

## EFFECTIVENESS OF FINANCIAL SUPPORT FOR RECOVERY FROM COVID-19 PANDEMIC IN ROAD SECTOR

Dina Tzonevska<sup>1</sup>  
e-mail: [dinadinatzonevska@unwe.bg](mailto:dinadinatzonevska@unwe.bg)

### Abstract

*All the restrictions and closures of borders and the impact of the coronavirus pandemic have put us in front of the greatest economic challenge we have faced in decades. The decline in car traffic means less revenue, while truck traffic has recovered from the crisis faster. The COVID-19 pandemic is also having a significant impact on our transport systems. European supply chains are closely linked. These connections are maintained through a wide network of freight transport services. Interruptions in these flows of goods lead to serious economic damage. The problem that will affect road hauliers the most is liquidity. The economic outlook and huge projected losses across the transport sector would lead to bankruptcy in the coming months and years. Comparing the importance to realization, it is necessary for road hauliers to focus governments on providing targeted cash benefits and to facilitate flexibility in terms of insurance premium payment conditions. The European Recovery Plan is the EU's main instrument for supporting investment and reform in the Member States and helping companies and workers to overcome the COVID-19 crisis.*

**Keywords:** effectiveness of financial support, recovery of COVID-19, road sector, financial support, European recovery plan

**JEL:** R41

### Introduction

The economic shock caused by the COVID-19 pandemic has prompted governments to provide financial support to jobs, livelihoods and struggling businesses. The funding was fundamental to managing the economic impact of the coronavirus on individuals and businesses. They needed to be supported because of the likelihood of bankruptcies by fundamentally viable firms and also for the stabilization of broader credit market conditions.

Transport is one of the main sectors of the economy in Bulgaria. In recent years, this is the sector that is developing at a rapid pace. Bulgaria's geographical position is responsible for the increased heavy goods traffic through our country, which has tripled since 1990. In 1990, 146,000 heavy goods vehicles passed, and in 2020, 430,000 heavy goods vehicles passed. As a member of the European Union, Bulgaria, as well as the other member countries, switched to a liberalized

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<sup>1</sup> PhD student, University of National and World Economy

trade regime between them, and road freight transport is becoming a key factor in the country's foreign trade.

### Description of reforms and investments

State support is needed to deal with the corona virus crisis, it could have important implications for competition and trade policy in the future. It is important that they are well planned to be aimed at addressing immediate and urgent holes in the economy, market disturbances, may be disproportionate or difficult to phase out, resulting in structural support. This structural support has implications not only for ongoing distortions to global markets and competition, and for medium- and long-term economic resilience post-crisis, but also for jobs and, ultimately, for public support for open global markets. Good design principles, such as sunset provisions, taking account of distortions to normal market functioning, transparency, and international co-operation, including taking account of possible impact on trading partners, all matter in avoiding unintended consequences.

This brief begins with an overview of the trends in emergency support to businesses granted to date by OECD countries in response to the COVID-19 crisis. It then identifies the potential risk factors for where necessary emergency support can turn into structural government support. It draws on insights from both competition policy and trade policy to highlight risks to the level playing field for firms and countries. It concludes by highlighting some design principles and best practices from competition policy, as well as the framework set by international trade disciplines, to prevent distortions arising down the line (OECD, 2022).



*Source:* Autobahnen- und Schnellstraßen-Finanzierungs-Aktiengesellschaft (ASFINAG) (2021).

**Figure 1:** Framework for evaluating COVID-19 responses

All the restrictions and closures of borders and the impact of the coronavirus pandemic have put us in front of the greatest economic challenge we have faced in decades. The decline in car traffic means less revenue, while truck traffic has recovered from the crisis faster (ASFINAG, 2021).

Road transport, both passenger and freight, has been severely affected by COVID-19 pandemic due to pandemic restrictions and the general economic downturn. In addition to having significant social consequences and a human dimension, the coronavirus pandemic is also a major economic shock, requiring decisive coordinated economic action. The spread of the virus is causing disruptions in global supply chains, financial market instability, shocks in consumer demand and negative effects in key sectors such as travel.

The COVID-19 pandemic is also having a significant impact on our transport systems. European supply chains are closely linked. These connections are maintained through a wide network of freight transport services. Interruptions in these flows of goods lead to serious economic damage.

To overcome the financial consequences of the COVID-19 pandemic on the transport sector and recovery measures, Bulgaria is one of the few European countries that has implemented targeted measures for small and medium-sized enterprises (SMEs) or for road hauliers (Coronavirus Bulgaria, 2021). However, the most urgent challenge for road hauliers is liquidity. It is worrying that more than 50% of the countries in the European Union have not provided financial support in the form of cash grants to SMEs.

Following an assessment by the World Road Transport Organization of the actions of governments on the six financial measures in European countries, the financial measures considered are as follows:

- To provide direct cash subsidies to trucking companies as temporary assistance;
- Facilitate access to loans to cover variable costs (such as current operating costs), as well as loans to renew the fleet with low or 0% interest rates, to refinance existing loans to purchase assets;
- To facilitate the extension of the terms for repayment of loans and lease payments;
- Extend payment deadlines and / or temporarily reduce or abolish taxes, fees and receivables, including corporate taxes, social security contributions and fuel tax;
- Facilitate the reduction of insurance premiums and the abolition of premiums for non-operating vehicles due to suspended freight and passenger services;
- Create financial support programs for the temporarily unemployed in road transport. Facilitate the reintegration of skilled people unemployed due to the crisis, such as the transport workforce.

Despite large bailouts in support of national economies, almost nothing has been provided as targeted support to commercial road haulage companies. With a high risk of default and many carriers on the verge of bankruptcy, financial support measures from governments are clearly not working. Few road transport companies have benefited from government financial support. Very few companies have encountered effective support in the form of grants considered crucial for dealing with declining liquidity (IRU, 2021).

The financial measures taken in Bulgaria to limit the impact of the COVID-19 pandemic are the following:

- Measure 60/40 – Short-term instrument for urgent business support to maintain employment and ensure the income of employees;
- Operational Program “Innovation and Competitiveness” – Support for medium-sized enterprises to overcome the economic consequences of the COVID-19 pandemic;
- “Support for small and medium-sized bus undertakings to overcome the economic consequences of the COVID-19 pandemic”;
- Program of the Bulgarian Development Bank for portfolio guarantees in support of the liquidity of small and medium enterprises.

Road transport is the lifeblood of economies and communities, their supply chains and mobility networks. More than 80% of commercial land transport, providing mobility and logistics services, is provided by road transport (Dimitrov, 2021).

The problem that will affect road hauliers the most is liquidity. The economic outlook and huge projected losses across the transport sector would lead to bankruptcy in the coming months and years. Comparing the importance to realization, it is necessary for road hauliers to focus governments on providing targeted cash benefits and to facilitate flexibility in terms of insurance premium payment conditions (IRU, 2021).

### **National recovery and resilience plan**

Since the end of 2019, there has been a high degree of uncertainty arising from the COVID-19 pandemic, the containment and containment of its spread, and dealing with the extraordinary consequences of the coronavirus pandemic. These are the main tasks for governments to deal with. This situation predisposes to specific measures, and their timely and correct implementation is the way to preserve the economic potential and competitiveness of the economy during subsequent recovery. Is it a question of plans that must be taken in a short period of time to recover from the coronajirus crisis, policies to increase the resilience of the national health system and alleviate the socio-economic consequences through measures to support enterprises and employment and ensure appropriate

safe working conditions with a view to resuming economic activity through full use of the various available tools at their disposal. Looking at long-term plans for the recovery of the country is based on the National Development Program BULGARIA 2030. The aforementioned document examines national development decisions and defines three strategic goals (accelerated economic development, demographic recovery and reduction of inequalities), in which the government outlines its intentions in five areas of development and highlights 13 national priorities. Although BULGARIA 2030 was adopted by the Government in early 2020, just before the outbreak of the pandemic and the accompanying economic challenges, the strategic choice of goals and priorities not only remains relevant but it is further justified by the revealed vulnerabilities and difficulties in the functioning of socio-economic systems. When talking about the consequences of the coronavirus pandemic, we can easily guess that unexpected changes and problems are occurring, and for them corrections/amendments to the plans or changes to the already planned investment plans would be made. The Recovery and Resilience Plan sets out government and public views on how structural problems in the economy should be addressed through an internally coherent and coherent mix of reforms and investment. For this reason, it is necessary to plan the actions even better, since the presented intentions cannot be considered in isolation, but in combination with the planned actions within the EU Cohesion Policy for the next programming period. Additional efforts to transition to a climate-neutral economy, in the context of the ambitious goals of the European Green Deal, through the Just Transition Mechanism based on Just Transition Plans, should also be taken into account.

The European Recovery Plan is the instrument with which the EU will support investment and reforms in Member States. The plan will be used to help companies and workers overcome the COVID-19 crisis. The facility provides EU countries with up to €335 billion in grants and up to €385.8 billion in loans. All the restrictions that have been imposed as a result of the coronavirus have put our society in front of the biggest economic challenge we have faced in decades.

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The European Recovery Plan is the EU's main instrument for supporting investment and reform in the Member States and helping companies and workers to overcome the COVID-19 crisis. The mechanism provides EU countries with up to € 335 billion in grants and up to € 385.8 billion in loans. The recovery and sustainability mechanism amounts to a total of 723.8 billion euros. It is financed by the issuance of debt by the European Commission on international financial markets (European Commission, 2022).

The money is earmarked for EU countries preparing national recovery plans, including investment projects and reforms in six areas: green transition, digital transformation, smart, sustainable and inclusive growth, social and territorial cohesion, crisis preparedness and policies for the next generation.

Once the national plans are approved by the Council of Europe, countries can receive up to 13% of the total as pre-financing, the rest is paid only after achieving the agreed goals.

As of March 2022, the plans of 22 countries have been approved, including Bulgaria, and two (Spain and France) have already received payments for their goals. The European Parliament has set up a working group to oversee the implementation of the recovery plan.

The total amount requested by Bulgaria is EUR 6.6 billion in grants under the Recovery and Resilience Mechanism. Bulgaria's plan is structured around four pillars: Innovative Bulgaria, Green Bulgaria, United Bulgaria and Fair Bulgaria. The plan includes measures in areas such as decarbonisation of the economy, education and skills, research and innovation, smart industry, energy efficiency, sustainable agriculture, digital connectivity, social inclusion and health. The projects in the plan cover the entire life cycle of the Recovery and Resilience Facility until 2026.

In the pillar – “Connected Bulgaria” investments are related to transport. The indicative estimates for the expenditures required to achieve the objectives of the component amount to a total of BGN 1,813.0 million, of which BGN 1,307.9 million at the expense of the Reconstruction and Sustainability Mechanism and BGN 505.0 million national co-financing (Council of Ministers, 2021).

The carbon intensity of the transport sector in the country is 3.5 times higher than the EU average, reaching 2.8 kg of greenhouse gases (GHG) per 1 euro of gross value added in 2019. The sector is one of the main emitters of GHG and is associated with 14% of the total amount of GHG in the country. In this regard, it is of utmost importance to harness the efforts to decarbonize the economy, it is necessary to increase investments in sustainable transport to reduce the carbon footprint of the sector. One of the biggest feathers in the covid recovery plan talking about the transport sector is investment in the rail sector. Goals have been set for the modernization of the railway infrastructure, especially in Northern

Bulgaria, which, in addition to the expected positive effects on the environment and the green transition, will create prerequisites for reducing inter-regional differences in the country. At regional level, the interventions should be focused on the less infrastructurally developed Northern Bulgaria, which in addition to the expected positive effects on the environment and the green transition will create preconditions for reducing the interregional disparities in the country. In 2020, 463 people died and 1,556 were seriously injured on Bulgarian roads. Bulgaria has relatively low levels of road traffic safety (RTS) compared to the EU average.

The envisaged interventions will also directly contribute to the economic recovery through the implementation of investment projects and the temporary employment created due to them. In addition, the planned investments have a lasting impact, their effect will not disappear after the completion of the respective projects.

In the last few years, the world has entered a new phase of economic recovery from the COVID-19 crisis. Countries should rethink their long-term emergency support programs, not only to ensure financial and fiscal sustainability, but also to avoid future market distortions. This includes three priorities: Ensuring robust design of future programs to address distortions, reviewing existing programs to ensure timely termination, and international cooperation on transparency, policy guidance and disciplines to ensure that today's emergency measures do not create tomorrow's structural support and distortions.

Given the shared concerns and goals of the trade and competition policy communities, there is scope for co-operation and mutual learning, building on the complementary roles they play in disciplining behaviour and promoting best practices. With its multidisciplinary expertise and engagement by policy makers across its Committees, the OECD is well placed to foster this mutual learning and co-operation between the trade and competition policy communities (OECD, 2021).

## **Conclusion**

The pandemic caused by coronavirus infection during the period faced Europe with unprecedented challenges in the continent's modern history. The clinical consequences of the incompletely studied virus have long been unclear. The crisis caused by the pandemic situation on the continent has put the political leaders, businesses and citizens of many EU member states in a difficult position. Some sectors of the economy, such as tourism and transport, have been partially or completely unable to provide services. Air transport was partially suspended. River, rail and road transport operate under various physical and sanitary constraints. The councils, introduced sanitary and quarantine measures in many EU member states, have to suspend their activities for driver training, car services and places for annual technical inspection. The possibility of renewing the SUMP

was limited. The validity of certificates and documents relating to the carriage of passengers and goods has also been extended, leading to an additional risk to the safety of road users.

The implementation of the National recovery and resilience plan will lead to additional expanding of the tax basis and to higher tax income compared to the baseline scenario. Income from corporate tax and VAT will be affected most significantly. At the same time, in view of the more favourable economic situation an increase of some current expenditure could be expected too. In result the fulfilment of the plan will have an almost neutral effect on the budget balance as % of GDP. The government debt in relation to GDP will be lower by between 0.1-0.9 percentage points in the 2022 – 2026 period, which will be due to the higher nominal GDP.

In 2020 economy, both of the world and Bulgaria, was affected by the COVID-19 pandemic crises and the measures imposed to restrict the spread of the virus. The real GDP of the country went down by 3.9% in the period January-September 2020 compared to the nine months period of 2019, according to the author's calculations. The drop was driven mainly by the reduced export of goods and services and the investments. For the same period employment decreased by 2.4%, and the most affected sectors were trading, transport, hotels and restaurants. The dynamics of incomes in the country was also affected in direction of decrease, however it remained positive. The inflation processes were delayed due to the drop of energy goods prices (International Monetary Fund, 2021).

Anti-epidemic measures and restrictions on movement have led to a significant reduction in traffic intensity across the EU. This in turn reduced the risk of accidents and led to a reduction in road traffic injuries. According to the ECB, the number of accidents in the EU during the period has decreased significantly. Data on deaths in April 2020, published in an ECTB report in July, show an average reduction in the number of deaths in the EU of 36%, while the number of deaths in January 2020 in the EU is 1% higher, and in February – 4% higher than in the same periods of 2019.

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