



Medium-term forecast 2022-2026, summer version

A. Considerations regarding medium-term estimates

The summer forecast adjusts the estimates from the spring edition for the 2022-2025 period, adding the year 2026, and updates a limited number of indicators based on new statistical data covering a five-month timeframe, as well as information related to changes in the international macroeconomic framework.

The current medium-term scenario is cautious in terms of real economic growth, against the backdrop of high but declining medium-term inflation. There are favorable premises driven by **good service evolution**, which could lead to possible upward revisions in the autumn forecast for 2022-2023. In this context, the continuation of the recovery in the most affected activities during the health crisis, such as HORECA and the transport sector, is expected.

In preparing the summer forecast, NCSP reassessed the evolution of macroeconomic indicators **for the year 2022**, taking into account the monthly data available from January to May 2022, in the context of the prolongation of the conflict between Russia and Ukraine. The annual revision was determined by **the significant statistical corrections in the first quarter** (about +2.4 pp), considering that the data published by the NIS were above the expectations outlined in April, when the spring forecast scenario was projected. The forecast profile was maintained for the last two quarters, in accordance with the initial assumptions of a softening of dynamics in the context of high prices, the energy-dependent industries being affected, and the transition into negative territory of the annual pace of real monthly wage earnings.

The GDP growth forecast for **the current year has been improved by 0.6 percentage points** (from 2.9% to 3.5%) as a result of the **developments beyond expectations for certain representative services** (transport, IT services, services rendered to the enterprises), and due to the acceleration of **construction works growth** in the second semester, stimulated by the NPRR implementation measures, as well as by government measures regarding the conditions for adjusting costs in construction contracts. However, a **negative risk** is emerging from the **agriculture** sector, should the drought conditions persist for a long period.

Gross domestic product (real growth, %)	2022	2023	2024	2025
NCSP 2022-2025				
Summer forecast	3.5	3.7	4.7	4.5
Spring forecast	2.9	4.4	4.8	4.5
Differences (percentage points)	0.6	-0.1	-0.1	0.0
COM 2022-2023				
Summer forecast	3.9	2.9		
Spring forecast	2.6	3.6		
Differences (percentage points)	1.3	-0.7		



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On the demand side, the evolution of services in the foreign trade structure became slightly positive (+0.1 pp) in 2022 leading to the re-estimation of the net export contribution to GDP growth, while the other components maintained their positive contribution, namely investments (+3.7%) and private consumption (+3.5%).

Compared to the previous version, **the estimated level of inflation** was revised to 12.9%, from 9.7% for the end of the current year and to 12.6% from 10.1%, as an annual average. The industrial products prices indices, as well as the cost in construction, will continue their ascent to the level of previous estimates, registering double-digit dynamics, their annual rate evolution being expected to mitigate in the second part of the year as a result of a base effect. The beyond expectations developments at price level led to the upward adjustment of the GDP deflator.

The current account deficit was predicted to remain at high values at present, caused by a growing trade deficit as well as amplified by the higher price increases for imports, but is expected to register positive corrections in the medium term.

On the other hand, the unfavorable effect of the current geopolitical context and international inflation expectations will be seconded by the slowdown in the dynamics of the Chinese economy, with the increase of interruptions in supply chains, and by the energy resources crisis at European level; **the impact of these shocks will also be felt in 2023**. For the main partner countries in the **euro zone**, the new forecast of the European Commission **has adjusted downward the economic growth in 2023 by about one percentage point** (from 2.3% to 1.4%, and in the case of Germany, from 2.4% to 1.3%).

Therefore, **the slowdown of economic activity at the European and global level in 2023**, according to the estimates of international institutions, along with the other shocks mentioned, will also have the effect of **decelerating the growth of the national economy** to 3.7%, from the previous 4.4% estimate. On a quarterly basis, a weakening in activity is anticipated in the first quarter of 2023 compared to the same period in 2022, after which activity will re-launch under the positive influence of constructions and services, given the opportunity related to the exploitation of national resources and inflows of European funds.

Even if an end to the conflict in Ukraine were to be taken into consideration, the maintenance of high prices for energy products and the weakening of industry in Germany - Romania's main trading partner - **will partially affect domestic industry in 2023**, especially the branches in the chemical industry, manufacture of basic metals, crude petroleum manufacture, as well as the automotive industry and that of machinery and equipment. In this context, an increase of 2.3%



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in the gross added value in industry was estimated for 2023, 2.2 percentage points down compared to the version in the spring forecast.

On the demand side, a sharper 0.9 percentage points downward revision in the private consumption dynamics was considered for next year, under the impact of a slower return of wage purchasing power (+2.2% compared to +3.7% in the previous estimate), and taking into account the fact that for 2022 the real earnings will register a period of decreases in annual terms. In the case of gross fixed capital formation, the annual dynamics was revised by 1.4 percentage points below the previous estimate due to a lower import of equipment, but remains at a high level (+7.2%).

In the medium term, the annual growth rate of the gross domestic product is estimated at 4.4% for the 2024 - 2026 period, supported by a significant contribution of the construction sector, with the focus on attracting and using the NPRR funds as efficiently as possible. Regarding services and industry (with average annual rates of around 4%), the development of those activities with an added innovative value is prioritised.

B. Short-term developments underpinning macroeconomic revisions

Romania recorded **in the first quarter of 2022 the second highest economic growth in the EU compared to the previous quarter** (seasonally adjusted series), **respectively 5.1%**. The dynamics of the economy in the first three months compared to the similar period in 2021 (+6.4%) **is above** the level of the annual national forecast (+3.5%) and the European Commission forecast (+3.9%). The increase in GDP was due to **developments beyond expectations in the services sector and in construction**, and, by elements of use, **private consumption had a decisive contribution**, favorable influences manifesting also from **investments**.

Prices continued their rise along the entire chain between producers and consumers.

- **In the second quarter, the annual inflation rate accelerated to 14.43%**, from a value of 9% recorded in the first quarter of the year. **Overall**, the pressures came from the area of consumer prices of some energy products, which **in this second quarter** increased by **87.2% for gas** and **38.5% for fuels**. On average, inflation in the first semester of 2022 was 11.74%, of which the prices of non-food goods had a significant advance, growing by 13.66%, followed by food products (11.65%), while services tariffs increased by 6.78%;
- **A good signal** was observed in the case of **industrial production prices**, the months of April and May marking a **trend reversal in the evolution of this indicator**. The annual variation thus decreased by 5 percentage points, from a maximum in March of 51.6% to 46.6% in



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May. The trend was marked by the decrease compared to the corresponding period in the **prices of electricity, gas, steam, air conditioning production and supply by 44.2 percentage points** (+135.7% in May compared to +180.% in March).

Sector developments in **April and May** indicate, **on average, a slowdown in some activities, such as trade with motor vehicles and construction**, while growth rates close to those recorded in the first quarter of the year are estimated for others.

The industrial sector is still affected by overlapping shocks (disruptions to supply chains, the energy and geopolitical crises). **The decrease of 1.5% from April to May 2022** compared to the corresponding period of 2021 placed the level of production slightly below the first quarter of the year (-0.3%), the reduction being driven by the weak results in April (- 9.0%). The biggest difficulties continue to manifest themselves in the **chemical industry** (-21.5% in these two months) due to high natural gas prices. A significant reduction in activity was also recorded for **the volume of electricity and heat energy production and supply (-7.4%)** against the backdrop of the contraction in demand, consumption being lower both in the economy (-7.2%) and at the level of the population (-9.4% compared to the period April - May 2021). In the case of **crude petroleum manufacture**, production reduced its decline (-3.3% in this period compared to - 8.0% in the first quarter) due to the increase of crude oil imports in May by 60% compared to May 2021.

Construction activity tempered its advance from the first quarter (+6.3%), in the April - May period registering an increase of only 0.4% compared to the same period of the previous year. By structure elements, a consistent reduction in the pace of **capital repairs** was noted, respectively from an increase of 4.0% in the first quarter to a decrease of activity of 10.5% in these two months. By type of construction, the largest decline was recorded in **residential buildings**, in the period April - May, the activity reducing by 3.4% compared to the last year, after the notable performance in the first quarter (an increase of 17,7%). Engineering construction moved into positive territory in May with an annual increase of 1.0%, which led to a softening of the reduction in the results of the first quarter (-6.7% in April - May, compared to -7.3% in the first quarter). However, **the volume of construction works returned to a significant increase in May (+9.2%)** of the annual rate.

After a **5.5% advance** in turnover volume of **retail** trade in the first quarter, the April - May period confirms that the population maintained its appetite for consumption, recording a **5.8%** increase. The evolution is beyond expectations, in the conditions of high inflation rates, which have led to the population's purchasing power erosion. In these two months, consumer preferences were mainly directed towards light industry products (+20.0%), pharmaceutical and



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cosmetic products (+16.0%) and fuels (+10.5%), under the conditions of waiving the mobility restrictions.

Opposite developments were noted, however, in the case of **trade with motor vehicles**, where the volume of activity decreased in the months of April - May by 0.5% compared to the same period last year. The results are significant compared to the first quarter, when sales increased by 10.1%.

Results beyond expectations were recorded both in **the first quarter (+36.8%) and in the period from April to May (+43.1%) in services rendered to the population**, these being also stimulated by the measures regarding the removal of mobility restrictions imposed by sanitary conditions, which led to an intensification of activity, especially in the HORECA field. However, a slowdown in dynamics is expected, as a result of a base effect, but also of the orientation of a part of the population towards foreign tourism.

Production in the field of services rendered mainly to enterprises maintained the growth rate in the months of April - May at a level close to the first quarter (**+21.1% in the two months** compared to +20.8% in the first quarter). The sector is further supported by **IT activities (+39.2%), transports (+22.9%)** and services rendered to the enterprises (+19.0%).

The current account of the balance of payments registered a deficit of 10.24 billion euro in the first five months of 2022, an increase of **almost 80%** compared to the similar period of 2021. The main driver was the deterioration of the **trade deficit** (FOB-CIF export-import of goods), increasing by 44.0%, almost **half of it** being generated in the **petrochemical area** (pharmaceutical products, fertilizers). Important weights in the deficit were also recorded in the groups of **fuels and lubricants (25.3%)** and **manufactured goods (24.3%)** classified by raw material (iron, steel, rubber, metal etc.).

We specify that the standard forecasts are spring and autumn, the summer forecast being an intermediate one, which has a concise character and includes the information appearing in the interval between the spring forecast (which is the basis of the Convergence Program) and the autumn forecast (representing the macroeconomic framework, on which the budget is usually based).

The detailed projections for the period 2022-2026, determined taking into account the developments in the first three quarters of the current year, will be published on the occasion of the Autumn Forecast, estimated for November this year.