

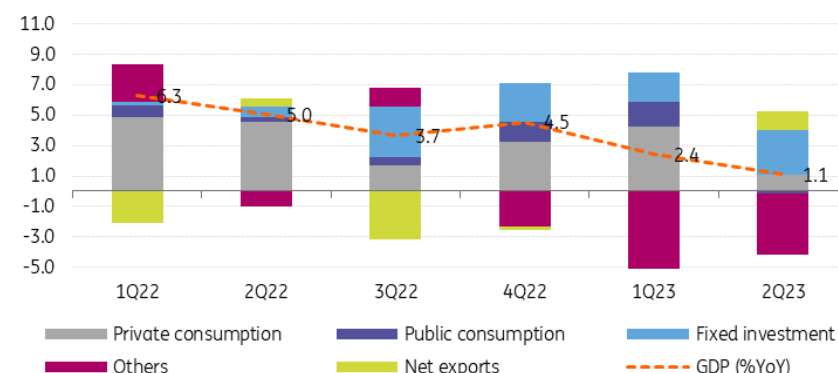
Economic growth in Romania slows

The second release of second-quarter GDP data confirms the flash print, at a lower-than-expected 1.1% year-on-year. This strengthens our conviction of a below-consensus forecast of 1.5% for 2023. Strong wage data and the approaching elections lead us to maintain the 2024 forecast at 3.7%



The breakdown of second-quarter GDP shows that strong investment activity – most likely in civil engineering projects as shown by high-frequency construction data – is keeping the economy afloat. That said, slowing private demand, a downturn in public consumption and a weakening external outlook are taking their toll on growth. As such, in the second quarter, fixed investment made up the lion's share of growth contribution, overtaking private consumption.

GDP growth (YoY%) and contributions (ppt)



Source: NSI, ING

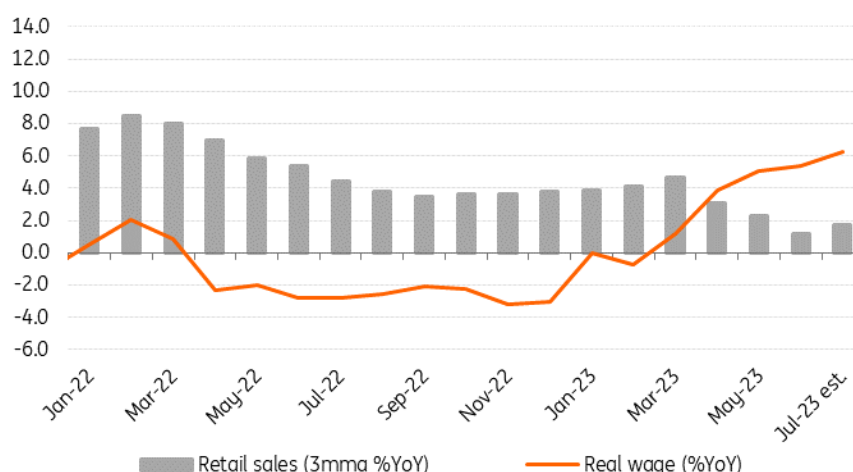
On the supply side, annual growth in the trade and construction sectors slowed, while agriculture contracted at a steeper rate. The latter might reverse in the second half of the year and pose a positive contribution based on current estimation for crops and prices. Turning to the key growth contributors, private services were by far the strongest positive contributor, while the poor performance of industrial activity was reflected negatively.

From a quarterly sequential perspective, private consumption stands out as it contracted by 2.1% – the largest drop since the second quarter of 2020. In fact, almost all items began to contract in the second quarter compared to the previous, the most notable exception being fixed investments with a 5.6% quarterly advance. This reveals that the economy is essentially working with only one engine: public investments financed largely by EU funds.

Looking ahead, we expect growth to remain weak in the second half of the year and the economy to grow by only 1.5% YoY in 2023. While still early to confirm, high-frequency data are already showing a step in that direction. Yesterday's weak outturn in July's retail sales activity (+1.2% YoY and -0.3% month-on-month) marked a poor start to the quarter and is so far consistent with a continued slowdown in private consumption. Admittedly, real wage growth should provide support in the second half of 2023 and limit the losses ahead – it turned positive in March and was likely above 6.0% in July, with an upward bias going forward.

Moreover, the recent extension of the essential food items price cap by the government will support disposable income in the months ahead. But significantly weaker prospects of external demand from key trading partners like Germany, where industrial activity is currently suffering a major downturn, will weigh on exports.

Stronger real wages to limit the slowdown



Source: NSI, ING

While GDP growth perspectives for 2024 are likely to disappoint, we hold on to our 3.7% estimate. We think that weak external demand, still-high interest rates and the EU-agreed fiscal consolidation could be a drag on output.

That said, a still-strong EU Funds absorption and sustained infrastructure investments should continue to impact growth positively. Moreover, 2024's four rounds of elections might derail the fiscal adjustment and thus keep a larger fiscal stimulus in place until 2025.

Author

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom

this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.