

Medium-term forecast 2023-2026, spring version

A. Considerations for medium-term estimates

The medium-term macroeconomic perspectives for the national economy have been developed in the context of persistent uncertainty regarding the evolution of the geopolitical conflict and the necessary structural adjustments following a difficult period when multiple shocks affected the economic course. At the same time, the downward developments regarding the international quotations of oil were taken into account, as well as those of some raw materials, including agri-food products, as well as the appearance of disruptions in the banking system at the global level, with an unfavourable impact on financing costs.

The forecast period is characterized by the intensification of the investment process, supported by a good absorption of European funds from the Multiannual Financial Framework and especially those from NRRP, which will facilitate structural reforms, the implementation of investments in the energy sector, as well as robust economic growth.

The spring scenario **keeps the estimates** from the autumn 2022 and winter 2023 versions **unchanged** on the evolution of the gross domestic product, making downward adjustments in terms of inflation for the current and following years.

The 2.8% economic advance predicted for 2023 is considered to be a prudent one, against the backdrop of still high inflation, but with favourable premises determined by the good behaviour of services, which could subsequently lead to the improvement of the estimates. Overall, constructions and services will perform in the current year, having upwardly revised increases compared to the previous forecast (+0.8 and +0.4 percentage points respectively), but their positive contribution will be diminished by industry, affected by dysfunctions in the supply chains and moderate external demand.

It is worth noting the dynamism of construction works for which an increase in GVA of 7.0% is estimated, supported in particular by the component of civil engineering constructions stimulated by the absorption of European funds. For agriculture, an increase of 10.6% is forecast, under favourable climatic conditions for this sector, after production decreased considerably in the previous year, due to the pedological drought.

The activity in industry will be limited given the impact of still high electricity and gas prices, with energy-intensive sectors recording activity contractions this year as well. In this context, there has been a negative revision of 0.8 percentage points compared to the previous forecast, respectively from an increase of 0.6% to a reduction of 0.2% in the current scenario.

Projection of the main macroeconomic indicators - percentage changes compared to the previous year

	2023		2024	2025	2026
	Winter forecast	Spring forecast			
GROSS DOMESTIC PRODUCT					
- bill. lei	1599.5	1,591.0	1,758.5	1,913.8	2,067.3
- real growth, %	2.8	2.8	4.8	5.0	4.6
of which GVA in:					
Industry	0.6	-0.2	4.0	4.9	4.4
Agriculture, forestry, fishing	10.6	10.6	5.3	1.8	1.6
Construction	6.2	7.0	9.6	10.0	8.0
Services	2.7	3.1	4.6	4.8	4.4
Private consumption	2.7	2.7	4.8	4.9	4.5
Gross fixed capital formation	6.2	6.8	8.8	9.1	7.3
Export of goods and services	4.5	4.0	5.2	5.7	5.1
Imports of goods and services	5.2	4.7	6.0	6.2	5.5
Consumer price index (CPI) – annual average	10.8	10.7	5.4	3.2	2.9

Source: NCSP

On the demand side, private consumption will follow a moderate dynamic (+2.7%), in line with previous estimates, given that the inflationary effect will be more intense in the first half of the year. For the gross fixed capital formation, taking into account the dynamism of construction works, the growth rate has been increased to 6.8% (+0.6 percentage points compared to the winter 2023 forecast). Thus, the investment rate will reach 25.5%, ensuring the prerequisites for moving to a new evolutionary model based on investments.

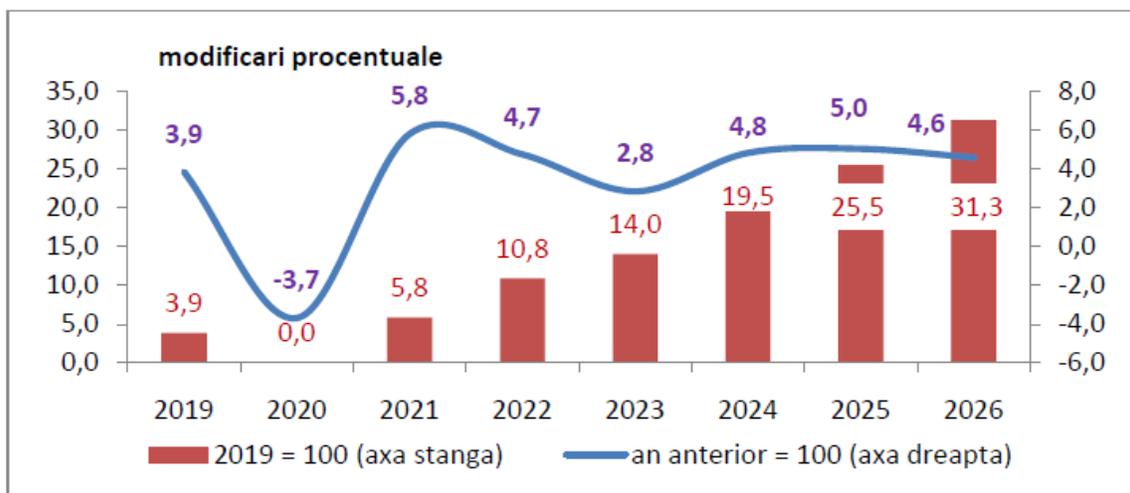
The wider than previously anticipated reduction in international quotations for oil as well as for energy goods has imposed a **downward correction**, visible in particular **for inflation at the end of 2023**. Thus, the estimate of the increase in consumer prices in December 2023 compared to December 2022 has been reduced by 0.6 p.p.- from 8.0% to 7.4% (the change in the annual average is insignificant, by 0.1 percentage points). In perspective, the forecasts are maintained, except for 2024 where the statistical influences from the corrections resulting for the current year appear.

The current account deficit has been estimated to be corrected in the current year by 0.4 percentage points, mainly as a result of the reduction of the balance of trade deficit, as well as the increase of the surplus for the balance of services.

In the medium term, the annual growth rate of the gross domestic product is estimated at **4.8% for 2024-2026**, with a peak of 5.0% in 2025.

On the supply side, the industrial sector is expected to enter a recovery process, once the shocks have subsided, with an average annual increase of 4.4% expected. The most effective attraction and use of European funds from the NRRP and the Multiannual Financial Framework will make **construction the most dynamic sector** with an average annual increase of 9.2% and one of the main supporters of economic development. For services, an average annual growth of 4.6% is predicted, and in their evolution, those areas with high added value will play an essential role.

Gross domestic product evolution



On the demand side, **the gross fixed capital formation (+8.4%)** will be **the main factor in boosting economic activity**, considering the acceleration of public and private investments in priority areas, financed from the NRRP. The result will materialize in a significant improvement of the investment rate (over 25% in GDP). At the same time, private consumption is expected to evolve at an average rate (+4.7%) lower than that of the gross domestic product. Net export will maintain its negative contribution over the entire forecast period, recording a gradually decreasing trend, up to 0.5 percentage points in 2026.

Industrial production prices, as well as construction costs, are expected to register slightly lower dynamics for the forecast horizon, as a result of the decreases in raw material prices, including energy.

Romania managed to maintain a relatively stable economic balance, including in terms of the **labour market** which was supported 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 new NSI data available for 2022 led to the downward revision of the **employment** by approximately 5 thousand people in 2023, maintaining the 0.5% growth rate, and the estimates of **the average number of employees** were adjusted downward by 0.3 percentage points (from 1.6% to 1.3%).

In the medium term, the labour market will follow a positive trajectory, offering fairly good prospects for all wage categories, thus in the 2024-2026 interval the employment will grow at an average rate of 1.0%, and within this, the number of employees will increase at a rate of 2.0%, while other categories of employment, mainly the self-employed, will face a marginal adjustment. The ILO unemployment rate will continue to decline and is estimated to reach 4.4% over the forecast horizon.

The forecasts regarding the **earnings** are in line with the economic activity indicators, but also with the availability of the business environment to correct the effects of inflation in the short term. For the year 2023, the average gross salary earning is estimated to increase by 11.8%, up to a level of 6840 lei.

In the future, there will be economic sectors with positive developments, but also areas where inflation and labour shortages will continue to affect companies. In the current scenario, the annual average growth rate of gross salary earnings will be around the average of 9% for the period 2023-2026, in accordance with ensuring the increase in purchasing power by approximately 3.8% annually.

B. International forecasts and risks

According to the latest data published by the **International Monetary Fund**, global economic growth this year may reach 2.8%, followed by a slight increase up to 3.0% in 2024. The basic scenario is characterized by the maintenance of some restrictive monetary policies to moderate inflation, the deterioration of financial markets, the continuation of the conflict in Ukraine and the expansion of geo-economic fragmentation. Euro zone states will advance moderately by 0.8% in 2023, as a result of the adjustment of economic growth estimates in Spain (+0.4 percentage points, up to 1.5%) and Italy (0.1 percentage points, up to 0.7%). For the economy of Germany, Romania's main industrial partner, a slight recession is estimated this year (-0.1%) followed by a 1.1% recovery in 2024.

The Romanian economy will increase by 2.4% in 2023 and accelerate to 3.7% the following year. Regarding the evolution of consumer prices in Romania, the IMF estimates for this year have been slightly revised down to 10.5%, after which inflation is expected to return to a downward trend, as for 2024 prices are forecast to increase by 5.8%. The current account deficit can improve to 7.9%-7.7% of GDP in the 2023-2024 period. The unemployment rate will remain at a level similar to last year (5.6%) and will decrease slightly in 2024 (5.4%).

According to the World Bank, the dynamics of the Romanian economy will slow down to 2.6% in 2023 and will move towards an average of 4% in 2024-2025, being influenced by several factors, including the propagation effects of the war in Ukraine which have impacted the European economy, persistent core inflation and additional volatility in energy and food prices.

Romania's ability to effectively absorb EU funds will be essential for a sustainable, green and inclusive recovery. The sizeable funds and associated structural reforms should also partially mitigate the impact of higher interest rates and uncertainty on private investment.

The European Commission is going to publish the spring forecast in mid-May. In the winter edition, the economic growth estimate in 2023-2024 for Romania was revised upwards to 2.5%-3.0%.

Economic forecasts for Romania

	NCSP		WB		IMF	
	2023	2024	2023	2024	2023	2024
Economic growth (%)	2.8	4.8	2.6	3.9	2.4	3.7
Inflation, average (%)	10.7	5.4	10.1	5.4	10.5	5.8

Source: NCSP and WB, IMF reports, April 2023

Risks have become more balanced in recent months, but uncertainties induced by the tense geopolitical situation make the medium-term outlook vulnerable as the global economy adjusts after the shocks of 2020-2022 and the recent turmoil in the financial sector. Recession concerns still prevail, and inflation may turn out to be more persistent than expected, prompting continued monetary policy tightening.

An escalation of the war in Ukraine could trigger the renewal of the energy crisis in Europe, although the risk to energy supply is low. A segmentation of financial, trade and commodity markets into regional blocs could lead to a new wave of production disruptions and higher prices for globally traded commodities, with global spill over effects through supply chains.

C. Short-term developments that have been the basis of the macroeconomic forecast

The latest statistics reveal that **inflation** fell on a downward trend in the first quarter of the year, reaching an annual rate of 14.5% in March. **Inflationary pressures continued to manifest on the part of food goods prices (+21.6%)**, while in the group of non-food goods price increases were below average (+11.1%), an evolution favoured by the reduction in fuel prices (-2.3% March 2023/March 2022), simultaneously with the drop in international oil quotations. **The prices of electricity, gas and central heating are still high (+35.3%)**, exerting unfavourable effects on the total annual rate. However, tariffs for services intended for household consumers continued to increase, reaching an annual increase of 10.8% in March.

Sector developments, according to the latest data on high-frequency indicators, indicate, **on average, a slowdown in some activities, such as industry and business services**, compared to the evolution anticipated in the previous forecast.

(%) compared to the similar period of the previous year

Sector indicators	2021	T1_22	T2_22	T3_22	T4_22	2 months_23
Industrial production	7.1	-0.3	-1.6	-0.9	-4.4	-5.0
Construction	-0.6	6.3	3.1	16.3	21.8	9.0
Services rendered to enterprises*	14.3	20.8	22.5	23.9	19.1	12.9
Transport*	17.6	20.2	22.4	18.7	13.1	13.6
Retail trade	10.1	5.5	5.0	3.3	4.2	5.2**
Services rendered to the population	45.9	36.8	37.0	13.8	25.1	22.4
Consumer Price Index	5.1	9.0	14.4	15.4	16.2	15.0**

*Volume of production; ** 3 months 2023

In the current context, the prospects for a solid recovery of the industry remain cautious, taking into account the continuation of the conflict in Ukraine and associated sanctions, the maintenance of a high pace of energy product prices with an unfavourable impact on production costs, as well as disruptions in global supply chains. The persistence of low external demand is also a factor, caused by the uncertainties of future economic developments, manifested in Romania's main trading partners as well, which affects the manufacturing industry.

Industrial production contracted by 5.0% in the first two months of 2023 compared to the similar period of 2022, at a pace faster by 0.6 percentage points than the one in the fourth

quarter of 2022 (-4.4 %). The evolution was due to the slowdown in **the electricity, gas, steam and air conditioning supply (-12.3%)**, in the context of reduced demand from the population and energy-consuming industries, and **the manufacturing industry (-3.9%)**, while production in **mining and quarrying** advanced by 1.2%. The biggest challenges persist in the industrial **chemistry branch**, which recorded a 20.4% decrease in production volume in the analyzed period, in **metallurgy (-37.2%)** - a sector that has remained in negative territory for the last 12 months, similar to **the manufacture of wood** processing industry (-27.8%).

On the other hand, an improvement in the activity of the **manufacture of motor vehicles** has been noted in January-February 2023 up to a consistent 8.7% increase. This has been the most pronounced dynamic in the last 3 years, manifested against the background of a base effect (decrease in January-February 2022). Production increases have also been recorded in branches such as the **manufacture of computers and electronic products (+14.8%)**, **the manufacture of pharmaceutical products (+10.9%)**, **the manufacture of machinery (+10.1%)**, **the manufacture of motor vehicles (+8.7%)** or **manufacture of beverages (+4.6%)**.

Favourable results have been recorded in **the construction sector**, with an advance of 9% for the first two months. By structural elements, the growth has been supported by capital repairs (+19.5%) and new constructions (+13.1%), while current maintenance and repair works decreased by 6.6% in volume. The analysis by construction objects **reveals a sustained activity in the case of civil engineering (+21.0%)**, an evolution that correlates with that of investment expenditures from the state budget (which includes capital expenditures, as well as those related to development programs financed from internal and external sources). According to the report on budget implementation, in the first two months of 2023, these expenses have increased by 85.8%, supported by investment expenses from external funds, which have been more than 2.5 times higher. The increase in construction works has also been recorded in the case of non-residential buildings (+3.6%) while for residential buildings there has been a 1.3% contraction, due to the successive increases in interest rates on real estate loans and the erosion of purchasing power of the population.

In the first quarter of 2023, **the volume of the retail trade turnover** registered a 5.2% increase, as a result of the expansion of food-goods sales (+7.3%) as well as non-food goods sales (+5.9%), even in the context of a diminishing purchasing power. Fuel sales stagnated compared to the first quarter of 2022, although fuel prices decreased compared to the same period of the previous year.

The turnover volume of services rendered to the population increased by 22.4% in the first two months of the current year; the increase is supported by the evolution of the HORECA sector, which benefited from favourable weather conditions for the practice of winter sports. At the same time, **the turnover value of the services provided to enterprises increased by**

18.6% during this period, more than 6 percentage points less compared to the first quarter of the previous year. The advance was mainly determined by the transport sector (+20.4%) where water transport and air transport services were the locomotive components with important increases of 79.6% and 48.6%, respectively, as well as by other services (+22.2%). Businesses in IT services and information technology moderated their dynamics up to 15.2%, after the consistent increases recorded in the previous year.

International trade has lost intensity in January-February 2023 compared to the similar period of the previous year, but the evolution was positive, in the sense that **the growth rate of exports was 3.6 percentage points higher than that of imports** (+9.0% compared to +5.4%). 44.2% of **exports** were supported by transport machinery and equipment, which registered a 10.8% increase compared to the corresponding period of 2022 and by the manufacturing industry (iron, steel, rubber, metal, wood—except for furniture, wearing apparel and accessories, footwear, furniture and its components, measuring and control equipment, etc.) which, at a value of € 4.5 billion, represented about 30% of the total. **Imports** have been mainly supported by the automotive and manufacturing industries, which represented 35.7% and 28.3%, respectively, of the structure of purchases of goods from foreign markets.

The commercial trade led to a negative balance of €4.4 billions, recovering €232 million compared to the same interval in 2022. The petrochemical area (pharmaceutical products, fertilizers, plastics, etc.) generated 47.0% of the external deficit level, with a value of €2.1 billion, while the loss recorded in commercial fuel and lubricants exchanges was €556.9 million and accounted for 12.7% of the total level of the deficit.

The current account deficit of the balance of payments recorded a value of €2.61 billion in the first two months of 2023, 17.1% less compared to the same period of the previous year. The **correction of the deficit** was due to the €130 million reduction in the loss recorded by the trade balance, but also to the positive contribution of the balance of services with a surplus of €1.97 billion, mainly from telecommunications, IT and information services (€845 million) and transport (€791 million).

The national gross minimum salary increased from January 1, 2023, according to G.D. no. 1447/2022, to 3000 lei, 17.6% over the level recorded in the previous year. In this context, the production achievements obtained in some activities, as well as the fact that more than 20% of employees benefit from the minimum wage, have led to the increase of the **average gross saalry** by 13.1% in January-February 2023. Correspondingly, in real terms, the net wage decreased by 0.4% but will move into positive territory in the next period, as inflation will gradually decrease.