

Romania: a new chance

Making the most of the current challenges

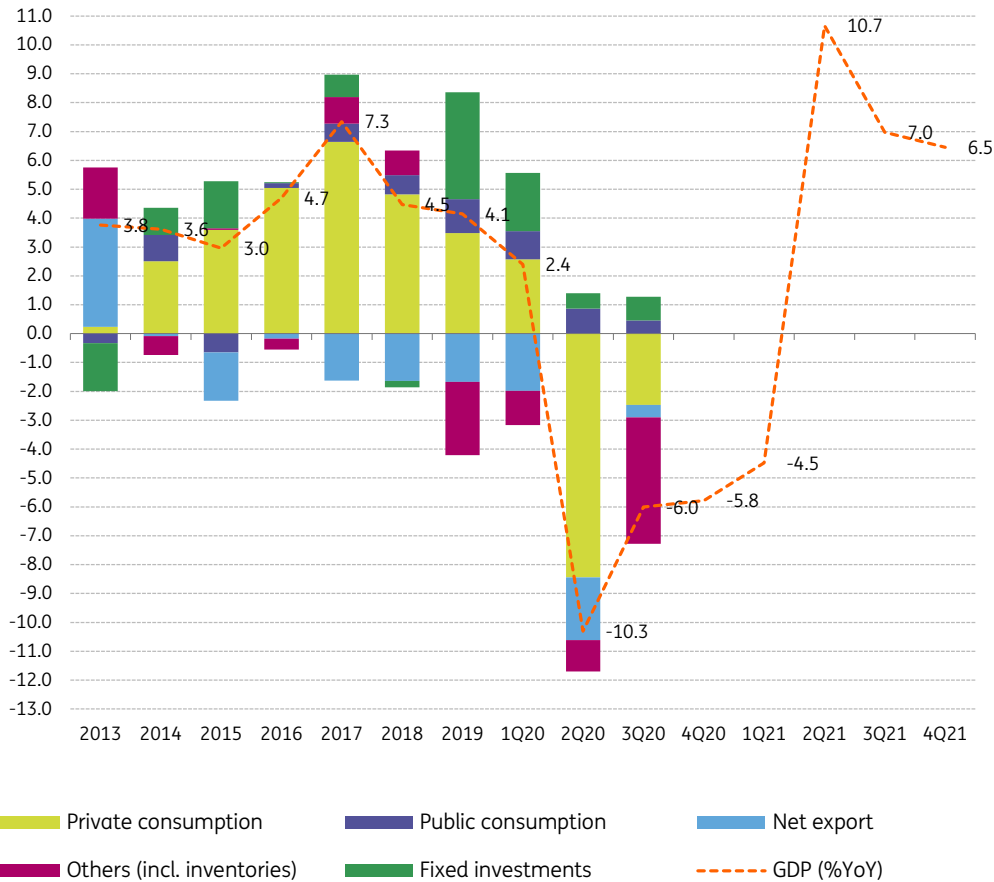
Valentin Tataru, Economist

January 2021

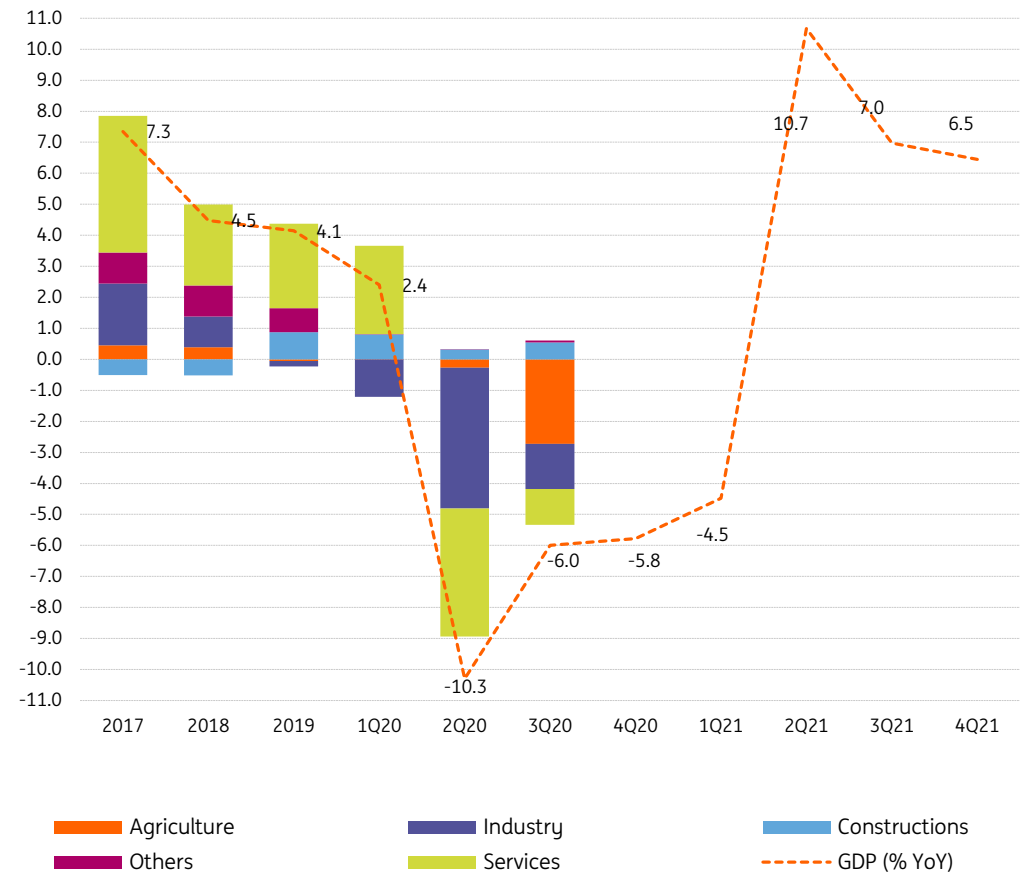


GDP growth structure: imbalanced but improving

Investments made a nice comeback in 2020 so far. Net exports will remain a drag for growth as the trade deficit widens despite contracting demand

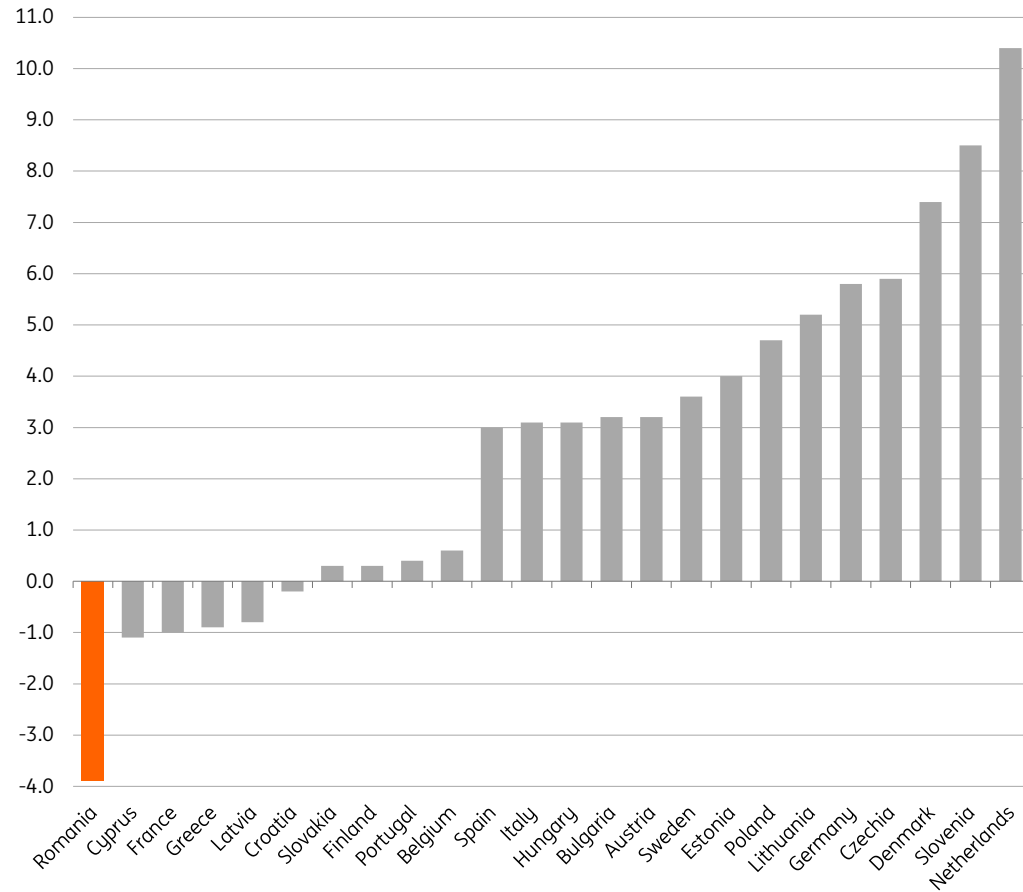


Supply side: the lockdown severely impacted private services. Industry was already in contraction since 2019. Constructions could keep the flag up in 2020

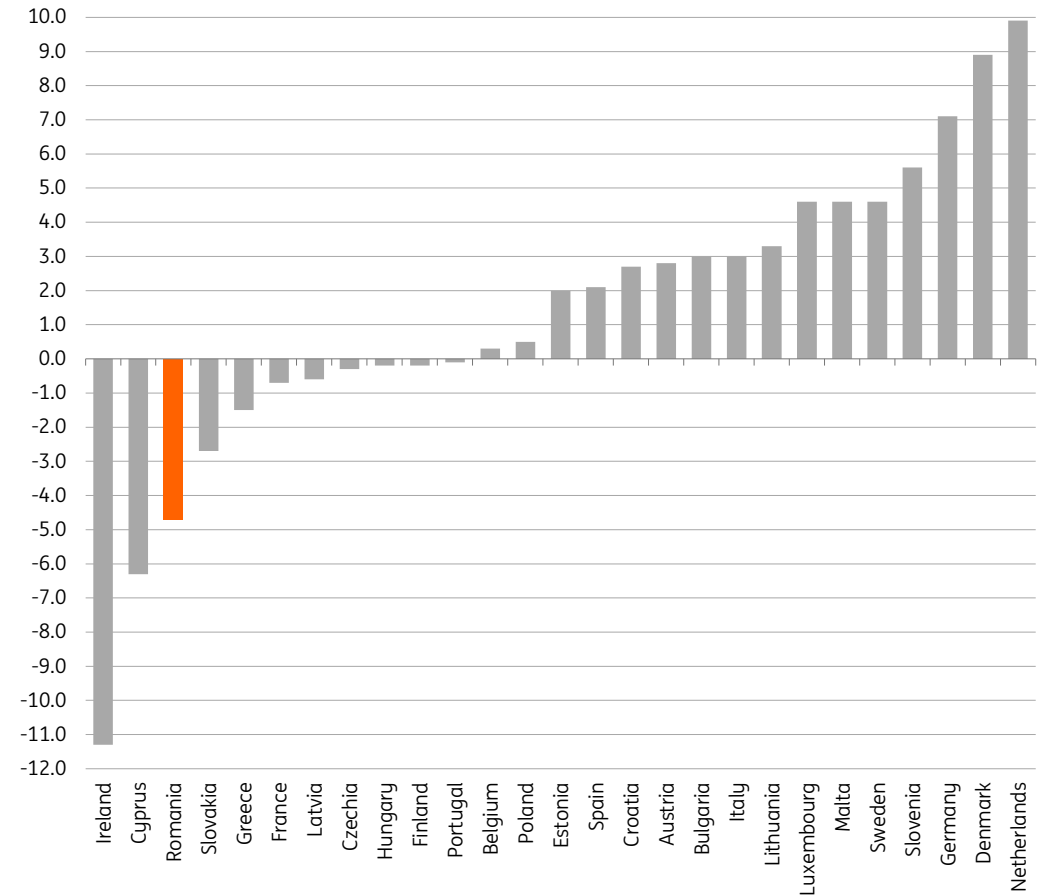


External imbalances stand out

Goods & services net balance (2019, % of GDP)

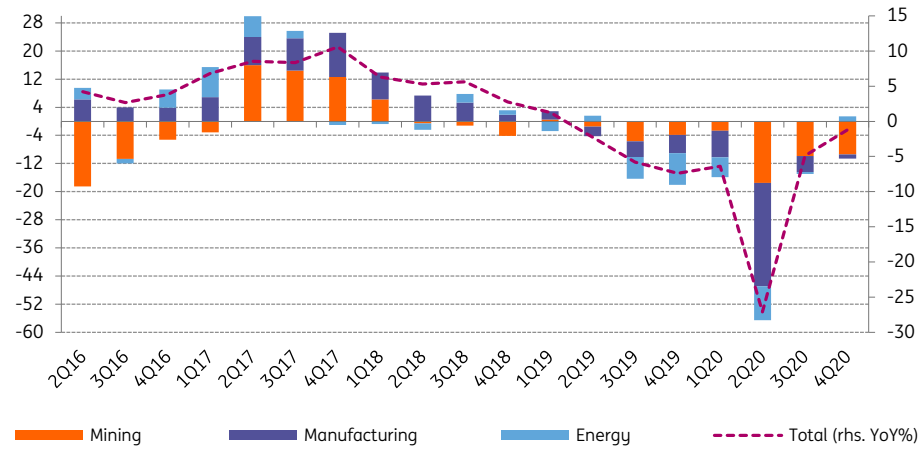


Current account balance (2019, % of GDP)

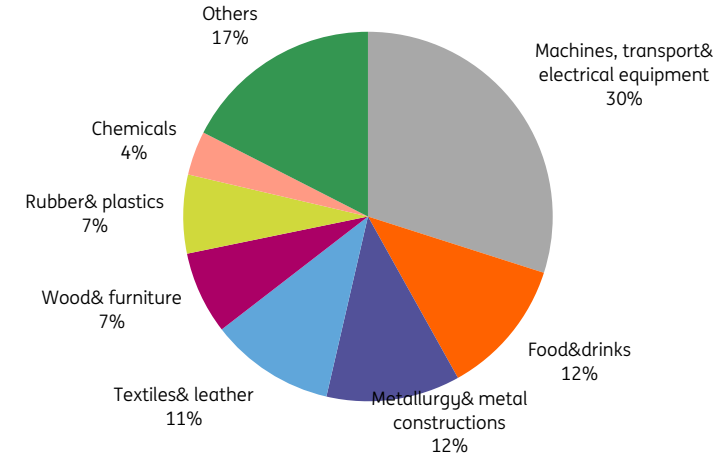


Industry continues to underperform

The industrial production began to contract in 2019 and prospects remain weak despite reopening

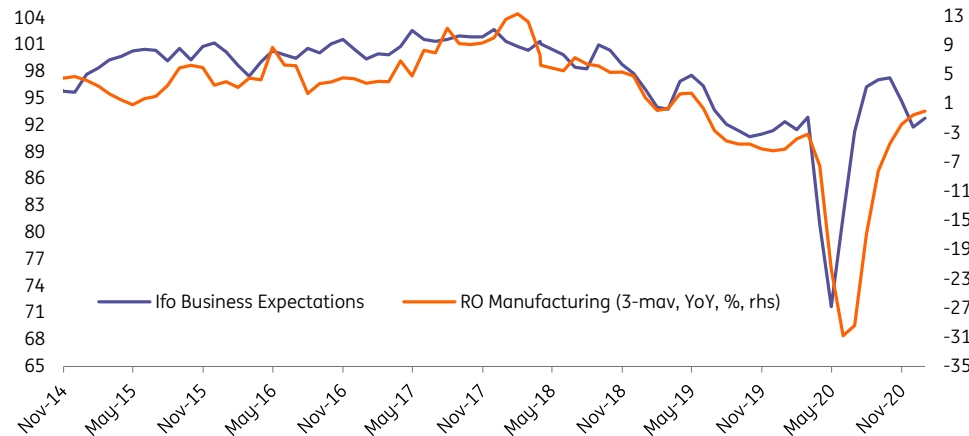


Industry split by subsectors



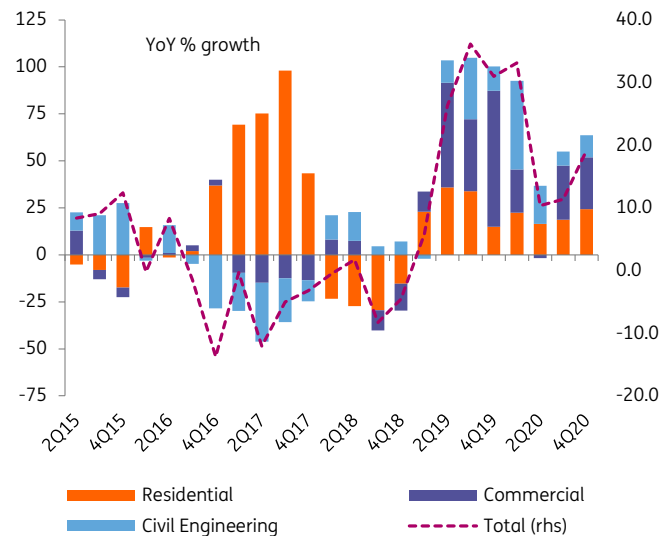
Automotive and textiles are losing most of the jobs

	% of manufacturing production	% of manufacturing jobs	10M20 vs 10M19 growth	Net job creation (Oct-20 vs Oct-19)
Machines & transport equipment	30%	28%	-18%	-15,400
Food & drinks	12%	17%	-3%	-3,300
Metallurgy & metal constructions	12%	9%	-10%	-6,300
Textiles & leather	11%	14%	-24%	-25,600
Wood & furniture	7%	9%	-17%	-3,300
Rubber & plastics	7%	6%	-10%	-2,600
Chemicals	4%	2%	4%	-600

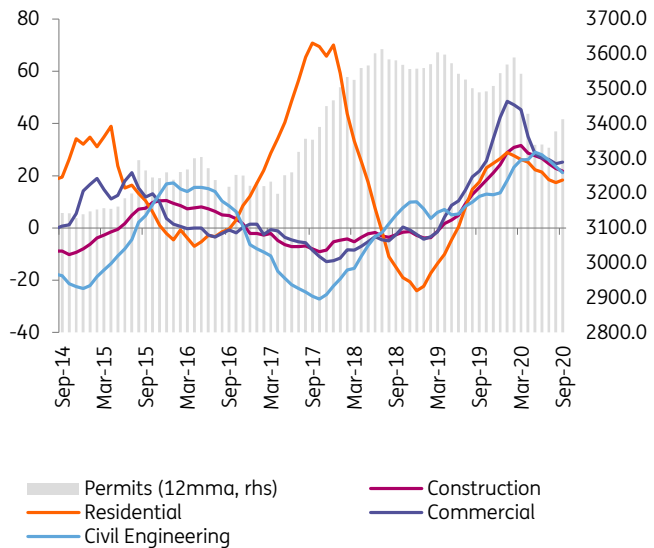


Constructions stay in green

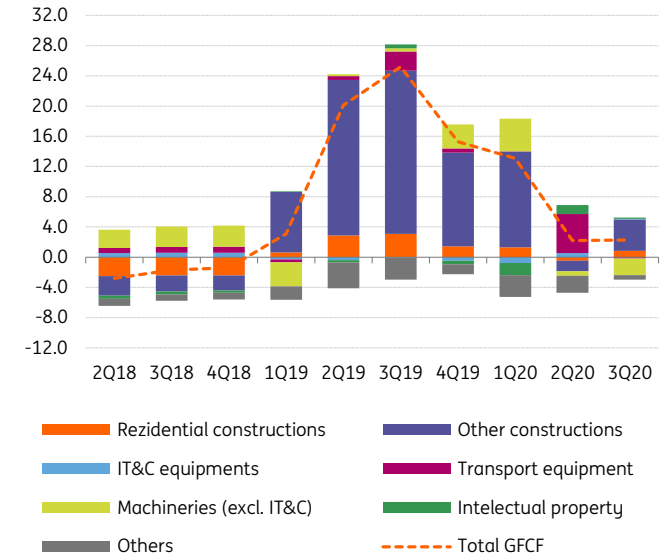
Commercial constructions slowing down but others offset



New building permits stay strong



Total investments in the economy



Constructions still expanding...

...on lagged effects from previous quarters and strong public spending boost

Public works to keep the flag up

Governments commitment to boosting the public infrastructure investments could act as a backstop for the entire sector

Construction driven

Constructions (mostly non-residential) have kept total investments in green in 2020

Services: IT bearing the growth burden

Transports

- The sector has contracted by 5% vs 2019 and has lost over 9k jobs. Commercial vehicles registration was down 35% at mid-year, pointing to sluggish recovery.

IT

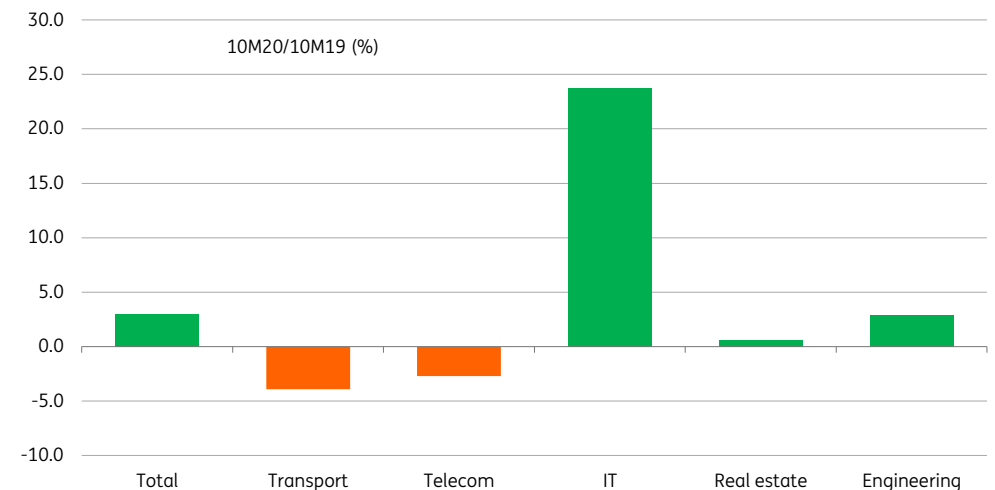
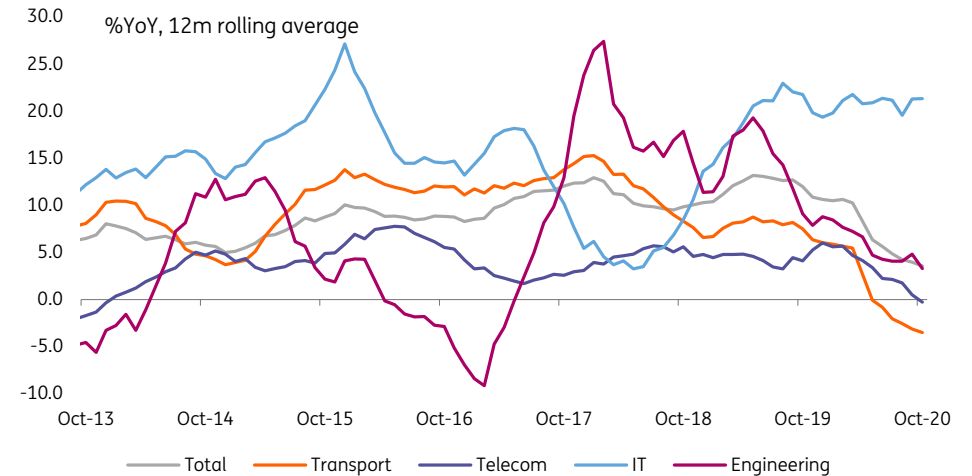
- Thriving sector (turnover up 25%, wages up 15% at mid-year), as companies boost digitalisation and work-from-home schemes.

Engineering

- Normally a good indicator of future investments. Likely to correlate better with public works rather than private investments.

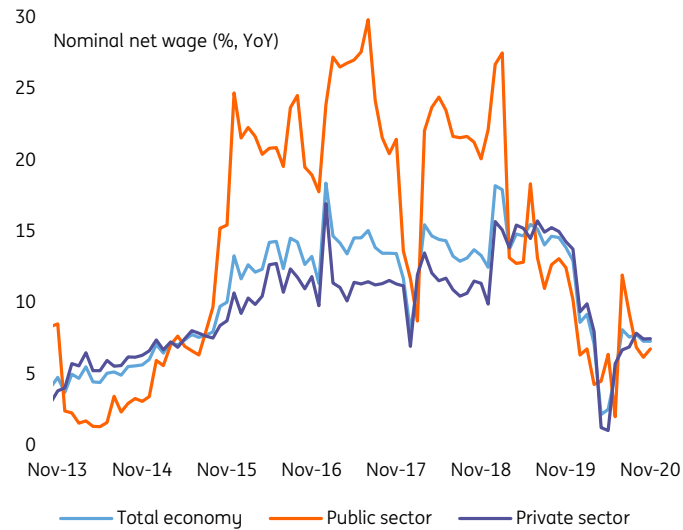
Telecom

- Usually less sensitive to economic cycles



Consumer sector

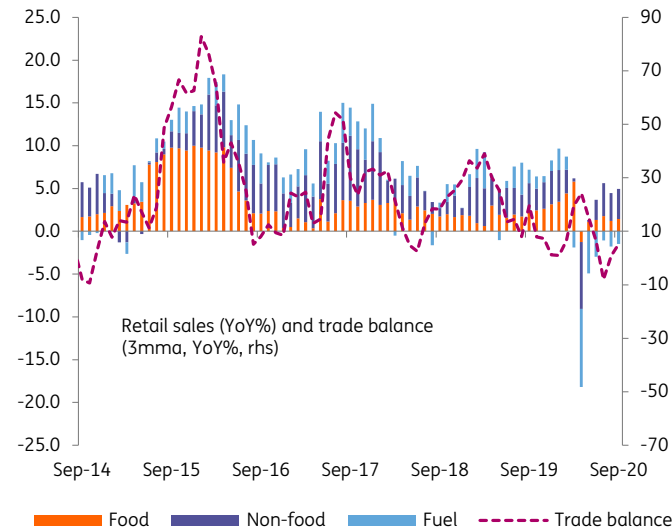
Wages will NOT contract in 2020



Wage growth remains positive...

...but statistical effects are likely distorting the picture as lower paid workers are dropped off the base

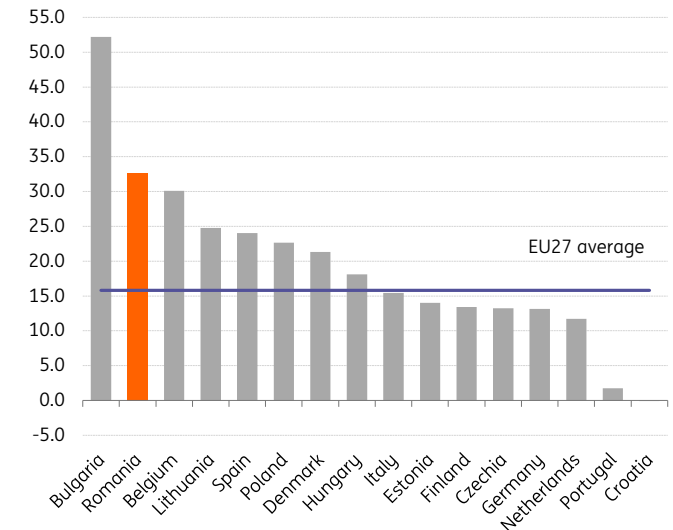
Retail sales and the trade balance: hand in hand



Sales are back to pre-crisis level...

...and the trade balance follows. Despite a contracting demand in 2Q20, the trade balance deficit has widened to new historical highs

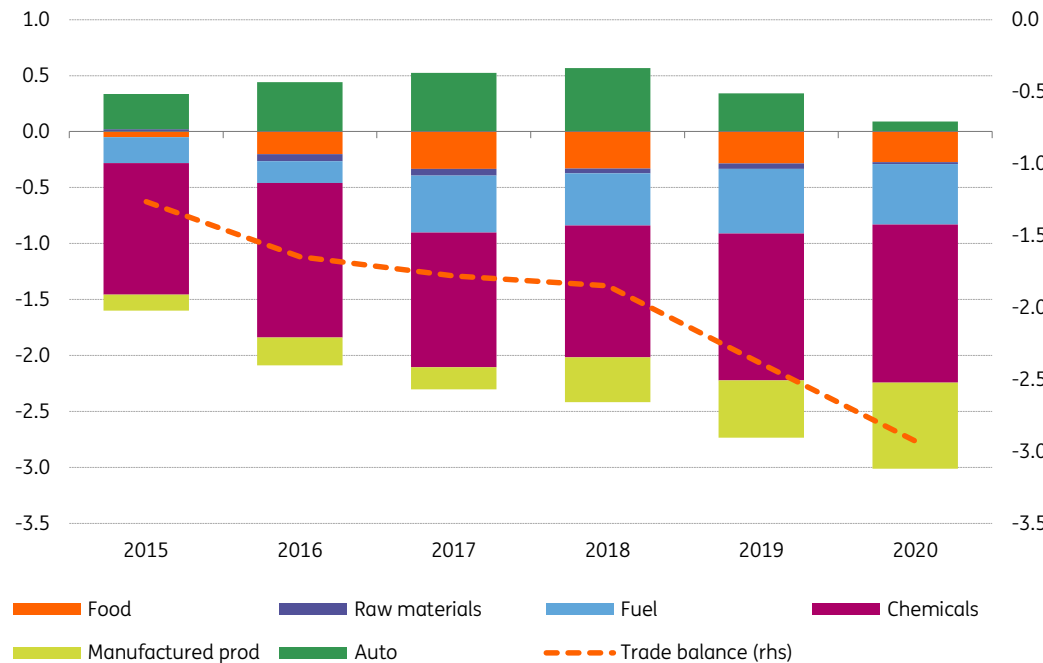
Online sales dynamic: impressive



Romanian consumers turn digital

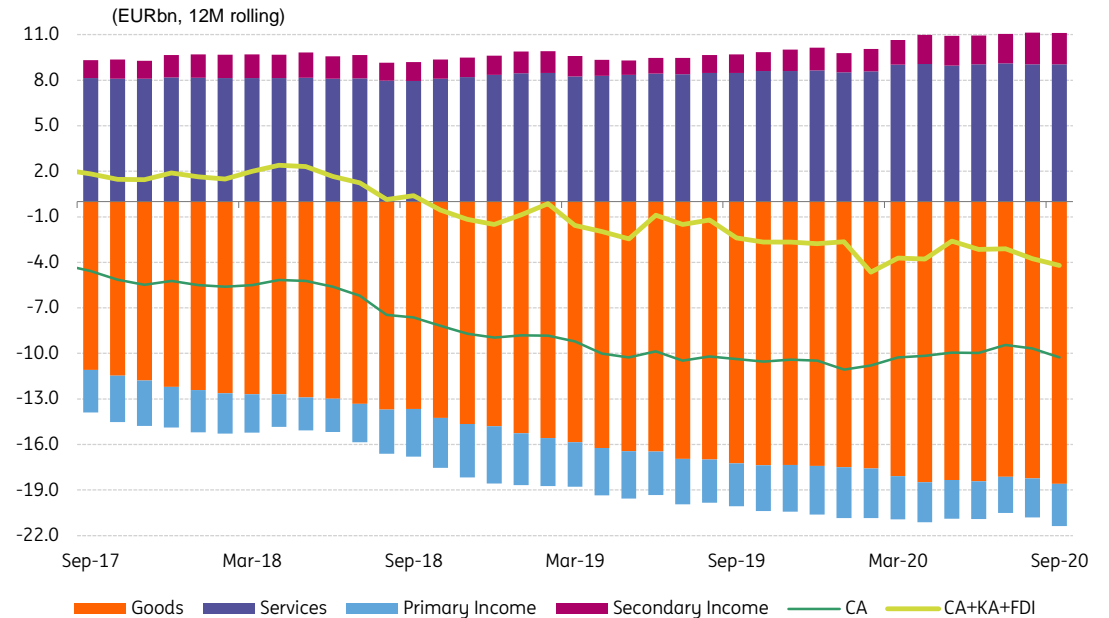
Online sales have boomed this year, Romania being among the few countries experiencing uninterrupted monthly growth in the post-lockdown period

Deteriorating external picture



Trade deficit still widening

- The surplus on the auto sector has been shrinking constantly, to the point of becoming irrelevant. The sector could end the year in a deficit for the first time after 7 years of consistent surpluses
- We expected a rebalancing of the trade picture but the reliance on imports seems to be more structural than estimated.

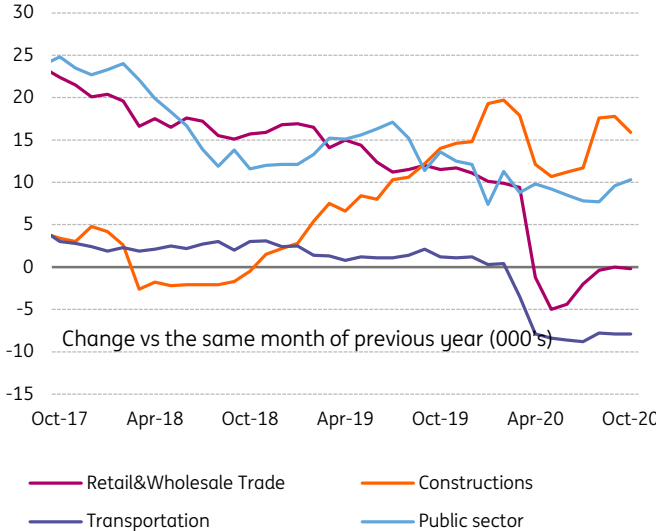


Current account deficit to remain a headache

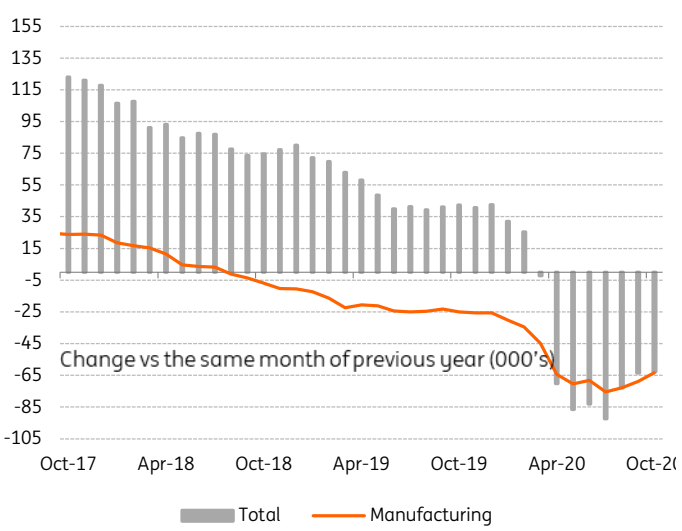
- In the absence of meaningful FDIs, financing the external shortfall remains reliant on NBR's FX reserves
- We see the C/A deficit at 4.5% of GDP in 2020, same as in 2019, with the higher trade deficit likely to be offset by EU funds inflow to a larger extent than in the previous years
- Even if the C/A deficit improves, its financing structure will weaken

Job creation: not succumbing but not a great story either

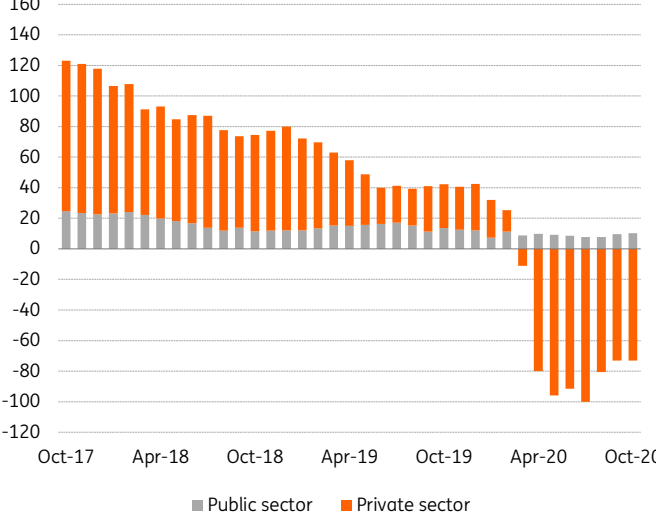
Monthly net job creation per selected sectors



Manufacturing job creation contracting since mid-2018

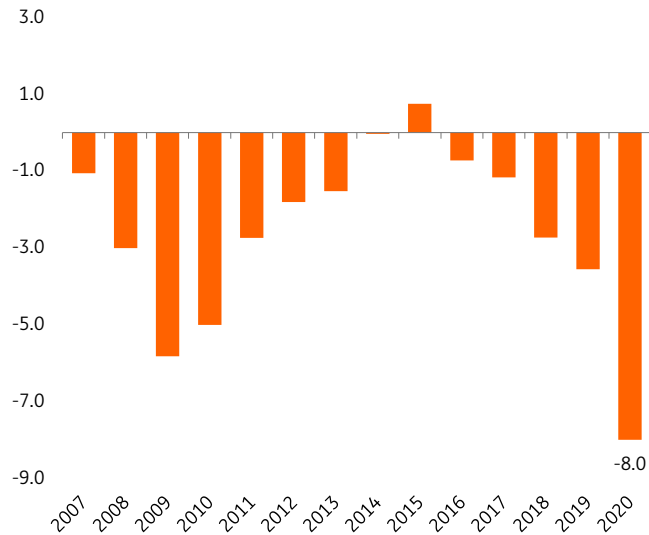


Number of workers in the public sector continues to grow



Budget deficit on the skids

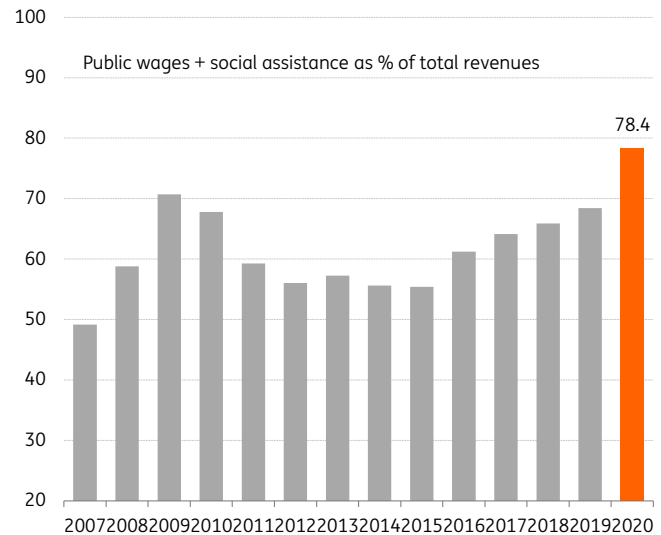
January-November execution
(% of GDP)



Understandably high this time

As of July-2020 the budget deficit already exceeded the full 2019 gap. Around half of it is crisis related

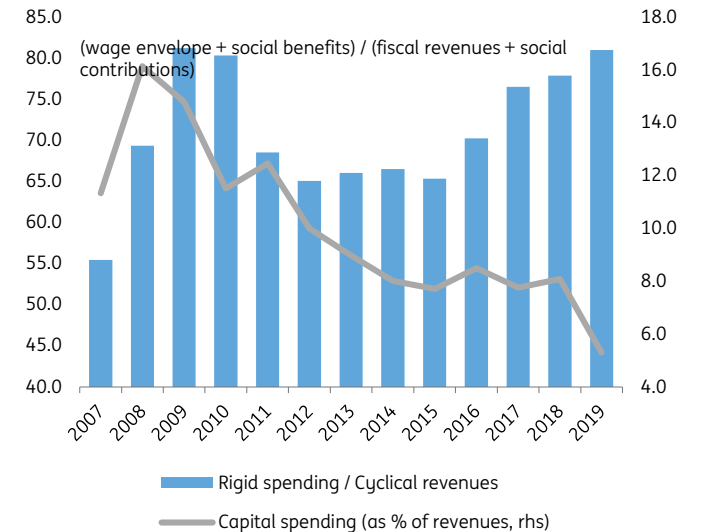
Rigid spending seizing most resources



Hard to scale back

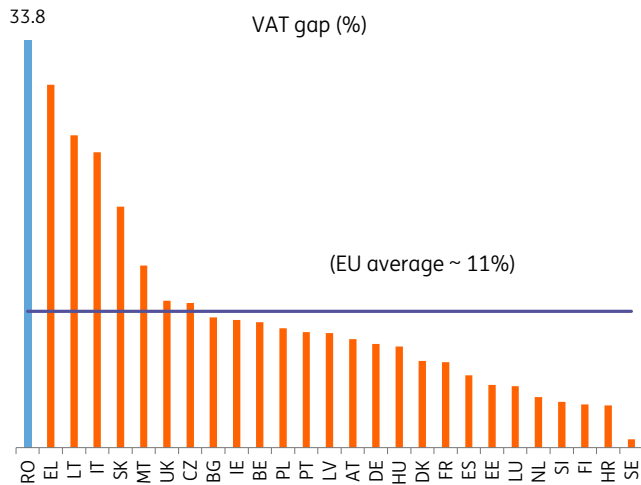
Public wages and social spending (mainly pensions) takes the structural deficit to record levels

Higher rigid spending = higher taxes...eventually



Medium-term fiscal outlook

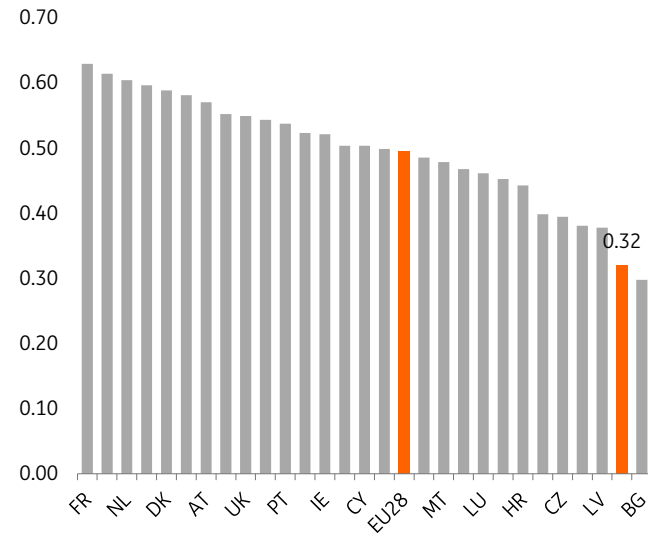
Largest VAT gap in Europe



Untacked tax evasion

Low compliance rate, WB program for ANAF declared off-track, large share of self-produced consumption in GDP

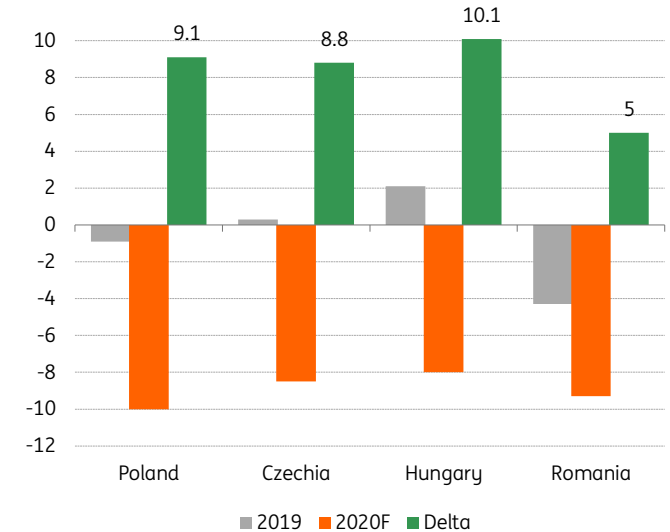
Lack of automatic stabilizers leads to discretionary policy



Limited room

The budgetary semi-elasticity indicates by how much the budget balance changes as % of GDP when the output gap increases by 1ppt.

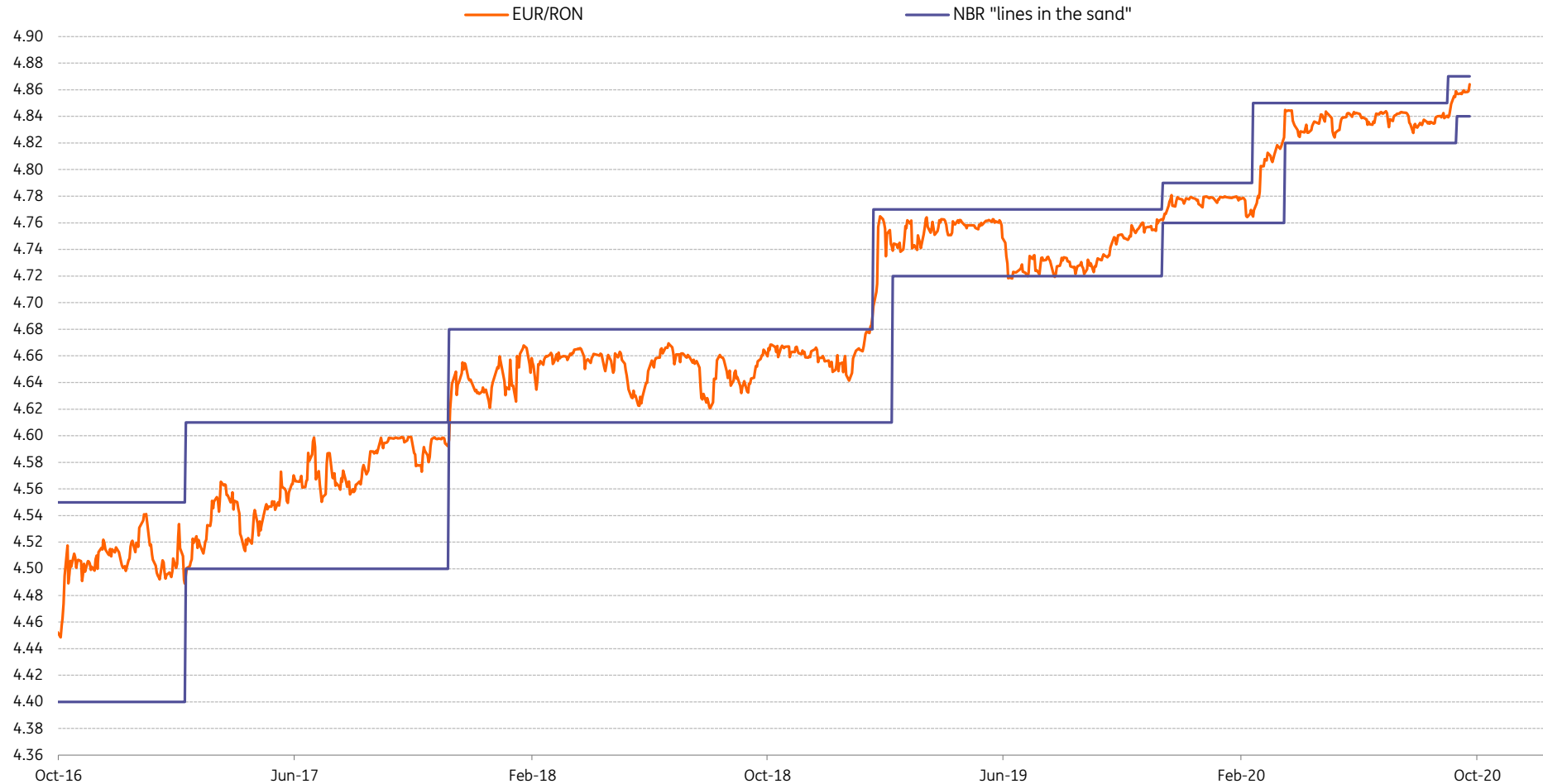
Fiscal impulse limited in Romania by the weaker starting point



Fiscal impulse - lowest in Romania

By regional standards, the budget gap will not look overly negative, but its inherent rigidity is the main problem

EUR/RON: time for an adjustment towards the 4.90 zone



Forecasts

	2021	2022	2023	2024	2025
GDP (%)	3.7	5.0	4.0	4.0	2.5
Inflation (avg, %)	2.5	2.5	2.5	2.5	2.5
Unemployment (ye, %)	5.2	4.7	4.2	4.0	4.0
Avg. wage growth (%)	3.3	5.0	5.0	5.0	5.0
Budget deficit (ye, %)	-7.3	-5.0	-3.8	-2.8	-2.5
EUR/RON (ye)	4.92	4.95	4.93	4.90	4.90

<https://think.ing.com/forecasts>



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