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ROMANIA – FROM THE ECONOMIC-FINANCIAL CRISIS TO THE COVID-19 CRISIS. BUDGETARY-FISCAL EMPHASES. RELEVANT MACROECONOMIC INDICATORS

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Abstract: *The COVID-19 pandemic has a strong impact on each individual, but also on society as a whole, on all fields of human activity, including economic activity and performance. This challenge came less than 10 years after the end of the economic-financial crisis and puts the economies of states to a new test of resilience, while verifying the wisdom of the economic solutions adopted for post-crisis recovery. Romania, a member state of the European Union, with relatively new democratic mechanisms and market economy, is an integral part of the global social, economic and political landscape.*

Key words: *economic-financial crisis, medical and economic crisis, reform, economic growth, macroeconomic indicators*

1. Introduction

In early 2020, the virus of still uncertain origin, SARS-CoV-2, spread rapidly to European countries, after having already caused many casualties in Asia by the end of the previous year. The dramatic medical situation worldwide led to the declaration of the COVID 19 pandemic, a context in which the states were forced to face a double challenge: on the one hand, the battle for saving lives began, requiring firm medical and legislative action to treat those infected, and to combat the spread of the virus, and on the other hand, governments were put in a position to take steps to ensure the survival of national economies affected by the medical crisis.

The measures taken to limit the effects of the pandemic have affected economic activity, individuals and companies alike; hence the need to support them through various economic and financial levers, which has put a huge pressure on public budgets. As for the Member States of the European Union, there was initially a desperate individual effort to overcome the medical and economic problems, but they have soon

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realized that together they are stronger and that there must be a common effort within the organization to find the most appropriate solutions (Ciobanu, 2020, p. 106-108).

2. Recovery after the Economic-Financial Crisis

The measures taken by Romania during the economic and financial crisis, as well as in the post-crisis period, were mentioned in the Romanian and foreign economic and legal doctrine, as well as in the documents of some international organizations. Assessments regarding the economic evolution of Romania in the post-crisis period were also made in *Romania's country report for 2017*, report in which the European Commission assessed the Romanian economy in the light of the annual growth analysis, an analysis published on 16 November 2016, which included the recommendation for the Member States to step up their efforts on *"the three sides of the virtuous triangle of economic policy - boosting investment, continuing structural reforms and ensuring responsible fiscal-budgetary policies"* (The European Commission, 2017, p. 1).

According to the Report, in 2016, the *economic growth* reached a peak in relation to the post-crisis period (4,9 %) as a result of the increase in domestic demand determined by expansionist fiscal-budgetary policies, the Commission expecting a solid growth for the following years, respectively of 4.4% in 2017 and 3.7% in 2018. In fact, for the high growth rates recorded after 2012, Romania was nicknamed the "Tiger of Europe". At the same time, the *current account* deficit narrowed and there was a strong increase in GDP.

With regard to the *fiscal-budgetary policy,* measures were taken to increase the living standards and purchasing power of the population, with a positive effect on consumption and, ultimately, on the economy as a whole.

Investments returned to the pre-crisis growth rates, reaching a record level of 8.3% in 2015. In 2016, the total value of investments increased by 5.5%, due to low interest rates and a stable level of investor confidence, Romania having one of the highest investment rates in the EU. Total investment reached 24.8% of GDP in 2015, above the EU average (19.7%), and public investment spending was among the highest in the EU in the last decade.

Inflation fell to a record level in 2016, being clearly influenced by the fiscal-budgetary measures, but the Commission warned of the risk of its rise as a result of increased pensions and salaries, fiscal-budgetary relaxation and credit expansion.

The changes also affected the Public *employment* service which was strengthened, the active labour market policies being better targeted at inactive groups.

In addition to highlighting the positive results of the extensive post-crisis reform efforts, the Report also draws attention to some *negative aspects*, as well as to some risks that could affect Romania in the future. This way, the low level of absorption of European funds, the low quality of the infrastructure despite the public investments made, insignificant differences in terms of attracting foreign investment, large differences between regions, between urban and rural areas, between high and low incomes – all this is criticised, Romania having one of the highest levels of income inequality in the EU, even though poverty is on a downward trend. Moreover, the Commission expects the public debt to increase from 38% of GDP in 2015 to 42.3% of

GDP in 2018, drawing attention to the fact that, since more than half of public debt is expressed in foreign currency, in the scenario of a depreciation of 30 % of the RON for 2017 and 2018, the public debt could grow rapidly to 51% of GDP in 2018 and could exceed the threshold of 60% of GDP in 2024.

3. Medical pre-crisis Period

After the difficult period of the economic crisis, Romania was on the wave, registering hopeful successes. It is true that the positive trend of economic growth, GDP growth and GDP / capita growth, boosting investment are important steps, but it is equally true that these successes must be consolidated so that Romania recovers as much and as quickly as possible the gap with the western States of the EU, because it is one thing to talk about growth and another thing – about economic development (Ciobanu, 2010, p. 52-57). On the other hand, given that cyclicality is a feature of the economic activity and that the crisis is likely to return within the ten-year cycle (Iovițu, 2005, p. 136-143), Romania should have put more emphasis on consolidating the successes achieved. In the same vein, in *Romania's country report for 2018,* the European Commission recommends Romania to be prudent in the management of public money, to use the resources accumulated during the "strong economic expansion" in the post-crisis period in order to constitute budgetary reserves for difficult periods, otherwise the neglect of the fiscal-budgetary consolidation, the continuation of the economic model based on consumption and the slow pace of investments could have the effect of "forced landing" of the Romanian economy, endangering the achievements obtained (European Commission, 2018, p. 1). The report criticizes again the Romanian economic model based on consumption, showing that policies are needed to support investments so that our country can move to a new stage, that of a *higher value-added economy*. In fact, this criticism is a constant of the European Commission's country reports and it can be also found in those of 2019 and 2020.

The *economic growth* accelerated, and in 2017, the real GDP grew by 6.7%, recording a new all-time high in the post-crisis period. It should be noted that the *industrial production* contracted, so that from the end of 2017 until the end of 2018 the growth rate of industrial production decreased by 10%, and in the second quarter of 2019 it was negative. At the same time, the Commission draws attention to the danger of rising inflation due to the pressure exerted by demand, which could adversely affect private consumption, the main factor in economic growth. After two years of falling prices, the inflation increased in 2017, the trend continuing in 2018 and 2019. In 2018, the inflation reached its highest post-crisis value, well above the Eurozone average, with the growth having both internal and external causes, such as rising energy and food prices.

Next, there was a *current account* deficit, Romania failing to take significant steps towards increasing the competitiveness of its products and services on the foreign market, and the public deficit deepened. This trend intensified in 2018 and 2019.

Unemployment rate continued to fall and employment rose to 69% in 2017, in line with the national target of *Europe 2020 Strategy*. However, the labour market faces important specific problems: population decrease, aging, exodus of skilled labour, decline in the active population, problems that were present in the following years.

As a result of the promoted policies, *the GDP per capita increased*, approaching the European average, the salaries and pensions increased, the level of poverty decreased, but its spectrum remained; the unequal distribution of wealth between individuals, regions, urban and rural areas, disparities, exclusion continued to be perpetuated.

The negative aspects of the current account deficit and labour force, public debt, inequalities, infrastructure and modest results in research and innovation remained in 2018 and 2019, even though economic growth, GDP and investment continued to be an upward trend, it is indeed slower than in previous years (European Commission, 2019, p. 1-98; European Commission, 2020, p. 1-108).

The decline in the progress made until 2017 was exacerbated, among other factors, by political instability, decision-making instability, legislative instability, contradictory statements about the future of reforms, the adoption of controversial regulations, without a sound assessment of their impact and without consulting the stakeholders. Starting from this state of affairs, also emphasized by the European Commission, we conclude that the exercise of dialogue, cooperation, collaboration, negotiation in the service of the public interest is difficult to learn, and the change of cultural preferences is really a long and painful process (Fudulu, 2007, p. 103).

The successes achieved by Romania in the years after the crisis are also due to European funds. These are the European Structural and Investment Funds (ESI), annually 3% of GDP in 2014-2018 and 49% of public investment, funds from which strategic investments were financed in transport, energy, sustainable development, health, justice, e-government. Furthermore, numerous projects were funded from the European Fund for Strategic Investments (EFSI), with research, development and innovation, the energy sector and SMEs at the forefront. The reforms carried out were also financially supported by other funds, such as Horizon 2020 and the European Interconnection Mechanism. Romania also requested technical assistance from the Structural Reform Support Service (SSRS), a service available to Member States of the Union, for the implementation of reforms such as governance and public administration, tax administration, health, social services, business, the financial sector and access to funding.

From these data we can conclude that Romania managed to find resources to reinvent itself after the economic and financial crisis, but, unfortunately, the medical crisis caught it, from an economic point of view, on the downward slope of the wave, with a medical system with many disadvantages and dysfunctions and in addition with a rather fragile political balance.

4. Year 2020 - a new Endurance Test for the National Economy

The year 2020 began with signs of danger, suffering and uncertainty. The economic activity in Romania was strongly affected by Coronavirus, *GDP* falling by 3.9%, as compared to the 4.1% increase in 2019. This decrease was influenced by the decrease in private consumption, the main growth factor in the previous years, but also by the negative export, given the restrictions imposed on the movement of goods and people.

At the same time, industrial production continued the decline of the previous year, -1.9%, but with positive developments in certain branches such as construction, information and communications (Fiscal Council, 2021, p. 9).

The current account deficit has deepened, increasing from 4.9% in 2019 to 5.2% in 2020. As the average external deficit over the last 3 years has exceeded the 4% alert threshold set by *the European Dashboard*, which means a high vulnerability to shocks, The European Commission has launched the *excessive budget deficit procedure*, with the obligation for Romania to ensure the reduction of the medium-term budget deficit through sustainable budgetary-fiscal policies (Fiscal Council, 2021, p. 10-11).

It should be noted that in the conditions of slowdown or even recesseses in economic activity, the measures adopted to support the business environment, but also with profound social implications, in the sense of postponing or rescheduling tax debts, *the level of budget revenues was very low*, Romania ranking on the penultimate place in the EU – a situation that requires finding solutions to streamline tax administration. Moreover, in the successive country reports, Romania was warned by the European Commission about the low degree of collection of these revenues, being recommended to take measures in this regard.

The public debt increased to 47.3% of GDP, the upward trend continuing in 2021. The *inflation rate* was 2.1% in 2020, down from 4.04% in 2019, but with an upward trend in 2021, an important cause being the increase in energy and fuel prices. The pandemic has, as expected, affected the labour market, therefore the *unemployment rate* rose by 1.1% to 5%.

This is the picture of the pandemic year 2020, drawn with the help of macroeconomic indicators, starting from the premise that, if we talk about economy, figures are more suggestive than words.

5. Conclusions

Although the year 2021 brought some security and a certain degree of normality determined by vaccination and the decrease in the number of infections, the situation remains complicated, both nationally and internationally, from a medical, social, economic and political point of view.

The medical crisis has generated a strong shock for all the world's economies, but most of them have managed to overcome the acute moment of the crisis, the anticipations of the International Monetary Fund and the European Commission being optimistic for Romania as well (Fiscal Council, 2021, p. 14-15).

The recovery prospects are uneven from country to country depending on the spread of the virus, the strictness of public health measures adopted to control it, the sectoral composition of national economies, the strength of national policy responses (Government of Romania. Ministry of Public Finance, 2021, p. 3), the economic genius of those in power and the ability for the measures taken to serve *the national strategic interest*.

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