IMF austerity policies drive Romania into industrial collapse

by Paolo Raimondi

The economy of Romania is another "miracle" performed by the International Monetary Fund (IMF): More than ten years after the collapse of communism, the physical economy of the country has been totally broken; every attempt to restart production and productive investments has been throttled by IMF austerity conditionalities. This is also true for the year 2000, and this time in a more harsh and dramatic form. A senior university professor with more than 30 years teaching experience, and a member of the Academy of Sciences, for example, reported that he gets paid $120 a month, while prices on basic goods increase at a weekly rate. At the International Transport Conference organized in Bucharest on April 3-5, he shocked his interlocutors when he said that present industrial output is about 10% of the level which existed ten years ago.

At first glance, such estimates look like an exaggeration, but if one examines the poverty into which the majority of the population has been pushed, the collapse of infrastructure, and some of the official figures on the national economy, it may not be far from the bitter truth. One thing is clear: The Romanian people did not deserve this treatment from "Western institutions" after having lived under a communist dictatorship for 45 years. Had Romania been left alone to decide its future, it would have done definitively better than it has with IMF "support." Let us look at some of the reports on the economy by official institutions, such as the National Economic Institute, the Chamber of Commerce, and others.

In 1999, Gross Domestic Product declined at least 4% (some estimates are as high as 5.4%). The official inflation rate is 55%. More revealing are the figures related to the physical economy: Industrial output dropped 8% compared to the previous year, and declines were registered by most industrial sectors: 9.1% for extractive industry, 8% for processing industry, and 17.3% for intermediate goods. In some industrial branches, the decline has been a collapse: metallurgy (–36.5%); oil refining and coal processing (–26%); radio, television, and communications equipment (–25%); rubber and plastics (–23%); and equipment and machine building (–22%). Increased output was recorded in a few export-oriented sectors, such as optical equipment, garments, furniture, and pulp and paper.

The year 1999 saw an 8% cutback in electric power consumption, compared to 1998. This continued a trend already visible the year before: Electric power consumption for January-July 1998 fell 8.7% compared with the same period of 1997. Industrial output in August 1998 declined 16.8%, compared with the year before. In the construction sector, the first quarter of 2000 registered a collapse of 46% compared with the same period of 1999. In agriculture, the most alarming trend is the steady decline in numbers of livestock, which involves many cattle being slaughtered for export.

Despite the fact that what little production remains goes primarily for export, the 1999 trade deficit was $1.8 billion. From 1990 till 1999, the trade deficit was about $17 billion. When communism collapsed in 1989, Romania had $2 billion in foreign exchange reserves and an insignificant foreign debt; today, reserves are about the same, but the foreign debt is more than $9 billion. Debt service has been exorbitant: In 1999, it was $2.8 billion; in 2000, it will be $2.2 billion; for 2000-03, it will be over $6 billion. As reported by the Romanian government, public debt is about 35% of GDP, and due to the country's poor credit rating (under IMF supervision), Romania pays 5% of its GDP just in interest every year. Under these conditions, the official unemployment figure of 1.13 million (11.5%) does not reveal the truth. More important is the reported ratio of wage-earners to those on pension or receiving social welfare benefits, which is 1 to 12.

Damage from the war

On top of all this, the war in neighboring Yugoslavia, including the bombing of the bridges over the Danube River, which blocked the main water transport throughout the region, caused damage of about $1 billion for 1999 just for the Romanian port and shipping companies. In 1999, traffic in the main Black Sea port of Costanta (both maritime and river traffic), suffered an official collapse of 18.7%.

The future bodes no change for the better for Romania. Under IMF diktat, the government has to present a program for the year 2000, which may deal a final blow to the economy, with dramatic social consequences. The IMF is using the carrot of an extension of a stand-by credit to lure the Romanian government, the parliament, and all the political and economic forces. The stand-by credit, of about $540 million, was approved in August 1999, and on March 31, 2000 was extended for two months. Its continuation will be dependent on IMF approval of the economic program for the year 2000.

In a March 27 press release, the IMF said, "Parliamentary