



BT RESEARCH

OUTLOOK

MAY | 2026

DEAR READER,

At Banca Transilvania, we believe that moments of uncertainty are also moments when perspective matters most.

Exactly in such times, we need facts, context and objectivity. We need to distinguish between noise and signal, between temporary pressure and structural change. Our purpose is not only to describe risks, but also to identify the forces that can support confidence and future growth.

We are honoured to open this edition with the perspective of **Tariq Fancy**, a good friend of ours. His experience brings together global finance, education, entrepreneurship and a deep understanding of how markets interact with society.



TARIQ FANCY

Lecturer in Management

Tariq Fancy is an investor, entrepreneur and prominent thought leader on sustainability and long-term value creation in global finance. He is widely known for his independent and critical perspective on ESG and the challenges of aligning profit-driven business models with genuine social and environmental impact.

Tariq previously served as BlackRock's first Global Chief Investment Officer for Sustainable Investing. Since leaving the firm, he has become a leading critic of superficial ESG practices, following the publication of his widely read 2021 essay, "The Secret Diary of a Sustainable Investor," which sparked an international debate on greenwashing in financial markets.

Earlier in his career, Tariq spent over a decade as a senior investment professional, including roles at Credit Suisse First Boston, MHR Fund Management, where he became the firm's youngest partner, and the Canada Pension Plan Investment Board. He also led the turnaround of an Asian software company that was acquired in 2015.

Alongside his work in finance, Tariq founded Rumie, an award-winning digital non-profit that provides learning solutions to millions of users in over 150 countries and is the subject of a Harvard Business School case study.

He is a frequent contributor to leading international publications, including The Economist, The Wall Street Journal, and The Financial Times.

THE END OF ARTIFICIAL STABILITY?

For much of the past decade, global markets operated under a set of assumptions that felt almost self-evident. Shocks would occur, but they would be managed. Volatility would appear, but it would fade. Policymakers, armed with both tools and credibility, would step in when needed. This included using government debt to bridge a global pandemic that required a sudden and sharp slowdown in economic activity through widespread lockdowns. And through this period, a new generation of retail investors became trained to "buy the dip", assuming an orderly run-up in share prices, particularly in recent years around tech companies exposed to the AI revolution.

What we are witnessing as we enter the second quarter of 2026 may be the beginning of a new paradigm, one in which much of this stability is revealed as illusory, with risks deferred or obscured rather than eliminated. To understand this shift, it is useful to begin not with interest rates or geopolitics, but with something less tangible: narratives.

Robert Shiller, the Nobel Prize winning Yale economist, argued in his 2019 book "Narrative Economics" that markets and economic outcomes are shaped not just by fundamentals, but by the stories we tell ourselves. For Shiller, narratives that pertain to business and the economy spread like viruses, quickly infecting people and influencing their behaviour.

Think, for example, of the everyman blindly repeating the slogan 'real estate only goes up!' to his or her friends as a truism at all times—regardless of trends in local incomes, jobs, economic activity or how demographic trends will drive supply/demand dynamics of housing. Narratives and storytelling are critical to how humans communicate with one another, and they guide capital allocation, justify valuations, and sustain collective belief systems that can persist far longer than expected. At times, they can also detach from underlying realities.

The past decade offers no shortage of such narratives. Some have proven resilient. Others are beginning to crack. What matters now is not any single story, but the growing recognition that several of them may have been more fragile than they appeared, ushering in a new 'normal' that unfolds over the course of the year.

THE COGNITIVE DISSONANCE OF MARKETS

One of the most striking features of the current environment is the divergence between how markets behave and how people feel. The University of Michigan's barometer of consumer sentiment hit a level not far from its lowest reading in its 70-year history on April 3rd, and a rival measure from the Conference Board has dropped to depths it hit during pandemic lockdowns.

Yet asset prices, particularly in parts of the equity market, have shown remarkable resilience. At first glance, this appears contradictory, in part because it represents different voices in a so-called K-shaped economy marked by growing inequality: just a minority of Americans are meaningfully invested in the stock market. But listen closer and professional market participants too express unease about growing risks, even as they carry out the motions of business as usual on the surface, due in no small part to how their incentives are structured.

Those responsible for allocating capital are often judged over short horizons. Even when risks are visible, stepping aside too early can carry career consequences. As a result, late-cycle dynamics can persist not because participants are uniformly optimistic, but because they must remain engaged. As Citigroup CEO Charles Prince replied when asked about overheating credit markets in July 2007, "as long as the music is playing, you've got to get up and dance."



His quote aged poorly: he was out of a job by November 2007, after declaring \$11 billion in subprime related losses. But the fact remains that he had accurately described the need to continue dancing for many market participants up to mid-2007, just before it became clear that the music had indeed finally stopped.

The tension between private caution and public participation helps explain why fragility can build even as markets appear stable on the surface. It is not that risks were invisible. It is that the system, by design, encouraged participants to keep moving despite them. Fragility builds not from ignorance, but from incentives that discourage acting on it.

WHERE FRAGILITY IS NOW EMERGING

The Iran war may be remembered as the catalyst that forced a repricing of market risks across a number of areas. Until the war erupted, the global economy and stock markets had fared considerably well since the beginning of Trump's second term in office. There was a broad market belief that despite Trump's mercurial style and questioning of prior alliances and treaties, he would stop short of causing serious economic pain—as when he backed down from his 'Liberation Day' tariffs a year ago in response to rising government bond yields.

Trump is currently learning that even if he's finished with the Middle East, the region may not be finished with him. Having demonstrated that it can shut down the Strait of Hormuz using fairly low-cost drone technology manufactured domestically, Iran now has real leverage—a non-nuclear deterrent of sorts. Iran may not want to escalate a conflict that is causing widespread damage at home, but it seems capable of going tit-for-tat with any escalations in order to maintain the credibility of its deterrent capabilities and hold out for a lasting ceasefire.

Therein lies the challenge: the deal Iran now wants will likely enshrine its unexpected strategic gains from this round of conflict. So, the question isn't when Trump can find an off-ramp, which he's been desperately looking to do since the first few weeks after launching his war of choice; it's if and when he can find a *face-saving* off-ramp that doesn't confirm an already unpopular war as a definitive own goal.

Regardless of how the conflict develops in the months ahead, a few things are already clear. Even assuming a relatively swift cessation of hostilities, the fallout from the existing delays and damaged infrastructure will ripple through energy markets for months and years. Disruptions to key transit routes, uncertainty around supply, and shifting strategic behavior all feed through to prices, inflation expectations, and business confidence.

At the same time, inflation has proven more persistent than many expected. While headline measures have moderated from their peaks, underlying pressures remain, particularly when viewed in the context of tight labor markets, supply constraints, and energy volatility. This persistence matters because it limits the room for policymakers to respond.

If policy support becomes less reliable, markets must do more of the work themselves. That, in turn, requires a more accurate pricing of risk. Some of the most underappreciated areas of fragility lie within the financial system itself. Private credit, for example, has grown rapidly over the past decade to nearly \$2 trillion, some 5-6x larger than during the Global Financial Crisis (GFC). By providing financing outside traditional bank and public bond channels, it has in many respects filled a genuine need, offering flexibility and access to capital in areas underserved by banks.

However, its apparent stability can be misleading. Unlike publicly traded securities, private credit instruments are not marked to market in real time. This can create smoother return profiles and lower observed volatility. But it also means that changes in underlying credit quality may not be immediately reflected in valuations. Private credit hasn't removed risk, though it may have relocated it



into structures that are slower to recognize it.

Several sudden high-profile bankruptcies of issuers backed by marquee private credit names have caught investors flatfooted, leading JP Morgan CEO Jamie Dimon to suggest that more 'cockroaches' are likely to appear as the market turns. As fear has spread, some publicly-traded private credit vehicles have traded at significant discounts to net asset value (NAV). For those funds that are not traded and instead offer investors limited quarterly redemptions, there has been a rush to the exits to redeem investments from the fund at par value. But for how long can private marks stay where they are if publicly-traded markets begin assuming the role of a canary in a coal mine, giving us advance warning of a turn in the credit cycle?

WHEN NARRATIVES OUTFRAN ECONOMICS

Alongside these structural pressures, technological narratives are again playing a central role in shaping market behavior. Artificial intelligence is widely seen as a transformative force, with the potential to reshape industries and productivity over time. That may well prove true. But history suggests that powerful new technologies and sound investment theses do not always align in timing.

I began my career as a technology investment banker in Silicon Valley at the end of the dotcom bubble. The most important lesson I learned in my first career experience as the bubble unraveled was the importance of timing: the more obvious the impending technological shift, the higher the likelihood that the financial thesis gets ahead of itself.

After the dotcom bubble burst, Yahoo's growth stalled and the market for low-ROI banner advertising collapsed. Silicon Valley did eventually figure out how to monetize attention—as Google and Facebook would later show us—but it took time to develop the right models, and market narratives that equated rising online attention with instant and magical new profits proved too early and collapsed.

Early evidence suggests that many corporate AI deployments are still struggling to generate measurable returns. In the late 1990s, I watched companies rush onto the internet, spending heavily before they had any real sense of how it would make money. Today feels familiar. Firms are investing aggressively in AI not because they have cracked the business model, but because they cannot afford to be perceived as having missed the shift.

Capital expenditure tied to AI has surged, with hundreds of billions flowing into infrastructure, data centers, and computing capacity. But the link between that spending and durable, broad-based profits remains uncertain. In many cases, revenues are still circulating within a relatively closed ecosystem, rather than being anchored in clear end-user demand.

This creates a familiar tension. When expectations run high and capital flows freely, even small shifts in assumptions can have outsized effects on valuations. The long-term story may remain intact, even as the near-term financial structure proves more fragile than expected. After the dotcom crash, I joined a New York-based investment firm where we bought distressed technology and telecom assets at deep discounts. As I told our investors then, technologists are usually right about direction, but they consistently underestimate their biggest financial risk: timing.

The AI industry has made sweeping predictions, from the obsolescence of radiologists to the arrival of superintelligence. Many of these claims have yet to materialize, even as the companies behind them have seen valuations soar. The narratives bridging that gap—between promise and profit—may, like the dotcom era's fixation on monetizing eyeballs, be approaching a necessary correction in capital allocation discipline.

Above all, the coming paradigm shift may be psychological in nature. For years, markets operated with a high degree of confidence that volatility could be contained and that risks could be deferred. That confidence is now being tested. The gap between resilient asset prices and a more cautious public may not persist indefinitely.

The adjustment to a world with less artificial stability is unlikely to be immediate or linear. It will involve periods of resilience, punctuated by episodes of repricing. But the direction of travel is becoming clearer. Markets are being asked to do something they have not had to do consistently in recent years: to recognize, absorb, and price risk more fully.



TARIQ FANCY

Lecturer in Management

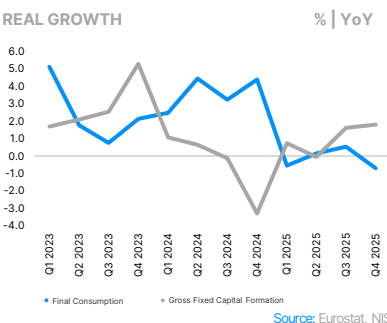
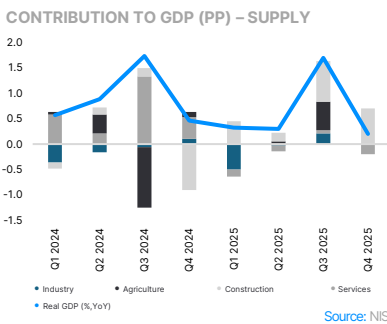
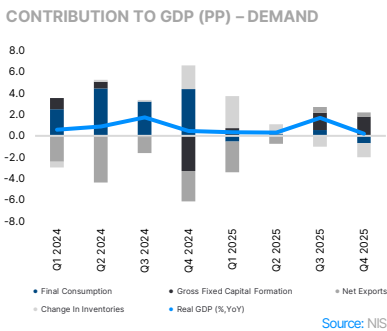
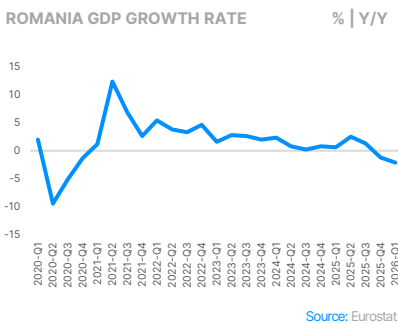
Narratives and storytelling are critical to how humans communicate with one another, and they guide capital allocation, justify valuations, and sustain collective belief systems that can persist far longer than expected. At times, they can also detach from underlying realities.



IOAN NISTOR

Chief Economist BT

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



ROMANIA ECONOMIC OUTLOOK

Romania's economy closed 2025 with **real GDP growth of 0.7%**, slightly below the **0.9%** pace anticipated in the previous report. In nominal terms, GDP reached **RON 1.916,4 BN**, equivalent to **EUR 376,5 BN** using an exchange rate of **RON 5.09/EUR**. The annual result confirms that the economy remained in positive territory, but the final quarter showed a clear loss of momentum and pulled the full-year figure modestly below our earlier expectations.

The weaker-than-expected outcome reflects the risks previously highlighted: fiscal consolidation reduced disposable income and public demand; inflation remained high enough to erode purchasing power; net exports stayed negative for the year; and growth remained concentrated in a narrow set of sectors, leaving the aggregate economy vulnerable to the late-year deterioration. Q4 crystallised these pressures: GDP fell **1.8% quarter-on-quarter** in seasonally adjusted terms and was down **1.4% year-on-year** on the seasonally adjusted series, even if the unadjusted series still showed a marginal **0.2% y/y** increase.

GDP performance across the four quarters of 2025

(As of NIS report from 9th of April 2026)

QUARTER	GDP, current prices RON MN, unadjusted series	YoY unadjusted series	YoY seasonally adjusted	QoQ seasonally adjusted
Q1 2025	376,330.5	0.3%	0.6%	-0.5%
Q2 2025	446,377.8	0.3%	2.1%	1.0%
Q3 2025	520,065.7	1.7%	1.4%	-0.1%
Q4 2025	573,630.9	0.2%	-1.4%	-1.8%

Q1 2025: weak start.

The year opened with only **0.3% y/y** growth on the unadjusted series and a **0.5% q/q** decline on the seasonally adjusted series. This already showed that domestic demand was fragile and that the economy entered 2025 without strong carry-over momentum.

Q2 2025: temporary stabilization.

Q2 brought the best quarterly improvement of the year in sequential terms, with **1.0% q/q** growth and **2.1% y/y** on the seasonally adjusted series. At that stage, investment was beginning to offset some of the softness in consumption and external demand.

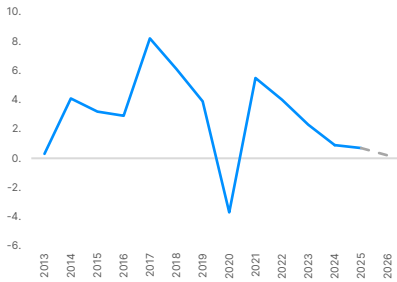
Q3 2025: still positive.

Q3 remained positive in annual terms, at **1.7% y/y** unadjusted and **1.4% y/y** seasonally adjusted, but quarter-on-quarter growth slipped slightly negative (**-0.1%**), pointing that the rebound lacked breadth and durability.

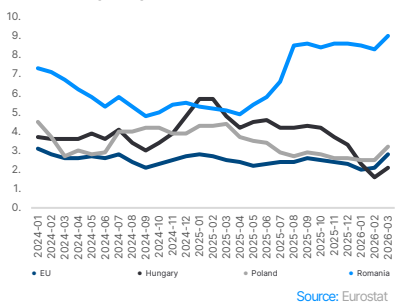
Q4 2025: clear deterioration.

The final quarter materially weakened the annual outcome. GDP was only **0.2% higher y/y** on the unadjusted series, but **-1.4% y/y** on the seasonally adjusted series and **-1.8% q/q**. That decline is the clearest evidence that the decrease from uncertainty, tighter fiscal conditions, still-high prices, and reduced confidence intensified into year-end.

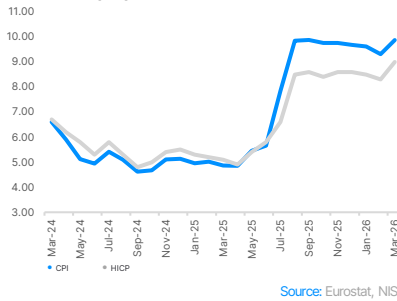
GDP ANNUAL GROWTH RATE % | YoY



INFLATION (HICP) - ANNUAL RATE OF CHANGE %



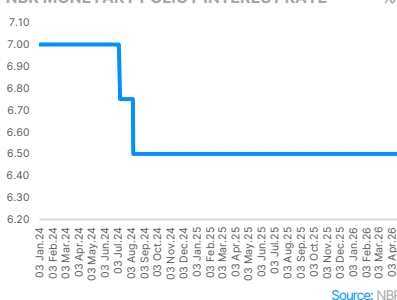
INFLATION (RO) - ANNUAL RATE OF CHANGE %



INFLATION - ANNUAL RATE OF CHANGE %



NBR MONETARY POLICY INTEREST RATE %



CONTRIBUTORS TO ECONOMIC GROWTH IN 2025

DEMAND-SIDE DRIVERS

Household Demand Under Pressure

Private consumption made only a modest contribution to growth in 2025. Household final consumption expenditure increased by just **0.5%** in real terms and contributed **0.3pp** to GDP growth. This confirms that households remained under pressure from elevated inflation, tighter fiscal settings, and a more cautious spending behavior. The contribution stayed positive, but far below the levels usually associated with Romania's more consumption-led expansion phases.

Moreover, general government consumption was mixed: individual government consumption increased by 1.0% and contributed +0.1pp, while actual final general government consumption decreased by 5.4% and subtracted 0.6pp. Thus, total actual consumption subtracted **0.2pp** from GDP growth.

The weakness of consumption helps explain why the overall outcome undershot the previous expectations. Real incomes were reduced by inflation and by fiscal measures, while uncertainty reduced appetite for discretionary spending.

Investment as the Main Engine

Gross fixed capital formation was the strongest domestic driver of activity in 2025. It increased by **3.4%** in real terms and contributed **0.9pp** to GDP growth, while inventories added another **0.5pp**. This confirms that investment became the principal pillar of growth.

The pattern is consistent with the growth model increasingly anchored in infrastructure and EU-backed capital spending and **will be the driver for 2026 as well**.

External Sector Still a Drag

Net exports subtracted 0.5 pp from annual GDP growth in 2025 (Exports +**1.5pp**; Imports **-2.0pp**). Real exports of goods and services increased by **4.3%**, but imports rose faster, by **4.9%** over the year.

A closer look at the fourth quarter adds an important aspect. While net exports remained negative for the full year, Q4 showed a partial improvement. The deceleration in domestic demand, particularly consumption, led to a moderation in import growth, especially in consumption goods and certain intermediate inputs. At the same time, exports showed limited improvement. As a result, the external deficit narrowed marginally in quarterly terms.

Although Q4 slightly reduced the negative contribution of the net exports, it did so in the context of overall economic slowdown, pointing to the fact that the external sector continues to act as a structural constraint rather than a source of sustainable recovery.

SECTORAL CONTRIBUTIONS

Flat Industrial Base

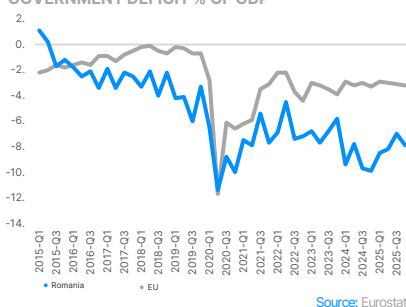
Industry made **no net contribution** to 2025 GDP growth. Its volume was broadly flat to slightly negative over the year, leaving its growth contribution at **0.0pp**.

That outcome is weaker than desirable because industry is central to both exports and productivity. A flat industrial sector means Romania could not rely on manufacturing to offset softer domestic demand. It also reinforces the point that the recovery lacked depth.

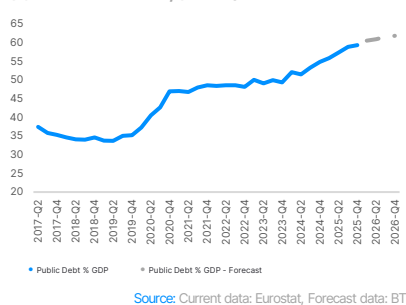
EXCHANGE RATE EUR/RON



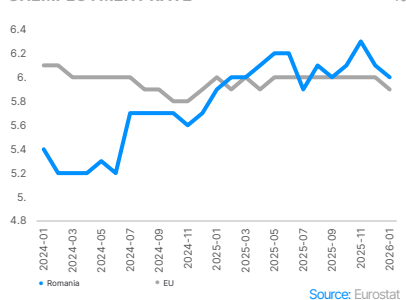
GOVERNMENT DEFICIT % OF GDP



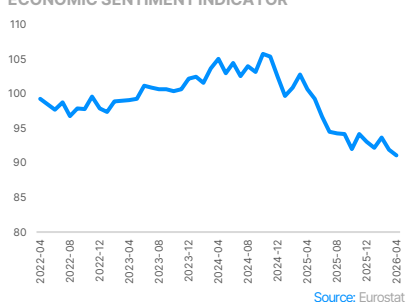
GOVERNMENT DEBT/GDP %



UNEMPLOYMENT RATE



ECONOMIC SENTIMENT INDICATOR



A Two-Speed Services Sector

Services were mixed rather than uniformly strong. The most positive contribution came from **information and communications**, which added **0.3pp** and grew **4.1%** in volume terms. By contrast, the broad trade/transport/hotels/restaurants block made no net contribution (**0.0pp**), while professional, scientific, technical and administrative services subtracted **0.3 pp**.

The data is therefore one of a divided services sector. Modern, more tradable or productivity-rich services held up; demand-sensitive and business-sensitive segments softened. This divergence mirrors the overall economy: some islands of resilience, but insufficient generalised momentum.

Weather-Led Rebound

Agriculture contributed **0.2pp** to GDP growth in 2025, with activity volume up **6.6%**. After a difficult prior year, the sector recovered and provided a welcome, but still modest, support to overall activity.

At the same time, agriculture's positive 2025 contribution remains one of the most climate-sensitive sectors in the economy, which becomes highly relevant for the 2026 risk balance.

Infrastructure-Led Strength

Construction was the **strongest sectoral contributor**, adding **0.5pp** to GDP growth while expanding by **6.9%** in volume terms. This confirms that infrastructure and capital spending were the most reliable engines of growth in 2025.

Construction's strength is especially important because it reflects the areas where Romania still has the clearest upside: transport, energy, public infrastructure, and EU-funded projects.

2026

Q1 2026: WEAK ENTRY INTO THE YEAR

The most recent NIS flash estimate for Q1 2026 (as of 13 of May 2026) confirms that the economy entered the year from a weaker position than previously visible. GDP decreased by 0.2% quarter-on-quarter in seasonally adjusted terms.

Compared with Q1 2025, GDP was down by 1.7% on the unadjusted series and by 1.5% on the seasonally adjusted series. This is an important deterioration because the annual comparison is now clearly negative.

The new data also changes the interpretation of the end-2025 starting point. The seasonally adjusted historical series was recalculated after the inclusion of the Q1 2026 estimate. The revisions are not large in absolute size, but they matter for the growth narrative. Q1 2025 was revised from -0.5% q/q to -0.2% q/q; Q2 2025 from +1.0% q/q to +0.7% q/q; Q3 2025 from -0.1% q/q to 0.0% q/q; and Q4 2025 from -1.8% q/q to -2.0% q/q. The annual seasonally adjusted rate for Q4 2025 also moved slightly lower, from -1.4% y/y to -1.5% y/y. Therefore, the revised series shows a somewhat smoother middle of 2025, but a sharper contraction at the end of the year and no rebound in Q1 2026.

This is different from the previous data in two ways. First, the previous data suggested a very weak Q4 followed by an open question about whether the economy could stabilise at the beginning of 2026. The new release answers that question negatively: the economy continued to decline sequentially in Q1. Second, the downward revision of Q4 makes the carry-over into 2026 weaker than assumed in the earlier data.

At this stage, the detailed GDP contributors for Q1 are not yet available. The NIS will publish the first provisional Q1 2026 GDP data, including the sectoral

breakdown, in June. Until then, the interpretation remains conditional.

However, the most likely explanation is that weak performance came from reduced consumption and lower-than-expected investment, while the external sector probably did not provide enough offset.

Consumption is the most likely first drag because the pressures identified for 2026 were already active in Q1. Fiscal consolidation reduced disposable income through tax increases, tighter public spending, and the freeze of public wages and pensions. At the same time, inflation remained high enough to limit the recovery of real purchasing power. Households were therefore likely more cautious, especially on discretionary goods and services. This is important because Romania's growth model remains sensitive to household demand, and when real income growth weakens, the negative effect is transmitted quickly into retail, services, imports, and VAT-sensitive activity.

Investment is the second probable source of disappointment. The 2026 baseline still assumes that investment, especially public infrastructure and EU-funded projects, is the main support for activity. But Q1 was probably vulnerable to execution delays, procurement bottlenecks, and uncertainty because the general budget was approved late in Q1. Political instability and tighter financing conditions also tend to delay private investment decisions. As a result, investment may have remained positive in selected sectors and projects, but below the level needed to compensate for weaker consumption and the negative carry-over from Q4.

Forward-looking perspective for 2026

We revise our 2026 baseline growth forecast to **0.20%**, down sharply from the previous report. The Q1 2026 flash estimate data strengthen this downward revision as the economy entered 2026 from a weaker starting point than previously assumed. But our lower forecast also reflects the fact that the geopolitical shock linked to the Iran conflict, local political instability, together with heightened market volatility and persistent domestic adjustment, now materially worsens the near-term balance of risks.

2026: Investment remains the core support

The main driver of growth in 2026 should still be **investment**. Public infrastructure, RRP-related spending, transport and energy projects, and the broader use of EU funds remain the clearest channels through which Romania can preserve positive growth despite weak domestic demand.

In our revised baseline, investment still keeps the economy above stagnation, but it is unlikely to fully offset the broader drag from consumption, uncertainty, and external shocks. Execution delays and tighter budget control will push project spending later in the year, reducing the short-term multiplier, even if the investment pipeline remains valid.

What is dragging in 2026

The main drag comes from **consumption**. We expect the full effect of fiscal consolidation, the freeze of public wages and pensions, tax increases, and still-elevated inflation to produce a contraction in private consumption in 2026, while public consumption also declines.

On top of that, additional price pressures from energy fuel inflation that delays any meaningful recovery in real household purchasing power.

A second drag is **policy and confidence uncertainty**. Fiscal consolidation may weigh more heavily on growth than expected, and political uncertainty could weaken fiscal discipline and investor confidence.

A third drag is the **geopolitical shock now centered on Iran and the Middle East**, which transmits through energy prices, supply chains, trade, and financial markets. The geopolitical tensions and weaker partner demand are downside risks to export-oriented industry and capital inflows.

RISK BALANCE FOR 2026

Downside risks dominate

The outlook is more exposed to downside than upside risks.

I. Middle East conflict: inflation, consumption, uncertainty

This is now the most important additional downside risk. The effect on Romania would likely be indirect but powerful.

Higher oil and gas prices increase domestic inflation through fuel, transport, logistics, imported inputs, and eventually food prices. Energy prices are the first transmission channel. In addition, the conflict has sharply disrupted energy supplies and pushed estimations toward lower growth and higher inflation assessments.

This combination of cost-push inflation and demand compression creates a stagflationary type environment, where growth slows while prices remain elevated. Moreover, heightened uncertainty linked to geopolitical tensions discourages private investment and increases risk premium in financial markets, tightening financing conditions.

For households, that means **reduced consumption**. When fuel, utilities, and food absorb a larger share of income, discretionary spending weakens first. That is especially relevant in Romania, where consumption was already fragile in 2025 and where fiscal tightening is already compressing disposable income.

The second channel is **uncertainty**. Businesses delay investments, hiring, and inventory decisions when energy costs, transport conditions, and financing conditions become harder to predict. Households also tend to raise precautionary saving.

Taken together, these channels imply that the conflict does not merely represent a marginal downside risk, but rather a structural shock capable of reshaping the entire baseline scenario for 2026, necessitating a reassessment of both growth and inflation expectations over the next period of time.

II. Negative effects on agriculture

Agriculture deserves special emphasis on the downside.

The Iran conflict worsens this risk through additional channels. Higher fuel and transport costs raise input and distribution costs for farmers. Disruptions in energy and fertilizer supply chains can increase production costs further. The conflict has already affected not only oil and gas flows but also fertilizers.

A sharp and prolonged drought could significantly reduce crop yields, tighten domestic food supply, and generate substantial food price increases, especially hurting rural areas and vulnerable households.

For Romania, that combination is particularly adverse: agriculture could suffer from both **weather stress** and **cost stress** at the same time. That would affect real output, food processing, and rural incomes, while also transmitting into inflation.

III. Political risk, policy continuity and fiscal discipline

Political risk has become a more explicit downside risk for the 2026 outlook. The recent collapse of the government after the May 2026 no-confidence vote has increased uncertainty over the speed, sequencing, and credibility of fiscal consolidation. A prolonged period of coalition negotiations or an interim government would reduce policy visibility and could delay measures needed to keep the budget adjustment on track.

The main macroeconomic risk is not only the political event itself, but the possibility that fiscal discipline becomes less continuous. Romania enters this period with limited fiscal space, elevated financing needs, and a still-fragile growth base. Any reversal, postponement, or dilution of consolidation measures would risk higher sovereign financing costs, weaker investor confidence, renewed pressure on the exchange rate, and a reduced capacity to protect public investment.

Stability is therefore economically important in a direct sense. A credible and functional government is needed to maintain dialogue with European institutions, preserve access to EU and RRF funds, and reassure markets that fiscal adjustment will continue despite political instability. In the absence of that stability, the negative confidence channel could compound the existing drags from consumption, inflation, and external uncertainty.

For the baseline forecast, this political risk means that fiscal consolidation should be treated as a necessary condition for macroeconomic stability not as a purely budgetary objective. Continued discipline may weigh on short-term demand, but loss of discipline would likely be more damaging because it would raise risk premium, constrain borrowing capacity, and weaken the investment-led growth channel that remains central to the 2026 outlook.

IV. Weaker external demand and continued trade fragility

Romania remains exposed to still reduced euro-area demand and to uncertainty in European industry. If exports disappoint while imports remain structurally high, the external sector could again act as a drag. This risk remains meaningful even more in the context of the Middle East conflict.

Upside risks

The upside exists, but it is narrower.

The main positive scenario is **stronger EU-funds absorption**. Faster absorption of EU and RRF funds would support growth, strengthen investor confidence, and reduce the funding burden on the national budget.

A second upside would come from **better execution of public investment**. If transport, energy, rail, roads, and digital projects accelerate, construction and investment multipliers could exceed our baseline. Again, RRF-funded spending and fixed investment remain central to growth.

A third upside would be **faster stabilisation in energy markets**. A durable de-escalation in the Middle East would reduce inflation pressure and improve confidence more quickly than we currently assume. At present, however, that remains a reduced possibility scenario.

Concluding assessment

For 2026, we revise our baseline real GDP growth rate to **0.20%**. Investment should remain the main support to activity, but it is likely to be offset to a large extent by weak consumption, fiscal tightening, and a substantially more adverse external environment. The balance of risks remains clearly **tilted to the downside**. That reflects not only domestic adjustment, but also the fact that the assumptions and forecasts we make now may only be valid for a very short period and could be quickly altered by the evolution of the broader geopolitical situation but also internal political environment. The current overall situation is marked by **uncertainty and unusually high market volatility**.

Fiscal discipline remains essential for Romania, despite the difficult political environment. A credible fiscal path is necessary not only to preserve macroeconomic stability and borrowing capacity, but also to safeguard public investment and maximise the absorption of EU funds, which remain the strongest medium-term support for growth.



IOAN NISTOR

Chief Economist

This combination of cost-push inflation and demand compression creates a stagflationary type environment, where growth slows while prices remain elevated. Moreover, heightened uncertainty linked to geopolitical tensions discourages private investment and increases risk premium in financial markets, tightening financing conditions.

2026 INFLATION TEMPORARY EASING INTERRUPTED BY A NEW ENERGY SHOCK

RECENT EVOLUTION: Q1 INFLATION WAS STICKY OVERALL AND THEN RE-ACCELERATED IN MARCH

Q1 started with only a modest improvement in the annual inflation rate, but the quarter ended with a renewed acceleration. CPI was 9.6% y/y in January, eased to 9.3% in February, then moved back up to 9.9% in March. On a monthly basis, consumer prices increased by 0.86% in January, 0.59% in February and 0.78% in March, taking cumulative inflation in the first three months to 2.3% versus December 2025. This means that Q1 did not deliver a clear disinflation trend. Instead, it showed that inflation remained broad-based, while March added a new external energy shock on top of already-elevated domestic price pressures.

The March profile is especially important because the fuel component was the decisive reason for the renewed acceleration. Gasoline prices increased by 11.11% m/m and diesel prices by 14.98% m/m in March. This shows that the new geopolitical shock has already started to feed into Romanian inflation through the imported energy channel.

A simple Q1 understanding is the following: January and February showed only limited easing, while March showed that inflation remains highly exposed to external energy shocks and that the disinflation process is fragile.

Inflation in April: the re-acceleration continued and became more services-led

April confirmed that the disinflation process is not yet here. CPI increased by 0.84% m/m, bringing cumulative inflation since December 2025 to 3.1%. The annual inflation rate increased further to 10.7% y/y, from 9.9% y/y in March. The harmonised index also remained elevated, with HICP inflation at 9.5% y/y and 0.73% m/m.

The April composition is important. The monthly increase was no longer driven mainly by the fuel shock. Services became the dominant source of the monthly impulse, while non-food goods continued to show the strongest annual increase because of energy and fuel-related base effects. Food inflation remained the lowest of the three main CPI blocks, but it continued to accumulate price pressure from the start of the year.

Services: April confirmed the strongest persistence in the basket

Services inflation became even more clearly the stickiest part of the basket. In April, services prices increased by 2.28% m/m, reached 13.04% y/y and were 4.98% above December 2025. This was the strongest cumulative increase among the three major CPI blocks and the main reason why the April headline data remained high despite a more moderate monthly increase in non-food goods.

The April data also show that services inflation is broad and persistent, not only a one-off effect. Services categories remained under pressure: water, sewerage and sanitation were 15.05% y/y, personal hygiene and cosmetics services 15.07% y/y, repair services 14.65% y/y, medical care 12.61% y/y and restaurants, cafes 11.78% y/y. This confirms that services are still the main source of underlying inflation persistence and are likely to decelerate only gradually, especially with wage pressures, euro-linked pricing and elevated operating costs still present.

Non-food goods: annual inflation increased further, but the April monthly impulse was smaller

Non-food goods continued to carry a strong annual inflation rate in April. Prices were 12.02% higher than a year earlier and 2.44% above December 2025, while the



monthly increase slowed to 0.37% m/m. This means that the March fuel shock remained visible in the annual profile, but April itself did not repeat the same broad non-food acceleration.

Energy and fuel-related items still dominate the non-food elements. Fuels were 15.65% y/y and 10.36% above December 2025 in April. Diesel increased by 2.32% m/m and was 32.68% y/y, while gasoline corrected by 1.17% m/m but remained 22.42% y/y. Electricity, gas and central heating were 33.07% y/y, with electricity still 54.18% above April 2025. The implication is that non-food inflation remains vulnerable to imported energy costs and regulated-price effects, even if the immediate fuel impulse was less intense than in March.

Food goods: still the lowest annual inflation, but year-to-date pressure continued

Food inflation remained lower than services and non-food inflation in April, but it continued to build from the start of the year. Food prices increased by 0.57% m/m, were 2.85% above December 2025 and stood 7.39% higher than a year earlier. This keeps food as the least inflationary of the three major CPI blocks on an annual basis, but the year-to-date increase is now stronger than for non-food goods.

The food basket remains diverse in terms of behaviour. Coffee was still one of the clearest pressure points, up 22.46% y/y, while eggs were 14.78% y/y, sugar, confectionery and honey 11.09% y/y, fresh fruit 11.77% y/y and bread 8.96% y/y. At the same time, some categories were softer, with potatoes still below last year's level and overall vegetables up only 2.77% y/y despite a strong year-to-date increase. The April data therefore support the same conclusion as before: food inflation is not the main source of the current spike, but it remains exposed to second-round effects from transport, packaging, processing costs, imported inputs and exchange-rate depreciation.

INFLATION OUTLOOK: DISINFLATION DELAYED, WITH EXCHANGE-RATE DEPRECIATION ADDING A NEW LAYER OF PRESSURE

End-2026 forecast revised to 6.4%

The key change in this update is the 2026 year-end forecast. We now revise the forecast to 6.4%. The upward revision is driven not only by the more adverse external energy shock described above, but also by the recent depreciation of the RON. When the previous scenario was prepared, the exchange rate was broadly stable, averaging around 5.09 EUR/RON in Q1. In the past few weeks, however, the exchange rate weakened toward 5.22 EUR/RON, creating an additional imported-inflation channel that was not fully embedded in the earlier forecast.

Under the new baseline, the exchange rate is assumed to find a new balance in the 5.20-5.22 RON/EUR range. This represents a level shift in the exchange rate of roughly 2-3% versus the earlier starting point. The inflation impact is meaningful because Romania has a high import content in consumer goods, energy products, food inputs, durable goods and several services with euro-linked pricing. The depreciation therefore raises the local-currency cost of imports and increases the probability of faster pass-through in categories where margins were already under pressure.

The first channel is direct import-price pass-through. Imported food products, household goods, electronics, pharmaceuticals, cars and other durable goods become more expensive in RON terms when suppliers update price lists or replenish inventories at the weaker exchange rate. The effect is unlikely to appear fully in a single month, but it should gradually affect CPI readings over Q2 and Q3 as contracts, inventories and retail prices adjust.

The second channel is indirect cost pass-through. A weaker RON increases costs for companies that import raw materials, packaging, equipment, spare parts or intermediate inputs. This matters for both goods and services. Even domestically

produced items can become more expensive when their input structure includes imported components. Transport, logistics, retail, restaurants and repair services are especially relevant because they are already exposed to higher fuel and wage costs. The exchange-rate move therefore risks amplifying the existing second-round effects from energy.

The third channel is expectations. The move from a stable Q1 exchange-rate environment to a weaker 5.20-5.22 EUR/RON range may influence price-setting behaviour, especially in sectors where firms monitor the exchange rate closely or where prices are implicitly indexed to the euro. If companies treat the depreciation as persistent rather than temporary, they may adjust prices more pre-emptively. This would slow the disinflation process even if domestic demand continues to soften.

In our baseline, the exchange-rate depreciation adds several tenths of a percentage point to the year-end inflation forecast. It does not replace the energy shock as the main near-term inflation driver, but it makes the inflation path more persistent and reduces the room for a faster decline later in the year. The revised 6.4% end-2026 forecast therefore reflects a combined shock: higher imported energy costs, weaker exchange-rate conditions and still-sticky domestic services inflation.

Near-term path: inflation could further increase in Q2 before clearer disinflation begins in Q3

For Q2, we now see a tangible risk that annual inflation temporarily rises toward 11.5%. This is a near-term scenario driven by the lagged pass-through of the fuel shock, possible further oil-price volatility, second-round effects in transport-intensive goods and services, and the early impact of the weaker RON on imported goods. The magnitude will depend on the duration and intensity of the Middle East conflict, the path of international oil prices and whether the exchange rate stabilizes around the new 5.20-5.22 EUR/RON range.

A clearer disinflation process should start only in Q3. Even then, disinflation is likely to be incomplete and more fragile than previously expected, because the effects of the Middle East shock will still be visible in the level of prices and because the weaker exchange rate will continue to feed into inventories, contracts and price lists with a lag. In other words, we see a delayed and partial decrease of inflation starting in Q3, after a stronger Q2 inflation impulse.

Risks to the inflation outlook

Upside risks are now more clearly dominated by the Middle East conflict and by exchange-rate uncertainty.

- A renewed tightening of disruptions in the Strait of Hormuz, further escalation affecting regional energy infrastructure, or a new spike in oil prices would push inflation higher and extend the persistence of the shock.
- Exchange-rate risk has become more relevant. If the RON weakens further or if volatility remains elevated, imported inflation would become stronger and broader. The risk is especially important for imported consumer goods, fuel-related costs, food inputs and euro-linked services.
- Political risk has also increased. Prolonged political uncertainty, delayed fiscal consolidation, weaker policy coordination or renewed pressure on investor confidence could put additional pressure on the exchange rate and risk premium. In that case, the inflation impact would come through both weaker currency and higher financing-cost pressures, while the NBR would have less room to respond with easier policy.
- Fuel-driven second-round effects could prove stronger than assumed, especially in transport, logistics, restaurants and other services with high

RISKS TO THE POLICY-RATE OUTLOOK

Upside Risks

- A stronger or longer energy shock, additional currency depreciation or a higher political risk premium that keeps inflation near double digits for longer would reinforce the case for holding the rate unchanged well into 2027.

RISKS TO THE POLICY-RATE OUTLOOK

Downside Risks (Lower Inflation)

- A much faster normalization of oil markets combined with a sharper domestic demand slowdown and a stable exchange rate could reopen limited room for cuts.

BOTTOM LINE

The inflation outlook is now materially less favorable and the monetary policy outlook more restrictive. The revised combination is higher year-end 2026 inflation at **6.4%**, a temporary increase in inflation in Q2, delayed disinflation from Q3 onward, a weaker exchange-rate baseline, and no NBR rate cuts in 2026 under the current baseline.

EUR/RON TRAJECTORY

Internal factors

- Political instability: The withdrawal of political support for the government increased uncertainty around the fiscal and reform agenda, triggering pressure on the currency.
- Fiscal credibility: Romania's fiscal position remains a key vulnerability. Any delay in consolidation measures or weakening of reform commitments could further affect investor confidence and external financing conditions.
- Monetary policy and FX intervention: The National Bank remains an important stabilizing factor, but the April depreciation shows that political shocks can temporarily dominate the exchange-rate smoothing mechanism, especially when market confidence weakens.

RISKS FACTORS

Upside Risks (weaker RON)

- Political uncertainty: A prolonged government crisis, delayed fiscal measures, or weaker commitment to reforms could push the exchange rate above the baseline range. Political instability is particularly important because it affects several transmission channels at once: investor confidence, fiscal credibility, EU fund absorption, sovereign risk perception, and the National Bank's ability to smooth volatility without excessive market intervention.
- Fiscal risks: Any fiscal slippage or lack of clarity on consolidation measures could amplify depreciation pressures. Given Romania's already fragile fiscal position, markets are likely to react negatively to signs of policy delay or reform reversal.

energy intensity.

- Food inflation could re-accelerate more visibly later in the year if higher transport and processing costs coincide with weather-related agricultural volatility and the weaker exchange rate raises the local-currency cost of imported food products and agricultural inputs.

Overall, the balance of risks is now **more tilted to negative impacts** than in the previous report. The conflict in the Middle East remains the main external risk factor, but the depreciation of the currency and the political risk premium make the inflation outlook more fragile. The longer these risks persist, the longer inflation is likely to stay high.

NBR POLICY RATE: NO CUTS EXPECTED IN 2026

Current status: the policy rate remains at 6.50%

The NBR kept the policy rate at 6.50% in its latest monetary policy meeting, while the Lombard and deposit facility rates remained at 7.50% and 5.50% respectively. That decision already reflected a still-uncomfortable inflation profile and a balance of risks tilted toward energy, fiscal and external uncertainty.

Forward-looking perspective: persistent inflation and exchange-rate depreciation argue for no cuts this year

We now expect no NBR policy-rate cuts in 2026. The reason is straightforward. Inflation remains far above the target band, services inflation is still sticky, non-food inflation has re-accelerated, the external environment has become more inflationary, and the exchange-rate depreciation has added a new inflationary channel. Under these conditions, the case for easing has weakened significantly.

Even if activity remains soft and fiscal consolidation weighs on demand, the persistence of inflation should dominate the monetary policy reaction in 2026. The weaker exchange rate also raises the cost of premature easing, because rate cuts could further pressure the currency and reinforce imported inflation. The NBR is therefore more likely to keep the policy rate unchanged for the rest of the year than to risk validating inflation persistence through premature cuts.

EXCHANGE RATE: SHARP RON DEPRECIATION AFTER A STABLE FIRST QUARTER

During the first quarter of 2026, the EUR/RON exchange rate remained broadly stable, with an average level of around **5.09**. This stability was consistent with the baseline view from the previous report, where the exchange rate was expected to remain relatively contained, supported by the National Bank's active management of market volatility and relatively balanced external financing conditions.

However, this stable trajectory changed abruptly at the end of April. On **Thursday, 30 April 2026**, the exchange rate depreciated sharply, moving toward the **5.20 EUR/RON** area. The official NBR exchange rate for 30 April was **EUR/RON 5.1417**, while ECB reference data showed the euro at **5.1823 RON**, confirming a significant weakening of the currency on the day.

This episode recalls the previous depreciation above the psychological **5 RON per EUR threshold**, which occurred almost one year earlier, on **5 May 2025**, when the RON weakened sharply due to post-election political stress. At that time, the exchange rate crossed above **5 EUR/RON** for the first time, with the NBR announcing **EUR/RON 5.0378**.

Drivers of exchange rate movements

The recent steep depreciation was mainly driven by **political instability**, which became the dominant source of market pressure. This was also the most important upside risk identified in the previous report, where renewed political uncertainty

RISKS FACTORS

Downside Risks (Stronger / Stable RON)

- **Rapid political resolution:** Renewed fiscal credibility, stronger EU fund inflows, and continued National Bank intervention could stabilize the exchange rate and would help contain depreciation pressures.

was highlighted as the main factor that could push the exchange rate above the baseline path. Unfortunately, this risk has now materialized.

Outlook: Near term outlook

For the following period, the baseline expectation is for the EUR/RON exchange rate to stabilize in the **5.20–5.22 range for the next quarter, with end of the year forecast expected at 5.27 EUR/RON**. This assumes that political tensions do not escalate further, that the government (successor) administration preserves a credible fiscal consolidation path, and that the National Bank continues to limit excessive volatility.

Overall, after a stable first quarter with an average exchange rate of **5.09**, the sharp depreciation on **30 April 2026** marks a clear upward adjustment in the EUR/RON path. The baseline for the year end exchange rate is **5.27 EUR/RON**, but the risk balance remains tilted to the upside, with political uncertainty still the most important factor to monitor.

BUDGET BALANCE AND PUBLIC DEBT

Romania's main macroeconomic vulnerabilities over the 2026 horizon remain the fiscal imbalances, even though the latest data confirm that the correction has started. The 2025 cash deficit closed at 7.65% of GDP, compared with 8.67% of GDP in 2024, while the Eurostat ESA deficit narrowed from 9.3% of GDP in 2024 to 7.9% of GDP in 2025.

Budget Balance

By March 2026, the deficit data published by the Ministry of Finance reached **RON 21.1 BN**, equivalent to 1.03% of GDP, compared with RON 43.7 BN, or 2.28% of GDP, in March 2025. The improvement is broad and reflects both stronger revenues and a visibly lower expenditure envelope in the first quarter. Total revenues increased by 12.3% year-on-year, to RON 158.8 BN, while total expenditure declined by 2.8% year-on-year, to RON 179.9 BN. In other words, the Q1 adjustment was not driven only by temporary cash management, but by a combination of higher tax collection, the first effects of the fiscal measures and restraint in several expenditure categories.

- The **revenue structure is encouraging**. Fiscal revenues increased by 16.5% year-on-year, faster than total revenues, with strong contributions from wage and income taxes (+19.0%), VAT (+17.7%) and property taxes (+29.7%). Social security contributions also increased by 7.0%. These numbers show that the higher tax rates and base-broadening measures adopted in 2025 are passing through to budget receipts, while nominal wage growth and consumption still support the tax base. The durability of the revenue improvement will depend on compliance, tax administration, collection discipline and the capacity to limit exemptions and preferential regimes.
- On the **expenditure side, the overall data is also more favourable** than in 2025. Personnel expenditure declined by 3.0% year-on-year and social assistance was broadly flat (-0.2%), consistent with the freeze and containment measures. Goods and services still increased by 5.8%, but this is far below the pace observed during the previous high-deficit years. Interest payments continued to rise, by 7.0% year-on-year to RON 13.4 BN and remained close to 0.7% of GDP in the first quarter. The increase is smaller than in 2025, but interest costs remain a structural vulnerability because the debt stock is higher, refinancing needs are large and market pricing remains sensitive to fiscal credibility.

The large decrease in capital expenditure, by 48.6% year-on-year, is an important technical factor behind the strong Q1 deficit reading. Capital spending decreased to RON 6.9 bn, or 0.3% of GDP, from RON 13.5 bn in Q1 2025. This supports the short-term cash balance, but it is not a sustainable adjustment channel if it comes at the expense of productive investment. The fiscal objective should be to preserve the deficit correction while replacing domestically financed capital spending with EU-funded investment where possible. This is why EU funds remain critical: amounts received from the EU increased by 20.7% in Q1, and RRF grants received increased by 149.1%, while RRF grant-financed expenditure more than doubled. A high absorption rate can protect growth and infrastructure investment without putting the same pressure on the national cash deficit.

Our estimation is that the full-year 2026 baseline deficit should be at **6.00% of GDP**. The Q1 execution is better than the annual path would normally require, but the improvement cannot yet justify a more optimistic year-end assumption. The main reason is seasonality: spending execution, public investment, EU-funded co-financing, defence spending, areas that normally become heavier in the second half of the year. The 6.00% baseline therefore assumes that the government maintains strict control over current spending, avoids compensating measures that dilute the fiscal package and continues to improve revenue collection.

Public Debt

Public debt has continued to increase because the deficit remains large in absolute terms and the budget still requires substantial financing. General government debt reached RON 1,137.3 BN in 2025, equivalent to 59.3% of GDP, up from 54.8% of GDP in 2024.

We expect the debt-to-GDP ratio to reach **61.8% by end-2026**, unchanged from the previous scenario. A deficit of around 6.00% of GDP still adds materially to the debt, and interest payments absorb an increasing share of budget resources. The debt path therefore remains upward, though less steep than it would have been without the fiscal measures adopted in 2025 and continued in 2026.

The debt structure remains manageable, supported by relatively long maturities and the availability of EU-linked financing, but the budget is exposed to higher yields, exchange-rate risk on foreign-currency issuance and shifts in non-resident investor appetite. In this context, credibility around the fiscal consolidation path is itself a financing tool: if investors believe that the deficit is on a durable downward path, risk premium can moderate; if not, interest costs can rise and make the adjustment more difficult.

Forward-Looking Perspectives

Looking ahead, the fiscal path is one of gradual correction. March execution shows visible progress. However, Romania still has the largest deficit in the EU, and the public debt ratio is approaching the 60% of GDP threshold. The baseline therefore remains cautious: deficit at 6.00% of GDP and debt at 61.8% of GDP by year-end 2026.

The adjustment is expected to be driven by: **Full-year impact of the fiscal package, Expenditure discipline, Revenue compliance, EU funds and RRF absorption, Financing credibility.**

EU funds are particularly important. They are not only a source of financing for investment, but also a macro stabiliser. Higher EU absorption can support GDP growth, preserve infrastructure spending and improve confidence while the

government consolidates the national budget. Conversely, delays in RRF milestones or co-financing bottlenecks would weaken growth, reduce reimbursements and increase pressure to either cut investment or finance more of it from domestic resources.

Risks to the Outlook

Upside Risks (Worse Fiscal Outcomes)

Key risks that could lead to higher deficits and debt than in our baseline include:

- Political and social resistance to consolidation: Any reversal, delay or dilution of wage restraint, pension discipline, hiring limits or tax-base measures would reduce the credibility of the adjustment and could put the target at risk.
- Weaker growth: A slowdown in consumption, investment or external demand would reduce VAT, income tax and contribution receipts. Lower nominal GDP would also mechanically increase the deficit and debt ratios.
- Interest-rate and rating risks: A sovereign rating downgrade, higher global yields or renewed domestic risk premium would raise borrowing costs. Given the large gross financing requirement, even a moderate rise in yields would quickly increase the interest expenditure.

Downside Risks (Better Fiscal Outcomes)

Several factors could yield better fiscal outcomes than we project:

- Sustained revenue overperformance: If VAT, income tax and contribution receipts continue to outperform because of stronger compliance and resilient nominal wage growth, the full-year deficit could be better than the baseline.
- Better control of current spending: A durable freeze in personnel costs, lower subsidies and stricter procurement could keep expenditure growth and improve the primary balance.
- Faster EU-fund absorption: Higher EU reimbursements and RRF grant inflows could finance more investment without increasing the national deficit, while also supporting GDP growth.

UNEMPLOYMENT

In 2025, the unemployment rate averaged **6.1%**, marking an increase of **0.7 percentage points compared to the previous year**. Monthly data show that unemployment fluctuated within a relatively narrow band (5.9%–6.3%).

This confirms that labour market conditions remained broadly stable, but with a gradual **increasing trend**, already visible in the second half of the year. At the same time, the employment rate declined with 0.8pp (63.0% for ages 15–64), pointing to weaker labour demand overall.

In a European context, Romania remains broadly aligned with the EU average, but the direction of change is now **marginally upward**, consistent with slowing economic momentum across the region.

Youth unemployment remains a **persistent structural vulnerability**. The unemployment rate among individuals aged 15–24 reached **28.2% in late 2025**, significantly above the aggregate rate. This reflects ongoing mismatches between education outcomes and labour market needs, as well as limited entry-level job creation. Going forward, **youth unemployment is expected to remain broadly unchanged**, continuing to represent a key structural constraint for the labour market.

In Q1 2026, the unemployment rate remained broadly stable, averaging 6.0% on a seasonally adjusted basis. The rate was unchanged at 6.0% in January and

February, before increasing to 6.1% in March. The March increase was accompanied by a rise in the estimated number of unemployed persons to 503.7 thousand, from 494.7 thousand in February.

Near-term outlook (2026)

We revise our outlook slightly upward with a **forecast of (year-end 2026): 6.3%**

Unemployment is expected to **increase moderately** during 2026. The adjustment is expected to remain **gradual**, without strong volatility.

Drivers of the increase

The uptick in unemployment is a combination of cyclical and external factors:

I. Weaker external environment

The escalation of the Middle East conflict has increased geopolitical uncertainty and contributed to higher volatility in energy markets and global trade flows. This has weighed on industrial output and export-oriented sectors, limiting hiring.

II. Softening private investment

Elevated uncertainty and tighter financial conditions have led to a delay or scaling down of private investment projects. This reduces job creation, particularly in construction, manufacturing, and business services.

III. Slower domestic demand

The cumulative impact of fiscal consolidation and still-elevated price levels continues to have a negative effect on consumption. Firms in consumer-facing sectors will become more cautious in expanding hiring.

Risks to the outlook

Upside Risks (Higher Unemployment)

- Further escalation or persistence of geopolitical tensions (including the Middle East conflict), affecting trade and energy markets
- A sharper slowdown in private investment due to prolonged uncertainty and tighter financing conditions
- Weaker-than-expected euro-area demand impacting Romanian exports
- Delays in EU fund absorption, limiting job creation in infrastructure and related sectors

Downside Risks (Lower Unemployment)

- Faster normalization of global conditions, supporting exports and industrial activity
- Stronger-than-expected rebound in private investment
- Accelerated implementation of EU-funded projects
- Targeted labour market policies improving matching efficiency and workforce participation

Conclusion

The increase is driven primarily by **external uncertainties** and **weaker investment**, rather than structural deterioration.

We therefore expect unemployment to **trend upward to around 6.3% by**

end-2026, with risks tilted to the upside in the current geopolitical and macroeconomic environment.

ECONOMIC SENTIMENT INDEX: RENEWED WEAKENING

The Economic Sentiment Indicator (ESI) points to a renewed deterioration in Romania's confidence cycle after the modest stabilization seen at the end of 2025. The recovery in November 2025 did not translate into a sustained turn: ESI stood at 93.1 in December 2025 and fell further to 91.1 in April 2026. For the latest 12-month window (April 2025-April 2026), Romania moved from a relatively favourable position versus the EU average to a clearly weaker one: from 100.9 in April 2025, above the EU's 95.0, to 91.1 in April 2026, below the EU's 93.5. This implies a 9.8-point decline for Romania versus only 1.5 points for the EU, with April 2026 marking the weakest reading of the period.

The deterioration confirms that the late-2025 stabilization was fragile. The current level remains well below the long-term average of 100 and signals a below-average economic climate. The main message is not only that sentiment is weak, but that Romania has underperformed the EU confidence cycle over the last year. This is consistent with a transition from a consumption-led, above-trend confidence environment in late 2024 and early 2025 to a more defensive phase among both households and firms.

The macroeconomic explanation remains centered on fiscal adjustment, inflation and weaker domestic demand. Romania entered 2025 with large imbalances, especially a high budget deficit and a significant current-account deficit, making fiscal consolidation unavoidable. Subsequent tax increases, spending adjustments and the removal of some fiscal facilities weighed directly on domestic demand and increased uncertainty for business planning. At the same time, inflation remained elevated, eroding purchasing power and putting pressure on consumer-facing sectors. The combination of lower real-income confidence, cautious corporate investment decisions and uneven external demand explains why the ESI continued to decline into spring 2026.

In terms of sectoral confidence indicators, industrial confidence deteriorated moderately from -1.1 in April 2025 to -3.3 in April 2026, while the EU industrial indicator improved from a much weaker starting point (-10.2 to -7.5). Romania therefore still looks relatively better than the EU in industry, but its direction is less favourable. Consumer confidence is the weakest part of the signal: it decreased from -17.9 in April 2025 to -35.1 in April 2026, with readings persistently below -30 in the second half of the period. This level of household pessimism is important because it transmits quickly into retail and services through delayed spending, higher precautionary saving and weaker discretionary consumption.

Near-term outlook (next 2 quarters)

Our base case is for the ESI to remain below 100 through the next 1-2 quarters, with a likely range around the low-90s to mid-90s. The April 2026 level shows that confidence has not yet reached a durable turning point. Stabilization is possible from current low levels, but the rebound should be gradual and uneven. The main condition for a clearer improvement is a visible easing of inflation pressure, combined with greater predictability around the fiscal path and a less negative perception of household real incomes.

Medium-term perspective (2026)

For the rest of 2026, sentiment should remain highly sensitive to macroeconomic environment. A delayed recovery scenario remains plausible if fiscal tightening continues to weigh on disposable income, private investment and consumption, while political uncertainty keeps confidence low. A more constructive scenario is

also possible if current levels mark a stabilization point and public investment, EU funds and RRF-related spending offset part of the weakness in consumption. In that case, construction, supplier services and some industrial segments could provide a partial counterweight to weak household demand.

Risks to the outlook

Upside Risks (Stronger Sentiment / Faster Rebound)

- Faster disinflation and improving real-income expectations
- Clearer and more credible communication of fiscal consolidation
- Stronger execution of EU/RRF-funded projects
- Firmer euro-area demand, especially from Germany and other key industrial partners
- Improved policy predictability that reduces precautionary behaviour by households and companies

Downside Risks (Weaker Sentiment / Prolonged Sub-100 ESI)

- Persistent or renewed inflation pressure, especially from food, energy
- Additional fiscal tightening beyond what households and firms currently expect
- Delayed EU/RRF implementation or reform slippage
- Weaker-than-expected euro-area recovery affecting industrial orders and exports
- Continued political uncertainty weighing on investment decisions and consumer confidence

Conclusion

The baseline is therefore one of weak confidence with potential stabilization, not rapid recovery. A sustained improvement will depend on lower inflation, clearer fiscal execution, continued public investment and a recovery in external demand. Until these conditions are visible, the ESI should remain below its long-term average.

BOND MARKET: FROM VOLATILITY TO CONSOLIDATION AND BACK TO VOLATILITY

Recent evolution

Romania's government bond market extended its late-2025 stabilization into the beginning of 2026, but the move was uneven. In January and February, the market continued to price a lower funding risk, helped by the approval of the 2026 budget framework, the authorities' pre-funding efforts and the intention to reduce reliance on external market funding. The **10-year RON yield moved back toward the high-6% area**. This confirmed that the stress premium seen in 2025 had partially reduced, but not that Romania had achieved a full re-rating.

Q1 2026 also showed the limits. Inflation remained high, and the NBR kept the policy rate at 6.50%, delaying expectations for a near-term easing cycle. At the same time, external shocks, higher energy prices and renewed domestic political tensions pushed investors to rebuild risk premium. By late Q1 and early Q2, **the 10-year RON yield had moved back toward the 7.1-7.4% area**, showing that the market remains highly sensitive to any deterioration in the inflation, fiscal or political environment.

Importantly, funding conditions remained functional, but more price-sensitive. Domestic auctions and external market access have not pointed to an immediate funding stress scenario. However, investor demand is now more conditional than before: Romania can still fund itself, but the market requires a visible premium for fiscal execution risk, high gross financing needs and political uncertainty.

Outlook for 2026: gradual decline, but with higher volatility

Looking ahead, we keep our baseline scenario of a gradual yield reduction. We continue to expect the **10-year RON yield to decline toward around 6.4% by end-2026**, but the path is likely to be more volatile than previously assumed. The recent repricing has shown that the market will not move in a straight line: periods of compression are likely to be interrupted by renewed spikes whenever political uncertainty, fiscal credibility or inflation risks deteriorate.

Fiscal policy remains the main fundamental driver of Romania's risk premium. The 2026 deficit target is ambitious but achievable if current measures are implemented and EU fund absorption remains strong. Debt-management efforts should help smooth supply pressure. Still, given large gross financing needs, any slippage in consolidation would be quickly reflected in higher yields.

Political turmoil has become the most visible risk in sight. The market can absorb a noisy political environment as long as fiscal execution remains credible, but prolonged instability, delays in reforms or a loss of policy continuity would likely keep term premium elevated. For this reason, we now expect **higher volatility than before, but still a gradual decreasing trend** in yields under the baseline scenario.

Balance of risks

Upside Risks To Yields (Worse Outcome)

- Political instability that undermines policy credibility
- Delays or slippage in fiscal consolidation
- Renewed inflation shocks from energy
- Weaker EU fund absorption; and rating-related concerns

Downside Risks To Yields (Better Outcome)

- Faster-than-expected disinflation after the Q2 inflation peak
- Stronger EU-related financing
- Improved confidence from rating agencies and foreign investors

Bottom line

Romania's bond market has moved from the stabilization phase into a more **volatile** consolidation phase. The Q1 2026 evolution confirms that the market is willing to reward credible fiscal execution, but also that risk premium can rebuild quickly when inflation and politics deteriorate. We therefore keep the **6.4% year-end target for the 10-year RON yield**, but with a less linear path than before. Political instability is now the main risk to the forecast, while credibility in fiscal execution remains the key condition for the gradual decline in yields to materialize.

CAPITAL MARKET

Romania's capital market opened 2026 on a firm footing: the advance extended, liquidity remained elevated, and benchmarks explored new highs.

January 2026, monthly main market turnover reached RON 2.29bn and adjusted market cap at RON 345.7bn, with the BET closing the month at 27,191 (+11.3% m/m).

February extended the gains: total adjusted market capitalization reached RON 354.7bn and monthly turnover to RON 3bn, while the BET settled at 28,112 at the end of the month (+3.9% m/m). In addition, Electroalfa successfully carried out a RON 579.6m IPO in February, and its shares subsequently started trading on 03 March.

Into March, the market shifted tone. After the sharp early-year run-up, prices retreated modestly: the BET reached 28,304 briefly on 16 March but rebounded and closed the month at 27,790 (-1.15% m/m). Total adjusted market capitalization was RON 354.9bn and monthly turnover was RON 2.75bn.

Overall, Q1 was characterized by consolidation at higher levels. Participation remained broad, liquidity was high while sector-wise, the market remained concentrated in financials and energy.

CONCLUSION

Romania enters the next stage of 2026 in a much more demanding position than we expected only a few months ago. The story is no longer only one of slow growth, fiscal consolidation and gradual readjustments. It is now also a story of external shocks, political uncertainty, currency depreciation, stubborn inflation and renewed pressure on market confidence. The margin for error has narrowed. The economy is still moving forward, but it is doing so against a stronger wind.

This is why our message is necessarily more cautious. We revise our 2026 growth forecast to 0.20%, not because Romania has lost its capacity to grow, but because the forces weighing on the economy have become heavier and more simultaneous. Consumption remains weak. Inflation is still eroding purchasing power. Fiscal consolidation continues to reduce domestic demand. The exchange rate has moved to a weaker level. The NBR has less room to ease policy. Political instability has become a macroeconomic variable in itself. And the external environment, marked by geopolitical tension and energy-market volatility, can change the outlook faster than traditional models can absorb.

Yet this is not a recessionary narrative. It is a resilience narrative. Romania's economy has not lost its engines; it has lost **visibility**. The most important support remains investment. Public infrastructure, transport, energy, digitalisation, EU funds and RRF-related projects are still the clearest channels through which Romania can defend growth and build a stronger productive base. Construction remains one of the most reliable pillars. ICT continues to show that Romania has sectors capable of generating productivity and export potential. The capital market started the year from a position of strength. The labour market is softening, but not breaking. The fiscal correction has started. These are not small details. They are the anchors that keep the outlook from becoming purely negative.

But anchors only work if they are held firmly. For Romania, the decisive word in 2026 is **credibility**. Fiscal credibility is not an accounting exercise; it is the foundation on which market access, exchange-rate stability, investor confidence and EU-fund absorption depend. Monetary credibility is not only about keeping rates high; it is about preventing inflation expectations from becoming entrenched. Political credibility is not only about forming governments; it is about proving that policy continuity can survive political noise. And institutional credibility is not abstract; it is what allows Romania to finance itself, invest, and

protect the future while adjusting the present.

The challenge is that the short-term medicine is not painless. Fiscal discipline weighs on demand. High interest rates restrain credit. A weaker exchange rate raises import costs. Inflation delays the recovery in real incomes. Consumers are cautious, firms are postponing decisions, and sentiment remains below its long-term average. These are real costs, felt by households, companies and investors. But the alternative — losing discipline, delaying reforms, weakening confidence, or sacrificing EU-funded investment — would be far more expensive. In the current environment, avoiding difficult decisions would not protect growth; it would endanger it.

This is the core message of the outlook: Romania's path in 2026 depends less on one single indicator and more on the quality of execution. If fiscal consolidation remains credible, if EU and RRF funds are absorbed effectively, if public investment is protected, if political uncertainty is contained, and if inflation starts to decline from Q3 as expected, Romania can move through this difficult year without losing its medium-term growth potential. Growth would be modest, but meaningful. Confidence would recover slowly, but it would recover. Markets would remain volatile, but they would still reward discipline. The economy would not accelerate strongly, but it would preserve the base for a stronger 2027.

If, however, fiscal credibility weakens, political instability persists, EU-funded projects are delayed, or the external energy shock becomes more severe, the downside scenario becomes much more uncomfortable. Inflation would stay higher for longer. The RON would remain under pressure. Yields would rebuild risk premium. Consumption would weaken further. Investment would become more selective. And the very engine that is supposed to carry Romania through the adjustment — public and EU-backed capital formation — could lose power.

The takeaway is clear: Romania's growth story is still alive, but it has become conditional. It is conditional on discipline. It is conditional on execution. It is conditional on credibility. And it is conditional on the ability to transform pressure into reform, uncertainty into focus, and investment into lasting productivity.

In that sense, the current outlook is not only a warning. It is also a call to seriousness. Romania still has powerful structural advantages: EU membership, large infrastructure needs, strategic geography, an active private sector, strong banking capacity, and significant room to converge. But convergence is not automatic. It must be financed, built, defended and earned.

2026 will not be remembered as a year of comfort. It will be remembered as a year in which Romania had to choose between postponing adjustment and protecting its future. Our baseline assumes that the country continues to choose the second path. It is the harder path, but it is also the only one that keeps the investment-led growth model alive and gives Romania the chance to emerge from this period not only more stable, but stronger.



IOAN NISTOR

Chief Economist

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FORECAST

END OF 2026

FORECAST	END OF 2026
Real GDP (% YoY)	0.20%
Inflation (CPI) (% EOP, YoY)	6.40%
Unemployment rate (%)	6.30%
Monetary Policy Rate (%)	6.50%
Budget Deficit (% of GDP)	6.00%
Public Debt (% of GDP)	61.80%
EURO/RON (EOP)	5.27

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