

ROMANIA

Table 1	2021
Population, million	19.2
GDP, current US\$ billion	266.7
GDP per capita, current US\$	13902.1
International poverty rate (\$1.9) ^a	2.4
Lower middle-income poverty rate (\$3.2) ^a	4.4
Upper middle-income poverty rate (\$5.5) ^a	9.5
Gini index ^a	35.1
School enrollment, primary (% gross) ^b	87.5
Life expectancy at birth, years ^b	75.5
Total GHG Emissions (mtCO2e)	80.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2011 PPPs.
b/ Most recent WDI value (2019).

Romania's economy rebounded at 5.9 percent in 2021, despite supply disruptions, a significant pick-up in inflation and the effects of the pandemic. The economy is projected to modestly expand in 2022, although recession risks resulting from the Ukraine crisis are high. Despite some consolidation measures, the fiscal deficit will remain elevated in 2022, at around 6.6 percent of GDP. Poverty is anticipated to slightly decline to 10.1 percent in 2022.

Key conditions and challenges

Prior to the COVID-19 pandemic, Romania enjoyed strong economic growth. However, the pandemic exposed the vulnerabilities of the economy, including persistent poverty and disparities in economic opportunity across regions and between urban and rural areas, structural rigidities in the product and labor markets, weaknesses in fiscal policy and significant institutional constraints hindering the efficient use of resources.

Disruptions in the global supply chain from the pandemic coupled with the impact of the war in Ukraine have resulted in rising food and energy prices. The depleted real purchasing power and declining remittances impose a heavy burden on the poor and marginalized population groups in Romania already disproportionality affected by the prolonged pandemic. Despite the economic rebound, the share of the Romanian population living on less than \$5.5 a day at 2011 revised PPP prices is estimated to have declined modestly to 10.1 percent in 2022 from 10.3 percent in 2021.

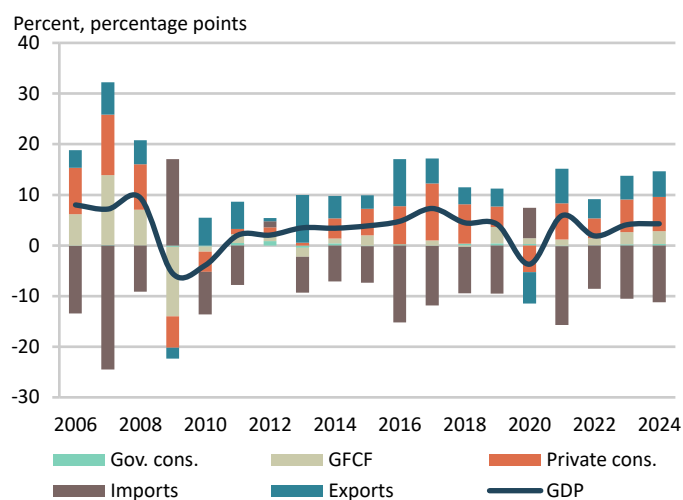
The key challenges in the short term are to contain the socio-economic effects of the conflict in the region and the COVID-19 crisis. Significant inflationary pressures triggered a more hawkish stance from the National Bank of Romania (NBR). Once recovery is firmly established, fiscal consolidation will be critical to limit increases in

debt levels. Moreover, maximal and effective absorption of the EU Multiannual Financial Framework and Next Generation EU (NGEU) funds will be crucial for a sustainable recovery.

Recent developments

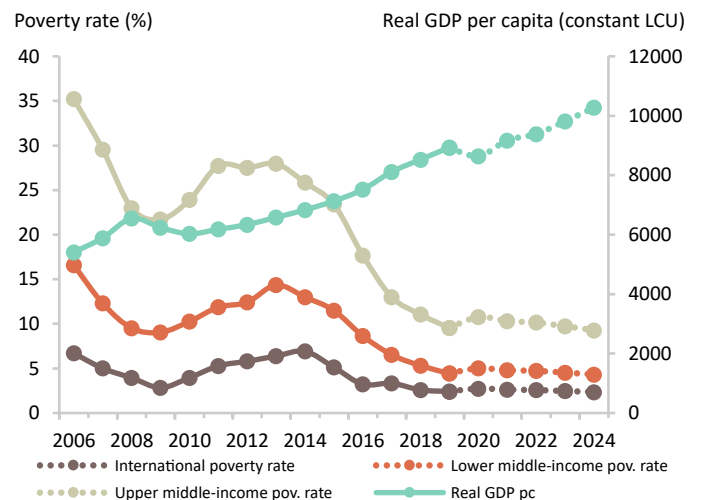
The Romanian economy grew by 5.9 percent in 2021, but growth decelerated in Q4 (2.4 percent yoy) amid supply disruptions, significant pick-up in inflation and a new COVID-19 wave. Private consumption recovered strongly in 2021 (7 percent yoy) led by robust demand for durable and household goods. Higher prices of raw materials, however, tempered investment growth (4 percent yoy). Trade volumes were affected by global value chain disruptions and cost-push inflation, while the deterioration of the secondary income balance added to the current account pressures. On the supply side, growth was led by the ICT sector (13.4 percent yoy in 2021) which benefited from increased remote work needs. Industry growth decelerated (5 percent yoy in 2021), as new industrial orders declined in Q4. The economic recovery and labor supply constraints reduced unemployment to 5.4 percent in December from 6 percent in January 2021. Labor shortages coupled with higher inflation led to wage increases, with nominal net wages up by 7.2 percent yoy in December 2021. Annual inflation accelerated to 8.4 percent in January 2022 reflecting strong supply-side inflationary pressures, including recent spikes in energy prices.

FIGURE 1 Romania / Real GDP growth and contributions to real GDP growth



Source: World Bank.

FIGURE 2 Romania / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see table 2.

This prompted the NBR to further increase the policy rate in mid-January and mid-February 2022 by 0.25 pp and 0.5 pp, respectively, to 2.5 percent. Private credit sector growth remained high, up 15.1 percent yoy in January 2022.

An economic and employment rebound meant that household income, in particular labor income, also recovered. The Rapid Household Survey in December 2021 showed that most workers including low-wage workers have returned to work, helping to bring household labor income close to the pre-crisis level. However, rising food and energy prices have depleted households' real purchasing power, especially among the poor and vulnerable, as they spend nearly 65 percent of their budget on these necessities. Moreover, the war in Ukraine and further disruption of the global supply chain will continue to affect the economies of host countries for Romanian migrants, which will inevitably hamper income for Romanians at home. Thus, despite economic and employment recovery, poverty is expected to have declined modestly to 10.1 percent in 2022 yet remains above the pre-crisis level.

The fiscal deficit surged to 9.4 percent of GDP at the end of 2020 and remained high in 2021 at an estimated 7 percent on the back of the COVID-19 related fiscal stimulus. Higher revenues, up 17.7 percent yoy in 2021, supported by the economic recovery, offset the 8.8 percent yoy increase in expenditure, but fiscal pressures remain significant.

Outlook

Romania's economy is projected to grow at 1.9 percent in 2022, with risks strongly tilted to the downside. The strength of the recovery will depend on the evolution of new COVID-19 variants and the severity of the hostilities in the region. Romania's capacity to absorb the EU funds will be critical to a sustainable, green, and inclusive recovery process. According to Government estimations, in a scenario of 100 percent absorption, the Resilience and Recovery funds will, on average, add around one percentage point to Romania's real GDP growth per year between 2022 and

2026. However, low historical absorption rates reflect substantial headwinds to a high absorption scenario. Significant inflationary pressures from the energy and food markets challenge the nascent recovery requiring a careful balancing act from the NBR.

A substantial reduction of the fiscal deficit in 2022 is improbable, as the government will have to support the economic recovery process while also supporting macroeconomic stabilization. Over the medium term, the deficit will follow a downward trajectory but is likely to remain above 3 percent of GDP. Renewed attention should be given to fiscal consolidation to avoid an unsustainable increase in public debt over the medium term.

Poverty is projected to decline to the pre-crisis level by 2024. However, rising food and energy prices, and declining remittance incomes could mean a longer recovery process for vulnerable population segments compared to others in the coming years. A protracted war in Ukraine may however push growth into negative territory and lead to an increase in poverty in the short run.

TABLE 2 Romania / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.2	-3.7	5.9	1.9	4.1	4.3
Private Consumption	3.9	-5.1	7.0	3.8	6.1	6.3
Government Consumption	7.9	5.9	-2.8	1.2	4.6	5.2
Gross Fixed Capital Investment	12.9	4.1	4.0	4.7	8.1	8.2
Exports, Goods and Services	5.4	-9.4	11.1	5.9	7.0	7.3
Imports, Goods and Services	8.6	-5.2	13.7	7.0	8.2	8.4
Real GDP growth, at constant factor prices	4.0	-3.5	5.9	1.9	4.1	4.3
Agriculture	-5.0	-14.9	13.5	2.8	3.9	3.9
Industry	-1.3	-4.5	5.0	1.6	4.7	4.4
Services	7.9	-1.9	5.7	2.0	3.8	4.3
Inflation (Consumer Price Index)	3.8	2.6	5.1	9.8	5.3	3.2
Current Account Balance (% of GDP)	-4.7	-5.0	-7.1	-7.2	-6.3	-5.7
Net Foreign Direct Investment (% of GDP)	2.2	0.9	2.3	1.8	2.3	2.3
Fiscal Balance (% of GDP)	-4.4	-9.4	-7.0	-6.6	-5.3	-4.7
Debt (% of GDP)	35.3	47.4	49.4	52.0	53.9	54.1
Primary Balance (% of GDP)	-3.2	-8.0	-5.4	-4.9	-3.7	-3.2
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	2.4	2.7	2.6	2.6	2.5	2.3
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	4.4	5.0	4.8	4.7	4.5	4.3
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	9.5	10.8	10.3	10.1	9.7	9.2
GHG emissions growth (mtCO₂e)	-0.9	-8.7	3.2	-1.0	0.5	1.4
Energy related GHG emissions (% of total)	85.4	85.9	86.5	87.0	87.7	88.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

a/ Calculations based on ECAPOV harmonization, using 2007-EU-SILC and 2019-EU-SILC. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.

b/ Projection based off elasticities calibrated on 2007-2019 growth periods and rapid assessment data, allowing for elasticities to vary between periods of contraction, recovery and expansion.