

# Responding to the Coronavirus Crisis

## Update on Romania (15/05/20)



### EBRD Policy Comparator

Financial Sector			Direct support to firms					Payment holidays			Temporary controls		Support to individuals				Increased social benefits			Health	External Assistance
Policy rate reduced	Liquidity increased	Prudential req. loosened	Wage subsidies	Tax/ social sec. contr. deferred	Loan subsidies	Guarantees	Inspections/ audits suspended	Loans	Rent	Utilities	Prices	Exports	Universal transfers	Self-employed	Pensioners	Low income households	Enhanced sick leave	Enhanced unemp. benefits	Public works	Additional spending	(available or negotiated)
*	*	*	*	*		*	*	*		*								*		*	*

### Economic channels of disruption

#### Private consumption, investments, external funding shock

- The lockdown (a state of emergency was introduced in mid-March) is reducing consumption, esp. in social categories and durables (30% of spending), compensated partly by increase on food spending (25% of the total), highest among the peers.
- Investments may be postponed or interrupted amid bearish market sentiment and liquidity pressure
- Goods exports (33% of GDP) will fall amid global slowdown (and strong links with Italy, more than 10% of exports).
- Low resilience to external funding shock is a risk; reserves, at 18% of GDP, cover less than one year of external financing needs.

#### Selected crisis impact indicators

<b>EBRD GDP growth outlook</b>	<b>2020: -4%; 2021: 4%</b>
<b>Q1 GDP growth</b>	2.4% y/y (preliminary data)
<b>Retail sales</b> (March 2020)	4.1 y/y
<b>Construction activity</b> (March 2020)	26.1% y/y
<b>Industrial output</b> (March 2020)	-14.5% y/y
<b>Economic sentiment</b> (April 2020):	ESI 65.3 (down 34.3 points m/m)
<b>CPI inflation</b> (April 2020)	2.7% y/y
<b>Unemployment rate</b> (March 2020)	4.6% (up from 3.9% in February)
<b>Fiscal revenues</b> (March 2020)	ca. 25% drop y/y

### Crisis response measures to date

#### Support for firms, healthcare, individuals, and monetary policy easing

- Crisis-response package includes: i) more funds for the healthcare system, including a monthly bonus for medical staff; ii) partial coverage of wages (up to 75% of the average gross salary) for parents staying at home while the schools are closed, and for individuals in technical unemployment (0.6% GDP); iii) RON 15 bn of new state guarantees for SME lending (1.5% GDP); iv) faster VAT reimbursement; v) suspension of tax authorities' control, vi) postponement of local taxes; and vii) deferral of loan payments for firms and citizens.
- The NBR has reacted promptly to loosen monetary policy. Key policy measures include: (i) reducing the monetary policy rate by 0.5 pp to 2.0%, as well as narrowing the corresponding interest rates corridor to  $\pm 0.5$  pp from  $\pm 1.0$  pp – thus lowering further the lending facility rate to 2.5%; (ii) providing liquidity to credit institutions via repo transactions; (iii) intervening in the FX markets to stabilise the RON/EUR rate, given the high depreciation pressures.

#### Selected crisis response indicators

<b>Crisis response package</b> (% of GDP)	3%
<b>Support to employee salaries</b> (% of GDP)	2% (including tax holidays)
<b>Amount of normal salary covered</b> (% of salary)	75% of the average gross wage
<b>Payment holidays for taxes</b>	3 months
<b>Payment holidays for loans</b>	Up to 9 months
<b>Committed external assistance</b>	EUR 3.1 bn (EU CRII), WB - EUR 400 mn

### Key short-term priorities

Provide liquidity to the economy, particularly SMEs; revenue support to individuals; ensure fiscal stability and access to capital markets