

# REGIONAL RISK WATCH

## CENTRAL-EASTERN EUROPE

Issue 3/2008

22th August, 2008



### Tags:

#### Companies mentioned:

Aroma Cosmetics  
DZI Bank  
EFG Eurobank  
Eon  
Gaz de France

#### Sectors:

Agriculture  
Energy  
Finance  
Healthcare

### Key findings in this issue:

- After the corruption scandals of the political elite and freezing of EU funds in Bulgaria, investors became extremely sensitive to any type of political risks. In such context, even purely commercial disputes (e.g. the objectionable decisions of the Bulgarian courts on share impoundments) may affect negatively the business climate.
- The most important thing for the Czech government regarding the healthcare reform is to convince the coalition partners to support the bills, which is quite uncertain but not impossible. The Green Party is in favour of the more liberal bill, while the Christian Democrats insist on certain limitations.
- Macedonia's fears that Athens could now block its European Union bid this autumn when the European Commission is to decide whether to grant Macedonia a date for the start of accession talks are well-established. Both the Macedonian media and analysts reported slim chances of a solution being reached any time soon, owing to the insurmountable differences between Skopje and Athens.
- Poland and the United States reached an agreement just a few days after the Russia-Georgia conflict, thus a US missile interceptor base will be constructed in Poland. The Georgian situation was of help for negotiators and politicians to convince the Polish public opinion.
- This autumn, new wage hikes are possible in Romania, because elections are approaching. As wages are getting higher and higher, inflation is rising, and this may render the solution much more difficult for the Central Bank.
- Mr Fico explained Slovakia's refusal to go along with the rest of the EU in recognizing Kosovo with the violated international law. The facts that the clear-cut Fico-statement is consonant with the Russian standpoint about Kosovo can be considered as an approach towards Moscow.

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# Factsheets

## Political factsheet

Country	Political System	Head of State	Legislature	Head of Government	Governing parties and their orientation	Opposition
Bulgaria	parliamentary democracy	semi-weak president direct election Georgi Parvanov (2002-)	unicameral parliament National Assembly (240 seats)	Sergei Stanishev (Bulgarian Socialist Party, since 2005)	Majority government (150/240) Coalition for Bulgaria (Bulgarian Socialist Party in a alliance with seven minor partners, 81 seats) National Movement for Surge and Stability (former National Movement Simeon II, liberal, 35 seats) Movement for Rights and Freedoms (ethnic Turkish centrist, 34 seats)	Bulgarian New Democracy (former members of NMSS, 16 seats) Democrats for a Strong Bulgaria (conservative, 16 seats) Bulgarian People's Union (center-right coalition, 14 seats) United Democratic Forces (Christian Democracy, 14 seats) Attack Coalition (radical right coalition, 11 seats) Independent – 18 seats
Czech Republic	parliamentary democracy	Weak president Elected by the two houses together Vaclav KLAUS (2003-)	bicameral parliament Senate (81 seats) Chamber of Deputies (200 seats)	Mirek Topolánek (Democratic Party, since 2007)	Number of MPs on government side: 100/200 Civic Democratic Party (neoliberal, 81 seats) Christian Democratic Union (Christian democratic, 13 seats) Green Party (green, 6 seats)	Czech Social Democratic Party (social democratic, 70 seats) Communist Party of Bohemia and Moravia (Far-left, 26 seats) Independent – 4 seats
Macedonia (FYROM)	parliamentary democracy	direct election Branko Crvenkovski (Social Democratic Union of Macedonia, since 2004)	unicameral parliament Assembly (120 seats)	Nikola Gruevski (Internal Macedonian Revolutionary Organization-Democratic Party for Macedonian National Unity, since 2006)	Majority government (82/120) Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity (center-right, 63 seats) Democratic Union for Integration (Albanian ethnic, 18 seats) Party for the European Future (1 seat)	Social Democratic Alliance of Macedonia (social democratic, 27 seats) Albanian Democratic Party (ethnic, 11 seats)
Poland	parliamentary democracy	semi-weak president with some strong mandate in foreign policy and nomination direct election Lech Kaczynski (Law and Justice, 2005-)	bicameral parliament Senate (100 seats) Sejm (460 seats)	Donald Tusk (Civic Platform, since 2007)	Majority government (240/460) Civic Platform (Christian democratic, liberal conservative, 209 seats) Polish People's Party (agrarian, Christian democratic, 31 seats)	Left – Lewica (social democratic, 42 seats) Law and Justice (Conservative, Euro-sceptic, 158 seats) SDPL - Nowa Lewica (social democratic, 8 members) Democratic Party - (social liberal, 3 seats) Independents (9 seats)

Country	Political System	Head of State	Legislature	Head of Government	Governing parties and their orientation	Opposition
Romania	parliamentary democracy	semi-presidential system direct election Traian Basescu (independent, 2004-)	Bicameral Parliament Senate (137 seats) Chamber of Deputies (332 seats)	Popescu-Tariceanu (National Liberal Party, since 2004)	Minority government (78/332) National Liberal Party (liberal, center-right, 56 seats) Democratic Union of Hungarians in Romania (centrist, ethnic, 22 seats)	Social Democratic Party (social democrat, centre-left – supporting the government from outside, 102 seats) Liberal Democratic Party (center-right, support the president, 73 seats) Greater Romania Party (nationalist, 25 seats) Conservative Party (conservative, 18 seats) Parliamentary group of the national minorities, 18 seats
Slovakia	parliamentary democracy	Weak president Direct election Ivan Gašparovič (Movement for Democracy, since 2004)	unicameral Parliament National Council (150 seats)	Robert Fico (Direction – Social Democracy, since 2006)	Majority government (85/150) Direction – Social Democracy (social democratic, populist, 50 seats) Slovak National Party (nationalist, 19 seats) People's Party – Movement for a Democratic Slovakia (15 seats)	Slovak Democratic and Christian Union – Democratic Party (Christian democratic, 28 seats) Party of the Hungarian Coalition (ethnic, 20 seats) Christian Democratic Movement (Christian democratic, 9 seats)

## Economic factsheet

Country	Population	Budget balance 2007	Inflation 2007 (year-on-year)	Economic Growth (as % of GDP) 2007	Interest rate	Unemployment 2007	Public debt (% of GDP) 2007
Bulgaria	7,640,238	+3,5%	7,6%	6,2%	5,25%	6,9%	21,8%
Czech Republic	10,403,911	-1,58%	2,8%	6,6%	3,5%	6,6%	28,7%
Macedonia	2,061,315	0,8%	2,3%	5,2%	6,5%	34,8%	30,8%
Poland	38,125,696	-2%	2,5%	6,5%	6,0%	11,4%	43,1%
Romania	22,246,862	-1,4%	4,8%	6%	10,25%	6,4%	18,2%
Slovakia	5,400,998	-1,6 %	2,8%	10,4%	4,25%	8%	29,4%

## Introduction

Our Regional Risk Watch aggregates and analyses the news concerning the Central-Eastern-European Region, which significantly influences the political risks of the given countries, due to their favourable or unfavourable effects on

- investor environment,
- governmental and political stability in general, and
- welfare reform.

We make forecasts on prospective political tendencies on the basis of the news, and evaluate each news item by its potential of increasing or decreasing political risks of the region or a particular country.

*Notation:*



*Risk increase (decision or event pointing to increasing political or economic instability)*



*Risk decrease (decision or event pointing to decreasing political or economic instability)*

**Our newsletter covers the following countries:**

- Bulgaria
- Czech Republic
- Macedonia (FYROM)
- Poland
- Romania
- Slovakia

Hungary is covered in a more detailed analysis of Political Capital.

For information and analysis on Hungary, please contact us at [szabados@politicalcapital.hu](mailto:szabados@politicalcapital.hu).

## Bulgaria

### Court decisions on share impoundments raised concerns in the business elite

#### Item

The Bulgarian economic elite has been warned about the effect the judiciary system has on the business climate, as it was articulated on August 12 at a roundtable discussion organised by the Confederation of Employers and Industrialists in Bulgaria (CEIBG).

The reason for the discussion was the impoundment of shares in cosmetics maker Aroma by Sofia City Court in July 2008. The stock was suspended from trading by the Central Depository on July 30. The Financial Supervision Commission, the Bulgarian Stock Exchange and the Central Depository have all harshly criticised the courts' decision for hurting the interests of minority shareholders, as they had no stake in the stand-off between the parties to the dispute.

One of the participants of the round table, former central bank chief economist and Lyubomir Hristov told the round table that "unclear and changing rules applied randomly are the hallmarks of political risk". CEIBG warned that "the stability and trust in the Bulgarian capital market" was being destroyed "as a result of a court decision that breaches the law".

There have been some previous cases in the past as well when courts decided on impounding shares. A journalist of Sofiaecho noted that in 2006 courts in Bulgaria impounded while it was in the process of being sold to Greece's EFG Eurobank. One judge went so far as to order the impounding of all the accounts and shares of DZI Bank of the Bulgarian Stock Exchange. One judge that had ordered an impounding in that case is now being investigated on suspicion of corruption.

(14th August, 2008)

#### Analysis and forecast



After the corruption scandals of the political elite and freezing of EU funds, investors became extremely sensitive to any type of political risks. The unexpected and objectionable decisions of the Bulgarian courts are seldom followed by assumptions of political influence and corruption, which is inevitably associated with Bulgarian politics in international public opinion. In such context, even purely commercial disputes may affect negatively the business climate. Thus further scandals (magnified by political actors) could undermine the trust in the Bulgarian political system and economy in the global financial markets regarding both asset-backed securities and venture capital.

Though, the share impoundment problems are rather legislative in nature. The controversy arises from the legislative ambiguity. The main lapse is that the amount of the security may easily exceed the amount of the future claim and in those cases the Court decision may be questioned for over-insuring the claim. The nature of the security is indicated by the claimant and the court has no legal power to decide whether to impound the shares or other estate of the defendant.

## The Georgia-Russia conflict: diplomatic challenge for Bulgaria, with a moderate EU-position

### Item

Bulgaria proposed using Burgas port as a coordination centre for humanitarian aids to be sent to Georgia. Foreign Minister Ivailo Kalfin (the second most popular minister of the cabinet) made a proposal at a meeting of EU foreign ministers on 13th August. Tbilisi had already requested aid from Sophia.

Ivailo Kalfin will take part in a special informal meeting of NATO's Council, dedicated to the situation in Georgia, as was announced by the press service of the Foreign Ministry. The focus of the meeting is how to respond to the Russian intervention in Georgia. The meeting of NATO's foreign ministers was requested last week by US secretary of state Condoleezza Rice, who is expected to plead for a very harsh response towards America's former Cold War enemy. (Condoleezza Rice has visited Bulgaria for a diplomatic meeting recently). After the NATO meeting, the foreign minister will hold an informal meeting of the New Group of Georgia's Friends in Brussels.

(19th August, 2008)

### Analysis and forecast



The war in Georgia was not a surprise for the Bulgarian government, and gave a chance for the government to prove its commitment towards EU. The socialist party (a successor of the communist party) had a strong pro-Russian orientation a few years ago, but in the current situation it would not have been reasonable to diverge from the official EU position. Bulgarian politicians made a poor attempt to exploit the issue, but Bulgarian society does not understand the importance of this conflict. DSB criticised Russia on its aggressive behaviour, as everyone else found Georgia "guilty". UDF tried to criticize the government for not having a definite position in the conflict. But the government made a statement that is closer to the EU than to the Russian position and even the president took a moderate stance. For most of the Bulgarians this war did not happen, so it will not reflect the political landscape in Bulgaria the same way the conflicts in former Yugoslavia did.

## Minister Performance Index in July, 2008

Name	Field of responsibility	Minister Performance Index
Stefan Danailov	Culture	23,1
Ivailo Kalfin	Foreign Affairs	15,0
Gergana Grantcharova	European Affairs	12,6
Meglana Plugchieva	Management of European Funds	7,6
Daniel Valtchev	Education	6
Mihail Mikov	Domestic Affairs	1,8
Nikolay Vassilev	Public Administration	1,4
Nikolay Tzonev	Defence	-1,1
Miglana Tacheva	Justice	-1,1
Evgeniy Zhelev	Healthcare	-1,2
Valeri Tzvetanov	Agriculture And Food Supply	-2
Petar Mutachiev	Transport	-4,9
Plamen Oresharski	Finance	-5,8
Petar Dimitrov	Economy and Energy	-6,8
Asen Gagauzov	Regional Development and Public Works	-6,9
Dzhevdet Chakarov	Environment And Waters	-10,5
Emilia Maslarova	Labour and Social Policy	-30,4
Emel Etem	National Disasters and Emergencies	-41,4

*Source: Alpha Research. Ministers with index higher than zero enjoy a higher level of approval than disapproval*

## Czech Republic

### Healthcare fees and reform: continuing debates, but abolition is unlikely

#### Item

The Czech Patients' Association (CPA) wants to completely abolish healthcare fees and cover all treatment from public health insurance, according to its healthcare reform presented on 11th August. As part of the recent government's healthcare reform package, patients have been obliged since January to pay 30 crowns (nearly 2 USD) per visit to the doctor, and 60 crowns per day in hospitals.

The CPA says this reform violates the constitution that guarantees free health care for everyone. The governing coalition has already exempted newborns, organ donors and those legally ordered to undergo treatment from paying the fees.

(11th August, 2008)

Czech Health Minister Tomas Julinek is not going to fundamentally change the first three of the six reform bills he plans to push through and against which trade unions as well as the Czech Doctors' Chamber (CLK) have objections. The bills redefine patients' rights, the conditions of care providers, artificial fertilisation, the deadline for the rescue service's arrival etc. The CLK had 117 comments on the bills. The CLK announced that unless Julinek adjusted the bills, they would start negotiating with deputies on the bills' rejection.

The government are expected to discuss the bills in the second half of September. Then they will go to the Chamber of Deputies. Julinek still counts with the bills taking effect in January 2009. He has suspended work on another three controversial laws on health insurance for the time being.

(14th August, 2008)

#### Analysis and forecast



The six new reform bills are likely to generate prolonging debate between the leading parties, between the government and the opposition, even with the medical workers and trade unions.

The most important thing for the government is to convince the coalition partners to support the bills, which is quite uncertain, because of the forthcoming Green Party vote to be held in September 2008. The Green Party is in favour of the more liberal bill (the Christian Democrats insist on certain limitations), but the party's point of view is likely to get flexible as negotiations about the US radar continue between the governing parties. Since the Green Party's standpoint on several political subjects can change following the election, the success of the Health Ministry's bills is doubtful but not beyond possibility.

The pressure of the trade unions will get stronger as the negotiations are launched in September, further strikes are also possible (medical workers went on a one-hour strike against the planned reforms in June; in early July, health trade unions said further protest actions will follow in the autumn), but these activities will probably hardly affect the negotiating process. Furthermore the abolition of the healthcare fees in effect is unlikely, exemption for the underage and for the patients above 70 (which is ambitioned by the two smaller coalition parties and also by the opposition, but objected to by the Civic Democrats) can lead to a compromise.

## Strong words from president as a gesture to Russia

### Item

Czech president Vaclav Klaus has said that the Georgian government is responsible for the country's current conflict with Russia. Mr Klaus criticized the Georgian government's behaviour, as well the Western media's reaction to the conflict, in a letter to the newspaper Mlada fronta Dnes. President Klaus said that he thought Russia had more justification than ever for its actions following Kosovo's declaration of independence from Serbia earlier this year. He called the attitude of Western leaders towards the crisis in Georgia 'hypocritical', given the way they had reacted to Kosovo. Mr Klaus's views are at odds with those held by the Czech government on the Georgian situation.

Foreign Minister Karel Schwarzenberg has indeed reacted to the president's statements by saying that they ignore Moscow's responsibility for the crisis. Mr Schwarzenberg added that it is a pity that government officials and the president did not consult with each other before taking their views to the press (the government made a parallel between the Russian military intervention in South Ossetia and the Soviet-led invasion of Czechoslovakia in 1968). At a briefing on Monday afternoon, the foreign minister told journalists that he respected the president's opinions, but that Mr Klaus's views were at odds with the official standpoint of the Czech Foreign Ministry.

(18th August, 2008)

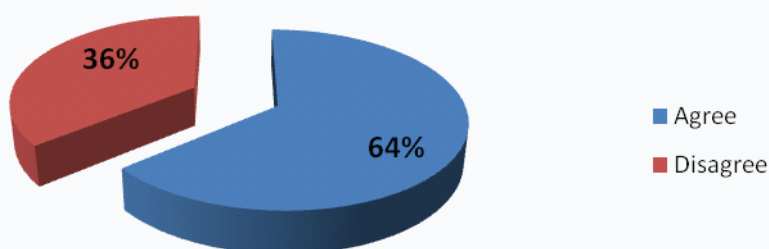
### Analysis and forecast



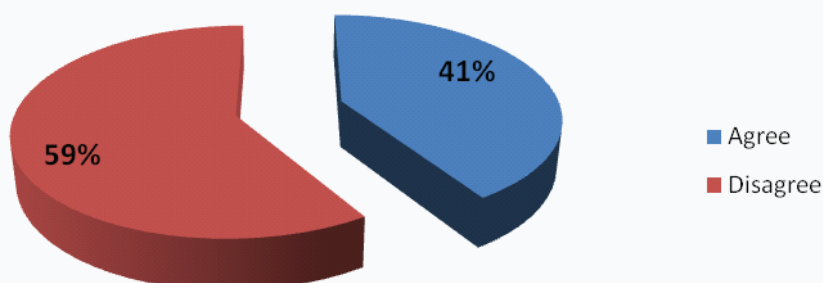
After last week the Russian Defence Ministry announced that the Czech Republic had been the largest supplier of tanks, self-propelled guns and artillery to Georgia in the past two years, and the relationship between the two countries had become even colder. The first time oil transport from Russia through the Druzhba pipeline fell below the normal level occurred after signing the Czech-American anti-missile defence agreement, the second time it happened after the Russian Defence Ministry's announcement. It is more than probable that the president's statement was a reaction to this uncomfortable situation.

The pro-Russian stances are not untypical of Klaus, however his statement means more than this: it can be considered as a gesture towards Moscow motivated by the country's energetic dependence from Russia. Probably with this announcement the president has prevented a more serious energetic conflict between the two countries. On the other hand the inconsistency between the governmental and the presidential standpoint forecasts further diplomatic difficulties (especially with the European Union with whom Mr Klaus already has conflicts) although the future of the US radar base does not seem to be in danger. The president previously indicated that he would sign the Czech-American radar agreement with "no hesitation whatsoever", if it were approved by Parliament.

### It is not possible to forgive Russia its occupation of Czechoslovakia 40 years ago



### Russia still endangers the Czech Republic



Source: STEM polling agency, Czech Republic

## Macedonia (FYROM)

### Bitter Greek-Macedonian conflict over name – obstacle to NATO and EU- membership?

#### Item

Macedonia's President Branko Crvenkovski and Prime Minister Nikola Gruevski discussed the country's position in the name dispute with Greece before a visit by the UN mediator.

The UN mediator in the talks, Matthew Nimetz, started a fresh round of consultations with ambassadors from both sides on 20th August.

A few months ago Athens blocked Skopje's invitation to join NATO claiming that the country's name could lead to make territorial demands on Greece's northern province also called Macedonia and threatened to repeat this move with the EU membership.

Several weeks ago the Greek Army had army practice near the Macedonian border (in the northern Greek province of Macedonia) and it was interpreted as a form of pressure. Some of the exercises were held under the slogan "Macedonia is one and Greek". The Greek party, Rainbow, representing the unrecognized Macedonian minority in Greece, said the slogan under which some of the army exercises were being held was an obvious provocation towards Skopje.

(20th August, 2008)

#### Analysis and forecast



Macedonia's fears that Athens could now block its European Union bid this autumn when the European Commission is to decide whether to grant Macedonia a date for the start of accession talks are well-established. Both the Macedonian media and analysts reported slim chances of a solution being reached any time soon, owing to the insurmountable differences between Skopje and Athens.

A good chance for Macedonia is that The United States' politicians attempt to press for a quick solution to the row before the end of the George Bush's presidential term, repeatedly saying that Washington hopes for a quick resolution to the dispute that would enable Macedonia to enter NATO. Some analysts asked by BalkanInsight, claim that this would reaffirm Washington's strong position in Eastern Europe, which was recently challenged by the Russian military intervention in Georgia, another key ally of the US.

## Milk and blocks on the roads because of dairy producers' strike

### Item

Macedonian milk producers are threatening to pour their milk onto the streets if local factories do not offer them the money they need to pay them on time. On 20th August, farmers started their street protests, using roadblocks to obstruct the delivery of milk to the factories, as was announced by officials from the Macedonia's Farmers' Organization. According to the country's Institute for Farming, the current lowest price for the milk is little over 27 denars (around €0.40) per litre. The farmers are protesting for a guaranteed price of 29 denars per litre. The reason for the demonstration is that fuel and livestock food prices have increased. They would like to hold a meeting with the Agriculture and Water Economy Minister Aco Spasenoski in the coming days to articulate their problems. The farmers state this is only a warning strike, and if their demands are not met they will start more organised mass demonstrations.

(19th August, 2008)

### Analysis and forecast



According to the State Statistical Office, milk is one of Macedonia's main agricultural products. Macedonia is also an important regional milk producer. The over-production for agricultural products is a general problem in some European countries (in Hungary, for example, some fruit producer organizations made blockades around factories to pull up the procurement prices last month). While the main target for the demonstrations is not the government itself, in this situation the government should play a mediating role and help to find a solution to maintain the trust of farmers towards the government.

According to the data of the State Statistical Office, the price of agrarian products is following the general inflation. In July 2008, the price index for Input 1 (goods currently spent in agriculture) increased by 125.3 compared with July 2007, and the price index for Input 2 (investment in agriculture) increased by 116.6. In July 2008, the price index in Crop production increased by 117.2 compared to July 2007 and the price index in Livestock production increased by 129.4. The Consumer Price Index, measured by prices of goods and services for personal consumption in July 2008, in comparison with June 2008, is 99.1, while in comparison with July 2007, it is 109.5.

## Price indices in agriculture, July 2008/ July 2007

<b>Total Input</b>	<b>125,1</b>
Seeds and planting stocks	131,6
Energy, fuels, lubricants	120,6
Fertilisers and soil improvers	133,9
Plant protection products and pesticides	108,8
Veterinary expenses	112,8
Fodder	134,1
Maintenance of materials and buildings	101,6
Other goods and services	114,8
Machines and other equipments	111,1
Transport equipment	133,6
Buildings	116,5
<b>Total output</b>	<b>120,7</b>
Crop production	117,2
Cereals and rice	137,9
Industrial crops	103,6
Forage plants	127,2
Vegetables	100
Potatoes	108,7
Livestock production	129,4
Livestock products	150

*Source: State Statistical Office of Macedonia*

## Poland

### Poland gets nearer to US as Georgian conflict deepens

#### Item

On 11th August, Polish PM Donald Tusk fired missile defence chief negotiator Witold Waszczykowski after the latter criticized the government's negotiating strategy. The decision had its desired effect: Poland and the United States reached an agreement just a few days later, thus a US missile interceptor base will be constructed in Poland. The debate between the two nations lasted long and was hard; Poland insisted that it needed Patriot missiles besides the interceptors. The US eventually agreed. The deal contains a mutual help clause also. After the announcement, Russia threatened Poland: a Russian general said that the country became a potential nuclear attack's target. However, both Polish and American officials tried to deny that the agreement would be in any way connected to the Georgian situation. An economist journalist noted: "A deal on missile defences angers Russia even though they may not work".

(14th August, 2008)

#### Analysis and forecast



There are historical revulsions against Russia in Poland, the country has been occupied by Russia several times, and was part of the sphere of influence of the Soviet Empire. It could have been another way, but the post cold war Poland is clearly Atlantic in its orientation. Even if both the US and Poland tried to point out that the agreement had nothing to do with Russia, it is obvious that the two cases have connections: Donald Tusk said before the agreement that the Georgian situation may help for Polish negotiators. Tusk suggested also that the Patriot-demand may be accepted by the US because of the Georgian situation. Furthermore, it is hard to reason that the interception base is fair and only against rough states such as Iran – if so, the question emerges why it was not placed in Turkey or closer to the region.

## CO2 trading of the EU to be blocked by Poland

### Item

While European officials are spending their holidays, the Polish government is looking for the possibility to build a blocking minority in the European Council (91 votes required out of 345) in order to prevent that the European CO2 emission system be fully launched. 96 percent of Polish energy comes from polluting coal plants, so the country fears due to energy prices and energy security (the Polish government is projecting a price hike of 70 percent).

Poland may find East-European allies to do so: along with Hungary, Slovakia, Romania, Bulgaria, Latvia, Lithuania and Estonia it has already launched a new proposal according to which the auction system would be launched gradually. The EU10 + Romania and Bulgaria currently have 108 votes in the Council, easily enough for a blocking minority.

(continuous event, August, 2008)

### Analysis and forecast



Governments in Eastern and Central Eastern-Europe are led by their voters' fear of rising prices. Their arguments against the CO2 emission restrictions are: firstly they need to invest in environment-friendly technologies and that takes time, secondly their economic growth has to be assured in order to approach the western living standards (this standpoint is comparable to Chinese arguments when it comes to CO2 emissions).

Eastern countries are capable of forming the blocking majority, but a solution will likely to be found to the problem. The French presidency is committed to reach a conclusion, but also understands that there is a modernization challenge in Eastern Europe. The French would favour a redistribution of proceeds instead of changing or abandoning the emission system restrictions.

### Votes in the European Council

Country	Number of votes
Germany	29
United Kingdom	29
France	29
Italy	29
Spain	27
Poland	27
Romania	14
Netherlands	13
Greece	12
Czech Republic	12
Belgium	12
Hungary	12
Portugal	12
Sweden	10
Austria	10
Bulgaria	10
Slovakia	7
Denmark	7
Finland	7
Ireland	7
Lithuania	7
Latvia	4
Slovenia	4
Estonia	4
Cyprus	4
Luxembourg	4
Malta	3
<b>TOTAL</b>	<b>345</b>

## Romania

### Romania: rising inflation

#### Item

Annual inflation rose to 9,04 percent in Romania, the highest level for three years, as high energy prices were incorporated in the price of goods sooner than expected, according to the country's central bank. The data published was far below analysts' anticipations, which was 9,3 percent according to Reuters. Meanwhile, the trade deficit grew by 11,3 percent on the year.

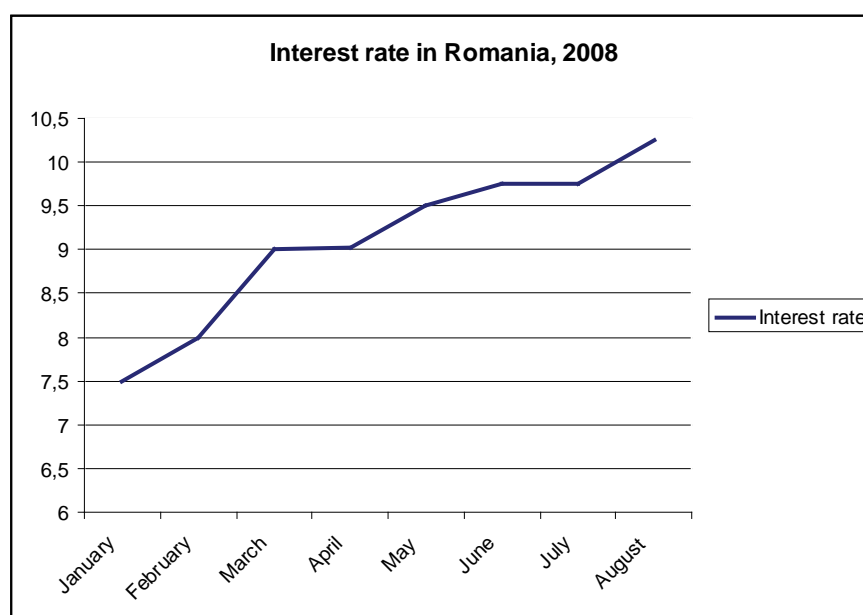
(12 August, 2008)

#### Analysis and forecast



The case of Romania is special, because the government has issued promises of wage hikes in the last few months. This autumn, new hikes are possible, because elections are approaching. As wages are getting higher and higher, inflation is rising, and this may render the solution much more difficult for the central bank.

Some analysts are already talking about economic overheating, while others, such as Fitch, already fear a "hard landing". The latter occurred in Estonia, a state that had produced impressive growth but now has to face a recession. The Romanian government now faces similar risks, and if the government refuses to find prevention tools (and significantly increases government expenditure in the election campaign, further amplifying the inflation pressure) these risks may become an imminent danger.



Source: National Bank of Romania

## Corruption and judiciary system at the top of the political agenda

### Item

Following the publication of the European Commission's Justice and Home Affairs report, justice and corruption has been a permanent ISSUE on the Romanian political agenda. The parties sent firstly a message that is consistent with the Commission's will: they said after a multiparty meeting that the EC must stop the monitoring and verification mechanism for the Romanian justice next year, by July 2009, and for that, steps are needed. However, parties (and institutions) criticized each other for blocking the necessary reforms, as one constant problem with Romanian justice is that it is over-politicized. Furthermore, a PSD MP accused a former justice minister with leaking information to the EC. Meanwhile, the Chamber of Deputies turned down the request of the National Anti-Corruption Directorate (DNA) to let a criminal investigation begin against two ex-Ministers, Adrian Nastase and Miron Mitrea. The Senate faces a similar vote between 25-28 August. A few days after the Chamber-vote social democrats proposed a Constitution Amendment Bill that would stop all sort of immunities from prosecution for office holders.

(continuous event, August, 2008)

### Analysis and forecast



Personal immunity is a classical parliamentary tool; it allows members of parliament to pursue their mission without external embarrassment. The amendment bill proposed by social democrats would contain a risk: it could possibly block the government and the majority if adopted, because it would affect not only ministers and the president, but MPs as well – the text might be in reality unacceptable for all parties. However, it can constitute a gain for social democrats, if they can thus demonstrate their willingness to fight corruption (we mustn't forget that elections are coming closer).

Romanian parties should need to find the balance between the EC's will (finding a way to prosecute high level office holders), and the stability criterion (MPs should be relatively protected). The question is not simply a legal, but a political question, however, as the Nastase vote demonstrated, prosecution is not impossible if the political elite want it.

## Slovakia

### Slovakia: closer to Russia – PM does not recognize Kosovo independence

#### Item

Slovakian PM Robert Fico says he cannot envisage his country recognizing Kosovo independence anywhere in the near future.

Fico said: "In the case of Kosovo's emergence as an independent state, international law has been grossly violated. If, at some point in the future, all the international conditions have been met, we'll discuss it. For the time being, Kosovo is an open and shut case for us."

The Slovakian PM stressed that Slovakia would not recognize Kosovo passports either, "as it would be ridiculous not to recognize the state, but recognize the passports."

"Small countries have no other means of survival than international law. We don't have fighter aircraft or atom bombs to do as we please around the world, as some countries do. The only artillery we can use in discussions is the paragraphs of international law. We're convinced that in the case of Kosovo it has been trampled on, and that's why we see no reason to change our minds," stressed Fico.

(19th August, 2008)

#### Analysis and forecast



Mr Fico explained Slovakia's refusal to go along with the rest of the EU in recognizing Kosovo with the violated international law. However it is more likely that the unexpected declaration can be connected to the Russian-Georgian conflict. Slovakia was the only country from the Visegrad group who did not condemn the Russian attack at all. The press release of the Ministry of Foreign Affairs was drawn up very cautiously which indicated that the country would not turn against Russia.

The fact that the clear-cut Fico-statement is consonant with the Russian standpoint about Kosovo can be considered as an approach towards Moscow. Unlike Poland and the Czech Republic, Slovakia is not concerned in the US radar base affair and has notable energy dependence from Russia.

Czech president Vaclav Klaus's and Slovakian PM Robert Fico's point of view indicates Moscow's power in the CEE-region which is unlikely to get weaker in the near future.

## Energy dependence rate

Country	Energy dependence rate
Bulgaria	46,2
Czech Republic	28,0
Hungary	62,5
Poland	19,9
Romania	29,1
Slovakia	64,0

Source: Eurostat.

*The energy dependence rate is defined as net imports divided by gross consumption, expressed as a percentage. Gross consumption is equal to gross inland consumption plus the fuel (oil) supplied to international marine bunkers. A negative dependency rate indicates a net exporter of energy. A value greater than 100% occurs when net imports exceed gross consumption. In this case, energy products are placed in stocks and not used in the year of import.*

## Nationalization in Fico's rhetoric: government protects voters by clashing with western-run utilities

### Item

PM Robert Fico has stepped up his pressure on utilities over energy costs, warning their Western owners he may expropriate their property if they seek to overcharge Slovakian people.

Fico's statement escalates his clash with western-run utilities as he aims to prevent hikes in household energy bills – a key promise that helped him win the 2006 election. „(The Constitution) says a thing can be expropriated in public interest (...) If they, and it is not just Enel but foreign owners of energy monopolies (in general), continued in policy that is basically against the interest of this state, its people, and therefore against public interest, we will not be shy to use even such extreme options in the future”, Fico said.

The main energy companies have said prices will have to increase due to the rising cost of oil on the world markets, but Fico said utilities only want to boost their profits: „We will not abandon people, we will fight until the very last option”.

(18th August, 2008)

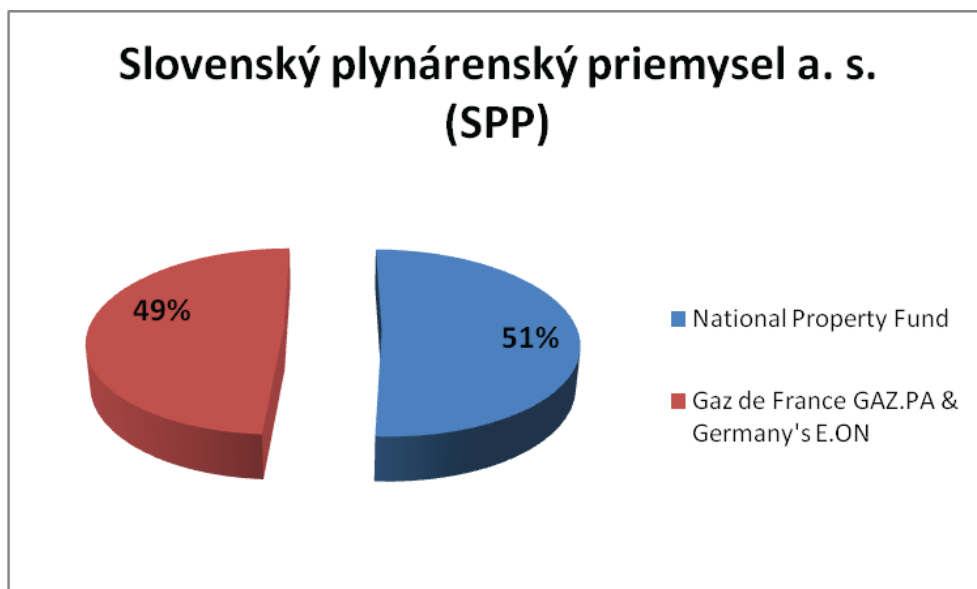
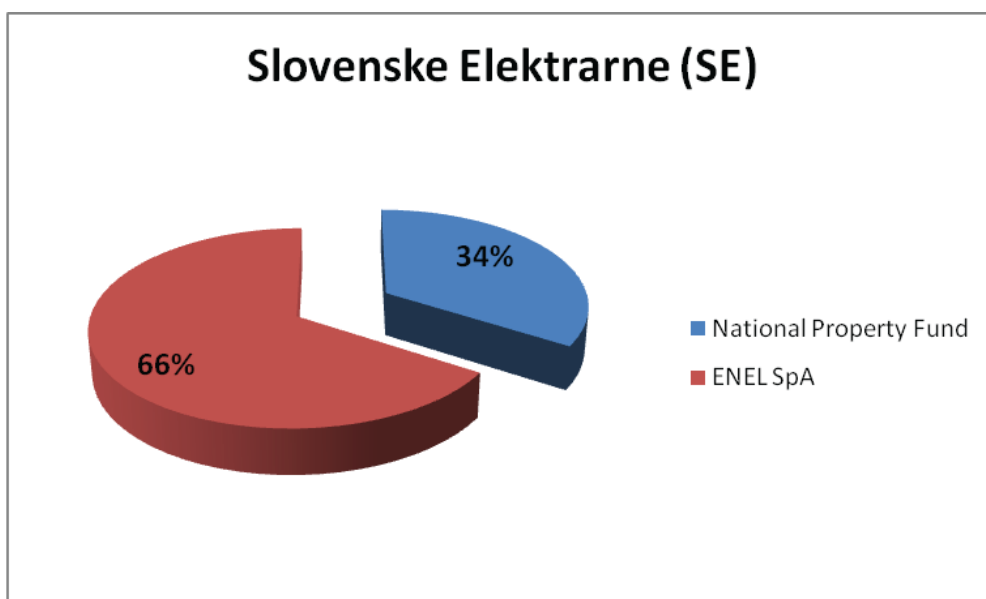
### Analysis and forecast



Since Slovakia's main energy firms are run by foreign utilities following a privatization process at the time of the previous centre-right government led by Mikuláš Dzurinda, Mr Fico has always clashed with these companies, which is an important element of his politics.

The offensive rhetoric against western-run utilities is unlikely to materialize (it would be too costly for the state), the message is entitled to the voters who can feel to be protected by the PM against inflation which can easily be accelerated by rising electricity and natural gas prices.

However, this kind of offensive rhetoric can be dangerous in terms of economic growth, as it can easily frighten or chase away some potential investors.



Source: Website of SE & SPP

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