

GDP REPORT

10 March 2016

Domestic demand became even stronger in Q4 2015, with households' consumption expenditures adding 7.6% YoY and GFCF gaining 11.0% YoY

- The National Institute of Statistics confirmed Q4 2015's GDP growth at 3.7% YoY (gross data, see Chart 1) and 1.1% QoQ (SWDA data). In full year 2015, Romania's economic advance accelerated to 3.7%, as it was also signalled by the flash estimate released in the middle of February. At the same time, the NIS also revealed the details of the revised 2013 and 2014 GDP statistics. According to the fresh report, the country's economy increased more rapidly in 2013 (3.5% vs. 3.4%) and in 2014 (3.0% vs. 2.8%), among others due to the stronger than previously thought investment activity (see Chart 5).
- To a lesser extent, but agriculture still remained a drag on growth in the last quarter of 2015, underscored by the evolution of the non-farm GDP (see Chart 2). Excluding the negative impact of this fairly volatile sector, Romania's economy would have increased by 4.1% YoY in Q4. Simultaneously, the non-farm private GDP posted a 4.8% YoY gain, as the slowing growth pace of public services had no influence on this underlying indicator. Apparently, both the non-farm and the non-farm private GDP registered somewhat lower annual gains in Q4 than a quarter earlier, but overall these increases still show evidence of a very strong expansion.
- As we already got used to it since 2014, households' consumption expenditures were the principal drivers of the economy in Q4 too, delivering the largest positive contribution to growth (Chart 3) as they accelerated even further, pointing to a 7.6% annual gain, the highest since the outburst of the financial crisis. Compared to the previous quarter, consumption expenditures showed a very strong advance as well, expanding by 2.1% (SWDA). Nonetheless, these bright figures did not cause any surprise in the light of exuberantly increasing real incomes from wages (Chart 6). Average net wages registered double-digit growth rates in the latest few months, which together with the negative inflation and the rising number of employees, lifted sharply real disposable incomes. However it is worth mentioning that these gains in wages were not sustained by higher productivity and as such they cause us to be concerned to some extent about the prospects of possibly increasing pressures on consumer prices and deteriorating current account balance. Romania's inflation is not as low as it seems at the first glance. After filtering out the impact of VAT reductions, the annual inflation may have stood around 2% in January, which is quite high compared to the other countries of CEE region or even in a broader, EU level comparison. In addition, the current account balance already marked a turning-point, as we highlighted it in our previous GDP [report](#). Taking into account the planned minimum wage hike and employment expectations (Chart 7), which indicate somewhat slowing but still robust expansion, we think that consumption growth could remain at quite elevated levels in the coming quarters. January's retail trade statistics also suggest that consumption most probably started the year on a strong note (Chart 8).
- Beyond households' expenditures, the other main component of domestic demand, gross fixed capital formation had an important positive effect on Q4 growth, gaining steam to record 11.0% YoY (gross data) and 3.1% QoQ (SWDA) increases. The favourable dynamics presumably were helped first of all by higher EU fund absorption and to a lesser extent by the modestly rising capital expenses of the public budget (Chart 9). Facing with definitely strong demand, agents seemingly intensified their investment efforts, reflected among others by higher expenses on equipment (Chart 10), including means of transportation (Chart 11). Nevertheless, net exports continued to weigh on the economy in the last quarter of the year. We think that GFCF could maintain its momentum in Q1 2016. This is also supported by the fact that a large portion of public investment spending took place in the last month of 2015, most probably with lasting beneficial effects at the beginning of this year too.
- On the production side, the evolution of market services slightly surprised us on the downside, registering a 0.7% QoQ (SWDA) drop, but it came after a very robust performance in the previous quarters. At the same time, construction output was somewhat larger than we expected, offsetting milder market services. These notable dynamics in the case of construction possibly are related to civil engineering works, fuelled by larger public investment expenditures. Overall, we maintain our positive view about Romania's construction sector, as usually it lags slightly behind the general business cycle (Chart 12), but we suspect that the uncertainties over the mortgage default law could make certain entrepreneurs postpone or even abandon investments projects in the residential real estate market, even though there is a clear need for new dwellings in Romania.
- Summing up this year's outlook, we expect that the country's GDP growth may accelerate further, to 4.2% in 2016, sustained by very robust domestic demand, which is fuelled by aggressive fiscal loosening measures as well. On the other hand, there are increasing threats that the economy could get overheated, as the still persisting output gap (Chart 13) may turn positive before long on the back of above-potential growth pace (Chart 14).

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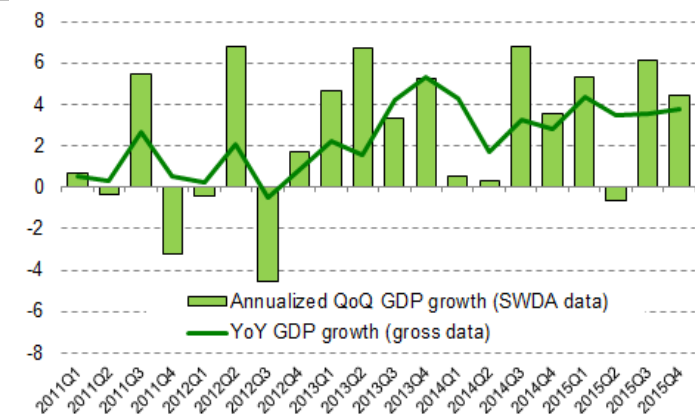
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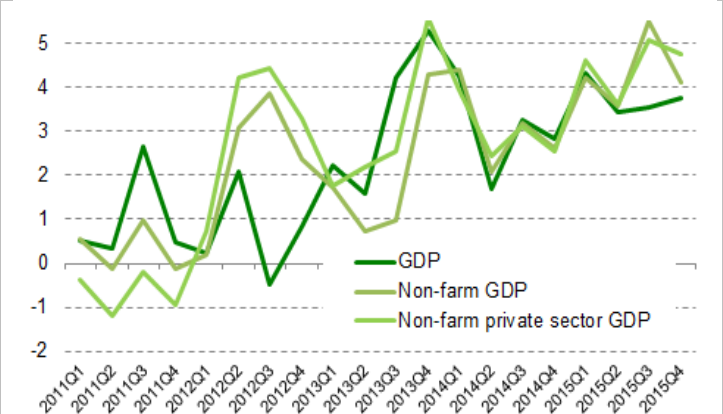
Chart set:

Chart 1: Summary chart of GDP growth (%)



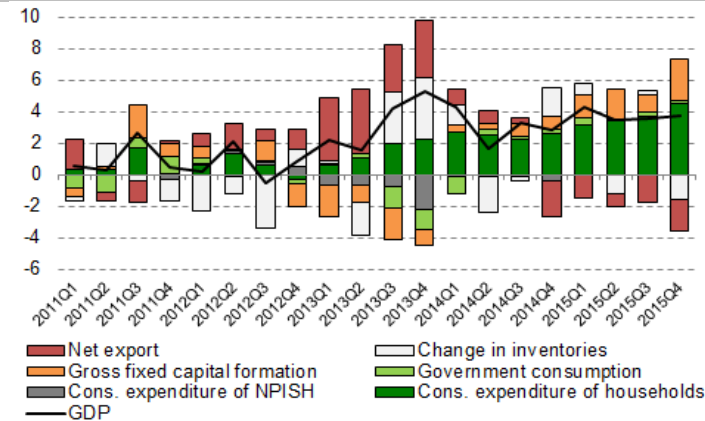
Sources: NIS, OTP Research

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



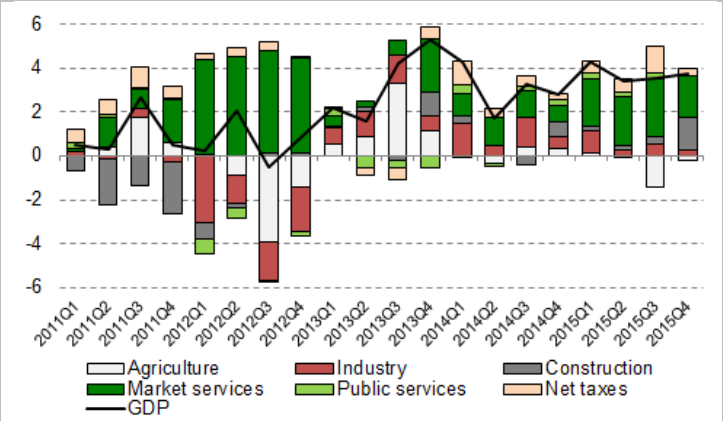
Sources: NIS, OTP Research

Chart 3: Decomposition of GDP growth by expenditure-side items (%)



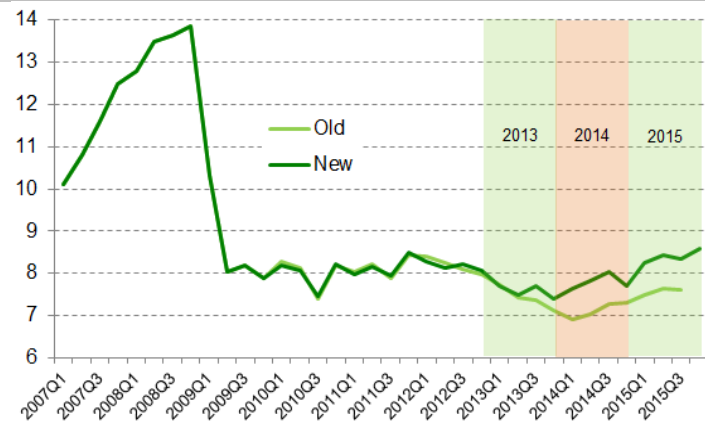
Sources: NIS, OTP Research

Chart 4: Decomposition of GDP growth by production-side items (%)



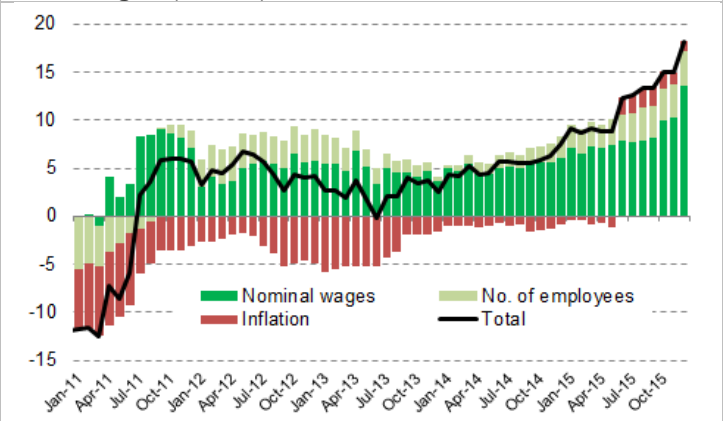
Sources: NIS, OTP Research

Chart 5: Gross fixed capital formation, old vs. new data (2000 constant prices, RON bn, SWDA)



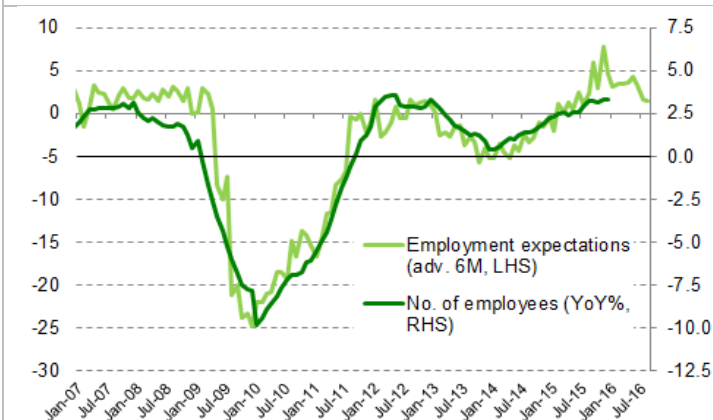
Sources: NIS, OTP Research

Chart 6: Decomposition of households' real income from wages (YoY %)



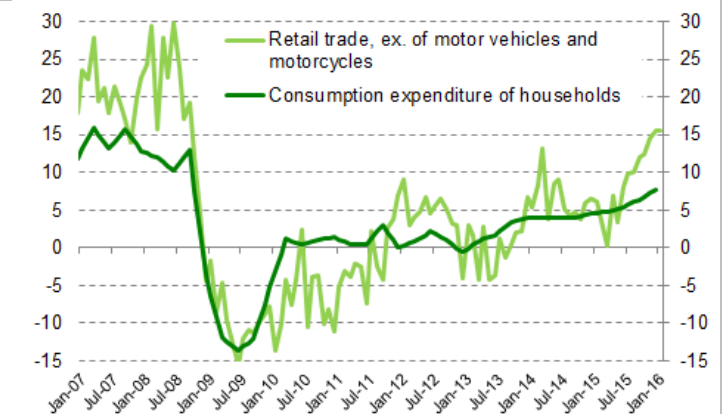
Sources: NIS, OTP Research

Chart 7: Employment



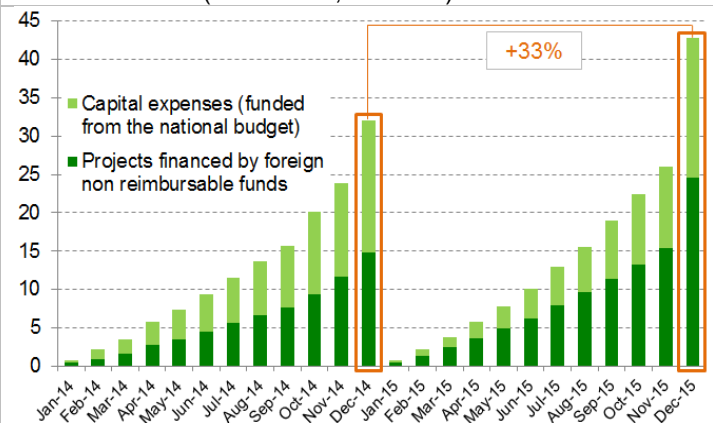
Sources: NIS, EC, OTP Research
 Note: employment expectations are calculated as a weighted average of sectorial expectations

Chart 8: Consumption vs. retail trade growth (YoY %, gross data)



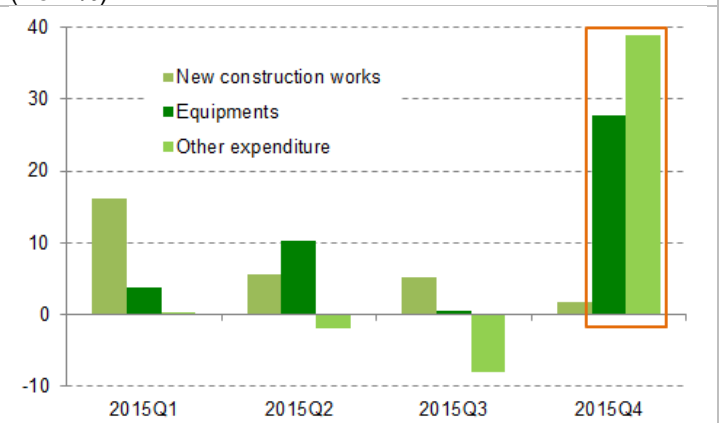
Sources: NIS, OTP Research

Chart 9: Government expenses for investments in 2014 and 2015 (cumulated, RON bn)



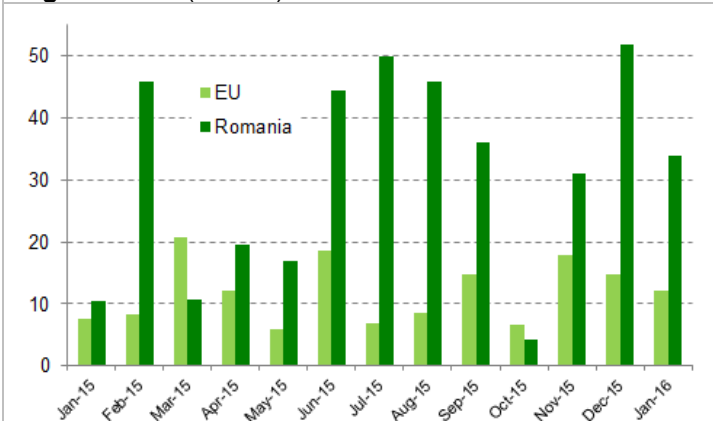
Sources: Ministry of Finance, OTP Research

Chart 10: Net investments in the national economy (YoY %)



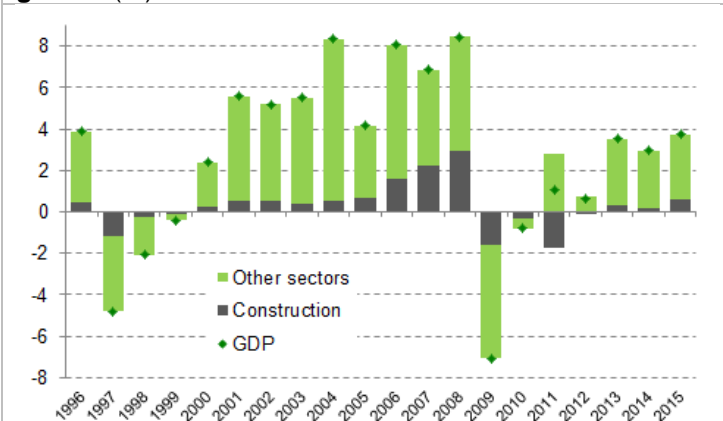
Sources: NIS, OTP Research

Chart 11: No. of new commercial vehicle registrations (YoY %)



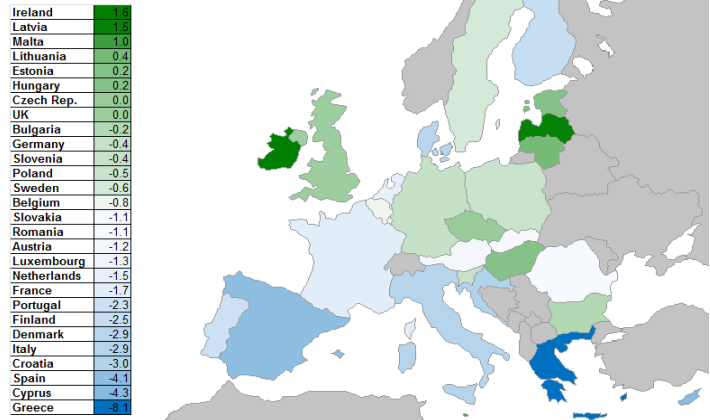
Sources: ACEA, OTP Research

Chart 12: Constructions' contribution to GDP growth (%)



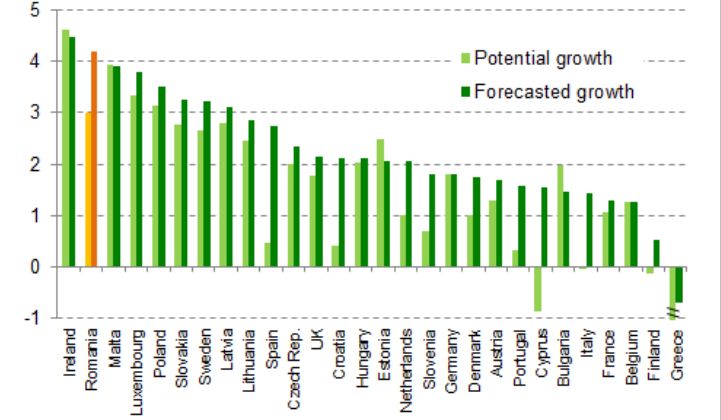
Sources: NIS, OTP Research

Chart 13: Gap between actual and potential GDP as of 2015 (%)



Sources: EC (AMECO), OTP Research

Chart 14: Potential vs. forecasted growth in 2016 (%)



Sources: EC (AMECO), OTP Research

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