

# Romania

It is getting very interesting

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# A quick overview of the near term

## Macro forecasts

<b>Romania</b>	<b>Wood</b>					<b>Consensus</b>	
YoY changes unless otherwise stated	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2023E</b>	<b>2024E</b>
Real GDP	-3.2	5.3	4.3	3.5	3.5	2.3	3.5
CPI avg	2.6	5.0	13.6	11.3	6.2	10.3	5.3
Lending growth (households +NFCs)	5.0	10.5	14.6	6.6	4.3		
M3 growth	13.7	16.0	10.5	5.5	5.5		
Current account % GDP	-5.0	-7.2	-9.3	-7.5	-7.0	-7.8	-7.0
FDI % GDP (-ve = capital inflow)	-1.4	-3.7	-4.0	-4.5	-3.8		
General gov budget balance % GDP	-9.3	-7.1	-5.8	-4.8	-3.5	-4.9	-4.0
General government debt % GDP	47.0	49.0	47.7	48.0	49.5		
Policy rate, % eop	1.50	1.75	7.00	7.00	6.00	6.90	5.35
10 yr sovereign local currency fair value, avg	3.9	3.9	7.4	8.0	7.0	7.6	6.8
RON-EUR fair value, avg	4.8	4.9	4.9	5.1	5.2	5.0	5.0

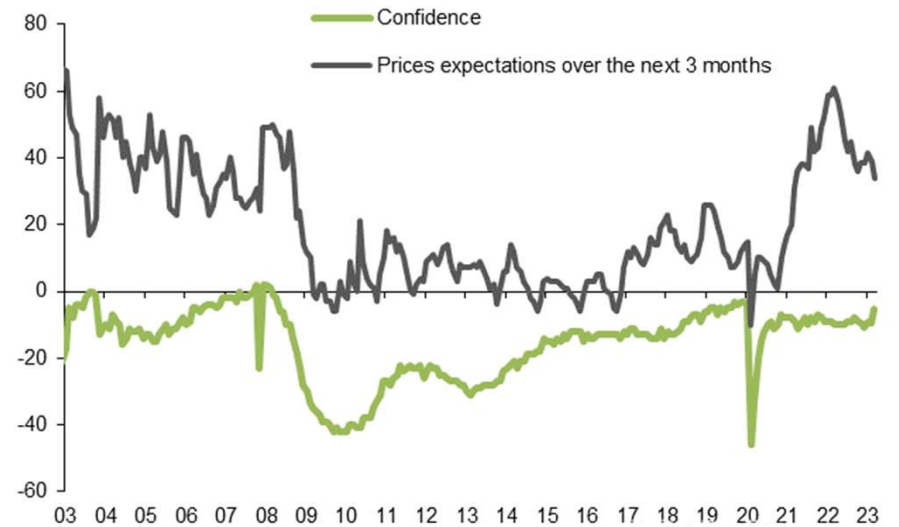
Source: Bloomberg, CEIC, INSSE, NBR, MoF; and ADA Economics in association with WOOD Research

# Leading indicators of GDP

## Hiring appetite across sectors in Romania



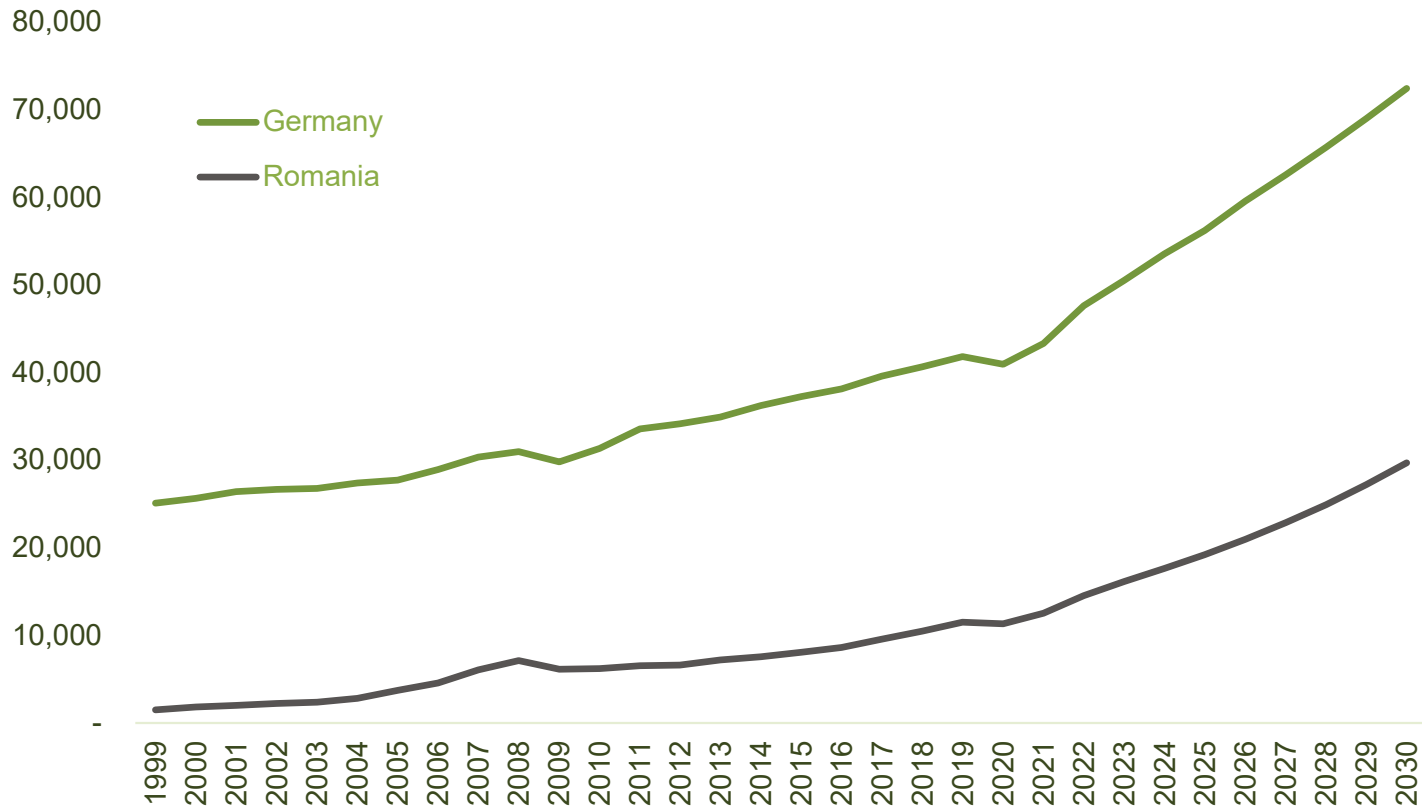
## Construction sector sentiment indices



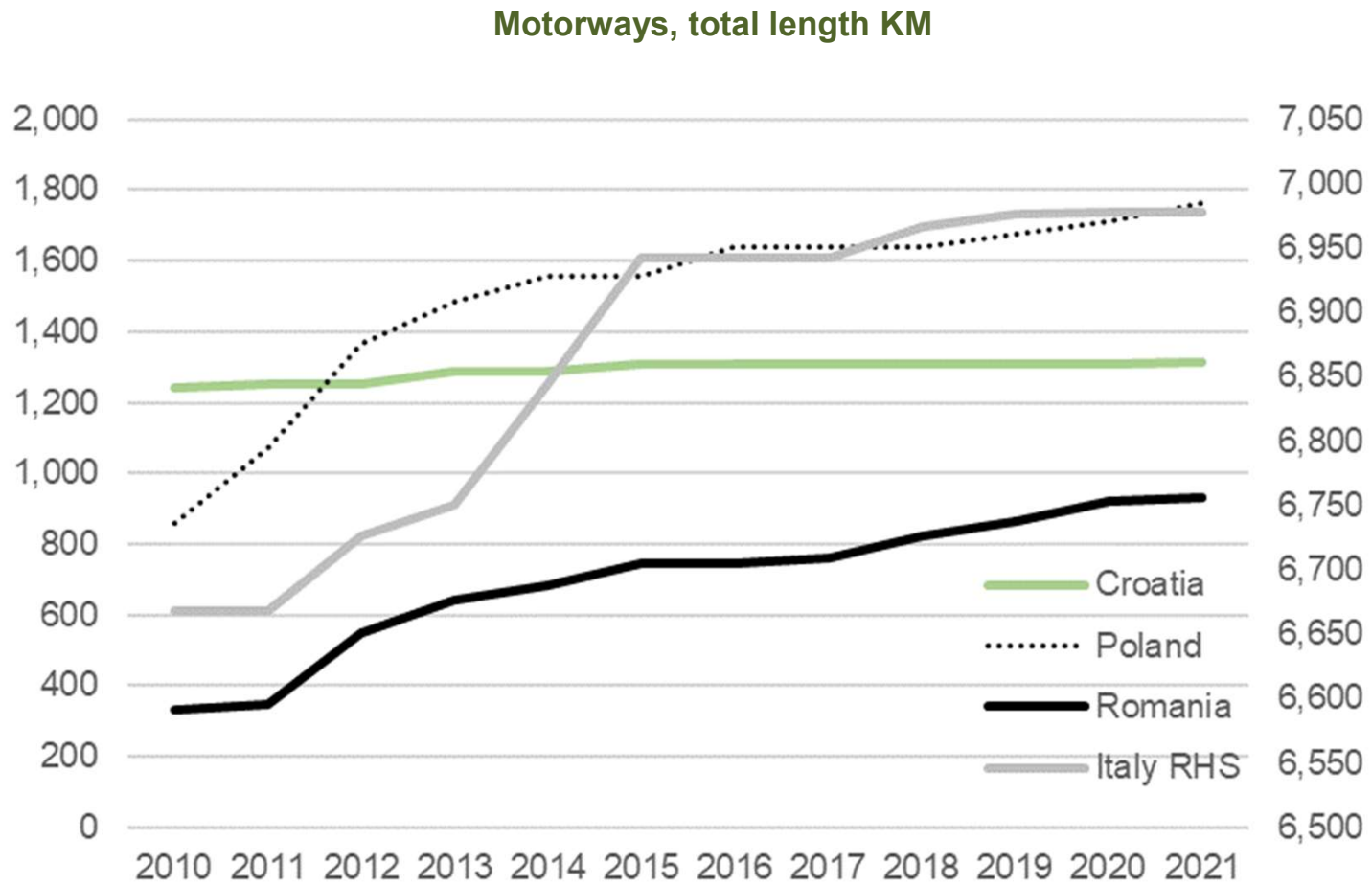
- The economy is rebalancing gradually towards savings and a little less consumption
- ...without showing signs of particular strain on the consumer or the business sector
- Hiring appetite is stable and the construction sector is moderating from very high euphoria levels. This is not the same picture that we see in other countries and it is a testimony to the robust competitiveness of Romania

# Long-term perspectives: a great convergence outlook

Our nominal GDP per capita (Euros/ year) projections to 2030

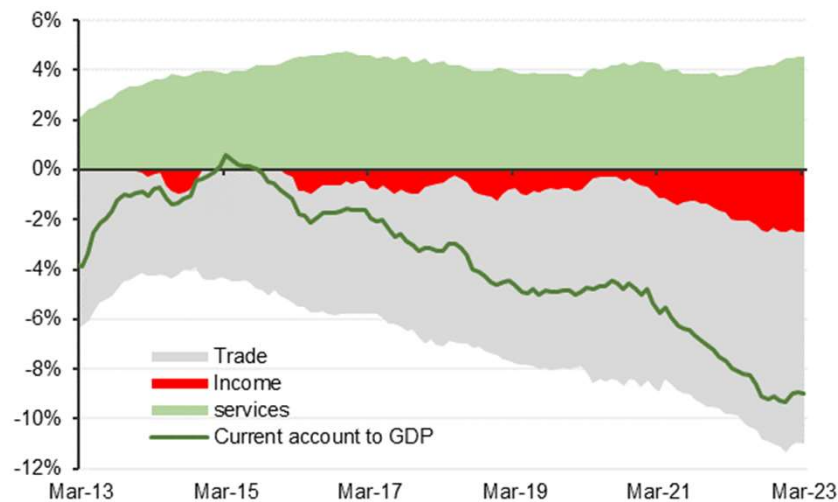


# Long-term perspectives: easy productivity gains still ahead

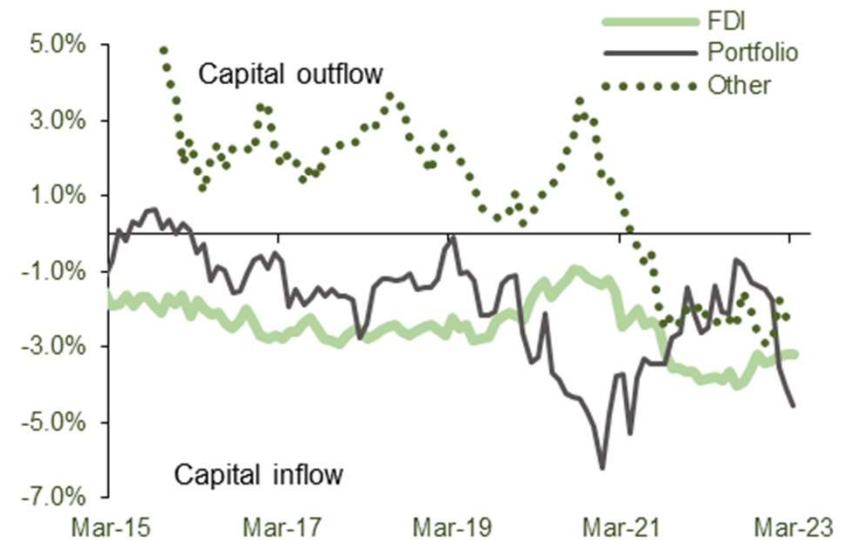


# Balance of payments: it is not as bad as it looks

Current account deficit in % GDP (12mr)



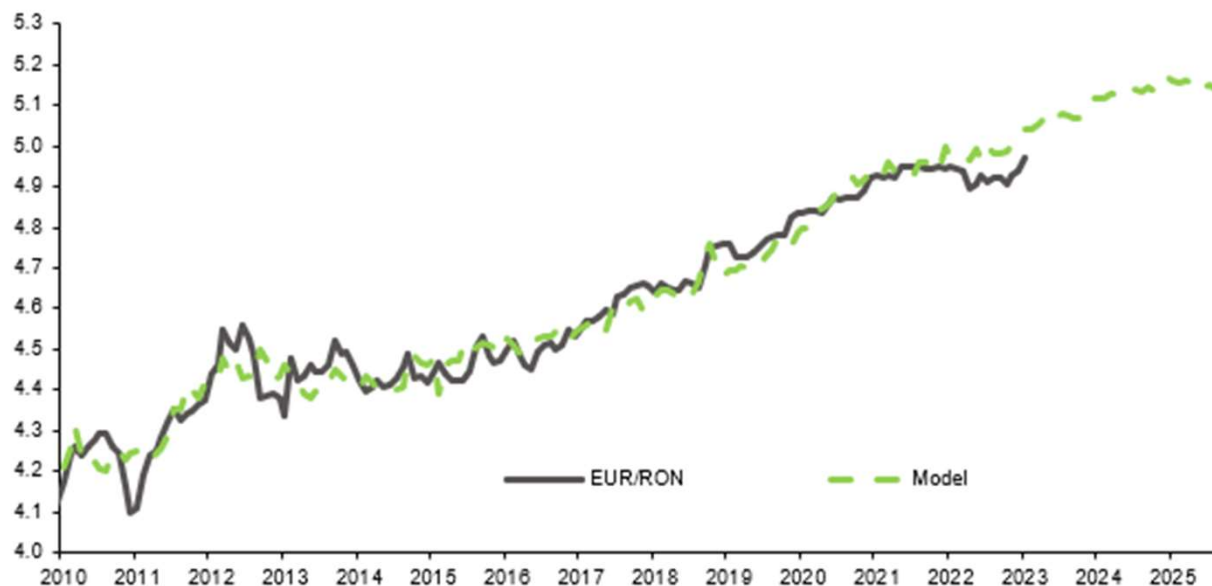
Funding for the current account deficit, % GDP (12mr)



- The current account deficit is wide, but it is consolidating, thanks to lower energy prices and moderating consumption
- Funding is well diversified, with strong FDI and other investment together accounting for 6% of GDP / annual reflecting strong competitiveness
- NBR is a skilful financial regulator and has appropriate (and rising) FX reserves (reserves 5.5 months of imports)

# The currency is well anchored to fundamentals

Our fair value model for the currency based on the macro parameters



- The mild depreciation path is coherent with higher growth/higher inflation relative to the Eurozone, but it is very contained, due partly to the underlying steady improving competitiveness of the country
- The NBR takes a prudent-realistic approach to the currency: it occasionally limits the volatility and occasionally allows the currency to realign up to avoid excessive FX mismatch in the country

## Important, long-term factors, that you should be aware of

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- Convergence in terms of average income is recently benefiting the full income distribution and not just the top, as was the case until a few years ago. This helps to keep the political landscape fairly balanced around the middle, contrary to what we observe in most developed countries today, where politics is increasingly about extremes, with falling willingness to meet in the reasonable middle
- Since its EU entry in 2007, Romania has, eventually, got better at absorbing EU funds and it is also doing fairly well with the RRF. Romania was eligible for EUR 41.7bn in the 2014-20 Budget, it is eligible for EUR 46.5bn in the current budget 2021-27 and, for RRF, it will be able to tap EUR 14.2bn in grants and EUR 15bn in loans
- The budget execution has become less extreme than in the past (but still more active than in most countries). The RRF framework introduces some external constraints on fiscal policy. In the past, sudden policy changes that are evidently undesirable tended to be corrected within a week
- Beware: 2024 may see a lot of elections – EU parliamentary elections, local elections, presidential elections and, potentially, also general elections



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