

Romania - Major Business Sectors**Compiled by:****Ernst & Young Romania
Bucharest, February 2018****OVERVIEW AND TRENDS**

The current pro-cyclical fiscal policy is likely to remain in place but our GDP growth forecast for 2018 has been lowered slightly to 4.2% (from 4.3% last month) after the estimated 7% surge in 2017. The December CPI surprised on the upside, with inflation rising to 3.3% y/y from 3.2% in November as price pressures continued to build.

This lifted the Q4 average to 3.1%, and the 2017 average to 1.3%. Our 2018 inflation forecast remains unchanged at 3.8%, above the NBR target range of 2.5% ± 1%, due to pressures from the current tax and income policy stance and higher oil prices. The NBR raised its policy rate for the first time in almost 10 years in January, to 2% from 1.75%, responding to rising inflation.

It also raised the deposit and lending facilities by 25bp to 1.0% and 3.0% respectively.

Consumption is likely to continue to be the main driver of economic growth in Q4, supported by public spending. The government is likely to have contained the budget deficit to just above the EU limit of 3% of GDP last year due to extremely strong nominal GDP growth, but the deficit is seen rising to 3.8% of GDP this year. The unemployment rate fell to 4% in Q4, the lowest since the financial crisis; but despite surveys showing an optimistic view on employment for Q1, with growth set to slow we see the jobless rate climbing slowly through 2018.

Forecast for Romania						
(Annual percentage changes unless specified)						
	2016	2017	2018	2019	2020	2021
Domestic Demand	6.9	8.7	3.6	1.2	1.1	1.1
Private Consumption	7.6	10.1	4.2	2.1	1.9	1.7
Fixed Investment	-2.6	3.5	3.0	1.6	1.6	1.6
Stockbuilding (% of GDP)	7.4	8.1	7.6	6.5	5.5	4.8
Government Consumption	4.1	2.6	4.1	2.8	1.4	1.3
Exports of Goods and Services	8.3	8.3	1.5	2.3	2.4	2.4
Imports of Goods and Services	10.0	10.0	1.7	0.7	1.1	1.2
GDP	4.8	7.0	4.2	2.4	2.0	1.8
Industrial Production	0.7	9.2	6.7	4.7	4.0	3.3
Consumer Prices	-1.6	1.3	3.8	3.5	3.2	2.9
Current Balance (% of GDP)	-2.1	-3.2	-2.1	-1.8	-2.0	-2.6
Government Budget (% of GDP)	-2.4	-3.1	-3.8	-4.3	-4.3	-4.0
Short-Term Interest Rates (%)	0.8	1.2	2.6	3.0	3.1	3.1
Long-Term Interest Rates (%)	3.2	3.8	4.5	4.4	4.3	4.2
Exchange Rate (vs US\$)	4.06	4.05	3.77	3.63	3.59	3.58
Exchange Rate (LC per Euro)	4.49	4.57	4.61	4.53	4.49	4.48

Source: Oxford Economics

Romania's long-term growth prospects are heavily tied to its ability to implement much-needed reforms. Particularly important is the need to end pro-cyclical fiscal easing, which has been a constant feature since the transition to capitalism. This not only reduces fiscal room to counter external economic shocks, but also leads to unsustainable income growth and misallocation of resources, which in turn reduce long-term growth potential.

On the supply side, Romania will need to continue its efforts to reduce corruption and improve the regulatory and tax framework to encourage greater private sector investment. Improving EU fund absorption and using it to upgrade infrastructure would also go a long way to raising productivity. However, businesses warn that recent moves by the government are undermining the progress they made in fighting corruption, making Romania less attractive for investment.

INDUSTRY OVERVIEW

Manufacturing output growth is forecast to be higher than GDP growth over the next decade. Manufacturing output is expected to increase by 10.9% in 2017 and expand by 7.2% in 2018. Over the next 10 years to 2026, manufacturing output is expected to grow on average by 4.1% a year.

As a result, the share of manufacturing output in GDP is projected to rise from 24.0% in 2016 to 27.9% by 2021 and rise to 28.9% by 2026. Over the same period, the share of service sector output in GDP is expected to decline from 58.4% in 2016 to 56.7% in 2021 and fall to 56.5% in 2026.

The three fastest growing sectors in manufacturing over the next decade will be motor vehicle bodies & parts, motor vehicles and other special purpose machinery. The slowest growing sectors will be coal & lignite mining, oil & natural gas extraction and metals mining, quarry & related services.

The overall value of industrial production in 2016 was RON153.0 billion at 2010 prices.

Within this, the largest sectors are food (RON45.1 billion), utilities (RON17.4 billion) and electric fittings (RON12.4 billion). By 2021 industrial production will total RON198.0 billion (2010 prices), rising

to RON216.5 billion by 2026. The largest sectors in 2026 will be food (RON56.4 billion), motor vehicle bodies & parts (RON30.8 billion) and electric fittings (RON22.1 billion).

The share of consumer goods in total manufacturing output was 50.7% in 2016: by 2026 this is predicted to decline to 44.0%. The share of investment goods is expected to increase from 19.9% to 27.0% over the same period, while the share of intermediate goods is forecast to fall from 29.4% to 29.1%.

Construction output is expected to decrease by 1.1% in 2017 and expand by 4.2% in 2018.

Over the 10 years to 2026, construction output is expected to grow on average by 1.9% a year.

Overall industrial production (manufacturing, extraction and utilities) is forecast to rise by 9.2% in 2017 and expand by 6.7% in 2018. This compares with an increase in world industrial production of 3.5% in 2017 and rise of 3.4% in 2018. Over the 10 years to 2026, industrial production in Romania is expected to grow on average by 3.7% a year, compared with a growth rate of 2.7% a year for the world as a whole.

As a result, the share of Romania in world industrial production should remain unchanged at 0.3% from 2017 to 2021 and remain at 0.3% by 2026. Services are expected to rise by 4.6% in 2017 and expand by 3.0% in 2018. Over the next 10 years to 2026, the service sector is predicted to grow on average by 1.9% a year.

Industry Forecast for Romania							
(Annual percentage changes unless specified)							
	2011-15	2016	2017	2018	2019	2020	2021-26
Agriculture	0.9	-2.7	-0.1	-4.0	-1.9	-0.9	-0.7
Production	5.4	0.7	9.2	6.7	4.7	4.0	2.1
Extraction	-15.1	8.6	2.3	-2.7	-4.2	-4.9	-5.5
Manufacturing	1.1	1.1	10.9	7.2	4.6	4.2	2.4
Consumer non-durable goods	-1.0	1.0	5.8	5.9	2.3	2.2	1.1
Consumer durable goods	0.8	-2.6	4.5	5.5	5.8	6.5	5.0
Investment goods	3.2	0.8	19.1	12.0	9.6	8.3	4.3
Intermediate goods	3.6	2.3	14.4	5.9	3.9	3.5	2.2
Utilities	0.6	0.6	2.8	-0.9	-0.8	-0.6	-0.6
Construction	-3.1	2.5	-1.1	4.2	2.9	2.4	1.7
Services	3.7	6.7	4.6	3.0	1.8	1.3	1.3
Gross value added	1.9	4.2	5.3	3.6	2.3	2.0	1.5
GDP	2.4	4.8	6.0	3.8	2.5	2.0	1.5

Source: Oxford Economics

Romania - Top 10 Fastest Growing Industries			
(Annual percentage changes unless specified, 2010 prices)			
	Last year		Next 5 years
Electric fittings	12.0	Motor vehicle bodies & parts	15.4
Oil & natural gas extraction	11.5	Equip. for mining, food & other industries	13.4
Batteries & fuel cells, capacitors & resistors	10.0	Motor vehicles	13.2
Ceramic, clay & refractory products	9.6	Machine tools	13.2
Coal & lignite mining	8.3	Ovens, lift/handling, HVAC & power tools	13.0
Other chemicals n.e.c.	6.4	Turbines, engines, fluidics, pumps & gears	13.0
Motor vehicles	6.3	Agricultural machinery	12.3
Motor vehicle bodies & parts	6.3	Domestic appliances	11.0
Pulp & paper	5.8	Electric fittings	9.3
Metals mining, quarry & related services	5.7	Batteries & fuel cells, capacitors & resistors	8.0

Source: Oxford Economics

IMPORTS

Imports in Romania decreased to 6,103.70 EUR Million in December from 6,908.70 EUR Million in November of 2017. Imports in Romania averaged 2,748.33 EUR Million from 1992 until 2017, reaching an all time high of 7,087.20 EUR Million in October of 2017 and a record low of 219.70 EUR Million in January of 1994.

Romania imports machinery and transport equipment, raw materials, chemicals and fuels. Its main imports partners are other European Union members with Germany, Italy, Hungary and France being the most important. Others include Russia and Turkey.

EXPORTS

Exports from Romania decreased to 4,493.60 EUR Million in December from 5,785.60 EUR Million in November of 2017. Exports in Romania averaged 2,064.43 EUR Million from 1991 until 2017, reaching an all time high of 5785.60 EUR Million in November of 2017 and a record low of 143.20 EUR Million in February of 1991.

Romania exports mostly machinery and transport equipment, raw materials, and miscellaneous manufactured articles like textiles and footwear. Romania main exports partners are other European Union members with Germany, Italy and France being the most important. Others include Turkey.

2017 overview

	%	
	Exports	Imports
TOTAL	100.0	100.0
Food & beverage, alcohol and tobacco	7.9	8.7
Raw materials	4.3	3.2
Mineral fuels, lubricants	3.8	6.6
Chemicals and related products	4.4	13.3
Transportation machinery and equipment	46.4	37.3
Other manufactured products	33.2	30.9

Source: National Institute of Statistics

PROMOTION OPPORTUNITIES

Promotion can be done via governmental and non-governmental promotion agencies, domestic and bilateral chambers of commerce and creative media companies. Interested entities may ask for information and recommendation at the Switzerland – Romania Chamber of Commerce

SOURCE: EY Romania external sources (BMI, EMIS), National Institute of Statistics; National Bank of Romania; “Doing Business in Romania” – EY Romania market brochure. Oxford Economics.

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