ROMANIA : MACRO OUTLOOK

Romania's Macro Equation: Solving for Fiscal

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Spot Rates as of: June 16, 2025
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Romania’s Macro Equation: Solving for Fiscal

“In the midst of chaos, there is also opportunity.” — Sun Tzu. Romania stands at a pivotal juncture, confronting long-standing structural imbalances that have been masked for years by strong cyclical growth and inflows from abroad. The country’s economic engine remains vulnerable to inefficiencies in public spending, weak revenue collection, and chronic underinvestment in infrastructure and human capital. Recent political turmoil has tested institutional resilience, but also created a window for long-overdue fiscal reform. The challenge now lies in balancing consolidation efforts with the need to preserve growth momentum—especially as external risks mount. Slowing global trade, persistent inflation in core EU economies, and geopolitical uncertainty in the region all threaten to undermine Romania’s path forward. Successfully navigating this complex equation will require credible policymaking, political stability, and a clear commitment to long-term fiscal discipline.

Looking ahead, economic growth is expected to accelerate in 2025, but only if investment evolves as planned, supported by EU funds and, more specifically, RRF money. Consumption, which has been a key driver of expansion, is likely to slow down. Uncertainty remains elevated, stemming from both internal and external factors, including political developments, fiscal policy choices, and global economic conditions.

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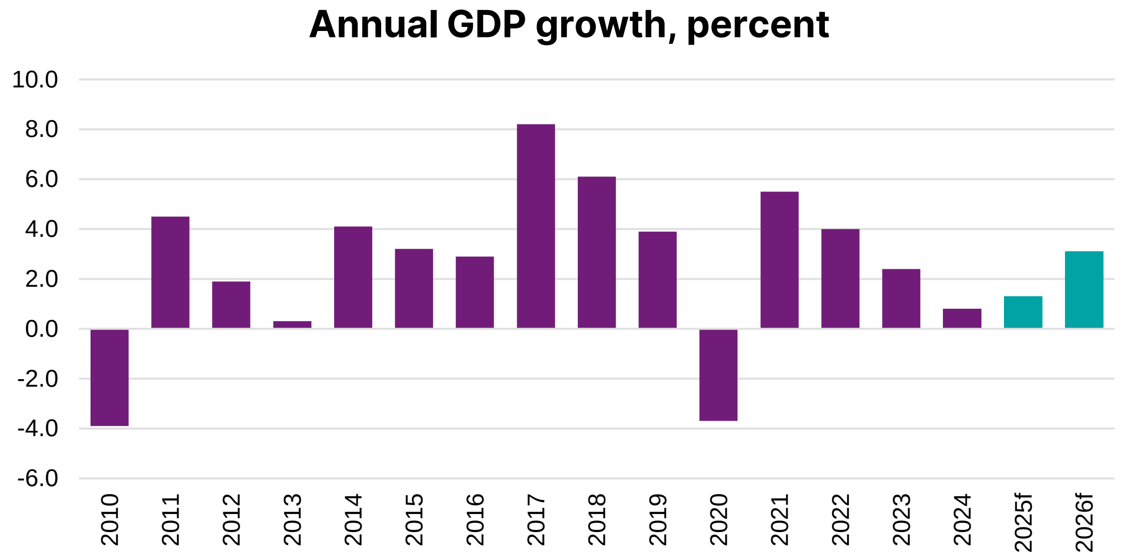
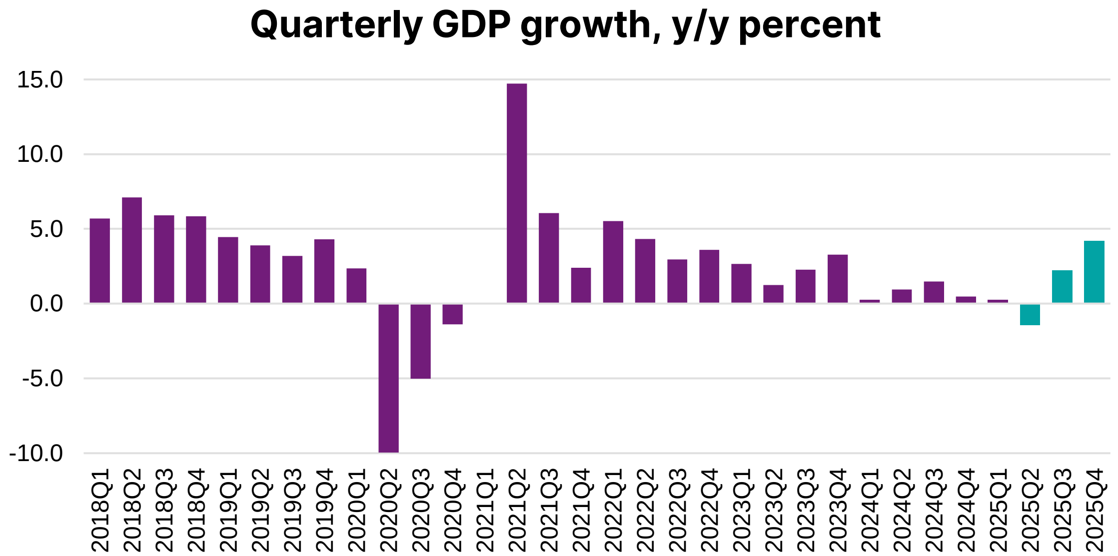
Inflation, though easing from its peak, remains sticky, complicating the central bank’s efforts to balance economic support with price stability. On this front, fiscal decision-making will also be crucial. The government will likely choose a mix between tax hikes and spending cuts to tame the budget deficit.

Romania stands at a crossroads where sound fiscal management is not just a policy choice, but a necessity for sustainable growth. With external pressures mounting and internal imbalances growing more visible, the time for half-measures has passed. Restoring credibility, rebuilding buffers, and realigning policy priorities will require resolve, coordination, and a long-term vision. In the broader European landscape, Romania must now choose whether to remain a passenger or take the wheel. In today’s volatile global economy, Romania is not a ship anchored in calm waters, but a mountain road winding through fog — its direction uncertain, but its ascent inevitable if steered with clarity and care.

Economic growth story

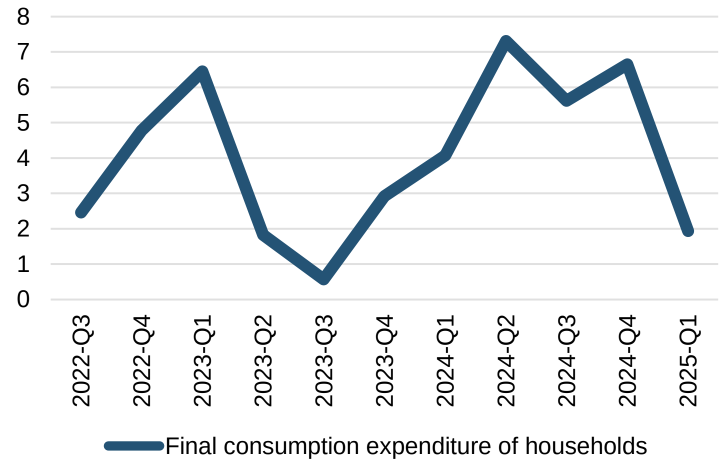




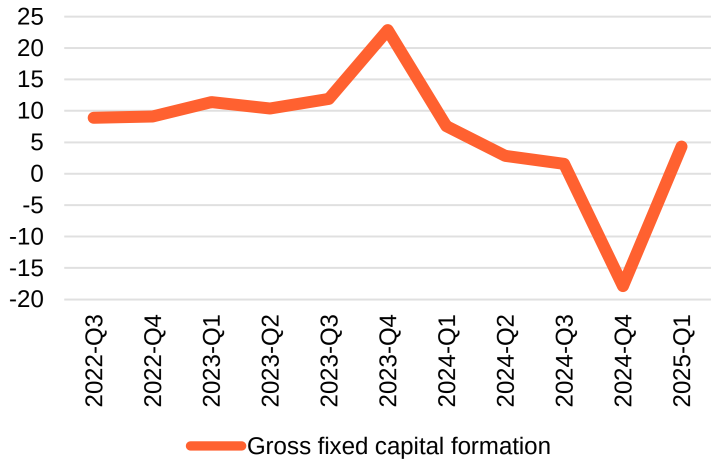
In 2024, economic growth decelerated to 0.8%, as strong consumption could not compensate for low investments and a large negative contribution from net exports. Data for the first quarter of 2025 shows some expected developments. Firstly, consumption is in visible deceleration, but remains the main growth driver. Investments regained their growth momentum, but fell short of our expectations. Inventories were also growth-supportive this quarter. The problem remains regarding net exports, which slashed away almost all of the positive influence stemming from those factors. Consumption is seen further decelerating in 2025, which in turn might soften the negative influence of net exports. Investments are the focus point this year. Depending on the evolution of this component, economic growth could slightly accelerate in 2025; we see it at 1.3%. EU fund absorption and fiscal consolidation plans will be crucial in this regard. Also, depending on the nature and size of the fiscal consolidation package, we could see lower than expected consumption growth this year, which poses a downside risk for our call. Considering the base effect and expected quarterly growth in the second quarter, economic growth this year is expected to be back-loaded with a stronger second half. Further acceleration is to be expected in 2026, also dependent on investments.

Economic growth structure

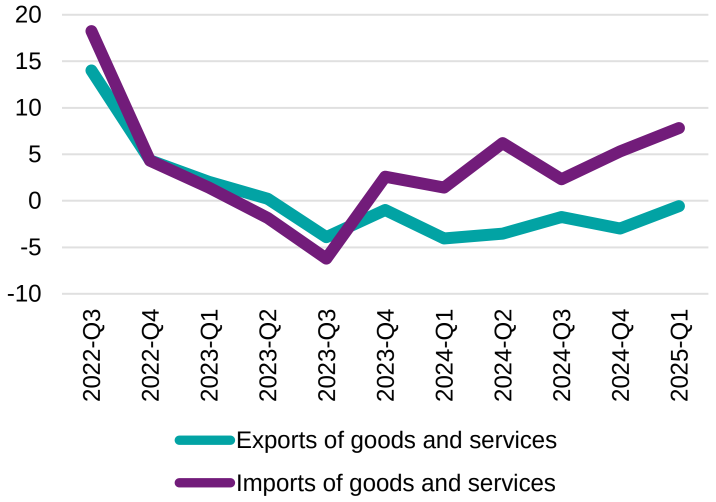
Final consumption expenditure of households growth, (%, y/y)



Gross fixed capital formation growth, (%, y/y)

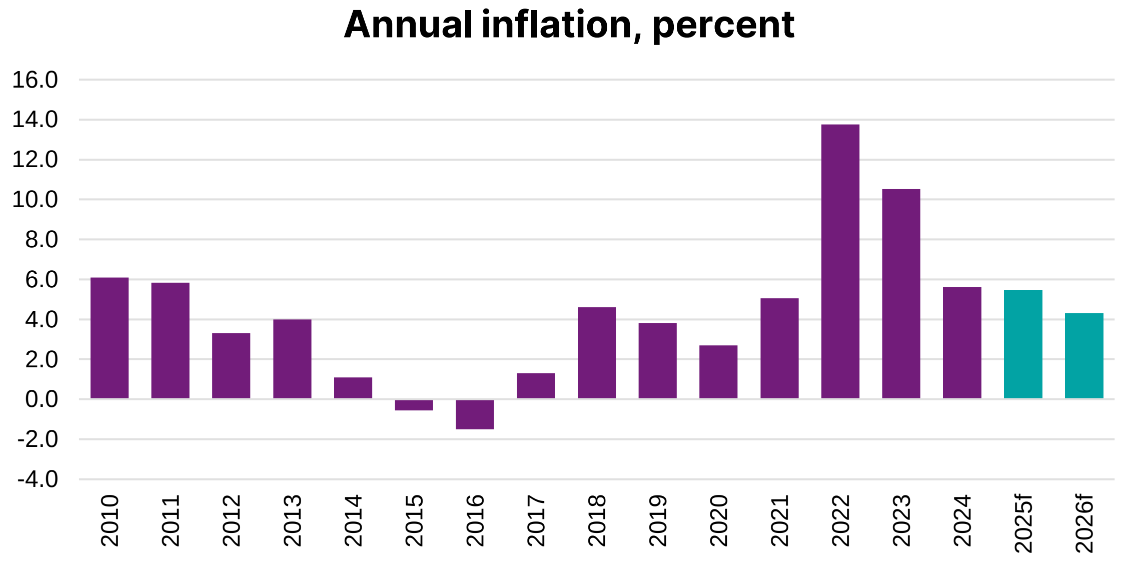


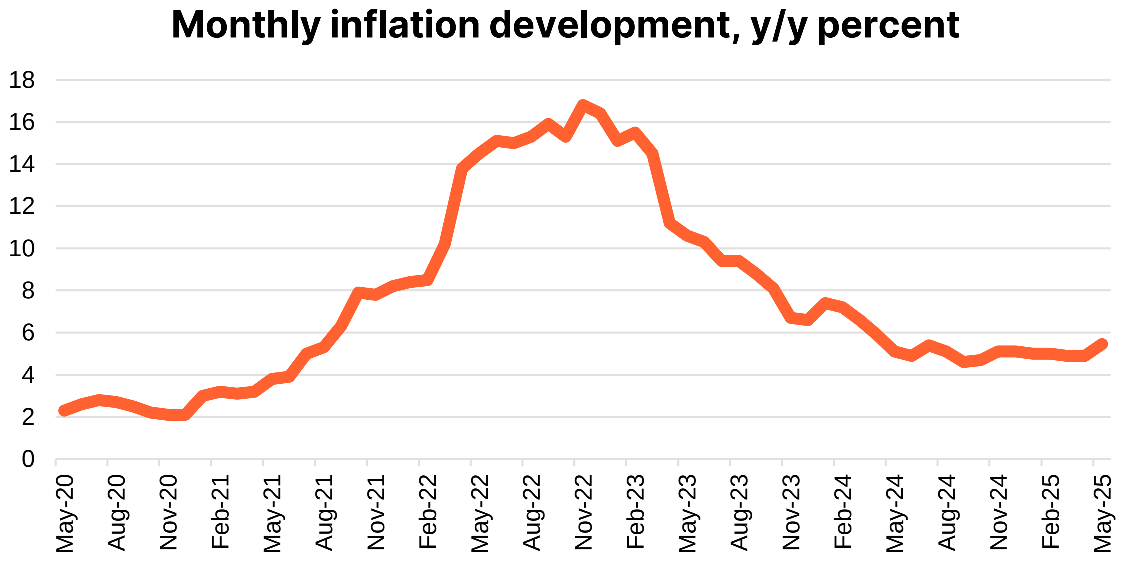
Exports and Imports growth, (%, y/y)



The publication of the structure of GDP growth in the first quarter brought no major data revisions. The economy stagnated in sequential terms in 1Q25 and advanced by only 0.3% in annual terms. On the demand side, consumption remains the main growth driver. Investments had an underwhelming but positive contribution, while inventories were growth-supportive this quarter. Almost all of the growth was offset by net exports. Private consumption added 1.8pp to the +0.3% y/y growth rate in 1Q25. Investments had a +0.9 contribution and public consumption added 0.7pp. Net exports took away 4.1pp of the annual growth rate, while inventories added 1.0pp. On the supply side, the structure remains weak. Agriculture had a neutral contribution to the +0.3% y/y growth in the first quarter of 2025. Industry took away 0.5pp, while construction added 0.4pp. Services were overall neutral, with most of the components having a close to zero contribution. Net taxes added 0.3pp.

Inflation development

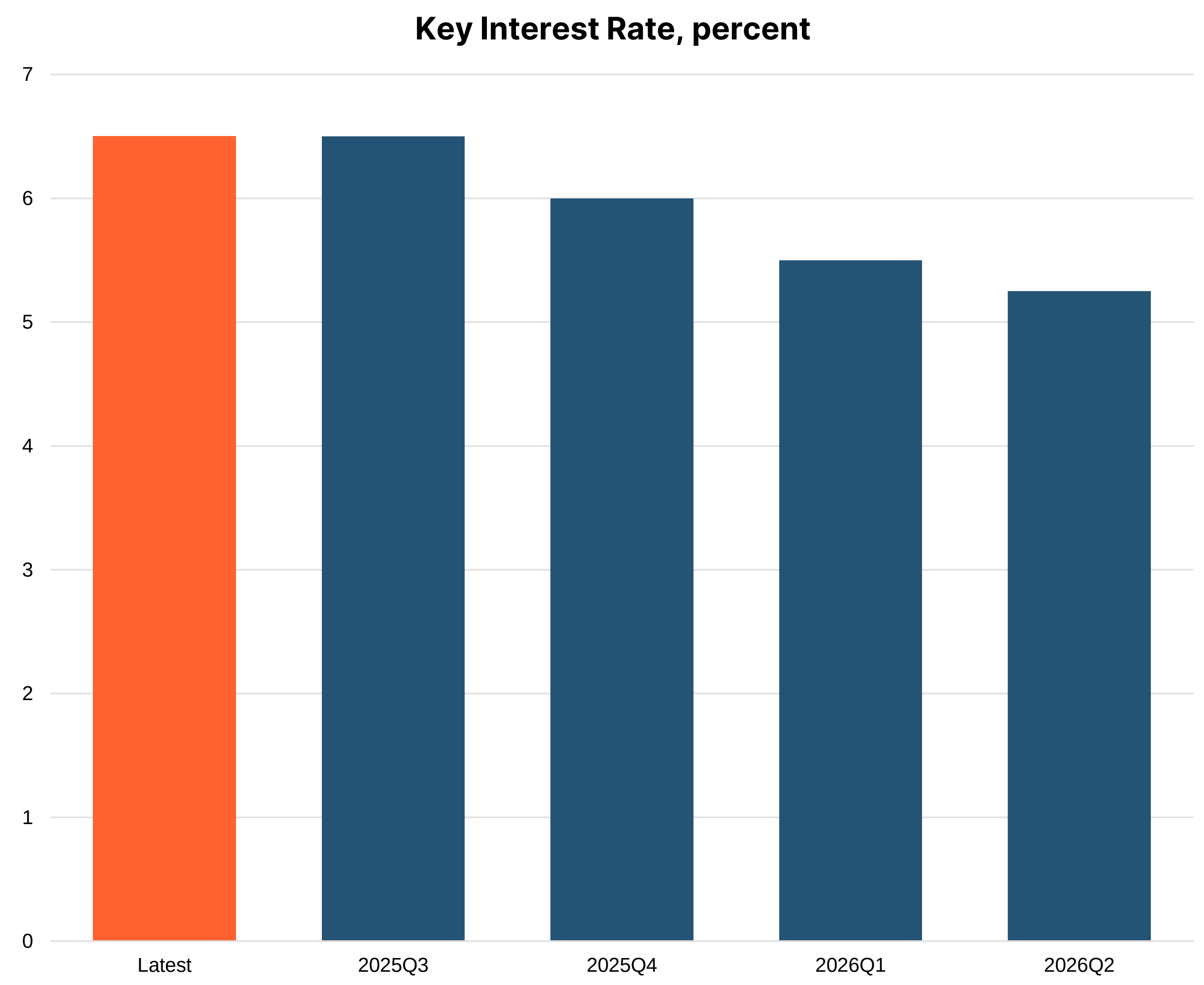




The annual inflation rate has proven to be quite persistent at the beginning of the year, with very little deceleration compared to the end of 2024. Lower fuel prices could not compensate for sticky services inflation and persistent upward pressure coming from food items. Core inflation also followed a relatively flat evolution, with a slight acceleration in recent months, showing that, even when accounting for volatile and administered prices, the inflation fight seems to be far from over in Romania. The weak base effect will likely prompt the headline rate to accelerate in the middle part of the year. Based on our current assessment, we see average CPI only marginally lower in 2025 vs. 2024. The price cap on electricity prices is due to expire in July, with no compensation measures in sight that could influence the CPI. Our current assumption is for a 30% electricity price increase in July, which could be a rather moderate increase, given market prices currently. With this figure, we see end-2025 CPI at 5.6% y/y. We see core inflation at 5.0% y/y at the end of 2025. The price cap on basic food item markups is also due to expire in July and some upside surprise could also come from this. In our current baseline, we assume only a marginal price increase, given that, during summer, the prices of those items tend to go down. We continue to see end-2026 inflation at 3.4% y/y.

Source: Eurostat, Refinitiv, Erste Group Research

Monetary policy



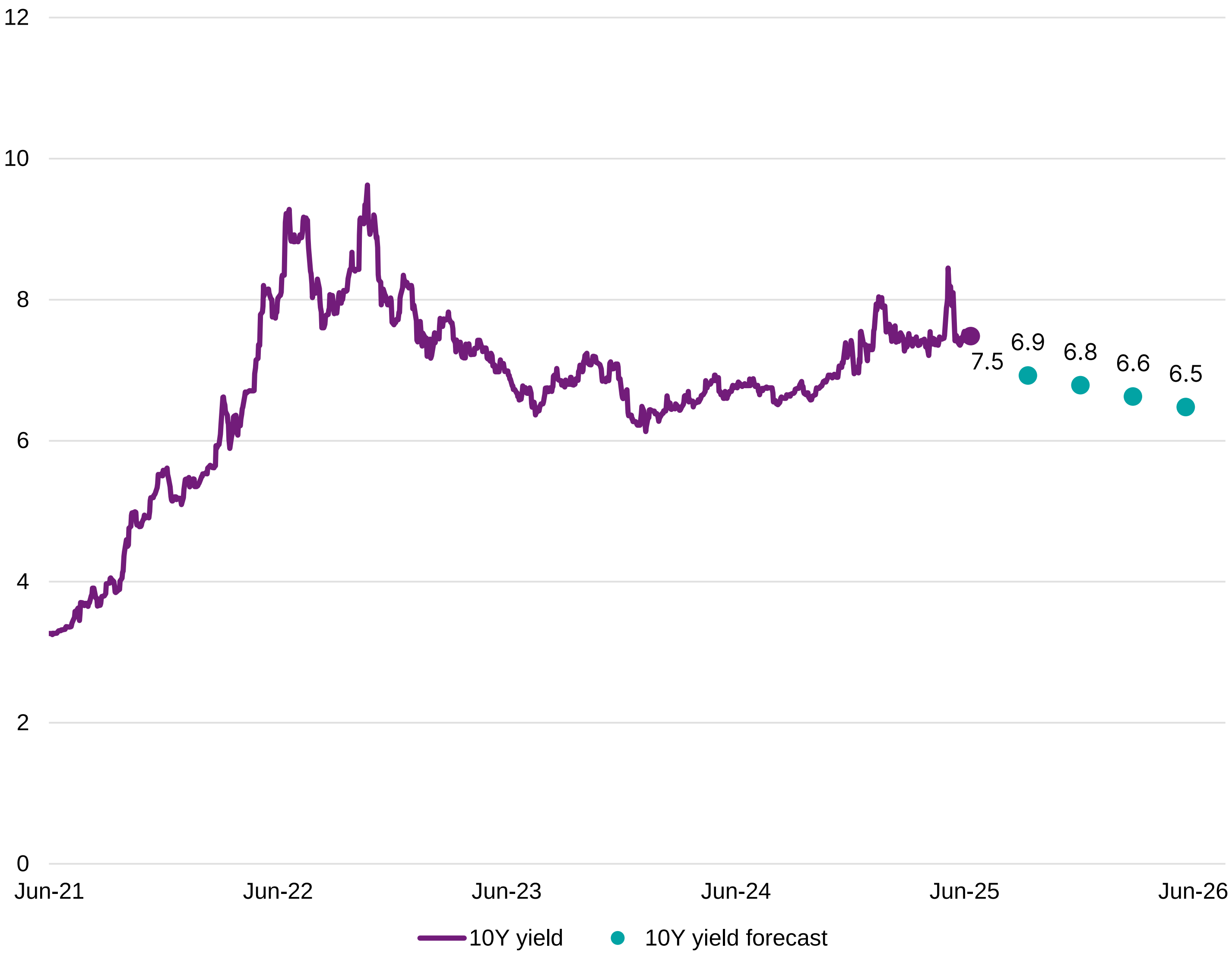
The NBR delivered two 25bp cuts in summer last year, but opted for hold decisions at subsequent meetings in 2024. The inflationary risks and political noise most likely were behind the NBR's cautious approach. The key rate is currently at 6.50% and we expect the next rate cut of 25bp at the October meeting; we see the end-2025 key rate at 6.00%. The inflation outlook and fiscal will likely not be supportive for a rate cut decision in August. The monetary policy will be a function of fiscal and FX moving forward, but we acknowledge that decisions of peer countries as well as the ECB and FED could play a role for the future rate path. Economic growth is also a key factor in the NBR's decision making.

Source: Eurostat, Refinitiv, Erste Group Research

Yields and spreads

After the results of the first round of presidential elections, a significant repricing took place in the Romanian bond market. The short end was more affected, but the long end yields have also gone up. The collapse of the government and prospect of delayed fiscal consolidation, which could trigger a rating downgrade, did not sit well with investors. However, after centrist Nicusor Dan won the presidential elections, things improved, and a more optimistic view became the norm. Our assessment is that current market values for the 10Y yield are at the fair value or slightly above it and the expectation is that a downward trend is to be expected later this year. We also believe that the short end should be significantly lower, with the 2Y-10Y differential fair value seen higher. However, for any of this to materialize, credible fiscal consolidation measures need to be taken sooner rather than later.

10Y yield development and forecast



Source: Eurostat, Refinitiv, Erste Group Research

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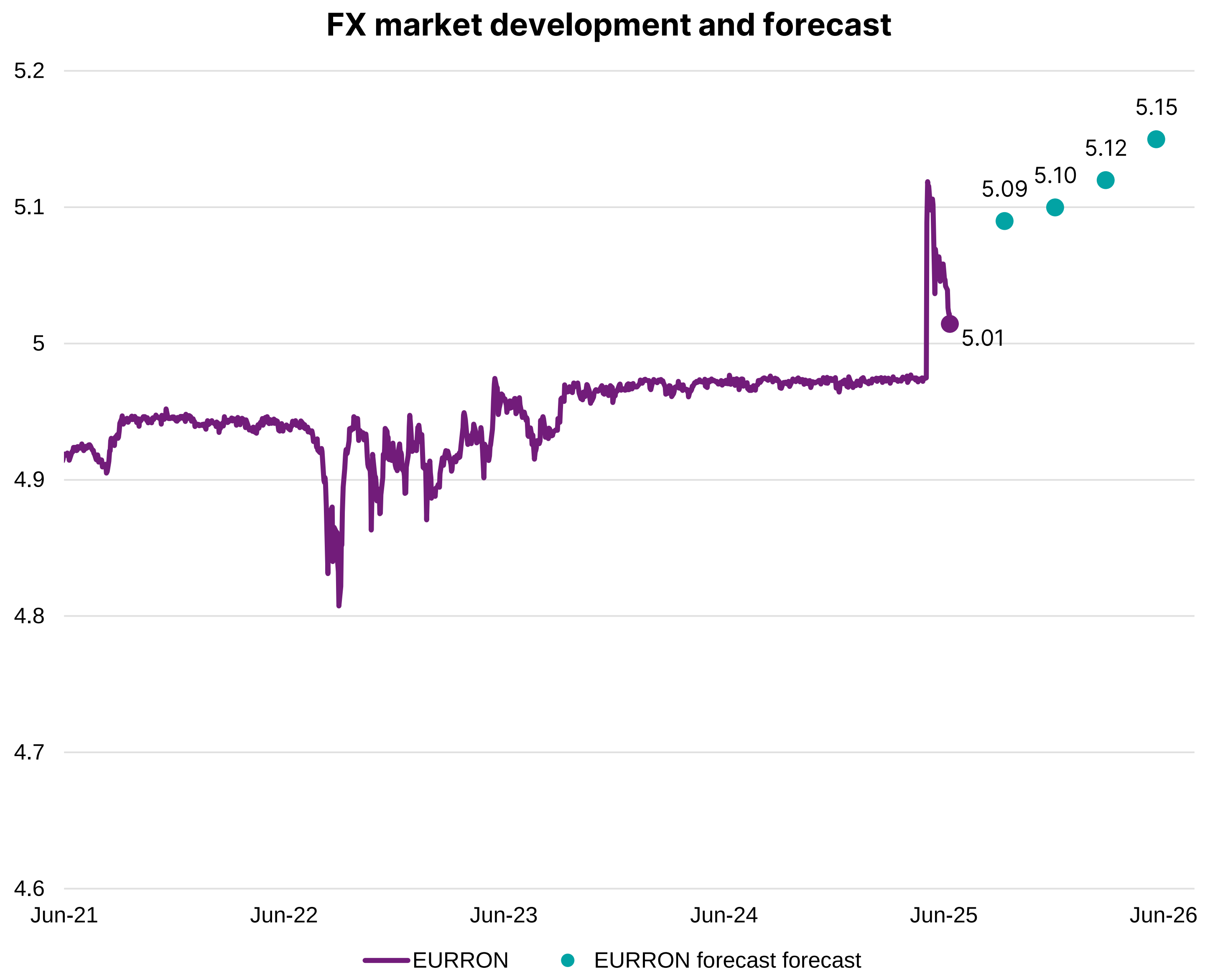
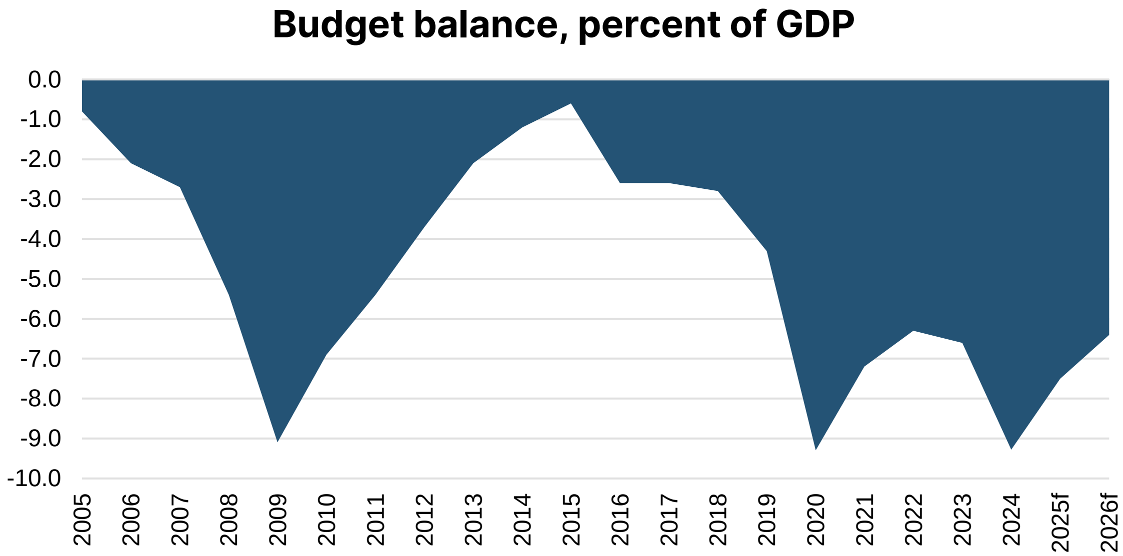
FX market

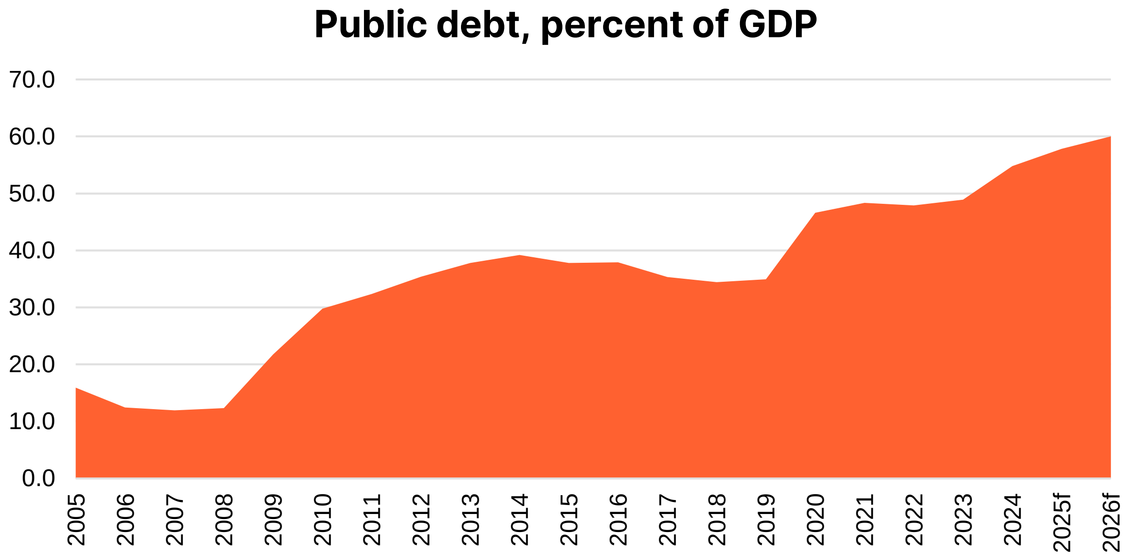


The RON depreciated to 5.12 against the EUR in early May, on political turmoil after the first round of presidential elections. We think that 5.05-5.10 is broadly the new comfort range for the NBR. Strong FX pass-through to inflation and the important role played by the EUR/RON for consumer confidence should limit further abrupt depreciation of the RON in the short term. Weak fundamentals related to high twin deficits speak in favor of further RON weaking in gradual steps over the next years. Turnover on the local FX market increased significantly after the first round of presidential elections in May, but the situation calmed afterwards. In the latest press conference, the NBR governor stated that FX is currently somewhat fairly-valued looking at the trade-adjusted basket. Looking strictly at the EUR/RON, our assessment based on macro fundamentals shows that the currency is still slightly overvalued, but we tend to believe that the NBR will not allow more volatility this year.

Source: Eurostat, Refinitiv, Erste Group Research

Fiscal situation





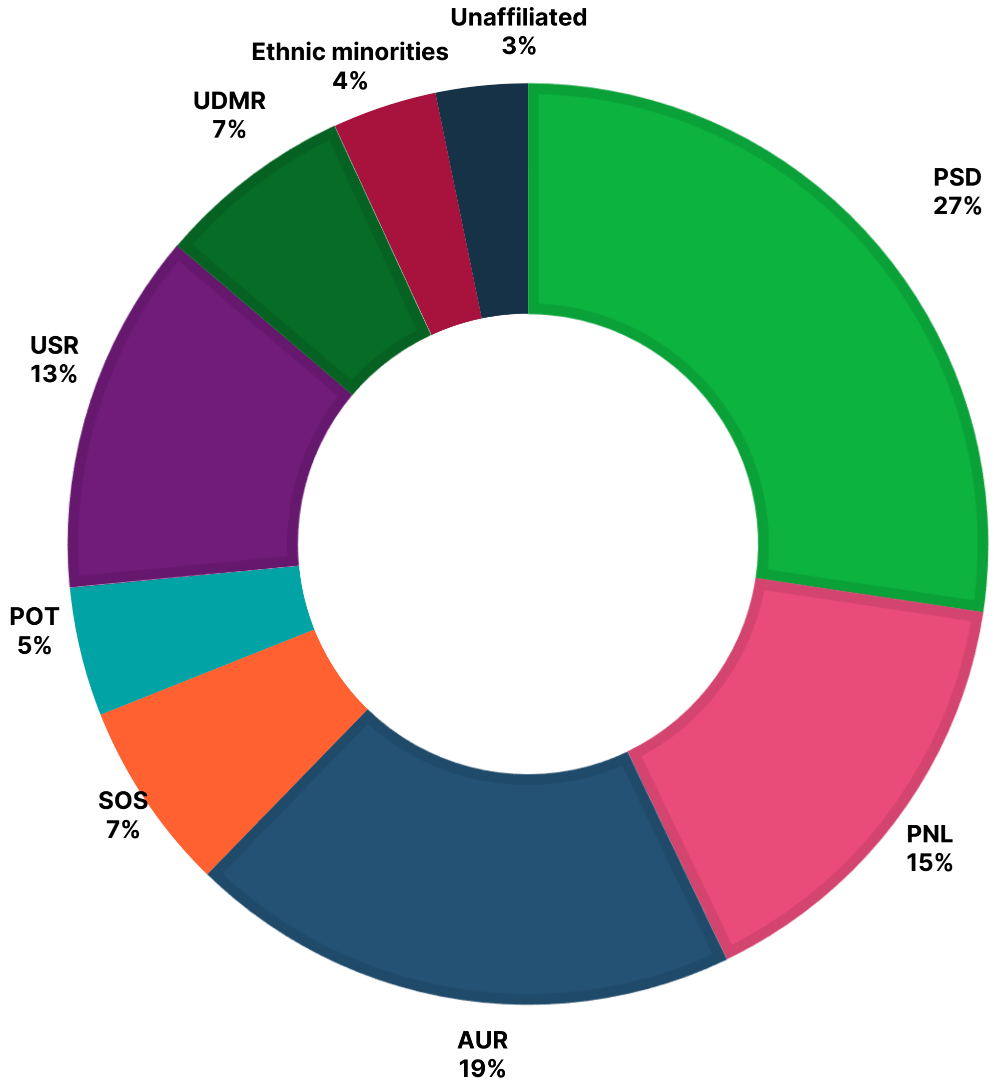
Romania ended 2024 with a budget deficit of 9.3% of GDP in ESA terms, the highest in the EU. The initial budget target for 2025 aims for a deficit of 7.0% of GDP, implying fiscal consolidation of around 2.3pp. The government already implemented measures to curb public spending and increase revenues in late 2024. Considering the execution in the first four months, additional fiscal consolidation needs to be implemented as soon as possible to meet the target, which should be more realistically set at 7.5%. We believe that the package should bring at least 2pp worth of consolidation and should aim to raise revenues as well as lower spending. There are currently negotiations ongoing on the passible fiscal measures that will be implemented, but at least there seems to be a political consensus that fiscal consolidation is a must this year. Economic growth will also be impacted by these measures. In this regard, economic theory shows that a VAT hike puts the least amount of pressure on growth, as opposed to a PIT hike, which will have the most negative impact on growth. EU fund absorption is very important for this year's budget expectation. The 7-year fiscal consolidation plan agreed with the European Commission needs to be implemented, as the patience of both rating agencies and investors is getting thin. A rating downgrade this year in not our baseline scenario, but without meaningful fiscal consolidation, it is a risk that cannot be ruled out.

Source: Eurostat, Refinitiv, Erste Group Research

Political landscape

After the result of the first round of presidential elections, the prime minister resigned, and politics became a major concern for the financial markets. The victory of centrist Nicusor Dan brought some relief, but everyone is expecting the formation of a new government and, more importantly, what fiscal measures will be taken to address the large budget deficit. There are ongoing discussions regarding forming a new government led by the new president, which will likely unite all pro-EU parties. A fiscal consolidation package to deal with the large budget deficit is the main topic of negotiation currently. A decision will be made in the coming days. With no major elections in sight for three and a half years, the appetite for reform and addressing Romania's structural issues should be high. A credible fiscal consolidation plan and a stable government are essential for Romania in the coming years. All things seem to be in place for a stable and predictable government in the foreseeable future.

Parliamentary seats



Source: Romanian Parliament, Erste Group Research

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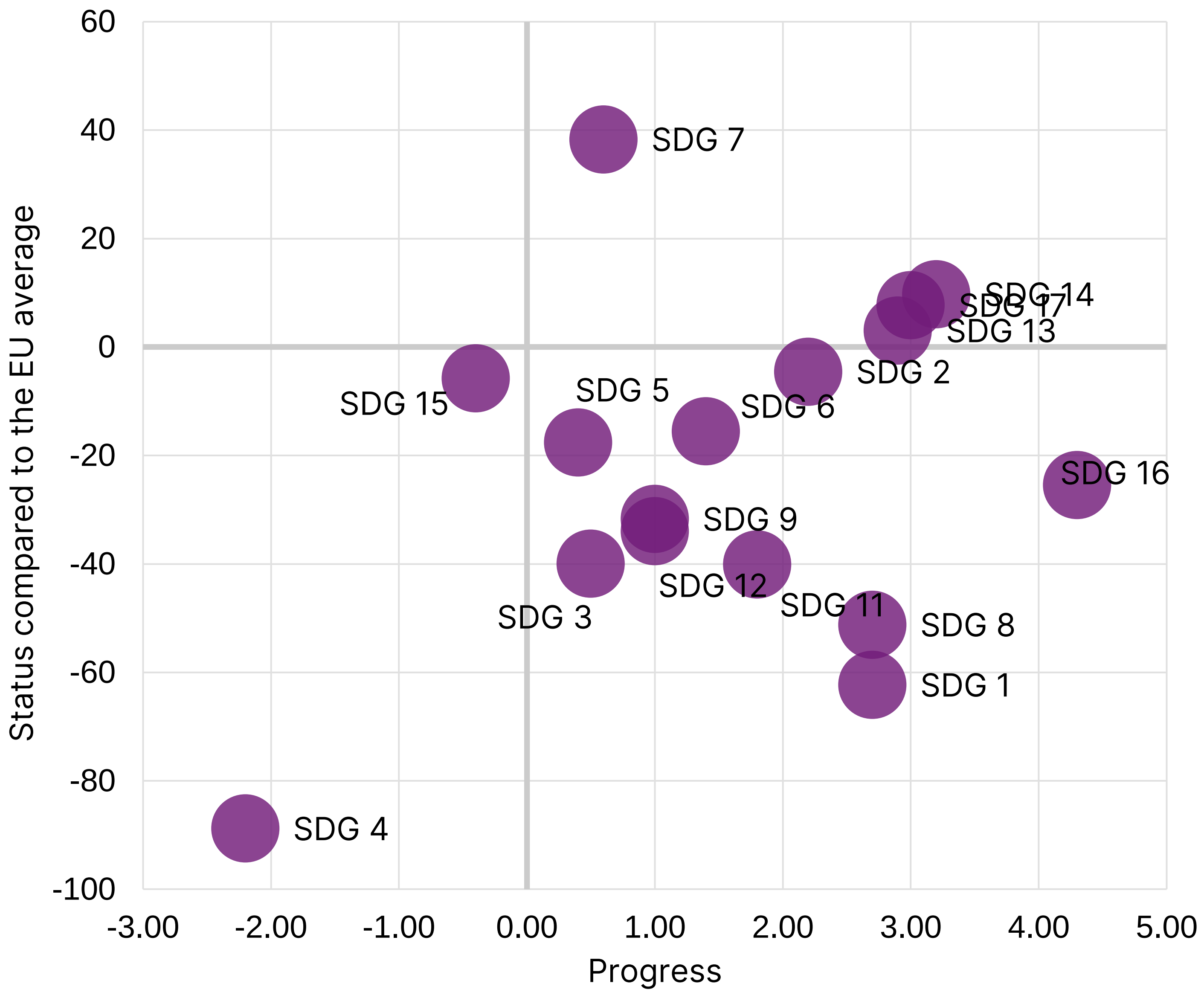
Social Development Goals



Romania performs better than the EU average and is making progress in four Sustainable Development Goal (SDG) areas: Affordable and Clean Energy, Partnerships for the Goals and Life Below Water and Climate Action. While Romania shows improvement in most other SDGs, it starts from a weaker position compared to the EU. Notable progress has been made in Peace, Justice and Strong Institutions, No Poverty, Decent Work and Economic Growth and Zero Hunger, where its performance stands out positively. However, Quality Education remains a key challenge. Romania not only lags the EU average in this area, but is also moving further away from achieving the SDG. To address this gap, Romania needs to fully utilize EU funds and undertake significant reforms to its economy and society, particularly as part of its efforts toward OECD accession.

Source: Eurostat, Refinitiv, Erste Group Research

The cost of borrowing could become a problem for Romania

Interest payments on national debt have been on the rise recently. A way to look at it is calculating the so-called fiscal R-star. Without fiscal consolidation or significant outperformance of economic growth, the debt to GDP ratio will continue to grow rapidly, also due to interest payments.

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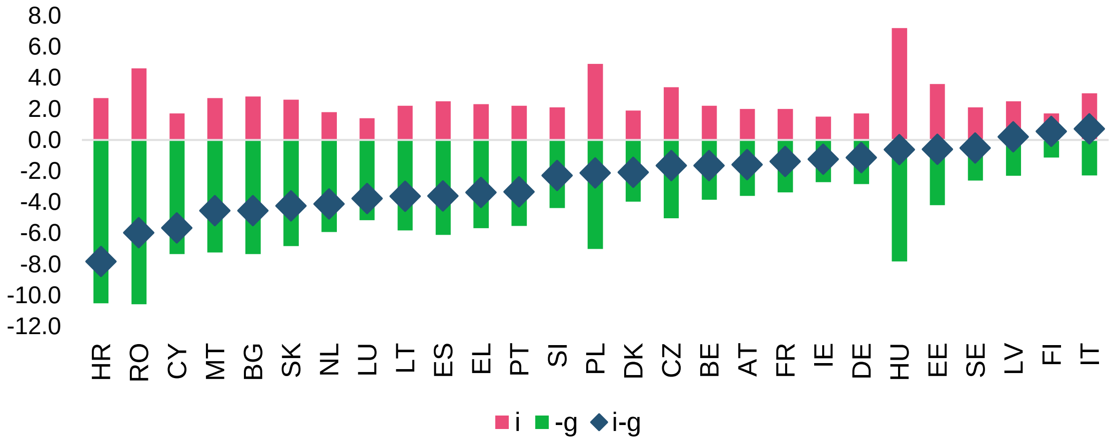
Financing costs could become a problem in the coming years

Interest rate expenditure (i) and nominal GDP growth (g)



In theory, interest payments on national debt should not exceed the expected average nominal GDP growth in the medium and long term for sustainability reasons. Romania is not in a bad position currently, but the situation is deteriorating quickly. Large budget deficits in recent years, coupled with a high risk premium due to downgrade risks and political instability, have significantly lifted the cost of borrowing.

Fiscal R-star and interest rate on national debt

(The fiscal R-star is defined as the nominal interest rate that would be needed for the national debt as % of GDP to remain constant from one year to the next)

The best way to look at it would be through the lens of debt stabilizing the interest rate on government debt or fiscal R-star. A higher value means that Romania can afford to pay higher interest rates on debt without raising the ratio to GDP. In 2024, this value turned negative, given the economic growth and primary balance recorded. Without fiscal consolidation or significant outperformance of economic growth, the debt to GDP ratio will continue to grow rapidly, also due to interest payments.

Romania: Forecasts

	2018	2019	2020	2021	2022	2023	2024	2025f	2026f
Percent					**Annual average**				
Real GDP growth	6.1	3.9	-3.7	5.5	4.0	2.4	0.8	1.3	3.1
Private consumption growth	10.3	3.0	-3.8	7.3	5.2	2.8	5.9	1.7	2.2
Fixed capital formation growth	-1.8	14.9	-0.5	4.0	5.4	14.5	-1.7	3.3	5.7
Inflation	4.6	3.8	2.7	5.1	13.7	10.5	5.6	5.5	4.3
Unemployment rate	5.3	4.9	6.1	5.6	5.6	5.6	5.5	5.6	5.5
Percent of GDP									
Budget balance	-2.8	-4.3	-9.3	-7.2	-6.3	-6.6	-9.3	-7.5	-6.4
Public debt	34.4	35.0	46.6	48.3	47.9	48.9	54.8	57.8	60.0
Current account balance	-4.6	-4.8	-5.1	-7.2	-9.5	-6.6	-8.3	-7.8	-6.8
					End of year				
EURLCY	4.66	4.78	4.87	4.95	4.95	4.97	4.97	5.10	5.20
Central bank policy rate	2.50	2.50	1.50	1.75	6.75	7.00	6.50	6.00	4.75
3M interbank offer rate	3.0	3.2	2.0	3.0	7.6	6.2	5.9	5.5	4.4
2Y Yield	3.7	3.6	2.5	4.2	7.0	6.1	6.9	5.9	5.5
5Y Yield	4.3	3.9	2.6	4.8	7.8	6.2	7.2	6.6	6.1
10Y Yield	4.8	4.4	3.0	5.1	8.2	6.2	7.4	6.8	6.3

Source: Eurostat, Refinitiv, Erste Group Research

Romania: Country overview

Official EU language: Romanian

Capital: Bucharest

Geographical size: 238 398 km2

Population: 19 064 409

GDP per capita: ~EUR 18 700, below the EU average

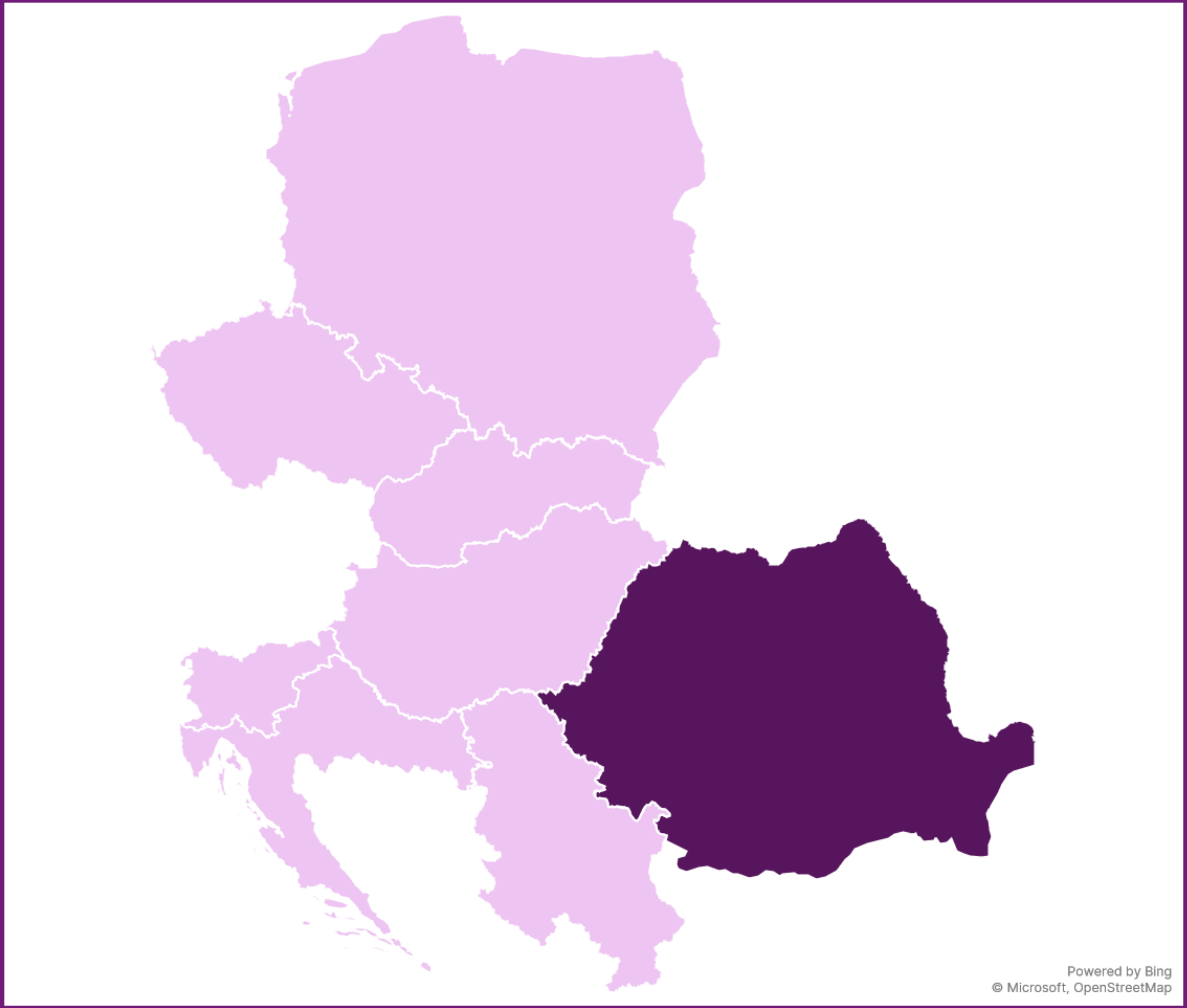
Currency: Romanian leu RON

Credit Ratings:

- Moody's: Baa3, outlook negative
- S&P: BBB-, outlook negative
- Fitch: BBB-, outlook negative

EU member state: since 1 January 2007

Schengen: since January 2025



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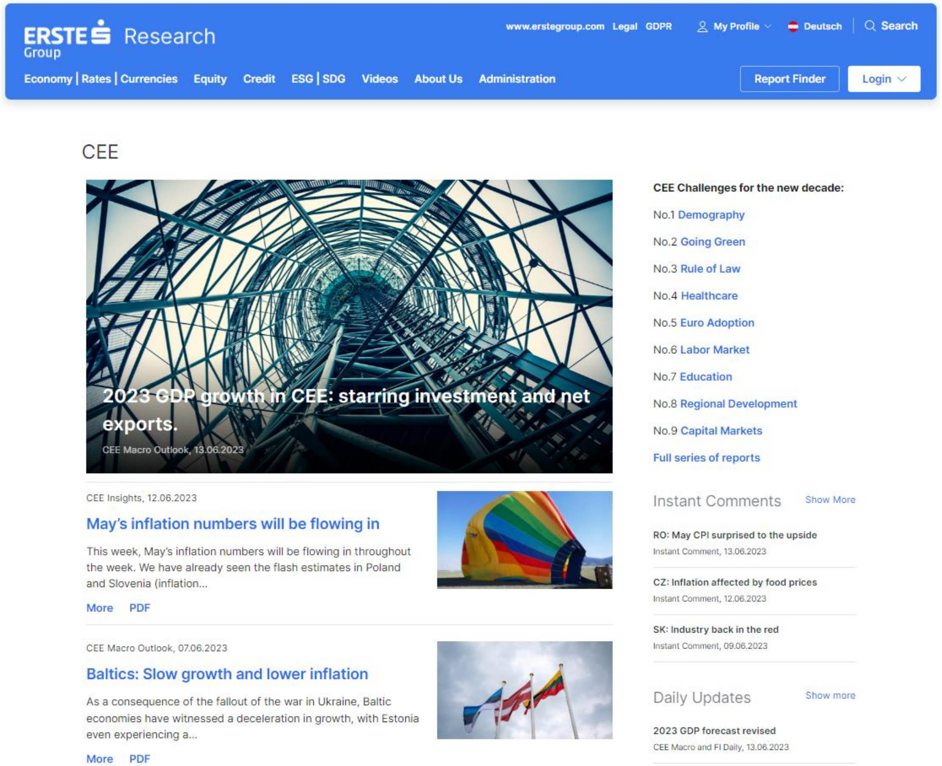

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