

THE IMPACT OF THE HEALTH CRISIS ON THE ROMANIAN BUSINESS ENVIRONMENT

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Abstract: The study analyzes the consequences of the pandemic, trying to identify the most affected sectors of the economy, the factors that led to declining demand for goods and services, but also measures that could revive the business environment. The fragility of health systems can always lead to a health crisis that will soon become a social and economic crisis. Under these conditions, telework and online commerce have proven to be effective alternatives that have ensured business continuity for a prosperous and sustainable economy.

Keywords: health crisis, pandemic, telework, online commerce, consumer behavior.

IMMEDIATE REACTION TO THE HEALTH CRISIS

Emergency medical care during the COVID-19 pandemic highlighted the fragility of health systems in many countries, as well as the lack of effective coordination in solving socio-economic problems. The global health crisis started to manifest itself when large numbers of illnesses and deaths began to put pressure on health systems. The climax was reached when decision-makers found that many hospitals needed substantial allowances to cover the need for medicines, equipment, protective equipment and specialized labor in treating diseases. The situation has spread to all continents due to insufficient means of combating the disease, but health problems have varied from country to country depending on the level of development and preventive measures applied. In this respect, the crisis of 2020 has proved that public health has been and is an international priority. Under the guidance of WHO and other international organizations, state governments, through their specialized structures, have applied various disease prevention and control strategies. These political actions have had a major impact on the pace of social life, while disrupting the functioning of national and global economies. In order to protect the vulnerable population, measures have been imposed to restrict economic and social activities, quarantine, phase-out of border crossing points and traffic

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restrictions. Since the beginning of the pandemic, the European Union has been involved in strengthening national healthcare systems by providing recommendations on public health measures. Furthermore, funds have been released to support SMEs and strengthen investment in products and services to reduce the effects of the health crisis. The chronology of the EU Council¹ shows that there has been ongoing information and debate in order to coordinate actions. The meetings focused on joint cooperation between states to address the main priorities:

- measures to limit contamination;
- ensuring the necessary supply of medical equipment;
- promoting medical research, including for a vaccine;
- analysis and resolution of socio-economic effects;
- restoring the population's trust;
- increasing and protecting jobs;
- helping EU citizens stranded in third countries;
- protection of the euro.

According to art. 168 of the TFEU (Treaty on the Functioning of the European Union)², the organization of health services and healthcare is a responsibility of the Member States, and EU competences can only complement national policies (subsidiarity principle). The current pandemic, through its effects, has succeeded in testing the responsiveness of health systems and has shown that even the strongest states have not been sufficiently prepared to respond to crisis situations. Even though the restrictions were imposed relatively quickly, limiting the spread of the disease was impossible: medical control was slow due to insufficient tests and the inability to test for COVID-19.

The state of emergency in Romania was declared on March 16, 2020, after the first cases of infection were clinically confirmed. In the economic field, in order to reduce the impact of the pandemic, the decision-makers have generally adopted the measures established at the level of the European Union, among which we mention: limiting or banning rallies, concerts and suspending social events (scientific, cultural, artistic); closure of schools, libraries, places of worship and cinemas; prohibition or temporary suspension of road, rail, sea, river, air and even metro transport; reduction of working time or suspension of institutional and commercial activities; quarantine of outbreaks and contacts³. Carrying out the

¹ For details, see <https://www.consilium.europa.eu/>, *The latest actions of the Council in relation to the COVID-19 coronavirus outbreak*. Timeline – Council actions on COVID-19, accessed on May 5, 2021.

² For details, see <https://eur-lex.europa.eu/legal/>, *Document 12008E168, Part Three: Union Policies and Internal Actions, Title XIV: Public Health, Article 168 (ex Article 152 TEC)*, Official Journal 115 , 09/05/2008 P. 0122 – 0124, accessed on May 7, 2021.

³ Monitorul Oficial, Partea I, nr. 396 /15.05.2020, *Legea nr.55, Dispoziții generale, art.5*, Parlamentul României – Camera Deputaților, București, 2020.

activity in telework or work from home, was one of the most useful measures that contributed to attenuating the spread of the infection. While restrictions on economic activities have created general uncertainty, working from home has proven to be an effective mechanism that can ensure the continuity of economic activity. Naturally, the total or partial suspension of some activities and the reduction of the demand for goods and services disrupted the production at national level and the losses had a negative impact on the gross domestic product.

ASSESSING THE IMPACT OF THE HEALTH CRISIS ON THE ECONOMIC ENVIRONMENT

According to provisional statistical data⁴, in 2020, Romania's GDP decreased in real terms, by 3.9% compared to the previous year. The most affected branches of the economy were:

- Entertainment, cultural and recreational activities, to which we can add the repairs of household products and other services whose volume of activity has decreased by 24.5%;
- Agriculture, forestry and fishing – reduced activity 16.2%;
- Industry – 9.3% reduction of activity;
- Wholesale and retail trade; repair of motor vehicles and motorcycles; transport and storage; hotels and restaurants – the volume of activity decreased by 4.7%;
- Net taxes on product – activity volume reduced by 8.7%.

While most branches of the economy experienced a decline, the construction sector made a positive contribution to GDP due to its' 9.7% increase.

In terms of GDP use, the reduction was caused by alert and emergency states, the effects of which led to:

- decrease of household final consumption expenditures by 5% (contributed to the decrease of GDP by 3.1%);
- decrease of the expenditures for the individual final consumption of the administrations by 2% (they contributed to the decrease of the GDP by 2%);
- the 10% reduction in the volume of exports of goods and services correlated with a smaller decrease in the volume of imports of goods and services (only by 6.0%) resulted in a reduction in net exports by 1.4%.

Import and export flows have been affected by the reduced capacity of international distribution networks, the functionality of which has been disrupted by measures to limit the effects of the pandemic adopted simultaneously by most economies. Gross fixed capital formation, whose volume amounted to 5.6%, was

⁴ Institutul Național de Statistică, Baza de date online, Comunicat de presă, nr.54 /9.03.2021, *Produsul intern brut – date*, Institutul Național de Statistică.

the only component that contributed positively to the change in GDP, by + 1.3%. In conclusion, the reduction of GDP by only 3.9% compared to the previous year was, however, a good result, below the level predicted by specialists at the beginning of the crisis, when the estimates were over 5%.

Marked by negative economic fluctuations, the year 2020 meant insolvency for 5694 companies. Compared to 2019, when 6523 insolvencies were registered, but also with previous years⁵, we find that in the year of economic decline the number of insolvencies was the lowest in the last decade. Although the losses in the economy were major, many experts claim that the intervention of decision-makers, by granting state aid, avoided deepening the recession and even doubling unemployment. Due to the significant liquidity brought to the market by state aid schemes, many companies that were in a vulnerable situation at the beginning of 2020 have been saved. Although the economy has shown signs of recovery, for some companies there is still the risk of insolvency. The latest estimates from April 2021, presented by analysts, indicated a 6% decrease in turnover at national level and a possible 14% increase in the receivables of active companies⁶.

According to a questionnaire conducted by FIC (Council of Foreign Investors), in the first months of 2021 foreign entrepreneurs generally had an optimistic view of the Romanian business environment. This enthusiasm was lower in September 2020, when 50% of FIC members reported a low attractiveness of the Romanian market compared to their other locations in the EEC. The uncertainty created by the impact of the pandemic on foreign-owned businesses was also reflected in the change in future investment plans. The autumn estimates largely predicted a decrease in invested capital and labor for the next 12 months. Even if the businesses with foreign capital were seriously affected last year, the analysis carried out in March 2021 outlined a moderate positive perception on the activity of the Romanian market. This time, while most investors (66.7%) were confident of rising revenues and 26.7% estimated similar revenues with the same period last year, only 6.7% of respondents expected a decline. From the answers regarding investments, we find that the planned resources could increase considerably in the next 12 months (51.1% of respondents expected capital increase), but the pace of employment would be slower (only 33.3% of respondents anticipated the increase in employment). The fact that not all companies have considered creating new jobs is explained by the fact that the planned investments could be focused in the future on automation and digitization. In addition, the results of the questionnaire were surprising in terms of

⁵ For details, see <https://www.onrc.ro>, Ministerul Justiției, Oficiul Național al Registrului Comerțului, *Profesioniști intrați în insolvență, Statistici*, 10.05.2021, accessed on June 6, 2021.

⁶ For details, see <https://www.coface.ro>, COFACE, Comunicat de presă, *Evaluarea riscului de țară, Analiza COFACE România: vulnerabilitatea mediului de afaceri în România în contextul pandemiei COVID-19*, București, 22.04.2021, accessed on June 6, 2021.

the way employees work. 48.9% of respondents considered it appropriate to allow work from home for some of their employees by the end of the year⁷.

Compared to small and medium-sized enterprises, larger and more skilled capital, logistics and labor have helped large companies to overcome critical situations more quickly.

The efficiency of the state intervention in the business environment through the aid schemes can be identified from the survey launched by the National Council of SMEs between 16.02.2021 – 7.03.2021, to which 2655 entrepreneurs responded. Only 12.6% of respondents expressed total satisfaction regarding the government's support measures for companies affected by the crisis. While most entrepreneurs (66.9%) agreed that the support was useful but insufficient, there were also voices (20.5%) who considered the aid to be unnecessary. The dissatisfactions found are the following: the award criteria were unrealistic (poor thinking); reduced budget of programs/measures; too many bureaucratic procedures; the support did not come in time; lack of transparency; suspicions of fraud. As the survey shows, the support measures also brought benefits by creating new investments, but it only helped most entrepreneurs to maintain their business and the number of employees. Perhaps for these reasons, only 16.7% of participants were optimistic about business development. A much higher proportion (83.1%) of businessmen expressed confidence that the European funds allocated through the National Recovery and Resilience Program will contribute to Romania's long-term economic development. Telework was another topic, which was approached according to the specifics of each activity. Thus, most respondents (60.3%) stated that employees must be 100% physically present at work, but in other areas of activity it was partially or even totally accepted telework, from home.⁸ Paradoxically with the traditional way of working, where the interaction between sellers and buyers is limited to the physical space of the facilities, work from home or residence of the employee proved equally useful through communication in the virtual environment, which during the state of emergency became a favorite place for meeting, trading and collaboration. The fact that some companies failed to use the digital environment in time, is also explained by their weak management skills and lack of specialists. Even though there were a multitude of incentives, SMEs have always faced constraints on access to finance, which has reduced the opportunities offered to employees. Therefore, the skilled workforce has focused on the many benefits offered by the public sector and large corporations. If the restrictions had only a temporary

⁷ For details, see <https://fic.ro/doc.>, Consiliul Investitorilor Străini, Comunicate de presă, *Percepția membrilor FIC privind mediul de afaceri din România, București*, 1.12.2020, *Percepția membrilor FIC privind mediul de afaceri din România la mai mult de un an de la declanșarea pandemiei*, București, 29.04.2021, accessed on June 8, 2021.

⁸ For details, see <http://cniipmmr.ro/2021/03/08/sondaj-cniipmm>, Comunicate de presă, *Sondaj CNIPMMR – Evoluția mediului de afaceri în anul 2021*, București, 9.03.2021, accessed on June 6, 2021.

impact, the lack of capital is still a barrier to growth: companies are still vulnerable, and any stagnation of activity, as observed during the restrictions, can generate a high level of unemployment.

CONSUMER BEHAVIOR

As we know, most consumers prefer shopping in the traditional way, for direct evaluation of the product. During the period of social isolation, people went through unusual and unpleasant experiences that suddenly changed their consumption habits and preferences. The threat of the virus, the closure of shops, restaurants, restrictions and very large fines have created fear and uncertainty. This situation required patience, but also solutions because life had to be adapted to the new social reality. Studies help us better understand what factors have influenced consumer decisions.

The financial consulting company EY (Ernst & Young) launched between May 13 and June 2, 2020 an online case study⁹ to understand the behavior of Romanian consumers during the pandemic, as well as after the relaxation of distance measures. In the state of emergency, many purchases were focused on creating stocks of food and other goods of strict necessity (hygiene and cleaning products, medicines, etc.). This trend was due to the fact that pessimism dominated during the alert period (63%). Concerned about family health and less about the pandemic, 35% of respondents reduced regular expenses and made preventive stocks. Those financially affected by the pandemic (27%) said they were more skeptical because they had to drastically reduce spending. Here we can consider technical unemployment. Until May 15, 2020, the National Agency for Employment spent 1.38 billion lei to pay 1,118,865 employees sent on technical unemployment by 129,149 employers¹⁰. Consumers who were not directly affected by the pandemic (26%) kept spending habits, but were concerned about hoarders. Much more concerned about the pandemic (11%), turned out to be young people because their social life was the most affected. They replied that they are optimistic and spend more on all product categories. Compared to the previous year, statistics show that in 2020 the demand for quality has greatly increased, and price was the next factor that determined the purchase of goods and services. From the fact that three quarters of consumers said they will migrate to online shopping, it follows that the low supply of goods and services during the restrictions was the main

⁹ For details, see <https://www.ey.com/ro>., EY Romania, Cristian Cârstoiu, EY Romania & Moldova Digital Enablement, 20 iulie 2020. *Cum a modelat COVID-19 comportamentul consumatorilor români?*, accessed on June 10, 2021.

¹⁰ For details, see <https://www.agerpres.ro>., AGERPRES, autor: George Coman, Published on December 29, 2020, *Retrospectivă 2020, Șomajul tehnic și contractele de muncă suspendate*, accessed on June 3, 2021.

reason for raising the level of access to the virtual environment. The final results of the study showed that the effects of the pandemic led many consumers to be more cautious and to give up needs that were not a priority.

The consumer behavior of the population changed significantly with the extension of the pandemic alert at European level, and the consumer demand eroded with the intensification of social distancing measures and the adjustment of wage incomes (technical unemployment and business closures). In this context, due to the deteriorating financial situation, the confidence of the population began to decline. As a result, uncertainty about job stability has led to more cautious consumer behavior. Those affected have reduced spending, and those who anticipated an unfavorable evolution of the economy, have started to save. These trends were reflected in the reduction of spending on leisure activities and the consistent decrease in the demand for the purchase of long-term goods (household appliances, cars).

From the analysis of the database of Groupe Renault¹¹ we notice that, in the first six months of 2020, Automobile Dacia SA, the largest company in Romania, registered a decrease of 46.2% in vehicle sales internationally, compared to the period similar to 2019. The deficit was determined by the presence of the Dacia brand on the retail market, which was strongly affected by the crisis generated by the Covid-19 pandemic. By using the E-Commerce platform and the measures taken on time (online commerce, telework, digitization of documents), Dacia managed to mitigate the impact of the pandemic crisis, reaching the end of 2020 to raise the market share of the brand to 32.4%, which at the end of the previous year it was 30%. Compared to 2019, when Romanians bought 55,463 Dacia vehicles, in the year of restrictions 47,380 units were delivered to the Romanian market, a value that includes 5,024 vehicles delivered for the Police fleet. From the presented data it is observed that the relaxation measures have raised the confidence index of the population, generating an increase in consumption. The increase in demand for durable goods shows that the economy has had a sharp upward trend, but the lower volume of purchases compared to previous years is a signal that some consumers are still cautious. The change in strategy by targeting Dacia and Renault sales to the digital area has led to a significant increase in online purchases. Until September 17, 2020, the date when the press release of Groupe Renault Romania was issued, over 2,500 cars were purchased through online platforms. The main advantages for customers who access the online environment are: the purchase procedure is intuitive and fast; customers can choose the right model with the help of several selection filters that include features, technical specifications and price; payment can be made online, both for booking the car and for purchasing; for customers who want to avoid physical interaction or the effort of going to the showroom there is an optional service that includes home delivery of the car. Seen only as an option in the last decade, digitalization has become a necessity in times

¹¹ For details, see <https://www.gruprenault.ro/media>, Groupe Renault, Media, *Știri 2019–2021*, *Comunicate de presă*, accessed on June 26, 2021.

of crisis. By changing the way they work, many people have proven that they are able to continue working from home with the same efficiency. Even though economies have reopened and employees have been allowed to return to work, many companies have chosen to keep this new flexibility both preventively and as an operational option in the event of a recurrence of blockages.

Therefore, by accelerating the digital transformation, the year of the pandemic can be considered the beginning of the digital age. New online sales targeting strategies have helped increase competitiveness and business continuity. In the long run, digitalization can benefit any industry, as evidenced by the dynamics of today's business environment.

By accelerating the pace of online purchases, the local e-commerce market (retail and services) amounted to 7 billion euros in 2020, according to the global company PayU, which is an increase of 36% over the previous year. There was also a change in the payment behavior of consumers. During the pandemic, over 300,000 Romanians used online payment for the first time. This payment method has also increased thanks to a one-click purchase facility, which is secure, simple and fast. The most accessed areas that have registered significant evolutions are: IT&C (120%), marketplace (150%), fashion (60%), insurance (50%), decorations and household items (150%), food (200%), utilities (50%)¹².

If we analyze the trends in 2020, we find that tourism has been one of the most affected sectors in the world. According to the latest data from the World Tourism Organization (WTO)¹³, in 2020 due to large-scale travel restrictions and reduced demand, international arrivals fell by 74%. Tourist destinations around the world recorded one billion fewer arrivals than in 2019. The crisis has caused global tourism an estimated loss of \$ 1.3 trillion in export earnings and endangered between 100 and 120 million jobs. Even if the need to travel was no longer a priority for Romanian consumers and many of them preferred to restrict their budgets during the period of restrictions, the intention did not disappear, but the preference for external destinations in favor of internal ones changed. From the database of the National Institute of Statistics it results that in February 2020 the tourism was still operating at normal parameters, there being only small decreasing fluctuations. With the establishment of the state of emergency, arrivals in tourist reception facilities with accommodation functions decreased by 69.8% in March, and in April (-98.1%) and May (-96.9%) the decreases reached maximum levels compared to similar months in the previous year¹⁴. In general, the activity of tourism in Romania, in 2020, can be characterized by a decrease in the number of

¹² For details, see <https://romania.payu.com/news/piata-locala-de-e-commerce-2020/>, Compania globală PayU, *Piața locală de e-commerce în 2020: 7 mld. EURO, +36%*, accessed on July 10, 2021.

¹³ For details, see <https://www.unwto.org/>, World Tourism Organization, *2020: The Worst Year in Tourism History, With One Billion Fewer International Arrivals*, 28 ianuarie 2021, accessed on July 7, 2021.

¹⁴ Institutul Național de Statistică, Baza de date online, *Comunicate de presă*: nr. 87 / 2 aprilie 2020, Nr. 116 / 5 mai 2020, nr. 140 / 3 iunie 2020, nr. 74 / 2 iulie 2020, Turism, București.

tourists (Romanian and foreign) and an increase in the interest of Romanian consumers for national tourism. The departures of Romanian visitors abroad decreased by 58.8%, and the arrivals of foreign visitors registered a decrease of 60.8% compared to the previous year. Most foreign tourists came from Europe and Asia. Due to the decrease in the number of passengers, the tourist capacity in operation was lower by 27.8% compared to the previous year. The highest frequency of accommodation was registered in hotels (60.1%) and tourist pensions (11.3%). In total, the hotel units received 6335401 tourists, 52.3% less than in the previous year¹⁵. Therefore, if we consider that 92.8% of tourists were Romanians, we can say that the decisions of consumers in our country, to give up foreign destinations, saved national tourism or at least improved the imbalances in this industry. The low demand was also reflected in the profitability of travel agencies. According to Wall-Street.ro, during the press conference, organized on December 16, 2020 by ANAT (National Association of Travel Agencies), a loss of about 70% was assessed in the turnover of Romanian tourism. ANAT members discussed a number of issues and drew attention to the following issues that affected the agencies:

- specialized activities on events were completely paralyzed
- technical unemployment received support (45% of salary) from the state, but those who did not solicit for unemployment in time were eliminated from the aid scheme;
- aid measures have been good for many businesses, but not for tourism;
- the state did not respect the assumed payment terms;
- considered risk areas, travel agencies did not receive loans from banks;
- tour guides were not eligible for funding;
- funding existed in political statements and less in the accounts of those in need.

ANAT representatives stated that “Romania does not lack measures, only consistency in their application”, and to revive the business environment it was considered necessary to establish a Ministry of Entrepreneurship and Tourism to be led by a technocrat¹⁶. This request was addressed to the government and NCSMPER (National Council of Small and Medium Private Enterprises in Romania), a confederation of which ANAT is a part.

The World Bank mentioned in the most recent analysis that Romania has been the country with the highest economic growth in the EU since 2010. Currently, the main priorities are investments in infrastructure, healthcare, education, job creation and the development of small and medium-sized enterprises. Economic forecasts indicate progress of 4.3% in 2021, achievable depending on the political response to the health crisis and developments in the EU. In 2020, trade and

¹⁵ Institutul Național de Statistică, *Seria turism 2021*, Cod publicație: ST nr 2021, nr. 4/ 2020, București, 5.03.2021.

¹⁶ For details, see <https://www.wall-street.ro/articol/Turism/265461>, Wall-Street.ro, ANAT: *În România nu ducem lipsă de măsuri, ci de coerență în aplicarea lor*, Published on December 16, 2020, Turism, accessed on July 7, 2021.

services decreased by 4.7%, while tourism and hospitality industry remained the most affected branches. Due to low external demand and supply chain disruptions, the industry contracted by 9.3%. Technical unemployment generated a substantial increase in the share of the population at risk of poverty in April 2020, but followed a gradual decrease until January 2021, with the return to work of temporarily inactive workers. However, poverty is expected to remain high due to the persistent pandemic, declining incomes and the dry agricultural year. A growing fiscal deficit could push public debt to 62.2% in 2023, from 37.3% in 2019, and yet public debt remains one of the lowest in the EU, according to the World Bank. Romania is expected to receive EUR 79.9 billion from the EU by 2027 in accordance with the provisions of the multiannual financial framework 2021–2027 (EUR 49.5 billion) and the economic recovery plan (EUR 30.4 billion)¹⁷.

CONCLUSIONS

Small and medium-sized enterprises were more vulnerable during this period due to the low efficiency caused by low demand and restrictions, to which was added technical unemployment, employee illness and childcare leave. With all the negative effects of the crisis, by changing the way we work, from offline to online, new perspectives and opportunities for business development have opened up. By disrupting the supply chain, many companies have faced a shortage of raw materials and consumables that have affected production and services. In general, government support measures have helped maintain the business and the number of employees. However, these costs and those of healthcare are found in the accelerated growth of public debt. The increase in expenditures created a major budget deficit that led to a freeze on salaries and pensions in 2021. Under these conditions, Romania needs major investments, otherwise the economy will stagnate and the country will be less competitive.

The pandemic has tested the resilience of health systems and the economy, amplifying the importance of adopting new strategies. Healthcare investments are a priority that cannot be postponed. Decision-makers should give more support to SMEs and contribute to their integration and adaptation to business digitalization. Telework and work from home contributed to the continuity of activities and brought extra flexibility to the employee. Online stores have proven that they can respond well to customer needs.

Restrictions, real loss of income (technical unemployment) and uncertainty have contributed to lower consumption. Digitization can play a key role especially for SMEs, becoming a tool for development and transition to sustainable trade. The use of new technologies can increase development, operational efficiency and access to new markets.

¹⁷ For details, see <https://www.worldbank.org/en/country/romania/overview#3>, *The World Bank in Romania, Recent Economic Developments*, Apr 05, 2021, accessed on July 15, 2021.