

# ROMANIA

**Table 1** **2023**

Population, million	18.6
GDP, current US\$ billion	343.8
GDP per capita, current US\$	18460.5
International poverty rate (\$2.15) <sup>a</sup>	2.1
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	3.3
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	7.4
Gini index <sup>a</sup>	34.1
School enrollment, primary (% gross) <sup>b</sup>	90.8
Life expectancy at birth, years <sup>b</sup>	73.0
Total GHG emissions (mtCO2e)	65.7

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2021), 2017 PPPs.

b/ Most recent WDI value (2021).

*The Romanian economy grew by 2.1 percent in 2023, supported by EU-financed investment and resilient consumption. Successful issuance of the first public green bond in February 2024 will support the green transition. Growth will accelerate in 2024, converging towards potential in the medium term. Fiscal and current account deficits will marginally decline. Poverty reduction is estimated to have decelerated in 2022 and 2023 due to slower growth and inflationary pressures.*

## Key conditions and challenges

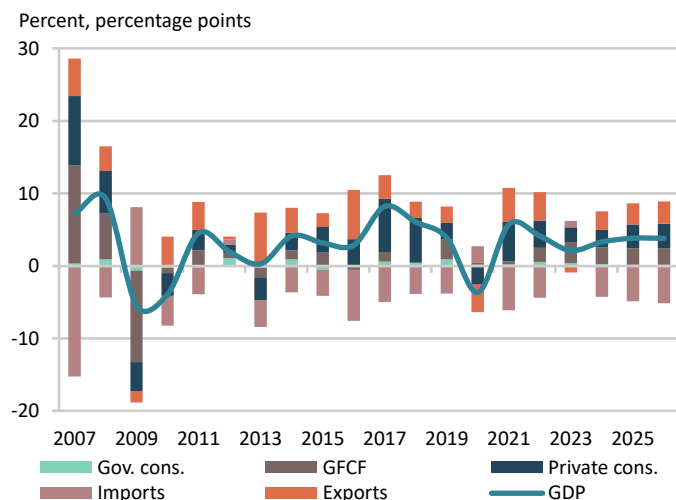
Romania has made considerable progress in economic performance and convergence with the European Union but faces challenges in fostering growth that is more inclusive and sustainable, both economically and environmentally. Challenges include regional disparities, weak institutions, skilled labor shortages, poor connectivity, and vulnerabilities to natural hazards and climate change. Pro-cyclical fiscal policies have stimulated consumption, resulting in persistently high twin deficits.

Romania has made notable achievements in diminishing poverty and inequality despite facing unprecedented challenges, including the COVID-19 pandemic and Russia's invasion of Ukraine. Nevertheless, Romania's poverty and inequality remain among the highest in the EU, and there are still significant disparities among the country's regions. The key challenges in the short term are to curb inflation and address fiscal pressures, which are particularly significant in the 2024 election year, while simultaneously tackling the persistently high poverty rate. To achieve a sustainable recovery and support fiscal consolidation efforts, it is vital to implement the reforms under the National Recovery and Resilience Plan (NRRP) and thereby maximize and efficiently absorb sizeable EU funds.

## Recent developments

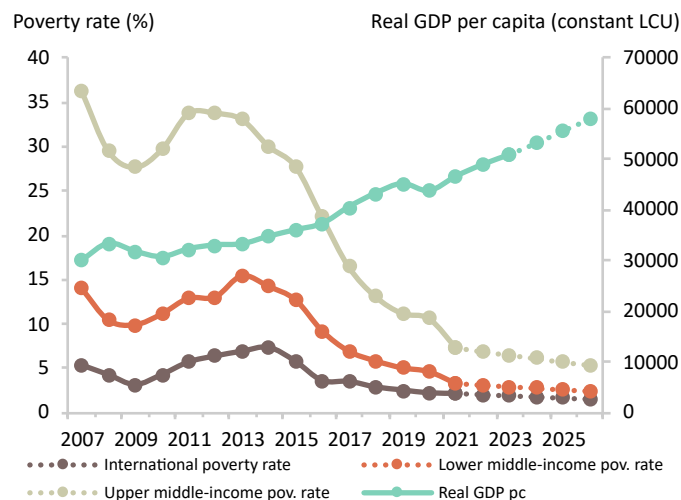
Growth decelerated to 2.1 percent y-o-y in 2023, impacted by higher inflation and weaker external demand. Investment (up 12 percent y-o-y), boosted by EU funds was the main driver. The contribution of private consumption remained significant (up 2.9 percent y-o-y), supported by low unemployment (close to pre-pandemic levels) and minimum wage and pension increases, which partially offset the impact of high energy and food prices on disposable incomes. Trade and current account deficits narrowed due to higher services surplus and reduced goods deficit amid import compression driven by slower consumption growth. Construction remained the main growth driver (up 11 percent y-o-y) but faced reduced momentum due to a deceleration in residential construction. Industry shrank for the second consecutive year due to elevated production costs, especially in energy-intensive sectors. Nominal net wages grew by 15.5 percent y-o-y in December 2023, above headline inflation, driven by wage increases in the private sector as the minimum wage increase fueled companies' labor costs. Headline inflation eased to 10.4 percent in 2023, supported by reduced energy and food market pressures and improved inflation expectations. The National Bank of Romania has maintained a tight monetary policy stance, keeping the policy rate at 7 percent since January 2023. Private sector credit growth decelerated to 6.4 percent y-o-y in December

**FIGURE 1 Romania / Real GDP growth and contributions to real GDP growth**



Source: World Bank.

**FIGURE 2 Romania / Actual and projected poverty rates and real GDP per capita**



Source: World Bank. Notes: see Table 2.

2023 from 12.1 percent y-o-y in December 2022, reflecting the slowdown in loans to households (up 1.4 percent y-o-y). The fiscal deficit declined to an estimated 5.7 percent of GDP in 2023 from a pandemic-related high of 9.3 percent in 2020, thanks to an expenditure-based consolidation. Additional tax measures implemented in January 2024 are expected to bring around one percent of GDP in extra revenue this year, supporting fiscal consolidation. However, more is required to accommodate higher recurrent spending in the short to medium term, stemming from the schedule of the recently adopted pension reform. The Ministry of Finance launched in mid-February 2024 two euro-denominated bond tranches with 7-year and 12-year maturities. The 12-year tranche, Romania's inaugural green bond issue, valued at EUR2 billion, was oversubscribed more than 4 times, underscoring the potential for sovereign green bonds to facilitate the shift towards a greener economy. Poverty reduction (\$6.85/day PPP) is projected to decelerate, with a modest decline of 0.5 percentage points (from 7.4 percent in 2021 to 6.9 percent in 2022) due to slower growth and inflation. In 2021, around 25 percent of the population

faced energy poverty, spending about 8.7 percent of their budget on energy, with 17.8 percent struggling to pay utility bills, one of the highest rates in the EU. By 2022, 15.2 percent of households struggled to heat their homes, one of the highest rates in the EU, exacerbated by rising energy costs. Despite price caps, the burden on household budgets remains significant, especially at the lower end of the welfare distribution, indicating that the most economically disadvantaged segments of the population bear the brunt of these price increases. In 2023, poverty (\$6.85/day PPP) is projected to have declined slowly, reaching 6.6 percent.

## Outlook

Economic growth is expected to accelerate in 2024 to an estimated 3.3 percent, supported by private consumption (benefiting from rising disposable incomes) and EU-financed investment. Romania's short-term growth prospects are dampened by external shocks mainly stemming from the ramifications of Russia's invasion of Ukraine, persistent structural fiscal challenges, and political and social

pressures in the context of the 2024 multi-level national and EU elections.

As fiscal consolidation is expected to accelerate with the resumption of the Excessive Deficit Procedures and the new economic governance framework, efficient EU fund absorption is key for a sustainable, green, and inclusive recovery. The Government has already received EUR6.3 billion (out of 28.5 billion by 2026) through the performance-based NRRP, reflecting the achievement of reform milestones in areas of decarbonization, database interoperability to reduce red tape, and fiscal and pension reforms. The NRRP funds and associated structural reforms are essential for a sustainable reduction of the fiscal deficit over the medium term, alongside strengthened lifelong skills formation and private capital mobilization, boosting potential growth.

With the growth acceleration, a slightly faster poverty reduction is expected in 2024. Maintaining or strengthening social safety nets during fiscal consolidation can help protect vulnerable populations from falling deeper into poverty, as some of the fiscal measures (i.e., higher VAT) can disproportionately affect low-income households. Adequate support for those facing economic hardships can be a crucial aspect of poverty reduction.

**TABLE 2 Romania / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
<b>Real GDP growth, at constant market prices</b>	5.7	4.1	2.1	3.3	3.8	3.8
Private consumption	7.2	5.8	2.9	3.5	4.7	4.8
Government consumption	1.8	-3.3	2.9	2.1	1.4	1.2
Gross fixed capital investment	2.9	5.9	12.0	8.4	7.9	7.8
Exports, goods and services	12.6	9.7	-2.1	5.4	6.0	6.2
Imports, goods and services	14.8	9.5	-1.8	7.5	8.2	8.3
<b>Real GDP growth, at constant factor prices</b>	5.3	3.6	2.1	3.3	3.8	3.8
Agriculture	13.7	-23.4	10.2	1.8	2.1	2.1
Industry	0.9	-4.6	-2.3	0.7	1.6	1.9
Services	6.8	9.4	3.4	4.4	4.7	4.6
<b>Inflation (consumer price index)</b>	5.1	13.8	10.4	6.3	3.9	3.2
<b>Current account balance (% of GDP)</b>	-7.2	-9.1	-7.0	-6.3	-6.1	-5.9
<b>Net foreign direct investment inflow (% of GDP)</b>	3.7	3.5	2.1	2.9	3.1	3.2
<b>Fiscal balance (% of GDP)</b>	-7.1	-6.3	-5.7	-5.5	-4.8	-4.3
<b>Revenues (% of GDP)</b>	32.9	33.7	34.0	34.7	36.4	36.7
<b>Debt (% of GDP)</b>	48.6	47.2	48.9	50.4	51.7	52.6
<b>Primary balance (% of GDP)</b>	-5.6	-4.7	-4.3	-4.1	-3.4	-3.0
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	2.1	2.0	1.9	1.8	1.7	1.6
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	3.3	3.1	2.9	2.8	2.6	2.4
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	7.4	6.9	6.6	6.2	5.7	5.4
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	2.2	-7.9	-4.2	-0.9	-0.3	-0.6
<b>Energy related GHG emissions (% of total)</b>	92.0	91.9	91.9	92.0	92.2	92.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on ECAPOV harmonization, using 2014-EU-SILC and 2022-EU-SILC. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.

b/ Projection using point-to-point elasticity (2013-2021) with pass-through = 0.7 based on GDP per capita in constant LCU.