/4399>.

As it may be seen in Table 5, at the level of the Municipality of Bucharest, Union General Construct is in first place, with a net profit of 26,842,497 RON in 2022, with only 14 employees. According to data published by *risco.ro*, this company achieved an increase in turnover in 2022 of 5165% compared to the year 2021.

Table 5. Main competitors in the specialised construction sector in Bucharest

	Company	Turnover (RON)	Net profit (RON)	No. of employees
1	Union General Construct S.A	30,686,051	26,841,497	14
2	Recon si Doje SRL	29,653,789	3,492,461	135
3	Trustul pt servicii cu utilaje diverse SRL	27,761,328	1,797,630	174
4	Allspace Interiors SRL	18,246,033	4,345,677	23
5	Geosond SA	18,164,150	3,424,901	51
6	Calitek Group SRL	17,298,869	552,416	36
7	Grit Constructii Lucrari Speciale SRL	16,873,242	828,519	13
8	Trylon TSF SRL	15,627,334	2,384,256	96
9	WTM Group Montaj SRL	18,831,038	2,531,047	61
10	Dewatering& Silent Piling SRL	14,327,343	2,069,894	17

Source: *www.risco.ro*

In order to study the profitability of companies in this construction sector and its evolution during the period 2018-2022, we have chosen a sample of 5 companies from Tables 4 and 5, direct competitors in the country and in Bucharest, in compliance with the following criteria:

- based on the specifics of the activity, pursuant to the main works carried out, in order to cover the whole range of activities specific to NACE code 4399;
- participation in tenders for the implementation of investment projects financed by the Romania's National Recovery and Resilience Plan or the European multiannual budget;
- at least 10 years' experience on the Romanian market.

The 5 companies we will analyse in terms of turnover, net profit or loss and return rates are:

a) ACTIV GROUP MANAGEMENT SRL, the main competitor in the whole country on NACE 4399 class - main activity rental of equipment and machinery for construction works, with operators (1st place in Top Business Romania 2023 and 1st place in Top Profit Romania 2023, NACE code 4399);

b) GEOSOND SA - design and performance of geotechnical works applied to construction, geological-technical research, exploration and use of underground mineral resources (1st place in Top Business Romania 2023, sector 6 Bucharest, NACE code 4399);

c) MEGA EDIL SRL - water supply works, sewerage, water treatment and purification plants, road rehabilitation and asphalt works, land improvement works (1st place in Top Business Romania 2023, for Buzău county, NACE code 4399);

d) FREYROM SA - construction of bridges and passages, renovation and consolidation of works of art (1st place in Top Business Romania 2023, sector 3, Bucharest, NACE code 4399);

e) CALITEK GROUP SRL - commercial, industrial, medical, office and high-profile residential projects, mechanical, electrical and sanitary construction services - MEP Engineering (2nd place in Top Business Romania 2023, for Small Enterprises, sector 2, Bucharest, NACE code 4399).

In order to measure the economic-financial performance of these companies, we will calculate the following ratios and indicators that allow a systematic analysis of the management at a given time, but also in its evolution over a period of several successive years, providing appropriate information on the causes and effects of changes⁸:

$$\text{Return on Assets Ratio: ROA} = \frac{\text{Net Income}}{\text{Average Total Assets}} \times 100$$

$$\text{Return on Equity Ratio: ROE} = \frac{\text{Net Income}}{\text{Average Shareholders Equity}} \times 100$$

⁸ M. Grigore, V. Ștefan-Duicu, *Managementul financiar al firmei*, Publishing House of the „Nicolae Titulescu” University, Bucharest, 2024.

$$\text{Return on sales: ROS} = \frac{\text{Net Income}}{\text{Turnover}} \times 100$$

$$\text{Labour productivity: WP} = \frac{\text{Turnover}}{\text{Number of employees}} \times 100$$

a) Analysis of the financial performance of ACTIV GROUP MANAGEMENT SRL

The company Activ Group Management SRL, which ranks first at national level among the companies with NACE code 4399, has recorded an increase in turnover of RON 214,225,811 during the timespan 2018-2022 and an increase in the number of employees from 45 people in 2018 to 485 people in 2022. The company went from a micro-entity to a large company with more than 400 employees in 5 years. Although the net result has increased every year, the rates of return have decreased due to investments made by the company management in machinery. Equity increased from RON 741,419 in 2018 to RON 86,587,772 in 2022, a very large increase for this period with pandemics and political instability (Chart 5). 2021 was the hardest year for Activ Group Management, the return on assets ratio was 19.06%, the lowest level during the whole period under analysis. The return on equity ratio also decreased in 2021 by 6.66 p.p. compared to 2020, reaching to 84.47%, the lowest level during the whole period 2018-2022. Even if the trend is downward, we still note high levels of the rates of return throughout the period analysed, especially in the case of the return on equity ratio which varies between 84.47% (in 2021) and 224.84% (in 2018).

Chart 5



Source: own processing based on financial data posted on www.risco.ro

In terms of labour productivity (Table 6) we notice a downward trend in the first 3 years of the tax relief implementation, which was due to a higher rate of growth in the number of net employees than in turnover. For instance, in 2019 the number of employees increased by 4.3 times and turnover by 3.6 times. However, we notice an increase in labour productivity in 2022 compared to 2020 and 2021.

Table 6. Labour productivity of Activ Group Management SRL

Year	2018	2019	2020	2021	2022
Labour productivity (RON/employee)	697,180	584,693	489,564	440,213	506,389

Source: own processing based on financial data posted on www.risco.ro

b) Analysis of the financial performance of GEOSOND SA

GEOSOND SA, 1st place in Top Business Romania 2023, sector 6 Bucharest, NACE code 4399, has taken full advantage of the tax facilities that came into force on 1 January 2019 and this can be seen in the financial results obtained in the first year of their implementation.

Chart 6



Source: own processing based on financial data posted on www.risco.ro

Turnover increased by RON 5,633,973 in 2019 and net result by RON 1,798,252 compared to 2018. These increases led to a doubling of the return on sales and a tripling of ROA and ROE in 2019 compared to 2018, as shown in Chart 6. The effects of the pandemic are reflected in lower rates of return in 2020 and especially in 2021, when turnover and net profit fall significantly, as equity and total assets increase. Although ROA, ROE and ROS remain above 2018 levels in 2021, they fall to almost half of what they were in 2019. In 2022, the level of turnover increases by RON 3,130,977 compared to 2021 and by RON 4,501,702 compared to 2019. This leads to high values of all rates of return, the highest in the period under analysis. Labour productivity follows the trend of turnover (Table 7) increasing in each year, except in 2021 when the decrease in turnover by RON 2,730,636 leads to a decrease in labour productivity by RON 61,864/employee.

Table 7. Labour productivity of GEOSOND SA

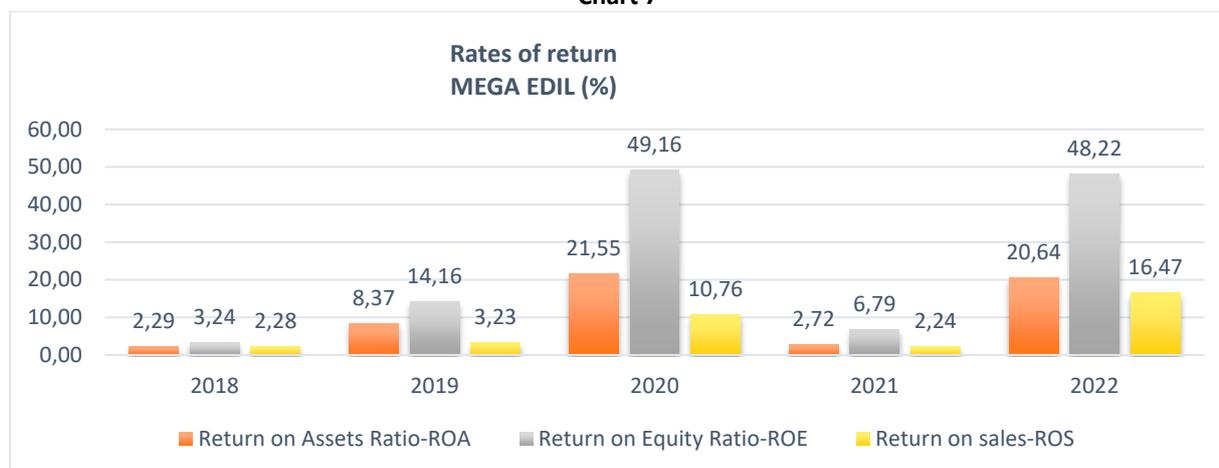
Year	2018	2019	2020	2021	2022
Labour productivity (RON/employee)	182,465	284,634	362,527	300,663	356,160

Source: own processing based on financial data posted on www.risco.ro

c) Analysis of the financial performance of MEGA EDIL SRL

MEGA EDIL SRL ranks 7th in the country ranking and 1st in Buzău County Top Business, according to NACE code 4399, with a turnover of RON 75,589,827 in 2022 and 90 employees. In 2019, the company had an increase of RON 1,554,4911 in its net result and the turnover increased 3.22 times compared to the previous year, reaching the amount of RON 61,619,299, which resulted in an increase in all rates of return in the first year of tax incentives implementation.

Chart 7



Source: own processing based on financial data posted on www.risco.ro

In compliance with Chart 7, the highest values of the rates of return are recorded in 2020: the return on equity ratio is 49.16% (compared to 3.24% in 2018 and 14.16% in 2019), the return on assets ratio is 21.55%, 19.26 p.p. higher than in 2018, while the return on sales is 10.76%, 4.7 times higher than in 2018. The challenges posed by the COVID-19 pandemic are reflected in the financial results of 2021, when due to rising material prices and fuel price increases, the company is forced to reduce the number of employees from 119 to 105. The net result decreases by RON 7,557,001 compared to 2020, the rates of return also decreasing, approaching the level of 2018. In 2022, the company management succeeded in reducing the value of debts, increasing the equity by RON 6,532,229 and the net result reached the highest value in the whole period under analysis, namely RON 12,451,634. This leads to a spectacular increase in all rates of return. While ROA and ROE are about 1 p.p. lower than in 2020, the return on sales reaches the maximum of the period, 16.47%, 5.71 p.p. more than in the previous year 2020. Labour productivity follows the trend in turnover and rates of return. It increases dramatically in 2019 and moderately in 2020, declines in 2021 and peaks in 2022 (Table 8).

Table 8. Labour productivity of MEGA EDIL SRL

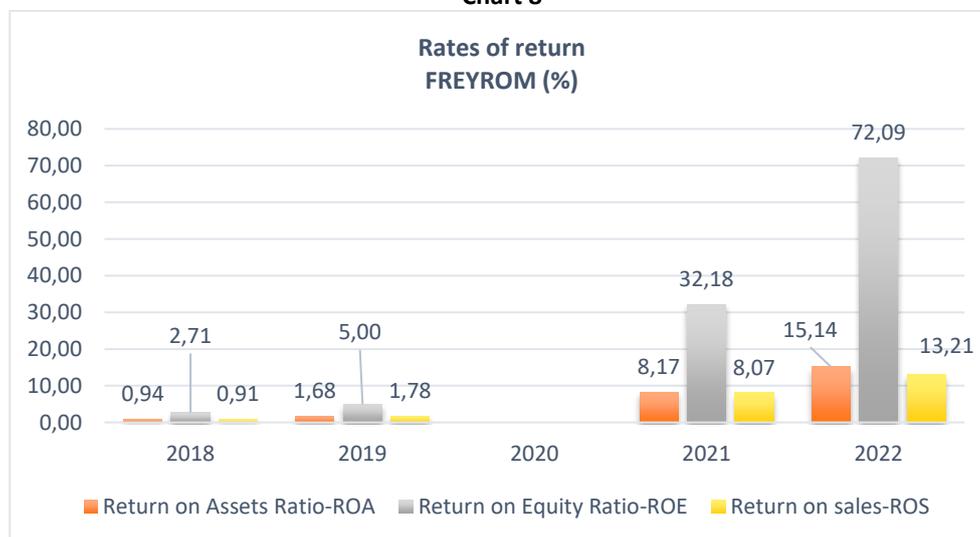
Year	2018	2019	2020	2021	2022
Labour productivity (RON/employee)	225,196	604,111	709,338	649,376	839,887

Source: own processing based on financial data posted on www.risco.ro

d) Analysis of FREYROM's financial performance

FREYROM SRL ranks 10th in the national ranking and 1st in Top Business Romania 2023, sector 3, Bucharest, for NACE code 4399, with a turnover of RON 62,396,842 in 2022. In 2019, the company almost doubles its profit, although the turnover decreases by about RON 500,000. Even if the rates of return double compared to the previous year, they are very low (5% ROE and less than 2% ROA and ROS). In 2020 the pandemic brings big challenges and although the turnover increases by RON 8,098,147 compared to the previous year, the company makes a loss of RON -1,997,386. For this year, it is not possible to calculate rates of return.

Chart 8



Source: own processing based on financial data posted on www.risco.ro

In 2021, the company obtained a net profit of RON 2,026,581 and the rates of return are 8.17% ROA, 32.18% ROE and 8.07% ROS, these values being several times higher than in 2018 and 2019. As in the case of the other companies analysed, the year 2022 brings spectacular increases in net profit, which increases by RON 6,213,607 and in the rates of return, which double compared to the year 2021. Labour productivity of FREYROM SRL oscillates around RON 450-500 thousand/employee during the timespan 2018-2021, doubling its value in 2022, as can be observed in Table 9.

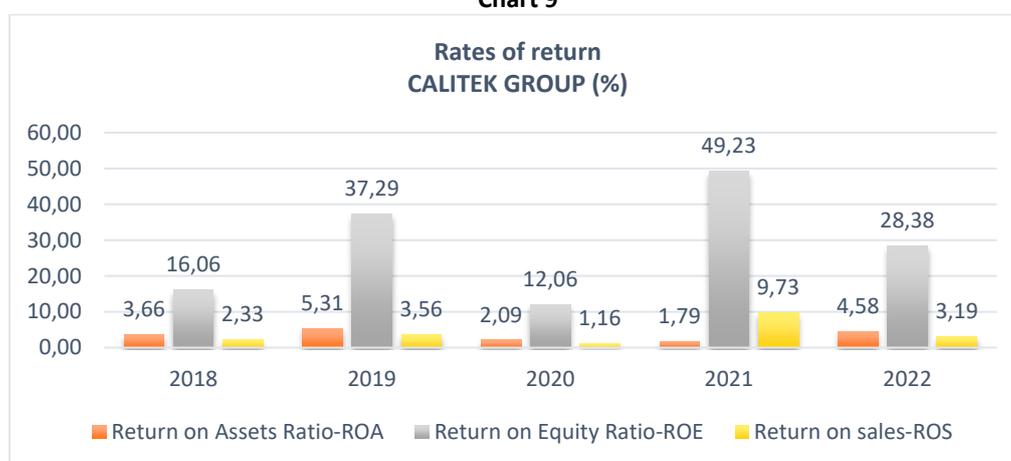
Table 9. Labour productivity of FREYROM SRL

Year	2018	2019	2020	2021	2022
Labour productivity (RON/employee)	500,200	433,451	509,362	448,557	974,951

Source: own processing based on financial data posted on www.risco.ro

e) Analysis of the financial performance of CALITEK GROUP

For the company CALITEK GROUP SRL - 2nd place in Top Business Romania 2023, for Small Enterprises, sector 2, Bucharest, NACE code 4399, the same growth trend can be noticed in 2019, as for the entire construction sector. The implementation of the facilities led to an increase in turnover by RON 832,747 and in net result by RON 145,525 compared to the previous year. As a result, the return on sales increases from 2.33% to 3.56% and the return on assets ratio from 3.66% to 5.31%. As equity decreased in 2019 and profit increased, the return on equity ratio increased from 16.06% to 37.29%.

Chart 9

Source: own processing based on financial data posted on www.risco.ro

The year 2020, when the pandemic also started in our country, was difficult for Calitek. Although turnover increased by more than RON 5,300,000, the net result halved. This fact in conjunction with an increase in equity of around RON 1,300,000 resulted in ROA, ROE and ROS falling below 2018 values.

The net result in 2021 recorded the maximum value of the period under analysis (RON 1,351,789), which led to the highest level of the return on equity ratio (49.23%) and the return on sales (9.73%). In 2022 the net result falls to more than half of the previous year and this leads to a decrease in all rates of return.

In terms of labour productivity (Table 10), we observe an upward trend in the first 2 years of the tax relief, which was due to the increase in turnover. In 2021, sales decreased compared to the previous year and the average number of employees increased, which leads to a reduction in labour productivity. The company recovers in 2022, when labour productivity is at its highest level of the period analysed, due to the fact that turnover increases while the number of employees remains unchanged from the previous year.

Table 10. Labour productivity of CALITEK GROUP SRL

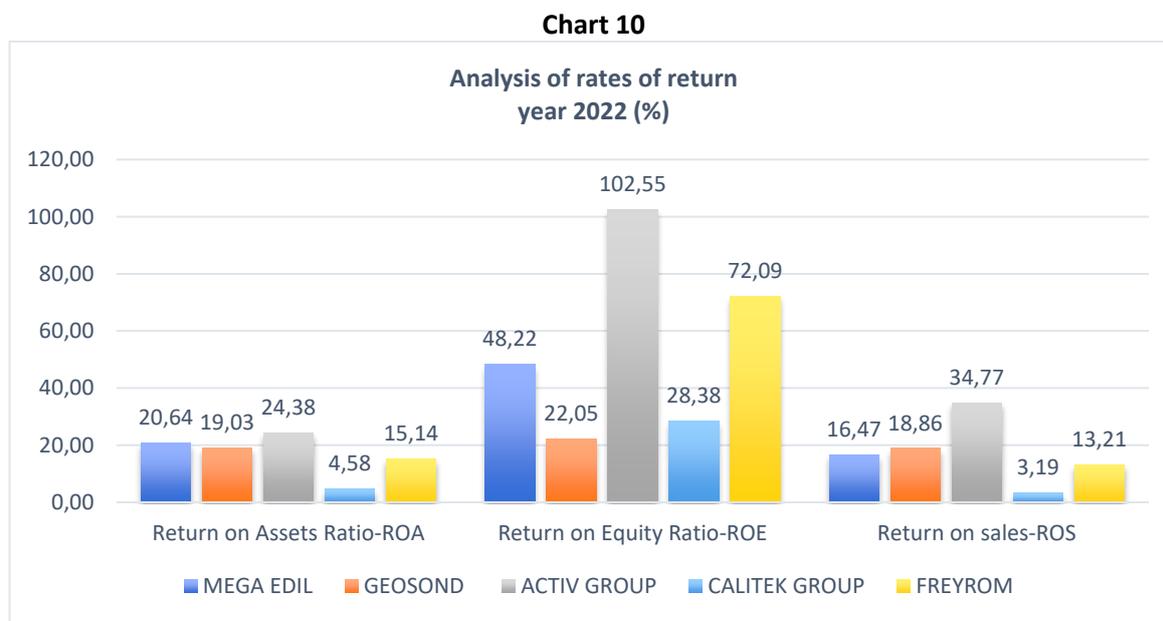
Year	2018	2019	2020	2021	2022
Labour productivity (RON/employee)	285,753	366,521	473,673	386,102	480,524

Source: own processing based on financial data posted on www.risco.ro

A comparative analysis of the labour productivity of the 5 companies indicates a very high increase in 2022 compared to 2018 for 4 of them. The only exception is the company Active Group Management, which records a 27% decrease in labour productivity during this time span, explained by the fact that the number of employees increased by about 11 times during the timeframe 2018-2022, while the turnover only by about 8 times.

From the point of view of net result, the companies under analysis had an increase in each year due to tax incentives, with two exceptions: in 2020, during the pandemic period, Calitek had a profit below the one achieved in 2018, while Freyrom had a loss (RON - 1,997,386).

Comparing the financial performance of the five companies in the field of specialised construction in 2022, we see that the first place with the highest rates of return is the company Activ Group (Chart 10). It stands out with a return on equity ratio of more than one hundred percent (102.55%). Freyrom holds the second place, with a ROE of 72.09%, followed by Mega Edil with 48.22% and Calitek Group with 28.38%. Geosond has the lowest return on equity ratio - 22.05%.



Source: own processing based on financial data posted on www.risco.ro

From the point of view of economic returns, the 5 companies are at small differences, the first place is held by Activ Group with a return on assets ratio of 24.38%. Mega Edil is on the second place with a difference of only 3.74 p.p. from Activ Group, while the lowest rate of 4.58% pertains to the company Calitek Group.

In terms of commercial profitability, Activ Group is also on the first place with a return on sales of 34.77%, followed by Geosond with 18.86%, almost half of the first place. The last ranked is Calitek Group with a ROS of 3.19%. These low rates of return are due to the decrease in financial performance, which is also reflected in the net result, which is RON 799,373 lower than last year 2021.

5. Conclusions

The incentives on construction workers' salaries, introduced by Government Emergency Ordinance no. 114/2018 from 2019, consisted of a 23.75% decrease in payroll taxes (of which: 10% payroll tax, 10% CASS and 3.75% CAS) and the establishment of a minimum salary well above the level of the economy. A first effect has been the reduction of undeclared work and the stabilisation of the labour force in this sector, with the average number of employees in the construction sector increasing by 37,843 after only one year of the facilities granted. Secondly, it can be seen that turnover in the construction sector increased by 27.4% in 2019 compared to 2018. The granting of the facilities also led to an increase in the number of firms in this sector, by 4,132 more within one year and by 21,090 by the end of 2022.

This growth in construction sector activity has been an important source of additional budget revenue collection, which has fully compensated for the losses resulting from wage tax cuts. For instance, the increase in turnover has meant an increase in VAT collected and higher corporate taxes or taxes on microenterprise income (especially considering the high number of newly established companies).

The emergence of the COVID-19 pandemic in early 2020 has caught this industry in full swing, with economic growth in 2019 helping firms to ease the burden of the SARS-CoV-2 virus. At the same time, the fact that the vast majority of construction sites were outdoors made it easier for people to work with a lower risk of

illness. All companies were affected by the pandemic, but depending on the strategy and solutions implemented by management, some partially went out of their business in 2020 and had poorer results, others felt the effects of the pandemic only in 2021, when rising material prices led to more modest financial results.

The study conducted at the macroeconomic level, as well as at the level of the top five companies in the specialised construction sector, points out that despite the negative effects of the pandemic felt in 2020-2021, the stimulation of construction workers by offering high net salaries allowed the stabilisation of skilled staff and specialists, which led to an increase in profitability and labour productivity.

In conclusion, the facilities granted to the construction sector have played a determining role not only in the development of the companies in this sector, but also of the entire national economy, contributing to an increase in the share of this sector in Romania's Gross Value Added from 6.6% in 2018 to 7.9% in 2022, the highest value among EU Member States.

Keeping the tax incentives for 10 years, until 31 December 2028, as originally foreseen in GEO no. 114/2018, would have been a real benefit leading to the growth of this sector. The changes made at the end of 2023 by GEO no. 93/31 October 2023 have created controversy in the business community. The majority of economists believe that all tax incentives should be removed, while entrepreneurs in the sector argue that giving up the promised facilities will lead this branch of activity into a new economic impasse.

References

- Grigore, M., Ștefan-Duicu, V., *Fiscalitate*, Publishing House of the „Nicolae Titulescu” University, Bucharest, 2023;
- Grigore, M., Ștefan-Duicu, V., *Managementul financiar al firmei*, Publishing House of the „Nicolae Titulescu” University, Bucharest, 2024;
- Housing in Europe - 2023 interactive edition - Eurostat (europa.eu);
- <https://federatiaconstructorilor.ro/files/docs/AcordConstructiiFPSC-GuvernulRomaniei.pdf>;
- https://insse.ro/cms/sites/default/files/com_presa/com_pdf/actv_intrep_2022r.pdf;
- <https://legislatie.just.ro/Public/DetaliiDocumentAfis/262353>;
- https://static.anaf.ro/static/10/Anaf/legislatie/OUG_114_2018.pdf;
- https://static.anaf.ro/static/10/Brasov/Brasov/contributii_296_nou.pdf;
- <https://www.topfirme.com/caen/4399>;
- www.risco.ro.