

Romanian growth for 2021 ends up less mighty at 5.6%

The Romanian economy expanded by 5.6% in 2021. The 0.5% sequential contraction in the fourth quarter of 2021 came against market/ING expectations for 0.8%/1.0% expansion. We revise our forecast for GDP growth in 2022 at 3.2% and maintain 4.5% for 2023



Despite a record number of infections during the Omicron wave, economic activity was relatively promising

Growth story softening

There is not much to chew on in today's flash data as economic growth details will only be available on 8 March. High-frequency data pointed to a relative flattening of economic activity in the last quarter of 2021, though most numbers remained mildly positive. Industrial production expanded by 1.3% versus the previous quarter, construction activity (up to November 2021) was quasi-flat, while private services seemed to enjoy a rather positive momentum. Generally, despite reaching a record number of infections during the Omicron wave, economic activity seemed rather disconnected from the medical situation, as no harsh restrictions have been enforced.

Public investments need to accelerate

The picture for this year looks a little cloudier. With pent-up demand exhausted by now and inflation eating up wage advances, the outlook for consumers' morale looks rather grim. At the

same time, there is not an end in sight yet for the international energy crisis and supply chain constrictions. Coming to offset these factors is the ambitious public investment plan for 2022 which amounts to 6.7% of GDP. This is, however, very much dependent on EU funds and will have to be carried on using the same limited administrative capacity for EU funds absorption.

Considering the above, we revise our real GDP growth forecast for 2022 to 3.2% from 4.5%, while maintaining 2023 at 4.5%. Despite the weaker growth background, we believe that the central bank will continue to increase the key rate up to 4.00% this year, a level which – given the high inflation – could not be considered as hindering growth.

We think it is worth pointing out that in nominal terms the GDP might expand even beyond the metrics taken into account by the government for the 2022 budget. Essentially, this is due to the higher inflation. Hence, a lower than estimate real GDP growth might not be as troublesome for the policymakers, at least not as long as it doesn't turn into a recession, which is not likely in our view.

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