Dire prospects

A decline in exports has triggered bankruptcies, and a contraction in activities and unemployment is on the rise in Romania. Remittances, representing 5% of GNI, dropped 10% at the beginning of 2009. The privatization and sale of national banks over the last few years has led to the country and its citizens to become indebted to Western banks. A recent multi-billion loan from the IMF seems designed mainly to benefit these foreign financial institutions. Among the casualties of the crisis is aid for development: the entire Romanian development cooperation policy is in danger of disappearing.

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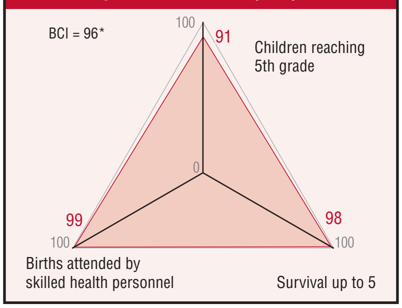
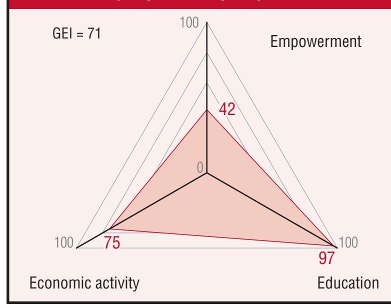
Like its neighbours from the former Soviet bloc, Romania is caught in the turmoil of the global financial and economic crisis. The country had enjoyed an economic boom in the past few years, fuelled in part by heavy borrowing from Western banks and easy access to foreign loans. Currently, however, there is a credit crunch, the national currency is unstable, and the situation looks dire.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



State budget, remittances and unemployment

Romania is dependent on falling EU markets. Exports have decreased by 25% and capital flows are reversing direction. January 2009 alone saw repatriations worth EUR 539 million. The decrease in exports has led to rising unemployment, bankruptcies and a contraction in companies' activities. Some 500,000 people (5.7%) were unemployed in April 2009, almost half of them women, compared to 3.9% in April 2008. In May 2009, the European Commission estimated that unemployment would rise to 8%. Each percentage point means an additional 100,000 unemployed.

Although the average net monthly salary was EUR 327 in March 2009, an increase of 17.6% compared to March 2008 according to the National Statistics Institute, this is less impressive than in the first months of 2008, when there were raises of more than 30%.[1] It is expected that the crisis will cause the increases to slow further and even reverse. The Government has announced that budgetary salaries will be frozen, which means less purchasing power. In a national television interview in April 2009, the Prime Minister, Emil Bloc, recognized that there was a real danger that the Government would not be able to pay state salaries and pensions. In addition, as traditional export markets for food producers have contracted, Romanian farmers also find themselves threatened at home by subsidized agricultural and food product imports from other EU member states looking to reorient their exports.

Budgetary revenues began to go down in the last quarter of 2008, a trend that has continued in 2009 – with 8.7% less in January than the same period in 2008 – and is likely to worsen. The largest decrease was in taxes on profits (-30.7%). Taxes on earnings and salaries brought in almost 20% more than the same period in 2008. Funds collected through VAT, which remains the main source for the budget, dropped 8% and are likely to drop further.

In response, new and higher taxes as well as increases in social contributions have been proposed. In March 2009, the Government announced an increase in contributions to health insurance funds of around 1% for both employees and employers, explaining that higher unemployment would lead to fewer contributions. Previously, the mandatory contribution had been 5.2% for employees and 5.5% for employers. Business representatives believe that this measure will further increase unemployment since companies will continue to cut costs and operate with fewer employees.

In February 2009, the Government announced that companies hiring unemployed persons, sole supporters of families or persons over 50 years old would receive subsidies for a period of up to 12 months in order to cover half the salaries of their new employees. The subsidies would also support employment of Roma and of those who, because of lack of education or skills, do not have a fair chance in the labour market. For people unemployed for more than two years, the subsidies would cover 75% of their salary for 24 months. The scheme, worth a total of EUR 133 million, is 85% funded by the European Commission. Of this, EUR 29 million is allocated for employment in the rural areas.[2] In March 2009, the Government also decided to extend the period of unemployment benefits by three months, while employers and employees will be exempted for three months from paying social insurance contributions during temporary suspension of activities.[3]

According to data from the National Bank of Romania, citizens working abroad sent home EUR 8.7 billion in 2008 (up from 7 billion in 2007).[4] This was almost as much as total foreign direct investment (a record EUR 9 billion) and represents 5% of GNI.[5] A study released by the World Bank ranks Romania 8th among developing countries in terms of migrant remittances.[6]However, at the beginning of 2009, the level of remittances dropped 10% compared with the same period in 2008. Italy and Spain, the two countries that are the source of 90% of total remittances, both face serious economic problems and high rates of unemployment. Some 800,000 Romanians were

* "Children reaching…" estimated following procedure "1" in p. 209.

1 National Statistics Institute. Available from: <www.insse.ro/cms/rw/pages/index.ro.do>.

2 Fonduri Structurale.ro. Available from: <www.fonduri-structurale.ro/detaliu.aspx?t=Stiri&eID=4128&AspxAutoDetectCookieSupport=1>.

3 Press conference of the Prime-Minister of Romania, 5 Februray 2009. Available frrom: <www.gov.ro/conferinta-de-presa-sustinuta-de-premierul-emil-boc-la-finalul-sedintei-de-guvern__l1a104257.html>. See also: "Guvernul a prelungit ajutorul de şomaj cu trei luni şi acordc scutire la CAS dacă firma îşi „îngheaţă" temporar activitatea", in Gandul, 19 March 2009, available from <www.gandul.info/actualitatea/guvernul-a-prelungit-ajutorul-de-somaj-cu-trei-luni-si-acorda-scutire-la-cas-daca-firma-isi-ingheata-temporar-activitatea.html?3927;4061408>.

4 "Banii trimişi de căpşunari, mai puţini cu 1,5 milioane euro pe zi" in Gandul, 6 April 2009. Available from: <www.gandul.info/economia/banii-trimisi-de-capsunari-mai-putini-cu-1-5-milioane-euro-pe-zi.html?3936;4160396>.

5 "Investitiile straine directe au incheiat 2008 in scadere" in Standard, 13 February 2009. Available from: <standard.money.ro/articol_80733/investitiile_straine_directe_au_incheiat_2008_in_scadere.html>.

6 People Move, a blog about migration. Available from: <peoplemove.worldbank.org/en/content/remittance-flows-to-developing-countries>.

working in Spain, mainly in the hardest hit sectors (services, industry and construction). In November 2008, Spanish authorities announced that 100,000 Romanians were unemployed, with 30,000 more expected to lose their jobs by 2009.[7]

In November 2008, the Romanian Minister of Labour and Social Affairs stated that in 2009 Romania could absorb up to 500,000 workers returning from abroad, as there was a shortage of labour for infrastructure projects and in the agricultural sector. However, these comments were basically meant to soothe Italian and Spanish Governments' concerns that Romanian workers would become a burden on their countries' already overstretched unemployment benefit schemes, rather than being an expression of real possibilities.[8] Still, according to an opinion poll produced by the Soros Foundation in September 2008, only 14% of Romanians working in Spain intended to go home in 2009. [9]

Foreign banks, the IMF and the people

Virtually all Romanian banks have been privatized over the last few years and sold to foreign banks. Until the beginning of the financial crisis, foreign banks made huge profits on a market in full and rapid expansion. In 2008, BCR (Este Group/Austria) reported an increase in net profit of 119.8%, BRD Société Générale (France) registered an increase of 46%, and Raiffeisen Bank (Austria) increased its profit by 75.6% compared to 2007. The net profit of just these three, the largest banks in Romania, totalled more than EUR 1 billion.

At the beginning of the financial crisis, the Romanian National Bank intervened in an attempt to calm down the lending extravaganza triggered by the competition, imposing a series of restrictions aimed at preventing defaults. However, the level of indebtedness increased sharply. This has led to a scenario in which, just as in most of Central and Eastern Europe, Romanian debts are owed to Western European banks, especially from Austria, France, Greece and Italy. Without any consideration for the potential negative impact of their actions, the banks fuelled a consumption trend based not on actual production by the local real economy but on an increase in imports from Western Europe. Basically, with money borrowed from Western Europe, these banks have supported their own national economies by putting Romania and its citizens in debt.[10]

This situation is aggravated by the fact that Western European governments have been putting pressure on their banks to pull back, undercutting subsidiaries in Eastern Europe. The European Bank for Reconstruction and Development (EBRD) expects defaults of up to 20% on Eastern European loans, with Romania among those especially hard hit. The decision makers in Bucharest are constrained in their fiscal policy choices by the fact that belt-tightening is required to correct the negative values of the balance of payments. At the same time, a weakening of the national currency could potentially trigger defaults, thereby shaking financial stability. In order to counter these dangers, the Government asked for and received a loan of EUR 19.95 billion from the IMF, the European Commission, the World Bank and the EBRD. Of the total loan, the IMF will provide EUR 12.95 billion.

The Government insists that the loan will be linked to the commitment of foreign banks in Romania to resume credit without externalizing the resources in the country or affecting the national budget obligations for education and health. At the end of March 2008, the IMF obtained written commitments from the head offices of the main bank subsidiaries in Romania that they would continue to support these branches and would not withdraw capital. However the Government has a poor record of withstanding foreign pressure. It also lacks the means to circumvent foreign "solutions" to national problems. Both the Government and civil society, with few exceptions, have been slow to react and expose the real stakes. The austerity measures proposed by the Government, including freezing public wages and pensions and tax hikes, have provoked discontent and mobilization by trade unions.

The IMF loan seems to have been contracted under external pressures, mainly to save foreign companies' interests in Romania. It will not serve to repay the country's foreign debt but will cover the debts of local subsidiaries of foreign banks. Public funds will thus be used to repair the damage done by private capital. The governments of Western Europe have generally been able to manage this damage. However the desperate calls from the Austrian Government for EU and IMF intervention to rescue its banks in Eastern Europe prove that foreign banks are sometimes dangerously overexposed (e.g., Austrian banks have lent the region an amount equivalent to 70% of Austria's GDP). The repayment of a loan that represents 40% of Romania's annual budget will only be possible over the next years through decreasing the population's standard of living.

Crisis in development assistance

In 2007, when joining the EU, Romania pledged to contribute as a donor country to alleviating poverty in the world by participating in the EU aid policy and by configuring its own official development assistance (ODA) policy. The current financial crisis is likely to have a dramatic impact on Romanian aid flows. The ODA budget managed by the Ministry of Foreign Affairs (MFA) was cut from EUR 5 million in 2008 to EUR 1.9 million in 2009. Meanwhile, the multibillion loan from the IMF has already imposed budgetary constraints for "non-essential" areas, and repaying the loan (by 2015) will affect the ODA budget for many years to come. Even though multilateral ODA contributions will remain at a relative constant level, it is very unlikely that the 0.17% ODA target to which the Government committed will be achieved by 2015.

The Romanian NGO platform for development (FOND) has warned that the entire Romanian development cooperation policy is in danger of disappearing.[11] Crucially, all previous investment in the newly developed institutional capacity for the MFA is being affected. The Government has addressed the majority of its internal capacity development needs through out-sourcing specific tasks to UNDP Romania. CSOs are concerned that, by doing this, the Government is missing its main short-term objective: strengthening national capacity.

A clear signal of the impacts of this approach was the change in the internal administrative structure of the MFA at the beginning of 2009. While important financial resources were allocated by the Government to UNDP Romania to hire experts, the Development Assistance unit within the MFA was downgraded and its staff was halved, with a subsequent decline in capacity for programming and managing development assistance. Although budgetary cuts in times of crisis are understandable, destroying administrative capacity in public institutions is not acceptable as it has long-term implications. UNDP representatives should understand that by diverting resources and delaying empowerment processes, they risk harming the emerging local development cooperation actors in Romania. ■

7 "Spania: 100,000 de someri romani" in Standard, 27 November 2008. Available from: <standard.money.ro/articol_70748/spania__100_000_de_someri_romani.html>.

8 "Ministrul Muncii: Romania poate absorbi pana la 500.000 de persoane venite din Spania si Italia", in 9AM News, 10 November 2009. Available from: <www.9am.ro/stiri-revista-presei/Business/Economie/110045/Ministrul-Muncii-Romania-poate-absorbi-pana-la-500-000-de-persoane-venite-din-Spania-si-Italia.html>.

9 "Criza întoarce acasă jumătate dintre românii din Spania" in Gandul, 28 November 2008. Available at <www.gandul.info/actualitatea/criza-intoarce-acasa-jumatate-dintre-romanii-din-spania.html?3927;3566798>. More information on the situation of Romanian migrants in Spain the Soros Foundation Romania. Available from: <www.osf.ro/ro/publicatii.php?cat=15#>.

10 An excellent series of analysis on this topic has been published by Prof. Ilie Serbanescu in Revista 22. See for instance "Acordul cu FMI: Corectitudinea politică şi capitalismul călcate în picioare", in Revista 22, 21 April 2009. Available from: <www.revista22.ro/articol-5964.html> or "Acordul cu FMI–Ar fi de râs, dacă n-ar fi de plâns!" in Revista 22, 7 April 2009. Available from: <www.revista22.ro/articol-5887.html>.

11 "De ce are nevoie Romania de o politica de cooperare pentru Dezvoltare?", available on FOND's web page at <www.fondromania.org/pagini/de-ce-are-nevoie-romania-de-o-politica-c.php>.