Macroeconomic and Strategic Analysis

UniCredit Weekly Report

The Romanian current account deficit was EUR 1.6bn in January 2025, lower than expected

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UniCredit Bank

Weekly briefing

In the **US**, **retail sales rose by only 0.2%mom in February** [UniCredit: +0.7%mom] and **slowed down to 3.1%yoy**. **US Industrial production rose more than expected by 0.7%mom in February, with manufacturing up by 0.9%mom** due to the auto industry (+8.5%mom). **The US industry rose by 1.4%yoy**. At its March meeting, **Fed kept the policy rate on hold at 4.25-4.50%**. The **decision was driven by the rising concerns about the US economic growth following higher tariffs on imports** with a potentially negative impact on domestic consumption **and the laxer fiscal policy through tax breaks and deregulation** fueling inflation. The **Fed revised lower its GDP forecast for 2025 to 1.7%** (vs. 2.1% in December), while **increasing its PCE inflation expectations to 2.7%yoy in 2025** (vs. 2.5%). The new "dot plot" **still anticipates two rate cuts this year by 50bp**, while **Mr. Powell said that the Fed** would be **comfortable with keeping the funds rate elevated, depending on the market conditions**.

Eurozone ZEW index growth expectations rose strongly by 15.6points to 39.8 in March, its highest level since August 2024. **The index reflected the sharp improvement of ZEW for Germany to 51.6**, from 26.0 in February, **mainly driven by the positive perception of the German Parliament approving a huge EUR 500 billion financial package over twelve years** to support the economy and higher spending for defense, infrastructure and climate protection. **Both headline and core inflation in Eurozone declined in February to 2.3%yoy and 2.6%yoy, respectively**. This was driven by the energy and services prices slowing down. **Eurozone consumer confidence decreased to -14.5,** after -13.6 points in February.

The Romanian current account deficit was EUR 1.6bn in January 2025, lower than expected and only slightly higher than a year before, **at 0.43% of GDP**. The **C/A deficit rose by 16%yoy, due to a significant drag from goods' trade balance** (EUR 2.6bn deficit, +37.3%yoy). The **transport services' surplus sped up** (+15%yoy). **FDIs halved at EUR 543mn vs. January 2024**. **We expect the C/A deficit to narrow in 2025,** due to weaker domestic demand. The **construction sector started the year on a positive note, up 30.8%yoy in January 2025** due to rises across all sectors.

This week's **external calendar** includes the **March data for eurozone,** the **composite PMIs** (Monday), **German Ifo Business Climate** (Tuesday), **unemployment** and **ESI** (Friday) and **for** the **US** the **Consumer Confidence** (Tuesday), **4Q GDP** (Thursday), **core PCE** (Friday). The Romanian calendar includes the **February money supply** (Tuesday).

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Data spotlight: 17 – 21 March

CURRENCIES - MAJORS			
Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.0818	0.03%	3.78%
EURCHF	0.95	-0.10%	1.35%
USDJPY	149.77	0.31%	-1.14%
GBPUSD	1.2931	0.12%	2.74%

CURRENCIES - CEE			
Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.1780	-0.49%	0.07%
EURHUF	398.05	0.29%	-1.20%
EURCZK	24.97	-0.23%	-0.62%

CURRENCIES - NBR REFERENCE				
Currencies	EUR	USD	SDR	XAU (1g)
24-Mar	4.9766	4.5865	1.2366	0.5901

CURRENCIES - RON		
	EURRON	USDRON
24-Mar	4.975	4.599
21-Mar	4.975	4.601
20-Mar	4.976	4.586

FIXED INCOME MARKET YIELDS - LOCAL				
Mid-rate	1Y	3Y	5Y	10Y
24-Mar	6.2	6.9	7.0	7.4
21-Mar	-	7.0	7.0	7.4
19-Mar	6.2	7.0	7.0	7.4

MONEY MARKET RATES - LOCAL			
ROBOR	ON	1M	3M
24-Mar	5.60	5.80	5.94
21-Mar	5.59	5.75	5.90
20-Mar	5.59	5.75	5.90

MONEY MARKET RATES - MAJORS			
Euribor	1M	3M	6M
21-Mar	2.37	2.39	2.40
20-Mar	2.37	2.39	2.41
19-Mar	2.39	2.41	2.42
USDSFOR	1M	3M	6M
21-Mar	4.34	4.36	4.58
20-Mar	4.34	4.36	4.58
19-Mar	4.34	4.36	4.59

STOCK MARKETS			
Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,667.6	0.08%	-7.76%
FTSE	45,740.0	0.01%	0.07%
Hang Seng	37,608.5	-0.18%	-3.97%
Bucharest BET	23,905.6	0.91%	1.82%

Romanian Economy

- **The current account deficit was 0.4% of GDP at the end of January 2025**

The current account deficit was EUR 1.6bnin January 2025 , lower than expected [UniCredit: EUR -2.3bn], albeit higher by about 16%yoy, due to a significant drag from the goods' trade balance (EUR 2.6bn deficit, +37.3%yoy). The surplus in services decreased by EUR 87mn (-10.2%yoy) to EUR 765mn in January 2025, mainly due to an increasingly negative balance for the Romanian tourism, which saw its deficit rise strongly, to EUR -416mn (+35.5%). The surplus from transport services returned to growth with +15%yoy in January 2025, after contracting by 15.5%yoy in 2024, while the surplus from manufacturing services remained at a level close to the one registered in January 2024 (+0.9%yoy). The surplus from the IT&C services saw a slight recovery in the first month of the year, rising by almost 2%yoy. The primary income turned to a surplus of EUR 199mn, significantly better than the EUR -455mn deficit in January 2024, while the secondary income surplus decreased by EUR 74mn to EUR 33mn.

Foreign direct investments halved to EUR 543mn, from EUR 1.15bn in January 2024. In spite of the increase in nominal terms, the current account deficit in January 2025 represented 0.43% of GDP, only slightly higher than the 0.40% of GDP registered one year before. We expect the C/A deficit to narrow to a level close to 7.5% of GDP this year, from the high 8.3% of GDP recorded in 2024, which was significantly above our expectations (7%). The C/A will remain fully funded by EU transfers, FDI and sovereign external borrowing.

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Data spotlight: 17 – 21 March

Romanian Economy (continued)

- **The construction sector started the year on a positive note, up 30.8%yoy in January 2025**

Total constructions were down by only -0.5%mom in January 2025 (s.a. data) due to the still negative evolution in the residential sector (-5.0%mom), while infrastructure and commercial buildings rose by 11.4%mom and 5.8%mom, respectively. In comparison to January 2024, the total construction rose by 30.8%yoy due to widespread rises: residential +71.3%yoy, infrastructure +33.7%yoy and commercial +6.7%yoy. While the strong growth was driven by favorable base effects for the residential and commercial sectors, the strong performance in infrastructure could indicate a continuation of the started projects after the +2%yoy for the sector in 2024. In spite of delays in absorbing the European funds, we expect the construction sector to return to growth this year (+3%yoy vs. -2.4%yoy in 2024), with infrastructure works increasing and a possible improvement in the other sectors as well, judging by the increasing number of building permits issued both for residential and non-residential constructions in the recent months.

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Data spotlight: 17 – 21 March

European Economy

The fiscal “bazooka” passed by the German Parliament

A huge fiscal stimulus package was approved on 21 March with a two-thirds majority needed to change the Constitution, after the CDU/CSU and the SPD leading coalition parties reached an agreement with the Greens and the coalition of “Free Voters”. The amendment to the Basic Law was backed in the upper house (Bundesrat) with 53 out of 69 votes, passing the 46-vote threshold needed.

The package foresees the relaxation of the debt brake to allow for unlimited defense spending. It also foresees an EUR 500 billion fund over the next 12 years, financed by borrowing, for infrastructure and climate protection to support the German economy.

A conflict about the extension of the borrowing limits led to the collapse of Germany's government in autumn. The debt brake was introduced in 2009 in Germany's constitution, during the global financial crisis, under Angela Merkel’s government formed by the Christian Democrats (CDU) and Social Democrats (SPD). The rules apply both for the federal government and the 16 states which had to balance their books without taking out extra loans, implying that they may only spend as much money as they collect from taxes. However, the debt brake was not absolute, the federal government being allowed a net borrowing of a max. 0.35% of GDP (i.e. EUR 13bn in 2022). The government borrowed in the three-digit billion-euro range only in 2022 to protect the economy from the sharp rise in the energy prices due to the war in Ukraine and a similar exception was voted during the Covid pandemic in 2020-2021. The Parliament made use of an exception to the debt brake allowed by the Constitution in case of "extraordinary emergency situations".

Eurozone and Germany investor morale improved sharply in March

The Eurozone ZEW index growth expectations rose strongly by 15.6points to 39.8 in March, from 24.2 in February. This is the highest level since July 2024. In March, 47% of the surveyed analysts saw an improvement in the economic activity, 45.8% expected no changes and 7.2% saw a deterioration. The Eurozone index reflected the sharp improvement of the ZEW index for Germany which rose sharply to 51.6 in March, at its highest since February 2022, from 26 in February and 10.3 in January. The outlook for metal, machinery and steel production showed an improvement. The sharp growth was mainly driven by the positive perception of Germany’s fiscal policy following the agreement of the governing coalition and the opposition on a multibillion-euro financial package for the federal budget to allow higher defense and infrastructure spending. Additionally, the “ECB’s sixth rate cut is further enhancing financing conditions for both households and businesses," commented ZEW President Prof. Achim Wambach.

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Data spotlight: 17 – 21 March

European Economy (continued)

- **Eurozone consumer confidence deteriorated in March**

The eurozone consumer confidence decreased to -14.5 opposite to the market expectations of a slight improvement [UniCredit: -13.3, consensus: -13.0], after -13.6 points in February. The index returned close to the lower level from December, reflecting the pessimism regarding the European economy growth prospects and the potential issues the Europe could face, at least in the short-term, if the US is downsizing its presence within the NATO security framework.

- **Both headline and core inflation in the eurozone declined in February**

The final annual inflation for the eurozone was slightly lower, at 2.3% in February (vs. 2.4% preliminary release), coming down from 2.5% in January. This evolution was driven by the energy prices slowing down (to 0.2% from 1.9% in January) and services inflation decelerating at 3.7%yoy from 3.9% in January. Core inflation (excl. food and energy) eased at 2.6% in February from 2.7% level kept for the fifth months in a row. On a monthly basis, the CPI rose by 0.4%mom, after -0.3%mom decline in January.

- **The German producer prices declined further in February vs. January**

The producer prices fell by -0.2%mom, for the third consecutive month on a downward trend, after -0.1%mom in January. On an annual basis, German PPI remained in positive territory for the fourth consecutive month at 0.7%yoy in February from 0.5%yoy in January, due to a base effect. The energy prices declined by -0.8%yoy, mainly for gas (-2.7%yoy) and heating (-1.6%). The costs of capital goods rose by 2.0%yoy, especially for machinery (1.9%yoy) and motor vehicles (1.4%yoy). The prices of intermediate goods increased by 0.3%yoy. Excluding energy, the producer prices increased by 1.4%yoy in February.

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Data spotlight: 17 – 21 March

US Economy

US retail sales rose less than expected in February

The US retail sales rebounded partly in February, rising by 0.2%mom, up from a downwardly revised -1.2% decline in January, while UniCredit and consensus expected a 0.7%mom increase. The weakness continued in seven out of 13 categories: food services & drinking places (-1.5%mom), gasoline stations (-1%), clothing (-0.6%), motor vehicles (-0.4%), sporting and hobby goods (-0.4%), miscellaneous store retailers (-0.3%) and electronics & appliance stores (-0.3%). The sales increased mainly at online retailers (+2.4%mom), health & personal care stores (+1.7%), food & beverage (+0.4%). Sales excluding food services, auto dealers, building materials stores and gasoline stations, which are used to calculate GDP, increased by 1%mom, returning in the positive area after a -1%mom in January. On an annual basis, the US retail sales slowed down to 3.1%yoy, after a downwardly revised 3.9% rise in January.

The Fed kept the policy rate on hold at its March meeting

The Fed decided to leave the interest rates on hold at 4.25-4.50%, as widely expected. The decision was driven by the rising concerns about the US economic growth following the higher tariffs on imports with a potentially negative effect on domestic consumption and the lax fiscal policy through tax breaks and deregulation fueling inflation, under the Trump administration. The FOMC statement mentioned that the uncertainty regarding the US economic outlook increased, so the Fed revised lower its forecast for GDP growth to 1.7% for 2025 (from 2.1% in December) and to 1.8% for 2026 and 2027 (from 2% and 1.9%, respectively). The PCE inflation expectations were revised up to 2.7%yoy in 2025 (vs. 2.5% in the December projections) and 2.2% in 2026 (vs. 2.1%), but were kept at 2% for 2027. The unemployment rate is seen slightly higher, at 4.4% in 2025 (vs. 4.3%), but unchanged at 4.3% for both 2026 and 2027.

In April, the Fed will slow the pace of decline of its securities holdings by lowering the redemption cap on Treasury securities from USD 25 billion to USD 5 billion.

The new “dot plot” still anticipates two rate cuts this year by 50bp, the same as in the December projection, while the Fed’s Chair Powell said during the press conference that the central bank would be comfortable with keeping the funds rate elevated depending on the market conditions. “If the economy remains strong, and inflation does not continue to move sustainably toward 2% (target), we can maintain policy restraint for longer,” he said. At the same time, he did not rule out further cuts: “If the labor market were to weaken unexpectedly, or inflation were to fall more quickly than anticipated, we can ease policy accordingly.”

UniCredit continues to expect the Fed to cut twice this year, in June and September, but the risks are skewed towards one or zero cuts, as the disinflation halted by Trump policies, is leaving little scope for the Fed to cut.

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Data spotlight: 17 – 21 March

International and Romanian Markets

- **The EURRON was stable last week**

The EURRON continued to trade within a narrower range (4.9750-4.9782) last week, ending Friday's trading session at the lower bound of the range (4.9750), slightly down from the end of the prior week. The pair remains very stable, regardless of the political noise.

- **The ROBOR curve was stable last week**

The ROBOR was stable last week, moving only marginally. The ON ROBOR ended the week at 5.61% (+1bp), while the 1M and 3M ROBOR were at 5.77% (-1bp) and 5.92%, respectively.

- **MinFin auctions**

Last Monday, the Ministry of Finance held an auction for a T-bond with residual maturity of 6.4 years. The bids were above the planned amount, at RON 1355.8mn vs. RON 700mn and MinFin decided to place RON 1.2bn. The average accepted yields was 7.40% (max 7.40), just 1bp above the previous reopening three weeks before.

On Thursday, the Ministry of Finance held an auction for a new T-bond with maturity of 15 years with the purpose to extend the overall public debt maturity. As the bids were below the planned amount, at RON 272.4mn vs. RON 300mn, the MinFin decided to reject the offers.

- **FX markets**

The USD might be exposed to new intraday swings before any clear trend emerges, but for now the USD strength has probably peaked and UniCredit expects the EUR-USD to consolidate above 1.05.

The size of US tariffs expected to be imposed on Europe starting 2 April, especially if a 25% increase is confirmed, a possible repricing of the Federal Reserve expectations towards less monetary easing, developments in the peace negotiations regarding the war in Ukraine and the eurozone's common defence plans will likely determine the behaviour of the US dollar and of the overall FX market in the coming weeks.

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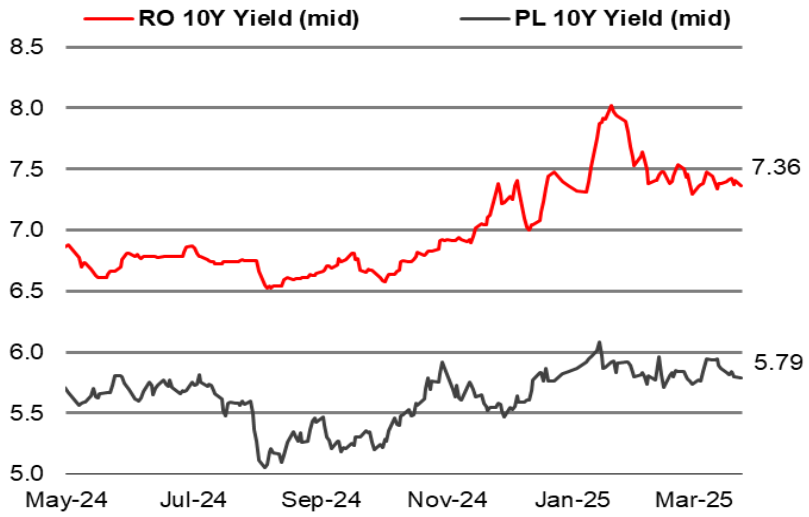
Focus Ahead: 24 – 28 March

MinFin Issues



Data Source: Thomson Reuters

- Last week, the Romanian yields had mixed evolutions, with the 1Y-3Y segment dropping by up to 5bp and the 5Y-10Y segment increasing by up to 3bp. The yields are now close to the levels prevailing before the height of political uncertainty at the end of last year. A sustainable downtrend from here is only likely after the presidential elections, when it is possible to gain more clarity on the fiscal policy. The external yields were on a slightly downward trend last week, dropping by up to 10bp.
- MinFin will issue RON 600mn in 1.3Y T-bonds on Monday and RON 500mn in 10.1Y T-bonds on Thursday.

BOND ISSUES - MARCH

ISIN Code	Auction Date	Maturity Date	Months	Planned Amount (mn)	Currency	Total Applications	Total Allocated	Yield (avg)
RO45DLJ4EE76	31-Mar-25	28-Apr-27	25	500	lei			
RODFIUK7ZV55	27-Mar-25	25-Apr-35	123	500	lei			
ROXNS8ONSUB3	24-Mar-25	27-Jul-26	16	600	lei			
ROCKMXSWCFH2	20-Mar-25	30-Apr-40	184	300	lei	272	0	0
ROOFOYB15203	17-Mar-25	27-Jul-31	77	700	lei	1,356	1,182	7.4
ROWLVEJ2A207	13-Mar-25	30-Oct-33	105	400	lei	875	505	7.39
ROYNCLHRHVV6	10-Mar-25	29-Jul-30	66	800	lei	1,486	1,083	7.38
RODIQFSA4XE9	10-Mar-25	23-Feb-26	11	1,000	lei	1,080	883	6.64
ROCDG04X8WJ7	6-Mar-25	26-Apr-28	38	700	lei	1,731	1,319	7.27
ROTM7EDD92S2	6-Mar-25	31-Jul-34	114	600	lei	682	600	7.63
RO4YPMZAGV71	3-Mar-25	29-Sep-25	7	800	lei	1,821	800	6.4
ROJVM8ELBDU4	3-Mar-25	25-Apr-29	50	500	lei	1,529	780	7.2

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Focus Ahead: 24 – 28 March

Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
24-Mar-2025	GE	Composite PMI (index)	Mar	51.6		50.4
	GE	Services PMI (index)	Mar	52.5	52.0	51.1
	GE	Manufacturing PMI (index)	Mar	47.5	47.0	46.5
	EMU	Composite PMI (index)	Mar	51.0		50.2
	EMU	Services PMI (index)	Mar	51.4	51.3	50.6
	EMU	Manufacturing PMI (index)	Mar	48.3	48.3	47.6
25-Mar-2025	GE	Ifo business climate (index)	Mar	86.0	87.0	85.2
	GE	Ifo expectations (Index)	Mar	86.4		85.4
	GE	Ifo current assessment (Index)	Mar	85.6		85.0
	US	Conference Board Consumer Confidence	Mar	95.0	94.0	98.3
	Romania	Money supply M3 (%, yoy)	Feb			10.1
27-Mar-2025	US	US Real GDP (% qoq annualised, third estimate)	4Q	2.3	2.4	2.3
28-Mar-2025	GE	GfK consumer confidence	Apr	-22.0	-21.5	-24.7
	GE	Unemployment Rate (%)	Mar	6.2	6.2	6.2
	GE	Unemployment Change (thousands, sa)	Mar	10.0	125.0	5.0
	EMU	EC Economic Sentiment Indicator (index)	Mar	97.5	98.0	96.3
	US	PCE Core Inflation (% yoy)	Feb	2.7	2.7	2.6
	US	PCE Core Inflation (% mom)	Feb	0.3	0.3	0.3
	US	Personal Expenditures (% mom)	Feb	0.5	0.6	-0.2
	US	Personal Income (% mom)	Feb	0.4	0.4	0.9

Data Source: Bloomberg

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Economic Forecasts

MACROECONOMIC DATA AND FORECASTS

	2021	2022	2023	2024E	2025F	2026F
GDP (EUR bn)	242.3	281.7	324.4	356.5	384.1	405.0
Population (mn)	19.2	19.0	19.1	19.1	19.0	19.0
GDP per capita (EUR)	12,601	14,790	17,024	18,711	20,188	21,321
Real economy, change (%)						
GDP	5.5	4.0	2.4	0.9	1.9	2.6
Private Consumption	7.0	5.1	3.0	5.5	3.0	2.5
Fixed Investment	4.0	5.4	14.5	2.2	2.7	3.5
Public Consumption	-0.6	-1.4	6.3	-0.2	-0.4	-0.8
Exports	12.6	9.3	-0.8	-3.3	2.4	4.8
Imports	14.6	9.3	-1.1	3.0	2.1	4.7
Monthly wage, nominal (EUR)	1175	1303	1489	1710	1805	1878
Real wage, change (%)	2.0	-2.2	3.6	9.4	1.2	2.5
Unemployment rate (%)	5.6	5.6	5.6	5.3	5.2	5.4
Fiscal accounts (% of GDP)						
Budget balance	-7.1	-6.4	-6.5	-8.7	-7.0	-6.4
Primary balance	-5.6	-4.3	-4.6	-6.6	-4.8	-4.0
Public debt	48.3	47.9	48.8	54.9	58.4	60.3
External accounts						
Current account balance (EUR bn)	-17.4	-26.8	-21.5	-29.4	-28.7	-28.2
Current account balance/GDP (%)	-7.2	-9.5	-6.6	-8.2	-7.5	-7.0
Extended basic balance/GDP (%)	-1.8	-4.1	-1.9	-5.6	-4.3	-3.6
Net FDI (% of GDP)	3.7	3.3	2.0	1.6	1.6	1.8
Gross foreign debt (% of GDP)	58.8	54.6	56.5	57.1	56.9	58.1
FX reserves (EUR bn)	40.5	46.6	59.8	62.1	59.8	59.1
Months of imports, goods & services	4.3	4.0	5.1	5.1	4.8	4.5
Inflation/Monetary/FX						
CPI (pavg)	5.0	13.7	10.5	5.6	5.1	3.7
CPI (eop)	8.2	16.4	6.6	5.1	4.6	3.3
Central bank target	2.50	2.50	2.50	2.50	2.50	2.50
Central bank reference rate (eop)	1.75	6.75	7.00	6.50	5.75	4.50
3M money market rate (Dec avg)	2.83	7.66	6.25	5.91	5.48	4.63
USDRON (eop)	4.37	4.63	4.50	4.78	4.97	4.95
EURRON (eop)	4.95	4.95	4.97	4.97	5.07	5.15
USDRON (pavg)	4.16	4.68	4.57	4.60	4.86	4.98
EURRON (pavg)	4.92	4.93	4.95	4.97	5.01	5.12

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