POLSKI INSTYTUT SPRAW MIĘDZYNARODOWYCH
THE POLISH INSTITUTE OF INTERNATIONAL AFFAIRS

NO. 138 (1568), 29 JUNE 2020 © PISM

BULLETIN

Political and Economic Consequences of the COVID-19 Pandemic in Romania

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On 16 June, a Romania's "state of alarm" was prolonged for a month by the Ludovic Orban minority government. The pandemic has prevented his National Liberal Party (PNL) from holding early parliamentary elections, which, given the popularity of the formation, would be expected to allow it majority rule. The largest opposition force, the Social Democratic Party (PSD), could build a coalition in the current parliament but refuses to take power during the crisis. The government has provided temporary support for Romanian companies and announced an economic reconstruction programme that may incorporate aspects of the European Commission's Next Generation EU initiative. The consequences of the pandemic will hamper Romania's adoption of the euro.

Faced with the coronavirus threat, Romanian authorities reacted quickly. President Klaus Iohannis introduced a state of emergency on 16 March, two and a half weeks after the first COVID-19 case was detected. This helped to reduce the spread of the disease despite the country's inefficient health system—in 2019, Romania spent just 5% of GDP on healthcare, the lowest in the EU. The flattening disease curve since the beginning of May prompted Iohannis not to prolong the state of emergency. On 15 May, it was replaced by the milder state of alarm. Lifting some restrictions of the state of emergency, including a ban on traveling around the country, however, has resulted in an increase of new cases since the beginning of June. Therefore, on 16 June, the government extended the state of alert by 30 days, maintaining restrictions on gastronomy and keeping closed cinemas and theatres.

Political Calculations. The pandemic has prevented PNL from converting its minority rule into a majority. In November 2019, the party, with the help of President Iohannis, who is associated with it, formed the Orban cabinet, though it had only 113 of the 465 total MPs. At the same time, the high public support for the formation—in January 2020, it had about 47% in an IMAS poll—prompted PNL to call early elections for this past spring. However, the pandemic and state of emergency forced PNL to cooperate with PSD. On 14 March, parliament approved the new Orban minority government with full prerogatives. Since 5 February, a vote of no confidence would have forced his cabinet to operate in an administration-only mode.

After the state of emergency was introduced, a strong sanitary regime and severe penalties for violations caused a decline in PNL support, dropping to 33% by the end of May (IMAS). The biggest group in parliament, PSD, could form a government together with smaller opposition parties, including PRO România, composed of former PSD activists, and a former coalition partner, the Alliance of Liberals and Democrats. However, the pandemic has meant the opposition is not interested in taking power now. It counts on a further decline in PNL's popularity. The PSD announced (presenting it as its responsibility to the country) that would not vote a motion of censure until after the pandemic has subsided. The parties' calculation was confirmed by a dispute over the new date of local elections, originally planned for June. PNL prefers September, counting on an early end to the pandemic period, which should allow it to lift the restrictions, increasing the government's popularity. On the other hand, PSD opts for November, expecting the deepening of economic problems and declining PNL support.

The president supports PNL in its attempts to increase its popularity. In May, Iohannis—aiming to divert public attention from the effects of the pandemic and to discredit PSD—accused the opposition leader and Speaker of the Chamber of Deputies Marcel Ciolacu of betraying national interests in favour of Hungary. It came because of a procedural oversight on the part of Ciolacu that led the chamber to silently adopt a bill on the territorial autonomy of Szeklerland. The bill was eventually rejected by the Senate but, the president argued, that it happened only because of his intervention.

Economic Slowdown. In Romania, the fifth fastest-growing economy in the EU in 2019, the downturn is particularly evident. In 2012-2019, growth averaged 4.17% per year. Romania also recorded growth in the first quarter of 2020, but for the whole year, GDP probably will decline by 1.9%, according to the government, and by up to 6%, according to the European Commission. The global economic crisis may particularly affect the export-dependent car industry. Automaker Dacia, the largest enterprise in Romania, reported that from January to May, production had decreased by 44% compared to 2019.

The sanitary restrictions and lower demand have forced many companies to reduce their activities. The Orban government has focused on job protection so far. The regulations under the state of emergency allowed companies affected by the restrictions to mark employees as "technically unemployed", which provides a state-paid allowance of up to 75% of the average payment. This solution has been kept under the state of alarm. By the end of May, 595,000 people were "technically unemployed". Another 426,000 lost their jobs, however. The government estimates that when the situation in the Romanian economy stabilises, there will be a lack of employees in, for example, construction and agriculture, which might need about 1 million workers. Therefore, the government counts that some of the 1.3 million citizen-economic migrants who returned during the pandemic will remain in Romania.

Stimulus. The government temporarily supported the financial liquidity and investment capacity of companies. It allocated €3.1 billion in loan guarantees for small and medium-sized enterprises (which submitted about 100,000 applications) and €1.6 billion for large companies. However, long-term growth is expected to be ensured through a national economic recovery plan, which it elaborated. The plan would be focused on improving underdeveloped infrastructure. It would also include a fund of at least €300 million to support investments in green and advanced technologies, in line with the direction of the Europe-wide economic transformation preferred by the Commission and most EU countries.

Romania sees participation in the Next Generation EU programme proposed by the EC as an opportunity to mitigate the effects of the crisis. The country would contribute €12 billion to the fund and receive €19.6 billion as a non-returnable sum and €11.6 billion in preferential loans. This means that it would net €7.6 billion in direct funding, the fourth-most in the EU after Greece, Spain, and Poland. The Romanian authorities support the proposal but emphasize that budget savings cannot come from cuts in Common Agricultural Policy (CAP) or cohesion funds.

Eurozone Aspirations. The Orban government has not given up on preparing Romania to adopt the euro. In pre-pandemic announcements, joining the ERM II exchange rate mechanism was expected in 2024 after improvements in macroeconomic indicators. However, countering the effects of the pandemic and supporting the economy moves Romania away from the convergence criteria. The budget deficit before the pandemic was 3.6% against the allowed 3%. Now, it may reach 9% by the end of 2020 alone. To finance it, Romania has increased the rate on long-term loans from 4.1% to 4.8%—the convergence threshold is 3.2%.

Conclusions. The quick and restrictive actions of the Orban government helped to slow the spread of the coronavirus in Romania. However, they also led to a drop in PNL's popularity and thwarted its plans for early parliamentary elections. Although the distribution of power in parliament allows the opposition to create its own ruling coalition, political calculations have led it to wait for further declines in support for the government, expecting an economic slowdown. It cannot be ruled out that a renewed increase in infections will prompt the government to restore the restrictions it has lifted, which, in turn, may further reduce its popularity and benefit the opposition.

Romania's approach to reviving the economy coincides on some points with Poland's European and regional policy. Both countries support Next Generation EU and reject the possibility of cutting funds from CAP and cohesion funds. Although Romania has announced additional investments in infrastructure, the government has not presented specific plans so far. If implemented, and they coincide with the Three Seas Initiative projects and other countries also complete them, this may help strengthen regional cooperation. However, some Romanian economists indicate that the investments will be hampered by inefficiency in administration of the funds—in the current EU budget period, the country has spent only 30% of the allocated funds. The Romanian authorities, unlike the Polish, Hungarians and Czechs, have demonstrated their political will to join the eurozone sooner than later. However, the worsening macroeconomic indicators associated with the pandemic will postpone Romania's adoption of the single currency if the current convergence criteria are maintained.