HEALTH CRISIS IMPACT OF THE CORONAVIRUS ON ROMANIAN ECONOMY

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Abstract: *In late 2019 and early 2020, there was no sign of the health crisis that would follow within a very short time. It was on the news as a casual item about the Sars-Cov 2 virus which was affecting China at the time. Gradually, the virus spread throughout Italy reaching significant proportions in March. Ever since March 2020, the whole Romanian economic paradigm has changed; the priorities of the population and economic operators have changed within a very short time. The population's perspectives on saving and consumption have changed, as there are only ”survival, hunger, health, ventilators, masks, disinfectants, number of Coronavirus-related cases or deaths.” The ensuing health and economic crisis required the government's involvement and, in addition, the Romanian population perceived it as weak involvement. At the same time, from March to April 2020 which was the period of utmost concern both in terms of health protection and of food security, the importance of Romanian companies and their contribution in overcoming those difficult times were obvious.*
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1. Introduction

The biological (SARS-CoV2) Coronavirus has a major impact on population's health and is causing life losses all over the world. It is the largest public health crisis that has also affected business environment generating a major economic crisis, leading to a stop of production in the affected countries, a decline in consumption and confidence, and a decline of stock markets. The economic forecasts issued between April and June 2020 described a bleak outlook on the magnitude of the global economic downturn triggered by the pandemic.

2. Contents of the Paper

International organizations issued forecasts on the economic impact of the coronavirus pandemic. Thus, in June 2020 the IMF predicted a decrease in global GDP by 4.9% in 2020 followed by a partial recovery, with a 5.4% increase in 2021. The ILO estimates that the COVID-19 impact will lead to an increase in global unemployment by 5.3 million (“low” scenario) to 24.7 million (“high” scenario), signalling that “supporting trade operations will be particularly difficult to do by small and medium-sized enterprises” (SMEs)) '(ILO, 2020 [5]).

According to the economic forecasts in the autumn of 2020, the Euro Zone economy would decrease by 7.8% in 2020, before increasing by 4.2% in 2021 and by 3% in 2022. According to forecasts, the EU economy would decrease by 7.4% in 2020 before recovering with an increase of 4.1% in 2021 and 3% in 2022.

SME's are being directly affected by both supply and demand. As for supply, they are facing a decline in labour supply as employees are being directly affected by the virus or they need to take care of their children or other dependents as long as schools are closed and people's circulation is limited. The steps taken to stop the spread of the pandemic through lockdowns and quarantines are leading to interrupted supplies and generating shortages of intermediate goods. In terms of demand, its sharp decline and a decline in SME revenues are affecting their ability to operate and are generating illiquidity.

At the same time, consumers are facing declining incomes, fear of illness, increased uncertainty which in turn reduce spending and consumption. These effects are worsening, many employees are being fired because companies can no longer pay their salaries. The crisis is affecting the economic sectors differently, with a strong impact on tourism and transport which are in turn disrupting the consumption flow. SME's are strongly represented in sectors such as tourism and transport which are being significantly affected by the virus and by the steps taken to fight against it, as well as the sectors of fashion and food products where it is essential to have short delivery times.

Generally speaking, SME's are likely to be more vulnerable to "social distancing" than other companies are. The impact of the virus could have potential effects on financial markets, along with low confidence and loan decline. Such diverse effects are impacting both larger and smaller companies. However, the effect on SME's is particularly severe especially because of higher levels of vulnerability and lower resilience related to their sizes.

SME's often have a limited number of suppliers. In some cases, this may protect them from shocks. In other cases, SME's can rely on suppliers from countries and regions with lots of COVID-19 cases, thus increasing their vulnerability. Similarly, obstacles in maritime, road or air transport are affecting SME's. Some SME's are seriously affected by the disruption of business relationships and supply networks with larger operators. In the long run, it might be difficult or even impossible for many SME's to rebuild their connections with former partners who have concluded new business agreements.

Enterprises including SME's will bear the burden of a decrease in global demand for their products and services. This impact can be felt especially in certain sectors such as tourism and also among the SME's that serve local markets where quarantine measures have been implemented.

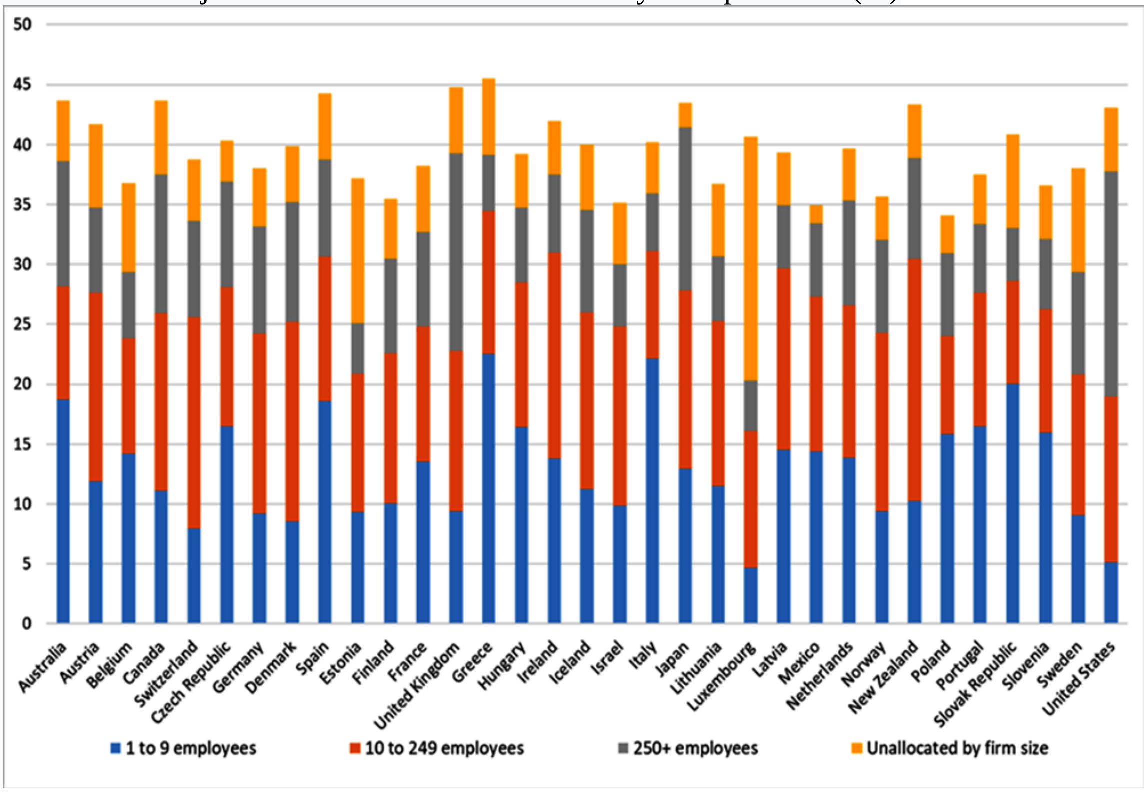
SME's can additionally have serious problems managing the costs involved in the measures taken during the pandemic. The costs of preventing the spread of the disease as well as the changes required in work processes such as switching to teleworking can be relatively higher for SME's, given their smaller sizes, but also, in most cases, given their level low digitization level and difficulties in accessing and adopting technologies. SME's may find it more difficult to obtain information not only on how to stop the spread of the virus, but also on potential business strategies to alleviate the shock and on available government initiatives to provide support.

Given the limited resources of SME's and the barriers they are facing in accessing capital, the period during which SME's can survive shocks is more limited than that of larger companies.

SME's and the sectors most affected by the crisis which, according to an OECD analysis, include: transport production, construction, wholesale and retail trade, air transport, accommodation and food services, real estate, professional services and other personal services (e.g. hairstyling). Recent OECD data show that while SME's in the business economy as a whole account for over 50% of employment in all OECD countries, the share of employed SME's in those sectors is on average 75% in all OECD countries and almost 90% in Greece and Italy. In some OECD countries, micro-enterprises are particularly well represented in the affected sectors. In Italy and Greece, the share of micro-enterprises in the most affected sectors is 60%, whereas their share in total employment in the business economy is 45% and 55%, respectively (OECD, 2020 [30]).

Graph 1. Smaller companies are dominant in the most affected sectors

Share of total number of jobs in the most affected sectors by enterprise size (%)



Source: OECD (2020) Strong, medium, vulnerable (OECD, 2020[30])

In our country, the pandemic has affected almost all economic sectors and has intensified already existing social issues.

Graph 2. Social issues caused by the health crisis in our country

Date	5 February2020
Individual labour agreements on hold	915.237 of which: 306.689 – Manufacturing industry 166.360 - Wholesale and retail trade; Repairs of motor vehicles and motorcycles 112.166 – Hotels and restaurants
Individual labour agreements ended	313.930 of which: 57.090 - Wholesale and retail trade; Repairs of motor vehicles and motorcycles 55.147 - Manufacturing industry 44.137 - Constructions

Based on the special situations caused by the pandemic and which SME's are currently facing, countries have taken various steps to support the former. While concern for population's health is at the forefront, a wide range of steps are being taken worldwide to reduce the economic impact of the coronavirus outbreak on business. Specifically, many countries are urgently implementing measures to support SME's and the self-employed in order to support short-term liquidity. Such policies are taking various forms. Some countries have focused on more general policies with the potential of cushioning the blow for the economy and for all businesses. For example, in many countries, central banks have intervened to support lending by easing monetary conditions and allowing commercial banks to lend more to SME's. Examples include unprecedented steps taken by the U.S. Federal Reserve and the European Central Bank.

Among the main SME-specific policy steps, there are:

• Shortening the working time, temporary dismissal and sick leave, some of which are being directed straight to SME's. Similarly, governments are providing support for wages and incomes to temporarily laid off employees or to companies in order to protect employment. In many cases, countries have laid down measures specifically focused on the self-employed.

• Postponing the taxes, social security payments, debt payments, and rent and utility payments. In some cases, tax exemptions or a moratorium on debt repayments have been implemented. Some countries are also taking action on public procurement procedures and delayed payments.

• Applying, extending or simplifying the provision of loan guarantees in order to allow commercial banks to extend loans to SME's.

• Intensifying direct loans to SME's through public institutions.

• Awarding grants and subsidies to SME's and other companies in order to reduce revenue decline.

• Using non-bank financial intermediaries in the policy support mix.

•Applying structural policies to help SME's adopt new ways of working and (digital) technologies, and to find new sales markets and channels so as to continue operating under the predominant quarantine measures. The policies aim at addressing urgent short-term challenges such as the advent of remote work, and also help to strengthen the resilience of SME's in a more structural way thus supporting their further development.

• Implementing specific schemes to monitor the crisis impact on SME's and to improve the governance of SME policy responses.

3. Relaunch measures announced by the Romanian Government in favour of SME's

On 1 July 2020, the Romanian government announced the economic recovery plan which is based on the amounts allocated to Romania by the European Commission in the form of assistance for companies' recovery and overcoming the crisis. However, the allocated European budget will only be accessible to the companies concerned on the basis of long-term concrete business projects and plans. SME's have to think about concrete projects to access funds, decide on the investments they are pursuing, identify the economic flows that can be automated and make a plan for the professional development of their employees.

The eligibility conditions will differ depending on the facility they are accessing, but as regards the measures addressed to SME's, at least two must be met by an applicant, namely qualify as an SME and not be in financial difficulty. In order not to risk any sanctions, SME's must pay attention both during the first stage, when determining beneficiary eligibility and, subsequently, when, while preparing the documents for accessing the programme, beneficiaries sign and submit declarations on their own responsibility stating that they meet the requirements, with all the legal consequences that ensue thereof. If the reasoning at the time of analysis was erroneous, the beneficiary risks having their guarantee cancelled / having the grants or subsidies awarded to them returned, as deemed necessary.

Some of the measures are already in place and have aimed at the rapid access to financial resources for the period March-May 2020, so as to ensure the retention of jobs for the employees working in the industries severely affected by the restrictions imposed in the pandemic context. It is mainly the "IMM Invest Programme," including the government paying for technical unemployment, re-insertion allowance for employees in technical unemployment, tax advantages such as the suspension of the obligation to pay taxes, bonuses for the payment of taxes, etc.

4. Concrete measures for SME's included in the relaunch plan

First of all, the "helicopter money" measures should be mentioned herein. They are among the most anticipated aid measures for companies that have been severely affected by the COVID-19 pandemic crisis: *awarding grants to companies* (non-reimbursable amounts granted directly to beneficiaries). The category of levers offered to SME's by the authorities to get out of the crisis also includes financing guarantee schemes and instruments. Along with the IMM Invest Programme, there is also the IMM Leasing Programme which offers guarantees for financial leasing granted to SME's in order to purchase equipment needed for the company activity.

The Romanian government sets the digitalization of SME's as a priority and decides to award grants to economic operators in order to automate economic flows and digital training of employees. Accessing those grants should be a priority, because it is only through digitalization that Romanian SME's will be able to be competitive as opposed to large companies.

The IMM Invest Programme allows SME's significantly affected by the COVID-19 crisis to ensure their liquidity for day-to-day business or for investment. They can access one or several loans for investment and/or one or several loans/open-end credits for working capital guaranteed by the Romanian FNGCIMM, through MFP. The maximum allocated fund is 15 billion lei.

Such advantages are given to any form of organization of a business activity authorized according to the laws in force for performing production, trade or service activities in order to obtain revenues, under competition conditions, namely: companies regulated by Romanian Companies Law no. 31/1990, cooperative companies, freelancers, entrepreneurs holding a sole proprietorship or family business authorized according to the legal provisions in force, which carry out economic activities. Associations and foundations, agricultural partnerships and firms carrying out economic activities are also included.

Small and medium-sized enterprises are the enterprises that cumulatively meet the following conditions:

-they have an average annual number of employees of less than 250;

-they perform a net annual turnover of up to 50 million Euros equivalent in Lei, or total assets that do not exceed the Lei equivalent of 43 million Euros, according to their latest approved financial statements. Total assets mean fixed assets plus current assets plus advance expenses;

Benefits in case of working capital loans for small and microenterprises:

*working capital financing of up to 1,000,000 Lei for a small enterprise and up to 500,000 Lei for a micro-enterprise;

* state guarantees of maximum 90% of the loan amount;

* financing duration of up to 36 months, with the possibility of extension for another 36 months;

* ROBOR interest rate every 3 months + 2.5%/year 100% subsidized from the state budget;

* costs of granting, monitoring and administering the guarantees granted on behalf of the government will be borne by the state budget.

Benefits in case of investment loans for small and microenterprises:

* financing of up to 10,000,000 Lei;

* state guarantees of up to 80% of the value of loans, excluding interest, commissions and related expenses;

* financing duration of up to 72 months, with the possibility of a grace period of 18 months maximum;

* interest rate made up of ROBOR every 3 months + 2%/year is subsidized 100% from the state budget;

* costs of granting, monitoring and administering the guarantees granted on behalf of the government will be borne by the state budget;

As to microenterprises and SME's which have not submitted any financial statements at the date of application, the maximum amount of working capital loan financing will be calculated as double the average working capital expenditure in their monthly balances.

The interest subsidy period starts at the moment of granting the loans/open-end credits contracted after 21 March 2020 and can last until 31 March 2021. The interest subsidy is approved annually only if the estimated economic growth for the period is below the one of 2020.

The outstanding tax obligations and other budget receivables of a beneficiary in this guarantee programme will be paid from the loan/open-end credit for working capital granted under the programme. The penalties stipulated for delays in the execution of obligations arising from contracts concluded by SME's with public authorities holding a certificate for emergency situations shall not be due during the state of emergency.

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