sar
idei în acțiune

Press Release

Romanian Academic Society Yearly Forecast

THE CRISIS AS OPPORTUNITY

The Romanian Academic Society (SAR) launched on February 16th in Bucharest its eight annual forecast report: *Romania 2009. Economic Crisis and the Rule of Law*. The report is authored by SAR's staff experts Ana Otilia Nuțu, Sorin Ioniță, Suzana Dobre and Laura Ștefan. The economic forecast is based on the opinions of a panel of economists chaired by Prof. Dr. Lucian Albu. The debate was moderated by Alina Mungiu-Pippidi, SAR's President, and featured as keynote speaker the Prime Minister of Romania, Emil Boc. The full text is available (in Ro) from http://www.sar.org.ro/index.php?page=articol&id=343

1. The main risk for Romania in 2009 is that the fears and emergencies generated by the global economic crisis would push aside the agenda of reform and good governance. This would be a serious mistake as most of Romania's current problems are not, in fact, caused by the global crisis, but by the previous government's poor management. As a result, Romania has to confront today both a global economic crisis and a self-inflicted budgetary one, brought about by the need of the previous super-minority cabinet to buy allies in the Parliament through irresponsible resource allocations. Such examples are offered in section 3 of the report (p. 13-26).
2. SAR warns that neither the national budget nor the anti-crisis program can work miracles in 2009, since the capacity to implement projects remains low and the credibility of the fiscal policy was compromised in the last years. Only a quarter of the 2008 budgetary deficit was caused by the drop of the incomes directly attributable to the economic crisis; the rest is just bad governance and poor planning. SAR experts forecast for 2009 a budgetary deficit twice as large as the government's estimate.
3. In order to keep the budgetary deficit sustainable, the control over public spending must be strengthened, especially on current and personnel costs. The government may need to go as far as a freezing public wages for the whole year 2009. Increased spending efficiency and multiannual programming are strongly advisable. A modicum of responsible governance is more important now than keeping the outlandish promises made six months ago, during the electoral campaign.
4. At the same time, SAR warns that the present budget is over-reliant on uncertain European funds. Their use could be problematic, on the one hand due to the low capacity of the Romanian administration (mainly, at the central level) and on the other hand due to the lack of progress in fighting corruption. If Romania does not make real progress on this front until June, the EU Commission may decide to withhold part of the Cohesion money that the Government relies so much on.
5. Romania's economic growth will be insignificant this year, SAR experts think. 2009 will be a year of quasi-stagnation at the best, provided that major risks such as banks failures are avoided. Otherwise the scenario could become even more pessimistic (p. 3-7).
6. The impact of the crisis across economic sectors is uneven. The most important problems are the severe drop in demand, the financial log jam affecting the industry, the cost of borrowing and the volatility of the exchange rate. The most affected domains are the carmakers, banking, transportation and the steel industry.

Societatea Academică din România (SAR)
str Mihai Eminescu, 61, sector 2, București, România
tel/fax: +40-21 2111477/2111424
http://www.sar.org.ro

7. Despite the expectation that the prices will fall, the forecasts indicate stagnation or even a moderate surge in inflation.
8. The unemployment rate in Romania will remain below the European average, in spite of the layoffs announced.
9. The Boc cabinet cannot choose whether to be an anti-crisis government or an anti-corruption one. Instead, it has to fight on both fronts simultaneously: the link between the discretionary spending, conflicts of interests and the current economic situation has been documented by several of SAR's projects. The 2008 monitoring revealed that 21 County Council Presidents and 13% of the County Council members had serious integrity problems. 2008 also marked a return to the practice of discretionary fund allocations to the local government, which is another way to encourage corruption. The spread of the phenomenon and the important role of the local elected officials in managing the European funds point to the need to increase the efficiency of prevention and sanctioning instruments (p. 27-32).

However, despite all these the difficulties, the crisis opens up a window of opportunity for reforms, just as it happened in 1997-1998: precisely because it was facing imminent financial collapse and international isolation, a cornered Romania eventually initiated bold economic restructuring and started the serious accession dialogue with the EU.

Why should we not use, again, the current crisis as an opportunity, this time for advancing the unfinished agenda of public sector reform? This is the truly "*Yes, we can*" spirit that SAR is encouraging the government to embrace for its first year in office.

Societatea Academică din România (SAR)
Eminescu 61, sector 2, Bucureşti
(40) 21 211 1477
www.sar.org.ro