Coronavirus Pandemic Crisis

Oana Iuliana Rujoiu
The Bucharest University of Economics Studies, The Doctoral School of Law, Romania
rujoiuoana@yahoo.com

Abstract

The global pandemic spread was asynchronous and had a tremendous impact on the economy that simultaneously hit the demand and supply sides. Compared to previous crises, predicting the developments and shock intensity is complex due to factors relating to indeterminacy and the pandemic dynamics. However, the crisis transmission mechanisms are precise and play an essential role by amplifying its effects. The intensity of the crisis will depend on the starting conditions and the policy measures supporting the economic activity. Romania was confronted with it in a phase in which the economy was already experiencing slowdown signs; listed non-financial companies already showed a more marked deceleration growth rate of turnover and profitability than other European competitors, distinguishing for their more outstanding indebtedness; domestic stock market indices in most cases remained chronically lower than those before the 2008 global crisis. On other fronts, the departure conditions did not raise particular concerns.

Key words: crisis, coronavirus, macroeconomics
J.E.L. classification: F12

1. Introduction

Overall, the risks remain firmly to the downside. The pandemic has not been overcome yet, and coexistence with the virus will continue to generate more or less accentuated economic and social repercussions. The current crisis delivers some fundamental lessons. The first concerns the need to refine and develop investigation tools that can effectively meet the policymakers knowledge needs, despite the substantial uncertainty context dominated. International collaboration is also essential to mitigate the downside risks deriving from geopolitical tensions at a global level, accentuated by the Covid-19 crisis, and contain the repercussions from the United Kingdom's Brexit without an agreement. In addition to having a heavy impact on the countries' economic growth, the pandemic also triggers or contributes to accelerating processes potentially suitable for radically changing the socio-economic context of reference. Overall, the Coronavirus crisis is returning to financial markets regulators and supervisory authorities and beyond, a profoundly changed reality that could highlight further evolutions in the future. The Coronavirus infection took on pandemic proportions destined to generate significant economic and social repercussions in just a few weeks. As of 30 June 2020, the pandemic reached over 200 countries, involved around 11 million people, and caused over 500,000 victims, thus resulting in a lethality rate on average equal to about 5%. Although the symptoms of the infection are generally mild, especially in children and young adults, for a significant proportion of the infected (20% according to the WHO), the course is more severe due to respiratory insufficiencies that require hospitalization.

Although the infection symptoms are generally mild, especially in children and young adults, the course is more severe for a significant proportion of the infected due to respiratory insufficiencies that require hospitalization. For Covid-19, neither vaccines nor drugs are currently available, among those used so far, whose therapeutic efficacy is robustly proven. Coronavirus proved to be highly contagious right from the start, and all individuals were potentially susceptible to are potentially vulnerable to contracting the infection. The pandemic is part of the group of severe respiratory diseases that have appeared in recent years: SARS, identified in China at the end of 2002; the H1N1 virus, detected in Mexico in 2009; the MERS-CoV, which spread in 2012 first in Saudi Arabia and then in other countries of the Middle East. These viruses were characterized by a lower morbidity rate than Covid-19 while recording higher mortality rates.

2. Literature review

The spread of global infection has revealed many national health systems' fragility. Faced with countless research to identify efficient treatments, patients have been set up to ease the pressure on existing structures. Moreover, most affected countries have resorted to the only state measure capable of reducing the rate of infections, namely social distancing. In Europe, the initial flight stoppage to and from China was followed by schools closure, the people's free movement restrictions, suspension of the public event to so-called lockdown. Globally, I applied the lockdown with different timing and intensity. The euro area has adopted strict measures introduced in Spain and Germany and has maintained them in their most incredible power for a relatively extended period. The measures intensification has allowed us to glimpse the heavy repercussions at economic and social levels immediately. Although it allows reducing the contagion, the lockdown causes a shock on both the supply and the demand side, as will be shortly discussed. The intensity of the shock depends on the duration of the social distancing measures and the decrease in hours worked, in turn, a function of two crucial parameters: the morbidity rate and the mortality rate of the infection. The shock intensity depends on the pandemic measures term and the decrease in worked hours and crucial parameters like infection rate.

However, these parameters cannot yet be assessed with a reasonable approximation degree: for example, the mortality rate is calculated concerning the number of confirmed cases which, however, could be vastly underestimated. This makes it difficult to estimate the future development of the crisis. This makes it difficult to estimate future crisis development. Another uncertainty factor concerns a possible virus resurgence and the need to restore more or less limited social distancing measures. Given the uncertainty elements mentioned above, the crisis's extent will depend on identifiable and measurable factors, including the economic and financial conditions and pre-existing country vulnerabilities.

3. Research methodology

The research method used in this paper was an empirical one made through the help of data collected from books and articles published by the national and European institutions.
The documentary sources help both as theoretical underpinning and investigative areas for study. Furthermore, the literature review pays particular attention to primary causes given the investigation plan goals. Primary references include elements published by the European Union and several researchers centering on macroeconomics. All primary resources have been studied in connection with the specific literature.

This scientific documentation, which includes scientific literature, begins from several known experts in development, particularly the European Union's activity. This study was based on a qualitative approach relating themes that underlie the different aspects of the pandemic crisis issue. We planned to question pandemic effects on the economy and qualifying structural transformation, and such an approach to the object of study seemed particularly well indicated. The research obstacles and limits remain crucial in all formal investigations, particularly in human and social sciences.

For this purpose, this question has itself been the subject of complete research in recent years. Moreover, progress in this field, especially in qualitative research, makes it possible with more precision and conviction to identify, label, and describe many of the fundamental epistemological obstacles to information and the limits integrated into this research type. In conclusion, certain vital biases that may affect or damage the researcher's work are relatively well known and preventively offset. It is up to the researcher to identify those who are limited and take them into account, especially by understanding them better and requiring critical attention during the investigation process.

4. Findings

As of March 2020, several international institutions have updated their previous economic growth estimates for 2022 with firmly downward revisions. In April, for example, the International Monetary Fund (IMF) predicted a GDP decline to an average of globally 3%, 6% for advanced economies and around 1% in emerging ones: at the end of June, on the other hand, the projections indicate, a reduction equal to little less than 5%, 8%, and 3%. The OECD also released derogatory updates, distinguishing two scenarios, depending on whether or not the second wave of infections occurs. For our country, the IMF estimates a drop in GDP equal to 12.8% in 2022 compared to a euro area average of 10.2%.

The OECD figures fluctuate between about -12% and -14% depending on whether the single or double hit scenario is considered (for the euro area respectively -9.1% and -11.5%); the summer European Commission July forecasts indicate a contraction of 11.2% (-9.5% according to the spring forecast) compared to -8.7% for the euro area. For 2021, assuming that no new contagion episodes occur, the most recent projections suggest a partial recovery with growth rates fluctuating around globally 5% and between 7.7% for the euro area. For Romania, an increase in economic activity is estimated between 5.4% and 6.1%. However, the risks remain predominantly on the 2022 downside also. In the 2020 summer forecast, the European Commission suggested new infection waves possibility and the persistence of the economic repercussions of the emergency health among the factors that could make a recovery less robust; As part of the so-called upside risk, the European Commission mentioned the EU Next Generation fund, which is expected to significantly boost the economies of the Member States, particularly in 2022.

The major international institutions predict a more severe recession resulting from the 2008 financial crisis. The Covid-19 affair presents some analogies regarding the contagion and transmission channels dynamics to the real economy. In the updates, the progressive worsening of GDP growth forecasts testifies the significant factors dynamics uncertainty of whose effects can only be better approximated through scenario analyses. Furthermore, if confirmed, even the most optimistic forecasts identify the current one as the most severe crisis experienced in recent decades. The current crisis is unprecedented because, in addition to the income, it simultaneously affects critical individual life spheres, such as health and education. The current crisis is unprecedented also because, in addition to the income, it simultaneously affects vital spheres of individual life, such as health and education. The human development index drawn up by the United Nations provides obvious evidence in this regard. Estimates for 2022 show a decline due to the combined impact of the health emergency (with deaths exceeding five million cases in the world), the significant contraction in global GDP, and the drastic reduction in school education for most affected economies.

According to the United Nations, the school's closure has affected almost 150 countries, or about one and a half billion children and young people, equal to nearly 86% of the entire world student population. The only partially contained the negative impact on education through distance teaching techniques, in the face of heterogeneous connectivity conditions between countries and within the same country. Also for this reason the Covid-19 crisis is acting as an amplifier of inequalities, with very negative repercussions from a social as well as an economic point of view. Among the indicators that anticipate the turning points of the cycle, the OECD composite leading indicators recorded a sharp decrease for the economies affected by Covid-19 in the first months of 2020, marking a negative deviation from the level of activity of long term, followed in the second quarter of the year by a rebound which, among the major euro area countries, is more pronounced for Germany.

Starting from March 2020, the PMI indices (purchasing managers indexes) also signaled a sharp decline in economic activity inside the significant euro area, although initiating a substantial recovery in the second quarter of the year due to the easing of lockdown measures and the adoption of measures to combat the crisis at home and internationally. The indicators that reflect in real-time the uncertainty about economic policy perceived and transmitted by the press have also moved in the same direction. After the peak in March, which in Romania vastly exceeded the levels recorded during the 2008 financial crisis, touching the values reached during the sovereign debt crisis, the indicators followed a declining trajectory, albeit remaining at the end of the year. June on higher than pre-crisis levels. For our country, mainly, the INSEE indices show a contraction in consumer confidence in all areas, although that attributable to the economic climate is more marked despite slight signs of recovery detected starting from the easing of the lockdown measures.

5. The Crisis in Romania: An In-Depth Analysis

In Romania, the crisis manifested itself at a stage in which the economy was already experiencing signs of a slowdown, although the overall conditions of the production and financial system were more solid than in the past, and public finances showed a budget deficit under control. INSEE data for the first quarter of 2020 show a decline in GDP of 5.3% compared to the previous quarter and 5.4% compared to the first quarter of 2019; data has never been recorded since the first quarter of 1995. This expectation depends on many factors. First of all, as already mentioned, in Romania, the epidemic has spread a few weeks after of other advanced economies. According to INSEE data for the first quarter of 2020, the production limitation activities in March would have involved 34% of production and about 27% of value-added. In April 2020, industrial production decreased by more than 40% compared to April 2019, with a more significant decrease in some sub-sectors (approximately -85% for durable consumer goods and -53% for capital goods) and more attenuated in others (-29% for non-durable consumer goods and -14% for the energy sector).

In April 2020, industrial production decreased by more than 40% compared to April 2019, with a more significant decrease in some sub-sectors (approximately -85% for durable consumer goods and -53% for capital goods) and more attenuated in others (-29% for non-durable consumer goods and -14% for the energy sector). The latest data updated to May 2020 indicate a partial recovery, marking a contraction in industrial production of -20% overall compared to the previous year. The marked crisis impact in our country also derives from the significant contribution of the hardest-hit sectors, including the tertiary sector (to which activities such as tourism, catering, and entertainment refer) and manufacturing. INSEE data of the productive sectors shows that the aggregate 'trade, transport, repairs, accommodation and catering' contribute about 21% to the total added value, while the manufacturing industry refers to 17 % approx. In the first quarter, the main components of the first aggregate experienced a significant drop in turnover (-24.6% for air transport, -24.8% for accommodation services and catering, -10.8% for the wholesale trade in capital goods compared to measures to restrict mobility between parts of the globe do not suggest a speedy recovery.

The manufacturing sector also had heavy repercussions, with a production contraction compared to 2008. Unlike the aggregates related to the service sector just mentioned, however, the dynamics of the epidemiological emergency and the related containment measures are compatible with a faster restart of activities, although with differences related to the position in the global production chains and the demand conditions. Another factor that could aggravate the repercussions of the Romanian crisis is the strong dependence on exports and, therefore, the greater exposure to significant contractions in international trade. According to the BNR, in 2022, global trade could experience a contraction of about 14%. More optimistic are the data from the European Commission, which fears an 11% drop in spring forecasts, and the updates released by the IMF in June, which estimates a contraction in foreign trade of approximately 12%. With specific reference to the Romanian data, the latest available INSEE data, for the month of May 2020, show a decline on an annual basis of foreign trade of 35% for imports and 30% for exports.

The downward trend in imports in April and May in the two main supply markets, Germany and France, is close to or above 40%. Excluding OPEC data (linked to the unprecedented drop in oil prices), the most significant contraction was in imports from Russia (-45%), which accounted for 3.5% of total imported goods. The decline on an annual basis from April was close to or greater than 40% for all major markets for Romania goods, except Germany and China, where the drop was 34%. In May, the contraction in exports annually is more minor but still very significant. The countries that contribute the most to the fall in exports are Spain (-40%), the United Kingdom (-35%), and France (-34%), followed by the United States (-27%), China (-26%), Germany (-23%) and Switzerland. After a sharp decline in the first quarter of 2022, Household disposable income is expected to recover slightly in the following quarters compared to the social shock absorbers activated to support workers and businesses and the gradual restoration of productive activities. Consistent with the decline in disposable income in the first quarter of the year, consumption fell by almost 8%. Estimates of the savings rate indicate a return to pre-crisis levels in 2021, after a peak of more than 16% in the current year due to a greater propensity for precautionary savings. Several surveys show a severe impact of the crisis on the current economic situation and the expectations and future programs of Romanian families.

6. Conclusions

The Coronavirus pandemic, which has swept most parts of the globe since early 2020, has now taken on the proportions of an epoch-making event and foreshadows even longer resolution times. For Romania, the risks to economic activity appear to be declining. The pandemic hit the country when it was already in a slow growth phase, which for years remained lower than that of major advanced economies. Pre-existing imbalances in public finances are also a constraint on anti-crisis measures. At the European level, the response of the institutions has been far greater than the measures taken to deal with the crises of 2008 and 2011 and, at the same time, exceptional: think of the activation of the general safeguard clause of the Stability Pact. And growth, which for the first time allows all Member States to deviate temporarily from the medium-term budgetary targets. The nature of the ongoing crisis makes international cooperation more indispensable than ever to ensure effective and timely measures to support economic activity. Failure to coordinate could jeopardize the recovery, which is already hampered by the international relations gradual deterioration. However, the stock market could sharply correct the recovery in prices if general economic conditions worsen or the recovery is slower than expected.

Tensions may arise in the sovereign debt bond market due to the deteriorating state of public finances and increased debt financing needs. In the face of uncertain macroeconomic prospects, the risks also seem to be lower for Romanian listed non-financial corporations, which as a whole are characterized by a higher vulnerability than European companies. This vulnerability makes it more challenging to sustain the higher level of debt that companies will have to incur to meet the increased liquidity needs generated by the crisis more or less intensively depending on the sector to which they belong. The possible increase in insolvencies, the more likely, the longer the economic stagnation will be, the more likely it is that there will be an increase in non-performing loans for banks and, most likely, a credit rationing which in turn will strengthen the recession. A positive note comes from the fact that Romanian banks have recovered their assets and improved the quality of their assets in recent years.

Overall, the pandemic crisis is giving back to regulators and supervisors (of the financial markets and beyond) a profoundly changed reality destined to undergo further developments. Therefore, it is essential to strengthening the capacity to anticipate current developments and their effects on the economic and financial system. To this end, it is essential to strengthening the data-driven approach to regulation and supervision, already adopted in response to the 2008 financial crisis, by expanding its scope and using data science and data analytics tools.

7. References

- Bergeijk, A., G. Peter, 2021. *Pandemic Economics,* Cheltenham: Edward Elgar Publishing.
- H. O'Hair, Dan, O'Hair, John, Mary, 2021. *Communicating Science in Times of Crisis: COVID-19 Pandemic,* Thousand Oaks: Wiley.
- Huisman, Jeroen, Tight, Malcolm, 2020. *Theory and Method in Higher Education Research*, Bigley: Emerald Publishing Group.
- Lew, A., Alan, Cheer, M., Brouder, Patrick, Joseph, 2021. *Global Tourism and COVID-19,* Abingdon: Routledge.
- Mečiar, Marcel, Şimşek, Hamza, 2021. The Social and Economic Impact of Covid–19: Rapid Transformation of the 21st, London: IJOPEC Publication.
- Paulsen, B., Michael, Perna, W., Laura, 2019. *Higher Education: Handbook of Theory and Research*, Cham: Springer.
- Perna, W., Laura, 2020. *Higher Education: Handbook of Theory and Research*, Abingdon: Routledge.
- Sadler, R., Thomas, 2021. *Pandemic Economics,* Abingdon: Routledge.
- Tight, Malcolm, 2018. *Higher Education Research: The Developing Field*, London: Bloomsbury.
- Ziakas, Vassilios, Antchak, Vladimir, Getz, Don, 2021. *Crisis Management and Recovery for Events,* Oxford: Goodfellow Publishers Limited.

- *Covid-19. Impactul Economic,* [online] Available at:< https://insse.ro> [Accessed 22 November 2021].
- *Reports* [online] Available at https://ec.europa.eu/eurostat/data/metadata/covid-19-support-for-statisticians>[Accessed 3 December 2021].
- https://insse.ro.