

## Romanian retail sales remain on a strong footing

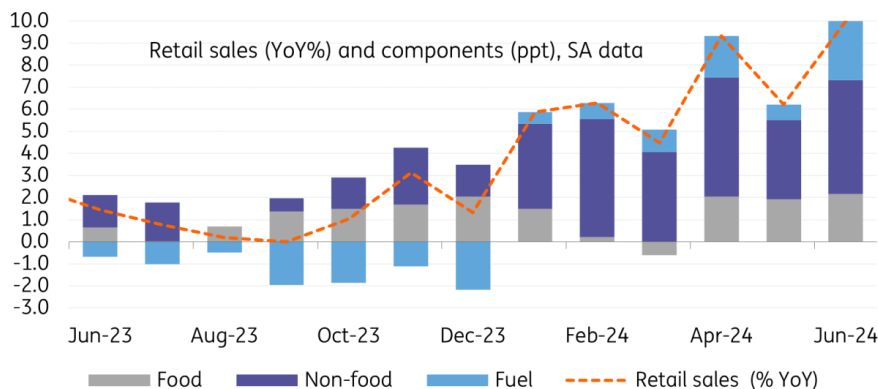
Romanian consumers have been maintaining their spending spree in the second quarter, although at a slightly lesser pace than in the first. Vigorous private consumption is set for a second consecutive quarter which may be another constraint on near-term policy easing by the central bank



The Unirea Shopping Centre in Bucharest

Romanian retail sales increased 1.8% month-on-month in June, following April's 0.3% MoM contraction. This represents the second strongest monthly increase of the year, after January's whopping 4.6%. Looking at the monthly breakdown, food sales almost stagnated at 0.1% MoM (1.1% in May). Meanwhile, non-food sales picked up 1.8% (-1.6% in May), and fuel sales increased sharply by 4.4% (-0.5% in May).

Looking at the bigger picture, sales advanced by 1.6% in quarterly terms, following the first quarter's 5.1%. In annual terms, retail consumption grew 7.0% in the first half of the year. For reference, retail sales grew 1.8% for the whole of 2023 compared with 2022.



Source: NSI, ING

All of this shows that demand pressures remain strong, keeping upside inflationary risks in place. Real wages have been in positive territory for almost a year and a half now, with very healthy monthly growth rates. These consumption patterns go hand in hand with other macro data we've seen since the beginning of the year, namely strong consumer loan activity and a visibly growing trade deficit.

On the monetary policy front, this result continues to complicate the already-hard-to-fine tune easing cycle ahead. Indeed, inflation has decelerated visibly, and we could get closer to the target by the end of the year while the export-driven industrial sector continues to contract. But with consumers and credit activity remaining in strong shape, interest rates are highly unlikely to surprise us to the downside, especially as wage growth continues to remain in double digits. Furthermore, this protracted positive reaction of consumers to their real wage gains likely continues to boost firms' confidence in their pricing power ahead of next year's likely increase in the tax burden.

In the near term, we expect another strong quarter on the private consumption front and we look for an acceleration of the second quarter's annual GDP growth to 2.7%. Retail sales should continue to underpin solid private consumption readings for the rest of the year as the wage advance will likely stay strong. We therefore hold on to our 2.8% projection for this year's GDP growth rate.

## Author

### Stefan Posea

Economist, Romania

[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

### Valentin Tataru

Chief Economist, Romania

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

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