

ROMANIA ECONOMY REPORT

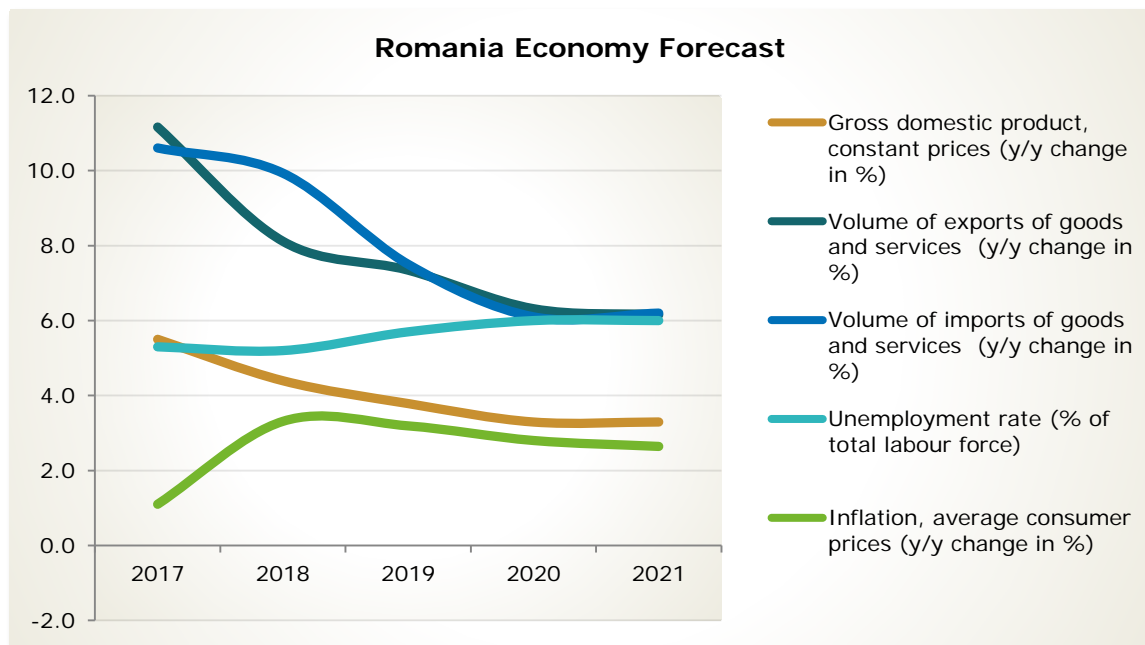
Q3 2017

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	8
2.4. INDUSTRIAL SALES.....	9
2.5. WHOLESALE/RETAIL	10
2.6. INFLATION.....	12
3. LABOUR MARKET	14
4. CONSTRUCTION AND REAL ESTATE	15
5. MONETARY POLICY, MONEY SUPPLY, AND BANKING SYSTEM.....	15
5.1. RON EXCHANGE RATE	15
5.2. MONETARY POLICY	15
5.3. MONETARY AGGREGATES	15
5.4. BANKING AND INSURANCE.....	16
6. CAPITAL MARKETS	18
7. EXTERNAL SECTOR.....	18
7.1. FOREIGN DEBT	18
7.2. BALANCE OF PAYMENTS	19
7.3. FDI.....	20
7.4. FOREIGN TRADE	21
7.5. TOURSIM	21
8. MAJOR DEVELOPMENTS.....	22

1. MACROECONOMIC SNAPSHOT AND FORECAST

ROMANIA – MACROECONOMIC SNAPSHOT AS OF Q3 2017	
GDP Growth	8.8% y/y
Industrial output	7.7% y/y
Industrial sales	10.9% y/y
Wholesale	7.0% y/y
Retail	8.8% y/y
Average annual inflation	0.1%
Unemployment rate	4.7%
Number of building permits	10.2% y/y
Money supply growth	12.4% y/y
Household loans	7.7% y/y
BET blue-chip index	-2.3% q/q
Gross external debt	EUR 93.204 bln
Current account deficit	EUR 1.493 bln
Net FDI inflow	EUR 1.511 bln
Foreign trade deficit	EUR 2.970 bln
Number of foreign tourist overnights	11.8% y/y

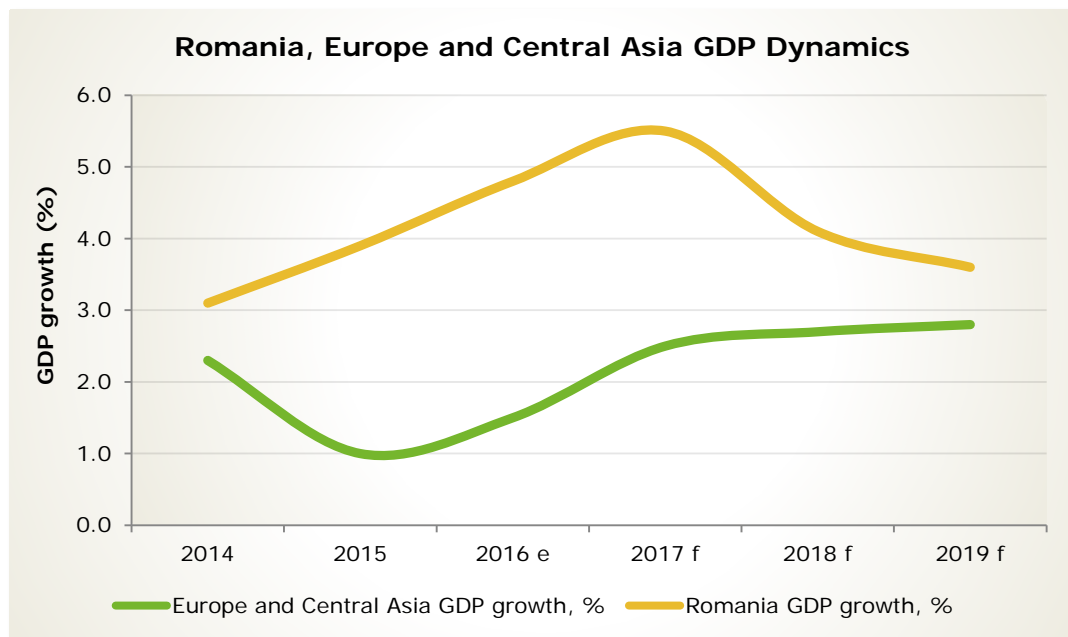


Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2017

The International Monetary Fund (IMF) expects the Romanian economy to expand by 5.5% y/y in 2017, supported by stimulus to private consumption from a new round of fiscal relaxation and wage increases. In the medium term growth is expected to slow down to 4.4% y/y in 2018 and to 3.8% per year in 2019. IMF notes that a reorientation of the government

policy from stimulating consumption to supporting investments would raise mid-term growth prospects.

The main risks to the economic outlook include weakening of fiscal prudence or institutions, and political tensions, which could adversely affect market confidence and erode consumption and investment, increase the cost of government borrowing and put pressure on the exchange rate. According to the fund, growth could rise to about 4.5% over the medium-term if macro-critical reforms to boost EU funds absorption are implemented.



Source: World Bank, *Europe and Central Asia Economic Update*, October 2017

According to the latest World Bank forecast, the Romanian GDP will likely expand by 5.5% in real terms in 2017 on strong consumption growth, which will be supported by VAT rate cut and minimum wage increase. In the same time, consumption growth will contribute to the widening of the current account deficit to 3.1% in 2017, from 2.4% a year earlier.

Positive output gap and increased import prices will drive inflation upwards while fiscal relaxation policies are likely to put pressure on the consolidated budget deficit, according to the World Bank forecasts. In 2017, inflation will return with general price increase of 2.0% in 2017 and 2.5% in 2018 from deflation of 1.5% in 2016.

In 2018 and 2019, the bank forecasts economic growth of 4.1% and 3.6%, respectively. Risks to the forecast include adverse exogenous shocks, which would negatively affect the economic growth as the government is already pursuing pro-cyclical fiscal policy, which limits the space for manoeuvre.

Romania – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)						
	2014	2015	2016 e	2017 f	2018 f	2019 f
Real GDP growth, at constant market prices, y/y cha	3.1	3.9	4.8	5.5	4.1	3.6
Private Consumption	4.4	5.5	7.3	8.0	6.5	6.4
Government Consumption	0.5	-0.7	3.3	2.8	4.3	3.1
Gross Fixed Capital Investment	3.2	8.3	-3.3	1.1	4.5	4.2
Exports, Goods and Services	8.0	5.4	8.3	9.6	7.4	6.3
Imports, Goods and Services	8.7	9.2	9.8	10.1	8.3	7.7
Real GDP growth, at constant factor prices (by sectors)						
Agriculture	4.3	-11.8	0.0	6.0	2.1	2.1
Industry	3.2	6.6	1.7	5.9	2.7	1.6
Services	3.1	4.7	7.3	5.2	5.1	4.8
Inflation (Consumer Price Index)	1.1	-0.6	-1.5	2.0	2.5	2.8
Current Account Balance (% of GDP)	-0.5	-1.2	-2.4	-3.1	-3.5	-3.8
Net Foreign Direct Investment (% of GDP)	1.6	2.2	2.4	2.5	2.8	2.8

Source: World Bank, Europe and Central Asia Economic Update, October 2017

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

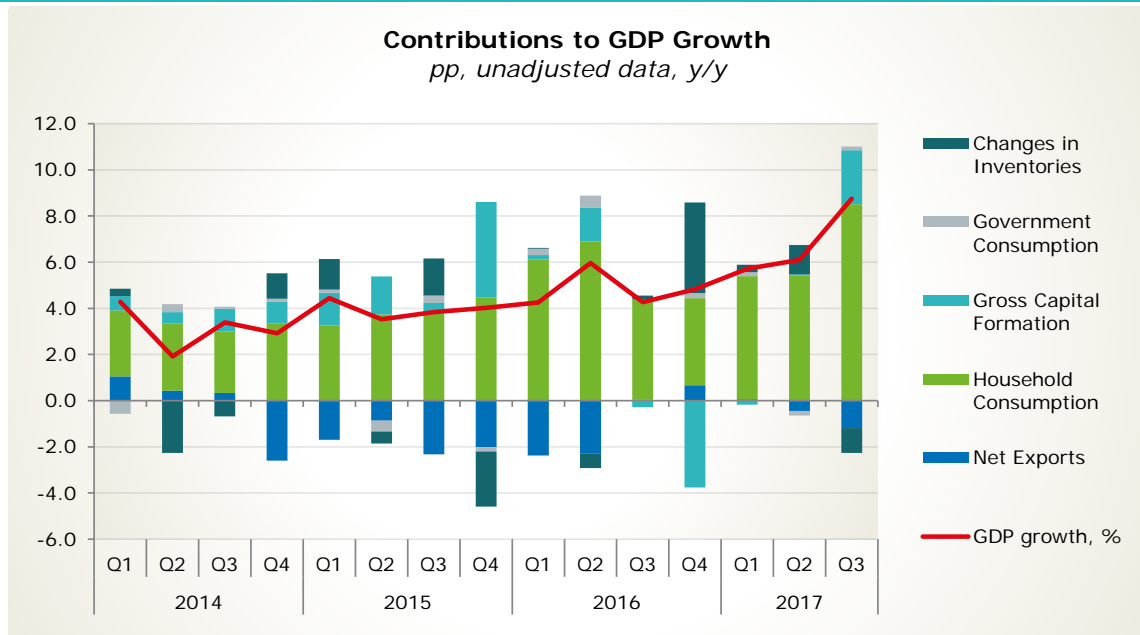
GDP growth accelerated to 8.8% y/y in Q3 2017

The country's GDP increased by a real 8.8% y/y to RON 45.825 bln in Q3 2017, according to the data from the National Institute of Statistics (INSSE). This is up compared to an annualized growth of 6.1% in Q2 2017 and 5.7% in Q1 2017.

Final consumption accounted for most of the economic expansion in real terms during the quarter after increasing by 12.5% y/y to RON 47.307 bln and contributing by 8.7% pp to the overall GDP growth. Household consumption was the main driving engine of the Romanian economy in Q3 2017, as well as in the whole 2017 so far. Gross capital formation also marked a sharp rise in its contribution to the growth of national economy in Q3 2017.

Gross capital formation increased by 8.8% y/y in the third quarter of 2017 after inching up by 0.2% y/y in the second quarter. The slow progress of structural reforms and reforms for boosting EU funds absorption will continue to weigh on country's capital investments.

Exports of goods and services grew up by 7.5% y/y to RON 25.904 bln in Q3 2017 while imports increased faster, by 10.3% y/y to RON 43.440 bln.

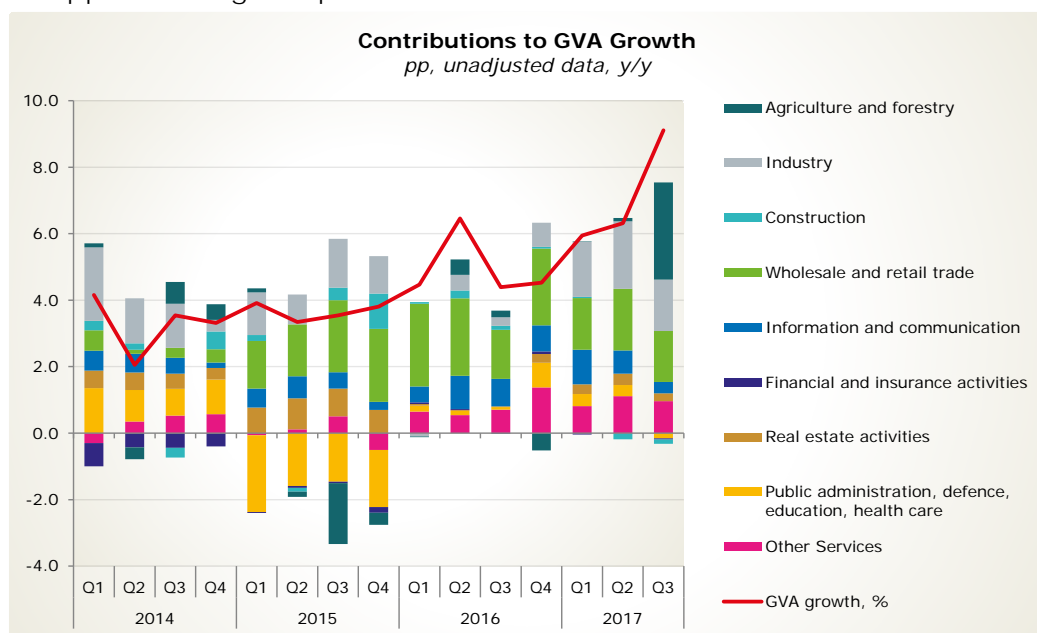


Source: INSSE; SeeNews calculations

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.

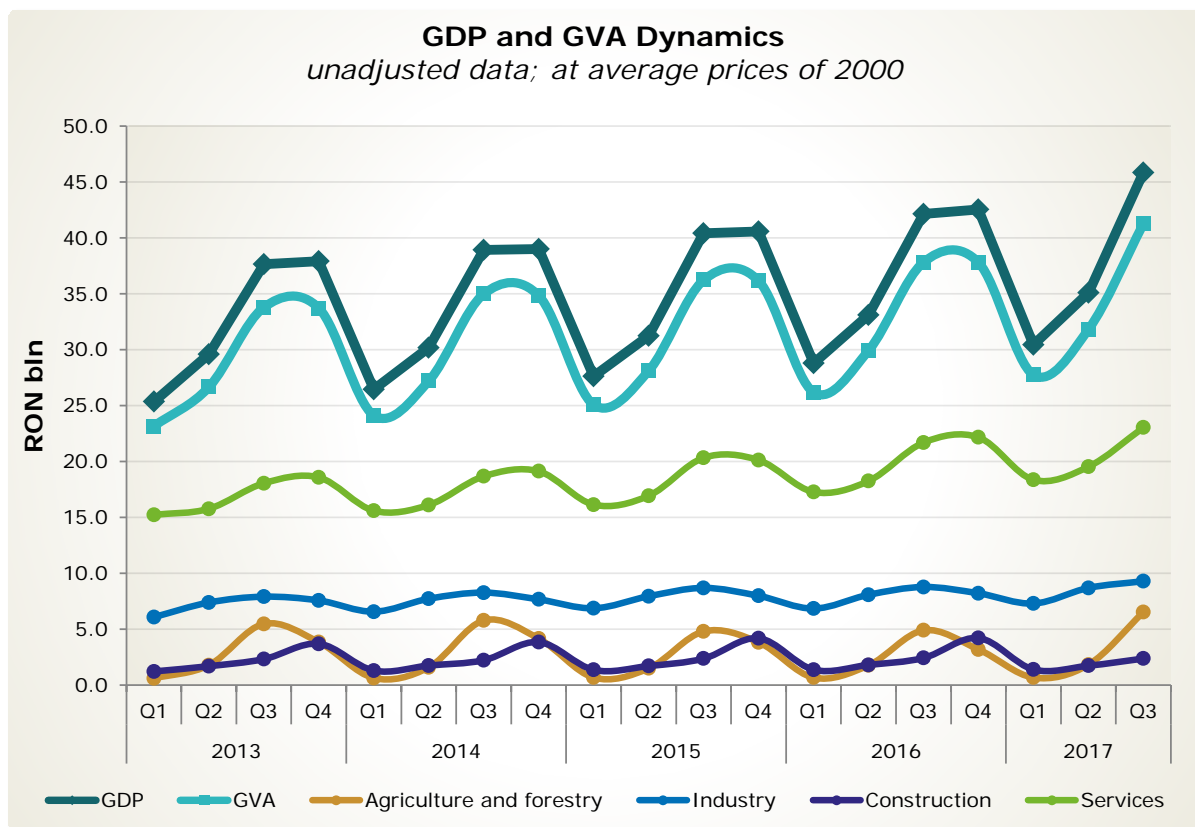
The gross value added (GVA) generated by the national economy increased by 9.1% y/y in the third quarter of 2017 and totalled RON 41.254 bln. The industrial sector expanded by 5.9% y/y while the services sector recorded a 6.2% annual increase. The agricultural sector registered an annual rise of 33.4% while construction went down by 2.3%.

The retail and wholesale trade sector contributed with 8.6 pp to the GVA growth in Q3 2017 on the simulative government policy, which supported consumption. The industrial sector contributed with 5.9 pp to the GVA growth, while the Information and communication sector added 5.6 pp to it during the quarter.



Source: INSSE; SeeNews Calculations

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

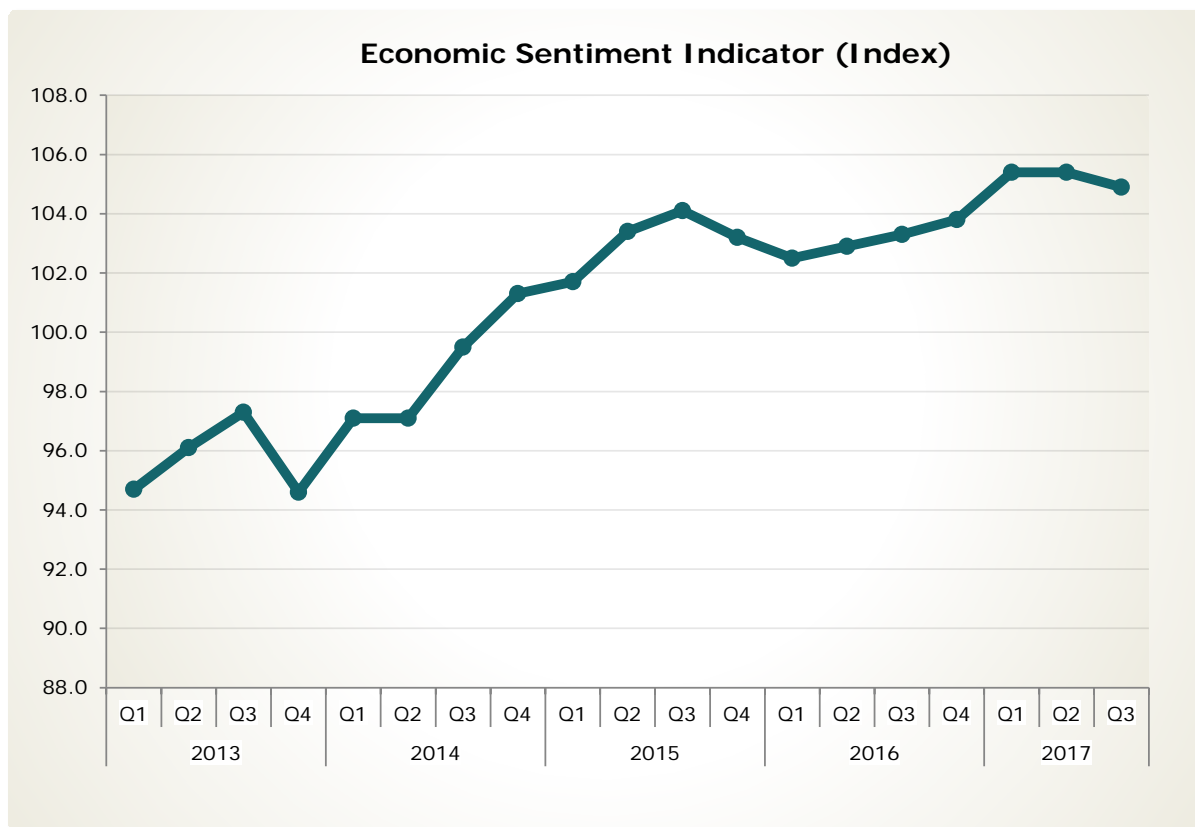


Source: INSSE

2.2. BUSINESS CLIMATE

Economic Sentiment Indicator remains at high level in September 2017

In September 2017 the economic sentiment indicator came in at 104.9 points, according to ECFIN. This is a slight decrease from the record levels for the index in the previous two quarters, but it still reflects the strong economic growth that the country exhibited since the global recession in 2008-2009. The solid internal and external demand is supporting the Romanian business prospects.

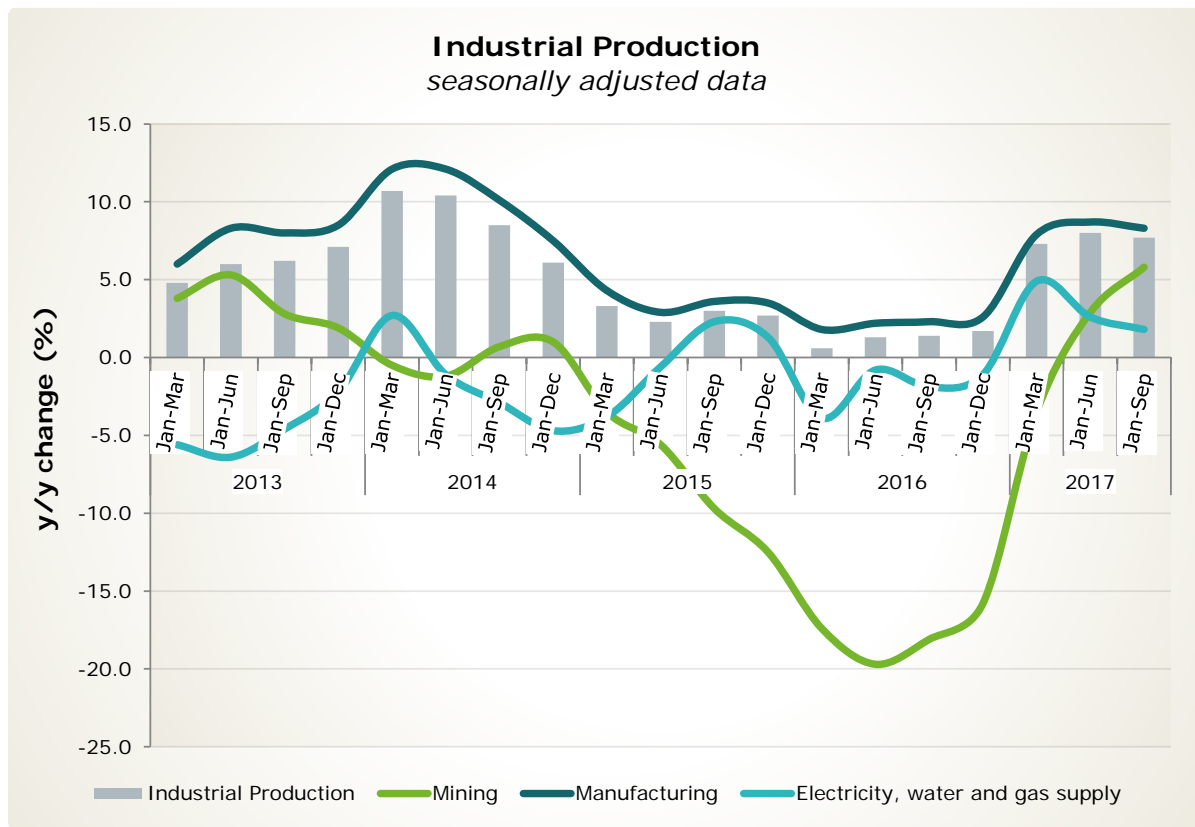


Source: Economic and Financial Affairs, European Commission

2.3. INDUSTRIAL OUTPUT

Industrial production surged in January - September 2017 on strong manufacturing growth

Industrial output rose by 7.7% on the year in the first nine months of 2017, according to INSSE. The main driver was the manufacturing industry which expanded by 8.3%, followed by the mining sector with a 5.8% annual increase, while the electricity, water and gas supply sector grew slower, by 1.8% y/y. Manufacture of non-specialised machinery and equipment, electrical equipment and mining support service activities were the sectors with the fastest y/y growth in January - September 2017.



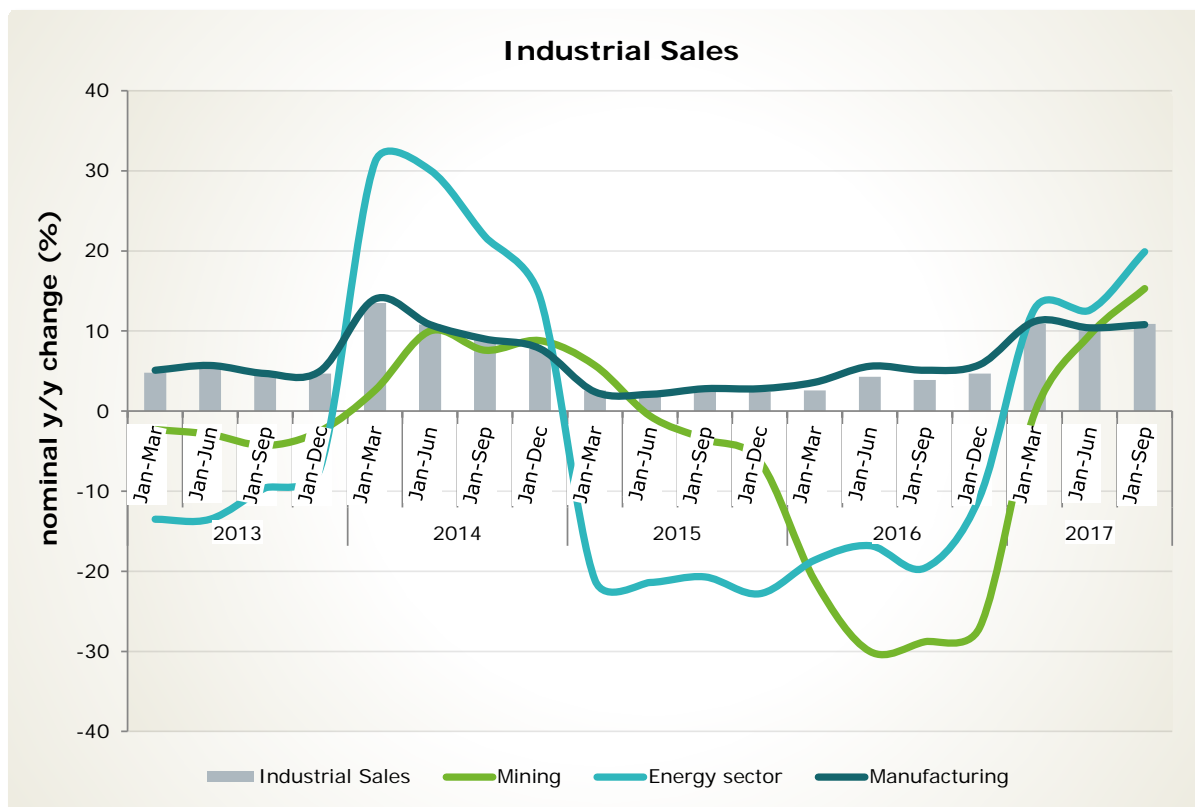
Source: INSSE

2.4. INDUSTRIAL SALES

Industrial sales went up by 10.9% y/y in January - September 2017 on manufacturing and energy

Industrial sales increased by 10.9% y/y in nominal terms in the first three quarters of 2017, according to INSSE data. Sales in the manufacturing industry grew by 10.8% on the year, while the energy sector jumped 19.9% y/y. Mining sales also went up, by 15.3% y/y.

Sales of capital goods went up by 15.8%, intermediate goods added 9.0% y/y, durable goods sales increased 7.9% and non-durable goods grew by 5.2% in January - September 2017.



Source: INSSE

2.5. WHOLESALE/RETAIL

Wholesale and retail trade slowed rates of growth

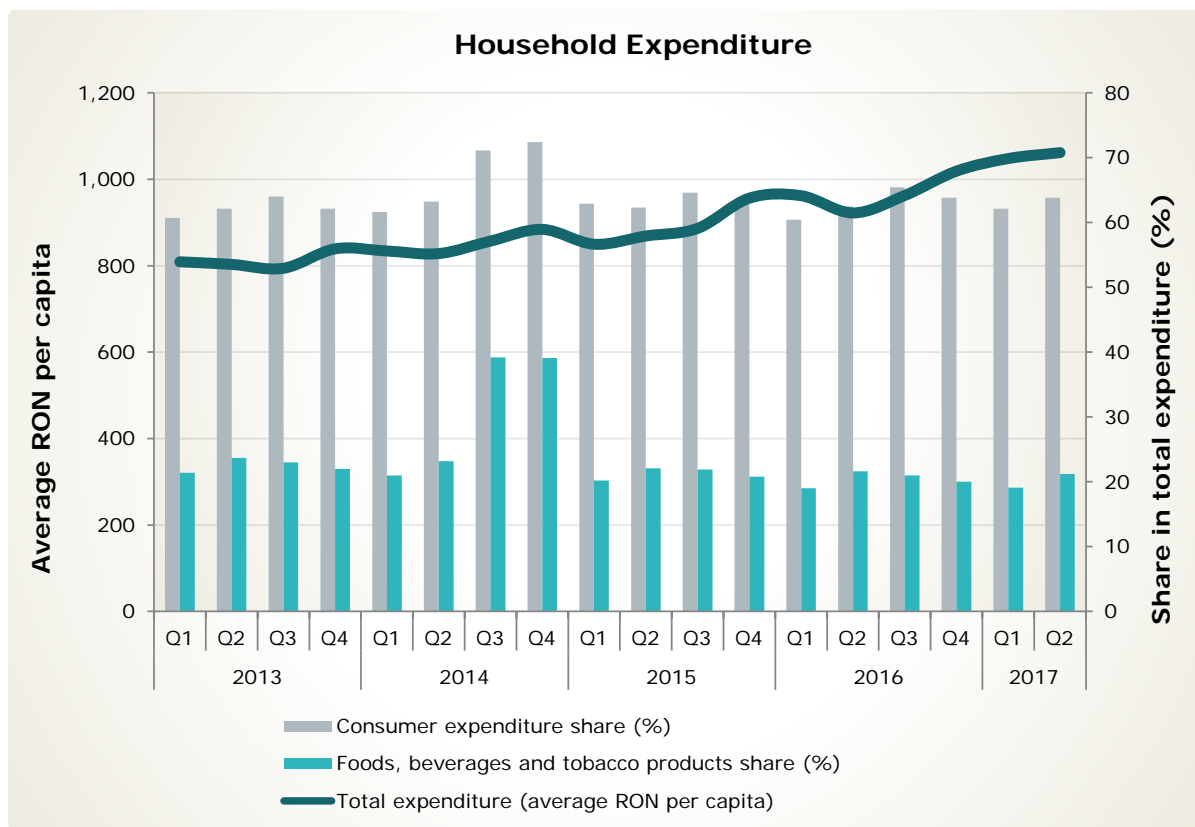
The growth rates of both retail and wholesale trade slowed in the first nine months of 2017 as the stimulus from the wage increase VAT reduction in 2016 faded. Still, sectors' growth remains solid as there were additional fiscal stimuli in early 2017. Retail sales went up by 8.8% y/y while wholesales trade increased by 7.0% y/y in January-September 2017 compared to growth rates of 15.3% and 8.2%, respectively, during the corresponding period of 2016, according to INSSE data.



Source: INSSE

Retail sales of food, beverages and tobacco increased by 4.6% y/y in January - September 2017, retail sales of non-food products went up by 13.1% y/y while the turnover in volume terms of automotive fuel in specialised stores added 11.4% compared to January - September 2016.

Among the wholesale segments, non-specialised wholesale occupied the top position in terms of annual growth with 14.4%, while wholesale of information and communication equipment led the negative ranking with an annual decline of 2.3%.



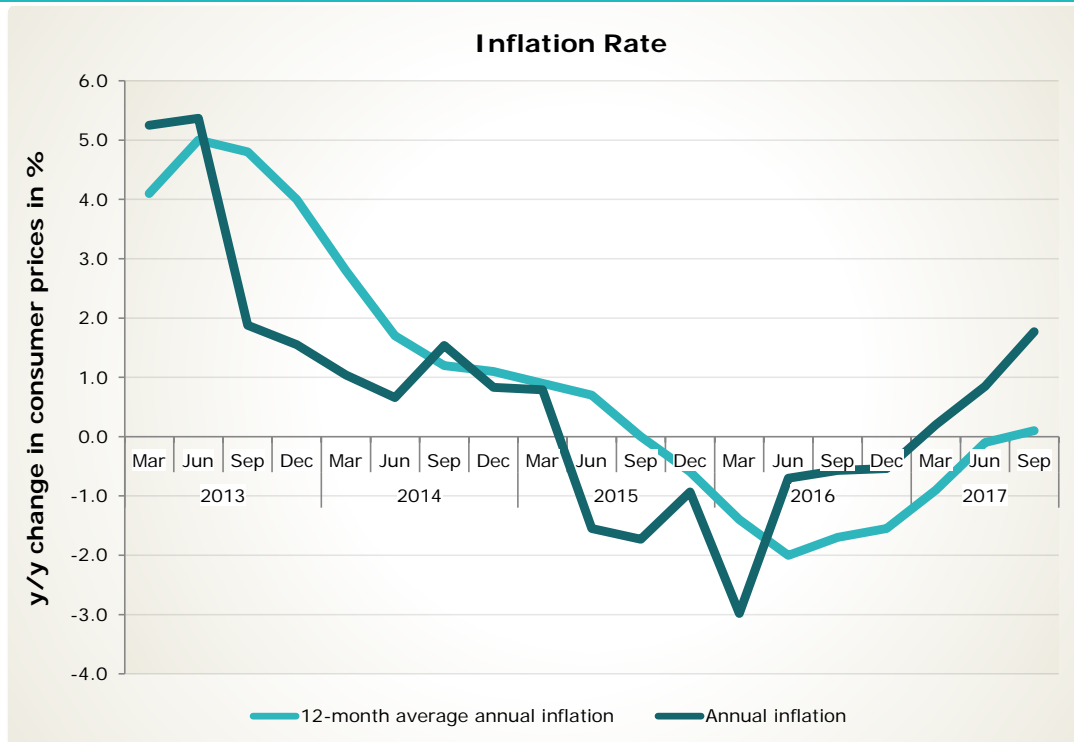
Source: INSSE

2.6. INFLATION

Inflation continued in September 2017 on oil and gas price recovery

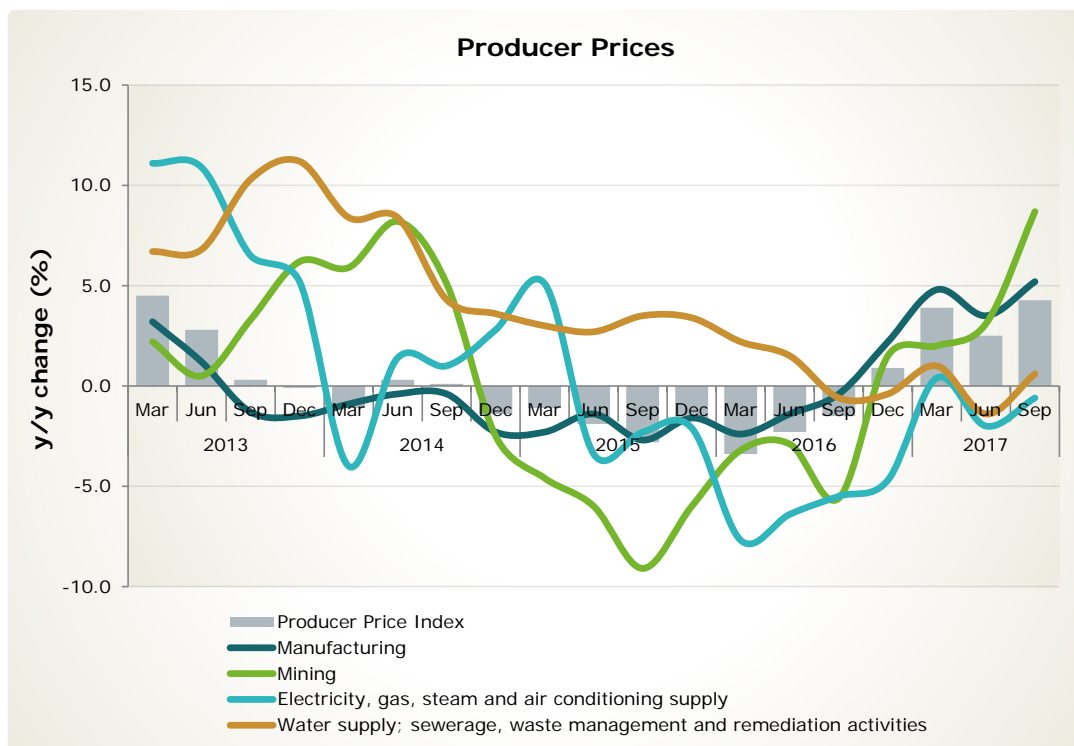
In September 2017, consumer prices in Romania kept rising and the country registered an annual inflation of 1.8%, up from 1.2% in August and 1.4% in July, INSSE data showed.

The average price of food and related goods went up by 0.3% y/y in September 2017. In the same time, non-food goods were by 0.2% more expensive than a year ago, while the average consumer price of the services went down by 0.02% y/y.



Source: INSSE

In September 2017, the producer price index grew by 4.3% y/y, driven to a larger extent by producer inflation pressure on the foreign markets - up 6.3% y/y. Producer prices on the domestic market increased by 3.3% y/y. Looking at the main industrial groups, the total price index in the intermediate goods sector jumped the most, by 5.7% y/y, while the energy industry reported the slowest growth rate of 3.1% y/y.



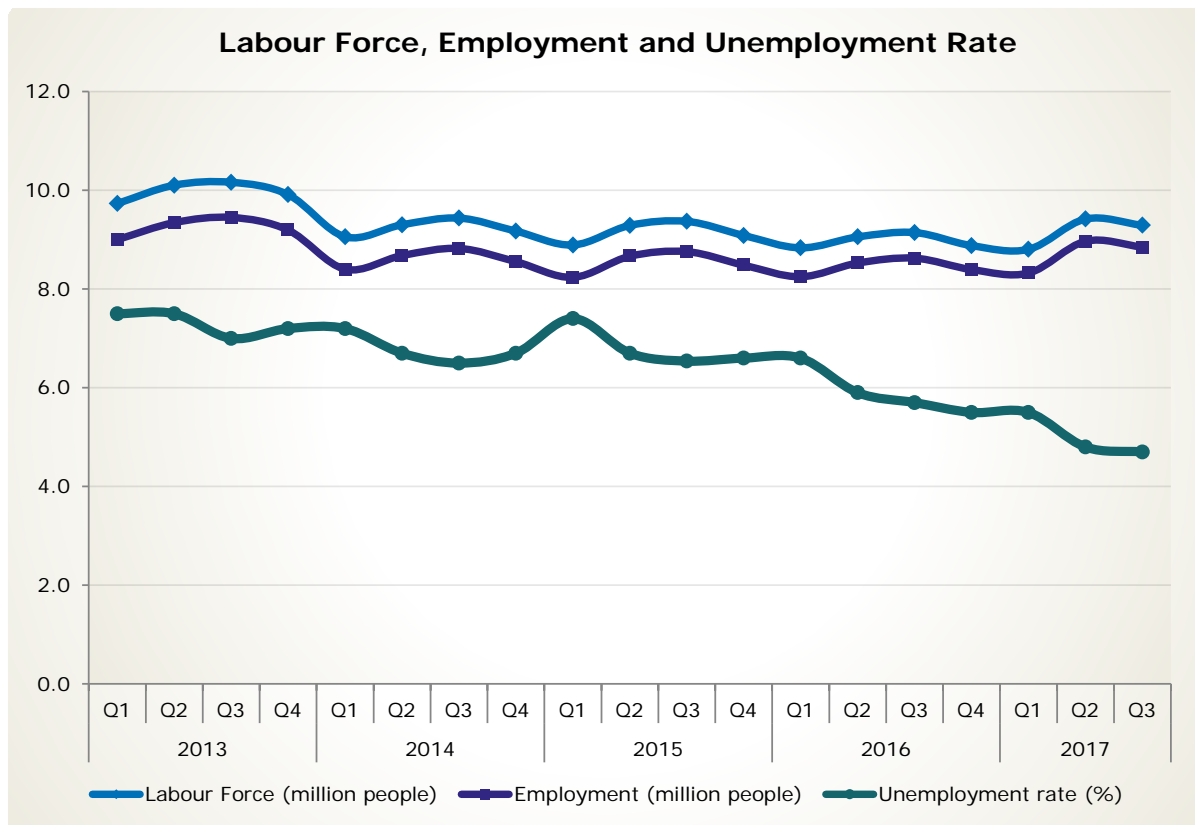
Source: INSSE

3. LABOUR MARKET

Unemployment rate narrowed y/y to 4.7%, wages grew 14.1% y/y in Q3 2017

The dynamic growth of GDP in Romania further reduced the unemployment rate in the country in Q3 2017 to 4.7% from 5.7% in the same quarter of 2016, according to data of INSSE. The employed population aged 15 years and older was 8.850 million, up by 2.6% y/y. The youth (population aged 15-24) unemployment rate improved by 3.6 pp y/y, but still remained high at 16.9% as of the end of September 2017.

The tightening labour market contributed to the increase of net earnings in Q3 2017, when the average monthly net nominal wage came in at RON 2,377, an annual rise of 14.1%.



Source: INSSE

The highest values of the average net nominal earnings was recorded in computer programming, consultancy, and information service activities, of RON 5,987, while the lowest salaries were recorded in accommodation and food service activities - RON 1,408.

4. CONSTRUCTION AND REAL ESTATE

Number of building permits went up by 10.2% y/y in Q3 2017

The number of building permits issued in Romania in the third quarter of 2017 went up by 10.2% y/y, totalling 14,743, according to INSSE data. The growth was fuelled by the 28.3% y/y rise of permits for administrative buildings to 68, while permits for housing projects grew slower, by 9.7% to 12,727.

The total developed built-up area covered by the residential projects permits also increased by 9.7% to 2,840,800 sq m. The total developed built-up area of the permits for administrative buildings soared by 38.3% y/y in Q3 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 4.5814 in the third quarter of 2017 from RON 4.5518 in the previous quarter, according to National Bank of Romania (NBR).

RON Average Exchange Rate			
Foreign Currency	Q3 2017	Q2 2017	Q3 2016
EUR	4.5814	4.5518	4.4653
USD	3.9015	4.1395	4.0001
GBP	5.1047	5.2900	5.2575
CHF	4.0521	4.2017	4.1011

5.2. MONETARY POLICY

The national bank kept the policy rate unchanged at 1.75%

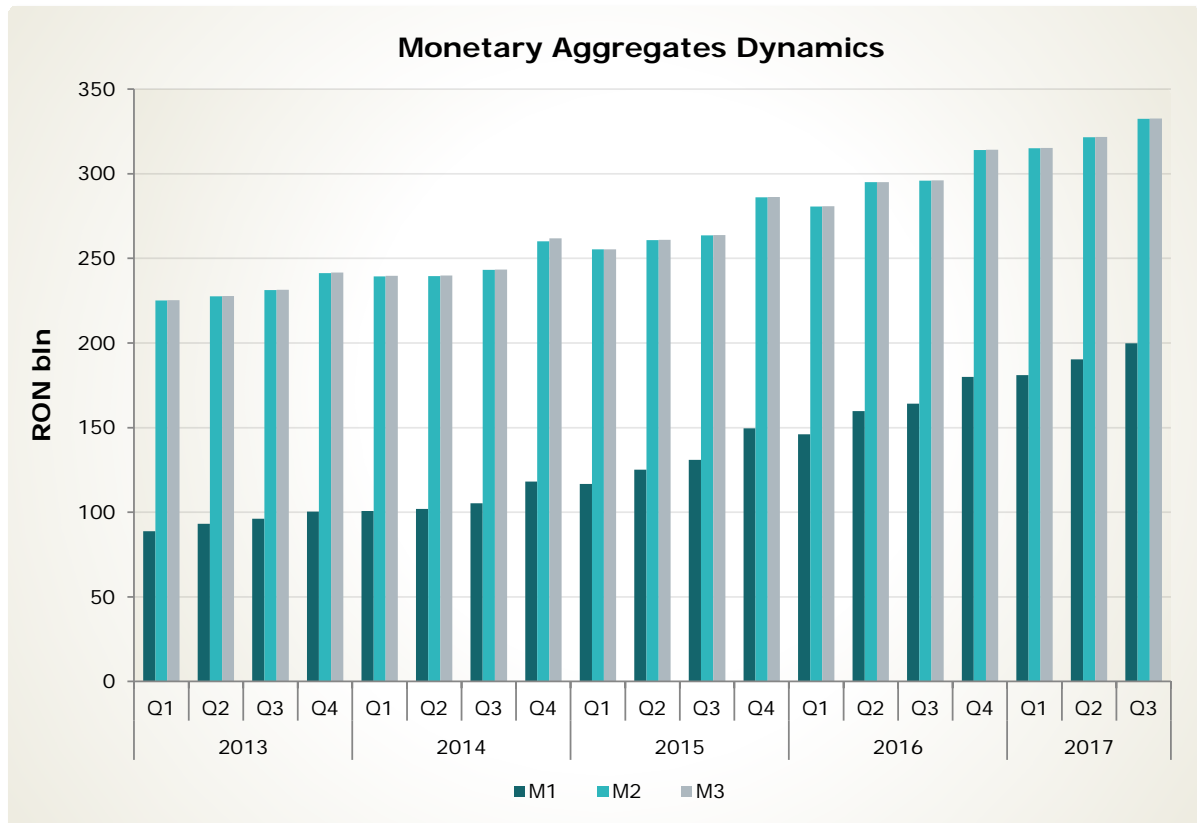
The Board of the National Bank of Romania (NBR) kept the monetary policy rate at 1.75% per annum and maintained the symmetrical corridor of interest rates on the NBR's standing facilities at ± 1.00 pp around the policy rate as of December 2017.

5.3. MONETARY AGGREGATES

Money supply growth accelerated in Q3 2017

Broad money (money aggregate M3) increased by 12.4% y/y and reached RON 332.7 bln in Q3 2017, according to data provided by NBR. This is an increase from 9.1% q/q growth in Q2 2017.

The M2 money supply also grew by 12.4% y/y, to RON 332.5 bln. Money aggregate M1, or narrow money, jumped by 21.8% y/y, to RON 199.9 bln.



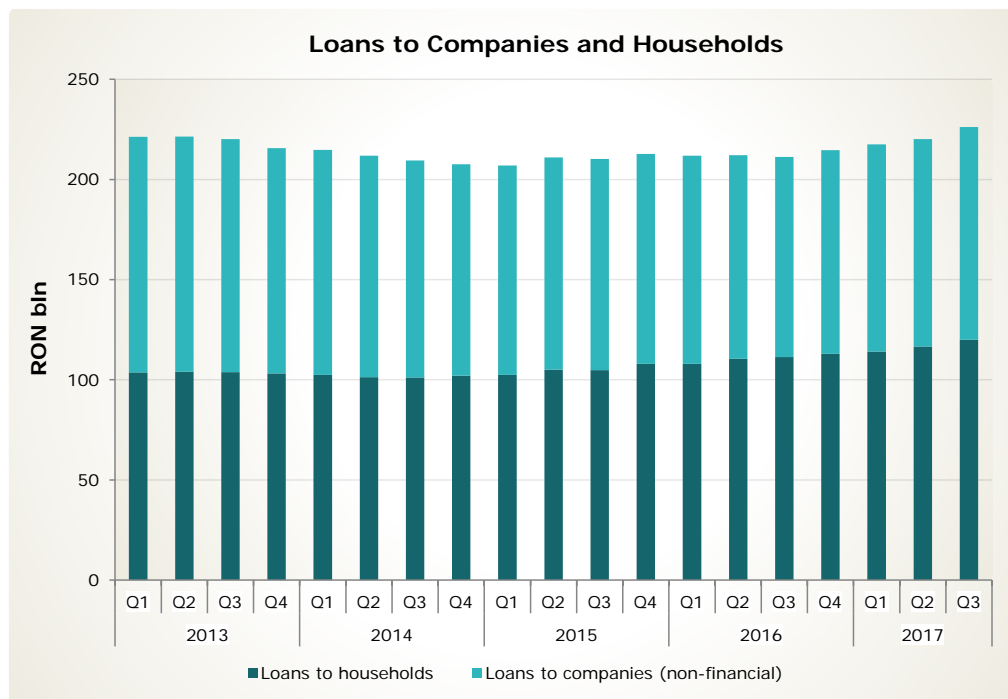
Source: NBR

5.4. BANKING AND INSURANCE

Household loans went up by 7.7% y/y in Q3 2017 on strong house purchase credits

Loans to the non-government sector totalled RON 226.2 bln in Q3 2017, up by 7.1% y/y, according to NBR data. This is an acceleration compared Q2 2017, when the total credit to the non-government sector increased by 3.8% y/y.

The bulk of the credit growth revival was a result of house purchasing loans by households which increased by 12.7% to RON 63.868 bln. Consumer loans went up by the modest 4.3% to RON 54.217 bln, while loans to non-financial corporations rose by 6.4% y/y to RON 106.2 bln.

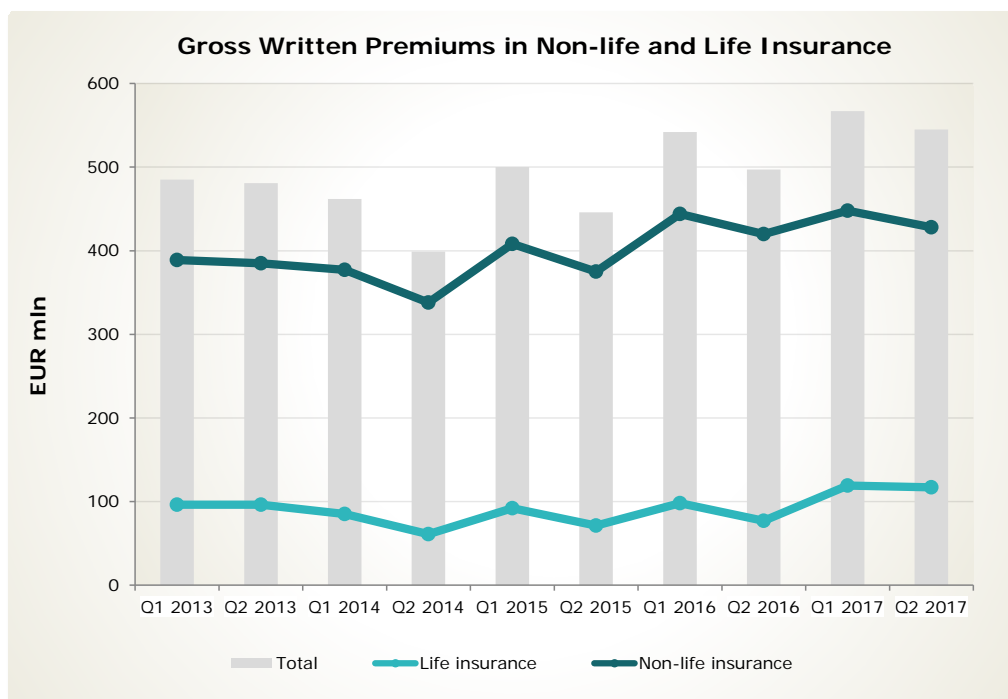


Source: NBR

Insurance premium income up 9.7% y/y in Q2 2017*

*Data for Q3 2017 was not available as of the date of the preparation of this report

The total gross written premiums (GWP) of the non-life and life insurance companies were RON 545 mln in Q2 2017, up 9.7% y/y, according to the Financial Supervisory Authority (ASF). The growth was driven entirely by the life-insurance sector, which soared by 52.0% y/y to RON 117 mln, while the nonlife segment went up as little as 1.9% y/y to RON 428 mln.



Source: ASF

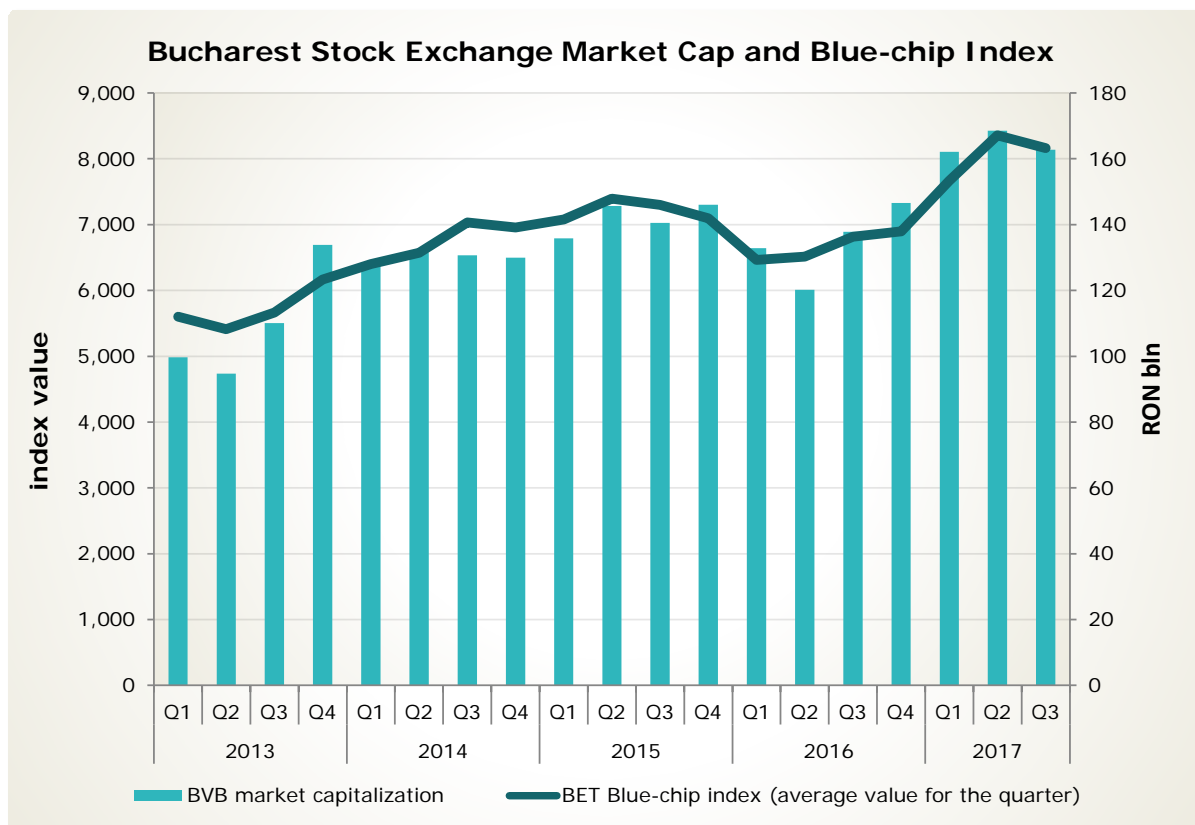
6. CAPITAL MARKETS

Blue-chip BET trended lower by 2.3% q/q in Q3 2017

The average value of BET, the blue-chip index of the Bucharest Stock Exchange (BVB), decreased by 2.3% y/y to 8,165 points in the third quarter of 2017.

BVB's total market capitalisation came in at RON 162.8 bln as of end-September 2017, up 18.1% y/y.

The total turnover on BVB went up to RON 4.151 bln in Q3 2017, from RON 3.714 in Q2 2017.



Source: BVB

7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt inched down q/q to EUR 93.2 bln in Q3 2017

Romania's gross external debt amounted to EUR 93.2 bln in Q3 2017, down by 0.9% compared to Q2 2017 when it amounted to EUR 94.1 bln, according to NBR. In comparison to the third quarter of 2016, the gross external debt decreased by EUR 0.6 bln.

The long-term liabilities amounted to EUR 54.8 bln, or 58.8% of the total debt, and short-term liabilities totalled EUR 12.3 bln, equal to 13.2% of the total debt. The government debt expanded by 1.7% y/y to EUR 33.2 bln.



Source: NBR

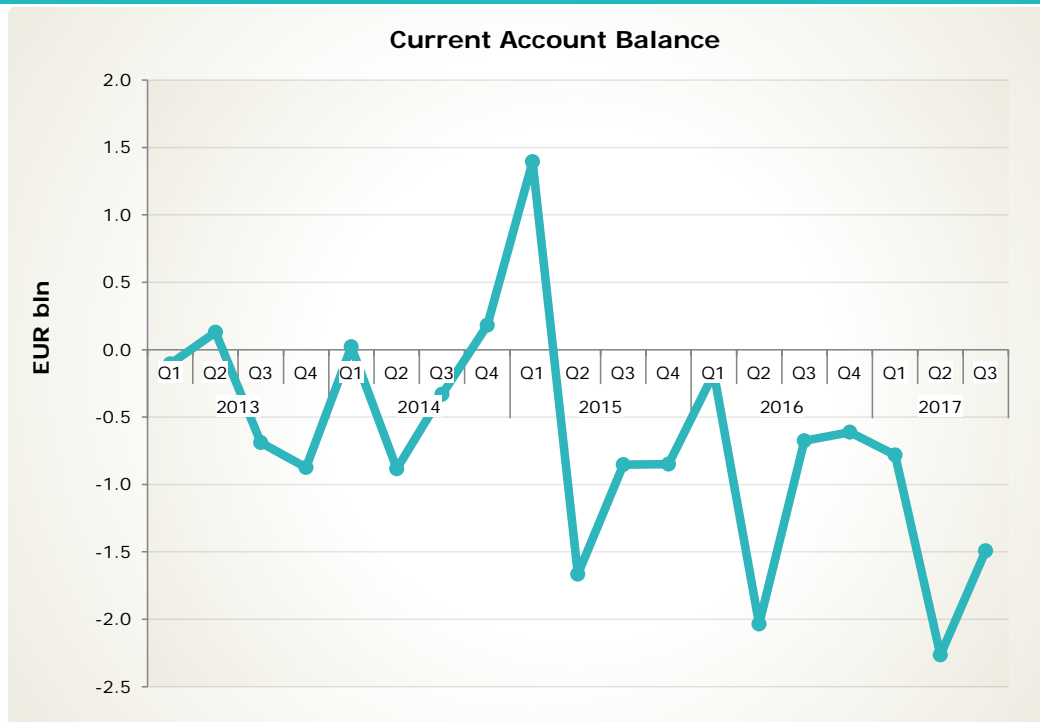
Editor's note: No data is available for Government Debt for Q1 and Q2 2013

7.2. BALANCE OF PAYMENTS

Current account deficit doubled y/y in Q3 2017 on widening trade and income gap

In Q3 2017, the current account deficit widened to EUR 1.493 bln from a deficit of EUR 0.676 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 2.968 bln in Q3 2017 versus EUR 2.322 bln in Q3 2016.

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

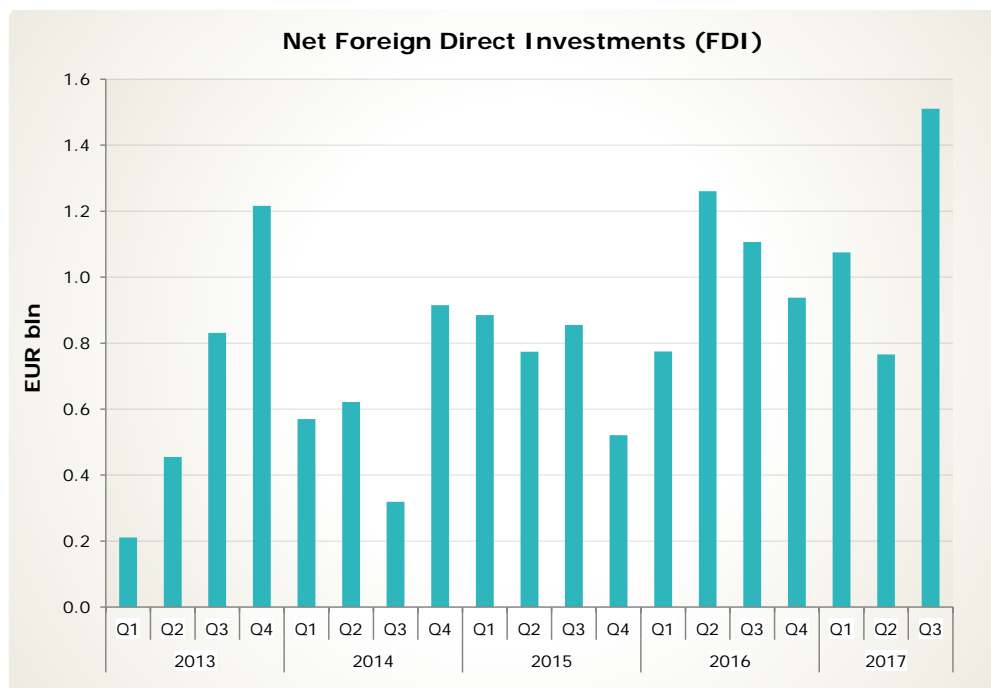


Source: NBR

7.3. FDI

Net FDI grew by 36.5% y/y in Q3 2017

Foreign direct investments (FDIs) in Romania totalled EUR 1.511 mln in Q3 2017, according to NBR. The FDIs increased by 36.5% compared to the same quarter of 2016 and almost doubled compared to Q2 2017.



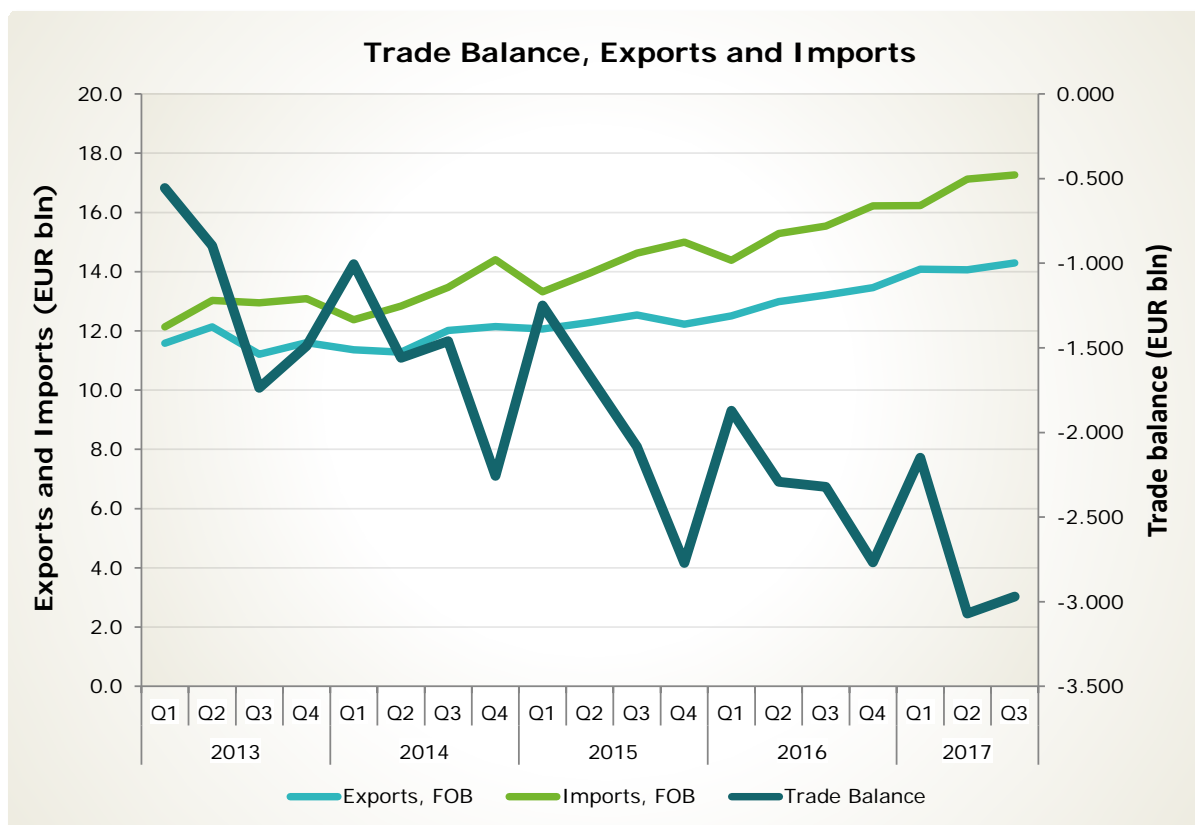
Source: NBR

7.4. FOREIGN TRADE

Foreign trade deficit widened by 27.9% in Q3 2017

The trade deficit extended to EUR 2.970 bln in Q3 2017, compared to EUR 2.322 bln in Q3 2016, according to NBR.

Imports grew faster than exports – by 11.1%, totalling EUR 17.262 bln. Exports rose by 8.2%, totalling EUR 14.292 bln.



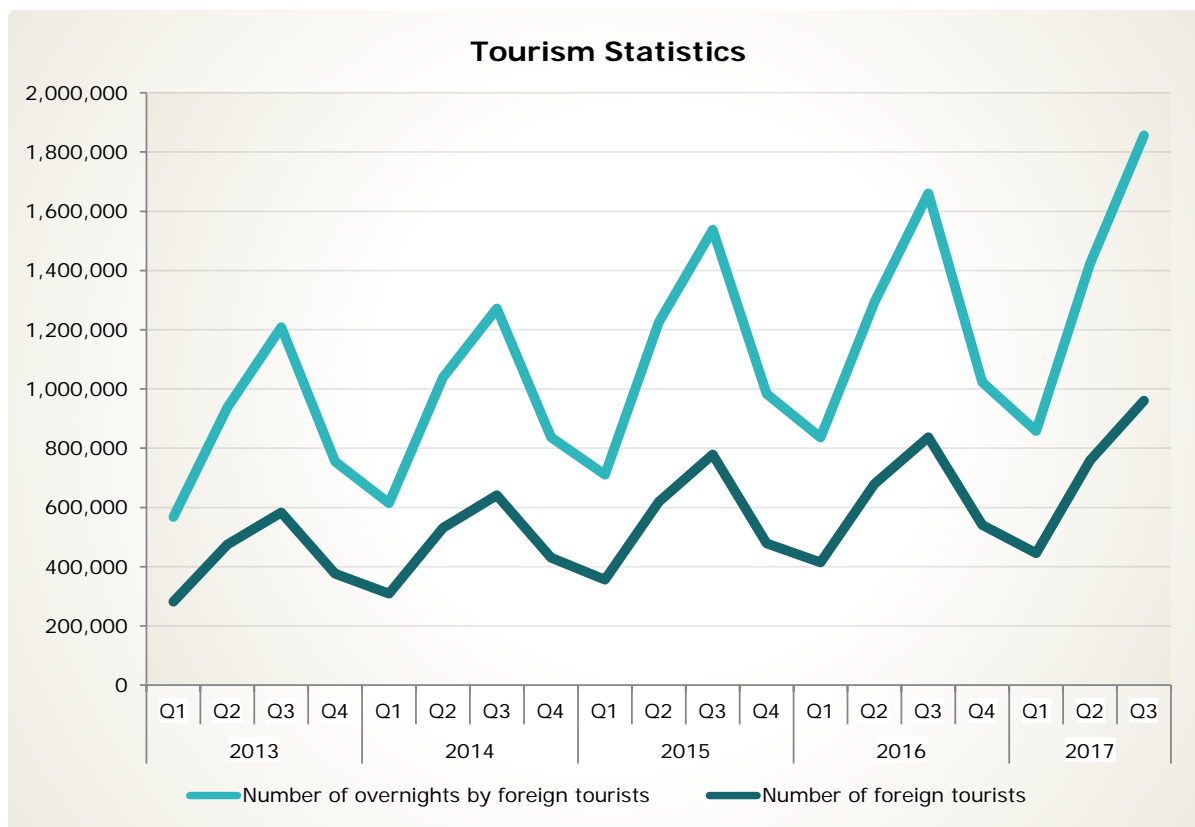
Source: NBR

7.5. TOURSIM

Number of foreign tourist overnights grew by 11.8% y/y in Q3 2017

Tourist overnights of foreigners increased by an annual 11.8% to 1,855,700 in Q3 2017, according to INSSE data. The number of foreign tourists also went up – by 14.8% y/y to 960,400. Germany led the ranking in terms of number of tourists in the period – 121,795, followed by Israel with 103,365 tourists and Italy with 74,509.

The share of foreign tourist overnights in the total number of overnights was 16.3% in the third quarter of 2017, or by 1.0 pp more than in the year-ago quarter.



8. MAJOR DEVELOPMENTS

Bulgaria, Romania sign MoU to proceed with BRUA gas link project – report

Sept 30, 2017

Bulgaria, Romania, Hungary and Austria have signed a memorandum of understanding (MoU) to proceed with implementation of BRUA gas link project, Romanian media reported in September 2017.

[Read the full story here](#)

EC urges Council of EU to accept Bulgaria, Romania in Schengen

Sept 28, 2017

The European Commission said on Wednesday it is “high time” that Bulgaria and Romania become full members of the Schengen area and urged the Council of the EU to take the necessary actions in this regard.

[Read the full story here](#)

Bulgaria, Romania to discuss construction of bridge over the Danube

Sept 28, 2017

Bulgaria and Romania will discuss the signing of a Memorandum of Understanding (MoU) for carrying out a feasibility study for the construction of a bridge over the Danube connecting the cities of Ruse and Giurgiu, the government in Sofia said.

[Read the full story here](#)

Romanian fin min analysts raise 2017 GDP growth forecast to 5.6%

Sept 18, 2017

Romanian finance ministry analysts said they have raised their forecast for the country's 2017 economic growth to 5.6% from 5.2% previously based on expectations of a more robust performance across sectors than originally projected.

[Read the full story here](#)

Erste raises Romania 2017, 2018 growth fcast, sees possible hike in deposit rate

Sept 14, 2017

Romania's economy is expected to grow by a real 5.5% in 2017 driven by retail sales and services, before economic expansion slows down to 4.1% in 2018, Erste Group analysts said on Thursday, increasing their forecasts for both years.

[Read the full story here](#)

Romania could absorb EUR 1.2 bln in EU cohesion funds by end-2017

Sept 7, 2017

Romania could absorb EUR 1.2 bln in EU cohesion funds by the end of the year, if the country's authorities speed up their efforts, reported Corina Cretu, European Commissioner for Regional Policy in September 2017.

[Read the full story here](#)

Serbia, Romania to sign roadmap on gas link soon

Aug 30, 2017

Serbian energy minister Aleksandar Antic has said the government expects to sign a roadmap with Romania on the construction of the Mokrins-Arad natural gas interconnection project in the short term.

[Read the full story here](#)

Moody's upgrades Romanian top lender BCR's deposit rating to Baa3

Aug 11, 2017

Moody's said it has upgraded the long-term local and foreign-currency deposit ratings of Romania's top lender Banca Comerciala Romana (BCR), part of Austria's Erste Group, to Baa3/Prime-3 from Ba1/Not Prime.

[Read the full story here](#)

Romania to spend EUR 9.8 bln on defence until 2026

Aug 3, 2017

Romania will spend EUR 9.8 bln until 2026 to boost its defence capabilities, reported the National Defence Council (CSAT) in August 2017.

[Read the full story here](#)

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