Romania: 2018 GDP breakdown points to weakness

Romania grew 4.1% year-on-year in 2018 amid a sharp slowdown in consumer spending. Consumption added just 3.3 percentage points to growth, down from 6.2ppt of 7% growth in 2017. Inventories added 2.7ppt, investments and net exports subtracted -0.7ppt and -1.8ppt, respectively

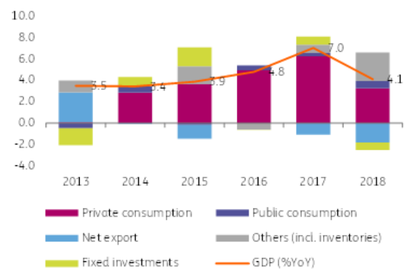
Source: Shutterstock

A sharp slowdown in household consumption was confirmed amid a third consecutive year of double-digit wage growth, with consumer confidence dented by fiscal changes, higher interest rates and a weaker currency. The cyclicality in durable goods spending was also likely a factor. The data points to the limitations of the consumption-driven growth model which also left deep scars in the external position, with net exports posting the largest negative contribution to growth since 2007. Unbalanced public spending is also reflected in the negative contribution of -0.7ppt to growth from investments. With most of the fiscal spending exhausted on the wage envelope and social benefits, there is little room for a fiscal impulse to support investments.

Even worse, private investment might be postponed by recent fiscal changes and general regulatory unpredictability. The large contribution from inventories might also suggest downside price pressure going forward.

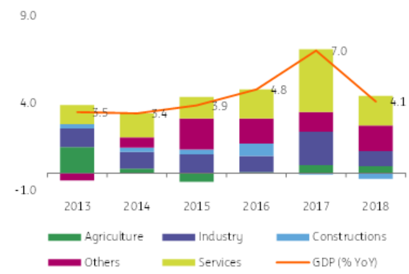
On the supply side, private services had the largest contribution of 1.7ppt, followed by industry with 1.0ppt and agriculture 0.4ppt, while construction had a second consecutive year with a negative contribution, subtracting -0.3ppt from 2018 growth.

Fig 1 Weaker consumption, higher inventories



Source: NIS, ING

Fig 2 Broad based cooling down

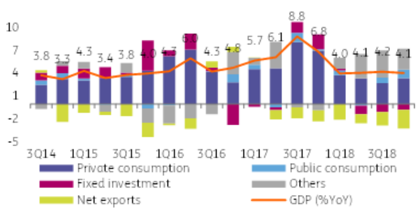


Source: NIS, ING

The 4Q 0.7% QoQ GDP advance was driven by the build-up in inventories. Weaker household consumption, slowing down from 3.3% to 0.6% QoQ growth, after 3Q was mostly about self-produced consumption, added 0.4ppt to the sequential growth rate. The negative contribution from net exports widened to -1.6ppt in 4Q18 from -0.9ppt in the previous quarter. Investments slowed down to 0.3% QoQ from 1.1% previously and added just 0.1ppt to sequential growth.

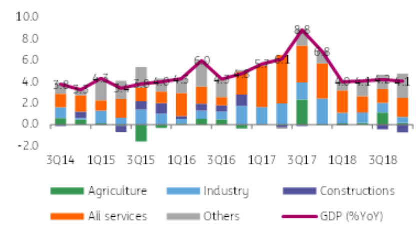
On the supply side there was a significant acceleration for industry to 1.9% QoQ in 4Q from 0.8% previously, adding 0.4ppt to the quarterly growth rate. Services added 0.8ppt to growth, while agriculture subtracted -0.5ppt, as expected due to an early harvest on atypical weather conditions. The construction sector rebounded by 0.8% QoQ after four consecutive contractionary quarters but with negligible contribution to growth.

Fig 3 Household demand in a lower gear



Source: NIS, ING

Fig 4 Services feeling the cyclical slowdown



Source: NIS, ING

Both external and domestic growth drivers seem to point to a slowdown, with a weak growth structure and lack of fiscal space. The absence of structural reforms in recent years is also likely to exacerbate the downturn. We forecast 2.7% GDP growth in 2019 and 2.1% in 2020, with the economy heavily exposed to a global recession.

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