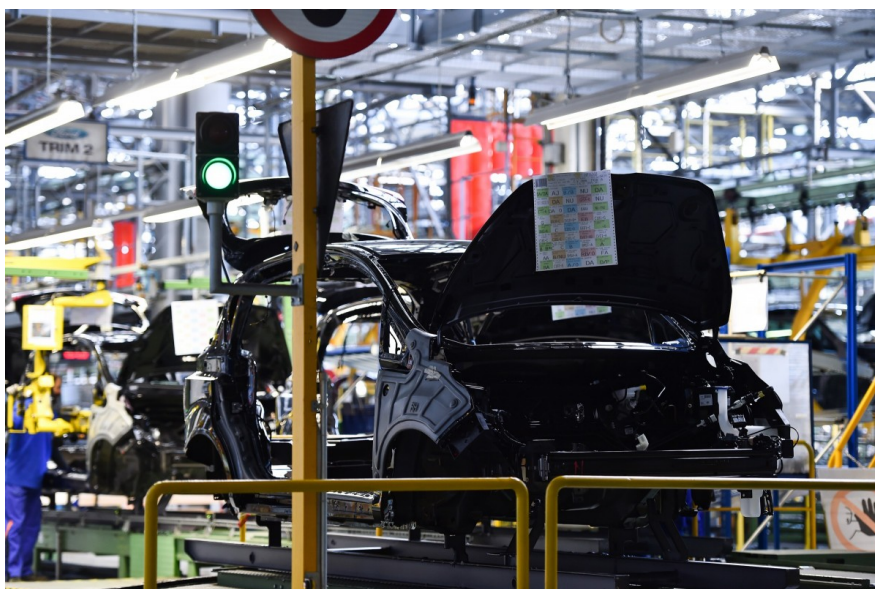


Romania's third quarter growth disappoints

Although the 0.3% quarterly growth rate came relatively close to our 0.7% estimate, the downward data revision somewhat changes this year's growth picture to the downside. We revise our 2021 growth estimate from 7.5% to 6.5% and maintain our 2022 estimate at 4.5%



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

7.2% 3Q21 year-on-year growth

Lower than expected

As usual, there is not much to chew on in the flash data as the details will only be available on 7 December. We assume that non-agriculture GDP may have marginally contracted in the third quarter, considering the relatively meagre retail sales expansion (+1.3% from the previous quarter), versus a meaningful contraction in industrial production (-4.6%) and an even bigger drop in the construction sector (-10.2% on seasonally adjusted data).

The Covid situation deteriorated significantly at the beginning of the fourth quarter as the fourth wave of Covid-19 infections overlapped with a very low vaccination rate (around 30% in late September when the fourth wave hit). Despite a reasonable degree of decoupling between the medical situation and economic activity, the depth of the medical crisis has likely taken its toll on consumer sentiment.

In parallel, industry has suffered from a combination of decreasing demand and missing components which triggered temporary production cuts (for the automotive sector in particular), a situation which might continue in the fourth quarter as well. With the construction sector in slowdown (or even contraction) mode as well, it is difficult to picture a better outlook for the fourth quarter than we had in the third.

To offset this slightly grim outlook, public spending will likely accelerate vigorously in the final months of the year, which could help fourth quarter growth as well. The budget deficit was 3.77% of GDP as of September 2021, and should the government still want to achieve its 7.13% of GDP deficit target, it would need to spend almost RON40b in the last three months of the year. We doubt that this is doable and maintain our forecast for a 6.5% of GDP budget deficit in 2021, which still leaves a hefty amount to be injected in the last months of 2021.

All things considered, we lower our GDP growth forecast for 2021 to 6.5% and maintain a mildly optimistic estimate of 4.5% for 2022. The risks for next year's growth outlook are slightly skewed to the downside given the slowing economic momentum and marginally higher (but still deeply real negative) interest rates. We believe that the National Bank of Romania will continue to increase interest rates at a measured pace and no longer see upside risks to our 3.00% terminal key rate forecast.

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