

Economy Transdisciplinarity Cognition www.ugb.ro/etc	Vol. 23, Issue 1/2020	17-21
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COVID-19 - The Impact on the Labour Market. Technical Unemployment in Romania

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Abstract: *The COVID-19 pandemic has led to a major economic shock. Economic activities are disrupted, and this leads to constraints on the movement of money and a severe deterioration in the financial situation of economic operators. The impact of the coronavirus pandemic has been and still is strongly felt on the Romanian labour market. Large companies in the economy have sent their employees into technical unemployment, and most jobs are cancelled, postponed or frozen.*

Keywords: *technical unemployment, labour market, employee, salary*

Introduction

According to the International Labour Organization (ILO), about 2.7 billion people, or 81% of the global workforce of 3.3 billion people, are currently affected by the COVID-19 pandemic. IOM has warned that this is the worst crisis facing workers since World War II. The sectors with the highest risk are hotel and restaurant services, manufacturing, retail, business services and administrative activities.

Strong reductions in total working hours are expected for the Arab states (8.1% of total working hours or five million full-time jobs) in Europe (7.8% or 12 million full-time jobs) full-time jobs) and in Asia-Pacific (7.2% or 125 full-time jobs). [1]

“According to the ILO now casting model, global working hours declined in the first quarter of 2020 by an estimated 4.5 percent (equivalent to approximately 130 million full-time jobs, assuming a 48-hour working week), compared to the pre-crisis situation (fourth quarter of 2019). Global working hours in the second quarter are expected to be 10.5 percent lower than in the last pre-crisis quarter. This is equivalent to 305 million full-time jobs, which represents a significant deterioration on ILO’s previous estimate of 195 million for the second quarter. This has been driven mainly by prolongation and extension of containment measures. While the situation has worsened for all major regional groups, estimates indicate that the Americas (12.4 percent) and Europe and Central Asia (11.8 percent) will experience the greatest loss in working hours. Regarding income groups, lower-middle-income countries are expected to register the highest rate of hours lost, at 12.5 percent, but the impact is comparable across countries with different levels of income. Taking together employers and own-account workers, around 436 million enterprises in the hardest-hit sectors worldwide are currently facing high risks of serious disruption. More than half of these - some 232 million - are in wholesale and retail trade, currently one of the most impacted sectors globally. Own-account workers represent 45 percent of employment in this segment. Own-account workers and small enterprises together account for more than 70 percent of global employment in the retail trade and nearly 60 percent in the accommodation and food services sector, a reflection of the severe vulnerability of these sectors in the current economic crisis”[2].

In Romania, according to the data of the Ministry of Labour, almost one million employment contracts have been suspended, i.e. the respective employees are sent to technical unemployment. Also, over 300,000 employment contracts have been concluded.

1. What Is Technical Unemployment?

COVID-19 is perhaps the most difficult challenge in recent years, which we have to face both from a human point of view and in terms of economic aspects. The decree of the state of emergency and the military ordinances keep under control the spread of the new type of coronavirus on the Romanian territory, obviously, it also targets many companies and institutions, which are forced to close or suspend their activity during this period.

From the legislative point of view, regarding the technical unemployment, during the state of emergency determined by COVID-19, there are three main normative acts that regulate the situation:

- Law 53/2003 on the Labour Code (with amendments);
- GEO (Government Emergency Ordinance) 30/2020 for amending and supplementing some normative acts, as well as for establishing measures in the field of social protection in the context of the epidemiological situation determined by the spread of SARS-CoV-2 coronavirus - establishes the way in which technical unemployment is applied during the emergency, established by Presidential Decree 195/2020;
- GEO (Government Emergency Ordinance) 32/2020 regarding the amendment and completion of GEO no. 30/2020 for amending and supplementing some normative acts, as well as for establishing measures in the field of social protection in the context of the epidemiological situation determined by the spread of SARS-CoV-2 coronavirus and for establishing additional social protection measures - establishes the procedure by which the state supports technical unemployment benefit.

GEO 32/2020 stipulates that the Romanian state pays the technical unemployment allowance for company employees, who had to reduce or temporarily interrupt the activity, totally or partially, due to the effects of the epidemic caused by the new type of coronavirus, SARS-CoV-2.

Technical unemployment is the temporary interruption or reduction of activity, without termination of employment, for economic, technological, structural or similar reasons. Technical unemployment can be a reason for suspending individual employment contracts, at the initiative of the employer and without his obligation to consult in advance with employees.

In order to be eligible for State aid, any employer must comply with the following procedure:

- To take the decision to suspend the employment contracts, in accordance with the provisions of the Labour Code and to register it in General Register of Employees;
- To draw up a list of all employees whose individual employment contract has been suspended, at the initiative of the employer, according to art. 52 paragraphs (1) lit. c) of the Labour Code;
- To complete an Application / Declaration for granting technical unemployment signed and dated by the legal representative;
- To submit all documents online <https://aici.gov.ro/home>.

2. How Is the Unemployment Benefit Calculated?

According to the Labour Code, the value of the indemnity for technical unemployment is at least 75% of the gross salary that each employee had on the position held before being sent to technical unemployment.

In the current context, the Romanian Government has decided to support all businesses directly or indirectly affected by the state of emergency declared as a result of the COVID-19 epidemic. Thus, by GEO 32/2020, it is specified that the value of the indemnity for technical unemployment, borne by the state, cannot be higher than 75% of the average gross salary gain, provided by the Law on the state social insurance budget no. 6/2020. Therefore, the state pays only the amounts that do not exceed this value. Specifically, the average gross salary is 5,429 lei, which means that the maximum amount granted by the state is 4,071.75 lei.

These provisions benefit the employees of the employers who reduce or temporarily interrupt the activity totally or partially as a result of the effects of the SARS-CoV-2 coronavirus epidemic, during the state of emergency declared, according to a declaration on the employer's own responsibility.

Regarding the calculation of the value of the indemnity, the following aspects must be taken into account:

- the basic salary refers to the amount specified in the individual employment contract;
- the state pays a capped amount of 75% of the average gross salary, not of the basic salary of the employee;
- the calculation of the indemnity does not include: bonuses, meal vouchers, bonuses; it is strictly about the basic salary;
- for the indemnity granted in case of technical unemployment, the insurance contribution for work is not due.

If an employee has several employment contracts and at least one of them is full-time and active during the state of emergency, he does not benefit from the technical unemployment allowance. If all contracts are suspended, then the employee will receive the allowance corresponding to the employment contract with the most advantageous salary rights.

Table no. 1 The method of calculating the technical unemployment for the minimum wage per economy and the average wage per economy in Romania

(1euro = 4,8297 lei exchange rate BNR announced on 12 May 2020)

Minimum gross salary per economy	2230 lei	462 euro	Medium gross salary per economy	4072 lei	843 euro
Gross technical unemployment	1673 lei	346 euro	Gross technical unemployment	3054 lei	632 euro
Social Security (25%)	418 lei	87 euro	Social Security (25%)	764 lei	158 euro
Social health insurance (10%)	167 lei	34 euro	Social health insurance (10%)	305 lei	63 euro
Income tax (10%)	109 lei	22 euro	Income tax (10%)	199 lei	41 euro
Net salary	979 lei	203 euro	Net salary	1786 lei	370 euro

According to Art. I of GEO no. 32/2020, employers have the possibility to supplement the technical unemployment benefit with the difference up to the level of 75% of the basic salary, if the employer's budget allows this. Thus, it is possible to reach the value of the net salary before the suspension of the employment contract and the entry into technical unemployment.

3. The Impact of COVID - 19 on the Economic Environment in Romania in March-May 2020

A substantial impact of the COVID 19 pandemic on the Romanian economy is expected: the activity in the whole economy will decrease, the number of employees will also decrease and the salaries will also decrease.

On 15.04.2020, the National Institute of Statistics published an ad-hoc statistical survey addressed to the managers of enterprises in the manufacturing, construction, retail and services industries regarding their perception on the perspective of the evolution of the enterprise activity they lead. This was done on March 17-19, 2020. The sample consisted of 8831 economic agents (representative sample at the level of economic sectors and on the total economy), and the response rate was 71.3%. Managers' assessments were used to assess the economic impact of the epidemic, as well as the turnover of enterprises in the period January 2019-January 2020. Estimates show a median decrease in turnover of 40% in April 2020 compared to April 2019.

In summary, the conclusions are as follows:

The impact of SARS-CoV-2 on the manufacturing sector	40.1% of the economic agents included in the statistical survey could not estimate the direction in which the activity was heading in April 2020
Impact of SARS-CoV-2 on	52.1% of economic agents (included in the statistical survey) that could

the transport and storage sector	estimate the evolution of their volume of activity, predicted in April 2020 a restriction of activity by more than 25%
The impact of SARS-CoV-2 on construction	61.4% of economic agents (included in the statistical survey) that could estimate the evolution of their volume of activity, predicted in April 2020 a restriction of activity by more than 25%
Impact of SARS-CoV-2 on the retail sector	21.6% 61.4% of economic agents (included in statistical research) that could estimate the evolution of their activity volume, predicted in April 2020 a restriction of activity by more than 25% or even closure of activity
The impact of SARS-CoV-2 on the hotel and restaurant sector	95.4% of economic agents (included in the statistical survey) that could estimate the evolution of their activity volume, predicted in April 2020 a restriction of activity by more than 25% or even closure of activity

Source: data processing www.insse.ro

One third of the Romanian SMEs state that the turnover during the pandemic decreased by half compared to the same period last year, and over 34% of the companies lost more than 50% of their customers. However, more than half (54%) consider that there are also benefits that can be extracted from going through this period of crisis management. The results belong to a survey conducted by the Liberal Businessmen's Club. The sample included 530 respondents: entrepreneurs, freelancers and representatives of the business environment in the middle and top management position, from industries such as Hotel Restaurants Cafe, Tourism, Transport, Events, Online and offline commerce, Services, Production, Consulting, IT, Marketing & PR. The survey was conducted online from 15 to 30 April 2020. 80% of respondents come from the area of micro and small enterprises.

Only 18% of the surveyed companies stated that their activity took place normally during the pandemic crisis, without being reduced, while 45% decreased their activity by over 50%. However, almost 80% kept their team intact and did not make redundancies. Regarding the technical unemployment option, for this they opted a quarter of the companies, for more than half of their employees. On the other hand, 60% of them did not resort to technical unemployment at all. Telework was implemented by half of the respondents. [3]

The Ministry of Labour and Social Protection (MMPS) presented the data on the situation of suspended employment contracts (technical unemployment) / terminated, registered with the Labour Inspectorate:

Table no. 2 The situation of the individual employment contracts suspended / terminated on the Romanian territory [4]

	07.04.2020	24.04.2020	11.05.2020
Suspended individual employment contracts	994,407 from which:	997,937 from which:	908,346 from which:
	302,288 – Manufacturing industry	299,567 – Manufacturing industry	265,229 – Manufacturing industry
	191,837 - Wholesale and retail trade; repair of motor vehicles and motorcycles	188,387 - Wholesale and retail trade; repair of motor vehicles and motorcycles	163,724 - Wholesale and retail trade; repair of motor vehicles and motorcycles
	118,874 – Hotels and restaurants	113,212 - Hotels and restaurants	113,211 - Hotels and restaurants
Individual employment contracts terminated	194,824 from which:	254,804 from which	337,593 from which:
	38,003 - Wholesale and retail trade; repair of motor vehicles and motorcycles	47,685 - Wholesale and retail trade; repair of motor vehicles and motorcycles	60,712 - Wholesale and retail trade; repair of motor vehicles and motorcycles
	33,660 - Manufacturing industry	44,954 – Manufacturing industry	59,223 – Manufacturing industry
	24,505 - Constructions	34,749 - Constructions	48,277 - Constructions

Conclusions

Romania, like any country affected by the coronavirus pandemic, is going through difficult economic times. Even if the main national institutions have nevertheless taken certain measures, it is not enough. During this period, companies go through a process of adaptation to the new economic and social environment, to new working conditions with employees, and to new ways of attracting customers. It is obvious that these changes will not be temporary, the crisis generates in itself, a new climate, a new normality with new adaptation challenges.

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