CHAMBER OF COMMERCE AND INDUSTRY ROMANIA 150

According to the European Commission's forecast, Romania will have an economic growth of 2% in 2014, due to the setback on investments, while private consumption and exports are the main growth pillars of the Gross Domestic Product.

European Commission's autumn economic forecast

Consumption and exports - catalysts of the economic growth

The GDP growth rate was lowered from 3.5% in 2013 to 2.4% in the first half of 2014, mainly due to the economy's reduction in the second quarter. Consumption and exports have been the main growth engines, while low investments have contributed negatively to the Gross Domestic Product. Therefore, the European Commission has revised negatively the GDP growth to a value of 2% for the whole year. In the second semester, population's increased trust in economy and the incomes increase will contribute to a higher consumption, and the expected investments, both private and public, are expected to grow.

Economic growth will increase in 2015-2016

The European Commission estimates an economic growth of 2.4% in 2015 and 2.8% in 2016. The consumption will remain on a rising trend, supported by an increase of the medium salary and the low inflation rate, but also due to low interest tares. Loans, which have reduced in recent years, will record a comeback based on more relaxed crediting conditions. EC considers that private investments will be boosted through a series of governmental measures, such as tax exemptions for reinvested profits and a decrease of social contributions with 5 percentage points.

Based on the European Commission's autumn forecast, we can analyze a series of indicators, but also the macroeconomic opportunities and risks for our country:

• Inflation rate

The inflation rate, situated at a low level in the first half of 2014, reached an historical low in June, of 0.9%, but increased slightly in the last months. The European executive considers that a low inflation rate may be assigned to the VAT reduction for bakery products, the national currency appreciation, but also to a low inflation rate in the Euro zone. Inflation rate is expected to reach 1.5% for the entire year, a lower level than the spring projections, due to a good agricultural year, the delay for gas prices liberalization and the low energy prices on global markets. The Commission appreciates that inflation will reach 2.1% in 2015 and 2.7% in 2016, influenced by the internal growth and the prices increase tendency towards the European average.

• Labor market

The Brussels officials show that the employment rate has continued to drop by 1% yearly. For the entire 2014, the employment rate is expected to stay marginally under the 2013 level. The unemployment rate has dropped from 7.3% in 2013 to 7% in July 2014, expecting to remain at this level.

• International trade

Commodities exports have increased heavily in the first half of 2014, overcoming expectations, with 12.8%, while imports have increased with only 10.6%. The exports rise will stump in the second half of 2014, Romania being expected to record drops in this area in 2015 and 2016. The imports rise will slightly overcome the exports growth, mainly due to an increase of the internal demand.

• Public deficit in 2014

In 2014, public deficit is expected to drop at 2.1% of the GDP, from the 2.2% level in 2013. Regarding the public revenues, the fuel tax increase and broadening the tax base for properties are counterbalanced by the negative budgetary impact of a modest VAT gathering and the social contributions (CAS) reduction with 5 percentage points, which was enforced on October 1st. Related to public spending, EC notices that the European funds absorption was below expectations, but it is expected to rise in the last three months of the year. For 2015, public spending will drop due to lower state investments.

• Public deficit in 2015 - 2016

In 2015, the deficit is projected to rise to 2.8% of the GDP, assuming there will be no changes in the current economic policies. However, EC notes that there has not been presented yet a budget project for next year. The projection includes the annual impact of the CAS reduction, which will lead to net reductions of 0.8% of the GDP. Additional losses of 0.1% of the GDP might be recorded in the 2015 budget due to a reduction of the special constructions tax (with 0.5%). In 2016, the deficit is projected to drop at 2.5% of the GDP, due to higher revenues and growth perspectives.

• Risks and opportunities

The European Commission shows there are a series of risks, but also opportunities for the current macro-economic situation. The risks are related to the impact of geopolitical tensions in the area, which might concern the investors, but also to a lower lending from the financial institutions and the reduction of public indebtedness of the population. Regarding the opportunities of economic growth, the European executive underlines that the European funds absorption could lead to higher investments, and the domestic consumption may be stimulated by the fiscal slippages related to this year's presidential elections.

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