

## Romania has a new IMF agreement

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On 31 July Romania signed a staff-level agreement with the International Monetary Fund (IMF), the European Union and the World Bank on an economic program supported by a two-year loan worth 4 billion euros. This is now the third loan that Bucharest has obtained from these institutions since 2009. Under the present agreement Romania has committed to reducing its structural deficit from 2.7% of its GDP in 2012 to 1% of its GDP in 2015. A healthcare system reform will be implemented and state-owned companies will be restructured and privatised, among other measures. The centre-left Victor Ponta government is treating this Stand-By Arrangement as precautionary. The centre-right president Traian Basescu supports the agreement and points out that the loan will also prove helpful in Romania's preparations to join the eurozone (at present Romania fulfils three out of five convergence criteria).

### Commentary

- The circumstances in which the agreement was signed confirm that there is consensus in Romania about the main direction economic and foreign policy is heading in. This is in contrast to other countries, for example Hungary where criticism of the IMF is an important element of the ruling bloc's policy pursued. This phenomenon may be explained by the specificity of Romania's political scene: the main divide runs along the attitude to President Basescu, whereas differences in political manifestos are of secondary importance. The centre-left Social Liberal Union obtained a constitutional majority in parliament in the election in 2012, which puts the Ponta government in a comfortable position for ruling. The opposition parties – the Democratic Liberal Party and the Democratic Union of Hungarians in Romania – have been avoiding economic issues as they themselves were responsible for the introduction of an austerity program in close co-operation with the IMF. However, they are criticising the government for its actions in the area of the judicial system as well as a revision of the Constitution and administrative reform which are currently being prepared.
- Romania's co-operation with the IMF has contributed to a spectacular improvement in the country's macroeconomic stability. The structural deficit has dropped from 9.5% of GDP in 2009 to 2.7% of GDP in 2012. Since 2011 investments, exports and domestic consumption have been on the rise and 2013 will be the third consecutive year with

projected economic growth (forecast by the IMF at a level of 2%). However, these indicators have improved as a result of the austerity measures which have severely affected society, including a 25% reduction in salaries in the public sector and an increase in VAT from 19% to 24%. These measures have led to a reduced standard of living for Romanians – if the current speed of growth in private consumption, which in 2012 stood at 1% a year, is maintained, the pre-crisis level of private consumption will be achieved until as far off as 2020.

- Access to the new loan will increase the resistance of Romanian economy to external shocks (such as a sudden withdrawal of capital). However, it is unlikely it will provide impetus for deeper structural reforms. Attempts at healthcare reforms in Romania provoke strong opposition in society whereas the privatisation of companies sees objections from trade unions and results in constant political wrangling. Only the improved absorption of EU funds may give Romania a chance for accelerated economic growth. Romania has the lowest absorption rate of EU funds (approximately 15% of the funds available from the EU budget for the period from 2007 to 2013).