

## Negative surprise in Romanian GDP puts this year's growth drive at risk

Today's data paints a rather bleak picture of slower-than-expected growth. Visible improvements in the second half are now needed for growth to accelerate this year. In the meantime, we revise down our forecast from 2.8% to a still optimistic 2.0%. Downside risks for rates have increased



Brasov, Romania

Romanian GDP data disappointed in the second quarter, following a weak first quarter. Growth came in at 0.8% in year-on-year terms, well below the market expectations of 2.3%. Moreover, data for the first quarter was revised down from 0.5% to 0.1%. All in all, in the first half of the year, the economy grew only 0.7% YoY, compared to the first half of 2023. This means that unless the second half of the year visibly outperforms the first half, the risk of a lack of progress or even a slowdown from last year's 2.1% growth rate has increased noticeably.

While the causes of this weak performance are still uncertain until the release of the breakdown (6 September), a few things can be pointed out:

- On the one hand, high-frequency data shows that private consumption likely remained strong, fuelled by persistent wage growth and credit activity.

- On the other hand, growth has likely been dragged down by net exports, which have probably continued to disappoint.
- Moreover, inventories could have also played a role.
- Lastly, potential delays in investments could have been reflected more strongly in this quarter's reporting, weighing on the print on more technical grounds.

On the supply side, the picture is also mixed but tilted to the bearish side, as high-frequency data shows. Industrial production has continued to perform poorly overall despite June's positive surprise. Residential and commercial construction have also been a drag on output, despite the strong outturn in civil engineering projects. On the other hand, services for companies seem to have recovered some ground in the second quarter, while those for the population remained lacklustre.

All in all, today's data leads us to revise down our 2.8% GDP growth forecast for 2024 to a still optimistic 2.0%. We are waiting for the breakdown to see the exact causes of this persistent weakness before making any other adjustments. The risks of another cut from the National Bank of Romania this autumn have increased and so have the downside risks for the higher-for-longer rates scenario. That said, previous experience shows that it is not unusual for data revisions to surprise in both directions and we prefer to remain cautious at this stage.

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