

ROMANIA ECONOMY REPORT

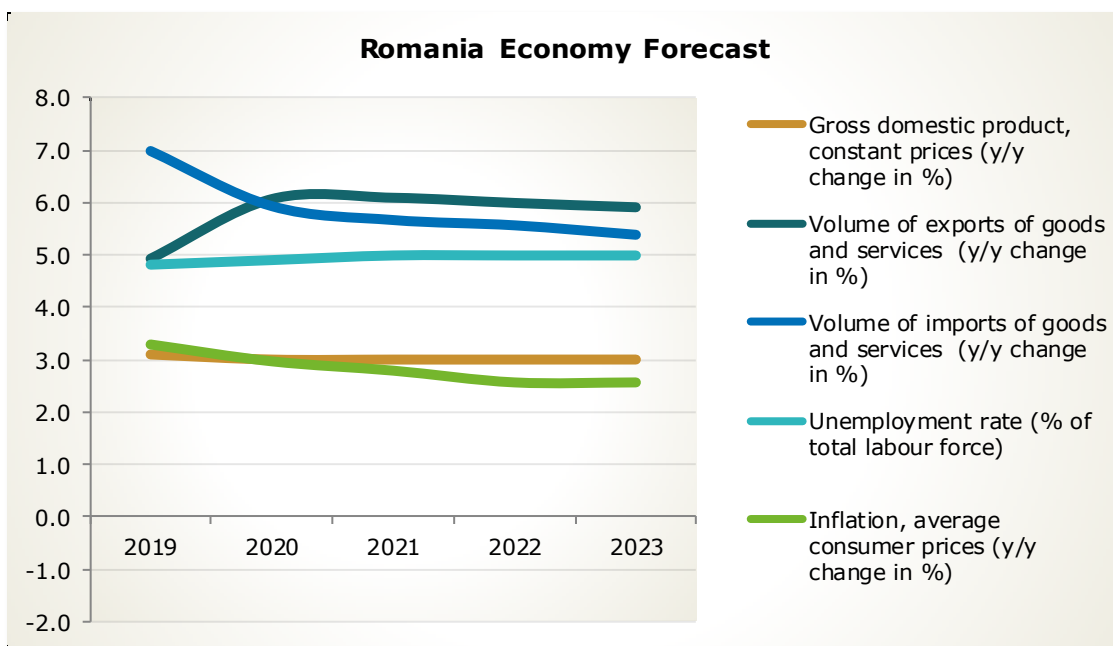
Q1 2019

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1. MACROECONOMIC SNAPSHOT AND FORECAST

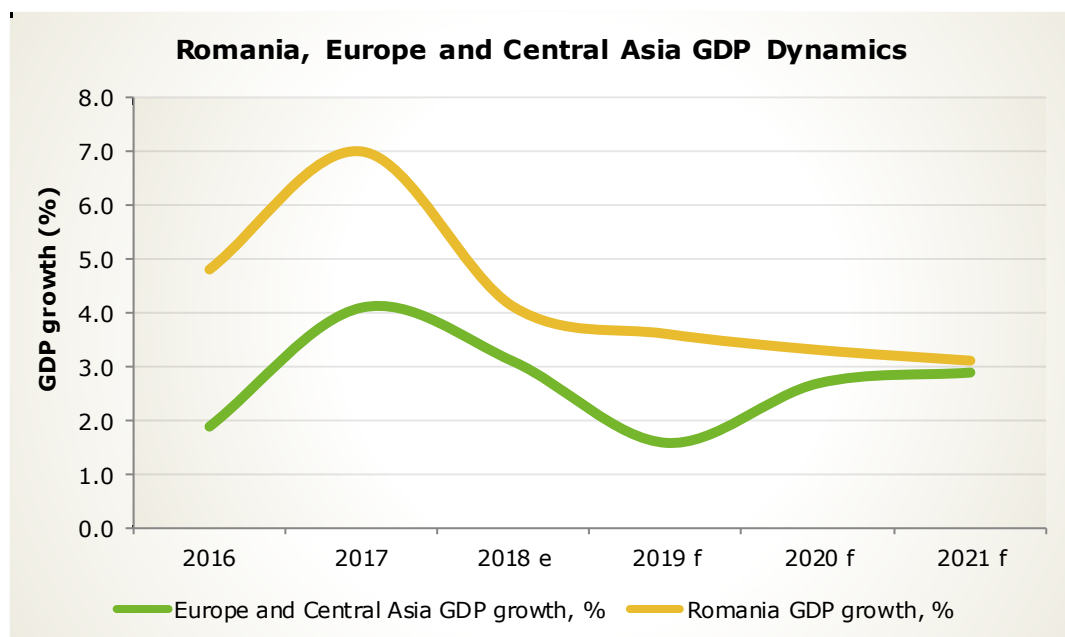
ROMANIA – MACROECONOMIC SNAPSHOT AS OF Q1 2019	
GDP Growth	5.0% y/y
Industrial output	0.6% y/y
Industrial sales	6.6% y/y
Wholesale	9.6% y/y
Retail	8.5% y/y
Average annual inflation	4.4%
Unemployment rate	4.1%
Number of building permits	7.1% y/y
Money supply growth	9.1% y/y
Household loans	8.0% y/y
BET blue-chip index	-10.0% q/q
Gross external debt	EUR 99.891 bln
Current account deficit	EUR 1.067 bln
Net FDI inflow	EUR 1.243 bln
Foreign trade deficit	EUR 3.580 bln
Number of foreign tourist overnights	-4.0% y/y



Source: International Monetary Fund (IMF) World Economic Outlook Database - April 2019

The International Monetary Fund (IMF) expects the economic growth in Romania to slow down to 3.1% in 2019 from 4.1% in 2018. 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 further decelerate and stabilise at about 3.0%

in the medium term, hampered by discontinued fiscal stimulus, inadequate investment and lack of sustainability in structural reforms.



Source: World Bank, Europe and Central Asia Economic Update, June 2019

According to the World Bank estimates from June 2019, GDP growth is likely to come in at 3.6% in 2019, down from 4.1% in 2018. This will be higher than the projected growth for Europe and Central Asia, of 1.6% in 2019.

Romania – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)						
	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices, y/y cha	4.8	7.0	4.1	3.6	3.3	3.1
Private Consumption	7.4	9.2	4.7	5.6	5.5	5.4
Government Consumption	1.8	5.2	6.4	5.2	5.0	4.6
Gross Fixed Capital Investment	-0.2	3.5	-3.2	4.1	3.5	2.9
Exports, Goods and Services	16.0	10.0	4.7	6.7	6.6	6.5
Imports, Goods and Services	16.5	11.3	8.6	7.1	7.0	6.9
Real GDP growth, at constant factor prices (by sectors)						
Agriculture	4.2	14.6	9.9	2.1	2.1	2.1
Industry	5.1	8.3	4.1	4.0	3.9	3.8
Services	4.9	5.5	3.4	3.5	3.1	2.8
Inflation (Consumer Price Index)	-1.5	1.3	4.6	3.5	3.4	2.9
Current Account Balance (% of GDP)	-2.1	-3.2	-4.7	-5.2	-5.3	-5.2
Net Foreign Direct Investment (% of GDP)	2.7	2.6	2.4	2.0	2.2	2.4

Source: World Bank, Europe and Central Asia Economic Update, April 2019

2. REAL SECTOR

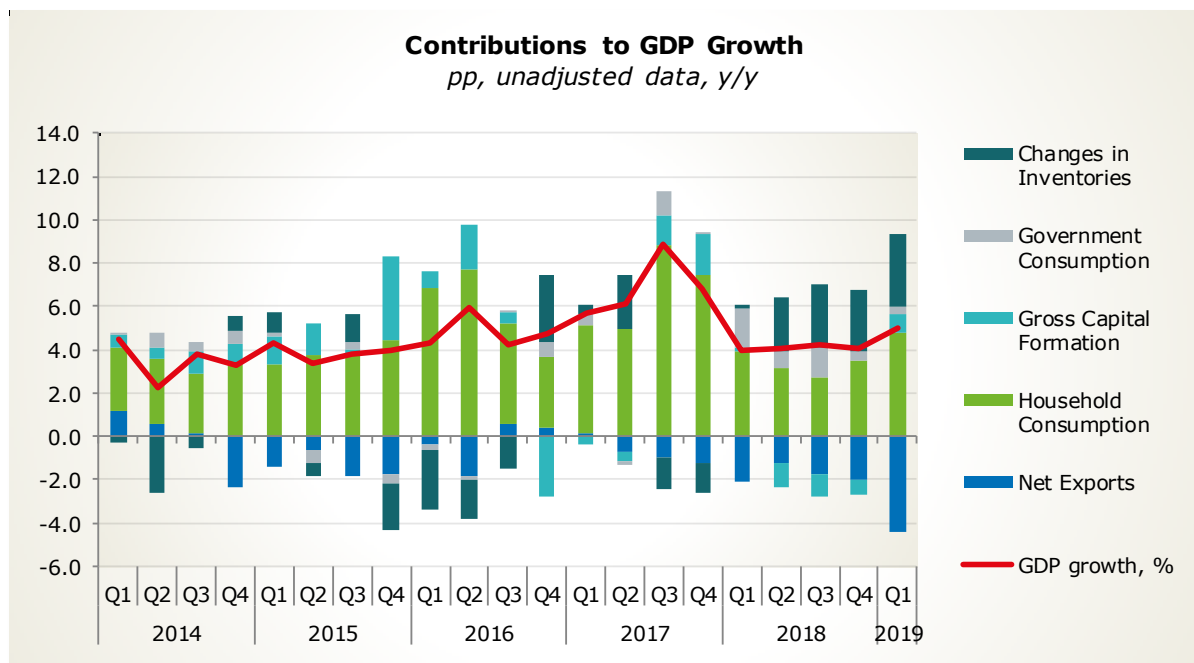
2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth increased to 5.0% y/y in Q1 2019, up from 4.1% y/y in Q4 2018

The country's GDP increased by a real 5.0% y/y and totalled RON 33.424 bln in Q1 2019, according to data from the National Institute of Statistics (INSSE). This is up compared to an annualised growth of 4.1% in Q4 2018 and 4.0% in Q1 2018.

Final consumption rose to 6.6% y/y in real terms in Q1 2019 compared to 5.1% y/y growth in Q4 2018. Household consumption went up by 6.7% y/y, up from 5.1% y/y growth in Q4 2018, while government consumption decreased to 3.2% y/y in Q1 2019 from 4.6% in Q4 2018.

As a result, household consumption contributed with 4.8 pp to the overall y/y GDP expansion and government consumption contribution stood at 0.4 pp in Q1 2019.

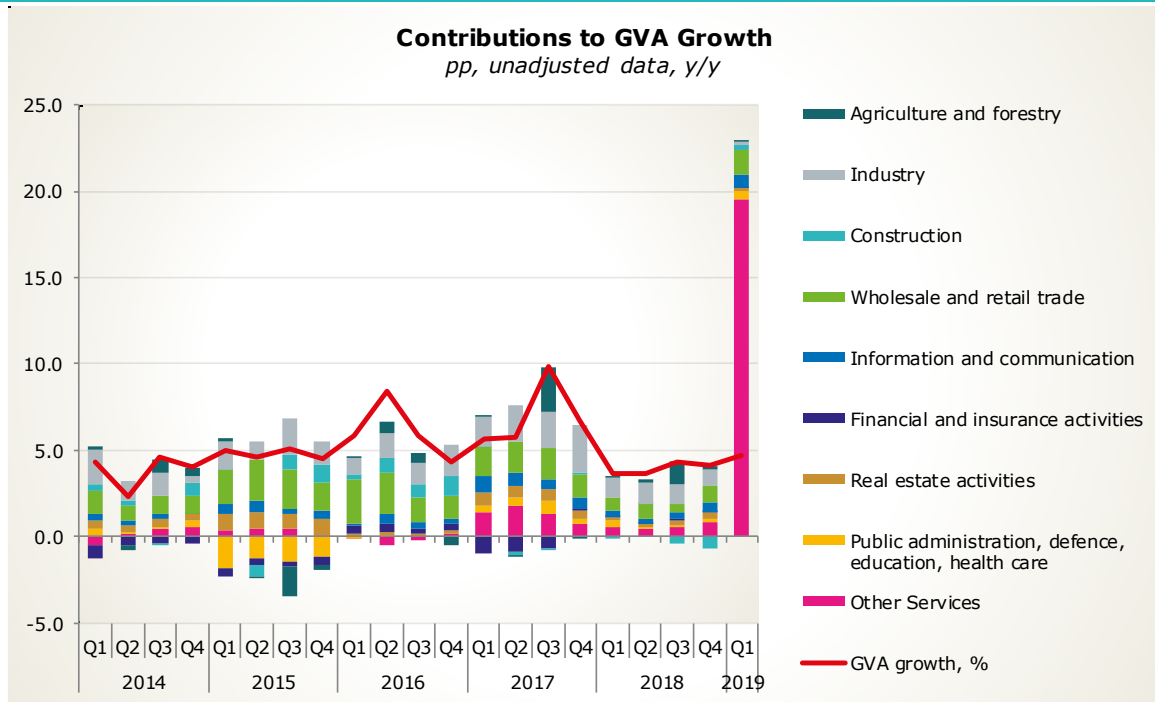


Source: INSSE; SeeNews calculations

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.

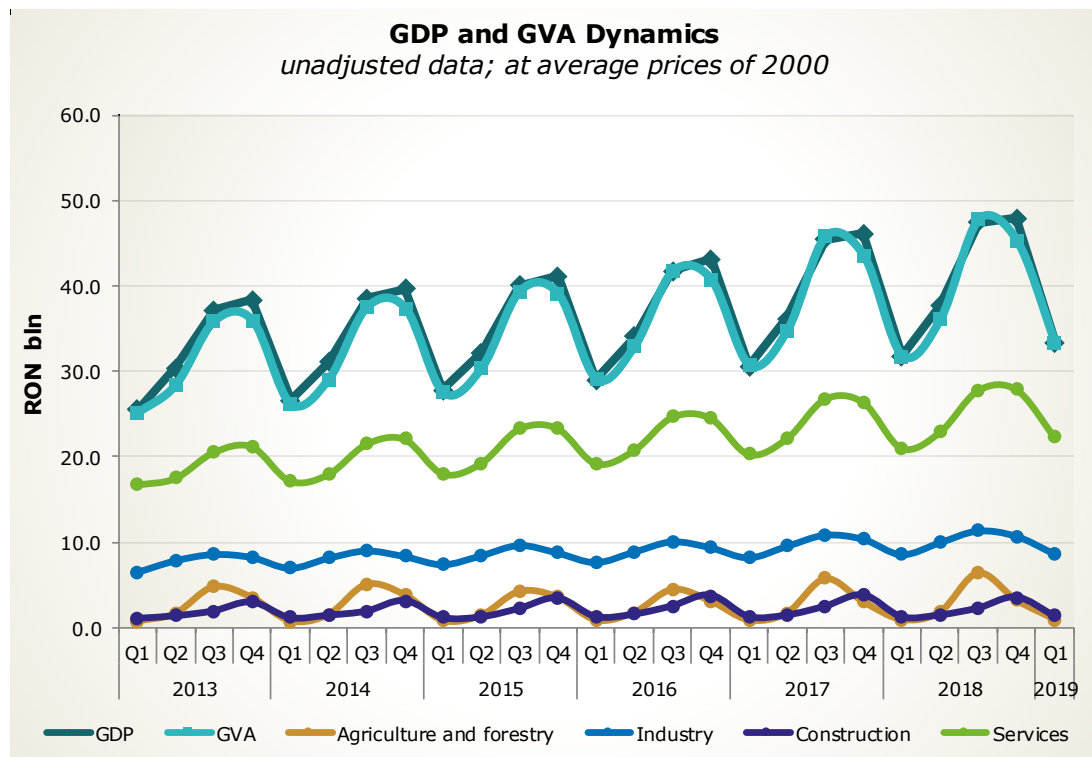
The gross value added (GVA) generated by the national economy went up by 4.7% y/y in the first quarter of 2019 and totalled RON 33.327 bln. The construction sector expanded by 6.5% y/y, while the services sector recorded a 6.3% annual increase. The agricultural sector registered an annual rise of 3.1% while the industrial sector went up by 0.8%.

The retail and wholesale trade sector contributed with 1.5 pp to the GVA growth in Q1 2019, up from 1.0 pp in Q4 2018. Other services sector had a significant increase, added 19.5 pp to the GVA growth. The Information and communications sector contributed with 0.7 pp to the GVA growth, while the public administration, defence, education, health care sector added 0.5 pp to it during the quarter.



Source: INSSE; SeeNews calculations

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

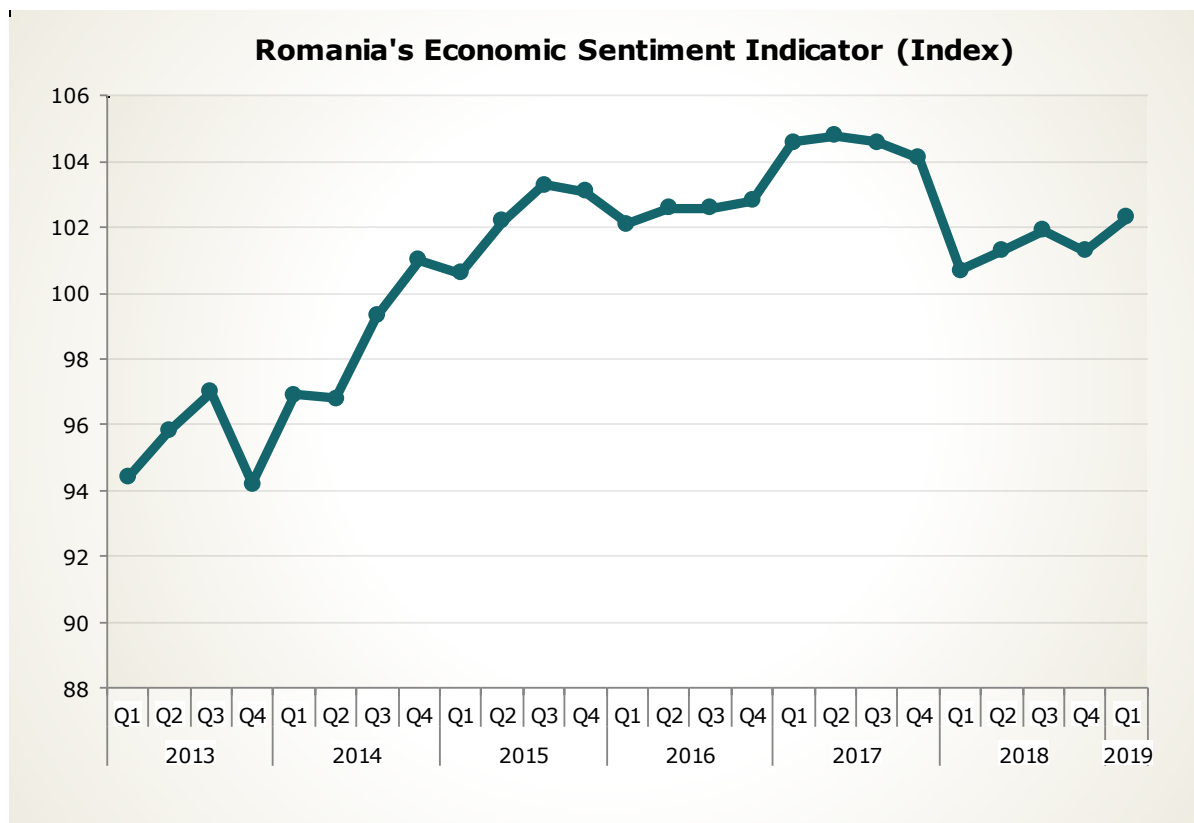


Source: INSSE

2.2. BUSINESS CLIMATE

Economic Sentiment Indicator at 102.3 points in March 2019

In March 2019 the economic sentiment indicator came in at 102.3 points, according to ECFIN. This is a slight improvement compared both to the end of last year and to Q1 2018, when the indicator had levels of 101.3 and 100.7 points, respectively.



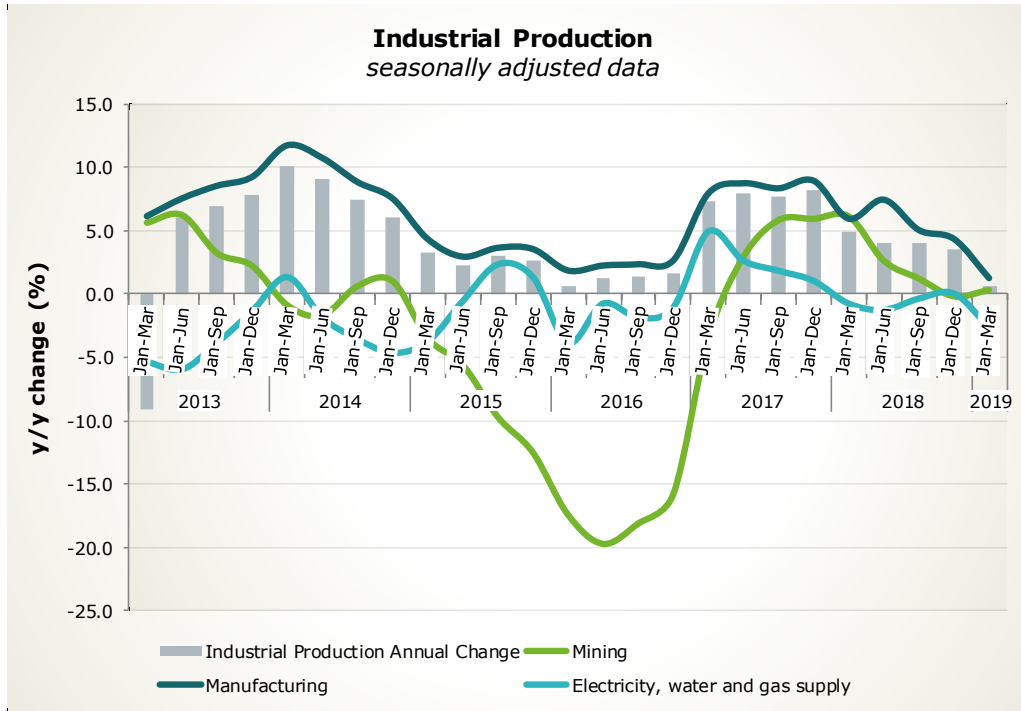
Source: Economic and Financial Affairs, European Commission

2.3. INDUSTRIAL OUTPUT

Industrial production stays positive at 0.6% y/y in Q1 2019

Industrial output increased by 0.6% on the year in the first three months of 2019, according to INSSE. This is a deceleration compared to Q1 2018, when industrial production advanced by 4.9% y/y on average.

Manufacturing enterprises ramped up production by 1.2% on average in Q1 2019, slower than the 5.9% growth in Q1 2018. The mining segment increased its output by 0.3%, down from 6.1% y/y increase in Q1 2018. In the same time, electricity, water and gas supply production went down by 2.7% y/y in Q1 2019.

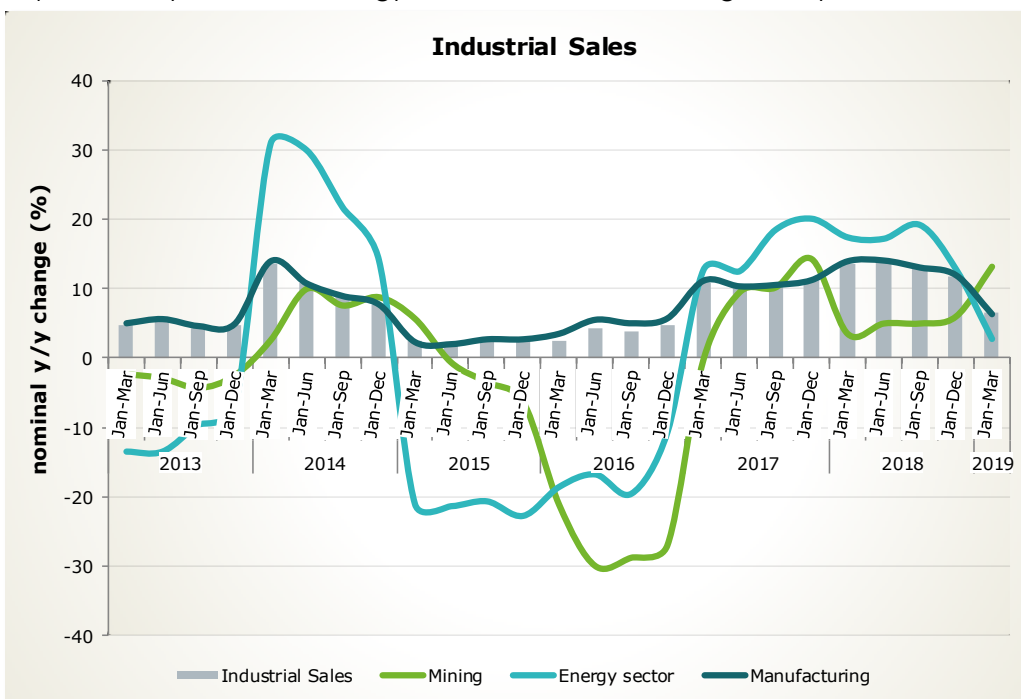


Source: INSSE

2.4. INDUSTRIAL SALES

Industrial sales went up by 6.6% y/y in Q1 2019

Industrial sales increased by 6.6% y/y in nominal terms in the first three months of 2019, according to INSSE data. The overall growth was supported by the rise in sales of the mining and manufacturing industries. Mining sales jumped by 13.2%, while sales in the manufacturing sector expanded by 6.4%. The energy sector also saw its sales grow, by 2.8%.



Source: INSSE

2.5. WHOLESALE/RETAIL

Wholesale trade growth accelerated to 9.6% y/y in Q1 2019, retail sector at 8.5% y/y

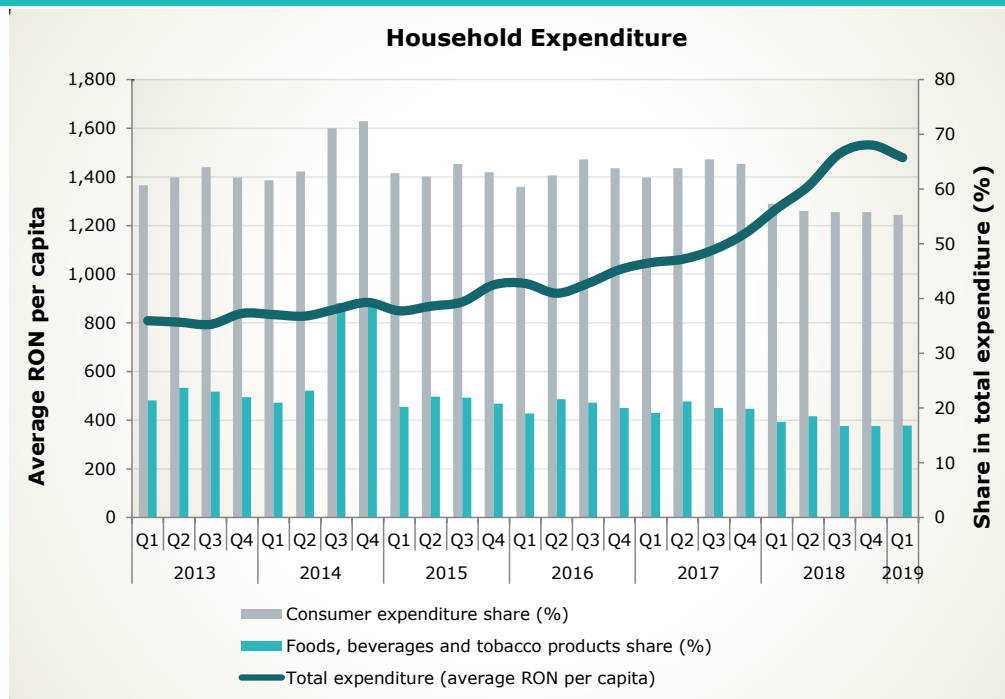
The annual growth of the wholesale and retail sectors remained solid in Q1 2019, according to INSSE data. Wholesale expanded by 9.6% y/y, while retail sales went up by 8.5% y/y in Q1 2019, compared to growth rates of 6.9% and 7.5%, respectively, in Q1 2018, according to INSSE data.



Source: INSSE

Retail sales of non-food products increased by 11.7% y/y in January - March 2019, retail sales of food, beverages and tobacco went up by 3.1% y/y, while the turnover in volume terms of automotive fuel in specialised stores went up by 12.6%.

Among the wholesale segments, wholesale of agricultural raw materials and live animals occupied the top position in terms of annual growth with 15.7%, while wholesale of intermediation activities registered the lowest annual increase of 2.7%.



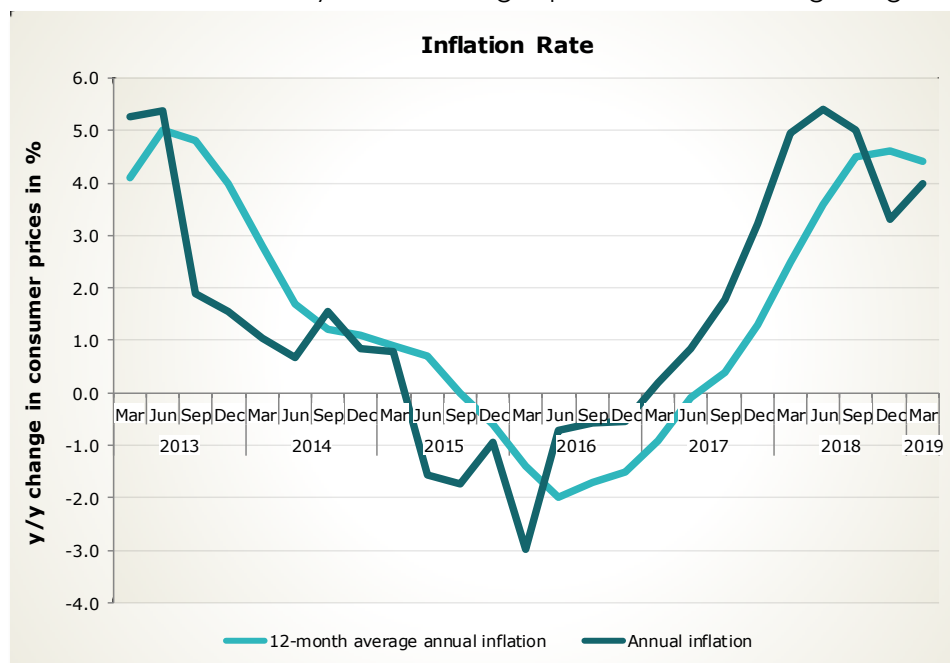
Source: INSSE

2.6. INFLATION

Inflation at 4.4% in Q1 2019

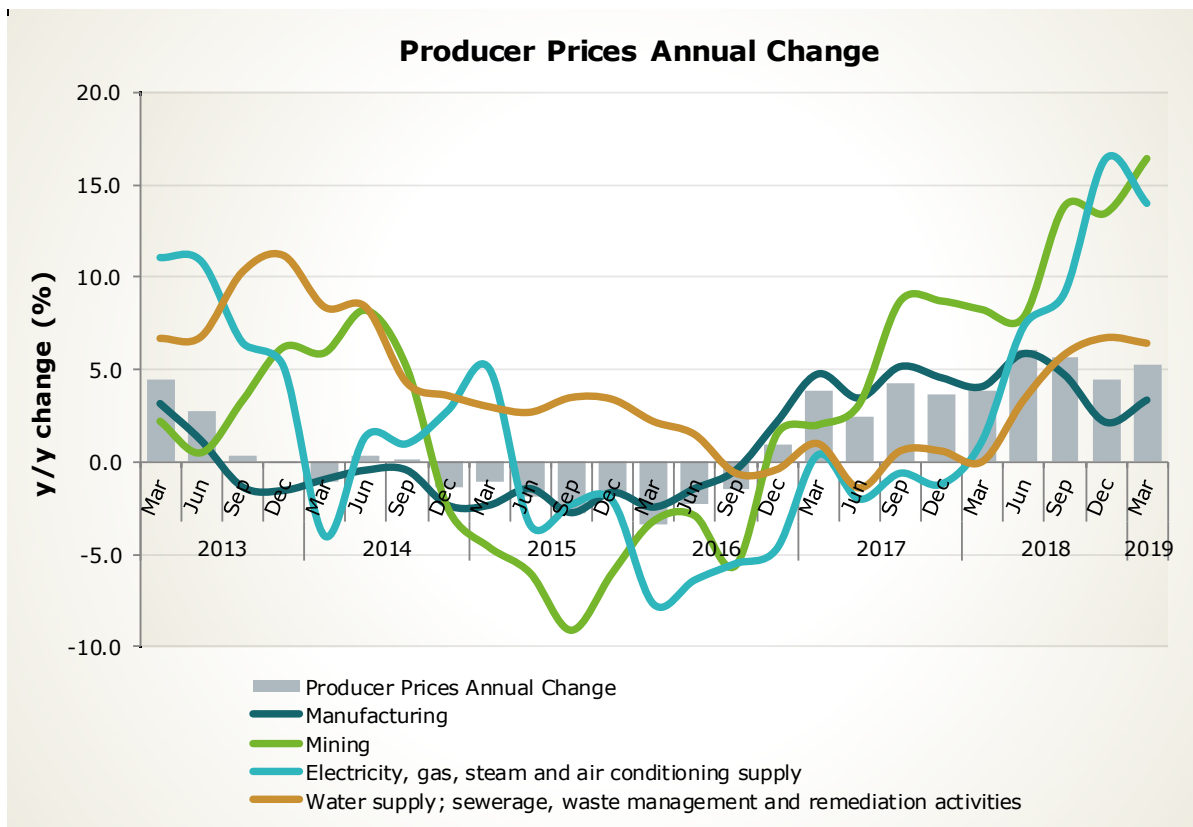
According to INSSE data, the average annual inflation rate in Q1 2019 stood at 4.4%. It was lower than the 2.5% recorded in Q1 2018.

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



Source: INSSE

In March 2019, the producer price index grew by 5.3% 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 16.4% y/y in March 2019, while producer inflation in the manufacturing sector came in at 3.4% y/y.



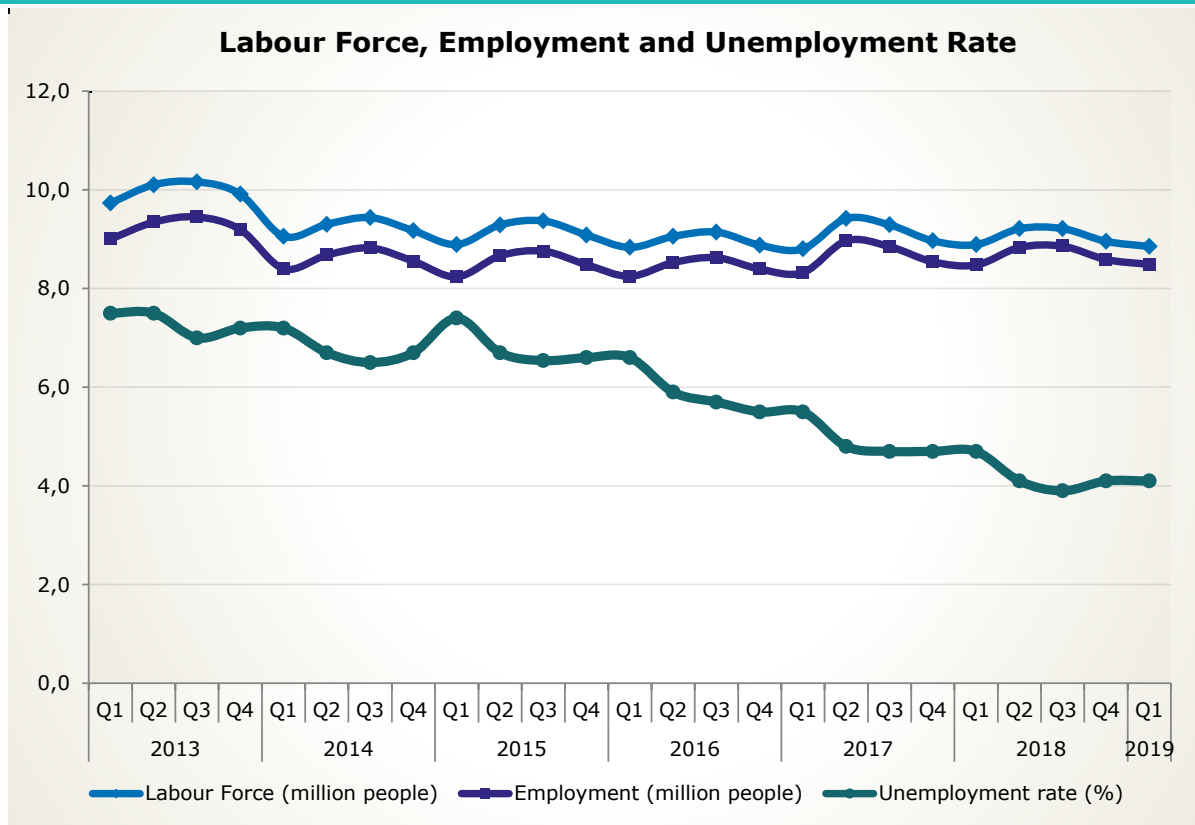
Source: INSSE

3. LABOUR MARKET

Unemployment rate remained unchanged in Q1 2019

In Q1 2019, the unemployment rate in Romania stood at 4.1%, unchanged from the same quarter the previous year and 4.7% in Q1 2018, according to data of INSSE. The employed population aged 15 years and older was 8.488 million, up by 0.1% y/y. The youth (population aged 15-24) unemployment rate stood at 15.6%, down from 16.8% in Q1 2018.

The tightening labour market pushed up net earnings in Q1 2019, when the average monthly net nominal wage came in at RON 2,981 – up by 16.5% y/y.



Source: INSSE

4. CONSTRUCTION AND REAL ESTATE

Number of building permits went up by 7.1% y/y in Q1 2019

The number of building permits issued in Romania in the first quarter of 2019 went up by 7.1% y/y, totalling 10,237, according to INSSE data. The growth was fuelled by the 6.8% y/y rise of permits for housing projects to 8,673, while permits for administrative buildings decreased to 51 in Q1 2019 from 52 in Q1 2018.

Despite the lower number of permits for residential projects in Q1 2019, their total developed built-up area was by 20.4% higher than in the previous year, reaching 2.435 million sq m. The total developed built-up area covered by the permits for administrative buildings came in at 34,500 sq m, compared to 46,500 in Q1 2018, registering a significant decrease of 25.8%.

5. MONETARY POLICY, MONEY SUPPLY, AND BANKING SYSTEM

5.1. RON EXCHANGE RATE

The average exchange rate of the EUR against the RON advanced to RON 4.7351 in Q1 2019 from RON 4.6553 in the previous year, according to National Bank of Romania (NBR).

RON Average Exchange Rate			
Foreign Currency	Q1 2019	Q4 2018	Q1 2018
EUR	4.7351	4.6597	4.6553
USD	4.1681	4.0835	3.7860
GBP	5.4284	5.2526	5.2708
CHF	4.1805	4.1015	3.9962

5.2. MONETARY POLICY

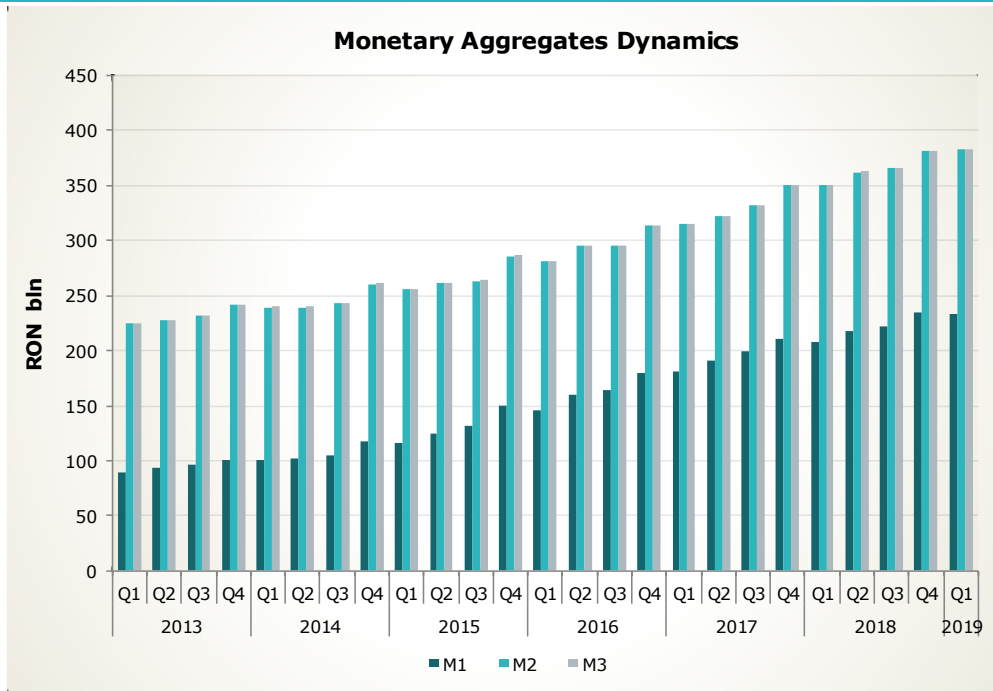
The national bank kept the policy rate at 2.50%

The NBR did not adjust the monetary policy stance, keeping the policy at 2.50% as of end-March 2019. The central bank kept the minimum reserve requirement ratios on both RON- and foreign currency-denominated liabilities of credit institutions at 8.0% as of March 2019.

5.3. MONETARY AGGREGATES

Money supply growth at 9.2% y/y in Q1 2019

Broad money (money aggregate M3) increased by 9.1% y/y and reached RON 383.1 bln in Q1 2019, according to data provided by NBR. The M2 money supply grew by 9.2% y/y to RON 383.1 bln. Money aggregate M1, or narrow money, jumped by 12.3% y/y, to RON 233.7 bln.

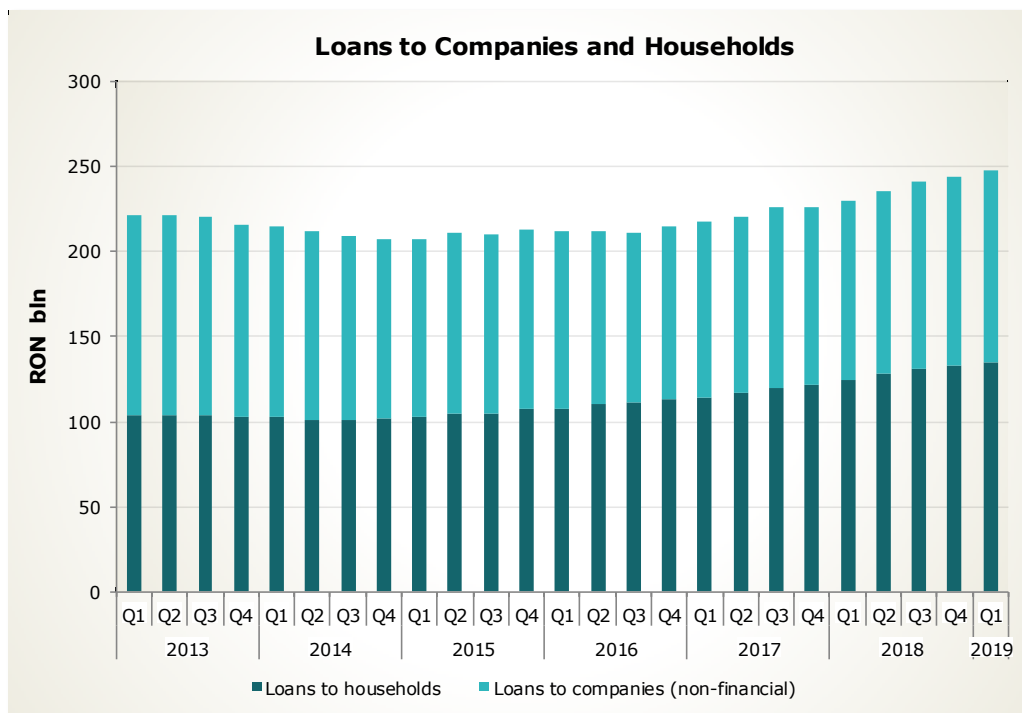


Source: NBR

5.4. BANKING AND INSURANCE

Household loans went up by 8.0% y/y in Q1 2019 on strong house purchase credits

Loans to the non-government sector totalled RON 113.154 bln in Q1 2019, up by 7.4% y/y, according to NBR data. The bulk of the credit growth revival was a result of the 11.3% jump in house purchase loans to RON 75.253 bln. Loans to households went up by 8.0% to RON 134.923 bln, while consumer loans rose by 4.8% y/y to RON 58.074 bln.

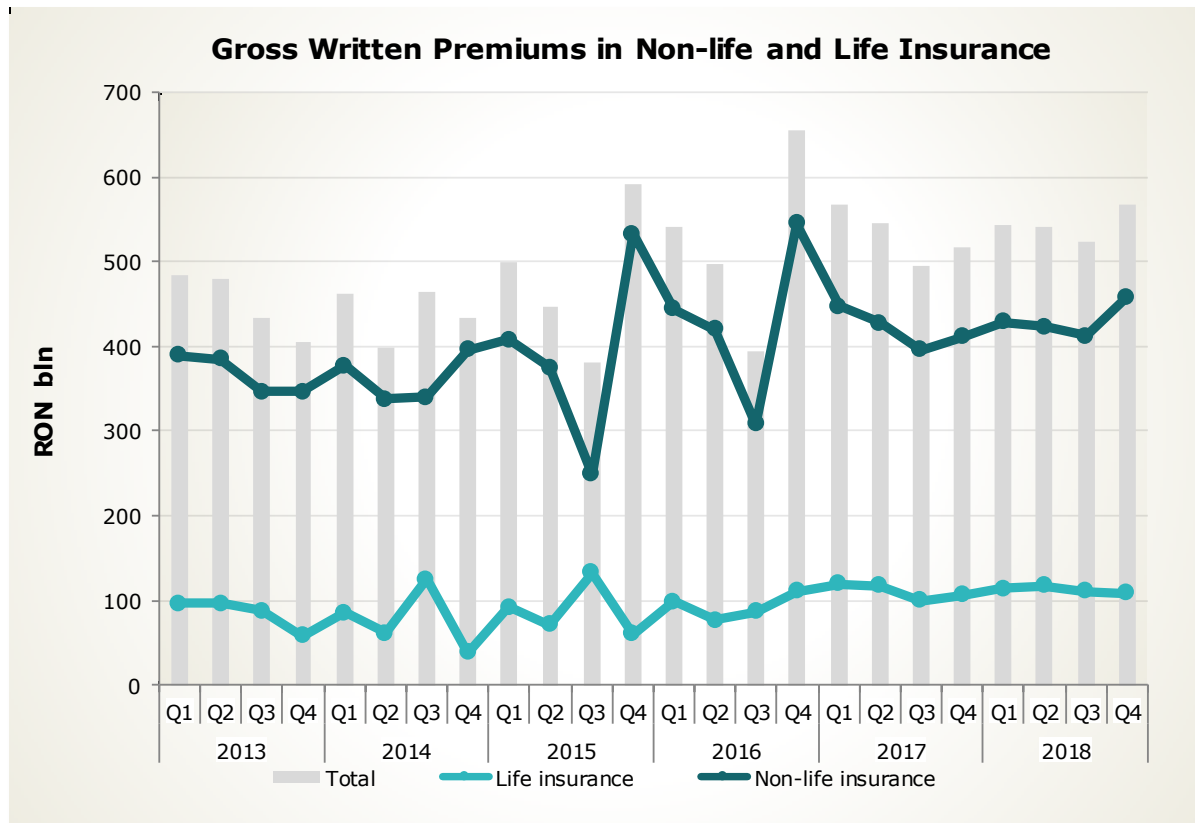


Source: NBR

Insurance premium income up by 9.7% y/y in Q4 2018*

*Data for Gross Written Premiums for Q1 2019 was not available at the time of the preparation of this report.

The total gross written premiums (GWP) of the non-life and life insurance companies totalled EUR 567 mln in Q4 2018, up 9.7% y/y, according to the Financial Supervisory Authority (ASF). Both non-life and life insurance enjoyed an annual GWP growth, of 11.7% and 1.9%, respectively.



Source: ASF

Editor's note: Data for Gross Written Premiums for Q1 2019 was not available at the time of the preparation of this report.

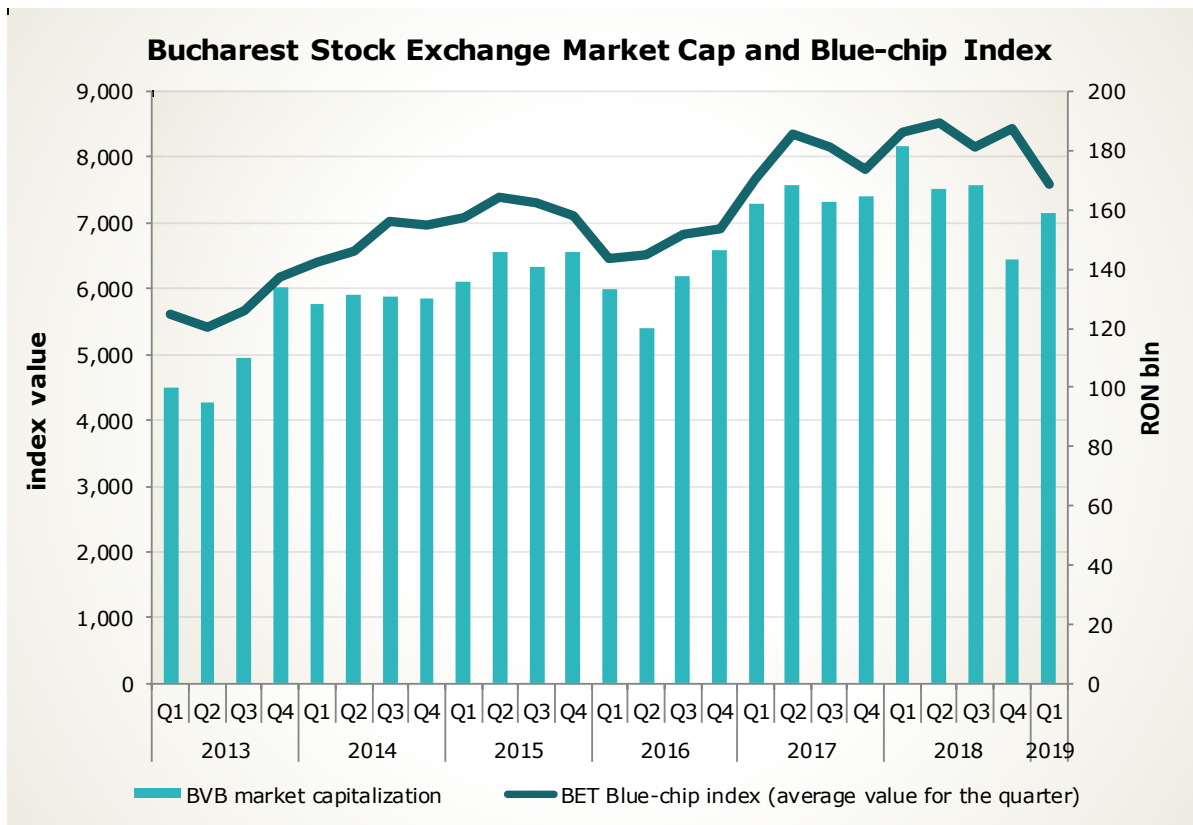
6. CAPITAL MARKETS

Blue-chip BET downwards by 10.0% q/q in Q1 2019

The average value of BET, the blue-chip index of the Bucharest Stock Exchange (BVB), decreased by 10.0% q/q to 7,588 points in Q1 2019, a shift from a 3.5% increase in Q4 2018.

BVB's total market capitalisation came in at RON 158.9 bln, up 11.2% q/q.

The total turnover on BVB went down to RON 2.789 bln in Q1 2019, from RON 3.731 bln in Q1 2018.



Source: BVB

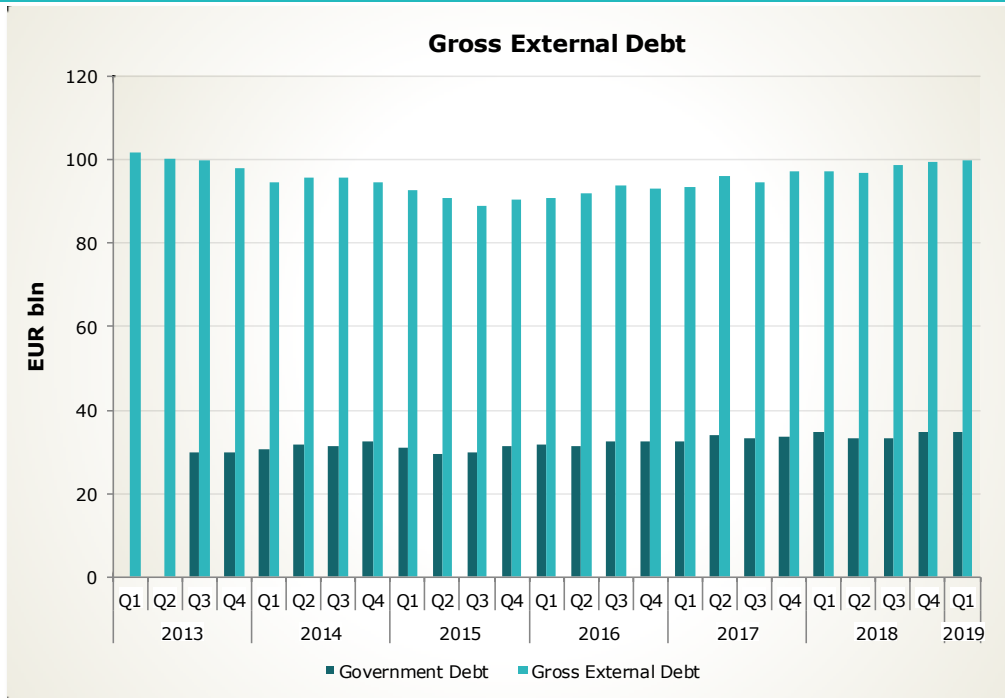
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

Gross external debt expanded by 2.8% y/y to EUR 99.891 bln in Q1 2019

Romania's gross external debt amounted to EUR 99.891 bln in Q1 2019, up by 2.8% compared to Q1 2018, according to NBR. In comparison to the last quarter of 2018, the gross external debt increased by EUR 475.0 mln.

The long-term liabilities amounted to EUR 53.485 bln, or 53.5% of the total debt, and short-term liabilities totalled EUR 14.093 bln, equal to 14.1% of the total debt. Government debt rose by 0.1% y/y to EUR 34.910 bln.



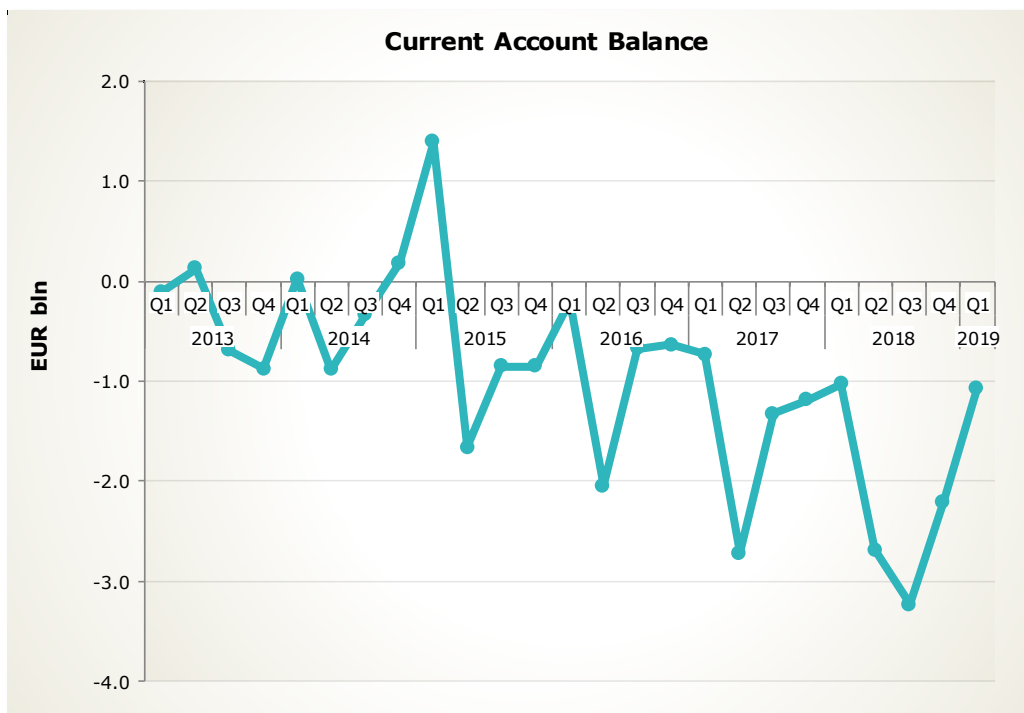
Source: NBR

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

7.2. BALANCE OF PAYMENTS

Current account gap shrank y/y in Q1 2019

In Q1 2019, the current account deficit narrowed by 3.9% y/y to EUR 1.067 bln, according to central bank statistics data.

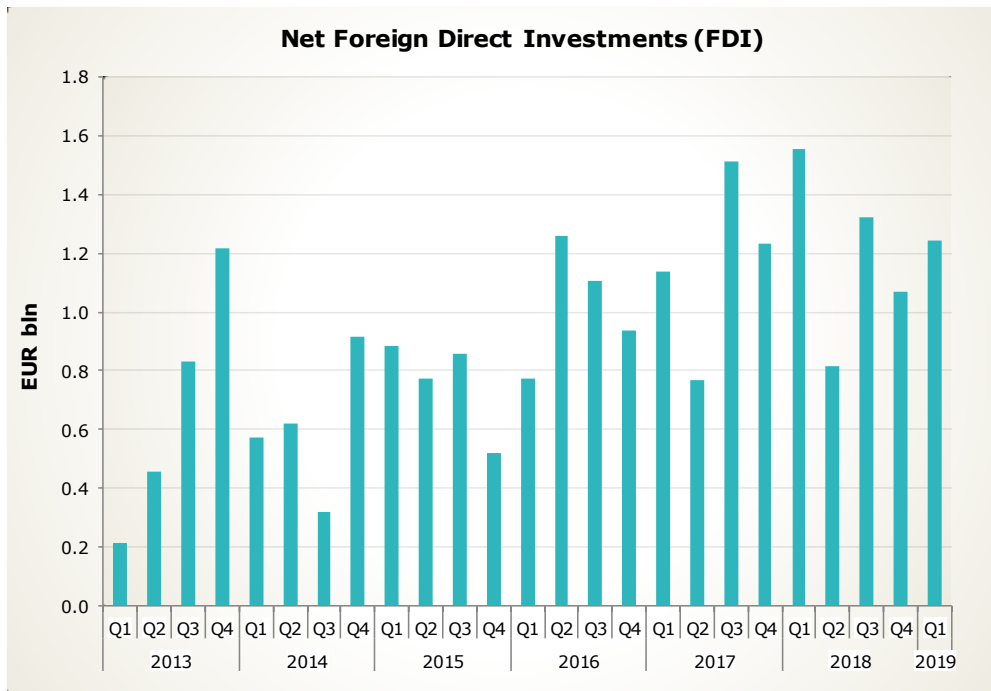


Source: NBR

7.3. FDI

Net FDI dropped by 20.1% y/y in Q1 2019

Foreign direct investments (FDIs) in Romania totalled EUR 1.243 bln in Q1 2019, according to NBR. The FDIs increased by 16.3% compared to Q4 2018, but dropped by 19.2% compared to Q3 2018.



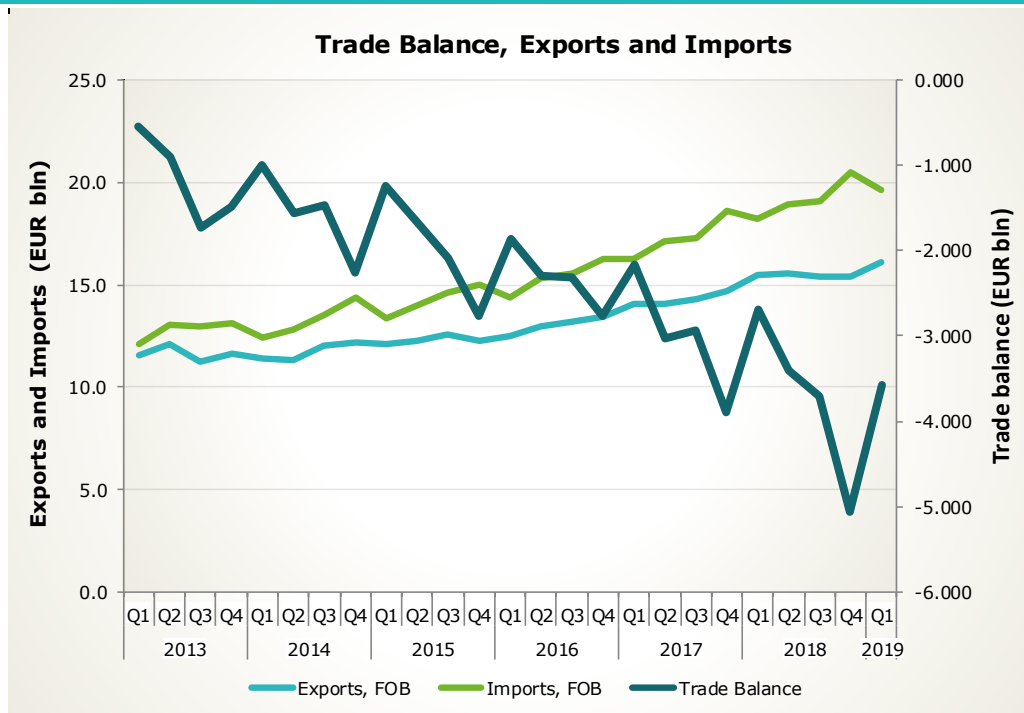
Source: NBR

7.4. FOREIGN TRADE

Foreign trade deficit widened by 33.2% y/y in Q1 2019

The trade deficit expanded to EUR 3.580 bln in Q1 2019, compared to EUR 2.688 bln in Q1 2018, according to NBR.

Imports grew by 8.0%, totalling EUR 19.652 bln, while exports grew slower, by 3.6%, amounting to EUR 16.072 bln.



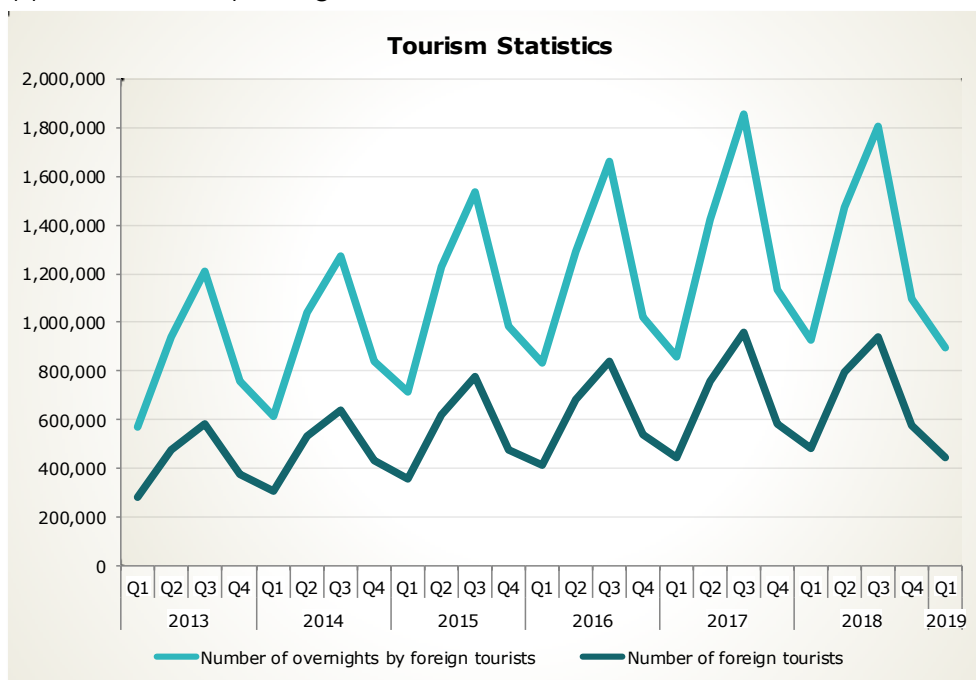
Source: NBR

7.5. TOURSIM

Number of foreign tourist overnights dropped by 4.0% y/y in Q1 2019

Tourist overnights of foreigners decreased by an annual 4.0% to 892,829 in Q1 2019, according to INSSE data. The number of foreign tourists shrank by 7.7% y/y to 443,859.

The share of foreign tourist overnights in the total number of overnights was 19.9% in Q1 2019, or by 2.6 pp less than in a year ago.



Source: INSSE

8. MAJOR DEVELOPMENTS

Romania seeking EUR 800 mln loan from World Bank to support family doctors

Mar 29, 2019

Romania's health minister Sorina Pinteau said on Friday that the finance ministry is negotiating with the World Bank a EUR 800 mln loan to support family doctors.

[Read the full story here](#)

EU Commission grants Romania EUR 18 mln for school food programme

Mar 28, 2019

The European Commission said it is granting Romania close to EUR 18 mln for providing fruit, vegetables and milk in schools.

[Read the full story here](#)

EC approves EUR 517 mln financing for new Bucharest metro line section

Feb 13, 2019

The European Commission (EC) said in February it has approved the allocation of EUR 517 mln for the construction of a 6 km line section that will link 1 Mai area to shopping complex Baneasa in Bucharest.

[Read the full story here](#)

IFC lending EUR 55 mln to Garanti Bank Romania to back SMEs' energy projects

Jan 29, 2019

The International Finance Corporation is providing a EUR 55 mln loan to Garanti Bank Romania to help small and medium-sized firms finance their sustainable energy projects.

[Read the full story here](#)

EC urges Croatia, Romania to comply with EU public procurement rules

Jan 24, 2019

The European Commission said in January that it has urged Croatia and Romania to correctly transpose the EU rules on public procurement and concessions.

[Read the full story here](#)

EU providing EUR 266 mln for cadastre system extension in Romania

Jan 14, 2019

The European Commission said in January it is providing EUR 266 mln for an extension of the coverage of the cadastre system in Romania, especially in rural areas, aiming to strengthen legal certainty and increase transparency regarding the property rights record system.

[Read the full story here](#)

EU to grant Romania EUR 445.8 mln to support agriculture in Q1

Jan 7, 2019

Romania's agriculture ministry said in January that the country will have available more than EUR 445.8 mln of EU funds in the first quarter of 2019 through the National Rural Development Programme 2014-2020.

[Read the full story here](#)

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