IMF steps up pressure on Romanian government prior to election

Diana Toma, Markus Salzmann
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The International Monetary Fund (IMF) has increased pressure on the Romanian government to implement further austerity measures prior to the country's general election due to be held in December.

In 2009 the country was only saved from bankruptcy by a €20 billion [$US 25.6 billion] loan from the IMF. Since then the government in Bucharest has carried out a series of attacks on the living standards of the population. In March 2011, the IMF and European Union (EU) once again agreed to provide €5 billion in the form of emergency loans. Romania has been a member of the European Union since 2007, but is not part of the euro zone.

On November 7 IMF representatives arrived in Bucharest. In their latest report, the IMF and EU call upon the Romanian government to continue its "structural reforms". The report expresses concerns that the country's economy could shrink by a further five percent.

IMF representatives declared that in the case of such a scenario, in which the exchange rate of the Romanian leu would depreciate by 15 to 20 percent, the banking sector would be the first to be affected. One of the IMF's concerns is that Romanian banking remains vulnerable to the effects of the crisis of the euro. Some 80 percent of the Romanian banking system is in the hands of foreign banks, including a 38 percent involvement by Austrian banks.

"Romania has strong commercial and financial links to the members of the euro zone. Exports to Germany, Italy and France form about 40 percent of total exports, and the banking system is largely controlled by banks from the eurozone", the IMF notes in its report.

The report then goes on to refer to the deepening of the euro crisis and the widespread popular resistance to austerity measures as the major challenges for Romania in pressing ahead with its "reforms."

The IMF proposes the rapid privatization of the state-owned enterprises, which continue to play an important role in the Romanian economy. There are about 1,000 state-owned enterprises employing about 20-30,000 employees. The report claims that state-owned enterprises are relatively ineffective, have low profitability and pay higher than average salaries compared to the private sector. In addition, the report declares that state enterprises are responsible for almost all existing debts and are over-subsidised. The sell-off of these enterprises, in fact, would only benefit foreign and Romanian business interests and mean further ruination for the Romanian population.

The IMF also calls for further cuts in the country's already ailing health system. It is already impossible for most Romanians to afford adequate medical care. The latter is only possible on the basis of private contributions or the payment of bribes. Many clinics no longer stock important medication because of the cuts in health care.

The total spending for health care in Romania was just 5.6 percent of GDP in 2010, the lowest in the European Union. Lack of financing, inadequate incomes and the excessive politicisation of the health care system are just some of the reasons for a mass exodus of doctors from Romania. According to a statement by the president of the College of Physicians in Romania, a total of 11,200 doctors left the country in the period 2007-2012.

The IMF also suggested that increasing VAT (value added tax) by one percentage point would generate additional income of about 2 billion lei ($US 565.2 million, or 0.3 percent of GDP). In 2010, as part of a strict IMF agreement to reduce the budget deficit, the government of Prime Minister Emil Boc cut the salaries of state employees by 15 percent, slashed 100,000 jobs in the public sector and increased VAT from 19 to 24 percent.

Almost two years later there is a growing risk of poverty for those in work, according to a statement given in August by Minister of Labour Mariana Campeanu. More and more workers are unable to meet their daily needs based on their wages alone. At the end of August, Mediafax released figures showing that the risk of poverty among working people in Romania was 17.3 percent—the highest percentage in the European Union.

As in Greece, Spain and other European countries, the draconian austerity measures have, at the same time, led to an even higher level of indebtedness. At the end of 2008, Romanian public debt amounted to about 16 percent of GDP. This figure has now doubled in only two years. Romania had to pay its creditors €271 million in 2011, €1.8 billion in 2012 and will owe almost €4.7 billion in 2013.

The task of the current IMF mission in Romania is to ensure that further austerity measures are imposed in the face of popular opposition, irrespective of which party comes to power in December.

For the past one and a half years, Romania has been in a state of severe political crisis, characterised by bitter infighting among the main establishment parties.

Premier Victor Ponta, who heads the government led by the Social Liberal Union (USL), came to power in May 2012 after the government of former intelligence chief Mihai Razvan Ungureanu was toppled by a vote of no confidence.

Just a few months earlier, in February, the conservative government of Emil Boc was forced to resign after mass protests against austerity. Boc's conservative Democratic Liberal Party (PDL) then forged a new government under Ungureanu.

The conflicts between the opposing sides revolve essentially around the different factions securing their own influence and positions of power. There are no genuine political differences separating the camps. Since the collapse of the Stalinist regime in the late 1980s all of the established parties have pursued free-market policies.

For example, in 2008 the Boc government formed a coalition with the Social Democratic Party (PSD), which, however, pulled all its ministers out of the government ten months later and withdrew from the coalition. In the subsequent dispute over government posts, Boc tried to fill every ministry with party cronies.

The elections December 9 could serve to fuel the crisis. According to one poll, the USL is only assured 48 percent of the vote, thus missing an absolute majority. In this case President Traian Basescu may nominate one of his allies as premier to form a government.

The Right Romania Alliance (ARD) was founded in September, under the tutelage of the Democratic Liberal Party (PDL), and is currently polling 24 percent electoral support. The right-wing populist People's Party (PP-DD) led by Dan Diaconescu is polling at 14 percent.

Both the USL and the organizations involved in the ARD are widely discredited, but are able to retain influence under conditions of a vacuum of leadership for the working population The country's trade unions also have a long history of collaboration in carrying out social attacks in alliance with the government.