Romania

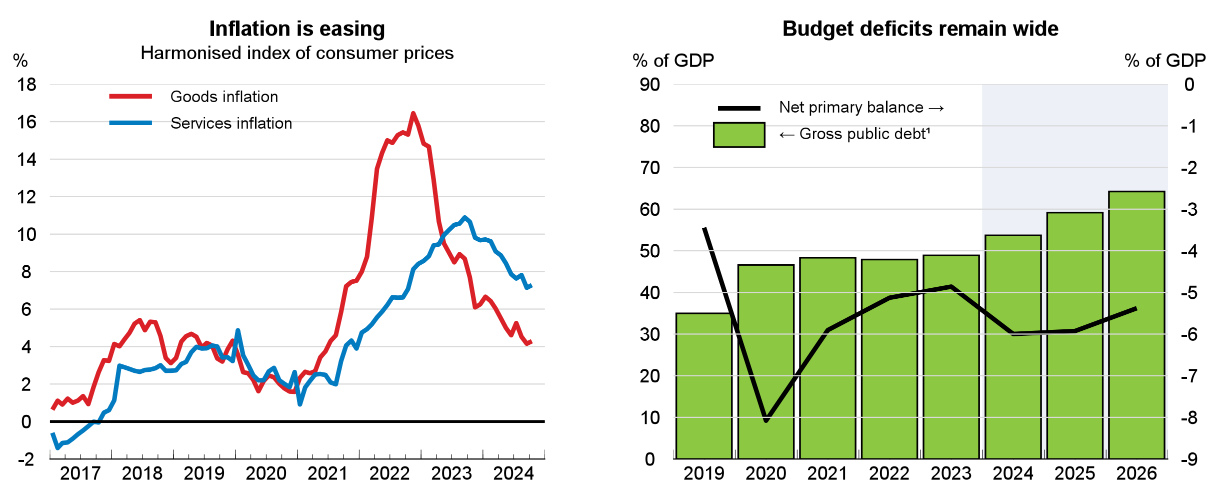
GDP is set to grow by 1.2% in 2024, 2.6% in 2025, and 3.1% in 2026. Higher real incomes, driven by rapid wage growth and easing inflation, will support private consumption. Labour market conditions are expected to remain tight, with shortages of labour expected to persist. Investment growth is projected to remain solid, supported by EU-funded infrastructure projects. Price tensions in the economy are easing and consumer price inflation is expected to return to the target band by the end of 2025.

Monetary policy is set to remain restrictive until 2025 to get inflation back to target. However, if labour cost pressures persist, inflation could remain higher for longer. Fiscal consolidation should be stronger to support restrictive monetary policy in the fight against inflation. Tax revenues must rise to fund new spending priorities while stabilising the public debt burden. Continued governance reforms would encourage business investment.

Inflation is cooling, while growth is picking up gradually

Economic growth has unexpectedly slowed in 2024. GDP grew by 0.1% in the second quarter, after contracting by 0.4% in the first, held back by weak production both in manufacturing and services. According to the flash estimate, GDP stagnated in the third quarter. The drought that affected agriculture production during the summer is expected to weigh on GDP. Boosted by wage and pension increases, and easing price pressures, private consumption has emerged as the main driver of growth. Investment slowed during the first half of the year. Inflation has been easing due to falling energy and food prices, but services inflation remains high, at 7.7% in October. High wage growth has maintained pressures on services prices, and pushed up unit labour costs. The labour market remains solid, with an unemployment rate of 5.5%. Labour shortages remain in some sectors, including construction, where skills shortages were reported to hold back business activities.

Romania



1. Maastricht definition.
Source: Eurostat; and OECD Economic Outlook 116 database.

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Romania: Demand, output and prices

Romania	2021	2022	2023	2024	2025	2026
	Current prices RON billion	Percentage changes, volume (2020 prices)				
GDP at market prices	1 192.3	4.0	2.4	1.2	2.6	3.1
Private consumption	733.8	5.1	3.0	6.7	3.9	3.6
Government consumption	212.5	-1.4	6.3	-0.4	1.1	1.0
Gross fixed capital formation	290.6	5.4	14.5	1.6	3.4	4.9
Final domestic demand	1 236.9	4.2	6.2	4.2	3.3	3.5
Stockbuilding[1]	22.8	0.2	-4.5	-0.2	0.0	0.0
Total domestic demand	1 259.7	4.4	2.2	4.1	3.4	3.5
Exports of goods and services	482.6	9.3	-0.8	-0.6	2.6	3.6
Imports of goods and services	550.0	9.3	-1.1	7.0	4.6	4.6
Net exports[1]	- 67.4	-0.5	0.2	-3.3	-1.0	-0.7
Memorandum items						
GDP deflator	_	12.1	12.8	9.5	4.6	3.0
Consumer price index	_	13.8	10.4	5.5	3.9	3.0
Core consumer price index[2]	_	10.1	12.4	6.1	4.1	3.0
Unemployment rate (% of labour force)	_	5.6	5.6	5.5	5.4	5.4
General government financial balance (% of GDP)	_	-6.4	-6.5	-7.9	-7.9	-7.5
General government gross debt (% of GDP)	_	52.2	58.0	62.8	68.3	73.4
General government debt, Maastricht definition[3] (% of GDP)	_	47.9	48.9	53.7	59.2	64.2
Current account balance (% of GDP)	_	-9.2	-7.0	-8.0	-7.7	-7.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 116 database.

StatLink https://stat.link/6jvnlt

The recent slowdown in Romania's exports reflects subdued economic demand from key European partners. Strong domestic demand has led to a strong recovery in imports, also contributing to an increase in the current account deficit.

A moderate tightening of the fiscal stance is projected

The National Bank of Romania made two consecutive rate cuts in July and August 2024, lowering its benchmark rate from 7% to 6.5%. These cuts were prompted by a faster-than-expected decline in inflation and signs of slowing economic growth. Monetary policy easing is expected to continue in 2025 and 2026, with the benchmark rate declining to below 5% by the end of 2026 as inflation approaches its target, but the monetary stance will remain restrictive. Prudent fiscal policy is needed to rein in demand and ensure public debt sustainability. Limits on governments spending and tax increases are projected to contribute to a reduction of the budget deficit. Yet defence commitments, and rising outlays on pensions and public wages will increase spending. Overall, the government budget deficit is projected to decline somewhat from 7.9% in 2024 to 7.5% in 2026, with the underlying primary balance improving by 0.7% of GDP over this period.

Output is set to return close to trend

Output growth is expected to pick up gradually over the next two years, from 1.2% in 2024, to 2.6% in 2025 and 3.1% in 2026, with the output gap remaining slightly negative. Wage growth, higher pensions, and easing inflation are set to boost real incomes and support robust private consumption. Labour market performance is expected to remain strong, but shortages of skilled labour, including in construction, are expected to persist. Solid investment growth is projected, supported by EU-funded infrastructure projects and by a gradual recovery in private investment. Exports are expected to gradually pick up from 2025 as external conditions improve, while imports will continue to grow. The current account deficit will remain high throughout the projection period. Price tensions in the economy are easing and consumer price inflation is expected to return to the target band, reaching 3.5% by the end of 2025. A lack of fiscal consolidation or persisting wage pressures could keep inflation elevated for longer.

Tax reform is needed to boost sustainable growth and strengthen fiscal resilience

It remains essential to strengthen revenues to fund new government spending and to ensure sustainable public finances. To limit the impact of a higher tax burden on growth, tax reforms should aim to improve efficiency, by eliminating distortions and loopholes in the system and strengthening tax enforcement. Romania could also make its labour income tax system more progressive, and once inflationary pressures dissipate, resume efforts to broaden the value-added tax base. Increasing labour force participation would help address shortages of labour. This will require policies to incentivise women to work, including expanding access to high-quality and affordable childcare. Ongoing governance reforms would complement efforts to reduce firms’ compliance costs with regulations. Transitioning from fossil fuels will require accelerating renewable energy deployment and upgrading power grids.