COVID-19 INFLUENCE IN THE EUROPEAN ECONOMY AND THE IMPACT AT NATIONAL LEVEL

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Abstract:

The humanitarian crisis caused by the COVID-19 pandemic has also triggered a global economic crisis. The total impacts on European and national economy will depend not only on the duration of the pandemic, but also on the speed of response, and on the measures taken. However, the serious situation is also a major, evolving challenge.

The economic indicators analyzed at European and national level highlight the 'fragility' of the economy, which will lead to the perpetuation of the crisis during 2021, with major effects on companies and job losses.

One possible solution to the crisis is to adapt the economy to the conditions imposed by the pandemic, while putting the COVID-19 vaccine on the market or an effective treatment that will reduce the risk of infection of the population. Another key element that will lead to economic recovery is the digitization of industrial and commercial processes, an effect of the crisis being the emergence of telework globally.

Keywords: economic crisis, covid-19 pandemic, economy, financial indicators, recession.

1. Introduction

According to Moody's, the health system will undergo a process of structural transformation following the COFID-19 pandemic.

Telemedicine or the practice of using technology to treat patients remotely will play a much more important role in the health system, even after the pandemic will diminish in intensity. Patients quickly adopted telemedicine during the pandemic and will probably continue to practice it, given the convenience it offers.

As far as providers are concerned, telemedicine has the potential to reduce costs and increase efficiency. Health insurance companies will be affected in terms of financial performance, with the pandemic accelerating many of the trends that were already changing the way they worked, such as: high costs of patients with chronic conditions; increasing the adoption of telemedicine and remote monitoring; and the transition from the traditional payment-based model for services provided to the value-of-care model. The ability of insurance companies to adapt to these trends, which the pandemic has accelerated, will affect their credit profile over the next 3-5 years.

Hospitals – if outpatient centres were preferred by patients, many patients are expected to take care of themselves outside hospitals after the pandemic, given the benefits and convenience of doing so. Sponsors of these services acknowledge that many services previously provided by hospitals can be performed elsewhere.

Medical products -their suppliers will adapt them to consider remote monitoring. The pharmaceutical industry will face modest pressures on earnings, with changes unlikely as a result of the pandemic.

The second "lockdown" imposed in many countries has contributed to considerable uncertainty among investors. The level of stress within the European financial system, according to the composite indicator calculated by the European Central Bank, has increased and is around 0.158.

In March 2020, trading conditions were significantly damaged because of COVID-19, but since the end of April 2020 there has been a return of international markets. Conditions in the US and Euro area financial markets are currently being seen, according to indices calculated by Bloomberg.

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Worldwide, an assessment of the evolution of the economy can be carried out on the basis of turbulence in international stock markets calculated by Bank of America Merrill Lynch which increased significantly in the first decade of November 2020, amid concerns about the effects of a new wave of COVID-19.

2. European Context

Europe is hit hard by the second wave of the coronavirus pandemic and states are forced to take further protection against the virus. COVID-19 is forcing more and more countries to adopt containment measures, measures that will negatively affect the economies of states. For this reason, euro area finance ministers are specifically discussing how to respond to the worsening economic outlook.

On 23 April 2020, EU leaders decided to work towards establishing an EU recovery fund to mitigate the effects of the crisis. They have commissioned the European Commission to urgently submit a proposal which, among other things, clarifies the link between the Fund and the long-term EU budget. The proposal, a recovery plan for Europe, was presented by the European Commission on 27 May 2020.

On 21 July, EU leaders agreed on a €750 billion recovery effort, Next Generation EU, to help the EU address the pandemic crisis. The recovery package is currently going through the legislative steps to be completed in 2021.

In addition to the recovery package, EU leaders agreed on a €1074.3 billion EU long-term budget for 2021-2027.

Together with the EUR 540 billion in the form of funds already in place for the three safety nets (for workers, businesses and Member States), the EU's overall recovery package amounts to 2. EUR 364.3 billion.

"*We are united and determined to use our full force to cope with the second wave.*", said the President of the Eurogroup, Paschal Donohoe.

The video conference of eurozone finance ministers comes two days before the publication of economic forecasts for the European Union, which is expected to indicate a decline in the region's GDP in the fourth quarter of 2020.

A eurozone official involved in preparing the videoconference told Reuters that he expected active talks on the effects of the pandemic, but there are no plans yet to announce further EU-wide support measures.

Analysts estimate that eurozone finance ministers are in favor of maintaining the national fiscal support measures adopted so far, especially after the EU suspended the deficit and debt ceiling in the context of the pandemic.

"*Obviously, the fiscal momentum will have to be maintained next year, and its withdrawal will take place only gradually, so as not to affect the recovery of the economy. The new restrictions will significantly affect economic conditions,*" explained the European official.

The EU has put in place a tool to provide temporary support to mitigate the risks of unemployment in an emergency (SURE) to help people keep their jobs during the crisis. The instrument provides Member States with loans on favorable terms to cover part of the costs of creating or extending national technical unemployment programs. In September and October 2020, the Council approved the granting of €87.9 billion in financial support to 17 Member States: Belgium: EUR 7.8 billion; Bulgaria: EUR 511 million; Croatia: EUR 1 billion; Cyprus: EUR 479 million; Czech Republic: EUR 2billion; Greece: EUR 2.7billion; Hungary: EUR 504 million; Italy: EUR 27.4 billion; Latvia: EUR 193 million; Lithuania: EUR 602 million; Malta: EUR 244 million; Poland: EUR 11.2 billion; Portugal: EUR 5.9 billion; **Romania: €4.1 billion**; Slovakia: EUR 631 million; Slovenia: EUR 1.1billion; Spain: EUR 21.3 billion.

Other Member States can still submit their applications for financial assistance. Up to €100 billion can be made available under this EU instrument.

Corrections to the EU budget for 2020

In an immediate response to the consequences of COVID-19, the EU has amended its 2020 budget, adding €3.1 billion for:

- purchase and distribution of medical materials, including protective equipment and mechanical fans;
- increase the production of test kits;
- building campaign hospitals;
- transfer of patients for treatment in other Member States;
- repatriation of EU citizens stranded abroad.

On 11 September 2020, the Council agreed to supplement the EU budget for 2020 by an additional EUR 6.2 billion.

The revised budget shall supplement payments for:

- development and distribution of a vaccine against COVID-19: The European Commission will use this amount to pre-order doses of the vaccine (EUR 1.09 billion);
- Investment initiatives in response to coronavirus (RII and RII+): redirecting money from the EU budget to address the crisis caused by the COVID-19 pandemic (€5.1 billion).

Redirection of EU funds

The EU has rapidly redirected cohesion funds to help Member States cope with the COVID-19 crisis:

- EUR 37 billion from the EU budget available to support health systems, small and medium-sized enterprises (SMEs) and labour markets through the Coronavirus Investment Initiative (ICMI);;
- up to EUR 28 billion from structural funds available in national financial packages for 2014-2020 but not yet allocated to projects are eligible for crisis response;;
- up to EUR 800 million from the EU Solidarity Fund are directed to the countries most heavily affected, due to the extension of the scope of the Fund to public health crises.

The EU has also adopted measures to provide additional flexibility in the use of structural funds. Thanks to the so-called Plus Investment Initiative in response to coronavirus (RII+):

- Member States may transfer amounts between different funds to meet their needs;
- resources may be redirected to the regions most affected by a suspension of the conditions under which the regions are entitled to funding;
- Member States may apply for funding of up to 100% of the EU budget between 1 July 2020 and 30 June 2021 for programs dealing with the impact of the pandemic.

The initiative also includes support for fishermen and farmers and a review of the European Aid Fund for the Most Deprived (FEAD).

The European Institute of Innovation and Technology (EIT), funded by the Horizon 2020 Framework Program, has also launched a crisis response initiative. The Institute will provide additional funds of EUR **60 million** for innovators who promote high-impact solutions that contribute to solving social and economic problems.

Flexibility in applying EU rules

The EU has allowed maximum flexibility in the application of EU rules on **public finances and budgetary policies,** for example to meet exceptional expenditure.

In order to protect jobs and businesses, the EU has adopted **temporary state aid rules,** which allow Member States to provide financial support to businesses and citizens facing difficulties due to the negative impact of the COFID-19 pandemic on the economy.

According to data from October 2020, the total amount of support from national budgets amounts to 4% of GDP and will continue in 2021.

The EU has suspended airport slot requirements, which oblige airlines to use at least 80% of the slots allocated to them for take-off and landing to keep them in the coming year. The temporary derogation, applicable until 24 October 2020, **helps air carriers cope with the sharp decrease in air traffic** caused by the COVID-19 pandemic.

ECB measures to support EU Member States

At the end of the meeting of the last meeting of the Governing Council of the ECB clearly announced that it was preparing new support measures for December 2020, as the new restrictions raised concerns about a double recession in the euro area. However, ECB officials continue to ask governments to do what is their duty to revive the economy- explaining that the role of monetary policy is limited.

"*We must consider the possibility of an increase in budget support in the current circumstances, as it is not the duty of monetary policy to increase the appropriations to individual companies. This is a budgetary mission, and we must encourage the fiscal side to expand its intervention,*" said Yves Mersch, a member of the ECB's governing board.

While most euro area governments have developed loan guarantee mechanisms to keep healthy firms afloat, the level of indebtedness has risen sharply, and some countries are now discussing being more selective when it comes to providing public aid.

But this caution could also force banks to be more selective with lending, which risks triggering a credit crunch even though liquidity in the banking sector is at a record high.

At the same time, the European stability mechanism has put in place support measures in the context of the pandemic crisis, based on an existing preventive credit line, adjusted taking into account the crisis caused by COVID-19. Loans can be made available to all euro area Member States up to 2% of their GDP, up to a total of EUR 240 billion.

3. National Context

Current macroeconomic developments

According to the signal estimates published by Eurostat, in the third quarter of 2020, still marked by a series of measures imposed by states to prevent the spread of COVID-19, seasonally adjusted GDP increased by 12.7% in the euro area and by 12.1% in the EU compared to the previous quarter. However, compared to the same period of the previous year, seasonally adjusted GDP decreased by 4.3% in the euro area and 3.9% in the EU, which represents a partial recovery from large contractions in the previous quarter (-14.8% and -13.9% respectively).

The share of government debt in GDP is 95.1% in the euro area for the second quarter of 2020, up from the level recorded in the fourth quarter of 2019 (84.0%). At EU level, there is considerable heterogeneity of the level of indebtedness, with the share of public debt in GDP ranging from 18.5% (Estonia) to 187.4% (Greece). Romania ranks among the EU Member States with low indebtedness (41.1%), below the leverage average of EU Member States of 87.8% of GDP. In August 2020, Romania's public administration debt stood at about 450 billion lei, up from the end of 2019 (373.5 billion lei), representing about 42.8% of GDP. According to data published by Eurostat, the budget deficit (seasonally adjusted series) stood at 11.6% of GDP for the euro area, i.e. 11.4% at EU-27 level in the second quarter of 2020, up from the previous quarter (2.6%). Romania's budget deficit accounted for 11.1% of GDP compared to 7.9% in the first quarter of 2020 (seasonally adjusted data). According to BNR, direct investments by non-residents in Romania (FDI) amounted to 1.40 billion euros, compared to about 4.4 billion euros between January and August 2019. On the other hand, the current account of the balance of payments registered a deficit of EUR 5.8 billion in the first 8 months of 2020, compared to around EUR 7.10 billion in the same period of the previous year. The current account evolution was accompanied by an increase in total external debt of around 6.34 billion euros between January and August 2020 to more than 116 billion euros.

According to the data published by the INS, in the first 8 months of the year, FOB exports decreased by 15.3%, while CIF imports by 11.2% compared to the same period of the previous year, which led to an increase of around EUR 642.0 million in the trade balance deficit (FOB/CIF) to a value of around EUR 11,516.3 million.

Among the EU Member States, for which data are available for the third quarter of 2020, France (+18.2%) recorded the largest increase compared to the previous quarter, followed by Spain (+16.7%) Italy (+16.1%). Lithuania (+3.7%), Czech Republic (+6.2%) and Latvia (+6.6%) the smallest increases.

Romania's gross domestic product registered, according to the National Statistical Institute (NSI), a decrease of 10.3% on the gross series, i.e. 10.2% on the seasonally adjusted series compared to the same period of the previous year. Compared to the previous quarter, the decrease in GDP was more severe, at 11.9% (seasonally adjusted series).

The National Strategy and Forecast Commission (CNSP) revised downwards the projected economic growth for 2020 to -3.8% (from -1.9% in the previous scenario), against the background of declining activity in industry (-8.6%), agriculture (-7.1%) and services (-2.7%) compared to 2019. According to the CNSP forecast, construction will make a positive contribution to GDP this year, with an estimated growth of 5.8%. For the following year, the CNSP expects a return of the Romanian economy, with an advance of 4.9%. The IMF revised economic growth for 2020 to -4.8% (from -5.0% in the previous scenario), and for the following year the IMF expects a return of economy for Romania with an advance of 4.6%.

The seasonally adjusted unemployment rate in the euro area stood at 8.3% in September 2020, at the same level as in the previous month. At EU level, the unemployment rate was 7.5% in September 2020, the same amount as in August 2020.

The seasonally adjusted unemployment rate in Romania was 5.2% in September 2020, down 0.1 pp from the previous month (5.3%), according to data published by ins.

The trend remains that the unemployment rate among men (5.7%) higher than the female unemployment rate (4.6%).

Evolution of GDP and GDP forecast in 2019 - 2021

Taking into account the main components of inflation in the euro area, food, alcohol and tobacco will register the highest annual rate in October (2.0% compared to 1.8% in September), followed by services (0.4%, compared to 0.5% in September). Prices of non-energy industrial goods (-0.1% compared to -0.3% in September) and energy (-8.4% compared to -8.2% in September) remain in negative territory. The Economic Sentiment Indicator (ESI) remains low in the European Union in October (90 points), similar to that recorded at the end of 2009, keeping unchanged the perception of the future evolution of the economy compared to the previous month (90 points). The ESI indicator has decreased since February due to a significant deterioration in confidence in the EU economy amid the crisis caused by COVID-19 and high uncertainty about future economic developments.

In October 2020, confidence in the industry sector increased by 1.7 points from the previous month but continues to be at a low level. Confidence in retail and construction also contributed positively in October 2020 to improved perception, increasing from September 2020 (+1.5 and +1.0 points respectively). In Romania, the indicator of economic sentiment is lower than the EU average, at 86.9 points in October, down from 88.8 points in October. There is also a stable perception in Romania in all sectors, but the biggest contribution was confidence in the retail sector, an increase of 3.2 points compared to September 2020.

Evolution of stock indices

The end of October 2020 is experiencing a deterioration in international stock exchanges, amid concerns about the second wave of the SARS-CoV-2 pandemic, the most significant decrease being recorded by the exchanges in America and Europe. At present, the volatility of the Bucharest Stock Exchange indices has decreased, and the regime remains for now a medium to low one. The relationship between the evolution of the BET index and the number of new SARS-CoV-2 cases (USA and Italy) is an indirect one, thus the increase in the number of illnesses (USA and Italy) has led to a decrease in the local index and its return has occurred as there has been a decrease in the number of new cases.

The European indices analyzed showed very short-term negative developments (1-week 23 October vs. 30 October). The decreases were between -8.61% (DAX index) and -2.23% (ISEQ index). International indices showed similar developments to European indices. The decreases were between -6.47% (DJIA index) and -1.63% (SSEA index).

Local indices had very short-term negative developments (1 week 23 October vs. 30 October). The most significant decrease was recorded by the ROTX index (-3.29%).

The index of the distribution by investment sectors shows that the financial sector is predominantly dominant on the Romanian capital market, the next representative sectors being the industrial and energy sectors.

VaR is a statistical estimate that measures, for a certain confidence interval (usually between 95% and 99%) the value that a portfolio may lose over a certain period due to the change in the market price. Calculations indicate that there is a 1% probability that the BET-XT index will fall above 1.88% for the next period.

Volatility in asset prices varies over time and is not constant, and probability distribution cannot be correctly predicted in terms of uncertainty. Unlike GARCH models in which variance follows a deterministic process, volatility follows a stochastic process and is represented in terms of probabilities. Currently the stochastic volatility on the Romanian capital market is high, being in the range of 6%-31%, while the realized volatility (represented by the volatility calculated in the Garch model) is 15%. Uncertainty is visually represented by the quantum (1%,10%,50%,90% and 99%).

Evolution of risk-adjusted stock index yields and interest rates

Between 23 and 30 October 2020, the volatility of the indices analysed increased. The VIX volatility index increased 38% from 27.41% to 38.02% at the end of last week.

ROBOR rates at 3M and 6M are on an upward slope and yields on the local interbank money market (ROBOR) continue to be above the monetary policy rate (1.5%).

Evolution of interest rates and yields on sovereign bonds

During the week 23-30 October 2020,both the yields of Romanian government securities denominated in lei and those in euro decreased.

Yields on zero coupon bonds in Romania have decreased for all the maturities studied. The yield curve for these bonds is increasing, indicating an increase in credit risk.

Currency evolution

THE ERR (actual real exchange rate) is an indicator of international competitiveness, defined as the ratio of external and domestic prices and measured in local currency. The deflator used by BIS for the calculation of the ERR is the Consumer Price Index. Compared to last year (September 2019), the actual real rate of the lei depreciated by 2.3% in real terms while the pound remained depreciated by 0.7% and the euro depreciated by 3.9%. Compared to 1 January 2019, on 30 October 2020 the euro appreciated in nominal terms by 4.5% against the leu, while the US dollar appreciated against the leu by 2.5%. Over the same period, the euro appreciated against the dollar by 1.8%. Between 23 and 30 October the volatility of the EUR/RON exchange rate remained stationary and the exchange rate level oscillated slightly around 4,873. We forecast that exchange rate volatility will remain low (approximately 1%) over the next four weeks. Long memory in time series is defined as self-correlation at long intervals. The EUR/RON exchange rate analysis shows that it is integrated fractionally. If the long memory parameter d (0.4) takes values in the range (0-0.5), then the size of the range increases and the shocks decrease hyperbolically.

Risk of contagion in stock markets

The contagion analysis indicates that the Romanian capital market is sensitive to the risk factors influencing the neighboring capital market (Poland, Austria and Hungary). Contagion (IMF) is defined as the impact of changes in the price of assets in one region (stock exchange) on prices in another region (stock exchange). As a result of economic expectations related to the effects of the pandemic caused by the spread of coronavirus, contagion increased rapidly in February and early March and reached its highest level since 2011. In May 2020, contagion between European capital markets remained at a critical level, close to that of the 2008 global crisis. Between June and August, the contagion continued to decline, while the social isolation conditions of all European economies were easing. In the absence of further economic shocks, the contagion decreased and in September it returned to the long-term average. In October, the contagion began to increase slightly.

The CMAX indicator for the Romanian capital market is calculated as the ratio between the current value of the Romanian capital market index (index calculated by Datastream similar to the BET-C index) and the maximum value of the index from the last two years to the current date (Patel and Sarkar, 1998). A value below 0.95 (5% less than the two-year peak) indicates that the index is on a downward trend.

The value of the CMAX indicator remains below the 0.95 threshold, even though it has recovered from the losses recorded, but the downward trend remains, as both the Bucharest Stock Exchange and the European stock exchanges have incurred significant losses against the background of information related to the coronavirus expansion and the measures applied.

In contrast to the contagion index, the historical breakdown of shocks shows how much a stock market has been influenced in the evolution of other exchanges. The historical decomposition of the shocks received by the Romanian stock market index (index calculated by Datastream like the BET-C index) indicates that the local stock market is currently mainly exposed to external shocks. The analysis of historical decomposition confirms the results of the fundamental analysis, which suggests that the Romanian capital market index was influenced by the evolution of foreign markets in particular by the evolution of the main capital markets (USA and Germany). However, the magnitude of the shocks is very small. The sensitivity of the contagion index in yields according to the structure of the VAR model shows that although uncertainty has decreased, there are different dynamics in the suggested markets and suggests increased nervousness and removal from balance for European capital markets.

4. National Perspectives

Evolution of the indicator on confidence in the Romanian economy

The indicator on confidence in Romania's economy fell in October 2020 for the first time in six months, against the background of the intensification of the COFID-19 epidemic, the most affected sectors being services and industry. October 2020 and early November brought an accelerated increase in new cases of COVID-19 disease and new operating restrictions for the services sector.

The Perception indicator on the economy (ESI) fell by 1.9 points in October 2020 to 86.9 points, returning to the level of August 2020. ESI stood at 99.6 points in March when the economic effects of the CoVID-19 pandemic and government-imposed restrictions began to be seen, and then decreased by about a third. In this context, Eugen Sinca, analyst at BCR, notes that " this is the1first monthly decrease since May and indicates a possible economic recovery in W, but with a less severe reduction in economic activity in the 4th quarter compared to what happened in the 2nd quarter". The ESI indicator is calculated by the European Commission and has a high level of correlation with THE evolution of GDP – for example, the record drop in confidence in the second quarter announced very poor data on the evolution of gross domestic product from April to June 2020. The number of new daily cases of COVID-19 has moved from the 1,000 to 1,500 levels in August and September to 3,000-5,000 in October, with a record of more than 6,000 cases announced on Thursday. The authorities have imposed new restrictions leading to a decrease in interaction between people, the most important with economic impact being those related to bars and restaurants, which are once again closed inside. At the same time, schools were closed in large municipalities such as Bucharest and Cluj-Napoca. Confidence in the services sector fell to -16 from -12.4 points, with pessimistic expectations of the evolution of demand and employment over the next three months. 2

The industry is in contraction for the second month in a row - down from -6.1 in September to -7.3 in October, mainly due to much weaker production prospects in the coming months. The retail and construction sectors – which performed best in the pandemic – showed an improvement in the perception of prospects in October, with an increase of 1.6 points from -1.6 and -10.9 from -13.1. Hiring expectations also deteriorated to 96.1 points from 100.1 points in September 2020.

According to the BCR, the recovery of the workforce will be done with syncope, especially after the government's support measures expire. Consumer confidence data were not reported for the sixth consecutive month, with Romania being the only country with this statistical situation. BCR shows that there is a risk that Romania will have economic growth below the forecast of 2.1% in the 4th quarter (quarter by quarter). The bank maintains the estimate of -4.7% for 2020 and 3.9% for 2021 but shows that there are risks for a weaker recovery next year in the event of a weak fourth quarter.

Estimates of the European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) has also downgraded its estimates of Romania's economic developments in 2020 and 2021 as a result of the crisis caused by the coronavirus pandemic (Covid-19). According to the EBRD's most recent forecasts, Romania's economy is expected to fall by 5% this year, compared to a 4% decline forecast in May 2020. For 2021, the EBRD expects a 3% expansion in Romania's GDP, compared to a 4% advance forecast in May 2020.[3]

It will also reach GDP per capita in 2019 again in the second quarter of 2022, the EBRD estimates that in the first half of this year Romania's economy contracted by 3.9%.[4]

After a robust growth of 4.1% in 2019, Romania is facing recession in 2020. Key transmission channels are lower consumption and export decline. The state of emergency introduced in mid-March 2020 and containment measures aimed at stopping the spread of the coronavirus pandemic (Covid-19) lasted until mid-May 2020, severely affecting travel, economic activity and consumer and business confidence.

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[1]**E**conomic **S**entiment **I**ndicantor - composite index, based on survey, which shows the perception of operators in the service sector, industry, construction and trade, but also of the population regarding the current state of the economy, as well as expectations for future developments.

[2] https://www.profit.ro/stiri/economie/increderea-in-economia-romaniei-a-scazut-in-octombrie-pe-fondul-intensificarii-epidemiei-covid-19-19568899

[3] The European Bank for Reconstruction and Development (EBRD) was established in 1991 to invest in the former communist bloc states and help them make the transition to the market economy. In recent years, the EBRD has begun to reorient its attention from the former Soviet bloc to North Africa and the Middle East.

[44] https://financialintelligence.ro/berd-inrautateste-prognozele-privind-evolutia-economica-a-romaniei-in-2020-si-in-2021-2/

Isolation measures have had a significant impact on private consumption: retail sales fell by almost a fifth in April 2020 compared to the same period in 2019, although some recovery was observed in the coming months. Industrial production collapsed in April 2020, down nearly 40% from the same period in 2019, causing exports of goods to decline, the EBRD estimates.

In the first half of this year, Romania's economy contracted by 3.9%, private consumption decreased by 5% and exports by 15%. The unemployment rate climbed to 5.4% in July 2020 (from 3.7% in January), with the likely loss of new jobs in the coming months, as government support schemes will be halted. In June 2020, the annual inflation rate climbed to 2.2%, in line with the BNR target of 2.5% plus/minus one percentage point.

Romania has entered the pandemic crisis with a significant fiscal deficit (4.3% of GDP in 2019). The combination of declining production and government income, a fiscal stimulus program amounting to about 4-5% of GDP, and other pension increases in September 2020 (in addition to those in 2019) would deepen the fiscal deficit in 2020 to an estimated 8.6% of GDP, according to the revised draft budget. BNR cut the monetary policy interest rate three times to 1.5%, lowered the deposit facility interest rate to 1% per an and the lending facility interest rate (Lombard) to 2% per ans.

Romania's economy is expected to decline by 5% in 2020 and growth by 3% in 2021. The recovery will depend on the gradual normalization of economic activity, both in Romania and in its main economic partners, and on the resumption of structural reforms. However, they will be difficult to achieve if social distance remains in place longer than anticipated, the EBRD warns.

In June and July 2020, The EBRD conducted a study of 1,652 SMEs from 15 economies in the regions where the lender is present (Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, Turkmenistan, Uzbekistan, Bulgaria, Croatia, Romania, Egypt, Morocco, Jordan, Lebanon, Tunisia, the West Bank and the Gaza Strip) to assess the preliminary effects of the pandemic on small and medium-sized enterprises. Expectations for government support, in the form of grants, subsidized loans or wage subsidies, have varied significantly in the region. While more than half of SMEs in Bulgaria, Croatia, Romania, Morocco and Mongolia received or were waiting to receive government assistance, less than 20% of firms believed they could not rely on government support in the West Bank and Gaza Strip, Kyrgyzstan, Tajikistan, Uzbekistan, Lebanon. Higher government support (expected or received) is associated with a more optimistic view of the prospects for recovery, the report says.

The EBRD is the main institutional investor in Romania, with investments of more than 8.6 billion euros. In 2019, the Bank invested and financed 22 projects in different sectors of the Romanian economy totaling over 372 million euros.

Other estimates of interest

According to Eurostat, in the third quarter of 2020, seasonally adjusted GDP increased by 12.7% in the euro area compared to the previous quarter.

The second "lockdown" imposed in many countries has contributed to considerable uncertainty among investors. The level of stress within the European financial system, according to the composite indicator calculated by the European Central Bank, has increased and is around 0.158.

In Romania, the indicator of economic sentiment is lower than the EU average, ranking in October 2020 at a level of 86.9 points, down from 88.8 points in September.

The European indices analyzed showed very short-term negative developments (1 week). The decreases were between -8.61% (DAX index) and -2.23% (ISEQ index).

Measures at national level

The Government by Emergency Ordinance, the loan agreement between the European Union, as a Lender and Romania, as a borrower, amounting to EUR 4,099.244.587, signed in

Bucharest on 8 October 2020 and in Brussels on 19 October 2020. In practice, through this agreement, Romania borrows EUR 4.1 billion from the European Union under the European Temporary Support Instrument to mitigate the risks of unemployment in an emergency situation following the outbreak of COVID-19 (SURE).

Characteristics of the loan granted to Romania:

➢ the drawdown period for the amounts of the loan shall be 18 months from the date of entry into force of the Council of the European Union Decision (i.e. until the end of March 2022);

➢ the loan may be made redundant in a maximum of 8 instalments;

➢ the amount of the instalments and the timing of the redundancy will be determined by the Commission in consultation with the Member State;

➢ the average maturity of the loan is 15 years;

➢ the loan will be granted in the same financial terms in which the Commission borrowed from the market for its redundancy, plus any costs/expenses incurred by the Commission for the contracting of that financing. Given the reputation of the European Union, supported, and strengthened under this instrument by the Guarantee Mechanism by the Member States, the loan contracted will be at advantageous cost.

According to the MFP, the loan will support the measures adopted by the Romanian Government, in the context of the COVID-19 crisis, between February and August 2020, aimed at protecting employees and self-employed persons, with the aim of reducing the incidence of unemployment and loss of income.

Of these measures, eligible under the SURE instrument, as assessed by the European Commission:

➢ technical unemployment

➢ flexible working hours

➢ other such schemes for categories of freelancers whose activity has been reduced/interrupted because of the COVID-19 pandemic s

➢ increases and similar measures granted to medical personnel in order to recognize their merits.

5. Conclusions

The analysis of macroeconomic indicators reveals that the world, European and national economy is heavily affected by the pandemic generated by COVID-19, and as the medical crisis deepens, the economy will recover extremely hard.

For Romania's economy it is necessary to keep the connection to the world economy and to the European economy. At the same time, it is necessary for decision-makers at the level of the Romanian Government to take advantage of the opportunities offered by the financial and economic instruments made available by the EU institutions.

An opportunity for the economies of EU Member States, including Romania, is to digitize the services offered to citizens, while implementing measures that value the potential on the IT level of Romanian specialists.

It is also necessary to continue the process of optimizing public expenditure, by reducing the budget deficit, while at the same time applying prudent fiscal and economic policies, by increasing labor productivity both in the public system, but especially in the private sector.

Another particularly important aspect is the identification of new markets at international level for Romanian products, at the same time as the consumption of domestic products, in order to support Romanian producers.

6. Selective bibliography:

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