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Country Focus – Romania

An assessment of the Nov. 30 parliamentary-elections outcome

With all of the votes of the November 30 parliamentary election having been counted, preliminary results show that the centre-left alliance led by the ex-communist Social Democrat Party of Romania (PSD) marginally leads with a share of 34.16% for the Senate and 33.09% for the Chamber of Deputies. The centrist Democrat Liberal Party (PD-L), linked to President Traian Basescu, closely trailed with 33.57% in the Senate and 32.36% in the Chamber. Prime Minister Calin Tariceanu's ruling Liberal Party (PNL) followed third, having obtained shares of 18.74% and 18.57%, respectively, while its junior coalition ally also made it into parliament, luring a little more than 6% of the vote in each house. Final results are expected to be released by the Central Electoral Bureau on December 6. Upon their release, President Basescu is expected to begin consultations with parties to decide on the new Prime Minister and on December 13-15 the new parliament is expected to hold its first session. A vote of confidence in the nominated prime minister could be held as early as December 18.

As no party won an overall majority to form a government on its own, lengthy coalition negotiations are now expected. PD-L already called for talks with centrist parties, while the PSD signaled it would negotiate with all groups. At present, the potential structure of the new coalition is difficult to call. The fact that the PD-L is closely linked to President Basescu who will nominate the new Prime Minister and who is considered to be amongst the most popular politicians in Romania, gives the party a certain advantage. Meanwhile, the PNL, which could unite with either of the two leading parties to form a government, could assume the role of the king-maker.

Collaboration between the two former coalition partners, PD-L and PNL, is possible. This is currently considered as the most favorable outcome for markets. A number of economic and judiciary reforms were introduced in recent years by the coalition of Tariceanu's and Basescu's parties. However, their momentum recently stalled amid ongoing feuds between the Prime Minister and the President. It is questionable whether the parties will overcome differences, which in the past led to the defection of Basescu's Democrat Party (PD) from the government and its merger with a splinter group that broke away from the PNL in late 2007 resulting to the current PD-L.

These differences could lead to a partnership between the PSD and the PD-L, especially as both parties have recently shared populist ideas. The Social Democrat Party (PSD) has promised a number of benefits and tax cuts, while the PD-L recently pursued a hefty increase in teacher's salaries ahead of the November 30 election, which intensified concerns about significant fiscal slippages this year and the next. Any partnership that will encompass the PSD is likely to be poorly received by markets, amid worries over a stalemate in the reform process and fiscal slippages. During the PSD's tenure in 2000-2004 period, several of the party's members had faced graft allegations and this has also raised concerns about a further upsurge of corruption. With all options currently open, coalition negotiations are likely to be lengthy and uniformity of opinion in the new government is far from certain. Meanwhile, a strong opposition against a fragile coalition seems increasingly likely.

In the short-term, domestic politics are unlikely to constitute a source of significant volatility for Romanian financial markets. Indeed, the election outcome has not come as a surprise, as it confirmed the most recent opinion polls conducted ahead of the ballot. Yet, the length of coalition negotiations will be critical with sentiment already fragile due to the financial markets turmoil. Lengthy coalition negotiations, which in fact could drag through to next spring, are likely to keep Romanian stocks and the local currency under pressure. Looking further ahead, the new government's fiscal policies are of outmost importance. The new cabinet will most likely have to abort populist promises made in the run-up to the elections that could exacerbate the country's vulnerability against a background of a global financial crisis. Meanwhile, in the present environment of increased fiscal-policy risks, the NBR is unlikely to join its Central Eastern European peers, as aggressively, in their rate-cutting spree.

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