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The Evolution of the Labour Markets from the European Union Member States in the Context of the COVID-19 Pandemic

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Abstract: The article follows the developments of labour markets during the Covid-19 pandemic, focusing on the impact analysis on labour supply and demand. In this direction, the evolution of three main indicators is analysed, such as the employment rate, the unemployment rate and the number of hours actually worked, based on the data provided by Eurostat and Statista. Following the impact research, the author emphasizes the Member States solutions to cope with these issues, and presents the measures to combat the negative effects. The conclusions are that the pandemic crisis is a wake-up call that has drawn our attention to the structural weaknesses of the Community economy, the vulnerability of some industries and the need for better cooperation between Member States and a European Community mechanism to stimulate the EU economic recovery and resilience, which cannot be possible without increasing employment and supporting integration on the most vulnerable groups to Covid-19 pandemic.

Key-Words: COVID-19, European Union, impact, labour market, employment, unemployment,

JEL Classification : *J23, J22, J68, J78*

1. The social-economic impact of COVID-19 pandemic

According to Eurostat data, in the second quarter of 2020, the EU's GDP dropped by 11.2%, which led to a recession in the EU (a contraction in GDP of 6.1% in the EU and 6.6% in the Euro zone in 2020 comparative to 2019) as a result of quarantine, social distancing and limitation measures, or temporary closure of economic activities. The negative impact was strong during 2020, and the spread of the SARS-CoV-2 virus affected the supply chains of raw materials, the development of production activities, the flow of transport, closed or restricted for long periods a number of sectors such as tourism and cultural and entertainment activities and, last but not least, restricted the free movement of people and goods (two of the basic pillars of the EU single market). Therefore, the industrial production experienced the biggest drop in April 2020, by 19.0%, leading to an annual decrease of 8.0% in 2020 compared with 2019. As a result of the 2020 recession, the real GDP per capita in the EU stood at 26.230 euros, which was 9.0% higher than in 2005 and only slightly above 2015 levels, but the EU economy shows signs of recovery and total real GDP is forecast to grow by 4.2% in 2021 (Eurostat, 2021).

The COVID-*19 pandemic had a strong negative impact, affecting the various components of the labour market*, prompting member states to respond quickly to new challenges and step up their efforts to overcome this crisis by focusing on the objectives. European pillar of social rights (employment support measures). The member states of the European Union have promoted a wide range of measures to respond to this pandemic crisis, which have focused on protecting workers and strengthening the resilience of employers, encouraging social dialogue and other public / private partnerships in the labour market. But the pandemic is not over yet and the economic recovery is expected to be slow. That is why the EU has adopted short-term work schemes (SUREs) to help Member States protect jobs and, implicitly, employees, as well as the self-employed, against the risk of unemployment and loss of income. Many Member States have also accelerated the implementation of digital technology, and promoted distance learning, online schooling, and the expansion of e-commerce. These changes have led to the emergence of new skills and competency requirements in the EU labour markets.

2. The influence of the COVID-19 pandemic on labour demand

According to the economic theory, employment is a structural indicator, which reflects the structure of labour markets and economic systems, measured by the balance of labour supply and demand or the quality of employment. As a short-term indicator, employment follows the business cycle. Employment statistics are at the heart of many EU social policies.

European Commission (2020) underlines that the *employment growth rate* has slowed or become negative in several Member States in the first quarter of 2020 (with an average quarterly negative growth of 0.2% in the EU). Subsequently, all Member States, except Malta, recorded a slowdown in the second quarter of 2020 (by an average of 2.7% in the EU), compared to the peak of employment recorded in the fourth quarter of 2019, this decrease represents about 6 million people. The largest declines were recorded by Spain (8.4% that means 1.7 million people,), Ireland (6.1%) and Estonia and Hungary (5.6%), between the fourth quarter of 2019 and the second quarter of 2020. Over the same period, employment decline was below 2% in thirteen other member states and slightly more moderate in Cyprus (0.9%), Poland (0.4%) and Luxembourg (0.3%). Malta was the only EU country to see an increase in employment of 1.7%.

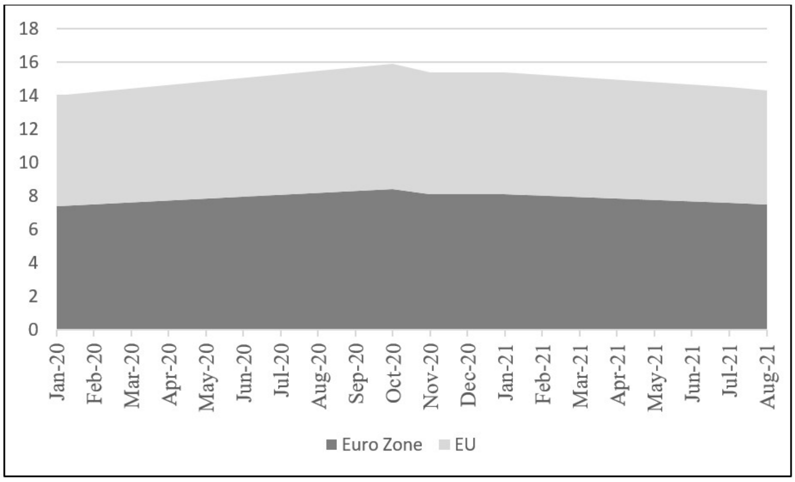
Data provided by Statista (2021) show that in the EU-27 Member States, the *employment rate* fell to 66.9% in the second quarter of 2020, the lowest employment rate recorded since the beginning of 2018, and increased to 67.9% in the third quarter of 2020. During the peak period of the pandemic, in the third quarter of 2020, there were significant differences between Member States in terms of employment, so that the highest levels were recorded in the Netherlands (77.6%), Germany (77%), Sweden (76%), Norway (74.6%). On the other hand, the lowest employment rates were recorded in the Southern European Member States, namely Greece (57%), Italy (58%) and Spain (60.8%), the latter two being hit hard of the pandemic. With regard to the Member States of Central and Eastern Europe, the employment rate in the Czech Republic was 74.4%, Estonia 73.5%, Latvia 71.6%, Slovenia 70.8%, Lithuania 70.7%, Hungary 70.2%, Bulgaria 69.6%, Poland 69% and was below the EU average in only three of them, namely Slovakia 67.5%, Romania 66% and Croatia with 63%.

Kurzarbeit -type *labour flexibility schemes have helped to limit the loss of many jobs, in sectors that have been severely affected by the restriction of economic activities as a result of the quarantine measures imposed.* The European Commission (2021a) has appreciated that since the onset of the crisis many Member States have extensively implemented flexible work schemes, in order to limit the job losses, to avoid the reduction of the human capital at the firms' level and to support the aggregate demand in the peak phase of the economic crisis. *At the same time, some employers have gradually adjusted their labour demand according to the restrictions imposed, in order to ensure the sustainability of their activity*.

However, the decrease in *hours worked* was substantially higher than the decrease in employment, respectively reached 13.5% in the second quarter of 2020, compared to the fourth quarter of 2019. Thus, among the Member States with the largest reductions in working hours were Luxembourg, Greece, Slovakia, Lithuania, Italy, Portugal, Slovenia and France. In the third quarter of 2020, the number of hours worked partially recovered increased by an average of 11.9% compared to the previous quarter in all member states except Romania (Eurostat, 2021c). At the same time, the number of workers absent from work (as a percentage of total employment) rose sharply from 9.7% in the fourth quarter of 2019 to 18.7% in the second quarter of 2020, representing an increase of 9 percentage points for the EU as a whole. Layoffs rose sharply from 0.2% of total employment in the fourth quarter of 2019 to 7.4% in the second quarter of 2020 (European Commission, 2020a).

According to Eurostat data (2021b), in January 2021, *the unemployment rate* in the Euro zone (seasonally adjusted) was 8.1%, up from 7.4% in January 2020, stable compared to December 2020. Unemployment rate in the EU -27 was 7.3% in January 2021, up from 6.6% in January 2020, also stable compared to December 2020 (Chart 1). Eurostat (2021b) estimates that 15,663 million people in the EU, of which 13,282 million in the Euro zone, were unemployed in January 2021. In comparison, in January 2021 compared to January 2020, unemployment increased by 1,465 million in the EU and 1,010 million in the Euro zone, and compared to December 2020, the number of unemployed increased by 29,000 in the EU and 8,000 in the Euro zone. In August 2021, the Euro area seasonally-adjusted unemployment rate was 7.5%, down from 7.6% in July 2021 and from 8.6% in August 2020. The EU unemployment rate was 6.8% in August 2021, down from 6.9% in July 2021 and from 7.7% in August 2020 (Eurostat 2021d).

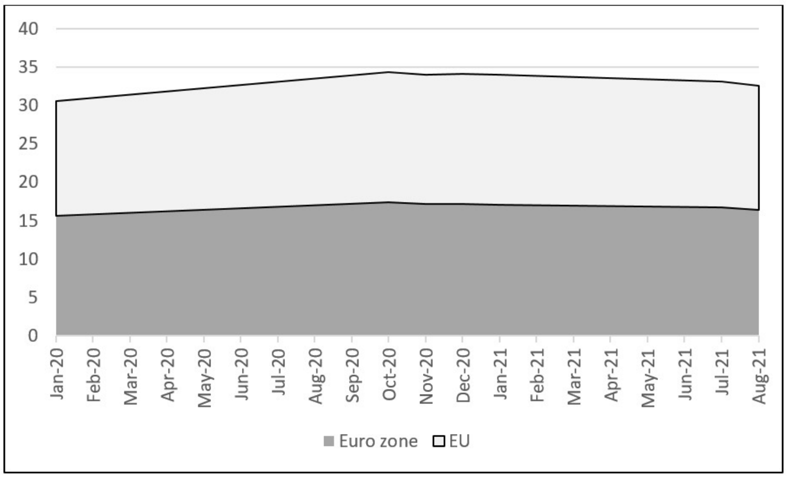
Chart 1: The evolution of the unemployment rate between January 2020-August 2021



Sources: Author based on Eurostat data (2021b, 2021d)

The young people were one the most affected by the Covid-19 pandemic restrictions. According with Eurostat (2021b), in 2020, the tendency to increase the *unemployment rate among young people* was accentuated, having a level double comparing to the total unemployment rate (15-74 years). In January 2021, 2,929 million young people (15-25 years old) were unemployed in the EU, of which 2,356 million in the Euro zone. In January 2021, the youth unemployment rate was 16.9% in the EU and 17.1% in the Euro zone, compared to 16.9% and 17.2% in December 2020, respectively (Chart 2). Compared to January 2020, the youth unemployment has increased by 184,000 people in the EU and by 89,000 in the Euro zone. In August 2021, 2.833 million young persons (under 25) were unemployed in the EU, of whom 2.317 million were in the Euro zo. In August 2021, the youth unemployment rate was 16.2 % in the EU and 16.4 % in the Euro zone, down from 16.4 % and 16.7 % respectively in the previous month (Eurostat 2021d).

Chart 2: The evolution of the youth unemployment rate between January 2020-August 2021



Sources: Author based on Eurostat data (2021b, 2021d)

3. The effects of the COVID-19 pandemic on labour supply

The COVID-19 pandemic exacerbated the imbalance between the skills and job training (supply) and the employer requirements (demand). The COVID-19 crisis has accelerated the digitalization of many economic activities and amplified inequalities, which have highlighted the strong correlation between the socio-economic environment in which a person lives and access to education systems. The European Commission's analysis (2020a) suggests that restrictions have had a different negative effect, mainly affecting the most vulnerable or those in less developed regions of the EU. The European Commission (2020a) also points out that online learning requires that every child has at least one computer or tablet with a fast internet connection, plus the skills to use it, and that this is not always possible for children living in disadvantaged areas or having families at risk of poverty and social exclusion. In the EU, in 2018, about 3.9% of households could not afford a computer, and for households with incomes below 60% of the average equal income the percentage was 12.8%.

The social distance measures, which were taken in most Member States, have made the use of digital skills indispensable for business provision, online education and training, healthcare, and for professional communication, but the European Commission (2021) emphasizes that there were significant gaps between Member States. Therefore, in five of the Member States: Denmark, Germany, Sweden, Finland and the Netherlands, the share of adults with digital skills is between 70% and 80%, in seven below 50%, and in Bulgaria and Romania it is below 40%. In terms of age group structure, less than 25% of people aged between 65-74 years have the necessary basic digital skills, compared to 80% of young people aged 16-24; this share of adults with digital skills reaches 32% for those with secondary education, compared to a level of 84% of people with a higher level of education.

The COVID-19 pandemic, through the restrictions imposed, accelerated the digitalization process in both the public and private sectors, which changed the structure of the demand for skills in the labour market, in favour of digital ones. Therefore, the European Commission (2021) allocates significant funds to address the digital skills' gap of young people and adults in the member states and meet the requirements of digitalization of most economic activities. The instruments established at EU level in the multi annually budget for 2021-2027 provide major opportunities for Member States to support the sustainable development of digital skills and include:

- The *recovery and resilience mechanism*, through which 20% of its funds must be spent on the digital transition of the Member States, including digital skills.
- The *Digital Europe program*, which has a budget of approximately 200 million euros for the period 2021-2022 and aims mainly at promoting digital skills.
- *European Social Fund Plus* (ESF +) which is a fund designed to support EU Member States in reforming national education and training systems.
- *The European Globalization Adjustment Fund* (EGF), which supports the training of digital skills to help laid-off workers find another job or start their own business.
- *Horizon Europe*, which funds grants for research, master's, doctoral or other postgraduate studies in all fields, including digital.

4. The impact of the COVID-19 pandemic on economic activities

According to the European Parliament (2021), the COVID-19 crisis has had an *uneven impact* on the EU-27 economy and real GDP is projected to reach before crisis levels by mid-2022, both in the EU and in the Euro zone. Most production-based areas were affected by short-term supply chain delays, but began to recover relatively quickly in the third quarter of 2020, following the gradual lifting of quarantine measures. However, there are important differences, in terms of recovery between economic sectors, but also within them.

Experts from the European Community have analysed the impact of the COVID-19 pandemic on economic activities and employment (European Parliament, 2021). According to them:

- The pandemic directly affected more than *1.1 million jobs in the EU due to the shutdown of factories between March and May 2020.* In addition, in the same period, on the one hand to comply with measures of isolation and social distancing and, on the other hand, due to low economic performance and declining demand, the number of people who actually worked in factories was substantially reduced. At the same time, some employees were fired, and many of them were rehired only on a short-term basis. For example, in Germany about 95% of employees in car companies benefited from the reduced work schedule - Kurzarbeit - during the first wave of the pandemic.
- A differentiated recovery process was registered between the economic branches (type V, U, L). In the first part of the pandemic, several companies in the *digital industry achieved very good results*, and sectoral analyses show that the pandemic has acted as an accelerator of digitalization in many economic sectors. The *pharmaceutical and medical equipment industries also performed well throughout 2020*. The *construction and the food industry*, after a slight decline in activities in the second quarter of 2020, benefited from a *V-shaped recovery* (rapid economic recovery and strong). Despite the initial shocks, in the *automotive and textile industries the relaunch was U-shaped,* so that after the fall of the activity caused by the shutdown of the factories, the economic activity recovered slightly after the removal of the restrictions, only to

rise again. The *sectors that are dependent on social interaction, such as the cultural and creative industries, tourism and transport, have experienced substantial declines* (due to decreased mobility and free movement of people) and are likely to remain affected for long periods of time following these unprecedented shocks. It is possible that the recovery of lost jobs, income and sales may take several years *(L-shaped recovery).*

- According with Eurostat (2021e), "looking at the major international players in chemicals trade", the EU headed the list in 2019 with a total trade of 642 billion euros, which consisted of 407 billion euros of exports and 235 billion euros of imports, thus recording the highest trade surplus (172 billion euros); the United States was the largest importer (243 billion euros) and second largest exporter (201 billion euros) and China was both the third largest importer and exporter with values of 196 billion euros and 145 billion euros respectively. In 2019, in EU the chemical industry held 12% of total employment. The average annual growth of the production of chemical over the period 2010-2020, was 2.7%, leading to a peak of 657 billion euros in 2019, *dropping slightly to 649 billion euros in 2020* (Eurostat, 2021e). Between *January and June 2020*, the production of the *chemical industry decreased by 5.2% in the EU-27* compared to the levels of the same period of the previous year, and the lowest level was reached in April. In June 2020, there was an increase in production by 2.9% compared to May 2020, marking the first early but modest signs of recovery. *The priority of the chemical industry in the first months of 2020 was to ensure the supply of chemicals considered "essential" in supply chains during the pandemic, such as raw materials for medicines or disinfectants* (European Parliament, 2021). *In 2020, the largest product group in trade of chemicals is "medical and pharmaceutical products", which in exports its share is 52% and in imports it is 40%;* two other groups had shares above 10%, "Organic chemicals" had 12 % of exports and 23% of imports and "chemical materials and products" had 10% of exports and 11% of imports (Eurostat, 2021e).
- *The pandemic caused declines in the production of classic cars, based on gasoline or diesel, but at the same time created new growth opportunities in the automotive sector, by redirecting manufacturers to the manufacture and the sale of the electric cars*. The average share of electric car sales in total car sales increased from 3.4% in 2019 to 7.8% in the first half of 2020, with a peak of 11% in April and about 8% in May and June. Moreover, the crisis is forcing consumers to re-evaluate their needs and implicitly their consumption behaviour, opting for electric cars, which leads to an acceleration of the green transition and the implementation of the European Green Pact.

5. The impact of the COVID-19 pandemic on work schedule

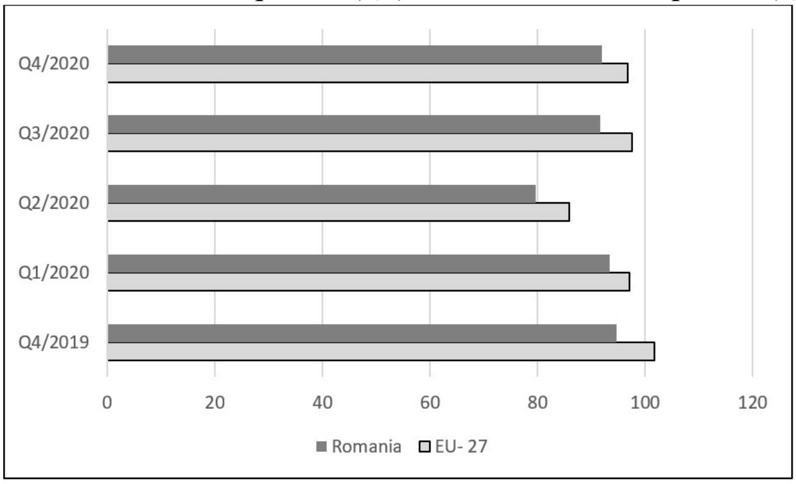
According to Eurostat data (2021c), at EU level, the total index of hours effective worked decreased by 5.0 points between the fourth quarter of 2019 and the fourth quarter of 2020, from 101.8 points to 96.8 points, with the highest low value recorded in the second quarter of 2020 (85.9 points) (using the year 2006 as reference with an index of 100 points). In comparison, Romania registered a significant reduction in the total index of hours effective worked, of 15 points between fourth quarter of 2019 and second quarter of 2020, but the decrease was only 2.7 points in fourth quarter of 2020, compared to fourth quarter of 2019 (Chart 3).

Looking at the gender differences, Eurostat data (2021c) show *that women have been more affected than men in terms of reducing the effective time worked due to the COVID-19 crisis, throughout 2020*. The total hours effective worked among women was 108.4 points before the COVID-19 crisis, respectively in the fourth quarter of 2019, reflecting an increase in working time for women compared to the reference year 2006. During the first year of the COVID-19 pandemic, the number of hours effective worked by women decreased several times: first, it decreased from 108.4 points in fourth quarter of 2019 to 102.5 points in first quarter of 2020; reached 89.9 points in second quarter of 2020, the lowest level since 2006; subsequently, the index of hours effective worked increased to 104.0 in third quarter of 2020, to decrease again to 102.3 points in fourth quarter of 2020. That means a record a total decrease of 6.1 points between fourth quarter of 2019 and fourth quarter of 2020.

For men, the working hours index went from 97.6 points in fourth quarter of 2019 (pre-pandemic) to 93.3 points in fourth quarter of 2020, corresponding to a decrease of 4.3 points. It also fluctuated during 2020, but to a lesser extent than for women. Consequently, from 97.6 points in fourth quarter of 2019, it decreased to 93.7 points in the first quarter of 2020, continued to decrease to 83.3 points in second quarter of 2020, subsequently increased to 93.5 points in the third quarter of 2020 and stabilized at 93.3 points in the fourth quarter of 2020. As such, between fourth quarter of 2019 and the second quarter of 2020, the negative difference amounted to 14.3 points in men compared to 18.5 in women, and between third quarter of 2020 and fourth quarter of 2020; the negative evolution corresponded to 0.2 points in men, versus 1.7 points in women (Eurostat, 2021b).

According to Eurostat data (2021c), analysing the real change in hours effective worked between fourth quarter of 2019 and fourth quarter of 2020, a decrease of 4.9% can be observed at EU level. *There were significant differences in the situation across countries. Six Member States were severely affected by the COVID-19 crisis in terms of reducing the hours effective worked, namely: Austria (-11.7%), Greece (-9.8%), Slovakia (-8.3%), Italy (-7.8%), Ireland (-7.4%) and Malta (-7.3%). In contrast, Poland (-1.5%), Slovenia (-1.4%), Finland (-0.7%) and Denmark (-0.4%) were in the best situations.*

Chart 3: The evolution of the total index of hours effective worked in the EU-27 and comparatively Romania, between the fourth quarter (Q4) of 2019 - the fourth quarter (Q4) of 2020



Note *: (year 2006 is used as a reference with an index of 100 points)

Source: Representation of the author based on Eurostat data (2021c)

6. The measures to combat the negative effects of the COVID-19 pandemic on labour markets in the Member States

Peromingo (2020) estimates that all national governments in the Member States have allocated significant resources to mitigating the impact of the pandemic on labour markets and that, according to Eurofound, Member States *have initiated more than 300 new laws and amended 200 pieces of legislation* in the same purpose. Many of these measures have focused on protecting workers' incomes during quarantine, being imposed by many Member States at the beginning of the pandemic. Other measures have been taken, in parallel, to maintain jobs and avoid massive layoffs (Box 1).

Box 1: The types of the labour market support measures taken by EU Member States, during the COVID-19 pandemic

TYPE OF MEASURES	DESCRIPTION OF THE MEASURES	MEMBER STATES, INSTITUTIONS
1. Ensuring security of the income (labour supply protection)	- The employees which are infected with SARS-CoV-2 coronavirus are provided with a paid sick leave of up to 100% of their average net salary during the quarantine period.	- Lithuania
	-The workers in the areas essential to overcoming the pandemic have their basic salary increased by between 10% and 200%, depending on the level and period of exposure to risk.	- Slovenia, Ministry of Labour, Social Affairs, Family and Equal Opportunities

	- The unemployed are allowed to work in agriculture without losing unemployment benefits.	- Bulgaria, Ministry of Labour and Social Policies
	- The self-employed workers can claim compensation if they have previously contributed to social security and lost their earnings due to restrictions. The benefits can be between 50% -75% of the basic contribution, but not more than 700 euros per month. The application may be renewed every month for the actual quarantine period.	- Latvia, Ministry of Welfare
	- The self-employed persons who have closed their business can claim compensation for the loss of income of up to 80% of the national minimum wage. In the case of freelancers with an income reported below 50% of the minimum wage, compensation can be requested for all their income. The self-employed workers who pay taxes on the basis of a tax card (simplified form of corporate tax) can claim an allowance in a lump sum equivalent to 300 euros.	- Poland, Ministry of Labour and Social Policy
2. Preserving jobs (stimulating labour demand)	- The government covers the costs of health insurance and pensions for employees and provides total or partial exemptions from income tax and profit tax for all businesses affected by coronavirus, those who have a 20% - 50% decrease in revenue.	- Croatia. Ministry of Labour and Social Security System
	-Temporary emergency schemes were taken for job preservation, in support of companies that lost at least 20% of their revenues during the pandemic year. The state pays employees' salaries for three months, up to a maximum of 90% of the company's total salary costs, depending on the loss of turnover. In addition to the payment of salaries, the state also pays the social security contributions of the employer and the employees.	-The Netherlands, the National Employment Agency
	- The companies in the most affected sectors may temporarily suspend their social security contributions. In addition, the rent cannot be increased and the leases for commercial premises cannot be terminated. The eligible sectors are tourism,	- Hungary, National Employment Agency

	restaurants, entertainment, sports, cultural services and taxi services.	
3. Stimulating business continuity (stimulating the labour demand)	- The automotive industry has facilitated the gradual return of workers to factories, with the support of epidemiologists and the government.	- Slovakia, Ministry of Labour, Social and Family Affairs
	- The Chamber of Commerce, in cooperation with the online job promotion platform WorkLinks.com, facilitates the temporary secondment of employees from other companies to help companies that need staff.	-Czech Republic, Chamber of Commerce
4. The development of innovative jobs (stimulating the labour demand)	- Granting money for the support of the digitalization of business processes, which increases the companies' ability to use the Internet as an effective means for business development.	- Ireland, Government
	-As part of the 'Restart Luxembourg' aid package, which includes recovery funding and sectoral grants; the government provides funding of up to 50% for investment projects focused on the development of activities based on digitalization and environmental protection. Particular emphasis is placed on ecological recovery; for example, the modernization of buildings with heating systems based on renewable energy sources and the production of electric cars and vans.	- Luxembourg, Ministry of Labour, Employment and Social Economy
5. Skills development in order to correlate the labour supply and the demand	- The Employment and professional accreditation programs co-financed by European funds, that were in progress or were about to start when the pandemic crisis started, are delivered and fully certified online. This measure has been approved by the National Accreditation System.	- Greece, National Employment Agency
	- The online training courses (especially in the field of basic skills) are made available to all jobseekers, and these training programs are also widely open to people in active detention. This public employment service has been requested by many more users than in the pre-pandemic period.	- Belgium, National Employment Agency
	- The development of online learning for jobseekers through the "Office 365 Platform", which offers training	- Portugal, National Employment Agency

	programs for workers selected by employers and for trainees included in the training program offered by the Employment and Training Centres.	
	- Providing over 150 new completely free online training courses for job seekers. These courses prepare the unemployed to work in 20 professional sectors that actively recruiting. This program was created and accelerated through a long-term partnership with a training organization specialized in open and online learning, which has developed technical and educational tools, information technology (IT) platforms and educational methods adapted for online.	- France, National Employment Agency
	- In response to the large influx of unemployed, during quarantine, the public employment agency introduced a fast service for job seekers called "remote meetings". This format allows the creation of a short but personalized profile of candidates. In June 2020 alone, more than 600 new job counsellors were quickly trained to help the unemployed people.	- Sweden, National Employment Agency

Source: Selection made by the author based on Peromingo (2020).

7. Conclusions

The very strict measures during quarantine and social distancing, as well as the ensuing economic recession, have had a negative impact on labour markets in EU Member States. *Thus, the number of unemployed increased, the number of employees decreased and there was a flexibility of work by reducing the work schedule and the number of hours actually worked. The employment structure was also affected, given that we are witnessing a differentiated recovery of the economic branches (type: V, U, L). There has also been a shift in the demand for workforce skills in favour of digital skills.*

However, the COVID-19 crisis is also creating opportunities for development and innovation in labour markets in the EU. For this, it is imperative to step up efforts to reform and make the labour market more flexible in order to meet the challenges of a more economically, socially and environmentally sustainable post-pandemic society. An important role in this direction is to put into practice the objectives of the EU Pillar of Social Rights to increase the employment rate, through a better qualification of the workforce and a more efficient use of human resources. In this regard, the EU remains actively involved in the fight to promote smart, green and inclusive economic growth in all EU countries.

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The Internationalization of Emerging Economy Currencies: An Alternative to Protectionism?[1]

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Abstract: The developments after the crisis of 2008-2009 highlighted the vulnerabilities of the International Monetary System. In this context, some countries considered reducing their dependence on the US dollar and increasing the role of their currency internationally. This paper examines whether the internationalization of emerging countries' currencies has been an alternative to protectionism. To this end, we took into account the relevance of the currencies of emerging economies internationally and the internationalization of the renminbi. As far as the internationalization of the Chinese currency is concerned, we presented the political and economic motivations, the main paths, and the main evolutions.

Keywords: currency internationalization, protectionism, emerging countries, renminbi (RMB), China, offshore market, RQFII

JEL Classification: F33, F65, G15

1. Introduction

The International Monetary System (IMS), in its current configuration, is dominated by the US dollar[2]. Since the signing of the Bretton Woods agreement in 1944, the currency issued by the world's largest economic power, the United States (US), is the one that has fulfilled the function of money at the international level. Because it was perceived mainly as a safe deposit and an intermediary good for transactions between other less internationalized currencies, it was widely accepted as the main reserve currency held by the countries of the world. In addition to the US dollar (USD), other currencies such as the euro, the pound sterling, the Japanese yen, etc. have had similar developments over time, with different levels of internationalization.

The financial crisis of 2008-2009 revealed several vulnerabilities resulting from this international monetary unipolarity, raising concerns and calling into question the reform of the IMS. Among the arguments put forward by the proponents of such a reform was the fact that it is not in line with the trends of the global economy structure (a multipolar one), making the entire financial and monetary system vulnerable to the shocks and monetary policy changes in the US (and other issuers of reserve currency), and it does not provide a uniform risk-sharing between world economies (Maziad et al., 2011). In addition to these, as shown more recently in the context of the current Covid-19 pandemic, there is the issue of the long-term sustainability of the US dollar, in the context of its sharp depreciation in recent years, of the increased public debt of the US and of a savings rate that is increasingly smaller (International Banker, 2020).

One of the issues considered in the context of these discussions was the replacement of the current international monetary system with a system based on multiple currencies. In 2009, for example, China proposed, through the governor of its central bank, Zhou Xiaochuan, a solution to replace the dollar in the IMS with a synthetic reserve currency (SDR-type) that would not be affected by monetary policy measures of individual nations which could affect the stability of others, worldwide (Financial Times, 2009).

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[1] The paper represents the author's contribution to the study *Reconfiguring Emerging Economy Priorities under the Impact of New Trade and Investment Policies at International Level*, coordinated by Iulia Monica Oehler-Șincai, PhD, Institute for World Economy, Romanian Academy, Bucharest, 2020.

[2] We are referring to the period since the signing of the Bretton Woods agreement.

In this context, several emerging economies have considered the internationalization of their own currencies as a solution to the strong influence of the US dollar and, from this point of view, as an *alternative to protectionist measures*. This is supported by the increasingly important role that emerging countries are beginning to play in the world economy and, coupled with the interest of investors (Ma, 2014).

Moreover, such a strategy would bring a number of benefits to these economies. It would lead to lower trading costs for countries whose currencies are internationalized, reduce the exchange rate risk for economic operators and provide more advantageous lending conditions for issuing countries on the international market. In addition, from a global perspective, the existence of more currencies competing with the US dollar and the euro internationally would lead to better risk-sharing, reduce the potential for crises, facilitate gradual adjustments in economies and stimulate sustainable policies ensuring stability in the financial and monetary system (Gao, 2011).

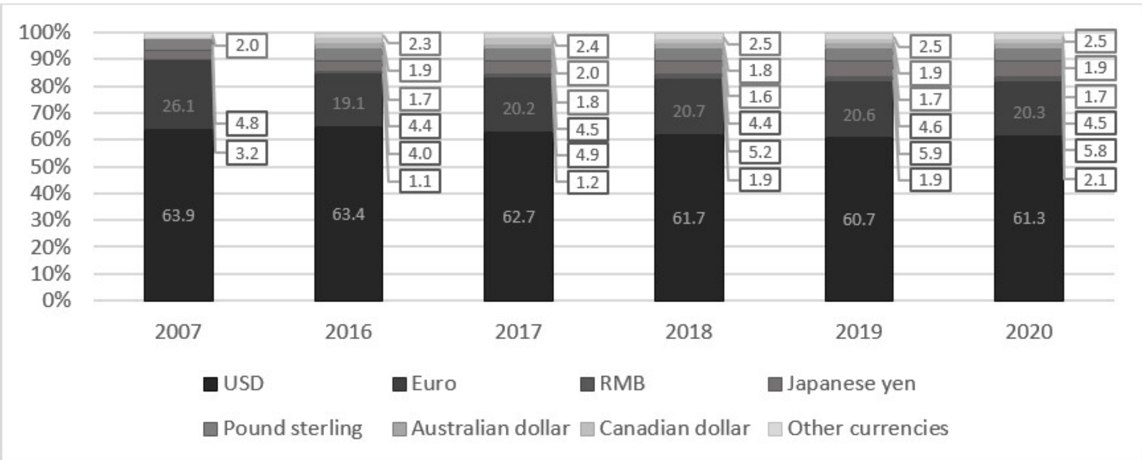
2. The internationalization of emerging economy currencies

The importance of emerging countries in the world economy has increased in recent years. However, one aspect highlighted by the literature is that the relevance of the currencies issued by them has remained low at the international level (Nabar and Tovar, 2017).

The degree of internationalization of a currency is closely linked to its use as a reserve currency, for the settlement of commercial and/or financial transactions and for foreign exchange, respectively. When it comes to *holding reserves*, for example, the highest share in the world is held by the US dollar, the euro, the Japanese yen, the pound sterling and the Chinese yuan (RMB). Together, they account for over 91% of international reserves (as reported in October 2020). However, the US dollar is dominant, with over 60% of the total, followed by the euro, with 20%.

Yet, although with lower weights, other currencies issued by developed countries are also used. The Canadian dollar, the Australian dollar, etc. are some of these currencies (Chart 1).

Chart 1: Composition of foreign exchange reserves worldwide, in 2007 and 2016-2020 (%)



Source: IMF (2020).

In addition to the above, in particular over the last decade, there has been increased interest in currencies issued by emerging countries, from the perspective of holding reserves. From 2007 (before the crisis) until now, their share of global foreign exchange reserves has relatively increased. The Asian world (including the renminbi) has shown a positive evolution. Given that the medium and long-term forecasts for their savings are positive, this trend is expected to further increase in the coming period.

Progress in the use of emerging economy currencies has also been made in terms of the settlement of commercial and/or financial transactions. Unlike the USD, the euro, etc., in several countries they have been supported by bilateral agreements on their commercial use. The renminbi, the Mexican peso and others are among the currencies that have been on the rise at the international level from this point of view.

Table 1: Turnover of over-the-counter (OTC) foreign exchange instruments, by currency (%)

Currency	Year				
	2007	2010	2013	2016	2019
USD	42.79	42.42	43.52	43.80	44.15
EUR	18.51	19.52	16.71	15.70	16.14
JPY	8.62	9.49	11.53	10.82	8.40
GBP	7.43	6.44	5.91	6.41	6.40
AUD	3.31	3.79	4.32	3.45	3.39
CAD	2.15	2.64	2.28	2.57	2.52
CHF	3.41	3.15	2.58	2.40	2.48
RMB	0.23	0.43	1.12	1.99	2.16
HKD	1.35	1.18	0.72	0.87	1.77

Source: author, based on BIS data (2020).

Last but not least, in terms of *foreign exchange*, four of the currencies that make up the SDR basket (dollar, euro, Japanese yen, pound sterling) are the most frequently traded. In foreign exchange, although less important in terms of developed financial markets, some currencies such as the Hong Kong-China dollar, the Singapore dollar and others are still taken into account. Although some of these currencies issued by emerging countries have become more relevant from an international perspective, in recent years they have been less used in the foreign exchange market. However, a growing trend can be seen in the case of RMB, which has become the fifth currency in the SDR basket since October 1, 2016.

3. Case study – the internationalization of the renminbi

In general, the internationalization of a currency is driven by specific market factors and/or discretionary measures. Market developments have been the basis for increasing the role of the US dollar, euro, Japanese yen and others at the international level. As for the renminbi, the government measures, aimed at increasing its use in the international trade and offshore markets, played an important role in its internationalization (Song, 2019)[3].

3.1 The motivations for RMB internationalization

As Gao (2019) points out, the acceleration of the internationalization of the currency by the Chinese government is related to the limited progress made on China's other two external guidelines, i.e., the involvement in the reform of the global financial architecture and the *Chiang Mai initiative (CMI)*[4], the latter seeking the strengthening of regional financial cooperation.

One of the reasons for which the internationalization of the RMB had not been seen by the Chinese authorities as an advantage until then was the need, in this context, for the liberalization of the capital account and the convertibility of the currency. The main fears related to these two aspects were that, given the still poorly developed national financial market compared to the that of the US, which is mainly based on the banking sector, the removal of control would be a vulnerability for the Chinese economy, as it could generate uncontrolled capital outflows, increase asset costs, etc.

However, the main reason for increasing the role of the RMB internationally was the strong exposure, comparative to the US dollar, which, influenced by Federal Reserve (FED) decisions, could affect its monetary and financial stability (Campanella, 2014). In 2008, China had reserves worth nearly USD 1 trillion, the highest volume in the world.

[3] Unlike the internationalization of other currencies such as the USD or the Japanese yen, which have been driven mainly by market developments.

[4] The Chiang Mai Initiative (CMI) is a multilateral foreign exchange agreement between members of ASEAN, the People's Republic of China (including Hong Kong-China), Japan and South Korea. It is the first regional currency swap agreement.

Furthermore, the benefits that the internationalization of the renminbi could bring to China, similar to those of the US dollar, the euro and others, were considered. An internationally accepted RMB would help reduce exchange rate risks, which could affect Chinese companies, would further stimulate trade in goods and services, ensure more favorable lending conditions in international markets, etc.

Moreover, symbolically, turning the renminbi into an international currency would mean a recognition of China's importance in the global economy (Nixon *et al*., 2015).

In addition, there are benefits that can be derived from the implications on monetary policy (the internationalization of the currency can contribute to improving its efficiency), from the increase in seniority income (Gao, 2011) and so on.

Last but not least, the opening that comes with it can drive Chinese financial institutions to become more competitive internationally and have greater access to financing. From this point of view, the internationalization of the RMB can contribute to the development of the Chinese financial sector. This could increase its role internationally and China could become a financial hub in the region.

3.2. Ways to internationalize the RMB

In the context of the debate over the future of the international monetary system, the renminbi is perceived as a serious competitor for the US dollar and the euro. It has seen significant gains in recent years, both in terms of its use in trade settlements, with China's increasing role in the global economy, financial transactions, foreign exchange operations, but also as a reserve currency.

Although certain measures to encourage its cross-border movement had been taken before, the internationalization of the renminbi has become a concern for the Chinese authorities in particular in the context of the 2008-2009 financial crisis. ***A first measure*** that was considered in this context was the launch of the pilot project *for the settlement of cross-border commercial transactions in RMB* (2009). Introduced in 5 of the commercially important cities (Shanghai, Guangzhou, Shenzhen, Zhuhai and Dongguan), it sought to encourage Chinese exporters to conduct their international transactions in RMB. Subsequently, it was extended to 20 other provinces.

One of the Chinese government's strategies to increase the use of RMB in commercial transactions has been ***to conclude bilateral swap agreements*** (*BSAs*). Their purpose was to promote the use of RMB in the settlement of cross-border commercial transactions and to solve the problem of the lack of financing in this currency outside China, for importers. They provide foreign companies with the opportunity (and encourage them) to obtain financing in Chinese currency, so that they can pay for goods and services imported in renminbi[5].

China has been a major provider of such agreements in the CMI in Asia since the 1997-1998 Asian financial crisis. However, some of the agreements from this period were signed in USD and did not have a role in promoting the use of RMB (Nixon *et al*., 2015).

A new stage in the use of this instrument began with the signing of the first agreement outside the WCC with South Korea (RMB 360 billion) in December 2008.[6] It came as a response to the economic crisis and made an important contribution to saving the Asian countries at that time. The model was the one implemented by the US and other countries[7]. In addition, other agreements were signed during the same period, such as those with Hong Kong-China, Malaysia, Belarus, all in the RMB (Gao, 2011).

In 2017, the People's Bank of China signed bilateral swap agreements with 36 central banks in the total amount of RMB 3.3 trillion (USD 500 billion). Most had maturities of 3 years, with the possibility of extension. In 2019, there were agreements with 39 such authorities, amounting to RMB 3.7 trillion (PBoC, 2020).

What were the criteria for choosing the partners with whom these bilateral swap agreements were signed? As several authors show, the main aspects considered were the existence of bilateral trade links, the presence of

[5] This is a viable solution especially in the context in which, under the capital account, the currency was not convertible, which made the free movement of RMB funds in China impossible.

[6] It is worth noting that this agreement was renewed successively, most recently in October 2020 when the agreement was extended to the value of RMB 400 billion , in force from 11 October 2020 to 10 October 2025. See: https://www.bok.or.kr/eng/bbs/E0000634/view.do?nttId=10060832&menuNo=400069.

[7] As an example, the FED in the US signed a number of temporary bilateral currency swap agreements during the 2008-2009 financial crisis to help counterparty central banks cope with USD liquidity cuts. Also, in 2013, it turned five of these temporary agreements into permanent agreements. These included the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank.

free trade agreements, and, to a smaller extent, the political relations, the institutional framework, and others (Song, 2019).

In terms of effectiveness, there is little data to confirm that they have indeed brought benefits. There are indications provided by the PBoC showing that only a small portion of the provided amounts was used in these agreements (Song, 2019).

A second direction in the Chinese authorities' strategy to internationalize the RMB was to develop **the offshore market**. From a practical perspective, it ensures a favorable framework for RMB to be used for transactions among non-residents.

An important role in the development of the Chinese offshore market was played by the gradual removal of restrictions on the movement of RMB for trade operations first in Hong Kong-China (2009) and later in the relations with the rest of the world. Since 2010, it has become convertible for current account transactions, which has stimulated transactions in this currency between domestic and foreign companies (Nixon *et al*., 2015).

As a result, Hong Kong-China has become one of the main offshore centers for RMB. Later, such offshore renminbi centers appeared in Taipei, Singapore, Seoul (among the Asian ones), London, Frankfurt, Paris, Luxembourg, and others.

The main barrier against a more pronounced development of the Chinese offshore market was the lack of convertibility of the RMB on capital accounts, with the settlement of financial activity transactions having a lower contribution to the non-resident use of the RMB.

The way the Chinese offshore market works is shown in Table 2.

Table 2: RMB flows between mainland China and the offshore market

	Current account		**Capital account**	
	Trade in goods and services	Income flows	Direct and portfolio investment	Other
Flows to offshore market	Chinese importers paying offshore exporters	Individuals' remittances	FDI denominated in RMB	Foreign central banks activating currency swaps with PBC
	Chinese importers paying offshore exporters	Corporate cross-border RMB "pooling"	*Shanghai-Hong Kong Stock Connect* program; *Shenghzen-Hong Kong Stock Connect* program	Cross-border RMB loans
			RQFDII – domestic	
Flows to China	Offshore importers paying Chinese exporters	Individuals' remittances	RMB-denominated overseas direct investment	Foreign central banks unwinding currency swaps with PBC
	Foreign tourists converting RMB outside China for use in the mainland	Corporate cross-border RMB "Pooling"	*Shanghai-Hong Kong Stock Connect* program; *Shenghzen-Hong Kong Stock Connect* program	Cross-border RMB loans
		Repatriated *dim sum* bond issuance	RQFDII	

Source: Nixon, Hatzvi, Wright (2015).

The development of the Chinese offshore market has been supported by the government mainly through the establishment of clearing banks, various initiatives on non-resident capital market participation (QFII - *Qualified Foreign Institutional Investor*, RQFII - *Renminbi Qualified Foreign Institutional Investor*), central bank investments in RMB assets, cross-border RMB loan schemes and programs such as the *Shanghai-Hong Kong Stock Connect* and the *Shenghzen-Hong Kong Stock Connect Program*, etc. The bilateral swap agreements have also played an important role in the development of the Chinese offshore market.

In terms of the **clearing activity**, the first steps were taken in 2003, when the first such bank outside China (*Bank of China* branch) was set up in Hong Kong-China (BOCHK). The role of such a bank was to ensure, through clearing operations, the links of foreign entities with onshore banks and thus with the domestic market (Nixon *et al*., 2015).

The main advantage of its establishment was that, unlike the previously used methods (the use of payment systems of foreign clearing banks or the "correspondence" relations between them and the Chinese banks), the payments in RMB could be made directly, avoiding settlement delays, ensuring lower costs, etc. Moreover, they symbolically validate the offshore market and provide confidence in the use of the RMB for transactions within it.

Among other things, BOCHK could accept deposits from foreign banks, settle transactions on the offshore market, and it could trade on the Chinese interbank foreign exchange market, all in Chinese currency. In addition, several branches and subsidiaries of Chinese banks have started to offer "correspondent" services to offshore banks, making it easier for the latter to open RMB accounts (at Chinese banks) and settle transactions in this currency.

Subsequently, other such clearing banks were set up outside Hong Kong. In 2016, there were 23 Chinese clearing banks worldwide (all offshore branches of Chinese commercial banks). By 2019, their number has increased. In the recent period, the total volume of clearing operations has been of 348.17 trillion RMB, a 10% increase comparing to the previous year (2018) (PBoC, 2020).

Regarding the **RQFII** program, it facilitates the investments in China for foreign (offshore) RMB holders. Based on it, they have the possibility to sell or buy bonds and other securities on/from the Chinese market shares.

From this point of view, it can be said about RQFII that it was also a measure in addition to those regarding the liberalization of the capital account. It offered new opportunities to foreign investors, thus contributing to the increase of volume of RMB transactions on the offshore market.

The RQFII program was launched in 2011 and was also available to Hong Kong-China investors. It was introduced in addition to the *Qualified Foreign Institutional Investor* (QFII) program, which allows foreign investors to use foreign currency to invest in Chinese financial assets. The initial share held in RMB was of 20 billion[8]. In 2015, the share for Hong Kong was raised to RMB 270 billion, and the total worldwide quota was RMB 600 billion (Nixon et al., 2015). In 2019, there were financial institutions from 21 countries that held such shares, with a total value of RMB 1.99 trillion. This year alone, 23 financial institutions requested RQFII shares worth RMB 694.1 billion (PBoC, 2020).

Unlike QFII, RQFII offered investors similar investment opportunities but greater discretion in portfolio allocation and fewer restrictions on repatriation of funds (Nixon *et al.*, 2015).

It is worth noting that restrictions on investment quotas have also been removed as of September 2019 for pilot countries or regions for RQFII. This decision sought to further encourage authorized foreign investors to invest in RMB on the Chinese domestic market (PBoC, 2020). Since November 2020, both QFII and RQFII were brought together under the so-called *Qualified Foreign Investor* (QFI), which came up with a single set of rules, reducing the time to approve applications (from 20 days to 10 days) and new areas to invest (NEEQ securities, asset-backed securities, commodity futures etc.) (ASIFMA, 2021).

Furthermore, the *Shanghai-Hong Kong Stock Connect* (launched in 2014) and the *Shenzhen-Hong Kong Stock Connect* (2016) programs created direct links and stimulated the flow of investments in RMB between the Shanghai/Shenzhen and Hong Kong-China Stock Exchange, with Chinese and offshore investors having the opportunity to buy or sell securities in partner markets through local brokers and clearing houses.

[8] RQFII (unlike QFII) was a quota-based program. Such a quota allowed the holding company to offer RMB investment products to a wide range of investors, including those outside its original jurisdiction, which provided investors without such a quota the opportunity to have exposure to Chinese stock and bond markets.

Similar to them, a number of mutual mechanisms and markets, such as Bond Connect and others, have been established.

3.3. Evolutions of RMB in the internationalization process

As economic theory shows, the internationalization of a currency is supported by a number of factors, such as: the size of the economy, the share of international trade and of the financial markets, network effects, etc. In terms of the size of the economy, it directly influences the potential of a currency to be accepted in transactions on international markets.

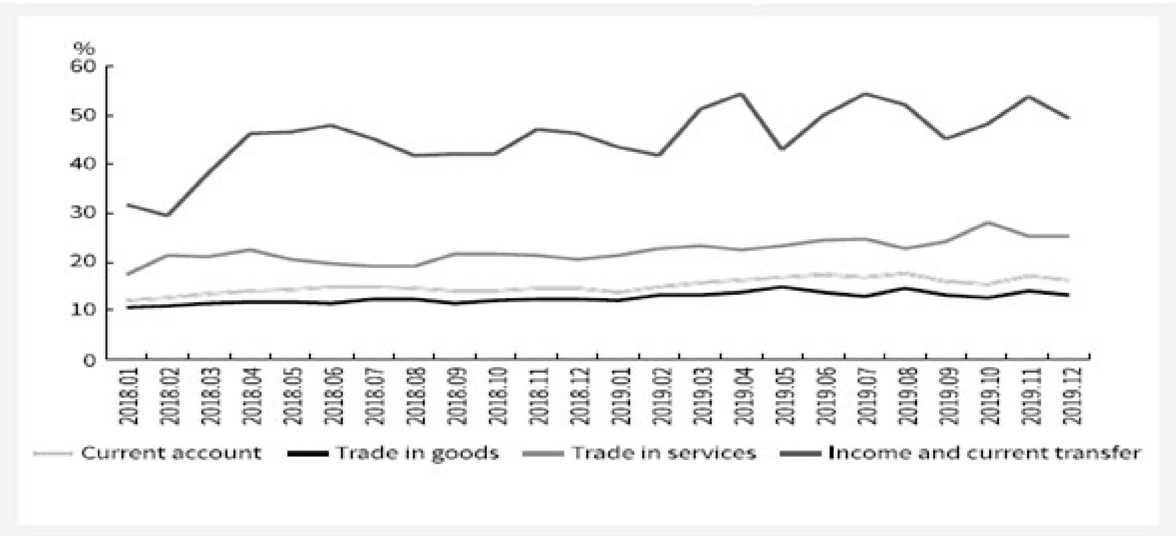
Table 3: Comparisons between the size of the economy and the share of international trade in 2019 (%)

Ranking position	Country	Share in world GDP	Share of international trade
1	US	24.4	8.8
2	China	16.4	13.3
3	Japan	5.8	3.8
4	Germany	4.4	7.9
5	India	3.3	1.7
6	UK	3.2	2.4
7	France	3.1	3
8	Italy	2.3	2.8
9	Brazil	2.1	1.9
10	Canada	2.0	2.4

Source: author based on World Bank (2020) and WTO (2020) data.

At the moment, as Table 3 shows, China is the world's second largest economy in terms of share of world GDP and the largest trading power. Along with the above measures, it has played a significant role in promoting the use of RMB for commercial and financial transactions. In terms of trade settlements, renminbi began to be used mainly since China's acceptance as a member of the World Trade Organization (WTO) in 2001. In 2019, for example, it was the largest trading partner for Asia and sub-Saharan Africa, and the second for the EU, the US and Latin America. In terms of imports, China was the main partner for the US, the EU and Japan (WTO, 2020).

Chart 2: Share of current account settlements, in RMB, in total cross-border settlements, in 2018-2019



Sursa: The People’s Bank of China (2020).

As shown in the chart above, in 2019, the total amount of cross-border settlements related to trade in goods reached RMB 4.24 trillion, a 16% increase comparing to the previous year. From this perspective, their share in total transactions increased to 13.4% (compared to 11.7% in 2018) (PBoC, 2020).

In terms of RMB settlements related to services, they amounted RMB 951.5 billion, 23.8% more than in 2018. Thus, their share in total transactions reached 23.8% (compared to 20.4% in 2018) (PBoC, 2020).

It should be noted that both cross-border settlements related to trade in goods in total transactions and those related to services registered record shares in 2019 (CEIC Data, 2020) supported, among others, by China's trade developments in general, but also by the more recent increase of use of the RMB in relation to various partners within the Belt and Road initiative (BRI).

Despite positive developments, the renminbi ranks 5th among the most used currencies in international payments, with a share of only 1.97% in October 2020 (for the US dollar, this share is 38.45% and for the euro 36, 29%) (SWIFT, 2020). To compare, this share was 2.8% for RMB in 2015.

On the offshore market, most of these operations are carried out in Hong Kong (74.77%). Other RMB payment settlement centers are located in the United Kingdom (6.39%), Singapore (3.65%), the US (3.03%), Taiwan (2.29%) and others (SWIFT, 2020).

Chart 3: Investment flows to and from China, in 2002-2018

Sursa: Lien, Sunner (2019).

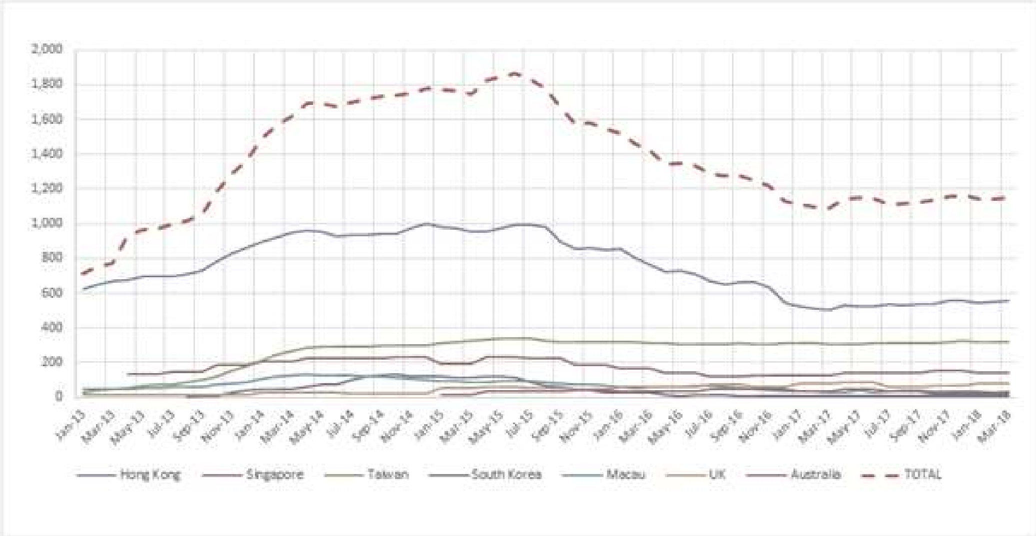
In addition to the above, following the measures taken by the Chinese government, the volume of investments in RMB has increased considerably in recent years. If RMB investment flows outside China accounted for 4% of the total in 2012, the percentage was 16% in 2014 and 14% in 2019 (Nabar and Tovar, 2017; PBoC, 2020). This was primarily supported by the increase in the number of RMB settlement counterparties abroad. In 2015, for example, the volume of FDI renminbi settlements and foreign direct investments made by China increased by 65.2% compared to 2014, and increased by 228.1% in 2016. In 2019, the volume of RMB settlements in FDI reached RMB 2.02 billion, an 8.6% increase compared to 2018 (PBoC, 2020).

At the same time, starting with 2004, the RMB began to be used for **bank deposits** abroad. The first such measure was implemented, as mentioned, for Hong Kong-China. However, an increase in the volume of bank deposits in renminbi with foreign banks began to be recorded, starting with 2009, when the RMB settlement system for cross-border trade was established. This measure mainly aimed at the establishment of deposits by corporations. In this context, the volume of deposits attracted by non-resident banks increased from 100 million renminbi in 2010 to 2.3 billion renminbi in 2014 (Nabar and Tovar, 2017). In 2018, it decreased to RMB 1.9 billion (Global Capital China, 2020).

The expectations of rising interest rates, in the context of unfavorable market conditions, and the devaluation of the Chinese currency (Lien & Sunner 2019) were among the causes of the reduction in the volume of RMB deposits attracted by non-resident banks since 2014. Moreover, a large part of the cash flow went, with the gradual relaxation of the capital account conditions, towards more attractive shareholdings.

As the chart below shows, most of these offshore RMB deposits are in Hong Kong-China.

Chart 4: Trends in offshore deposits in RMB



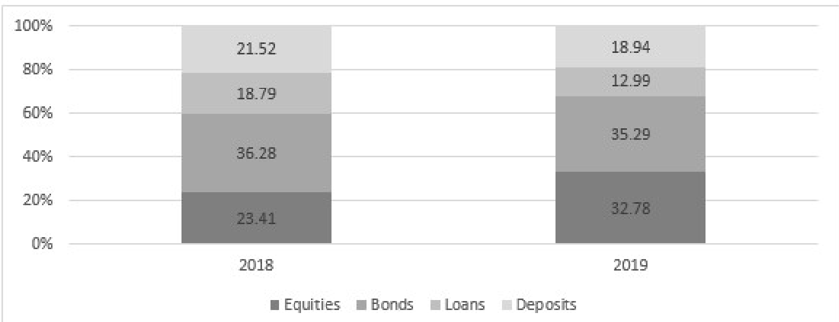
Sursa: Global Capital China (2020).

Also, in terms of the issuance of RMB bonds by non-residents, this has mainly been possible since 2007, when the Development Bank of China opened its first branch in Hong Kong-China[9]. Initially it only allowed mainland commercial banks to issue such securities (*dim sum* bonds). Private companies that have issued such bonds so far have included McDonald's, Volkswagen and others. However, the Central Bank of China issued the first sovereign bonds in Hong Kong-China in September 2009 (Nabar and Tovar, 2017).

It should be noted that until the establishment of ABF2 in 2005[10], all bond issues were in dollars. With the launch of ABF2, private and public entities were able to issue bonds in RMB at regional level. The markets in China, Hong Kong-China, Indonesia, South Korea, Malaysia, the Philippines, Singapore and Thailand were targeted by this measure.

Apart from Asia, a renminbi bond center is London, where HSBC issued the first such financing instrument in April 2012. The largest offshore renminbi bond issue in London took place in September 2014. Its value, belonging to the International Financial Corporation (IFC) was RMB 1 billion. Also, the first issue of sovereign bonds denominated in RMB was made by the United Kingdom (RMB 3 billion). Its purpose was to increase foreign exchange reserves. Other sovereign bond issues in the RMB were also made in the Canadian province of British Columbia and others (Nabar and Tovar, 2017).

Chart 5: RMB financial assets held by non-residents in 2018 and 2019 (%)



Source: The People's Bank of China (2020).

[9] The first such bond issue outside China, the Development Bank of China, was RMB 5 billion. Subsequently, such bonds were issued by the Import-Export Bank of China (RMB 2 billion), Bank of China (RMB 3 billion), Communications Bank (RMB 5 billion), etc.

[10] ABF means the Asian Bond Fund.

4. Conclusion

All developments presented in this paper have played an important role in opening up the Chinese capital market outside the mainland and thus in promoting the use of RMB for financial and commercial transactions. Also, although still poorly developed, the Chinese capital market received a boosted from these measures, which helped reduce the "banking". All this has the potential to provide benefits to China, which it might otherwise have provided through protectionist measures, in particular reducing exchange rate risks for indigenous companies, stimulating trade in local goods and services etc. We consider that the role of the RMB in IMS will continue to increase, as its internationalization is stimulated by China's own economic strength and importance in global trade and financial flows. Moreover, the protectionist measures adopted by some countries, including the United States, to counter China's rise, are more likely to stimulate the internationalization of the Chinese currency.

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European Green Deal and Energy Crisis in EU

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Abstract: European Green Deal was adopted in December 2010, before the outbreak of Covid-19 pandemic in Europe and is an extremely ambitious project of EU with a strong impact on energy sector and environment.However European Green Deal was preceded by other two major projects, that of energy market liberalization and that of Energy Union, both having important effects on energy market structure and evolution. The five energy packages induced a transition from vertically integrated national energy systems, functioning as natural monopolies, usually in public ownership, to liberalized energy systems dependent on the situation of imperfect markets, but designed to produce high profits for some players and high costs for most citizens and consuming companies.

In 2020 and 2021 some important strategies, (action) plans and other initiatives were adopted under the auspices of European Green Deal and on the 14 July 2021 was also adopted the Communication "Fit for 55"and other 17 documents. The European Commission has proposed revising important directives such as the Directive on Energy Taxation and Emissions Trading Scheme (EU-ETS), which will have a significant impact on the energy sector and market.

Given this European context, our paper will analyze, through a qualitative analysis based on a synthesis of the most recently adopted European regulations, how the Green Deal enforcement may have a potential impact on energy crisis from EU. It is worth mentioning that in 2021 the supply crisis affecting natural gas and electricity markets in Europe and leading to high price increases was caused by quick economic recovery but also by rapid abandon of fossil fuels and nuclear energy in favor of renewable energies, as recommended by Green Deal objectives. In our paper we will also highlight that the model of the natural gas market liberalization has changed the market rules and the nature of supply contracts, creating some difficulties on the supply side. This article also presents the impact of EC Communication on Energy Prices (adopted in October 2021) a , highlighting how the European regulation aims to tackle the exceptional rise in global energy prices, providing a "toolbox" that the EU and its Member States can use to address the immediate impact of current prices increases, and further strengthen resilience against future shocks.

We will also discuss the impact of energy liberalization process on Romania given the fact that although this country was badly affected by the energy liberalization process resumed in 2021 and also by energy crisis will continue to develop renewable energy capacities which will increase moderately in the current decade, especially wind and photovoltaic ones.

Keywords: European Union, Energy Union, Green Deal, energy packages, energy supply crisis, gas supply, renewable energies

JEL Classification: D40, D 42, K 32, L 94, L 95

1. Introduction

In December 2019 when European Green Deal was launched the Energy Union Strategy was already published (since February 2015) and it was conceived as a key component of the Economic Union in the new vision brought by the The Five Presidents' Report, published on June 22, 2015 and entitled to contribute to the completion of the Economic and Monetary Union (EMU) of European Union (EU). The project of Energy Union was meant to provide sustainable, competitive and affordable energy and it is based on five closely related and mutually reinforcing dimensions, which are related to the commitments of Paris Agreement and their implementation was revealed by six regular progress reports.

This project aims at building an energy union that gives EU consumers - households and businesses - secure, sustainable, competitive and affordable energy and it is based on five closely related and mutually reinforcing dimensions: 1) security, solidarity and trust; 2) a fully integrated internal energy market; 3) energy efficiency; 4) climate action, decarbonising the economy and 5) research, innovation and competitiveness.

One may see that the fourth and fifth dimensions are related to the commitments of Paris Agreement regarding the development of renewable or green energy, supporting breakthroughs in low-carbon and clean energy technologies. Since its launch in 2015, the European Commission has published several packages of measures and six regular progress reports, revealing the implementation stage of the five key dimensions, to ensure that the energy union strategy is achieved.

The Regulation on the Governance of the Energy Union and Climate Action (EU) 2018/1999 entered into force on 24 December 2018 as part of the package Clean Energy for All Europeans. The governance mechanism is based on National Integrated Energy and Climate Plans covering a ten-year period from 2021 to 2030, long-term EU and national strategies, as well as integrated reports, monitoring and publication of data.

But not only the Energy Union has influenced and configured the energy markets in the EU but especially the market liberalization packages, which started in the 90s. After Single European Act was adopted in 1986 and implemented until 1992, it has started the market opening of network industries (public utilities) which had been exempted from the application of competition law. The liberalization of public services, which were natural monopolies, had become a major concern of the European Commission as a result of the intense lobbying of private companies made in Brussels in favor of liberalization process. A major role was played by the Competitiveness Advisory Group (CAG) a body of the European Commission and European Round Table (ERT), representing big European corporations (Andrei Mocearov, 2021).

The first liberalisation directives (***First Energy Package***) were adopted in 1996 (electricity) and 1998 (gas), to be transposed into Member States' legal systems by 1998 (electricity) and 2000 (gas).The ***Second Energy Package*** was adopted in 2003, with its directives to be transposed into national law by Member States by 2004, and some provisions entering into force only in 2007. Industrial and domestic consumers were now free to choose their own gas and electricity suppliers from a wider range of competitors, by broking natural monopolies and by creating the legal separation of infrastructure from commercial services using the network. The ***Third Energy Package***, aiming at improving the functioning of the internal energy market and resolving certain structural problems entered into force in September 2009. It has introduced the concept of patrimonial separation ("unbundling") and increased the power granted to national regulators. The ***Fourth Energy Package*** adopted in 2016 introduced new electricity market rules to meet the needs of renewable energies and to attract investments. It provided incentives for consumers and introduced a new limit for power plants to be eligible to receive subsidies as capacity mechanisms. There was a proposal for a Regulation for the internal energy market, which emphasized free market prices by excluding the possibility of setting a ceiling for wholesale electricity trading prices. The regulation stipulated that the integration of electricity from renewable sources must be done through market rules. The ***Fifth Energy Package***-Clean Energy for All Europeans, adopted in 2019, consisted of eight new laws, bringing considerable benefits for consumers, the environment, and for the economy, but encouraging the most intensive use of market mechanisms, such as spot market transactions to the detriment of long-term contracts.

In conclusion, in the last three decades we have witnessed a transition from vertically integrated national energy systems, functioning as natural monopolies, usually in public ownership, to liberalized energy systems dependent on the situation of imperfect markets, but designed to produce high profits for some players and high costs for most citizens and consuming companies. This process of energy liberalization or transition has overlapped with two other major issues on the energy agenda: energy security and climate change, issues that need public policies rather than market solutions (Mocearov, 2021)

2. European Green Deal and its impact on energy sector

The European Green Deal is an extremely ambitious project of EU with many actions and initiatives aiming at increasing the efficient use of resources, ensuring a fast, fair and inclusive energy transition, promoting a clean and circular economy, protecting nature and reducing pollution and targeting the objective of getting the complete climate neutrality in 2050. Achieving the 2030 climate and energy targets was estimated to require additional annual investments of 260 billion EUR, representing around 1.5% of EU GDP (at 2018 value) with the support of the public and private sectors. EU 2030 Climate Change Plan adopted by European Commission in September 2020 included an updated emission reduction target for 2030 of 55% as compared to 1990 levels. In 2020 and 2021 some important strategies, (action) plans and other initiatives were adopted under the auspices of European Green Deal and on the 14 July 2021 was also adopted the Communication "Fit for 55"and other 17 documents. The European Commission has proposed revising important directives such as the Directive on Energy Taxation and Emissions Trading Scheme (EU-ETS), which will have a significant impact on the energy sector and market.

All these new adopted regulations pose threats for established fossil fuels suppliers, but also represents plenty of new opportunities for renewable suppliers. The technological, economic and social challenges and transformations will be very high while energy and utility sectors will become more dynamic and more open to innovation and competition. New businesses and new technologies such as hydrogen generation and energy storage systems — including carbon capture and batteries — are tremendous technical advancements. The European Green Deal will trigger a major push towards digitalisation in all sectors, facilitating the clean energy transition in all parts of the energy supply chain, from generation to transmission to distribution.

While the "energy efficiency first" principle was considered to be at the heart of the European Green Deal, the security of energy supply was also deemed to be crucial, supported by other policies and involving a modern, secure and smart energy infrastructure to safeguard it. Boosting renewable energies was considered to have a strong impact on the energy grids and markets but in April 2020 Kadri Simson, European Commissioner for Energy, was fully aware that the decarbonisation of energy system cannot happen overnight and natural gas which owned almost one quarter of the EU's energy mix, would therefore have a role to play in the medium term, as a substitute for more polluting sources like coal, lignite or oil shale. The role of gas in the transition was up to each Member State to decide upon, much like their energy mix in general, but while the EU could and should contribute to the decarbonisation of the gas sector ultimately, the gas used in the EU will have to be clean. Kadri Simson believed that EU has managed to diversify the sources of energy supply in recent years, in terms of more varied forms of energy and different suppliers, EU remained dependent on energy imports from Russian Federation (see Chart 1 and Chart 2).

Chart 1: Extra EU imports of natural gas, shares (%) of main trading partners, 2021

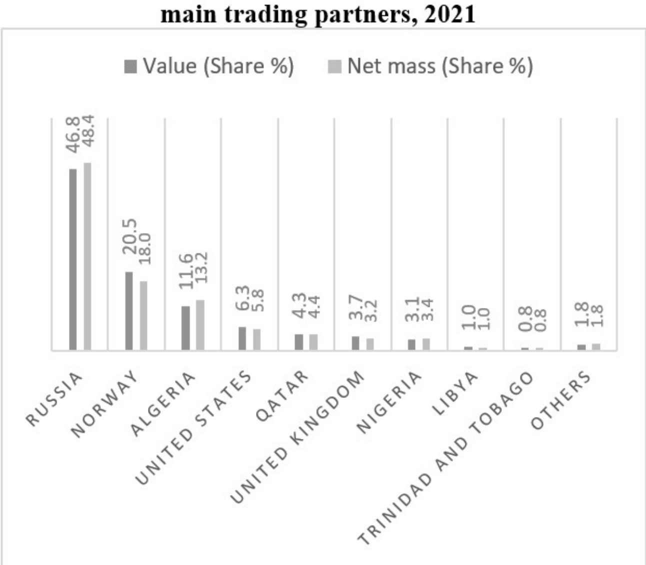
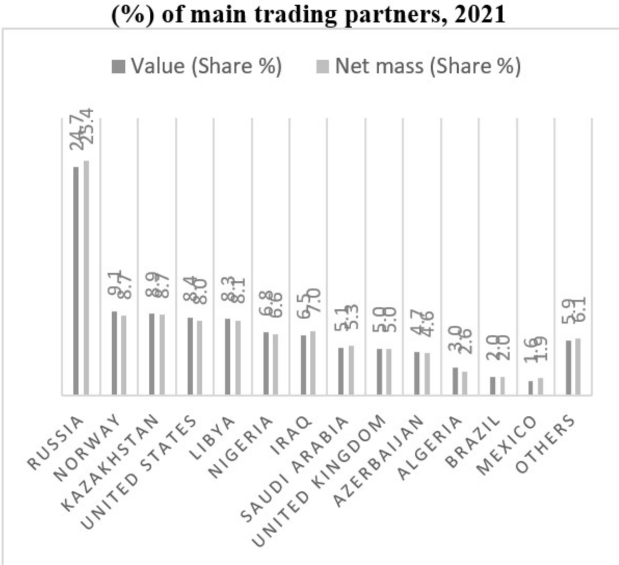


Chart 2: Extra EU imports of petroleum oil, shares (%) of main trading partners, 2021



Source: Author based on DG Trade (2021).

EU Member States are publicly committed to the implementation of the European Green Deal, but they are divided on the details of its implementation, including on energy issues. They have differing views on issues such as the proposed carbon border adjustment mechanism, the role of nuclear energy in Europe's future energy mix, the complete abandonment of fossil fuels, starting with coal, zero-emission transition technologies and the socio-economic consequences and economic downturns of carbon-intensive industries. Member States are not divided into two diametrically opposed camps, but rather agree or disagree on various environmental issues and policies. This makes the implementation of the European Green Pact a complicated matter but a possible one, if coalitions of states empower each other to implement its constituent components. The EU also needs a strong foreign policy strategy to manage the geopolitical dimension of the European Green Deal and to generate the political determination to lead global climate action. The EU must also mitigate the socio-economic challenges of implementing the European Green Deal if all efforts are to be successful.

In early October 2021, Angela Merkel drew attention to the difficulties and differences over the implementation of the European Green Deal, and Victor Orban, the Prime Minister of Hungary, stated that he and the Visegrad group opposes taxing the population for homes and cars in order to cut greenhouse gas emissions. The costs of environmental protection should not be borne by the population but by big companies with large emissions and a transformation of the price regulation system to eliminate speculative elements would be required.

Frans Timmermans, responsible for the European Green Deal, announced at the UN High Level Dialogue on Energy, held in late September 2021 in New York, that renewable energy is now more accessible than ever and it is time to break global dependence of fossil fuels, especially since the recovery from the Coronavirus 19 pandemic offers the opportunity to make the transition faster and to build new energy systems based on renewable sources. Addressing this issue during the economic recovery period and cooperation to accelerate the global energy transition is urgently needed, although data now show that demand for fossil fuels in the global market is still rising, as is their prices. In addition, there is currently no infrastructure for storing energy from renewable sources on an industrial scale, nor there is infrastructure for transporting it in a way that would make it an accessible good for all countries in the world. Amy Myers Jaffe, an expert on oil and energy geopolitics and director of the Council on Foreign Relations' Program on Energy Security and Climate Change, says that the shift from fossil fuel-based energy to renewable energy distributed through high-tech networks will be a challenge for the US as there are major difficulties in securing these networks (Veronica Onea, 2021)

3. A partial energy crisis

After the collapse of energy prices in 2020 caused by the effects of the Covid-19 pandemic, especially after the sharp decline in spring, a real supply crisis followed in 2021, which particularly affected the EU. Artur Stratan (2021), energy specialist, believes that the current energy crisis, affecting natural gas and electricity markets in Europe is caused by the euphoria combined with the lack of vision that the supporters of the European Green Deal have shown in the last two years. All EU Member States have implemented the new green measures quickly, without carrying out in-depth impact studies and without wisely planning for the decommissioning of energy production facilities. It is very easy to understand that in order to get rid of polluting energy production facilities, you need to install or possess at least equivalent production capacities. A coal-fired power plant can also work if the sun does not shine for 30 days and even if the wind does not blow. The haste shown by the supporters of the European Green Deal did not take into account the fact that renewable energy is very much influenced by weather conditions, which can sometimes prove to be unfavorable in the short and medium term.

Some Member States and national energy systems, reacted to supply problems, especially wind energy and natural gas shortages, created by the quick abandon of fossil fuels and nuclear energy in favor of renewable energies. Subsequently, as it has already been seen in the summer of 2021, some countries have begun to reopen closed coal mines and also coal-fired power plants. Europe needs energy in abundance and at affordable prices, because these two pillars underpin the sustainability of the energy sector, and secondly, it needs measures to cut greenhouse gas emissions. The gas market was severely affected at European level, when supporters of the European Green Deal campaigned with great enthusiasm for reducing and even banning the financing of gas exploration and production projects. Banks and investment funds came out in front of public audience to declare their withdrawal of financial support for this type of projects. With the withdrawal of funding, all those who had plans to develop gas projects with borrowed money had to give up or seek other sources of funding. But important personalities, like Fatih Birol, Head of International Energy Agency, denied that this crisis is the first one of the energy transition and it can’t become a barrier to the policies needed for energy transition.

Analists like David Sheppard (2021) believe that one of the explanation of critical supply situation is related to swing supplies which started to dry up. Due to the fact that winter peak is higher in the Northern Hemisphere swing supplies are needed and the first one is the storage capacities, but they have been reduced and this creates the conditions for more volatile gas prices. Another swing supplier was Europe’s largest gas field, Groningen, often used to balance supply with demand but it is almost depleted and induced small earthquakes. Other swing supplier was represented by North Sea gas fields, those belonging to Great Britain being largely exhausted. But also Norway's pipeline gas supplies fell to some extent, and LNG exporters turned more to areas such as East Asia, where prices were higher, and where import demand increased by 50% in last decade (China's demand has tripled).

Artur Stratan (2021) mentioned that the planning of natural gas consumption at European level took into account ideal or optimistic situations and not the possibility of Gazprom closing the gas tap in Europe in order to achieve personal interests. Any matrix of any risk analysis contained this possibility, but the possibility of its occurrence was always minimized. The spring of 2021 was an atypical one, which forced to the maximum both markets - electricity and natural gas. The first to give way was the electricity market and this created a state of chaos at European level, which did not go unnoticed by Europe's major gas supplier, Russia. As the Nord Stream 2 pipeline was already under US sanctions, it had to make the most of this situation, which prefigured the "perfect storm" in the market. Over pan-European electricity crisis had to overlap another crisis. First, gas deliveries were gradually reduced, incidents occurred at production facilities in Siberia, which further cut deliveries, and then low temperatures in Europe also emptied gas storage facilities. Thus began the sharp shortage of gas supply in the EU in August, which culminated with record prices in late September and early October 2021. The market does not yet seem to have stabilized despite the recent increase in Russia's supply, by certification and approval of the Nord Stream 2 pipeline by Germany and the EU. The geopolitical or geostrategic burden of gas imports has become clear, but it is too late for the EU to start setting up commissions in the winter to look at Gazprom's business practices, whether competitive or not.

Moreover the model of the natural gas market liberalization has changed the market rules and the nature of supply contracts, the logic of the liberalization policy leadership being that when the buyer needs a product, he goes to the commodity market (gas hub) and buys it, without the need for a guarantee for supply regulated by a long-term contract. But this is true when there is a surplus of supply on the market, created by many offers, but after a year of pandemic in which demand fell sharply, producers did not come with offers and, in the absence of supply guarantees, they were not required to provide the quantity needed on the market at a given time. In addition, LNG suppliers have obligations only to buyers with firm contracts, and because the price in East Asia has risen sharply, liquefied gas has turned there. Another adverse effect of the commodity market model is financial speculation, which flourished in the fall of 2021 and is responsible for the exorbitant rise in gas prices.

Natural gas and coal prices also rose sharply also under the influence of the upward trend in oil prices, which exceeded $ 80 /barrel. On the other hand, experts say that oil prices have also been influenced by the explosion in natural gas prices. Artur Stratan is convinced that the price of oil will continue to rise in the coming years. Those who studied the oil market found out that the price of oil had a cyclical evolution of increase and decrease. Now, after a few years of low prices, it is time for the price of oil to recover and continue on an upward trend, at least two or three years.

4. The first measures and actions taken by European institutions

On October 13, 2021, European Commission adopted a Communication on Energy Prices, to tackle the exceptional rise in global energy prices, where included a "toolbox" that the EU and its Member States can use to **address the immediate impact of current prices increases,** and further **strengthen resilience against future shocks**. Short-term national measures include emergency income support to households, state aid for companies, targeted tax reductions, measures to ensure the transparency, liquidity and flexibility of international markets, investigation of possible anti-competitive behaviour in the energy market, a wider access to renewable power purchase agreements. The European Commission asserted its support for investments in renewable energy and energy efficiency, for examining possible measures on energy storage and purchasing of gas reserves, and for assessing the current electricity market design. Presenting the toolbox, Energy Commissioner Kadri **Simson** said: "*Rising global energy prices are a serious concern for the EU. As we emerge from the pandemic and begin our economic recovery, it is important to protect vulnerable consumers and support European companies. The Commission is helping Member States to take immediate measures to reduce the impact on households and businesses this winter. At the same time, we identify other medium-term measures to ensure that our energy system is more resilient and more flexible to withstand any future volatility throughout the transition. The current situation is exceptional, and the internal energy market has served us well for the past 20 years. But we need to be sure that it continues to do so in the future, delivering on the European Green Deal, boosting our energy independence and meeting our climate goals.*"

European Commission vision for energy security highlights the fact that **clean energy transition is the best insurance against price shocks in the future, and needs to be accelerated** while EU should continue to develop an efficient energy system with high share of renewable energy. Cheaper renewables may play an increasing role in supplying the electricity grid and setting the price, but other energy sources, including gas, are still required in times of higher demand. For European Commission the current marginal pricing model for electricity is the most efficient one, but further analysis is warranted. As concerns the gas storage capacity, which is **more than 20% of its annual gas use,** the energy crisis has drawn attention to the importance of storage for the functioning of the EU gas market and on the fact that not all Member States have storage facilities and their use and obligations to maintain them vary.

European Commission proposed medium-term measures for a decarbonised and resilient energy system, such as: investments in renewables, renovations and energy efficiency, developing energy storage capacity in order to support the evolving renewables share, including batteries and hydrogen, investigation made by ACER of existing electricity market design followed by recommendations to the Commission where relevant, revising the security of supply regulation to ensure a better use and functioning of gas storage in Europe, exploring the potential benefits of voluntary joint procurement by Member States of gas stocks, setting up new cross-border regional gas risk groups to analyse risks and advise Member States, boosting the role played by consumers in the energy market.

European Commission seemed to be aware that EU has experienced during the autumn a sharp spike in energy, driven by increased global demand for energy, and in particular gas, and the main cause was economic recovery after the peak of Covid-19 pandemic. The European carbon price has also risen sharply in 2021, but at a lesser rate than gas prices, that impacted on electricity price nine times higher than the impact of the carbon price increase. The Commission had consultations with other European institutions, Member States, industry and international energy suppliers. Several Member States announced national measures to mitigate price rises, but others were looking to the Commission for guidance on what steps they can take. Some international partners indicated plans to increase their energy deliveries to Europe.

Following the Commission Communication, the European Council addressed the recent rise in energy prices and analyzed the impact of these price increases on citizens and businesses. EU leaders agreed that the set of measures presented by the Commission contained useful measures in both the short and long term. The European Council invited the Commission to study the functioning of the gas and electricity markets, as well as the EU ETS market, with the help of the European Securities and Markets Authority (ESMA). The Commission will then assess whether certain commercial conducts would require additional regulatory action. EU leaders also called on Member States and the Commission to make urgent use of the set of measures to provide short-term assistance to the most vulnerable consumers and businesses, taking into account the diversity and specificity of Member States' situations. The Commission and the Council of the EU should also rapidly consider medium- and long-term measures: to contribute to affordable energy for households and businesses; to increase the resilience of the EU energy system and the EU's internal energy market; to ensure security of supply and support the transition to climate neutrality, taking into account the diversity and specificity of Member States' situations. Finally, EU leaders called on the European Investment Bank to see how it can be accelerated investments in the energy transition.

On October 26, 2021, Energy Council of the EU discussed the issue of energy prices and the debate focused on two questions prepared by the presidency:

1. How can EU action support and complement the immediate measures taken by Member States to mitigate the impact of rising energy prices on EU citizens and businesses?

2. In the view of the Member States, are the medium-term measures proposed by the Commission sufficient to meet the challenge posed by future energy price fluctuations? What other measures could be considered at EU and Member State levels, including the use of EU financial instruments?

Energy Ministers welcomed the Commission's "set of measures" and broadly agreed with the Commission's analysis of the causes of the sharp rise in energy prices. With regard to short-term measures, ministers agreed that national measures must be taken urgently to protect the most vulnerable consumers. In this context, the proposed set of measures provides a useful European framework for coordinating national measures. Ministers also discussed possible medium-and long-term options, which include reforming the wholesale electricity market, voluntary gas procurement systems and EU-wide storage solutions. Some Member States have emphasized that climate policies and the transition to clean energy are part of the solution and not the cause of rising energy prices. They insisted that investing in renewable energy, energy efficiency and the integration of energy systems remains a key measure for increasing the resilience of EU energy systems.

Energy Ministers indicated that they looked forward to receiving the additional analyzes and assessments mentioned by the Commission, in particular studies on the functioning of the gas and electricity markets, as well as the EU ETS market. A preliminary report from the EU Agency for the Cooperation of Energy Regulators (ACER) will clarify the current situation on the electricity market. The first preliminary assessment to be presented by the European Securities and Markets Authority (ESMA) in mid-November will allow Member

States to have a clearer picture of the integrity of the European carbon market. Market analysis will provide elements for debate and possible further actions. Several ministers called on the Commission to clarify the role of natural gas and nuclear energy in the EU's sustainable financing taxonomy. The Energy Ministers agreed to take notice in December 2021 of energy prices and progress in implementing the measures contained in the toolbox presented by the Commission. The Energy Council was going to prepare the ground for the December meeting of the European Council, in which EU leaders will return to the issue of energy prices.

5. Conclusions - impact on European Green Deal and energy crisis on Romania's energy sector and economy

The EU wants to transfer carbon costs to buildings, transport, ships, planes, but the most important thing is that it will be transferred to construction. Among the European states, the most affected will be Romania and the Bulgaria, were we will certainly see the impact on energy costs and prices of the new European legislation, such as the new emission trading system. The sharp rise in fuel prices and utility bills for households and businesses will negatively affect the incomes of all workers and the profitability of small and medium-sized enterprises. Renewable alternatives are not yet available for many households. Real estate owners, commuters, small business owners and many consumers will experience higher energy and transport costs without a real opportunity to move towards viable short-term alternatives. The Romanian legislation adopted recently for protection of most consumers will have some effects but only for a limited period as Romania will have to face the effects of market liberalization, which led to very high prices for utilities in 2021.

As a Member State of EU since 2007, Romania has taken over the first two energy liberalization packages and supported the next three. But dismantling of natural monopolies and privatization of distribution began before joining the EU, at the recommendations of the World Bank, being separated power plants, based on primary sources and thus the production of hydroelectric electricity, coal, gas, nuclear power and then wind and solar have become independent, each source with its own production costs, which were and still are very different. Also, the electricity and gas distributions were privatized, the beneficiary companies having clear contractual obligations to modernize the networks. The liberalization of the electricity and gas markets in Romania took place between 2012 and 2018, when the regulated price increased moderately and gradually, as did the production share for the market and ended in 2017/2018 with slight price increases. In the second half of the last decade, international oil prices were in sharp decline. The electricity market has been coupled, regionally, with other EU markets, which allowed transfers of production / supply but also of prices.

In 2019, Emergency Ordinance 114 stopped the liberalization process in the sense that it capped the market prices of electricity and gas. The Ordinance was repealed and on January 1, 2021, liberalization resumed, this time with a very large increase in prices, even 2-3 times, but these increases came mostly from other Member States and from energy suppliers, from liberalization and design of European electricity, gas and carbon markets, to which there were added some speculative contributions due to the application of neoliberal economic views. The justification for aberrant price increases through a supply shock and /or demand shock is incorrect, the demand/supply balance has its contribution, but the main culprit is the speculative nature of these markets, also due to their excessive financing (Mocearov, 2021).

Combating energy poverty will be a rather difficult task. The impact of energy poverty on health is widely recognized. However, tackling the problem is thorny, as energy poverty differs between EU countries. Energy poverty is the most widespread in Bulgaria, about 30% of its citizens struggling to pay their energy bills and in Romania we can speak of a similar proportion. Romanians and Bulgarians already pay the highest electricity prices in Europe as a consequence of the EU-ETS, if they are accounted for in purchasing power. In addition, in Romania the production of coal-based electricity has been significantly reduced and some capacities have been closed, but the level of power consumption will increase quite significantly in the future.

Romania will continue to develop renewable energy capacities, which will increase moderately in the current decade, especially wind and photovoltaic ones. Increasing the cost of GHG emissions in conjunction with an increase in the performance of renewable energy production technologies are factors that will stimulate the expansion of green energy. The development of renewable energy must be accelerated because Romanian government has committed through National Recovery and Resilience Plan (PNRR) to decommissioning of installed coal-fired power generation capacities of 3780-4590 MW between 2021 (second half) and 2025, while gas and renewable power projects, wind and solar, are lagging behind. Romania has set its goal of achieving a share of energy from renewable sources in gross final energy consumption of 30.7% for 2030, taking into account national particularities, compared to a share of 24.3% recorded in 2019, and the share of energy from renewable sources in the gross final consumption of electricity, which was 41.7% in 2019, will reach 49.4% in 2030.

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Directing the Energy Policies of CEE-4 Countries towards Climate Change Mitigation

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Abstract: Climate change is a global challenge that requires a responsible attitude and taking concrete action not only at European, but at global level as well. A realistic approach to this phenomenon requires the cooperation of all international actors in order to identify the optimal course of action and the necessary instruments. The CEE-4 countries, as Member States of the European Union, are involved responsibly in this international effort, and must act swiftly, both to combat the causes of climate change and to mitigate the effects. In this article, we will analyze the energy policies assumed by the CEE-4 countries on their fight against climate change. Therefore, for the Czech Republic, Hungary, Poland and Romania, the constituent elements of the integrated national energy and climate change plans will be analyzed. Also, we will examine the national objectives and contributions to the achievement of the EU targets in the field of combating climate change. Given the current goals set up by the Green Deal, this paper will address the policies in the field of transport, renewable energy, energy efficiency, as well as the directions to be followed in order to achieve future targets in all analyzed CEE-4 countries.

Key-words: greenhouse gases (GHG) emissions, climate change, renewable energy sources (RES), policies

JEL Classification: Q28, Q48, Q54

1. Introduction

The European Union (EU) has long aspired to be a leader in international climate change policy. Its political activities in this area, dating back to the early 1990s, have had an enormous impact both inside and outside Europe (Rayner et al., 2016). After the EU's accession to the Paris Agreement, followed by the publication of the Energy Union Strategy, the EU has taken on an important role in the fight against climate change through its five main dimensions: energy security, decarbonisation, energy efficiency, the internal energy market and research, innovation and competitiveness.

The EU is committed to lead the energy transition at global level by meeting the objectives set out in the Paris Agreement on climate change, which aim to provide clean energy throughout the European Union. Also, through the European Green Deal, the EU seeks to be climate neutral by 2050. The EU therefore wants a zero-emission greenhouse gas economy.

Each Member State was required to submit to the European Commission a draft of the national integrated energy and climate change plan for the period 2021-2030, by 31 December 2018, which sets out national targets and contributions to the achievement of the EU's climate change targets.

Pursuant to Regulation (EU) 2018/1999 on the Energy Union governance, the European Commission has assessed the integrated national energy and climate plans. The analysis covered the level of ambition of the objectives, targets and contributions aimed at collectively achieving the objectives of the European Union. In particular, have been assessed the Union's 2030 targets in the field of renewable energy and energy efficiency and the level of interconnectivity of the electricity grids to which Member States are aiming (Ministry of Energy, 2020a).

In the following section of our paper, the energy policies regarding the combating climate change for the CEE-4 countries, namely Hungary, Poland and the Czech Republic and Romania are presented and analysed.

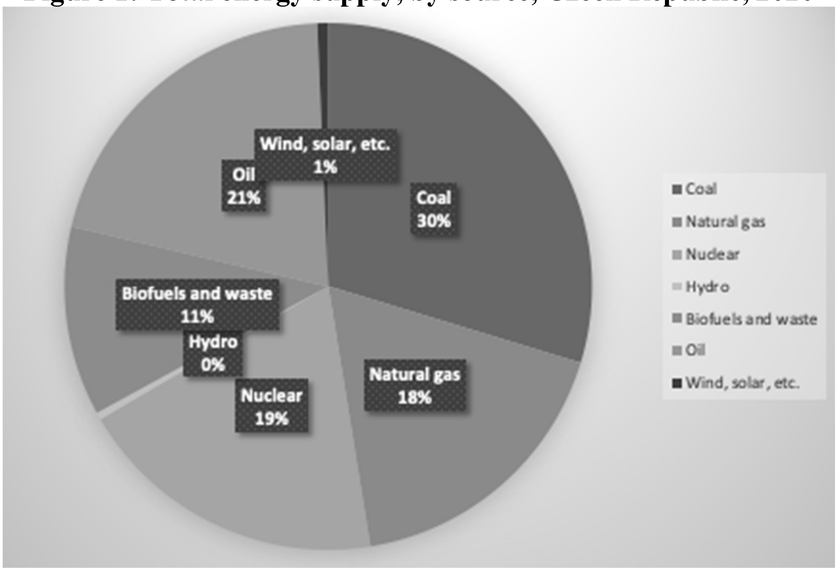
2. Czech Republic

The Czech Republic has registered an 18% reduction in total greenhouse gas emissions from 2000 to 2019. The largest reduction was achieved in the energy conversion sector, by 23% since 2000, while greenhouse gas emissions increased in the transport sector. The Czech Republic's climate policy is determined by the EU's Climate Framework Program, and the Czech Republic has pledged to reduce its greenhouse gas emissions by 14% by 2030 (compared to 2005). In addition, the government has set a more ambitious national target for 2030, namely an indicative target to reduce greenhouse gas emissions by 80% compared to 1990.

To achieve these goals, the Czech Republic has introduced a comprehensive protection policy that reflects these ambitions. The Czech government presented its National Energy and Climate Plans (NECP) to the European Commission at the end of 2019 (Czech Government, 2020).

Coal still accounts for half of the fuel used for domestic energy production (Figure 1), and the energy sector accounts for three quarters of national greenhouse gas emissions. In this respect, the creation of a Coal Commission to guide the coal phase-out is commendable, but the government needs to move quickly to take action on the Commission's recommendations.

Figure 1: Total energy supply, by source, Czech Republic, 2020



Source: Authors' processing, according to IEA data, 2021a (https://www.iea.org/countries/czech-republic)

The Czech Republic has prepared several strategic documents to guide its emission reduction policy, but they do not set emission reduction targets for specific sectors, making it difficult for the government to track progress. The government should establish sectoral emission reduction targets for the relevant sectors by 2030, supported by sectoral plans to achieve these goals.

Emissions from the transport sector in the Czech Republic are constantly increasing. Therefore, the government should further strengthen its support for decarbonisation such as electrification, increased quotas for biofuels, and the development of public transport and cycling. At the same time, current policy does not provide sufficient price incentives for decarbonisation. Low taxes and subsidies, such as the supply of cheap coal for domestic consumption, which prevent decarbonisation efforts, are also a challenge that must be addressed by the Czech authorities. Therefore, the government should consider revising energy and climate taxes to make them an effective tool for managing consumer behaviour.

Air pollution is a particular problem in the Czech Republic, mainly due to heating based on coal and firewood in the residential sector along with a relatively old car fleet dominated by diesel vehicles. Therefore, the government should do more to reduce local air pollution. Domestic consumption of coal, timber and diesel vehicles should be priority targets.

In order to speed-up emission reductions in the residential sector, the substitution of inefficient boilers that use coal for cleaner alternatives, was subsidized.

The RES in the Czech Republic is experiencing significant growth: the share of RES in the final energy consumption has increased from 11% in 2010 to 16% in 2019. The Czech government has set itself the goal of reaching the share of RES in gross final consumption of 13% by 2020, which was already exceeded in 2013.

The government expects a marked increase in the production of renewable electricity. The Czech Republic is implementing various support systems and measures to promote the development of renewable energy sources. With regard to support schemes for the period 2021-2030, the government proposes an amendment to Law no. 165/2012, which is designed to relaunch the operational support for renewable energy sources, except solar photovoltaic energy, and other sustained energy sources, such as high efficiency cogeneration.

To supporting investments in renewable energy sources, the Czech Republic intends to use various funds provided by the European Union. In 2018, 92% of renewable energy in the Czech Republic came from bioenergy, thanks to the widespread availability of biomass. Bioenergy will account for two-thirds of all renewable energy sources by 2030, according to NECP. The government should consider exploring a broader range of renewable energy sources and supporting related research and development programs.

In 2018, the Czech Republic RES accounted for 20.6% of energy sources in the heating and cooling sector. There should be taken into account the utilisation of the excess of thermal potential from industry to increase the share of RES in heating and cooling.

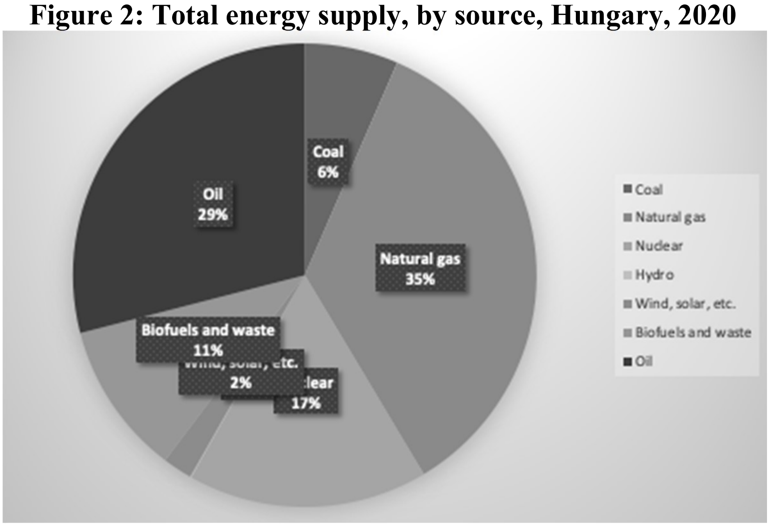
The Czech Republic does not have a specific target for the use of renewable sources in the electricity sector. Since end-use sectors such as transport, buildings and industry are likely to depend on electricity in the future, the government should consider setting a specific target for renewable energy in the energy sector. At the same time, the government must prepare and enact legislation to encourage higher rates of use of low-carbon fuels, renewable and decarbonated gases such as hydrogen, synthetic methane and biomethane to meet climate goals in a cost-effective manner.

3. Hungary

In 2019, Hungary's greenhouse gas emissions were 30.93% lower compared to 1990. The Second Hungarian Climate Change Strategy (NCCS II) offers an opportunity to increase ambition for climate change mitigation (Hungarian Parliament, 2017). Achieving further reductions of greenhouse gas emissions will require measures to reduce the growth of emissions in the transport sector, along with support actions for less carbon intensive modes of transport since such measures have been insufficient especially since the age of the car fleet in this country is one of the oldest in Europe. New programs such as the electric mobility program (Plan Jedlik Ányos) and the development of public transport can reduce emissions.

Another important source of non-ETS emissions is the use of coal and waste in households (Figure 2), as they emit carbon dioxide and other pollutants. Financial support and incentives are available to replace old boilers with cleaner, more efficient ones. The government should examine current incentives in the residential heating sector to ensure that this mechanism provides poorer households with the means to move from burning coal or waste to cleaner solutions.

Figure 2: Total energy supply, by source, Hungary, 2020



Source: Authors' processing, according to IEA data, 2021b (https://www.iea.org/countries/hungary)

One of the policy instruments available to Hungary is the possibility of introducing a carbon tax for those sectors of the economy that are not part of the EU ETS. For emissions from the ETS sector, mainly from electricity generation and industry, the capping system and trade is limiting the emissions at European level.

Hungary has relied heavily on increased electricity imports in recent years to improve the carbon intensity of the energy sector. If further improvements are needed without increasing dependence on imports, more low-carbon energy sources should be developed. Latest estimations are showing that by using natural gas or renewable energy sources instead of coal, which accounts for a fifth of electricity production, greenhouse gas emissions in this sector may be reduced.

The share of renewables in Hungary's energy mix has increased, mainly due to the abundant production of biofuels and biomass. Although the share of renewables was significant, the growth in the annual share of renewable energy use showed signs of slowing down. This was largely a result of reaching the limits of biomass, as this type of RES is the source of over 90% of total renewable energy production, while other forms of renewable energy such as solar, geothermal or wind energy remained negligible.

The government recognizes that solar, geothermal and other renewable energy sources can make a significant contribution to achieving renewable energy targets by 2030. It is worth mentioning that renewables are also playing an important role in the probable Nuclear-Coal-Green Scenario set out in the National Energy Strategy before 2030. In the case of solar power generation, there has been a marked increase over the past 2-3 years, mainly due to the increased disposal of photovoltaic panels to rooftops. However, solar panels are subject to an environmental tax that is high compared to other countries. The current renewable energy policy in Hungary is not conducive to the use of wind energy, as new wind farms face significant regulatory obstacles, such as the requirements for installation far from settlements and residential buildings, limitations for the shaft of the wind turbine not to exceed a certain height and having a capacity not exceeding 2 MW. These types of preconditions are difficult to meet given the geographic location of Hungary and the physical characteristics of the wind turbines available on the market.

The new Renewable Electricity Support System (METÁR) represents a fundamental reform of the electricity tariff system. For the production of renewable energy with a capacity of less than 0.5 MW, the mandatory absorption regime will continue to operate. For generating capacities from 0.5 MW to 1 MW, a premium will be paid in excess of the reference price. For large capacities (over 1 MW) and wind turbines, a competitive bidding procedure will be carried out. The new METÁR system provides operational assistance for renewable sources and complies with the EU State Aid Guidelines (Hungarian Government, 2017).

The source of operational assistance will be a renewable premium that will be paid by end users other than households, as households are entitled to benefit from universal service provision and to pay regulated electricity prices. However, METÁR represents a progress after several years of delay in reforming the renewable energy support regime. The new support system entered into operation on January 1, 2017.

The European Commission's Operational Program on Environment and Energy Efficiency has significant financial resources for investments in renewable energy sources. However, the relatively long age of the Hungarian car? fleet makes it technically difficult to further increase the share of biofuels. However, Hungary is promoting e-mobility infrastructure and alternative fuels, which will help increase the share of renewable energy sources in the transport sector.

4. Poland

Poland is the fifth largest emitter of greenhouse gases in the European Union, but the intensity of emissions in Poland has been steadily decreasing since 1990. However, in terms of greenhouse gas emissions in relation to GDP, Poland ranks fourth in the OECD and third in the European Union. As a member state, Poland has pledged to contribute to the EU's 20% emission reduction target by 2020 by cutting emissions by 16.64%.

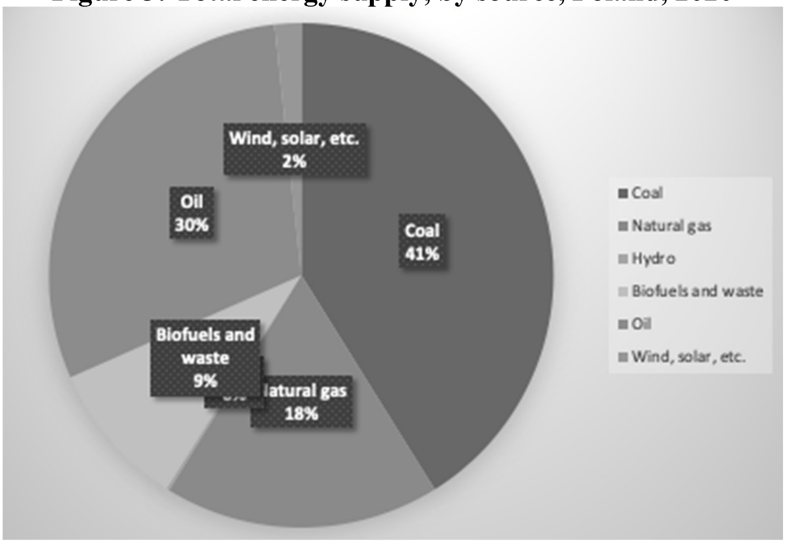
Climate policy and emission reduction targets in Poland are almost entirely determined by EU policies and targets. Continuous improvement of energy efficiency is usually seen in Poland as a priority task with the aim of maintaining “energy-free” economic growth. Poland has also prepared and adopted a Climate Change Adaptation Strategy (NAS 2020) and an Energy Security and Environment Strategy (SEE). The government is committed to adopting adaptation measures in the most vulnerable sectors and areas to avoid the costs of inaction on adaptation and reduce the social and economic risks associated with climate change.

Residential heating is the main source of air pollution in Poland and emissions from this sector are difficult, if not impossible, to regulate. Low combustion efficiency and aging heating systems and, to a lesser extent, the behaviour of residential consumers are key factors for which the residential heating produces about 40% of particulate matter emissions. The government provided financial support and incentives to replace old stoves with cleaner, more efficient stoves, as well as aid for people to insulate their homes. The government should study and adapt incentives in the residential heating sector to ensure that the mechanism provides less wealthy households with the means to stop using coal.

In Poland, the demand for transport is expected to increase significantly both on the medium and long term. Implementation of measures aimed at road transport should be a priority for Poland. New programs such as the recently proposed electromobility program and increased use of gas vehicles could reduce emissions in the transport sector.

Coal is the main source of greenhouse gas emissions in Poland (Figure 3). Forecasts show that this fuel is expected to continue to play an important role in the long-term energy mix. In this regard, it is necessary to diversify energy supply, including through the introduction of nuclear energy, an increase in quotas for renewable energy sources and natural gas.

Figure 3: Total energy supply, by source, Poland, 2020



Source: Authors' processing, according to IEA data, 2021c (https://www.iea.org/countries/poland)

RES have made significant progress in Poland in recent years. The share of RES in energy mix increased from 6.9% in 2005 to 12.2% in 2019. The main regulatory measure was a quota system compelling electricity suppliers to buy energy produced from renewable sources through a system of certificates of origin. With the adoption of the Renewable Energy Law in 2015, Poland revised its regulatory framework for renewable energy, moving from a quota-based system to a tender-based system.

Poland has also passed separate legislation changing the basis for the development of onshore wind energy projects. The new law establishes the conditions and procedure for the location and construction of wind farms near existing or planned residential complexes.

The renewable electricity industry has argued strongly that the new legislation will halt the development of wind power in Poland and make the country a less attractive destination for wind energy investments, while reducing the profitability of existing investments. In addition, the Polish government argues that the new law clearly defines the requirements for the location of wind turbines and is not intended to discriminate or stop the further deployment of onshore wind farms.

The new regulations applicable to the installation and operation of new onshore wind farms appear prohibitive as they exclude most of the country from developing such facilities and significantly increase their operating costs.

Lack of clarity on recent legislative changes is hampering new investment in renewables. While some regulations need to be flexible and take into account changes in the market, the government should strive to offer a stable, transparent and detailed set of rules to improve the investment climate.

In mid-2015, the government began consultations on a new energy strategy that will guide the energy sector until 2050 with the aim of replacing the EPP (Energy Policy of Poland) 2030. This new long-term strategy should take into account the role of renewables in the broader energy policy framework and their role in sectors such as heating, transport and air quality. The stability of such a long-term strategy is important: therefore, the government must enlist the support of various parties and open public consultations with all stakeholders in the sector.

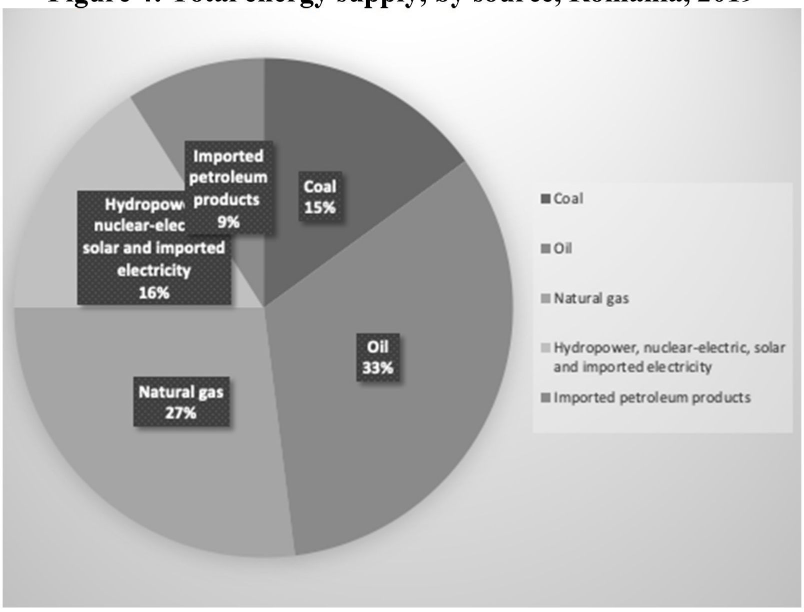
5. Romania

Romania must act quickly both to combat the causes of climate change and to mitigate the effects. Therefore, as a Member State of the European Union, Romania has been responsibly involved in this international effort. By the nature of its activity, the Ministry of Environment Waters and Forests plays an important role in fulfilling its obligations. Conceived as a starting point in this mission, the National Strategy on Climate Change has as main objective the mobilization of private and public actors in order to reduce greenhouse gas emissions (GHG) from economic activities in accordance with EU targets and to adapt to the impact of climate change. As regards the GHG emissions reduction process, this strategy adopts quantifiable targets in line with the EU 2030 commitments. As far as the adaptation to climate change is concerned, the aim is to support and promote the protection of the environment, population and economic activities from the effects of climate change, especially from extreme phenomena.

The promotion of renewable energy sources is an important objective for Romania for 2030, in the context of the transition to clean energy. Romania has assumed the objective of reaching a share of energy from renewable sources in the gross final consumption of 30.7% for 2030, taking into account national particularities, compared to a share of 24.3% registered in 2019 (the last year for which data are available).

In Figure 4 is shown Romania's energy mix in 2019. As it can be seen, this mix it is mainly based on oil (33%), followed by natural gas (27%), hydropower, nuclear-electric, solar and imported electricity (16%), coal (15%) and imported petroleum products (9%).

Figure 4: Total energy supply, by source, Romania, 2019



Source: Authors' processing, according to Romanian Energy Minister data, 2021b (http://energie.gov.ro/strategie-nationala/)

In terms of energy efficiency, the highest potential for increasing energy efficiency in Romania is found in the heating of buildings, in the transformation of primary energy resources into electricity in thermoelectric power plants, in the transmission and distribution of electricity and natural gas, respectively in transport and industry.

The policies and measures that Romania aims to adopt in order to achieve its consumption targets have a wide scope and require, where appropriate, a longer period of confirmation of the generated effects. For this reason, most of the consistent effects in the sense of reducing energy consumption will be felt starting with 2025, when the trend of reductions will be clearer, being influenced by the effects of the investments made between 2020 and 2025. Thus, the projected trajectory indicates an increase in savings from 38.4% in 2025 to 45.1% in

2030 for primary consumption, respectively from 34.0% to 40.4% for final consumption in the same period, compared to the PRIMES reference scenario for 2007.

The most important potential for increasing energy efficiency is in the residential sector, where the Long-Term Renovation Strategy proposes measures to improve energy efficiency, reduce greenhouse gas emissions, as well as to increase the share of renewable energy in total energy consumption by rehabilitating the national building stock. With regard to the necessary measures within other sectors, the aim is to continue the actions laid down in the National Energy Efficiency Action Plan, especially in the field of industry and transport, the sectors with the highest share in final energy consumption after the residential one.

Similarly, in the field of transport, new annual savings of about 0.6 Mtoe are needed between 2021 and 2030. In order to achieve the annual objectives, new measures will be needed in the modernisation of urban and rail public transport. Last but not least, encouraging alternative mobility can make a significant contribution to reducing the final energy consumption in transport.

Romania considers the energy supply from primary resources an important objective for ensuring national energy security. Romania aims to maintain a diversified energy mix by 2030, taking into account both the decarbonisation objective of the energy system, as well as ensuring its flexibility and adequacy.

In order to ensure energy consumption, the installed capacity on RES will increase by approximately 35% in 2030 compared to 2020, due to the installation of new wind and solar energy capacities, which will lead to an increase in domestic energy production, thus ensuring a higher degree of energy independence. The positive impact will be seen in particular in the reduction of dependence on imports from third countries, from a level of 20.8% in 2020 to 17.8% in 2030.

Ensuring the flexibility and adequacy of the national energy system is an important objective for Romania in the field of energy security. In connection with the objective of ensuring a diversified energy mix, Romania aims to replace the electricity production capacities that will go out of operation with new, efficient and low-emission capacities by 2030. Until coal-fired capacities are replaced by new capacities based on low-emission technologies, rehabilitation works and increased energy efficiency of existing capacities are envisaged. These will remain in operation for reasons of ensuring Romania's energy security.

Romania also aims to encourage dispatcher consumption to respond to varying demand as well as targets for energy storage. The development and use of the technical and economic potential of renewable energy sources in the national mix depends on the development of storage capacities, as well as on the development of technologies for injecting hydrogen in the form of syngas from RES and on the use of hydrogen in industrial processes.

In order to allow the integration of renewable energy into the national energy system, a transition from coal-fired to natural gas-based capacities will start from 2024, as this fuel has the advantage of allowing flexible operation. This can ensure system balancing, taking into account the intermittent nature of RES. In this regard, the installation of new natural gas capacities of at least 1,400 MW is foreseen at the level of 2030.

6. Conclusion

The overall objective of climate change mitigation can only be achieved through transformative actions and measures at global level. A main course of action will be to accelerate the energy sector's transition to technologies that reduce GHG emissions. Many of the long-term transformations of the energy sector can be anticipated, given the slow pace of energy infrastructure replacement.

The main development trends at European and national level refer to: increasing the role of biomass in the energy mix; supporting electromobility; increasing the share of RES in the electricity mix and the use of CCS technologies; encouraging investment in energy storage infrastructure; increasing energy efficiency, especially in buildings; the opportunity of using heat pumps in heating/cooling.

All CEE-4 countries have significantly reduced their greenhouse gas emissions compared to 1990, and also all these countries have increased their share of renewable energy in their final energy consumption. Despite that, the period 2020-2030 is expected to bring moderate increases in RES energy generation capacity, in particular wind and photovoltaic.

However, the evolution of the GHG cost in conjunction with an increase in the performance of renewable energy generation technologies, mainly wind and photovoltaic, in relation to investment and operational costs, will accelerate the energy transition, by increasing the pace of expansion of wind, photovoltaic and other low-GHG technologies, after 2030.

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Improvement of the Internal Control System of Credit Risk in Banking Sector of the Republic of Moldova in Conditions of the COVID-19 Pandemic

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Abstract: The internal control system of credit risk in the banking sector of the Republic of Moldova is currently jeopardized by the effects of COVID-19 pandemic. The COVID-19 crisis has triggered five major challenges to the credit risk environment: changes in the credit worthiness at the sector and subsector level, difficulty in differentiating between borrowers in the same sector/subsector, scare, lagging data on crisis conditions, socially responsible collections needed to meet changing customer preferences, large wave of non-performing loans which must be addressed in a new way. Consequently, banking institutions are forced to identify new solutions in fostering the efficiency of internal control systems.

Key words: internal control system, credit risk, COVID–19, impact, banking sector, improvement, consolidation, audit.

1. Introduction

The credit risk is one of the most significant risks in the banking sector, which makes up about 60% of total exposures. Therefore, one of the main reasons of banking failures which resulted in major financial losses, is the excessive risk over the risk appetite, undertaken by the bank management, combined with further inability to control it.

In the banking sector of the Republic of Moldova, the internal control systems (ICS) have been putted in place, however their efficiency and effectiveness cannot be guaranteed which makes banks vulnerable to the credit risk. Consequently, the motivation behind the development of an efficient internal control system of the credit risk relies on enhancing the credit risk management, and prevention or early detection of potential financial losses.

In present, the worldwide economy and banking sector is impacted by the COVID-19 pandemic effects, which affects negatively the internal control systems of the banks. The "new normal" and rapidly increasing credit risk, puts pressure on banking institutions to identify new solutions in fostering the efficiency of internal control systems.

The scope of the research is identification of possibilities of improvement of internal control system of the credit risk in conditions of the COVID-19 pandemic. The investigation was carried out on the basis of analysis of the banking sector of the Republic of Moldova.

Methodology of research. For the elaboration of the article, general scientific knowledge of banking framework was applied, as well as concrete historical approaches that would allow the consideration of development phenomena and processes. The techniques used were: induction, deduction, comparison methods, Pearson correlation coefficient calculation, synthesis and analysis.

2. The overview of the banking sector and level of credit risk in the Republic of Moldova

The banking sector of the Republic of Moldova has emerged from the date of the declaration of independence of the Republic of Moldova in 1991. During its evolution of about 30 years, the banking sector of Moldova was affected by several negative waves, ending in withdrawal of licenses of numerous banking institutions. The most destructive waves for the banking sector of Moldova were the global financial crisis in 2008-2009 and the crisis related to the fraud of one billion dollars in 2014, which was one of the most serious banking frauds ever. Theft of the Billion comprises the fraudulent financial transfers of about MDL13,3 bln (767 million dollars, an amount equivalent to 12% of the annual GDP per county), which were performed through the JSCB “Banca de Economii”, JSCB “Banca Sociala” and JSCB “Unibank”. Besides the root cause of fraud occurrence – the corruption, it is an appropriate example of a defective internal control system, which resulted in liquidation of the three leading Moldavian banks which have negatively impacted the further evolution of the banking sector of the Republic of Moldova, causing a huge reputational damage and in the final stage, manifesting stagnant effect over the national economic situation and requiring prompt recovery actions.

Another important recent event of the banking sector, is implementation of the Basel III standards in the Republic of Moldova, which have affected banks’ indicators.

In present, the banking sector is affected by a new negative event – the economic crisis caused by consequences of the COVID-19 pandemic, but the effects are still unpredictable in present as the situation changes on a daily basis.

At the current period, the banking sector in the Republic of Moldova is mainly domestically oriented and based on traditional lending activities. According to the information from National Bank of Moldova, in 2020, there were 11 licensed banks operating in the Republic of Moldova, with total assets close to MDL 99,2 bln, which is about 48.35% of total GDP of the country. Together the total assets of 5 largest banks accounts for almost 82,60% of the system (table 1). Loans to the economy represent the largest share of total assets, about 43,76%, most of which are directed toward corporate sector, about 63.94%. The volume of deposits exceeds the volume of loans extended in the economy, almost twice, which indicates on high liquidity of the banking sector in the Republic of Moldova.

Table 1. Balance Sheet Summary of the Banking Sector in the Republic of Moldova as of 2020

(Bln. MDL)

	Banking sector	5 largest banks	All other banks
Total assets	99,21	81,94	17,26
Total loans	43,42	37,28	6,13
Total deposits	75,13	62, 64	12,49
Total regulatory capital	13, 40	10,45	2,94
Total risk-weighted assets (RWAs)	48,59	41,24	7,34
Capital adequacy ratio (% of RWAs)	27,58%	25,35%	40,10%
Ratio of non-performing loans	8,33%	8,47%	8,27%

Source: elaborated by the author based on Reports on economic-financial activity of banks from RM. https://www.bnm.md/bdi/pages/reports/drsb/DRSB1.xhtml.

The total regulatory capital is the sum of Tier I Capital and Tier II Capital and in 2020 it is about MDL 13,4 bln, which is an adequate amount. The risk-weighted assets, according to CFI (Corporate Fiancé Institute), is the asset classification system that is used to determine the minimum capital that banks should keep as a reserve to reduce the risk of insolvency, based on which was calculated capital adequacy ratio. Under Basel III, the minimum capital adequacy ratio that banks must maintain is 8% and as it can be seen in the table above, the banking sector comply with the normative range.

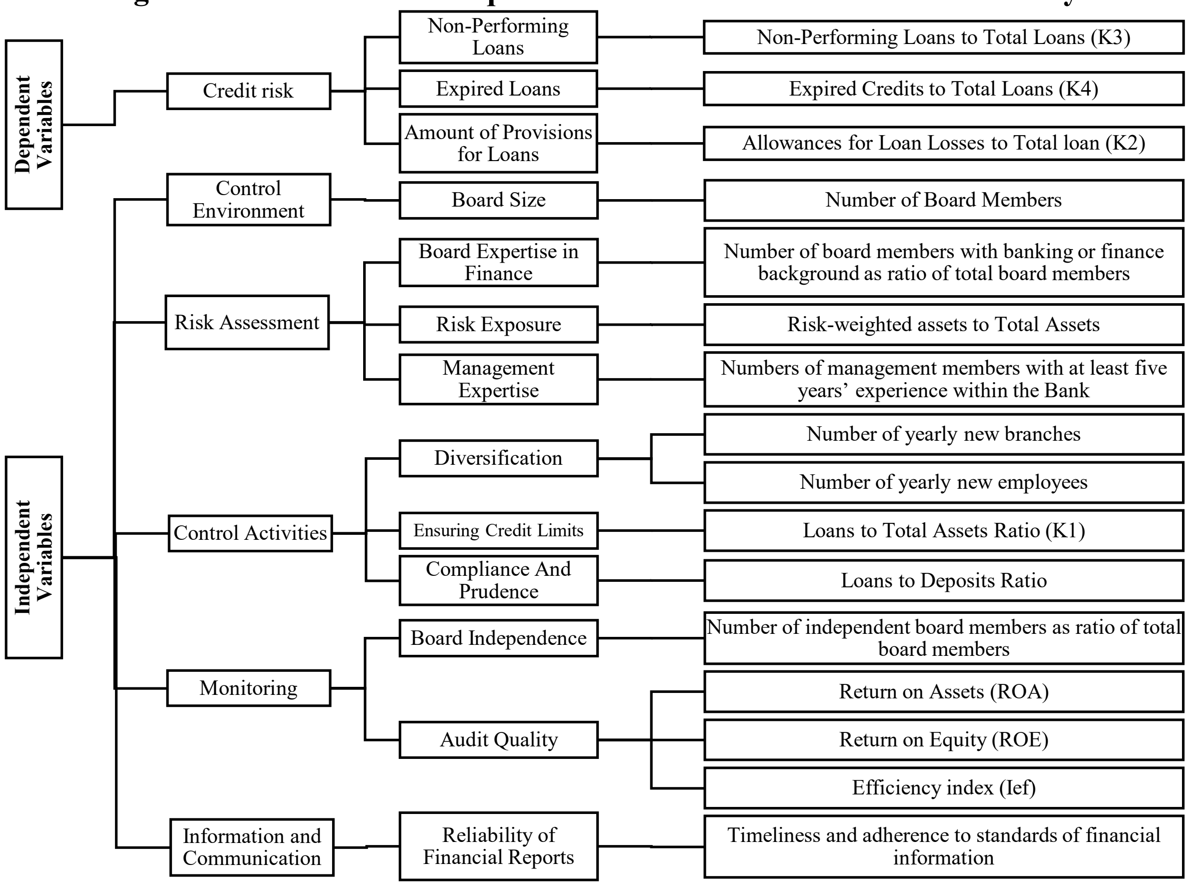
3. Analysis of the impact of internal control system over the credit risk in the banking sector of the Republic of Moldova

In order to identify if the credit risk may be reduced by consolidation of internal control system practices, it is necessary to identify which is the impact of internal control system over the credit risk. For this purpose, it is proposed to perform a quantitative analysis based on calculation of Pearson's Correlation Coefficient. For the present analysis, were selected three banks: JSCB "Moldova-Agroindbank", JSCB "Eximbank" and JSCB "Mobiasbanca OTP Group", which comply in a full manner with the regulations in the area of internal control system. The structure of internal control system of these banks is mainly composed of board of directors, which is responsible for the overall existence and effectiveness of the system together with its audit committee, and three internal control functions as stipulated in the Regulation on Banking Activity Management Framework: risk management, compliance and internal audit. It is notable to mention, that JSCB "Eximbank" and JSCB "Mobiasbanca OTP Group" during the last two years have passed through the significant changes in shareholders' composition, which will be reflected in their financial results.

Analysis begins with determination of the indicators used to measure the variables of the research. It is proposed to measure the influence of the internal control system over the credit risk. For this purpose, the correlation indicators will be calculated on the basis of the dependent and independent variables. The framework for the study comprehensively encompasses dependent variable – credit risk and independent variables – five components of the internal control system (control environment, risk assessment, control activities, information and communication, monitoring).

For each of the variables were identified the appropriate characteristics of internal control system and quantitative indicators which will be further used in the assessment of the correlation between dependent and independent indicators as it was indicated in the figure below (figure 1):

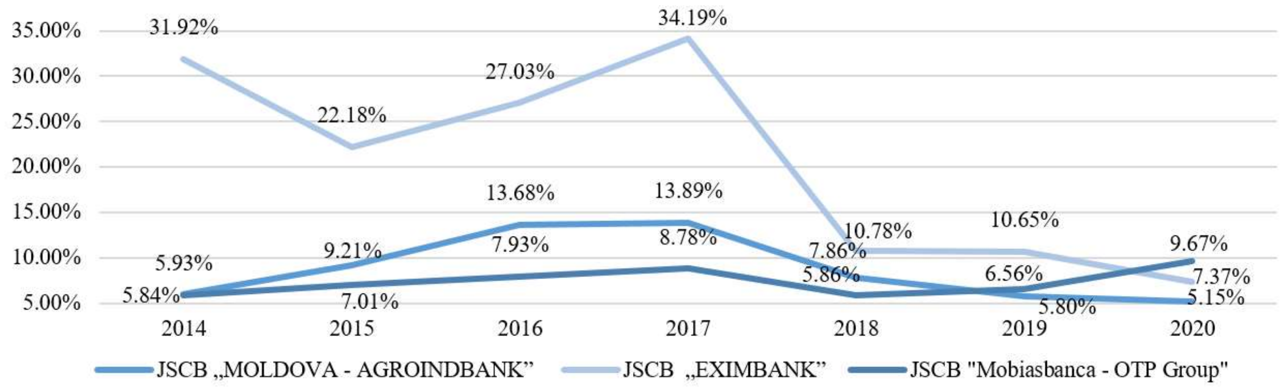
Figure 1. Determination of quantitative indicators for correlation analysis



Source: elaborated by the author.

Further were collected and analyzed data for indicators determined in the figure above. One of the most relevant indicators for the present subject is dynamics of non-performing loans to total loans, which indicates the level of risky credits extended from all the extended credits. High non-performing loans ratios indicate on high credit which can adversely affect the soundness of the banking sector and its ability to lend to the real economy. In addition, it would reduce bank profits, because of higher provisions requirement, will be lower interest income, and higher expenses associated with monitoring and management. The banking sector has a fluctuating tendency of the non-performing loans to total loans ratio, while the worst results are reached by JSCB “Eximbank” up to 2018, with the highest value of almost 34%. As soon as the bank was acquired by Intesa Sanpaolo S.p.A. its situation was remediated and in 2020, all the analyzed banks have not exceeded 10% non-performing loans ratio (figure 2). Summarizing, as comparing to values up to 2018, there can be seen visible improvement of credit risk management, consequently it could be mentioned that the Basel III standards have been implemented successfully.

Figure 2. Dynamics of non-performing loans to Total Loans ratio (K3) during 2014-2020 (mln MDL)



Source: elaborated by the author based on Reports on economic-financial activity of banks from RM. https://www.bnm.md/bdi/pages/reports/drsb/DRSB1.xhtml?id=0&lang=ro.

Besides the financial data regarding credit risk, it was investigated data regarding corporate governance. In the table 2**,** was summarized information regarding the board of directors’ quality. As it can be seen, the largest board is in JSCB “Eximbank”. On the one hand, it is assumed, that the larger is the board, the lower is the quality of decisions, because less members comes easier to a common agreement, while large board decisions are time consuming.

Table 2. Quantitative information concerning members of Supervisory Boards of banks as of 31.12.2020

number (%)

	JSCB „MOLDOVA - AGROINDBANK”	JSCB „EXIMBANK”	JSCB "Mobiasbanca - OTP Group"
Number of Board Members	5	7	4
from which:			
-members with banking or finance background	4 (80%)	5 (70%)	3 (75%)
-members with at least 5 years’ experience within the Bank	2 (40%)	0 (0%)	1 (25%)
-independent members	3 (60%)	2 (30%)	3 (75%)

Source: elaborated by the author based on information from the information on banks’ websites. www.maib.md, www.eximbank.md and www.mobiasbanca.md.

From the other hand, the JSCB” Eximbank” five members with finance ore banking background, which is more than in rest boards. Another important indicator is the experience of the board members in the bank supposed to analysis, as it can be seen, the majority of up to five years experienced board members are in MAIB. The independence of members also plays role in efficiency of the credit risk, as the more independent are member, the more independent and qualitative decisions they undertake. In this regard in JSCB "Moldova-Agroindbank" and JSCB "Mobiasbanca OTP Group" have three independent members each, which represents about 60-75% of board, while in Eximbank just 30% are independent members.

The next step of analysis is investigation of correlation of variables concerning credit risk and internal control system as well as identification of interlink between indicators of internal control system and corporate governance. For this purpose, it was used Pearson correlation coefficient. In statistics, the *Pearson correlation coefficient* is a statistic that measures linear correlation between two variables, in our case dependent variables describing credit risk and independent variables describing internal control system (fig. 1). It has a value between +1 and −1. A value of +1 is total positive linear correlation, 0 is no linear correlation, and −1 is total negative linear correlation. Pearson Correlation Coefficient Formula:

$$\rho_{X,Y} = \frac{COV(X,Y)}{\sigma_X \sigma_Y} \quad (1)$$

where:

cov – the covariance

σ_X – the standard deviation of X (dependent variables)

σ_Y – the standard deviation of Y (independent dependent variables)

In the table bellow were presented calculation of the correlation coefficients:

Table 3

Pearson Correlation Coeffcient between indicators of credit risk and internal control system components for 3 selected banks during 2014-2020

coefficient

Credit Risk / INTERNAL CONTROL SYSTEM components	JSCB „MOLDOVA - AGROINDBANK"			JSCB „EXIMBANK"			JSCB "Mobiasbanca - OTP Group"		
	K3	K4	K2	K3	K4	K2	K3	K4	K2
RWA to TA ratio	0,8239	0,7887	0,8077	0,0446	0,0950	-0,0729	-0,3079	0,0314	-0,4526
New branches	0,2937	0,2683	0,1109	0,1587	0,1833	0,1162	-0,2417	-0,1600	-0,2729
New employees	0,4223	0,4413	0,2307	-0,7007	-0,6808	-0,7575	0,6187	0,4885	0,2622
Loans to TA ratio	-0,3476	-0,3115	-0,5249	0,6646	0,6913	0,5894	-0,3732	0,3099	-0,2722
Loans/Deposits ratio	-0,3278	-0,2982	-0,4938	0,6288	0,6740	0,5427	-0,4572	0,3058	-0,2160
ROA	-0,6042	-0,6185	-0,6420	-0,1442	-0,2680	-0,1004	-0,3148	0,2111	0,4647
ROE	-0,4041	-0,4085	-0,5029	-0,1234	-0,2498	-0,0829	-0,2142	0,0488	0,3976
Efficiency index	-0,7197	-0,7298	-0,6181	-0,0280	-0,1637	0,0027	-0,2718	-0,1978	0,2244

Source: elaborated by the author.

To interpret the results, it is proposed to focus on two main correlations based on data of JSCB Moldova-Agroindbank (table 3). The first correlation is RWA/TA ratio and credit risk indicators. As it can be seen from the table, there is an average coefficient of about 0.8, which is a strong direct correlation. This means that if the volume of risky assets in total assets will increase, then credit risk will also increase. The second correlation is efficiency index and credit risk indicators. It could be seen an average coefficient of about -0.65, which is relatively strong indirect correlation. This means that if efficiency of internal control system will increase, credit risk will decrease, consequently the hypothesis was proved that the consolidation of internal control system could reduce credit risk in the banking sector.

4 The impact of the COVID-19 pandemic over the internal control system of credit risk in the global banking sector and the Republic of Moldova

Outbreak of the COVID-19 epidemic, in worldwide proportions occurred at the beginning of the 2020. The WHO declared COVID-19 outbreak as pandemic on March 12, 2020. As a response to the spread of COVID-19, local authorities declared state of emergency on March 17, 2020. The economic impact of COVID-19 pandemic as well as measures implemented could not be quantified, although they are most likely to be material.

The damage to businesses and economies is becoming more obvious day by day, which indicates on potential increase of the credit risk for the banking sector, since the debtors could be unable to repay their loans to banks. At the global level, the COVID-19 crisis has triggered *five major challenges* to the credit risk environment:

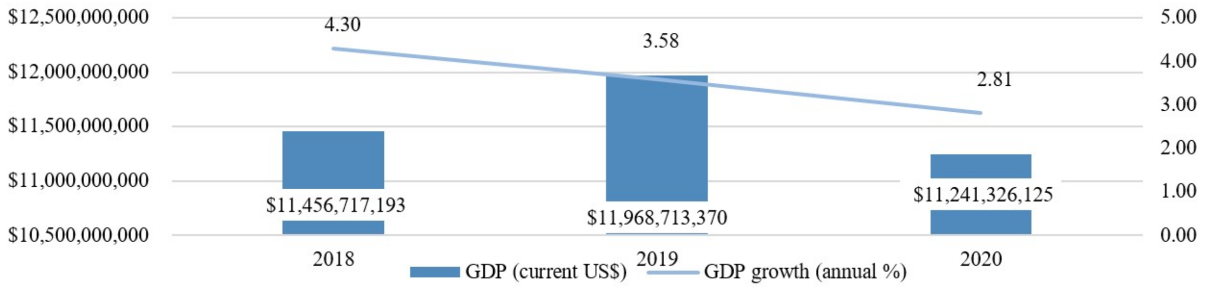
- changes in the credit worthiness at the sector and subsector level, which will force banking institutions to analyze demand shocks and recovery trajectories and to translate to probability-of-default multipliers;
- difficulty in differentiating between borrowers in the same sector or subsector, which will force banks to perform a much detailed research of borrowers' financials and business models to estimate resilience to COVID-19 crisis effects;
- pertinent data on crisis conditions which are scare, lagging and not fed automatically into decision making process, which requires new approaches such as for example mine transaction data to derive cash flow affordability, mine alternative high-frequency data to drive revenue trends, auto-feed results into decisions engine;
- socially responsible collections needed to meet changing customer preferences which will force banks to shift to a customer-assistance interaction model and make it a priority in a digital transformation;
- unleash of a large wave of nonperforming loans which must be addressed in a new way, for example by developing a sector-specific solution, augment capacity and evaluate cost-benefits of organic versus inorganic options.

In response to the crisis, a series of banks started to approach underwriting and monitoring with a new configuration of sector analysis, borrower resilience and high-frequency analytics of internal control system. The banking sector is moving from sector analysis toward subsector analysis, using real-time data and analytics of internal control system to support decision making process for a more accurate internal control system and management of credit risk. The transition to the new approaches listed above will help banks to cope with present crisis but also serve as a rehearsal for the step change that credit risk management and internal control system of credit risk will have to make in forthcoming years.

The financial system and especially banking sector, in present, is better equipped for rapid crisis management than it was in the past crises, due to the new requirements imposed by the Basel III Agreement. Banks possess significantly higher Tier 1 Capital ratios and have higher provisions coverage ratios for nonperforming loans, than in previous crises. Under these circumstances, banks have much strong capital and liquidity positions, which are a part of results of regulatory reforms implemented after global financial crisis of 2008 – 2009. Another stabilizing factor, were the prompt and urgent measures undertaken by the Government and Supervisors inside each country to sustain economy, banking sector and population.

At the level of national banking sector, according to the report published by the World Bank "Moldova Economic Update", the Republic of Moldova has been influenced by the COVID-19 pandemic, which had drastically worsened the economic situation bringing to the significant economic contraction in 2020 and a slow recovery expected in 2021. In order to assess quantitatively the modifications in the economic situation of the country it has been analyzed a series of macroeconomic indicators. The first analyzed indicator is the GDP (figure 3), which denotes the aggregate value of total goods and services produced within a country within a given period. In 2020, the GDP was about USD 11,86 bln. As it can be seen in the fig. 3, the GDP has a relatively stable volume over the three year, even so there could be observed an insignificant decrease of GDP volume in 2020, by about USD 109 mln.

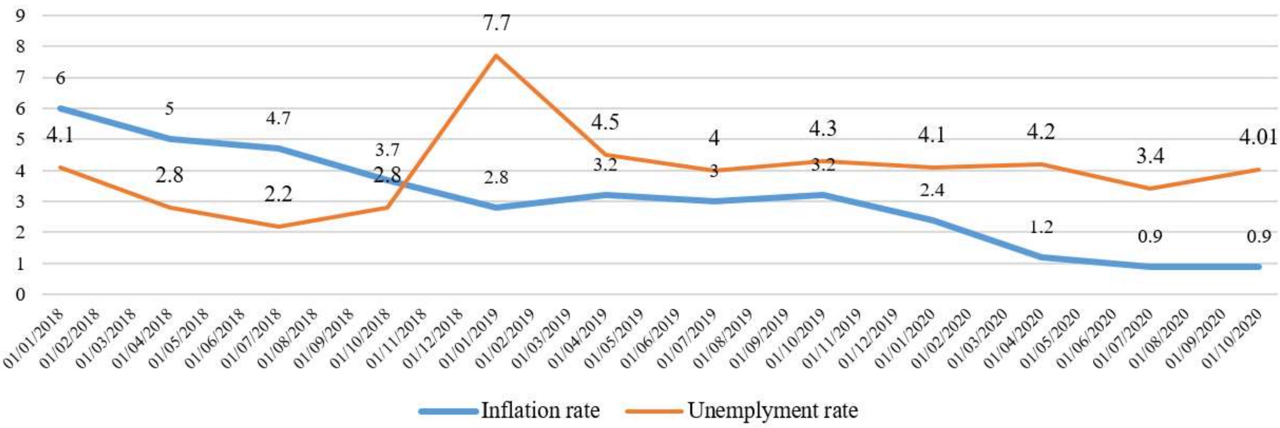
Figure 3. **Dynamics of GDP of the Republic of Moldova during 2018-2020**



Source: elaborated by the author based on data from World Bank national accounts data, and OECD National Accounts data files. https://data.worldbank.org/indicator /NY.GDP.MKTP.CD?locations=MD.

The inflation rate describes the rate of increase of the general price level of goods and services in a national GDP over time. The figure 4 demonstrates the monthly dynamics of the inflation rate in the Republic of Moldova within period of 2018–2020 year. The indicator has an evident downward trend, reaching by December 2020 value of 0.4%, which is an extremely low value of the inflation. In average, the indicator decreases per month by about 0.5%. Such a low level of inflation rate could be a signal of economic issues which could be associated with weakening of the economy. Low inflation rate could be caused by increasing rate of unemployment, which indicates that the population and businesses may be less willing to make investment and spend on consumption and consequently the demand will decrease. A decreasing demand, in its turn, impedes prices from growth and the inflation rate is slowing down.

Figure 4. **Dynamics of inflation rate and unemployment rate in the Republic of Moldova during 2018-2020 (%)**



Source: elaborated by the author based on data from National Bureau of Statistinternal control system and National Bank of Moldova. https://www.bnm.md/ro/content/rata-inflatiei-0.

On the same figure it is observed a relatively stable rate of unemployment trend, which does not manifest a similar tendency with inflation rate. The average unemployment rate within the analyzed period is about 4%.

A stable tendency could be explained by a possible high share of non-official labor force which is employed in the labor market without official registration. Another explanation would be issues on labor market specific to the COVID-19 situation, such as interruption/suspension of activity, remote working, transition to part-time work, reduction of hours actually worked, etc. which has impacted the population financially similarly as unemployment. According to the Bureau of National Statistics of the Republic of Moldova, in 2020, 10% of people older than 15 years, or more than 217k, declared that due to the epidemiological situation in country they had difficulties on labor market. 24.4% or 200,6k declared their position was negatively affected through one of the issues mentioned above, as compared to 4.1% or 33.2k in 2019.

As a consequence of worsening of the economic situation of the country, the banking sector similarly to the rest economic braches fell under the danger. In order to support/protect the economic/banking sector National Bank of Moldova (NBM) initiated a series of measures at the level of normative framework. First of all, the NBM approved two decisions in order to maintain the stability and viability of the banking system: Decision no 81 of March 27th, 2020 and Decision no 69 of. March 17th, 2020. According to these decisions the classification category and the level of credit loss reductions for individual debtors were maintained, as well as the extension or renegotiation of the terms for loans granted to legal entities, without the automatic classification of these loans in a tougher category.

In the first quarter of 2020, the gross (prudential) balance of loans constituted 45.4% of total assets or 42.0 billion lei, increasing during the analyzed period by 4.1% (1.7 billion lei). At the same time, the volume of new loans granted during the first quarter of 2020 increased by 3.5% compared to the same period of the previous year. The largest increases in the loan portfolio were recorded in loans granted to trade - by 4.6% (MDL 438.3 mln) and in loans granted for the purchase/construction of real estate - by 5.5% (MDL 340.9 mln).

As a consequence of measures adopted by the NBM in the beginning of the second quarter, in the end of April, 2020, the share of non-performing loans in total loans in the economy was almost 8.3% and had increased only by 0.2 p.p. as compared to the end of February, 2020. As a consequence, the banks' profitability has decreased. As stated in the decisions, starting with March, 2020 banks were able to extend or renegotiate credit contracts at the request of their clients. Consequently, as of the end of May – 22.05.2020, were extended/renegotiated payment of about MDL 4.8 bln, which is about 11.62% from total credits of banking sector.

Another measure implemented by the NBM in order to mitigate the impact of crisis created by COVID-19 pandemic was the issue of the decision of May 12th, 2020 to amend the Regulation on the treatment of credit risk for banks according to the standardized approach, which specifies regarding the provisions related to the treatment of credit risk of public sector entities in the Republic of Moldova. Consequently, in order to calculate the credit risk and own funds requirements of banks, exposures to public sector entities in the Republic of Moldova, as well as the exposures guaranteed by them, together with the eligibility requirements, receive a risk weight equal to 20 %. In this way the banks were able to grant guaranteed credits to public sector entities, which had contributed to the sustainability of the national economy.

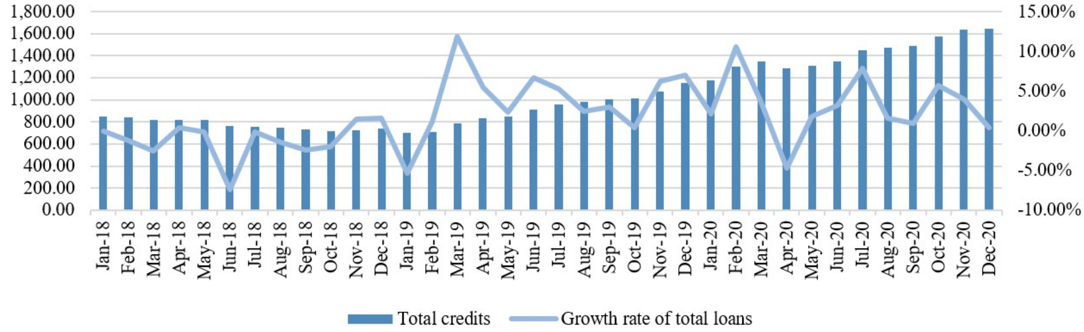
In addition, NBM issued the recommendation to refrain from dividends payment up to September 30th, 2020. The decision was issued in the context of mitigation of effects caused by the COVID-19 pandemic for maintenance of banks capitalization and stability. At the same meeting, were approved measures to relax the capital buffer requirements. Thus, the NBM allows banks to use temporarily the capital buffer previously established. The conserved capital could be used to absorb any deterioration in the quality of the credit portfolio and to support the financing of the business environment and the population.

Also, NBM decreased of the rate of required reserves in lei up to 34%. It was approved the amendment of art. 3 of the Decision of March 20th, 2020 on level of NBM interest rates and norm of required reserves. Thus, the norm of required reserves in MDL and in non-convertible currency for their application period April 16 – May 15, 2020 is set at 34.0 percent of the calculation base.

With the purpose of assessment of efficiency of the internal control system of the credit risk in the banking sector, as well as the effectiveness of the measures undertaken by the Regulator during the period of COVID-19 pandemic, it is proposed to analyze the tendency in quality of the loan portfolio of a bank. The assessment is performed based on a bank from the Moldavian banking sector – JSCB "EXIMBANK". There are analyzed a series of credit risk indicators for the period of January 2018 – December 2020, in order to evaluate the dynamics of indicators and to identify the worsening or improving in the quality of loans portfolio.

The first analyzed indicator is the volume of loans portfolio. As it could be seen in the fig. 5, the general tendency of indicator is constantly growing. As of December 2020, the volume of total loans in the JSCB "EXIMABNK" reached an amount of MDL 1,64 bln, which is the highest amount during the analyzed period.

Figure 5. **Dynamics of volume of loans in JSCB "EXIMBANK" during 2018-2020 (MDL mln)**



Source: elaborated by the author based on data from National Bank of Moldova. https://www.bnm.md/bdi/pages/reports/drsb/DRSB1.xhtml?id=0&lang=ro.

As analyzing the growth rate of volume of total loans during the 2020, it could be observed a sudden downturn in the trend in March – April 2020, by about -4,71%, which could be caused by decreasing financial capacity of population caused by the lockdown. But the trend has recovered in May (figure 5).

The next analyzed indicator is the volume of provisions, which functions as a protection for the bank from anticipated future losses. According to the Regulation on assets and conditional commitments classification, approved by the NBM no. 231 of October 27, 2011, the loans must be attributed to one of five categories of classification (table 4). For each category the Regulation stipulates the level of coverage with provisions, as follows:

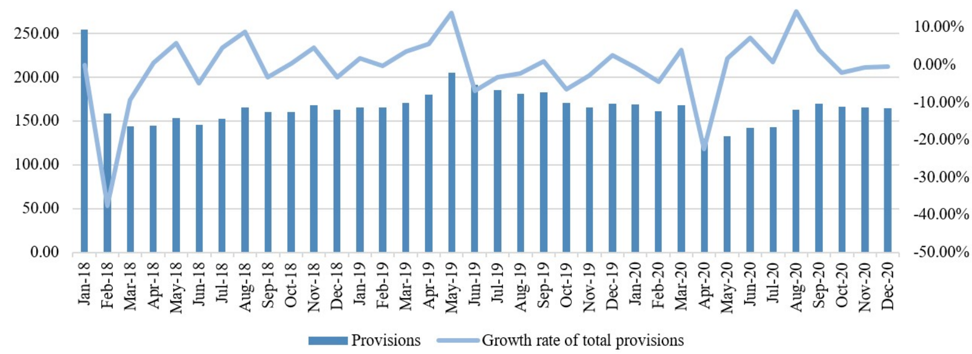
Table 4. Classification of assets and conditional commitments as per NBM Regulation no 231

Category	Level of provisions	Days past due	Characteristics
Standard	2%	0-30	non renegotiated, updated financial situation quarterly
Supervised	5%	31-90	modification in payments for credit, non-realization of business plan
Substandard	30%	91-180	warranties are insufficient or are worsening, non-updated financial situations, credit is used in other purposes
Doubtful	60%	181-360	initiated procedures in court, including intention of insolvability process
Compromised (Losses)	100%	361<	counterparty is in the process of liquidation, absent warranty

Source: elaborated by the author based on Regulation on assets and conditional commitments classification, approved by the DCA of the NBM no.231 of October 27, 2011.

The tendency of the indicator over the three years is fluctuating. The lowest amount is registered in April–May 2020, which could be caused by a decrease in volume of credits in the same period. However, in the next months the tendency of provisions volume became increasing, reaching top value in August–September 2020 about MDL 130 mln (figure 6).

Figure 6. Dynamics of volume of provisions in JSCB "EXIMBANK" during 2018-2020 (MDL mln)

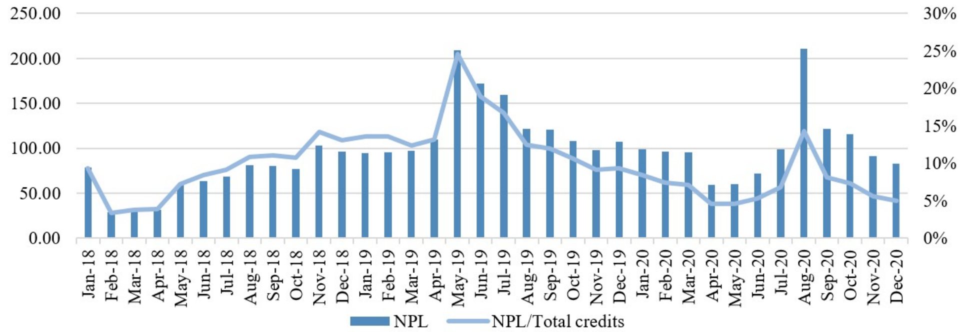


Source: elaborated by the author based on data from National Bank of Moldova. https://www.bnm.md/bdi/pages/reports/drsb/DRSB1.xhtml?id=0&lang=ro.

Such a tendency could be a negative indicator as it could signal on increasing of non-performing loans, for which the provisions requirements are higher. Consequently, the credit risk had increased. In addition, the increasing growth rate could be caused by imposed condition from the National Bank to increase the level of provisions for the banks in the Moldavian banking sector.

One of the most illustrative indicators of the credit risk in the bank is the volume of non-performing loans, which is demonstrated in the figure 7. It could be seen that the highest volume of non-performing loans is registered in the August 2020 reaching MDL 210.63 mln, while the lowest values where reached in April-May 2020, around MDL 60 mln.

Figure 7. Dynamics of non-performing loans in JSCB "EXIMBANK" during 2018-2020 (MDL mln)



Source: elaborated by the author based on data from National Bank of Moldova. https://www.bnm.md/bdi/pages/reports/drsb/DRSB1.xhtml?id=0&lang=ro.

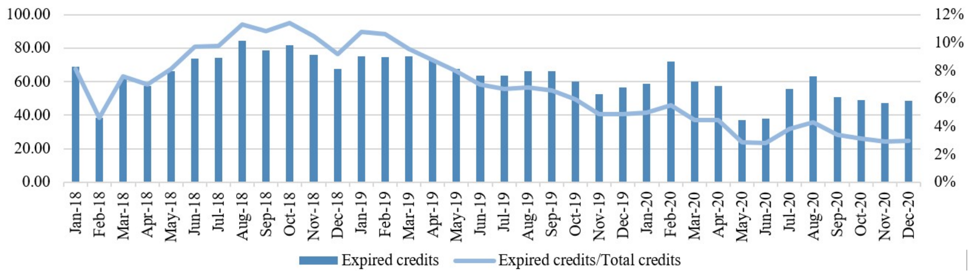
The explanation for this phenomenon is the Decision no 81 of March 27th, 2020 and Decision no 69 of March 17th, 2020. According to these decisions the classification category and the level of credit loss reductions for individual debtors were maintained, as well as the extension or renegotiation of the terms for loans granted to legal entities, without the automatic classification of these loans in a tougher category. These measures had the purpose to mitigate the impact of COVID-19 pandemic on the banking sector, population and economic agents.

Consequently, even if the clients were unable to repay their loans in April – May they were not reclassified as non-performing loans, while starting from June the reclassification was made and the non-performing loans has raised significantly. The population after several months in lockdown have lost partially their financial capacity to serve the credit and entered into one of the three non-performing loans categories. The dynamics of the indicator shows that the credit risk of the bank has increased. Even so, in the next month the non-performing loans volume is constantly slowing down which could indicate on an efficient internal control system of credit risk which was able to regulate the worsening situation.

As it was seen above, the non-performing loans were not completely illustrative indicator due to the two imposed decisions of the Regulator, which hided the real value of nonperforming loans during the Q2 2020. Therefore, the analysis of the expired credits will be more representative indicator.

As it could be seen in the figure 8 in 2020 the volume of expired credits has fluctuating tendency reaching lowest values in May-June (MDL 37 mln), while the highest volumes in February and August (MDL 60-70 mln).

Figure 8. Dynamics of volume of expired credits in JSCB "EXIMBANK" during 2018-2020 (MDL mln)



Source: elaborated by the author based on data from National Bank of Moldova. https://www.bnm.md/bdi/pages/reports/drsb/DRSB1.xhtml?id=0&lang=ro.

The bank had much worse situation in 2018-2019, which could be a reflection of strategy sustained by the previous owner – Veneto Banca, but the better values of expired credits in such a challenging year as 2020, could depict an improved management of credit risk and the internal control system of credit risk.

As a conclusion of the above analysis of the quality of the loan portfolio of JCB "EXIMBANK" for the most part, the indicators were situated within the adequate ranges, with some deviations registered primarily during the hardest months of the year 2020, due to the unfavorable events caused by the pandemic and lockdown. The population after several months in lockdown have lost partially their financial capacity to serve the credit. The dynamics of the indicators shows that the credit risk of the bank has increased. Even so, it is observed a rapid remediation of indicators in the following months which could indicate on an effective internal control system of the credit risk which was able to regulate the worsening situation.

The effects of the COVID-19 pandemic over the internal control system of credit risk in the banking sector are still ongoing and the prediction of potential losses and negative impact that it would exercise is still non-available. The credit risk is expected to demonstrate a growing tendency, due to expected business failures and financial issues faced by the population, which will make improving and fostering the internal control system of credit risk crucial for banking survival. The critical points in this field would become adopting customer due diligence and ongoing monitoring of clients in the "new normal" of remote business relationship, fostering the analysis of trends in economic sectors to assess a correct risk rating, increasing efforts in maintain and adequate non-performing loans level and an important solution in this totally changed environment would be reactive innovation, implementing automation and continuous and ongoing monitoring of daily changes.

5. Improvement and consolidation of the internal control system of the credit risk in the banking sector of the Republic of Moldova

The solutions on improvement and consolidation of internal control system of credit risk in the banking sector of Moldova is based on identified drawbacks and opportunities during the investigation. First of all, a considerable drawback in the general internal control system in banking sector of the Republic of Moldova is the operational risk. An inherent limitation is that in performance of the control procedures, errors can result from misunderstanding instructions, regulations, mistakes of judgment, carelessness or other operational risk factors. In order to eliminate this issue, it could be advised organization of periodical meetings with issuing normative framework bodies with employees of banking institution for performance of a presentation of key points and structure of issue or update of some normative documents of major importance. The summarization of the normative documents will make the information clearer and transparent as well as more accessible to the employees and could lead to decrease of the misunderstanding of legal framework and operational risk.

It was also identified, that previously the banking sector was dealing with the issue of partially lack of competence of boards, but the research has demonstrated that the issue was remediated and the board have sufficient competence in managing the internal control system. Based on the results of analysis, it is concluded that the improvements made were not sufficient, and in order to improve the indicators it would be recommended that the board to have more frequent attendance of specialized courses with further spreading of information to the key-functions employees. Another solution could be borrowing the international practice of recruiting "young talents", with international background for the key-functions, which could lead to favorable modifications in the methods of management of internal control system of credit risk.

In addition, it was observed, that the profitability and efficiency indicators, have demonstrated non-homogenous results, which indicated that qualitative audit do not guarantee higher profitability results. In order to remediate this drawback, it would be advisable to increase the real competences of the internal audit, because from the information gathered from investigation of various reports, technical notes, assessment programs, interviews regarding internal control system in addressing credit risk in Moldavian banking sector not available to the public audience, as well as info gathered during the internships attended in the License and Master Cycles it was found that the audit function in banks of the Republic of Moldova meet impediments in information collection from business owners. Other solution would be carrying out the internal trainings on the importance of the audit function within the bank. Besides, it also was identified the deficit of auditors in the Republic of Moldova, proved by understaffing in more banking institutions from the Republic of Moldova. In order to mitigate this issue, first of all it could be proposed to develop and create a faculty within the Universities dedicated to the audit qualification for the License Cycle, due to the fact that such a direction is available only at the level of Master Cycle. Another solution would be budget allocation for staff trainings and consequently encouraging qualified and high professional employees which are activating in a medium or low specialized functions to attend Audit Courses and re-profile within the bank.

In fact, developing and efficient internal control system is a common goal of the organization, rather than goal of management bodies, as its impediments affects every participant of the credit risk process. In order to encourage individuals to work on enhancement of the internal control system of credit risk, the governing bodies should link achievements of the organization's internal control objectives to individual performance objectives. In this way, each person within the organization would be accountable for the achievement of assigned internal control objectives.

It appears to be a need in strengthening of the corporate governance practices. In order to improve the corporate governance within the banking sector of the Republic of Moldova it could be recommended that the Supervisor to enhance the appropriateness and completeness of policy guidance on corporate governance for banks and establish within them clear criteria for assessing the corporate governance practices of banks and publicly recognize the improvements that have been made. In addition, it could be advised to develop a framework which will allow an evaluation of bank's corporate governance practices and normative frameworks as well as tools used to mitigate any deficiencies identified before by the Supervisor. Besides, the corporate governance within banks could be enhanced by allocation of resources for creation of a separate department or office responsible for the corporate governance expertise or integrate corporate governance expertise in existing organizational frameworks. Enhancement of regulatory frameworks, coordination of supervisory responsibilities and sharing of information on bank reviews should become a priority.

Another important subject of internal control system of credit risk improvement is the development of banks' strategy. The bank strategy should be developed in a way to ensure a strong and sustainable position in the market. The main area of strategic problems discovered during the analysis were the deficient definition of the client profile, insufficient focus on assets quality, but a huge focus on assets volume, too large and generalized target market, deficient risk management approaches and others.

According to the Edmund Saunders, CICA, CFE (President of Institute for Internal Controls Europe, ex-advisor from the UK government to Polish officials in the banking sector), to design the bank strategy it is essential first of all to understand well the main COSO (Committee of Sponsoring Organizations of the Treadway Commission) publications and to distinguish well between internal control and internal audit, because the organization can function without internal audit, but it will never function for long without an efficient internal control system. Internal control system should be viewed not as a requirement of regulators and authorities, but as an essential tool for reaching organizations objectives. The strategy should describe an efficient internal control system as the system which is able to address risks to an acceptable level. Therefore, in order to design a strategy, bank should define and fully understand its objectives, risk appetite per each objective, and that the controls provide reasonable assurance that the risk is correctly managed. In addition, the majority of banks in the banking sector of the Republic of Moldova do not align to technical innovations from financial sector available in the 21st century and still exploit outdated operating systems, applications and methods in their subsistence.

Banks from the Republic of Moldova should definitely revise their strategy in direction of implementing modernization, FinTech and cutting-edge technologies in banking day-by-day operations in order to enhance the internal control system of the credit risk and the entire banking activity.

Finally, the overall internal control system usually fails due to the low connectivity to the bank's objectives, strategies and risk profile. Controls should always be designed, implemented, and applied as a response to specific risks and their causes and consequences.

The COVID-19 created distinctly difficult and challenging environment for banks. For this reason, it is important to emphasize the solutions in strengthening of the internal control system of credit risk under these specific conditions.

The first major challenge is the changes in the credit worthiness at the sector and subsector level. In order to defense, banks could orient in analysis of demand shocks and recovery trajectories and to connect their research with the profitability indicators. The second challenge refers to difficulty in differentiation between borrowers in the same sector. It is recommended for banks to study more deeply financials and business models to estimate vulnerability to COVID-19 crisis effects. Another difficulty is that pertinent data on crisis conditions is scarce, lagging and not fed automatically in the decision making process. To overcome this challenge, it is recommended for banks to try to find new info sources, credible and permanent updates as well as automation of the process of incorporation of data sources into the decision making process. One of the most evident challenges represents the transition to remote customer due diligence (CDD) and ongoing remote monitoring, which increases a series of risks related to AML, regulatory risks, legal risks and others. It is recommended to banks to improve the verification techniques and to apply for FinTech for correct customer identification. Finally, a large wave of non-performing loans exposures has started and to overcome this challenge banks should develop sector-specific solution, augment capacity and evaluate cost-benefit of different options.

The banking sector will need to develop its capacity to recognize winners and losers of each sector and subsector to be able to improve the internal control system over the credit risk in the bank, which could be realized by identifying the level of financial stress and operational flexibility by performing a series of stress tests.

From the analysis of quality of credit portfolio carried out, the purpose of which was to identify the situation of internal control system of credit risk in stressing conditions, such as were created by the effect of COVID-19 pandemic, it was identified a slight worsening of credit risk indicators, but at the same time, with a rapid remediation in the following months. However, as the unfavorable events have not finished yet and a major part of analysts forecast upcoming financial crisis just in the coming years, the credit risk could become much more difficult to control in potential future circumstances. It would be a solution to focus on automation of processes as well as partial digitalization of banking activity, which could significantly reduce the credit risk, because, as it was demonstrated, the main deficiency in the most recent circumstances was related to the human factor and issues related to remote performance of activities and operations. Moreover, this solution could represent a bonus for the competitiveness of banks on the market and will ease the population access to banking services.

Finally, one of the most evident possibilities of improvement of internal control system of credit risk, could be the efficient communication from the top to bottom and from the bottom to top. Usually lack of communication can create impediments in controls, by providence of erroneous and inaccurate information or incorrect process implementation due to unclear tasks dissemination.

Implementation of above described solutions for improvement and consolidation could significantly strengthen the internal control system of the credit risk in banking sector of the Republic of Moldova.

6. Conclusions

The internal control system of credit risk may be in place, while its efficiency cannot be guaranteed. In present the internal control system is additionally, jeopardized by the effects of COVID-19 pandemic, which forces banking institutions to identify new measures for enhancing credit risk management practices. The COVID-19 crisis has triggered five major challenges to the credit risk environment: changes in the credit worthiness at the sector and subsector level, difficulty in differentiating between borrowers in the same sector/subsector, scare, lagging data on crisis conditions, socially responsible collections needed to meet changing customer preferences, unleash of a large wave of non-performing loans which must be addressed in a new way.

To improve the internal control system of credit risk in the banking sector of the Republic of Moldova in conditions of COVID-19 pandemic, the following recommendations are proposed:

1) implementation of automation of several processes related to loan grating and credits monitoring, which would partially reduce operational risk;
2) improving of the corporate governance practices by setting clear criteria for assessing the corporate governance practices of banks and publicly recognize the improvements achieved;
3) high implication of branches' managers in the process of internal control, such a regularly review employees' contact with clients for content and results, comparing transaction lists and the daily entries of employees, etc.;
4) orienting in analysis of demand shocks and recovery trajectories in COVID-19 conditions;
5) studying more deeply financial statements and business models of clients to estimate vulnerability to pandemic effects;
6) trying to find new info sources, credible and permanent updates as well as to automate the process of incorporation of data sources into the decision making process;
7) in conditions of passing to remote KYC/CDD, to strengthen clients' identification and monitoring practices;
8) developing a sector-specific solution, rising capacity and evaluating cost-benefit of different options.

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Economic Cooperation between the Republic of Moldova and Romania: The Historical Background and the New Context

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Abstract: The relationship between the Republic of Moldova and Romania has a special character, being built on common language, history, culture and traditions. Despite these commonalities, the Moldovan authorities oscillated between two geostrategic vectors in the years following independence (the intensification of economic cooperation with the former Soviet states and, subsequently, the European integration), while diplomatic and political tensions between the two countries affected the bilateral economic cooperation over time. The article has the purpose to analyze the historical background and the dynamics of the economic relations between the Republic of Moldova and Romania from the period following the independence of the Moldovan state until present. For achieving this purpose, the author reviews the main political and economic events that have influenced this relationship between the two countries over time and presents the evolution of their trade and investment cooperation. The analysis finds that the bilateral trade experienced anaemic values until the establishment of the strategic partnership between Romania and the Republic of Moldova. Moreover, once Moldovan authorities signed the Association Agreement with the EU in 2014, Romania has taken over the place of the Russian Federation as the main trading partner. At the same time, Romania is one of the main foreign investors in the Moldovan economy. However, despite important progress recorded in the economic relations between the two countries, they are still far from their potential and have considerable space to capitalize the strategic partnership.

Key-Words: Republic of Moldova, Romania, Russian Federation, European integration, bilateral trade, investment cooperation

JEL Classification: F13, F15, F20, F21

1 The historical background

Economic relations between the Republic of Moldova and Romania have been established after several consecutive events that followed the dissolution of the USSR. Once the Republic of Moldova declared its independence in 1991, Romania was the first country to recognize its independence and the first to open a diplomatic mission in the new state. In the years that followed, several bilateral agreements were signed, which laid the foundations for economic and trade relations between these two states, including: the 1992 Agreement on the Promotion and Mutual Protection of Investments, the 1992 Agreement on Road Transport, the Agreement on air services of 1993, the Convention for the avoidance of double taxation and the prevention of tax evasion of 1995, the Agreement on rail transport of 1995, etc.

Despite the multitude of agreements and conventions signed, economic relations between these two states were very modest in the years following independence. This evolution was mainly determined by the historical membership of the Republic of Moldova, for almost half of a century, in the USSR. Moreover, the trade channels created during the centralized communist system between these two states, the size of the Russian Federation's market, but also the dependence of the Republic of Moldova on Russian energy resources were the main factors for the Moldovan authorities to choose the Russian Federation as the main economic and trade partner even during the first years after gaining the country's independence. Given the geographical position of the Republic of Moldova, in the „near abroad"[1] of the Commonwealth of Independent States (CIS) and in the „immediate

[1] The term „near abroad" was introduced by the authorities of the Russian Federation in the attempt to define a privileged sphere of influence for itself in Eastern Europe and Eurasia, denoting the imperial nostalgia and the desire for the restoration of great-power status. For more details on this subject see: Soroka, G., Stępniewski, T. (2020). Russian Foreign Policy Towards the "Near Abroad", https://spps-jspps.autorenbetreuung.de/files/06-02-intro-01.pdf

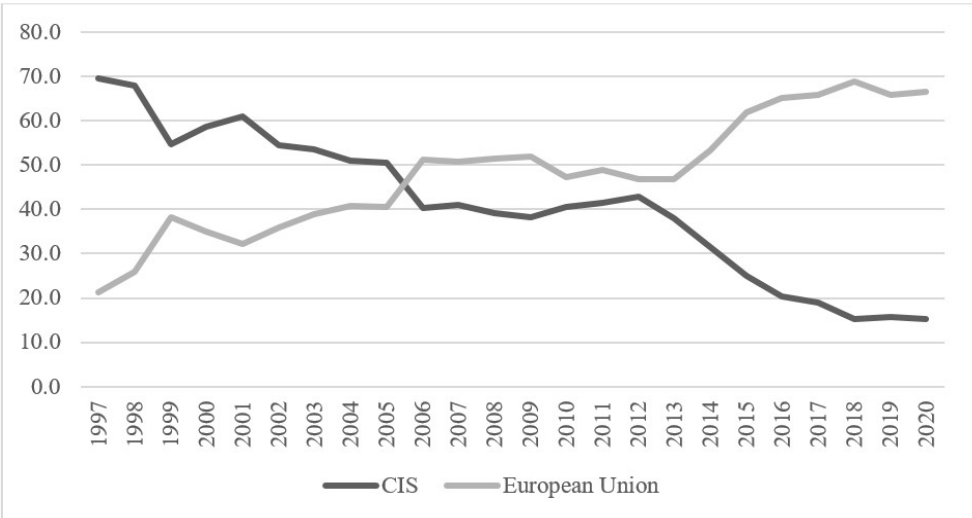
neighbourhood"[2] of the European Union (EU), the Moldovan authorities oscillated between two geostrategic vectors in the years following independence.

The first geostrategic vector meant the intensification of economic cooperation with the former Soviet states and was marked by joining the CIS in 1994. The second vector signified the rapprochement with the European single market and began with the signing of the Partnership and Cooperation Agreement with the EU in the same year. Accession to the CIS has led to the conclusion of bilateral trade agreements between the former Soviet states and the Russian Federation on preferential terms. At the same time, in 1999, EU integration was established as the main strategic objective of the foreign policy of the Republic of Moldova and in 2005 the Republic of Moldova - EU Action Plan was signed (Ministry of Foreign Affairs and European Integration, 2005). In the same year, the Parliament of the Republic of Moldova adopted the Declaration on the Political Partnership for Achieving the Objectives of European Integration.

Furthermore, in 2009, the Republic of Moldova joined the Eastern Partnership, an important European project which aimed to bring the EU's new neighbours closer to European values. Only one year later, the Republic of Moldova and the EU engaged in the negotiation of the Association Agreement with the EU[3], a process that materialized with its signing in 2014, including the creation of a Deep and Comprehensive Free Trade Area (DCFTA, 2021).

Unfortunately, the Russian Federation saw all these projects as actions to remove ex-Soviet states from its area of influence. Coincidentally or not, in 2011, the CIS Council, led by the Russian authorities, tried to facilitate and to speed trade within the CIS, by replacing the existing bilateral free trade regime with an improved multilateral Free Trade Area agreement, abolishing customs duties and quantitative restrictions on trade between the signatory states[4]. However, this new CIS agreement did not manage to bring to life the Moldovan exports to the CIS countries. More than that, they collapsed, from 42% in 2011 to only 15% in 2020 (Fig. 1). At the same time, the establishment of the European integration path visibly increased the role of the EU as a trade market for the Republic of Moldova, from 26% in 1997 to 67% in 2020. The Moldovan exports to the EU overpassed those to CIS in 2006, rising considerably from 2014, once the Association Agreement was signed.

Fig 1. Exports of the Republic of Moldova to the CIS and the EU, in the period 1997-2020 (% of total exports of the Republic of Moldova)



Source: Author's calculations based on data from the National Bureau of Statistics of the Republic of Moldova (2021).

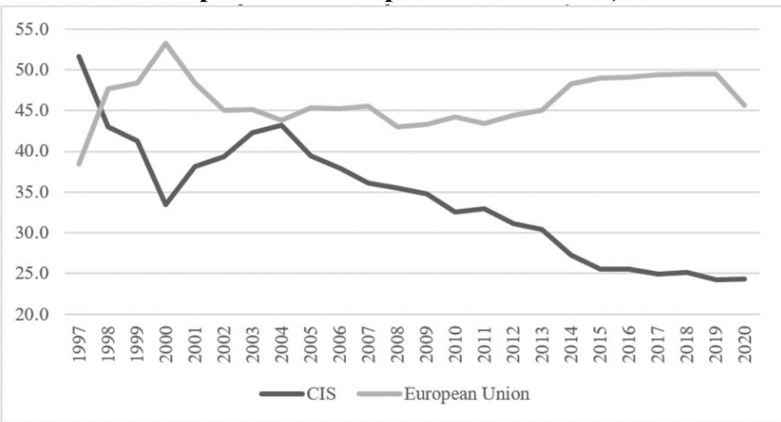
[2] The term „immediate neighbourhood" was used in the European Neighborhood Policy Strategy, which has been developed to establish an area of prosperity and good neighbourliness, founded on the values of the Union and characterized by close and peaceful relations based on cooperation. For more details on this subject see: Pop, A., Pascariu, G., Anglițoiu, G., Purcăruș, A. (2005). România și Republica Moldova – între politica europeană de vecinătate și perspectiva extinderii Uniunii Europene (Romania and the Republic of Moldova - between the European Neighborhood Policy and the prospect of enlarging the European Union), Institutul European din România – Studii de impact III.

[3] The Association Agreement with the EU contains binding provisions and cooperation arrangements in all sectors of interest, which have been conditional on EU budget support and macro-financial assistance programs.

[4] The states that have joined the CIS Free Trade Area are: Armenia, Belarus, Kazakhstan, the Republic of Moldova, the Russian Federation and Ukraine.

The Association Agreement and the creation of the free trade area led also to a rise of the imports from the EU, from only 21% in 1997 to 67% in 2020. At the same time, the CIS has lost the quality of the main source of imports, collapsing from 51% in 1997 to only 24% in 2020 (Fig. 2).

Fig. 2. Imports of the Republic of Moldova from the CIS and the EU, in the period 1997-2020 (% of total imports of the Republic of Moldova)



Source: Author's calculations based on data from the National Bureau of Statistics of the Republic of Moldova (2021)

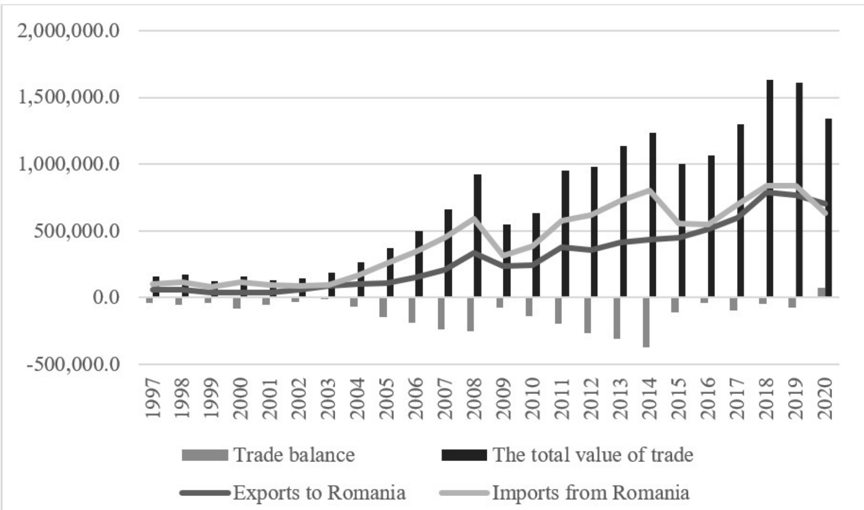
2 Dynamics of trade relations between the Republic of Moldova and Romania

During all this period, the bilateral economic relations between the Republic of Moldova and Romania were affected by a series of diplomatic and political tensions, which escalated between these two states and culminated with the introduction of the visa regime for Romanian citizens in 2009. Among the topics of tension and political controversies were found the language identity and common origins, Romania being accused by some leaders in Chisinau of expansionism and intrusion into the internal affairs of the Republic of Moldova.

In this context, the bilateral trade between the Republic of Moldova and Romania experienced anaemic values during the 1997-2005 period, rising from 160 million dollars to only 370 million dollars (Fig. 3). Although there has been a slight boost in trade relations between 2006 and 2008, the international financial crisis caused a contraction in bilateral trade by 40% in 2009.

The de-escalation of bilateral relations took place only in 2010, being signed the Declaration on the establishment of the strategic partnership between Romania and the Republic of Moldova for the European integration of the Republic of Moldova. In the same year, the visa regime for Romanian citizens was cancelled by presidential decree, and in 2011 the European integration was established as a major objective of the government of the Republic of Moldova (Government of the Republic of Moldova, 2011). These important events led to a visible rise in bilateral trade, reaching more than 1 billion dollars in 2013 (Fig. 3).

Fig. 3. Bilateral trade between the Republic of Moldova and Romania, in the period 1997-2020 (in thousands of dollars)



Source: author's calculations based on data from the National Bureau of Statistics of the Republic of Moldova (2021)

The acceleration of trade between these two states was triggered by a series of events related to the trade policy of the Russian Federation in relation to the Republic of Moldova. The main trading partner of the Republic of Moldova for more than 20 years, has promoted opaque rules of the game in conducting bilateral trade relations and initiated actions to restrict Moldovan imports by imposing embargoes on a number of products, since 2006. The embargoes were officially motivated by the Russian Federation due to the low quality of Moldovan products. However, each of those episodes coincided with important decisions being taken by the Chisinau authorities in favour of European integration. According to some studies, the establishment of embargoes was used as a tool to promote the political interests of the Russian Federation in the Republic of Moldova (Expert-Grup, 2010). Moreover, the political nature of the embargoes imposed by the Russian Federation was confirmed by the Russian Deputy Prime Minister, D. Rogozin, in 2014, on the eve of the signing of the Association Agreement with the EU. He argued that without a referendum, the decision of pro-European authorities of the Republic of Moldova is illegitimate and that the embargoes imposed are a reaction of the Russian Federation to this decision (Kommersant, 2014).

The first embargo, in 2006, which severely affected Moldovan exports to the Russian Federation (Fig. 4), was established after the signing of the Republic of Moldova - EU Action Plan and the establishment by the government of the Republic of Moldova of European integration as a key priority in 2005. In 2013, immediately after the Republic of Moldova announced its intention to sign the Association Agreement and create the free trade area with the EU, another embargo on imports of all Moldovan wine products followed. The consequences of these two embargoes were felt at the level of the entire wine sector of the Republic of Moldova. More than 80 wineries in the country have gone bankrupt, the area of vineyards being reduced by almost 40% (AllMoldova, 2017). The signing of the Association Agreement with the EU in 2014 determined the Russian Federation to repress imports of processed meat, fruit and canned fruit and vegetables. Moreover, in the same year, the Russian Federation approved the application of taxes on the import of several products that provided the largest share of revenues from Moldovan exports, such as wine, meat, vegetables, fruits and cereals. This measure has been applied despite the fact that the Republic of Moldova has been part of the CIS free trade area since 2011, in which Moldovan products exported to the Russian Federation were exempt from customs duties.

The lifeline for Moldovan exports was the preferential trade regime granted by the EU to the Republic of Moldova (GSP) in 2006, and the GSP+ regime, in 2007, through which approximately 7,200 groups of Moldovan products benefited from access to the Community market, being exempt from customs duties. In 2008, the list of duty-free products was extended to over 12,000 groups through autonomous trade preferences.

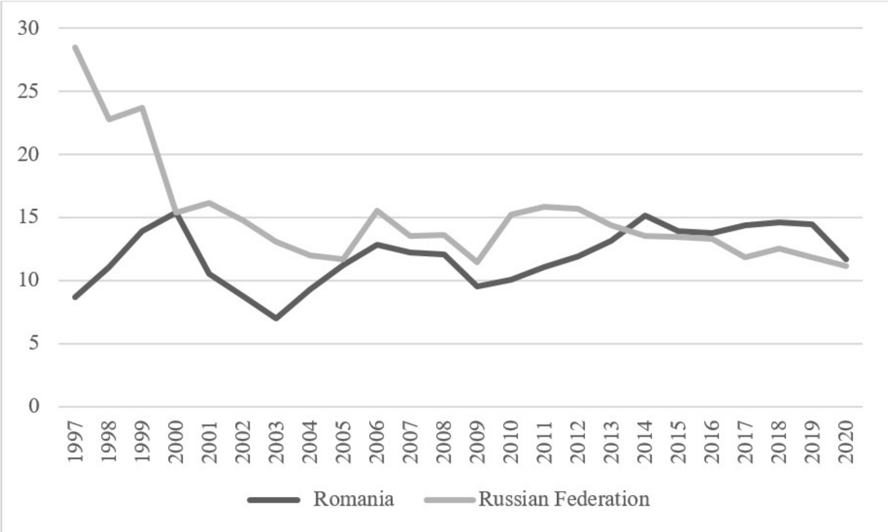
Against this background, the Moldovan exports has taken the path to the EU markets and Romania has taken over the place of the Russian Federation. In 2014, Romania became the main trading partner of the Republic of Moldova, while the role of the Russian Federation as a market destination for Moldovan exports has considerably decreased (Fig. 4).

Fig. 4. Exports of the Republic of Moldova to Romania and to Russian Federation, in the period 1997-2020 (% of total exports of the Republic of Moldova)

Source: author's calculations based on data from the National Bureau of Statistics of the Republic of Moldova (2021)

A similar trend could be noticed in case of imports from these two states, Romania surpassing the Russian Federation since 2014 (Fig. 5). However, given the dependence of the Republic of Moldova on Russian energy resources, the role of Romania in this respect remains quite low. More exactly, currently, these two countries have quite similar shares in total imports of the Republic of Moldova, of approximately 11%.

Fig. 5. Imports of the Republic of Moldova from the Russian Federation and Romania in the period 1997-2020 (% in total imports of the Republic of Moldova)



Source: author's calculations based on data from the National Bureau of Statistics of the Republic of Moldova (2021)

3 The investment cooperation between the Republic of Moldova and Romania

The Association Agreement with the EU and DCFTA has helped Moldova to boost trade and create the best tools to attract international investors. The main instruments developed by the Moldovan authorities to attract foreign investors are: Seven free economic zones, distributed proportionally in the north, centre and south of the country; The Industrial Park, which offers a number of facilities, including the ability to change the destination of agricultural land for free; the right to privatize state land for construction at a normative price; free allocation of public goods to create parks at the discretion of the owner; multifunctional industrial platforms for the regional development.

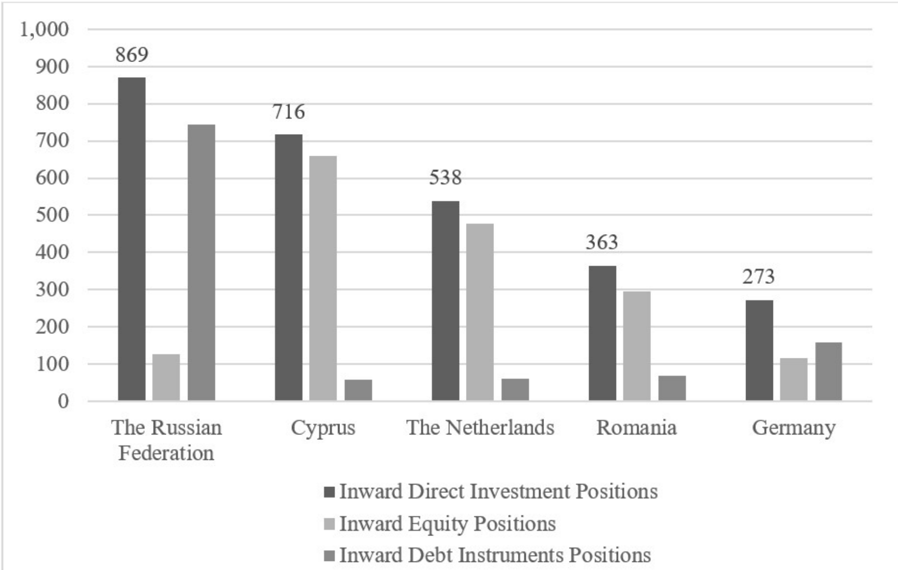
Against this background, Romania has become one of the main investors of the Republic of Moldova, holding the first place according to the number of companies registered, respectively 1,690 companies. Many of the major investments are made by investors who initially came to Romania and who, due to the similarities of language and culture, decided to expand their economic activity in the Republic of Moldova. The most notorious Romanian investments or those coming through the Romanian channel are: Rompetrol (energy), Petrom (energy), BCR - Erste Bank (banking system), Raiffeisen Leasing (banking system), Pro TV (media), Realitatea TV (media), Adevărul Holding (media), UTI (security systems), DRA Draexlmaier Automotive (electrical systems/production), Metro Cash and Carry Moldova (retail), ROMSTAL TRADE (sanitary installations), Orange Moldova (mobile operator), Arabesque (construction), Betty Ice (food industry), Ion Moş (food industry), Prices for You (apparel retailing), Teraplast (PVC carpentry) etc. More than that, the largest Romanian banking group, Banca Transilvania, that entered the Moldovan market in 2008 through BT Leasing Moldova, take over one of the third largest bank from the Republic of Moldova, Victoriabank, in 2018. Furthermore, Banca Transilvania intends to acquire 100% of the share capital of Microinvest, a company specialized in financing micro-enterprises, the leader of the non-banking financial market in the Republic of Moldova (Banca Transilvania, 2020).

Romania has so far invested 363 million USD in the Republic of Moldova, becoming the fourth largest foreign investor (Fig. 6). However, a closer analysis of investments by components[5] reveals interesting facts. Although the Russian Federation ranks first in the list of the largest foreign investors, it has contributed mainly by debt instruments, while the equity positions are the smallest comparing to other countries. This situation dates back to 1998, when the Republic of Moldova ceded to the Russian giant "Gazprom" an important part of the state

[5] Direct investment consists of transactions/positions of equity and debt instruments (loans, trade credits and advances, other accounts receivable/payable) between direct investment enterprises and the direct investors or other group affiliated enterprises. For more details on this subject see: BNR (2021). Direct investment - directional principle, https://www.bnr.ro/Direct-investment---directional-principle-12352-Mobile.aspx

company "Moldovagaz". The measure was taken as a solution to reduce the historical debts accumulated by the Republic of Moldova for natural gas supplied by the Russian Federation. The transfer took place through a transaction to convert debts to "Gazprom" into share capital ("debt-to-equity swap"), being sold including the natural gas transmission infrastructure in the Republic of Moldova. In addition, there were severe deficiencies in estimating the real value of the accumulated debt of the Republic of Moldova for the supplied gas, including the debt of the secessionist region of Transnistria (Parlicov et al., 2017). From the point of view of equity participations, Romania ranks the third in the economy of the Republic of Moldova (Fig. 6).

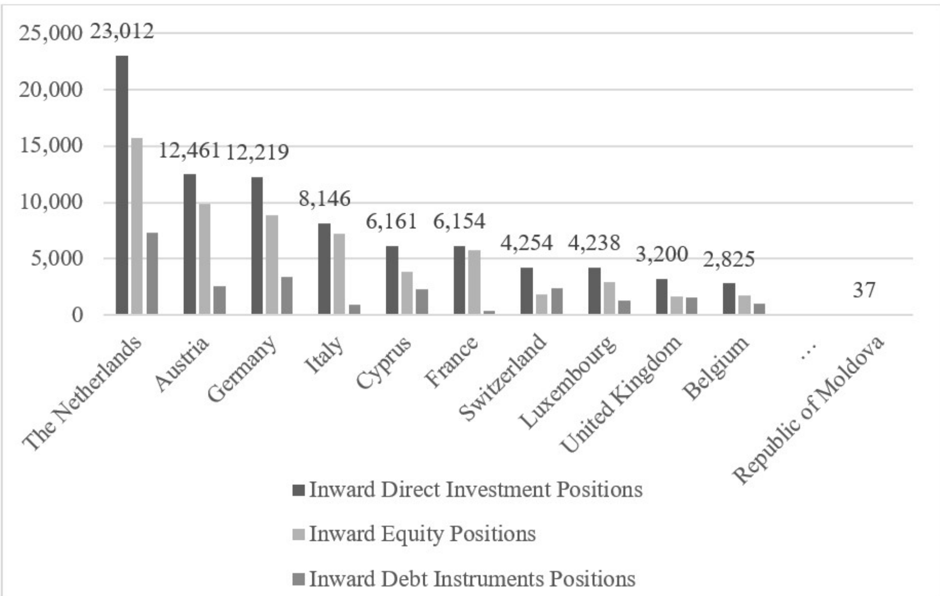
Fig. 6: The largest foreign investors in the Republic of Moldova, in December 2019 (stock, by components, in millions of dollars)



Source: Author's representation based on International Monetary Fund data (2021).

At the same time, the Republic of Moldova has invested in the Romanian economy an insignificant amount comparing to other countries, ranking only 47th in the list of the foreign investors in Romania (Fig. 7).

Fig. 7: The largest foreign investors in Romania, in December 2019 (stock, by components, in millions of dollars)



Source: Author's representation based on International Monetary Fund data (2021).

The analysis revealed that the bilateral investment relations between the Republic of Moldova and Romania became closer, while Romania is one of the major foreign investors in the Moldovan economy, ranking the third by equity participations.

4 Conclusions

The bilateral economic relations between the Republic of Moldova and Romania have been influenced over time by several important factors. *Firstly*, this relationship has a special character, being built from the beginning on the community of language, history, culture and traditions. However, the language identity and common origins were the main reasons of tension and political controversies between the two states during the 1997-2009 period, affecting considerably the bilateral economic cooperation. *Secondly*, the Russian Federation had a major role in the dynamics of the Moldovan-Romanian economic relations. The geoeconomics and geostrategic interests of this country in the South-Eastern Europe were quite obvious, when it started to impose embargoes on a number of Moldovan products, since 2006. The embargoes were motivated by the low quality of Moldovan products. However, each of the embargo's episodes coincided with important decisions being taken by the Chisinau authorities in favour of European integration. Against this background, the Moldovan exports has taken the path to the EU markets from 2006. *Thirdly*, the establishment of the EU integration objective by the Republic of Moldova in 1999 has led to important changes in the Moldovan foreign policy and in the structure of foreign trade. The European integration path visibly increased the role of the EU as a trade market for the Republic of Moldova, overpassing the CIS role in 2006. Once the Association Agreement was signed in 2014, Romania became the main trading partner of the Republic of Moldova, taking over the place of the Russian Federation.

Despite important progress recorded in the bilateral Moldovan-Romanian relations in the years following the Association Agreement, the economic relations between the two countries are still far from their true potential. In this regard, both countries have considerable space to capitalize their strategic partnership, by carrying out strategic projects in the field of energy and transport infrastructure, by liberalizing the economic space and consolidating the political dialogue.

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The German Agricultural Sector under the Impact of the CAP Reform: Objectives of the National Strategic Plan

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Abstract: The Common Agricultural Policy (CAP) represents the core of EU strategy to develop the rural sector and to support the European farmers. This long reformed policy has shifted over the years to better adapt to undergoing challenges and new priorities of EU's rural space, evolving from granting direct support for production to a policy that encourages the European farmers to adopt climate friendly agricultural policies. After a brief review of the stages completed by the last reform of the CAP, this article sets out to analyse the objectives of the recently-adopted CAP, the innovative elements introduced, as well as the way in which the new approach will contribute to the achievement of the environmental protection and climate change goals, using as an example a relevant case study – the impact of these reforms and new regulations in Germany. In the second part of the analysis, we will highlight the potential implications of the CAP green architecture on the German agricultural sector, given the particularities of the federal structure and pointing out at the same time several relevant indicators – the evolution of direct payments (DP), of eco-schemes and of market measures.

Key-Words: Common Agricultural Policy (CAP), Germany, greening agriculture, national strategic plan

JEL Classification: Q00, Q01, Q15, Q18

1 The post-2020 Common Agricultural Policy: objectives, stages, and innovation

Founded around six decades ago to increase productivity in agriculture and ensure a fair standard of living for farmers, the Common Agricultural Policy (CAP) periodically extended its objectives, focusing, gradually, on farmers, on production and consumers, and, most recently, on the transformation of agriculture into a support mechanism for human health and environmental protection.

In the context of the more recent international commitments assumed by the European Union (EU) with respect to the mitigation of climate change (COP21) and the achievement of the sustainable development goals (SDGs) included in the UN 2030 Agenda, as well as against the background of the geopolitical developments of the last few years, which contributed to an increased degree of uncertainty on the agricultural markets[1], it became evident that the changes brought by the last reform of the Common Agricultural Policy – in 2013 – were insufficient to be able to adequately respond to all these challenges.

In these circumstances, because the modernisation of the EU agricultural policy was an imperative for ensuring the transition towards a more sustainable agriculture and for the development of dynamic rural areas, capable of providing safe and high-quality products at competitive prices, in 2017, the European Commission (EC) initiated ample public consultations with the stakeholders, based on which to be able to materialise the commitments of adapting and simplifying the CAP in line with the new environmental and climate ambitions. Without representing a predetermination of the CAP budget allocations for the next multiannual financial framework (MFF), the consultation process focused on outlining the future policy priorities, both as a result of a retrospective assessment of the previous performances in the field, and based on the opinions and recommendations expressed via the REFIT[2] platform (European Commission, 2018a).

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[1] Among the recent events that caused disturbances on the EU agricultural market were: the United Kingdom's announced withdrawal from the EU, the tensions that occurred within the traditional EU-US partnership between the Donald Trump administration, etc.

[2] The Regulatory Fitness and Performance Programme (REFIT) and the related platform were launched in 2015 to assist the European Commission in increasing the effectiveness of EU regulations, simplifying the legislation, and reducing

The results of these analyses formed the basis for the drawing up of the *Communication on the future of food and farming*, a document in which the European Commission set out, in November 2017, the main challenges and objectives that must be taken into account by a Common Agricultural Policy adapted to the future enhanced responsibilities and requirements, outlining at the same time the lines of action that could facilitate the transition towards a more sustainable agriculture (European Commission, 2017).

Against the background described, at the start of the budget programming stage for the period 2021-2027, which took place in June 2018, the EC presented a series of legislative proposals on the functioning of the CAP after 2020[3] which, on the one hand, comprised a series of clear commitments and more ambitious objectives related to the environment, climate change and sustainability, and, on the other hand, introduced a new method of implementation – the national strategic plans (NSPs – Box 1) –, with an essential role in making the EU agricultural policy simpler and more flexible (Matthews, 2018a).

Box 1: Actions needed for the implementation of the NSPs

At EU level	At individual MS level
✓ Adoption of a unique set of objectives designating the CAP desired "targets" for farmers, citizens and/or for combatting climate change, etc.;	⇨ In-depth analysis of the specific individual needs, which will determine: *a)* the proposals on how to direct the funds to both CAP pillars, so as to best contribute to meeting the needs referred to, in accordance with the general EU objectives; *b)* the tools to be used; *c)* the country's own national objectives;
✓ Establishment of the general framework of measures available to the Member States, based on which the latter could use the allocated amounts; then, each MS should be able to select (or adjust in accordance with its specific needs) the measures it considers effective for meeting individual needs;	⇨ Approval by the European Commission of each national strategic plan regarding the CAP, after checking its compliance with the general EU objectives and checking whether the "common" nature of the agricultural policy and the level playing field conditions are maintained;
✓ Establishment of a common set of result indicators that could help ensure and guarantee a level playing field in the evaluation of the effectiveness of the measures used.	⇨ Annual reporting to the European Commission on the performances obtained and presentation of the progress made for the achievement of the objectives established, based on specific result indicators. After reviewing the performance report, the European Commission may request any future action it considers adequate.

Source: Author's synthesis based on the documents published by the European Commission (European Commission, 2018b).

Although the new initiative introduced by the MFF 2020-2027 on making the CAP more flexible – based on the preparation by each Member State (MS) of its own strategic plan enabling it to adapt the CAP tools to the specific individual needs and priorities – an initiative agreed upon within the Agriculture and Fisheries Council (AGRIFISH from December 2018), the ministers for agriculture from the EU countries pointed out the contribution of the strategic planning model to the increase of national accountability in particular since the results obtained by each country will be indissolubly correlated with how these NSPs are prepared and implemented. It is worth mentioning that the proposal was still met with a certain degree of reserve by the members of the European Parliament (EP), who were somewhat sceptical about the innovative formula that meant direct negotiations between the European Commission and the Member States for setting out the objectives under the CAP Pillar I, considering that this could lead to a limitation of the Parliament's competence in this field (Bourget, 2021). As a consequence, despite the measures taken by the EC with the aim of rapidly commencing trilateral negotiations – in order for the proposal to be adopted before the European elections scheduled for May 2019 –

administrative formalities and other constraints, without undermining the common policy priorities and the achievement of the set objectives.

[3] These proposals were initially set to begin being implemented on 1 January 2021, and, in accordance with the notification by the United Kingdom of its intention to withdraw from the EU, were designed for a Union of 27 Member States.

the EU Council (CONS) and the European Parliament requested that the negotiations be postponed until after the European elections and, thus, after the appointment of a new EU executive[4].

Given the context shown, a particularly relevant moment for the preparation of the future CAP was year 2019 when, after being voted in the European Parliament, the new European Commission – led by Ursula von der Leyen – was appointed in November and named as primordial actions of the new mandate: *a)* the strengthening of the efforts for combating climate change; and *b)* the fostering of a sustainable environment; these were considered to be fundamental endeavours for the transformation of the European economy and society with a view to achieving climate neutrality by 2050.

In these circumstances, in December 2019, the EC presented the *Communication on the European Green Deal*, a flagship proposal that launched a new sustainable and inclusive growth strategy, with a larger scope that transcended climate and environmental aspects, by approaching issues of major importance for agriculture and the rural areas. As such, the Green Deal brought argued in support of the role of organic farming in the management of the transition towards a more sustainable food system, stressing at the same time the need to consolidate the efforts made by farmers and by the agricultural community as a whole to achieve the objectives related to climate change, environmental protection and the preservation of biodiversity.

As a consequence, under the Green Deal umbrella, in 2020, the European Commission published two related documents that comprised a series of concrete actions intended for a better harmonisation of agricultural and food production – along the entire supply chains, from producer to consumer – with the environmental protection measures, facilitating the creation of sustainable food systems: the strategies entitled *From farm to fork* and *Biodiversity 2030* (Box 2).

Box 2: Objectives of the Green Deal related strategies, with relevance for the CAP

Recommendations of the strategies *From farm to fork* and *Biodiversity 2030* for ensuring the contribution of agriculture to the reduction by at least 55% of the net GHG emissions **by 2030**:

- The 50% reduction of the use of harmful chemical pesticides in agricultural production activities, as well as of antibiotics in the animal rearing sector;
- The reduction by at least 50% of nutrient losses (e.g. nitrogen and phosphorus) to avoid the deterioration of soil fertility, thus contributing to the reduction by at least 20% of the use of synthetic fertilisers in agriculture;
- The reduction by around 50% of the use of active (low-risk) antimicrobial substances in animal rearing and aquaculture;
- The use of around 25% of all agricultural land for organic production and the increase of the share of organic aquaculture;
- The withdrawal from the production circuit of around 10% of all agricultural land, to ensure better environmental protection and preserve biodiversity
- The coverage of approximately 100% of EU rural areas by broadband networks ensuring rapid internet connection (by 2025).

Source: Author's synthetic adaptation based on Matthews (2021).

The launch of the two strategies was met with reluctance by the European agricultural community, whose representatives argued, on the one hand, that the objectives related to the actions for increased environmental protection should be supported by a series of measures providing the farmers with the financial means needed to be able to achieve them, and, on the other hand, that the "target" related to the reservation of a share of 25% of all agricultural land for organic production could lead to the rapid market saturation for certain goods, as organic products have higher costs than conventional ones (Bourget, 2021).

At the same time, the disturbances caused by the negative effects of the Covid-19 pandemic on the agricultural markets of Member States in the first months of 2020 fuelled certain reluctances of the European executive which, in a first stage, had a hesitant position as to whether to pursue a "renewal" or "survival" strategy with respect to the Common Agricultural Policy (Metta & Lakner, 2021). Later on, however, the European Commission returned to its initial position, concluding that the proposal regarding the CAP reform was in line with the environmental ambitions of the European Green Deal and of the related strategies (European Commission, 2020a). Nevertheless, as shown by the results of an agricultural policy analysis – prepared at the request of the *Committee for agriculture and rural development (AGRI)* of the European Parliament (Guyomard,

[4] Because the negotiations were only launched in 2020, the implementation of the new CAP was, at first, postponed for one year, namely for 2022 (from 2021, when it was initially scheduled to start).

et al., 2020) –, major revisions of the proposed regulation (of June 2018) on to the CAP restructuring were required to ensure its full compatibility with the Green Deal objectives.

In these conditions, because the CAP reform could not be completed before the beginning of the programming period 2021-2027, to avoid the absence of financing for the European farmers, the MEPs and the Member States requested another extension of the transition period for the temporary measures laid down by the previous rules. As a result, the entry into force of the post-2020 CAP was again postponed (until 2023), and the policy was to be applied for a period of only five years of the current financial programming framework.

To better align the new Common Agricultural Policy with the Green Deal provisions, the European Commission requested the EU co-legislators to maintain the essential provisions comprised in the *Regulation on the CAP strategic plans*, namely: *a)* setting out more ambitious objectives concerning the actions intended for environmental protection and for fighting climate change compared to the previous programming period (the *no backsliding* principle); *b)* strengthening the conditionality system[5]; *c)* maintaining the mandatory nature of eco-schemes[6] in the national strategic plans; *d)* ensuring the allocation of a limit of at least 30% of the Pillar II expenses to environmental measures; *e)* improving the data collection criteria, and *f)* drawing up specific provisions seeking to consolidate the farmers' position within value chains. Beyond these aspects, the EC also requested the European Parliament and the EU Council to amend the text of the legislative draft by introducing additional clauses regarding: *g)* pre-allocation for eco-schemes; *h)* additional indications regarding the practices eligible for financing under eco-schemes; and *i)* the integration in the CAP of certain legislative aspects related to animal welfare and the use of antibiotics in the animal rearing sector.

Later, in October 2020, both the Council of agriculture ministers from the Member States, and the European Parliament drew up their own plans regarding the future agricultural policy. From among the differences between the two legislative proposals, it is important to mention the one regarding the minimum percentage of Direct Payments (DP) required to be allocated to environmental programmes (eco-schemes) in the Member States' NSPs. As such, while the EP provided for a mandatory share of 30% of "green" regulations in the CAP Pillar I (in line with the EC proposal), the EU Council stipulated a threshold of minimum 20% for this purpose. Also, the two European institutions were on divergent positions with respect to the margin available to Member States in relation to the establishment of a cap or of a regressive nature of direct payments per farm[7].

As a result, by means of an fact sheet published in November 2020 (European Commission, 2020b), the European Commission demonstrated the ways in which these conflicting vision risked endangering the achievement of the European Green Deal objectives – by undermining the efforts made for the preparation and implementation of a fairer and more environmentally friendly agricultural policy, intended for the development of rural areas–, launching at the same time an invitation to a trialogue between the parties to reach a common position on the CAP reform package.

After a long period of trilateral negotiations, in June 2021, the European Commission, the Parliament and the EU Council reached a consensus with respect to the adoption of a reformed common policy for the period 2023-2027, deciding on an agreement for each of the points left unresolved on the CAP debate agenda[8]. The three draft regulations agreed upon on this occasion cover aspects related to the national strategic plans, the organisation of agricultural markets, as well as to CAP financing, managing and monitoring (Box3).

Box 3: Synthesis on the conclusion of the institutional trialogue in the final stage of the CAP reform

[5] The full receipt of CAP support, subject to the beneficiaries' compliance with the basic standards related to the environment, climate change, etc.

[6] Environment and climate schemes will be financed from the Member States' direct payment budgets (under the CAP Pillar I), to support the transition towards a more sustainable agriculture. As such, Member States must make available to farmers one or more eco-schemes, but participation in accessing them will be voluntary (mandatory for Member States, but voluntary for farmers).

[7] In accordance with the European Commission recommendations, the EP stipulated the Member States' obligation to set a cap on the payments, while CONS opposed this provision.

[8] Namely, with respect to: minimum DP budget for eco-schemes and the establishment of a transition period for Member States, the minimum mandatory level of internal convergence for DPs, enhanced distribution of DPs, etc.

Common position of the European Commission, European Parliament and EU Council with regard to the Union's future agricultural policy

- ➢ The consolidation of eco-conditionality, by enhancing the requirements included in the *Good Agricultural and Environmental Conditions* (GAEC) and the *Statutory Management Requirements* (SMR): the obligation to ensure crop rotation in farms with an agricultural area larger than 10 hectares (with the exception of those where pastures are predominant or of those engaged in organic farming), the obligation to allocate at least 4% of the total agricultural land to non-productive areas of environmental interest (this threshold was set at 3% for farms with large areas dedicated to nitrogen-fixing crops);
- ➢ The allocation by the Member States of at least 25% of the budget dedicated to income support (direct payments) to programmes intended for environmentally friendly agricultural practices (eco-schemes). This share represents the final compromise reached during the negotiations between the European Parliament and the EU Council, the parties also establishing an adaptation period of two years (2023-2024), during which these contributions may be lower than the limit mentioned;
- ➢ The distribution of a share of at least 35% of the total funds to the CAP Pillar II (rural development), for commitments and practices favourable for the environment, climate and animal welfare (compared to 30%, the ceiling established so far);
- ➢ The changing of the mechanisms for the redistribution of basic payments (redistributive payments): these will become mandatory for all Member States and will represent at least 10% of all direct payments.

Source: Author's synthesis based on the European Commission (2021c).

Nevertheless, according to certain EU analysts (Koksal, 2021; Nano & Capaldi, 2021), the majority of the policy measures provided for by the new CAP reform – set out based on the agreement concluded between the co-legislators in June this year – have a low potential for mitigating climate change, since they do not encourage the use of effective green practices. Although some of the new initiatives seek to increase the sustainability of EU agriculture (e.g., the eco-schemes), the budget allocated to them does not meet the stringent need to counteract the effects of the ongoing climate crisis and the need to transform the EU agricultural system into a more sustainable one. Also, the outcome of the trialogue – which, to the largest extent, reflects the position of the EU Council – does not include legally binding environmental objectives, in accordance with the provisions established in the European Green Deal and its related strategies.

2 Particularities of the German agricultural sector

2. 1. Challenges related to environmental protection and the combatting of climate change

The protection of biodiversity is key for the proper functioning of the agricultural sector, representing a complex and overarching responsibility, one that requires the adoption of efficient and well-targeted measures. Nevertheless, Germany repeatedly postponed the application of the Directive on natural habitats, determining the European Commission to trigger – as early as 2015 – an infringement procedure for the failure of meeting national obligations undertaken in relation to the conservation of natural habitats and the protection of species of wild fauna and flora (European Commission, 2020c). Pursuant to Directive 92/43/EEC of the EU Council (of 1992), Germany had the obligation to designate special conservation areas, to set specific objectives for each of them, and to draw up measures aimed at maintaining an appropriate level of protection of natural species and habitats. As the deadline for the completion of these stages for all sites existing on the country's territory expired (in some cases, even as early as 2005), in 2015, the EC sent Germany a first letter giving notice of the country's delay in transposing the requirements of EU rules in the relevant national legislation. After a period of around four years of bilateral negotiations, in 2019, the European Commission sent an additional notice, stating that both at land level, and at national level no detailed and quantifiable objectives had been set for the around 4,600 sites included in the European network of protected areas (Natura 2000), which damaged the efficiency of the conservation measures adopted. Because the German authorities did not reply accordingly by taking appropriate steps within the time limit granted, at the beginning of 2021, the EC notified the Court of Justice of the European Union in relation to this case (European Commission, 2021d). In this context, as shown by the results of a preliminary analysis made by the *German consortium for the protection, conservation and regeneration of the natural environment at land level*, the annual expenses needed for the proper implementation of the European directives on environmental conservation would amount to around EUR 1.4 billion, with an estimated duration of around two and a half decades (Federal Agency for Nature Conservation - BNF, 2021).

As regards greenhouse gases, as a result of the good agricultural practices applied, of the reduced use of nitrogen-based fertilisers and of the optimum management of natural fertilisers, German agriculture is not emission-intensive: 7.6% of the total in 2019, compared to around 10% in 1990 (German Environment Agency, 2021). Although in absolute terms GHG emissions show a downward trend on the long term, this reduction is slower in the agricultural sector compared to the other sectors of the economy. To achieve the objectives of maintaining a minimum level of GHG concentrations in the atmosphere, German authorities are promoting a series of measures, among which: a) the drainage of wetlands; b) re-humidification activities to mitigate the emissions from peatlands (organic soils) used as arable land, which store high amounts of carbon; c) encouraging and supporting organic farming; as well as d) the use of crops with a high capacity for fixing nitrogen in the soil (Metta & Lakner, 2021).

Also, as a result of the structural changes applied, of the reduction of livestock in farms located in eastern Germany, as well as of the improved efficiency of fertilisers, a gradual reduction of the use of inorganic nitrogen-based nutrients was seen during the recent years. Nevertheless, although the nitrogen surplus diminished from 141 kg/ha in 1990, to 89 de kg/ha in 2019, the threshold of 70 kg N/ha provided for in the sustainability strategy has not been reached so far (Federal Ministry of Food and Agriculture, 2020).

2.2. Allocation of CAP funds by intervention type within the 2014-2020 multiannual framework

As shown by statistical data published by the European Commission (2021a,b), the largest shares of expenses related to CAP Pillar I in Germany in the 2014-2020 multiannual framework was directed towards direct payments (Table 1), which, during the entire reference interval were above the EU average (Graph 1).

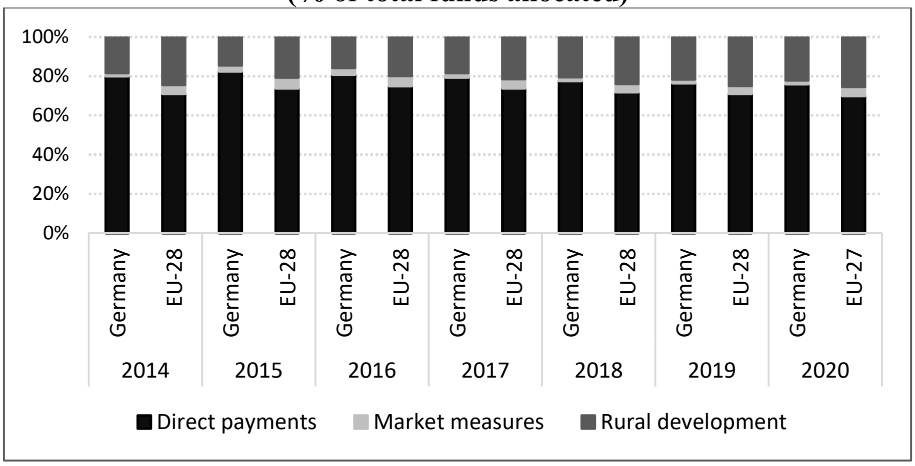
Table 1: Allocation by types of measures of CAP-related expenses in Germany, 2014-2020

Year	Direct Payments[1)]		Market measures		Rural development programmes		Annual total
	EUR mil.	% of total	EUR mil	% of total	EUR mil.	% of total	EUR mil.
2014	5,139.9	79.9	110.4	1.7	1,184.4	18.4	**6,434.7**
2015	4,875.1	82.3	186.5	3.1	865.0	14.6	**5,926.6**
2016	4,846.6	80.8	201.5	3.4	951.0	15.8	**5,999.1**
2017	4,815.1	79,2	145.1	2.4	1,117.7	18.4	**6,077.9**
2018	4,794.3	77.5	115.6	1.9	1,274.1	20.6	**6,184.0**
2019	4,768.1	76.4	117.3	1.9	1,355.9	21.7	**6,241.3**
2020	4,768.1	75.9	117.2	1.9	1,394.6	22.2	**6,279.9**

Notes: [1)] In total amount, i.e., the values presented include both refunds to final beneficiaries in accordance with financial discipline, and other types of direct aid granted.

Source: Author's calculations based on data published by the European Commission (2021a,b): (a) Directorate-General for Agriculture and Rural Development – Agri-food Data Portal, *Financing the CAP*, https://agridata.ec.europa.eu/ (for the period 2014-2019); (b) Directorate-General for Communication, *EU country factsheets*, https://ec.europa.eu/info/food-farming-fisheries/farming/facts-and-figures/performance-agricultural-policy/agriculture-country/eu-country-factsheets-0_en (for year 2020).

Graph 1: Distribution of CAP-related expenses in Germany compared to the EU-28/27* average, in the period 2014-2020
(% of total funds allocated)



Note: *Because the United Kingdom left the EU on 31 January 2020, for 2020, the analysis covers the 27 states that are currently EU Member States.

Source: Author's calculations based on data published by the European Commission (2021a,b).

At the same time, during 2015-2019, the largest financial flows of Direct Payments (61.6% annually, on average) were allocated for basic support schemes while DP allocated for climate and environmentally friendly agricultural practices (the "green" Direct Payments) respected the mandatory 30% of the total. As such, in 2019 (the last year for which there are statistical records), the financing of basic payment schemes (BPS) in Germany amounted to around EUR 2.9 billion, and "green" DPs totalled approximately EUR 1.4 billion (Table 2). A share of around 7% of the total expenses (an amount of EUR 328 million in 2019) was used to finance redistributive measures, while allocations for the support of small and young farmers totalled approximately EUR 91 million the same year.

Table 2: Distribution of Direct Payment expenses for the main support schemes financed in Germany in the period 2015-2019*

Application year	DIRECT PAYMENTS[1)]									
	Basic payments		Direct "green" Payments		Payments for young farmers		Redistributive payments		Payments for small farms	
	EUR mil.	% of total	EUR mil.	% of total	EUR mil.	% of total	EUR mil.	% of total	EUR mil.	% of total
2015	2,983.3	62.0	1,437.5	29.9	36.1	0.7	334.3	6.9	24.3	0.5
2016	2,953.3	61.7	1,431.8	29.9	45.8	1.0	333.3	7.0	22.0	0.4
2017	2,932.9	61.6	1,422.3	29.9	50.3	1.1	331.3	7.0	20.5	0.4
2018	2,906.5	61.3	1,414.4	29.9	65.4	1.4	329.8	7.0	19.1	0.4
2019	2,881.9	61.2	1,407.5	29.9	72.9	1.5	328.1	7.0	18.0	0.4

Notes: * Latest available data on the date of this analysis;
[1)] The values presented only comprise decoupled direct payments (excluding refunds to final beneficiaries in accordance with financial discipline or other types of direct aid granted);
Source: Data published by the European Commission (2021a).

As regards the rural development component (RD) included in the CAP Pillar II – which benefits also from co-financing from national sources –, from the ceiling of around EUR 1.4 billion allocated to Germany from the EU budget (under the EAFRD funds), in 2019, around EUR 715 million were used for investments intended for the improvement of environmental conditions and the combatting of climate change[9], out of which around EUR 226 million came from direct transfers from Pillar I[10] (Table 3).

Table 3: Germany's options regarding transfers between the CAP pillars, in the 2014-2020 MFF

	2015	2016	2017	2018	2019	Total
EUR mil.	231.5	230.0	228.4	227.1	225.8	**1,142.8**
Transfer from Pillar I (%)	4.5	4.5	4.5	4.5	6.0	**-**
Transfer from Pillar II (%)	19.7	19.6	19.5	19.4	19.3	

Source: Author, based on European Parliament (2015).

Also, the value of the payments granted in 2019 to the farmers in mountain areas and in regions facing natural constraints reached around EUR 239 million (Metta & Lakner, 2021).

2.3. Implications of the post-2022 CAP green architecture for the German agricultural sector

In accordance with the European Commission proposal, the future Common Agricultural Policy will maintain its traditional structure consisting of two pillars, as follows i) *under Pillar I*, farmers will continue to receive annual Direct Payments subject to complying to certain new environmental regulations and standards imposed by the European Agricultural Guarantee Fund (EAGF); and ii) *under Pillar II*, the EAFRD will continue to serve as flexible multiannual instrument for the financing of voluntary rural development actions, including certain climate-relevant measures (European Parliament, 2018).

[9] In accordance with the EU provisions for the 2014-2020 multiannual financial framework, a share of at least 30% of the EAFRD funds should have been allocated to agri-environment and climate measures.

[10] Inter-pillar flexibility represents an optional transfer of funds between direct payments and rural development. Although it had been established initially that Member States can resort to such transfers in the period 2014-2019, to guarantee the maintenance of the national strategies, the European Parliament and the EU Council decided to extend the inter-allocation flexibility for the calendar year 2020 (respectively, the 2021 financial year).

As we have already mentioned, the basic principle of the new CAP is an enhanced transfer of responsibilities to the Member States, which will benefit from more flexibility and subsidiarity in designing the interventions, through a new model based on performances and results (Matthews, 2018b). As such, if the general CAP objectives, the types of interventions and related basic requirements will be established at EU level [11], Member States will have responsibilities related to the implementation process, such as: decisions on their own set of measures under Pillars I and II, the drawing up of specific conditions under the NSPs, which will then be subject to approval by the European Commission, etc. The new "green" architecture of the future CAP consists of: *a)* consolidating the conditionality system, as well as the inclusion of additional rules in climate and environment schemes, the so-called eco-schemes (Pillar I); *b)* maintaining the voluntary payment schemes for agri-environment climate measures (AECM) (Pillar II).

2.3.1 Consolidation of the eco-conditionality system

The main objective of the conditionality system is to ensure that farmers comply with a minimum level in terms of the environmental regulations to be able to benefit from direct support. To help enhance the requirements beyond the pre-existing requirements related to environmental protection and the combating of climate change (laid down by the GAEC standards and the SMR requirements), the new CAP brings, on the one hand, a series of supplementations for three of the provisions included in the *Good Agricultural Conditions*[12] (Annex 1) and, on the other hand, introduces new requirements[13] and extended provision in accordance with the EU Water Framework Directive and with the Directive on the sustainable use of pesticides.

As such, the proposal for the regulation of national strategic plans within the CAP comprises a total of 10 good agricultural practice standards related to: climate (GAEC 1-3), water and soil quality (GAEC 4-8) and biodiversity (GAEC 9-10).

Also, the GAEC standards and SMR requirements – aiming at establishing a common set of fair rules at EU level concerning environmentally friendly agricultural practices – are particularly relevant in the conditions in which, after 2023, Member States will be able to add their own regulations in their national strategic plans. As a result, if environmental and climate rules established at EU level are too relaxed, Member States with higher ambitions in this respect could face a competitive advantage (Metta & Lakner, 2021).

Given the environmental challenges faced by Germany and the urgent need to approach them, in the period of the half-year mandate in the rotating presidency of the EU Council (July-31 December 2020), the federal authorities pleaded for the establishment of an efficient conditionality system that would not lead to the creation of competitive disadvantages for European and German farmers. At the same time, it was pointed out that the system needed to be supplemented by financing schemes introducing new specific conditions and comprising adequate incentives for farmers, for a better implementation of the rules in question.

2.3.2 Eco-schemes and the challenges created for the German agricultural sector

Environmental and climate schemes are an instrument included in the CAP Pillar I – to be accessed on a voluntary basis by farmers –, based on a set of objectives that leave room for interpretation (Box 4), given the at times divergent requirements and characteristics they set out (Röder & Matthews, 2021).

Box 4: Climate and environment schemes under the new CAP

ECO-SCHEMES
✓ Are binding for Member States but optional for farmers; ✓ Have the form of: i) a lump sum additional to Direct Payments or ii) a specific payment; ✓ Are designed as annual commitments under that the farmers may decide (periodically) to access or withdraw from; ✓ They are based on the provision by the Member States of a list of agricultural practices envisaged, as well as of the conditions imposed to farmers to be able to benefit from financial support. However, because it is not yet clear what are the practices accepted by the EC in the process for the approval of the CAP national strategic plans, Member States requested the European Commission to consider one of the following actions: a) the publication of a "white" list of optional measures and practices; b) the publication of a "black" list – the exclusion of certain measures; c) ex-post performance control, based on a set of indicators.

[11] For example, as regards environmental standards or indicators.

[12] Related to: GAEC 1 – Permanent pastures; GAEC 8 – Crop rotation (at present, Crop diversification) and GAEC 9 – Non-productive areas of ecological interest, currently Areas of ecological interest (GAEC 7).

[13] For example, GAEC 2 – Appropriate protection of wetlands and peatlands.

STRENGTHS	WEAKNESSES
▪ They enable a well "targeted" use of the direct payment budget under Pillar I, for the achievement of the environmental and climate objectives; ▪ They offer higher flexibility to Member States in relation to the payment amounts, compared to AECM, because they are calculated as a supplementation of the income support; ▪ They enjoy a higher degree of acceptance at sectoral level, because only actual farmers will be eligible.	• They entail the risk of double financing, resulting from the fact that eco-schemes are included in Pillar I, and the agri-environment and climate measures – AECM, in Pillar II of the CAP. Although, to avoid double financing, eco-schemes should not be overlapping with agri-environment climate commitments, the elimination of these similarities could have a negative impact on the inter-scheme complementarity; • They cause the danger of low AECM absorptions: being designed as incentives higher than the opportunity cost, eco-schemes could lead to the reduction of the degree to which farmers use payment schemes for agri-environment and climate schemes.

Source: Synthetic adaptation by the author based on Metta & Lakner (2021) and Röder & Matthews (2021).

Beyond the aspects listed, a possible shortcoming related to the introduction of eco-schemes in the new CAP is the long period of time required for their adoption, especially since they will be able to be implemented only after the NSPs are approved by the European Commission (estimated for 2023) and, later, after the end of the two-year period established for adaptation (by the EU Council). As a consequence, the application of potential adjustments regarding the eco-schemes will only be possible after 2025, although the adoption of long-term measures is a prerequisite for the reduction of GHG emission and the preservation of biodiversity.

In Germany's case, its federal structure generates certain additional difficulties related to the approach, resulting from the fact that the strategic plan must be drawn up at national level. As a result, the negotiations between the representatives of the federal government and those of land governments sought to find an optimum solution to make eco-scheme payments uniform at national level. Several working hypotheses were therefore admitted and, based on each of them, a series of scenarios were designed.

Due to this, it was concluded that regardless of the level of support for good environmental and climate practices, the rate of absorption for farmers in regions with high agricultural production would be lower than that in the less productive regions. Therefore, a consequence of uniform payments would be a transfer of funds from lands with extensive agricultural activities to those with reduced production.

As an example, a low level of payments could lead to the failure of meeting the obligation assumed with respect to spending the minimum 20% of the CAP Pillar I funds, which would entail the return of unused amounts[14] (Lampkin, et al., 2020). To avoid such transfers, another scenario studied during the debates between the parties was that of applying high value payments, with a cap at farm level. However, based on the results of specific analyses, it was concluded that even with this formula, the support flows intended for regions with reduced agricultural productivity would generate increased inefficiency, and the weaknesses of the greening process could not be remedied by introducing eco-schemes.

In these conditions, a first decision of the federal authorities was that an immediate priority related to the CAP strategic plans should be the clarification at EU level on how eco-schemes should be applied in accordance with regional productivity. At the same time, payments for eco-schemes should be mainly based on opportunity costs and comprise a minimum income element (which should be applied similarly to payments related to payments for agri-environment measures under Pillar II). Another solution could be to apply payment ceilings differentiated according to regions, depending on productivity and the potential opportunity costs required by the absorption process. If the transfers of funds between the federal states reach critical thresholds, these disparities could be compensated by modifying the distribution of EAFRD funds between the lands in question.

2.3.3 Support for organic farming

Defined as a set of plant cultivation and animal rearing practices using methods and means that do not interfere with natural processes, organic farming consists of modern production processes that do not, however, use fertilizers, synthetic pesticides, hormones, antibiotics, stimulants and growth regulators, etc., which makes the support for such agricultural practices a central goal of the post-2022 CAP.

[14] Because budgetary rules do not allow unused funds to be carried over for the following year.

Given the fact that the European Commission's *Biodiversity 2030* strategy announced the "target" of achieving a share of 25% for organic farming, one of the main challenges for Member States is that of ensuring an adequate and well-targeted support for meeting this objective within the time limit set out.
In Germany's case, meeting this objective would mean an increase by around 15% of the share currently held by organic farming (Box 5), which would translate into the transformation of around 2.5 million hectares of agricultural land intended for traditional agricultural farming into land used for organic farms (Federal Ministry for Food and Agriculture, 2021).

Box 5: Synoptic table showing the situation of organic farming in Germany in 2019*

➢ 1.6 million hectares of agricultural land are used for organic practices, which corresponds to a share of around 9.3% of the total national agricultural land; ➢ around 34,000 farms (13%) comply with the EU regulations on organic farming; ➢ approximately EUR 12 billion in income from organic food products; ➢ the German organic farming market is the second largest worldwide, after that of the US.

Note: *The last year for which data are available.
Source: Federal Ministry for Food and Agriculture (2021) and German Organic Food Association (2020).

The challenge is not only to persuade national farmers to change their production practices, but to acknowledge that the development of markets for the products of organic farming must also be taken into account, because these products are sold at higher prices. Nevertheless, the German organic sector has multiple development opportunities, provided adequate measures are taken. In the conditions in which the European Commission is to present a joint action plan to expand this sector, the *German strategy on the future of organic farming* could represent a model in this direction, because it has presented a roadmap for achieving a share of 20% for organic farming by 2030 (Federal Ministry of Food and Agriculture, 2017).
According to this German strategy, a first issue to be tackled to increase the scope of domestic organic farming was related to the drawing up of measures taking into account market evolution. While the CAP reform has recently created special financing for organic farming, the application of environment and climate schemes could present certain shortcomings in this regard. First of all, eco-schemes are an annual measure, while conversion into organic production is a lengthy process covering the farms' entire activity. Because of this, if eco-schemes were designed as sources of support for organic farming, accommodation should be made for the lengthy nature of the required financial support, by including additional applications. Also, another challenge is the design of the allocation of payments through eco-schemes, so as to avoid an excessive support granted to the conventional agricultural system or to avoid over-financing, which could undermine the strategy for the development of organic farming.

3 The German strategic plan for CAP reform – an overview

In March 2021, during the reunion of agriculture ministers from the federal states and the German Ministry for Food and Agriculture, the parties agreed on certain important aspects for the reform of the Common Agricultural Policy and on the basic characteristics of the financial structure included in the national strategic plan for the CAP.

As far as Germany's agricultural policy is concerned, it must be stated that the decisions related to the CAP Pillar II (EAFRD) are generally adopted at the level of the federal states, and the decisions related to Pillar I (valid nationally) are the responsibility of the ministry in Berlin, which is the main decision-maker. But even in this case, the federal government and the land governments work together to design the CAP, within the *Conference of German Agriculture Ministers* (AMK[15]).

Although the conclusions of the March reunion stated that the financial decision agreed upon would enable the CAP to better approach environmental objectives (Lakner, 2021), a series of important details have yet to be established, and the individual measures – having a decisive role in terms of efficiency – have not been determined so far.
A. Conditionality

Representing the basis for the granting of support in agriculture, conditionality underpins the achievement of environmental preservation objectives in agricultural areas at national level. Because it is mandatory for Direct Payment beneficiaries, it covers almost half of all agricultural land areas in Germany and, as a result, it represents

[15] The acronym stands for the German Agrarminsiterkonferenz.

the foundation for environmental protection within CAP (Federal Ministry for Environment, Nature Conservation and Nuclear Safety, 2021). For this reason, the *Good Agricultural and Environmental Conditions* must be modelled as ambitiously as possible at national level.

However, in the last conference of agriculture ministers, only several marginal GAEC provisions were adopted. As such, as regards GAEC 1[16], it was established that an area may keep its status as pasture if this status was acquired beginning with the reference year 2015, and as regards GAEC 9, it was stipulated that the minimum requirements resulting from the trialogue between the European Commission, the European Parliament and the EU Council needed to be adopted as such (Annex 1).

B. Eco-schemes

The German Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) pleads for the introduction of eco-schemes that would contribute to: a) stimulating the farmers' decision to shift towards environmentally friendly agriculture or to consolidate pre-existing approaches that proved to be efficient; b) prioritising the implementation of measures for the conservation of the environment and of biodiversity in all agricultural fields and remunerating the farmers' voluntary environmental services, based on performance and attractiveness.

Based on these objectives, the BMU proposes an eco-schemes catalogue, starting from the need of drawing up a comprehensive framework for maintaining the environmental characteristics and the biodiversity in the agricultural landscape in an almost natural form. From among these, we mention the following (selectively):

1. Creation of areas with a high value for biodiversity by: planting flowers, creating vegetative filter strips and cultivating permanent crops, until reaching the share of 10% of the total land area;
2. Management of small land plots and the improvement of landscape characteristic: planting of flowers, permanent pasture hedges, visibly delineated individual land plots, which help protect against erosion;
3. Transformation of arable land into permanent pastures – for reasons related to the mitigation of climate change, but also to protect water and soil quality. Because reconversion must be excluded, this measure should be rewarded by means of a one-off payment meant to compensate both the income losses, and the losses resulting from the decreased land value;
4. Reduction of excess nutrients: payments to individual holdings that use a share of nitrogen- and phosphorus-based fertilizes lower than the maximum admitted in accordance with the Ordinance on nutrient flows;
5. Withdrawal or reduction of the use of synthetic pesticides;
6. Crop rotation diversification, with at least five main crops and at least 10% leguminous plants and catch crops, to support soil fertility and reduce pesticide use.

C. Transfers to the CAP Pillar II

As regards the reallocation of the budget from Pillar I to Pillar II, AMK decided on significantly higher percentages, given both the financial structure of the CAP after 2020, but also the reduction of EAFRD funds (Table 4).

Table 4: Reallocation of funds from CAP Pillar I to Pillar II, 2021-2027

2021/2022	2023	2024	2025	2026/27	Average 2023-2027
6%	10%	11%	12.5%	15%	12.7%

Source: Lakner (2021).

Reallocated funds will not be accompanied by co-financing, and the purposes of these transfers will be dedicated to: a) agri-environment and climate actions; B) the protection of water resources; c) the promotion of organic farming; d) the granting of compensatory allowances in disadvantaged areas.

D. Coupled payments

In the last financing period (2014-2020), Germany was the only EU member country that did not use coupled aid. This time, the authorities decided to introduce coupled payments for suckler cows (EUR 60/ha) and ewes (EUR 30/ha). In principle, these payments are justified from an environmental point of view, because suckler cows and ewes often graze on biodiversity rich pastures.

[16] Standard related to pastures protected pursuant to the Habitats Directive (located outside the Natura 2000 sites), to carbon-rich sites, to those with risk of erosion or located close to the aquifer.

E. Redistribution – first hectare

Germany will continue to apply the practice of increased payments for a number of “x” hectares (first hectare payments). In the following financing period, around 12% of direct payments will be used for this purpose. For the first 40 hectares, the payment will be of EUR 69/ha, and for the next 41-60 hectares, the payment will be of EUR 41/ha. This percentage is substantially higher than during the last financing period, when only 6.9% of direct payments were used for the first 46 hectares. The financial volume increased from 6.9 to 12%, but the upper limit of 60 hectares is the result of structural changes.

5 Conclusions

The new CAP creates leeway for each Member State to decide the level of payments and/or how to redistribute them among farmers, to better adapt sectoral interventions depending on the specific forms of the national producer organizations, to adequately draw up their own rural policies, in the sense of strengthening territorial cooperation and of an integrated approach and, also to be able to opt for enhancing conditionality standards for the farmers receiving support.

However, to benefit from the full potential derived from the national strategic plans regarding the CAP, a close collaboration between the representatives of the European Commission, decision makers and Member States’ agriculture experts is required from as early as the design stage. This condition is essential because, from the preliminary steps taken, in countries with a regionalised system such as Germany, it was found that there are a series of political and technical challenges, and additional measures are required to overcome these obstacles. To this end, increased attention should be paid to the new CAP financing model, which is based on the possibility of a more flexible transfer of funds granted from the two pillars through a unique strategic plan. As we have illustrated in Germany’s case, the efficient design of eco-schemes and concrete measures for the support of organic farming become very complex tasks, which affect not only farmers’ decisions, but also their income on the medium and long term.

Also, as illustrated by the particularities of German agriculture, financial resources and the efficient design of environmental instruments – conditionality, eco-schemes, agri-environment and climate measures – require a clear and comprehensive strategy enabling an adequate approach of all challenges related to the environment ensuring higher ambitions in the field of environmental protection.

Because it is difficult, in a federal system, to establish uniform eco-schemes, clear objectives should be established to allow for their application under the post-2022 CAP. Hence, eco-scheme payments should be based on opportunity costs, and, if an income component is granted, it should be applied both to eco-schemes, and to agri-environment and climate measures. In this sense, policy-makers could consider a differentiation of payments depending on regional opportunity costs. If Pillar I funds are transferred between federal states by means of various regional transfer models, the federal government could consider a distribution of financial resources through Pillar II.

Annex 1: Evaluation of the relevance of the recommendations comprised in the Good Agricultural and Environmental Conditions (GAEC) within the post-2022 CAP for Germany

Post-2022 conditions / Estimates on the relevance of the conditions *	**Recommendations on improved conditions** (German Ministry for the Environment, Nature Conservation and Nuclear Safety - BMU)
GAEC 1: Maintenance of permanent pastures, based on establishing a ratio between them and the total agricultural area; ✓ **Moderate climate relevance:** around 40%;	- Pre-setting of the share of permanent pastures at EU level; - Prohibition of the changing of their use;
GAEC 2: Appropriate protection of wetlands and peatlands; ✓ **Moderate/high climate relevance**: up to 100% (depending on how the condition is formulated);	- Clarification of the term “appropriate” and pre-setting of mandatory ceilings at EU level;
GAEC 3: Prohibition of stubble burning on arable land, with the exception of situations in which this measure contributes to the improvement of plant health; ✓ **Moderate climate relevance:** around 40%;	- Extension of the **GAEC 6** recommendation in the previous MFF (*Application of adequate standards for maintaining soil structure*), by mentioning the adequate practices;
GAEC 4: Creation of buffer strips (protective strips) in the vicinity of surface water courses;	- Definition of the width of buffer strips;

Post-2022 conditions / Estimates on the relevance of the conditions *	**Recommendations on improved conditions** (German Ministry for the Environment, Nature Conservation and Nuclear Safety - BMU)
✓ **Absent/moderate climate relevance:** 0-40%;	
GAEC 5: Implementation of the provisions of the "From farm to fork" strategy regarding the reduced use of inorganic nitrogen-based nutrients (Box 2); ✓ **Moderate/high climate relevance**: up to 100% (depending on how the condition is formulated);	- Definition of quantifiable objectives with regard to the use of nitrogen-based fertilizers or the replacement of this recommendation with **GAEC condition 12**, proposed by BMU;
GAEC 6: Management of soil preparation works (e.g. ploughing and cultivation) to reduce the risk of degradation, including by taking the incline into consideration; ✓ **Absent/moderate climate relevance:** 0-40% (depending on how the condition is formulated);	- Introduction of specific restrictions or the application of green practices for soil works, to favour carbon capture in the soil;
GAEC 7: Coverage of arable land with crops, in particular during sensitive periods; ✓ **Moderate climate relevance:** around 40%;	- More detailed explanation related to what is considered to be "sensitive periods";
GAEC 8: Crop rotation;	**No climate relevance**
GAEC 9: Establishment of minimum shares of the total agricultural area dedicated to non-productive areas of environmental interest; Maintaining the landscape characteristics; Prohibition of cutting hedges and trees during bird reproduction periods and during the growing season; ✓ **Moderate climate relevance:** around 40%;	- Establishment at EU level of minimum shares of the total agricultural area allocated to non-productive areas of environmental interest and/or of the reference landscape particularities; - More detailed specifications, such as the provision of a list of appropriate measures, etc;
GAEC 10: Prohibition of changing the use or of the cultivation of permanent pastures in the sites included in the European network of protected areas Natura 2000; ✓ **Moderate climate relevance:** around 40%;	- Considering the extension of the scope of limitations;
GAEC 11: Inclusion of conditions on animal rearing in order to reduce methane emissions; ✓ **Moderate/high climate relevance**: up to 100% (depending on how the condition is formulated);	- Provisions related to the improvement of animal feeding practices, as well as in relation to the use of supplements and additives in the animal rearing sector;
GAEC 12: Inclusion of conditions for the proper management of manure, in order to reduce methane and nitrous oxide emissions; ✓ **Moderate/high climate relevance**: up to 100% (depending on how the condition is formulated);	- Improvement of the degree of use of manure as a source of nutrients for agricultural crops, the introduction of environmentally friendly handling and storage practices, improvement of the quality of animal feed, etc.

Note: * In the sense of contributing to combating climate change;
Source: Author's synthesis based on, Monschauer & Schäfer (2019).

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Greening the Common Agricultural Policy: Evidence from Romania

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Abstract: Over the years, the Common Agricultural Policy (CAP) has sharpened its focus on the environment and climate with success (the so called greening process), while undergoing through a series of systemic changes that have allowed it to support a resilient and sustainable growth in the European rural areas. Analysing the impact of this greening process during 2014-2020 financial framework, our paper summarizes how CAP funding supported the sustainable and ecological development in Romania, while pointing out the main achievements and challenges. We will also highlight through a quantitative analysis based on the latest available data the implications of the greening process for Romanian agriculture using two main indicators - the evolution of Direct Payments and of environmental measures. These measures belonging to the both pillars of the CAP may underline the challenges for the Romanian farmers to obtain the necessary funding while also complying with the green standards and the no backsliding principle. Based on LEADER experience we will also show the importance of CAP funding in Romania for supporting the local communities, on several objectives: increasing employment, financing renewable energies and encouraging social inclusion in rural areas.

Keywords: Romania, Common Agricultural Policy, Direct Payments, LEADER

JEL Classification: Q, Q18, Q19

1 Introduction

The term *greening* in relation with the Common Agricultural Policy has been first used in 2013, during the large CAP reform that started in that year[1] and it's involve all the climate change and sustainable development measures implemented through both pillars: Direct Payments for farmers under Pillar I and environmental measures (echo-schemes included) under Pillar II. A series of studies and assessments from the European Commission (EC) and European Parliament (EP) (EC, 2013; EP, 2015; EP 2016) have pointed out the need for a fundamental shift in CAP financing: from market oriented support towards environmental and ecological goals. The greening process of CAP has been long debated and analysed in the economic literature of the last years (Matthews, 2013; Westhoek et al., 2012; Lenschow, 1999). While a series of studies have pointed out the success of this process (Czekaj et al., 2013), there are others that have stated the existence of numerous obstacles and challenges for a number of Member States, Romania included (Drăgoi&Bâlgăr, 2015).

Greening the CAP has evolved along with all the reforms, starting with the 2013 one and finishing with the latest adopted amid the pandemic struggle and the Green Deal enforcement. Currently the greening of CAP follows several goals related to various items of EU environmental and climate legislation (on biodiversity, water and air quality, greenhouse gas emissions, energy and pesticides). The foundation of the greening process is

[1] See the following regulations: Regulation No 1307/2013 of the European Parliament and the Council establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy and repealing Council Regulation (EC) No 637/2008 and Council Regulation (EC) No 73/2009, Official Journal of the European Union L 347/608; Commission Delegated Regulation No 639/2014 supplementing Regulation (EU) No 1307/2013 of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy and amending Annex X to that Regulation, Official Journal of the European Union L 181/2014 and Commission Delegated Regulation No 1001/2014 amending Annex X to Regulation (EU) No 1307/2013 of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy, Official Journal of the European Union L 281/2014.

conditionality that is a system of linkage between area and animal-based CAP payments (in Pillar I or Pillar II) and a range of ecological obligations. Those obligations originate either in CAP legislation (in the case of "standards for good agricultural and environmental condition" – GAEC) or in non-CAP directives and regulations (in the case of "statutory management requirements" – SMRs). All those requirements create the new system of conditionality also named the "cross-compliance" system.

There is a growing number of studies analyzing the impact of CAP greening, but many of them have limited coverage of this process while focusing mainly on specific agricultural sectors or regions (e.g. Arfini et al. 2014 for Italian farms; Gaymard et al., 2020 for French farms; Brown & Jones, 2013 for north Cornwall in the United Kingdom; Mahy et al. 2014 for Flanders in Belgium; Czekaj, Majewski and Was, 2014 for Polish farms) while a significant lower number of studies are dedicated to an entire Member State during a whole financial framework. This is why our paper proposes a wide analysis of the greening impact of CAP on the whole agricultural sector of Romania using the available data for 2014-2020 financial framework for underlying the mutations on the direct payments system but also the impact of other environmental measures on Romanian farms.

2 Greening the CAP – implications for Romania

In Romania, as an EU member state, the CAP represents the broad framework for financing the agricultural sector, while at national level, funding is allocated through the National Rural Development Plan (NRDP). According to the National Rural Development Plan, agreed together with the European Commission, Romania has assumed, for the previous financial framework (2014-2020) a series of climate objectives grouped in four strategic areas: competitiveness and local development; developing human capital and increasing the employment rate in rural areas while combating poverty; development of infrastructure, transport and increasing the attractiveness of rural areas for investment and sustainable use of natural resources and promoting energy efficiency.

These strategic areas have been the cornerstone of the country's long-term rural development, especially given that some major challenges for the national rural area are the following: increasing investment to stimulate competitiveness and jobs outside agricultural activities, increasing the quality of education in rural areas, reducing poverty and developing a digital infrastructure, but also "green" energies and eco-friendly agriculture. The European Commission's assessment has also identified as a key priority for Romania the ecological development of its agricultural sector, which was, at the date of adoption of the NRDP for the period 2014-2020, too focused on subsistence agricultural activities, being necessary at the same time to increase the size of Romanian farms and the shifting of labour from rural areas to non-agricultural activities.

Also, during 2014-2020 Romania has assumed as key objectives the sustainable management of natural resources, the preservation of the rich biodiversity that still exists in most of its rural areas and the promotion of actions to restore protected wildlife areas and forests.

The entire NRDP for the 2014-2020 funding period has been divided into six strategic priorities as follows: Priority 1 - Transfer of knowledge and innovation in agriculture, forests and rural areas (P1); Priority 2 - Farm viability, competitiveness and sustainable forest management (P2); Priority 3 - Organizing food production chains, including processing and marketing for original agricultural products, animal welfare and risk management (P3); Priority 4 - Restoration, conservation and growth of ecosystems in agriculture and forestry (P4); Priority 5 - Resource allocation efficiency and the transition to a low carbon economy, combating climate change in agriculture, food and forestry (P5); Priority 6 - Social inclusion, poverty reduction and economic development in rural areas (P6).

Also, the NRDP for the period 2014-2020 focused mainly on three domains: promoting competitiveness and restructuring in the entire agricultural sector in Romania, environmental protection and combating the effects of climate change and stimulating economic development, job creation and more good quality of life in Romanian villages, given that in these areas there are major gaps compared to the EU development average. In NRDP, P1, allocated funds for the modernization of almost 3,400 farms and cooperatives, but also to support the development of over 30,000 small farms while allocating funds to 12,000 young farmers. Under P4, funds were allocated for 1 million hectares of agricultural land and 900 000 forests through direct payments that support biodiversity and promote good ecological land management practices (see Table 1).

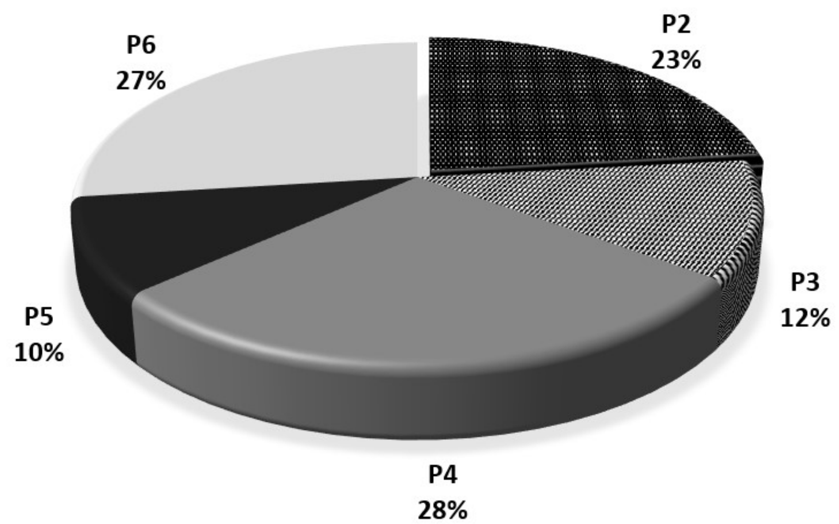
Table 1: Funds allocated in Romania through NRDP for combating climate change and environmental protection, 2014-2020

Strategic Priority	Measure	Funds (Bn. EUR)
P4	M01-Knowledge M10- AEC M11-Organic farms M13-ANC M15-Forestry and environment	2.67
P5	M01-Knowledge M04-Investments M5C-Renewable energy M5D-Greenhouse gas reduction M5D-Agricultural land management M5E-Fixing carbon in the soil M10-AEC M06-Farms and business development M08-Forestry	0.72

Source: Author based on „Factsheet on 2014-2020 Rural Development Programme for Romania" February 2021.
Note: Measure 10 AEC refers to agri-environment and climate measures, and Measure 13 ANC refers to payments for areas facing natural constraints.

If we analyse the structure of distribution of share allocated to strategic priorities, we note that environmental and climate objectives have benefited from a significant allocation of total funds granted in Romania during 2014-2020 (Graph 1).

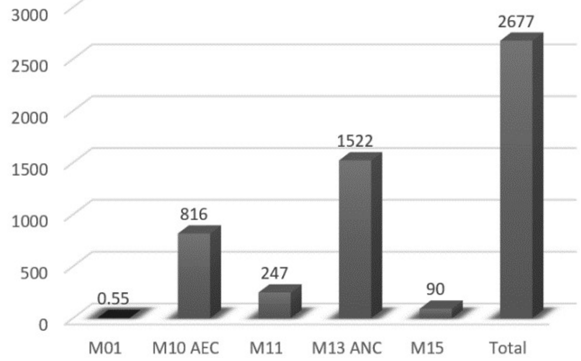
Graph 1: The share of strategic priorities related to climate and environment in the total funds from NRDP, 2014-2020 (%)



Source: Author based on „Factsheet on 2014-2020 Rural Development Programme for Romania" February 2021.
Note: For the strategic priority P1 (transfer of knowledge and innovation in agriculture), Romania did not allocate funds, according to the data from the country factsheet sent to the European Commission, therefore this priority is not included in this graph.

As can be seen from the graph above, special emphasis is placed on supporting P6, which is linked to reducing poverty and increasing social inclusion in rural areas. This is all the more important as, according to MADR data, the average size of the Romanian farm is considerably smaller than the EU average (3.4 ha in Romania, compared to the EU average of 14.4 ha). In P4 and P5, as shown in Table 1, a number of strategic objectives are pursued through various specific measures addressing the challenges mentioned above. Within these measures, the measures for areas with natural constraints M-13 ANC and the agri-environment measures M-10 AEC have the highest share for P4, while the measures for knowledge and technology transfer M01 have the lowest share (see Graph 2).

Graph 2: Funds allocated in P4 from NRDP, 2014-2020 (Ml. EUR)



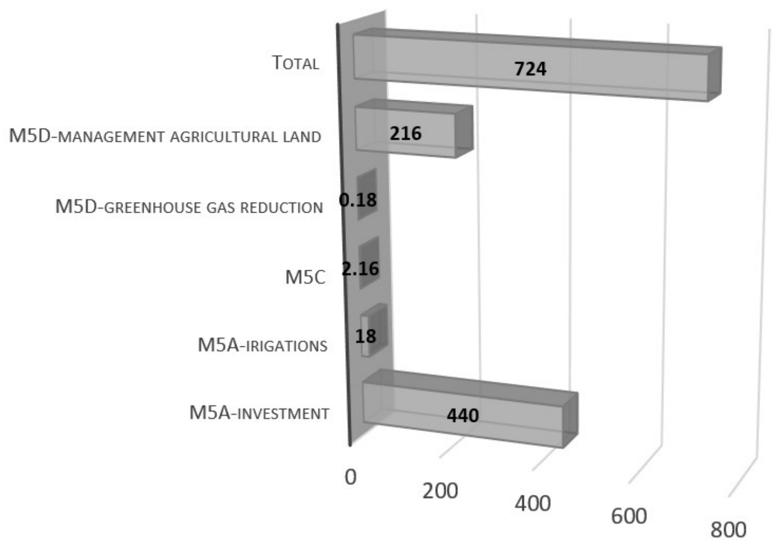
Source: Author based on „Factsheet on 2014-2020 Rural Development Programme for Romania" February 2021.

During 2014-2020, P4 and P5 also directed funds to promote the association between small farms, but also for investments in the forestry sector, especially by extending the network of forest roads by 900 kilometres. The NRPD has also been able to adapt quickly to current pandemic challenges. Thus, more than 122,986 farms affected by the economic difficulties induced by the COVID-19 crisis received temporary support, including for maintaining environmental standards and avoiding bankruptcy. In addition, the NRPD paid special attention to the restoration, preservation and growth of ecosystems in rural areas, but also to sustainable land management. Given that in Romania two thirds of the funds were allocated to these priorities (P4 and P5), measures M10 and M13 received the majority of funding.

It should be noted that, since 2015, MADR has introduced a new delimitation of areas with "other significant natural constraints" which means that the total area designated with natural constraints (ANC) currently covers almost 50% of the Romanian agricultural area. During the 2014-2020 financial framework, compensatory payments were made to farmers for more than 70% of all designated areas, representing 4.7 million hectares (more than a third of total agricultural land) to prevent land abandonment and soil erosion (especially for areas affected by climate and physical constraints such as mountainous areas but also areas affected by soil erosion, drought, etc.). In terms of resource efficiency and combating the effects of climate change, the NRPD has given priority to these objectives by allocating funds for the modernization of existing irrigation infrastructure through 363 projects. These projects targeted almost 400,000 hectares of agricultural land for which water use will be more efficient and adapted to increasing water scarcity.

Under P5, most of the funds were allocated to water management efficiency Measure 5A, while renewable energies (Measure 5C) benefited from insufficient allocations in the total of this priority (see Graph 3.) A significant share of funding was granted for Measure 5D on agricultural land management, while Measure for carbon sequestration in soil (Measure 5E) has received reduced funds.

Graph 3: Measures financed in P5 through NRPD, 2014-2020 (Ml. EUR)



Source: Author based on „Factsheet on 2014-2020 Rural Development Programme for Romania" February 2021.

3 The role of CAP in supporting the green rural development in Romania

As stated by the new conditionality of CAP, Romania had to set out, during 2014-2020 financial framework, its NRDP in order to include the addition of climate to the agri-environment and forest-environment measures, along with the creation of a separate measure for organic farming.
While Romania is among the Member States with the largest rural population (Table 2), CAP financing especially through Direct Payments remains crucial in stimulating the sustainable development of these regions.

Table 2: Rural population and GDP in Romania in 2020, comparisons with other Member States

EU Member States	Population		GDP at current prices		GDP in PPS (**)	
	Total population	Rural population	Nominal GDP (million EUR)	GDP per capita (EUR)	Nominal GDP (million PPS)	GDP per capita (PPS)
	2020	2020	2020	2020	2020	2020
Belgium	11 522 440	979 680	451 177	38 438	401 800	34 800
Bulgaria	6 951 482	900 963	60 643	8 486	112 700	16 300
Czech Republic	10 693 939	2 266 457	213 660	19 444	296 500	27 700
Denmark	5 822 763	1 645 387	311 725	51 889	231 500	39 700
Germany	83 166 711	12 990 603	3 332 230	40 173	3 024 700	36 400
Estonia	1 328 976	587 531	27 167	20 324	34 100	25 600
Ireland	4 964 440	2 823 690	366 506	70 373	314 300	63 100
Greece	10 718 565	3 350 055	165 830	15 438	205 300	19 200
Spain	47 332 614	1 576 603	1 121 698	23 281	1 204 000	25 400
France	67 320 216	18 819 365	2 278 947	33 437	2 070 700	30 600
Croatia	4 058 165	1 724 293	49 283	11 987	76 600	18 900
Italy	59 641 488	5 885 082	1 651 595	27 084	1 653 900	27 500
Cyprus	888 005	:	20 841	23 660	23 800	26 800
Latvia	1 907 675	412 347	29 334	15 205	40 300	21 200
Lithuania	2 794 090	228 493	48 930	17 339	72 300	25 900
Luxembourg	626 108	:	64 143	95 670	50 400	79 900
Hungary	9 769 526	1 813 276	135 925	13 703	217 900	22 300
Malta	514 564	:	12 824	24 162	14 900	29 000
Netherlands	17 407 585	105 192	798 674	44 858	675 500	38 700
Austria	8 901 064	3 574 669	375 562	42 293	332 300	37 300
Poland	37 958 138	13 542 173	523 033	13 396	866 900	22 600
Portugal	10 295 909	3 172 862	202 466	19 222	237 200	23 000
Romania	19 328 838	10 255 681	218 166	11 097	408 000	21 100
Slovenia	2 095 861	1 218 053	46 297	21 901	55 000	26 100
Slovakia	5 457 873	2 036 437	91 555	16 424	120 300	22 000
Finland	5 525 292	2 169 107	237 467	42 283	187 400	33 900
Sweden	10 327 589	925 377	472 262	45 387	379 600	36 700

Source: Directorate General for Agriculture and Rural Development, *Expenditure in commitments for direct payments and market measures; ceilings of support for rural development*, June 2021

During 2014-2020, Romania made significant changes to the funding granted through the first Pillar of CAP. The most notable of those changes was to allocate 30% of Pillar 1 to the Greening Payment among Direct Payments in order to boost agricultural activities that may contribute to environmental priorities.

In 2020, in Romania, as in other Member States, the Direct Payments accounted for most of the funds allocated through CAP, exceeding by far the allocations for rural development (Table 3). From all those Direct Payments, the green ones were very important allowing to the Romanian farmers to receive funding for a wide range of activities: crop diversification on arable land, maintenance of permanent grassland, and Ecological Focus Areas (EFA) on both arable and permanent crop land. As mentioned by some analysts (Allen, 2011), this green financing through Pillar 1 of CAP has been recognized as having the greatest potential to address a range of environmental concerns in the farmed countryside.

Table 3: CAP funding in Romania in 2020, comparisons with other Member States

EU Member States	Direct payments	Market measures	Rural development	Total
	1 000 EUR	1 000 EUR	1 000 EUR	1 000 EUR
Belgium	481 836	60 758	102 723	**645 317**
Bulgaria	781 855	18 386	338 990	**1 139 231**
Czech Republic	855 832	16 537	321 615	**1 193 984**
Denmark	814 070	12 212	151 589	**977 871**
Germany	4 768 123	117 256	1 394 589	**6 279 967**
Estonia	142 536	1 476	129 177	**273 189**
Ireland	1 201 194	59 338	312 570	**1 573 102**
Greece	1 982 609	59 445	698 261	**2 740 315**
Spain	5 125 093	599 856	1 183 394	**6 908 343**
France	6 909 823	550 551	1 987 740	**9 448 114**
Croatia	317 338	13 061	282 343	**612 741**
Italy	3 599 133	677 514	1 501 763	**5 778 411**
Cyprus	48 125	5 922	18 881	**72 929**
Latvia	277 306	3 048	161 492	**441 846**
Lithuania	480 492	3 344	264 151	**747 987**
Luxembourg	32 841	556	14 511	**47 909**
Hungary	1 266 719	40 211	486 663	**1 793 593**
Malta	5 117	344	13 859	**19 320**
Netherlands	666 190	22 583	147 976	**836 749**
Austria	691 597	22 298	567 266	**1 281 161**
Poland	3 402 201	25 553	1 187 301	**4 615 055**
Portugal	680 228	107 898	582 456	**1 370 581**
Romania	1 912 461	65 671	1 139 927	**3 118 059**
Slovenia	133 869	7 022	120 721	**261 611**
Slovakia	447 758	11 255	214 525	**673 538**
Finland	523 450	6 473	344 777	**874 699**
Sweden	686 818	11 875	249 819	**948 511**
EU27_2020	38 234 612	2 520 441	13 919 080	**54 674 132**

Source: Directorate General for Agriculture and Rural Development, *Expenditure in commitments for direct payments and market measures; ceilings of support for rural development*, June 2021.

As shown by Table 3, Romania had the highest allocation of Direct Payments of all other CEE countries in 2020, while the funding for market measures was significantly lower.

Under Direct Payments, environmental and climate goals are supported through "Green Direct Payments" which are practically "rewarding" European farmers who choose to protect the environment and combat climate change through sustainable agricultural practices. This is considered to be crucial in the CAP, given that agriculture is currently severely affected by the effects of natural disasters caused by dramatic climate change. Most Member States have allocated, as a consequence of greening of the CAP, a fixed ceiling of 30% for "green" Direct Payments. In practice, Romanian farmers can receive "green" Direct Payments for those activities considered beneficial for the environment (especially related to soils and diversity) as follows:
- Crop diversification, which means a greater variety of crops to increase the resilience of soil and agricultural ecosystems;
- Maintaining permanent pastures to help fix carbon in the soil and protect biodiversity;
- Ecological Focus Area, (EFA) in which biodiversity and natural habitats beneficial to the protection of different plant and animal species are protected (according to CAP regulations they must represent at least 5% of the arable land).

For each of these "green" objectives there are a number of specific criteria that must be taken into account in granting direct payment to farmers. Thus, as regards crop diversification, the farm in question, if it exceeds 10 hectares, must cultivate at least two types of crops and, if it exceeds 30 hectares, at least three types of crops.

Moreover, the main crop cannot exceed 75% of the agricultural area. As regards permanent pastures, their size shall be determined by each Member State according to its specific situation with a margin of flexibility of 5%. EFAs are mandatory at 5% for those farmers who have arable land exceeding 15 hectares, in order to preserve the biodiversity within their farms.

During 2014-2020, the many changes proposed by the CAP reforms also brought with them significant opportunities for Romania. For example, the inclusion of some land management actions under Pillar 1 offered the opportunity for agri-environment funding to deliver greater environmental benefits. However judging from Romanian experience maintaining a focus on environmental priorities will remain a significant challenge particularly in relation to economic and production driven pressures, while requiring to the managing authorities to engage with a wide range of stakeholders, including the farming and forestry communities in the design of their RDPs.

Given this particular challenge, LEADER[2] axis offered a better chance for green development in Romania enforcing a new bottom-up approach on sustainable rural development. While the LEADER approach offers a greater degree of local autonomy and flexibility to address both environmental and socio-economic issues than is possible with the conventional top-down delivery of Pillar 1 support, this axis has better success if is used in combination with other land management measures to deliver environmental priorities.

This can be beneficial in certain situations where top down approaches are impractical, where environmental projects are driven by local communities and stakeholders, or where it is particularly important to engage a range of local actors in the delivery of environmental benefits (see Box 1). In Romania, during 2014-2020, LEADER was implemented under the NRDP through the European Agricultural Fund for Rural Development (EAFRD).

During 2014-2020, according to ENRD LAG database (the database for all implemented LEADER projects at EU level) Romania successfully implemented a number of 26 LEADER projects many of them related to farm modernization, job creations and renewable energies. Though their cross-cutting approach LEADER projects have stimulated various actors such as farmers, researchers, advisors and businesses involved in the agriculture and food sector to implement innovative projects and disseminate the results. Hence many of those projects helped promoting a climate friendly and resilient agriculture while improving processes to preserve the environment and creating new products and processes such as high nature value (HNV) farming (which is the cornerstone for farmland diversity) or new crops for drained peatland soils. Considering the new green objectives of CAP after 2020, we believe that LEADER may be a crucial financial tool in stimulating HNV farming especially since apart from conserving wildlife, such farms provide a multitude of other services for society, including ecosystem services such as carbon storage, clean water, wildfire prevention, storage of genetic diversity and cultural values.

Box 1: LEADER projects in Romania supporting sustainable rural development – case studies

Dairy Farm with Biogas Production Unit

A Romanian company constructed of a modern dairy plant with a renewable energy production unit that uses the by-products of milk production in Nucet, Dambovita County.

Project Results:

The advanced technological solutions applied helped reduce energy consumption and wastewater. Moreover, animal welfare for the animals was improved due to improved ventilation and reduction of insects, while processing of the manure for the production of biogas reduced gas emissions to almost zero. This investment also helped create new jobs without gender discrimination since the units have separate changing lockers. Thanks to LEADER support high-quality milk and dairy products are being produced to meet the high demand in the market. At the same time, reduced production costs and greater efficiency has increased the farm's profitability and competitiveness.

Lesson learned:

The investment could not have been possible without engaging a company specialized in designing and implementing industrial construction projects, while good communication between the beneficiary, local authorities and the Agency for Financing Rural Investments helps overcome challenges. This case-study has shown that obtaining private sources for

2 The term 'LEADER' originally came from the French acronym for "Liaison Entre Actions de Développement de l'Économie Rurale", meaning 'Links between the rural economy and development actions. LEADER is a local development method which has been used for 30 years to engage local actors in the design and delivery of strategies, decision-making and resource allocation for the development of their rural areas. In the 2014-2020 programming period, the LEADER method has been extended outside CAP financing under the broader term Community-Led Local Development (CLLD) to three additional EU Funds: the European Maritime and Fisheries Fund (EMFF); the European Regional Development Fund (ERDF); and the European Social Fund (ESF).

funding from the banks is difficult for start-up companies, hence it can be necessary to repeat the procurement procedure if insufficient or noncompliant offers are received.

Modernization of a vegetable farm in Romania

A Romanian farm specialized in crop production invested in modernisation activities to expand its production capacity. As a result, it created job opportunities for the local Roma community.

Project Results:

The use of the best technology available reduced losses in production and improved performance. The new machinery made it easier for the company to adapt to EU environmental, veterinary, sanitary and phyto-sanitary standards. The project contributed to Roma integration into the labour market through training and employment. The investment created two jobs for women (secretarial and accounting) and five for youth to operate the new equipment. The company staff increased from 11 to 18 people.

Lesson learned:

The beneficiary considered that training on farm management and marketing is essential for its business development and to fully exploit the potential of this kind of investment.

LAG for renewable energies in Valea Baseului de Sus

In order to contribute more effectively to combating climate change, the Local Action Group (LAG) of Valea Baseului de Sus in the north east of Romania included energy adaptation and mitigation projects in its local development strategy. The intention was to focus on innovative and sustainable initiatives that could not be funded with other RDP measures and that would benefit the whole rural community.

Project Results:

1 county with a photovoltaic power plant: € 68 000 (near completion) +1 project of € 25 000 Stradal LED lamps (in approval phase) (both funded by LEADER)

1 town with 1 project of Stradal LED lamps (€ 70 000 funded by LEADER) + 1 photovoltaic power plant funded by Norway Grants (in contracting phase)

1 county with 1 project of Stradal LED lamps (completed by Government funds) + 1 photovoltaic power plant (LEADER € 30 000 plus local funds in design stage)

Lesson learned:

For the post-2020 programming period, it is hoped that the experience of this project will be used as a template for continuing community energy projects under LEADER. Ideally, this could be linked with Smart Villages. A relevant step-by-step manual is currently produced to share the project experience with other LAGs across Europe.

Source: ENRD, LAG database, https://enrd.ec.europa.eu/projects-practice/romania_en

As shown by the above case studies, during 2014-2020, Romania benefited from LEADER approach to sustain green rural development in several regions. However the lessons learned from those experiences have highlighted that for the post-2020 programming more actions to support this type of financing at national level are necessary, especially since such funding represents an effective integrated approach for achieving key environmental, financial and social benefits.

4 Future challenges for green rural development in Romania

There are some vulnerabilities of the Romanian countryside and as many possible impediments to green rural development: the economy of Romanian rural areas is deeply dependent on agricultural activities (in Romania agricultural activities represent about 60.5% of the total rural economy, compared to the EU average which is only 14.1%); the Romanian agricultural sector is characterized by a significant number of small agricultural holdings that mostly practice subsistence agriculture, i.e. agricultural production is mostly directed at own consumption; both agricultural land and labour in subsistence farms under-exploited in terms of their true potential, which paradoxically makes Romania, although with a significant agricultural potential and many fertile lands, or net importer of agricultural products.

Given these realities, there was a need for specific tools and actions that not only increase the real convergence of the development of the Romanian agricultural sector with the EU average, but also contribute to providing specific solutions to different specificities in rural Romania. Naturally, most of the funding needed for rural funding came from the European Agricultural Fund for Rural Development (EAFRD), with priority given to the following objectives: a more innovative and competitive agricultural sector, increasing the added value of agricultural products, assistance to farmers to and develop small businesses and to diversify their economic activities in order to reduce the co-dependence between farm incomes and agricultural activities.

As shown by the previous financial framework, Romania may benefit greatly from the new greening of CAP especially in some niche fields as HNV farming. While the European Forum on Nature Conservation and

Pastoralism data are showing that Romania has the potential to become a key player in HNV farming giving its landscape characterized by a rich variety of natura habitats and species, much progress is necessary in order to make the Romanian farmers to support this type of eco-friendly farming, especially since many Romanian farms are struggling with poverty and lack of modern infrastructure.

In Romania, subsistence and semi-subsistence farms (which count for the majority of Romanian farms) are poorly equipped technically and do not have market orientation strategies which could help them to better integrate in the markets. Access to agricultural credit and insurance is difficult for the entire agricultural sector, but especially for small farmers. Agriculture still provides about 30% of total jobs in Romania, the largest share in the EU, six times higher than the EU average. Another 2% are employed in the food industry. Faced with an unfavourable age structure (only 7% of farmers are young farmers), those working in the agricultural sector have a low level of formal education and skills. There is a great need to improve professional skills in agriculture, while promoting economic diversification in rural areas (only 18% of non-agricultural SMEs in Romania are located in rural areas) - to provide new jobs, to reduce excessive dependence on agriculture and increasing rural incomes. Basic infrastructure and access to services in rural areas continue to be of poor quality and underdeveloped. Currently over 40% of the rural population is at risk of poverty and social exclusion. Regarding the sustainable and environmental component of rural development, it should be mentioned that, currently, more than a fifth of agricultural land in Romania is located in areas with great biodiversity.

Therefore, key challenges related to environmental priorities and land management for the 2021-2027 financial framework include dual pressures on the risk of abandonment of agricultural activities in some areas and the need to comply with stricter ecological rules. Large agricultural areas are affected by soil degradation phenomena (erosion, landslides and desertification) and those risks are expected to intensify as the effects of climate change increase. Irrigation systems are largely degraded and poorly functioning and therefore the allocation of new funding for their restoration should also be a priority for funding through the new CAP strategic plan enforced in Romania for the period 2021-2027.

5 Conclusions

Sustainable financing of the rural area in Romania involves paying more attention not only to Green Direct Payments, but also to various environmental and climate measures in the NRDP. Like other Member States, Romania has substantially allocated payments under the first pillar of the CAP, in terms of the greening component (30% of total Direct Payments), but through strategic priorities P4 and P5 from NRDP has also stimulated biodiversity through EFA.

However, there are still substantial challenges regarding the sustainable development of the Romanian rural sector. Greening obligations must be combined with investment in infrastructure (physical and digital) and the reconversion of labour to reduce subsistence agriculture and poverty in rural areas, because without increasing economic development it will not be possible to increase environmental protection and combat climate change in the rural space in Romania.

Increasing the level of human resource education in rural areas is all the more important as in order to benefit from the "rewards" of the "greening" of the CAP during 2021-2027, while Romanian farmers will have to prove the necessary skills to implement environmental and climate commitments. Romanian farmers must also obtain the necessary knowledge and information in the field of implementation of organic farming commitments through advisory or consultancy services, covering at least aspects related to the identification of agricultural parcels, completion and submission of commitments and payment claims, while management measures applicable at farm level must comply with the new requirements imposed by the greening process of CAP.

The experience of 2014-2020 financial framework regarding green rural development in Romania has proven that although the first pillar of CAP remain crucial in financing sustainable development at national level, LEADER bottom-up approach may boost environmental protection in rural areas, while creating jobs and stimulating innovations and social inclusions. However, while LEADER can support the cross-cutting environmental priorities, it is important to underline that this financing should also be coherent with other support provided through the EAFRD measures.

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Advantages And Risks Involved In Financing Companies Development Through The Capital Market

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Abstract: The financial market offers to companies a certain number of sources of for financing, each of them, or a combination of them, representing the optimal solution, at a certain moment, for a particular investment. The choice of financing methods depends on the volume of financial resources required, the period of time they are intended to be mobilised, the price of the borrowed resources and, in particular, on the ability of the firm to repay the contracted funds. Through the stock exchange, the economic agents aim to obtain the financial resources necessary for the development of their activity and, at the same time, the transformation into liquidity of the securities (whose issuers they are), both in order to capitalize their current performances and to cover the risks associated with them. This paper wants to show that the stock exchange is one way for shareholders to recover their investments. Thus, the listing of the financial securities on the stock exchange ensures their dissemination to the holders of capital and allows the shareholders to recover the invested capital and to collect the added value with which the risk assumed at the time of acquisition of the respective securities is remunerated.

Key-Words: securitie, bonds, capital market, stock exchange, financial risk, bank loans, stock exchange listing

1. Advantages of financing the firms through the capital market compared to the banking market

Self-financing is the main option for an activity development. But when their own sources are not sufficient, firms have to resort to raising capital, through various forms of lending, either from the banking market or from the capital market.

The financing of firms through borrowed resources is a very difficult decision, which can affect not only their economic and financial performance, but even their ability to survive. To these factors are added the way of managing the activity, the company's relations with suppliers and customers, the management of the revenue and payment flows, as well as the financing policy of the company, the way in which it decides to use the profits resulting from the current activity. Depending on all these factors, as well as other factors specific to each company, they must opt for one of the following external financing solutions:

- Bank loans (loans), contracted for different periods of time (short, medium or long term);
- Financing obtained through the capital market, through the issuance of shares or bonds.

Each of these financing options has both advantages and disadvantages, which will make them more or less attractive for those looking for financial resources.

Bank loans are currently, on the Romanian market, a less used form of acquiring financial resources necessary for the development of the economic activity of a company. Whether it is a question of short credit terms, usually used for the purchase of goods and services and to finance an operating cycle, or long-term loans to finance investments or real estate purchases, bank loans are no longer preferred by economic agents, as was the case in the early 2000s (to the detriment of capital market loans).

However, banking companies have increasingly diversified their credit offerings for corporate clients. Loans are granted for the construction of new production facilities or capacities, for the expansion, modernisation and upgrading of existing capacities or for the purchase of machinery, equipment, means of transport or other fixed assets. There are also loans for large enterprises or small and medium-sized enterprises that meet the repayment capacity of each potential borrower.

In general, the amount of the loan that can be contracted is established depending on the scale of the investment project, and the duration of granting the loan is established depending on the size and complexity of the project, the volume of the loan, as well as the repayment capacity of the debtor.

However, financing through a long-term bank loan has the disadvantage of high costs and an increase in the firm's indebtedness, factors that may affect its activity in the next period (for example, it may affect the eligibility of the firm for certain tenders).

As regards the granting of lending, the European banking sector faces a major challenge, and namely non-performing loans (NPLs), which are putting enormous pressure on national banking systems. Non-performing loans have a negative impact on banks' profitability and their ability to lend including SMEs. In consequently, policies aimed at improve banks' capacity to deal with non-performing loans are very useful. Possible solutions include:

- ✓ ways to promote frameworks and foreclosure frameworks, more efficient and predictable, that allow for rapid recovery of by secured creditors;
- ✓ mproving transparency so that potential buyers in the secondary market for non-performing loans to acces the market for these loans.[1]

Financing through the capital market is an alternative to bank loans. This alternative takes the form of public share and bond issues. In fact, one of the particularly important roles of the capital market is to attract financing for companies that want to grow their businesses.

Capital market financing is more advantageous than financing through banks. In the case of bank financing, firms are at the beck and call of banks and their regulations to raise the funds they need to do business, but when securities are issued to the public, the issuing firm dictates the terms on which the securities are sold. Listing a company on the Stock Exchange also brings benefits in terms of the cost of financing, i.e. attracting financial resources at favourable cost conditions, as well as improving its image.

If until 2005 few companies were interested in entering the stock market ring, but on the contrary, many companies opted to withdraw from the Stock Exchange, since 2005 more and more companies want to be listed on the Stock Exchange. Between June 2019 and May 2020, the main sources of financing used by companies remained internal resources, becoming more important than external resources during this period, mainly due to the substantial advance in profit reinvestment and asset sales, with 37% more companies preferring this type of financing than in the previous period. Bank loans remain a much less used option, and the number of companies opting for commercial loans and bank overdrafts continued to decline over the period[2].

The Bucharest Stock Exchange offers a financing alternative both for mature companies, which can attract capital on the Main Market, and for start-ups and small and medium-sized enterprises, for which the AeRO market was created. Shares and bonds can be issued on both markets. The main reasons that can lead a firm to start listing procedures on the stock exchange may be the growth of the firm and its market to a level that requires financing.

The participation on the capital market has as a first stage the transformation of the joint stock company from "closed company" into "open company" by making a public offer authorized by the ASF (Financial Supervisory Authority). The objective of this public offer is to attract money from the capital market through new issues of other securities (shares, bonds, etc.). The public company must draw up a public offer prospectus stating that it plans to list on the stock exchange as a next step. Listing on the Stock Exchange facilitates any subsequent operation to raise capital from the market, thus enabling the company to find the necessary resources to further develop its business. Compared to the "closed" companies, where the real value of the shares is more difficult to measure, the companies that have the shares registered at the BVB Share can more easily resort to loans, because the creditors find it easier to use the stock market value of the already existing shares, than the theoretical approximation they have to make in the case of unlisted issuers.

In general, investors are tempted to buy shares of issuers quoted or to be quoted rather than unlisted ones. This trend will facilitate the "open" companies registered with the BVB Share, the successful conclusion of new securities issues and the attraction of such important financial resources on the capital market.

The registration at the BVB Share brings with it more practical ways of financing, materialized by the existence of a wide range of instruments specific to the capital market. This category includes issues of

[1] FMI, Global Financial Stability Report, April 2014 and April 2015.

[2] Sondaj privind accesul la finanțare al companiilor ... – BNR https://www.bnr.ro › DocumentInformation

convertible bonds or shares with warrants attached. These instruments grant the subsequent purchase right of the issuer's shares at a predetermined price. Investors will be attracted faster to the purchase of such instruments, which give the right to buy further shares listed on BVB, than unlisted, due to transparency and accessibility on this stock market.

Another advantage of listing the shares of a company on the stock exchange is advertising. All companies that have securities registered with the BVB Quota benefit from publicity in the country and internationally, through the following ways:

- the appearance of the name of each company in the pages of the main newspapers and on the tv stations in the country, after each trading session;
- the appearance of the name of the issuers listed on the international network Dow Jones telerate.

Also, companies that have securities registered with the BVB Quota enjoy a reputation that can lead to the growth of the commercial market segment on which they operate, which is an important element against competition. The growth of reputation is manifested directly – through the commercial credit and payment facilities that the issuer can obtain from its suppliers and customers.

International statistics show that the admission to the stock exchange of securities issued by a publicly owned company increases its reputation and there is an increase in the price of its shares by an average of about 20%.

The listing of securities issued on the BVB increases the value of the company's assets, since when the issuer's business is in good condition, the market value of its shares is higher than their book value, as they are in high demand on the market and, as a result, command an increasingly higher price. Listing on the stock exchange also increases the goodwill and liquidity of the securities.

The Bucharest Stock Exchange is a specific institution of the capital market, which by its means requires listed companies to distribute information related to their activity and financial situation to the general public. This information reaches the final investor directly or through studies by analysts and specialized consultants. The transparency of the issuers quoted on the BVB contributes to the easy tracking of transactions and quotations on the stock market and attracts investors through easy and fair access to this capital market, thus increasing the liquidity of securities. Other advantages offered by the listing on the stock exchange of the shares of a company:

- **the interest of the employees through the distribution of shares –** by the transparency of the market avoiding the social tensions that could arise at a certain moment;
- **the existence of a recognized value on the market –** the potential creditors of the emitter having the possibility to compare the book value of the shares with their market value;
- **increasing the market manager's share** – this being influenced by the activity of the listed company, a situation known on the market;
- **simplifying the registrations in the shareholders' registers**, the issuers registered with the BVB Quota concluding a Register Contract with BVB, by which the obligation to keep records of the ownership right of the issued securities is transferred to the BVB;

A possibility of financing for Romanian companies is the listing on other exchanges. The main advantages offered by this solution are:

- better protection of small investors;
- increasing the volume of transactions and liquidity of shares;
- access to financing sources at a level well above what the Romanian capital market can offer.

But listing on other exchanges is risky because investors' interest in those securities cannot be estimated.

2. Issue of the financial securities - a source of medium and long-term financing of companies

The capital market performs a particularly important function, namely to attract financing resources in the medium and long term for expanding companies, and not only. This way of financing involves the public issuance of shares and bonds, a simple action, but which is often avoided by companies, bank loans being preferred, although the latter are not always the easiest ways to attract financing. Thus, most Romanian companies gather to the banks' counters trying to meet the increasingly complex criteria required for financing, given that, on the capital market, in the case of public securities issues, it is the issuing company that dictates the conditions under which the sale is made, the only constraint being the meeting of the offer with the investors' demand, so that the sale is successful.

So, the firm that needs money to develop its activity or finance an investment project puts up for sale financial securities (shares, bonds etc.) through a financial investment services company (SSIF), and the money paid by the buyers of these securities goes to the issuing firm, which uses them for investments and development.

Public offerings are special operations through which large packages of shares are bought or sold. As a result, public tenders can be divided into two main categories:

1. **Public offers for sale**
2. **Takeover bids**

Offers for sale are divided, too, into two other categories:

1a) Primary public offers – through which the newly issued shares are put up for sale, in order to obtain financing sources, the money resulting from the sale being collected by the company issuing the shares.

1b) Secondary public offerings – through which a shareholder sells existing shares on the market, the money resulting from the sale being collected by the selling shareholder of the securities.

As I mentioned earlier, a company that wants to participate in the capital market must be an 'open society'. The public offer for sale in order to open the company to the public, also called the "initial public offering" (IPO), is a special operation of increasing the share capital, through which the newly issued shares are offered to the public.

The conditions of the public offer for sale are imposed by the company issuing the shares, namely: the duration of the offer, the number of shares issued, the percentage of the current share capital, the price at which the shares are offered, etc.

In order to carry out its offer to the public for sale, the intermediary company shall draw up a "prospectus", based on the data provided by the issuer.

The issue prospectus shall include[3]:

- Presentation of the companies and persons who participated in the creating of the issue prospectus;
- Information about the shares put up for sale and the rights for ahareholders conferred by them;
- Information about the public offer (period of progress, manner of development, distributors, price of shares, number of shares offered, subsequent listing, etc.);
- information about the issuer (identification data, nature of activities, share capital, co-ownership, shareholders);
- the issuer's activities (operations, economic and financial performance, head offices, research and development, legal proceedings, salaries, interventions, sources of development);
- Accounting statements (financial reporting, indicators);
- Management information;
- Future prospects;
- Risk factors.

The initial public offers held on the Romanian capital market attracted the attention of foreign investors. The new companies listed on the BVB market represented investment opportunities for the diversification of the portfolio held by investors, but also an important source generating the increase of the value of BVB transactions and stock indices after the launch of the shares. In most cases, during the subscription period of the Initial Public Offering, there were net inflows of foreign capital on the Romanian capital market and net purchases, but the overall performance of the stock exchange influences the results of such an analysis.

When the issuer has successfully concluded the public offer for the sale of shares and has a contract concluded with a registry company, it will initiate the procedure of registering the shares at the stock exchange listing (listing the shares).

In order to be listed on the stock exchange of an issuing company, it must draw up and submit to potential investors a series of documents regarding:

- the organization of the company and its activity;
- the economic and financial performance of the company (resulting from the analysis of the balance sheet and of the profit and loss account);
- the work programme for the next period and the objectives proposed.

All these documents are analyzed by the specialists of the stock exchange, in order to verify the compliance with the regulations in force of the stock exchange, regarding the procedure of listing on the stock exchange.

[3] https://www.intercapital.ro/tipuri-de-finantare/

Finally, the decision to list it on the stock exchange is taken by a special commission – the Listing Commission of the stock exchange, made up of specialists of the capital market.

In general, the stabilization of the share price occurs in the case of initial public offerings, when very high sales occur and the share price could collapse. This situation is possible because new shares do not have a benchmark price in the market. Thus, the shares will not be attractive to potential investors, which leads the intermediaries to intervene by launching large buy orders or purchase offers to stabilise the price. Also, the intervention of the SSIFs is allowed in cases where there is an arifical increase in the share price. All these interventions have as final goal the transformation of the Stock Exchange into a reliable market, with certain rules, which will make it more and more attractive.

Overall, the opening of a company and its listing on the Stock Exchange Listing is conditioned by a complex analysis of the advantages[4] and disadvantages arising from the company's listing, the risks and conditions that the firm can accept

Advantages	**Conditions**
Notoriety - Permanent advertising in business circles for the public, in the country and abroad.	***Informing the public*** - The need for strict compliance with the rules imposed by securities market authorities.
Capital raising - Access to financial resources has a low cost; the use of a wide range of stock products.	***True and consistent performance*** - The malfunction, the failures, the losses have a direct echo on the Stock Exchange, having negative repercussions on the company and its image.
Financial consolidation - Separation between long-term (majority) and minority or casual investors.	***Risk of losing control*** - The company may be subject to inadious purchase offers from third-party companies, which are usually companies in the same field of activity, but competing.
Offering actions as incentives for employees - Employees are transformed into partners in business development through the distribution of shares.	

3. Conclusion - advantages and risks of stock exchange trading

From the point of view of the issuing firm, the listing of the securities on the stock exchange gives it the possibility to appeal to the public savings, thus multiplying its sources of financing and their volume. Also, the listing on the stock exchange provides a better image of the issuer, both in front of investors and in front of current and future business partners. Especially when the capital market is in a process of growth and development, there are real chances that the issuer's notoriety and prestige will also be increasing.

But beyond all these advantages, offered to both issuers and shareholders, listing a company on the stock exchange also presents a number of risks. These will be reflected both in the expenses of the issuer, which will have to bear a whole list of commissions occasioned by the share of quotation and maintenance at the stock exchange, and in the shareholding structure. The initial shareholders may find themselves in the situation of losing control of the company, when following the issuance of shares a significant percentage of them will be held by new shareholders. Thus, the introduction to the stock exchange is a major strategic decision in the life of a company. In addition, although there are enough motivations, and the beneficial effects of the quotation of its products on the stock exchange are obvious, however, the company must be sufficiently prepared to have at hand the means to prevent possible surprises inherent in entering the market.

The objectives of stock exchange listing within the management of a company are related to a better management of the capital and the development of the firm.

Stock exchange market listing has a number of important immediate advantages in the development of the firm. Thus, the capital already divided into shares becomes mobile, which gives the firm an extra liquidity; quotation allows the determination of a trading rate that can be used in a future transaction and that gives a real picture of the value of the issuing firm; the dispersion of capital through its holding by several persons leads to the reduction of the risk for the capital holders; by the evolution of the share price, the market presents an objective assessment of the issuer's risk.

[4] Dumitru G. Badea – Piaţa de capital şi restucturarea economică, Ed. Economică, Bucureşti, 2000

Thus, listed companies can more easily obtain the necessary capital, as the listed shares have a higher degree of liquidity and have a price that reflects the supply and demand for capital.

For „closed companies” (wich are not registered at stock exchange list) , which are not listed on the stock exchange, there is no need to distribute the dividend and likely maximize the value of the shares. The listing on the stock exchange allows the increase of the number of shareholders and equity, factors that have a leverage effect on the value of the issuing company.

A positive effect of a company's quotation on the stock exchange is the possibility of calculating the risk-profitability correlation and the utility of investments. Thus, it was possible to establish a link between the capital held by an investor to make the investment, his wealth at a certain time and the possibility of gain (or the anticipated return). Also, it was possible to identify the existence of two categories of risk, reflected in the risk of a financial title:

- the specific risk of the issuing firm;
- systematic risk, determined by the overall evolution of the capital market.

The stock exchange listing allows to obtain an additional liquidity and to increase the rates of return on capital, and it can be appreciated that there is a link between the internal risk of the firm and the stock exchange rate, due to the transparency that must characterize the capital market, thus the financial information being public and allowing a complex financial analysis from potential investors. However, there are not enough instruments in the way to determine the link between the firm's internal risk, the share price and the risk of holding shares. Most often, indicators such as: dividend yield, annual growth rate, capitalization coefficient, rate of return required by shareholders are used. But in order to analytically track the influence of risk on the share price, stock models must be used and indicators that reflect the unit of risk per unit of return or the unit of return per unit of risk must be calculated, using forecasts made based on possible scenarios – optimistic, moderate or pessimistic.

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[6] https://www.intercapital.ro/tipuri-de-finantare

Assessment of the Banks' Reputation in Romania - The Demand-Side Perspective

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Abstract: *Reputation is a crucial concern in any market and industry, but even more in the banking sector. Credibility and trust are indispensable factors, as commercial banks operate on the basis of funds attracted from public. The consequences of the global financial crisis triggered in 2007 have strongly affected reputation and trust in banks. Starting from these premises, the purpose of this paper is to investigate the Romanian banks' reputation from the retail customers' perspective. After an in-depth assessment of the reputational dimensions in the banking sector, the paper explores the reputation of the Romanian banking sector starting from the evidence of the National Authority for Consumer Protection and the local media content analysis. It also evaluates the social responsibly practices targeting financial education programs, as a tool to increase banks' reputation. A distinct section is devoted to the examination of banks' response to the COVID-19 pandemic. The conclusion of this research is that customers' satisfaction is a key determinant of banks' reputation in Romania.*

Key words: reputation, banking sector, trust in banks, financial education, Romania

JEL Codes: G20, G21, G28, L14

1. Introduction

As traditional commercial banks perform their activity mostly based on savings attracted from individuals, the relationship between banks and their stakeholders is influenced by a host of determinants related to trust. European Association of Communication Directors and Caliber emphasize that brand, attractiveness and reputation influence together the extent to which people trust and like a company, which in turn leads to preference, loyalty and willingness to recommend or to work for that market participant (EACD-Caliber, 2019). Trust plays a major role for households, being important both for the decision to establish a contractual relationship with a bank and for the decision to change one financial institution with another (Ampudia and Palligkinis, 2018).

Reputational risk in financial services has become of paramount importance in the context of the global financial crisis. Against this background, banks around the world suffered considerable losses, including those in terms of trust. In order to save their banks from bankruptcy, many countries used public funds, which triggered taxpayers' discontent and, subsequently, lower confidence in the banking sector. Therefore, the banks reputation has been profoundly affected. The COVID-19 pandemic triggered in 2020 has tested again the reputation of banks that were called to help their clients affected by coronavirus and to contribute to economic recovery.

Under these circumstances, the main objective of the present paper is to assess the Romanian banks reputation from the retail customers' perspective and some methods used by banks to increase their reputation. Our key hypothesis is that one cannot separate banks' reputation from trust in banks. In this context, in order to achieve this goal, after relevant literature review, the paper investigates the customer complaint management in the Romanian banking sector. A special attention is dedicated to the typology of complaints formulated by customers and the mechanisms of dispute settlement between clients and banks. The present investigation is largely based on the press releases of the National Authority for Consumer Protection (ANPC) and the Alternative Banking Dispute Resolution Centre (CSALB). The analysis of the local media content regarding the customers' complaints against banks is an important source of this analysis as well. The paper is structured as follows:

Section 2 contains relevant literature review, focusing on the drivers of bank reputation; Section 3 investigates reputation of the Romanian banking system; Section 4 focuses on the Romanian banks initiatives in financial education, as part of specific strategies to improve their reputation; Section 5 examines the answer of banks in Romania to the COVID-19 pandemic; Conclusions and future research directions conclude the paper.

2. Literature review

According to a global survey performed by Deloitte, 87% of respondents consider that reputational risk is "more important than other strategic risks". Moreover, financial services are found among the first industries that recognize the importance of this risk. The survey results indicate that customers are "key stakeholders" for managing reputational risk, ahead other stakeholders, such as regulators or employees. The same analysis underlines the areas taken into consideration in order to examine a company's reputation: own financial performance, quality standards, innovation, policies on ethics and integrity, the company's response to a crisis situation, safety policies, social responsibly practices, physical and cyber security. From this perspective, the key drivers of reputational risk today are the risks regarding ethics and integrity (including fraud and corruption), followed by the security risks and the risks related to products and services (Deloitte, 2015). Under the current conditions of technology developments, Aula (2010) emphasizes the impact of social media on reputational risk and their challenges for reputational risk management.

It is worth noting that Dell'Atti and Trotta (2016) place a special emphasis on the differentiation of two categories of stakeholders, namely transactional (customers, shareholders, employees, investors and regulators) and tangential (media, NGOs, trade unions, rating agencies, competitors and the general public).

To assess the reputation of banks, Zaby and Pohl (2019) developed an indicator-based model. Social requirements and customer satisfaction are among the determining factors of the bank reputation that the authors used in the model. The financial performance of banks and the quality of internal processes are also selected as determinants of bank reputation.

The links between social responsibility and banks reputation are also investigated. Lorena (2018) reviews the scientific literature dealing with the impact of corporate social responsibility (CSR) on reputation in banks. The author concludes that CSR practices contribute to enhancing reputation of banks. Carè (2018) and Dell'Atti and Trotta (2016) underline that reputation is correlated also with banks' inclination towards following the recommendations of the Global Reporting Initiative, namely publishing sustainability reports (CSR, environmental, social or governance reports). An empirical investigation regarding the impact of the CSR practices on customer loyalty in the retail banking in Romania is provided by Moisescu (2017) that considers the CSR dimensions related to: shareholders, customers, employees, the environment, community and public authorities. The study results show that, unlike other services industries in Romania (for example, the telecommunications sector), the customer loyalty in the retail banking sector is influenced by how customers perceive banks' responsibilities towards all above-mentioned dimensions.

The following box (1) synthesizes several key determinants of bank reputation, taking into account the relevant literature.

Box 1. Key determinants of bank reputation

- Level of risk, lack/presence of internal frauds, financial health of the institution, the level of intangibles and the business area (Fiordelisi, Soana and Schwizer, 2013; Ampudia and Palligkinis, 2018);
- Successful measures to maintaining trust (Knell and Stix, 2010);
- Management bonuses, visibility in media reports, evolution of share prices, product information (Jansen, Mosch and van der Cruijsen, 2013);
- Financial performance of the firm, quality standards, innovation, policies on ethics and integrity, the company's response to a crisis situation, safety policies, social responsibly practices, physical and cyber security (Deloitte, 2015);
- Corporate responsibility, general support, good communication, visible and responsible bank leadership (American Banker and Reputation Institute, 2019);
- Responsible behavior, purpose-driven companies, lack of specific scandals and crises (for instance related to money laundering) (EACD-Caliber, 2019);
- Neutrality on political issues (Johannsen, 2019).

Source: Authors, based on literature review.

Guiso (2010, p. 6) documents the drop of trust in the financial industry in the aftermath of the global financial crisis both in the US and in Europe. To underline the magnitude of the collapse of trust in banks, the author concludes that: "…the fall in trust was so strong that after the crisis people show more trust towards a generic unknown individual than towards a bank or a banker…". The study also discusses the possible measures to be taken in order to rebuild investors' trust in the financial industry. Some of these measures are related to enhancing financial regulation. Another measure refers to the creation of certain mechanisms in the financial industry to allow financial intermediaries to rebuild their reputation: (i) adoption of a rating system that assesses banks' ability to provide financial advice that all investors – even the most unexperienced ones – can understand; (ii) implementation of a compensation scheme for asset managers based on their customers' level of trust; (iii) measures to promote investors' financial education.

3. Investigation of the Romanian banking system reputation

In line with the instructions formulated by the National Bank of Romania (BNR, 2020a), banks operating on the Romanian market have to comply with the provisions related to the handling of complaints contained in the JC Guide 2018 35, regarding the handling of claims for the securities sector (ESMA) and the banking sector (EBA, 2018a). These provisions include the need for banks to have complaints management policies and procedures governing the response to complaints.

The analysis of the first ten banks' websites (the main banks in Romania in terms of market share, according to BNR, 2020b), offering information on the procedures for filing complaints, reveals the following findings. The banks' websites contain clear information regarding the settlement of the clients' notifications, suggestions and complaints, respectively: alternatives available for formulating a complaint/suggestion/notification; needed content of the notification; the mode of transmission of the bank's response and the maximum number of days until the response is received; information related to the alternative dispute resolution and ANPC.

According to the suggestions of the European Banking Authority,[1] the customers who are dissatisfied with the products and services offered by a bank should, first, contact the bank's department responsible with clients. If the proposed solution is not satisfactory, the client may file an official complaint, according to the procedures that should be posted on the bank's website. At the last stage, if necessary, the client can contact the national authority in charge with consumer protection that, in Romania, is the ANPC.

In 2017, the ANPC published a report on consumer protection of financial services. Related to the banking system, the ANPC has verified the compliance with the legal provisions regarding consumer protection at the conclusion of the credit agreements between 27.11.2015-31.03.2016. In this context, 10,476 complaints were filed and 249 minutes confirming the contravention were completed. The fines totalled 1,743,000 lei (*leu* or RON, the national currency). Amounts of RON 1,097,773.31, EUR 112,161.29, CHF 361,828.78 and USD 361.13 have been returned to consumers following the investigation of complaints (ANPC, 2017).

For the amicable settlement of disputes between clients and banks, the CSALB was set up in 2015, as a non-governmental, apolitical and independent entity. As a result of the negotiations carried out within the CSALB, during the period 2016-2019, the value of the benefits obtained from the conciliation amounted to EUR 2.67 million (CSALB, 2020). Although it is an entity financed by banks, the credibility of this institution has been increasing continuously, as reflected by the growing number of applications: it reached 2,117 in 2019, an increase of 65% as compared to 2018 (Bancherul, 2020).

Most of the complaints are related to loans (Bancherul, 2020), as several banks still refuse the dialogue (Hotnews, 2020). An in-depth analysis of complaints and their typology emphasizes several main conclusions.

The most affected group of clients has been that with loans in Swiss francs (CHF). At the end of 2005, the CHF-denominated loans started to be presented as advantageous in terms of costs and amounts, as they allowed customers to access higher amounts than loans denominated in other currencies, including the national currency (Banking News, 2018). Banks did not inform the borrowers about the risks they might face and also presented the Swiss franc as the most stable currency (Bursa, 2019). In 2008, as compared to 2007, the amount of credits in Swiss francs in Romania more than doubled (Banking News, 2018). Afterwards, the Swiss franc started to appreciate and the stronger the Swiss franc was, more expensive the credits and higher the tensions between banks and debtors were (Banking News, 2018). In November 2014, a number of 75,412 Romanians had credits in CHF, representing 2.1% of the total number of individual debtors. That was before the turning point of

[1] Available at https://eba.europa.eu/consumer-corner/how-to-complain.

another unexpected CHF appreciation starting January 15, 2015, when the central bank of Switzerland removed the 1.2 EUR/CHF floor, in force since 2011. As of November 2014, of the total CHF-denominated loans for the population, about 35% were granted for the purchase of housing and three banks concentrated 77% of the total number of debtors in Swiss francs (BNR, 2015). The lending in Swiss francs has become gradually a social issue and the key reason for decreasing trust in banks (Banking News, 2018).

Besides, the new contracts of the debtors that accepted the conversion of CHF-denominated loans into RON have variable interest rates that are according to the evolution of ROBOR, index with a growing trend in the years prior to the pandemic. Therefore, the currency risk has been replaced by the interest rate risk (Association Pro-Consumers, 2019). It is worth noting that several important banks that offered CHF-denominated loans during the crediting peak period merged with a solid bank, namely Banca Transilvania, in order to save their reputation.

Another set of complaints is related to the ambiguous clauses in the credit agreements, as well as the abusive clauses (such as the inclusion in the credit agreement of a withdrawal commission or the possibility that banks change the interest rate without the agreement of the borrowers).

Population still has to learn about the risks and, at the same time, banks must learn that they should give credit only to clients able to repay the amounts (Bursa, 2018). Recently, banks' clients have become more informed about risks and their own rights, have started to associate on the social media platforms and disseminate their fears, worries and complaints. Consequently, more demanding clients mean more pressure to banks' reputation.

4. Social responsibility practices in the Romanian banking system. Financial education programs

Financial knowledge, behaviour and attitudes towards this sector (trust/mistrust, respect/lack of respect) are defined as financial culture. This aspect is essential from the perspective of clients, as they have to protect themselves from the potential risks and to choose the best offers in terms of credits, deposits, etc. In order to evaluate the role played by the Romanian banking system in the development of the local financial culture, a research has been conducted on the financial education projects carried out by the most important ten banks but also by the central bank of Romania and the Romanian Association of Banks (ARB), the professional association representing the banking sector. Some relevant financial education programs developed by the main banks in Romania, according to market share, are presented in the Box 2.

Box 2. Relevant financial education program in the Romanian banking system

Bank	Financial education program
1. Banca Transilvania	The financial education platform "Fluent in Finance" - The Banca Transilvania Financial Group supports this platform, which was launched on September 14, 2016. It includes educational materials on investments in pension funds and investment funds (1).
2. Banca Comercială Română	"Money School" - a financial education program that offers courses on responsible money management for both adults and children (2).
3. BRD – Groupe Société Générale	In the period 2016-2018, the BRD - Groupe Société Générale was involved in the financial education program for the primary and secondary schools "Money for children's understanding", a program developed by the Association for Promoting Performance in Education (APPE) (3).
4. UniCredit Bank	"Bankids" - financial education program for Grades V-VIII students, conducted between September 23, 2019 - November 7, 2019, which provides them with basics on budget management, expenses, savings / investments (4). "Major Start" - financial and career education program dedicated to students in vocational and technical education. Through this

Bank	Financial education program
	program, launched in 2019, students gain skills in developing a business or responsible management of financial resources (5).
5. Raiffeisen Bank	„ABCdar bancar" - financial education program developed in partnership with Junior Achievement, which facilitates the understanding by high school students of some basic financial-banking concepts (6). Financial education programs for primary school students - started in 2012, in collaboration with Junior Achievement (7)
6. ING Bank N.V., Amsterdam	"Moneymeter" - financial education program developed together with the Association for Community Relations since 2016. The purpose of the program is to provide advice and solutions to people with high debts (8). "Pocket Money 2.0" - financial education project dedicated to adolescents, developed in partnership with the "School of Values" Association during 2014-2016. The project uses the blended learning method (8). "Financial education for NGOs" - program developed together with the "TechSoup Romania" Association during 2014-2016. The program targets the non-governmental organizations and aims to improve the NGOs planning and reporting activity, as well as their bank relationship management (8).

Sources: (1) Banca Transilvania, 2016; (2) BCR, 2020; (3) BRD – Groupe Société Générale, 2018; (4) UniCredit Bank, 2019a, (5) UniCredit Bank, 2019b; (6) Raiffeisen Bank, 2018; (7) Raiffeisen Bank, 2004-2020; (8) ING, 2020.

The research carried out allowed us to draw several conclusions. First of all, the investigated entities are involved in actions to promote financial education, but their involvement in such actions has been realized only after the global financial crisis broke out. In general, banks have included information on these actions on their websites, which can, in principle, be grouped into two main categories: offering financial education courses and getting involved in educational materials. Often, in financial education initiatives, banks support various associations or foundations, including the APPE, association that promotes financial education as an optional subject in primary education.

Banks contribute to financial education courses that are dedicated mainly to students, both in primary and secondary schools. The purpose of these courses is to provide pre-university students with the basics of financial education in order to acquire a responsible financial behaviour. The topics covered are related to personal budget management, loans and savings. Considering that due to the economic conditions, there is a large community of Romanians in Spain, CEC Bank differentiates itself from other banks by offering courses in Romanian to these children (CEC Bank, 2018). Also, in order to increase the attractiveness of the courses, Alpha Bank has been involved in launching a financial education application, which includes educational games (Alpha Bank, 2018). The development of information technology has also been reflected in the courses developed by ING Bank, which used the blended learning method, based on the combination of traditional face-to-face and virtual learning (ING Bank, 2020). A small number of banks, including the Romanian Commercial Bank (BCR, 2020) and OTP Bank (OTP Bank, 2019), had as target group also the adults. ING Bank distinguishes itself through a program advising people with large debts and a financial education program that targets non-governmental organizations (ING Bank, 2020). In order to engage a large number of people, in 2012, the ARB carried out a financial education campaign co-produced with national television (ARB, 2012).

Supporting financial education platforms is another concern in the Romanian banking sector. The Romanian Association of Banks and the National Bank of Romania (NBR) are two of the 21 entities of the Financial Education Platform that have launched a manual for the financial services users. The manual covers both banking services and other services of the financial market (ARB, 2018a).

Nevertheless, the global survey conducted by Standard and Poor's (Klapper, Lusardi, van Oudheusden, 2015) ranked Romania last in the EU in terms of financial literacy level, with only 22% of the Romanian adults understanding the financial concepts, as compared to the EU average of 52%. Moreover, recently, according to the 2020 OECD/INFE survey on adult financial literacy performed worldwide, the adults in Romania achieved one of the lowest financial literacy score (11.2) (OECD, 2020). This means that the financial education projects undertaken have not covered a critical mass of trainees and have not been sufficient, and much wider actions are required to target a broader segment of subjects, both young and adult. In order to acquire responsible financial behaviour, it is crucial that financial education starts early, from kindergarten, and it becomes a compulsory subject in the school syllabus. In addition, in Romania, more attention should be paid to financial education programs for adults, which have been less targeted by bank initiatives.

In this context, the elaboration of national policies, for the promotion of financial education, as well as a national strategy in this regard is a necessity. The NBR and the Romanian Association of Banks, together with the Ministry of National Education, the Ministry of Public Finance and the Financial Supervisory Authority, concluded in 2018 a collaboration agreement on the elaboration of the National Strategy for Financial Education (ARB, 2018b). It is worth noting that on October 18, 2021, the Romanian Parliament voted the introduction of financial education as a compulsory school subject. This decision will be implemented starting with the next school year (NOCASH, 2021).

5. Banks' actions to meet their clients' needs under the COVID-19 pandemic

In less than 15 years from the global financial crisis, the COVID-19 pandemic has tested again the reputation of banks. However, unlike the global financial crisis that revealed many harmful practices in the banking system, this time, not banks have been responsible for the outbreak of the crisis. On the contrary, they were called upon to mitigate the negative effects of the pandemic and to contribute to economic recovery.

It should be pointed out that, following the strengthening of the regulatory framework, the Romanian banking system was better capitalized in 2020. At the end of 2019, total capital ratio across the Romanian banking system was 22%, level that greatly exceeded the required threshold of 8%. Besides, in December 2020, total capital ratio increased to 25.1% (BNR, 2020b). A reason of capital base improvement was that banks incorporated in their own funds an important part of the local banking sector's profit for 2019, which reached RON 6.5 billion (BNR, 2021). By comparison, the solvency ratios for the Romanian banking system in 2008 and 2009 were much lower (13.76% and 14.67% respectively) (BNR, 2009).

In line with European practice, banks in Romania have allowed customers affected by the pandemic to suspend the payment of installments, interest and fees on loans. According to the Government legislation issued to that end, the clients were allowed to defer loan repayments for up to nine months. That provision was applicable until 15 March 2021. As a result, during 2020, banks resolved 686,500 such customer requests, and between January 1 and March 15, 2021, 17,220 requests. Most of the applications submitted in 2021 (about 96%) came from individuals (ARB, 2021b). In that context, loans for which deferral requests for payment have been approved represented about 12.7% of the total loans of the banking sector (BNR, 2021).

The NBR has also taken measures to ensure financing of economy and functioning of payment and settlements system. These measures include cutting the monetary policy rate by 1.25 percentage points to 1.25% per annum[2] and enhancing the flexibility of capital and liquidity requirements. Following flexibilization of regulatory framework, banks can use capital in the amount of RON 10.3 billion. The NBR has contributed to increasing of banks liquidity by purchasing RON-denominated government securities on the secondary market and via repo transactions. The repo line concluded with the European Central Bank will allow the NBR to borrow up to EUR 4.5 billion (BNR, 2021).

Key responsible practices undertaken by banks in Romania as response to COVID-19 include measures to encourage the use of digital channels and to support community in the fight against coronavirus spread (Baicu, Gârdan, Gârdan, Jiroveanu, 2020).

The situation in the Romanian banking system during the pandemic differs from that during the global financial crisis also in terms of loan denomination. In the period 2016-2020, most of the new loans granted (over 80%) were denominated in national currency. Moreover, the loans accessed by the population were almost entirely RON-denominated (98%) (ARB, 2021a). Therefore the tensions between banks and customers over currency risk have decreased and trust in the Romanian banking system is likely to increase. This is in contrast with the previous period marked by conflicts especially with regard to Swiss francs-denominated loans.

[2] Subsequently, the monetary policy rate was increased to 1.50% in October 2021 and 1.75% in November 2021, source: https://www.bnr.ro/Rata-dobanzii-de-politica-monetara-1744-Mobile.aspx.

6. Conclusions

During the global financial crisis and the following years, the clients' negative experiences with banks have multiplied, the number of complaints increased and therefore banks' image worsened. In this context, the management of reputational risk has become a priority for banks in order to regain the general public's confidence. In contrast to the situation in other countries, where the object of criticism has been given mostly by the unfair practices (money laundering, loans granted under special conditions), in Romania the dissatisfied customers have been directly affected and their conflicts with banks have become a significant issue with major social impact.

Factors influencing the perception of banks' reputation are continuously evolving. To this respect, COVID-19 will definitely have a major influence on trust in banks. Unlike the global financial crisis, the outbreak of the pandemic revealed a different context for banks in Romania. Due to an improved regulatory framework they have had a good capitalization that allowed them to contribute to the mitigation of pandemic effects and economic recovery. To this end, banks have supported households and business affected by COVID-19 to suspend payment obligations to their credits. In addition, they have refrained from making dividend distribution to preserve their own capital. The NBR also played an important role in financing the public sector, households and real economy by providing liquidity in the banking system. In addition, the monetary policy rate was lowered and the prudential regulatory framework was aligned to the European trends by applying temporary flexibilization measures.

This analysis confirms our key hypothesis, namely that one cannot separate trust from bank reputation. Customers can trust banks if these are transparent, are open to find mutually advantageous solutions and adopt practices of social responsibility, including financial education.

Due to the fact that the COVID-19 pandemic is still underway, the full assessment of the impact of the COVID-19 pandemic on the reputation in the Romanian banking sector is not possible at this time. Therefore, one of the future research directions regards how the reputation of banks in Romania has changed under the pandemic, with focus on retail clients. Another relevant research direction is that related to competition in the financial sector in the Digital Age. Competition is on the rise, especially in the context of BigTech companies and their business models challenging the traditional banking sector. Large customer data bases, advanced data capabilities and rich technological resources enable BigTechs to be much more competitive than banks and attract more and more clients. Even banks with an excellent reputation can lose in this digital competition.

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Analysis about the Concept of Taste's Formators. An Interpretation of Komlos' Vision

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Abstract: We see or hear around us more and more, direct or indirect, urges about what is good to consume so we ask ourselves: do we choose what and when we need something or act under the impulse of what is communicated to us through the mass media or on social media?
Do we communicate something to our fellow men by mere presence, by attitude or appearance? But conversely, do we rely on what a person looks like? Does a luxurious look that makes us think of wealth bring strength to a person? Does the power of the wealth corrupts? How do we deal with corrupt manipulation through contracts with asymmetric information? Is the taste of modern human formed as a communicative manipulation of television and social media?
These are some questions that I present my opinion for, as an answer to the challenge launched by Professor J Komlos in the paper "Taste's and Consumption's Formators". Who are the formators of taste? Do we need them? What place does communication through social media occupy in the category of taste formers? Without considering that I am exhausting the subject through this work, I invite you to reflect on it.

Keywords: taste's consumption's formators, consumption's formators, social media, contracts with asymmetric information.

1. Television versus the internet - tools for taste's formation

Aldous Huxley, an English writer and philosopher, foresaw in the book Brave New World the dangers of the media, passivity, and how even an intelligent population can be led to happily choose dictatorship instead of freedom. Although the book is largely a fantasy, the economic elements of 2021 have been relatively touched by Huxley since 1932.

Huxley's dystopia is particularly terrifying, because the enslaved population absolutely loves their state of slavery. Even characters who are smart enough to be aware of what is happening (and why they should be worried) are content with the actions they are witnessing. Perhaps more terrifying than other dystopian novels, there is really no hope of change in Brave New World. The similarities between today's world and the book world are many, even if our technology has not yet caught up. (Hendricks, 2018)

Television and the internet have a huge influence on the way we think. It influences our purchasing decisions, our lifestyle and shapes our personality. As a person who works online and has studied this field in detail, I can say that the internet has both positive and negative influences.

Television has a strong impact, but it has declined among young people who prefer the internet over television. Generations that have grown up with television still consider it to have a huge impact on viewers, and television stars are still the ones who can influence their viewers the most. Also, television offers exposure to public figures, and this can be felt online, as they have, by default, a large number of followers on social networks. At the moment, I believe that television still plays an important role in influencing our way of thinking, but it is possible that in the not-too-distant future, its place, further leading, will be taken over by the internet. Vlogs are already gaining momentum, TV shows are moving online, more and more TV stars are opening their podcasts, and their fans are following them online.

Influencers, or content creators, are people with a large community of people who follow them and follow their recommendations. Content creators can educate their followers and shape their preferences and influence their purchasing decision. However, some content creators are not advised to make recommendations, and sometimes even come in front of followers with products that they promote just because they were paid. Therefore, we can discuss in this case both positive and negative influence.

Another negative aspect that the influence of the online environment has is body shaming, ie the lack of self-confidence that is generated by the false physical perfection with which it presents itself to influence. Many applications and filters are used that change and improve the physical appearance, they end up looking perfect in front of the followers, thus generating frustrations. The effect leads to many cosmetic surgeries, self-doubt, and possibly even more serious cases.

Speaking of social media, we cannot fail to mention the huge increase in popularity of the Tik Tok application in recent times. This is mainly due to the algorithm that allows users to reach organically a large number of people, potential followers, without already being celebrities or acquaintances. The catchphrase phrases on Tik Tok spread very quickly, the trends have a huge impact on the users of this application, the influence of Tik Tok on the way of thinking and acting, implicitly the purchasing decisions, modeling the taste of the followers being huge.

2. Advertisements - a tool for forming taste

Advertisements are part of our lives, we run into them on TV, on social networks and anywhere online, in magazines, on the street in the form of posters and billboards, leaflets. Komlos' question is quite harsh, I do not think that advertisements affect our ability to live our lives the way we want, but, indeed, they impact our lives to a great extent.

Digital marketing experts estimate that most Americans are exposed to about 4,000 to 10,000 ads each day (Simpson, 2017). The advertising industry revolves around creating commercial messages that require the purchase of products or services. As consumers, we need and want to be informed, which is a positive feature of the advertising industry. However, some advertisements are meant to lead to the purchase of goods and services that we do not need. Some advertisements may only promote restricted features of the products or services, may mislead buyers and misinform them.

Sometimes we voluntarily choose to buy goods or services that we do not necessarily need, just because we have been influenced by advertisements. Sometimes we even buy things that have proven to be harmful to us, such as cigarettes and sugary drinks. Does advertising lead us to unnecessary purchases? By definition, advertising aims to persuade consumers to buy goods and services, many of which are absolutely dispensable. John Kenneth Galbraith, an award-winning economist at Harvard University, has addressed this issue directly since 1958. In what he described as the "addiction effect," Galbraith expressed his view of the power of corporations to leverage advertising strategies at the wide and marketing efforts to influence consumer purchasing decisions. (Galbraith, 1958)

John Kenneth Galbraith asked if it was possible for a large advertising campaign to create a demand for a product whose benefits are at least frivolous. If so, is there something inherently wrong with that? Or are informed consumers themselves responsible for resisting tempting - albeit misleading - advertising claims and exercising their own judgment about buying a product that could be successful, not because it deserves to be, but simply because of marketing? behind it? These questions remain fundamental to the manager's task of creating ethical advertising campaigns, in which truthful content is a priority instead of inducing wasteful consumption. Compulsive buying disorder (CBD) was first described clinically in the early twentieth century by Bleuler (Bleuler, 1930) and Kraepelin (Kraepelin, 1915). Bleuler described CBD as an example of "reactive impulse," or "impulsive insanity," which he grouped with kleptomania and pyromania. For people whose purchase is compulsive, it leads to "a meaningless contraction of debts, with continuous delay in payment until a catastrophe eliminates the situation a little - because they never recognize their debts."

Shopping addiction is primarily a women's issue. The typical compulsive shopper is an educated woman, 36 years old. The average age of onset is 30 years. Clinical studies suggest the onset of compulsive behavior as soon as people achieve financial independence or earn their first salary. (Lejoyeux, 2013)

We live in an advertising-driven society, driven by consumerism and the need for assertion, so I think many people around us who have medium and high incomes are compulsive shoppers.

From a psychological point of view, it seems that the need to buy anything can have a pathological origin. (Pacurar, 2010) Prolonged stress can be one of the causes that lead to exacerbation of addictions, such as shopping, which is considered a method of relaxation.

We have already discussed the impact of advertisements on us and how, more or less, they turn us into adults, into the citizens of the country, because our personality is influenced by the expressions of some advertisements, the way of life is also influenced by the advertisements that have surrounded, and purchasing decisions are obviously driven by the ads we have seen, which have created awareness and, perhaps even without awareness, we opt for products and services that have remained in our cognitive level, thanks , or more correctly because of the ads I interacted with.

Children are particularly sensitive to the television commercials they come in contact with on a regular basis. In general, young children do not have a sufficiently developed judgment to know which promoted products are good for them and which of them have little benefit or maybe even harm. Research has shown that very young children have difficulty separating what is real on TV from what is not. Skilled marketers take advantage of the fact that they see advertising in the same way they receive information from trusted adults.

It is an interesting idea to ban advertisements for children under 12, but I think it is impossible to control, implicitly to achieve. Children's personalities would be natural, they would not become compulsive shoppers, and they could make decisions in life that they themselves consider necessary, not those that are subconsciously induced by advertisements.

And yet, this would be impossible to achieve. Children will come into contact with ads in the online environment, when they watch their favorite content creator, they will see the advertising posters on the street.

Under the Broadcasting Act, Norway prohibits advertising to children under the age of 18 and advertising in connection with children's programs on TV, radio and teletext. The ban includes any product, including food and drink, but only applies to the media. Advertising is prohibited if the product or service being promoted is of special interest to children, if animations or other forms of presentation are used which attract children in particular, depending on the time the advertisement is broadcast and if children under 13 appear in advertisements. The use of persons or figures who have played an important role in radio and TV programs for children and young adults in Norway in the last 12 months may not be used for commercial advertising. (Heart and Stroke Foundation of Canada, 2020)

The consumption of those around us impacts us strongly, probably most of the time unconsciously. If someone in our environment has bought a pair of designer shoes, we will feel pressure to make the same gesture, to stimulate our sense of belonging. In the online environment, we see how the content creators left and in a vacation, implicitly we will feel the need to take a vacation, not to install the feeling of FOMO - Fear of missing out.

Fear of missing out (FOMO) is a social anxiety that stems from the belief that others might have fun while the person experiencing the anxiety is not present. It is characterized by the desire to remain continuously connected to what others do (Fear of missing out). FOMO is also defined as a fear of regret, which can lead to concern that an opportunity for social interaction, a new experience or a profitable investment may be lost. It seems that FOMO negatively influences health and psychological well-being. (Wortham, 2011)

FOMO is therefore a strong factor in being influenced by the consumption of others.

Jonah Berger, a professor of marketing at the University of Pennsylvania's Wharton School, discusses how our behavior is shaped by others and examines our constant struggle to be optimally distinct - not too different or too similar. (Berger, 2016) We certainly have this notion of being influenced and there are cases where being influenced is bad, but there are just as many cases where being influenced is helpful. In some situations, such as choosing a restaurant, it is helpful to use online reviews or ask friends.

To the same extent, we are influenced by the consumption of social and cultural norms. There are elements that define us as a citizen of a country, they give us the feeling of belonging to a social group. We want to be part of a community and we need to have behavioral similarities, and that involves the level of consumption.

3. The power of wealth - myth or reality

My favorite childhood writer was Anton Pann and his collections of parables "The Story of Speech" as well as "Nastratin Hogea's Mischief." I remember one of his stories in which he introduced the teacher Nastratin Hogea, "Clothes are more viewed than the honest person", in which the author describes how Nastratin Hogea was treated at a wedding at which he dressed poorly and how the behavior of the bride and groom changed after the teacher borrowed precious clothes for the wedding. As a result of the respect he received when he came dressed in precious clothes, Nastratin Hogea spoke to the clothes urging them to eat. Puzzled, the bride and groom asked him why he was doing this and the wise teacher's answer followed:

"Because," he replied, "when I first came," / With bad clothes, no one honored me, / And when I greeted them, they barely said, "Thank you!" / And when I came with these, they all said to me, "Here we go, here we go!" / Because I see everyone looking at clothes, and they don't honor the person."

It seems, therefore, that even in ancient times the proverb "no clothes make man" was not very true.

A post on a famous social media account debates the topic of wealth and happiness. The post says that rich people think that money does not bring happiness and are intrigued by the fact that those who are not as wealthy do not agree, considering that they are bored to claim that money does not bring them happiness. A quantitative study conducted following this post shows that most respondents believe that indeed - money brings happiness. The topic addressed by Komlos is one of the possible answers to this dilemma.

Of course, the most quarrelsome will say that it is not money that brings happiness, but experiences that are responsible for this feeling. But what background do the experiences have? Holidays are paid for with money, a special dinner at a Michelin-starred restaurant is also paid for with money. The reason why money does not bring happiness to the rich is obviously more philosophical than that.

"Wealth turns directly into power, and power is the ability to control the actions and even the thinking of others" (Komlos, 2019, p. 182). Out of the excessive need for power, I believe that people become slaves to money, which implicitly provides an answer to the dilemma addressed by the famous social media account. The more money you have, the more you want, and the more.

Perhaps the theory is not coherent for those who are not as wealthy, not to call them poor because I do not consider it a similar and necessarily appropriate term, but we could just as well exemplify by another hypothesis. A stupid person does not know that he is stupid because he is not aware of the amount of information he lacks, it is a concrete fact, researched by specialists and approved by many people. A smart person will always be eager for knowledge and knows that the information he has will never be complete and that he can always find out and learn more. The same goes for a rich person, the more money he has, the more he needs and wants. And it does not necessarily need money, in itself, but the power they offer.

The idea of society in a world driven by consumerism only accentuates the needs, maybe even the desperation of an individual to consume more and more, especially to be able to be part of society and align with a standard of the people around him. John Komlos emphasizes the psychology of this behavior through a trivial example, to which we have each been subjected at least once in our lives "We order differently in a restaurant when we are alone or when we are accompanied" (Komlos, 2019, p. 146-148). Indeed, the entourage easily influences us to have another drink, when we actually wanted to leave the party or order more under the influence of the pride of showing those around us a greater financial power than thinking of ordering what we really want (or what we really allow).

Komlos quotes Whyte and states that "we adhere to group thinking in order to avoid conflict and assimilate group norms," our individuality being subject, as Whyte pointed out, to group ideology.

We humans are beings who need to be influenced. Mega corporations aim to lead the population like a herd of cows and it succeeds through the ease of influencing the common man. It is interesting to emphasize that we are born neutral and our needs "are acquired, they do not appear spontaneously in us". We become adults with a character influenced by the advertising industry. Corporations rely on celebrities, content creators on social media - influencing this era to make us "assimilate the dominant culture." Komlos strongly expressed this phenomenon, saying that we are learning to become adults in the terms set by the advertising industry.

The wealth means power, and as we began this work - the more money you have, the more you want, obviously this principle also applies to the need for power. In most cases, power corrupts. Power corrupts, power destroys ethics and responsibility in an organization, power greatly weakens its level of integrity.

People need to learn to feel in order to understand the moments when they are overpowered with those around them, they need to be educated to understand what overpowering means (in the family, at work, among friends, in public, in social media etc). The same goes for responsibility. It's the starting point. The world is not linear: if you do this, this will happen. The world, society, organizations do not work that way. We are part of an ecosystem and all its elements have a contribution to the next moment that happens. (Panaite, 2019)

Power corrupts even honest people, according to a study by researchers at the University of Lausanne. (Cîmpeanu, 2014) A group of volunteers was set up who underwent a series of psychometric tests, designed to measure various individual differences, including honesty. After that, the participants played the "dictator's game", where they had complete control over the decisions about compensation for themselves and their descendants.

In the role of leaders, they had the opportunity to make pro-social or anti-social decisions, the last of which led to a total reduction of the so-called "pay-out" (in technical jargon, the distribution of net profit in the form of dividends) to the members of the group, but, on the contrary, to an increase of their own income.

As expected, the results showed that those who were classified as less honest presented the most corrupt behavior. But the surprise was that even those who initially achieved high scores on honesty, over time, did not escape untouched by the corrupting nature of power.

But what can we say about the connection between wealth and education? Education starts at home, the parent is the first example for the child, he teaches him to speak, to behave in society and develops his personality. The parent also gives him access to certain information that will create him as an adult. When asked by Komlos about a teacher's salary, if he should earn as much as a principal, I start by saying that I consider the education system to be a snowball. As I have already said, I believe that education starts at home and the role of a teacher is to polish.

But does it serve its purpose? Does the teacher grind a child correctly? To a large extent, no. There are few teachers who master the information taught very well, in which they have an interest in passing it on or psychological knowledge to reach the student in an appropriate way. Theoretically, if we stop at this conclusion, it is easy to say that, indeed, a teacher should not have a general manager's salary. But now comes the snowball effect and we wonder if teachers' salaries are too low and so those who could be deserving teachers choose a more lucrative job, or teachers cannot sculpt the minds of young students to a high level and therefore not is it worth a director's salary? The truth is probably somewhere in the middle, probably the salaries are too low for a teacher who would be really involved in educating a generation. John Kennedy stated, "Children are the most valuable resource in the world and the best hope for the future," which means that we must invest in this resource, and that means, in my view, that we must invest in teachers, including wages that would be attractive to fit teachers.

4. Handling by contracts with asymmetric information

Asymmetric information is defined by George Akerlof as information that occurs when one party knows more about a good, service or contract than the other. (Akerlof, 1970) We can talk about opportunism, even deception, in some cases. Komlos claims that millions of contracts with asymmetric information have been signed by the parties.

I believe that an important contract should always be checked by an experienced lawyer in that field. To the question asked by Komlos about people who were unpleasantly surprised by a contract, I will answer with a personal example.

In 2016, we organized the first show at Romexpo, and their contract hid a small detail. We organized the show in December, the period when the hall needs heating. I asked them to start the heating system, at which point I was confronted with asymmetrical information: the contract stipulated "Romexpo Hall provides heating systems". All good and beautiful, but when it was necessary to heat the room, a huge room, high costs, we were drawn to the fact that we only benefit from the heating systems, the fuel is at our expense, it is not available to us in the agreed price in contract.

An unspeakable detail for the beneficiary of the contract, the asymmetric information consisting in a misleading expression "provides heating systems". Komlos categorizes this as an exploitation, because one party consciously took advantage of the other party to obtain gain benefits. (Komlos, 2019, p. 174).

5. Can we equate perfect life with the American dream?

Also from the category of influences on the way or place of living, Komlos challenges the reader with the question: Can we put the equal sign between the perfect life and the American dream?

The American dream is the belief that anyone, no matter where they were born or from what social class they were born, can get their own version of success in a society where upward mobility is possible for everyone. (Baron, 2021). At the same time, it is believed that the American dream is realized through sacrifice, risk-taking and hard work, rather than by chance, so although it is accessible to everyone, it is a lot of work and not many can achieve it.

Today, owning a home is often cited as an example of achieving the American dream. It is a symbol of financial success and independence and means the ability to control one's own home instead of being subjected to the whims of an owner. Owning a business and being your own boss is also the fulfillment of the American dream. In addition, access to education and health care were cited as elements of the American Dream. (Baron, 2021)

The American dream is outlined annually for as many citizens as possible. The number of homeowners has steadily increased over time in the United States, reflecting a key aspect of achieving the American Dream. For example, the property rate at the end of 2020 was 65.8%, which reflects a 0.7% increase over the previous year. Entrepreneurship, another criterion of the American dream, has always been important to the US economy. In 2019, small businesses created 1.6 million jobs. (Baron, 2021)

There are certain situations in which I think it is moral to take advantage of people's ignorance. As long as customers are "naively willing", I can even say that it is worth taking advantage of them. As long as companies do not resort to verifiable lies, we can also resort to consumer naivety as a marketing strategy.

An example that I consider pleasant is the one that targets Carmen Harra (KFetele, 2017). She made fortunes based on the naivety of the Americans and built a business through which she practically took advantage of the ignorance of the customers. She made a jewelry brand with various stones, which bring good luck to those who wear them.

Americans bought these stones to attract money, love and other personal needs. I consider that the business is not necessarily a lie, because it can induce the placebo sensation and thus, the jewelry could even give some yield through self-suggestion. The business is not based on something we can consider to be 100% false, because those stones are considered in astrology to be truly lucky.

We can keep in the same industry the negative example of profiting from customer ignorance and talk about witches who cast spells and apply black magic.

Another negative example of profiting from people's ignorance is presented by (Ciocan, 2016), who talks about the situation in which some traders use the ignorance of buyers to take advantage of the fact that in the public consciousness there is the idea that the difference between raised chickens Naturally, the so-called "chickens", and those who are raised on a poultry farm is given, visually speaking, color. "Several food chain networks are taking advantage of this prejudice and selling so-called chickens."

The only argument for the origin of the birds is their yellow color. In reality, the yellow color of the skin and flesh is obtained by mixing the fodder with which the birds are fed with various chemicals, which lead to a change in the color of the skin and flesh. Experts say that these chemically synthesized substances not only change the color of chickens, but are assimilated into meat and can produce unwanted effects on consumers' health in the long run. Some chicken producers put chemically synthesized feed additives in their feed to change the color of the chickens.

Basically, it's a marketing thing, because manufacturers use chemical dyes to sell the product better, because they can be confused with chickens. The whole process is like this: the dyes dissolve in fat, after which they accumulate in body fat. Where there is more fat under the skin, the chicks are more colorful."

6. Conclusions

As Hobbs said, wealth means power, and we, driven by the need for power, have created a corrupt society. Wealth provides irresistible incentives for politicians and creates the need for companies to exist in markets that are not perfectly competitive. Corporations have extended their harsh control of society beyond the military-industrial complex, encompassing the financial sector.

We have reached a time similar to that described by Aldous Huxley in which passivity and how even an intelligent population can be led to happily choose dictatorship instead of freedom. They leave us consciously manipulated by the advertising industry, but, nevertheless, they are not aware of how much our mentality, will, unconsciousness is affected.

Komlos proposes to replace the adult economy with one that begins at birth and recognizes that tastes are endogenous. These measures are beginning to be taken gradually, with steps being taken in Norway, Canada, England, Mexico and Ireland. The power of the advertising industry to promote an unrealistic image should be limited.

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Development of the Organic Food Market in Romania during the COVID-19 Pandemic: a Perspective on the Supply Chain

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Abstract: Organic food is seen as a less harmful alternative to conventional products, both in terms of personal benefits as well as environmental benefits. Therefore, because health became a major concern during the COVID-19 pandemic, green consumption was one of the alternatives through which people tried to take care of their health. Changes also occurred in the organizations involved in the organic food market, these being forced to adapt to the new market context. This paper aims to highlight the most relevant characteristics of the organic food market in Romania, in the context of the Covid pandemic, from the perspective of the supply chain participants. The research method used was the in-depth individual interview, conducted among specialists from organic certified companies. The research was conducted among producers, processors, distributors and retailers, to provide an integrative view on the researched topic. The results showed that the growing interest of consumers in recent years in leaning towards organic food has been accentuated by the Covid-19 pandemic. This trend was intensified by the "democratization" of organic products observed among general retailers, which determined the gap between the prices of organic food and similar conventional alternatives to be smaller. However, the Romanian organic food market is still a niche, characterized by a low level of education among consumers regarding green consumption and by the lack of involvement of institutions empowered in the development of this market. These realities also lead to a small number of organic certified processors, which is reflected in the significantly limited number of locally packaged organic products. Even though the COVID-19 pandemic has provided a significant and unexpected impetus, sustained efforts must still be made by stakeholders to develop this market segment.

Key-Words: organic food market, green products, organic consumption, supply chain, emerging market, COVID-19, pandemic.

JEL Classification: M00, M10, Q00.

1 Introduction

The COVID-19 (Corona Virus disease-2019) global crisis has certainly affected all aspects of the day-to-day life of the population, influenced the eating habits or contributed to the change of lifestyle of a great number of people (Śmiglak-Krajewska & Wojciechowska-Solis, 2021). At the macroeconomic level, the disruption caused by COVID-19 is unique and cannot be compared with other crises in recent years, including the Great Recession of 2008-2009. The high uncertainty regarding the duration, depth and lack of generally accepted economic scenarios determines a need for a robust analysis of the new market context. However, there is a consensus that the impact of COVID-19 is present on both supply and demand (EIT Food, 2020).

The report of M&A Agriculture, Food and Beverage Group's Global Food and Beverage Industry shows that the Covid-19 epidemic had several effects on different areas of the food industry in all regions of the world, Asia-Pacific and Europe being the most affected (Radu, *et al*., 2021). These developments have changed the "rules of the game". Farmers have come into direct contact with consumers more frequently, retailers have been forced to rapidly improve their online ordering capacity, and consumers to pay more attention to the nutritional value of food (EIT Food, 2020), as well as to the elements or certifications that offer them the guarantee of food safety.

However, despite the strong economic impact of the pandemic, packaged food was one of the least affected industries, with positive growth rates for 2020. Also, although organic products usually have prices which are higher than the conventional ones and the decrease of the world GDP was the highest in decades, organic food sales increased in 2020. The growth rate of packaged organic food was the highest of all health and wellness categories (Euromonitor International, 2021c).

This evolution is owed to the fact that health has become a major concern during the COVID-19 pandemic (Euromonitor International, 2021c), which was manifested, among other things, by additional care of the population to assimilate healthy eating habits. These changes have created and continue to create opportunities for growth and innovation for companies concerned with providing consumers with more environmentally friendly alternatives. Therefore, producers and retailers of organic products must seize the opportunity to change the mentality of consumers, who have realized, among other things, the importance of supporting local businesses (Cachero-Martínez, 2020; Kantar, 2020).

This paper aims to analyze the context of the Romanian organic food market resulting from the outbreak of the COVID-19 pandemic. Also, by analyzing the perspective of several categories of stakeholders, the paper signals the most relevant current characteristics of this developing market. The analysis of the critical opinions of the interviewed specialists regarding the evolution of the internal organic market helps to define the new market context and offers directions for improvement and development, in order to increase the consumption of organic food locally.

2 Organic food in the context of the COVID-19 pandemic

COVID-19 accelerates some of the key trends that have developed in recent years in the food industry. The shift from treatment to prevention has become increasingly evident as consumers have become more concerned about their health (Euromonitor International, 2021c). Thus, as the COVID-19 pandemic is a health situation, consumers undoubtedly have concerns about food safety and the health of their families (Latip, *et al.*, 2020; Śmiglak-Krajewska & Wojciechowska-Solis, 2021). Therefore, the outbreak of the coronavirus pandemic has forced people to rethink their eating habits, what they eat, where they get their food from and how food is produced, stored and prepared (Bhattacharjee, *et al.*, 2021; Śmiglak-Krajewska & Wojciechowska-Solis, 2021). Organic food is seen as a less harmful alternative to conventional products because they do not contain GMOs and have lower exposure to pesticides and antibiotics. On the other hand, organic certifications serve as a seal of quality, transparency and trust (Euromonitor International, 2021c).

In addition to the absence of substances harmful to human health, organic food is recognized for its high content of nutrients (vitamins, minerals, phytonutrients, micronutrients) (Lairon, 2011; Naspetti & Zanoli, 2009; Sidali, *et al.*, 2016). Voinea, *et. al* (2015) showed that the positive image of organic food is due, among other things, to the additional intake of nutrients with a positive impact on health (proteins, vitamins, minerals, essential fatty acids, fiber). Given these perceptions, consumers, taking into account the recommendations to maintain a strong immune system, to stay away from foods high in preservatives and to eat products rich in antioxidants, were encouraged to look for green products during the pandemic (Bașay, 2020; Gumber & Rana, 2021).

Consumers have also become increasingly aware of the dangers that result from a lack of concern regarding the care for the planet. Before the pandemic, there was a perceived increase in collective environmental concerns and sustainability, but COVID-19 further accelerated this process and motivated more people to take on this responsibility (Cachero-Martínez, 2020). According to Euromonitor International's Health and Nutrition survey, 47% of consumers are looking for organic food for environmental reasons. In addition, sustainability involves not only the impact on the environment, but also on the community. Supporting the local economy must become a priority, taking into account the fact that it is more environmentally friendly to buy the products of local farmers than those that require long-distance transport (Euromonitor International, 2021c). Thus, the health crisis may increase the consumption of organic food, made from raw materials grown by organic farming methods and which have not been genetically modified, which have been processed without the use of chemical additives and preservatives (Cachero-Martínez, 2020; Śmiglak-Krajewska & Wojciechowska-Solis, 2021).

On the other hand, consumer savings in travel, food service, entertainment and clothing have provided the opportunity for some of these resources to be allocated to organic food. Some of these savings have allowed consumers to afford higher organic food prices, which have incorporated many of their new priorities, including healthy eating, food safety, sustainability and animal welfare (Euromonitor International, 2021c).

Thus, the growth of organic food in 2020 has been favored by three main factors. First, the focus of consumers on prevention in terms of health and the pursuit of food safety. Second, consumers who care about sustainability and welfare of animals. Lastly, a change in consumer priorities and behavior and a more mature market, with more private labels available and smaller differences between the prices of organic and conventional products (Euromonitor International, 2021c).

Therefore, the COVID-19 crisis has a positive impact on consumers' attitudes towards organic food (Xie, *et al.*, 2020). Statistics confirm that there is a significant increase in awareness regarding organic food, the relationship between nutrition and health and the impact of lifestyle on the environment (Askew, 2020; Bhattacharjee, *et al.*, 2021; Gupta, 2021). The current pandemic situation may strengthen the health motivations behind food purchasing, which can significantly influence the organic food market (Drejerska, *et al.*, 2021). In this way, organic food has experienced a major increase in global demand (Başay, 2020; Kalra, *et al.*, 2021).

According to the Euromonitor International Voice of the Industry survey, almost 45% of professionals in food and beverage companies believe that increased consumption of health and wellness products is a change that will continue post-pandemic (Euromonitor International, 2021c). Thus, it is clear that although COVID-19 has taken many lives, it has nevertheless shown the world the path to healthy living and the value of protecting human health and the environment for us and future generations (Kalra, *et al.*, 2021).

3 The organic food market in Romania during the Covid-19 pandemic

The COVID-19 pandemic has significantly disrupted all sectors of the agri-food industry in Central and Eastern Europe. These disruptions, although having a significant negative impact, also accelerated the trends to which the industry should have adapted. The most important of these trends are the digitalization and change of consumer preferences. However, different actors in the agri-food value chain need to prepare for greater structural changes that will have an impact on the sector, including climate change and stricter environmental regulations. To some extent, the pandemic is a preamble to these changes (EIT Food, 2020).

In Romania, interest in organic products has grown steadily in recent years, both in terms of consumption of organic food as well as in terms of concerns for renewable energy sources. While interest in organic products has a long tradition in developed countries, Romania is still in the market development phase, requiring sustained efforts by stakeholders to achieve more efficient and more adapted marketing to the specifics of the market, but also for educating and attracting consumers to adopt a pro-ecological behavior (Stoica, *et. al*, 2020).

According to the USDA FAS, organic products remain somewhat limited in Romania. The local food processing industry has not been constantly concerned with developing the organic product segment, as the consumer base is still relatively small (EIT Food, 2020). Therefore, many of the large companies in the food industry prefer to postpone the moment of entry into this market segment. Until then, some of them are trying to rethink their current product ranges so that they are perceived by consumers as healthier. Consequently, the number of substances/ingredients considered unsafe, dangerous or even harmful to the human body is reduced and more and more clean products are developed, without flavor enhancers, dyes, preservatives etc.

Cris-Tim launched on the market, several years ago, the "Clean Label" (Porumb, 2021), thus signaling that it makes gluten-free sausages, without starch, without MDM, without soy, without synthetic dyes, without added monosodium glutamate. This is the company's promise that is offers products with the highest meat content, tasty and healthy, masterfully made from clean ingredients of the highest quality (Cris-Tim, 2019). The scandal of citrus peels covered with dangerous pesticides (Thiabendazole, as well as Imazali, or E233) at the end of 2017 (StirileProTV, 2017) led to the appearance on the market of "untreated" citrus fruits or, more precisely "untreated after harvest", but which are not also organic certified. Also, under the slogan "Clean food as in the good old days", Scandia Sibiu offers the promise of clean recipes, without Es or artificial additives (Scandia Food, n.d.).

In times of crisis caused by the Covid-19 pandemic, health has once again become a central theme of the discourse (Porumb, 2021). The pandemic context has led to an acceleration of consumer concerns towards ensuring a balanced diet in order to maintain good health, along with the need for guarantees in terms of food safety. Also, profound changes have taken place regarding the way in whitch the consumers purchase the desired products. Thus, consumers have chosen to buy more and more frequently from the Internet, from small specialty stores or directly from small local producers, thus avoiding large shopping malls and supermarket chains. However, small producers were not prepared for such a reorientation of consumer preferences. The desire of consumers to have access to deliveries of fresh fruits and vegetables highlighted the current lack of investment in a short supply chain of local fresh food (EIT Food, 2020), but also the lack of collaboration between small manufacturers, so as to meet the demand with a series of optimal solutions.

Marked by Covid-19, but also by the increase of the product category in supermarkets and hypermarkets, the value sales of packaged organic food increased by 16% in 2020, reaching RON 295 million, according to Euromonitor (2021a). The segment of organic dairy products is still the most popular segment of packaged organic foods in Romania. The most important player, FrieslandCampina Romania, was the main contributor to the growth of organic dairy products in 2016 through its brand Napolact Bio. In May 2020, FrieslandCampina Romania launched an e-commerce store, offering deliveries in the Cluj-Napoca region, where it has its headquarters (Luca, 2020). Other top brands, such as ‘Zuzu Lapte Bio’ from Albalact SA, ‘Covalact de Tara Bio’ from Covalact SA and Olympus Bio from ‘Fabrica de Lapte Brasov SA’ grew in 2020, bringing organic dairy products closer to the mainstream segment (Euromonitor International, 2021a).

Instead, the value of retail sales of organic beverages increased by 12% in 2020, reaching RON 26 million. This increase is mainly determined by private labels, which are perceived to offer a good value for money. The increase was also driven by organic fresh coffee, whose sales volumes remain much higher than organic tea. 100% organic juice remained the most popular organic drink in Romania in 2020, due to its perceived health benefits (Euromonitor International, 2021b).

Regarding the number of registered operators in organic farming, the trend was also upward. If at the end of 2019 there were, according to the Ministry of Agriculture and Regional Development (2021), 9821 registered operators, their number increased to 10210 operators, at the end of 2020.

By 2025, sales of packaged organic food are expected to amount to RON 470 million (Euromonitor International, 2021a), while the estimate for organic beverages is RON 51 million (Euromonitor International, 2021b). Some of the largest increases in current value are expected to come from organic honey and jam, as consumers will be looking more intensely for healthier alternatives to sugar (Euromonitor International, 2021a). Important growth is also expected for private labels in this category, but also for local products, which will penetrate more easily into large retail networks, due to consumer pressure (Euromonitor International, 2021a; 2021b).

4 Research methodology

The purpose of this research is to highlight the most relevant characteristics of the Romanian organic food market, in the context of the COVID-19 crisis, from the perspective of different categories of participants in the supply chain.

The method of gathering information is the in-depth, semi-structured individual interview. The target population consists of Romanian companies that have organic certification granted by an accredited private certification body. The target population includes producers, processors, distributors and retailers. The research was conducted among professionals in management positions.

During the information gathering stage, 25 interviews were conducted (13 producers/processors, 7 distributors and 5 retailers, among which 2 were specialized retailers and 3 were general retailers). The interviews were conducted between November 2020 and February 2021. The transcript of the interviews is available for consultation upon request.

In order to respect the confidentiality of the participating companies, the following coding of the interviews was used: IP - companies producing/processing organic food; ID - organic food distribution companies; R.S - retailers specialized in the sale of organic food; IR.G - general retailers.

Taking into account the nature of the data collected, in the data analysis we will not present statistical reports. The research was based on codes created by the researcher, pursuing the purpose of the research. Finally, the codes obtained were examined for meaning and interpretation.

5 Research results

Generally, the companies' representatives are optimistic about the evolution of the organic food market in Romania, but they agree that many steps still need to be taken before we can talk about a developed and mature organic products market.

5.1 The Romanian organic food market is still a niche market

The organic food market is currently considered a niche market, which is still „*far from what is happening in other countries, that are considered, so to speak, developed countries*” (ID6). This niche market „*is a very little part in the food market, compared to other EU or world countries that have much higher percentages of consumption in organic food markets and much better-developed product categories*” (ID3). Compared to these countries, which „*are already very far away and have hundreds of organic stores, we do not have a single store in the country that has exclusively certified organic products*” (ID2).

However, this is a market „*that has not reached its maximum potential*” (IP11), and sustained efforts are still needed from all actors involved. The need for these steps is seen by one of the specialists as follows: „*The* *fight in this niche is quite fierce, but only together, joining forces, educating, we can grow the market. The more people, the more they all deliver quality, the more people gain trust, they buy without emotions, and bio will be perceived differently. So, yes, we are happy with everyone's efforts, this is the only way we can increase the category*" (IR.S1).

5.2 The support of state institutions in the development of the organic food market is considered to be quite low

Most specialists say they are not satisfied with the involvement of state institutions in the development of the organic food market. They say they are dissatisfied with the lack of measures taken to support organic food processors, as well as the lack of information and education for end consumers. One of the specialists states:

„*The point is that for organic products, at least in our country, the authorities did not do much. As we encounter all kinds of campaigns on the radio saying 'drink two liters of water', 'eat fruits and vegetables', I did not see a campaign which explains to the population through the mass-media, like in the case of the rest of the campaigns I was talking about, so that people know what the organic product means and how they can differentiate it from a conventional one*" (ID2).

5.3 The positive evolution of the organic food market is due to the change in consumer preferences in this direction, especially in the context of the COVID-19 pandemic

As the participants in this research report state, the main change in this market that occurred during the COVID-19 pandemic was among consumer behavior. Experts say that an increasing number of consumers have become aware of food and the possibility of including in their daily shopping cart foods considered healthy, including organic food. Some of the opinions expressed by specialists on this subject are presented in Table 1.

Table 1: Statements on the evolution of the organic food market in the context of the COVID-19 pandemic

Interview	Statement
IR.S1	*„The organic market is growing and has grown over the years, it has had a relatively stable growth. It was only in 2020 that it accelerated, somehow due to the pandemic context, which led to a reorientation and re-evaluation of consumers, reorientation towards cleaner, organic products. Consumers have understood that what they eat directly influences their health"*
ID4	*„It is a dynamic and growing market. Especially since in pandemic days it has been proven that people are more attentive to what they use in their diet"*
ID1	*„...Regarding organic products sold in Romania, I think things are growing maybe because of the pandemic that imposed the idea of healthy eating, maybe because the big food retailers in Romania have started to have their own brands on the shelves"*
IP4	*„I think that only now, due to the pandemic, people have started to learn more and understand what bio really means"*
IR.G2	*„People are more and more concerned about eating healthy. This concern has intensified especially after the pandemic, the concern for their own health... Given the fact that people stayed at home, the fact that there are various viruses spreading and so on, people began to think a little more about their health and try to prevent rather than treat. The easiest and most convenient way for them to do that is to start eating healthier"*

Source: author's own study.

However, this increase cannot be entirely attributed to the pandemic context, as a significant number of consumers are frequently reoriented towards the consumption of healthy food, and implicitly, in some cases, towards the consumption of organic food. Therefore, „*people want to eat healthier products, as natural as possible, less processed… […]… with controlled origin….*" (IR.G1). „*The expansion is due to the increased attention of people for what they eat, a greater awareness that food really matters, and organic products are obviously a healthier alternative, even if not necessarily in all cases*" (IR.G3).

5.4 Lack of education among the general population regarding the consumption of organic food

Most of the interviewed specialists consider that the general public does not understand even at this moment the concept of green/organic product/food, this being often confused with other concepts, such as: "*natural product*", "*traditional product*", "*product cultivated/grown in rural areas*", "*artisanal product*", or "*hand-made product*". Some experts believe that the public „*did not understand that organic has those three points in the legislation: it is not sprayed, it is not genetically modified and no fertilizers or chemicals are used*"

(IP5). Also, some experts say that the general public does not know how to recognize organic products, therefore does not differentiate them from conventional products („*They do not know that organic products must have that green leaf, the European logo, do not know how to recognize them*"- IP4). Therefore, it is difficult to believe that the majority of the public knows the benefits of organic products, both for individuals as well as for the environment.

5.5 Poor development of local organic processing activity

At this moment, the Romanian market is marked by significant exports of organic raw materials and imports of packaged organic products.

„… Unfortunately, organic production is not very, very developed. We produce raw materials that we export in raw form, in developed countries, where there is a processing infrastructure. They return to us in the form of finished products, at some costs and for slightly higher prices than what the average person in Romania can afford" (ID6).

Related to this topic, an important part of the specialists believe that this situation is due to the fact that the state subsidy is granted only for the agricultural land cultivated in organic agriculture, not for the processing of raw materials in the form of organic finished products. Due to the fact that subsidies are substantial, growers show a lack of interest in capitalizing on organic raw materials locally.

„*Bio has become a trend since receiving subsidies… […]… People come who do not necessarily believe in this, but do it to receive subsidies and then the quality decreases a lot, because then it remains fixed what is provided in the legislation: non-sprayed, non-genetically modified. And then I can afford to sell a marigold powder that is not highly qualitative, but is organic…*" (IP5).

5.6 Democratization of organic products

The entry into the market of large producers in the food industry, as well as the concern of retailers for the development of this category of products (especially through private labels), was also marked by lower prices of these products, especially from these new entrants in this niche market. This action has led to the so-called "democratization of organic products", as specialists often call it.

One of the specialists finds that „*the Romanian market is trying to move towards the German model, in which the products may not have extraordinary quality, respect the organic standards, but are at a price that the population can afford to buy*" (ID1). This opinion is also supported by the statement of one of the specialists who represent a general retailer: „*Our interest in *** is to democratize bio, to bring as many BIO products at lower prices, accessible to a wider population, to more segments*" (IR.G1).

Similarly, one of the specialists explains the whole phenomenon: „*when this trend started to take off, indeed the eco products were positioned much higher, they were much more expensive, but the appetite increased, the volumes also increased, and so on. People have started consuming much more eco, somehow you have this opportunity to keep costs lower and this is not our case, but it is everyone's case. But eco is no longer a premium product, becoming a more mainstream one, but as I said, a little more expensive than normal products*" (IR.G2).

Therefore, as another representative of a general retailer (IR.G3) points out, this democratization of prices can be achieved either by making the production of organic products a mass production or by increasing the volumes sold (as a result of the practice of lower selling prices compared to the rest of the competition), which automatically leads to the possibility of switching to mass production.

6 Conclusions

In order to provide a realistic basis for the interpretation of the research results, it is essential to present the main limitations of this study. Due to the exploratory nature of the research, the results of this study cannot be generalized to all organic certified companies. However, given the size of the market, we appreciate that this research has included a significant number of specialists, which leads us to believe that the results can be a solid basis for information for the development of future research in this direction. Also, the subjectivity of the researcher, manifested involuntarily, can have a certain degree of influence, in the stage of data collection, analysis and interpretation.

The analysis of the critical opinions expressed by the interviewed specialists helped to define the current situation and the characteristics of the market during COVID-19. There is optimism about the evolution of this market segment, but there are many aspects that need to be improved in order to hope for increased the local consumption of organic food.

The specialists consider that the organic food market is still a niche, but it has registered constant growth every year. The growth rate accelerated against in the pandemic context, which boosted consumers' orientation towards products considered healthier. However, experts believe that the involvement of state institutions is reduced in this direction, signaling the lack of support for the processing of organic finished products under local brands, as well as the lack of education and information actions carried out at the general public level.

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Management of Tangible and Intangible Assets in Rural Tourism - Conflict between Old and New

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Abstract: In a world where development and technology has took over the entire human life, the preservation of cultural heritage elements has become an important subject of interest and major actions has been taken in this direction. An example is the United Nations Educational, Scientific and Cultural Organisation, which selects an item based on its uniqueness in some respect as a geographically and historically identifiable place having special cultural or physical significance (such as an ancient ruin or historical structure, building, city, complex, desert, forest, island, lake, monument, mountain, or wilderness area). So, the management of the most important cultural heritage aspects in which concerns the preservation, the maintenance and the selection of the patrimony goods, represents an aspect of the cultural heritage. The most important axes refer to tangible heritage such as build patrimony and intangible heritage such as traditions, customs and all that embodies the ethnicity of a certain area. The global wealth of traditions is one of the principal motivations for travel, with tourists seeking to engage with new cultures and to experience the global variety of performing arts, handicrafts, rituals and cuisines. Managing heritage sites (in which concerns the tangible assets) acts as a link between the national heritage institutions, cultural heritage consumers (tourists) and local community. The last item is a factor, without which it would be impossible properly interpret the heritage and create an authentic experience for tourists. Management in which concerns the cultural heritage implies some characteristics triggered, also, by the peculiarities of the tourism market that is, overall, a service market. So, this paper will describe some peculiarities and will outline the specific models of management in which concerns the tourism market and cultural heritage.

Keywords: tourism, cultural heritage, tangible, intangible, models

1 Introduction

Cultural heritage has a determinant role in the development of bilateral and multilateral cooperation between countries, and is a factor contributing to diminishing economic, social, scientific and environmental gaps between developed and developing countries. CHE involves an important dimension spirit of creativity where the first priority could be considered cultural value and a second one the economic value or vice versa. In many cases, CHE prefer the economic motivation, exploitation over the cultural value.

CH can be considered as a complex set of goods and services including the following main groups:

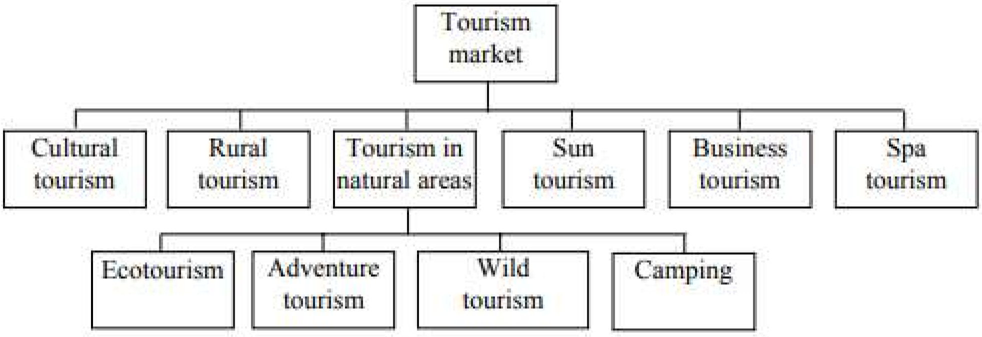
• tangible culture property (building, books, monuments, works of art, artefacts, landscapes);

• intangible and digital culture heritage (language and knowledge, folklore, oral history, traditions customs, aesthetic and spiritual beliefs etc) which are more difficult to preserve in comparison with physical cultural goods;

• cultural natural heritage (countryside, natural environment, flora and fauna, bio and geo diversity, cultural landscape which is an important part of tourist industry).

Tangible cultural heritage represents the archaeological artifacts, ethnographic objects, artistic creations, handicrafts, works of popular culture, archives, manuscripts, private and public collections that, from a scientific, historical, anthropological, artistic, aesthetic or traditional point of view, have a national value or universal, whether they are isolated items or collections. Culture consists of material and non-material characteristics, appraisal values and codes of conduct that differentiates a) a settlement of any kind, b) a group of people of any size, or the interaction between both past and present. These physical and non- physical mature produced and cultural identities of the places and people. As the figure below shows, cultural tourism is on the same position with other types of tourism market which is the best for rest, recreation and restoration of working capacity, representing a way of expansion of the horizon of knowledge, education of aesthetic taste, respect for national values.

Figure 1. Tourism market



Source: adaptation Megan Epler Wood, Ecotourism: Principles, Practices and Polices for Sustainability, 2002 and Eagles P., International Ecotourism Management, 1997

Valorising cultural and historical heritage of the Romanian people, contributing to the revitalization of modern tourism and cultural acts are a way of asserting their traditional culture and promoting Romania's image abroad. In terms of cultural tourism in our country can say that it needs better training in the promotion of historical sites, churches, monasteries, museums and other elements that are part of the cultural heritage of Romania. It also requires improving accommodation, facilities and access roads to these sights and this is how it starts the conflict between old and new. The old with its immaterial patrimony, traditions, customs, value placed in a rural patrimony that comes along with its tangible patrimony assets like traditional artfacts, houses, museums, etc. and the new that comes to make easier the access to the old. In this sense, the manner in which the old copes with the new can rise a problem regarding the ITC technology, the infrastructure that is needed in order to access the touristic objectives, etc.

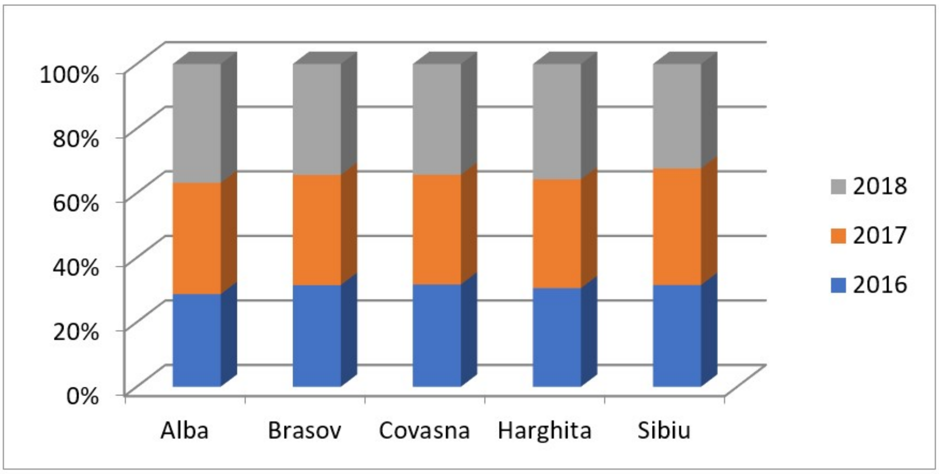
Romania, as a member of the European Union needs a law in the legislative resolution tourism, heritage, environment, general or specific regulations. Development of cultural tourism in Europe requires, first overall modernization and development, the conservation and protection of monuments and historic areas, environmental protection, including the use of national parks and protected areas for tourism, specific legislation for travel agents and proper promotion modern cultural objectives; Absence of comprehensive legislation, poor infrastructure and outdated, unqualified personnel, high incidence of undeclared work, high prices compared to the quality of services, significant foreign investment, lack Romanian destinations in catalogs large tour operators are weaknesses for Romanian tourism.

2. Romania

Transylvania is a historical region of Romania with a diverse cultural heritage, an area of multiculturalism with different ethnicities among which we recall: Hungarians, Germans, Saxons, Jews. The most important minority is the Hungarian - 1.23 million inhabitants (about 58.9% of the total minority), which has the majority in Harghita (84.6%) and Covasna (73.8%) counties, significant proportions of the population of Hungarian ethnicity (over 20%) also exists in Mureş (39.3%), Satu Mare (35.2%), Bihor (25.9%) and Sălaj (23.1%) counties. Thus, the multiculturalism existing in Transylvania has also made its mark on the tourism that has become a radial tourism, comprising traditions and customs from different ethnic groups, all conglomerated in the same Transylvanian area, constituting an advantage for rural tourism.

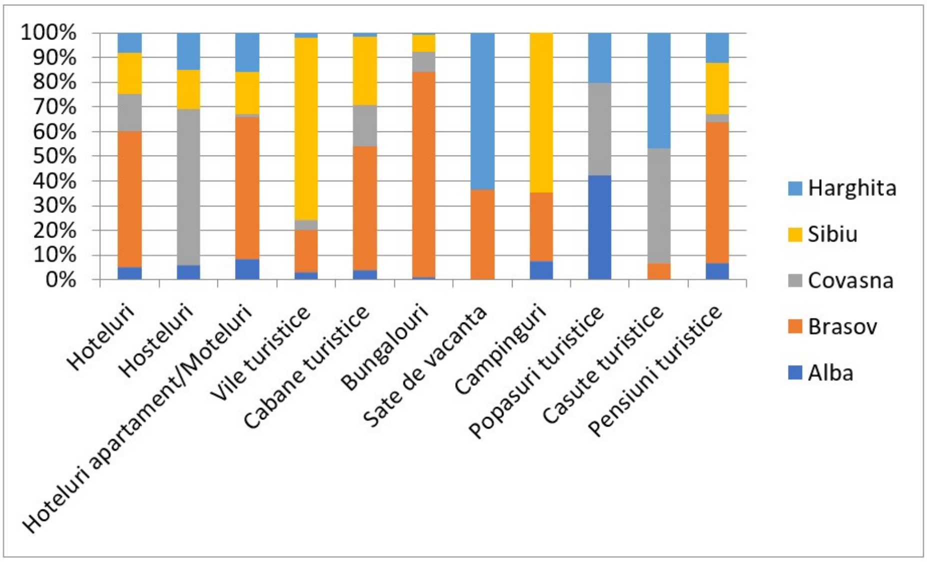
Previous research has revealed different aspects regarding foreign visitors to Transylvania, this is that 49.45% of foreigners travel to meet their cultural tourism needs; while 26.37% travel for professional and business purposes.

Figure 2. Tourist reception structures with functions of tourist accommodation on total, counties and localities 2016-2018 - Alba, Brasov, Covasna, Harghita, Sibiu counties



As we can see the evolution of the tourist accommodation structures as a whole regarding the counties of Alba, Brașov, Covasna, Harghita and Sibiu is a favorable one, the trend being ascending, with a positive evolution of the number of accommodation units, Brașov county is the leader, followed by Sibiu.

Fig.3 Tourist reception structures with tourist accommodation functions grouped by tourist units, counties and localities in 2018 - Alba, Brasov, Covasna, Harghita, Sibiu counties



In figure 2, we can see a breakdown of the accommodation units, which analyzes the weight of each unit per total, in 2018. Thus, the largest share is held by hotels, followed closely by the agro-tourism pensions in the counties of Brasov and Sibiu, Sibiu- the one with the largest share in terms of tourist villas, campsites and Brașov county, hotels, motels and bungalows.

The comparative analysis with the year 2017 shows us an increase of the agro-tourism pensions and of the tourist pensions in the native landscape of Transylvania, with a slightly greater balance regarding the distribution of the accommodation units in the counties of Brasov and Sibiu, compared to the year 2018.

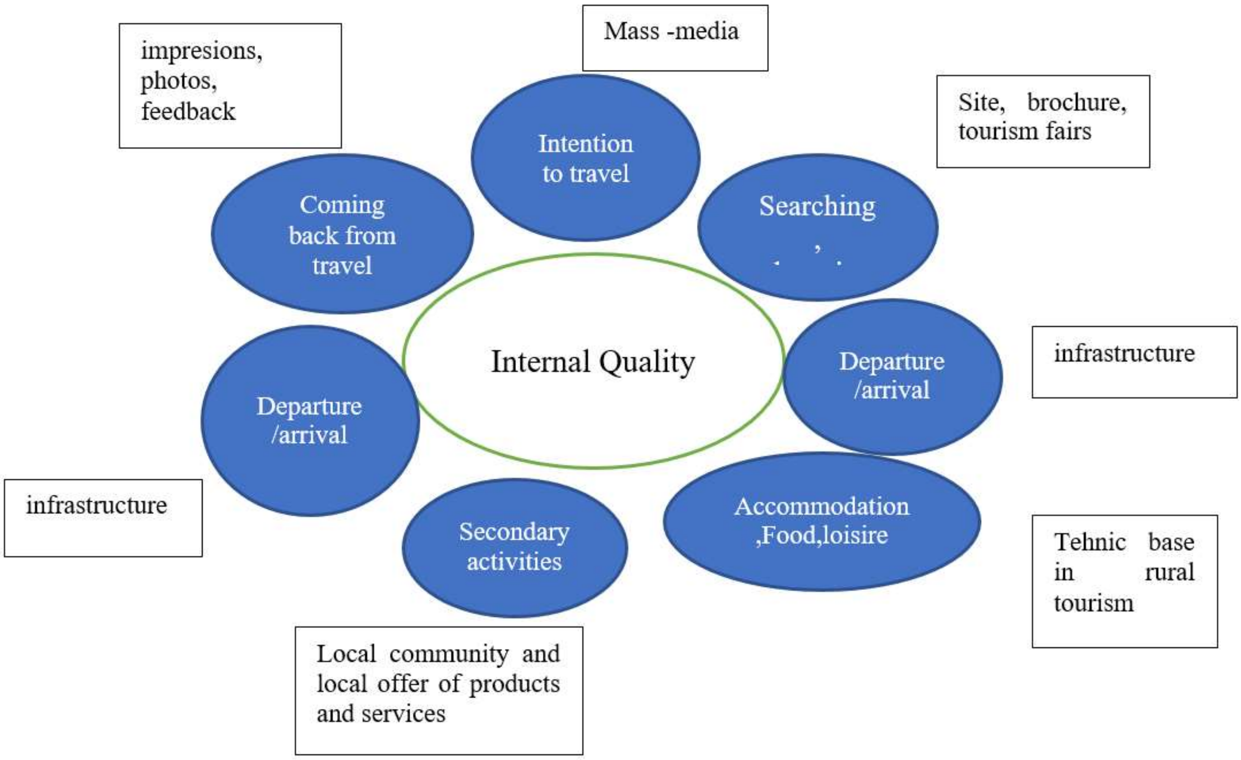
According to a research conducted in Alba County, consumers of rural tourism are interested in ethnographic tourism, in rural settlements where there are still a number of traditional activities (weaving, wood processing, painting), as well as numerous anthropic attractions, such as buildings. religious sites, archaeological sites, fortresses, fortifications or medieval castles (eg, in Alba county: Fortified church Câlnic (UNESCO monument), Râmeț monastery, Aiudului fortress, Urieșilor fortress or Boz fortified church. There are, on the other hand, settlements specialized in certain crafts such as Laz (painting on glass), Patrăhăiștiști (wood processing) or Șugag (wood processing). Also within the known anthropic attractions, we can, also, mention events such as the Fair of Girls on the Mount Găină and tourist attractions of local interest in Apuseni - Albac and Arieșeni.

A total analysis of the year 2018 compared to the tourist activity for the year 2008, regarding the number of Romanian tourists participating in the internal tourism actions organized by the tourism agencies, by tourist areas, shows a significant increase of cultural tourism and of religious pilgrimages from 14,414. to 19,652 in terms of internal potential. Also, the religious pilgrimage increseas from 4732 to 30022, the spa area also along with the number of persons undertaking tourist activities which doubles.

Tourism management is generally based on coordinating tourism activities, highlighting the local tourism potential through appropriate marketing strategies, increasing the quality of the tuirstical services offered and adapting them to the local specific and integrating know-how, communications and information technology into the available touristic services. This in terms of rural tourism can be a challenge, first of all, due to the infrastructure, the degree of integration of the equipment within the already existing tourist objectives and, on the other hand, the level of use and acceptance to the final consumer.

A good tourist management must have as a central element the increase of the internal or external quality. Thus, the following theoretical models can be standardized, adapted to the local specificity of Transylvania depending on the local context, climate, impact factors, culture, innovation in tourism, environment or tangible or intangible heritage.

Figure 4. The structure of the internal quality and colateral activities



Source: The quality management in rural tourism, Stoican Mirela, Cristinel Gigi Sonea, Adina Camarda, 2013

In Transylvania, the rural tourism infrastructure has major problems, especially the poor condition of the roads that connect the communes to the major road network. Also, the condition of the village streets and the access roads to agricultural crops are problems, due to the direct impact of the quality of life of the citizens. The peripheral localities are affected by the development of the reduced connectivity, the connection to the small urban, itself with development problems, does not present significant advantages nowadays. Access to major transport routes - such as the future Transylvania highway, does not present an advantage *per se* if the territorial administrative units do not generate a development plan correlated with this connection. In terms of access to air transport, these are possible through the existing airport in Sibiu.

Transylvania has about one third of the nationally available accommodation places and has almost half of the total available nationally. Although the largest number of places is available in the Center region, followed by North-West and West, in terms of places in operation we must draw attention to the fact that, in the North-West region, almost as many have worked places as in the case of the Center region. The hotels contribute to the national accommodation offer with almost 19% of the total units and with about 53% of the total places, and in Transylvania with just over 14% of the accommodation structures and 36% of the places.

The analysis of the last time period shows us an increase of agrotourism and tourist pensions in the Transylvanian native landscape, with a slightly greater balance regarding the distribution of accommodation units in the counties of Brasov and Sibiu. Regarding the number of tourist arrivals and overnight stays by types of structures (figures 2 and 3), we can say that the leaders are the counties from the south of Transylvania, Brașov with 1648558, Sibiu 510207 and then Alba 154427 regarding the arrivals in hotels, and if we consider the agrotourism pensions Alba county has a rapid evolution, reaching the main opponent Sibiu county. Tourism in Alba County is, in general, a "family tourism", practiced rather itinerant, with an average of 2 nights per trip and with the visit of 1-2 famous touristic objectives.

The internal quality is, also, conferred by the existence of additional activities, the interaction with the local groups and with the offer of local products and services. For example, in Suceava the local traditions and customs related to the egg-laying, the making of black ceramics, local gastronomy, such as the fried bread in the belt, cozonac or sarmale, etc., while in the area of Transylvania it is highlighted by the diversity of ethnicities, traditions and customs. borrowed from Saxons, Hungarians, an atypical local gastronomy compared to other areas of the country, vineyards and chosen wines, etc.

If we talk about the area of Transylvania, certain villages can be considered representative. This area is characterized by the fact that multiculturalism is a meeting point of mixed populations and traditions, such as East German, Hungarian, Romanian, Eastern influences. In the category of *ethnographic and folklore tourist villages* may be included the localities in which the traditional port, the architecture, the furniture and the interior decoration of the tourist village, the folk music and the folk choreography are predominant and are necessary, as essential attributes of the village. (Talaga, Rural tourism, Course notes, 2010)

The villages of this type can offer accommodation services and meals for tourists in authentic conditions (furniture, decoration, traditional style bed linen, traditional dishes served in special dishes and cutlery - kitchenware, wooden spoons, etc.). And for tourists who do not live in the locality is possible to visit only one or more households with an ethnographic outdoor museum, so both touristic needs are covered.[1]

Tourist villages of art and crafts- the interests of many tourists are known for their artistic creation and their desire to purchase such creations directly from the source, by the producer himself. So far only local tourism is practiced in the circulation of these localities. Such villages offer the possibility of practicing holiday tourism, in which, in specially arranged workshops and with the guidance of renowned artists and craftsmen, tourists will be able to initiate popular archeological techniques: glass icon, naive painting, sculpture and stone, fabrics, clothing and folk seams, ceramics, folk music and dances.[2] etc.

A specific feature of tourism management in the area of Transylvania is rendered by multiculturalism. The depression of Transylvania, inhabited by Romanians, Hungarians and Germans, is nothing more than a model of maintaining balance in often difficult conditions, and cultural tourism is today required as a link between the economic and the cultural element, highlighting itself as a catalyst for development sustainable.

The landscape tourist villages (for quiet, solitary walks in a picturesque natural setting) are the natural location and the geographical location isolated from crowded centers and large traffic arteries. The villages and mountain hills, with houses scattered on valleys and hills at a certain distance, with meadows or orchards, satisfy the fundamental motivation of many tourists to "return to nature". Examples are localities such as Valea Viilor, Mărginimea Sibiului.

Conflict can arise when discuss the element of innovation that complements the tradition, the return to the roots but which must act as an anchor to the present.

The innovation process can lead to different results. Innovation is a process that involves a complete circle and depends on the degree of innovation strategy (gadget, IT equipment, virtual area presentation) and the level of entrepreneurial innovation that leads to types of innovation. Thus, the results are important for the development of the area, in order to put into light different traditions, different particularities regarding a country or a niche sector.

[1] Entrepreneurship models and rural development in Romania based on the cultural heritage, Stroe Mihaela Andreea, CKS e-book 2019, pp.1124

[2] Entrepreneurship models and rural development in Romania based on the cultural heritage, Stroe Mihaela Andreea, CKS e-book 2019, pp.1125

One of the most important results is the effect on the social economy, the social cost, the improvement of the way of life. And if we talk about a qualitative output, the emphasis is on the perpetuation of traditions, the protection and preservation of the rural cultural heritage, the improvement of the living environment of the communities, the framing of the areas within the European coordinates regarding the promotion of the cultural heritage and of the innovative technologies.

Cultural tourism is based on cultural heritage. It calls for a journey back to our roots, for rediscovering who we are in the eyes of the others and it also helps us find and bring to light our own inner world. In the same time, multiculturalism brings us closer to each other. Living together in a town, a region, a country or a continent, means not only sharing material goods, but spiritual treasures as well. We all have to preserve our cultural values, not just the ones belonging to a special ethnic group.

3. Conclusions

Cultural tourism is based on cultural heritage, there is a strong connection between the tangible patrimony that is put into light by the intangible patrimony in the context of modern society.

Living together in a city, a region, a country or a continent means not only sharing the built heritage, but also the spiritual treasures. We must all preserve our cultural values, not just those belonging to a particular ethnic group. That is why the Transylvanian Depression is a model of maintaining balance in often difficult conditions, and cultural tourism is today required as a factor of connection between the economic and the cultural element, highlighting itself as a catalyst for sustainable development.

The conflict interfers when the innovation process has to be integrated to put into light the cultural herutage adapted to local features, cultures. The conflict management depends on the degree of innovation strategy (gadget, IT equipment, virtual presentation of the area) and the level of entrepreneurial innovation that leads to different types of innovation. Thus, the results are important for the development of the area, in order to put into light different traditions or cultures. This type of conflict can be related to the appearence of regret aversion when it comes on deciding which cultural heritage we might visit, which touristic objective and so on, but this represents the premises of a different research.

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Sensory Marketing during COVID-19 - Creating a Multisensory Experience for Online Shopping

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Abstract: The unprecedented shift caused by the Covid-19 pandemic generated a series of changes in consumer preferences and behavior. One of the most significant changes is represented by an increasing interest in online shopping. During the last two years consumers have tried to stay safe by shopping online which has resulted in the drop of physical touchpoints between retailers and consumers. While making online purchases consumers can no longer touch, smell or taste the products, but only rely on perceiving them through sight and hearing. The full sensory experience of shopping in a physical store is now limited to a mobile or computer screen. It is therefore important to understand how the lack of some sensory stimuli can impact consumers' perceptions and behavior. This articles aims to present how marketers can adapt sensory marketing to the digital context and discover new ways of utilizing the senses of sight, hearing, smell, taste, and touch in order to appeal to consumers. It is important to understand that sensory elements, beyond images and sounds, will benefit customer engagement and that it's useful to integrate new technologies, such as artificial intelligence, virtual reality, augmented reality, in order to develop multisensory experiences that improve consumers experiences.

Key-Words: sensory marketing, consumer senses, consumer experience, online shopping, e-commerce, COVID-19.

JEL Classification: M31.

1 Introduction

Consumers experience products and services through their five senses (sight, hearing, smell, taste, and touch). Experiences are represented by the consumer's reactions and interpretations of the environment through their senses. This means that the way a consumer sees a product, what he hears, how he reacts when he smells, tastes or touches it influences the way he feels, thinks and behaves about that product.

Manufacturers and retailers rely on sensory marketing to generate favorable consumer responses. Sensory marketing is defined as "marketing that engages the consumers' senses and affects their perception, judgment and behavior" (Krishna, 2013). This means that marketers are purposefully exposing consumers to multiple sensory stimuli at various points of contact. At the point of sale these stimuli are typically product-related and ambience-related (Fürst, Pecornika & Binder, 2021). When a consumer makes a purchase in a physical store, it is very likely that the way in which his senses are directly stimulated will generate a favorable attitude towards the products and will result in a purchase decisions. Sensory marketing is traditionally associated with engaging in-store consumers. But what happens when a consumer buys online? During online shopping interactions with the products or the environment are limited to a mobile or computer screen. What impact can sensory marketing have in the online environment?

The online environment has limited capacities in terms of multisensory experiences. In the online environment "the most widely used sensory elements are engaging customers through visuals and auditory notes that create tangibility for products that customers cannot feel or touch" (Kaushik & Gokhale, 2021, p. 5376). This means that while shopping online "consumers often wonder what a particular product would look or feel like or how would a particular fragrance smell" (Kaushik & Gokhale, 2021, p. 5376). This can generate a feeling of uncertainty that induces hesitation in wanting to purchase a product.

According to Smith (2020), during the Covid-19 pandemic "we are undergoing a sensory revolution (…) because the context and environment in which we sense has been profoundly altered". Consumers are increasingly purchasing and consuming online "where, traditionally, the sensory interaction has mostly been limited to visual, and to a lesser extent, auditory inputs" (Petit, Velasco & Spence, 2019). Although the restrictions imposed to prevent the spread of the new Coronavirus have led to a decrease of direct offline touchpoints, consumers "still wish to self-evaluate products before engaging" in online shopping (Kaushik & Gokhale, 2021, p. 5379).

In this context, integrating different new technologies, such as touch screens, headphones, digital taste/smell interfaces, the internet of things (IoT), artificial intelligence, virtual reality, augmented reality, social media could help to develop a multisensory experience that improves consumer's willingness to buy. These evolving technologies "are now key to building more interactive, immersive and informative online shopping experiences" (Griffith, 2020). Since the online environment has limited capacities in terms of multisensory experiences, retailers should start thinking of creating more virtual touchpoints between products and consumers. "Virtual touch points are anything from social media to product advertisements, e-commerce to product catalogs" (Kaushik & Gokhale, 2021, p. 5378). In the online environment sensory experiences should no longer be based on a single sensory stimulation (such as images or sounds), but should start combining senses with the help of new technologies.

Online retailers should create a "webmosphere", meaning that they should design their online stores taking into consideration all the sensory elements that can have positive effects for online shoppers (Petit, Velasco & Spence, 2019). Using digital interactive technologies could enable a more complex manipulation of products on the screen and could also help inform the consumer about "other sensory properties of a product (e.g., its texture, smell, and possibly even taste) that are simply not available currently in most (primarily visual) online environments" (Petit, Velasco & Spence, 2019, 43).

Even though in the online environment consumer's interactions with the products occur only through digital interfaces, this does not mean that in the online environment the senses stop affecting cognition (Petit, Velasco & Spence, 2019). When a consumer buys online the interaction with products and services is "largely dependent on decoding a message based on mental image and perception" (Kaushik & Gokhale, 2021, p. 5376).

All the stimuli to which a consumer is exposed in the physical environment are perceived through the five senses and, with the help of different introspective states, some of them are then stored in memory as multisensory representations. Thus consumers create in their minds representations of products and services and are able to associate certain sensations and characteristics with each of them. "The exposure to product pictures in online stores can trigger spontaneous perceptual re-enactments (mental imagery) of those multisensory representations" (Petit, Velasco & Spence, 2019, 43) meaning that a consumer can remember the appearance, sound, taste, smell or texture of a product. Therefore "through perceptual re-enactments the consumer's senses might be stimulated online" (Petit, Velasco & Spence, 2019, 43).

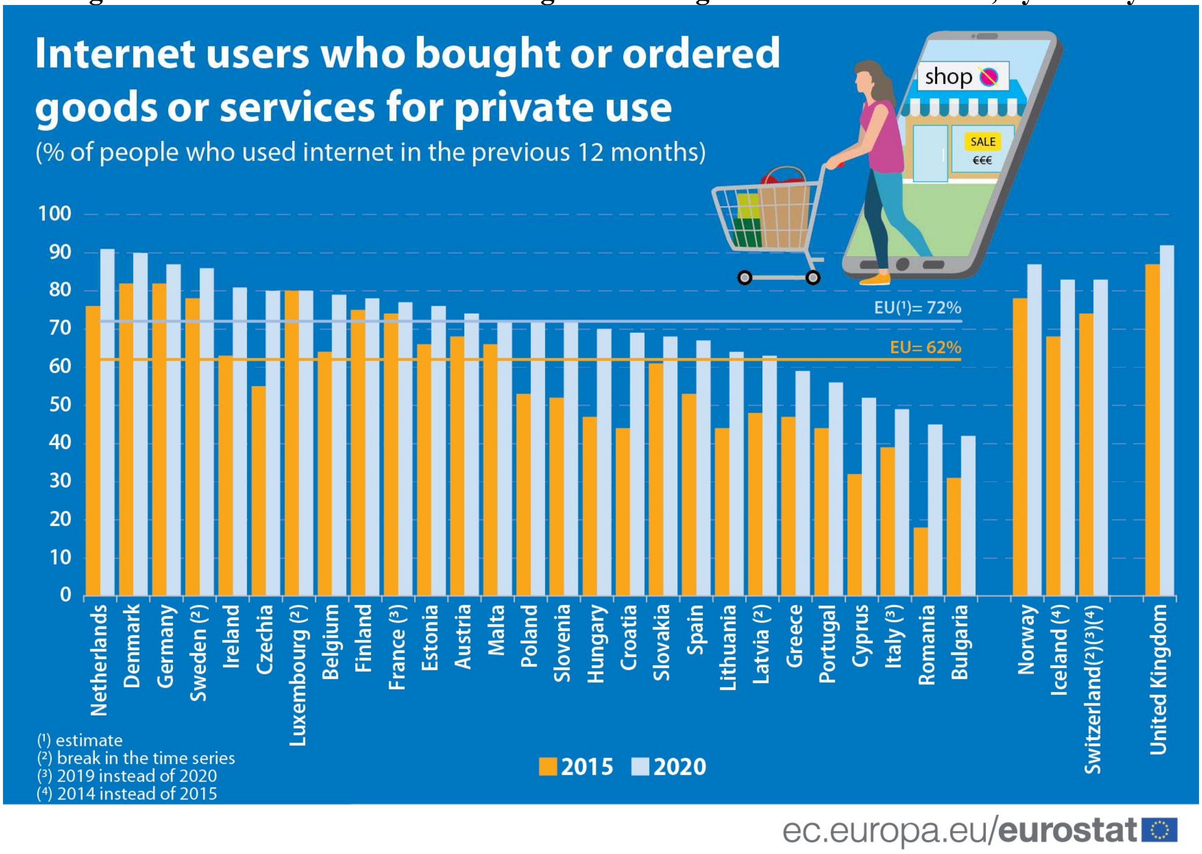
Another important aspect refers to the evaluation that the consumer will make after the product he bought online is delivered to him. It may happen that the purchased items appear different once delivered or not similar to how the customer pictured it in his mind. This can be "due to the limited multisensory interactions present in the online environment, which affects how the customers will evaluate the product" (Kaushik & Gokhale, 2021, p. 5377). Because the purchased items cannot be physically evaluated, it is clear that consumers need a more holistic interaction with products and more information that can help them to form tangible representations in their minds. "A customer needs more than just images and sounds to overcome this mental intangibility. Offline experiences trigger a customer's impulse buying behavior to a greater extent than online experience due to the free interaction of the multi-senses and the physical store effect" (Kaushik & Gokhale, 2021, p. 5377).

2 Creating a Multisensory Experience for Online Shopping

According to a survey conducted by Eurostat, in 2020, 65% of all adults (aged 16-74 years) in the EU bought/ordered goods or services on the internet (Eurostat, 2021a). Estimates show that "with high street shopping affected by the COVID-19 restrictions and changes in habits and preferences, e-commerce can be expected to grow further" (Eurostat, 2021c).

According to ARMO (Romanian Association of Online Stores) estimates, in 2020 Romania had the fastest growth rate of e-commerce in the EU, even if only 45% of Romanian internet users bought goods or services online. The Romanian e-commerce market reached 5.6 billion Euros and marked an annual growth of 30% compared to 2019 (GPeC, 2021). Although the e-commerce market in Romania is well below the European average (as shown in figure 1), the fact that a significant evolution is observed annually indicates that the market is in a continuous growth.

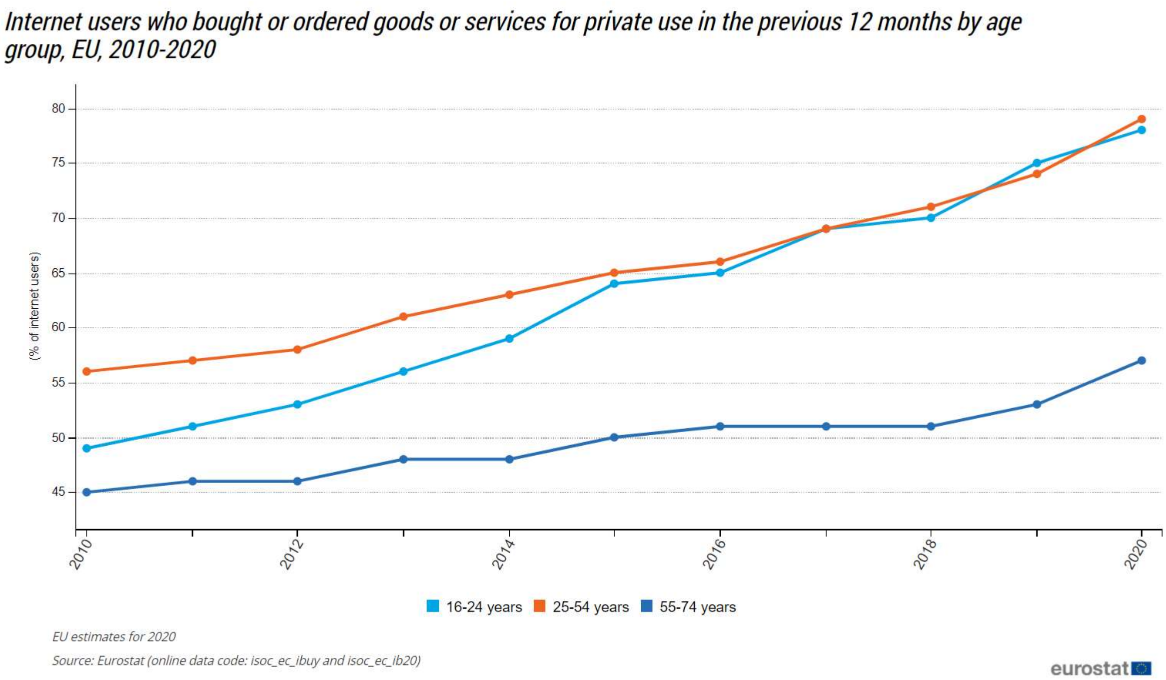
Figure 1: EU's internet users who bought/ordered goods or services online, by country



Source: Eurostat, 2021c.

According to Eurostat (Eurostat, 2021a), at EU level "younger people, aged 25-34 years were 2.5 times more likely to have made use of the internet to shop (83%) than people aged 65-74 years (33%)", as shown in figure 2.

Figure 2: EU's internet users who bought/ordered goods or services online, annual data 2010-2020



Source: Eurostat, 2021b.

According to the survey (see figure 3), the most popular online purchases were represented by *clothes (including sport clothing), shoes or accessories*, which were ordered by 64% of online shoppers. Wearables were followed by *films or series as a streaming service or downloads* which were ordered by 32% of online shoppers, *deliveries from restaurants, fast-food chains and catering services* , ordered by 29% of online shoppers, *furniture, home accessories or gardening products*, ordered by 28% of online shoppers, *cosmetics, beauty or wellness products* (27%), *printed books, magazines or newspapers* (27%), *computers, tablets, mobile phones or their accessories* (26%) and *music as a streaming service or downloads*, ordered by 26% of online shoppers (Eurostat, 2021c).

Figure 3: Most popular online purchases in EU

Source: Eurostat, 2021c.

For some of these product categories, sensory marketing does not play an essential role in influencing the purchasing decision. For other categories, namely clothes, food, care products, personal or home accessories and others, sensory perception is an important factor that can influence the purchase decision. Therefore it is important to know how marketers can adapt sensory marketing to the digital context and discover new ways of utilizing the senses of sight, hearing, smell, taste, and touch in order to appeal to consumers. It is important to understand that sensory elements, beyond images and sounds, will benefit customer engagement and will have a positive impact on their willingness to buy online certain products or services. When it comes to creating a digital experience, retailers can use varied and evolved forms of technology to integrate each sensory stimuli and to appeal to consumers' senses.

2.1 Sight

In the online environment "visual cues are offering the most potent sensory experience" (Kaushik & Gokhale, 2021, p. 5380) and are the most used stimuli to connect with consumers. But because they are so commonly used, it is more difficult to capture consumer attention. Therefore "marketers must go beyond traditional techniques like bold colors, logos, videos, and website design and integrate the latest technologies into their strategies" (Griffith, 2020). The consumer engagement and online interaction can be improved by using "virtual product controls such as virtual try-on, 3D product visualization, and haptics imagery" (Kaushik & Gokhale, 2021, p. 5381). How a consumer interacts with visual content can be facilitated by integrating visual-enabling technologies that can offer "larger views (super close-up; zoom in/out; enlargement), alternate views (e.g., views from 2 to 3 angles), 3D-interactive view (views from every angle as a consumer drags their mouse), and virtual try-ons" (Petit, Velasco & Spence, 2019, 44) of a product.

Also, augmented reality and virtual reality are becoming more popular because "for the first time, consumers are in full control of the interaction and as active participants, they can reinvent the real-life environment and try various combinations before making a choice to buy" (Griffith, 2020). These new technologies "make shopping online easier and more accessible for consumers, especially when content is personalized to the user's needs" (Griffith, 2020). The perception and the judgment of the buyer can be significantly influenced in this case because these new technologies offer a richer user experience, can make the online experience aesthetically pleasing and enjoyable and can help to "build trust between a brand and consumer, which is crucial during the 'try before you buy' phase" (Griffith, 2020).

It is also important to emphasize that all these new technologies "can increase the consumer's ability to generate mental simulations of transformation, rotation, and reorganizations of the imagined product with a positive effect on its evaluation" (Petit, Velasco & Spence, 2019, 47).

2.2 Sound

Whereas many of the decisions a consumer makes are influenced by the emotions he feels at that moment, and since sounds have the ability to activate emotions, it is important to see if auditory stimuli can be integrated into online shopping in order to improve consumers engagement. "Brands can successfully evoke emotion through sound" therefore marketers should "select music that aligns with their brand messaging" and incorporate it in different touchpoints such as "digital ads, social media videos or embedded music on a website" in order to create a specific atmosphere (Griffith, 2020). In this case, the exposure to auditory stimuli is decided by the consumer, who in the online environment can always turn off the sound or can continue to listen the message of a brand.

2.3 Taste and smell

In the online environment the smell and the taste of a product are hard or even impossible to replicate. That is why retailers must focus on the mental images that a consumer managed to create for a product. In order to reactivate the sensation of taste or smell of a product, retailers must use multisensory stimulation. "Depending on the product, digital marketers can create and display images and use emotive language in a way that stimulates mental images of its texture, smell and even flavor" (Griffith, 2020). Replication of the sensation of taste and smell can be stimulated by visual technologies and sounds (Kaushik & Gokhale, 2021, p. 5382).

2.4 Touch

Although when buying online consumers "normally do interact haptically with multiple interfaces already (e.g., mice and touch screens)" (Petit, Velasco & Spence, 2019, 49), engaging the sense of touching the products in a digital environment is very difficult. Some consumers feel the need to touch and evaluate the products before they buy them and that's why they are reluctant to shop online. In the online environment consumers can imagine touching products or can mentally simulate the sensation with the help of internet of things (IoT), virtual reality and augmented reality (Griffith, 2020). Depending on the type of product, retailers might use a written description of the haptic properties of the product in order to help consumers evaluate the texture, dimensions and materials of that product (Petit, Velasco & Spence, 2019). Retailers "should also consider the use of multi-gesture apps and direct touch effects – like pinching and scrunching a material" to create an online multisensory experience (Griffith, 2020). This can prove to have an effect on the decision to buy a certain product since "touch or the mental visualization of touch has a positive effect on consumers and the ownership of a particular product or service" (Kaushik & Gokhale, 2021, p. 5382). This field has a chance to evolve because "recent progress in human-computer interaction suggests that it will soon be possible to imitate the feel of different textures by means of tactile interfaces" (Petit, Velasco & Spence, 2019, 50).

3 Conclusion

Any retailer, whether selling online or offline, aims to create a unique, positive and memorable experience for its customers. Sensory stimulation plays a key role in creating these positive experiences and "can also non-consciously influence consumer judgments and behaviors, including types of purchases" (Biswas, 2019, p. 111).

In general, sensory marketing deals with creating atmosphere in physical stores. Since the possibility of stimulating consumers' senses is greatly diminished, online shopping is not a sensory experience. In order to make the right decisions, consumers use their senses to gain necessary information in the shopping process. In the online environment the "sensory deficiencies decrease the perceived value of online offerings and frequently result in product returns and dissatisfaction with the purchase experience" (Heller et al., 2019, p. 219).

But the COVID-19 pandemic has forced companies to rethink their marketing strategies. Since recently there is an increasing interest in online shopping, marketers should develop innovative actions that will help to improve consumers digital sensory experiences. "Marketers must become more innovative in their approach to connecting with their target audience using real time data and the latest technologies. Central to this is creating multisensory experiences" (Griffith, 2020). This means that marketers should focus on creating an online environment more connected to the senses. New adaptations of sensory marketing strategies in online environments may be possible based on multisensory devices and technologies that are offering the opportunity to stimulate more of the customer's senses over the Internet (Petit, Velasco & Spence, 2019, 53).

According to Gartner (2020), the strategic technology trends for the future include the development of sensory marketing and Gartner predicts that multisensory experiences will be among the most promising technological trends of the future.

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