Romanian government agrees to drastic austerity package

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Romania, like other Eastern European states, has been hit hard by the international economic crisis. While mass redundancies in industry are rapidly pushing up the unemployment rate, the government in Bucharest is shifting the burden of the crisis onto the backs of working people through a series of harsh austerity measures.

Since the end of December, Romania has been governed by a grand coalition that includes both the Social Democratic Party (PSD), which came out of the ruling party of the former Stalinist bureaucracy, and the rightwing Democratic Liberal Party (PD-L), which is close to President Traian Basescu. After the elections at the end of November, and despite their fierce differences, the country's political elite decided to form a grand coalition in order to have a broad parliamentary majority capable of pushing through substantial social attacks.

Under Prime Minister Emil Boc, a government of right-wing reformists and ex-Stalinists has been in power for the first time since the beginning of the 1990s. In 1990, a similar coalition, the "National Salvation Front", was responsible for introducing free market economic policies, privatizing industry and plunging many into unemployment and misery. The austerity measures now being implemented by the Boc government are of a piece with the policies of that time.

One element of the current austerity programme is the slashing of public spending by around 20 percent. In future, pensioners, who are now often forced to find work in the public sector to supplement their low pensions, will be forced to choose between either working or drawing their pensions.

The government has also rescinded last year's promises of wage increases. For example, after massive protests and strikes last year, the preceding government was forced to promise teachers a 50 percent wage hike. Remarking that "wages are out of control", Boc has now thrown aside these pledges. Teaching staff in Romania's public schools presently earn about €150 to €200 a month. A 5 percent ceiling for wage increases is to be imposed in 2009.

In a measure that will disproportionately affect those on low and middle incomes, consumption taxes are set to rise, for example on tobacco and alcohol, pumping money into the treasury.

The attack on wages and incomes coincides with mass redundancies in Romanian industry. Auto manufacturers such as the Renault subsidiary Dacia and its suppliers are being particularly hard hit, but other sectors also face a wave of dismissals.

According to the Romanian press agency *Rompres*, the subsidiary of Austrian oil company OMV Petrom sacked 3,000 of its workers on February 1. The employers have not confirmed whether further jobs may be axed, but say the business is in a "reconstruction process." Before the Romanian company was privatized in 2004, some 50,100 were employed by Petrom. According to *Rompres*, the workforce presently numbers barely 33,000.

The population of Romania still has the lowest purchasing power in the European Union. Moreover, a substantial part of any nominal wage increase has been eaten away by the recent years of high inflation, which reached nearly 10 percent last summer.

Romanian private household debt is enormous, rising in the last two years by around 60 percent. Often, Western European banks denominate these loans in euros, and with the depreciation of the Romanian leu many face a rapidly growing mountain of debt.

The sharp attacks being carried out by the political elite, the catastrophic social situation and the economic crisis have already led to popular confrontations with governments in other Eastern European states, including Latvia, Lithuania and Bulgaria. It appears that Romania is on a similar path.

Nevertheless, the Romanian government is funnelling the savings that result from its austerity measures directly into the pockets of the corporations. At the end of last month, Boc announced a cash infusion for companies worth €250 million.

Boc and other high-ranking government representatives have also let it be known they are preparing further austerity measures, since the economic situation throughout Eastern Europe is rapidly worsening.

Romania has been negotiating with the European Union Commission regarding an emergency credit, and discussions are also being held with representatives of the International Monetary Fund (IMF). Experts believe it is inevitable that Romania, alongside Hungary and Latvia, will also receive a cash injection. "We will need a credit of at least six or seven billion euros, probably from the IMF", said PSD chairman Mircea Geoana. Such credits usually come with draconian austerity measures attached.

Romania is highly indebted; the banking system depends almost exclusively on foreign money. Real estate prices have collapsed spectacularly; foreign investors have reduced or withdrawn their investments, meaning foreign capital is flowing out of Romania ever more rapidly. Meanwhile, the leu has lost a good quarter of its value in relation to the dollar, meaning foreign exchange credits that are denominated in dollars have increased in price by 25 percent.

Romania has seen the creditworthiness of its long-term foreign debts lowered to "BB+", sinking by two ratings. Analysts are questioning the ability of the Romanian state to avoid a "severe financial and economic crisis," reported the *Mediafax* press agency. A worse rating also makes it more difficult for the country to access loans at more favourable rates of interest.

In 2008, the Romanian economy grew by approximately eight percent. But now the European Bank for Reconstruction and Development (EBRD) in London has downgraded its prognosis for Romanian growth this year from three to one percent, and experts consider a further lowering of this forecast highly probable.

After just two months in office, the grand coalition is already gripped by fierce disputes. Twelve days after his appointment, the social democratic interior minister, Liviu Dragnea, resigned. He was the second interior minister to leave the Boc cabinet. Dragnea had replaced Gabriel Oprea at the end of January after he also resigned. The PSD leadership had accused Oprea of being behind the appointment of a disputed candidate to head the secret service.

The reasons for Dragnea's resignation also involved internal disputes over the appointment of state secretaries and other high-ranking officials in the interior ministry. Both cases have highlighted the intensification of the internal struggle within the former Stalinist ruling party for power and positions as the economic crisis deepens.