

Focus - Romania

Latest political developments Possible scenarios and implications

Domestic politics take centre stage once again

Romania's ruling coalition collapsed on October 1, after the Social Democratic Party (PSD) quit. The latest dispute between the two coalition allies, the PSD and the PD-L, erupted after Prime Minister Emil Boc dismissed and replaced by a member of his party (*the PD-L*), the cabinet's interior minister and Social Democrat Dan Nica. The dismissal was based on the grounds that Nica failed to control crime and made unfounded accusations of fraud aimed at attracting votes ahead of the November 22 presidential election. The PSD had warned that should President Basescu endorse Nica's removal from office - which he did - all party members would resign. And as such, the centrist Democrat Liberals were left to rule alone in a minority government. A few days later, a no-confidence motion was initiated by two opposition parties, the PNL and the UDMR, and was passed in parliament on October 13 by a comfortable majority.

Possible scenarios

Under the current circumstances, President Basescu can either call general elections or nominate a new Prime Minister. Presently, the latter appears to be the base-case scenario and Basescu has already launched consultations with political parties on the formation of a new administration. Until then, the existing cabinet will remain in office. But its powers will likely prove limited, due to potential strong opposition in parliament. For the post of the Prime Minister the President may nominate one of his advisers, a PD-L politician or an external technocrat. The reappointment of incumbent Emil Boc, an ally to the President, can not be ruled out either. If nominated, Boc will have to lure parliamentary support, which he currently lacks. Opposition parties want an independent technocrat candidate, advocating the nomination of the respected mayor of the Transylvanian city of Sibiu, Klaus Johannis. Whoever is nominated will have ten days to attract parliamentary approval for his cabinet. If a cabinet is rejected twice in sixty days, parliament has to be dissolved, paving the way for a general election. Until recently, Basescu was widely expected to nominate his candidate after a final verdict was secured in the upcoming Presidential elections. However, after the government was overthrown in parliament he promised to end the gridlock swiftly. That said, opposition parties may opt to delay the process until after a new President is elected amid hopes that their candidate wins the vote. Presidential elections are scheduled for November 22. But, if the result is inconclusive the run off vote will be held on December 6. According to the most recent opinion polls Basescu is tipped to be re-elected for the post.

Major implications of a political feud

Apart from raising worries over the prospects of an economic recovery ahead - without having accounted for the current political havoc, we expected economic contraction of 7.5% this year to be followed by a 1.0% decline in the next - a major concern is the impact of the current political gridlock on the country's fiscal outlook and the ability to meet conditionalities under the present IMF-led support programme. The current administration is likely to face fierce opposition in parliament and key issues such as an overhaul in the pension system, which according to the IMF must be implemented this year, further spending cuts necessary to curb this year's fiscal shortfall and next year's budget plan, which must be drafted by mid-October, are all pending parliamentary approval. The aforementioned highlight the risk of Romania's potential inability to abide by the IMF targets which may result to interruptions in much-needed future funding. That said, the PSD's chief said recently that his party would support the government's efforts to meet the conditions on the IMF loan accord. Meanwhile, with the current standstill likely to linger until after the conclusion of the presidential elections, prolonged political instability with potential of keeping the leu under pressure may place the NBR in an on-hold mode, at least in the short-term. All in all, the longer it takes for stability to be reinstated in the domestic political stage, the higher the risk on failing to secure upcoming IMF funding and the worse the outlook for the domestic macroeconomic environment. Not surprisingly, all major ratings agencies have warned that the collapse of the coalition government raises the risk of delays in much needed reforms and may put Romania's credit ratings under pressure.

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