

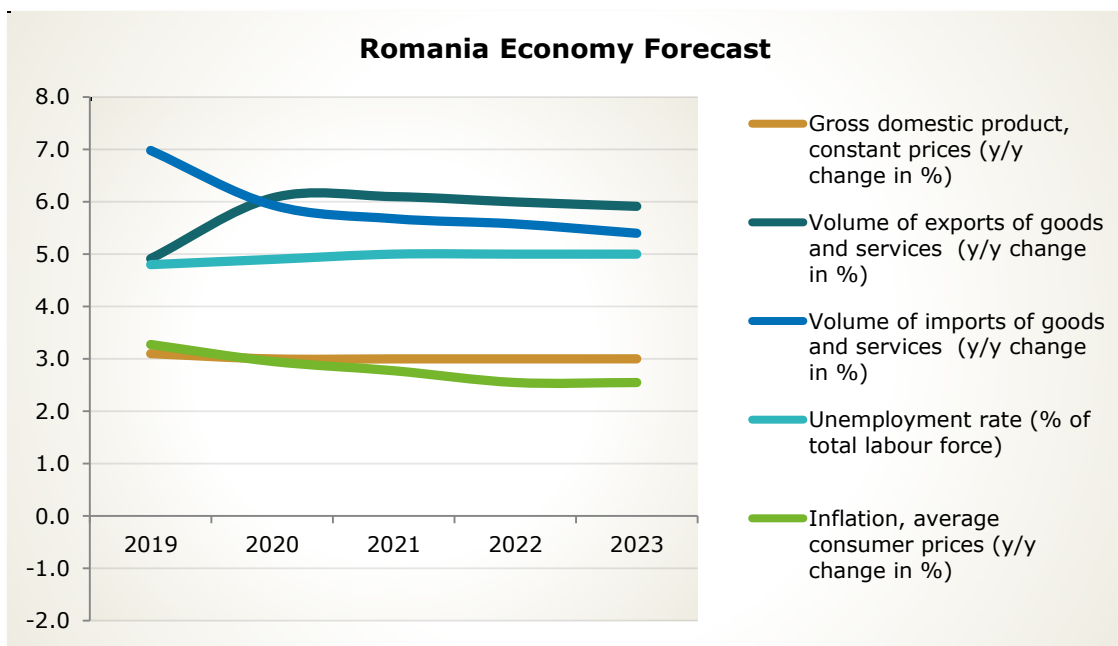
ROMANIA ECONOMY REPORT 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

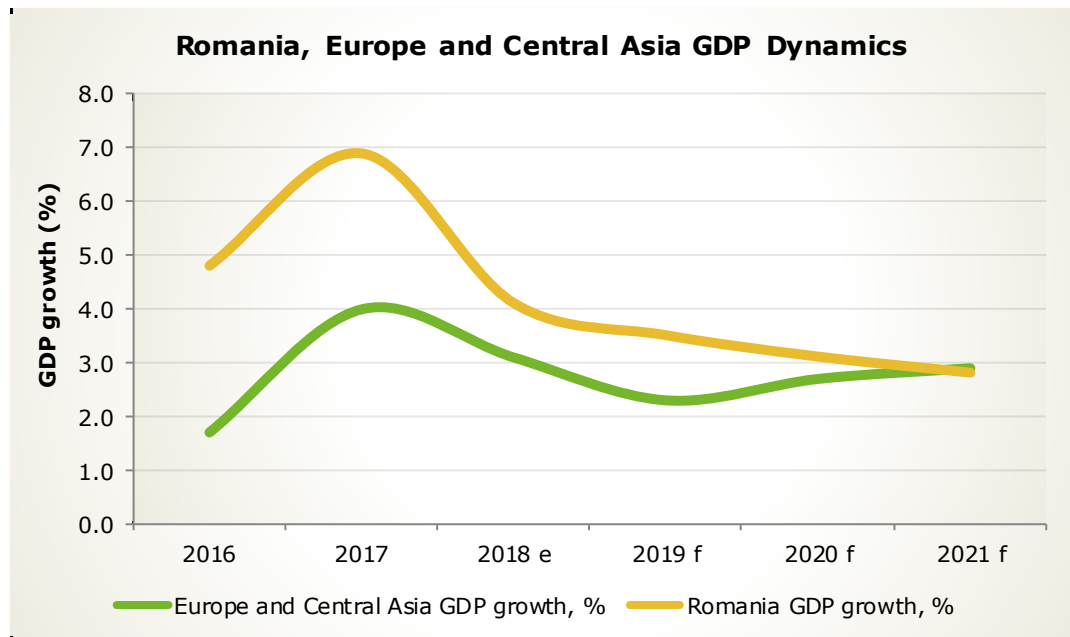
ROMANIA – MACROECONOMIC SNAPSHOT AS OF END 2018	
GDP Growth	4.1% y/y
Industrial output	3.5% y/y
Industrial sales	11.8% y/y
Wholesale	9.0% y/y
Retail	5.7% y/y
Average annual inflation	4.6%
Unemployment rate	4.2%
Number of building permits	-4.1% y/y
Money supply growth	8.7% y/y
Household loans	9.2% y/y
BET blue-chip index	3.5% q/q
Gross external debt	EUR 99.416 bln
Current account deficit	EUR 9.162 bln
Net FDI inflow	EUR 4.586 bln
Foreign trade deficit	EUR 14.846 bln
Number of foreign tourist overnights	0.7% 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, 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 6.9% in 2017. This will be higher than the projected growth for Europe and Central Asia, of 3.1% in 2018.

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)

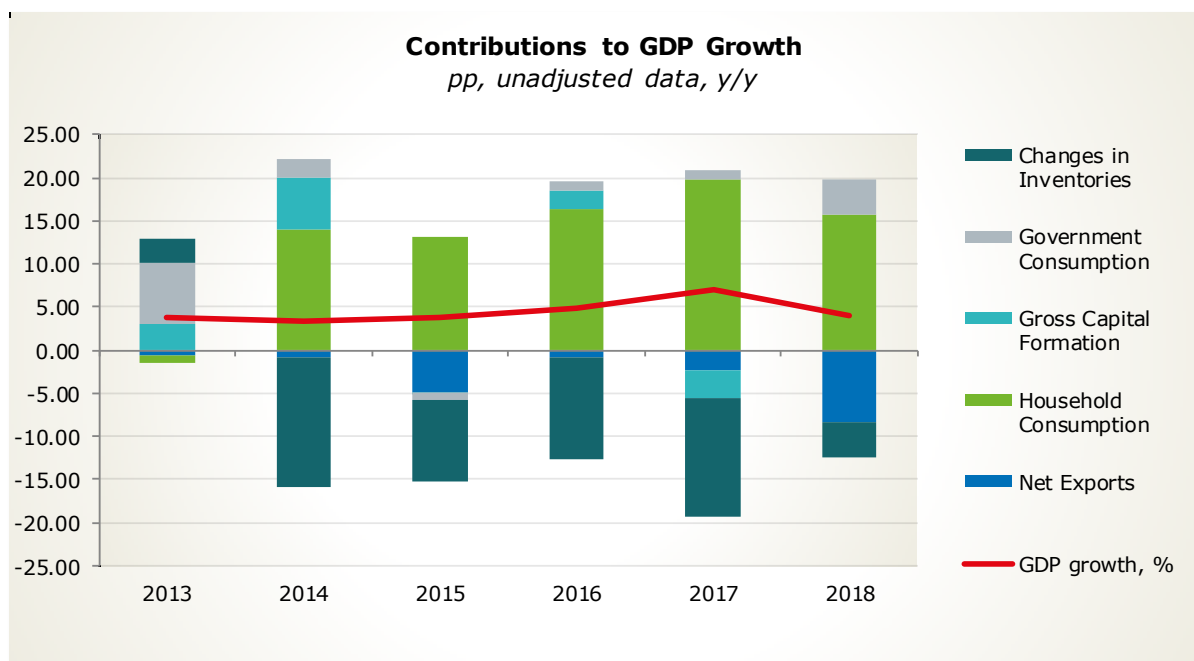
GDP growth at 4.1% y/y in 2018

The country's GDP increased by a real 4.1% y/y and totalled RON 164.923 bln in 2018, according to data from the National Institute of Statistics (INSSE). This is a slowdown compared to the annual growth of 7.0% in 2017.

Despite that, final consumption rose by 4.9% y/y in real terms in 2018. Both household and government consumption went up, by 4.7% and 9.9%, respectively.

As a result, the household consumption was the main contributor with 15.73 pp to the overall y/y GDP expansion in 2018, down from 19.83 pp in the previous year, while the contribution of the government consumption increased to 3.98 pp from 1.01 pp.

The gross capital formation, however, marked a sharp decrease in its contribution to the growth of the national economy in 2018. It fell by 3.1% y/y and took away 3.27 pp from the annual real GDP growth. Exports of goods and services grew by 5.4% y/y to RON 109.533 bln in 2018, while imports increased much faster, by 9.1% y/y to RON 184.515 bln.

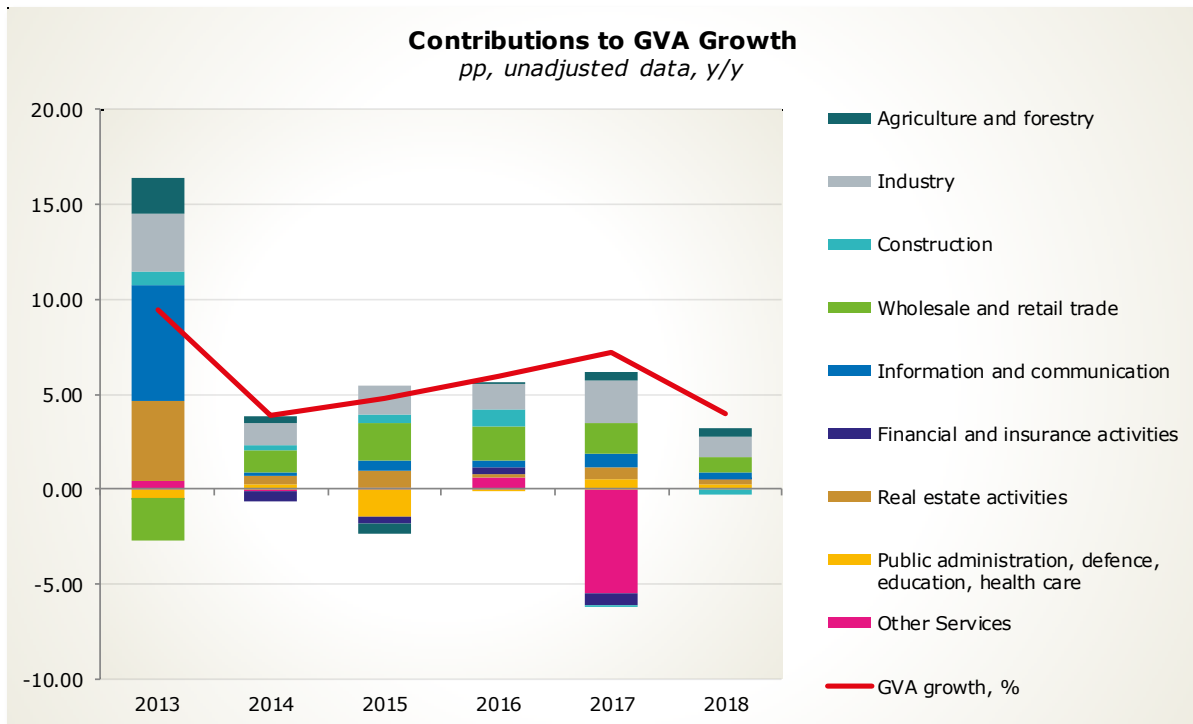


Source: INSSE; SeeNews calculations

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.

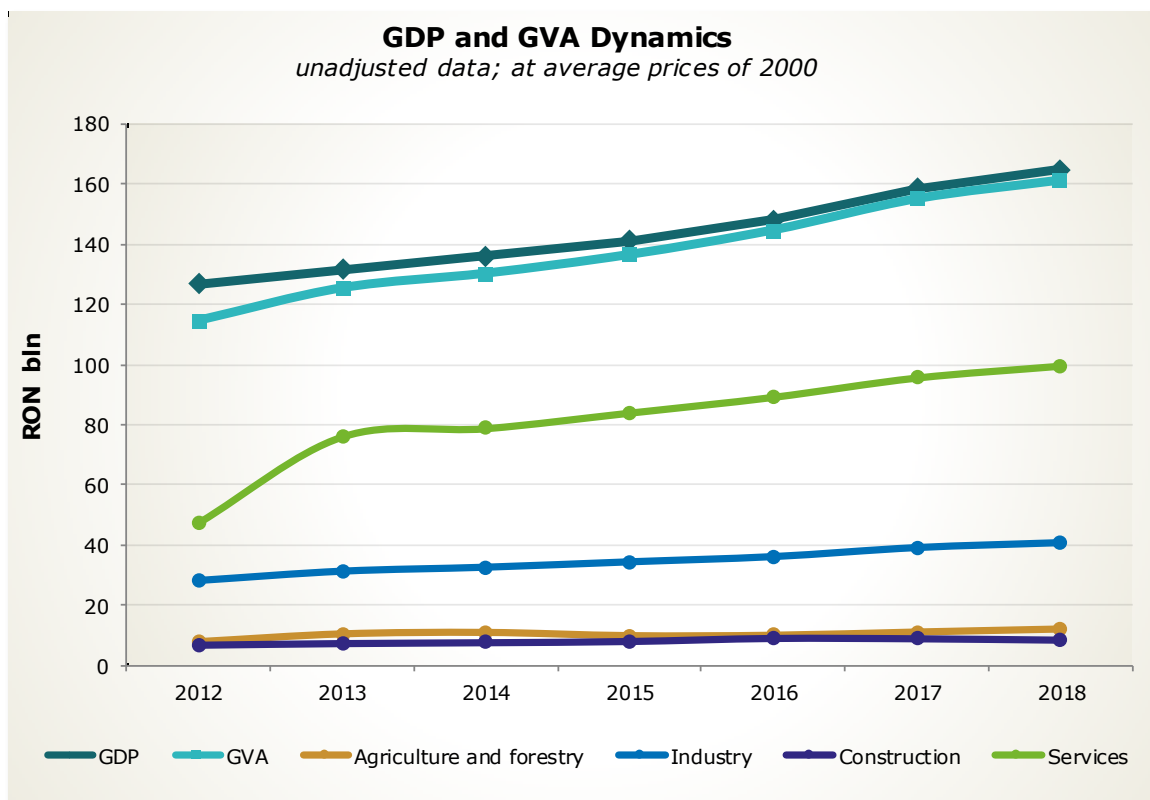
The gross value added (GVA) generated by the national economy went up by 4.0% y/y in the end of 2018, totalling RON 161.093 bln. The industrial sector expanded by 4.2% y/y, while the services sector recorded a slightly lower annual increase - 4.1%. The agricultural sector registered an annual jump of 9.4%, while construction activity contracted by 5.2%.

The rise in the industry sector determined its leading position in terms of GVA growth contribution. The sector contributed 1.11 pp to the overall GVA increase, ahead of the wholesale and retail trade sector with 0.77 pp.



Source: INSSE; SeeNews calculations

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

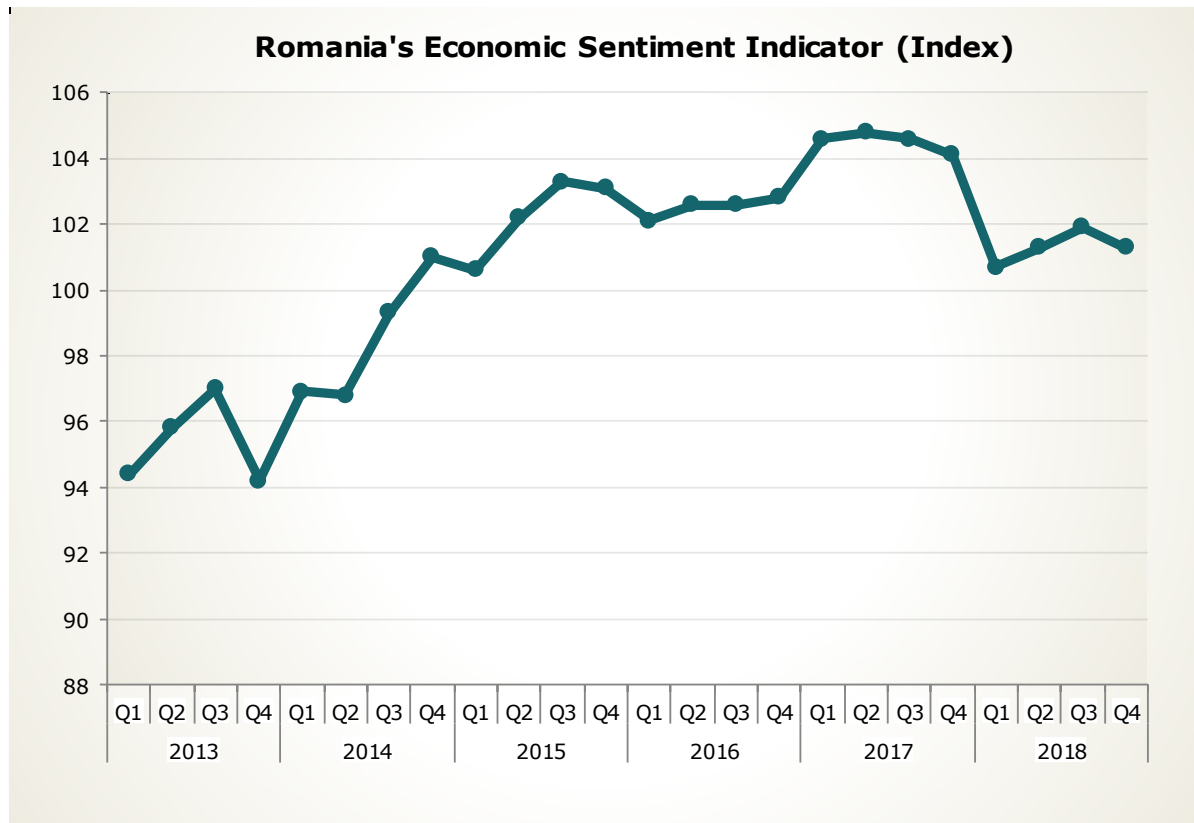


Source: INSSE

2.2. BUSINESS CLIMATE

Economic Sentiment Indicator at 101.3 points in December 2018

In December 2018, the Economic Sentiment Indicator (ESI) came in at 101.3 points, according to ECFIN. This is a falter compared to the 101.9 points in September 2018, and a significant deterioration in comparison to a year earlier, when ESI amounted to 104.1 points.



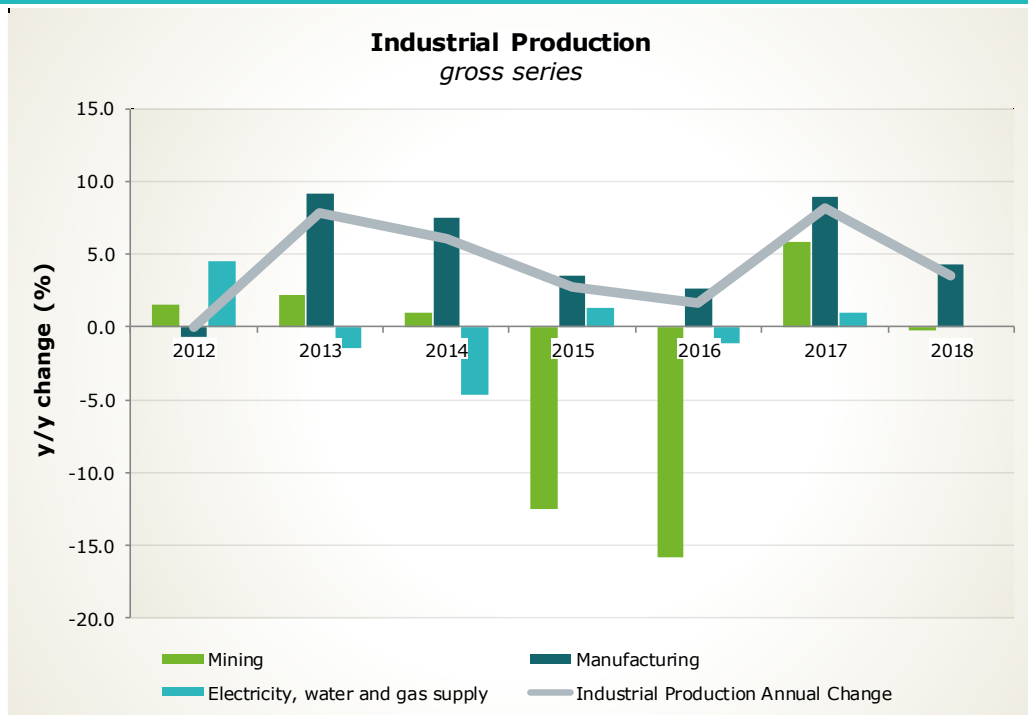
Source: Economic and Financial Affairs, European Commission

2.3. INDUSTRIAL OUTPUT

Industrial production growth remained positive in 2018

Industrial output expanded by 3.5% in 2018, according to INSSE. In comparison to a year earlier, the industrial production uptrend lost 4.7 pp.

Manufacturing enterprises were the only ones to register rise in production, up by 4.3% on average in the period under consideration, slower than the 8.9% growth in 2017. The mining segment inched down by 0.2%, a shift from the 5.9% y/y growth a year earlier. Electricity, water and gas supply production remained unchanged on the year.

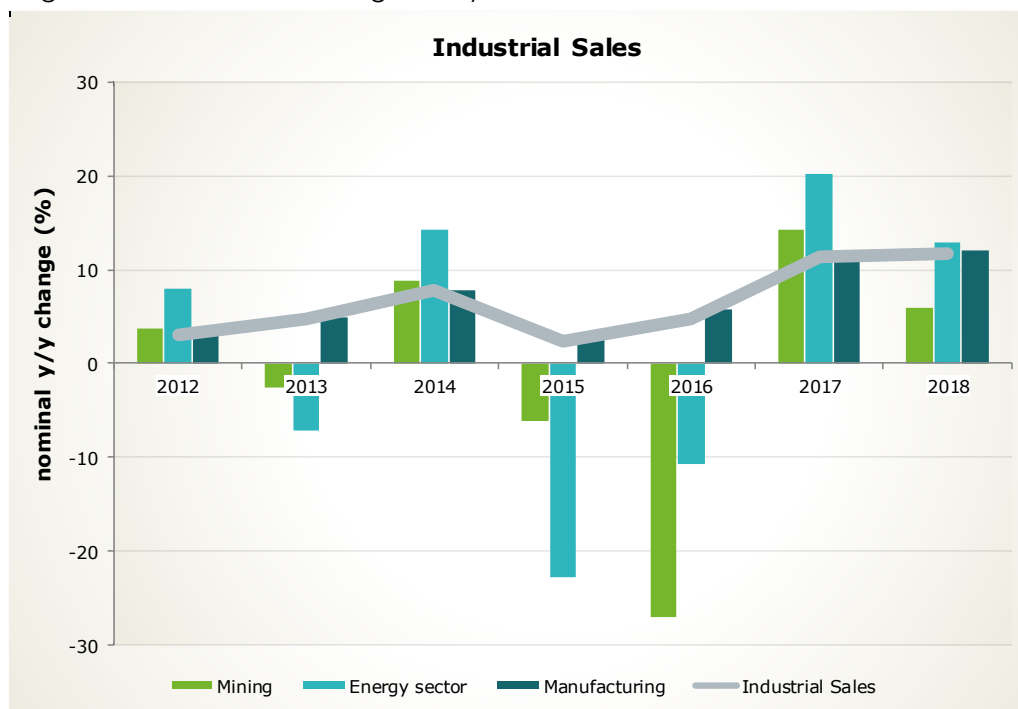


Source: INSSE

2.4. INDUSTRIAL SALES

Industrial sales went up by 11.8% y/y in 2018

Industrial sales increased by 11.8% y/y in nominal terms in 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 12.9%, while sales in the manufacturing sector expanded by 12.0%. The mining sector also saw its sales grow, by 6.0%.



Source: INSSE

2.5. WHOLESALE/RETAIL

Wholesale trade growth accelerated to 9.0% y/y in 2018, retail sector slowed its pace

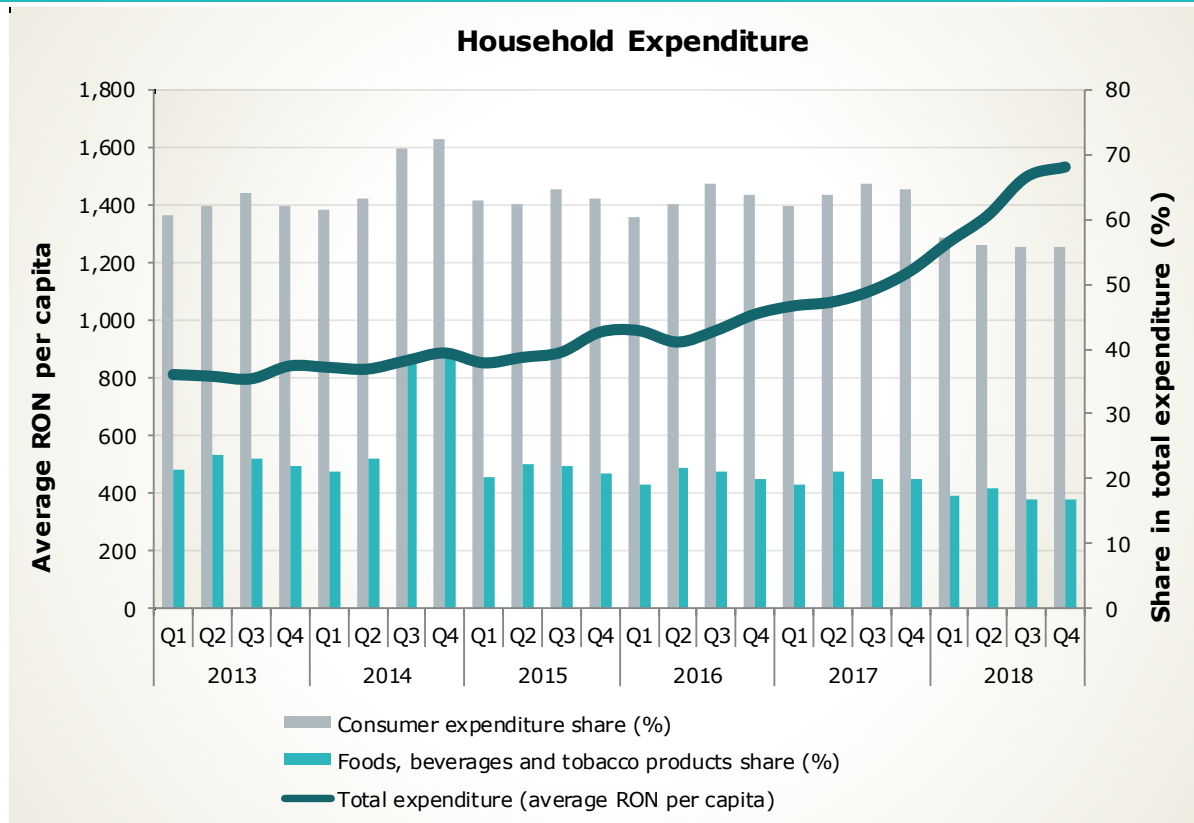
The annual growth of the wholesale and retail sectors remained solid throughout 2018, according to INSSE data. Wholesale expanded by 9.0% y/y, while retail sales went up by 5.7% y/y. The retail growth rate in 2018 was much lower than the 10.9% annual rise a year earlier, while wholesale growth accelerated compared to the 7.6% annual increase in 2017.



Source: INSSE

Retail sales of food, beverages and tobacco increased by 6.5% y/y in 2018, retail sales of non-food products went up by 6.4% y/y, while the turnover in volume terms of automotive fuel in specialised stores went up by 3.3%.

Among the wholesale segments, wholesale of intermediation activities occupied the top position in terms of annual growth with 17.4%, while wholesale of food, beverages and tobacco registered the lowest annual increase of 4.2%.



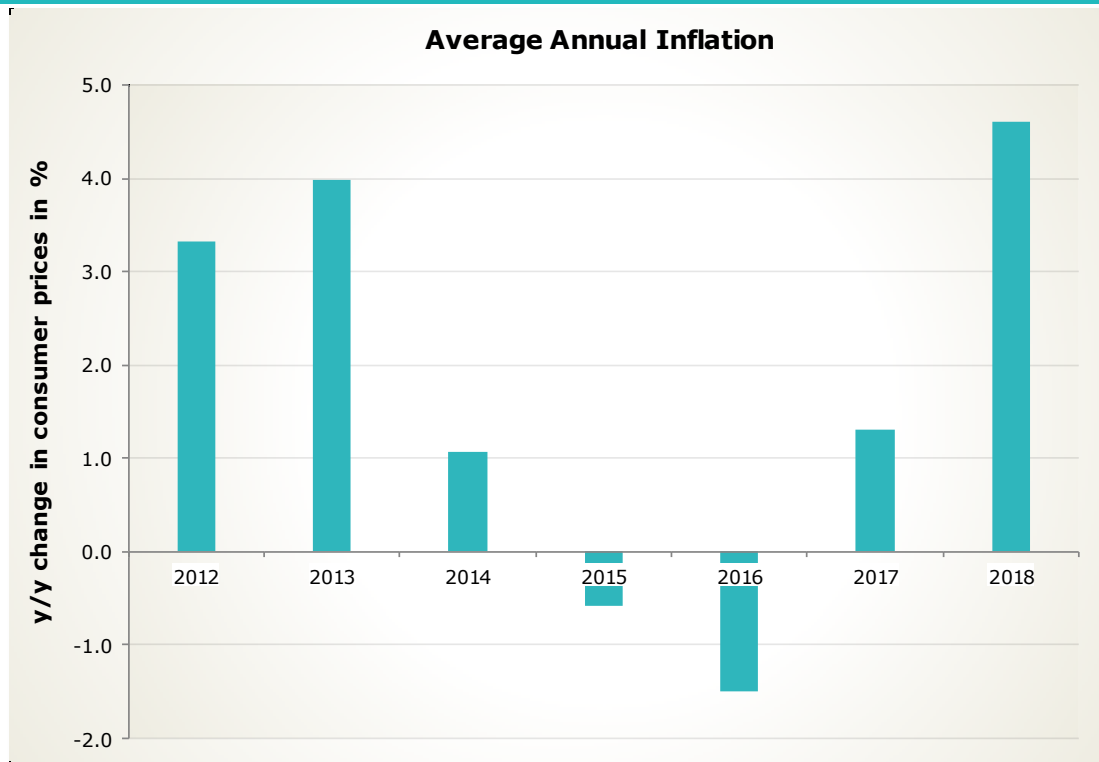
Source: INSSE

2.6. INFLATION

Inflation continues surging in 2018

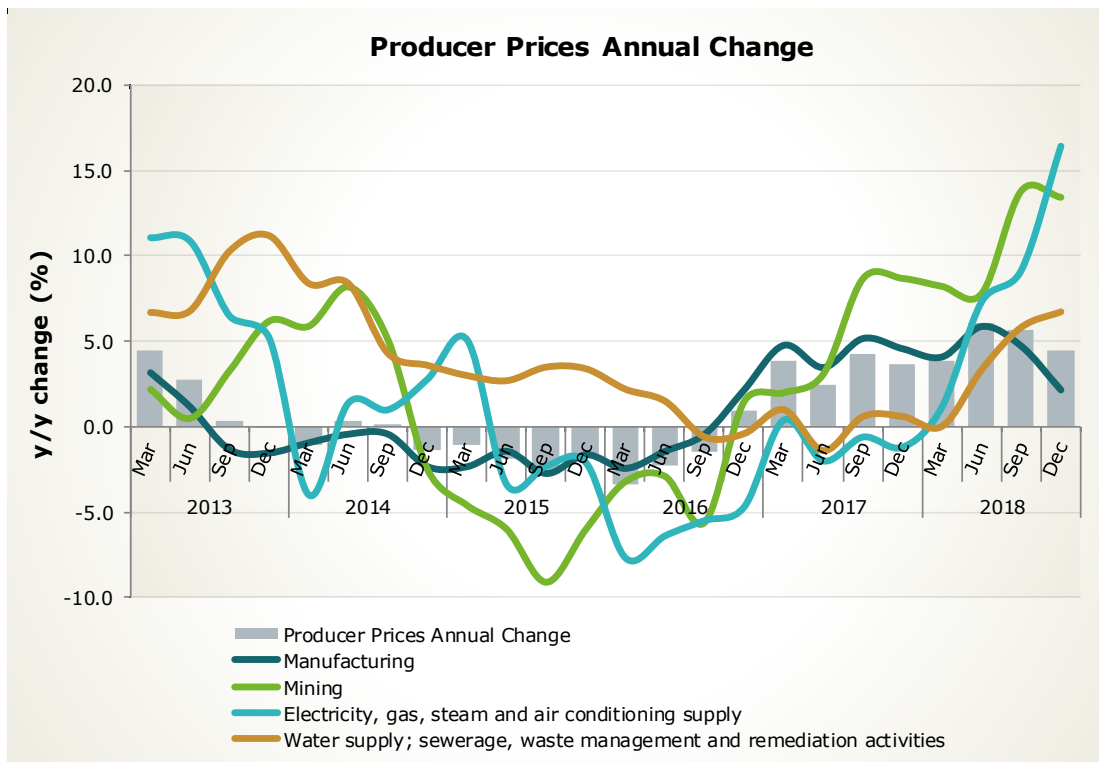
According to INSSE data, the average annual inflation rate in 2018 stood at 4.6%. It was higher than the 1.3% recorded in 2017.

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 December 2018, the producer price index grew by 4.5% y/y, driven to a larger extent by producer inflation pressure on the domestic market. There was no sector to report an annual decline in producer prices. In terms of highest annual rise, energy industry was on top with 16.5%, followed by mining with 13.5%, while the bottom was for the manufacturing sector with 2.2%.



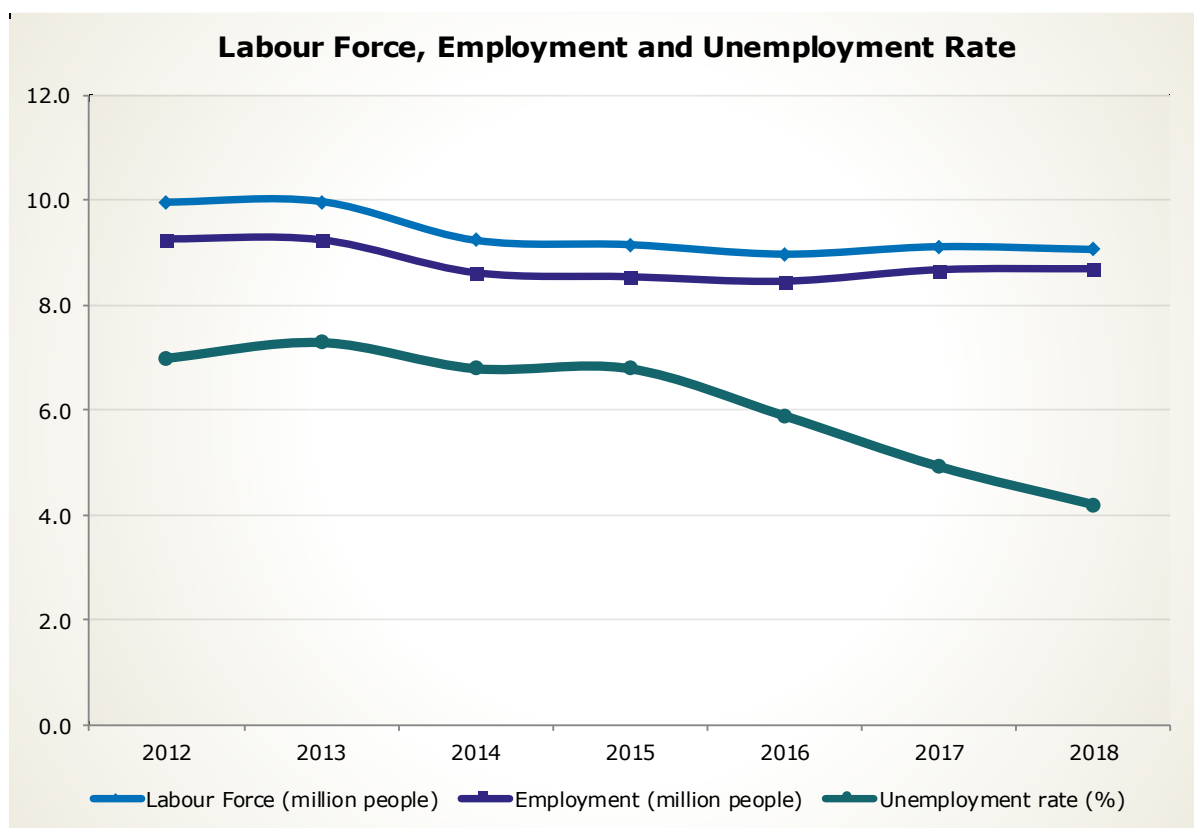
Source: INSSE

3. LABOUR MARKET

Unemployment rate narrowed to 4.2% in 2018

In 2018, the unemployment rate in Romania stood at 4.2%, down from 4.9% in the previous year and 5.9% in 2016, according to data of INSSE. The employed population aged 15 years and older was 8.689 million, up by 0.2% y/y. The youth (population aged 15-24) unemployment rate stood at 16.3%, down from 18.5% in 2017.

The tightening labour market pushed up net earnings in 2018, when the average monthly net nominal wage came in at RON 2,696 – up by 13.1% y/y.



Source: INSSE

4. CONSTRUCTION AND REAL ESTATE

Number of building permits went down by 4.1% y/y in 2018

The number of building permits issued in Romania in 2018 fell by 4.1% y/y, totalling 46,396, according to INSSE data. The drop was caused by the 6.3% y/y decline of permits for housing projects to 42,694 in 2017. Permits for administrative buildings numbered 255 in 2018, up from 204 in 2017.

Despite the lower number of permits for residential projects in 2018, their total developed built-up area was by 9.5% higher than in the previous year, reaching 10.672 million sq m. The total developed built-up area covered by the permits for administrative buildings came in at 289,300 sq m, compared to 196,500 in 2017, registering a significant increase of 47.2%.

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 4.6535 in 2018 from RON 4.5681 in the previous year, according to National Bank of Romania (NBR).

RON Average Exchange Rate			
Foreign Currency	2018	2017	2016
EUR	4.6535	4.5681	4.4908
USD	3.9416	4.0525	4.0592
GBP	5.2598	5.2143	5.4982
CHF	4.0301	4.1139	4.1195

5.2. MONETARY POLICY

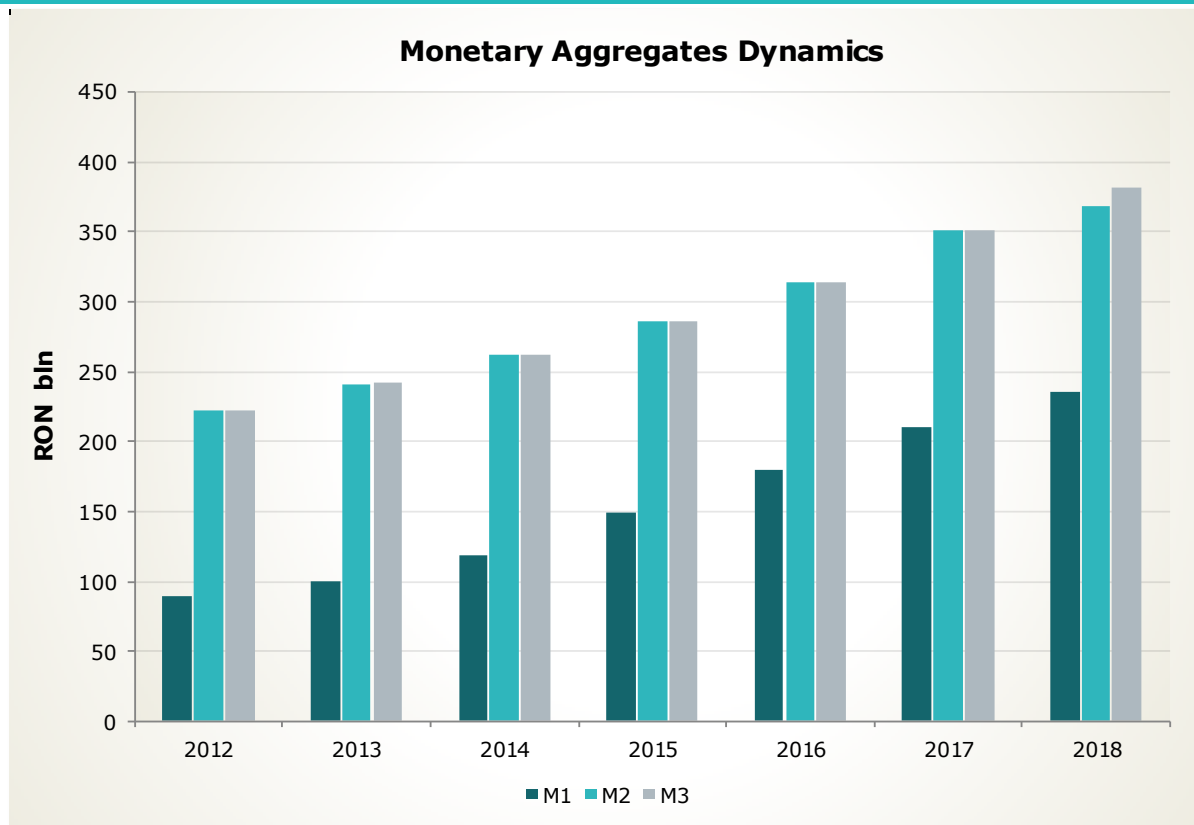
The national bank kept the policy rate at 2.50%

The NBR did not adjust the monetary policy stance, keeping the policy at 2.50% as of end-December 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 5.0% y/y in 2018

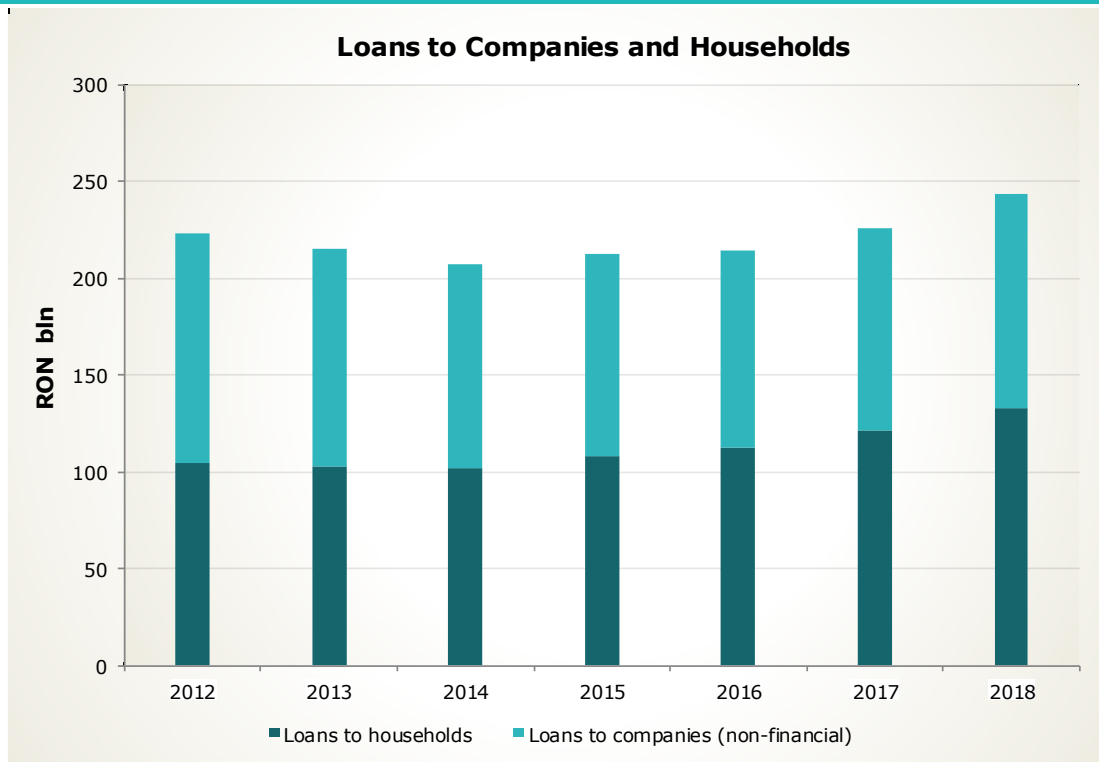
Broad money (money aggregate M3) increased by 8.7% y/y and reached RON 381.2 bln in 2018, according to data provided by NBR. The M2 money supply grew by 5.0% y/y to RON 368.2 bln. Money aggregate M1, or narrow money, jumped by 11.6% y/y, to RON 235.2 bln.



5.4. BANKING AND INSURANCE

Household loans went up by 9.2% y/y 2018 on strong house purchase credits

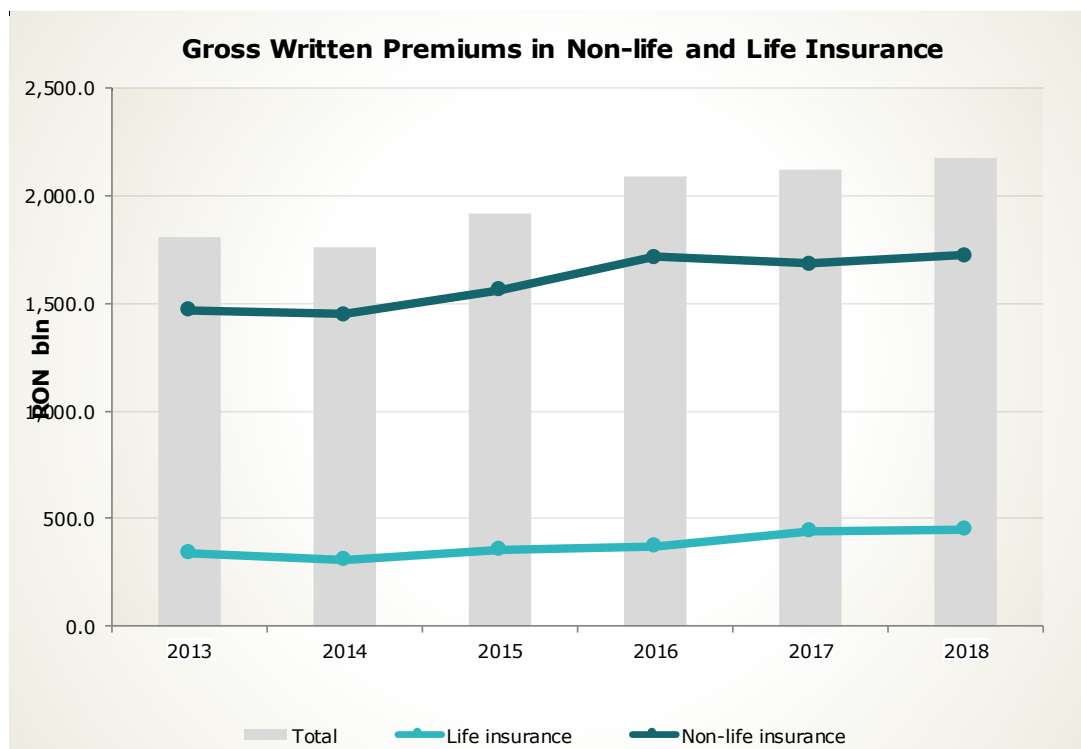
Loans to the non-government sector totalled RON 243.7 bln in 2018, up by 7.8% y/y, according to NBR data. The bulk of the credit growth revival was a result of the 11.1% jump in house purchase loans to RON 73.484 bln. Loans to households went up by 9.2% to RON 133.0 bln, while loans to non-financial corporations rose by 6.3% y/y to RON 110.7 bln.



Source: NBR

Insurance premium income up by 2.3% y/y in 2018

The total gross written premiums (GWP) of the non-life and life insurance companies totalled EUR 2.174 bln in 2018, up 2.3% y/y, according to the Financial Supervisory Authority (ASF). Both non-life and life insurance enjoyed an annual GWP growth, of 2.4% and 1.8%, respectively.



Source: ASF

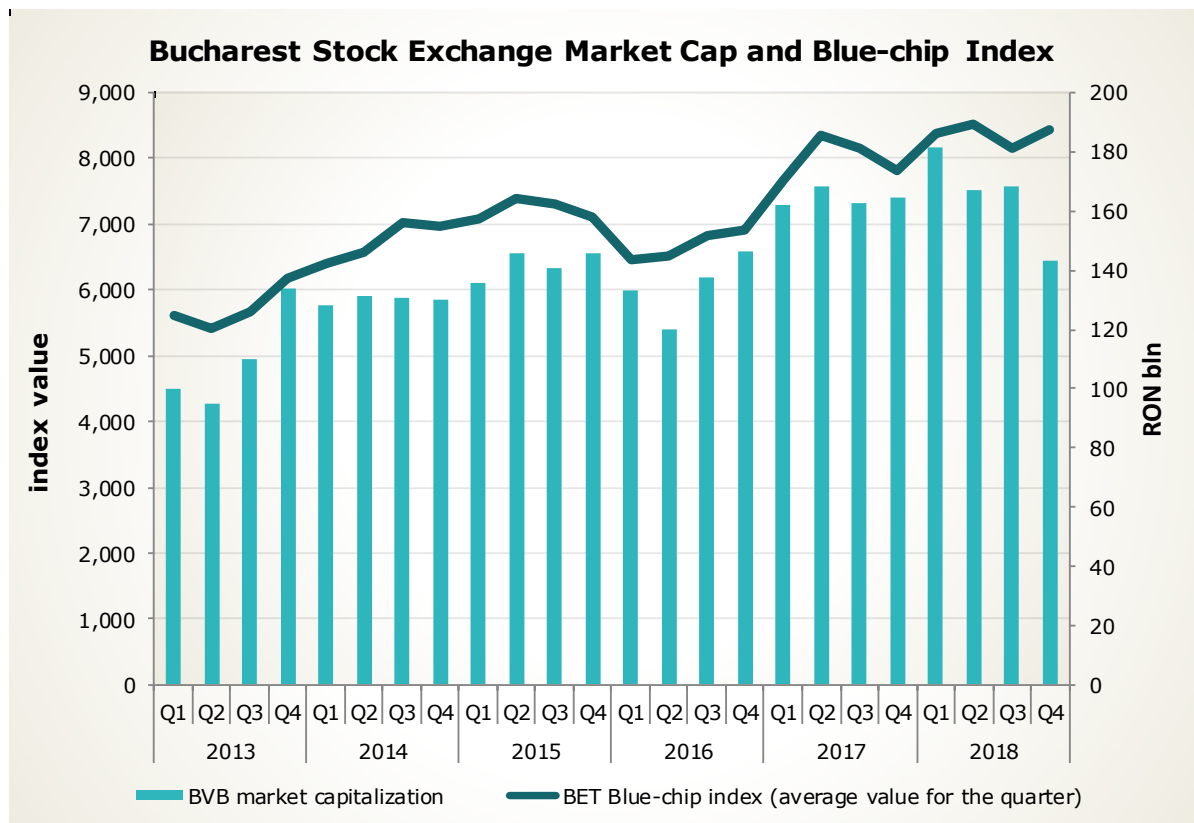
6. CAPITAL MARKETS

Blue-chip BET shifted upwards by 3.5% q/q in Q4 2018

The average value of BET, the blue-chip index of the Bucharest Stock Exchange (BVB), increased by 3.5% q/q to 8,431 points in Q4 2018, a shift from a 4.4% decrease in Q3 2018.

BVB's total market capitalisation came in at RON 143.0 bln, down 15.1% q/q.

The total turnover on BVB more than doubled to RON 4.559 bln in Q4 2018, from RON 2.052 bln in Q3 2018.



Source: BVB

7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

Gross external debt expanded by 2.1% y/y to EUR 99.416 bln in Q4 2018

Romania's gross external debt amounted to EUR 99.416 bln in Q4 2018, up by 2.1% compared to Q4 2017, according to NBR. In comparison to the previous quarter of 2018, the gross external debt increased by EUR 818.0 mln.

The long-term liabilities amounted to EUR 53.734 bln, or 54.0% of the total debt, and short-term liabilities totalled EUR 13.850 bln, equal to 13.9% of the total debt. Government debt rose by 3.2% y/y to EUR 34.842 bln.



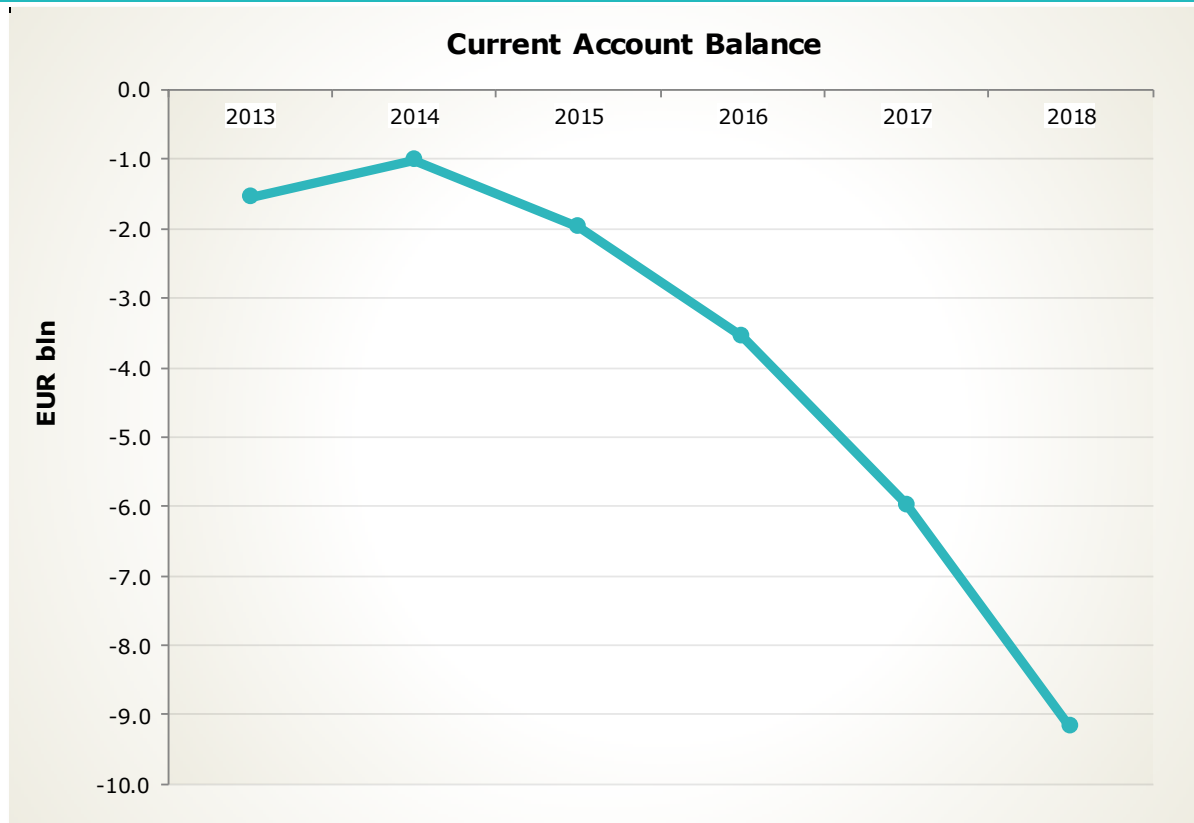
Source: NBR

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 2018

In 2018, the current account deficit extended by 53.5% y/y to EUR 9.162 bln, according to central bank statistics data.

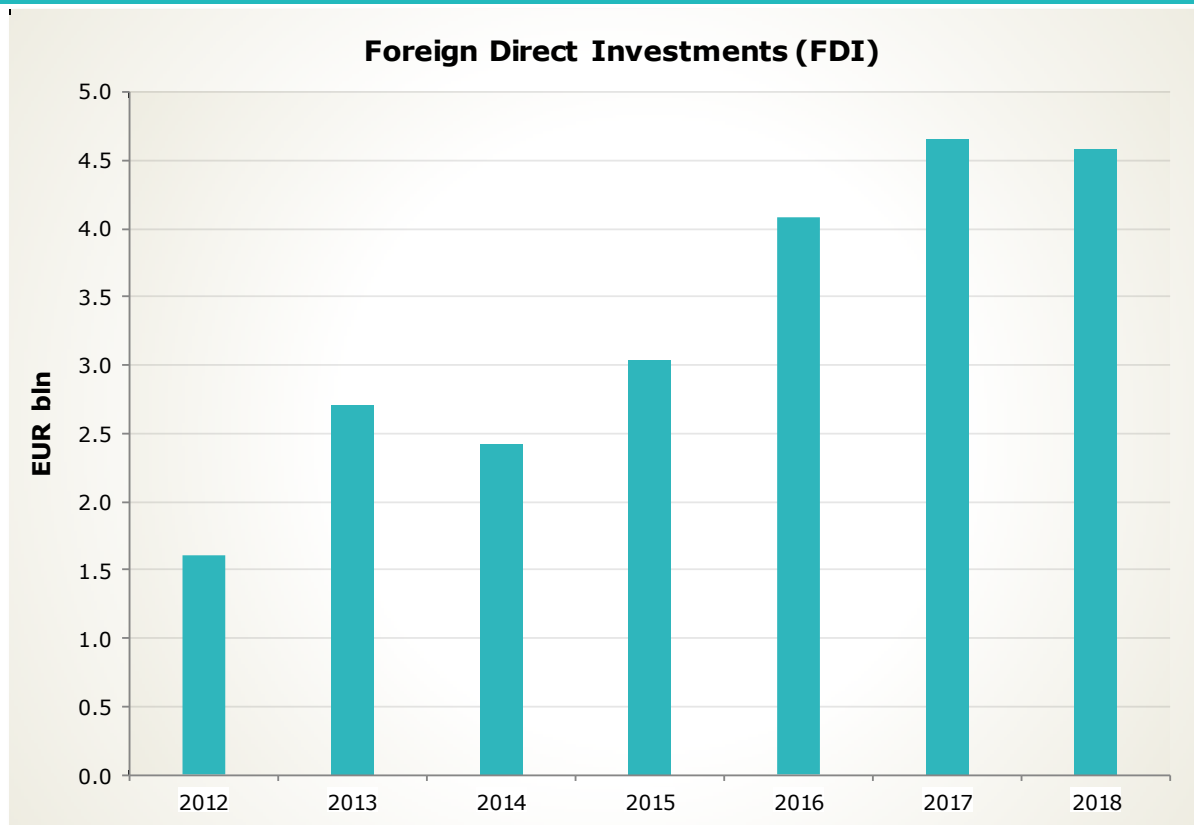


Source: NBR

7.3. FDI

Net FDI dropped by 1.3% y/y in 2018

Foreign direct investments (FDIs) in Romania totalled EUR 4.586 bln in 2018, according to NBR. The FDIs decreased by 1.3% compared to 2017, but rose by 12.4% compared to 2016.



Source: NBR

7.4. FOREIGN TRADE

Foreign trade deficit widened by 23.5% y/y in 2018

The trade deficit expanded to EUR 14.486 bln in 2018, compared to EUR 12.022 bln in 2017, according to NBR.

Imports grew by 10.8%, totalling EUR 76.684 bln, while exports grew slower, by 8.2%, amounting to EUR 61.838 bln.

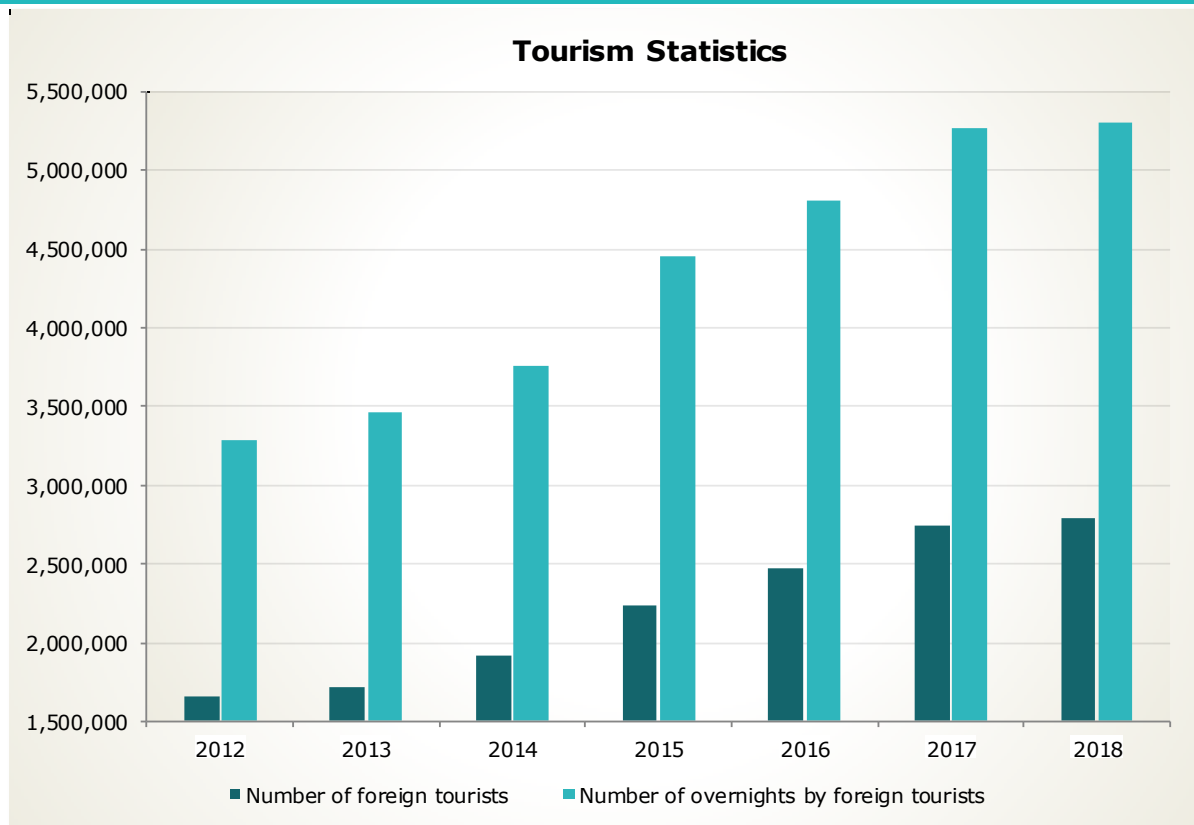


7.5. TOURSIM

Number of foreign tourist overnights inched up by 0.7% y/y in 2018

Tourist overnights of foreigners increased by an annual 0.7% to 5.304 million in 2018, according to INSSE data. The number of foreign tourists grew by 1.3% y/y to 2.785 million.

The share of foreign tourist overnights in the total number of overnights was 18.6% in 2018, or by 0.9 pp less than in a year ago.



Source: INSSE

8. MAJOR DEVELOPMENTS

Romanian president warns govt's fiscal overhaul will provoke economic chaos

Dec 19, 2018

Romania's president Klaus Iohannis slammed the Social Democrat government for preparing a profound fiscal overhaul that could bring chaos into the economy.

[Read the full story here](#)

Romania's govt to slap 'greed tax' on banks' assets, cap gas prices

Dec 19, 2018

Romania's Social Democrat government will pass a decree for a profound fiscal overhaul that includes a 'greed tax' for banks, capping gas prices, as well as new rules for private pension funds.

[Read the full story here](#)

MEPs demand swift accession to Schengen area for Romania, Bulgaria

Dec 11, 2018

The European Parliament reiterated its call to the Council to swiftly take a positive decision of the bids of Bulgaria and Romania to join the Schengen free-travel area.

[Read the full story here](#)

Romania seeks EUR 4.6 bln in EU co-financing for infrastructure works

Nov 29, 2018

Romania's transport ministry said it has asked the European Commission to provide EUR 4.6 bln in financing for major infrastructure projects.

[Read the full story here](#)

Romania to buy 3 more Patriot air, missile defense systems

Nov 2, 2018

Romania's government has signed an agreement with the U.S. Army and transferred funding to the U.S. government for the purchase of three additional Patriot air and missile defense systems from the U.S. Army.

[Read the full story here](#)

Romania's Cluj to get EUR 5.6 mln in EU funding for urban innovative projects

Oct 11, 2018

Romania's Cluj-Napoca will receive EUR 5.6 million in EU funding for innovative projects related to jobs and skills for the local economy, the European Commission said.

[Read the full story here](#)

Romanian ex-minister launches USD 500 mln platform to help SMEs expand to U.S.

Oct 3, 2018

Former Romanian minister of business, commerce and entrepreneurship Harry Ilan Laufer said he launched a USD 500 million programme to support local companies' expansion to the U. S.

[Read the full story here](#)

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