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ROMANIA'S ECONOMIC PULSE: TRACKING CONFIDENCE THROUGH UNCERTAINTY

Economic Sentiment Indicator (ESI)

The Economic Sentiment Indicator serves as a composite index, integrating signals from the industry, services, consumer, retail, and construction sectors. It reflects general confidence in the economy. In the latest data (May 2025), Romania stands out with an ESI of 99.4, above the EU average of approximately 95.2. This positions Romania ahead of major economies such as Germany, France, and Italy, whose sentiment indices remain reduced as a result of a slower-than-expected economic recovery and geopolitical uncertainty.

In the past 12 months, for Romania, the index started from a high of 104.5, fluctuated slightly but showed a steady decline to 99.4. The EU average maintained a relatively stable range between 94.3 and 96.9. While Romania's index remains higher than the EU's, the declining trend suggests cooling optimism, likely reflecting uncertainty and domestic moderation in growth. Ongoing negotiations on fiscal consolidation, which may include tax increases or spending cuts, heightened concerns in the business sector about the potential impact on investment, labor costs, and disposable income. These factors likely contribute to more cautious sentiment among both firms and households, reflecting the ESI's drop below the symbolic 100 threshold. The ESI may remain under pressure in the short term. A credible fiscal roadmap, paired with macro stability, will be key to restoring confidence when the ESI may surpass the psychological 100-point threshold, signaling optimism among households and businesses.

Construction Confidence Indicator

Romania's construction confidence index currently stands at -8.8, which is lower than the EU average of -5.3. This positions Romania below the EU in terms of sectoral optimism, reflecting more cautious or pessimistic sentiment within the industry. The indicator has deteriorated steadily from -5.3 to -8.8 with the worst decline occurring in the last quarter. In the EU, while generally negative, the trend is slightly improving, rising from around -8.0 to -5.3 over the same period. The trend suggests growing pessimism in Romania's construction sector, possibly due to the delays in public infrastructure and private real estate investment caused by the election cycle and in expectation of the fiscal reforms.

Among the EU member states, Croatia, Malta, and Spain stand out as top performers with construction confidence index above zero. On the other hand, the worst performers include Hungary, Luxemburg, and Finland.

Industrial Confidence Indicator

The Industrial confidence across the EU remains suppressed, with the EU average around -10, reflecting persistent challenges in manufacturing and global supply chains. However, Romania reports a much more favorable figure of -2.0, which ranks it among the better-performing countries in this sector. In the past 12 months, Romania fluctuated between 0.3 to -2.0 showing a downward trend recently. The EU stayed consistently low between -13.1 to -10.0.

This relative strength is likely supported by:

- Romania's role as a manufacturing hub for electronics and automotive components;
- Ongoing reshoring and nearshoring trends, benefitting Eastern Europe;
- A diversified industrial base with better resilience to external shocks.

Despite this, risks such as weaker export demand from core EU markets like Germany and tighter financial conditions could limit future gains. Mild decline is possible unless the EU markets recover.

Retail Confidence Indicator

Romania's retail confidence currently stands at -0.1, a sharp drop from last month and earlier in the year when it recorded values above 11. Despite this decline, the performance is still relatively stronger compared to the EU average of -5.7. Romania started the year with high consumer and business optimism in the retail sector, however, the recent slide suggests building pressure from inflation persistence, a slowdown in discretionary spending and caution around future demand.



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ESI remains above EU average but dropping. Retail confidence plunged sharply. Services remain moderately positive. Fiscal consolidation plans are reducing the overall sentiment.



The sudden drop coincides with the fact that the government had signaled upcoming fiscal consolidation measures to address the deficit and comply with EU recommendations – including potential tax hikes, spending cuts, and subsidy adjustments. These expected changes are weighing on consumer expectations and retail business outlooks, as both households and firms anticipate reduced disposable income and tighter fiscal conditions. Countries like Sweden, Czechia, and Bulgaria show positive and strong retail confidence while Hungary, Germany, and Estonia are among the worst performers with sentiment index in deep negative territory.

Retail sentiment in Romania is likely to remain reduced in the short term, especially if fiscal austerity materializes in the following weeks. A rebound will depend on how credibly and gradually the government implements reforms and whether real wages and job creation remain resilient during the adjustment phase.

Consumer Confidence Indicator

Romania’s consumer confidence currently stands at -15.2, which is slightly worse than the EU average of -14.5. While Romania had previously shown relatively resilient consumer sentiment, recent data suggests a shift toward deepening sentiment. The index showed relative strength early in the period, reaching -8.5 but experienced a sharp drop in late 2024 to -20.3 before recovering slightly to -15.2.

Comparatively, more stable, the EU average ranged from -1.2 to -15.9 with less extreme variations. The data reflects growing caution among Romanian households and heightened domestic uncertainty. This overlaps very well with increasing uncertainty of the electoral cycle and announcements around fiscal consolidation measures (tax reforms and public concern over future disposable income).

The consumer response is rational in this context: fears of rising costs and fewer safety nets discourage major spending decisions and reduce confidence in household financial security.

Top performers are Poland and Lithuania while Hungary, Estonia, and Greece have the lowest recorded results. Consumer confidence in Romania may remain suppressed in the near term unless the fiscal path ahead is clarified and well-communicated. If the government succeeds in balancing consolidation and inflation continues its decline, there is room for recovery in the index toward the end of the year.

Services Confidence Indicator

Romania’s services confidence currently stands at 3.6, which is above the EU average of 2.5, but not by a wide margin. This represents a moderate level of optimism in a sector that has previously shown stronger performance. The index fluctuated between 7.7 and 3.6, peaking early in the year and gradually softening in recent months. The EU followed a similar but flatter trajectory, easing from 6.5 to 2.5. Romania continues to show a relatively healthy service sector sentiment, especially in tourism and business services but the momentum has clearly cooled down. The recent decrease partially reflects the growing caution among firms over future demand, particularly if consumer spending slows down due to inflation or tax adjustments, and potential impact from planned fiscal reforms. The sector is likely to remain stable in the near term, but fiscal tightening or policy shifts could create headwinds.

Conclusion

On the positive side, Romania continues to outperform the EU average in industrial and services confidence, maintaining a competitive edge in manufacturing and benefiting from resilience in tourism and services. These sectors are supported by Romania’s strategic position in regional value chains and a relatively diversified industrial base. The Economic Sentiment Indicator (ESI) also remains above the EU average, despite its downward trajectory, signaling that general optimism, while softening, is not yet eroded.

However, this strength is increasingly overshadowed by deteriorating sentiment in the construction, retail, and consumer sectors. The sharp decline in the Retail Confidence Indicator and the negative turn in Consumer Confidence highlight a growing sense of financial caution among both firms and households. Similarly, the Construction Confidence Indicator, now significantly below the EU average, suggests that investment momentum is stalling—likely due to deferred projects and uncertainty around future fiscal adjustments.

Summary Table: Romania vs EU Average (Latest Values May 2025)

Indicator	Romania	EU	12-Month Trend Summary	Position in the EU
Economic Sentiment	99.4	95.2	Declining steadily in RO Stable & flat in EU	Above average
Construction	-8.8	-5.3	Worsening in RO Mild recovery in EU	Below average
Industrial	-2.0	-10	Declining in both RO consistently stronger	Strong
Retail	-0.1	-5.7	Sharp drop in RO recently EU flat and weak	Recently weakened
Consumer	-15.2	-14.5	Volatile in RO, recent dip EU more stable but still low	Below average
Services	3.6	2.5	Moderate decline in RO Gradual softening in EU	Slightly above the average