

# New Europe Economics & Strategy

## Focus Notes: Romania

### Romania: Economy in danger of staying flat or contracting once more in 2010

The first quarter GDP data dashed expectations of a moderate growth rebound in 2010. Romanian GDP contracted by 2.6% yoy in Q4, for a fifth quarter in a row, following a 6.6% yoy decline in the prior quarter. On a seasonal adjusted basis, GDP decline slowed to 0.3% yoy in Q1 against 1.5% yoy in Q4.

The detailed breakdown of the components revealed that except for industry (4.2% yoy in Q1 flat against 4% in Q4 2009), all other important sectors are still mired in recession. Construction kept plummeting by double digit rate (-17.9% yoy). Services remain on a negative territory yet their decline narrowed to -2% yoy against -9.4% yoy in Q4.

On the demand side, consumption shrank further by 4.0% yoy. Gross fixed capital formation remains depressed at -28.9% yoy in line with the construction plummeting. Exports recorded solid gains advancing by 19.5% yoy in Q1 against 2.9% yoy in Q4. However, imports recovered as well by 14.9% yoy from -11.1% yoy in Q4, so that the contribution of net exports is still positive.

In our view, the Romanian economy is in danger of staying flat or even contracting once again in 2010. The prospects of a rebound in domestic demand conditions were already bleak. The relatively high unemployment level (8.1% in April) and negative private sector credit growth (-1.6% yoy in March) created an environment of low growth expectations. On top of those, the aggressive spending cuts in wages and pensions will dampen consumption. The depressed level in business confidence leaves no room for optimism for a revival in investment. The only glimpse of hope is coming from continuous rise in exports. However, this was accompanied by imports recovery, which only curtails the positive contribution of net exports.

Last but not least, the continuous negative news flow on weak growth outlook ensures that the Central Bank will maintain its easing bias for a longer period than originally anticipated. In fact, we now see

---

#### Research Team:

Gikas Hardouvelis, *Chief Economist and Director of Research*  
 Platon Monokroussos, *Head of Financial Markets Research*  
 Tassos Anastasatos, *Senior Economist*  
 Ioannis Gkionis, *Research Economist*  
 Stella Kanellopoulou, *Research Economist*  
 Galatia Phoka, *Emerging Markets Analyst*  
 Theodoros Rapanos, *Junior Economic Analyst*

#### Sales Team:

Fokion Karavias, *Treasurer*  
 Nikos Laios, *Head of Sales*  
 Yiannis Seimenis, Ioannis Maggel, *Corporate Sales*  
 Stogioglou Achilleas, *Private Banking Sales*  
 Petropoulos Theodore, *Institutional Sales*  
 Karanastasis Kostas, *Retail Sales*

---

EFG Eurobank Ergasias, 8 Othonos Str, GR 105 57, Athens, Tel: (30210) 3718 906, 3718 999, Fax: (30210) 3337 190, Reuters Page: EMBA, Internet Address: <http://www.eurobank.gr>

Disclaimer: This report has been issued by EFG Eurobank – Ergasias S.A and may not be reproduced or publicized in any manner. The information contained and the opinions expressed herein are for informative purposes only and they do not constitute a solicitation to buy or sell any securities or effect any other investment. EFG Eurobank – Ergasias S.A., as well as its directors, officers and employees may perform for their own account, for clients or third party persons, investments concurrent or opposed to the opinions expressed in the report. This report is based on information obtained from sources believed to be reliable and all due diligence has been taken for its process. However, the data have not been verified by EFG Eurobank – Ergasias S.A. and no warranty expressed or implicit is made as to their accuracy, completeness, or timeliness. All opinions and estimates are valid as of the date of the report and remain subject to change without notice. Investment decisions must be made upon investor's individual judgement and based on own information and evaluation of undertaken risk. The investments mentioned or suggested in the report may not be suitable for certain investors depending on their investment objectives and financial condition. The aforesaid brief statements do not describe comprehensively the risks and other significant aspects relating to an investment choice. EFG Eurobank – Ergasias S.A., as well as its directors, officers and employees accept no liability for any loss or damage, direct or indirect, that may occur from the use of this report.

---

room for rates to drop below the 6% threshold. If there is no significant deterioration in the political environment we anticipate that rates could decline to 5.75% (currently from 6.25%) by the end of 2010.

*Ioannis Gkionis, Research Economist*  
[igkionis@eurobank.gr](mailto:igkionis@eurobank.gr)