

Business environment reacts to pensions' increase as amended in Parliament

An increase in the deficit of up to 11 pct of the GDP, which will be caused by measures recently adopted by Parliament, will be difficult or even impossible to finance on the financial markets, according to a release issued Tuesday by the Council of Foreign Investors.

The reaction of the organization promoting the interests of foreign investors in Romania comes after Parliament voted on Tuesday to increase pensions by 40 pct, increase teachers' salaries and increase funds allocated to the City Halls.

The employers' organization claims that the measures adopted by Parliament weaken the Romanian economy competitive.

"These measures could trigger the revision of the country rating for Romania, therefore the further increase in the cost of public debt, which would have a negative effect on the entire Romanian economy, especially in the absence of a credible repayment strategy. Thus, Romania's competitiveness will be weakened from the inside, and the regaining of lost positions of advantage will bring additional costs in the medium term," according to the release.

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The American Chamber of Commerce in Romania (AmCham Romania) expresses its concern about the 40 pct increase in the pension point and calls for responsibility on the part of the decision-makers to maintain Romania's macroeconomic balance.

"Only one day after the economic environment, AmCham, the Government and financial institutions welcomed Romania's promotion to emerging market status, which depends to a large extent on the macroeconomic balance of the country, AmCham Romania expresses its deep concern about the 40 pct increase in the pension point and the modification of the social security budget imposed by the plenary of Parliament today. The economic environment has always recognised the legitimacy of the competent authorities' concern for vulnerable groups and the need to ensure a decent living for our grandparents and parents. But measures such as pension increases, which unlike other measures with budgetary impact are irreversible, must be sustainable in the short, medium and long term, and avoid any electoral motivation that may jeopardise Romania's external credibility," reads a release from AmCham sent Tuesday to AGERPRES.

"It is an unprecedented situation and a confusing message Romania is sending to the investment community, risking a downgrade of the country rating in the same week the promotion of the Romanian capital market became applicable," the representatives of AmCham Romania say.

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The increase in pensions by 40 pct, voted on Tuesday by Parliament, is very risky, in a context where the COVID-19 crisis threatens to bring the deficit alone to 8 pct of the GDP, and Romania already has the highest proportion of expenditure on salaries, pensions and social assistance as a percentage of the budget throughout the European Union, say the representatives of the Concordia Employers' Confederation.

In this context, Concordia calls on Parliament, the President and the Government to make use of the remaining few institutional steps to hold a debate before this decision produces irreparable effects.

Although from a social point of view the increase in pensions is indeed necessary in conditions where the average annual pension was in 2019 worth 1,380 lei, the adoption of this law today by Parliament, at this economically unsustainable level, comes at a very difficult time for Romania, the pandemic starting to "leave traces" such as

increasing unemployment and reducing budget revenues, the representatives of the Concordia Employers' Confederation add.

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The increase in pensions by 40 pct is unsustainable in this context of the pandemic, and the irresponsibility of the parliamentarians who voted for this increase will in the future lead to a budgetary burden that is difficult to cover, the CONAF (National Confederation for Women's Entrepreneurship) President Cristina Chiriac claims.

"Whether we are talking about wage increases or pensions, in the time of the pandemic, an increase is an irresponsible measure. We are aware of the need for pensions in Romania to be increased and this is directly reflected in the increase in living standards, but this is not the most appropriate moment. The evolution of the global economy is a negative one, which is reflected in Romania's macroeconomic indicators. As a result, in order to cover the expense of increasing pensions, the government will have to borrow even more at a rising international interest rate. It would be good if we could discuss a response of the elected representatives in Parliament, who promote such measures without a thorough analysis of the chain effects that such populist measures produce," the CONAF president said in a statement to AGERPRES.

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The spending increases voted on Tuesday by Parliament will cause the lack of budgetary financial resources for investment projects, which ensure sustainable and durable development, is mentioned in a release submitted on Tuesday by the National Council of Small and Medium Private Enterprises of Romania (CNIPMMR).

The National SME Council appreciates that the current economic crisis generated by the COVID-19 pandemic, in conjunction with the decrease in budget revenues, will lead to an increase in the public deficit, boosted by current public sector spending and in particular due to the 40 pct indexation of pensions.

"Given the lack of budgetary resources, the increases voted on by Parliament will have the following effects: endangering the sustainability of Romania's economic growth; deterioration of the current account deficit, taking into account consumption exceeding the value of exports; lack of resources for investments to ensure sustainable and durable development; increasing the public deficit; creating additional tensions in the labour market, especially in the private sector," the CNIPMMR release reads.

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Generating unsustainable budget expenditure for purely electoral reasons is a major risk factor for Romania, the representatives of the Romanian Businessmen's Association (AOAR) say, recommending "prudence and responsibility" in the use of electoral logic for economic decision-making.

"Even though other EU states have seen large increases in budget deficits in 2020, they have been caused by the effects of the pandemic and are not mainly structural in nature, as in the case of Romania. Deficits of 8-9 pct of the GDP as a result of the pandemic or the implementation of support programmes for the economy, such as the situation of other European countries, are totally different from the same deficit caused by the increase in permanent expenditure, as in the case of Romania," AOAR said in a release sent Tuesday to AGERPRES.

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The plenary sitting of Parliament passed, on Tuesday, the budget revision for 2020 with the Social Democratic Party (PSD)'s amendment regarding the increase by 40 pct in the pension point.

There were 242 votes in favor, 147 against and 11 abstentions.

The parliamentarians decided, at the proposal of PSD, to repeal the article according to which the pension point

was increased by 14%, thus keeping in force the law of the public pension system which provides for a 40% increase.

Another passed PSD's amendment refers to the increase by 1 billion lei of the amounts distributed to the administrative territorial units, and for the county residence municipalities an additional amount of 500 million lei is allocated, which will be distributed equally, regardless of the political affiliation of the local administration.

At the same time, it was approved to increase as of this year the basic salaries for teaching staff, as provided by law, supplementing the budget of the Ministry of Economy by 400 million lei, for the Start-Up Nation program, and the budget of the State Secretariat for Cults by 20 million lei for the continuation of the works on the Nation Salvation Cathedral.

The Liberals have announced that they will challenge with the Constitutional Court the draft budget amendments passed by Parliament.