BT RESEARCH

OUTLOOK

AUTUMN | 2026

DEAR READER,

Central and Eastern Europe has shown how much can change within a generation. Investment, entrepreneurship and European integration have transformed our economies and expanded our ambitions.

We are delighted to welcome **Piotr Bujak** from PKO Bank in Poland as our opening contributor. His perspective brings Poland and Romania into a shared conversation about the future of convergence: how investment can raise productivity, how institutions can support ambition and how our economies can prepare for a world in which growth will be harder earned.

It is a timely contribution and an encouraging reminder of the opportunities ahead.

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PIOTR BUJAK
Chief Economist, PKO Bank Poland

Piotr Bujak has over 25 years of experience in macroeconomic research and forecasting. Since 2016, he has served as Head of the Economic Research Department and Chief Economist at PKO Bank Polski.

His career includes extensive experience in international financial institutions, including roles as Chief Economist for Poland at Nordea Markets and Senior Economist at Santander Bank Poland.

He has also worked as an expert at the Centre for Social and Economic Research (CASE), one of Poland's leading economic think tanks, contributing to research and advisory projects internationally.

A graduate of the University of Warsaw, he has completed advanced training in econometric modelling, forecasting, and mathematical methods for financial markets, including programs at the Swiss Finance Institute and Cambridge Econometrics.

His forecasting expertise has been regularly recognized by Consensus Economics, Focus Economics, Forbes, Parkiet and Rzeczpospolita. Most notably, he has earned Parkiet's Economist of the Year title four times for the accuracy of his macroeconomic and financial market forecasts for Poland.

CEE LONG-TERM GROWTH OUTLOOK: FROM COST CONVERGENCE TO CAPITAL PRODUCTIVITY

CEE has been a very successful economic transition story, but it is entering a less forgiving phase of convergence. The model that powered the region after EU accession—low labour costs, abundant workers, foreign direct investment and rapid institutional catch-up—has not disappeared, but its marginal return is falling. The mechanisms that will sustain the region's development are changing.

Through 2030, growth will be dominated by an unusually large investment cycle financed by EU funds, defence budgets and energy-security spending. The central challenge is to turn investment in infrastructure, energy and security into additional productive capacity.

During the following decade, the harder task will be to sustain productivity growth as populations age and workforces contract. The region's prospects will increasingly depend on whether investments in the next few years will prepare economies for a future in which labour is scarcer and competition more demanding. The decisive variable will be whether countries convert infrastructure, digitalisation and human capital into total-factor-productivity growth.

Since my background is formed within the Polish economy, I will seek for a comparative view between the two countries, Poland and Romania illustrating the opportunities. Poland has the stronger starting platform: a substantial domestic market (USD 1 trillion economy), well-diversified business activity and considerable capacity to attract and develop investment. Romania offers significant scope for further catch-up, but that potential requires more consistent institutions and a durable correction of macroeconomic imbalances. Both can continue narrowing their income gaps with Western Europe. Neither should assume that the speed of past convergence can be maintained without substantial policy adaptation.

Our current economic positions differ sharply. As an example of CEE growth, we forecast that the Polish economy will grow by 3.5% this year and 2.8% in 2027, compared with a Romanian contraction of 0.2% in 2026 followed by growth of 1.8% the next year. These forecasts describe different cyclical circumstances rather than a permanent ranking of economic potential. Romania's adjustment could strengthen its medium-term outlook even while depressing current demand. Poland's stronger growth, meanwhile, should not obscure its own structural and fiscal challenges.

The investable question is not whether CEE will grow faster than Western Europe - it probably will. It is which countries can turn convergence into durable productivity without destabilization in the form of an elevated inflation, an uncontrolled rise of the public debt or a deterioration of the balance of payments position. Strong nominal GDP can flatter revenues and reduce debt ratios, yet it can coexist with inflation persistence, external deficits and weak real returns. Conversely, fiscal consolidation may depress near-term earnings while lowering term premia and creating a better medium-term entry point. For asset managers, such a distinction is crucial.

What is in store for major CEE economies for the remainder of the current decade and in 2030s? Poland offers a combination of scale, domestic demand and industrial depth, but increasingly expensive fiscal commitments. Romania offers greater catch-up potential and a more favorable energy endowment, but also a sharper test of policy credibility.

THE FIVE FORCES THAT WILL DETERMINE CEE PERFORMANCE

First, EU-funded investment will be the dominant cyclical accelerator at least until 2029 and a structural determinant thereafter. Poland's Recovery and Resilience

Plan is worth over €55 billion, while Romania's is nearly €30 billion. The post-RRF "cliff" in 2027 is a cyclical risk and a governance test, but cohesion funds and SAFE program extend the pipeline beyond the RRF. The macro multiplier of EU funds will depend less on headline absorption than on project quality: grids, rail, urban transport, digital public services and education raise potential output, while rushed construction or politically selected projects mainly raise imports and prices.

Second, demography turns labor from an abundant input into a binding constraint. Ageing and population decline will intensify across CEE, both Romania and Poland among the countries facing the largest rise in median age. The 2030s will reward economies that increase female and older-worker participation, integrate migrants, improve health outcomes, automate production and implement AI. Migration has already partly offset Poland's shrinking labor supply. Romania's challenge is broader: emigration, regional inequality, weak rural participation and skills mismatches coexist with pockets of world-class technology talent. Wage convergence is healthy only when productivity follows it.

Third, CEE must move from assembly-platform economics to innovation-led growth. Its integration into German and broader European supply chains remains an advantage but also exposes the region to weak euro-area manufacturing, Chinese competition in autos and other sectors as well as to geopolitical trade fragmentation. Nearshoring, defense production, batteries, business services and data infrastructure support investment, but it is no substitute for competition, research diffusion and predictable regulation. The winners will build domestic supplier ecosystems and intangible capital around foreign investment rather than merely offering land and labor.

Fourth, energy is simultaneously an inflationary risk, security issue, a competitiveness variable and the region's largest capital-expenditure opportunity. Electrification, grids and storage matter as much as generation. Poland's coal-heavy power system creates high transition costs but also a long runway for renewables, networks, efficiency and eventually nuclear power. Romania starts with a more diversified mix—hydro, nuclear, natural gas and renewables—and has Black Sea natural gas potential, giving it a plausible route to regional energy relevance. In both cases, permitting, grid connections and regulatory stability will determine whether energy investment lowers industrial power costs or merely expands regulated asset bases.

Fifth, institutions and fiscal frameworks will determine the cost of capital. Defense, healthcare, pensions and the green transition all compete for budget space. CEE sovereigns can tolerate higher debt than in the past because markets are deeper and domestic savings higher, but they cannot permanently run high structural deficits. Central-bank credibility, fiscal discipline, judicial predictability and tax-system stability will be increasingly important.

POLAND: THE REGIONAL CORE, BUT NO LONGER A LOW-RISK CONVERGENCE TRADE

Poland remains CEE's anchor and a target to meet for several CEE countries in terms of GDP and overall economic growth. Its large domestic market reduces reliance on any single export sector. The principal macro vulnerability is fiscal position. Defense procurement explains a part of the deterioration in public finances and may generate future industrial spillovers, but social transfers, public wages and ageing-related expenditure are harder to reverse. The IMF, OECD, the European Commission and the Polish Fiscal Council all argue for sustained fiscal consolidation, which could derail the ongoing recovery towards the end of the current decade, after parliamentary election in late 2027.

Poland's upside case rests on converting the current investment boom into a productivity step-up. Grid modernization, offshore wind, logistics, defense

capacity and digital infrastructure can crowd in private capital. The country's engineering base, strengthening links to global trade routes and scale make it a natural hub for European strategic autonomy. A reduction of geopolitical risks and a more predictable political, legal and tax environment can reinforce FDI and reduce the equity risk premium. If productivity growth offsets labor scarcity, potential growth around 3% in the early 2030s is plausible.

The downside case is a drift toward fiscal dominance and high-cost growth: persistent deficits keep real rates elevated, regulated energy prices delay adjustment, wage growth exceeds productivity, and public investment crowds out private projects through labor and construction bottlenecks. Poland's 2030s challenge is especially stark. Once the EU-fund impulse normalizes and demographic decline intensifies, growth must come from innovation, capital deepening and higher labor participation. Policy priorities are therefore pension-age and labor-supply reform, better health outcomes, tax-base broadening, faster energy transition and stronger links between universities, domestic firms and multinational supply chains.

Across assets, Poland still deserves a strategic overweight relative to CEE because of liquidity, scale and corporate depth. But valuation discipline matters. Local bonds would benefit from credible fiscal consolidation and durable disinflation. The zloty benefits from strong productivity gains and solid external balance but is vulnerable to fiscal slippage and geopolitical shocks. Equities offer exposure to the growing strength of the Polish consumer as well as to infrastructure and industrial upgrading, while regulated utilities and state-influenced sectors require a higher governance discount.

ROMANIA: HIGHER GROWTH POTENTIAL, HIGHER CREDIBILITY RISK

Romania's long-run convergence record is impressive. Yet the economy entered 2026 with the region's most uncomfortable macro mix. Fiscal consolidation is unavoidable and, if well designed, investable. Measures adopted since late 2024 have substantially reduced the fiscal deficit. The package helped protect access to structural funds and investment-grade status. The danger is composition: cutting co-financed capital expenditure is easier politically than reforming tax collection, exemptions, public payrolls or inefficient state enterprises, but it damages future growth. Romania must preserve infrastructure investment while shifting adjustment toward durable revenue administration and expenditure efficiency.

The upside is unusually tangible. Transport corridors can integrate lagging regions with Central European supply chains and the Black Sea. Digital public administration can reduce compliance costs and leakage. Energy diversification and domestic natural gas can support security and power-intensive investment. A large diaspora offers skills, capital and potential return migration. Strong IT and engineering clusters provide a base for higher-value services. OECD recommendations — raising workforce participation, improving skills and digitalization, and strengthening competitiveness — map directly onto the country's potential-growth constraint.

Yet Romania's 2030s outcome will depend more on institutions than on available capital. Absorption capacity, procurement quality, tax predictability and the governance of state-owned enterprises will determine whether today's EU-financed assets raise productivity. Demography and regional disparities are more severe than headline national data imply. Education reform, more developed institutional childcare and targeted transport links could release labor supply. Without them, Bucharest and a few western cities may continue to converge while much of the country remains disconnected.

Credible fiscal delivery can compress sovereign spreads, stabilize the leu and unlock an equity rerating, particularly in banks, energy, infrastructure and domestically oriented companies. Failure would be transmitted through rating

pressure, higher funding costs, currency weakening and a longer inflation cycle. Unlike Poland, Romania has limited room to postpone adjustment: the current-account deficit means domestic demand cannot be financed indefinitely without a rising external risk premium.

THE REST OF CEE AND THE REGIONAL ALLOCATION FRAMEWORK

Elsewhere, Czechia and Slovakia retain strong manufacturing capabilities but face acute exposure to the European auto transition. Hungary combines industrial investment with a higher institutional and policy-risk premium. The Baltics offer digital sophistication and defense-driven investment but are small, extremely open and geopolitically exposed. Bulgaria and Croatia gain from euro-area integration while the Western Balkans' prospects hinge on EU accession credibility, infrastructure and institutional convergence. Across the region, security spending can support demand and industrial capacity, but only dual-use infrastructure, local supply chains and research spillovers raise potential growth.

A practical investment allocation framework should track five indicators rather than headline GDP alone: the (1) structural primary fiscal balance, (2) current-account financing quality, (3) EU-fund milestones and project composition, (4) productivity-adjusted unit labor costs, and (5) energy-system investment measured against grid capacity and industrial prices. Add institutional signals — court independence, procurement transparency, regulatory stability — and the dispersion of returns become easier to understand.

Through 2030, Poland is the superior compounder but carries rising duration and fiscal risk. Romania offers the greater rerating opportunity but requires evidence of execution. In the 2030s, both will face the same regime change: less labor, less automatic convergence and greater demand for domestic innovation. Poland's scale gives it more resilience. Romania's lower starting income and infrastructure gap provide more catch-up runway. The best outcome is not simply faster growth, but growth financed by productive capital, compatible with price stability and strong enough to service the social and security obligations of an ageing society. That is the distinction asset managers should price today.



PIOTR BUJAK
Chief Economist

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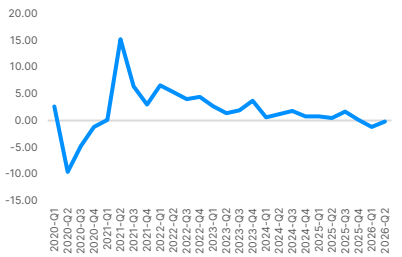
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IOAN NISTOR
Chief Economist, BT

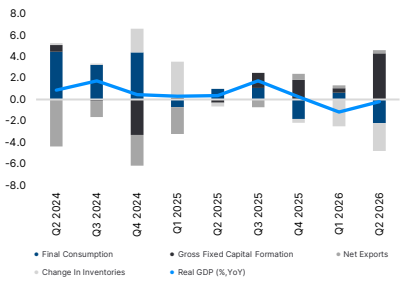
As your host – and following on Piotr's remarks – we will focus on the Romanian recent developments and perspectives.

ROMANIA REAL GDP GROWTH RATE % | Y/Y



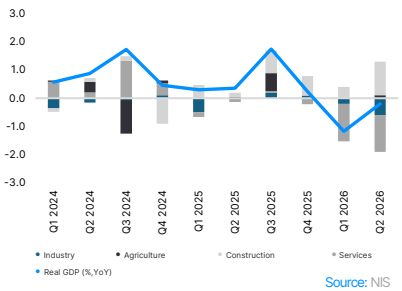
Source: Eurostat

CONTRIBUTION TO GDP (PP) – DEMAND



Source: NIS

CONTRIBUTION TO GDP (PP) – SUPPLY



Source: NIS

REAL GDP ANNUAL GROWTH RATE % | YoY



Source: Eurostat, NIS. Forecast data: BT

ROMANIA ECONOMIC OUTLOOK

Romania's economy contracted by **0.6%** year on year in the first half of 2026, but the second quarter provides tentative evidence that the decline is losing momentum. Real GDP decreased by only **0.2%** year on year on the unadjusted series in Q2 and was unchanged from Q1 after seasonal adjustment. **Stronger fixed investment** and **construction**, together with sequential gains in agriculture and several services, support our baseline of a smaller full year contraction of **0.2%**. Consumption and industry remain weak and the recovery is highly dependent on policy execution and the evolution of the Middle East conflict.

GDP PERFORMANCE IN THE FIRST SEMESTER OF 2026

GDP reached RON 907.2 billion at current prices from January to June 2026. Real output declined by 0.6% compared with the first semester of 2025 on the unadjusted series.

The semester combined a weak starting point with partial stabilisation. The revised series shows a 1.7% quarter on quarter contraction in Q4 2025, followed by a further 0.1% decline in Q1 2026 and no change in Q2. On the unadjusted annual comparison, the contraction narrowed from 1.2% in Q1 to 0.2% in Q2. The improvement therefore reflects an easing of the decline rather than a return to sustained expansion.

INDICATOR	Q1 2026	Q2 2026	H1 2026
GDP at current prices RON bn	406.1	501.1	907.2
Real GDP year on year unadjusted	–1.2%	–0.2%	–0.6%
Real GDP year on year seasonally adjusted	–1.4%	–1.9%	–1.6%
Real GDP quarter on quarter seasonally adjusted	–0.1%	0.0%	-

Source GDP data from NIS second provisional estimate

The expenditure breakdown shows the central tension in the economy. Household consumption fell by 2.5% in real terms over the semester, whereas gross fixed capital formation increased by 12.2%. Exports increased by 2.7% and imports by 2.0%. Investment was therefore expanding despite weak household demand, while the external sector offered some relief through slower import growth relative to exports. The nominal goods and services trade deficit nevertheless remained substantial at **RON 46.0 billion**.

The production structure was equally uneven. Construction expanded by 12.6%, agriculture by 3.8% and financial services by 1.2%, while industry contracted by 2.7%. The trade, transport, accommodation and food services group declined by 3.8%, information and communications by 3.4%, real estate by 5.3%, and professional and administrative services by 0.3%. Arts, recreation and other services grew by 11.4%, but their smaller weight limited their ability to offset weakness elsewhere. These are semester volume changes, not percentage point contributions.

GDP PERFORMANCE IN THE SECOND QUARTER OF 2026

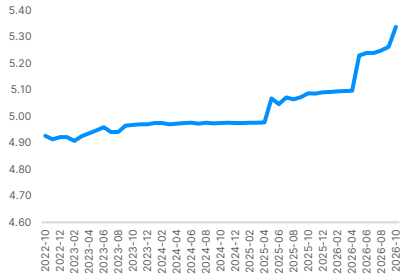
Quarterly stabilisation with a narrow base

Q2 GDP amounted to RON 501.1 billion at current prices on the unadjusted series. The 0.2% year on year contraction was smaller than the 0.4% decline in the first provisional estimate. The seasonally adjusted quarter on quarter outcome remained unchanged at 0.0%, while the annual seasonally adjusted decline was revised from 2.0 to 1.9%.

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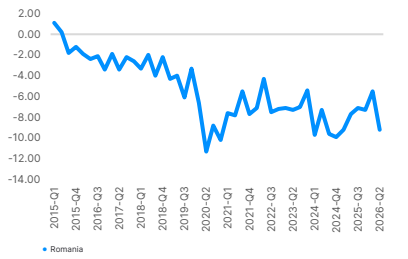
EXCHANGE RATE EUR/RON



Source: NBR

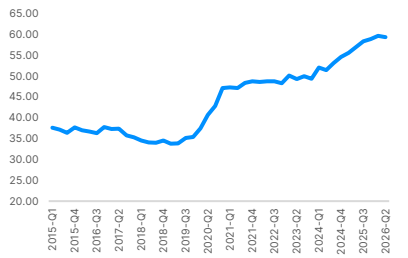
QUATERLY GOVERNMENT DEFICIT % OF GDP

Seasonally and calendar adjusted data (ESA)



Source: Eurostat

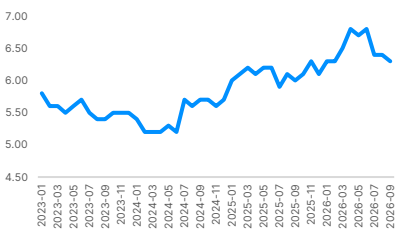
GOVERNMENT DEBT/GDP %



Source: Eurostat

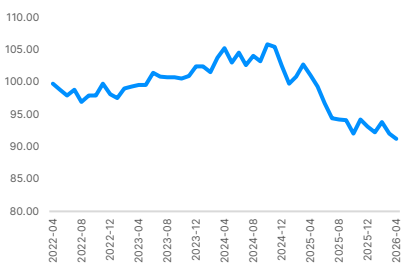
UNEMPLOYMENT RATE %

% active population (seasonally adjusted data, not calendar adjusted)



Source: Eurostat

ECONOMIC SENTIMENT INDICATOR



Source: Eurostat

Contributors to economic growth in the second quarter of 2026

COMPONENT	Q2 REAL CHANGE YOY	GDP CONTRIBUTION PP
Household final consumption	−3.1%	−1.9
Total final consumption	−2.7%	−2.2
Gross fixed capital formation	+19.9%	+4.3
Net exports	-	+0.3
Exports of goods and services	+4.0%	+1.6
Imports of goods and services	+3.0%	−1.3
GDP	−0.2%	−0.2

Source NIS. Contributions refer to unadjusted year on year real GDP growth.

Household demand remains under pressure

Private consumption, measured as household final consumption expenditure, declined by 3.1% year on year and subtracted 1.9 percentage points from Q2 growth. It also decreased by 1.3% quarter on quarter after seasonal adjustment. This is a central limitation of the stabilisation narrative: households had not yet begun to recover in Q2.

Fiscal consolidation and inflation continue to constrain spending capacity. Higher indirect taxation, restraint in public wages and pensions, and slower nominal income growth reduce the scope for real consumption gains. Food, energy and essential services absorb more of the household budget, therefore spending on durable goods and discretionary services is still postponed.

Public consumption also weakened in Q2. Individual government consumption decreased by 1.7% year on year and collective consumption by 1.5%, subtracting 0.1 and 0.2 percentage points respectively. Total final consumption reduced GDP growth by 2.2 percentage points. The demand adjustment is therefore broader than private spending alone.

Fixed investment provides the main support

Gross fixed capital formation increased by 19.9% year on year and contributed 4.3 percentage points to Q2 GDP growth. It also expanded by 16.6% quarter on quarter on the seasonally adjusted series. Its Q2 annual growth substantially exceeded the 12.2% increase recorded over H1, making investment the strongest evidence that some parts of the economy were gaining momentum.

The second provisional estimate strengthened this fact: fixed investment growth was revised from 16.5% to 19.9%, and its contribution from 4.1 to 4.3 percentage points. Investment more than offset the combined drag from private and public consumption, although inventory developments absorbed much of that support.

Net exports offer modest relief

Exports of goods and services increased by 4.0% year on year, compared with import growth of 3.0%. Exports contributed 1.6 percentage points and imports subtracted 1.3 percentage points, leaving a net contribution of 0.3 percentage points. The revised estimate changed net exports from a 0.5 percentage point drag into a modest source of support.

The improvement is partly consistent with restrained domestic absorption, but exports themselves also expanded. It should not be read as evidence that Romania's external imbalance has been resolved: the nominal Q2 goods and services deficit was still RON 25.6 billion, equivalent to about 5.1% of quarterly GDP. Moreover, seasonally adjusted imports increased by 1.6% quarter on quarter, slightly faster than exports at 1.4%. The favourable annual contribution

therefore does not establish a strengthening sequential trade impulse.

Inventories offset much of the investment gain

Changes in inventories subtracted 2.6 percentage points from Q2 growth, a larger drag than the 2.0 percentage points initially estimated. Together, fixed investment and inventories contributed a net 1.7 percentage points. Adding the 2.2 percentage point consumption drag and the 0.3 percentage point net export contribution reconciles to the 0.2% GDP contraction.

Sectoral contributions in the second quarter of 2026

SECTOR	Q2 YOY	CONTRIBUTION PP YOY
Industry	−3.9%	−0.6
Construction	+15.4%	+1.2
Agriculture	+6.1%	+0.1
Trade, transport, hotels, restaurants	−4.3%	−0.9
Information and communications	−2.5%	−0.2
Finance and insurance	+1.5%	+0.1
Real estate	−8.3%	−0.7
Professional, administrative services	+1.7%	+0.1
Public administration, education, health	−2.0%	−0.3
Arts, recreation and other services	+12.8%	+0.6
Services total	-	−1.3
Gross value added total	−0.7%	−0.6

Source: NIS

Industry continues to weaken

Industrial value added decreased by 3.9% year on year, subtracting 0.6 percentage points from GDP growth. The sector also contracted by 5.2% quarter on quarter after seasonal adjustment. Although the annual estimate was slightly better than the initial 4.2% decline, industry was deteriorating sequentially.

Industry therefore provides no confirmation of a cyclical bottom. Weak external manufacturing demand, energy costs and uncertainty over orders remain constraints. A broader recovery would require industrial production and export orders to stabilise, particularly in sectors connected to European manufacturing supply chains.

Services show selective improvement

Services together subtracted 1.3 percentage points from Q2 GDP growth, based on the contributions of the service groups. Weakness was concentrated in trade, transport, hotels and restaurants, which fell by 4.3% year on year and subtracted 0.9 percentage points; real estate, down 8.3% and subtracting 0.7 percentage points; and public administration, education and health, down 2.0% and subtracting 0.3 percentage points.

Several service segments nevertheless improved sequentially. Information and communications expanded by 2.0% quarter on quarter despite remaining 2.5% below its year earlier level. Professional and administrative services increased by 2.6% quarter on quarter and 1.7% year on year, compared with a 0.3% decline over H1. Finance and insurance increased by 1.4% sequentially and 1.5% annually. Arts, recreation and other services increased by 2.2% quarter on quarter and 12.8% year on year, contributing 0.6 percentage points.

These results show that stabilisation is spreading beyond construction, especially into business services and ICT. Real estate remained a significant exception, with an 8.9% quarterly contraction. The services group is therefore improving in selected segments while remaining negative in aggregate annual contribution terms.

Agriculture provides an early positive contribution

Agriculture group expanded by 6.1% year on year and 5.0% quarter on quarter, contributing 0.1 percentage points to annual GDP growth. Its Q2 annual expansion exceeded the 3.8% increase over H1. This offers another sign of improving activity.

The result should not be extrapolated directly to the whole year because the main harvest has a much larger influence on output in the second half. Weather, irrigation, input costs and crop composition will determine whether the early contribution persists. Higher agricultural output would also help food processing and rural incomes.

Construction remains the strongest sectoral driver

Construction grew by 15.4% year on year and 8.7% quarter on quarter and contributed 1.2 percentage points to GDP growth. Its annual expansion exceeded the 12.6% gain over H1. The second estimate raised its contribution from 0.9 to 1.2 percentage points, illustrating the importance of revised weights as well as activity estimates.

Construction is the clearest sectoral counterpart to the increase in fixed investment. Infrastructure and energy projects can sustain demand for engineering, materials and subcontractors and improve future productive capacity.

FORWARD LOOKING PERSPECTIVE FOR 2026

#1 A smaller annual contraction remains our baseline

In our baseline assessment, we estimate real GDP growth of −0.2% for 2026. This forecast assumes that investment remains strong enough to support modest improvement during the second half, while consumption contracts less severely as the year progresses.

The annual −0.2% forecast therefore allows for a turning point without implying that output, household purchasing power or investment confidence has returned to a normal expansion path.

#2 Evidence that the economy may be approaching a cyclical bottom

The case for a turning point rests on the movement from −1.7% quarter on quarter in Q4 2025 to −0.1% in Q1 2026 and 0.0% in Q2. Within Q2, fixed investment increased by 16.6% sequentially, construction by 8.7%, agriculture by 5.0%, professional and administrative services by 2.6%, ICT by 2.0%, finance by 1.4%, and arts and other services by 2.2%. These are observable improvements in activity.

This might indicate that a cyclical bottom was reached around Q2 or could be reached in Q3. It does not indicate with certainty that the cyclical low point had been reached. Household consumption, industry and real estate were still falling, while the deterioration in the annual seasonally adjusted GDP comparison shows how fragile the aggregate environment remains. A renewed external shock could also produce another decline after temporary stabilisation.

The next confirmation should come from a positive quarterly GDP reading accompanied by a broader recovery in services, smaller consumption declines and stabilising industry. Retail volumes, industrial orders, construction execution and real income growth will be useful cross checks; an improvement in only one volatile component would be insufficient.

#3 Investment and EU funds remain the core support

The main growth support should remain fixed investment in transport, energy, public infrastructure and business capacity. Timely payments to contractors and reliable domestic cofinancing are essential to keep projects moving. Cohesion funding and eligible recovery plan payments will reduce financing constraints, while completed infrastructure will lower transport costs and support private investment over time. Timing matters. Transfers do not enter GDP automatically: production is recorded when work occurs, so reimbursement of earlier expenditure is not fresh output in the quarter of payment.

#4 Inflation and domestic adjustment limit the recovery

Private consumption is likely to remain the principal domestic negative component. The inflation reversal is especially important: September annual CPI inflation increased to 6.61% from 6.17% in August, with prices increasing by 0.77% over the month. Renewed inflation reduces real income gains and makes a consumption recovery harder to sustain.

Our baseline assumes that energy pressures do not intensify sufficiently to overwhelm investment and that domestic policies preserve financing access. It does not rely on a strong consumer rebound before year end. Persistent inflation could keep borrowing costs elevated, reducing the response of housing, durable goods spending and private capital expenditure even if quarterly GDP begins to improve.

RISK BALANCE FOR 2026

Downside risks dominate

The balance of risks remains tilted to the downside. The principal vulnerability is the interaction of external energy disruption with domestic fiscal adjustment and political uncertainty. Each can weaken demand independently; together they can reduce growth more sharply by raising costs, delaying decisions and restricting the ability of policy to cushion the shock.

I. **Middle East conflict raises inflation and compresses consumption**

The Middle East conflict reaches Romania through energy prices. Oil, refined products and gas are priced in interconnected markets. Disruption around Hormuz, damage to infrastructure and higher shipping or insurance costs increase the cost of Romanian fuel and imported inputs. Domestic energy production provides a partial buffer, but does not fully insulate local users from European pricing or the cost of oil products.

For households, more expensive essentials function as a reduction in real disposable income. Lower income families are particularly exposed because food, utilities and transport absorb a larger budget share. Since household consumption already subtracted 1.9 percentage points from Q2 growth, an additional inflation shock would hit an economy with limited consumer resilience.

II. **Uncertainty delays investment and tightens financing**

For Romania, uncertainty matters because an investment led baseline is especially sensitive to the decision to postpone capital spending. A business can delay a factory, hiring round or fixed assets order until energy costs, shipping reliability and demand are easier to assess.

III. **Local politics determine whether stabilisation can be sustained**

A functioning government with sufficient parliamentary support is a central condition for recovery. Having a government in place matters economically because the baseline depends on actions that require authority, coordination and continuity. Ministers must manage budget execution, maintain contractor payments, negotiate with European institutions and implement reforms. An unstable parliamentary support can delay decisions across ministries, leaving investment projects without timely funding or administrative approval.

Investors need confidence that fiscal decisions will survive political disputes and that the government can implement its programme. A cabinet dependent on shifting support may postpone difficult expenditure reforms or favour commitments without durable financing. Repeated changes in tax rules and spending priorities make business cash flows harder to forecast and discourage private investment. The economy's evolution is therefore highly policy dependent, both through actual public spending and through the confidence generated by a credible policy framework.

IV. Fiscal discipline remains essential despite the geopolitical shock

Romania remains under the EU excessive deficit procedure. This institutional context makes fiscal credibility a highly important aspect for the government in place.

The quality of adjustment is therefore decisive. Better tax collection, review of inefficient expenditure and realistic project prioritisation can preserve more productive investment. Temporary support for vulnerable households should be targeted and credibly financed. Broad unfunded energy subsidies or permanent spending increases would absorb fiscal space, weaken incentives and potentially require a sharper adjustment later.

Upside risks exist but depend on execution

The clearest upside is **more effective EU funds absorption**. Faster processing of eligible claims and stronger cohesion programme implementation could improve project liquidity and sustain construction and equipment purchases. The value of this upside depends on completed work and additional domestic value added, not simply on announcements.

A second upside is a **durable reduction in energy disruption**. More reliable shipping and lower refined fuel prices could ease inflation, improve household purchasing power and restore business margins. The benefit may arrive with a lag because damaged capacity, contracts and inventories take time to normalise. A more stable external environment would also reduce the incentive to postpone investment.

Additional support could come from a **better harvest**, **stronger European orders** and **improving ICT** and **professional services**. Faster disinflation would make consumption stabilisation more plausible and eventually create room for easier financing conditions. None of these improvements is assured; their contribution would be stronger if accompanied by predictable fiscal policy and effective public administration.

Concluding assessment

We estimate a **0.2% contraction** in 2026, compared with the 0.6% decline recorded in the first semester. The improvement assumes that strong investment and construction, together with selective gains in agriculture and services, support a gradual stabilisation around Q3 or Q4. Q2 provides evidence for this view, but falling consumption, industry and real estate prevent us from describing the recovery as broad or secure.

The outlook remains tilted to downside risk. Renewed inflation is especially influential because it can compress consumption, delay monetary easing and weaken investment at the same time. A credible and functional government, fiscal discipline and effective EU funds implementation are essential to keep the investment channel operating despite the difficult geopolitical environment.

We recognise that the assumptions and forecasts made now may remain valid for only a very short period. Changes in the Middle East conflict, energy supply, global financial conditions or domestic political support could quickly alter the baseline.



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Chief Economist

Current uncertainty and high market volatility require frequent reassessment. The −0.2% forecast should therefore be understood as a conditional central scenario.

BUDGET BALANCE AND PUBLIC DEBT

Romania's fiscal adjustment continued over the first nine months of 2026, supported by stronger tax receipts, higher EU inflows and restraint in several large current expenditure categories. The improvement is meaningful, but the deficit remains substantial and interest costs are absorbing a larger share of revenue. We therefore maintain our year end forecasts of a cash budget deficit of 6.0% of GDP and general government gross debt of 61.8% of GDP. The better September execution provides a stronger starting point for the final quarter, while the usual concentration of expenditure towards year end argues against an early downward revision to the deficit forecast.

BUDGET BALANCE

By September 2026, the consolidated budget cash deficit reached RON 78.30 billion, equivalent to 3.81% of GDP, compared with RON 102.47 billion, or 5.31% of GDP, in the same period of 2025. The nominal deficit narrowed by RON 24.17 billion. Total revenue increased by 11.9% year on year to RON 522.69 billion, while expenditure increased by 5.5% to RON 601.00 billion. Revenue gains of RON 55.74 billion therefore exceeded the RON 31.57 billion increase in expenditure.

The correction is being achieved through a combination of revenue measures and expenditure restraint. Tax revenue increased by 14.7% to RON 269.09 billion, outpacing the growth in overall receipts. Net VAT revenue increased by 24.8% to RON 118.27 billion, corporate income tax by 8.7% to RON 30.13 billion, and wage and income tax by 7.8% to RON 47.27 billion. Property taxes increased by 29.9%, while social insurance contributions grew by 6.8% to RON 165.40 billion. VAT was particularly important, adding RON 23.52 billion compared with a year earlier. Higher nominal prices help sustain nominal collections even when real demand is weak.

On the expenditure side, personnel costs declined by 3.5% to RON 122.25 billion, a reduction of RON 4.43 billion, while social assistance remained broadly unchanged at RON 187.93 billion. Together, these categories show the effect of restraint on two of the largest recurring spending commitments. By contrast, goods and services expenditure increased by 9.4% to RON 77.70 billion, with healthcare contributing to the rise. Overall expenditure was lower as a share of GDP, at approximately 29.2%, compared with 29.5% a year earlier.

Interest payments remain a growing structural vulnerability. They increased by 26.8% to RON 50.63 billion, or about 2.5% of GDP, and absorbed 9.7% of total revenue, compared with 8.6% in January to September 2025. In practical terms, almost one RON in every ten collected was used for interest before financing public services or investment.

Public investment increased by around 30.4% to RON 107.77 billion, compared with RON 82.61 billion a year earlier. 65.6% was associated with the specified EU cohesion and recovery plan funding categories, including the recovery plan loan component.

The shift towards EU supported projects helps preserve investment while the government restrains other spending. However, grants and loans have different implications. Grants can reduce the national financing burden, whereas EU loans remain borrowing and add to debt. Domestic cofinancing and the timing gap between project payments and reimbursements can still put pressure on the cash deficit. EU funding improves the quality of the adjustment, but does not remove the need for careful budget execution.

We retain our full year 2026 cash deficit forecast at 6.0% of GDP. September execution is better than a simple reading of the annual target might suggest, but it should not be annualised mechanically. Public investment payments, settlement of outstanding invoices, cofinancing and other budget obligations tend to become

heavier towards year end. Our baseline assumes that this seasonal acceleration occurs while current spending remains controlled and the revenue measures continue to deliver.

PUBLIC DEBT

The latest Eurostat release, published on 21 October, places Romania's general government gross debt at RON 1,196.44 billion at end Q2 2026, equivalent to 59.4% of GDP. This compares with RON 1,169.87 billion and 59.7% of GDP at end Q1, and RON 1,039.86 billion and 57.0% of GDP a year earlier.

The small quarterly decline in the ratio should not be interpreted as a reduction in the debt stock. Nominal debt increased by RON 26.57 billion, but the GDP denominator grew sufficiently to lower the ratio.

We maintain our forecast of public debt at 61.8% of GDP by end 2026. Ongoing deficits and debt servicing require additional financing, while nominal GDP growth provides a partial offset to the increase in the ratio.

Financing credibility remains essential. A lower debt ratio than in many highly indebted European economies does not by itself guarantee low financing costs: investors also assess the speed of debt accumulation, revenue capacity and policy predictability.

Forward Looking Perspectives

Our baseline remains one of gradual fiscal correction, with the deficit at 6.0% of GDP and debt at 61.8% of GDP at year end. Preserving discipline during the final spending cycle is the immediate test of the annual outlook.

EU funding remains central to protecting growth during consolidation. A functioning government also matters for the fiscal path. It must coordinate final quarter execution and present a credible 2027 budget while maintaining parliamentary support for consolidation. The economic benefits of policy continuity come through predictable taxation, reliable project payments and lower uncertainty over borrowing needs.

Risks to the outlook

Upside risks to deficit and debt - worse fiscal outcomes

- Political and social resistance remains a major risk. Dilution of wage restraint, new permanent transfers or tax concessions without durable funding could widen the deficit and weaken confidence in the medium term path. A difficult budget negotiation or an unstable parliamentary arrangement could delay corrective decisions. Markets may react before the deterioration appears in reported execution, raising the financing cost of an already substantial borrowing requirement.
- Stronger year end expenditure is already included in our baseline, but a larger than expected concentration of payments could still push the deficit above 6.0%. Defence procurement, healthcare obligations, contractor settlements and cofinancing needs may exceed the available fiscal envelope.
- Weaker growth would reduce the tax base and complicate collection, particularly for VAT, corporate tax and contributions. A lower than expected nominal GDP denominator would also increase both fiscal ratios. The Middle East conflict adds a separate risk through energy costs, weaker demand and pressure for new support measures.
- Higher global yields, a sovereign ratings setback or renewed RON depreciation

could worsen debt movement. The budget would face higher costs on new and refinanced borrowing, while foreign currency debt could increase in RON terms.

Downside risks to deficit and debt - better fiscal outcomes

- Stronger compliance and sustained tax collection could deliver a deficit below our forecast, especially if improved VAT receipts persist without comparable new spending. Continued restraint in personnel costs, procurement savings and tighter control of non essential expenditure would strengthen the primary balance.
- Timely EU grant receipts and reimbursements could reduce cash financing gaps and preserve investment while supporting nominal GDP. A stronger recovery, lower sovereign risk premiums and a more stable exchange rate would also improve the environment for debt management. These factors could leave debt below 61.8%, although the immediate interest benefit would emerge gradually as borrowing is issued or refinanced.

Overall, the September execution confirms progress and leaves scope for a better outcome, but the risk of adverse fiscal surprises remains material.

EXCHANGE RATE

Exchange rate depreciation followed by stabilisation at weaker levels

The RON came under renewed pressure in late September, extending the depreciation already discussed in our previous report. EUR/RON moved from around 5.26 in mid September to approximately 5.28 towards month end, before rising sharply towards 5.35 in early October. We see political uncertainty and concerns over fiscal credibility as the principal domestic drivers of this adjustment. These were also the main depreciation risks identified in the previous report, and their persistence has pushed the exchange rate above our earlier baseline.

The timing is important. NBR reference rates show EUR/RON at 5.2647 on 22 September and 5.2788 on 23 September, before the largest daily increase to 5.3447 on 2 October from 5.2777 on 1 October. The latter represents a rise of approximately 1.27% in EUR/RON in one day. The episode should therefore be understood as pressure building in late September and culminating in a sharper adjustment in early October.

Fiscal credibility connects politics to the exchange rate

Fiscal credibility remains the most important link between political developments and currency risk. Markets assess whether Romania can sustain deficit reduction beyond the current year, adopt a credible 2027 budget and preserve access to stable financing. The prolonged political situation raised doubts about the ability to pass difficult measures, resist unfunded spending commitments and implement reforms consistently.

Our assessment is that market concern centred on the durability of that progress and the policy choices ahead.

S&P affirmed Romania's BBB– sovereign rating on 2nd of October while retaining a negative outlook. A downgrade did not occur, but the risk surrounding fiscal implementation and external financing was not removed. Maintaining investment grade helped avoid a more severe immediate shock; it did not provide sufficient grounds for a lasting return to the previous exchange rate range.

The global conditions amplify Romania's domestic vulnerabilities but political uncertainty and fiscal credibility remain, in our assessment, the main country specific explanation for the recent adjustment.

The National Bank can smooth volatility but cannot replace fiscal credibility. The NBR remains an important stabilising institution. It kept its policy rate at 6.50% on 8

October, RON interest rates and liquidity conditions can help limit speculative pressure. FX intervention also moderated disorderly movements.

NEAR TERM OUTLOOK

Stabilisation around the new exchange rate level

Our baseline is for EUR/RON to stabilise broadly within a 5.34–5.36 corridor over the remainder of 2026, with an end of year forecast of 5.35. Short lived moves outside remain possible. Relative to current reference rate, the year end projection implies only about a 0.15% further rise in EUR/RON, consistent with stabilisation after the recent adjustment.

We therefore revise the year end forecast from 5.25 in the previous report to 5.35. Most of the adjustment to that earlier forecast has already occurred. The baseline assumes that the new government sustains a workable parliamentary basis, fiscal consolidation continues, EU related inflows support financing and the NBR limits excessive volatility. It also assumes that geopolitical conditions do not deteriorate enough to trigger a new wave of capital outflows.

The government's confirmation on 20 October reduces the immediate risk associated with the absence of a fully empowered administration. It creates the capacity to prepare the budget and take policy decisions, which supports the case for near term stabilisation. However, credibility of the 2027 budget will be an important test. Government formation improves the starting point; implementation will determine whether the risk premium declines durably. Fiscal and external vulnerabilities take time to correct, while political reassurance must be followed by evidence of delivery.

Risk factors

Upside risks to EUR / RON - a weaker RON

- Political uncertainty remains the most important upside risk to EUR/RON. Renewed conflict within the governing arrangement, loss of parliamentary support or delays to the 2027 budget could revive doubts about policy continuity. The currency would be particularly vulnerable if political concessions involved permanent spending increases or tax reductions without a credible financing plan. This would weaken both the fiscal outlook and confidence in the authorities' ability to implement the adjustment.
- Fiscal slippage or a negative sovereign ratings reassessment could intensify depreciation pressure. Higher sovereign risk would raise refinancing costs and could discourage or, for some mandates, restrict investment in Romanian assets. The effect could be reinforced by portfolio outflows and additional demand for foreign currency. Meeting the 2026 fiscal objectives is important, but markets will also scrutinise whether the next budget preserves a sustainable medium term path.
- External risks include a prolonged energy shock, renewed global risk aversion and delays to EU disbursements. Higher oil or gas costs can worsen the import bill and inflation simultaneously. Lower EU inflows or weaker direct investment would reduce stable financing sources, leaving the RON more exposed to portfolio volatility. Unexpectedly early monetary easing would also be a risk if it reduced the attractiveness of RON assets while inflation and sovereign risk remained elevated. Under these conditions, EUR/RON could exceed the baseline corridor.

Downside risks to EUR / RON - a stronger RON

A credible 2027 budget, continued improvement in budget execution and durable political cooperation could lower the sovereign risk premium and attract renewed demand for RON assets. EU disbursements and stronger direct investment would

improve the financing mix and reduce reliance on volatile capital flows. Together with supportive NBR policy, these developments could move EUR/RON towards the lower part of the corridor or temporarily below it. Sustained appreciation would nevertheless require an improvement in domestic credibility as well as a more favourable external environment.

Concluding assessment

The depreciation that began in late September and intensified in early October reflects the main risks identified in our previous report. Political uncertainty and concerns over the durability of fiscal consolidation were central domestic drivers, amplified by external imbalances and a difficult global environment. The formation of a government and the preservation of investment grade support stabilisation, but neither removes the need for policy delivery.

Risks remain tilted towards a higher exchange rate and a weaker RON. The outlook is highly policy dependent: fiscal discipline, a credible 2027 budget and reliable EU inflows are essential to prevent another confidence shock. Given geopolitical uncertainty and volatile financial markets, the forecast remains conditional and may need to be revised quickly if those assumptions change.

UNEMPLOYMENT

Romania's seasonally adjusted unemployment rate declined to 6.3% in September 2026, from 6.4% in August. The number of unemployed people aged 15–74 decreased to 517.1 thousand, from 523.4 thousand a month earlier. The improvement is consistent with an easing of labour market pressures after the deterioration in the first half of the year, but conditions remain weaker than a year ago: the rate was 6.0% in September 2025, when unemployment stood at 490.9 thousand.

The series shows a more uneven path. Unemployment stood at 6.3% in January and February and 6.5% in March, before reaching 6.8% in April and June, with 6.7% in May. It subsequently declined to 6.4% in July and August and 6.3% in September.

In a European context, Romania remains close to the aggregate benchmarks, although slightly above the EU rate. The latest Eurostat release covers August 2026, when unemployment was 6.1% in the EU and 6.4% in the euro area.

Youth unemployment remains a significant structural vulnerability for Romania. NIS reports a rate of 30.8% for people aged 15–24 in April to June 2026, compared with 28.8% in January to March. The high level points to persistent difficulty in the transition from education to employment and supports the case for better training and job matching.

Near Term Outlook for 2026

We maintain our year end 2026 unemployment forecast at 6.3%. Retaining the forecast therefore implies broad stabilisation over the final quarter, with possible monthly fluctuations.

There are two reasons to keep the forecast unchanged. First, the improvement from the mid year peak argues against extrapolating the earlier deterioration. Second, weak domestic demand, fiscal consolidation and uncertainty still constrain hiring and make a rapid return to the lower rates seen in 2025 unlikely. Our baseline assumes that investment related labour demand and selective improvements in activity broadly offset these pressures through year end.

This is consistent with our view that the economy may be approaching a cyclical bottom, but employment generally responds to changes in output with a lag. Companies may first stabilise working hours and existing staffing before committing to new hires. The July to September figures are also provisional, so

subsequent revisions remain relevant.

DRIVERS OF LABOUR MARKET DEVELOPMENTS

I. A weaker external environment limits hiring

Romanian manufacturing and export related businesses remain exposed to European demand and global uncertainty. A prolonged Middle East conflict that could raise energy and transport costs will weaken customer demand and reduce margins. Firms facing uncertain orders are likely to postpone recruitment before making larger changes to existing staffing. These are transmission risks relevant to our forecast.

II. Private investment caution is partly offset by EU funded projects

Uncertainty over financing costs, taxation and the economic outlook delays private investment and the jobs associated with it. However, it would be misleading to describe all investment as weakening. Public infrastructure and EU supported projects sustain demand for construction workers, engineers and related services even when private expansion is cautious. Our forecast assumes that this support continues, while recognising that skills and regional mismatches can prevent vacancies in expanding activities from absorbing unemployed workers immediately.

III. Domestic demand and fiscal policy constrain job creation

Fiscal consolidation and elevated prices continue to limit real household spending, making consumer facing businesses cautious about recruitment. Restraint in public staffing also reduces one source of employment growth. A credible fiscal path nevertheless helps preserve financing access and public investment. For the labour market, policy predictability and efficient adjustment are therefore important: they can limit uncertainty without relying on spending commitments that would weaken fiscal stability.

Risks to the Outlook

Upside risks - higher unemployment

- A more severe or prolonged geopolitical shock could lift energy costs, weaken European orders and prompt firms to reduce staffing as well as recruitment. Consumer demand could deteriorate further if renewed inflation reduces purchasing power or financing conditions tighten. Under these conditions, the recent decline in unemployment could reverse and the year end rate could exceed 6.3%.
- Domestic policy uncertainty is another important risk. An unstable policy environment, abrupt changes in taxation or a sharper than expected adjustment in public staffing could weaken private hiring. Delays in EU reimbursements or project execution would reduce the investment buffer, especially for construction and subcontractors.

Downside risks - lower unemployment

- A stronger recovery in European demand and a durable easing of energy pressures could improve business margins and accelerate recruitment. Better policy visibility and more favourable financing conditions could release postponed private investment. Timely execution of EU funded infrastructure projects would provide additional labour demand and could lower unemployment below our baseline.
- These measures would be most helpful where growing activities face skills shortages. Their impact is likely to be gradual, and higher participation should be assessed alongside job creation rather than assumed to reduce the

unemployment rate automatically.

Conclusion

September unemployment of 6.3% provides evidence of stabilisation after the mid year peak, while the annual comparison still shows a weaker labour market than in September 2025. We retain our forecast of 6.3% for December 2026 because investment support and improving activity in selected areas should broadly offset reduced hiring associated with weak demand and fiscal adjustment. The unchanged forecast now represents stabilisation at the latest observed level.

Risks remain tilted towards higher unemployment given geopolitical uncertainty, weak external demand and the sensitivity of hiring to domestic policy. Youth unemployment remains a structural concern. A firmer recovery would require sustained gains in employment and participation.

ECONOMIC SENTIMENT INDICATOR

Romania's Economic Sentiment Indicator declined to 91.6 in October 2026, from 92.2 in September, marking a third consecutive monthly decline. Confidence therefore remains weak at the start of the final quarter. The sectoral structure is uneven: weaker industry, services and household sentiment outweighed improvements in retail and construction. The result supports a cautious outlook in which stabilisation remains possible, but a broad recovery in confidence is not yet established.

The wider monthly pattern also matters. The index rose from a Q2 average of 91.6 to approximately 92.5 in Q3, based on arithmetic averages of the latest monthly observations. October subsequently returned to approximately the spring quarter's average.

The indicator is scaled to a long term average of 100, so a lower reading means sentiment is below its historical norm. The European values remain reduced as well. In October, both the EU and euro area ESI declined by 0.6 points to 96.9, leaving Romania 5.3 points below either aggregate.

Drivers of Economic Sentiment

INDICATOR	SEP	OCT	CHANGE
Romania ESI	92.2	91.6	−0.6
Industry confidence	−3.1	−3.7	−0.6
Services confidence	−3.2	−3.8	−0.6
Consumer confidence	−32.5	−33.2	−0.7
Retail trade confidence	3.0	4.6	+1.6
Construction confidence	−9.4	−9.3	+0.1

Source Eurostat

Industry and services weigh on the aggregate

The deterioration in industry is consistent with a cautious assessment of demand and business conditions. Manufacturers face uncertainty over export orders, costs and financing, making it harder to commit to production and investment plans. Services weakness shows that the confidence problem extends beyond manufacturing. Together, the two surveys account for most of the composite indicator's sector weights, so deterioration in these areas can dominate improvements elsewhere.

Consumer caution limits the scope for a stronger recovery

Weaker household confidence shows that a durable improvement in consumption cannot yet be assumed. Fiscal adjustment, high price levels and uncertainty over future income encourage households to postpone major purchases or maintain precautionary savings. A recovery in confidence would be more convincing if it accompanied sustained real income gains and stronger spending volumes.

Retail and construction provide selective support

Retail confidence improved, offering a positive signal within an otherwise weak release. However, retailer optimism and household confidence can diverge. Better business expectations may precede stronger sales. Retail volumes and household income data are needed to confirm the signal.

Construction sentiment also improved slightly. This is compatible with the investment in the sector, providing support. EU supported infrastructure projects sustain orders and supplier activity during fiscal consolidation.

Near Term Outlook for 2026

We expect confidence to remain reduced through the final months of 2026, with the potential for gradual stabilisation. The October setback argues for caution about the pace and breadth of recovery. The earlier improvement in the quarterly average remains relevant, but subsequent monthly declines show that it has not developed into sustained momentum.

A cyclical bottom in economic activity can coexist with weak sentiment. Output may stop falling before households and firms become willing to spend and invest more aggressively. Conversely, confidence may improve temporarily without being followed by stronger realised demand. Our assessment therefore remains conditional: retail resilience and investment support offer a route towards recovery, while industry, services and consumer caution limit its strength.

Policy credibility will be important for that transition. Predictable fiscal decisions, timely public project payments and a credible medium term budget can reduce uncertainty over taxes, demand and financing. Fiscal discipline remains necessary to preserve market confidence, but the composition and implementation of adjustment influence how strongly it weighs on sentiment. Stable policy execution can help private activity recover alongside public investment.

Risks to the Outlook

Downside risks - weaker sentiment

- Renewed political conflict or uncertainty over fiscal measures could further weaken household and business confidence. Delays to EU funded projects would weaken one of the more important supports to investment related activity.
- A prolonged Middle East conflict or further disruption to energy markets could raise production costs and reduce purchasing power. A weaker European economy would also affect Romanian exporters and their suppliers. If these pressures combine with tighter credit conditions, the result could be a further postponement of investment, hiring and discretionary spending, pushing sentiment lower.

Upside risks - stronger sentiment

- Clearer domestic policy, credible fiscal execution and more reliable EU project financing could improve confidence faster than expected. Stronger European demand would support manufacturing orders, while sustained disinflation could improve household purchasing power and willingness to make major purchases.

A broader private investment recovery would help spread the benefits beyond infrastructure and its immediate suppliers.

- A durable easing of geopolitical tensions and energy costs would provide further support. The strongest confirmation would come from improvement across industry, services and consumers together, followed by firmer orders, real sales and employment.

Conclusion

October sentiment points to a modest recovery with uneven support across sectors. The spring to summer improvement leaves room for stabilisation, but the latest decline prevents a confident claim that the turning point has been secured. Investment execution and policy credibility remain central to improving the outlook. Risks remain tilted towards weaker sentiment given external uncertainty and the pressures facing household demand and private business decisions.

ROMANIA AT A TURNING POINT: FROM STABILISATION TO RECOVERY

Romania appears to have reached a cyclical bottom. After several difficult quarters, the decline in activity has moderated, investment is providing substantial support and unemployment has eased from its mid-year peak. These are encouraging signs. They suggest that the economy is beginning to regain momentum and that the foundations for a better 2027 are taking shape. The opportunity now is to turn this tentative stabilisation into a recovery that businesses and households can feel, and trust.

Our forecast of a 0.2% contraction in 2026 reflects that transition. Following a 0.6% decline in the first semester, we expect investment and gradual improvements in activity to narrow the loss over the full year. The annual figure will still carry the weight of the difficult opening quarters, even if conditions improve before December. It describes a demanding year in which the economy can begin to recover while still recording a small contraction overall.

Strong investment and construction are supporting activity, while consumption and industry remain weak. Unemployment has improved, but hiring remains cautious. Fiscal execution shows meaningful progress, yet debt and interest costs leave little room for error. The exchange rate has stabilised at a weaker level, while reduced economic sentiment reminds us that confidence takes longer to rebuild. Together, these developments point to an economy with the capacity to move forward, but whose progress remains highly dependent on policy.

The formation of a government and the preservation of investment grade have provided essential support for stabilisation. They have created space to act. That space must now be used well. A credible 2027 budget, predictable fiscal decisions, timely payments and uninterrupted investment projects would give substance to the reassurance offered by political announcements. Confidence grows when people see that a commitment made today will still be honoured tomorrow.

Too often, Romania seems to be running to catch the last train. A deadline approaches, pressure builds, decisions are rushed and everyone is asked to make one more extraordinary effort to get aboard. We may catch it, but the journey begins with exhaustion, uncertainty and avoidable costs. We could prepare earlier, arrive on time, take a comfortable seat and travel with a clear understanding of where we are going. That is what a predictable economy should offer: the ability to plan ahead with reasonable confidence that the timetable will hold.

For policymakers, this means preparing budgets before urgency dictates their content, consulting on fiscal changes before businesses must absorb them and completing reforms before deadlines put funding at risk. It means giving projects continuity across political disagreements and changes of office. A road, an energy investment or a digital public service needs sustained financing, competent implementation and clear accountability from beginning to end. The economic value

of a project is realised through completion.

Fiscal discipline remains essential to that journey. The improvement in budget execution demonstrates that adjustment can advance while investment expands. But a projected deficit of 6.0% of GDP and interest payments absorbing almost one tenth of revenue show how much work remains. Better collection, more efficient spending and a credible medium-term framework must help restore sustainability while protecting the investments that raise future productivity. Predictability makes this adjustment more manageable for companies and households already carrying its costs.

This is where political maturity becomes an economic necessity. Romania needs leaders who can agree on a durable direction, explain difficult choices honestly and follow through when the immediate political reward is limited. Businesses committing capital for years ahead need continuity that extends beyond the next political dispute. Citizens need confidence that today's sacrifices are contributing to better infrastructure, stronger institutions and more sustainable living standards. Delivery gives those sacrifices meaning.

The external environment makes this responsibility even greater. Geopolitical tensions, the Middle East conflict, volatile energy prices and weak European demand continue to weigh on the outlook. Romania has limited influence over these forces. It has far greater influence over the coherence of its own policies. A difficult world strengthens the case for cohesion at home: reliable institutions, consistent decisions and a government capable of maintaining direction when conditions become uncomfortable.

For the business community, there is reason to look ahead with confidence. Investment is already supporting the economy through this adjustment. Infrastructure and energy projects can open new opportunities, improve productivity and encourage further private investment. Companies that have continued to invest, retain skills and serve their customers are helping build the recovery before it becomes visible in the headline figures. Their commitment deserves a public sector that plans with the same seriousness and honours its obligations with the same consistency.

With sustained delivery, continuity in investment and no major new external shock, 2027 can see Romania moving back towards its growth potential. A broader recovery would allow the benefits of investment to spread into stronger business activity, employment and household incomes. That prospect is achievable. Securing it requires the decisions taken now to reinforce one another over time.

Romania has spent too much energy catching the last train. We have the capacity to prepare earlier and make the journey with greater confidence. The emerging turning point gives us that chance. Policymakers must now turn commitments into completed work, give good projects the continuity they need and make fiscal decisions that people can plan around.



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Chief Economist

> The opportunity now is to turn this tentative stabilisation into a recovery that businesses and households can feel, and trust.

FORECAST	END OF 2026
Real GDP (%, YoY)	-0.20%
Unemployment rate (%)	6.30%
Budget Deficit (% of GDP)	6.00%
Public Debt (% of GDP)	61.80%
EURO/RON (EOP)	5.35

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