

# GDP REPORT

8 September 2015

**Slower than expected economic advance in Q2 2015; we revise our 2015 growth forecast to 3.7%, down from 4%.**

- Following a remarkable positive surprise (4.3% YoY) [in the first quarter of 2015](#), Romania's Q2 GDP data was highly disappointing (see Chart 1), as the NIS reported only a 3.3% annual gain (gross data, slightly higher than the 3.2% advance indicated by the flash estimate in the middle of August), in contrast with the initial market consensus of 4.1%/4.8% YoY (Reuters/Bloomberg).
- On QoQ basis, the economy showed a sluggish 0.1% advance in Q2, after the first quarter's 1.4% hike (SWDA data). At the same time, the National Institute of Statistics revised significantly its seasonally adjusted statistics, pointing to a somewhat less impressive growth path for the latest period (see Chart 3). It may be also worth noting that while the gross data seems to be characterized by sharp movements, the newly revised SWDA figures point to a smoother evolution, as according to these the economy decelerated only to 3.7% YoY in Q2, following first quarter's 3.8% YoY growth (see Chart 4). In this particular case, we suspect that the latter measure may be a less noisy indicator in the assessment of the underlying trends.
- On the expenditure side, households' consumption had the largest contribution to the annual growth for the sixth consecutive quarter (Chart 5), even if it advanced somewhat slower in QoQ terms (+0.5%, SWDA data). Net export was the weakest point, after it shaved off 1.5% from the overall increase, as the advance of imports outpaced that of exports. Probably one of the most positive messages of the Q2 data was the benign evolution of gross fixed capital formation, which rose by 2.8% QoQ and 7.9% YoY, maintaining its increasing trend since Q1 2014 (Chart 7), after it was supported primarily by private investments, presumably also due to EU fund absorption (Chart 8), while public investments could be more sluggish.
- Turning to the production side, the sector of market services was still the main driver of the economy, led by the IT&C segment, which gained further steam in the second quarter of the year (5.3% QoQ and 15.0% YoY), while the real estate activities' value added also got momentum (4.5% QoQ in Q2 vs. 0.7% in Q1). On the other hand, industry's contribution to growth had almost evaporated (see Chart 4), similarly to the construction sector.
- Looking ahead, we expect that consumption expenditures should continue to be the most important element of growth, as reflected by early retail trade data too (Chart 9). Nonetheless, consumption growth may be bolstered by favourable employment outlook (Chart 10), as well as by increasing incomes of households (Chart 11 and 12), while government measures, such as June's VAT reduction on food products, and the recently announced wage increases in the public sector should have also positive impact on expenditures. At the same time, consumer lending showed some promising signs too, at least in the case of RON credits. It is expected that the robust growth of consumption could guide entrepreneurs to launch investments too. Nevertheless, the outlook of net exports seems to be cloudier, as the strengthening domestic demand already started push up imports, while global growth appears to have lost steam, particularly in the case of emerging markets.
- Excluding the agriculture sector, where a declining trend is expected for the rest of the year due to the unfavourable weather conditions (Chart 13), the country's economy could pick up in the third quarter, as early survey data also suggests (Chart 14), but should lose some steam in the last quarter, after households may postpone some planned expenditures ahead of the newer VAT reduction at beginning of 2016. As in the last few quarters, market services may play an important role in Q3's acceleration. Regarding the real estate sector, beyond the recent upswing reflected by Q2 value added data, we see other positive signs in the case of dwelling prices (Chart 15), while mortgage-based lending also started to revive (Chart 16), presumably with favourable impacts on the construction sector in the long term.
- Despite the anticipated pick up of the economic activity, we revised downward our 2015 growth projection to 3.7% from 4%, in the light of the weaker than expected Q2 GDP data and the negative effect of the summer drought, which is likely to weigh on agriculture's output, especially in Q3. At the same time, we note that the recent drop in oil prices is supposed to translate into a positive effect on households' disposable income.

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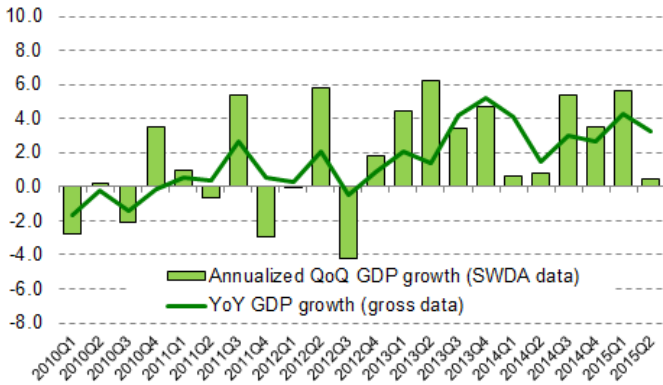
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- Regarding 2016, we also lowered our growth projection by 0.3 percentage-points to 3.7%, as the standard VAT rate will be reduced to 20% instead of 19%, while most of the other fiscal loosening measures were postponed until 2017. Nonetheless, the gradual implementation of the easing package should have beneficial impact on public finances.
- Overall, we maintain our positive opinion on Romania's economic outlook, underscoring also the country's low debt ratios and improved macroeconomic stability. Among the main risks, the deterioration of global growth outlook should be mentioned with potential negative secondary impacts on external demand. However, the CEE region, including Romania seems to be less vulnerable in the face of such unfavourable effects.

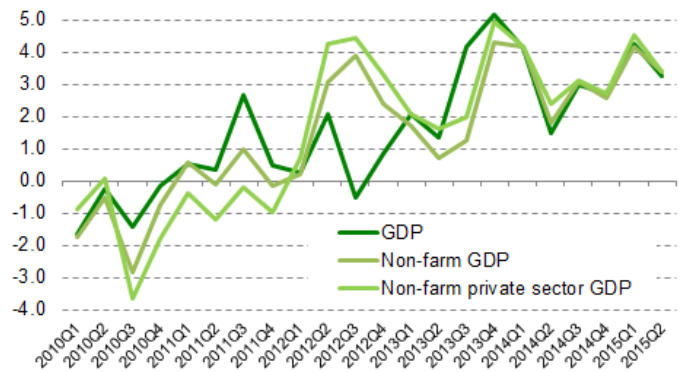
**Chart set:**

**Chart 1: Summary chart of GDP growth (%)**



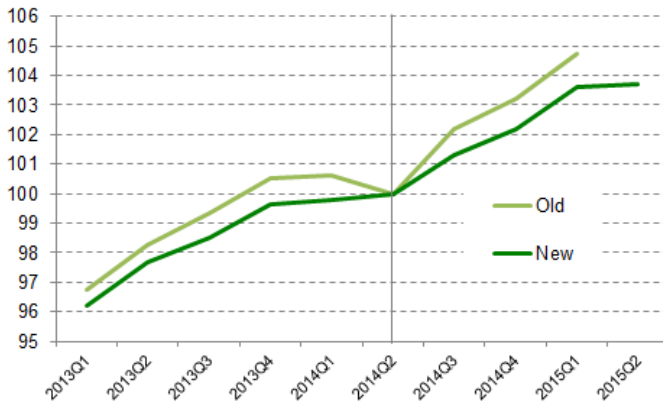
Sources: NIS, OTP Research

**Chart 2: GDP vs. non-farm and non-farm private sector growth (YoY,%)**



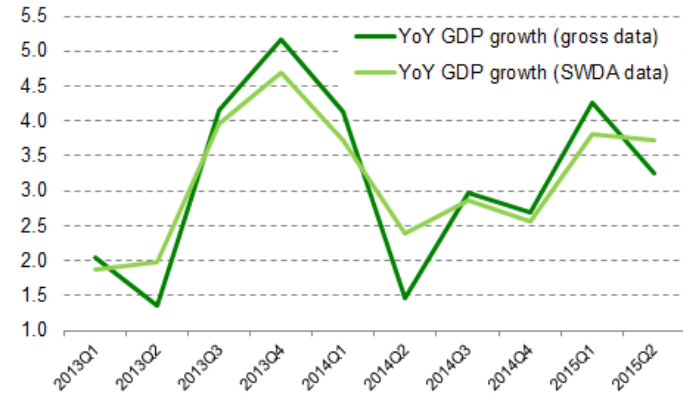
Sources: NIS, OTP Research

**Chart 3: Romania's GDP evolution, old vs. new data (2014 Q2 = 100, SWDA data)**



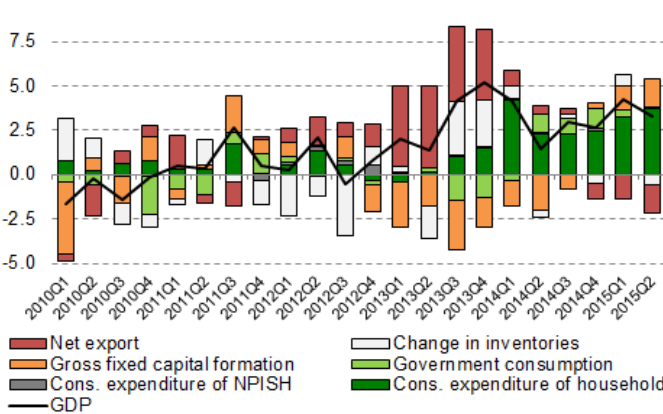
Sources: NIS, OTP Research

**Chart 4: Romania's GDP evolution, gross data vs. SWDA data (%)**



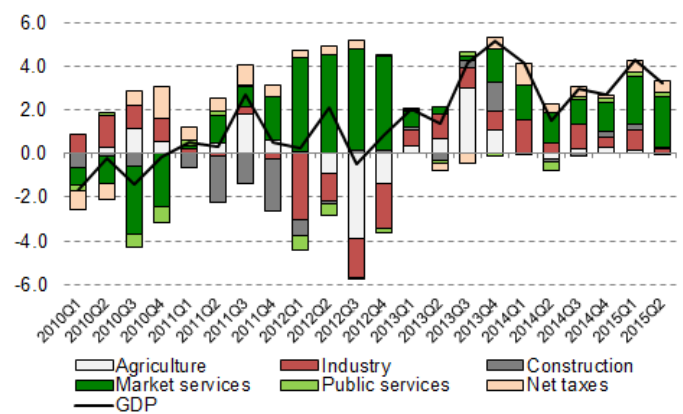
Sources: NIS, OTP Research

**Chart 5: Decomposition of GDP growth by expenditure-side items**



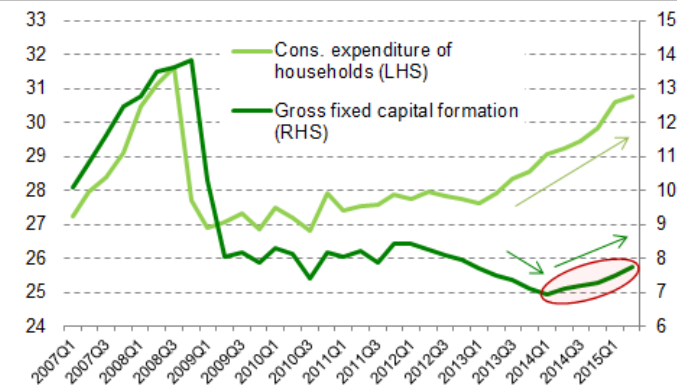
Sources: NIS, OTP Research

**Chart 6: Decomposition of GDP growth by production-side items**



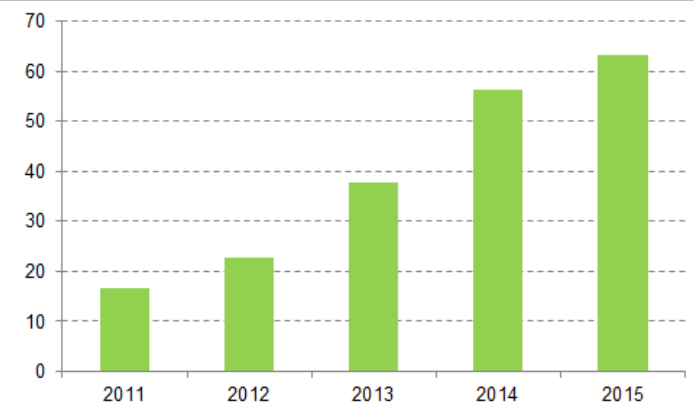
Sources: NIS, OTP Research

**Chart 7: Gross fixed capital formation and consumption expenditure of households**  
(2000 constant prices, RON bn, SWDA)



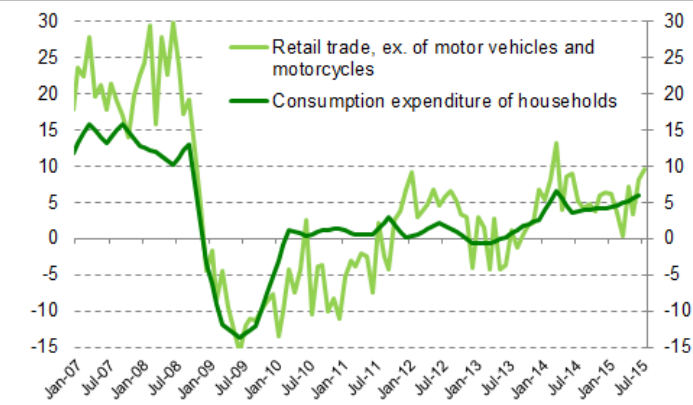
Sources: NIS, OTP Research

**Chart 8: Percentage of available funds paid out by the Commission**  
(2007-2013 Funds)



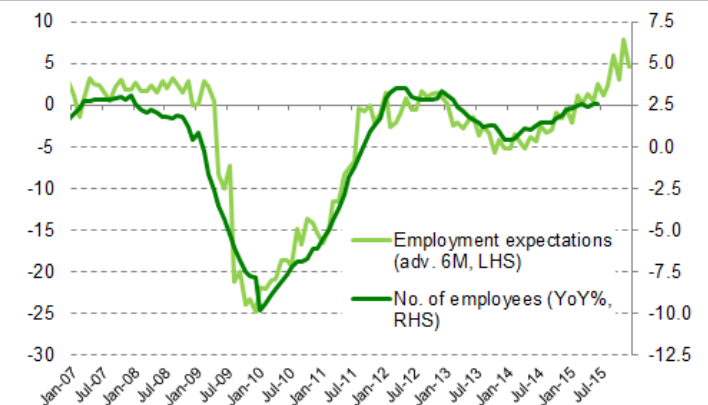
Sources: EC (Cohesion Policy Data, accessed on 7 Sep. ), OTP Research

**Chart 9: Consumption vs. retail trade growth**  
(YoY%, gross data)



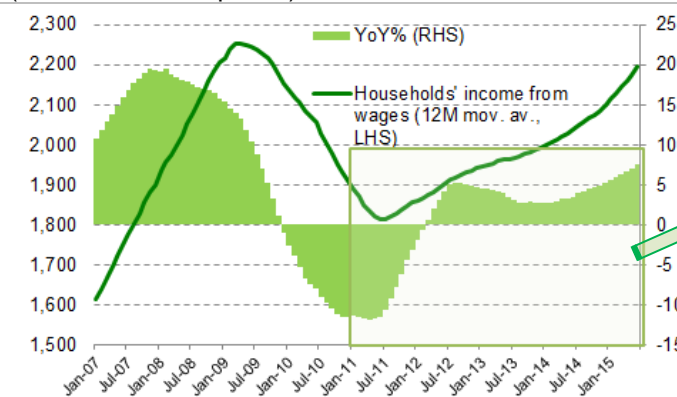
Sources: NIS, OTP Research

**Chart 10: Employment**



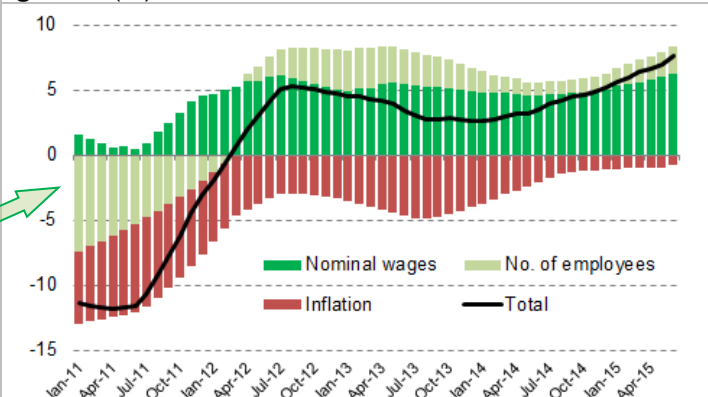
Sources: NIS, EC, OTP Research  
Note: employment expectations are calculated as a weighted average of sectorial expectations

**Chart 11: Households' income from wages**  
(RON bn at 2000 prices)



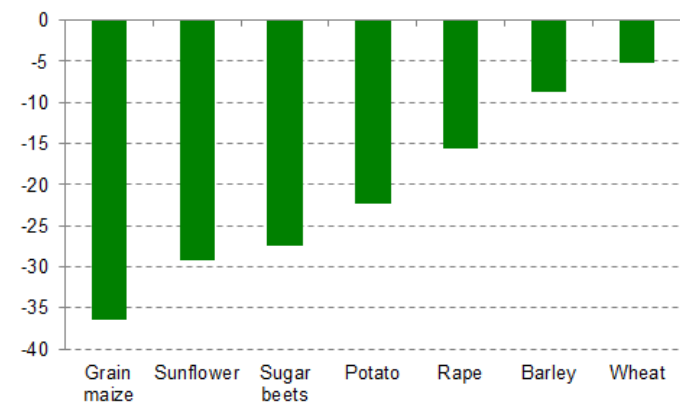
Sources: NIS, OTP Research  
Note: households' income from wages is calculated as the number of employees \* Net real wages

**Chart 12: Decomposition of households' income growth (%)**



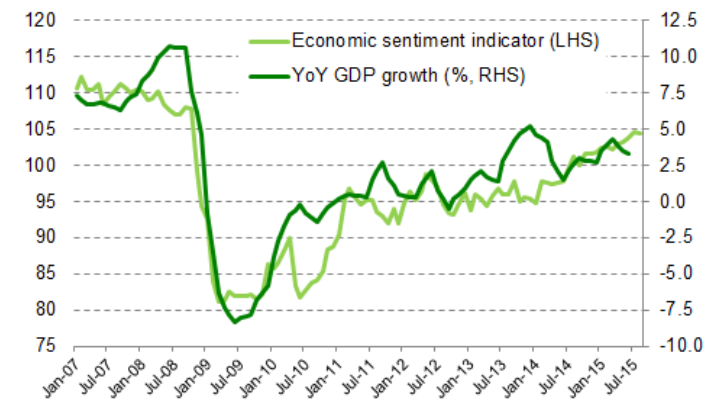
Sources: NIS, OTP Research

**Chart 13: Crop yield forecasts, 2015 vs. 2014 (%)**



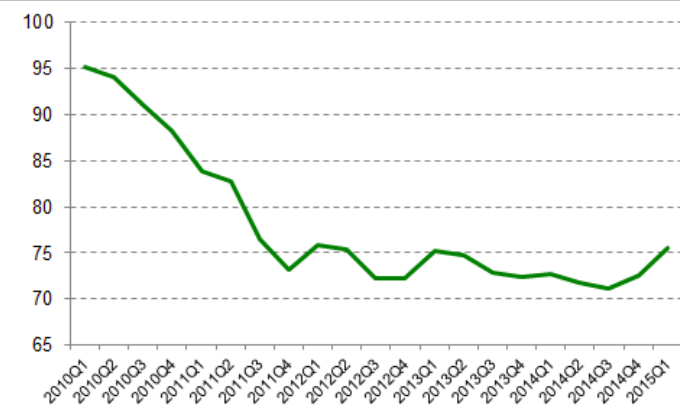
Sources: EC, OTP Research

**Chart 14: GDP growth vs. economic sentiment indicator**



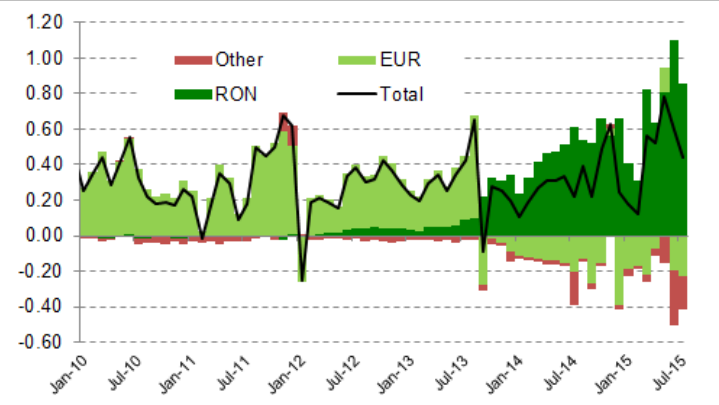
Sources: NIS, EC, OTP Research

**Chart 15: Residential property prices, all dwellings (2009 av. = 100)**



Sources: NIS, OTP Research

**Chart 16: Mortgage loan flows (FX adjusted data)**



Sources: NBR, OTP Research

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