

Romania: Macroeconomic Capabilities and Vulnerabilities

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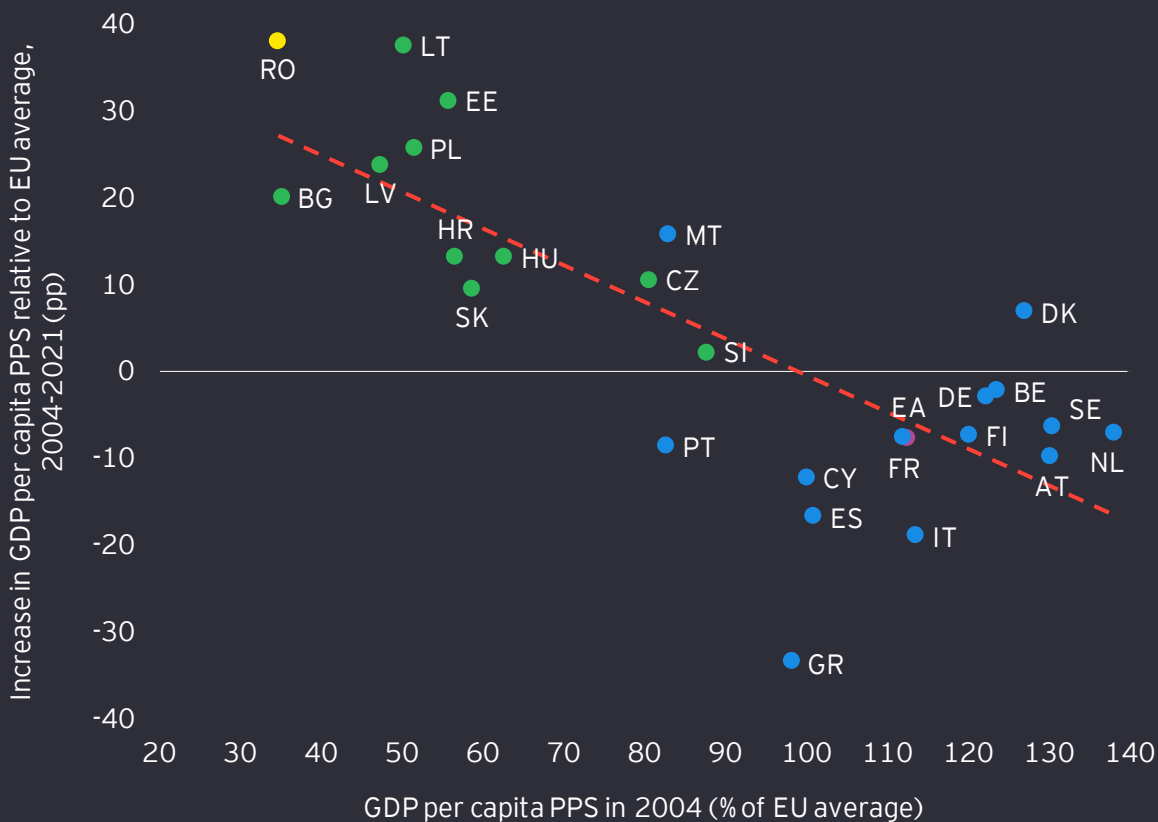


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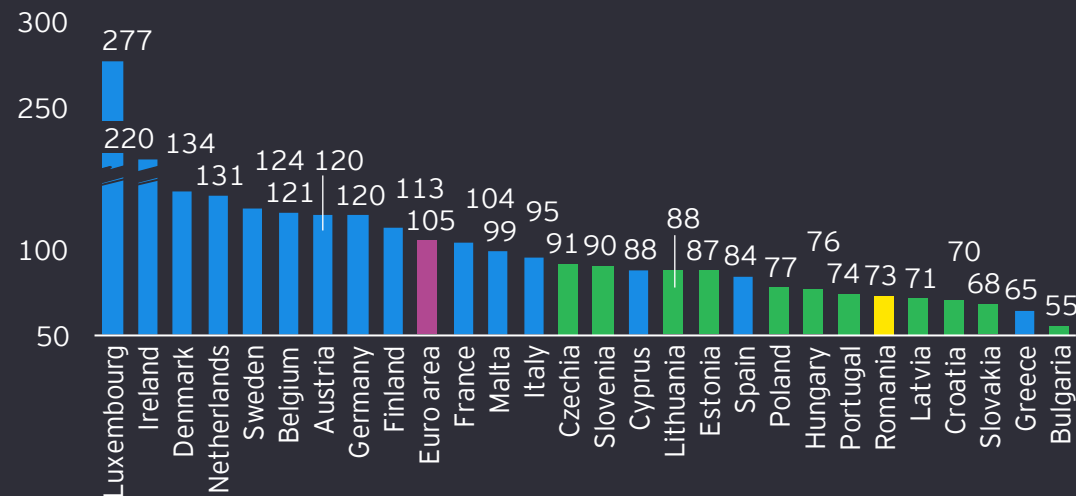
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Romania has been one of the fastest converging countries, starting from a low GDP per capita level. Convergence is expected to continue, though Romania is forecast to remain well below the EU average in 2030

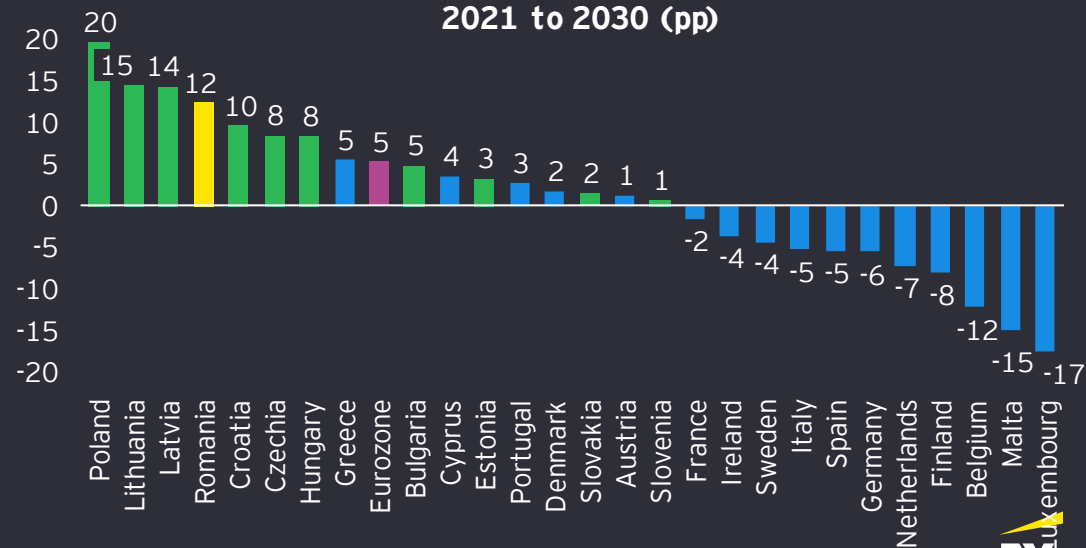
Increase in GDP per capita PPS relative to EU average from 2004 to 2021 (pp) vs. GDP per capita PPS in 2004 (% of EU average)



GDP per capita PPS in 2021 (EU average = 100)



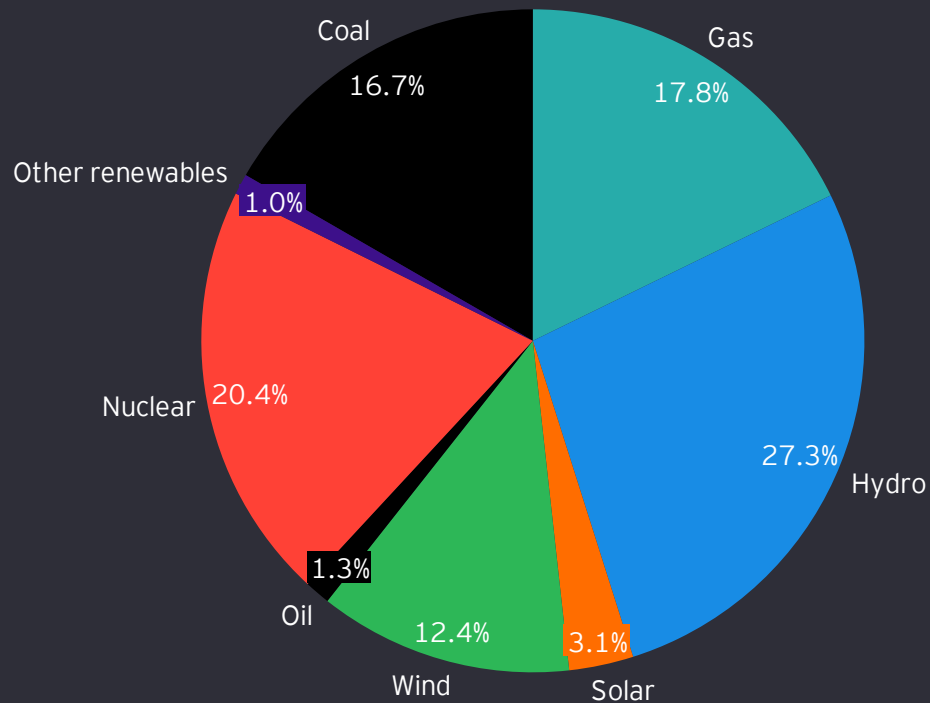
Forecast increase in GDP per capita PPP relative to EU average from 2021 to 2030 (pp)



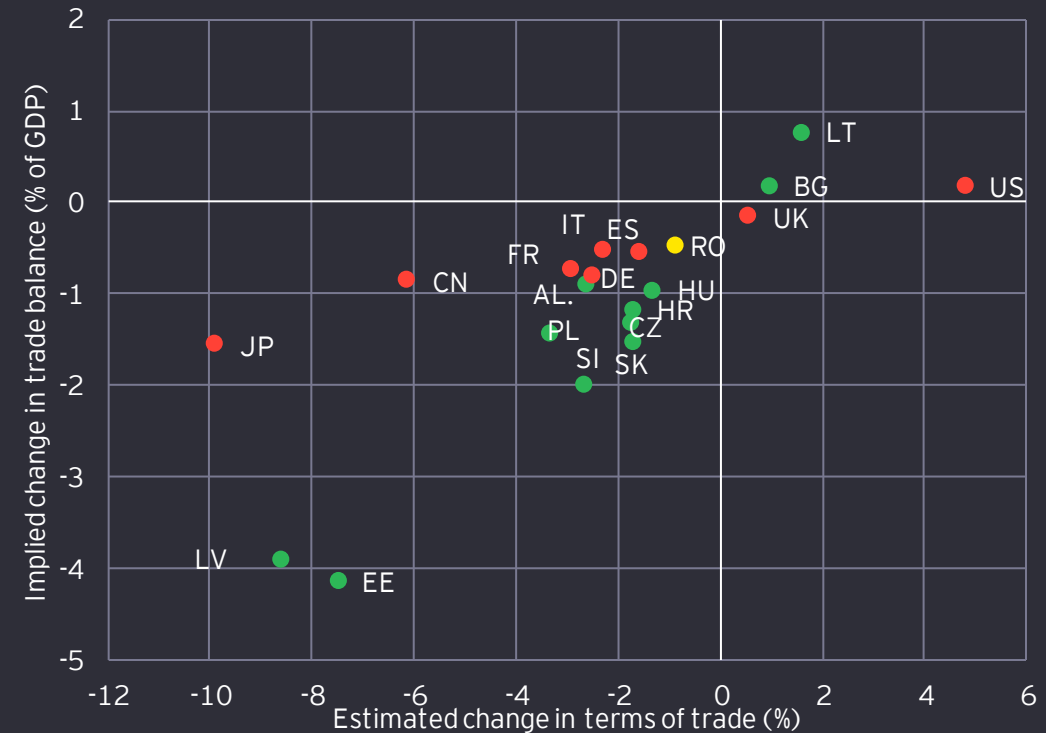
Romania is relatively well-placed to deal with the energy transition and higher commodity prices, recently driven by supply shocks and the war in Ukraine

- ▶ 2/3 of electricity comes from non-fossil sources
- ▶ Domestic production covers 75% of coal and natural gas consumption and 30% of oil consumption
- ▶ In 2020, 36% of energy commodities were imported from Russia, covering 15% of domestic energy consumption

Electricity mix in Romania in 2020



Estimated change in terms of trade and the implied change in trade balance following the outbreak of the war in Ukraine*



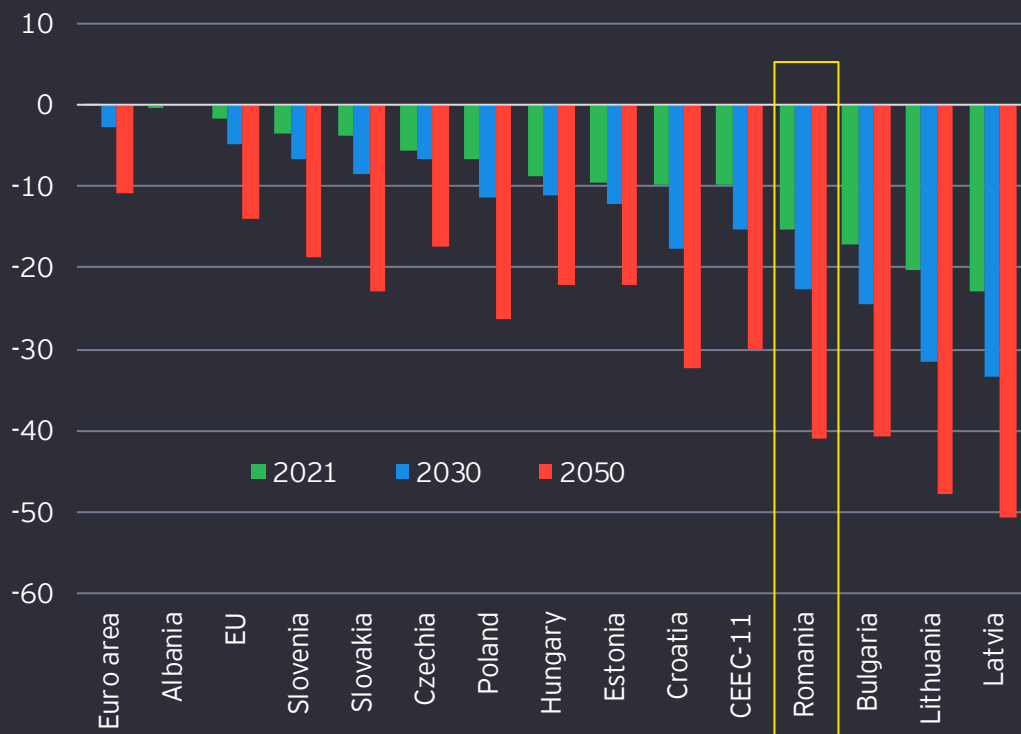
Source: Our World in Data, BP Statistical Review of World Energy, Ember; stooq.pl, WITS, own calculations.

* Change in terms of trade is estimated using price changes of 34 commodities from 18 January to the average of 26 April - 25 May and shares of those commodities in imports and exports in 2019, assuming that relative prices of other goods do not change. The implied change in trade balance is calculated assuming the terms of trade change from 18 January to 26 April - 25 May is sustained for a year and changes in exports and imports prices translate 1-to-1 into changes in exports and imports values.

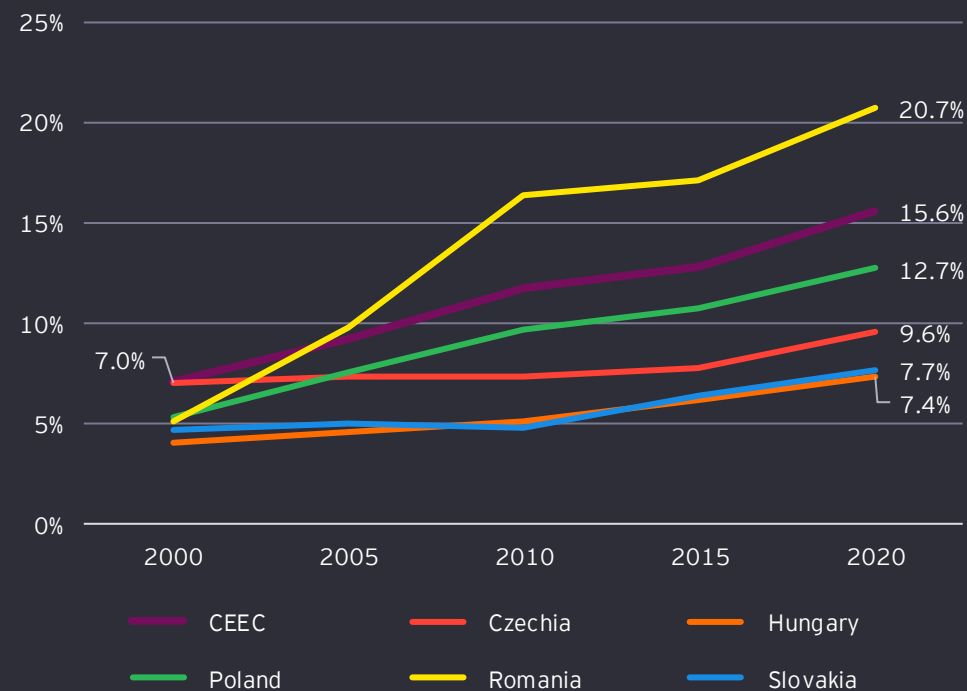
Demographic situation in Romania is dire, with a significant decline in working-age population exacerbated by large-scale emigration to Western Europe

- ▶ Ukrainian refugees won't solve the problem - current estimates indicate that only about 80 thousand refugees have remained in Romania
- ▶ Even though immigration, esp. from Moldova, has accelerated in recent years, policies to attract immigrants are badly needed

Actual and forecast working-age (15-64) population change since 2004 (%)



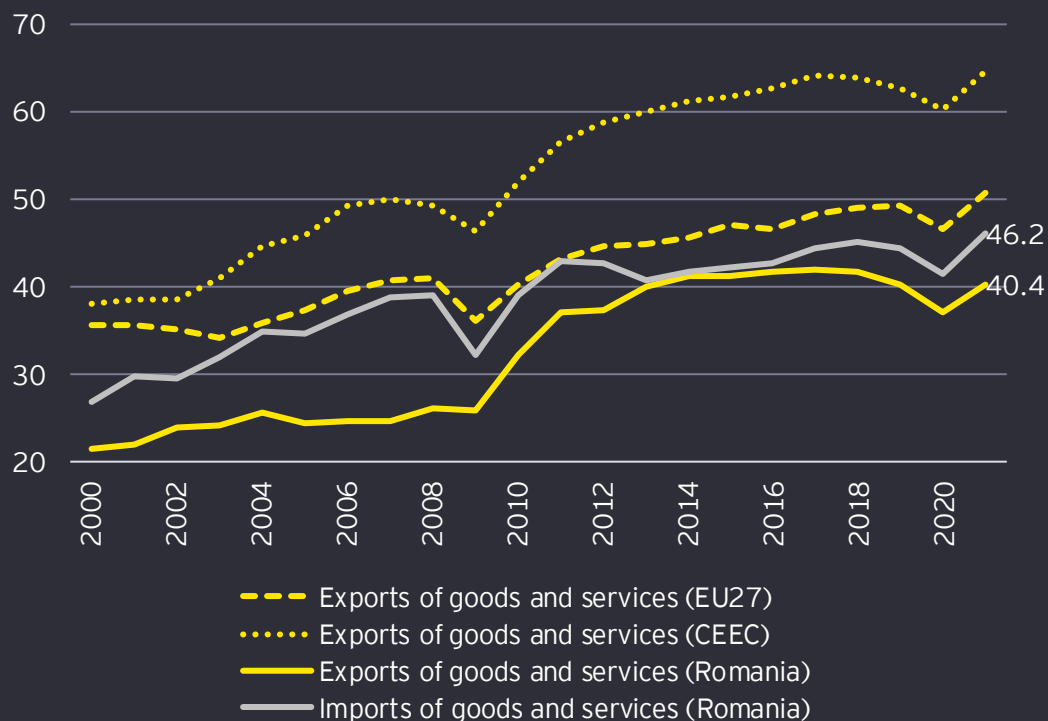
Emigration as % of population in the country/area of origin



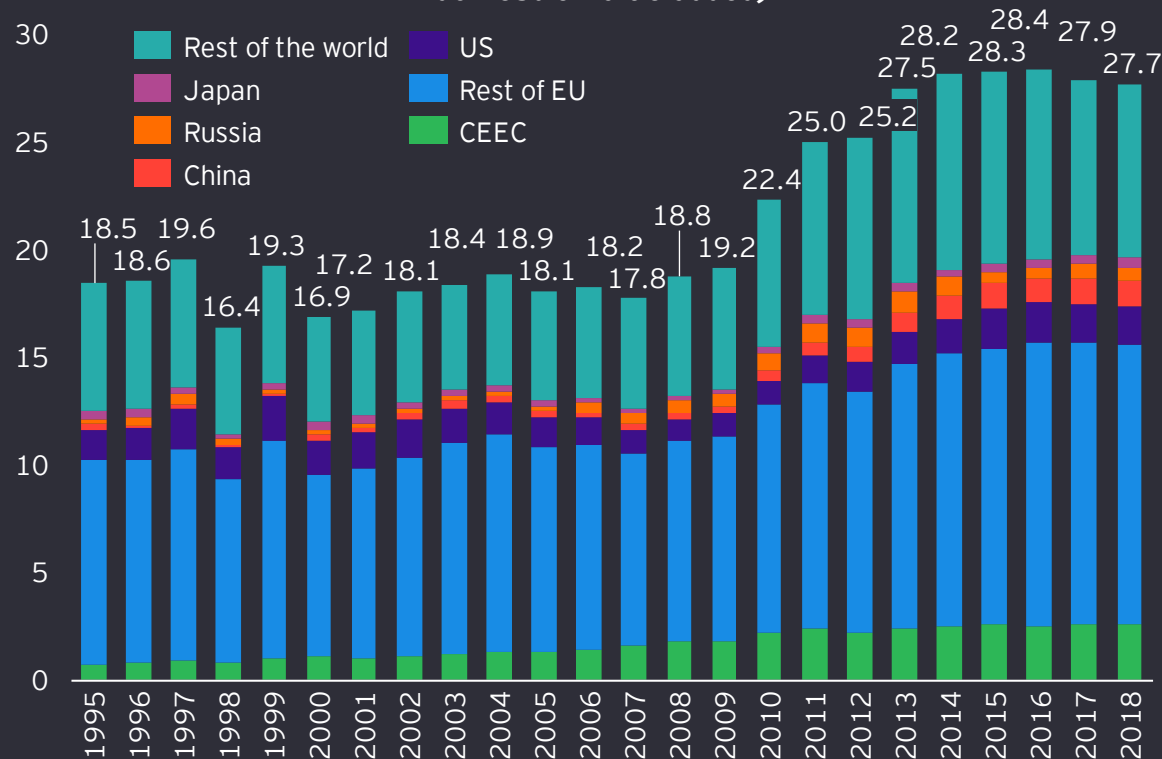
Unfavourable demographic trends stress the importance of Romania's exports in driving economic growth. However, exports-to-GDP ratio has stagnated over the last decade at a relatively low level, with the trade deficit up again

- ▶ CEE countries may benefit from "friendshoring" - in particular, NATO & EU membership should play a more important role than ever in companies' diversification strategies

Exports and imports of goods and services (% of GDP)



Exported value added in Romania by destination (% of total domestic value added)

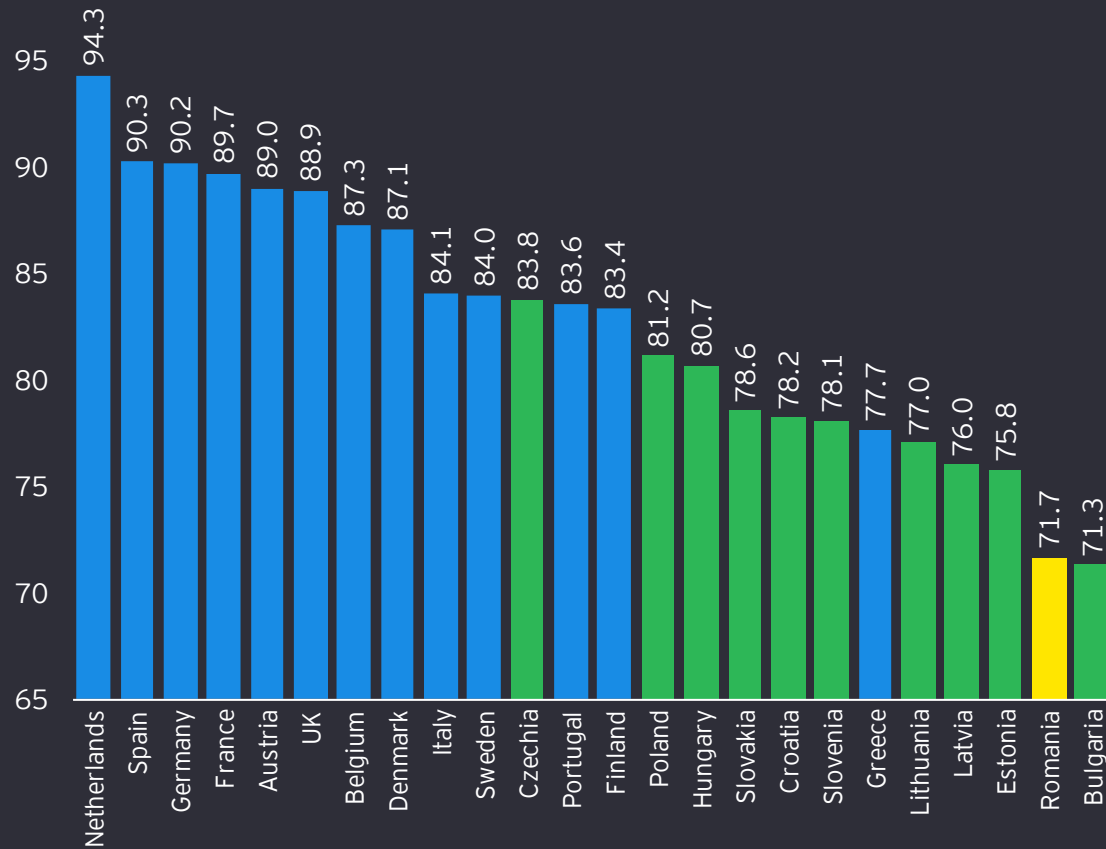


Source: Eurostat national accounts; EY Global Value Chain Model calculations based on OECD ICIO tables.

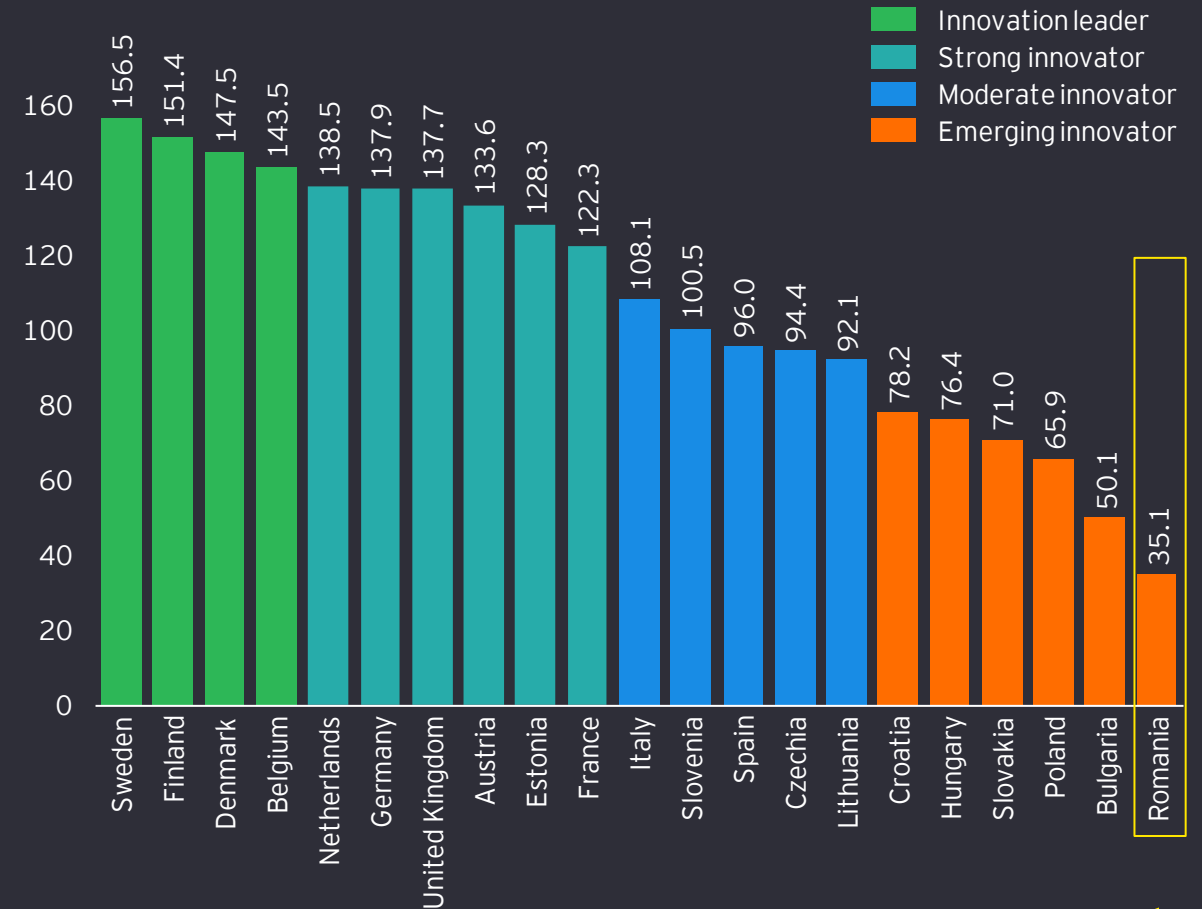
Notes: The share of exported value added in total value added in the CEEC region shows the region's dependence on external (extra-CEEC) final demand. The share of foreign value added in total gross output (production value) in the CEEC region demonstrates the region's reliance on external (extra-CEEC) supplies. CEEC: Estonia, Lithuania, Latvia, Poland, Czechia, Slovakia, Hungary, Bulgaria, Croatia, Slovenia. ROW (Rest of the world) consists of all other countries of the world not included in regional aggregates.

One of the biggest challenges, alongside demography, is innovation. Infrastructure also remains an issue in Romania

Infrastructure (Global Competitiveness Index 2019 score)

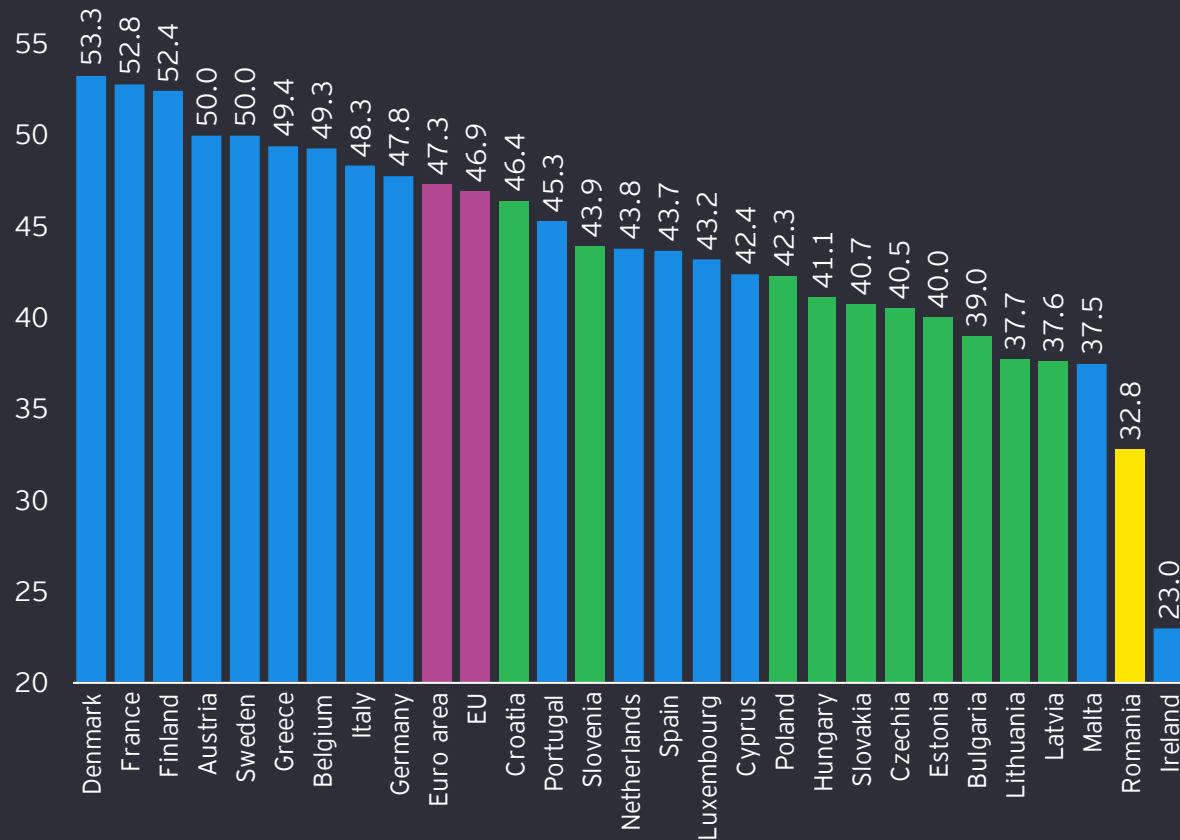


European Innovation Index, 2021

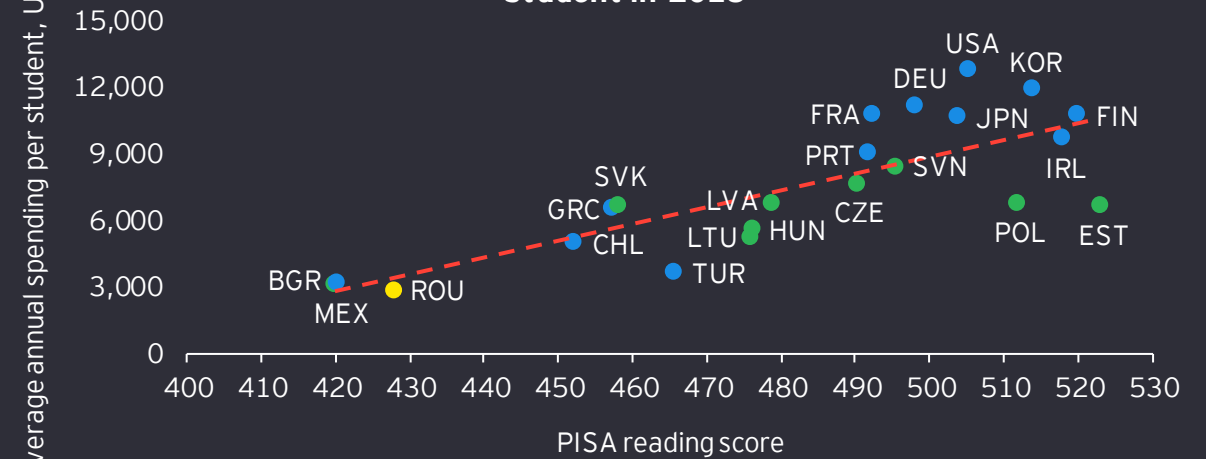


Romania lags behind most OECD countries in ensuring access to high-quality education and healthcare. Spending more on public services, however, will require boosting revenue collection

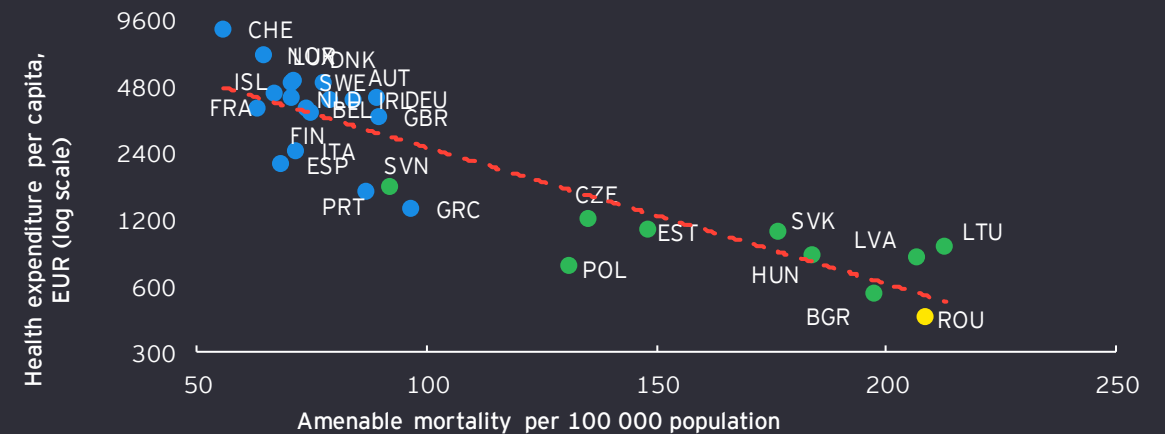
General government revenue in 2021 (% of GDP)



Education: PISA reading score vs. average annual spending per student in 2018



Healthcare: Amenable mortality vs. health expenditure in 2016





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