Romania | Macro Outlook

Weaker-than-expected growth, bleak prospects
NBR lagging CEE peers in raising rates
Market underweight ROMGBs
Leu outperforming during global selloffs supported by NBR

Economy (%)	2021	2022e	2023e
GDP (real, y/y)	5.9	2.8	5.7
Unempl. Rate	5.6	5.3	5.2
CPI (y/y)	5.0	11.5	7.1
Retail Sales (y/y)	10.1	3.5	4.5
Ind. Prod. (y/y)	7.1	4.0	1.8
Public Debt/GDP	50.0	50.3	50.7

Source: Erste Group Research

Market	Spot	22Q2	22Q3	22Q4
EUR/RON	4.94	4.98	5.00	5.05
USD/RON	4.56	4.41	4.35	4.39
Target Rate (%)	2.50	3.25	3.50	3.50
3M Rate (%)	4.25	4.50	4.75	4.50
2Y Bond (%)*	5.49	4.80	4.80	4.60
5Y Bond (%)*	6.20	5.60	5.35	5.35
10Y Bond (%)*	6.62	6.00	5.75	5.75

Source: FactSet, Erste Group Research

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

Source: Erste Group Research

General	2021
Population mn	19
GDP/Capita EUR	14,285

Source: Erste Group Research

Spot Rates as of:
07th Mar. 2022

All Research on Romania:
erstegroup.com/research

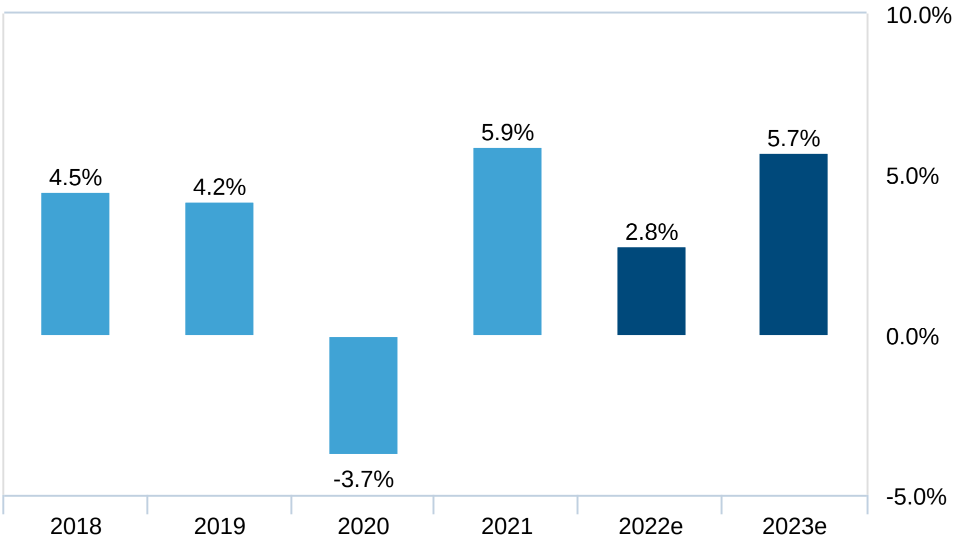
Analysts:
Ciprian Dascalu
ciprian.dascalu@bcr.ro
+40 3735 10108
Eugen Sinca
eugen.sinca@bcr.ro
+40 3735 10435

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

Forecast uncertainty is extremely high and likely to remain elevated for some time. While the magnitude of the forecast adjustments is still subject to different scenarios regarding the war in Ukraine and subsequent economic spillovers, the direction is clear: slower growth, with meaningful recession probability, and higher inflation. The central bank is therefore caught between a rock and a hard place. The situation is even less rosy for the fiscal authority: supporting growth in the short run and mitigating the negative inflationary impact on the long-term GDP outlook. RON stability seems the main NBR priority to deter weakening consumer confidence.

Similar to past crisis episodes, there is little-to-no fiscal headroom to support the economy, with rigid spending vs. fiscal revenues exceeding regional norms. The EC would likely be lenient on some military/refugee one-offs and accept deviation from fiscal targets while sticking to the medium-term consolidation path. Reforms agreed with the EC remain key to increasing the growth multiplier of public investments and ensuring long-term sustainable growth. There is a sense of urgency for political agreement on reforms before the window of opportunity closes ahead of the heavy election year in 2024.

GDP (real,y/y)



Source: Erste Group Research

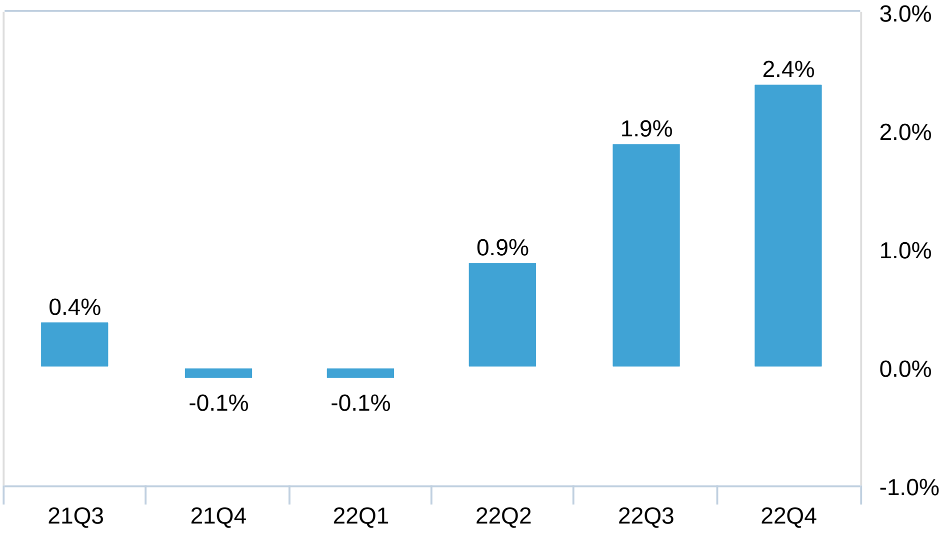
GDP

Weaker-than-expected growth, bleak prospects

2021 GDP growth was revised upwards to 5.9% from 5.6%. 4Q21 sequential growth, important for its carry-over effect for 2022 growth outlook, was revised up to -0.1% q/q from -0.5%. Looking at the 2021 GDP growth from the demand side, private consumption (+7.0% y/y) added 4.6pp, gross fixed capital investments (+4.0% y/y) added 1.0pp, while net exports subtracted -1.6pp. On the supply side, all sectors had positive contributions to annual growth except for construction. The most important contribution came from private services, at 3.6pp, followed by industry (up by 5.0% y/y in 2021), which added 1.0pp to 5.9% 2021 growth.

We revised our 2022 GDP growth forecast downwards to 2.8% y/y (from 3.2%). We expect sequential growth rates for the first two quarters of 2022 to be significantly weaker than before the outbreak of the war in Ukraine, with the first quarter likely to post negative growth relative to 4Q21, which should translate into a technical recession if there are no data revisions. The economy should recover sharply in the second half of the year, assuming a de-escalation of the conflict. Provided that the geopolitical tensions subside, the economy should rebound by 5.7% in 2023, helped by a strong carry-over effect.

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



Source: Erste Group Research

Annual	2019	2020	2021	2022e	2023e
GDP real	4.2%	-3.7%	5.9%	2.8%	5.7%
CPI (y/y)	3.8%	2.7%	5.0%	11.5%	7.1%
Private Consumption	3.8%	-5.1%	7.8%	2.1%	5.3%

Source: Erste Group Research

Inflation

Double-digit inflation here to stay for longer

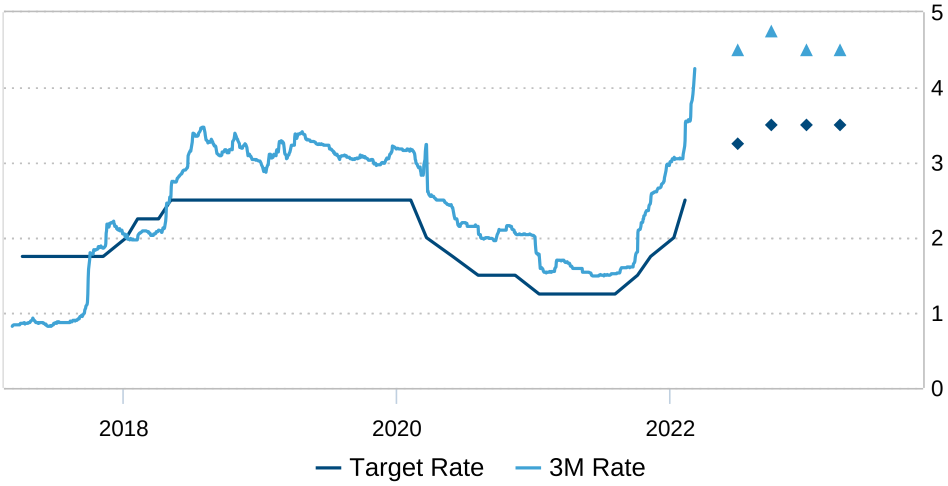
We forecast CPI accelerating to 12.5% by year-end, with average annual inflation of 11.5%, which should outmatch average wage growth by a significant margin. This should dampen household consumption and eventually ease inflation to 4.1% by end-2023. After reaching 5.2% in January, we expect core inflation to inch up to above 6% by 3Q22, before gradually declining towards 4.0% by end-2023. We base our forecast on current commodities market future pricing and already approved government measures to offset price increases. The government seems keen to come up with new measures to contain price pressures, though yet to be approved.

Monetary Policy

NBR lagging CEE peers in raising rates

The NBR raised the key rate by a total of 125bp to 2.50% since the start of the hiking cycle in 4Q21 and the credit facility by 175bp to 3.50%. We expect the NBR to hike its key rate to 3.50% by mid-year, with the credit facility, which should remain the relevant operational instrument under firm liquidity control management policy, reaching 4.50%. The NBR should continue to keep a tight grip on the EUR/RON via FX interventions and these should keep implied FX swap rates the highest in the CEE space. The actions by regional central banks seemingly lost some importance recently in NBR decision-making vs the repricing for Fed and ECB rates outlook.

Short Term Yields



Source: FactSet, Erste Group Research

Market (%)	Spot	22Q2	22Q3	22Q4	23Q1
Target Rate	2.50	3.25	3.50	3.50	3.50
3M Rate	4.25	4.50	4.75	4.50	4.50

Source: FactSet, Erste Group Research

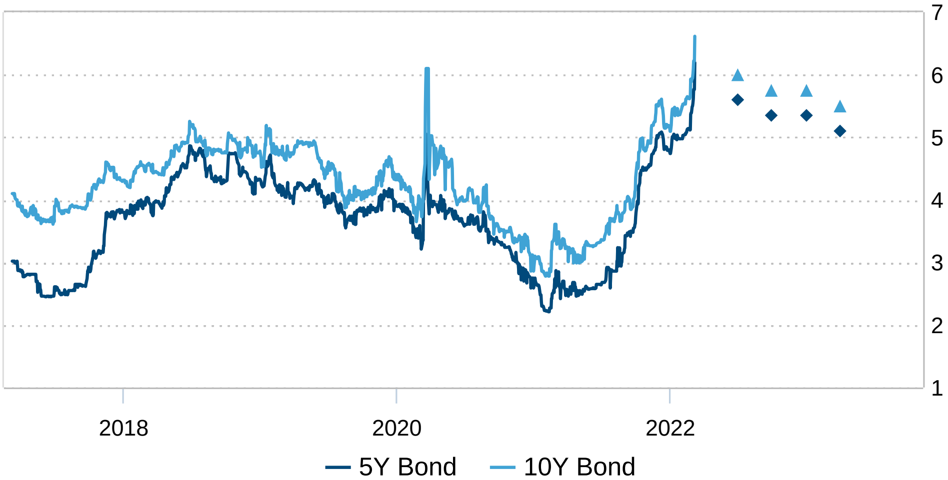
Bond Yields

Market underweight ROMGBs

ROMGBs remained one of the worst performers in the CEE region. The ROMGB yield curve bear steepened this year. Offshore exposure to ROMGBs, which is concentrated in the back end, reached 16.5% of total outstanding in November, the lowest since December 2012, vs. 20.1% in December 2020, after a RON 5.2bn net outflow. Pillar-II pension funds share in ROMGBs increased slightly in 2021 (+1.4pp), posting a RON 6.1bn net inflow. The share of government bond exposure in total pension funds assets decreased by 7.6pp in 2021 - significantly underweight.

MinFin gross funding needs for 2022 are estimated at RON 145.4bn, or about 11.0% of GDP, based on a 5.8% cash deficit. Debt rollover is expected in the same currency, while 70% of deficit financing is planned from external sources. Financing in 2022: EUR-equivalent 14bn externally (10bn Eurobonds + EC and IFIs) out of which EUR 4.5bn was already covered and RON 75bn domestically or, excluding retail bonds, RON 5.4bn average monthly issuance vs. the RON 4.4bn issued in 2021. Romanian banks are the most exposed to sovereign debt among EU banks.

Generic Bond Yields (%)



Source: FactSet, Erste Group Research

Market	Spot	22Q2	22Q3	22Q4	23Q1
2Y Bond*	5.49	4.80	4.80	4.60	4.60
5Y Bond*	6.20	5.60	5.35	5.35	5.10
10Y Bond*	6.62	6.00	5.75	5.75	5.50

Source: FactSet, Erste Group Research

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

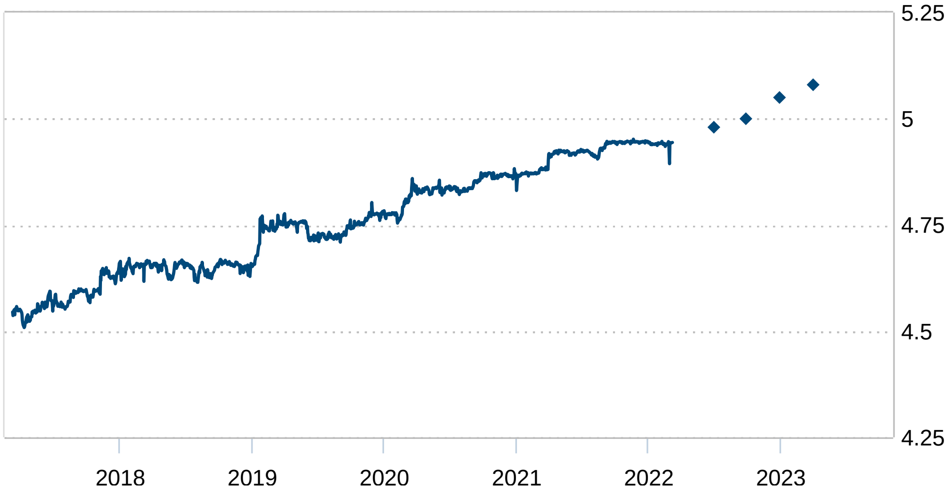
Romanian Leu

Leu outperforming during global selloffs supported by NBR

After ending the year at -7.0% of GDP, the C/A is unlikely to meaningfully narrow this year, given the high commodity prices. Public policies in past years were behind the C/A widening, diverging vs. peers. Hence, the pressure on the RON to depreciate should persist. The RON has turned into the top performer among CEE currencies since the start of the war in Ukraine. The NBR is keeping a tight grip on the currency given the relatively high FX pass-through into CPI and negative impact on consumer confidence.

Money market liquidity squeeze leading to a spike in FX implied forward yields and a sharp increase in FX market turnover suggest heavy NBR interventions to curb RON weakening. We expect the NBR to remain active and keep the RON stable in order to discourage panic FX buying from retail. Adequate FX reserves levels, expected inflows from EU money over the coming years and government external debt issuance should provide enough ammunition for the NBR to weather the storm. We see the EUR/RON at 5.05 by the end of the year.

EUR/RON



Source: FactSet, Erste Group Research

	Spot	22Q2	22Q3	22Q4	23Q1
EUR/RON	4.94	4.98	5.00	5.05	5.08
vs. Spot		*0.8%*	*1.2%*	*2.2%*	*2.8%*
USD/RON	4.56	4.41	4.35	4.39	4.42
vs. Spot		*-3.3%*	*-4.6%*	*-3.7%*	*-3.1%*

Source: FactSet, Erste Group Research

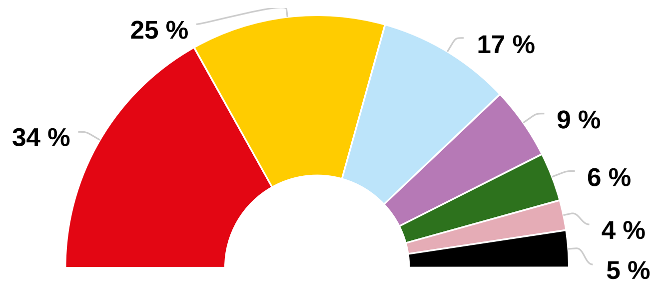
Politics

Broad political collation between PSD and PNL

After the collapse of the center-right alliance among PNL, USR and UDMR in September 2021 and protracted negotiations, PNL opened talks with PSD for a broad coalition, including UDMR. The new government headed by former general Ciuca won a confidence vote in parliament at the end of November with 318 votes, the equivalent of 68% of MPs. The pandemic crisis and soaring energy prices ranked high on the near-term agenda of the new government. The war in Ukraine should keep the Romanian government coalition glued together.

The already announced increase in military spending by 0.5pp to 2.5% of GDP, weaker than anticipated GDP growth, and likely additional measures needed to fend off the impact of unparallel price increases on low incomes should lead to a significant overshoot of the budget deficit target this year. The EC is likely to show leniency towards higher one-off spending. However, the markets, already concerned about the large gross financing needs this year, could be less patient unless the government addresses government expenditures rigidities.

Parliament Seats



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

Source: Erste Group Research

Last Election:
Dec-20

Next Election:
Sep-24

Forecasts

Annual	2016	2017	2018	2019	2020	2021	2022e	2023e
Real GDP growth	4.7	7.3	4.5	4.2	-3.7	5.9	2.8	5.7
Inflation (CPI, avg)	-1.5	1.3	4.6	3.8	2.7	5.0	11.5	7.1
Unemployment rate (avg)	7.2	6.1	5.3	4.9	6.0	5.6	5.3	5.2
Retail sales growth	12.4	10.8	5.4	7.2	2.2	10.1	3.5	4.5
Industrial output growth	3.1	7.8	3.5	-2.3	-9.2	7.1	4.0	1.8
Private consumption growth	8.4	10.9	7.6	3.8	-5.1	7.8	2.1	5.3
Fixed capital formation growth	-0.1	3.5	-1.1	12.9	4.1	4.0	7.5	8.5
Percent of GDP								
Trade balance	-5.9	-6.9	-7.4	-7.7	-8.4	-9.9	-9.3	-9.1
Current account balance	-1.6	-3.1	-4.6	-4.9	-5.0	-7.1	-6.5	-6.4
Foreign direct investment	2.7	2.6	2.6	2.3	1.4	3.0	2.2	2.0
Budget balance	-2.6	-2.6	-2.9	-4.4	-9.4	-7.8	-6.2	-5.2
Public debt	37.4	35.1	34.7	35.3	47.4	50.0	50.3	50.7
External debt, gross	55.3	51.9	48.8	49.2	58.1	56.4	52.9	51.3
FX, money market								
USDLCY average	4.06	4.05	3.94	4.24	4.24	4.16	4.37	4.43
EURLCY average	4.49	4.57	4.65	4.75	4.84	4.92	4.99	5.10
EURLCY eop	4.54	4.66	4.66	4.78	4.87	4.95	5.05	5.12
(percent)								
CB policy rate (avg.)	1.75	1.75	2.34	2.50	1.83	1.38	3.19	3.50
3m interbank offer rate (avg.)	0.77	1.15	2.79	3.12	2.38	1.82	4.44	4.25
2Y Yield (average)*	1.34	1.55	3.30	3.40	3.09	2.62	4.75	4.40
5Y Yield (average)*	2.40	2.80	4.30	4.05	3.50	3.18	5.53	4.95
10Y Yield (average)*	3.30	3.90	4.70	4.53	3.93	3.76	5.93	5.35

Source: Erste Group Research

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

Contacts

Group Research

Head of Group Research	
Friedrich Mostböck, CEFA®	+43 (0)5 0100 11902
CEE Macro/Fixed Income Research	
Head CEE: Juraj Kotian (Macro/FI)	+43 (0)5 0100 17357
Katarina Gumanova (Fixed income)	+43 (0)5 0100 17336
Katarzyna Rzentarzewska (Fixed income)	+43 (0)5 0100 17356
Malgorzata Krzywicka (Fixed Income)	+43 (0)5 0100 17338
Croatia/Serbia	
Head: Alen Kovac (Fixed income)	+385 62 37 1383
Mate Jelic (Fixed income)	+385 72 37 1443
Ivana Rogic (Fixed income)	+385 62 37 2419
Czech Republic	
Head: David Navratil (Fixed income)	+420 956 765 439
Jiri Polansky (Fixed Income)	+420 956 765 192
Michal Skorepa (Fixed income)	+420 956 765 456
Hungary	
Orsolya Nyeste (Fixed Income)	+36 1 268 4428
Janos Nagy (Fixed Income)	+36 1 272 5115
Romania	
Head: Ciprian Dascalu	+40 3735 10108
Eugen Sinca (Fixed income)	+40 3735 10435
Dorina Ilasco (Fixed Income)	+40 3735 10436
Vlad Nicolae Ionita (Fixed Income)	+40 7867 15618
Slovakia	
Head: Maria Valachyova, (Fixed income)	+421 2 4862 4185
Matej Hornak (Fixed income)	+421 902 213 591
Major Markets & Credit Research	
Head: Gudrun Egger, CEFA®	+43 (0)5 0100 11909
Ralf Burchert, CEFA® (Sub-Sovereigns & Agencies)	+43 (0)5 0100 16314
Hans Engel (Senior Analyst Global Equities)	+43 (0)5 0100 19835
Margarita Grushanina (Economist AT, Quant Analyst)	+43 (0)5 0100 11957
Peter Kaufmann, CFA® (Corporate Bonds)	+43 (0)5 0100 11183
Stephan Lingnau (Global Equities)	+43 (0)5 0100 16574
Heiko Langer (Financials & Covered Bonds)	+43 (0)5 0100 85509
Bernadett Povazsai-Römhild, CEFA® (Corporate Bonds)	+43 (0)5 0100 17203
Carmen Riefler-Kowarsch (Financials & Covered Bonds)	+43 (0)5 0100 19632
Elena Statelov, CIIA® (Corporate Bonds)	+43 (0)5 0100 19641
Gerald Walek, CFA® (Economist Euro, CHF)	+43 (0)5 0100 16360
Rainer Singer (Senior Economist Euro, US)	+43 (0)5 0100 17331
CEE Equity Research	
Head: Henning Eßkuchen	+43 (0)5 0100 19634
Daniel Lion, CIIA® (Technology/Industrial Goods&Services)	+43 (0)5 0100 17420
Michael Marschallinger, CFA	+43 (0)5 0100 17906
Nora Nagy (Telecom)	+43 (0)5 0100 17416
Thomas Unger, CFA® (Banks, Insurance)	+43 (0)5 0100 16314
Christoph Schultes, MBA, CIIA® (Real Estate)	+43 (0)5 0100 11523
Vladimira Urbankova, MBA (Pharma)	+43 (0)5 0100 17343
Martina Valenta, MBA	+43 (0)5 0100 11913
Croatia/Serbia	
Head: Mladen Dodig (Equity)	+381 11 22 09 178
Anto Augustinovic (Equity)	+385 62 37 2833
Magdalena Basic (Equity)	+385 72 37 1407
Davor Spoljar, CFA® (Equity)	+385 62 37 2825
Czech Republic	
Head: Petr Bartek (Equity)	+420 956 765 227
Jan Safranek (Equity)	+420 956 765 218
Hungary	
Head: Jozsef Miro	+361 235 5131
Andras Nagy (Equity)	+361 235-5132
Tamas Pletser, CFA® (Equity)	+361 235-5135
Poland	
Head: Cezary Bernatek (Equity)	+48 22 257 57 51
Piotr Bogusz (Equity)	+48 22 257 57 55
Lukasz Janczak (Equity)	+48 22 257 57 54
Krzysztof Kawa (Equity)	+48 22 257 57 52
Jakub Szkopek (Equity)	+48 22 257 57 53
Romania	
Caius Rapanu (Equity)	+40 3735 10441
Editor Research CEE	
Brett Aarons	+420 956 711 014

Treasury - Erste Bank Vienna

Head of Group Markets	
Oswald Huber	+43 (0)5 0100 848901
Group Markets Retail Sales	
Group Markets Retail and Agency Business	
Head: Christian Reiss	+43 (0)5 0100 84012
Group Markets Execution	
Head: Kurt Gerhold	+43 (0)5 0100 84232
Retail & Sparkassen Sales	
Head: Uwe Kolar	+43 (0)5 0100 83214
Markets Retail Sales AT	
Head: Markus Kaller	+43 (0)5 0100 84239
Corporate Treasury Product Distribution AT	
Head: Christian Skopek	+43 (0)5 0100 84146
Fixed Income Institutional Sales	
Group Securities Markets	
Head: Thomas Einramhof	+43 (0)5 0100 84432
Institutional Distribution Core	
Head: Jürgen Niemeier	+49 (0)30 8105800 5503
Institutional Distribution DACH+	
Head: Marc Friebertshäuser	+49 (0)711 810400 5540
Bernd Bollhof	+49 (0)30 8105800 5525
Andreas Goll	+49 (0)711 810400 5561
Mathias Gindele	+49 (0)711 810400 5562
Ulrich Inhofner	+43 (0)50100 85544
Sven Kienzle	+49 (0)711 810400 5541
Rene Klasen	+49 (0)30 8105800 5521
Christopher Lampe-Traupe	+49 (0)30 8105800 5523
Karin Rattay	+43 (0) 5 0100 84118
Michael Schmotz	+43 (0)5 0100 85542
Klaus Vosseler	+49 (0)711 810400 5560
Slovakia	
Sarlota Sipulova	+421 2 4862 5619
Monika Smelikova	+421 2 4862 5629
Institutional Distribution CEE & Insti AM CZ	
Head: Antun Buri?	+385 (0)7237 2439
Jaromir Malak	+43 (0)50100 84254
Czech Republic	
Head: Ondrej Cech	+420 2 2499 5577
Milan Bartos	+420 2 2499 5562
Jan Porvich	+420 2 2499 5566
Institutional Asset Management Czech Republic	
Head: Petr Holecek	+420 956 765 453
Petra Maderova	+420 956 765 178
Martin Perina	+420 956 765 106
Petr Valenta	+420 956 765 140
Blanka Weinerova	+420 956 765 317
David Petracek	+420 956 765 809
Croatia	
Head: Antun Buri?	+385 (0)72 37 2439
Natalija Zujic	+385 (0)72 37 1638
Zvonimir Tukac	+385 (0)72 37 17 87
Hungary	
Head: Peter Csizmadia	+361 237 8211
Gabor Balint	+36 1 2378205
Adam Szönyi	+36 1 237 8213
Romania and Bulgaria	
Head: Ruxandra Lungu	+40 373516562
Group Fixed Income Securities Markets	
Head: Goran Hoblaj	43 (0)50100 84403
FISM Flow	
Margit Hraschek	+43 (0)5 0100 84117
Christian Kienesberger	+43 (0) 5 0100 84323
Ciprian Mitu	+43 (0)50100 85612
Bernd Thaler	+43 (0) 5 0100 84119
Zsuzsanna Toth	+36 1 237 8209
Poland	
Head: Aleksandar Doric	+43 (0)5 0100 87487
Pawel Kielek	+48 22 538 6223
Michal Jarmakowicz	+43 50100 85611
Group Fixed Income Securities Trading	
Head: Goran Hoblaj	43 (0)50100 84403
Group Equity Trading & Structuring	
Head: Ronald Nemec	+43 (0)50100 83011
Business Support	
Bettina Mahoric	+43 (0)50100 86441

Disclaimer

This publication was prepared by Erste Group Bank AG or any of its consolidated subsidiaries (together with consolidated subsidiaries "Erste Group") as other information pursuant to the Circular of the Austrian Financial Market Authority regarding information including marketing communication pursuant to the Austrian Securities Supervision Act. This publication serves interested investors as additional source of information and provides general information, information about product features or macroeconomic information without emphasizing product selling marketing statements. This publication does not constitute marketing communication pursuant to Art. 36 (2) Austrian Securities Supervision Act as no direct buying incentives were included in this publication, which is of information character. This publication does not constitute investment research pursuant to § 36 (1) Austrian Securities Supervision Act. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and it is not subject to the prohibition on dealing ahead of the dissemination of investment research. The information only serves as non-binding and additional information and is based on the level of knowledge of the person in charge of drawing up the information on the respective date of its preparation. The content of the publication can be changed at any time without notice. This publication does not constitute or form part of, and should not be construed as, an offer, recommendation or invitation to subscribe for or purchase any securities, and neither this publication nor anything contained herein shall form the basis of or be relied on in connection with or act as an inducement to enter into any contract or inclusion of a security or financial product in a trading strategy. Information provided in this publication are based on publicly available sources which Erste Group considers as reliable, however, without verifying any such information by independent third persons. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable, Erste Group (including its representatives and employees) neither expressly nor tacitly makes any guarantee as to or assumes any liability for the up-to-dateness, completeness and correctness of the content of this publication. Erste Group may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Erste Group endorses, recommends or approves any material on the linked page or accessible from it. Neither a company of Erste Group nor any of its respective managing directors, supervisory board members, executive board members, directors, officers of other employees shall be in any way liable for any costs, losses or damages (including subsequent damages, indirect damages and loss of profit) howsoever arising from the use of or reliance on this publication. Any opinion, estimate or projection expressed in this publication reflects the current judgment of the author(s) on the date of publication of this document and do not necessarily reflect the opinions of Erste Group. They are subject to change without prior notice. Erste Group has no obligation to update, modify or amend this publication or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. The past performance of securities or financial instruments is not indicative for future results. No assurance can be given that any financial instrument or issuer described herein would yield favorable investment results or that particular price levels may be reached. Forecasts in this publication are based on assumptions which are supported by objective data. However, the used forecasts are not indicative for future performance of securities or financial instrument. Erste Group, its affiliates, principals or employees may have a long or short position or may transact in the financial instrument(s) referred to herein or may trade in such financial instruments with other customers on a principal basis. Erste Group may act as a market maker in the financial instruments or companies discussed herein and may also perform or seek to perform investment banking services for those companies. Erste Group may act upon or use the information or conclusion contained in this publication before it is distributed to other persons. This publication is subject to the copyright of Erste Group and may not be copied, distributed or partially or in total provided or transmitted to unauthorized recipients. By accepting this publication, a recipient hereof agrees to be bound by the foregoing limitations.

Published By:
Erste Group Bank AG
Group Research
1100 Wien, Am Belvedere 1
Head Office: Wien
Commercial Register No: FN 33209m
Commercial Court of Vienna
Erste Group Homepage: www.erstegroup.com