



Winter Forecast 2021-2025

- Perspectives and projections-

The Winter Forecast takes into consideration a reduced number of indicators, similarly to the European Commission's version – the GDP and inflation rate. This precedes the Spring Forecast.

The current scenario on the evolution of the Romanian economy was drafted in the context of uncertainties and risks manifested, with different intensities and durations in time, regarding the decline of the health situation, the increase in the prices of energy products and raw materials and ongoing supply chain bottlenecks.

The last quarter of 2021 was marked by the overlap of tensions, with unfavorable effects on both supply and demand, which led to a broader slowdown in economic developments. Thus, based on the data published by the National Institute of Statistics in infra-annual statistics, we estimate a GDP reduction in the fourth quarter compared to the previous quarter, which corresponds to a significant slowdown in annual dynamics.

Overall, economic growth was revised downwards by 0.8 percentage points in 2021. It should also be noted that the transition from the provisional to the semi-final series for 2020 also benefited from a positive statistical effect on the real GDP dynamics in 2021, with 0.3-0.4 percentage points. The changes are in line with the latest estimates from financial institutions.

Projections of the main international institution for Romania

	WB			OECD			COM		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
Economic growth (%)	6.3	4.3	3.8	6.3	4.5	4.5	6.3	4.2	4.5
Inflation, average (%)		-	-	5.0	6.6	3.6	4.1*	5.3*	2.5*

WB, OECD: January 2022; COM: February 2022;

*calculates the consumer prices evolution by way of harmonized index

The elements considered in supporting the new short-term estimates are:

On the supply side, amid the overlap of the health and the energy crises, we have seen a slowdown in activity in sectors such as industry and construction, which has resulted in negative developments in gross value added in the last three months of 2021; for these sectors downward adjustments have been made. As to the increase in commodity and energy prices, it can mainly be seen in the level of intermediate consumption and to a lesser extent in terms of gross value added.

On the demand side, private consumption has been adjusted downwards by 1.2 percentage points compared to the previous forecast (from 8% to 6.8%), following the acceleration of the inflation process, as well as the intensification of the pandemic in the last quarter of the year.



The decrease in the volume of activity in the construction sector since the second half of 2021 has had a direct impact on gross fixed capital formation which was estimated to increase by only 5.1% (down by 3.1 percentage points compared to the autumn forecast) mainly due to the increase in the prices of construction materials and transportation costs.

On the external demand side, both exports and imports of goods and services are expected to have higher dynamics compared to the autumn forecast, and to register a 10.7% increase in the case of exports of goods and services and a 13.5% increase in imports of goods and services.

The acceleration of the **annual inflation rate** in recent months has led to a higher than anticipated increase in consumer prices (by 0.5 percentage points) for the value at the end of 2021 (8.19%), while the annual average maintained the forecast level.

By sectors, the developments that have shown a more pronounced slowdown than previously estimated are:

- **the volume of construction works** - although in the first half of 2021 the evolution was within the estimated margins, starting Q3 the activity slowed down considerably, leading to a decrease of 1.2% in the first 11 months compared to the same period in 2020. The decrease was fueled by the two components, capital repairs and maintenance and current repairs, which decreased by 23.4% and 11.5% respectively, and also due to a pronounced base effect. New construction advanced by only 6.6%, compared to an average increase of 14% between January and June 2021. Starting 2022, a higher contribution from civil engineering construction is estimated, in accordance with the investments provided in the PNRR.
- **industrial production** went into negative territory in September-October 2021, still maintaining a consistent advance at year level (+ 7.1%); in the fourth quarter, the most severe decline was in the automotive sector (-20.4%), due to the semiconductors supply and other electronic components crisis and in the chemical and crude oil processing industry (-12.7%), where gas and fuel price increases reduced production.

Table no.1 The evolution of the main sector economic indicators

-percentage changes compared to the corresponding period of the previous year-

Indicator	Q1_2021	Q2_2021	Q3_2021	Q4_2021
Industrial production	3.0	32.8	0.6	-2.1
Construction works	1.4	9.0	-7.9	-6.2**
Services rendered to enterprises*	4.0	30.2	19.3	17.0**
Transports*	-0.7	38.4	25.9	17.4**
Retail trade	4.1	23.1	9.5	5.4
Services rendered to the population	-16.3	176.6	44.0	54.8**

Source: NIS, unadjusted series, annual dynamics; NCSP calculations based on revised monthly data

*Dynamics calculated for nominal values

** 2 months 2021/ 2 months 2022



- **retail sales volume** - although it increased significantly by 10.1% year-on-year, the slowdown in the last quarter, in particular in the case of textiles and furniture sales, halved the advance at the end of the year for the two categories compared to the results of the first semester.
- **real wage income**—registered a 1.2% decrease in Q4 2021, with unfavorable effects on the purchasing power, which experienced a small annual increase of 2.0%.

The current account deficit continued to widen, mainly due to a deficit increase in the goods component, amplified by rising prices, as well as due to a lower absorption of European funds and a worsening of the primary income balance. For 2021, the current account deficit was estimated at 7.0% as a share of GDP.

Given the evolution of the economy under the impact of the inflation shock in Q4 2021 and the emergence of the 5th wave of the pandemic, as well as the ongoing energy crisis, especially in the first part of 2022, a growth of 4.3 % has been estimated for the current year, slightly lower compared to the autumn forecast (4.6%) as well as an increasing deflator of 6.1%, correlated with the price increase. This scenario did not take into account the outbreak of a conflict caused by geopolitical tensions at the border with Ukraine.

The adjustment has taken into account the maintenance of energy prices at a high level, which would affect activity in industry, especially chemical and metallurgical- energy-intensive industries. At the same time, supply chain bottlenecks are expected to continue, although disruptions may be smaller; nevertheless, they are set to continue to negatively impact the automotive and electrical equipment industries. Under these conditions, an increase of 4.1% has been estimated for the gross value added in the industry in 2022, decreasing by 0.3 percentage points compared to the autumn forecast.

For the construction sector, an increase in gross value added of 9.6% has been estimated, increasing by 0.6 percentage points compared to the autumn forecast, due to the manifestation of a base effect determined by the slowdown in activity in the second half of 2021, but also to a sustained impulse from accessing European funds.

A more modest increase is also expected on the services side, especially for the household purchase of goods component. Overall, for services, there has been a downward revision in gross value added of 0.3 percentage points.

In accordance with these developments, on the demand side, a more reduced dynamics has been forecast in the case of private consumption (by 0.7 percentage points), as well as in the case of gross fixed capital formation, where the annual dynamics is 0.2 percentage points below the previous projection. In this latter case, the decrease stems from a lower import of equipment, while the construction component is slightly increasing, as mentioned above.

At the same time, the impact of the increase in electricity and natural gas prices on the inflation trajectory during the current year was reassessed, leading to an increase in consumer prices



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forecast. Future developments point to a slowdown in growth in February due to the entry into force of new regulations on capping levels and consumption quotas, followed by a peak in April. Smaller increases are also expected in July and at the beginning of the cold season. Estimates indicate a 9.6% inflation at the end of 2022, corresponding to the annual average of 9.9%, and did not take into account other support measures for the population, which will be quantified in the next forecast.