

## Macroeconomic and Strategic Analysis

UniCredit Weekly Report



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### Romania's budget deficit reached 3.24% of GDP at the end of April 2024

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3 June, 2024

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## **Weekly briefing**

**Last week, Eurozone CPI inflation surprised to the upside, rising to 2.6%yoy in May from 2.4%yoy in April, due to a rise in services inflation. Core inflation also increased to 2.9%yoy from 2.7%yoy in the previous month. UniCredit Research expects headline inflation to hover at around 2.5% until July before slowing towards 2%. Core inflation is likely to remain broadly stable or ease slightly until year-end. German inflation rose to 2.4%yoy in May from 2.2% in April. Prior to the CPI release, several ECB Governing Council members reiterated their support for a June rate cut, but hawkish members cautioned against back-to-back cuts. The Ifo Business Climate indicator for Germany was stable at 89.3 in May. Business expectations increased to 90.4 from 89.7, while the current situation components decreased to 88.3 from 88.9.**

**US consumer confidence picked up in May, but 1Q24 GDP growth was revised down and the May Beige Book showed that firms' outlooks had deteriorated. US core PCE inflation increased by 0.2%mom in April, the slowest increase so far in 2024. This is an improvement but still too high for the Fed's liking.** The latest CPI report pointed to only a moderate improvement in terms of core services disinflation, while housing price inflation remains sticky (even if it has a smaller weight in the PCE basket than in the CPI one). After a disappointing retail sales report in April, nominal **personal consumption expenditure decelerated to 0.2%mom** from 0.8%, amid a combination of a gradually cooling labor market, exhausted savings buffers for lower-income groups and restrictive monetary policy. **Personal income rose by 0.3%mom** in April, down from 0.5%, as growth in wages and salaries slowed.

**Romania's budget deficit reached 3.24% of GDP at end of April 2024, the highest on record for the first four months. The growth of revenues tempered, while the growth of expenditures accelerated. We forecast a budget deficit of around 6.3% of GDP this year, as the current government is relying solely on improved tax collection as a deficit-reduction measure, while expenditure is increasing significantly due to wage and pension increases, transfers to local authorities and election-related spending. Romanian loans rose by a strong 0.9%mom in April 2024, due to the 0.7%mom increase of the loans denominated in RON and the 1.4%mom acceleration of the foreign currency credits. Lending to households accelerated to 1%mom and to companies increased by 0.8%mom. Residents' deposits accelerated to 0.9%mom, maintaining a high yearly growth pace of 11.9%. ILO unemployment increased to 5.3%yoy in April, from an downwardly revised 5.2%yoy in the previous month.**

This week, **on Thursday, the ECB will very likely cut interest rates** while refraining from providing guidance beyond June. **German industrial production has probably increased** in April (Friday), after a decline of 0.4% in the previous month. The **US ISM Manufacturing Index** (Monday) and the **ISM Non-Manufacturing Index** (Wednesday) are **likely to show a rise** in May. The **nonfarm payrolls** (Friday) **probably rose** by 180k in May, after rising by 175k in April, with the unemployment rate remaining at 3.9%yoy. In Romania, the **BCR Manufacturing PMI** and the **international reserves** (Monday) for May together with the **PPI** (Tuesday) and **retail sales** (Thursday) for April **probably increased**. The **GDP details for 1Q24 will be published** on Friday.

## Data spotlight: 27 – 31 May

### CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.0844	-0.05%	1.21%
EURCHF	157.25	0.26%	-0.32%
USDJPY	1.27	0.00%	1.90%
GBPUSD	1.2360	-0.42%	4.36%

### CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.2820	0.36%	-0.98%
EURHUF	391.55	0.54%	0.51%
EURCZK	24.73	0.23%	-1.33%

### CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
3-Jun	4.9761	4.5922	6.0768	343.62

### CURRENCIES - RON

	EURRON	USD RON
3-Jun	4.976	4.590
31-May	4.976	4.587
30-May	4.977	4.594

### FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
3-Jun	5.9	6.0	6.2	6.8
29-May	5.9	6.0	6.2	6.8

### MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
3-Jun	6.10	6.05	6.05
31-May	6.00	6.05	6.05
30-May	6.00	6.05	6.05

### MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
31-May	3.72	3.79	3.75
30-May	3.75	3.79	3.76
29-May	3.77	3.79	3.77
USD Libor	1M	3M	6M
31-May	5.44	5.60	5.74
30-May	5.44	5.61	5.75
29-May	5.44	5.61	5.75

### STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,277.5	0.80%	2.92%
FTSE	8,291.52	0.20%	0.95%
Hang Seng	18,403.0	1.79%	1.08%
Bucharest BET	17,597.81	0.05%	19.61%

### Romanian Economy

■ **Romania's budget deficit reached 3.24% of GDP at the end of April 2024, the highest on record for the first four months**

The Ministry of Finance released the budget execution for the first four months of 2024, showing a deficit of 3.24% of GDP (RON 57.3bn), the highest on record. The growth of revenues tempered to 15.3%yoy in April from 15.8%yoy in March, while the growth of expenditures accelerated to 29.2%yoy from 22.7%yoy in the previous month. Similar to the patterns visible in March, the highest increases in revenues came from social insurance contributions (RON 10.9bn; 21.5%yoy), followed by fiscal revenues (RON 8.9bn; 10.9%yoy) and EU funds (RON 5.9bn; 1065.2%yoy). On the expenditure side, the highest increases in nominal terms were seen in social assistance spending (RON 17.4bn; 26.3%yoy), capital expenditure (RON 11.4bn; 151.7%yoy) and personnel expenses (RON 8.6bn; 20.7%yoy).

We forecast a budget deficit of around 6.3% of GDP this year (implying no correction from the 2023 levels), as the current government is relying solely on improved tax collection as a deficit-reduction measure (which was difficult to implement in the past due to the limited institutional capacity and willingness), while expenditure is increasing significantly due to wage and pension increases, transfers to local authorities and election-related spending. Thus, we expect the correction of the budget deficit to be postponed to 2025, when new taxes are likely. We continue to expect a mix

**Data spotlight: 27 – 31 May****Romanian Economy (continued)**

of measures, including higher VAT, taxes on income, profit, property and commodities, which if implemented efficiently and quickly, could lead to a decrease of the budget deficit to around 4.7% of GDP in 2025.

**■ Romanian loans and deposits continued to increase in April**

Non-governmental loans increased by 0.9%mom in April 2024, due to the 0.7%mom increase of the loans denominated in RON and the 1.4%mom acceleration of the foreign currency credits. On a yearly basis, the growth pace of the non-governmental loans quickened to 5.8%yoy, due to an acceleration for both RON and FX lending, to 7.3%yoy and 2.8%yoy, respectively. The households increased by 1.4%mom the loans outstanding in local currency, while the foreign currency loans continued their descent (-1.8%mom). Companies' loans decreased in April by 0.4%mom for the RON component, while the foreign currency component accelerated by 2.1%mom. In yearly terms, lending to individuals increased to 4.8%yoy, while for companies slowed down to 6.7%yoy. On the deposits' side, the total savings of the residents increased by 0.9%mom in April, maintaining a high yearly growth pace of 11.9%, as private individuals registered increases.

**■ ILO unemployment increased in April 2024**

The NIS released the unemployment figures for April, showing a slight increase to 5.3%yoy, from an downwardly revised 5.2%yoy in the previous month. In annual terms (vs. April 2023), the jobless rate decreased by 0.2pp and the number of unemployed people (gross data) was higher by 500 (+0.1%yoy). The active population decreased in comparison to March 2024, to around 8.4 million.

**Data spotlight: 27 – 31 May****European Economy****■ Eurozone inflation increased in May**

Eurozone headline inflation rose by 0.2pp to 2.6%yoy in May [UniCredit Research and consensus: 2.5%yoy], posting its first re-acceleration this year. Core inflation also increased to 2.9%yoy from 2.7%yoy in the previous month. Base effects played an important role. Despite an expected decline this month, energy prices moved higher on a yearly basis, adding 0.1pp to headline inflation. UniCredit Research expects headline inflation to hover at around 2.5% until July before slowing towards 2%. Core inflation is likely to remain broadly stable or ease slightly until year-end.

**■ German inflation increased in May**

German inflation rose to 2.4%yoy in May [UniCredit Research: 2.5%yoy; consensus: 2.4%yoy] from 2.2% in April. The core rate also increased to 3%yoy, after 2.9% in April. The major trigger was a base effect caused by the so called 49-euro ticket for public transportation, which was introduced in May 2023. Another base effect for energy prices also kicked in. UniCredit Research expects inflation rates to be at roughly 2.25-2.50%yoy over the next few months.

**■ German Ifo business sentiment was stable in May**

The Ifo Business Climate indicator for Germany was stable at 89.3 in May [UniCredit Research: 90.5; consensus: 90.4]. As was the case in the past few months, business expectations rose more strongly than companies' assessment of the current situation. An acceleration in global trade and hopes of a recovery in internal demand due to lower inflation rates were the major triggers. Business expectations increased to 90.4 from 89.7, while the current situation components decreased to 88.3 from 88.9.

**Data spotlight: 27 – 31 May****US Economy****■ US core PCE inflation increased by 0.2%mom in April**

Core PCE inflation increased by 0.2%mom in April [UniCredit Research and consensus: 0.3%], the slowest increase so far in 2024. This is an improvement but still too high for the Fed's liking. The latest CPI report pointed to only a moderate improvement in terms of core services disinflation, while housing price inflation remains sticky (even if it has a smaller weight in the PCE basket than in the CPI one). After a disappointing retail sales report in April, nominal personal consumption expenditure decelerated to 0.2%mom from 0.8%, amid a combination of a gradually cooling labor market, exhausted savings buffers for lower-income groups and restrictive monetary policy. Personal income rose by 0.3%mom in April, down from 0.5%, as growth in wages and salaries slowed.

**■ US 1Q24 GDP growth revised lower**

The second estimate of 1Q24 GDP growth showed a downward revision to an annualized 1.3% [UniCredit Research and consensus: 1.3%yoy], down from the advance estimate of an annualized 1.6%. This has been driven by small downward revisions to inventories, residential investment and retail sales.

**■ Fed's Beige Book**

The May Beige Book, which was published last Wednesday, reported that economic activity continued to expand "slightly or modestly". Firms' outlook was, however, "somewhat more pessimistic". Several districts reported wage growth at, or moving toward, pre-pandemic averages. Price inflation was reported to be "modest".

**Data spotlight: 27 – 31 May****International and Romanian Markets****■ The EURRON traded above 4.97 last week**

The EURRON traded within the 4.9741-4.9780 range and ended the week at 4.9762, 5pips up compared to the closing of the week before. The currency pair was relatively stable as last week was light in terms of macroeconomic events.

**■ The entire ROBOR curve was stable**

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%-6.04%.

**■ MinFin auctions**

Last Monday, the Ministry of Finance held an auction for a T-bond with residual maturity of 13.8 years. Bids covered the planned amount, at RON 494mn vs. RON 200mn, enabling MinFin to place RON 270mn. The average accepted yield was 6.90% (max 6.90%), up 30bp from the previous reopening two months ago.

Last Thursday, the Ministry of Finance held an auction for a T-bond with residual maturity of 1.7 years. Bids covered the planned amount, at RON 830mn vs. RON 400mn, enabling MinFin to place RON 651mn. The average accepted yield was 6.14% (max 6.15%), up 10bp from the previous reopening two months ago.

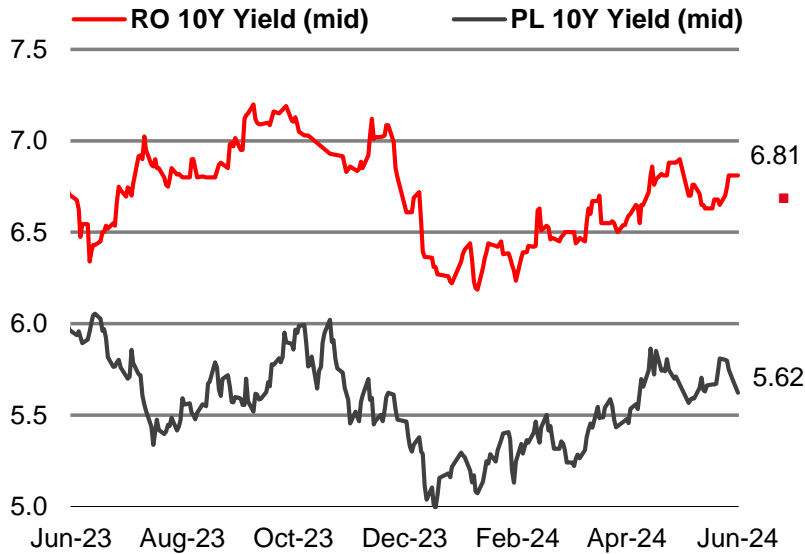
**■ FX markets**

In FX, that preliminary estimates for May showed an acceleration of CPI core-inflation in the Eurozone to 2.9%yoy while in the US the PCE core deflator for April remained steady at 2.8%yoy offered EUR-USD fresh support, but the pair again failed to break through 1.09 and then steadied around 1.0850. Hence, the FX picture has not changed much as June starts. The US Dollar Index (DXY) remains stuck between 104.50 and 105, while USD-JPY are still trading above 157.

Importantly, the Japanese Ministry of Finance revealed that the country spent a record JPY 9.8tn (over USD 62bn) to defend the JPY between 26 April and 29 May, i.e. when USD-JPY broke above 160 for the first time in 34 years. The amount surpassed the JPY 9.2tn spent in the previous intervention in October-November 2022 and suggests that the USD-JPY 160 area has most likely become the new “pain threshold” for Japanese authorities. This might prevent more JPY weakness going forward, but price action so far indicates that a weaker USD-JPY might require either more BoJ intervention or a lower greenback across the board and the Fed cutting rates more than investors have penciled in up to now.

## Focus Ahead: 3 – 7 June

### MinFin Issues



Data Source: Thomson Reuters

- According to the fixing levels, bond yields increased last week by up to 9bp on the long end due to the global upward pressure, while the short end was relatively stable.
- UniCredit Research has become more constructive on European high-yield and hybrid non-financials as their fundamental environment becomes more positive and issuers enjoy ample access to funding. The year-end spread forecasts for the two market segments was lowered from 370bp and 270bp to 320bp and 210bp, respectively.
- This week, MinFin intends to place 500mn in 5Y and in 9.5Y T-bonds on Monday, together with 500mn in 7Y T-bonds and 600mn in 10M T-bills on Thursday.

#### BOND ISSUES - JUNE

ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (avg)
RO7EKTXSRLD6	27-Jun-24	28-Jan-26	19	500lei				
ROJVM8ELBDU4	27-Jun-24	25-Apr-29	59	500lei				
ROP9QVD42HO2	20-Jun-24	31-May-27	36	500lei				
RO0DU3PR9NF9	17-Jun-24	24-Feb-38	167	300lei				
ROCDG04X8WJ7	17-Jun-24	26-Apr-28	47	500lei				
ROLGWS4778U3	13-Jun-24	28-May-25	12	600lei				
ROTM7EDD92S2	13-Jun-24	31-Jul-34	123	500lei				
ROXL7LT7QZ66	10-Jun-24	29-Apr-30	72	200lei				
RON7NMKOKQG2	10-Jun-24	28-Oct-26	29	500lei				
ROEDCYTB27Y9	6-Jun-24	31-Mar-25	10	600lei				
RO1JS63DR5A5	6-Jun-24	28-Apr-31	84	500lei				
ROJVM8ELBDU4	3-Jun-24	25-Apr-29	60	500lei				
ROWLVEJ2A207	3-Jun-24	30-Oct-33	115	500lei				



**Focus Ahead: 3 – 7 June****Data Calendar**

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
3-Jun-2024	US	ISM Manufacturing (index)	May	49.5	49.7	49.2
	Romania	BCR Manufacturing PMI	May	52.0		51.5
	Romania	International Reserves (EUR mn)	May	72.6		69.7
4-Jun-2024	GE	Unemployment Rate (%)	May	6.0	5.9	5.9
	GE	Unemployment Change (thousands, sa)	May	8.0	10.0	10.0
	US	JOLTS Job Openings (thousands)	Apr	8340	8300	8488
	Romania	PPI (% , yoy)	Apr	-3.6		-7.9
5-Jun-2024	US	ISM Non-manufacturing (index)	May	50.2	51.0	49.4
6-Jun-2024	GE	Industrial Orders (% mom)	Apr	0.7	0.5	-0.4
	EMU	ECB Depo Rate (%)	Jun	3.75	3.75	4.00
	EMU	ECB Refi Rate (%)	Jun	4.25	4.25	4.50
	US	Trade Balance (USD bn)	Apr	-74.0	-69.8	-69.4
	Romania	Retail Sales (% , yoy)	Apr	8.3		4.3
7-Jun-2024	GE	Industrial Production (% mom)	Apr	0.5	-0.2	-0.4
	GE	Exports (% mom)	Apr	2.5		1.1
	GE	Imports (% mom)	Apr	1.0		0.5
	US	Non-farm Payrolls (change thousands mom)	May	180	180	175
	US	Unemployment Rate (%)	May	3.9	3.9	3.9
	US	Average Hourly Earnings (% mom)	May	0.3	0.3	0.2
	Romania	GDP (% , yoy)	1QP	0.1		0.1

*Data Source: Bloomberg*

## 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

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