

## Tax Council head Daniel Daianu: GDP to return to pre-pandemic levels in early 2022

**The return of GDP to pre-pandemic levels will happen in early 2022, just like almost everywhere in the European Union, Chairman of the Tax Council Daniel Daianu told the regional video conference ZF BRD Budget 2021 today, stressing that he is "almost certain that next year will see economic growth."**

"It is almost certain that there will be economic growth next year. But the return to pre-pandemic GDP levels will happen at the beginning of 2022, just like almost everywhere in the EU. There will be however big differences between economic sectors, at least in the first half of 2021, the HORECA industry will still hurt a lot. Industry is likely to do increasingly better and agriculture is expected to perform better than in 2020. Constructions too are likely to fare better. This is also why the labor market analysis needs to be nuanced - aggregate figures can hide 'delayed' unemployment and large sectoral differences. The more EU's large economies - with Germany playing a central role - recover, the more our economy stands to benefit. The comeback of the economies where many of our fellow citizens work or with which we have considerable trade relations matters a lot for us," Daianu said.

The Tax Council head noted that "agribusiness must be a strategic axis for the economic development of Romania, also bearing in mind the effects of climate change", given that "we have favorable natural conditions, there is a lot of European money available for land-use planning and the construction of irrigation systems."

"The state must be active in this field, to help the development of collection and storage networks. Romania must grow to at least match Poland and Hungary in the industry and export of agri-food products. Reckless/criminal deforestation must be severely punished. Infrastructure building must be a forceful constant in the coming years, therefore in 2021 as well, not only because the eastern region of Moldova needs modern roads, railways, and bridges, but also because the country needs better inner cohesion. Turning to digital economy requires human support, both in terms of state-of-the-art resources (IT experts) and the education of citizens - which comes naturally to a certain extent. Large university centers that excel in IT intelligence can help transform the economy," added the Tax Council official.

Daianu underlined that "inflation will be kept under control, as the current data and forecasts of the National Bank of Romania show that the citizens' purchasing power is not going downhill".

"The Tax Council estimates this year's cash budget deficit at 9.8 percent; we will see how the year ends. In 2021, if part of the one-off economy supporting measures continue (there are announcements in this regard), narrowing the deficit to 7 percent of GDP will be difficult. It very much depends on a better collection of tax revenues," Daianu also said.

He cautioned that a distinction must be made between "rigid and non-permanent (one-off) expenditures, apart from budget revenues. The macro correction mainly has to do with rigid expenditures that this year came to consume more than 90 percent of the tax revenues (that include contributions)."

"These are issues that go past next year and that hold challenges for the economic and social policy. One would say that this is not only in Romania, but there are special accents here because we have surprising development gaps for an EU member state - even if in the last two decades the per capita income has increased to more than 2/3 of the EU average for purchasing power parity (speaking of internal gaps, aggregate figures are in many ways misleading). Public health becomes an absolute priority, a national security problem, because we will be visited by other viruses as well and we'll experience other extreme events; especially in a country with many low-income citizens, public health cannot rely on a private system alone. Public health financing from the public budget must

be increased, just like the financing of public education. This is why a robust public budget is needed, with higher revenues," the economist pointed out.

Speaking of climate change as an existential threat, Daianu said that this, as well as other major dangers require robust public budgets and versatile economic systems.

"If we are living now in a highly adverse period (health and economic crisis), in the coming years we will wade through the great transition induced by the need to combat global warming, for 'greening', for the structural transformation of economies, which will put the public and private budgets under stress. I reiterate the importance of absorbing European funds for this purpose! It would be good if the mayors of the big cities in Moldova (I mean Bacau, Iasi, Suceava, etc.) consulted more often, if they created an alliance (as also attempted in western Romania) to promote projects of importance for the areas they manage, including public-private partnerships, projects with strong leverage effects. I am thinking of European resources, of the public budget in general," Daianu added.

The Tax Council head considers that Romania needs a (promotional) development bank, similar to those in many other European countries, including Germany, Austria or Poland.

"Such a bank can help the absorption of European funds and can help the state in industrial policies, in the development of agribusiness. An Investment Fund by the Polish model is also a goal to be pursued, to be set in the service of the economic development policy. Emerging, more robust economies with small deficits have more leeway, they benefit from central bank backstops. That's why we need to make the most of European resources, which provide an exceptional opportunity," added Daianu.

He underscored that Romania has started the battle against Covid-19 with a deficit of over 4 percent of GDP, the largest in the EU, and a one-of-a-kind external deficit among EU's emerging economies, the largest in the region.

"The budget deficit this year, probably at over 9 percent of GDP, is in line with deficits in emerging economies in the region, but our room for maneuver has been considerably reduced as we were hamstrung from the start. The decline in GDP in 2020 will probably be towards 5 percent. In 2021 most EU countries will have considerably declining budget deficits (as non-permanent spending caused by the pandemic and the economic crisis will be reduced). In absence of a macro-economic correction, Romania would be driven off the mainboard and we would end up in 2022 with public debt at over 55 percent of GDP and financing would become increasingly problematic - as an effect of non-linearity," he warned.

In his opinion, the financing of deficits calls for a credible three- to four-year EU-funded correction program to calm the markets and the lenders, so that in 2024 the budget deficit be cut below 3 percent of GDP. According to Daianu, the macroeconomic correction (the cut of the budget deficit) must take into account both the restructuring of expenditures and higher tax/budgetary revenues.

"The tax system must be transparent and fair; all citizens and companies must pay - all the loopholes that render the tax system unfair must be eliminated. There should be no tolerance for tax evasion, incorrect tax optimizations or undue rents," he said.

The economist went on to emphasize that Romania needs a robust public budget.

"Ensuring essential public goods for the economy is vital: public health, public education, combating climate change as an existential threat, basic infrastructure (roads, railways, land-use planning). The state of the public health system calls not only for profound reforms, but also for additional resources; the same goes for education," considers the Chairman of the Tax Council.

According to Daniel Daianu, with other revenues besides those from taxes, the public budget's own resources could reach over 32 - 33 percent of GDP in a few years.

"With European money, the public budget resources could reach 35-36 percent of GDP. In Europe (EU) and the US increasing tax/budgetary revenues by combating tax evasion and tax avoidance is common practice. Romania must capitalize on this new vision and attitude of its EU and US partners. Let the business circles lobby not just for a predictable fiscal environment, but also for a robust public budget that finances basic public goods. Let them lobby for a transparent and fair tax regime, confront dodgers. That is, be good corporate citizens," Daianu concluded.