ROMANIA

Table 1	2021
Population, million	19.2
GDP, current US$ billion	284.9
GDP per capita, current US$	14872.7
International poverty rate ($2.15)[a]	2.5
Lower middle-income poverty rate ($3.65)[a]	5.1
Upper middle-income poverty rate ($6.85)[a]	11.3
Gini index[a]	35.1
School enrollment, primary (% gross)[b]	87.5
Life expectancy at birth, years[b]	74.4
Total GHG emissions (mtCO2e)	71.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2020).

The Romanian economy performed better than expected, growing at 5.8 percent in the first half of 2022 on the back of robust private consumption performance and early signs of investment recovery. Prospects depend on the evolution of the war in Ukraine and its impact on the European economy. The fiscal deficit is on a downwards trend, but it remains elevated. Poverty is expected to decline to 11.7 percent in 2022.

Key conditions and challenges

Romania has achieved impressive success in growth and prosperity over the past two decades. However, the shocks induced by the COVID-19 pandemic and the war in Ukraine exposed the structural 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.

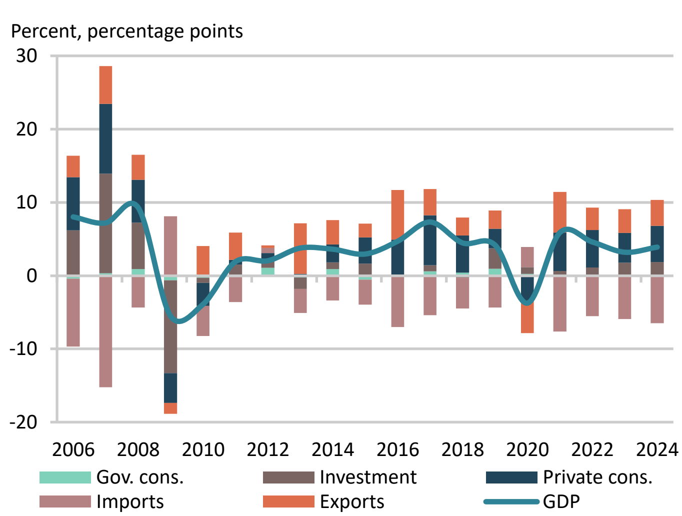
Poor and vulnerable households have been disproportionally affected by rising food and energy prices, despite the capping of gas and electricity prices to reduced levels, until March 2023, for households with lower average monthly consumption. The strong economic rebound helped reduce the share of the Romanian population living on less than $6.85 a day at 2017 PPP prices to 11.7 percent in 2022 from 12.1 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 flare-ups. Significant inflationary pressures led to monetary policy tightening, following an accommodative stance. Elevated external imbalances add to the currency pressures and markets' risk aversion. Maximal and effective absorption of the EU Multiannual Financial Framework and Next Generation EU funds alongside reforms supported by these programs will be crucial to a sustainable recovery while aiding fiscal consolidation efforts.

Recent developments

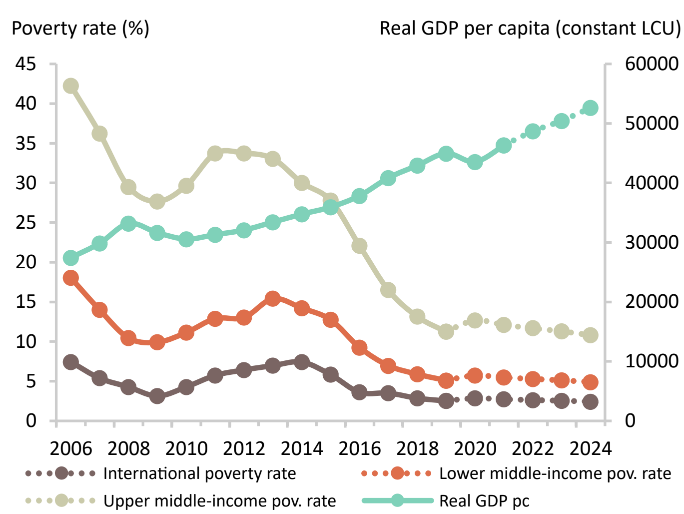
The Romanian economy grew by 5.8 percent in H1, 2022, supported by strong private consumption (up 7.5 percent y-o-y) in response to the phasing-out of COVID-19 restrictions, higher wages, and lower unemployment. Investment showed signs of recovery (up 2.2 percent y-o-y) boosted by new construction works. Robust private consumption coupled with global value chain disruptions and the terms of trade shock led to a widening goods trade deficit. The primary income balance also deteriorated, adding to the already sizable current account deficit. On the supply side, growth was led by the ICT sector (up 23.9 percent y-o-y), which benefited from businesses adopting digital technologies. Construction bounced back (up 2.8 percent y-o-y), supported by the revival of the non-residential buildings segment. The economic recovery and labor supply constraints reduced unemployment to 5.3 percent in June 2022 from the height of the COVID-19 pandemic of 6.7 percent in June 2020. Labor shortages coupled with higher inflation led to wage increases, with nominal net wages up by 12.3 percent y-o-y in June 2022. Meanwhile, annual inflation accelerated to 15 percent in July 2022, led by soaring electricity, gas, and central

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.

heating prices (up 35.6 percent). Inflationary pressures prompted the National Bank of Romania to gradually increase the monetary policy rate to 5.5 percent in early August 2022. Nevertheless, private sector credit growth remained strong, up by 17.5 percent y-o-y in June 2022, led by loans to non-financial corporations.

The fiscal deficit decreased to 1.7 percent of GDP in H1, 2022, 1.2 percentage points lower than in the same period of last year. Higher revenues (up 22.9 percent y-o-y), especially from VAT (up 26.6 percent y-o-y), off-set the 14.3 percent y-o-y increase in expenditure, but fiscal pressures remain significant as recurrent expenditure and energy subsidies could swell the deficit this year.

An economic and employment rebound meant that most workers have returned to work, helping to bring household labor income close to the pre-crisis level. However, the Rapid Household Survey in June 2022 showed that 75 percent of Romanians were still worried about the economy. Moreover, rising food and energy prices have depleted households' real purchasing power, especially among the poor and vulnerable. Nearly 90 percent of households in the bottom 40 percent indicated they would have to sacrifice other expenses to cope with food and energy inflation. The war in Ukraine and further disruptions to the global supply chains will continue to affect the economies of host countries for Romanian migrants, reducing remittances. Thus, despite economic and employment recovery, poverty is expected to have declined only modestly to 11.7 percent in 2022 and remains above the pre-crisis level.

Outlook

The economy is projected to expand by 4.6 percent in 2022, with projections subject to a high degree of uncertainty. A global slowdown and a possible recession in the main trading partners could impact Romania's growth in 2023. Growth prospects hinge on several factors, including the new COVID-19 flare-ups, the dynamics of inflation, especially related to energy and food prices, and the severity of the conflict in the region and its impact on the European economy in which Romania is strongly integrated. Romania's capacity to absorb the EU funds will be critical to a sustainable, green, and inclusive recovery process. The sizable investment and reforms under the Resilience and Recovery Facility, the multiannual financial framework 2021-2027, and other EU-funded programs should partially mitigate the impact of higher interest rates and uncertainty on private investment. The sizable funds should also alleviate some of the fiscal pressures resulting from the war and heightened energy and food prices. Over the medium term, fiscal deficits will remain elevated. The fiscal consolidation efforts remain critical and should address the large structural deficit, which requires reforms to strengthen revenue mobilization and increase spending efficiency.

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 in the coming years. A protracted war in Ukraine may significantly weaken growth 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	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.2	-3.7	5.9	4.6	3.2	3.9
Private Consumption	3.9	-5.1	7.9	7.6	5.8	6.9
Government Consumption	7.3	1.8	0.4	1.1	0.9	0.8
Gross Fixed Capital Investment	12.9	4.1	2.3	3.9	6.9	7.0
Exports, Goods and Services	5.4	-9.4	12.5	6.5	6.7	7.1
Imports, Goods and Services	8.6	-5.2	14.6	9.8	10.0	10.3
Real GDP growth, at constant factor prices	4.0	-3.5	5.6	4.6	3.2	3.9
Agriculture	-5.0	-14.9	13.5	-7.5	6.0	2.1
Industry	-0.1	-2.2	3.7	0.8	1.3	3.4
Services	7.1	-3.2	6.1	7.4	3.9	4.2
Inflation (Consumer Price Index)	3.8	2.6	5.1	13.3	9.7	4.8
Current Account Balance (% of GDP)	-4.9	-5.0	-7.0	-9.2	-7.9	-6.8
Net Foreign Direct Investment Inflow (% of GDP)	2.3	1.4	3.0	3.6	3.7	3.7
Fiscal Balance (% of GDP)	-4.3	-9.3	-7.1	-6.6	-5.6	-4.7
Debt (% of GDP)	35.3	47.2	48.8	51.2	52.5	53.3
Primary Balance (% of GDP)	-3.2	-7.9	-5.6	-4.9	-4.0	-3.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.5	2.9	2.7	2.6	2.5	2.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	5.1	5.7	5.5	5.3	5.1	4.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	11.3	12.7	12.1	11.7	11.3	10.8
GHG emissions growth (mtCO2e)	-1.9	-10.4	2.2	2.6	2.4	2.3
Energy related GHG emissions (% of total)	91.9	92.1	92.2	92.6	92.9	93.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on ECAPOV harmonization, using 2009-EU-SILC and 2019-EU-SILC. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection based on elasticities calibrated on 2009-2019 growth periods and rapid assessment data, allowing for elasticities to vary between periods of contraction, recovery and expansion.