CONTEXT

1. **Like other EU countries, Romania's economy is facing strong headwinds, though its vulnerability to spillovers from the war in Ukraine is largely indirect** (Box 1). Demand is slowing due to lower growth in Europe and higher energy and food prices. High uncertainty and tightening financial conditions are weighing on confidence and activity, while sovereign risk premia have increased further. At the same time, Romania is a grain producer, and largely self-sufficient in energy. Other direct trade and financial links with Russia and Ukraine are small.

2. **Even before the pandemic and the war, the current account and structural fiscal deficits had increased steadily.** While a significant part of the current account deficit is financed by EU capital grants and direct investment flows, Romania's external position is weak and the exchange rate appears overvalued (Box 2). At the same time, rising structural budget expenditures have not been accompanied by commensurate revenue increases (Annex II). The additional fiscal pressures, generated first by the pandemic and now the war spillovers, while temporary, are further increasing debt, necessitating medium-term consolidation. This complicates the task of monetary policy, which needs to address rapidly rising inflation.

3. **Political situation.** A grand coalition was formed in November between the National Liberal Party (PNL), which had campaigned for avoiding tax increases while increasing investment, and the Social Democratic Party (PSD), which emphasizes the case for higher social spending and wages.[1]

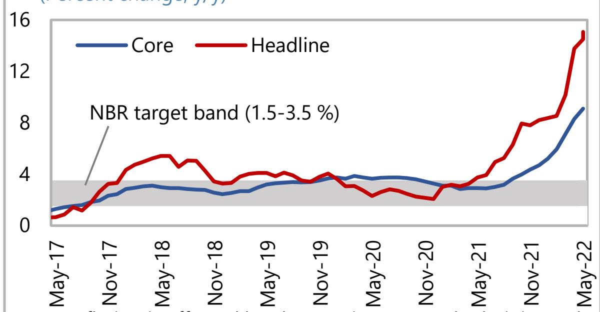
RECENT DEVELOPMENTS

4. **Romania's economy has recovered well from the COVID pandemic, but the impact of the war is starting to be felt.** GDP reached pre-crisis levels in the first half of 2021 and rebounded strongly in Q1 2022 (6.4 percent y/y) from the COVID wave in the fall of 2021, on the back of strong domestic demand and external demand for services exports. The output gap turned positive, but wage growth is still subdued.

5. **Inflation has risen sharply.** Headline inflation rose to 15.1 percent y/y in June 2022, well above the target band (1.5-3.5 percent), driven by rising energy and food prices, albeit lately showing signs of peaking absent further shocks. Price caps on electricity and gas for most users, introduced in November 2021 and expanded in February 2022, have dampened the impact on the CPI by around 4 percentage points between January and April 2022. Core inflation rose more moderately as energy and transport costs have begun to feed through to other items, especially processed food. Two-year ahead inflation expectations have increased to 4½ percent, well in excess of the upper edge of the target band. In response, the National Bank of Romania (NBR) since October 2021 has raised the policy rate by a total of 350 bps, to 4.75 percent, and tightened liquidity management.

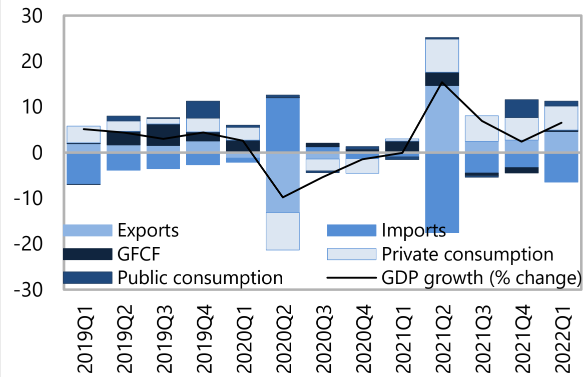
[1] Also part of the coalition is the Democratic Alliance of Hungarians in Romania (UDMR).

CPI Inflation
(Percent change, y/y)



Note: Inflation is affected by changes in taxes and administered prices. Core inflation excludes VFE (vegetables, fruits, eggs), fuel administered prices, alcohol and tobacco, and electricity.
Sources: Haver Analytics; NBR; and IMF staff calculations.

Growth Contribution
(Y/Y, Percentage points)



Sources: Haver; and IMF staff calculations.

Box 1. Romania: War in Ukraine—Spillovers to Romania

As an energy and grains producer, Romania is largely protected from direct disruptions, and the financial sector has little direct exposure to Russia or Ukraine. Therefore, the economic effects of the war will likely materialize primarily through higher commodity prices, diminished trading partners' demand, refugees and higher risk premia. However, the duration, severity and geographical scope of the war is highly uncertain, and a confluence of adverse shocks could be more damaging.

Trade and supply chains. Russia and Ukraine account for a negligible share of Romania's total trade; hence the war impact on trade will be largely through lower external demand from the rest of Europe (around four-fifths of Romania's trade is intra-EU). Regarding supply chains, Romania imported electrical equipment and spare parts from Ukraine and Russia, but values were small. Conversely, some of Ukraine's seaborne trade may be diverted to Romania's Constanta port. Tourism from Russia and Ukraine is insignificant, although there are some Ukrainian informal workers (and their number is set to increase).

Commodity prices and inflation. The surge in commodity prices is fueling inflation, as food and energy account for more than a third of the CPI. While Romania is largely self-sufficient in energy, and a sizable grain exporter (wheat, corn, barley and sunflower) and thus set to benefit from high prices, tradables prices are linked to those in the EU.

Energy flows. In recent years, Russia accounted for about 16 percent of Romania's energy consumption. The authorities report enough gas (domestic production, including from new gas fields in the Black Sea, and storage) to cover consumption for one winter, and are seeking to further diversify imports through a Bulgaria-Greece interconnection. There is also an electricity interconnection with Ukraine, but imports have been small, and diversified (via Bulgaria).

Main Resources of Primary energy, avg. 2019-21
(1,000 tons of oil equivalent)

	Total	Domestic Production	Imports	Import share (%)	*Of which:* Russia (%)
Coal	3,664	3,160	504	13.8	...
Crude oil	10,717	3,226	7,490	69.9	22.4
Natural gas	9,733	7,526	2,206	22.7	22.7
Electricity	5,499	4,902	597	10.9	...
Total	**29,612**	**18,814**	**10,798**	**36.5**	**15.5**

Source: Romanian National Institute of Statistics, and IMF staff calculations.

Box 1. Romania: War in Ukraine—Spillovers to Romania (Concluded)

Refugees and security. More than 1.3 million refugees had arrived in Romania as of June, but the overwhelming majority have moved on to other countries. Caring for those that remain will increase budgetary needs, but preliminarily these appear moderate, and EU support may be provided (the World Bank recently approved a loan of $500 million, partly to cover refugee-related costs). The authorities intend to raise defense spending to 2½ percent of GDP from around 2 percent currently.

Risk premia and financial exposures. In line with EU-wide agreements, Romania has imposed sanctions on Russia and Belarus, including on the Central Bank of Russia and several Russian banks.[1] After a peak at the outbreak of the war, sovereign risk premia have receded again but remain higher than before (as of end-June the EMBIG spread is about 150 bps higher than at end-January). The NBR estimates Romanian resident banks' exposure to domestic corporates with majority-Russian capital at only 0.05 percent of their total exposures to the non-financial corporate sector. It reported no loans by credit institutions to Russian or Ukrainian counterparties, and negligible deposits. No Russian bank operates in Romania. However, there is some possible indirect impact, as the parents of several foreign-owned banks have operations in Russia, despite all of them being full standalone subsidiaries with sound prudential ratios.

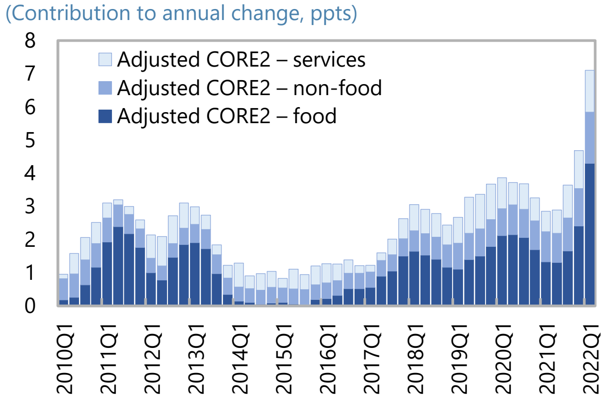
Investment and indirect exposures. The stock of inward direct investment from Russia and Ukraine in Romania is negligible. Romania's largest auto maker, Dacia, is indirectly exposed via its French parent group's operations in Russia. Outward direct investment to Russia and Ukraine was also small, and portfolio investment links appear negligible.

A confluence of several adverse economic and security shocks could be much more disruptive. Broader shut-offs of Russian gas across EU countries could precipitate an EU-wide GDP contraction and supply shortages. An escalation of naval conflicts in Ukraine's south could affect the security of Romania's Black Sea ports and sea lanes. Destabilization of neighboring Moldova may trigger a more disruptive refugee exodus into Romania.

[1] In line with the recently revised Institutional View on the liberalization and management of capital flows, some of the sanctions imposed on Russia can be capital flow management measures (CFMs) imposed for national and international security reasons.

6. **The financial sector remains robust.** Emerging from the pandemic, the banking system has maintained its strong capital, liquidity, and profitability positions. The NPL ratio has fallen below pre-pandemic levels, and loan-loss provisioning remains much higher than the EU average. The loan repayment moratorium ended in March 2021 (most loans had already been repaid by end-2020), but a new moratorium came into effect in July 2022. Loan classification standards were restored in 2021 (after EU-wide relaxations), and bank dividend payout restrictions lifted. With rapid credit growth over the past two years, projected to continue this year, an increase in the counter-cyclical capital buffer (currently at zero) to 0.5 percent is set to become effective in October 2022.

CORE2 Inflation Components
(Contribution to annual change, ppts)



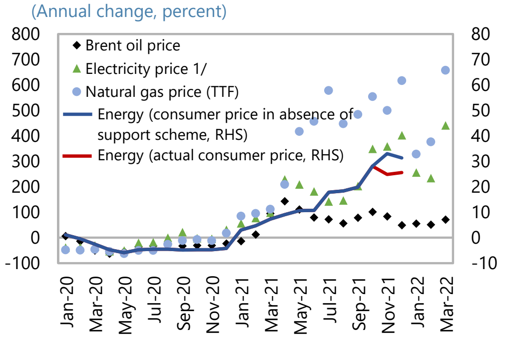
Note: Net of the direct effect of VAT rate changes.
Sources: NIS; and NBR calculations.

Figure 1. Romania: Inflation Drivers and Outlook

Inflationary shocks on energy prices hit repeatedly since energy price liberalization was completed in early 2021 ...

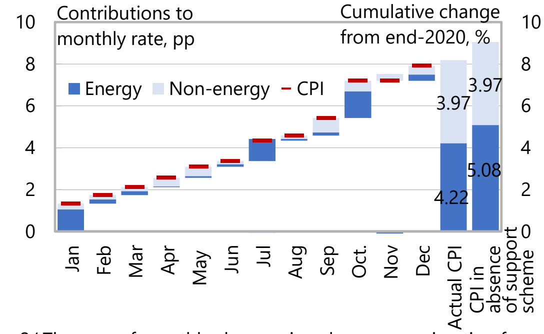
... accounting for the majority of higher headline inflation, notwithstanding restraining effects of support schemes.

Energy Prices
(Annual change, percent)



1/ Calculated as average spot prices on the markets in Germany, France, and the Netherlands.

Contribution of Energy to CPI Inflation in 2021 2/

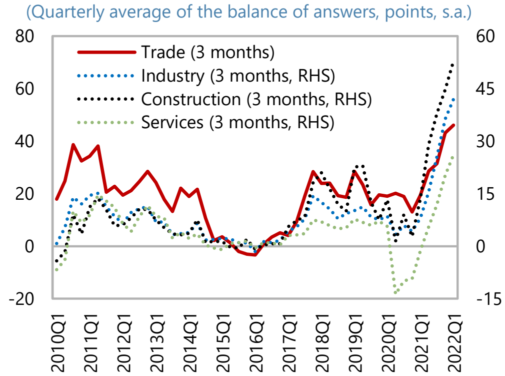


2/ The sum of monthly changes is only an approximation for aggregating the annual rate; CPI inflation at end-2021 is slightly higher than the sum of the 12 monthly rates.

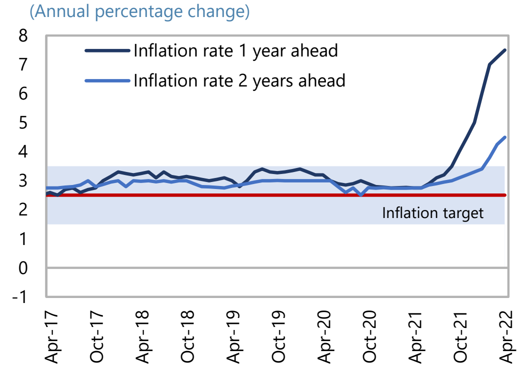
All sectors expect price increases, but the tendency in services remains lower.

2-year expectations are still close to target band suggests that some anchoring remains.

Expectations on Price Developments
(Quarterly average of the balance of answers, points, s.a.)



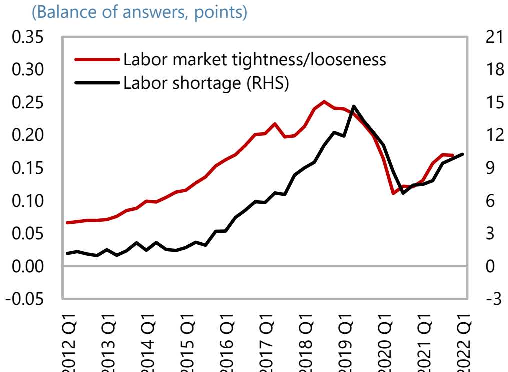
Inflation Expectations
(Annual percentage change)



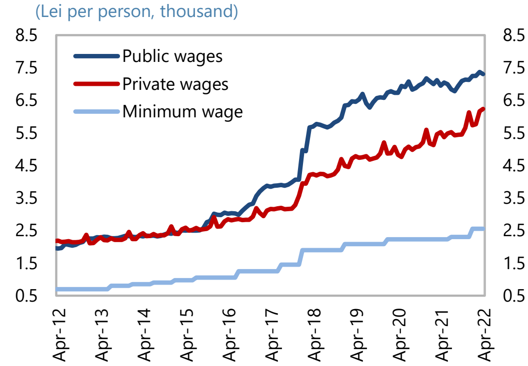
Labor market tightness has not recovered pre-pandemic levels, and some slack is projected into 2023.

Wage increases have moderated compared to the pre-pandemic hikes, but upside risks going forward remain.

NBR Survey on Labor Market Tightness/Looseness 3/
(Balance of answers, points)



Average Gross Monthly Wage
(Lei per person, thousand)



3/ The labor market tightness indicator is calculated as job vacancy/ILO unemployment rate. Labor shortage refers to the difference between the share of answers of companies in the manufacturing, construction and services sector citing the difficulty of finding workforce as a factor that constrains them and the share of answers of companies that do not report this problem.

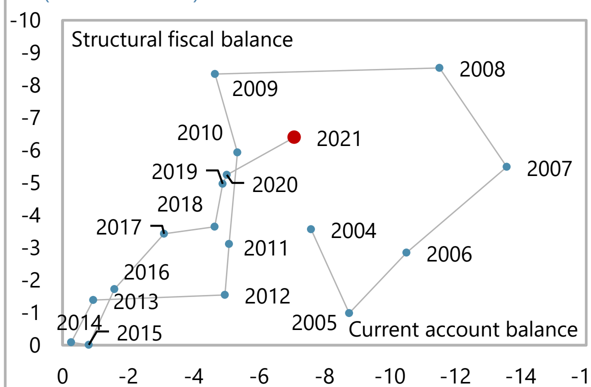
Sources: Bloomberg Finance L.P.; EC-DG ECFIN OPCOM; Eurostat; Haver; NBR; NIS; Romanian Commodities Exchange; IMF staff calculations.

Box 2. Romania: External Sector Assessment

Romania's external position in 2021 was substantially weaker than the level implied by fundamentals and desirable policies (Annex IV). The current account (CA) has persistently widened over the past several years. With a cyclically-adjusted CA deficit of 6.7 percent of GDP in 2021, the CA gap is estimated around -4.7 percent of GDP, implying an REER overvaluation of 13 percent. However, the large residual (-4.9 percent of GDP) and possibly temporary factors related to the COVID-19 pandemic suggest that this assessment is subject to considerable uncertainty.

While the current account deficit is large, the external balance sheet does not appear to be a major source of risk. The net international investment position has been broadly stable, with liabilities concentrated in direct and other investment, and only a relatively small share in debt securities. Reserves increased further in 2021, bolstered by higher EU grants, and are adequate according to most metrics. New grants and loans under the RRF are now available amounting to over 13 percent of GDP up to 2026. Nonetheless, Romania remains vulnerable to a sharp tightening of global financial conditions.

Current Account and Structural Fiscal Balance
(Percent of GDP)



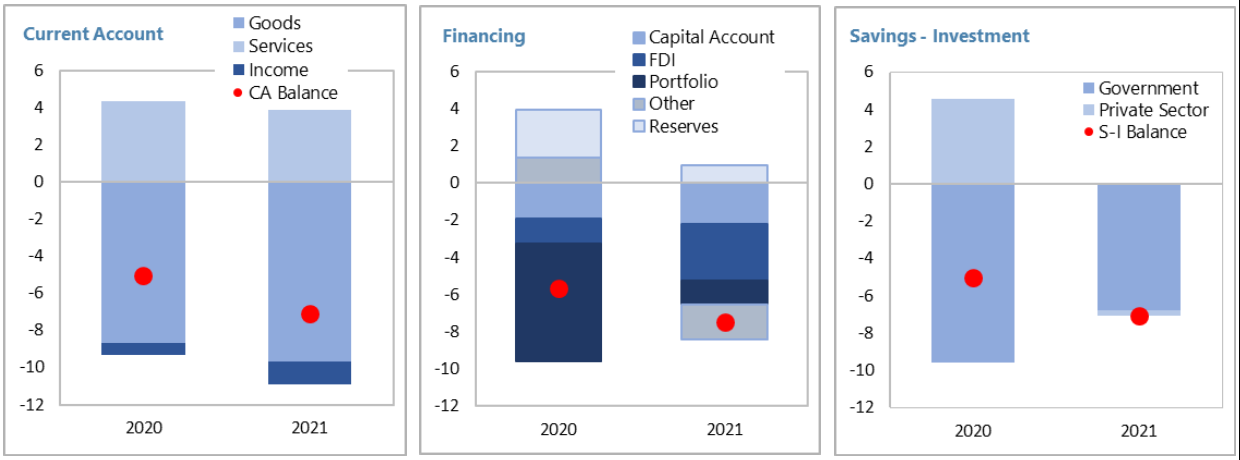
Sources: IMF WEO; and IMF staff calculations.

The large residual suggests that the impact of the fiscal expansion may be larger than assumed in the EBA model (Selected Issues Paper). In particular, a higher coefficient for changes in the fiscal deficit than applied in the EBA model (at 0.31) may be warranted due to the high openness of the Romanian economy, the nature of Romania's fiscal expansion in recent years (which shifted a significant share of income from corporates to households with a lower propensity to save), and Romania's EU membership, mitigating risk perceptions even as public sector financing needs increased. With a higher coefficient for fiscal pass-through, the fiscal expansion in recent years would explain more of the rising CA deficit. This implies that fiscal consolidation, together with gradually increasing exchange rate flexibility, would be more effective in driving external adjustment.

7. **The fiscal deficit shrank, but financing conditions have tightened.** After a pandemic-induced fiscal deficit of 9.8 percent of GDP in 2020, the deficit in 2021, at 6.9 percent of GDP, turned out lower than the authorities' target (7.2 percent; on a cash basis). Higher-than-expected revenues were broadly offset by higher expenditures, largely due to COVID-related spending, but higher nominal growth still lowered the deficit-to-GDP ratio. Public debt (Maastricht definition) reached 49 percent of GDP (Annex V).

8. **The current account deficit widened further in 2021, to 7 percent of GDP from 5 percent in 2020 and 7.7 percent of GDP in Q1 2022 (rolling four quarters).** The merchandise trade balance led the deterioration as imports rebounded while automotive exports were held back

by supply-chain disruptions. On the financing side, net FDI inflows recovered strongly after the pandemic-related plunge. International reserves increased before the outbreak of the war, bolstered by the 2021 SDR allocation (which the authorities intend to keep as reserves), prefinancing inflows from the European Recovery and Resilience Facility (RRF), and fortuitous timing of two sovereign bond issuances.

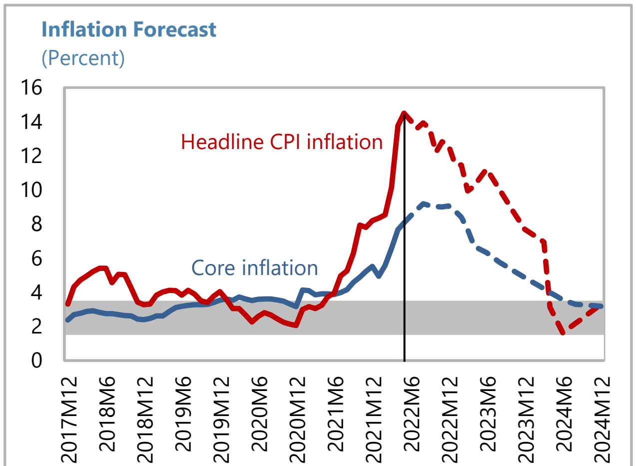


Source: WEO, and IMF staff calculations.

OUTLOOK AND RISKS

A. Outlook

9. Economic activity in the near term will be shaped by the fallout from the war in Ukraine. Growth is expected to moderate to around 4 percent in 2022 (2021: 5.9 percent). Spillovers from the war remained modest in Q1 2022—when growth was strong and added to a now-positive carryover, but are estimated to have increased significantly since then, leading to a substantial projected slowdown ahead. Over the medium term, growth is set to settle around 3½ percent, broadly in line with potential, as domestic demand recovers, notwithstanding some fiscal tightening. Public investment is projected to rise, supported by EU funds, including new RRF resources, though absorption will likely remain moderate.



Sources: Haver; and IMF staff calculations.

10. High and volatile energy and food prices are expected to remain the key drivers of headline inflation over the next two years. Price caps already in place are projected to reduce the CPI by at least 2 ppts through March 2023 relative to a scenario

without price caps. After a decline into single digits by early 2023, their removal is set to drive inflation up again to double digits (y/y) in April 2023. Under the baseline scenario, assuming continued monetary tightening at least through year-end, average annual inflation is projected to reach 12½ percent in 2022 and persist around 10 percent in 2023, but ending 2023 at 7¾ percent y/y as base effects fade. Core inflation would average 8¾ percent in 2022 and just below 7 percent in 2023, tempered by the expected growth slowdown.

11. The current account deficit is set to widen further, and remain large in the medium term. Weakening external demand and continued supply chain disruptions are projected to hamper exports, more than offsetting a slowdown in import volume growth and a slight improvement in the terms of trade. Over the medium term, with further fiscal adjustment and—near the end of the projection horizon—declining EU capital grants, the current account deficit is projected to narrow somewhat, though it would remain close to 6 percent of GDP.

B. Risks

12. The uncertainty surrounding this forecast is high, and risks to the outlook are tilted to the downside. If they were to materialize, they could have a significant impact (Annex III). Key downside risks are:

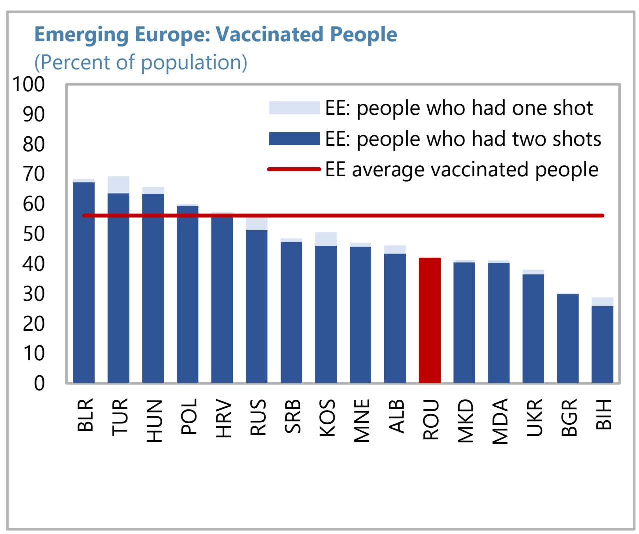
- *Further spillovers from Russia's invasion of Ukraine.* A broader Russian gas shut-off would raise energy prices further and reduce activity in European trade partners.

- *Further increase and/or volatility in energy and food prices* could reduce real incomes and demand and raise costs for businesses. Increased pass through to final prices may necessitate further domestic monetary tightening.

- *De-anchoring of inflation expectations in advanced economies.* A consequent concerted sharp tightening by global central banks may strain external and domestic financing more than anticipated.

- *New COVID variants* may disrupt growth, especially given Romania's still-low vaccination rate.

- *Domestically, constraints within the ruling coalition may stall reforms and fiscal consolidation.* This could risk a credit rating downgrade, although disbursements of EU funds under the RRF—based on reform milestones—are a mitigating factor.



On the other hand, decisive reforms, including those envisaged under Romania's National Recovery and Resilience Plan (NRRP), could raise growth above the baseline, ease financing conditions, and stabilize public debt.

13. Buffers and policy scope remain. International reserves are broadly adequate, reinforced by the European Central Bank's repo line, which has been extended to January 2023. The fiscal liquidity buffer, targeted at four months of average gross financing requirements, remains in place. Banks are well capitalized, highly liquid and funded by domestic deposits.

Authorities' Views

14. The authorities broadly concurred with staff's assessment of the outlook. The NBR agreed that, after the strong performance in Q1 2022, the economy was likely to slow as the impact of the war was beginning to be felt. Officials also noted the uncertainty surrounding the inflation outlook, as the current energy price caps were set to expire in March 2023, but no decisions had been taken on how to phase them out. They acknowledged the risk of a wage-price spiral developing, but indicated that wage increases negotiated in Q1 2022 were relatively moderate, indicators of labor market tightness were below previous peaks, and cost pressures in non-labor inputs limited the room for firms to raise wages. To manage prospective energy supply risks, the authorities emphasized investments in new energy production capacities, efforts to diversify supply sources, as well as the expeditious exploitation of the Black Sea offshore gas reserves following the recent passage of the Offshore Law for oil and gas.

POLICY DISCUSSIONS

Short-term macroeconomic management will need to respond flexibly to evolving circumstances. Should the outlook worsen significantly, timely, targeted, and temporary transfers to vulnerable households and viable firms should be prioritized. At the same time, fiscal consolidation needs to be prepared, and every effort made to use the substantial available RRF funds efficiently. Monetary policy should firmly aim at returning inflation to the target band and, over the medium term, allow for greater exchange rate flexibility.

A. Fiscal Policy

15. The authorities' 2022 budget targets a deficit of 5.8 percent of GDP. This is in line with the agreement under the EU's Excessive Deficit Procedure (EDP), but relies heavily on administrative efforts to boost revenue performance—including through digitalization and improved taxpayer services, in line with commitments under the NRRP.[2] The authorities have implemented targeted payments to vulnerable households and, through March 2023, also price caps for electricity and gas for most users at levels prevailing before the surge in energy prices in late-2021. The cost to the

[2] The EDP has again been suspended for 2022, but the authorities maintain the deficit targets agreed before the war, as recommended by the European Commission.

budget (through reimbursements to energy suppliers) is expected to be broadly offset by windfall profit taxes on energy producers, and higher dividend payouts of state-owned enterprises (SOEs).

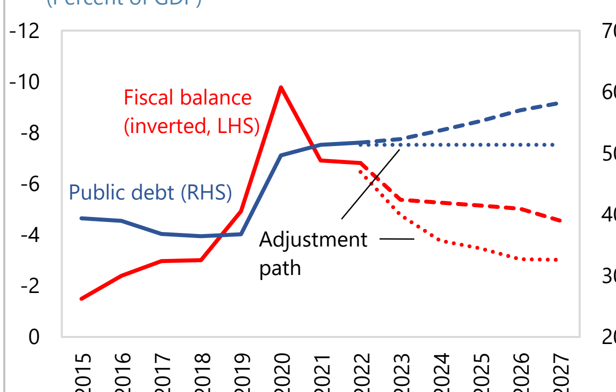
16. Staff project the 2022 fiscal deficit at 6¾ percent of GDP, and advised against further support measures. Staff's expectations of revenue administration gains (¼ percent of GDP in 2022) are more conservative than the authorities', given that experience in Romania and elsewhere suggests that ongoing revenue administration reforms take time to bear fruit. Moreover, the amounts required to compensate energy suppliers for the price cap scheme are likely higher than envisaged by the authorities. The authorities' commitment to limiting the 2022 budget deficit in line with the EDP agreement is welcome, but will require strict adherence to budget provisions and any further support measures should be avoided unless severe new shocks worsen the outlook. Advancing revenue-enhancing measures envisaged for 2023 should also be considered. Attaining the deficit target through cuts in planned investments would be counterproductive, given the imperative of improving infrastructure.

17. Measures to cushion the energy price shock should protect the most vulnerable while incentivizing energy conservation. The authorities need to ensure that the existing system of compensating suppliers is working well, without extended delays in reimbursements. Also, it would be helpful to start raising the price caps before March 2023 and phase them out gradually to avoid a sudden price shock, limit the fiscal cost, and promote energy efficiency. Any remaining fiscal support, or new assistance in the event of further shocks, should be well-targeted at poor households, similar to direct support mechanisms already implemented through March 2022.

18. Over the medium term, the deficit is forecast to moderate gradually but remain well above the 3 percent of GDP ceiling under the EDP. Debt would continue to rise. Based on current policies, and incorporating the lapse of temporary support measures and continued administrative reforms to improve tax collection, the fiscal deficit is projected to decline to 4½ percent of GDP by 2027. This also assumes implementation of a recently announced package of tax measures (see below).

19. Strong fiscal measures will be needed to rebuild fiscal space and lean against deteriorating financing conditions. With limited flexibility on expenditures, reducing the deficit to a sustainable level below 3 percent of GDP and stabilizing public debt, further tax policy measures amounting to about 2 percent of GDP should be implemented. Furthermore, credible and upfront fiscal reform would support market financing. Domestic borrowing through 2022 is behind schedule, and sovereign risk premia have risen significantly since the start of the war in

Fiscal Projections
(Percent of GDP)



Sources: Authorities' data, and IMF staff projections.

Ukraine. There is ample room to increase tax revenues, as outlined by recent IMF Fiscal Affairs Department (FAD) capacity development reports (links below):

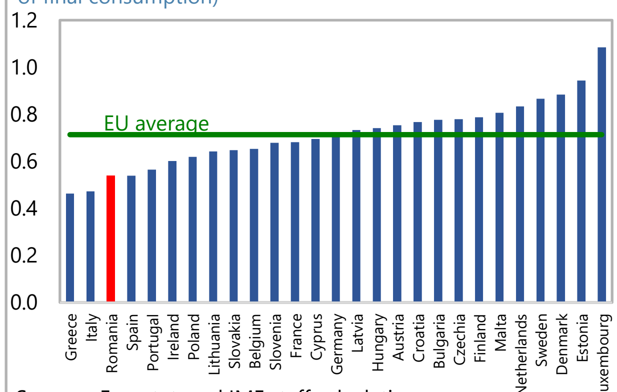
- *Personal Income Tax (PIT):* The tax system is complicated by exemptions for specific sectors (in particular, construction, IT and— recently introduced—agriculture), special treatments (including a low dividend tax), and loopholes (including through micro-enterprises), that greatly impair its effectiveness and fairness. Comprehensive reform is urgently needed to clean up the tax base across sectors and income sources. This could yield more than 1¼ percent of GDP. Introducing progressivity for those with the highest incomes could generate additional revenue and mitigate Romania's high income inequality.[3]

- *Value Added Tax (VAT):* The efficiency of Romania's VAT system is among the lowest in the EU. Raising VAT efficiency to the EU average through base broadening and streamlining as well as additional administrative strengthening (beyond already-programmed improvements) could yield 1½ percent of GDP.

- *Property Tax*: Reforms to broaden the tax base, make valuations more market-based, and simplify design and implementation could yield about ¼ percent of GDP.

VAT C-efficiency, 2020

(Revenue per percentage point of standard VAT rate in percent of final consumption)



Sources: Eurostat; and IMF staff calculations.

- *Taxation of carbon emissions:* Once the current price spike has receded, carbon taxes could constitute an additional source of revenue while also contributing to Romania's green transition. Such revenues could be used to reduce income taxes for lower-income earners, or be redistributed evenly.

Since the discussions, the authorities have announced a package of tax reform measures in these areas for 2023. However, the announced measures fall well short of what was proposed by staff.[4]

20. Expenditures on pensions and public sector wages need to become more predictable. The current pension system employs a formula based on past inflation and real wage increases but is regularly overridden by ad-hoc increases. Pension system reforms to ensure fiscal sustainability

[3] A tax credit for low-income earners would further reduce inequality, and encourage participation in the formal labor market, expanding the tax base.

[4] For example, the PIT exemptions for construction and IT would be reduced rather than removed, and the threshold for registering micro-enterprises to be exempted from CIT would be halved to EUR 500,000 rather than cut to EUR 100,000. The dividend tax would be raised from 5 percent to 8 percent rather than to 10 percent. The tax package also includes some adjustments to the reduced VAT rates. On property taxation, the new measures seem broadly aligned with staff advice. These reforms, which are estimated to reduce the deficit by about ¾ percent of GDP, have been incorporated in the baseline projections.

should be expeditiously implemented. The authorities are collaborating with the World Bank in this area to streamline the system and control expenditures, as committed in the NRRP. Public sector wage reform is a further priority, to ensure predictability, contain special bonuses, and help reconcile retainment of skilled labor with limited budget resources. Public sector wage policies also need to take into account their potential impact on economy-wide wages and inflation.

EU Funds: Projected Disbursements
(% of GDP)

	Avg.	2022	2023	2024	2025	2026	2027	2028	2029	2030
2021-27 budget cycle: €17.7 bn	0.5	0.1	0.3	0.7	0.8	1.0	0.9	0.7	0.3	0.0
Recovery and Resilience Facility										
Grants: €13.5 bn	0.8	0.7	0.8	0.9	1.3	0.5	…	…	…	…
Loans: €14.1 bn	0.7	0.0	0.5	0.7	0.9	1.1	0.8	…	…	…
Total	1.4	0.8	1.7	2.3	3.0	2.5	1.7	0.7	0.3	0.0

Note: Average annual disbursements during the 2013-20 EU budget cycle are estimated at 0.9 percent of GDP.

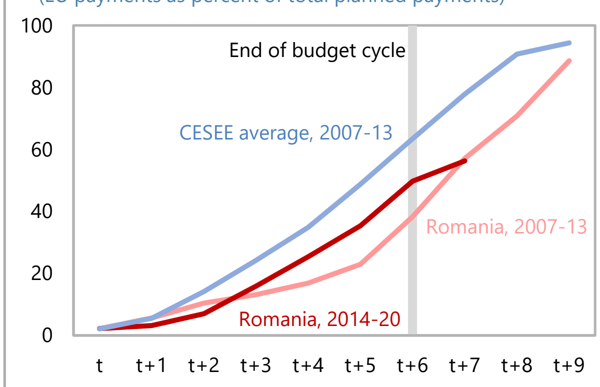
Source: Staff estimates and projections.

21. The additional funds available under the RRF represent an important opportunity, but also a significant challenge to absorb. Already, Romania lags peers in absorbing EU funds, largely due to institutional settings as identified in the recent Public Investment Management Assessment. The funds available through 2026 under the RRF total €29bn, more than the cohesion funds. In this context, staff welcomes the close monitoring of NRRP implementation and the high priority accorded to it at the prime ministerial level. Given this focus, staff projects absorption of RRF funds at 95 percent of available resources, higher than Romania's typical absorption rate of about 85 percent.[5] Both grants and loans would finance public as well as private sector and SOE investment.

Authorities' Views

22. Government officials were confident that they would be able to keep the 2022 budget deficit at the targeted level. They were also determined to reduce the deficit further, in line with their EDP commitments. To this end, they noted that they were planning to remove existing tax loopholes, including through microenterprises, raise the dividend tax, and reform property taxation. The authorities also indicated that reform of personal income taxation was under consideration, though discussions among the coalition parties were still

Absorption of EU Funding
(EU payments as percent of total planned payments)



Note: Funds can be disbursed after the end of the cycle.
Sources: European Commission; and IMF staff calculations.

[5] The authorities have already requested the first RRF tranche, and the request for the second is under preparation.

ongoing. They appreciated the Fund's FAD support in these areas.

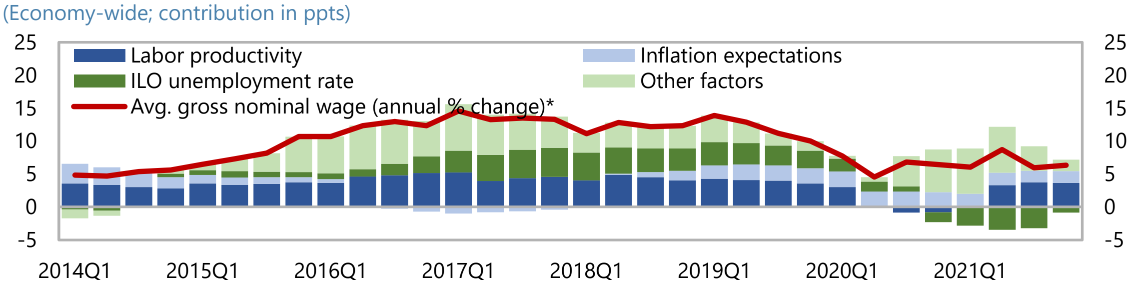
23. The authorities also emphasized their focus on implementing NRRP commitments. Officials explained that a cabinet-level task force under the direct guidance of the prime minister had been formed to ensure timely implementation of milestones and projects.

B. Monetary and Financial Policies

24. Energy and food prices continue to feed into headline inflation, and inflation expectations have risen above the target band. Thus far, core inflation has risen primarily due to the large weight of processed food, which has seen high increases, while services prices remain relatively moderate. Labor market developments are still mixed, with wage growth weaker and unemployment higher compared to pre-pandemic trends. Moreover, a specification of the wage Phillips curve adopted by the NBR indicates that unemployment, labor productivity and other factors rather than inflation expectations have been the main drivers of economy-wide wages thus far. However, the rapid increase in actual inflation may change that pattern eventually, such that rising inflation expectations will feed through to wage settlements, especially given the uncertainty regarding the phasing out of the price cap scheme.

Determinants of Average Gross Wages

(Economy-wide; contribution in ppts)



* Adjusted for the effect of the transfer of social security contributions payable by employers to the charge of employees as of 2018.

Note: In this specification of the wage Phillips curve, wage dynamics are determined by labour productivity, labour market conditions and labour market participants' inflation expectations (assumed to be adaptive) as follows:

$\Delta\, average\ gross\ wage_t = \beta_1 \Delta average\ gross\ wage_{t-1} + \beta_2 \Delta labour\ productivity_t + \beta_3 \Delta CPI_{t-3} + \beta_4 \Delta ILO\ unemployment\ rate_{t-2}$ + other factors

Data series are seasonally adjusted. Labour productivity was adjusted for the impact of the methodological change to employment implemented at the beginning of 2021.

Sources: NIS; Eurostat; and NBR estimates and forecasts.

25. Given this, monetary policy has appropriately focused on addressing the entrenching of underlying inflationary pressures. Consistent with this strategy, the NBR has more than reversed the pandemic-era policy rate cuts. Measured, and accelerating increases in the policy rate were reinforced by tight liquidity management, which began already in the summer of 2021 and effectively added another 100 bps in transmission to money market rates. With the outbreak of the war in Ukraine, the NBR resumed moderate government bonds purchases to help calm spiking yields, and augmented its sales of foreign exchange to stabilize the exchange rate in the face of depreciation pressures and thus curb pass-through to inflation.

26. Going forward, further tightening is needed to guide inflation back toward the target band. Continuing the pace of recent policy rate increases through end-2022 should help prevent

the entrenchment of inflationary pressures. Under the baseline scenario, this would support a return of headline inflation within the target band by the second half of 2024. However, monetary policy will need to react nimbly to evolving conditions. Should longer-term inflation expectations rise further while economic growth stays robust, accelerating the pace of tightening relative to this trajectory would be warranted. Acting firmly is also important to prevent the emergence of a wage-price spiral. While this dynamic has not yet materialized, it could be triggered by large public sector wage increases. On the other hand, a faster normalization of prices for supply-constrained goods or a stronger reaction of core inflation to recent rate increases may allow smaller future policy rate steps. Overall, the high degree of uncertainty underscores the importance of careful monitoring and continued clear communication.

27. Exchange rate flexibility should be gradually increased. Keeping the exchange rate stable against the euro has avoided fueling inflation and underpinned confidence in the domestic currency. Indeed, after the start of the war in Ukraine there was an episode of increased demand for foreign currency by residents. However, as external competitiveness has weakened, and to help absorb external shocks, exchange rate flexibility should be increased over time, together with the necessary fiscal consolidation.

28. Financial sector policies need to preserve the Romanian banking system's soundness, while maintaining the flow of credit. The unwinding of most pandemic-era relaxations in the financial sector has contributed to tighter monetary conditions. Nonetheless, at 15.8 percent y/y in April, private credit growth has been strong, banks have enlarged their SME client base, and borrowers appear solid. In this context, the increase in the countercyclical buffer in October is broadly appropriate. While, with predominantly variable-interest loans, the rise in interest rates will put pressure on borrowers, no serious repayment problems are anticipated. The newly-announced reinstatement of the loan moratorium appears to be limited in scope, with a brief time window for application and narrow conditions under which a payment moratorium can be requested. Moreover, banks' strong capital positions enable them to set aside the necessary provisions. This also allows credit guarantee schemes, in particular for SMEs and for first-home mortgages, to be gradually phased out.

29. Implementation is key to strengthen the AML/CFT framework. This is also important in view of the 5th round of the Moneyval assessment that is currently underway, and also to continue to safeguard the financial sector from potential risk related to Russia, including sanctions evasion.

Authorities' Views

30. NBR officials agreed with the staff's assessment and recommendations. They confirmed that their monetary strategy remained focused on anchoring inflation expectations, while broadly keeping pace with the Central and Eastern European region and the global environment, and assured staff that the tightening cycle would continue. They emphasized the high degree of uncertainty in the current environment, and indicated that they would react firmly should wage dynamics threaten to jeopardize the return of inflation and inflation expectations to the target band.

They emphasized the role of a stable exchange rate in maintaining confidence in the leu, but acknowledged that, once shocks were abating, the case for greater flexibility would be stronger.

31. The authorities concurred with the staff's assessment of the financial sector. They argued that the stronger-than-expected growth momentum, with further rising credit growth, supported the case for the modest increase of the countercyclical capital buffer, but indicated that no further increases were planned. The NBR also accepted the government's new loan moratorium as a safety net for borrowers during the war shocks, and expected only limited take-up. Moreover, they considered that banks would be able to absorb associated provisions, given their strong financial positions. They noted that the effects of rate hikes appeared manageable, as income growth continued and household debt service-to-income ratios had been capped by a macroprudential measure introduced with IMF assistance in 2019.

C. Structural Reforms, Inequality, and the Green Transition

32. Strengthening public investment management is critical. The authorities are encouraged to expeditiously strengthen medium-term planning and the medium-term budget framework, develop a centralized coordination mechanism and a pipeline of appraised investment projects across sectors. This would help Romania absorb more EU funding and use investment funds more efficiently. That, in turn, would boost infrastructure and help implement the climate policies committed under the NRRP (Annex I). Romania consumes less energy per capita than most EU countries. Nonetheless, the investments required to meet NRRP climate targets are large, and projects need to be executed without delay. Investments to strengthen energy security should also receive high priority.

33. Better public investment management is also needed to reduce regional inequalities. GDP per capita in the richest region (Bucureşti-Ilfov) is at 73 percent of the EU14 average, and 3.7 times that of the poorest region in Romania (Nord-Est), one of the highest differences in Europe (Selected Issues Paper). Addressing large income gaps between regions demands particular attention to strengthening regional capacity and infrastructure, which would also help boost absorption of EU funds, and overall growth.

34. Reenergizing structural reforms and investments to raise productivity would boost Romania's growth potential. This requires expanding digitalization, strengthening the anti-corruption framework, improving the health and education systems, and reforming SOEs by implementing good governance principles and an effective enforcement and monitoring mechanism, professional management, restructuring and increased private ownership.[6] Improving governance is of particular concern, and progress in this area would offer significant benefits, including lower informality (and hence higher tax revenue), and reduced inequality.

[6] See also CR 2021/190.

Authorities' Views

35. The authorities appreciated Fund support to strengthen public investment management. They pointed to steps to accelerate procurement, but were concentrating for now on implementing the NRRP, and had not decided yet on a comprehensive public investment reform. They also indicated that projects to secure energy supplies (including the completion of the gas interconnector with Bulgaria and Greece, and the exploitation of new gas resources in the Black Sea) were underway, and were expected to come onstream soon. With regard to regional development, they pointed to recent decentralization efforts to help strengthen local capacity.

STAFF APPRAISAL

36. Romania's economy emerged from the COVID pandemic relatively unscathed, but is facing new headwinds, notwithstanding strong performance in the first quarter of 2022. While Romania's vulnerability to the war in Ukraine is largely indirect, the spillovers are being felt. Energy and food prices have been increasing sharply, and external demand is slowing due to lower growth in Europe. Uncertainty and tighter financial conditions are affecting confidence and activity, and sovereign risk premia have risen substantially. The outlook is highly uncertain. Key risks include the impact of a broader shut-off of Russian gas on the EU economy, even higher and more volatile energy and food prices, and further financial tightening, including for the sovereign.

37. Romania is confronting these near-term challenges from a weak fiscal position. Some buffers and policy scope to respond remain. But absent a significant worsening of the outlook, further broad support measures should be avoided. If adverse risks materialize, policy responses need to be carefully calibrated. Support to vulnerable households needs to be timely, targeted, and temporary. Monetary policy will need to stay focused on guiding inflation back to the target band.

38. While cushioning the impact of energy price increases is appropriate, the current price cap scheme should be phased out. Targeted support for vulnerable households is necessary, but energy prices for the general public should gradually be increased, to limit pressures on the budget, provide incentives for energy conservation, and avoid an abrupt increase in prices next year when the current scheme expires.

39. Fiscal policy needs to be guided by a medium-term orientation, to rebuild buffers, ensure predictability, and boost economic growth. The urgency of addressing overlapping crises has resulted in stop-go policies in several areas. Going forward, the NRRP includes a series of milestones for putting in place new and sustainable medium-term policies. Combined with the government's commitment to reduce the fiscal deficit to sustainable levels below 3 percent of GDP, this offers a promising opportunity for anchoring policies. On the spending side, setting pensions and public sector wages on a formula-based trajectory would help improve medium-term budgeting. Furthermore, strengthening health care and education can improve livelihoods and help moderate the pull from emigration. On the revenue side, reforms should focus on the personal income tax, where special treatments, exemptions, and loopholes need to be abolished. The authorities' recent tax package is welcome, but a more ambitious reform is needed to make the tax

system more efficient and fair. At the same time, the efficiency of the VAT needs to be boosted, both through further base broadening and streamlining. Over the medium term, taxing carbon emissions would promote energy efficiency.

40. **Making the most out of the large funds available under the RRF is a priority.** Key reforms to boost the absorption of these funds have been identified and should be implemented without delay. With its focus on digitalization, the RRF can offer critical support to strengthening revenue administration. It will also be important for jumpstarting efforts to address climate change.

41. **Structural reforms need to be reenergized across a broad front to raise Romania's growth potential.** Improving governance is especially critical, including by combating corruption and boosting regional capacity. Reforming SOEs to make them more efficient is also important. Implementation of such reforms has the potential to unleash an upward dynamic leading to higher growth and greater social cohesion.

42. **Monetary policy needs to stay nimble to firmly guide inflation back toward the NBR's target.** Staff commends the monetary authorities for the actions—accelerating interest rate increases and tighter liquidity management—they have undertaken over the last 10 months to tighten monetary conditions, broadly in line with regional peers. The functioning of the government bond market has also been preserved. Nonetheless, the pass-through of energy and food prices to core inflation continues to rise. Hence, policy rates will need to rise further to help prevent the entrenching of inflationary pressures. Moreover, monetary policy should stand ready to accelerate the pace of tightening if demand pressures are stronger than expected, or inflation does not begin to converge to the NBR's target. The authorities also need to be vigilant to prevent the potential emergence of a wage-price spiral.

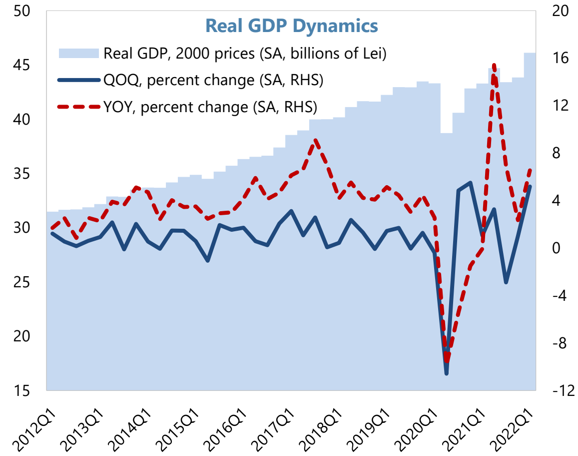
43. **The exchange rate should gradually become more flexible.** While a stable exchange rate against the euro avoids fueling inflation and underpins confidence in the leu, weakening external competitiveness and the rising current account deficit argue for a more flexible exchange rate that could—together with fiscal consolidation—help contain external imbalances and absorb potential future external shocks.

44. **The soundness of the Romanian banking system is an asset that needs to be preserved, while sustaining the credit flow to the economy.** Banks' strong prudential indicators constitute a sound basis from which to support the economy. With solid credit growth, the increase in the countercyclical capital buffer is timely, but caution needs to be exercised going forward as the economic situation may deteriorate. The renewed loan moratorium, on the other hand, is likely to have only a limited impact on banks, given the short application window and circumscribed conditions for application.

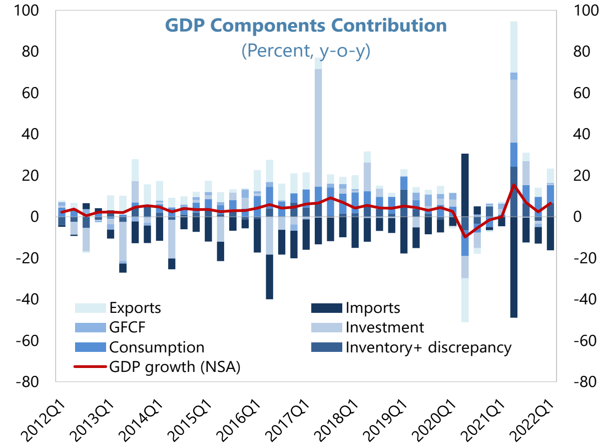
45. **It is recommended that the next Article IV consultation be held on the standard 12-month cycle.**

Figure 2. Romania: Real Sector, 2012–22

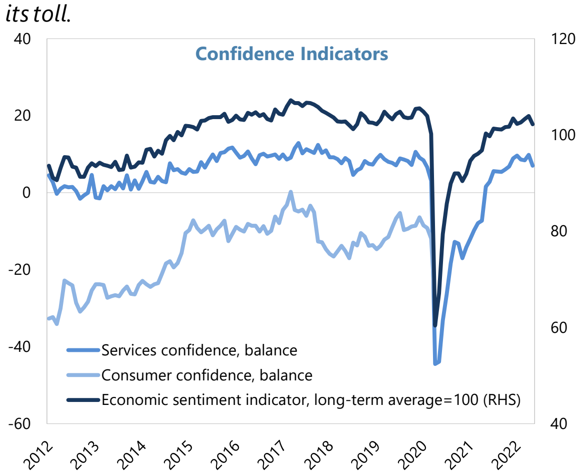
Romania has experienced a strong recovery from the pandemic, which has extended to Q1 2022.



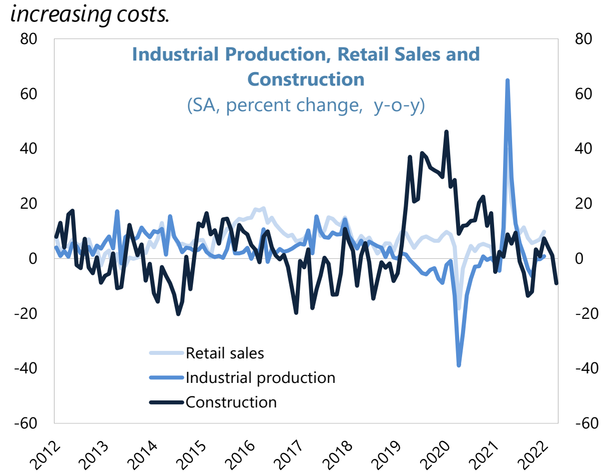
Private consumption remained strong, while exports were disrupted by supply-chain issues.



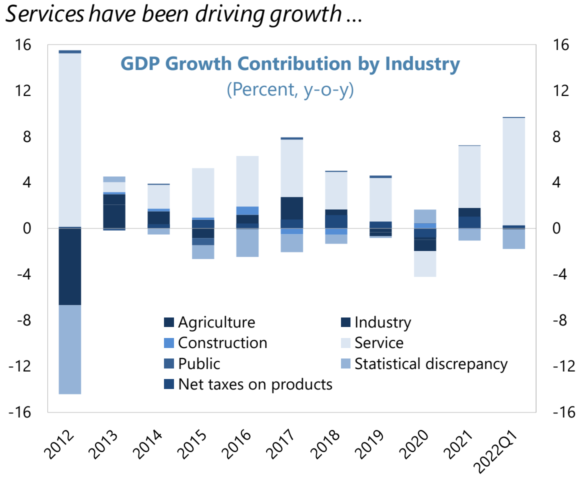
Confidence is recovering but the war in Ukraine is taking its toll.



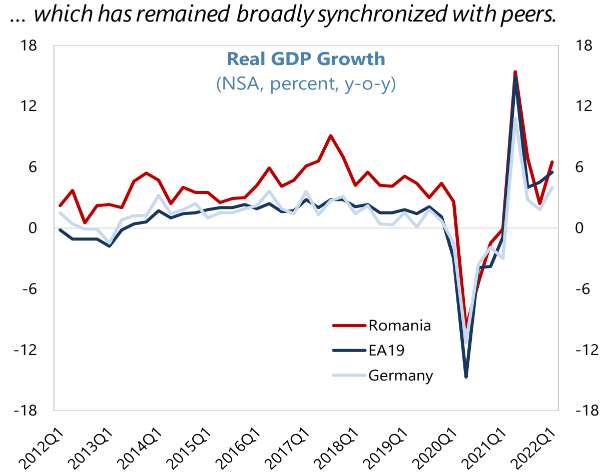
Retail sales have held up, but construction is falling due to increasing costs.



Services have been driving growth …



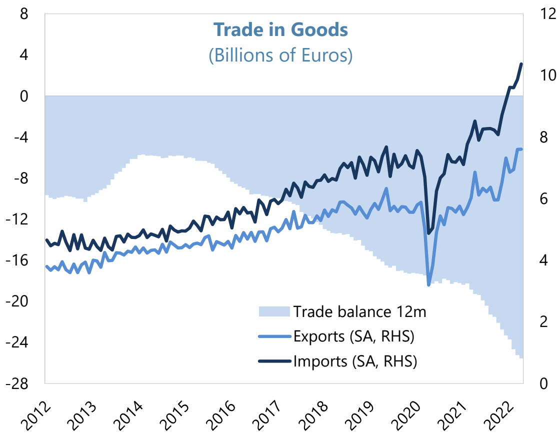
… which has remained broadly synchronized with peers.



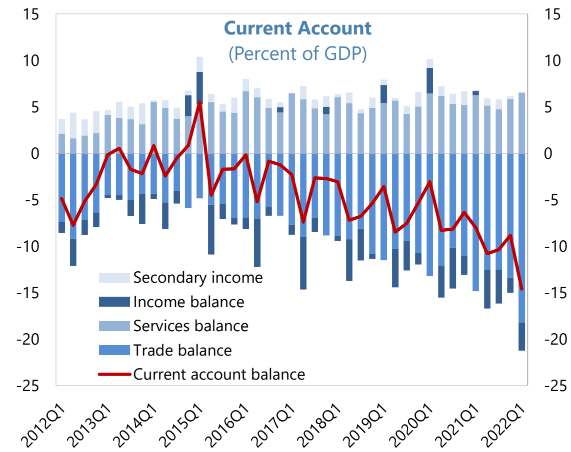
Sources: Haver Analytics; and IMF staff calculations.

Figure 3. Romania: External Sector, 2012–22

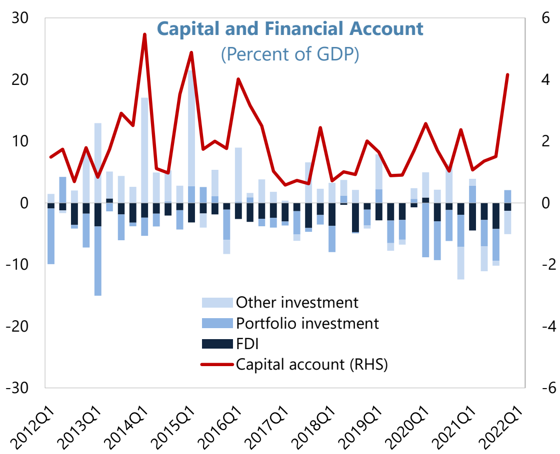
Imports continue to rise more rapidly than exports …



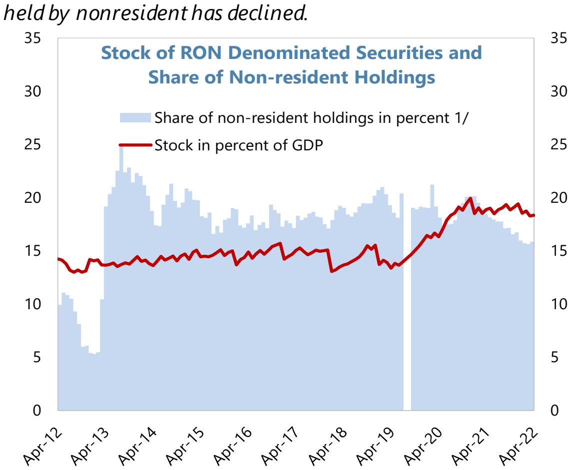
… and the trade balance is driving the current account deterioration.



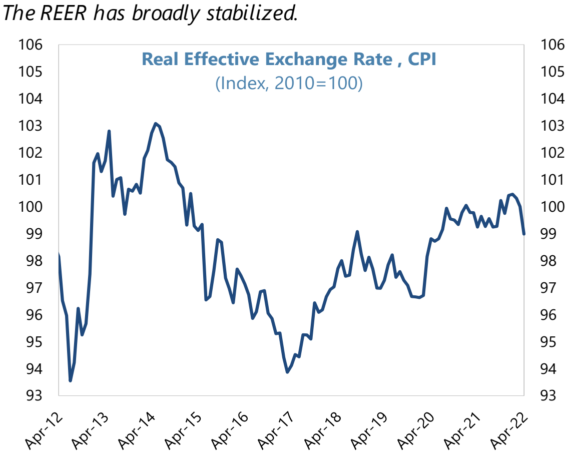
Capital inflows—from the EU—have increased.



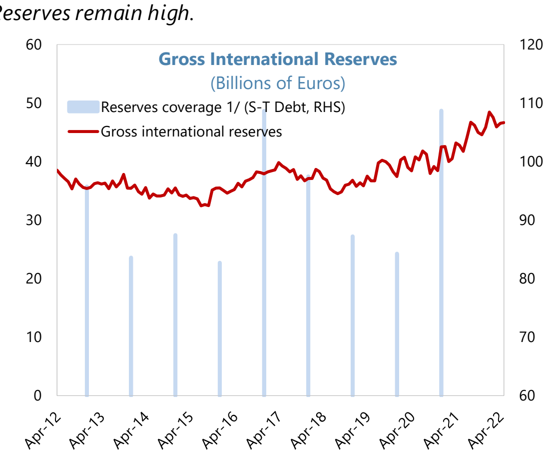
The share of domestic-currency securities (government bonds) held by nonresident has declined.



The REER has broadly stabilized.



Reserves remain high.

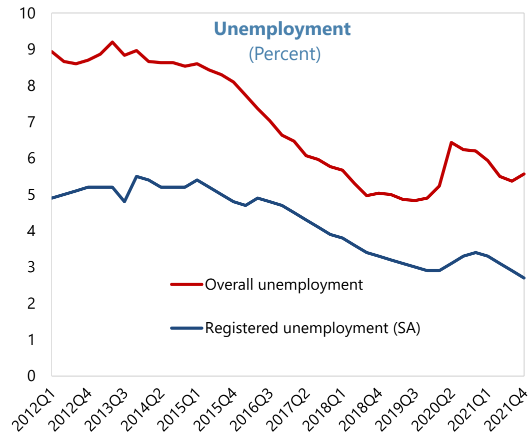


Sources: Haver Analytics; National Bank of Romania, IMF Information Notice System (INS); and IMF staff calculations.

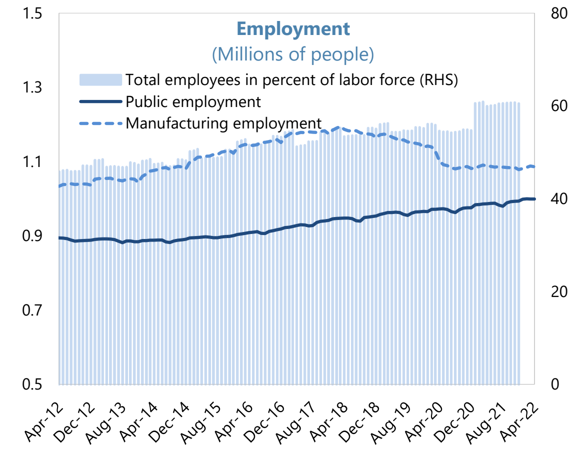
1/ Reserves coverage is based on end-of-year data.

Figure 4. Romania: Labor Market, 2012–2022

Unemployment is still above pre-pandemic levels …

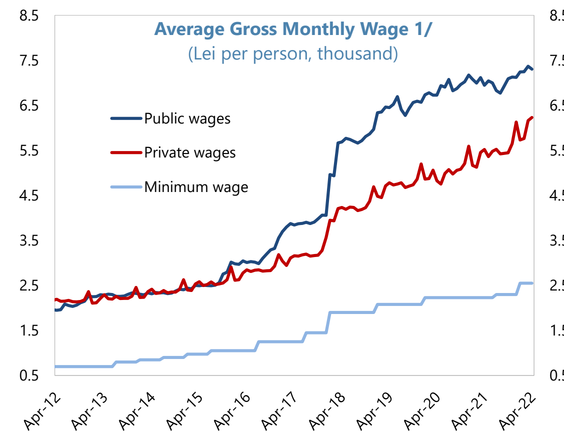


… while overall employment is stable, owing to public sector employment and services, manufacturing remains tepid.

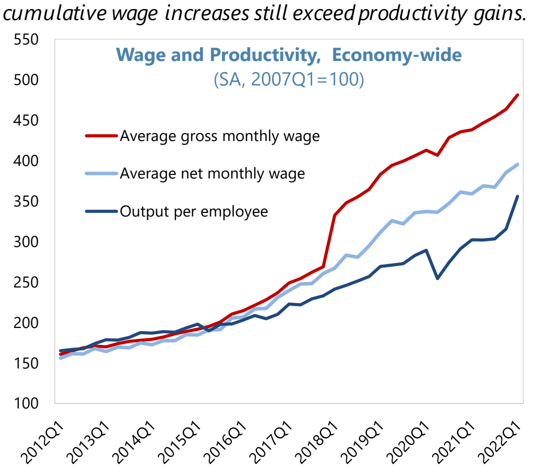


Due to rising inflation, real wage growth remains subdued …

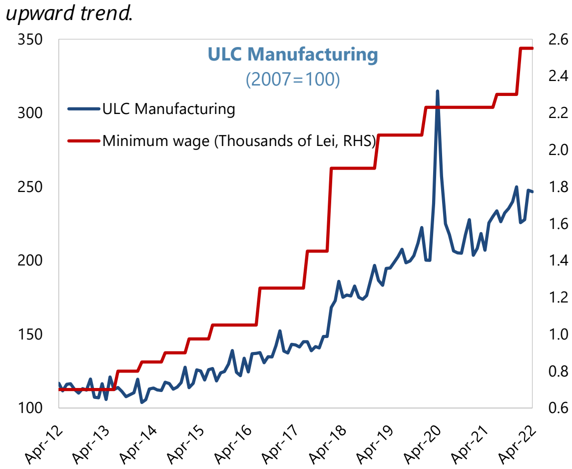
… even as nominal wages continue to increase.



As the pandemic abates, labor productivity is rising. But cumulative wage increases still exceed productivity gains.



… and unit labor costs in manufacturing have been on an upward trend.

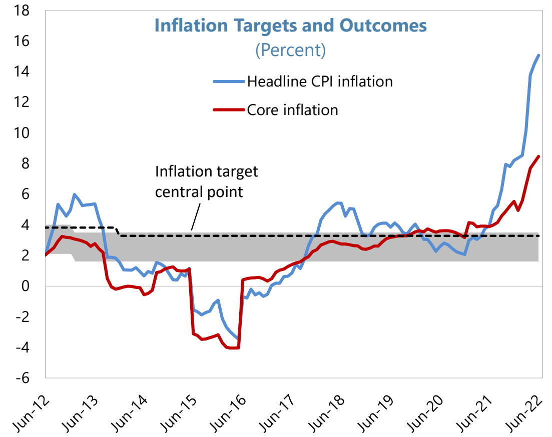


Sources: Eurostat, Haver Analytics; and IMF staff calculations.

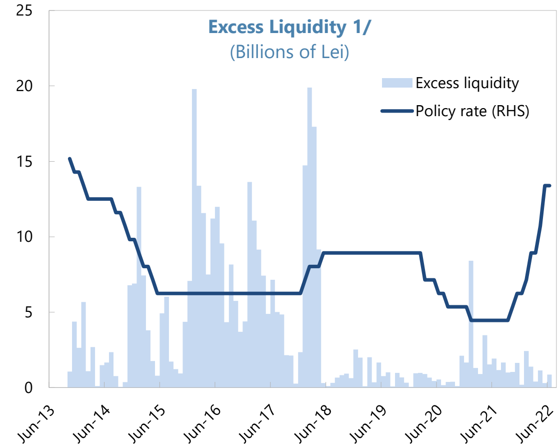
1/ Year 2018 reflects the upward adjustment of gross wages, including gross minimum wages, due to the implementation of the shift in social security contributions from employers to employees, which kept net wages and costs to employers unaffected.

Figure 5. Romania: Monetary Sector, 2012–22

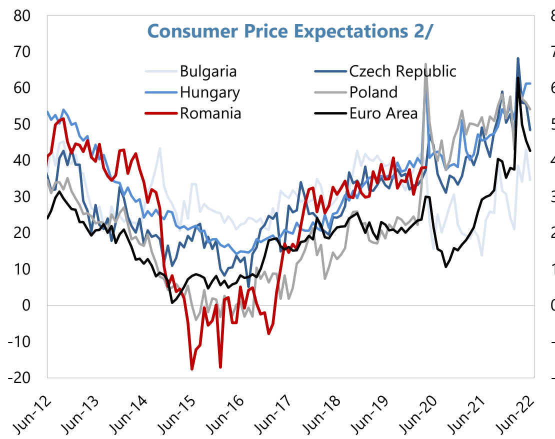
Inflation has risen sharply ...



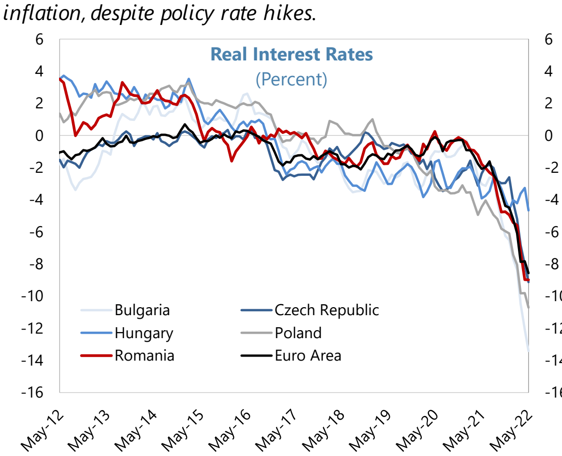
... and excess liquidity fell as monetary conditions were tightened, fostering higher market rates within the corridor.



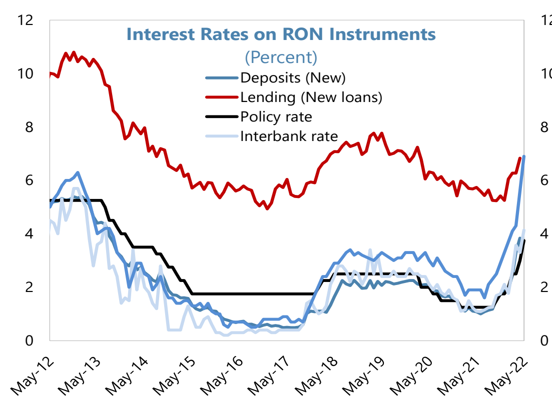
Inflation expectations have risen across the region ...



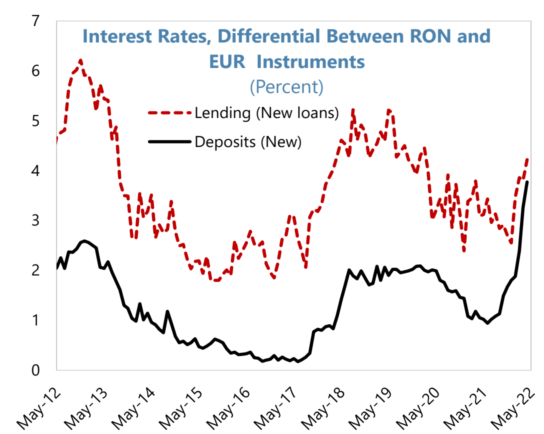
... and real interest rates have declined due to the surging inflation, despite policy rate hikes.



As RON interest rates have been rising ...



... the gap with EUR-denominated instruments has widened.



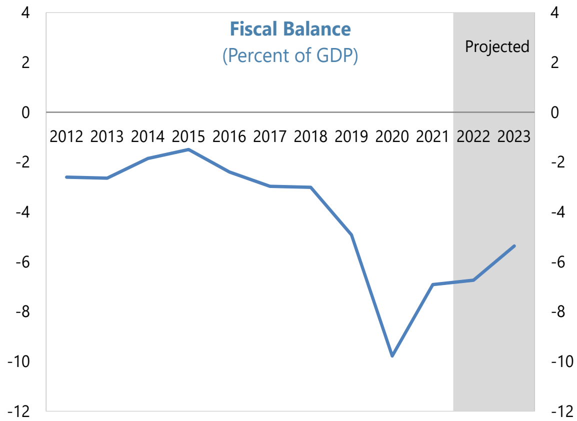
Sources: Haver Analytics; National Bank of Romania; Eurostat; Consensus Forecast; and IMF staff estimates.

1/ Stock of deposit in the NBR deposit facility (monthly average).

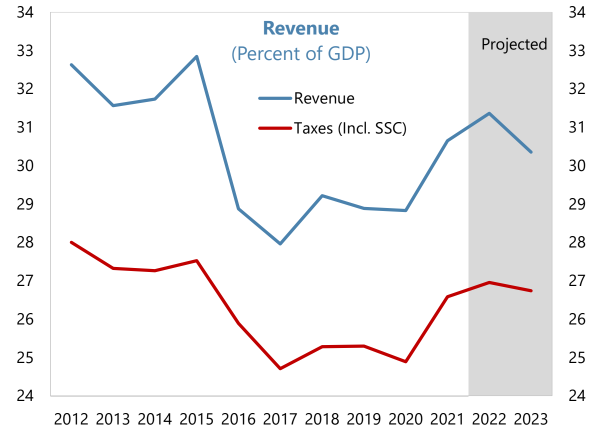
2/ Equals to the percentage of favorable answers minus the percentage of unfavorable answers in the survey on price trends over the next 12-month.

Figure 6. Romania: Fiscal Operations, 2012–23

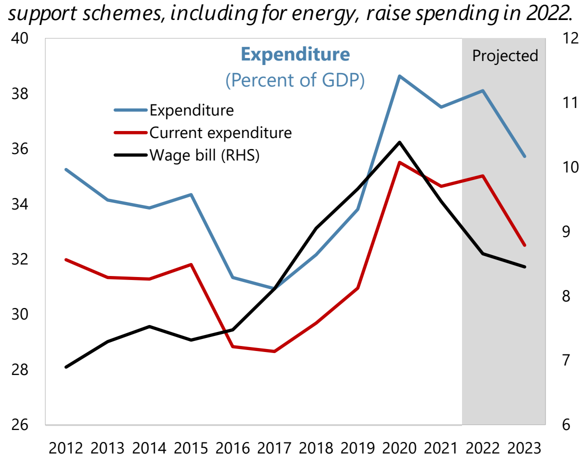
The fiscal deficit consolidation in 2021 as the pandemic recovery took hold is projected to stall in 2022.



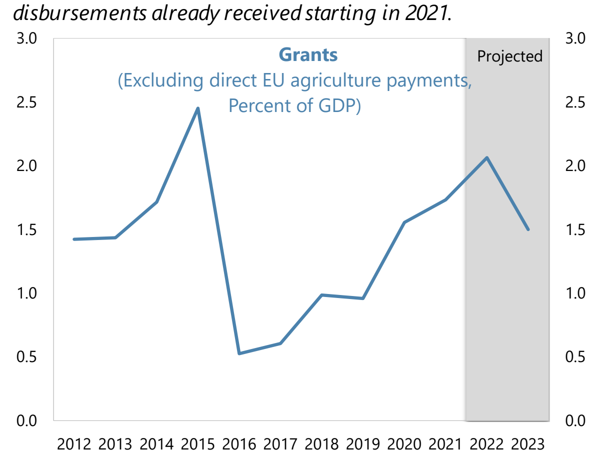
Revenues in 2022 are expected to be boosted by grants, windfall taxes, and inflation.



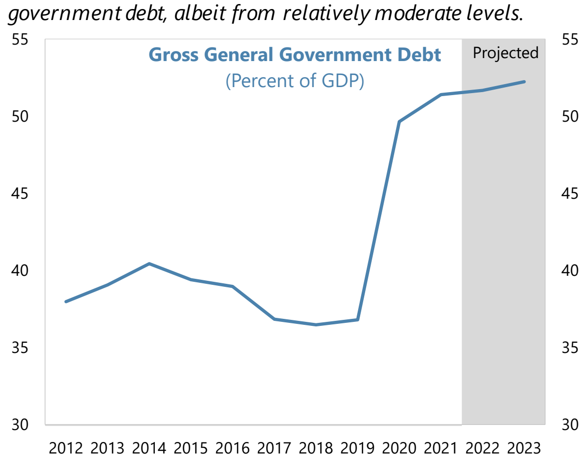
While most pandemic support measures have expired, new support schemes, including for energy, raise spending in 2022.



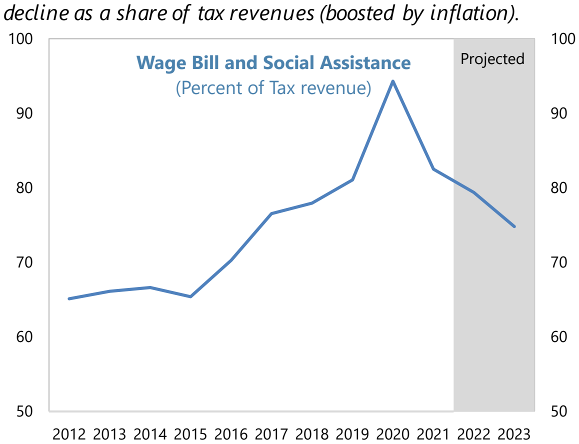
The RRF adds to EU funds inflows, with prefinancing disbursements already received starting in 2021.



Large fiscal deficits in recent years have markedly raised government debt, albeit from relatively moderate levels.



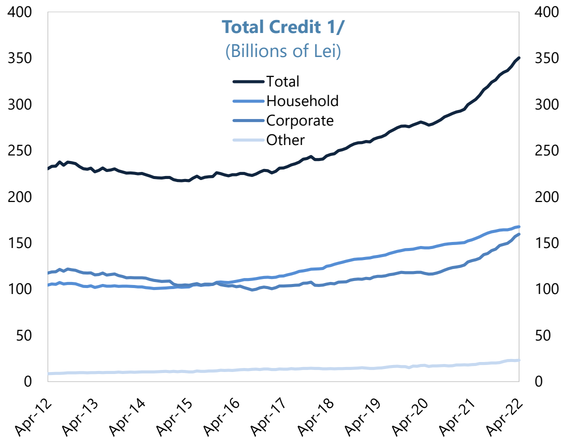
Despite higher social assistance, the wage bill is projected to decline as a share of tax revenues (boosted by inflation).



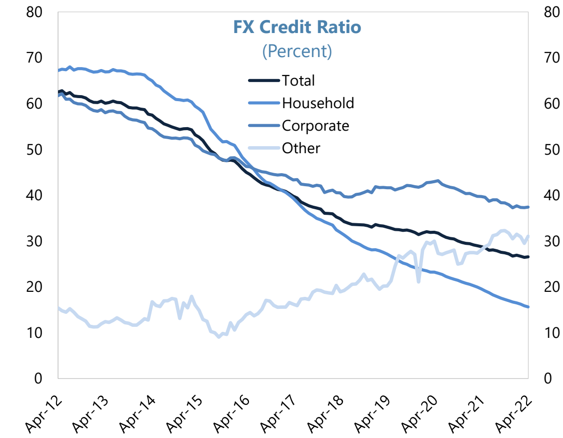
Sources: Romanian authorities; and IMF staff estimates and projections.

Figure 7. Romania: Financial Sector, 2012–21

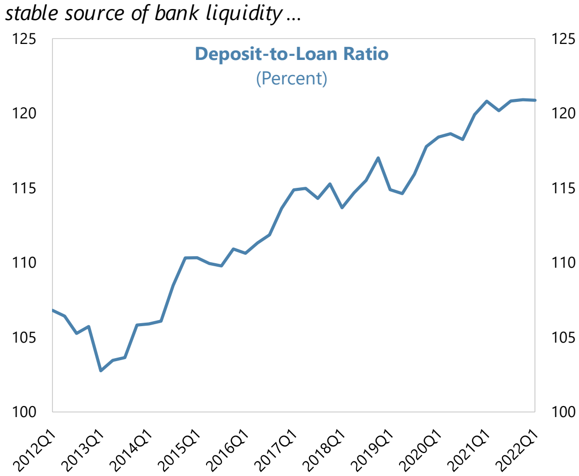
Private sector credit has expanded through the crises years …



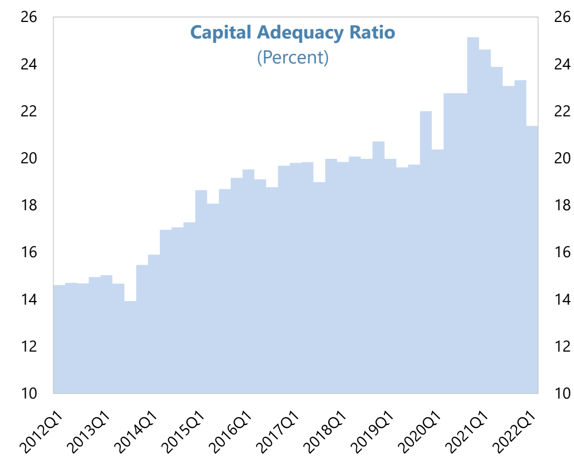
… and the degree of euroization continues to fall.



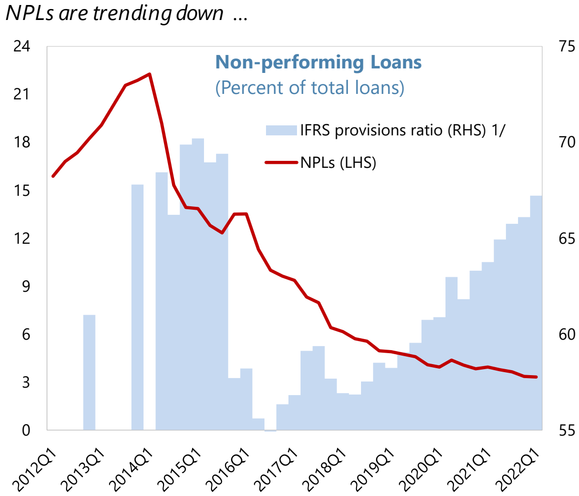
Funding is solid, with retail deposits offering a dominant and stable source of bank liquidity …



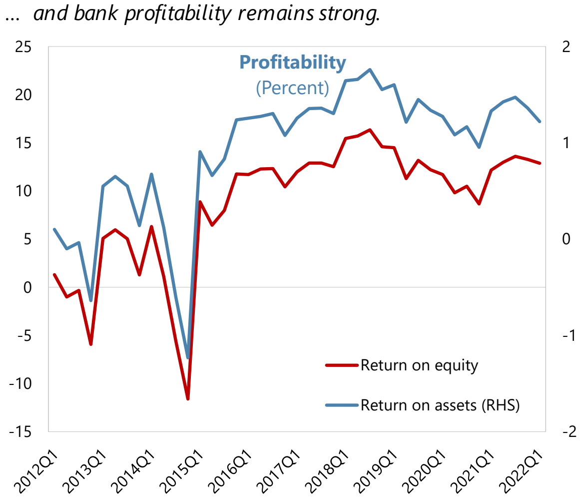
… and the banks remain well-capitalized.



NPLs are trending down …



… and bank profitability remains strong.

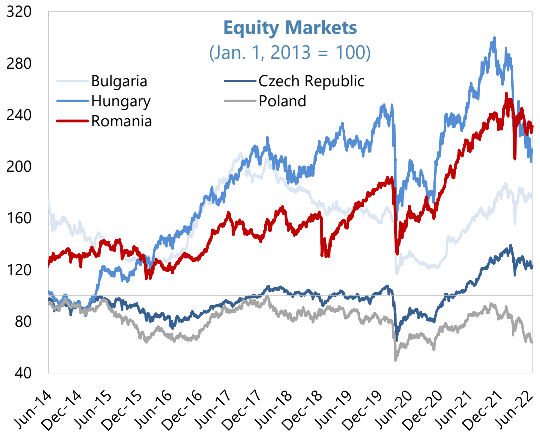


Sources: Dxtime; and National Bank of Romania.

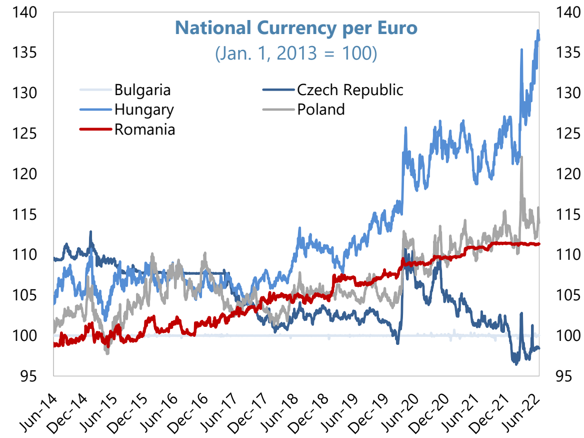
1/ In December 2015, the NBR moved from a national definition to an EBA methodology-based definition of NPL's.

Figure 8. Romania: Financial Developments, 2014–22

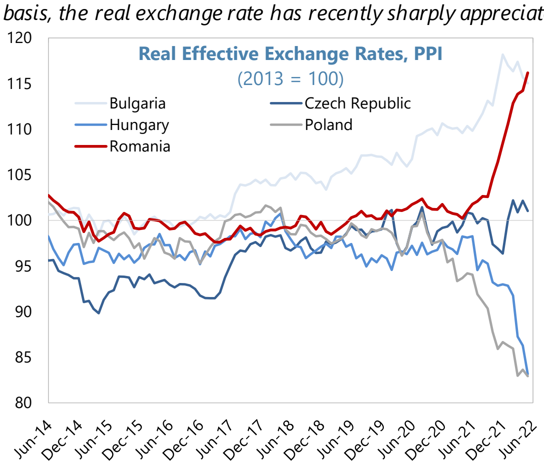
Prior to a plunge induced by the war in Ukraine, Romania's stock market had reached record highs.



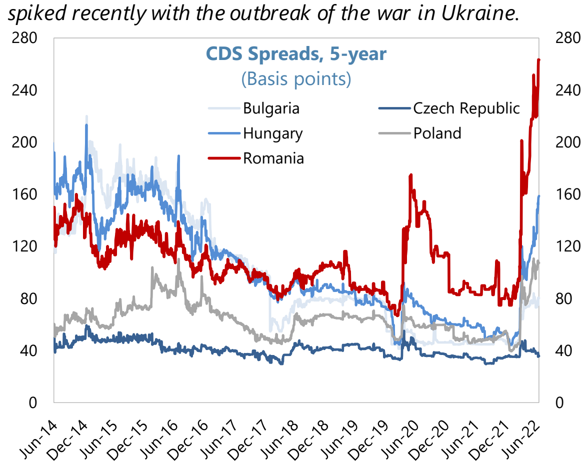
The leu has been heavily stabilized compared to peers during recent shocks.



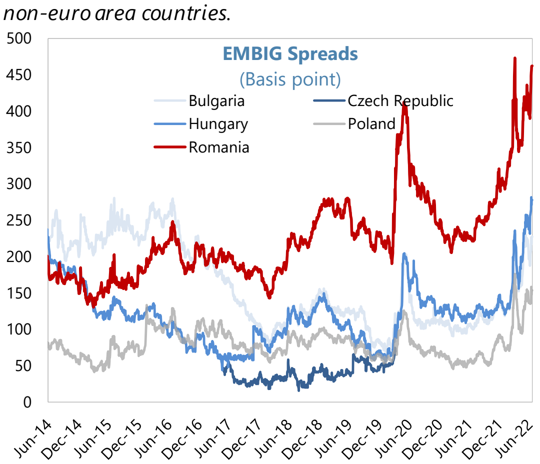
The PPI has surged more strongly in Romania, and on this basis, the real exchange rate has recently sharply appreciated.



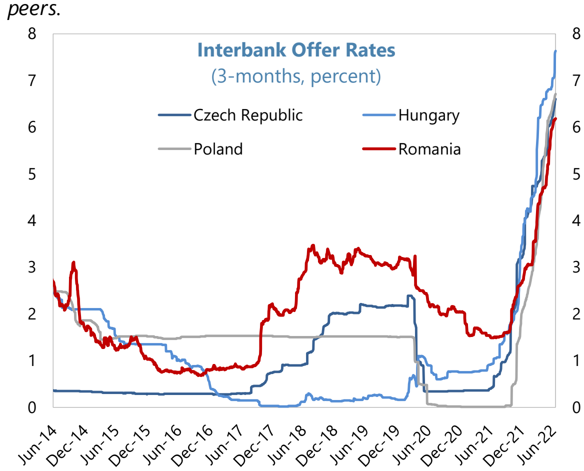
Romania's spread remains elevated relative to peers, and spiked recently with the outbreak of the war in Ukraine.



Romania's EMBIG spreads have shown a similar trajectory, albeit briefly narrowing after the ECB extended its repo line for non-euro area countries.



Interbank rates have risen rapidly, more than policy rates due to tight liquidity management, and are broadly in line with peers.



Sources: Bloomberg; and Haver Analytics.

Table 1. Romania: Selected Economic and Social Indicators, 2016–23

	2016	2017	2018	2019	2020	2021 Est.	2022 Proj.	2023 Proj.
Output and prices				(Annual percentage change)				
Real GDP	4.7	7.3	4.5	4.2	-3.7	5.9	4.0	3.4
Domestic demand 1/	4.9	8.9	5.9	5.7	-2.1	7.0	5.7	4.2
Contributions to GDP growth								
Domestic demand 1/	4.9	9.1	6.2	6.0	-2.1	7.9	5.1	4.7
Private consumption	4.9	6.8	5.0	2.7	-3.4	5.3	2.8	3.0
Government consumption	0.0	0.6	0.4	0.9	0.2	0.1	0.4	0.1
Net exports	-0.2	-1.8	-1.8	-1.8	-1.7	-2.1	-1.1	-1.3
Consumer price index (CPI, average)	-1.6	1.3	4.6	3.8	2.6	5.0	12.3	10.0
Consumer price index (CPI, end of period)	-0.5	3.3	3.3	4.0	2.1	8.2	12.6	7.7
Core price index (CPI, end of period)	0.3	2.4	2.5	3.7	3.3	5.8	10.0	5.1
Producer price index (average)	-1.8	3.5	5.0	4.0	0.0	14.9	...	...
Unemployment rate (average)	7.2	6.1	5.2	4.9	6.0	5.6	5.7	5.5
Nominal wages, gross 2/	12.8	14.8	35.4	13.0	6.4	7.1	9.7	8.0
Saving and Investment				(In percent of GDP)				
Gross domestic investment 1/	23.4	23.4	22.8	23.6	24.4	25.9	26.1	25.5
Gross national savings	21.8	20.3	18.1	18.7	19.5	18.9	18.5	18.1
General government finances 3/								
Revenue	28.9	28.0	29.2	28.9	28.8	30.6	31.4	30.6
Expenditure	31.3	30.9	32.2	33.8	38.6	37.5	38.2	35.7
Fiscal balance	-2.4	-3.0	-3.0	-4.9	-9.8	-6.9	-6.8	-5.1
External financing (net)	0.7	0.8	0.6	0.9	4.6	4.7	4.4	2.5
Domestic financing (net)	2.2	2.4	2.5	3.2	5.4	2.2	2.4	2.6
Primary balance	-1.2	-1.9	-1.7	-3.8	-8.5	-5.4	-5.2	-3.4
Structural fiscal balance 4/	-1.7	-3.6	-3.9	-5.5	-5.3	-7.6	-6.1	-4.9
Gross public debt (including guarantees)	39.0	36.8	36.5	36.8	49.6	51.4	51.7	52.0
Money and credit				(Annual percentage change)				
Broad money (M3)	9.7	11.5	8.8	10.9	15.3	15.8	15.1	12.5
Credit to private sector	1.2	5.7	8.0	6.6	5.5	14.8	17.2	12.8
Interest rates, eop				(In percent)				
NBR policy rate	1.75	1.75	2.50	2.50	1.50	1.75	...	...
NBR lending rate (Lombard)	3.25	2.75	3.50	3.50	2.00	2.50	...	...
Interbank offer rate (1 week)	0.6	1.5	2.4	2.9	1.8	2.4	...	...
Balance of payments				(In percent of GDP)				
Current account balance	-1.6	-3.1	-4.6	-4.9	-5.0	-7.0	-7.7	-7.4
Merchandise trade balance	-1.0	-2.5	-3.4	-4.1	-4.3	-5.7	-5.9	-6.0
Exports (goods)	30.7	30.5	30.2	28.3	26.3	29.2	29.8	29.0
Imports (goods)	36.4	37.3	37.7	36.3	34.9	38.9	39.8	39.0
Capital account balance	2.5	1.2	1.2	1.3	1.9	2.2	2.0	1.4
Financial account balance	1.6	-1.7	-2.5	-2.3	-3.6	-5.4	-6.0	-5.9
Foreign direct investment balance	-2.7	-2.6	-2.4	-2.2	-1.4	-3.0	-2.5	-2.7
International investment position	-48.7	-46.6	-43.7	-43.3	-47.8	-45.6	-46.2	-48.0
Gross official reserves	22.3	19.8	18.0	16.8	19.4	19.1	15.5	13.2
Gross external debt	55.4	51.9	48.8	49.2	57.9	55.9	52.2	51.0
Exchange rates								
Lei per euro (end of period)	4.54	4.66	4.66	4.78	4.87	4.95	…	…
Lei per euro (average)	4.49	4.57	4.65	4.75	4.84	4.92	…	…
Real effective exchange rate								
CPI based (percentage change)	-1.8	-1.5	2.8	-0.4	1.5	0.9	…	…
GDP deflator based (percentage change)	2.1	1.7	4.3	2.4	2.7	1.3	…	…
Memorandum Items:								
Nominal GDP (in bn RON)	763.7	857.9	951.7	1059.0	1058.9	1181.9	1352.0	1490.6
Potential output growth	3.5	3.7	3.7	3.7	1.5	4.1	3.2	3.6

Social and Other Indicators

GDP per capita: US$14,667 (2021); **GDP per capita, PPP:** current international $32,116 (2020)

People at risk of poverty or social exclusion: 31.2% (2019)

Sources: Romanian authorities; World Development Indicators database; Eurostat; and IMF staff estimates and projections.

1/ Including potential statistical uncertainty related to large inventory contribution in 2018 and 2021.

2/ Year 2018 reflects the upward adjustment of gross wages due to the implementation of the shift in social security contributions from employers to employees, which kept net wages and costs to employers unaffected (see Box 1 in the 2018 Article IV staff report).

3/ General government finances refer to cash data.

4/ Fiscal balance (cash basis) adjusted for the automatic effects of the business cycle and one-off effects.

Table 2. Romania: Medium-Term Macroeconomic Framework, Current Policies, 2018–27

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
GDP and prices (annual percent change)										
Real GDP	4.5	4.2	-3.7	5.9	4.0	3.4	3.8	3.5	3.5	3.5
Agriculture 1/	9.0	-4.5	-14.2	8.8	...	...	...	...	...	...
Non-Agriculture 1/	4.2	4.7	-3.0	7.2	...	...	...	...	...	...
Real domestic demand	5.9	5.7	-2.1	7.0	5.7	4.2	4.3	4.0	3.9	3.9
Consumption 2/	6.8	4.6	-3.6	6.1	4.2	3.7	4.3	4.0	4.0	3.9
Investment (GFCF) 2/	-1.1	12.9	4.1	2.3	3.9	5.7	4.6	4.6	4.5	4.5
Exports	5.3	5.4	-9.4	12.5	7.3	5.5	6.1	6.2	6.5	5.9
Imports	8.6	8.6	-5.2	14.6	8.1	6.7	6.6	6.6	6.7	6.1
Consumer price index (CPI, average)	4.6	3.8	2.6	5.0	12.3	10.0	3.6	3.0	2.6	2.5
Consumer price index (CPI, end of period)	3.3	4.0	2.1	8.2	12.6	7.7	3.3	2.7	2.5	2.5
Saving and investment (in percent of GDP)										
Gross national saving	18.1	18.7	19.5	18.9	18.5	18.1	18.3	18.7	18.5	18.5
Gross domestic investment 2/	22.8	23.6	24.4	25.9	26.1	25.5	25.2	25.2	24.6	24.3
Government	3.4	4.3	5.1	4.7	5.1	4.8	5.2	5.9	5.5	4.9
Private 2/	19.3	19.4	19.3	21.2	21.0	20.6	19.9	19.3	19.1	19.5
General government (in percent of GDP)										
Revenue	29.2	28.9	28.8	30.6	31.4	30.6	30.9	31.7	31.3	31.0
Expenditure	32.2	33.8	38.6	37.5	38.2	35.7	36.0	36.9	36.3	35.5
Fiscal balance	-3.0	-4.9	-9.8	-6.9	-6.8	-5.1	-5.1	-5.1	-5.0	-4.5
Structural fiscal balance 3/	-3.9	-5.5	-5.3	-7.6	-6.1	-4.9	-5.1	-5.1	-5.0	-4.5
Gross general government debt (direct debt only)	34.5	35.0	46.5	48.6	49.3	49.8	51.2	52.8	54.7	56.0
Gross general government debt (including guarantees)	36.5	36.8	49.6	51.4	51.7	52.0	53.3	54.8	56.5	57.7
Monetary aggregates (annual percent change)										
Broad money (M3)	8.8	10.9	15.3	15.8	15.1	12.5	10.5	9.4	9.4	9.3
Credit to private sector	8.0	6.6	5.5	14.8	17.2	12.8	10.4	8.8	8.4	8.0
Balance of payments (in percent of GDP)										
Current account	-4.6	-4.9	-5.0	-7.0	-7.7	-7.4	-6.9	-6.5	-6.1	-5.9
Trade balance	-3.4	-4.1	-4.3	-5.7	-5.9	-6.0	-5.4	-5.0	-4.4	-4.1
Services balance	4.1	3.9	4.3	4.0	4.1	4.0	4.2	4.3	4.5	4.7
Income balance	-1.8	-1.4	-1.5	-1.7	-2.0	-1.7	-1.7	-1.7	-1.8	-1.9
Transfers balance	0.6	0.7	0.9	0.4	0.2	0.3	0.2	0.2	0.2	0.2
Capital account balance	1.2	1.3	1.9	2.2	2.0	1.4	1.7	2.2	1.5	1.0
Financial account balance	-2.5	-2.3	-3.6	-5.4	-6.0	-5.9	-5.2	-4.3	-4.6	-4.9
Foreign direct investment, balance	-2.4	-2.2	-1.4	-3.0	-2.5	-2.7	-2.9	-3.1	-3.1	-3.1
Memorandum items:										
Gross international reserves (in billions of euros)	36.8	37.5	42.5	45.8	42.4	39.8	41.9	47.8	53.4	58.5
Gross international reserves (in months of next year's imports)	4.4	4.9	4.6	4.2	3.6	3.1	3.0	3.2	3.4	...
International investment position (in percent of GDP)	-43.7	-43.3	-47.8	-45.6	-46.2	-48.0	-49.6	-50.6	-52.2	-54.0
External debt (in percent of GDP)	48.8	49.2	57.9	55.9	52.2	51.0	51.5	52.3	53.5	54.7
Short-term external debt (in percent of GDP)	15.4	15.9	15.2	15.5	13.2	14.1	14.2	14.3	14.6	14.8
Terms of trade (merchandise, percent change)	0.4	2.1	2.3	1.7	0.4	1.4	1.4	1.2	1.6	1.1
Nominal GDP (in billions of lei)	951.7	1,059.0	1,058.9	1,181.9	1,352.0	1,490.6	1,608.7	1,725.4	1,834.2	1,948.9
Nominal GDP (in billions of Euros)	205	223	219	240	273	301	325	349	371	394
Output gap (percent of potential GDP)	2.6	3.1	-2.3	-0.6	0.2	0.0	0.0	0.0	0.0	0.0
Potential GDP (percent change)	3.7	3.7	1.5	4.1	3.2	3.6	3.8	3.5	3.5	3.5

Sources: Romanian authorities; and IMF staff estimates and projections.

1/ Based on gross value added data from the National Institute of Statistics (NIS) in Romania. Note that there is a small discrepancy between the supply side GDP data from the NIS and the demand side data from Eurostat.

2/ Domestic demand components potentially distorted by statistical issues related to large inventory contribution in 2018 and 2021, which from past experience are subsequently revised to reallocate to consumption and investment components. Investment in 2019 also potentially distorted by construction sector incentives to encourage reported activity.

3/ Actual fiscal balance adjusted for the automatic effects related to the business cycle and one-off effects.

Table 3. Romania: Balance of Payments, 2018–27

(In percent of GDP, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Prel.	Projections					
BALANCE OF PAYMENTS										
Current account	**-4.6**	**-4.9**	**-5.0**	**-7.0**	**-7.7**	**-7.4**	**-6.9**	**-6.5**	**-6.1**	**-5.9**
Merchandise trade balance	-7.5	-8.0	-8.7	-9.6	-10.0	-10.0	-9.6	-9.3	-8.9	-8.8
Exports (f.o.b)	30.2	28.3	26.3	29.2	29.8	29.0	29.7	30.0	30.7	31.3
Imports (f.o.b)	37.7	36.3	34.9	38.9	39.8	39.0	39.3	39.3	39.6	40.1
Services balance	4.1	3.9	4.3	4.0	4.1	4.0	4.2	4.3	4.5	4.7
Exports of nonfactor services	11.6	12.1	10.9	11.6	11.9	11.9	12.2	12.3	12.6	12.8
Imports of nonfactor services	7.5	8.2	6.5	7.6	7.8	7.8	8.0	8.0	8.1	8.2
Primary income, net	-1.8	-1.4	-1.5	-1.7	-2.0	-1.7	-1.7	-1.7	-1.8	-1.9
Compensation of employees, net	1.4	1.6	1.4	1.5	1.4	1.3	1.3	1.2	1.2	1.1
Direct investment income, net	-3.3	-3.1	-3.1	-3.3	-3.3	-3.0	-3.0	-3.1	-3.1	-3.2
Other	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Secondary income	0.6	0.7	0.9	0.4	0.2	0.3	0.2	0.2	0.2	0.2
General government	-0.3	-0.3	0.0	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Other sectors 1/	0.9	1.0	0.9	0.9	0.8	0.8	0.7	0.7	0.7	0.7
Capital account	**1.2**	**1.3**	**1.9**	**2.2**	**2.0**	**1.4**	**1.7**	**2.2**	**1.5**	**1.0**
Of which: Capital transfers, net 2/	0.9	1.0	1.5	2.1	1.9	1.4	1.6	2.1	1.4	0.9
Financial account	**-2.5**	**-2.3**	**-3.6**	**-5.4**	**-6.0**	**-5.9**	**-5.2**	**-4.3**	**-4.6**	**-4.9**
Direct investment, net	-2.4	-2.2	-1.4	-3.0	-2.5	-2.7	-2.9	-3.1	-3.1	-3.1
Abroad	0.6	0.8	0.1	0.6	0.5	0.4	0.4	0.4	0.4	0.4
In Romania	3.0	2.9	1.4	3.7	3.0	3.0	3.3	3.5	3.5	3.5
Portfolio investment and financial derivatives, net	-1.4	-1.1	-6.1	-1.2	-0.7	-1.2	-1.4	-1.5	-1.6	-1.5
Other investment, net	1.6	1.1	1.4	-2.1	-1.8	-1.2	-1.4	-1.4	-1.4	-1.5
Reserve assets	-0.4	-0.1	2.6	0.9	-1.0	-0.9	0.6	1.7	1.5	1.3
Errors and omissions, net	0.9	1.3	-0.5	-0.6	-0.3	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET										
Int'l investment position, net	**-43.7**	**-43.3**	**-47.8**	**-45.6**	**-46.2**	**-48.0**	**-49.6**	**-50.6**	**-52.2**	**-54.0**
Assets	34.9	35.0	40.6	40.2	34.8	32.3	32.0	33.1	34.0	34.7
Liabilities	78.6	78.3	88.5	85.8	81.0	80.3	81.6	83.7	86.2	88.7
Direct investment	-39.1	-38.6	-40.4	-39.2	-36.8	-36.2	-36.4	-37.1	-38.0	-38.9
Assets	4.5	5.3	5.6	5.6	5.4	5.3	5.3	5.4	5.5	5.6
Liabilities	43.6	44.0	46.0	44.8	42.2	41.5	41.8	42.5	43.4	44.4
Portfolio investment and financial derivatives	-12.1	-13.5	-20.4	-18.2	-16.6	-16.3	-16.5	-17.0	-17.5	-18.1
Other investment	-10.5	-8.0	-6.4	-7.4	-8.3	-8.7	-9.5	-10.3	-11.1	-11.9
Reserve assets	18.0	16.8	19.4	19.1	15.5	13.2	12.9	13.7	14.4	14.9
Gross external debt	**48.8**	**49.2**	**57.9**	**55.9**	**52.2**	**51.0**	**51.5**	**52.3**	**53.5**	**54.7**
Central bank	0.6	0.5	0.5	1.4	1.2	1.1	1.0	1.0	0.9	0.9
General government	17.1	17.8	26.4	24.4	23.2	22.6	22.9	23.3	23.5	23.7
Banks	4.4	3.5	3.3	3.2	3.8	2.9	2.9	3.1	3.7	4.2
Other sectors	26.7	27.4	27.7	26.8	24.0	24.4	24.6	24.9	25.4	25.9
Short term	15.4	15.9	15.2	15.5	13.2	14.1	14.2	14.3	14.6	14.8
Of which: Trade credit and intercompany loans	12.5	13.2	12.5	12.7	10.4	11.4	11.5	11.6	11.8	12.0
Medium and long term	33.4	33.3	42.7	40.4	39.1	36.9	37.3	38.0	38.9	39.9
MEMORANDUM ITEMS										
CA + capital transfers + net direct investment	-1.3	-1.7	-2.1	-1.8	-3.2	-3.3	-2.3	-1.3	-1.6	-1.8
International reserves (in billions of euros)	**36.8**	**37.5**	**42.5**	**45.8**	**42.4**	**39.8**	**41.9**	**47.8**	**53.4**	**58.5**
% short-term debt	116.6	105.6	127.8	123.5	117.9	93.9	90.8	95.7	99.1	100.4
Months of prospective imports	4.4	4.9	4.6	4.2	3.6	3.1	3.0	3.2	3.4	…
Export value (percent change)	8.1	2.0	-8.7	21.9	16.0	7.3	10.3	8.6	8.6	8.5
Import value (percent change)	10.2	4.9	-5.4	22.0	16.5	8.1	8.6	7.4	7.0	7.7
Export volume (percent change)	4.6	1.7	-7.6	11.4	7.1	4.7	6.4	6.2	6.5	5.9
Import volume (percent change)	7.1	6.8	-2.1	13.4	8.1	6.8	6.2	6.3	6.6	6.3
Export prices (percent change)	3.3	0.3	-1.2	9.5	8.3	2.5	3.6	2.3	1.9	2.5
Import prices (percent change)	2.9	-1.8	-3.4	7.6	7.8	1.2	2.2	1.0	0.3	1.3
Terms of trade (percent change)	0.4	2.1	2.3	1.7	0.4	1.4	1.4	1.2	1.6	1.1
REER (CPI-based, percent change)	2.8	-0.4	1.5	0.9	6.1	7.5	1.8	1.1	0.7	0.7
Exchange rate (lei/€, average)	4.65	4.75	4.84	4.92	…	…	…	…	…	…
Nominal GDP (in billions of euros)	205	223	219	240	273	301	325	349	371	394

Sources: Romanian authorities; and IMF staff estimates and projections.
1/ Includes CAP payments.
2/ Largely EU structural funds and CAP payments

Table 4a. Romania: Fiscal Accounts, 2018–2027 1/
(In percent of GDP, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Projections					
GENERAL GOVERNMENT OPERATIONS										
Revenue	**29.2**	**28.9**	**28.9**	**30.6**	**31.4**	**30.6**	**30.9**	**31.7**	**31.3**	**31.0**
Revenue excl. grants	28.2	27.9	27.3	28.9	29.4	29.3	29.3	29.6	29.9	30.1
Tax revenue	25.3	25.3	24.9	26.6	27.0	27.0	27.1	27.4	27.7	27.8
Direct taxes	15.2	15.3	15.3	15.8	15.4	15.8	16.1	16.4	16.5	16.6
Of which: Corporate income taxes	1.9	1.9	1.7	1.9	1.9	2.0	2.0	2.0	2.0	2.0
Personal income taxes	2.5	2.3	2.4	2.5	2.5	2.5	2.5	2.6	2.6	2.7
Social security contributions	10.3	10.5	10.6	10.8	10.5	10.6	10.7	10.9	11.0	11.1
Indirect taxes	10.0	10.0	9.6	10.8	11.5	11.2	11.0	11.0	11.1	11.2
Of which: VAT	6.3	6.2	5.7	6.7	6.8	6.8	6.9	7.0	7.1	7.2
Excises	3.0	3.0	2.9	2.9	2.9	2.9	3.0	3.0	3.0	3.0
Nontax revenue	2.9	2.6	2.4	2.3	2.5	2.3	2.2	2.2	2.3	2.2
Grants 2/	1.0	1.0	1.6	1.7	1.9	1.4	1.6	2.1	1.4	0.9
Other fiscal operations	-0.1	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	**32.2**	**33.8**	**38.6**	**37.5**	**38.2**	**35.7**	**36.0**	**36.9**	**36.3**	**35.5**
Expense	29.7	31.0	35.5	34.6	35.1	32.5	32.8	33.6	33.1	32.2
Personnel	9.1	9.7	10.4	9.5	8.7	8.5	8.6	8.7	8.5	8.5
Goods and services	4.7	5.0	5.4	5.4	5.2	5.2	5.2	5.2	5.1	5.1
Interest	1.4	1.1	1.4	1.5	1.6	1.7	1.8	1.8	1.9	1.9
Subsidies	0.7	0.7	0.8	0.7	1.5	1.1	0.7	0.7	0.7	0.7
Transfers	13.8	14.4	17.5	17.5	18.0	15.9	16.4	17.2	16.8	16.0
EU-related 2/	0.8	1.2	1.7	2.0	2.3	1.8	2.3	3.1	2.6	1.8
Social assistance	10.7	10.8	13.1	12.5	12.7	11.5	11.6	11.6	11.6	11.7
Pensions	6.6	6.6	7.7	7.6	7.3	7.0	7.1	7.2	7.3	7.3
Other	4.0	4.2	5.4	4.9	5.4	4.5	4.5	4.4	4.3	4.3
Other transfers	2.4	2.4	2.7	3.0	3.0	2.6	2.5	2.5	2.5	2.5
Other expenses	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital	2.5	2.9	3.1	2.9	3.1	3.2	3.2	3.2	3.2	3.2
Expense refund and Eximbank operations	-0.2	-0.3	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Operating balance	-0.5	-2.1	-6.6	-4.0	-3.7	-1.9	-1.9	-1.9	-1.7	-1.3
Primary balance	-1.7	-3.8	-8.5	-5.4	-5.2	-3.4	-3.4	-3.3	-3.1	-2.6
Net lending/borrowing	**-3.0**	**-4.9**	**-9.8**	**-6.9**	**-6.8**	**-5.1**	**-5.1**	**-5.1**	**-5.0**	**-4.5**
Financing	**3.0**	**4.9**	**9.8**	**6.9**	**6.8**	**5.1**	**5.1**	**5.1**	**5.0**	**4.5**
Domestic	2.5	3.2	5.4	2.2	2.4	2.6	2.8	2.8	3.0	3.0
External	0.6	0.9	4.6	4.7	4.4	2.5	2.3	2.3	2.0	1.5
Of which: EU loans, net 3/	...	...	...	0.0	0.6	0.9	1.1	1.0	0.7	0.4
Other (use of deposits and privatization proceeds)	-0.3	0.5	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GENERAL GOVERNMENT GROSS DEBT										
Gross debt (authorities' definition) 4/	36.5	36.8	49.6	51.4	51.7	52.0	53.3	54.8	56.5	57.7
In percent of total										
Medium- and long-term	98.6	99.3	98.7	99.0	99.1	99.1	99.2	99.2	99.3	99.3
Short term	1.4	0.7	1.3	1.0	0.9	0.9	0.8	0.8	0.7	0.7
Foreign exchange-denominated or -linked	49.9	48.8	50.9	54.0	56.0	55.4	54.4	53.9	53.0	51.7
At variable interest rates	26.5	24.4	22.6	16.7	15.0	14.0	13.2	12.2	11.4	10.6
Gross debt (Maastricht definition)	34.7	35.3	47.1	49.1	49.4	49.7	50.9	52.3	54.0	55.1
MEMORANDUM ITEMS										
Fiscal balance (ESA 2010)	-2.9	-4.4	-9.2	...	...	...	...	...	...	...
Cyclically adjusted balance (percent of potential GDP)	-3.9	-5.9	-8.9	-6.7	-6.9	-5.1	-5.1	-5.1	-5.0	-4.5
Structural balance (percent of potential GDP)	-3.9	-5.5	-5.3	-7.6	-6.1	-4.9	-5.1	-5.1	-5.0	-4.5
Output gap (percent of potential GDP)	2.6	3.1	-2.3	-0.6	0.2	0.0	0.0	0.0	0.0	0.0
Total capital spending	3.4	4.3	5.1	4.7	5.1	4.8	5.2	5.9	5.5	4.9
Real revenue excl. grants (percent change)	9.4	6.0	-4.9	12.7	3.7	-0.3	4.1	5.5	4.6	4.1
Real expenditure excl. EU-related transfers (percent change)	10.7	11.5	10.4	2.2	3.0	-5.4	3.5	4.4	3.3	3.5
Nominal GDP (in billions of lei)	952	1,059	1,059	1,182	1,352	1,491	1,609	1,725	1,834	1,949
Real GDP (in billions of lei)	836	871	838	887	923	954	990	1,025	1,061	1,098

1/ Cash basis. The general government is composed of the central and local governments, the Social Security Fund, and the Road Fund Company.

2/ Excludes direct EU agricultural payments.

3/ From Resilience and Recovery Fund.

4/ Includes guarantees.

Table 4b. Romania: Fiscal Accounts, 2018–2027 1/

(In billions of lei, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
							Projections			
GENERAL GOVERNMENT OPERATIONS										
Revenue	**277.5**	**305.9**	**305.6**	**361.6**	**424.5**	**454.8**	**497.7**	**548.2**	**575.3**	**603.8**
Tax revenue	240.6	267.8	263.5	314.2	364.8	400.9	435.8	473.3	507.9	542.8
Direct taxes	145.1	162.3	161.7	186.8	209.0	234.0	259.4	282.9	303.6	324.4
Of which: Corporate income taxes	18.2	20.6	18.5	22.9	26.2	30.4	32.8	35.2	37.4	39.7
Personal income taxes	23.3	24.1	25.0	29.2	33.5	35.4	40.5	44.7	48.3	52.0
Social security contributions	98.1	111.5	112.3	128.1	141.9	157.9	173.0	189.0	202.9	216.8
Indirect taxes	95.5	105.5	101.9	127.4	155.8	166.9	176.4	190.4	204.3	218.4
Of which: VAT	59.6	65.4	60.8	79.3	92.2	101.4	111.5	120.7	130.2	140.0
Excises	28.5	31.5	30.7	34.5	38.6	43.7	47.6	51.1	54.7	57.9
Nontax revenue	28.0	27.9	25.3	27.6	33.7	33.6	35.7	38.7	41.5	43.5
Grants 2/	9.4	10.1	16.5	20.4	26.0	20.3	26.2	36.3	25.9	17.5
Other fiscal operations	-0.6	0.0	0.3	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	**306.1**	**358.0**	**409.1**	**443.3**	**516.2**	**532.5**	**579.2**	**635.9**	**665.9**	**691.0**
Expense	282.5	327.8	376.0	409.4	474.4	484.5	527.4	580.3	606.8	628.3
Personnel	86.1	102.3	110.0	111.9	117.0	126.0	138.6	149.5	156.8	165.5
Goods and services	44.6	52.8	57.1	64.0	70.9	77.6	83.8	89.3	94.0	98.8
Interest	12.9	12.2	14.5	18.0	21.9	25.9	28.4	31.3	34.5	37.8
Subsidies	6.7	7.1	8.1	8.6	20.6	17.0	11.4	12.0	12.5	13.0
Transfers	131.8	152.9	185.5	206.2	243.4	237.2	264.4	297.3	308.1	312.0
EU-related 2/	7.9	12.9	18.1	23.6	30.6	27.1	37.1	53.1	48.0	35.4
Social assistance	101.4	114.7	138.6	147.2	172.2	172.1	186.5	200.4	213.6	227.2
Pensions	62.9	70.1	81.4	89.7	99.0	104.7	113.8	124.0	133.8	142.5
Other	38.5	44.7	57.1	57.5	73.1	67.3	72.7	76.5	79.8	84.8
Other transfers	22.5	25.3	28.8	35.4	40.6	38.0	40.8	43.7	46.5	49.4
Other expenses	0.4	0.5	0.8	0.6	0.7	0.8	0.9	0.9	1.0	1.0
Capital	23.6	30.2	33.2	33.9	41.7	48.0	51.8	55.6	59.1	62.8
Expense refund and Eximbank operations	-1.8	-3.7	-1.8	-1.7	0.0	0.0	0.0	0.0	0.0	0.0
Operating balance	-5.1	-21.9	-70.4	-47.8	-50.0	-29.8	-29.7	-32.1	-31.5	-24.4
Primary balance	-15.8	-40.1	-89.6	-64.3	-70.5	-52.6	-53.9	-57.1	-56.9	-50.3
Net lending/borrowing	**-28.6**	**-52.1**	**-103.6**	**-81.7**	**-91.7**	**-77.8**	**-81.5**	**-87.6**	**-90.6**	**-87.2**
Financing	**28.6**	**52.1**	**103.6**	**81.7**	**91.7**	**77.8**	**81.5**	**87.6**	**90.6**	**87.2**
Domestic	24.0	33.7	56.7	25.8	32.4	38.8	45.0	48.3	55.0	58.5
External	6.1	9.7	48.4	55.9	59.3	39.0	36.5	39.3	35.6	28.7
Of which: EU loans, net 3/	...	...	...	0.0	8.4	13.9	17.4	17.4	12.5	8.4
Other (use of deposits and privatization proceeds)	-3.3	5.0	-3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GENERAL GOVERNMENT GROSS DEBT										
Gross debt (authorities' definition) 3/	347.1	389.7	525.7	607.4	699.1	776.9	858.4	946.0	1,036.6	1,123.8
In percent of total										
Medium- and long-term	98.6	99.3	98.7	99.0	99.1	99.1	99.2	99.2	99.3	99.3
Short term	1.4	0.7	1.3	1.0	0.9	0.9	0.8	0.8	0.7	0.7
Foreign exchange-denominated or -linked	49.9	48.8	50.9	54.0	56.0	55.5	54.4	54.0	53.0	51.7
At variable interest rates	26.5	24.4	22.6	16.7	15.0	14.0	13.1	12.2	11.4	10.6
Gross debt (Maastricht definition)	330.5	373.5	499.2	580.1	667.7	741.9	819.8	903.5	990.0	1,073.2
MEMORANDUM ITEMS										
Fiscal balance (ESA 2010)	-27.9	-46.2	-97.6	...	...	...	...	...	...	...
Cyclically adjusted balance (percent of potential GDP)	-3.9	-5.9	-8.9	-6.7	-6.8	-5.2	-5.1	-5.1	-4.9	-4.5
Structural balance (percent of potential GDP)	-3.9	-5.5	-5.3	-7.6	-6.1	-5.1	-5.1	-5.1	-4.9	-4.5
Output gap (percent of potential GDP)	2.6	3.1	-2.3	-0.6	0.2	0.0	0.0	0.0	0.0	0.0
Total capital spending	32.8	45.1	53.9	56.0	69.1	72.2	84.4	101.3	101.1	94.8
Real revenue excl. grants (percent change)	9.4	6.0	-4.9	12.7	3.8	-0.9	4.7	5.5	4.6	4.1
Real expenditure excl. EU-related transfers (percent change)	10.7	11.5	10.4	2.2	3.0	-5.4	3.5	4.4	3.3	3.5
Nominal GDP	952	1,059	1,059	1,182	1,352	1,491	1,609	1,725	1,834	1,949
Real GDP (in billions of lei)	836	871	838	887	923	954	990	1,025	1,061	1,098

1/ Cash basis, GFSM 1986. The general government is composed of the central and local governments, the Social Security Fund, and the Road Fund Company.

2/ Excludes direct EU agricultural payments.

3/ Includes guarantees.

Table 5. Romania: Monetary Survey, 2015-22

(In millions of lei, unless otherwise indicated, end of period)

	2015	2016	2017	2018	2019	2020	2021 Prel.	2022 Proj.
				I. Banking System				
Net foreign assets	**108,650**	**144,983**	**158,989**	**166,578**	**181,847**	**236,505**	**240,561**	**270,345**
In millions of euros	24,014	31,927	34,120	35,716	38,049	48,570	48,617	54,615
o/w commercial banks	-9,799	-5,781	-1,691	-1,231	1,255	7,929	4,688	6,260
Net domestic assets	**177,605**	**169,151**	**191,123**	**214,498**	**240,781**	**250,945**	**323,863**	**379,306**
General government credit, net	46,676	36,415	46,132	56,699	81,666	89,139	120,803	131,619
Private sector credit	217,399	220,101	232,603	251,100	267,574	282,370	324,228	379,856
Other	-86,470	-87,365	-87,613	-93,302	-108,459	-120,564	-121,168	-132,168
Broad Money (M3)	**286,256**	**314,135**	**350,112**	**381,075**	**422,629**	**487,450**	**564,424**	**649,652**
Money market instruments	129	109	107	0	0	0	0	0
Intermediate money (M2)	286,126	314,026	350,005	381,075	422,629	487,450	564,424	649,652
Narrow money (M1)	149,550	179,980	210,636	235,126	276,936	337,559	406,774	432,747
Currency in circulation	46,482	54,672	63,273	67,704	74,122	88,163	96,101	102,237
Overnight deposits	103,069	125,308	147,364	167,422	202,813	249,396	310,673	330,510
				II. National Bank of Romania				
Net foreign assets	**152,988**	**171,235**	**166,868**	**172,318**	**175,849**	**197,894**	**217,366**	**239,360**
In millions of euros	33,813	37,708	35,811	36,947	36,794	40,640	43,929	48,355
Net domestic assets	**-78,998**	**-85,769**	**-69,018**	**-71,968**	**-67,600**	**-98,142**	**-74,101**	**-86,947**
General government credit, net	-37,675	-47,449	-41,079	-37,424	-23,101	-88,593	-32,194	-28,194
Credit to banks, net	-27,465	-22,897	-13,396	-17,746	-21,037	-5,189	-15,528	-15,528
Other	-13,857	-15,423	-14,543	-16,798	-23,463	-4,360	-26,380	-43,225
Reserve money	**73,990**	**85,466**	**97,850**	**100,350**	**108,249**	**99,752**	**143,265**	**152,413**
				(Annual percent change)				
Broad money (M3)	9.3	9.7	11.5	8.8	10.9	15.3	15.8	15.1
NFA contribution	5.5	12.7	4.5	2.2	4.0	12.9	0.8	5.3
NDA contribution	3.8	-3.0	7.0	6.7	6.9	2.4	15.0	9.8
Reserve money	8.2	15.5	14.5	2.6	7.9	-7.8	43.6	6.4
NFA contribution	8.7	24.7	-5.1	5.6	3.5	20.4	19.5	15.4
NDA contribution	-0.4	-9.2	19.6	-3.0	4.4	-28.2	24.1	-9.0
Domestic credit, real	6.5	-2.3	5.2	6.9	9.1	4.2	10.7	2.0
Private sector, real	3.9	1.8	2.3	4.5	2.4	3.4	6.1	4.0
Public sector, real	20.2	-21.6	22.6	19.0	38.4	6.9	25.3	-3.3
Broad money (M3), in real terms	10.4	10.3	7.9	5.4	6.6	13.0	7.0	2.2
Private credit, nominal	3.0	1.2	5.7	8.0	6.6	5.5	14.8	17.2
Memorandum items:								
CPI inflation, eop	-0.9	-0.5	3.3	3.3	4.0	2.1	8.2	12.6
NBR inflation target band	1.5 - 3.5	1.5 - 3.5	1.5 - 3.5	1.5 - 3.5	1.5 - 3.5	1.5 - 3.5	1.5 - 3.5	1.5 - 3.5
Interest rates (percent), end of period								
Policy interest rate	1.75	1.75	1.75	2.50	2.50	1.50	1.75	…
Interbank offer rate, 1 week	0.6	0.6	1.5	2.4	2.9	1.8	2.4	…
Corporate loans 1/	4.4	3.7	4.9	5.8	5.8	4.7	4.6	…
Household time deposits, average 1/	1.5	0.9	0.8	1.8	2.0	1.5	1.4	…
Share of foreign currency private deposits	33.3	32.3	32.8	34.2	35.4	36.1	35.3	…
Share of foreign currency private loans	49.3	42.8	37.2	34.0	32.4	30.5	27.6	…

Sources: National Bank of Romania; and IMF staff estimates and projections.

1/ Rates for new local currency denominated transactions.

Table 6. Romania: Financial Soundness Indicators, 2013–21
(In percent)

	2013 Dec.	2014 Dec.	2015 Dec.	2016 Dec.	2017 Dec.	2018 Dec.	2019 Dec.	2020 Dec.	2021 Dec.
Core indicators									
Capital adequacy									
Capital to risk-weighted assets	15.5	17.6	19.2	19.7	20.0	20.7	22.0	25.1	23.3
Tier 1 capital to risk-weighted assets 1/	14.1	14.6	16.7	17.5	18.0	18.6	20.0	23.2	20.9
Asset quality									
Nonperforming loans to total gross loans 2/	21.9	20.7	13.5	9.6	6.4	5.0	4.4	3.8	3.4
IFRS Provisions for NPLs / NPLs		55.6	57.7	56.3	57.7	58.5	60.7	63.3	66.1
Earnings and profitability									
Return on assets	0.0	-1.3	1.2	1.1	1.3	1.6	1.3	1.0	1.4
Return on equity 3/	0.1	-12.5	11.8	10.4	12.5	14.6	12.2	8.7	13.3
Net interest income to operating income	58.8	58.6	58.5	56.3	58.8	65.4	66.4	68.0	65.9
Noninterest expense to operating income (cost to income)	56.5	55.5	58.4	53.0	55.1	53.2	54.3	53.9	53.9
Personnel expense to operating income	25.5	24.9	26.6	24.7	26.1	25.6	24.6	26.0	26.1
Liquidity									
Liquid assets 4/ to total assets	56.2	57.4	54.1	53.4	53.4	52.6	53.2	55.5	15.2
Liquid assets 4/ to short-term liabilities 5/	156.3	158.9	163.4	156.3	145.6	170.6	165.3	162.7	19.9
Foreign exchange risk									
Net open position in foreign exchange, in percent of capital	2.5	-2.0	0.7	0.5	0.8	0.7	0.9	0.8	4.5
Foreign-currency-denominated loans to total loans	60.9	56.2	49.3	42.8	37.2	34.0	32.4	30.5	27.6
Foreign currency liabilities, in percent of total liabilities	35.9	34.9	33.8	31.1	30.3	30.9	30.3	29.8	29.3
Encouraged indicators									
Deposit-taking institutions									
Leverage ratio 6/	7.9	7.4	8.2	8.9	8.9	9.3	10.2	10.3	8.6
Personnel expenses to noninterest expenses	44.9	45.0	46.1	46.6	47.4	48.2	45.2	48.3	48.4
Customer deposits to total (non-interbank) loans	98.7	109.5	115.6	124.6	130.0	131.3	137.4	143.1	147.8
Loan-to-Deposit (LTD) Ratio	104.6	91.3	85.4	79.1	74.7	73.6	71.0	65.9	68.8
Structural indicators (December 2018)									
Number of banks: 34; Number of foreign-owned subsidiaries/branches: 21/8;									

Source: National Bank of Romania.
1/ For 2010, market and operational risk are not used in compiling risk weighted assets.
2/ In December 2015, the NBR moved from a national definition to an EBA methodology-based definition of NPL's.
3/ Return on equity is calculated as net profit/loss to average own capital.
4/ Liquid assets = balance sheet assets and off balance sheets items with residual maturity of up to 3 months.
5/ Short term liabilities = balance sheet liabilities and off balance sheet items with residual maturity of up to 3 months.
6/ Tier 1 capital to average assets.

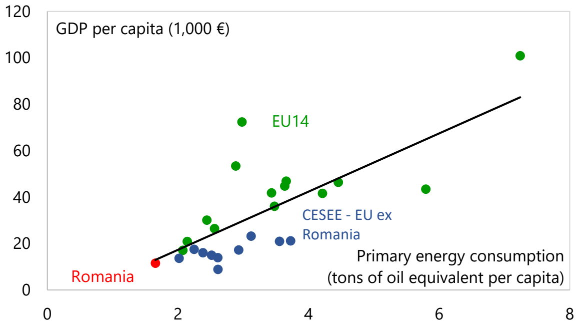
Annex I. Climate Change

As a member of the European Union (EU), Romania has committed to achieve net zero greenhouse gas (GHG) emissions by 2050, and by 2030 a reduction compared to 1990 levels by 55 percent.

A. Background

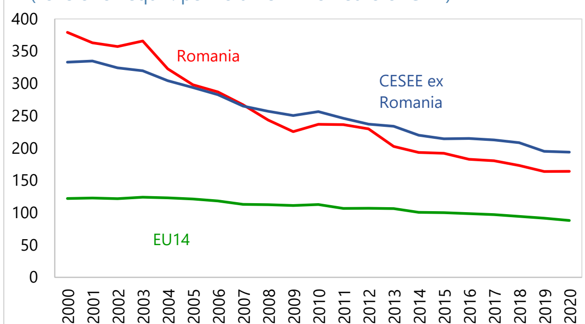
1. **Romania consumes less energy per capita than most EU member states,** broadly in line with its relatively low-income level. At the same time, energy efficiency has improved substantially—more so than in most EU member states, though Romania still lags behind EU14 peers.[1] The share of renewables has also increased, but progress has stalled in recent years. Combined with a significant contribution of nuclear power to electricity generation, this implies that GHG emissions are relatively low.

Figure 1. Primary Energy and GDP
(2019)



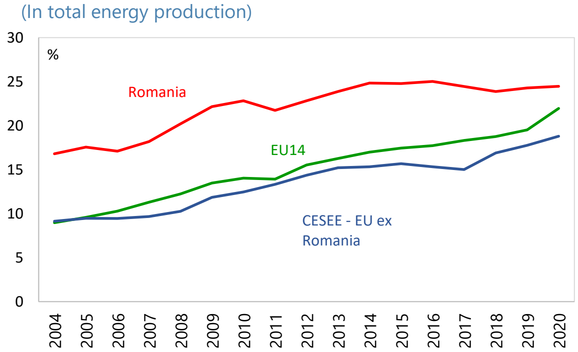
Sources: Eurostat; and IMF staff calculations.

Figure 2. Primary Energy Consumption
(Tons of oil equiv. per volume million euro of GDP)



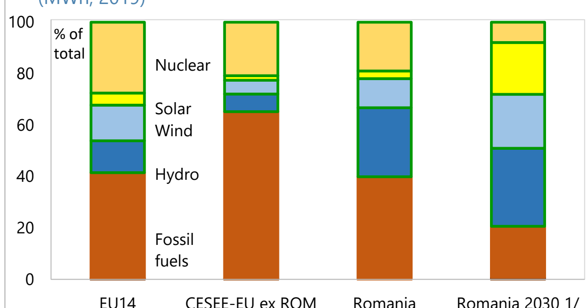
Sources: Eurostat; and IMF staff calculations.

Figure 3. Share of Renewables
(In total energy production)



Sources: Eurostat; and IMF staff calculations.

Figure 4. Electricity Production
(MWh, 2019)



Sources: Eurostat; and IMF staff calculations.

1/ Planned capacity in MW(NCEP). Does not include coal phase-out in 2032 planned in NRRP.

[1] This is likely related, at least in part, to nontradables, the euro value of which is lower than in more advanced economies due to the generally lower price and income levels in Romania.

B. Outlook

2. The key challenge is to continue to grow its per-capita output to converge toward Western European income levels, while at the same time reducing its GHG emissions. This is feasible, as some EU member states with lower GHG emissions but much higher incomes demonstrate.

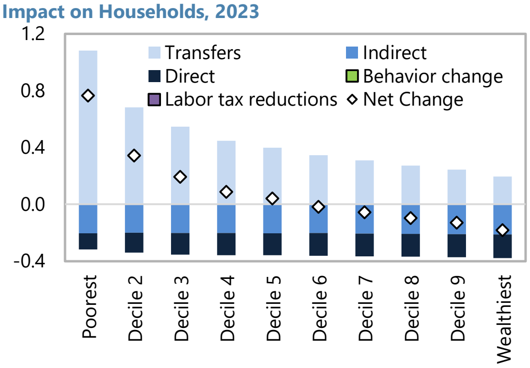
3. Romania's National Energy and Climate Plan (NECP) translates EU-wide into national targets. It is currently being updated. To reduce import dependency, it plans a significant expansion of power generating capacity (32 percent compared to 2020 levels), largely with renewables (and nuclear). Moreover, coal-fired power generation is to be reduced by about one-third and replaced by new gas-fired plants. Also, the efficiency of generation and transmission—already high—is projected to increase further, and various measures to reduce energy demand (e.g., support for building insulation) are also planned. At the same time, to combat energy poverty, heating subsidies for vulnerable households will be continued. The overall cost of implementing the plan is estimated at €150 billion over ten years (annually around 6¾ percent of 2019 GDP), to be financed through EU programs and revenues from the European emissions trading system.

4. The NRRP supplements and strengthens the NECP. Adopted in the context of the NextGenEU program, it commits to reaching 34 percent of renewables by 2030, in line with the EU target; phase out coal mining and coal-fired power generation by 2032; accelerate the decarbonization of the transport sectors; and develop a hydrogen strategy. To these ends, it allocates 41 percent of total NRRP spending, or €12 billion, toward Romania's green transition in the areas of rail and urban infrastructure, clean energy production, energy efficiency of buildings, and re- and afforestation. The EU's RePowerEU plan to wean the EU from Russian energy imports has raised EU-wide energy savings and renewable energy targets further, and could involve additional investments in network infrastructure.

5. Phasing out coal will be a challenge. Coal mining largely takes place in two regions (where also other carbon-intensive industries are located), implying that the social impact is geographically concentrated. At the same time, the phase-out will also allow full access to the EU's Just Transition fund to diversify the regions' economies and cushion the social impact.

6. Prices are not envisaged to play a significant role in guiding demand and supply. Outside the EU's emissions trading system, few price signals are planned at this stage to encourage switching to low- or no-emission fuels, apart from subsidies for electric cars and road pricing. In this regard, a bolder policy that taxes carbon emissions across the board and redistributes the proceeds evenly would alter relative prices for both consumers and producers, and leave lower income

Impact on Households, 2023



Note: Excludes impact from public investment/current spending and co-benefits.
Source: IMF staff calculations.

households (which tend to consume less energy than richer ones) better off.[2] In an illustrative scenario, a carbon tax of €10 per ton introduced in 2023 and rising to €40 per ton by 2030 that is evenly redistributed across the population would result in a net benefit for people in the lower half of the income distribution.

[2] In Romania, more than 20 percent of households are in the lowest consumption band for electricity, and almost one-quarter are in the lowest consumption band for gas, much higher percentages than in most other EU member states.

Annex II. Implementation of Past Article IV Recommendations

Key Recommendations (2021 Article IV)	Policy Actions
Fiscal	
Staff views the 2021 budget plans as broadly appropriate. Policy support should shift towards the most affected sectors. Generous fiscal resources are needed to ensure a speedy vaccine rollout. Although the broad-based fiscal support measures for incomes and businesses have successfully contained the aggregate economic fallout from the pandemic, the most severely hit sections of the economy continue to be disproportionately impacted. Accordingly, the pandemic support measures should be shifted towards the most affected sectors and disadvantaged groups. At the same time, if the recovery surprises on the upside, the authorities should save the windfall revenues.	The fiscal deficit in 2021 was contained at 6.9 percent of GDP, somewhat lower than the planned 7.2 percent. Nonetheless, higher-than-expected revenues were not saved (the lower deficit-to-GDP ratio came about through a higher GDP as inflation rose). The authorities have provided adequate means for vaccine rollout, but uptake has been hesitant, with only about 42 percent of the population vaccinated to date. New measures related to the pandemic have not been introduced, and most support measures have been allowed to lapse as planned.
As the recovery becomes entrenched, fiscal policy should increasingly prioritize rebuilding space for fiscal maneuver. The 2021 budget appropriately lays the foundation for fiscal consolidation, but significant additional medium-term consolidation efforts will be needed to reduce the deficit to the authorities' target of 3 percent of GDP. The revenue base should be broadened, and revenue administration strengthened to achieve a more equitable distribution of the tax burden and improve tax efficiency. Expenditures should be reprioritized by boosting public investment, while ensuring a sustainable medium-term trajectory for wage and pension spending.	The authorities' 2022 budget targets a deficit of 5.8 percent of GDP, in line with the agreement under the EU's Excessive Deficit Procedure (EDP), but relies heavily on administrative efforts. Through March 2023, the authorities are implementing targeted payments to vulnerable households and also price caps for electricity and gas for most users. The cost to the budget is expected to be broadly offset by windfall profit taxes on energy producers, and higher dividend payouts of SOEs. The authorities also approved a number of tax measures with a net full-year impact of -0.2 percent of GDP, and a subsidy for gasoline (-0.1 percent of GDP). Staff project the 2022 fiscal deficit at 6¾ percent of GDP. Staff's expectations of revenue administration gains are more conservative than the authorities'. Moreover, the amounts required to compensate energy suppliers for the price cap scheme is likely higher than envisaged by the authorities.
Monetary and Financial	
Maintaining the current policy rate remains appropriate given anchored inflation expectations within the target band, the negative output gap and muted wage growth projections, and pandemic-related uncertainties. On the other hand, in case of a scenario where inflation pressures are more persistent than currently expected, steps to limit monetary accommodation including strict liquidity management in preparation for rate hikes can be considered.	The EU-wide energy price surge that intensified in H2 2021 and Q1 2022 was reflected in headline inflation rising to 14.5 percent y/y in May 2022, well above the target band (1.5–3.5 percent). Core inflation rose more moderately, as high energy and transport costs have begun to feed through to other items. Two-year ahead inflation expectations have increased to 4½ percent. The NBR since October 2021 has raised the policy rate by a total of 350 bps, to 4.75 percent, and tightened liquidity management.

In the event of a significant deterioration in asset quality, the NBR should strike a balance between providing accommodation and ensuring prudent buffers.	Asset quality has remained much better than expected, with NPL ratios declining towards end 2021, and capital adequacy ratios remaining elevated despite the pandemic and loan-loss provisioning well above EU averages. The NBR allowed dividend payout restrictions to expire in September 2021 as staff had recommended. Private credit growth has remained strong, aided in part by government loan guarantee schemes. The National Committee on Macroprudential Oversight also announced increase of the countercyclical capital buffer by 0.5 percentage points, to become effective October 2022.
Structural Reforms	
Romania should take full advantage of the historic opportunity provided by the RRF grants and EU structural funds, with a total envelope of 20 percent of GDP over the next six years. Successful implementation of RRF reform commitments and investment projects would boost Romania's medium-term growth prospects. Through its focus on digitalization, the RRF should provide critical support for modernizing tax administration. It should also be used to jumpstart efforts to address climate change.	The authorities' NRRP has been approved by the European Commission, and the prefinancing payments have been disbursed. However, weaknesses in public investment management will make it challenging for the authorities to absorb the available funds in the timeframe envisaged. In response, a Public Investment Management Assessment was conducted in March 2022. A cabinet-level task force under the direct guidance of the prime minister had been formed to ensure timely meeting of NRRP milestones and execution of projects.
To continue raising incomes towards average EU levels, the authorities should reenergize efforts to overcome subpar governance and government effectiveness. SOE reforms, starting with the strengthening of corporate governance, would help to address these challenges. Governance improvements are integral to reforms of revenue administration. Governance gains are also paramount to improving and speeding up public investment. Strengthening of the anticorruption framework and ensuring robust implementation (including of the AML/CFT framework) are essential.	The government in early 2021 pledged to strengthen the governance of state-owned enterprises and introduced tighter monitoring criteria for SOEs. However, with the subsequent change in government reforms in this area have stalled.

Annex III. Risk Assessment Matrix[1]

Risk	Relative Likelihood and Transmission Channels	Expected Impact if risk Realized	Policy Response
Global Risks			
1. **Russia's invasion of Ukraine leads to escalation of sanctions and other disruptions** (conjunctural)	**High** Sanctions on Russia are broadened to include oil, gas, and food sectors. Russia is disconnected almost completely from the global financial system and large parts of the trading system. This, combined with Russian countersanctions and secondary sanctions on countries and companies that continue business with Russia, leads to even higher commodity prices, refugee migration, tighter financial conditions, and other adverse spillovers, which particularly affect LICs and commodity-importing EMs.	**High** Negative global spillover through energy prices, trade, capital flows and confidence effects on financial markets and investment. Economic growth slows markedly, even considering that Romania is less directly exposed to Russia and Ukraine due to being largely self-sufficient in energy as well as a large grain producer. Higher inflation as Romania energy prices are linked to EU wholesale prices. Slowing activity resulting in weaker fiscal revenues and increase in borrowing costs from risk premiums as a neighbor to the war.	Temporarily loosen the fiscal stance to accommodate additional spending needs in a targeted way, financed where possible with EU support. Extend support to the most vulnerable from increased food and energy prices, while avoiding overly costly and broad-based price support schemes. At the same time, prepare and communicate/enact future consolidation measures. Continue steady monetary policy hiking cycle to anchor inflation expectations. Advance structural reform agenda to facilitate reallocation of resources.
2. **Outbreaks of lethal and highly contagious Covid-19 variants** (conjunctural)	**High** Rapidly increasing hospitalizations and deaths, due to low vaccination rates or caused by vaccine-resistant variants, forced lockdowns and increased uncertainty about the course of the pandemic.	**Medium** Economic activity is disrupted, accompanied by higher unemployment. Negative global spillover through trade, capital flows and confidence effects on financial markets and investment. Slowing activity resulting in weaker fiscal revenues and increase in borrowing costs.	Prioritize public health responses to curb the disease, including raising the vaccination/booster rate. Allow fiscal automatic stabilizers to operate. Use fiscal space to provide targeted support. Advance structural reform agenda to facilitate reallocation of resources.
3. **Rising and volatile food and energy prices** (conjunctural)	**High** Commodity prices are volatile and trend up amid supply constraints, war in Ukraine, export restrictions, and currency depreciations. This leads to short-run disruptions in the green	**Medium** A sharp rise in commodity prices would transmit to consumer prices, reducing real disposable income of households and weighing on consumption. Higher energy prices would also depress	Provide targeted, timely, and temporary transfers to vulnerable households and viable firms to cushion the impact of commodity price spikes. Encourage investment in energy production and

[1] The Risk Assessment Matrix shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

	transition, bouts of price and real sector volatility, food insecurity, social unrest, and acute food and energy crises (especially in EMDEs with lack of fiscal space).	firms' profit margins and deter investment, and increase fiscal costs of energy support schemes.	supply source diversification. Incentivize domestic food production and processing, given Romania's agricultural endowments.
4. **De-anchoring of inflation expectations in the U.S. and/or advanced European economies.** (conjunctural)	**Medium/Low** Worsening supply-demand imbalances, higher commodity prices (in part due to war in Ukraine), and higher nominal wage growth lead to persistently higher inflation and/or inflation expectations, prompting central banks to tighten policies faster than anticipated. The resulting sharp tightening of global financial conditions and spiking risk premia lead to lower global demand, currency depreciations, asset market selloffs, bankruptcies, sovereign defaults, and contagion across EMDEs.	**Medium** Increase in borrowing costs. Risk of exchange rate overshooting and financial instability, albeit part mitigated by relatively low share of nonresident portfolio holdings of Romanian government bonds. NPLs could rise due to weakened repayment capacity of borrowers of lei and FX loans.	Tighten monetary settings, including continuing the rate hiking cycle to anchor expectations, and allow greater exchange rate flexibility. Utilize some of fiscal liquidity buffer for financing, on a temporary basis, until markets settle down.
Domestic Risks			
5. **Political constraints within the ruling coalition hamper implementation of reform plans** (conjunctural)	**Medium** Fiscal reforms and consolidation trajectory is disrupted, with reemergence of populist initiatives. Associated worsening of market sentiment and fiscal financing turns challenging, with absorption of EU funds including under the RRF underperforming. Risk of credit rating downgrade on fiscal and debt trajectory.	**Medium** Persistence of deficits lead to increased financing constraints. Possible feedback loops through banks, given debt exposures (sovereign-bank nexus).	Design a package of policies to mitigate political pushback against prudent reforms: Combine measures to address inequality (deepen education and health reforms, higher taxation of richer segments of the population) with government spending restraint (wages and pensions) and provision of public investment and structural reforms to raise growth; and provide compensation to more affected groups and sectors, as well as support programs to facilitate transition and smooth reallocation of resources.

Annex IV. External Sector Assessment

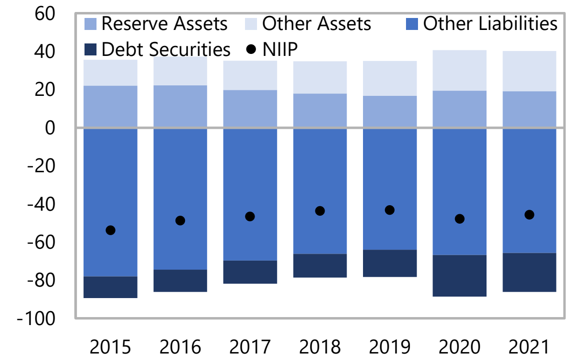
Overall Assessment: *The external position of Romania in 2021 was substantially weaker than the level implied by fundamentals and desirable policies. The current account deficit widened to 7 percent of GDP in 2021 and is projected to expand further in 2022, suggesting continued external imbalances and exchange rate overvaluation. Staff assesses the current account gap to be around -4.7 percent of GDP, implying a REER overvaluation of 13 percent, although the magnitude of this imbalance is subject to considerable uncertainty given the large residual and possibly temporary factors related to the COVID-19 pandemic. Reserves increased further in 2021 and are assessed to be adequate according to most metrics.*

Potential Policy Responses: *The authorities need to make a credible medium-term commitment to fiscal consolidation once the current crisis has passed and boost the country's capacity to absorb EU funds. Romania should also consider greater currency flexibility as part of the policy mix, both to address a persistent currency overvaluation and to maintain reserve coverage. Structural reforms to boost productivity and competitiveness, while conserving adequate fiscal space for further investments in infrastructure and human capital, are also necessary.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Romania's net international investment position (NIIP) improved slightly in 2021 to -45.6 percent of GDP on a strong growth rebound. The increase in nominal liabilities was driven mostly by a strong increase in inward direct investment, while external assets grew on a moderate accumulation in direct and portfolio investment and reserve assets. FDI accounts for over half of Romania's external liabilities (52 percent), while debt securities account for 24 percent. Reserves make up almost half of external assets, with other investment and FDI accounting for most of the rest. The NIIP is projected to decline again in 2022 as a share of GDP on a slowdown in growth and increased inflows of direct and foreign investment.

International Investment Position
(Percent of GDP)



Sources: Haver; and IMF staff calculations.

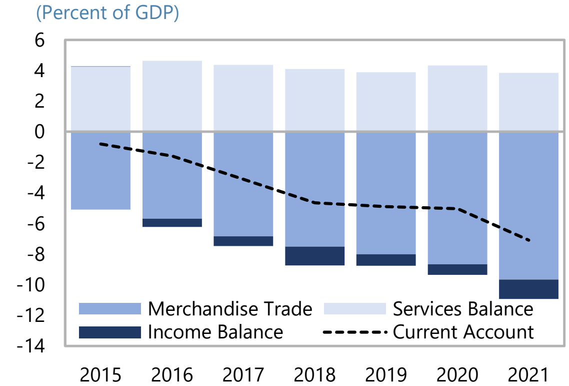
Assessment. The external balance sheet does not appear to be a major source of risk for Romania's external sustainability. External liabilities are concentrated in direct and other investment, and only a relatively small share in debt securities. While roll-over risks are contained, Romania remains vulnerable to a tightening in global financial conditions as gross market borrowing needs—while declining in terms of GDP—remain elevated, with the NIIP declining further to -53 percent of GDP by 2027.

2021 (% GDP)	NIIP: -46	Gross Assets: 40	Debt Assets: 2	Gross Liab.: 86	Debt Liab.: 26

Current Account

Background. Romania's current account (CA) deficit grew to 7 percent of GDP in 2021, continuing a persistent widening of the external deficit seen over the past several years. An increase in the goods deficit accounted for two-thirds of this deterioration, as a surge in imports more than offset 20 percent growth in exports in the pandemic recovery. The services and income balances also declined, continuing recent trends. The current account deficit is projected to widen further in 2022 due to the shock triggered by the war in Ukraine before improving gradually in the medium term on a recovery in the services balance and slower growth in imports.

Current Account Balance
(Percent of GDP)



Sources: Haver; and IMF staff calculations.

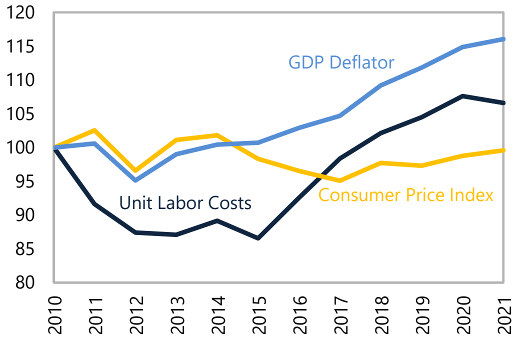
2021 EBA Model Estimate	
CA-Actual	**-7.0**
Cyclically adjusted	-6.7
Adjusted CA norm	-1.9
CA Gap	**-4.7**
Relative policy gap	0.2
Residual	**-4.9**
Elasticity	0.36
REER Gap (%)	**13.1**

Assessment. Romania has been added in 2022 for the first time to the standard External Balance Model covering the year 2021, replacing the previous EBA-Lite coverage. The EBA CA model estimated norm is -1.9 percent of GDP after cyclical adjustments. The actual CA deficit in 2021 was 6.7 percent of GDP after cyclical adjustments, including COVID-related effects, implying a CA gap of -4.7 percent of GDP. This suggests that Romania's external position at end-2021 was substantially weaker than implied by medium-term fundamentals and desirable policy settings. However, the residual is very large at -4.9 percent of GDP, implying a high degree of uncertainty about the drivers of Romania's current account and the extent of its misalignment with fundamentals. Recent one-off shocks and the range around the norm further increase the uncertainty around this assessment. Furthermore, the increasing inflow of EU grants through the capital account will augment the current account deficit without entailing new liabilities but is not incorporated in the CA norm. The External Sustainability (ES) approach of the EBA finds a somewhat smaller CA gap of -3.4 percent of GDP.

Real Exchange Rate

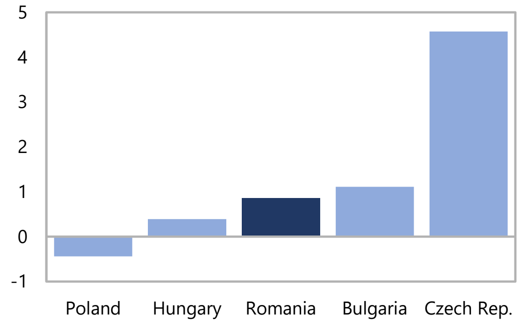
Background. The real exchange rate was little changed in 2021. The CPI-based real effective exchange rate appreciated by 0.9 percent, the GDP deflator-based measure appreciated by 1 percent, while the unit labor costs measure fell by 0.9 percent. The Leu-euro exchange rate has been relatively stable over the past several years, even as the volatility of the real effective exchange rate in 2021 was similar to most comparable countries.

Real Effective Exchange Rate
(Index 2010=100)



Sources: Eurostat, IMF Staff Calculations.

Real Effective Exchange Rate
(Percent Change 2020-2021)



Sources: IMF Information Notice System (INS); and IMF staff calculations.

Assessment. The EBA CA model based implies a REER overvaluation of about 13 percent in 2021 (applying an estimated elasticity of 0.36). This is similar to previous assessments, which used the EBA-Lite Index of Real Effective Exchange Rate (IREER) model. The EBA REER index (1.3 percent) and level (-29.7 percent) methodologies are subject to measurement uncertainty, are driven by large residuals, and do not appear to capture Romania-specific factors well. Accordingly, staff assesses the REER to be overvalued by 13 percent.

Capital and Financial Accounts: Flows and Policy Measures

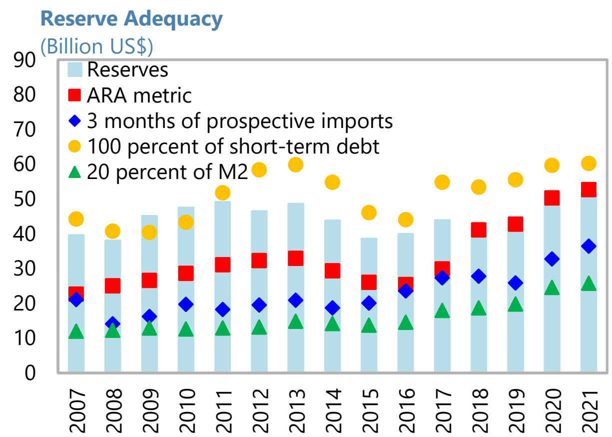
Background. Based on preliminary data, the capital account recorded inflows of 2.2 percent of GDP, the largest inflows as a share of GDP since 2016, primarily reflecting an increase in EU grants. Net FDI inflows surged in 2021 as part of strong pandemic recovery after a sharp fall in 2020, reaching 3 percent of GDP—the largest inflows since 2009. By contrast, portfolio inflows fell to 1.2 percent of GDP in 2021 from 6.3 percent of GDP in 2020, as continued strength in sovereign bond issuance was offset by falls in private sector debt and some external assets accumulation. There are no restrictions on the capital and financial accounts.

Assessment. Capital account inflows are expected to continue to increase as EU funded projects ramp up, including through sizable resources under the Next Generation EU (NGEU) which has a total envelope of 9 percent of GDP over the next 6 years. There is also scope for higher absorption of large EU funds in the 2021-27 multi-annual EU budget for Romania. FDI inflows are expected to remain strong as pandemic-related uncertainty abates, but the war in Ukraine has added new uncertainty while medium-term prospects remain unclear (due to poor infrastructure, rising labor costs and remaining policy uncertainty). Portfolio investment flows into sovereign bonds may need continue to be sizeable given only gradual fiscal consolidation, but FDI inflows and generous EU funds are projected to finance most of Romania's current account deficit. Vulnerability to reversals is also moderated as non-resident local currency holdings of government bonds have declined over the past year to approach 15 percent of total stock of bonds (below the 20 percent historical average and also already much lower than in CEE peers).

FX Intervention and Reserves Level

Background. Romania's de facto exchange rate arrangement has been classified as crawl-like since August 2019. Reserves were steady in dollar terms after a sharp increase in 2020, reflecting in part the appreciation of the dollar in 2021. Overall, gross international reserves stood at 19.1 percent of GDP and could cover about 4.2 months of prospective imports or about 40 percent of M2 and 86 percent of short-term debt by residual maturity.

Assessment. Reserves are assessed to be adequate. Romania's reserve coverage to be around 98 percent of the Fund's reserve-adequacy metric for emerging markets with a de-facto 'fixed' exchange rate regime.[1] Reserve adequacy would be above 135 percent of the ARA metric if a floating exchange rate regime were assumed and are adequate by most other standard metrics.



Sources: World Economic Outlook; International Financial Statistics; and IMF staff calculations.

[1] Romania's exchange rate was re-classified retroactively as crawl-like from floating from July 2016, and as stabilized for a period before August 2019. As a result, Romania's reserve adequacy metric in recent years is based off that for a 'fixed' exchange rate regime

Annex V. Debt Sustainability Analysis

Romania's public debt has increased significantly, albeit from a low level, and is projected to rise further throughout the projection horizon absent fiscal further consolidation measures. Stress tests suggest that vulnerabilities largely stem from a growth and/or combined fiscal-macro shock. External debt is projected to remain stable, despite continued large current account deficits, as these are financed to a significant extent by capital transfers and direct investment flows.

Public Debt

Context: Following broadly stable public debt levels of around 36 percent of GDP through 2019, the sharp increase in fiscal deficits in the COVID crisis has led to an increase in public debt to 51 percent by 2021. Going forward, fiscal deficits are projected to remain high due to large past structural spending increases with no commensurate revenue measures, and public debt would continue to rise.

Baseline: Under the baseline, measures to support the economy as energy and food prices rise are forecast to broadly maintain the primary deficit at 5.2 percent of GDP in 2022 (from 5.4 percent in 2021), before a gradual decline to 2¾ percent of GDP by 2027 driven by the phase out of temporary support measures, progress in tax administration reform and some revenue measures and expenditure restraint. This is expected to lead to gross public debt (including guarantees) rising to 58 percent of GDP by 2027, accompanied by commensurate gross financing needs averaging 11¼ percent of GDP.

Risks: With 54 percent of public debt denominated in or linked to foreign currencies, financing is vulnerable to changes in market perceptions. However, a significant share of projected external debt accumulation is from official creditors through the NextGen EU program, mitigating these vulnerabilities.

Stress Tests: Shocks to the primary balance, real interest rates, or the real exchange rate would only lead to a marginally higher debt path. However, a real growth shock would drive up the debt-to-GDP ratio by 7 percentage points, to 65 percent of GDP, by 2027. A combined fiscal-macro shock would exacerbate the impact of the growth shock, and raise public debt by another 8 percentage points, to 73 percent of GDP.

External Debt

Context: External debt stayed broadly in the range of around 50 percent of GDP through 2019, but rose to a peak of 58 percent in 2020 in the context of the pandemic (as GDP shrank). Currently, external debt is at 56 percent of GDP, and the gross external financing requirement at 28 percent. Both are expected to stay close to these levels, respectively, throughout the projection horizon.

Baseline: In the baseline, the current account deficit is projected to decline only moderately, from 7 percent in 2021 to just under 6 percent in 2027, as fiscal deficits remain elevated. However, a significant share of the current account is financed by direct investment as well as capital transfers

from the EU. In addition, going forward, the loans under the EU's NextGen EU program provide financing at favorable conditions.

Stress tests: Most standardized shocks would lead only to marginal or modest increases in the debt-to-GDP ratio, to a maximum of 62 percent of GDP in a current account shock. Only a real depreciation shock of 30 percent would drive up the external debt-to-GDP ratio by about 30 percentage points, to 84 percent of GDP.

Figure 1. Romania: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP, unless otherwise indicated)

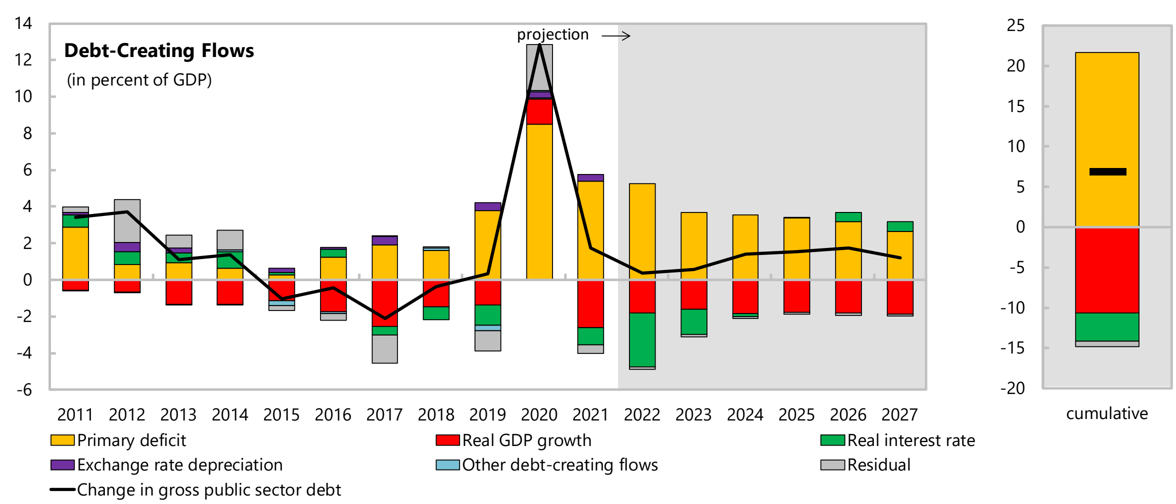
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2011-2019 [2/]	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	37.8	49.6	51.4	51.7	52.3	53.7	55.3	57.0	58.2
Of which: guarantees	2.2	3.2	2.8	2.5	2.2	2.1	1.9	1.8	1.7
Public gross financing needs	9.9	14.2	11.2	12.8	11.9	11.5	10.5	10.9	10.2
Real GDP growth (in percent)	3.9	-3.7	5.9	4.0	3.4	3.8	3.5	3.5	3.5
Inflation (GDP deflator, in percent)	4.0	3.9	5.4	10.0	6.6	4.0	3.6	2.7	2.7
Nominal GDP growth (in percent)	8.1	0.0	11.6	14.4	10.2	7.9	7.3	6.3	6.3
Effective interest rate (in percent) [4/]	4.5	3.9	3.7	3.8	3.9	3.8	3.8	3.8	3.8

As of June 21, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		312
5Y CDS (bp)		263
Ratings	Foreign	Local
Moody's	Baa3	Baa3
S&Ps	BBB-	BBB-
Fitch	BBB-	BBB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.7	12.8	1.7	0.4	0.6	1.4	1.5	1.7	1.2	6.8	
Identified debt-creating flows	0.5	10.3	2.2	0.5	0.7	1.5	1.6	1.9	1.3	7.6	
Primary deficit	1.6	8.5	5.4	5.2	3.7	3.5	3.4	3.2	2.7	21.7	-1.3
Primary (noninterest) revenue and grants	30.6	28.8	30.6	31.3	30.3	30.7	31.7	31.2	30.9	186.1	
Primary (noninterest) expenditure	32.2	37.3	36.0	36.6	34.0	34.2	35.0	34.4	33.5	207.8	
Automatic debt dynamics [5/]	-1.0	1.8	-3.2	-4.8	-3.0	-2.0	-1.7	-1.3	-1.3	-14.1	
Interest rate/growth differential [6/]	-1.2	1.4	-3.5	-4.8	-3.0	-2.0	-1.7	-1.3	-1.3	-14.1	
Of which: real interest rate	0.1	0.1	-0.9	-3.0	-1.4	-0.2	0.0	0.5	0.5	-3.4	
Of which: real GDP growth	-1.3	1.4	-2.6	-1.8	-1.6	-1.8	-1.8	-1.8	-1.9	-10.7	
Exchange rate depreciation [7/]	0.2	0.3	0.4	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.1	2.5	-0.5	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.7	



Source: IMF staff.

1/ Public sector is defined as general government and includes public guarantees .

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

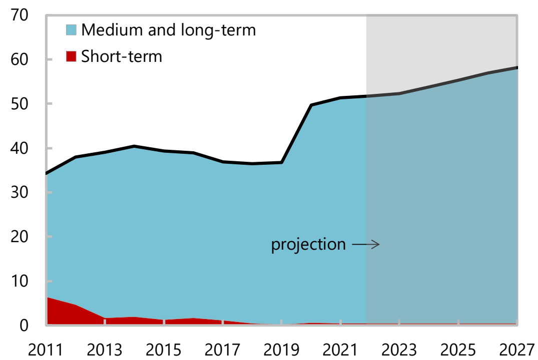
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

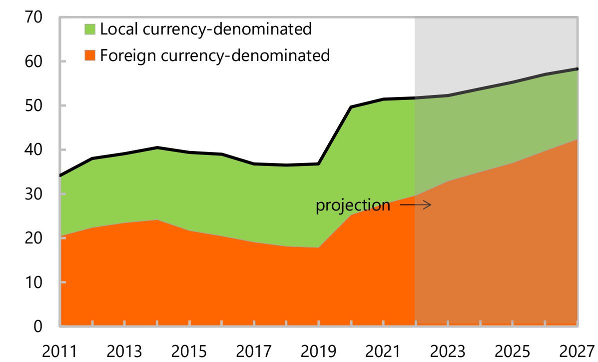
Figure 2. Romania: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



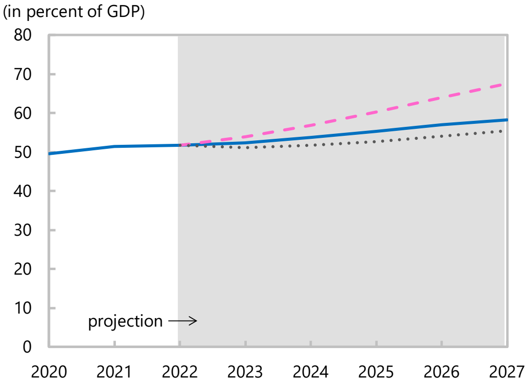
By Currency
(in percent of GDP)



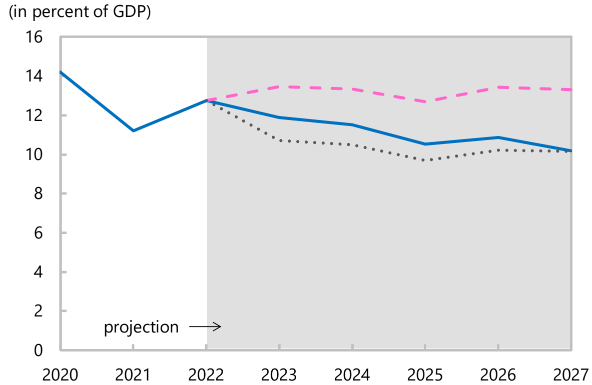
Alternative Scenarios

Baseline Historical Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



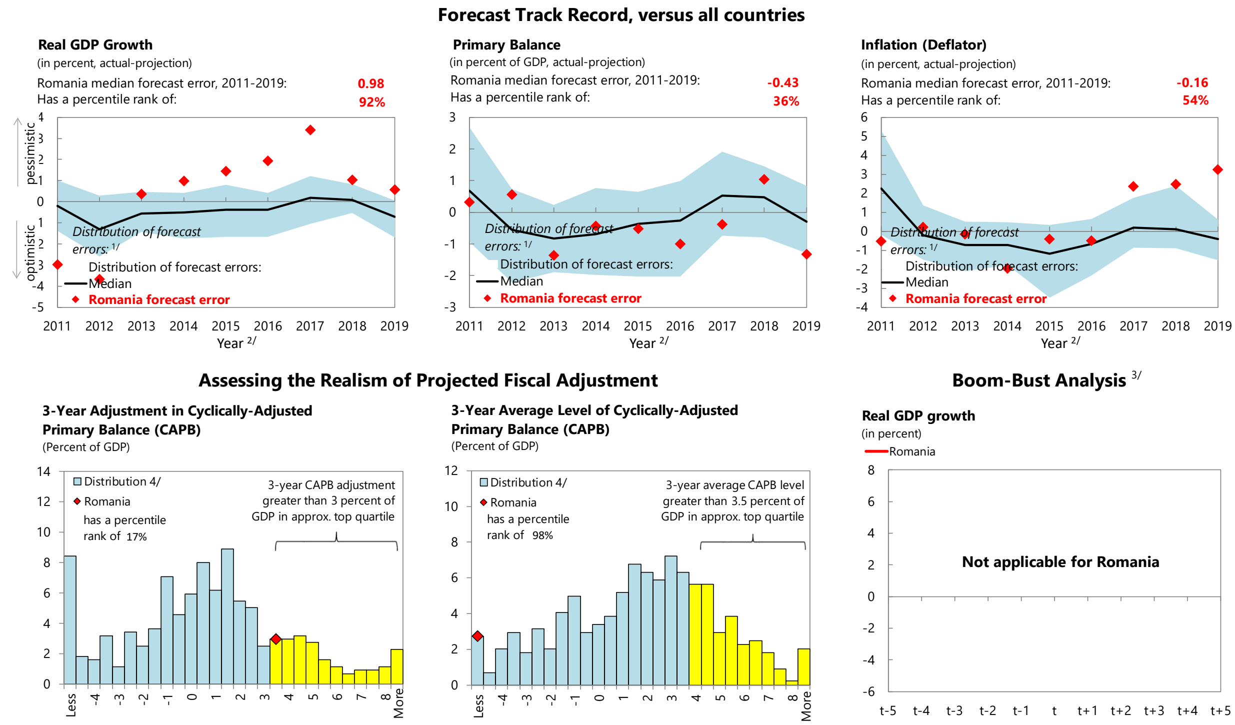
Underlying Assumptions
(in percent)

Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	4.0	3.4	3.8	3.5	3.5	3.5
Inflation	10.0	6.6	4.0	3.6	2.7	2.7
Primary Balance	-5.2	-3.7	-3.5	-3.4	-3.2	-2.7
Effective interest rate	3.8	3.9	3.8	3.8	3.8	3.8
Constant Primary Balance Scenario						
Real GDP growth	4.0	3.4	3.8	3.5	3.5	3.5
Inflation	10.0	6.6	4.0	3.6	2.7	2.7
Primary Balance	-5.2	-5.2	-5.2	-5.2	-5.2	-5.2
Effective interest rate	3.8	3.9	3.8	3.8	3.8	3.7

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	4.0	3.5	3.5	3.5	3.5	3.5
Inflation	10.0	6.6	4.0	3.6	2.7	2.7
Primary Balance	-5.2	-2.5	-2.5	-2.5	-2.5	-2.5
Effective interest rate	3.8	3.9	4.0	4.2	4.4	4.5

Source: IMF staff.

Figure 3. Romania: Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Romania, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Romania: Public DSA Risk Assessment

Heat Map

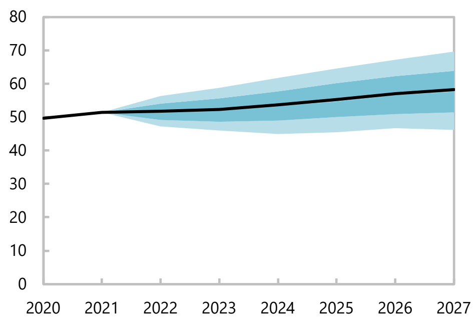
Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

Evolution of Predictive Densities of Gross Nominal Public Debt

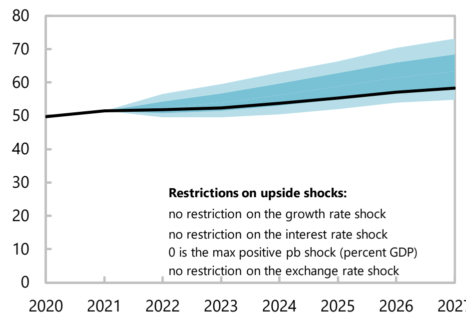
(in percent of GDP)

Baseline Percentiles: 10th-25th 25th-75th 75th-90th

Symmetric Distribution



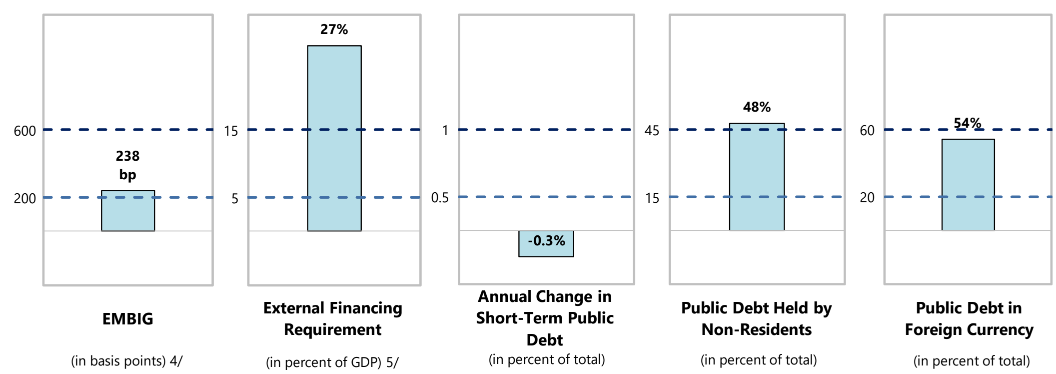
Restricted (Asymmetric) Distribution



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)

Romania Lower early warning Upper early warning



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

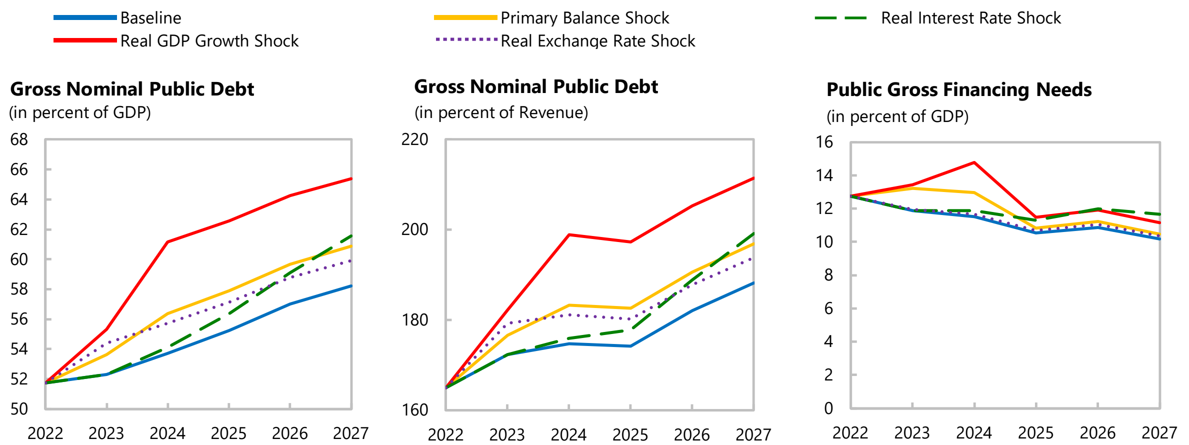
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 23-Mar-22 through 21-Jun-22.

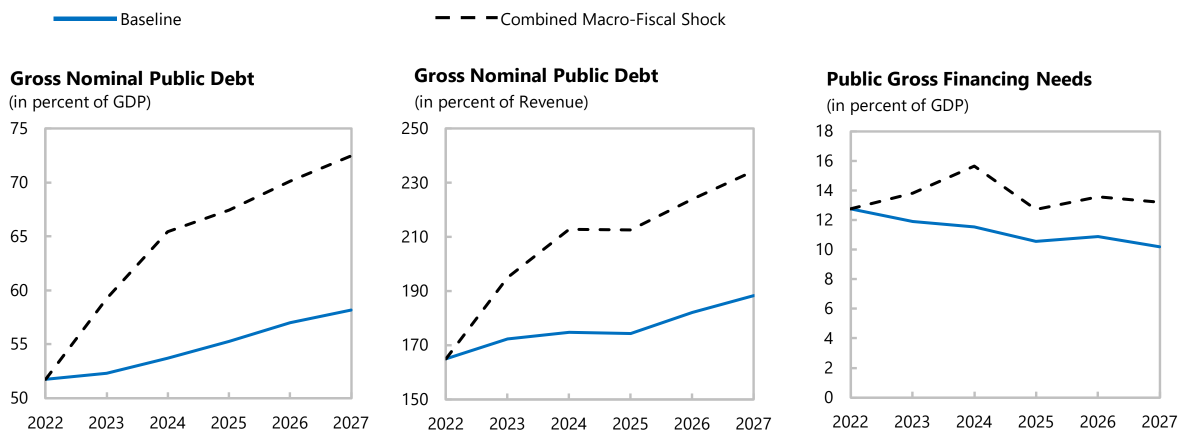
5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 5. Romania: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	4.0	3.4	3.8	3.5	3.5	3.5
Inflation	10.0	6.6	4.0	3.6	2.7	2.7
Primary balance	-5.2	-5.0	-4.9	-3.4	-3.2	-2.7
Effective interest rate	3.8	3.9	3.9	4.0	3.9	3.9
Real Interest Rate Shock						
Real GDP growth	4.0	3.4	3.8	3.5	3.5	3.5
Inflation	10.0	6.6	4.0	3.6	2.7	2.7
Primary balance	-5.2	-3.7	-3.5	-3.4	-3.2	-2.7
Effective interest rate	3.8	3.9	4.6	5.3	5.8	6.2
Combined Shock						
Real GDP growth	4.0	0.5	0.8	3.5	3.5	3.5
Inflation	10.0	5.9	3.3	3.6	2.7	2.7
Primary balance	-5.2	-5.0	-6.1	-3.4	-3.2	-2.7
Effective interest rate	3.8	4.1	4.6	5.3	5.8	6.1

Real GDP Growth Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	4.0	0.5	0.8	3.5	3.5	3.5
Inflation	10.0	5.9	3.3	3.6	2.7	2.7
Primary balance	-5.2	-4.9	-6.1	-3.4	-3.2	-2.7
Effective interest rate	3.8	3.9	3.9	4.0	4.0	3.9
Real Exchange Rate Shock						
Real GDP growth	4.0	3.4	3.8	3.5	3.5	3.5
Inflation	10.0	10.0	4.0	3.6	2.7	2.7
Primary balance	-5.2	-3.7	-3.5	-3.4	-3.2	-2.7
Effective interest rate	3.8	4.1	3.7	3.7	3.7	3.7

Source: IMF staff.

Table 1. Romania: External Debt Sustainability Framework, 2017-2027
(In percent of GDP, unless otherwise indicated)

	Actual					10-Year Historical Average	10-Year Standard Deviation	Projections						
	2017	2018	2019	2020	2021			2022	2023	2024	2025	2026	2027	Debt-stabilizing non-interest current account 6/
Baseline: External debt	51.9	48.8	49.2	57.9	55.9			**52.2**	**51.0**	**51.5**	**52.3**	**53.5**	**54.7**	**-4.5**
Change in external debt	-3.6	-3.1	0.4	8.7	-2.0			-3.6	-1.3	0.5	0.8	1.2	1.2	
Identified external debt-creating flows (4+8+9)	-4.0	-1.5	-0.4	4.5	0.1			3.8	3.7	3.0	2.5	2.0	1.8	
Current account deficit, excluding interest payments	1.9	3.6	3.8	4.0	6.1			6.6	6.3	5.8	5.4	5.0	4.8	
Deficit in balance of goods and services	2.5	3.4	4.1	4.3	5.7			5.9	6.0	5.4	5.0	4.4	4.1	
Exports	42.0	41.9	40.4	37.1	40.8			41.7	40.9	41.8	42.4	43.3	44.2	
Imports	44.5	45.3	44.5	41.5	46.5			47.6	46.9	47.2	47.3	47.7	48.3	
Net non-debt creating capital inflows (negative)	-1.9	-1.9	-1.2	-1.4	-1.8			-1.9	-2.1	-2.1	-2.3	-2.3	-2.3	
Automatic debt dynamics 1/	-4.1	-3.2	-3.0	2.0	-4.3			-0.9	-0.5	-0.8	-0.7	-0.7	-0.7	
Contribution from nominal interest rate	1.2	1.1	1.1	1.0	0.9			1.0	1.1	1.0	1.0	1.0	1.0	
Contribution from real GDP growth	-3.7	-2.1	-1.9	1.9	-3.1			-2.0	-1.6	-1.8	-1.7	-1.7	-1.8	
Contribution from price and exchange rate changes 2/	-1.6	-2.1	-2.2	-0.9	-2.0			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	0.5	-1.6	0.8	4.2	-2.1			-7.4	-4.9	-2.4	-1.7	-0.8	-0.6	
External debt-to-exports ratio (in percent)	123.5	116.6	121.8	155.9	136.9			125.4	124.7	123.2	123.5	123.7	123.8	
Gross external financing need (in billions of US dollars) 4/	47.6	55.8	57.9	60.9	65.8			74.2	76.4	83.0	88.8	94.4	101.5	
in percent of GDP	25.4	27.3	25.9	27.8	27.4			27.2	25.4	25.6	25.5	25.5	25.8	
Scenario with key variables at their historical averages 5/								**52.2**	**48.8**	**46.7**	**45.2**	**44.3**	**43.7**	**-3.2**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	7.3	4.5	4.2	-3.7	5.9	3.5	2.9	4.0	3.4	3.8	3.5	3.5	3.5	
GDP deflator in US dollars (change in percent)	2.9	4.2	4.7	1.9	3.6	2.6	1.8	9.4	6.6	4.0	3.6	2.7	2.7	
Nominal external interest rate (in percent)	2.3	2.3	2.4	2.0	1.6	2.7	0.7	2.1	2.3	2.2	2.2	2.1	2.0	
Growth of exports (US dollar terms, in percent)	11.1	8.5	5.3	-9.8	20.6	7.5	8.1	16.0	8.2	10.4	8.6	8.6	8.5	
Growth of imports (US dollar terms, in percent)	14.7	10.8	7.3	-8.5	23.0	7.3	8.4	16.4	8.6	8.8	7.5	7.0	7.6	
Current account balance, excluding interest payments	-1.9	-3.6	-3.8	-4.0	-6.1	-1.7	2.8	-6.6	-6.3	-5.8	-5.4	-5.0	-4.8	
Net non-debt creating capital inflows	1.9	1.9	1.2	1.4	1.8	1.7	0.4	1.9	2.1	2.1	2.3	2.3	2.3	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

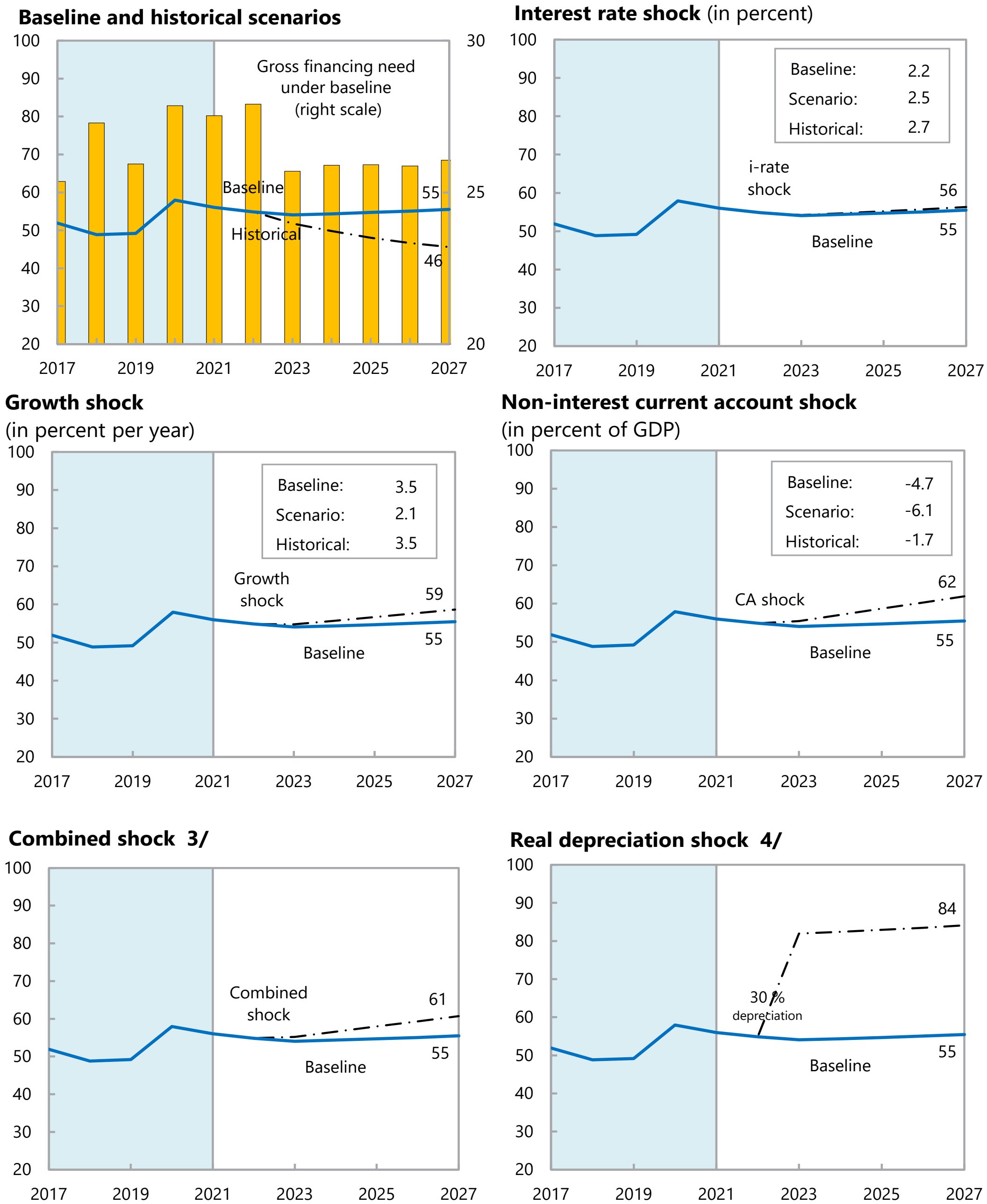
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 6. Romania: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2023.