

ROMANIA ECONOMY REPORT

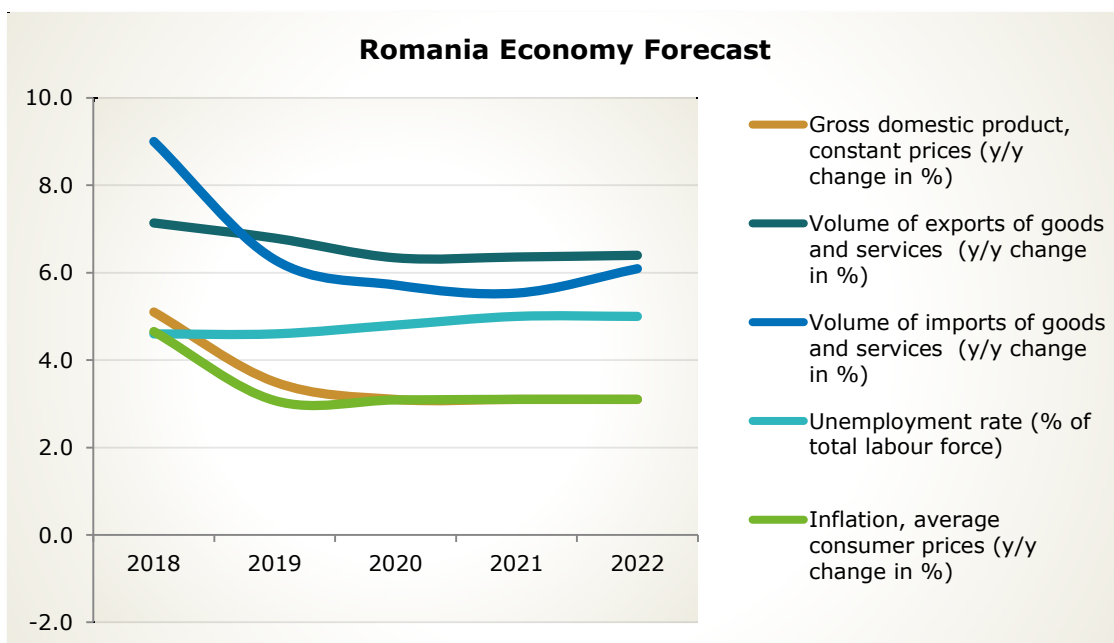
Q1 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

ROMANIA – MACROECONOMIC SNAPSHOT AS OF Q1 2018	
GDP Growth	4.0% y/y
Industrial output	4.9% y/y
Industrial sales	13.7% y/y
Wholesale	6.8% y/y
Retail	7.4% y/y
Average annual inflation	0.5%
Unemployment rate	4.7%
Number of building permits	10.7% y/y
Money supply growth	11.4% y/y
Household loans	9.4% y/y
BET blue-chip index	7.2% q/q
Gross external debt	EUR 95.865 bln
Current account deficit	EUR 1.222 bln
Net FDI inflow	EUR 1.378 bln
Foreign trade deficit	EUR 2.557 bln
Number of foreign tourist overnights	8.4% y/y

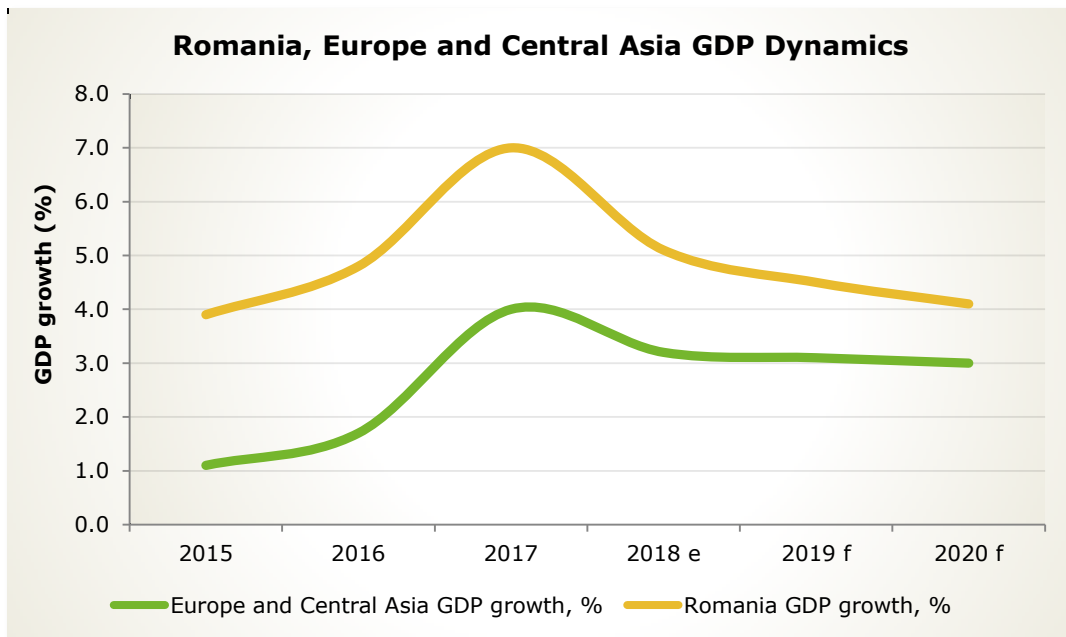


Source: International Monetary Fund (IMF) World Economic Outlook Database - April 2018

The International Monetary Fund (IMF) expects the economic growth in Romania to slow down to 5.1% in 2018, down from almost 7.0% in 2017. GDP expansion will once again continue to be fuelled by stimulus to private consumption from fiscal relaxation while current

account deficit and inflation will both persist. Growth is expected to stabilise at about 3.0% in the medium term, hampered by discontinued fiscal stimulus, inadequate investment and lack of sustainability in structural reforms.

However, IMF sees signs of overheating in Romania which increases the risk that the current policy trajectory lifts macroeconomic volatility, undermines the capacity to withstand adverse shocks, and eventually slows down convergence toward the advanced EU countries.



Source: World Bank, Europe and Central Asia Economic Update, April 2018

According to the World Bank estimates from June 2018, GDP growth is likely to come in at 5.1% in 2018, down from 7.0% in 2017. This will be higher than the projected growth for Europe and Central Asia, of 3.2% in 2018.

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

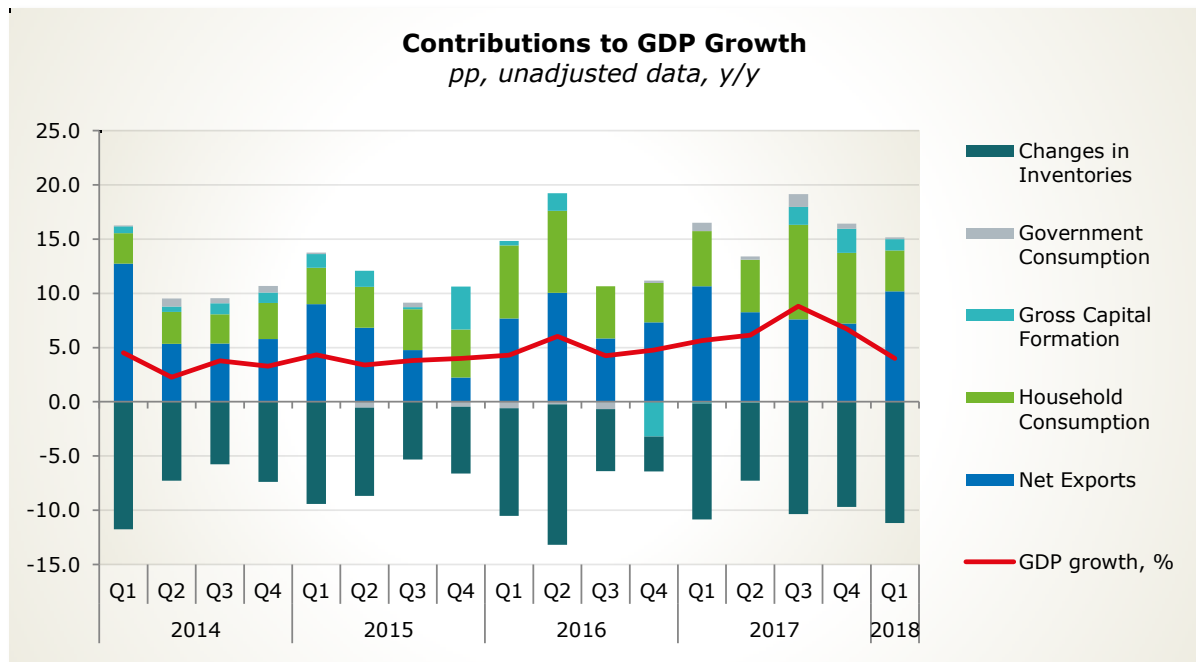
GDP growth slowed down to 4.0% y/y in Q1 2018, down from 6.7% y/y in Q4 2017

The country's GDP increased by a real 4.0% y/y and totalled RON 32.509 bln in Q1 2018, according to data from the National Institute of Statistics (INSSE). This is down compared to an annualized growth of 6.7% in Q4 2017 and 5.7% in Q1 2017.

The economic momentum slowed down as the effect of last year's budget stimulus faded. The government provided tax cuts, minimum wage increases and increased budget spending to boost economic growth and household income.

Thus, final consumption slowed down to 5.1% y/y in real terms in Q1 2018 compared to 9.5% y/y growth in Q4 2017. Household consumption went up by 5.3% y/y, down from 9.7% y/y growth in Q4 2017, while government consumption increase decelerated to 1.9% y/y in Q1 2018 from 6.8% in Q4 2017.

As a result, household consumption contributed with 3.8 pp to the overall y/y GDP expansion in Q1 2018, down from 6.5 pp contribution in the last quarter of last year and government consumption contribution decreased to 0.2 pp in Q1 2018 from 0.5 pp in Q4 2017.

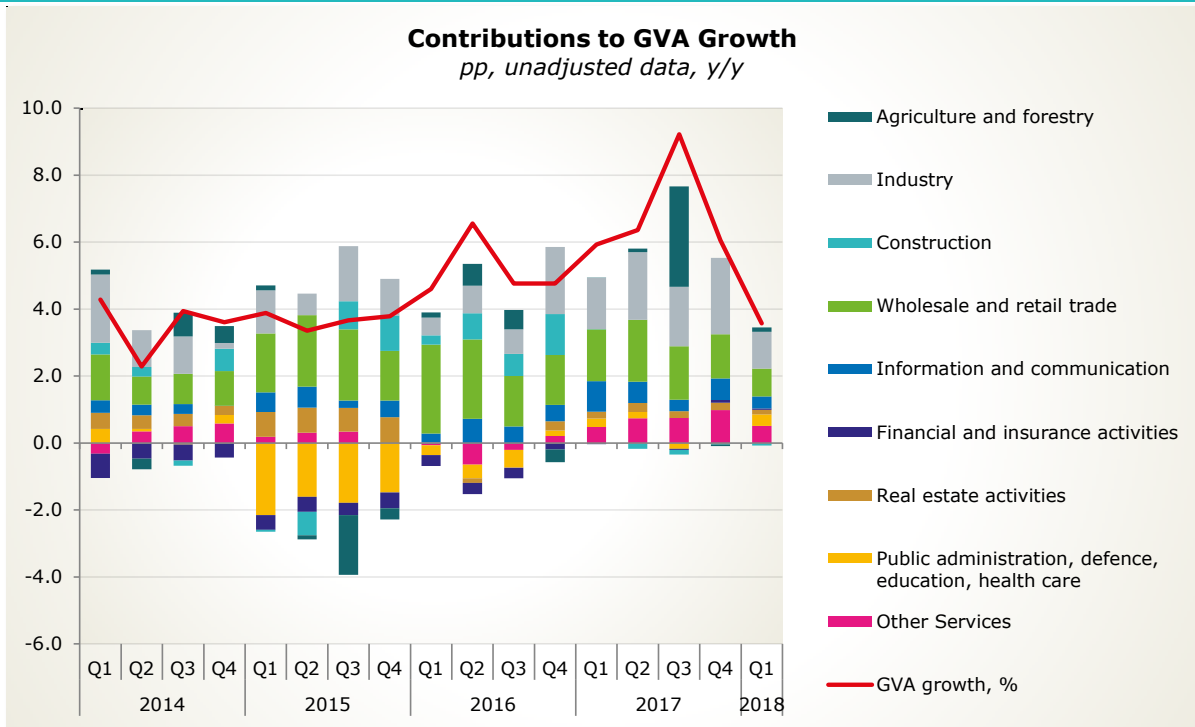


Source: INSSE; SeeNews calculations

Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

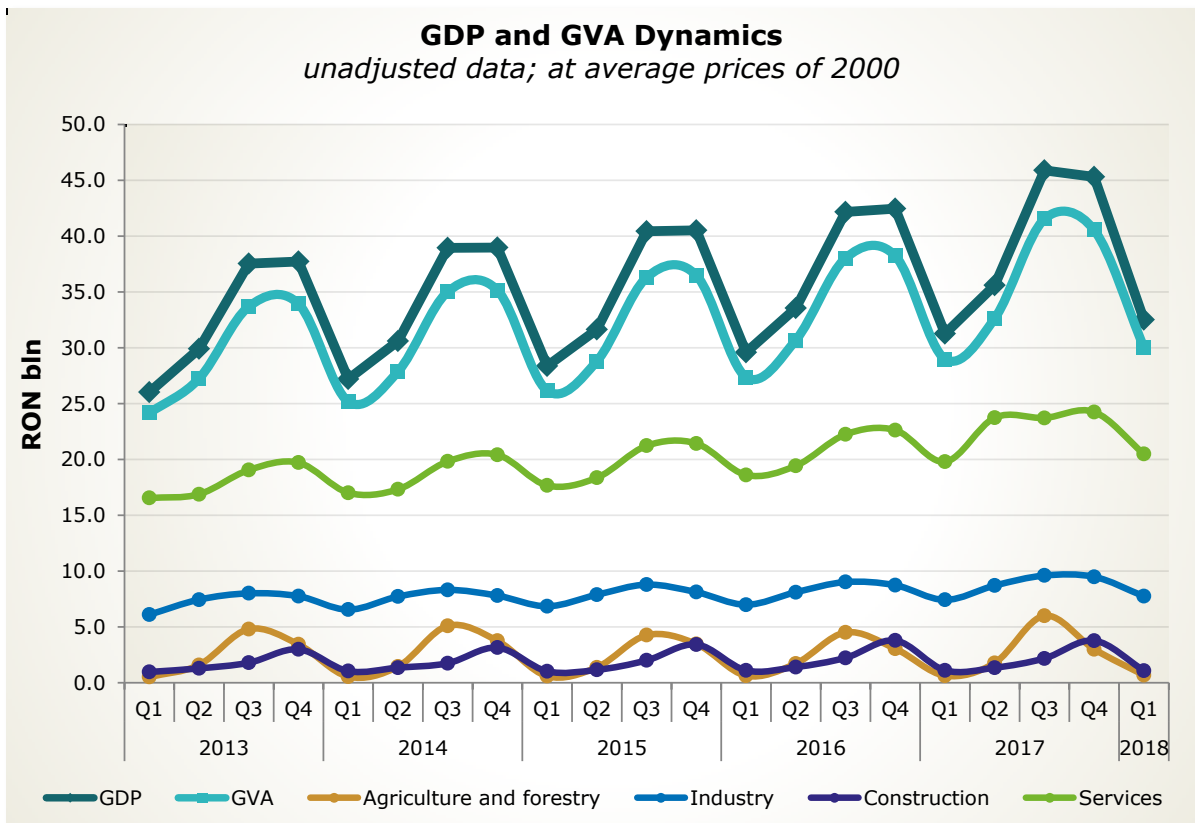
The gross value added (GVA) generated by the national economy went up by 3.6% y/y in the first quarter of 2018 and totalled RON 30.022 bln. The industrial sector expanded by 4.4% y/y, while the services sector recorded a 3.5% annual increase. The agricultural sector registered an annual rise of 6.7% while construction went down by 2.1%.

The retail and wholesale trade sector contributed with 0.8 pp to the GVA growth in Q1 2018, down from 1.3 pp in Q4 2017. The industrial sector contributed with 1.1 pp to the GVA growth, while the Information and communications sector added 0.4 pp to it during the quarter.



Source: INSSE; SeeNews Calculations

Note: Non-additive data due to direct chain-linking of GDP and its components.

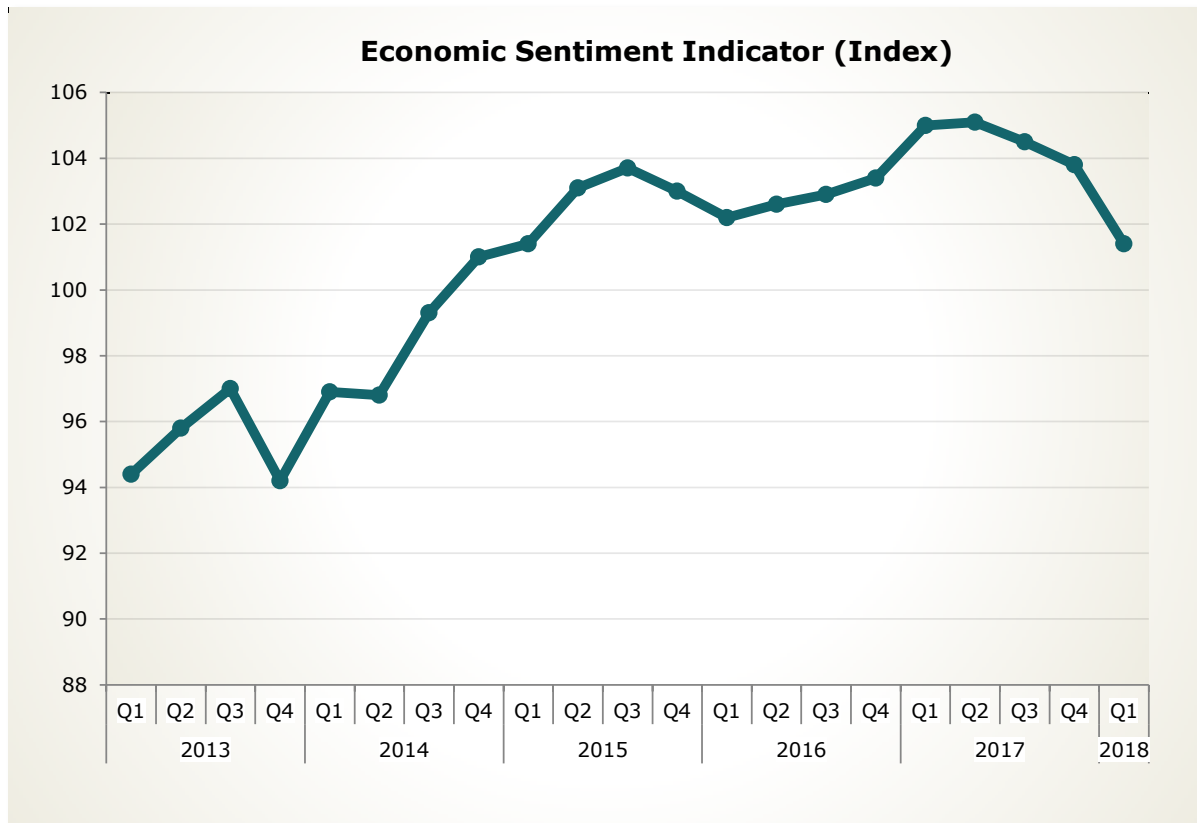


Source: INSSE

2.2. BUSINESS CLIMATE

Economic Sentiment Indicator worsened in March 2018

In March 2018 the economic sentiment indicator came in at 101.4 points, according to ECFIN. This is a significant deterioration compared both to the end of last year and to Q1 2017, when the indicator had levels of 103.8 and 105.0 points, respectively. The worsening sentiment reflects the slowdown of the economic growth in Q1 2018 as well as the growing worries for global trade wars.



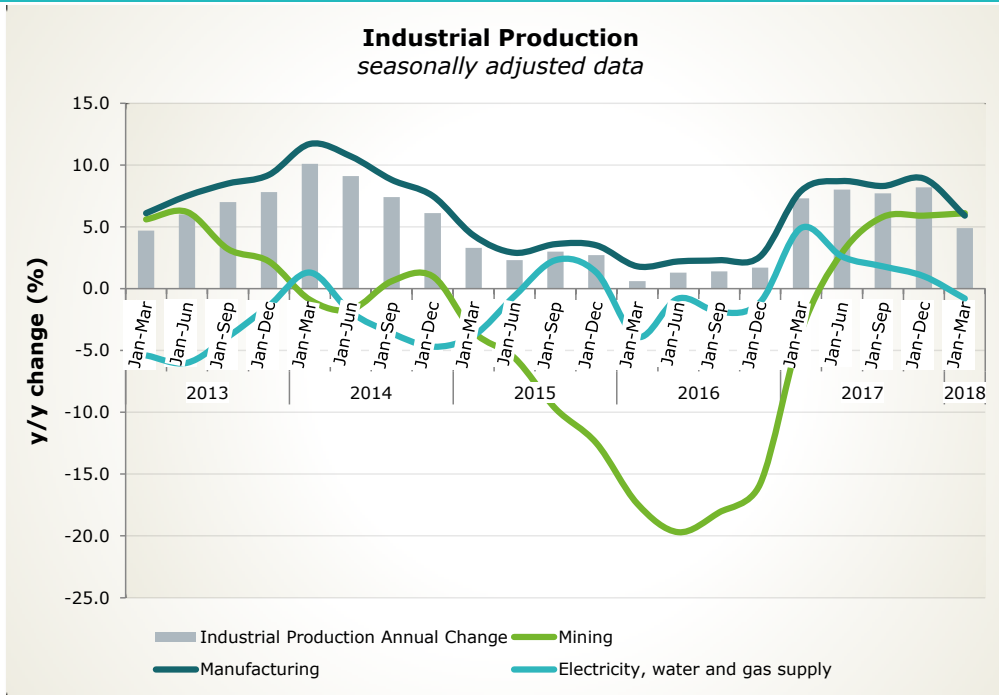
Source: Economic and Financial Affairs, European Commission

2.3. INDUSTRIAL OUTPUT

Industrial production grew by 4.9% y/y in Q1 2018

Industrial output rose by 4.9% on the year in the first three months of 2018, according to INSSE. This is a deceleration compared to 2017, when industrial production advanced by 8.2% y/y on average.

Manufacturing enterprises ramped up production by 5.9% on average in Q1 2018, slower than the 8.9% growth in 2017. The mining segment increased its output by 6.1%, up from 5.9% y/y growth in 2017. In the same time, electricity, water and gas supply production went down by 0.8% y/y in Q1 2018.

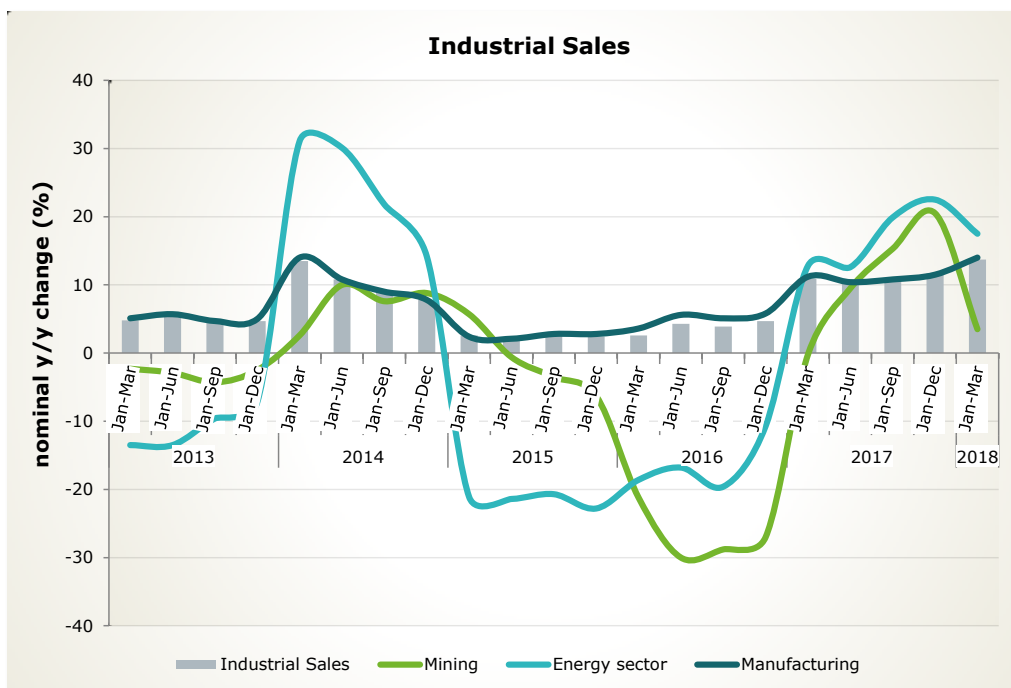


Source: INSSE

2.4. INDUSTRIAL SALES

Industrial sales went up by 13.7% y/y in Q1 2018 on manufacturing and energy

Industrial sales increased by 13.7% y/y in nominal terms in the first three months of 2018, according to INSSE data. Sales in the manufacturing industry grew by 14.0% on the year, while the energy sector jumped by 17.5% y/y. Mining sales also went up, by a modest 3.5% y/y.



Source: INSSE

2.5. WHOLESALE/RETAIL

Wholesale and retail trade slowed rates of growth in Q1 2018

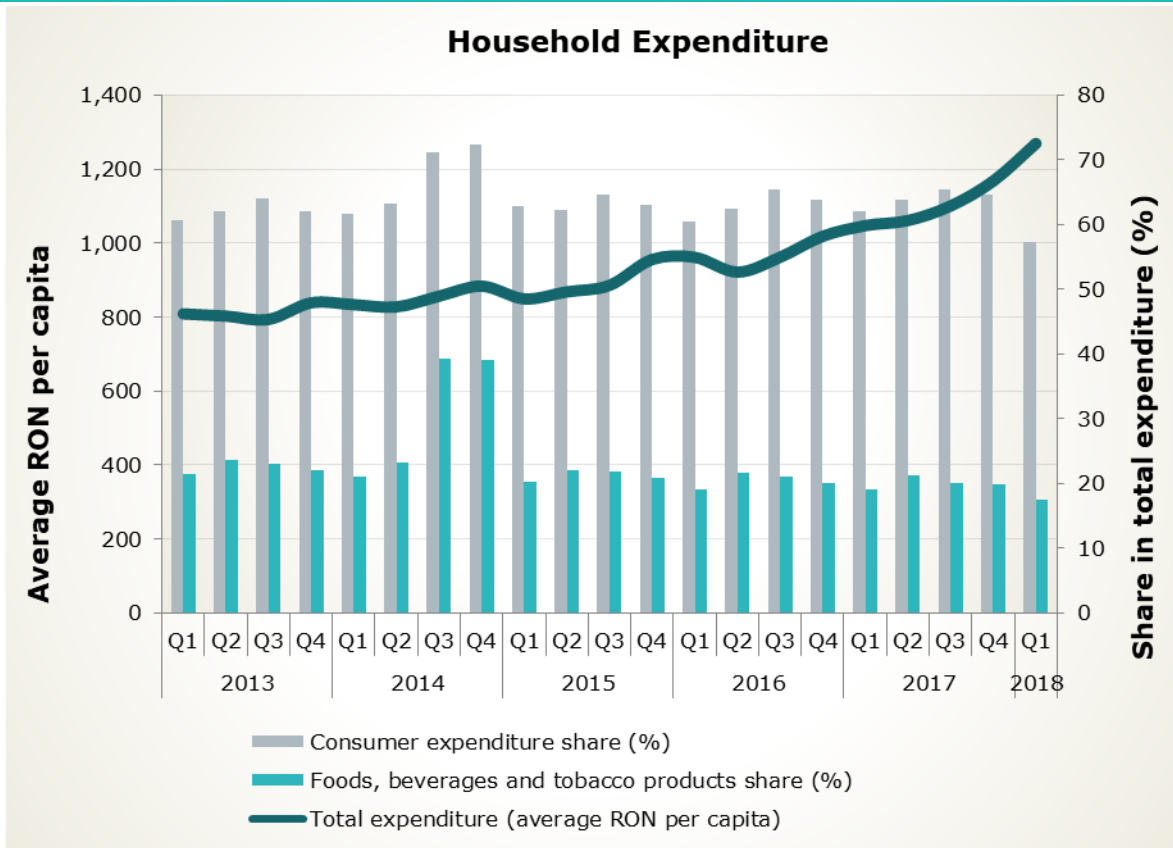
The growth rates of both retail and wholesale trade slowed in Q1 2018 as the stimulus from the wage increase and VAT reduction in 2016-2017 faded. Still, sectors' growth remained solid. Retail sales went up by 7.4% y/y while wholesales trade increased by 6.8% y/y in Q1 2018 compared to growth rates of 10.9% and 7.6%, respectively, in Q4 2017, according to INSSE data.



Source: INSSE

Retail sales of food, beverages and tobacco increased by 9.5% y/y in January - March 2018, retail sales of non-food products went up by 9.0% y/y while the turnover in volume terms of automotive fuel in specialised stores inched up by 0.9% compared to Q1 2017.

Household expenditures surged by 21.2% y/y in Q1 2018, driven by wage increases and lower VAT on consumer goods.



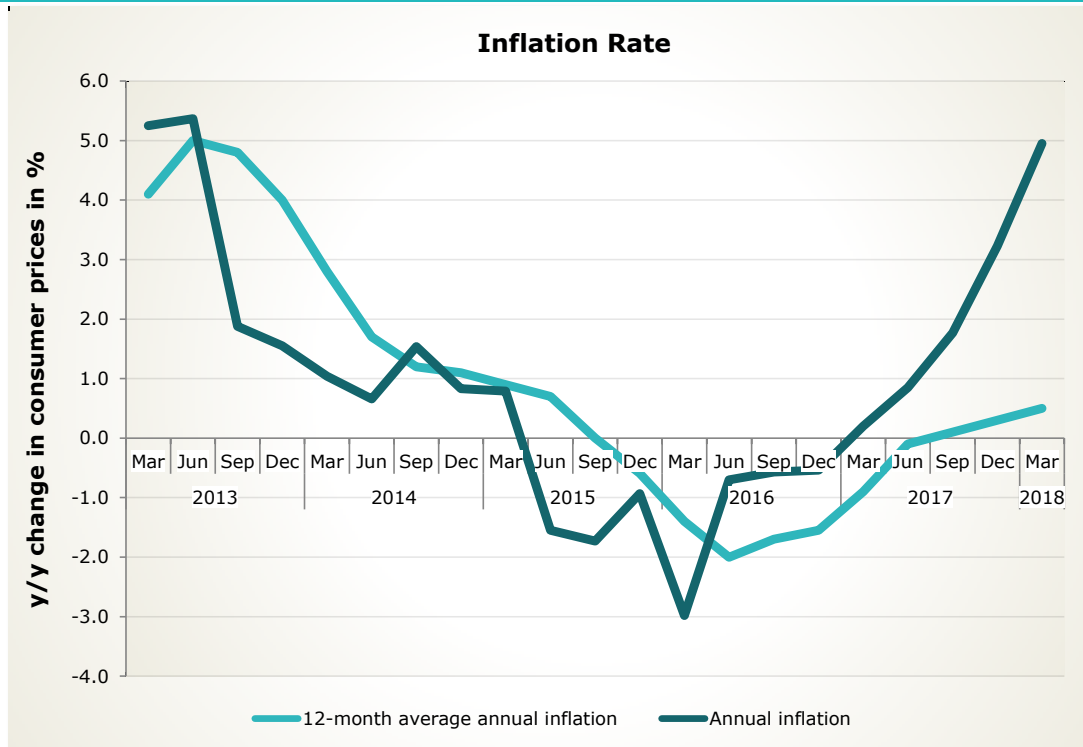
Source: INSSE

2.6. INFLATION

Inflation continues surging in Q1 2018

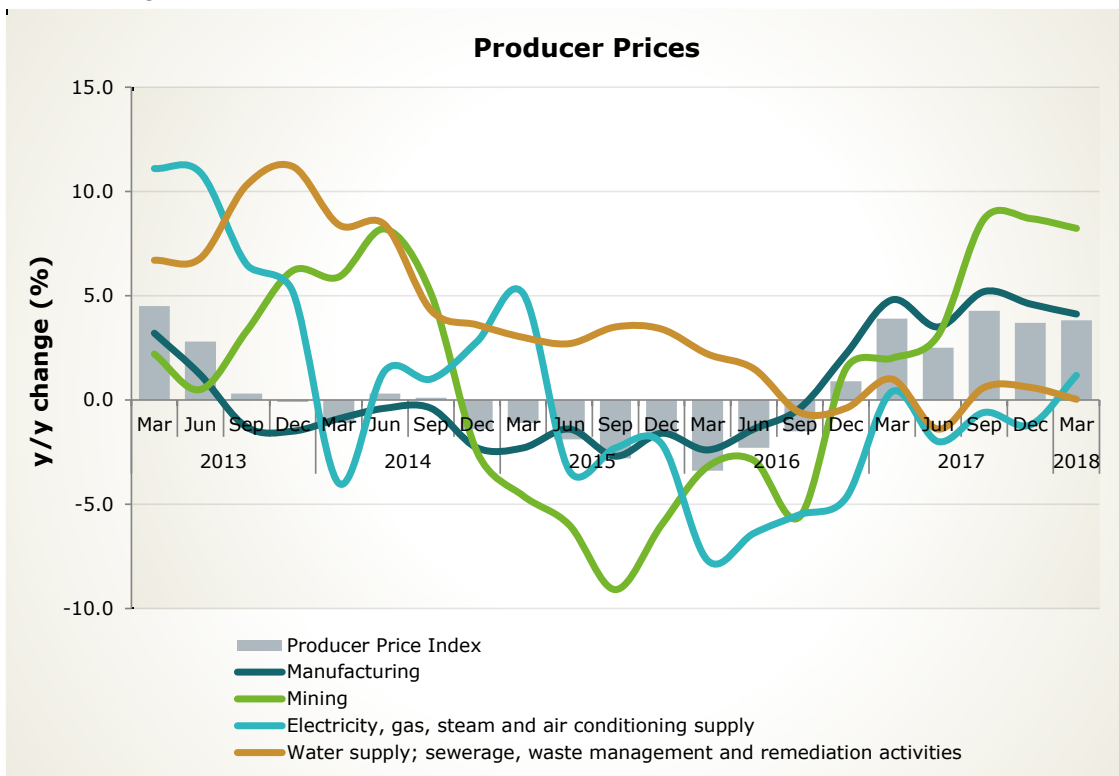
The annual inflation rate had witnessed a sizeable upward correction at the beginning of 2018, increasing to 4.3% in January, 4.7% in February and 4.9% in March. This is compared to annual inflation of 1.5% in 2017.

Inflation surged under the impact of supply-side factors such as base effects associated with cutting of indirect taxes and non-tax fees and charges implemented in the same year-earlier period as well as from the electricity and natural gas price hikes in the beginning of 2018.



Source: INSSE

In March 2018, the producer price index grew by 3.8% y/y, driven to a larger extent by producer inflation pressure on the foreign and domestic markets. Mining sector producer prices advanced on average by 8.2% y/y in March 2018, while producer inflation in the manufacturing sector came in at 4.1% y/y.



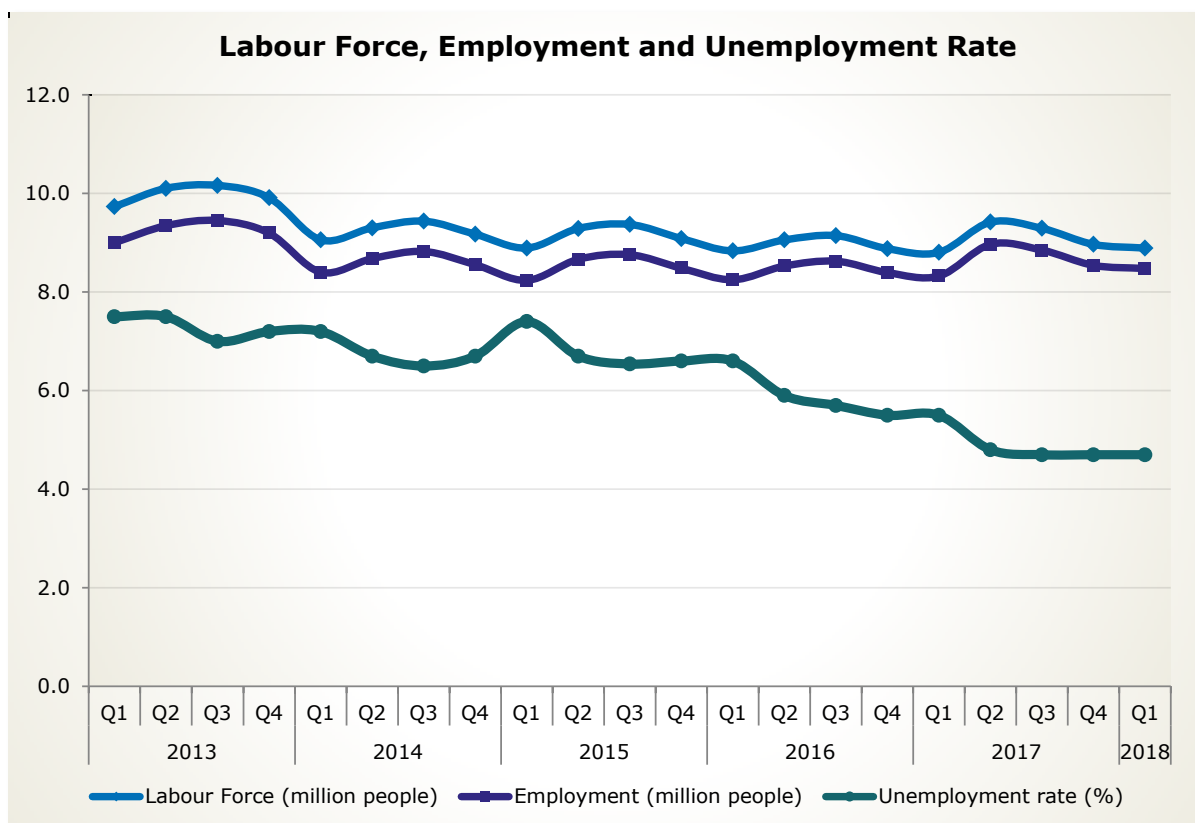
Source: INSSE

3. LABOUR MARKET

Unemployment rate unchanged at 4.7% in Q1 2018

At the end of first quarter of 2018, the unemployment rate in Romania stood at 4.7%, unchanged from the end of last year, according to data of INSSE. The employed population aged 15 years and older was 8.477 million, up by 1.9% y/y. The youth (population aged 15-24) unemployment rate improved substantially by going down by 4.4 pp q/q and 3.6 pp y/y, but still remained high at 16.8% as of the end-March 2018.

The tightening labour market contributed to the increase of net earnings in Q1 2018, when the average monthly net nominal wage came in at RON 2,558, an annual rise of 11.6%.



Source: INSSE

4. CONSTRUCTION AND REAL ESTATE

Number of building permits went up by 10.7% y/y in Q1 2018

The number of building permits issued in Romania in the first quarter of 2018 went up by 10.7% y/y, totalling 9,562, according to INSSE data. The growth was fuelled by the 9.4% y/y rise of permits for housing projects to 8,117, while permits for administrative buildings increased to 52 in Q1 2018 from 22 in Q1 2017.

The total developed built-up area covered by the residential projects permits also increased, by 20.5%, to 2,023,500 sq m. The total developed built-up area of the permits for administrative buildings came in at 46,500 compared to 5,900 in Q1 2017.

5. MONETARY POLICY, MONEY SUPPLY, AND BANKING SYSTEM

5.1. RON EXCHANGE RATE

The average exchange rate of the RON against the EUR increased to RON 4.6553 in the first quarter of 2018 from RON 4.6186 in the previous quarter, according to National Bank of Romania (NBR).

RON Average Exchange Rate			
Foreign Currency	Q1 2018	Q4 2017	Q1 2017
EUR	4.6553	4.6186	4.5206
USD	3.7860	3.9231	4.2458
GBP	5.2708	5.2060	5.2565
CHF	3.9962	3.9738	4.2278

5.2. MONETARY POLICY

The national bank kept the policy rate unchanged at 1.75%

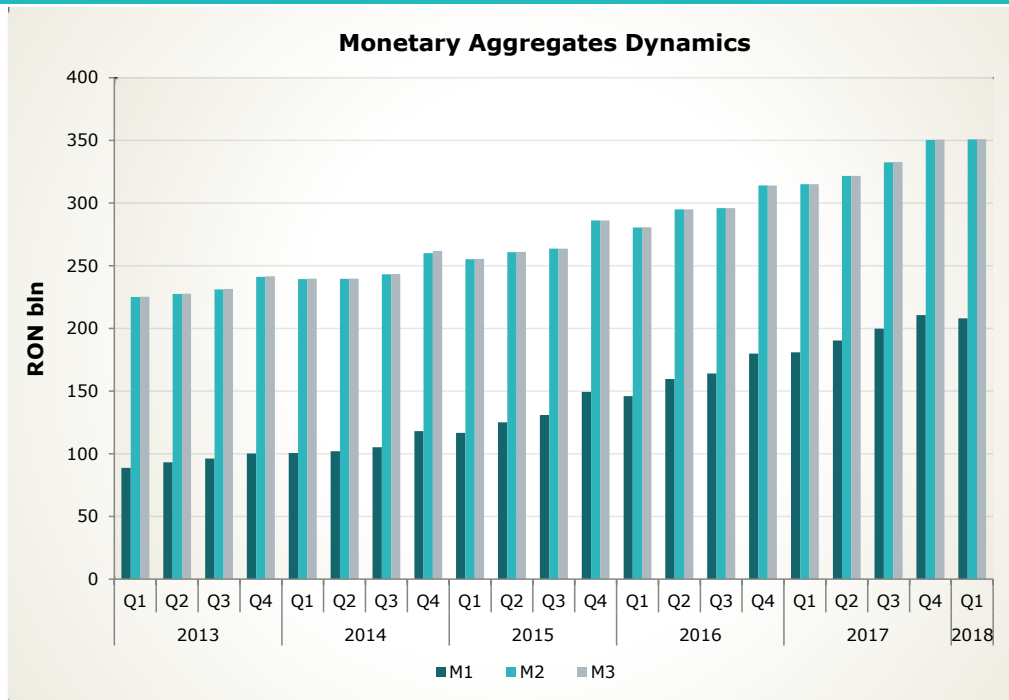
The NBR continued the adjustment of the monetary policy stance, raising the policy rate by 0.25 pp in January and by another 0.25 pp in February, before leaving it unchanged at 2.25 percent in March. Moreover, during this period, the central bank kept the minimum reserve requirement ratios on both RON- and foreign currency-denominated liabilities of credit institutions at 8.0%.

5.3. MONETARY AGGREGATES

Money supply growth accelerated in March 2018

Broad money (money aggregate M3) increased by 11.4% y/y and reached RON 351.0 bln in March 2018, according to data provided by NBR. The M2 money supply also grew by 11.4% y/y, to RON 350.9 bln. Money aggregate M1, or narrow money, soared by 14.9% y/y, to RON 208.0 bln.

The expansion of the money in the economy was a result of relatively higher disbursements to recipients of EU funds and the faster annual growth of government spending on goods and services. The increase of broad money was caused by the growth of short-term time deposits.



Source: NBR

5.4. BANKING AND INSURANCE

Household loans went up by 9.4% y/y in Q1 2018 on strong house purchase credits

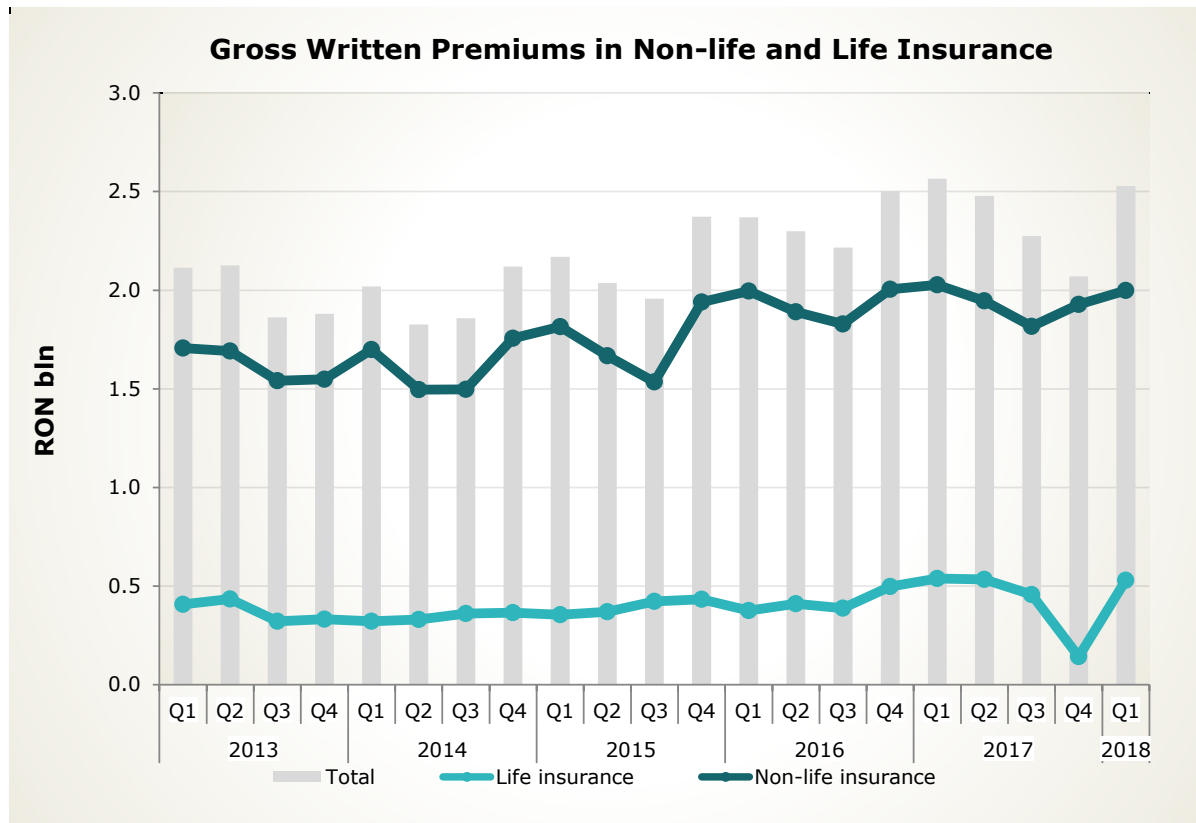
Loans to the non-government sector totalled RON 230.268 bln in Q1 2018, up by 5.6% y/y, according to NBR data. The bulk of the credit growth revival was a result of the increase of house purchasing loans by 13.5% to RON 67.638 bln. Consumer loans went up by 6.1% to RON 55.437 bln, while loans to non-financial corporations rose by 1.4% y/y to RON 105.391 bln.



Source: NBR

Insurance premium income down by 1.4% y/y in Q1 2018

The total gross written premiums (GWP) of the non-life and life insurance companies were RON 2.528 bln in Q1 2018, down 1.4% y/y, according to the Financial Supervisory Authority (ASF). The decrease was caused to a larger extent by the life insurance sector, which dropped by 1.7% y/y to RON 0.529 bln, while the non-life segment went down by 1.4% y/y to RON 1.999 bln.



Source: ASF

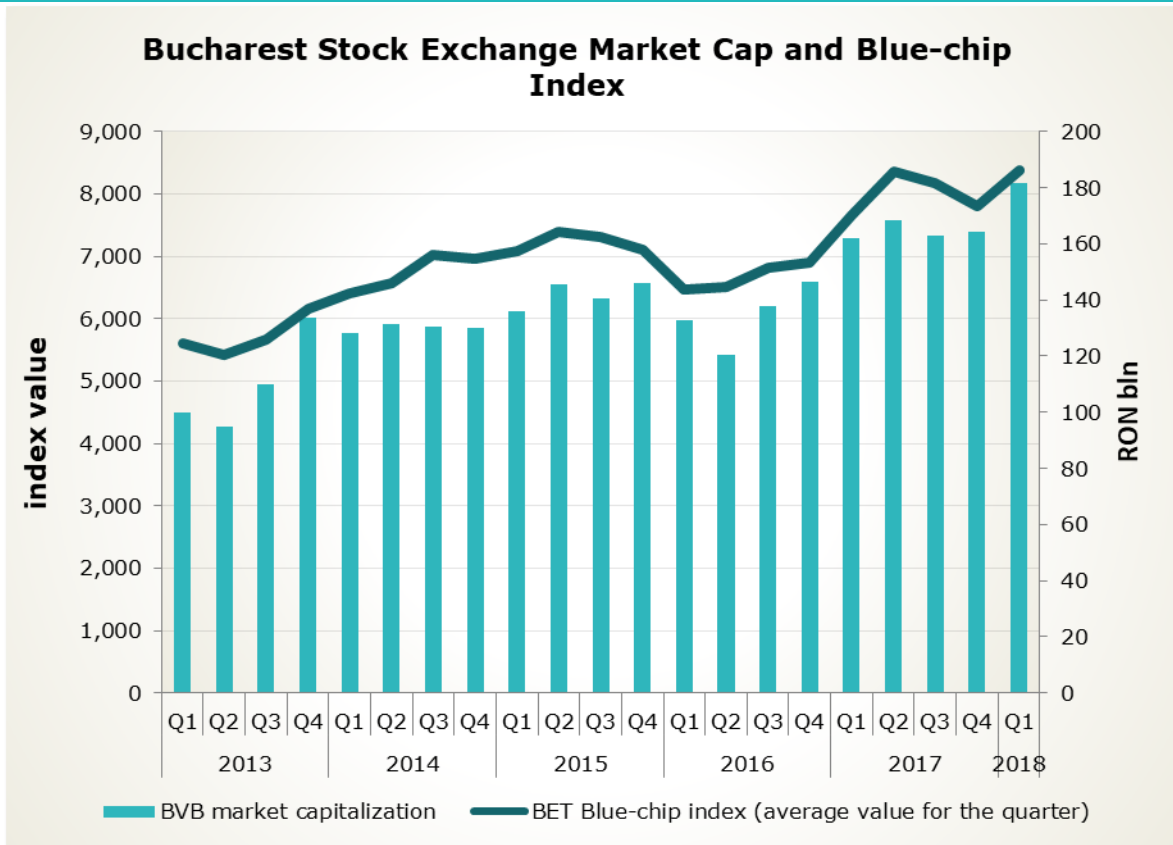
6. CAPITAL MARKETS

Blue-chip BET trended higher by 7.2% q/q in Q1 2018

The average value of BET, the blue-chip index of the Bucharest Stock Exchange (BVB), increased by 7.2% y/y to 8,376 points as of end-March 2018.

BVB's total market capitalisation came in at RON 181.5 bln as of March 2018, up 10.4% q/q.

The total turnover on BVB went down to RON 1.119 bln in Q1 2018, from RON 2.887 bln in Q1 2017.



Source: BVB

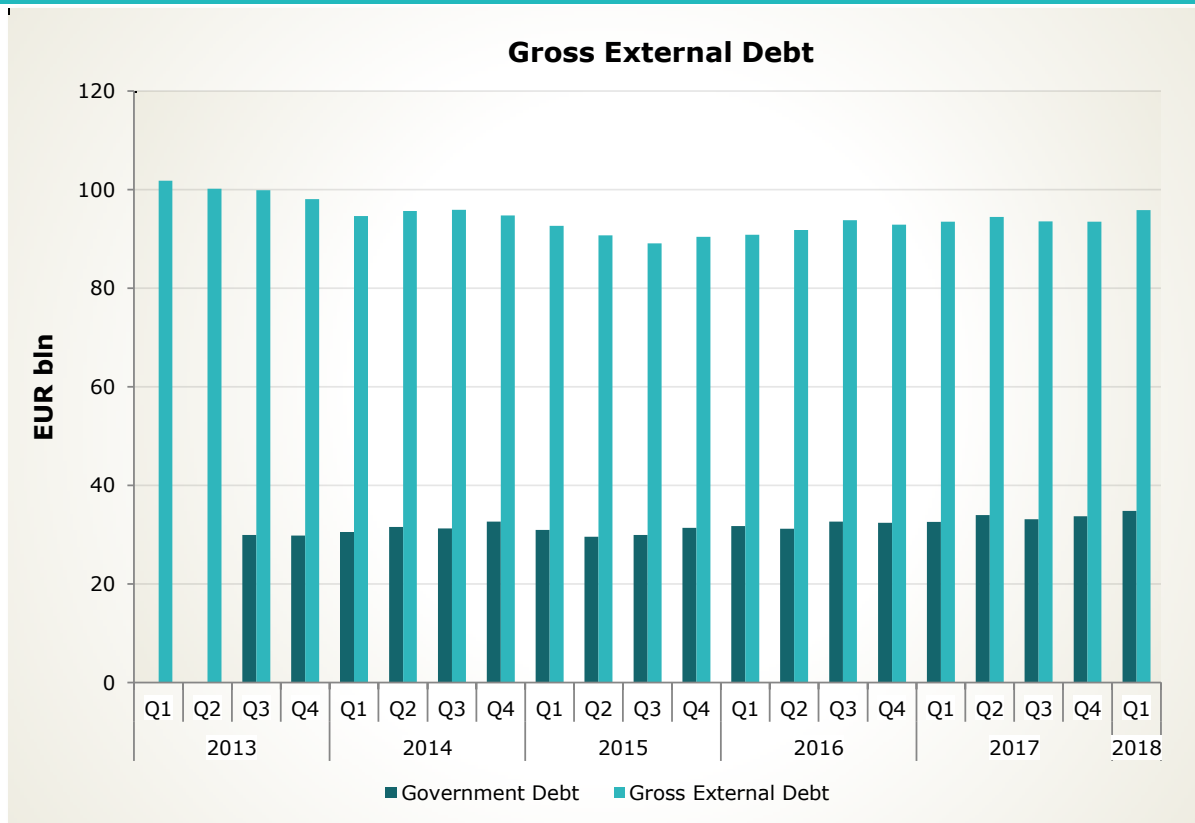
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt inched up by 2.6% y/y to EUR 95.865 bln in Q1 2018

Romania's gross external debt amounted to EUR 95.865 bln in Q1 2018, up by 2.6% compared to Q1 2017, according to NBR. In comparison to the last quarter of 2017, the gross external debt increased by EUR 2.388 bln.

The long-term liabilities amounted to EUR 55.331 bln, or 57.7% of the total debt, and short-term liabilities totalled EUR 12.707 bln, equal to 13.3% of the total debt. Government debt expanded by 6.8% y/y to EUR 34.845 bln.



Source: NBR

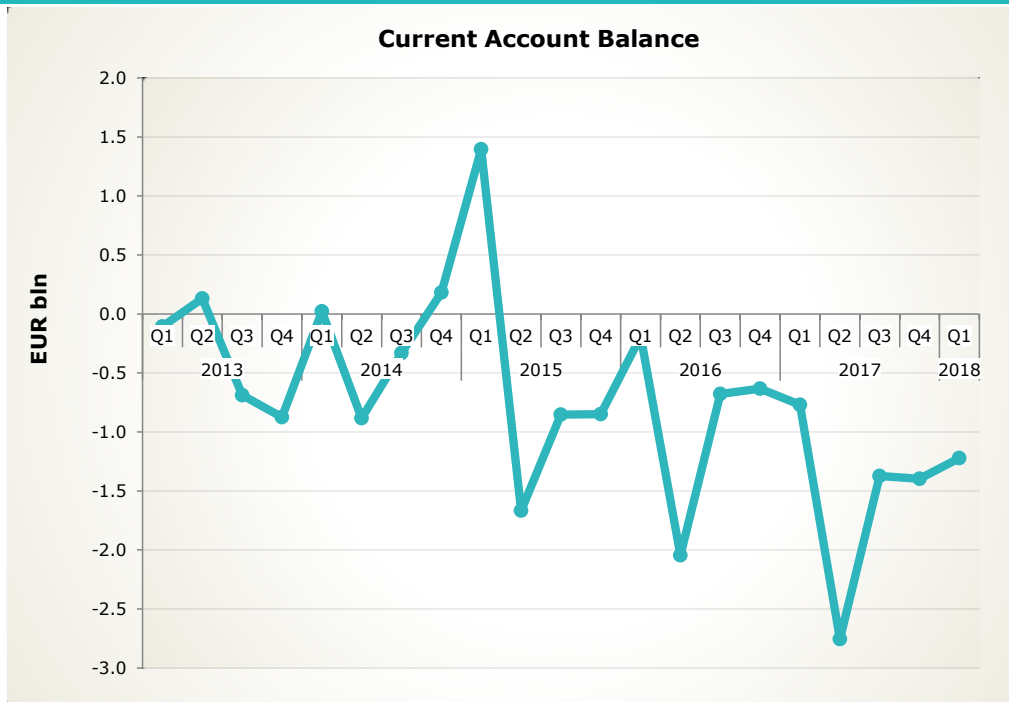
Editor's note: No data is available for Government Debt for Q1 and Q2 2013

7.2. BALANCE OF PAYMENTS

Current account deficit increased by 58.7% y/y on widening trade and income gap

In Q1 2018, the current account deficit widened to EUR 1.222 bln from a deficit of EUR 0.770 bln in the year-ago quarter, according to central bank statistics data. The worsening current account deficit on an annual basis was a result of the increased trade deficit with goods - EUR 2.563 bln in Q1 2018 versus EUR 2.122 bln in Q1 2017.

The widening current account deficit was a direct consequence of the rising consumption and the wider fiscal deficit which have increased domestic demand.

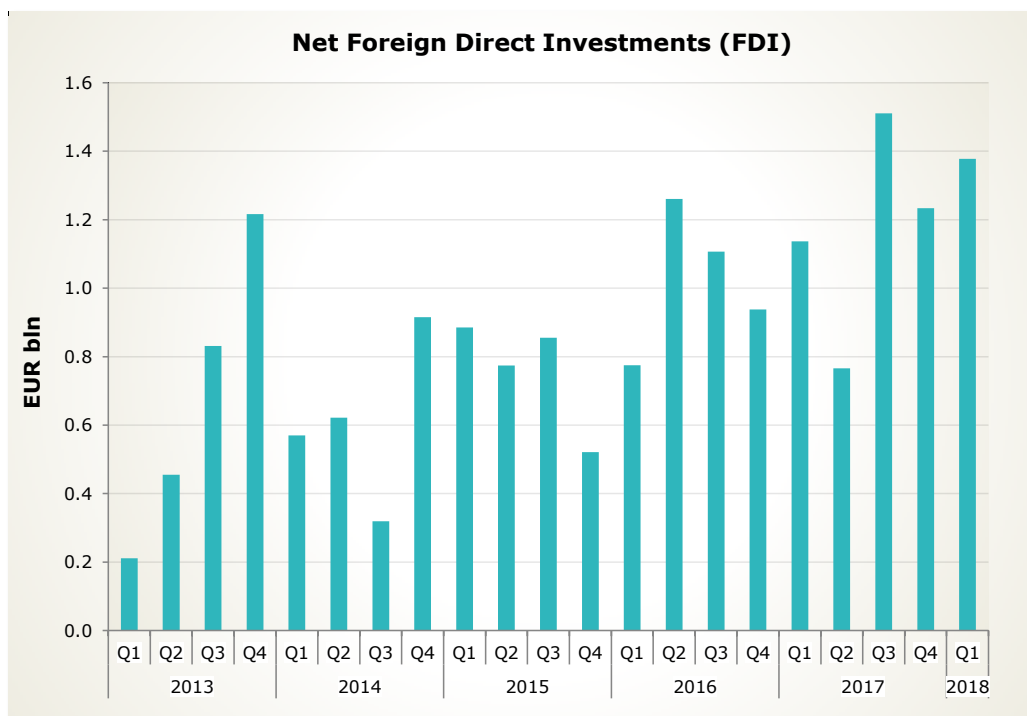


Source: NBR

7.3. FDI

Net FDI grew by 21.2% y/y in Q1 2018

Foreign direct investments (FDIs) in Romania totalled EUR 1.378 mln in Q1 2018, according to NBR. The FDIs increased by 21.2% compared to the same quarter of 2017 and by 11.7% compared to Q4 2017.



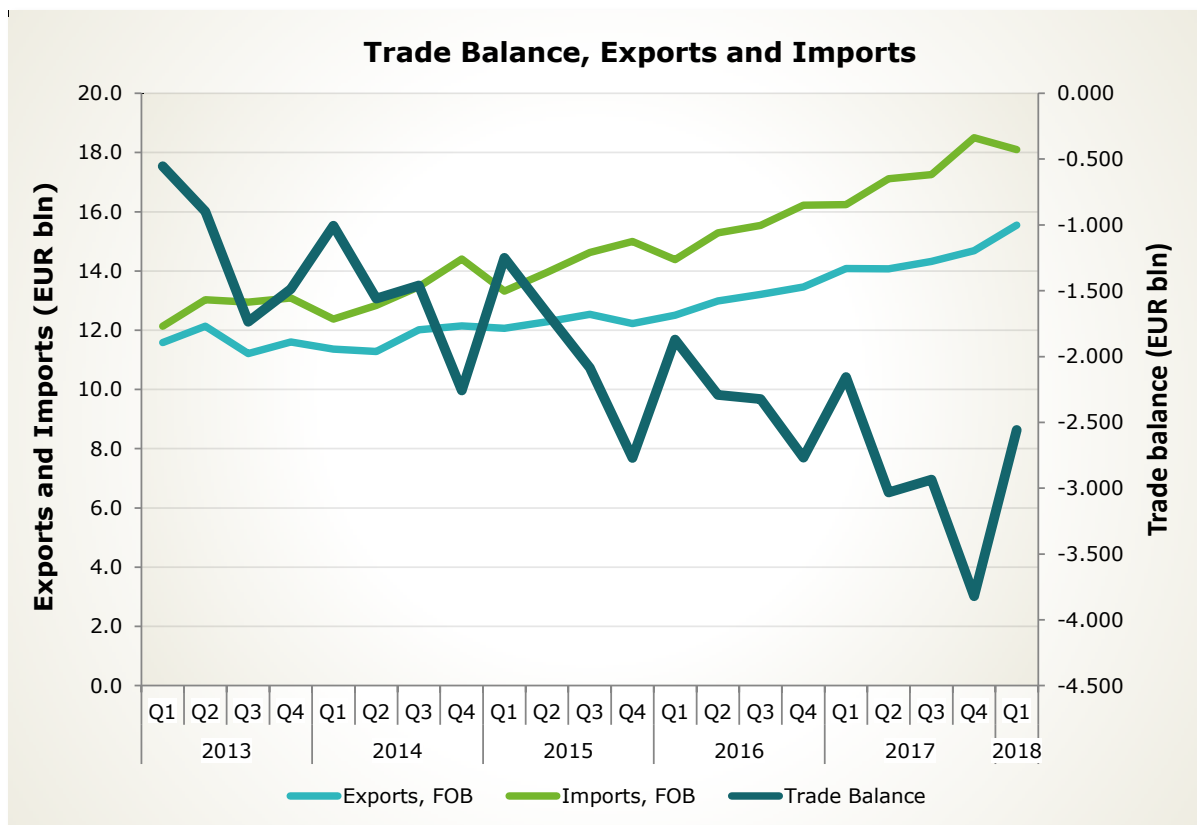
Source: NBR

7.4. FOREIGN TRADE

Foreign trade deficit widened by 18.6% y/y in Q1 2018

The trade deficit extended to EUR 2.557 bln in Q1 2018, compared to EUR 2.156 bln in Q1 2017, according to NBR.

Imports grew faster than exports – by 11.5%, totalling EUR 18.102 bln. Exports rose by 10.4%, totalling EUR 15.545 bln.



Source: NBR

7.5. TOURSIM

Number of foreign tourist overnights grew by 8.4% y/y in Q1 2018

Tourist overnights of foreigners increased by an annual 8.4% to 929,889 in Q1 2018, according to INSSE data. The number of foreign tourists also went up – by 7.8% y/y to 481,005.

The share of foreign tourist overnights in the total number of overnights was 22.5% in the first quarter of 2018, or by 0.4 pp more than in the year-ago quarter.



Source: INSSE

8. MAJOR DEVELOPMENTS

Romania to become majority owner of Daewoo Mangalia shipyard

Mar 23, 2018

Romania has reached an agreement with Dutch group Damen Shipyards to become the majority shareholder in Daewoo Mangalia Heavy Industries (DMHI) shipyard by acquiring a 2% stake in the shipyard held by the Dutch group, the country's economy ministry said.

[Read the full story here](#)

Romania to set up body in charge of drafting plan for Eurozone entry in 2024

Mar 21, 2018

Romania's government will establish a national commission tasked with drafting a plan for the country's accession to the Eurozone in 2024, prime minister Viorica Dancila said on Wednesday.

[Read the full story here](#)

Lack of fiscal moderation threatens Romania's economic growth - IMF

Mar 16, 2018

Although Romania's economy is growing strongly and the financial sector is improving, growth will turn increasingly fragile in the absence of policy changes, the IMF said on Friday.

[Read the full story here](#)

EC closes infringement procedure for Romania on antitrust damages directive

Mar 8, 2018

The European Commission said on Thursday it decided to close infringement procedures for Romania and other 18 member states that have transposed the directive on antitrust damages actions into national law.

[Read the full story here](#)

Lack of reform, fiscal consolidation jeopardizes Romania's economic growth - EC

Mar 7, 2018

The European Commission said on Wednesday that Romania's strong economic growth is endangered by the lack of reform and fiscal consolidation.

[Read the full story here](#)

S&P affirms Romania at BBB-/A-3 with stable outlook on moderate debt, strong growth prospects

Mar 3, 2018

Standard & Poor's maintained Romania's rating at BBB-/A-3, with a stable outlook, due to the country's Romania's moderate external and government debt, amid strong growth prospects.

[Read the full story here](#)

EU backs Romania with 1.3 bln euro for railway upgrades

Feb 20, 2018

The European Commission is providing 1.3 billion euro (\$1.6 billion) to Romania for a railway modernisation project, it said.

[Read the full story here](#)

Fitch sees Romania's 2018 GDP growth at 3.8%, warns on growing imbalances

Feb 12, 2018

Fitch Ratings said on Monday that Romania's economy will grow by 3.8% this year but warned on growing macro-economic imbalances.

[Read the full story here](#)

Romanian fin min analysts lift 2018 GDP growth forecast to 6.1%

Feb 6, 2018

Romanian finance ministry analysts said they have raised their forecast for the country's 2018 economic growth to 6.1% from 5.5% based on expectations of more robust performance across sectors than originally projected.

[Read the full story here](#)

Romanian parliament votes into office third PSD-ALDE coalition govt

Jan 29, 2018

Romania's parliament on Monday endorsed a new coalition government - the third cabinet of Social Democrats and Liberal Democrats since December 2016 election.

[Read the full story here](#)

EBRD invests over EUR 500 mln in Romania in 2017

Jan 29, 2018

The European Bank for Reconstruction and Development (EBRD) said on Monday it has invested over EUR 546 mln (USD 680.5 mln) in the Romanian economy in 2017.

[Read the full story here](#)

Romania's 2017 cons budget gap barely within EU limit

Jan 26, 2018

Romania's consolidated budget deficit increased to 2.88% of the projected 2017 gross domestic product (GDP) last year, from 2.41% a year earlier, the finance ministry said on Friday.

[Read the full story here](#)

Romania leads SEE countries in Bloomberg global innovation index

Jan 25, 2018

Romania ranked highest among countries in Southeast Europe (SEE) in terms of innovation, information services provider Bloomberg said in a report.

[Read the full story here](#)

Romanian president endorses law for mandatory investment in green transport

Jan 19, 2018

Romania's president Klaus Iohannis on Friday signed into law a bill that requires at least 30% of motor vehicles purchased by the municipal governments to be powered by green technologies by 2020.

[Read the full story here](#)

EU backs Romania with EUR 57.4 mln to improve access to drinking water

Jan 16, 2018

The European Commission said on Tuesday it is providing EUR 57.4 mln (USD 70 mln) to help Romania improve access to drinking water.

[Read the full story here](#)

Fitch affirms Romania at 'BBB-', outlook stable

Jan 15, 2018

Fitch Ratings said it has affirmed Romania's long-term foreign and local currency issuer default ratings (IDR) at 'BBB-', with stable outlooks, but warned that the expansionary fiscal policy has weakened the country's public finances.

[Read the full story here](#)

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