Macroeconomic and Strategic Analysis

UniCredit Weekly Report

Romania's fiscal policy is crucial for the economic evolution in 2025

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Weekly briefing

In **US**, the **Fed cut in December the funds rate by 25bp to 4.25-4.50%**, as widely expected, **and signaled a slower pace of rate cuts ahead. UniCredit expects Fed to cut the rates by 25bp per quarter in 1H25 to 3.75-4.00% and then enter a long wait-and-see holding period. US CPI further rose to 2.9%yoy in December,** for the third month, mainly due to energy prices. **Core CPI decreased to 3.2%yoy and 0.2%mom.** The **ECB is expected to cut rates further, starting in 1Q25 already, down to a neutral level "close to 2%". Eurozone industrial production rose by 0.2%mom in November** (-1.9%yoy). **Germany recorded a significant increase by 1.3%mom. German industrial production rose due to a broad-based rise across sectors,** while **new orders declined by 5.4%mom** (+1.7%mom on 3M-3M basis).

Romania's budget deficit rose to 7.12% of GDP (RON 125.7bn) at the end of November 2024 vs. 4.58% of GDP a year before. **The cash 2024 deficit will likely be higher than anticipated, at least at 8.6% of GDP (RON 150bn) implying a needed adjustment for 2025** (down to 7% of GDP) **of about RON 18bn.** The **new governing coalition formed by the Social Democrats (PSD), Liberals (PNL) and Hungarian Minority party (UDMR) was invested just before Christmas** and at its first meeting in January **agreed upon re-organizing the Presidential elections on 4 and 18 May 2025.** They also **decided to finalize the draft of the 2025 state budget until 27 January.** On 30 December, **the government adopted an emergency ordinance aimed at freezing budget expenditure as of 2025. Fitch changed Romania's long-term rating outlook to negative from stable**, while **keeping the BBB- investment grade rating. 3Q 2024 GDP growth was revised slightly up to 0.0%qoq** and **-0.1%yoy** (s.a data) as well as **to 1.2%yoy** (gross). In **November, the industrial output was down by -0.6%mom** and **retail sales slowed to 0.4%mom** (+9.2%yoy). **The 11M24 trade deficit was EUR 30.1bn** (+17.6%yoy). **Annual inflation stood at 5.1% in December and core CPI at 5.6%yoy. The average net salary rose by 2.3%mom** (+13.1%yoy) **in November**, to RON 5,388. The **NBR kept the key rate at 6.50% due to still high inflation and worries related to the fiscal measures. We expect NBR to resume the rate-cutting only in 2H25, to 5.5% by the end of 2025.**

This week **the external calendar includes** the **November PPI for Germany** (Monday), **January Eurozone** and **Germany ZEW index** (Tuesday), **EC Consumer Confidence** (Thursday) and **German Composite PMI** (Friday). In **Romania**, the **construction works' data for November** will be released by NIS on Monday.

Data spotlight: 23 December – 17 January

CURRENCIES - MAJORS			
Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.0423	1.48%	0.67%
EURCHF	0.95	0.55%	0.60%
USDJPY	155.54	-0.43%	0.91%
GBPUSD	1.2316	1.21%	-2.05%

CURRENCIES - CEE			
Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.2515	-0.26%	-0.16%
EURHUF	411.65	-0.24%	0.72%
EURCZK	25.20	-0.26%	0.66%

CURRENCIES - NBR REFERENCE				
Currencies	EUR	USD	SDR	XAU (1g)
20-Jan	4.9765	4.8238	13476	0.6197

CURRENCIES - RON		
	EURRON	USDRON
20-Jan	4.977	4.776
17-Jan	4.977	4.845
16-Jan	4.976	4.830

FIXED INCOME MARKET YIELDS - LOCAL				
Mid-rate	1Y	3Y	5Y	10Y
20-Jan	6.5	7.5	7.6	8.0
17-Jan	6.5	7.5	7.5	8.0
15-Jan	6.5	7.5	7.5	7.9

MONEY MARKET RATES - LOCAL			
ROBOR	ON	1M	3M
20-Jan	5.56	5.81	5.91
17-Jan	5.62	5.79	5.93
16-Jan	5.55	5.90	5.90

MONEY MARKET RATES - MAJORS			
Euribor	1M	3M	6M
17-Jan	2.80	2.70	2.64
16-Jan	2.82	2.74	2.67
15-Jan	2.84	2.75	2.66
USDSFOR	1M	3M	6M
17-Jan	4.36	4.59	4.93
16-Jan	4.37	4.60	4.94
15-Jan	4.39	4.61	4.94

STOCK MARKETS			
Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,996.7	1.00%	-0.90%
FTSE	45,677.0	0.01%	0.07%
Hang Seng	38,902.5	1.17%	-1.44%
Bucharest BET	19,925.8	1.75%	1.14%

Romanian Economy

- **The budget deficit rose to 7.12% of GDP at the end of November 2024**

The budget deficit for the first eleven months of 2024 was 7.12%of GDP (RON 125.7bn), compared to a 4.58% of GDP deficit reported in the first eleven months last year.

The growth of revenue and expenditure tempered slightly to 12.7%yoy in 11M24 (from 13.1%yoy in 10M24) and to 20.6%yoy (from 21%yoy), respectively.

The previous drivers of revenue growth were unchanged, with the highest contribution coming from fiscal revenues (+RON 36.2bn; +15.7%yoy) thanks to an increase of revenues from VAT (+RON 14.2bn; +15%yoy), excise taxes (+RON 8.5bn; +25.3%yoy) and income tax (+RON 8bn; +21.7%yoy), followed by social insurance contributions (+RON 28.75bn; +20.0%yoy), EU funds (+RON 14.9bn; +242%yoy) and PNRR funds (+RON 5bn, +481.8%).

On the expenditure side, the highest increases in nominal terms were seen for social assistance (+RON 28.6bn; +16.2%yoy), followed by personnel expenses (+RON 28.4bn; +23.8%yoy) and capital expenditure (+RON 21.8bn; +67.1%yoy), while projects financed under PNRR recorded a jump (RON 14.8bn, 407%yoy).

According to the latest official declarations, the cash 2024 deficit will be higher than anticipated, at least at 8.6% (RON 150bn) vs. 8% estimated in the autumn, implying that the necessary adjustment for 2025 (down to 7% of GDP) will be higher, of at least 1.6pp. Yet, with real economic growth at 1.9% (8.5% nominal), the nominal deficit adjustment needed in 2025 would be of around RON 18bn.

Romanian Economy (continued)

We believe that the fiscal uncertainty for 2025 and the risks of additional taxation remain high, with more clarity likely only after the Presidential elections to be re-organized after Easter, in May 2025.

The new government was invested just before Christmas

The composition of the new government was negotiated in a record time between the leading parties in the new Parliament resulted from the general elections held on 1 December, consisting of the Social Democrats (PSD) and the Liberals (PNL) supported by the Hungarian Minority (UDMR) and the party of the other minorities.

On 24 December 2024, the new government was invested by the President Klaus Iohannis who remained in office after the first round of the Presidential elections organized on 24 November was invalidated by the Constitutional Court. The new government, led by Mr. Marcel Ciolacu, the President of PSD, has only 16 ministries, instead of 18, of which 8 for PSD, 6 for PNL and 2 for UDMR.

At its first meeting on 8 January, the governing coalition agreed to re-organize the Presidential elections on 4 May 2025 (first round) and on 18 May (second round) as well as to support a single candidate.

They also decided to finalize the draft of the state budget for 2025 until 27 January, followed by its presentation and adoption in the Parliament in the first week of February.

The government took the first step for reducing the budget deficit in 2025

On 30 December, the government adopted an emergency ordinance aimed at reducing the budget deficit to 7% of GDP at the end of 2025.

The main measures focus on limiting public expenditure through: 1. freezing hiring in the public sector (except for unique vacancies), freezing public sector salaries, bonuses and food allowances at the November 2024 levels, along with eliminating or reducing other types of benefits (vouchers, paid transportation); 2. freezing pensions at the November 2024 levels, not indexing allowances for children to inflation and granting no increase in scholarships, along with eliminating or reducing other types of benefits (paid local and train transportation).

The package also contains measures with direct impact on the private sector, the most important being: 1. increasing the dividend income tax by 2pp to 10%; 2. eliminating the fiscal incentives for employees in IT, constructions, agriculture and food industry as of January 2025; 3. lowering the turnover ceiling for the taxation of SMEs from EUR 500,000 to EUR 250,000 as of 2025 and to EUR 100,000 as of 2026 (measure asked by the European Commission; 30,000 SMEs affected, representing 10% of the total, but they will benefit from state aid schemes); 4. Re-introducing the tax on special constructions (at 1%, with details on the methodology of application published within 90 days, after consultations with the affected parties companies).

The government estimates that through the emergency ordinance adopted at the end of 2024, the

Romanian Economy (continued)

revenue will be higher by RON 7.11bn in 2025, RON 8.75bn in 2026, RON 9.41bn in 2027 and RON 9.95bn in 2028.

Although this is a first important step for deficit reduction, we believe that the fiscal uncertainty for 2025 and the risks of additional taxation remain high for the following reasons: 1. the measures to limit budget expenditure were not very successful in the past and a similar outcome is likely now; and 2. any fiscal adjustment at a time when both the national and European economies are struggling implies risks of lower economic activity, likely to result in lower budget revenue.

For example, a 1.5% tax on special constructions was previously introduced by the Victor Ponta's first government in 2014 and eliminated in 2017 due to the negative impact on the economy and competitiveness due to: 1. excessive fiscal burden on companies; 2. disincentive for investment; 3. negative impact on the economy; 4. fiscal inefficiency. Although mathematically the measure could bring the needed revenue in the short run (according to Ziarul Financiar, Swiss Capital estimates that a 1.5% tax would bring RON 1bn from the biggest BVB-listed energy companies, with RON 430mn for Petrom and RON 245mn from Hidroelectrica), the long-term impact might be damaging. The tax on constructions was lowered from 1.5% (in the published proposal) to 1% at the adoption. The most affected will be the energy and logistics companies and the higher costs are likely to be passed on to consumers, implying upside risks to inflation.

As mentioned in our previous reports, in case Romania chooses an anti-European path or derails from the fiscal adjustment path it committed to, namely bringing the deficit down to 7% of GDP in 2025, there is a significant risk of a rating downgrade, along with problems in financing the deficit and overshooting financing costs.

Yet, we remain optimistic, and we think that Romania will continue the European path and will implement the necessary fiscal adjustments, while investing with the help of EU funds. Thus, although the uncertainty ahead of the presidential elections might weigh on market sentiment, we expect Romania to maintain its current investment grade rating, keeping the risk premiums, financing costs and the exchange rate under control.

In our view, fiscal policy will shape the economy going further, with major influence on inflation, the space for key rate cuts, economic growth, stability of the sovereign rating, financing costs and exchange rate.

UniCredit Bank

Data spotlight: 23 December – 17 January

Romanian Economy (continued)

■ Fitch revised the outlook of Romania's long-term rating to negative from stable

On 17 December, Fitch released an unscheduled Rating Action Commentary changing Romania's long-term rating outlook to negative from stable, while keeping BBB- investment grade rating. This was a warning for Romania to come back to the right path regarding the political and fiscal stability.

The risks considered by Fitch as high were: 1. the political uncertainty which affects the fiscal prospects; Romania will have a more divided Parliament, with a rise of anti-EU parties. The durability of a new pro-EU coalition government of four parties is uncertain and the re-scheduled presidential elections, will keep the political uncertainty high and will delay the implementation of fiscal consolidation measures. 2. the large budget deficit, due to the rapid growth of spending, including for the public sector wages and pensions.

Fitch revised up its budget deficit forecast to 7.5% of GDP in 2025 and 6.8% in 2026, much above the current projected 'BBB' rating median of 3.2% in 2025-2026. The fiscal consolidation starting from 2025 will be difficult due to its adverse impact on the already subdued economic growth and the risk that financial markets' volatility could push up the funding costs. Romania's public debt is estimated to rise from 49% of GDP in 2023 to 62% in 2026, above the projected 'BBB' median of 56%.

The risks considered as moderate were: 1. the weak economic growth. Fitch revised down the GDP forecast to 1.4% for 2025 and 2.2% for 2026 impacted by the weak recovery of the eurozone, while household consumption will be strong due to the income growth and loose fiscal stance. 2. the current account deficit will widen to 8% of GDP in 2024 vs. the 'BBB' rating median of only 1% of GDP. The weak export performance in 2024 shows the low competitiveness of Romania's economy. 3. eroded policy credibility: while Fitch expected significant fiscal consolidation over the medium term, supported by the re-introduction of the EU fiscal rules, they are now worried that the exit from the Excessive Deficit Procedure (EDP), by bringing the budget deficit below 3% of GDP, will last until 2031. In Fitch's view, Romania's credibility of the medium-term fiscal anchor has weakened substantially due to the unfunded expenditures and repeated fiscal slippages.

On a positive note: 1. investments and the domestic demand will be supported by the acceleration of EU funds' absorption from RRF and the multi-annual (2021-2027) financial framework, particularly relevant until 2026 as they can provide counter-cyclical stimulus in the context of fiscal adjustments. 2. funding costs and market liquidity remain generally more favourable (interest paid to revenues ratio of 6.4% in 2024 vs. 7.5% peers' median), while the large financing needs expose Romania to changes in investor sentiment and the yields' rise. 3. the sound banking sector, with a capital ratio of 25.0% at end-3Q24, an annualised 9M24 ROA at 1.9% and a low non-performing loans ratio of 2.5%.

The key factors for future rating actions will be the fiscal strategy (insufficient fiscal consolidation) and the adverse spill-overs to external financing and liquidity, or macroeconomic stability, due to the high twin fiscal and current account deficits or the domestic political shocks.

Data spotlight: 23 December – 17 January

Romanian Economy (continued)

■ The NBR kept the monetary policy rate at 6.50% in January 2025

At its meeting last Wednesday, the NBR decided to keep the key rate at 6.50%, as anticipated by all the polled analysts. Accordingly, the credit facility rate remained unchanged at 7.50% and the deposit facility rate at 5.50%. The NBR maintained the existing levels of minimum reserve requirement ratios for both the RON and the FX liabilities of credit institutions.

NBR's decision was due to the still high annual inflation and the worries related to the political stability and the inflationary impact of the fiscal measures. The weak growth from 3Q24 would require further rate cuts, but the NBR will likely remain cautious and find the right balance between supporting the economic growth and avoiding capital outflows and RON depreciation.

The NBR had in view that the annual inflation exceeded expectations in 4Q 2024, rising to 5.14% in December (vs. 4.62% in September), above 4.9%yoy in NBR's November forecast, mainly due to the higher fuel prices and the rise in food prices after the summer's drought. Also, the downward trend of core inflation stopped at 5.6%yoy in December, above NBR's November forecast of 5.1%yoy.

Economic activity remained flat qoq in 3Q24 due to the lower excess demand. However, the annual GDP growth quickened to 1.2%yoy in 3Q from 0.9%yoy in 2Q, mainly driven by the household consumption, albeit it slowed down compared to 2Q, while the investments continued to decline to a nine-quarter low. The latest data point to a moderate GDP growth in 4Q24 as well.

The interbank rates and the long-term yields increased strongly in the second half of November and the first part of December, driven by the higher volatility of the global risk appetite and the local political crisis related to the invalidation of the Presidential elections. The EURRON remained broadly stable in November and December, albeit at the higher values it had returned to in October.

In NBR's view, the annual inflation rate is expected to decline in 1Q 2025, but to stay on a higher path compared to its November forecast, mainly due to the pressure exerted by the food and energy prices.

Significant risks arise from fiscal policies due to the implementation, starting in January 2025, of a package of fiscal consolidation measures, the wage dynamics, the absorption of EU funds, the geopolitical tensions, along with European and global economic performance. The prices for food, energy and oil remain a source of concern.

In our view, the inflationary risks will remain high in 2025 mainly due to local factors (higher food and energy prices, higher taxes). We see the annual inflation slightly declining to 4.5% at the end of 2025, while the core inflation could drop below the 3.5% upper bound of the target range in 4Q25. We expect the NBR to stay on hold in 1H25 and to resume the rate cuts only in 2H25, for a total of at most 1pp, down to 5.5% at the end of 2025. In the current environment of high local and external uncertainty, a premature cut of the key rate would imply risks of outflows.

The next monetary policy meeting is scheduled for 14 February 2025.

Data spotlight: 23 December – 17 January

Romanian Economy (continued)

3Q 2024 GDP growth revised slightly up

The NIS released the second estimate for growth in 3Q24, showing slightly higher numbers in comparison to the first estimate a month ago. Thus, the quarterly increase was revised upwards to 0.0%qoq in 3Q24 (vs. -0.1%qoq previously) (seasonally adjusted data) and the yearly growth in 3Q24 to 1.2%yoy (vs. +1.1%yoy) in gross terms and to -0.1%yoy (vs. -0.3%yoy) in seasonally adjusted terms.

On the supply side, the largest positive contributors to the 1.2%yoy growth were: net taxes (+1.6pp, down from 1.7pp estimated previously), wholesale and retail (+0.7pp), professional, scientific and technical activities (+0.5pp, up from +0.4pp), cultural activities (+0.2pp), public administration and defense (+0.1pp), construction (+0.1pp, up from 0.0pp), while the other sectors had a zero or negative contribution. The sectors which subtracted from growth were agricultural and forestry (-1.9pp) and real estate transactions (-0.1pp). On the demand side, the main contribution came from the total consumption (revised up to +3.2pp from +2.6pp previously) almost fully driven by the private consumption (+3.2pp) supported by the declining inflation and the still high nominal wage growth, while the contribution of the public consumption was zero (revised up from -0.5pp previously). At the same time, the gross fixed capital formation maintained the positive contribution to GDP at a merely +0.2pp (vs. +0.3pp estimated previously), down from +1.4pp last quarter. The net exports' contribution remained negative at -1.8pp (down from -1.4pp previously) as the imports increased faster on the back of a strong consumption, while the exports remained affected by a modest performance in the industrial activity.

We now expect a growth rate of around 1% in 2024 as the external demand has been weaker than expected in 2H 2024, while the higher consumption was largely satisfied through imports. We expect a growth of slightly below 2% in 2025 mainly due to base effects, as the external demand will only recover gradually, and the internal demand might be affected by the started fiscal consolidation.

The Romanian industrial production declined in November

Industrial production decreased by -0.6%mom (seasonally adjusted data) in November, after a 0.4%mom increase in October, partly triggered by the weak performance in the eurozone (+0.2%mom, -1.9%yoy). The mining sector decreased by -5.1%mom and manufacturing by -0.6%mom, while energy increased by 2.5%mom. Compared to the corresponding month of 2023, the industrial production was lower by 1.3% on adjusted data (-1.5%yoy gross), after -0.9%yoy in October.

Romanian retail sales slowed down in November

The retail sales slowed down to 9.2%yoy in November (seasonally adjusted data – s.a.), after the record high rate of the last 3 years in October (+10.6%yoy). On a monthly basis, they increased by only 0.4%mom (vs. 0.9%mom in October). The sales increased the most for non-food products

Romanian Economy (continued)

(+0.8%mom vs. +0.9%mom in October), followed by fuel (+0.3% vs. a decline of -0.5%mom), while the sales of food declined by 0.7%mom vs. +1.5%mom in October).

- **The trade deficit was EUR 2.8bn in November 2024**

The trade deficit rose to EUR 2.8bn in November, higher by 22.4% than in the same month of 2023. Compared to November 2023, both exports and imports increased by 1.6%yoy and 6.2%yoy. In January-November 2024 the trade deficit reached EUR 30.1bn (+17.7%yoy). In 11M24 the largest increases in import volumes were seen for animal and vegetable oils (+15.3%yoy), for chemicals (+7.2%yoy), for food and live animals (+5.0%yoy), while the largest decline was recorded for mineral fuels (-1.5%yoy) likely due to lower demand from the local industry. On the exports' side, the largest increase was seen for beverages and tobacco (+19.1%yoy), for chemicals (+15.4%yoy), while the most of export categories declined, with the largest decline for animal and vegetable oils (-22.5%yoy), for food and live animals (-14.9%yoy), for raw materials (-13.6%yoy) and for mineral fuels (-11.3%yoy), likely due to weakening industrial activity globally. Around 72% of the trade activity was with the European Union. We expect a higher trade deficit in 2024 than in the previous year, with imports supported by high consumptions and exports affected by the lower external demand.

- **The annual inflation was unchanged at 5.1% in December**

The annual inflation remained unchanged at 5.1% in December, slightly below our expectation of 5.2% and in line with the consensus estimate. Core inflation was unchanged for the fourth month, at 5.6%yoy. The prices of non-food products accelerated to 4.4%yoy from 4.1% in November, while those of services decelerated to 7.1%yoy from 7.6% and those of food products were almost unchanged at 5.1%yoy. On a monthly basis, CPI decelerated to 0.3%mom from 0.4%mom in November. The food prices accelerated to 0.3%mom (from 0.2%mom), services' prices rose at the same pace as in November (+0.3%mom), while non-food prices halved to 0.3%mom (from +0.6%mom).

The highest increases were seen in the food category for eggs (+3.2%mom), fresh fruits (+1.7%mom, albeit decelerating from +6.6%mom in November) and potatoes (+0.7%mom) and in non-food for electricity (+0.9%mom vs. +3.4%mom in November) and for fuels (+0.7%mom). Heating was flat after a -4.9%mom decline in November, while gas prices declined by 0.5%mom.

Inflationary risks remain high and we expect inflation to miss target (2.5% +/- 1pp) in 2025 due to local factors, such as: 1. upward pressure on food prices given last summer's drought; 2. budget-balancing measures to be implemented as of 2025 and likely to be reflected in consumer prices; and 3. the removal of a cap on energy prices for households as of April 2025.

We forecast the headline annual inflation slightly declining to 4.5% at the end of 2025, although core annual inflation could drop below the 3.5% upper bound of the target range in 4Q 2025.

Data spotlight: 23 December – 17 January

Romanian Economy (continued)

- **The average net salary continued to rise in November**

The average net salary increased by 2.3% in November 2024 vs. October, to RON 5,388. The annual growth pace accelerated to 13.1%yoy (from 12.3%yoy in October), due to bonuses (quarterly, annual, winter holiday, for outstanding performance or the 13th salary). The net real wage rose by 7.6%yoy. The highest net salary rises in November were of above +13.0%mom in manufacture of machinery and equipment and of motor vehicles, of around 11.0%mom in manufacture of basic chemicals and fertilizers, in mining of metal ores as well as in warehousing and support activities for transportation. The largest decrease was recorded by extraction of crude petroleum and natural gas (2.6%mom).

Data spotlight: 23 December – 17 January

European Economy

■ ECB members continue to signal further monetary easing in 2025

On 8 January, the Governing Council member Francois Villeroy de Galhau said that the ECB should keep lowering interest rates at every meeting until it reaches a neutral level by the summer, as long as inflation moves in line with the central bank's projections. He added that a neutral rate for the eurozone was "close to 2%", according to ECB estimates. Speaking in Hong Kong on 13 January, ECB Chief Economist Lane stated that further monetary easing is in the offing, "to make sure the European economy grows", while adding that, without additional rate adjustment, "delivering on our inflation target would be at risk".

■ Eurozone industrial production rose modestly in November

Industrial production increased by 0.2%mom in November, after an upwardly revised +0.2%mom in October. The industrial output rebounded for all categories: energy (+1.1%mom vs -1.3% in October), durable consumer goods (+1.5% vs -1.6%) and non-durable goods (+0.1% vs -2.4%). Also, production accelerated for intermediate goods (+0.5% vs +0.3%) and decelerated for capital goods (+0.5% vs 1.7%). Among the major Eurozone economies, Germany recorded a significant increase by 1.3%mom, while France rose by only 0.2%mom. Spain declined by 1.5%mom. On an annual basis, the industrial production decline was higher at -1.9%yoy as compared to the -1.1%yoy decline in October.

■ German industrial production rose in November

Industrial production rose 1.5%mom in November, after an upward revised decline of -0.4% (vs. -1.0% previously) in October. On a less volatile 3M-3M basis, the German industrial activity still declined by about -1.0%mom. The rise in November was comparatively broad-based across sectors, including rising activity in the car industry and energy-intensive sectors. Exports also increased 2.1%mom, while imports declined 3.3%mom.

■ German new orders decreased in November

New orders in manufacturing declined 5.4%mom in November. However, excluding big-ticket items, total demand rose 0.2%mom. Furthermore, the less volatile 3M-3M change in the headline figure also showed a rise of 1.7% (excluding bulk orders: +0.5%). Real sales rose 1.4%mom in November.

■ Eurozone inflation accelerated slightly in December

HICP inflation for December accelerated to 2.4% yoy from 2.2% in the previous month. The increase was mainly explained by energy prices, which increased by 0.1%yoy vs. -2%yoy in November, their first increase since July largely due to a base effect. Core inflation was stable at 2.7%. Both headline and core inflation will likely resume declining in January.

Data spotlight: 23 December – 17 January

US Economy

■ Fed cut by 25bp in December and signaled a slower pace of rate cuts ahead

At its meeting on 17-18 December, the FOMC cut the target range for the federal funds rate by 25bp to 4.25-4.50%, as widely expected, and signaled a slower pace of rate cuts ahead. The updated "dot plot" signals just two rate cuts in 2025, 50bp less than in Fed's September projection, and two in 2026. The year-end dots are 3.9% for 2025 (up from 3.4% in September) and 3.4% for 2025 (up from 2.9%). Fed Chair Powell said a slower pace of cuts from now on will be more appropriate given the stronger data on economic activity and inflation, and that the funds rate is now closer to the neutral rate after a cumulative 100bp of cuts in 2024. The FOMC raised its inflation projections, and most participants now see the risks as skewed to the upside.

The minutes of the meeting revealed that "many participants" saw the need for a "careful approach" to monetary policy decisions "over coming quarters". They cited several reasons for this, including recent higher inflation prints, resilient economic activity, and reduced downside risks to the labor market. Also, "a number" of participants included "placeholder assumptions" about potential changes in trade and immigration policy under the incoming Trump administration. The minutes noted that a majority of participants judged that the decision to cut rates in December was "finely balanced".

UniCredit expects the Fed to cut the rates by 25bp per quarter in 1H25 to 3.75-4.00% and then to enter a long wait-and-see holding period due to the inflationary effects of Trump's plans for higher tariffs, tax cuts and tighter immigration controls.

■ US headline inflation rose further in December due to base effects, while core CPI declined

The US CPI increased to 2.9%yoy in December, for the third consecutive month, after 2.7%yoy in November and 2.6%yoy in October, partly due to unfavorable base effects, especially for energy. The inflation accelerated to 0.4%mom vs. 0.3%mom in November, mainly due to energy (+2.6%mom), accounting for over 40% of the monthly increase, mainly due to gasoline up by 4.4%mom. Also, the food and shelter prices rose by 0.3%mom. Core CPI (excl. food and energy) decreased to 3.2%yoy and 0.2%mom, from 3.3%yoy and 0.3%mom in November.

■ US Industrial production surprised to the upside in December

US Industrial production accelerated to 0.9%mom in December from 0.2%mom in November, much above market expectations of a 0.3% increase. This was the fastest increase since February 2024. The production of aircraft and parts contributed by 0.2pp. Manufacturing, which counts for 78% of total production, increased by 0.6%mom. Moreover, the mining and utilities production rose strongly by 1.8%mom and 2.1%mom, respectively. On an annual basis, it rose by 0.5%yoy, following a 0.6%yoy decline in November.

Data spotlight: 23 December – 17 January

US Economy (continued)

- **Stronger than expected US employment report for December**

The US employment report for December was stronger than expected. Nonfarm payrolls rose 256k in December [UniCredit and consensus: 160k], after a downwardly revised rise of 212k in November and just 43k in October. The unemployment rate, which is constructed from a different survey to payrolls, declined to 4.1% in December from 4.2%. Layoffs remain low, as evident in initial jobless claims and JOLTS data, but hiring has slowed, as is clear from rising continuing claims. Average hourly earnings rose 0.3% mom, tempering the yoy rate slightly to 3.9%.

- **The University of Michigan consumer sentiment index came in a bit softer for January**

The University of Michigan consumer sentiment index for January came in a bit softer, falling to 73.2 in January 2025 [consensus: 73.8] from an eight-months high of 74 in December. The drop was due to the expectations' component, which decreased to 70.2 from 73.3, while the current conditions component increased to 77.9 from 75.1. Worries and estimates regarding future inflation are rising.

Data spotlight: 13 – 17 January

International and Romanian Markets

The EURRON was slightly up last week

The EURRON traded within a 4.9720-4.9771 range the last week, ending Friday's trading session close to the upper bound, slightly up from the closing level in the week before. In December, the RON was under a depreciation pressure driven by the political instability caused by the presidential and the general elections. Once the new government was invested before Christmas, RON slightly appreciated, with the pair down to an average 4.9743 in the first half of January.

The ROBOR curve remains at high levels, with increases on the 3M-12M segment

The ROBOR rates declined by 1bp on the O/N – 1W segment last week, while the 1M-3M segment rose by 3bp. The O/N-1W segment closed last week at 5.62%/5.68%, while the 1M-3M segment at 5.80%-5.94%. The lower liquidity in the market (slightly above RON 18bn in November and December 2024) is likely to lead to a higher volatility for ROBOR rates going further.

MinFin auctions

Last Monday, the Ministry of Finance held an auction for T-bonds with residual maturity of 3.3 years. The bids were above the planned amount, at RON 1,045.3mn vs. RON 500mn and MinFin decided to place RON 500.0mn. The average accepted yield was 7.70% (max 7.70%), up by 66bp from a previous reopening one month ago. At the same time, MinFin held an auction for 6M T-bills. The bids were above the planned amount, at RON 1,255.1mn vs. RON 600mn and MinFin placed RON 600.0mn. The average accepted yield was 6.65% (max 6.68%).

On Thursday, the Ministry of Finance held auctions for two T-bonds with residual maturities of 9.5 and 5.5 years. The bids were above the planned amount, at RON 529.6mn and RON 716.2mn vs. RON 400mn and MinFin decided to place RON 400.0mn for each of the bonds. The average accepted yield for the first bond was 7.98% (max 7.99%) and for the second bond 7.75% (max. 7.77%), up by 50bp and 53bp, respectively, from a previous reopening one month ago.

FX markets

In FX, the EUR-USD pair has stood below 1.03 for most of the time since 9 January. The start of Mr. Trump's presidency will be the main event today, and the impact it will have on the FX market will depend on whether Mr. Trump immediately announces new policy measures, particularly any pertaining to tariffs and immigration rules, and if so, how tough they are. A call between Mr. Trump and Chinese President Xi Jinping on Friday was encouraging and weighed a little on USD to the benefit of the EUR. The USD is less firm than it was in the early trading sessions of the year, as US long-term yields retreated from peaks and markets returned to pricing in more than one rate cut by the Fed this year.

Data spotlight: 13 – 17 January

International and Romanian Markets (continued)

- **China's trade surplus at a record high**

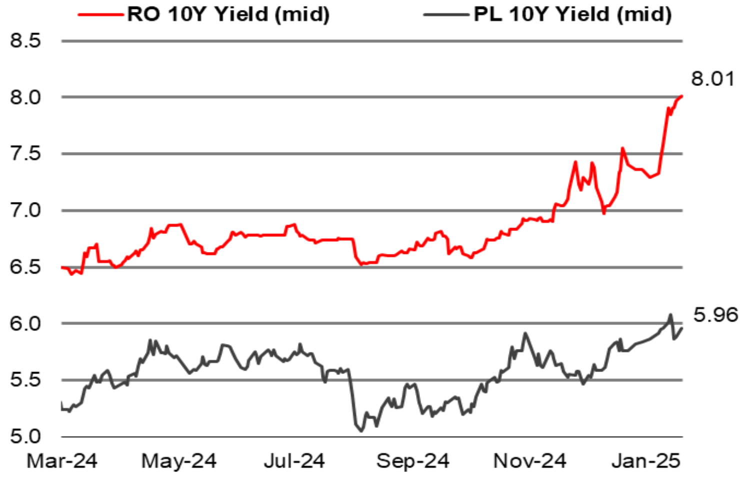
The trade surplus soared to a record high of almost USD 1 trillion in 2024, amid strong exports and subdued imports. In December, exports in USD terms rose by 10.7%yoy, likely supported by frontloading ahead of a possible hike in the US tariffs, while imports rose by only 1%yoy.

- **China reaching the 5% economic growth target for 2024**

In 4Q24, the GDP grew by 5.4%yoy, beating expectations and accelerating from 4.6% in 3Q24. The Chinese economy expanded by 5.0%yoy in 2024, in line with the target set by the government. China's growth remains primarily a supply story. Industrial production accelerated to 6.2%yoy in December (from 5.4% in November), while retail sales rose by 3.7%yoy (from 3.0%). In the coming weeks, the PBoC is likely to announce further monetary easing and in March the central government is expected to announce meaningful fiscal stimulus aiming to support the private consumption.

Focus Ahead: 20 – 24 January

MinFin Issues



Data Source: Thomson Reuters

- According to Mr. Stefan Nanu, General Director of State Treasury at Ministry of Finance, Romania's financing needs for 2025 amount to RON 231bn (RON 97mn in bonds to be refinanced) and if we respect our fiscal commitments, he does not expect to see problems in financing the deficit both on the internal and external markets, a view we also share. They intend to place the equivalent of RON 85bn externally and RON 145bn internally.

- Last week, the yields rose by 27bp on the long end and by around 18bp on the short end, according to the fixing levels. Romanian long-term yields increased significantly in December due to the high uncertainty related to the presidential elections that were finally invalidated. January saw a renewed increase due to the fiscal risks and the external upward pressure.

- MinFin will issue a T-bond of RON 300mn with 13.3Y maturity on Monday and a 12M T-bill of RON 800mn on Thursday.

BOND ISSUES - JANUARY								
ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (avg)
ROXNS8ONSUB3	30-Jan-25	27-Jul-26	18	500	lei			
RO52CQA3C829	30-Jan-25	29-Sep-32	93	300	lei			
RODFIUK7ZV55	27-Jan-25	25-Apr-35	125	400	lei			
ROCNXXUAHGU5	23-Jan-25	26-Jan-26	12	800	lei			
RO0DU3PR9NF9	20-Jan-25	24-Feb-38	159	300	lei	668	300	7.9
ROYNCLHRHVV6	16-Jan-25	29-Jul-30	67	400	lei	716	400	7.75
ROTM7EDD92S2	16-Jan-25	31-Jul-34	116	400	lei	530	400	7.98
ROCDG04X8WJ7	13-Jan-25	26-Apr-28	40	500	lei	1,045	500	7.7
ROCNYYYXL9V2	13-Jan-25	30-Jun-25	6	600	lei	1,255	600	6.65
RO7EKTXSRHD6	9-Jan-25	28-Jan-26	13	500	lei	1,125	985	7.08
ROJVM8ELBDU4	9-Jan-25	25-Apr-29	52	500	lei	379	304	7.39

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Focus Ahead: 20 – 24 January

Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
20-Jan-2025	GE	PPI (%, mom)	Nov		1.0	0.5
	RO	Construction works (%, yoy)	Nov			-8.2
21-Jan-2025	GE	ZEW Survey - Expectations (index)	Jan			15.7
	EMU	ZEW Survey - Expectations (index)	Jan			17.0
23-Jan-2025	EMU	European Commission Consumer Confidence (index)	Jan			-14.5
24-Jan-2025	GE	Composite PMI (index)	Jan			
	Romania	S&P to review Romania's sovereign rating		BBB-, negative		BBB-, stable

Data Source: Bloomberg

Economic Forecasts

MACROECONOMIC DATA AND FORECASTS

	2021	2022	2023	2024F	2025F
GDP (EUR bn)	241.7	284.1	324.6	349.6	374.5
Population (mn)	19.2	19.0	19.1	19.1	19.0
GDP per capita (EUR)	12,567	14,917	17,035	18,346	19,685
Real economy, change (%)					
GDP	5.7	4.1	2.1	1.7	1.9
Private Consumption	7.2	5.8	2.8	5.8	2.2
Fixed Investment	2.9	5.9	14.4	4.6	4.2
Public Consumption	1.8	-3.3	6.0	0.7	-0.4
Exports	12.6	9.7	-1.4	-0.9	4.7
Imports	14.8	9.5	-1.4	5.8	4.9
Monthly wage, nominal (EUR)	1175	1303	1489	1717	1807
Real wage, change (%)	2.0	-2.2	3.6	9.7	1.7
Unemployment rate (%)	5.6	5.6	5.6	5.4	5.6
Fiscal accounts (% of GDP)					
Budget balance	-7.2	-6.3	-6.6	-7.4	-6.0
Primary balance	-5.7	-4.2	-4.7	-5.5	-4.2
Public debt	48.5	47.5	48.8	51.8	53.2
External accounts					
Current account balance (EUR bn)	-17.5	-26.0	-22.6	-24.6	-22.5
Current account balance/GDP (%)	-7.2	-9.2	-7.0	-7.0	-6.0
Extended basic balance/GDP (%)	-1.5	-3.6	-2.9	-3.2	-2.1
Net FDI (% of GDP)	3.7	3.1	2.0	2.0	2.0
Gross foreign debt (% of GDP)	56.5	50.7	52.4	52.8	52.9
FX reserves (EUR bn)	40.5	46.6	59.8	59.7	60.6
Months of imports, goods & services	4.3	3.9	5.0	4.9	4.8
Inflation/Monetary/FX					
CPI (pavg)	5.0	13.7	10.5	5.8	4.7
CPI (eop)	8.2	16.4	6.6	5.0	4.4
Central bank target	2.50	2.50	2.50	2.50	2.50
Central bank reference rate (eop)	1.75	6.75	7.00	6.50	5.00
3M money market rate (Dec avg)	2.83	7.66	6.25	5.66	4.72
USDRON (eop)	4.37	4.63	4.50	4.49	4.49
EURRON (eop)	4.95	4.95	4.97	4.99	5.07
USDRON (pavg)	4.16	4.68	4.57	4.55	4.51
EURRON (pavg)	4.92	4.93	4.95	4.98	5.04

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https://www.investmentinsights.unicredit.eu/glossary.

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