Macroeconomic and Strategic Analysis

UniCredit Weekly Report

S&P revised Romania's outlook to negative from stable, while affirming the investment grade rating

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Weekly briefing

In the **US**, **Donald Trump was sworn in as the 47th president last Monday** and he signed a raft of executive orders to cut immigration and boost oil and gas production. **Investors appear to be moving away from expecting the worst-case scenario on US duties** following press reports that Mr. Trump will not immediately raise tariffs and after US President Donald Trump said in a TV interview that he would prefer not to have to impose tariffs on China.

In Europe, the **EMU ZEW growth expectations' index rose slightly, to 18** in January, (17 in December), beating analysts' expectations while the **German ZEW growth expectations' index decreased significantly, to 10.3**, from 15.7. **Producer prices in Germany declined by 0.1%mom in December**. The European Commission published the preliminary estimate of the **consumer confidence indicator, unchanged in the EU from December 2024** and **slightly up in the eurozone, by +0.3points.** The **eurozone composite PMI edged up to 50.2** in January (49.6 in December) with the **eurozone manufacturing PMI rosing above expectations to 46.1** in January and the **eurozone services PMI edging down, slightly missing expectations** (51.5), **to 51.4**.

S&P revised Romania's outlook to negative from stable, while affirming the 'BBB-/A-3' long- and short-term foreign and local currency sovereign credit ratings. The change was **in line with the expectations**, being the second rating agency (after Fitch in December 2024) which sends a signal to Romania, emphasizing the rising risks to fiscal and external sustainability. **There is the risk of a similar action from Moody's in March.** The **main worries highlighted** were: 1. **high deficit risks in spite of the government's recent efforts to consolidate public finances**, as they expect that "**deficits will stay above 7.5% of GDP in 2025 and only slightly dip below 6% of GDP by 2028 in the absence of further fiscal adjustments**"; 2. **bleak economic growth outlook**, with **their forecast of a modest 2.1% expansion in 2025**; 3. **likelihood of maintaining one of the highest current account deficits of emerging markets globally**, close to 7% of GDP on average over the next few years; and 4. **expectations of inflation remaining above the NBR's target of 2.5% (± 1percentage point) at least over the next two years**.

This week **the external calendar includes** the **German Ifo business climate index for January** (Monday), the **US and EMU 4Q24 growth data** (Thursday). Both the **ECB** (Thursday) **and the Fed** (Wednesday) **will have monetary policy decisions**, with the former expected to cut by another 25bp and the latter to stay on hold. In **Romania**, the **unemployment rate for December** will be released by the NIS on Thursday.

UniCredit Bank

Data spotlight: 20 – 24 January

CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.0516	0.20%	1.16%
EURCHF	0.94	-0.74%	0.88%
USDJPY	154.04	-1.17%	-2.02%
GBPUSD	1.2500	0.22%	-0.40%

CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.2210	0.24%	-1.05%
EURHUF	408.75	0.31%	-0.97%
EURCZK	25.10	0.09%	-0.21%

CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
27-Jan	4.9756	4.7360	1.3098	0.6080

CURRENCIES - RON

	EURRON	USDRON
27-Jan	4.975	4.731
24-Jan	4.975	4.741
23-Jan	4.977	4.778

FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
27-Jan	6.6	7.4	7.5	7.9
24-Jan	-	-	-	-
22-Jan	6.5	7.5	7.5	8.0

MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
27-Jan	5.70	5.85	5.95
24-Jan	5.65	5.80	5.95
23-Jan	5.70	5.85	5.98

MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
24-Jan	2.74	2.64	2.58
23-Jan	2.76	2.67	2.59
22-Jan	2.78	2.67	2.59
USDSFOR	1M	3M	6M
24-Jan	4.35	4.55	4.89
23-Jan	4.35	4.56	4.89
22-Jan	4.35	4.56	4.90

STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	6,101.2	-0.29%	3.99%
FTSE	8,474.8	-0.32%	4.15%
Hang Seng	20,197.8	0.66%	0.49%
Bucharest BET	16,918.7	-0.84%	-1.93%

Romanian Economy

- **S&P revised Romania's outlook to negative from stable, while affirming the ratings at 'BBB-/A-3'**

On 24 January 2025, S&P Global Ratings revised its outlook on Romania to negative from stable and affirmed its 'BBB-/A-3' long- and short-term foreign and local currency sovereign credit ratings, which serves as a sobering reflection on the country's deepening fiscal and macroeconomic challenges. The main takeaways from S&P's rationale are listed below:

Political fragmentation following the 2024 elections has left Romania grappling with a coalition government supported by a narrow majority. The annulment of the presidential election's first round further inflamed tensions, creating a highly polarized environment. This lack of political cohesion is complicating the implementation of much-needed fiscal reforms.

Pre-election spending excesses pushed the 2024 budget deficit to a high of almost 8.7% of GDP—well above expectations. Moreover, the persistent overspending has led to a 2.5x increase in nominal public debt since 2020, with interest costs rising over 3.0x. Projections indicate that public debt will exceed 60% of GDP by 2027. At the same time, in spite of the government's recent efforts to consolidate public finances, future risks remain high, and they expect that "deficits will stay above 7.5% of GDP in 2025 and only slightly dip below 6% of GDP by 2028 in the absence of further fiscal adjustments". Romania's current account deficit remains among the highest in emerging

Data spotlight: 20 – 24 January

Romanian Economy (continued)

markets, likely exceeding 8% of GDP in 2024 and projected by S&P to "remain elevated at over 7% of GDP on average between 2025-2028". This reflects a reliance on debt-financed consumption and a structural trade imbalance, where domestic demand is funneled into imports rather than supporting local production. EU fund inflows are expected to provide some relief in terms of gross external financing needs, but concerns about external debt sustainability linger.

Romania's economic growth outlook is bleak. After achieving just 1% growth in 2024, the country is projected to see a modest 2.1% expansion in 2025 (based on S&P estimations). Weak external demand from key trading partners like Germany and structural challenges, including a shrinking working-age population, skills mismatches and emigration are dampening growth prospects.

Inflation remains a persistent issue, closing 2024 at 5.5% year-on-year (HICP)—the highest in Central and Eastern Europe, with core inflation above headline inflation. Pro-cyclical fiscal policies, significant wage hikes, and rising energy prices have all fueled inflation, which is expected to remain above the National Bank of Romania's 2.5% (± 1percentage point) target for at least the next two years. This complicates monetary policy, as the central bank navigates limited policy space.

Romania still has 17% of GDP (approximately EUR 60 bn in EU funds) available for absorption under the 2021-2027 Multiannual Financial Framework, which could support investments in various sectors. Delays in implementing required reforms pose a risk. Access to these funds hinges on meeting EU fiscal rules, including reducing deficits and advancing structural reforms, particularly in pensions and public administration.

S&P's decision to downgrade Romania's outlook was in line with the expectations, being the second rating agency (after Fitch in December 2024) which sends a signal to Romania, emphasizing the rising risks to fiscal and external sustainability. There is the risk of a similar action from Moody's in March. To stabilize the outlook, Romania must prioritize reducing its fiscal and current account deficits while bolstering investor confidence through structural reforms. Failure to act decisively could lead to a downgrade to the non-investment grade level, raising borrowing costs and deepening economic vulnerabilities.

We share the view that the announced fiscal consolidation measures announced so far will not be enough to bring this year's budget deficit towards the 7% of GDP target and we continue to believe that a rise in taxes cannot be avoided. But the announcement on taxes will most probably come after the elections, with the higher taxes in place as of the second half of the year. In light of this, the budget plan for 2025, to be published at the end of January and approved at the beginning of February, could omit some details of the adjustment and/or overstate the impact of the measures announced in the above-mentioned emergency ordinance, with the details on the new taxes to be made public only in mid-2025. In our view, if the 2025 budget plan will be convincing enough, the rating agencies will offer lenience and will not downgrade Romania to non-investment grade before

Romanian Economy (continued)

the elections, so we do not see an immediate danger of a rating downgrade. Yet, we cannot rule out risks of future rating actions, in case of an insufficient fiscal adjustment in 1H2025.

- **Romanian construction sector increased in November**

Constructions increased by 4.7%mom in November (seasonally-adjusted data). The sector fell by -9.3%yoy in November (s.a. data), impacted by the high prices for the construction materials, the lack of skilled labour force and the still high interest rates for loans. The residential segment recorded a sharp decline (-21.9%yoy), the non-residential (commercial) segment continued to decline (-9.4%yoy) and the infrastructure also decreased (-8.2%yoy sa). The sector picture is even more clear if we are looking at the first eleven months of 2024 when the constructions declined by -3.9%yoy triggered by the sharp decline in the residential segment (-22.7%yoy), while the non-residential segment declined to a lower extent (-5.1%yoy). The infrastructure was the only segment still in the positive area (+4.6%yoy), supported by the large EU funds available under the Recovery and Resolution Framework (locally National Recovery and Resilience Plan).

Data spotlight: 20 – 24 January

European Economy

EMU investor morale (ZEW) rose in January

The ZEW growth expectations' index rose slightly, to 18 in January, from 17 in December, beating analysts' expectations of 16.9. Despite that, worries and doubts persist, due to Germany's slow GDP growth, increasing inflationary pressures, and political instability given the challenges in forming a coalition government in Germany. At the same time, there are rising concerns regarding the future economic policies of the Trump administration. In January, approximately 60% of the analysts surveyed predicted no changes in economic activity, 29% an improvement, and 11% expected a decline. The the current economic situation component rose by 1.2 points to -53.8, while inflation expectations jumped by 9.1 points to -14.8.

German investor morale (ZEW) fell in January

The ZEW growth expectations' index decreased significantly, to 10.3 in January [UniCredit: 18.0; consensus: 15.3], from 15.7 in December. This fall in the economic sentiment in Germany came after the latest published data indicated that the German economy contracted for a second year in a row in 2024 and that inflationary pressures are still rising, outweighing the positive signals coming from the recent new all-time high reached by the DAX. However, the current economic situation indicator rose slightly from -93.1 to -90.4. The ZEW President Prof. Achim Wambach commented the following regarding the data release: "A lack of private household spending and subdued demand in the construction sector continue to stall the German economy. If these trends continue in the current year, Germany will fall further behind the other countries of the Eurozone. There is also greater political uncertainty, driven by a potentially difficult coalition-building process in Germany and the unpredictability of the economic policy pursued by the new Trump administration".

German producer prices increased in December

Producer prices in Germany declined by 0.1%mom in December, contrary to market predictions of a 0.3%mom increase, and after a 0.5%mom rise in November. In annual terms, producer prices increased by 0.8%yoy in December, below the anticipated 1.1%yoy rise. This represented the second consecutive month of increasing producer prices (in annual terms), following more than a year of deflation. The price increase was mainly fueled by the higher prices for capital goods (1.8%yoy), especially in machinery, motor vehicles, trailers. Prices also went up for non-durable consumer goods (2.6%yoy) and intermediate goods (0.1%yoy). The energy prices dropped by -0.2%yoy, as the increasing heating costs (17.2%yoy) almost compensated for the decreases in natural gas (-5.6%yoy), electricity (-1.3%yoy), mineral oil products (-4%yoy), and motor fuel (-3.9%yoy). When energy is excluded, producer prices increased by 1.2%yoy.

Data spotlight: 20 – 24 January

European Economy (continued)

■ Flash EMU consumer confidence indicator

The European Commission published the preliminary estimate of the consumer confidence indicator for January 2025. The indicator was unchanged in the EU relative to December 2024 and increased slightly in the euro area by +0.3points. With scores of -13.3 (EU) and -14.2 (euro area) points, consumer confidence continued to be under its long-term average.

■ Eurozone, German and French PMIs rose in January

The Eurozone composite PMI edged up to 50.2 in January, from 49.6 in December. The index beat market expectations [UniCredit: 49.6; Consensus: 49.7] and marked the first expansion in the Eurozone's private sector activity since August 2024. The move into expansionary territory was driven exclusively by the services' sector (51.4 vs 51.6 in December) while there is a still-pronounced contraction in manufacturing (46.1 vs 45.1), although at a better-than-expected pace. The outcome signals that economic activity continued to stagnate at the beginning of the new year. The new orders contracted for the eight month in a row, albeit at a lowest pace in the last five months. Consequently, employment levels also declined slightly. Input costs accelerated for the fourth month in a row, pushing output price inflation to a five-month high.

The Eurozone Manufacturing PMI rose above expectations to 46.1 in January, from 45.1 in December, exceeding expectations of 45.3. Despite this, manufacturing output continued to decline, although at the slowest pace recorded in eight months, amid the weak domestic and global demand. The Eurozone Services PMI decreased and slightly missed expectations (51.5), reaching 51.4 in January from 51.6 in December. Despite this, service activity expanded for the second consecutive month, although modestly. The employment at the service providers saw their fastest increase in six months. Looking forward, confidence in the services' sector softened slightly.

At a country level, there were some divergences between the two major Eurozone economies, Germany and France, although both of their composite indices showed better signs. The French composite PMI rose more than expected to 48.3 in December, from 47.5 in December, due to an improvement in manufacturing (PMI at 45.3 vs 41.9), while activity in services deteriorated (48.9 vs 49.3 in December) amid weakening demand. The German composite PMI improved by 2 full point to 50.1, the highest since June 2024, amid an easing of the pace of contraction in manufacturing (to 44.1 vs 42.5) and an improvement in services (to 52.5 vs 51.2).

The note accompanying the data release for Eurozone indicates that output in "the rest of the region" fell to the second lowest in the past year.

Data spotlight: 20 – 24 January

US Economy

- **Donald Trump was sworn in as the 47th president of the US**

Last Monday, after Donald Trump was sworn in as the 47th president of the US, he signed a raft of executive orders to cut immigration and boost oil and gas production. On immigration, he declared a national emergency at the southern border and called for the deployment of the military there. He declared that his government intends to ignore birthright citizenship granted to children of non-citizens (this is likely to face legal challenges) and took action to speed up deportations. On energy deregulation, he signed executive orders withdrawing the US from the 2015 Paris climate agreement, ending what Mr. Trump often referred to as former President Joe Biden's "electric vehicle mandate" and scrapping restrictions on oil and gas production. No new tariffs were announced on day one, but Mr. Trump said he will direct federal agencies to evaluate trade policies with China, while 25% tariffs on Mexico and Canada could be introduced on 1 February, he said.

Data spotlight: 20 – 24 January

International and Romanian Markets

- **The EURRON was slightly up last week**

The EURRON traded within a 4.9745-4.9775 range the last week, ending Friday's trading session close to the lower bound, slightly down from the closing level in the week before. We expect the pair to continue to trade above the 4.97 level and maintain an overall upward trend throughout the year, with a move to a 5.00-5.10 trading range. Yet, this move to the new trading range could take place later than anticipated, after the presidential elections instead of 1Q25 as we were initially anticipating.

- **The ROBOR curve remains continues to increase on the 3M-12M segment**

The ON ROBOR was stable at 5.62% last week, while 1W ROBOR increased by 3bp to 5.71% and the 3M ROBOR rose by 2bp to 5.96%. The market liquidity is likely to continue to remain low considering the fiscal consolidation efforts, leading to an overall upward pressure on ROBOR rates this year, especially considering that they have not even reached the key rate level of 6.5%.

- **MinFin auctions**

Last Monday, the Ministry of Finance held an auction for a T-bond with residual maturity of 13.1 years. The bids were above the planned amount, at RON 668.3mn vs. RON 300mn and MinFin decided to place RON 300mn. The average accepted yield was 7.9% (max 7.93%), up by 43bp from a previous reopening one month ago.

On Thursday, the Ministry of Finance held an auction for a 12M T-bill. The bids were above the planned amount, at RON 1772.3mn vs. RON 800mn and MinFin decided to place RON 1307.8mn. The average accepted yield was 7.03% (max 7.04%), down by 5bp in comparison to less than two weeks before.

- **FX markets**

In FX, press reports that Mr. Trump will not immediately raise tariffs dragged the USD sharply down across the board at the beginning of last week, while the following remarks by the US President that Canada and Mexico may get duties from 1 February and that the US will address trade deficit with the EU offered the greenback a floor. Thus, the EUR-USD was steadying around 1.04 for most of last week. Tariffs are playing a central role in driving the USD and other majors at present and investors can rapidly move from one extreme to the other. Yet, investors appear to be moving away from expecting the worst-case scenario on US duties. The slide of the USD got further momentum at the end of last week, after US President Donald Trump said in a TV interview that he would prefer not to have to impose tariffs on China, and together with the above-expectations eurozone composite index, it lifted the EUR-USD above 1.05 at the beginning of this week. However, the sluggish economic conditions across the eurozone might still put a lid on more upside potential here.

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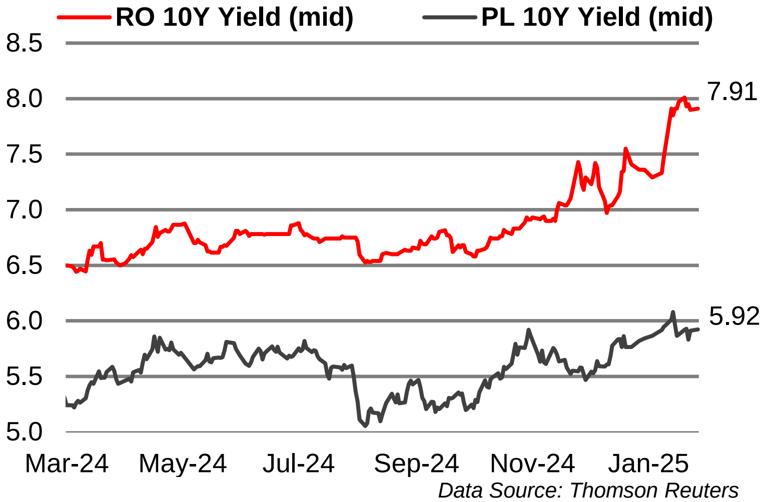
Focus Ahead: 27 – 31 January

MinFin Issues



Data Source: Thomson Reuters

- Last week, the Romanian yields were under upward pressure, but according to the fixing levels they managed to decline by the end of the week, by 2bp on the belly and the long end of the curve. Yet, Romanian long-term yields remain elevated due to the high uncertainty related to the presidential elections and the lingering fiscal risks.
- MinFin will issue RON 400mn in a 10.2Y T-bond on Monday, RON 300mn in a 7.8Y T-bond and RON 500mn in a 1.5Y T-bond 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	1,772	1,308	7.03
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: 27 – 31 January

Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
27-Jan-2025	GE	Ifo business climate (index)	Jan		84.6	84.7
29-Jan-2025	GE	GfK Consumer Confidence (index)	Jan		-20.0	-21.3
	US	Fed Interest Rate decision	Jan		4.5	4.5
30-Jan-2025	GE	GDP Growth QoQ Flash	Q4		-0.1	0.1
	RO	Unemployment rate	Dec		5.4	5.3
	EMU	GDP Growth QoQ Flash	Q4		0.1	0.4
	EMU	ECB interest rate decision	Jan		2.9	3.15
	US	GDP Growth QoQ Flash	Q4		2.7	3.1
31-Jan-2025	US	Core PCE prices Index	Dec		0.2	0.1
	US	Personal Income Mom	Dec		0.3	0.4
	US	Personal Spending Mom	Dec		0.4	0.4
	GE	Inflation Rate Flash	Jan		0.50	0.00

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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