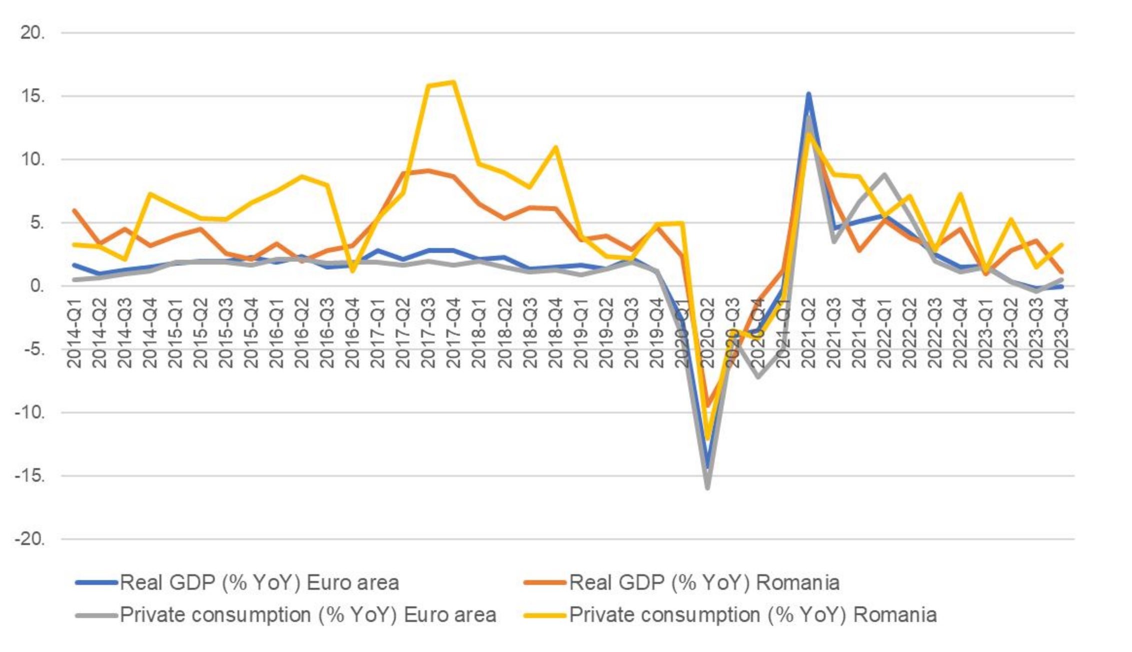
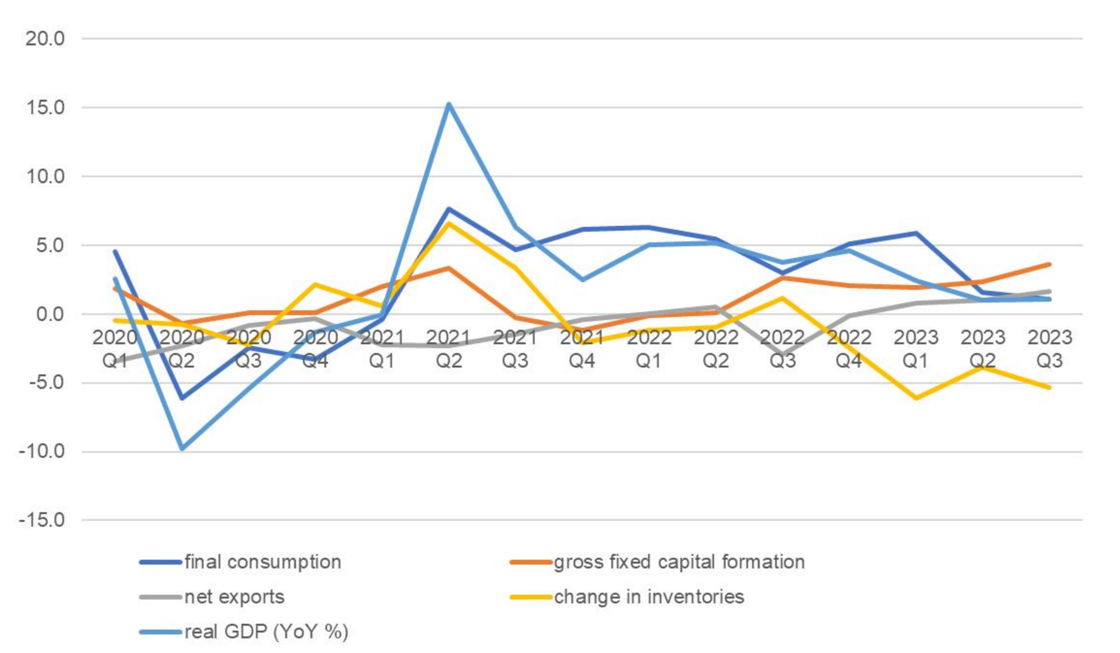
May 2024

BT RESEARCH

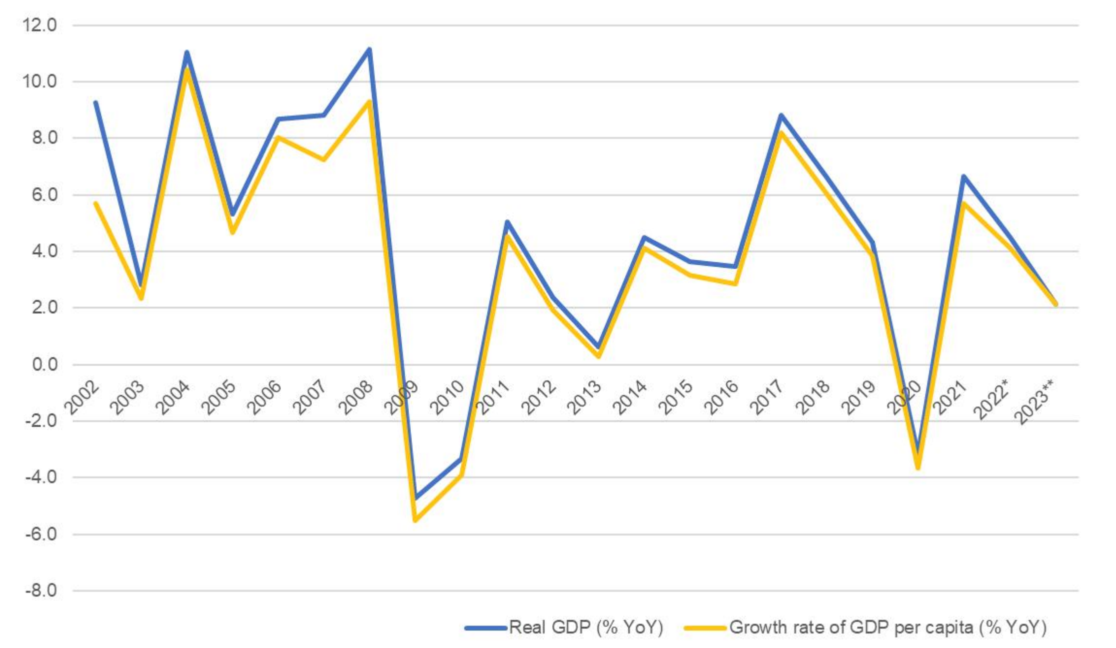
#BTMONTHLY



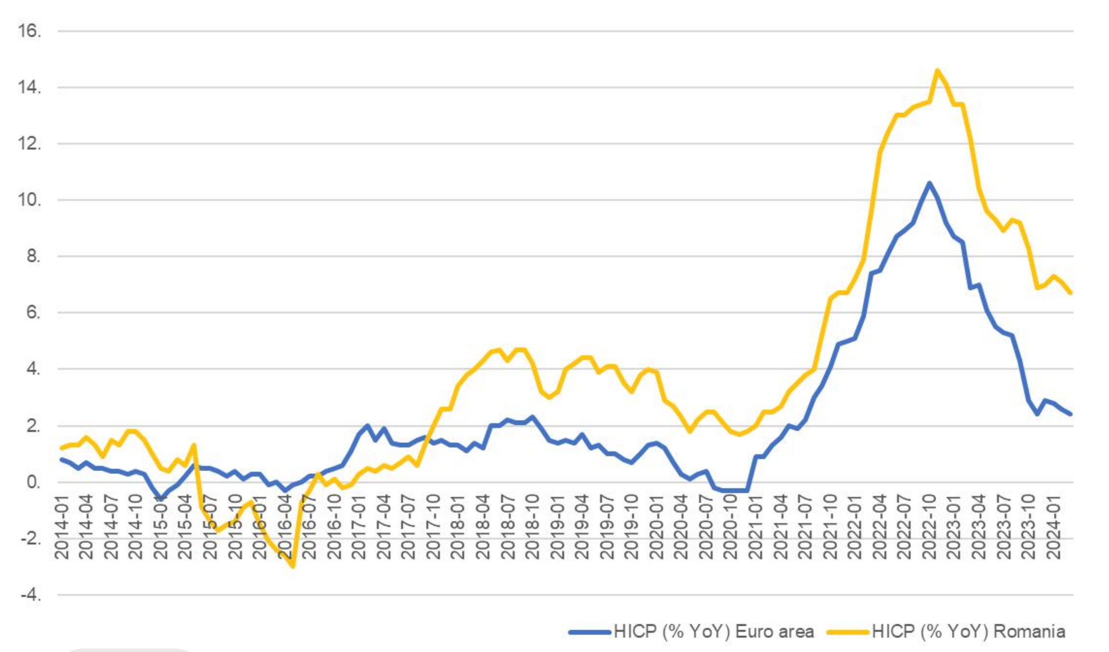
GDP and Private consumption



Contributions to GDP - Romania



GDP per capita - Romania



HICP

THE ONE HANDED ECONOMIST

“Give me a one-handed economist” once said US President Harry S. Truman.
A few days back, I was having a nice conversation with several good friends and while discussing the current economic challenges, one of them, in a nice and concluding way, reminded us about this quote.

Truman served from 1945 to 1953 in an economy marked by significant transitions. The essence of the quote humorously expresses Truman's frustration with economists' tendency to present every issue with an "On the one hand... but on the other hand..." approach.

This quote states a common challenge in policy-making and economic forecasting: the complexity of economic systems. Economists often weigh various factors and potential outcomes, leading to analyses that outline a range of possibilities depending on different conditions. This can be invaluable for understanding the full scope of an issue but frustrating for decision-makers who need to make clear and definitive choices.

Forecasting has become more and more difficult. Data volume and quality of data are real challenges. Choosing the correct and relevant data, identifying and focusing on the most impactful elements in handling information are essential in forecasting. GDP, Private consumption, Inflation rate, Government deficit or Public debt will always be some of the most important elements that can explain a large proportion of outcomes. How do we stand in Romania and the EU with these elements?

ON THE ONE HAND

... Romania’s GDP real growth in 2023 is above EU average with an increase of 2.1% compared with 2022 and we expect to see an increase during the following quarters of this year with positive inputs from EU funding. Private consumption seems to have picked up and, although in a slower pace, will increase for the next quarters as well. Unemployment rate for the past year was stable, at a lower level compared with the EU average. The exchange rate of the Romanian Leu to Euro remained stable, influenced by various factors including expectations regarding NBR’s monetary policy and regional developments. The exchange rates of the main currencies in the region showed divergent movements, reflecting the specific influence of local factors.

BUT ON THE OTHER HAND

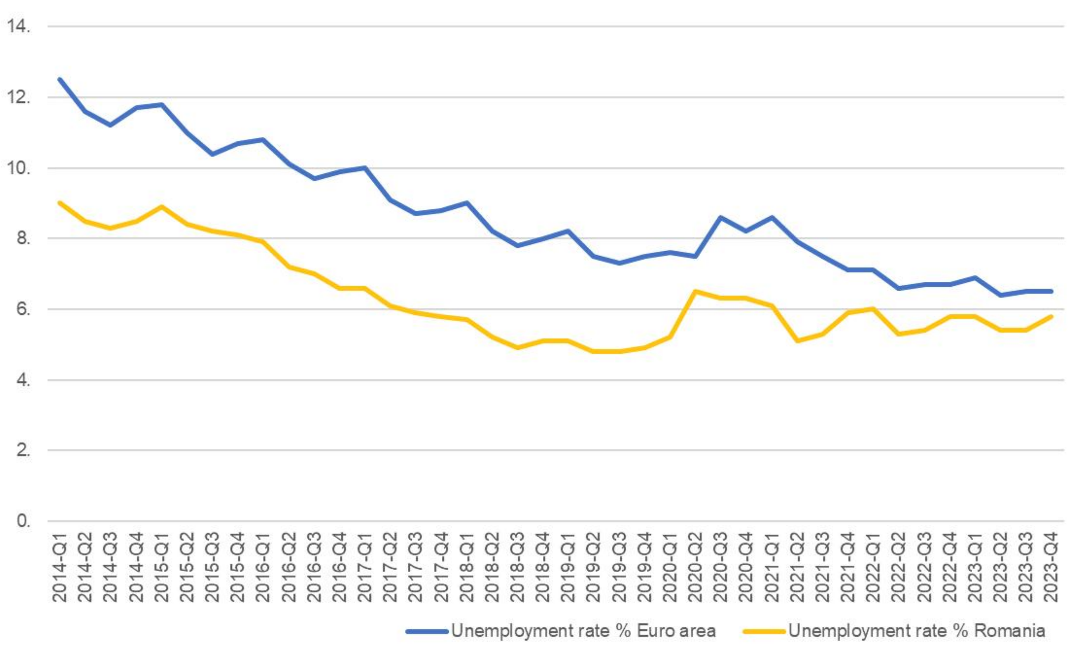
... the government deficit continued to increase, with increased values of public sector wages, subsidies, and social assistance. Public debt reached 48.9% at the year end and continued to increase to date (802 bln Ron, close to 50% of GDP). Inflation rate continues to be high compared to EU average with the annual inflation rate in March (HICP) at 6.7% (YoY). Inflation will continue to decrease during the next three quarters but most likely at a slower pace. Estimations for the year-end are around 5.1%, but likely to be revised according to the changing market conditions. The decrease in inflation rate will most likely set the scenario for the National Bank to reduce the monetary policy rate before the year end.

Ioan Nistor

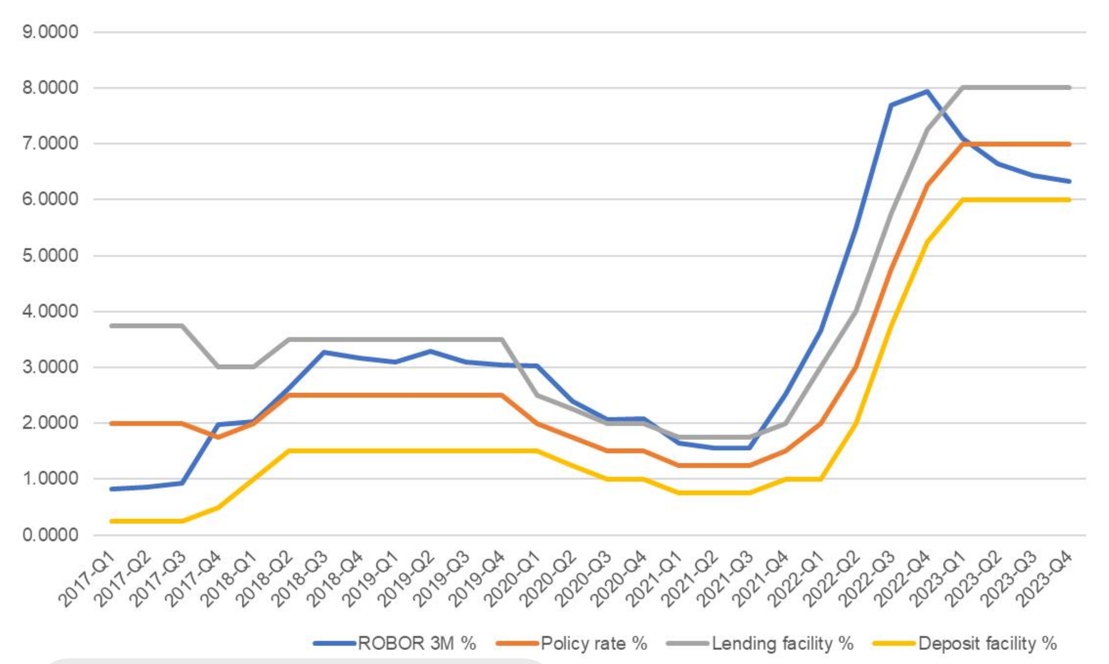
Chief Economist

Balancing Acts: Growth and Uncertainties, Romania’s economic narrative of 2023 and future perspectives; Economic Resilience and Gradual Recovery Signal hope for 2024.

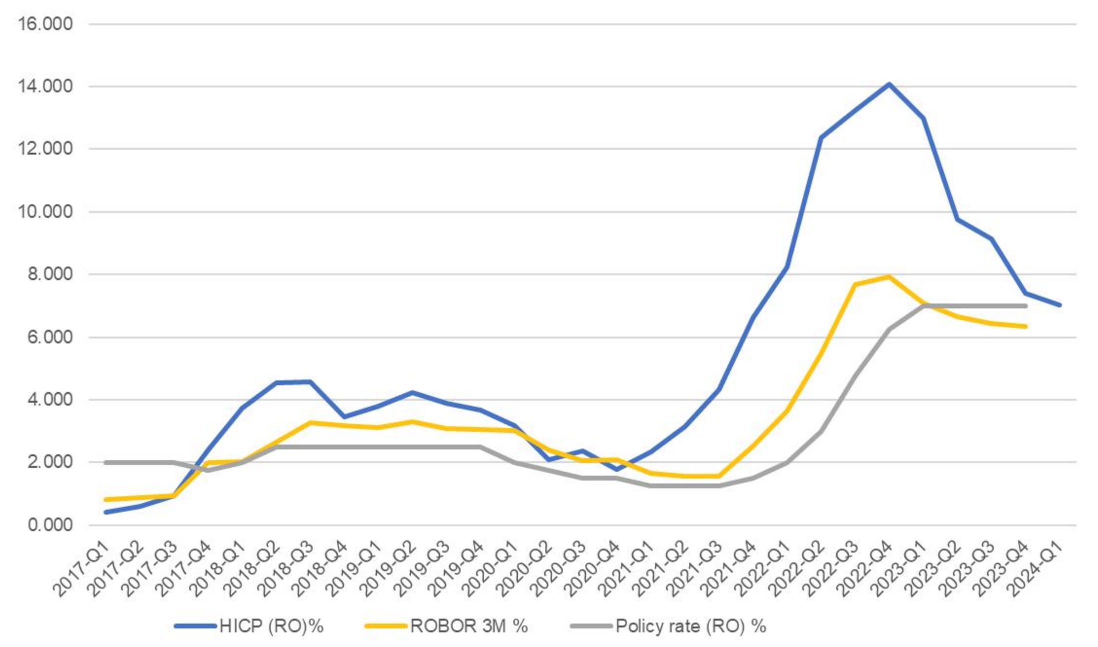
CONTACT



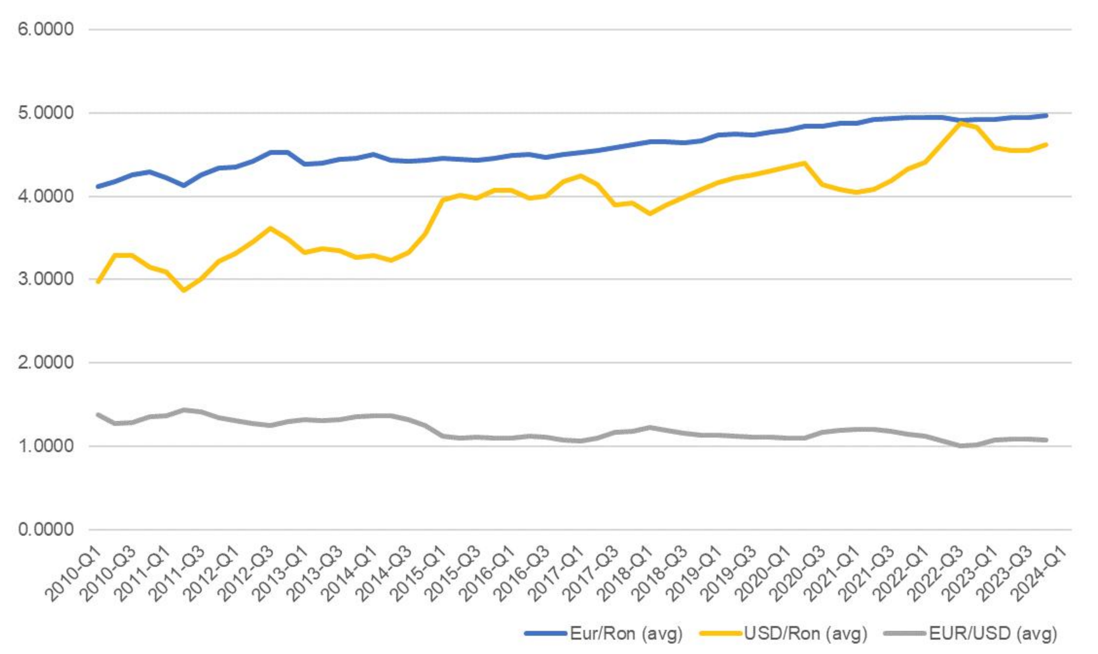
Unemployment rate



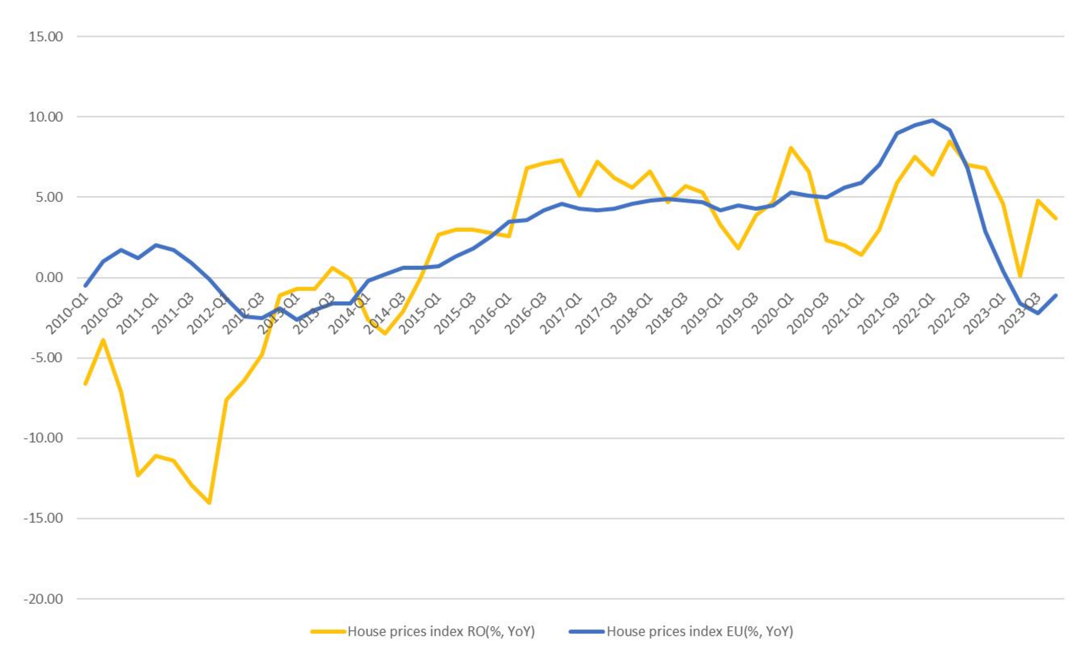
Interest rates - Romania



HICP - Interest rates



Exchange rates



House price index

On the one hand, in line with our expectations, the National Bank of Romania has decided to maintain the monetary policy interest rate at 7% at the most recent board meeting. This decision aims to durably reduce the annual inflation rate and to support sustainable economic growth.

Interest rates in the interbank money market showed slight fluctuations, with marginal decreases during Q1 24. We expect the decrease to continue with sharper decline towards the end of the year.

On the other hand, there are also uncertainties and risks for the next period related to tax and levy increases already made and planned for accelerating fiscal consolidation, as well as future fiscal policy and revenue measures. This includes actions aimed at limiting budgetary expenditures in 2024 and potentially increasing the package of corrective fiscal-budgetary measures. Uncertainties and risks in this area can negatively impact inflation expectations and economic activity, possibly raising inflationary pressure in the medium term.
Geopolitical tensions can, as well, negatively affect regional and global economic activity, lead to increased energy and commodity process, and heighten uncertainty in financial markets.

Uncertainties regarding the ability to absorb EU funds can point as a risk factor as well. Implementing the necessary structural reforms and counterbalancing the contractionary effects of supply-side shocks significantly depend on this absorption. Delays or failures in this area could weaken economic recovery and long-term growth potential.

EUROPEAN UNION

Economic stagnation at year end 2023. Gradual Recovery Expected.

The euro area economy faced stagnation towards the end of 2023, influenced by tight financing conditions, reduced confidence and prior competitiveness losses. Data suggest a slower than anticipated recovery in the short term compared to the December 2023 projections.

However, despite the slow start, economic growth is projected to gradually improve throughout the year, supported by increases in real disposable income – thanks to declining inflation and robust wage growth – and improved trade terms. External growth is expected to align with the strengthening global demand, assuming that current shipping disruptions in the Red Sea will not lead to significant new supply constraints. The impact of the ECB monetary policy tightening is expected to gradually reduce, contributing to the recovery.

GDP growth projections: The annual average real GDP growth is projected at 0.5% for 2024, with a forecast of strengthening to 1.5% in 2025 and 1.6% in 2026. These figures have been adjusted from the December 2023 projections, with a downward revision for 2024 due to past negative data surprises and unchanged for 2025, but slightly improved 2026.

Inflation moderation: Inflation (HICP) is projected to moderate further due to easing pressures and the impacts of monetary policy tightening. Energy prices are expected to decline, and while nominal wage growth remains high, it's expected to ease over the projection horizon, contributing to a decrease in inflation. Annual average inflation (HICP) is projected to decrease from 5.4% in 2023 to 2.3% in 2024 and further to 2.1% in 2025 and 1.9% in 2026.

Impact of financing conditions: High interest rates are expected to continue to have a negative influence on growth, particularly affecting business and housing investments. However, this impact should begin to ease throughout 2024.

Private consumption will remain a key driver of economic growth, expected to strengthen as inflation, subsidies and labour markets remain tight. Housing investment is projected to decline in 2024 before recovering, while business investment is anticipated to remain weak in the short term, with expectations of recovery aligned with easing financing conditions and stronger demand.