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ECONOMIC DEVELOPMENTS DURING *COVID-19* IN THE ROMANIAN ECONOMY

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Abstract: *The purpose of the current paper is to present an overview of key policy measures undertaken by the Romanian authorities in order to first, prevent the spread of the COVID-19 pandemic, and second, to counteract the adjacent economic slowdown registered so far in 2020. A qualitative analysis was carried out using publicly available data from the National Institute of Statistics. Main findings suggest that the policy measures managed to stabilize unemployment in the short run but also significantly affect the manufacturing and services sectors of the Romanian economy.*

Key words: *COVID-19, Public finances during pandemics, Romanian Policy Measures in 2020*

1. Introduction

While the evolution of COVID-19 is uncertain and difficult to predict, the severity of the pandemic is indisputable. It is at these times when the sustainability and stability of public finances are tested through rising unemployment costs and a more intensive provision of public health. A secondary test falls also on policy makers and their decision-making strategies in face of uncertainty and the novelty of a new global crisis.

As of June 2020, on a global level, real GDP growth for 2020 is projected at a level of -4.9 percent, with the most severe impact levitating on low-income households. For 2021, optimistic forecasts show an increase of 5.4 percent, ceteris paribus (International Monetary Fund, 2020).

Romania witnessed its first confirmed COVID-19 case on the 26th of February 2020 and by the time of writing the current paper, 13th October 2020, the total number of confirmed cases was of 157.352. During these months, one can identify as relevant time stamps the following dates: 16th of March – the full lockdown and emergency state began, 15th of May – most of restrictions were dropped, 15th of June – international travel was allowed without mandatory quarantine.

The question that arises in the COVID-19 context is whether the decline of some economic sectors such as services (HORECA) can be compensated by the increase of others and if the labour force is elastic enough to adapt quickly. In theory, in order to

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maintain stability and sound public finances, governments are required to provide adequate financial support to affected households and businesses. This article will analyse policy measures undertaken by the Romanian government as the number of COVID cases evolved, and evaluate the status of key economic indicators.

2. Literature Review

Scientific literature covering the economic implications of COVID-19 can be considered plentiful considering the rapid evolution of the worldwide pandemic.

Short and long-term consequences on labour markets have been emphasized by a plethora of studies (Meester and Ooijens (2020); Fana, Torrejon Perez and Fernandez-Macias (2020); Blundel and Machin (2020); Dingel and Neiman, (2020). The main findings present some unitary conclusions concerning labor markets: the economies most vulnerable to COVID-19 consist of those abundant in seasonal labor and high rates of unemployment. Simultaneously, those economies have a high concentration of low added value jobs (Fana, Torrejon Perez and Fernandez-Macias, 2020).

Meester and Ooijens (2020) highlight that among others, gender inequalities in labor markets will be further deepened as COVID-19 strikes economic sectors where females are overrepresented. Such sectors can be considered to be those where human interaction is heavily relied upon. The same conclusion can be projected for young employees, irrespective of gender.

At an early stage of the pandemic, Nicolaa et al. (2020) highlight the incipient economic sectors which were to be affected, namely agriculture, petroleum and oil, manufacturing industry, education, finance, aviation, housing sector and sports industry.

While social distancing is key in reducing the spread of COVID-19, in regards to labor, this means that the concept of working from home increases in popularity, and in some cases rests as the only way of working. The findings of Dingel and Neiman (2020) suggest that higher paid jobs are also those for which working from home is feasible, strengthening the idea that lower paid workers are exposed to a higher risk of job loss and even poverty.

In companies or public institutions where social distancing cannot be complemented by working from home, a reduction in the quantity of labor is inevitable. This automatically translates to reduced outputs for some sectors of the economy. The beforementioned effect has been studied by Barot, Grassi and Sauvagnat (2020). Their results show that a 6-weeks lockdown may lead to a decrease of 5.6% of GDP for a country such as France, accounting for differences in sectoral composition and propensity to work from home. For a country such as Romania, the authors have predicted a 9% decrease in GDP. This estimation will later be verified in the current paper with real data.

From a macroeconomic perspective, Eichenbaum, Rebelo and Trabandt (2020) highlight a necessary tradeoff between the gravity of a short-term recession caused by COVID-19 and public health consequences that policy makers need to consider and account for. Faria e Castro (2020) observes that in terms of fiscal policies, the most effective transfers during COVID-19 have to be distributed towards unemployment

insurance and firms' liquidity assistance. In addition, the same author, considering the pandemic as an exogeneous shock to the economy, suggests that successful fiscal packages should target the origin of the shock. The necessity for state intervention is also underlined by Correia, Luck and Verner (2020) which through their research, encourage governments interventions in public health with medium term positive economic prospects. Correia, Luck and Verner (2020) draw their conclusions by evaluating the evolution of the 1918 pandemic alongside other members of the scientific community such as Barro, Ursua, and Weng (2020) and Almond (2006).

3. Objectives and Methodology

The main objective is to provide a concise evaluation of the state of play of the Romanian economy in times of pandemics. In order to do so, the current paper intends to measure the economic impact caused by COVID-19 in Romania by grouping the latest available data provided by Eurostat, International Monetary Fund, World Health Organization, and the National Trade Register. The author intends to compare the evolution of different sets of economic indicators for 2020 compared to 2019, then discuss the main policy initiatives undertaken by the Romanian government under the evolution of COVID-19 cases and draw the conclusions for this analysis.

4. Analysis

4.1. Key policy measures in Romania

On the 17th of March, president Klaus Iohannis enacted the military emergency state ("**ORDONANȚĂ MILITARĂ nr. 1 din 17 martie 2020)** which limited citizens' activities to either work, groceries or elderly care. The full lockdown measures were in force until the 15th of May when a gradual reopening of the economy began. Later on, by the 15th of June all of the pre-pandemic businesses were opened to citizens under strict social distancing criteria, with an inevitable smaller productivity.

As Eichenbaum, Rebelo and Trabandt (2020) mentioned, the government had to make the tradeoff between a downward spiraling economy, or an upward rising number of cases. As it can be observed in Figure 1, the authorities were successful in limiting the spread of the virus through the imposed lockdown measures until the beginning of June, when the economic reopening took place. As more and more restrictions were dropped, a positive correlation was observed in the number of confirmed cases in Romania.

Nevertheless, policy measures were quickly prepared and implemented on fiscal, monetary and exchange rate topics.

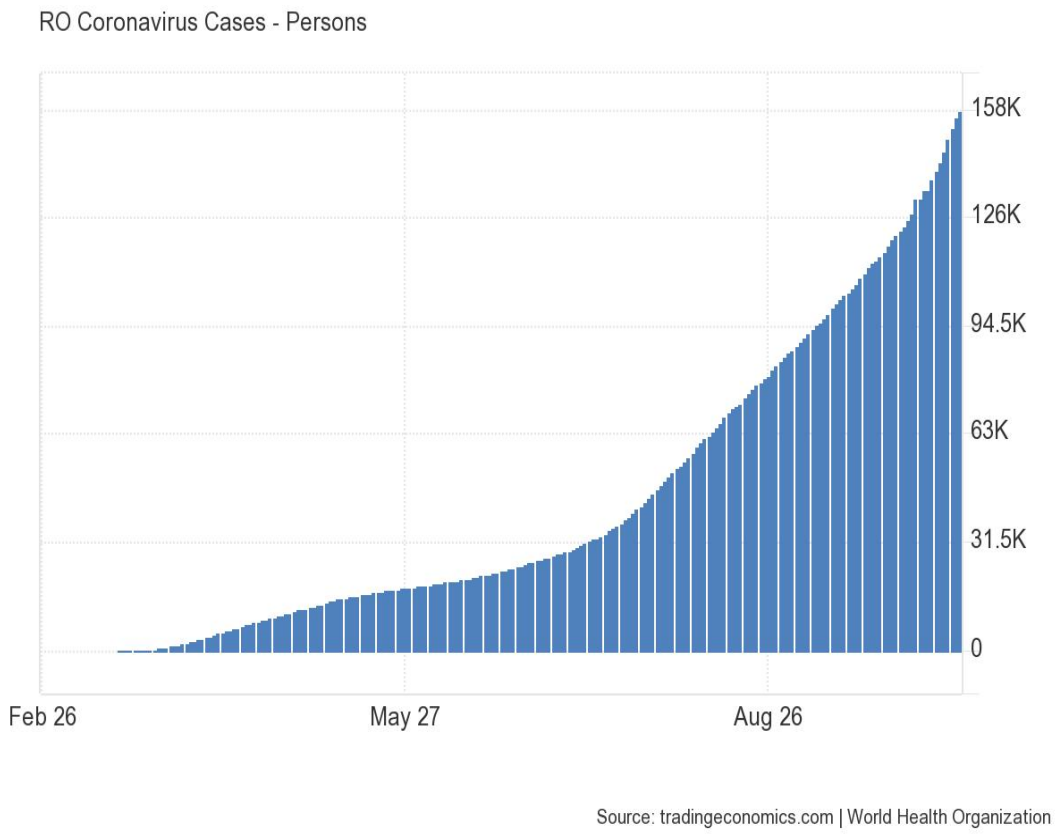

Fig. 1. *Coronavirus Cases – Persons*

The fiscal package prepared for countering the effects of COVID-19 included budgetary transfers towards the health system and technical unemployment subsidies (as Faria e Castro (2020) strongly recommended). In addition, the Ministry of Public Finance forwarded RON15 billions for guaranteeing loans and interest payments undertaken by small and medium enterprises and eased the tax pressure through allowing delayed payments up to three months. Somewhat counterintuitive towards the sustainability of public finances, pension expenditures also increased with above 15% percent starting with September. (Ministerul Finantelor Publice, 2020) The Ministry of Finance also intervened with a set of laws through which banks were obliged to allow loan repayment delays without any additional fees for those affected by the Coronavirus pandemic.

The key monetary measures implemented by the National Bank of Romania were a reduction of the monetary policy rate to 1.5% and a strong provision of liquidity to financial institutions by repurchasing government securities (International Monetary Fund, 2020). Overall, NBR understood that it needed to loosen its monetary policy.

4.2. Data and discussion

In order to evaluate the economic consequences of the pandemics and to what extent the government interventions countered the economic slowdown, the current paper makes use of currently available data provided by the National Institute of Statistics.

Table 1

Key economic indicators – pre and post COVID-19 lockdown

Indicator\Period	Jan-19	Jul-19	Jan-20	Jul-20	% change 2020	% change 2019
GDP Growth rate (%)	**0.4**	**0.4**	**1.3**	**-11.9**	**-**	**-**
GDP from agriculture (RON Milion)	**2882.6**	**3048.8**	**3033.5**	**2762**	**-9.83**	**5.45**
GDP from construction (RON Milion)	**2161.8**	**2507.1**	**2385.3**	**2618**	**8.89**	**13.77**
GDP from manufacturing (RON Milion)	**10302.3**	**10048**	**10037.1**	**8037.6**	**-24.88**	**-2.53**
GDP from Public administration (RON Milion)	**1692.6**	**1750.7**	**1764.3**	**1800.9**	**2.03**	**3.32**
GDP from Services (RON Milion)	**12580.4**	**12853**	**13141.9**	**11373.1**	**-15.55**	**2.12**
Unemployment Rate (%)	**4**	**4**	**3.7**	**5.3**	**-**	**-**
Productivity (points, real labour productivity per hour worked.)	**117.5**	**119.1**	**121.5**	**109.4**	**-**	**-**

Source: National Institute of Statistics

Breaking down the main economic sectors, one can make notice of agriculture, construction, manufacturing, services, and public administration. The GDP originating from these sectors followed an uprising trend until January 2020, two months before the first registered case of COVID-19 in Romania. In order to delimitate and compare the evolution of the indicators, data was collected for January 2020, which can be considered a relevant pre-pandemic point in time, whereas July 2020 can be seen as an immediate post-lockdown point in time (Table 1).

By July 2020, compared to January 2020, the only sectors to register increases were the construction sector with an 8.89% increase and the public administration with 2.03%. The most affected sector by far is manufacturing with a decrease of 24.88%, followed closely by the services sector with a decrease of 15.55%.

One reasoning regarding the best performing actor of the Romanian economy, even in times of COVID-19, may rest in the long-term nature of contracts in construction deals that might have been signed prior to the pandemic. The obligation to fulfill a

commitment in this sector can be considered immune to an exogeneous shock such as Coronavirus and deriving social distancing measures. Furthermore, the fact that 2020 is a year in which local and parliamentary elections are held, has determined local and central authorities to invest more than usual in infrastructure in order to gain additional electorate. (The joint CIB international symposium of W055, W065, W089, W118, TG76, TG78, TG81 AND TG84, 26 – 29 June 2012)

The two most acute shrinkages in the manufacturing and services sectors could be attributed to the social distancing measures imposed by the government, which in turn reduced productivity of labor from 121.5 points in January 2020 to 109.4 in July 2020. In addition, the EU-27 average household saving rate increased to an all-time highest in the first quarter of 2020, with 3.5 percentage points more than the first quarter of 2019. ((European Commission, 2020)

Concerning the evolution of unemployment, the value of 3.7 registered in the pre-pandemic period can be considered close to an ideal real unemployment rate. Nevertheless, post-lockdown unemployment rate grew to a value of 5.3% in July 2020, and might be expected to increase furthermore as government subsidies will soon come to an end. All in all, additional policy measures seem necessary in order to counteract the 11.9% decrease in the GDP growth rate registered in July 2020.

5. Final Remarks and Conclusions

It took only a couple of months since the Coronavirus outbreak for the entire globe to change its notion of normality and to readjust daily life. The pandemic provoked worldwide lockdowns, strict measures of social distancing and a majority of jobs to change their nature. Economies, public finances and national health systems were put to a test and only those which quickly adapted were able to overpass the challenge.

The current paper underlined the key policy measures imposed by the Romanian authorities aimed at first, limiting the spread of the virus, and second, at restarting the economy and mitigating the economic recession. As the data suggested, the construction sector managed to overcome the current pandemic impediments and registered an increase from January to July. The most affected sectors were the manufacturing and services which witnessed much more acute decreases compared to the same period of 2019. Adding into the equation a lowering productivity and increasing unemployment, the GDP growth rate reached a negative 11.9 % for July 2020.

When considering the tradeoff between the evolution of COVID-19 and the sustainability of public finances in Romania it is yet uncertain if the policy makers managed to take the optimal choices in the current context. One has to ask if a higher number of cases and possible deaths is preferable to a lower economic performance and even a possible future financial crisis.

The author highlights the need for a more transparent public administration such that comprehensive data sets will be easily accessible to the general public and further on allow the local scientific community to contribute with significant and timely research on topics of national interest.

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