

Daianu: Romania's economic growth to be between 6-7pct in 2021; I also notice entrepreneurial effervescence

Romania will record economic growth of between 6 and 7% in 2021, Daniel Daianu, chairman of the Fiscal Council said on Wednesday, adding that there is an economic rebound, there is public investment spending of 5.5% of the Gross Domestic Product (GDP), more than in 2020.

"I believe that, indeed, the growth will be between 6 and 7% in 2021. It might as well be 7%. There is an economic rebound, there is public investment spending allocated this year in the national budget of 5.5% of GDP, more than in 2020. The economy is more resilient than previously thought. We'll wait and see because we still picture the Romanian economy only in somber colours. And I also notice entrepreneurial effervescence. So, there is such a thing. A critical mass has been created in our economy from that point of view: government deficit of around 7%, cash deficit. The financial industry can support more vital sectors, for example agribusiness where funding was more about liquidity than investment. That is what has happened in recent years. We need to be guided by investment. The reality is that banks still much prefer government bonds. It is difficult to invest. That means due diligence, you have to do a serious analysis in order to fund investment," said Daianu.

Attending the first Tax Forum edition dedicated to the banking and finance sector transforming financial services in 2021, Daianu mentioned that the creation of a development bank in Romania "needs to be sped up," the stock exchange can help the economy more through new listings, and the National Recovery and Resilience Plan (PNRR) could drive public investment in Romania to over 7% of GDP in the coming years.

"The development bank needs to be rushed, we are too late with the establishment of a development bank. And the stock exchange can help the economy more with new listings. The PNRR, which is a big topic and must be so for the financial industry as well, can drive public investment in Romania to over 7% of GDP in the coming years and may increase the average potential GDP growth between zero and 1% of GDP. Finally, inflation is going up in Romania as well. It is not a Romanian phenomenon; it is a European phenomenon. It is also seen in America because it is a rebound that could not but reflect in the inflation rate. You could not have a very high rebound and falling inflation at the same time. That could not be done. The macroeconomic budget correction will be gradual and it is also important to the financial industry," the Fiscal Council chairman added.

Regarding Romania's joining the Eurozone, Daianu said that Romania could enter the euro antechamber, namely the exchange rate mechanism ERM II in 2025-2026, and in the Eurozone in 2028-2029. Public debt in Romania could level out at about 55% of GDP in the coming years.

"We will probably reach a 3% deficit in 2024, not only because there is an excessive deficit procedure, but because we need to have such correction. We will not be able to persist with very large deficits, and I believe that public debt can level out at 55 % of GDP, around 55% in the next years. As for joining the Eurozone, it is getting in the antechamber ERM II in 2025-2026, and the Eurozone in 2028-2029," added Daianu.

In his opinion, the tax base needs to be extended, along with good compliance and the elimination of loopholes.

"The tax base needs to be extended in Romania along with good compliance and the elimination of some loopholes. I do not know how that will be achieved because there are interests against the elimination of these loopholes which again create a great inequity because the loopholes do not benefit those who pay," Daianu concluded.