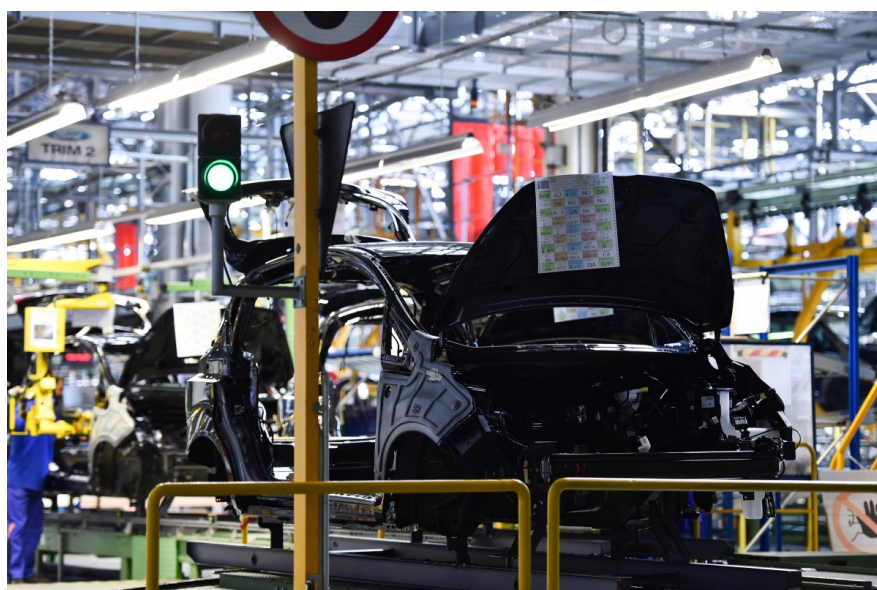


## Romania: Raising our 2020 GDP forecast

At 4.3%, Romania's GDP advance in the fourth quarter came in well above the 3.2/2.7% Bloomberg/ING forecast. Details are due 10 March, but we are already upgrading our forecast for 2020

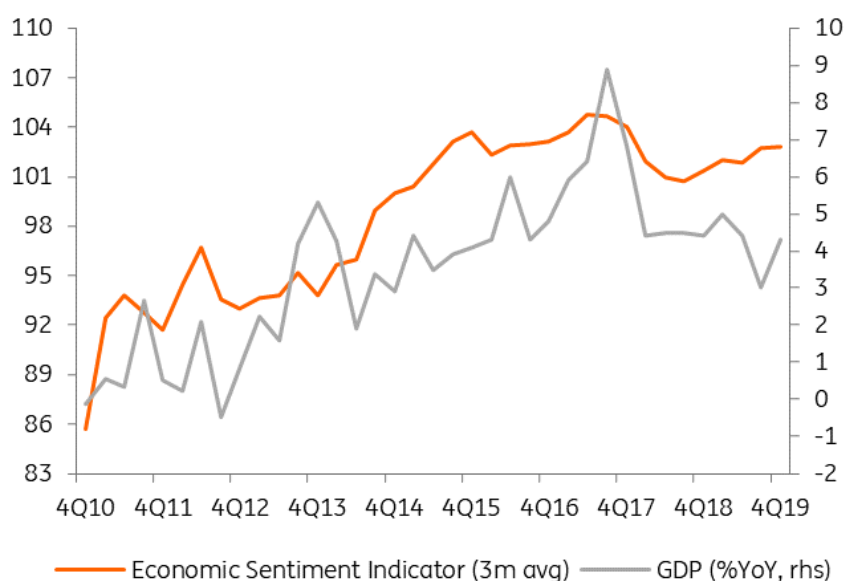


Car bodies on the production line at a Ford factory in Craiova, Romania

In the end, it wasn't bad at all for the Romanian economy last year. Twin deficits continued to expand, which was anticipated, but so too did the economy, which was not anticipated to such an extent.

The GDP breakdown is due 10 March. On the demand side, we expect household consumption to have remained the main growth driver in the fourth quarter, as suggested by the robust retail sales acceleration of 2.6% in the fourth quarter vs the third. Investments have also likely performed well, driven by the booming construction sector, and by public spending. In fact, public spending is one key area which we have probably underestimated when assessing fourth quarter GDP growth, as the soaring budget deficit from 2019 was mostly created in the last quarter, hence a strong fiscal impulse arising from here.

On the supply side, the service sector likely remained the main growth driver, followed by construction. Industry was either bad or very bad, as suggested by the contraction in industrial production.



Source: NIS, EC, ING

The details due next month will undoubtedly shed more light on growth drivers and prospects. However, after the strong performance in the fourth quarter, we are already revising upward our GDP growth forecast for 2020 to 3.6% from 2.7% previously. We maintain our call for the central bank to keep the key rate at 2.5% through 2020 and for a fiscal deficit of -3.7% of GDP.

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