Quarterly Report on Labor Market Policies and Developments – 1st quarter of 2009

The Romanian economy slipped deeply into recession during the first quarter of 2009. GDP growth on the year early was a depressing *-6.4%,* thus meaning a full reverse of the whole trend of the last years. The contrast with the last year's evolutions could not have been starker! As such, the new Government of Prime Minister Emil Boc which cobbles together an uneasy coalition of Liberal-Democrats (centre) and Social Democrats (centre-left) spent the whole of the first quarter squabbling about the state budget thus denying the economy even the modicum of stimuli it needed as it was facing what might have been probably the toughest part of this current world recession (assuming of course that we are not facing a full-blown *depression*). An emergency finance package had thus to be agreed with the International Monetary Fund and the European Commission worth nearly $17bn. (around 7-8% of the country's GDP), making it one of the largest emergency assistance packages agreed by a country with the Fund until the end of the first quarter 2009. While this facility, an "IMF-1.0" type assistance, might help the country make-it through at least the worst part of the crisis, it will for surely be "paid" in years of below-the-potential growth.

Update on Economic and Labour Market Trends

The table below provides a synthetic picture of the main economic and labour market indicators for the first quarter of 2009 (unless stated otherwise, generally due to issues of data availability at the time of Report elaboration), while also painting short-term dynamic with previous quarter and previous year corresponding quarter data.

No.	Indicator	Value for the current quarter	Value for previous quarter	Value for corresponding quarter of previous year
1	GDP%	-6.4	2.9	8.2
2	CPI%	6.77 (6.71 March val. on the year early)	6.81	7.95
3	Unemployment rate (national definition) (%)	5.26 (5.6 March value)	4.16	4.26
4	Unemployment rate (harmonized definition)* (%)	5.8	5.4	6.1
5	Exchange rate: 1. RON/EUR 2. RON/USD	 4.2662 3.2776	 3.8120 2.8829	
6	Vacancy rate*	1.53	2.06	1.82
7	Employment rate (15-64)*	58.3	60.5	57.9
8	Activity rate (15-64)*	62	64.2	61.8
9	Gross Average Wage (RON)	1874.3	1887.3	1601

* Data only available for quarter 4 of 2008 (source LFS/AMIGO carried by the National Institute of Statistics – see also at www.insse.ro)

The Romanian economy suffered in the first quarter of 2009 one of its sharpest contraction in terms of broad output since GDP data started regular production at the beginnings of the Plan to Market Transition period. Actually the only parallel that can be drawn is with the grim years at the end of the nineties, when reforms aiming at restructuring the economy were reaching their peak. However while the contraction then was the result of closing ailing loss-making behemoths that would have never performed well, now it was about shutting down capacities because of an unprecedented slump in demand. Therefore, if back then it was about a process directed at that (the “visible hand”) now it was about the “invisible hand” of the market doing it straight through.
Causes for this unprecedented slump are multiple. Of course one can overplay the excessive dependency on foreign capital flows and the indebtedness of Romanian households and business especially when it comes to foreign currency denominated debt but, we will choose to pay limited lip-service to this commonly held wisdom. The Romanian economy was hit by the combined force of the fall in demand for metals which weighed heavily on its steel and aluminium producers, the slump in the price of oil, which has battered its oil industry and finally bad macro-management and communication at home. The Government has been slow in adopting this year’s budget and much too vocal about the crisis and its financial arrangements with the IMF. Less vocalism and a fast-track budget approval would have given the economy some stimulus, albeit Spartan given the need to rebalance public finances, while in the meantime keeping market sentiment a little bit more cheery thus propping demand without actually shedding a single LEU.
Major lay-offs have been the case though one cannot claim that there has been general wave of them coming through. The largest steel producer, ARCELOR-MITTAL which owns most of the country’s steel producing capacities including the large mill of SIDEX-GALATZI, has announced major cuts in working time, moved to shut down some side-capacities while making extensive use of so-called ”technical unemployment” arrangements.
The heavily indebted public railway has been a prime target for the Government’s austerity measures. Although radical proposal of Transport minister Radu Berceanu have been met at first with fierce calls for country-wide strikes. Nonetheless in the face of the growing general gloom trade unions have finally agreed to pay-cuts and to a shedding of staff that will see an acceleration of “natural departures” as a way of avoiding large lay-offs.
Good news however came from the Dacia-Renault plant in Pitesti where production has resumed after the interruptions at the end of last year and seems to be slightly on the climb. Slightly rebounding oil prices towards the end of the quarter have also given a measure of help to oil industry.

Labour Market Policy Developments

Policy area	Description of measure(s) taken (if no policy measures are taken, please indicate so)	Aims and objectives E.g.: labour supply, labour demand, investments or aggregate demand	Legislative Status E.g.: proposal, debated in the parliament, adopted, in force	Positions of social partners	Preliminary assessment of the measure against:	
					Criteria for the measure to succeed in the short term (such as, for example, supporting incomes; maintaining employment; being targeted; timeliness)	**Criteria for the measure to succeed in the long term (such as for example balancing public finances; addressing social inclusion; expected effectiveness)**
Promoting lifecycle approach to work	Closing loopholes into the public pension system by striving to apply the contribution-based system to all categories of salary employees	Increasing the labour supply by discouraging early retirement and rent-seeking but basically a re-balancing of the strained public finances	Proposal in debate, soon to enter Parliament	Reluctant agreement; Of course "special groups" that seen benefits from the current state of facts (e.g.: magistrates) look increasingly jittery;	- the measure might look as highly targeted but it its effects will be limited, except for a short-term consolidation of public finances;	The main effect in the long term might be a certain stabilization of the flow of incomes towards the public financed pension scheme, while in the meantime will remove some strain from the general public budget; However, as groups target are highly confined the effects will fade in time; The rise in assets for the public pension scheme will be negligible in the long-term;
Offering social protection	Establishing a minimum public pension Increasing by three months the duration of the unemployment benefit period	Automatic stabilizer, maintaining aggregate demand Automatic stabilizer, maintaining aggregate demand	Adopted and in force Adopted and in force	Everybody in agreement with very few exceptions from pensioners' associations who argued that as such one actually encourages inactivity and low contribution periods thus actually discouraging a life-cycle approach to work Broad agreement	-the measure is well targeted and basically aims at supporting the incomes of the most disadvantaged of pensioners; However, the income as such guaranteed is so meagre (EUR 82 at market ex. Rate) that effects will be hard to see; - the measure is of course timely and effective as it keeps aggregate demand from a total freefall, at least for a while; However, it puts additional pressure on the budget of the unemployment fund, already in deficit	In the long term it is for surely a first step towards a more inclusive public pension system that will incorporate a minimum social assistance type, non-contribution based pillar; However, promoting it too much goes contrary to very principles promoted in the new attempt unify pension regime and which stresses the contribution principle as well as the necessity of encouraging people to work and save more for their old age; - In the long term measure likely to be reversed as soon recovery looms, if only to rebalance battered unemployment fund;;
Offering employment security	Exempting companies making use of the so-called "technical unemployment" arrangements from payments to	Supporting labour demand and aggregate demand as well	Adopted and in force	Broad agreement	The measure has been for surely timely as otherwise unemployment might have as well climbed even higher at a time when the budget of the unemployment fund faces dire strain; However, this measure cannot be sustained for long given	Not the case;

	mandatory social security schemes for up to 3 months				the current constraints on public expenditures and falling receipts from taxes and contributions ;	