

ROMANIA ECONOMY REPORT

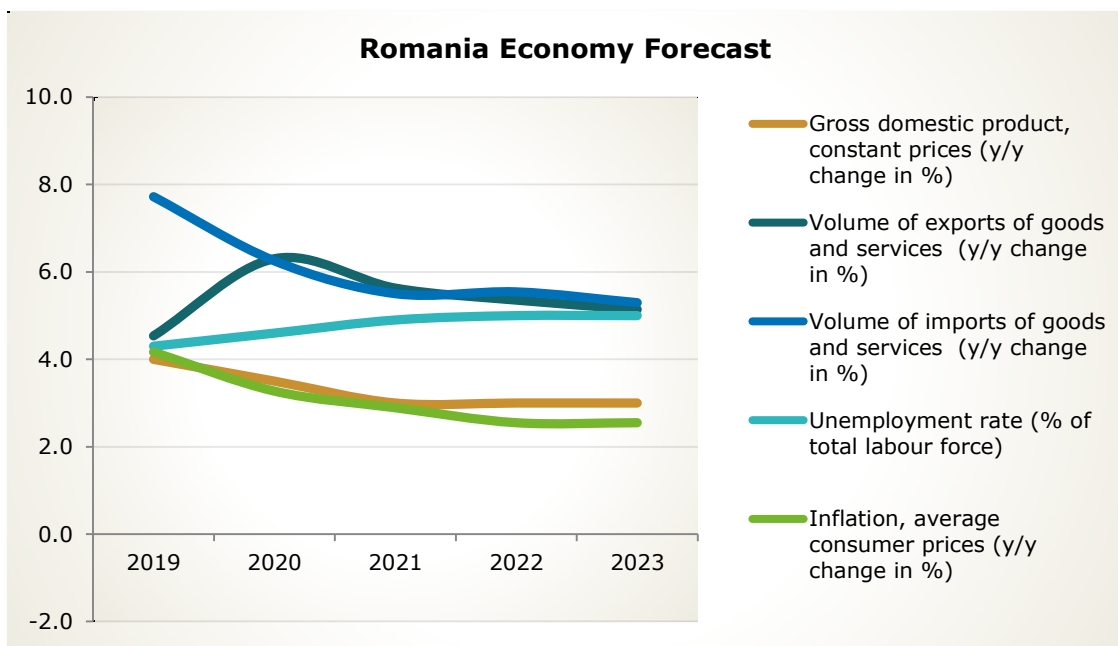
Q2 2019

CONTENTS

1. MACROECONOMIC SNAPSHOT AND FORECAST	3
2. REAL SECTOR	5
2.1. GROSS DOMESTIC PRODUCT (GDP)	5
2.2. BUSINESS CLIMATE	7
2.3. INDUSTRIAL OUTPUT	7
2.4. INDUSTRIAL SALES.....	8
2.5. WHOLESALE/RETAIL	9
2.6. INFLATION.....	10
3. LABOUR MARKET	11
4. CONSTRUCTION AND REAL ESTATE	12
5. MONETARY POLICY, MONEY SUPPLY, AND BANKING SYSTEM.....	12
5.1. RON EXCHANGE RATE	12
5.2. MONETARY POLICY	13
5.3. MONETARY AGGREGATES	13
5.4. BANKING AND INSURANCE.....	14
6. CAPITAL MARKETS	15
7. EXTERNAL SECTOR.....	16
7.1. FOREIGN DEBT	16
7.2. BALANCE OF PAYMENTS	16
7.3. FDI.....	17
7.4. FOREIGN TRADE	18
7.5. TOURSIM	18
8. MAJOR DEVELOPMENTS	19

1. MACROECONOMIC SNAPSHOT AND FORECAST

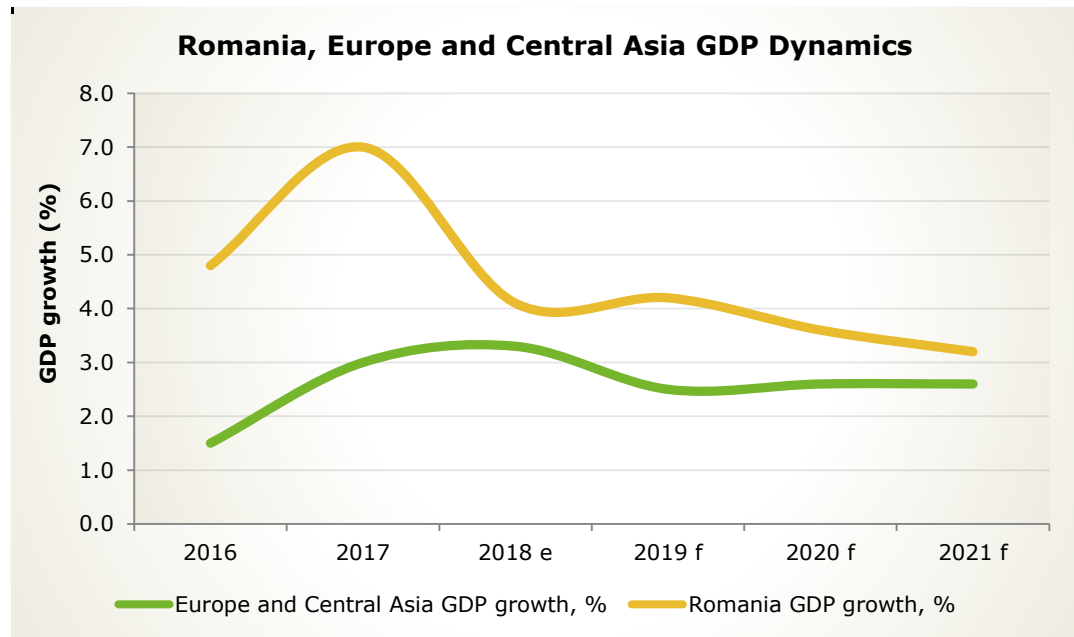
ROMANIA – MACROECONOMIC SNAPSHOT AS OF Q2 2019	
GDP Growth	4.4% y/y
Industrial output	-0.6% y/y
Industrial sales	6.2% y/y
Wholesale	7.1% y/y
Retail	6.9% y/y
Average annual inflation	4.1%
Unemployment rate	3.8%
Number of building permits	-5.8% y/y
Money supply growth	7.7% y/y
Household loans	6.9% y/y
BET blue-chip index	10.6% q/q
Gross external debt	EUR 105.363 bln
Current account deficit	EUR 3.396 bln
Net FDI inflow	EUR 1.079 bln
Foreign trade deficit	EUR 3.960 bln
Number of foreign tourist overnights	0.4% y/y



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

The International Monetary Fund (IMF) expects the economic growth in Romania to slow down to 4.0% in 2019 from 4.1% in 2018. GDP expansion will once again continue to be fuelled by private consumption stimulated by 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 inadequate investment and lack of sustainability in structural reforms.



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

According to the World Bank estimates from October 2019, GDP growth is likely to come in at 4.2% in 2019, up from 4.1% in 2018. This will be higher than the projected growth for Europe and Central Asia, of 2.5% in 2019.

Romania – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)						
	2016	2017	2018	2019 e	2020 f	2021 f
Real GDP growth, at constant market prices, y/y cha	4.8	7.0	4.1	4.2	3.6	3.2
Private Consumption	8.0	9.6	4.7	6.0	5.8	5.6
Government Consumption	4.6	4.6	9.9	2.6	2.5	2.4
Gross Fixed Capital Investment	0.0	3.3	-3.1	8.1	6.2	4.1
Exports, Goods and Services	16.1	9.7	5.4	2.9	3.7	3.7
Imports, Goods and Services	16.5	11.3	9.1	7.5	6.1	5.7
Real GDP growth, at constant factor prices (by sectors)						
Agriculture	4.2	14.6	10.0	2.0	2.0	2.0
Industry	6.6	6.2	2.1	1.4	2.1	2.4
Services	4.0	6.8	3.5	6.1	4.6	3.8
Inflation (Consumer Price Index)	-1.5	1.3	4.6	4.1	3.6	3.1
Current Account Balance (% of GDP)	-2.1	-3.2	-4.4	-5.2	-5.4	-5.6
Net Foreign Direct Investment (% of GDP)	2.7	2.6	2.3	2.4	2.3	2.2

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

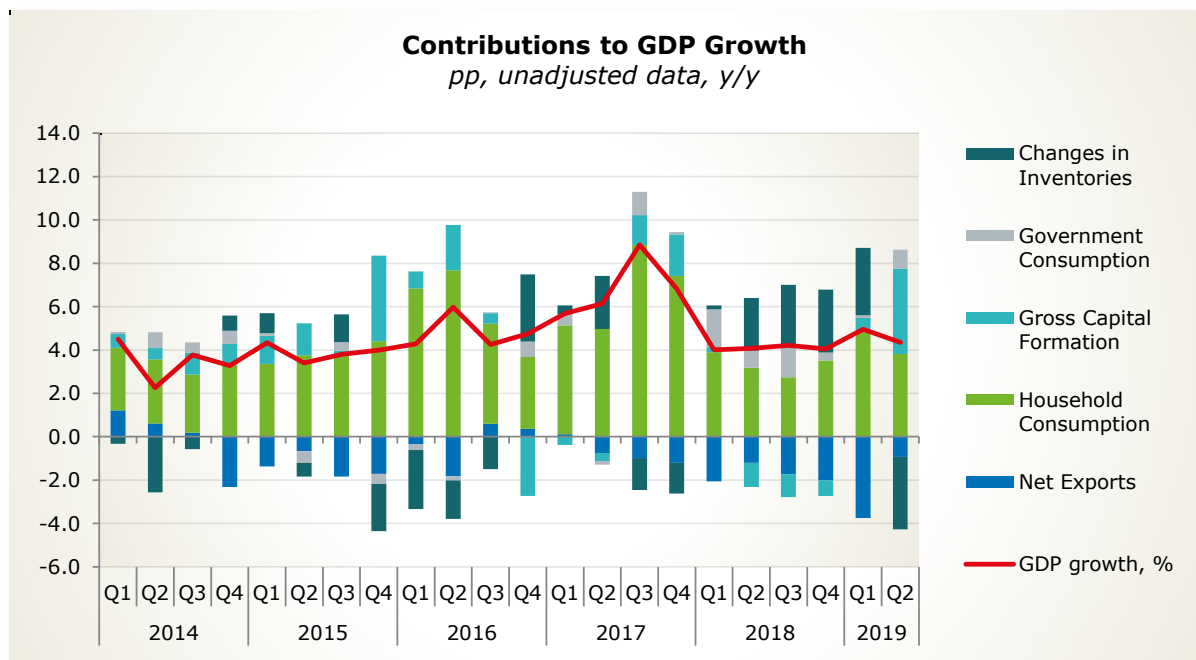
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth increased to 4.4% y/y in Q2 2019 from 4.1% y/y in Q2 2018

The country's GDP increased by a real 4.4% y/y and totalled RON 39,307 bln in Q2 2019, according to data from the National Institute of Statistics (INSSE). This is down compared to an annualised growth of 5.0% in Q1 2019 and up compared to 4.1% in Q2 2018.

Final consumption grew by 5.4% y/y in real terms in Q2 2019. Household consumption went up by 5.3% y/y, while government consumption increased by 9.0% y/y in Q2 2019 to reach RON 41,412 bln. As a result, household consumption contributed with 3.8 pp to the overall y/y GDP expansion and government consumption contribution stood at 0.9 pp in Q2 2019.

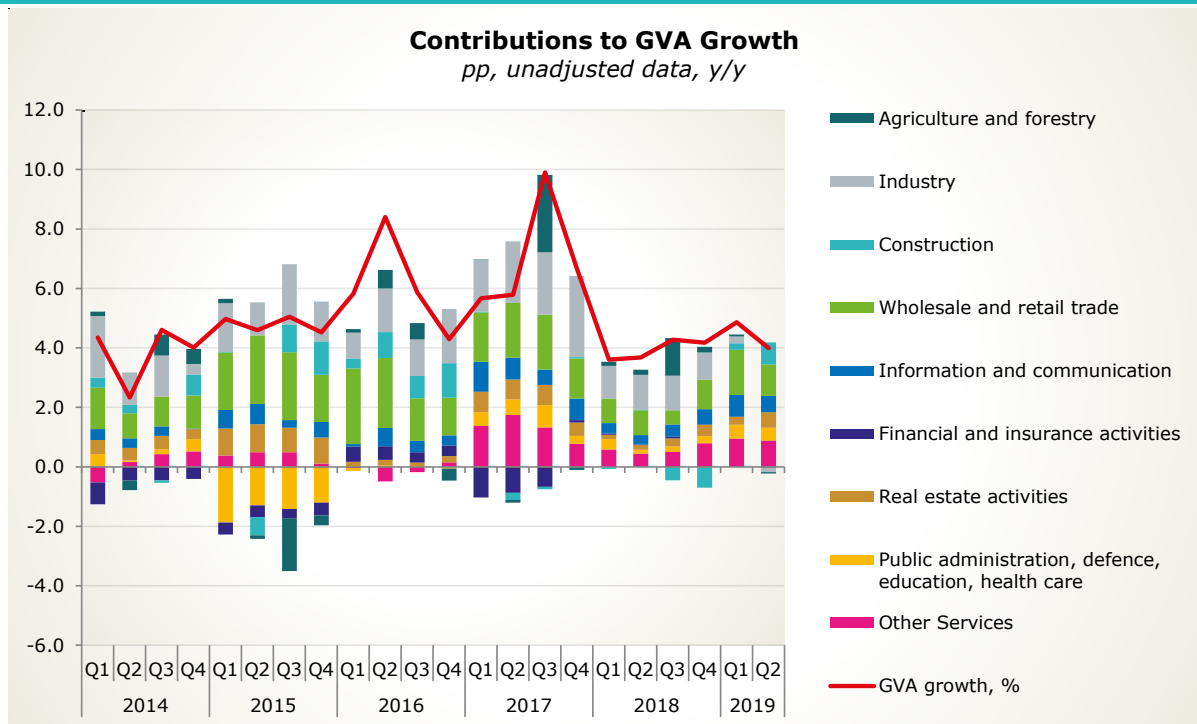


Source: INSSE; SeeNews calculations

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.

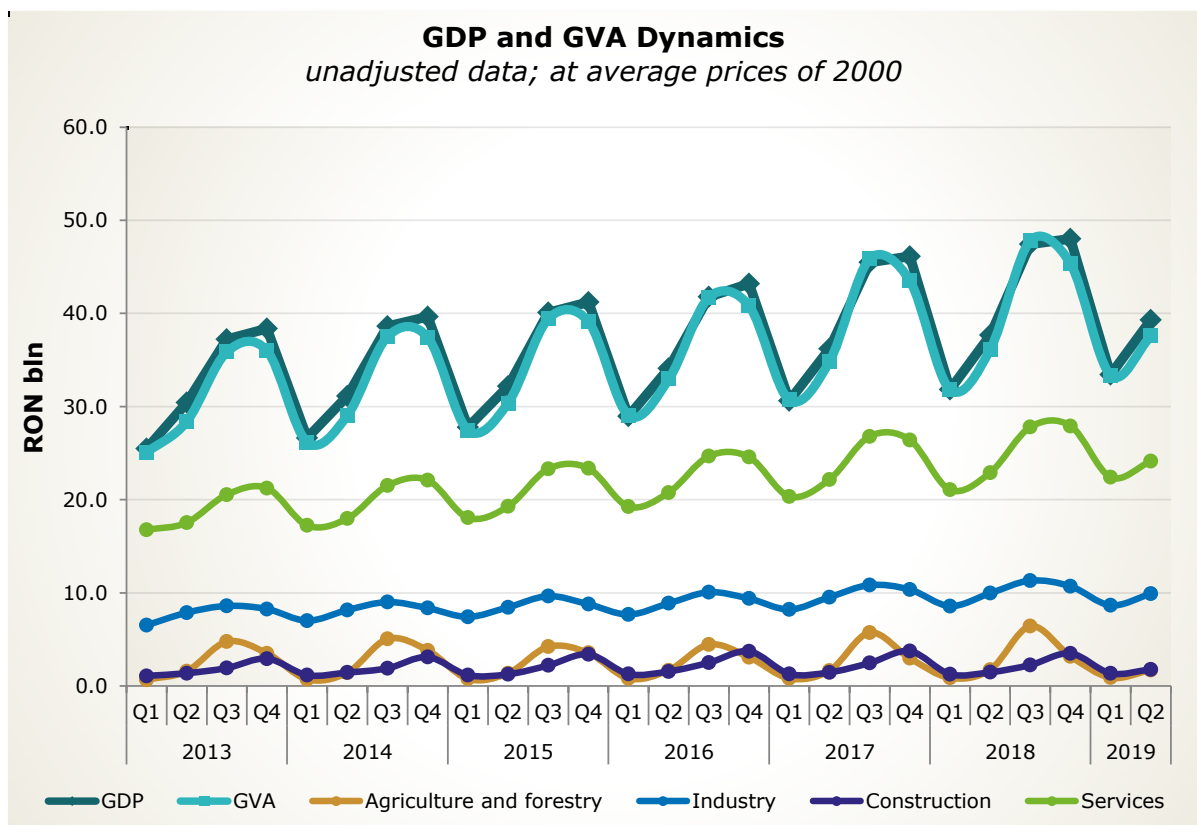
The gross value added (GVA) generated by the national economy went up by 4.0% y/y in the second quarter of 2019 and totalled RON 37,562 bln. The construction sector expanded by 20.3% y/y, while the services sector recorded a 5.3% annual increase. The agricultural sector registered an annual drop by 1.7% while the industrial sector went down by 0.6%.

The retail and wholesale trade sector contributed with 1.1 pp to the GVA growth in Q2 2019, up from 0.8 pp in Q2 2018. Other services also marked an increase, adding 0.9 pp to the GVA growth. Construction contributed with 0.7 pp, while the Information and communications sector added further 0.5 pp.



Source: INSSE; SeeNews calculations

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

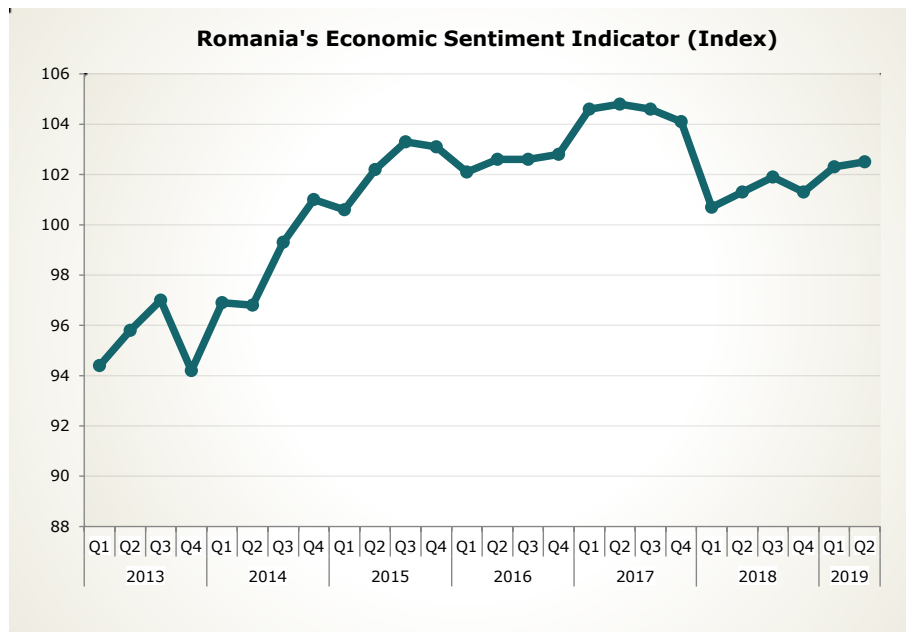


Source: INSSE

2.2. BUSINESS CLIMATE

Economic Sentiment Indicator at 102.5 points in June 2019

In June 2019 the economic sentiment indicator came in at 102.5 points, according to ECFIN. This is a slight increase compared with the 102.3 points in March 2019 and the 101.3 points a year earlier.



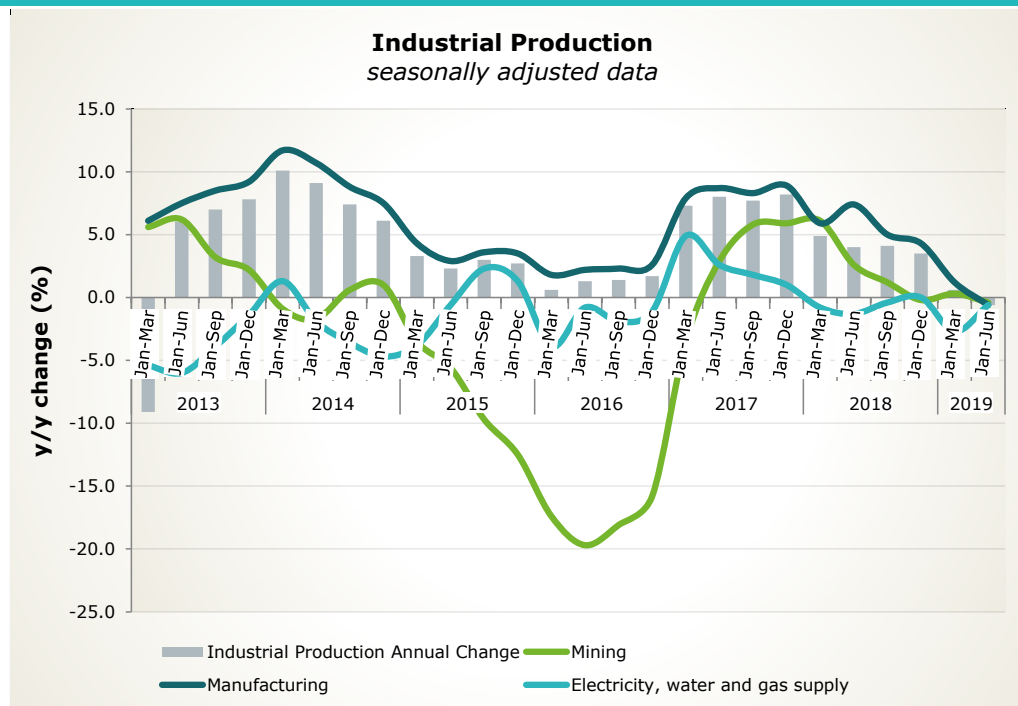
Source: Economic and Financial Affairs, European Commission

2.3. INDUSTRIAL OUTPUT

Industrial production stays negative at 0.6% y/y in Jan-June 2019

Industrial output change turned to negative at 0.6% on the year in the first six months of 2019, according to INSSE. In the corresponding period of 2018 industrial production had advanced by 4.0% y/y on average.

Manufacturing enterprises decreased their output by 0.6% on average in H1 2019, down from a 7.4% rise in the first half of 2018. Mining's output also fell, by 0.4%, compared with a 2.6% y/y increase in the corresponding period of the previous year. Electricity, water and gas supply production went down by 0.6% y/y in January-June 2019.

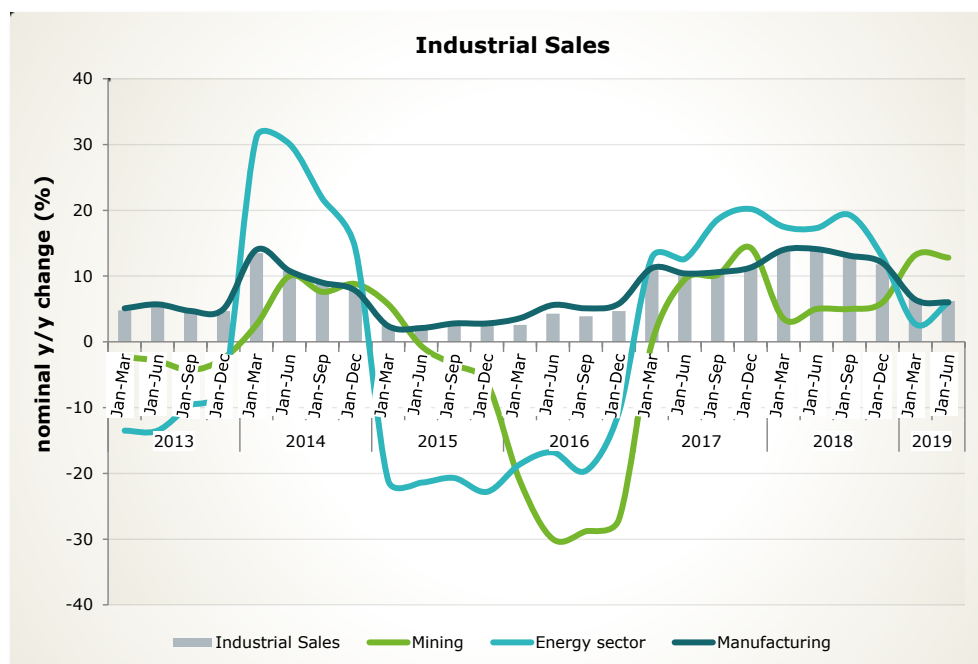


Source: INSSE

2.4. INDUSTRIAL SALES

Industrial sales went up by 6.2% y/y in the first half of 2019

Industrial sales increased by 6.2% y/y in nominal terms in the first six months of 2019, according to INSSE data. The overall growth was mostly supported by the rise in sales of the mining industry, which jumped by 12.8%. Sales in the manufacturing sector expanded by 6.0% on the year, as did those of the energy sector.



Source: INSSE

2.5. WHOLESALE/RETAIL

Wholesale trade grew by 7.1% y/y in Jan-June 2019, retail sector at 6.9% y/y

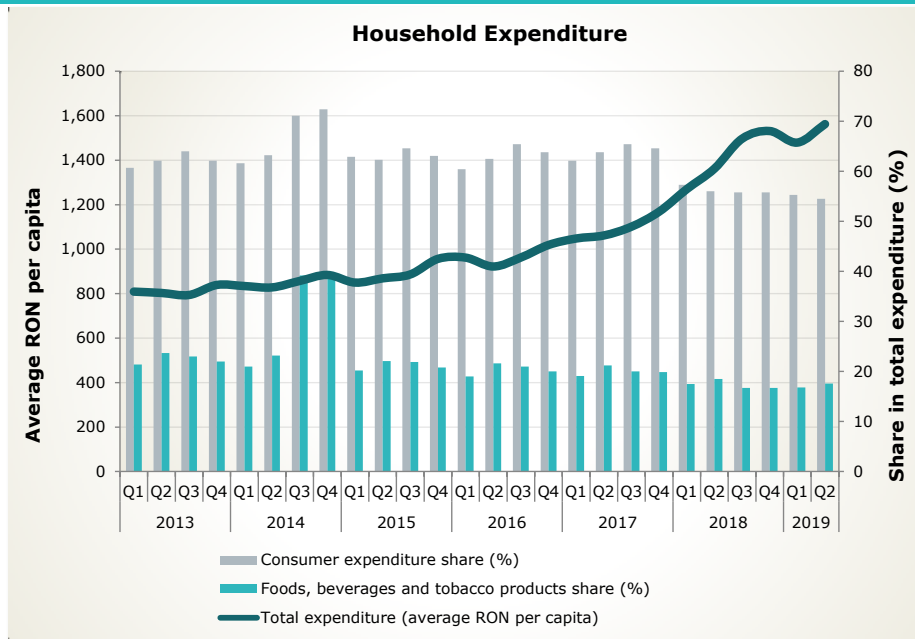
The annual growth of the wholesale and retail sectors remained solid in the first half of 2019, according to INSSE data. Wholesale expanded by 7.1% y/y, while retail sales went up by 6.9% y/y in January-June 2019, compared to growth rates of 9.7% and 7.5%, respectively, in the same period of 2018, according to INSSE data.



Source: INSSE

Retail sales of non-food products increased by 9.9% y/y in January-June 2019, retail sales of food, beverages and tobacco went up by 4.7% y/y, while the turnover in volume terms of automotive fuel in specialised stores climbed by 5.9%.

Among the wholesale segments, wholesale of household goods, other than food occupied the top position in terms of annual growth with 13.9%, while wholesale intermediation activities was the only segment to register an annual decrease, of 3.3%.



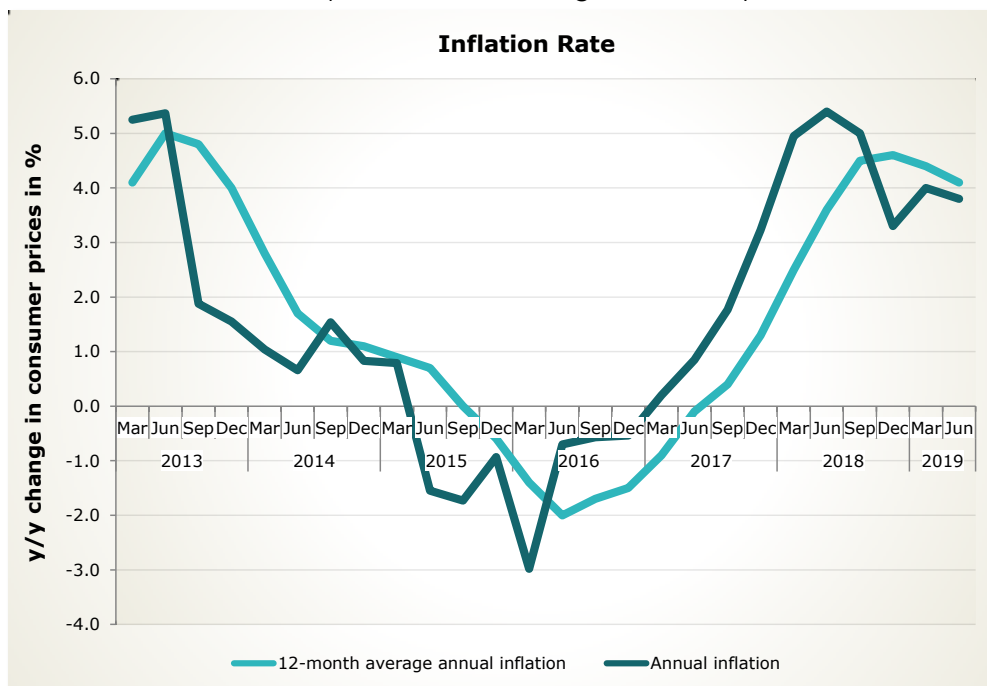
Source: INSSE

2.6. INFLATION

Average annual inflation at 4.1% in June 2019

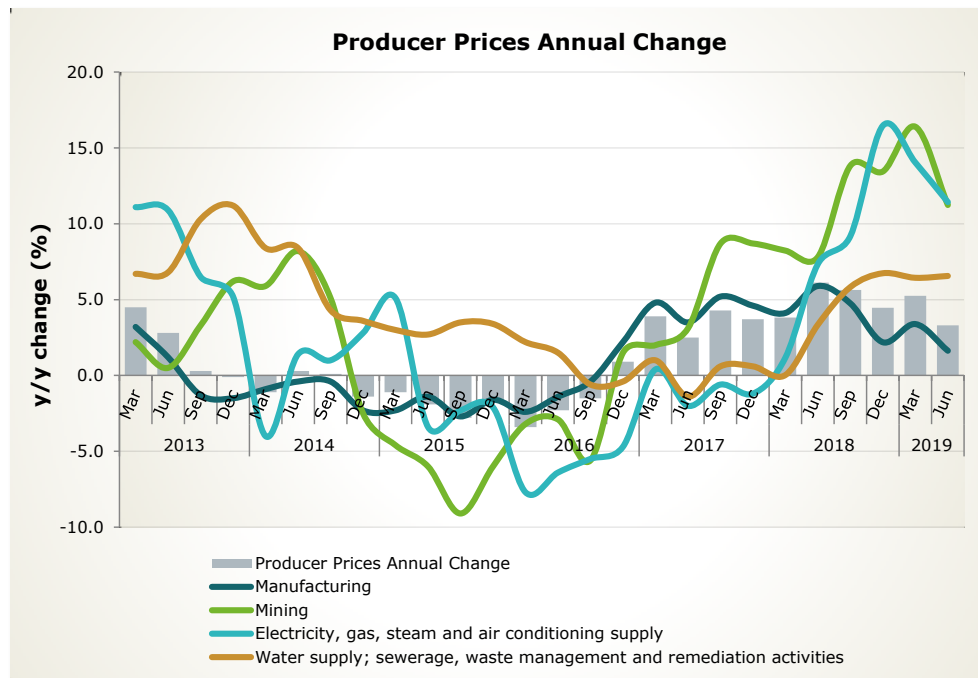
According to INSSE data, the average annual inflation rate in June 2019 stood at 4.1%, slightly higher than the 3.6% recorded in the same month of 2018.

The annual rise against the corresponding month of the previous year amounted to 3.8%, driven above all by the 5.0% increase in food prices. Services were more expensive by 4.3% compared with June 2018, while prices of non-food goods rose by 2.9%.



Source: INSSE

In June 2019, the producer price index grew by 3.3 y/y, driven to a large extent by producer inflation pressure on the foreign and domestic markets. Mining sector producer prices advanced on average by 11.2% y/y in June 2019, while producer inflation in the manufacturing sector was the slowest and came in at 1.6% y/y.



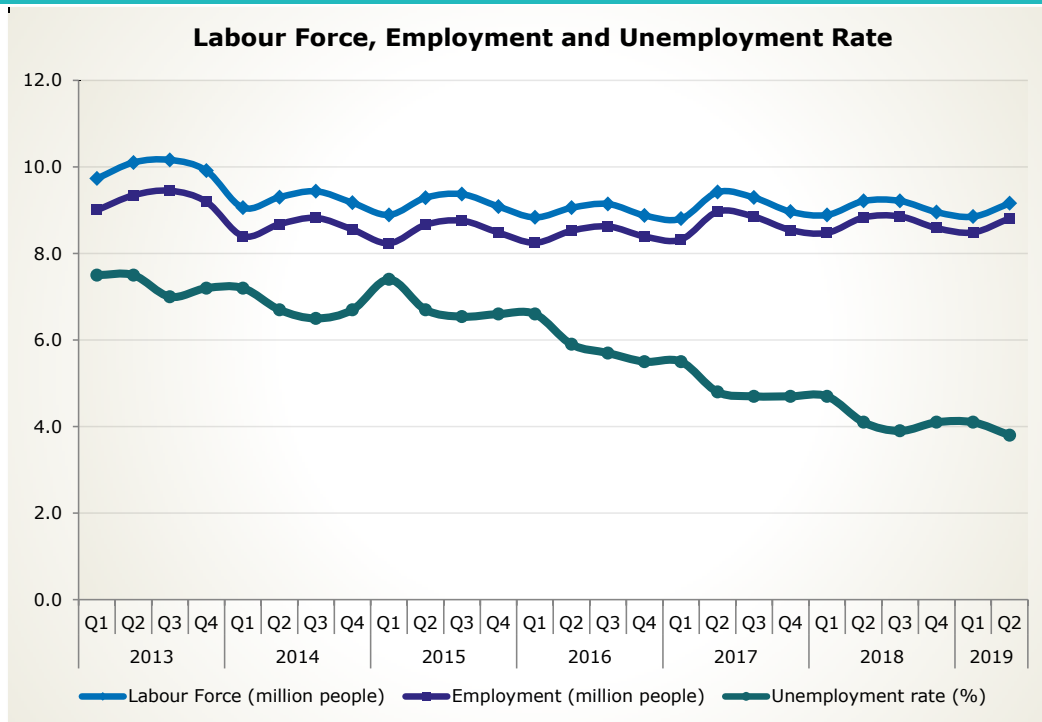
Source: INSSE

3. LABOUR MARKET

Unemployment rate further down in Q2 2019

In Q2 2019, the unemployment rate in Romania stood at 3.8%, down from 4.1% in the same quarter the previous year, according to data of INSSE. The employed population aged 15 years and older was 8.814 million, down by 0.2% y/y. The youth (population aged 15-24) unemployment rate stood at 15.0%, down from 15.5% in Q2 2018.

The tightening labour market pushed up net earnings in Q2 2019, when the average monthly net nominal wage came in at RON 3,119 – up by 15.0% y/y.



4. CONSTRUCTION AND REAL ESTATE

Number of building permits went down by 5.8% y/y in Q2 2019

The number of building permits issued in Romania in the second quarter of 2019 went down by 5.8% y/y, totalling 13,684, according to INSSE data. Permits for administrative buildings reported a 16.7% y/y rise to 84 in Q2 2019 from 72 in Q2 2018 while permits for housing projects decreased to 11,672, registering a decrease of 5.9%.

The total developed built-up area of residential projects was by 11.7% lower than in the same quarter of the previous year, reaching 2.752 million sq m. The total developed built-up area covered by the permits for administrative buildings came in at 71,400 sq m, compared to 72,000 sq m in Q2 2018, registering a decrease of 0.8%.

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 4.7477 in Q2 2019 from RON 4.6521 in the same period of the previous year, according to National Bank of Romania (NBR).

RON Average Exchange Rate			
Foreign Currency	Q2 2019	Q1 2019	Q2 2018
EUR	4.7477	4.7351	4.6521
USD	4.2229	4.1681	3.9021
GBP	5.4291	5.4284	5.3091
CHF	4.2150	4.1805	3.9607

5.2. MONETARY POLICY

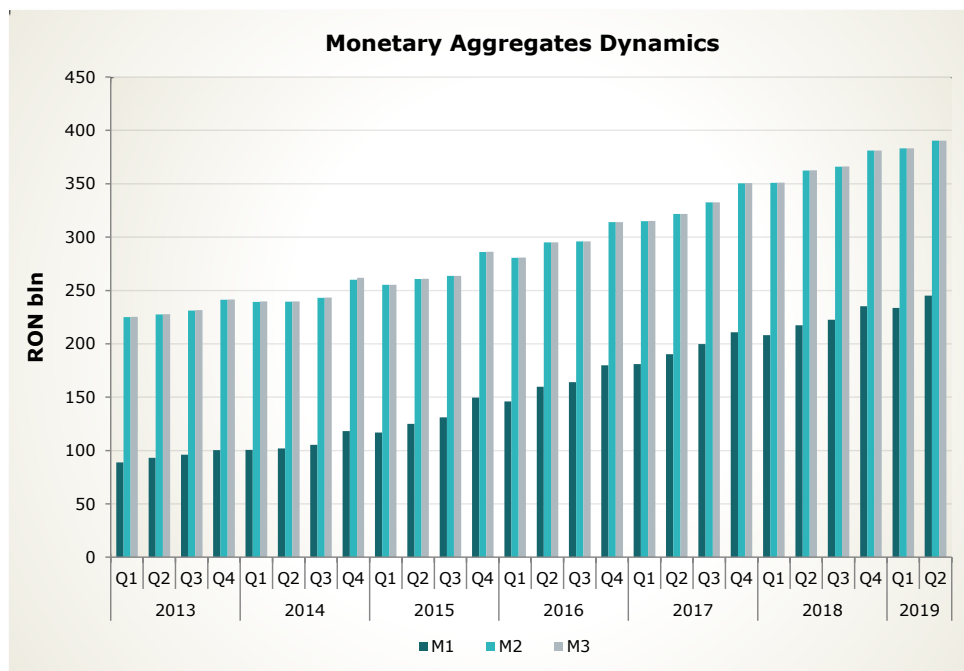
The national bank kept the policy rate at 2.50%

The NBR did not adjust the monetary policy stance, keeping the policy at 2.50% as of end-June 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 June 2019.

5.3. MONETARY AGGREGATES

Money supply growth at 7.7% y/y in Q2 2019

Broad money (money aggregate M3) increased by 7.7% y/y and reached RON 390.5 bln in Q2 2019, according to data provided by NBR. The M2 money supply grew by 7.8% y/y to RON 390.5 bln. Money aggregate M1, or narrow money, jumped by 12.7% y/y, to RON 245.1 bln.

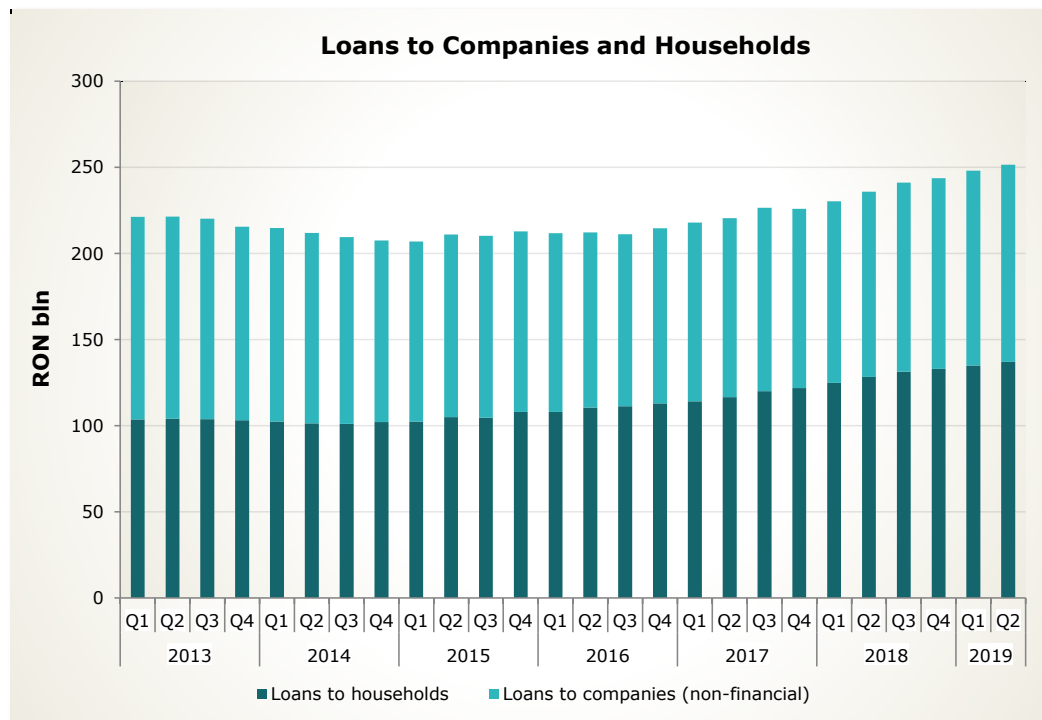


Source: NBR

5.4. BANKING AND INSURANCE

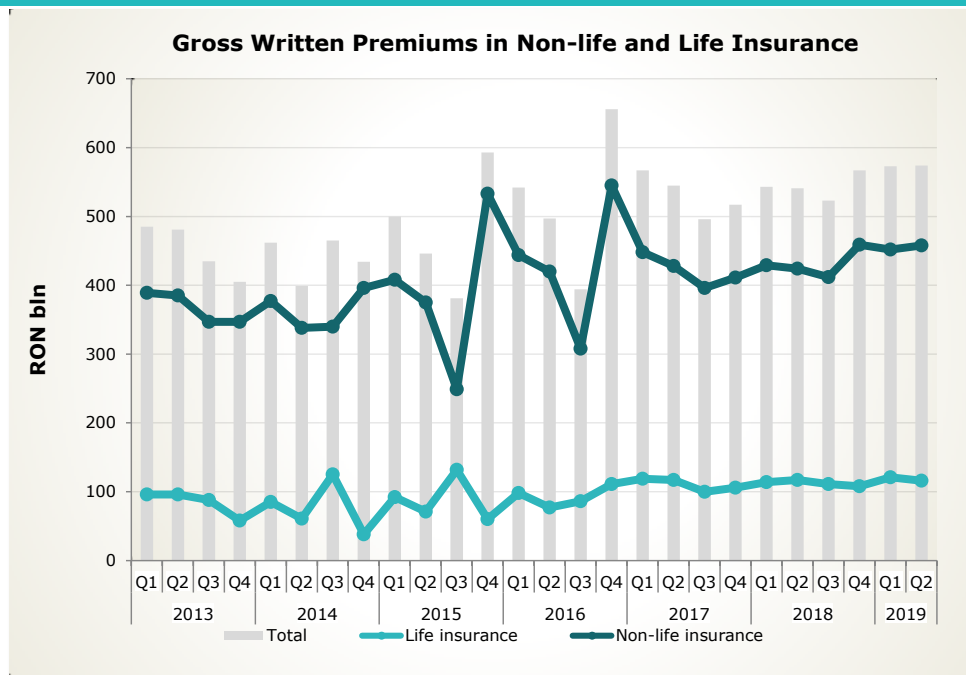
Household loans went up by 6.9% y/y in Q2 2019 on strong house purchase credits

Loans to the non-government sector totalled RON 114.424 bln in Q2 2019, up by 6.4% y/y, according to NBR data. The bulk of the credit growth revival was a result of the 9.6% jump in house purchase loans to RON 76.493 bln. Loans to households went up by 6.9% to RON 137.124 bln, while consumer loans rose by 4.0% y/y to RON 58.932 bln.



Insurance premium income up by 6.1% y/y in Q2 2019

The total gross written premiums (GWP) of the non-life and life insurance companies totalled EUR 547.0 mln in Q2 2019, up by 6.1% y/y, according to the Financial Supervisory Authority (ASF). Non-life insurance enjoyed an annual GWP growth of 8.0%, while life insurance GWP inched down by 0.9% on the year to EUR 116.0 mln.

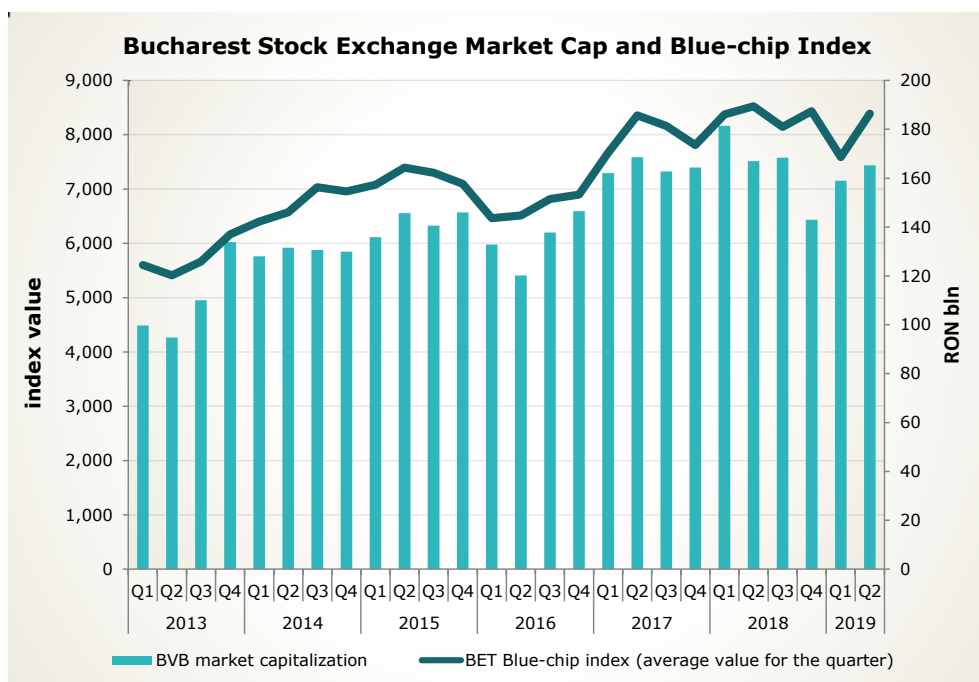


Source: ASF

6. CAPITAL MARKETS

Blue-chip BET went up by 10.6% q/q in Q2 2019

The average value of the blue-chip index of the Bucharest Stock Exchange (BVB) increased by 10.6% q/q to 8,390 points in Q2 2019. BVB's total market capitalisation came in at RON 165.2 bln, up 4.0% q/q. The total turnover on BVB went down to RON 2.694 bln in Q2 2019, from RON 2.789 bln in the previous quarter.



Source: BVB

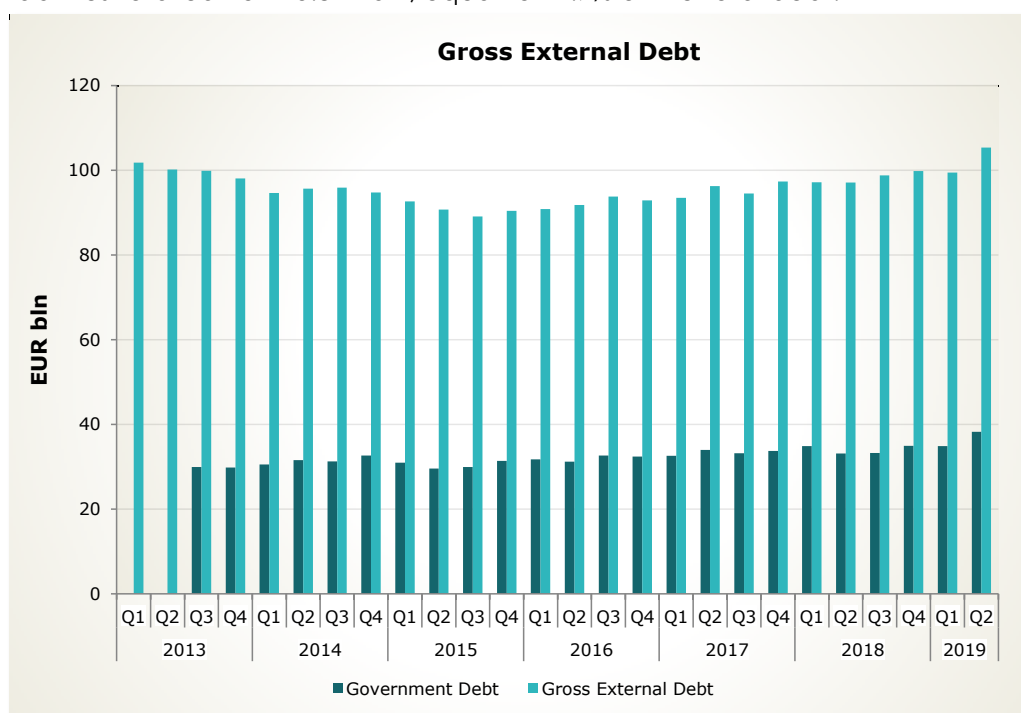
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

Gross external debt expanded by 8.5% y/y to EUR 105.4 bln in Q2 2019

Romania's gross external debt amounted to EUR 105.363 bln in Q2 2019, up by 8.5% compared to Q2 2018, according to NBR. In comparison to the first quarter of 2019, the gross external debt increased by EUR 5.901 bln.

The long-term liabilities amounted to EUR 56.689 bln, or 52.9% of the total debt, and short-term liabilities totalled EUR 15.814 bln, equal to 14.7% of the total debt.



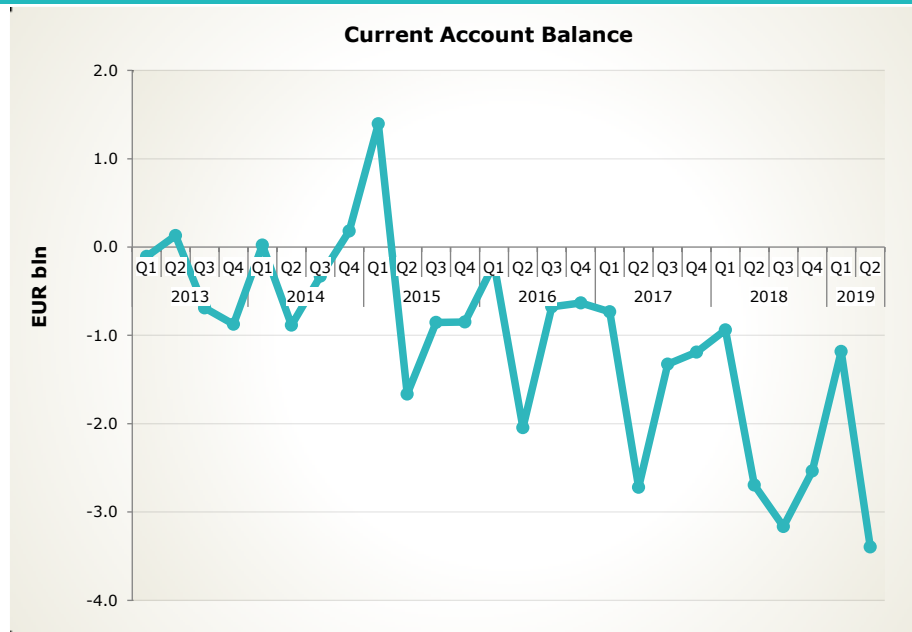
Source: NBR

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

7.2. BALANCE OF PAYMENTS

Current account gap expanded by 26.1% y/y in Q2 2019

In Q2 2019, the current account deficit jumped by 26.1% y/y to EUR 3.396 bln, according to central bank statistics data.

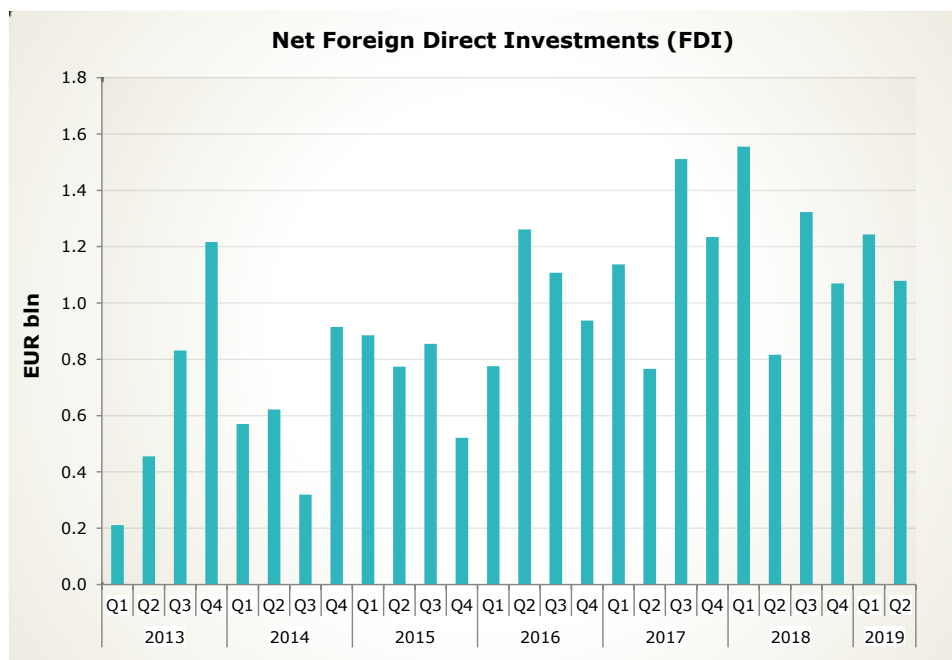


Source: NBR

7.3. FDI

Net FDI increased by 32.2% y/y in Q2 2019

Foreign direct investments (FDIs) in Romania totalled EUR 1.079 bln in Q2 2019, according to NBR. The FDIs dropped by 13.2% compared with Q1 2019, but increased by 32.2% over Q2 2018.



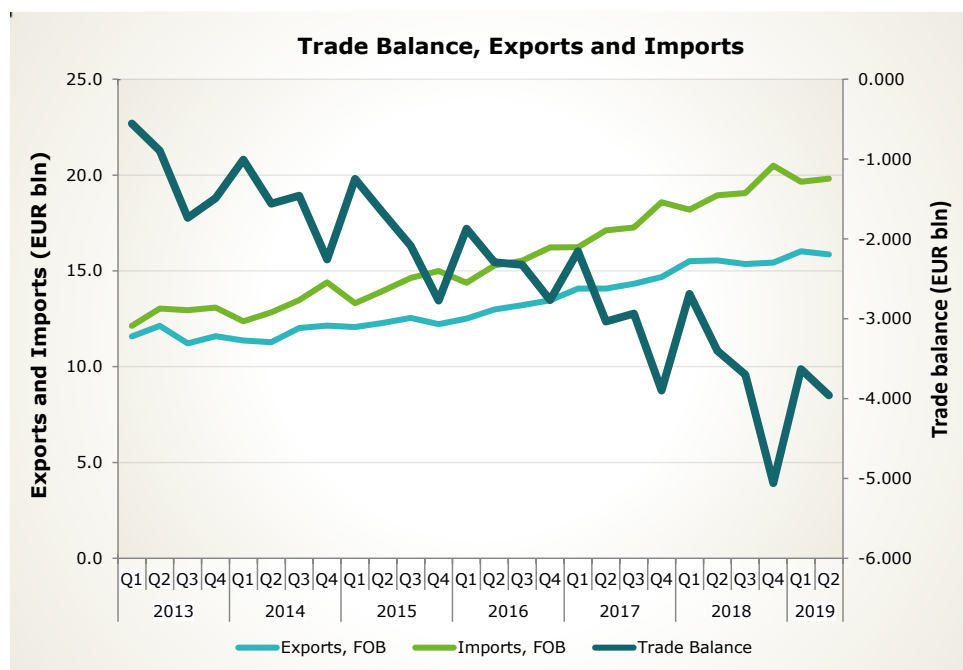
Source: NBR

7.4. FOREIGN TRADE

Foreign trade deficit widened by 16.5% y/y in Q2 2019

The trade deficit expanded to EUR 3.960 bln in Q2 2019, compared to EUR 3.400 bln in Q2 2018, according to NBR.

Imports grew by 4.6%, totalling EUR 19.816 bln, while exports grew slower, by 2.0%, amounting to EUR 15.856 bln.



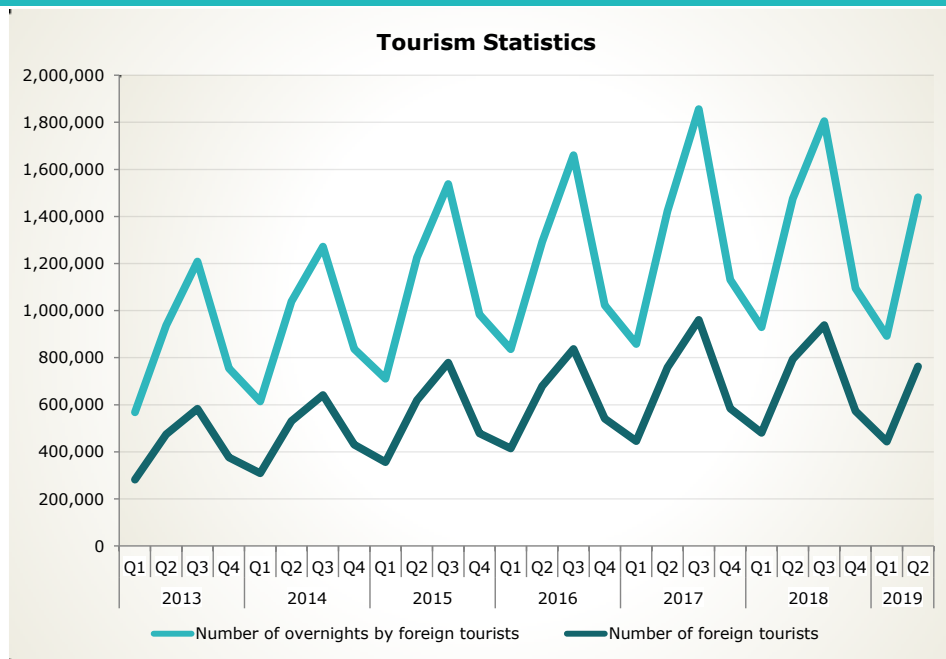
Source: NBR

7.5. TOURSIM

Number of foreign tourist overnights expanded to 0.4% y/y in Q2 2019

Tourist overnights of foreigners increased by an annual 0.4% to 1,481,700 in Q2 2019, according to INSSE data. The number of foreign tourists decreased by 3.9% y/y to 762,700.

The share of foreign tourist overnights in the total number of overnights was 21.4% in Q2 2019, or by 2.3 pp less than a year ago.



Source: INSSE

8. MAJOR DEVELOPMENTS

Romania's Jan-May new commercial vehicle registrations increase

June 25, 2019

Registrations of new commercial vehicles in Romania rose by an annual 8.7% on the year to 11,495 in January-May.

[Read the full story here](#)

EC calls on Romania to raise renewable energy target to 34% by 2030

June 19, 2019

Romania should increase its renewable energy target to 34% from 27.9% by 2030 in order to contribute to the European Union's renewable goals.

[Read the full story here](#)

EU providing Romania with EUR 110 mln for water, sewerage system upgrades

June 6, 2019

The European Commission has approved the allocation of EUR 110 mln (USD124 mln) for expansion and upgrade of the water and sewerage system in the Turda - Campia Turzii region.

[Read the full story here](#)

Romania to use EUR 233 mln of EU funding to buy electric buses, trams for Bucharest

May 24, 2019

Romania's capital Bucharest will benefit from EUR 233 mln (USD 259.4 mln) of EU funding for the purchase of 100 electric buses and 80 trams.

[Read the full story here](#)

Bulgaria, Romania least affected in CEE by lower EU funding from 2021

May 24, 2019

Bulgaria and Romania will be the least affected by the expected decrease in European Union funding available to Central and Eastern European (CEE) sovereigns from 2021 as the UK's planned exit from the EU reduces funds and as income convergence and additional distribution criteria reduce available volumes.

[Read the full story here](#)

Fitch affirms Romania at 'BBB-', outlook stable, warns on unrealistic 2019 budget

May 11, 2019

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 2019 budget relies on unrealistic macroeconomic assumptions.

[Read the full story here](#)

EBRD lowers Romania's 2019 GDP growth forecast to 3.2%

May 8, 2019

The European Bank for Reconstruction and Development (EBRD) said on Wednesday it has decreased its forecast for Romania's economic growth in 2019 to 3.2% from 3.6% projected in November.

[Read the full story here](#)

Romania's Fin Min analysts confirm 2019 GDP growth fcast of 5.5%

May 7, 2019

Analysts at Romania's ministry of finance said on Tuesday they expect the country's economy to grow by 5.5% this year, confirming the forecast they made in January.

[Read the full story here](#)

Romania backs 9 investment projects with RON 151.1 mln (EUR 32 mln)

Apr 24, 2019

Romania's finance ministry said on Wednesday it has approved RON 151.1 mln (USD 36 mln/EUR 32 mln) in state aid to support nine investment projects.

[Read the full story here](#)

Bucharest to invest RON 1.18 bln (EUR 248 mln) in central heating system upgrade

Apr 23, 2019

The Bucharest city council said on Tuesday it has approved a draft project for rehabilitation of the city's central heating system which requires investment of over RON 1.18 bln (USD 279 mln/EUR 248 mln).

[Read the full story here](#)

Romania to spend over 110 mln lei (23 mln euro) to close down unprofitable coal mines

Apr 11, 2019

Romania's government said it decided to pay more than RON 110 mln (EUR 23 mln) to close uncompetitive coal mines, in order to comply with a plan agreed with the European Commission.

[Read the full story here](#)

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