

Noted economists write open letter to caution against 40 pct increase of pension point

A 40 percent increase of the pension point at this moment must be avoided, because the economy cannot support it, and should the measure be implemented, the gradual fiscal/budgetary consolidation that would protect the economic recovery will come under pressure, reads an open letter signed by Academician Aurel Iancu, Fiscal Council president Daniel Daianu, chief economist of the National Bank of Romania Valentin Lazea, Alpha Bank Romania chief economist Ella Kallai and founding economist of the Consilium Policy Advisors Group, Laurian Lungu.

"The fight against the pandemic is not over and we have an unprecedented economic crisis on our hands, which severely affects branches of the economy and destroys jobs. The big challenge is how to have recovery, economic growth with fiscal/budgetary consolidation in the years to come. Romania entered the fight against the coronavirus with a budget and external (current account) deficit of over 4 percent of GDP, some of the highest in the EU, which has limited the government's room for maneuver. Whereas the large budget deficit increases in other EU states are caused by the effects of the pandemic, almost half of Romania's probable deficit this year is given by its structural component, which does not take into account the cyclical position of the economy. The higher the rigid expenditures (wages, pensions, interest expenses) of the budget, the narrower the leeway to support the economy, to limit the negative social effects becomes," the document states.

The economists warn that Romania's budget deficit this year will be around 9 percent of GDP, which includes a 14 percent increase of the pension point.

"Avoiding a 40 percent increase of the pension point at this time is vital, because the economy cannot support it. If this is not avoided, the gradual fiscal/budgetary consolidation that should protect the economic recovery would become forced, disorderly and painful, with immediate tax hikes and spending cuts. The relaunch of the economy would be aborted and recession would set in in 2021. In the medium term, however, an increase in pensions, especially small ones, is necessary while at the same time removing the distortions of the pension system," the letter states.

According to the document, in 2021 the budget deficit could be lowered to around 7 percent of GDP, while continuing measures to combat the health crisis and support the economy. A large part of these measures can be financed from European resources.

According to the signatories of the document, European funds have a key role to play in facilitating the budget correction and would also help finance the balance of payments and would strongly support the activity of private companies directly and indirectly.

The open letter mentions that its signatories - Aurel Iancu, Daniel Daianu, Ella Kallai, Valentin Lazea, Laurian Lungu - bear sole responsibility for the text which does not necessarily engage the institutions they are affiliated to.