

# Romania Business Forecast Report Q3 2014

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## Abstracts

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### Core Views

Romania's economic recovery will move onto a more sustainable footing and grow by 3.2% in 2014, as private consumption plays a bigger role driving growth. Recovering domestic demand will widen the current account to a 1.6% of GDP deficit in 2014, even as exports remain strong.

Inflation and interest rates have hit bottom. The central bank will start hiking the policy rate again in 2014. Banking sector asset quality continues to pose risks, but lending should recover towards the end of the year due to the sector's progress on deleveraging. Romania will forge closer ties with the West due to regional instability caused by Russia's increasingly aggressive foreign policy position.

### Major Forecast Changes

We have revised up our forecast for real GDP to expand by 3.2% in 2014, from 3.0% previously, due to a quicker than expected pickup in domestic demand.

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### CHAPTER 1: POLITICAL OUTLOOK

SWOT Analysis

BMI Political Risk Ratings

Domestic Politics

Closer Ties With West Amidst Uncertainty

Ongoing uncertainty in Ukraine and the perceived threat from Russia will prompt Romania to forge increasingly close ties with the West over the next few years, as well as strengthening its military.

Table: Political Overview

Domestic Politics

New Coalition Bad For Stability

The merger between the PNL and PDL to form a centre-right opposition coalition will increase policy uncertainty in Romania, due to growing fears of an opposition victor in the 2014 presidential elections.

Long-Term Political Outlook

Balancing The Demands Of West/East Influence

The strength and quality of Romania's political institutions fall short relative to much of Europe, implying significant challenges ahead despite the progress made since the fall of communism. With membership of the euro still looking like a distant prospect, and EU influence on Romania's political trajectory at risk of slowing, there is a growing risk of institutional stagnation, which could jeopardise some of the improvements made over the last two decades.

### CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis

BMI Economic Risk Ratings

Economic Activity

Moving To A Sustainable Growth Model

Romania's economy will move onto a more sustainable growth path in 2014, as recovering consumption takes some off the pressure of exports. We forecast real GDP to expand by an above-consensus 3.2% in 2014 and 3.6% in 2015.

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Balance Of Payments

## Current Account Deficit To Widen

Romania's current account deficit will expand in 2014 and 2015, due to recovering imports and increased profit repatriation from foreign companies operating in the country.

Table: Balance Of Payments

## Fiscal Policy

### Fiscal Position No Cause For Concern

Romania's budget deficit will pose few risks over the next few years. In fact, a low public debt load will provide the government scope to relax the pace of fiscal consolidation while remaining within EU deficit targets.

Table: Fiscal Policy

## Monetary Policy

### Inflation Bottomed, Rates To Rise Again In 2015

Recovering demand and base effects will push inflation above the National Bank of Romania (NBR)'s target by year-end, ending any chance of further cuts to Romania's policy rate.

Table: Monetary Policy

## Banking Sector

### Recovery Moving Onto A Firmer Footing

Romania's banking sector has made significant progress deleveraging and will move onto an increasingly solid footing in 2014, underpinned by recovering demand for consumer and corporate loans.

## Currency Forecast

### Leu Resilience To Be Short-Lived

Table: BMI Romania Currency Forecast

## Regional Banking Outlook

### Emerging Europe: What If The ECB Implemented QE Tomorrow?

If the ECB does opt to enact large scale asset purchases, export-driven Central European economies would adopt activist monetary policy stances to mitigate FX appreciation, whereas Russia and Turkey may stand to benefit from ECB quantitative easing.

## **CHAPTER 3: 10-YEAR FORECAST**

### The Romanian Economy To 2023

#### Q2 2014

While Romania will struggle to return to pre-crisis growth rates over the next decade, we believe the country's economy has significant regional potential. We forecast 10-year real average annual growth of 3.9%, with the

country's competitive labour force likely to drive growth and attract investment over the next few years, despite ongoing political inefficiencies and the sluggish pace of the eurozone economic recovery.

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