

## Good news behind the low rate of GDP growth in Q1 2007

Data released by National Institute of Statistics on last Friday showed that real GDP increased by 6% yoy in Q1 07. National statistical office body is to release the detailed data for GDP components on Friday (8 June). However, data regarding developments of GDP components are already available from Eurostat.

As we have expected, economic activity remained strong in Q1 07. In fact, some good news are behind the low rate of GDP growth in Q1 07.

On the supply side, total gross value added expanded by an impressive 8% yoy, as construction sector increased by a record 30.7% yoy and industry expanded by a healthy 7.9% yoy. Growth of services sector remained also strong, although it decelerated a bit. The large discrepancy between the high growth rate of total gross value added and the low rate of GDP growth is due to very large decrease in the net taxes on products (-7.7% yoy). The decrease in net taxes on products (e.g. value added tax, excises) came in place following Romania's EU entry on 1 January. However, the discrepancy should reduce in the next quarters (due to a recent change in the regulations regarding value added tax), which means that GDP growth rate will start to converge towards the higher level of gross value added growth rate.

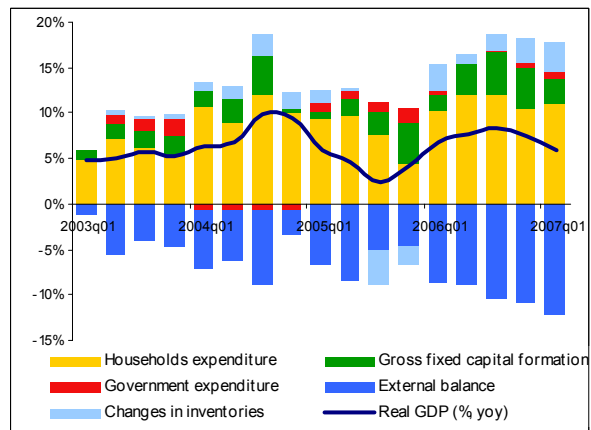
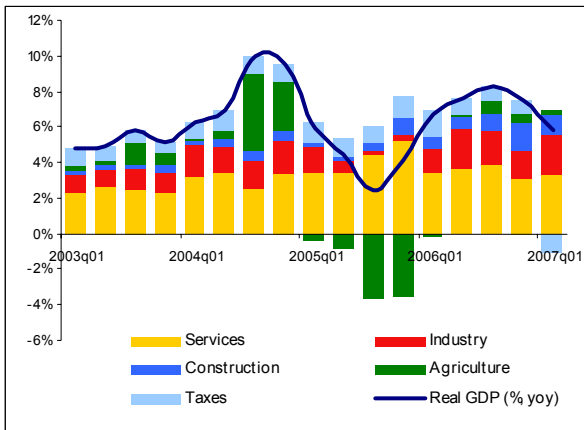
On the demand side, the good news is that growth of domestic aggregate demand decelerated to 14.4% yoy in Q1 07 from 15.5% yoy in Q4 06. Growth of household expenditures decelerated from 14% yoy in Q4 07 to 12.1% yoy in Q1 2007. A little slowdown was also recorded in the case of gross fixed capital formation, but the annual growth rate remained very high. The negative impact of foreign trade deficit on annual growth rate of real GDP amplified in Q1 07, but we reckon that it was lower than our expectations.

We estimate the GDP growth in 2007 to be around 6%. If output in agriculture will not be strongly affected by the adverse climatic conditions, there are chances that GDP growth this year will be higher than 6% yoy.

| <b>Growth rates (% yoy)</b>   | <b>2001</b> | <b>2002</b> | <b>2003</b> | <b>2004</b> | <b>2005</b> | <b>2006</b> | <b>2007 Q1</b> |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|
| Real GDP                      | 5.7%        | 5.1%        | 5.2%        | 8.5%        | 4.1%        | 7.7%        | 5.8%           |
| Gross value added             | 7.3%        | 4.5%        | 5.2%        | 8.4%        | 3.5%        | 7.7%        | 8.0%           |
| Industry                      | 4.4%        | 5.1%        | 4.4%        | 6.4%        | 2.3%        | 6.9%        | 7.9%           |
| Services                      | 3.6%        | 7.1%        | 5.5%        | 6.8%        | 9.4%        | 7.3%        | 6.5%           |
| Agriculture                   | 28.0%       | -6.7%       | 5.2%        | 18.6%       | -18.7%      | 3.3%        | 8.7%           |
| Construction                  | 11.1%       | 7.6%        | 7.0%        | 9.1%        | 9.8%        | 19.4%       | 30.7%          |
| Net taxes on product          | -1.4%       | 5.5%        | 6.9%        | 9.2%        | 9.4%        | 7.5%        | -7.7%          |
| Household expenditures        | 6.9%        | 5.3%        | 8.5%        | 14.5%       | 9.7%        | 14.1%       | 12.1%          |
| Government expenditures       | 2.8%        | 3.2%        | 7.7%        | -4.9%       | 9.0%        | 2.5%        | 6.4%           |
| Gross fixed capital formation | 10.1%       | 8.2%        | 8.6%        | 11.1%       | 12.6%       | 16.1%       | 17.2%          |
| Exports                       | 12.1%       | 17.5%       | 8.4%        | 13.9%       | 8.1%        | 10.6%       | 12.9%          |
| Imports                       | 18.4%       | 12.0%       | 16.0%       | 22.1%       | 16.6%       | 23.0%       | 23.8%          |

Source: Eurostat

Contribution of components to GDP growth rate (% yoy)



Source: Raiffeisen RESEARCH

Kind regards,  
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