26. ROMANIA

After robust growth in 2021, Romania's economy is set to slow down to 2.6% in 2022 as high inflation erodes disposable income and Russia's war of aggression against Ukraine affects economic sentiment, supply-chains and ultimately investment. Growth is projected to pick up slightly in 2023, when inflation is set to come down. Unemployment is projected to stay around 5.5% while price levels growth will peak this year and gradually reduce over 2023. The general government deficit is forecast to reach 7.5% of GDP in 2022 before decreasing to 6.3% in 2023, bringing the debt-to-GDP ratio up to 52.6% by 2023.

The war deepens the momentum loss

Overall, real GDP is forecast to grow by 2.6% in 2022 and 3.6% in 2023.

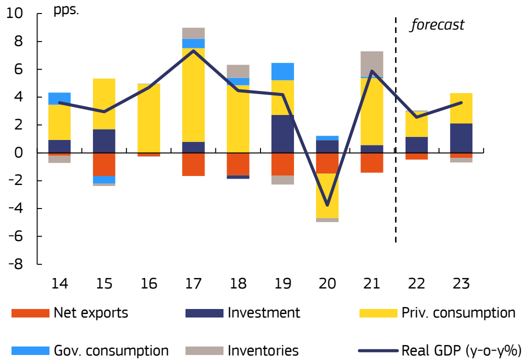
In early 2022 Romania's economy was already showing signs of momentum loss, as high inflation at the end of 2021 reduced purchasing power and private consumption. This trend has been aggravated by Russia's invasion of Ukraine, which further lifted inflation and hampered economic sentiment, while adding to supply bottlenecks.

Against this backdrop, private consumption is set to grow only moderately in 2022, before picking up somewhat in 2023 when inflation slows down. Despite increasing interest rates, supply shortages and higher prices for construction materials, gross fixed capital formation is forecast to grow at 4.8% for 2022 thanks to support from the RRP, which is also expected to be the main driver for investment in 2023.

Following a strong recovery of both imports and exports in 2021, trade in goods and services is set to be subdued in 2022 and 2023. Import growth should slow in line with domestic demand, whereas export growth, in particular in the automotive industry, is expected to be negatively affected by supply bottlenecks. The overall net exports contribution to real GDP is forecast to be close to zero. However, high prices of imported commodities such as energy and food are set to worsen the current account deficit, which is projected to peak at 7.5% in 2022[39].

[39] Figures are based on the Commission services' calculations using the latest published available data.

Graph II.26.1: **Romania - Real GDP growth and contributions**



Employment creation in line with economic growth

After the initial pandemic shock, unemployment rate gradually moved during 2021 towards its 2019 levels. The trend continued this year, despite some upticks in the winter months, and unemployment rate is set to reach 5.5% in 2022 and 5.3% in 2023. Total employment is set to grow modestly given the demographic trends and the low stock and slow integration of people fleeing Ukraine, Romania being mainly a transit country. Nominal private sector wages are forecast to increase in line with inflation, whereas those in the public sector are set to rise less following a freeze in 2021.

Inflation to mark record highs

The surge in energy prices that started at the end of 2021 has passed-through into core inflation components such as processed food, services and industrial goods. This trend is expected to be aggravated by the additional push on energy and selected food and commodity prices following Russia's invasion of Ukraine. Overall, HICP is set to reach 8.9% in 2022 before falling somewhat to 5.1% in 2023 when base effects are supposed to kick in.

Risks to macroeconomic forecast

Risks are mainly on the downside for economic growth and viceversa for the inflation, as the situation depends very much on the length and the severity of the conflict, as well as on global trade frictions. Still, there are also risks to the upside, as gross fixed capital formation might be positively impacted by productive process relocations from Ukraine and Russia, while the labour market could integrate more people fleeing Ukraine than initially asumed.

Public deficit to remain elevated

Romania's general government deficit is forecast to increase to 7.5% of GDP in 2022, from 7.1% in 2021. Several factors are behind this expected rise: the 2022 budget already contained new expenditure measures (mainly increasing social expenditure, e.g., pensions and children allowance), a higher interest burden due to rising interest rates and lower social security contributions. In addition, Romania adopted a compensation scheme to deal with the surge in energy prices until March 2023, and provides support to people fleeing Ukraine. A new set of social and economic measures was announced on 11 April 2022, which based on the available information, would have a negative budgetary impact of 0.4% of GDP. Overall fiscal revenues are forecast to benefit from high nominal GDP growth and from the effects of the tax administration reform on tax collection contained in the RRP, partly offsetting the upward pressures on deficit.

The deficit is forecast to fall to around 6.3% of GDP in 2023, mainly due to the discontinuation of the energy support measures, and to the effect of automatic stabilisers as real economic growth should accelerate. Capital expenditure is expected to grow at a sustained pace thanks to the implementation of the RRP, which entails capital expenditure of 0.3% of GDP in 2022 and 0.4% in 2023, and of other nationally-financed investments, as well as to the announced increase in defence expenditure by 0.5 percentage points of GDP as from 2023.

The general government debt is projected to rise to 50.9% of GDP in 2022, and 52.6% in 2023, mainly due to high deficits.

Risks to the fiscal forecast are tilted to the downside. Details on the measures announced on 11 April 2022 might result in a higher budgetary impact while the tax administration reform could have a larger-than-expected positive impact on tax collection.

Table II.26.1:

Main features of country forecast - ROMANIA

	2021				Annual percentage change					
	bn RON	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP		1181.9	100.0	4.0	4.5	4.2	-3.7	**5.9**	**2.6**	**3.6**
Private Consumption		736.5	62.3	5.8	7.7	3.9	-5.1	**7.9**	**2.9**	**3.5**
Public Consumption		206.1	17.4	0.2	3.3	7.3	1.8	**0.4**	**0.1**	**-0.1**
Gross fixed capital formation		285.0	24.1	5.8	-1.1	12.9	4.1	**2.3**	**4.8**	**8.1**
Exports (goods and services)		482.8	40.8	10.8	5.3	5.4	-9.4	**12.5**	**4.5**	**5.2**
Imports (goods and services)		549.7	46.5	12.2	8.6	8.6	-5.2	**14.6**	**5.0**	**5.3**
GNI (GDP deflator)		1164.1	98.5	3.9	4.0	4.7	-4.1	**6.1**	**2.7**	**3.8**
Contribution to GDP growth:	Domestic demand			5.7	5.1	6.5	-2.0	**5.5**	**3.0**	**4.3**
	Inventories			-0.3	1.0	-0.6	-0.3	**1.8**	**0.1**	**-0.3**
	Net exports			-1.3	-1.6	-1.6	-1.5	**-1.4**	**-0.5**	**-0.4**
Employment				-1.3	0.1	0.1	-1.8	**-8.9**	**0.8**	**0.8**
Unemployment rate (a)				8.5	5.3	4.9	6.1	**5.6**	**5.5**	**5.3**
Compensation of employees / head				11.7	12.9	10.9	2.6	**5.7**	**8.3**	**7.0**
Unit labour costs whole economy				6.0	8.2	6.6	4.7	**-9.0**	**6.4**	**4.1**
Saving rate of households (b)				:	:	:	:	**:**	**:**	**:**
GDP deflator				8.9	6.2	6.8	3.9	**5.4**	**9.5**	**4.9**
Harmonised index of consumer prices				6.3	4.1	3.9	2.3	**4.1**	**8.9**	**5.1**
Terms of trade goods				2.1	0.6	2.1	3.2	**0.8**	**-0.2**	**-0.5**
Trade balance (goods) (c)				-9.8	-7.5	-8.0	-8.7	**-9.6**	**-10.4**	**-10.8**
Current-account balance (c)				-5.5	-4.4	-5.3	-5.8	**-7.0**	**-7.5**	**-7.3**
General government balance (c)				-3.1	-2.8	-4.3	-9.3	**-7.1**	**-7.5**	**-6.3**
Structural budget balance (d)				-1.5	-3.1	-4.9	-7.8	**-6.3**	**-6.5**	**-5.4**
General government gross debt (c)				26.7	34.7	35.3	47.2	**48.8**	**50.9**	**52.6**

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.
Notes: Due to a break in historical employment data in 2021, employment-related variables have been affected (employment, unemployment as well as cyclically-adjusted and structural fiscal indicators).