

## Romania: Review of 2018 ING forecasts

At the risk of altering the atmosphere as we move into this beautiful part of the year, we try to make a brief recapitulation of 2018's "rights and wrongs" together with an evaluation of our initial forecasts from the start of the year. It's brief, we promise!



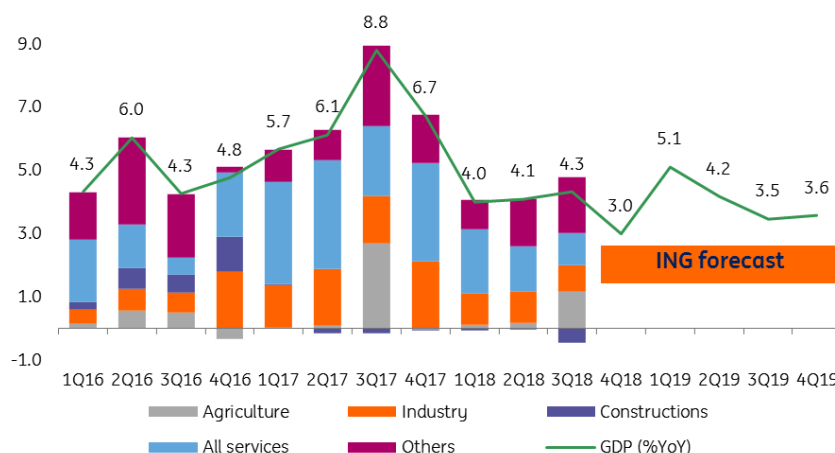
### The economy: Goldilocks was over indeed

The economy grew an impressive 6.9% in 2017 on the back of spurring private demand fuelled by double-digit wage hikes. While everyone agreed that the same pace could not be sustained in 2018 as well, the growth forecasts were projected within quite a wide band: from just above 4% to around 6%.

We started the year with a 4.7% GDP growth forecast, one of the lowest in the market and versus the official projection of 6.1%. The material slowdown was visible starting in the first quarter of 2018, which posted 4.0% growth. The next two quarters confirmed the new cruising speed, coming out at 4.1% and 4.3%. As the data is out for the first three quarters, we now forecast a 4.2% growth for 2018.

[Goldilocks is over](#)

## GDP growth sources



Source: NIS, ING

## Monetary policy: the year of inflation

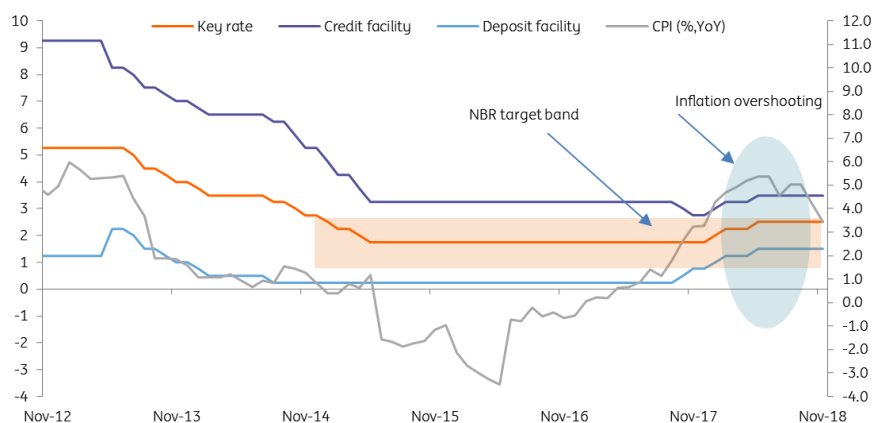
The massive wage increase from 2017 led to a build-up in inflationary pressures which overlapped some important base effects and the rise in oil prices. Inflation has been stubbornly high for most of the year, reaching a maximum of 5.4% in June and forcing the central bank into an aggressive frontloaded tightening. This started in late 2017 and continued with three rate hikes in the first part of 2018, bringing the key rate to 2.50%.

At the beginning of 2018, we had penciled the key rate to end this year at 2.75%, which was at the bottom of consensus back then. The sharp drop in oil prices has greatly helped the National Bank of Romania (NBR) and brought inflation within the NBR's target band of 2.5±1ppt towards the end of 2018. Hence, the hiking cycle has been put on pause for a while, though broad monetary conditions have been generally tighter than those reflected by the key rate.

As for headline inflation, in January 2018 we forecasted the year-end at 3.1% and now, with the December print still to be released, we see it at 3.2%.

### [The year of inflation](#)

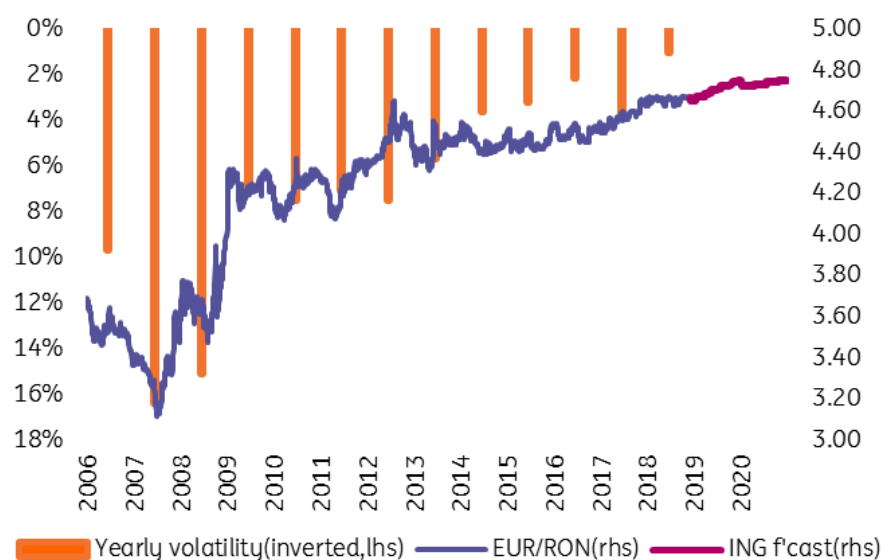
## Inflation coming back into the target band



Source: NIS, ING

## Exchange rate: is the patient dead or alive?

The EUR/RON exchange rate has been under a tight managed floating regime, with NBR fixing moving within a narrow 1.1ppt in 2018, likely aimed at containing inflation expectations. This was done via some FX interventions but mostly with liquidity controls as cash rates often spiked towards or even above the Lombard rate (at 3.50% currently). Our 4.67 forecast for the end of 2018 looks quite close to the current market levels.



Source: NBR, ING

## So, what went good in 2018?

- **GDP growth above 4% is closer to potential**, alleviating overheating fears, despite the weak structure with inventories contributing by 3.0ppt to the 4.2% YoY GDP growth for the first three quarters
- Greatly helped by the drop oil prices, **inflation is back inside the target band**
- **The exchange rate has been remarkably stable** despite deteriorating fundamentals

## ...and not so good?

- **Persistent current account deterioration** driven by the trade balance and deteriorating funding coverage
- **Fiscal gap stretched to the 3.0% limit** for the third consecutive year
- **Overall higher borrowing costs** for the Romanian state

Last but not least, in 2018 Romania marked the 100 year anniversary of the Great Reunification of all its historical provinces. "The Centenary Anniversary Year" has been a reason of celebration for many Romanians and, why not, for generous public spending on festive occasions throughout the country. Happy anniversary!

### Author

#### Valentin Tataru

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

#### Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).