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SUBJECT: ROMANIA: PRESIDENTIAL CAMPAIGN FEATURES PLENTY OF ECONOMIC RHETORIC BUT LITTLE SUBSTANCE
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1. (SBU) Summary: With just over a week to go before the first round of the presidential election, Romania's economic woes are foremost in the minds of voters. The leading presidential candidates have been long on rhetoric but short on specifics about how they would return the country to economic health, knowing full well that the office of President actually has little direct power to implement any of the measures promised. For the most part, economic prescriptions offered by the top three candidates -- incumbent President Traian Basescu (PDL), Mircea Geoana (PSD), and Crin Antonescu (PNL) -- deviate little from their respective parties' platforms. Broadly speaking, Geoana would raise taxes and increase government spending, while Antonescu pledges to cut taxes and shrink the size of government. Basescu's PDL would like to occupy the middle ground between these two extremes. In actual practice, ideology always takes a back seat to realpolitik in Romania once an election is won, and the policies pursued after the election will have much more to do with who is named Prime Minister, and that person's relationship with the President, than with the President himself. End Summary.

2. (SBU) Romania's yawning government budget deficit has brought tax policy to the top of the agenda. Basescu, perhaps wishing for an economic recovery sooner

rather than later, believes that the current revenue shortfall is temporary and that the 16 percent flat income tax and 19 percent VAT tax rate should be preserved, with the VAT possibly increasing later in 2010 if revenues remain down. Antonescu supports the PNL line that taxes should be decreased where possible, and suggests lowering the VAT to 15 percent and the income tax rate to 10 percent. He proposes to balance these cuts with a dramatic government downsizing. Geoana, looking out for the rural population and pensioners who remain PSD's core constituency, would support a progressive income tax and lower VAT on "basic necessities." In Romania, however, everything is negotiable. For example, in a recent private meeting with business leaders, Geoana reportedly was already backpedaling on his call to implement a progressive income tax in the face of strong pushback from the businessmen in attendance.

3. (SBU) Regarding energy policy, Basescu's strong expertise in the area has left few openings for his challengers to exploit, although Geoana has made statements about the need to focus on conservation in an effort to draw a distinction between himself and the incumbent. There is broad agreement on the need for supply diversification, with at least rhetorical support for the Nabucco pipeline common among all candidates. (Geoana, however, takes a much more nuanced view vis-a-vis energy relations with the Russians than does the strongly anti-Russian Basescu.) Renewable energy, excepting a brief mention by Geoana, has received short shrift, although its further development could bolster energy security, and the European Union (EU) will almost certainly push for more in this area in the next several years. In terms of carbon-free energy production, nuclear power has broad support, with Basescu coming out most strongly in favor of this option.

4. (SBU) Romania's economic Achilles heel remains its underdeveloped agricultural sector, employing nearly 30 percent of the population (by far the highest percentage in the EU) but accounting for only eight percent of GDP. Small plots of land and the failure to adopt modern agricultural techniques have meant huge weather-dependent swings in production every year. The large rural population has made reaching this constituency a priority for all of the presidential candidates. Antonescu believes that support for entrepreneurship and efforts to improve access to commercial credit would help this sector to grow. Basescu, perhaps recognizing that GDP is being held back in part by underemployed laborers in the rural sector, would like to find ways to reduce the agricultural workforce and move excess labor to other sectors, although he offers few specifics. Geoana, on the other hand, has vowed to train a cadre of farmers in new technologies, while offering the proven vote-getter of "living credits" (subsidies) to make rural life more attractive to young farmers.

5. (SBU) Underinvestment in infrastructure is another commonly recognized barrier to Romania's further growth. While EU funds could help, none of the parties has proven capable while in government of fully tapping this potential resource. Of the funds available to Romania since 2005, only 2.11 percent had been disbursed as of September 1, 2009, with a miniscule 0.09 percent going to transportation projects. Both Basescu and Geoana acknowledge the pressing need for infrastructure improvements, yet offer few solutions (aside from promising better use of EU funds) for financing them. Geoana has suggested a better coordinating body for accessing EU funds, while the current PDL government has tried a similar tactic to improve Romania's poor absorption rate, with only modest results. Antonescu's platform largely skirts the infrastructure investment issue, preferring to focus on lower taxes instead. Basescu holds out hope for improvements in navigation on the Danube River, while Geoana promises investments in roads, rails, airports, and waterways.

6. (SBU) Healthcare in Romania suffers from the double drains of insufficient resources and widespread corruption and the candidates are all eager to be seen as doing something about it. Basescu sponsored a blue-ribbon commission to systematically evaluate the system, although few of the recommendations from the 2008 report have yet been implemented. He also broadly supports increased decentralization of Romania's vertically integrated and state-controlled health system. Antonescu, looking for the rural vote, says that access should be expanded in rural areas, but offers few concrete plans. Geoana would look to the government to diminish health disparities in disadvantaged populations, curb pharmaceutical prices, increase medical salaries, and modernize facilities. However, with Romania currently devoting less than four percent of GDP to healthcare, compared to an average of eight percent in the rest of the EU, real improvements will require a major infusion of resources in addition to administrative reforms.

7. (SBU) The recent decision by the IMF, European Commission, and World Bank to postpone their review of Romanian compliance until a new government is in place has lobbed a live grenade into the midst of the campaign. With the next funding tranches from these institutions now delayed, all of the main candidates are engaged in vigorous finger-pointing in an effort to deflect blame. Both Basescu and Geoana acknowledge the importance of meeting the IMF's criteria, and the PSD has supported efforts in Parliament to allow the lame-duck PDL Government to submit a budget. However, with the Parliament scheduled to take two weeks of unpaid leave as a "budget saving" measure starting next week, nothing is likely to happen until after the election. While the PNL has traditionally been the most

hostile to deals with the IMF, Antonescu has promised his party's support for the prior actions needed to keep the program on track. Whoever is elected president will be under pressure to name a prime minister and work to pass a 2010 budget quickly so as not to prolong delays in disbursements under Romania's IMF-led loan agreement.

8. (SBU) Comment: While the voters' deep economic concerns are inescapable in this campaign, the fact remains that the President has very little direct ability to improve the economy. This is little consolation for the incumbent Basescu, who is hurt by association with the unimpressive record of Emil Boc's PDL-led government. The true test will be whether whoever is elected actually nominates a prime minister with a credible economic plan and a pragmatic approach to following the IMF program and bringing Romania out of the current recession. Just like one year ago, when the parties were showering goodies on everyone during the parliamentary election campaign even as the economy went over a cliff, an air of unreality pervades this campaign as well. All the candidates are promising new spending as a panacea for Romania's multiple ills, while ignoring the stark reality that this money is not to be had. In order to stay within IMF deficit targets, Romania will have to cut government spending by at least three percent of GDP -- or more than eight billion dollars -- in 2010. That will still leave a deficit of nearly six percent of GDP needing to be financed, and growth-smothering tax increases may have to accompany painful spending cuts. Not surprisingly, none of the candidates is saying much about that. End Comment.