

12. Our neighbors: recent developments in the Romanian economy

While the year of 1997 represented the first serious attempt to adopt radical reforms by the new democratic government elected in October 1996, in 1998 the speed of transformations was slowed down. No significant changes can be emphasized, compared to what was expected. The output growth is still negative, despite its dramatic fall of 6.6% in 1997, the deficit of the budget is high, and the rhythm of privatization is very slow. No major structural reforms can be mentioned in the Romanian society; as a consequence, the country rating provided by international specialized institutions places Romania on an unfavorable position.

The political framework

The main element which have determined such a situation is the political crisis generated in December 1997 by the Democratic Party (PD) of the former Prime Minister Petre Roman. The PD belongs to the current coalition CDR (Democratic Convention from Romania). In December 1997, after the government reshuffling, this party announced its intention to quit the coalition if the Prime Minister Victor Ciorbea is not replaced. PD was not satisfied by the way of conducting the reforms, accusing the Prime Minister in political conservatism and inability to undertake radical measures in the economy. As a result, the first two months of 1998 were practically inactive. The coalition accepted Roman's conditions, and Radu Vasile was nominated as a new Prime Minister.

The new government announced its intention to speed up the reforms, but in reality the progress has not been significant. The high influence of politics on all economic decisions has impeded such a progress. A controversial military contract with Bell Helicopters has determined tensions within the cabinet, the Prime Minister deciding in September 1998 to replace the Ministry of Finance Daniel Daianu, an internationally recognized specialist who refused to sign the contract.

The fragility of the leading coalition is still a major deficiency for the political and economic environment. In September 1998, another political group – the UDMR (Democratic Union of Hungarians from Romania) – announced its intention to quit the coalition because the Parliament refused to vote the creation of a public university exclusively for the Hungarian minority from Transilvania. Fortunately, UDMR cancelled its initial decision in October, when the CDR accepted a compromise – a multi-lingual university. In the middle of November, UDMR made a new tentative to obtain a Hungarian university, which re-opened the conflict.

Beside these political conflicts within the coalition, the confidence of population in the government has suffered because of several situations when high officials were denounced for corruption, some of them close to President Constantinescu. The confusion is amplified by the fact that the coalition has hesitated to take decisive measures with respect to the bad performance of SOF (State Ownership Fund) with respect to the speed of privatization. The responsibility belongs almost exclusively to the SOF president Sorin Dimitriu, whose replacement has been systematically avoided. Only at the end of October 1998 Sorin Dimitriu was dismissed. The SOF restructuring, announced by the new president, seems to be postponed for an indefinite future.

The economic evolution in 1998

The economy has recorded a serious decline during the first eight months of 1998. The industrial production represented only 81.5 % from its level of the corresponding period of

1997, the most dramatic fall being recorded in manufacturing, where the production of durable goods represents only 54.6% of the 1997 level (eight months). The government prognosis for the whole year of 1998 shows a decrease of industrial production by 6%, as compared to 1997, but the up to know evolution will determine, according to certain opinions, an effective fall of at least 11%.

In agriculture, the official estimates show a 2% decline of total production in 1998, compared to 1997. However, this number seems to be underestimated, since during the first 8 months of this year both vegetable production and livestock being much below the corresponding level of 1997 period.

Public investment has recorded also a significant decrease (15.8% for the first semester), while in the private sector the investment has increased by 6.4% during the same period. The weight of bank credits in overall investment resources is still very low: 6.6% for the whole economy, and only 4.5% in the private sector.

The exports of the first seven months decreased by 2.1%, as compared to the same period of 1997, while the imports increased by 3.1% during the same period. As a consequence, the commercial deficit FOB/CIF increased by 22.24% during the first seven months of this year, compared to the same time horizon of 1997. Even in the private sector the foreign trade situation in 1998 is worse than the previous year: exports have decreased by 7.6%, while imports increased by 1.9%.

The exchange rate shows a slight depreciation of the ROL in nominal terms (13.9% at the end of September, compared with December 1997), but a real appreciation of about 18%. The rhythm of depreciation accelerated at the beginning of November, when the ROL approached the 10000 lei/\$ level, but NBR considers that this tendency is still within the limits set in the beginning of the year.

The value of services for population decreased by 16.5% in the first seven months of 1998, compared with the same period from 1997, the most significant fall being recorded in tourism (30.9%).

The average monthly rate of inflation for the period January-August 1998 has been 3.0%, while the monthly rate for the same period of 1997 was 9.7%, in average. This is equivalent with an overall inflation rate of 26.5% at the end of August 1998 compared to December 1997. From this point of view, 1998 is the most successful year of transition in Romania, when the effective inflation rate seems to be below the proposed target of 45%. The lowest increase of prices in 1998 corresponds to food products (1.9% average monthly rate), while the services recorded the highest increase – 4.6% per month, in average. The lowest rate of inflation in 1998 was recorded in September (0.6%), which is also the lowest monthly rate from the first price liberalization in October 1990.

The average gross monthly salary in August 1998 was 1402317 lei (about US \$ 160), while the net monthly salary, as the average for the economy, increased up to 1122880 lei (US \$ 120). In average, the ratio between the index of net nominal average salary and CPI was 101.6 as against previous month, 113.8 as compared to August 1997, and 62.2% from the same ratio corresponding to October 1990.

At the end of August 1998 the number of registered unemployed was 848300, by 22700 less than previous month and by 139800 more than the same month of 1997. The decreasing tendency of unemployment starts in February 1998, but this is mainly due to the expiration of the payment period of unemployment benefits for a large proportion of those who have previously lost their job. The unemployment rate in August was 8.5 % (8.8 % for feminine labor force). In August 1997, the rate of unemployment was 7.1% (7.7% for women). The highest level of unemployment remains in counties like Vaslui, Neamt, Valcea, and Suceava (more than 12%).

The gross domestic product corresponding to the first quarter of 1998 (62120.5 billion lei in current prices) represented only 90.6 % of its level of the same period from 1997. The

estimations for the first semester of this year show a decline by 5.2% compared to the first semester of 1997. Even though the government announced initially a target of 0 % real growth of GDP for the whole year of 1998, the up to now evolution of the main sectors of the economy indicate an overall decline of at least 4.5% until the end of the year.

The evolution of reforms

We already argued that the political instability has discouraged the economic reforms. The proposed tasks have been fulfilled only partially and with significant delays. The privatization of ROMTELECOM, considered to be the most important event of 1998, has been postponed several times because of low interest shown by foreign investors. In November, OTC bought 35% of shares for US \$ 650 million.

The privatization of three commercial banks (BRD – Romanian Bank for Reconstruction and Development, Bancpost and Banca Agricola) will not be possible until the end of this year, even though BRD has been prepared for privatization since 1993 and Banca Agricola was re-capitalized by a huge infusion of capital.

The transformation of Regies Autonomes in commercial companies to be privatized has been only partially done. The most important step with this respect is the restructuring of two natural monopolies: the electricity company RENEL, respectively SNCFR – the railway transportation company. However, the restructuring means only the reorganization of the two state owned National Companies by dividing them into functional units. Their effective restructuring will require at least two years from now on.

The institutional reforms have been also delayed. The law on the status of public servants has not been passed by the Parliament. The project was submitted to the legislative body almost two years back. The government reorganization, initially planned for the middle of 1998, is still on the government agenda.

The decision to close down large loss making state enterprises has not been taken. Only 16 companies were declared bankrupt and closed down in 1997, but the Romanian economy is currently facing the burden of about 150 firms that have accumulated huge arrears and losses, some of them (around 80 commercial companies) producing negative value added. Half of industrial producers have accumulated large debts to RENEL and ROMGAZ, the total value of arrears to RENEL being almost 7000 billion lei (around US \$ 800 million) at the end of the third quarter of 1998.

In the field of fiscal policies, the introduction of the tax on global income, announced for the beginning of 1998, has been postponed indefinitely. The tax collection does not show any improvement, at present only 53% of contributions due to the budget being effectively paid by economic agents. The 1999 project of the state budget is not yet done, mainly due to serious conflicts between the government and the parliament with respect to certain fiscal facilities voted by the legislative body, a measure that contradicts flagrantly the government recommendations.

Among the positive results of 1998, it should be mentioned the reform of educational system, and the preparation of the legal framework for introducing the system of private pensions. In the first case, a more flexible system was adopted, according to Western European rules. The reform of the pension system implies the introduction, starting with 1999, of the private funds that will gradually replace the current Pay-as-you-go system. The pension reform is probably the most important step undertaken by Romania during the period of transition.

Annex: Main economic indicators in 1998

Month	Ind. Prod.	Employment			% previous month Net average salary				
		Total	Ind.	Agr.	Total	Ind.	Agr.	Energy	Banks
January	100.5	98.8	98.5	102.6	96.3	96.8	96.6	108.5	94.6
February	103.4	99.3	99.4	99.2	99.3	100.3	99.5	99.2	91.5
March	99.4	99.4	99.4	104.4	108.6	108.6	105.3	103.1	101.9
April	91.3	100.7	99.7	106.9	109.6	110.5	113.3	124.8	150.9
May	100.6	100.1	99.4	104.3	95.8	94.2	100.9	85.5	76.8
June	99.1	99.8	99.1	101.6	104.1	104.7	103.2	105	99.8
July	93.8	99.3	98.9	101.8	105.6	108.2	108	120.3	111.1
August	93.4	99.1	98.9	96.9	102.2	99.9	101.5	88.2	101.3

Month	Exchange rate Lei/US\$ (average)	CPI (Previous month = 100)	Unemploy- ment rate (%)	Exports Million \$	Imports Million \$
January	8293.4	104.9	9.2	585.5	674.9
February	8230.9	107.2	9.6	655.1	722.5
March	8207.1	103.8	9.5	678.5	1008.5
April	8379.6	102.7	9.3	648.3	887.2
May	8477.3	102.3	9.0	670.4	967.4
June	8569.4	101.3	8.8	716.8	849.2
July	8699.4	101.3	8.7	719.5	863.4
August	8781.2	100.6	8.5	NA	NA
September		102.7			