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Romania Petrochemicals and Healthcare Report Q4 2011

https://marketpublishers.com/r/R7E97D4DEA2EN.html
Date: September 2011
Pages: 51
Price: US$ 1,295.00 (Single User License)
ID: R7E97D4DEA2EN

Abstracts

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The Romanian chemicals and petrochemicals industries are showing strong growth, but some segments will suffer due to capacity constraints and ongoing problems at Petrom’s Arpechim refinery, according to BMI’s latest Romania Petrochemicals Report.

In the first four months of 2011, BMI estimates that chemicals output was up 23% y-o-y while rubber and plastic output was up 22%, reflecting continuing strength in the industry sector. Growth was largely stimulated by exports and output had return to around pre-recession norms. In Q111, chemicals exports rose 55% y-o-y, to RON2.89bn, with price growth of around 15%. At the same time, imports rose 26%, to RON7.32bn, leading to a chemicals trade deficit of RON4.43bn.

While output strengthened, the closure of the Arpechim refinery by Petrom in March 2011 has not helped the future of the Romanian petrochemicals industry, which is reliant on the refinery for feedstock. The restarting of the 56,000tpa propylene production facility in June 2011 will be a boost to local PP production, although this represents only a small portion of Romanian petrochemicals production.

There is plenty of scope for growth in Romania’s petrochemicals market going forward. We retain our forecast that the Romanian economy will expand 2.1% over the course of 2011, accelerating to 3.3% in 2012. While the return to growth has so far been driven primarily by external demand for Romanian exports, we expect the recovery to broaden through coming quarters, thereby benefitting a range of petrochemicals segments. Central to Romania's recovery has been a dramatic improvement in external demand since 2009, driven by Asia's booming economic recovery and the resultant upswing in German economic activity. Exports have surged onto new all-time highs as a result of this return in external demand and the price-competitiveness Romania gained via its 2008 devaluation. Concurrently Romania's industrial base has roared back into action, and we believe that this upswing is catalysing broader economic recovery in Romania.

Such an outlook certainly bodes well for the wider Romanian economy, but the domestic petrochemicals industry is likely to see output grow beyond the levels seen in H111 due to capacity constraints. This will prompt an influx of imports, with domestic petrochemicals unable to keep up with demand. BMI expects PP, which is used in the country’s export-led automotive industry, to be the fastest growing petrochemicals market segment in Romania. Romania has just 80,000tpa of domestic PP capacity, which will ensure that imports will dominate sales.

The future of the Arpechim refinery, which was closed by Petrom in March 2011, is crucial to the survival of the Romanian petrochemicals industry. Much of the country’s petrochemicals production is reliant on the refinery, which is smaller and has more complex logistical issues – namely lack of seaport access for imported oil – that make it commercially unviable, at least as a stand-alone operation. The closure of the refinery, which operated for just three months in 2010, cuts off naphtha feedstock supply to the 200,000tpa cracker Oltchim acquired from Petrom in early 2010. Until the situation is resolved, the country’s petrochemicals industry will operate below its full potential, although this will be partly outweighed by growth in production at Rompetrol’s HDPE plant in Navodari.

Romania ranks in joint sixth place with Slovakia in BMI’s Business Environment Ratings for the Petrochemicals industry in Central and Eastern Europe (CEE), with 46.2 points out of 100. This puts it 6.2 points above Bulgaria and 1.0 point behind Turkey. The country’s score has remained relatively stable as a result of optimistic forecasts, particularly given the long-term outlook for the economy’s structural characteristics and the improved position of financial markets.

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