Macroeconomic and Strategic Analysis

UniCredit Weekly Report

The NBR postpones the first rate cut, probably to 5 July

20 May, 2024

Anca Maria NEGRESCU
Senior Economist
+40 723 103 008
anca.negrescu@unicredit.ro

Mihai JUGRAVU
Macroeconomic Economist
+40 790 684 924
mihai.jugravu@unicredit.ro

Iulia CORLANESCU
Macroeconomic Economist
+40 724 052 840
iulia.corlanescu@unicredit.ro

UniCredit Bank

Weekly briefing

Last week, the **US April CPI decelerated slightly to 0.3%mom and 3.4%yoy. Food index was flat,** while **CPI energy index rose by 1.1%mom, with gasoline up by 2.8%mom**. Fed officials have stated that they look closely to **three-month inflation** (down to 4.1%) and **six-month** (up to 4.0%). **Core inflation also decelerated to 0.3%mom and 3.6%yoy, but is still too high for Fed's liking. After three months of upward surprises, the disinflation resumed in April.** Fed will have to see at least two more months of better data, **the first rate cut being expected in September, with a total of 75bp cuts in 2024.** The **US retail sales were flat in April,** after 0.6%mom in March. **Consumer spending remains resilient**, but **business surveys show signs of a slowdown.**

German investor morale (ZEW) improved to 47.1 in May from 42.9 in April, **at its highest since February 2022**. The **Eurozone industrial production rose by 0.6%mom in March, after 1%mom in February. Schnabel, ECB, warned against back-to-back interest-rate cuts in June and July.** While she confirmed **a June cut "may be appropriate"**, she said that "based on current data, **a rate cut in July does not seem warranted**" and reiterated the ECB "should follow a cautious approach".

In **Romania**, **NBR left the key rate at 7%, while markets were expecting a cut to 6.75%.** Back in February, NBR Governor Mugur Isărescu had staked a first rate cut on inflation falling for at least two more months which happened in February and March. **We expect NBR to start cutting on 5 July and deliver four rate cuts this year, to 6%. Over the summer, excess liquidity could grow further,** as a large amount received from RRF has to be spent (EUR 7.5bn at end-March). **Additional rate cuts depend on how much the fiscal policy is tightened in 2025,** respectively by rising VAT, the excise duties and possibly the income tax. The **NBR decided to keep EUR-RON trading in a 4.90-5.00 range in the election year 2024**, thus postponing a breach of 5.00 for a third year in a row. **We expect EUR-RON to trade in a 5.00-5.10 range next year.** The **annual inflation tempered to 5.9%yoy in April,** more than expected. **Prices slowed to 0.1%mom in April due to a sharper decline in electricity and natural-gas prices accounted for by NIS** as compared to us. **Food prices slowed to 2.1%yoy**, while **for non-food and services continued to rise. Core inflation slowed to 6.7%yoy, but remains much stickier than in other CEE countries due to the strong domestic demand.** The **core inflation is likely to fall in the coming months close to 5%yoy,** helped by base effect and a slowdown in consumer spending. The **NIS estimate have shown a 0.5%qoq rise in 1Q24 GDP** (s.a. data), after the unexpected quarterly drop in 4Q23. In gross terms, GDP rose by 0.1%yoy. **Romania rose by 1.8%yoy in 1Q24** (s.a. data) vs. 0.4% Eurozone and EU average. **The C/A deficit rose less than expected at 1.1% of GDP in 1Q24 to EUR 3.9bn**, down marginally yoy. The **C/A deficit could narrow next year amid weaker domestic demand**. The **industrial production continued to rise by 3.9%mom in March** (s.a. data) **due to manufacturing and energy** (+5%mom, +1%mom). It was higher by 2.8% on adjusted data, from -1.6%yoy in the previous month.

This week the calendar is light, with the **Eurozone composite PMI for May** expected to broadly stabilize, while **negotiated wages** are likely to slow further in 1Q24 (Thursday). The **Germany PPI for April** (Monday) and **Ifo business climate for May** (Friday) are expected to slightly improve.

UniCredit Bank

Data spotlight: 13 – 17 May

CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.0874	0.02%	1.88%
EURCHF	155.81	0.26%	0.74%
USDJPY	1.27	0.02%	1.98%
GBPUSD	1.2360	-0.42%	4.36%

CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.2570	-0.01%	-1.78%
EURHUF	386.45	-0.26%	-1.62%
EURCZK	24.69	-0.03%	-2.23%

CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
20-May	4.9751	4.5879	6.0756	351.65

CURRENCIES - RON

	EURRON	USDRON
20-May	4.974	4.574
17-May	4.968	4.577
16-May	4.975	4.578

FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
20-May	5.9	6.0	6.2	6.6
15-May	5.9	6.0	6.2	6.7

MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
20-May	6.02	6.07	6.10
17-May	6.00	6.02	6.05
16-May	6.00	6.02	6.05

MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
17-May	3.80	3.83	3.79
16-May	3.82	3.83	3.80
15-May	3.83	3.82	3.80
USD Libor	1M	3M	6M
17-May	5.43	5.59	5.71
16-May	5.43	5.59	5.71
15-May	5.44	5.59	5.72

STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,303.3	0.12%	5.60%
FTSE	8,441.4	0.25%	7.16%
Hang Seng	19,587.1	0.17%	20.52%
Bucharest BET	17,440.1	0.45%	3.74%

Romanian Economy

- The NBR postpones the first rate cut, probably to 5 July

The NBR left the monetary-policy rate at 7%, while economists and markets were expecting a cut to 6.75%. Back in February, NBR Governor Mugur Isărescu had staked a first rate cut on inflation falling for at least two more months. Subsequent readings for February and March showed disinflation resuming, after the higher taxes led the headline inflation to spike to 7.4%yoy.

We expect the NBR to start cutting on 5 July and deliver four rate cuts this year, to 6%, assuming that market conditions would allow the NBR to cut at its last monetary-policy meeting in November. This would require the government to commit publicly to tightening fiscal policy next year. Over the summer, excess liquidity could grow further, as the government has yet to spend a large amount from the Recovery and Resilience Facility (EUR 7.5bn of the received funds unspent at the end of March, according to the EU-funds Minister, Adrian Câciu). This means that future rate cuts could see interbank interest rates falling close to the marginal deposit rate.

Additional rate cuts in 2025 depend on how much fiscal policy is tightened next year, respectively by rising VAT, the excise duties and possibly the income tax. A progressive personal income tax (PIT) is unlikely next year because the tax authority (ANAF) is not prepared to implement it. Thus, the fiscal package expected next year is likely to be heavy on inflationary measures.

Romanian Economy (continued)

The NBR decided to keep EUR-RON trading in a 4.90-5.00 range in the election year 2024, thus postponing a breach of 5.00 for a third year in a row. We expect this to change in 2025, when EUR-RON could trade in a 5.00-5.10 range, with NBR tightly managing the float. Nominal depreciation of around 2% will do little to reverse real appreciation, which has been around 15% since the COVID pandemic, measured using both unit-labor costs and producer prices. We believe that the strong RON is partly the reason for Romania's large structural trade deficit in goods (estimated at 9% of GDP, by far the largest in CEE). This is because of large imports of food and consumer goods, which, alongside other low-value-added merchandise, are outcompeting local production. The same is true for Romania's low-value-added exports, which are struggling to maintain their market share. The trade deficit prevents the C/A deficit from narrowing below 7% of GDP, although weaker domestic demand could shrink the C/A deficit in late 2024 and in 2025.

- **The annual inflation continued to temper in April**

Annual inflation tempered to 5.9%yoy in April, more than expected [UniCredit: 6.1%, consensus: 6.5%], after it spiked to 7.4%yoy in January due to several tax increases (especially excise duties for fuels and tobacco). In monthly terms, prices slowed down significantly to 0.1%mom in April, after the +1.1mom in January, +0.8%mom in February and +0.4%mom in March. The reason for our forecast error was a bigger decline in electricity and natural-gas prices accounted for by the National Institute for Statistics (NIS) than we had penciled in.

Other prices evolved in line with our expectations. Food-price inflation fell to 2.1%yoy, despite a larger contribution from some seasonal prices and from meat. However, processed-food prices rose less than in the previous months and momentum in the food prices turned negative. Non-food goods prices excluding energy, tobacco and fuels continued to rise at a fast pace amid strong domestic demand. The core goods accelerated again. The non-food prices rose due to higher oil prices globally in April vs March and the wage growth being reflected in higher tariffs. The service prices accelerated as well, but annual inflation fell slightly to 10%yoy.

The core inflation also decreased to 6.7%yoy (vs. 7.1%yoy), but remains much stickier than in other CEE countries due to the strength of domestic demand and the pricing power of retailers. Core momentum (excl. processed food) currently contributes by 3.1pp to the inflation momentum, having accelerated again in April. However, the core inflation is likely to fall in the coming months close to 5%yoy, helped by the base effects and a gradual slowdown in consumer spending. The only remaining big boost to income this year should be the September pension increase (of around 65%). The public sector wage bill should be frozen as the public debt has exceeded 50% of GDP.

Data spotlight: 13 – 17 May

Romanian Economy (continued)

Going forward, a full reflection of the officially announced declines in electricity and natural-gas prices (by 15-25%yoy) would push the headline inflation below 5%yoy in May (or June at latest, if the price updating is more staggered for some consumers). This decline might be reversed later this year, if the international prices rise again in the autumn. This would coincide with the presidential and the parliamentary elections. According to NBR's May inflation report, the pace of disinflation is projected to slow markedly over the next two years vs. 2023. Moreover, it will show some swings, mainly due to base effects and the indirect tax hikes in January 2024. The NBR sees the CPI inflation rate within the targeted interval no earlier than 4Q 2025. The projected values for end-2024 and end-2025 have being revised marginally higher are 4.9%yoy and respectively, 3.5%yoy.

- **The average net salary continued to increase in March**

The average net salary accelerated by 6.4% in March versus February, to RON 5185, due to granting of the occasional bonuses. The annual growth pace decreased to 13.9%yoy from 14.2%yoy. The net real wage increased by 6.8% in March 2024 compared to a year ago and compared to the previous month the real net wage was up by 5.9%. The highest net salary increases in March were seen in manufacture of tobacco products (+42.1%) together with insurance, reinsurance and pension funding (+35.6%), while the highest decreases were recorded in activities auxiliary to financial services and insurance activities (-11.1%)

- **The Romanian 1Q2024 GDP flash estimate was below expectations**

The NIS released today the flash 1Q2024 GDP estimate showing an increase of 0.5%qoq in 1Q24 (seasonally adjusted data), after the unexpected quarterly drop in 4Q23. According to this release, the previous quarters growth suffered downward revisions: from +1.4%qoq to +1%qoq in 2Q23, from +1%qoq to +0.9%qoq in 3Q23 and from -0.5%qoq to -0.6%qoq in 4Q23. In gross terms, the figure is significantly below than we were estimating, 0.1%yoy [UniCredit Research: 2.7%yoy; consensus: 2.8%yoy].

A comparison of Romania's growth rate with the other European economies is only available on seasonally adjusted data, according to which Romania increased by 1.8%yoy in 1Q24, a better evolution than in the euro area and EU: 0.4%yoy. Romania's performance was surpassed by Cyprus (3.3%yoy), Lithuania (2.9%yoy), Slovakia (2.7%yoy) and Spain (2.4%yoy).

The details for the GDP components are not available for the time being and will be published on the 7th of June. We expect our forecasting error to be explained by a lower evolution in the main sectors with construction falling sharply as housing starts dwindled and the government temporarily slowed infrastructure projects due to other large fiscal needs. Industrial production fell as well, but retail sales rose by more than 6% (5% including cars) and the volume of activity in other services also increased in January-February 2024 compared to the same period in 2023. We still expect economic growth in excess of 2.5% this year if foreign demand rebounds in 2H24.

Data spotlight: 13 – 17 May

Romanian Economy (continued)

■ **The current account deficit at 1.1% of GDP at the end of March 2024**

The current account deficit increased less than expected in the first three months of 2024 to EUR 3.9bn, down marginally compared to the same period of the previous year. The goods' trade deficit (EUR -6.6bn) was almost the same compared to 3M2023. The surplus in services was EUR 3.3bn, down by 12%yoy, with operational services and IT&C as the main drivers. The primary income deficit amounted to EUR 1.7bn, up by around 30% compared to 3M2023, while the secondary income recorded a surplus of EUR 1bn, 6 times higher compared to the same period of 2023. We expect fiscal inaction to keep the structural C/A deficit above 6% of GDP in 2024, with the external shortfall fully covered by FDI, EU transfers and government borrowing from abroad. The C/A deficit could narrow next year amid weaker domestic demand.

■ **Romanian industrial production continued to increase in March**

Industrial production increased by 3.9%mom (seasonally adjusted data) in March, after an upwardly revised 3.4%mom increase in February. Manufacturing and energy increased by 5%mom and by 1%mom, while mining decreased by 2.2%mom. Compared to the corresponding month of 2023, the industrial production was higher by 2.8% on adjusted data, from -1.6%yoy in the previous month.

Data spotlight: 13 – 17 May

European Economy

German investor morale continued to increase in May

The ZEW growth expectations index rose to 47.1 in May [UniCredit Research forecast: 47; consensus: 46] from 42.9 points in April. This is the tenth consecutive increase and the highest level since February 2022, when the Russia-Ukraine war started. The major triggers were expectations of a further bottoming-out in German economic activity, as recently flagged by the slight rise in real GDP in 1Q24 and the recent rise in the DAX. The current situation component improved to -72.3, the highest in nine months.

ECB most likely to cut the rates in June, while a cut in July is not sure

Speaking to Nikkei newspaper, Isabel Schnabel warned against back-to-back interest-rate cuts in June and July. While she confirmed that a June cut “may be appropriate”, she said that “based on current data, a rate cut in July does not seem warranted” reiterating that the central bank “should follow a cautious approach” beyond June.

Data spotlight: 13 – 17 May

US Economy

US April CPI report brings relief for the Fed, but not yet enough confidence

The US CPI report for April brought some relief for the Fed. Headline consumer inflation decelerated to 0.3%mom from 0.4%mom, with the yoy rate coming down by 0.1pp to 3.4%. Looking at the non-core components, the food index was unchanged in April after increasing by 0.1%mom in the previous month. Interestingly, prices for limited-service meals (i.e. fast food) were up by 0.4%mom, a slightly faster pace than the 0.3%mom rise in March. This acceleration, which was more contained than some had expected, is likely related to the more than 20% hike in the minimum wage for fast-food workers in California in April. This is important (and reassuring) for the core PCE reading (the Fed's preferred measure of inflation) because, unlike in the CPI, this price category (which belongs to "food away from home") is part of the core reading. The CPI energy index rose by 1.1%mom for a second consecutive month in April, with gasoline prices moving up by 2.8% (adding 0.1pp to headline monthly inflation). Gasoline prices are set to provide a downward contribution to headline inflation in May.

Core inflation also decelerated to 0.3%mom from 0.4%mom, with the yearly rate dropping to 3.6% from 3.8%. Annualized figures over different time horizons were mixed, with the one-month rate down to 3.6% from 4.4%, the three-month down to 4.1% from 4.5% and the six-month up to 4.0% from 3.9% (reflecting strong monthly outturns in 1Q). Fed Governor Christopher Waller and other Fed officials have stated that they look closely at the six-month and three-month rates. While the disinflationary process on the core front regained momentum in April, core CPI inflation is still too high for the Fed's liking. Taking the April CPI and PPI reports together, it points to core PCE inflation (due to be released later this month) of 2.5-3.0%mom at an annualized rate in April.

Looking at the breakdown for core inflation, there were some positive developments. Core goods prices contracted by 0.1%mom, remaining in negative territory for a second consecutive month, driven by lower prices for used cars and trucks, household furnishings and operations, and new vehicles. On the housing prices front, there were signs of slow improvement, with growth in primary rent inflation easing to 0.35% from 0.41%, while owner equivalent rent rose 0.42% after 0.44% in the prior month. This stickiness remains a source of concern for the Fed, even if market rents firmly point to further disinflation later this year, and the weight of housing in the PCE basket is lower. Finally, supercore inflation (i.e. core services inflation excluding housing) decelerated to 0.4%mom from 0.7%, driven by car insurance (that still rose at a rapid 1.8%mom in April after a 2.6% rise in March), other transport services, medical care services, and personal care.

After three consecutive months of upward surprises, the disinflationary process regained some momentum in April. Clearly, the Fed will need to see more than one month of better data (and likely more than two months) before being confident that the 2% target is in sight and considering cutting rates. UniCredit Research still expects the first Fed rate cut in September and a total of 75bp of rate cuts this year.

Data spotlight: 13 – 17 May

US Economy (continued)

■ US retail sales were unchanged in April

US Retail sales were unchanged in April [UniCredit and consensus: 0.4%], following a downwardly revised 0.6%mom increase in March. Overall, consumer spending remains resilient, but business surveys show signs of a slowdown. Consistently with this, UniCredit Research expects consumer spending to lose momentum in the coming months as savings buffers are exhausted among those with low incomes, the labor market softens and tight monetary policy works its way through the economy.

■ US introduces new restrictive import tariffs with China

According to Bloomberg, President Joe Biden announced his intention to quadruple tariffs on imports of electric vehicles from China and double or triple the tariffs in other targeted industries.

Data spotlight: 13 – 17 May

International and Romanian Markets

The EURRON touched levels below 4.97 last Friday

The EURRON traded within the 4.9730-4.9779 range during the first four days of last week, with a downward bias. The pair briefly touched levels below 4.97 last Friday, with a low of 4.9680 on Friday evening, significantly down from the closing of the week before, at 4.9779. The pair started the current week slightly above 4.97.

The ROBOR curve remained unchanged

Last week the ROBOR curve was stable for all maturities, as the excess liquidity in the market remains abundant. The O/N-1W segment closed the week within the 6.00%-6.01% interval, while the 1M-3M segment remained inside 6.01%-6.05%.

MinFin auctions

Last Tuesday, the Ministry of Finance held auctions for two T-bonds with residual maturities of 1.7 years and 10.3 years. Both enjoyed high demand, with bids covering the planned amount: RON 765mn vs RON 400mn for the first one and RON 606.8mn vs RON 400mn for the second one. MinFin decided to place RON 626mn and RON 458mn, respectively. The average accepted yields were 6.09% (max 6.10%), up 5bp from the previous reopening five weeks ago and 6.79% (max 6.80%), up 16bp from the previous reopening five weeks ago.

Last Thursday, the Ministry of Finance held an auction for a T-bond with residual maturity of 5.9 years and a 12M T-bill. For the bond, bids were above the planned amount, at RON 734.3mn vs. RON 500mn and MinFin placed RON 664.3mnn. The average accepted yields was 6.58% (max 6.59%), down 2bp from the previous reopening one month ago. For the bill, the bids were also above the planned amount, at RON 1.1bn vs. RON 300mn and MinFin placed RON 711.3mn. The average yield accepted was 6.03% (max. 6.04%).

FX markets

In FX, the fall of the USD on the back of the weak economic data in the US left room for some moderate stabilization, as expected. The greenback remains weak overall but the US Dollar Index (DXY) is holding the line close to 104.5, mostly because of EUR-USD not yet breaking above 1.09. Consolidation is likely to prevail today, as the week starts without any relevant data releases and with just a few speeches by Fed officials later this afternoon. Looking ahead, the economic calendar this week is mostly focused on PMI data for May. UniCredit expects a stabilization in the Eurozone's composite PMI survey on Thursday, which will probably help EUR-USD consolidate its current recovery if US data (including PMIs, durable-goods orders, and home sales statistics) come in weak.

Data spotlight: 13 – 17 May

International and Romanian Markets (continued)

- **Chinese industrial output gaining speed, retail sales still weak**

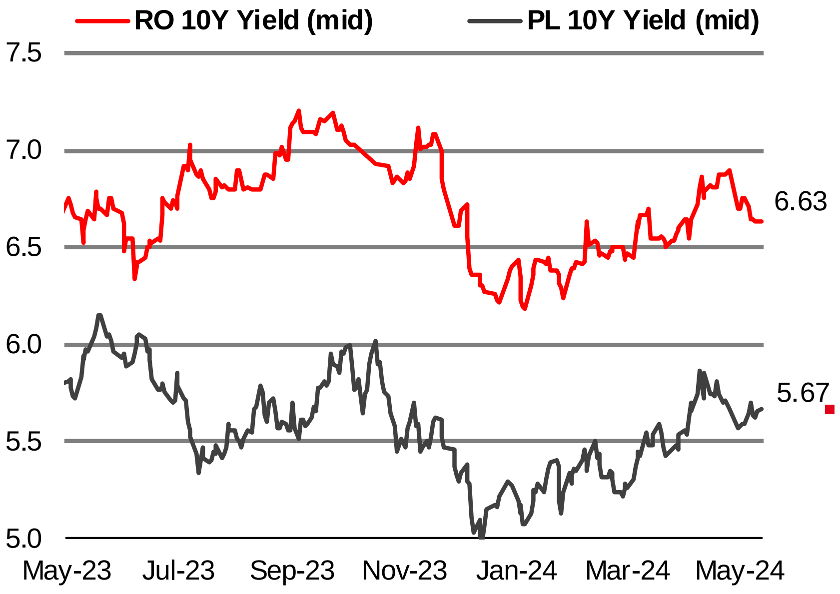
China's factory output rose more than expected in April (by 6.7%yoy) after a 4.5%yoy increase in the previous month, helped by improving external demand, while the retail sales rose more slowly (by 2.3%yoy), after a 3.1%yoy increase in March, indicating that continued weakness in consumer confidence is weighing on the recovery of the economic activity.

- **China will respond to Biden's tariffs**

China's Ministry of Commerce reacted to the Joe Biden administration's decision to increase US tariffs on a number of Chinese imports by stating, "China will take resolute measures to safeguard its own rights and interests". The US President Joe Biden announced an increase in tariffs on imports from China, including electric vehicles, batteries, semiconductors, solar cells and critical minerals.

Focus Ahead: 20 – 24 May

MinFin Issues



Data Source: Thomson Reuters

- According to the fixing levels, bond yields declined last week by up to 2bp on the short end, while they continued to decline by up to 12bp on the long-end, although NBR decided last Monday to not cut the key rate as widely expected, likely postponing a first rate cut for its next meeting on 5 July.
- This week, MinFin intends to place 500mn in 3.1Y T-bonds on Monday together with 500mn in 5Y T-bonds and 300mn in 6M T-bills on Thursday.

BOND ISSUES - MAY								
ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (avg)
RO7EKTXSRHD6	30-May-24	28-Jan-26	20	400	lei			
RO0DU3PR9NF9	27-May-24	24-Feb-38	167	200	lei			
ROZV22LVN7Y2	23-May-24	27-Nov-24	6	300	lei			
ROJVM8ELBDU4	23-May-24	25-Apr-29	60	500	lei			
ROP9QVD42HO2	20-May-24	31-May-27	37	500	lei			
ROXXOKNWDB81	16-May-24	30-Apr-25	12	300	lei	1,078	711	6.03
ROXL7LT7QZ66	16-May-24	29-Apr-30	72	500	lei	734	664	6.58
RO7EKTXSRHD6	13-May-24	28-Jan-26	21	400	lei	765	626	6.09
ROTM7EDD92S2	13-May-24	31-Jul-34	124	400	lei	607	458	6.79
ROCDG04X8WJ7	9-May-24	26-Apr-28	48	400	lei	520	400	6.32
RO1JS63DR5A5	9-May-24	28-Apr-31	85	400	lei	420	400	6.69
RON7NMKOKQG2	7-May-24	28-Oct-26	30	500	lei	630	585	6.22
ROWLVEJ2A207	7-May-24	30-Oct-33	115	400	lei	1,598	1,293	6.7

UniCredit Bank

Focus Ahead: 20 – 24 May

Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
20-May-2024	GE	Producer Price Index, PPI (% yoy)	Apr	-3.0		-2.9
23-May-2024	GE	Composite PMI (index)	May	53.0		56.0
	GE	Services PMI (index)	May	52.0	54.0	53.2
	GE	Manufacturing PMI (index)	May	43.5	43.5	42.5
	EMU	Composite PMI (index)	May	51.8	51.6	51.7
	EMU	Services PMI (index)	May	53.1	53.3	53.3
	EMU	Manufacturing PMI (index)	May	46.5	46.1	45.7
	EMU	Negotiated wages (%, yoy)	1Q	4.2		4.5
24-May-2023	GE	Ifo business climate (index)	May	94.2	93.0	93.6
	GE	Ifo expectations (index)	May	92.8	91.8	92.2
	GE	Ifo current assessment (index)	May	95.6	94.5	95.0

Data Source: Bloomberg

UniCredit Bank

Economic Forecasts

MACROECONOMIC DATA AND FORECASTS

	2021	2022	2023	2024F	2025F
GDP (EUR bn)	241.7	284.1	321.7	351.5	376.0
Population (mn)	19.2	19.0	19.1	19.0	19.0
GDP per capita (EUR)	12,567	14,918	16,885	18,476	19,793
Real economy, change (%)					
GDP	5.7	4.1	2.1	2.7	1.9
Private Consumption	7.2	5.8	2.9	3.0	1.3
Fixed Investment	2.9	5.9	12.0	6.5	3.4
Public Consumption	1.8	-3.3	2.8	1.9	-0.4
Exports	12.6	9.7	-2.1	4.0	4.9
Imports	14.8	9.5	-1.8	5.5	3.9
Monthly wage, nominal (EUR)	1175	1303	1489	1698	1773
Real wage, change (%)	2.0	-2.2	3.6	8.2	0.2
Unemployment rate (%)	5.6	5.6	5.6	5.5	5.6
Fiscal accounts (% of GDP)					
Budget balance	-7.2	-6.3	-6.3	-6.3	-4.7
Primary balance	-5.7	-4.2	-4.4	-4.4	-2.9
Public debt	48.5	47.5	49.1	50.4	51.9
External accounts					
Current account balance (EUR bn)	-17.5	-26.0	-22.7	-23.2	-19.1
Current account balance/GDP (%)	-7.2	-9.2	-7.1	-6.6	-5.1
Extended basic balance/GDP (%)	-1.5	-3.6	-3.0	-2.7	-1.1
Net FDI (% of GDP)	3.7	3.1	2.0	1.8	1.8
Gross foreign debt (% of GDP)	56.5	50.7	52.5	50.5	49.3
FX reserves (EUR bn)	40.5	46.6	59.8	57.8	58.2
Months of imports, goods & services	4.3	3.9	5.1	4.6	4.5
Inflation/Monetary/FX					
CPI (pavg)	5.0	13.7	10.5	6.1	5.6
CPI (eop)	8.2	16.4	6.6	5.6	5.6
Central bank target	2.50	2.50	2.50	2.50	2.50
Central bank reference rate (eop)	1.75	6.75	7.00	6.00	4.50
3M money market rate (Dec avg)	2.83	7.66	6.25	5.55	4.58
USDRON (eop)	4.37	4.64	4.56	4.45	4.49
EURRON (eop)	4.95	4.95	4.97	4.99	5.07
USDRON (pavg)	4.16	4.68	4.57	4.49	4.43
EURRON (pavg)	4.92	4.93	4.95	4.98	5.04

UniCredit Bank

Disclaimer

Our analyses are based on information obtained from or are based upon public information sources that we consider to be reliable but for the completeness and accuracy of which we assume no liability. All information, estimates, opinions, projections and forecasts included in the report represent the independent judgment of the analysts as of the date of the issue unless stated other-wise. We reserve the right to modify the views expressed herein at any time without notice. Moreover, we reserve the right not to update this information or to discontinue it altogether without notice. This report may contain links to websites of third parties, the content of which is not controlled by UniCredit Bank. No liability is assumed for the content of these third-party websites.

This analysis is for information purposes only, does not represent an investment recommendation and (i) does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for any financial, money market or investment instrument or any security, (ii) is neither intended as such an offer for sale or subscription of or solicitation of an offer to buy or subscribe for any financial, money market or investment instrument or any security nor (iii) as marketing material within the meaning of applicable prospectus law. The investment possibilities which may be considered based on this report bear certain risks and may not be appropriate for certain investors depending on their specific investment objectives and time horizon or in the context of their overall financial situation. Among these risks there are, without being limited to, the following: fluctuations in the price or value of an investment, modification of the exchange rates, interest rates or the yields, that may have a negative impact on the value of investments. Furthermore, past performance is not necessarily indicative of future results. Our analysis and conclusions are general and do not address investors' individual objectives.

This information is given as “information only“, without any warranty on an "as is" basis and should not be regarded as a substitute for obtaining individual advice. Investors must make their own determination of the appropriateness of an investment in any instruments referred to herein, based on the merits and risks involved, their own investment strategy and their legal, fiscal and financial position. As this document does not qualify as an investment recommendation or as a direct investment recommendation, neither this document nor any part of it shall form the basis of, or be relied on in connection with or act as an inducement to enter into, any contract or commitment whatsoever. Investors are urged to contact their own investment advisors for individual explanations and advice.

Neither UniCredit Bank AG, UniCredit Bank AG London Branch, UniCredit Bank AG Milan Branch, UniCredit Bank AG Vienna Branch, UniCredit Bank Austria AG, UniCredit Bulbank, Zagrebačka banka d.d., UniCredit Bank Czech Republic and Slovakia, ZAO UniCredit Bank Russia, UniCredit Bank Czech Republic and Slovakia Slovakia Branch, UniCredit Bank Romania, UniCredit Bank AG New York Branch nor any of their respective directors, officers or employees nor any other person accepts any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

This analysis is being distributed by electronic and ordinary mail to investors, who are expected to make their own investment decisions without undue reliance on this publication, and may not be redistributed, reproduced or published in whole or in part for any purpose.

This report was completed on 15 January 2024.

Responsibility for the content of this publication lies with:

UniCredit Group and its subsidiaries are subject to regulation by the European Central Bank

a) UniCredit Bank AG (UniCredit Bank, Munich or Frankfurt), Arabellastraße 12, 81925 Munich, Germany, (also responsible for the distribution pursuant to §85 WpHG).

Regulatory authority: “BaFin“ – Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany.

b) UniCredit Bank AG London Branch (UniCredit Bank, London), Moor House, 120 London Wall, London EC2Y 5ET, United Kingdom.

Regulatory authority: “BaFin“ – Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany and subject to limited regulation by the Financial Conduct Authority, 12 Endeavour Square, London E20 1JN, United Kingdom and Prudential Regulation Authority 20 Moorgate, London, EC2R 6DA, United Kingdom. Further details regarding our regulatory status are available on request.

c) UniCredit Bank AG Milan Branch (UniCredit Bank, Milan), Piazza Gae Aulenti, 4 – Torre C, 20154 Milan, Italy, duly authorized by the Bank of Italy to provide investment services.

Regulatory authority: “Bank of Italy”, Via Nazionale 91, 00184 Roma, Italy and Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany.

d) UniCredit Bank AG Vienna Branch (UniCredit Bank, Vienna), Rothschildplatz 1, 1020 Vienna, Austria

Regulatory authority: Finanzmarktaufsichtsbehörde (FMA), Otto-Wagner-Platz 5, 1090 Vienna, Austria and subject to limited regulation by the "BaFin" – Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany. Details about the extent of our regulation by the Bundesanstalt für Finanzdienstleistungsaufsicht are available from us on re-quest.

e) UniCredit Bank Austria AG (Bank Austria), Rothschildplatz 1, 1020 Vienna, Austria

Regulatory authority: Finanzmarktaufsichtsbehörde (FMA), Otto-Wagner-Platz 5, 1090 Vienna, Austria

f) UniCredit Bulbank, Sveta Nedelya Sq. 7, BG-1000 Sofia, Bulgaria

Regulatory authority: Financial Supervision Commission (FSC), 16 Budapeshta str., 1000 Sofia, Bulgaria

g) Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, HR-10000 Zagreb, Croatia

Regulatory authority: Croatian Agency for Supervision of Financial Services, Franje Račkoga 6, 10000 Zagreb, Croatia

h) UniCredit Bank Czech Republic and Slovakia, Želetavská 1525/1, 140 92 Praga 4, Czech Republic

Regulatory authority: CNB Czech National Bank, Na Příkopě 28, 115 03 Praha 1, Czech Republic

i) ZAO UniCredit Bank Russia (UniCredit Russia), Prechistenskaya nab. 9, RF-119034 Moscow, Russia

Regulatory authority: Federal Service on Financial Markets, 9 Leninsky prospekt, Moscow 119991, Russia

j) UniCredit Bank Czech Republic and Slovakia, Slovakia Branch, Šancova 1/A, SK-813 33 Bratislava, Slovakia

Regulatory authority: CNB Czech National Bank, Na Příkopě 28, 115 03 Praha 1, Czech Republic and subject to limited regulation by the National Bank of Slovakia, Imricha Karvaša 1, 813 25 Bratislava, Slovakia. Regulatory authority: National Bank of Slovakia, Imricha Karvaša 1, 813 25 Bratislava, Slovakia

k) UniCredit Bank Romania (UniCredit Bank S.A.), Bucharest 1F Expozitiei Boulevard, 012101 Bucharest 1, Romania

Regulatory authority: National Bank of Romania, 25 Lipscani street, 030031, 3rd District, Bucharest, Romania

l) UniCredit Bank AG New York Branch (UniCredit Bank, New York), 150 East 42nd Street, New York, NY 10017

Regulatory authority: "BaFin" – Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany and New York State Department of Financial Services, One State Street, New York, NY 10004-1511

Further details regarding our regulatory status are available on request.

ANALYST DECLARATION

The author's remuneration has not been, and will not be, geared to the views expressed in this study, neither directly nor indirectly.

All of the views expressed accurately reflect the analyst's views, which have not been influenced by considerations of UniCredit Bank's business or client relationships.

POTENTIAL CONFLICTS OF INTEREST

You will find a list of keys for company specific regulatory disclosures on our website https://www.unicreditresearch.eu/index.php?id=disclaimer . In Romania, UniCredit Bank S.A. acts as primary dealer and market maker specialist for certain government bonds and T-bills issued by the Ministry of Finance. In its role as a primary dealer, UniCredit Bank S.A. can participate in auctions on the primary market organised by the Ministry of Finance, contributes to the management of public debt ran by the Ministry of Finance and can also issue research and analysis reports, including regarding the macroeconomic conditions. As a market maker for various bonds and bills issued by the Ministry of Finance, UniCredit Bank S.A. contributes to the efficiency of the secondary market through its market making activity and through fulfilling its obligation of firm pricing.

ORGANIZATIONAL AND ADMINISTRATIVE ARRANGEMENTS TO AVOID AND PREVENT CONFLICTS OF INTEREST

To prevent or remedy conflicts of interest, UniCredit Bank AG, UniCredit Bank AG London Branch, UniCredit Bank AG Milan Branch, UniCredit Bank AG Vienna Branch, UniCredit Bank Austria AG, UniCredit Bulbank, Zagrebačka banka d.d., UniCredit Bank Czech Republic and Slovakia, ZAO UniCredit Bank Russia, UniCredit Bank Czech Republic and Slovakia Slovakia Branch, UniCredit Bank Romania, UniCredit Bank AG New York Branch have established the organizational arrangements required from a legal and supervisory aspect, adherence to which is monitored by its Compliance Department. Conflicts of interest arising are managed through establishment of information barriers designed to restrict the flow of information between one area/department of UniCredit Bank AG, Bank Czech Republic and Slovakia, ZAO UniCredit Bank Russia, UniCredit Bank Czech Republic and Slovakia Slovakia Branch, UniCredit Bank Romania, UniCredit Bank AG London Branch, UniCredit Bank AG Milan Branch, UniCredit Bank AG Vienna Branch, UniCredit Bank Austria AG, UniCredit Bulbank, Zagrebačka banka d.d., UniCredit UniCredit Bank AG New York Branch, and another. In particular, the Macroeconomic Research Unit has its own informational barrier to prevent the disclosure or inappropriate circulation of confidential or privileged information. The research re-ports include public information pertaining to conflicts of interest and other material interests. Analysts are supervised and managed on a day-to-day basis by line managers who do not have responsibilities or activities related to investment and finance activities or other activities related to the sale of securities to clients.

ADDITIONAL REQUIRED DISCLOSURES UNDER THE LAWS AND REGULATIONS OF JURISDICTIONS INDICATED

You will find a list of further additional required disclosures under the laws and regulations of the jurisdictions indicated on our website https://www.unicreditresearch.eu/index.php?id=disclaimer .

UniCredit Bank

UniCredit Research* | CEE Macro & Strategy Research

Marco Valli
Global Head of Research,
Chief European Economist
+39 02 8862-0537
marco.valli@unicredit.eu

Dr. Ingo Heimig
Head of Research Operations
& Regulatory Controls
+49 89 378-13952
ingo.heimig@unicredit.de

Head of Macro Research

Marco Valli
Global Head of Research,
Chief European Economist
+39 02 8862-0537
marco.valli@unicredit.eu

Heads of Strategy Research

Dr. Luca Cazzulani
Head of Strategy Research
FI Strategist
+39 02 8862-0640
luca.cazzulani@unicredit.eu

Elia Lattuga
Cross Asset Strategist
Deputy Head of Strategy Research
+39 02 8862-0851
elia.lattuga@unicredit.eu

EEMEA Economics Research

Dan Bucşa
Chief CEE Economist
+44 207 826-1954
dan.bucsa@unicredit.eu

Gökçe Çelik
Senior CEE Economist
+44 207 826-1032
gokce.celik@unicredit.eu

Mauro Giorgio Marrano
Senior CEE Economist
+43 50505-82712
mauro.giorgiomarrano@unicredit.eu

Artem Arkhipov
Head, Macroeconomic Analysis
and Research, Russia
+7 495 258-7258
artem.arkhipov@unicredit.ru

Hrvoje Dolenec
Chief Economist, Croatia
+385 1 6006-678
hrvoje.dolenec@unicreditgroup.zaba.hr

Pavel Sobíšek
Chief Economist, Czech Republic
+420 955 960-716
pavel.sobisek@unicreditgroup.cz

Ľubomír Koršňák
Chief Economist, Slovakia
+421 2 4950 2427
lubomir.korsnak@unicreditgroup.sk

Anca Maria Negrescu
Senior Economist, Romania
+40 21 200-1377
anca.negrescu@unicredit.ro

Kristofor Pavlov
Chief Economist, Bulgaria
+359 2 923-2192
kristofor.pavlov@unicreditgroup.bg

Zsolt Becsey, Jr.
Chief Economist, Hungary
+3630 819 0489
zsolt.becsey@unicreditgroup.hu

Cross Asset Strategy Research

Elia Lattuga
Cross Asset Strategist
Deputy Head of Strategy Research
+39 02 8862-0851
elia.lattuga@unicredit.eu

FX Strategy Research

Eszter Gárgyán, CFA
FX Strategist - CEE
eszter.gargyan@unicredit.de

UniCredit Research, UniCredit Bank GmbH, Arabellastraße 12, D-81925 Munich, globalresearch@unicredit.de
Bloomberg: UCGR, Internet: www.unicreditresearch.eu

CEE 24/1