Article | 22 December 2025 ROMANIA

Monitoring Romania: An improving outlook despite persisting challenges

As Romania continues to grapple with still-large but improving macro imbalances, an effective last-mile absorption of EU Recovery and Resilience Facility (RFF) funds in the months ahead will prove critical. The boost to investments as a result should at least partially mitigate the impact of slowing consumption

Bucharest, Romania. Our view on the country's outlook has improved since the beginning of the year

As Romania rounds 2025 off with the coalition governance still in one piece and civil society maintaining an appetite for reform, both fiscal and monetary authorities face mounting pressure to sustain economic growth ahead. While early signs suggest some improvements on the fiscal front, the political and social scene remains more difficult to predict as we enter 2026.

Romania at a glance:

- **Growth outlook:** We have revised our GDP growth forecast upward from 0.3% to 1.1% in 2025, supported by a stronger-than-anticipated third quarter. We maintain our 2026 estimate at 1.4%

- **Fiscal position:** The deficit target of 8.4% of GDP for 2025 appears achievable as revenue-increasing measures are starting to yield results. While cost-cutting remains central in political negotiations, key measures remain highly divisive. We maintain our estimate for the 2026 budget gap at 6.4% of GDP
- **NRRP**: The fourth National Recovery and Resilience Plan (NRRP) payment request may be pushed into January, coinciding with the expected approval of the 2026 budget law. That said, 2026 could mark a historical peak in EU funds inflows as the Recovery and Resilience Facility (RRF) programme enters its final year and cohesion funds absorption from the 2021-2027 Multiannual Financial Framework (MFF) gradually accelerates
- **External balance:** Consumption has slowed visibly, but this has yet to translate into a meaningfully narrower trade deficit. We believe that eventually this will come, and it should translate into a narrower current account deficit, which should dip below 8.0% of GDP in 2025 and inch closer towards 7.0% in 2026
- **Inflation and monetary policy:** We expect inflation to end 2025 at 9.8%, averaging 7.3% for the year, and then fall to 4.5% by the end of 2026, with a 7.2% annual average. Our base case assumes the National Bank of Romania will cut rates by 100 basis points in 2026, starting with a 25bp cut in May 2026
- **Risks:** Although the latest budget deficit result pointed to visible improvements, it remained only a step in the right direction, and consistent execution remains key. Rating downgrade threats seem to have subsided somewhat, but fiscal and political stability remain under close scrutiny

GDP growth – On an improvement path but remaining below potential

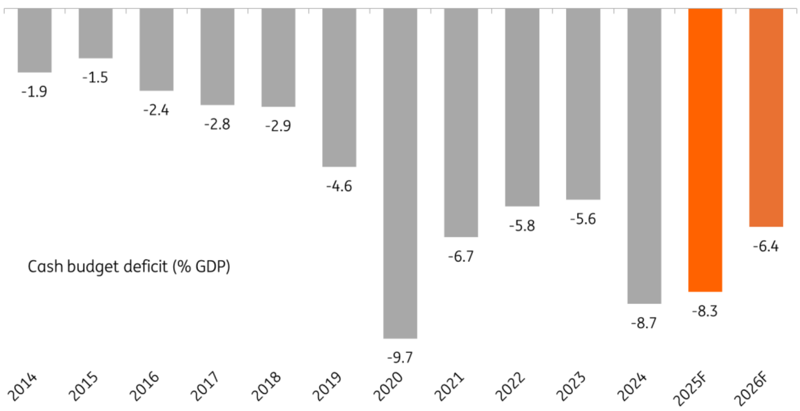
Following a modest 0.9% outturn in 2024, we believe that Romania's GDP growth now appears to be on track to pick up to 1.1% in 2025, followed by 1.4% in 2026. The first half of 2025 showed a quasi-stagnation, but investments picked up in the third quarter at the strongest pace since 2023, while private consumption nearly stagnated, an outcome rarely seen in Romania.

Preliminary data suggests that consumption has likely remained lacklustre in the fourth quarter, but the investment momentum has likely carried on. We expect this to remain the norm in the first half of 2026 as well.

On the supply side, the construction sector has been this year's clear outperformer, followed at a distance by the information and communication sector and the real estate sector. Agriculture also picked up visibly this year with a strong performance in the third quarter. Industrial activity also managed to recover some lost ground recently.

Looking ahead, chances for a more substantial pickup in activity next year, closer to Romania's potential of around 3.0%, remain limited. Domestically, we expect private consumption to stay rather on the weak side through the first half of the year, constrained by negative real wages and a tighter fiscal stance. We envision a more visible recovery in consumer appetite in the second half of next year as confidence gradually recovers and inflation cools. In the meantime, strong public investment driven by infrastructure projects could help accelerate the rebound. Net exports could have a small positive contribution as the economic slowdown helps rebalance the trade gap.

Fiscal – the picture looks set to improve



Source: MFin, ING

After two years of not delivering on the forecasted fiscal targets by multiple percentage points, this year's deficit is set to remain high but at least stay within the limit of 8.4% as agreed upon with the European Commission.

In fact, October's outturn marked the first significant progress compared to the same month in 2024 (5.7% vs 6.4%), putting even the assessment of an undershooting of this year's fiscal target on the table. Remember, 2024's deficit totalled 2.45% of GDP in November-December. Assuming no improvements in November-December 2025, this would push this year's deficit to around 8.15% of GDP, giving some space for a better-than-expected outcome. However, we tend to believe that the full fiscal space will be used to speed up the current investment cycle and reforms, especially as the August 2026 NRRP deadline is approaching quickly.

On the impact of fiscal policy on the deficit, some quick facts can be noticed in the data up to October 2025:

1) As a percentage of GDP, revenues are 1.0ppt higher than in October 2024, while spending is up by less, by 0.5ppt.

2) Also as a percentage of GDP, on the revenue front, income, property and social contributions taxes increased compared to last year, while on the expenditure side, subsidies, personnel and goods and services spending decreased.

3) The impact of VAT is still likely too early to be assessed meaningfully. Better collection might materialise, but it is nevertheless mitigated at this stage by a visibly slowing momentum in private consumption.

On the NRRP front, a fourth tranche of €2.6bn is in the making, which will likely be followed by another larger-than-usual final tranche through the rest of 2026. The investment cycle is still set to continue, albeit at a less intense pace (even after the NRRP ends), as some investments have been moved to other programmes, like the Transport and Health programmes. At this stage, our year-end forecasts for the budget deficit estimate for 2025 and 2026 remain at 8.3% of GDP and 6.4%, respectively.

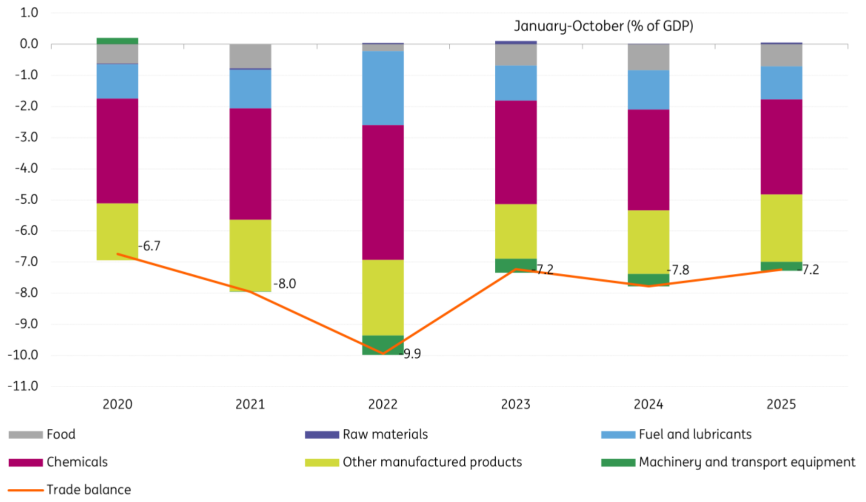
Balance of Payments – some small improvements

So far in 2025, the trade balance – the main driver of the balance of payments – has remained at high levels but managed to come down as a percentage of GDP, given this year's consumption trends. At the same time, the nominal pick-up in the surplus of services remained almost constant relative to GDP as of October.

Overall, the trade balance reflects somewhat improved dynamics in exports. Over the January-October period this year, exports picked up 4.3% in annual terms, contrasting the 1.2% contraction recorded over the same period of last year. Over the same periods, the growth in imports stood at 3.4% in 2025 versus 3.0% in January-October 2024.

Lower pressures from private consumption should continue to moderate the pressure on the trade deficit, though the full-swing investment cycle could offset these developments to some extent. 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 develops productive potential. Further enhancements in the auto and auto components sector, microelectronics, energy production and storage, as well as higher-value defence goods production, are key to watch moving forward.

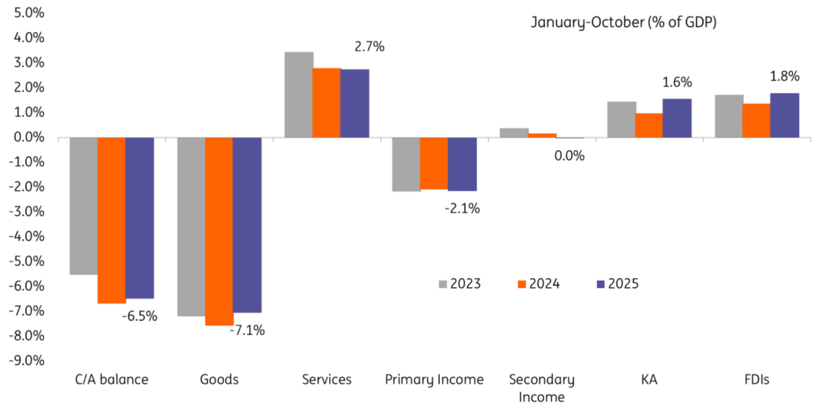
Somewhat diminishing pressures from domestic demand



Source: NSI, ING

Turning to Romania's surplus on the services front, 2025 so far brought a 5.7% increase in annual terms, reversing partially the almost 12% decline seen in 2024. A stronger surplus in transport, telecom, and IT helped to more than counterbalance the growing deficit in tourism spending.

The current account deficit improved slightly



Source: NBR, ING

On the capital account, we expect the government to accelerate short-term absorption of EU cohesion funds, continuing to stimulate public investments in both physical and digital infrastructure, while FDIs should benefit from the newly built infrastructure and the reduction (and potential removal) of turnover tax ahead.

All in all, we expect some improvements in the current account deficit, and estimate it at 7.8% in 2025 and 7.2% in 2026.

Monetary policy and inflation: rate cuts projected for next year

The National Bank of Romania has kept its policy rate unchanged since August 2024. In addition to the high fiscal deficit and sticky inflation, this year has also featured significant risk-off episodes in the Romanian financial markets, which the central bank has tackled with sizeable FX interventions. In addition, a revival of inflationary pressures has been mounting in the wake of the VAT and excise duties in August 2025, as well as the liberalisation of electricity prices a month earlier, essentially postponing any rate cuts.

On the more recent evolution of inflation, the small upside divergences from the past two months led us to inch up our year-end 2025 forecast to 9.8% (previously 9.6%). For 2026, our year-end value sits at 4.5%, above the National Bank of Romania's 3.7% projection. Both we and the Bank envision a significant cooling of the current pressures through the summer of 2026, when the upside pressures from tax and energy items will fall out of base, while negative real incomes will continue to apply pressures on demand and consumer sentiment.

Risks to this outlook remain two-sided. On the upside, renewed energy price pressures, particularly gas bills from April 2026, could push inflation higher. In addition, the recently adopted decision to hike the minimum wage by almost 7.0% as of July 2026 could, in principle, make the adjustment towards cooler price pressures more gradual. We don't see either of them as large upside risks at this stage, especially as the opposite pressures stemming from economic activity remain key disinflationary drivers.

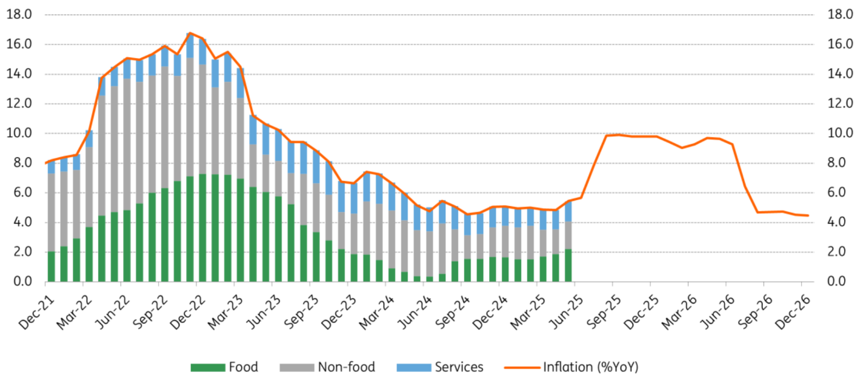
Here, soft demand and moderating wages are likely to dominate the near-term picture, reducing the risk of second-round effects from the current inflationary upswing. 2026 will ultimately be the second year in a row with freezes on public sector incomes, which should continue to weigh on consumption in the near term. Our commodities team also expects oil and natural gas prices to ease in 2026.

Policy-wise, this should, in principle, allow the National Bank of Romania to start cutting interest rates even before inflation starts to print meaningfully lower in 2026, shifting its attention more towards the downside pressures in economic activity. By that time, officials will also be in a better position to assess the impact of the key upside drivers (gas market and minimum wage developments). As such, there are currently no changes in our base case for a first rate cut in May 2026, with a total of 100bp in cuts next year.

Regarding interbank liquidity, policymakers have gradually steered conditions towards a renewed surplus. Even though a potentially record year of EU funds inflows will follow, we think the NBR would generally prefer to avoid the large surpluses seen in the previous two years, striking a balance between an environment of somewhat looser financial conditions than the key rate would imply – but not as much as to require massive FX interventions if tensions in the market arise.

In the FX market, we continue to think that the NBR will maintain a firm grip on the leu. From the current range of 5.09–5.10, we anticipate a depreciation to 5.15 by end-2026. The base case of large EU funds inflows might indeed bring some appreciation pressures to the table, but as long as the country's twin deficits remain structural, natural outflows will continue to point to gradual depreciations of the leu.

CPI Inflation: Contributions and outlook



Source: NSI, ING

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