Economic overview
ROMANIA

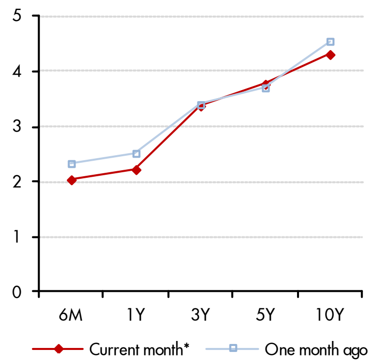
Issue 11/2017

Raiffeisen RESEARCH

RON exchange rates

Source: Daily NBR fixing

RON yield curve



Note: T-securities mid yields as of 27 December 2017
Source: Daily NBR fixing

Completed: 28-Dec-17, 4:19 PM*

First dissemination: 28-Dec-17, 4:30 PM*

https://www.raiffeisen.ro/corporatii/expertiza/analize-si-prognoze/

* Romania time

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Highlights

- The very rapid advance of consumption (13.3% yoy and 3.6% qoq) was the key driver of the faster than expected GDP growth in Q3 (8.8% yoy and 2.6% qoq). Still, positive quarterly dynamics were recorded for all other major demand components (investments, public consumption, exports). At the same, the economic growth was broad based as gross value added increased in all sectors of activity in Q3. Moreover, agriculture had a very large contribution to the GDP growth rate in Q3. We see real GDP increasing by 6.8% in 2017 after it had grew by 7.0% yoy in Q1-Q3. Also, we expect the economic growth to remain solid in 2018 (4.2%).

- Inflation dynamics remained elevated in November (0.7% mom, 3.2% yoy) and outpaced again expectations. Underlying inflationary pressures remained strong, while several adverse shocks materialized as well (increase of fuel prices, increase of volatile food prices, leu depreciation). We expect the annual inflation rate to continue to increase rapidly in the following quarters, likely peaking close to 5% in Q2 2018.

- Public budget deficit stood only at 0.8% of GDP during January-October. This year's public budget deficit target of 3.0% of GDP will likely be met and a large part of the public deficit will be again realized in December. The public budget deficit target for 2018 was also set at 3.0% of GDP but we see risks that it would be missed.

- Money market continued to face a liquidity shortage in November and this even widened compared to October. Moreover, money market interest rates (ROBOR) have been quoted further at elevated levels in December.

- Given the new macroeconomic conditions, we think that monetary policy tightening will proceed at a faster pace than we previously expected. Accordingly, we have revised our monetary policy outlook for 2018. We now see the Central Bank increasing the key rate five times in the next year (instead of three times forecasted by us previously), from 1.75% currently to 3.00%. We see chances that the Central Bank will raise first time the monetary policy rate at its next monetary policy meeting on 8 January.

- External imbalances (foreign trade deficit and current account deficit) have continued to increase gradually, but their coverage by stable foreign capital inflows (FDIs and capital transfers in EU funds) has improved in recent months.

Credit ratings (FCY long-term)

	S&P	Moody's	Fitch
Rating / Outlook	BBB- / Stable	Baa3 / Stable	BBB- / Stable

Key economic figures

	2016	Sep-17	Oct-17	Nov-17	2017f	2018f
Real GDP (%, ytd)	4.8	7.0			6.8	4.2
Industrial output (%, yoy)	1.7	7.6	9.6		7.8	6.0
CPI (% yoy, eop)	-0.5	1.8	2.6	3.2	3.2	3.5
CPI (% yoy, 12M avg.)	-1.5	0.4	0.7	1.0	1.3	4.3
Unemployment rate (%, eop)	5.5	4.9	4.9		4.9	4.7
Public budget balance (% of GDP, ytd)	-2.4	-0.8	-0.8	-1.2	-3.0	-3.5
Foreign trade balance (EUR bn,ytd)	-9.3	-8.2	-9.4		-11.7	-14.3
Current account (EUR bn, ytd)	-4.1	-4.5	-5.3		-6.1	-7.9
Net inward FDIs (EURbn, ytd)	4.5	3.7	4.1		4.5	5.0
Official FX reserves (EUR bn)	34.2	33.3	33.9	33.1	33.5	34.0

Source: National Bank of Romania, National Institute of Statistics, Raiffeisen RESEARCH

Fast advance of private consumption in Q3

The new estimates released on December 5 confirmed the very fast GDP advance in Q3 (2.6% qoq and 8.8% yoy) as reported in mid-November. The strong economic growth in Q3 beat by a large margin the expectations expressed before the release of the flash estimates.

On the demand side, the fast advance of private consumption (3.6% qoq) remained the main engine of GDP growth in Q3, as expected. Its annual dynamics accelerated to 13.3% yoy in Q3, which is the most rapid advance recorded since Q3 2008. Gross fixed capital formation went up by 1.2% qoq in Q3, this being the fourth quarter in a row when a positive quarterly dynamics was recorded. As a result, gross fixed capital investments advanced by 8.8% yoy, but elevated annual dynamics was favoured also by the contraction in Q3 2017. Similar to the previous quarters, the contribution of net exports to the GDP growth remained in the negative territory in Q3. The advance of exports of goods and services (0.5% qoq and 8.1% yoy) was surpassed by a more rapid advance of imports (0.9% qoq and 10.9% yoy).

On the supply side, as expected, a spike of gross value added in agriculture (33.4% yoy) was a key driver of the GDP advance, as it had a large contribution to the annual growth rate (around 2.2 percentage points). The rapid increase of gross value added in agriculture was favored by the mild weather conditions this year and by the low base set by the dynamics in 2016. Also, industry and services had a good performance in Q3 as gross value added increased by 7.8% yoy and by 6.7% yoy respectively. On the other hand, the annual dynamics of gross value added in constructions remained in the negative territory in the third quarter (-1.0% yoy).

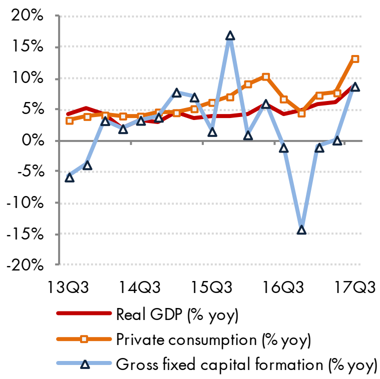
Detailed information on dynamics of GDP and of its components is available in the Appendix, at the end of this report (pages 9-13).

Real GDP went up by 7.0% yoy during the first nine months of the year. The very rapid economic advance was driven mainly by private consumption (9.7% yoy in Q1-Q3), a dynamics which points towards an overheating economy. Following the rapid GDP advance recorded in Q3 which exceeded our expectations by a large margin, we now expect for the entire year 2017 an economic growth of 6.8%, revised upwards from 5.7%, estimated previously.

We expect the economic growth to remain solid going forward, but to decline to a more sustainable level in 2018, i.e. to 4.2%. Private consumption should continue to be the main driver of economic growth as the significant increases in wages and pensions will keep individuals' propensity to spend at elevated levels. Likewise we expect the rebound of investments to remain on track in 2018. The advance in exports of goods and services expected on the back of the improved global demand should continue to be offset by a more rapid increase in imports of goods and services, thus resulting in a widening of the foreign trade deficit and of the current account deficit. On the supply side, economic growth should be broadly based in 2018 as we look for increases in gross value added in all major sectors of activity (industry, constructions and services).

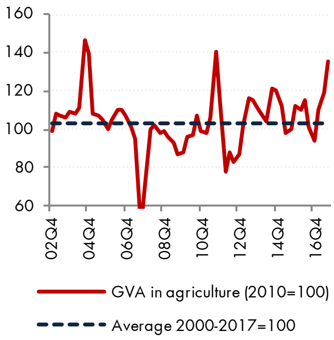
Financial analyst: Silvia Maria Rosca

Real GDP and domestic demand



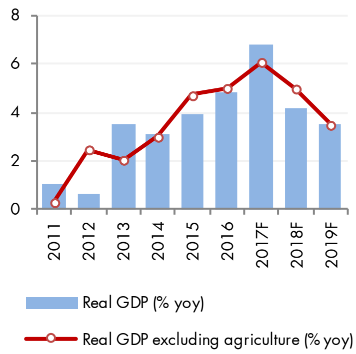
Source: NIS, Raiffeisen RESEARCH

Gross value added in agriculture



Source: NIS, Raiffeisen RESEARCH

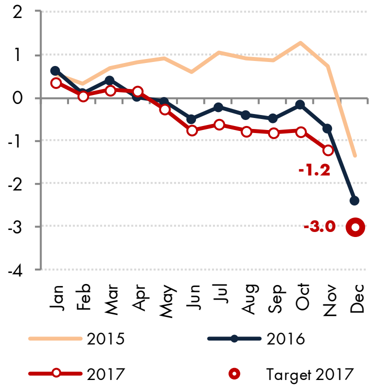
Real GDP outlook



Source: NIS, Raiffeisen RESEARCH

Public deficit target likely to be met in 2017

Year to date public budget balance (% of GDP, cash terms)



Source: Ministry of Public Finances, Raiffeisen RESEARCH

Year to date public budget execution (cash terms)

	Effective Jan-Nov (% yoy)
Total revenues	**11.0**
1.Core revenues (A+B)	**6.0**
A. Taxes, of which:	1.3
-corporate tax	-5.4
-personal income tax	8.5
-VAT	1.5
-excises	-3.5
B. Social contributions	16.6
2. Other revenues, of which	50.3
- non-fiscal revenues	22.1
- funds received from EU	150.2
Total expenses	**12.9**
1.Core expenses	**11.1**
-Goods and services	1.7
-Expenses with employees	21.3
-Social benefits	12.9
-Capital expenses	-8.3
-Interest expenses	0.5
2.Other expenses	24.7
- EU funds related spending	61.5
Public budget balance	**85**
Memo	
Total public investments	-19.4
Revenues excluding EU funds	7.2
Expenses excluding EU funded programs	10.6

Source: Ministry of Public Finances, Raiffeisen RESEARCH

In November, a large public budget deficit was recorded amounting to RON 3.6 bn. So, the public budget execution for the period January-November resulted in a deficit of RON 10.2 bn, equivalent to 1.2% of GDP, which exceeded the level recorded in the similar period of the previous year (0.7% of GDP).

We think that the public budget deficit could be maintained within the 3% of GDP target in 2017. A sharp cut of public investments (-19.4% yoy in January-November when referring to total public investments, including investments from EU funds and those funded exclusively from national sources or from loans) was used to limit the jump of the public budget deficit. On the other hand, current public spending increased rapidly during the first eleven months of the year. So, during January-November personal expenses went up by 21.3% yoy and expenses with social benefits increased by 12.9% yoy. Turning to the revenues side, the budgetary aggregates posted mixed developments during the first ten months of the year. Despite the rapid increase of retail sales (9.2% yoy in Jan-Oct), the performance of VAT revenues has remained modest (1.5% yoy in Jan-Nov). Meanwhile, during January-November, both receipts from the personal income tax (8.5% yoy) and from social contributions (16.6% yoy) posted good performance. Receipts from excises declined by 3.5% yoy in Jan-Nov, still their dynamics could have improved in the last months of the year given the sharp increase of excise duties for fuels in September and in October. The year-to-date public budget execution was positively influenced by the one-off payments in special dividends paid by state-owned enterprises (SOEs).

The public budget deficit target for 2018 was set at 3.0% of GDP (expressed both in cash terms and ESA2010 standards). The budgetary construction for 2018 was based on an economic growth of 5.5% and it incorporates the fiscal measures enforced recently. The Fiscal Council assessed that there are risks for the public budget deficit to exceed the 3% of GDP target in 2018. Among others, the Fiscal Council's analyses points to a significant overvaluation of VAT receipts together with an undervaluation of public spending with social benefits. We recall that the Fiscal Council is an independent institution required by the law to analyze the public budget plan and to issue an opinion on it.

In our opinion, the public budget arithmetic appears to be more complicated in 2018 as the measures used in 2017 to limit the enlargement of the public budget deficit – the sharp cut of investments and the one-off payments from SOEs – are only temporary in nature. We see a good chance for the public budget deficit to exceed the target in 2018 (our forecast for the public budget deficit is 3.5% of GDP) unless corrective measures are taken. The deterioration of the fiscal position represents the main macroeconomic risk going forward.

Financial analyst: Silvia Maria Rosca

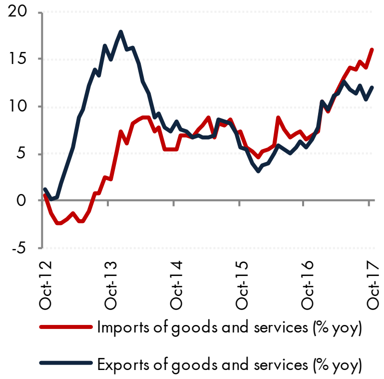
External imbalances continue to enlarge gradually

The current account deficit re-entered on an upward trend in 2016 and has continued to increase further in 2017. According to our in-house seasonally adjusted data, the current account deficit stood at 3.5% of GDP (annualized data) during January-October this year, increasing from 2.4% of GDP in 2016. The enlargement of the current account deficit was almost exclusively fuelled by the increase of the foreign trade deficit. According to our in-house seasonally adjusted data, deficit for foreign trade with goods and services increased to 2.0% of GDP (annualized data) during January-October this year from 1.0% of GDP in 2016. Exports of goods and services remained on a sustained upward trend in 2017, increasing by 11.6% yoy in EUR equivalent during January-October. Still, dynamics of imports of goods and services outpaced that of exports, coming at 14.6% yoy during January-October.

Our baseline scenario assumes that current account deficit will further increase in 2018, reaching around 4.0% of GDP. Similar to 2017, the increase of the current account deficit will be driven to a very large extent by the deterioration of the deficit for foreign trade with goods and services. Imports' growth should outpace that of exports as dynamics of domestic demand will remain elevated. We foresee a more visible rebounding in investments in 2018 and this should be accompanied by an increase in imports of capital goods. Also, the increase in oil price started to generate upside pressures on the deficit related to foreign trade with fuels (primary and processed) and it will continue to do so in the following period.

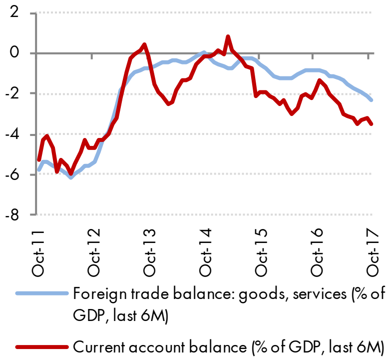
Stable foreign capital inflows – i.e. net foreign direct investments and capital transfers in terms of EU funds – have improved starting the summer months, which resulted in a better coverage of the current

Exports and imports



Note: 6-months moving averages
Source: NBR, Raiffeisen RESEARCH

Foreign trade and current account balances



Source: NBR, Raiffeisen RESEARCH

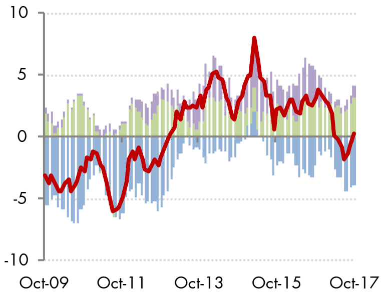
External balance arithmetic: use of country's external funding surplus and coverage of country's external funding gap (% of GDP, BoP data are not seasonally adjusted)

% of GDP, annualized data	2013	2014	2015	2016	Jan-Oct 2017
Country's external funding surplus (+) / external funding gap (-) (I+II)	**4.1**	**2.0**	**1.3**	**0.9**	**-0.4**
I. Current account balance + Capital account balance + Net FDIs	**3.1**	**3.8**	**3.0**	**3.1**	**0.0**
Current account	-1.1	-0.7	-1.2	-2.1	-3.4
Capital account (mainly EU Funds)	2.1	2.6	2.4	2.5	0.8
Net FDIs	2.0	1.8	1.8	2.7	2.7
II. Other foreign net capital inflows (+) or outflows (-)	**1.0**	**-1.7**	**-1.7**	**-2.2**	**-0.4**
Loans, deposits, currency	-2.8	-3.6	-1.8	-2.7	-2.0
Portfolio inflows	3.8	1.9	0.0	0.6	1.7
Derivatives	0.0	0.0	0.0	0.0	0.0
Use of external funding surplus (-) or coverage of external funding gap (+)	**-4.2**	**-2.1**	**-1.5**	**-1.4**	**-1.1**
Increase in official reserves (-) or decrease in official reserves (+)	-1.5	0.8	0.4	-1.3	-0.4
Repayments to IMF, EC, WB (-) or loans from IMF, EC, WB (+)	-2.7	-2.9	-1.9	-0.1	-0.7
Errors. ommissisons	**0.1**	**0.1**	**0.2**	**0.5**	**1.5**
Memo:					
Total public net transfers, reflecting mainly relation with the European Commission: net inflows (+) or net outflows (-)	2.9	2.8	3.0	3.5	1.5

Source: NBR, Raiffeisen RESEARCH

Raiffeisen RESEARCH

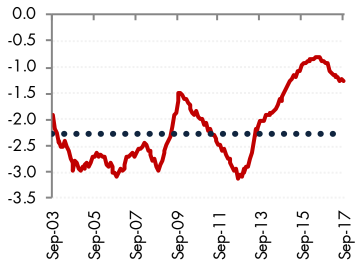
Extended current account balance



Source: NBR, Raiffeisen RESEARCH

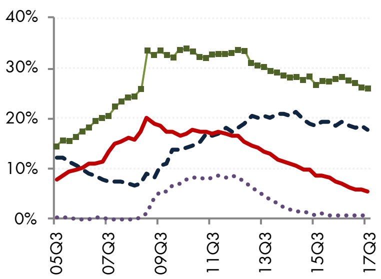
Note: Adjusted current account balance = Current account balance + Capital account balance + FDIs

Balance for foreign trade with fuels



Source: Eurostat, Raiffeisen RESEARCH

Gross external debt, by sectors



Source: NBR, Raiffeisen RESEARCH

account deficit by such inflows. So, stable foreign capital inflows exactly matched the current account deficit during January-October, while they were lower in the first half of the year (as shown in the previous issues of our report). The coverage of the current account deficit by stable foreign capital inflows should improve further in the following quarters in our view and this is mainly because of an increase in absorption of EU funds. As of this summer, all domestic management authorities are certified by the European Commission, so there are not anymore administrative barriers to spend EU funds.

Net foreign capital outflows were again recorded at the level of the private sector in 2017 and most of them were located at the level of the banking sector. Repayments in existing FCY loans by debtors generate a surplus of liquidity at the level of the banking system as the banks are facing very scarce opportunities to lend in foreign currencies (low demand, tighter lending standards relative to those used for the lending in domestic currency). In this context, the banks are using the FCY liquidity surplus to repay their maturing credit lines from abroad or to make investments abroad. According to our computations, gross external debt of the banking system accounted to 5.5% of GDP in September 2017, down from 6.6% of GDP in December 2016. However, a passive deleveraging has been recorded also at the level of the non-financial companies as their stock of gross foreign debt increased only marginally between December 2016 and September 2017. As a result, GDP share of gross foreign debt of non-financial companies decreased from 28.4% in December 2016 to 26.8% in September 2017.

Large portfolios inflows were recorded in 2017. Romania tapped external markets twice in 2017 (in April and in October) and borrowed EUR 2.75 bn, while no Eurobond issue came to maturity this year. Still, the Government had to repay EUR 1.15 bn to the European Commission in an instalment of the loan contracted during the financial crisis in 2009-2010.

Stock of gross foreign debt likely increased in 2017, but not very much. As a result, its GDP share decreased in 2017 (to 50.8% of GDP from 54.8% of GDP in 2016, according to our estimates). The GDP share of gross external debt might decrease further in 2018, although only marginally.

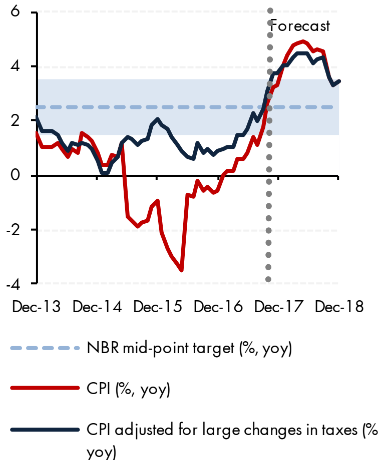
The large size of errors and omissions (EUR 2.3 bn or 1.5% of GDP during January-October) suggests that previous computations are not so exact. In this context, a large revision of the data should not be excluded at some point in the future.

Overall, the balance of payments data reveal that positive net inflows were recorded at the level of the country's official reserves during January-October.

Financial analyst: Nicolae Covrig

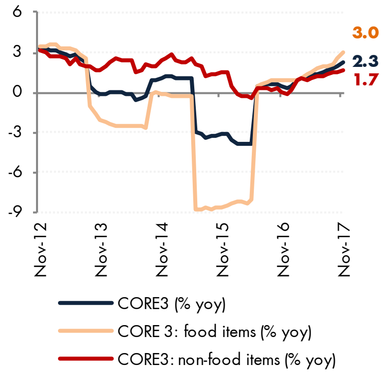
Rapidly deteriorating inflation outlook

Inflation outlook



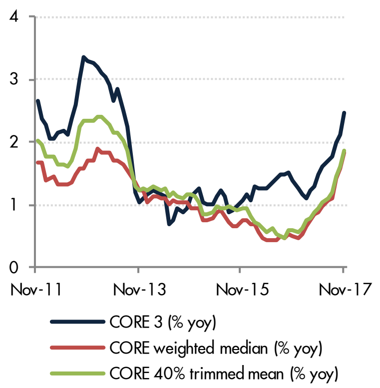
Source: NBR, NIS, Raiffeisen RESEARCH

CORE 3 inflation dynamics



Note: CORE 3 = CPI – Administered prices – Volatile prices of foods and fuels – Tobacco and alcohol
Source: NIS, Raiffeisen RESEARCH

Statistical core inflation measures



Note: dynamics are adjusted for first round impact of VAT rate changes
Source: Eurostat, Raiffeisen RESEARCH

For the third month in a row, inflation dynamics came in above expectations in November. That month, consumer prices advanced again rapidly (0.7% mom), while the annual inflation rate jumped to 3.2% yoy from 2.6% yoy in October.

Large monthly inflation rate in November was the result of elevated underlying inflation pressures and it was also fuelled by leu depreciation and by the increase of fuel prices and of volatile food prices. CORE3 inflation rate (CPI excluding administered prices, volatile prices of foods and fuels, and prices of tobacco and alcohol) went up by 0.4% mom in November. CORE3 annual dynamics accelerated to 2.3% in November from 1.9% in October. This was the fastest annual dynamics recorded in the last four years. Prices for liquid fuels went up by 3.4% mom in November, adding to the consistent gains recorded in the previous months. A spike by 30% in the prices of eggs had a positive contribution amounting to around 0.2 percentage points to the monthly inflation rate.

Underlying inflationary pressures have strengthened substantially starting from the summer and this is clearly revealed both by the dynamics of CORE3 inflation measure and by the dynamics of our in-house statistical core inflation measures (weighted median and trimmed mean). For instance, annual dynamics of CORE3 inflation measure accelerated from 1.4% yoy in June to 2.3% yoy in November. Annual growth rates for all core inflation measures returned to their levels from 2013. In addition, several large adverse shocks have materialized recently, fuelling the inflation pressures: tariffs for electricity were increased, excise duties on fuels were hikes in two steps (September and October), oil price increased, and the leu depreciated.

In this context, we have revised upwards the inflation forecast for the end of 2017 to 3.2% from 2.4% previously. Moreover, under new circumstances, we expect the annual inflation rate to continue to increase rapidly in the following quarters, likely peaking close to 5% in Q2 2018. Dissipation of the favourable statistical base effect fuelled by tax cuts in January-February 2017, increase of administered prices and additional strengthening of underlying inflationary pressures are the main drivers for the rapid advance of the annual inflation rate in the following quarters. We have maintained unchanged our end-2018 inflation forecast at 3.5%.

Uncertainty related to our baseline scenario remains important and to a large extent it is mainly related to the dynamics of administered prices. In this case, there is limited information regarding the path of households' tariffs for electricity and natural gas in the following year. Larger than expected inflation print in November also implies some upside risks to our end-2017 inflation forecast (i.e. consumer prices might increase slightly faster in 2017 than we currently assume, i.e. 3.2%).

Financial analyst: Nicolae Covrig

First key rate hike expected in early-2018

Money market interest rates (ROBOR) have been quoted further at elevated levels in December. Still, some slight declines were recorded, especially in case of rates having a very short maturity, most likely on the back of improved liquidity conditions fuelled by an increase of public spending (usually the bulk of the public budget deficit has been realized in the last month of the year). Prior, in November the liquidity shortage persisted in the money market. In November, the banks placed daily an average amount of RON 0.3 bn at the Central Bank's (NBR) deposit facility, but the NBR injected in the banking system RON 3.0 bn on average per day through REPO operations. So, the NBR was a net creditor of the banking system also in November, as liquidity injections outpaced banks' placements by RON 2.7 bn. Moreover, liquidity shortage of the banking system in November exceeded that in October (RON 1.4 bn). An additional REPO operation was performed at the beginning of December, when the NBR injected in the money market RON 8.7 bn.

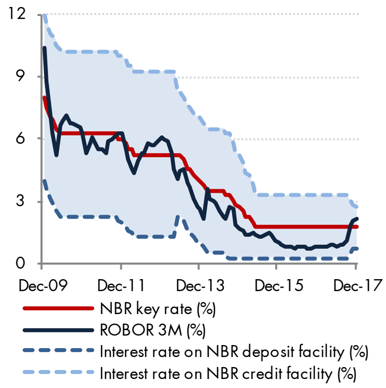
The National Bank of Romania became outright hawkish at the last monetary policy meeting in 2017, on 7 November. The visible change of NBR's rhetoric should have come as a response to the sharp deterioration of the inflation outlook and to the increase in investors' risk aversion towards Romania (due to elevated uncertainty surrounding the Government's policies and due to an increase in macroeconomic imbalances). At the monetary policy meeting in November, the NBR announced a shift in its strategy as it will aim to reduce the volatility of money market interest rates while allowing the exchange rate to be more flexible.

Given the new macroeconomic conditions, we think that monetary policy tightening will proceed at a faster pace than we previously expected. Accordingly, we have revised our monetary policy outlook for 2018. We now see the Central Bank increasing the key rate five times in the next year (instead of three times forecasted by us previously), from 1.75% currently to 3.00%. Two additional increases are expected in 2019, lifting the monetary policy rate at 3.50%. The hiking cycle is expected by us to begin at the first monetary policy meeting in 2018 (on 8 January). As a result, ROBOR rates should remain on an upward trend in 2018, despite the jumps already recorded in Q4 2017.

The increase of interest rates should be beneficial for the leu in the following period. On the other hand, the widening of the macroeconomic imbalances and the uncertainty related to the Government's policies should weigh on the leu. Overall, we see some room for leu depreciation and we now expect the EUR/RON exchange rate to be traded in a range of 4.65-4.70 during 2018, revised upwards from 4.60-4.65 previously. Moreover, given the change of NBR's strategy in order to allow the exchange rate to be more flexible, short-lived increases above these levels should not be excluded if investors' sentiment against Romania becomes more negative.

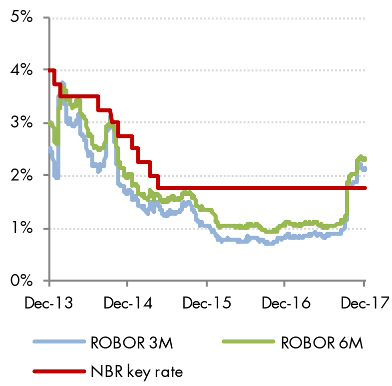
Financial analyst: Silvia Maria Rosca

Key interest rates



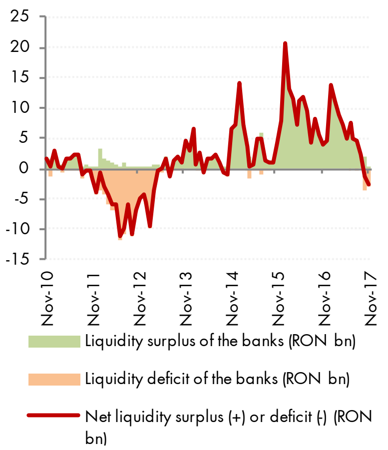
Source: NBR, Raiffeisen RESEARCH

Key interest rate and money market interest rates



Source: NBR, Raiffeisen RESEARCH

Liquidity position of the banking system (RON bn/day)

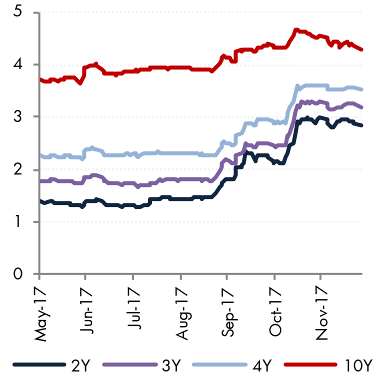


Note: Liquidity surplus = Deposit facility + Depo + Reverse repo +Certificates of deposit;
Liquidity deficit = Credit facility + Repo

Source: NBR, Raiffeisen RESEARCH

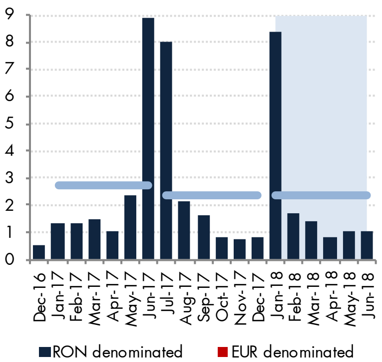
Domestic bond yields to trend upwards in 2018

Dynamics of yields for RON Government securities



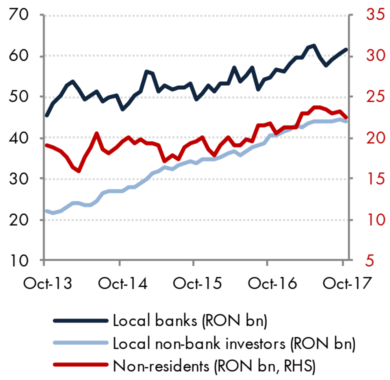
Note: effective maturity could differ slightly from stated maturity
Source: Bloomberg, Raiffeisen RESEARCH

Maturing government securities (RON+FCY), local market



Source: NBR, Raiffeisen RESEARCH

Holdings in RON Government securities, by investors



Note: based on zero spot rates
Source: Thomson Reuters Datastream, Raiffeisen RESEARCH

Following the significant increases recorded in the previous months, yields for RON Government Securities slightly decreased this month. For instance, since end-November, the yield for a 2-year T-bond went down by 10 bp, while a bit larger decline was recorded by the yield for a 10-year T-bond (-20 bp). As a result, the yield curve for RON Government Securities flattened in December.

Meanwhile, mixed developments were recorded at the public debt auctions held in December. So, a strong demand was recorded at the first two auctions, especially in case of the 9.6-year T-bond auction held on 4 December (330% oversubscribed). On the other hand, outcome was not favourable at the subsequent auctions. At the four public debt auctions held on 11, on 14 and on 21 December, the public debt managers rejected all investors' bids due to the poor demand or due to the high level of yields requested by investors. A partial allotment was recorded at the auction held on 18 December. Overall, in December, the Ministry of Finance (MoF) failed to meet its borrowing target of RON 2.5 bn set at the beginning of the month, as it raised only RON 1.3 bn.

The yield curve for RON Government securities shifted significantly upwards in the past months. However, we expect yields to record additional increases during 2018. The tightening of the monetary policy stance which is now expected by us to occur at a more rapid pace should support the upwards movement of yields. Also, a rise in the risk premium required by investors due to increase of macroeconomic imbalances (especially of the public budget deficit) and the large demand for funds stemming from the Finance Ministry in order to finance the public budget deficit support our view of additional increases of yields. Last but not least, yields on the external markets are expected to go up in the upcoming quarters.

The Government sees a need to borrow EUR 8 bn (in EUR equivalent) by issuing Eurobonds in 2018-2019. In order to achieve this objective, the Government has raised by EUR 7 bn the ceiling for the "Medium Term Notes (MTN)" program which until now set a cap for outstanding Eurobonds at EUR 20 bn. Eurobonds denominated both in EUR and in USD that are issued under MTN program have currently an outstanding amount of EUR 19.1bn.

Financial analyst: Silvia Maria Rosca

Calendar for auctions in RON government securities

Discount T-Bills						Benchmark T-bonds					
Auction date	Tenor (Months)	Amount (RON mn) Intended	Effective	Avg Yield	Max yield	Auction date	Tenor (Years)	Amount (RON mn) Intended	Effective	Avg Yield	Max yield
23-Nov-17	1.0	500	0	-	-	6-Nov-17	6.5	300	300	3.88	3.88
						9-Nov-17	1.5	300	300	2.31	2.31
						13-Nov-17	4.3	500	0	-	-
						16-Nov-17	1.3	400	0	-	-
						20-Nov-17	3.6	200	200	3.68	3.68
						27-Nov-17	2.9	500	255	3.45	3.47
14-Dec-17	1.0	400	0	-	-	4-Dec-17	9.6	400	621	4.53	4.54
						7-Dec-17	2.9	400	400	3.38	3.4
						11-Dec-17	5.4	200	0	-	-
						14-Dec-17	4.2	400	0	-	-
						18-Dec-17	6.4	400	208	4.05	4.09
						21-Dec-17	1.5	300	0	-	-

Source: Ministry of Public Finances, National Bank of Romania, Raiffeisen RESEARCH

Appendix
Romania: National accounts Q3 2017

Important Notes:

The following report is based on quarterly time series for real GDP and its components up to Q3 2017 as made public by the National Institute of Statistics (NIS) on 5 December 2017.

1. Dynamics of real GDP and of its components
(estimates of the National Institute of Statistics)

	Annual changes (% yoy, gross data)						Quarterly changes (% qoq, seasonally adjusted)**					
	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3
Real GDP	6.0	4.3	4.8	5.7	6.1	8.8	1.6	0.3	1.7	2.0	2.0	2.6
Real GDP without agriculture	5.7	4.5	5.4	5.8	6.2	6.6						
Domestic demand without inventories	8.2	3.9	0.6	5.4	5.1	10.7	2.5	-2.5	1.4	4.3	2.6	2.9
- Household expenditures	10.4	6.8	4.5	7.4	7.7	13.3	2.5	-1.4	0.4	5.9	2.8	3.6
- Government expenditures	2.2	1.8	12.9	4.4	1.5	3.1	1.6	-0.3	10.6	-6.2	-1.6	0.6
- Gross fixed capital formation	6.0	-1.0	-14.2	-1.0	0.2	8.8	2.6	-7.4	1.6	2.6	3.3	1.2
Domestic demand with inventories	8.0	4.2	4.1	5.5	6.7	9.9						
Inventories' contribution to GDP (percentage points)	-0.5	0.3	3.6	0.2	1.5	-0.7						
Exports	8.6	8.0	10.9	10.9	9.8	8.1	3.1	1.0	2.5	3.4	1.2	0.5
Imports	13.2	7.8	8.6	10.6	11.0	10.9	2.5	0.3	2.1	4.6	2.7	0.9
Net exports' contribution to GDP (percentage points))	-2.1	0.1	0.6	0.2	-0.6	-1.2						
Gross value added (GVA)*	6.4	4.3	4.6	6.0	6.4	8.9	1.5	0.8	0.7	2.6	2.0	2.0
- agriculture	17.7	2.0	-16.7	0.9	3.7	33.4	5.0	-12.2	-7.5	17.8	7.9	13.1
- industry	2.8	1.8	1.8	6.8	7.8	7.8	0.5	2.0	1.4	2.4	1.5	0.4
- construction	7.1	2.8	-0.1	1.2	-4.0	-1.0	0.7	0.8	0.6	-1.1	-3.5	2.0
- services*	7.6	6.0	7.9	6.0	6.5	6.7	1.5	2.3	1.6	1.3	1.9	1.0
-private services*	8.4	6.8	8.8	6.8	7.4	7.5	1.8	2.4	1.5	1.4	2.1	1.3
-public services	3.6	2.8	3.5	3.0	2.8	3.5	-1.4	0.5	1.9	1.1	-0.5	-3.8
Net taxes	2.8	3.8	6.5	3.6	4.0	7.2	-0.3	1.6	2.6	-0.6	1.0	2.6

Source: National Institute of Statistics, Raiffeisen RESEARCH

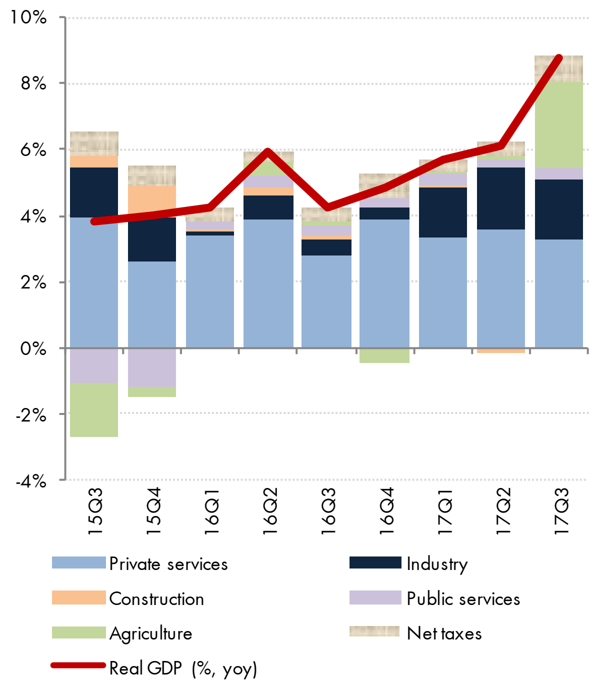
Important notes:

* Seasonally adjusted time series for total gross value, services and private services are computed as sum of their components which have been previously seasonally adjusted using individual models. However, seasonally adjusted time series for GDP is derived globally using a specific seasonal adjustment procedure, and so it is not the sum of its components. So, there could be discrepancies between dynamics of total GDP and that suggested by individual dynamics of its components (gross value added and net taxes).

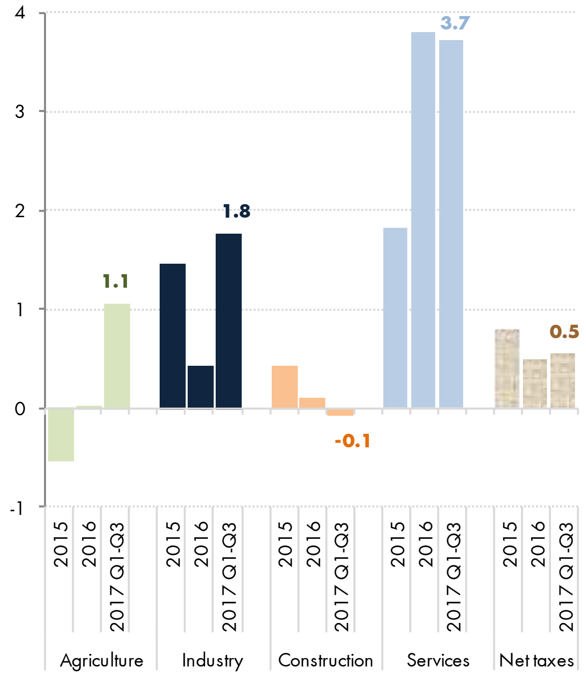
** There might be important revisions in quarterly growth rates of GDP and its main components once new data become available. For several GDP components, the seasonal adjustment models proved very unstable over the past years and revisions were quite important.

2. Contribution of sectors to GDP dynamics

Contributions (in percentage points) to YOY growth rate in real GDP



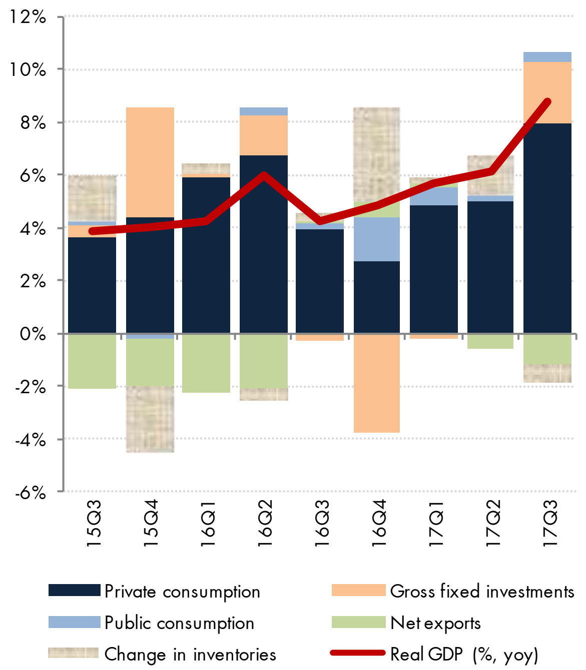
Contributions (in percentage points) to YTD growth rate in real GDP



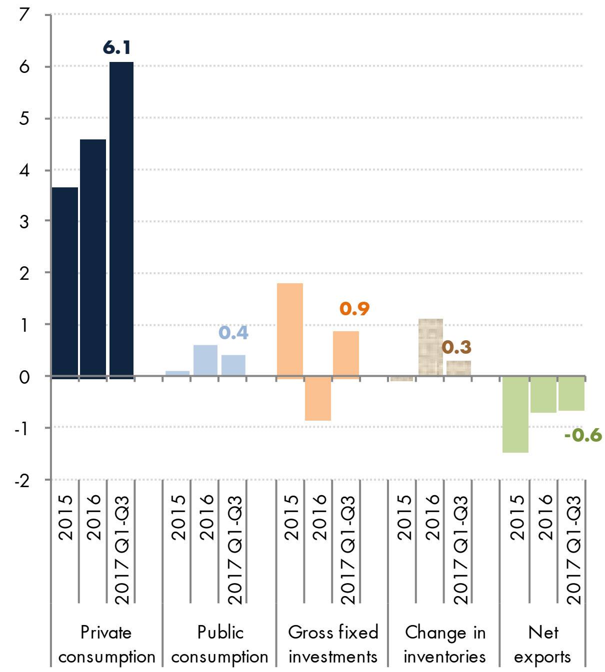
Source: National Institute of Statistics, Raiffeisen RESEARCH

3. Contribution of domestic and external demand to GDP dynamics

Contributions (in percentage points) to YOY growth rate in real GDP



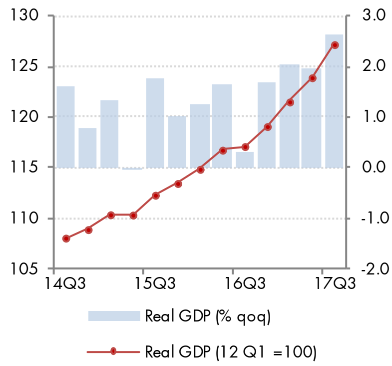
Contributions (in percentage points) to YTD growth rate in real GDP



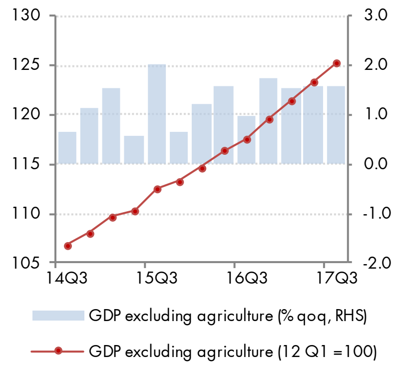
Source: National Institute of Statistics, Raiffeisen RESEARCH

4. Stylized trends for quarterly dynamics of GDP and its components

Real GDP

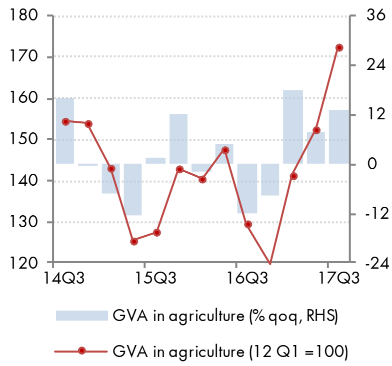


Real GDP excluding agriculture

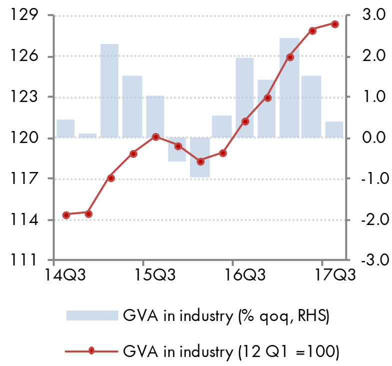


Note: in-house seasonally adjusted data

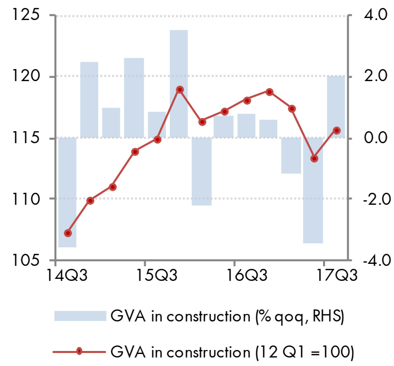
GVA in agriculture



GVA in industry



GVA in construction

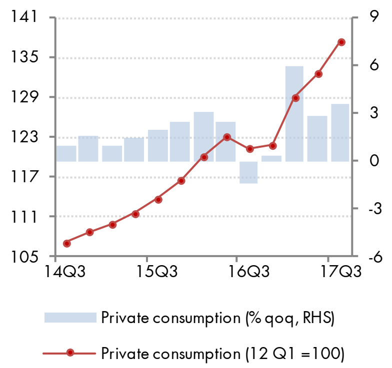


GVA services (private, public)

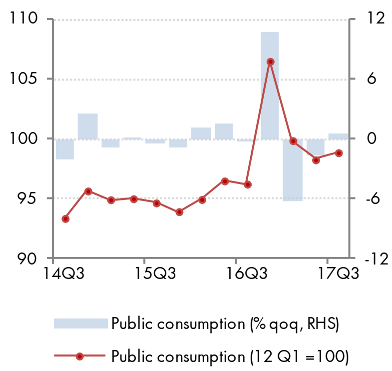
Note: computed as sum of its components

Note: GVA = gross value added

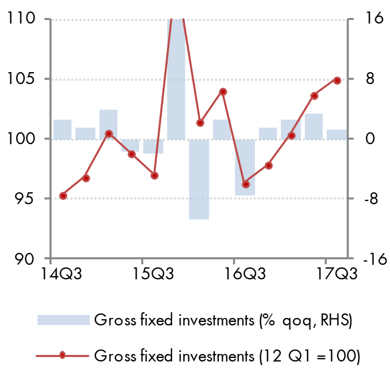
Households consumption expenditure



Public consumption expenditure

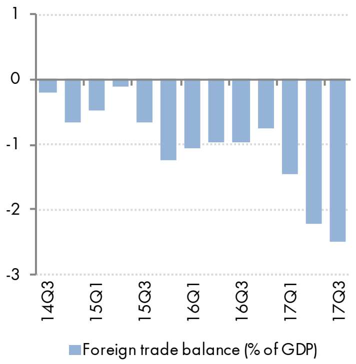


Gross fixed capital formation (private and public)



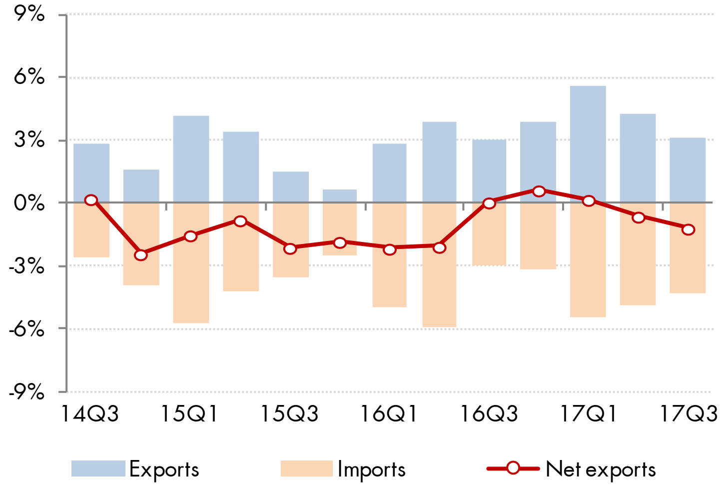
Source: National Institute of Statistics, Raiffeisen RESEARCH

Foreign trade balance in goods and services (% of GDP)

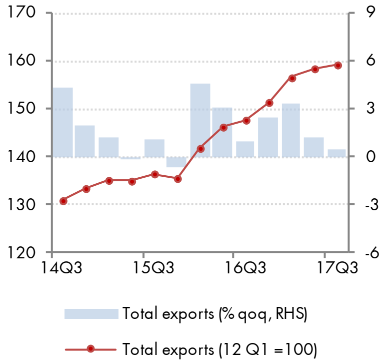


Note: computed based on national accounts data and RON equivalents; results can be slightly different from ones determined using data from the balance of payments (computed based on EUR equivalents)

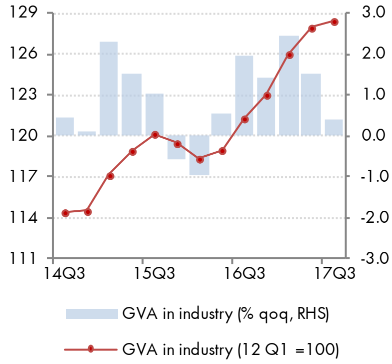
Contributions (in percentage points) of exports and imports to yoy growth rate in real GDP



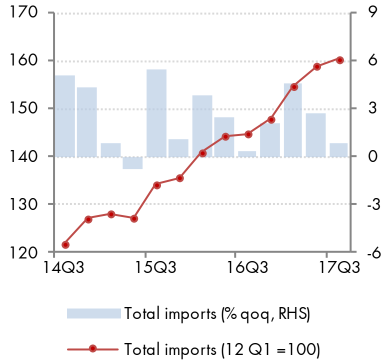
Exports of goods and services



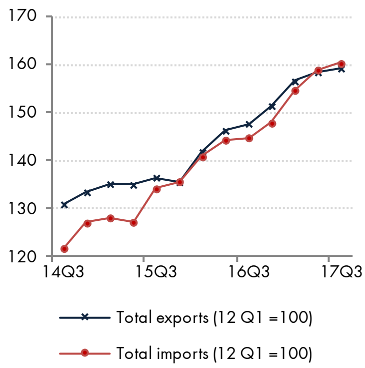
Exports and GVA in industry



Imports of goods and services



Exports and imports of goods and services



Growth rates (% YTD) for real GDP and its components

	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q1-Q3 2017
Real GDP (% ytd)	**8.5**	**-7.1**	**-0.8**	**1.1**	**0.6**	**3.5**	**3.1**	**3.9**	**4.8**	**7.0**
Uses side										
Domestic demand	8.3	-12.3	-0.7	1.1	-0.5	-0.1	3.4	5.5	5.5	7.6
Domestic demand excluding change in inventories	10.2	-16.8	-0.9	1.3	0.8	-1.6	3.8	5.7	4.4	6.2
Households' consumption	7.1	-10.5	1.0	1.0	0.8	2.6	4.2	5.9	7.5	9.7
Public consumption	6.7	3.7	-4.9	0.6	0.4	-4.6	0.8	0.1	4.5	2.9
Gross fixed capital formation	17.6	-36.6	-2.4	2.9	0.1	-5.4	3.2	8.3	-3.3	3.8
Change in inventories										
Net exports										
Exports	-3.2	-5.3	15.2	11.9	1.0	19.7	8.0	5.4	8.3	9.6
Imports	0.2	-20.7	12.6	10.2	-1.8	8.8	8.7	9.2	9.8	10.8
Supply side										
Real GDP excluding agriculture	7.5	-7.0	-1.4	0.3	2.5	2.1	3.0	4.7	5.0	6.2
Industry	6.1	-1.1	4.6	0.1	-7.0	3.8	3.6	5.4	1.8	7.6
Construction	32.0	-14.5	-3.0	-19.1	-1.1	4.4	1.9	6.8	1.8	-1.5
Services	3.9	-6.5	-4.8	2.7	9.2	1.5	3.1	3.7	7.0	6.5
Private services	4.4	-7.0	-5.2	3.2	12.7	2.7	1.9	7.9	7.9	7.3
Public services	2.2	-4.5	-3.1	1.1	-3.1	-3.2	8.0	-11.0	3.0	3.1
Net taxes	6.1	-13.6	3.0	6.3	2.2	-0.6	1.8	6.8	4.1	5.1
Agriculture	28.1	-8.7	10.0	13.9	-26.1	33.7	4.3	-11.8	0.0	24.3

Contributions - in percentage points - to YTD growth rate of real GDP

	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q1-Q3 2017
Real GDP (% ytd)	**8.5**	**-7.1**	**-0.8**	**1.1**	**0.6**	**3.5**	**3.1**	**3.9**	**4.8**	**7.0**
Uses side										
Domestic demand	9.5	-14.0	-0.7	1.1	-0.5	-0.1	3.4	5.5	5.5	7.6
Domestic demand excluding change in inventories	12.2	-19.9	-0.9	1.4	0.9	-1.7	3.8	5.7	4.4	7.4
Households' consumption	4.7	-6.5	0.6	0.6	0.5	1.6	2.6	3.6	4.6	6.1
Public consumption	1.1	0.6	-0.9	0.1	0.1	-0.7	0.1	0.0	0.6	0.4
Gross fixed capital formation	6.3	-14.1	-0.6	0.8	0.0	-1.5	0.8	2.0	-0.8	0.9
Change in inventories	-2.7	5.9	0.2	-0.2	-1.4	1.6	-0.3	-0.2	1.1	0.3
Net exports	-1.0	6.9	-0.1	-0.1	1.1	3.6	-0.3	-1.6	-0.7	-0.6
Exports	-0.9	-1.4	4.2	3.8	0.4	7.4	3.2	2.2	3.4	4.2
Imports	0.1	-8.3	4.2	3.9	-0.8	3.7	3.5	3.8	4.1	4.8
Supply side										
Real GDP excluding agriculture	7.1	-6.6	-1.3	0.3	2.3	2.0	2.8	4.5	4.8	6.0
Industry	1.4	-0.2	1.1	0.0	-2.0	1.0	0.9	1.4	0.4	1.8
Construction	3.0	-1.6	-0.3	-1.7	-0.1	0.3	0.1	0.4	0.1	-0.1
Services	2.0	-3.2	-2.4	1.3	4.1	0.8	1.6	1.9	3.8	3.7
Private services	1.8	-2.7	-2.1	1.2	4.4	1.1	0.8	3.2	3.5	3.4
Public services	0.2	-0.5	-0.3	0.1	-0.3	-0.3	0.8	-1.3	0.3	0.3
Net taxes	0.7	-1.5	0.3	0.7	0.3	-0.1	0.2	0.8	0.5	0.5
Agriculture	1.4	-0.5	0.5	0.8	-1.7	1.6	0.2	-0.6	0.0	1.1

Note: Subcomponents might not sum exactly to the totals because of one decimal rounding
Source: National Institute of Statistics, Eurostat, Raiffeisen RESEARCH

Raiffeisen RESEARCH

	2010	2011	2012	2013	2014	2015	2016	2017F	2018F	2019F
Population										
Stable population (mn. persons, avg.)	20.25	20.15	20.06	19.99	19.92	19.82	19.70	19.60	19.53	19.46
Economic activity										
Nominal GDP (EUR bn)	126.8	133.3	133.6	144.3	150.3	160.3	169.6	186.1	198.3	211.0
GDP per capita (in EUR)	6263	6618	6660	7217	7548	8089	8606	9495	10154	10841
GDP per capita (in EUR at PPS)	12644	13296	13973	14474	14692	15949	17108	19016	14449	15309
Real GDP (%, yoy)	-0.8	1.1	0.6	3.5	3.1	4.0	4.8	6.8	4.2	3.5
Real GDP excluding agriculture (% yoy)	-1.4	0.3	2.5	2.1	3.0	4.7	5.0	6.2	5.0	3.5
Household expenditures (% yoy)	1.0	1.0	0.8	2.6	4.2	5.8	7.4	9.6	5.5	4.0
Gross fixed capital formation (% yoy)	-2.4	2.9	0.1	-5.4	3.2	7.4	-3.3	4.0	6.0	7.0
Industrial production (%, yoy)	5.5	7.5	2.4	7.9	6.1	2.8	1.7	7.8	6.0	5.0
Unemployment rate (%, avg)	7.0	7.2	6.8	7.1	6.8	6.8	5.9	5.0	4.7	4.7
Unemployment rate (%, eop)	6.8	7.3	6.8	7.0	6.6	6.7	5.5	4.9	4.7	4.7
Wages										
Monthly average gross wage in economy (EUR)	452	467	463	489	524	575	626	704	882	946
Monthly average net wage in economy (EUR)	330	341	338	357	382	418	456	513	542	581
Gross nominal wages - economy (% yoy)	3.1	4.1	4.2	4.8	7.6	9.8	9.9	14.5	28.0	7.5
Gross nominal wages - industry (% yoy)	8.3	6.7	4.6	4.2	7.4	6.6	8.7	12.5	27.0	7.5
Prices										
CPI (%, yoy, eop)	8.0	3.1	5.0	1.6	0.8	-0.9	-0.5	3.2	3.5	3.0
CPI (% yoy, avg)	6.1	5.8	3.3	4.0	1.1	-0.6	-1.5	1.3	4.3	3.3
PPI (%, yoy, avg)	4.4	7.1	5.4	2.1	-0.1	-2.2	-1.8	3.7	4.0	3.5
GDP deflator (%, yoy)	5.4	4.7	4.7	3.4	1.7	2.6	1.9	4.6	4.5	3.0
Domestic non-government credit										
Non-government credit (% yoy, in RON equivalent)	4.8	6.8	1.4	-3.6	-3.1	3.2	1.2	n.a.	n.a.	n.a.
Non-government credit (% of GDP)	39.5	39.8	38.4	34.5	31.9	30.9	29.3	n.a.	n.a.	n.a.
Credit in foreign currencies (% of total)	63.3	63.7	62.7	61.2	56.8	49.9	43.4	n.a.	n.a.	n.a.
Public sector										
Public budget balance (cash, % of GDP)	-6.3	-4.2	-2.5	-2.5	-1.7	-1.4	-2.4	-3.0	-3.5	-3.0
Public budget balance (% of GDP)	-6.9	-5.4	-3.7	-2.1	-1.4	-0.8	-3.0	-3.0	-3.5	-3.0
Gross public debt (% of GDP)	29.9	34.2	37.3	37.8	39.4	37.9	37.6	36.7	37.2	37.9
External sector										
Gross external debt (EUR bn)	93.6	99.9	100.9	98.1	94.7	92.1	92.9	94.5	100.0	108.0
Gross external debt (% of GDP)	73.8	74.9	75.5	68.0	63.0	57.4	54.8	50.8	50.4	51.2
Short-term gross external debt (% of total debt)	20.9	22.8	20.7	19.6	20.0	22.4	25.0	25.4	26.0	26.4
Gross external debt service (% of GDP)	34.5	34.7	40.6	41.6	38.6	35.9	41.5	35.5	35.3	35.1
Current account balance (EUR bn)	-6.4	-6.6	-6.4	-1.5	-1.0	-1.9	-4.1	-6.1	-7.9	-9.1
Current account balance (% of GDP)	-5.1	-4.9	-4.8	-1.1	-0.7	-1.2	-2.4	-3.3	-4.0	-4.3
Current account balance + FDIs (% of GDP)	-3.3	-3.6	-3.0	1.0	1.1	0.6	0.2	-0.9	-1.5	-1.7
Foreign trade balance, goods (FOB/FOB, EUR bn)	-9.6	-9.4	-9.3	-5.8	-6.5	-7.8	-9.3	-11.7	-14.3	-16.6
Foreign trade balance, goods (FOB/FOB, % of GDP)	-7.6	-7.0	-6.9	-4.0	-4.3	-4.9	-5.5	-6.3	-7.2	-7.9
FOB exports of goods (%, yoy)	35.9	22.5	-0.5	10.0	6.7	4.9	6.2	10.0	10.0	11.0
FOB imports of goods (%, yoy)	28.0	16.8	-0.7	1.1	7.4	6.7	7.9	12.5	12.0	12.0
Net inward FDI inflows (EUR bn)	2.3	1.7	2.5	2.7	2.4	3.5	4.5	4.5	5.0	5.5
Net inward FDI inflows (% of GDP)	1.8	1.3	1.9	1.9	1.6	2.2	2.7	2.4	2.5	2.6
FX official reserves (EUR bn)	32.4	33.2	31.2	32.5	32.2	32.2	34.2	33.5	34.0	35.0
FX oficial reserves (months of imports)	8.9	7.9	7.5	7.3	6.8	6.4	6.4	5.4	4.9	4.5
Interest rates										
NBR key rate (%, avg)	6.5	6.2	5.3	4.8	3.4	1.9	1.8	1.8	2.5	3.5
NBR key rate (%, eop)	6.25	6.00	5.25	4.00	2.75	1.75	1.75	1.75	3.00	3.50
ROBOR 1 month (%, avg.)	5.9	5.3	5.2	4.1	2.1	1.0	0.6	1.0	2.7	3.5
10-year T-Bonds (%, avg., mid yield)	7.2	7.4	6.7	5.3	4.6	3.5	3.4	4.1	4.8	5.2
Exchange rates										
EUR/RON (eop)	4.28	4.32	4.43	4.48	4.48	4.52	4.54	4.65	4.70	4.65
EUR/RON (avg)	4.21	4.24	4.46	4.42	4.44	4.45	4.49	4.57	4.67	4.68
USD/RON (eop)	3.20	3.34	3.36	3.26	3.69	4.15	4.30	3.94	3.79	3.52
USD/RON (avg)	3.18	3.05	3.47	3.33	3.35	4.01	4.06	4.01	3.89	3.66

Source: National Bank of Romania, National Institute of Statistics, Eurostat, Raiffeisen RESEARCH

Abbreviations used in the report

CPI – Consumer Prices Index
EC – European Commission
ECB – European Central Bank
EUR – euro
FX, FCY – foreign currency
GDP – Gross Domestic Product
IMF – International Monetary Fund
MoF – Ministry of Public Finances
NBR – National Bank of Romania
NIS – National Institute of Statistics
RON – Romanian Leu
T-securities – government securities

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- Figures on performance refer to the past. Past performance is not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service. This is particularly true in cases when the financial instrument, financial index or securities service has been offered for less than 12 months. In particular, this very short comparison period is not a reliable indicator for future results.
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Publisher: Raiffeisen Bank Romania S.A.

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