

## Romanian GDP falls below expectations in the second quarter

Looking at today's data, one thing is clear: the Romanian economy is slowing more than expected. Therefore, we are revising our 2023 GDP forecast lower from 2.5% to 1.5%



As this is a flash release, we don't have other data except for the overall growth numbers. Details are to be published on 7 September. The gross numbers show a marked slowdown in economic growth in the second quarter of the year to 1.1% compared to the same quarter of 2022. This takes the overall GDP growth after six months of 2023 to 1.7%, while our estimate – which was already at the lower end of the consensus – was 2.3%.

Some information on growth drivers has been revealed in the high-frequency data available for the second quarter. It shows that it's been a pretty weak time for consumption, as retail sales have contracted by 0.5% versus the previous quarter. Industrial activity has been contracting as well, by 2.8%, one of the largest quarterly contractions in a while. Construction is also losing speed as the available data point to quasi-stagnant activity, while some marginally better numbers can be seen in the services sector where there could be a 2-3% quarterly expansion. Investments and net exports are likely to have contributed positively to second-quarter growth.

We've had a long-standing GDP growth forecast of 2.5% for 2023. While the detailed data due on 7 September might shed a different light on the growth dynamic, we are already

revising our 2023 GDP growth forecast to 1.5%, while maintaining 2024 at 3.7%. Depending on the specifics of the budget revision due later this month, risks might be skewed slightly to the downside.

Today's data confirm the National Bank of Romania's (NBR's) latest assessment of an accelerated narrowing of the output gap. From a monetary policy perspective, the lower growth is likely to offset the marginal higher inflation forecast and lead to a stable interest rate environment for the rest of the year. We believe that the NBR is not yet contemplating the timing for a dovish pivot, despite the more frequent dovish statements coming from other central banks in the region. We maintain our view of a first rate cut in the first quarter of 2024 with a key rate of 5.5% by the end of 2024.

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