

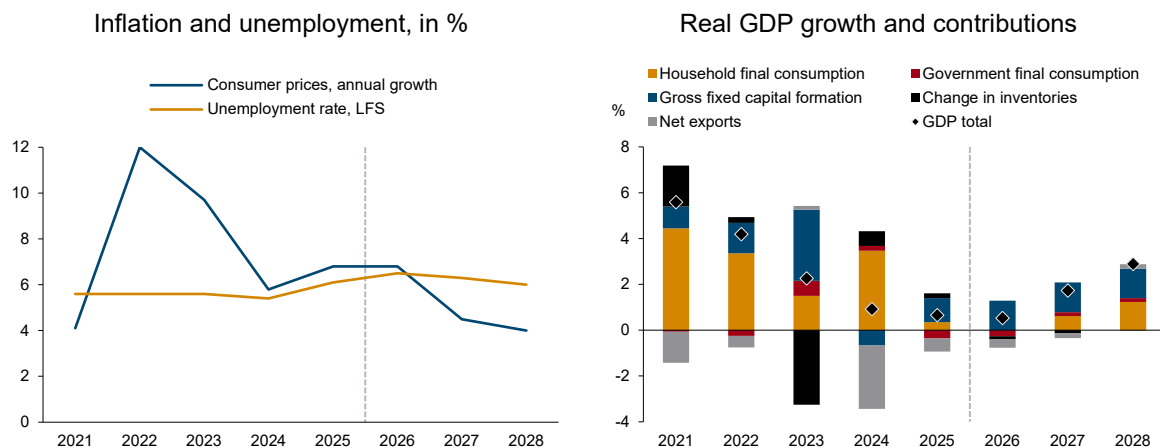


## ROMANIA: Suffering from stagflation

GÁBOR HUNYA

Romania's economy remained weak in 2025, with GDP growth of just 0.7%, as fiscal tightening and high inflation curbed consumption, leaving investment as the main driver. Conditions worsened in early 2026 amid falling industrial output, declining confidence and rising unemployment. Inflation remains elevated, despite stable exchange rates. Fiscal consolidation continues to weigh on demand, while external imbalances are slowly improving. A modest recovery is expected in late 2026, but risks from energy prices, weak competitiveness and political fragility persist.

Figure 3.17 / Romania: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

**For the second year in a row, economic growth in 2025 was anaemic, at only 0.7%.** While growth remained positive for most of the year, GDP contracted in Q4 on an annual basis, as fiscal consolidation and elevated inflation hit private consumption. Investment remained the only bright spot throughout the year. Romania shifted from a consumption-driven economy to one where only gross fixed capital formation generates growth. The loss of consumption dynamics was triggered by fiscal consolidation measures, which became unavoidable under pressure from private creditors and EU rules. Households curtailed consumption in the new high-tax, high-inflation environment, while the government cut spending but prioritised investment. Net exports deteriorated during most of the year, but started to improve in Q4 owing to shrinking demand for imports. Industrial production contracted in 2025 for the third year in a row. Bright spots in 2025 included food production based on a good harvest, as well as pharmaceuticals.

**This year, 2026, started with subdued business sentiment.** Expectations – which had improved when the government agreed on the new budget – soon fell victim to the Middle Eastern crisis. Industrial production plummeted by 4% year on year in January, on account of weakening foreign and domestic demand. Elevated wage growth and high energy costs, coupled with infrastructure weaknesses in recent years, have reduced Romania's competitiveness. Energy-intensive industries and automotive suppliers have cut capacity. Major companies in the chemical industry and metallurgy have announced closures. The country's flagship car manufacturer, Automobile Dacia, is in dire straits: it has announced plans to cut its workforce by more than 10% in 2026. Only one model of Renault's low-cost Dacia brand is produced in its home country of Romania: new models are manufactured elsewhere, in Morocco, Turkey, Slovenia and China, which offer a more advantageous environment.

**Consumer confidence has also plummeted.** The diminishing real income of households is reflected in retail sales figures, which showed a steep 9.1% year-on-year decline in January. Amid persistent inflation, tight income policies in the public sector and uncertain economic prospects affecting the real economy, real wages are not expected to rise significantly in 2026, which will depress private consumption growth.

**Unemployment increased to 6.3% in Q4 2025, having remained flat (at 6%) for the previous six months.** Most manufacturing sectors cut employment, while labour shortages persisted in services, retail and construction. However, labour demand in services and retail will ease soon, as purchasing power continues to weaken. Taking account of the effects of job cuts in public administration, unemployment is set to rise to an annual average of 6.5% in 2026.

**Consumer price inflation has remained stubbornly in the range 9.5-10% (HICP 8.5%) since August 2025, when VAT rates increased.** It fell to 9.3% in February 2026 from 9.6% in January. In the 12 months to February, the largest price increases were recorded in services (11%), while the cost of non-food goods rose by 9.4% and of foodstuffs by 7.9%. Fuel and energy prices will push inflation higher in the coming months, depending on the duration of the conflict in the Gulf. Price hikes for construction materials and some chemicals were announced in the second half of March. The government has acted to mitigate surging fuel prices by capping excise duty and offering some compensation for transport companies. However, the energy and gas price-capping system for households in 2026 is due to impose a smaller burden on the budget than the previous one in 2025. Monetary policy has not responded to the surge in inflation: the policy rate has been kept at 6.5% since August 2024. The exchange rate has remained stable since August 2025, at just below 5.1 RON/EUR, despite international market volatility. Ample capital inflows have supported it, providing a certain anti-inflation buffer. The National Bank of Romania is likely to maintain its cautious approach to money-market fluctuations, so long as investor confidence holds.

**Domestic production provides something of a cushion against the international energy-price shock.** Romania produces approximately 20% of the crude oil and 80% of the natural gas it needs for domestic consumption. Fuel accounted for a relatively modest 8% of imports and 6% of exports in 2025, implying a limited impact on the foreign trade deficit. Offshore gas production under development by OMV Petrom could make the country a regional exporter by 2028.

**The current account deficit remained elevated in 2025 (8% of GDP), but has started to decline in recent months.** The high deficit reflected strong demand for imports, driven by domestic consumption, while exports stagnated. The primary income deficit expanded, with rising income repatriation by foreign investors, mainly portfolio investors. Net exports made a negative contribution to GDP growth in 2025, but that turned positive in Q4, when imports contracted more than exports. The deficit in Romania's trade in goods shrank by 15% year on year in January, as imports continued to fall faster than exports. The improvement in the trade balance reflects weakening domestic demand. However, goods could not be redirected from domestic to foreign markets, thus exports also declined.

**Fiscal austerity has been at the centre of government policy since the middle of last year.** The 2026 budget law, the next step in the fiscal consolidation process, was only passed on 18 March this year. Under the country's seven-year fiscal consolidation plan agreed with the European Commission, the government has pledged to reduce the cash deficit of the general budget in 2026 to 6.25% of GDP (from 7.65% in 2025). Revenue and expenditure have been calculated on the basis of an optimistic scenario of 1% GDP growth and average consumer price inflation of 6.5%. The wiiw forecast is lower for growth and higher for inflation, which broadly offset each other in their impact on the fiscal deficit. Budgetary adjustment in 2026 will take place mainly on the expenditure side, if the effect of EU transfers is excluded. Layoffs and a wage freeze will cut spending in the public administration. Further measures include subsidy cuts to state-owned enterprises and lower allocations for social measures and healthcare. Revenue will increase, thanks to the lasting effects of the VAT hikes introduced last August and adjustments to excise duties and local taxes, effective since January 2026. Measures to improve tax compliance and strengthen insolvency procedures are also being implemented. Higher allocations for public investment will not offset the negative effects on growth of the general austerity regime.

**The four-party coalition remains fragile and internally divided over the size and structure of fiscal consolidation, even after the passage of the budget law.** This reflects the difficulties of governing with a broad coalition in a tense social and economic environment. The Social Democrats oppose austerity and seek either to push the Liberals out of government or to leave the coalition themselves, potentially supporting a minority government on a case-by-case basis. The option of early elections must be ruled out, however, as all the governing parties have lost support to the extreme right.

**Growth is expected to remain below the level of the previous year, at 0.5% in 2026.** Economic recovery may begin in the second half of the year, supported by the fading impact of previous austerity measures, easing inflation and faster absorption of EU funds. Rating agencies and the European Commission will monitor compliance with fiscal targets and milestones related to RRF funding, putting pressure on the government to adhere to the programme. Downside risks stem from rising international energy prices and delays in the introduction of reforms (leading to limited access to EU funds).

**The economy may embark on a modest but steady growth path in 2027.** The medium-term forecast assumes that Romania will adhere to the fiscal consolidation and reform path agreed with the European Commission; that the four-party government remains in power until the next scheduled elections; and that the disbursement of EU funds accelerates. Minor deviations and temporary shocks could be managed within this framework. These conditions would help prepare the ground for an economic take-off starting in 2028. That year will also be an electoral one, when fiscal overspending could re-emerge and the governing coalition may splinter.

**Table 3.17 / Romania: Selected economic indicators**

	2022	2023	2024	2025	2026	2027	2028
					Forecast		
Population, th pers., average	19,049	19,061	19,052	19,000	18,900	18,800	18,700
Gross domestic product, RON bn, nom.	1,384.6	1,590.7	1,759.2	1,910.4	2,036	2,154	2,305
annual change in % (real)	4.2	2.3	0.9	0.7	0.5	1.7	2.9
GDP/capita (EUR at PPP)	25,910	28,710	30,770	32,430			
Consumption of households, RON bn, nom.	866.0	966.7	1,086.6	1,175.3			
annual change in % (real)	5.5	2.4	5.7	0.6	0.0	1.0	2.0
Gross fixed capital form., RON bn, nom.	347.9	422.3	444.9	494.1			
annual change in % (real)	5.4	12.3	-2.5	4.1	5.0	5.0	5.0
Gross industrial production							
annual change in % (real)	0.5	-3.0	-1.5	-0.9	0.0	2.0	3.0
Gross agricultural production							
annual change in % (real)	-15.9	0.6	-4.3	6.5			
Construction output <sup>2)</sup>							
annual change in % (real)	12.3	16.1	-5.8	8.0			
Employed persons, LFS, th, average	7,807	7,696	7,853	7,694	7,620	7,620	7,700
annual change in %	0.7	-1.4	2.0	-2.0	-1.0	0.0	1.0
Unemployed persons, LFS, th, average	464	456	451	500	530	512	492
Unemployment rate, LFS, in %, average	5.6	5.6	5.4	6.1	6.5	6.3	6.0
Average monthly gross wages, RON	6,126	7,042	8,061	8,800	9,450	10,070	10,790
annual change in % (real, gross)	-2.7	4.1	8.4	1.7	0.5	2.0	3.0
Average monthly net wages, RON	3,801	4,412	4,959	5,300	5,660	6,020	6,450
annual change in % (real, net)	-2.2	5.1	6.5	-0.4	0.0	1.8	3.0
Consumer prices (HICP), % p.a.	12.0	9.7	5.8	6.8	6.8	4.5	4.0
Producer prices in industry, % p.a.	43.8	4.6	-2.3	3.2	3.5	2.0	2.0
General governm. budget, EU def., % of GDP							
Revenues	34.4	34.4	34.2	34.7	35.5	34.5	34.5
Expenditures	40.9	41.1	43.6	42.7	42.0	40.3	39.7
Net lending (+) / net borrowing (-)	-6.5	-6.7	-9.3	-8.0	-6.5	-5.8	-5.2
General gov. gross debt, EU def., % of GDP	48.1	49.3	54.8	58.0	61.0	62.0	62.0
Stock of loans of non-fin. private sector, % p.a.	11.2	5.9	8.1	5.8			
Non-performing loans (NPL), in %, eop	2.7	2.3	2.5	2.7			
Central bank policy rate, % p.a., eop	6.75	7.00	6.50	6.50	6.0	4.3	3.5
Current account, EUR m	-26,840	-21,499	-28,889	-29,863	-30,500	-30,800	-30,730
Current account, % of GDP	-9.6	-6.7	-8.2	-7.9	-7.6	-7.3	-6.8
Exports of goods, BOP, EUR m	86,024	86,509	86,234	90,588	92,400	95,170	98,980
annual change in %	22.6	0.6	-0.3	5.0	2.0	3.0	4.0
Imports of goods, BOP, EUR m	118,110	115,515	119,236	123,097	127,410	131,230	136,480
annual change in %	26.6	-2.2	3.2	3.2	3.5	3.0	4.0
Exports of services, BOP, EUR m	36,163	39,687	39,642	44,264	46,480	49,730	53,710
annual change in %	29.7	9.7	-0.1	11.7	5.0	7.0	8.0
Imports of services, BOP, EUR m	23,523	26,381	27,925	31,690	33,270	35,270	37,740
annual change in %	27.5	12.1	5.9	13.5	5.0	6.0	7.0
FDI liabilities, EUR m	11,452	8,074	6,586	8,377	8,000		
FDI assets, EUR m	2,094	1,707	1,844	830	1,000		
Gross reserves of CB excl. gold, EUR m	46,636	59,770	62,135	64,800			
Gross external debt, EUR m	153,768	182,910	203,510	227,347	247,480	269,240	292,060
Gross external debt, % of GDP	54.8	56.9	57.5	60.0	62.0	64.0	65.0
Average exchange rate RON/EUR	4.9300	4.9500	4.9700	5.0400	5.10	5.12	5.13

Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.