

ROMANIA : MACRO OUTLOOK

Restored Fiscal Credibility Costs: Lower Growth, Higher Inflation

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Economy Romania - Analyses and Forecasts | Erste Group Bank AG
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Spot Rates as of: September 11, 2025
Note: Information on past performance is not a reliable indicator for future performance.
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Overdue fiscal rebalancing act affects growth and inflation

GDP data for the first half of the year suggests that 2025 will mark yet another period with growth well below potential. Even so, the economy has demonstrated greater resilience than initially expected. Depending on how the second half unfolds, there remains a possibility that growth could surprise to the upside. A cautiously optimistic stance best captures Romania's current outlook. While the resilience is notable, persistent macroeconomic imbalances and deep-seated structural challenges continue to magnify external risks, on top of ailing domestic demand, leaving the recovery on fragile ground.

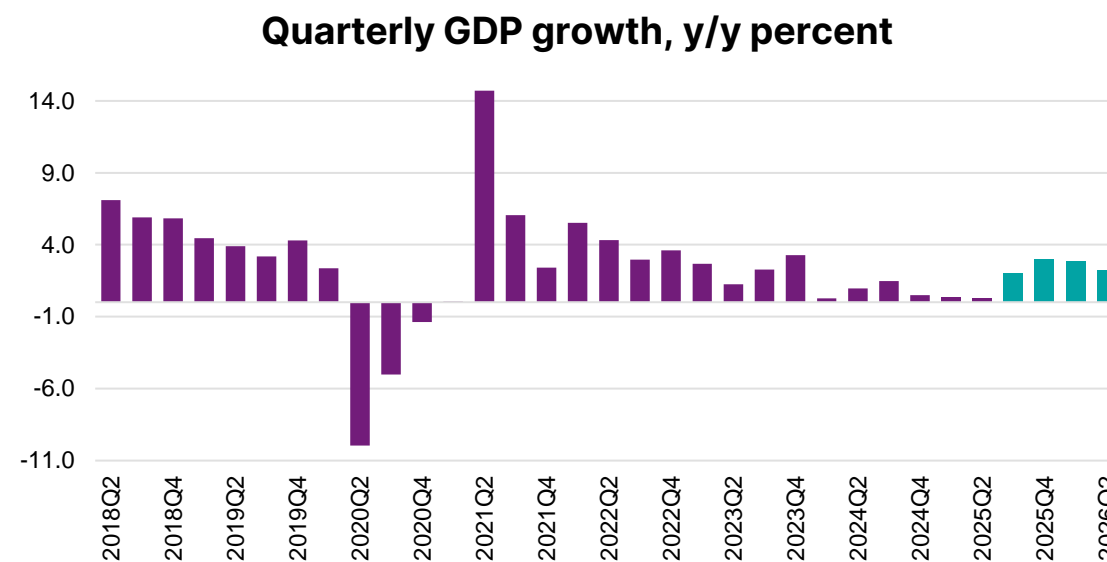
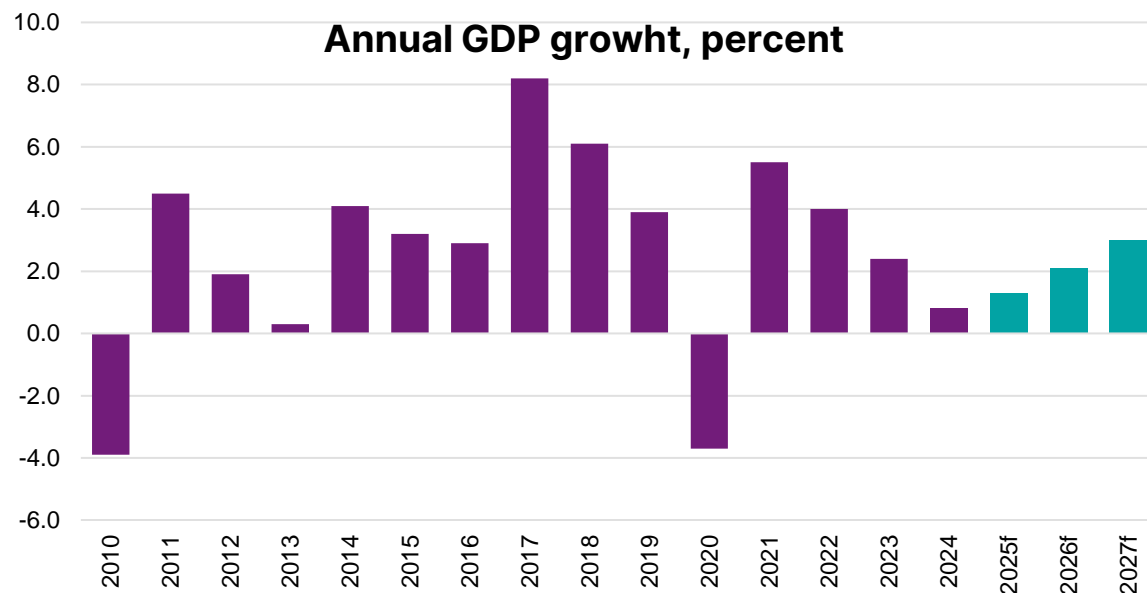
At the same time, this resilience masks a delicate balancing act. Fiscal consolidation has become the central anchor for policy credibility. The government's efforts to rein in deficits - through a combination of tax measures and expenditure restraint - have proven sufficient to preserve Romania's investment-grade rating. This achievement is nontrivial, given the country's elevated financing needs and reliance on foreign investors. However, the adjustment is not costless; slower public investment growth and restrained fiscal support could weigh on GDP dynamics, with forward-looking indicators pointing to softer momentum in the second half of the year.

Monetary policy constrained by inflation in short term

Monetary policy, meanwhile, remains constrained by stubbornly high inflation. With little moderation from last year's endpoint, price pressures remain elevated and above the National Bank of Romania's target range. Structural drivers - such as wage growth in a still tight labor market, administered price adjustments, and first and possible second-round effects from fiscal measures - are causing inflation to reaccelerate into the second half of the year. As a result, the NBR has little room to cut policy rates without jeopardizing price stability credentials and de-anchoring inflation expectations. Hence, the central bank is likely to leave monetary policy tighter for longer than businesses and households might have hoped.

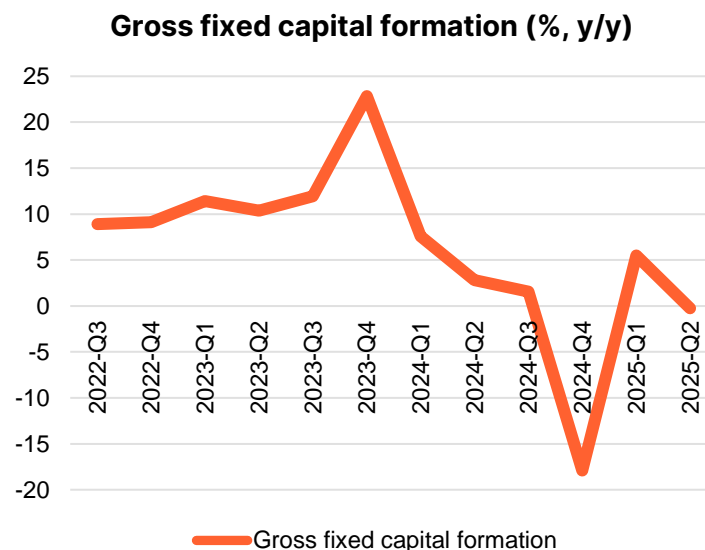
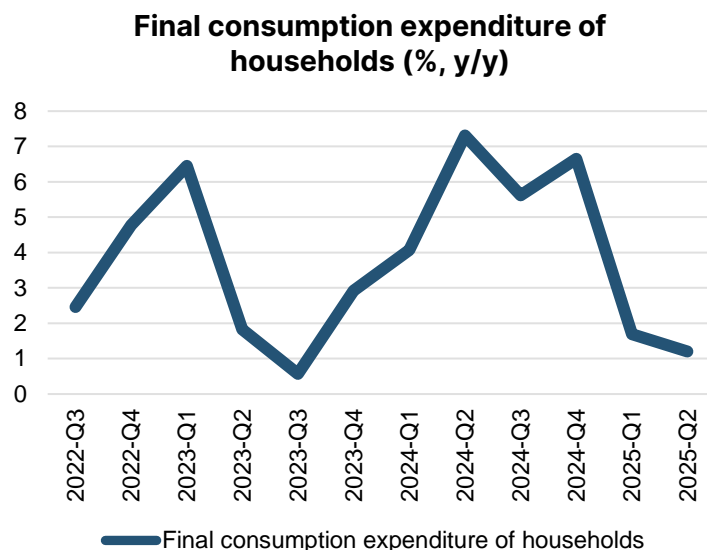
In sum, Romania's macroeconomic equation is one of resilience under pressure. Fiscal discipline has restored investor confidence, but at the cost of jeopardizing near-term growth prospects. Inflation was losing momentum in the first half of the year, though it remained too high to allow monetary easing. The interplay between these forces suggests that Romania's outlook will hinge on whether fiscal credibility can be maintained while still allowing space for investment and structural reforms to support medium-term growth.

Consumption-driven growth model reached its limits



Romania's growth story has been generally driven by household consumption in recent history. Persistently high inflation and lower wage growth in the first half of the year determined a visible deceleration of private consumption. The same factors are expected to support this trend in the coming quarters and consumption is seen being relatively depressed vs. historical norms. In the first half of the year, the economy was up +0.3% compared to the same period of last year. There is a large discrepancy between the seasonally-adjusted series and the unadjusted series. On the seasonally-adjusted series, the economy was up 1.4% in the first half of the year. Full-year growth rates should converge. Looking at the data for 1H25, we maintain our GDP growth forecast for this year at +1.3%. The risk profile is rather balanced in our view currently. Even with some negative quarterly growth rates in the last couple of quarters - which is not our baseline scenario currently - GDP growth should remain around 1% this year. For 2026, we keep our GDP growth forecast at +2.1%. EU fund absorption and state investments are crucial for GDP growth in the short term, as 2026 is the last year of the RRP. Romania has limited exposure to US tariffs, and the overall negative impact comes mostly from the indirect channel via main trading partners in the EU.

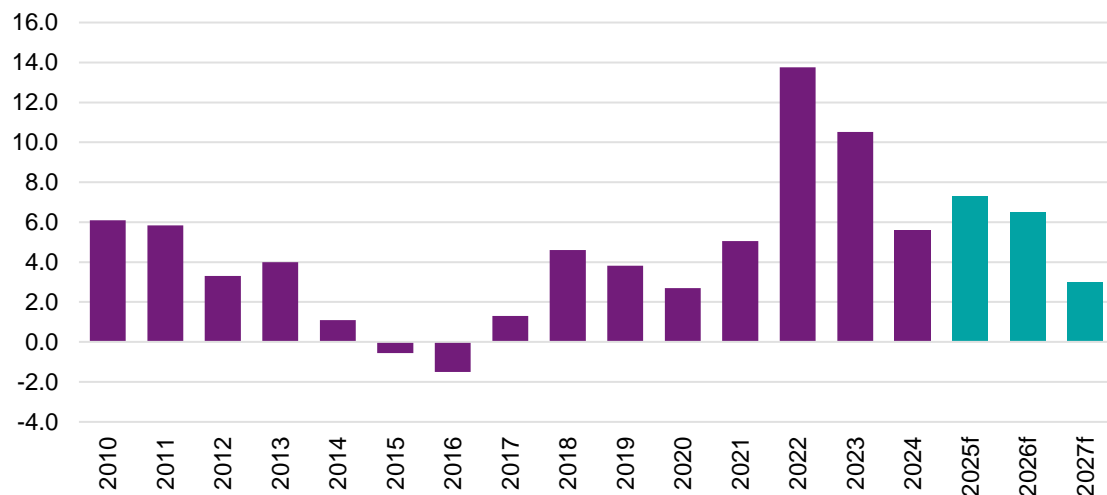
Economic growth structure - weakness across the board



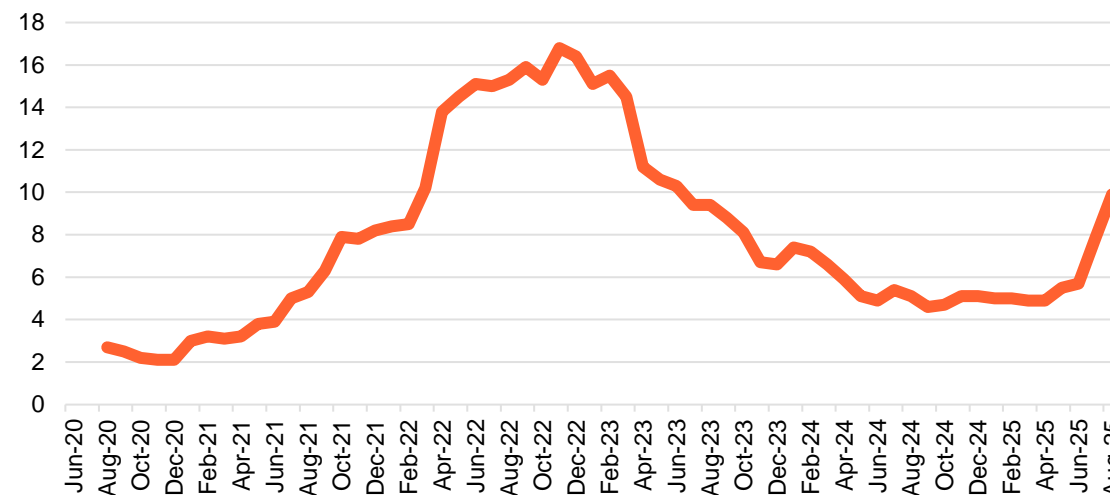
On the supply side, agriculture had a minor contribution of +0.1pp to the +0.3% y/y growth in 2Q25 and it was overall neutral in 1H25. Industry had a neutral contribution in 2Q25, but took away 0.3pp from the +0.3% growth in 1H25. Construction had a +0.1pp contribution to the growth in 2Q25 and a +0.3pp contribution in 1H25. Services had a negative contribution of -0.2pp to the annual growth in 2Q25 and is the same number looking at 1H25. Net taxes added 0.3pp in 2Q25 and 0.5pp in 1H25. On the demand side, private consumption was the main growth driver. It had a +0.7pp contribution to the +0.3% GDP growth in 2Q25, while in 1H25, it added 0.6pp to the overall growth. Investments were surprisingly weak in 2Q25, as the contribution came in negative at -0.1pp, but looking at 1H25 investments, they made a relatively strong contribution of +0.5pp. Public consumption continues to not be growth-supportive with contributions of -0.2pp in 2Q25 and 1H25. The negative contribution of net exports became more moderate this quarter at only -0.4pp, after -2.8pp in the first quarter. In the first half of the year, net exports took away 1.4pp from the annual growth rate. Inventories continue to be growth-supportive, adding 0.3pp to the annual GDP growth in 2Q25, while in 1H25, the contribution stood at +0.8pp.

Inflation on rollercoaster ride, driven by fiscal measures

Annual inflation, percent

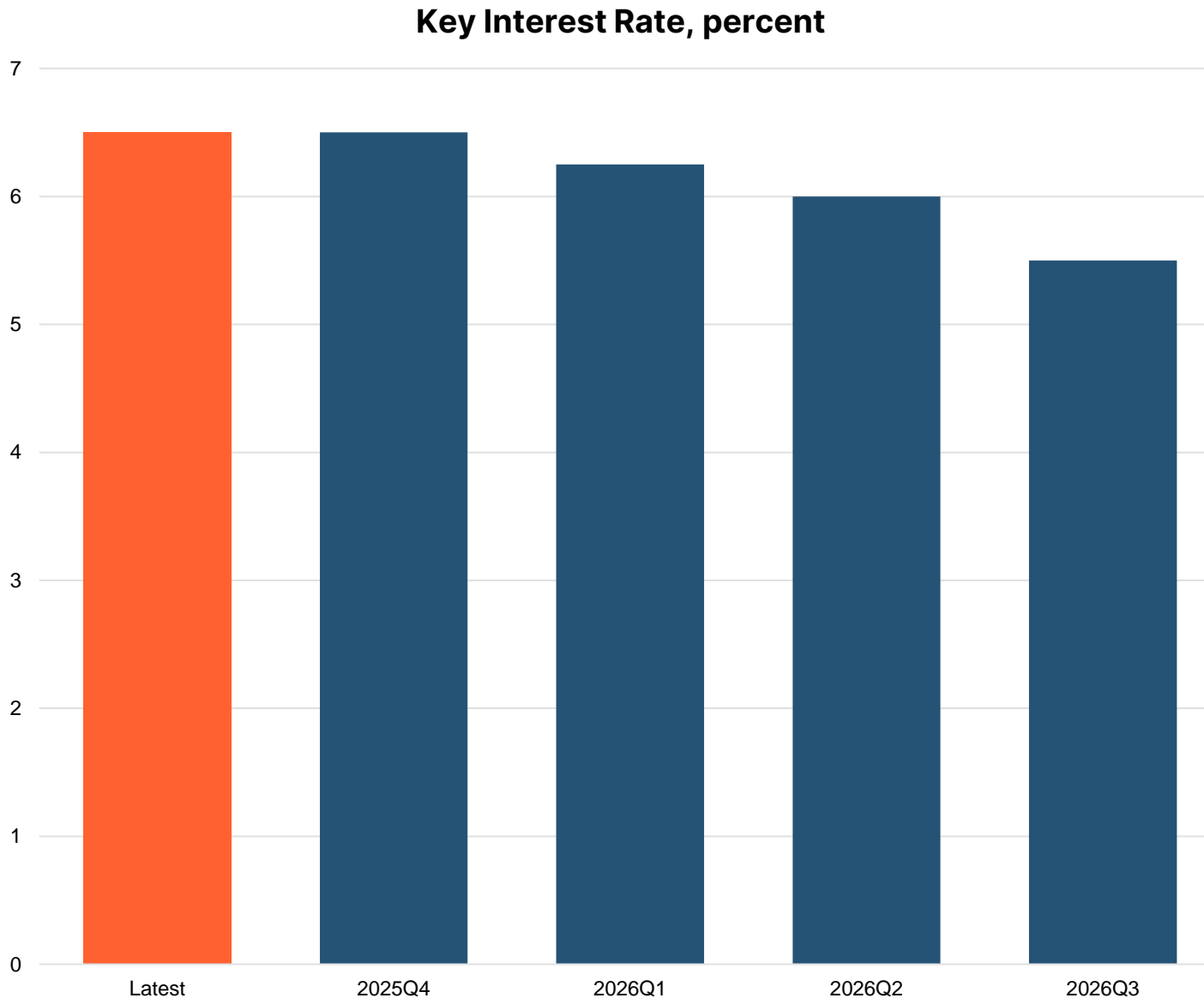


Monthly inflation development, y/y percent



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. After the elimination of the price cap in July, CPI spiked visibly as electricity prices went up by almost 62% m/m. In August, the VAT and excise duty hikes kicked in and the annual inflation rate further accelerated to 9.9%, above expectations with a higher than expected VAT hike passthrough into consumer prices. The peak of inflation is seen in September only marginally above August and a gradual deceleration is to be expected afterwards, with year-end CPI at 9.7% y/y. Core inflation is seen ending 2025 at 7.5% after reaching 7.9% y/y in August. Regarding next year, a sharp deceleration is to be expected in July-August once the effects of electricity prices and tax hikes drop out of the statistical base. End-2026 CPI is seen at 3.7% y/y. In April next year, the price cap on natural gas prices is also due to expire, which could post some serious upside risks for inflation. In our current base, only a minor increase is captured. Weather conditions have been better this year compared to last year and this could mean lower prices for fresh vegetables and some fruit into the year-end. The recently announced fiscal consolidation measures will generally put some downward pressure on aggregate demand, which in turn could result in lower inflation.

Monetary policy

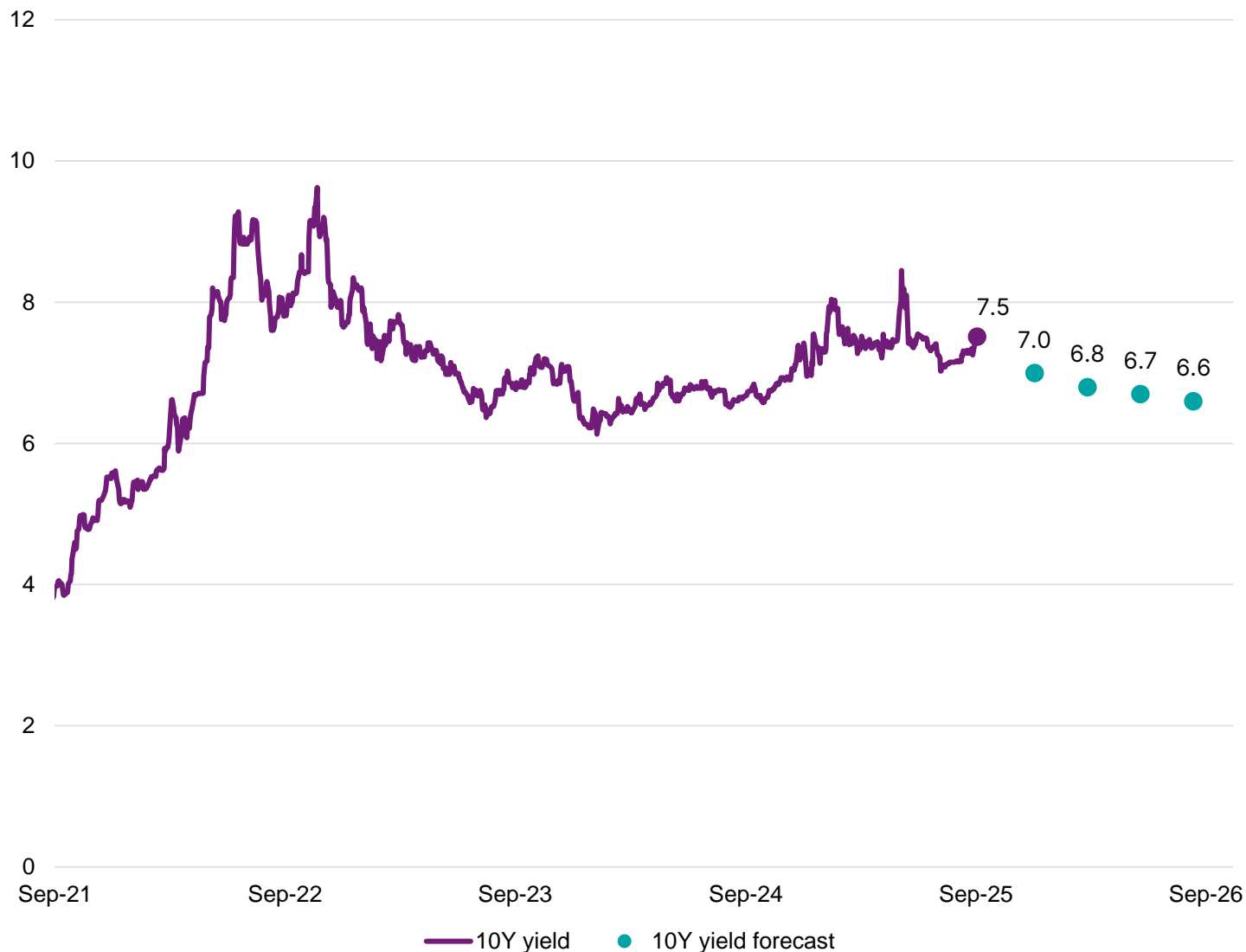


The NBR decided to keep rates unchanged so far this year, with the key rate currently at 6.50%. The weakness in aggregate demand as well as some signs of cooling off in the labor market are the main arguments for the doves currently. However, an inflation spike in 2H25 due to the elimination of the electricity price cap and VAT and excise duty hikes require a wait-and-see approach from the NBR. Moving forward, monetary policy decisions will be highly dependent on the inflation outlook. Economic growth and FX are also important factors. The NBR governor gave quite clear forward guidance in August, stating that rate cuts this year are unlikely. We expect the NBR to resume rate cuts in Feb-26, provided that the inflation outlook is benign.

Yields and spreads

Once the elections shock faded out, Romanian bond yields gradually went down, as the risk of a rating downgrade slowly became less of a problem. The recently announced fiscal consolidation efforts have proven to be enough at last for the near future to preserve Romania's investment grade status. Some risks remain, especially as political stability has been highlighted as one of the key elements that the rating agencies are looking at when making decisions. It will take some time for any discussion regarding reverting the outlook back to stable, with improvements in budget execution and debt dynamics seen as crucial. Our assessment is that current market values for the 10Y yield are slightly above fair value, 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, some real improvement in Romania's fiscal metrics needs to be seen, which in our view could be as early as 4Q25.

10Y yield development and forecast



FX market development and forecast

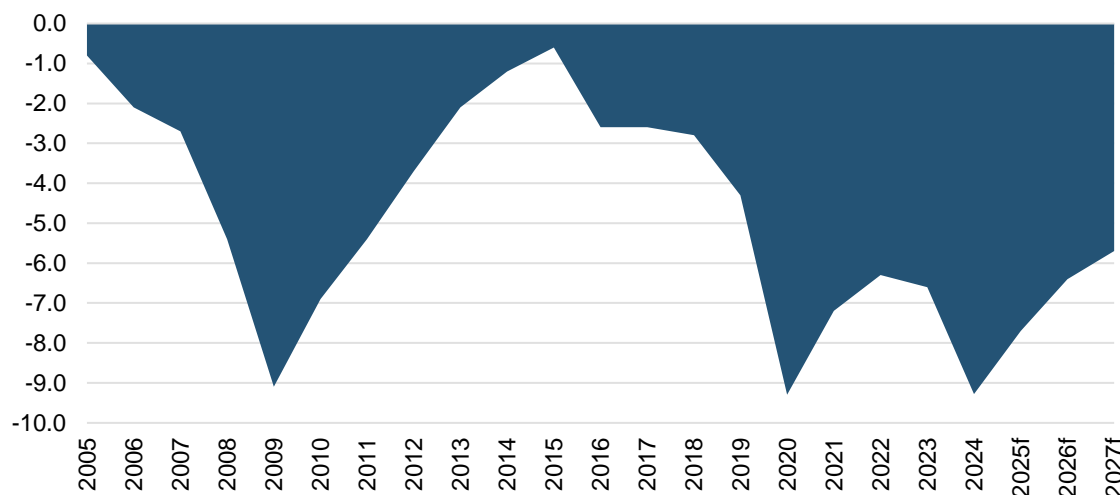


FX market

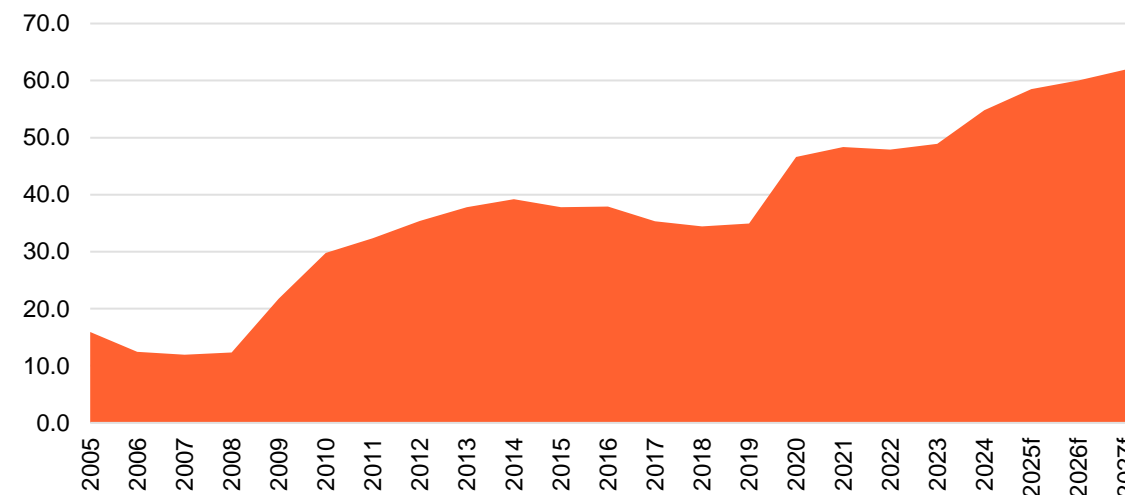
The RON depreciated to 5.12 against the EUR in early May, on political turmoil after the first round of presidential elections. We think that 5.05-5.10 is broadly the new comfort range for the NBR. Strong FX pass-through into inflation and the important role played by the EUR/RON for consumer confidence should limit further abrupt depreciation of the RON in the short term. Weak fundamentals related to high twin deficits support further RON weakening in gradual steps over the coming years. Turnover on the local FX market increased significantly after the first round of presidential elections in May, but the situation calmed afterwards. 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. In the longer term, the EUR/RON should continue to depreciate in line with the inflation differential vs. the Eurozone.

Fiscal plans welcomed by investors and rating agencies

Budget balance, percent of GDP



Public debt, percent of GDP

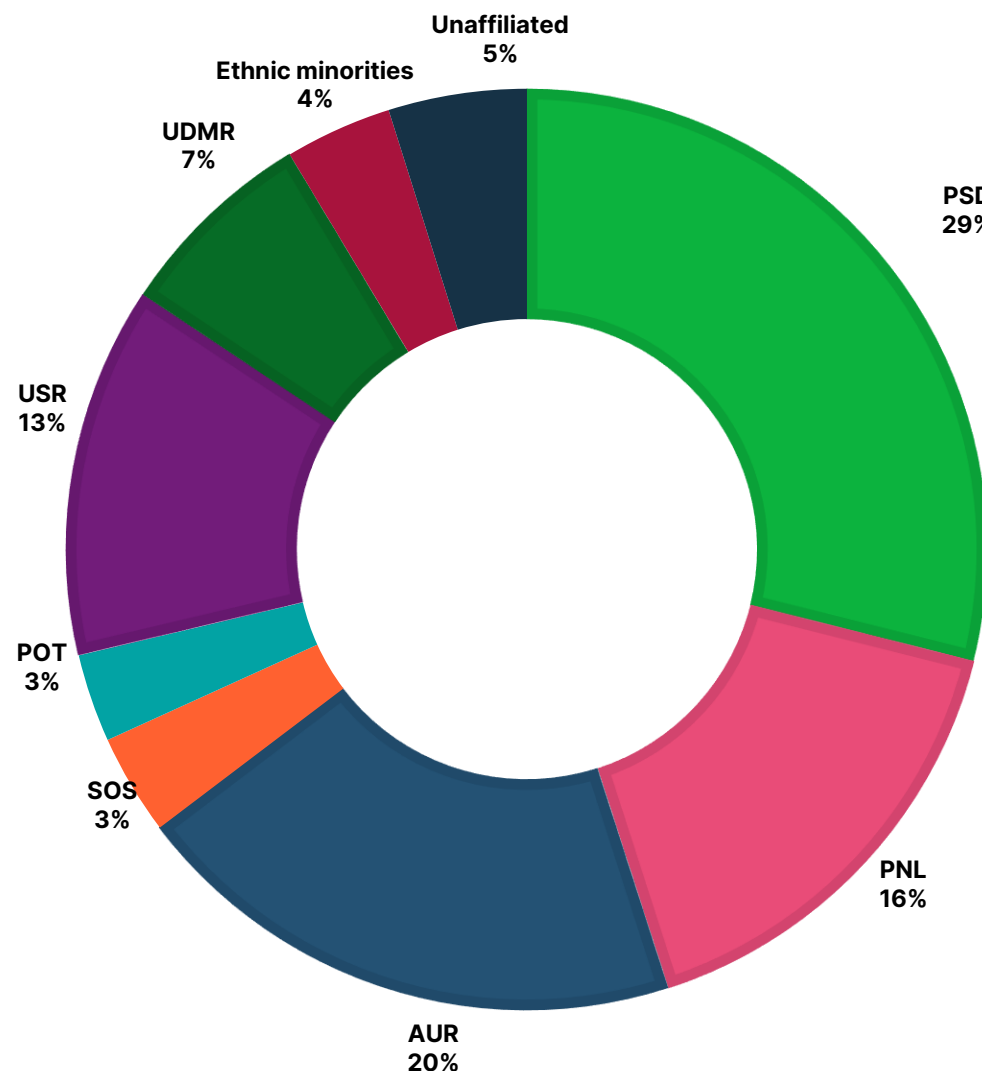


Romania ended 2024 with a budget deficit of -9.3% of GDP in ESA terms, the highest in the EU. After an eventful election cycle, a broad coalition was formed and the newly appointed government showed determination to address the large fiscal gap. The fiscal outlook for this year is not optimistic, since the cash budget deficit was -4.04% of GDP in January-July 2025, unchanged vs. the same period from 2024. The prime minister announced that a budget review will likely take place in September and the budget deficit target for this year will likely be revised up to around -8% of GDP, from -7.0% currently. At the start of July, the government announced a substantial fiscal package with measures aiming to bring fiscal consolidation of 1.23% of GDP in five months this year. Additional consolidation measures are planned starting in January 2026 and sum up to full-year consolidation of 3.75pp of GDP in 2026, including carry-over from August 2025. An increase in VAT rates and excise duty is included among the measures. Shortly after, a second fiscal package was announced. Some of the most important measures included are raising property taxes by about 70%, special pensions reform, state-owned company reform, personnel reductions in public administration, and increasing the health insurance contribution threshold for self-employed individuals. These measures should have a smaller impact, estimated at around 0.5pp of GDP in 2026. We see a gradual fiscal adjustment for Romania in the coming years in line with the 7-year fiscal consolidation plan agreed with the EU. If things go according to this plan, a rating downgrade will likely be avoided. Considering the announced measures so far, the 2026 budget deficit could surprise positively. Lower budget gaps will mean some stabilization in the debt to GDP dynamics. Interest payments remain a point of concern.

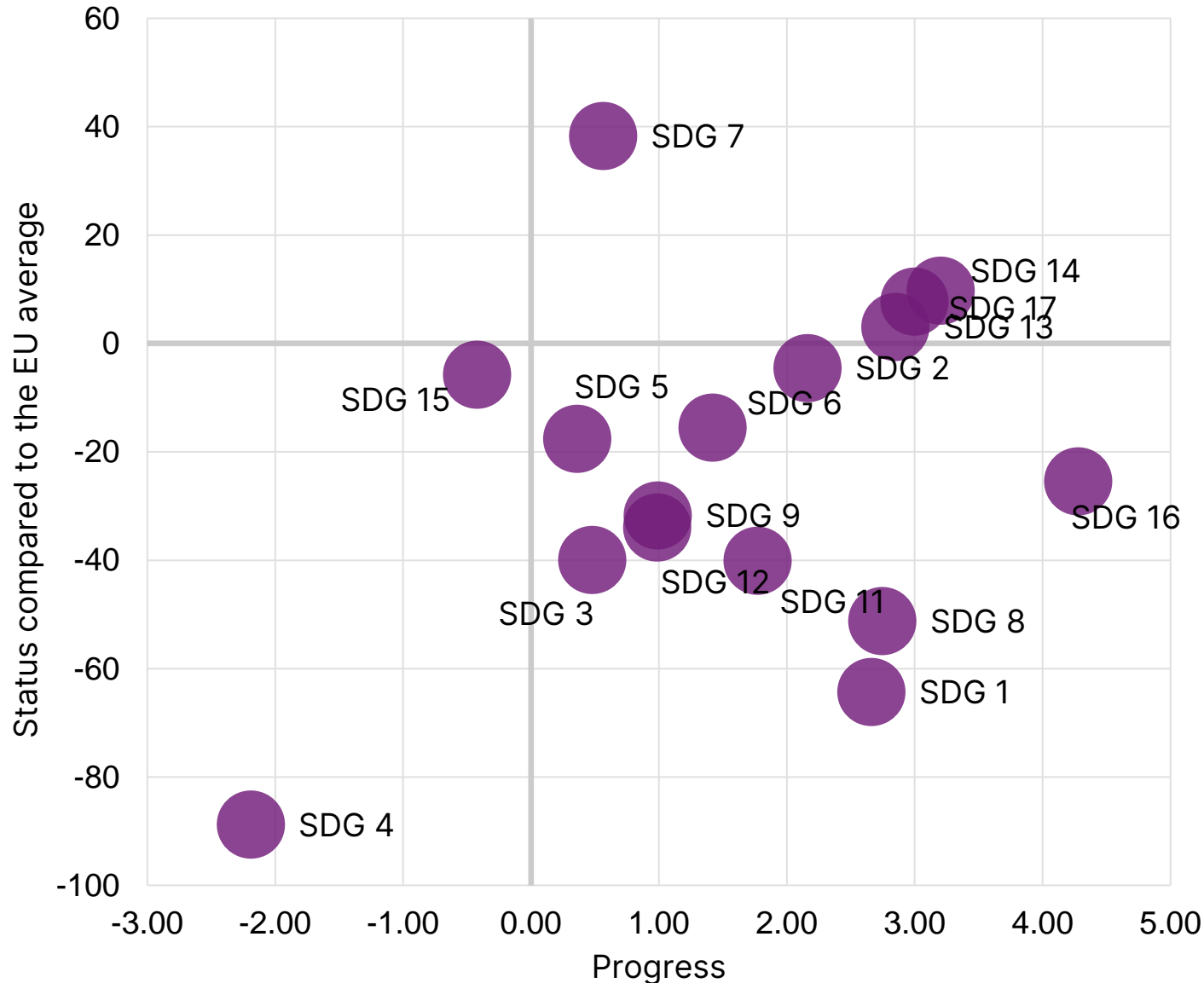
Political landscape

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 strong relief, and a grand coalition between all pro-EU parties was formed and a new government was appointed in late Jun-25. At the start of July, the government adopted a broad package of fiscal consolidation measures aimed at restoring investors' confidence and averting a rating downgrade. In early September, another set of measures were presented that focus on local administration and state-owned companies and special pension reform, among other things. More reforms could be presented later this year as the government announced at least another fiscal package. With no major elections in sight for three years, the appetite for reform and addressing Romania's structural issues should be high. A credible fiscal consolidation path and stable government are essential for Romania in the coming years. Some political noise could arise in 2027 with the agreed prime minister swap between PNL and PSD. Some conflicts between coalition parties regarding reforms are also possible along the way.

Parliament structure



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 of its economy and society, particularly as part of its efforts toward OECD accession.

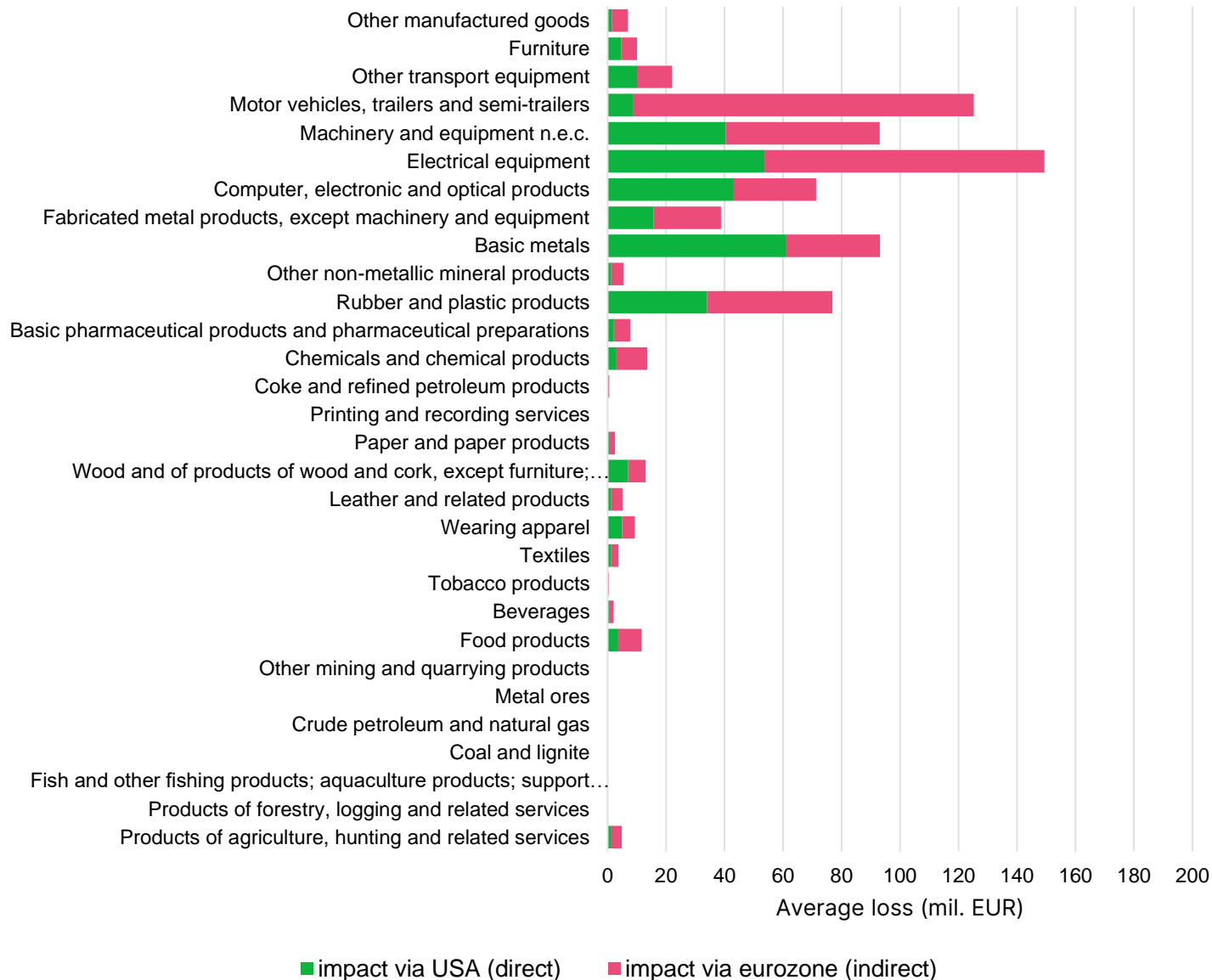
Romania feels US tariffs mostly indirectly

One of the most debated policy developments this year has been the introduction of US tariffs on EU exports. Following protracted negotiations, Washington and Brussels settled on a uniform 15% levy. For Romania, the impact is unavoidable, though largely indirect.



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NOTE: For a comprehensive explanation of the methodology applied to evaluate the impact, refer to Box 1 in the NBR Inflation Report, May 2025.

Romania: Forecasts

	2018	2019	2020	2021	2022	2023	2024	2025f	2026f	2027f
Percent					Annual average					
Real GDP growth	6.1	3.9	-3.7	5.5	4.0	2.4	0.8	1.3	2.1	3.0
Private consumption growth	10.3	3.0	-3.8	7.3	5.2	2.8	5.9	1.7	1.5	2.1
Fixed capital formation growth	-1.8	14.9	-0.5	4.0	5.4	14.5	-1.7	3.3	3.0	5.5
Inflation	4.6	3.8	2.7	5.1	13.7	10.5	5.6	7.3	6.5	3.0
Unemployment rate	5.3	4.9	6.1	5.6	5.6	5.6	5.5	5.9	5.7	5.5
Percent of GDP										
Budget balance	-2.8	-4.3	-9.3	-7.2	-6.3	-6.6	-9.3	-7.7	-6.4	-5.7
Public debt	34.4	35.0	46.6	48.3	47.9	48.9	54.8	58.5	60.0	61.9
Current account balance	-4.6	-4.8	-5.1	-7.2	-9.5	-6.6	-8.3	-7.8	-6.8	-6.2
					End of year					
EURLCY	4.66	4.78	4.87	4.95	4.95	4.97	4.97	5.09	5.17	5.27
Central bank policy rate	2.50	2.50	1.50	1.75	6.75	7.00	6.50	6.50	5.00	4.00
3M interbank offer rate	3.0	3.2	2.0	3.0	7.6	6.2	5.9	6.0	4.9	4.0
2Y Yield	3.7	3.6	2.5	4.2	7.0	6.1	7.0	6.4	5.8	4.4
5Y Yield	4.3	3.9	2.6	4.8	7.8	6.2	7.2	6.8	6.3	5.0
10Y Yield	4.8	4.4	3.0	5.1	8.2	6.2	7.4	7.0	6.5	5.1

Romania: Country overview

Official EU language: Romanian

Capital: Bucharest

Geographical size: 238 398 km²

Population: 19 067 576

GDP per capita: ~EUR 18 600, below the EU average

Currency: Romanian leu RON

Credit Ratings:

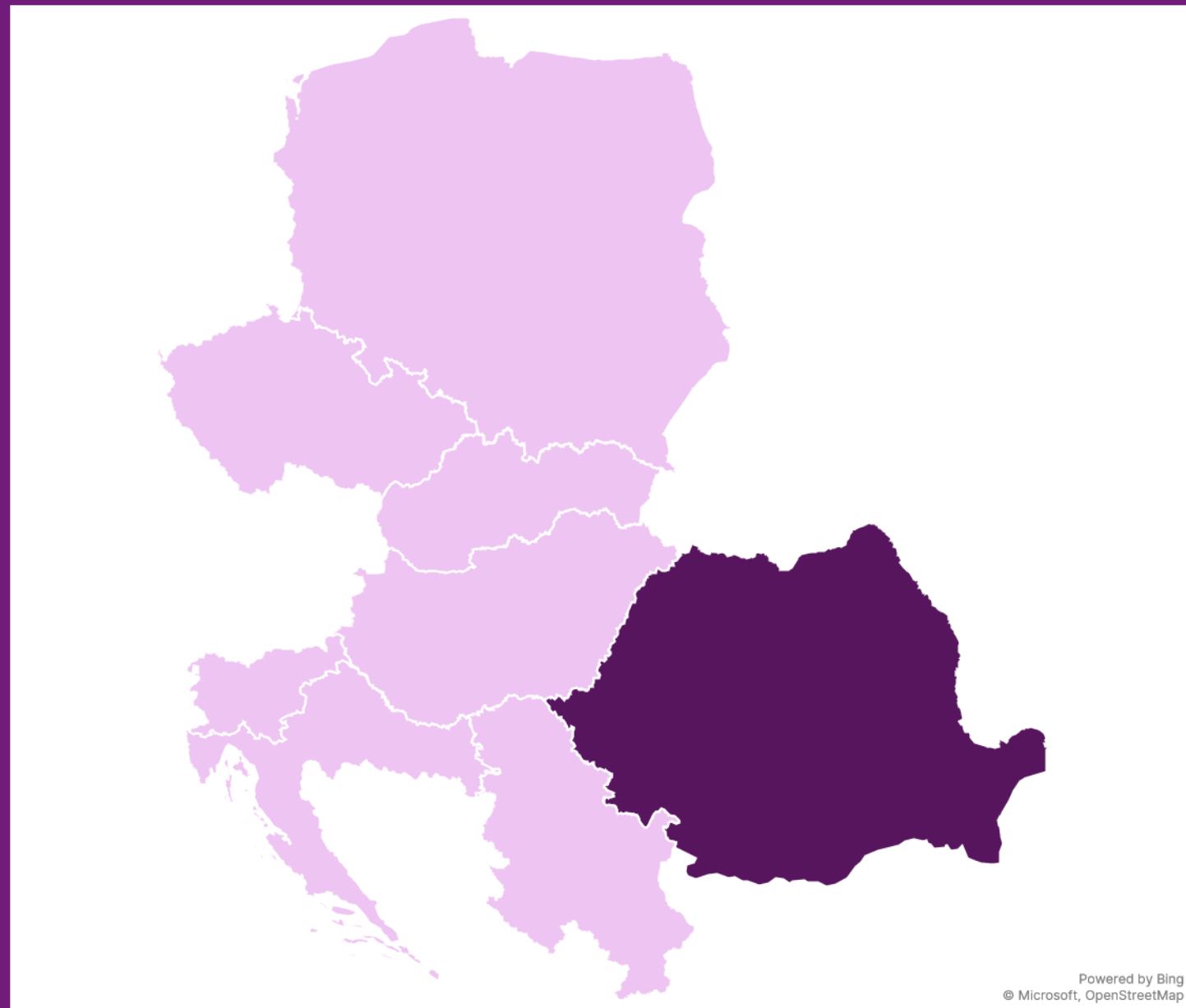
Moody's: Baa3, outlook negative

S&P: BBB-, outlook negative

Fitch: BBB-, outlook negative

EU member state: since 1 January 2007

Schengen: since January 2025



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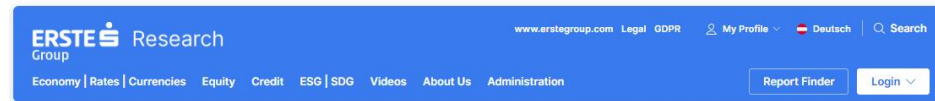


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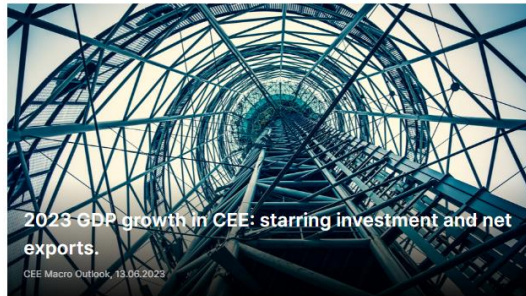


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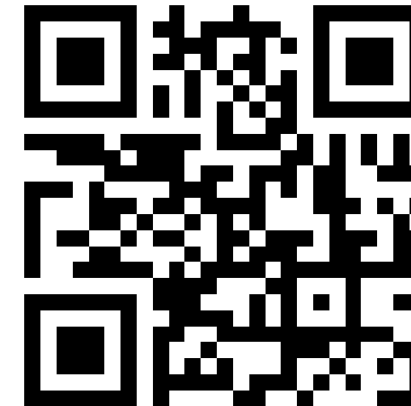
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