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***EMPLOYMENT AND LABOUR MARKET VULNERABILITIES
DURING COVID-19. THE CASE OF ROMANIA***

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EMPLOYMENT AND LABOUR MARKET VULNERABILITIES DURING COVID-19. THE CASE OF ROMANIA*

LUMINIȚA CHIVU**, GEORGE GEORGESCU**

Abstract: *The extremely fragile balance of the Romanian labour market is severely affected by the crisis caused by the COVID-19 pandemic and by the sudden and almost general deterioration of the macroeconomic context and the business environment. The present study aims to argue that, in times of crisis, such as the current one, the labour market policies need to be varied but also synergistic, in order to stimulate employment and capitalize the potential of each category, so as to contribute to the recovery of the country's macroeconomic and financial framework. Despite the Government's anti-crisis and economic support measures, in the short term, the Romanian labour market is facing the unemployment rate increase, at least in 2020, as a result of the restrictions in many activities, exacerbating the vulnerabilities of the employed population structure described in the study. The analyses carried out revealed that, in Romania, the crisis affected practically all the members of society, but in a disproportionate manner, the most exposed being the vulnerable groups, namely people in the "grey" or informal area of the economy, those working in the most affected sectors and workers with low qualification, many deprived of the needed protection and social assistance. In the context of efforts to identify ways to reduce the distortions generated by the crisis, the integration of social security systems with social assistance can be a viable solution. As activities resume, the labour market tensions are expected to be mitigated both by labour market-specific measures, including those presented in the study, and at the macroeconomic level, adapted to the post-COVID-19 restructuring of the economy, with the necessary policy support at central and local level, including in terms of employment.*

Key words: *labour market; COVID-19 pandemic; employment; vulnerable groups; protection and social assistance; macroeconomic risks.*

JEL: *E24; F66; J10; J21; J46; O15.*

Introduction

The crisis triggered by the COVID-19 pandemic, with its sudden and almost general detrimental effects on the macroeconomic context and the business environment, has severely damaged the already fragile conditions of the labour market in Romania under the impact of divergent factors acting at the crossroads of labour supply and demand.

Disrupting factors such as: the rupture of global value added chains, total or partial blocking of international channels for goods, frontier lockouts, temporary business lockdown in most economic sectors, drastic social distancing and hygiene rules, limitations on the individual's right to move outside their residence unless strictly motivated under the new lockdown rules, curtailing the right to travel outside local areas of residence, sometimes placing certain geographical areas under quarantine, exceptions granted to opening the national territory by air or by road for seasonal workers from Romania at the untimely request of other EU member states etc., are only some of the elements that played a destructive role.

These circumstances have affected all the members of society: individuals acting legally in the labour market, persons earning their living in the grey area of the economy, and other important population segments dependent on the former two.

* The study is a revised and updated English version of a research undertaken by the authors and published in Romanian in MPRA Paper No. 101676, July 2020.

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In Romania, the labour market does not consist only in the category of employees, with all their fluctuations, it displays the general characteristics of employment under the free market rules, which includes specific features deriving from the structure of the economy, and the economy's level of development. To take anti-crisis measures against the COVID-19 pandemic, two such features should be considered (i) the large proportion of non-contractual, indirectly remunerated work, i.e. the category of family workers; and (ii) the high share of paid work without written and registered employment contracts, i.e. informal and no subject to taxation.

These two types of employed persons, plus the freelancers, are the categories most vulnerable to the crisis, but, most often neglected by the public strategies and policies designed to dampen the effect of the health crisis.

A study of the International Labour Organisation (ILO) expresses a growing concern regarding the disproportionate impact of COVID-19, and shows that the highest exposure is suffered by five vulnerable groups: persons in the informal segment of the economy, persons working in the worst crisis-stricken professions, young people, women, and poorly qualified workers.¹

Not to be ignored is the traditional form of employment in corporate entities, which, it too, blends into a wide range of varieties that each require a specific approach.

This paper argues that the complex labour market issues, in a period of crisis like the one that the Romanian economy are facing, caused by COVID-19², amid an uncertain international context, requires measures equally specific and diversified, but congruent with one another, in order to stimulate employment and maximise the potential of each labour segment, in such a way to contribute to the recovery of the macroeconomic and financial framework of Romania. This would allow the country to bounce back and recover the losses, and step forward towards a healthy economic growth and sustainable development.

This is not an easy approach. Romania is marred by major vulnerabilities not only in respect of its labour market and employment, but also at macroeconomic³ level, which may render the tax and budget policies an insufficient lever for ensuring the financial resources required to fight the multiple challenges of the COVID-19 crisis.

1. Vulnerabilities from the perspective of total population structure depending on participation in economic activity

After 30 years of negative demographic growth, worsened by high emigration flows that have reduced the resident population of Romania from 23 million inhabitants in 1990 to 19.4 million in 2019, Romania was still ranking 7th among the European Union members with regard to this demographic indicator. Its population was equivalent to the cumulated populations of the 9 EU members holding the last demographic positions in the EU 27 classification (Ireland, Croatia, Lithuania, Slovenia, Latvia, Estonia, Cyprus, Luxembourg, Malta), or equal to the added number of the populations of Bulgaria, Denmark and Finland.

From this perspective, the free movement of persons in the EU space has become an issue of great importance in Romania's case, including the negotiations for the country's accession to the Schengen Area.⁴

¹ International Labour Organization, *Essential labour force survey content and treatment of special groups*, ILOSTAT, 30 April 2020, p. 3.

² At global level, according to ILO estimations, the pandemic caused, in Q II 2020 alone, the loss of a total number of work hours equal to 400 million jobs, which accounts for about \$1.2 trillion less in workers' labour income (*ILO Monitor: COVID-19 and the world of work. Updated estimates and analysis*, 30 June 2020).

³ Chivu Luminița, Georgescu George, *Under Pressure: Romania's Labour Market Review. The Labour Supply and Demand*, Working papers, NIER-CEID, March 2020.

⁴ Racovițan M., Chivu L. (coord.) Georgescu G., Dinu S., Căce S, Băncescu I., Stan C., Vizireanu E., *Piața muncii în România. Repere cantitative și calitative privind deficiturile de forță de muncă* [Labour Market in Romania. Labour Force Deficits in Quantity and Quality Criteria], INCE-CIDE, Bucharest, 2019.

From the viewpoint of their participation in economic activities, the average resident population⁵ of Romania in 2019 stood at 9.0 mil. active persons, and approximately 10.4 mil. inactive persons, structured as in Table 1.

Table 1:

Resident population, by participation in economic activities, in Romania, in 2019 (persons)

Average resident population				
19,405,840				
Active population		Inactive population		
9,033,695		10,372,145		
Employed population	Unemployed	Retired	Students	Persons dependent on upkeep from government or other individuals, or living on other revenues (rent, interest, etc.), and homemakers
8,680,325	353,370	4,672,043	3,484,897	2,215,205

Source: Authors' compilation of INS, National Institute of Statistics data.

With one of the lowest unemployment rates in the EU, Romania's active population is composed of some 8.7 mil. employed persons, and 0.35 mil. jobless persons.

The population composition reveals that the ratio of employed persons to various other categories of individuals is approximately 1.2 persons, which reflects a high degree of economic dependence.

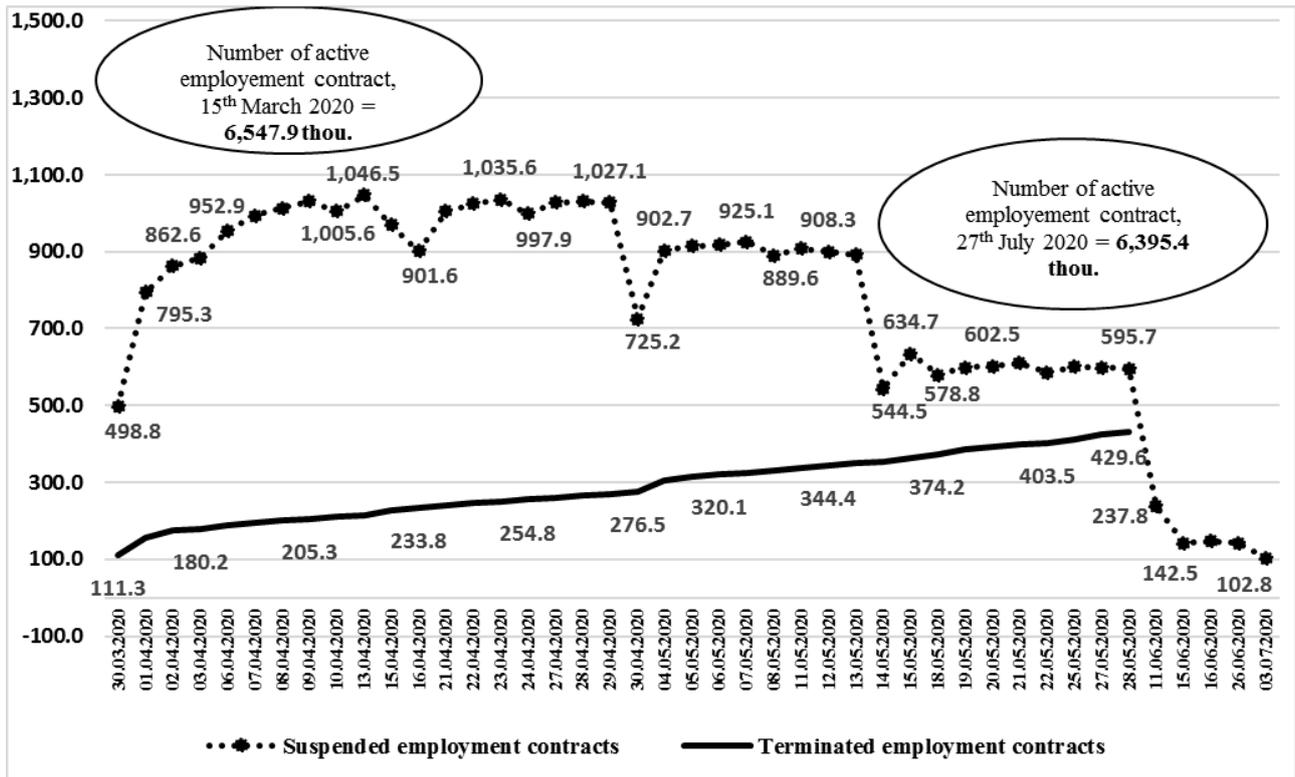
If we subtract the average number of retirees (some 4.7 mil.) and the number of students (approximately 3.5 mil.) from the economically inactive population, we are left with a difference of approximately 2.2 mil. persons, some of whom are beneficiaries of government or private upkeep benefits, or live on other sources of revenue (rent, interest, etc.), or are housewives/homemakers, all of which are seriously vulnerable in times of crisis.

2. Vulnerabilities resulting from the structure of the employed population

The first wave of COVID-19 hit hard the labour market of Romania in the first two months from onset, when a large number of employment contracts were suspended or terminated. Information from the press releases of the Ministry of Labour and Social Protection showed that the number of terminated contracts had a growing tendency, from 111.3 thou. to 429.6 thou. during the time span 30.03.2020 – 28.05.2020. Also then, the number of suspended employment contracts reached a peak of 1,046.5 thou. on 10th of April, to then waver, with a downward trend, towards 595.7 thou. at the end of the reference period. In the following two months, the number of suspended individual contracts declined gradually to some 102.8 thou. as at 3rd July 2020. (Graph 1).

⁵ Calculated as the sum of the average annual active and inactive population.

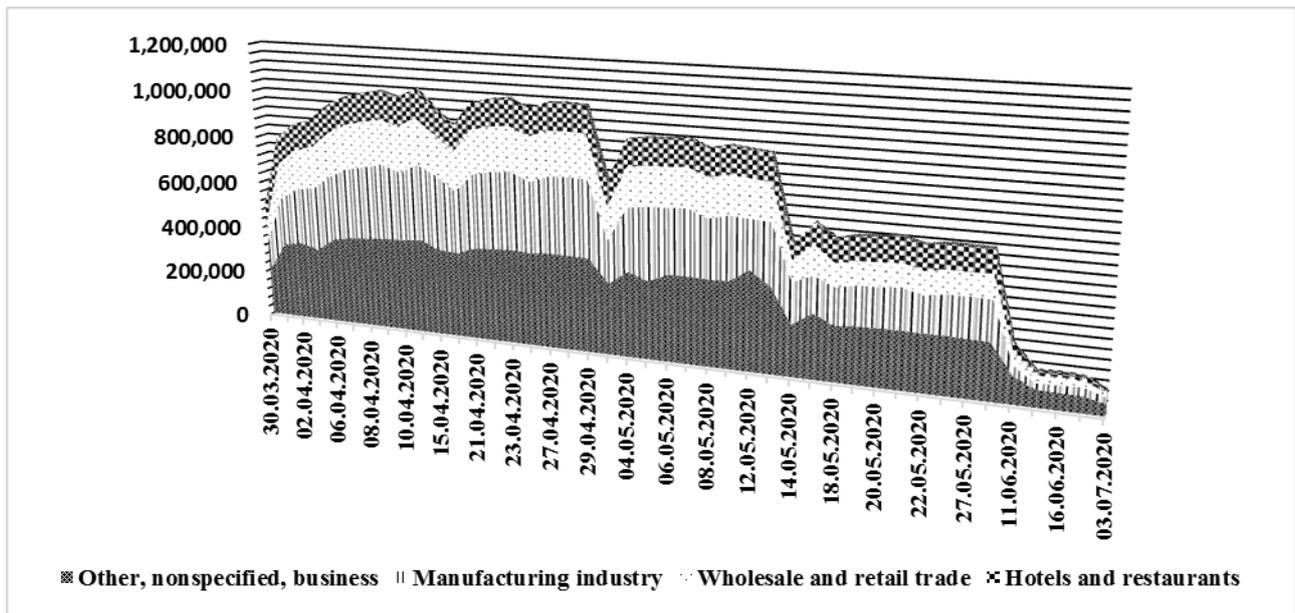
Graph 1. Number of suspended and terminated employment contracts, 30.03.2020 – 03.07.2020 (thousands)



Source: Based on data provided by the Ministry of Labour and Social Protection and National Institute of Statistics.

Among the business branches featuring the highest number of suspended contracts were, at all times, the manufacturing industry, wholesale and retail trade, car and motorcycle repair, hotels and restaurants, which all accounted for more than 50% of the suspended employment contracts (Graph 2).

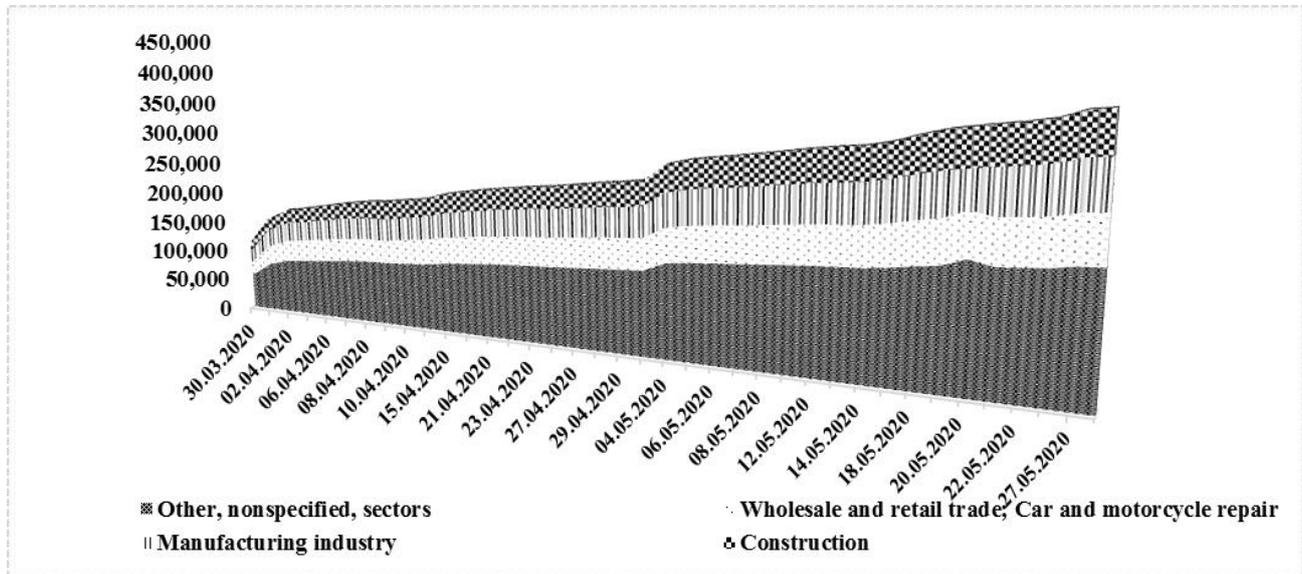
Graph 2: Number of suspended employment contracts during 30.03.2020 – 03.07.2020, by business sector



Source: Based on data provided by the Ministry of Labour and Social Protection.

Over 50% of the terminated employment contracts, and therefore the most affected segment of workers, were reported in the wholesale and retail trade, car and motorcycle repair, the manufacturing industry, and construction (Graph 3).

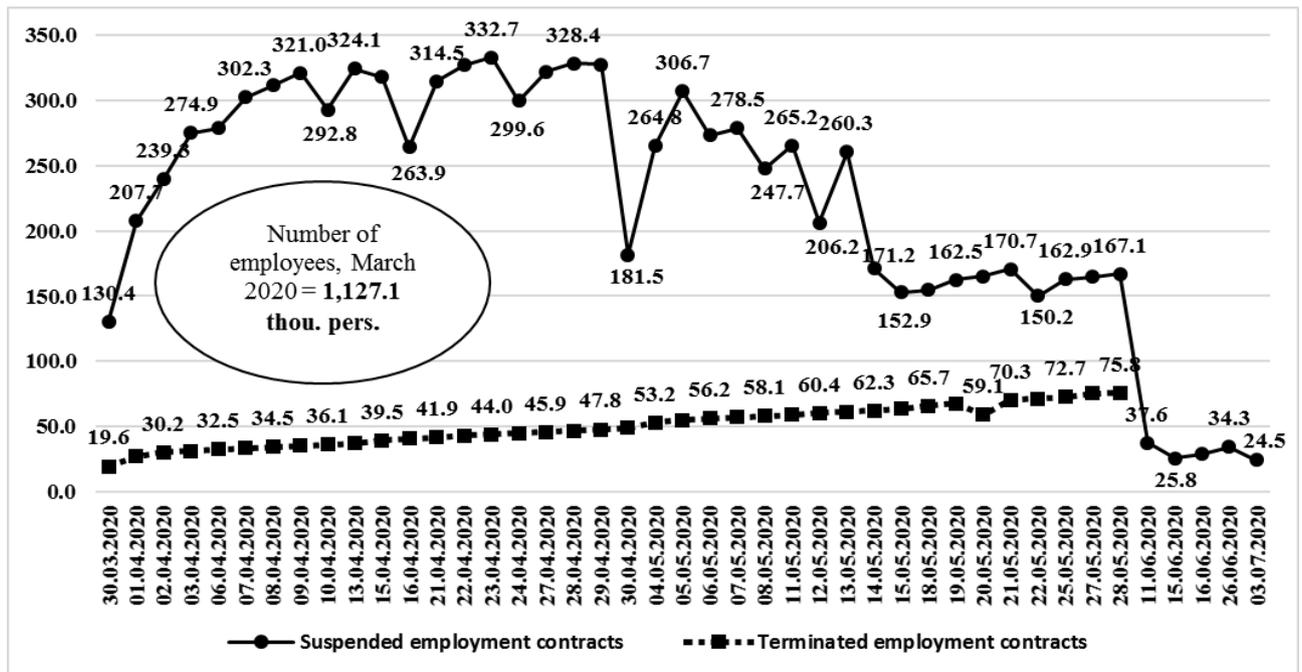
Graph 3: Number of terminated employment contracts during 30.03.2020 – 28.05.2020, by business sector



Source: Based on data provided by the Ministry of Labour and Social Protection.

In the manufacturing industry, the number of terminated employment contracts grew steadily during the period 30.03.2020 – 28.05.2020, increasing from 19.6 thou. to 75.8 thou. The employment contracts suspended during the same reference period reached a maximum of 332.7 thou. on 23 April, after which they fluctuated in number, following a downward trend to 24.5 thou. as at 3 July 2020 (Graph 4).

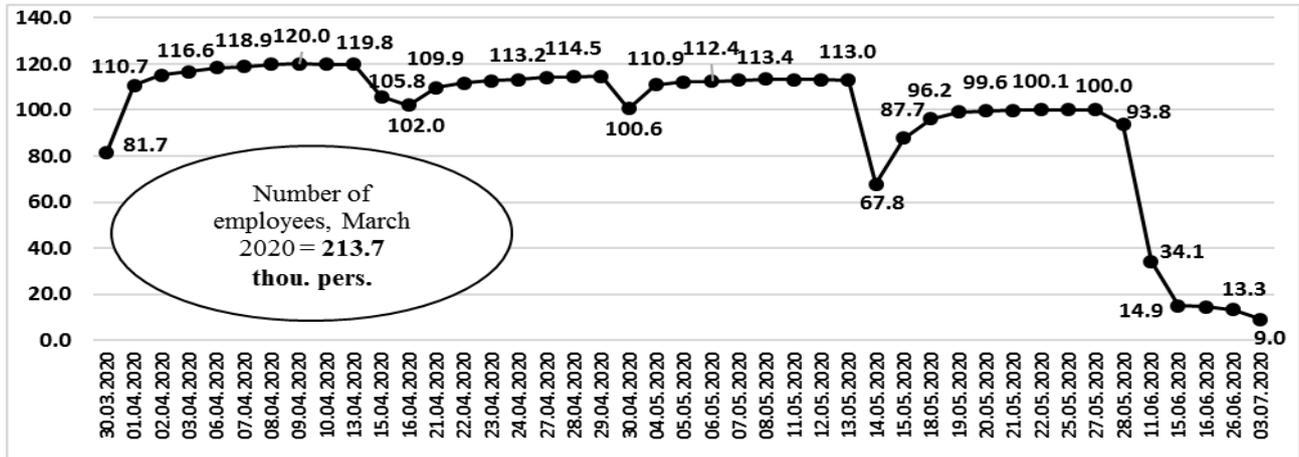
Graph 4: Number of employment contracts suspended and terminated in the manufacturing industry, 30.03.2020 – 03.07.2020 (thou.)



Source: Based on data provided by the Ministry of Labour and Social Protection and National Institute of Statistics.

In the hospitality industry, the first two months (during the state of emergency) and the following period (from the onset of the state of alert) brought the number of employees and the number of suspended employment contracts to an overall ratio of 2:1. Starting from June, when hotels were allowed to open again, the number of suspended contracts dropped quickly below 10 thou. (Graph 5).

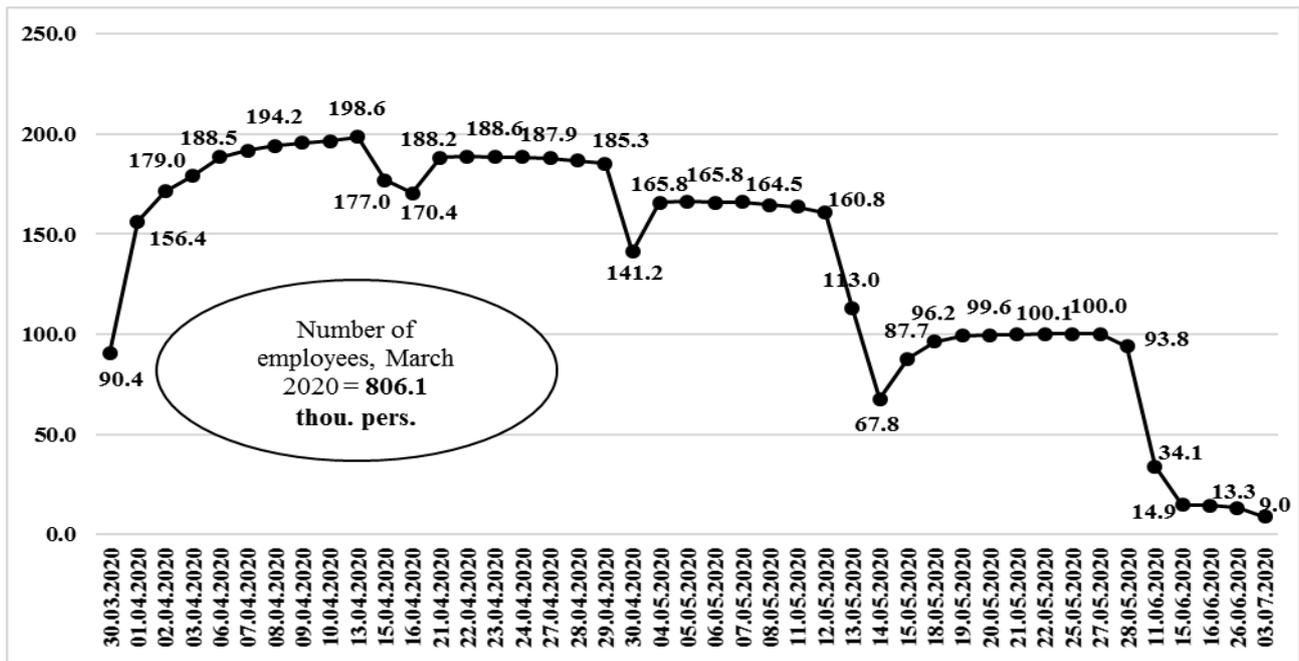
Graph 5: Number of employment contracts suspended in the hospitality industry, 30.03.2020 – 03.07.2020 (thou.)



Source: Based on data provided by the Ministry of Labour and Social Protection and National Institute of Statistics.

The number of employment contracts suspended in the wholesale and retail trade, and in the car and motorcycle repair industry, oscillated in the first two months of emergency state from 17.4% to 24.3%, in a direct ratio to the average number of workers in these economic sectors. Lifting of restrictions reduced the number of suspended contracts to a minimum of circa 9 thou. at the beginning of July 2020 (Graph 6).

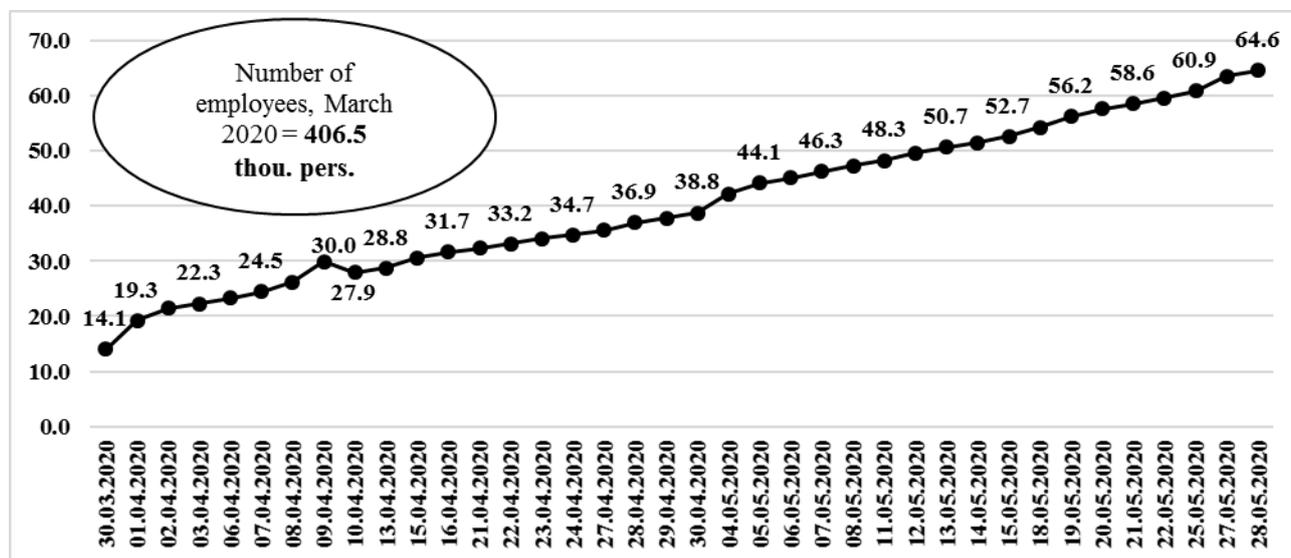
Graph 6: Number of employment contracts suspended in the wholesale and retail trade, and car and motorcycle repair, 30.03.2020 – 03.07.2020 (thou.)



Source: Based on data provided by the Ministry of Labour and Social Protection and National Institute of Statistics.

The crisis caused the suspension of employment contracts in the construction sector, in a growing curve up to approximately 16% of the total number of workers in the sector, by the end of May 2020 (Graph 7).

Graph 7: Number of employment contracts suspended in the construction sector, 30.03.2020 – 28.05.2020



Source: Based on data provided by the Ministry of Labour and Social Protection and National Institute of Statistics.

The suspension and the termination of employment contracts, caused by the COVID-19 pandemic, generated complex, multi-faceted, effects.

The blow dealt by the pandemic to the labour market was a shock wave that distressed not only the Romanian economy, and there is no single state where it did not bring about tensions and uncertainties regarding the safety of employment, revenues, but with different amplitudes from one state to another.

The preliminary estimations of the losses showed, among other things, that the major differences between the EU 27 Member States lie not so much in the magnitude of the shock caused by the pandemic, but in the way the national labour markets reacted to the shock.⁶

After the first strike, which brought the EU states' economies to a "medically induced coma"⁷, when businesses and schools were forced to close, workers were compelled to stay at home and work, wherever possible, from home, the nations of Europe have had a difficult choice to make between loss of lives and loss of jobs⁸, they had to trade-off between saving lives by closing down economic activities and social distancing, with the array of short, medium and long-term effects that come along with the loss of jobs, and dissolution of companies.

Against this background, it is of utmost importance to identify the most vulnerable economic sectors and professional segments, the demographic and socio-economic features of the most affected employees, the job categories that COVID-19 rendered most sensitive and threatened with extinction.

Rough calculations place at 45 mil. the number of jobs in the EU 27 (23% of employed population) threatened to be wiped off due to the COVID-19 pandemic, while other 22% of the jobs

⁶ Soriano C. V., *The sombre impact of COVID-19 in European labour markets*, Agenda Economica, 5 July 2020.

⁷ Lemieux T., Milligan K., Tammy S., Mikal S., *Initial impacts of the COVID-19 pandemic on the Canadian labour market*, CLEF Working Paper Series, 26, Canadian Labour Economics Forum (CLEF), University of Waterloo, 2020.

⁸ Hamermesh D. S., *Trading off lives for jobs*, IZA Institute of Labour Economics, 2020.

held mostly by average and low qualified workers, are very likely to become redundant.⁹ The share of risk, however, is not equally distributed. It is expected to be more severe among vulnerable labour force segments, such as persons with poor education and qualification, persons living on low income, young people, elderly persons, women, etc.

Other recent studies¹⁰ estimate that approximately 59 mil. jobs in the European Union (26% of employment) are at risk to suffer from curtailment of working hours or cut-backs on salaries, from temporary unemployment or even lay-off.

These findings require immediate and well-targeted responses, by way of policies aimed at preventing the dissolution of jobs and growing inequities.

A Eurofound study shows that the employees made redundant as a consequence of the COVID-19 crisis have been hit by the sharpest financial insecurity. This, plus the social distancing and other social barriers imposed by the pandemic, makes them most eligible for immediate welfare measures.¹¹

Behind these general figures are large labour segment that suffer from the effects of the crisis more than other segments.

According to an e-survey of Eurofund¹² in all EU countries, about 40% of paid hours worked by employees were performed under telework regime during the COVID-19 crisis, that provided advantages in terms of both socioeconomic sense, as highlighted by high level of qualifications and economic resilience, in the sense of offering physical security. However, 8% of respondents lost their job during the pandemic, with large differences between countries, between employees and type of individual labour contract, the self-employed being particularly exposed and suffering disproportional drops in working hours and work income. At the same time, the survey revealed that the situation of unemployed respondents has registered a sharp deterioration, pointing out the need for adequate social protection measures and an extra support in getting back to normal, otherwise their precarious financial outlook facing a significant risk of suffering mental health problems.

Arguing that despite difficulties in assessing the social consequences of COVID-19 because of limited available data, as showed by Vanhercke et al.¹³, it became obvious that the impact disproportionately hit those already poor and vulnerable, in the EU, mostly in lower-income CEEC countries where social protection benefits and other social inclusion provisions are less available, which make unlikely the achievement of Europe 2020 target of 20 million fewer people at risk of poverty or social exclusion. The quoted authors also underline that social effects of pandemic are different between countries depending on employment status, the self-employed and those with non-standard labour contracts being paid less and remaining out of short-time work schemes.

The anatomy of the employed population in Romania by level of education brings to the fore a category of persons most sensitive to the current crisis, for whom any revenue cutback may push them into poverty. These are persons with a low level of education, most of whom are seasonal workers, without written and perfected employment contracts. According to Eurostat data, in Romania, the employed population in this category stood, in 2019, is 1,423 thou. persons.

A scrutiny of Romania's employed population by profession reveals a high ratio of two categories, the self-employed, and unpaid family workers, which, in 2019, according to Eurostat, formed approximately 22.1% of the employed population, and totalled some 1.9 mil. persons.

⁹ Idem, p. 7.

¹⁰ Chinn D., Klier J., Stern S., Tesfu S., *Safeguarding Europe's livelihoods: Mitigating the employment impact of COVID-19*, McKinsey Global Institute, 2020.

¹¹ Eurofound, *Living, working and COVID-19 First findings*, April 2020, p. 9.

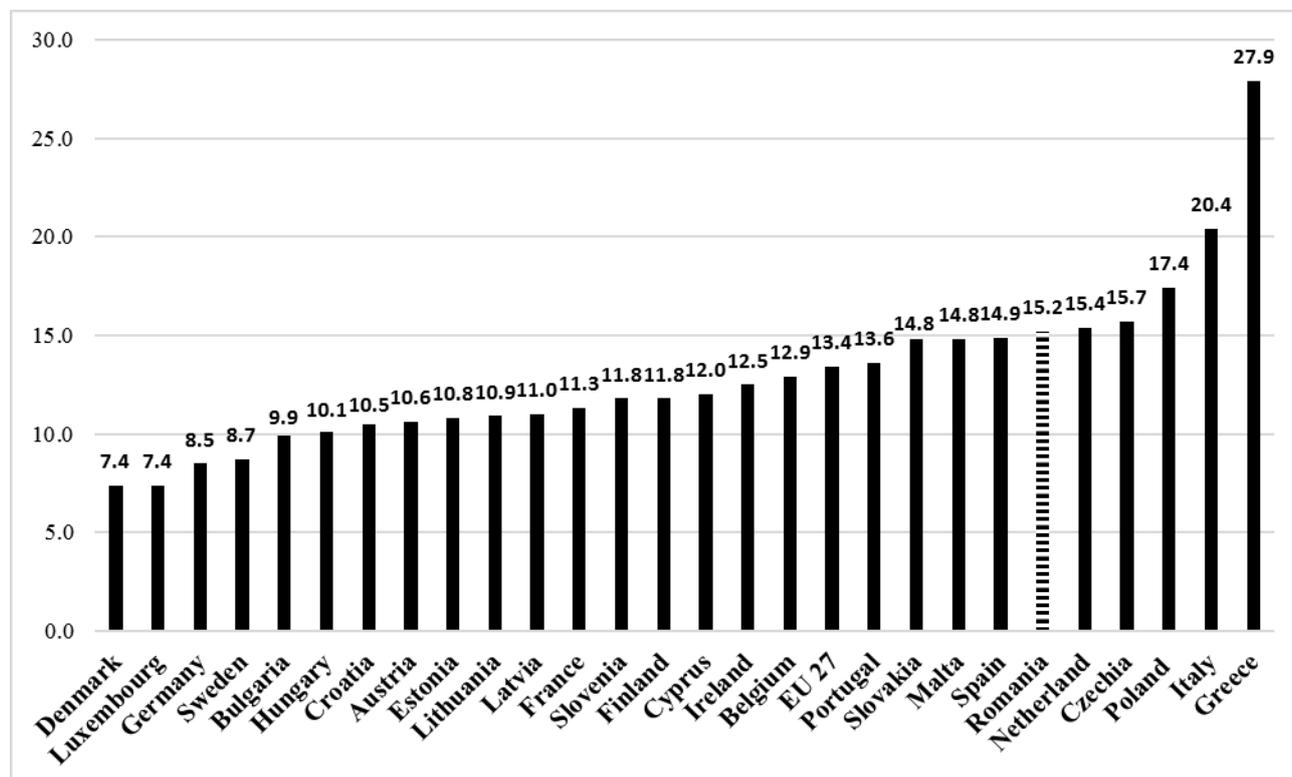
¹² Eurofound, *Living, working and COVID-19*, COVID-19 series, Publications Office of the European Union, Luxembourg, July 2020.

¹³ Vanhercke B., Spasova S., and Fronteddu B. (eds.), *Social policy in the European Union: state of play 2020. Facing the pandemic*, European Trade Union, Institute (ETUI) and European Social Observatory (OSE), Brussels, ETUI, 2021.

This segment includes persons most capable to work from home (IT, self-employed, etc.), and people working in the agricultural sector. They, too, sustain the COVID-19 effects, because they are dependent on corporate business, on the one hand, and are restrained by the decreasing demand for goods and services, on the other.

One segment alone, the self-employed persons, accounted for a share of 15.2% of total employment in 2019, close to the European Union average of 13.2%. This segment accounts for much lower shares in countries like Denmark (7.4%), Germany and Sweden (8.5%) (Graph 8).

Graph 8: Share of the self-employed persons in total EU 27 employment and the member states (%)



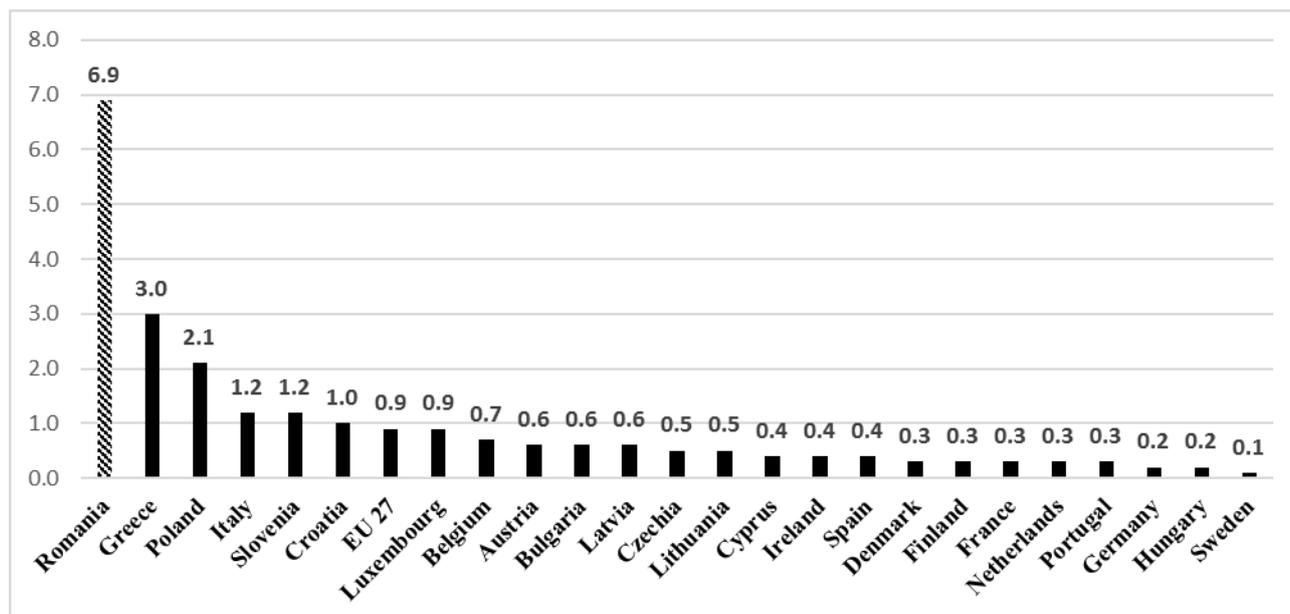
Source: Own calculations based on Eurostat data.

Freelancers also hold a high rate among the employed populations of Greece (27.9%), Italy (20.4%), Spain (14.9%), Slovakia (14.8%), and Portugal (13.6%), where during the social distancing period the governments took special care to counteract some of the negative effects precisely on this segment.

The first estimations in the case of Slovakia¹⁴, for example, showed that, during the period March – July 2020, approximately one third of employment was struck by the effects of COVID-19, most of whom were self-employed workers. The next most affected segment were the workers on temporary employment, the costs involved by their layoff being much lower, compared to the costs associated with that of permanent employees. The first two categories, self-employed and temporary workers, were, in most cases, devoid of any social protection benefits.

The segment of unpaid family workers, which accounts for 6.9% of total employment, places Romania first in the EU27, where the average ratio is 0.9% (Graph 9).

¹⁴ Machlica G., *The Slovak labour market during the pandemic – who is at risk and how to protect all workers?*, Ecoscope, 6 August 2020.

Graph 9: Share of unpaid family workers of total employment, in EU 27 and the member states (%)

Source: Own calculations based on Eurostat data.

Therefore, while the measures to support this category are not so badly needed for the other EU member states, in Romania they will have to be adapted to the local realities.

The estimation of the initial impact of COVID-19 on the labour market in the OECD¹⁵ countries for which information was available, revealed that the setback was 10 times stronger than that suffered in the first three months of the global financial crisis of 2008. Summing up the two factors, reduction of employment, and reduction of work-hours for those who remained active, it was found that, in 2020, the total amount of work-hours diminished during the first three months, by 12.2%, compared to only 1.2% during the beginning of the 2008 crisis. The figures above demonstrate the special nature of the crisis induced by the COVID-19 pandemic, which forced many states to put whole economic sectors on hold, in order to stop the spread of the virus. The same study draws a number of other noteworthy conclusions: the most vulnerable workers are those who "take the brunt of the crisis": low-income workers, who bear the greatest losses in terms of jobs and revenues; workers employed as black labour, or on non-standard employment contracts (fixed-term or part time), and especially the self-employed workers, who suffer the greatest exposure to the shock.

In 2019, in Romania, there were 656 thou. persons doing part-time work (most of them hired as black labour). The same circumstances forced a number of 442 thou. persons (approximately 5.1% of total employment) who worked under a full-time contract to accept the reduction of their working hours. If we sum up the number of part-time workers and the number of full-time employees forced to work less than 40 hours/week, we reach a total of 1.408 thou. persons, which accounts for some 16.2% of total employment.

The impact of the health crisis on employment demographics must not ignore the segment of the under-employed, and the various types of inactive persons who are willing to work, and who form a labour force the potential of which cannot be turned to good account. These are labour categories at the border between contractual workers, and informal workers.

In 2019, the persons in under-employment represented 31.1% of total part-timers, and 2.2% of total employment. Among the 192.6 thou. underemployed persons, a number of 172.6 thou. persons were active in the rural areas. No comprehensive support programme has been developed for this category of workers, with a view to helping them to maintain or even increase their level of

¹⁵ OECD, *OECD Employment Outlook 2020: Worker Security and the COVID-19 Crisis*, OECD Publishing, Paris, 2020.

revenues. To them we must add 115.8 thou. inactive persons who were willing to work. This brings the number of those affected by the health crisis, for whom no support measures have been put in place so far, to 300 thou. persons.

Underemployment is more frequent in the private households acting as employers of house workers (most of them without an employment contract), for private household activities for the production of goods and services meant for the household's own use, for construction and farm work (these being the employment sectors with the highest rate of tax-evasion, unregistered labour).

Another distinctive feature of Romania that makes it different from the other EU countries is that only 7.6% of its self-employed had their own employees, as against over 30% at the level of EU 27.

Also, in Romania, the number of persons conducting, in parallel, a main activity and a secondary activity is lower than the number of the underemployed population, and holds a very small share of total employment. Some of those with dual activities are regular employees, acting also as Physical Authorized Person. This status should have been a shield against the loss of job in economic sectors forced to shut down by the COVID-19 pandemic.

The well-established categories of employees, and, particularly, workers unprotected by written and duly registered employment contracts, as well as workers in the informal economy have a strong contribution to the formation of the Gross Domestic Product, and, implicitly, to the country's economic growth. From this point of view, we can distinguish between two categories: employees in the corporate sector and household workers (employees, and self-employed). Estimations show that, in 2018, the gross value added generated by the two categories (labour-generated hidden economy) represented about 15% of the gross domestic product.

It is worth observing that the gross value added estimated to have been generated by black labour employed in corporate sector, is 3.5 times bigger than that generated by the employed population and the non-contractual workers in agriculture and households. Social distancing and businesses shutdown left black labour without any source of income, because their informal employment status did not qualify them for the "technical unemployment benefit".

The informal segment of labour, with their intrinsic vulnerability at times of crisis, is not singularly specific for Romania, they are a cause for concern for many governments, and for the International Labour Organisation (ILO).

The monitor released by ILO at the end of April in 2020, showed that, at world level, more than two billion people earn their living in the informal economy, without benefitting from welfare benefits, health insurance, pension fund contribution. During the COVID-19 pandemic, it was found that 1.1 billion people working in the informal economy live in countries that instated a total *lockdown*. Therefore, they lost their jobs, were forced to stay indoors, have been left with no revenues, and they are on the brink of famine.¹⁶

Some authors suggest that the health crisis is driving a shift toward more informal and precarious work among lower qualified workers, notwithstanding the rise in contractual work prior to the pandemic, when informal employment was stagnant or even declining in some countries. A decline in the unemployment rate after the pandemic should not be misinterpreted for economic recovery because it could be caused, at least partially, by the increase in informal work arrangements with jobs less secure, lower-paid and less productive.¹⁷

Another study, commissioned by the Eurofound, shows that after the first measures taken to counteract the onset of COVID-19, many governments realised that the relief schemes did not include certain worker categories: labour not covered by an employment contract, day labourers,

¹⁶ ILO Monitor, *COVID-19 and the world of work. Updated estimates and analysis*, International Labour Organization, 29 April 2020, p. 7.

¹⁷ Dewan Sabina, Ekkehard Ernst, *The pandemic is accelerating a shift toward more informal and precarious work*, Finance & Development, IMF, December 2020.

unpaid family workers. Those governments had to amend the special regulations issued during, and aimed at alleviating the effects of the pandemic.¹⁸

Persons supplying services to individuals (cleaning, child care, etc.) saw themselves restricted from exiting their home, therefore deprived of the means to earn their live hood.

A situation similar to this is that of the day workers. They perform an atypical form of work, in business sectors that are well-defined by law, where employment contracts are not the rule.

Day work consists in activities that are occasional, sporadic, or contingent, therefore it is not permanent. Day work involves the agreement of the parties, and does not require any written document, similar to an employment contract.

Nonetheless, due to lower taxation rates, day work has become the custom in sectors where it is permitted. Moreover, although the law stipulates that day work is typical of unskilled labour, there are many cases when qualified workers are hired as day labourers.

These are some activities where day work is an important component, and are therefore affected by the pandemic: organisation of exhibitions, fairs, and conventions; entertainment, theatrical shows, and management of theatres; food catering for events; restaurants, bars, and other drinks and beverage services.

The crisis has proved, once more, if anybody doubted, that the countries where the atypical forms of labour hold an important share of total employment are struck the hardest by the health crisis, but also that the effects of the shock in the labour market are unequally distributed, varying in close connection with the specifics of the labour force, acting with a most destructive force against the most vulnerable groups: workers with low income and insecure jobs, young people, and women.¹⁹

The analysis of the measures taken by governments during the crisis also showed that the care taken for the unemployed and the other vulnerable groups was minimal.²⁰

Real-time opinion polls in the United Kingdom, USA, and Germany convinced experts that the labour market impact of COVID-19 differed greatly from one country to another, but also within each country, from one category of workers to another. Not only that the impact was unequally sustained, it also deepened the existing inequalities.

Undisputable negative effects, associated with higher risks for the future, were found in the groups of women, young workers, employees under non-standard labour contracts, and poorly qualified workers.²¹

At the webinar that debated the topic "*Future of work and COVID-19 impact on local labour markets*" organised by Eurocities, in May 2020, the representatives of the European Commission, the International Labour Organisation, and the OECD identified the following challenges caused by COVID-19 to the labour market and employment:

- the crisis we are confronted with is very different from all the other crises that mankind had to face in the modern era. The situation is very fluid, having an uneven spread on the various segments of the labour market, and nobody can foresee how long the crisis will last (high degree of uncertainty), what will be outcome and the long-term implications;
- the crisis has a major impact on employment, and it has afflicted, in various forms and degrees, over 30% of the jobs typical for the urban areas;
- the most severe threat with loss of jobs is for the poorly qualified workers, for workers in the informal economy, the self-employed, and other vulnerable groups, such as youths, refugees, immigrants;

¹⁸ Biletta Isabella, *All aboard: Hauling undeclared workers onto the pandemic rescue boats*, EUROFUND, 11 May 2020.

¹⁹ Brancati C. U., Tolan S., Fernández-Macías E., Vázquez I. G., Fana M., Pérez S. T., *The asymmetrical impact of the COVID-19 crisis on the European labour market*, European Commission's Joint Research Centre, Social Observatory, July 2020.

²⁰ Podvršic A., Becker J., Piroška D., Profant T., Hodulak V., *Mitigating the COVID-19 effect: Emergency economic policy-making in Central Europe*, ETUI Working Paper, July 2020.

²¹ Adams-Prassl A., Boneva T., Golin M., Rauh C., *Inequality in the Impact of the Coronavirus Shock: Evidence from Real Time Surveys*, IZA Discussion Papers 13183, Institute of Labor Economics (IZA), 2020.

- the key to improving their status in the future is more investment in developing competences: vocational readjustment, courses for skills improving and updating, adult training, and creating the conditions for everyone's access to computer literacy, online competences (with a stress on digital competence);

- digitalisation and automation tend to accelerate in many sectors; they raised challenges long before the COVID-19 pandemic, but now they have become more topical and more pressing than ever. People will have to acquire basic digital abilities, so that they can gain access to online services, receive online digital training, and pursue professional readjustment.

- the economic sectors that are being hit the hardest by the pandemic are retail sales, accommodation and food catering services (hospitality industry), real estate services, and the manufacturing industry.

A recent World Economic Forum Survey²² found that significant changes in the job market are expected in mid-term, due to technological progress (as artificial intelligence-AI) accelerated by COVID-19 impact, the emerging professions reflecting increasing demand for green economy and digitalization, cloud computing, internet of things, among these: data analysts and scientists, AI and machine learning specialists, big data specialists, digital marketing and strategy specialists, process automation specialists, business development professionals, digital transformation specialists, information security analysts, software and applications developers, Internet of things specialists, database and network professionals, robotics engineers, strategic advisors, management and organization analysts, FinTech engineers, risk management specialists. The demand for other professions is expected to shrink, between them: data entry clerks, administrative and executive secretaries, accounting, bookkeeping, and payroll clerks, assembly and factory workers, mechanics and machinery repairers, electronics and telecoms installers and repairers, construction workers, door-to-door sales, news, and street vendors, business services and administration managers.

During the first weeks and months of the crisis, the governments gave priority to emergency support to households and companies, to keep them afloat, in order to prevent the abrupt collapse of their economies.

Experts are of the opinion that governments should substantively change and adapt the structure and the characteristics of the support packages, and, having in view the high costs associated therewith, set priorities, and, hard as it may be, wisely channel the related expenses, so that they should not withdraw too early the benefits earmarked for households and companies while some of them still need them.²³

In this context, avoiding a second shock wave of the pandemic when businesses reopen is of the essence.

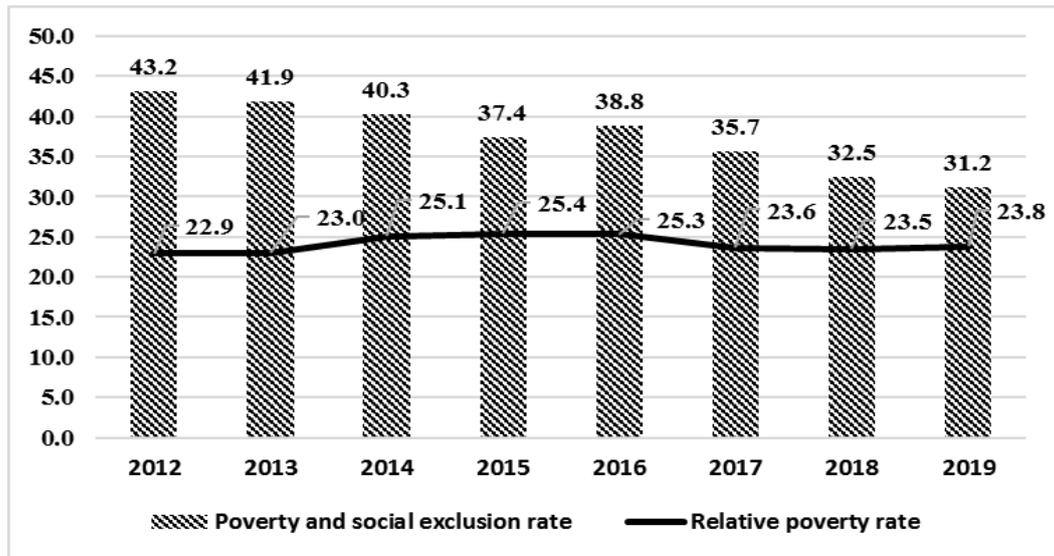
3. Expansion of poverty as a result of the crisis

Although the poverty risk and the degree of social exclusion have diminished in Romania in recent years, they are still at an unacceptably high level. The COVID-19 crisis, with its many-faceted implications, has brought about additional risk factors that may push into poverty an important segment of the country's population.

Over the past years, the economic growth, the EU and national social cohesion policies have improved social inclusion, with the correlative reduction of extreme poverty. The financial poverty rate has remained roughly the same, while the rate of poverty and social exclusion risk diminished significantly, by more than 10 percentage points (from 43.2% in 2012 to 31.2% in 2019) (Graph 10).

²² WEF, *The Future of Jobs Report*, World Economic Forum, October 2020.

²³ Soriano, Op. Cit.

Graph 10: Evolution of poverty and social exclusion rate, and relative poverty rate (%)

Source: National Institute of Statistics.

In 2019, the relative poverty rate was 23.8%, from 23.6% in 2017, 25.3% in 2016, and 22.9% in 2012.

One of the main reasons why the poverty rate continues to be high in Romania is that poor people derive most of their earnings from temporary and contingent work (day labour, informal self-employment, etc.), or from jobs paid with the minimum official wage. The difference between the relative poverty rate among the unemployed and the same rate among the employed population stood at 13 percentage points.

Eurostat says that Romania has the highest rate of persistent poverty: about 19% (in 2017, it was 19.1%), which means that one out of five inhabitants lived in poverty in at least two of the three previous years.

In absolute figures, the number of poor people amounted, on the average, to some 5 mil. every year, during the period 2013-2016, and to 4.6 mil. persons during the period 2017-2019. Some of the country's regions stand out in terms of persons at poverty risk: the North-East Region, and the South-West Oltenia Region, where, in 2018, the relative poverty rate was approximately 35%, which means that one of three inhabitants in these regions live on very low incomes, unsuitable for a decent living standard. To make things worse, poverty is often accompanied by social exclusion (primarily from the labour market).

From this point of view, Eurostat data show that, in Romania, approximately 7 mil. persons are threatened by poverty and/or social exclusion. The time of high economic growth between 2013 and 2017, that came along with an increase of employment opportunities, was not sufficient to reduce the number of people afflicted by poverty and excluded from decent living by more than 1 million in four years.

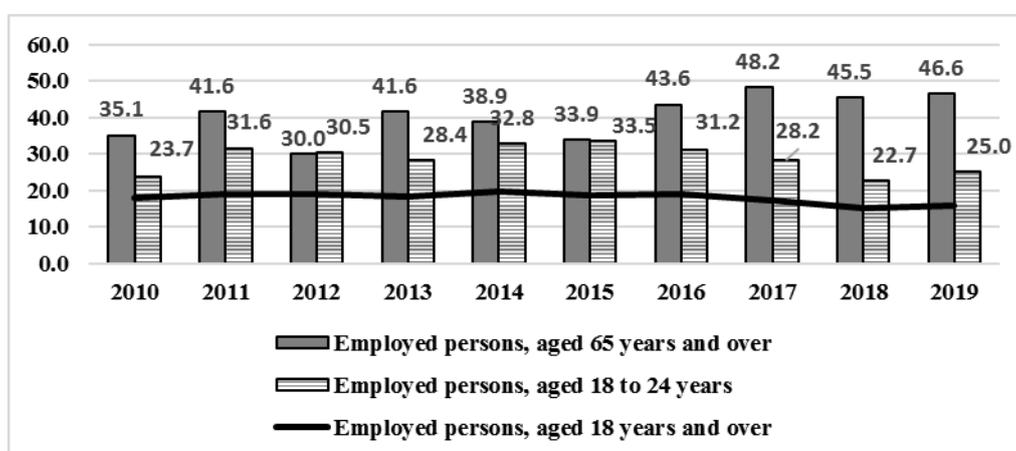
COVID-19 and its effects of the entailed economic crisis, expected to worsen during the coming months, may push back into poverty the 1 million persons saved from it, particularly due to the fact that those in this segment do not have a permanent occupation, are poorly paid, and do not benefit from the advantages of full-time, open-ended employment contracts. Foreseeably, most affected will be the persons aged between 25 and 49 years, a segment where almost 2.5 mil. individuals are at poverty and social exclusion risk. They account for approximately 35% of the total 7 mil. of poor persons. One possible cause of this situation is the very low intensity of labour. In Romania, the number of the working age population who performed economic activities occupying less than 20% of their working potential (in other words, below 20% of the standard working time) stands at more than one million. In 2017 (the last year for which statistic information is available), records showed a number of 1,022 thou. poverty-stricken persons in the age segment

of up to 60 years, who could not make the best of their working abilities. In the past years, their number decreased by only 77 thou. persons. This indicates that the very low level of labour intensity is a structural flaw of the Romanian economy.

The number of those whose social standard improve as a result of the state aid received, such as social benefits (guaranteed minimum income) is very small. In February 2020, for example, there were 169.907 recipients of the guaranteed minimum income, respectively 3.5% of all the poverty affected persons. The total monthly mount spent from the budget for the social benefits recipients' amounts to approximately 45 mil. lei, which means an average benefit of almost 265 lei per recipient, far from what would be needed to escape poverty.

Romania is also first among the EU 27 in terms of in-work poverty. In 2019, in-work poverty rate among persons aged 18 and over was 15.7%, much above the rates in all the other member states. High in-work poverty rates are to be found among young workers, with ages between 18 and 24 years (25%), and among elderly employed persons in the age group 65 and over (46.6%) (Graph 11).

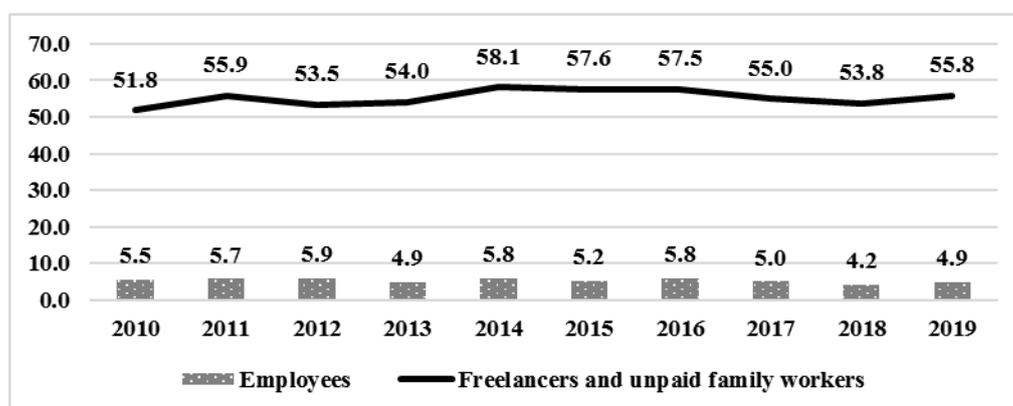
Graph 11: In-work poverty rates by age group (%)



Source: National Institute of Statistics.

In-work poverty rate varies widely with the social standing of the employed person. In 2019, for example, while in-work poverty rate among employees was 4.9%, the same rate among freelancers and the unpaid family workers stood at 55.8% (Graph 12).

Graph 12: In-work poverty rate by social and occupational status (%)



Source: National Institute of Statistics.

It appears that a solution to diminish poverty is to create permanent and well-paid jobs, based on employment contracts. The government can encourage this process by programmes and state aid schemes to stimulate investments in the private sector.

Public investments, primarily in infrastructure, which require labour force with modest qualification, is also a priority option. Investment spending in the first 7 months of 2020 reached 20.4 bn. lei, the highest amount invested in the economy in the past 10 years within the same time span, up by 29.1% from the money invested during the equivalent period of 2019.

With the oncoming pressure to reduce the budget deficit in the following years, and with the rigid ceilings for public investments, the programmes designed to stimulate private investments continue to be a priority, as a sustainable source of economic growth and an instrument to reduce poverty.

4. Measures to maintain jobs, and complementary measures for vulnerable groups

The COVID-19 pandemic dealt a blow not only to Romanian economy, it gave a staggering shock to the European and world economy. All states have adopted budget and political measures meant to ensure enough liquidity enabling them to respond to the nefarious effects of the pandemic, through supportive actions for their citizens and for the economic sectors most affected by the health crisis.

The main concern, against the background of social isolation and ruptured economic texture, has been to maintain individuals' revenues at a level preventing their living standard from sinking to unbearable lows. For this, many governments granted subsidies compensating part of the income lost by workers whose jobs have been suspended.

Here we have to mention the measures taken by the European Commission, which stepped in with additional contribution to the governments' financial efforts. To mitigate the devastating effects of various economic disturbances caused by COVID-19 to the people's standard of living and the national economies, the European Commission has introduced a two-tier set of measures: (i) flexibility of European regulations regarding national budgets and state aid; (ii) redirecting important amounts from the EU budget to new objectives, such as supporting corporate businesses and employment.

From the viewpoint of our study, a special stress must be laid on the measures taken by the European Commission to maintain the living standard and minimise the poverty risk: The European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE); redirecting the available structural funds to alleviate the impact of COVID-19, with a focus on benefits for the farmers and the most deprived persons.

The support instrument to mitigate unemployment threats in an emergency context (SURE) provides financial assistance in a total amount of 100 billion euro through loans granted under favourable terms. The purpose of these loans is to help governments cover the costs of technical unemployment benefits, as well as the costs of similar benefits paid by some governments to the self-employed, either as compensation for a share of these workers' revenues, or to cover expenses incurred for the unemployment benefits paid to this category (assimilated to the "technical unemployment", even though their employment is not subject to a contract with an employer). The loans may also be used to compensate family income losses, and the preservation of corporate production capacity and human capital.

In the second package of measures taken by the European Commission, targeting mainly the protection of revenues and the sustenance of the most affected population segments, we would like to single out the following:

- ✓ The banking package to support households and corporate businesses;
- ✓ The setting-up of the Fund for European Aid to the Most Deprived (FEAD), in order to make it accessible for the most deprived persons; and
- ✓ Compensation payments to farmers and small businesses in the agri-food industry, from the European funds for rural development earmarked for the member states; this translates into an amount of up to 5.000 euro per farmer (farmstead), and of up to 50.000 euro for a small business, as a complementary form of support to the funds that the national authorities can grant as part of their existing rural aid and development schemes.

The countries affected by the health crisis have taken complex measures, the purpose of which is to:

- (i) mitigate the losses suffered by corporate business entities and households caused by the social distancing and temporary lockdown;
- (ii) enable the business sector resume operations, and reduce the magnitude of the economic crisis.

In the incipient phase of these supportive economic policies, the main concern was to preserve jobs and cover the income losses suffered by households afflicted by the health crisis. In order to ensure easy access, mechanisms have been simplified, and, as a general tendency, the aid schemes consisted in the payment of flat amounts by way of vouchers. But the schemes also included complex collateral mechanisms and state aid guarantees, applicable only to the economic sector.

The health crisis came with social isolation, shrinkage of economic activities, and loss of income not only for employees, but also for freelancers involved in non-agricultural activities, independent professionals, sole proprietors, and workers without an employment contract. Contraction of revenues for a period of 2 to 3 months translates into a downward consumption demand and private investment demand, with direct consequences on the economic growth.

International experience demonstrates that, in addition to the measures to sustain corporate employees, the governments must extend complementary means of support to all the other classes of workers.

Experience gained worldwide shows that the measures taken to maintain the purchasing power of the various types of workers, should be oriented to the following three objectives:

- ✓ Compensation, by government, of the income lost during the emergency state;
- ✓ Reduction of certain expenditures, by offset, postponement, or free access to some of the basic services;
- ✓ Stimulation of consumption of goods and services that are not strictly necessary, by way of accessible loans, bonuses, or vouchers.

With regard to the first objective, the Romanian authorities issued two emergency ordinances (OUG No. 30/2020 and OUG No. 32/2020), which regulated the mechanisms for the technical unemployment, both for contractual employees, and for the liberal professions, and sole proprietors. The legislation above also covers workers in the cooperative associations and persons receiving revenues under copyright licensee's assignment contracts.

For all the categories above, the government dispensed, irrespective of their revenues, a flat gross indemnity equal to 75% of the average gross salary taken as reference in the calculation of the social security state budget for 2020.

The worth of the financial measures taken by the Ministry of Labour and Welfare during the emergency state, includes payments amounting to 1.78 bn. lei for approximately 1.3 mil. recipients. A large part of the amounts due was paid via the National Agency for Employment (Agenția Națională pentru Ocuparea Forței de Muncă – ANOFM), as indemnities or technical unemployment: 1.38 bn. lei paid to 124,149 employers, who applied for this form of support on behalf of circa 1.12 mil. employees. The balance of 405.25 mil. lei was distributed through the National Agency for Payments and Social Inspection (Agenția Națională pentru Plăți și Inspecție Socială – ANPIS), of which 384.18 mil. lei for a number of 143,698 COVID-19 compensation indemnities (according to OUG No. 30/2020), for the self-employed, lawyers, natural persons earning their living exclusively from copyrights or related rights. The number of self-employed, individual enterprises, and family enterprises was 381,152 as at the end of March 2020, most of whom conduct operations in Bucharest and the developed counties.

A person qualifying for the technical unemployment benefit who had to suspend several contracts must choose only one of them, the most profitable one. Conversely, persons who have at least one on-going contract, did not qualify for the technical unemployment benefit. This means that only part of the revenues lost during the emergency state have been compensated for.

Similarly, the workers without written employment contracts duly registered in the Employees Register (Revisal), were not eligible for this type of benefit.

To help people maintain their income and purchasing power, it would have been necessary to grant, for a limited period of time, a monthly indemnity to household workers (baby sitters, housekeepers, etc.), and to un-contractual workers in corporate businesses, to help them avoid severe poverty during this period.

A proposal was made that the government should put in place an indemnity for a period of 2 to 3 months, for low income households, possibly in an amount equivalent to the gross minimal salary, which should find simpler, non-bureaucratic channels of distribution to persons outside the wage workers segment.

Another proposal was inspired from the practice of other countries, Italy for example, who granted a flat monthly amount, also for a period of 2 to 3 months, to labour groups who are uncovered by a written contract, but are expressly recognised by the Code of Occupations: baby sitters, housekeepers, day workers etc.

The advantage of this measure is that, subsequent to their application, they could enter in the official records, and helping them to secure contractual relationships in the future. Knowing that almost one million people work in the black market, it would be advisable that both measures should be put in practice, preferably with the indemnity being paid to the household.

With regard to the benefits granted for the reduction of some of the monthly expenses, and, thereby, for the enhancement of the purchasing power, there are two lines of action: rescheduling/postponement of certain monthly expenses, and of budget dues, and the reduction/cutting-off of, or exemption from, some or the budget dues.

Along this line, the Romanian government granted tax deferrals and reductions (including fiscal amnesty) to tax-payers that fulfil their tax obligations within a specified time interval. The legislation adopted for this purpose made it clear what tax incentives are afforded to each specific category of tax-payers: individuals, corporate entities, liberal professions, NGOs, provided that the principal amount of the arrears so incurred is paid by 15 December 2020. The purpose of the amnesty was to collect the outstanding budget dues as at 31 March 2020, and the budget obligations with a due date between 1 April and 15 December 2020. In brief, the legislation adopted sets forth: cancellation of interest, penalties, and all the accessories related to the main outstanding budget obligations.

Under the same legislation, exemptions have been decreed for persons involved in specific activities (sole proprietors, brain activities), or for persons living off specific earnings (rentals, capital gains, etc.), for whom the incentive consisted in a 10% cut down of taxes and related charges, for all their budget obligations paid until 30 June 2020.

The incentive above concerned the entire population, and not the categories most affected by the current crisis, for whom other measures were put in place, as described above.

Starting from the fact that, in Romania, unregistered labour and day work hold an important share of the activities in tourism, private transport, constructions (where many services are provided by independent workers or black labour), and particularly in the services sector and restaurant services, which were compelled to shut down or reduce operations during the emergency and the alert state, a measure that can be taken would be the exemption from the payment of the social security tax, wage tax, and, possibly, other taxes, subject to conservation of jobs and due registration of black labour prior to the application for suspension of operation. Incentives could also be granted to day workers who accept to enter into fixed-term employment contracts, or for the informal jobs declared to the competent authorities, provided that such contracts are maintained valid at least until the end of the current year.

It is worth noting that OUG No. 132/2020 provided support measures for some of the vulnerable segments of employees, to help them cope with the state of emergency or the state of alert. For example, persons who performed unqualified or occasional jobs were entitled, for a period of 3 months, at the choice of the client, but no later than 31 December 2020, to a benefit equal to 35% of the daily pay, from the state budget.

Similarly, workers covered by individual employment contracts for periods of up to 3 months, received, from the state budget, 41.5% of their wages. For the employees working from home, the employers may receive a one-time financial aid in the worth of 2500 lei/employee, for the purchase of goods and technological services that are necessary for teleworking.

Looking at the more than 500 initiatives taken by the Member States to mitigate the effects of COVID 19, which were included, in April 2020, in the database of Eurofound COVID-19 EU PolicyWatch, researchers noticed that an important characteristic of the Member States' response policies to the disturbances caused by COVID-19 was the extension of income compensations to groups that were not covered previously against such risks (self-employed, and workers under temporary or fixed-term employment contracts). This showed that solutions can be found, at least temporarily, to protect the segments affected directly and most severely.²⁴

However, further effort is necessary to identify supportive measures capable to maintain the balance between stimulating job seekers to be hired based on legal contracts in order to be protected, and the measures ensuring decent revenues for the persons left outside the classical employment and social protection system.

In a statement, Kristalina Georgieva, Managing Director of the International Monetary Fund (IMF), and Gita Gopinath, IMF Chief Economist, said that the pandemic sharpened the income inequities and livelihood opportunities, hurting mostly the low-skilled workers, women, youths, and the persons that were already at the periphery of society. The crisis is also hard-hitting for the children in poor households, who are at risk to permanently lose the chance to capitalise on their intellectual qualities due to lack of education, poor nutrition, and access to health services. The two officials underlined the threat posed by this situation, which, by magnitude and long-term effects, considering the irreversible consequences of such losses that can cause to the entire evolution of a human being's active life, may result in increased inequity, may hamper social mobility, may sparkle discontent and even social unrest. If we want to avoid such unwelcome developments, the highest-rank IMF officials recommended that all governments pursue the fulfilment of the UN 2030 Agenda, and focus their policies on measures tailored to reduce poverty, favour social inclusion, extend the social safety nets, open broadly the access to health care and education, including online education during the pandemic²⁵.

Conclusions

The COVID-19 pandemic, which broke out in the first months of 2020, on a global scale, is of a nature to have a drastic impact on Romania's economy, among others, with a particularly severe outcome for the labour and employment markets. With a macroeconomic and financial framework deteriorated, whose magnitude, depth, and length are hard to estimate, and despite the anti-crisis measures taken by the government in order to sustain the economy, on short term, the labour market will see growing unemployment rates²⁶, at least in 2020, as a consequence of shrinkage of operations in some of the economic sectors. Paradoxically, this may have eased the tensions that had accumulated in the labour market prior to the pandemic, in business areas where these tensions had sharpened before the external blow given by the COVID-19 crisis. But the context may also intensify the vulnerability of the segments of population described in our study.

On the other hand, if the evolution of the international context takes a favourable course, and if Romania's economy comes back to its feet and makes a quick recovery and a return as close as

²⁴ Eurofound, *COVID-19: Policy responses across Europe*, Publications Office of the European Union, Luxembourg, 2020.

²⁵ Georgieva K., Gopinath G., *Emerging Stronger from the Great Lockdown*, Essay for Foreign Policy Analytics, September 9, 2020.

²⁶ According to the Autumn Forecast of the European Commission, unemployment rate is expected to rise from 3.9% in 2019 to 5.9% in 2020 and 6.2% in 2021 (European Commission, *European Economic Forecast – Autumn 2020*, Institutional Paper 136, EC, Brussels, November, 2020). In the 3rd Quarter 2020, BIM unemployment in INS records stood at 5.2%.

possible to the growth level prior to the crisis, probably the labour and employment issues may reoccur in 2021, but at lower amplitude.

These being the circumstances, one of the particularities of Romania, and to a certain extent, of other eastern countries of the EU, has to do with the massive number of Romanian citizen migrating back to their country, particularly from West-European countries, which, they too, have been affected by the COVID-19 pandemic. If we start from the assumption that the roughly one million individuals who returned home to Romania in the first months of 2020 may not leave the country again, and if the Romanian authorities find the right approach to the crisis, this inflow of people could be channelled, at least in part, to the domestic labour market, offsetting the quantity and quality labour deficits, especially in economic sectors and occupations that can make do with low-skilled labour (agriculture, food industry, infrastructural building works, where a fresh input of workforce could give them a boost). This could help the economy maintain functional parameters. Otherwise, new tensions may arise, with more drastic economic and social consequences.

All the analyses conducted during this study revealed that the crisis caused by COVID-19 harmed almost all members of the society, not only those employed legally and those earning their living in a "grey" area, but other, significant, segments of the population, dependent on the former.

In the case of the employees, the impact came not only with draconic rules of hygiene (masks), social distancing, and change of working conditions (work from home, or teleworking), but also with the suspension or termination of a large number of employment contracts, curtailed working hours, etc. The reduction of the number of active employees, the suspension of quite many employment contracts, which, during the reference period of this study, reached one million, as well as an important number of terminated contracts are some salient features of the COVID-19 labour market crisis, with equally harsh consequences at social level.

The economic sectors that suffered from the highest number of suspended contracts are the manufacturing industry, wholesale and retail trade, car and motorcycle repair, hotels and restaurants, all of which account for more than 50% of the contracts put on hold. Also, more than a half of the terminated contracts are in the wholesale and retail trade, car and motorcycle repair, manufacturing, and construction.

In addition to the general characteristics of employment in a free market, the labour market in Romania has peculiarities arising from the structure of the country's economy and its level of development. To be efficient, any measures against the COVID-19 crisis should be designed in consideration of the large share of work without direct, contractual pay, that is family workers, and the large share of paid work outside a written and perfected contract, which is informal and tax-evasion labour.

The truth is that these categories of employed persons, just like the self-employed, are the most vulnerable groups in a crisis. Similar to them are categories of people often neglected by the public strategies and policies that the government puts in place to dampen the aftermath of the health crisis. These people are about 2.2 mil. persons, currently in somebody else's upkeep or on public assistance, or who live on other types of income, as well as homemakers, all of whom are highly exposed to hardships in times of crisis. Some of the features common to these categories are the low level of education, the contingent nature of their earnings, sometimes day work, the absence of employment contracts, social protection or social benefits to offer them protection etc.

The assessments made so far provide sufficient arguments to conclude that the COVID-19 pandemic has had and threatens to have a disproportionate effect, with the sharpest impact on the most exposed and therefore vulnerable groups, such as workers earning their living in the informal economy, workers in the most affected economic branches, and poorly skilled workers. After the first measures were taken during the emergency state, at the outbreak of COVID-19, it was found that quite a large number of workers had not been included in the benefit schemes: black labour, day workers, and unpaid family workers.

With regard to the social assistance granted during the COVID-19 pandemic, an interesting observation comes from Robert Palacios and David Robalino, who, after analysing the ways to

reduce the disruptions that have occurred in the labour market, are of the opinion that the integration of social security systems with social assistance schemes will play a great role, considering the future characteristics of the labour market, where the jobs demanding low skills and offering subsistence earnings will continue to hold a large share.²⁷

Another feature of the measures taken by government in response to COVID-19 disrupting effects was the extension of income compensation benefits to workers' segments that had not been covered by protective measures (self-employed workers, and workers hired under temporary or fixed-term employment contracts), which proves that solutions are available, at least temporarily, to cater for population segments that are directly and hardest hit in times of crisis.

If the external shockwave of COVID-19 will cause the shut down or severe long-term limitation of operations in sectors of systemic importance, and/or will cause the economy to restart in terms completely different from those desirable, we may witness major and irreversible disruptions of macroeconomic and financial balances, with consequences for the labour market that may radically change its structural configuration as we knew it prior to the health crisis.

Such a shock, although highly improbable in the current context, would deal a dual blow to Romania's economy: (i) on the nominal side, where the country is in danger of seeing its sovereign rating downgraded by the rating agencies to the level of *junk* (speculative grade, not recommended for investments) because of its external and internal financial imbalances, and this would lead to a sudden rise of the costs to financing the budget deficit and refinance the public debt, and could go as far as to limit the country's access to the international capital markets; and (ii) on the real economy side, through the contraction of operations in FDI companies, which hold critical positions in key sectors of Romania's economic and financial texture, all to be probably worsened by the repositioning on the global market of the transnational corporations. An unwelcome simultaneous occurrence, or immediate sequence in time, of both risks, in a volatile political context, would considerably increase the likelihood of such a shock to be brought about.

Under the circumstances of COVID-19 impact on labour market and employment, the economy of Romania, which is dependent on foreign investments, could suffer also as a result of MNE decisions to transfer production across borders. Even the case studies revealed by the Eurofund report on restructuring across borders²⁸ demonstrated that reduced labour costs remain the most important motive underlying the decision to relocate production, which would be an asset for Romania, even if the UCL increased lately, there are other incentives in the time of crisis that the country does not afford it because of limited fiscal space, as national subsidies granted to multinational companies, which, on the other hand, undermines the competition on an equal playing field. Considering the global level of MNE decision-making, the risks for Romania are growing from this viewpoint, in case of its materialization, significant job losses being expected.

After a GDP contraction of 3.9% in 2020, if the gradual restart of the economy and the recovery of the fundamental economic sectors in 2021²⁹ prove to be a valid scenario, the previous tensions in the labour market are expected to resurface, one way or another.

Any steps attempting to calm down labour tensions should have in view preventive measures, some of them specific for the labour market, as detailed in our study, and others addressing the macroeconomic context, adapted to the new post COVID-19 directions and restructuring of the economic activities, if the configuration of the domestic and international business context will allow, primarily in the strategic sectors, which have demonstrated a high resilience to shocks and/or the ability for speedy recovery and upward growth. These sectors should be the first to receive support through central and local public policies, with employment as a not-to-be-neglected component.

²⁷ Palacios Robert J., Robalino David A., *Integrating Social Insurance and Social Assistance Programs for the Future World of Labour*, IZA Discussion Paper No. 13258, May 2020, p. 31.

²⁸ Eurofound, *ERM report 2020: Restructuring across borders*, European Restructuring Monitor series, Publications Office of the European Union, Luxembourg, December 2020.

²⁹ According to the Winter 2021 Forecast of the National Commission of Strategy and Prognosis, Romania's economy is estimated to start growing at a rate of 4.3% in 2021 and 3.8% in 2022.

Romania's tax revenues and the state budget's power to generate funds for the country's much needed investment projects are very slim due, on the one hand, to the pressure put on the public finance by the continuously growing budget deficits since 2019, which, in 2020, stood at 9.8% of GDP under the impact of COVID-19 crisis, which severely deteriorated the macroeconomic framework, and, on the other hand, as a consequence of the correction to the budget deficit during the following years of fiscal consolidation, following the Excessive Deficit Procedure (EDP) opened by the European Commission against Romania that significantly constrain the fiscal space.

Therefore, in addition to the 4 billion euro coming from the EU's SURE instrument to mitigate the COVID-19 impact on the labour market³⁰, it is of vital importance for Romania's development and financial rebalancing to make the most of the European reimbursable and non-reimbursable funds allocated to Romania, i.e. approximately 80 bn. euro, of which circa 50 bn. euro are part of the multiannual budget 2021-2027, and other 30.3 bn. euro are part of the *Next Generation EU* (NGEU) – through the EU Facility of Recovery and Resilience (split into 13.7 bn. euro grants, and 16.6 bn. euro loans).

Accessing the funds above is contingent on the drafting of Romania's National Recovery and Resilience Plan, which is to be agreed upon with, and send to the European Commission by end-April 2021, subject to a number of tough rules and conditionalities, for the evaluation based on a rating system, of the congruence between Romania's proposed agenda of reforms and public investment³¹, and the objectives to increase the potential GDP, and its resilience capacity, to strengthen economic, social and territorial cohesion, to implement the European Green Deal and the digital transition, as well as on the extent to which Romania observes the specific country specific recommendations made under the European Semester 2020.

Considering the above, as well as the conclusions of this study, it is important to note that the second of the four country recommendations made by the European Commission and sent to Romania in 2020³², has to do with the labour market, for which the Romanian authorities are advised to take adequate measures permitting the transition of informal jobs to declared work, developing the access to temporary unemployment benefits, income substitution schemes and social protection, particularly for the vulnerable groups. If turned effective, such measures would moderate the effects of the health crisis on employment, through flexible work opportunities, including work from home, for the most affected citizens, which is important also in terms of the approve and implementation of Romania's National Recovery and Resilience Plan.

³⁰ European Commission, *Proposal for a COUNCIL IMPLEMENTING DECISION granting support under Council Regulation (EU) 2020/672 to Romania to mitigate unemployment risks in an emergency situation following the COVID-19 outbreak*. COM (2020) 439 final, Brussels, 24.08.2020.

³¹ The legislation governing the projects to be selected for the Plan was approved on 31 August 2020, under *Government Emergency Ordinance regarding measures for the National Recovery and Resilience Plan, enabling Romania to access external refundable and non-refundable loans under the EU Facility of Recovery and Resilience (FRR)*.

³² European Commission, *Recommendation for a COUNCIL RECOMMENDATION on the 2020 National Reform Programme of Romania and delivering a Council opinion on the 2020 Convergence Programme of Romania*. COM (2020) 523 final, Brussels, 20.5.2020.

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