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The Coronavirus COVID-19 Pandemic Crisis and its Impact on the EU Economy

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Abstract: The 2020 year could be the beginning of a new era of world economic path after 2008 international financial crisis. The unusual landscape of the Covid-19 pandemic has brought in attention the necessity of a new form of economic therapy that should finance primarily the medical research and sanitary equipment modernisation. This involve a suitable national budgetary distribution. The disorder of sanitary advance level and research funds diverge markedly from one country to another. The public vulnerability is greater now when the internal financial resources seems to be scarce in comparison with economic and social requests.

Key words: crisis, global outlook, risk
JEL Classification: H68, F01, P01

1 Introduction

The economic effects of the Coronavirus COVID-19 pandemic are the current challenge of all global actors. Studying the Covid-19 economic effects and finding solutions for a proper projection of overcome the crisis is a priority nowadays.

The comparison between the current pandemic crisis and the 2008 international financial crisis would be relevant taking into account a common risk involving increasing the burden of budgetary deficit. For instance, during the 2008-2012 EU sovereign debt has remained in many countries at a high level. On average in EU the deficit rose to 6.3 % on EU’s GDP.

The increased risks in the existing pandemic crisis could be much more severe in many vulnerable economies. As much as the pandemic expanded, the measures have been settled for population, firms and medical care sustainability in order to diminish risks. We could already estimate the substantial decrease in domestic demand driven by the lockdown in the attempt of stopping the Covid-19 pandemic.

In this paper we analyse the main effects of the current pandemic on different countries and Romania. The current state of research on the global economic effects of the Covid-19 is pretty poor, because the pandemic has only occurred for 3 months. But research in this area is vital having in mind the estimations that show a perturbation of the global economy for a long time.

2 The main obstacles brought by the current Covid-19 pandemic on EU

The European Commission estimations have recently shown that EU countries would have entered in recession this year with a fall of 2.5 % GDP average rate even if the pandemic crises had not existed. In this paper the author intentions are to analyse the magnitude of the present crisis by emphasizing the main features that are uncommon with other crises.

Nowadays it might be a proper solution to build a defence system around EU if we rely on three types of scenarios: on short term until the passing from the infection peak, on medium term until the economic and social imbalances could be stabilised and on long run with the economic recovering from a minimum point reached to new targets expected to be suitable in the new circumstances. In the country case, it is important to calculate the real economic losses in terms of trade and investments. We see that the economic disparities are stronger now than in the 2008 financial crisis due to the rapid contagion.

The main impediments triggered by the actual pandemic on the economy and the society in Romania and in many European countries are the following:

- The internal economic activity is affected by lockdown circumstances.
- The returning of a massive workers from overseas put pressures on the social protection funds and also on medical care services particularly for Romania;
- The social pressures induced directly by the lockdown in education, culture, sport and entertainment would provoke a harmful effect on general productivity;
- Possible disruption in energy, water and raw materials supply;
- The shortage of internal financial resources caused by huge expenses and no inputs would increase the budgetary disproportions.
- Diminishing of exports absorption capacity of the most affected of SarsCov-2 countries and the need of production adapting to the new demand level.
- The high risk of economic imbalances could outbursts from: rising of unemployed people, primary resources prices evolution (petroleum, gas, agri-food), aggressive acquisitions on Stock Markets;
- Risks on the economic crisis and the overlapping between this and the pre-existing agricultural cycle.
- The harmonising of world economic activities is occurred with different oscillations until the steadiness is reached. This is the reason why the projections of the future oscillatory economic evolution are difficult to be calculated.
- The role of state, and of EU and international institutions is to provide stability.

At the global level, the answer should be in line with the more important task to ensure a rapid and efficient capacity of response for the actual and future challenges.

At the macroeconomic level it is vital lessening the negative effects of Stock Exchange worries, and backing small and medium firms in a sense to stimulate their activity by creating a proper fiscal and financial environment for the new economic reality.

The Romanian economy has been affected by the external trade channel on the basis of the high level of trade integration with the rest of UE states (roughly 70% of Romanian total trade is oriented to EU). The most affected by the actual pandemic are EU countries with highest GDP contributors to the EU budget: Germany, France, Italy and Spain. The lockdown of all these countries during March and April 2020 and the frozen of investment plans have been creating high repercussions on overall exports by channel of contagion spread on different countries Imports would be also affected by the disruptions on the Global Value Chain in the same time. Also, the process of replacing the supply parts is difficult especially for narrow specialisation developed the recent years.

A parallel between the 2008-financial crisis and the present crisis emphasizes only some features. First of all, it must be observed that the 2008-financial crisis provoked a high global threat that has been felt in the last few years after the eruption. It was difficult for developed countries especially for some UE member states (PIIGS countries especially) to solve the fiscal and debt burden. Nowadays, a new type of global threat has arisen 12 years after the 2008 financial crisis. This time, the primary source is a medical one, spreading at a global level. Still in both crisis we observe the rapidly spread worldwide even we talk about a virus or financial contagion.

We observe also that the economic effects are stronger now than in the 2008 financial crisis due to the fast contagion. The 2008-financial crisis had passed on Europe in several months and extended gradually in entire EU from USA. The EU financial system had resisted to solve the crisis and several financial programs for supporting the most affected sectors had been adopted (banking and automotive). Since September 2012 other unconventional measures have been approved by ECB. In addition, the euro zone launched the European Stability Mechanism that replaced the European Stability Fund. State aid was a practical solution at the moment of international financial eruption in EU. The EU state aid for financial sustenance totalled 1.6 trillion Euros during the last quarter of 2010. The great part of financial aid was given in the form of government guarantees for liquidity increasing that amount to 9 per cent of EU GDP. The banking recapitalisation and shares acquisition equalled almost 3 per cent of whole EU GDP, an amount of 300 billion euros respectively.

The EU guideline of adopting measures taken by Euro members states with the general task of banking functioning guarantees by the public funds in the 2008 and 2009 period has consisted of four official communications. The fiscal burden has been proved problematic especially for the business environment for a long period in the absence of financial support. The sustainability of those deficits was critical in some eurozone states, especially those that has been called PIIGS. Financial market players decided to rise the interests on loans to cover souverain debt as a consequence of continuing fiscal burden. The bond yields have been increasing after 2010 for those risky countries.

The eurozone countries signed at 7th of May 2010 an Agreement of Stability, Unity and Integrity for adopting necessary measures for fiscal criteria stipulated in the Stability and Economic Growth. All eurozone countries except Estonia and Luxembourg have agreed to adopt programmes of reduce the fiscal burden under the excessive deficit procedure triggering.

Table 1. Fiscal stabilization programmes implemented by eurozone countries in the 2010-2012 period

Countries	Budgetary deficits (in % of GDP in 2010)	The starting year of fiscal austerity measures	The ending year of austerity measures	The estimated annual deficit reduction (in percentage points)
Belgium	-4.8	2010	2012	0.75
Germany	-3.7	2011	2013	≥0.5
Estonia	-1.0	-	-	-
Ireland	-32.3	2010	2015	2
Greece	-9.6	2010	2014	≥ 10 in 2009-2014
Spain	-9.3	2010	2013	>1.5
France	-7.7	2010	2013	>1
Italy	-5.0	2010	2012	≥0.5
Cyprus	-5.9	2010	2012	1.5
Luxembourg	-1.8	-	-	-
Malta	-4.2	2010	2011	0.75
Netherlands	-5.8	2011	2013	0.75
Austria	-4.3	2011	2013	0.75
Portugal	-7.3	2010	2013	1.25
Slovenia	-5.8	2010	2013	0.75
Slovakia	-8.2	2010	2013	1
Finland	-3.1	2010	2011	0.5

Source: Autumn Economic Prognosis of the European Commission Prognosis and Ecofin Recommendation in 2012

3 Measures adopted by EU up to 2020. The Romanian case

The speed of contagion in the actual pandemic crisis on some EU member states has determined the necessity of adopting new state aid regulations for sustaining the most sensitive sectors. The communication on the economic aspects of Coved -19 crisis was published by European Commission on 13 March 2020 revealing the main economic financial support measures that cannot be exclusively covered entirely by the European budget. Taking into consideration the internal legislation of EU countries we notice the state aids have been used for supporting certain sectors. Since the mid of March 2020 substantial financial packages have been adopted by the governments in some states where the pandemic crisis has spread rapidly.

In Romania the main trade partners from EU, namely Germany, Italy, France and Spain have been seriously prejudiced by the pandemic crisis that already have hit the bilateral exports and imports flows. If we add the substantial global value chain disruption and the significant part of China on the intermediary inputs chain for products like microchips, auto parts and chemical products we observe a major drop of global trade in 2020. Romania among other EU member state is not so affected by the reduction of Chinese trade flows, the share of Chinese inputs on total incomes of Romanian firms being of only 2.8% that is much lower in comparison with Hungary (7.5%) and Holland (7%).

A complete landscape of the pandemic crisis impact on world economy is difficult to be assessed because is too early. The projections published by the international institutions have been changing in accordance to the volatile data. A possible economic impact could be advanced concerning the imminent economic recession not only in the euro area but overall, in the world economy. In addition, if we take into consideration the financial markets evolution it depends mostly by the supervisory and regulation

The impact of the actual pandemic crisis on the economy and financial market would be quite high after two months of lockdown for some many of the world economies. This unexpected and unorthodox measures will cause a very deep recession. Some of the international investors and experts project a slowdown similar with those from the Great Depression from the 1929-1933 period. For now, is pretty hard to estimate a valid long and medium period prognosis, having in mind the dynamic change of the real medica facts that affects directly our life. At least on short time we observe programmes of quantitative easing in many countries aiming at increase the liquidity in economies.

Returning to a new normality is a necessary step that requests a dynamic and complex flow of collecting and information processing data from the medical care, in finding a proper vaccine and the evolution of the economic increase and trade. All this change would indicate a new picture of tactical alliances with the aim of regaining the breath after the deep recession. We could estimate better the real situation of downfall only after the official economic data of world exports, imports that reflects the level of offer and demand.

4 Conclusions

The returning to the new reality has many unknown data but the restrictions resides mainly in the fact that mankind cannot continue with the high level of inverness in a long run due to the necessity of sustainable life. We adjust our life in a huge protectionist climate due to the multiple safety measures used in the crisis period that have flourished since 2008.

The custom duties and product prices are directly influenced by protectionism and that's why continuing the multilateral negotiation is a necessity for ensuring fair competition provisions by WTO. The global value chains already have recorded some important changes due not only the lockdown phenomenon but the attempt of developed countries for reducing the dependency of China. This challenge would affect structural changes and the top hierarchy in terms of GDP, exports, investments and standard of living in countries from Europe, Asia (mainly China, Japan, South Korea and India) as well as USA. Given the magnitude of their economies and also the size of the internal demand, technologies level and the workforce education some of these countries could survive in a protectionist setting. In this circumstance it is most probable that Africa to remain the most vulnerable continent. The attractivity of gaining a leading position on Africa could become an important task in the rising protectionism settings.

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