ROMANIA : MACRO OUTLOOK

Turning Corners on a Roundabout — Is This Time Really Different?

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Economy Romania - Analyses and Forecasts | Erste Group Bank AG
March 11, 2026

Spot Rates as of: March 11, 2026
Note: Information on past performance is not a reliable indicator for future performance.
Forecasts are not a reliable indicator for future performance.

Key assumptions regarding Middle East conflict

We are releasing economic forecasts in quite turbulent times and shortly after the conflict in Iran began. Following projections are based on the expectations that conflict in Middle East will de-escalate in relatively short period. The recent spike in oil and natural gas prices will leave a mark on average inflation forecast, however. We, therefore, adjust it accordingly based on assumption that prices of oil and natural gas will decline gradually over next couple of months. Monetary policy outlook reflects these assumptions as well. At this point we do not expect major negative impact on growth.

Long lasting conflict in Middle East is considered as an adverse scenario at this point. In such case we would follow with an update of economic outlook in which we would consider more closely following aspects:

- Elevated prices of oil and natural gas throughout a year
- Greater impact on food prices bringing second round effects into play
- Change in the interest rate outlook as space for interest rate cuts would be narrowing
- Negative impact on growth prospects would be rather contained
- Interventions of governments to shield the households and business from high energy prices rising fiscal risks in environment where fiscal headroom may be limited
- Adjustments of bond market projections and FX for non-Eurozone countries

Fixer-upper: Romania’s long-overdue repair job

Romania's economy entered 2026 like a house undergoing long-overdue renovation: the structure is sound enough, but two technical recessions, near-double-digit inflation, and a deficit left unattended for years have exposed cracks that cosmetic fixes can no longer conceal. The builders are finally on site - investment mobilized through EU funds, fiscal consolidation tightening what had been left loose, and a central bank wisely refusing to turn the heating back on until the roof is properly sealed. The coalition holding the deed understands that halting the work mid-project would leave the property worth less than when they started. The renovation plan looks credible on paper; the question, as with any ambitious rebuild, is whether the budget holds, the contractors deliver, and the owners resist the temptation to move back in before the plaster is dry.

Source: Eurostat, Refinitiv, Erste Group Research

March 11, 2026

Navigating slow waters in a stormy geopolitical sea

The economy grew by just 0.7% in 2025, fractionally below the previous year, and, more importantly, a second consecutive year of growth well below-potential, despite budget deficits that most EU peers would consider alarming. The 4Q25 breakdown brought no major revisions, only confirmation that the economy contracted sharply q/q, sealing Romania's second technical recession in as many years and delivering the clearest verdict yet that the old consumption-driven growth model has run out of road. We maintain our forecast of 1.0% GDP growth in 2026, though we see risks in both directions. Investment should take the baton, supported by substantial EU funds in the final stretch of the Recovery and Resilience Plan and the government's belated commitment to maximizing absorption. Household consumption is likely to remain subdued through mid-year - tight financial conditions and lingering real-income pressures are hardly the ingredients of a spending boom - before a tentative recovery emerges in the second half, while net exports should be broadly neutral. Romania's structural competitiveness constraints persist, and these imbalances - most visible in the trade balance - continue to cloud the medium-term outlook. The broader geopolitical environment adds a further layer of uncertainty: an escalation of regional tensions or a renewed and prolonged spike in energy prices would weigh directly on growth while simultaneously feeding upside pressure on inflation, a stagflationary combination that would leave policymakers with even less room to maneuver.

Source: Eurostat, Refinitiv, Erste Group Research

March 11, 2026

Dovish cut in August rather than hawkish cut in May

Inflation closed 2025 near double digits and eased only marginally in early 2026 - a reminder that disinflation, much like fiscal consolidation, is easier to forecast than to deliver. A sharp drop is expected in the summer once electricity liberalization and indirect tax effects fall out of the statistical base; until then, the headline rate will trace a frustratingly flat path. We see CPI settling at 4.6% by year-end, with core not far behind. The outbreak of the war in Iran poses significant upside risk to our call. The gas price cap extension until 2027 limits regulated energy risks, while fiscal consolidation should dampen demand - one of austerity's few silver linings. Headline inflation could return within the NBR's tolerance band by 2027, assuming no major shocks - though, given the geopolitical landscape, that assumption does a fair amount of work.

The NBR held its policy rate at 6.50% through early 2026 and shows little urgency to move. The governor's February press conference was unusually direct: the central bank will not risk its credibility until disinflation is printed in the data - not projected, not expected, but printed. This shifts our baseline for the first cut to August. We see the policy rate closing the year at 5.75%, with further easing continuing into 2027. On the exchange rate, the NBR's preference for FX stability remains the one constant in Romanian macro: the EUR/RON has traded in a tight range since mid-2025 and should stay anchored until the sharp disinflation later in the year opens the door to a gradual drift higher. In the longer term, the EUR/RON should continue to depreciate in line with the inflation differential vs. the Eurozone. Weak macro fundamentals, particularly the large current account deficit, continue to support our view that the RON is currently somewhat overvalued against the EUR.

Source: Eurostat, Refinitiv, Erste Group Research

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Stabilizing fiscal numbers, testing politics

The political backdrop, while calmer than a year ago, remains a latent risk. The pro-European coalition holds a comfortable parliamentary majority, but the fiscal package proved predictably unpopular - good economic policies rarely win elections - and opinion polls now favor the opposition. Snap elections remain unlikely before 2028, though political noise could build around the planned PM rotation within the coalition in 2027.

The fiscal picture, if not pretty, has at least become clearer. Romania likely closed 2025 with a deficit of around 8% of GDP -above the initial target, but mercifully below the revised estimate set in the second half of the year. Our 2026 forecast of 6.4% is broadly consistent with the consolidation path agreed with the European Commission. The adjustment package approved in August 2025 should suffice to realign the trajectory, though additional measures may prove necessary if improvements in tax collection and spending efficiency fail to materialize - and Romania's track record on both counts invites healthy skepticism. On the financing side, gross funding needs for 2026 remain substantial; as of early March, roughly a fifth had been secured, a decent start with the heavy lifting still ahead. Assuming gradual deficit reduction in line with the seven-year adjustment plan, the debt-to-GDP ratio is expected to peak at the end of the current decade before stabilizing. The durability of this consolidation hinges squarely on political stability, which is now the single most important variable in any Romania investment thesis.

All three major rating agencies currently place Romania at the lowest investment-grade level with a negative outlook. As a result, fiscal discipline and political stability will remain critical over the next 1–2 years. We do not expect the outlook to improve until it becomes clear that the government will stay committed to the fiscal adjustment path beyond 2026.

Source: Eurostat, Refinitiv, Erste Group Research

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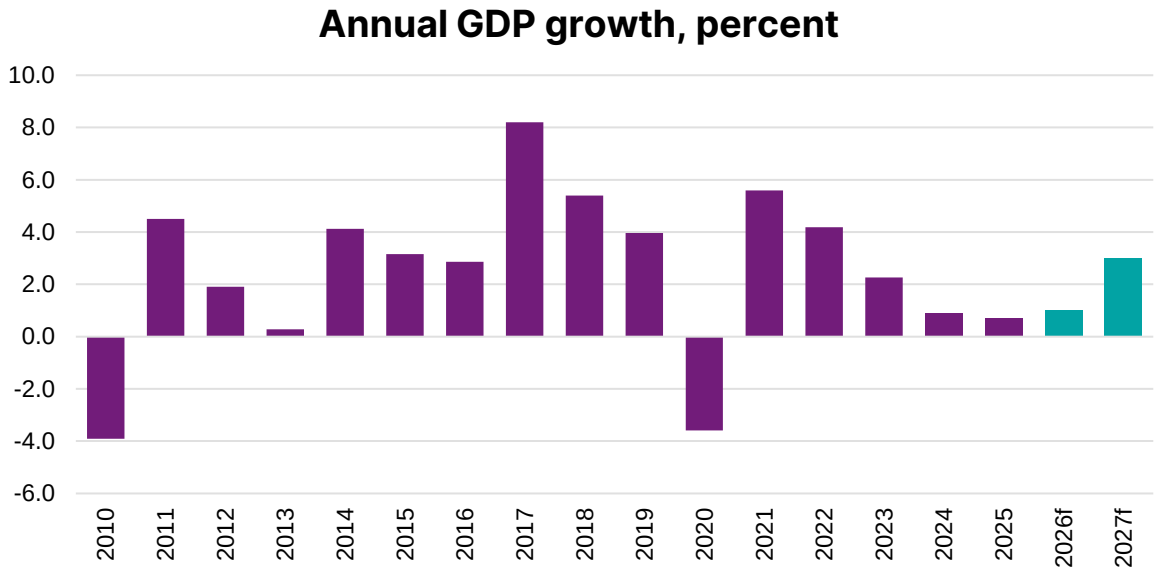
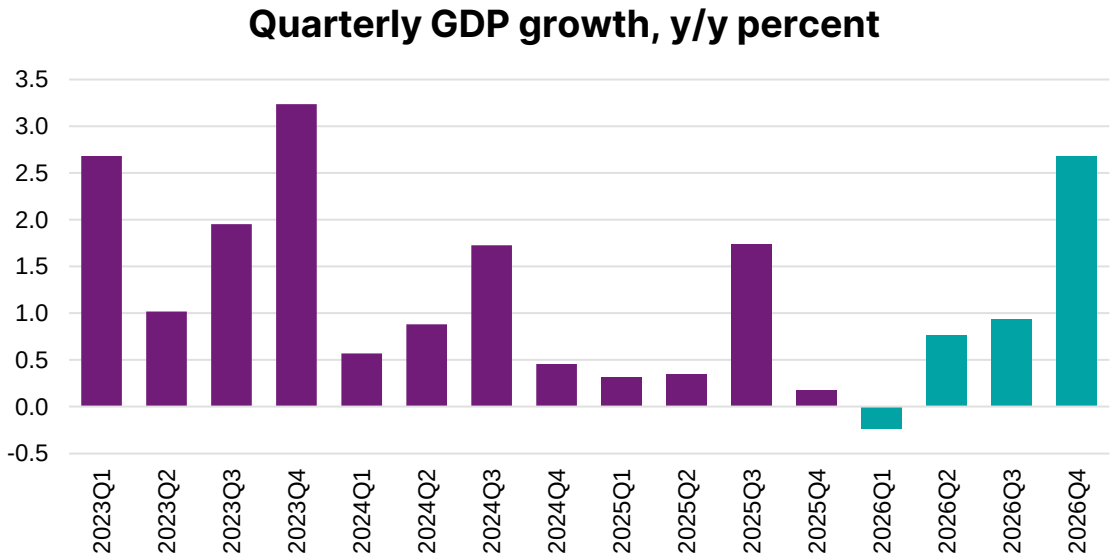
Investments suggest structural changes in growth model

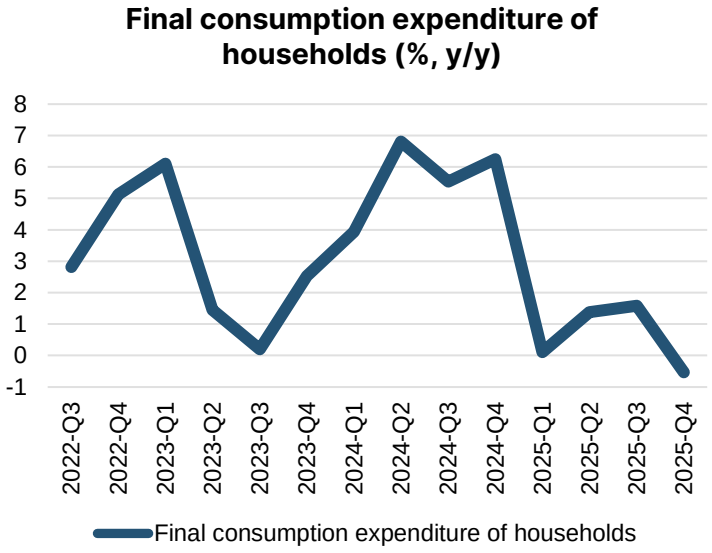


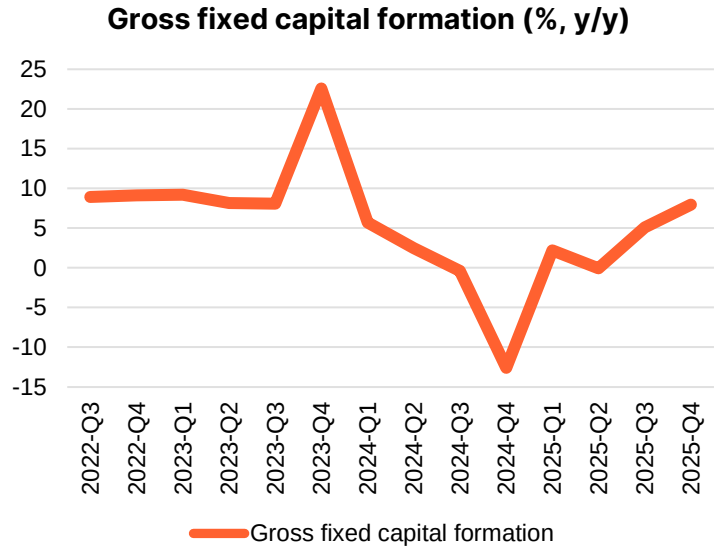


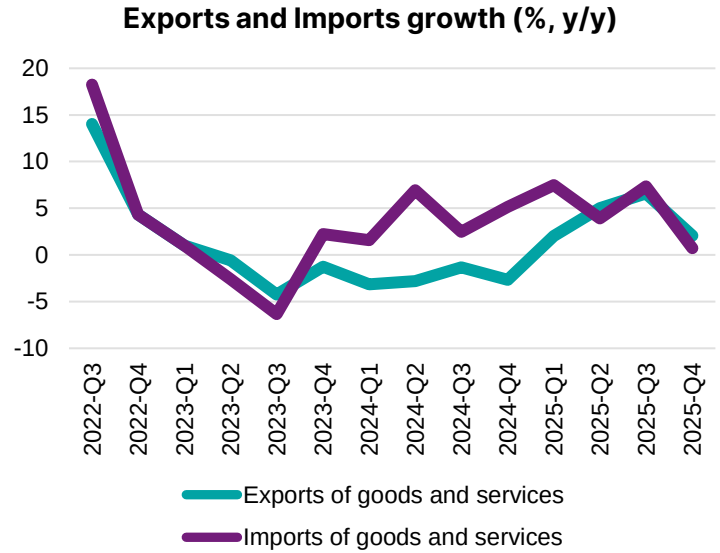
The 4Q25 GDP breakdown brought no major data revisions. The economy contracted by 1.9% q/q, following a decline in the previous quarter, confirming that Romania remained in a technical recession in 2H25 - its second episode after 1H24. On an annual basis, real GDP grew by 0.2% in 4Q25, bringing the full-year rate to 0.7%, slightly below the 0.9% recorded in 2024 and marking a second consecutive year of growth well below potential, despite large budget deficits. This reinforces that the consumption-driven growth model is largely exhausted, and has contributed to sizable external imbalances. We maintain our forecast of +1.0% GDP growth in 2026. Household consumption is expected to stay subdued through mid-year, due to tight financial conditions and lingering real-income pressures. In contrast, investment should accelerate, supported by substantial EU funds available in 2026 and the government's commitment to maximizing absorption, which will boost capital formation and partly offset weak private demand. Net exports are likely to be broadly neutral for growth, with a chance of a modest positive contribution if external demand stabilizes. However, stronger imports in the second half - driven by a pickup in investment and consumption - pose a mild downside risk. The carry-over from late 2025 also weighs on 2026 growth prospects.

Source: Eurostat, Refinitiv, Erste Group Research

Economic growth structure – investment-driven growth







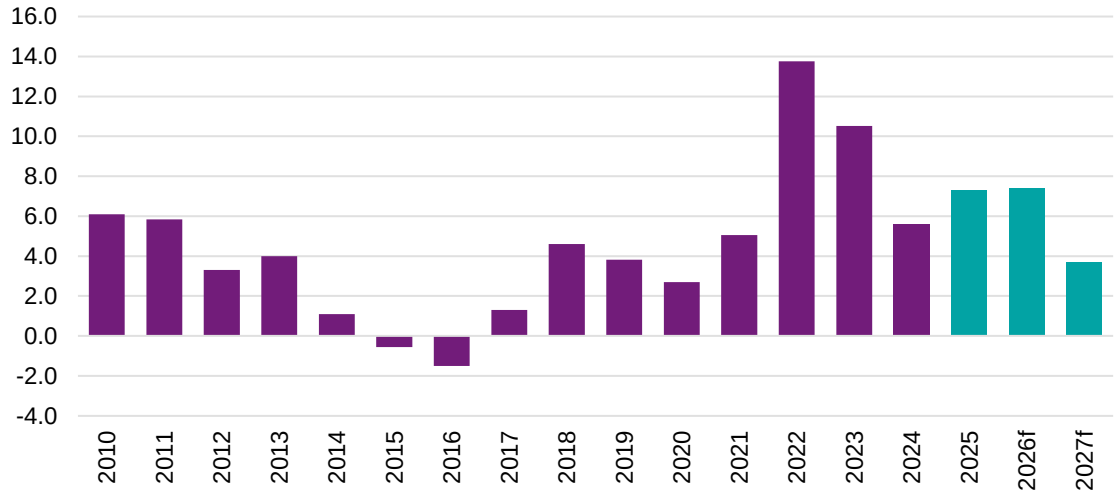
On the supply side, agriculture contributed +0.2pp to the +0.7% GDP growth in 2025. Industry was neutral, while construction was the strongest contributor with +0.5pp. Services were broadly neutral at -0.1pp, though some growth momentum came from the IT&C sector. Net taxes added +0.1pp.

On the demand side, private consumption contributed +0.4pp to the +0.7% GDP growth in 2025, while public consumption took away -0.3pp. This shows overall depressed consumption in 2025. In contrast, investments were the primary growth driver, adding +1.0pp, mainly on base effects, considering that the quarterly evolution was relatively flat. Net exports had a positive contribution in 4Q25 but took away -0.6pp looking at the full-year picture. Inventories had a relatively neutral contribution in 2025, adding 0.2pp to the GDP growth.

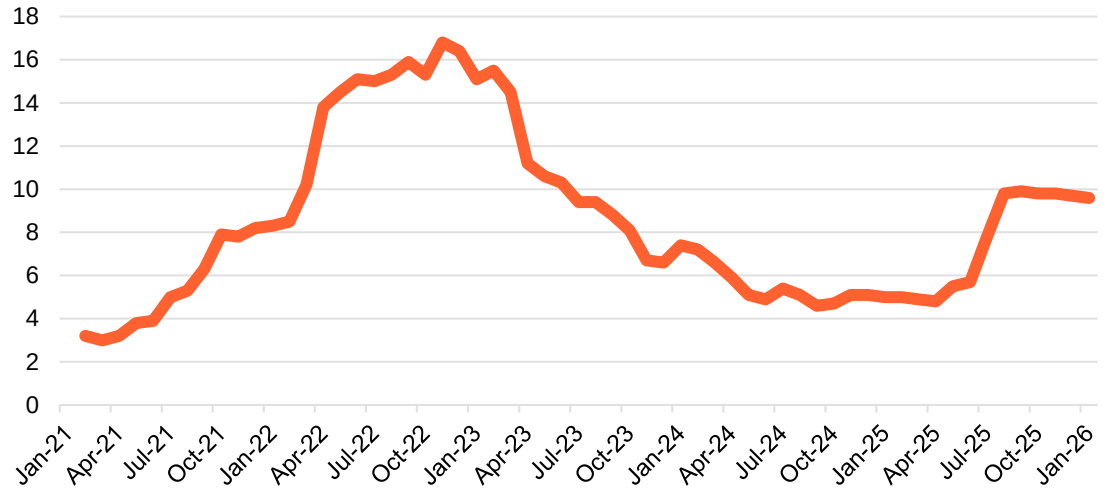
Source: Eurostat, Refinitiv, Erste Group Research

Inflation: persistently high in 1H26, driven by base effect

Annual inflation, percent



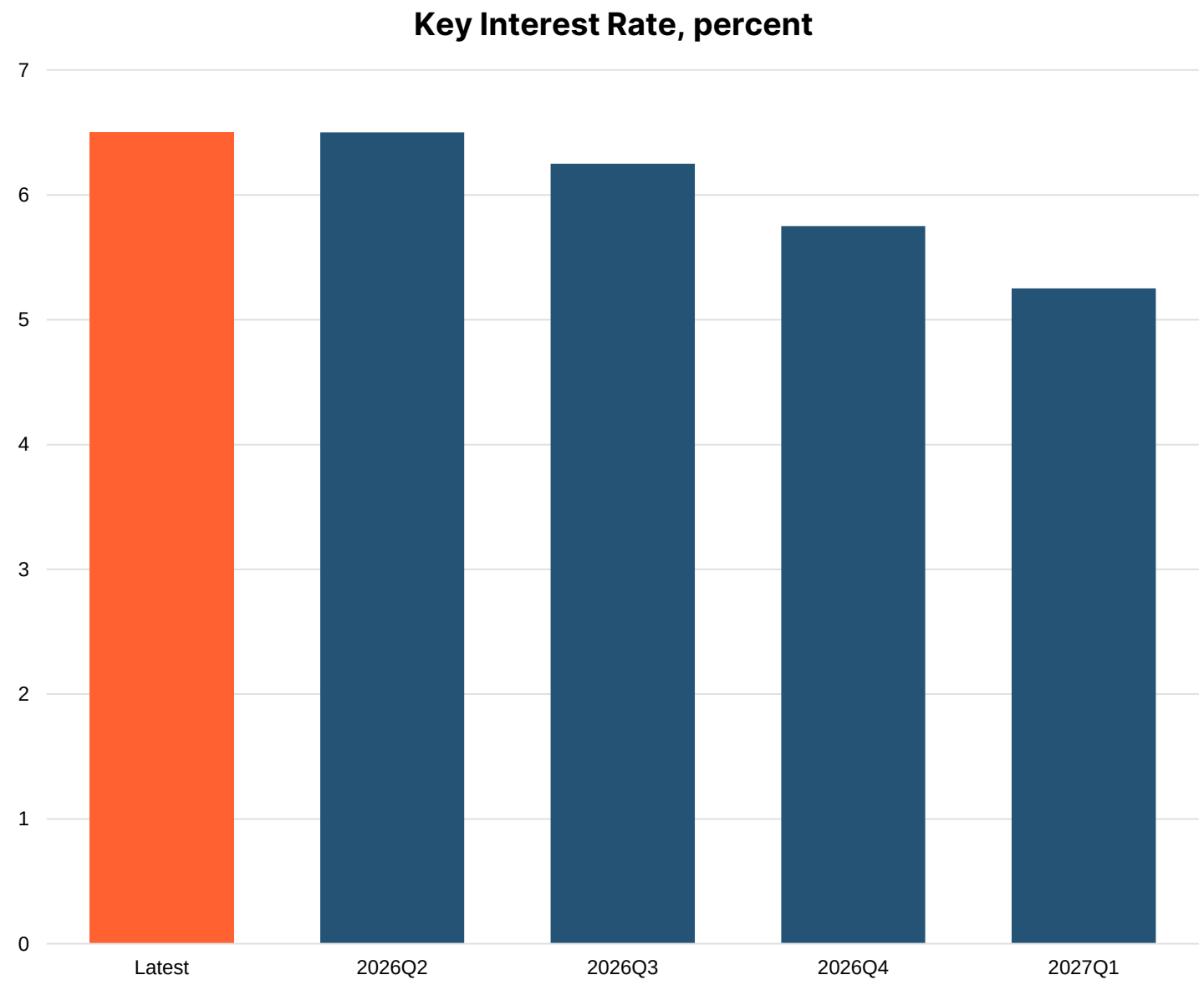
Monthly inflation development, y/y percent



The annual inflation rate closed 2025 at 9.7% and eased slightly to 9.6% in January 2026, coming in above market expectations. Based on base effects, sharp disinflation is still anticipated for July–August, once the impact of electricity price liberalization and indirect tax increases drops out of the yearly comparison. Until then, inflation is likely to follow a relatively flat trajectory through the first half of 2026. We forecast year-end 2026 CPI at 4.6% y/y. Fuel prices went up significantly in March due to the outbreak of the war in Iran, prompting us to add +0.2pp to our year-end call. The extension of the natural gas price cap until 2027 means that upside risks from regulated gas prices are largely contained. The cap on markups for selected basic food products may also be prolonged and potentially linked to an inflation threshold, but some upside pressure could come from this side if not. Core inflation is projected to end 2026 at 4.0% y/y. At the same time, the swift implementation of the fiscal consolidation package should dampen aggregate demand, helping to alleviate price pressures. Looking ahead to 2027 - and assuming no major adverse shocks - the headline inflation rate could return to within the NBR's target range. Given the current geopolitical landscape, some short-term upside pressures on energy and fuel prices could emerge.

Source: Eurostat, Refinitiv, Erste Group Research

Monetary policy



The NBR kept the key rate unchanged at 6.50% during the first two meetings of 2026.

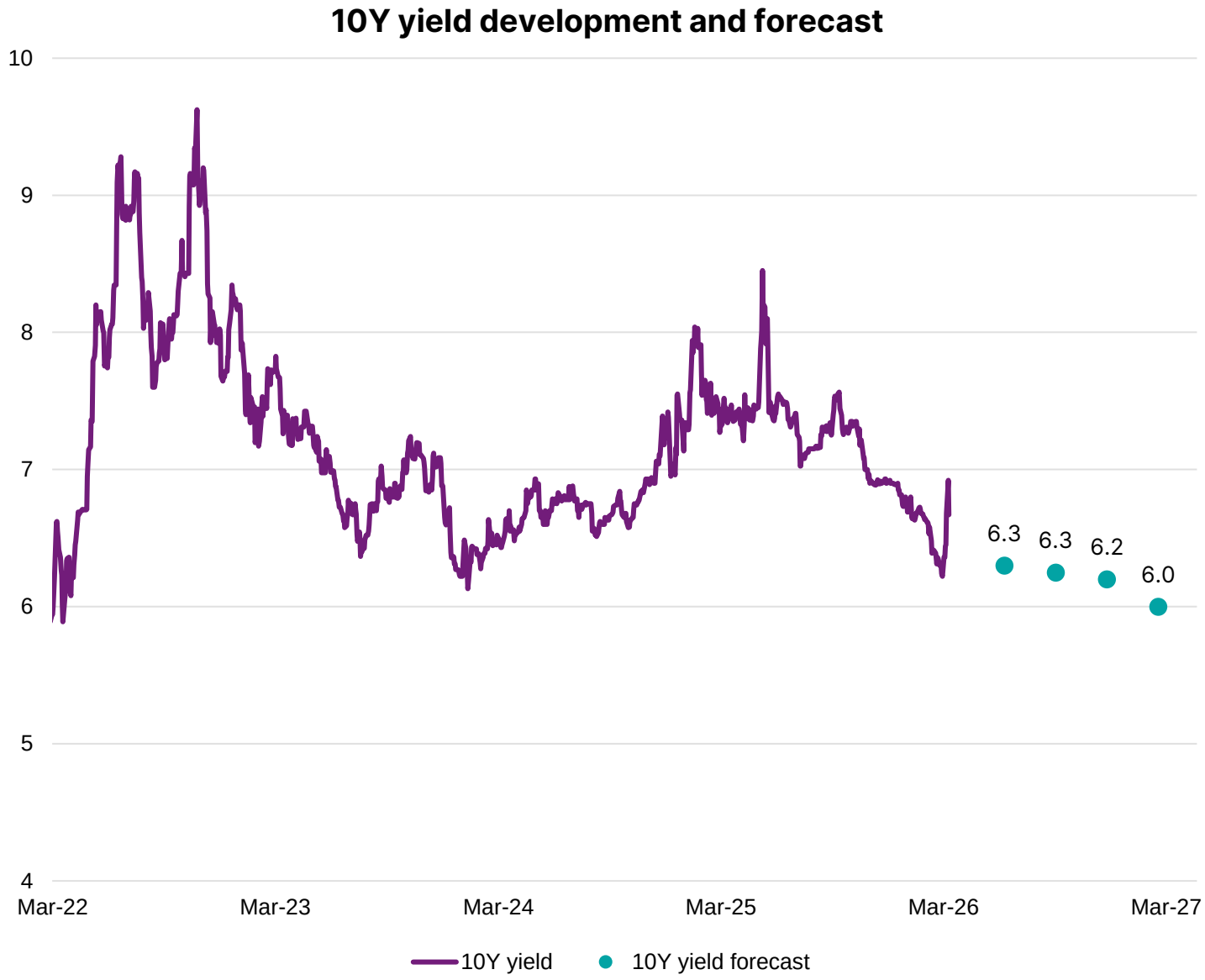
The NBR governor's press conference after the February meeting offered quite direct forward guidance: the central bank is not willing to risk its inflation fighting credential until the inflation collapse is printed in the readings/headlines. Even if the domestic fiscal/political outlook becomes somewhat more predictable and CEE central banks deliver some rate cuts by May, the inflation drop certainty seems a prerequisite for a rate cut. This makes August our new baseline for the first rate cut since August 2024.

With three meetings, August included, for the remainder of the year, we see the key rate at 5.75% by end-2026, as we do not expect bolder than 25bp cuts. We pencil in three additional cuts in rates in 2027, bringing the key rate to 5.00% and the deposit facility rate to 4.00%.

Source: Eurostat, Refinitiv, Erste Group Research

Yields and spreads

Following presidential election volatility, Romanian government bond yields have declined as fiscal consolidation measures eased fears of a rating downgrade. This triggered a strong rally in sovereign debt. We expect the 10-year yield to fall from 6.7% at end-2025 to 6.2% by end-2026. The 10Y-2Y spread is also seen widening to around 100bp, supported by 75bp of anticipated NBR rate cuts this year. This outlook is contingent on sustained fiscal consolidation progress, which is subject to political stability. Overall, market sentiment also plays an important role. In an environment marked by geopolitical uncertainty and rising oil and natural gas prices, yields could face upward pressure. At the same time, stronger-than-expected domestic growth could ease concerns by supporting fiscal revenues and improving debt sustainability. This would help anchor market confidence even if external conditions become less favorable.



Source: Eurostat, Refinitiv, Erste Group Research

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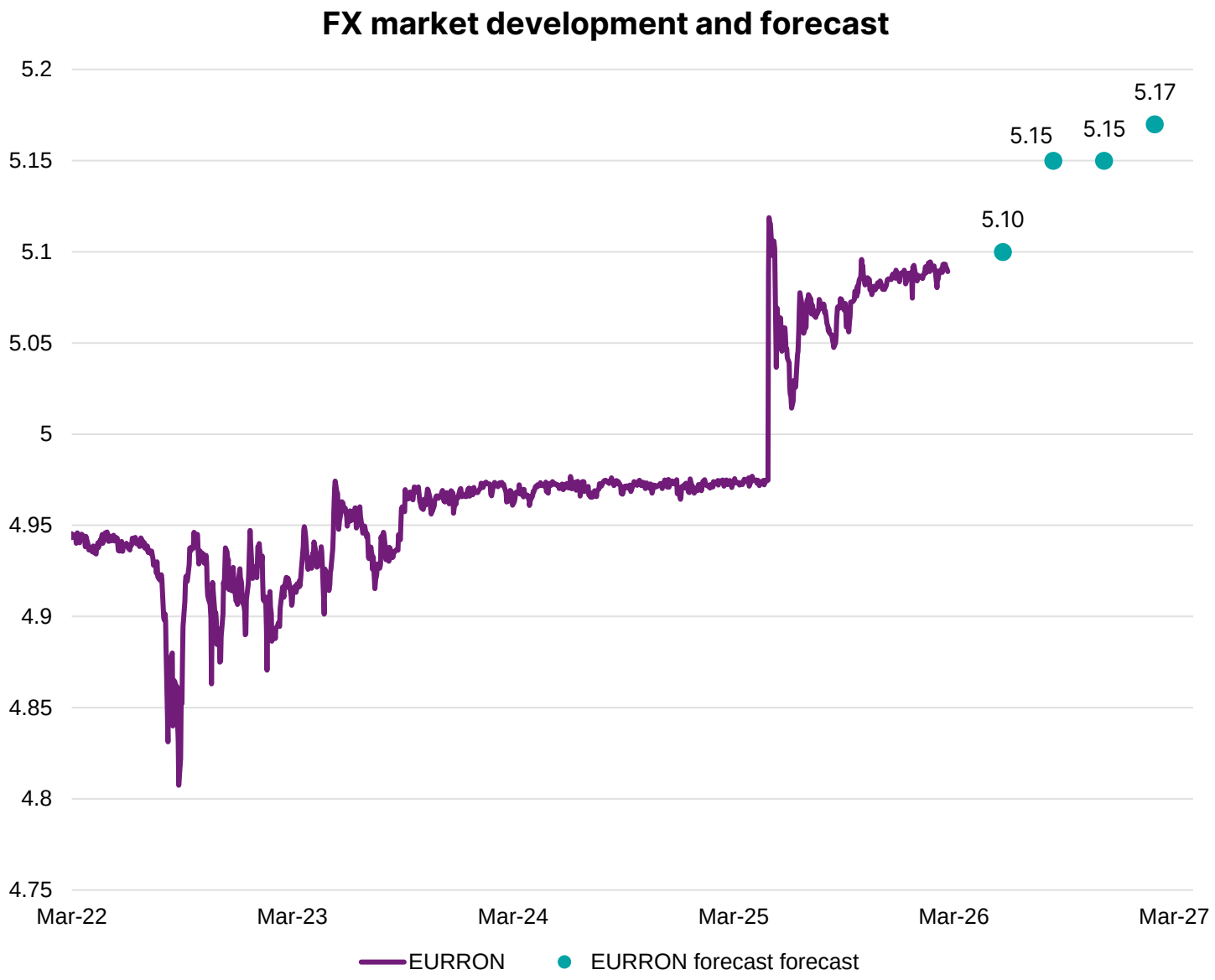
FX market

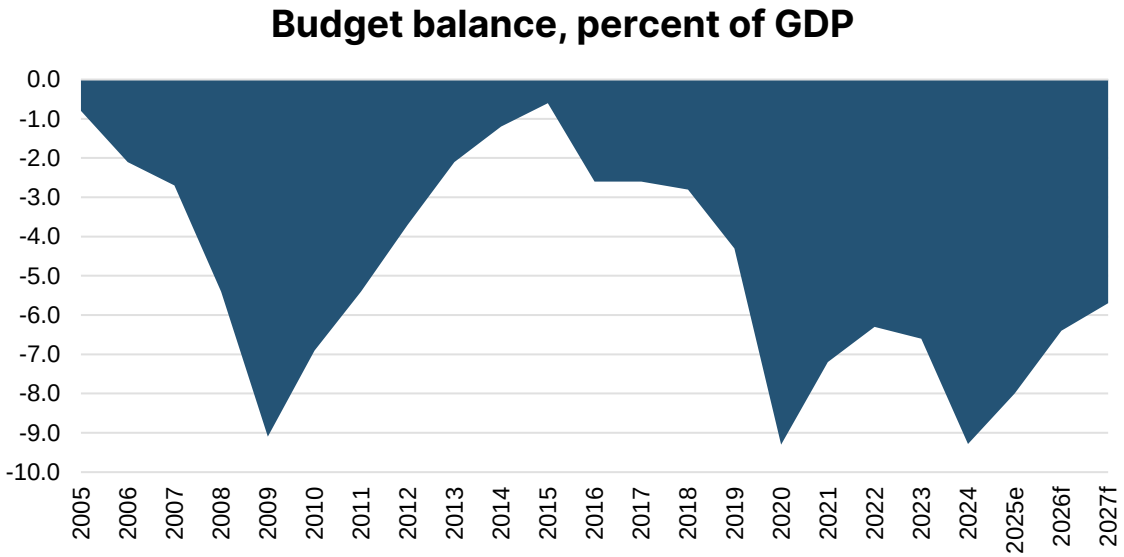


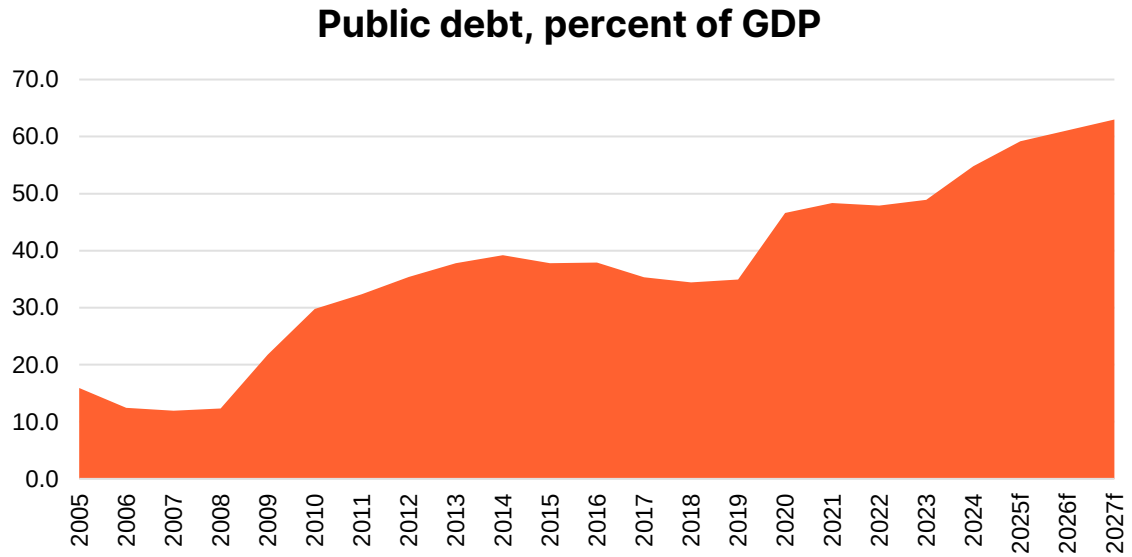
The exchange rate remains very important in the NBR reaction function. In the trade-off between higher interest rates vs. weaker RON, the NBR historically opted for FX stability. After the shift higher in May 2025, the FX has been stable, trading in a 5.05-5.10 range, mostly closer to the upper limit. As long as inflation remains high, we see the exchange rate stable, barring a black swan event. Once inflation sharply falls in 3Q26, a move higher of the upper bound of the range to 5.15 is likely. In February, the NBR governor warned that political instability may lead to RON deprecation.

In the longer term, the EUR/RON should continue to depreciate in line with the inflation differential vs. the Eurozone. Weak macro fundamentals - particularly the large current account deficit - continue to support our view that the RON is currently somewhat overvalued against the EUR.

Source: Eurostat, Refinitiv, Erste Group Research

Fiscal plans welcomed by investors and rating agencies





Romania likely closed 2026 with a budget deficit of around 8.0% of GDP - above the initial target of 7.0%, but below the revised 8.4% target set in the second half of the year. Parliament has yet to pass the 2026 budget bill. The recently published draft indicates the intention to aim for a deficit target of 6.0% of GDP (6.2% on cash). We forecast a fiscal gap of 6.4% for the year, consistent with the initial consolidation path agreed with the European Commission. The IMF projects a deficit of 5.8% of GDP in 2026. The adjustment package approved in August 2025 should be sufficient to realign the fiscal trajectory, though additional measures may be required beyond 2026 if the government fails to make sustained progress in improving tax collection and enhancing public spending efficiency. Assuming a gradual reduction in the deficit in line with the seven-year adjustment plan agreed with the European Commission, the debt-to-GDP ratio is expected to continue rising over the next few years, peaking at around 67–68% in 2028–29. Romania's gross financing needs for 2026 are estimated at approximately RON 285bn, based on a projected deficit of 6.4% of GDP. This implies net issuance of roughly RON 136bn. According to our estimates and official guidance, the gross Eurobond issuance plan is expected to total around EUR 10bn equivalent, with just over EUR 3bn in redemptions. The government has already completed successful external issuances of EUR 3bn and USD 2bn. Authorities are also counting on EUR 3.5bn in RRF loans, assuming full absorption of the remaining allocations - a realistic assumption given that the program was renegotiated in late 2025 to include mature projects with a high likelihood of timely delivery. In addition, the government expects EUR 2.5bn (15%) in pre-financing from SAFE. As of early March, roughly 22% of the year's gross funding needs for 2026 had already been secured.

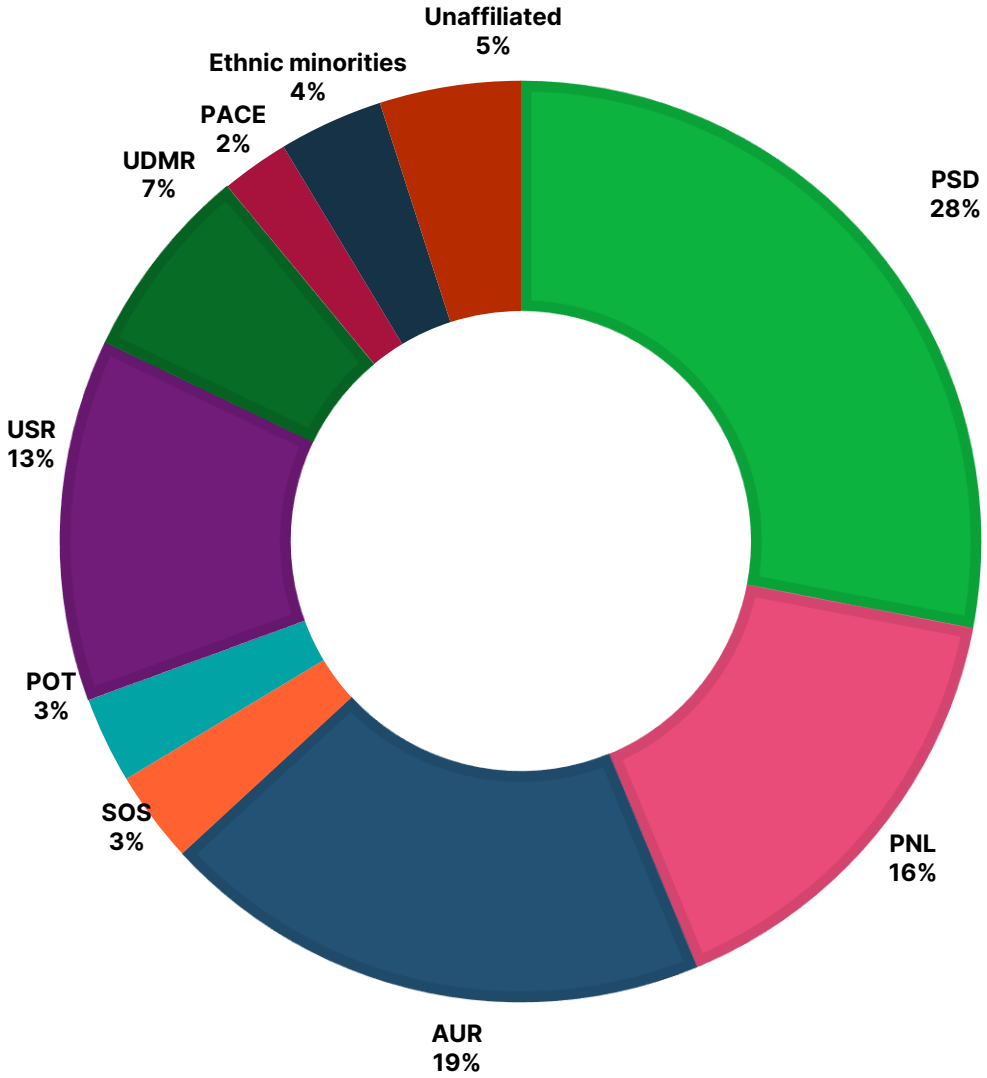
Source: Eurostat, Refinitiv, Erste Group Research

Political landscape

The current government is backed by a pro-European coalition controlling 67% of parliamentary seats, while far-right parties account for the remaining 33%. In early July 2025, the government introduced a comprehensive fiscal consolidation package aimed at restoring investor confidence and preventing a potential credit rating downgrade. As anticipated, these measures proved unpopular, and current opinion polls favor opposition parties. Although dissatisfaction within PSD toward the current PM and the coalition structure is growing, the likelihood of any decisive action remains rather low. Given the current macroeconomic and geopolitical backdrop, heightened political instability would be unwise for Romania.

Snap elections remain unlikely before the scheduled electoral cycle in 2028. However, political noise could intensify in 2027 with the planned prime ministerial rotation between PNL and PSD. Disagreements within the coalition over reform priorities may also emerge along the way as more measures are needed to bring the budget gap back to the 3% limit.

Parliament structure



Source: Romanian Parliament, Erste Group Research

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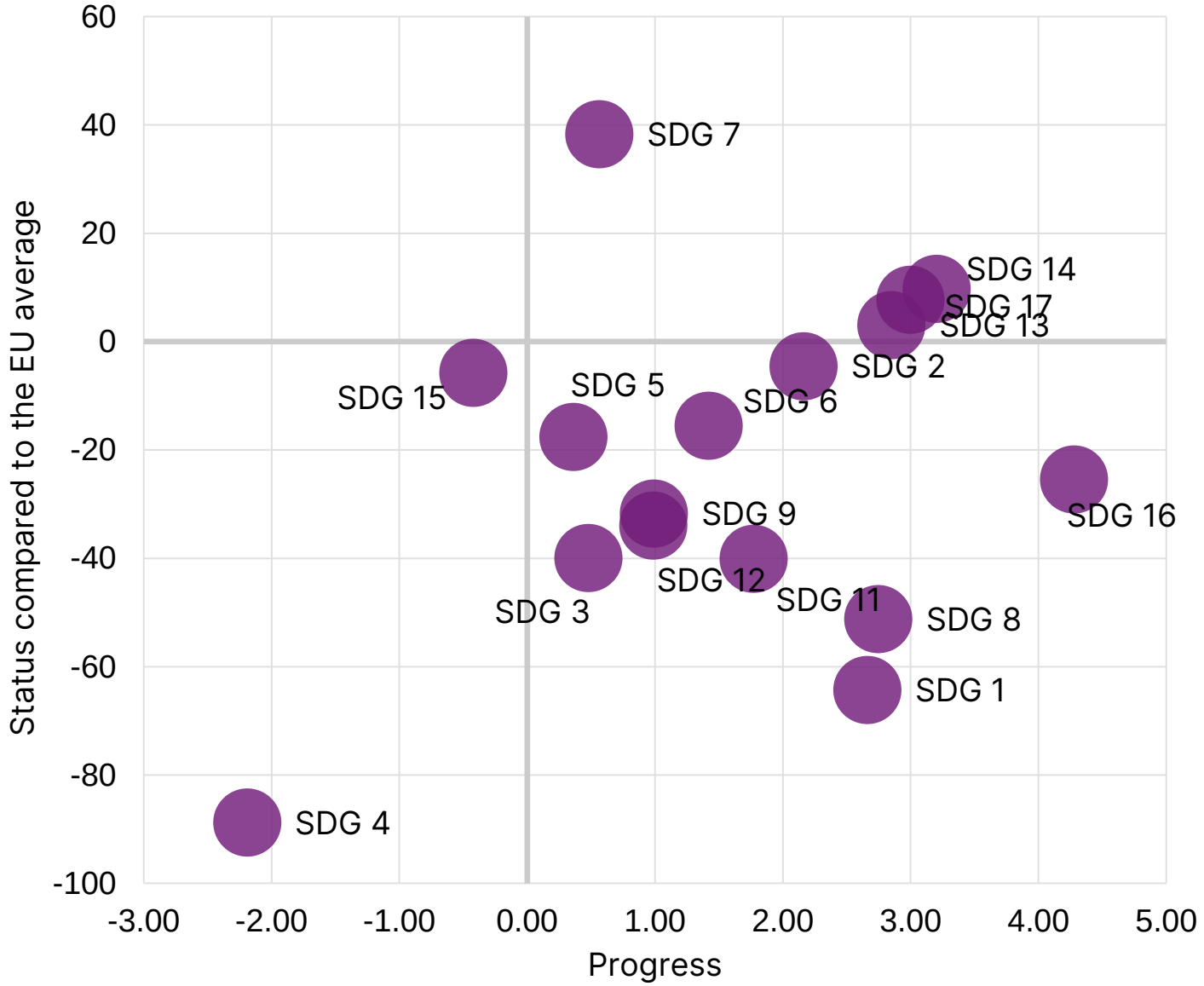
Social Development Goals



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

Source: Eurostat, Refinitiv, Erste Group Research

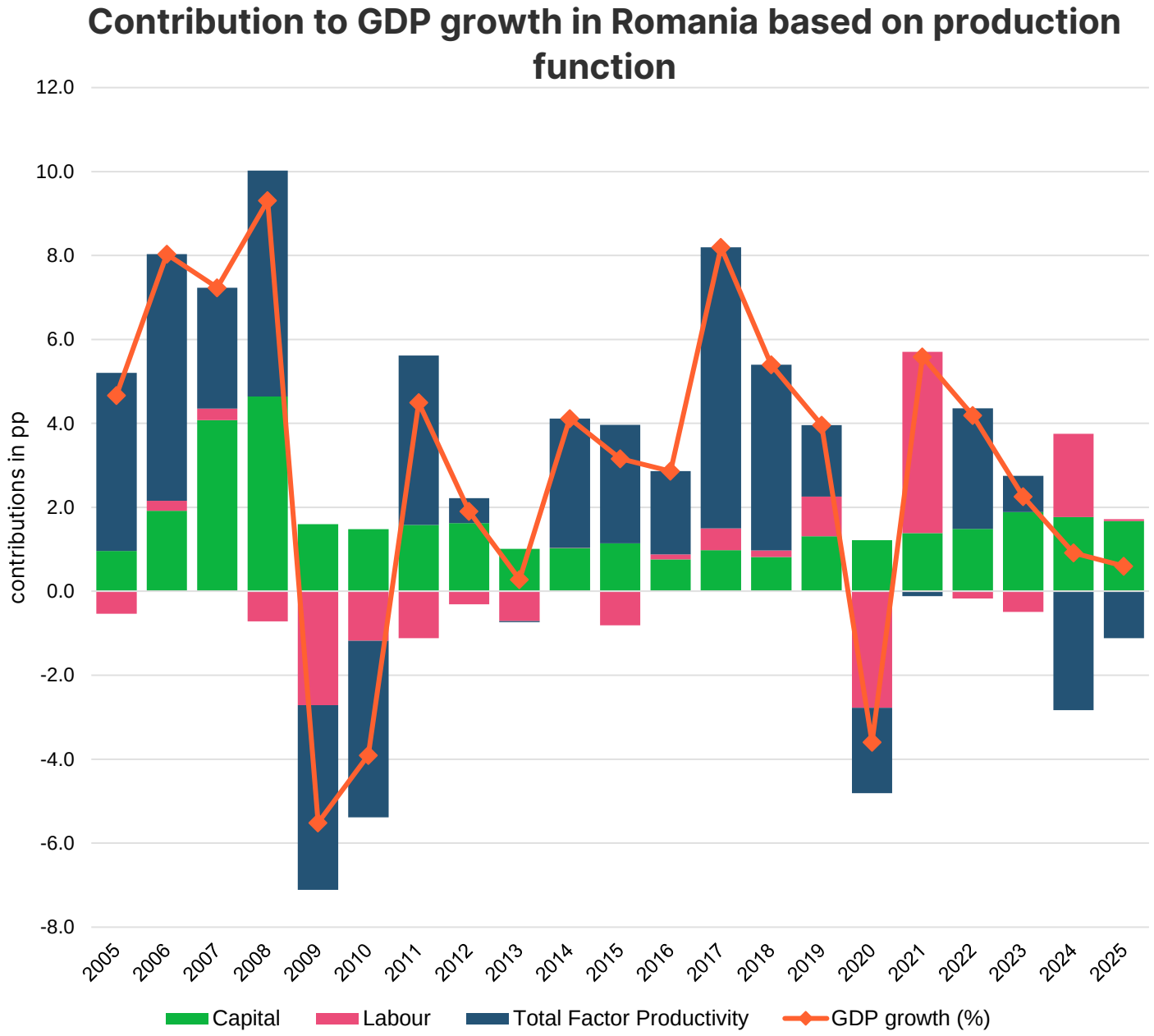
Assessing cyclical position of Romanian economy

Based on the production function approach, we estimate Romania's potential growth at roughly 2.2–2.3%. Romania has generally operated below-potential in recent years, with GDP growth of just 0.9% in 2024 and 0.7% in 2025. Barring major shocks, the economy could move back above-potential starting in 2027. A negative output gap can give the NBR confidence to begin cutting rates, as it indicates that aggregate demand is not exerting upward pressure on inflation.

ERSTE Group

Capital, labor, TFP… and many plot twists

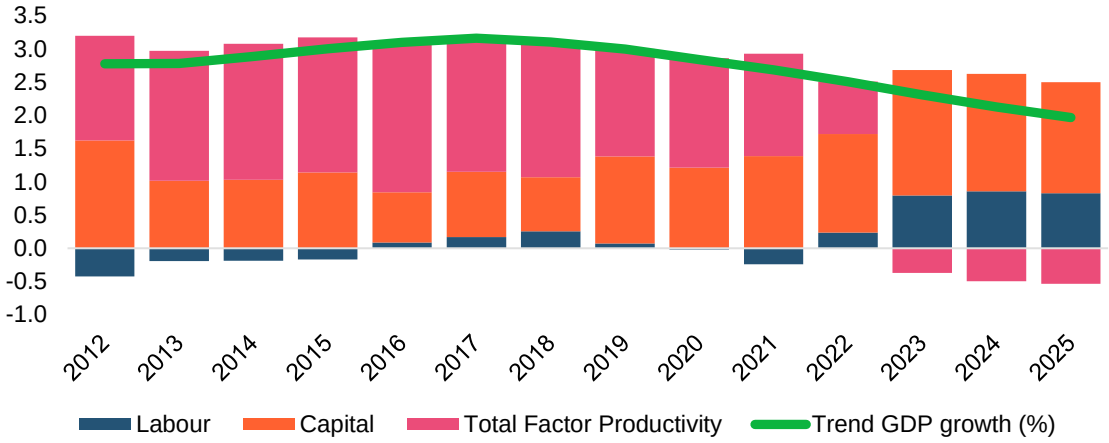
The production function approach is a well-established yet often underappreciated tool for analyzing GDP growth drivers. A standard Cobb–Douglas production function decomposes GDP growth into contributions from capital, labor, and total factor productivity (TFP) - the latter capturing how efficiently the first two inputs are used. Since Romania's capital stock has generally increased over time, fluctuations in labor input and total factor productivity have been the key make-or-break determinants of GDP growth. In the past couple of years, it seems that TFP had a relatively strong negative contribution to the GDP growth. This could reflect declining efficiency, structural rigidities, weak innovation or technology adoption, and/or misallocation of labor and capital. Temporary shocks - such as the energy price spike - may also have played a significant role.



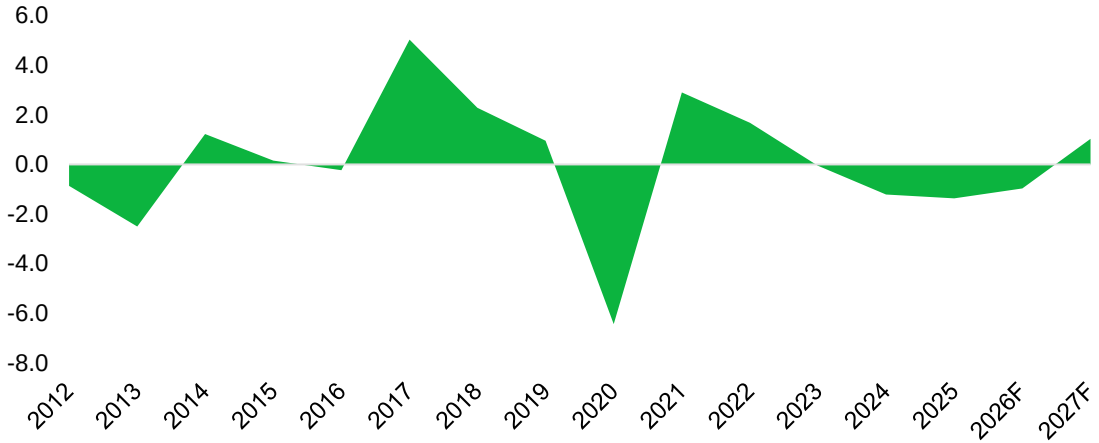
Source: Eurostat, Erste Group Research

Below-potential growth and case for rate cuts

What does the production function tell us about potential growth?



Romanian economy has generaly been running below porential in recent years



Based on the production function approach, we estimate Romania's potential growth at roughly 2.2–2.3%. It is worth noting that potential growth has been trending downward, especially in the post-COVID-19 period, largely due to weaker TFP contributions. This likely reflects weaker productivity, labor constraints, investment inefficiencies, and recent shocks such as energy-price spikes - all of which have reduced Romania's underlying growth potential.

Using the same production-function framework, Romania has generally operated below-potential in recent years, with GDP growth of just 0.9% in 2024 and 0.7% in 2025). Barring major shocks, the economy could move back above-potential starting in 2027. A negative output gap can give the NBR confidence to begin cutting rates, as it indicates that aggregate demand is not exerting upward pressure on inflation.

Source: Eurostat, Erste Group Research

Romania: Forecasts

	2019	2020	2021	2022	2023	2024	2025	2026f	2027f
Percent									
Real GDP growth	4.0	-3.6	5.6	4.2	2.3	0.9	0.7	1.0	3.0
Private consumption growth	3.0	-3.7	7.4	5.5	2.4	5.7	0.6	0.7	2.1
Fixed capital formation growth	14.9	-0.5	4.0	5.4	12.3	-2.5	4.1	1.8	5.0
Inflation	3.8	2.7	5.1	13.7	10.5	5.6	7.3	7.4	3.7
Unemployment rate	4.9	6.1	5.6	5.6	5.6	5.5	6.1	5.7	5.5
Percent of GDP									
Budget balance	-4.3	-9.3	-7.2	-6.3	-6.6	-9.3	-8.0	-6.4	-5.7
Public debt	35.0	46.6	48.3	47.9	48.9	54.8	59.2	61.1	63.0
Current account balance	-4.8	-5.1	-7.2	-9.6	-6.7	-8.2	-8.0	-6.8	-6.2
EURLCY	4.78	4.87	4.95	4.95	4.97	4.97	5.10	5.15	5.25
Central bank policy rate	2.50	1.50	1.75	6.75	7.00	6.50	6.50	5.75	5.00
3M interbank offer rate	3.2	2.0	3.0	7.6	6.2	5.9	6.1	5.0	4.3
2Y Yield	3.6	2.5	4.2	7.0	6.1	7.0	6.3	5.2	4.3
5Y Yield	3.9	2.6	4.8	7.8	6.2	7.2	6.7	5.8	4.7
10Y Yield	4.4	3.0	5.1	8.2	6.2	7.4	6.7	6.2	5.5

Source: Eurostat, Refinitiv, Erste Group Research

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Romania: Country overview

Official EU language: Romanian

Capital: Bucharest

Geographical size: 238 398 km2

Population: 19 067 576

GDP per capita: ~EUR 20 000, below the EU average

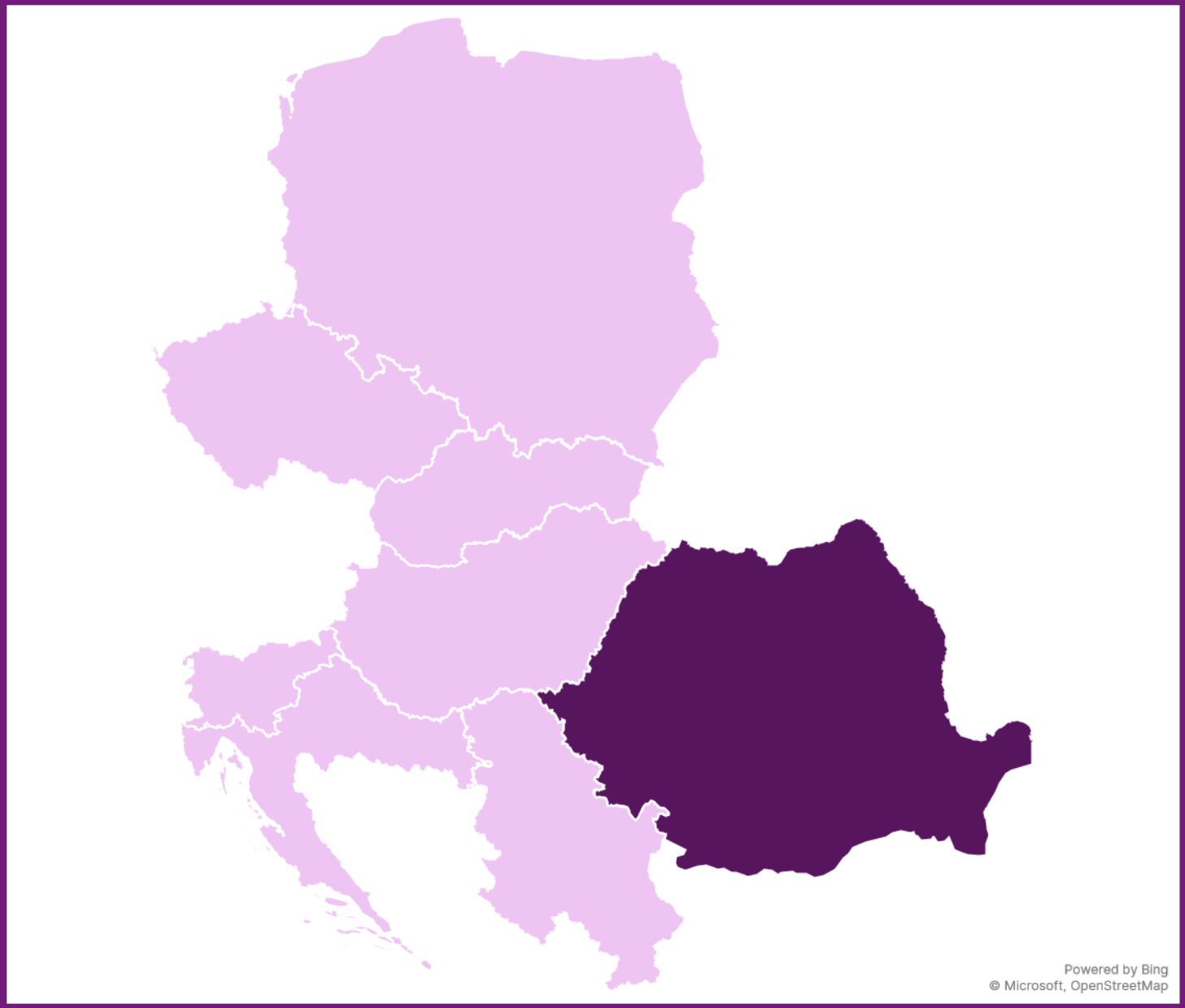
Currency: Romanian leu RON

Credit Ratings:

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

EU member state: since January 2007

Schengen: since January 2025



Source: Eurostat, Refinitiv, Erste Group Research
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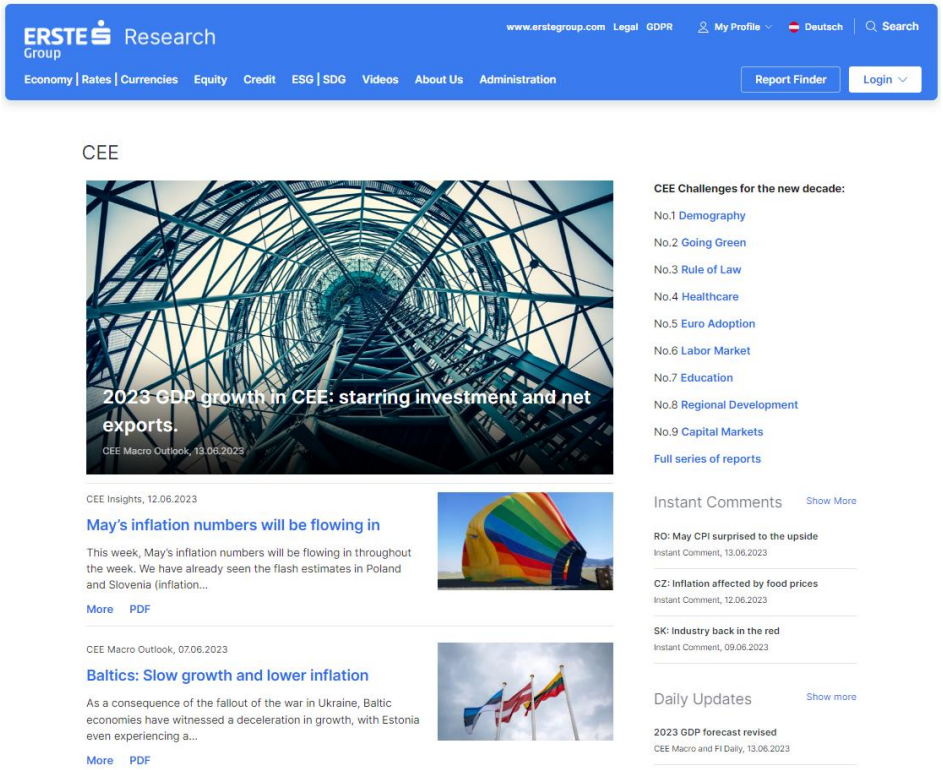

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