

ROMANIA

20

FISCAL AUSTERITY MEASURES

Electoral uncertainty weighed heavily on Romania's economic activity last year. In 2025 and 2026, real GDP growth is expected to improve only slightly. Inflation has accelerated over the past two months and will continue to rise in the short term, while it is ticking lower in all Central European countries. However, the monetary authorities are not expected to change gear and will likely maintain a status quo in the short term. As for fiscal policy, the scope for supporting the economy is significantly reduced due to significant consolidation measures.

The political landscape has been marked by considerable electoral uncertainty in 2024-2025. The presidential elections have put Romania in the spotlight, particularly due to the cancellation of the first round results in December 2024 and the holding of new elections last May. This period of uncertainty has had economic consequences.

MODERATE REBOUND IN GROWTH IN THE SHORT TERM

Last year, Romania's economic growth was among the weakest in the region, due to a more pronounced slowdown in Q3 and Q4 2024. The first quarter of 2025 was also disappointing, with GDP growth barely positive. The rebound observed in Q2 (+1.2% q/q; +2.3% y/y) was a good surprise. However, it was mainly driven by inventories, while the breakdown of components reveals the fragility of domestic demand. The rise in consumption, which is usually the main driver of growth, continues to lose momentum (falling from +5.8% y/y in Q3 2024 to 0% in Q2 2025). Investment growth has weakened significantly. Similarly, subdued foreign trade has weighed on GDP growth. Exports grew more slowly than imports.

The fiscal austerity measures announced immediately after the presidential elections will slow down short-term growth. Our forecasts have therefore been revised downwards for 2025 (1.1%) and 2026 (1.5%). However, growth is still expected to pick up slightly after the low point in 2024 (0.8%).

Consumption will be mainly held back by rising inflation, induced by the increase in VAT rate from 19% to 21% since last August. Pensioners and civil servants will also be affected by the freeze on pensions and salaries until the end of 2026. Furthermore, the fiscal measures were anticipated and had already led to some caution among households. The deterioration in confidence indicators and retail sales (month-on-month) had already been apparent since July.

The expected slowdown in consumption should nevertheless be offset by stronger investment, itself driven by European funds (EUR 28.5 billion allocated). A substantial portion remains to be released between now and the end of 2026.

In the medium term, growth should strengthen and converge towards its potential of 3.75% (IMF estimate), thanks to European funds and the expansion of nearshoring activities, which are supporting the investment outlook.

RISING PRICES AND MONETARY POLICY ON HOLD

Inflation is accelerating and is already approaching double digits, driven by the removal of the energy price cap in July and the recent increase in the VAT rate (*Chart 1*). Romania now has the highest inflation rate in Central Europe and even within the EU (9.2% y/y on average in Q3 2025). The Central Bank now forecasts inflation of 8.8% y/y at the end of December 2025 (compared with the 4.6% previously forecast).

FORECASTS

	2022	2023	2024	2025e	2026e
Real GDP growth, %	4.0	2.4	0.8	1.1	1.5
Inflation, CPI, year average, %	12.0	9.7	5.8	7.4	6.6
General gov. balance / GDP (%)	-6.4	-6.6	-9.3	-8.4	-6.0
General gov. debt / GDP (%)	47.9	48.9	54.8	58.8	60.4
Current account balance / GDP, %	-9.5	-6.6	-8.2	-6.5	-5.8
External debt / GDP, %	54.6	56.4	57.5	57.9	57.2
Forex reserves, EUR bn	52.3	66.0	70.5	77.0	83.0
Forex reserves, in months of imports	5.3	6.9	7.1	7.7	8.0

TABLE 1

e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

ROMANIA: CONSUMER PRICE INFLATION

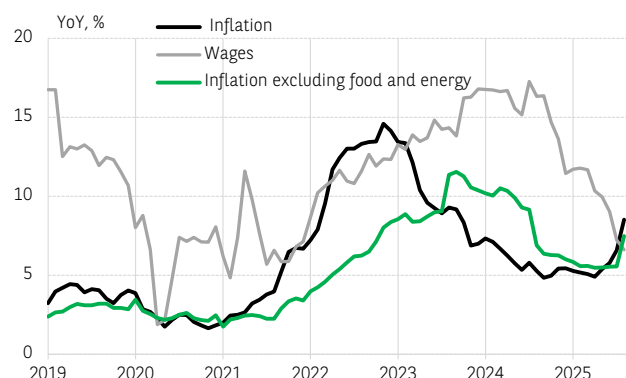


CHART 1

SOURCE: EUROSTAT, NATIONAL INSTITUTE OF STATISTICS, BNP PARIBAS

Inflationary pressures will persist in the coming months (without returning to 2023 levels), before gradually easing as the effects of VAT dissipate. This year, inflation could exceed 7% on average, and a return to the target range of 2.5% (± 1 point) is not expected before 2027. Romania stands out from other Central European countries, where the trend is towards a gradual decline in inflation.

Regarding monetary policy, the status quo observed since August 2024 reflects a certain degree of caution and the return of inflationary pressures. A change of course is unlikely in the short term. The monetary authorities have limited room to manoeuvre due to the deterioration in the inflation outlook and downward pressure on the Romanian currency.


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These pressures emerged during the election period and are proving difficult to recede. The Romanian currency is still above the threshold of 5 against the euro. The key interest rate is therefore likely to remain unchanged at 6.50% until next summer.

CURRENT ACCOUNT DEFICIT FINANCING MORE DEPENDENT ON PORTFOLIO INVESTMENT

Electoral uncertainties and US tariff jitters have not discouraged capital flows into Romania. In the first seven months of 2025, net foreign direct investment (FDI) reached EUR 4 billion, almost double the amount received in the same period in 2024 (January-July 2024: EUR 2.5 billion; 2024: EUR 4.7 billion). Net portfolio investment was also buoyant (January-July 2025: EUR 11.9 billion; 2024: EUR 12.4 billion).

Net inflows of foreign capital financed most of the current account deficit, which has widened during the post-COVID-19 period (reaching -6.6% of GDP in 2023 and -8.2% in 2024). While recent trends are fairly reassuring, the composition of capital flows has changed. Portfolio flows, which are more volatile than FDI, have played a more significant role in financing the current account deficit since 2023. This situation exposes the country to a reversal in foreign investor sentiment (which would lead to significant portfolio outflows).

However, Romania, like other Central European countries, should remain an attractive destination for foreign direct investment. In the short and medium term, the outlook for FDI remains good, supported by the reorganisation of global production chains and Romania's many advantages (wage competitiveness, EU membership, etc.).

FISCAL POLICY MARKED BY AUSTERITY

Shortly after the new Romanian president took office, a series of austerity measures, in agreement with the EU, were announced to restore public finances. These measures are equivalent to 1.2% of GDP in 2025 and 3.75% of GDP in 2026, and aim to contain expenditure and to increase revenue. Some measures have already been implemented since August. Without them, Romania would have not only risked losing its investment grade status from rating agencies, but could have faced temporary suspension of European funds by the European Commission. Indeed, public finances have deteriorated significantly since 2020 and the authorities had not taken any major consolidation measures until now. Public debt is now close to the 60% of GDP threshold, compared with 35% in 2019. The budget deficit widened to 9.3% of GDP in 2024, compared with 4.3% in 2019. The interest burden on the debt also increased by 1.2 percentage point between 2019 and 2024, to 2.4% of GDP, due to the increase in debt and the rise in its financing cost. The government bond yield is the highest in Central Europe (above 7% for 5-year bonds).

The authorities aim to reduce the budget deficit to 8.4% of GDP in 2025, then to 6% of GDP in 2026. These targets are considered credible by the Romanian Fiscal Council. Key measures include raising the VAT rate and the tax on alcoholic and sugary non-alcoholic drinks (+10%). Banks will see the tax on their revenues increase from 2% to 4% from 2025. Pensioners will also be required to pay health contributions if their income exceeds RON 3,000 per month. Several new tax increases are planned for 2026 (an increase in the tax on dividends from 10% to 16% and an increase in tolls of around 80%). On the expenditure side, the freeze on pensions and civil servants' salaries, in force since the beginning of 2025, has been extended until the end of 2026.

ROMANIA: GOVERNMENT DEBT BY CURRENCY OF ISSUE

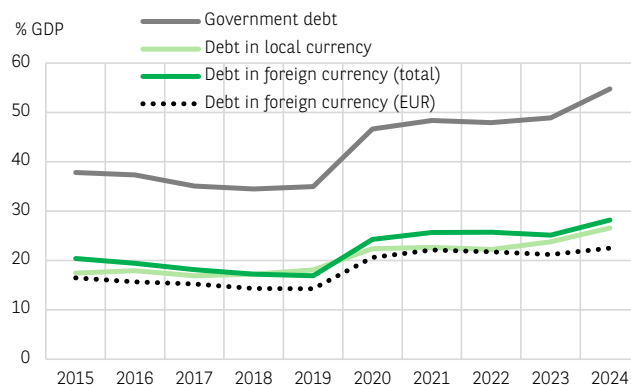


CHART 2

SOURCE: MINISTRY OF FINANCE, BNP PARIBAS

Further measures will be needed beyond 2027 to comply with EU fiscal rules. Reforms to increase the tax base remain a major challenge. Revenue as a percentage of GDP is structurally low (34.1% of GDP in Romania in 2024, compared with 42.8% in Poland and 46.5% in the eurozone).

Financing needs, which are rising given the increase in the budget deficit, have been covered by tapping domestic and international markets. In 2025, they are estimated at RON 259 billion, or 13.6% of GDP, and around 90% have already been covered according to the Ministry of Finance. The size of the foreign currency-denominated debt, mainly in euros (more than 40% of the outstanding amount), means that Romania is exposed to a tightening of external financing conditions (Chart 2). However, this risk is moderate.

Admittedly, the Romanian currency is exposed to exchange rate risk. The downward pressure on the currency observed recently illustrates this risk. However, this pressure should remain contained. Fluctuations in the RON against the euro have in fact been relatively limited in recent years, due to the "managed float" exchange rate regime.

The high level of foreign currency debt is explained by the government's increased use of international markets in recent years to reduce its financing costs. The Romanian market remains attractive, despite the deterioration in public finances.

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