

The Romanian Industry and the COVID-19 Pandemic

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Abstract: *The COVID-19 pandemic was a shock for the Romanian economy, starting with March 2020. The Romanian industrial sector was also influenced by the effects generated by the global and national measures taken in order to combat the pandemic. This article aims to analyze the stages of economic evolution of Romanian industry in the first year of the pandemic. It analyzes the possible factors behind the official figures. The analysis uses a series of public data from both the private and institutional spheres, compiled in a chronology of what the COVID-19 effects meant for the Romanian industry. The evolution that is taking place so far follows the letter V pattern with a slight consolidation in the last quarter of 2020. However, in order to sustain this long-term evolution, the industrial sector needs support through well-founded and globally correlated public policies. The main lesson learned is the need to make the value chain more flexible depending on the stage of the pandemic.*

Keywords: COVID-19, industry, value system.

1 INTRODUCTION

Today it is a certainty that the COVID pandemic is deeply affecting the economy. This virus (SARS COV-2) has affected all economic sectors and all companies to a greater or lesser extent.

The sudden appearance of the pandemic announced on March 11, 2020 by the World Health Organization (WHO, 2020) shocked the whole world. The decisions that followed and were implemented by the world's governments had the role of limiting the spread of the virus. They came with the limitation of certain civil rights and the blocking of entire economic branches.

A certain distinction must be made between the immediate effects and the long-term implications for companies that are integrated into global value systems. In March - April, companies faced logistical difficulties in the first place. At that time, global demand for industrial products was on a downward trend.

The European Union (EU) reacted quickly and on 13 March announced the launch of a coordinated response at European level to tackle the pandemic (EC, 2020).

The proposed measures aimed to mitigate the impact of the pandemic in order to maintain the integrity of the European economy, the level of production and the value chains in which European companies are present. The EU has allowed Member States to take action in certain countries/regions through state aid programs, giving them flexibility. It has allocated € 1 billion to European investment funds from the EU's general budget. The aim was to stimulate banking institutions to provide liquidity to SMEs and mid-caps.

The situation at that time was worrying and demand was falling sharply. 50% of SMEs in Germany expected a negative effect due to the crisis. One third of them anticipated a decrease in revenues of more than 10% (DIHK, 2020). 70% of Italian SMEs said they were affected by the pandemic crisis (CNA, 2020). This is while the data from a survey in May shows that 41% of British companies have stopped their operations,

while 35% of them feared that they will not be able to resume business (FSB, 2020).

At that time, the forecasts for Romania were not very optimistic either. Frames company published a barometer showing that over 70% of Romanian companies (fig.1) lack a strategy in such situations (Frames, 2020).

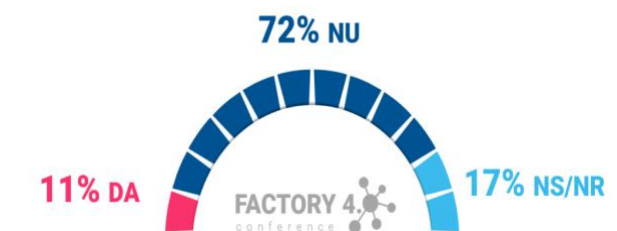


Fig. 1. Romanian companies lack a strategic plan in the context of the COVID-19 pandemic (Framesmedia, 2020)

Romanian entrepreneurs, respondents in the aforementioned study, estimated in proportion of 57% that the COVID pandemic will affect their business. Moreover, 17% of respondents stated that it blocks important processes in their trade or production. Only 17% were optimistic and predicted that the pandemic would have no effect on the company's business.

Of the companies that still planned the emergence of economic crises only 27% had in mind exceptional situations such as epidemics (Fig. 2).

In order to counteract the influences of the pandemic, the Romanian National Council of SMEs requested the government at the beginning of March a series of measures meant to support the small and medium enterprises sector (CNIPMMR, 2020). These requested measures were mainly aimed at ensuring a cash flow and working capital as well as providing assistance to companies facing difficulties. There was also a request for flexibility of the legislative framework, especially in the field of labor, first of all by regulating telework activities.



Fig. 2. Companies that have predicted the possible outbreak of an epidemic in strategic plans (Framesmedia, 2020)

2. COVID-19 IMPLICATIONS FOR THE ROMANIAN INDUSTRIAL SECTOR

It is difficult to predict what the economic implications of this epidemic will be. Everyone knows that this fortuitous event had an unprecedented impact. In terms of supply, companies in the industry still face certain logistical challenges due to interruptions in international transport, but also a shortage of labor. Demand in the industrial sector is also affected by the closure of many global value chains in sectors directly affected by the pandemic. The severity with which these supply and demand shocks strike a company depends on a multitude of factors.

We need to understand these moments in order to better perceive the medium and long-term impact on the industrial sector, but also on the economy as a whole. Only in this way will we be able to distinguish between the immediate effects of the shock due to the global blockade imposed by the COVID-19 pandemic. This blockade took place almost simultaneously in the major economies from the end of March 2020 until about June of the same year.

It should be emphasized that even at the time of writing this article there are still many countries that impose restrictions on both the movement of goods and labor, while limiting social contacts.

In May, the Romanian Academy highlighted the short-term impact of the covid-19 pandemic by “reducing supply (by decreasing production capacity and difficulties in supply channels), reducing and restructuring demand as a result of declining revenues and changes in consumer behavior”.

The blockade of upstream and downstream activities directly affected the different types of companies. However, while reducing production capacity is a significant challenge, the effect of this on demand is a more serious threat.

In fact, many industrial companies operate in areas where demand is resilient. As consumers face job uncertainty and various financial constraints the demand of many companies has dropped dramatically.

Independent companies serving the industrial market have the opportunity to benefit from their niche position. They face fewer replacements and customers can be confident that they will continue to deliver the requested products. However, due to the closure of production lines at European level during the blockade,

the global value chain has been disrupted and many companies today face operational problems.

The first good news came in June 2020. According to data published by EUROSTAT, the Romanian industrial sector showed the first signs of recovery, industrial production increasing by 16.3% compared to the previous month. This increase can be attributed to the relaxation of measures meant to limit the spread of the COVID-19 pandemic. Eurostat also tempered us and showed that, compared to the same period last year, Romania's industrial production decreased by -13.6%.

The data provided by the National Statistics Office (INS) compared to the first six months of 2019 in Romania show that, due to the negative results of several key sectors, the decrease in industrial production actually exceeded 16% (Figure 3).

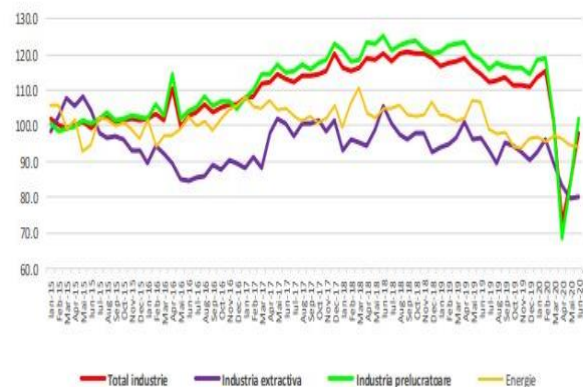


Fig. 3 Monthly evolution of industrial production - January 2015 - June 2020 (INS, 2020)

Specialized companies have also been severely affected by declining supply and demand. Many of these companies had exclusive agreements with important customers. When they stopped production, orders to suppliers were also suspended. This effect is best seen in the automotive sector.

With the removal of restrictions and the resumption of production, demand slowly began to recover, as we pointed out earlier. It is noteworthy that some enterprises serving the industrial market have temporarily repositioned, producing goods needed during the pandemic such as protective masks or other medical equipment.

The impact of the pandemic on the supply of knowledge-based SMEs during the crisis has not been as severe. Many companies in this field need specialized laboratories or equipment and tele-work has not been a viable solution for all employees.

To counteract this demand deficit, companies initially acted by reducing prices by industry. Which, moreover, is in full accordance with the general economic theory. However, we must specify that, by invoicing the same products at lower values, a negative impact was propagated at the level of the national budget.

Nevertheless, there were also areas where tariffs increased. For the repair, maintenance and installation

of machinery and equipment, the increase was 29.65% (Petronel, 2020) in August 2020 compared to the same period of the previous year.

Thus, during this pandemic, this indicator experienced a V type evolution that overlaps with the measures to limit the spread of the virus.

The statement is supported by the statistical data published by INS (fig. 4) which less than 3 months later announced the public opinion an increase of 0.6% of industrial production prices for November compared to the previous month. This sectoral evolution has followed the trend registered at the level of the European Union both in the euro and non-euro area.

Evoluția indicelui prețurilor producției industriale în 2020									
Luna	01.20	02.20	03.20	04.20	05.20	06.20	07.20	08.20	09.20
IPPI	4,72	2,75	0,61	-1,67	-2,01	-0,46	-0,78	-0,66	-0,91
Intern	5,04	3,13	1,08	-1,05	-1,67	-0,37	-1,07	-0,95	-0,98
Extern	4,17	2,12	-0,15	-2,71	-2,58	-0,60	-0,33	-0,17	-0,80

Fig. 4 The evolution of the industrial production price index in 2020 (INS, 2020)

This data signals problems of competitiveness and external deficit management. The figures reached the recommended current account limit and had a very low coverage of commodity imports at the level of the 2009 crisis. It also spreads nationally.

At the end of the third quarter, the first signs of the second wave of the pandemic caused, again, a fall in the prices of industrial products, being also influenced by the evolution of foreign markets.

The economic impact associated with the COVID-19 pandemic is not limited to the effects of lockdowns. In the short term, all types of SMEs have faced financial and liquidity problems. In particular, demand for independent SMEs has declined rapidly and they have faced some challenges posed by the supply system, making them particularly dependent on external financial support.

Even before the crisis broke out, many of these companies operated on tight budgets and financial constraints. Due to the crisis, these conditions have worsened, making them more susceptible to bankruptcy.

In the first 8 months of 2020, the turnover (CA) in the industry decreased by 11.6.6% (fig.5) compared to the previous period of 2019 (INS [2], 2020). The most affected sectors were: the extractive industry, which registered a negative increase of -14.5% and the manufacturing industry, with a decrease of -11.5%.

The MM sector in Romania ended the summer season, according to the data presented in the SmartBill barometer (Oancea, 2020) with a decrease of almost 14% of the aforementioned indicator. This decrease can

also be attributed to the specific period of the year when many employees are on leave. For the HoReCa sector (perhaps the worst affected by the pandemic) the decrease was - 32%.

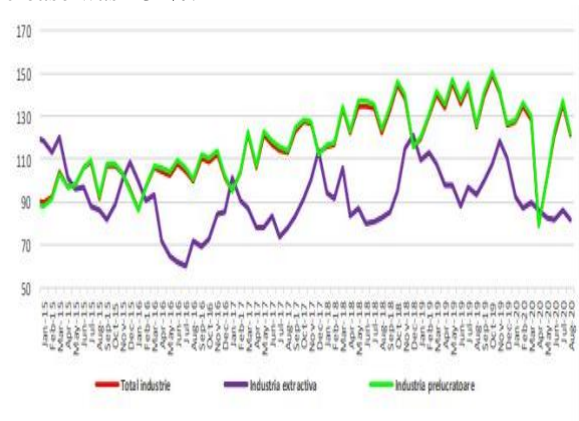


Fig. 5 Monthly evolution of turnover in industry, by sections CAEN Rev. 2 January 2015 - August 2020 (INS, 2021)

The first really good news for the Romanian industry comes only at the end of the year, in December. The INS published on December 14 the statistical data on industrial production in October of this year. It registered an increase of 3.2% (gross series) and 2.1% (adjusted series) compared to the previous month (INS [3], 2020).

The Minister of Finance at that time, Florin Cîțu, publicly declared the following: “The industry sector has switched to PLUS after 19 months! In October 2020, the dynamics of the industrial sector became positive. This sector was thrown into recession in April 2019. The return of the industrial sector is clear proof that in 2021 Romania can have economic growth above expectations (inCont.ro [2], 2020) ”

In Figure 6 you can see how the right arm of the V begins to strengthen and even grow slightly.

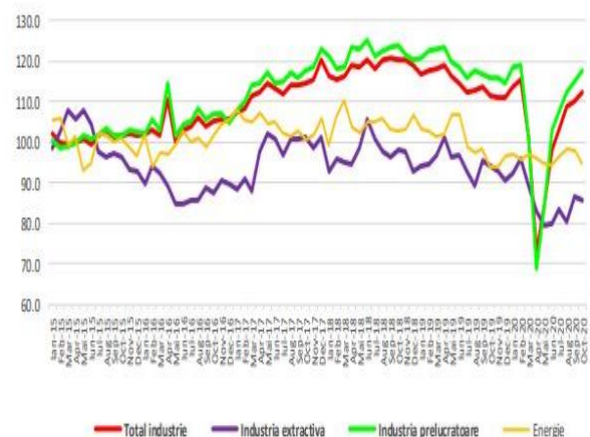


Fig. 6 Monthly evolution of industrial production - January 2015 - October 2020- (INS [3], 2020)

However, compared to the whole period of the previous year (January - October), industrial production decreased by 11% (gross series) and 11.5% (adjusted series), respectively. For a much clearer picture, Figure

7 shows the indices of industrial production for the three main branches.

- procente -

Indicele producției industriale - IPI		Octombrie 2020		1.1-31.X. 2020/ 1.1-31.X. 2019
		față de:		
		Septembrie 2020	Octombrie 2019	
TOTAL	B	103,2	98,7	89,0
	S	102,1	101,2	88,5
Industria extractivă	B	101,4	91,0	89,5
	S	99,0	91,0	90,0
Industria prelucrătoare	B	103,0	99,0	88,0
	S	102,6	101,6	87,6
Energie	B	104,8	99,6	95,7
	S	96,8	100,7	95,1

B= serie brută; S= serie ajustată în funcție de numărul de zile lucrătoare și de sezonaliitate

Fig. 7 Industrial production indices, total and industry sections (INS [3], 2020)

If we analyze the data above, we consider that a precaution is required in celebrating the return of the industry as a result of the COVID-19 pandemic, which has not yet been extinguished.

Many industrial companies are currently updating or implementing digital infrastructure to ensure new distribution channels and to ensure optimal telework conditions in the event of new health restrictions. Also, the companies will invest in the long term in the training of the employees, in the modernization of the production processes. All this in the hope that they will be able to reduce costs and, at the same time, increase their productivity.

For supply networks, the situation remains unstable. Enterprises in the productive sector will look for opportunities to enter such new chains, restructure their own supply chain or even look for ways to strengthen their participation in existing systems.

These things are not easy and they are time consuming. A research conducted by the Vodafone company (economica.net, 2020) states that 73% of Romanian SMEs, regardless of the sector of activity, encountered difficulties in implementing the new digital systems. More than half of them failed to identify technologies that are suitable for their industry or were not satisfied with their suppliers.

The cost of digitization is currently a barrier for almost a third of small and medium-sized companies (29%).

Globally, the value chain is reorganizing during this period. With the growing trend of multiple procurement and inventory management, small and medium-sized suppliers are seeing changes on both sides: they will reorganize their supply chains and reorganize their major customers.

Maintaining existing contracts and signing new contracts depends on the ability to keep costs and prices equal, without compromising quality. Continuous and long-term investments in digital technology are needed to achieve automation.

All this while 58% of Romanian SMEs said in November that they had liquidity for one or two months. (economica.net [2], 2020) The study conducted by

Sierra Quadrant reveals that the main cause was the drastic decrease in demand (61%) accentuated by the financial blockade (12%). Regarding the global activities of the Romanian business environment, half of our SMEs have reduced their activities. 33% sent employees into technical unemployment and 22% of companies benefited from deferred tax payments (CNIPMMR, 2020).

As a small curiosity, at the level of the whole 2020 year, storage spaces of over 650,000 m² were traded in Romania, which represents an increase of 37% compared to the previous year (Alec, 2021).

This can be an indication of the way in which the capital holders invested their financial resources, relying on the real estate market and responding to the more generous storage space needs that manifested themselves at the level of the entire Romanian economy.

3. POSSIBLE DIRECTIONS OF EVOLUTION AND LEARNED LESSONS

Recognizing that SMEs are often the most vulnerable in such severe economic shocks, the main priority at the beginning of 2021 must be to meet the challenges of the SME survival stage. With the phasing out of quarantine measures, surviving small and medium-sized enterprises will have to focus on the phases of renewal (innovation) and growth.

The shift from a focus on survival to a phase of renewal and growth is a delicate process that requires an appropriate succession of public measures and policies. There is an urgent need to fundamentally rethink the industrial system based on collective action and cooperation between all sectoral actors - producers, traders and government institutions.

The survival phase is important because it has a profound impact on fiscal deficits and public debt. The survival period is very expensive and cannot last forever. Therefore, we should rationally plan the return. As the economic situation stabilizes, general fiscal support measures should be phased out and new support policies introduced to stimulate innovation and growth.

The economic impact of the pandemic was asymmetrical (Fig. 8).

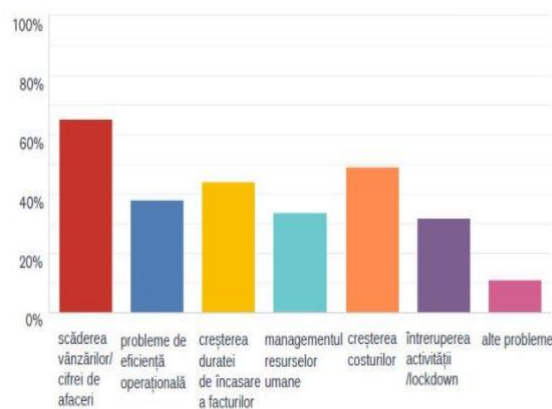


Fig. 8 Manifestations of the pandemic in Romanian companies (Barometrul Moneycorp, 2020)

The return will be the same. However, the outlook is positive, mainly due to the return in the third quarter of 5.8% (European Commission, 2021). GDP growth in 2021 is expected to be slightly above the EU average, close to the level of the euro area economy (Fig. 9). An important factor is that Romania will benefit from an unprecedented EU funding of over EUR 80 billion.

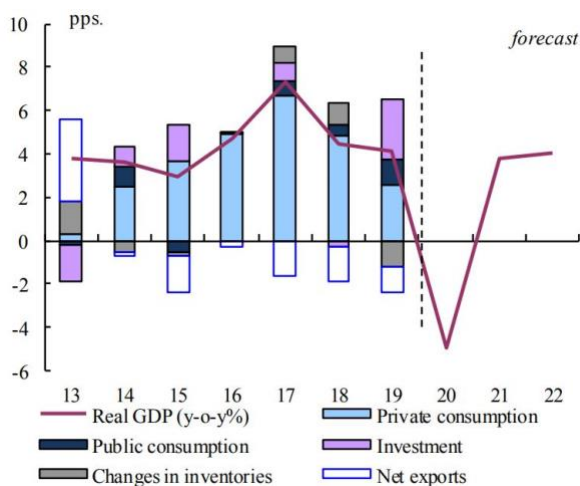


Fig. 9 The evolution of GDP for Romania in the period 2013-2022 (The European Commission, 2021)

The business environment also shows a moderate optimism regarding the evolution of its own financial statements. 49.9% predict turnover increases, and 61% of enterprises believe that they will be able to reach the level reported in 2019 in 2022 (EY Romania, 2021).

The COVID-19 pandemic caused major changes in the structure of human capital. Its rate of change exceeds that associated with macroeconomic data. The workforce is changing, labor management relationships have become more flexible and digitalized, and taxation models sometimes seem outdated.

In a rapidly changing future, everyone needs to pay attention to the tax and legal implications of increasingly complex types of business-to-business relationships.

We believe that digitization is the most commonly used term in 2020, and the digitization of the global economy is the biggest catalyst for recent change. In many areas of Romania, digitization took place almost overnight.

Given the contribution of manufacturing companies to the national economy, policy makers need to carefully re-evaluate their policy portfolio in the light of the future evolution of the crisis.

In the phase of promoting, renewing and growing SMEs in the field of production through innovation, internationalization and digitalisation, the adoption of ambitious structural policy approaches is essential to meet the challenges that lie ahead.

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