COVID-19 Pandemic and Measures Implemented at the Level of European States

Elena Florentina Matei[1]
Ioana Manuela Mindrican[2]

Abstract
The COVID-19 pandemic resulting from the SARS-CoV-2 virus spread in a very short time globally, bringing significant consequences to the health of millions of people. At the same time, the pandemic had a strong impact on the global economy by increasing government spending and declining tax revenues that led to worsening macroeconomic indicators and subsequently, the emergence of a new period of recession. In order to support the economy, public authorities have developed and implemented a series of measures and policies that will gradually lead to the improvement of the global economic context and the recovery of the economy in the shortest possible time. Moreover, at the level of the European Union, the authorities were more involved than ever by implementing a new intervention instrument entitled "Next generation EU" through which funds were allocated to European states, and at the same time, it was decided to activate the derogation clause. The Stability and Growth Pact, according to which European states can deviate from the criteria specified in the founding treaties of the European Union, refer to the level of the budget deficit, respectively of government debt as a percentage of gross domestic product. The motivation for choosing this topic is on the one hand the negative impact that this phenomenon has generalized at all socio-political and economic levels, as well as the topicality of the topic debated in contemporary scientific research.

Keywords: income, economy, austerity, Next generation EU, COVID-19 pandemic.

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Introduction

The beginning of December 2019 is marked by the appearance of an outbreak of the disease, known as COVID-19, which caused a new severe acute respiratory syndrome, coronavirus in Wuhan City, province Hubei, China. On January 30, 2020, the World Health Organization declared the outbreak as an emergency of the international public health system, subsequently starting on February 14, 2020, globally with 49,053 confirmed laboratory deaths and 1,381 deaths.

[1] Doctoral student, Doctoral School Economy I of University of Economic Studies, Bucharest, Romania, matei.elena96@gmail.com
[2] Doctoral student, Doctoral School Economy I of University of Economic Studies, Bucharest, Romania, mindrican.ioanamanuela@gmail.com

The risk associated with this disease has led governments at the international level to develop and institute a variety of measures to control the extent of this phenomenon both socially and economically, as this pandemic has left deep imprints on various sectors of activity. According to specialized studies conducted by the World Bank, the global economic outlook for June 2020 highlights both the immediate and short-term outlook for the pandemic, as well as the long-term damage that is closely in line with the growth outlook. The basic forecast reveals a contraction of about 5.2% of the total global gross domestic product in 2020, with market exchange rate weight being considered the deepest global recession in recent decades, despite efforts by the government to counter it with the support of monetary and fiscal policy. Over the longer term, the deep recessions caused by the COVID-19 pandemic are expected to leave deep and lasting footprints, manifested by low investment, erosion of human capital through labor, declining schooling, and finally, the fragmentation of global trade. Hence, the idea that it is particularly important to develop as many measures and policies as possible to mitigate the economic and health consequences of the pandemic to protect the vulnerable population and subsequently to lay the foundations for sustainable and solid development. Regarding to emerging markets and developing countries, many of which face daunting vulnerabilities, it is essential to strengthen public health systems, address current challenges, and unquestionably implement reforms that address supporting strong and sustainable economic growth as the health crisis subsides.

The research objective is to identify the negative impact of the Covid-19 pandemic, which initially manifested itself as a health crisis that subsequently amplified economic and social problems, leading to worsening living conditions for the population and reduced budgetary revenues and expenditures, thus amplifying macroeconomic imbalances.

The motivation for the development of this article is the importance and need to deepen the already existing notions that refer to this phenomenon, as well as the development of sustainable policies through which both vulnerable and least affected states can recover and move towards a sustainable economy. At the same time, the implications of the current pandemic on economic activity and the natural movement of the population underlie the new scientific requirements both at the national and international level, which are the subject of our research.

Review of the scientific literature

The COVID-19 pandemic is currently known as one of the most significant crises that global states have faced in recent decades. The crisis in the medical field is indisputably also in the economic one because it presupposes the reaction of the economy in the short and long term to improve the overall context. An important aspect to mention is the fact that when a series of restrictive policies in terms of social distancing are applied, which are not accompanied by measures to recover the economy, there is a low number of deaths and infected people, and the economy is heading for a sharp downturn. Diametrically opposite is the situation in which, in the absence of isolation policies, a significant number of deaths and illnesses are reached, but a lower economic decline. Of course, the second option mentioned above cannot be considered from a social perspective, and an economic argument is added to this reasoning. The economic literature highlights the idea that "in the long run, countries that intervene much more aggressively and quickly to stop the spread of the virus have benefits not only in terms of saving lives, but also in terms of mitigating the economic consequences of pandemic shock, Correia et. all (2020). The COVID-19 pandemic currently highlights the importance and need for robust health systems, education systems, and finally, social protection programs that provide support to all those in need. Hence, the idea that protection and investment in humans are one of the most important in the context of the pandemic, as it could be considered a foundation for recovery, sustainable, and inclusive development.

To mitigate the negative effects of social distancing measures in the short term, it is important to identify and implement a set of regulations to mitigate the shock at the level of each economy, to the point where the economic costs of this package are equal. With the benefits produced at the level of the economy. These measures must also focus on the one hand on vulnerable areas of the economic system and on the other hand on those with a significant share in gross domestic product. The spread of COVID-19 gradually led to a considerable slowdown in economic activity and according to a study by the World Bank, global GDP in 2020 decreased by 5.2 percentage points compared to 2019. Over the same period, The OECD claimed that the overall gross domestic product decreased by more, namely, 7.6 percentage points, mainly due to the emergence of the second wave of COVID-19. In line with the latest study by the International Monetary Fund, it projected a 4.4% contraction in light of stronger-than-expected recoveries in advanced economies, which lifted bottlenecks in May and June 2020. The COVID-19 pandemic has had a number of negative effects on various sectors of the economy, as well as the emergence of uncertainties surrounding almost every aspect: infectivity, prevalence, and lethality of the virus, duration and effectiveness of social distancing, global market blockage, medium- and long-term economic impact, policy makers response, the speed of recovery as the pandemic gradually recedes, the extent to which pandemic changes in consumer spending patterns will persist, research and development of human capital investment, National Bureau of Economic Research (2020). An eloquent example can be the financial sector, which has been pressured by the negative effects of this phenomenon as core markets have become dislocated and they faced significant capital outflows, and most of the borrowers faced repayment and liquidity challenges, Powell and Suarez (2020). Through a concerted effort by policymakers, the functioning of financial markets has been gradually restored. The COVID-19 pandemic is known as the first major test of the G20's global regulatory reforms in the global financial crisis. Because of these reforms and regulations, "the global financial system has managed to enter a pandemic on a strong basis and subsequently mitigated the shock, rather than amplify it", Financial Stability Board (2020). It should be noted that the financial sector occupies a fundamental place in the process of global economic recovery, Beck (2020).

According to the European Commission, the economic impact caused by this pandemic varies from one sector to another, but also from one company to another, as the business environment encounters difficulties in terms of the possibility of adapting to supply chain disruptions, the existence of shocks or dependence that manifests itself in connection with production processes "just in time".

Research methodology

This paper is based on a mixed research methodology, as it combines both the method of descriptive analysis used to introduce the current state of knowledge and dynamic macroeconomic analysis to identify the evolution of debt and budget deficit that has been severely affected by the measures implemented by authorities to reduce the negative effects of the current crisis caused by the Covid-19 pandemic.

Moreover, this paper also presents the measures implemented at the level of European states to combat the negative effects, but also the structure and amount of government intervention in GDP in European countries. Regarding the analyzed period, it was decided to include the years 2019-2020 to identify recent developments in the economy. The source of data on the budget deficit and public debt is the Eurostat website, and for the measures implemented at the European level, the database available on the International Monetary Fund website was used in the section dedicated to the Covid-19 pandemic. Additionally, to identify the structure and amount of government intervention at the level of European states as a share of GDP, the database available on the website of the International Monetary Fund was used, and therefore in the analysis are not included several European states identified in this database. In this context, the database used in the case study includes different categories of fiscal measures implemented to support savings, including over-and underline measures, but also contingent liabilities that generate various implications for public finances in the short and long term. Finally, the research results are presented in the paper with the help of graphs and tables, and the theoretical information underlying the scientific approach was taken from specialized papers, such as books, articles, papers, and studies both nationally and internationally.

Results and discussion

Economic recovery measures

In 2020, the World Health Organization (WHO) declared the Covid-19 a pandemic, classifying it as a state of emergency at the international level from a public health perspective. At the same time, this crisis of the health system has determined the emergence of a socio-economic crisis, which mainly requires responses at several levels, more precisely in all sectors of activity. The economic aspects of the COVID-19 crisis are unprecedented in the current context, taking into account the fact that the specialized economic literature characterizes it as the biggest crisis recorded after the Great Depression during the years 1929-1933. The entire economic activity of the states at the global level has contracted considerably amid this crisis, but each state has shown responsibility, solidarity, and efficiency in the face of this state of emergency, trying to protect all affected citizens, employees, and businesses.

a) Measures implemented to support the health system:

- Development of medical infrastructure by providing medical equipment and emergency equipment for intensive care, operating rooms, and imaging. In March 2020, approximately 1.16 billion euros were allocated and distributed for the health of Romanians, and in the following months, the funds amounted to 4.1 billion euros;
- Digitization of the health system;
- Specialization of medical staff in terms of the use of medical equipment, but also of modern methods of investigation, intervention, and treatment;
- Increasing investment in medical research to develop an appropriate vaccine;
- Introduction of the concept of remote consultation with the help of computer systems or telephones to prescribe prescriptions compensated by the family doctor;
- Supplementing the purchase of ventilation devices;
- Increasing testing capacity;
- Co-opting local industries to produce equipment and substances needed by medical staff, as well as cooperating with the private sector for procurement procedures.

b) Measures implemented to support employees:

- Businesses have ensured that social distance measures are respected and met;
- Governments have focused on providing financial provisions so that employers can introduce or expand arrangements for paid sick leave and eligibility for unemployment benefits;
- State governments at the international level have considered the possibility of providing subsidies to companies to immediately stimulate cash flow to support payments;
- Allocation of wage subsidies, but also measures of social assistance have the potential to provide basic income to all workers who have been affected by the negative effects of the crisis, and this must be managed mainly by the government;
- Reducing the level of interaction of workers with people who are out of work;
- Limiting or prohibiting non-essential business travel;

c) Measures implemented to support enterprises:

- One of the most important measures that can be taken by the government to support businesses is to ensure liquidity and tolerance measures through tax authorities, as well as to continue adjusting assistance, which can significantly contribute to keeping as many businesses as possible. the market in the context of the crisis;
- Granting subsidies to cover a certain part of staff salary expenses or loss of income;
- Tax authorities must have the capacity to provide flexibility to support companies in difficulty with the specific issue of cash flows;
- For companies affected by the negative effects of the pandemic, consideration should be given to granting temporary unpaid leave (self-employment leave) until the situation in the economy recovers;
- Providing state guarantees for investment loans, as well as working capital financing;

d) Socio-economic measures intended to support the economy:

According to a study carried out by the European Economic and Social Committee, the COVID-19 pandemic represents for the international economy "the worst economic shock that European economies have faced since the Second World War". The road to economic recovery will be a difficult one in view of the fact that it has affected all European states to a different degree of intensity, putting in uncertainty social models, production models, consumption, and finally, employment patterns. The COVID-19 pandemic is considered a serious crisis, as many states have failed to overcome the negative effects propagated by the financial crisis of 2008-2010, and for this reason, they are much more vulnerable and fragile to this phenomenon. The pandemic also made its presence felt at a critical time for the Member States of the European Union, as they focused on the transition to a digital economy, sensitive to social, economic, and environmental sustainability.

The measures implemented represent a combination of economic and monetary policy measures, complemented by the new securities acquisition system to support liquidity in financial markets, of course under the responsibility of the European Central Bank, together with a function of macroeconomic stabilization provided by the European Stability Mechanism, a set of fiscal measures, which began through a massive fiscal injections in support of companies, but also of people significantly affected by the effects of the COVID-19 pandemic. Another measure was the massive reallocation of EU budget flows. According to specialized economic studies, it is estimated that the volume of financial sources together with measures to support European society is almost EUR 3 billion, namely, 16% of the gross domestic product of the European Union registered in 2019. Under the initial economic pillar carried out by The European Union in response to the COVID-19 pandemic, only EUR 165 billion is directly linked to the European Union's regular sources of funding, which are in the form of grants and financial instruments.

The Next Generation is a temporary tool for economic recovery, and the main objective of this tool, as previously mentioned, is to help repair the economic and social damage caused by the coronavirus pandemic. Toward the end of this crisis, Europe will be greener, more resilient, digital, and finally, better prepared to face any challenges and obstacles that may arise in the future. The central element of the Next Generation instrument is the recovery and resilience mechanism, which consists of loans and grants worth approximately EUR 723.8 billion. This amount will be used to support reforms, but also investments made by the Member States of the European Union. In the current context, European countries are working on recovery plans to access funds under the Recovery and Resilience Mechanism. At the same time, Next Generation Eu will supplement the funds for other European programs or funds, such as Horizon 2020, InvestEU, the Fund for a Fair Transition, and finally, rural development. Next, a complex and structured study will be presented on the measures taken by the European Union in recent months to reduce and mitigate the negative effects of the COVID-19 crisis, given that the European Union institutions have played a key role in this crisis. , trying to identify a set of optimal and folded solutions in the context of the real economy.

Table 1. Measures adopted by the European Union

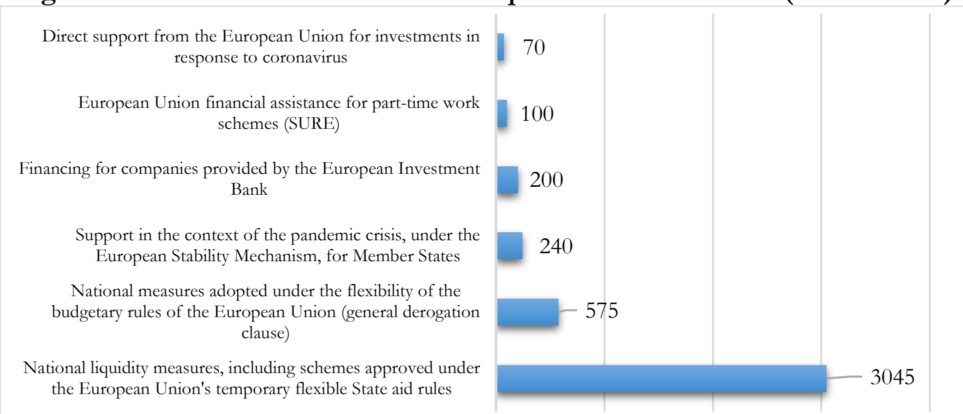
Monetary and stabilization	Fiscal	Guarantee and credits	Regulation and procedure
European Stability Mechanism (ESM) - crisis support measures created by the Covid-19 pandemic (240 billion Euros), macroeconomic stability loans for Eurozone countries, in order to correct the macroeconomic imbalances of these states, equivalent to 2% of Eurozone GDP	The Investment Initiative, the Plus Investment Initiative (initially € 37 billion), the reallocation of cohesion policy sources focused on addressing the consequences of the spread of the virus (an additional € 28 billion, not allocated to ESI funds so far)	Support for mitigation of unemployment risks in emergency situations (SURE) - 100 billion Euro, advantageous loans to support workers and the self-employed, first part of the support package	State aid rules: direct financial support for customers, the possibility of direct tax measures for companies facing a risk of bankruptcy due to the pandemic, compensation for damage proven to have been caused by the pandemic
European Central Bank: emergency procurement program (EUR 750 billion), extended monetary program	European Union Solidarity Fund: 800 million Euros	Pre-European Guarantee Fund: EUR 200 billion, EIB loans mainly to SMEs, Part Two of the Support Package	Flexibility of public funding criteria of the Stability and Growth Pact and within the European Semester
	European Globalization Adjustment Fund: Euro 179 million	Financial instrument to support the most affected SMEs: EUR 8 billion in the form of the EU budget guarantee to the EIF from the EFSI	Temporary cancellation of tariffs and VAT on imports of medical instruments and equipment from third countries

Source: European Economic and Social Committee, 11 June 2020

Structure and amount of intervention in European countries

The onset of the health crisis generated by the 2020 Covid-19 pandemic in European countries has brought with it a number of negative effects, such as human tragedy, a severe economic slowdown, and restrictions on the movement of European citizens. To help European states, the European Union has shown solidarity shortly after the outbreak of the health crisis, providing a strong response and focusing on actions with an immediate and effective effect on the crisis. In this regard, during the year 2020, more than 1350 measures have been adopted in European countries to help combat and reduce the negative effects of the crisis, including about 400 decisions on state aid that are seen as a coil for European businesses. Thus, the response of the European Union and the Member States to this crisis has mobilized 4.2 trillion Euros, which totals over 30% of the Union's GDP. The distribution and amount of funds allocated can be observed by the accompanying graphical representation.

Figure 1. Structure of intervention in response to the Covid-19 (billion EUR)



Source: European Commission, https://op.europa.eu/webpub/com/general-report-2020/ro/

In addition, the table below shows the number and structure of key measures announced or implemented by European states in response to the crisis generated by the Covid-19 pandemic starting March 17, 2021. Moreover, they include the measures implemented on Covid-19 as of January 2020, and the database is classified according to the type of financial support that has significant and different implications on public finances. At the same time, the database used focuses on government discretionary measures and complements existing automatic stabilizers, which differ depending on the scope, size, and country.

Regarding to equity injections, asset acquisitions, debt assumptions, loans, and even extra-budgetary funds, Eurozone finance ministers have set new safety nets for businesses, workers, and sovereigns worth 340 billion euros. This created a temporary unemployment reinsurance fund (SURE) of up to 100 billion euros, loans to support unemployment, and temporary work schemes. The Member States and the European Union budget will guarantee these loans. In addition, the difference of 240 billion Euros will consist of the support provided by MED for the pandemic crises of the European states to finance the health expenses, up to 2% of the GDP of each requesting state. In addition to these, there are numerous initiatives aimed at supporting states affected by the new crisis caused by the Covid-19 pandemic. More than ever, the European authorities have become increasingly involved in supporting the Member States and helping them to overcome all the problems that have arisen much easier and faster.

Table 2. Fiscal measures in response to the Covid-19 pandemic, starting with January 2020 (% of GDP)

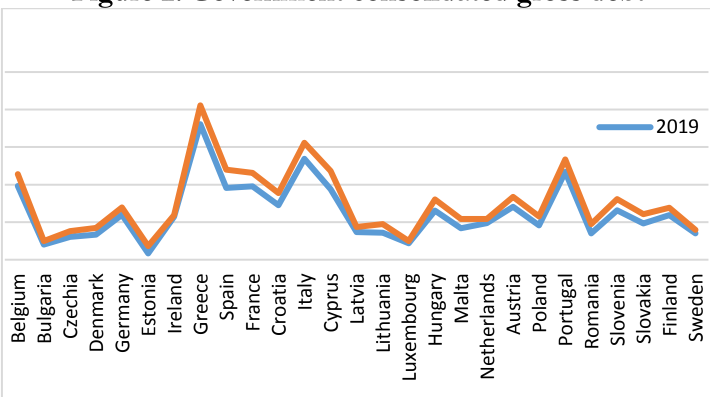
	Additional spending and forgone revenue in the health sector	Additional spending and forgone revenue in areas other than health	Accelerated spending and deferred revenue in areas other than health	Equity injections, asset purchases, loans, debt assumptions, including through extra-budgetary funds	Contingent liabilities	Quasi-fiscal operations
BE	1.9	6.2	3	0.2	11.6	0
BG	1.3	3.2	0.5	1.4	0	2.6
CZ	1.2	4.2	0.6	0	15.4	0
DK	0	5.1	13.8	9.6	4	0
FI	0.8	1.7	0.9	0.7	5.1	1.7
FR	0.8	6.8	3.1	0.9	14.7	0
DE	1.2	9.8	0	3	24.8	0
IT	0.6	7.9	0.4	0.2	35.1	0
PL	0.4	7.4	0	2.2	3.2	0
PT	0.9	4.5	0.5	0	5.7	0
RO	1	1.2	0.2	0.2	4.2	0
ES	1.3	6.3	0	0.1	13.4	0.9
SE	0.8	3.4	6.8	0.2	5	0
NL	0.7	3.8	1.6	0	8.2	0
EU	0	3.8	0	6.2	0.6	0

Source: International Monetary Fund, https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19

All fiscal measures implemented at the level of European states following the Covid-19 pandemic triggered the strong increase of public expenditures and the decrease of fiscal revenues, which led to the amplification of macroeconomic imbalances. Thus, from the graphical representations below, we can observe the tendency to accentuate the imbalances in the public finances, which will be felt later in the slowdown of the economic growth of the European states and in the level of development and living of the citizens. In this context, the authorities must take measures not only to reduce the negative effects of the pandemic but also to help restore the process of economic growth and improve the living conditions of the population.

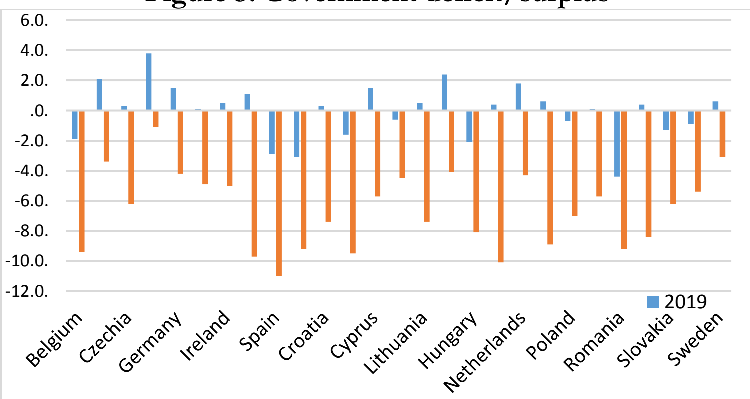
The European Commission's decision to activate the general derogation clause found in the Stability and Growth Pact, according to which European states may temporarily deviate from the adjustment measures to meet the medium-term objective, if they do not jeopardize medium-term fiscal sustainability. This situation has led to the amplification of economic imbalances. Thus, the socio-economic consequences of the pandemic will be felt unequally in different European regions and in Romania due to the gaps related to labor productivity, investment, and specialization of each region. Moreover, the Council's recommendations on intervention measures were not taken into account, and the emergence of the pandemic led to the issuance of a recommendation by the Council on April 3, 2020, on ending the excessive deficit situation in Romania by 2022 at the latest. Additionally, the sustainability of public finances in Romania was already in danger until the crisis generated by the Covid-19 pandemic due to the high budget deficit and the rising costs of demographic aging, more precisely pensions.

Figure 2. Government consolidated gross debt



Source: Eurostat, https://ec.europa.eu/eurostat/databrowser/view/GOV_10DD_EDPT1__custom_1170940/default/table?lang=en

Figure 3. Government deficit/surplus



Source: Eurostat, https://ec.europa.eu/eurostat/databrowser/view/GOV_10DD_EDPT1__custom_1170940/default/table?lang=en

	Public debt		Deficit/surplus	
	2019	2020	2019	2020
BE	97,6	112,0	-1,9	-9,0
BG	20,0	24,5	2,1	-3,8
CZ	30,0	37,7	0,3	-5,8
DK	33,7	42,2	4,1	0,2
DE	58,9	68,0	1,5	-4,3
EE	8,5	18,5	0,1	-5,5
IE	57,0	58,4	0,5	-5,0
GR	180,6	206,3	1,1	-9,9
ES	98,2	120,4	-3,1	-10,1
FR	97,4	115,0	-3,1	-9,0
HR	71,0	87,0	0,2	-7,3
IT	134,1	154,9	-1,5	-9,5
CY	90,4	113,5	1,3	-5,8
LV	36,5	42,0	-0,6	-4,3
LT	35,8	46,3	0,5	-7,0
LU	22,4	24,5	2,2	-3,4
HU	65,3	79,3	-2,0	-7,5
MT	40,7	53,3	0,6	-9,4
NT	48,5	54,7	1,8	-3,7
AT	70,6	82,9	0,6	-8,0
PL	45,7	57,2	-0,7	-6,9
PT	116,6	134,9	0,1	-5,8
RO	35,1	46,9	-4,3	-9,2
SI	65,4	79,6	0,6	-7,7
SK	48,0	58,9	-1,2	-5,4
FI	64,9	74,8	-0,9	-5,5
SE	35,2	39,5	0,6	-2,8

Source: Eurostat

Conclusion

As mentioned above, the negative effects of the COVID-19 are a particularly complex problem, which can be solved with the help of well-coordinated economic policies and major competencies on the part of various actors, with an appropriate focus on achieving the objectives in real-time, as well as through the further development and implementation of an appropriate timetable for action. In the set of measures mentioned in this article, innovative measures can be identified that are connected to the real needs of the economy, which can indisputably lead to an improvement in the economic, social, and financial context. From the perspective of the description and analysis made above, it is appreciated the relevant and timely reaction of the European Central Bank, but also of the European Commission regarding the adoption of more flexible measures and rules to support the recovery of the economic situation. An important aspect to note is that the European Union remains quite vulnerable to large-scale exogenous shocks, which could significantly affect the proper functioning of the economy. In addition, it was only after a certain period that the European Union institutions and the Member States began to adopt a series of measures to protect the homogeneity, integrity, and efficiency of the single market, which is considered the most significant and important achievement of the economic view of the European integration process.

As a result of the research developed in this article, the real economy needs productivity, and this productivity can be achieved with the help of various business models to avoid the gaps created by inequality. For this reason, the European Union has strongly supported small and medium-sized enterprises, as SMEs are known to be the backbone of the European economy and must therefore be supported.

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