

Strong but not 'wow': Romania's growth rate misses our estimate

The 1.8% second-quarter GDP growth came close to our 2.0% estimate, but the downward data revision lowered Romania's 2Q's yearly growth rate to 13.0%. We were expecting 14.5% and the consensus was even higher at 15.7%. We maintain our GDP growth forecast of 7.5% for 2021 and 5.0% for 2022



People enjoying the sunshine, and higher growth rates, in Bucharest

13.0%

Romania GDP growth

2Q21, year-on-year

Lower than expected

As usual, there is little to get your teeth into with this flash data as the growth details will only be available on 7 September. It is sensible however to assume that the bulk of the growth was carried out by private consumption boosted by the pent-up demand that still exists. Investments (public ones in particular) have probably continued to contribute positively, while the negative

contribution of the net exports might have slowed down a tad.

After a very relaxed summer from the coronavirus point of view, marked by a very low number of daily infections but also by a very low vaccination rate, Romania is currently at the beginning of the fourth wave of Covid-19 infections, with the peak estimated to materialise in mid-September. Authorities have already made it clear that imposing restrictions that come even close to the ones which occurred during the previous waves is out of the question. However, uncertainties remain and have been building, including some sporadic quarrels in the coalition government, Romania is still awaiting EU approval on its Recovery and Resilience plan, and there are still unknowns regarding the budgetary consolidation strategy due to be published in a couple of months or the upward trending inflation expectations.

All considered we maintain our GDP growth forecast at 7.5% for 2021 and 5.0% for 2022. Risks for this year growth remain mildly skewed to the upside, but to a lesser extent than before today's flash data. Although not materially changing the macro picture, this should help the central bank to remain on hold at its 5 October 2021 meeting and begin its hiking cycle in November. By then we will have a better picture of the impact of the fourth wave of infections, the budget execution path and maybe clearer waters on the political scene.

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