

# The Ripple Effect of COVID-19 in Romania's Economic Environment

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## Abstract

*The COVID-19 pandemic impact on the global economy is unforeseen before. The virus' rapid spread has affected the worldwide financial, especially disrupting the sectors of health, tourism, and services. This paper's objective is to comprise an understanding on how the pandemic affects Romania. Based on a qualitative research, the present article includes the impact of COVID-19 in terms of trade, Gross Domestic Product (GDP) growth, and policy measures adopted up to the moment of writing. The study also addresses several recommendations to be further implemented to propel Romania on the world competitiveness map.*

**Key words:** COVID-19, Romania, macroeconomic figures

**J.E.L. classification:** G1, H2, H3

## 1. Introduction

Since the COVID-19 pandemic started, it has rapidly spread to over 190 countries and all the U.S. states. The pandemic is producing a clear influence on the global economic figures and implicitly on the citizen's well-being, including the habits of spending and saving. The impact of COVID-19, firstly declared as a world health emergency on January 2020, is beyond any expectation. However, even if governments and international institutions are dealing with an unprecedented situation, their impeccable collaboration and coordination are subject to be acknowledged.

The policy measures globally implemented are outstanding, aiming to balance often-competing policy objectives that consists of, but are not limited to: (1) dealing with escalating budget deficits weighed against increasing spending to support unemployment and social safety nets; (2) supporting national health systems that are under pressure to develop vaccines and to safeguard citizens and (3) implementing monetary and fiscal measures that protect credit markets and sustain economic activity, while also supporting businesses under financial crisis. (Jackson, et al., 2020)

Estimated figures so far indicate that COVID-19 could affect the global economic development by roughly 2% per month if the current conditions remain in place, raising the risks of a sever world crisis, comparable to the one experienced during the Great Depression of the 1930s. So far, the numbers show that the global trade could fall by 13% to 32%, depending on the pandemic evolution. (Jackson, et al., 2020) The virus expansion is expected to plunge most countries into recession on 2020, affecting mostly the advanced and emerging economies. The advanced economies are foreseen to shrink by 7%, while the emerging market and developing economies are forecast to decrease by 2.5%. (World Bank Group, 2020)

In terms of employment, since the pandemic covered the major states all over the world, more than 20 million people have lost their occupations, repealing nearly 10 years of job gains. (Powell, 2020)

## 2. Literature review

The analysis of the current and predicted effects of COVID-19 on the economic records represent the main subject of study among all the global financial institutions. Since January 2019, till June 2020, several reports were released considering the pandemic financial impact and the governmental policies. At global level, the literature has several reports to be consulted such as:

(Jackson, et al., 2020), (International Monetary Fund, 2020), (OECD, 2020), (WTO, 2020). At the European level, there are several articles and reports released as an answer to the pandemic: (European Commission, 2020), (The European Council, 2020).

In Europe, the first quarter 2020 statistics illustrates that the Eurozone economy shrink by 3.8% at an annual rate, the largest quarterly decrease since the series started in 1995, with over 30 million people in Germany, the UK, France, Spain, and Italy who have applied for state support of their wages. (Jackson, et al., 2020)

The European Commission's May 6, 2020 forecast estimated that EU economic development in 2020 could contract by 7.4% and only partially bouncing back in 2021. (The European Commission, 2020). On May 27, 2020, nonetheless, European Central Bank (ECB) President Christine Lagarde distinguished this forecast as outdated and anticipated that the Eurozone economy could contract by 8% to 12% in 2020. (Jackson, et al., 2020, p. 2)

The European Union response to the coronavirus pandemic to support and repair the immediate economic and social damage was unforeseen before. The EU created a EUR 540 billion guarantee fund for workers and businesses, a EUR 750 billion budget for Next Generation EU (to boost the EU budget with new financing raised on the financial markets for 2021-2024) and a EUR 1.100 billion budget for multiannual financial framework. (European Commission, 2020)

Table 1 illustrates a comparison of the real GDP figures for several extracted countries out of the World Bank Report released in June 2020-Global Economic Prospects. As it can be remarked below, the countries that are foreseen to register the most severe decrease in GDP in 2020 are: Croatia (-11.9%), Bulgaria (-9.2%), Georgia (-9.1%), Romania (-9.1%), Montenegro (-8.7%) and Hungary (-8%). At the opposite pole, countries expected to register the fastest recovery in 2021 are Croatia (3.0%), Romania (2.3%), Montenegro (2.0%), Hungary (1.9%) and Bulgaria (1.2%). These estimations show that the most sever affected countries by the pandemic are further expected to have the fastest recovery in 2021. Nevertheless, some exceptions of nations which are currently severe affected by the virus and are expected to have a slow recovery are: Poland, Ukraine, Georgia, Serbia, and Belarus.

Table no. 1 Europe and Central Asia country economic forecasts

(Real GDP growth at market prices in %, unless indicated otherwise)

	2017	2018	2019e	2020f	2020f	% point difference from Jan 2020 projections	
						2020f	2021f
<b>Azerbaijan</b>	0.2	1.5	2.2	-2.6	2.2	-4.9	0.1
<b>Belarus</b>	2.5	3.1	1.2	-0.4	1.0	-4.9	0.5
<b>Bulgaria</b>	3.5	3.1	3.4	-6.2	4.3	-9.2	1.2
<b>Croatia</b>	3.1	2.7	2.9	-9.3	5.4	-11.9	3.0
<b>Georgia</b>	4.8	4.8	5.1	-4.8	4.0	-9.1	-0.5
<b>Hungary</b>	4.3	5.1	4.9	-5.0	4.5	-8.0	1.9
<b>Moldova</b>	4.7	4.3	3.6	-3.1	4.0	-6.7	0.2
<b>Montenegro</b>	4.7	5.1	3.6	-5.6	4.8	-8.7	2.0
<b>Poland</b>	4.9	5.3	4.1	-4.2	2.8	-7.8	-0.5
<b>Romania</b>	7.1	4.4	4.1	-5.7	5.4	-9.1	2.3
<b>Russia</b>	1.8	2.5	1.3	-6.0	2.7	-7.6	0.9
<b>Serbia</b>	2.0	4.4	4.2	-2.5	4.0	-6.4	0.0
<b>Turkey</b>	7.5	2.8	0.9	-3.8	5.0	-6.8	1.0
<b>Ukraine</b>	2.5	3.3	3.2	-3.5	3.0	-7.2	-1.2
<b>Uzbekistan</b>	4.5	5.4	5.6	1.5	6.6	-4.2	0.6

**Note:** e = estimate; f = forecast. World Bank forecasts are regularly updated based on new data and changing (world) circumstances. Consequently, projections presented here may be different from those included in other Bank documents, even if basic assessments of countries' prospects do not significantly vary at any given moment in time.

Source: Author extraction from World Bank (2020), *Global Economic Prospects*.

### 3. Research methodology

The present paper comprises a fundamental research, encompassing data extracted from different databases: (1) The World Bank Database (available online at [www.data.worldbank.org](http://www.data.worldbank.org)); (2) Map of SME-Support Measures in Response to COVID-19 (available online at [www.dataviz.worldbank.org](http://www.dataviz.worldbank.org)); (3) INS (available online at <https://insse.ro/cms/>) and (4) ONRC (available online at <https://www.onrc.ro/index.php/en/>).

The focus of this article lies in assessing the impact COVID-19 pandemic has on Romania's economy and citizens well-being. In terms of generated knowledge, the research uses a qualitative approach, investigating both quantitative and qualitative data, forecasting an overall overview of the COVID-19 in Romania. Moreover, the paper also suggests several recommendations to alleviate the impact of the pandemic and to revitalize the Romania's objective to ascend the world competitiveness rank.

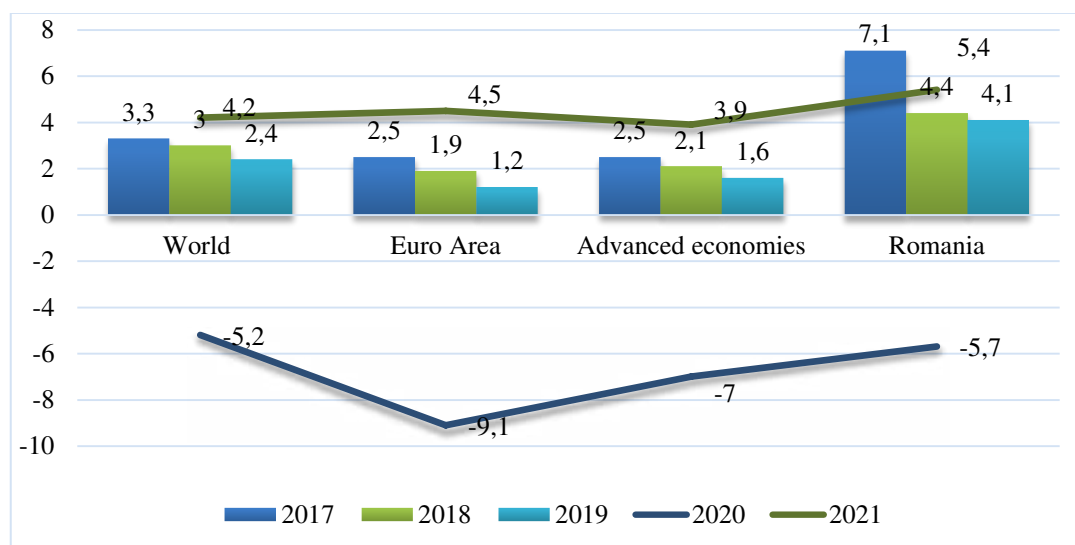
### 4. Findings

In 2019, the Romania's GDP growth was strong at 4.1%, driven principally by private consumption and investments injection. Additionally, in 2019 the unemployment rate registered historic lows. (The World Bank, 2020c) This ascending economic trend was severely affected in 2020 due to the shock of COVID-19 on the health, businesses, the labor market, and the households. The risk of recession in 2020 is imminent as COVID-19 affects large segments of the European economy and causes disruptions to the global supply and trade balance.

As a response to the pandemic, Romanian government in collaboration with financial institutions generated and implemented several sets of measures to protect both the citizens and the economy. Yet, the mix of the lower growth and the increased fiscal spending could easily propel the budget deficit to above 5% of the GDP. (Tataru, 2020a)

Figure 1 brings into attention a comparison of the GDP evolution for 2017 – 2021, and an estimation for 2020-2021. As it can be marked below, the Euro Area is expected to be the most affected by the pandemic, with a decrease in the GDP growth in 2020 by 9.1%, being followed by the advanced economies (- 7%) and world economy (-5.2%). Romania is expected to register a - 5.7% decrease in the GDP. Besides, Romania is expected to have the fastest recovery among the comparison below, by 5.4% in 2021, being followed by the Euro Area (4.5 %).

Figure no. 1 GDP Growth - actual data and forecasts

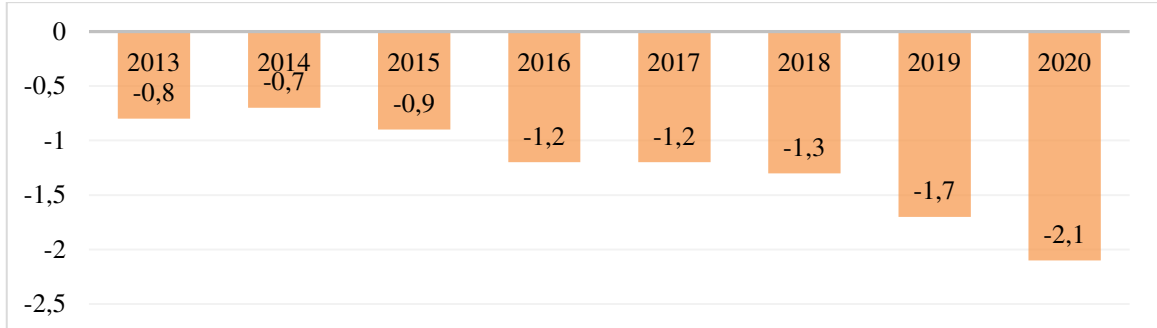


**Note:** World – include the countries which are members of the World Bank

*Source:* Author interpretation, data extracted from World Bank, Global Economic Prospects database. For 2020 and 2021 there are provided macroeconomic forecasts

In terms of trade, during the first quarter of 2020, another EUR 4.45 billion has been added to the Romanian trade deficit, almost 20% (EUR 733 million) more than in the first quarter of 2019. In March 2020, the trade deficit continued to widen by 43% compared the March 2019. (Tataru, 2020)

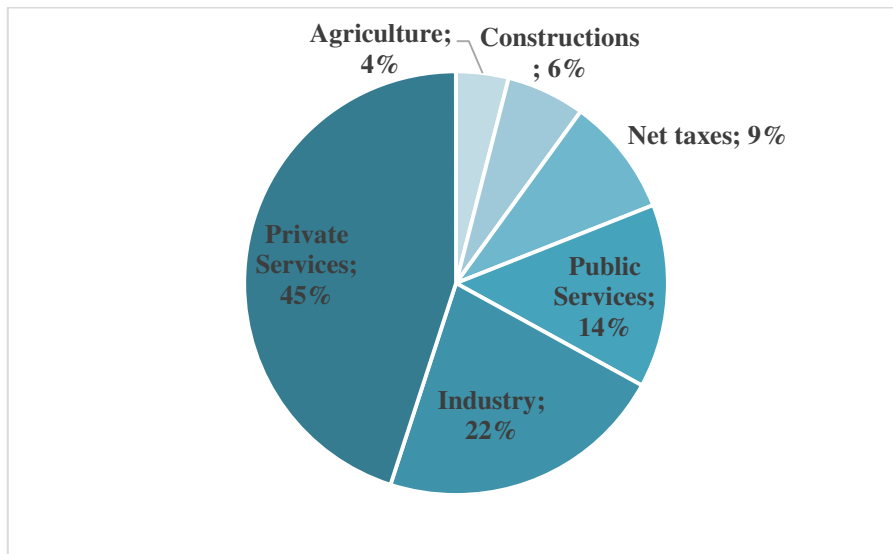
Table no. 2 First quarter trade gap as % of GDP (Romania)



Source: Data extracted from Tataru Valentin (2020) "Romania: trade balance and wage data confirm the slowdown"

The disruption caused by the pandemic in the Romanian economy will have a direct impact on the national macroeconomic data, being mostly visible starting with March 2020. According to National Institute of Statistics, the sectors contribution to national GDP in 2019 was as follows:

Figure no. 2 Romania's GDP structure (2019)



Source: Autor extraction from Tataru Valentin (2020) „Romania: Pandemic hits growth at the worst time” available online at <https://think.ing.com/snaps/romania-pandemic-hits-growth-at-the-worst-time/>

Table 3 presents the impact of COVID-19 on the main macroeconomic indicators in Romania by March 2020. As it can be noticed below, the most serve affected indicators are: Services provided to population (-40.4%), Export (- 18.4%) and Household Consumption (-18.1%).

Table no. 3 Impact of the COVID-19 outbreak on the main macroeconomic indicators in Romania in 2020

	Data expressed in %				
	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Services	2.7	7	10.7	12.4	-0.4
Serviced rendered mainly to enterprises	3.1	9.4	13.8	16.9	9.3
Services provided to population	14.4	17.7	17.4	9.8	-40.4
Retail Trade	6.6	9.3	11.2	13.8	3.9
Industrial Production	-5.4	-3.5	-2.1	-2.4	-12.7
Construction Works	27.2	24.8	49.8	24.6	29.6
Households Consumption	10.4	12.4	13	10.7	-18.1
Export	3.9	9.1	8.6	-1.3	-18.4
Import	2.9	8.1	7.7	0.2	-10.7

Source: Data extracted from Statista Database (2020) *Impact of the coronavirus (COVID-19) outbreak on the main macroeconomic indicators in Romania in 2020*, available online at <https://www.statista.com/statistics/1119785/romania-main-macroeconomic-indicators/>

As it can be noticed in the above table, the current "social distancing" measures imposed by the authorities, have a dramatic impact on most categories of services. Tourism have been severely affected as most people have cancelled or not booked any trip for the following months. Restaurants and hotels are recording an 80-90% lower sales. At the industry level, we mainly relate to manufacturing, as it counts for 80% of the industrial production. (Tataru, 2020a)

In terms of unemployment, more than a million jobs have been either terminated or temporarily paused between 16 March and 30 April according with the Ministry of Labor. By 7 May, over 325.000 employment contracts have been ended as a response to the pandemic. Most of the terminated contracts are out of the automotive sector with a total of 58.837 contract, also affecting sectors such as manufacturing and construction. Approximately 900.000 employees have suspended contracts. (Fair Wear, 2020)

The National Institute of Statistics (NIS) is continuously focused on measuring the impact of the pandemic in the Romania's economy, issuing monthly reports on the actual economic situation. In the table below there will be presented a summary of the all the reports that NIS released recently:

Indicator	Evolution of the 1.I-30.IV.2020 period compared to the 1.I-30.IV.2019 period
Wholesale Turnover	The volume of wholesale turnover (except motor vehicles and motorcycles) increased, as gross series, by 8.0% and increased, as adjusted series according to the number of working days and to seasonality, by 4.6%. (INS, 2020a)
Travel expenses of non-residents	The most affected sector by the inflicted measures is tourism. By restraining direct contact between people, the impossibility of moving individuals for tourism objectives, closing tourist reception structures or transforming tourist accommodation structures into reception facilities with quarantine regime. In this context, statistical research in the field of tourism was affected in terms of quality and completeness of statistical information collected, which led the NIS to review both the calendar of press releases and the calendar of statistical publications, so there are no available data.
Turnover of market services rendered mainly to enterprises	The volume of turnover of market services rendered mainly to enterprises increased, as gross series, by 7.9% and augmented, as adjusted series according to the number of working days and to seasonality, by 7.2%. (INS, 2020b)
Construction works	The volume of construction works augmented, as gross series, by 26.5% and rose, as adjusted series according to the number of working days and to seasonality, by 26.5%. (INS, 2020c)
Turnover in trade and services provided to the population	The volume of trade with motor vehicles and motorcycles decreased, as gross series, by 14.7 % and decreased as adjusted series according to the number of working days and to seasonality, by 13.1%. The volume of services provided to the population, as gross series, decreased by 254 % and dropped as adjusted series according to the number of working days and to seasonality, by 23.5 %. (INS, 2020d)

Source: Author data extraction from INS Reports

Additionally, according to National Trade Register Office, the registration number of natural and legal persons has decreased by 47% in period 01.01.2020 – 30.04.2020 compared to the same period from the previous year, from 56.176 to 29.780. (ONRC, 2020)

The World Bank developed a real-time database that tracks measures implemented by countries to support the Small and Medium Enterprises (SME) to mitigate the impact of the COVID-19 pandemic. According to the World Map database, the following measures were implemented in Romania (excluding those related to containment, travel restrictions, closure of universities, cancellation of public events, obligatory shut down of economic activities) (The World Bank, 2020a):

- (1) Fiscal measures: fiscal stimulus packages and tax deductions on the corporate income tax and Value Added Tax (VAT) exemptions on imports of medical and sanitary devices.
- (2) Health system measures: risk bonuses of EUR 500 per month for the medical staff in direct contact with the coronavirus (EUR 100 million), financial support to quarantine centers (EUR 30 million), and the purchase of medical and protective equipment (EUR 350 million).
- (3) Income support measures for individuals and households excluding tax and contribution changes: the state will finance 75% of the gross salary of employees in technical unemployment (up to 75% of the average gross wage) in firms affected by the pandemic; One parent can have paid leave (75% of the gross salary, up to 75% of the standard gross average salary) when a child's educational institution is temporarily shut down by authorities due to extreme circumstances.
- (4) Tax and contribution policy changes: bonus for the payment of the corporate income tax in April for all companies (reduction of 5% for large companies, 10% for medium businesses and microenterprises), and VAT exemptions on imports of medical and sanitary devices related to combat the virus.
- (5) Deferral of taxes and social security contributions and bringing forward: the payment deadlines for local taxes (cars, building, land) have been postponed to end of June. The government also announced tax relief measures, including the acceleration of VAT refunds, the suspension of most tax audits and foreclosures on overdue debtors, amendments to the tax debt restructuring program, and calculation of the corporate income tax base.
- (6) Loan guarantees by the state benefiting private borrowers: the state guarantee scheme has been expanded, and subsidized interest rates for small and microenterprises will be temporarily allocated (budget up to EUR 3.1 billion).
- (7) Monetary policy: on March 20, 2020, the National Bank of Romania (NBR) cut the interest rate to 2.0 % to hinder the economic fallout. Additionally, the NBR lowered its landing rate facility to 2.50% from 3.50% and committed to provide liquidity to banks via repo transactions and purchase leu-denominated debt on the secondary market. (Jackson, et al., 2020, p. p. 76)
- (8) Prudential regulation: Banks are allowed to use capital buffers and operate with a lower liquidity ratio. Credit institutions are permitted to temporarily reduce or suspend loan amortization payments without applying the regulatory provisions on indebtedness, the loan-to-value limit, and the maximum maturity of consumer credit.
- (9) Support to individuals and households: Loan payments can be suspended for nine months for individuals and firms affected by the outbreak.
- (10) Support for companies: SMEs obtaining an emergency certificate can benefit from an extension of the payment deadlines for utility services (electricity, natural gas, water, telephone, and internet services) and rents.

The pandemic also affected Romania's objective to propel the country's growth and drive it forward in both an expansive and inclusive way. According to the Country Economic Memorandum, Romania aims to build more reliable human capital and boost market competition. (World Bank Group, 2020) The epidemic lockdown has exposed the inequality of educational opportunities between rich and poor, and between areas of the country and drastically hindered business performances and competition. (De Rosa & Valerio, 2020)

Considering the actual context and Romania's prior objective to strengthen its competitiveness and become more attractive on the international global trade map by encompassing more upstream and downstream activities of the global value chain, the following measures and approaches are proposed:

- Continuing implementing local measures and surveillance for a transparent competition, enabling reliable companies to drive the growth.
- Supporting national producers to improve their productivity and become more visible on the international trading map through subsidies or affordable capital to invest in technology (e.g.: electrical, machinery, equipment; vehicle; furniture; cereal sectors.)
- Foster innovation: the government should organize contests to collect ideas that can optimize the functioning in different sectors, and it should be opened to modify and implement the measures, as necessary.
- Invest in specialists for the critical sectors of the economy – sending them in a regional program off-border to collect best-practices measures that could be realized at the national level (see the case of South Korean China with similar implemented programs).
- Hiring and "borrowing" senior managers to spend 10-15% of their time on government regulatory issues.
- Providing training programs that smoothly facilitate for some of the blue collars to transition to the white collars segment.
- Supporting access to education in rural areas and support unfavored youth to complete school studies.
- Continuing the investments in the infrastructure projects.

## 5. Conclusions

Only a more competitive economy and renewed attention to human capital can help Romania quickly rebound from the current crisis with a more solid productive base and a more inclusive society. Competition is an essential engine of the country's future success, and it should be nurtured even amid the existing difficulties. The past two decades have taught Romanians that openness to the world and free competition among its enterprises mean better jobs, more opportunities, and higher income.

Preserving competition in the economy and investing in human capital are the keys to a robust economic recovery. These measures can help lay the foundations for more inclusive and sustainable growth that benefits all Romanians.

Considering the pandemic disruptions, Romania is expected to experience a "V" shape recovery: the sharp decrease registered in 2020 will be offset by an outstanding recovery in 2021.

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