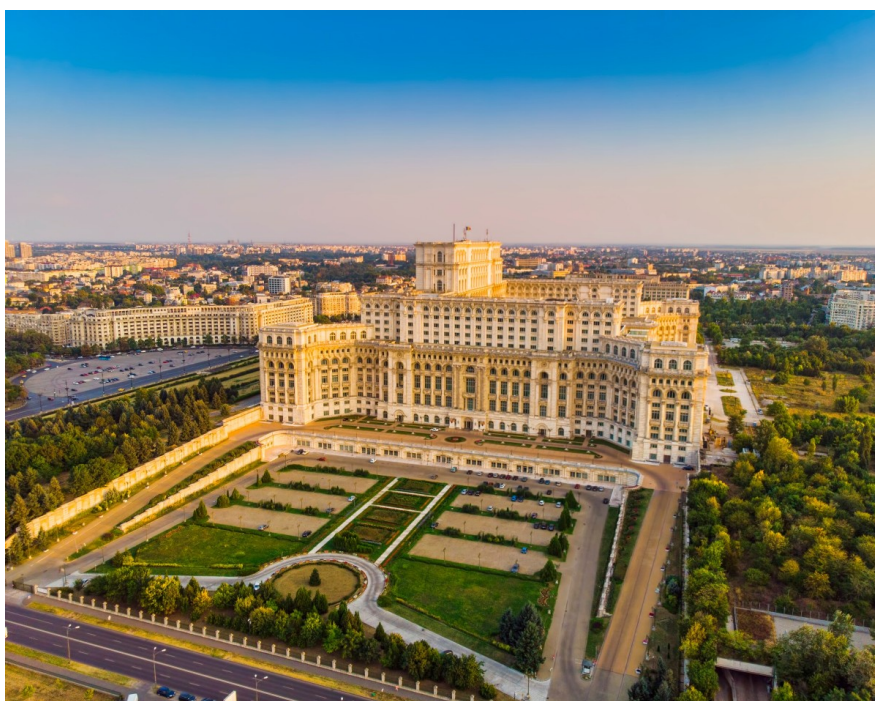


## Growth slows in Romania but the outlook is brighter

Today's key takeaway is that consumption is approaching a cruising speed from the 'good old times'. That brings back external imbalances. We think that this trend will continue. Investments will remain robust while external demand is helping a little. We keep our 2.8% year-end forecast



Compared to the same quarter of 2023, Romanian GDP growth slowed sharply from 3.0% in the last quarter of 2023 to 0.1% in the first quarter of 2024, matching the flash release. A cautious look at the breakdown shows that the economy is not necessarily performing that poorly. Private consumption rose 3.3% and was a key growth contributor, adding 2.6pp to the 0.1% growth, followed by investments, which rose 6.6% and added 1.3pp. That said, the upward pressure of consumption on imports neutralised most of the gains, especially services imports.

Exports remain weak despite recent signs of life shown by both local and German industrial production. Overall, net exports subtracted 2.6pp from growth, cancelling private consumption's

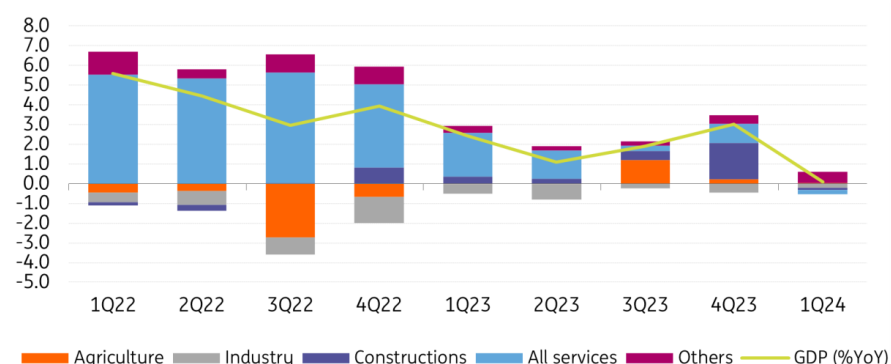
positive contribution.

Overall, the two main growth engines, consumption and investments, seem to be running decently. And both continue to have solid prospects for the year. In short, we think that consumption will continue to receive solid support from credit activity and respectable real incomes, while investments will continue to post still-robust growth rates as public infrastructure projects are in full swing.

Given a slight improvement in the European economy overall, which should eventually feed into Romanian industrial exports, our view is that the economy still has decent growth prospects, despite the apparently weak start to the year.

Delving a bit into the production side of the economy, still-weak industry and services for companies were a drag on output. That said, in line with the consumer optimism shown by retail sales, it seems that Romanian consumers enjoyed living in the moment when it comes to entertainment. Recreation and cultural activities posted the strongest yearly growth this quarter (+7.0%), compared to other components, contributing by 0.2pp to the overall growth, similar to the ICT sector.

## Visibly weak start of the year



At this point, our 2.8% annual growth forecast for 2024 seems quite optimistic, given it would take particularly robust quarterly expansions (say 1.4%-1.5%) for the rest of the year in order to reach that figure. That said, we're choosing to stick to our forecast given that we see very strong momentum in the private consumption sector, new lending production is at historical highs, while public investment will continue, and external demand should turn more supportive.

On top of all that, the fiscal stance looks set to remain stimulative this year as correcting the budget gap doesn't seem to be a priority in the current electoral context. And, as we've seen before, statistical data revisions should not be excluded.

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