Economic crisis unleashes violent protests across Eastern Europe

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26 January 2009

The international economic crisis has hit Eastern Europe with full force and brought long-simmering social and political tensions to the surface.

Last week approximately 10,000 people protested in Latvia against the rampant corruption and incompetence of those in the highest public offices. The demonstration, which had been called by the opposition parties and trade unions, was followed by scenes of violence, with over 100 arrested.

In the Bulgarian capital Sofia, approximately 2,000 demonstrated against the government. Anger with the grand coalition under Prime Minister Sergei Stanishev has been strengthened by the acute gas crisis; this Balkan state is entirely dependent on Russian supplies of gas via Ukraine. When supplies were cut off last week, Bulgarians suffered under the icy temperatures.

Last Friday there were also violent protests in Lithuania. Protests also took place in five other Lithuanian cities, as well as the capital, with more than 20,000 taking part.

In Lithuania anger was directed against the conservative government of Andrius Kubilius. His party, the Homeland Union-Lithuanian Christian Democrats, which governs in a four-party coalition, recently agreed measures to deal with the financial and economic crisis that are entirely at the expense of the general population. The government wants to cut expenditure in the public sector and on social security by 12 to 15 percent, at the same time raising taxes while cutting subsidies for medicine and heating.

Any end to this series of protests is not in sight, and observers are predicting similar protests for Estonia, where the government of Andrus Ansip is rapidly losing support, and also in Romania.

Last week thousands of workers at the Renault subsidiary Dacia in the southern Romanian city of Pitesti demonstrated in defence of their jobs. The workers demanded that the continual production breaks be lifted and that their jobs be guaranteed. Last year, Pitesti had seen strikes for higher wages lasting for weeks. Meanwhile, Dacia management are planning a fourth production break from January 26 for two weeks, due to "dramatically falling" demand. Only on Monday Dacia terminated a one-month interruption of work.

Management are considering sacking a quarter of the workforce due to the collapse of demand in January. This was confirmed in the press by Dacia general manager Francois Fourmont. If the "plan to deal with the consequences of the crisis" does not bear fruit by the spring, he said, some 3,000 to 4,000 of Dacia's 13,000 workers will be dismissed.

Dacia's suppliers have already been hard hit. Cable manufacturer Leoni is closing its plant in Pitesti, one of its four factories in Romania, making about 220 workers there redundant. The management have justified this by saying that production exceeds demand. Workers at the Nokia factory, opened only last year in Klausenburg, are facing dismissals. According to trade union sources, Nokia has already sacked about 600 workers.

Anger here is also being directed ever more directly against the government in Bucharest. Shortly before the end of the year, the government trebled the "eco-tax" on imported used cars, with the aim of protecting the domestic automobile industry. But many drivers protested against the measure by mounting road blockades.

The struggle between the population and the political elite will inevitably increase because of the mounting economic crisis. The governments in Hungary, Bulgaria and Romania have already announced they will implement further austerity measures to stabilize the state finances. All political parties, whether nominally calling themselves socialist or right-wing reformist, are agreed that the burden of the crisis must be placed upon the general population.

Eastern Europe—"source of the fire-storm"

Over the recent past, the economies in the former Eastern bloc countries have experienced a rapid growth, reaching double-digits in some places. Following the "high-altitude flight," however, instead of the "soft landing" experts had hoped for, an abrupt crash is predicted.

After the collapse of the Soviet Union and the Stalinist regimes in Eastern Europe in the early 1990s, local industries were largely shut down or sold off at bargain basement prices to foreign investors. Transnational corporations such as Volkswagen, Renault and Nokia tried to reduce their costs by developing factories in the low-wage countries of Eastern Europe. They were supported by a corrupt, compliant elite that mainly stemmed from the old Stalinist cadres, which provided a crucial element to removing all political obstacles to exploitation.

Economic success depended entirely on the supply of capital from abroad. The sudden drying up of these capital flows as a result of the international financial crisis caused massive problems for the Eastern Europe states. Only international support has enabled a complete collapse to be avoided, so far.

Last year Hungary was saved from bankruptcy by a cash infusion from the IMF. And now Latvia has also been granted a credit package. Poland and Estonia, whose economies face imminent failure, have been assured a total of $400 million. The failure of any Eastern European state would inevitably have dramatic consequences for the entire region.

The situation of Ukraine is particularly precarious. According to some observers, state bankruptcy threatens the country. "Market data points to a payments failure," *Die Welt* quotes strategist Tom Fallon at La Française des Placements in Paris. The country's currency, the hrywnja, has lost 30 percent of its value in the past three months, recalling the collapse of the Asian currency markets during the Asian crisis of 1997.

The country's indebtedness is crushing. According to financial press agency *Bloomberg*, Ukraine has debts of $105 billion on the international credit markets, a massive amount for a country whose annual economic output is approximately $140 billion. In December industrial production fell by over 26 percent. The price of the country's most important export product, steel, has fallen by 56 percent since the summer. At the stock market in Kiev, brokers are speculating on a huge shock. The main stock index has lost 85 percent in value in less than a year.

Under the headline, "The Next Source of the Fire-storm is Eastern Europe," *Financial Times Deutschland* pointed to the consequences for Western Europe. If European Union members such as Hungary or Estonia get into a predicament, FTD writes, this will also affect the state budgets, banks and investors in the other EU countries.

"A dramatic meltdown of wealth," reports FTD, and points to the example of the Griffin Eastern Europe Fund, which has lost 63 percent in value within one year. "The Julius Bär Black Sea Fund, which invests in stock markets around the Black Sea, has even managed to destroy 80 percent of investors' capital in 12 months."

According to the article, Eastern Europe business presently ranks among the greatest risks for Western banks. The banks' commitment in these countries amounts to some $1,500 billion. Financial institutions from Austria, Italy, France, Sweden and Greece are particularly affected. Austrian banks alone have outstanding credits of €224 billion in Eastern Europe, corresponding to 78 percent of Austria's entire economic output.