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Romania Business Forecast Report Q2 2014

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Abstracts

Core Views

Romania's economic recovery will move onto an increasingly solid footing in 2014, with export-led growth finally translating into substantive improvements in consumer spending. We forecast growth to come in at an above-consensus 2.8%.

Although Romania's political system will remain reasonably stable by historical standards in 2014, political instability looks set to increase on the back of the Liberal Party leaving the ruling Social-Liberal Union (USL) coalition.

Despite strong exports, the current account deficit will widen to 1.5% of GDP in 2014, driven by recovering imports and increased profit repatriation from foreign corporations operating in the country.

Romania's fiscal outlook is unlikely to cause the country any significant problems over the next few years, with a manageable public debt load and the ruling USL coalition unlikely to veer away from fiscal prudence.

Romania's interest rate cutting cycle looks to have come to an end, with the country's policy rate likely to stay at 3.50% for the remainder of 2014.

Romania's banking sector will continue shrinking in 2014, as lending is held back by tight credit standards and weak corporate deposit growth. That said, healthy capital buffers imply that the sector remains relatively well-positioned to deal with any domestic or international shocks.

Major Forecast Changes

We have revised our forecast for the current account deficit down to 1.5% in 2014, from 0.9% previously, due to expectations of a faster pickup in import demand.

Key Risks To Outlook

The main risk to our outlook is for a slower-than-anticipated pickup in private consumption over the coming quarters. With exports booming and accommodative monetary conditions laying the foundations for a pickup in domestic demand, we would be tempted to downgrade our forecasts for Romanian growth if leading and high frequency indicators point towards a more sluggish pickup in domestic demand in the first few months of 2014.

A further risk is the potential for the Romanian labour force to become less competitive. Faster growth could lead to a strong recovery in wages, hitting the country's export competitiveness and choking off the recovery. Nevertheless, we note that the country still remains one of the most competitive in the region, and its low base level of development should ensure that this remains the case for some time to come.

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