# FORECAST

In mid-January 2004 SAR surveyed a panel of economic experts[1] and asked what would be in their opinion the main macro evolutions this year. We have also included a number of open-ended questions regarding privatization and the EU integration. This introductory section presents a brief synthesis of their opinions.

**MACROECONOMIC FUNDAMENTALS IN 2004**

| | *Average* | Range (min-max) |
|---|---|---|
| **Growth, %** | ***4.75*** | 4.5 – 5 |
| **Inflation rate, %** | ***10.75*** | 10 – 11.8 |
| **Current account deficit, %** | ***6.1*** | 5.5 – 6.5 |
| **Budget deficit, %** | ***2.75*** | 2.3 – 3.2 |
| **Unemployment rate, %** | ***7.8*** | 7 – 8.8 |

While the growth seems to continue, our panel believes that inflation will not be brought down to single-digit levels in 2004. Budget deficit appears to be the indicator most difficult to predict (it has the widest range of variation), probably as the result of uncertainties about the government's policies in an electoral year. Nothing much will happen with the unemployment rate, which is to say that massive industrial restructuring is unlikely in 2004.

**DO YOU THINK ROMANIA WILL GET THE STATUS OF FUNCTIONING MARKET ECONOMY THIS YEAR?**

Opinions are split – roughly 66% Yes vs. 33% No, though there are shades of gray rather than a clear line between the two sides. Skeptics point out that a failure to privatize Petrom or some of the electricity or gas distribution companies can tilt the balance towards No. But other, exogenous factors may play a role, such as the European fatigue in

[1] We are grateful to the following experts for responding to our invitation: Professor Daniel Dăianu, Bucharest School of Economics; Aurelian Dochia, director general of SG Corporate Finance; Valentin Lazea, chief economist at the Romanian National Bank; Radu Crăciun, senior analyst with the ABN Amro bank; Lucian Albu, director of the Institute for Economic Forecast; Cătălin Păuna, chief economist at the World Bank mission.

absorbing the first wave candidates, the desire to postpone the second wave in order to allow Croatia to catch up, or the dispute in Brussels between «enlargers» and «deepeners».

#### DO YOU THINK ANY STRATEGIC INVESTORS WILL COME IN 2004 AT:

- **Petrom?**

  *Yes, if…* the outstanding asset ownership issues are clarified expeditiously; the government pulls itself together and manages the privatization more professionally than they have done it so far

  *Yes, but…* the government will find unacceptable the remaining bidders and will postpone the privatization

- **BCR?**

  *No.* Nobody is actively looking for it right now; it will take some time until the reorganization plans of the new shareholders (IFC and EBRD) will produce results

- **Any of the power distribution companies ?**

  *Yes*, probably the first two regional distributors (70 to 100% chances)

In general our respondents feel very much will depend on the decisiveness and professionalism of the government when preparing privatizations (see the latest problems with assets evaluation at Petrom); and the extent to which the bidders country of origin and their financial offers match the expectations of the Romanian authorities.

#### CAN NEGOTIATIONS ON CHAPTER 6 OF THE *ACQUIS* (COMPETITION POLICY) BE CONCLUDED IN 2004 ? WHAT WOULD BE THE EFFECTS FOR THE ROMANIAN ECONOMY ?

"Chapter 6 can be closed in 2004, and it will probably be closed, but Romania will be monitored afterwards and potentially subjected to fines because it will try to avoid implementing what it has signed. Without state bailout, loss-makers will find new forms to stay afloat, mainly through arrears to suppliers".

"The negotiations can be completed in 2004, but implementation will be very difficult. The impact on companies will be minor as far as anti-trust rules are concerned, we already enforce them to a large extent. By contrast, there will be adverse implications for some of the companies benefiting directly or implicitly from state aid. In the long run, the impact on the competitiveness and attractiveness of the Romanian economy will be unquestionably positive".

"The biggest impact will be felt in the energy sector where prices will have to be brought above cost recovery levels, while cost reduction strategies will include layoffs. Given the significant social impact this will be among the most difficult chapters to be closed, probably in 2005".