

# GDP REPORT

9 June 2015

***Very strong start in Q1, while the fiscal loosening is yet to come: growth may easily reach 4% in both 2015 and 2016.***

- Romania's GDP growth accelerated to 4.3% YoY in Q1 2015 after the 2.7% in Q4, which exceeded expectations (2.7%) by far. On QoQ basis, the economy expanded by 1.6% (seasonally and working day adjusted data) in line with the preliminary estimates. The further good news is that Romania was not a unique case, as growth exceeded expectations everywhere in the CEE region, pointing to a broader-based upturn.
- In line with [our expectations](#), households' consumption expenditure remained the main driver of growth (see Chart 3) accelerating further YoY (to +4.9% from 4.2%) and QoQ (to +1.8% from 1.3%). Exports also gained momentum in Q1 2015, helped by the recent recovery of the EU's economy, advancing 4.3% QoQ and 9.7% YoY, up from +1.2% QoQ and +3.7% YoY in the previous quarter. Nevertheless, this performance was not enough to offset the spectacular rise of imports (+6.0% QoQ and 12.6% YoY), which was bolstered by the reviving domestic demand. As a result, net exports registered a negative contribution (-1.3%) to GDP growth for the second consecutive quarter.
- It may be worth noting that after a quite long period of decline, investments seem to have bottomed out (see Chart 5). In this regard, Q1 2015 statistics delivered a benign surprise, pointing to a cheering 3.3% QoQ rise in gross fixed capital formation. This movement translates into a robust 8.0% yearly growth, after the timid advance of 1.4% YoY in Q4 2014. Companies might decide to launch investments, after facing persistently increasing demand, coupled with a more stable economic environment and improving outlook. At the same time, the somewhat better absorption of EU structural funds could support investments as well.
- Turning to the production side, the picture is similarly bright, as all of the major sectors recorded positive contributions to GDP growth (see Chart 4). Market services performed quite well, having the largest impact on the economic advance (2.3% out the 4.3% YoY gain), reflecting the strong momentum in household consumption. At this point, the IT&C sub-sector might be underscored with a yearly growth of 13.2% and a QoQ increase of 3.7%. Reflecting solid exports, value added of industry inched up 2.2% in quarterly terms, after slipping 0.5% QoQ at the end of 2014, which corresponds to a 0.9% contribution. The construction sector, probably being at the beginning of an expansion cycle, also points to a positive (0.3%) impact on growth.
- Looking ahead, Romania's GDP growth may easily reach 4% in both 2015 and 2016. Early survey data support the view that the favourable trends might have continued in Q2 (see Chart 6). The improving European growth outlook, the loose monetary conditions and the fiscal loosening could provide further stimulus for the coming quarters.
- Households' real income from wages, presumably the primary factor behind the rebounding consumption, remained on an upward trend, while its growth rate has accelerated further recently (Chart 7), as nominal wages rose faster and inflation remained low (see Chart 8), letting households spend more. Real incomes are likely to grow further in the second half of 2014 too, as the economy could create new jobs in line with managers' expectations (see Chart 9). Accordingly, nominal wages should also record healthy increases. Nonetheless, inflation is set to sink into the negative territory, after implementation of the reduced VAT on food products, starting from this month.
- Among the main risks, the unsolved Greek situation should be noted. Admittedly, Romania is considered to be exposed directly due to its links through the banking sector. Nonetheless, the country's vulnerabilities seemed to be diminished notably compared to 2010.

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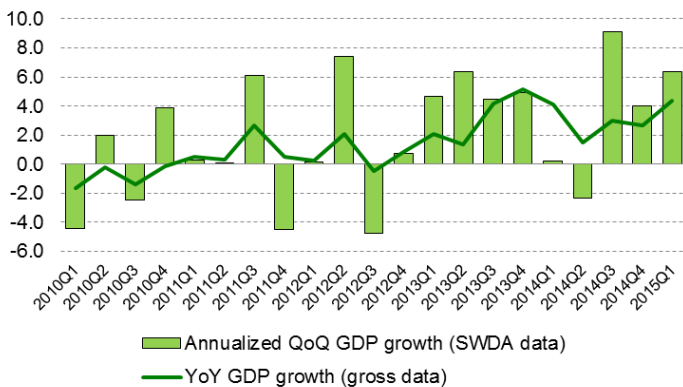
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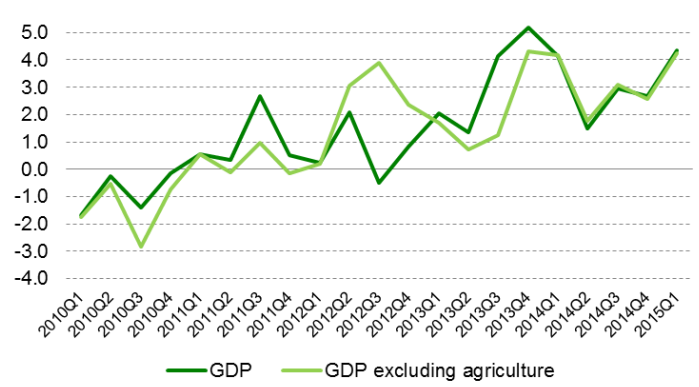
Chart set:

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



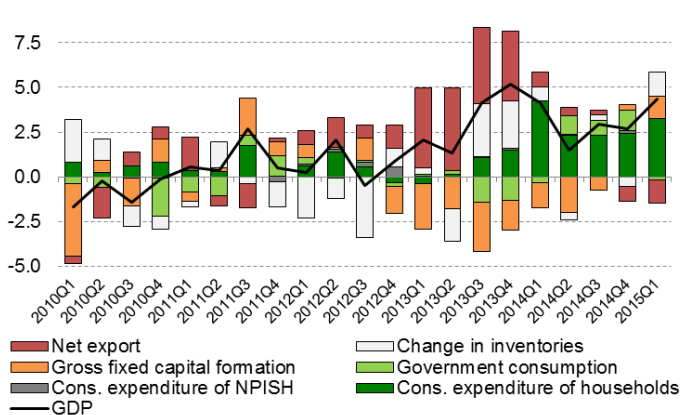
Sources: NIS, OTP Research

**Chart 2: GDP vs. non-farm GDP growth (YoY%)**



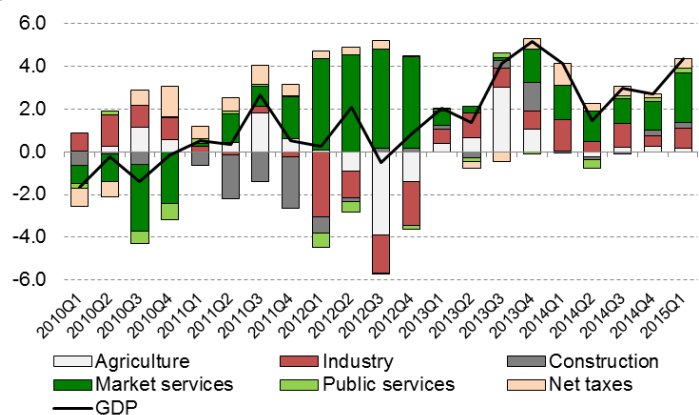
Sources: NIS, OTP Research

**Chart 3: Decomposition of GDP growth by expenditure-side items**



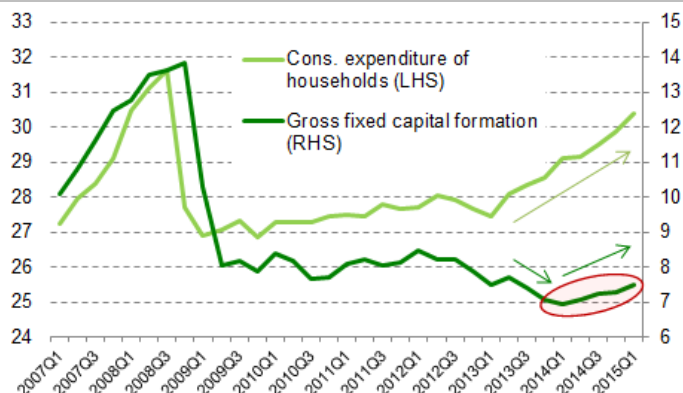
Sources: NIS, OTP Research

**Chart 4: Decomposition of GDP growth by production-side items**



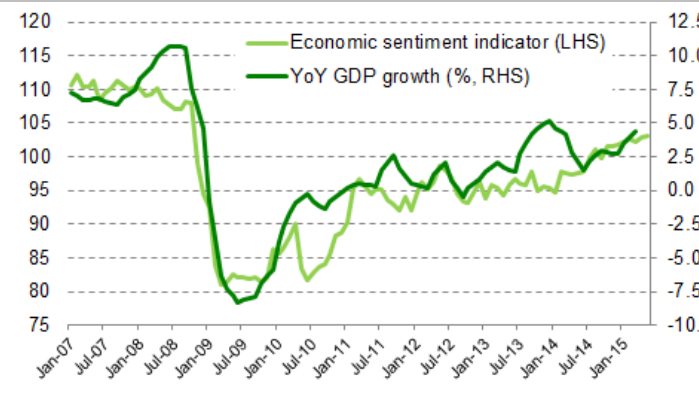
Sources: NIS, OTP Research

**Chart 5: Gross fixed capital formation and consumption expenditure of households (2000 constant prices, RON bn, SWDA)**



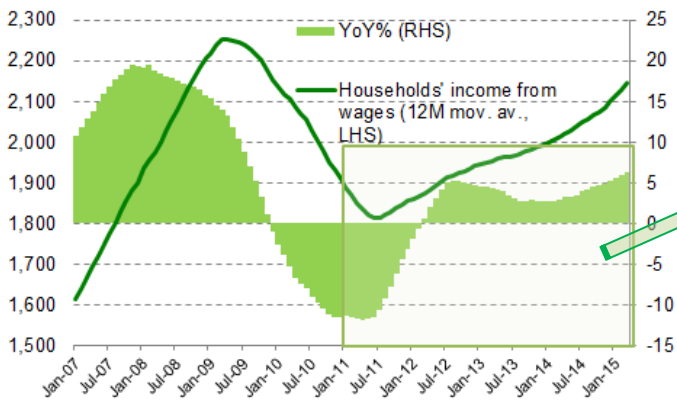
Sources: NIS, OTP Research

**Chart 6: GDP growth vs. economic sentiment indicator**



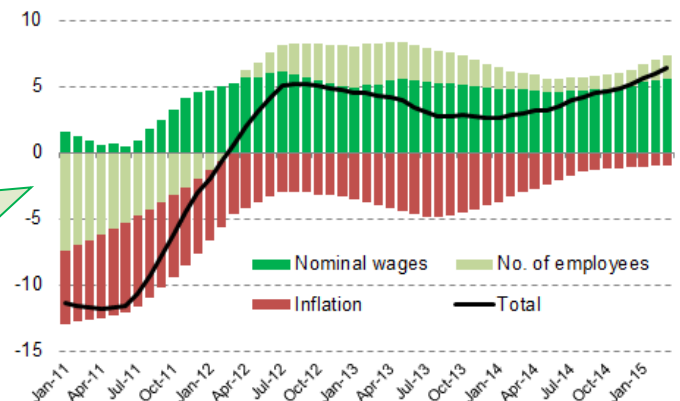
Sources: NIS, EC, OTP Research

**Chart 7: Households' income from wages (RON bn at 2000 prices)**



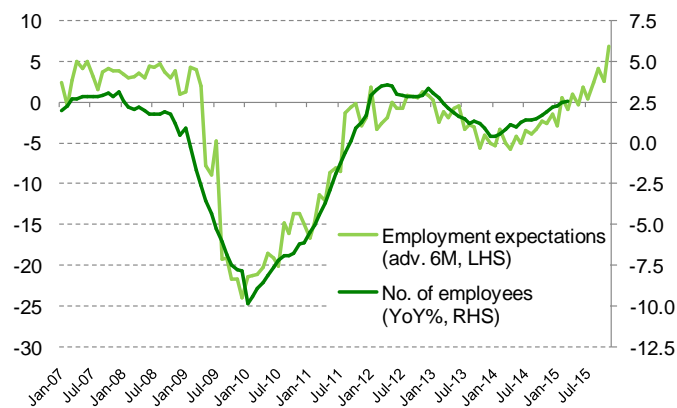
Sources: NIS, OTP Research  
 Note: households' income from wages is calculated as the number of employees \* Net real wages

**Chart 8: Decomposition of households' income growth (%)**



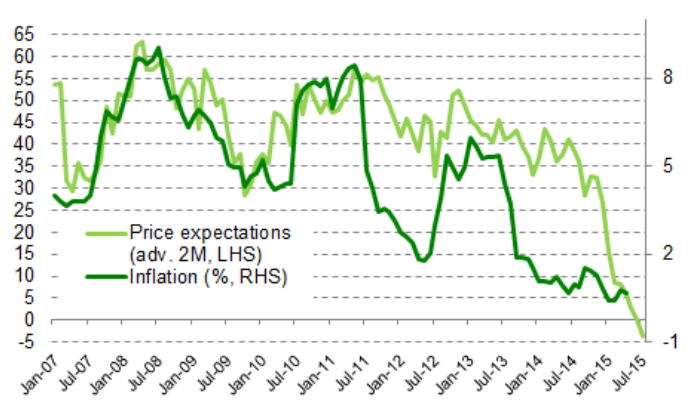
Sources: NIS, OTP Research

**Chart 9: Employment**



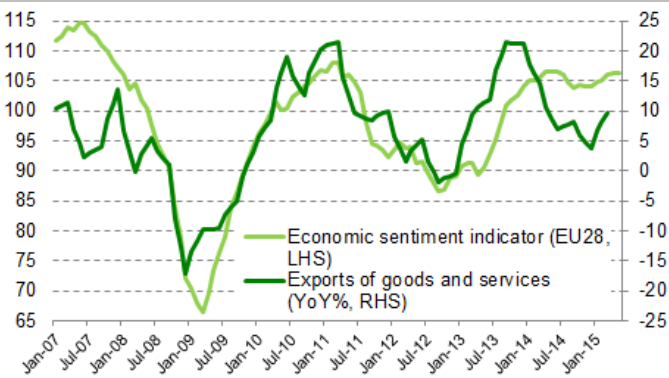
Sources: NIS, EC, OTP Research

**Chart 10: Inflation and price expectations**



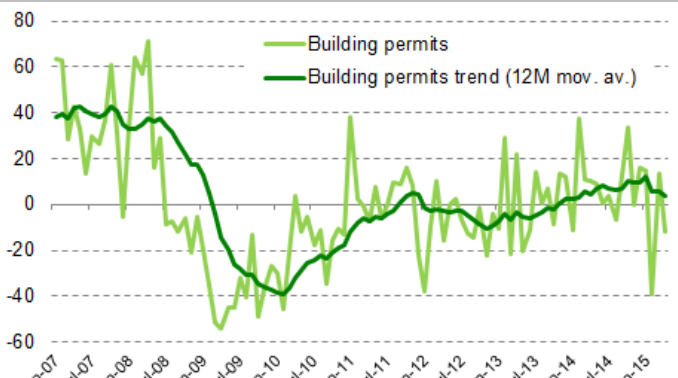
Sources: NIS, EC, OTP Research

**Chart 11: Romanian exports and EU level economic sentiment indicator**



Sources: NIS, EC, OTP Research

**Chart 12: Building permits (YoY%, based on square metres of useful area)**



Sources: NIS, OTP Research

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