BPI

Romania

Outlook

	Average 10-14	2015	2016	2017	2018	2019	2020	Forecasts 2021	Forecasts 2022
GDP growth (%)	1.5	3.0	4.7	7.2	4.5	4.2	-3.7	4.5	4.8
CPI Inflation (%)*	4.1	-0.6	-1.6	1.3	4.6	3.8	2.6	2.8	2.1
Fiscal balance (% of GDP)	-3.9	-0.6	-2.6	-2.6	-2.9	-4.4	-10.3	-11.3	-12.5
Public debt (% of GDP)	35.5	37.8	37.4	35.1	34.7	35.3	46.7	54.6	63.6
Reference rate (%)*	5.2	1.9	1.8	1.8	2.4	2.5	1.9	1.3	1.3
Exchange rate (RON/USD)*	3.3	4.0	4.1	4.1	3.9	4.2	4.2	4.2	4.3
Current balance (% of GDP)	-3.2	-0.6	-1.4	-2.8	-4.4	-4.7	-5.1	-5.0	-4.7
External debt (% of GDP)	71.3	57.7	52.6	51.8	47.7	48.8	56.1	48.1	45.2

Note: * Annual average.
Source: BPI Research, based on data from national statistical agencies and IMF.

- **The economic cost of COVID-19 was not particularly severe in Romania**, as its GDP was one of those that contracted the least in the EU in 2020. Going forward, if the country manages to accelerate its vaccination rate, Romania would see a return to pre-pandemic economic activity levels during 2022. Furthermore, if properly used, Next Generation EU funds can lead to significant progress in the development of an economy that needed to reactivate public investment, particularly towards the long-term challenges of the EU (digitisation and climate change). Once the storm of the pandemic has passed and the recovery is underway, improving the competitiveness and potential growth of the Romanian economy should be the key objectives of the reforms implemented by the Romanian Government. However, parliamentary fragmentation may complicate decision-making in this regard.

- **Real shock of COVID-19.** The incidence of the pandemic in Romania was not particularly severe, compared to its neighbours in the region. For example, in the first wave far fewer cases were detected than on average in the EU. However, towards the end of 2020, the increase in cases was particularly concerning and forced the authorities to impose new strict lockdown measures and extend the state of emergency until April 2021. Overall, the country's economy was among those that best endured the challenges of COVID-19 and in 2020 Romanian GDP fell by 3.7% (–6.0% for the EU as a whole). In particular, the upturn in GDP in Q4 2020 was surprising, with a quarter-on-quarter increase of + 4.8%, mainly supported by higher agricultural production. In 2021, it is expected that EU aid, "pent-up" demand and the extension of the accommodative monetary policy stance will support the economic recovery and allow Romania to not only recover previous GDP levels, but to continue with the process of convergence with the more economically developed countries of the EU. However, the country must make an effort with the vaccination programme as the percentage of the population that has been vaccinated is a lot lower than the EU average.

- **Responses to the shock of COVID-19**

  - **Domestic fiscal policy.** Like most EU countries, the Romanian government unveiled various fiscal aid packages to limit the economic impact of the pandemic. In particular, direct aid amounted to around 3% of GDP and included, among other measures, additional support to the health system, partial payment of wages to workers at risk of losing their jobs, and deferral of some taxes. The government also offered public guarantees that benefited about 3% of companies. In addition, albeit unrelated to its pandemic response, the government increased the minimum wage by 3% last January.

Closing date of this edition: 7 May 2021

Outlook (continuation)

- **European policy.** During the crisis, the EU approved a set of aid packages to member states. These measures include loans from the SURE fund to pay for work schemes (at the time of going to press, Romania had not received any amount for this) and the European Recovery Plan (or NGEU), from which Romania may receive around 15 billion euros (around 7% of 2019's GDP) that are non-refundable between 2021 and 2026. This aid will not only help to boost economic activity during the years the projects are developed, but will also help the country to improve its competitiveness and potential growth, provided that it is used properly.
- **Monetary policy.** After the outbreak of COVID-19, the National Bank of Romania (NBR) reduced the official interest rate by 125 bp to 1.25%, its all-time low. It also increased the liquidity of the financial system and bought national sovereign debt on the secondary market for a value of 5.3 billion Romanian lei (1.075 billion euros). Likewise, the NBR was one of the central banks that opened a swap line with the ECB to facilitate liquidity in the foreign exchange market (it will remain in force until at least March 2022).

- **Evolution of the exchange rate.** The Romanian leu has tended to depreciate against the euro since the 2008 financial crisis, partly due to Romania's persistently high current account deficit. In this respect, COVID-19 was neither an obstacle to nor an accelerator of this trend, and the leu depreciated slightly in 2020. Going forward, it is expected that this dynamic will continue over time, despite the intervention of the NBR in the market to reduce the volatility of the currency. Against the dollar, this trend is likely to be even more pronounced due to the better growth prospects in the US in the medium-term compared to the growth expected in Romania.

Main risks

- **Political risk.** Since the December 2020 elections, the Parliamentary majority has been held by a coalition made up of three centre-right parties. Despite the fact that this new government seems more stable than previous ones (there were five different governments, some minority ones, during the previous four-year term), the possibility of tensions between its members is high. Furthermore, the fragility of the Parliamentary arithmetic will hinder the path towards the structural reforms that the country needs to continue its economic convergence process with its more developed neighbours. Some of the most urgent measures include those designed to boost the competitiveness of domestic producers, as they will help reduce the country's high current account deficit.

	Rating	Last changed	Outlook	Last changed
Standard & Poor's	BBB-	16/05/14	Negative	10/12/19
Moody's	Baa3	06/10/06	Negative	24/04/20
Fitch Ratings	BBB-	04/07/11	Stable	04/07/11

■ Indicates that the country is rated as "investment grade".
□ Indicates that the country is not rated as "investment grade".