MANAGEMENT ANALYSIS OF THE IMPACT OF COVID-19 IN ROMANIA

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Abstract
The world economy is facing one of the worst economic crises since the Great Depression (1929-1933). The economists' forecasts assume that their effects will go beyond the extent of an economic crisis. The Romanian economy could not remain unaffected by these effects, given its dependence on global economic mechanisms and its integration into European and global value chains. In addition, the structure of the Romanian economy makes it vulnerable to the effects of COVID-19: primary resource processing and mechanical engineering, the main areas that contribute to GDP formation, are the ones that are mostly hit by the recession and the service sector is exposed to restrictions during a pandemic. The Romanian economy is experiencing one of the largest contractions in Europe at 12.3% (according to Eurostat) and is only surpassed by those countries whose GDP is based on tourism – Spain, Croatia, Greece, Hungary, Portugal, France, Italy.

Keywords*: crisis management, health management, crisis communication, COVID-19 management, COVID-19 Government Policies, European Union Policies*

JEL Classification: A14, H21, I10, M10

1. COVID-19 EU intervention in Romania

The European Union's response has been faster and more concerned than ever on both strategic axes: tackling the COVID-19 pandemic and its economic impact. European states have achieved a significant level of solidarity in joint interventions, even if they were seen as insufficient and, from the point of view of some of the hardest hit Member States – Spain, Italy, etc. – they did not cover all areas. [3] Periods of economic and financial crisis showed that the reduction of losses and the economic recovery after the crisis depended critically on the extent and quality of government intervention in the real economy. The paradigm of investing in public infrastructure and austerity has proven to be more pro-cyclical for states that have adopted such an approach. In addition, countries with strong financial markets have been able to ensure better dynamism and profitability for domestic companies through practically unlimited access to finance and the lowest possible costs through the favourable interest rate differential.

The EU intervention indeed consisted of a complex set of measures defined from different perspectives. Hence the first series of measures to ease the conditions for regulating economic competition. The recent crises have taught us that states that intervene quickly and massively directly in the economy (see US government bailouts in 2008-2010) are the most successful. [2] The relaxation of the restrictions came to aid the companies through the temporary exemption framework that allowed a level of direct financial intervention in the economies of all EU Member States which seemed impossible before the crisis.

The SURE package also provides emergency assistance through funding, central medicinal products, tests on COVID-19, special medical devices etc. to Member States. Liquidity, solvency and, in some cases, financial reporting requirements have also been relieved by the European Banking Supervisory Authority (EBA). Furthermore, it has been possible for the national banks of the EU members to consolidate a liquidity package of 1.3 trillion euros. However, the main support mechanism set up at EU level is the Next Generation Program (NEXTGEN), which provides funding of exceptional magnitudes, reaching 1,850 billion euros, of which around 550 billion are non-recoverable, and the rest of up to 1,850 Billion in the form of extremely low-interest loans. All consolidated financial assistance at European level will be provided for the period 2021-2027, so forecasts for economic recovery are for medium and long-term recovery. The allocation will also fund both health and medical efforts and economic recovery, but in accordance with the terms of the Green Deal.

For Romania, this package is the greatest opportunity to fight the effects of the pandemic, especially given that our country will benefit from some of the most consistent allocations of around 33 billion euros in non-refundable form and around 55 billion more in a repayable form. However, taking advantage of this opportunity brings major challenges to the Romanian state. All financial resources must be carefully programmed in order to achieve the greatest possible benefit with every euro made available. In addition, in order to be able to obtain the respective funds, Romania must have a co-financing and pre-financing capacity, which in turn requires the creation of the budgetary space necessary for these requirements. In other words, in the budget projection, the Romanian state needs to identify the necessary sources of liquidity to attract funds. Let us not forget that the beneficiary state makes the planned expenditure even for non-reimbursable funds and then sends the reimbursement requests to the European Commission in order to claim its money back.

In order to program the reimbursable aid, the state has to invest in the real economy, i.e., in projects that are mainly developed by economic operators in order to generate the income and especially the liquidity that the whole state needs for the reimbursement.

From this perspective, programming should target three main investment axes, fully harmonized with the economic and financial context in which Romania is located:

- to cover the costs of addressing the negative effects on public health. That being said, the huge cost of testing, quarantining, treating patients, buying drugs, medical equipment, etc., and paying for those who are on the front lines in the fight against the virus: doctors, nurses, SMURD (Serviciul Mobil de Urgență, Reanimare și Descarcerare/Mobile Emergency, Resuscitation and Release Service) and DSP (Direcția de Sănătate Publică/Public Health) staff, etc. The allocation principle for these interventions should be "as needed" to save people's lives.

- ensuring consumption stability – Economic analyses show that the main factor behind the economic recession in Romania is the decline in consumption due to the large number of laid-off people and the decline in purchasing power. It is imperative, therefore, that for the state to take measures to stimulate consumption and become the main driver of economic development rather than recession.

- ensure business continuity, including by funding the formation of raw materials stocks and critical materials, to ensure future economic independence in any crisis situation. The direct intervention of financed companies when facing difficulties is the most important measure to keep the value chains in a functioning state in order to avoid their collapse and the effects of the spiral of the Romanian economy.

One final remark: access to the important opportunities offered by European financial aid packages does not require that state intervention in the economy be removed from its own budget. The measures implemented by the other EU member states are characterized by the allocation of large financial support resources as a percentage of at least two percent of the national GDP (Germany provides more than 50% of the total budget allocated by all member states for state aid. [5]

2. The impact of COVID-19 on the Romanian economy – forecast for 2020 and 2021

According to researchers from the Babeș-Bolyai University (BBU) in Cluj-Napoca, the Romanian economy will develop in the form of an "asymmetric W", its GDP dropping by 5% in 2020 due to the pandemic. They noted that after a record decline in GDP in the second quarter and a slow recovery in the third quarter, another decline is forecast for the final three months of the year, indicating that a V-shaped recovery is not possible, according to a BBU statement. The development of economic performance in 2020 presented by BBU researchers:

- after strong economic performance in the first two months of 2020, the Romanian GDP has felt the effects of the pandemic and the state of emergency of the Romanian authorities since March, reversing that strong start in January and February. As a result, the first quarter of the year resulted in economic stagnation (-0.04%, revised data) compared to the GDP of the last quarter of 2019.

- according to the National Institute of Statistics (NIS), the second quarter of the year was hit hardest by the pandemic, resulting in a record economic decline of 12.2% (revised data) compared to the first quarter. This number represents a quarterly decline in GDP that has not been seen in the history of the Romanian economy after the revolution and exceeds the negative quarterly records of the economic-financial crisis of 2008-2009.

- after this record decline, the BBU researchers' DFM model forecast a strong recovery in the third quarter (+8.1%). However, the first official statistical estimates show that this recovery was much more moderate and the Romanian economy grew by +5.6% in this period compared to the previous quarter. On an annual basis, the Romanian GDP recorded a decrease of 6.0% compared to the third quarter of 2019, which is also a decrease below the average of the EU countries (-4.3%). Although the sector-level statistical data will be released in about two weeks, the available information analysed by the BBU Faculty of Economics and Business Management team shows that the negative surprise of the third quarter is mainly due to the poor performance of the agricultural sector due to less favourable weather conditions this year. At the same time, it should be noted that the share of agriculture in the third quarter GDP is quite high (over 9%) and therefore a decrease in agriculture of 20-30% can lead to a decrease of 2-3 percentage points in GDP. [6]

The growth of the number of new coronavirus cases, which was also above the threshold of 10,000 in November, shows that Romania is now facing the second-largest wave of the pandemic. The BBU researchers' DFM model shows that the final quarter of 2020 will most likely bring a new economic downturn. However, this decline will be much more moderate compared to the negative record of the second quarter, the researchers reckon with a quarterly decline of about 1%. This forecast is in line with the economic impact of the second wave of the pandemic across all EU countries, where most analysts expect a decline between 2% and 3%. This decline represents a major obstacle to the growth of the Romanian economy in recent months and signals that the return in the form of a "V" is no longer a realistic expectation, as the scenario is most likely closer to an asymmetrical "W" form (with a less pronounced economic downturn in the second wave of the pandemic). According to the calculations of BBU researchers, a decline in GDP of around 5% is therefore determined at the level of the entire year 2020. [6]

In the long term, BBU researchers predict a full recovery by the time before the crisis in about two and a half years: The currently most likely scenario shows that the Romanian GDP will return to pre-pandemic levels in 2022. This recovery is being driven by the efficient manufacture and delivery of the Covid-19 vaccine across the country, or the wise use of the substantial economic support funds offered by the EU.

According to the Italian Chamber of Commerce in Romania, the pandemic caused by the new coronavirus is a huge shock for economies, both in the EU and in the world, with very important socio-economic consequences. In Romania, the consequences of the crisis created by the pandemic are felt in all sectors, but the sectors most affected are HoReCa, tourism, transport, but also the car construction sector. [13]

Romania's economy will recover from the decline in production in the first half of the year, according to European Commission statistics. Although the economic contraction appears to be less severe by 2020 than initially estimated, in view of recent pandemic trends, uncertainty remains very high, and true production will unlikely return to pre-crisis levels by 2022 (Table 1). Romania's GDP is projected to fall by 5.2% in 2020 and increase of around 3.3% in 2021, respectively, by 3.8% in 2022, according to the third quarter of 2020. [7]

	201	2020	2021	2022 estimated
GDP (% year / year)	4.2	-5.2	3.3	3.8
Inflation (% year / year)	3.9	2.5	2.5	2.4
Unemployment rate percentage	3.9	5.9	6.2	5.1
Gross National Public Debt (% of GDP)	35.3	46.7	54.6	63.6
Public deficit (% of GDP)	-4.4	-10.3	-11.3	-12.5
Account balance – current, percentage of GDP	-4.7	-4.6	-4.8	-4.9

Table 1. Overview of the Romanian Economy in 2019 and Forecast for 2020-2022
Source: Italian-Romanian Chamber of Commerce Study, December 2020, Romanian National Bank, DeStatis

In the first seven months of 2020, Romania’s exports and importations decreased by 16 per cent, while imports decreased by 12 percent, according to data provided by the NIS. Specifically, Romania exported goods worth € 34.1 billion in the first seven months of the year, 16.2% less, and imported goods worth € 44.1 billion, 12.2% less compared to the same period of 2019, so that the result is a trade deficit of 9.99 billion euros, up to 5%, according to NIS data. [18]

Machinery and transport equipment (mainly 47.1 percent for export, respectively, 35.8 percent for imports) and other manufactured products accounted for significant shares in the export and import structure in the first seven months (31 percent for exports, respectively, 30.3 percent imports). The analysis by main commodity groups highlights the trade deficit recorded in the segments of food and live animals (1.4 billion euros), mineral fuels, lubricants and derived materials (1.4 billion euros), manufactured goods (2.8 billion euros) and chemicals (5 billion euros).

The Romanian economy is at a turning point, between the economic contraction caused by the pandemic and the opportunities offered by the financial support of the European Union. In the coming years, the absorption of European funds will make a difference in how the Romanian economy will recover and this will depend on the ability of future governments to attract European money, but the experience of previous years shows that Romania has not excelled in the use of European money for investments. [8]

The European Union’s response has been more prompt and concerted than ever on both strategic axes: fighting the COVID-19 pandemic and, at the same time, its economic effects. European states have achieved a significant level of solidarity in joint interventions. The EU intervention was indeed a complex set of actions, defined from different perspectives. A first series of measures was aimed at easing the conditions for regulating economic competition. The easing of restrictions on state aid to businesses through the temporary exemption framework allowed for a level of direct financial intervention in the economy of all EU Member States that seemed impossible before the crisis. [4]

A supplementary plan to limit the transmission of the new virus through the SURE package, which provides urgent aid by financing Member States, centralized drug procurement, testing of COVID-19, specific medical devices. Moreover, its liquidity, solvency and financial reporting requirements have decreased to some extent. Furthermore, for the national banks of the EU member states, the European Central Bank succeeded in consolidating a liquidity package of EUR 1.3 billion. But the most important support mechanism established at EU level is the Next Generation Program (NEXTGEN), which resides in allocations of financial resources of exceptional size, reaching 1,850 billion euros, of which about 550 billion in non-repayable form, and the difference of up to 1,850 billion in the form of loans at extremely low interest rates. The entire consolidated financial assistance at the European level is allocated for the 2021-2027 period, so the economic recovery forecasts outline a medium and long-term recovery. Furthermore, the appropriation will finance both health and medical efforts and economic recovery, but in compliance with the conditions imposed by the Green Deal. [14]

For Romania, this package is the greatest opportunity to combat the effects of the pandemic, especially considering that our country will benefit from some of the most substantial endowments: about 33 billion euros in non-refundable form and about 55 billion more in repayable form. Romania now has the possibility to transform its economic model based mainly on consumption into an economic model based on investment. As the need for liquidity is essential for the survival of enterprises in the present context, a number of measures have been introduced (and will certainly follow): technical unemployment, certain tax incentives, tax amnesty, raising the Invest ceilings, digital transform, ANAF (Agenția Națională de Administrare Fiscală/National Agency for Fiscal Administration) and SPV (Spațiu Privat Virtual/Virtual Private Space) reforms; linking cash registers to ANAF servers; implementing email servers.

The investment stimulus category also includes the two government decisions recently adopted aiming at changing State aid programs: the establishment of State aid schemes aimed at promoting high-impact economic investments and establishing a State aid scheme to support investment in the region through job creation. At least one-million-euro investments in tangible and intangible assets in the initial start-up investment, with fiscal stimulus, whether new unit capacity or increase unit capacity or the diversification of production of products not already manufactured in the unit. This scheme does not depend on new jobs being created.

The novelty consists in making the regime more flexible and, in particular, in extending its duration until 2023. The main changes proposed aim at improvements such as the introduction of the possibility of extending the investment retention period for up to 2 years, in order to comply with the special terms of the financing agreement, the elimination of the way that determined the eligible expenses in the construction category according to the cost standard, increase of the deadline for starting the investment from 4 to 6 months and more.

As for the D.G. 332/2014, among the most significant changes are: the scheme will work in a continuous system and no longer in two sessions (twice a year) as it has worked in the past; the elimination of the obligation to hire a certain number of disadvantaged workers, the elimination of the maximum amount of state aid granted for a job (no longer referring to the average gross salary by economy); modification of the list of sectors of activity for which state aid is not granted (for example, the telecommunications, hotel and catering sectors excluded from the list, now become eligible for this aid scheme); the elimination of the selection based on the score.

3. Romanian Economic policy measures to diminish the impact of COVID 19.

The Covid-19 pandemic that marked 2020 triggered a sudden and deep recession around the world, testing health and social protection systems, societies and economies, and the way we live and work together. Under these conditions, the eurozone economy is expected to contract by 7.8% in 2020, 4.2% in 2021 and 3% in 2022, according to autumn forecasts. The EU economy is projected to contract by 7.4% in 2020 with an increase of 4.1% in 2021 and 3% in 2022. Prospects for recovery vary from country to country, depending on the spread of the virus, the severity of the public health policies to be controlled, the sectoral composition of economies and the strength of national policy responses. [1]

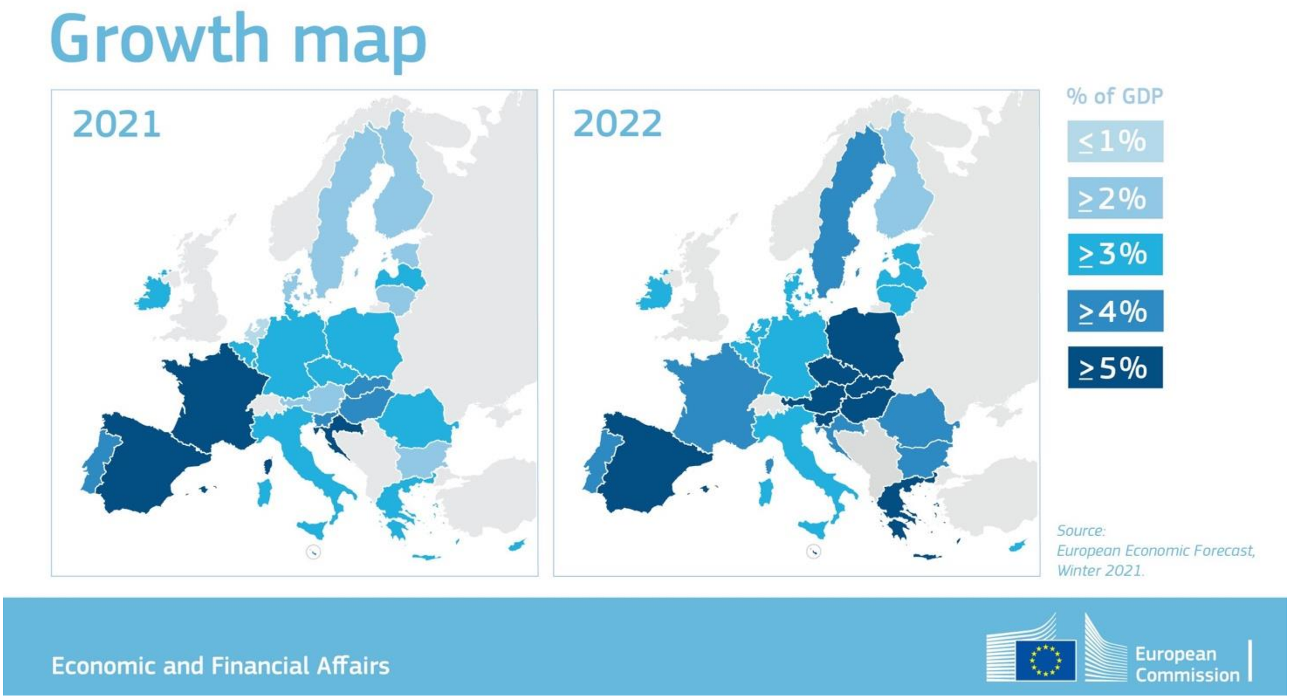
The Romanian draft budget is built on a 4.3% economic growth framework in 2021, a peak of 5% in 2023, and a 4.9% annual average over the 2022-2024 period, higher than expected. According to the EU autumn forecast, EU countries account for 4.2 per cent in the euro area and 4.1 per cent in the EU as a whole. In the context of a crisis generated by a pandemic, Romania opts for fiscal and budgetary policies that enable the economic downturn to be resumed from 2020 and promote an economic growth of above 4 percent, while maintaining it under a difficult international and national framework.

The overall cost of COVID-19 support measures for 2020 amounted to 4.85% of the GDP. Besides other recently approved measures, some of these measures will be implemented in 2021, at an estimated cost of 3.81% of the GDP. In 2020, the COVID-19 pandemic was replaced by 3,60% of the GDP, 0,4% of which was financed by EU funds and 0,2% from the GDP of 2020. The rest was repaid by the 2021 GDP, from which about 0,35% will be redeemed from EU funds. Approximately 0,35% of the GDP is repaid by 2021.

A series of governmental support programs have been approved to promote the operations of small and medium-sized enterprises, with a turnover exceeding EUR 20 million, through government guarantees, to counteract the adverse economic impact of the COVID19 pandemic in 2020. [10] Almost 13 billion lei is the amount of guarantees which were granted in 2020, going up to 29 billion lei in 2021, 2.52% of the GDP.

Romania will benefit from € 30.4 billion from the "Recovery and Resilience Mechanism" created to support reforms and investments by EU countries to mitigate the economic and social impact of the COVID-19 pandemic and economies and better prepare societies for the challenges and opportunities that the transition to a green economy and the digital transition offer. To benefit from these funds, EU Member States must draw up National Recovery and Resilience Plans, which contain a set of reforms and investments that address the six priorities of European relevance and a set of measures that complement those identified priorities at the national level, in accordance with EU priorities, to respond to the challenges. [9]

By 2021, investments are estimated to amount 5.50% of the GDP, an increase of almost 9 billion lei compared to 2020 (Picture 1). In 2024, the investments are estimated at 4.81% of the GDP, an increase of 6 billion lei, compared to 2021. In 2021, the capital expenditure structure will be improved to increase the proportion of spending on projects financed with ineligible external funds to almost 3% of financing sources, compared to 2% in 2020, and it is observed that financing comes from European funds, which will represent the majority of funding sources in 2021 and 2022. The presentation of the estimated amounts for public investments in the multiannual perspective from 2021 to 2024 will guarantee their financial stability and predictability and will reflect that all the budgetary effort involved is financed with European funds in order to alleviate the financial area and support sustainable economic growth. [11]



Picture 1. EU Economic Growth Map, 2021 and 2022
Source: European Economic Forecast Winter 2021 and the European Commission

Romania will be facing a number of challenges in the future: strengthening multiannual programming, given the functioning of investment programs of authorizing officers, implementation of European funds, whose operation requires stable and predictable funding, sound public budget, reorienting the public budget to the priorities of the Green Pact supporting the green and digital transition, climate change, supporting the necessary structural reforms, sufficient fiscal room for manoeuvre in the event of economic difficulties and/or contagion, keeping public debt within sustainable limits, the effectiveness of public policies that must be manifested in the performance of the business environment, entrepreneurship and the mobility of labour, goods and services, stimulating a correct attitude towards wage growth based on increasing labour productivity, improving collection and increasing the potential for the absorption of European funds, which once achieved, can lead us to the hope of keeping Romania at the top of EU economies and thus increase society's standards of living.

Fiscal policy will focus on strengthening the concepts of sustainability and resilient economy, resistant to adverse shocks, maintaining balance between macro and microeconomics, strengthening governance, orienting future investment projects towards reducing/eliminating structural vulnerabilities (transport infrastructure, health infrastructure) in the context of the challenges of a profoundly changing society caused by the pandemic which involved the biggest lockdown in modern history. The fiscal policies reflected in the draft budget should convey a strong political vision of the European project, as the Member States are working for a prosperous and safe Union, to counter the effects of the health crisis and turn it into reality.

Main Indicators	*2020*	*2021*	*2022*	*2023*	*2024*
Gross domestic product, expressed in billion lei	1040,8	1116,8	1204,2	1301,6	1403,8
% real growth	-4,4	4,3	4,7	5,0	4,9
Current Account – million euros	-10.851	-10.566	-10.835	-10.776	-10.998
% of the GDP	-5,0	-4,6	-4,4	-4,1	-3,9
Rising consumer prices % – end of year vs annual average	2,06 2,63	2,5 2,4	2,4 2,6	2,3 2,5	2,2 2,4
Average gross monthly earnings, lei	5150	5380	5725	6110	6515
Average net monthly earnings, lei	3180	3323	3538	3777	4025
Real earnings, %	3,8	2,0	3,8	4,2	4,1
Average number of employees, thousands of people	5090	5158	5227	5405	5520
The number of registered unemployed at the end of the year, thousands of people	305	310	280	255	240
Unemployment rate, %	3,5	3,6	3,1	2,8	2,6

Table 2. Romania Economic Forecast, Main Indicators, 2020 - 2024 estimated
Source: Romanian National Ministry of Finance, January 2021

European Union data shows that the Eurozone economy will shrink by 7.8% in 2020, will increase by 4.2% in 2021 and by 3% in 2022. The EU economy is projected to contract by 7.4% in 2020 and will register an increase of 4.1% in 2021 and 3% in 2022. From the point of view of the economic growth projection, the Romanian economy registers a decrease below the forecast at the EU and euro area level, the comeback from 2021 and 2022 being a more moderate one. Investments are projected to remain in the positive area in 2020 (2.5%), while investments in the EU will decrease by 10.3% and in the Eurozone by 11.2%. At the EU level, the years 2021 and 2022 will be marked by economic recovery, investments being their determining factor, based on the rapid mobilization of funds needed for economic recovery through the Recovery and Resilience Mechanism. For Romania, an increase of investments of 4.1% in 2021 and of 4.5% in 2022 is estimated, as a result of the acceleration of the realization of the projects financed from the European funds related to the 2014-2020 programming period and from the Recovery and Resilience Fund (Table 2).

The year 2020 is marked by the crisis generated by the COVID-19 pandemic, the largest unprecedented lockdown in modern history, with severe and very specific implications on almost all economic and social levels. During the crisis, fiscal rules were suspended, bearing in mind that economic laws react to imbalances, economic vulnerabilities and unsustainable issues in order to sanction and bring corrections. [12]

The pro-cyclical fiscal policy practiced by Romania in the period between 2017 and 2019 led to the exhaustion of the fiscal space necessary to stimulate the economy in times of recession and can severely constrain the fiscal policy in difficult economic periods, such as the one generated by the pandemic. While during previous crisis almost all the European Union states were in the process of excessive deficit, right now only Romania finds itself in this situation. Romania had the largest current account deficit in the region before the outbreak of the pandemic and the largest budget deficit, which leads, along with other unfavourable factors, to additional pressures on economic balances. Romania's budget deficit is structural by nature (induced by tax cuts and an increase in permanent expenditures), not necessarily generated by the pandemic. High deficits become difficult to manage in times of crisis due to the increased risk aversion of external investors on which their financing depends. [16]

The low level of tax revenues compared to other European countries, as well as the rigid structure of the national budget marked by the large share of expenditure on salaries and pensions, combined with the effect of the epidemiological crisis generate short-term financing needs and reduce room for manoeuvring budgetary fiscal policy decisions.

However, Romania keeps its commitment to join the euro area through the Convergence 2020 Program, which brings a number of particularly important benefits, but also the need to meet the criteria of nominal convergence, and those of real, institutional and structural convergence. Joining the euro area involves sound public finances, small budget deficits, an exchange rate level that will allow Romania to cope with competitive pressures in the euro area, sustainable budgetary consolidation, ambitious targets to be achieved in the future, solid multiannual programming. The outbreak of the Covid-19 pandemic, as well as other epidemics that affected humanity, has economic, social, and financial consequences whose magnitude and complexity exceed the individual response capacity of countries requiring international cooperation and measures of unprecedented magnitude consisting of fiscal monetary and prudential interventions. As the budget construction of 2021 is strongly influenced by the considerable budgetary effort undertaken in 2020, which determined as a starting point a cash deficit of 9.79% of the GDP, the main measures that have been taken will be presented by the authorities in 2020 to limit the effects of the pandemic crisis throughout three budget corrections.

The total cost of support measures related to COVID-19 in 2020 amounted for 4.85% of the GDP. Some of these measures will continue in 2021 in addition to other new approved measures, thus generating an estimated cost of 3.81% of the GDP. In 2020, the impact of the measures for preventing and combating the COVID-19 pandemic on the consolidated general budget was 3.65% of the GDP, out of which 0.4 percentage points are financed from EU funds, 0.2 are reimbursed in 2020, and the rest is to be reimbursed in 2021, estimated at 1.29% of the GDP, out of which 0.35 percentage points are estimated to be reimbursed from EU funds. Also, to combat the negative economic effects generated by the COVID-19 pandemic, a series of government support programs were approved to support the activity of SMEs (Small and Medium Size Enterprises) and large companies and small and medium enterprises with a turnover of over 20 million lei through state guarantees, 2020 guarantees amounting to 13 billion lei, representing 1.20% of GDP, and 2021 guarantees amounting to 28 billion lei, 2.52% of the GDP, as estimated. [15]

In March 2020, it was announced that a 3.2 percent support plan to the health sector, covering short-term employment and supporting companies in difficulty, will be provided. Increases in deficiency and public debt add up to the automatic increase in spending and pension expenditure by 14 percent. In 2021, depending on the budget for 2021, the deficit could be slightly reduced. Debt will remain moderate but will continue to grow. Moreover, the multi-year 2021-2027 EU financial framework will provide EUR 79.9 billion for public financing (45% of the 2019 GDP), out of which 14% will be allocated in 2021.

The slight decrease in the current account deficit in 2020 is mainly due to the decrease in the trade deficit. In fact, the drop in exports was more than offset by the drop in imports due to the drop in domestic demand. Furthermore, European aid has increased the transfer surplus and further reduced the current account deficit. In 2021, the trade deficit will narrow again, as the recovery in external demand is expected to exceed domestic demand. Furthermore, remittances (3% of the GDP) are expected to increase when activities are resumed in the expatriate countries (particularly in Spain and Italy). The 2020 deficit was partially financed by various international aid packages, including € 400 million from the World Bank. Given the slow recovery in FDI (Foreign Direct Investment), the 2021 deficit will be largely financed by external loans and portfolio investments.

Making a large volume of investment spending by the public sector, with peaks of over 5% in GDP in the years 2020-2022, as well as the prospect of availability from 2021 of a large volume of European funds for economic recovery are prerequisites that can maintain on a medium term the favourable investment course. European funds are a key element of budgetary sustainability in terms of their investment and non-reimbursement strategy and their positive effects on society, given that the common policy of the Member States will lead to the transformation of the EU into an economy based on smart, sustainable growth and conducive to inclusion.

A key feature of the budget policy for the next period is that it will also be based on the massive attraction of European funds, supporting the increase of the growth potential of the economy and aiming at the gradual recovery of the budget deficit below 3 percent by 2024. In 2014-2020, the total allocation of Romania is of over 43 billion euros, out of which approximately € 23 billion through Cohesion Policy and FEAD and around € 20 billion through the Common Agricultural Policy and the Integrated Maritime Policy. Romania is facing a historic opportunity. In the period 2021-2027, under the Cohesion Policy 2021-2027 Romania has allocated European funds amounting to 31.35 billion euros (current prices, including European territorial cooperation), and through the facility “Recovery and Resilience Mechanism”, it has an allocated budget of 30.4 billion euros of which 13.7 billion euros are structured in the form of grants and 16.6 billion euros in the form of loans, funds that will be used in key areas: infrastructure, education, health , agriculture, environment or energy, as well as for the modernization of large public systems. In order to benefit from these funds, Member States need to prepare national recovery and resilience plans (NRPs) setting out a series of reforms and investments that address the six priorities of European relevance, representing a set of measures that take into account of the priorities identified at national level in line with EU priorities, to contribute to the challenges identified in the country-specific recommendations, to contribute to the transition to a green and digital economy. With the approval of the European regulations governing PNNR, the amounts destined for the financial flows determined by the projects financed by PNNR will be included in the future budget rectification of 2021. [17]

The main objectives of the fiscal policy considered in the medium term mainly concern the following aspects:

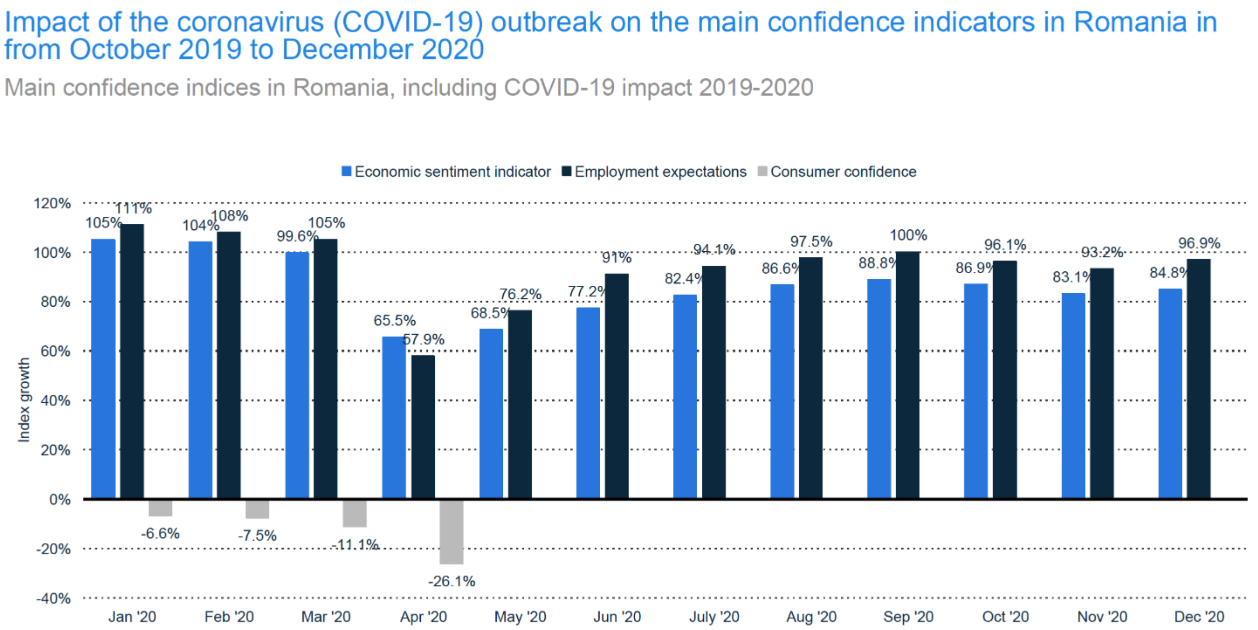
- Implement the measures included in the 2020-2024 Government Program, as the fiscal-budgetary space will allow;
- Continue to improve the legislation in order to meet the criteria for harmonization with Community law, by transposing into national law the measures adopted at European level. Initiatives proposed by the European Commission under the "Action Plan for Fair and Simplified Taxation in Support of the Recovery Strategy" aiming at reducing administrative burdens at Member State and taxpayers’ level, as well as simplifying legislation and VAT registration and reporting obligations;

- Improving and simplifying tax legislation, as a result of the dialogue with the business environment;
- Improving the legislation according to the evasionist phenomena, in order to counteract them;
- Prepare fiscal reforms that will contribute to sustainable economic growth in the medium and long term.

The measure in the field of corporate tax will lead to the reduction of the tax burden corresponding to the level of collection of receivables or fulfilment of certain legal obligations. With regard to the level of excise duty applicable to processed tobacco products, the adoption of a timetable for the gradual increase in the level of excise duty ensures, from a taxation perspective, a medium-term predictability of the activity of economic operators. [16]

Regarding the adoption of measures with the effect of preventing and combating tax evasion, they will contribute to the consolidation of an honest competitive environment, by eliminating from the economy the economic operators that, through a conduct inconsistent with fiscal and procedural rules, generate unfair competition against those taxpayers who carry out their activity honestly and in compliance with all regulations specific to a market economy.

At the same time, the improvement of the fiscal legislation will be continued in order to correspond to some principles, among which, from the perspective of the fiscal policy, we mention simplification, transparency, stability, predictability, prevention and encouragement.



Picture 2. Impact of the coronavirus (COVID-19) outbreak on the main confidence indicators in Romania from October 2019 to December 2020

Source: Statista, February 2021

4. Conclusions

We believe that in the second and first trimesters (Romania was the only European country with increasing gross fixed capital in the first half of 2020) the development of productive investment was determined by low real funding costs and increasing investment, as well as development potential and convergence within the domestic economy (Picture 2). Moreover, the increase in domestic exposure in the first half of the year reflects the foreign banks' confidence in the development potential and the domestic economy's convergence with the European average over the course of the decade. These trends indicate a difference from the approach taken by financial institutions as part of the financial crisis in 2008 when major commercial banks, including Romania, had a significant decline in their exposure to emerging markets and had to arbitrate international financial institutions. The rise in production in the first semester also creates a rapid transition from a post-crisis business cycle to the post-pandemic business cycle. At the same time, during the pandemic, Romania (to date, at least) was able to maintain its investment and reduce its funding costs. It is noted that Romania's major economic partner is less pronounced in the second quarter of Romania than in the Eurozone as a result of the decline and worsening of public finances.

The triggering of the COVID-19 pandemic represents a good opportunity for the implementation of structural measures that would lead Romania towards a new paradigm of economic growth, more resilient to external shocks. The budget construction for 2021 and the following years will be marked by 2020, which through its particular manifestation brings to the fore the need for a new economic approach and the preparation of conditions for a new way of formulating public policies, strengthening the concepts of sustainability and resilient economy, balances between macro and microeconomics, strengthening governance, orienting future investment projects towards reducing/eliminating structural vulnerabilities (transport infrastructure, health infrastructure) in the context of the challenges of a profoundly changing society. Romania will benefit from the resources of the new financial framework between 2021 and 2027, as well as from the funds of the resilience and recovery mechanism, given the chance of having another approach of the national investment policy, by adopting a holistic, global vision of a growing European participation context in joint regional and trans-European projects. Reconsideration of priorities, funding of new policies (green economy and digitalisation), and European cooperation will allow competitiveness and productivity to increase, support job creation, accelerate economic and social convergence, respectively strengthen resilience, correct Member States' economic imbalances, protect the contagion effect on a both regional and Member State level.

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