EEO QUARTERLY REPORT ON LABOUR MARKET DEVELOPMENTS – ROMANIA

(Double issue- Quarter 2&3 2009)

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Introduction

Political turmoil has been the distinctive mark of the two mid-year quarters in Romania. This has only further dampened the sentiment of households, business and investors alike for a speedy economic recovery in 2010. In what can be considered as a sea-change for Romania's renewed democracy after the fall of communism, the patchy coalition government assembled at the beginning of this year, by pushing together the arch-rival PSD (social-democrats, centre-left) and PD-L (popular, centrist) parties has been forced into resignation by a vote of non-confidence of the Parliament in mid-October. Although the government, which now acts as a care-taker pending the result of a closely-watched, neck-to-neck presidential race between the incumbent Traian Basescu and the President of the Senate and leader of the PSD Mircea Geoana, managed to pass through the Parliament the laws of the unitary salary system for the public sector as well as a law that mandates the restructuring of the state agencies, both being pre-conditions for the continuation of the IMF-EU-WORLD BANK loan contracted by Romania at the beginning of this year, it failed to pass the new, so-called unitary pension law.

The fall of the Government has brought together the PSD and the National Liberal Party (centre right-liberal), the latter being a hot contester of the loan agreement, which, it argues and not without an argument, puts both a straitjacket on the country's development and actually recovery perspectives in the meantime creating a pernicious money-illusion that simply acts as a brake on the quest for innovative solutions capable of harnessing the potential of the Romanian economy. While part of this reasoning might be questionable it is nonetheless true that throughout the current year governmental policies have been acting like as to quell and not spur resource generation.

As the country heads to second round of voting on December the 6th, with the two main contenders, literally neck in neck (each of them managing to collect a little bit more than 30% of the popular vote in the first round with the main battle being now that of winning over the "hearts and minds" of voters that opted for the national-liberal Crin Antonescu in the first round on Nov.22nd), it is also worth mentioning that both of the referendums called by the incumbent Traian Basescu simultaneously with the presidential ballot have been validated, though by only a narrow margin. As such, Parliament will have to get working first on a trimming of its membership down to 300 from a current of 471 while its upper chamber, the Senate, will be scrapped altogether. Changes will nevertheless go into force probably in four years time, as a Constitutional change is needed and yet another Referendum has to pass so as to validate it. However, there are serious doubts now regarding the capacity of the current Parliament to complete its four year term.

The current state of political uncertainty also meant that the Ministry of Labour is now without a minister, with the Minister of Finance, the PD-L heavyweight Ghe.Pogea, holding the position as ad-interim.

Also as a result of the political turmoil that lead to its forced resignation, the Government has not managed to submit to the Parliament its proposals for the 2010 state and state social insurances budgets, which actually means that for a second year in row Romania will enter the new fiscal year without a budget. This will greatly hamper any attempts to fight the current recession and help in bringing nearer an eventual recovery.

Update on Economic and Labour Market Trends

The Romanian economy has continued its slide into the recession with its second quarter result being the worst in a decade, with the fall of the GDP being a horrific -8.5% (!) on the year early. The third quarter for which preliminary data have been recently released by the National Institute of Statistics (see Press Release at www.inse.ro – no.231/nov.13.2009) does look only a notch better, with the slump as against the corresponding quarter of the last year quarter being only -7.1%. As such, estimates made by the correspondent earlier this and which were fed to the Country Desk upon request are seeing confirmation. Accordingly we can anticipate that a modest recovery might commence with the second or rather with the third quarter of 2010, pending nevertheless on a more vigorous rebound of the world economy as well as on a more aggressive policy to revive domestic demand. Sadly it has to be said that the current arrangements with the IMF are not conducive to that so, whatever movement of recovery might occur it has to be looked upon with the maximum possible caution.

Table no.1 - Main economic and labour market aggregates – ROMANIA Q.2&3 2009

No.	Indicator	Value for the current quarter		Value for previous quarter		Value for corresponding quarter of previous year	
		Q2.09	Q3.09	Q1.09	Q2.09	Q2.08	Q3.08
1	GDP%	-8.7	-7.1	-6.4	-8.7	9.3	9.1
2	CPI%*	6.08	4.98	6.77	6.08	8.56	8.12
3	Unemployment rate (national definition)* (%)	5,83	6,6	5.26	5,83	3.83	3.8
4	Unemployment rate (harmonized definition)* (%)	6.3	n. a.	6.9	-	5.4	5.6
5	Exchange rate: 1. RON/EUR 2. RON/USD	4.1923 3.0788	4.1947 2.9542	4.2662 3.2776	4.1923 3.0788	3,6528 2,3375	3,5771 2,3831
6	Vacancy rate**	0.89	n. a.	1.27	-	2.02	2.06
7	Employment rate (15-64)**	59.2	n. a.	57.4	-	59.7	60.5
8	Activity rate (15-64)**	63.4	n. a.	61.8	-	63.5	64.2
9	Gross Average Wage (RON)**	1868.66	n. a.	1890.66	-	1749.33	1887.33

* Simple average value for the quarter;

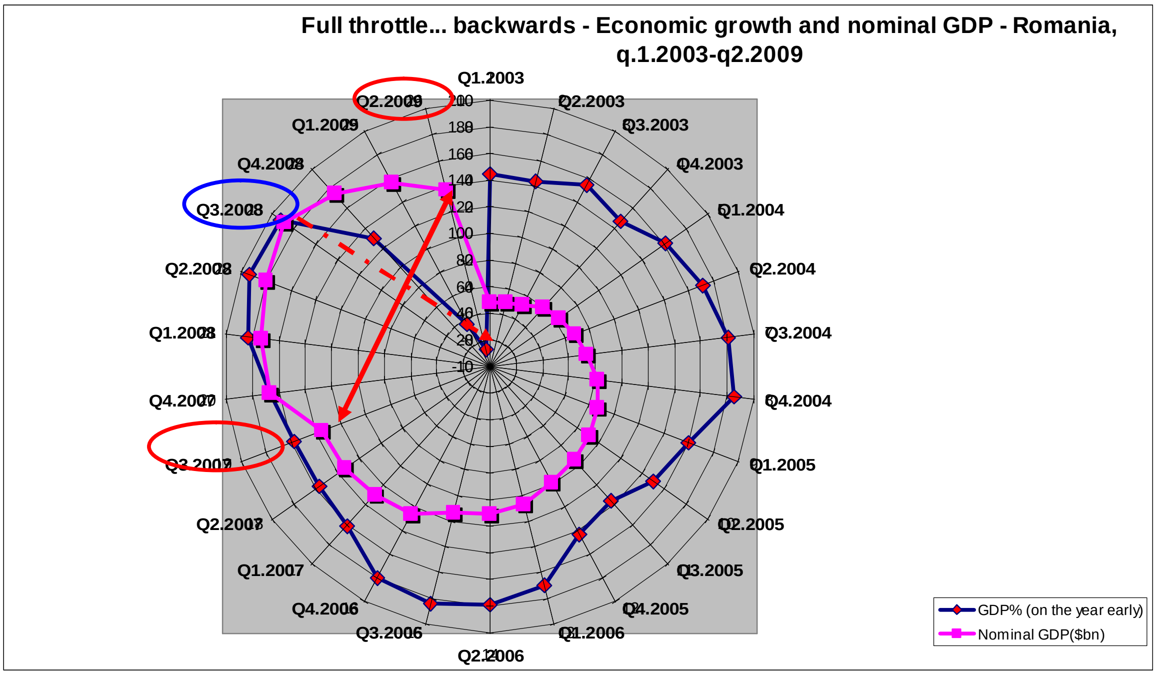
** Latest figures available from the NIS.

n. a. = not available;

The state of the public finances has rapidly deteriorated with the projected deficit being now practically equal if not larger that the one ran by the C.P. Tariceanu government at the end of last year, thus well exceeding the threshold of 5% of the GDP and heading towards an equivalent of 7% of the broadest measure of output. Policies pursued throughout the year have helped in creating such an imbalance as, during the first half of the year, in the urge of securing what was a doubtfully necessary external financing, the Government squeezed consumption to a minimum possible thus adding to the woes of an economy already hard hit by the collapse of its export markets in the first three months of the year. Following the successful conclusion of the agreements and under the spell of what was more than an evident effect of “money illusion”, the Government has subsequently opened its purse which, it has not been afterwards able to close.

Consequently, while not managing in anyway to revive growth the Government has nonetheless managed to get into debt to levels unprecedented. As most of the revenue sources have been either stifled or forced into submersion throughout the first half of the year, it is difficult to see how, even given what could be called a mildly favourable world economic climate, will any Government manage to revive growth, keep the books in balance and avoid a sharp depreciation of the RON in the months to come.

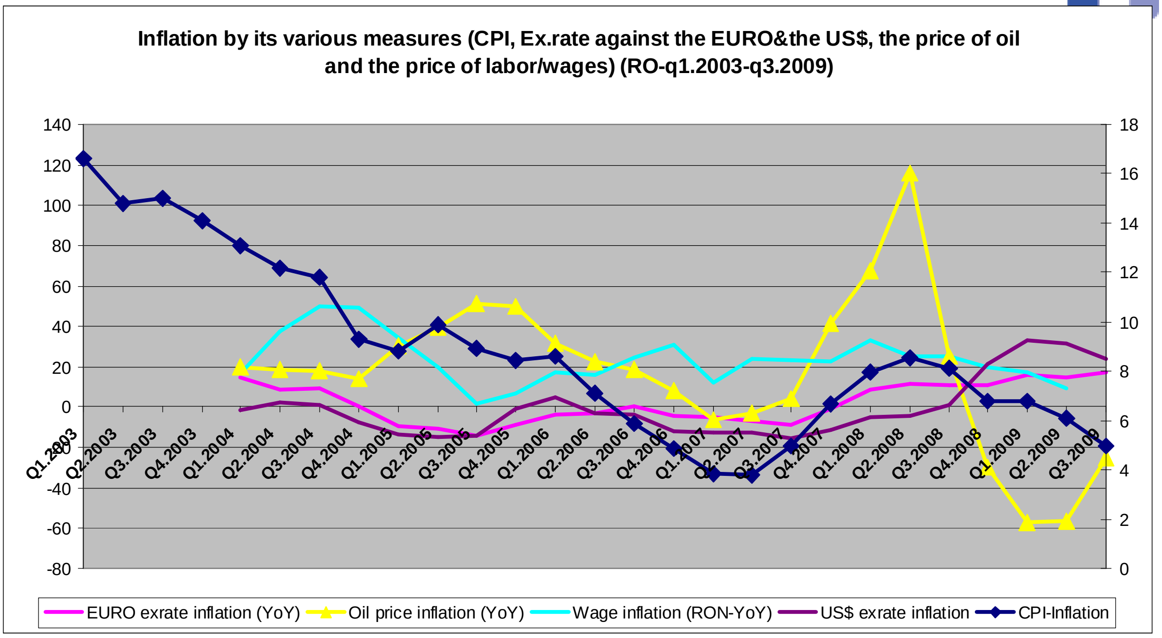
Chart no.1



Source: All charts in this Report are based on data provided by the NIS and the NBR, processed by Dr. C. Ghinararu;

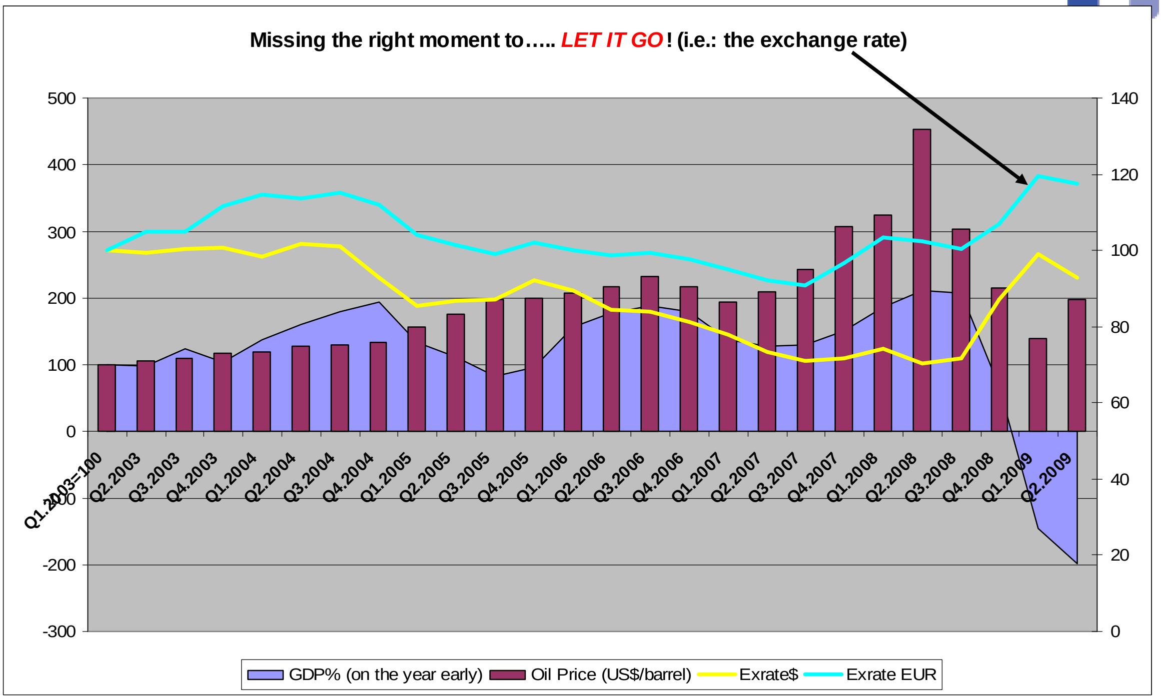
Given the sharp contraction of domestic demand, inflationary pressures, which, were building rather high by mid last year, even if counting only the imperfect measure of the CPI, have receded and done so sharply. Both the second and the third quarter of the year have witnessed a marked slow-down of price increases on the year early, with the CPI inflation (the rate of inflation) going down quarter after quarter from a high of 8.12% in the year to the third quarter of 2008 to half of this value (4.98%) in the year to the third quarter of 2009. Latest data released by the NIS show for the year to October 2009 CPI inflation down to 4.30%, which makes the target of the National Bank for this year pretty much *in-reach*, not of course that this would matter much for an economy in tatters.

Chart no.2



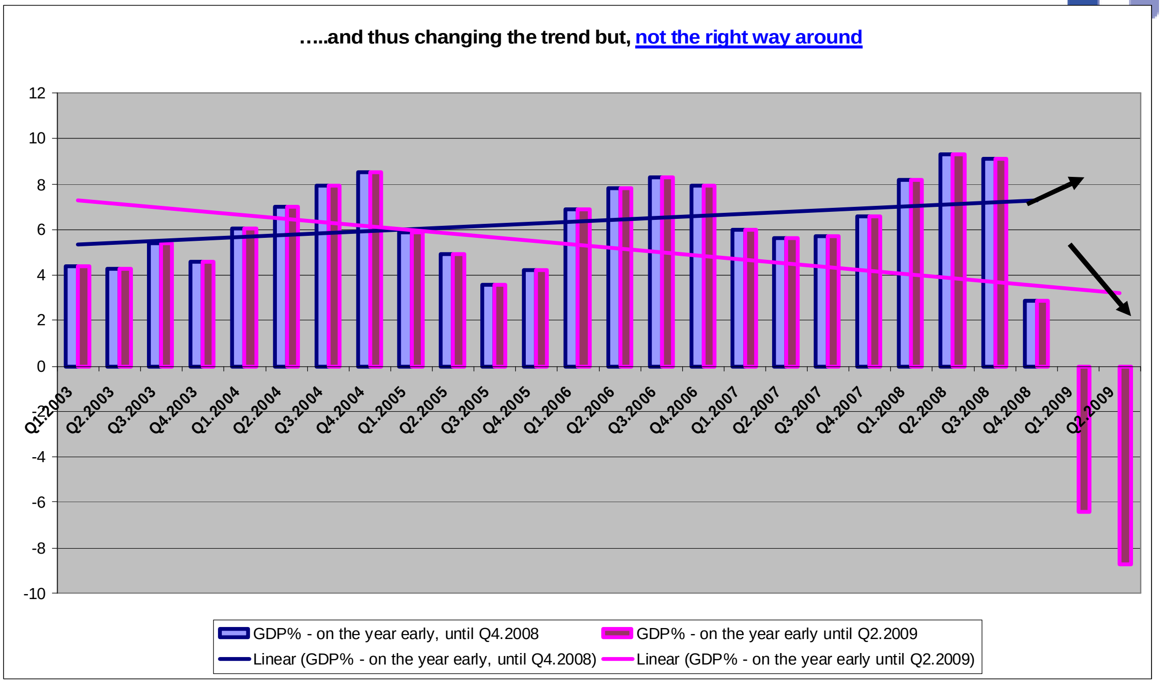
While deflation has not set in with the exception of food prices throughout the summer months of July and August and even this only on a month to month basis, it goes without saying that the disinflation move prevailing for the whole of the year has received a helping hand from oil prices which have languished at what have been ***all-time lows*** for almost the whole of the 28 quarters period tracked so far in our analyses. The subsiding pressures from what we have called oil-price inflation coupled with an exchange rate for the stability of which, the Government and strangely enough to other advise, or maybe not, the National Bank, have been willing to sacrifice growth, have rendered prices less prone to upward movements and volatility until the start of the third quarter. With its start, while by the measure of the consumer prices it remains still subdued and falling, by its other measures, the oil price and the exchange rate, it looks like creeping back. Worse, it might even come back through its traditional consumer prices channel, if prices to utilities start growing again, partly in response to delayed depreciation of the RON.

Chart no.3



On the other hand however, inflation as measured by the variations of the price of labour (wage-inflation) also went downwards, as salaries have suffered a dramatic setback both in the private as well as in the public sector with further hammering to come, especially for the public sector which throughout the months of November and December will be forced into a eight-days unpaid leave. If we are putting together the naked facts then, the currency already looks shaky and will soon enough turn indefensible; oil prices are on the rise thus choking some of the demand but meanwhile they are not high enough so as to turn the tide for the national oil industry. Add to this falling wages and one will see that prospects for a swift recovery in 2010 remain dim. If the national currency will accelerate its depreciation in the months to come, which is a possibility given both the amount of propping it received this year as well as the fact that investors themselves are banking and will push for such a course then, on the background of both in real and even in nominal terms falling wages, purchasing power will take a decisive blow. This will dent the capacity of the domestic market to sustain recovery leaving everything to the mercy of external markets. If Governments in developed economies will withdraw the various stimuli and scrap some of the more than generous old-cars replacement schemes that helped so much the domestic automotive industry this year then, it is our firm view that growth will stay negative for most of the first three quarters of the next year. All in all, in such a scenario, the Romanian economy might be back in terms of its nominal GDP to the levels of 2005 or even 2004(3), if worst hits.

Chart no.4



By both of its measures unemployment simply surged, once again confirming forecasts we have made as early as the end of 2007. In the span of 12 months registered unemployment rate simply doubled from a low of around 3.8% in mid-2008 to a high of more than 6.6% for the same quarter of this year. As we are writing these lines the National Agency for Employment, the country's PES, has announced for the moth of October'09 unemployment rate at 7.1% (see at www.anofm.ro-statistici/statistics), a value this aggregate measure has not seen since the last quarter of 2003. By its other measure, the harmonized rate, usually more sluggish in its responsiveness to market moves, latest validated data released by the NIS for the second quarter of this year show a value of 6.3%, a little bit higher than for the same quarter of 2008, but a notch lower than the one for the first quarter of 2009.

Employment and vacancy rates however have bore the brunt of the recessionary move which as said before, shows little sign of abating, at least in our view. While aggregates like the employment rate, the activity rate as well as corresponding measures for the working age population seem to be holding steady both in relation to the same quarter of 2008 as well as with the first quarter of this year thus giving the impression that not much has been moving in spite of the crisis, it is as usual the structure that shows the whole debacle unfolding or worse maybe, still waiting in the wings. Industry has seen its share of total employment battered both at national and regional level. After holding steady at around 30% of total employment and even going beyond this threshold for a few quarters in a row between the beginning of 2007 and the end of 2008, it has again fallen to around 29%, a value it did not see again, as in the case of registered unemployment, since the corresponding period of 2003. Services held a little bit steadier and of course agriculture did not even budge as most of its employment is household production for its own final consumption oriented but this is just the beginning. As it is known, most of Romania's industries are export-oriented while most of its services cater for the domestic market. With exports slumping dramatically during the first two quarters of the year and only selectively picking up afterwards, workers had to be shed. As this wave of unemployment started to feed through the channels of the market it depressed domestic demand thus contributing to the disinflation process we have examined before. However, at least until the second quarter of the year, for which data are available, the level of unemployment which at the time was around 20% lower than currently (mid-end of 4th quarter) did not seem to have made its effect on the demand for services and thus it left employment virtually untouched or even growing here and there. It is however our opinion that given the figures provided by the NAE on registered unemployment, whose movement seem to follow far much closer the cycle, starting with the third and even more with the fourth quarter of the year we will witness the full hammering of service sector employment due to the drop in demand caused by the labour force shedding that battered industry. As such, one would expect a further round of demand swamping which, together with the one stemming from the reduction in the purchasing power of the public employees which make a significant part of the more affluent urbanites, will most probably more than hinder a return to positive growth rates, any time sooner than the last quarter of 2010 and even then, shyly. What one could mostly expect is that world economy and especially Euro-zone economy will pick rather more convincingly and that stimuli in the large developed economy will not be withdrawn so soon a fact which, would give the Romanian economy some room for export and that would probably lead to lower negative growth rates thus actually arresting practically the decline but short of anything more.

Table no.2 – Anticipated evolutions of the Romanian economy (GDP%-estimated averages 2010) given alternative world growth/recovery scenarios:

No.	World economic growth/recovery scenario	Variables accounted for:			Estimated RO-GDP%
		World GDP%	U.S. key int. rate	Oil price (US$/barrel)	
1	Weak unconvincing recovery	-0.25 - 0.00	0.25	63.25	-5.14
2	Slow but steady recovery	1	0.37	77.5	-1.38
3	Relatively speedy recovery	1.56	0.5	79.5	-0.4

* All values in the table are averages for the 4 quarters of 2010 estimated by Dr. Catalin Ghinararu using the MITGEM model;

Recent labour market reports, surveys and other documentation

The National Institute of Statistics of Romania has celebrated, beginning of July its 150th anniversary, the institute thus covering with its history the whole of the existence of modern Romania, established through the union of the medieval principalities of Walachia and Moldova in January 1859. Several events have marked the occasion with the Institute even launching an official history of Romanian Statistics, though financial constraints of a tough year have reduced both the size of the volume as well as the number of copies printed (see more at www.insse.ro).

The National Labour Research Institute held its annual scientific session this time in September with the main theme being of course the impact of the crisis on emergent markets in Central and Eastern Europe, zooming on Romania obvious enough. Last years proceedings, focusing on youth employment have been published on CD and distributed to participants as well as authors. The scientific session enjoyed international participation including from members of the SYSDEM network (prof.G.Ciccarone-Italy, Universita di Roma)

Also the National Labour Institute has published on its newly founded www.refernet.ro website the first **National VET Report** as well as the preliminary draft version of the first **National VET Research Report**, the latter focusing on school to work transition as well as on the issue of early identification and anticipation of labour market and skill needs. Both of the reports are part of the contract the Institute has with the CEDEFOP Centre in Thessaloniki (GR).

One of the last Phare programmes, “Abreast with Reality; Management and Social Dialogue” has had its closing conference on Oct. 22nd. The programme has trained more than 200 managers and trade union leader from the Bucharest and Ilfov development region. It has also edited a booklet on social dialogue in the context of the Romanian labour market.

The National Training Centre of the National Agency for Employment in Rasnov (Brasov county-180km N of Bucharest) held in mid-October its annual labour market colloquia. A special publication containing the full text of papers presented will be published soon. The organizers have distributed a publication containing last years’ proceedings.

Short bibliography

1. **National Institute of Statistics – Romanian Statistical Yearbook, 2008, Bucharest;**
2. **National Institute of Statistics – The Socio-Economic state of Romania (2006&07), 2009, Bucharest;**
3. **www.insse.ro; www.anofm.ro; www.mmssf.ro; www.bnr.ro;**
4. **www.economist.com plus "The Economist Magazine", selected issues, q1.2009 (SYSDEM correspondent collection);**
5. **Government of Romania – National Reform Program – Implementation Report 2008-09, 2009;**
6. **National Institute for Statistics – Labour Force Survey, Q.1.&Q2.2009, Bucharest, 2009;**
7. **Krugman Paul – "The Return of Depression Economics and the crisis of 2008", Penguin books 2009;**

Plus EU-Commission sources indicated in the Template for the current Quarterly Report.

Bucharest, Dec.1st 2009 **@Dr.Catalin Ghinararu**