

ROMANIA ECONOMY REPORT

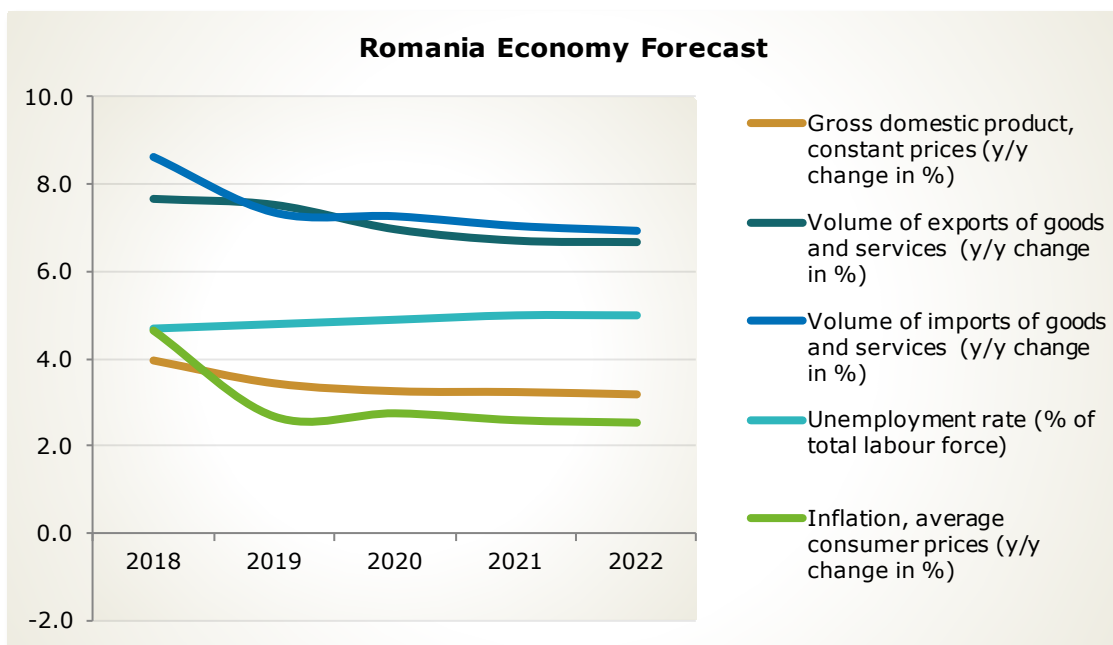
Q3 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

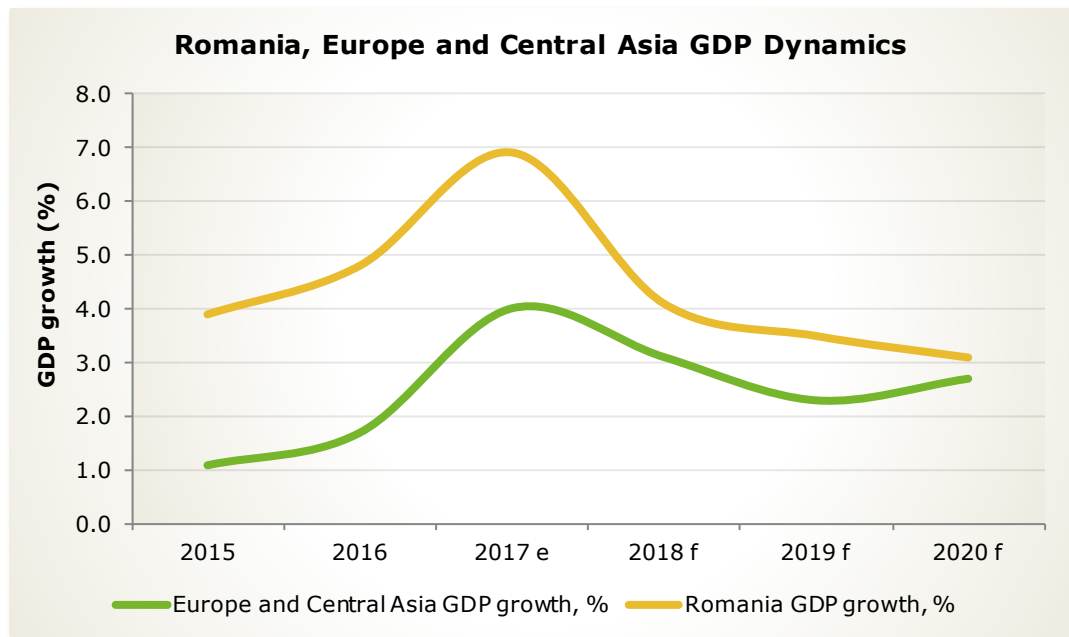
ROMANIA – MACROECONOMIC SNAPSHOT AS OF Q3 2018	
GDP Growth	4.3% y/y
Industrial output	4.1% y/y
Industrial sales	12.9% y/y
Wholesale	8.8% y/y
Retail	6.0% y/y
Average annual inflation	4.5%
Unemployment rate	3.9%
Number of building permits	-14.8% y/y
Money supply growth	10.1% y/y
Household loans	9.4% y/y
BET blue-chip index	-4.4% q/q
Gross external debt	EUR 96.800 bln
Current account deficit	EUR 3.211 bln
Net FDI inflow	EUR 1.323 bln
Foreign trade deficit	EUR 3.694 bln
Number of foreign tourist overnights	-2.8% 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 from 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 further decelerate and stabilise at about 3.2%

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, January 2019

According to the World Bank estimates from January 2019, GDP growth is likely to come in at 4.1% in 2018, down from 7.0% in 2017. This will be higher than the projected growth for Europe and Central Asia, of 3.1% in 2018.

2. REAL SECTOR

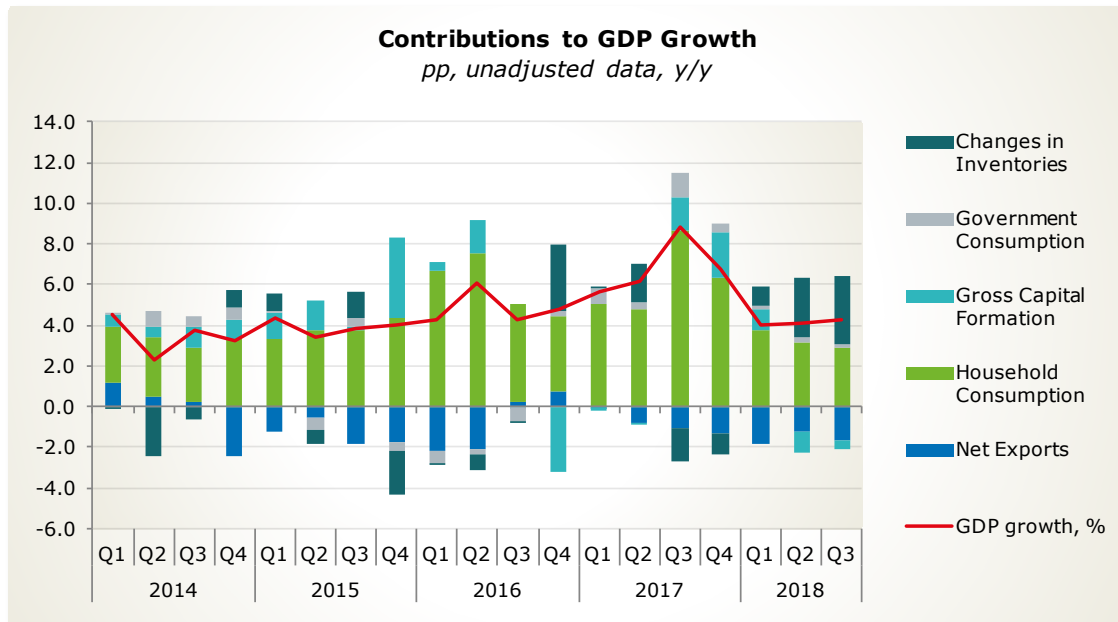
2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth at 4.3% y/y in Q3 2018, up from 4.1% y/y in Q2 2018

The country's GDP increased by a real 4.3% y/y and totalled RON 48.199 bln in Q3 2018, according to data from the National Institute of Statistics (INSSE). This is an improvement compared to the 4.1% growth in Q2 2018, but half the rise in Q3 2018.

Despite the annual economic slowdown, final consumption rose by 4.2% y/y in real terms in Q3 2018. Both household and government consumption went up, by 4.3% and 1.5%, respectively.

As a result, household consumption contributed with 2.9 pp to the overall y/y GDP expansion in Q3 2018, down from 3.2 pp in the previous quarter, while the contribution of the government consumption inched down to 0.1 pp from 0.3 pp.

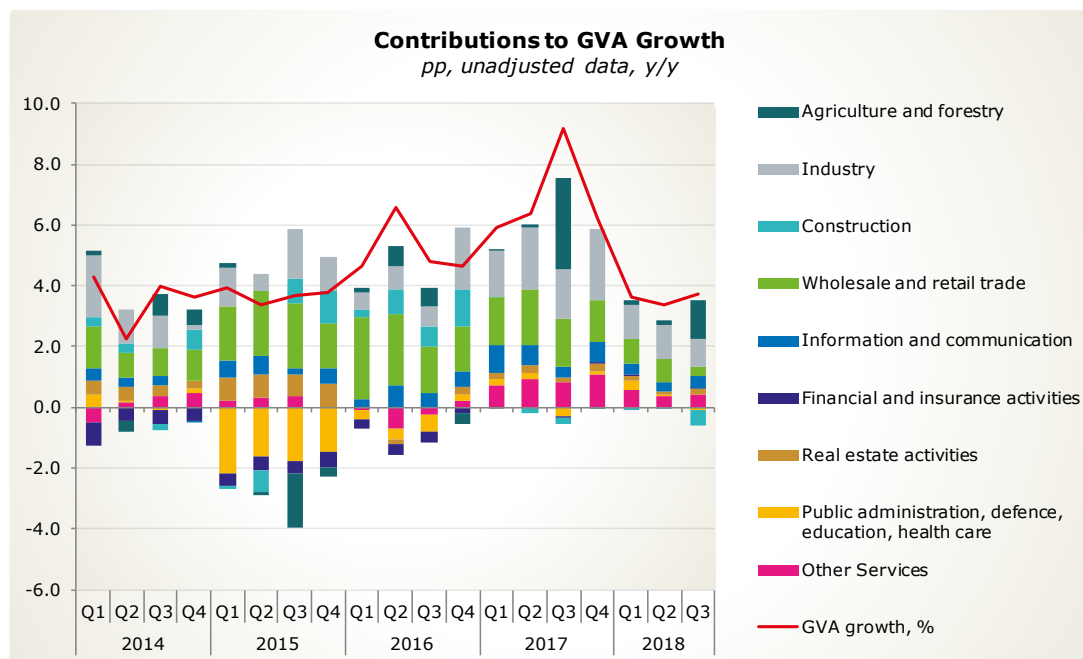


Source: INSSE; SeeNews calculations

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.

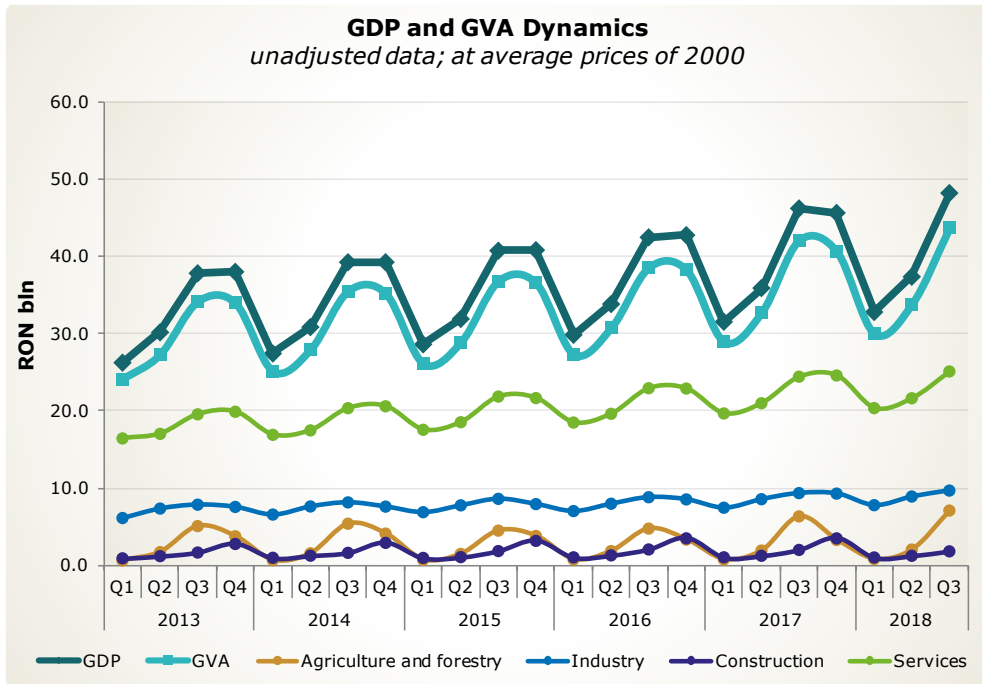
The gross value added (GVA) generated by the national economy went up by 3.7% y/y in the third quarter of 2018, totalling RON 43.691 bln. The industrial sector expanded by 3.5% y/y, while the services sector recorded a 2.8% annual increase. The agricultural sector registered an annual jump of 11.9%, while construction activity contracted by 9.3%.

The rise in the agriculture and forestry sector determined its leading position in terms of GVA growth contribution. The sector contributed 1.3 pp to the overall GVA increase, ahead of the industry sector with 1.0 pp.



Source: INSSE; SeeNews calculations

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

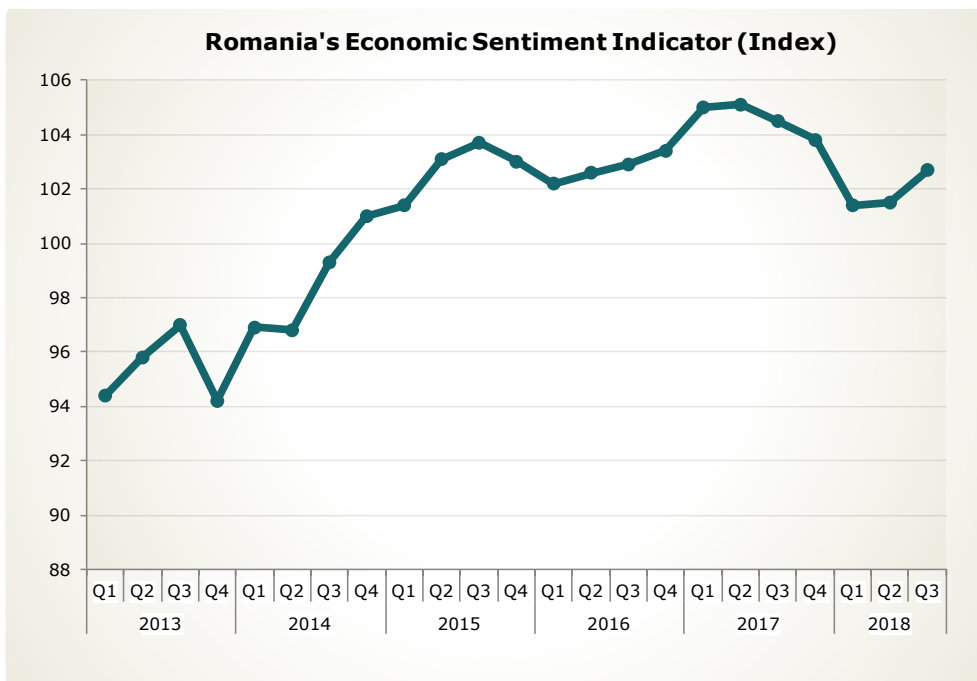


Source: INSSE

2.2. BUSINESS CLIMATE

Economic Sentiment Indicator at 102.7 points in September 2018

In September 2018, the Economic Sentiment Indicator (ESI) came in at 102.7 points, according to ECFIN. This is an improvement compared to the 101.5 points in June 2018, but a significant deterioration in comparison to a year earlier, when ESI amounted to 104.5 points. The worsening sentiment compared to Q3 2017 reflects the slowdown of the economic growth in the third quarter of 2018.



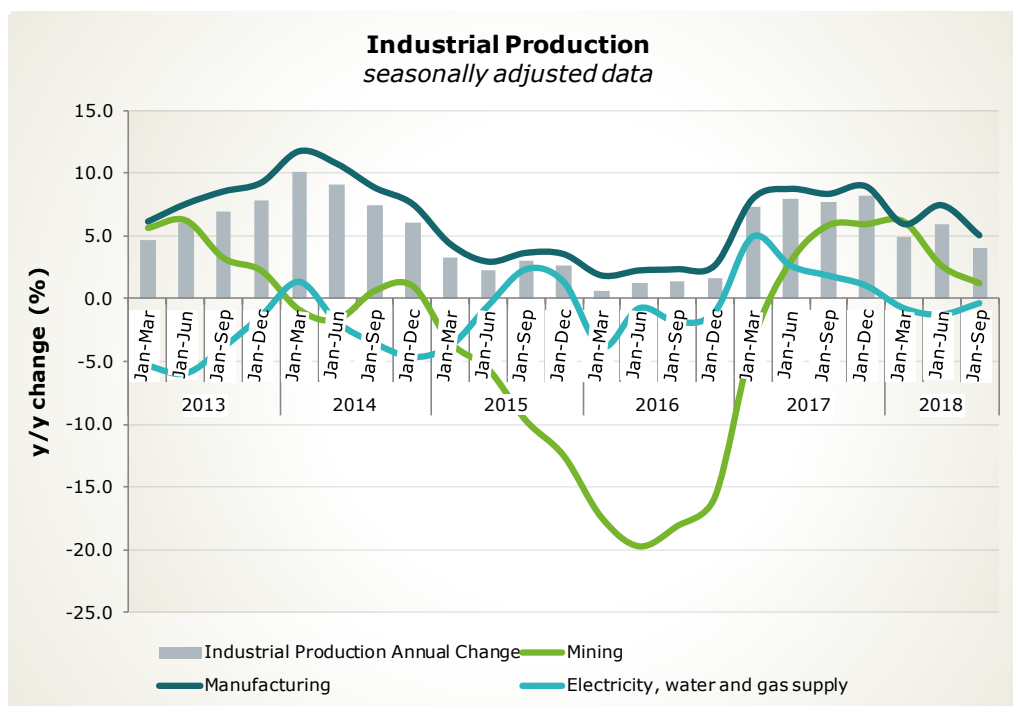
Source: Economic and Financial Affairs, European Commission

2.3. INDUSTRIAL OUTPUT

Industrial production grew by 4.1% y/y in Jan-Sept 2018

Industrial output rose by 4.1% on the year in the first nine months of 2018, according to INSSE. In comparison to the first half of the year, the industrial production uptrend lost 1.8 pp.

Manufacturing enterprises ramped up production by 5.0% on average in the period under consideration, slower than the 8.3% growth in January - September 2017. The mining segment increased its output by 1.2%, down from 5.8% y/y growth a year earlier. Electricity, water and gas supply production inched down by 0.4% y/y, a shift from the 1.8% annual rise in the first three quarters of 2017.

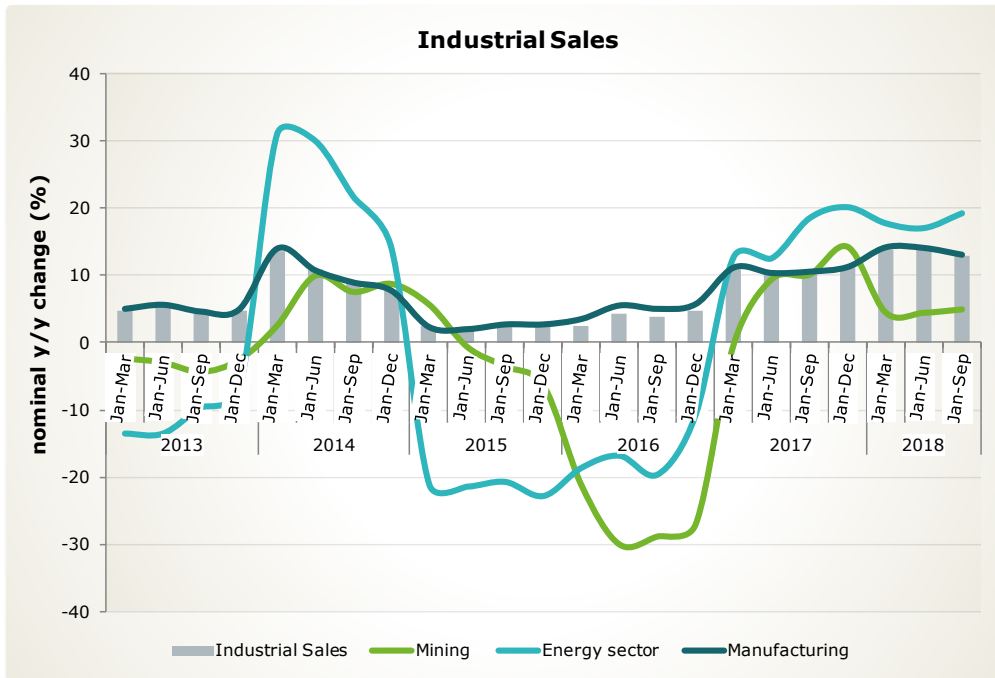


Source: INSSE

2.4. INDUSTRIAL SALES

Industrial sales went up by 12.9% y/y in Jan-Sept 2018 on manufacturing and energy

Industrial sales increased by 12.9% y/y in nominal terms in January - September 2018, according to INSSE data. The overall growth was supported by the rise in sales of the energy and manufacturing industries. Energy sales jumped by 19.3%, while sales in the manufacturing sector expanded by 13.1%. The mining sector also saw its sales grow, by 5.0%.



Source: INSSE

2.5. WHOLESALE/RETAIL

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

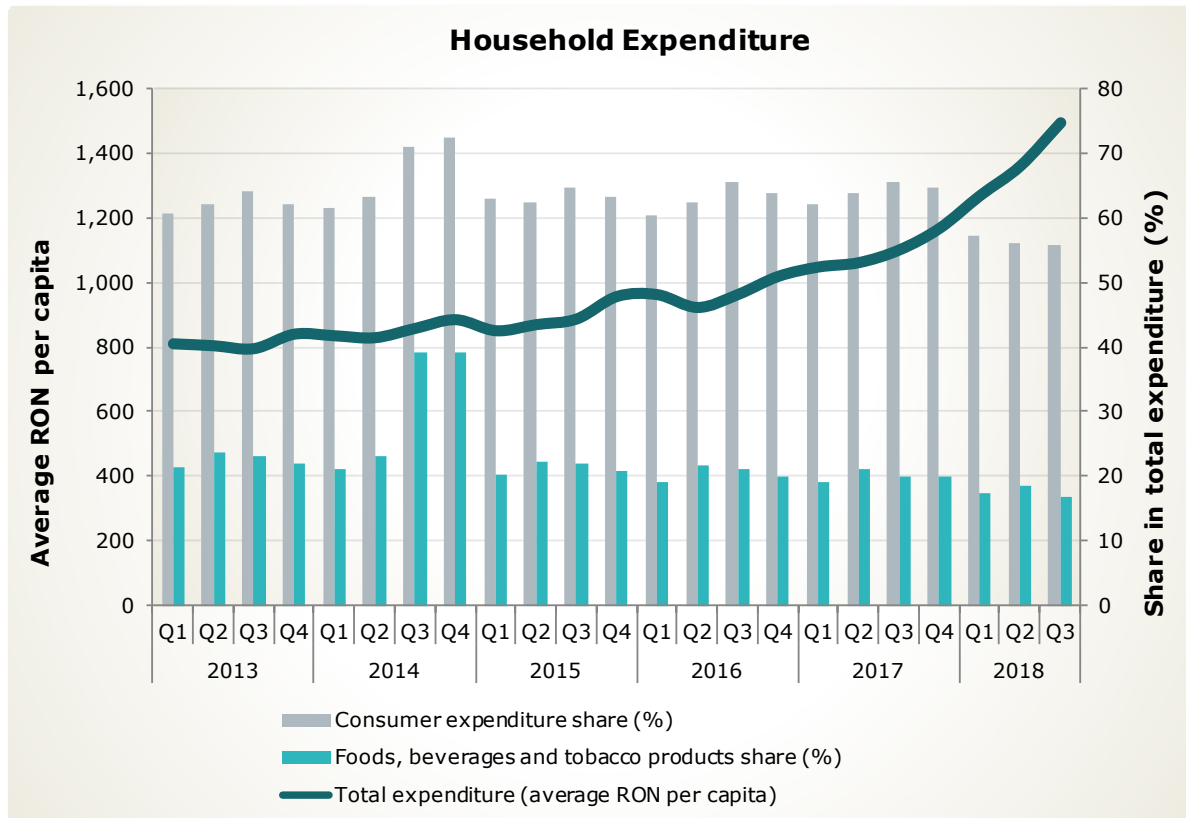
The annual growth of the wholesale and retail sectors remained solid in the first nine months of 2018, according to INSSE data. Retail sales went up by 6.0% y/y, while wholesale expanded by 8.8% y/y. The retail growth rate in January – September 2018 was much lower than the 10.1% annual rise a year earlier, while wholesale growth accelerated compared to the 7.0% annual increase in the first nine months of 2017.



Source: INSSE

Retail sales of food, beverages and tobacco increased by 7.0% y/y in January-September 2018, retail sales of non-food products went up by 7.1% y/y, while the turnover in volume terms of automotive fuel in specialised stores went up by 2.9%.

Household expenditures surged by 35.9% y/y in Q3 2018, driven by wage increases and lower VAT on consumer goods.



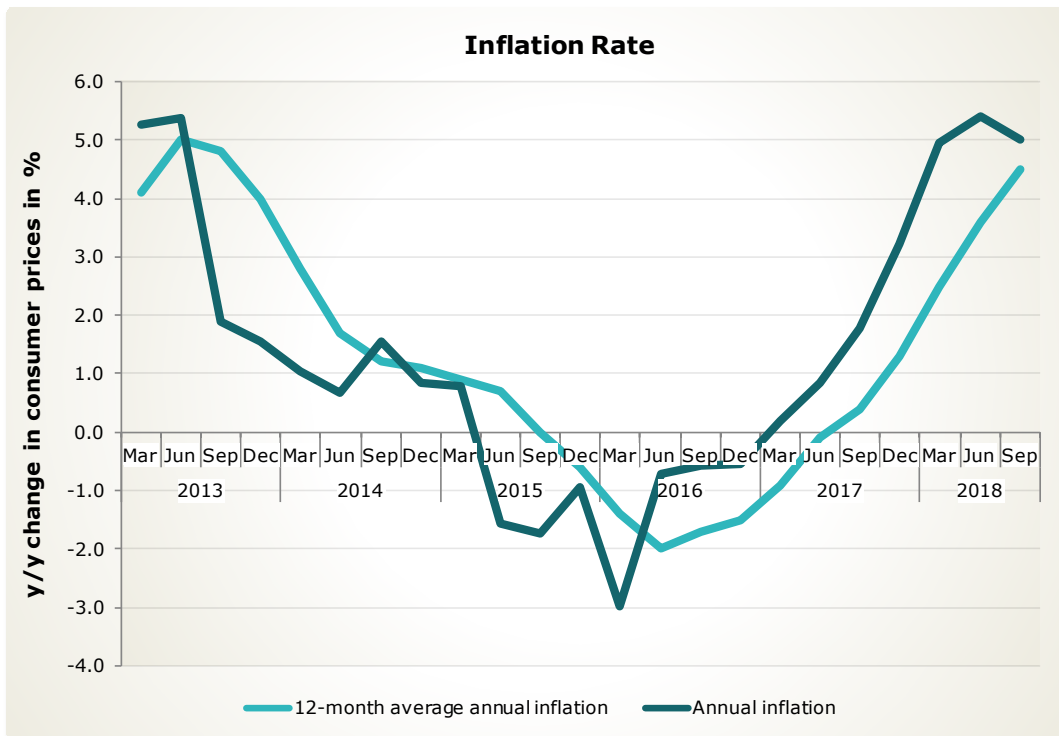
Source: INSSE

2.6. INFLATION

Inflation continues surging as of September 2018

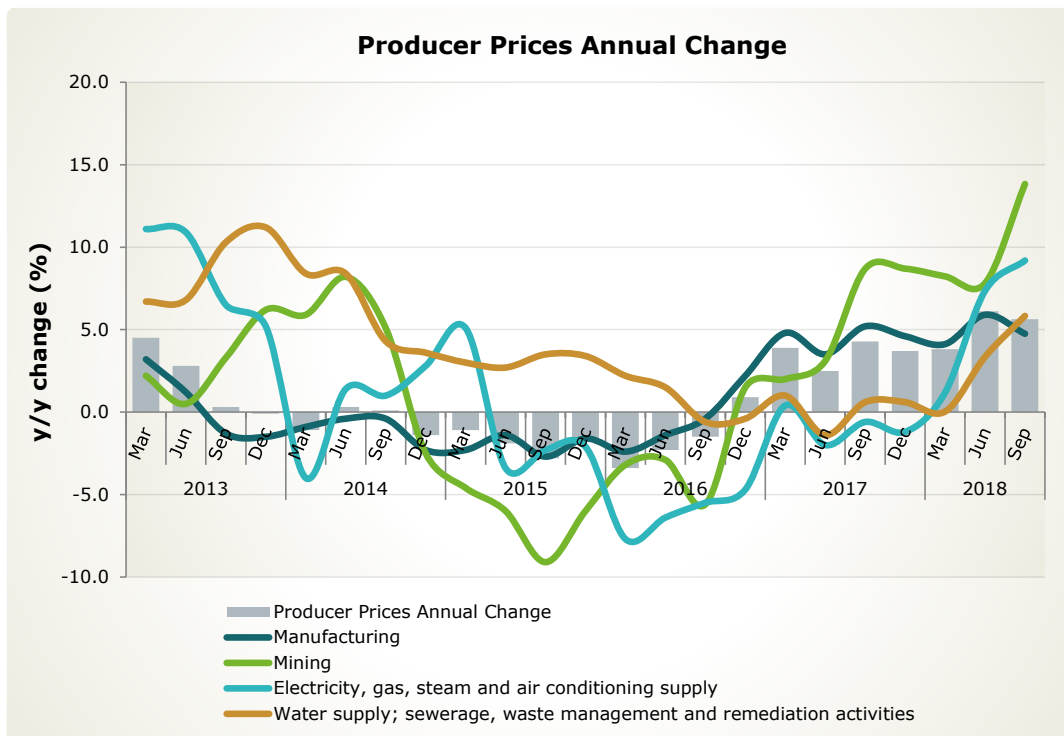
According to INSSE data, the average annual inflation rate in the period October 2017 - September 2018, compared to October 2016 - September 2017 stood at 4.5%. It was higher than the 3.6% recorded in July 2017 - June 2018.

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 2017, as well as from the electricity and natural gas price hikes in the beginning of 2018.



Source: INSSE

In September 2018, the producer price index grew by 5.6% 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 13.8%, while the bottom was for the manufacturing sector with 4.8%.



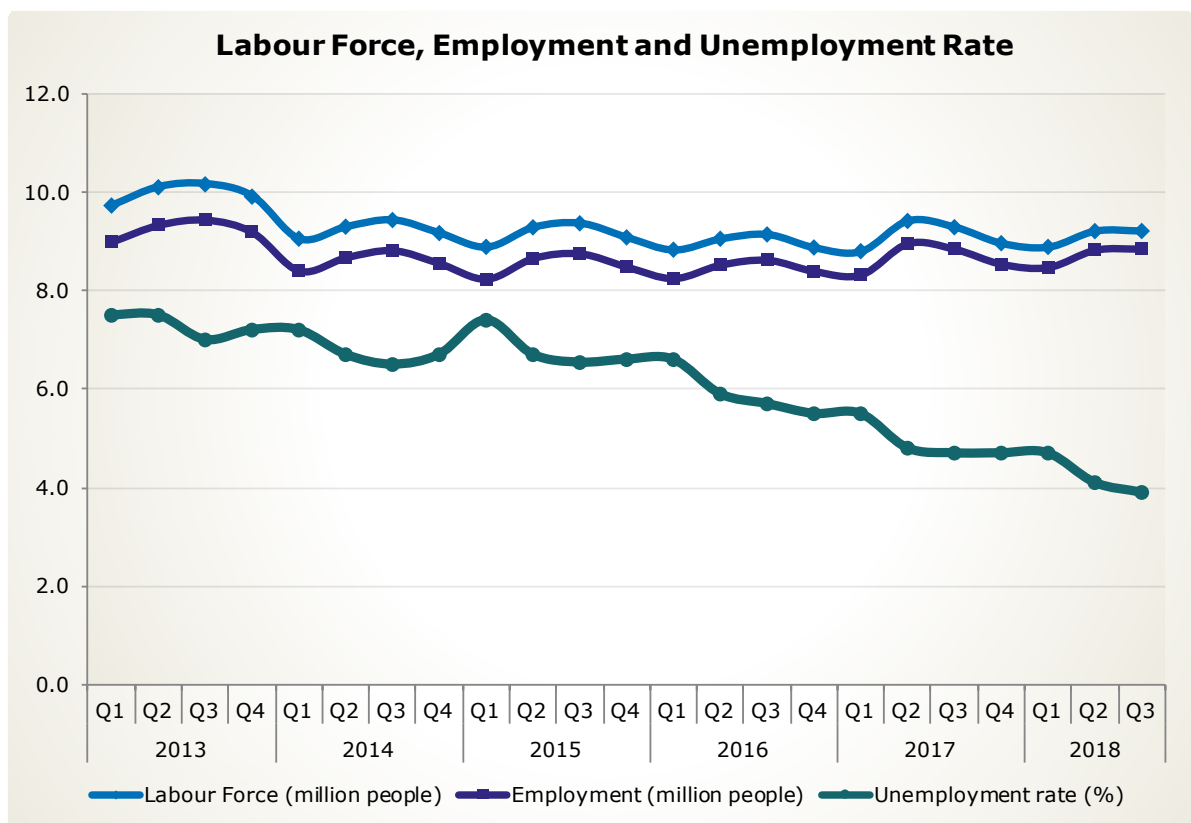
Source: INSSE

3. LABOUR MARKET

Unemployment rate narrows to 3.9% in Q3 2018

In the third quarter of 2018, the unemployment rate in Romania stood at 3.9%, down from 4.1% in the previous quarter and 4.7% in the corresponding quarter of the previous year, according to data of INSSE. The employed population aged 15 years and older was 8.857 million, up by 0.1% y/y. The youth (population aged 15-24) unemployment rate stood at 16.4%, up from 15.5% in Q2 2018, and slightly lower than the 16.9% reported in Q3 2017.

The tightening labour market pushed up net earnings in Q3 2018, when the average monthly net nominal wage came in at RON 2,688 – up by 13.1% y/y.



Source: INSSE

4. CONSTRUCTION AND REAL ESTATE

Number of building permits went down by 14.8% y/y in Q3 2018

The number of building permits issued in Romania in the third quarter of 2018 fell by 14.8% y/y, totalling 12,559, according to INSSE data. The drop was caused mainly by the 1.8% y/y

decline of permits for housing projects to 12,495. Permits for administrative buildings narrowed to 64 in Q3 2018 from 68 in Q3 2017.

Despite the lower number of permits for residential projects in Q3 2018, their total developed built-up area was by 8.1% higher than in the corresponding quarter of the previous year, reaching 3.070 million sq m. The total developed built-up area covered by the permits for administrative buildings came in at 43,000 sq m, compared to 40,100 in Q3 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 4.6468 in the third quarter of 2018 from RON 4.6521 in the previous quarter, according to National Bank of Romania (NBR).

RON Average Exchange Rate			
Foreign Currency	Q3 2018	Q2 2018	Q3 2017
EUR	4.6468	4.6521	4.5814
USD	3.9949	3.9021	3.9015
GBP	5.2068	5.3091	5.1047
CHF	4.0619	3.9607	4.0521

5.2. MONETARY POLICY

The national bank kept the policy rate at 2.50%

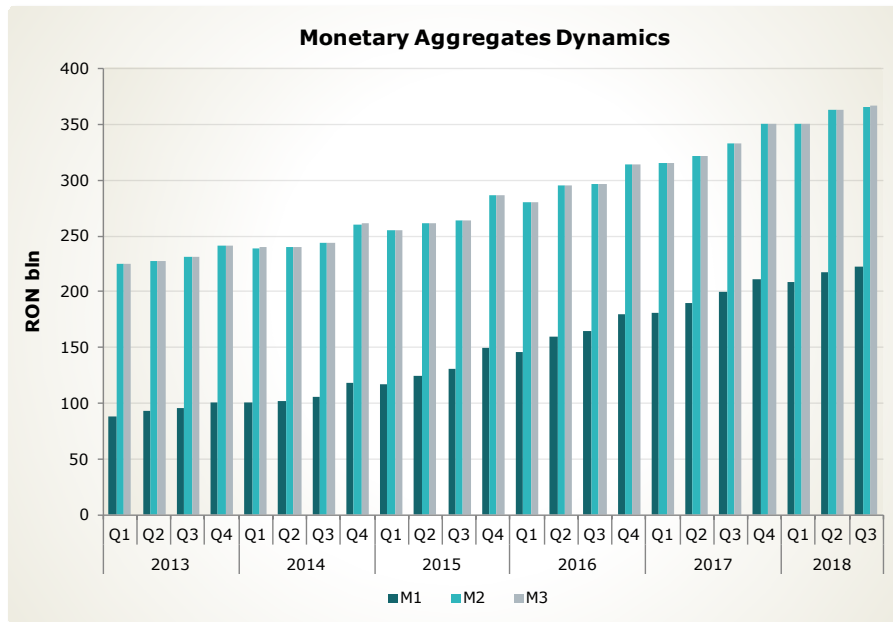
The NBR did not adjust the monetary policy stance, keeping the policy at 2.50% as of end-September 2018. The central bank kept the minimum reserve requirement ratios on both RON- and foreign currency-denominated liabilities of credit institutions at 8.0% as of December 2018.

5.3. MONETARY AGGREGATES

Money supply growth at 10.1% y/y in September 2018

Broad money (money aggregate M3) increased by 10.1% y/y and reached RON 366.3 bln in September 2018, according to data provided by NBR. The M2 money supply also grew, by 10.1% y/y, to RON 366.1 bln. Money aggregate M1, or narrow money, jumped by 11.3% y/y, to RON 222.5 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 9.4% y/y in Q3 2018 on strong house purchase credits

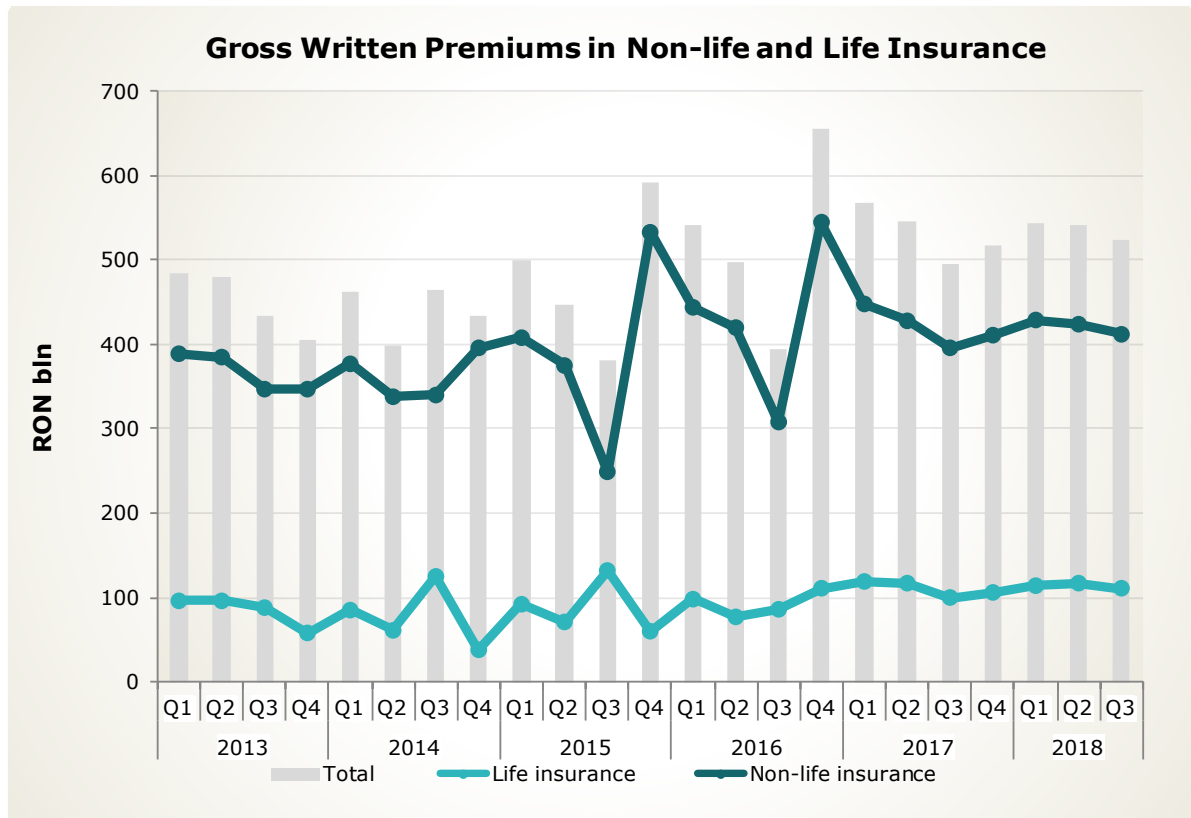
Loans to the non-government sector totalled RON 241.1 bln in Q3 2018, up by 6.4% y/y, according to NBR data. The bulk of the credit growth revival was a result of the 12.2% jump in house purchase loans to RON 71.654 bln. Loans to households went up by 9.4% to RON 131.3 bln, while loans to non-financial corporations rose by 3.1% y/y to RON 109.8 bln.



Source: NBR

Insurance premium income up by 5.4% y/y in Q3 2018

The total gross written premiums (GWP) of the non-life and life insurance companies totalled EUR 523.0 mln in Q3 2018, up 5.4% y/y, according to the Financial Supervisory Authority (ASF). Both non-life and life insurance enjoyed an annual GWP growth, of 4.0% and 11.0%, respectively.



Source: ASF

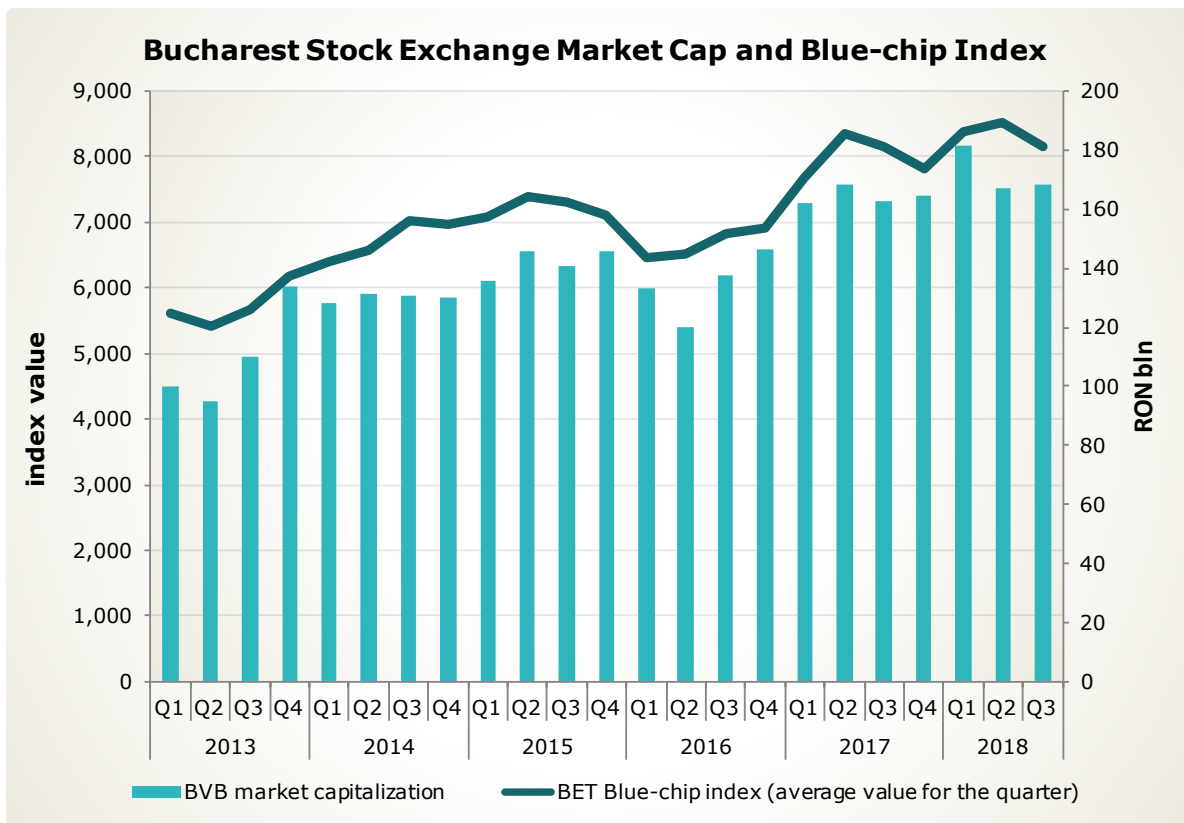
6. CAPITAL MARKETS

Blue-chip BET trended lower by 4.4% q/q in Q3 2018

The average value of BET, the blue-chip index of the Bucharest Stock Exchange (BVB), decreased by 4.4% q/q to 8,145 points in Q3 2018.

BVB's total market capitalisation came in at RON 168.4 bln, up 0.8% q/q.

The total turnover on BVB went down to RON 2.052 bln in Q3 2018, from RON 3.647 bln in Q2 2018.



Source: BVB

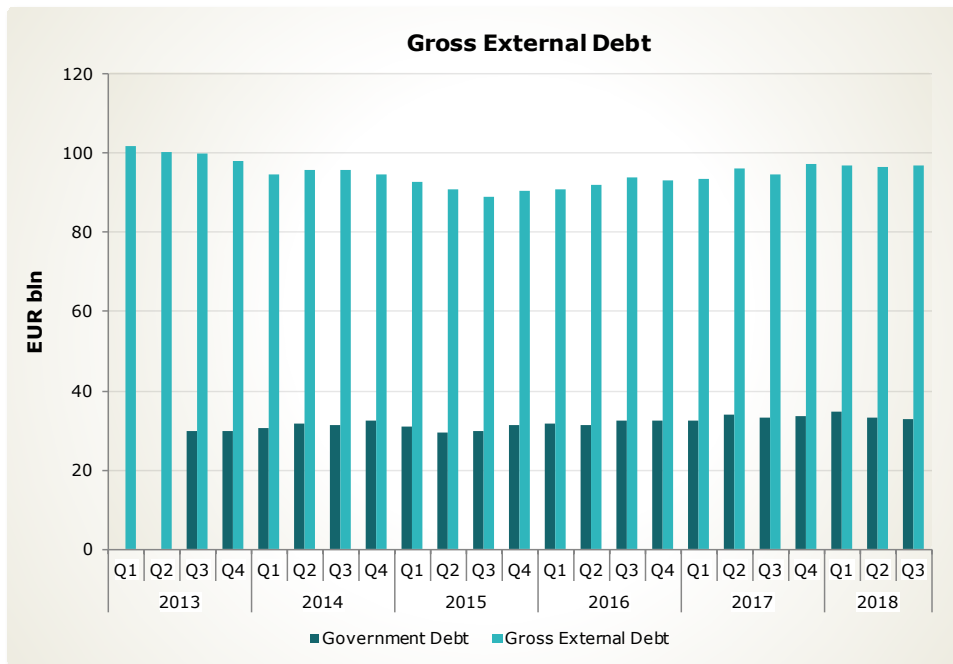
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

Gross external debt expanded by 2.4% y/y to EUR 96.800 bln in Q3 2018

Romania's gross external debt amounted to EUR 96.800 bln in Q3 2018, up by 2.4% compared to Q3 2017, according to NBR. In comparison to the previous quarter of 2018, the gross external debt increased by EUR 340.0 mln.

The long-term liabilities amounted to EUR 52.203 bln, or 53.9% of the total debt, and short-term liabilities totalled EUR 13.523 bln, equal to 14.0% of the total debt. Government debt narrowed by 0.7% y/y to EUR 32.971 bln.



Source: NBR

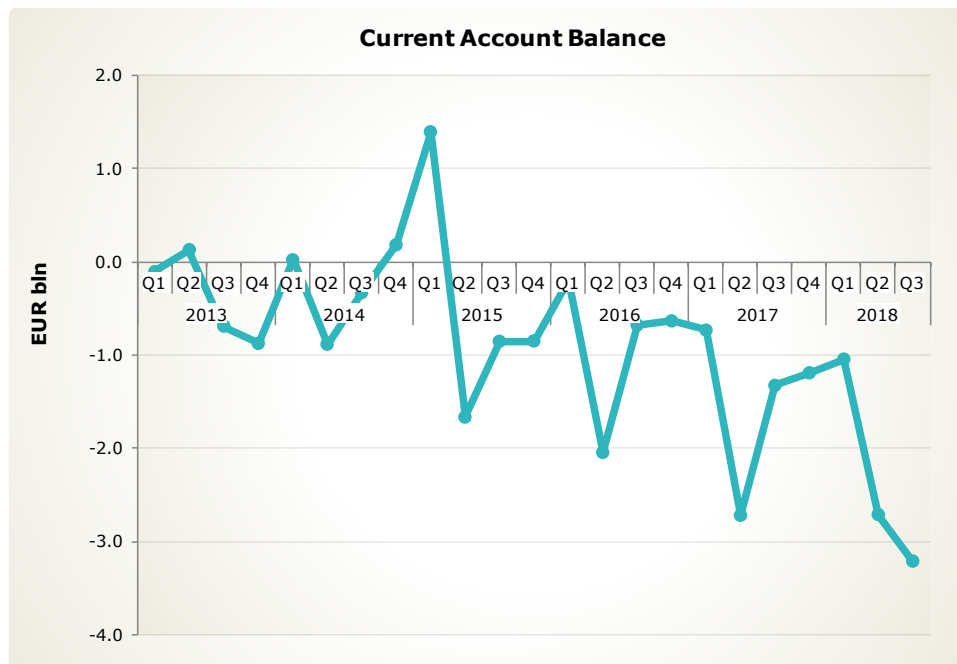
Editor's note: No data is available for Government Debt for Q1 and Q2 2013

7.2. BALANCE OF PAYMENTS

Current account gap widens y/y in Q3 2018

In Q3 2018, the current account deficit more than doubled y/y to EUR 3.211 bln, according to central bank statistics data.

Secondary income slumped by 34.6% y/y to EUR 503.0 mln in Q3 2018.

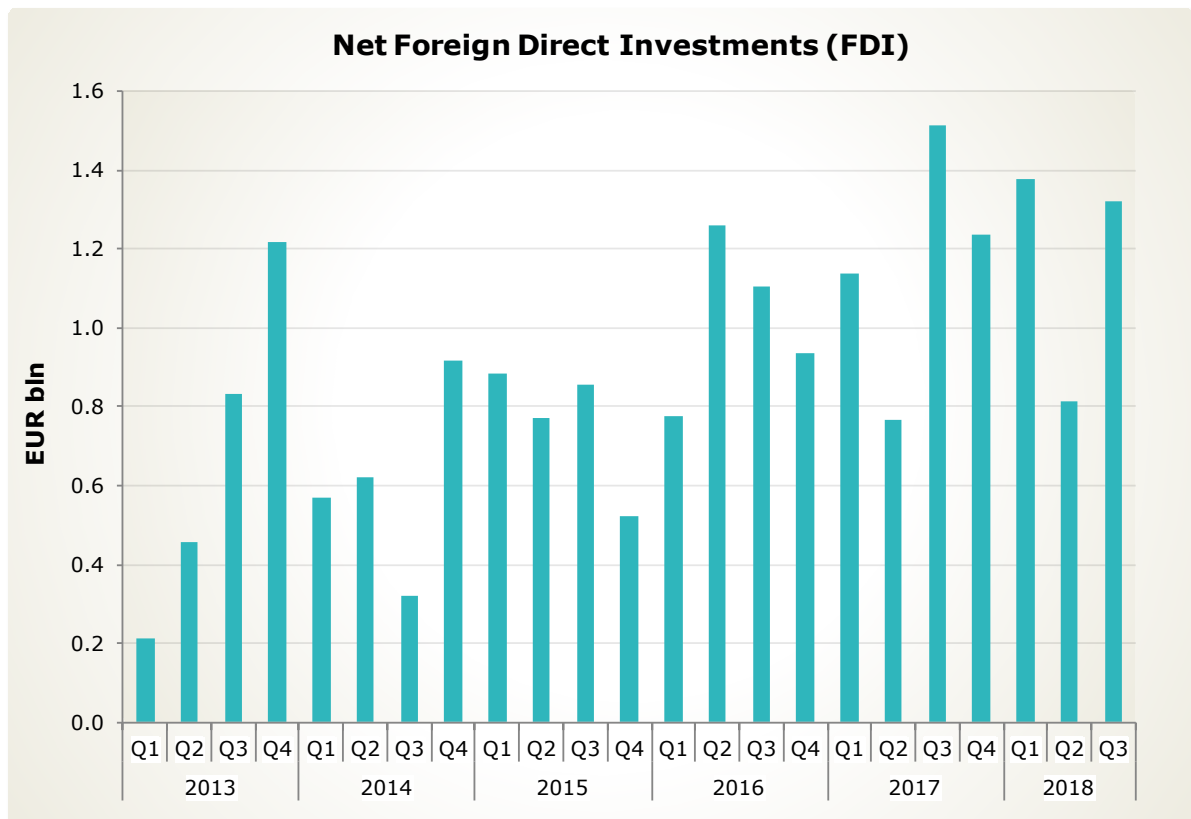


Source: NBR

7.3. FDI

Net FDI fell by 12.4% y/y in Q3 2018

Foreign direct investments (FDIs) in Romania totalled EUR 1.323 bln in Q3 2018, according to NBR. The FDIs decreased by 12.4% compared to the same quarter of 2017, but jumped by 62.1% compared to Q2 2018.



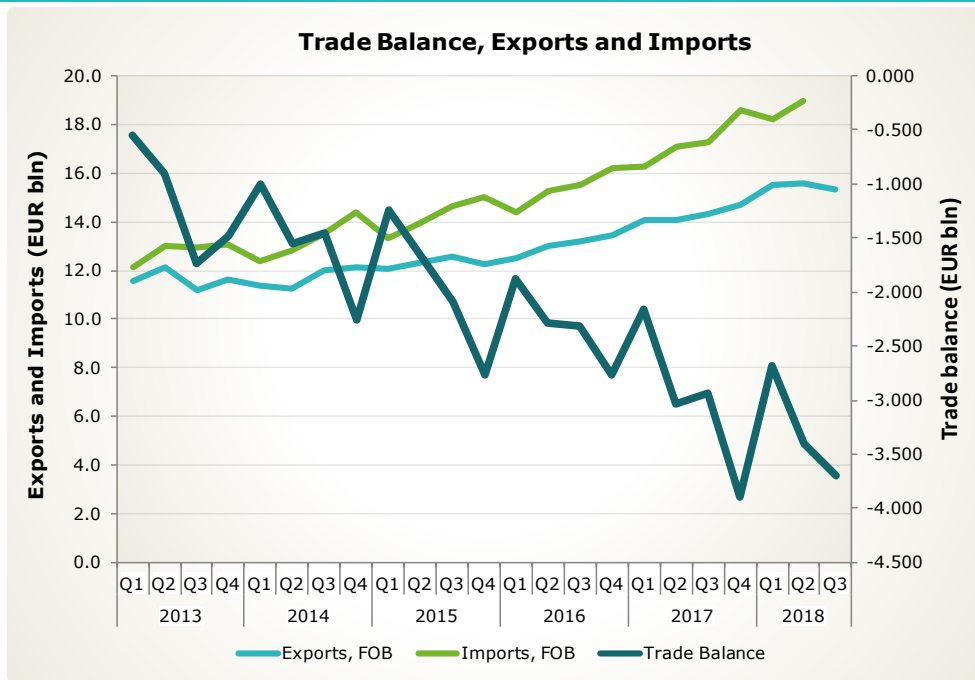
Source: NBR

7.4. FOREIGN TRADE

Foreign trade deficit widened by 25.9% y/y in Q3 2018

The trade deficit expanded to EUR 3.694 bln in Q3 2018, compared to EUR 2.935 bln in Q3 2017, according to NBR.

Imports grew by 10.4%, totalling EUR 19.050 bln, while exports grew slower, by 7.2%, amounting to EUR 15.356 bln.



Source: NBR

7.5. TOURSIM

Number of foreign tourist overnights declined by 2.8% y/y in Q3 2018

Tourist overnights of foreigners decreased by an annual 2.8% to 1.804 million in Q3 2018, according to INSSE data. The number of foreign tourists also fell – by 2.3% y/y to 938,209.

The share of foreign tourist overnights in the total number of overnights was 14.8% in the third quarter of 2018, or by 1.5 pp less than in the year-ago quarter.



Source: INSSE

8. MAJOR DEVELOPMENTS

Romania most economically free among SEE countries - Fraser Institute

Sep 25, 2018

Romania is once again the most economically free jurisdiction among 10 countries of Southeast Europe (SEE), the Fraser Institute said in its 2018 annual report on economic freedom in the world, published in September 2018.

[Read the full story here](#)

Romania, Greece least performant EU countries in VAT collection - EC

Sep 25, 2018

Romania and Greece were the least performant countries in VAT collection in 2016, according to a European Commission study released in September 2018. Uncollected VAT represents EUR 6.130 bln loss for Romania's 2016 budget.

[Read the full story here](#)

Romania's bio-products market to expand 30% in 2018

Sep 18, 2018

Romania's bio-products market is expected to grow by 30% in 2018 to EUR 20 mln, according to a research conducted by local online store Getbio.ro. Market participants estimate that the growth trend will continue until 2020.

[Read the full story here](#)

EIB lending Romania EUR 450 mln for rural development programme

Sep 17, 2018

The European Investment Bank (EIB) announced in September 2018 it is lending Romania EUR 450 mln to finance projects within its Rural Development Programme (RDP). The funds will support the modernisation of 3,000 farms and co-finance 400 projects focused on the processing and marketing of agricultural products as well as 750 schemes to improve services for the rural population.

[Read the full story here](#)

Romanian software, IT sector revenue to reach EUR 4.5 bln in 2018 - industry

Sep 12, 2018

The revenue generated by the software and IT services industry in Romania is expected to reach EUR 4.5 bln in 2018, the Software and Services Industry Employers' Association (ANIS) announced in September 2018. The total turnover of the IT sector increased, by 11% y/y, in 2017, reaching EUR 4.0 bln, according to ANIS.

[Read the full story here](#)

Romanian employers' Q4 2018 hiring intentions hit 10-year high - ManpowerGroup

Sep 11, 2018

Employers in Romania report the strongest fourth-quarter hiring intentions in 10 years and the most optimistic ones in Europe, on a par with Slovenia, recruitment company ManpowerGroup announced in September 2018. About 24% of Romanian employers intend to increase staff numbers in the fourth quarter of 2018, according to ManpowerGroup's Employment Outlook Survey.

[Read the full story here](#)

Romania's cigarette black market share grows to record 18.2% in July

Aug 16, 2018

The share of the cigarette black market in Romania expanded to 18.2% in July, up from 2017 average of 16%, with the bulk of contraband cigarettes coming from the country's northeastern neighbour Moldova, Romanian company Novel Research announced in August 2018. As much as 19.6% of all smuggled cigarettes originated in Moldova, down 0.4% percentage points y/y.

[Read the full story here](#)

EC refers Romania, Greece to court over failure to implement anti-money laundering rules

Jul 19, 2018

The European Commission (EC) announced in September 2018 it referred Romania and Greece to the Court of Justice of the EU for failing to implement the 4th Anti-Money Laundering Directive into their national law. The member states had until Jun 26, 2017 to transpose the 4th Anti-Money Laundering Directive into their national legislation.

[Read the full story here](#)

Romania signs EUR 400 mln loan deal with World Bank to improve disaster risk management

Jul 6, 2018

Romania's finance ministry said it has signed a EUR 400 mln loan agreement with the International Bank for Reconstruction and Development (IBRD), part of the World Bank group, to develop its disaster risk management policies.

[Read the full story here](#)

Talent shortage in Romania, highest among SEE countries – ManpowerGroup

Jul 4, 2018

Romania-based companies are facing most difficulty filling positions among countries in Southeast Europe (SEE), according to recruitment company ManpowerGroup. About 81% of Romanian companies are struggling in finding the right candidates for them, which places the country second only to Japan in the global ranking.

[Read the full story here](#)

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