



Summer forecast 2021-2025

- Provisions and possible influences -

The summer forecast updates a limited number of indicators based on the new macroeconomic conditions highlighted in the first half of this year. The favorable medical situation allowed the significant lift of restrictions, with a positive impact on activity in industry and services, thus leading to an upward revision of the dynamics of the economy for 2021 by two percentage points. Previously, in the spring forecast, a prudent economic growth of 5% was estimated for 2021, given the prolonged state of alert in the first months and the mention of certain restrictions to limit the spread of the virus, the objective of the macroeconomic level being to recover the decrease in the year 2020, creating the premises for a sustainable economic growth.

Features accounted in sustaining the short term newly estimations:

- Real GDP growth by 2.9% in the first quarter of 2021 compared to the previous quarter (seasonally adjusted series) and the trend of return in annual terms compared to the same period in 2020 (-0.2% per gross series), higher results those forecast in the spring forecast;
- By fields of activity, the positive evolutions in industry, agriculture and constructions were highlighted. Thus, the gross value added in industry increased by 1.9% in the first quarter of 2021 compared to the same period in 2020, which materialized in a contribution to real GDP growth of 0.3 percentage points. In construction, the gross value added increased by 1.2%, and in agriculture by 2.1%. With regard to the tertiary sector as a whole, gross value added decreased by 0.6%, leading to a reduction in GDP by 0.3 percentage points, but the increase by 10.7% in gross value added in the field of IT, contributing by +0.8 percentage points to the real GDP growth;
- On the demand side, the evolution of the investment process was taken into account, which resulted in an increase in gross fixed capital formation by 11.7% in the first quarter of 2021 compared to the same period in 2020. With a contribution of +2.0 percentage points to the dynamics of the real GDP rate, gross investments are the main factor supporting the transition to the recovery stage of the economic downturn in 2020. Also, private consumption increased by 0.9%, contributing +0.6 percentage points of GDP dynamics. However, the contribution of domestic demand to economic growth of 2.5 percentage points was offset by external demand, which had a negative contribution of 2.7 percentage points;
- Developments above expectations at the sectorial level in most activities during January-May 2021, and in the case of services, the alert return starting from the second quarter.

Important changes can be observed in the macroeconomic forecast of the European Commission, which, for Romania, published in May 2021 (spring forecast) a real GDP growth of 5.1% in 2021, while in the summer forecast, published in July this year, the new estimate exceeds 7% (7.4%, revision by +2.3 percentage points). The European Commission's scenario thus places Romania in the first place among the Member States related to the economic advance.

The accelerated recovery starting with 2021 is also illustrated by the evolution of the confidence indicator in the Romanian economy, calculated and published by DGECIN. Thus, starting with April 2021,



the confidence indicator was significantly above the reference value of 100 points, which corresponds to a high economic growth.

Sectorial evolutions which encounter a speedy recovery than previously estimated :

- The volume of industrial production increased by 16.0% in the first 6 months of this year compared to the same period in 2020, as a result of the recovery of some branches with a high share of exports, which were affected last year in the context of the pandemic, respectively manufacturing road transport vehicles (+ 38.0%), manufacture of electrical equipment (+ 32.7%), manufacture of machinery, machinery and equipment (+ 28.1%) and manufacture of furniture (+ 26.9%). The orientation of the population towards durable goods led to an increase of 42.6% on this component, while current use goods increased by only 1.1%.
- The volume of turnover for retail trade was higher in the first half of the year 13.4% compared to the same period of 2020, mainly due to sales of non-food products (+ 21.4%) and fuels (+ 14.7%), while in the case of food the increase was only 4.9%. Consumer preferences continue to be directed towards purchases through order houses or via the Internet, which recorded an increase of 18.4%.
- Services for the population, one of the areas that experienced a severe decline last year, revived more rapidly between January and May 2021, the turnover registering an increase of 27.6% compared to the first 5 months of 2020.
- Over the whole five months of the current year, the nominal increase of services for enterprises was 14.2%, performance due to activities such as professional, scientific and technical (+ 51.2%) and publishing activities (+29, 5%), areas that performed in 2020. Continuations of favorable developments are also found in the case of information technology services (+ 23.4%), but also in the case of postal and courier activity (+ 23.3%), supported by maintaining interest in online commerce.
- Exports of goods (FOB) amounted to 36.2 billion euros in the first 6 months of 2021, an increase of 26.5% compared to the same period of the previous year, while imports of goods were increased by a lower rate of 25.6%, reaching a level of 46.8 billion euros.
- On the labor market, in the first 6 months of 2021, the average number of employees (calculated as the arithmetic average of monthly staff) was 4,949.9 thousand people, 0.1% higher than the same period of 2020. The increase in the number of employees was more visible in construction (5.4%), in information and communications (+ 4.8%), as well as in health (+ 3.8%), while in industry there was a reduction personnel (-2.2%), which alleviate the positive dynamics on the total economy.



- The average gross earnings per total economy was, in January-June 2021, of 5,685 lei, 7.9% higher than the one registered in the same period of the previous year. Correspondingly, the average net earnings increased by 8.0%, up to 3484 lei, leading to a higher purchasing power of employees by an average of 4.5%. In the competitive sector, the average gross earnings increased by 9, 3%. Overall industry growth was 11.1%, due to the revival of economic activity and the elimination of restrictive conditions, followed by the services sector by 9.2% (above the average for the economy).

Given the economic developments in the first months of 2021, as well as the lifting of most of the restrictions imposed by the pandemic, it is expected that the gross domestic product will register a nominal value of 1174.9 billion lei in 2021, resulting from a real increase of 7.0% and a deflator of 4.0% (upward price developments contributed to the revision of the GDP deflator).

At the sectorial level, it is estimated that services will continue to have a considerable advance in the second half of 2021, so that the increase in gross value added will be significant (incorporating a base effect) of 6.3%, by 2.4 percentage points higher than in the previous estimate. Regarding the industrial sector, the sustained advance of the activities with an increased contribution of added value is expected, which, in the new more relaxed conditions, determined the ascending revision by 1.9 percentage points of the GVA dynamics in the industry, to 7.7% , the return being partial compared to 2019.

The unfavorable effects of the pandemic have affected less the labor market where, in 2021, an average return of the estimated number of employees is expected to 5,162 thousand people (5,164 thousand in 2019), increasing by 72 thousand people, respectively 1.4% compared to from the previous year and higher by 0.1 percentage points compared to the estimates from January 2021 (5,158 thousand people).

The average gross earnings for 2021 were revised to 5,520 lei / month, an adjustment up by 1.9 percentage points compared to the estimate in the spring forecast (5,422 lei / month), as a result of the positive impact of economic growth that will determines its increase by 6.9% compared to 2020. We mention that the data on labor force are still estimated for 2020, being expected in August the new values published by INS.

Regarding the occurrence of risks associated with the forecast, those related to the unpredictability of the international economic environment for the last four months of this year are highlighted, in the context of the high probability of manifestation of wave IV of the Covid pandemic. We mention mainly the influencing factors associated with the evolution of the euro area economy and, especially, of Germany (Romania's main trading partner) whose situation is reflected in the area of aggregate demand through exports, and especially in the area of domestic industrial production.

In the current context of high economic growth, although the export of goods is expected to recover from the decline of the previous year, the trade deficit is expected to deepen being the main cause of changes in the current account balance. Thus, the current account deficit in GDP is expected to worsen, from 5.2% in 2020 to 5.5% in 2021.



There is also the possibility of a risk generated by the possible unfavorable climatic effects on agriculture, which could reduce the real growth maintained unchanged compared to the spring forecast (+ 14.8%).

On the other hand, one can mention the dominant domestic risk of rising prices for intermediate goods, fuels and energy, putting additional pressure on the competitiveness of domestic production.

In the first months of this year there were price increases both for industrial production (6.18%, first half average) and in the case of construction costs (5.9% in the first 5 months), at a higher level the one anticipated at the beginning of the year. The increases were caused by both the rise in the international price of crude oil and the quotations of raw materials. For consumer prices, the increase in the first seven months stood at 3.58%, the estimate for the current year being revised to 4.2% for the annual average and 5.0% for year-end inflation.

The medium-term scenario 2022-2025 considers a slight acceleration of the economy compared to the scenario in the spring forecast, having as central hypothesis the positive impact of the European funds from National Recovery and Resilience Plan (NRRP).

A simulation of NCSP in the hypothesis of the absorption of 29 billion euros in the period 2021-2026, shows a positive impact that generates an additional economic growth of about 0.9 percentage points on average over the entire interval, compared to the baseline scenario, respectively without NRRP but with other European funds: MFF 2014 - 2021 + n3 and MFF 2021 - 2027. In the first part of the interval (2021-2022) the impact is less pronounced, following that the maximum effect on the acceleration of GDP growth will take place in 2023-2024 (+1.6 / +1.5 percentage points) as the allocation of funds gradually increases.

The medium-term economic model is similar to that of the spring forecast, the growth surplus being determined by the allocation of public and private investments. The average dynamics of FBCF will be about 9% in 2021-2025, which will materialize in an average contribution of 2.4 percentage points to the real GDP dynamics.

We specify that the standard forecasts are for spring and autumn, the summer forecast being an intermediate one, having a limited extension on macroeconomic indicators.