

# ROMANIA

**Table 1** **2023**

Population, million	18.7
GDP, current US\$ billion	344.7
GDP per capita, current US\$	18417.8
International poverty rate (\$2.15) <sup>a</sup>	1.8
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	3.0
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	7.1
Gini index <sup>a</sup>	33.9
School enrollment, primary (% gross) <sup>b</sup>	90.8
Life expectancy at birth, years <sup>b</sup>	75.3
Total GHG emissions (mtCO2e)	72.6

Source: WDI, Macro Poverty Outlook, and official data.  
 a/ Most recent value (2021), 2017 PPPs.  
 b/ Most recent WDI value (2022).

Romania's economy grew by 1.5 percent in the first half of 2024, driven by European Union (EU) funds-led investment and resilient private consumption amid elections. Softer growth in 2024 reflects poor performance in industry and construction and a worsening trade balance. Growth is expected to firm up over the medium term to near potential. Fiscal and current account deficits remain elevated. Poverty is projected to decline slightly to 6 percent in 2024, supported by strong wage and pension growth.

## Key conditions and challenges

Romania has significantly advanced its economic development and EU convergence but needs more inclusive and sustainable economic growth, both economically and environmentally. Growth obstacles encompass regional disparities, institutional weaknesses, skilled labor shortages and declining active working-age population, and vulnerabilities to natural hazards and climate change. Pro-cyclical fiscal measures have fueled consumption, leading to consistently high twin deficits.

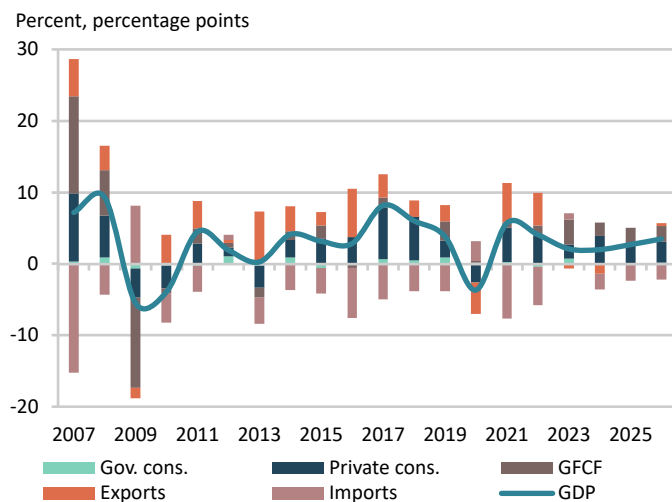
Romania has achieved considerable progress in mitigating poverty and inequality, despite facing unprecedented challenges caused by multiple crises. Despite reaching high-income status, Romania's rates of poverty and inequality are still some of the highest within the EU, with stark regional differences across the country.

A key challenge in the short term is to address fiscal pressures while simultaneously tackling persistent inclusion challenges. To achieve a sustainable recovery and support fiscal consolidation efforts, it is vital to implement the key structural reforms and investment priorities under the National Recovery and Resilience Plan (NRRP).

## Recent developments

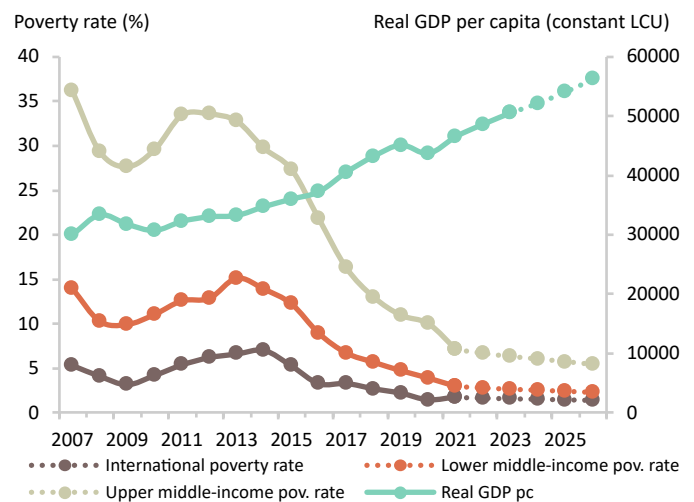
Economic growth decelerated to 1.5 percent y-o-y in the first half of 2024. Private consumption continued to be the primary engine of growth (up 5.3 percent y-o-y), supported by wage and pension increases and a pick-up in credit mainly in the second quarter. Investment momentum decelerated (up 6 percent y-o-y) from the double-digit expansion in H2 2023, largely due to a reduction in the new construction works component. The trade deficit worsened, reflecting an increased differential between export volumes (down 3.3 percent y-o-y) and imports (up 4 percent y-o-y), despite moderating import prices. On the supply side, construction growth slowed to 1 percent y-o-y, from 11 percent in 2023, as residential construction contracted by 22.2 percent, while civil engineering projects grew by 7.6 percent, driven by public investment. Industry is yet to recover (down 0.6 percent y-o-y), with the energy sector down 6.4 percent y-o-y impacted by diminished hydroelectric production and a fall in energy exports. Unemployment remains contained at 5.1 percent in June 2024, below the EU average of 6 percent. However, recent quarterly unemployment rates among low-educated workers continue to be on an upward trend. Nominal net wages grew by 12.5 percent y-o-y in June 2024, above headline inflation, driven by public sector wage increases. Annual inflation decelerated to 4.9 percent in June 2024 as a result

**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.

of decreases in core inflation and lower energy prices. With faster than expected disinflation, the National Bank of Romania lowered the monetary policy rate from 7 percent to 6.5 percent through two 25-basis-point cuts in July and August 2024. Private sector credit growth accelerated to 6.7 percent y-o-y in June 2024, reflecting an increase in the domestic currency component (up 8.7 percent y-o-y).

The fiscal deficit increased to 3.6 percent of annual GDP in the first half of 2024, 1.3 percentage points higher than in the same period of last year. Revenues increased by 13.5 percent y-o-y, driven by direct tax revenues (up 18.9 percent y-o-y). Expenditure grew by 21.2 percent y-o-y, with personnel expenses surging 23.1 percent y-o-y following public sector wage increases. Fiscal consolidation remains a much-needed priority. The high fiscal deficit has resulted in a 13.7 percentage points increase in Romania's public debt-to-GDP ratio from 35.1 percent in 2019 to 48.8 percent at end-2023. However, the country maintains robust market access, and its debt-to-GDP ratio remains below the Stability and Growth Pact debt anchor of 60 percent.

Poverty projections for the coming period present a mixed picture, with poverty

(\$6.85/day PPP) declining slowly, reaching 6 percent in 2024. On the downside, economic growth has slowed, and unemployment is rising among those with lower education levels, potentially hindering poverty reduction. However, there are also positive signs. Strong real wage growth, especially in the construction sector, along with increases in pensions, are expected to improve household incomes. Additionally, the easing of inflation should enhance purchasing power, which could help counterbalance the effects of slower economic growth on poverty. Despite lower energy prices, energy poverty continues to affect most economically disadvantaged segments of the population.

## Outlook

Growth is projected to level at around 2 percent in 2024, reflecting continued geopolitical and global market uncertainties affecting external demand. Economic growth is anticipated to accelerate over the medium term, driven by private consumption and EU-financed investment. Fiscal consolidation is expected to accelerate

with the resumption of the Excessive Deficit Procedures (EDP) and the new economic governance framework. The European Commission and the Romanian Government are expected to reach an agreement on the medium-term fiscal adjustment path. To achieve a deficit under 3 percent of GDP in the medium term, a net fiscal adjustment exceeding 4 percent of GDP is needed. This translates to an average yearly structural adjustment of around 0.9 percent of GDP, under the assumption of a seven-year adjustment path. Measures to balance the budget are available as several taxes that contribute significantly to the budget have rates below the EU average, while tax collection is still low relative to peers. Curbing major expenditure items and reducing or eliminating inefficient investments could yield additional savings. Giving the needed fiscal consolidation and the labor market challenges, slow poverty reduction is expected going forward. Despite recent fiscal reforms, including ongoing pension changes that make the system more pro-poor and slightly more redistributive, there is still room to improve pro-poor fiscal policies with a balanced approach to revenue and expenditure measures.

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

(annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
<b>Real GDP growth, at constant market prices</b>	5.7	4.1	2.1	2.0	2.7	3.5
Private consumption	7.2	5.8	2.8	5.5	4.0	4.1
Government consumption	1.8	-3.3	6.0	0.8	0.9	1.1
Gross fixed capital investment	2.9	5.9	14.4	6.8	7.1	7.3
Exports, goods and services	12.6	9.7	-1.4	-2.9	-0.3	0.9
Imports, goods and services	14.8	9.5	-1.4	3.9	3.8	3.7
<b>Real GDP growth, at constant factor prices</b>	5.3	3.6	2.0	2.0	2.7	3.5
Agriculture	13.7	-23.4	10.2	-5.0	1.1	1.1
Industry	0.9	-4.6	-2.3	0.2	0.9	2.0
Services	6.8	9.4	3.3	3.1	3.4	4.2
<b>Inflation (consumer price index)</b>	5.1	13.8	10.4	5.3	3.9	3.2
<b>Current account balance (% of GDP)</b>	-7.2	-9.2	-7.0	-7.2	-7.0	-6.4
<b>Net foreign direct investment inflow (% of GDP)</b>	3.7	3.5	2.0	2.2	2.5	2.9
<b>Fiscal balance (% of GDP)</b>	-7.2	-6.3	-6.6	-7.3	-6.2	-5.0
<b>Revenues (% of GDP)</b>	32.9	33.7	33.6	34.5	35.3	36.2
<b>Debt (% of GDP)</b>	48.5	47.5	48.8	51.8	54.1	54.7
<b>Primary balance (% of GDP)</b>	-5.7	-4.7	-5.2	-6.0	-4.8	-3.6
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	1.8	1.7	1.6	1.5	1.4	1.4
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	3.0	2.8	2.6	2.5	2.4	2.2
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	7.1	6.6	6.3	6.0	5.7	5.4
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	7.6	-6.1	-5.9	-2.5	-1.4	-0.6
<b>Energy related GHG emissions (% of total)</b>	87.4	87.1	86.5	86.3	86.3	86.4

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.