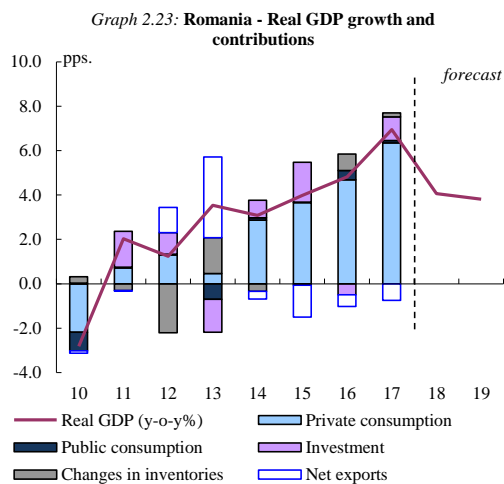


2.23. ROMANIA

The Romanian economic boom has started to wind down. After reaching a post-crisis peak of 6.9% in 2017, real GDP growth decelerated to 4.0% (y-o-y) in the first quarter of 2018. The main driver of the slowdown was a contraction in private consumption as inflation weighed more heavily on real disposable income. Export growth, in contrast, remained very robust in the first quarter of 2018 and outpaced the growth of imports.

Looking ahead, real GDP growth is forecast to decelerate to 4.1% in 2018 and 3.8% in 2019. The composition of growth is expected to become more balanced as private consumption growth tempers and investment strengthens on the back of a pick-up in the implementation of projects financed by EU funds.

Tight labour market conditions are expected to continue over the forecast horizon, with unemployment remaining close to its current very low level. Nominal wage growth is expected to continue in 2018, albeit at a slower pace, on the back of further increases in public wages and an additional 9% hike in the net minimum wage as of January 2018. Real wage growth, however, is expected to moderate significantly in 2018, due to the higher inflation.



After two consecutive years of falling consumer prices, inflation turned positive in 2017, despite VAT rate cuts and lower excise duties on fuel. Headline inflation started to accelerate in the second half of the year mainly on account of rising food and energy prices and further picked up in early 2018 as the effect of the January 2017 tax cuts faded away. Annual headline inflation stood at 4.6% in May this year. The reversal of the January excise duties cut in October 2017 will exert an additional pressure on inflation in the first three quarters of 2018. Thus, inflation is forecast to rise to 4.4% in 2018 and 3.4% in 2019. In response to the rising inflation, the National Bank of Romania has started to tighten its highly accommodative monetary policy. In 2018 so far the key monetary policy rate was raised by 0.75 pps. to 2.5%. These are the first rate hikes since 2008.