

Medium-term forecast 2023 – 2027, summer version

The summer forecast, as was the case with the winter version, estimates a limited number of indicators, taking into account the internal and external macroeconomic context, as well as the statistical achievements for the first five months of the current year. In addition, the predictions for the year 2027 are added to the forecast horizon.

For the year 2023, the nominal increase of 12.9% from the spring version has been maintained, with a GDP growth of 2.8% in real terms.

The elements the **short-term** economic development was based on are the following:

- In the first quarter of 2023, Romania's economy recorded a 2.4% growth (gross series) compared to the similar period of the previous year, in a vulnerable international context and a still high level of prices. Although in the current context the economy of our country has remained in the positive territory and with a good evolution, a trend of GDP deceleration is manifesting, from 4.5% in the fourth quarter of 2022 to almost half at present.

- (%) compared to the similar period -

GDP's evolution by components	2021	Q1_22	Q2_22	Q3_22	Q4_22	2022	Q1_23
Economic growth (GDP)	5.8	6.3	5.0	3.7	4.5	4.7	2.4
- Industry *	6.6	-0.1	-1.5	-2.6	-3.6	-2.3	-2.3
- Agriculture *	5.9	1.1	-0.5	-14.6	-14.8	-11.6	-0.8
- Construction *	-8.1	4.5	2.4	10.9	15.2	11.2	8.8
- Services *	6.5	8.0	7.8	8.7	6.3	7.7	3.4
Private consumption	8.1	7.2	7.7	2.9	5.0	5.5	6.4
Gross fixed capital formation	1.9	1.5	2.8	11.5	11.8	8.0	10.4

*gross value added

- The construction sector had a significant role in the economic development, with a rate of gross value added of 8.8%, in a context where many investment projects have just began. It is predicted that activity in this area will continue to have favorable results for the rest of the period, even if we witness a slowdown in the second half of the year as a result of the base effect;

- The achievements of the construction sector were properly reflected in the dynamics of gross fixed capital formation, which increased by 10.4% in the first quarter, representing a contribution of 1.9 percentage points to the real GDP growth. The progress of the investment works already contracted, as well as other future projects financed from both European and

public funds, will make gross investments an essential factor in supporting the economic growth this year;

- Another area on which the economic growth will be supported by this year is the agricultural sector, which, following the sharp contraction in 2022, will return to positive territory, mainly in the third quarter, when the contribution to the GDP growth will be consistent;

- The tertiary sector, although it will register a serious slowdown compared to previous years, when there was a pronounced recovery process following the health crisis, will continue to fuel the economic growth, mainly through the development of high-performance services such as those in the field of information technology, the ones provided mainly to businesses, but also those from Hotels & Restaurants services;

- Unfortunately, the industry continued to with weak developments in the first months against the backdrop of the global and European crises. Taking into account the unfavorable context (the Russian-Ukrainian conflict, price levels, supply chains difficulties, etc.), a slow recovery is expected for the rest of the period. Under these conditions, it is estimated that over the whole year the gross value added will decrease slightly, thus limiting the favorable contribution of the other activity sectors;

- On the demand side, in addition to the gross investments, the private consumption will continue to be one of the main supporters of the economic growth, even if we witness a deceleration in the next period after the 6.4% increase in the first quarter.

Recent developments by sectors that were taken into account in the macroeconomic forecast estimates are as follows:

- The downward trend of the industrial production was also maintained in the first three months of 2023, when a decrease of 3.8% was recorded, but it deepened in the April - May period (-5.9%). Cumulatively, in the first five months of the year, industrial production contracted by 4.7% due to the 11.6% reduction in the electricity, gas, steam and air conditioning supply and the 3.9 % reduction in the manufacturing industry production, while in mining and quarrying, production increased by 2.2%.
- Constructions remain the most dynamic sector, with the volume of works registering a 12.6% increase in the first quarter. In the April - May period, the growth rate of the volume of construction works slowed down to 9.8%, so that in the first five months the increase reached 11.3%, supported by the civil engineering construction, with a dynamic of 31.8 %, compared to the similar period.
- The turnover volume for retail trade (excluding motor vehicles and motorcycles) increased in the first quarter by 5.3%, being supported by the pick-up in sales of food and non-food goods (7.3% and 6.0% respectively), while fuel purchases remained at the

same level as in the January - March 2022 period. However, the second quarter marks a slowdown in demand, retail sales increasing by only 1.1% in real terms.

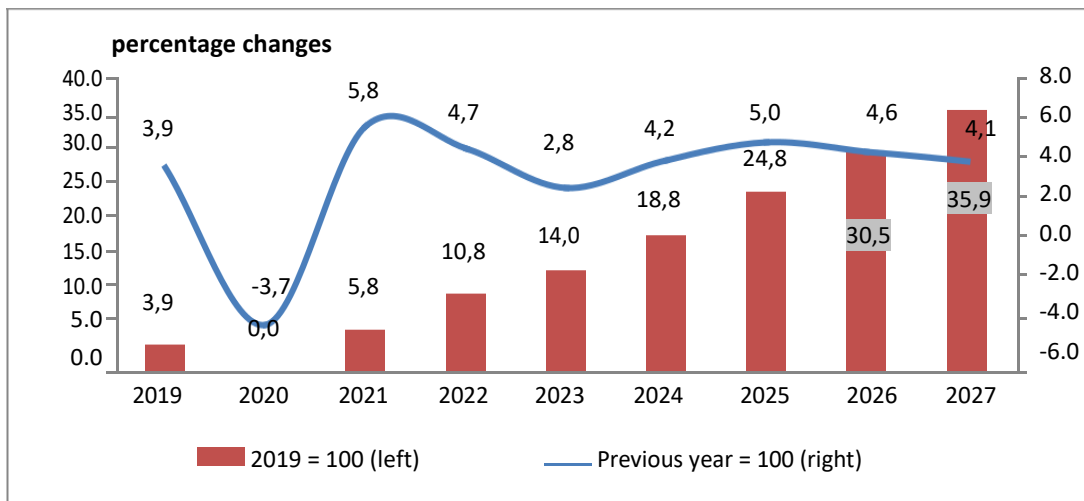
- The turnover volume of services provided to the population increased by 18.8% in the first quarter, although within a deceleration process as a result of a base effect following the consistent recovery from the post-pandemic period; in the April - May period the dynamic dropped to 6.9%.
- The average gross earnings increased by 13.4% in the first quarter of 2023, mainly as a result of the increase in the national gross minimum salary from January 1st, 2023 to 3,000 lei (+17.6%). The positive evolution was also maintained in the following 2 months (April - May) reaching 7,270 lei, the increase being 13.6% above the level of the corresponding months of 2022.
- The real earnings (taking into account the consumer prices) entered into the positive territory at in the first quarter of 2023, being 0.1% higher, against the backdrop of still high inflation, but in slight moderation starting from March. The purchasing power advanced during April - May to 4.0%, as a result of the downward trend in consumer prices.
- The labour market continues to be robust, with the average number of employees (average of monthly number of employees, according to the NIS) reaching 5,096.7 thousand people in the first quarter of the current year, 68.9 thousand people above the level average of the similar period of the previous year (1.4% respectively). The trend continued in the following two months, with the number of employees increasing by 71.2 thousand people (by 1.4% respectively) compared to the corresponding period of 2022.
- The negative trade balance decreased by 2.1 billion euro (-13.9%) compared to the value recorded in the first semester of 2022, due to the dynamics of exports which was 4.1 percentage points above the imports of goods one. The improvement was mainly due to the decreases recorded in fuels, lubricants (-40.9%) and the petrochemical area (-10.0%), most likely in the price component, these groups of products representing 63.5% in the structure of the deficit of goods. At the same time, the adjustment of the trade balance led to the reduction of the current account deficit by 16.7% compared to the level of the first five months of the previous year.
- Prices followed a downward trend throughout the chain between producers and consumers, with inflation recording an average annual rate of 12.8% in the first six months of the current year. We note the maintenance of the food prices dynamics at a high level during this period, exceeding the average increase by 7.6 percentage points, as a result of the second-round effects of the increase in the prices of energy goods.

- The industrial production prices index reduced its growth speed in a strong pace, statistical data indicating a deceleration up to 13.41% in the first semester of 2023.

Recent developments consistent with the unchanged forecast for 2023 at a growth rate below the potential of the economy, together with the expectations of a modest increase in the trading partners in the Euro zone, led to the adjustment of the scenario for next year to a **cautious** one. Mainly, the downward revision of the GDP growth from 4.8% to 4.2% for our economy was based on the slow recovery in the industrial sector while maintaining the uncertainty regarding the evolution of the conflict on Romania's border and the problems generated and amplified by it. Thus, the level of the gross value added in industry was estimated at 3%, 1 percentage point below the spring forecast scenario.

In the **medium term**, the estimates regarding economic growth remained balanced, adding the year 2027 to the forecast horizon. The average annual rhythm of the gross domestic product for the period 2025 - 2027 is estimated at 4.6%, within a European macroeconomic framework favourable to investments and the development of activities with high value added.

Evolution of the gross domestic product



On the supply side, construction works will continue to represent the most dynamic sector (average annual growth of 8.2%), driven by the attraction and use of European funds. An average annual increase of 4.4% is estimated for the industry, and the recovery process is expected to amplify along with the improvement in the economic situation. The services sector will continue to be supported by the development with priority of performing activities, the average annual growth being 4.4%.

On the demand side, the gross fixed capital formation through the extensive investment process supported mainly by European funds will represent the determining factor in the

development of the Romanian economy. The average annual growth pace foreseen for gross investments in the period 2025 - 2027 will be 7.6%, higher than private consumption, with an annual average of 4.4%.

* * *

The detailed projections for the 2023 - 2027 period, determined taking into account the developments in the first nine months of 2023, will be published in the Autumn Forecast estimated for November this year.