

THE LURE

OF CONSUMPTION-BASED GROWTH STRIKES BACK

Authors: Elena Badea, Managing Director, Valoria Business Solutions; Dumitru Ion, CEO, Kompass Romania & Doingbusiness.ro

TOP EXECUTIVES SAY THAT LOWERING THE TAXATION OF WORK IS THE IMMEDIATE MAIN MEASURE FOR THE IMPROVEMENT OF THE ROMANIAN BUSINESS ENVIRONMENT

The Romanian economy is at the turning point when the opportunities, but also the limitations regarding the potential of the economic growth are obvious. At the same time, the transfer of the economic growth into profit for companies, the increase of salaries for the employees and investments are at this moment uncertain. The abuse of fiscal policies through pro-cyclical approaches, the unsustainable encouragement of consumption, a lax control of the quality of public spendings have a boomerang effect on the sustainability of the recorded economic growth. On the other hand, according to the data recently published by the Ministry of Finance, the deficit of the consolidated general budget

for the first nine months of 2019 increased by more than 11 billion RON compared to the same period of last year and rose to about 27 billion RON (-2,62% of estimated GDP).

Data from the consolidated general budget shows a deficit level of the state budget of -2.41% of GDP after the VAT receipts increased slightly above the general average (11.9% against 11.6%) and those from excise duties was 8.8% over the same period of the previous year. Income tax has seen an increase of 14.5% and the insurance contributions tax has an even higher increase, at 15.3%, but we have a bizarre +3.4% in the law of income and income tax, considering that the transfer of the contributions from the employer to the employee was made from January 1, 2018. What do companies do in this context? How did they forecast the growth for 2019? The insights come from the survey "Romanian Business Outlook in 2019" launched by Valoria. Conducted in partnership with Doingbusiness.ro, the report presents the comparative data from the first and second semesters, offering a unique perspective of how companies forecast business evolution in 2019. In the opinion of the CEOs

of Romanian companies, one of the measures that would improve the Romanian business environment in the first place is the decrease of the taxation of work (84%), followed by the control and limitation of the tax evasion (72%) and the development of the infrastructure (61%) between the 421 answers. *Romanian Business Outlook in 2019 shows the companies' feedback on the economic measures and market conditions of the last year. The factors and the context in which companies operate affect their ability to obtain and use resources to generate value. Risk perception, economic climate, proposed objectives, industry, and company risk guide the decisions regarding investments, employees and salaries. The results of the research show that "the Romania of companies" is very little confident in "the Romania of official statistics" and provide us the perspective of reality "on the ground", says Constantin Măgdălina, Emerging Trends & Technologies Expert, co-author of the survey.*

Forecast on the evolution of the turnover

Compared to the edition from the beginning of 2019, the growth perspective of companies in the second semester is more

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conservative. We see an 8pp decrease (percentage points) of companies expecting higher turnover by 5%-10%, partially offset by a 5pp increase of those forecasting a 10%-20% increase in turnover. At the same time, the percentage of companies that expect to maintain turnover in 2019 increases by 6pp. At the level of industries, the largest increase in turnover of 20% -30% is predicted by 19% of the food and agriculture companies.

Forecast on the evolution of the profit

The forecasts regarding the evolution of the profit from the second semester of 2019 are slightly more pessimistic on the growth level 5%-10%, but more optimistic on the higher levels. Although 32% of companies (compared to 26% previously) expect their profit to increase between 10% and over 30% this year, we see increases on some levels of negative evolution. It maintains approximately the same percentage (9% as against 8%) of the company that says that their profit will not increase in 2019. At the level of industries, the most important profit growth, of 10%-20%, is expected by 32% among companies in the pharmaceutical and healthcare industry.



Compared with the results of the survey in the first half of the year, those in the second half show adjustments to the turnover and profit that can be made in 2019 compared to the estimates at the beginning of the year. Even if in a slight improvement, the crisis of confidence persists and leads to increasingly cautious economic behavior, says Dumitru Ion, CEO Kompass Romania, and Doingbusiness.ro, co-author of the survey.

Forecast on the evolution of the investments

Compared to the first semester, when 23% of companies said they would not increase investments in 2019, in the second semester 21% agree. We also note that 43% of companies want to increase their investments by 1%-10% compared to 36% previously. Only 14% of companies say they

will increase investments by 20%-30% and over 30% in the second half, compared with 11% in the first half of the year. At the industry level, the largest increase in investments is expected by 23% of the Agriculture and Food companies that say they will increase investments by 10%-20% this year.

Forecast regarding the evolution of the number of employees and wages

29% of the Romanian companies do not expect any increase in the number of employees in the second semester compared to 26% in the first semester. At the same time in both semesters, 41% of companies said they expect their staff to increase this year between 1% -10%. On the upper levels, from 20% to over 30%, 11% of companies expected their number of employees to increase in the second semester, compared to 5% in the first semester. Of the analyzed industries, the one that estimates the highest growth is the Agriculture and Food industry, in which 24% of companies expect 5%-10% increases in the number of employees this year. Whereas at the beginning of 2019,

22% of the companies did not expect wage increases, in the second semester the percentage drops to 18%. The percentage of companies that will increase wages by 5%-10% in 2019 decreases by 2pp, but increases the percentage of companies expecting a growth of 10%-20%, from 12% in semester one to 17% in semester two.

Public sector wage growth is not as much shored up in the private sector, and the confidence that this year will be favorable, albeit at low levels, shows a marginal increase in the second half compared to the first. After a year-end dominated by the electoral stakes, we will see the results of 2020, says Diana Dumitrașcu, Executive Director Doingbusiness.ro, co-author of the survey.

Top 5 challenges and opportunities

The most important challenges for companies in the second half of 2019 are: attracting and retaining the workforce (62%), increasing competition (55%), managing business expansion (34%), increasing costs (28%) and collecting invoices (26%). For the Romanian companies, the most important opportunities reported in the second semester of 2019 are: demand growth

(43%), new products and business lines (41%), re-technology and digitization (34%), development on foreign markets (28%) and access to European funds (28%).



Romanian business outlook in 2019 reveals the portrait that the business environment in Romania makes to the real economy. economic. Compared to the results of the edition from the beginning of 2019, the results of the second half edition are adjusted negatively, against the background of challenges coming mainly from the labor force area (attraction, retention, motivation, taxation). Responsive to the legislative changes and the evolution of the environment in which they operate, the managers „prepare for winter”, says Elena Badea, Managing Partner Valoria.

In conclusion

Macroeconomists say that we consumed in the first 8 months

without producing and hoped without investing. While industry and agriculture recorded insignificant growth, the import of goods increased by over 60% compared to the estimated growth. It resulted in a doubling of the trade deficit and the limitation of the chances of limiting the one of last year. Although consumption reduces its speed in 2019, the splurge against the backdrop of rising incomes and the depreciation of the national currency compared to the level reached in spring have led to further advancement of prices in the economy and masked economic growth in real terms.

According to the top executives, the main seven key improvement areas for Romania's economy are the following:

1. Taxation of work
2. Containment and limitation of tax evasion
3. The development of the infrastructure
4. Development of a digital society
5. Capital inflows growth
6. Modernization of the public administration
7. Human capital development for the digital era