ROMANIA

Economic Snapshot

Third Quarter | 2015

Overview

The economy expanded by 3.7% y/y in Q2, driven by consumer spending, albeit with fixed investment maintaining a solid pace of growth as well. The strong recovery in domestic demand has boosted imports. While exports picked up, it lagged the expansion in imports, leading to negative contribution to growth from net foreign trade.

Strength of the consumer

The consumer sector emerged as the main engine of growth within the Romanian economy in 2014 following a period of subdued growth in 2009-2013. Consumer spending has grown by over 5% y/y throughout 2015 on the back of a significant pick-up in disposable incomes. Indeed, inflation has been negative since June as a result of falling energy prices and a large VAT cut on food (from 24% to 9%). In addition, unemployment fell back after a short-lived increase in late 2014 and early 2015 and is expected to shrink further. Retail sales continued to grow rapidly this year, by 8% y/y in August and 8.5% in July, and consumer confidence climbed rapidly, to the highest level since 2008.

Fiscal stimulus

The government's decision to aggressively ease its fiscal policy is expected to boost growth in the short term. It may however put fiscal sustainability at risk in the longer term, especially if there is no progress in improving the efficiency of the tax collection system.

Outlook

GDP forecasts have been upgraded further following another quarter of robust growth, with GDP now anticipated to expand by 3.5% in both 2015 and 2016. Household spending and investment are expected to remain the main engines of growth. Households will be supported by rising disposable incomes while investment is set to rebound as a result of rising confidence, low interest rates and higher demand for Romanian exports from its key Eurozone trading partners. Business surveys for the industrial sector and construction have indeed seen marked improvements, albeit they remain below the pre-recession levels. Greece's uncertain future in the eurozone and an escalation of the conflict in Ukraine remain the main risks but they have both significantly subsided in recent months. More marked progress in structural reforms is an upside risk.

MARKET INDICATORS

Market Outlook

GDP:	Current robust growth is expected to continue.
Inflation:	Likely to remain negative until mid-2016 on the back of lower energy prices and VAT tax cuts.
Interest rate:	Stable.
Employment:	Gradual improvements likely.

Economic Summary

ECONOMIC INDICATORS	2012	2013	2014	2015^{E}	2016^{F}
GDP Growth	0.6	3.4	2.8	3.5	3.5
Consumer Spending	0.8	1.1	4.9	4.7	4.6
Industrial Production	2.4	7.9	6.1	3.7	4.6
Investment	0.6	-9.2	-3.3	5.8	5.1
Unemployment rate (ILO%)	6.9	7.1	6.8	7.0	6.8
Inflation	3.3	4.0	1.1	-0.4	0.2
RON/EUR (average)	4.45	4.42	4.45	4.45	4.44
RON/EUR (average)	3.47	3.33	3.35	4.01	4.16
Interest Rates: 3-month (%)	6.2	5.1	3.5	3.8	4.4
Interest Rates: 10-year (%)	6.1	2.4	1.7	1.7	3.3

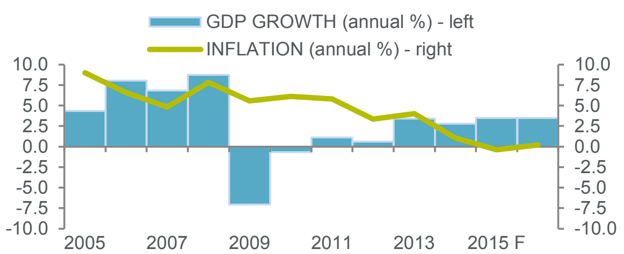
NOTE: *annual % growth rate unless otherwise indicated. E estimate F forecast

Source: Oxford Economics Ltd. and Consensus Economics Inc

Economic & Political Breakdown

Population	19.9 million (2014)
GDP	US$199.7 billion (2014)
Public Sector Balance	-1.5% of GDP (2014)
Public Sector Debt	39.8% of GDP (2014)
Current Account Balance	-0.5% of GDP (2014)
Parliament	A coalition of SDP/UNPR and CP/LRP
President	Klaus Johannis
Prime Minister	Victor Ponta
Election Dates	December 2016 (Parliamentary) 2019 (Presidential)

Economic Activity



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