Romanian growth figures reinforce signs of resilience

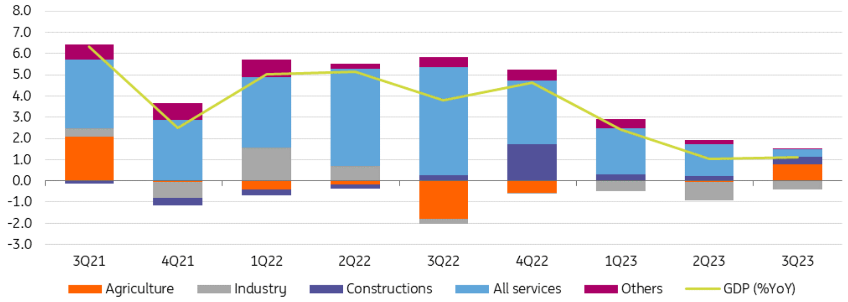
The release of detailed data for third-quarter GDP growth, alongside a rather hefty upward adjustment of the flash print, points to a pretty resilient growth picture in Romania. We marginally raise our full-year growth forecast from 1.5% to 1.7%, with the risk balance still tilting upwards

Bucharest, Romania

As the initial 0.2% annual growth in the third quarter has now been revised to 1.1%, the overall picture of Romania's economy certainly looks brighter for the full year. The quarterly growth has also been revised from 0.4% to 0.9%. Assuming no further data revisions (a difficult assumption to make), it would now take only a meagre 0.1% quarterly expansion in the fourth quarter to reach our initial 1.5% annual growth forecast.

On the supply side, our assumption that agriculture can offer a positive surprise in the third quarter materialised, as the sector added 0.8pp to the 1.1% overall annual expansion. Boosted by the strong momentum in public infrastructure investments, the construction sector added 0.4pp. Industry remains a laggard, subtracting 0.4pp and marking the fifth consecutive quarter of negative contribution to the GDP growth.

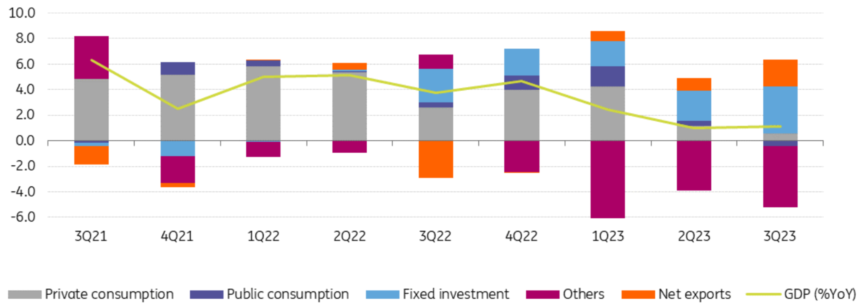
Real GDP (YoY%) and contributions (ppt) - supply side



Source: NSI, ING

Demand side, there was a rather large negative contribution coming from inventories (included in "others" in the chart below) which subtracted 4.8pp from the 1.1% growth rate. Otherwise, the main engine of the economy right now remains fixed investments, which contributed with 3.7pp – the highest contribution since the third quarter of 2019. Net exports have also contributed positively again by 2.1pp. This is the third consecutive quarter of positive contribution from net exports, a rather unusual situation for the Romanian economy over the last 10 years or so.

Real GDP (YoY%) and contributions (ppt) - demand side



Source: NSI, ING

The few pieces of high-frequency data that we got for the fourth quarter so far are pointing towards a robust expansion, with retail sales starting the quarter on a rather strong footing and confidence data marginally improving as well. For 2024, we are likely to see a rebalancing of the growth drivers from investments towards consumption, though the former should still hold on close to double-digit growth. However, with public wages likely to stay well within double-digit growth and pensions due to be increased by 13.8% starting January 2024 and approximately 22.0% starting September 2024, the private consumption story is likely to show marked improvement.

The above picture could complicate the National Bank of Romania's decision-making process, as the rising demand could slow the descent of an already sticky inflation profile, with many other uncertainties on the horizon. Again, this increases the likelihood of the rate-cutting cycle starting later and/or being shorter than our current 150bp estimate.

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