Romania: GDP grows 4.1% in 2018

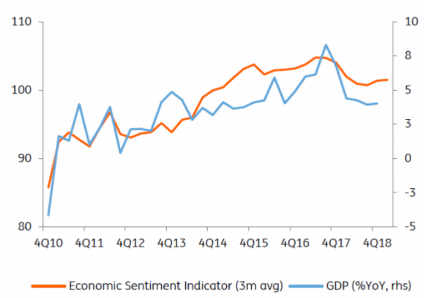
The 2018 slowdown from 7.0% in 2017 was sharper than our initial forecast of 4.7% and the official projection of 6.1% at the start of the year. And the weakness is set to continue in 2019. We estimate 2.7% GDP growth while the official forecast sees an acceleration to 5.5%

People on Calea Victoriei, Bucharest

4Q2018 flash GDP growth came in at 0.7% quarter-on-quarter versus our estimate of 0.9%, leading to a growth rate of 4.1% year-on-year versus the 4.4%/4.5% consensus/ING forecast, with a 0.2 percentage point error coming from data revisions.

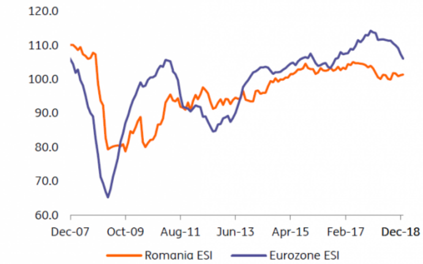
The GDP breakdown is due 7 March. We expect household consumption to remain the main driver on the demand side as suggested by the sequential acceleration in retail sales. Net exports are likely to show a stronger negative contribution to quarterly growth. On the supply side, we expect weakness in industry due to softer external demand and agriculture after a strong third quarter and some improvement in the service sector.

Fig 1 Sentiment holding up for now ...



Source: EC, NIS, ING

Fig 2 ... but external contagion is likely to spread in



Source: EC, ING

A deterioration in consumer sentiment, weak demand from the main export markets and fiscal uncertainty at home are likely to prove a significant drag on first quarter GDP growth. The picture for the full year doesn't look much rosier: consumers are running out of confidence while businesses are facing higher fixed costs and higher financing costs as well as labour shortages and a volatile investment environment. Meanwhile, supply side structural reforms are missing or even being rolled back.

There is little hope of policy coordination as there is almost no room for fiscal consolidation ahead of elections while monetary policy faces a tough backdrop with lower growth, higher core inflation and currency depreciation pressures. The former is a trade-off between the commitment to avoiding the excessive deficit procedure and the attached political cost. The National Bank of Romania is likely to choose no action this year as the current Board ends its term in October, but it could use its reserves more intensively to prop up the currency. The policy mix, obviously will stay sub-optimal, to say the least.

Author

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