Monitoring Romania: Growth challenges and fiscal crossroads

As Romania grapples with sluggish growth, widening twin deficits and still-present political uncertainties, decisive fiscal measures and the effective absorption of EU funds are becoming critical

Craiova, Romania

As Romania emerges from a prolonged electoral cycle, policymakers are under increased pressure to steer the economy towards growth. While recent infrastructure investments and accession to the Schengen zone promise medium-term benefits, immediate economic conditions remain fragile. Balancing fiscal prudence, political consensus and monetary stability will be essential in the following few months.

Romania at a glance:

- We maintain our forecast for GDP growth to accelerate from 0.9% in 2024 to 1.2% in 2025, despite a noticeable increase in downside risks. This remains our base case, although geopolitical risks cloud the outlook.
- We now project the budget deficit at 7.5% of GDP in 2025, with balanced risks at play. While cost-cutting measures appear to be a central focus in current political negotiations, reduced investment and/or increased taxation may also be considered for quicker fiscal

consolidation, adding to uncertainties for growth and inflation.

- NRPP renegotiations remain the key factor to watch, especially as the focus seems to be more towards the grant components, with a still sizeable loan component likely at risk.
- While global trade remains affected by tariff-related uncertainty, which continues to weigh on exports, the benefits of Romania's Schengen accession and infrastructure improvements are expected to begin translating into productivity gains. This should coincide with the development of EU strategic supply chains.
- Regarding the trade deficit, even with slower growth in private consumption, a significant correction this year appears unlikely compared to the already elevated 2024 levels, especially given the deterioration observed in the first quarter. We consequently expect the current account deficit to remain elevated in 2025 too, not far from last year's -8.4% of GDP deficit.
- We expect inflation to end 2025 at 5.0% and average 5.2% throughout 2025, with upside risks. Our base case assumes the National Bank of Romania (NBR) will implement a 50bp rate cut between October and November, although the risk of delays into 2026 remains significant.
- The presidential elections have concluded, but ongoing political negotiations continue to dominate the headlines. Fiscal measures and political stability remain under close scrutiny, with key deadlines approaching to safeguard Romania's sovereign credit rating ahead of the August review.

GDP – Below potential needs not to become the new normal

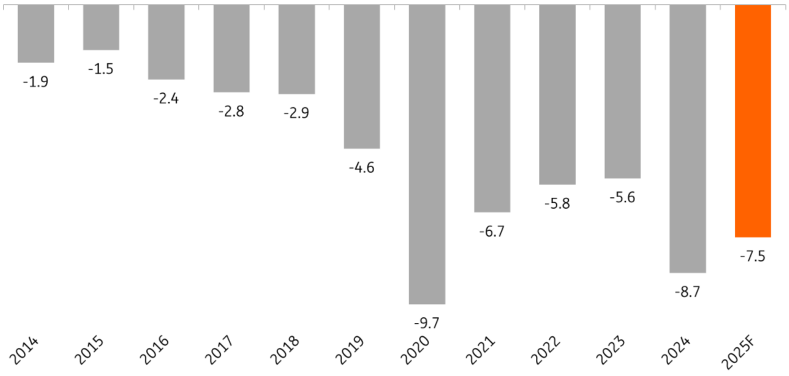
Following a modest 0.8% growth in 2024, Romania's GDP is on track for another subdued performance in 2025, again falling short of its potential. The first quarter showed a quasi-stagnation, and prospects for a significant rebound later in the year remain limited. Preliminary data suggest that strong consumption and elevated imports continued to dominate, while investment likely remained flat.

On the supply side, high-frequency indicators already reflect the challenges faced by the industrial and services sectors. These trends are further confirmed by international trade data, which shows the trade deficit widening by 26.9% year-on-year in the first quarter, driven by both weak exports and rising imports.

Looking ahead, chances for a substantial pickup in activity also remain limited. Domestically, private consumption is expected to stay relatively healthy but will likely moderate due to slower wage growth and a less supportive fiscal stance. Externally, a more meaningful recovery in exports is expected to take shape from 2026 onward. We believe that structural shifts in European competitiveness – particularly in Germany – will take time to translate into a sustained boost at the regional level. Meanwhile, ongoing global trade tensions continue to pose downside risks to our baseline scenario.

More broadly, despite the recent uncertainty stemming from a prolonged electoral cycle and delayed fiscal adjustments, we believe the public investment momentum built over the past three years will begin to translate into stronger productivity gains. As Romania's consumption-driven growth model shows its limits, only sustained investment in productive capacity can restore healthy GDP growth and help narrow the structural trade deficit.

Fiscal deficit – last minute changes needed



Source: MFin, ING

After a deterioration of the markets' patience throughout 2024 and a far from ideal start of the year on the deficit front (2.95% of GDP in January-April), the fiscal situation is still yet to improve in the post-election environment.

Our main thoughts on the fiscal situation:

- A feasible scenario for restoring financial markets confidence likely remains a combination of a more contained spending, tax collection improvements, and lastly, some tax increases
- If succesful, the intiation of a working group with the key political parties dedicated to lower public spending in parallel with government negotiations could, hypothetically, facilitate a back-up plan of parliament-approved fiscal measures if the broader political negatitions take more than expected
- The small pick-up of only 3.6% in the public investments spending seen in the latest bugetary execution data suggest that some fiscal prudence on non-rigid spending is already there, especially in an environment where officials aim more and more for the NRRP grants absorption and, to the extent possible, a lower expenditure from the national budget.
- On the NRPP front, both a renegocitaiton with the CE and a larger-than-planned fourth tranche request through frontloading of already achieved targets look to be in the making. The direction of travel likely continues to be towards fewer payment requests in order to at least minimise NRPP losses.
- At this stage, we revise our budget deficit estimate for 2025 to -7.5% of GDP (previously 7.0%).

Balance of Payments – worrying developments

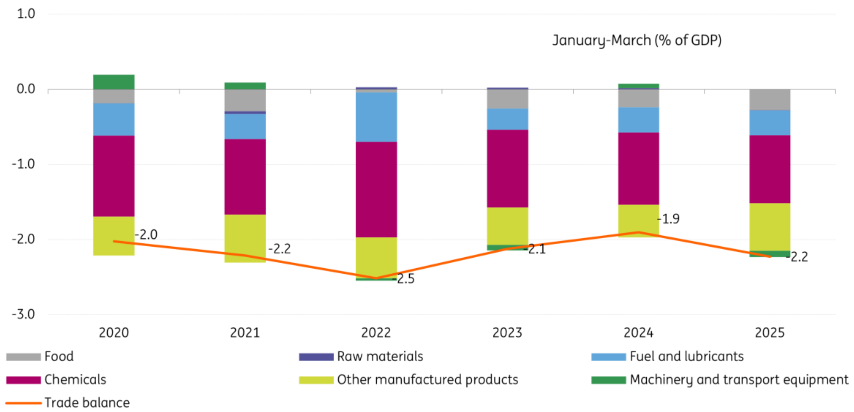
So far in 2024, the trade balance (the main driver of the balance of payments) has deteriorated significantly, with the deficit increasing by 26.9% year-on-year. The negative trends were broad-based, with either widening deficits or shifts from small surpluses to deficits across all major categories.

Overall, the trade balance reflects mounting import pressures – every category recorded an increase compared to last year – alongside weakening export performance in areas such as manufacturing and raw materials. Despite some signs of moderation, private consumption, fiscal slippage, and large-scale investments continue to exert considerable pressure. This comes at a time when the German industrial sector and broader European economic activity remain subdued.

Looking ahead, we do not anticipate major structural improvements in the trade balance for the remainder of the year or the medium term. While some marginal gains may emerge in the second half of the year due to softening domestic demand, ongoing trade uncertainty is likely to continue weighing on industrial exports in the short term.

In the longer run, stronger industrial cooperation at the European level, particularly in energy, agriculture, raw materials, and manufacturing, could help ease some of the structural imbalances, especially in areas where Romania has productive potential. Additionally, early productivity gains from ongoing large-scale infrastructure projects are expected to gradually support export performance and improve foreign direct investment prospects.

Strong internal demand sustaining the trade imbalance

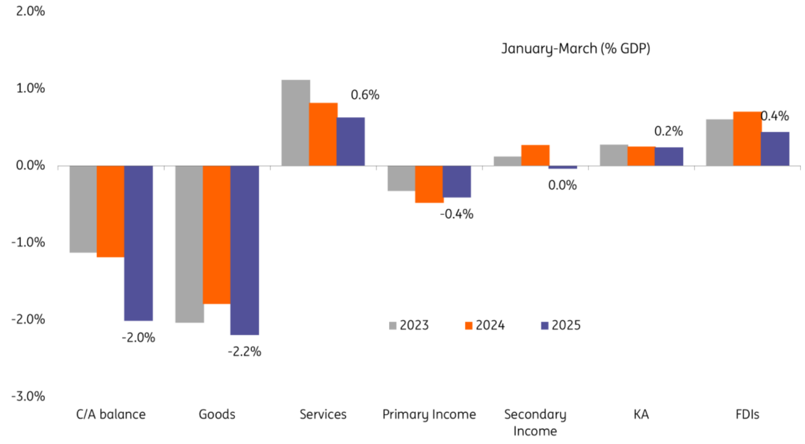


Source: NSI, ING

Turning to Romania's surplus on the services front, the start of the year brought a 17% decline in annual terms, with a worsening balance on tourism as the main culprit. Only the construction sector saw a rather small improvement through the quarter.

On other items of the BoP, primary income balance made a small improvement despite a slightly more negative contribution of portfolio investments, while secondary incomes worsened on what was likely a combination of both smaller EU fund inflows and less generous remittances through the period.

The current account deficit worsened



Source: NBR, ING

On the capital account, we expect the next government to accelerate short-term absorption of EU grants, continuing to stimulate public investments in both physical and digital infrastructure, while on FDIs, the end of the electoral cycle should gradually bring more predictability ahead.

All in all, we expect the current account deficit to remain elevated in 2025 as well. We estimate the deficit to end up at -8.0% of GDP, from -8.4% in 2024.

Monetary policy and inflation – rate cuts are still possible, but not a priority for NBR

The NBR has kept its policy rate unchanged through the first four meetings of 2025, following the 50bp cuts implemented in July-August 2024. In addition to the usual concerns, such as the high fiscal deficit, persistent wage growth, and sticky inflation, this year also brought a significant risk-off episode in Romanian financial markets.

Political uncertainty between the two electoral rounds triggered notable capital outflows, driven by fears of reduced EU fund inflows, increased sovereign rating risks, and broader concerns about policy continuity. Governor Mugur Isărescu confirmed that the NBR intervened with more than €6bn to stabilise the currency.

While pressures have eased following the second electoral round, policy uncertainty remains elevated, and monetary conditions are still tighter than earlier in the year.

Regarding interbank liquidity, policymakers appear to be gradually steering conditions toward a modest surplus, which could be much better controlled if future tensions arise again in the market. This process is expected to unfold in stages. After a recent liquidity injection of RON13.5bn at the key rate, market rates have remained tight, though lower than during the peak of market stress. Further injections are likely, but the pace and volume will depend on risks related to fiscal uncertainty and EU fund inflows. For now, bringing market rates closer to the deposit facility seems unlikely unless sovereign risk perceptions improve significantly.

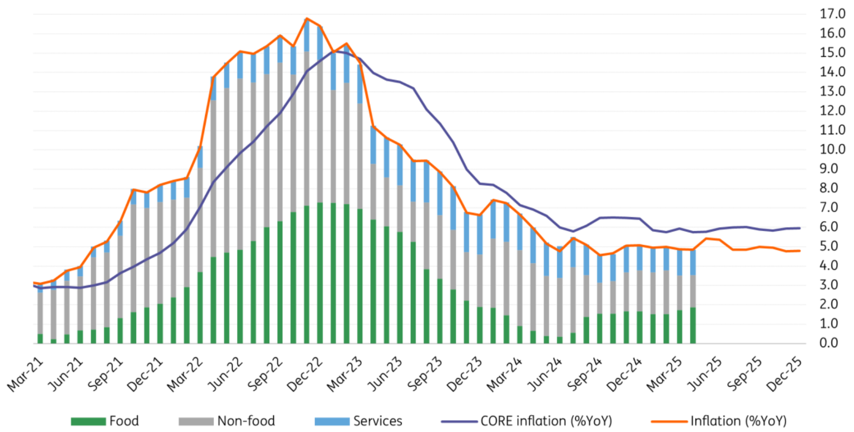
In the FX market, the NBR is expected to maintain a firm grip on the leu. From the current range of

5.04–5.07, we anticipate a gradual depreciation to 5.10 by end-2025 and toward 5.18 by end-2026. Under normal market conditions and with improved EU fund inflows, a sharper depreciation would likely be unacceptable to policymakers at this stage.

On the inflation front, the combination of a weaker leu and higher electricity bills could add 0.7 to 1.0 percentage points to inflation in the short term. A potential increase in the tax burden – particularly a VAT hike – remains a key risk to monitor. Otherwise, growth concerns are likely to dominate, supporting some disinflationary pressure. Additionally, recent favourable weather conditions may help stabilise food prices, particularly for agricultural products.

All things considered, the current environment presents upside risks for both interest rates and inflation. Our base case remains that inflation will end the year at 5.0%, and that the NBR will implement a mild 50bp rate cut in October–November, provided inflation expectations stabilise and global monetary easing (from the Federal Reserve, European Central Bank, and National Bank of Poland) creates sufficient policy space. However, the risk of postponing rate cuts into 2026 remains very much alive, given the multiple and simultaneous upside risks in play.

We expect headline inflation to average 5.2% throughout 2025



Source: NSI, ING

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