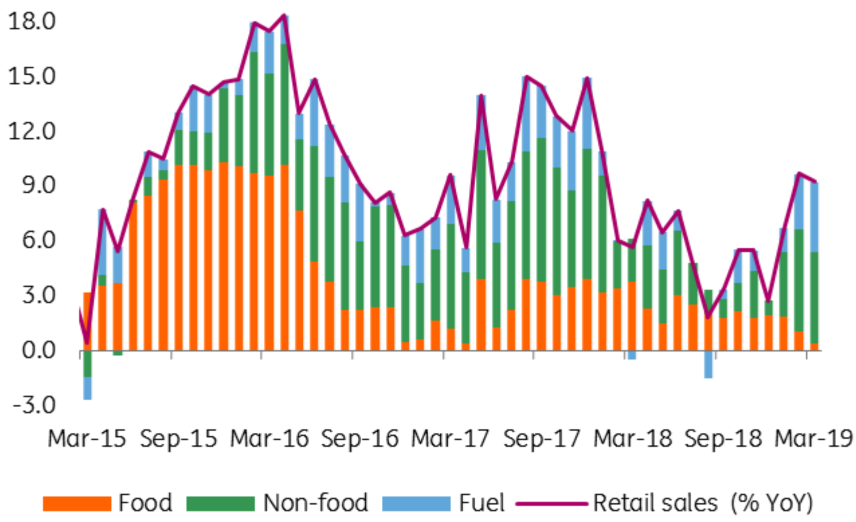
Romania: no hiccups in consumer spending

Consumption surge was confirmed for the first quarter of 2019: +8.5% versus the same period of 2018. But how come this good news is actually not so good?

People on Calea Victoriei, Bucharest

Retail sales ended another strong quarter after it advanced by 9.2% in March alone. This comes as no surprise given the 27% rise in public sector wages in the first two months of this year. The main growth driver remained the non-food items, which expanded 13% in March but its dynamics has been outshined by the 18.8% rise in fuel sales.

Fuel sales increasing their contribution

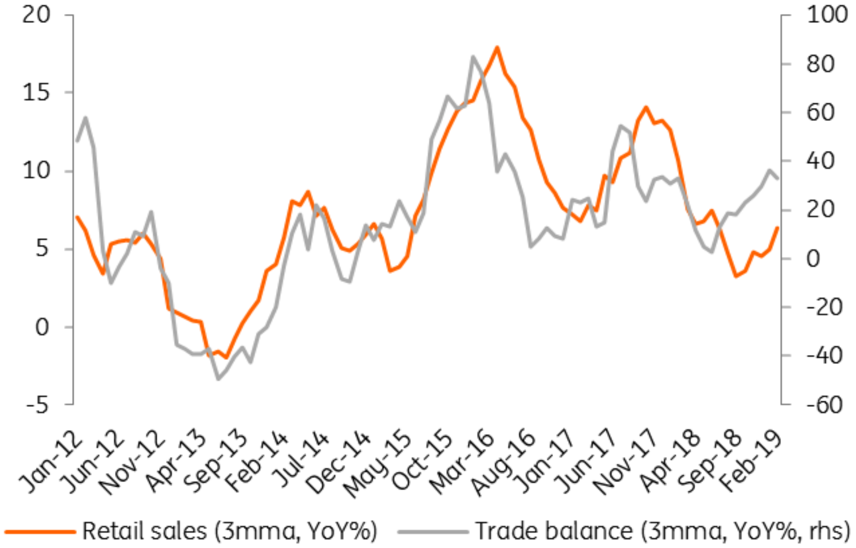


Source: NIS, ING

Why are we not enthusiastic about it?

It is again quite likely that most of the marginal increase in consumption has been accommodated by higher imports. This limits the net impact on GDP growth. The widening trade gap has been the main driver of the current account deficit, which reached -4.5% of GDP in 2018 and looks set to break -5.0% this year.

Consumption driving the trade deficit



Source: NIS, ING

The budget revenues are likely to benefit in the short run, but the good news pretty much end here. We believe that the Romanian leu is already under depreciation pressure and a correction is overdue. Stimulating the import-based consumption can only add fuel to the fire.

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