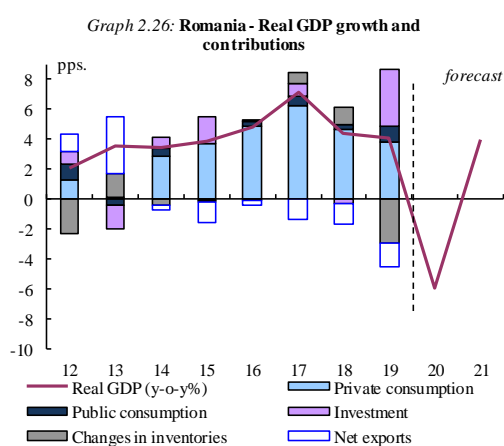


2.26. ROMANIA

The Romanian economy showed signs of resilience in the first quarter of the year. Real GDP increased by 2.4% year-on-year (0.3% quarter-on-quarter), supported mainly by private consumption and the build-up of inventories. Gross fixed capital formation continued to grow, albeit at a significantly slower pace than in 2019 as a whole. Net exports weighed down on growth as exports fell due to the drop in external demand.

Due to the lockdown triggered by the COVID-19 pandemic, real GDP growth is forecast to show a sharp drop in the second quarter of the year. Private consumption is expected to decline as a result of restrictions on movement as well as lower incomes. Uncertainty is set to weigh significantly on investment decisions this year, while construction activity could offer some relief. The reduced economic activity in Romania's main trading partners is expected to take a significant toll on exports. All in all, after falling sharply in the first half of 2020, economic activity is forecast to gain traction in the second half, as restrictions are gradually lifted, and to pick up further in 2021. Real GDP is set to contract by 6% in 2020 and then rebound by 4% in 2021.



Risks to the growth outlook are tilted to the downside. A second wave of infections in Romania or one of its main trading partners could delay the economic recovery. In addition, an important factor is how the authorities address the concerns on the fiscal trajectory pre-dating the COVID-19 crisis, which if unaddressed may eventually feed into depressed investor confidence, higher financing costs and a lower growth path.

The sharp drop in energy prices, as well as subdued aggregate demand, are set to reduce inflationary pressures in 2020, compensating an expected increase in food prices, following supply chain disruptions and as a result of a drought. HICP inflation fell from 4% in December 2019 to around 1.8% in May 2020 and is forecast to average 2.5% over the year as a whole. It is expected to pick up to an average of 2.8% in 2021, supported by a recovery in demand.