## QUARTERLY REPORTY ON Labour Market DEVELOPMENTS – Q4.2009-Q1.2010

ROMANIA

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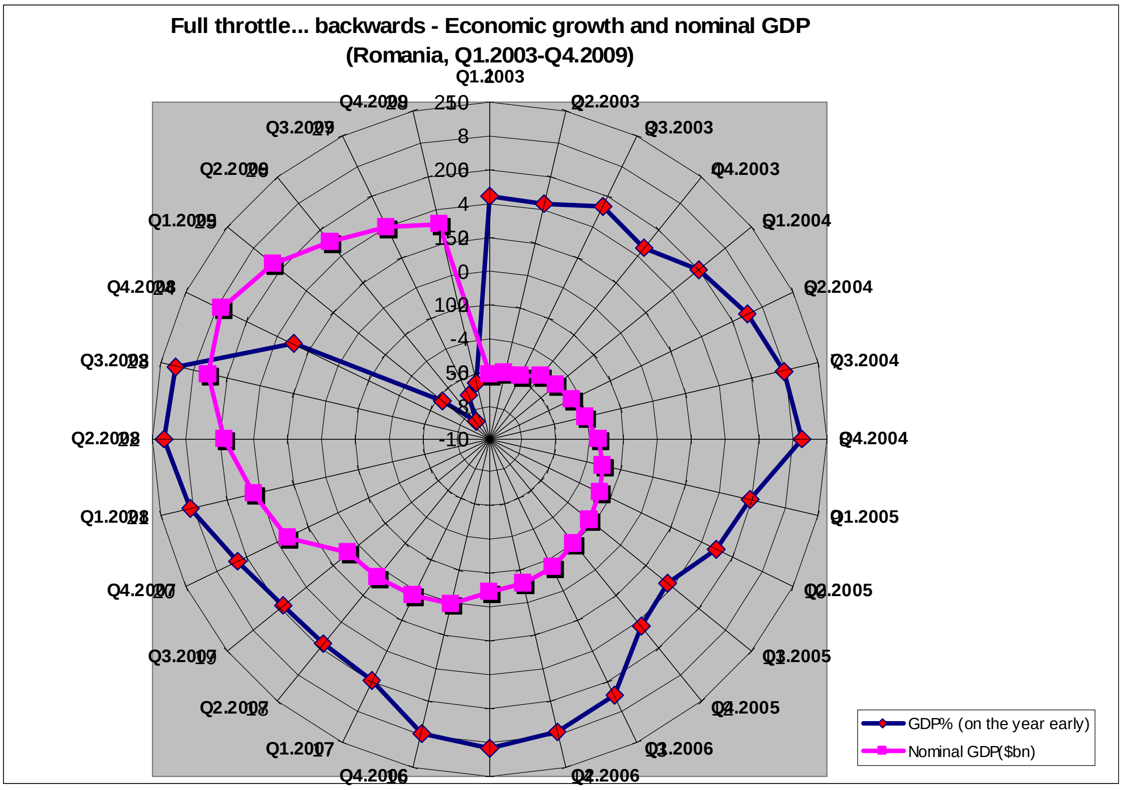
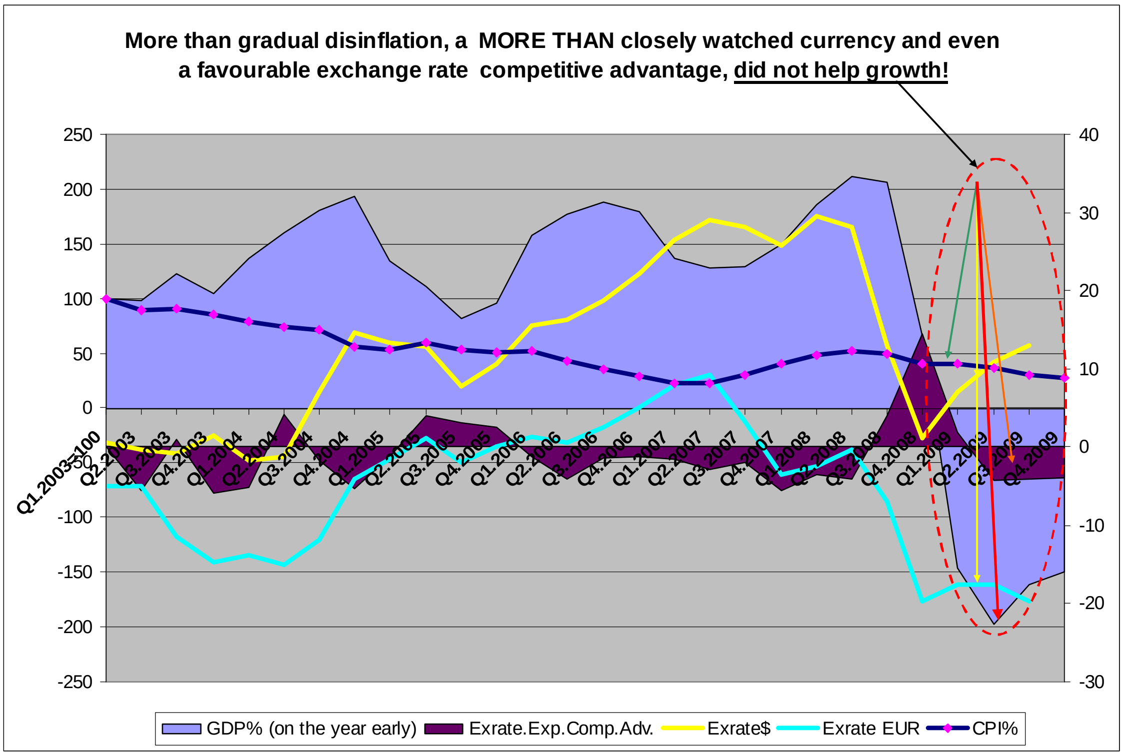
1. Final data for the last quarter of 2009 clearly show an all-out plunge for the Romanian economy. While economic decline abated itself a notch in the last quarter of 2009 as against it's all out deep in the middle of the year, the year on year decline was still a hefty 6.6% (see also at www.insse.ro-press communiqué Feb.12.2010). This also points to the fact that earlier estimates which were banking almost fully on a sort of tractor-beam effect of the shaky world economic recovery were over-optimistic if not entirely misguided. The sharp contraction of domestic demand could not have been compensated by what was a more than timid recovery on the core EU-markets, which as Romania's main export debouche. Actually data streaming from these economies clearly point to the fact that although the third and fourth quarters of the last year marked a technical end of the recession, it was mostly triggered by domestic demand (i.e.: read stimulus) thus leaving little room for the absorption of foreign supply as it is shown by the continuing reduction of current account deficits.

**Chart no.1**




Accordingly, although nominally the terms of trade for the Romanian economy as expressed by our measure of the exchange-rate competitive advantage returned to values prevalent for the growth period of 2003-08, this did not help much in abating overall economic contraction showing thus that what might be sufficient during times of plenty brings little comfort in times of need. Little comfort was therefore derived by the Romanian economy from the fact the National Bank prevented the currency (RON) from sliding, keeping it at the level of the last quarter of 2008 and thus only 19% lower than at the start of our series in Q1.2003. True to say that the Romanian currency lost 10 pp. more from its all-period peak in mid-2007 but, at the time, one has to say that its terms of trade were rapidly deteriorating setting actually the stage for the crippling current account deficit of late-2008. As such, it should not have been the Bank's objective to keep the currency artificially high as Romania's best performance in terms of current account balance came when its currency depreciated and not when up-driven by speculation[1]. Fact is that points earned in the fight against depreciation and inflation (CPI in the year to Dec.'09 at 4.74 as against a 6.3 in the year to Dec.'08)[2] came at a dire cost in terms of GDP as its nominal value slumped by US$bn.57 squarely bringing the country's resources back to end of 2007 values and thus wiping out the two best years of growth in two decades since the fall of communism.

**Chart no.2**




Unemployment has continued its climb to values that were thought as being history. With values for the national definition rate at the end of January at 8.2%[3], it marked the 16th successive month

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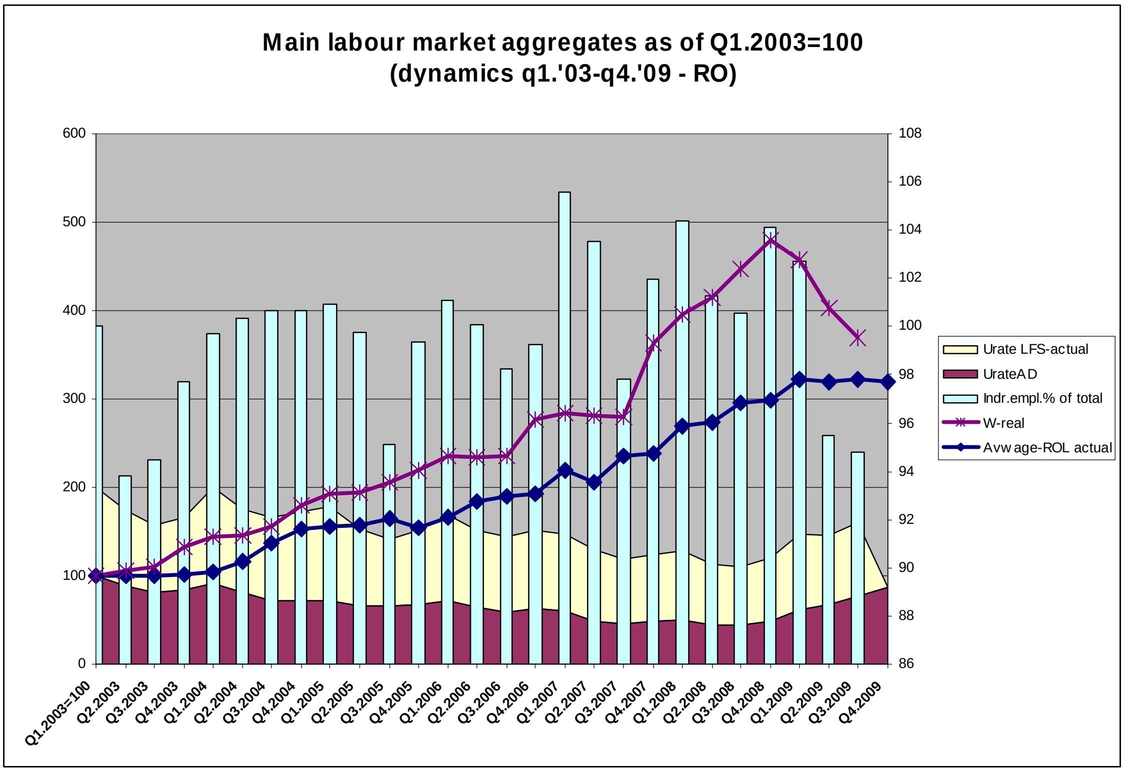
[1] Actually during the first two months of the year the RO continued to appreciate, moving ever closer to the threshold of RON 4/EUR. The move has been precipitated both by the entry of yet another tranche from the IMF and EU financial aid, which probably boosted the sentiment of the markets but mostly by the depreciation of the EURO in the wake of the Greek sovereign-debt crisis;

[2] Values on the year for January 2010 are 5.2% and respectively 4.94% for February. The hike in Jan. is wholly explained by an increase in excise for cigarettes;

[3] Recently released data by the National Agency for Employment show the trend unabated for the month of Feb. (8.3%), thus infirming optimistic views of some political figures (see also at www.anofm.ro) ;

of continuous increase, a fact never seen even in the nineties during the Plan to Market Transition mass lay offs. True to say that this increase came after a stunning 21 successive quarters of steep decline with the average rate for the last three quarters of 2009 still at around 88-90% of values at the beginning of 2003 but closing rapidly. Meanwhile if total employment held steadily courtesy to subsistence agriculture, Romania's most resilient sector after all, as well as to the fact that lay-offs in public administration have been deferred during a hard-fought election year, industry and industrial employment have bore the brunt of recession. The share of industry in total employment dropped from a high of 104% as against the 1st quarter of 2003, recorded at the peak of the economic boom in mid-2007 to around 94% of the same base-period level. Productivity has been however the most hard-hit, conventional GDP/worker measure losing more than 100 pp. from an all-time almost 500% against Q1.2003 value in mid-2007, to a value representing less than 400% when compared with the same base period at the onset of the decade. It is thus not surprising that for the first time in 24 successive quarters, starting even to fall in nominal terms (!) from mid 2009.

**Chart no.3**



The fall in productivity growth is however the most worrying pointing out to the dry-out of capital inflows. Once these have stopped the economy started to dive. Moreover this also shows the even more dire need of nurturing at least some sort domestic capital resources so as to reduce un-necessary exposure to the merciless of markets when these sudden decide for a change of heart. A policy of demand contraction in this context does not look like the best of solutions as it not only stiffens any domestic initiative but it also drives away remaining inflows, thus practically mopping the market exactly at the wrong moment. Perspectives do no look very much brighter. Although our calculations concur with the majority of analyses showing an enfeebled recovery towards the end of the year still, after the disappointing performance of the last quarter, one can expect the economy to further contract during at last the 1st quarter of 2010 by anything between 1.7 and 3.8%. Further on, perspectives look a little bit better, though over-optimism should be avoided.