26. ROMANIA

After a strong rebound in the first half of 2021, Romania's GDP is set to surpass its pre-pandemic levels before the end of the year. Going forward, growth is expected to remain robust at around 5%, with domestic consumption and the Recovery and Resilience Facility supported investments as the main drivers. Unemployment is projected to fall below 5% over the coming years. However, risks to the forecast remain due to a wave of new COVID-19 infections. The general government deficit is forecast to decline gradually, reaching around 6.3% of GDP in 2023, whereas the debt-to-GDP ratio is set to increase further to 53.2%.

Robust demand offset past losses

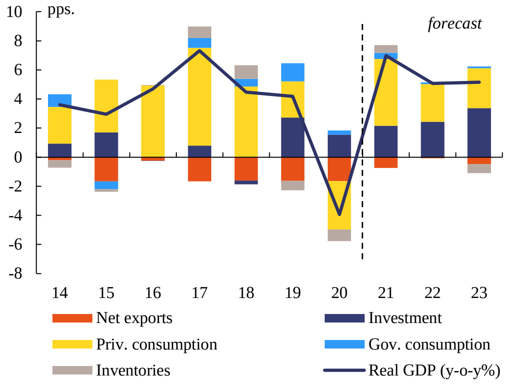
Following a decline in real GDP of 3.9% in 2020, Romania's economy has started a strong recovery driven mainly by domestic demand. Until autumn 2021 the lifting of pandemic-related restrictions across all sectors released pent-up demand in particular in food service, hotel industry, leisure, and culture. In addition, construction activity was robust and investment, in particular in digital equipment was strong. While sentiment in retail and services remained strong in Q3-2021 despite a resurgent infection wave, recently introduced mobility restrictions are set to dent consumption somewhat, in addition to the loss in households purchasing power due to energy price hikes.

Imports are expected to rise in line with domestic demand. Export growth is set to be less dynamic due to supply-side bottlenecks, especially in the automotive industry. Thus, the external side is set to reduce GDP growth and the current account deficit should increase to 6.5% this year. Overall, Romania's economy is expected to grow by 7% in 2021, surpassing its pre-pandemic level.

Strong growth ahead

Real GDP is forecast to increase by 5.1% in 2022 and 5.2% in 2023. Whereas the effect of pent-up demand on private consumption is expected to fade out, growth is set to remain positive thanks to growing employment, falling inflation and robust wage growth. The forecast also incorporates expenditures financed by RRF grants, which are set to gradually increase from 0.1% of GDP in 2021 to 1.1% of GDP in 2023. The implementation of Romania's Recovery and Resilience Plan (RRP) is set to support investment in the public and private sector. Exports are forecast to benefit from a normalisation of global supply conditions while import growth is expected to remain robust due to the high import content of domestic demand, in particular in investment goods. Overall, the contribution of net exports to growth over the forecast horizon is set to remain negative, and the current account deficit is expected to reach 6.3% next year.[73]

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



Risks to the growth forecast are mainly on the downside. Firstly, the low vaccination rate combined with further restrictions to mobility could dampen consumption over the next months. Secondly, the formation of a new government could delay the implementation of the RRP, lowering investments.

Unemployment set to gradually fall

Policy measures helped contain the rise in the unemployment rate which is projected to reach 5% by the end of 2021 on the back of strong economic growth and increased demand for staff in healthcare, information technology and communications, and courier services. In 2022 and 2023, the unemployment rate is expected to decline in line with economic activity. Nominal wage growth is projected to be stable over the forecast horizon and below the double-digit rates

(73) Figures are based on the Commission services' calculations using the latest published available data.

seen in the pre-crisis period, while the rise in unit labour cost is set to moderate.

Inflationary pressures

HICP inflation increased year-on-year to 4.3% in the third quarter, largely on account of the sharp increase in gas, energy, and oil prices, but also due to higher food prices. Average annual HICP is projected to to reach 4% by the end of 2021, mainly as a result of the higher electricity and fuel prices and is expected to stay at the same level in 2022. As the price shocks are expected to gradually phase out over the forecast horizon, the HICP is set to reach 2.9% in 2023.

High public deficit on a mild downward trend

Romania's general government deficit is forecast to decrease to around 8% of GDP in 2021, from 9.4% in 2020. While the strong economic recovery supported government revenues throughout the year, these gains were offset by expenditures slippages, mainly related to the COVID-19 crisis measures. Recently adopted measures to dampen the energy prices shock are expected to cost in total about 0.2% of GDP over 2021 and 2022.

The deficit is forecast to fall to around 6.9% of GDP in 2022 before reaching 6.3% in 2023. This improvement is mainly due to automatic stabilisers as the economy is growing rapidly, the expiry of some of the emergency health and labour market measures, and the projected lower purchases of (health) goods and services. Pension expenditure for 2022 is set to grow at a slower pace than nominal GDP, while capital expenditure is expected to grow at a sustained pace due to the implementation of the RRP. Revenues for 2022 and 2023 are projected to improve thanks to economic growth and as the effects of the tax administration reform on tax collection contained in the RRP start materialising.

The general government debt is expected to rise to 49.3% of GDP in 2021, 51.8% in 2022 and 53.2% in 2023, mainly due to high primary deficits.

Risks to the fiscal forecast are broadly balanced. While in the short-term the risk of a delayed 2022 budget, and the risk of more waves of infection and further restraining measures loom, in the medium-term, the tax administration reform in the RRP could have a larger-than-expected positive impact on tax collection.

Table II.26.1:

Main features of country forecast - ROMANIA

	2020		Annual percentage change						
bn RON	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP	1055.5	100.0	4.0	4.5	4.2	-3.9	**7.0**	**5.1**	**5.2**
Private Consumption	645.0	61.1	5.8	7.7	3.9	-5.3	**7.5**	**4.2**	**4.5**
Public Consumption	199.0	18.9	0.2	3.3	7.3	1.7	**2.3**	**0.7**	**0.7**
Gross fixed capital formation	259.2	24.6	5.8	-1.1	12.9	6.8	**8.8**	**9.5**	**12.5**
of which: equipment	85.1	8.1	3.2	11.6	5.3	1.9	**9.2**	**7.8**	**17.4**
Exports (goods and services)	393.3	37.3	10.8	5.3	5.4	-9.7	**9.6**	**7.1**	**5.8**
Imports (goods and services)	440.4	41.7	12.2	8.6	8.6	-5.1	**10.3**	**6.3**	**6.1**
GNI (GDP deflator)	1042.4	98.8	3.9	4.0	4.7	-3.8	**7.3**	**5.4**	**5.5**
Contribution to GDP growth: Domestic demand			5.7	5.1	6.5	-1.5	**7.2**	**5.1**	**6.2**
Inventories			-0.3	1.0	-0.6	-0.8	**0.5**	**0.0**	**-0.6**
Net exports			-1.3	-1.6	-1.6	-1.6	**-0.7**	**-0.1**	**-0.5**
Employment			-1.3	0.1	0.1	-1.8	**1.1**	**0.6**	**0.5**
Unemployment rate (a)			6.9	4.2	3.9	5.0	**5.0**	**4.8**	**4.5**
Compensation of employees / head			11.7	12.9	10.9	7.0	**6.8**	**7.5**	**9.9**
Unit labour costs whole economy			6.0	8.2	6.6	9.3	**0.9**	**2.9**	**5.1**
Real unit labour cost			-2.7	1.9	-0.2	5.4	**-2.9**	**-1.4**	**0.9**
Saving rate of households (b)			:	:	:	:	**:**	**:**	**:**
GDP deflator			8.9	6.2	6.8	3.8	**3.9**	**4.4**	**4.1**
Harmonised index of consumer prices			6.3	4.1	3.9	2.3	**4.0**	**4.0**	**2.8**
Terms of trade goods			2.1	0.6	2.1	3.4	**-1.9**	**-0.5**	**0.5**
Trade balance (goods) (c)			-9.8	-7.5	-8.0	-8.8	**-9.8**	**-10.0**	**-9.8**
Current-account balance (c)			-5.5	-4.4	-5.3	-5.5	**-6.5**	**-6.3**	**-6.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-4.2	-3.2	-3.8	-3.8	**-4.9**	**-4.7**	**-4.4**
General government balance (c)			-3.1	-2.9	-4.4	-9.4	**-8.0**	**-6.9**	**-6.3**
Cyclically-adjusted budget balance (d)			-3.4	-3.5	-4.9	-7.5	**-7.1**	**-6.4**	**-6.1**
Structural budget balance (d)			-1.5	-3.2	-4.8	-7.5	**-7.1**	**-6.4**	**-6.1**
General government gross debt (c)			26.8	34.7	35.3	47.4	**49.3**	**51.8**	**53.2**

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.