Winter forecast 2020

- provisions and possible influences -

The winter forecast 2020 restates the estimations published in the autumn 2019 edition for the period 2020-2023 and updates a limited number of indicators for the year 2019, taking into account the newly released data.

The aspects that underpin the maintaining of levels from autumn 2019 forecast are the following:

- the flash estimate for economic growth was 4,1% which confirms the estimated GDP 2019 dynamic in autumn (i.e. 4.0%);
- the bottom out trend of the economy in Q4 2019 (4.3% compared to the same quarter of 2018, following a mere 3% y-o-y growth in Q3 2019);
- the current forecast takes on board the semi-final data for 2018, as well, namely a nominal value of 952.5 bln lei (+8.18 bln lei) and an economic growth of 4.4% (+0.3 percentage points). This level shift will be reflected in annual values during 2020-2023.

From the sectoral point of view, it is estimated that the activity in industry will recover in the second part of 2020 so that overall gross value added growth rate for the year to be in positive territory. Also, the total construction will increase further, albeit at a lower pace. As far as the tertiary sector is concerned, a development in the high value added services is expected. This sector remains the main engine of the economic growth. There is also a possibility for a risk to emerge from the effects brought about by unfavorable weather conditions in agriculture this year.

On medium run, the economic growth is around 4% annually, with the gross fixed capital formation growing faster than final consumption.

The growth rate in the average number of employees was slightly revised downward, based on the evolution of the number of employees at the end of each month of the year 2019.

Regarding the emergence of possible risks to the forecast, the most significant ones relate to the unpredictable international economic and political environment.

Although the commercial tensions between USA and China have been, to some extent, tempered by the signing of the Phase I of the trade agreement, the outburst and spreading of the coronavirus could lead to unfavorable effects on the global demand. On the other hand, the risks associated to the increased prices of energy and other fungible wares, as well as a higher volatility of foreign exchange markets, consequence of the lower pace of the Chinese economic growth, which influences the global demand, and also result of a high conflict kept on great scale in Middle East, are noticeable.

A more accentuated slowdown of the global demand would affect not only the Romanian export, which have proven a better elasticity to the external demand, as compared to our main competitors (Poland and Hungary), but also the investment flows toward our country. We further stress the influential factors associated to the economic developments in the Euro area, in particular in Germany – Romania's main trade partner – whose situation is reflected both on the aggregate demand area through export and on the industrial production area, these two being highly correlated (as the domestic industrial production is driven by, among others, export).

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Please note that the standard forecasts are the spring and the autumn ones. The winter forecast is an intermediary one, with a synthetic specific, as it includes the information arisen during the time between the autumn forecast (representing the macroeconomic frame which usually makes the basis of the budget) and the spring forecast (which makes the basis of the Convergence Program).

The detailed forecast for the period 2020-2023, set by mean of further taking into account the developments during the first months of 2020, will be published on the occasion of the Spring Forecast, estimated for the period April – May 2020.