

# Responding to the Coronavirus Crisis

## Update on Romania (23/11/20)



### 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 spring lockdown has reduced consumption, esp. in social categories and durables (30% of spending), compensated partly by increase on food spending (25% of the total). New containment measures imposed in November (e.g. night curfew) could additionally impact consumption.
- Goods exports (33% of GDP), especially manufactured goods and machinery, have been severely affected amid Eurozone recession.
- Investment activity has been negatively affected by bearish market sentiment and liquidity pressure. Construction activities however have seemingly grown compared to last year.
- 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> (Sep 2020)	<b>2020: -5%; 2021: 3%</b>
<b>GDP growth y/y, sa</b> (Q1/Q2/Q3 flash 2020)	2.6% y/y, -10.3% y/y, -6.0% y/y
<b>Economic sentiment (ESI)</b> (Oct 2020)	86.9 (86.6 in August and 65.3 in April)
<b>Retail sales</b> (Sep/Aug/Apr 2020)	2.6% y/y, 0.7% y/y, -19.4% y/y
<b>Industrial output</b> (Sep/Aug/Apr 2020)	-2.9% y/y, -2.9% y/y, -39% y/y
<b>Unemployment rate</b> (Sep/Apr 2020)	5.2%, 5.0%
<b>CPI inflation</b> (Sep 2020)	2.45% y/y

### Crisis response measures to date

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

- 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). Coverage of 37.5% of the gross wage in a short-time work scheme for three months after end of emergency state (measure adopted in July).
- RON 15 bn of new state guarantees for SME lending (1.5% GDP) and RON 4 bn (0.4% GDP) for non-SMEs, while EUR 1 bn was allocated to working capital grants to SMEs.
- Faster VAT reimbursement, postponement of local taxes, deferral of loan payments, flexible work scheme covering 37.5% of wage in affected sectors.
- Authorities also published a recovery plan worth EUR 100 bn focused primarily on investments in infrastructure (energy, transport, education, health).
- In terms of monetary policy, the NBR (i) reduced the monetary policy rate thrice to the current 1.5%, as well as narrowing the corresponding interest rates corridor to  $\pm 0.5$  pp from  $\pm 1.0$  pp; (ii) provided liquidity to credit institutions via repo transactions; (iii) intervened in the FX markets to stabilise the RON/EUR rate, given the high depreciation pressures; (iv) financed public debt issuances to support lower costs to a limited extent.

### Selected crisis response indicators

<b>Crisis response package</b> (% of GDP)	Ca. 4%
<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 80 bn from the next EU budget

### Key short-term priorities

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