

Country Focus – Romania**GDP contracted by 7.1% in 2009**

- ✓ The Statistical Service (INSEE) released yesterday (March 3rd) the final data of GDP for Q4: GDP **declined by 6.5% yoy in Q4** which brings the total output losses to **7.1% yoy** in 2009. The estimate stands below economists forecasts (Local economists surveyed in mid February by Bloomberg expected a 6% yoy drop in Q4)
- ✓ The data confirm that this is the worst recession Romania experienced in the post-communist period. The output losses actually eliminate output gains in 2008
- ✓ Practically speaking, Romania is still in recession (from a technical definition point of view). GDP fell by **1.5%** on a q-o-q basis in Q4 which is expectations for 0.5% quarterly GDP rise in Q4
- ✓ However, the situation is gradually improving: Romania is crawling out of recession at a very slow pace.
- ✓ Private consumption data were slightly more upbeat than expected. It grew by 1.1% q-o-q (0.5% yoy). Nevertheless, we don't foresee that private consumption could lead the recovery because of rising unemployment and negligible credit growth
- ✓ On the positive side, industry is leading the way with a 4% q-o-q rise from a sectorial perspective. This bodes well with a 2.9% q-o-q increase in exports. Construction continues to post a double digit decline of 6.3% q-o-q (15.9% yoy).
- ✓ From my point of view, there are two key points to make. Firstly, the data support the view that the Central Bank will maintain an easing bias to support the weak economic activity. In that sense, we see further room for another 100 bps interest rate cuts if there are no unpleasant inflation surprises or renewed domestic political jitters
- ✓ Secondly, if there is anything that is going to drag the economy out recession that is going to be export-led growth and not domestic demand. In conclusion, **the announcement makes me more confident on my assessment for a GDP growth at 1% in 2010 (below consensus)** which is subject to **downside risks** (eg. recovery in Eurozone to name one)

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