

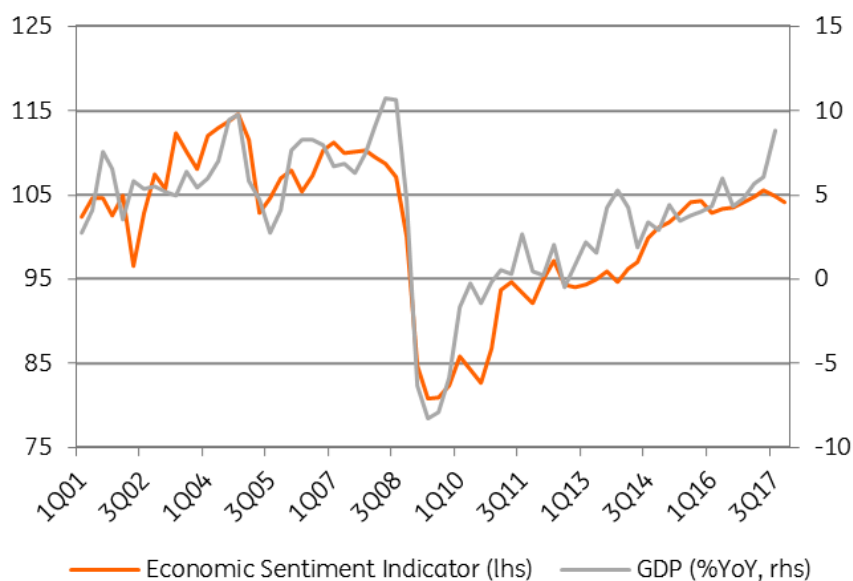
Romania: Consumer sentiment plunges further

Consumer confidence declined in December though the Economic Sentiment Indicator (ESI) bounced back a bit



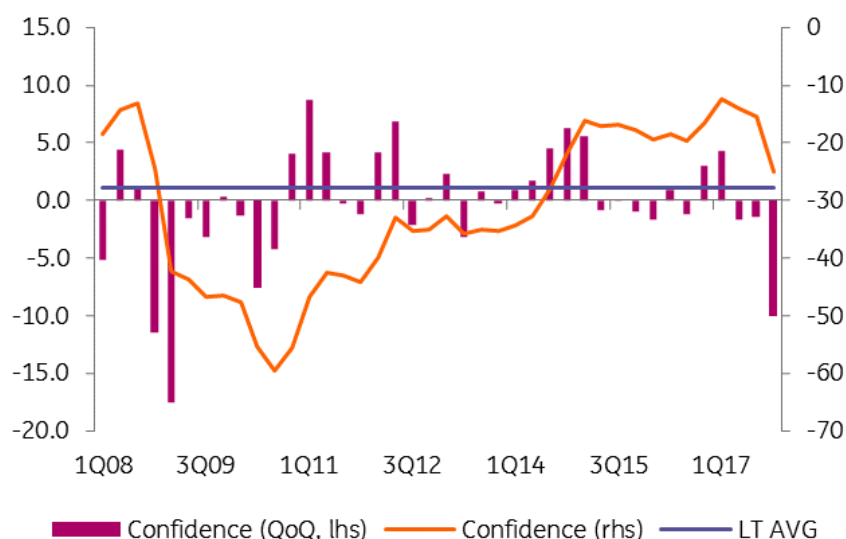
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ESI pointing to a deceleration in GDP growth



The ESI recovered in December to 104.1 (from 103.8) helped by all subcomponents with the exception of consumer sentiment. It looks like 4Q17 growth will slow down quite a bit in sequential terms. Confidence for the industry reached its highest level post-financial crisis and is reflecting the robust external demand backdrop. We could have seen an overreaction from consumers as the quarterly decline in confidence was the sharpest since the start of the crisis.

Consumer confidence collapsed in 4Q17



Soft data are confirming our outlook for a slowdown in 4Q17 and an ongoing adjustment going into 2018. Still, the external backdrop and heavy net budget spending in December (up to 1.8% of

GDP) are countering some of the negatives coming from the adjustment in consumer behaviour. There is a risk that we are underestimating the impact from higher interest rates, as the transmission has improved due to a higher share of Romanian Leu lending (61.8% of total) and the change in consumer behaviour and expectations.