

# ***ROMANIAN ECONOMY***

***- recent developments and outlook -***

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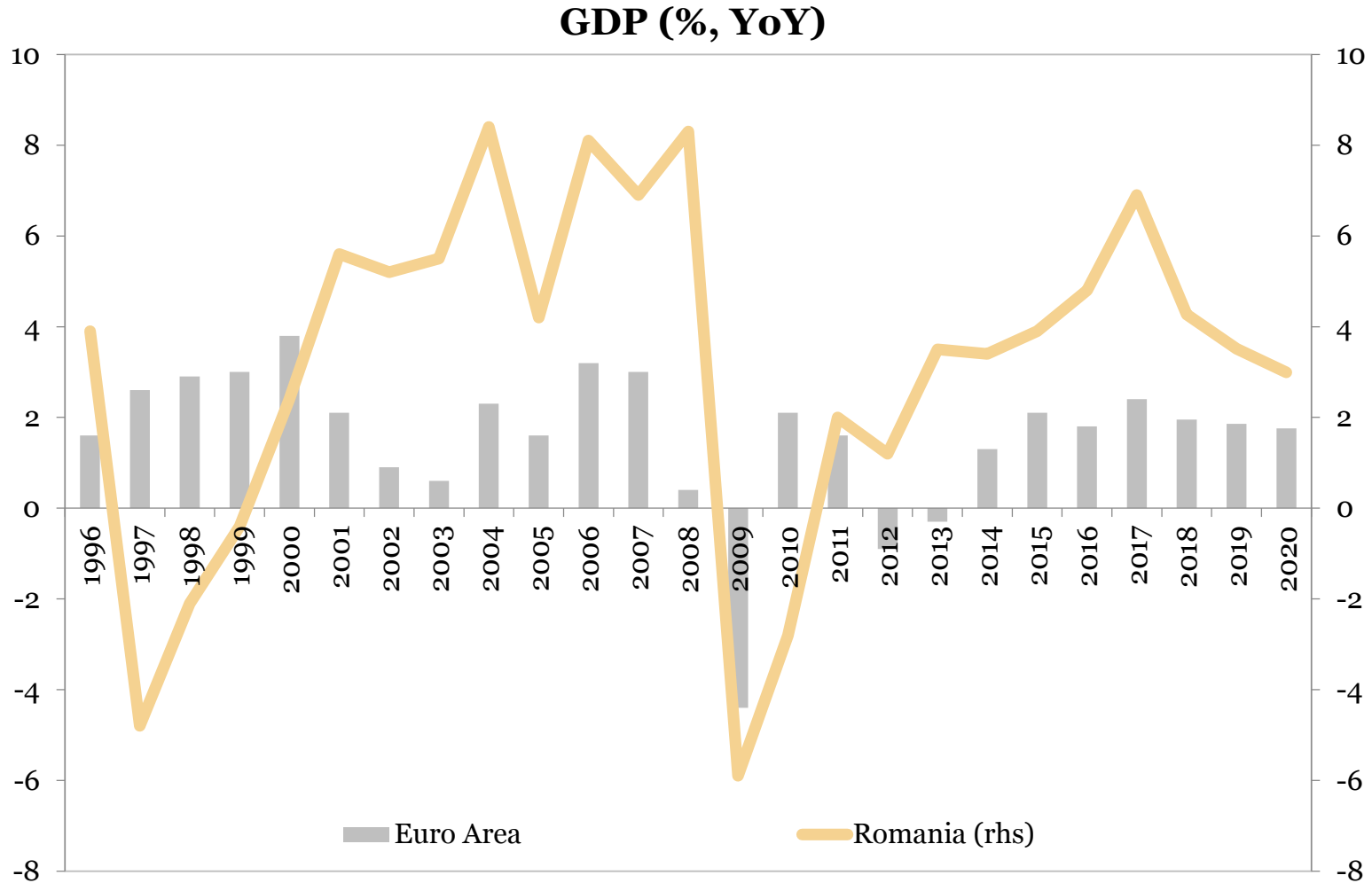
# INTRODUCTION



# ROMANIA AFTER 10 YEARS IN EU

- ❑ An investment grade economy at the crossroads of EU, Middle East, CIS and **OBOR**
- ❑ The leader of economic growth in the EU post-crisis cycle
- ❑ The champion of the European economic convergence after 2007
- ❑ The transition to mid-class economies (nominal GDP converging to EUR 200bn)
- ❑ Strong integration with the EU economic cycle
- ❑ Important measures to support the SMEs under implementation
- ❑ The availability of the EU funds (over EUR 30bn for 2014-2020 interval)
- ❑ IT&C – the star of the economy
- ❑ Romania - a strategic member of NATO
- ❑ High convergence potential (PPS GDP/capita at 60% of the Euroland level in 2017)
- ❑ Perspectives of integration in OECD and Euro Zone in the mid-run

# ROMANIA – LEADER OF GDP GROWTH IN EU



*Source: Eurostat, BT forecasts*

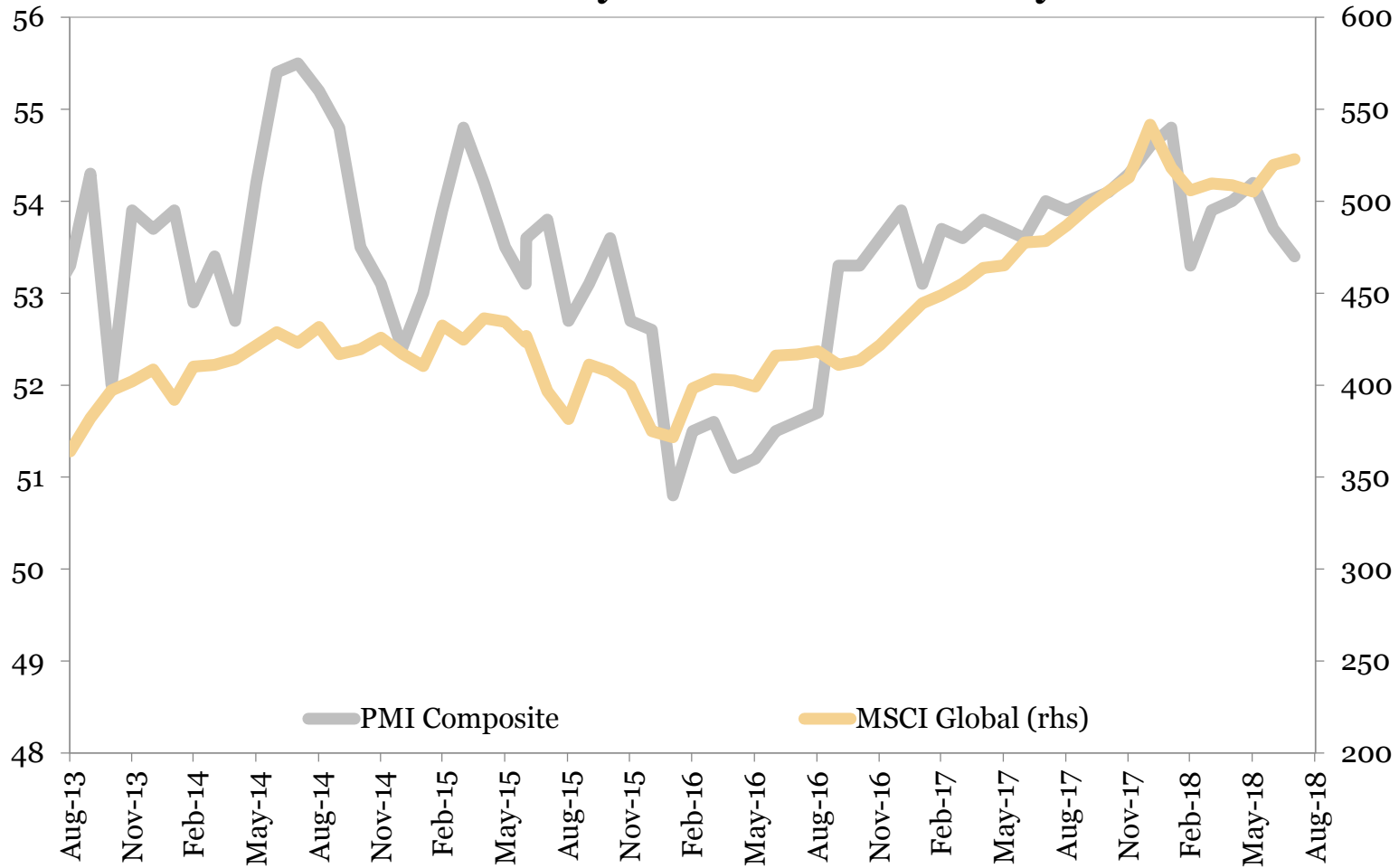


# **GLOBAL AND EUROPEAN MACROECONOMIC CLIMATE**



# TOWARDS THE END OF THE POST-CRISIS CYCLE

## Real economy vs. financial economy

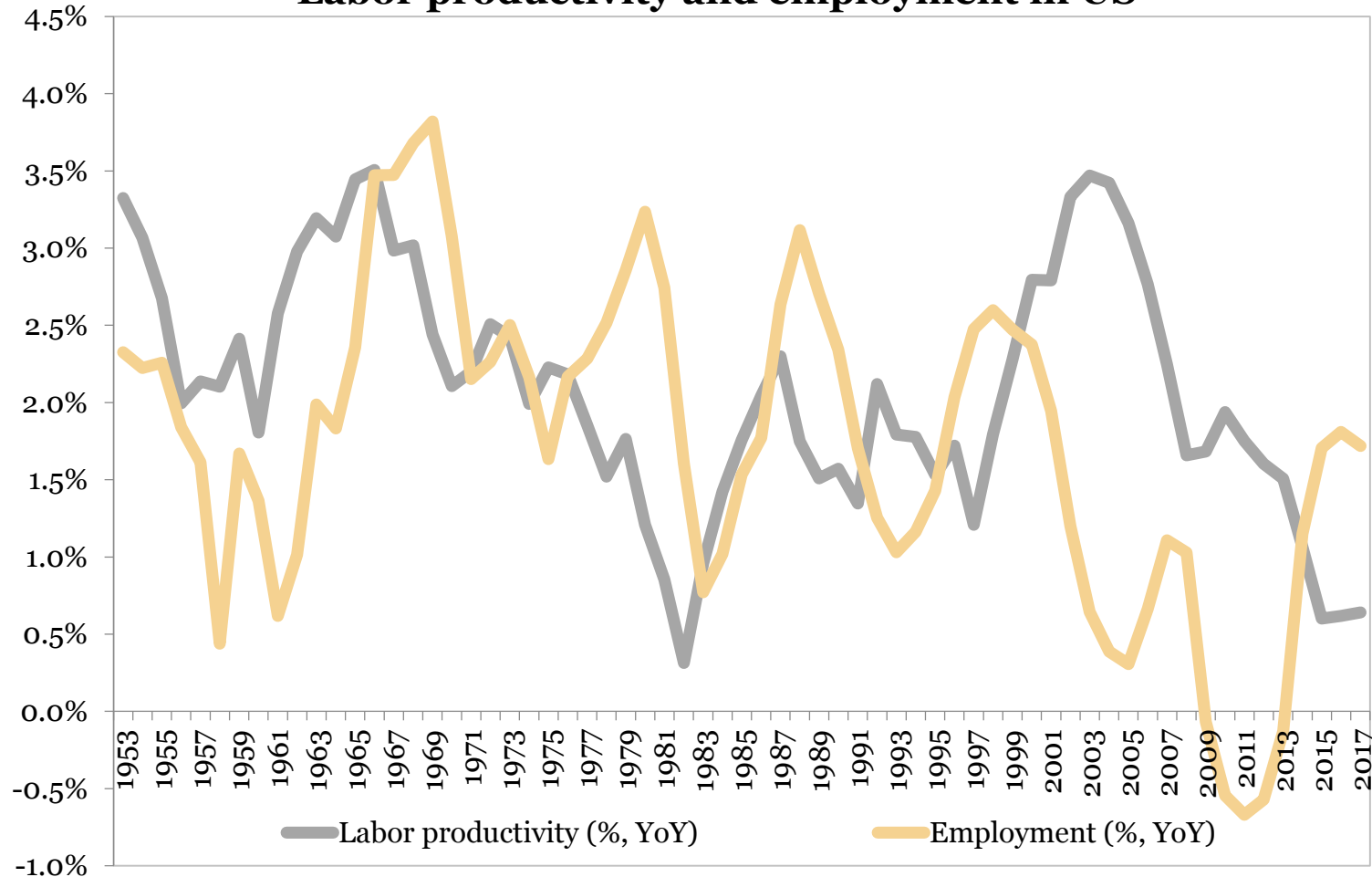


Source: Bloomberg



# US ECONOMY – THE MATURITY OF THE CYCLE

## Labor productivity and employment in US



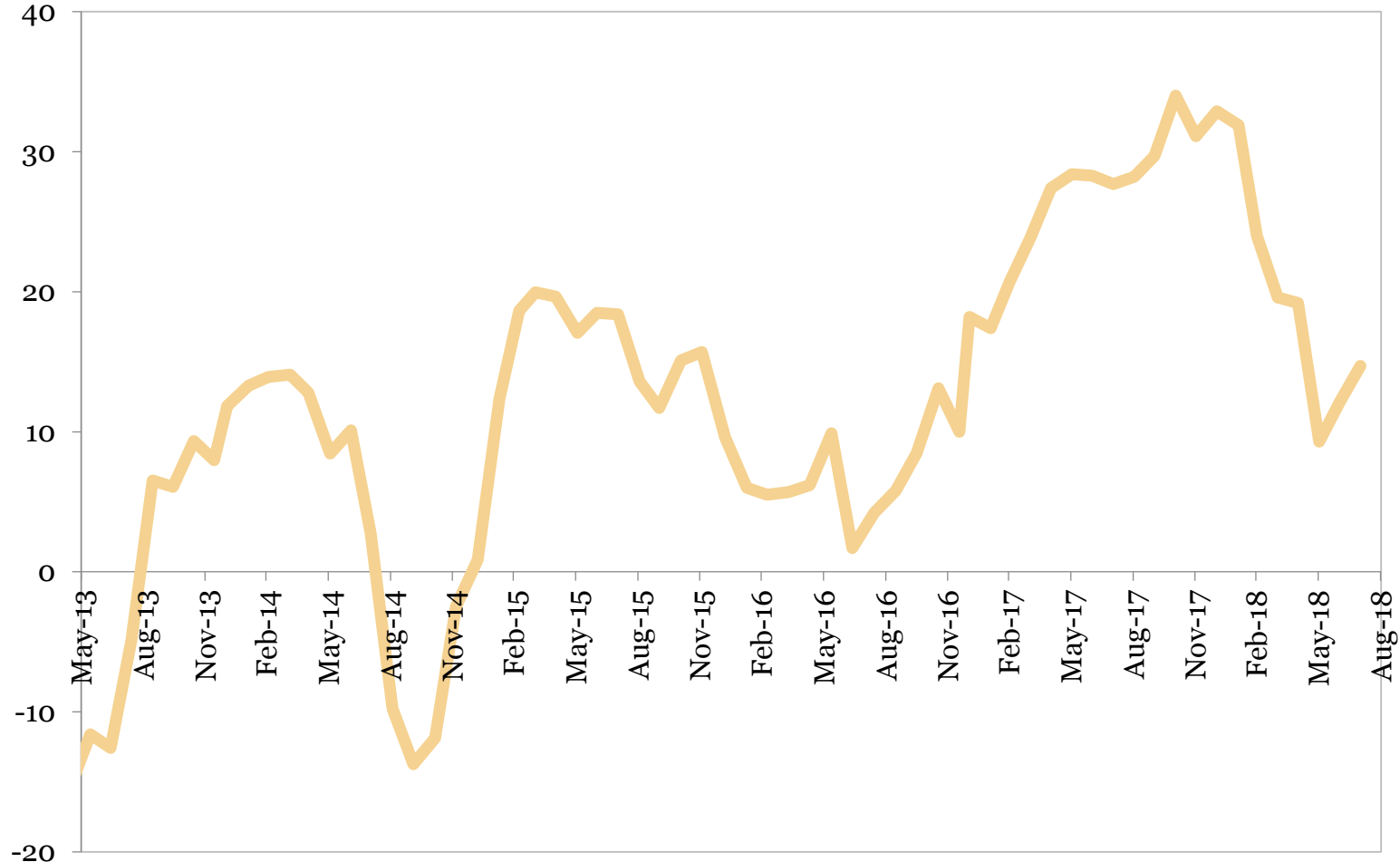
Source: BT based on US Bureau of Labor Statistics (BLS)





# EU ECONOMY – A DECELERATION PROCESS

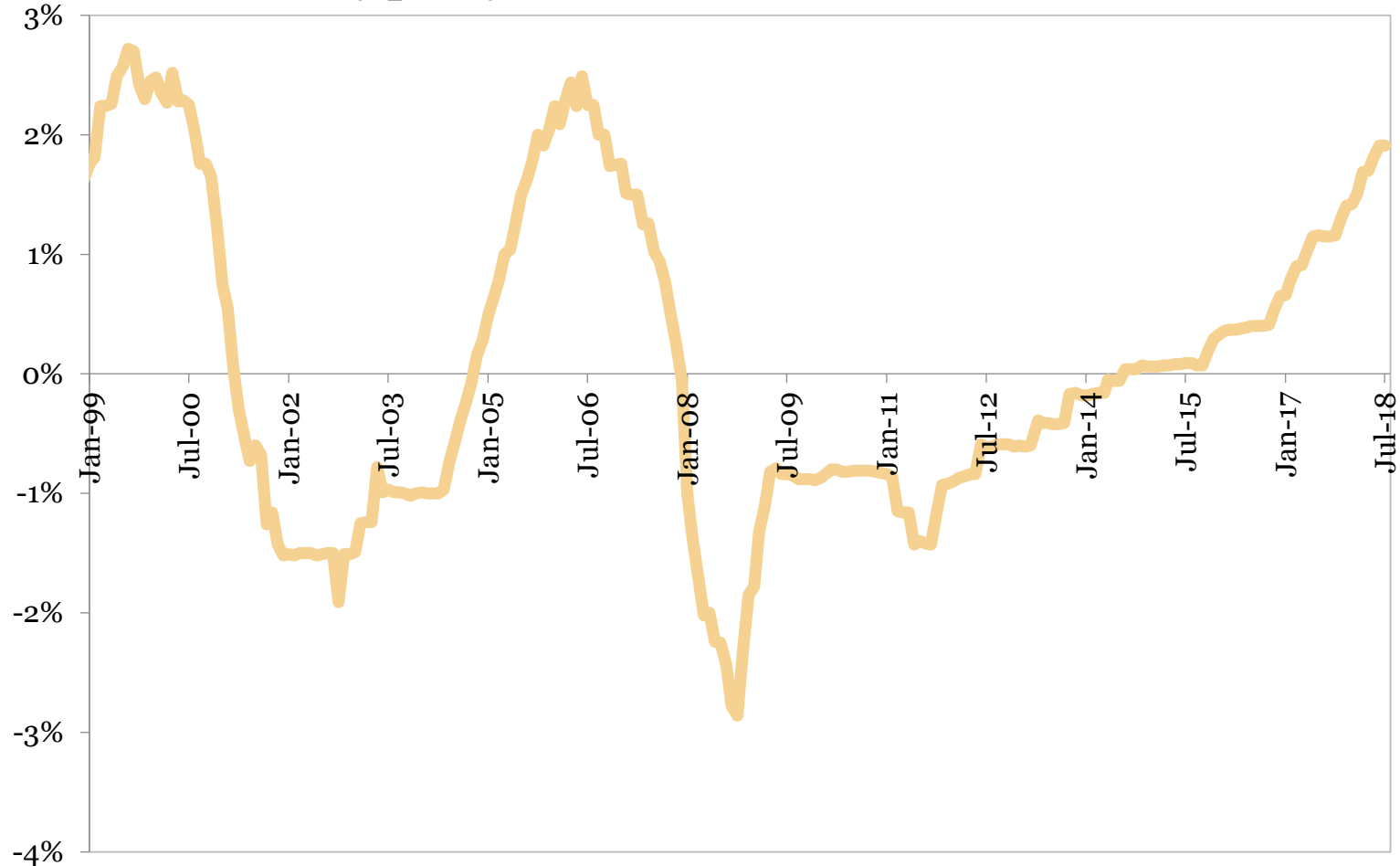
## Investor confidence in Euro Zone



Source: Sentix

# UNSUSTAINABLE MONETARY DIVERGENCE

## Monetary policy rate differential (US vs. Euro Zone)



*Source: Federal Reserve, European Central Bank*



# RECENT ECONOMIC DEVELOPMENTS IN ROMANIA



# THE PEAK OF THE CYCLE IN 2017

- ❑ Romanian GDP accelerated to 6.9% YoY in 2017, the highest pace since 2008, an evolution supported by the expansionary policy-mix
- ❑ Private consumption up by 10.1% YoY, due to the increase of the real disposable income, the dynamics of the credit markets and the wealth effect
- ❑ The fixed investments rose by 4.7% YoY, due to the exports' impulse, the strong private consumption and the low level of the real interest rate
- ❑ Negative contribution of the net foreign demand
- ❑ The intensification of the twin deficits
- ❑ Unemployment at record low levels
- ❑ The inflexion of the YoY CPI dynamics
- ❑ NBR started a new monetary cycle

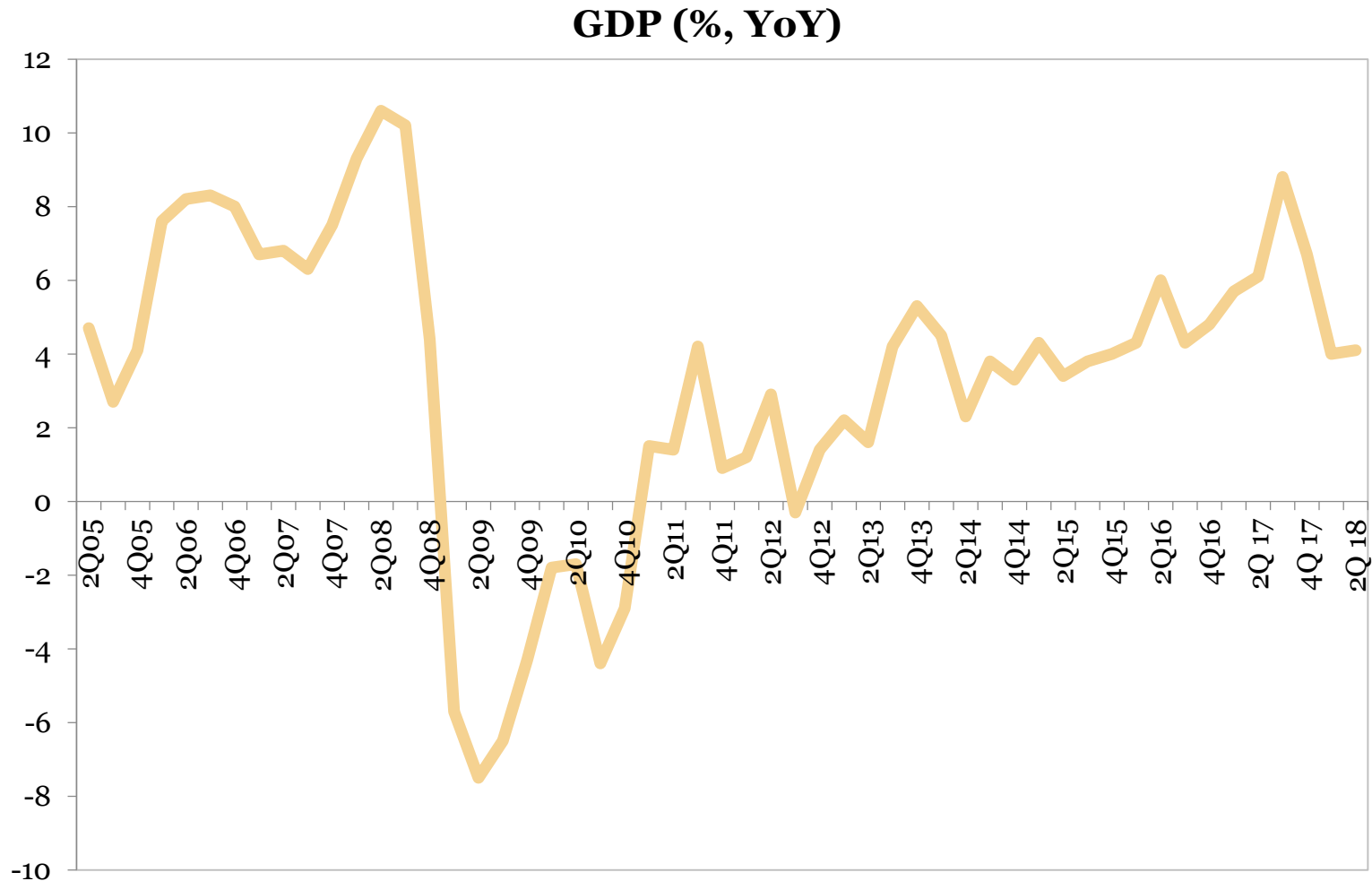


# SLOWING DOWN IN 2018

- ❑ The GDP grew by 4% YoY in 1H2018, due to the contribution of the domestic demand by 5.6pp (out of which 2.4pp belonged to the inventories)
- ❑ The private consumption (the main component of the GDP) advanced by 5.5% YoY, an evolution supported by the increase of the disposable income of the population and by the positive momentum in the credit markets
- ❑ However, the fixed investments increased by only 0.5% YoY
- ❑ On the other hand, the contribution of the public consumption to the GDP YoY pace was negative (-0.3pp)
- ❑ At the same time, the net foreign demand had a negative contribution to the dynamics of the economy, as the imports climbed by 9.6% YoY, while the exports rose by 6.5% YoY
- ❑ As regards the aggregate supply, the primary sector rose by 6.9% YoY, the industry and the IT&C climbed by 4.3% and 5.3% YoY, while the cyclical component wholesale and retail trade/repair of motor vehicles and motorcycle/transport & storage/HORECA increased by 3.8% YoY
- ❑ However, the construction sector adjusted by 0.4% YoY during January-June.



# THE CONVERGENCE TOWARDS POTENTIAL

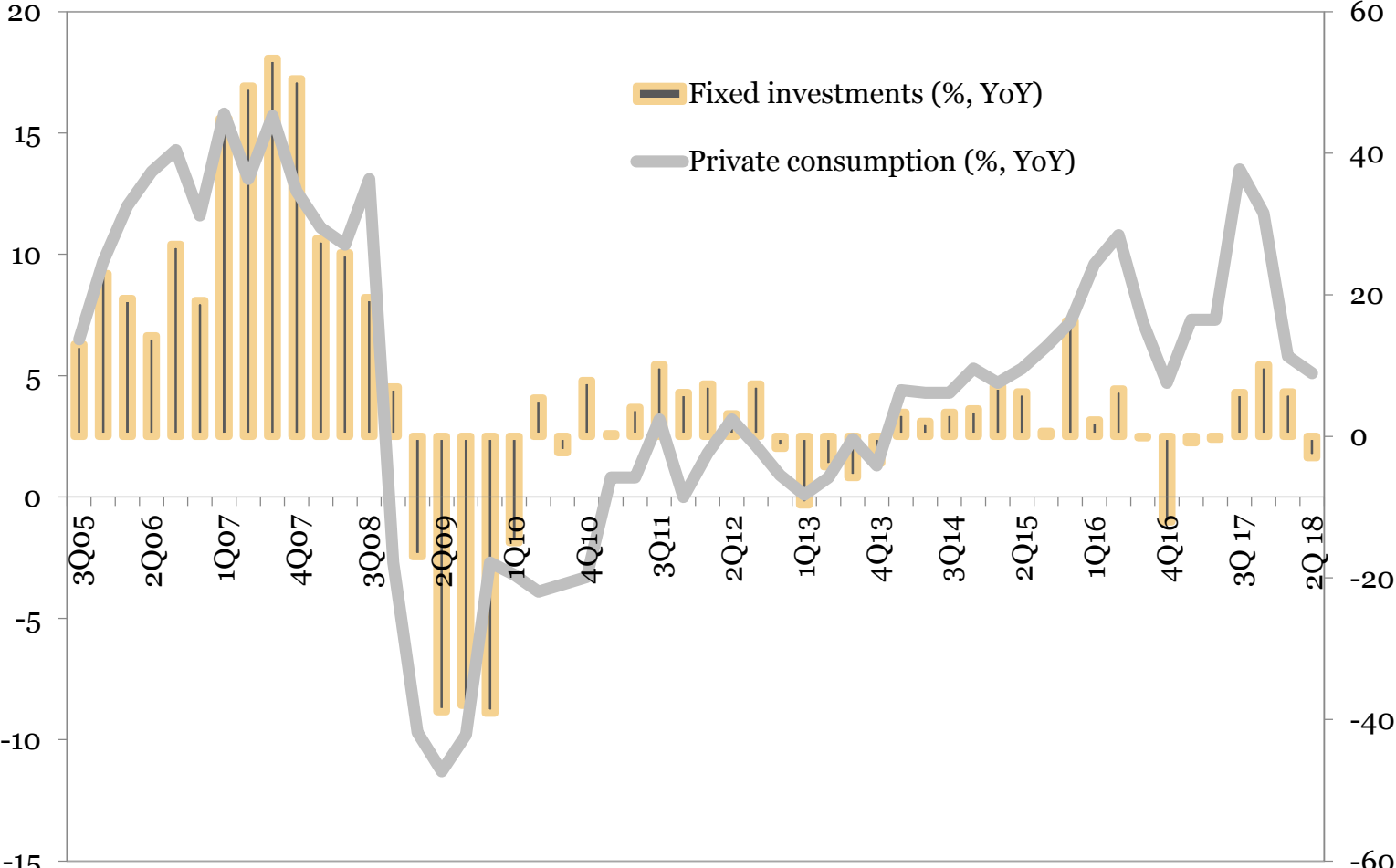


Source: Eurostat, AMECO, NIS



# STRONG CONSUMPTION vs. LOW INVESTMENTS

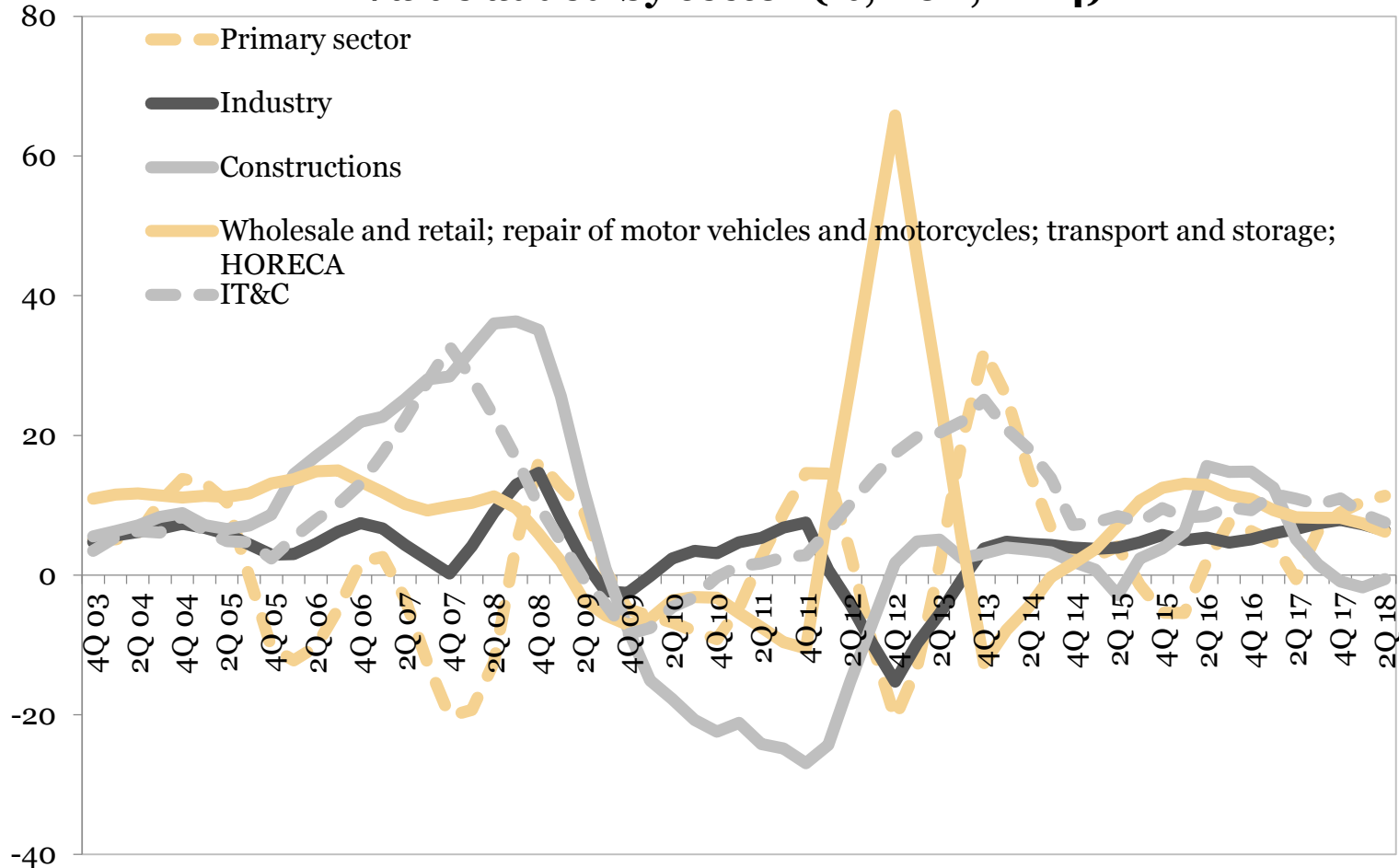
## Private consumption vs. fixed investments



Source: Eurostat, AMECO, NIS

# IT&C – THE STAR OF THE ECONOMY

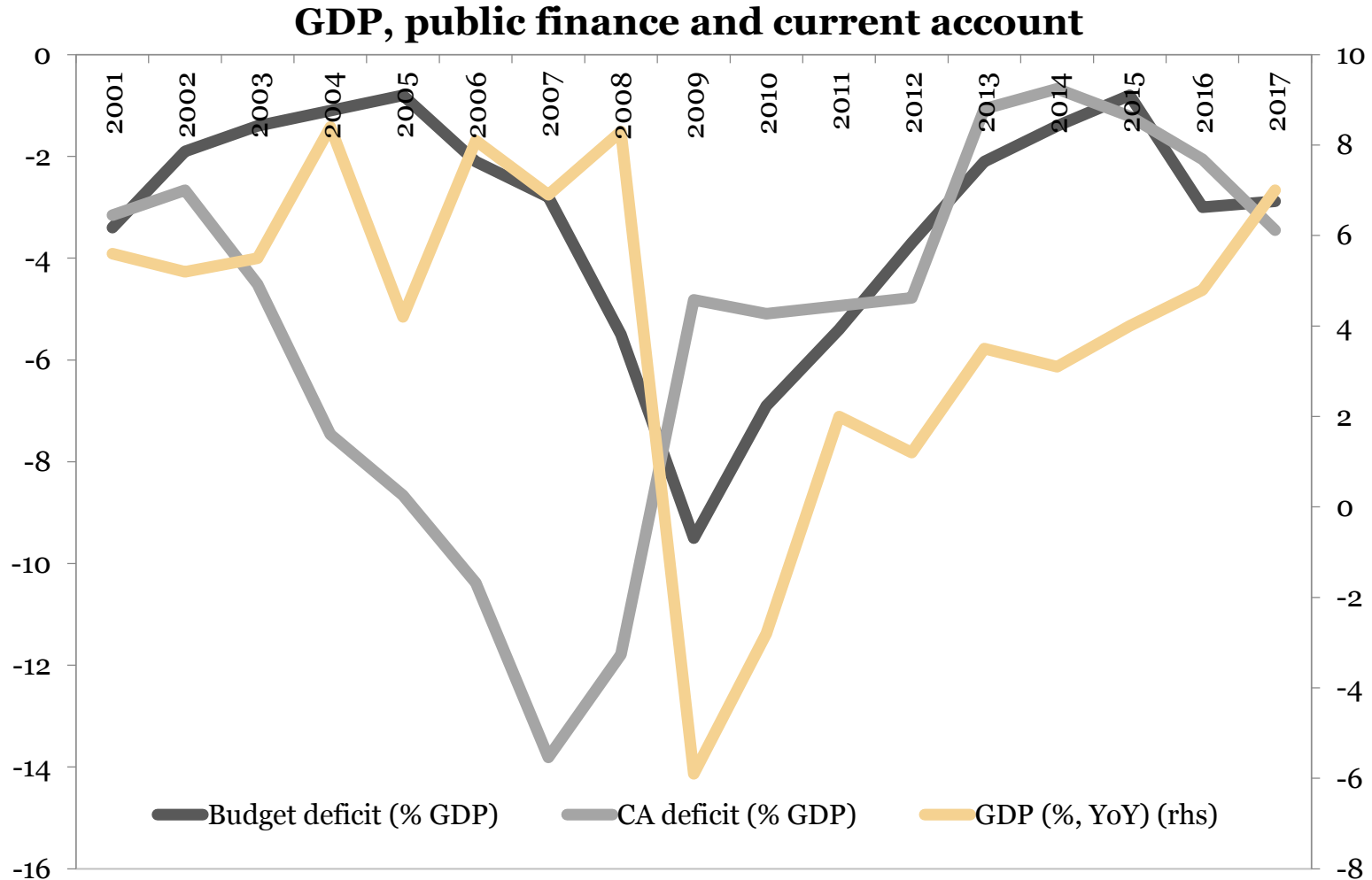
**Value added by sector (% YoY, MA4)**



Source: National Institute of Statistics (NIS)



# RETURN OF TWIN DEFICITS



Source: AMECO, IMF, Eurostat, NIS, BT



# **MID-RUN OUTLOOK FOR ROMANIAN ECONOMY**



# MID-RUN MACROECONOMIC SCENARIO

Indicator / year	2016	2017	2018	2019	2020
GDP (nominal) (EUR, bn)	170.9	187.9	199.4	210.7	221.7
GDP (real) (% YoY)	4.8	6.9	4.3	3.5	3.0
Private consumption (% YoY)	7.7	10.1	6.0	5.8	5.2
Fixed investments (% YoY)	-2.1	4.7	4.9	3.4	3.5
Public consumption (% YoY)	3.2	1.0	0.2	0.4	0.5
Exports (% YoY)	8.7	9.7	8.0	6.5	6.3
Imports (% YoY)	9.8	11.3	9.1	8.3	8.4
Unemployment rate (%)	5.9	4.9	4.3	4.6	5.2
Inflation (HICP) (% YoY, average)	-1.1	1.1	3.8	2.9	2.7
Monetary policy rate (%)	1.75	1.75	2.75	3.00	2.50
Budget deficit (% GDP)	3.0	2.9	3.0	3.0	2.5
Public debt (% GDP)	37.4	35.0	34.7	35.2	35.4
Current account (% GDP)	-2.0	-3.3	-4.0	-4.5	-4.2
10 YR interest rate (%)	3.3	3.9	4.6	5.5	5.0
EUR/RON (yearly average)	4.49	4.57	4.66	4.70	4.72

*Source: Statistics Office, Eurostat, European Commission, AMECO, BT forecasts*

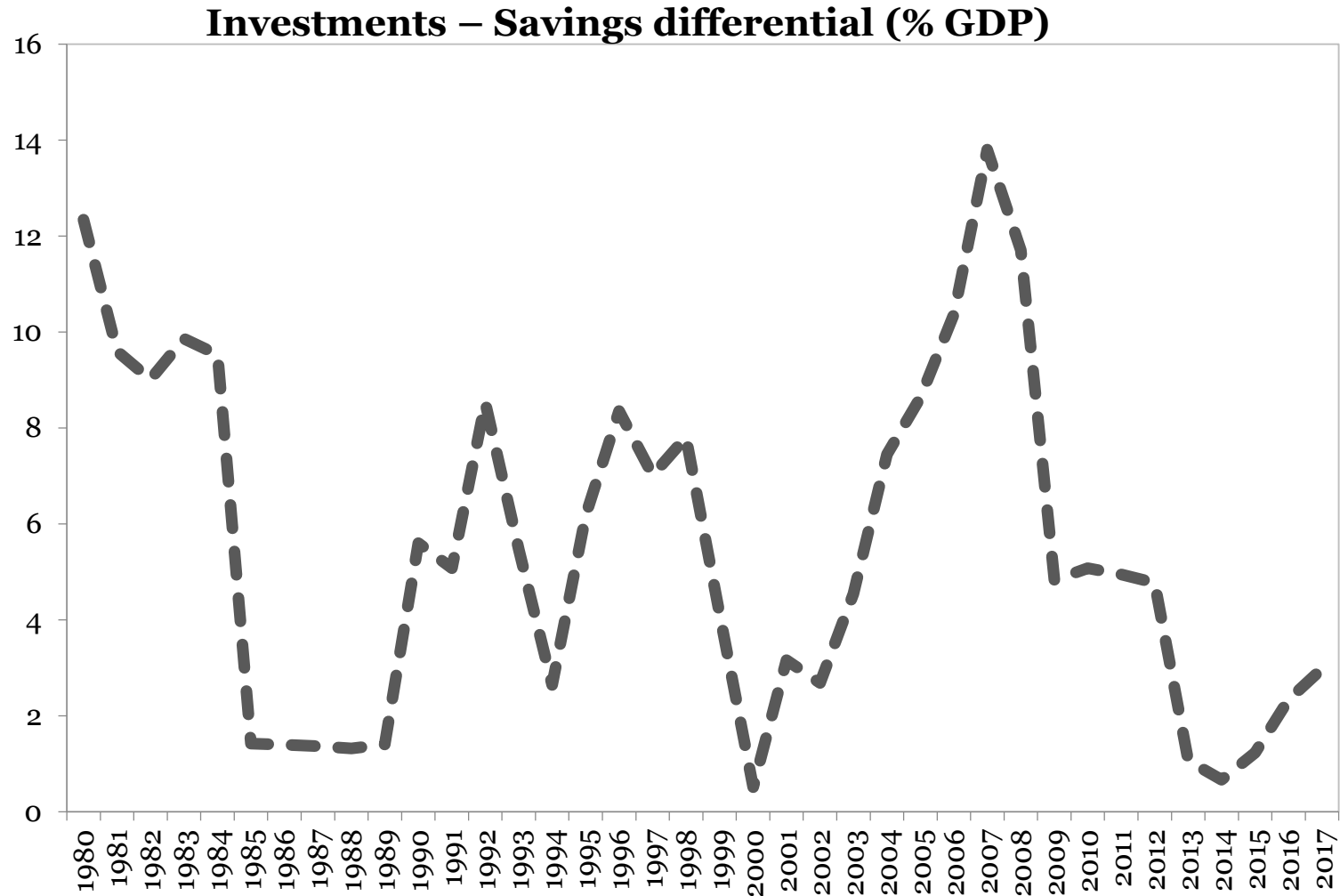


# CONVERGENCE TOWARDS POTENTIAL

- ❑ We expect the convergence of the Romanian economy towards the potential pace in the mid-run, due to the rebalancing of the policy-mix
- ❑ However, the convergence process towards the EU average would continue in the mid-run (Romanian GDP to increase by a higher pace compared with the EU)
- ❑ The main/strategic investors expected to consolidate their presence in Romania
- ❑ The levels of the deficits, debt and the dependence on foreign financing are low compared to the pre-crisis period
- ❑ Several policy-mix uncertainties (the discontinuity of reforms, the fragile stance of the public finance, the increase of the state intervention in the economy) counterbalanced by the excess liquidity
- ❑ Despite the recent increase of the wages the labor force continues to be cheap compared with the EU countries



# MACROECONOMIC EQUILIBRIA AT RISK AGAIN



Source: IMF, BT

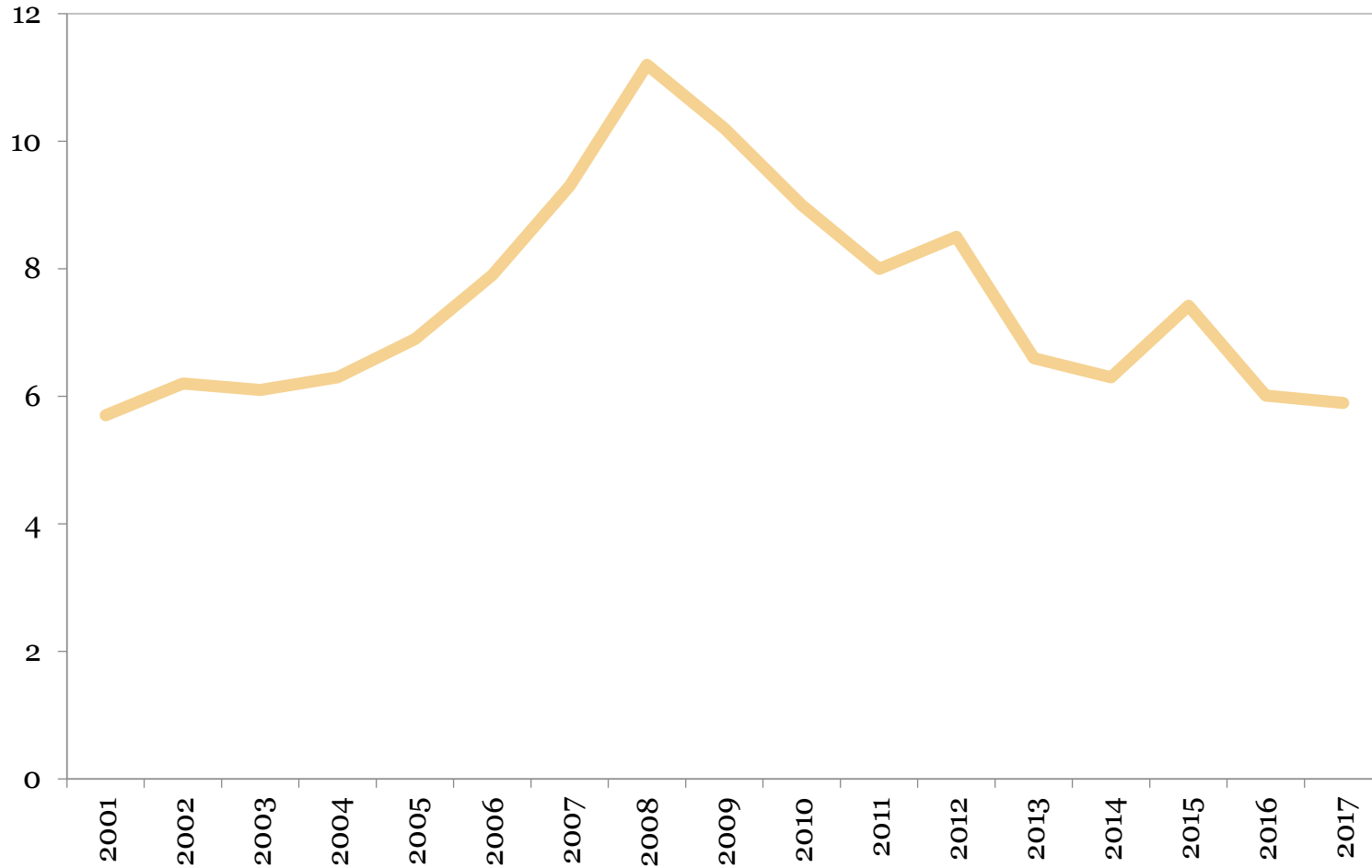


# ON THE CONSTRUCTION SECTOR



# DIMINISHING WEIGHT IN THE GDP

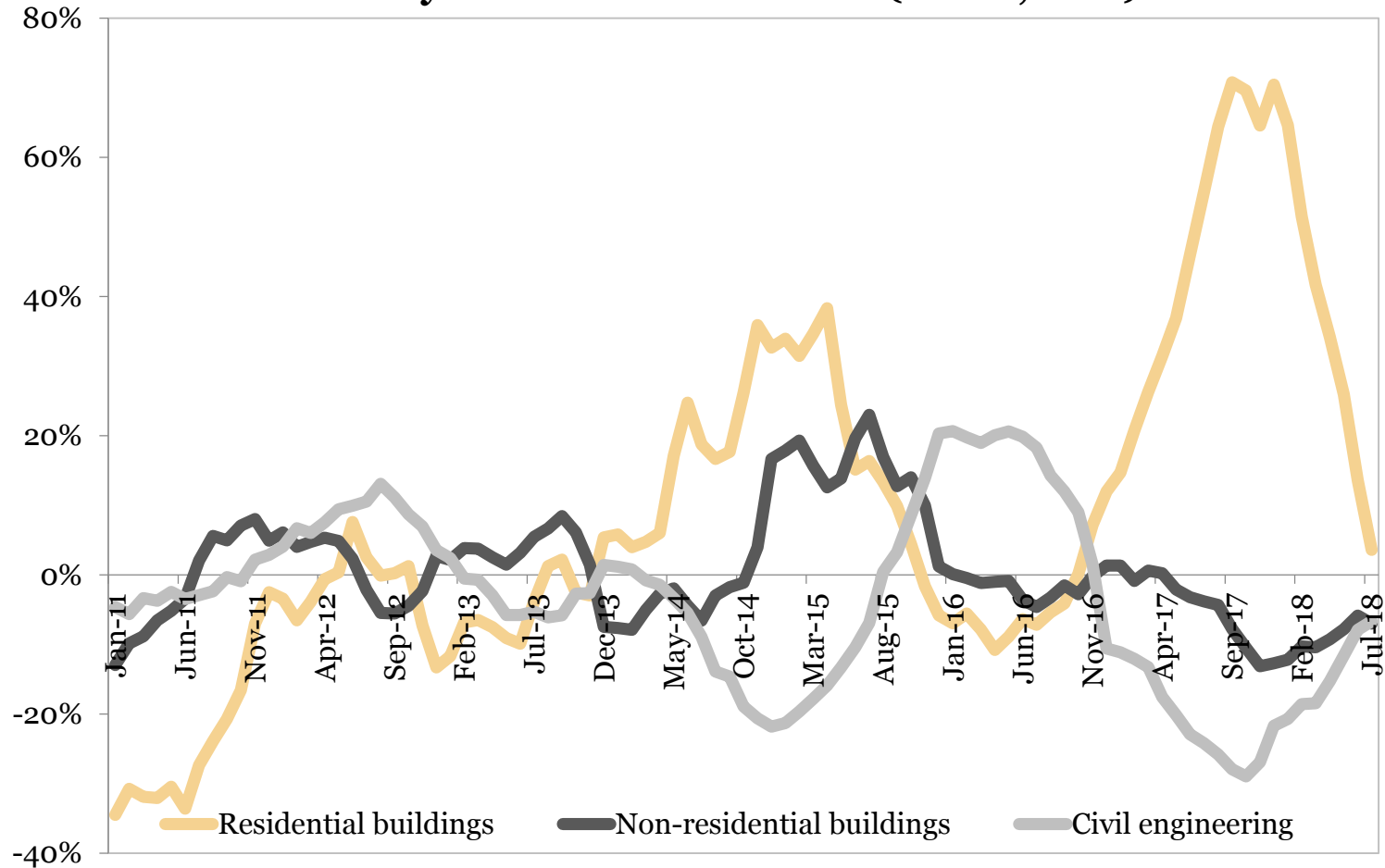
Value added in construction / GDP



Source: BT based on National Institute of Statistics (NIS)

# DIVERGENCE OF THE COMPONENTS

## The dynamics of the volume (MA12, YoY)



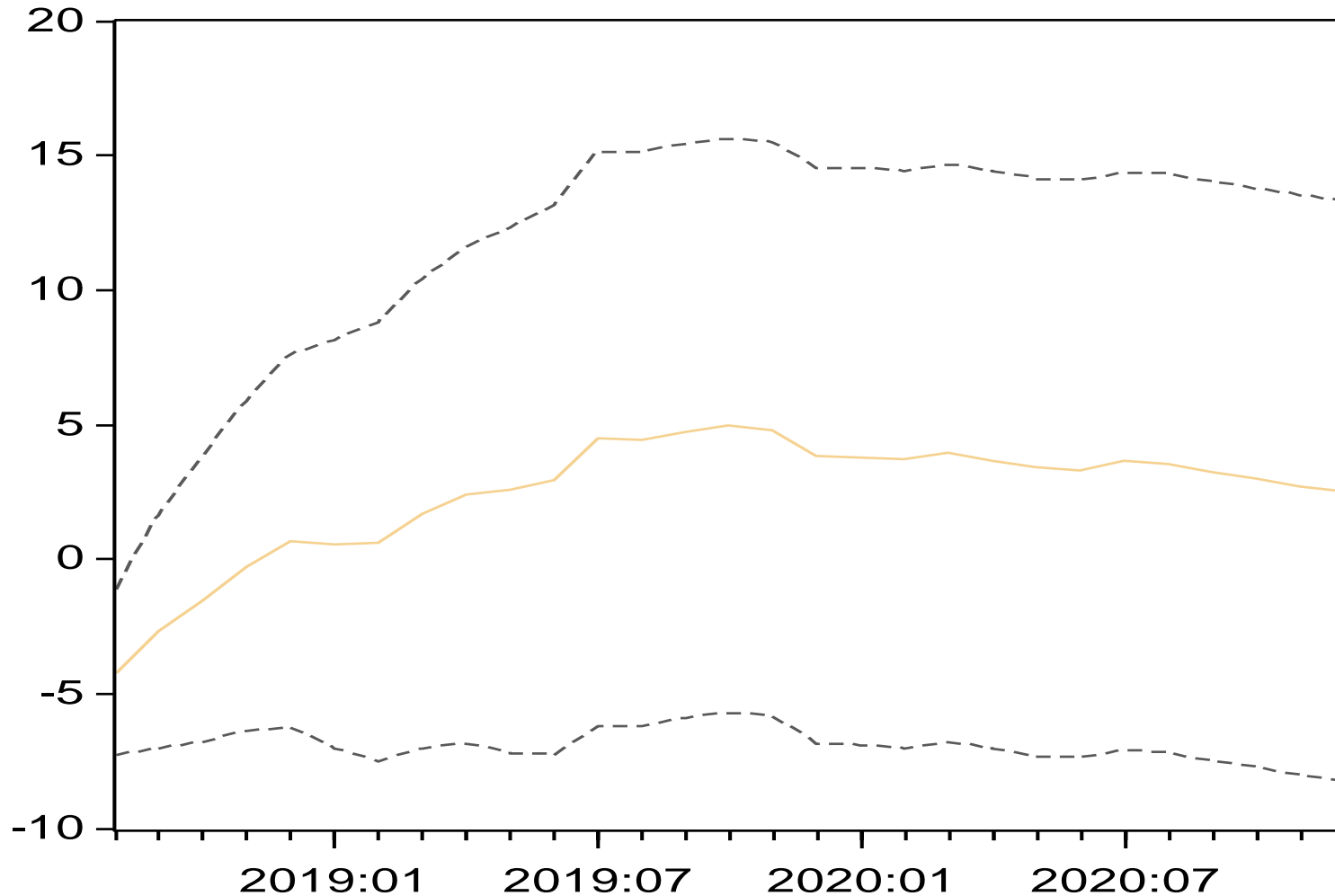
Source: BT based on National Institute of Statistics (NIS)





# WEAK PERFORMANCE IN THE MID-RUN

Forecasts for the construction sector (MA12, YoY)



Source: BT based on National Institute of Statistics (NIS)



# CONCLUSIONS



# A LANDING IN SIGHT

- ❑ A deceleration expected 2018-2020, in convergence towards the potential pace
- ❑ The EU economic convergence process of Romania would continue: the growth pace in Romania would be higher compared with the EU levels
- ❑ The levels of the deficits, debt and the dependence on foreign financing are low compared to the pre-crisis period
- ❑ The economic policy-mix in Romania has been highly pro-cyclical over the past quarters, with lack of maneuver room for the end of the post-crisis cycle
- ❑ A policy-mix rebalancing is needed in Romania in order to build maneuver room in case of incidence of shocks - the financing costs would be higher than forecasted in the mid-run if the rebalancing is postponed
- ❑ Risks & challenges: the accumulation of maturity signs for the global post-crisis cycle; the current unsustainable policy-mix; the deterioration of the international competitiveness; the lack of structural reforms and the slow pace of development



# THANK YOU!

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