

2.26. ROMANIA

After a 12.2% contraction in the second quarter of last year, Romania's economy rebounded by 5.8% in 2020-Q3, mainly due to a recovery in private consumption. The strong performance of the construction sector sustained gross fixed capital formation growth throughout the year. Meanwhile, net exports continued to contribute negatively to growth in 2020 despite exports recovering somewhat faster than imports in the third quarter. Industrial production made up for some of its earlier losses in the second and third quarter of 2020, but this positive performance appeared to stall in the beginning of the last quarter. Economic activity is expected to have weakened somewhat in 2020-Q4 as pandemic containment restrictions were reintroduced in response to a new wave of infections. Fiscal support measures, some of which have been extended until mid-2021, mitigated the impact of the crisis on the economy in 2020. The unemployment rate remained around 5%, as government policy measures cushioned the blow to the labour market.

Real GDP is forecast to grow by 3.8% in 2021 and by 4% in 2022. Private consumption is expected to recover strongly from the second half of 2021 as the rollout of vaccinations should allow for a gradual lifting of restrictions. Consumption is expected to remain robust in 2022. Investment is set to remain strong over the forecast horizon, supported by the construction sector. Exports are expected to recover against the backdrop of improved economic conditions in Romania's main trading partners. However, the contribution of net exports to growth is expected to remain negative over the forecast horizon. Future spending related to the Recovery and Resilience Facility is not included in this forecast.

Risks to the growth forecast are tilted to the upside. Particular upside risks for Romania are a fast implementation of the Recovery and Resilience Plan and an improvement of public finances.

In 2020, a sharp drop in energy prices and subdued aggregate demand pushed headline inflation down to 2.3% from 3.9% in 2019. In 2021, some inflationary pressures are expected to come from higher oil prices and the liberalisation of the retail electricity market on 1 January, which is set to increase energy prices in the first part of the year. The annual average rate of inflation is forecast to slightly increase to 2.6% in 2021 and to decline somewhat to 2.4% in 2022.

