

## CONSIDERATIONS CONCERNING THE STATE AID POLICY IN THE CONTEXT OF THE COVID-19 CRISIS IN ROMANIA

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**Abstract:** *In the paper “Considerations concerning the state aid policy in the context of the COVID-19 crisis in Romania” we briefly presented the main economic measures taken in Romania, in the context of the current crisis, of the role of the competition policy and we highlighted aspects pertaining to the temporary framework of granting state aids and to the situation of the state aids authorised lately.*

**Key words:** state aid, pandemic, economic measures, state aid scheme

**JEL Classification Codes:** E60, L4, D4

### 1. INTRODUCTION

The crisis generated by the COVID-19 pandemic suddenly and dramatically affected the EU member countries, having a potentially major impact on their companies and economies through the constraints related to liquidity, additional public resources being necessary as well in order to support the healthcare systems and other activities that are directly connected to the epidemic. The answer in such a context is often a mixed one, a combination of public and private initiatives, governmental actions, approaches by the national institutions in charge with various public policies, or of international bodies, initiatives of the central banks and financial institutions, etc. The specificity of the crisis situation and the need for urgent measures required rapid reactions from Romania in the elaboration of support measures, but also from the European Commission, in relation to the analysis and approval of the measures notified to it, based both on the *COVID-19 and EU State Aid Temporary Framework* (hereinafter referred to as “*the Temporary Framework*”), and on the Treaty on the Functioning of the European Union.

The exceptional situation generated by this context has determined rapid and comprehensive interventions with the purpose of alleviating the negative consequences on the labour markets and on other vulnerable segments big the economies of the EU member countries. *The Temporary Framework* for the support of the economy in the context of the COVID-19 pandemic provides several types of aids, including: (<http://www.consiliulconcurentei.ro/wp-content/uploads/2021/04/final-Raport-anual-2020-v2modif.pdf>)

- *direct grants*, selective tax advantages, and advance payments: the EU member countries can establish schemes meant to enable the granting of funding up to 800.000 Eur (subsequently, this upper limit was increased to 1.800.000 Eur per company) to a company in order to address its urgent liquidity needs;



- *State guarantees* for loans taken out by companies from banks: the EU member countries can give government guarantees in order to make sure that banks continue to give loans to clients who need them;
- *subsidised public loans* for companies: the EU member countries can grant to companies loans with favourable interest rates;
- *safeguards for the banks that channel the state aid to the real economy*: some Member States plan to build on banks existing lending capacities (previously 3,000,000 Eur);
- *Allowing for the conversion of loans and other reimbursable forms of aid* – granted within the meaning of *the Temporary Framework* in grants, using transparent and indiscriminating conditions.

Through the amendment of *the Temporary Framework* of January 2021 (representing its fifth amendment), the European Commission expanded the validity term of its provisions until December 31<sup>st</sup> 2021, the temporary elimination of all countries from the list of states with negotiable risks being also maintained until the same day, while the ceiling of the aids that may be granted to a company as direct grants, mentioned hereinabove, was also increased to 1,800,000 Eur.

#### **Literature review**

The state aid is an instrument that can generate significant competition and trade distortion effects and consequently, it can affect the operation of the European Union internal market.

From the procedural point of view, the Treaty of the European Commission establishes a system of prior control, control for approval, exercised by the European Commission, of the state aid measures proposed for application (besides the ones automatically deemed as approved based on block exception regulation) (ex ante control), as well as monitoring by the European Commission of how the measures are approved and applied (ex post control). The European Union Member States have the obligation to observe the “stand-still” clause, implicit in this prior control system, i.e. they will not be able to implement any aid measure that has not been notified to the European Commission for approval. The European Commission has the power to order the suspension of the application of state aid measures implemented without the prior notification for approval, and to order the provisory recovery of the amounts already granted based on such measures, until the adoption of a final decision concerning the lawfulness of those measures. Last, but not least, the European Commission is authorised to order the recovery of the state aids granted without observing the approval conditions required by the European Commission. (Oprescu & Atanasiu, 2004)

Article 107 of the Treaty of the European Commission specifies that “aid granted by a Member State or through State resources, in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market. (Prisecaru, 2004)

Consequently, policy of controlling state aids was imposed at community level, in order to prevent affecting competition.

In order to prevent state aids from distorting competition in the internal market and affecting trade between Member States in away that contravenes the joint interest, Article 107, para. 1 of the Treaty on the Functioning of the European Union sets the principle according to which state aids are forbidden. Nevertheless, in certain cases, aids can be compatible with the internal market based on article 107, para. 2 and 3. Under article 107 para. 3, letter c of the Treaty, the Commission may deem that aids meant to facilitate the development of certain

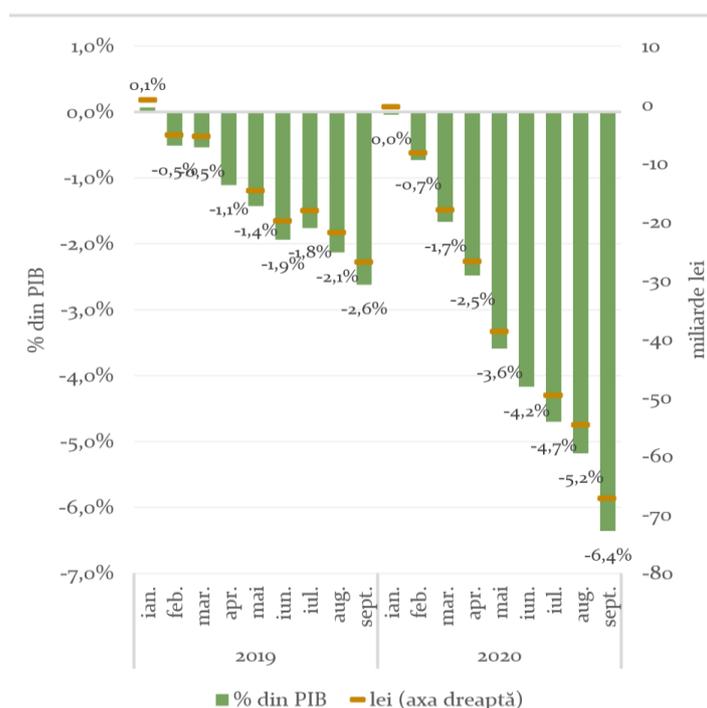
economic activities within the European Union are compatible with the internal market, if they do not change, in an unfavourable manner, the trade conditions to an extent that contravenes the joint interest.

## 2. ECONOMIC MEASURES IN ROMANIA IN THE CONTEXT OF THE PANDEMIC

The economic measures adopted in Romania in the context of the pandemic are similar to those adopted by the other Member States of the European Union. Economic contraction of an unprecedented size in recent history, caused by the total closing of certain activities, and by disturbances at the level of the supply chain, required a comprehensive mobilisation of the budget of the European Union and of the budgets of the Member States in order to help affected SMEs, sectors and companies, and also a flexibility of the state aid schemes.

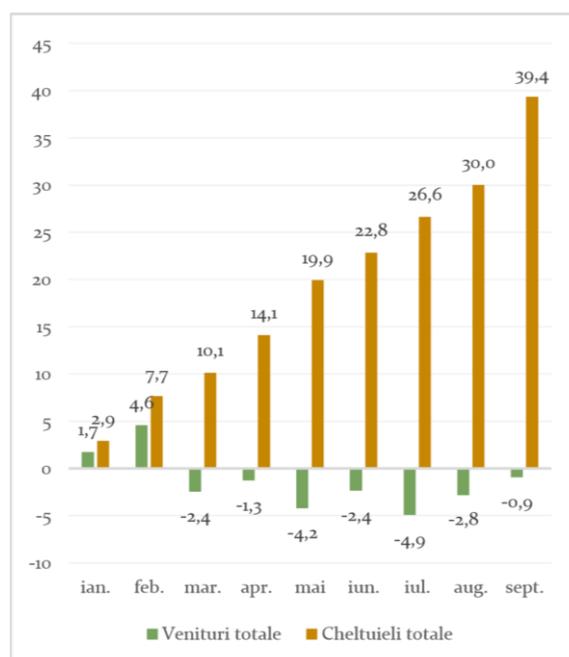
During this entire period, international financial markets were characterized by high volatility, while emerging economies, including Romania, experienced the increase in the financing costs rather strongly.

Mention can also be made of the fact that, unlike the economies of the other states in Central and Eastern Europe, the situation of the public deficit and of the current account deficit, in Romania, even before the outbreak of the pandemic, was more precarious, which is why the fiscal space available to the Government was more limited than that of the economies in the region.



**Figure 1. Budget balance**

Source: the Report “Evolution of competition in the key sectors - 2020”, available op: <http://www.consiliulconcurentei.ro/wp-content/uploads/2020/11/Raport-Sectoare-Cheie-2020.pdf>, page 83, [accessed on 3.11.2021]



**Figure 2. Difference compared to the previous year**

Source: the Report “Evolution of the competition; in the key sectors - 2020”, available on: <http://www.consiliulconcurrentei.ro/wp-content/uploads/2020/11/Raport-Sectoare-Cheie-2020.pdf>, page 83, [accessed on 3.11.2021]

From figures 1 and 2 we can see that, even in the period preceding the outbreak of the pandemic episode in Romania (January – February), budget revenues grew less than expenditure. From March, the effects of the pandemic started to be felt in Romania as well, and we can see that, compared to the same period of the previous year, the budget revenues began to decrease. The main reasons of the drop in the budget revenues consist of the fact that most companies saw their business diminished, and consequently, their contribution to the state budget also decreased. The second reason for the decrease in the revenues was the fact that the state chose to defer the payment of certain taxes and duties, especially in the case of companies the business of which was severely affected by the pandemic.

The main courses of action, at the level of Romania, aimed at:

- providing the working capital, especially for the companies significantly affected by the pandemic, through programs accessing funding more easily, grants and other state aid schemes, and
- protecting jobs.

Up to the present time, 8 state aid schemes have been notified by Romania, with the assistance of the Competition Council, based on the Temporary Framework and authorised by the European forum. At the same time, at national level, the SME Equipment and Machinery Leasing program was implemented in the form of a de minimis measures aid scheme.

These are added to actions in the agricultural area, also considered in the context of the Temporary state aid Framework, but having a distinctive notification course: state aid schemes meant to support the business of pig and poultry farmers, and of cattle farmers, respectively, in the context of the crisis generated by the COVID-19 pandemic.

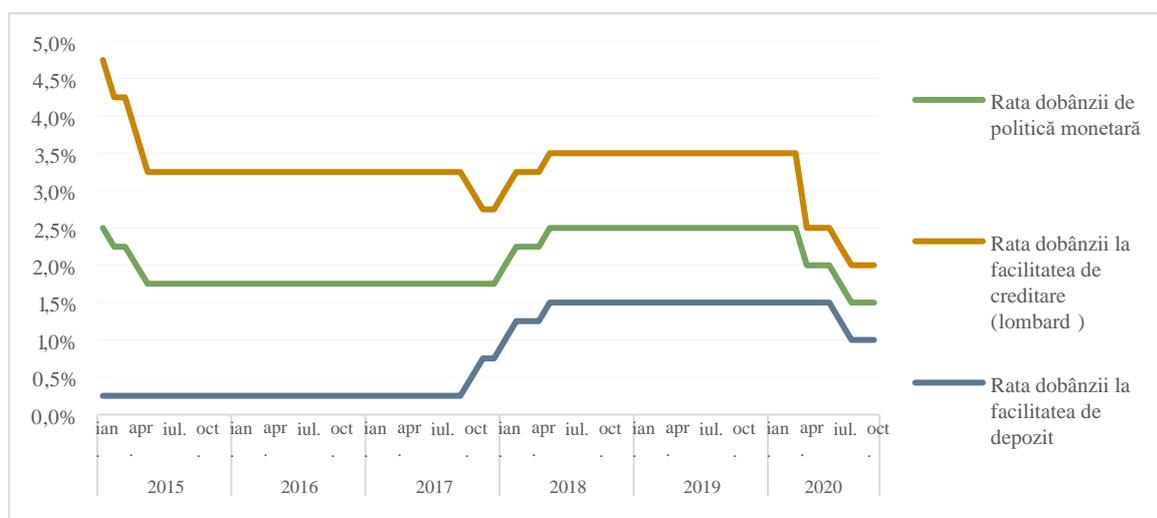
The total budget of the aforementioned support measures is approximately **32.4 billion RON** (6.7 billion Eur), an amount that represents approximately **3.1% of Romania's 2019 GDP**.

These approaches were **seconded by general support measures** for employees and companies whose activity has been significantly affected by the COVID-19 crisis, such as: **furlough for employees and professionals** (in the first 8 months of the year, payment amount to more than 4.8 billion RON were made, for 1.3 million beneficiaries – employees and professionals) and measures meant to **stimulate employment** (a package of measures the budgetary impact of which is estimated to 2.5 billion RON).

Moreover, the direct aid measures were supplemented by **tax measures** (deferrals and exemptions from the payment of taxes and duties, increasing the flexibility of tax procedures, etc.), as well as initiatives concerning **the deferral of instalment payment and rescheduling** for persons and companies directly affected by the crisis.

#### ***The monetary policy in the context of the crisis***

In addition to the tax and budgetary measures, the National Bank of Romania decided to start a quantitative relaxation program, injecting cash into the economy in order to support the economic activity. Thus, from the monetary policy meeting of March 23<sup>rd</sup>, a monetary policy rate downtrend started, concomitantly with narrowing the corridor between the monetary policy and the permanent facilities (the lending facility and the deposit one) from 1 percentage point to 0.5 percentage points. Currently, the monetary policy rate is 1.5 percentage points, the interest rate for the lending facility is 2 percentage points, while the interest rate for the deposit facility is 1 percentage point. (Figure 3)



**Figure 3. Evolution of the monetary policy interest rate in the period between January 2015 – October 2020**

Source: the Report “Evolution of the competition in the key sectors - 2020”, available on: <http://www.consiliulconcurentei.ro/wp-content/uploads/2020/11/Raport-Sectoare-Cheie-2020.pdf>, pag. 85, [accessed on 3.11.2021]

Other decisions made by the National Bank aimed at:

- supplying cash to credit institutions through **repo operations** (reversible transactions meant to inject cash, within which the National Bank of Romania buys assets from the credit institutions that are eligible for trading, with their commitment to redeem those assets later for a price set on the day of the transaction);

- buying treasury bonds in RON from the secondary market, in order to strengthen structural liquidity from the banking system, with the purpose of contributing to the appropriate funding of the real economy and of the public sector.

These approaches were added to measures for the increase in the flexibility of the normative framework, meant to facilitate the support of people and companies with loans from banks and non-banking financial institutions.

### **3. MEASURES ADOPTED BY THE ROMANIAN STATE IN THE CONTEXT OF THE STATE AID TEMPORARY FRAMEWORK, WITH THE ASSISTANCE OF THE COMPETITION COUNCIL**

Given the orientation of the European Commission towards a deep economic analysis of the state aid granting by the European Union Member States, Romania must base its decisions on the allocation of the available funds correlated with the main objectives established at national level, providing, at the same time, the compliance with the European rules on state aid.

The role of the Competition Council, as national authority for the contact in the relationship with the European Commission in the state aid field, is to give specialized assistance to the Romanian authorities in their approach of ensuring the compliance with the specific rules of the aid measures addressed to the business environment, including in the case of those meant to support the economy in the context of the COVID-19 pandemic.

The cases brought by the Romanian State on the workbench of the European Commission, notified to it based on the Temporary Framework and authorised by the European authority are: (<http://www.consiliulconcurentei.ro/wp-content/uploads/2021/04/final-Raport-anual-2020-v2modif.pdf>)

✓ *The state aid scheme for the support of the SMEs business in the context of the crisis generated by the COVID-19 pandemic (the IMM Invest Program)*

The IMM Invest Program is one of the most important state aid schemes approved to Romania by the European Commission. It is estimated that the scheme will provide guarantees amounting to 15 billion RON, and grants of 781 billion RON, and will have a number of 40,000 beneficiaries. The program aims at providing guarantees, by the Romanian State, through National Credit Guarantee Fund for Small and Medium Enterprises (FNGCIMM), in a proportion of up to 90%, of investment loans and loans or credit lines related to working capital. At the same time, the interest related to taking out these loans was 100% subsidised within this scheme until the end of 2020, with the possibility to expand it by two more years depending on the evolution of the economic situation.

The scheme was notified to the European Commission on April 5<sup>th</sup>, 2020, and was authorized by Decision C(2020) 2363/10.04.2020. Subsequently, the supplier of the state aid measure (the Ministry of Public Finance) deemed that it was necessary to amend the IMM Invest program, as a result of the effects of the outbreak of the pandemic on the real economy, and requested the amendment of the decision.

The main amendments brought to the scheme, with a potential impact from the point of view of the state aid, are: the change of the interest subsidizing period (8 months from the date when the loan is granted), increasing the budget corresponding to the guarantees, from 15 billion RON, to 20 billion RON, and increasing the budget for the measure consisting of grants to 1,106 million RON, from the initial value of 781 million RON).

✓ *The state aid framework scheme in the form of loans with subsidised interest and loan guarantees in the context of the COVID-19 pandemic.*

The measure is dedicated to the categories of beneficiaries who do not have access to the current programs, namely SMEs with a turnover of more than 20 million RON in 2019 and large

companies, which were not in distress as at 31.12.2019. Consequently, it also allows for a more comprehensive coverage of the cash needs faced by all types of enterprises in this period. The scheme establishes two categories of state aid measures meant to facilitate the access to financing of enterprises facing a cash shortage, in order to provide for the continuity of the business:

- guarantees in the name and on behalf of the State, in relation to investment loans or for working capital, for a period of up to 6 years, and
- loans with partly subsidised interest, with the purpose of making investments and/or for supporting the current business.

The budget of the state aid scheme is of 4 billion RON, and the total estimated number of beneficiaries is 425.

✓ *The state aid scheme in favour of airlines that operate on the Oradea airport*

The scheme aims at giving direct grants that must not exceed the RON equivalent of 800,000 EUR per enterprise, to airlines the business of which was disturbed by the pandemic and which are facing a sudden liquidity shortage, or even unavailability of liquidity. The beneficiaries of the measures may be airlines committing to operate regular flights on the Oradea Airport and that were not in distress as at 31.12.2019. The budget of the state aid scheme is 4,842,900 RON.

✓ *The measure "Support for SMEs in order to overcome the economic crisis generated by the COVID-19 pandemic"*

The support is granted to enterprises which were not in distress as at 31<sup>st</sup> December, 2019, but which are facing difficulties or are starting to face difficulties, due to the COVID-19 pandemic. The state aid supplier is the Ministry of European Funds, and the state aid is granted in the form of grants:

- for working capital: measure 1 – MICROGRANT – granted as a lump sum to SMEs without employees, self-employed/individual medical offices involved in the transport, equipment, diagnosis and treatment of SARS-COV-2 patients; measure 2 – SME GRANT – granted as a lump sum to SMEs for working capital for the resumption of the current activity;
- for the post-crisis recovery, through investments in productive activities: measure 3 – GRANT INVEST for investments in productive activities.

The budget of the state aid scheme is 935,750,500 EUR.

✓ *The state aid to compensate the damages suffered by the Timișoara Airport in the context of the COVID-19 pandemic.*

The state aid is meant to compensate the loss suffered by the airport in the period between 16.03.2020 - 16.06.2020, as a result of traffic restrictions required for the prevention of the spread of the SARS-COV-2 virus, determined as compared to the results recorded in the similar period of 2019. The total estimated value of the state aid is 4,776,234 RON, the amount being allocated from the government budget, through the Ministry of Transport, Infrastructure and Communications.

✓ *The individual state aid for SC Blue Air Aviation SA meant to compensate for the loss suffered due to the COVID-19 pandemic and for the company rescue*

The aid is meant to compensate for the loss, damages and additional costs suffered by Blue Air as a result of the restrictions imposed, the low demand due to the virus spread, and the income not earned in the future period. The aid, in the amount of 62 million EUR, was authorized by the European Commission at the end of August.

✓ *The individual state aid for Tarom S.A. for the compensation for the loss suffered due to the COVID-19 pandemic*

The aid is meant to compensate for the loss, damages and additional costs borne by Tarom due to the restrictions imposed, the low demand due to the virus spread, as well as the income

not earned in the future period. The aid, in the amount of 19.3 million EUR, was authorized by the European Commission at the beginning of October.

✓ *The state aid scheme for the support of the access of companies to the commercial credit for the recovery of Romania's economy, in the context of the economic crisis generated by the COVID-19 pandemic.*

The state aids are granted in the form of capped guarantees meant to cover damages related to a portfolio of eligible commercial credit insurances. The measure, with a budget of 500 million RON, aims at establishing a guarantee mechanism meant to support companies to overcome the critical phase related to the COVID-19 pandemic, by having commercial credit insurers maintain the credit limits. The state aid scheme was authorized by the European Commission at the middle of October 2020. (<http://www.consiliulconcurentei.ro/wp-content/uploads/2021/04/final-Raport-anual-2020-v2modif.pdf>).

At the same time, at national level, the SME Leasing of equipment and machinery Program was implemented, in the form of a **de minimis scheme**, the coverage level of which was, for 2020, 1.5 billion RON, while the budget allocated in order to subsidise the costs related to the credit and to the guarantee was 111.6 million RON.

Further to the support measures notified by Romania based on the Temporary Framework and authorised by the European Commission that were mentioned hereinabove, currently, other state aid schemes **are also being prepared** which are meant to support the economy in the context of the pandemic:

➤ The state aid scheme meant to guarantee recourse *factoring* funding and commercial paper factoring;

➤ The state aid scheme in the form of subsidy/ grant from the state budget for the regional airports with a traffic between 200.000 and 3.000.000 passengers per year, for the loss caused by the pandemic;

➤ The financial aid from national funds for enterprises the business of which was interrupted partly or fully interrupted in the emergency state period in the context of the COVID-19 crisis;

➤ The state aid scheme related to the 100% guarantee by the Romanian State of the vouchers offered to tourists by travel agencies and travel structures with accommodation functions;

➤ The state aid scheme for the support of the activity of airline operators operating on the Sibiu airport.

**The total budget** corresponding to the 8 support measures notified by Romania based on the Temporary Framework and authorised by the European Commission until now, added to the SME Leasing of equipment and machinery Program is approximately **32.1 billion RON** (6.7 billion EUR), an amount which represents approximately **3% of Romania's 2019 GDP**.

The financial resources mobilised through these state aid measures (from the national budget and from European funds) have the purpose of focussing the state intervention into the economy towards the alleviation of the negative effects generated by the COVID-19 pandemic crisis, both as a whole, (through horizontal measures, for which actors are eligible from various economic activities, on criteria concerning the evolution of the financial indicators), as well as targeted, at the level of certain fields/economic actors in the case of which business was strongly disturbed by the measures for the limitation of the virus.

The support measures, in line with the Strategy of the European Union, aim at preventing the liquidity crisis of companies, generated by the new economic developments, to turn into a solvency one, by identifying and supporting vulnerable actors and fields.

Special attention, both at national and at community levels, is paid to small and medium enterprises, particularly affected by the cash shortage caused by the pandemic, which amplifies the previous difficulties related to the access to funding, compared to larger enterprises.

#### 4. CONCLUSIONS

The wide and steep unbalances generated by the medical crisis have required appropriate interventions from the states. The mix of measures and the selected schedule are determined with the purpose of achieving the established objectives. The decisions made by the states in such situations may limit the negative economic effects, their propagation and the extent to which consequences become permanent, and can also facilitate economic recovery, as the medical hazard is diminished. The answer is often a mixed one, a combination of public and private initiatives, governmental measures, approaches of the national institutions responsible for various public policies or of the international bodies, initiatives of the central banks and of financial institutions, etc.

In Romania's case, the economic measures adopted by the Government for the limitation of the economic effects of the COVID-19 pandemic crisis, the central element when the state intervention is brought up for discussion, were supplemented by internal measures related to the monetary policy, as well as the support arising from the community measures related to the increase in the flexibility of state aid schemes and the European tax framework, and from the mobilisation of the European Union budget with the purpose of reaching long-term objectives, compensating the damages generated by the pandemic, recovering the economy, and increasing resilience.

The impact of the various measures on competition plays the role of a tiebreaker in the assessment of the public policy options directed towards the achievement of specific objectives. When the intervention of the State is required, as in the case of the current economic and social context, the competition policy plays an important role, because it can protect competition by making sure that interventions/regulations are proportional to the failure of the market for which they are meant.

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