

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

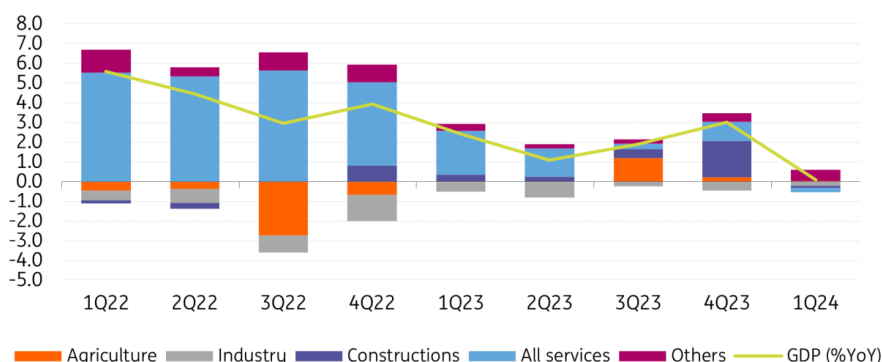
positive contribution.

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.

Authors

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@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 <http://www.ing.com>.