FORECAST

In mid-January 2005 SAR interviewed a panel of economic experts[1] and asked them what they thought this year would bring in terms of macro developments. We also asked a number of open questions about major events that could impact the economy. This introduction provides a synopsis of what experts answered.

MAIN MACRO INDICATORS IN 2005 – SUCCESS IS EXPECTED IN ALL AREAS

	Average	Margin (min-max)
Growth, % GDP	***6,2***	5 – 7,5
Inflation rate, %	***8***	7 – 9
Account deficit, %	***6,5***	5 – 7
Budget deficit, %	***1,4***	1 – 1,8
Growth of BET stock market index, %	***62***	40 – 100

The economy continues to grow, although a little bit more slowly than = in 2004, when the upgrowth was indeed outstanding. Our group of experts still count on a slight fall of the inflation rate and on deficits being held within manageable limits. Yet they were still reserved about official inflation rates which – they said – were just an average of the "real" inflation rate of the urban sector (reliant on the circulation of money) which hovers around 13%, and the rate of the barter-based rural economy which is practically 0%. The evolution of the stock market, which is probably the most unpredictable indicator of all others that we have included on our list, will of course generate the highest margin of variation of any forecast: from a growth of 40% to one of 100%. Both figures are anyhow well above the interest attached to bank deposits or any other financial instruments.

Based on previous experience, SAR is inclined to consider that these figures are realistic – perhaps even a little bit conservative. Similar forecasts that were made a year ago, with almost the same panel of experts, overestimated inflation and the budget deficit by 1% and seriously underrated economic growth (by over 3%), which was the surprise-indicator of 2004.

1 We wish to thank the following experts for their contribution: Lucian Albu, [Institute for Economic Forecast]; Bogdan Baltazar, Baltazar, Bloom & Pîrvulescu; Radu Crăciun, senior analyst – ABN Amro; professor Daniel Dăianu, *ASE* ; Matei Păun, Romania Think Tank; Ilie Şerbănescu, financial analyst; Liviu Voinea, Group for Applied Economics.

WHAT WILL BE THE IMMEDIATE EFFECTS OF OPENING THE CAPITAL ACCOUNT IN APRIL?

The topic is heavily debated these days and there are talks about the likelihood to postpone this measure until mid-2005 or even the end of 2005 – therefore our question seems all the more relevant. Panel experts agree that the capital inflow will grow and so will the pressure on ROL to rise and thus augment the current account deficit. Yet the range of negative consequences that were predicted to happen just after coming in line with the free international competition varies a lot: from (i) "dangerously destabilising the current account", followed by possible massive outflows of funds over the second half of the year, which would force BNR into intervening to support the ROL; and up to a more optimistic view that (ii) immediate tension will be defused quickly and long-term effects will actually be positive". There are also views that consequences of this liberalisation are overrated though, because "foreigners that really wanted to make the most of the ROL/Euro or ROL/USD interest differential actually did it by way of Romanian *special purpose vehicles* that are already in place".

DO YOU THINK THAT STRATEGIC INVESTORS WILL BUY BCR OR CEC IN 2005?

The unanimous opinion is that existing liquidity, extensive network, etc. is what makes CEC [the Savings Bank] more attractive to any prospective investor than BCR for the time being, therefore if the government is really determined to sell it out, then that can happen in 2005. One of our experts explained that past indecisions are still a deterrent to investors when it comes to BCR: interest to "sever the cord" that connects this bank to the state has not been too great in Romania so far. And the key to success in both cases is a professional and consistent behaviour of the government that should stop sending out contradictory signals just as it did in the past.

WILL THE GOVERNMENT USE THE CAPITAL MARKET FOR PRIVATISATIONS IN 2005, JUST AS THE NEW FINANCE MINISTER SAID?

Most likely yes. Nevertheless – even if it will – the government will still not offer significant stocks, but mostly non-controlling ones. Our analysts told us that, as a general rule, strategic privatisations are not conducted through the stock market. Yet there is indeed a request of new "interesting" companies on the stock market and expectations have been fuelled by recent statements of government officials who are said to become "ideologically and practically compromised", if they fail to put at least some minority stocks on sale.

WHAT IS YOUR ANTICIPATION OF THE MAIN ECONOMIC OBSTACLES THAT THE GOVERNMENT WILL ENCOUNTER IN 2005?

Answers indicated the following: control the deficits (the budget deficit and the current account deficit), avoid the risk of "overheating" economy further to the fiscal relaxation, and the challenge to increase the labour productivity. Additionally, our analysts also talked about enforcing the relevant provisions of the *acquis communautaire*: competition, budget programming, and commercial courts.