POSSIBLE ECONOMIC AND SOCIAL EFFECTS GENERATED BY THE COVID-19 CRISIS

Elena FLORIȘTEANU

“Nicolae Bălcescu” Land Forces Academy, Sibiu, Romania
elena_floristeanu@yahoo.co.uk

Abstract: *In recent years, the problems facing the national health system have always been brought to the forefront of public life. Poor quality of medical services, lack of staff or hospital infrastructure were most often linked to the underfunding of the medical system, but also to the inefficient use of allocated financial resources. The economic results, quantified also in the financial resources that feed the public budgets, are the mirror of the possibilities that the public authorities have in the financing of the public sectors and, implicitly, of the health system. As the current COVID-19 crisis affects most economic and social areas, numerous questions arise about the size of possible losses, future developments and possible ways of recovery.*

Keywords: healthcare crisis, economic and social effects, financial resources, public budgets

1. Introduction

The economy of Romania, like that of other states, is currently subject to major challenges that are not rooted in economic causes, but rather brought about by the health crisis initially located in China and later impacting on other health systems. The first information about a possible epidemic caused by a new virus did not cause panic in other states and did not disrupt daily life. Was it too far away and it could not be transmitted? Could epidemic events from the past increase the level of attention and caution of states? There are questions to which the answers could be subjective, but the consequences of spreading beyond the territory of the “mother” state are seen and measured in numbers. They represent people (people who have contracted the virus or have been cured or, worse, have died) or economic indicators: growth, deficit, unemployment, jobs, etc.

Probably facing the most severe crisis in modern history, the states of the world are looking for solutions to support not only the economic environment, severely affected, but also the population, which bears the consequences of the double facet of the crisis, the economic and the social one. The article draws attention to some of the economic and social problems that have been caused by Coronavirus disease, also known as COVID-19.

2. The transmission of the COVID-19 epidemic on economies

The process of globalization has led to increased interdependencies between states, interconnected economies and pushed distribution chains beyond state borders. The removal of barriers from the international labor market, transposed into the free movement of labor and capital, has also opened up new avenues for spreading risks, not only of financial nature, but also of a different nature, including medical.

As seen in the specialized literature (Dolgu, 2009; Armada M. João C., 2011; S. Claessens, R. Dornbusch, Y.C. Park, 2001), in the case of a financial crisis, the term “contagion” is often used. By using this term, it is suggested that both the possibilities of transmitting the crisis at the international level and the fact that once the economies are connected, do not give states the possibilities to defend against the shockwaves produced. The term “contagion”, entered in the borrowed economic vocabulary from the medical field, refers to an epidemiological disease, which can be contacted by members of a community if no countermeasures are taken. In the situation generated by the crisis of the new Coronavirus, the effect of contagion is reflected both on people and on economies.

According to most studies conducted by various national and international institutions, the COVID-19 epidemic represents a major shock to the economy, both globally and in the European Union. The European Commission notes that there are several channels through which this crisis is affecting the European economy, including [1]:

- the shock resulting from China’s initial contraction in the first quarter of 2020;
- the supply shock by disrupting supply chains and absences from work;
- the demand shock caused by the declining consumer demand and the negative impact of the uncertainty looming over investment plans;
- the impact of the liquidity deficit on businesses.

The Fiscal Council of Romania considers at least four main mechanisms for transmitting the effects of the crisis, highlighting the following [2]:

- the imposition of measures related to the exceptional situation leads to the appearance of an internal shock on the aggregate demand, but also of a shock regarding the aggregate supply;

- there may be a transmission of the negative dynamics / shocks of trade, and of the world economy in general, to national economies;

- there could be an increase in shocks in the two-way relationship between the real economy and the financial sector.

The consequences of the spread of COVID-19 led to the inclusion of this pandemic by the Romanian Government in the category of severe public health emergencies for citizens and economic entities and also a major shock for both global economies and the national economy [3].

The lack of borders in the way of the spreading the SARS-CoV-2 pandemic is highlighted by the National Strategy and Prognosis Commission, which based on the huge number of people affected, almost 2 million citizens from over 180 states, estimates that “the Sars-2 pandemic COVID 19 turned into the most important negative shock to the world economy, after the economic-financial crisis of 2009” [4].

The NBR also mentions the Coronavirus epidemic among the risk factors and uncertainty regarding global economic growth, with effects on Romania as well.

After comparing the COVID-19 crisis with previous crises, it has been noted that certain foundations or characteristics make it unique. An example of this is the measures taken at state level to mitigate the spread and which have subsequently become enablers of the economic and social traumas that arise. Thus, governments around the world have given priority to measures that limit the spread of disease and save lives, including the complete blockade of some regions (China, Italy and Spain) or of some areas (Suceava, Romania). In particular, the following have been considered: social distancing, quarantine and isolation; temporary closure of economic and educational activities; reduction of working hours; travel and mobility restrictions; prohibition of any kind of public events; redirecting important budgetary financial resources from other

sectors of activity to support the expenses of the health system.

Due to their specificity, the measures of partial or total closure (blocking) of economic activities and isolation / self-isolation, are reflected in the literature (D. Dăianu, March 2020; A. Sebov O. Toader, 2020) under terms such as “shutdown, “lockdown” or “big blockade”, which suggestively expresses the very peculiarity of the crisis. In implementing some or other of the measures, the level of impact of SARS-CoV-2 virus has been taken into account, as well as the possibilities of infusion of support resources of each state.

3. Possible effects of the COVID-19 crisis

Launched in late 2019 in Wuhan, the COVID-19 crisis has silently spread to other states and continents and, as an invisible enemy, continues to spread uncertainty and economic and social blockages. As the severity of the crisis has become increasingly apparent, many national and international institutions and organizations are making predictions about the impact and launching options for recovery and possibly, re-launch. Most analyzes, however, are affected by the uncertainty given by the impact period and the magnitude of the effects transmitted in the chain between fields and activities, as well as between national economies linked by advanced trade relations.

To reflect macroeconomic effects, relevant indicators that may suggest the impact are discussed, such as: GDP evolution, number of jobs affected / unemployment; budget deficits or public debt.

According to the United Nations, the current visible economic, social and financial consequences will be felt even after the end of the pandemic, and the countries that will be hit the hardest will be poorest, the ones under development and the most indebted. The warning comes in the wake of the global financial crisis in

2008, which has increased public external debt in many developing countries, increasing default risks. The UN points out that the same spectrum includes middle-income countries, where 75% of the world's population and 62% of the world's poor live, people who are extremely vulnerable to a debt crisis, loss of market access and capital outflows [5].

As the crisis progresses, the situation may become even more difficult, but not only for low-income countries, but for all the countries affected by Coronavirus, as they will need funding, and competition for access to resources will increase the cost of funding on international and domestic capital markets. The fact that world governments are infusing trillions of dollars in the form of incentive packages to support their economies may be helpful, but many of the resources come from loans that, according to the Economist Intelligence Unit (EIU), increase the sovereign debt accumulated for this purpose, which can send the global economy into a second recession.

Pessimistic data also comes from the IMF, which estimates that the global economy will experience the worst crisis since the Great Depression of the 1930s, contracting by 3 percent in 2020. IMF projections also suggest that all groups of countries, rich and poor alike, will have economic contraction. Thus, for advanced economies a decrease of 6.1% is expected, and for emerging markets and developing economies a reduction of growth of 1% is expected. Based on the IMF's scenarios, assuming that the pandemic is fading in the second half of 2020 and that isolation efforts will be phased out, it is anticipated that the global economy will grow by 5.8 percent in 2021 as activity will normalize, aided by political support. Emerging markets and developing economies would grow by 6.6% and advanced economies by 4.5% (Figure 1) [6].

Figure 1 Projection of growth by 2021

The Organization for Economic Cooperation and Development (OECD) has also revised its overall growth forecast for 2020 and shows that it could be reduced by around 0.5 percentage points in 2020: from 2.9% in 2019, it will reach 2.4% in 2020. The organization estimates that given the fading effects of the virus outbreak, of the increased confidence in political action and of proper revenue targeting, the global GDP growth will be 3.25% in 2021 [7].

For the regions where the European Bank for Reconstruction and Development operates (Central and South-Eastern Europe and Central Asia), respectively for the 37 countries (Romania included), the institution has significantly worsened its estimates, predicting a decline in GDP of 3.5% in 2020, as a result of the effects of the crisis caused by the Coronavirus pandemic (COVID-19), on tourism, remittances and raw material prices. For 2021, the EBRD forecasts an advance of 4.8%, depending on the existing uncertainties about the trajectory and duration of the epidemic [8].

At EU level, the European Commission estimates that the GDP will contract by approximately 7.5% in 2020, a higher level than during the global financial crisis of 2009, with a return of only 6% in 2021. Moreover, based on the evaluations performed, a gradual U-shaped recovery is suggested [9]. The data provided by the Commission show that not all Member States will be equally affected, but as a result of strong interdependencies between them, an incomplete recovery in one country would spread to all other countries

and slow down economic growth across the Union.

According to Coface, the COVID-19 epidemic will cause 68 countries to enter recession. It is also estimated that the number of companies going into insolvency will increase by 25% in 2020. In an optimistic scenario, insolvencies would increase in the United States by 39% and in all major Western European economies by 18%, respectively: Germany (+ 11%), France (+ 15%), United Kingdom (+ 33%), Italy (+ 18%) and Spain (+ 22%) [10].

The insolvency or bankruptcy of companies affects jobs, especially for workers in vulnerable areas, and increases poverty. The International Labor Organization (ILO) reveals that employers and self-employed workers, who represent about 436 million businesses, work in the hardest hit sectors around the world. The ILO estimates that 1.25 billion workers, representing almost 38% of the global workforce, are employed in sectors that are now facing a severe decline in production and a high risk of labor displacement. Key sectors include the accommodation and food services / hospitality industry (HoReCa), retail and food and manufacturing [11].

The losses caused by the decrease of the consumption resulting from the measures to isolate the population, are complemented by those from the blockade of tourism. Thus, countries dependent on tourism revenues (with a threshold of 15% of the GDP) will be affected by domestic and international travel restrictions. The tourism sector accounts for at least 15% of the GDP in 45 countries, including Morocco,

Tunisia, Mexico, Thailand, the Philippines, Croatia and Cambodia [12]. In fact, for many of the Member States of the European Union, tourism is a key contributor to the economic and social structure, providing, directly and indirectly, almost 10% to EU GDP. Moreover, tourism provides jobs and vital incomes, often concentrated in regions with no other sources of employment and involving low-skilled workers [13].

The current economic interconnection between states increases the aggregate shocks of supply and demand and increases the difficulty of quantifying the effects and streamlining the protection measures. The impact of savings due to the new Coronavirus pandemic is further amplified by declining commodity prices, declining exports and capital outflows, which have quadrupled in emerging economies as global uncertainty has increased. Under the given conditions, the fiscal-budgetary positions of the states under the pressure of the decrease of the received public revenues, simultaneously with the increase of the expenses to which they are obliged by the COVID-19 crisis, can deteriorate. To overcome the funding constraints that would affect their ability to respond to the challenges posed by the pandemic, they can turn to external support. For example, the IMF shows that of the 189 member states, 90 countries, meaning almost half, have applied for emergency funding from the IMF to respond to the Coronavirus pandemic.

Nevertheless, the states, caught in the “straps” by the reduction of the fiscal space in the period before the crisis, are obliged to exercise caution so that by increasing the degree of indebtedness they should not further the vulnerability of public finances and put pressure on the budget. Therefore, the degree of vulnerability of the states to the shock generated by COVID-19, depends essentially on the initial situation of their public finances and on the available fiscal space that determines the ability to respond to the multitude of economic and

social problems they experience.

4. Economic coordinates in the context of SARS-CoV-2 in Romania

4.1. Initial aspects of the economic and social environment

In order to have an overview of the economic context in which the crisis produced by COVID-19 began to be felt in Romania, a series of indicators relevant to the Romanian economy and which, according to data made public by several national institutions (The National Bank of Romania / BNR, the National Strategy and Forecast Commission / CNSP; the National Institute of Statistics / INS) and international institutions (World Bank, International Monetary Fund / IMF, European Commission, European Bank for Reconstruction and Development / EBRD) are mentioned and expected to be affected.

When the information regarding the SARS-CoV-2 virus infections appeared, the Romanian political decision-makers looked with optimism at the start of a new budget cycle, being encouraged by the results obtained in the previous year. The increase of the gross domestic product by 4.1% [14], but also the favorable, initial forecasts of the National Commission of Strategy and Forecast, for 2020, made the increase of the budget deficit to 4.6% of GDP (over the 3 % of GDP provided for in the Maastricht Treaty), as well as the increase in public debt to 37.9% of GDP, not to cause too much fuss.

In this context, it must be pointed out that the basis of growth was a consumption-based model, facilitated by a pro-cyclical fiscal policy. More specifically, the economy was stimulated during the period of expansion by increasing consumption, and demand was regulated by prices and imports. Among the notified consequences is the increase in inflation, which according to the NIS was 3.8% in 2019, but also the increase of the current account deficit to 10 billion Euros. If we consider that the GDP taken into account at the end of 2019 is of

222 billion Euros, we can see that the current account deficit has reached 4.5% of GDP, a level that can contribute to the amplification of economic vulnerabilities. Moreover, the data made public by the NBR show that the current account deficit is expected to have exceeded, since 2019, the “benchmark” value of 4 percent of GDP, stipulated by the European Commission as a multi-annual indicator of macroeconomic imbalance for European Union member states [15].

An additional pressure comes from the labor market, which is marked by a shortage of labor and skilled personnel in certain market segments. Regarding the identification of the causes of the deficit, it is important to observe two perspectives, respectively: the quantitative one, reflected by the decrease of the active population (labor supply), which occurs against a negative natural rate of population growth and emigration, and the qualitative one, consisting of the so-called “skills deficit”, which shows the gap between the qualifications required by employers and those actually held by those looking for a job [16].

4.2 Present realities and perspectives on the effects of the COVID crisis in Romania

Regarding the perspectives of the impact of the Coronavirus pandemic in Romania, there are several opinions, more or less optimistic coming, on the one hand, from international institutions, and, on the other hand, from national institutions. The differences between the launched hypotheses show the multitude of unknowns that accompany the evolution of the SARS-CoV-2 pandemic. The gathering of some of the forecasted data helps to understand the current situation and to form an informed image regarding the future economic and social evolution of Romania (Table 1).

The World Bank has shifted its outlook for economic growth from an estimated 3.8 percent expansion before the crisis to a

contraction of up to 0.3 percent in 2020. However, given the economic recovery in the first half of the year, second semester, Romania could register an increase of 4.4% in 2021. The World Bank estimates that under the pressure of the crisis on budgetary resources, Romania’s budget deficit will continue to increase in 2020 to about 5.5% [17].

The data provided by the IMF for Romania are pessimistic, both in terms of the evolution of the economy and in terms of the budget deficit and the labor market. Thus, the institution forecasts a contraction in GDP of 5% in 2020 (a sharper decline than expected by the World Bank, but lower than that of the European Commission), followed by a return to 3.9% in 2021. At the same time, the IMF estimates that the deficit current account in 2020, will reach 5.5% of GDP, falling to 4.7% in 2021 [18].

In turn, the European Commission shows that Romania’s real GDP will contract by 6% in 2020 and will increase by 4.2% in 2021 [19]. The estimate is made in correlation with the budget deficit, which, according to published data, will be extremely high in 2020, both in Romania and in other European countries: Italy (11.1%), Spain (10.1%), France (9.9%), Poland (9.5%), Romania (9.2%).

As a result of the disappearance of some jobs, both the IMF and the European Commission anticipate an unemployment increase in Romania in the coming periods. The European Commission expects that as some companies close due to the COVID-19 crisis, unemployment will rise from an all-time low of 3.9% in 2019 to 6.5% in 2020. As in the case of economic development, the IMF estimates an explosive increase in the unemployment rate, up to 10.1% in 2020, to be reduced to 6% in 2021.

The Romanian government does not offer an exact figure of the impact of the recession caused by the Covid-19 pandemic in the national economy, but anticipates that

in 2020 the contraction will be between -1% and -3% (National Strategy and Forecast Commission indicates a contraction of 1.9% of the Romanian economy in 2020). Based on growth estimates, the government approximate that

the overall consolidated budget could run a deficit of 6.7% of GDP revised this year following the onset of the COVID-19 crisis, which led to an additional budgetary effort of around 3 % of GDP compared to the initial projection.

Table 1 Scenarios for the evolution in Romania

	GDP (%)			Budget deficit (% of the GDP)		
	2019	2020	2021	2019	2020	2021
World Bank	4.1	0.3	4.41	- 4.6	-5.5	- 3.9
IMF	4.1	-5.0	3.9	- 3.7	- 4.1	- 4.7
European Commission	4.1	- 6.0	4,2	- 4.3	- 9,2	- 11.4
Ministry of Public Finance (Romania)	4.1	- 1.9	4.5	- 4.6	- 6,7	- 3.34

According to the Ministry of Public Finance, the negative influence of revenues from the domestic economy, caused largely by fiscal facilities granted to employers and employees in areas affected by the crisis, is estimated at 23 billion Ron. Part of the expenses would be offset by additional revenues of 3.9 billion Ron, revenues from European funds to settle the amounts used in measures to combat the COVID-19 crisis. In order to support SMEs affected by the COVID-19 pandemic, Romania requested support from the Commission under a scheme with a budget of 16 billion RON (approximately 3.3 billion Euros).

Regarding unemployment, the National Institute of Statistics (INS) reports that the unemployment rate rose to 4.6% in March from 3.9% in February, due to the effects of the COVID-19 pandemic on the economic sector [20]. The data made public by the Ministry of Labor and Social Protection (MLSP), reveals that on May 19, 2020, the number of individual suspended employment contracts was 598,640, and those terminated was 384,826 [21]. According to the Ministry of Labor, the main areas in which such measures have been taken are, as in other states, manufacturing, retail, hotels and restaurants and construction. Also, the Federation of Romanian Tourism Employers (FRTE) shows that the unemployment rate in hotels

and restaurants in Romania has reached 60%. The effort made by the Romanian state in support of employees and companies is reflected by the 1.5 million Romanians who, according to the Minister of Labor, received technical unemployment, following the crisis caused by the new Coronavirus, totaling 2.5 billion Ron.

In order to better understand the challenges that Romanian policy makers will face, it is necessary to remember that Romania's position in the European context is unfavorable, being affected by the accumulation of high structural deficits during the economic boom and, implicitly, the lack of fiscal-budgetary space to be used at present. Lower public debt than other states (35.2% in 2019) is subject to pressure, on the one hand from the cost of financing and, on the other hand, from the nominal GDP growth rate.

Constraints are also exacerbated by the new conditions set by the European Commission, which have started the excessive deficit procedure in Romania, and the government has pledged to bring the deficit below 3% in 2022. The two sides agreed that under current conditions when higher budget expenditures are required, it is necessary to avoid the implementation of permanent measures that would endanger fiscal sustainability and negatively influence the economy.

5. Conclusions

As we have seen, the COVID-19 crisis is not a national or regional problem, but a global one, which requires global answers. The uncertainty surrounding the impact of the Coronavirus pandemic, both in terms of duration and degree of economic disruption, urges institutions to be cautious when proposing recovery measures. Most scenarios forecast a recovery in the second half of the year, but there are data showing that both investment and consumption (growth generators) will be at lower levels in the post-crisis period.

Depending on the specific situation, countries will have to use all available fiscal space and mobilize domestic resources, including by reorienting current fiscal expenditures (in Romania there has already been a budget rectification that includes such measures). The COVID-19 crisis has shown once again the importance of fiscal-budgetary sustainability and the fact that the sustainability of public finances must not only be a circumstantial concern, but a permanent one.

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