Romanian economy lost speed in 2023

Romania's fourth quarter GDP increased by 2.9% last year compared to the same period in 2022, despite contracting by 0.4% versus the previous quarter. Numbers exceeded the consensus estimates for the annual growth and likely leave many in wonder about the quarterly data. We maintain our estimate of 2.8% GDP growth for 2024

The Dambovita river in Bucharest, Romania

As this is a flash release, we don't have any other data except for the overall growth numbers. Details are to be published on 8 March.

In annual terms, the gross numbers show that the economy accelerated in the last quarter of 2023, which is broadly in line with most of the hard-frequency data we have at hand. Indeed, the last months of 2023 saw a mild revival in consumption, as retail sales expanded by 2.1% in the last quarter. This also translated into a reversal of the timid improvements that were visible in the trade balance throughout the year. At the same time, industrial production tempered its annual contraction while construction activity remained robust, likely closing the year with a double-digit advance. After posting the large positive surprise in the third quarter, the agriculture sector is unlikely to have had a meaningful contribution again.

We remain somewhat puzzled by the quarterly seasonally adjusted data which indicates a 0.4% contraction of the economy, and we believe that the number is likely to be revised upwards at the future prints. On this note, we continue to put more emphasis on the gross series, given the known mismatches between the gross and seasonally adjusted series.

What we make of it

The 2.0% real GDP growth in 2023 is somewhat better than recent expectations, but well below potential and it confirms National Bank of Romania's latest assessment of further contraction of excess aggregate demand. This will continue into 2024 for which we maintain our 2.8% GDP growth estimate, as the public investment engine is likely to get some help from private consumption as well. Monetary policy easing might help in the second half of the year, but in our view, the bigger issue is that GDP growth rates of 4.0-5.0% – that were business as usual just a short while ago – might become daring targets in the future.

Author

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com