Romania: First quarter GDP growth accelerates

The flash estimate of 1Q19 GDP posted a 1.3% sequential advance, translating into a 5.0% year-on-year expansion, compared to the ING and Bloomberg consensus at 4.1%

Source: Shutterstock

The breakdown of GDP data on 6 June will explain what was behind the acceleration. On the demand side, we expect household consumption was very strong as suggested by the retail sales data, while investments and net exports should have negative contributions. Could it be inventories behind the acceleration, similar to the pattern seen in 2018, or maybe better external demand levelling-off net exports? We will have to see.

On the supply side, services likely continued to be the main contributor to sequential growth. High frequency data points to a negative contribution from industry and a positive contribution from the construction sector.
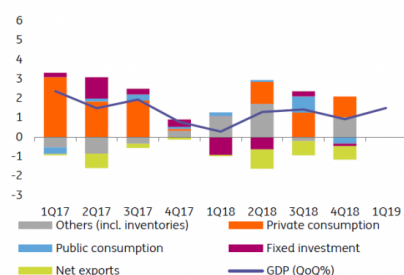
5.0%

Higher than expected

1Q19 GDP growth (YoY)
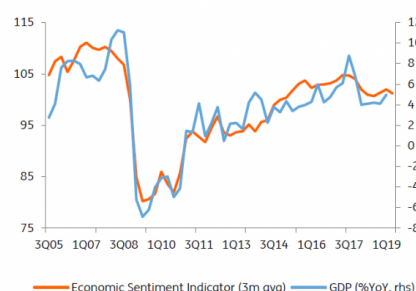
vs. 4.1% Bloomberg median and ING call

Given the upside surprise versus our forecast and past data revisions, caeteris paribus, GDP growth for the whole year could come almost 1 percentage point higher, but we are waiting for details before updating our 2.7% growth forecast for 2019.

Fig 1   Until the inventories become too costly?

Others (incl. inventories)   Private consumption
Public consumption   Fixed investment
Net exports   GDP (QoQ%)

Source: NIS, ING

Fig 2   Sentiment indicators lower at the start of 2Q19

Economic Sentiment Indicator (3m avg)   GDP (%YoY, rhs)

Source: EC, ING

Still strong, domestic demand driven GDP growth leaves room for tightening from the National Bank of Romania. While we believe that most of the tightening could come from twists in policy implementation, first quarter GDP puts rate hikes firmly back on the table. Still, we think this is only likely to materialise in the case of rising pressures from a depreciation in the Romanian leu. As the end of the NBR Board tenure is approaching, with four rate setting meetings to go until October, the window for action is narrowing.

Author

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com