

## 2.26. ROMANIA

Following an annual growth of 4.1% in 2018, real GDP growth accelerated in the first quarter of 2019 to 5.1% year-on-year (1.3% quarter-on-quarter). Private consumption remained the main driver, increasing 7.0% year-on-year thanks to still double-digit wage growth. Investment picked up, thanks mainly to a recovery in construction, spurred by recent fiscal stimulus. Export growth, by contrast, weakened to 3.2% year-on-year, while import growth climbed to 9.3%.

The strong growth of real GDP in the first quarter led to an upward revision of growth for the whole year. Annual real GDP growth is forecast to mildly ease to 4% in 2019 and 3.7% in 2020. However, the composition of growth is expected to become somewhat more balanced as total investment strengthens with a pick-up in private investment.

Tight labour market conditions are expected to continue over the forecast horizon, with unemployment remaining close to its current, very low level. Wage growth is forecast to moderate to single digits in 2020, led by the expected slowdown in public wage growth.

In 2018, HICP inflation stood at 4.1%, the highest in the EU. Annual consumer price growth remained strong in the first quarter of 2019, at 3.8%, and is expected to exceed 4% in the second quarter, before decelerating again. Rising unprocessed and processed food prices explain the strong upward price dynamics boosted by a depreciation of the currency at the beginning of the year and strong consumption and wage growth. As a result, annual headline inflation is expected to average 4.2% in 2019, before decelerating to 3.7% in 2020. The deceleration in 2020 is expected to follow moderating wage pressures and softer domestic demand.

