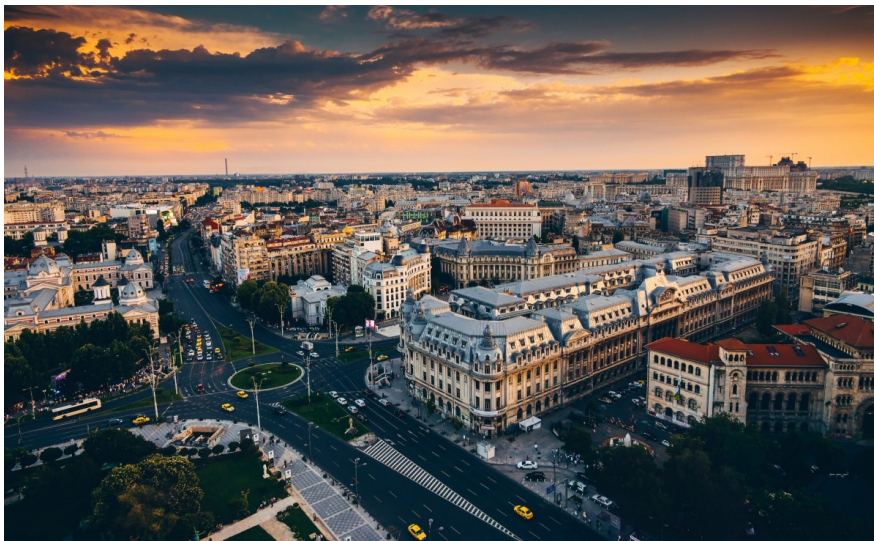


Romanian GDP confirms the slowdown

Today's third-quarter GDP data release in Romania confirms that the economy is slowing more than expected, adding weight to our below-consensus view of a 1.5% expansion in 2023. Large discrepancies remain between the gross and seasonal adjusted series, which carries a high risk of meaningful future data revisions



Bucharest, Romania

As this is a flash release, we only see the total rates at this stage. The full sectorial breakdown of components is due on 7 December. The gross numbers show that the economy nearly stagnated in the third quarter of this year, adding a meagre 0.2% versus the same quarter of 2022. This takes the overall GDP growth after three quarters of 2023 to 1.1%, while our estimate – which was already at the lower end of the consensus – was 1.8%.

High-frequency indicators have already been pointing to a bleak outlook for this quarter's growth, as retail sales remained weak and industrial production continued to contract. We don't know yet whether a positive surprise from agriculture materialised but even if it did, it would mean an even worse performance elsewhere. Investments and net exports are likely to have contributed positively.

Concerning the data series, they continue to show visible mismatches between the gross and the seasonally adjusted series. The latter saw some significant revisions. For example, in the first quarter, sequential growth was upwardly revised from -1.0% to -0.7%. In the second quarter, it

was revised down from an outstanding 1.7% to 1.3%. We suspect that this is rather due to the statistical model adjustments (acknowledged by the National Statistical Institute) and that the series will normalise over time. Until then, we prefer to focus more on the gross annual rates and are more sceptical about the seasonally adjusted numbers.

Our view

This visible growth slowdown is in line with our long-held view that the economy will slow more than most expect this year. To an extent, this also supports our below-consensus view on inflation through a weaker demand channel. Today's data also confirms the latest assessment from the National Bank of Romania (NBR) of a "relatively abrupt contraction of excess aggregate demand starting in the third quarter of 2023".

That said, this weaker-than-expected number for third-quarter growth does not prompt us to downplay the risks of a 'higher for longer' scenario fueled by stickier-than-expected inflation, which we acknowledged in our latest inflation review. For now, while the unfortunate combination of low growth and sticky inflation could carry on into the next year as well, we still hold on to our below-consensus 2024 GDP growth forecast of 2.8%.

Authors

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

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