

## **Prime Minister fires democrat allies from the government It's no April fool's joke!**

The parliamentary and presidential elections held at the end of 2004 brought victory for the D.A. alliance between the National Liberal Party (PNL) and the Democratic Party (PD). The D.A. alliance managed to form a weak majority in parliament with support from the Democratic Alliance of Hungarians in Romania (UDMR) and the Conservative Party (PC). The Conservative Party left the government in December last year.

Prime Minister Calin Popescu Tariceanu, leader of the PNL, decided on Sunday 1 April to remove from government all eight ministers appointed by the Democratic Party (PD). He will likely present the names of the new ministers today. The new structure of the government will consist only of ministers appointed by the National Liberal Party and the Democratic Alliance of Hungarians in Romania. The parliament is to approve or reject the new structure of government later in the week.

The Prime Minister's decision to remove the Democratic Party from government reflects in fact the break-up of the D.A. alliance. This decision came after several months of important disagreements between the Liberal Party and the Democratic Party which have been further aggravated by a personality conflict between Tariceanu and president Traian Basescu (former leader of the Democratic Party).

The National Liberal Party only has very weak support in the parliament and also in the latest polls. The new government could be approved by parliament only if it receives support from the main opposition party – the Social Democratic Party (PSD). This is not precluded from happening, but the chances for early elections have increased.

### ***Implications for the exchange rate***

The tensions within the ruling D.A. alliance in the last half of the year have weakened the pace of economic and institutional reform. Existing political turbulence also undermines the chances for further improvements in Romania's external rating. However, the exchange rate developments have not yet been influenced by the political strife. There is the possibility that the political tumult could influence the exchange rate, but we don't expect the current political turbulence to increase the exchange rate volatility. As previously, we continue to see only weak chances for new leu appreciation. The risks are on the downside.

Kind regards,  
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