



Romania

Macroeconomic overview

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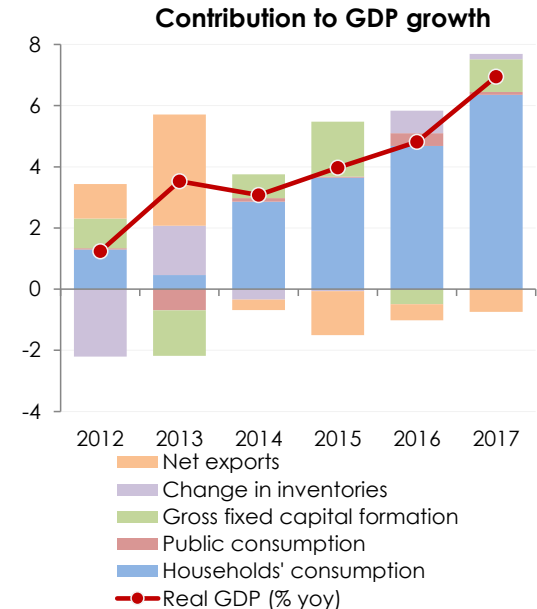
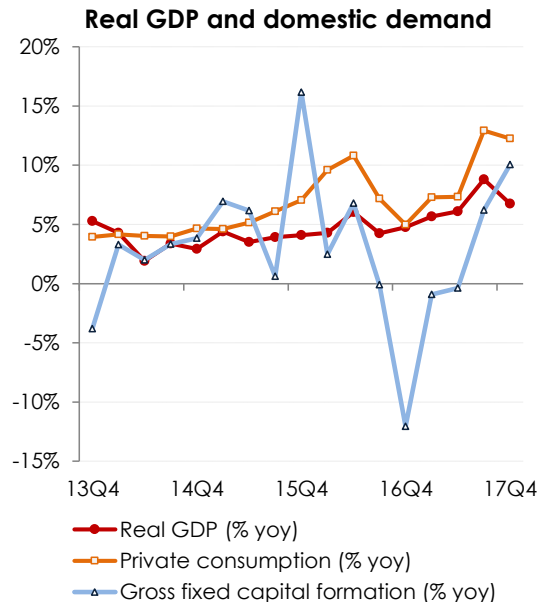
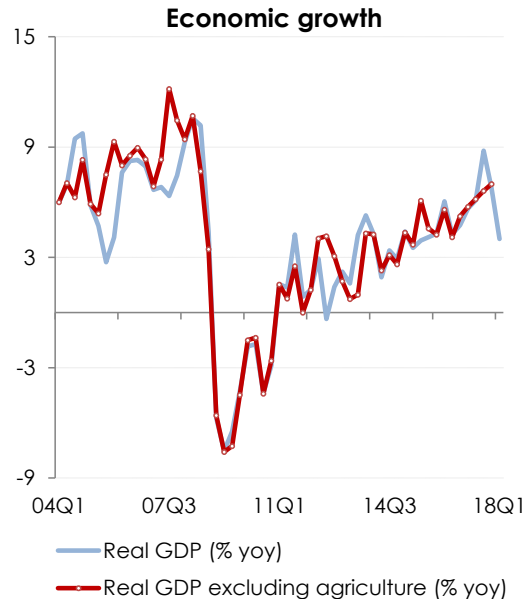
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Banking așa cum trebuie

**Sustained upward trend of economic activity
driven by private consumption**

Sustained upward trend of economic activity

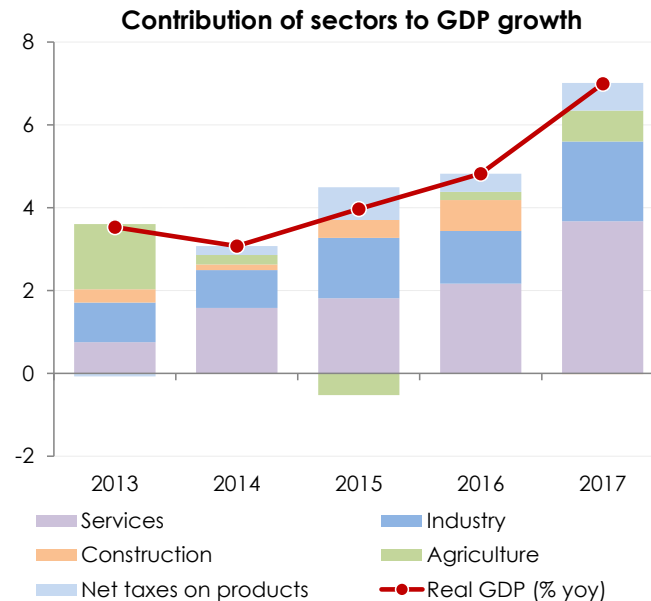
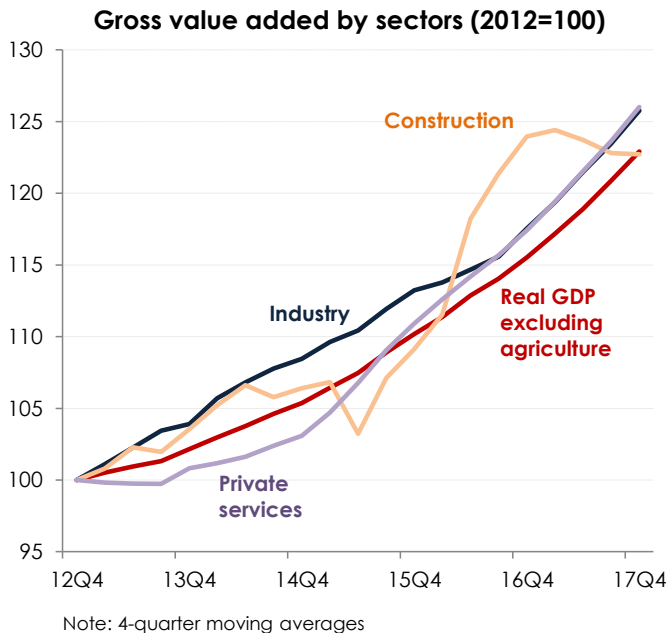
- Economic growth pace has further accelerated in 2017 (6.9%), coming close to pre-crisis levels. GDP advance is supported by all major demand segments: private consumption, gross fixed investments, and exports of goods and services. Still, the rapid growth of private consumption is the main driver of the economic growth.
- We expect real GDP to resume its growth starting Q2 after unexpectedly stalling in the first quarter of this year.



Source: National Institute of Statistics, Eurostat, Raiffeisen BANK

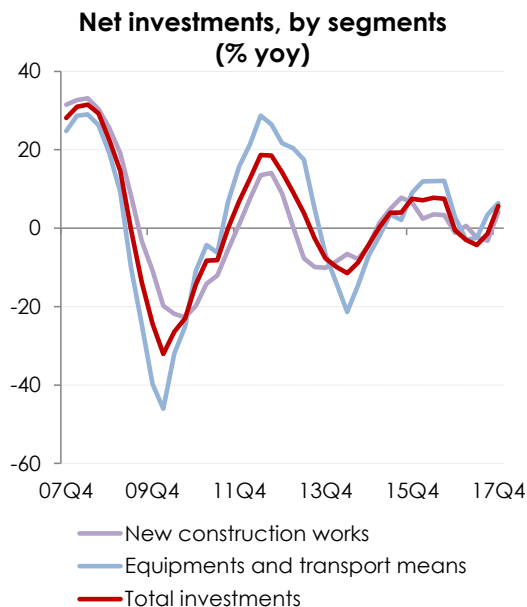
Broadly based economic growth

- All major economic sectors except constructions had positive contributions to the GDP growth in 2017. Also, agriculture had a consistent positive contribution (0.7 percentage points) to GDP advance in 2017.

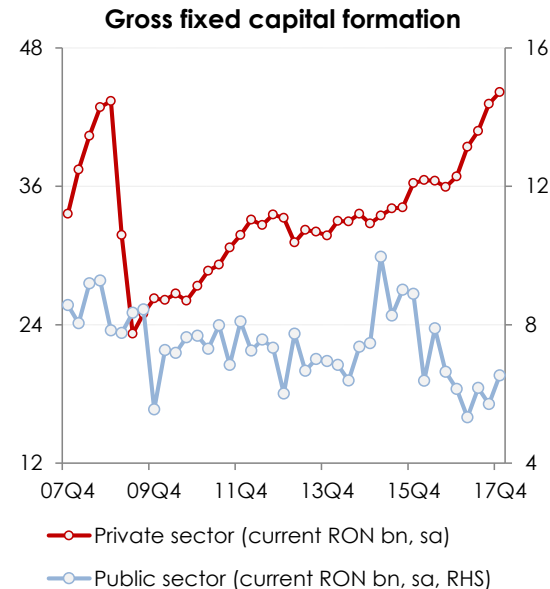
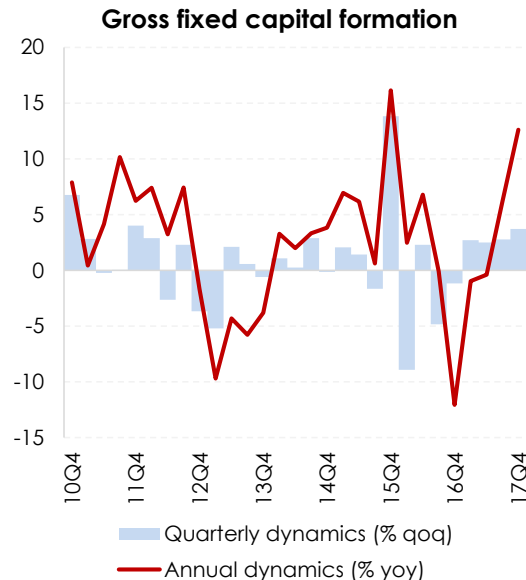


Rebound of private investments under way

- Investments showed signs of rebounding in 2017 and we expect the upward trend to remain intact in the subsequent quarters.

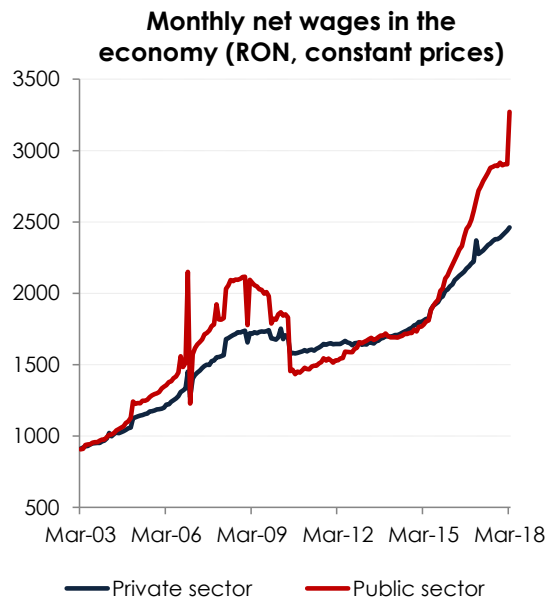


Note: 4-quarter moving averages

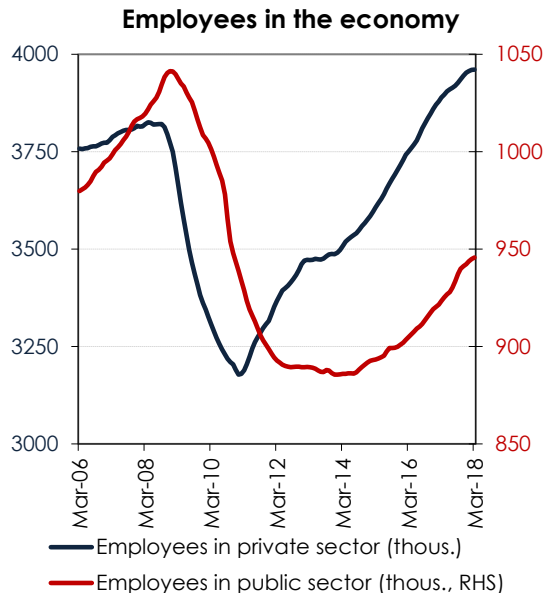


Growing disposable income boosts consumption

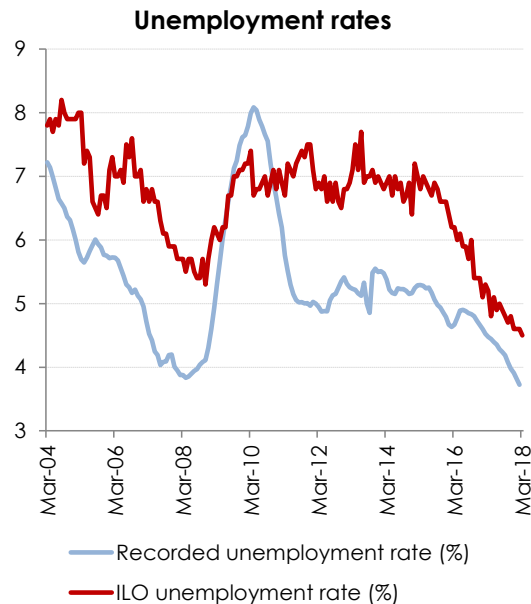
- Households' disposable income keeps growing as labor market conditions are improving. Also, wages in the public sector and pensions are again increased in 2018.



Note: wage earnings stated in prices of December 2017



Note: Number of employees is based on a monthly survey on public sector and on private companies with at least 4 employees
Source: National Institute of Statistics, Eurostat, Raiffeisen BANK



Economic growth decelerated sharply in Q1 2018...

- Some of macroeconomic indicators published at monthly frequency had a poor performance in Q1 2018, pointing to a deceleration of economic growth in Q1. This was confirmed by flash Q1 GDP estimates released on 15 May (0.0% qoq, and 4.0% yoy).

Macroeconomic indicators published at monthly frequency

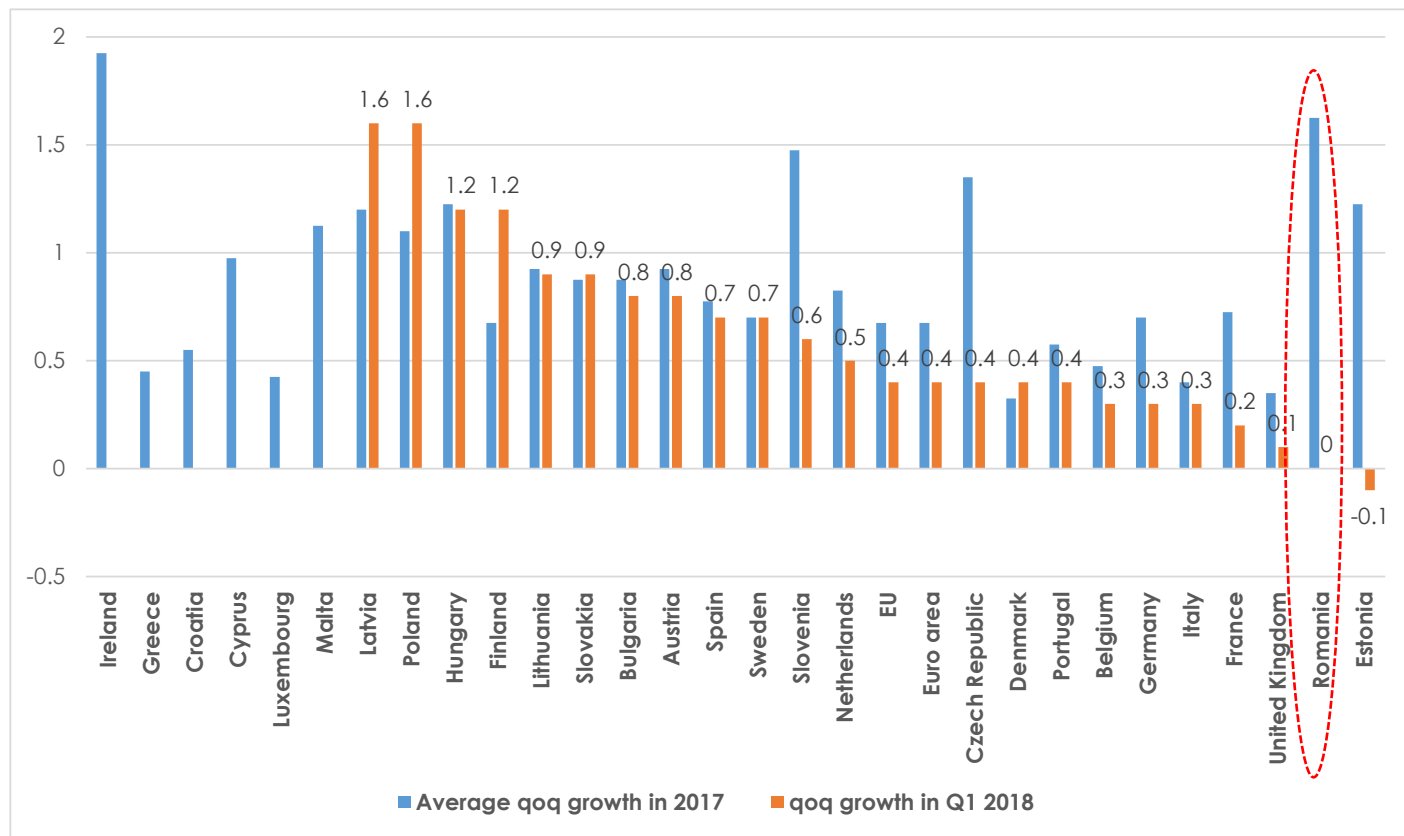
	Quarterly change (% qoq)			
	Q2-17	Q3-17	Q4-17	Q1-18
Industrial output	3.7	0.1	2.9	-0.6
Turnover in industry, deflated	0.9	2.3	2.9	2.6
Exports of goods, in EUR equiv.	1.2	0.9	3.3	3.9
Retail sales turnover, deflated	3.1	3.9	1.8	-1.6
Turnover in market services for population	6.7	5.3	-1.7	-3.9
Turnover in market services for enterprises	4.2	2.6	2.0	0.0
Construction output	-5.7	1.8	-2.8	6.9
Economic sentiment index (level)	105.1	104.5	103.9	102.3
Consumer sentiment index (level)	-14.0	-15.4	-22.7	-25.8
Number of employees (% qoq)	0.6	0.5	0.6	0.4

Confidence indicators



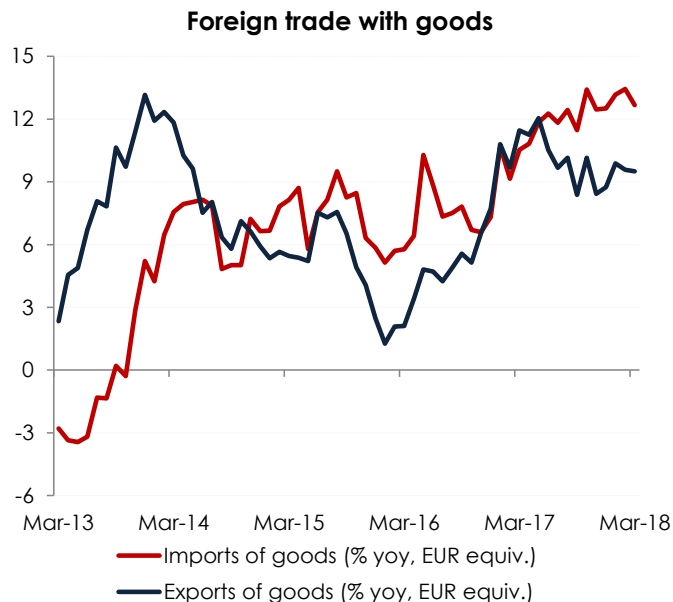
Note: confidence indicators are stated as deviations from their long-term averages (2002-2018)

...Romania being one of the worst performers in Q1 2018 at the EU level

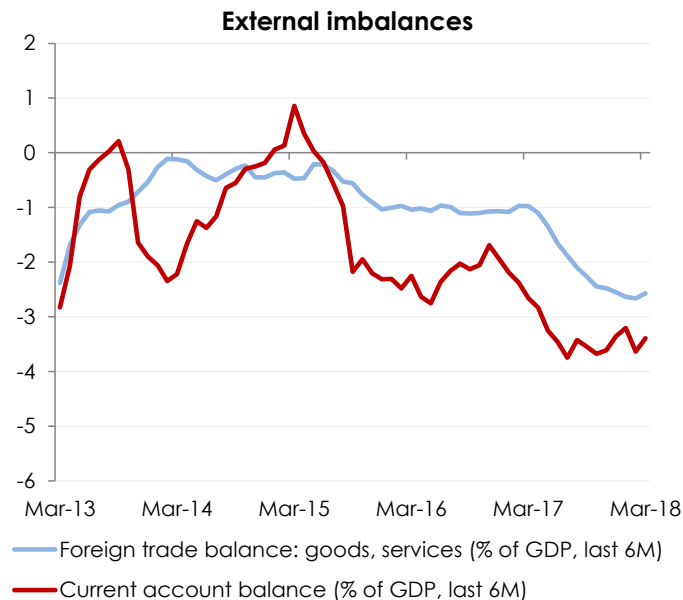


Exports on an upward trend, imports are increasing faster

- Exports of goods and services should continue on an upward trend, helped by growing external demand. However, imports should increase faster, fuelling a gradual enlargement of foreign trade deficit and of current account deficit.

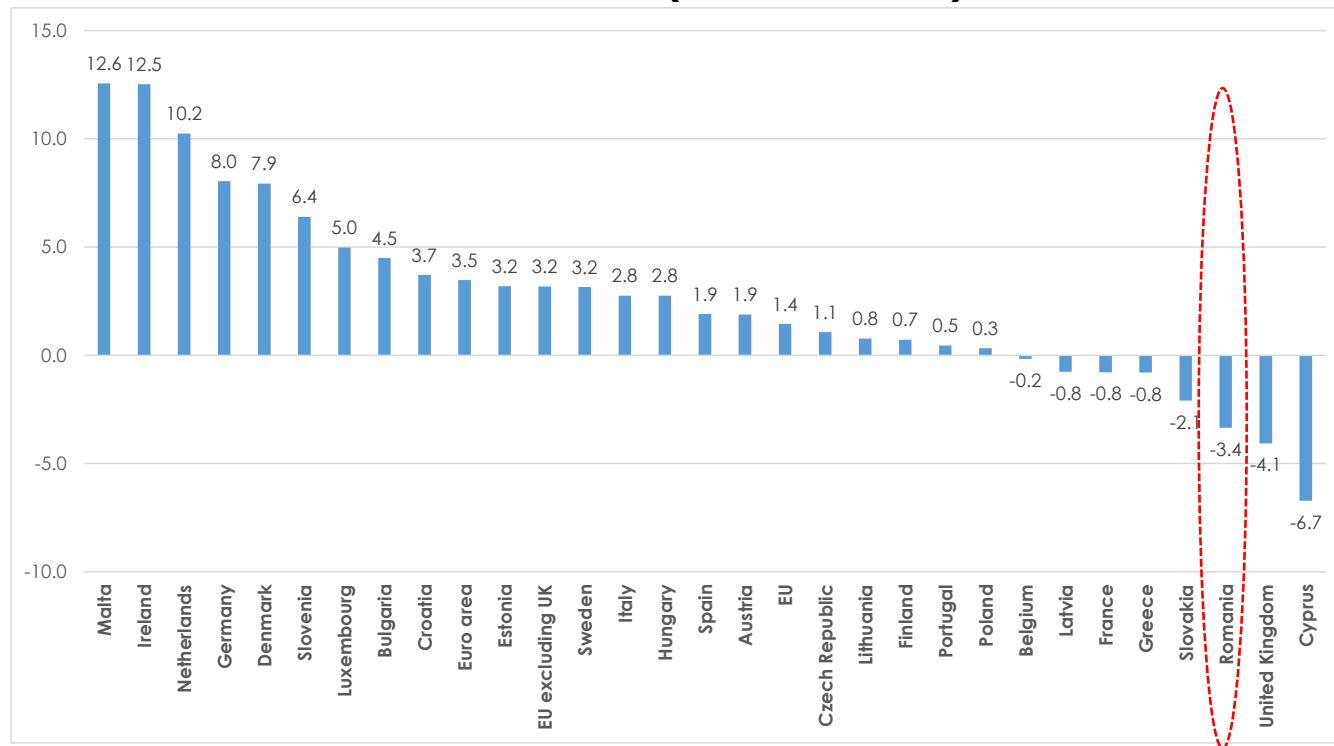


Note: 6-months moving averages



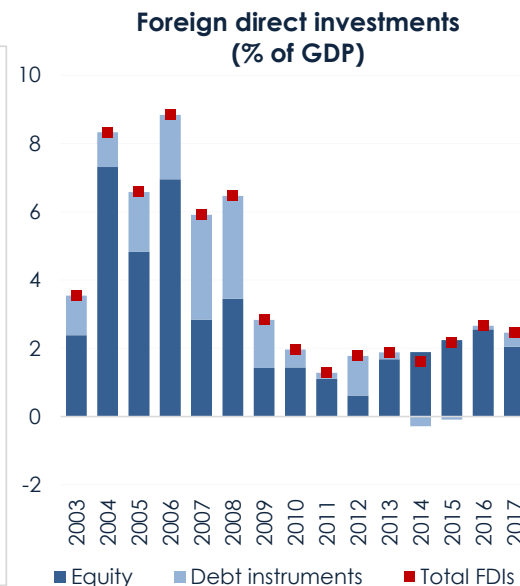
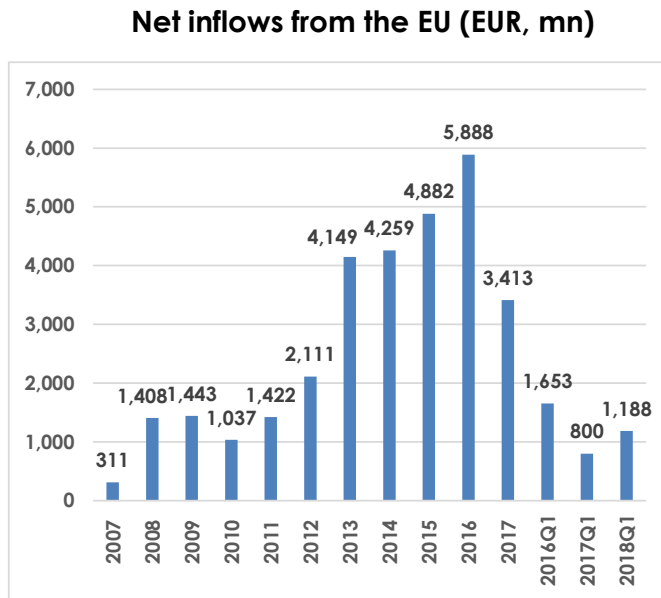
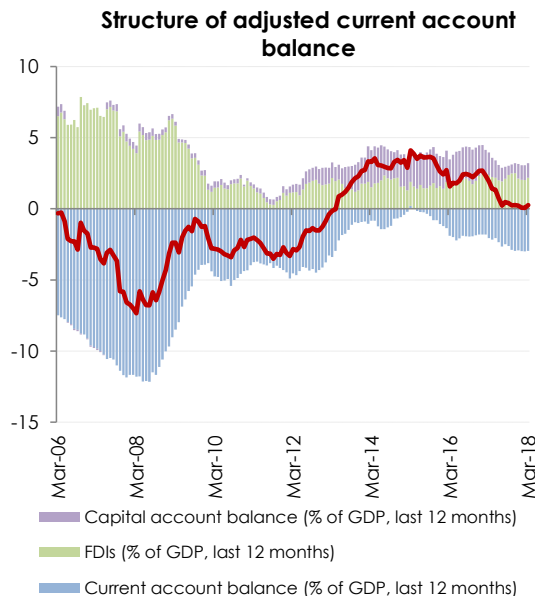
Romania is one of the few countries in EU with current account deficit

Current account balance (% of GDP, 2017)



Substantial decline of EU funds inflows

- Inflows in EU funds decreased substantially in 2017 as absorption rate at the start of the new budgeting period 2014-2020 was low.
- Still, stable foreign capital inflows (FDIs and capital transfers in EU funds) provided a good coverage of the current account deficit in 2017.



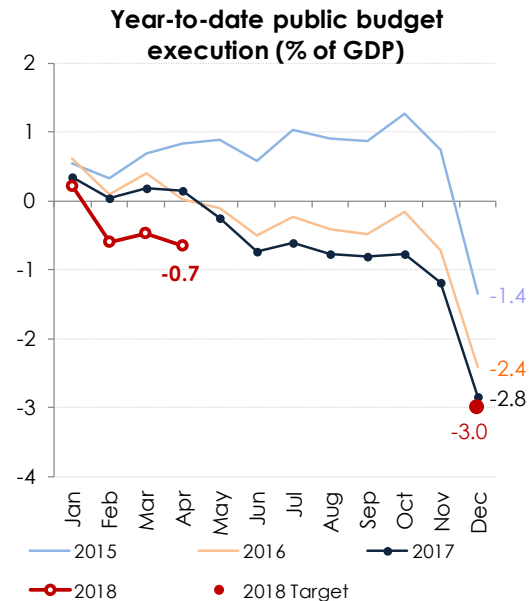
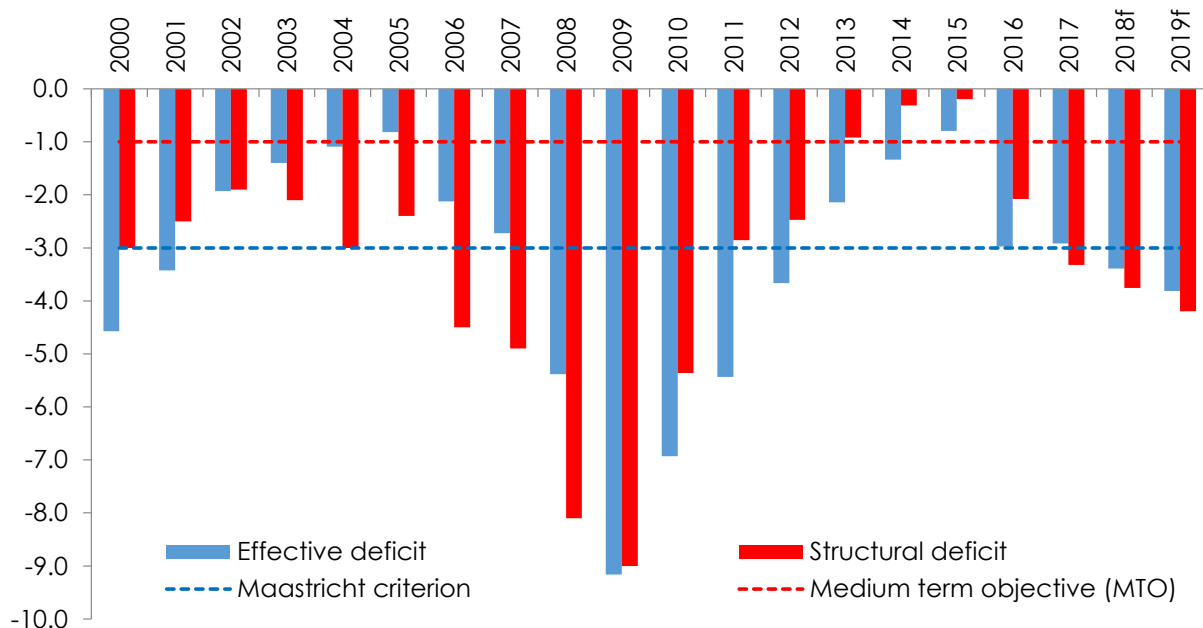
Note: Adjusted current account balance = current account balance + FDIs + Capital account balance

Source: National Bank of Romania, Eurostat, Raiffeisen BANK

Public finances - the most important macroeconomic risk

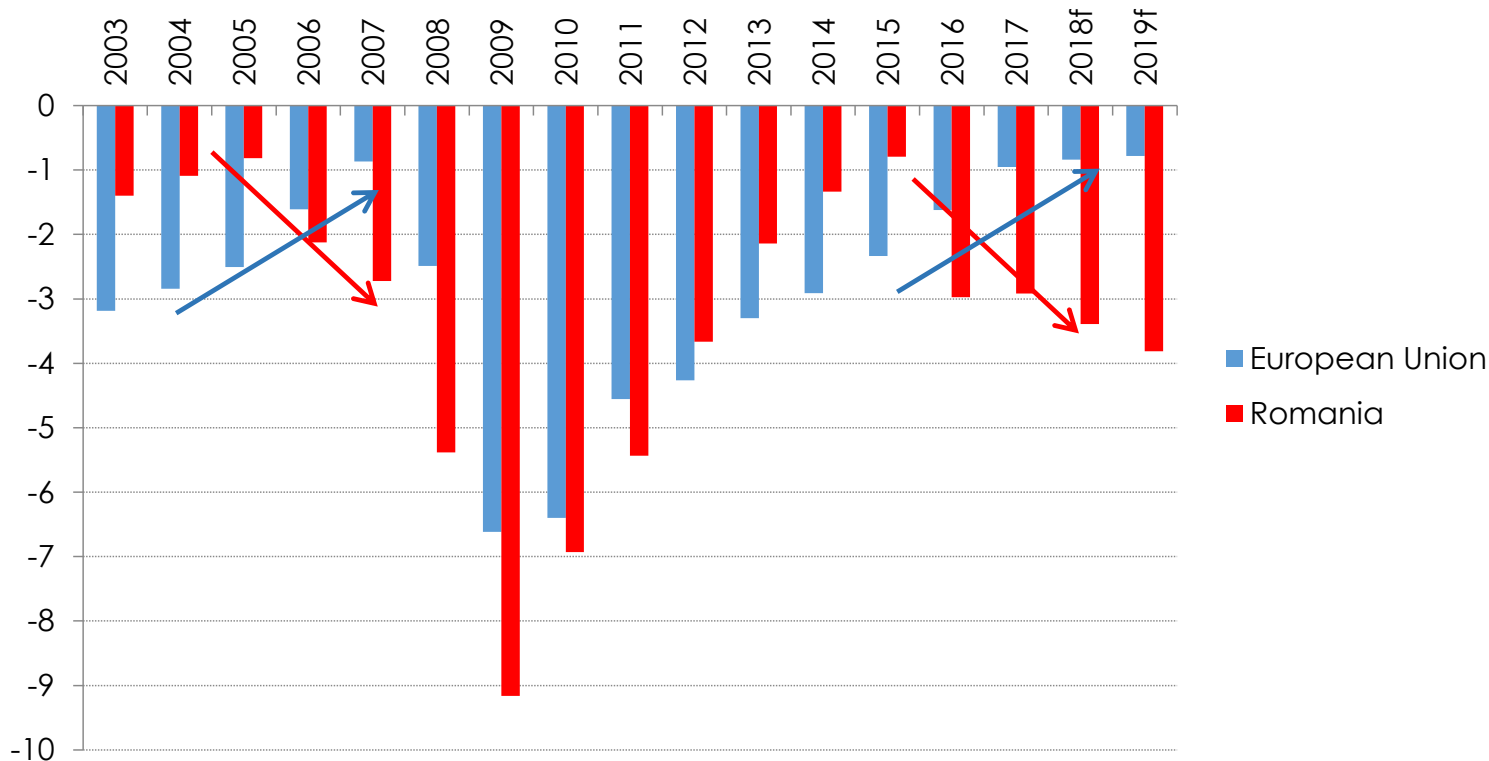
Fiscal deficit reached once again 3% of GDP (ESA2010)

- Public budget deficit target was kept at 3% of GDP in 2018, but we see risk for the deficit to outpace this level in the absence of corrective measures.



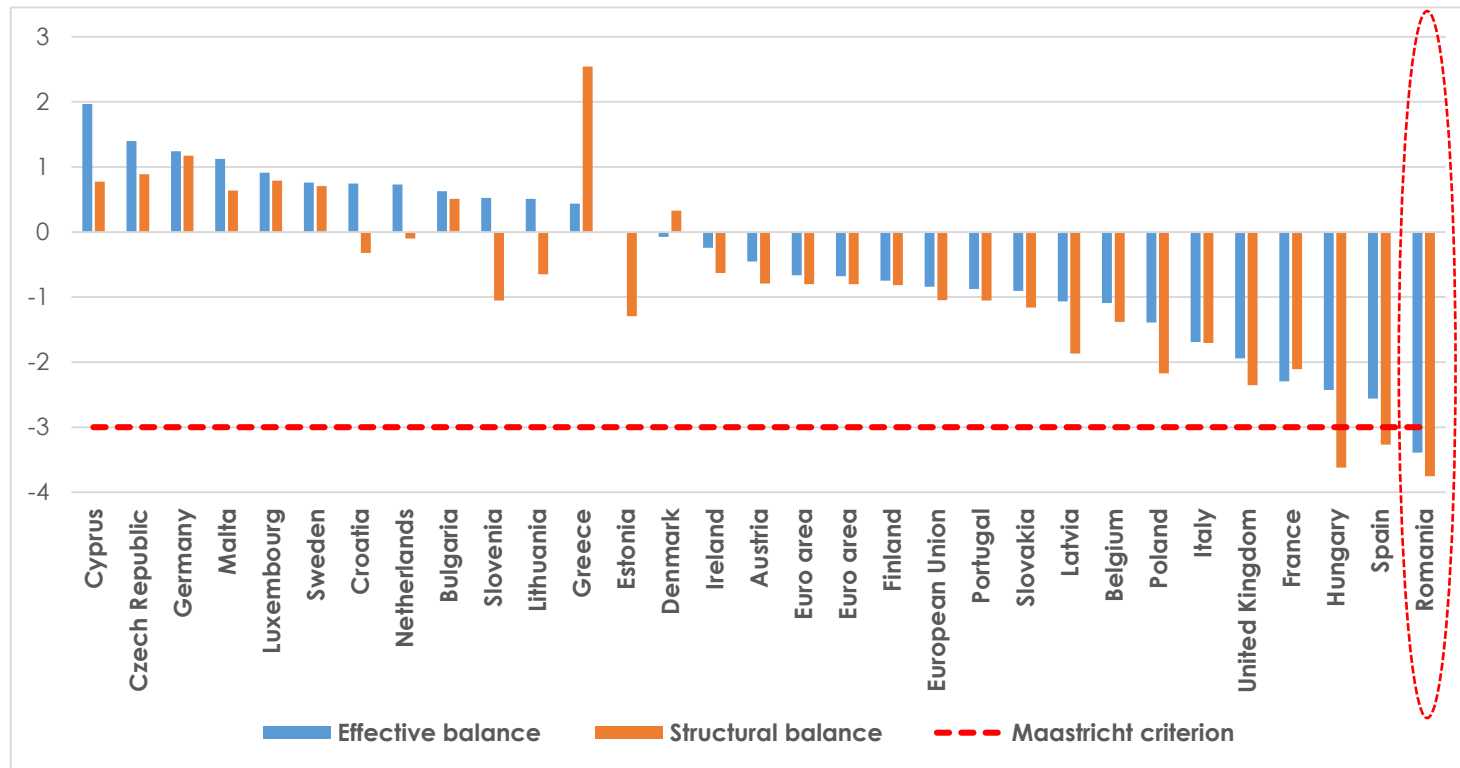
Note: in-house seasonally adjusted data; cash methodology

Opposite direction of the fiscal deficit in Romania vs EU average (% of GDP, ESA2010)



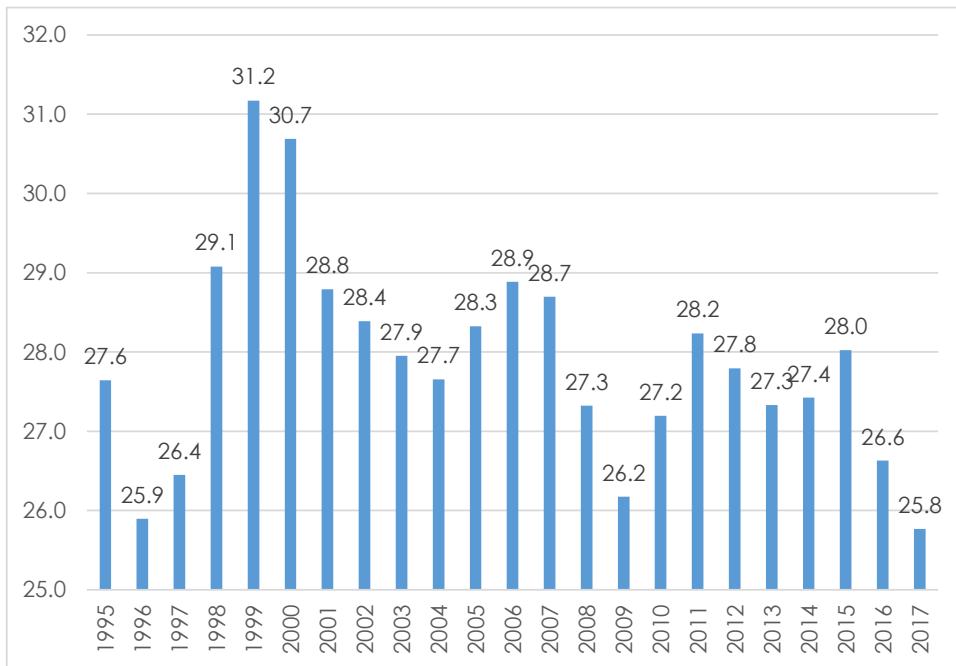
Source: AMECO database

Romania would have the highest budget deficit (% of GDP, ESA2010) in the EU in 2018

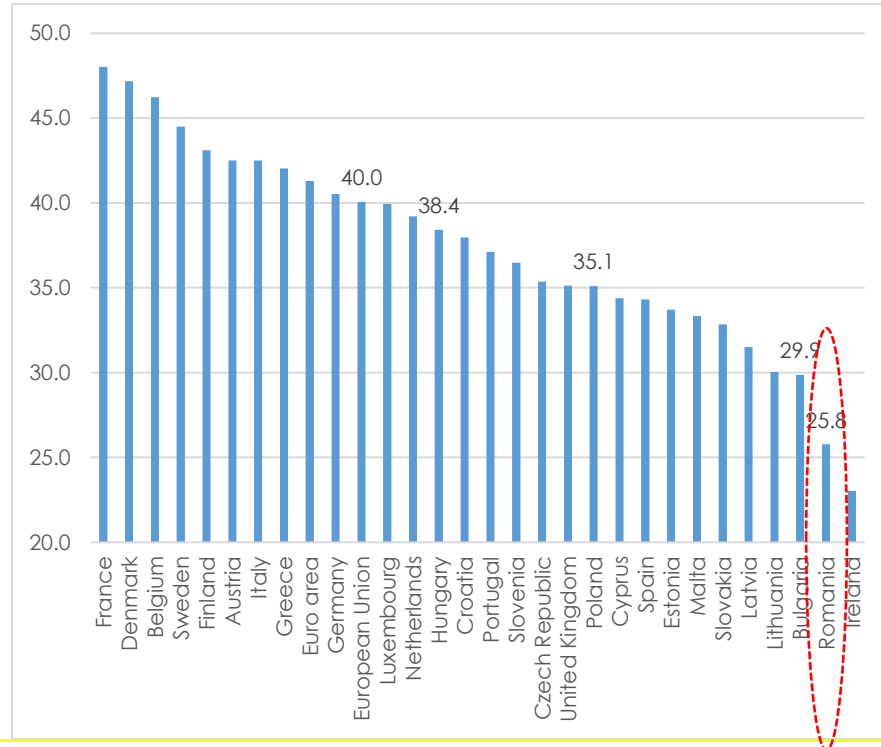


In 2017, fiscal revenues reached the 23-year low, being the second lowest at the EU level

Development of fiscal revenues (% of GDP) in Romania

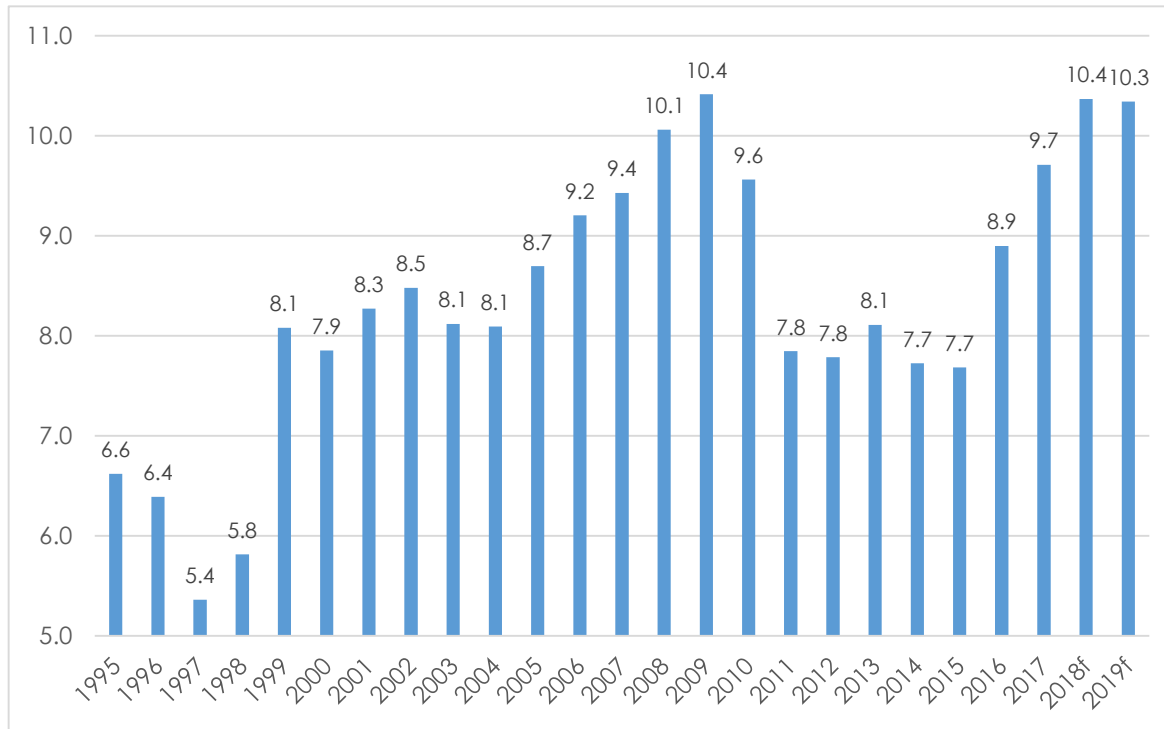


Fiscal revenues (% of GDP) in 2017 in the EU countries



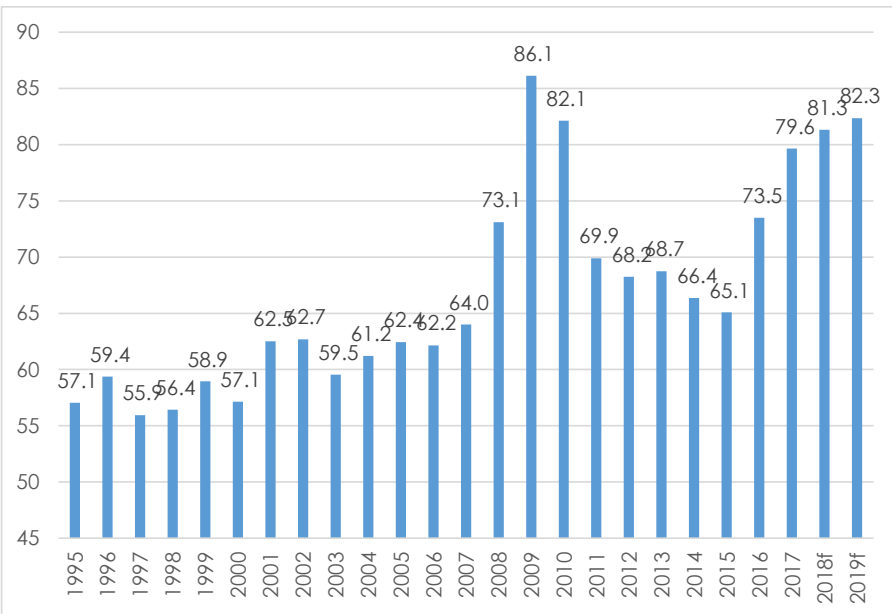
Public sector wage bill would reach the pre-crisis high in 2018 (ESA2010)

Development of wage bill in the public sector (% of GDP, ESA2010) in Romania

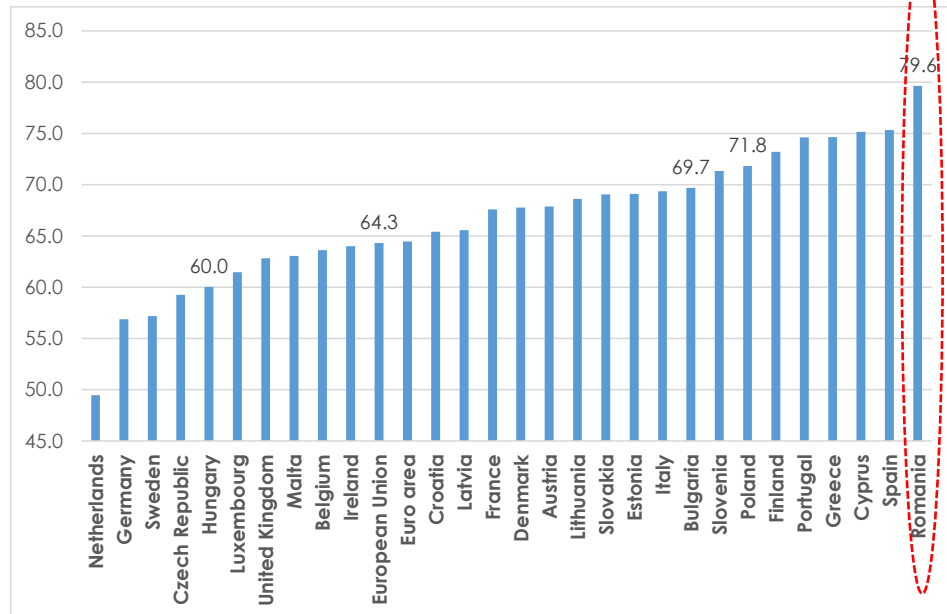


The burden of social spending in Romania is the highest in EU

Development of social spending as % of fiscal revenues in Romania

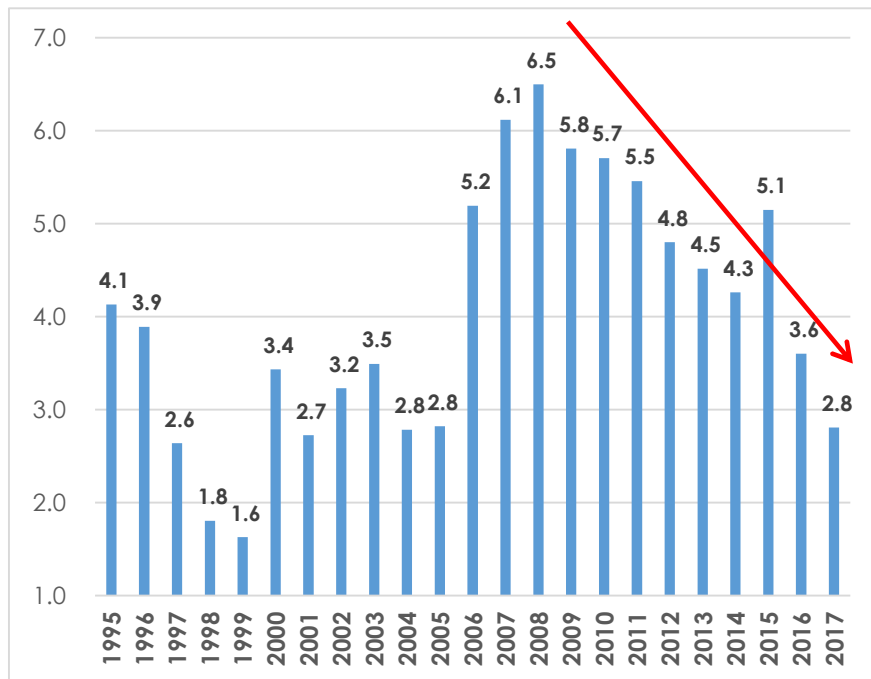


Social spending as % of fiscal revenues in EU countries, 2017

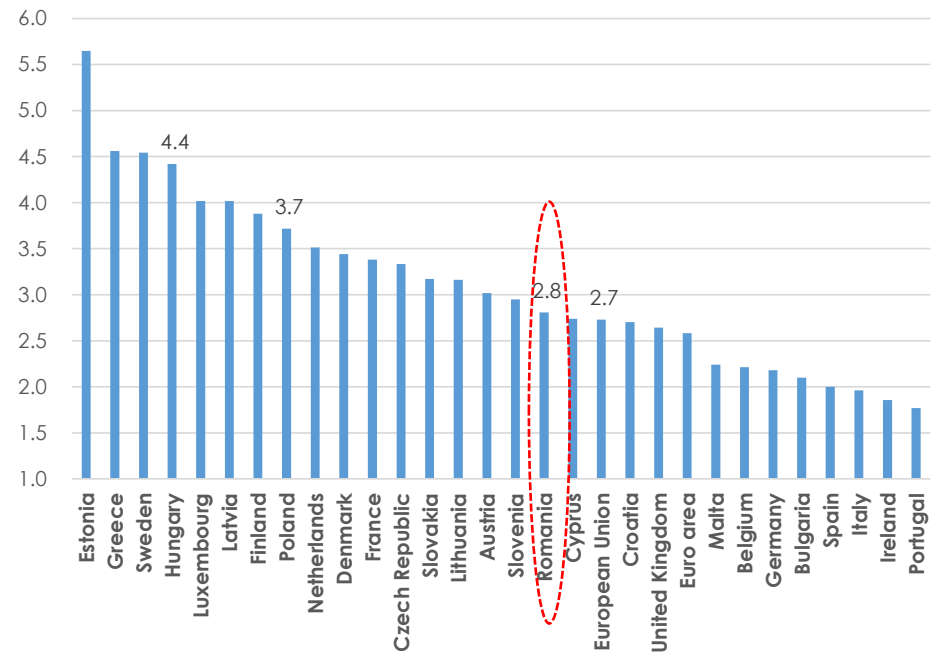


Public investments reached in 2017 the 13-year low, being very close to the EU average

Development of public investments (% of GDP) in Romania



Public investments (% of GDP) in 2017 in the EU countries



Budget spending is growing too fast and the “room for maneuver” (=cutting investments) is much lower

	Apr 2018/Apr 2017	Jan-Apr 2018/Jan-Apr 2017	Buget 2018/Execution 2017
Total revenues	12.7%	11.8%	14.2%
Fiscal revenues including SSC	15.3%	10.5%	11.8%
Fiscal revenues excluding SSC	3.4%	-0.3%	3.5%
Corporate income tax	4.2%	-0.2%	2.0%
Personal income tax	-29.6%	-18.2%	-31.0%
Property taxes	28.6%	6.7%	8.6%
Taxes on goods and services	11.0%	4.1%	14.5%
VAT	-2.0%	1.1%	14.5%
Excises	50.0%	14.7%	13.6%
Social security contributions (SSC)	40.9%	33.6%	28.0%
Non-fiscal revenues	3.5%	13.9%	-7.0%
EU funds (2014-2020)	-28.4%	26.0%	66.4%
Total expenditures	19.5%	21.5%	13.9%
Current expenditures	20.9%	18.2%	14.0%
Wages	26.9%	20.4%	16.6%
Goods and services	11.1%	12.2%	-1.7%
Interest expenses	147.6%	56.2%	19.5%
Subsidies	33.3%	26.8%	16.3%
Social assistance	8.0%	10.8%	6.5%
EU funds (2014-2020)	-19.8%	28.7%	75.1%
Capital expenditures	-20.7%	156.8%	5.6%
Total investment spending	-16.7%	103.4%	44.3%
Surplus(+) / Deficit(-)	854.3%	-0.65% of GDP in 2018 vs +0.16% of GDP in 2017	11.1%

Source: Ministry of Finance, cash methodology;

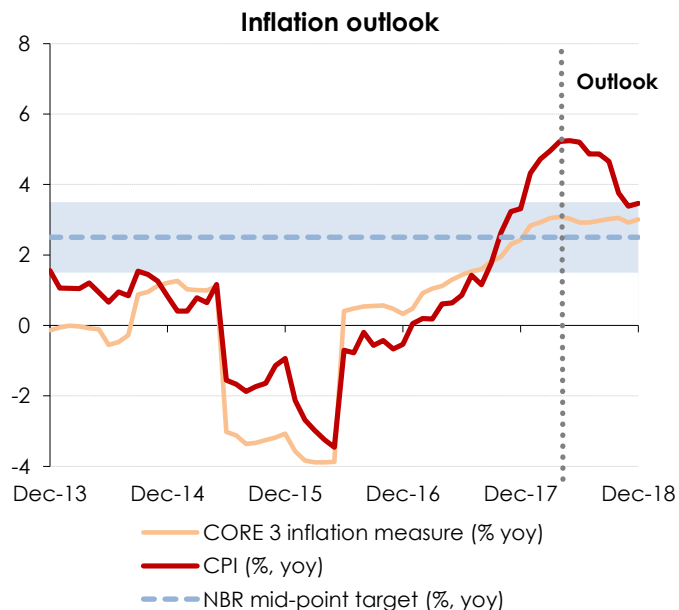
If the annual growth of revenues is higher/lower than the budgeted one for the full year, then the cell is filled with green/red.

If the annual growth of expenditures is higher/lower than the budgeted one for the full year, then the cell is filled with red/green.

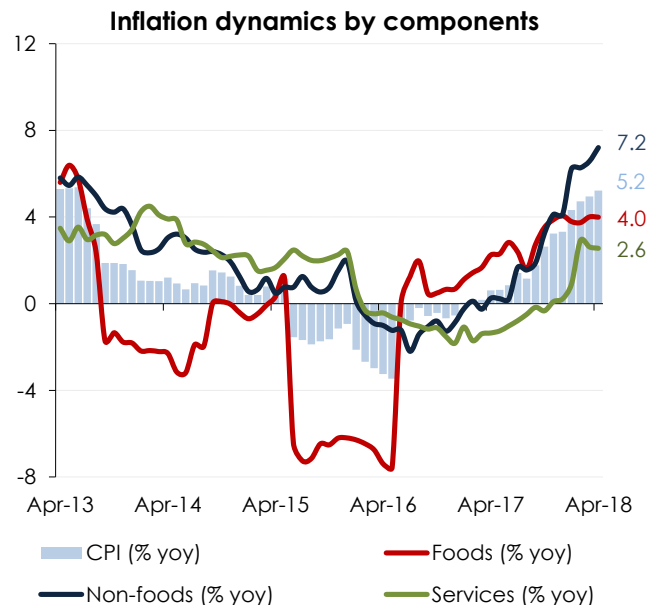
**Monetary policy tightening
as inflation rate increases rapidly**

Strengthening of underlying inflationary pressures

- Elevated inflation rate (5.2% yoy as of April) was fuelled by strengthening of underlying inflationary pressures, by increase of administered prices, and by increase of fuel prices (increase of excises and of oil price).
- Annual inflation rate would likely stabilize around 5.0% in Q2 – Q3 2018, before decreasing towards 3.5% at the end of the year.



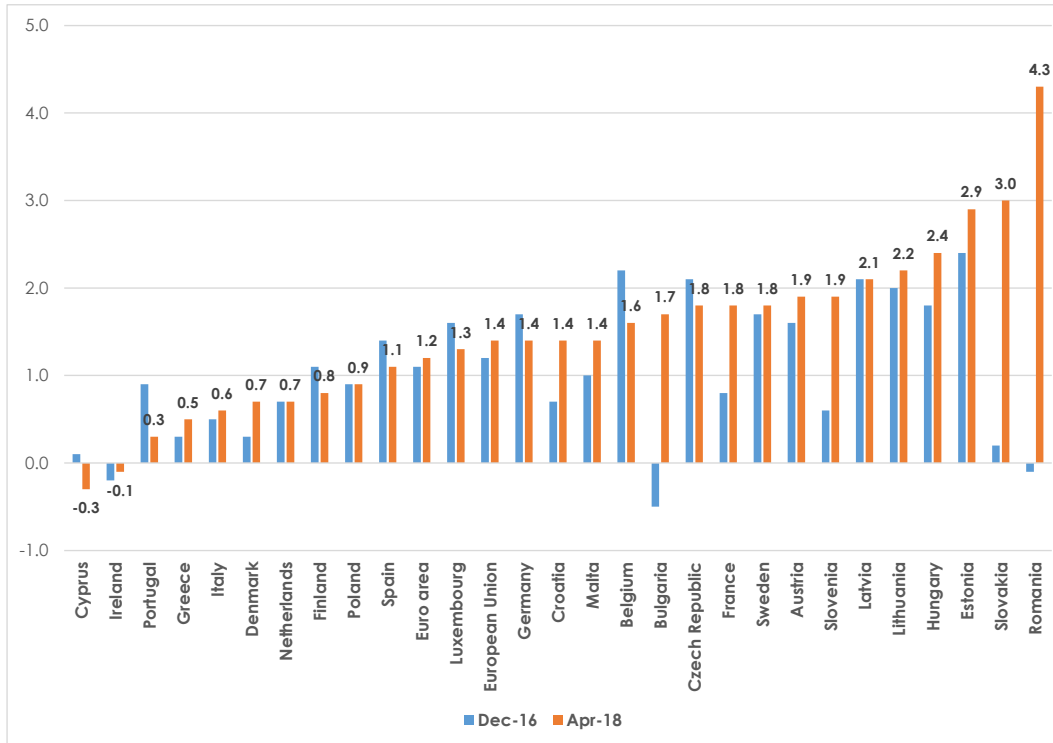
Note: CORE 3 = CPI excluding administered prices, volatile prices of foods and fuels, and tobacco and alcohol



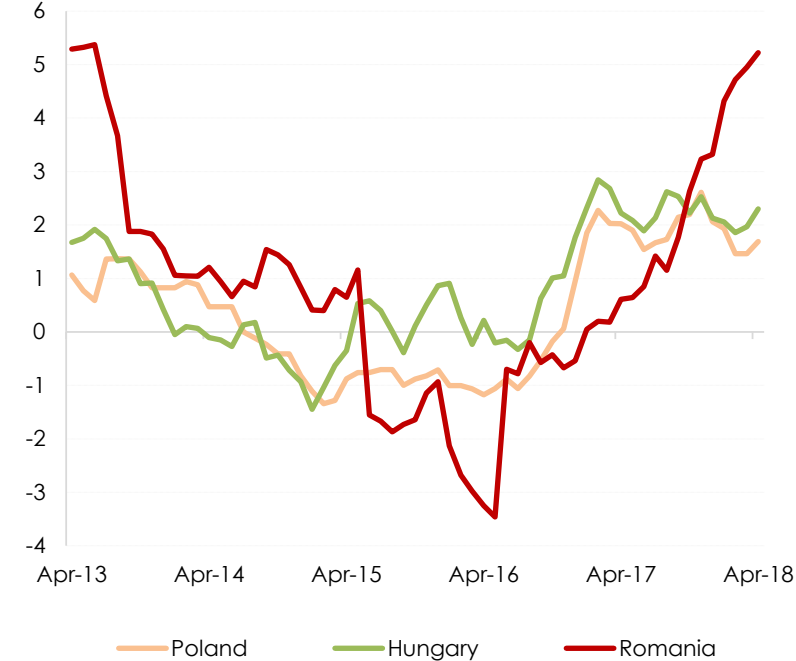
Source: National Bank of Romania, National Institute of Statistics, Raiffeisen BANK

Inflation rate in Romania increased the fastest and it is the highest in EU – we cannot blame “exogenous” factors

Annual inflation rate (HICP) in the EU countries (%)

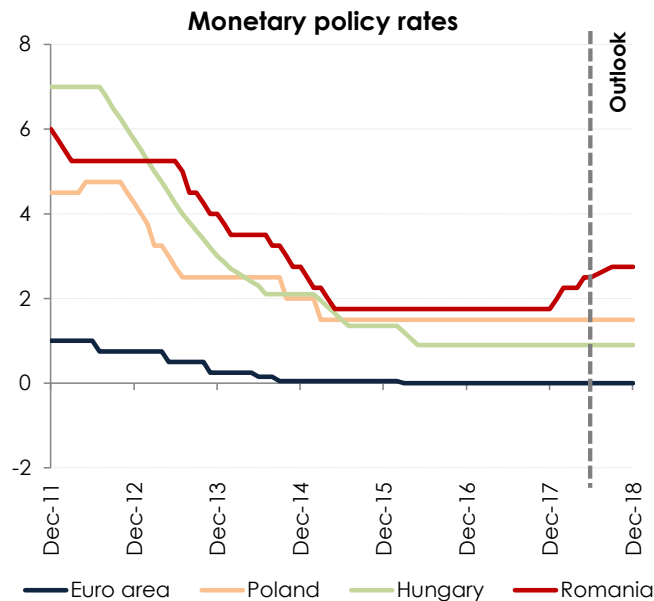
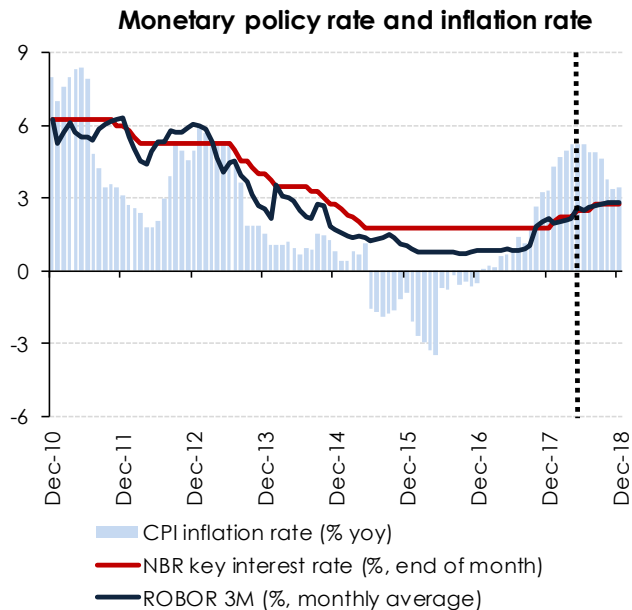


Annual inflation rate (national definition)



NBR had no other option – the key rate hiking cycle was initiated

- Central Bank initiated monetary policy tightening in early-2018 as it raised the key interest rate three times, from 1.75% to 2.50%, as a response to the deterioration of the inflation outlook.
- We expect the key interest rate to be hiked once more to 2018, to 2.75%.



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