

ROMANIA | MACRO OUTLOOK

2024: Another year of sub-potential economic growth

Household consumption to become main GDP growth driver

NBR flagged May as start of rate cutting cycle

Romanian sovereign debt remains in good demand

EUR/RON should remain broadly stable in 2024, asymmetric risks

Economy (%)	2023	2024e	2025e
GDP (real, y/y)	2.1	2.6	3.9
Unempl. Rate	5.6	5.6	5.6
CPI (y/y)	10.5	5.5	3.7
Retail Sales (y/y)	1.9	3.5	4.5
Ind. Prod. (y/y)	-4.9	2.0	3.3
Public Debt/GDP	48.4	49.7	49.5

Source: Erste Group Research

Market	Spot	24Q2	24Q3	24Q4
EUR/RON	4.96	4.98	5.02	5.05
USD/RON	4.54	4.37	4.40	4.51
Target Rate (%)	7.00	6.75	6.25	5.75
3M Rate (%)	0.00	5.97	5.47	4.97
2Y Bond (%)*	5.90	6.35	6.05	5.75
5Y Bond (%)*	6.08	6.50	6.40	6.30
10Y Bond (%)*	6.49	6.70	6.60	6.50

Source: FactSet, Erste Group Research

Rating	Current	Outlook
Moodys	Baa3	stable
S&P	BBB-	stable
Fitch	BBB-	stable

Source: Erste Group Research

General	2023
Population mn	18.9
GDP/Capita EUR	17,913

Source: Erste Group Research

Spot Rates as of:

10th Mar. 2024

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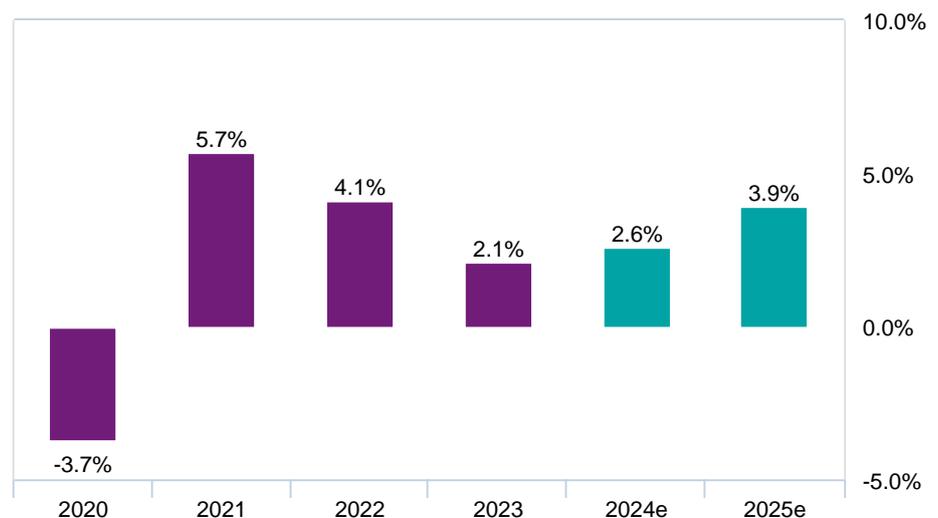
Note:

*Information on past performance is not a reliable indicator for future performance. Forecasts are not a reliable indicator for future performance.

2024 is shaping up to be the second consecutive year with sub-potential GDP growth and with a marginal-to-no correction in the twin deficits, which remain a key concern for markets and the rating outlook. Local and European elections scheduled for June 9 are likely to cement the view of continuity for the current grand coalition beyond 2024. Consumption started the year on a strong footing, supported by robust real wage growth and past saving buffers, and it is expected to be the main growth driver, as public investments could slow at the start of the new Multiannual Financial Framework.

Falling inflation should help boost further real income, with real wages already surpassing pre-commodity shock levels at the end of last summer. Core inflation is forecasted to remain stubbornly above the headline over the next couple of years, which, combined with a tight labor market and strong real wage growth, delays NBR rate cuts vs. CEE peers. The central bank governor offered quite clear forward guidance by saying that the NBR Board discussed in February a potential calendar for rate cuts, and it would be ready to cut rates after at least two months of inflation data releases showing inflation declining after the uptick in January.

GDP (real,y/y)



Source: Erste Group Research

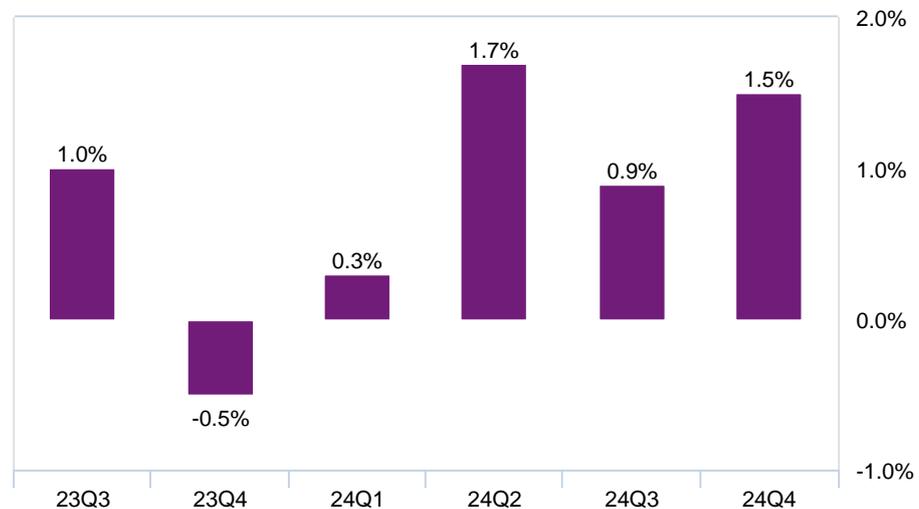
GDP

Household consumption to become main GDP growth driver

We revised down our 2024 GDP growth forecast to 2.6% y/y, from 3.3%, due to much weaker than expected 4Q23 growth, with a significant negative carry-over effect. The private consumption momentum started in 4Q23, and it is expected to continue throughout 2024, as strong real wage growth, looser monetary policy conditions and increased social public spending should nurture higher private consumption. We expect the gross fixed capital formation contribution to remain significant in 2024, supported by inflows of EU funds and continued state investments in infrastructure.

GDP growth slowed to 2.1% y/y in 2023, from 4.1% in 2022. On the supply side, construction added 0.8pp to the 2.1% GDP growth. IT&C and agriculture each added 0.4pp, while professional activities +0.3pp. The contribution of industry was negative at -0.5pp. On the demand side, gross fixed capital formation had the highest contribution of +2.9pp to the 2.1% GDP growth, followed by households' consumption with +1.8pp. The contribution of net exports was neutral, while the inventories contribution was negative at -3.1pp.

GDP (real, s.a., q/q)



Source: Erste Group Research

Annual	2021	2022	2023	2024e	2025e
GDP real	5.7%	4.1%	2.1%	2.6%	3.9%
CPI (y/y)	5.1%	13.7%	10.5%	5.5%	3.7%
Private Consumption	7.5%	5.8%	2.9%	3.1%	3.4%

Source: Erste Group Research

Inflation

Inflation forecast above NBR target range over policy horizon

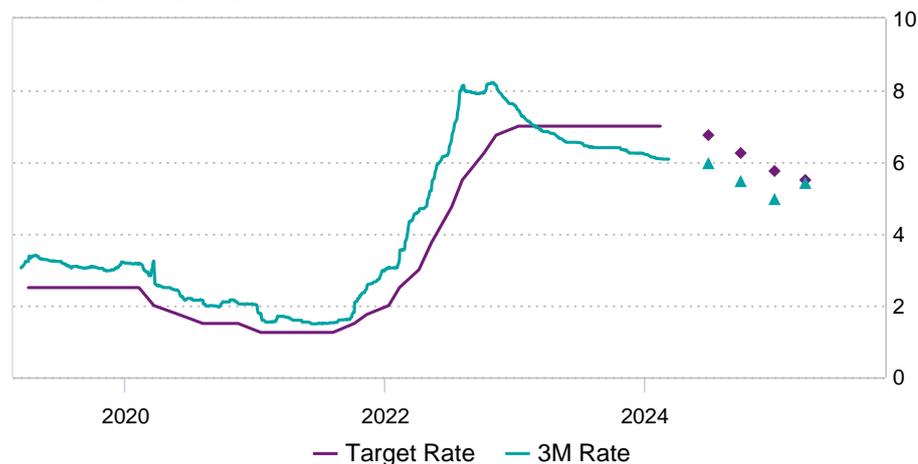
We revised down our end-2024 CPI forecast to 4.3% y/y, from 4.8% y/y, due to the government decision to extend the cap on markups for some basic food items by two months, the milder RON depreciation scenario and lower imported inflation. The risk balance to our forecast is tilted to the upside after the recent shift higher in oil price futures. After the expected uptick in inflation in January, the disinflation process is expected to resume. Core inflation continued to decelerate in January to 8.2% y/y, from 8.4% y/y in December, matching our expectations, though underlying inflationary pressures remain elevated.

Monetary Policy

NBR flagged May as start of rate cutting cycle

The NBR governor offered quite clear forward guidance after the February meeting, saying that the NBR Board discussed a potential calendar for rate cuts, and it would be ready to cut rates after at least two months of inflation data releases showing inflation declining after the uptick in January. This is in line with our call for the first cut in May. Other key messages from the NBR: (i) no change in the ± 100 bp standing facilities corridor is being considered; (ii) the 6.00% deposit facility rate is the relevant rate when comparing the interest rate level with peer central banks' key rates, as this is the instrument at which the NBR mops liquidity.

Short Term Yields



Source: FactSet, Erste Group Research

Market (%)	Spot	24Q2	24Q3	24Q4	25Q1
Target Rate	7.00	6.75	6.25	5.75	5.50
3M Rate	0.00	5.97	5.47	4.97	5.42

Source: FactSet, Erste Group Research

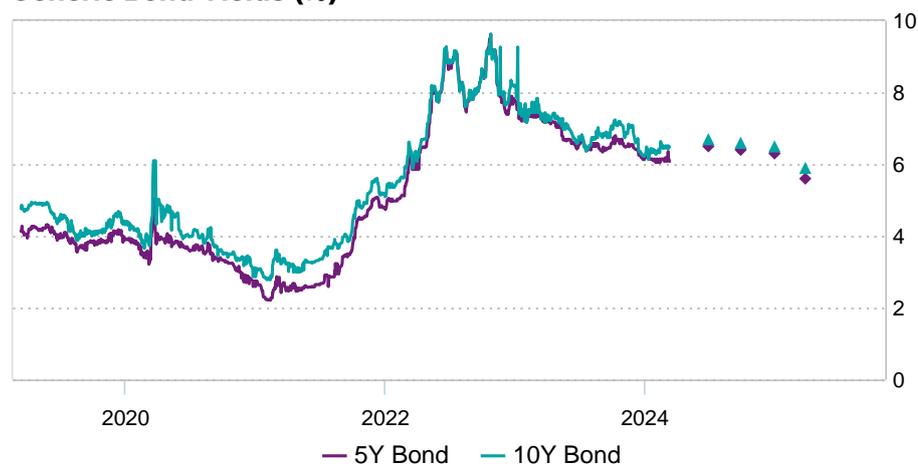
Bond Yields

Romanian sovereign debt remains in good demand

The government gross funding needs for 2024 stand at RON 188bn or 11.0% of GDP, assuming a cash budget deficit of 5.4% of GDP. The MinFin covered one third of the financing needs already after it twice tapped the international markets at the start of the year by issuing EUR 4bn and USD 4bn. The demand for local currency debt has been quite strong and the debt managers upsized the primary market issuance vs. initial plans, likely targeting to frontload issuance ahead of potential electoral noise.

After most of the EUR 8.5-9.5bn in external issuance was covered, we could see some spread tightening in ROMANIs, due to relief over supply pressure, though fundamentals are not supportive. The twin deficits correction is likely to take longer than expected, keeping the rating outlook at risk for a change to negative, especially if either the fiscal execution or nominal GDP growth disappoint in the first part of the year and subsequently the debt-to-GDP ratio outlook shifts higher.

Generic Bond Yields (%)



Source: FactSet, Erste Group Research

Market	Spot	24Q2	24Q3	24Q4	25Q1
2Y Bond*	5.90	6.35	6.05	5.75	5.45
5Y Bond*	6.08	6.50	6.40	6.30	5.60
10Y Bond*	6.49	6.70	6.60	6.50	5.90

Source: FactSet, Erste Group Research

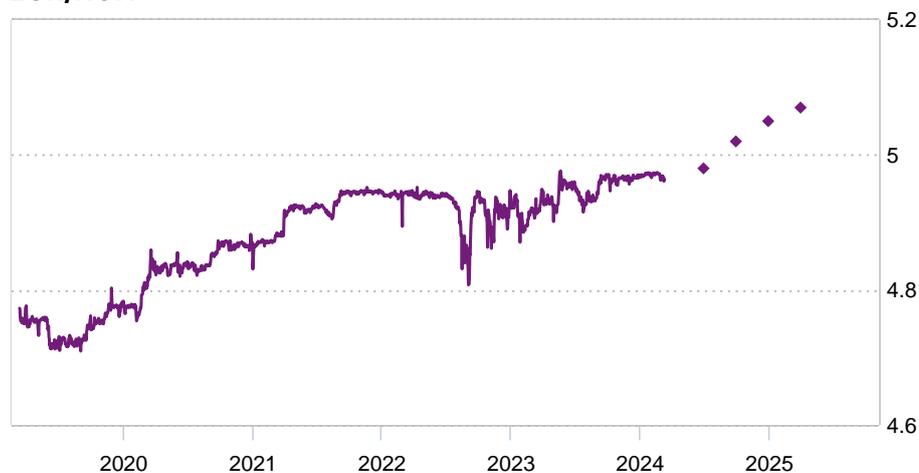
Romanian Leu

EUR/RON should remain broadly stable in 2024, asymmetric risks

The exchange rate stability is likely to remain at the core of the NBR decision-making process and we see downside risks to our year-end call for the EUR/RON at 5.05. The 4.98 level seems to be the new NBR 'line in the sand' for the EUR/RON. The central bank is likely taking the opportunity to mop up RON liquidity, as the RON remains under weakening pressure. The risk to the EUR/RON outlook is asymmetrical, as the NBR governor reiterated that the economy cannot afford leu appreciation due to the wide current account deficit.

The C/A deficit narrowed less than expected in 2023, to -7.2% of GDP, from -9.2% in 2022, and Romania remains the outlier in terms of external imbalances vs. peers. Delayed fiscal consolidation postpones the adjustment in the trade deficit, though part of it is structural. We see the C/A gap at -6.9% of GDP in 2024. We noticed some currency overvaluation issues, affecting especially sectors employing a low-skilled labor force with tight margins, though we do not expect any sharp RON depreciation.

EUR/RON



Source: FactSet, Erste Group Research

	Spot	24Q2	24Q3	24Q4	25Q1
EUR/RON	4.96	4.98	5.02	5.05	5.07
vs. Spot		0.4%	1.2%	1.8%	2.2%
USD/RON	4.54	4.37	4.40	4.51	4.53
vs. Spot		-3.7%	-3.1%	-0.7%	-0.2%

Source: FactSet, Erste Group Research

Politics

'Super-election' year kicks in with European and local ballots in June 2024

The grand government coalition between the Social Democrats (PSD) and Liberals (PNL) functioned quite smoothly, offering political stability, which was praised by the rating agencies. Opinion polls currently suggest government continuity beyond the 2024 elections, with the Socialists likely as the main coalition party. Given the high bar for expectations set by politicians for achieving non-inflationary economic growth financed by EU funds in the current global context, we see the RRF commitments as a red line that is unlikely to be crossed.

The European elections scheduled for June 9, at the same time as local elections, are the first test for the political parties. The two main parties are running as an alliance for European elections and are credited with almost 44% of vote intentions. PSD and PNL are considering endorsing common candidates for major cities where the incumbent is from the opposition. The two main political parties are expected to nominate their presidential candidates after the June elections, with media reporting that a common candidate is being considered.

Parliament Seats



- PSD | left
- PNL | centre right
- USR | centre
- AUR | nationalist conservative
- UDMR | ethnic party
- Ethnic minorities | ethnic party
- Unaffiliated MPs | centre

Source: Erste Group Research

Last Election:

Dec-20

Next Election:

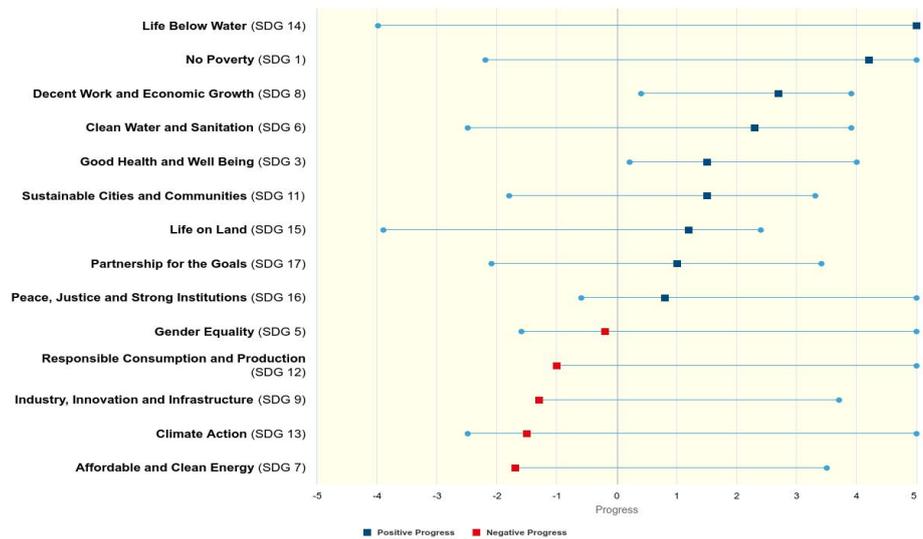
Nov-24

Sustainable Development Goals

SDG – Moving closer to EU standards from low levels

Partnerships for the Goals and Life below Water are the SDG topics where Romania has a better position than the EU average and is making progress. Most of the other goals find Romania with a weaker starting point vs. the EU, but making improvements, with the No Poverty and Decent Work and Economic Growth performances standing out, supported by fast income convergence. Quality Education, Responsible Consumption and Production along with Industry, Innovation and Infrastructure are key challenges for Romania, as its status is below the EU average and moving away from SDG. Making full use of EU funds could improve the situation.

Progress Overview



Source: Erste Group Research

Progress Overview



Source: Erste Group Research

Forecasts

Annual	2018	2019	2020	2021	2022	2023	2024e	2025e
Real GDP growth	6.0	3.9	-3.7	5.7	4.1	2.1	2.6	3.9
Inflation (CPI, avg)	4.6	3.8	2.7	5.1	13.7	10.5	5.5	3.7
Unemployment rate (avg)	5.3	4.9	6.1	5.6	5.6	5.6	5.6	5.6
Retail sales growth	5.6	7.1	2.3	10.1	4.4	1.9	3.5	4.5
Industrial output growth	3.5	-2.3	-9.2	7.1	-1.8	-4.9	2.0	3.3
Private consumption growth	9.4	3.3	-3.9	7.5	5.8	2.9	3.1	3.4
Fixed capital formation growth	0.0	12.6	1.1	2.9	5.9	12.0	5.0	6.8
Percent of GDP								
Trade balance	-7.3	-7.7	-8.3	-9.8	-12.0	-9.2	-9.0	-9.1
Current account balance	-4.6	-4.9	-4.9	-7.2	-9.2	-7.2	-6.9	-6.8
Foreign direct investment	2.6	2.3	1.4	3.7	3.7	2.2	2.2	2.2
Budget balance	-2.8	-4.3	-9.2	-7.1	-6.2	-6.0	-5.7	-4.0
Public debt	34.5	35.1	46.9	48.6	47.3	48.4	49.7	49.5
External debt, gross	48.8	49.2	57.9	56.0	53.0	52.2	51.5	51.0
FX, money market								
USDLCY average	3.94	4.24	4.24	4.16	4.69	4.57	4.46	4.55
EURLCY average	4.65	4.75	4.84	4.92	4.93	4.95	5.00	5.10
EURLCY eop	4.66	4.78	4.87	4.95	4.95	4.97	5.05	5.15
(percent)								
CB policy rate (avg.)	2.34	2.50	1.86	1.32	4.12	7.00	6.60	5.00
3m interbank offer rate (avg.)	2.79	3.12	2.38	1.82	6.20	6.62	5.69	4.94
2Y Yield (average)*	3.30	3.40	3.09	2.62	6.89	6.50	6.15	5.40
5Y Yield (average)*	4.30	4.05	3.50	3.18	7.40	6.82	6.50	5.70
10Y Yield (average)*	4.70	4.53	3.93	3.76	7.58	7.04	6.70	6.00

Source: Erste Group Research

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