

ROMANIA | MACRO OUTLOOK

2024: Romanian markets in election-watch mode

Growth resilience to continue to be tested throughout 2024

We expect first NBR key rate cut in mid-2024

Manageable government financing needs for 2024 assuming normal market conditions

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

Economy (%)	2023e	2024e	2025e
GDP (real, y/y)	2.1	3.3	4.8
Unempl. Rate	5.6	5.7	5.6
CPI (y/y)	10.6	6.6	4.3
Retail Sales (y/y)	2.0	3.9	5.0
Ind. Prod. (y/y)	-4.1	2.8	3.3
Public Debt/GDP	48.4	49.7	49.5

Source: Erste Group Research

Market	Spot	24Q1	24Q2	24Q3
EUR/RON	4.96	5.02	5.05	5.07
USD/RON	4.61	4.48	4.39	4.37
Target Rate (%)	7.00	7.00	6.75	6.25
3M Rate (%)	6.24	6.25	6.00	5.50
2Y Bond (%)*	6.06	6.60	6.50	6.30
5Y Bond (%)*	6.40	6.90	6.80	6.60
10Y Bond (%)*	6.68	7.10	7.00	6.80

Source: FactSet, Erste Group Research

Rating	Current	Outlook
Moody's	Baa3	stable
S&P	BBB-	stable
Fitch	BBB-	stable

Source: Erste Group Research

General	2023
Population mn	19
GDP/Capita EUR	16,697

Source: Erste Group Research

Spot Rates as of:
10th Dec. 2023

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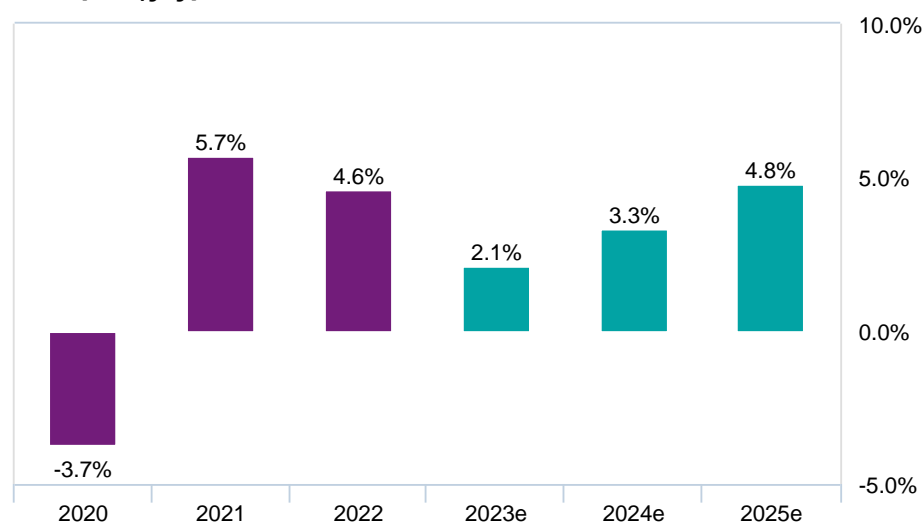
Note:

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

The heavy 2024 election year should kick-start with the European elections on June 9. Local, general, and presidential ballots should be held in the last four months of the year. Opinion polls currently point to continuity for the current grand coalition beyond 2024. With fiscal uncertainties looming post-elections and EU money pending on state budget consolidation and further structural reforms, the markets will closely scrutinize the results from the European elections and closely watch the opinion polls. Both consumers and corporates are likely to remain cautious when making long-term investment decisions.

Pay hikes, mainly minimum wage and public sector salaries, and substantial increases in pensions, should support household demand, while ongoing public investment projects are likely to continue to have a positive spillover effect on the private sector. Hence, we could see GDP growth accelerating a bit vs. 2023, while remaining below potential levels. Softer-for-longer external demand, domestic uncertainties, and bottlenecks in accessing RRF funds could weigh on GDP growth prospects. Falling inflation should help boost further real income, with real wages already surpassing pre-commodity shock levels at the end of the summer.

GDP (real,y/y)



Source: Erste Group Research

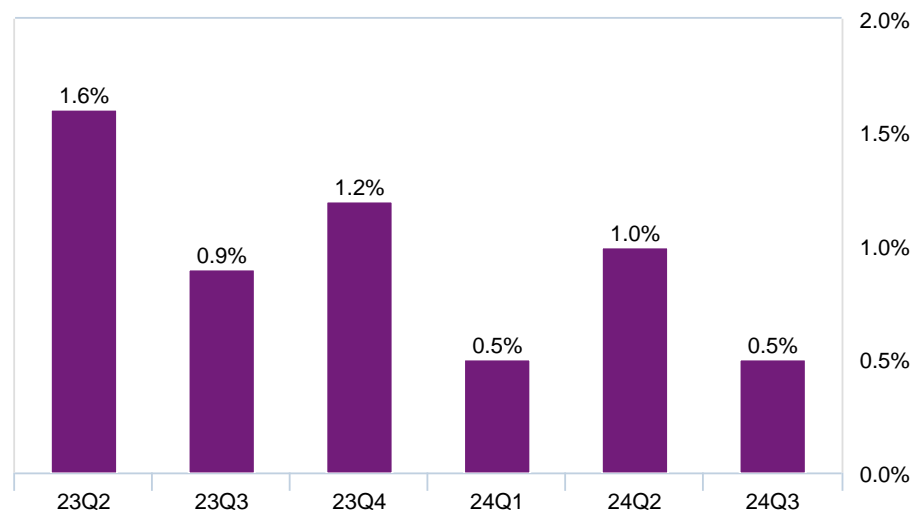
GDP

Growth resilience to continue to be tested throughout 2024

We see a rebound in GDP growth in 2024 to 3.3% y/y, driven by household consumption helped by lagged impact from robust real wage increase and sound labor market conditions, and spillover effects from past state investments, while the fiscal impulse is assumed to be growth-neutral. The risk balance to our call is tilted to the downside due to weak external demand and delayed private investments, as fiscal uncertainties are likely to persist until after the late-2024 general elections. The Romanian economy proved resilient in 2023, although it is expected to end the year with below-potential expansion. This resiliency is likely to be tested into 2024, with virtually no fiscal headroom.

The economy shifted into lower gear in 2023, posting 1.4% y/y GDP growth in the first three quarters of the year vs. 4.6% y/y in January-September 2022. The soft patch is likely to be extended into 4Q23-1Q24, before returning to historical norm sequential growth rates. Demand side, gross fixed capital formation was the main driver adding +2.7pp to 1.4% GDP expansion in 1Q-3Q23, household consumption contributed with +1.5pp, net exports subtracted -0.3pp, while inventories dragged down GDP by -4.9pp. Supply side, trade and services added a combined +1.2pp, out of which +0.3pp ICT, agriculture and construction +0.3pp each, while industry made a negative contribution of -0.6pp.

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



Source: Erste Group Research

Annual	2021	2022	2023e	2024e	2025e
GDP real	5.7%	4.6%	2.1%	3.3%	4.8%
CPI (y/y)	5.1%	13.7%	10.6%	6.6%	4.3%
Private Consumption	7.5%	7.0%	3.0%	3.1%	3.4%

Source: Erste Group Research

Inflation

Ongoing disinflation in 2024 albeit at slower pace

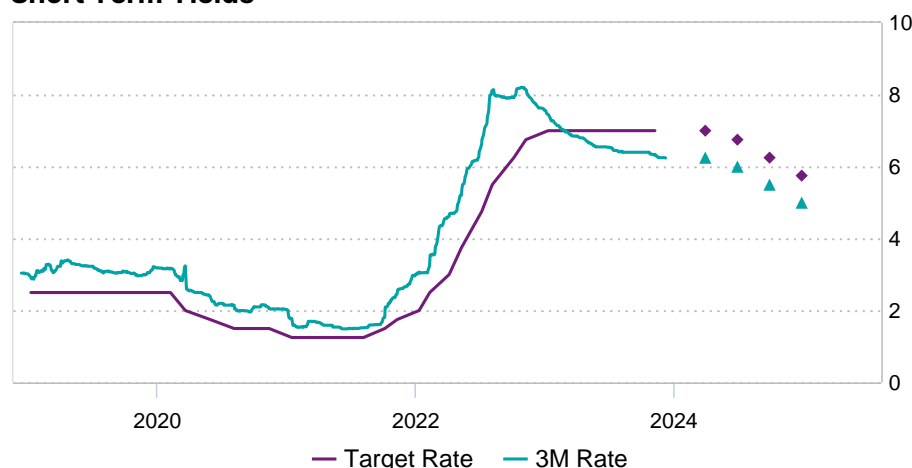
We expect disinflation to continue and CPI to reach 5.3% y/y by end-2024, from 8.1% in October 2023. We expect slightly higher inflationary pressures early next year amid the announced changes in indirect taxes and the assumed reverse effect coming from the elimination of markup caps on basic food products in February 2024. The latest NBR forecast sees end-2024 CPI at 4.8% y/y. We do not expect inflation to reach the target band over the next couple of years. We project core inflation at 5.7% y/y by December 2024 and remaining above headline inflation over the entire two-year-ahead forecast horizon.

Monetary Policy

We expect first NBR key rate cut in mid-2024

The NBR governor ruled out discussing rate cuts until inflation declines significantly and it becomes clear that the disinflation process is irreversible to avoid policy inconsistency. At the same time, he suggested that discussions on rate cuts could start once inflation falls below the key rate level. The latest NBR forecast sees inflation dropping below the key rate level of 7.00% in the second quarter of next year (6.8% y/y by end-2Q24). This is in line with our call for the key rate to remain unchanged at least until the May 2024 meeting, with the risk of delaying rate cuts to August. We see gradual rate cuts of 25bp each to 5.75% by end-2024.

Short Term Yields



Source: FactSet, Erste Group Research

Market (%)	Spot	24Q1	24Q2	24Q3	24Q4
Target Rate	7.00	7.00	6.75	6.25	5.75
3M Rate	6.24	6.25	6.00	5.50	5.00

Source: FactSet, Erste Group Research

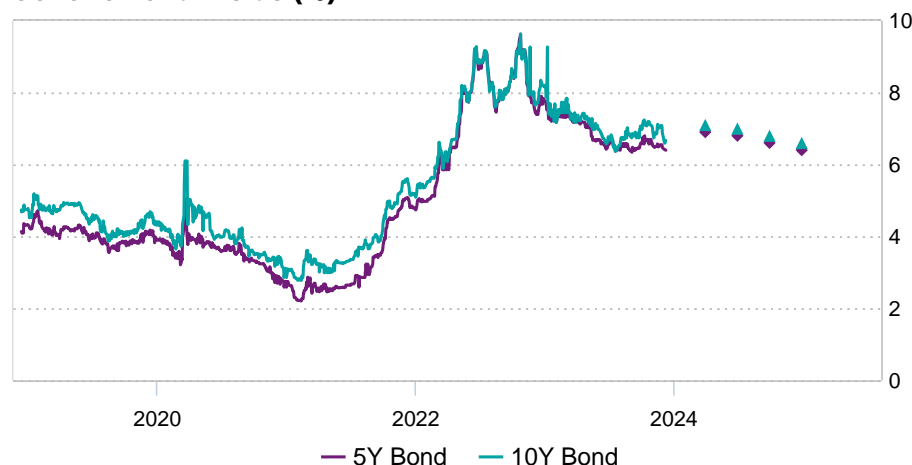
Bond Yields

Manageable government financing needs for 2024 assuming normal market conditions

Gross funding needs for 2024 should decrease to RON 170bn (9.9% of GDP), assuming a budget deficit of 5.4% of GDP, from RON 200bn in 2023. The MinFin mentioned that part of the approx. RON 20bn increase in 2023 gross financing needs approved in November is pre-financing for 2024, though the size is likely to depend on the final budget execution for this year. Financing RON 93bn in net issuance in 2024 seems challenging, as offshore players are already overweight ROMGBs, holding 27.4% of outstanding ROMGBs after RON 33bn net inflows in 2023.

Our fair value models point to 10Y ROMGBs yield at around 6.8% in 4Q24. We see scope for a steepening of the ROMGBs yield curve, with the 10Yv2Y spread fair value estimated at around 140bp by end-2024. Recurrent domestic demand could come from mandatory pillar II pension funds which could add RON 12bn in new exposure assuming an increase by 1pp of the contribution to 4.75% and unchanged allocation in total assets, retail investors up to RON 20bn, and RON 8bn from domestic banks considering unchanged sovereign exposure vs. total assets.

Generic Bond Yields (%)



Source: FactSet, Erste Group Research

Market	Spot	24Q1	24Q2	24Q3	24Q4
2Y Bond*	6.06	6.60	6.50	6.30	6.10
5Y Bond*	6.40	6.90	6.80	6.60	6.40
10Y Bond*	6.68	7.10	7.00	6.80	6.60

Source: FactSet, Erste Group Research

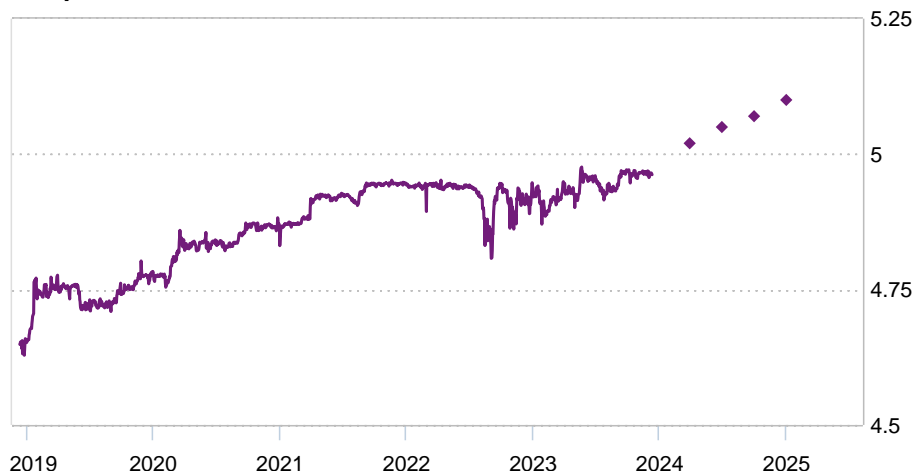
Romanian Leu

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

The central bank stated its discomfort with RON strengthening bias supported by ROMGBs inflows in 2023 and even decided to intervene and buy EUR to curb RON firming, according to Governor Isarescu. The NBR left liquidity unsterilized, with a deposit facility acting as the main instrument, to discourage carry trades. Hence, the risk to the EUR/RON is asymmetrically skewed to the upside. The EUR/RON remained very stable after crossing the previous NBR 'line in the sand' at 4.95 with the 4.97-4.98 area now seen as a 'resistance'.

We see the C/A gap at -5.9% of GDP in 2024 vs. estimated -6.3% in 2023. 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. We expect some gradual RON weakening and improving fundamentals, converging the RON towards its fair value over time. We see the EUR/RON at 5.10 by end-2024. The central bank is likely to take the opportunity to mop up RON liquidity in case of RON weakness.

EUR/RON



Source: FactSet, Erste Group Research

	Spot	24Q1	24Q2	24Q3	24Q4
EUR/RON	4.96	5.02	5.05	5.07	5.10
vs. Spot		1.2%	1.8%	2.2%	2.8%
USD/RON	4.61	4.48	4.39	4.37	4.47
vs. Spot		-2.8%	-4.8%	-5.2%	-3%

Source: FactSet, Erste Group Research

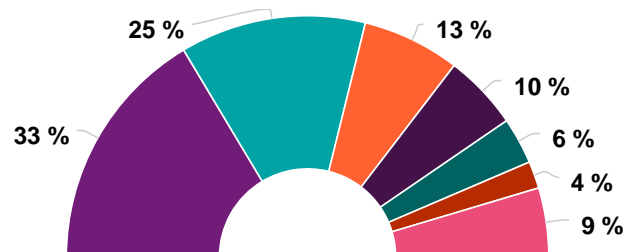
Politics

'Super-election' year kicks in with European vote in June 2024

The grand government coalition between the Liberals and Social Democrats is smoothly entering its third year. The solid parliamentary backing for the government was confirmed by the passing of less popular legislation. Opinion polls currently suggest government continuity beyond the 2024 elections, with the Socialists likely as the main coalition party. We see the RRF commitments as a red line that is unlikely to be crossed regardless of the next government structure. The European elections scheduled for June 9 will be the first political test.

Romanian election scores are quite sensitive to voter turnout ratio, which tends to change significantly between different elections. The main political parties are also expected to firmly endorse their presidential candidate after the European ballot. The presidential candidate could act as a pulling factor for parties heading into the general elections. Summing up, expect continuity as the baseline scenario, but be prepared for surprises given the post-communist history of rather fluid Romanian politics with fast-changing voter intentions.

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

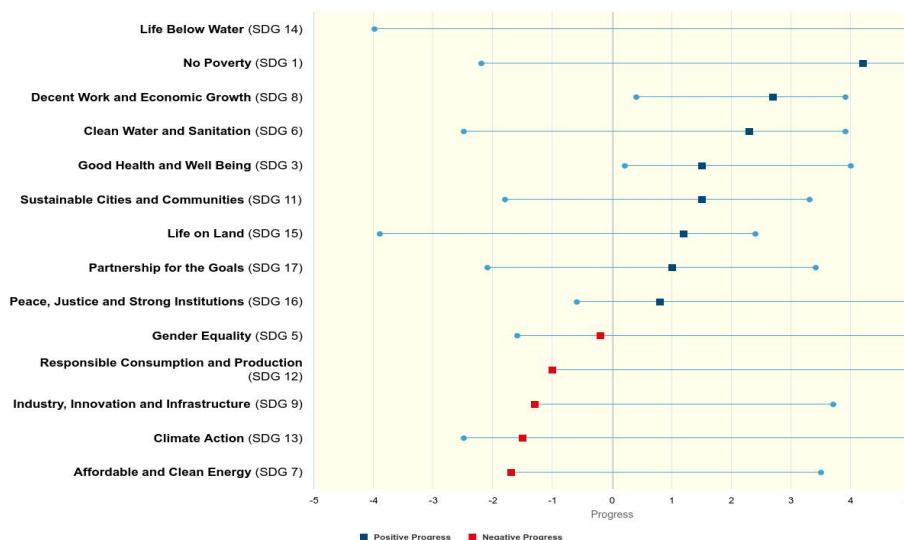
Next Election:
Sep-24

Sustainable Development Goals

SDG – Moving closer to EU standards from low levels

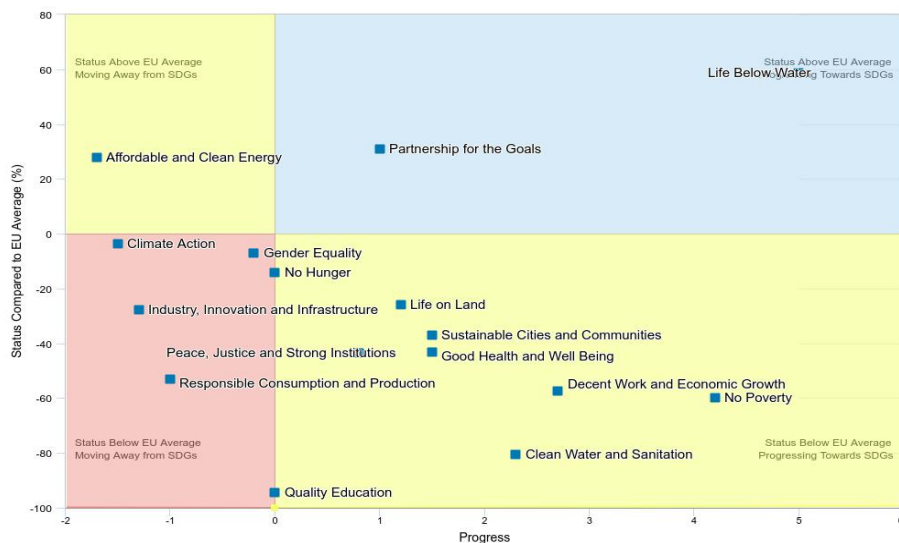
Partnerships for the Goals and Life below Water are the SDG topics where Romania has a better position than the EU average and is making progress. Most of the other goals find Romania with a weaker starting point vs. the EU, but making improvements, with the No Poverty and Decent Work and Economic Growth performances standing out, supported by fast income convergence. Quality Education and Responsible Consumption and Production 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	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Real GDP growth	8.2	6.0	3.9	-3.7	5.7	4.6	2.1	3.3	4.8
Inflation (CPI, avg)	1.3	4.6	3.8	2.7	5.1	13.7	10.6	6.6	4.3
Unemployment rate (avg)	6.1	5.3	4.9	6.0	5.6	5.6	5.6	5.7	5.6
Retail sales growth	10.9	5.6	7.1	2.1	9.8	5.1	2.0	3.9	5.0
Industrial output growth	7.8	3.5	-2.3	-9.2	7.1	-1.8	-4.1	2.8	3.3
Private consumption growth	11.7	9.4	3.3	-3.9	7.5	7.0	3.0	3.1	3.4
Fixed capital formation growth	5.5	0.0	12.6	1.1	2.9	5.6	10.3	5.6	8.1
Percent of GDP									
Trade balance	-7.0	-7.3	-7.7	-8.3	-9.8	-11.9	-9.4	-9.3	-9.7
Current account balance	-3.1	-4.6	-4.9	-4.9	-7.2	-9.1	-6.3	-5.9	-6.1
Foreign direct investment	2.6	2.6	2.3	1.4	3.7	3.7	2.2	2.2	2.2
Budget balance	-2.6	-2.8	-4.3	-9.2	-7.1	-6.2	-6.0	-5.4	-4.0
Public debt	35.3	34.5	35.1	46.9	48.6	47.3	48.4	49.7	49.5
External debt, gross	51.9	48.8	49.2	57.9	56.0	53.0	52.2	51.5	51.0
FX, money market									
USDLCY average	4.05	3.94	4.24	4.24	4.16	4.69	4.61	4.55	4.48
EURLCY average	4.57	4.65	4.75	4.84	4.92	4.93	4.95	5.05	5.15
EURLCY eop	4.66	4.66	4.78	4.87	4.95	4.95	5.00	5.10	5.20
(percent)									
CB policy rate (avg.)	1.75	2.34	2.50	1.86	1.32	4.12	7.00	6.60	5.00
3m interbank offer rate (avg.)	1.15	2.79	3.12	2.38	1.82	6.20	6.57	5.69	4.94
2Y Yield (average)*	1.55	3.30	3.40	3.09	2.62	6.89	6.60	6.40	5.40
5Y Yield (average)*	2.80	4.30	4.05	3.50	3.18	7.40	6.86	6.68	5.70
10Y Yield (average)*	3.90	4.70	4.53	3.93	3.76	7.58	7.06	6.88	6.00

Source: Erste Group Research

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