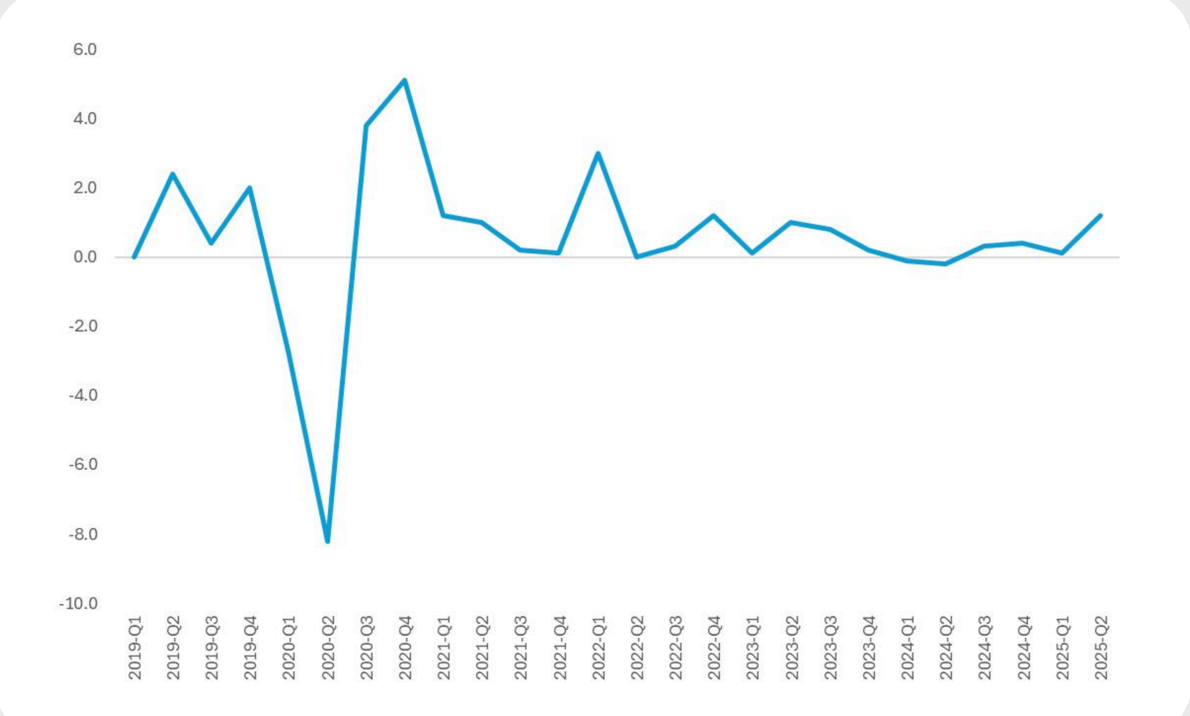
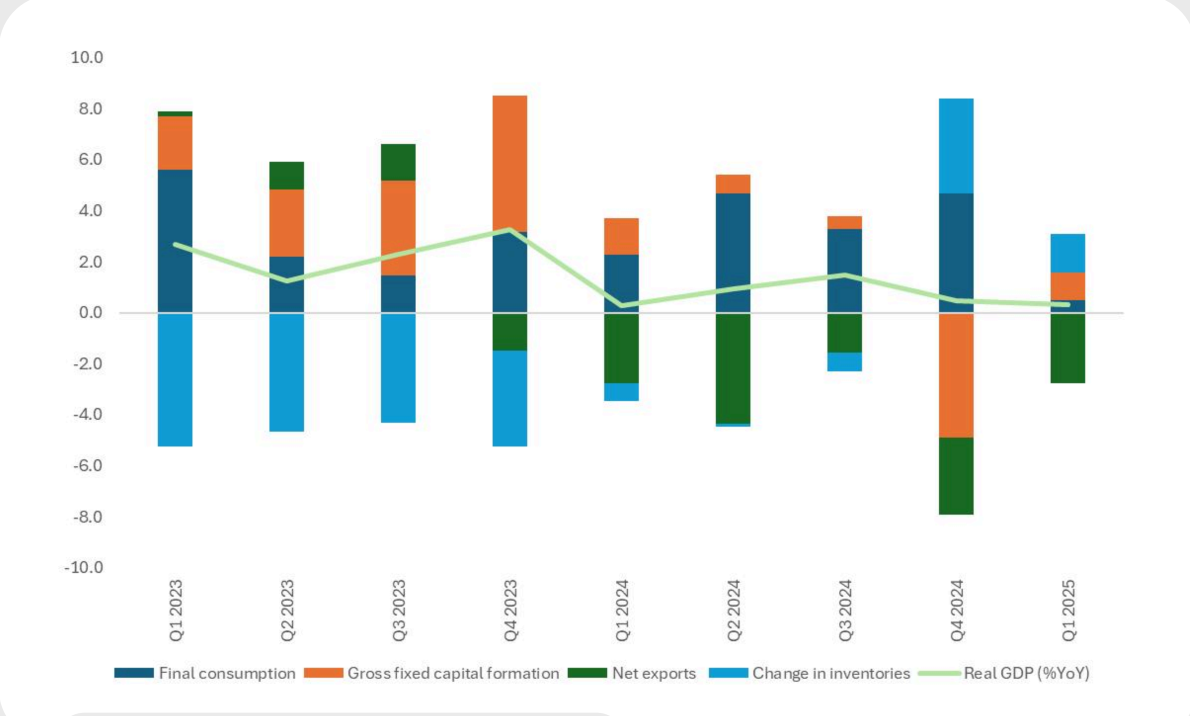
BT RESEARCH

#BTOUTLOOK



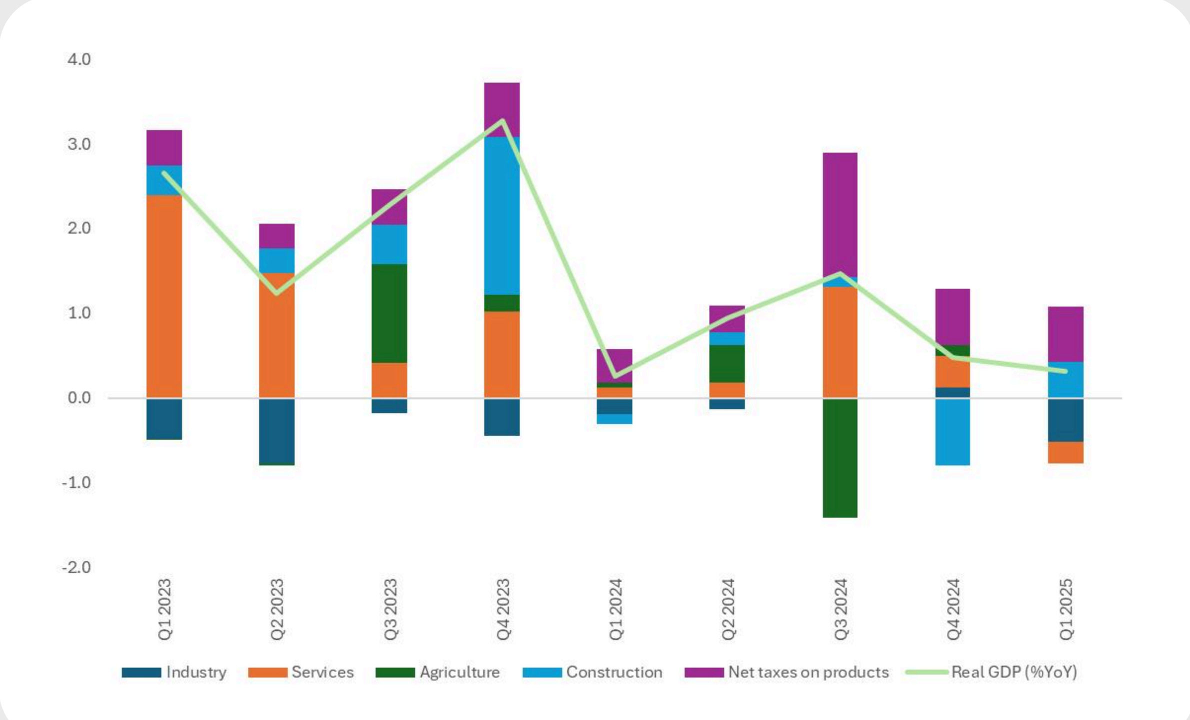
Romania GDP Growth Rate % Q/Q

Source: Eurostat



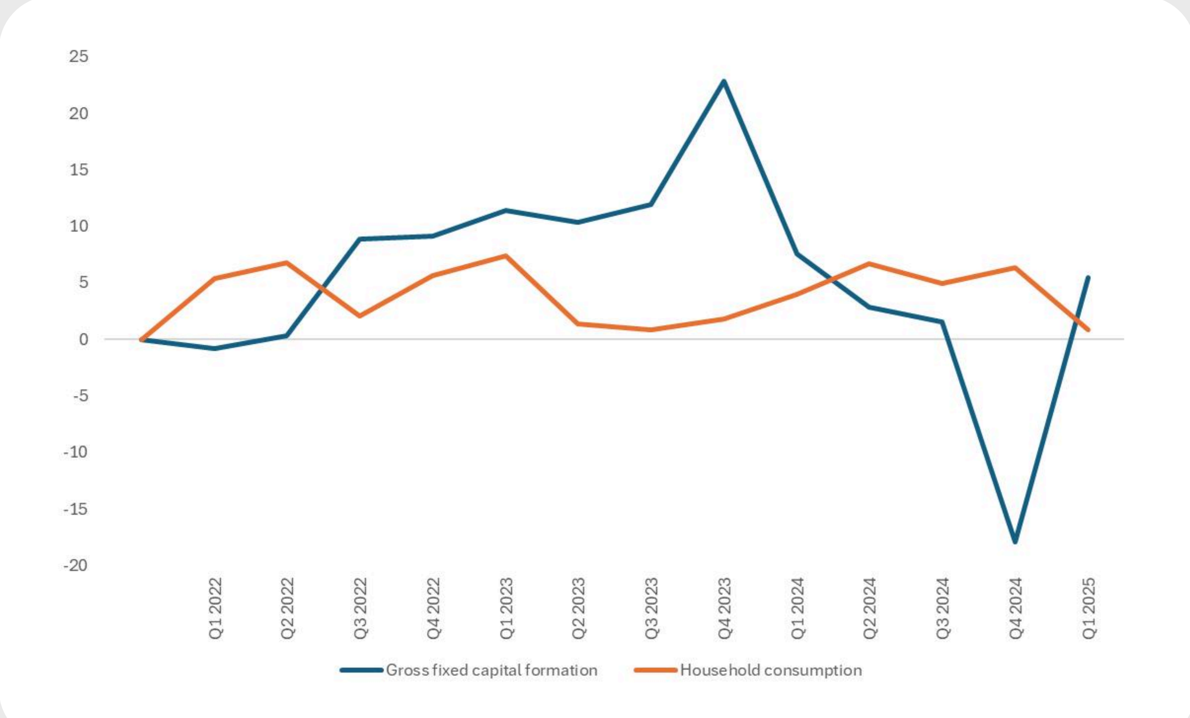
Contribution to GDP (pp) - Demand

Source: NIS



Contribution to GDP (pp) - Supply

Source: NIS



Real growth % YoY

Source: Eurostat, NIS

ROMANIA BETWEEN QUESTIONS AND ANSWERS. ECONOMIC OUTLOOK.

“There are years that ask questions and years that answer” is one of the lines from Zora Neale Hurston’s novel. Translated to the economic environment, Hurston’s line is about cycles. In the economy, “question-years” are when shocks blur the signal: prices increase, policies tighten, and the data feel contradictory. “Answer-years” are when those policies show results, imbalances narrow, and a clearer trend emerges. **Questions** test resilience; **answers** measure execution.

By that lens, Romania is in a question-year: growth slowed (0.8% in 2024), while imbalances increased, a fiscal deficit near 9.3% of GDP, inflation re-accelerated with policy rates held at 6.50%. Unemployment moved sideways, public debt increased, and RON’s managed stability bought time for reforms and EU-funded investment to take hold.

These are some questions on the table: Can fiscal consolidation be made credible without derailing activity? Can EU funds translate into productivity, not just spending while inflation be steered back without stalling activity?

Beyond our borders, some answers are beginning to form. Euro-area inflation has eased back, and output is increasing, ECB reduced rates. These conditions don’t solve Romania’s challenges, but they lower the headwinds against it.

Romania’s answers will arrive as investment finally leads growth, inflation edges down from high single digits toward the European norm, and external gaps narrow on stronger exports and cooler demand. If Europe keeps moving forward, the next years can be answer-years, where Romania’s integration into the wider economy doesn’t just expose vulnerabilities, it compounds strengths.

2024 Overview: Domestic Demand Drives Weak Growth with Fiscal and Inflationary Pressures

Romania’s real GDP growth decelerated in 2024 to 0.8% reflecting a year with economic challenges. The primary driver of growth was domestic demand, particularly household consumption, which was supported by robust wage increases, including an increase in the minimum wage and generous pension adjustments. The public sector played a central role, with expansionary fiscal policies providing short-term support to consumption despite longer-term sustainability concerns.

However, the investment component of GDP lacked vitality. Public investment, which should have been supported by the EU’s Recovery and Resilience Facility (RRF), suffered from bureaucratic delays and capacity constraints. Although the framework for EU funds was in place, execution lagged behind, constraining infrastructure and digital modernization projects. Private investment remained cautious, reflecting heightened uncertainty around fiscal policy, interest rates and political election cycle.

Trade contributed little to growth in 2024. Exports stagnated as demand from Romania’s key trading partners, particularly in the euro area, softened. Meanwhile, robust consumption stimulated higher imports, widening the current account deficit to approximately 8.3% of GDP. This deterioration in external balances further exposed Romania’s vulnerability to shifts in investor sentiment.

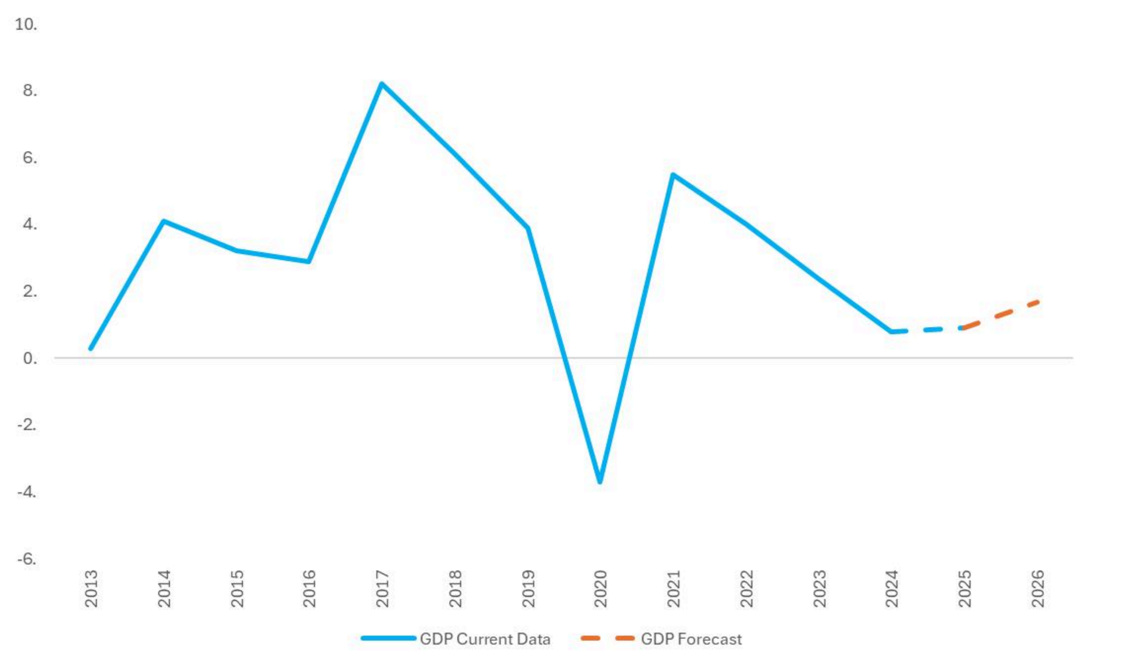
Inflation, though moderating from its 2022–2023 peaks, remained elevated at 5.6% in 2024. The persistence of core inflation pressures, driven by strong wage growth and energy costs, eroded household purchasing power and complicated monetary policy. The central bank maintained a cautious policy, keeping interest rates relatively high to anchor inflation expectations.

Ioan Nistor

Chief Economist

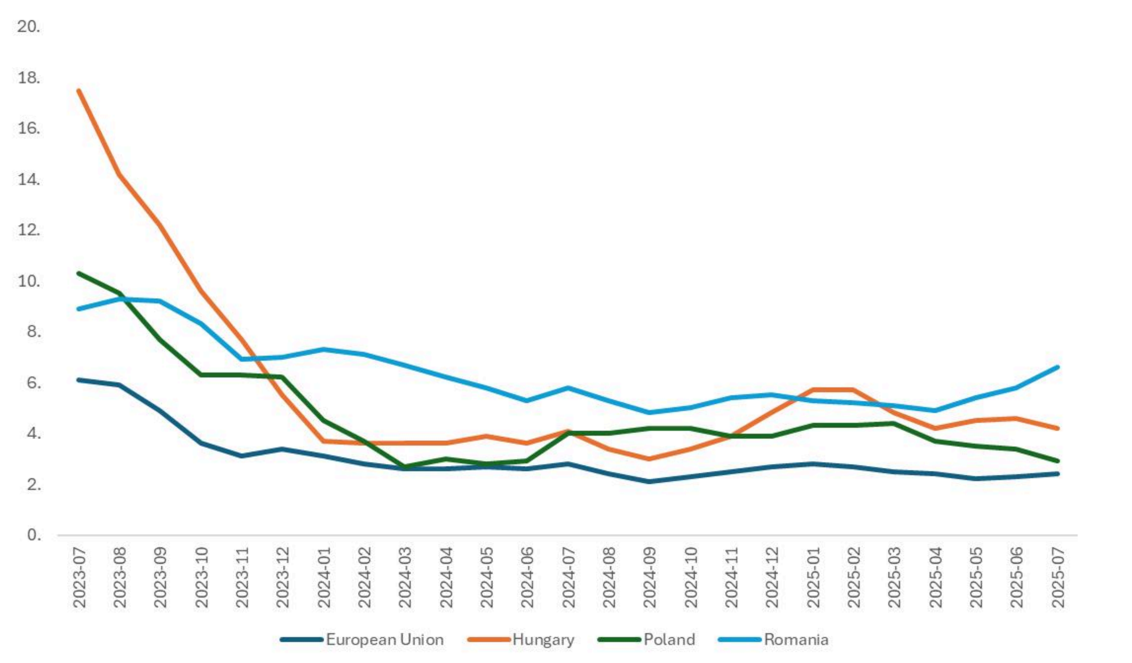
Shift from consumption-driven to investment-led growth expected. Inflation peaks again. No expectation of policy rate cuts before spring next year. Recovery depends on disinflation, reform credibility and EU fund execution.

CONTACT



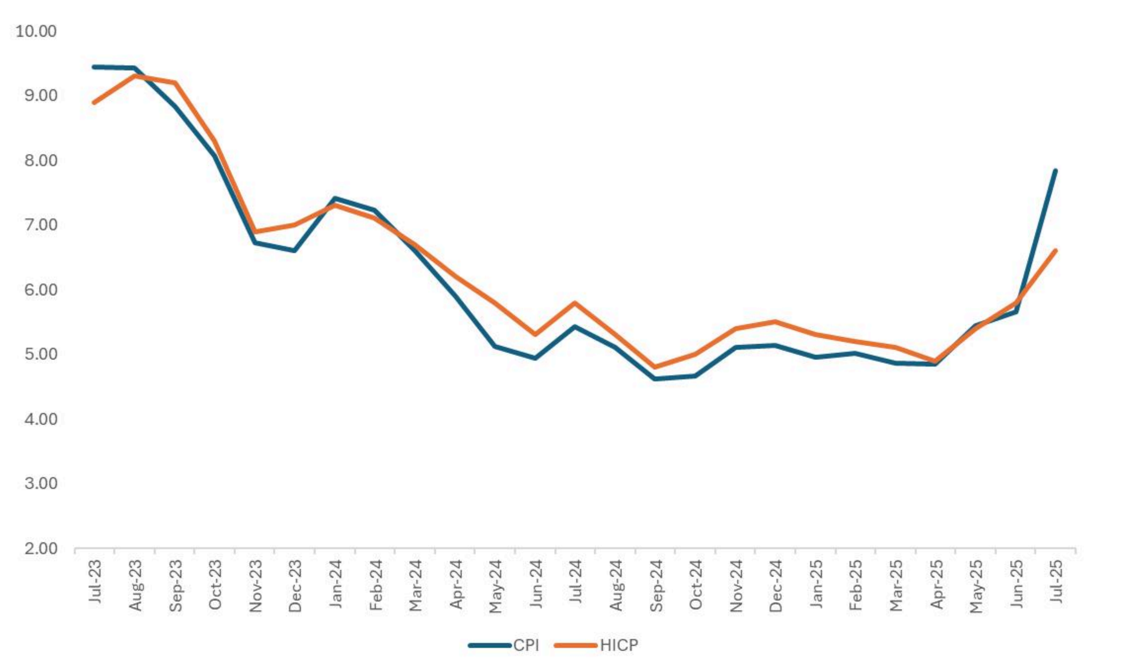
GDP Annual Growth rate % YoY

Source: Current data Eurostat, Forecast data: BT



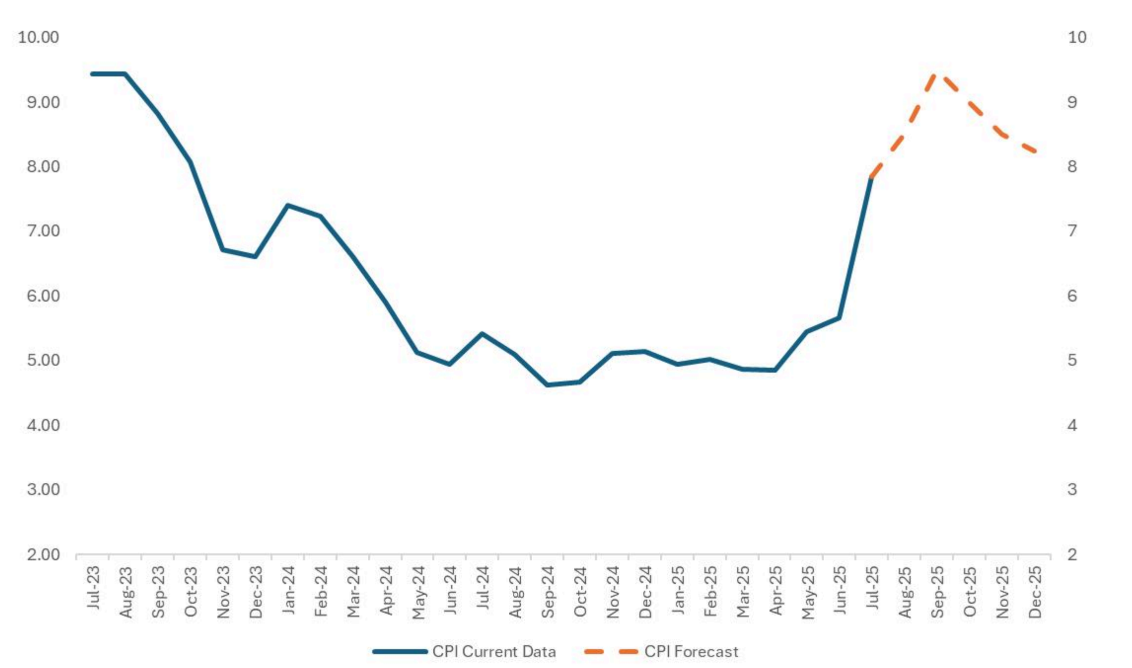
Inflation (HICP) Annual rate of change %

Source: Eurostat



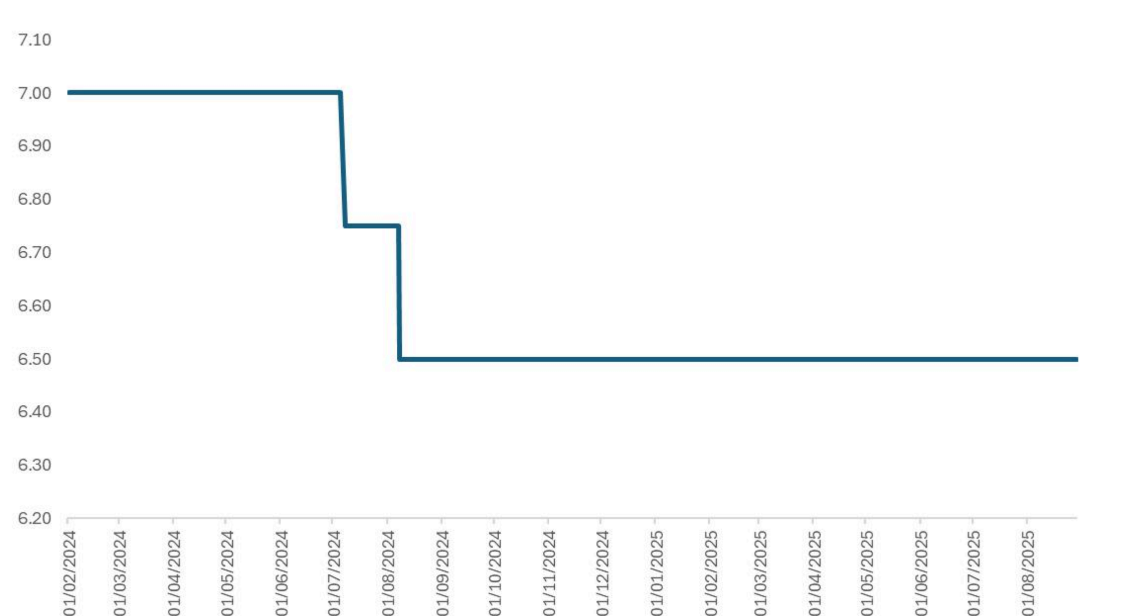
Inflation Romania - Annual rate of change %

Source: Eurostat, NIS



Inflation - Annual rate of change %

Source: Current data Eurostat, Forecast data: BT



NBR Monetary Policy Interest Rate %

Source: NBR

Perhaps the most concerning macroeconomic imbalance in 2024 was the fiscal deficit, which rocketed to 9.3% of GDP, the highest in the European Union. This increase was driven by rising public sector wages and pension spending, elevated interest payments, and low tax revenue performance. The growing fiscal gap prompted warnings from EU institutions and triggered market concerns over Romania's credit rating.

2025 Overview

GDP Outlook: Modest Recovery with Significant Downside Risks

The first half of 2025 has been marked by low, yet positive economic growth, reflecting both the resilience of certain sectors and the constraints imposed by fiscal consolidation and public budget's pressures. According to preliminary estimates from the National Institute of Statistics (NIS), GDP increased by 0.3% year-on-year in the first semester of 2025 for the unadjusted series and by 1.4% for the seasonally adjusted series.

Out forecasts for 2025 suggest only a modest economic rebound, with GDP growth expected to 0.9% (YoY). While some normalization in investment and improved EU fund absorption is expected to support growth, the economy's underlying vulnerabilities remain significant.

Contributors to Economic Growth

Private consumption has been the main driver of GDP growth in past years; however, in 2025, its contribution is weakening. While still a key contributor to GDP, its growth pace has slowed significantly, reflecting reduced purchasing power due to high inflation and fiscal tightening. Measures—such as the freezing of public wages and pensions, alongside increases in indirect taxes and utility tariffs—have constrained real disposable incomes.

Going forward, household demand is expected to remain reduced, particularly in 2026, when additional fiscal measures will deepen the contractionary pressures. Several risks could temper consumption even more: a spike in inflation rate followed by a slower-than-expected reduction in the rate, as a result of the fiscal adjustments, more spending cuts that can reduce disposable income and restrictive conditions for consumer credit for a longer period of time.

Investments represent a more positive story. Gross fixed capital formation has rebounded, driven largely by public investment projects and the mobilization of EU funds. Investments may recover in the following year, based on improved execution of EU-funded projects. Early 2025 saw an uptick in RRF disbursements, suggesting potential for stronger public investment in infrastructure and digital services.

These funds are crucial for investment in infrastructure, energy transition, and digitalization, but their disbursement is linked to reform benchmarks and governance capacity, thus structural weaknesses in administrative capacity and governance remain a constraint. Nevertheless, risks are material: a slowdown in the absorption of EU funds, alongside planned reductions in public capital expenditure in 2026, could temper investment momentum. Private investment appetite remains dependent on both credit conditions and investor confidence, which are fragile during this period (high-inflation, high-interest-rate environment). Despite these risks, investment remains the key pillar expected to partially offset weaker household demand. We see Romania moving toward a more balanced and investment-driven economic model in 2026.

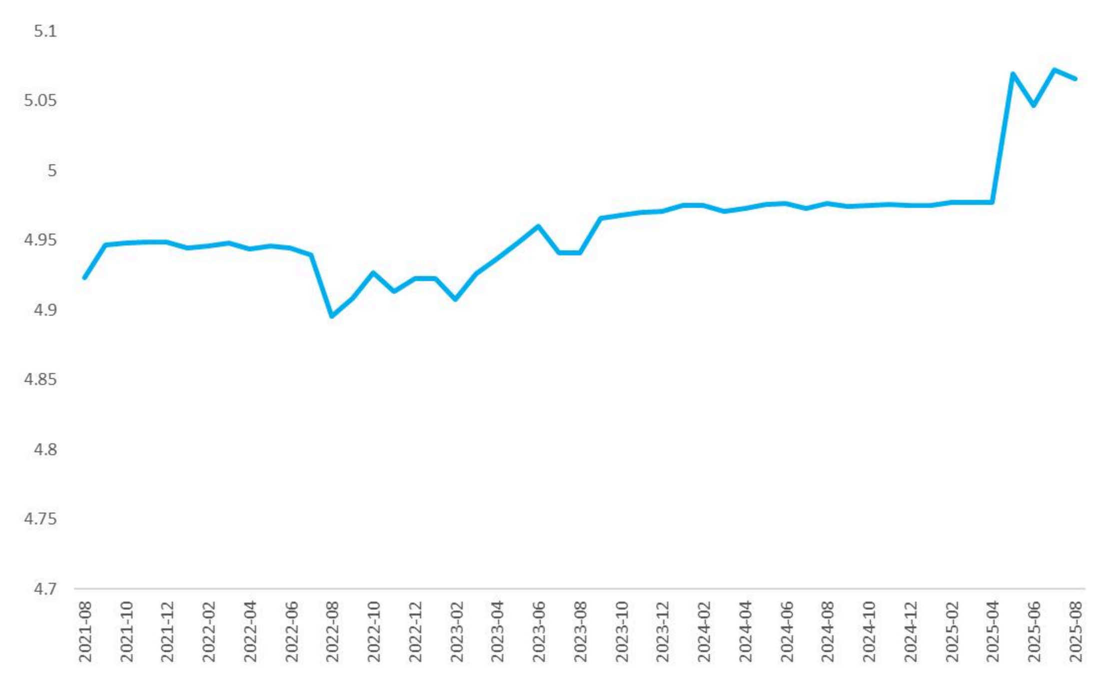
One area that continues to underperform and contributes negatively to the GDP growth is **net exports**. Despite integration into the European supply chains and logistical improvements via Schengen accession, the trade balance will remain in deficit. Net exports will continue to subtract from GDP growth in 2025 and 2026, despite the marginal improvement. Household consumption, although decreasing will continue to generate high import volumes, especially for energy, consumer goods and manufacturing products. Exports are projected to see a modest improvement, especially from the euro area, Romania's main trading partner, where industrial output is expected to rebound.

Although fiscal consolidation is expected to moderate import demand in 2026, the adjustment of external imbalances will be gradual. A slight improvement in net exports could materialize in 2026 if global demand strengthens and Romania's export competitiveness improves, but this remains contingent on structural reforms.

Sectoral Contributions

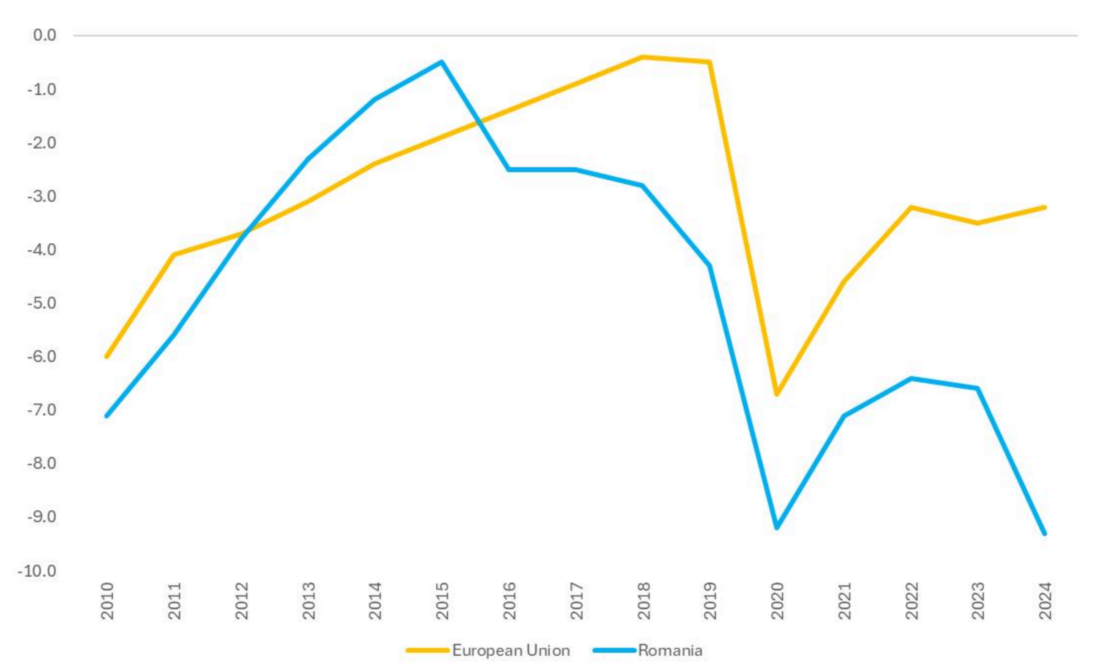
Industry: The industrial sector is still underperforming, particularly manufacturing, pressured by high labour costs, weaker European demand, and energy price volatility. However, we see potential for the sector to start getting momentum and have a positive contribution to GDP in 2026. On a long run, productivity gains and modernization will be crucial for a sustainable development.

Services: Services continue to be resilient, supported by external demand. However, services linked to household consumption (retail, hospitality) are likely to face headwinds from reduced real incomes.



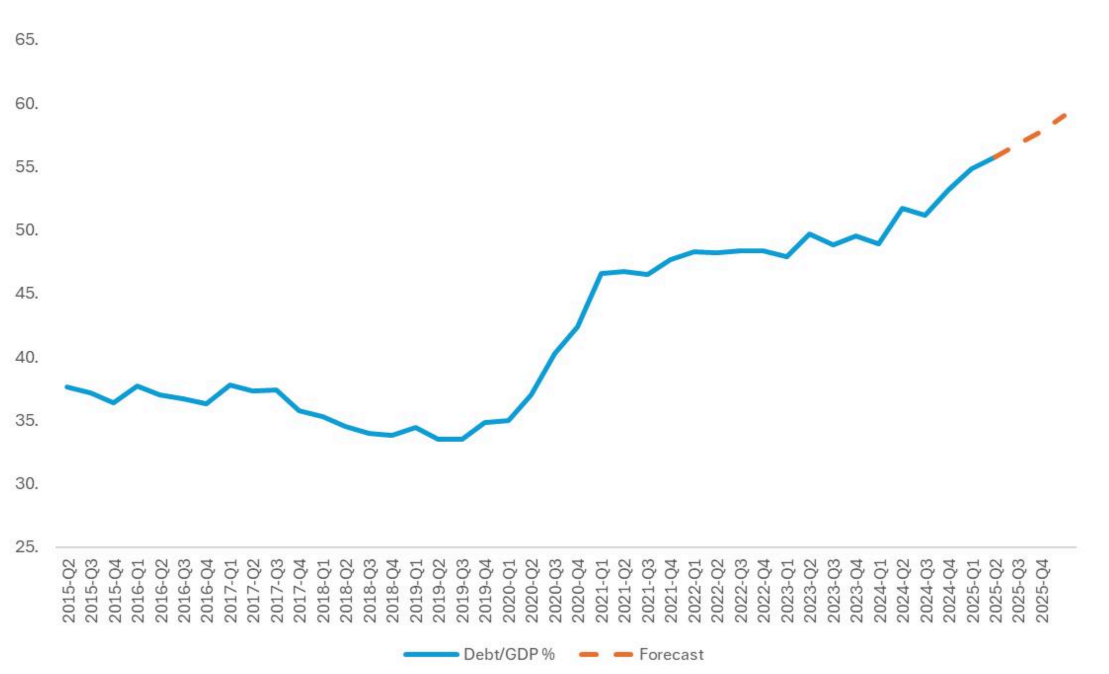
Exchange Rate RON/EUR

Source: NBR



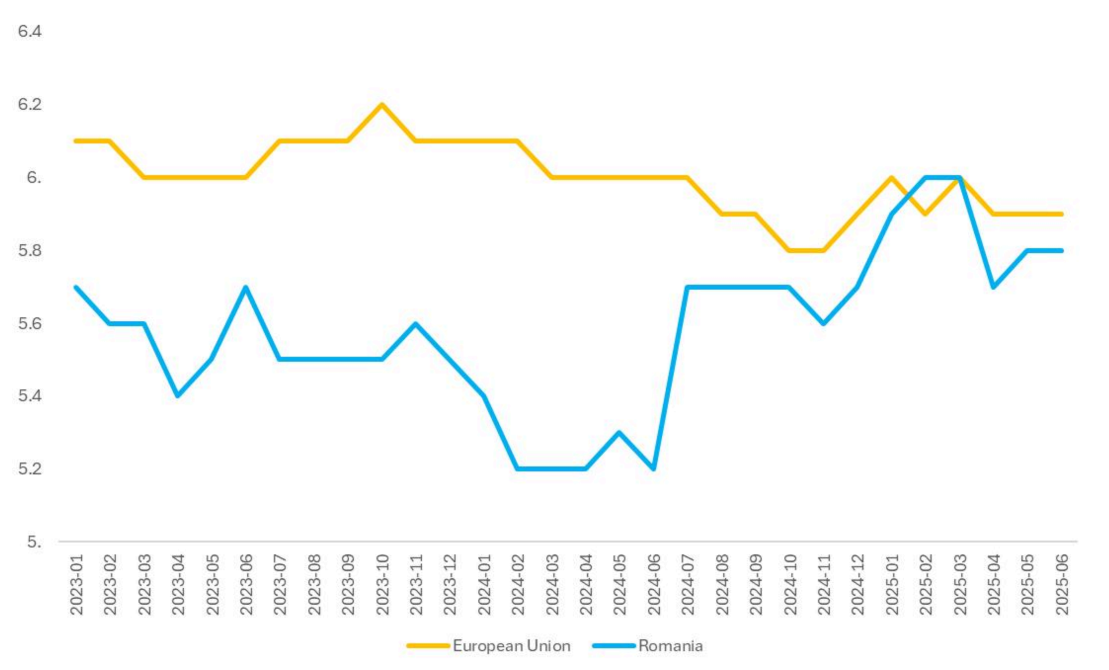
Government deficit % of GDP

Source: Eurostat



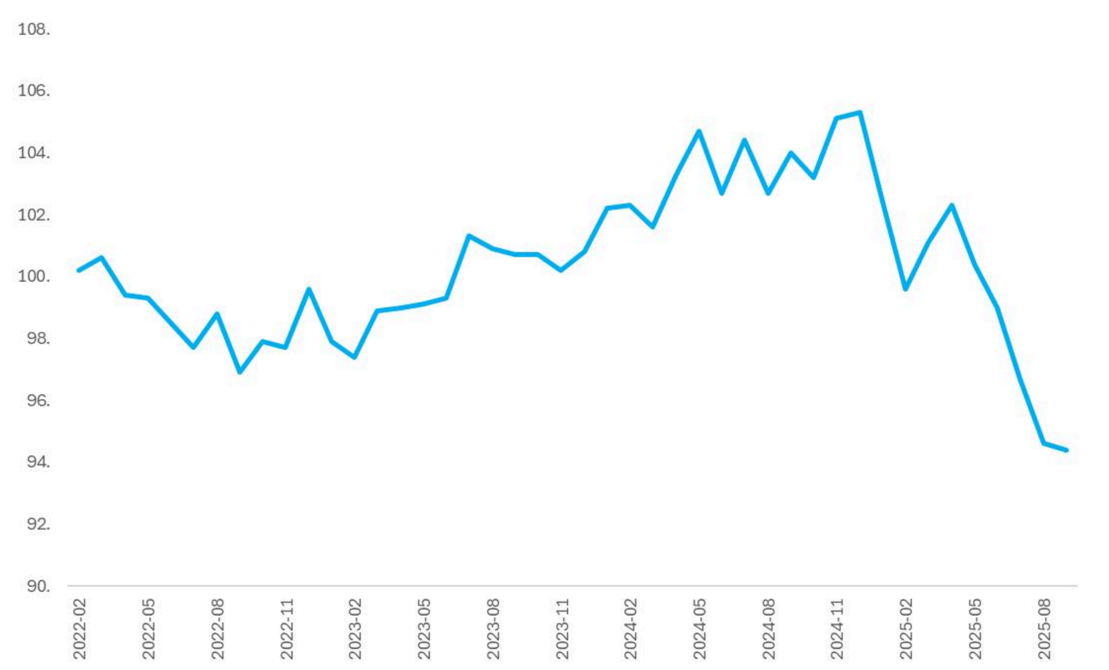
Government Debt/GDP %

Source: Current data Eurostat, Forecast data: BT



Unemployment Rate %

Source: Eurostat



Economic Sentiment Indicator

Source: Eurostat

Agriculture: Agriculture has been highly volatile, strongly affected by adverse weather conditions in 2025, with floods in spring followed by droughts in summer. This not only constrained output but also contributed to food price inflation. Despite of this, we see agriculture having a positive contribution to the GDP, much better compared to last year.

Construction: The construction sector, supported by public infrastructure projects and EU financing, continues to be an important growth engine. Yet, higher financing costs and planned reductions in public capital spending from 2026 present medium-term risks for a reduced growth.

Inflation Outlook

Inflation in Romania during 2025 is set to remain elevated but gradually moderating, reflecting structural pressures. New fiscal measures, energy costs and the stability of the currency will all shape the path ahead. While the inflation peak is not behind us, the descent will be neither fast nor frictionless.

Recent Evolution

Inflation accelerated again in mid-2025, with the annual CPI reaching 7.8% in July. Several drivers have converged:

- **Food prices** surged, especially fruits and vegetables, due to bad weather.
- **Energy tariffs** rose following the expiry of price caps and tax adjustments.
- **Fiscal measures**, including higher VAT and excises effective from August, have added direct inflationary pressures.
- **Wage costs** remain elevated, particularly in industry and services, transmitting into core inflation.
- Inflationary pressures in July were also amplified by the **depreciation of the RON** against the euro and persistently high short-term inflation expectations.

Inflation Components: Services, Non-Food Goods, and Food Products

The recent spike in inflation in Romania reflects not only aggregate demand and fiscal shocks but also the heterogeneous behaviour of its core components.

- **Service inflation** stood at 7.3% year-on-year, reflecting higher wages, increased utility tariffs, and currency depreciation that raised the cost of euro-denominated services such as rents, tourism, and air transport. Looking ahead, service prices are expected to remain one of the most persistent sources of inflationary pressure. Wage growth, though decelerating compared to 2024, still exceeds productivity gains in many labour-intensive sectors. The recent freezing of public sector wages and pensions, combined with higher taxation, will reduce household demand for discretionary services (e.g., leisure, travel). This could limit firms' ability to pass through higher costs entirely, leading to some moderation of service inflation from late 2025 onwards. However, in areas with inelastic demand, such as rents, transport, and utilities, elevated inflation is likely to persist. Exchange rate risks and euro-denominated service pricing add an additional layer of vulnerability. Thus, while demand-side factors suggest some cooling, cost-push will keep service inflation high through 2026.

- **Non-food goods** registered an annual inflation rate of 8.2% in July, after moderating briefly earlier this year. Consumer durables such as clothing, footwear, and furniture benefited temporarily from cheaper imports in late 2024 and early 2025. However, this trend is reversing, with import price momentum rising again and RON's depreciation against the euro adding further pressure. Moreover, excise duty hikes on tobacco and fuels, alongside VAT increases, have amplified non-food inflation. For non-food goods, the outlook reflects a dual impact: fiscal tightening on one hand, and supply-side cost pressures on the other. Higher VAT and excise duties introduced in August 2025 will continue to feed directly into consumer prices, particularly for tobacco, fuels, and other excisable goods. At the same time, reduced consumer purchasing power will likely restrain demand for durable goods such as clothing, footwear, furniture, and electronics. Retailers may respond with discounting strategies to preserve sales volumes, creating some offsetting disinflationary effects. On balance, non-food inflation is projected to stabilize at a relatively high but declining level, as weak demand tempers the fiscal shock over time. By 2026, this category is expected to contribute less to inflation, though still above historical averages.

- **Food products** remain the most volatile but also the most politically sensitive component. In July 2025, food inflation reached 7.7% year-on-year, mainly driven by fruits and vegetables, whose prices surged due to adverse weather conditions in Romania. Additionally, global commodity prices for dairy, meat, and cereals rose in early 2025, translating into higher processed food prices domestically. Food prices remain the most uncertain and volatile. Short-term projections point to continued upward pressure from fruits, vegetables, and processed foods, amplified by adverse weather and global commodity fluctuations. Fiscal measures, particularly higher VAT on certain food categories, will directly raise retail prices, disproportionately affecting lower-income households, which spend a larger share of income on essentials. This could reinforce the regressive character of inflation, widening inequality in purchasing power. However, the expected weakening of overall household demand in 2026 should gradually reduce retailers' ability to transfer cost increases fully to consumers, slowing food inflation in the medium term. The key risk remains climate volatility: another year of drought or floods could disrupt this disinflationary trajectory.

A Challenging but Manageable Outlook

Romania's inflation story is one of **persistent domestic pressures**. Looking forward, we project inflation to peak around 9.5% in September 2025, before gradually easing towards 8.25% by December 2025. This trajectory reflects the effects of fiscal measures and energy liberalization feeding into the annual index until mid-2026. The 8.25% year-end inflation aligns with a slightly more optimistic view, assuming some disinflationary momentum in Q4 due to weaker demand and favourable base effects.

Looking ahead into 2026, inflation is expected to remain high in the short term but should gradually decline as fiscal tightening suppresses demand and external conditions stabilize. Compared with the EU, Romania remains an outlier, with inflation more than twice the euro area average, reflecting both structural vulnerabilities and temporary shocks.

Risks and Balance of Factors

- **Upside risks**: Persistent food price shocks due to climate volatility; additional tax increases; stronger wage demands.
- **Downside risks**: Faster-than-expected cooling of demand; stronger RON if external financing conditions improve; further easing in global energy markets.

Looking at the GDP growth and inflation, we can conclude that Romania's economic trajectory in 2025–2026 is and will be characterized by a **transition from consumption-driven growth to investment-led adjustment**, under the pressure of fiscal consolidation and the importance of EU funds absorption. While agriculture and construction offer sectoral support, industry and external trade remain fragile. Inflation, having surged again in mid-2025 due to energy liberalization and fiscal measures, is projected to end the year at elevated levels, around 8.25%.

The National Bank of Romania's Policy Rate: Current Status and Perspectives

As of August 2025, the National Bank of Romania (NBR) maintained its key policy rate at 6.50% per year. This level has been preserved since July 8th 2024, reflecting the central bank's cautious approach during the persistent inflationary pressures and elevated uncertainty in both domestic and international environments. The standing facilities have remained aligned: the deposit facility at 5.50% and the Lombard (credit) facility at 7.50%.

This level is significantly above the bank's inflation target of 2.5% ±1 percentage point, signalling the persistence of restrictive monetary conditions. Real interest rates remain slightly negative, given the July annual inflation of 7.8%. However, the current policy rate reflects a difficult situation: keeping inflation expectations in check while avoiding excessive pressure on an already slowing economy.

The NBR's decision to maintain the policy rate at a high level is grounded in several key factors:

- **Persistent Inflationary Pressures:** Inflation has re-accelerated in mid-2025 due to the expiry of electricity price caps, higher VAT and excise duties from August, and ongoing food price volatility. Core inflation also remains elevated, driven by labour cost pressures and currency depreciation.
- **Fiscal Consolidation Context:** The government has embarked on an ambitious fiscal consolidation plan, which includes tax hikes and expenditure controls. While these measures are disinflationary over the medium term, they introduce uncertainty in the short run, particularly regarding their impact on growth and household purchasing power.
- **External Environment**: The euro area, Romania's main trading partner, remains in a low-growth phase, limiting export opportunities. Meanwhile, global energy and food price volatility continues to show upside risks to domestic inflation.

Forward-Looking Perspectives

The outlook for the policy rate depends on the trajectory of inflation, growth, and external conditions. Current projections suggest the following scenario:

- S**hort-Term (end-2025)**: Inflation is projected to increase in September and decline towards 8.25% by December. Given this trajectory, the NBR is unlikely to lower rates in the short term. Instead, it will maintain its restrictive conditions through year-end to counterbalance second-round effects of fiscal measures and prevent unanchoring of expectations.
- **Medium-Term (2026):** As fiscal consolidation moves on, domestic demand and inflation should decline more visibly in late 2026 when the NBR could consider a gradual easing cycle. However, this will depend on the clarity of fiscal policy implementation, the stability of the national currency, and global monetary trends. A premature rate cut could risk reigniting inflationary pressures, especially in a climate of still-volatile food and energy prices. Therefore, we don't expect to see any cuts before spring 2026.

The main upside risks to the policy rate—that is, factors which could delay or prevent monetary easing—include: a renewed increase in food or energy prices, slower-than-expected fiscal consolidation, raising concerns about debt sustainability and continued depreciation pressures on the national currency, which would force the NBR to defend currency stability. On the other hand, downside risks—which could open the door to earlier rate cuts—include: a sharper-than-anticipated slowdown in domestic demand due to fiscal tightening and faster disinflation.

Exchange Rates

As of mid-August 2025, the Romanian leu (RON) trades in a narrow band around 5.05–5.07 against the euro (EUR). The exchange rate has shown relative stability in recent months. Compared to 2024, when the RON traded closer to 4.97–4.98 per euro, the currency has gradually lost ground, reflecting the combined impact of high inflation, fiscal uncertainty, and capital outflows.

The RON's current trajectory can be explained by:

- **Inflation Differential**: With Romania's inflation still among the highest in the EU, the national currency remains under long-term depreciation pressure.
- **Fiscal Consolidation Risks:** The government's fiscal adjustment strategy, while necessary for debt sustainability, has created uncertainty about economic growth and investor sentiment. Higher taxation and constrained consumption weigh on short-term capital inflows.
- **External Imbalances:** Romania continues to run a large current account deficit, driven by high imports relative to exports. Although fiscal consolidation is expected to reduce import demand in 2026, the structural trade gap maintains depreciation pressures on the leu.
- **NBR Intervention:** The NBR's willingness to smooth volatility has prevented sharper moves, anchoring the exchange rate within a narrow band.

Forward-Looking Perspectives
Our baseline scenario anticipates a gradual and controlled depreciation of the RON, with the exchange rate likely reaching 5.11 by year-end 2025.

This expectation rests on several considerations:
- **Inflation Gap:** With inflation in Romania projected to remain above 8% by December, compared to euro area inflation near 2.5%, the real appreciation of the national currency is unsustainable. A nominal adjustment is thus expected.
- **Fiscal Austerity Impact:** Fiscal tightening will cool domestic demand, lowering imports and thus easing some pressure on the current account. However, this process will take time, meaning that external imbalances will continue to have a depreciation bias.
- **Monetary Policy Differential:** As the NBR keeps its policy rate high at 6.50% while the ECB cautiously eases, interest rate differentials will continue to provide some support to the national currency. Yet, this buffer will not be sufficient to fully counteract inflation-driven depreciation.
- **Managed Adjustment:** The NBR is expected to allow a gradual weakening of the national currency, avoiding abrupt shifts that could destabilize inflation expectations. This implies a controlled slide, with the year-end exchange rate close to 5.11 within our forecast.

Risks to the Outlook
- **Upside Risks** (faster depreciation): A sharper deterioration in investor confidence due to political instability or fiscal slippages; adverse external shocks such as higher energy prices; or larger-than-expected current account deficits. In such a case, the national currency could weaken more quickly, moving beyond 5.15.
- **Downside Risks** (relative stability): Faster disinflation combined with strong EU fund inflows could stabilize the national currency closer to current levels. Enhanced credibility of fiscal consolidation might even create room for appreciation pressures, though this scenario is less likely in the near term.

Budget Balance and Public Debt
Romania's fiscal position remains one of the most pressing macroeconomic challenges in 2025 and 2026. The general government deficit was 3.68% of the GDP by mid-year, reflecting weak revenue performance and still-rigid expenditure behaviour. Despite the fiscal consolidation package implemented in August—which raised VAT rates, increased excises, and rationalized certain exemptions—the pace of adjustment might be insufficient to reverse the widening gap.

Our baseline expectation is that the budget deficit will close 2025 at around 7.5% of the GDP. This outcome shows the difficulty of reconciling consolidation targets with the social and political realities of high inflation and slowing growth.

Several key factors are shaping the deficit trajectory:
1. **Weak Revenue Collection**: While tax rates have increased, tax compliance remains a chronic weakness. VAT collection efficiency lags behind the EU average, and informal activity continues to erode the revenue base.
2. **Expenditure Rigidity:** A large share of the budget is absorbed by public wages, pensions, and social transfers, which are difficult to compress politically. Even with wage freezes, indexation rules for pensions and higher social assistance in response to cost-of-living pressures sustain expenditure growth.
3. **Investment Commitments:** Public investment has risen due to EU-funded infrastructure projects under the Recovery and Resilience Facility (RRF). While this is growth-enhancing in the medium term, it adds to immediate cash-flow pressures.
4. **Interest Costs:** With the policy rate at 6.5% and global financing conditions still tight, debt servicing costs have increased significantly, adding an additional structural burden to the fiscal account (1.3% of GDP as of June 2025).

Public Debt
The public debt has continued to climb in 2025, reflecting both the persistent deficit and the weaker-than-expected nominal GDP growth. As of mid-2025, the general government debt is estimated at 57% of the GDP, compared with less than 50% just two years ago. By year-end, our baseline projection places public debt at 58.7% of the GDP, edging closer to the 60% Maastricht reference threshold.

Although Romania's debt ratio remains below the EU average (around 82% of the GDP), the pace of increase is concerning. The debt structure is moderately favourable—benefiting from a relatively long maturity profile and EU funding inflows—but vulnerabilities come from the reliance on foreign investors and exposure to exchange rate volatility.

Forward-Looking Perspectives
- **Short-Term** (2025): The fiscal deficit will remain elevated at approx. 7.5%, with public debt climbing toward 59% of the GDP. Financing needs will stay high, requiring active issuance on both domestic and external markets. While rollover risks are contained by the NBR's supportive liquidity operations and EU disbursements, borrowing costs will remain elevated.
- **Medium-Term** (2026–2027): The government has committed to a gradual consolidation path. Yet, achieving the EU's 3% target by 2030 appears unrealistic without deeper structural reforms. Assuming incremental consolidation, deficits could narrow to 5–6% of the GDP in 2026, with debt rising above 60% of the GDP.

Risks to the Outlook
- **Upside risks** (worse outcomes): lower-than-expected growth due to fiscal tightening; further climate-related shocks that require compensatory spending; political resistance to pension and wage restraint; and higher global borrowing costs.
- **Downside risks** (better outcomes): accelerated absorption of EU funds, improving the growth denominator; stronger enforcement of tax compliance measures; and a quicker decline in inflation, reducing social spending pressures.

With the deficit projected at 7.5% of the GDP and public debt climbing to 58.7%, the country is approaching critical thresholds that test market confidence and EU fiscal rules.

While debt remains manageable in absolute terms, the speed of deterioration and persistent financing needs represent significant vulnerabilities. Stabilizing the fiscal path will require a credible medium-term consolidation strategy focused not only on tax hikes but also on structural revenue administration reforms and expenditure rationalization. Without such measures, Romania risks entering a cycle of rising debt, higher borrowing costs, and reduced fiscal space for investment—undermining growth potential in the years ahead.

Unemployment Rate
The labour market remains relatively tight, but signs of softening have appeared since spring. The seasonally adjusted unemployment rate stood at 5.8% in June 2025, unchanged from May and slightly above April's 5.7%. In the European context, Eurostat puts the EU unemployment rate at 5.9% in June 2025 broadly stable month-on-month. That leaves Romania's June reading (5.8%) just below the EU average.

2025 trajectory so far was driven by the:
1. **Macro policy reset:** Fiscal consolidation and higher indirect taxes have cooled domestic demand, reducing vacancy creation especially in consumer-facing services. This shows up first in hiring intentions and only later in measured unemployment. Vacant positions have decreased for the past 3 quarters to 31,300 the lowest number in past three years.
2. **External demand:** A weaker industrial cycle in the euro area has constrained export order books and, by extension, hiring in tradables.
3. **Structural tightness:** Even with cyclical cooling, Romania's labour market still exhibits some structural shortages, reflecting demographics, skills mismatches and emigration.

Within the EU, by mid-2025, Romania sits in the middle-low band of EU unemployment rates: better than the EU average (5.9%) and far from the highest-unemployment members (10.4%), but above the very low rates (3.0%) in some Central European peer countries. The EU-wide picture is one of remarkable stability in unemployment despite weak growth.

Eurostat shows that youth unemployment across the EU remains high (14.7% in June 2025). Romania typically exhibits a much higher youth rate (24.8%) than its headline total rate (14.7%), reflecting transitions from education to work and sectoral composition; this segment remains a key vulnerability even when the aggregate unemployment rate looks good.

Near-term outlook (rest of 2025)
Our base case is a gentle drift upward or sideways in the seasonally-adjusted unemployment rate over H2, with the annual average remaining close to 5.75–6%. The reasons are based on:
- Demand headwinds from fiscal tightening and slower real income growth that should gradually temper hiring.
- Export softness that keeps manufacturing employment reduced.
- Structural tightness (demographics, skills) limits the amplitude of any increase in joblessness, so large spikes are unlikely barring a shock.

The balance of risks is slightly on the upside for unemployment: a sharper domestic slowdown or a renewed dip in the euro-area demand could lift the rate above 6%. Conversely, accelerated EU-fund absorption (construction and related services) and a clearer fiscal path could stabilize hiring and keep the rate closer to current levels.

Medium-term perspective (2026)
Looking into 2026, the unemployment path depends on how quickly disinflation restores real incomes, whether investment momentum (especially EU-funded projects) offsets weaker consumption and the absorption capacity of the public-sector downsizing.

The fiscal adjustment in 2026 includes headcount reductions and hiring freezes in the public sector. The first impact would be an increase in measured unemployment as affected workers transition out of public employment.

If growth stagnates (flat real GDP, tight financial conditions), the private sector's absorption capacity narrows, thus, it is realistic to expect a temporary rise in unemployment and downward pressure on wage growth, particularly outside the largest cities.

The private sector can partially absorb the budgetary downsizing but with a lag if we can see a steady execution of EU-funded capex (transport, green energy, public works) that supports construction and supplier services even when consumption is soft, along with active labour-market policies (re-skilling, temporary hiring subsidies for firms that take on displaced workers). With the support in place and EU funds flowing, history suggests the private sector can absorb most, but not all, of a moderate public-sector downsizing; the remainder shows up as a temporary rise in unemployment that decreases as projects increase, and firms adjust hiring plans.

Economic Sentiment Index: a clear loss of momentum
Eurostat ESI data **slipped under 100 in May** and kept falling through the summer: **100.4 (Apr) → 99.1 (May) → 96.8 (Jun) → 94.7 (Jul).** The July data is the weakest since early 2021 and well below the long-term average, an unmistakable signal of a softer near-term outlook.

What likely pushed sentiment down
- **Inflation and purchasing power**: Price pressures re-accelerated mid-year, and August tax/administrative price changes raised the costs, weighing on households and on service-sector sentiment.
- **Fiscal consolidation and uncertainty:** Higher indirect taxes and tighter public spending constrain domestic demand, which tends to depress retail and services confidence.

The path into year-end
Base case (our view):
- Romania's ESI stays below 100 through year-end, moving in the mid-90s before stabilizing. The steep May–July slide likely moderates as firms and households digest fiscal changes, but the combination of high inflation, tighter real incomes, and soft external demand argues against a fast rebound.
- The composition remains uneven: services and retail stay weak as real incomes adjust; industry weakens awaiting export orders; construction holds up better where EU-funded projects proceed; consumer sentiment improves only gradually as inflation eventually cools.

What could lift the ESI faster:
- A clearer, credible fiscal execution path that reduces uncertainty for firms and consumers, EU funds translating into visible project activity (supporting construction and supplier services) and disinflation that restores real wages, improving consumer and retail sentiment.

What could push it lower:
- Another food/energy price shock that erodes purchasing power.
- External demand disappoints further (especially from the euro area), dragging on industry and services.
- A risk-off phase in financial markets that tightens local financial conditions.

BT RESEARCH

#BTOUTLOOK

Bond Market: high nominal yields, stabilizing after a volatile spring
Romania's benchmark yield remains elevated compared with the region but broadly stable. As of August, the 10-year RON yield traded around 7.4%, up modestly but within the 7.2–7.5% corridor seen recently. The 5-year sits even higher, near 7.7%, leaving a slightly inverted curve versus the 10-year, a sign that tight policy, inflation and term-premium are still priced into the curve.
Despite fiscal and inflation issues, market access has remained solid. In July, the sovereign bonds all executed, signaling healthy demand for yield. Domestically, the Ministry of Finance continues to build liquidity under its 2025 issuance plan.

What the curve is pricing is inflation, policy, and fiscal risk. Inflation re-accelerated keeping the policy rate on hold at high levels while fiscal risk and large funding needs keep Romania on the upper end of the CEE spreads. The EU's approval of Romania's multi-year deficit-reduction plan helps credibility, but credit rating agencies close monitoring will be highly important as a future message.

Near-term perspective
Base case: We expect RON yields to trade range-bound with a mild downward trend at the long end if inflation stays within our estimations and supply execution remains orderly. 10Y moving around 7.1–7.4%. Fiscal slippage or slower EU-fund disbursements is one of the most important risks that could put pressure on yields.

Into 2026, two forces will dominate: disinflation and slower growth should, in principle, pull nominal yields lower, especially 10Y curve; debt and supply: if deficits remain high, the market will demand a persistent risk premium. Romania's bond market has stabilized at high yields but serviceable spreads.

Capital market: a two-act story
Romania's capital market told a two-act story across 2024 and the first seven months of 2025: a late-year pullback that reset expectations, followed by a broad, powerful rally that lifted prices, increased market capitalization, and brought investors back to the trading floor.
At the end of July 2024, the BET index reached 18,629, while total market capitalization stood at RON 352 bn (RON 252 bn, excluding Erste Group Bank) with a monthly turnover of RON 1.35 bn. From there, the market exhaled. Through autumn, prices and activity softened, turnover slipped to just RON 0.83 bn in October, while the BET declined to 16,345 by the end of November, before stabilizing into year-end at 16,721, with the turnover at RON 1.21 bn in December. Broader baskets traced the same contour: BET-XT fell from 1,587 in July to 1,445 in December; ROTX from 40,936 to 37,232. Total market cap amounted to RON 350 bn at end-2024, excluding EBS, the market cap stood at RON 229 bn.

Starting January 2025, prices advanced rather monotonically, with the BET reaching 17,000 at the end of the month, then rising to 17,521 in February, before retreating to 17,157 in April. As the political uncertainty cleared up following the May presidential election rerun, the index advanced decisively into the summer: from 18,305 at end-May to 18,736 in June, closing the month of July at a new high of 20,189, up 20.7% YTD. Other indices saw similar dynamics: BET-XT rose 18.8% over the same span (1,445 → 1,716), while ROTX gained 20.7% (37,232 → 44,932). Energy (BET-NG) also rallied about 21% from December to July (1,199 → 1,453), while the closed-end funds index (BET-FI) added just 2.9% (62,020 → 63,794).

Liquidity followed the price story with a short lag. January 2025 turnover was a modest RON 0.68 bn; by March–April it had climbed to roughly RON 1.1 bn and then spiked to RON 1.73 bn in May and RON 1.63 bn in June as the rally broadened and both retail and institutional participation deepened. The capitalization step-up was even more striking: from RON 350 bn in December to RON 430 bn at the end of July (+22.7%). Excluding EBS, the YTD increase in total market cap was 14.4% to RON 262 bn.
In short, the table tells a clear story. 2024 ended with a correction and a solid base; 2025 has, so far, converted that base into fresh highs, a larger market, and more energetic investor participation.

Conclusion
"There are years that ask questions and years that answer," Zora Neale Hurston once wrote, and Romania now finds itself in a time of questioning. Growth is weak, inflation high, and fiscal imbalances acute. But these very challenges mark the transition toward what could become a more resilient, investment-led economic model. While 2025 remains constrained by fiscal tightening and household demand erosion, signs of potential recovery exist. EU funds are beginning to flow more steadily, investment is gaining traction, and inflation, though still elevated, is expected to gradually retreat. The National Bank is holding firm on rates, waiting for disinflation to gain clearer momentum, while the exchange rate remains stable through cautious intervention.

Looking ahead, Romania's prospects will depend on credible fiscal consolidation, faster EU fund absorption, and improved investor confidence. Public debt will grow in 2025, and persistent budget deficits will continue to weigh on bond yields and economic sentiment. However, if investment continues to gain momentum, and structural reforms in tax collection and public spending are implemented, Romania could gradually emerge from this adjustment phase. Unemployment may rise modestly as the public sector shrinks, but targeted labour measures and infrastructure-led job creation can cushion the impact. If policymakers meet these challenges head-on, the coming years could shift from asking difficult questions to delivering tangible answers.

FORECAST	2025	2026
Real GDP (%, YoY)	0.9	1.67
Inflation (HICP) (%, YoY)	8.25	4.15
Unemployment rate (%)	5.9	5.9
Monetary policy rate (%)	6.5	5.75
Budget deficit (% GDP)	7.5	6.5
Public debt % of GDP	58.7	61.5
RON/EUR - end of period	5.11	5.17