



NATIONAL COMMISSION FOR STRATEGY AND PROGNOSIS

Medium-term forecast 2022-2026, autumn version

A. Considerations regarding medium-term estimates

In a difficult global context, with geopolitical conflicts at national borders and energy crises that amplified the pressures on the prices of raw materials, eroding at the same time the purchasing power of the population, the Romanian economy proved resilient beyond expectations to shocks on supply, achieving robust economic growth in this year.

The autumn forecast scenario adjusted positively the current macroeconomic developments, but worsened the outlook for the next year, in line with the forecasts of international bodies for Romania's main commercial partners, especially Germany and Italy.

The estimates for the year 2022 were substantiated based on the developments from January to August (the 5.7% economic growth from the first semester, the trends of sector indicators from July and August, price dynamics etc.), taking into account the prolongation of the conflict between Russia and Ukraine and the implications it has on the European and world economy.

Regarding the quarterly evolution, mitigation of dynamics was foreseen for the second part of the year, against the background of high prices, the impact of energy-intensive industrial branches and the transition into negative territory of the annual rate of real monthly wage earnings. However, the version of the current forecast can be considered a cautious one, as there are favourable premises that the decrease in the rate of private consumption in the last quarter will be compensated by the intensification of the investment process.

Overall, the economic growth was estimated at 4.6% in 2022, 1.1 percentage points above the level estimated in the summer forecast scenario (3.5%). Performances above expectations have been observed in the construction and services activities, which together contributed approximately 5 percentage points to the increase of the gross domestic product, thus mitigating the negative contribution of industry and agriculture (-0.9 percentage points).

For the tertiary sector, which is the growth driver, the gross value added was estimated to increase by 7.7%, with a slight tendency to slow down in the second part of the year, while for the construction sector a dynamic of 6.1% is foreseen, based on the acceleration of activity in the second semester. The negative contributions came from industry, for which was forecasted a 1.2% decrease in gross value added, and from the agriculture, strongly affected by the drought, which led to a significant revision of the previous estimates, to a decrease of 12.8%.



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On the demand side, after a very good evolution in the first semester (5.0%), the expectations turned to a downward trend of private consumption dynamics in the following period, correlated with the evolution of purchasing power. Thus, the 5.4% increase predicted for the entire year 2022 was 1.9 percentage points above the previous estimate.

The Gross investments experienced a slight recovery in the second quarter of 2022, a trend that will continue as the public investments financed from EU funds (NRRP and the multiannual framework) accelerate. However, the revision of the growth of gross capital formation was modest (+0.6 percentage points), to 4.3%, with unfavourable influences from the equipment area.

According to the current forecast, this year the domestic demand is considered to be the driver of the economic growth, with net export having a zero contribution - the superior dynamics of exports of goods and services (9.2%) being compensated by that of imports of goods and services (8,2%).

For 2023, the economic growth is expected to decelerate to 2.8%, with 0.9 percentage points below the level of the summer forecast (3.7%), given that the unfavourable effects of the current geopolitical context will continue and become more visible at the European level. After a slowdown in the first two quarters, the activity will re-launch under the positive influence of constructions (+5.9%) and services (+3.0%), given the opportunity related to the exploitation of national resources and inflows of European funds.

The activity in the industrial sector will continue to be influenced by the high level of energy product prices and the weakening of the industry in Germany - Romania's main trading partner. Under these conditions, a modest increase in gross value added of only 0.4% has been estimated, below the level of the scenario in the summer forecast (2.3%). For agriculture, after the sharp contraction of the previous year, is anticipated an increase of 9.8% in the gross value added, under normal climate conditions.

Gross domestic product (real growth, %)	2022	2023	2024	2025	2026
NCSP 2022 - 2026					
Autumn forecast	4.6	2.8	4.8	5.0	4.5
Summer forecast	3.5	3.7	4.7	4.5	4.0
Differences (percentage points)	1.1	-0.9	0.1	0.5	0.5

Source: NCSP



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On the demand side, a moderate increase of 2.7% is expected for **private consumption** (0.9 percentage points below the estimate in the summer 2022 forecast), as the purchasing power of the population is at a lower level than previously forecast (1.7% versus 2.2%). Taking into account the fact that the increase in financing costs and those with energy and raw materials, as well as the amplification of investors' uncertainties hinder new investments, a dynamic of 6.2% was estimated for the gross fixed capital formation (with 1 percentage point less than in the summer 2022 forecast). Net export will contribute slightly negatively to the economic growth (-0.8 percentage points), in the event of a higher increase of imports of goods and services (5.4%) compared to exports (4.5%).

In the medium term, the annual rate of the gross domestic product is estimated at 4.8% for the 2024 – 2026 period, supported by a significant contribution of the construction sector (with an annual average increase of 9%); the focus is on attracting and using the NPRR funds as efficient as possible. Regarding services and industry (with average annual rates of around 4.5%), the development of those activities with an added innovative value is considered. On the demand side, the gross fixed capital formation will represent the main driver of economic growth, with an average annual rate of 8.2%, materializing in an investment rate of around 29% at the end of the forecast interval, while the private consumption is expected to have an average dynamic lower than that of the gross domestic product. The net export will maintain its negative contribution over the entire forecast interval, however, registering a slight tendency of gradual decrease.

The inflationary process proved to be more persistent and of higher amplitude than previously anticipated so the deceleration of the increase in consumer prices was estimated to have a lower intensity. Under these conditions, the inflation forecasts were adjusted upwards for the current year and the following two years by about 1.3 percentage points as an annual average, while for the 2024-2025 period, the inflation is estimated at around 3%. The forecasts took into account the normative acts in force regarding the electricity price-cap scheme until August 31, 2023, the extension of the measure to reduce the fuel price by 50 bani/litre until the end of the current year, as well as a relative stabilization of the main international quotations. The unfavourable short-term effects are expected to manifest themselves for the food goods component as a result of the prolonged drought this year, but also as a second-round effect of the dispersion of energy product prices. At the same time, the prices of industrial production, as well as construction costs, are expected to register downward dynamics but will remain at double-digit values in the following year.



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The upward revisions for the price forecast led, implicitly, to the increase of the GDP deflator for the forecast period.

The current account deficit is expected to deteriorate compared to the previous forecast for the current year and the following period, due to the sharper increase in the prices of imported products, especially the energy ones, amplified by the appreciation of the US dollar. In the medium term, a process of correcting the current account deficit determined by better absorption of European funds, but also by a stabilization of the trade deficit, is expected to begin.

Romania managed to maintain a relatively stable economic balance, including in terms of **labour market**, which was sustained by the establishment of support measures for employees and employers, an improvement in workplace flexibility, as well as the redirection of human resources, where possible, to sectors less affected by the crisis and with growth prospects in the coming years.

The revival of the economic growth estimates and newly available data led to the revision of the **employed population** from 0.7% to 1.0% for the year 2022, and the forecast of the average **number of employees** was adjusted upwards by 0.2 percentage points (from 1.6%). At the same time, the slowdown in the economic activity estimated for 2023 led to downward adjustments of previously estimated levels for employment indicators, by 0.2 percentage points, both in the case of the employment (from 0.9% in the summer forecast to 0,7% in the autumn forecast) as well as in the case of the number of employees (from 1.8% in the summer forecast to 1.6% in the autumn forecast).

In the long term, the labour market will follow a positive trajectory, offering fairly good prospects for all wage categories. From 2024 to 2026, the employment will grow at an average rate of 0.9% and the number of employees will increase at a 2% rate, while other categories of the employed population, mainly the self-employed, will face a marginal adjustment. **The ILO unemployment rate** will continue to decline and it is estimated to reach 4.4% over the forecast horizon.

For the current year, the average gross earnings are estimated to increase by 10.6%, up to a level of 6,120 lei. Correspondingly, the average net earnings will increase by 11.3%, as a result of some measures that benefit both the budgetary and private sector staff. However, against the backdrop of this year's high inflation, real earnings are estimated to decrease by about 2.0%.



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For 2023-2026 period, the average annual growth rate of the average gross earnings will be 9.1%, and the purchasing power will return to a higher level, with an average dynamic of 3.9%, in accordance with the socio-economic context.

B. International forecasts and risks

The autumn forecasts of the main international institutions generally indicate an upward revision of economic growth for this year due to the above expectations evolution in the first semester, but for the year 2023, they anticipate a worsening of the economic prospects at the global level, due to the persistence of the energy crisis, as well as the inflation that reached record figures and the tightening of financial conditions, in a context marked by the continuation of the conflict in Ukraine.

The World Bank estimates an economic growth of 4.6% for Romania this year, followed by deceleration to 3.2% in 2023 (-0.5 percentage points compared to the previous forecast, the least pronounced economic growth downward adjustment compared to the other states in the region). Similarly, IMF experts expect a GDP advance of 4.8% this year, supported by stronger-than-expected dynamics of domestic demand, followed by a slowdown of up to 3.1% in 2023.

	NCSP		WB		IMF	
	2022	2023	2022	2023	2022	2023
Economic growth (%)	4.6	2.8	4.6	3.2	4.8	3.1
Inflation, average (%)	13.5	9.6	13.3	9.7	13.3	11.0

Source: NCSP and WB, IMF reports, October 2022

For the countries in the euro area, the IMF estimates an advance of 3.1% in 2022, 0.5 percentage points above the summer estimates. On the other hand, the IMF adjusted downwards the growth estimates of the euro area economies in 2023 to a slight advance of 0.5%, a situation valid for most states. Worryingly, a decrease of 0.3% of the economy is expected in the case of Germany (-1.1 percentage points compared to July), and by 0.2% for Italy (-0.9 percentage points compared to July). OECD also estimates only a modest growth of 0.3% for the euro area, with risks of economic contractions in several European economies in the winter months (Germany's economy is expected to shrink by 0.7% in 2023, after an estimated 1.2% growth for this year).

The uncertainties and risks related to the current economic forecasts remain high, due to the ongoing current geopolitical context regarding the war in Ukraine and the sanctions associated



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with it, with unfavourable effects especially on the European economies, as well as the pressures on the energy products prices and certain raw materials.

Although supply chain disruptions are expected to continue throughout 2023, their persistence over a longer period becomes a risk for the evolution of the world economy. War-induced disruptions to Russian energy imports have worsened growth prospects, particularly for the euro area, and may cause further damage.

In the case of maintaining higher prices for a longer time, there is a risk of reducing the pace of economic growth, compressing profit margins and eroding purchasing power. At the same time, inflation will be fuelled by the channels of transmission of high costs from the producer to the final consumer prices. Also, the high prices of imported goods put additional pressure on the current account.

On the other hand, there are also premises for beyond expectations economic growth, supported by the faster materialization of the European funds reforms and investments, especially the ones provided in the NRRP, with a positive impact in mitigating global shocks.

C. Short term developments underlying the macroeconomic revisions

In the first half of 2022, the Romanian economy continued to face the many disruptive phenomena that have been manifesting since 2021 and which have intensified with the outbreak of the Russian-Ukrainian conflict in the middle of February. However, from the health crisis point of view, the situation was gradually improved, the state of alert was no longer extended in March, the restrictions were lifted, and the pandemic waves that followed were not so aggressive as to impose measures to limit the spread of the virus, so that the economic activity took place under normal conditions in all fields of activity.

However, the **economic growth** was 5.7% in the first half of 2022 compared to the similar period of the previous year, well above the levels estimated in the annual forecasts of both the NCSP and the European Commission (3.5%, against 3.9% in the summer forecast). The essential role was played by services with a dynamic that exceeded expectations (8.2%) and also by constructions (4%), which generate together about 93% of the economic growth.

On the demand side, private consumption was the main driver of economic growth (7.5%), as a significant contribution came from purchases of goods and services for the population, considering the effect of the lifting of restrictions imposed during the pandemic, as well as the wave of Ukrainian refugees. The slowdown in construction activity as a result of the severe energy crisis, the increase in the prices of raw materials and construction materials, as well as



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the increase in the financing cost, had a direct impact on gross investments (2.4% growth in the first semester of 2022 compared to first semester 2021), the decision to start new projects being postponed. Net export had a positive contribution of 0.3 percentage points to the economic growth rate, resulted from the increase in exports of goods and services by 9.8% in real terms, higher than the import of goods and services (8.0%).

The uncertain international context, alongside the existing blockages in the large global distribution and supply chains, led to the sharpening of macro-economic imbalances on the supply side, with the direct consequence of the accentuation of the **rising consumer prices** phenomenon, the increases being recorded along the entire flow between the producer and the final consumer.

The most recent statistical data reveal the fact that **inflation** recorded an average annual rate of 15.4% in the third quarter, continuing the upward trend from the first two quarters. It is worth noting the acceleration of the prices of food goods during this period, exceeding the average increase by 2.4 percentage points, although, traditionally, seasonal price reductions were recorded for this type of products. The moderation of fuel prices through the regulation regarding the 50 bani/liter reduction of fuel prices, as well as the implementation of measures to cap the prices of electricity and natural gas for the population, contributed to the slight deceleration of the prices of non-food goods to 16.4%. At the same time, the prices of services continued their upward trend, but at a slower pace, their dynamics in the third quarter reaching 8.2%.

The developments in the third quarter highlight the fact that, as pressures from energy product prices ease, with lower annual dynamics especially for natural gas (+70.5% compared to 87.2% in the second quarter) and fuel (+32%, with 2 percentage points below the dynamics of the second quarter), the second round effects from the increase in energy prices go up, which are seen especially in the case of food products.

Sector developments, according to the latest data of high-frequency indicators (July-August), indicate, **on average, a slowdown in some activities, such as industry and trade**, while growth rates close to those recorded in the first semester of the year are estimated for others.

The industrial sector was affected by overlapping shocks (supply chains disruptions, energy and geopolitical crises). At the same time, the manufacturing industry faces a decreasing external demand, caused by the uncertainties related to future economic developments, also manifested in Romania's main commercial partners. Under these conditions, the downward



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trend of industrial production was consolidated at the level of the second quarter and even intensified in July-August, reaching -2.0% compared to July-August 2021.

The **chemical branch** continues to have the greatest difficulties (with an accentuation of the decline in the July - August of 21.8%, after the first half of the year when the decrease was around 20%) due to high natural gas prices. Compared to August 2021, the decline deepened to 24.7%. The unfavorable effects of the increase in electricity and natural gas prices also affected the evolution of **basic metals**, which has been in negative territory since March. In the second quarter, the contraction stood at 11.3% compared to the similar period in 2021 and worsened in the July-August period (24.6%). A significant reduction in activity was also recorded for the **volume of electricity, gas and steam production and supply** (7.6% in the second quarter and 7.3% in the July-August period), due to the contraction in demand, with lower consumption both in the economy (6.3% in the April-June period and 7.0% in July-August), and for the population (10.5% in the second quarter and 9.0% in July-August).

The slowdown in the growth rate for **retail trade** to 3.7% in the July-August period compared to the same period of the previous year (after having recorded an advance of 5.0% in the second quarter) was due to the slowdown of fuel sales (+6.0% for the period July - August, less by 3.4 percentage points compared to the dynamics of the second quarter) and sales of non-food products, where there was an increase of only 2.4% (influenced by the 1.5% reduction in furniture sales). Internet orders also continued to lose ground compared to last year (3.5% between July and August), but the decline was moderate compared to the second quarter (-8.2%).

The turnover volume of services rendered to the population slowed down after the second quarter increase of 37%, diminishing its growth in the July-August period (17.1% compared to the corresponding period of the previous year). This evolution was influenced by a deceleration in the activity of hotels and restaurants (19.1%, more than 20 percentage points less than the increase in the second quarter) and in the travel agencies services (28.4%, compared to a 50% advance in the second quarter).

However, favorable developments were registered in the **construction sector**, for the period July-August the statistical data indicate a strong revival (increases also determined by a base effect, especially in August). The volume of construction works increased by 12.2% in these last two months, at a double rate compared to the first quarter, and 4 times higher than the dynamics in the second quarter, being supported by capital repairs (28.9% in July-August this year, after a reduction of 28.8% in July-August 2021) and by current maintenance and repair activities (25.2% in July-August 2022, after in July-August 2021 the decrease was 18.9%). New



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constructions have accelerated to 6% in the July-August period, after the volume varied around 3% in the first two quarters. By the construction objects, it is worth mentioning the solid 23.4% increase of civil engineering constructions in August, the fourth consecutive month in which they remain in positive territory. The 14.5% advance of civil engineering constructions in the July-August period compensated the decline in the first half of the year, which led to an increase of 1.1% in the first 8 months compared to the corresponding period of 2021. The continuous increase for non-residential buildings in July-August period (20.9%) is also significant, while residential buildings had a modest dynamic (0.4%) due to the successive increases in interest rates for loans and the erosion of the purchasing power of the population.

The value of turnover in services mainly rendered to the enterprises accelerated its growth rate in July-August to 31.1% compared to a 27.4% advance in the second quarter. Air transport services continued to stand out, with turnover almost doubling in the mentioned period (+97.4%), but also activities of cinema production (+64.1%), real estate activities (+54.4%), secretariat activities (+54.2%) and storage activities (+52.2%). Although there was a slowdown (-6 percentage points) in the value of IT services turnover in July-August period compared to the second quarter, the growth recorded significantly exceeds the overall advance. The increases of more than 35% in the months of July and August, in annual terms, in the case of other services led to an increase in the value of the turnover of 38.8% in this activity, with about 13 percentage points above the achievements of the second quarter.

The current account of the balance of payments recorded a significant deficit of euro 16.99 billion in the first 8 months of 2022, increasing by 58.1% compared to the similar period of 2021. The main determinant was the deterioration of the trade deficit (FOB-CIF export-import of goods), increasing by 50.5%, 42.0% of which was generated by the petrochemical area (pharmaceutical products, fertilizers). Important shares in the deficit were also recorded in the groups of fuels and lubricants (24.4%) and manufactured goods classified by raw material (iron, steel, rubber, metal etc.), 21.6%.

In the first semester of 2022, **the employment rate of the working-age population** (15-64 years) was 63.0%, one percentage point higher than in 2021, and the **number of employees** increased by 1.8% compared to the same period from the previous year, reaching 6648.7 thousand people, a level that marks not only a recovery of the employees losses due to the pandemic, but also the exceeding of the level existing before the pandemic by over 71 thousand people.



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The ILO unemployment rate was 5.7% in the first half of this year (down from 6.0% in the first quarter of 2022 to 5.3% in the second quarter of 2022).

The average gross earnings for the entire economy reached 6,307 lei in the first 8 months of 2022, with 10.7% higher than that recorded in the corresponding period of 2021. Correspondingly, the average net earnings increased by 11.5%, but below the inflation rate, so that **the real earnings** (to which the purchasing power of employees is related) decreased by 1.0% in the same period of analysis.

In agriculture, forestry and fishing, a component of the competitive sector, real earnings increased by 4.7%. This increase was due to the entry into force of Law no. 135/2022, by which the employees in agriculture and the food industry benefit from guaranteed minimum gross earnings in payment of at least 3000 lei. In manufacturing, real earnings rose slightly by 0.2%, while in construction they fell by 0.9%.

As a result of the financial stress felt by employees, some companies in the competitive sector put a greater emphasis on the area of benefits in the category of financial products: private pensions, insurance, discounts on various financial services, advance payment of wages.