

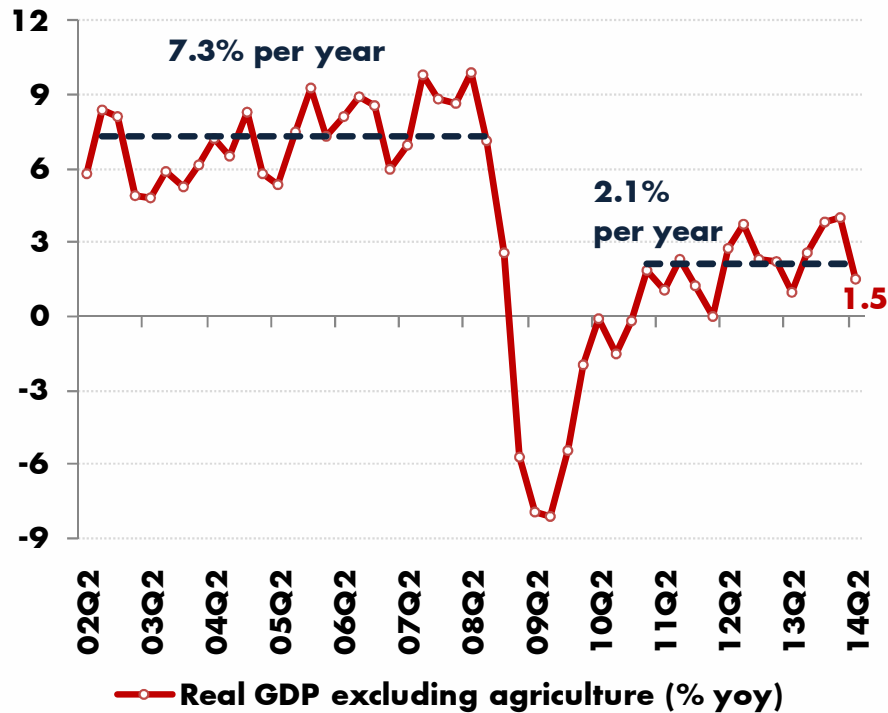
Ionut Dumitru
Chief-economist, Raiffeisen Bank Romania

October 2014

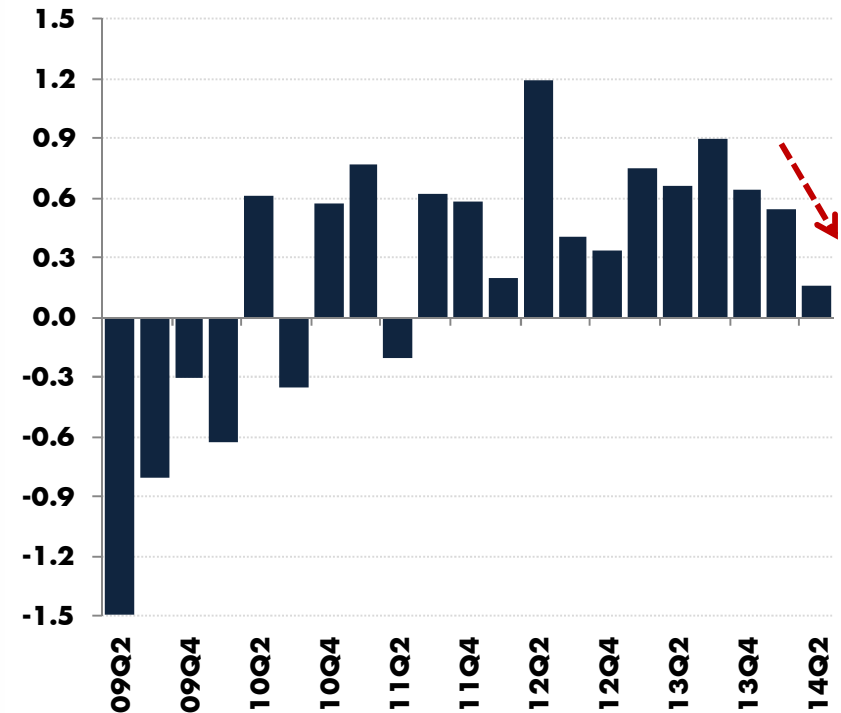
Slow economic recovery pace in last years

- Economic activity re-entered on an upward trend in 2011, but pace of economic recovery remained modest over the past years.
- Economic performance deteriorated over the last quarters as real GDP fell by 0.1% qoq in Q1 and by 0.9% qoq in Q2.

Real GDP excluding agriculture (% yoy)



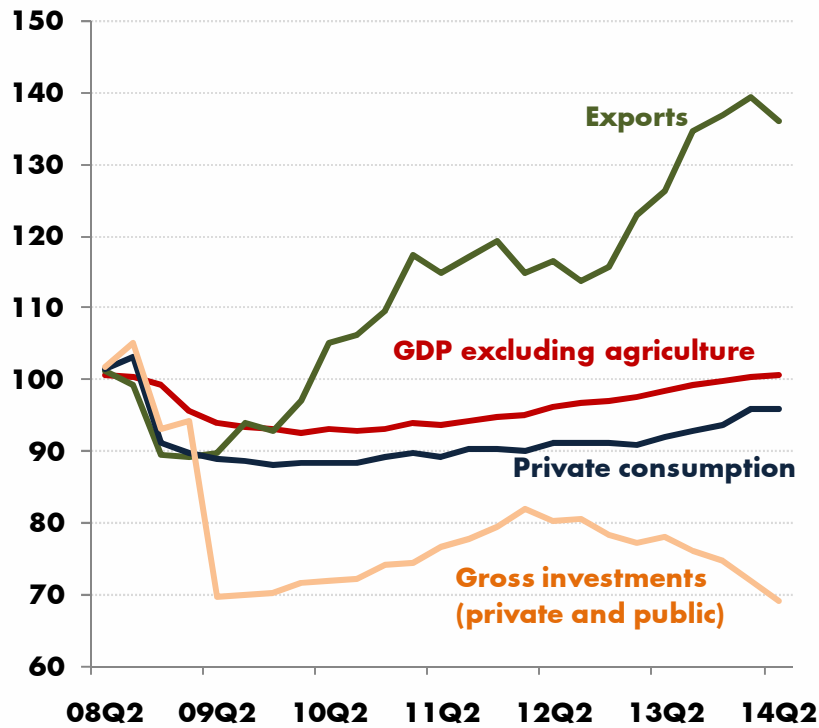
Real GDP excluding agriculture (% qoq)



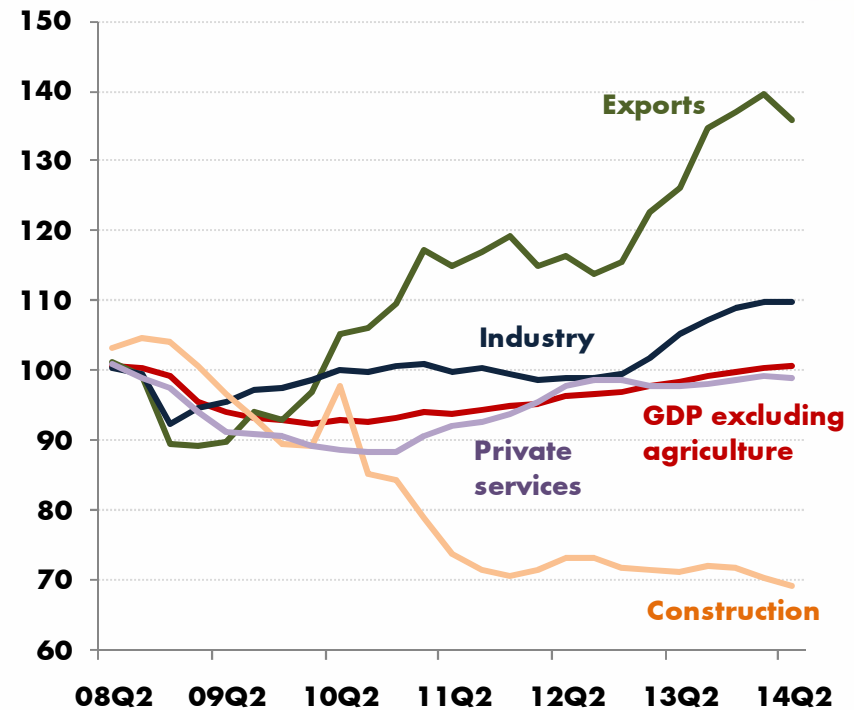
Source: Eurostat, National Institute of Statistics, Raiffeisen RESEARCH

Economic recovery is uneven across the sectors

- Exports and industrial sectors relying on exports had a very good performance over the past years, while domestic demand and sectors relying on domestic demand had a poor performance.

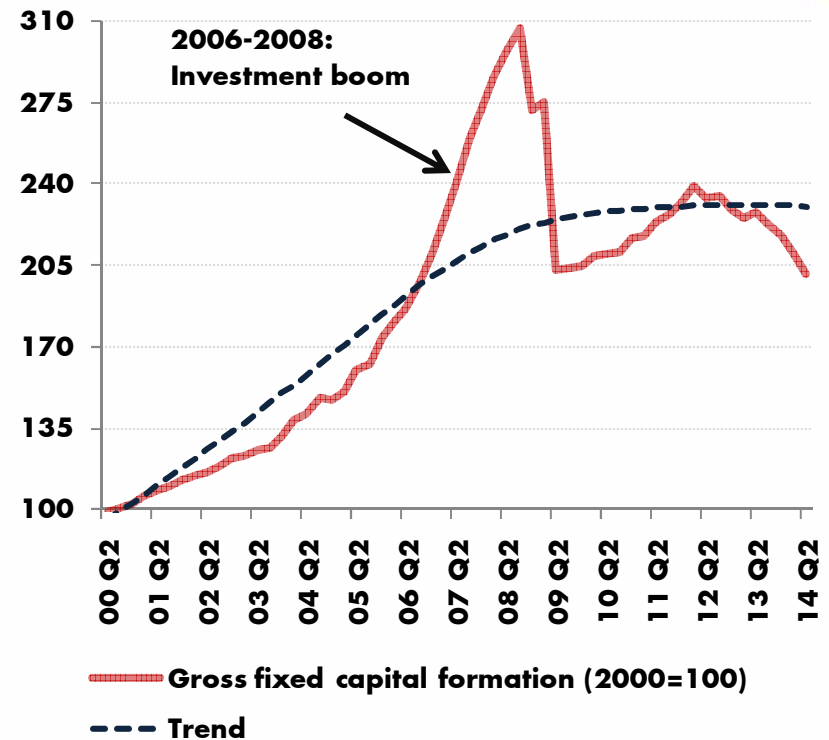
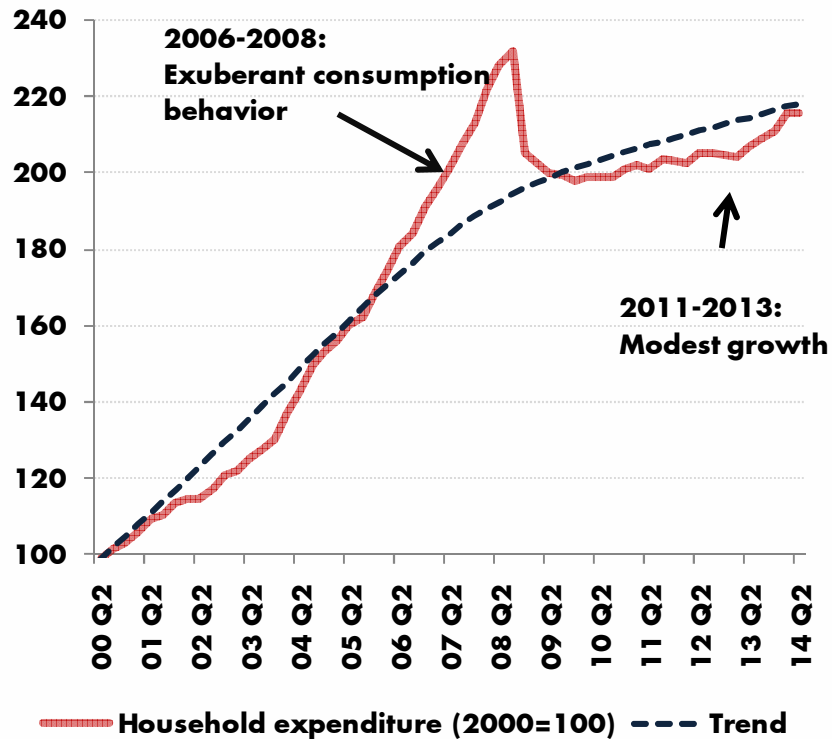


Note: fixed base indexes, H1 2008 = 100



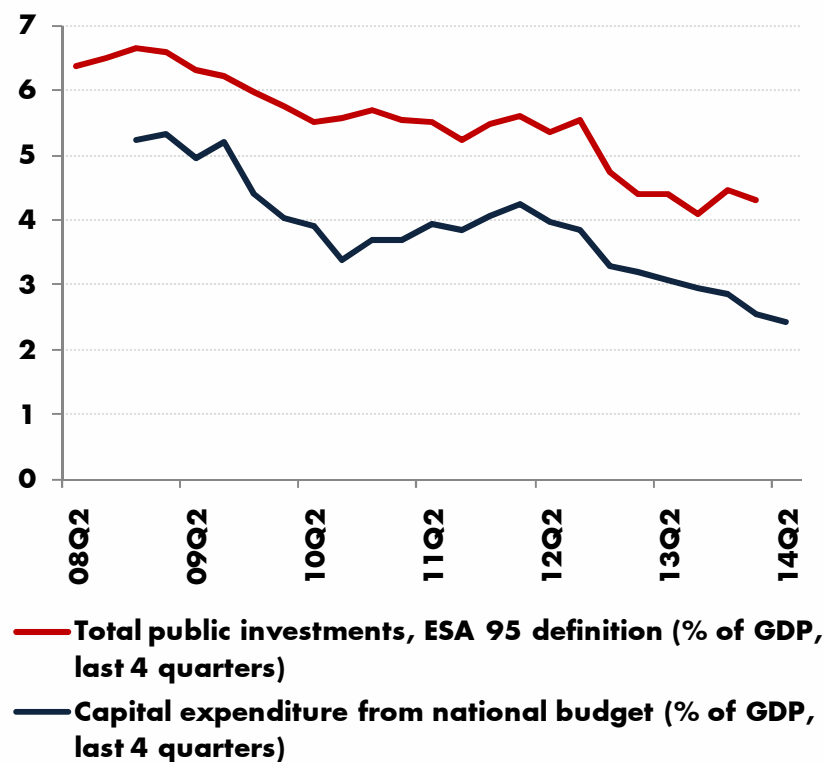
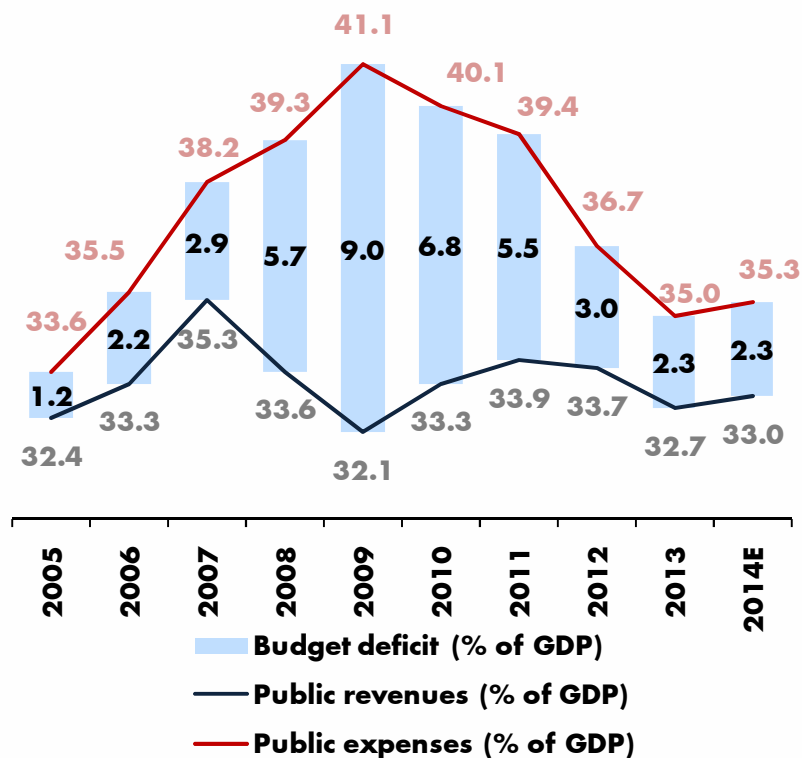
Note: fixed base indexes, H1 2008 = 100

Investment activity still very weak



Ample fiscal consolidation, decreasing public investments

- Reduction of public budget deficit was delayed as the most important adjustment measures were taken in July 2010 (increase in VAT from 19% to 24%, reduction of public wages by 25%)
- However, fiscal consolidation was quite fast and Romania has a low public budget deficit now (below 3% of GDP)
- Unfortunately, the fiscal adjustment process was accompanied also by a sharp reduction of public investments, especially since 2012

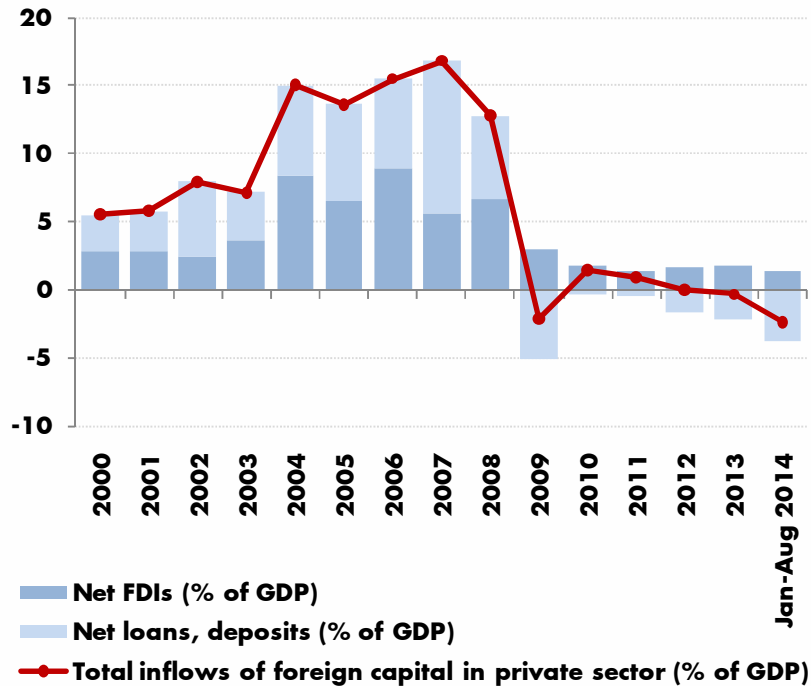


Source: Eurostat, Raiffeisen RESEARCH

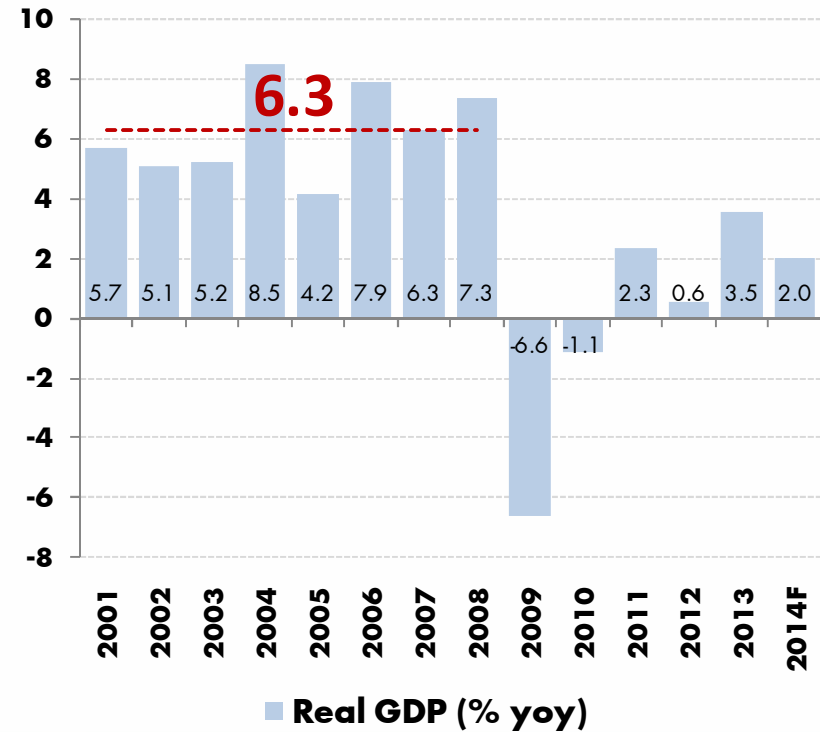
Low inflows of foreign capital limited economic growth

- Inflows of foreign capitals in the private sector - one of main drivers of GDP growth before 2008 - were scarce over the past years and this one was a factor impeding on GDP growth.

Net foreign capital inflows in the private sector



Real GDP growth during 2001-2014

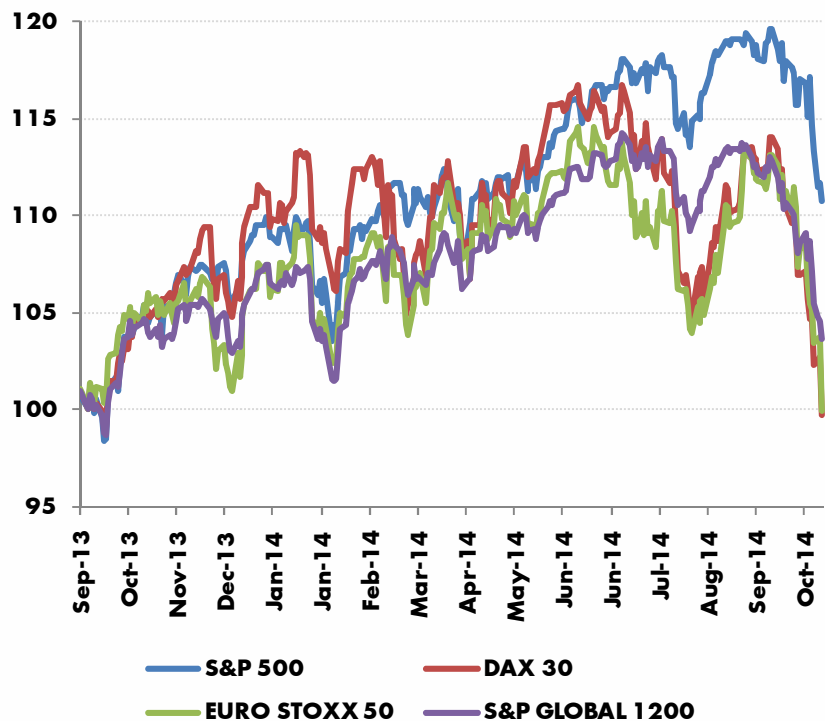


Increasing risks for the baseline scenario

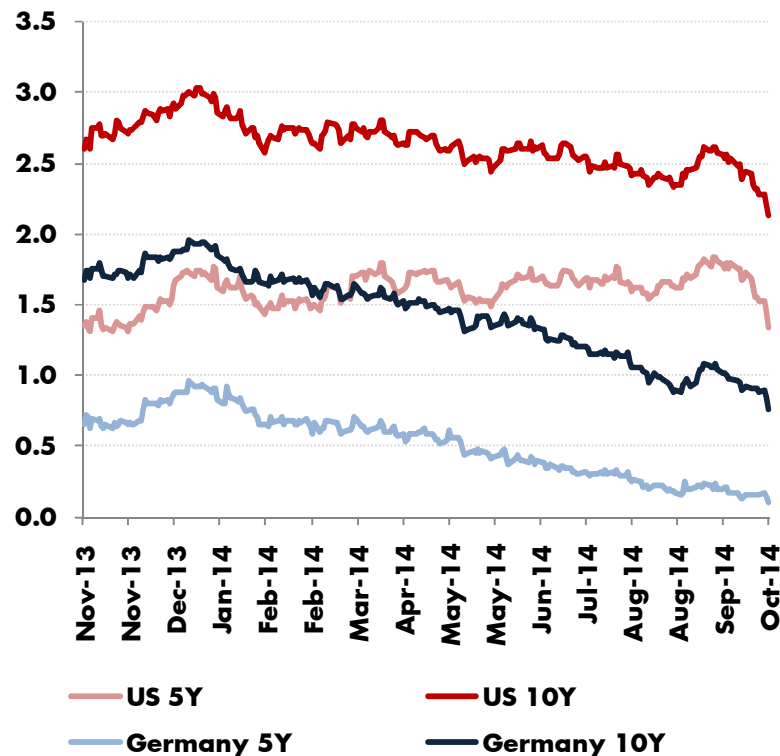
- Dynamics of macroeconomic indicators in Europe and globally was disappointing over the past months and expectations with regards to economic growth have deteriorated sharply over the past weeks
- These adverse developments suggest that our GDP forecast for 2014 (2%) might have become optimistic



Major stock indexes



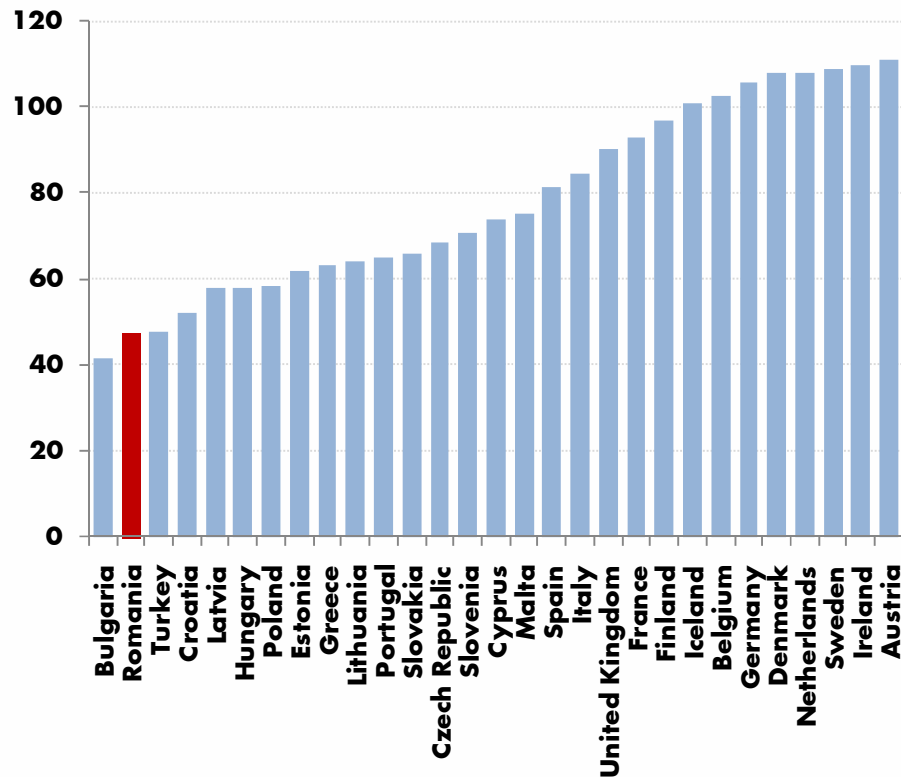
5Y and 10Y yields for T-securities in US and Germany



Note: fixed base indexes, 30 Sep 2013=100
 Source: Bloomberg, Raiffeisen RESEARCH

A lot of room for real convergence

**GDP per capita in PPS in 2013
(% of average for Germany and France)**

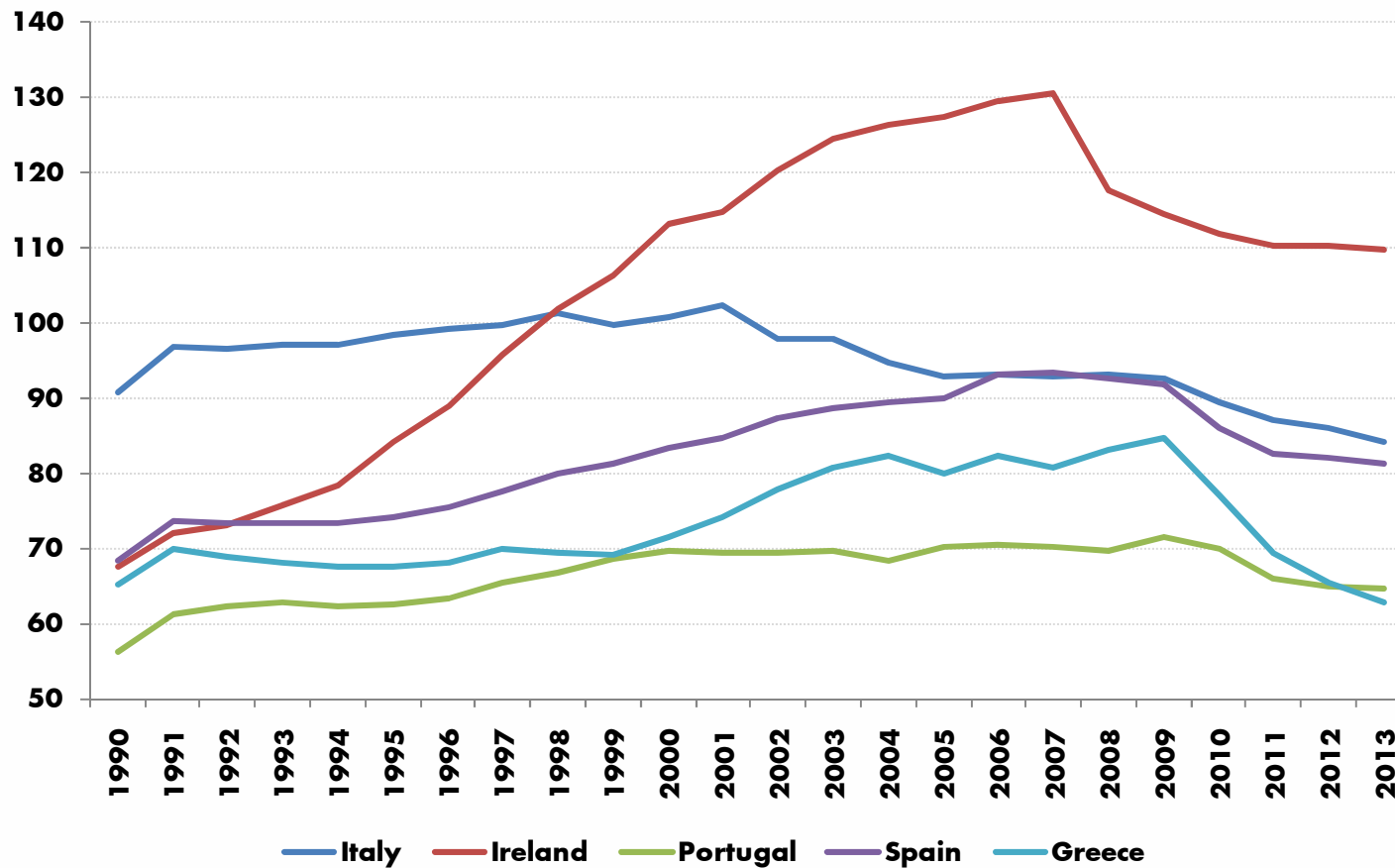


- Low level of GDP per capita implies a lot of room for real convergence and suggests faster growth as compared with the regional peers.
- Romania recorded one of the fastest economic growth rates both before the inception of crisis (2001-2008) but also over the last years (2011-2013).

Source: Eurostat, Raiffeisen RESEARCH

Real convergence: not a one way trip

**GDP per capita in PPS
(% of average for Germany and France)**



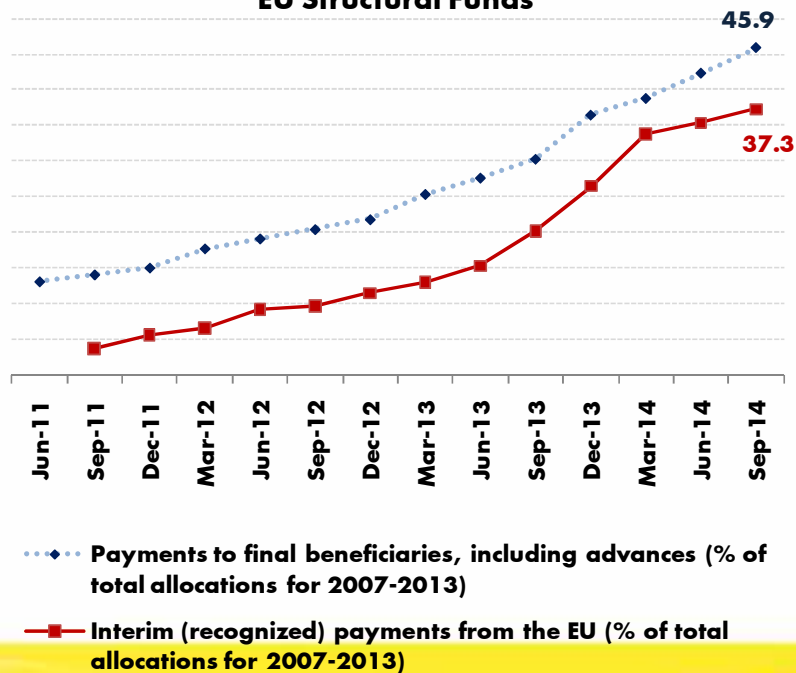
Source: European Commission, Raiffeisen RESEARCH

EU Structural Funds can enhance the growth potential

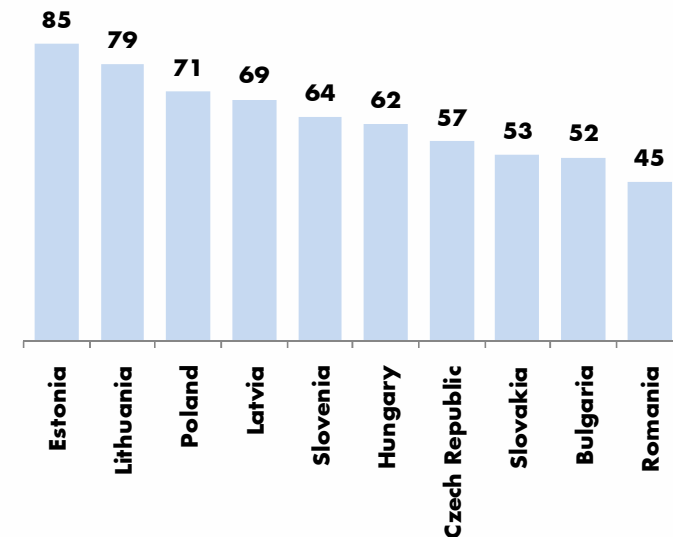


- Romania is a laggard among the EU member countries in using EU Structural Funds available for period 2007-2013 (around EUR 19bn total allocation).
- We expect a better use of EU funds in 2014 compared with 2013, with more funds to be channeled in infrastructure projects.
- Romania benefits from an extension period (N+3 rule instead of N+2) to use EU Structural Funds available for years 2011 and 2012 and lower co-financing requirements due to existing agreements with the IMF and the European Commission.

Romania: progress with absorption of EU Structural Funds



Money paid by European Commission (% of total allocations 2007-2013)

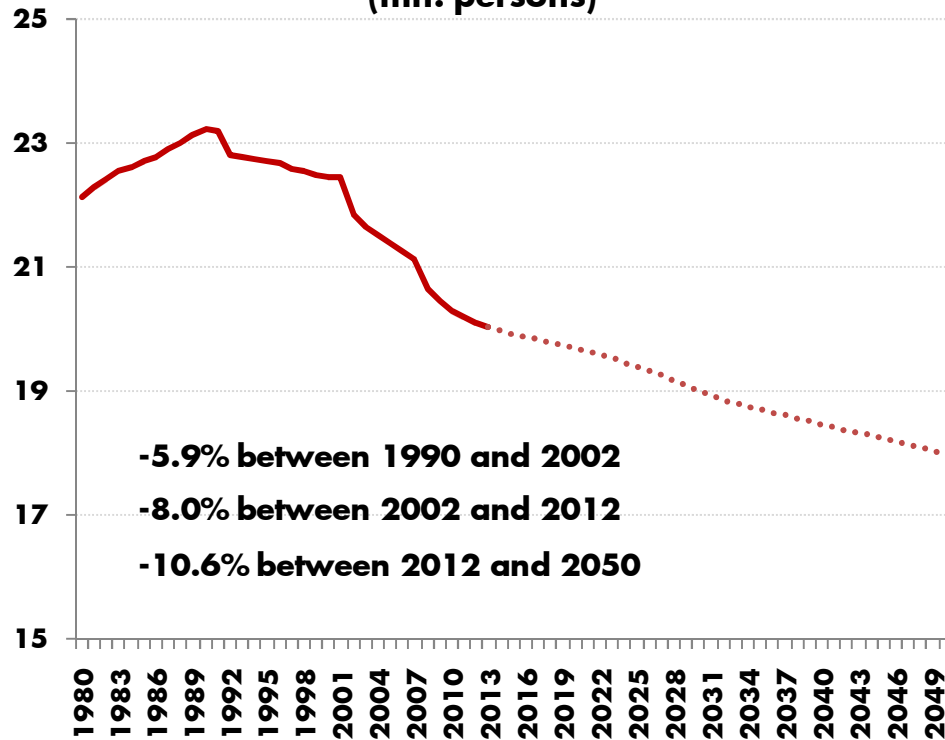


Note: Transfers refer both to interim (recognized) payments and advances; most recent data made public by the European Commission; Data refer to April 2014

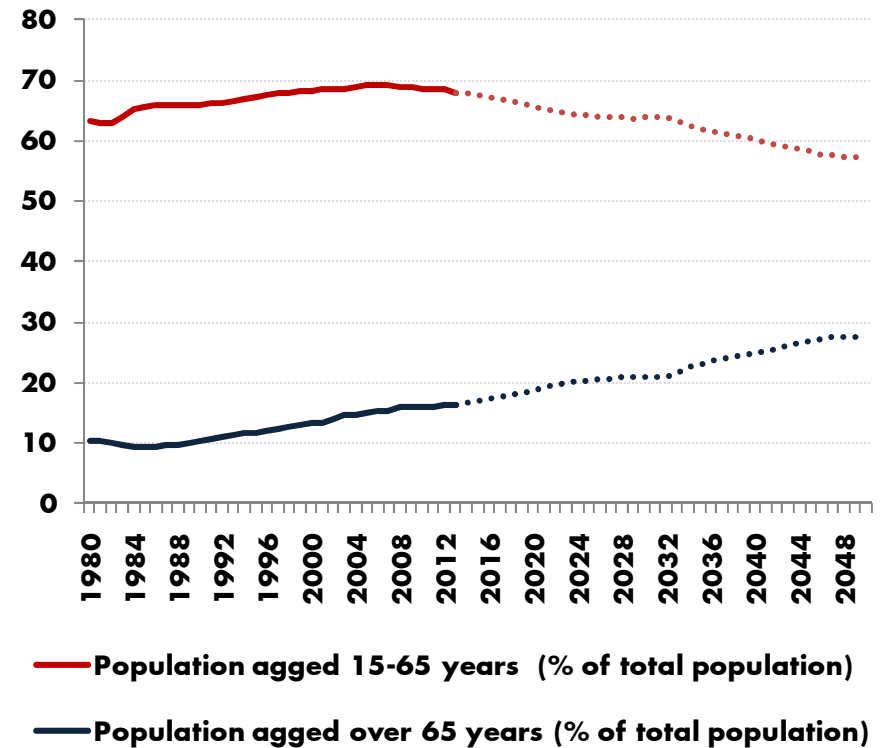
Source: Ministry of European Funds, European Commission, Raiffeisen RESEARCH

Population is declining and getting older

**Stable population of Romania
(mn. persons)**

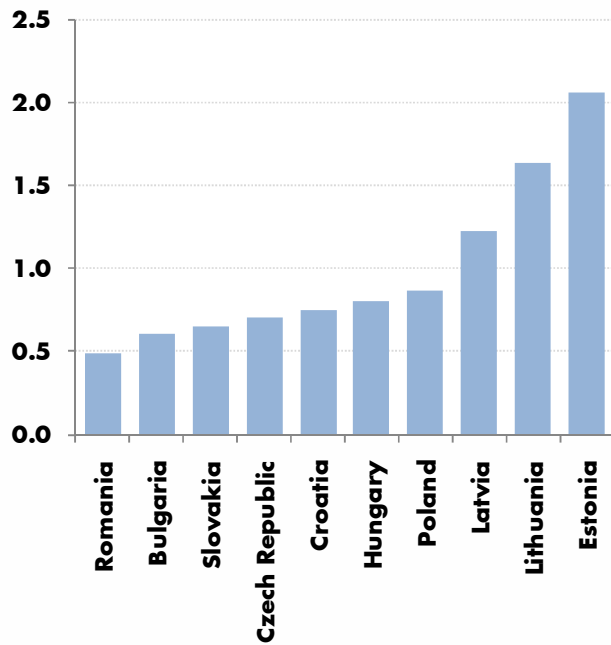


Structure of population, by age segments

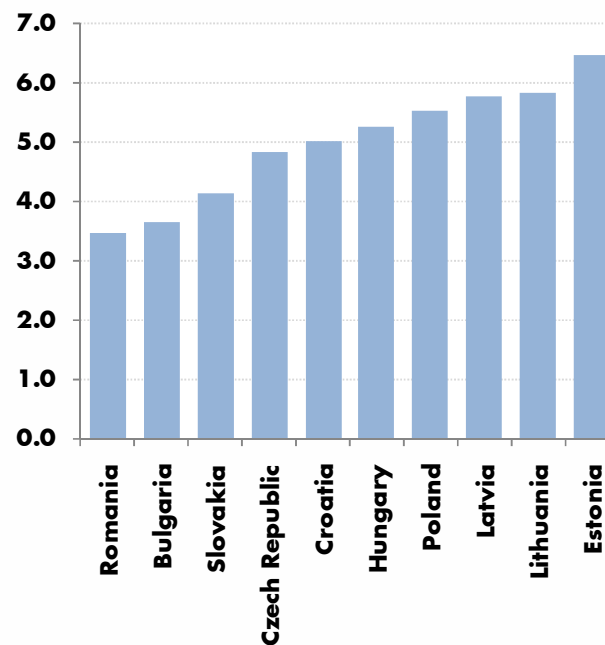


Low investments in factors supporting potential of the economy

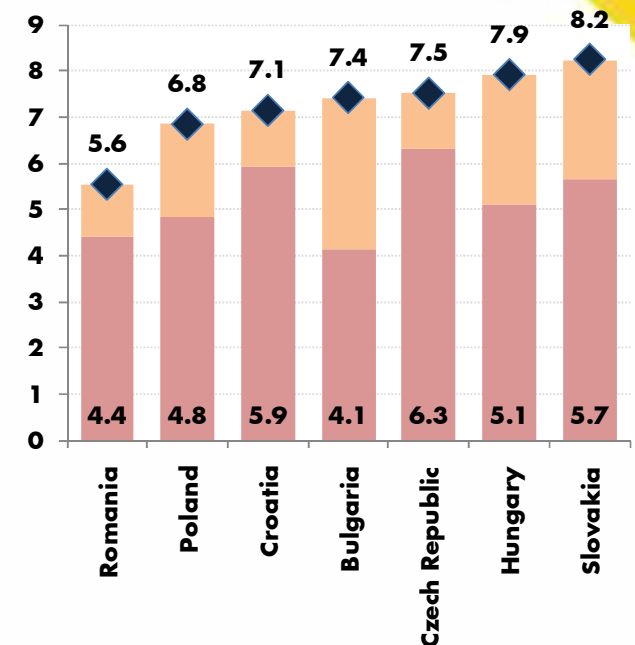
Gross domestic expenditure on R&D (% of GDP, avg. 2010-2012)



Public spending on education (% of GDP, avg. 2010-2012)



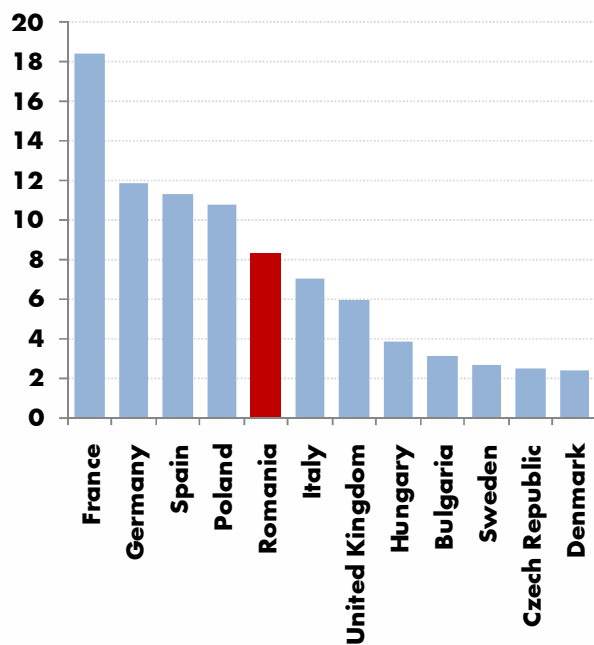
Total health expenditure (% of GDP, avg. 2010-2012)



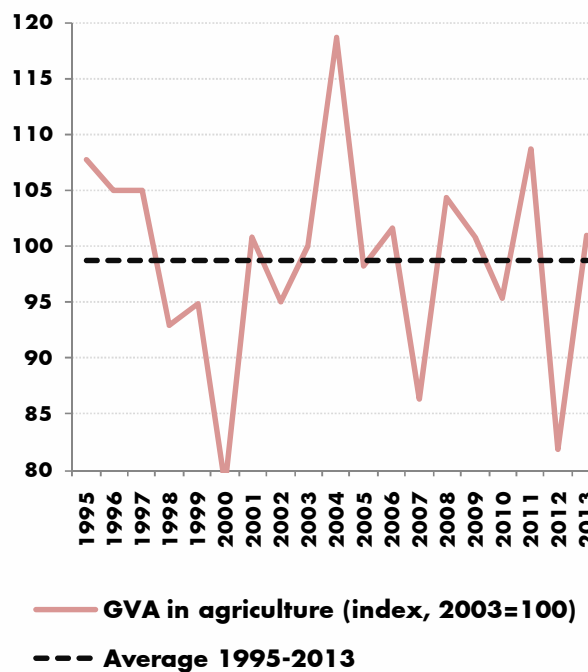
Source: World Bank, Eurostat, Raiffeisen RESEARCH

Strong agricultural potential is not fully utilized

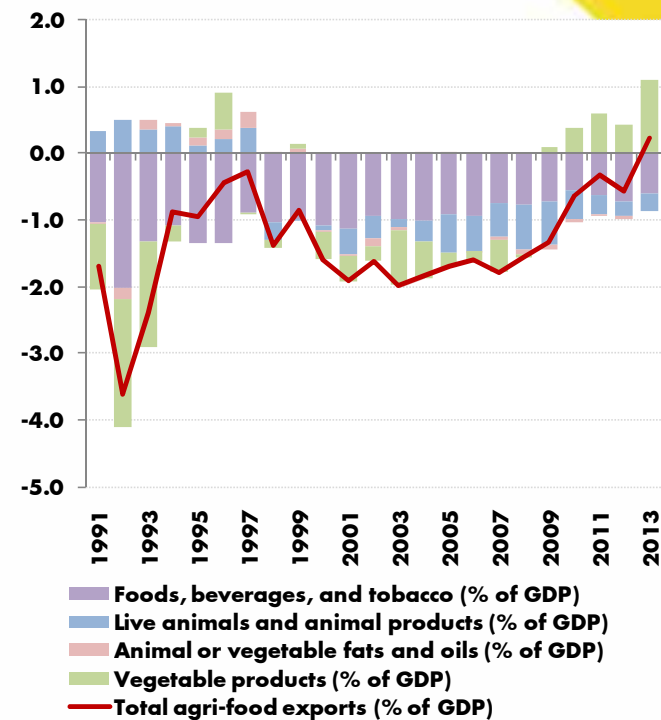
Arable land (million hectares in 2010)



Gross value added in agriculture



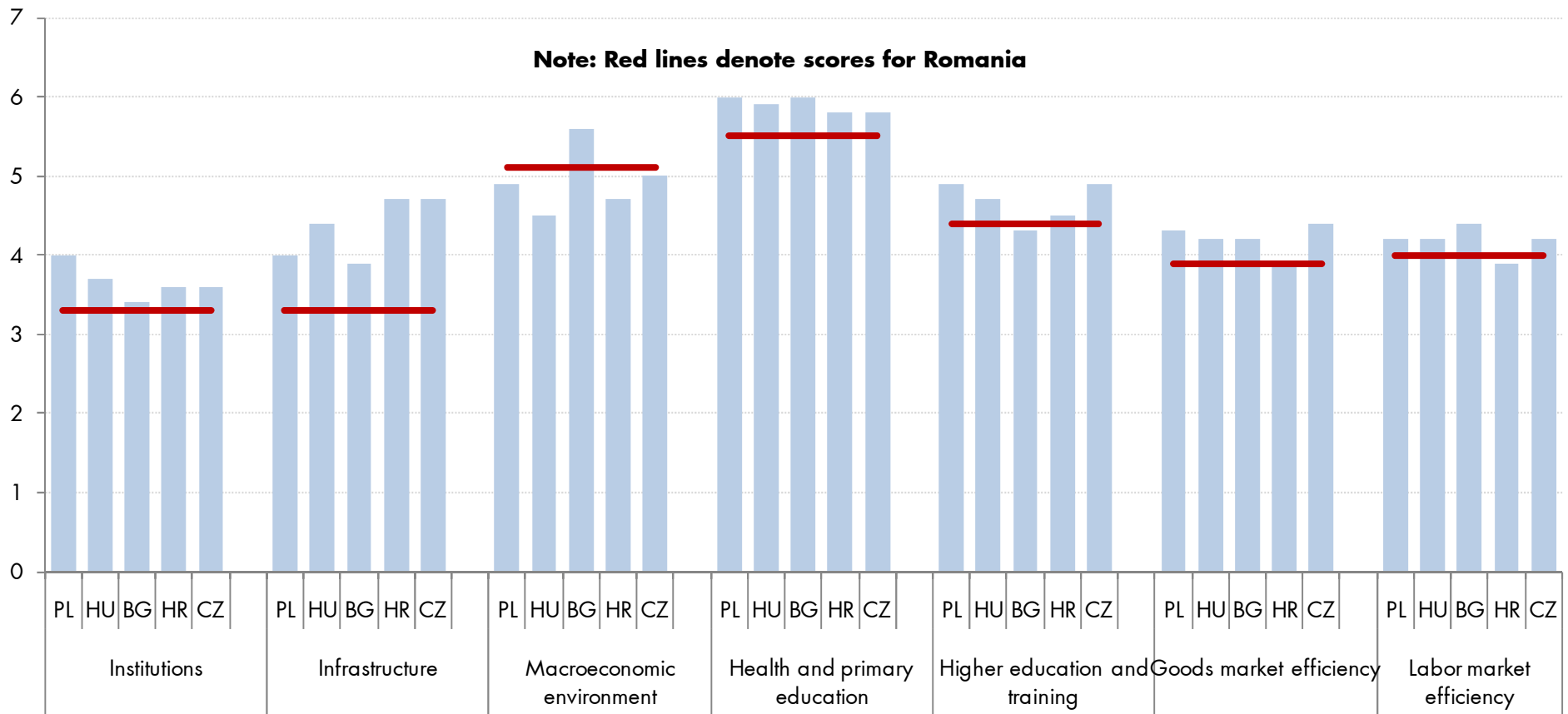
Balance for foreign trade in agricultural products and foods



Low level of competitiveness

Score of competitiveness
(higher values reflect a better position)

Note: Red lines denote scores for Romania



Source: The Global Competitiveness report, World Economic Forum, 2013-2014

World Economic Forum World Competitiveness Report – Ranking (out of 144 countries)



		Romania	Bulgaria	Czech Republic	Hungary	Poland	Slovak Republic
WORST	7.05 Effect of taxation on incentives to work, 1-7 (best)	140	91	110	128	88	119
	6.04 Effect of taxation on incentives to invest, 1-7 (best)	128	81	107	133	102	114
	7.08 Country capacity to retain talent, 1-7 (best)	128	142	80	122	117	130
	7.07 Reliance on professional management, 1-7 (best)	126	113	47	114	71	74
	7.01 Cooperation in labor-employer relations, 1-7 (best)	125	111	52	71	100	105
	2.02 Quality of roads, 1-7 (best)	121	106	81	58	89	82
	6.01 Intensity of local competition, 1-7 (best)	120	75	17	47	51	32
	6.09 Prevalence of trade barriers, 1-7 (best)	117	99	72	30	66	38
	1.08 Wastefulness of government spending, 1-7 (best)	116	98	7	96	85	126
	7.09 Country capacity to attract talent, 1-7 (best)	115	142	93	118	124	117
	1.07 Favoritism in decisions of government officials, 1-7 (best)	114	134	106	122	67	141
	4.10 Primary education enrollment, net %*	114	66	55	95	49	n/a
	1.17 Ethical behavior of firms, 1-7 (best)	112	101	94	96	57	123
	1. Corporate ethics	112	101	94	96	57	123
						
BEST	5.06 Internet access in schools, 1-7 (best)	53	45	27	35	50	31
	2.09 Fixed telephone lines/100 pop.*	52	42	63	37	78	68
	9.03 FDI and technology transfer, 1-7 (best)	49	91	36	19	68	18
	6.07 No. days to start a business*	48	84	92	14	111	87
	1.21 Strength of investor protection, 0–10 (best)*	45	45	83	105	45	98
	10.01 Domestic market size index, 1–7 (best)*	44	66	48	56	20	61
	9.05 Fixed broadband Internet subscriptions/100 pop.*	40	39	41	31	46	47
	6.06 No. procedures to start a business*	32	22	106	22	22	78
	5.04 Quality of math and science education, 1-7 (best)	31	54	74	60	50	75
	9.06 Int'l Internet bandwidth, kb/s per user*	19	27	25	75	37	93
	8.08 Legal rights index, 0–10 (best)*	11	11	63	43	11	29
7.04 Redundancy costs, weeks of salary*	7	21	95	61	89	89	

Source: The Global Competitiveness report, World Economic Forum, 2014-2015

Factors impeding on investments

World Bank Doing Business Report – Ranking (out of 189 countries)

	Ease of Doing Business	Starting a Business	Dealing with Construction Permits	Getting Electricity				Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency			
	Rank	Rank	Rank	Procedures (number)	Time (days)	Cost (% of income per capita)	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Time (years)	Cost (% of estate)	Recovery rate (cents on the dollar)	Rank
United States	4	20	34	4	60	16	13	25	3	6	64	22	11	1.5	7	81.5	17
Germany	21	111	12	3	17	47	3	81	28	98	89	14	5	1.2	8	82.9	13
Poland	45	116	88	6	161	205	137	54	3	52	113	49	55	3.0	15	54.8	37
Slovak Republic	49	108	53	5	158	11	65	11	42	115	102	108	65	4.0	18	54.1	38
Hungary	54	59	47	5	252	116	112	45	55	128	124	70	15	2.0	14.5	38.3	70
Bulgaria	58	65	118	6	130	320	135	62	28	52	81	79	79	3.3	9	32.6	92
Romania	73	60	136	7	223	534	174	70	13	52	134	76	53	3.3	10.5	30.0	99
Czech Republic	75	146	86	6	279	179	146	37	55	98	122	68	75	2.1	17	65.0	29

Source: World Bank Doing Business 2013-2014 Report