

ROMANIA ECONOMY REPORT

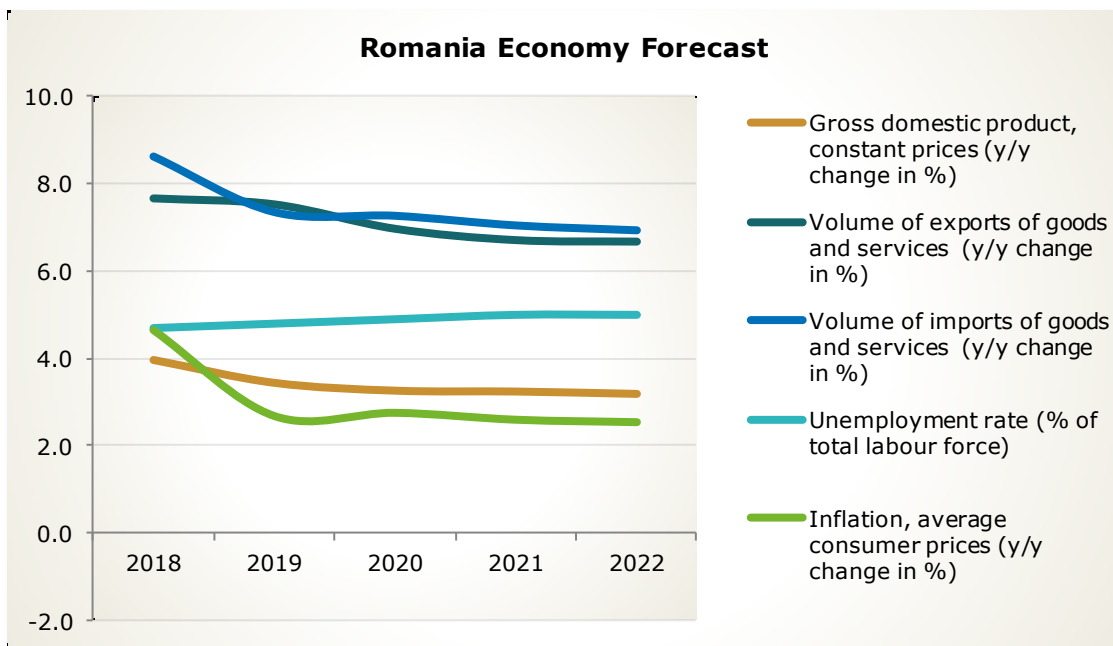
Q2 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

ROMANIA – MACROECONOMIC SNAPSHOT AS OF Q2 2018	
GDP Growth	4.1% y/y
Industrial output	5.9% y/y
Industrial sales	13.8% y/y
Wholesale	9.7% y/y
Retail	7.5% y/y
Average annual inflation	3.6%
Unemployment rate	4.1%
Number of building permits	9.3% y/y
Money supply growth	12.7% y/y
Household loans	10.0% y/y
BET blue-chip index	1.7% q/q
Gross external debt	EUR 97.918 bln
Current account deficit	EUR 2.686 bln
Net FDI inflow	EUR 816.0 mln
Foreign trade deficit	EUR 3.276 bln
Number of foreign tourist overnights	3.7% y/y

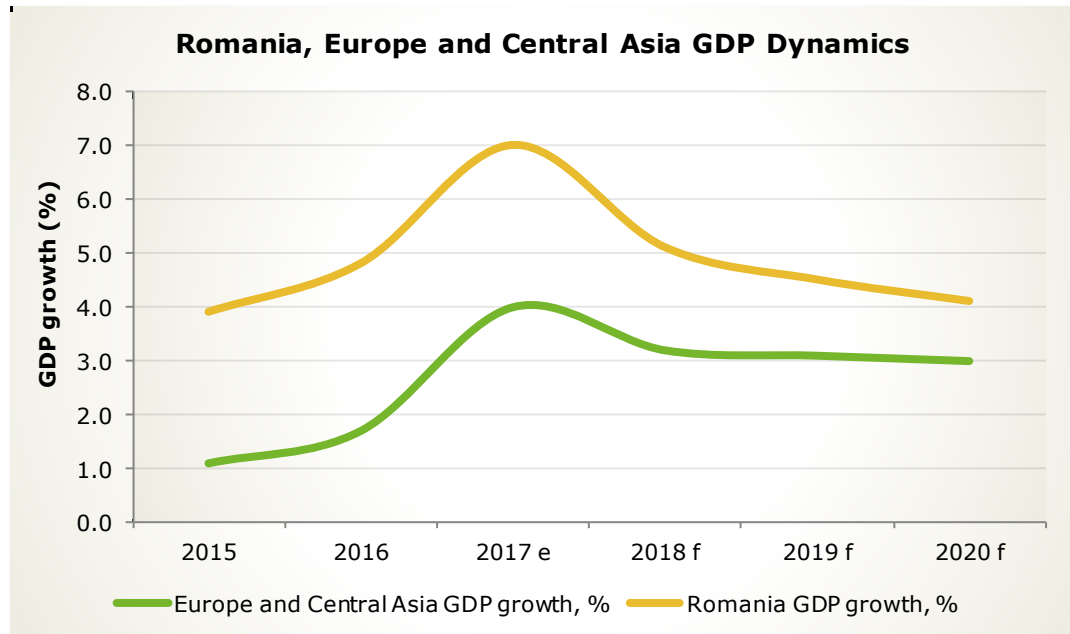


Source: International Monetary Fund (IMF) World Economic Outlook Database - October 2018

The International Monetary Fund (IMF) expects the economic growth in Romania to slow down to 4.0% 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.

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, May 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.

Romania – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)						
	2015	2016	2017 e	2018 f	2019 f	2020 f
Real GDP growth, at constant market prices, y/y cha	3.9	4.8	7.0	5.1	4.5	4.1
Private Consumption	5.7	7.1	8.8	8.1	7.2	6.6
Government Consumption	-0.8	4.8	6.2	5.9	5.4	5.1
Gross Fixed Capital Investment	7.2	0.8	5.4	6.2	5.1	4.8
Exports, Goods and Services	5.3	7.6	9.5	8.3	7.1	7.0
Imports, Goods and Services	9.4	9.7	11.1	9.7	8.4	8.1
Real GDP growth, at constant factor prices (by sectors)						
Agriculture	-11.1	-0.8	18.3	3.0	2.1	2.0
Industry	6.1	0.4	8.0	6.1	5.2	4.6
Services	4.3	8.1	5.0	4.8	4.4	4.1
Inflation (Consumer Price Index)	-0.6	-1.5	1.3	3.7	3.2	3.0
Current Account Balance (% of GDP)	-1.2	-2.6	-3.4	-4.3	-4.7	-4.9
Net Foreign Direct Investment (% of GDP)	1.8	1.8	2.5	3.1	3.0	3.0

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

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

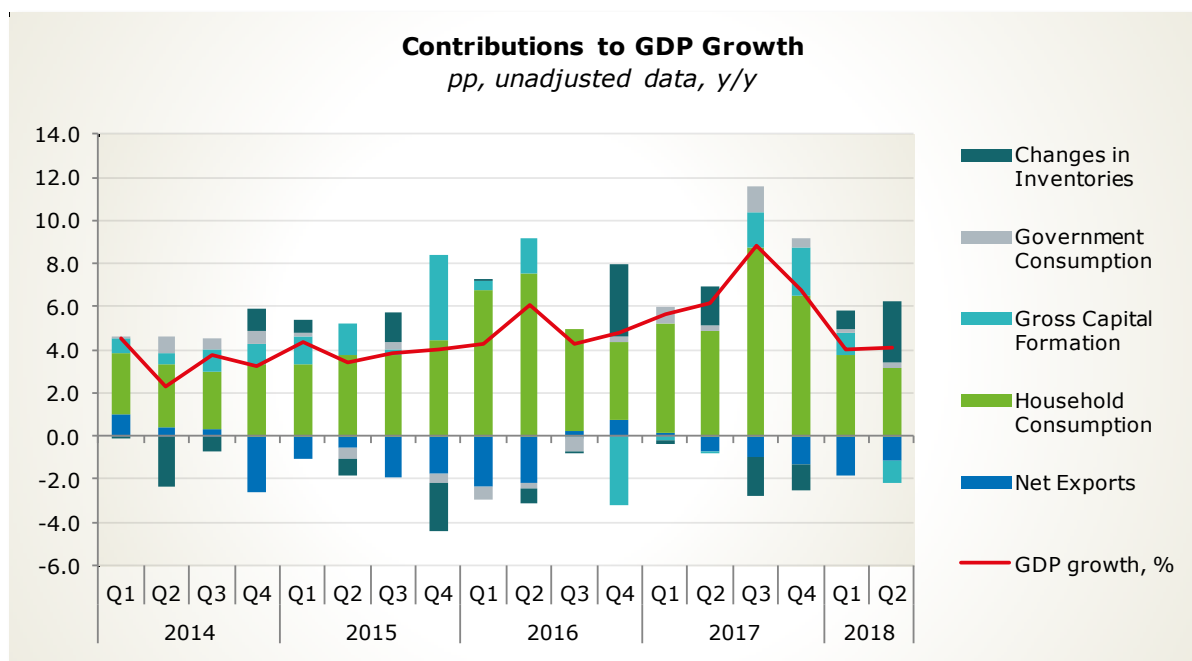
GDP growth at 4.1% y/y in Q2 2018, up from 4.0% y/y in Q1 2018

The country's GDP increased by a real 4.1% y/y and totalled RON 37.052 bln in Q2 2018, according to data from the National Institute of Statistics (INSSE). This is a slight improvement compared to the 4.0% growth in Q1 2018, but significantly lower than the 6.1% rise in Q2 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 fell by 7.8% y/y in real terms in Q2 2018 compared to Q4 2017 but improved by 4.3% in comparison to Q2 2017. Household consumption went up by 4.4% y/y in Q2 2018, down from 5.3% y/y growth in Q1 2018, while government consumption increase accelerated to 3.1% y/y in Q2 2018 from 1.9% in the previous quarter.

As a result, household consumption contributed with 3.2 pp to the overall y/y GDP expansion in Q2 2018, down from 3.8 pp in the previous quarter and government consumption contribution increased to 0.3 pp from 0.2 pp.



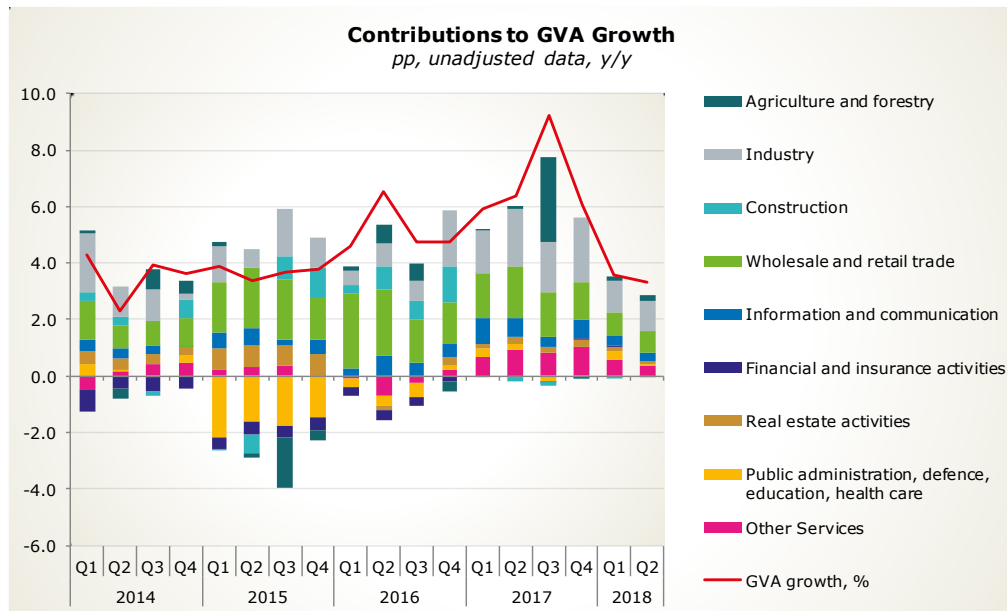
Source: INSSE; SeeNews calculations

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 3.3% y/y in the second quarter of 2018, totalling RON 33.722 bln. The industrial sector expanded by 4.0%

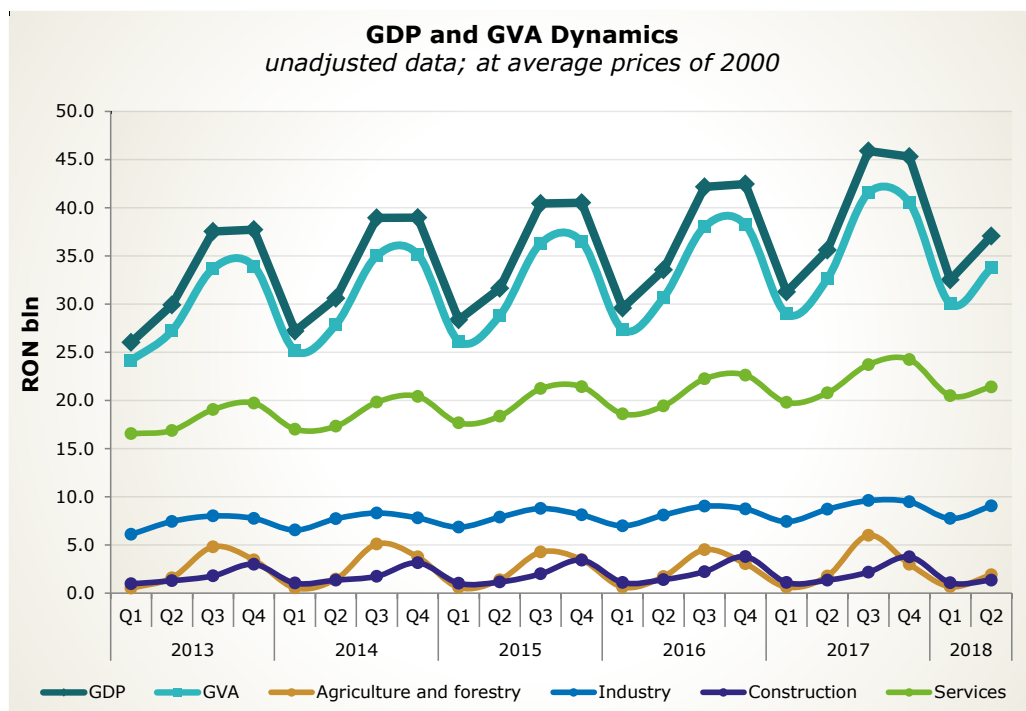
y/y, while the services sector recorded a 3.0% annual increase. The agricultural sector registered an annual rise of 6.7%, while construction inched down by 0.1%.

Retail trade and wholesale contributed with 0.8 pp to the GVA growth in Q2 2018, equal to the Q1 2018 value. The industrial sector contributed with 1.1 pp to the GVA growth, while the Information and communications sector added 0.3 pp to it during the quarter.



Source: INSSE; SeeNews Calculations

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

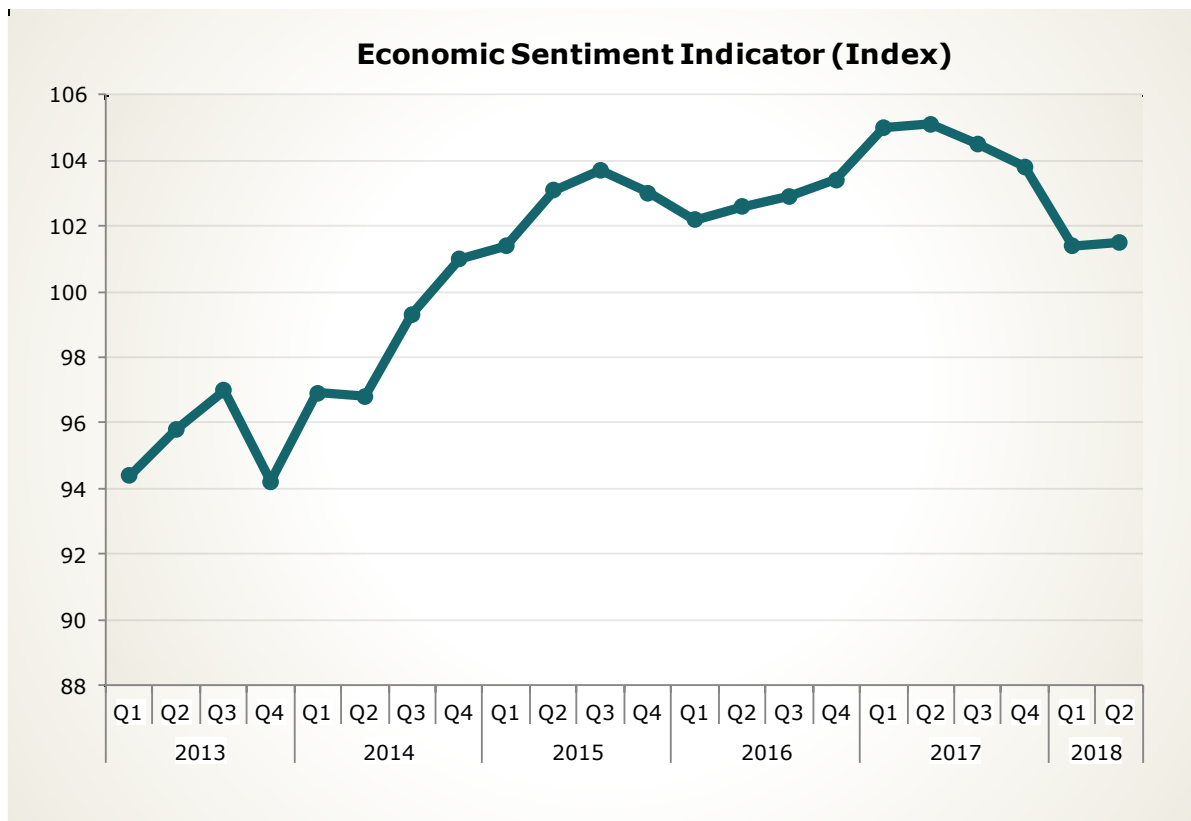


Source: INSSE

2.2. BUSINESS CLIMATE

Economic Sentiment Indicator at 101.5 points in June 2018

In June 2018, the economic sentiment indicator came in at 101.5 points, according to ECFIN. This is a slight increase from the 101.4 points in March 2018, but a significant deterioration in comparison to a year earlier – 105.1 points. The worsening sentiment compared to Q2 2017 reflects the slowdown of the economic growth in Q2 2018 as well as the growing worries for global trade wars.



Source: Economic and Financial Affairs, European Commission

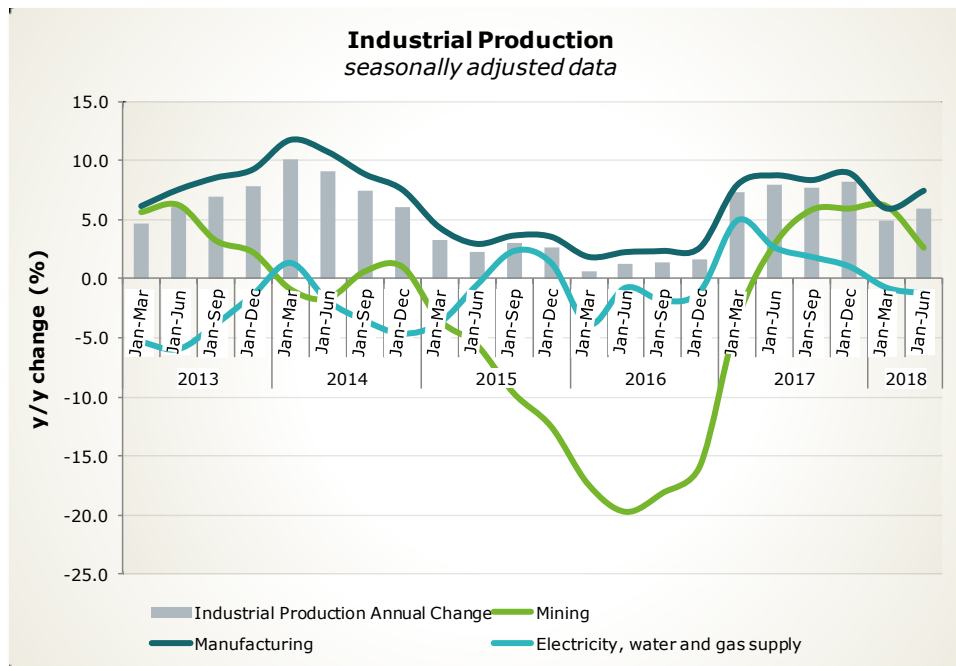
2.3. INDUSTRIAL OUTPUT

Industrial production grew by 5.9% y/y in Q2 2018

Industrial output rose by 5.9% on the year in the second quarter of 2018, according to INSSE. This is a deceleration compared to Q2 2017, when industrial production advanced by 8.0% y/y on average.

Manufacturing enterprises ramped up production by 7.4% on average in Q2 2018, slower than the 8.7% growth in Q2 2017. The mining segment increased its output by 2.6%, down from

2.9% y/y growth a year ago. Electricity, water and gas supply production went down by 1.3% y/y in Q2 2018, while in Q2 2017 it grew by 2.60% y/y.

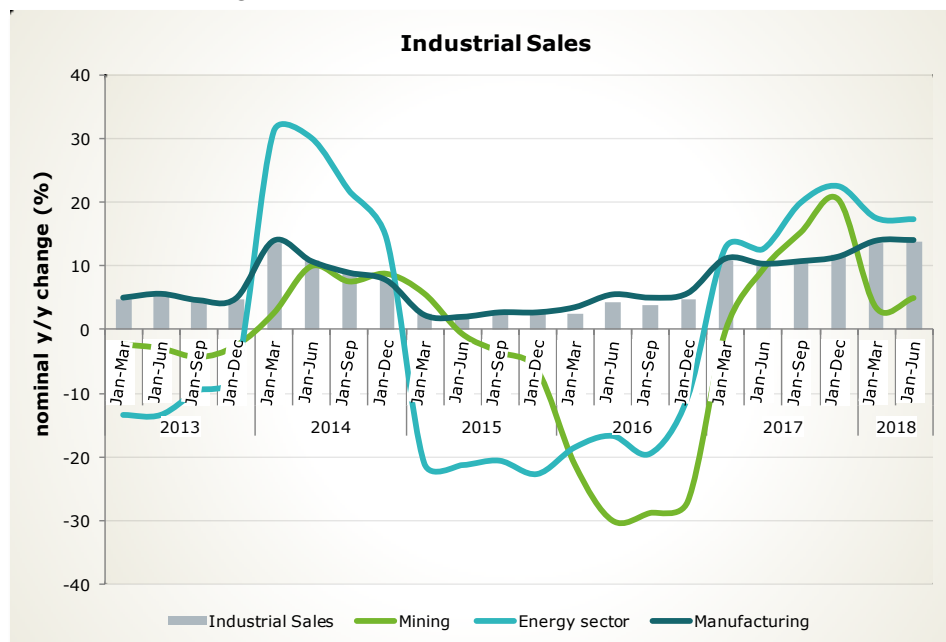


Source: INSSE

2.4. INDUSTRIAL SALES

Industrial sales went up by 13.8% y/y in Q2 2018 on manufacturing and energy

Industrial sales increased by 13.8% y/y in nominal terms in Q2 2018, according to INSSE data. Sales in the manufacturing industry grew by 14.1% on the year, while the energy sector jumped by 17.3% y/y. Mining sales also went up, by 5.0% y/y.



Source: INSSE

2.5. WHOLESALE/RETAIL

Wholesale and retail trade grew y/y in Jan-Jun 2018

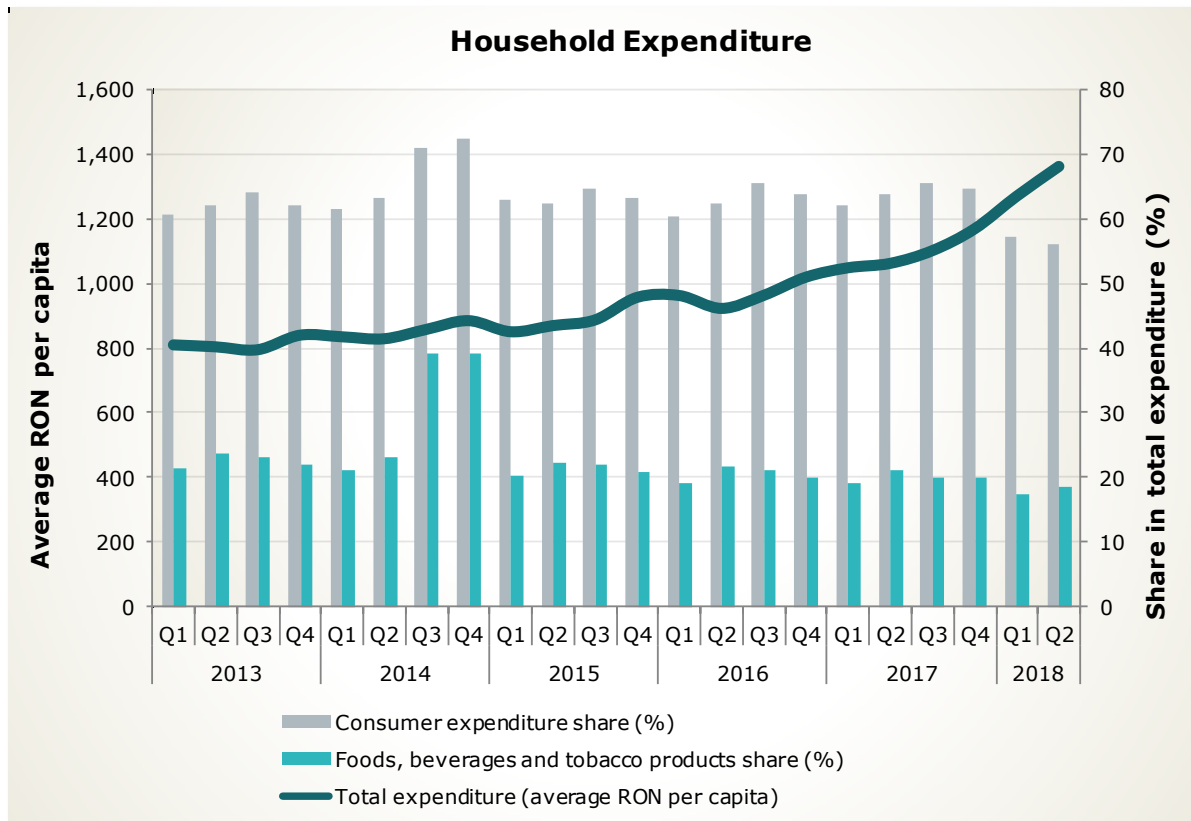
The annual growth of the wholesale and retail sectors remained solid in the first half of 2018, according to INSSE data. Retail sales went up by 7.5% y/y, while wholesale expanded by 9.7% y/y. The retail growth rate in January – June 2018 was lower than the 8.5% annual rise a year earlier, while wholesale growth accelerated compared to the 6.2% annual increase in the first six months of 2017.



Source: INSSE

Retail sales of food, beverages and tobacco increased by 7.6% y/y in January - June 2018, retail sales of non-food products went up by 8.9% y/y, while the turnover in volume terms of automotive fuel in specialised stores went up by 5.2%.

Household expenditures surged by 28.3% y/y in Q2 2018, driven by wage increases and lower VAT on consumer goods.



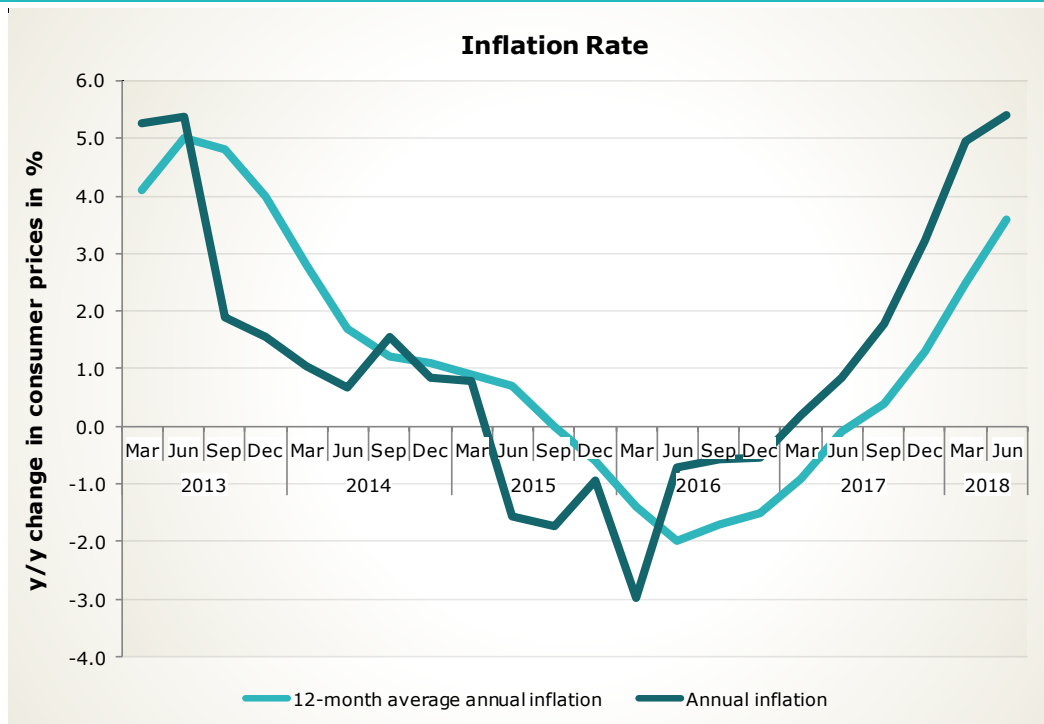
Source: INSSE

2.6. INFLATION

Inflation continues surging as of June 2018

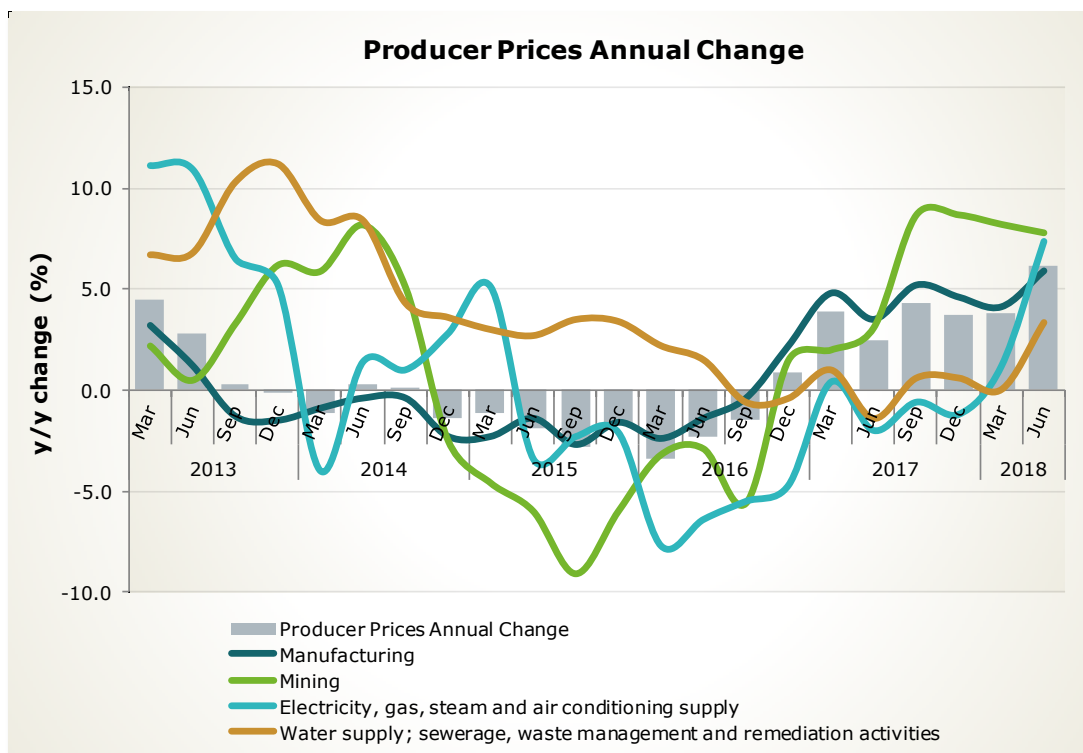
According to INSSE data, the average annual inflation rate in the period July 2017-June 2018, compared to July 2016-June 2017 stood at 3.6%. It was higher than the 2.5% recorded in April 2017-March 2018.

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 June 2018, the producer price index grew by 6.1% y/y, driven to a larger extent by producer inflation pressure on the foreign and domestic markets. There was no sector to report an annual decline in producer prices. In terms of highest annual rise, mining was on top with 7.8%, while the bottom was for Water supply, sewerage, waste management and remediation activities with 3.4%.



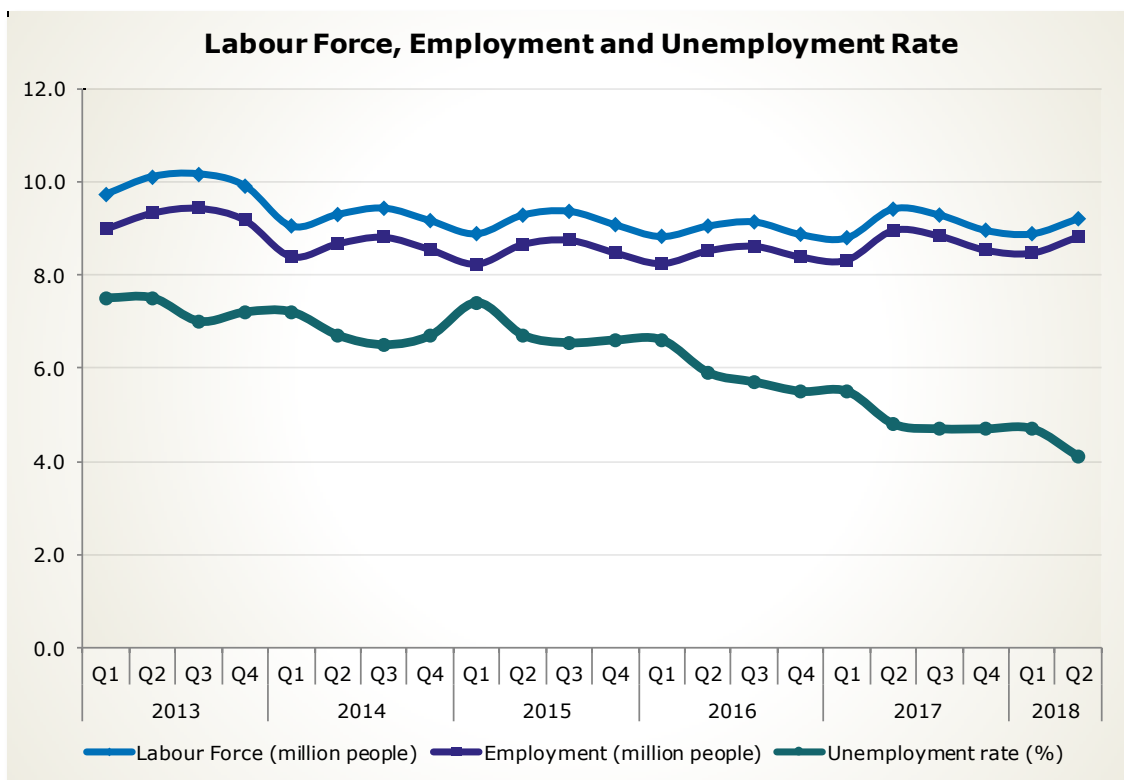
Source: INSSE

3. LABOUR MARKET

Unemployment rate narrows to 4.1% in Q2 2018

At the end of second quarter of 2018, the unemployment rate in Romania stood at 4.1%, down from 4.7% in the previous quarter and 4.8% in the corresponding quarter of the previous year, according to data of INSSE. The employed population aged 15 years and older was 8.832 million, down by 1.5% y/y. The youth (population aged 15-24) unemployment rate stood at 15.5%, an improvement compared to the 16.8% in Q1 2018, and slightly higher than the 15.4% in Q2 2017.

The tightening labour market contributed to the increase of net earnings in Q2 2018, when the average monthly net nominal wage came in at RON 2,713, an annual rise of 14.5%.



Source: INSSE

4. CONSTRUCTION AND REAL ESTATE

Number of building permits went up by 9.3% y/y in Q2 2018

The number of building permits issued in Romania in the second quarter of 2018 went up by 9.3% y/y, totalling 14,529, according to INSSE data. The growth was fuelled by the 7.9% y/y rise

of permits for housing projects to 12,403, while permits for administrative buildings jumped to 72 in Q2 2018 from 47 in Q2 2017.

The total developed built-up area covered by the residential projects permits also increased, by 12.0%, to 3,117,700 sq m. The total developed built-up area of the permits for administrative buildings came in at 72,000 sq m, compared to 51,900 in Q2 2017.

5. MONETARY POLICY, MONEY SUPPLY, AND BANKING SYSTEM

5.1. RON EXCHANGE RATE

The average exchange rate of the EUR against the RON inched down to RON 4.6521 in the second quarter of 2018 from RON 4.6553 in the previous quarter, according to National Bank of Romania (NBR).

RON Average Exchange Rate			
Foreign Currency	Q2 2018	Q1 2018	Q2 2017
EUR	4.6521	4.6553	4.5518
USD	3.9021	3.7860	4.1395
GBP	5.3091	5.2708	5.2900
CHF	3.9607	3.9962	4.2017

5.2. MONETARY POLICY

The national bank raised the policy rate at 2.50%

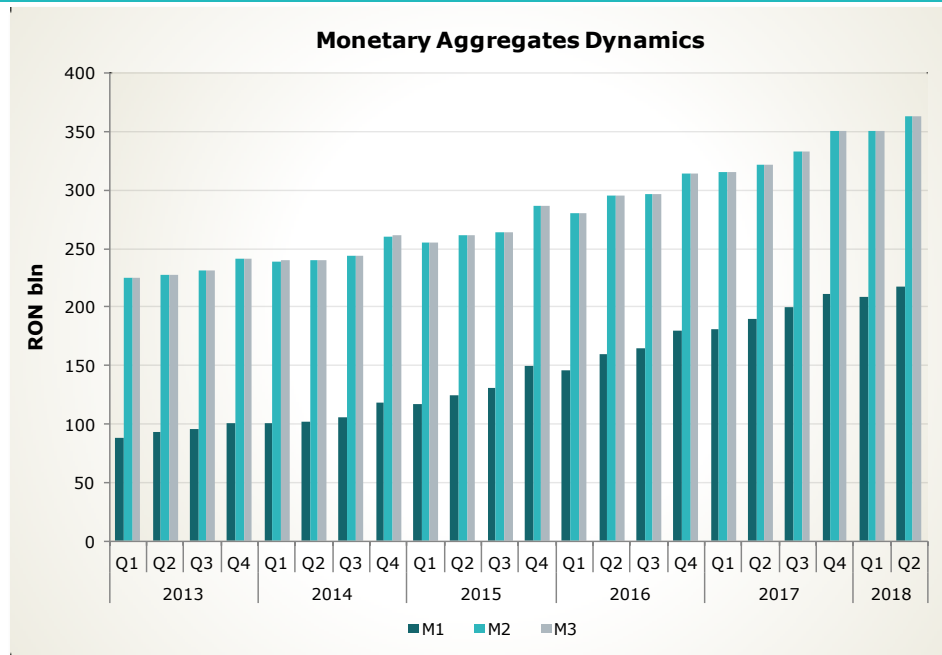
The NBR continued the adjustment of the monetary policy stance, raising the policy rate by 0.25 pp in May to 2.50% from 2.25% in February 2018. The central bank kept the minimum reserve requirement ratios on both RON- and foreign currency-denominated liabilities of credit institutions at 8.0% as of June 2018.

5.3. MONETARY AGGREGATES

Money supply growth accelerated in June 2018

Broad money (money aggregate M3) increased by 12.7% y/y and reached RON 362.5 bln in June 2018, according to data provided by NBR. The M2 money supply also grew by 12.7% y/y, to RON 362.4 bln. Money aggregate M1, or narrow money, jumped by 14.2% y/y, to RON 217.5 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.

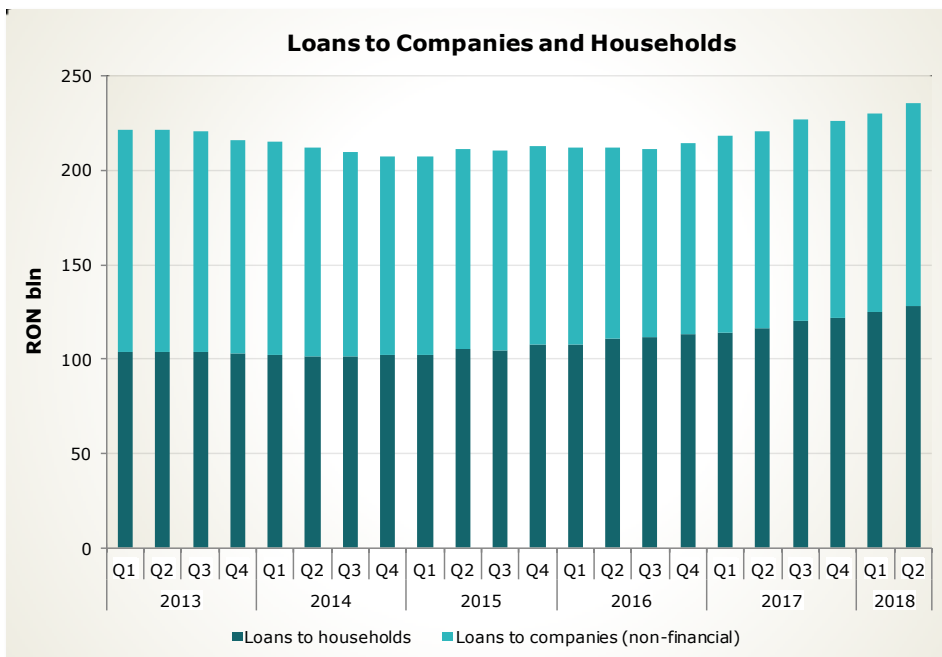


Source: NBR

5.4. BANKING AND INSURANCE

Household loans went up by 10.0% y/y in Q2 2018 on strong house purchase credits

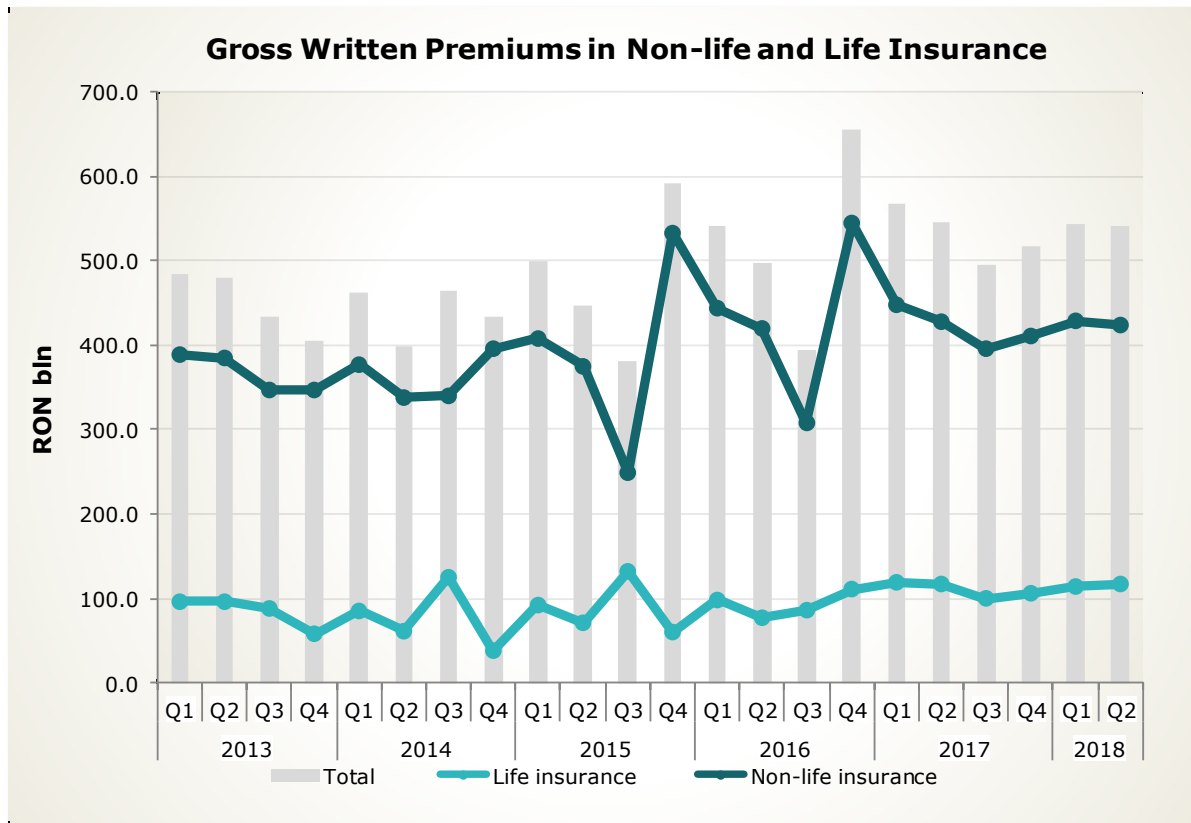
Loans to the non-government sector totalled RON 235.9 bln in Q2 2018, up by 7.0% y/y, according to NBR data. The bulk of the credit growth revival was a result of the 13.5% jump in house purchasing loans to RON 69.824 bln. Loans to households went up by 10.0% to RON 128.3 bln, while loans to non-financial corporations rose by 3.5% y/y to RON 107.6 bln.



Source: NBR

Insurance premium income down by 0.7% y/y in Q2 2018

The total gross written premiums (GWP) of the non-life and life insurance companies totalled EUR 541.0 mln in Q2 2018, down 0.7% y/y, according to the Financial Supervisory Authority (ASF). The decrease was caused to a larger extent by the non-life insurance sector, which inched down by 0.9% y/y to RON 424.0 mln, while life insurance GWP remained unchanged in comparison to a year earlier, at EUR 117.0 mln.



Source: ASF

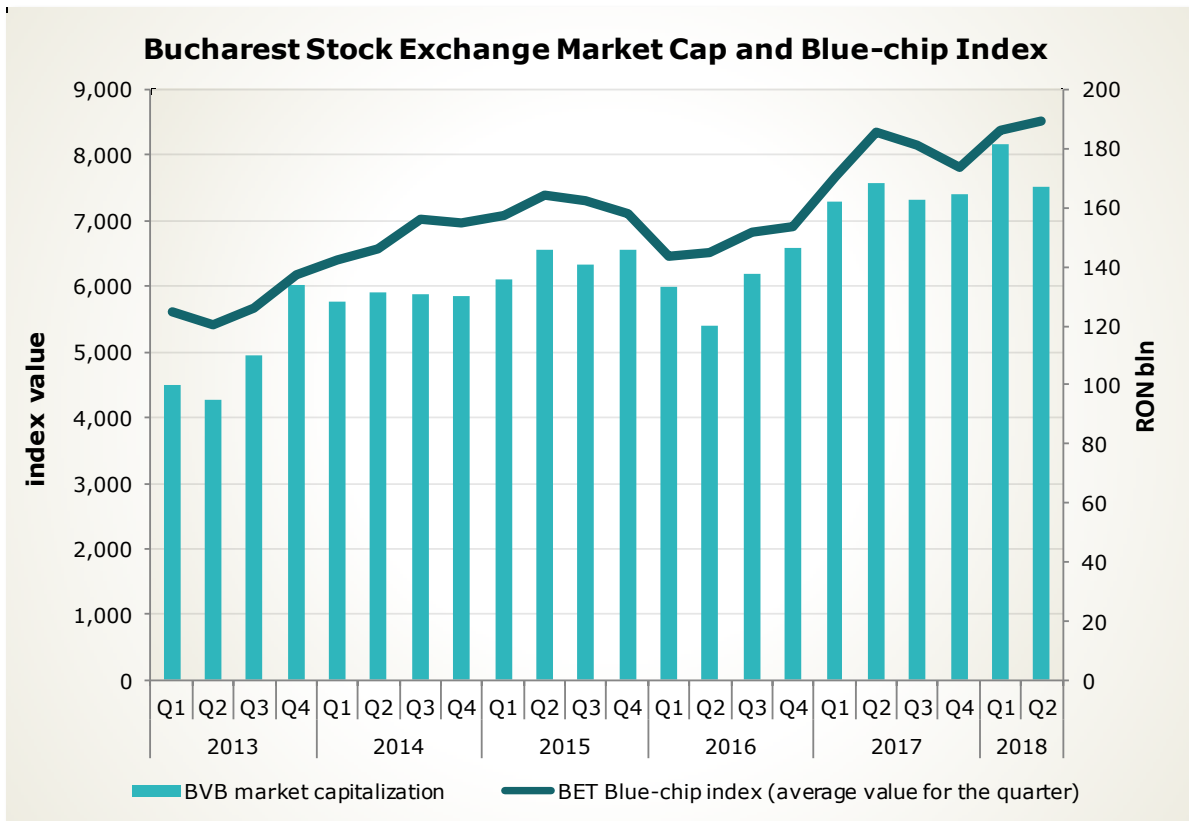
6. CAPITAL MARKETS

Blue-chip BET trended higher by 1.7% q/q in Q2 2018

The average value of BET, the blue-chip index of the Bucharest Stock Exchange (BVB), increased by 1.7% y/y to 8,523 points in Q2 2018.

BVB's total market capitalisation came in at RON 167.0 bln, down 8.0% q/q.

The total turnover on BVB went down to RON 3,647 bln in Q2 2018, from RON 3,731 bln in Q1 2018.



Source: BVB

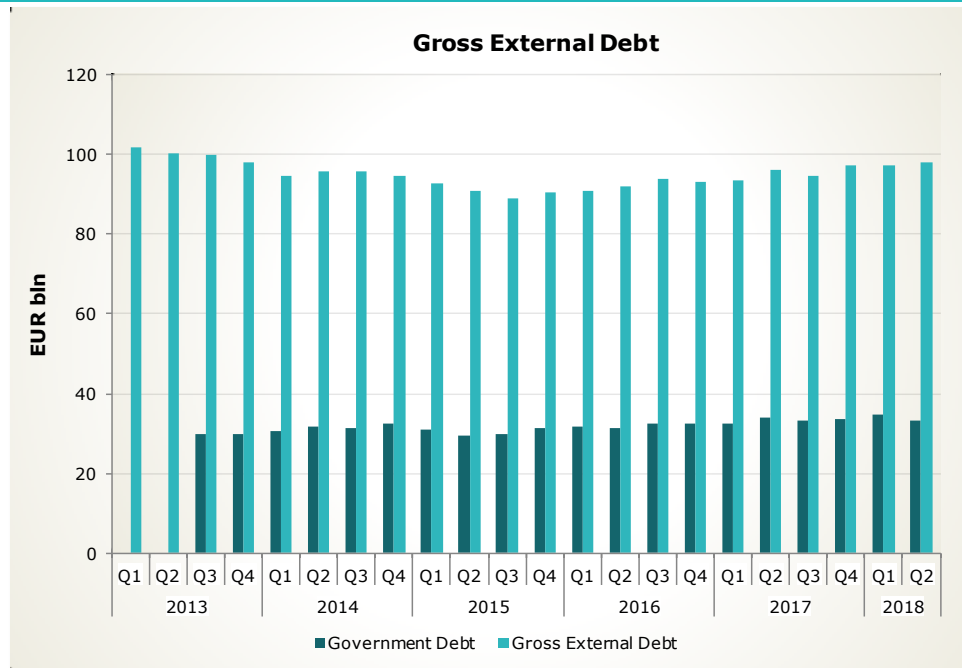
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

Gross external debt expanded by 1.7% y/y to EUR 97.918 bln in Q2 2018

Romania's gross external debt amounted to EUR 97.918 bln in Q2 2018, up by 1.7% compared to Q2 2017, according to NBR. In comparison to the previous quarter of 2018, the gross external debt increased by EUR 527.7 mln.

The long-term liabilities amounted to EUR 53.661 bln, or 54.8% of the total debt, and short-term liabilities totalled EUR 14.017 bln, equal to 14.3% of the total debt. Government debt narrowed by 2.7% y/y to EUR 33.067 bln.



Source: NBR

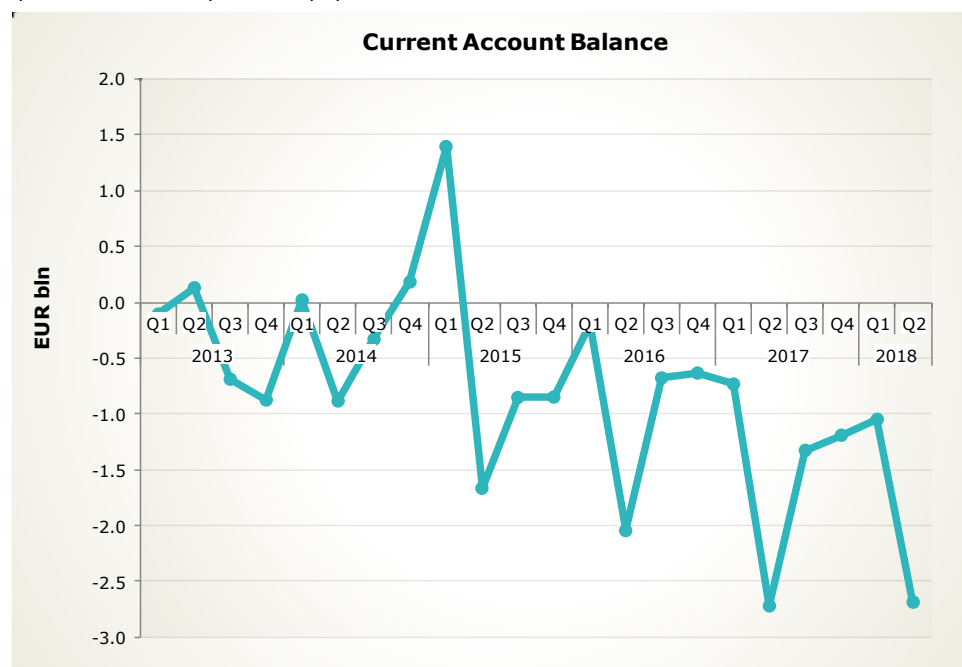
Editor's note: No data is available for Government Debt for Q1 and Q2 2013

7.2. BALANCE OF PAYMENTS

Current account deficit down 1.3% y/y in Q2 2018

In Q2 2018, the current account deficit narrowed to EUR 2.686 bln from a gap of EUR 2.720 bln in the year-ago quarter, according to central bank statistics data.

Secondary income fell by 15.9% y/y to EUR 696.0 mln in Q2 2018.

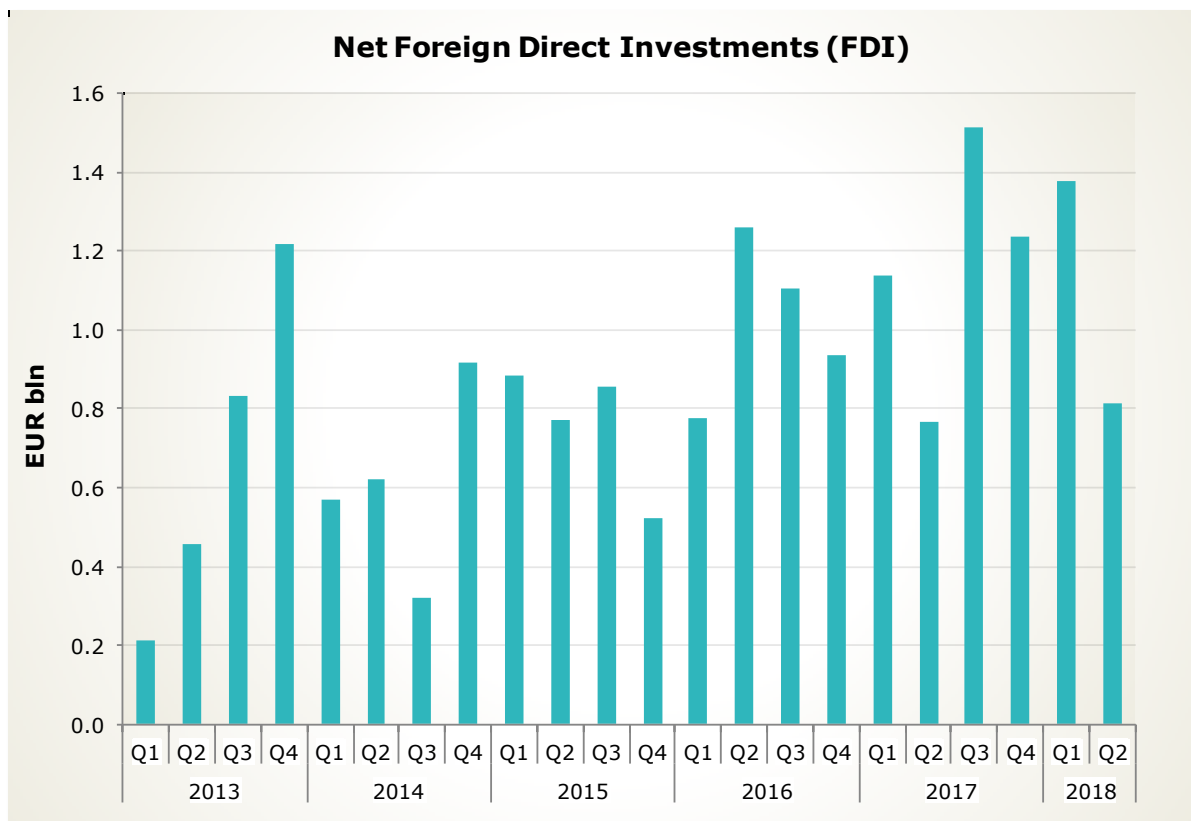


Source: NBR

7.3. FDI

Net FDI grew by 6.5% y/y in Q2 2018

Foreign direct investments (FDIs) in Romania totalled EUR 816.0 mln in Q2 2018, according to NBR. The FDIs increased by 6.5% compared to the same quarter of 2017, but dropped by 40.8% compared to Q1 2018.



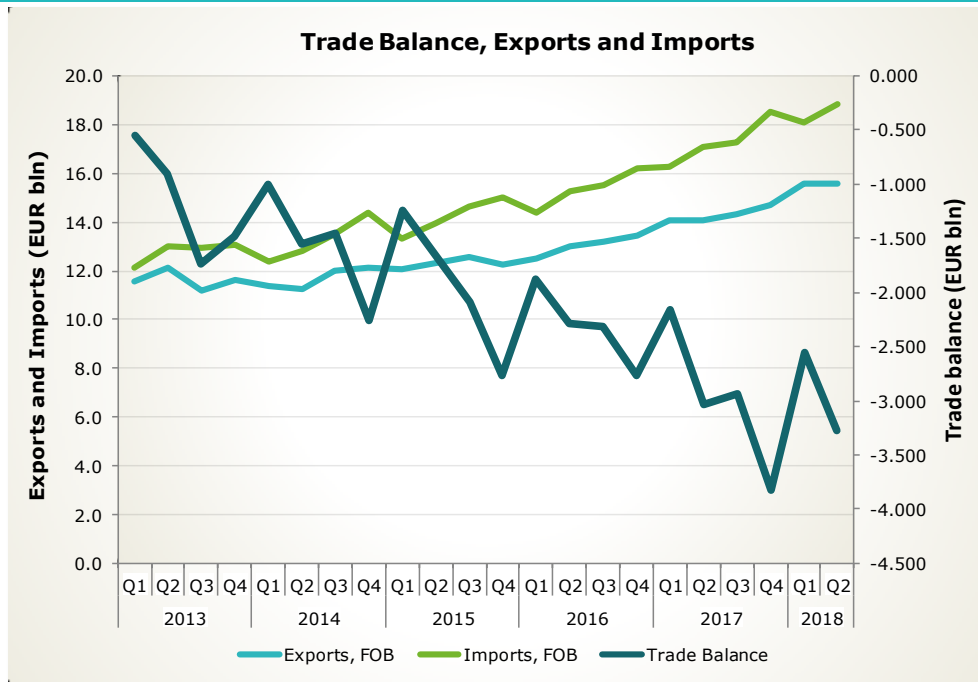
Source: NBR

7.4. FOREIGN TRADE

Foreign trade deficit widened by 8.0% y/y in Q2 2018

The trade deficit expanded to EUR 3.276 bln in Q2 2018, compared to EUR 3.033 bln in Q2 2017, according to NBR.

Imports grew by 10.2%, totalling EUR 18.853 bln, while exports grew slightly faster, by 10.6%, totalling EUR 15.577 bln.



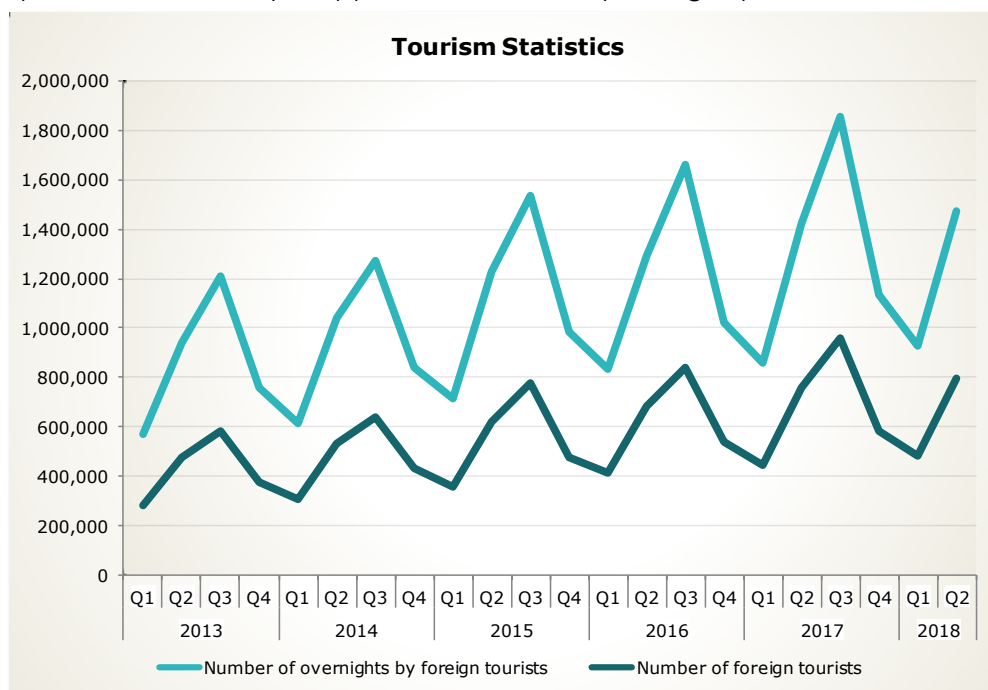
Source: NBR

7.5. TOURSIM

Number of foreign tourist overnights grew by 3.7% y/y in Q2 2018

Tourist overnights of foreigners increased by an annual 3.7% to 1,475,900 in Q2 2018, according to INSSE data. The number of foreign tourists also went up – by 4.6% y/y to 793,500.

The share of foreign tourist overnights in the total number of overnights was 23.7% in the second quarter of 2018, or by 0.8 pp more than in the year-ago quarter.



Source: INSSE

8. MAJOR DEVELOPMENTS

MSCI upgrades Romania's capital market accessibility criteria on three notes

Jun 21, 2018

In June 2018, Global index provider MSCI upgraded Romania's accessibility criteria on three notes: market regulation, information flow and trading. MSCI's Global Market Accessibility Review report showed that Romania continued its efforts to improve the liquidity and participation in the stock market by lowering trading fees and encouraging more market makers to boost market activity.

[Read the full story here](#)

EU providing EUR 246 mln for new motorway sections in Romania

Jun 20, 2018

The European Commission announced it is providing EUR 246 mln from its Cohesion Fund for two new sections of a motorway linking the towns of Tirgu Mures, Ogra and Campia Turzii in Romania.

[Read the full story here](#)

Romania climbs one spot in EU's GDP-per-capita ranking in 2017 - Eurostat

Jun 19, 2018

Romania climbed one spot in the annual ranking of 28 EU member states in terms of gross domestic product (GDP) per capita expressed in purchasing power standards (PPS) in 2017, coming ahead of Croatia, Eurostat announced in June 2018.

[Read the full story here](#)

Romania most investigated country by OLAF in 2017

Jun 7, 2018

The European Anti-Fraud Office, OLAF, announced it concluded 11 investigations into the use of EU funds by Romania in 2017, more than any other country which has benefited from EU financing.

[Read the full story here](#)

Romania to have access to EUR 27 bln in EU cohesion funds in 2021-2027 - EC

May 30, 2018

Romania stands to benefit from EUR 27 bln of EU cohesion funds between 2021-2027 in constant 2018 prices, or EUR 30.8 bln in current prices taking inflation into account, according to the European Commission.

[Read the full story here](#)

Romania's fiscal policies, poor infrastructure put off foreign investors - survey

Apr 20, 2018

Romania's fiscal policies and poor infrastructure and bureaucracy are making the country uncompetitive, according to the foreign investors' council in Romania, FIC.

[Read the full story here](#)

Romania, Bulgaria among least dependent on energy imports in EU - Eurostat

Apr 20, 2018

Romania and Bulgaria were among the EU member states which were least dependent on energy imports in 2016, data from Eurostat showed in April 2018. Romania imported only 22% of the energy it consumed in 2016, ranking third among all EU countries.

Read the full story [here](#)

Labour costs growth in Romania, Bulgaria highest in EU in 2017 - Eurostat

Apr 10, 2018

Hourly labour costs in Romania and Bulgaria rose the most among European Union member states in 2017, Eurostat announced in April 2018. Romania recorded annual growth in hourly labour costs of 17.1%. Despite that, labour costs in country remained among the lowest in the EU.

Read the full story [here](#)

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