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Weekly Briefing

Romania social briefing:
"Support for Romania"
– new socio-economic measures for coping with rising prices

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“Support for Romania”
– new socio-economic measures for coping with rising prices

The governing coalition has launched a package of socio-economic measures named “Support for Romania”, meant to help the economic environment and citizens to cope with rising prices. The envisaged measures amount to RON 17.3 billion, which is equivalent to approximatively 1.3% of GDP. The package is seen as providing solutions for citizens and for the economy and it is, according to the Prime Minister, a follow up of the governing program which has the citizen in its centre.

The annual inflation rate hit 10.15% in March 2022, from 8.53% in February, as non-food prices rose by 10.86%, food prices by 11.20%, and services by 6.53%, according to data of the National Institute of Statistics. However, the representatives of the Romania’s National Bank warn that the annual inflation rate is likely to rise slightly more in the coming months than expected in the medium-term forecast for February, increasing to 11.2% in June. After this point, a gradual decrease is expected, of up to 9.6% in December 2022, but steeper in the second half of 2023, implying its decrease to 3.2% at the end of the year, according to the latest analysis at the beginning of April. Adverse supply-side shocks seem to be responsible for the further worsening of the near-term inflation outlook. The main determinants are the larger increases expected to be recorded especially for the fuel prices and processed food prices, mainly under the influence of higher prices for crude oil and agro-food commodities, amid the war in Ukraine and international sanctions.

The Government representatives declared that the measures were extremely well thought out, being balanced and targeting different time horizons. Therefore, there are medium-term, long-term and immediate measures. The first measures will enter into force on May 1st the earliest, being in force until the end of the year. The measures which already support the programs from European funds will continue after December 31st.

Almost 52% of the total value of the package is provided by European funds (RON 7.2 billion) from the previous financial period 2016-2020, and 48% of funds from the state budget (RON 10.1 billion). However, although the announced programs can be launched, the part of financing assumed by the Romanian state (the over RON 10 billion) does not exist in the budgets of the ministries which should support these programs (Ministry of Agriculture, Ministry of Health, Ministry of Education, etc.). Therefore, a budget correction should be soon enhanced. The difficulty is that this new package of measures is adding a supplementary burden on the already assumed measure of capping tariffs on energy, both electricity and natural gas, ceiling which is applied until the end of the year and for which the budget impact is of almost 1.1% of GDP. However, the Budget Law is not yet updated with all these measures and their potential impact on the budget deficit is high, given that the estimated budget deficit at the beginning of the year (excluding these measures) was 5.84% of GDP. There were already doubts in the capacity of meeting the deficit targets at the beginning of the year. Back then, the Fiscal Council considered as probable the manifestation of a revenue gap compared to the targets assumed in the draft budget of about 0.92% of GDP, thus estimating a budget deficit with a percentage point above the level assumed by the Government. This is happening in the context in which Romania has assumed the return to a deficit level of (under) 3% of GDP in 2023.

The newly announced package of measures target three objectives: supporting the economy for healthy economic growth, achieving social cohesion and, ensuring intergenerational solidarity. Some major beneficiaries of these programmes are the small and medium size enterprises (SMEs), on one hand and, and on the other hand, the large investors, carriers and distributors, which are actually supporting the ongoing public investments in the Romanian economy. SMEs will totally benefit of an amount of EUR 300 million as a form of assistance for the companies facing difficulties due to the effects of the regional context. Aid of up to EUR 400,000 per company will be granted to SMEs facing an increase of over 15% in the cost of the utilities. For larger investments, there is a budget of EUR 200 million to stimulate investment with a major impact on the economy. Thus, state aid to encourage investments worth over EUR one million, with a significant effect on regional development and with prospects for continuation, will be granted starting with May. Moreover, there is a dedicated support scheme in place to support carriers (of goods or people) and distribution companies. In addition, companies affected by the increase in fuel prices will be covered by a subsidies mechanism. The program could support approximately 4,000 companies.

For protecting jobs, two important measures were announced. The first one expands the period of granting 75% of the salary to the employees in technical unemployment by the end of the year, and financing is ensured through European funds. The second measure ensure the continuation of the Kurzarbeit Program from May, through which employers have the possibility to reduce by 80% the monthly working time of employees, with an allowance of 75% of the basic salary corresponding to the hours of reduction of the normal schedule.

In addition, in the social field, support is provided for the citizens with the aim of protecting them from rising prices. Thus, the adopted package of measures provides vouchers for basic food worth EUR 50 every two months for several categories with low incomes. The total sum hit EUR one billion, provided in equal amounts from the state budget and European funds. Moreover, vouchers are granted to students receiving social scholarships, in a total amount of EUR 30 for each month in which school courses are organized, for the purchase of food, supplies and clothes. The total value of the package is EUR 33 million and approximately 4.7 million Romanians will benefit from all these measures.

Another set of measures is focused on the Romanian agriculture, targeting farmers, SMEs in the agricultural sector and the agro-food industry. Thus, EUR 200 million are allocated for the processing of agricultural products in Romania. Farmers who process agricultural products in the country will benefit from a premium of 10% of the value of processed products, starting with June. In addition, EUR 300 million grant are provided as working capital for Romanian farmers, who have to conclude the financing contracts by June 30. The minimum gross wage in agriculture and food industry will raise at RON 3,000, similar to that in the construction sector.

Another group of measures, totalling RON 500 million, is covering young people, as 2022 is the Year of Youth in the European Union and in Romania. Therefore, through the program for young families, loans amounting to a maximum of RON 75,000 for the payment of expenses for nursery, kindergarten, school, after-school, rent payment, advance from the purchase of a home, will be 80% guaranteed by the state. Through the National Student Invest Program, a loan amounting to a maximum of RON 50,000 could be guaranteed by the state in proportion of 80%. The loan is intended to cover for tuition fees, the publication of books or specialized studies, the payment of accommodation in student dormitories. In addition, Romanian families who cannot have children are supported, with the aim of implementing a public policy to increase the birth rate. The number of people who can apply for such programs will increase from 300 to 5,000 in 2022, covering a total value of about RON 100 million.

The Prime Minister considers that the measures included in the “Support for Romania” package promoted by the Governing Coalition address the problems facing Romanians and Romania’s economy. The Government has announced that the needed funds will be provided either from the state budget, either from European funds. However, some of them could be delayed, such as the vouchers for basic food, as there was no official discussion with the European Commission about the EUR 50 vouchers, only about the expenses related to people coming from Ukraine, according to some officials. For covering these needs, a discussion with

European representatives would include the possibility of moving European funds between operational programs, which means approving increased flexibility in the use of the funds. However, the Government ensured that, otherwise, the needed money will be provided through the operational program dedicated to vulnerable people.

The measures in Romania seem to be taken in the context of other similar measures applied by governments in Central and Eastern EU, aimed at limiting price increases for volatile products in the consumer basket, such as food and energy, in addition to tightening monetary policy by central banks in the region. Moreover, the phenomenon of inflation is largely seen as a supply-side shock that central banks cannot influence. Although it is difficult to compare such types of measures, analysts pointed that the extent of measures adopted by Romania in the fight against inflation is among the lowest among the economies with which we compare ourselves. They also warn that the impact of their cancellation will be substantial and lasting, the more significant the measures are.