

## Romanian growth remains strong while inflation undershoots

The 1.1% sequential expansion of the economy in the fourth quarter of 2022 came largely in line with expectations, taking full-year GDP growth to 4.8%. January inflation, on the other hand, came in significantly below expectations at 15.1%. We are likely to see sharply lower inflation estimates from the central bank in tomorrow's Inflation Report



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### GDP: great in 2022, good in 2023?

It's been a pretty big day on the macroeconomic front for Romania. Arguably the most important news is that the economy expanded in the fourth quarter of 2022 by 1.1% versus the previous quarter and by 4.6% when compared to the fourth quarter of 2021. This takes the full-year GDP growth to 4.8% which is perhaps among the better figures that one could have hoped for.

Being a flash release, there is no other data to chew on except for the overall growth, with details of the growth drivers due to be published on 8 March. What we do know from the available high-frequency data (in some cases the December data is not out yet) is that it's been a strong quarter

for construction activity which expanded by approximately 8.0% versus the third quarter. Services were also around 2.0% higher while retail sales rose by 0.8%. Industrial production lagged behind at -2.1%.

Looking to 2023, our 2.5% GDP growth forecast was at the higher end of the estimates for a time, but now looks to be the consensus after many analysts and institutions revised their expectations higher as well. We maintain the current forecast and evaluate that risks are - dare we say - skewed to the upside! While a slowdown in private consumption could be visible in the first quarter of 2023, which could even bring the overall GDP growth close to zero, the strong momentum in investment activity (presumably related to EU-financed projects) should continue, and prevent a contraction. Corroborate that with a somewhat looser monetary policy due to laxer liquidity management and the picture for 2023 does not look all that grim.

## **Inflation: below expectations, though not exactly for the right reasons**

At 15.1% in January, the headline inflation rate came in way below market expectations of 15.8% (Bloomberg survey) and even below our 15.4% estimate which was the lowest point in the survey. However, the details have been rather surprising as we did not account for the sharply lower electricity prices (-15.8% versus December 2022) and considered a much smaller number. For this reason, prices for non-food items posted a monthly decrease of 1.0%.

Energy aside, the rest of the price increases have been above expectations, with food items advancing by a monthly 1.5% and services by 1.8%. In particular, fresh fruit was almost 5.0% higher than in December, while the rise in excise duties for alcohol has pushed these items over 3.0% higher. Core inflation inched higher towards 14.9% from 14.7% in December.

While below expectations, today's inflation data is unlikely to change the National Bank of Romania's mindset. A new Inflation Report is due to be presented tomorrow 15 February and will contain the updated NBR forecast. We expect the 2023 year-end inflation rate to be revised much closer to our 7.4% estimate - for which we are actually starting to see risks to the downside. It will also be interesting to watch for the longer-dated NBR estimates, particularly whether they see inflation entering the 1.5%-3.5% target range over the two-year forecast horizon. Our base case is that headline inflation will not dip below 4.0% over the next two years.

### **Author**

#### **Valentin Tataru**

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

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