

ROMANIA Outlook 2021E: Luck still on its side



Raffaella Tenconi
Founder & Managing Director

2021E: In a nutshell

- The Romanian economy has been hit by multiple shocks in 2020: COVID-19, a bad harvest, and the end of the UK transition period before it leaves the EU. We expect real GDP to contract by 4.9%, rebounding by 3.9 in 2021E and 4.5% in 2022E. The recovery should benefit from loose monetary conditions, significant EU funding support, and the nascent export recovery in Europe.
- We underscore that we have doubts that the global recovery will have long legs, as we see too much inflationary pressures building up over time relative to the prospects for the labour market and an impaired monetary transmission mechanism in the Eurozone. We see a one-in-three chance of recession in 2022E, rising to 40% odds of recession in 2023E, if the current policy mix in Europe is not changed.
- Romania also faces downside risks, due to a much needed fiscal recalibration:

2021E: In a nutshell

improving the efficiency of some parts of public spending, broadening the tax base, making room to allow the investment and co-financing of EU funds. However, all this is going to be politically difficult to deliver, and it may get even harder as time goes by. In Bucharest, for example, approximately 800,000 people are without heating currently as a result of underinvestment in the electricity grid. A new conservative party, AUR, scored a strong 9% in the recent election and may be getting stronger still.

- The public sector public deficit is estimated at 9% of the GDP in 2020E and 2021E, given the current policy trajectory. Funding is viable at current interest rates because of an expected EUR 10bn payment from SURE and the loan segment of the recovery fund, which will contribute critically to the normal funding sources of the state. Without that support, funding costs could rise by 100-150bps, easily .
- We expect the central bank to maintain the policy rate unchanged in the foreseeable future, facilitating a contained weakening of the currency, notwithstanding the scarce funding for the current account deficit.

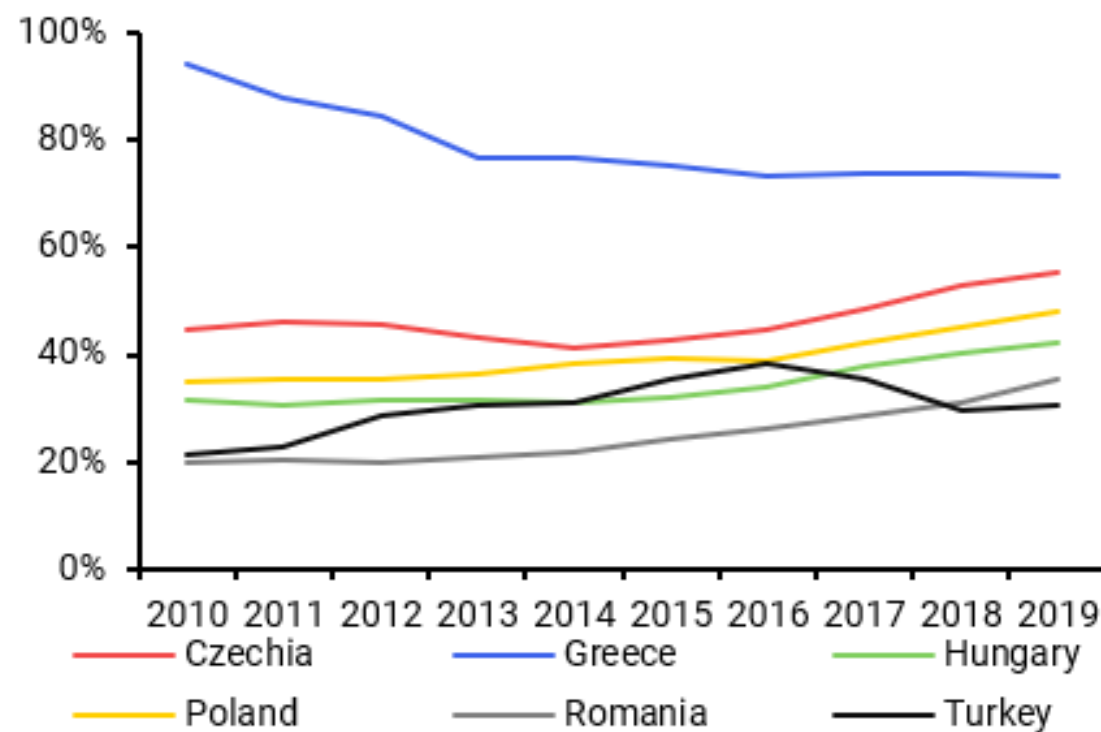
Note: this is an extract of our Romania 2021 outlook, if you would like to discuss Romania in detail please contact us.

Romania in its regional context

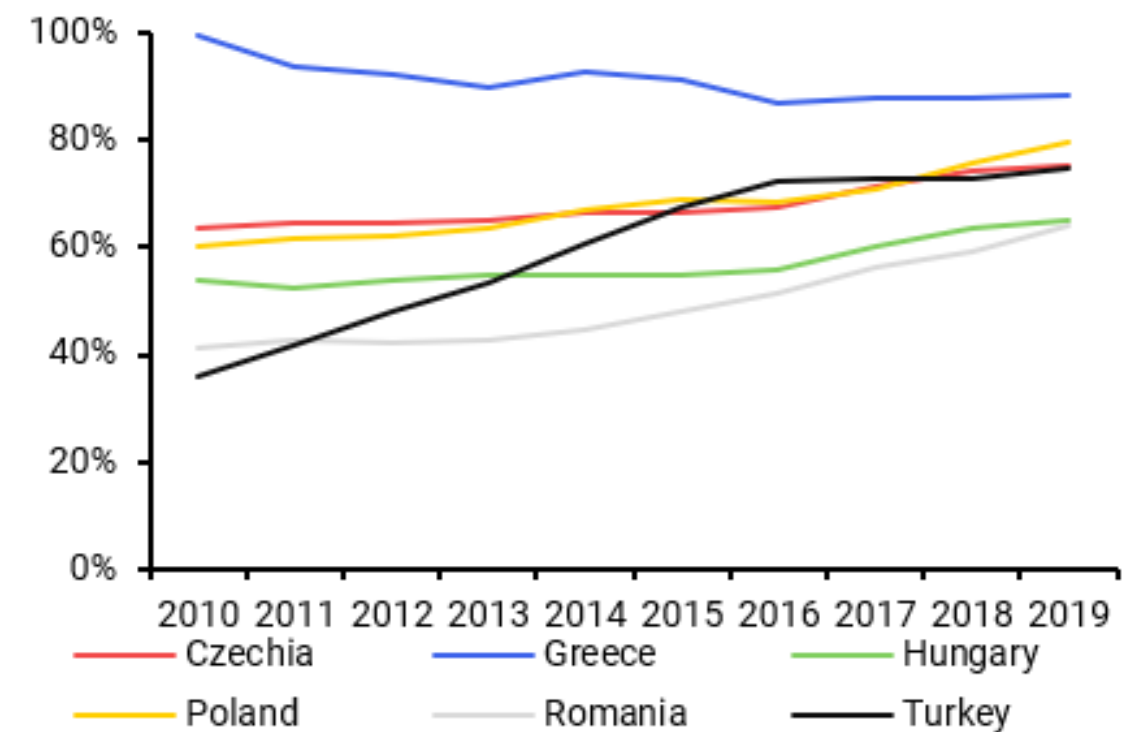
- Gross wages are approx. 60% of average Italian levels, the widest gap in the CEE.
- Debt of households and non-financial corporations relative to GDP is low in international comparison, but so is the amount of financial assets owned by these sectors.
- Export recovery has lagged its peers, it is not yet clear why.
- Exports to the UK are modest, most diaspora not affected by UK woes meaningfully. However, diaspora swings showing in voting patterns, as 30% voted for the new party AUR. This phenomenon has not been seen anywhere else in the EU so far.

EARNINGS: Convergence for reshoring considerations

Avg. net annual earnings as % Italy



Price adjusted avg. net annual earnings as % Italy



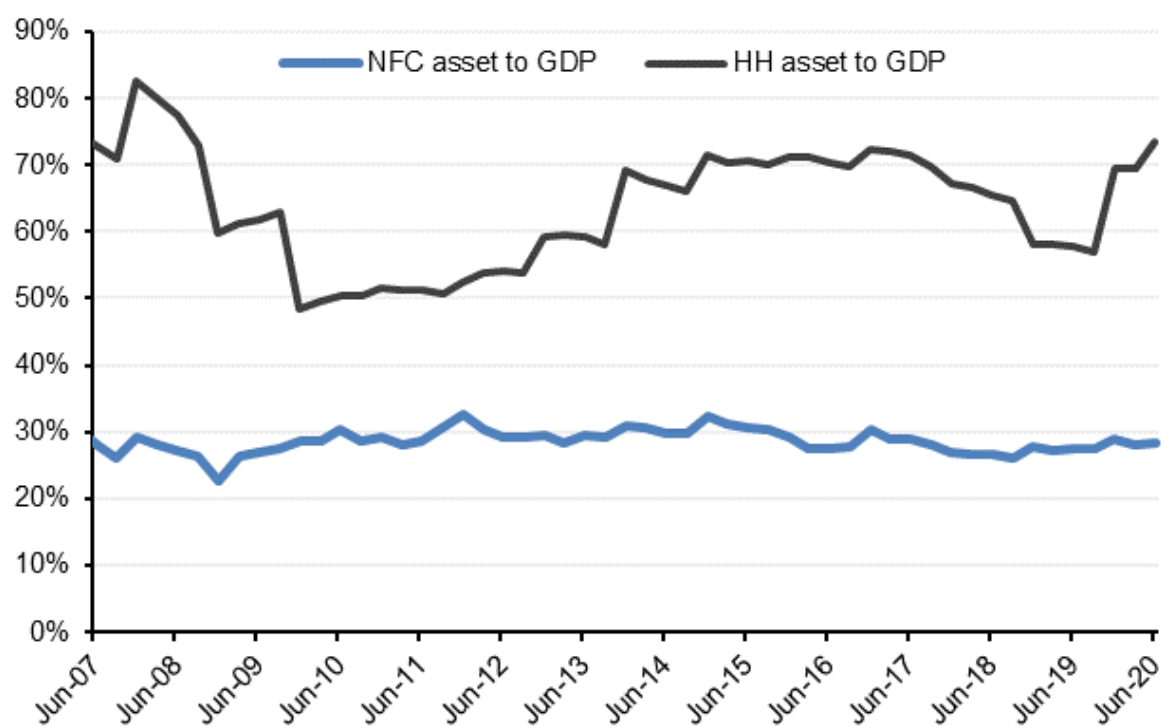
Sources: ADA Economics, Eurostat, CEIC, OECD, Turkstat

Annual net earnings of a single person without children earning 100% of average earning. The Turkish estimate is based on rolling the avg. gross wage reported by Turkstat in 2014 (2007 TRY per month), converting to EUR (aop) and applying a 28.5% avg. tax rate (OECD 2019)

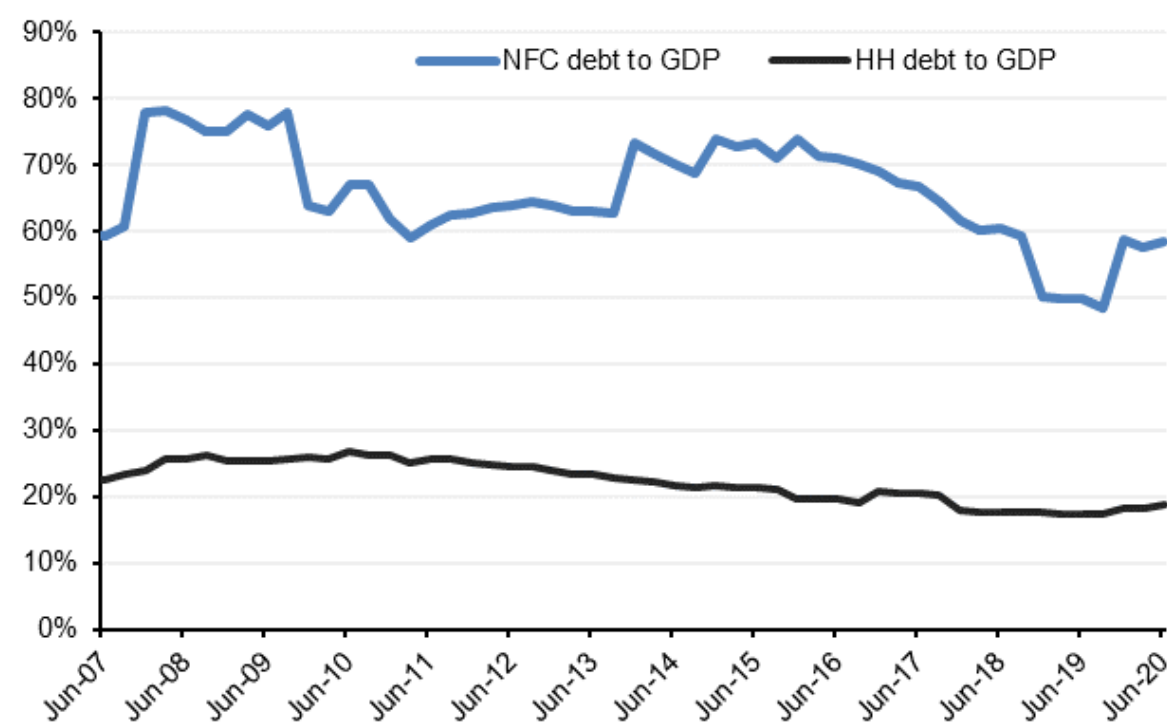
BALANCE SHEETS: Households and non-financial corporations

Households assets have been pushed up by involuntary savings, government wage subsidies and precautionary moves. Assets are expected to remain elevated throughout 2021E, alongside the rollout of vaccines.

Assets to GDP



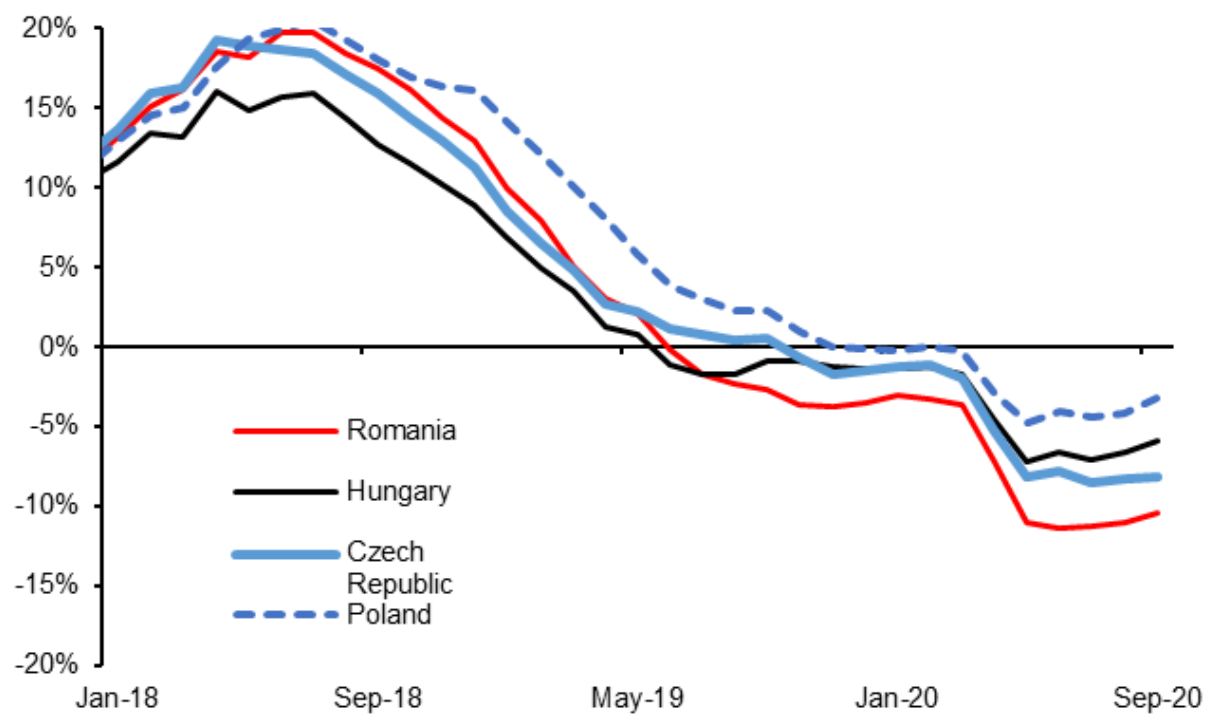
Debt to GDP



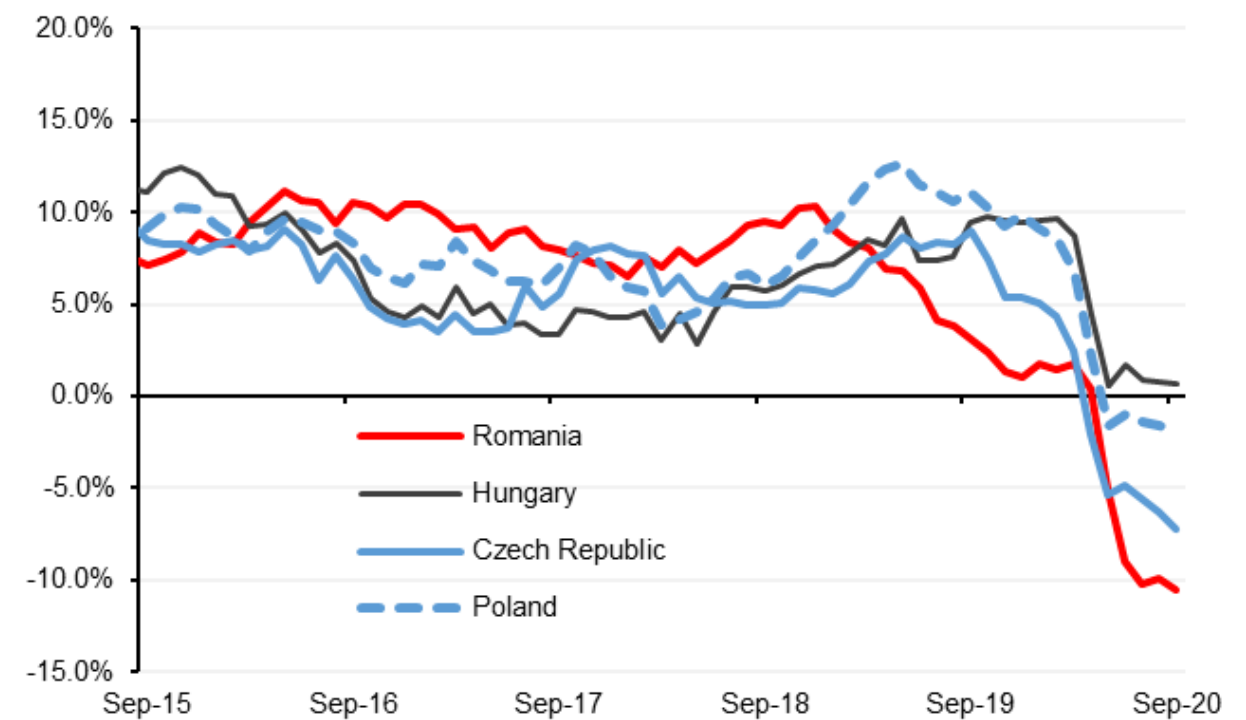
EXPORTS: Growth recovery has not kept up pace

- The recovery of Romanian exports has lagged its CE peers persistently, due primarily to a weaker pick-up in the major “machinery and transport equipment” category.
- Nevertheless, the assessment of the export order book in the November survey remained encouraging.

Exports (yoy) in USD

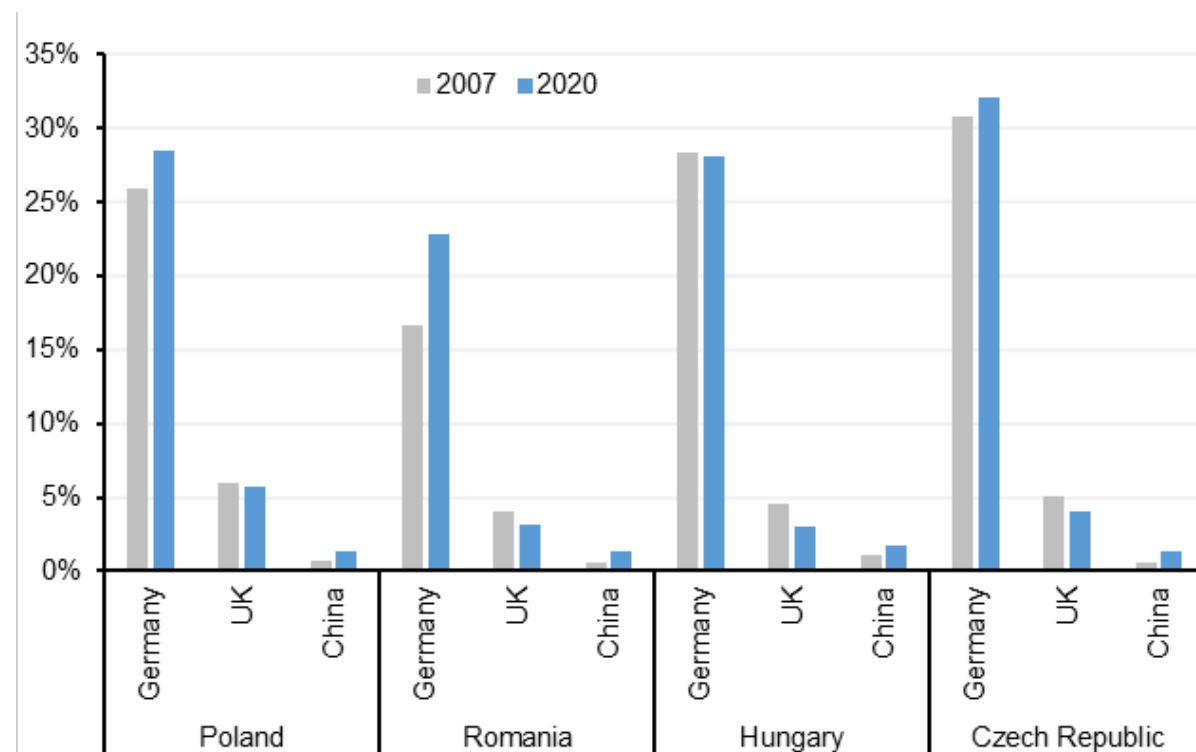


Exports: machinery and transport equipment (yoy)

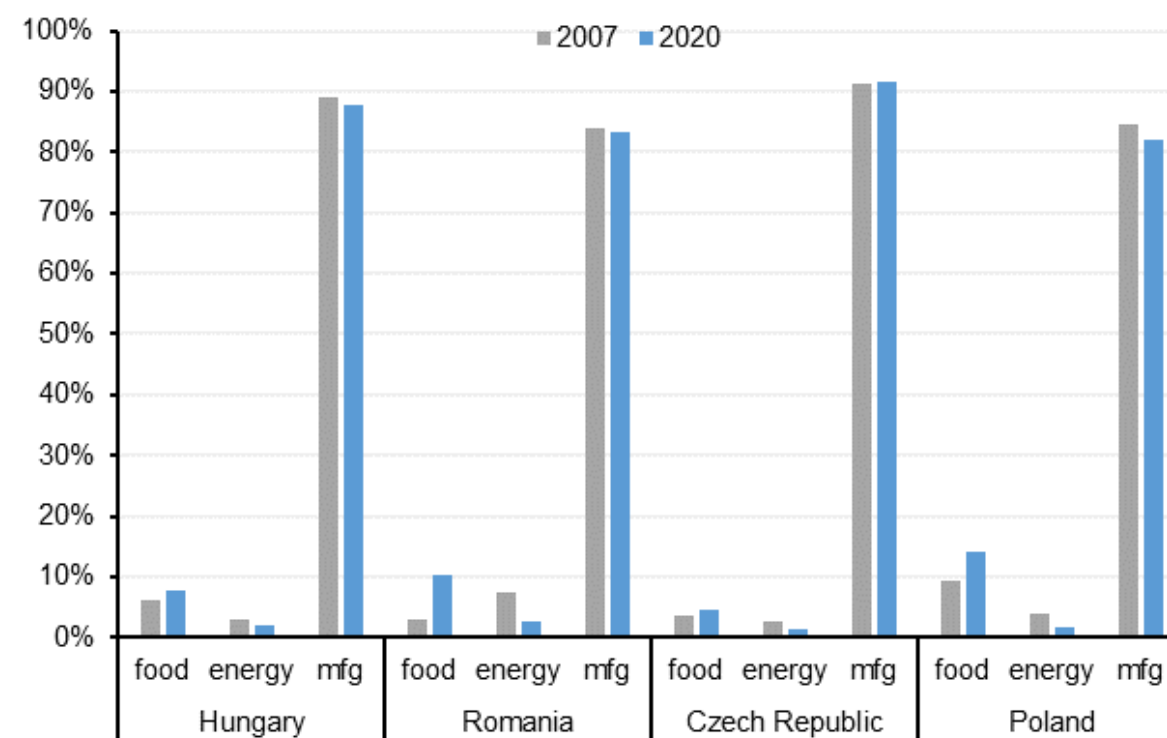


EXPORTS: Structure for CE4

Share of export destinations



Share of commodities in exports



Sources: ADA Economics, CEIC

The charts show share of exports for year 2020 until August 2020 for Romania and until September 2020 for the rest

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THE ADA TEAM



Raffaella Tenconi

Founder & Managing Director

raffaella@adaeconomics.com



Alessio Chiesa

Economist
Exchange Rates & Bond yields specialist

alessio.chiesa@adaeconomics.com



Adnan Asif

Economist
Monetary Policy specialist

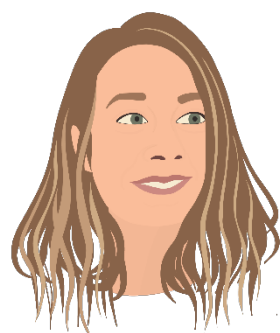
adnan.asif@adaeconomics.com



Guilherme Rodrigues

Economist
Inflation specialist

guilherme.rodrigues@adaeconomics.com



Viola Pititto

Executive Assistant

viola.pititto@adaeconomics.com



79, Alvington Crescent,
London E8 2NN,
UK

ADA Research@adaeconomics.com

Tel: +44 (0) 759 4704 277

www.adaeconomics.com