

EARLY WARNING REPORT ROMANIA

UNDP - ROMANIAN ACADEMIC SOCIETY (SAR)

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EVOLUTION OF SELECTED INDICATORS

INDICATORS	General trend	Recent trend	Nov 2001	Oct 2001	Sep 2001	Aug 2001	Jul 2001	Jun 2001	May 2001	Apr 2001	Mar 2001	Feb 2001	Jan 2001
GDP growth (quarterly, annualized), %			5.1		5.1		5.1		5.1		4.8		
Devaluation of the Leu, %			1.67	1.81	1.40	1.42	1.59	1.41	1.91	2.35	1.87	2.06	2.26
Inflation, %			2.7	2.4	1.9	2.2	1.3	1.6	1.7	2.7	2	2.3	3.7
Industrial output, % change					-0.5	-1.7	0.2	-5.3	7.6	-3.4	11.4	4.1	4.9
Trade deficit, FOB/CIF (million USD)				508.5	145.4	198.1	272	294	484	447	228	334	260
Unemployment rate, %				7.7	7.8	8.1	8.4	8.8	9.3	9.9	10.4	10.8	10.8
Employed (,000)					4551.7	4,546	4,542	4,530	4,521	4,485	4,467	4,448	4,414
Net salary, % change (Jan 2001 = 104 USD)	-			2.7	-0.3	0.4	2.6	0.6	-5.7	5.1	6.7	-7.2	
Foreign companies increasing their business in Romania (KPMG quarterly poll), %						65*		60			55		
Distrust in the outside world (Agreed to: 'No international organization should tell Romanians how to run their country'), %				53.3							56		
The current Government can improve things (CURS poll), %			49.1	47.4		48**		46			57		
Pessimism, % (Country heading in the wrong direction)	-		48	42.8		44**	54	52			54		53
Subjective welfare, % (Better off than last year)	-		22.5			18.7**		19		16	18		17

* forecast

** urban population only

ABSTRACT

The Indicators for this month show a worrisome trend, with inflation growing steadily and the trade deficit registering its highest peak for the year, with a value more than three times higher than the one recorded in the previous month.

The Regional section of the Report explains why the result of the Bulgarian presidential elections will not have a dramatic effect on Bulgaria's EU accession process. The analysis of the latest progress reports of the European Commission highlights, however, a discouraging vicious circle between poor investment, slow development, and pessimist forecasts by the European Commission, which only scare potential investors off and become self-fulfilling prophecies. It is suggested that, in the case of Romania and Bulgaria, this vicious circle could be broken by a firm commitment from the EU to integrate these countries in the not too distant future.

The 'Politics and Legal' section further analyses the EC progress report, and warns on the media regulation practices. Equally, the survey of the usual trend indicators shows discontent to be slightly on the rise.

The Social section looks at the social effects that the recent adoption of the State Budget has stirred. While the trade unions are unhappy with the Government's perceived failure to transform some of its electoral promises into policies, their potential for destructive action is lowering, given that the union leaders perceive more benefits from cooperating with the Government than from confronting it. A special focus is given to the situation in the Jiu Valley, where extreme poverty has become a serious threat to social stability, and where active measures for employment generation have had only disappointing results so far.

Finally, the Economic section focuses on the implications of the introduction of Euro for the Romanian economy, and on the proposed policy-shift in Agriculture. The Report warns that it would be counterproductive to anchor the national currency to the Euro before joining the EU.

REGIONAL

ANALYSIS: FROM GLOOM TO DOOM?

By Alina Mungiu-Pippidi

The politics of EU enlargement and Balkan stabilization have yet to meet in South-Eastern Europe

As the end of the year draws nearer, assessments of the region abound. The European Commission has released its yearly progress report on the ten post-Communist East European accession countries, and its economic forecast for next year. EBRD has also released its yearly forecast and analysis on European transition economies. Several regional strategy papers and reports from international organizations and foundations active in the region have also been published in the last few weeks. However, a recent political event, Peter Stoyanov's defeat in the Bulgarian presidential elections to a Communist leader, has shaken – again – the conventional wisdom on South Eastern Europe.

This section examines the impact of recent events on the near future of the Balkans, and the strange resilience of South Eastern Europe to Western conventional wisdom.

South Eastern Europe after Constantinescu and Stoyanov

Peter Stoyanov was seen by his constituents as a good president. He stood by the West during the Kosovo war, although this war was strongly disliked by ordinary Bulgarians – and for good reason, as scattered bombs reached occasionally the Bulgarian soil. He presided over years of catching up in the EU enlargement race, and he managed to have his country removed from the black visa list of Europe. Despite these successes, he lost in the second round

of November 2001 presidential elections to a former Communist leader, whose party had been blamed for presiding over the crisis that brought down Bulgaria's currency in 1996. Thus, Stoyanov had a similar faith to Emil Constantinescu, the former Romanian president who pulled out from the presidential race in 2000 in order to avoid a crushing defeat. Constantinescu, however, had been on all accounts less lucky than Stoyanov: he did not have a party of his own, as he had always refused to be involved in party building; equally, not one of the coalition parties half-heartedly supporting him could match the effectiveness of the Bulgarian UFD. Like Stoyanov, however, Constantinescu withstood media and popular discontent and endorsed the West during the bombing of neighboring fellow Orthodox Serbia.

Slight differences can therefore be traced between Stoyanov and Constantinescu, but these are considerably less important than their many similarities. Amongst the latter, one can single out their foreign policy, which was very similar. They were the first non-nationalist heads of states in their countries. They graciously acknowledged the advance of Central European countries in the race for EU and NATO integration, while benevolently agreeing with the need for more regional cooperation. Both of them were ready to deliver what Europe expected of them, but both failed to accurately assess whether Europe is able to deliver what would have helped them resist in power. And so down they went.

Did their fall change substantially the fate of their states? Here Constantinescu's example is useful, as he lost or gave away power more than one year ago. The plain answer is no: despite heavy defeat of his former coalition in the November 2000 elections, Romania pursued its EU integration policy, and it was treated internationally no better and no worse than during Constantinescu's time. The same goes for Bulgaria. Little does it matter who is the President of Bulgaria, since the European Commission had anyway taken the decision that Bulgaria will have to wait longer before joining the EU, even before Stoyanov's defeat. Bulgaria has a free-market oriented Government ran by former King Simeon; Romania has a social-democratic Government struggling to turn itself into modern social-democrats. Since they receive little foreign investment, and since their EU accession has always been low priority to Western Europe, such switches of Government bring little change in the fortunes of Romania and Bulgaria. So, if nothing changes, why the excitement?

The answer is, because some important things must change for these societies to catch up. While the change of regime in neither of the two countries needs be dramatized, doubts were raised, by serious authors¹, about the political will of former Communists to deeply reform their societies. The crux of the argument lies in the alleged support of former Communists by the poorest constituency as well as by the managerial class from state owned companies,

¹ The latest to address this point is Mancur Olson's posthumous book *Power and prosperity. Outgrowing communist and capitalist dictatorships*, London, Basic Books.

precisely the two social categories, which perceive having the most to lose from radical change and European integration. Constantinescu was a disappointment for Romanians, but during his time the Government, however, undertook major steps towards fiscal decentralization and the severance of subsidies for loss-making state industries. The UFD Bulgarian Government also achieved important progress in reforming the economy. While the current Governments are likely to follow in the steps of their predecessors, more than this may be needed, specially in tackling corruption and bureaucratic inertia, which are highlighted as serious problems in the European Commission's reports.

Even more challenging, however, is fighting chronic poverty in these countries, which is a task far beyond the local means. Compared to Central Europe, which has received important flows of foreign investment, South Eastern Europe, as most of the former Soviet Union countries, has seen only the dark part of the reform. This was certainly due to half-hearted reforms, as organizations such as the IMF always point out, but not only. These were poorer countries with harder communist legacies to begin with, and which had to perform the transition from command to market economy with practically no foreign investment.

Each time a leader of the rare breed of democrats and non-nationalists from Eastern Europe takes a downfall directly out of political life, as has recently happened with Stoyanov, Europe should ask itself if more should not have been done to prevent that. Regardless the quality of their leaders, the constituencies of Romania and Bulgaria have a keen sense that their transitions have got on the wrong track, and that ordinary people have become poorer and poorer. Voting leaders out of office periodically is the only powerful, even if poorly focused, alarm mechanism that ordinary people ring for the use of politicians.

Fig. 1. Communist times perceived better than transition on all accounts

Public mood on life and Government before elections³	Romania %	Bulgaria %
Satisfied with Government	14.7	15.4
Communism good idea badly put into practice	64.3	56.8
Parliament does not act in the public interest	86.9	77.9
Same people enjoy privileges now as in the previous regime	88	52
Corruption widespread or general in the public sector	69.5	63.1
Worse off now compared to Communist times	60.6	73.0
Economy better managed in Communist times	65.5	68.0

But how much can politicians do? To reduce corruption, they certainly can do a lot; but to diminish poverty in the short run and change the people's perception that they fare worse than in Communist times, they can do very little by themselves. And while EU accession is as a catalyst for administrative reform and adoption of free market legislation, it cannot help with curbing poverty in the short run, unless it is accompanied by significant external assistance, of the kind that Greece and Portugal received when joining the EU. However, nothing of the sort is likely to happen, and as long as it does not, the poor of Eastern Balkans will topple their reformers from office.

The EU enlargement strategy and its impact on South-Eastern Europe

The European Union has a twofold policy towards the Balkans: on one hand, to stabilize the region via cooperation programs, which was supposed to be managed by the Balkan Stability Pact, and on the other hand, to incorporate country by country as soon as individual countries are ready to join the EU. Formal invitations have only been made for Slovenia, Romania and Bulgaria; Croatia has an association agreement with the EU, and Macedonia also had an agreement, which was rendered superfluous by the 2001 conflict, but which may still play a role. This approach came short of acknowledging that the region is in fact not a region at all: it is united only by the superficial link of its un-readiness to join Europe, but due to different reasons, however.

Different countries face different situations and challenges. Former Yugoslav entities that are still de facto international protectorates, Bosnia and Kosovo, face tremendous problems of state building, whilst their economies are destroyed by war. The 'strong' successors of Yugoslavia, Serbia and Croatia, still have unsettled borders, crippled economies, and refugees with no real

³ Polls by CURS in Romania and Center for the Study of Democracy in Bulgaria

perspective of returning to their homes. Armed Albanian guerillas and national armies that still include war criminals, all connected in various illegal trans-border traffic schemes, complete the picture. Albania and Macedonia face many similar challenges. The issues highlighted above call for a specific set of priorities.

As regards Bulgaria and Romania, these countries proved able to master their inter-ethnic differences and face mainly one problem, development, calling for a totally different set of priorities. The EU's approach to South Eastern Europe has not only been poorly coordinated, but it has also failed to appropriately reflect the different priorities mentioned above.

Fig. 2. Presumptive dates of joining the EU

Luxembourg group	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Cyprus			*							
Czech Republic			*							
Estonia			*							
Hungary			*							
Poland			*							
Slovenia			*							
Helsinki group			*							
Malta			*							
Slovakia			*							
Latvia			*							
Lithuania			*							
Bulgaria								*		
Romania								*		
Turkey (**)										*

(**)Not negotiating negotiation * accession transitional periods

Sources: EurActiv's interviews, analysis and estimates, The Economist and news sources

The latest European Commission country reports conclude that all negotiating countries have made substantial progress over the last year in implementing the accession criteria. Only ten countries, however, that is all the candidate countries *except South Eastern European ones*, are considered able

to conclude the accession negotiations by the end of 2002, which would allow them to join the EU in 2004. The laggards are Romania, Bulgaria and, as usual, Turkey. Despite serious unsolved problems, Poland and Lithuania are expected to join with the first wave.

A look at the synthesis of the Commission's report outlined in Fig. 3 shows that economic reasons above anything else are preventing Romania and Bulgaria from joining. Their economies are considered to have made steps towards becoming functional markets, but they are still clearly not able to compete with EU economies.

The table also shows how many of the problems of Romania and Bulgaria are actually common problems to other EU applicants as well. Corruption is singled out as the most worrisome problem for the Czech Republic, Poland, Latvia, Romania and Slovenia and no country has yet reached the required standards. Judiciary reform is lagging behind, and so does police reform. No country is considered yet to meet the standards required in the fields of home and justice affairs.

Fig. 3. Last European Commission assessment on progress recorded by candidates

Criterion	CZ	ES	HU	PL	SL	BU	LV	LI	RO	SK
Functioning market economy able to cope with competition	++	++	++	++	++	+	++	++	+	++
Investment	++	++	++	++	++	-	++	+	-	+
Macroeconomic stability	+	++	++	+	+	+	++	++	0	++
Accountable Government, corruption	0	+	+	0	0	+	0	+	0	0
Reform of the public administration	+	+	+	+	+	+	+	+	0	+
Judiciary reform	+	+	+	+	+	0	0	0	0	+
Police			0	0	0	+				
Acquis	+	+	+	+	+	+	+	+	+	+
Minorities	+	+	0			0	+		+	+
Institutionalized children						0			+	
Media freedom			-						-	
Property reform, land market							0		0	
Borders				0			0			
Trade freedom									-	

Target achieved ++; considerable or some progress +; more is still to be done 0; regress or serious obstacle to accession - ; empty cells correspond to issues that were not touched by EC's reports in the case of specific countries

The European Commission report also states that any discussions within the European Union on the reform of policies or institutions should be clearly

separated and not hinder or slow down the accession negotiations. Candidates will be increasingly involved in the discussion of the future of Europe.

As to the economic situation, the EBRD says that growth in Central and Eastern Europe has weakened only slightly in 2001. "Most countries in the region proved more resilient to the global economic slowdown than other emerging markets," says the latest Transition Report, published on 20 November. The report forecasts 4.3% GDP growth for the region in 2001. The EBRD predicts that growth will continue in 2002, but at a slower pace, of about 3%. According to the EBRD, this is due to the ongoing reform efforts of countries to meet the conditions for EU accession, as well as to Russia's recovery, spurred by high-energy prices and a competitive currency. *However, the report warns that the reform efforts in the regions could be stalled in the absence of a clear perspective of EU membership, and highlights that customs union with the EU can cause commercial losses to the candidate countries, thus calling on the EU to take into consideration the interests of the candidate countries.*

The European Commission published its own economic forecast for the 13 candidate countries on 22 November, which concludes that:

- GDP growth in the candidate countries has been revised downwards by about one percentage point to 3.1% in 2001 and 2002.
- In 2003, when external conditions are expected to become more favorable again, a return to higher growth is anticipated.
- Due to more favorable external factors, inflation should decline from the higher levels experienced in 2000.
- Unemployment is increasing again in 2001 and is not expected to decline over the forecasting period, as a result of the continued need for enterprise restructuring and of the weaker economic growth.
- Aggregate external deficits are expected to remain approximately at their current level.
- General Government deficits are widening as a combined result of lower growth, counter-cyclical fiscal policies in some countries, and high transition-related expenditures.

From this brief review of the progress report and economic forecasts, some doubts over the EU policy towards South Eastern Europe emerge even stronger. The report itself implies quite an array of political and economical consequences:

- By passing an optimistic judgment on ten countries instead of just five or six, the remaining three countries – Bulgaria, Romania and Turkey – have to carry the extra-burden of not being considered able to improve substantially in the near future, in other words, the burden of

a pessimistic forecast, more than just a negative assessment of their current situation. In the case of Romania and Bulgaria, this forecast is mostly based on their general development situation, rather than on their current economic trends, so there is little these countries can do to change it.

- By postponing the edgy discussions on EU internal reform until after enlargement, the difficult adjustment of the EU to such a large wave of enlargement and to its long due internal reforms will fall between wave one of enlargement and the not-so-certain wave two (made at best of just Romania and Bulgaria). *This may even further deter wave two*, as the EU will need time to absorb shocks provoked by the huge wave one and the internal reform, and newcomers will be motivated to compete for existing post-accession funds rather than plea for new entrants. This surfaces occasionally in the attitude of the Czech Republic and Poland. It may well happen that some of the first entrants will become contributors to the club of those who want to shut the door. This happened before.
- By not granting any kind of reassurance to the poorest countries in the lot, that their inclusion at a later date is certain, the decision feeds skepticism towards EU commitment for the Balkans and may provoke serious EU-skepticism among political elites of these countries, already battered by parts of media and populist political actors. Individual country reports consider that investment in these countries is too low to sustain major growth in the long run, but such negative forecasts can have a negative effect on investors, thus acting as self-fulfilling prophecies.
- The inclusion of the first ten countries and the conclusion of the Home and Justice negotiations with Romania and Bulgaria next year means that the Schengen border will cut across former Yugoslavia. An essential item of enlargement policy will therefore affect the stabilization policy: East Balkans and Slovenia will have to cut themselves from former Yugoslavia. Regional cooperation is certain to be negatively affected. While the EU has moved to remove Bulgaria and Romania from the black list of visas, the Czech Republic and Hungary are pushed to introduce visas for their second-wave neighbors to the East for the first time in their recent history. This is already destabilizing the region, as it was proved by the Hungarians' attempt to solve this issue via the 'Status Bill', which extends citizenship rights to ethnic Hungarians living in neighboring countries.
- Once again, after reading the report, it becomes even less clear what is the role of the Stability Pact and indeed if such a Pact even exists, as it is practically not mentioned. The European Commission's position is made quite clear in the Regional Strategy Paper: "Against the background of the break-up of Yugoslavia, greater economic and

political stability in the region can only develop if the countries establish normal relationships between themselves. Each country will move closer to the European Union at its own pace." But can South Eastern Europe accommodate the basic contradiction embedded in the two EU policies towards the region, i.e. the tensions between the convergence policy of a weak, framework-type institution (the Stability Pact) as opposed to the divergent and competitive one (at least in attracting foreign investment and EU funds, if not more) of EU accession policy? The contradiction is obvious when one surveys the evolution of the trade over the past year. *Except for states which have yet serious state consolidation ahead, the rest strive to trade more with the EU than with the 'region', and they are quite successful at this.*

Solutions?

The French Foreign Affairs Minister, Hubert Védrine, put forward an argument that Romania and Bulgaria should also be included if the pool is to be made of ten rather than five or six countries. Védrine's suggestion, combined with other disquieting signals from the French media, such as a front page editorial by Le Monde arguing that a closer union of the 15 rather than a wide enlargement is what is best for Europe in the near future, provoked a storm among the candidates which see themselves close to the finishing line, and their allies⁴. Many observers considered this proposal as the latest move in the enlargement delay tactics game practiced by many member states. If everyone waits until Romania and Bulgaria are ready, then indeed the enlargement will be postponed endlessly. In the following lines we want to argue, however, that the Védrine proposal should be seen as an opportunity rather than a threat. *Instead of keeping other East European countries on hold until South-East Europe is ready, European leaders should rather make catching-up by SEE countries a priority.* The 'condemnation' of Védrine is due to the confinement of analysis only in the limited framework of very recent European influence games. Some historical background is needed to understand, however, European policy in Eastern Europe.

A brief historical review of the 20th century and its alliances in Eastern Europe proves immediately that little to nothing has changed. West European countries still see themselves as patrons of the same East European countries they supported back in 1918, at the end of the First World War. The reason behind this, be it administrative convenience or symbolic politics, is far from being fully clarified, despite theories on the matter being laid out. However, Germany did catch on the wrong step its Western allies when unilaterally recognizing Croatia and therefore Yugoslavia's break-up in 1991; France was the only champion of Romania for the NATO admission in 1997; Austria has similarly championed Slovenia, Italy – Albania, and so forth. In inter-war times, the report between countries endorsed by France and those endorsed

⁴ See *The Economist*, December 1st, p.28.

by Germany was far more balanced, even leaning on the French side. Nowadays it is totally unbalanced to the German side. Investment is also matching to some extent the foreign policy priorities, with Austria investing heavily in neighboring Slovenia and Hungary, France in Romania and so forth.

To delay the whole lot before admitting Eastern Balkan countries would have made no sense indeed. And, in fact, such proposals made after the decision is taken are less likely to mend the old wounds than to create new ones. What Romania and Bulgaria need is not that everybody else wait for them to be ready, but that their serious constraints are addressed by more help and that some form of reassurance that they will be included is given. Such a reassurance is specially needed to attract foreign investment. In this new environment of economic contraction, why would an investor be attracted by such gloomy places, designed by every forecast as falling beyond Europe's border, at least for the years to come? As Fig.3 shows, Romania and Bulgaria emerge indeed from EC's reports as doing worse, but only at the economy criteria. Their economic poverty, despite robust growth under way in both countries in 2001, is further aggravated by lack of investment, and was seriously affected by war in former Yugoslavia. There is a vicious circle between lack of investment, lack of sustainable development and poor outlook.

And it can get worse still. Turkey was closer to Europe a few years ago than it is now. Chronic political problems can finally cripple economic recovery efforts. What if Romanian trade unions take advantage of the Government's pullout from subsidizing energy and bring down the reformers? What if the new Bulgarian President cannot cooperate with the fast popularity losing free-market Government and anticipated elections occur with a full return of anti-reformers? The more years it takes to join the EU for a country the greater chances are that some risks may occur and highjack the whole project. There is no guarantee these years will bring along only positive developments. Rather, as Turkey's example shows, things can get worse due to chronic prolongation of austerity fiscal policies and poverty.

Without an increased European commitment the outlook is poor for South Eastern Europe. Passive endorsement by Western leaders of this situation, however, by granting less attention and investment instead of more to South Eastern Europe, can only lead to a reinforcement of the vicious circle and the setting of the European border north of the Balkan Peninsula.

POLITICS & LEGAL

Last year electoral promises return to haunt the Romanian Government. Media quiet, political opposition still feeble, but people take to the streets

TREND ANALYSIS: POLITICAL DISCONTENT ON THE RISE, ALTHOUGH PM FARES WELL

The recent progress report of the European Commission brought little surprise. As predicted⁵ the Commission did find some progress in areas such as minorities, only limited progress in the fields of administrative and judiciary reform, and no progress in environment. The report acknowledges however that Romania has finally a Government able to push its bills through Parliament and compares favorably the Nastase Government with the previous, coalition-based Governments. The date for the admission of Romania can at the earliest be 2007, and the first wave of admissions might well include more than the previously forecasted five countries⁶, but the former news is not really news, and on the latter it is not clear yet how it will affect Romania. More entrants means a larger effort of adjustment of the EU spending budget and internal decision mechanisms, which may benefit Romania by the time it is ready, but it may also scare off EU constituents

⁵ See EWR 6.

⁶ It may actually include ten, including the Baltics and Slovakia, and leaving out only Romania, Bulgaria and Turkey.

from further enlargement. So, should the Romanian Government celebrate or rather fret over the last political developments?

Fig. 1. Satisfaction regarding democracy

	%
Very satisfied	32.9
Not at all satisfied	67.0
No answer	0.1

Neither. Instead, the Government should simply be concerned with the almost perfect mechanism it managed to put in place. Only seldom can one hear nowadays, on TV channels, open criticism towards the Nastase Government; also, since Government policies were sensible, from the budget to the treaty with Russia, criticism by the political opposition in

Parliament can only be rhetorical if not plainly demagogical. The public, however, does not feel represented in the media's agenda, nor in the Parliament's. The main concern of the public continues to be not the treaty with Russia, not the European integration, but the social disparities, the inequity and the corruption, which sent many thousands to participate in various street protests in November.

Figures show that, while Romanians very realistically acknowledge that the

Fig. 2. The range of anti-democratic options

	Agree %	Disagree %
If Parliament was closed down and parties abolished, would you...	19.4	71.8
Best to get rid of Parliament and elections and have a strong leader who can quickly decide everything	30.2	65.1
The army should govern the country	13.2	80.7
Some people take advantage of every regime while honest people like me continue to strive hard to survive	82.3	3.9
We should return to Communist rule.	17.7	77.8
A unity government with only the best people should replace government by elected politicians	59.2	31.9

current Government is not at all a bad Government when compared to previous ones, discontent against the political system as a whole and the political class is growing and the figure of those believing corruption is widespread is on the rise. 67% of the Romanian adults are dissatisfied with the way democracy works, while 86% consider that others are doing better than they are in a dishonest way. The fact that this social frustration is not based on residual authoritarian attitudes is confirmed by the lack of appeal of anti-democratic alternatives. Romanians loathe their political system and their political class, but a majority would defend the Parliament or the political parties if they came under attack, and would disapprove a military regime or a

return to Communism. However, most people would indeed prefer a non-political Government⁷.

Fig. 3. Subjective corruption

	CURS-SAR March 2000	CURS-World Bank May 2000	CURS- Eurobarometer October 2001
	%	%	%
Almost no public officials are engaged in it	1.4		0.4
A few officials are engaged in it	26.8		10.7
Most or all public officials are engaged in it	65.5	63.0	86.2

Within the Government’s party constituency, a long due process is finally happening: someone younger than Ion Iliescu starts being acknowledged as a

Fig. 4. Political option

	%
Adrian Nastase	26.9
Ion Iliescu	23.1
Corneliu Vadim Tudor	14.9
Theodor Stolojan	9.6
Traian Basescu	8.8
Mugur Isarescu	2.8
Teodor Melescanu	2.6
Marko Bela	2.4
Petre Roman	2.2
Emil Constantinescu	1.4
Mircea Geoana	1.4

successor to Presidency. Prime Minister Adrian Nastase is the first to achieve this performance, his ratings being boosted by the fair performance of his Government, the peaceful cohabitation with President Iliescu, whose role is shrinking daily in both foreign affairs (where he never really mattered) and domestic ones (where he used to have an important role); and last, but not least by the preferential treatment he receives from the media (see Media section below). The media attention or rather lack of attention is very damaging for

opposition leaders; even those who continue to be real newsmakers, such as the Mayor of Bucharest, Traian Basescu, are confined to the third plan, below Government leaders and Vadim Tudor.

How to address popular discontent. Anti-corruption

The Government has recently published the anti-corruption national strategy. Long prompted by international organizations such as the World Bank and the EU, the strategy was badly received by an increasingly cynical public, despite its essential sketch lines addressing for the first time the core of the issue. The media also treated the strategy lightly and skeptically, emphasizing the stress on the petty corruption, which was interpreted as lack of political

⁷ CURS October poll for SAR, Euro-Barometer.

will to attack on the grand corruption. The stress on petty administrative corrupt behavior makes a lot of sense, however. Evidence shows that personal negative experience in dealing with corrupt civil servants is feeding the public's perception of widespread administrative corruption⁸. Sending positive signals by tackling grand cases of corruption is no more important, therefore, than handling widespread petty corruption. The strategy addresses for the first time important areas, such as limitations of the MP immunity status (which would require a constitutional change), but also fails to be really practical on key areas. Here are the most important of those:

Overall regulation of conflict of interest

The action plan outlines the need to regulate conflict of interest. However, it does not say exactly what needs to be done. A good start would be to acknowledge that regulation of conflict of interest and enforcement of already existing such regulation was constantly sabotaged by lack of political will. There have been previous attempts to separate business and politics in the last decade, and we should examine carefully what made them fail before embarking in promises on future moves in the same direction. The simple conclusion is plain: previous moves were shipwrecked by the very same parties that initiated them. Even President Iliescu endorsed an unsuccessful bill stipulating MPs could not seat on the Board of privatizing companies during the Vacaroiu Government, a bill sunk by the then Government coalition in the Parliament. In 2000, it was also the current Government party that sponsored many union leaders on their electoral lists. The real question is: what makes the situation different in 2001? Are Mr. Iliescu and Mr. Nastase either more powerful or more committed to confront the issue within the ranks of their own power base? If the answer to this question is no, then nothing can be done. Conflict of interest is not only widespread practice in Romania, but it is embedded in some of the new legislation as well⁹. The 1996-2000 Government sponsored this development, just like the current Government. Is there the political will to tackle this? At least formally, nothing is simpler than drafting a conflict of interest framework bill and pass it through Parliament¹⁰. Enforcement, of course, is a different matter altogether, but at least such a move would give a signal and would represent a place to start. The bill should be a simple and brief framework-type regulatory act, formulating clear principles and penalties that would supersede the previous legislation in every field.

⁸ See Politics section, EWR 2/2001.

⁹ An example is the 1998 revision of the Public Television Law concerning the composition of the Board, the only such legislation in Europe that makes conflict of interest legal.

¹⁰ There are ready-made packages available, such as the US Agency for Government Ethics' one. No Romanian political party was interested to endorse them so far.

Regulations against employment of close relatives in public agencies should also be enacted. If this is not done, the whole anti-corruption strategy becomes superfluous.

Tackling corruption of law and order agencies

Special treatment is needed for special cases, and these mean especially the corruption within law enforcement agencies and the judiciary. Heavy repressive campaigns like the one led by Minister Rodica Stanoiu are unlikely to solve the problems and can even be interpreted as political tampering with the freedom of the judiciary as in the European Commission's last progress report¹¹. It is the basic organization of these institutions that is defaulting here, and if this is not addressed as a main policy target the whole process becomes hopeless.

The lack of effectiveness of these agencies in delivering law and order – which are badly needed in the society – is shown in the unpredictability of every of their acts, and is a consequence of their general lack of transparency. The latter, in turn, derives from their very organizational status. The strategy admits that over-regulating the administrative procedures is at the core of the administrative corruption, and plans for simplification in this respect. However, the same step in proposing de-regulation is not made in what home and justice affairs are concerned.

The draft status of the police is a poor one, leaving the police very much centralized and hierarchically organized, with no clear provisions for horizontal accountability, the only one that could actually work. Law and order is a service for communities, so communities should be provided with some possibility to make accountable those who fail in providing them. The position of local Government in the accountability mechanism for local police in the current bill is unclear or inappropriate on all accounts.

The same goes for the Prosecutor's Office. The simple evoking of 'management' related to prosecutorial work is not effective. The whole status of prosecutors needs revising, and this opaque and ineffective institution, plagued by Communist-time institutional culture, must be essentially reformed.

This is merely saying that the best way to attack corruption in these institutions is through their long due structural reforms. They had long had power over citizens, it is time they are re-drawn as deliverers of an essential public good – that is law and order – and held accountable for the quality of the services they provide.

¹¹ See '2001. Regular Report on Romania's Progress Towards Accession' pp.20 ('The judicial system')

Using instruments already at hand

Another weak spot of the strategy is that it does not make proper use of instruments already at hand. Romania suffers from the endless multiplication of ineffective legislation. It has also passed since 1999 a number of laws with a potential impact on accountability, the last most important one being the 2001 Freedom of Information Act (FOIA). This bill is actually an accountability bill, asking every public agency to make transparent records and reports on the spending of public money, one such report having to be published in *the Official Gazette* (Monitorul Oficial) every year. It also requires that every non-classified piece of information must be made public *ex-officio*.

If the Government is serious about its anti-corruption fight, then it doesn't really need an anti-corruption law (besides conflict of interest regulation) other than FOIA. If public agencies disclose to the public the reasons behind selecting certain companies or agencies in a bid, most of the corruption behind such selection processes would be prevented.

The political will is best shown by using already available tools, not by proposing further strategies or legislation. Here is the test case for the Government. This transparency act, successfully passed due to the good collaboration between a responsive Ministry of Information and civil society organizations, must be implemented as a full-fledged anti-corruption strategy. If it is reduced by reluctant implementation to the mere status of a 'rights' type of act, its impact on the reform of the public sector would be limited and so will the credibility of the whole anti-corruption process.

FOCUS: IS ROMANIAN MEDIA UNDER ATTACK FROM THE GOVERNMENT?

In recent weeks much public debate focused on the alleged control of the Romanian media by the Government. The debate was centered on two focal issues: the issue of the television coverage of alternative points of view from that of the Government and the status of the National Press Agency Rompres. Rather than examining these controversial issues, this Report will concentrate on three points, namely:

- (1) whether the claim that the media grants a more extensive coverage to the Government than to any current or would-be political opponent, can be objectively substantiated;

- (2) whether the causes of the uneven coverage lie within the realm of Government intervention, as alleged;
- (3) policy options to address the problem.

1. On the editorial independence of the Romanian press

Foreign analysts tend to be extremely critical towards both the independence and the ethic and professional standards of the Romanian media¹². In a singular approach Richard Hall argued that the main problem of the Romanian media is its domination by characters with important ties or overt political sympathy towards Ceausescu's Securitate¹³. The latest European Commission report also pointed out strongly that the current libel legislation is endangering press freedom without solving the problems of media ethics¹⁴. However, only few reports of Government intervention came out in the last years.

A report of the Media Monitoring Agency from the week of October 2-8 2001 shows that there is some truth to the allegations mentioned above. Although that particular week was just an ordinary week, with no exceptional events, the Prime Minister and the President featured in 37, and respectively 27 news and current affairs shows, while the main opposition leader, the Mayor of Bucharest, a constant newsmaker, featured in only two (the same being the case of the other two main opposition leaders). The Government party itself featured 12 times, six times more than the Bucharest Mayor's party (the Democratic Party). The Agency produced evidence for only that particular week, and regarding only four TV channels¹⁵, but there are serious grounds to believe that the situation is not very much different in any other given week.

One can argue that opposition leaders have been unproductive in terms of news-making, but this cannot possibly account for such a difference. Equally, whilst the media coverage of institutions such as the Presidency or the Government is justified by their news-making potential, one could hardly argue the same in what the Government party is concerned. If we look at the most sensitive spot of reporting in general, that is investigating journalism, the picture is complete: nothing that can claim belonging to this genre, no corruption or fraud investigation, was aired during the reference period.

¹² Gross, P. 1996. *Mass Media in Revolution and National Development: the Romanian Laboratory*, Ames, Yowa: University Press

¹³ Hall, in O'Neill, P. 1998. *Post-Communism and the Media in Eastern Europe*. London: Frank Cass

¹⁴ See '2001. Regular Report on Romania's Progress Towards Accession' pp.79 ('Culture and Audio-visual')

¹⁵ TVR, ROTV, Antena 1 and Prima.

Regarding the Rompres agency, this, by definition, was more of a distributor of official information than a real news agency producing its own news stories, so it can hardly be blamed for being biased. Besides, no accusation of the kind was bestowed. The Rompres reports are rarely quoted, except when journalists need precise wording of official statements. Even if Rompres would violently swing in favor of the Government party, the media community would hardly notice such a development. Chronic lack of funds and sheer neglect by authorities has kept the Agency in this pitiful state for most of the last decade.

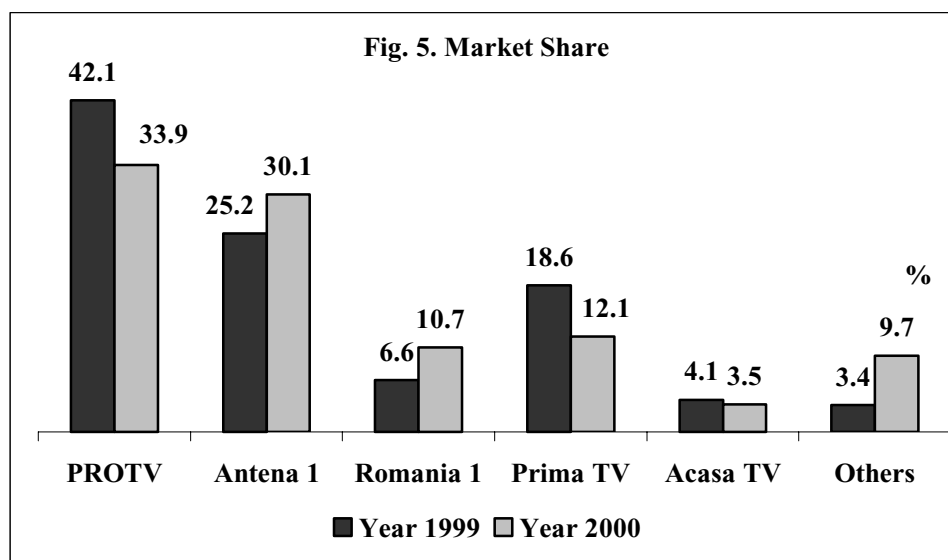
2. The case is proved only for electronic media. But yet it is not clear if the situation was caused by the political intervention of the Government or by other factors.

The notorious case of political interference has always been Romania 1 (the main public TV channel). The clear incidents, such as the irregular dismissal of the News Director of Romania 1, Dan Lutan, received little attention in the Romanian private media, which as a general rule and with few exceptions welcomes anything that might weaken the public television. And indeed the replacement by an interim character with no authority or real influence led to the famous instance of Romania 1 missing the start of the war in Afghanistan (while the main private channels were broadcasting live). The media committees of the two chambers of the Parliament, who had repeatedly tried to fire the whole Board of Romania 1, did not intervene when the News Director was fired under dubious circumstances, but was quick to try once more to fire the General Director of Romania 1 when the channel missed the news from Afghanistan. The whole situation is actually due to the inferior status of the News Director within Romania 1, as compared to any European public television. As a general rule, the News Director is entitled to intervene in the program at any time when a breaking news situation arises. At Romania 1, however, this was only exceptionally done. The reason is that the content of such real time interventions cannot be politically controlled, and the channel's managers are reluctant to take any risk of upsetting the politicians who have an important say over their fate. Therefore, the failure of Romania 1 to produce good breaking-news can be seen as a direct result of a tradition of political interference and lack of self-assertiveness in gaining editorial independence. To set the record straight, all successive Governments, with no exception, have contributed to this situation.

The case in what private television is concerned, is more difficult to make. There are no credible reports of direct political interference¹⁶. Furthermore, private channels are not compelled by law to be non-partisan. However, in

¹⁶ An important journalist, Stelian Tanase, accused Antena 1 of working with 'black lists' – that is of forbidding the invitation of certain opinion-leaders. However, Tanase made this argument public only after it became clear that his contract as a talk-show host would not be renewed.

the specific cases of the two main private channels, the case can still be made, since one of them belongs to a politician who runs a party, which is a minor government coalition partner, whilst the other is allegedly having serious tax problems, so it is financially vulnerable. The Government, therefore, hardly needs to display any overt political action to bring these channels in line.



The situation of Rompres is again paradoxical. Despite being so little influential, Rompres is institutionally subordinated to the Government. The director of the agency was always appointed by the Government, but the Nastase Government proposed an innovation which has proven to be detrimental, to the Government's image more than to the agency's, which anyway has a limited credibility and a very small market share to lose. Following the Government ruling HG 13/2001, which subordinated the agency to the newly created Department of Information, HG 886/2001 turned the director into a secretary of state working within the ministry, and Rompres staff into civil servants. The move is wrong from every point of view. Although the wish to boost the weak revenues of Rompres staff was certainly the driving factor more than the desire to keep firm control over the national news agency, the ruling increased the number of civil servants at a moment when the European Commission is requesting for its reduction, and it furthermore includes the agency within a ministry, which is definitely not good practice in a democracy. While a number of news agencies are still pending as state agencies in Western Europe, more as relics of the time of big states, none is part of the Government. To be funded by Government and

¹⁷ An important journalist, Stelian Tanase accused Antena 1 of working with 'black lists' in other words of forbidding the invitation of certain opinion-leaders. However, Tanase made this argument public only after it became clear his contract as a talk-show host was not going to be renewed.

have the chief executive appointed by the Government under a clear status of editorial independence is one thing, but becoming 'Government' is a totally different story. The move attracted international warnings¹⁸ and had made the object of a political campaign by the opposition Liberal Party and a score of NGOs. The Liberal Party MP Mona Musca has managed to obtain the endorsement of the media committee of the Chamber of Deputies for her draft, which proposes turning Rompres into an agency subordinated to the Parliament.

The Government has a weak case. All Governments do, when it comes to owning media. As a recent study by the World Bank in 97 countries, including Romania, showed, 'More often than not, market failures pale by comparison with Government failures... Government ownership of the media is detrimental to economic, political, and – most strikingly – social outcomes. (...) Government ownership of the media is generally associated with less press freedom, fewer political and economic rights, and, most conspicuously, inferior social outcomes in the areas of education and health. It does not appear that adverse consequences of Government ownership of the media are restricted solely to the instances of Government monopoly.'¹⁹

It is not clear how Rompres will become a professional and self-sustaining agency if it is part of the Government. However, this is also not clear in the event it becomes subordinated to the Parliament. The example evoked by the Liberals, namely Romania 1, is far from being a success. The market share and consequently the revenues from advertising of the public television have shrunk dramatically since its subordination to the Parliament, despite a financial bailout by the Government on the occasion of the 1998 revision of the law. Public television is now ranked third nationally despite its *de facto* monopoly on broadcasting in rural areas. Furthermore, Rompres cannot compare with Romania 1 or the public radio. It has no revenue from a license fee or from advertising, so it is strongly dependent upon two sources of funding: direct Government contribution and selling of its products. The latter has never managed to become large enough for Rompres to even dream of self-sustainability. The agency lives therefore in the vicious circle of many Government-managed agencies: chronic under-funding leads to poor products, poor products do not sell and therefore do not produce revenues, thus reinforcing the financial dependency on government funding. In neither of the political solutions proposed is this matter properly addressed, even though the Liberal proposal of having the agency cut from the Government is, of course, an improvement. It is only an illusion, however, to believe that quality journalism can emerge out of poor funding and political subordination in any form.

¹⁸ Such as from the Stability Pact.

¹⁹ Simeon Djankov, Caralee McLiesh, Tatiana Nenova, and Andrei Shleifer, 'Who Owns the Media?', World Bank, June, 2001. The study examines the patterns of media ownership in 97 countries around the world.

What is then to be done? Regarding Romania 1 or the public radio, whose audience is also shrinking due to poor programs and competition from the private sector, there is little opportunity for change. The Government was wise to avoid dismissing the Boards of these institutions, which leaves no room for serious accusations of political intervention. *As for the rest of the electronic media (i.e. the private stations), one cannot realistically build a case against the Government for what journalists and managers decide by themselves.* Transforming electronic media from private to really plural is a delicate and complex task to be undertaken by the Broadcasting Board and the civil society.

Policy analysis can only point to defaults in the current regulation of media monopoly in Romania. Most countries would forbid one owner from controlling assets in electronic media, print press and wire agencies. *But again the problem is less at the formal than at the informal level.* Romanian media has received little foreign investment and, therefore, by the late '90s, a complex initial pattern of ownership started being replaced with the domination of a handful of domestic businessmen. The model that is beginning to take shape is similar to the 'Turkish' model, namely of strong ties between business, politics and media, with media being constantly used as assets in trading influence and occasionally abused for blackmail or propaganda purposes. Businessmen subsidize media outlets in order to have such opportunities open and not to turn a profit, and the Government operates more on the basis of occult deals than through open and repressive intervention when this can be avoided.

Each Government has walked in this trap willingly: so far, nobody decided that the best protection for a public executive from libel is to have higher ethical standards towards everybody, not just public executives. Presidents Iliescu and Constantinescu both allowed the General Attorney to defend them via an outdated article in the Criminal Code, which punishes 'offenses against an authority' instead of simple libel. Neither of them won, as such cases fall under the freedom of the press area and Courts fear to rule against the journalists. The latest European Commission progress report also criticizes this legal provision, considering that it can only serve to limit press freedom.

On the Rompres case, there are however certain things which can be done. The crux of the matter is to break the vicious circle between under-funding and poor performance. This is what must be addressed as the essential matter. A poor Rompres will always perform poorly and depend on subsidies from the Government, regardless whether it is subordinated to the Parliament or not. Board appointees by political parties are certain to be incompetent administrators as these are considered second-rank positions for parties' clientele.

Rompres should be privatized on the model of the French agency AFP. The public should remain a stakeholder and Board seats should go to the Department of Information and journalists associations. However, the managerial decision should rest with the owner. The owner company should

be selected after a public bid where it should prove that it has the experience and the financial backup of such an operation, and a clear contract should be drafted to require some guarantees in case things go wrong. Major shareholders in other media outlets and owners of other domestic wire agencies should be forbidden to run.

The only danger of this approach is that maybe nobody would crowd to buy Rompres. The product is not really attractive. Its main private competitor, Mediafax, has been experiencing strain and had to layoff journalists in the recent months. Even under such a circumstance a privately-managed Rompres would be much better than a state-managed one. The other risk is that the agency may prove unfit to live on its own even after passing into private hands. Then it would go bankrupt. If such a sad development becomes unavoidable, we should remember that Britain, which has the oldest free media, has no public news agency at all. Private Reuters is managing well to cover by itself both domestic and world news. In any event, even if the Liberal draft continues its trajectory through the Chamber of Deputies committees and then to the plenum, an article should be introduced specifying that the future Board should have, with the Government's agreement, the power to decide privatization. Ruling out even partial privatization of the public broadcasting companies proved to be a financial disaster for the second public channel, TVR2, which never managed to develop neither an attractive identity, nor audience.

SOCIAL

The 2002 budget triggered labour unrest, but the trade unions have their own agenda and will not necessarily derail the Government. However, there are pockets of poverty like the Jiu Valley where the situation is serious.

TREND: SOCIAL PROTEST AND TRADE UNIONS' MOTIVATIONS

By Sorin Ionita

At the end of November the Romanian Government had to face a sudden wave of public protests by the main trade unions and federations. It was not so much the intensity of protests (not exceptionally high), as their broad base that surprised the analysts: federations representing the industry, as well as public sector unions, with education and health care at the forefront. SAR organized a focus group with union leaders in order to explore the motivations and intentions of the social partners in the near future.

Sources of discontent:

Two main causes were mentioned by virtually all of the union leaders, irrespective of their sector of activity:

- The Government broke the Social Agreement signed with the trade unions at the beginning of its mandate.
- The provisions of the 2002 state budget, which is said to be either too austere or incoherent in some points (for example, in the treatment of arrears of the large state owned companies).

Besides, there are other, more specific issues that concern the unions, like the minimal salary level (deemed as being too low) and the reform of the pensions law, which restricts the extra benefits for special working conditions and raises the retirement age to 65 for men.

The first point deserves special attention, because it is sign for an unwelcome development: over-encompassing social pacts are negotiated and signed even though both partners know they are unfeasible and will not be fulfilled. As it turned out, the unions were perfectly aware that the Government would not be able to implement the social pact, but that it needed it in a delicate moment when the stand-by agreement with the IMF was being negotiated. “It was a carefully orchestrated PR campaign, and everybody knew from the very beginning that the agreement was unrealistic”, admit the union leaders in private. However, they went on with it because this was also “a PR campaign for the unions”, as they candidly admit – that is, the unions need from time to time to take part in broad social negotiations just to be able to show some action to their members and thus preserve their legitimacy.

When asked whether they would sign a social agreement in 2002 if again the Government comes with unrealistic promises, the trade union leaders offered diplomatic answers: in general, it depends on what promises are on the offer – but the general idea is that yes, they would. *They perceive a long-term advantage in being part of the negotiation process, no matter what the results are.* The Government would be well advised to note this. Moreover, the last wave of protests did not occur in August, the deadline for implementing most of the provisions of the Social Agreement, but in October-November, when the draft of the 2002 budget was finalized and made public. Which only strengthens the idea that the distribution of public resources is what really matters. On the other hand, since for the first time after 1990 the budget was submitted to the Parliament within the legal deadline rather than five or six months later, the Government may have an easier life next spring. The recent events serve as a confirmation that in Romania the organized social protest closely follows the budgetary cycle.

How to cope with unions' demands

When union action occurs with such a broad social base as it was the case this autumn, there is a wide variety of problems raised on the public agenda. They can be summarized into two broad categories.

First, reformist policies pursued by the Government trigger the opposition of the stakeholders involved, because most of them fear that they would end up as losers. This is something that happens everywhere in the world, but the scale and the pace of reforms in a post-Communist country make the problem more apparent.

- The unions in the education sector do not like the study fees, and in general resent the idea of schools and universities having to raise funds themselves, on top of the public money coming from the budget. Equally, they oppose decentralization in primary and secondary education, because once the responsibility is transferred to local Governments, the coordination of actions by union confederations based in Bucharest will be more difficult. In general, trade unions do not want to discuss with anybody else than the cabinet members and the top officials from the Ministry of Finance (they even gave names of possible partners of dialogue). They oppose in principle any kind of rationalization on economic grounds (consolidation of schools, hospitals, etc).
- The current PAYG (“pay-as-you-do”) state pension system is a time bomb, and needs an urgent overhaul, plus the introduction of a private component. Everyone agrees that even the current meager level of benefits is unsustainable, the retirement age is too low, and the early retirement and the handicap pension schemes are abused.
- The speeding up of privatization is a must, but social concerns are high in the large state-owned companies. It is understandable when trade unions leaders try to protect their members, but sometimes they go much beyond their mandate and meddle into the management process (see the Focus section in this issue on the Jiu Valley mining area), derail privatizations (*Semanatoarea* case), or at least try to do so when they are part of lucrative arrangements to siphon off funds (*Sidex*).

Even though claims like these from the unions are unreasonable, there is no other way for the Government but to keep the social partners engaged in negotiations, while gently pursuing its policy. Contrary to the common belief, the established trade unions in Romania are not very strong, and the only alternative to the organized social protest are the spontaneous urban riots. On top of that, the Government should do a better job in explaining its reform plans to the general public, who is presumably the main beneficiary, and hence rally the silent majority in support of terminating vicious social allocations.

Second, the trade unions raise sometimes reasonable points that deserve closer consideration, even though their proposed solutions are not always entirely correct.

- The salaries in most of the public sector are very low, which discourages professionalization and undermines the policy capacity of the Government. The budgetary constraints are harsh and the current agreement with the IMF to cap public spending actually enforces these constraints. But it is the fault of the successive Romanian cabinets that they have never had a real strategy to restructure the state apparatus and rationalize expenditures. Across-the-board staff cuts were implemented (or discussed) from time to time, irrespective of the social mission or the performance of particular public agencies, just to be subsequently reversed through new hirings. New public bodies pop up everywhere and very few, if any, are dismantled when they complete their mission. Small wonder that the money for salaries grow thinner every day. An awkward and poorly targeted food stamps scheme reached national proportions and became a means for public and private employers to avoid taxation – which is one more example of incapacity in the Romanian Government to set social priorities (a thorough analysis of food stamps will be part of the next issue of EWR). Urgent action is needed in order to fix the problem and take this stick from the hands of the unions.
- Faced with the alternative of high taxes in order to maintain the current level of social service provision, or lower taxes plus a reduction of social benefits, the Romanian unions, unlike their Western counterparts, do not have a clear position – high taxation is very unpopular these days in post-Communist societies. Their leaders agree that businesses should come first, that SMEs must have a favorable environment for years to come and that Romania needs foreign strategic investors. But how could the circle be squared, nobody knows for sure. The Government should explain honestly to the public this dilemma and try to reach a compromise with social legitimacy. The current official discourse, hinting at miraculous formulas to combine low taxation *and* high public expenditure, is merely wishful thinking. It is possible that in the long run the fiscal reform may lead to more revenues with lower taxes. But this is far from certain anyway, creates unreasonable expectations amongst the population, and give the unions new lines of attack.
- When a large state owned company is privatized with a strategic investor, it is better to get the unions involved from the very beginning in the process and have them sign the social provisions of the contract. This is one of the things that the unions now request. We have seen in the last years that a privatization process, which is relatively open, makes the final results more stable and avoids open conflict. Take *Resita* as a negative example, and *Sidex* as a positive one. Even when the grace period negotiated expires and the new owners are allowed to make layoffs, the situation is much less dramatic since the process is predictable and the Government can avoid being involved.

The whole idea that painful staff adjustments, privatizations and reallocations of social resources have to be kept secret from trade unions is counterproductive. The social partners may prove obnoxious or poorly informed, and slow down the policy-making agenda. *However, in a democracy the process is at least as important as the results.* There are no other ways to promote social learning and avoid open conflict but transparency and the inclusion of stakeholders in the decision-making structures.

Problems in the trade unions' structure

The Romanian union confederations have not learned yet how to play their role in normal, three-party negotiations. Actually, there have been very few occasions when the owner of a company is present and the state is just a mediator, as the theory says. In fact, most of the labor conflicts and negotiations in Romania go on between the state (as owner) and the unions, whilst the labor organizations represent almost exclusively employees from the state sector. The Government is a very special owner, because the larger the company in question, the more the general political considerations tend to prevail over the local economic or even social ones. Unless the heavy industry is privatized, the state will always be in the uneasy position of player and referee, and the unions will exploit this opportunity to put Governments in defensive.

While there is a good for Governments and unions alike to sacrifice the geometry of ideas in order to have an agreement of whatever sort, the practice of signing social pacts with unworkable provisions should not be pushed too far. In the end, it might de-legitimize both parts and the disgruntled workers may resort to violent action, by-passing the channels of communication controlled by the established union organizations.

Finally, it would be good for the union leaders to resist being coopted by the ruling party, whichever that is. If unions begin to be perceived as cadre schools for the political parties, their legitimacy will be badly compromised. The argument goes the other way too: the Government should not deliberately attempt to colonize a labor movement, which is anyway feeble, and barely in control of its functions. Without a credible social partner to talk to, it will be much more difficult to diffuse social tensions when they arise.

FOCUS: SOCIAL PROBLEMS IN THE MINING AREA JIU VALLEY²⁰

Jiu Valley, a mining area with a century-old history of industrial problems and violent labour protest, has been a center of social unrest after 1990. The state-owned mining companies (regies autonomes) located there, flagships of the Communist industrialization, have faced economic hardships ever since the old regime collapsed more than one decade ago. Every time when the Governments tried to restructure the mining sector or the salaries arrived late, the trade unions reacted strongly, sometimes crossing the borders of legality (the “mineriads”). This behaviour made the whole region appear as closed and unfriendly to business, and even though it was declared a special industrial zone in 1998 – and thus under a special tax treatment – few companies tried to benefit from these exemptions by setting up shop in the Jiu Valley. The area, therefore, has remained mono-industrial, tied almost exclusively to the ups and downs (but mostly downs) of the mining industry.

In 1997 the former center-right Government tried to tackle the situation by implementing a broad restructuring plan and massive personnel cuts. In less than two years 18,343 miners were fired, with severance payments up to the equivalent of a two-year salary. Roughly 87% of them were laid off in a huge wave in the autumn of 1997, without a reconversion program in place to supplement the financial compensation package. In spite of the stated interest of the international assistance agencies, who targeted with programs either the unemployed miners or the small private entrepreneurs, nothing changed much in the general picture of a depressed region offering little employment or business opportunities.

Unemployment – decreasing officially, increasing in the underground

The overall population of the Jiu Valley in 2001 is of 164,000. There were 10,672 registered unemployed persons in November of this year, and the figure has been going down for most of this year – not because the economy is picking up, but because for many of the unemployed the legal support period comes to an end. At the beginning of November, the benefits were terminated for 6,039 former workers, and these are only the officially

²⁰ For the purpose of this material SAR’s team discussed with the Petrosani local government, Hunedoara prefecture, the managers of various assistance programs located in the Jiu Valley, the Petrosani police and the representatives of the National Mining Company and the unions.

registered with the local labor offices. It is believed that the real figure is at least twice as high.

As a matter of fact, with the fall of 2001 begins a very difficult time, when the massive tide of miners laid off in 1999 runs out of unemployment and support benefits. The official numbers are deceptive, because of the informal unemployment and the fact that many persons are transferred on the welfare support lists of the local Governments. There is no evaluation available on how many of the families used to rely on a salary from a mining company.

Fig. 1. Welfare and emergency support from local Governments, Jan-Jul 2001

Town/City	Welfare support		Emergency support	
	Number of recipients	Amount (ROL)	Number of recipients	Amount (ROL)
Aninoasa	78	248,333	233	544,500
Lupeni	368	1,374,768	1072	2,580,500
Petrila	233	177,794	268	738,000
Petrosani	367	1,490,337	594	1,658,500
Uricani	123	444,899	419	979,000
Vulcan	340	1,202,012	1061	2,637,500

According to the data available, the municipalities most in distress are Vulcan and Lupeni, where the number of persons assisted reaches almost 10% of the total population and makes the situation financially unsustainable in the long run. In Petrosani, the unemployment rate in July 2001 was at 43%.

Fig. 2. Unemployment in Aug 2001.

Town/City	Unemployed – registered and paid	Paid Unemployed	Professional reintegration aid receivers	Welfare support	Assistance receivers based on art. 45 OUG 98/1999	Requests for workplace
Petrosani	3135	623	213	938	252	1109
Lupeni	2964	365	190	429	0	1980
Petrila	2077	278	86	409	101	1203
Aninoasa	690	76	5	52	5	552
Vulcan	2312	325	82	425	2	1478
Total	12 178					

Conclusions:

Although job creation was declared top priority in the area, the unemployment rate has stabilized at a level about five times higher than the national average.

The official data that show the unemployment going down ignore the situation of those persons who drop off the unemployment support program and gave up looking for a job. Their number is estimated somewhere between 6,000 and 12,000 and, though technically speaking they are no longer part of the labour force, their situation is no less concerning.

Long-term unemployment went up as a share of the total unemployment, since the only sources of income remain the welfare support from local Governments and the seasonal jobs that do not offer formal employment and social benefits.

Local Governments are barely able to cope with the social problems

Petrosani, the largest municipality in the Valley, and hence the place with the best development opportunities in the area, can serve as a best-case scenario

Fig. 3. The number of inhabitants in Petrosani

Year	Inhabitants
1992	52 390
1995	53 010
1997	53 662
1998	53 195
2000	50 586

for the social and economic trends. If Petrosani cannot cope, the situation should be definitely much worse in other, smaller communities.

As shown in Fig.3, the variations in the number of inhabitants are within normal margins and the decrease in 2000 is insignificant. The hypothesis that the miners emigrated massively to other regions is not confirmed, at least in

Petrosani. Currently about 30% of the population lives on unemployment, welfare or emergency support. The last two forms of payment represent a heavy burden for the municipality, since the main taxpayer at the local level, the National Coal Company, has outstanding debts of more than 40 bil. lei (USD 1.3 mn.). There are genuine fears that, once the new law of minimal income becomes applicable, the mandated social expenditures will shoot up and push the local budget into bankruptcy.

Criminality:

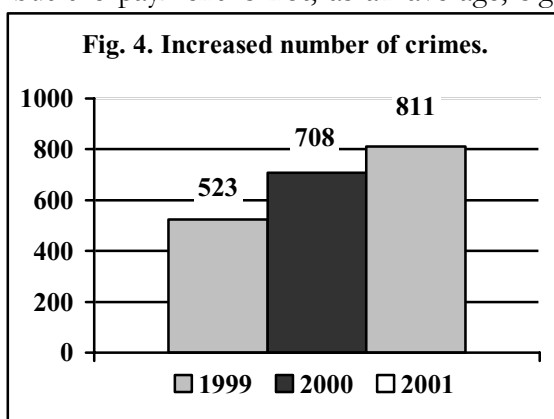
The total number of crimes investigated in the first nine months of 2001 went up compared to the similar periods of the last two years. Persons without occupation commit almost half of the crimes. The increasing criminality

prompted the deployment of a civil guards unit and a *jandarmerie* unit from Deva, to back up the 120-strong local police force.

Conclusions:

- According to the international assistance programs, the local Governments are the main employers locally

- The local Governments can offer seasonal jobs during the summer, but the payment is not, as an average, significantly higher than the welfare



benefits, and therefore it is not stimulating enough

- The criminality is on the rise and there are no programs to address this problem

- The enactment of the law of minimal income will increase the social security budget at the local level about four times (in Petrosani); the

local Governments do not have the funds to cover this increase.

Labor reconversion: new jobs are too expensive

The high unemployment in the Jiu Valley has made job creation a top priority in every program implemented in the area. Although there were various attempts to develop the entrepreneurship and update the professional skills through training programs between 1997 and 1999, they have been largely ineffective. Only 3% of the newly unemployed and 6% of those still

Fig. 5. Jobs created in the second half of 2001.

	Planned 2001	Aug	Sept	Oct
Petrosani	174	1	54	55
Vulcan	45	0	6	6
Petrila	13	0	5	5
Aninoasa	37	0	20	20
Lupeni	45	0	10	10
Uricani	36	0	0	0

employed by the National Mining Company enrolled in the training programs. In 1999, 522 persons attended the courses organized by the local labor offices, but only 151 were unemployed and only 94 of them graduated. After four of the six series of reorientation courses organized in Petrosani, none of the unemployed

persons who attended had managed to find a job in the new profession. Four special workshops were held at the request of companies who subsequently broke their promise to hire the trainees.

Overall, in 1997-98, 251 unemployed enrolled in the reconversion programs and 171 graduated, but only 21 found work. Things have not gone better in 2000-01, when the success rate is estimated at less than 20% in courses that try to anticipate future needs on the market. The “community work services” organized with the support of the World Bank offer only a handful of jobs (Petrosani 210, Lupeni 190, Vulcan 126, Petrila 160, Aninoasa 130), and all of these are just temporary jobs.

The active measures to combat unemployment have yielded disappointing results, all in all, both in terms of the number of jobs created and costs per new job. There are many assistance programs targeting the Jiu Valley, which are poorly coordinated at best: the facilities as an industrial zone, the assistance projects through the Regional Development Agency-West, National Development Agency, the Agency for Rebuilding the Mining Areas or the revolving funds allocated to the Hunedoara county for micro-credits. But new jobs failed to appear in the numbers forecasted (Fig. 5).

The Phare Program of the EU also made available about 10 mn. Euro with the purpose of rebuilding the region economically and socially. The sum was divided between two components:

- MARR Grant Fund, with 6 mil Euro for Jiu Valley and Gorj in grants for updating the infrastructure and active labour-market measures. 2,650,000 Euro were absorbed in the Jiu Valley in 34 projects and 200 jobs were created, which means an exorbitant cost of about 13,000 Euro per job. True, most of the funds were swallowed up in overdue infrastructure and public services rehabilitation. But the new jobs were also an objective and the performance in this respect was abysmally low.
- SME Loans and Grants, with 4 mil Euros run through Banca Comerciala. The bank finally approved only 6 projects because the standards were high and the applicants were not able to come up with appropriate collaterals.

Conclusions:

More than 50% of those who enroll in reconversion courses are women; they also have better chances to find a job, given the professions they pursue: sale-persons, textile industry operators, etc. For the time being, it looks like the programs are more efficient for them than for the prime target group – former miners.

- There is still no assessment available of the long term effects of the subsidized credit schemes, but it seems that not all the firms who

hired unemployed because of the program incentives will be able to maintain them after the subsidies run out; this will push up even more the costs per new job created with the help of this scheme.

- The jobs created through subsidies and tax exemptions are expensive.
- Most entrepreneurs from the Jiu Valley cannot meet the guarantees requested by the banks, according to the banking regulations, and hence the lending programs become almost useless.

Labor conflict: the unions are too strong

Even though there are currently no arrears in the payment of salaries, there are perpetual tensions between the company and the unions. While the management has been in continuous changes, the Unions' League has consolidated its position. The company's directors blame the collective contract signed in May last year, which block crucial management decisions. Employees who do not belong to the League and are displeased that it speaks in their name have attacked it in court. Even more interesting, some managers of the company are also union members and sign documents issued by the League against the management.

There are provisions in the collective contract limiting the economic decisions in the company:

Art. 27 – The company, notified by the unions, must reprimand those who denigrate, slander, or assault physically the leaders of the Unions' League.

Art. 67 – The hiring of any person should be made only with the consultative approval of the unions.

Art. 79 – The unions should take part in organizing any kind of professional evaluation in the company.

Art. 84, 87 – The vice-president of any evaluation commission who examines personnel with the purpose of hiring, firing or promoting, should be the representative of the union

Art. 97 – The approval of the union is necessary for any kind of transfer

Art. 99 – Nobody can be laid off without the prior approval of the unions

Art. 203 – In each subsidiary a joint management-union commission should be set up for hiring any kind of personnel.

Conclusions:

The contract in its current form allows the unions to intervene and block managerial decisions that are normally beyond their area of competence.

There is no interest and support from the unions for the miners whose jobs were terminated by collective restructuring.

The unions may resort to industrial action (strikes) if the company tries to bypass some provisions from the 2000 collective contract.

General recommendations:

Seasonal work seems to be the only source of income in the area. Since the costs of a new permanent job are very high, the social protection programs should rely more on temporary work:

- the differential between the salary and welfare benefits should be larger, so that working really pays off;
- and those who worked in temporary jobs should be allowed back into official unemployment.

All these would help remove part of the current burden on the local Government budgets, at least during summer, which is important once the law of minimal income becomes effective in January.

A guarantee fund for small credits should be set up, in order to make the lending schemes more accessible to local firms and make the banks more confident.

The central role played in the Jiu Valley by the National Mining Company should be eliminated. NMC is not only the main employer (and debtor), but also a concentrator of power, formal and informal, as the most important institution in the region. An institutional alternative should be set up in order to diffuse the influence of NMC – an university (but not mining engineering), a business center, a tourist center or any other major public investment. This would also diminish the control that the Unions' League exerts locally, which is felt in many domains unrelated with the mining sector.

The negotiations of the collective contract should begin much earlier than the deadline of April 1st 2002, so that they are not conducted under time pressure. More breathing space would perhaps create opportunities for the management to persuade the unions that the current provisions are too restrictive, damaging the profitability of the company. If the negotiations start late and are held in a haste, the union might resort again to pressures and strikes in order to preserve their privileged position.

ECONOMY

Romania should not attempt to join the Euro zone very soon; 'hardening' the Leu would do for the time being. Institutional reforms in agriculture are unconvincing.

JANUARY 1ST 2002: THE EURO AND THE ROMANIAN ECONOMY

By Daniel Daianu

Recent months have witnessed a last ditch, frantic effort by Governments in the EU area to finalize preparations for the advent of the Euro notes and coins. Governments and banks need to be ready for the technical operation of conversion, and citizens need to be well informed on how to cope with this operation. How would this event affect Romania, as a European and a EU accession country? There is a narrow answer to this question, which looks at implications of the introduction of the Euro coins and notes. And there is a broader answer, of much larger import, which would look at this issue along the lines of *nominal* and *real convergence* in the quest for EU accession.

Dispelling a cliché

However redundant may sound to some Euro watchers, it is worthwhile reminding a fact: the Euro has been functioning as an accounting and transaction currency for quite a while!²¹ What happens at the start of next year is merely the introduction of Euro notes and coins, which would replace national money in most of the EU area²². This is why the alleged talk about the advent of the Euro, without proper qualifications, is misguided in a fundamental sense. Nonetheless, EU Governments and monetary authorities are not unconcerned about the means for undertaking this operation in the smoothest possible way. There is a threat of counterfeit currency being used by criminal gangs – which could harm the Euro's credibility, and may cause some worry for the European Central Bank (ECB), as the guardian of monetary stability. But a lot of hard prevention work has taken place and, thereby, has drastically reduced this threat in the EU countries. There is also an expected lag in firms' and individuals' response in adapting to the material existence of the Euro, in spite of a massive information campaign.

The introduction of the Euro coins and notes is meant to send a powerful message about the irreversibility of the Monetary Union, to boost the Euro's fortune (at a time of continuing weakness vis-à-vis the US Dollar) and its credentials as an international reserve and transaction currency²³. How will the Euro fare in the period to come depends basically on the evolution of the Euro-zone economy as compared to other dominant areas of the world economy, and the American economy in particular. It is certain that the next phase in the life of the Euro – against the backdrop of worrying signs of economic slowdown in the Euro-zone – hinges also on better economic policy coordination amongst the EU member countries.

The impact of the Euro on accession countries (Romania) – the longer run view

The birth of the Euro (the creation of the Euro-zone) indicates an almost irrepressible tendency for the emergence of currency and trading blocs. Against the background of increasing volatility in world financial markets, this development is welcome by those who value the benefits of an *optimal currency area*²⁴ – when the latter is seen as a shelter as well. How soon can (should) this monetary shelter be made available to other countries? Or otherwise said, can

²¹ The official birth of the Euro was January 1st, 1999.

²² Except Britain, Denmark and Sweden

²³ It is telling in this respect that, last November, China announced a rise in the Euro-denominated share of its foreign reserves; the move helped push the Euro slightly higher against the USD, at that moment

²⁴ The American economist Robert Mundell theorised on this issue in the early 60s of last century.

accession countries join the Monetary Union (MU) simultaneously with joining the EU? This is not a trivial question, whether countries join the EU in the first wave (in a couple of years), or later.

Nominal and real convergence

The above-mentioned question leads to the key issue of *nominal* and *real convergence*. According to the existing EU definition (The Maastricht criteria) *nominal convergence* refers to: an inflation differential which is steadily not higher than 1,5% as against the average rate for the lowest inflation three countries in the Euro-zone²⁵; a long term interest rate differential not higher than 2% as compared to the three countries mentioned; an annual budget deficit which does not exceed 3% of GDP on a steady basis and a public debt not higher than 60% of GDP; and an exchange rate that does not fluctuate outside the band of the Exchange Rate Mechanism (ERM) for two years before accession²⁶. Real convergence refers to reducing the gap in income per capita, which is conditioned on big productivity gains and relative price convergence. For some data on nominal and real convergence see Fig.1.

Some can argue that a faster fixed link to the Euro (the functioning of a Euro-based Currency Board²⁷, or “Euro-ization” even before joining the EU) would help speed up structural reforms and convergence²⁸. The downside, however, of a hastened stable link with the Euro is replete with risks/costs; these risks have roots in the likely persistence of a significant inflation differential and, consequently, the likely loss of external competitiveness over time. Related to this, one should not underestimate the effects of the disappearance of monetary and exchange rate tools for balance of payments adjustment purposes. In addition, over-borrowing from abroad and ensuing severe balance of payments crises could occur, which would annihilate the very thrust of the policy of a hastened close link to the Euro.

The inflation differential (*vis-à-vis* the Euro-zone) would clash with the inflation-related criterion for nominal convergence. A series of calculations show that an inflation differential of between 1.5-2.5% per annum would persist over a substantial period of time²⁹. Thus, the policy options would be

²⁵ Where annual inflation has been between 1.5-2% for years now.

²⁶ These codified criteria are supplemented by other exigencies according to Article 121 of the EU Accord: the integration of markets, the state of the current account balance, the state of labor markets, etc.

²⁷ The Currency Board fixes the value of the domestic currency in terms of a reserve currency, while the scope for monetary policy becomes nil; the dynamic of money supply depends solely on inflows and outflows of central bank's reserves.

²⁸ A few years ago, an intense debate on the usefulness of a CB took place in Romania as well. This debate was initiated in view of the apparent inability to defeat high inflation.

²⁹ T. Broeck and T.Slock (IMF Working Paper, no.56/2001; UN/ECE, Economic Survey of Europe, 2001 (chapter 6); F.Coricelli and M. Jazbec, CEPR Discussion Paper no.2689, 2001 (see also *Bundesbank Monthly Report*, October, 2001, pp. 25)

as follows: either the accession country finds a way to bring the inflation rate in line with the criterion, which may be very costly output wise; or something has to be done about the criterion itself, which may not be possible unless a political decision is made, to this end, by the EU.

In addition, an over hastened linkage to the Euro may harm the catching-up process owing to a growth-inflation trade-off. This is because an attempt to bring inflation in line with the benchmark in the Euro-zone may dent growth significantly. And without a considerably higher growth rate (than in the Euro-zone) *real convergence* would remain a distant objective and would diminish the prospects for an earlier EU admission.

The outlined policy dilemma seems to be less of an immediate concern for Romania, which has quite a long way to go in subduing inflation. On the other hand, this dilemma is not devoid of relevance to the extent one considers: (a) the pace of disinflation (gradual vs. abrupt); and (b) the suitability of a faster close link to the Euro, as a way to speeding up structural reforms and convergence.

Since 2000, Romania has embarked on a gradual disinflation policy rather than an abrupt one, which is motivated by existing powerful inflationary expectations and the anticipated costs associated with a brutal cut of domestic liquidity – including the strains which rapid disinflation would put on the banking system. The opposite policy, which implies a quick Euro-link as a means to foster structural reforms, is deemed to be counterproductive (overcostly). And it is deemed to cause, eventually, the failure of the disinflation (stabilization) policy and to perpetuate the boom and bust cycle of the last decade. This is a rather balanced, realistic line of reasoning.

Towards a “hard” ROL (Romanian Leu)?

The above considerations can help sort out the arguments in favor or against proceeding with the cutting off of several zeros (very likely – four zeros) of the ROL – namely the creation of a “hard” ROL. Romanian commercial bankers complain bitterly that transactions and calculations are impeded by the nominal weakness of the ROL, and they are asking for a swift move to the hard ROL³⁰. There is another view, shared by Romanian central bank (NBR) officials, which would rather maintain the “soft” ROL for a while³¹. The rationale for the second view can be found in several arguments. One argument is that, since disinflation is gradual, it is better to wait for a couple of years (when inflation would be close to the one-digit level) in order to undertake the actual operation. Another argument, which is not explicit but is “floating in the air”, assumes a successful disinflation by 2005 and suggests the possibility of hooking up rapidly with the Euro. An implicit assumption

³⁰ See *Ziarul Financiar* and *Adevarul*, 21 November, 2001

³¹ It should be said that if the decision to turn to the “hard” ROL were to be made today, the technical preparations and the actual implementation would need at least one year.

seems to be that Romania would gear up for accession by that time. Several “trial balloons” were launched in this respect lately³². Should this second interpretation of the NBR’s thinking be accurate, the emergence of the “hard” ROL would become a useless operation.

Summing up, **Romania needs to be more consistent with its structural reforms and their speedier advance would be more than welcome. But it would be quite risky to anchor the economy to the Euro, via a fixed linkage, ahead of time, i.e. before joining the EU.** The very logic of gradual disinflation points in this direction. And low correlation coefficients³³ (as indicators of real convergence) underline the costliness of giving up monetary sovereignty when adjustment instruments are still badly needed. Certainly, one can hypothesize on the possibility of benefiting from labor mobility across EU borders³⁴ (as an adjustment mechanism) and considerable fiscal transfers from Brussels as pain relievers of overtight monetary conditions, but these are quite unrealistic scenarios. The financial crises in countries, which resorted to fixed linkages (Argentina, for example), also provide a strong warning in this respect. Last but not least, the ECB may be reluctant to accept “Euro-ization” when this is perceived as creating *contingent liabilities* for the European Union. In conclusion, the NBR would be well advised to heed more the commercial bankers’ view and consider the hard ROL option within the next couple of years.

More mundane concerns for the National Bank – the short run

The NBR (the Central Bank) has direct and indirect responsibility for the smooth technical introduction of Euro coins and notes.

The NBR’s direct concern and responsibility are the liquidity control and exchange rate market conditions. As far as liquidity control is concerned, one significant aspect is the prevention of fake currency to get into circulation. This risk may be higher in an accession country (Romania) that is more cash-based³⁵, and to the extent public (monetary) authorities are less adept in dealing with law-offenders. Another aspect regards a possible change in the

³² At a recent seminar on the Euro coins and notes, NBR officials are reported to have asked, rhetorically, whether an eventual quick passage to introducing the Euro, presumably, at the time of a one digit inflation level (by 2005), would not make this operation redundant (*Adevarul*, 21 November, 2001)

³³ These coefficients refer to industrial output dynamics, unemployment rates, etc.

³⁴ Export of Romanian workforce and substantial remittances which cover a portion of the trade deficit. In recent years remittances were around 1 billion USD per year.

³⁵ The propensity of people to use cash instead of bank accounts is related to the size of the underground economy and the distrust in banking (financial, in general) institutions. The share of cash-based in total transactions is about 12% in Romania, as compared to 5% in Western Europe and 3% in the USA (according to the Governor of the NBR, *Ziarul Financiar*, 5 November, 2001).

composition of currency in circulation, should individuals be wary of holding Euros. This fear may be mitigated in regions of the country where the DM is a preferred precautionary and transaction parallel currency, but, overall, a certain pressure on the exchange rate market may be experienced for a short while. This pressure would result from the proclivity of some individuals to increase their holdings of dollars as against the current composition of their cash portfolio. According to some estimates, EU member countries denominated currency worth approximately 500 million USD, is likely to come to banks' cashiers for conversion³⁶. The higher this amount, the stronger would be the downward pressure on the Euro on the local foreign exchange market. It is true that much hinges on the distribution of conversion operations over the legally permitted period of conversion.

Fig. 1. Economic data for the EU negotiating candidate countries, 2000

	Income/capita, PPP, % EU average	GDP real growth %	Public budget, % GDP	PPI	Current account deficit
Bulgaria	24	5.8	-1.0	10.4	-5.8
Estonia	38	6.9	-0.7	4	-6.4
Latvia	29	6.6	-3.0	2.6	-6.8
Lithuania	29	3.3	-3.3	1.0	-6.0
Malta	53	5.0	-7.1	2.4	-14.5
Poland	39	4	-3	10.1	-6.3
Romania	27	1.6	-3.7	45.7	-3.9
Slovakia	48	2.2	-3.5	12	-3.7
Slovenia	71	4.6	-1.3	8.9	-3.2
Czech Republic	66	2.9	-4.9	4	-4.6
Hungary	52	5.2	-3.3	8.2	-3.6
Cyprus	82	4.8	-2.7	4.1	-5.0
The 12	44	4.1	-3.2	12.9	-5.3
EU-15	100	3.3	1.2	2.1	-0

**Source: Bundesbank, Monthly Report, October, pp.21
PPI- producer price index**

Very topical is the NBR's reference currency for its exchange rate policy. For a long time the USD was "undisputed king". This situation has changed considerably, due to the increasing share of trade (exports and imports) which Romania carries out with the EU (Fig. 2). This trade, which has constantly risen and is, currently, more than 60% of the total for both Romanian exports and imports, argues in favor of relating the ROL to the Euro. The NBR seems to be bent on constructing a basket made up of the USD and the Euro, which can provide a bridge (temporary) solution for moving to the Euro as the reference currency for the exchange rate policy; though quite difficult in

³⁶ According to commercial bankers (see *Ziarul Financiar*, 5 November, 2001)

operational terms, such a move looks quite sensible and would respond to Romanian exporters' and importers' worries in this regard. On one hand, since Romania trades with the EU quite symmetrically, the impact of giving up, partially, the USD as a reference currency is mitigated. On the other hand, the composition of the external debt – which is largely denominated in USD – argues against an immediate swift to the Euro as the reference currency.

Fig. 2. Geographic distribution of Romania's exports and imports (1999, 2000)

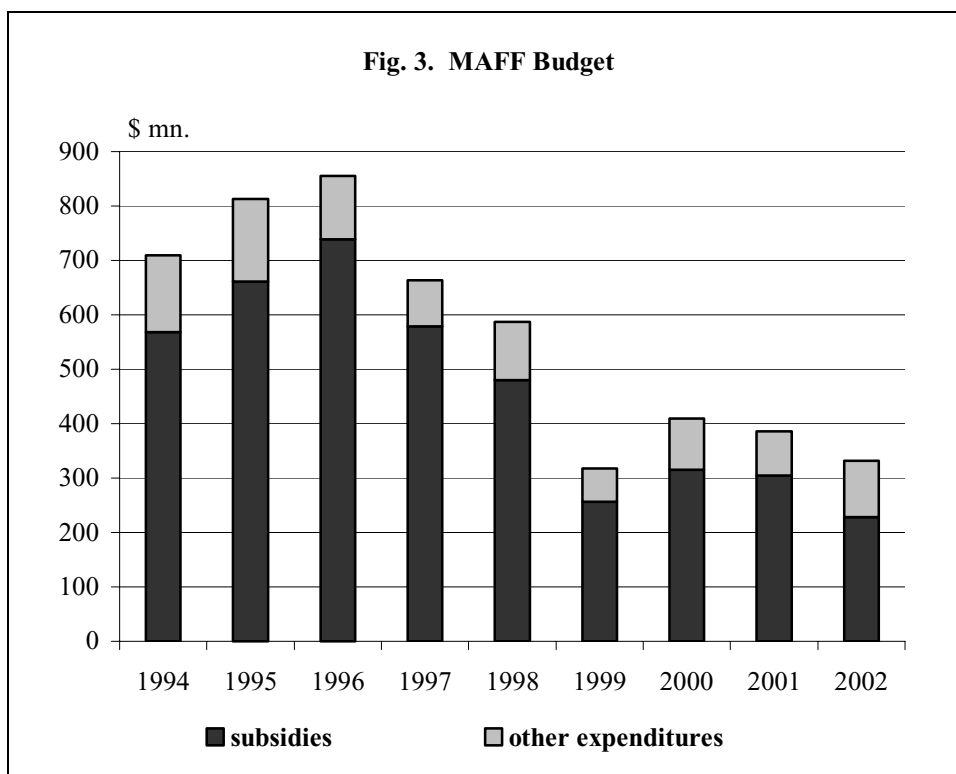
	Structure (%)			
	1999		2000	
	Export	Import	Export	Import
EU-15	65.5	60.3	63.8	56.5
Italy	32.5	32.5	35.0	33.1
Germany	27.1	28.4	24.6	26.0
France	9.5	11.1	10.9	10.8
UK	7.4	7.0	8.2	7.2
Netherlands	5.9	3.7	5.0	3.8
Greece	3.9	3.2	4.9	5.0

INPUT SUBSIDIES VERSUS COMMODITY SUBSIDIES IN AGRICULTURE

The 2002 budget of the Ministry of Agriculture, Food and Forestry illustrates the most confused situation in terms of Government support for agriculture in the past seven years. Every action intended as a step in the right direction is also likely to end up in fostering vested interests.

Fig.3 points to what amounts to a first good news, namely the further contraction of budget allocations which began in 1997 with the removal of price controls for the main farm commodities down the marketing chain (wheat, milk, pork and poultry meat). The reduction of expenditures, subsidies first of all, was a necessary step, given the non-transparent and inefficient measures taken in recent years. However, with scarce funds made available to the ministry for distribution, the contest to capture them become increasingly fierce. The details of the allocation mechanisms are not yet known, but it is likely that the interests of the larger producers will be taken into consideration at the expense of the smaller ones.

An encouraging sign is the largest-ever share (over 30 per cent) of other expenditures than subsidies, even though their materialization in a better supply of public goods (such as research, market information) is far from certain. But there is a real danger that the effort may end up simply in handouts for the bloated administration who currently manages the state intervention, plus repaying some foreign loans taken in the early nineties.

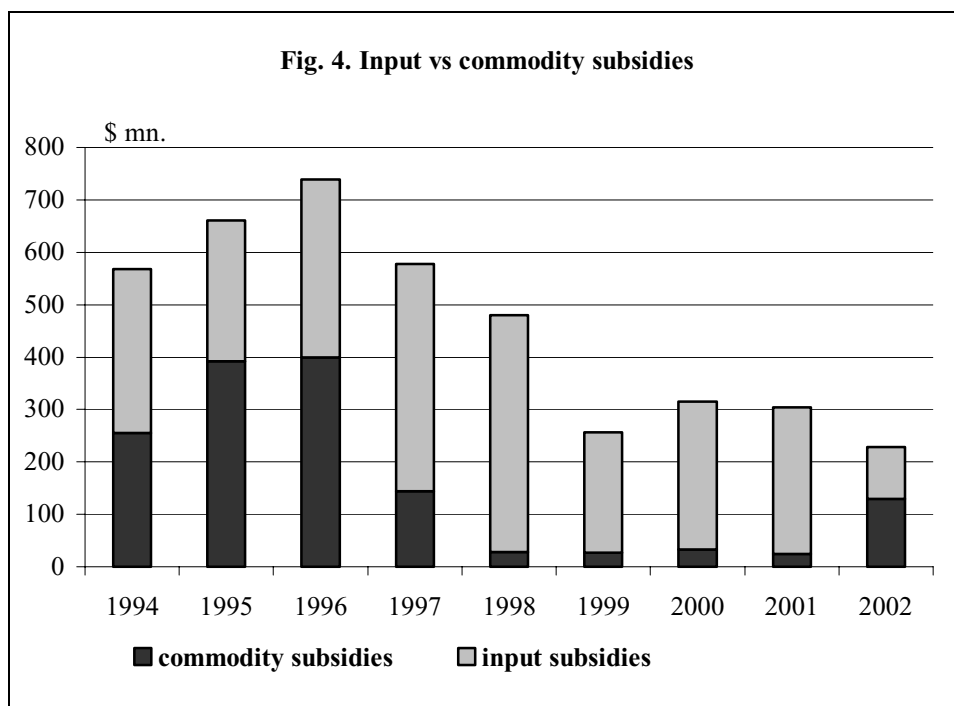


MAFF's attempt to put in place some EU-type agricultural subsidization mechanisms may be another good news. The bad news, however, is that such costly interventions supported by a large agriculture budget in EU countries cannot be implemented in Romania without running the risk of turning them into discriminatory and non-transparent actions. While the attempt to direct most subsidies to producers is correct in itself, the mechanism now under consideration can hardly ensure that the allocation process will be fair and that the budget will not be overrun.

The principles of efficient subsidization, most often ignored in the Romanian agricultural policy, are:

- reasonable size
- limited time
- precise definition of the target groups
- and fairness so as the agro-food market is not distorted.

In Romania, farm subsidies have been a mixture of input subsidies (vouchers, price subsidies for certified seeds and irrigation, etc) and output subsidies (guaranteed price for milk, export premiums). Each of them can be delivered either directly, with farmers as recipients (which was the case of input vouchers or milk premiums) or indirectly, when subsidies were paid to intermediaries (export bonuses or seed subsidies). Direct subsidization is preferable when target beneficiaries are readily identifiable and fair allocation can be ensured at low costs. The 1997 input voucher scheme is an example of direct subsidization that did not distort the farm commodity markets. However, with slight alterations made every year, the scheme was eventually 'adapted' to its needs by a careless and corrupt administration. Granting "one million lei (about 35 USD) for every hectare of land under crop" through the voucher scheme used this year was a far cry from the original goals – redirecting subsidies away from state farms, developing farm input markets, increasing small farm output. Should the mechanism be dismantled in 2002, it would hardly make any difference to farm households, other than the disappearance of a source of income that has been perceived rather as welfare support.



In order to assess the level of intervention, we split the subsidies into two categories, according to their nature: input subsidies and products subsidies. Fig.4 shows a dangerous tendency to revert to the 1994-96 structure, although the total amount of money transferred is reduced. However, this is not an all-out return, nor could it have been one, given the publicly acknowledged failure of the farm policies pursued in the mid-nineties and the reforms

carried out during 1997-2000, including the privatization of farm processors and removal of farm commodity price controls. Government control in agriculture, upstream or downstream on the market chain, may never be what it once was, though discretionary allocations may still occur. With funds in short supply, their allocation will be pressed hard in order to accommodate vested interests. Large farmers who also stand to gain by the provisions of the Emergency Ordinance on farm operations (No. 108/2001) will take advantage of their position to press for priority in Government subsidization.

Note: For reasons of comparability all the expenditures were converted into USD. In 1994-2000 the expenditures made were converted at the average leu/USD exchange rate. For the year 2001, the expenses are as specified after the latest budget adjustment (rectification), and the exchange rate used is an estimate of the yearly average (28,000 lei/USD). For 2002, the expenditures are those specified in the approved budget with the exchange rate forecast at 35,000 lei/USD.

FOCUS: AGRICULTURE IS NOT A PRIORITY IN ROMANIA, AND SO THE SAPARD PROGRAM CAN WAIT

The Sapard pre-accession program for agriculture and rural development has been since its inception in 1999 a rather marginal preoccupation for the Romanian Government, apart from the fierce institutional fights that took place among various ministries for taking over its management. The delays accumulated continue to affect its implementation, even though there have been periodical attempts to put things back on track. Sapard is a seven-year long program that was supposed to begin in 2000 in Romania, with a total amount of assistance of about 150 mil Euro per year, but the national Sapard agency has not been accredited yet, and as a result the transfer of the first installments keeps being postponed.

- The slow progress in the Sapard program reflects the lack of genuine interest in the agricultural sector of all the post-communist Romanian Governments. As a consequence, the last report from the European Commission mentions "the limited progress in meeting the Accession Partnership priorities in the agricultural sector".
- The Romanian authorities claim that the money that should have been used in 2000 and 2001 is not lost, since the Commission has just approved their spending in the following years. The problem, however, is that when the Sapard agency is finally operational, it will have to handle an increased volume of money and paperwork, with staff and procedures lacking the necessary experience. Now we can

see what opportunity was missed in 1998-1999, when a pilot project called SPP was financed in Romania with the very purpose of running in the mechanisms for Sapard. SPP was a failure, no institutional framework was developed out of it and the whole process had to start from scratch two years later with the Sapard agency.

If the Agency is to become operational and run the funds, it has to be accredited domestically, and then obtain the final approval from Brussels. In 2001 the Romanian authorities managed to pull themselves together and pass some laws and regulations that are necessary in the accreditation process. A management unit was set up within the Ministry of EU Integration, and the organizational charts of the central and territorial offices of the Sapard agency were completed.

Finally, three strategic directions of action were agreed upon: improving the industrialization and marketing of the agricultural and fishery products, upgrading the rural infrastructure and technical assistance.

However, some important steps have yet to be taken before the EU money can arrive:

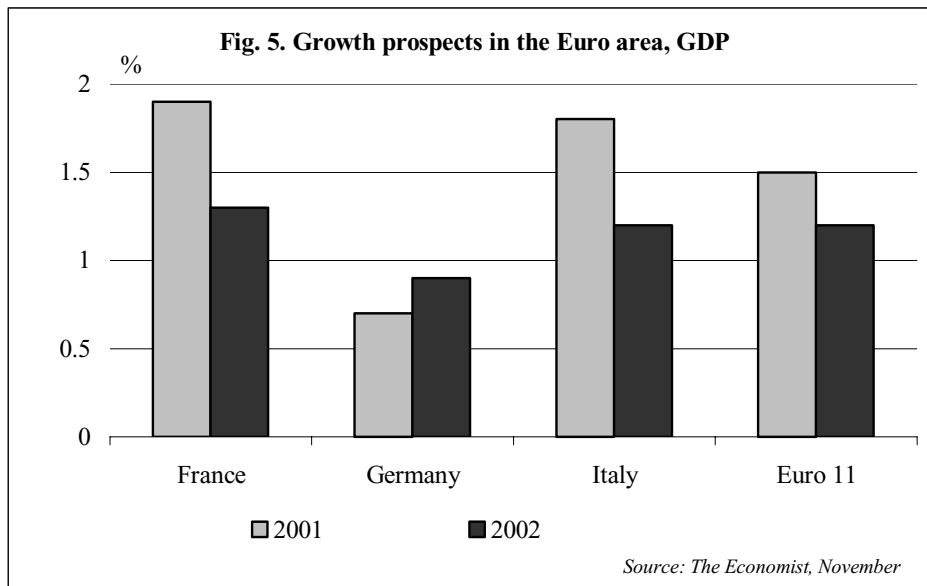
The Commission's approval on the preliminary audit is expected shortly, and after that the necessary adjustments should be made:

- Information and consultancy centers must be set up in municipalities where the regional Sapard offices will be located. The information campaign and the assistance provided to applicants is very important since the installment will be larger than initially planned in the first years of implementation, and the absorption capacity through sound projects has always been a problem in Romania.
- The procedural and application guidelines are not ready yet, which is hard to explain after so many years of discussions about Sapard.
- The capacity to actually run the program is low, and the human resources seem to be one of the main problems in this area of assistance. Again, this is concerning given the fact that from the first year they will have to begin making up for the accumulated delays.

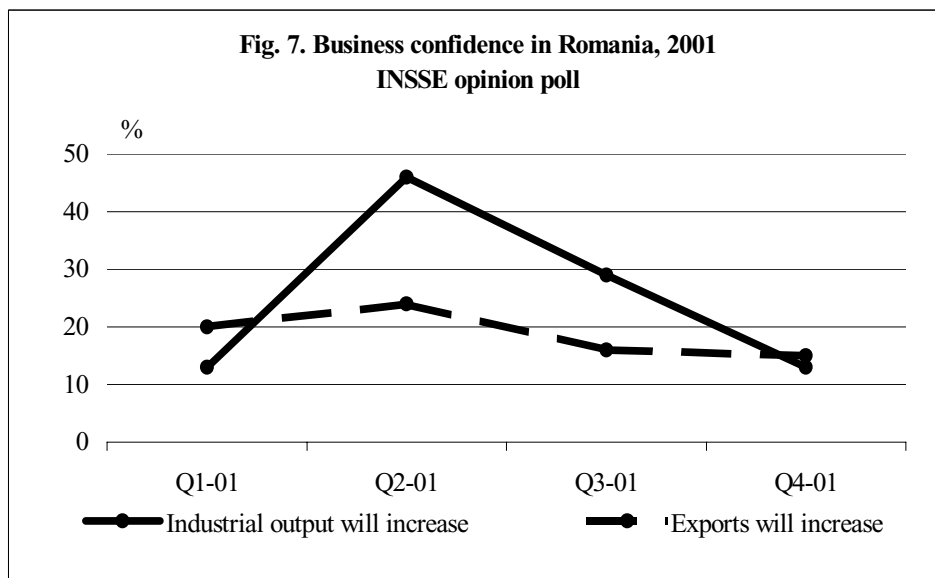
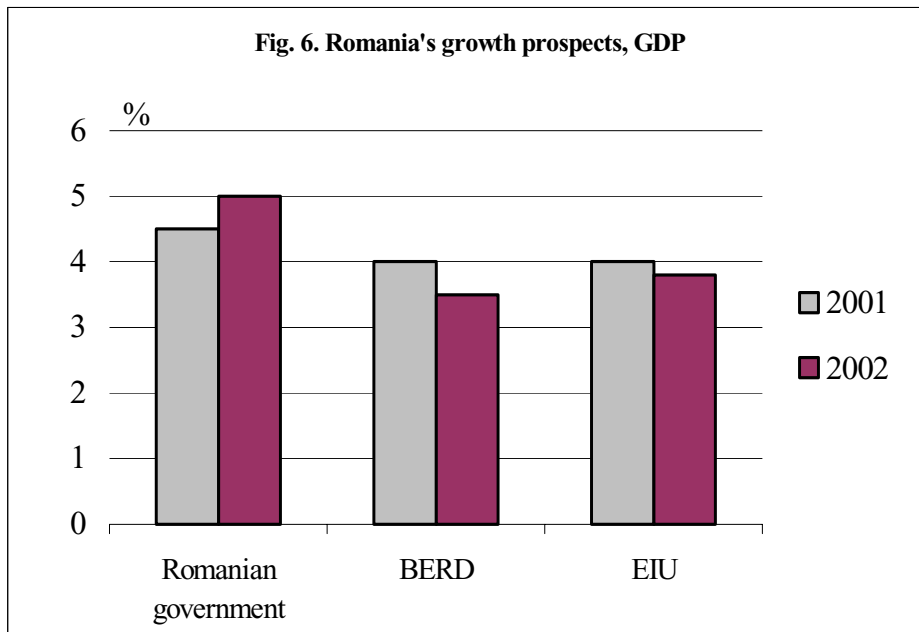
TREND: INTERNATIONAL ECONOMIC ENVIRONMENT

As the West European major powerhouses face a severe slowdown, the situation looks dire for the Romanian economy as well. Germany, our second most important trading partner, is close to a halt. Overall, the situation will probably get worse in 2002 (Fig. 5). In this context, the rosy forecasts put forward by the Romanian Government earlier this year are challenged by a new array of figures provided by international institutions (Fig. 6).

The fact is, these forecasts are notoriously unreliable, even when they come from organizations with solid credentials. At the beginning of this year, for example, most of the international agencies predicted that the Romanian economy would grow somewhere in the range of 1.5-2%; as it turns out, the real figure will be at least twice as high. This happened because of the extreme volatility of the domestic economic environment, which can still offer surprises, for good and for bad, and because of the fact that the East European countries have been surprisingly resilient to the global downturn this year. With the notable exception of Poland, they continued to grow impressively in the midst of the general gloom.

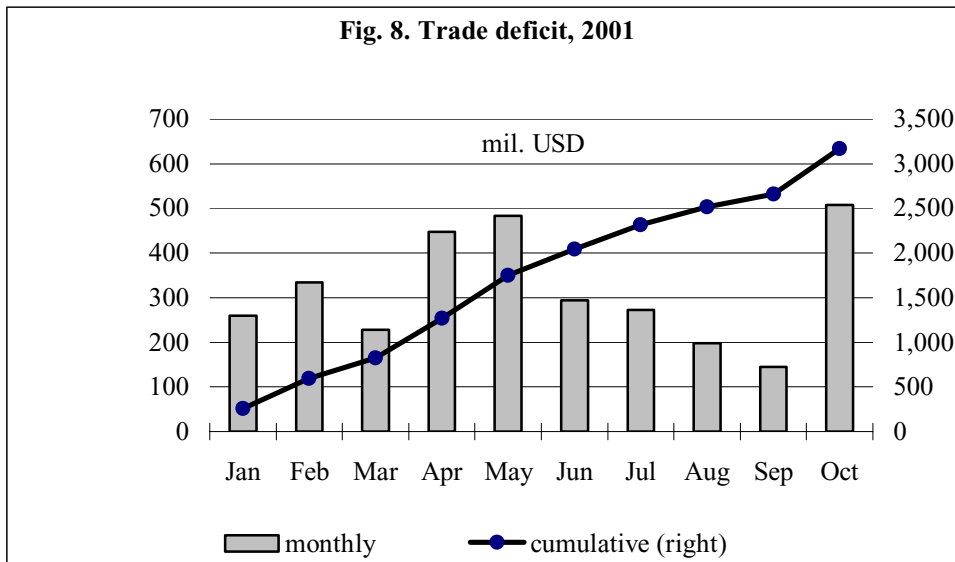


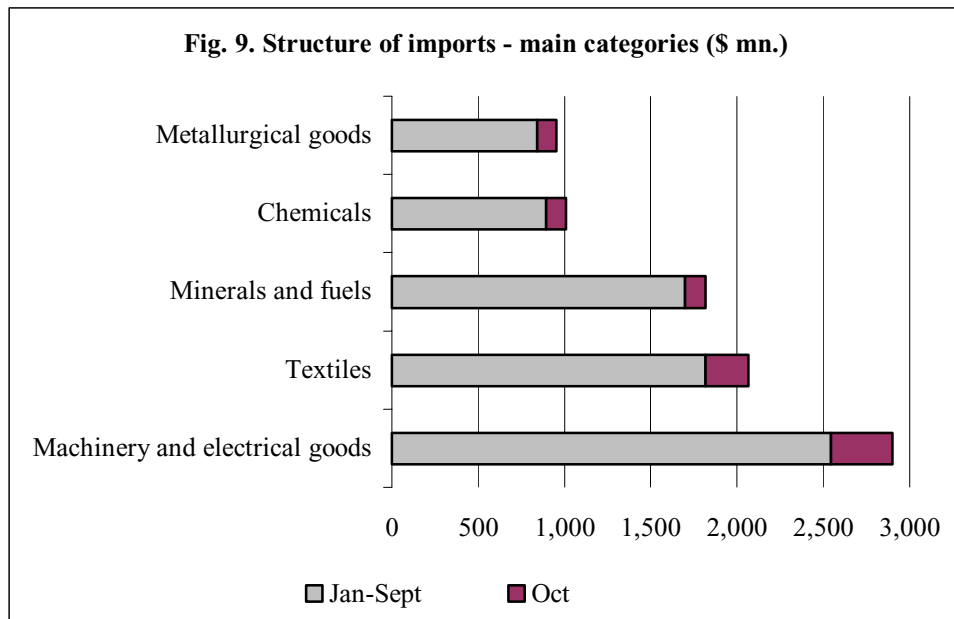
However, a slight reduction in the economic activity may still occur in this region too. The INSSE business confidence survey shows that the Romanian entrepreneurs' trust in industry has declined in the last quarter of 2001 (Fig.7). This might be just a seasonal effect – usually the activity contracts during the winter months, specially in constructions, which is a booming sector in Romania – but it may also signal a genuine slowdown. The good news is that the survey reveals stable expectations in manufacturing industry and retailing.



TRADE DEFICIT: IT IS HAPPENING, AGAIN

In October, Romania's trade deficit unexpectedly shot up, threatening the macro parameters agreed with the IMF (Fig. 8). At 500 mn. USD, the deficit is more than three times as high as the one in September. Some analysts speculated that the massive increase in imports – 28% higher than last month – is due to the building up of the fuel inventories in the energy sector. However, the data in Fig.9 do not seem to support this view: it looks like the imports grew proportionately across all the main categories of goods. Therefore, the rise in imports must be caused by the same seasonal effect: as the year draws to a close, the domestic demand rises in consumer, durable and even some capital goods. This trend should be a matter of concern for the Government, since it is likely to continue in November and December. If this happens, the annual trade deficit in 2001 may reach 4 bn. USD.





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