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To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union

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**COMMISSION STAFF WORKING DOCUMENT**

**In-depth review for Romania**

**Prepared under Regulation 1176/2011 on the prevention and correction of  
macroeconomic imbalances**



European  
Commission

Romania

**In-Depth Review 2026**



This in-depth review presents the main findings of the Commission's staff assessment of macroeconomic vulnerabilities for Romania for the purposes of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances. It provides technical input to the Commission for the Communication "European Semester – 2026 Spring Package" that will set out the Commission's assessment as to the existence of imbalances or

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# 1. INTRODUCTION

**This in-depth review (IDR) analyses the evolution of Romania’s vulnerabilities mainly related to external and fiscal deficits, and cost competitiveness issues.** An IDR was carried out for Romania in spring 2025, and in June 2025 the Commission concluded that Romania was continuing to experience excessive imbalances<sup>(1)</sup>. This year’s IDR, which follows the 2026 Alert Mechanism Report (AMR) published in November 2025, assesses the persistence or unwinding of the vulnerabilities identified last year, potential emerging risks, and relevant policy progress and policy options that could be considered for the future<sup>(2)</sup>.

**Romania’s vulnerabilities are assessed against the backdrop of subdued economic growth in 2025 and 2026, as the necessary fiscal consolidation dampens domestic demand.** Real GDP growth remained in positive territory in 2025, at 0.7%, down from 0.9% in 2024, amid sizeable fiscal consolidation measures. These measures together with a surge in inflation reduced real disposable incomes and private consumption. A recovery in gross fixed capital formation on the back of improved investor confidence and an acceleration and completion of Recovery and Resilience Plan (RRP) projects supported the economy in the second half of 2025 and should continue doing so in 2026. The decline in private consumption is set to contain the growth of imports, reducing significantly the drag to growth of net exports and contributing to a decline in the large current account deficit. Overall, real GDP is set to grow by 1.1% in 2026 and accelerate to 2.1% in 2027, when lower inflation and more favourable financing conditions should foster a pick-up in both private investment and consumption. Public investment should hold up well beyond 2026 due to a larger absorption of cohesion funds after the RRP is over in the course of 2026. Risks to the economic outlook are tilted to the downside as deviations from the fiscal consolidation path could erode confidence and macroeconomic stability, while the full implementation of RRP investments remains a challenge.

**HICP inflation surged to a high level of 8.6% at the end of 2025, mainly due to the increase in VAT rates and excises, and the end of the cap on electricity prices for households.** At the same time, core inflation increased less than headline inflation, to 8.4%, helped by fast moderating wage growth. Labour demand has eased due to softer economic activity and together with the two-year freeze in public wages, part of Romania’s ambitious fiscal package, has led to a notable deceleration in both nominal and real wages, strengthening cost competitiveness. The Autumn 2025 Forecast expected a decline in private

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<sup>(1)</sup> European Commission (2025), Romania – In-depth Review 2025, Staff Working Document, SWD(2025) 126 final (published as European Economy, [Institutional Paper 314](#), May 2025); and European Commission (2025), 2025 European Semester - Spring package, Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank, [COM\(2025\) 200 final](#).

<sup>(2)</sup> European Commission (2025), Alert Mechanism Report 2026, Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee, [COM\(2025\) 956 final](#); and European Commission (2025), Alert Mechanism Report 2026, Staff Working Document, [SWD\(2025\) 956 final](#).

consumption and weak domestic demand to support a gradual decline in average headline inflation to 5.9% in 2026 and 3.8% in 2027.

*The cut-off date for the data for preparing this IDR was 9 April 2026. Unless stated otherwise, all the forecast data used in this IDR were taken from the Commission's Autumn 2025 Forecast <sup>(3)</sup> to ensure the coherence of the various figures and calculations. However, if actual outturn data become available after the publication of the Autumn Forecast, that is used. Assumptions concerning energy prices, other commodities prices, and other general assumptions were taken from the autumn 2025 forecast and do not reflect developments related to the war in the Middle East and its impact on energy prices <sup>(4)</sup>.*

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<sup>(3)</sup> European Economy, [Institutional Paper 327](#)

<sup>(4)</sup> The Commission is assessing the sensitivity of Member States to major economic shocks originating abroad, including in the context the recent sharp increase in energy prices and trade tensions. The results of this analysis will be published in the forthcoming European Commission Institutional Paper dedicated to spillovers analysis that accompany the 2026 in-depth reviews.

## 2. ASSESSMENT OF MACROECONOMIC IMBALANCES

**The sizeable fiscal consolidation packages adopted in 2025 has had only a marginal impact on the high current account deficit so far.** Since 2020, the current account deficit deteriorated to a very high level of 9.6% of GDP in 2022 and was only moderately lower at 8.2% of GDP in 2024 (Graph 2.1.a). This was driven to a large extent by the government deficit surging to 9.3% of GDP in 2024 due to generous income policies, with marked growth in minimum and public wages and pensions, which fuelled private consumption and inflation (Graph 2.1.b). Political uncertainty in May 2025 put asset markets and the currency exchange rate under pressure as investors were concerned about fiscal sustainability amid the absence of fiscal consolidation measures. The adoption of two sizeable fiscal consolidation packages by the incoming government in July and September 2025 has brought the government deficit to 7.7% of GDP in 2025, and also reduced mildly the current account deficit. Under a no-policy change assumption, based on the Commission Autumn 2025 forecast, Romania is expected to further reduce the fiscal deficit to 6.4% of GDP in 2026. The current account deficit is forecast to come at a similar level. After years of marked growth, wages and unit labour costs decelerated markedly in 2025, with a two-year freeze in public wages in 2025 and 2026, and more moderate minimum wage increase as well as the cooling of the labour market.

### 2.1. EXTERNAL SECTOR

#### *Assessment of gravity, evolution and prospects of vulnerabilities*

**The large current account deficit started to decline in the second half of 2025 in parallel with the strong deceleration in private consumption.** After reaching the level of 8.2% of GDP in 2024, and widening further in the first quarter of 2025, the current account deficit receded modestly to 7.9% of GDP in 2025 amid fiscal consolidation, weaker domestic demand and robust exports. The trade deficit declined both in nominal terms and as a share of GDP (by 0.5 pps). At the same time, the negative primary income balance widened slightly due to higher outflows of FDI income and higher interest paid on external public debt. The positive secondary income balance declined due to larger incomes being repatriated by non-residents. Overall, the current account thus significantly exceeds the -0.2% of GDP suggested by the current account norm based on fundamentals <sup>(5)</sup>.

<sup>(5)</sup> See Coutinho, Turrini, and Zeugner (2018), "Methodologies for the Assessment of Current Account Benchmarks", European Economy, Discussion Paper 86, DG ECFIN, European Commission. However, considering future capital account flows at 1-2 pp of GDP, notably from structural funds, the Romanian economy would require a current account balance of the same magnitude to return NIIP to the broadly balanced level suggested by fundamentals over the next twenty years.

**From a savings-investment perspective, the modest improvement in the current account deficit in 2025 was driven by fiscal consolidation measures that lowered the general government deficit** <sup>(6)</sup>. Fiscal policy tightened in 2025, with a fiscal impulse estimated at about 1.5 percentage point of GDP. In ESA terms, Romania's general government deficit declined from 9.3% of GDP in 2024 to 7.7% of GDP in 2025. As in 2024, the main contributor to the current account deficit was the very large negative government sector saving-investment gap of around 9% of GDP, while the private sector gap remained positive <sup>(7)</sup>. On the private sector side, net saving fell despite the strong moderation in private consumption, because of a strong recovery in investment.

**The current account deficit is projected to decline steadily in 2026 and 2027, subject to continued firm fiscal consolidation and moderation of domestic demand, but to remain relatively high.** According to the Commission's 2025 Autumn forecast, the current account deficit is expected to decrease to 6.4% of GDP in 2026 and further to 6% of GDP in 2027. Exports are set to remain strong over the period as increases in labour costs moderate, external demand in main EU trading partners picks up and export-oriented foreign direct investment (FDI) remains robust. In parallel, import growth is set to continue decelerating in 2026 on account of sluggish private consumption on the back of fiscal consolidation and restrictive income policies, and to recover somewhat in 2027. Downside risks to the current account balance forecast relate to the high import content of investment, which is set to accelerate due to better absorption of RRP and EU funds. The steady reduction of the fiscal deficit in line with Romania's Medium-Term Fiscal Structural Plan (MTFSP) remains a key factor in the adjustment of the trade and current account deficits.

**External indebtedness continued increasing due to higher government borrowing on external markets but remains relatively low overall.** Romania's gross external debt increased from close to 57% of GDP at end-2024 to above 60% of GDP at end-2025, but is still one of the lowest gross external debt ratios in the EU. The negative net international investment position (NIIP) rose by around 3 pps to about 44% of GDP at end-2025 (Graph 2.1.c), but remains more favourable than the estimated prudential benchmark of -50% of GDP. In addition, NIIP excluding non-defaultable instruments (NENDI), which takes into account Romania's large stock of net FDI, remained relatively balanced, at about -12% of GDP at end-2025.

**While private sector debt is low, government debt has increased rapidly in recent years, from low to moderate levels** (Graph 2.1.d). Private debt in Romania was relatively flat in 2025, with both household and corporate debt ratios at 13% of GDP and 27% of GDP, respectively, being among the lowest in the EU. In contrast, government debt rose rapidly by about 5 pps. to above 60% of GDP at end-2025, with around half of it being held by non-residents and half denominated in foreign currencies. Government debt is projected to peak at about 63% of GDP in 2027, mostly driven by high government primary deficits and a projected increase in interest payments.

<sup>(6)</sup> On the interlinkage between the general government and external deficits in Romania please see a more detailed analysis in last year's IDR at [In-Depth Review 2025 Romania - Economy and Finance - European Commission](#).

<sup>(7)</sup> According to data available for the first three quarters of 2025.

**High GDP deflators help contain the NIIP-to-GDP and debt-to-GDP ratios.** Favourable terms of trade with export prices continuing to outpace import prices by a wide margin helped contain the trade deficit together with the significant moderation in domestic consumption. High and rising domestic inflation was also reflected in a high GDP deflator in 2025 <sup>(8)</sup>. Going forward however, nominal growth is expected to decelerate, which could put downward pressure on the NIIP-to-GDP ratio (see Box 2.2) and impact negatively debt deleveraging.

**The financing mix of the external deficit became more favourable in 2025 after a deterioration in 2024, and foreign reserves recovered to a record high level.** In 2025, about half of the current account financing needs were covered by non-debt creating instruments, such as EU funds and net FDI, after this share dropped to less than a third in 2024 (see Box 1). In 2026, an accelerated implementation of RRP investments upon completion of the plan, the continuation of the ascending trend of net FDI and the expected decline in the current account deficit are likely to lead to a further improvement of the financing mix. Foreign reserves increased by close to EUR 5 billion to a record high of EUR 77 billion or 20% of GDP by end-2025, despite large fluctuations during the year. Political instability at the time of presidential elections in May 2025 and weak fiscal fundamentals triggered a strong selling pressure on the RON in May 2025 and foreign reserves dropped by almost EUR 7 billion during the month. As the restored political stability and the fiscal consolidation measures of the new government reassured markets, foreign reserves recovered quickly to above their original level. The current level of foreign reserves seems broadly adequate, covering around six months of imports and more than 100% of the short-term external debt.

**The stability of the financial sector was preserved, while private credit growth decelerated in real terms, but the large banking sector exposure to the government further increased.** The banking sector is well capitalised with the common equity tier 1 (CET1) ratio reaching 19.8% in Q3 2025 – significantly above both the EU average and pre-pandemic levels. Profitability metrics also remain strong, with a return on equity (ROE) of 16.4%. Asset quality indicators have deteriorated slightly with the non-performing loan (NPL) ratio at 3% in Q3 2025. This is due to the worsening of the payment discipline of non-financial corporations, especially in the segment of government guaranteed loans. Romania's banking sector exposure to claims on the general government debt has further increased, reaching the highest level among EU countries at about 24.5% of total assets in November 2025 and requires close monitoring. This increase is due to the large government debt securities issuance, against the backdrop of low financial intermediation, Romania having the lowest level of private sector credit-to-GDP in the EU. Nominal credit growth to the private sector picked up to about 13% at end-2025 from about 11.6% a year before but decelerated strongly in real terms given the surge in inflation in the second half of the year. Household credit accelerated from about 11% at end-2024 to above 14% at end-2025, as mortgage lending picked up while consumer loans growth decelerated to around 18%. At the same time, corporate credit growth remained broadly flat at about 10% at end-2025.

<sup>(8)</sup> Milan Váškrabka and Adrian Bodea, "After the Inflation Shock. Taking Stock of Price Competitiveness in the EU," *European Commission Discussion Paper*, no. 240 (January 2026), <https://doi.org/10.2765/2657037>.

**Political uncertainty around elections in late 2024 and May 2025 led to temporary spikes in the financing costs for the sovereign, which remain high even after having receded.** The yields of the 10-year sovereign bonds denominated in euro increased by over 150 basis points to above 8% in January and May 2025 as financial markets were concerned about fiscal sustainability and a potential downgrade of Romania's sovereign credit ratings to below investment grade. With the adoption of the fiscal consolidation measures, yields went down to pre-election levels, but have remained high above 6%, and volatility increased again during the Middle-East conflict, indicating continued fiscal consolidation needs. Persistent high interest rates could have a negative impact on the primary income balance of the current account as well as the government deficit and debt.

### Box 2.1: Zooming in: financing Romania's external deficit

A closer analysis of how Romania has been financing its very large current account deficits since the pandemic indicates that sizeable inflows of non-reimbursable EU funds and net FDI have played a key role in providing a stable and sound source of financing of Romania's investment needs and CA deficits, limiting the risk of increasing external indebtedness.

EU funds represent about 90% of Romania's positive net capital account flows which finance a non-trivial part of the external deficits. Due to large envelopes of available structural and cohesion funds and the RRF, net capital inflows as share of GDP almost doubled from about 1.3% in 2019 to 2.6% in 2023, although the slowdown in RRF implementation reduced it to around 2% by end 2024 and beginning of 2025 (Chart 1.e). As a result, the net borrowing position has been smaller than the CA deficit and reached 6.3% of GDP vs. a CA deficit of 8.1% of GDP in 2025 (Chart 1.a). 2026 is set to follow the same pattern with a high amount of EU funds inflows expected due to the finalisation of the RRF.

Net FDI inflows, initially the most important item in financing the CA deficit, declined gradually from more than 3% of GDP in 2021 and 2022, to 1.3% of GDP in 2024, when political and fiscal uncertainty surged (Chart 1.b). They subsequently rebounded to 2.1% of GDP in 2025, covering about one quarter of the CA deficit, as equity acquisitions, reinvested earnings and inter-company loans picked up. The accumulated large stock of net FDI has been instrumental in keeping Romania's NENDI at a low level of less than -12% of GDP, significantly below the NIIP level of around -46% of GDP.

The widening general government deficit to more than 9% of GDP in 2024 prompted a significant increase in external financing as the Romanian government issued large amounts of government bonds on international capital markets. Historically, external debt-creating capital inflows have been relatively low, given the modest total indebtedness of the private sector and the fact that multinationals borrow primarily from their mother companies. Yet portfolio investment inflows through debt securities surged from about 1.4% of GDP in 2019 to about 4% of GDP in 2024 (Chart 1.c) and became the largest item in the financing account, while worsening the external financing mix and the NIIP. In 2025, portfolio investment remained at a similarly high level as in 2024 and, in addition, government direct borrowing under the "other investment" item also rose by about 0.7% of GDP (Chart 1.d). In general, other investment inflows remained low at around 1–1.5% of GDP in recent years or have also been positive in the past.

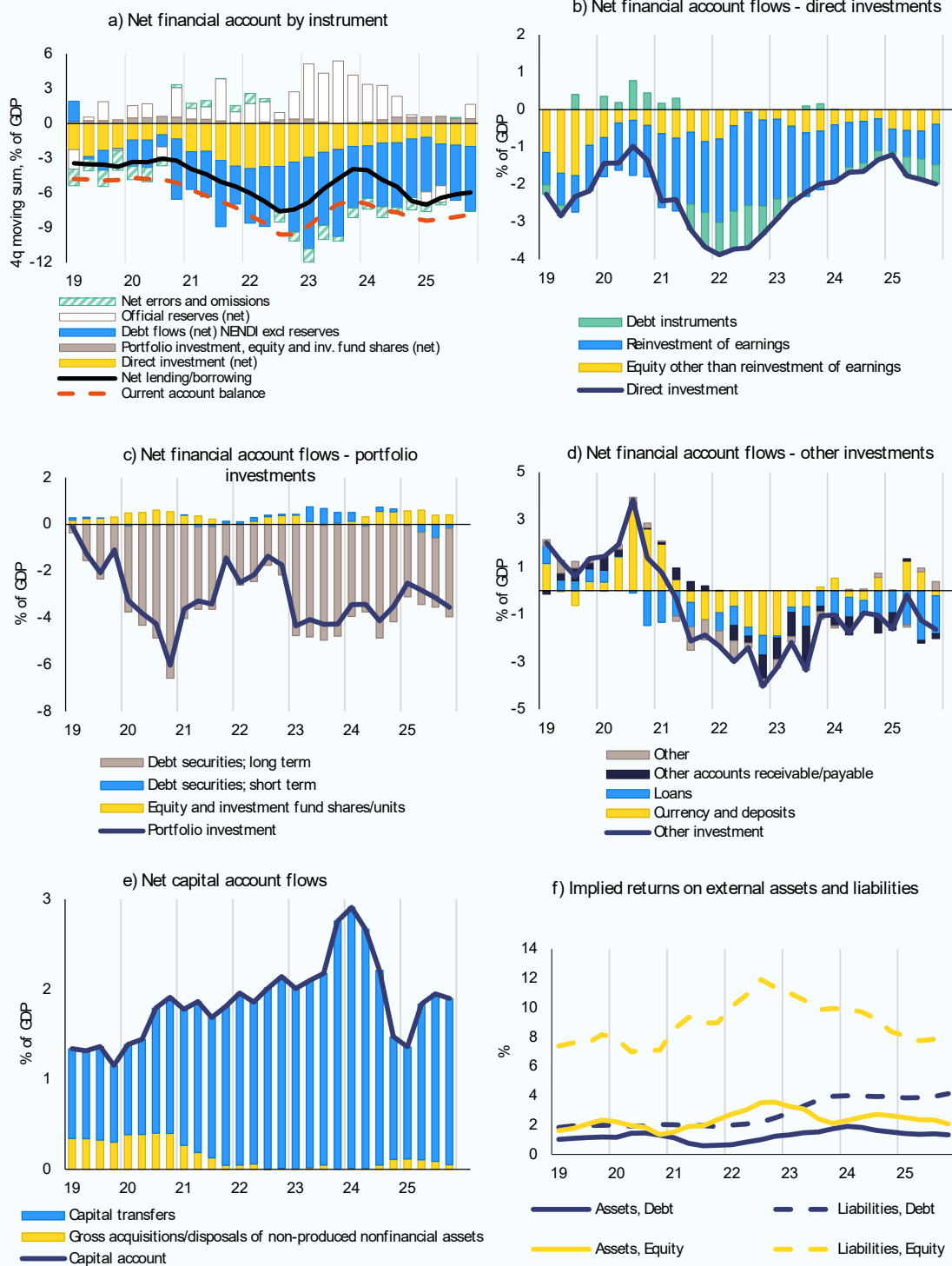
Net errors and omissions represent a residual item in the balance of payments, averaging about 0.6% of GDP during 2019-2024 and having a consistent non-negligible positive contribution to covering external financing needs (Chart 1.a). This can be also explained by the informal remittances that Romania's sizeable diaspora channels into the country. In 2025, this net positive contribution dropped to around 0.2% of GDP following increased investor uncertainty and capital flows volatility.

The implied returns calculated on Romania's assets and liabilities show an unfavourable differential, with Romanian entities paying more dividends and interest than receiving (Chart 1.e). The returns on equity liabilities, e.g. dividends paid abroad for FDI or portfolio investment are quite high, at almost 8% p.a., explaining why Romania remains an attractive destination for foreign investment. Most importantly the returns paid on debt liabilities have almost doubled in 2024 and 2025 to close to 4% p.a., driven by the high yields of sovereign euro-denominated bond issuance which are still above 6% p.a.. At the same time, the returns on debt assets are much lower at about 1.5% p.a., influenced by the large stock of FX reserves. This negative gap between returns on liabilities and assets has started to put additional upward pressure on the CA deficit through the primary income component, which deteriorated by about 0.4% of GDP in 2025, and can affect debt sustainability, if left unchecked.

*(Continued on the next page)*

Box (continued)

Graph 1: Selected graphs on external deficit



**Source:** European Commission with Eurostat data. Notes: for chart a) item "Debt flows" = Portfolio investment debt securities + Other investment + Financial derivatives; for chart d), item "Other" = Other equity + Insurance, pension and standardized guarantee schemes + Trade credits and advances for chart + Errors and omissions; for chart f) Equity = Direct investment + Portfolio investment, equity securities, while Debt = Portfolio investment, debt instruments + Other investment.; implied return computed as the sum of preceding four quarters flow figures divided by the stock of the previous period.

### *Assessment of MIP relevant policies*

**In June 2025, Romania was assessed as having not taken effective action in response to the Council recommendation under Article 126(7) TFEU of 21 January 2025 and, as a result, a new corrective net expenditure path was set under the EDP.** Following the sharp deterioration in the fiscal position in 2024, the Commission assessed on 4 June 2025 that Romania had not taken effective action in response to the 21 January 2025 recommendation, which had set out the same net expenditure path as in the MTFSP. The Council then recommended to Romania a new corrective path on 8 July 2025, under which the growth rate of net expenditure growth must not exceed 2.8% in 2025, 2.6% in 2026, 4.6% in 2027, 4.4% in 2028, 4.2% in 2029 and 4.0% in 2030<sup>(9)</sup>. The reforms and investments underpinning the MTFSP's extended adjustment period remain in force and continue to be monitored by the Commission<sup>(10)</sup>. On the basis of its Autumn 2025 forecast, the Commission projected that Romania's net expenditure growth was in line with the revised ceiling in 2025 and would remain well within the ceiling in 2026. Therefore, the EDP was held in abeyance. The Commission will assess compliance on the basis of Eurostat validated outturn data for 2025 in June 2026.

**After mid-2025, Romania adopted large fiscal consolidation measures.** In July 2025, the authorities approved a first fiscal package amounting to around 3% of GDP. On the revenue side, the package included an immediate increase in the two main VAT rates (applying to most products and services) by 2 percentage points (from 9% and 19% to 11% and 21%, respectively), the introduction of a health contribution for higher-income pensioners, an increase in the taxation of the banking sector, and a hike in the dividend tax rate. On the expenditure side, the package extended the public wage and pension freeze into 2026 and reduced benefits and bonuses for public administration staff. These measures were complemented by a second consolidation package adopted in September 2025, which included an increase in property taxation, the introduction of a new fee on parcels imported from non-EU countries, a special tax aimed at limiting profit shifting abroad, and higher taxation on polluting vehicles. In total, fiscal consolidation measures adopted since the summer of 2025 amount to an estimated 3.7% of GDP.

**The fiscal consolidation packages contributed to a better-than-expected fiscal outcome in 2025, which helped contain immediate fiscal risks and reduced pressure on Romania's sovereign rating.** The general government deficit reached 7.7% of GDP in 2025, significantly below the 8.4% of GDP target set in the corrective budget adopted at the beginning of October 2025. The outcome could have been marginally stronger, as the Ministry of Finance decided to clear arrears amounting to around 0.2% of GDP. The better-than-expected fiscal outcome in 2025 appears to be driven primarily by a much more rigorous control of public spending. So far, economic activity has remained resilient despite

<sup>(9)</sup> Net expenditure as defined in Article 2 of Regulation (EU) 2024/1263, namely government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on Union programmes fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure and (vi) one-offs and other temporary measures.

<sup>(10)</sup> The set of reforms and investments underpinning the extended adjustment include a comprehensive review of the tax framework, the modernisation of tax administration, annual spending reviews, pension reform, a new minimum wage setting mechanism, measures to improve business financing, and a reform of the expenditure system of state-owned enterprises.

the implementation of an ambitious fiscal consolidation package. The change of course in fiscal policy allowed Romania to avoid a credit rating downgrade, which could have potentially proven destabilising given that Romania is currently rated at the lowest investment grade level by the three main rating agencies.

**The full-year impact of the fiscal measures adopted in 2025 should allow for a further material reduction of the government deficit in 2026.** This reflects the extension of the public wage and pension freeze into 2026 and the full-year effect of revenue-enhancing measures adopted in 2025, which alone should contribute around 2 percentage points of GDP to deficit reduction. The budget for 2026 targets a government deficit of 6% of GDP in ESA terms, consistent with the net expenditure growth ceiling included in the Council Recommendation under the EDP. In 2026, it will be essential to fully implement the measures already adopted.

**While important steps have been taken to address immediate risks, continued fiscal adjustment will need to be supported by structural reforms.** Three reforms appear particularly important and should be the focus of government action in 2026. First, Romania should make further progress in reducing the VAT gap, i.e. the share of VAT due that is not collected in practice). At nearly 30% in 2024, Romania's VAT gap remains the largest in the EU (the EU average is around 9.5%). Implementing the measures included in the RRP would go a long way towards achieving tangible progress in this area. Second, a rationalisation of public investment will be necessary after the end of the RRP. Capital expenditure is projected to reach a very high level of 7% of GDP in 2026, well above the EU average (3.5% of GDP). Romania should focus on containing the growth of public investment, in a year when the completion of key RRP projects, in particular the ones financed by loans, is expected to put significant upward pressure on this expenditure category. It will therefore be very important to rein in capital expenditure on domestic government programmes. In 2025, the government adopted an ordinance to halt or postpone all non-essential and non-RRP-funded investments. However, further medium-term efforts will be needed to streamline public investment and bring it to a more sustainable level, albeit still above the EU average to reflect Romania's key investment priorities and needs. Reforms that can reduce the observed pro-cyclicality in investment spending while also preserving its efficiency are warranted, for example regarding medium-term planning, prioritisation, and budgeting of investment projects. Finally, in line with RRP commitments, Romania will need to implement a reform of the public sector remuneration system that ensures a more efficient, fair and fiscally sustainable wage policy.

**The National Bank of Romania (NBR) remained prudent and paused its policy rate cuts in 2025.** In 2024, two cuts of 25 bps each were operated, bringing the key rate to 6.5% where it has remained so far. With upside inflationary risks from lax fiscal policy ahead of elections in late 2024 and May 2025 and buoyant domestic demand, the NBR halted the monetary policy easing. It subsequently relied on forex and liquidity management instruments to stabilise financial markets during the stress period in the aftermath of the elections. Liquidity conditions normalised and the money market showed a hefty liquidity surplus at end-2025. The 3-month ROBOR rate declined by more than 150 bps. from the peak recorded in May, but remains slightly above pre-elections level, also reflecting higher inflation premia. Against this background, monetary policy needs to remain cautious to

ensure that inflation safely returns to the NBR tolerance band, benefitting from the rapid deceleration in private consumption and underlying inflation pressures.

**The NBR continued to maintain the countercyclical capital buffer at 1% in 2025, as the banking sector remains stable and resilient.** The NBR also continues to apply macroprudential measures to restrict lending to house purchase with high loan-to-value ratios (85% is the benchmark for RON-denominated mortgages) and elevated debt service costs (40%), aiming at reducing risks of financially-distressed loans. The NBR issued two recommendations to banks to be more prudent with the origination of FX loans and limit the distribution of dividends to about half of realized profits in order to further strengthen capital levels. As the quality of the government-backed loan portfolio has deteriorated, the National Committee for Macroprudential Oversight (NCMO) has addressed several recommendations to the government to increase the effectiveness of government credit guarantee programmes.

## 2.2. COST AND NON-COST COMPETITIVENESS

### *Assessment of gravity, evolution and prospects of vulnerabilities*

#### **Cost competitiveness**

**Inflation increased further, remaining the highest in the EU in 2025, on the back of administrative measures and tax increases.** HICP inflation was already high at around 5.5% at end-2024, due to pre-electoral large fiscal easing and buoyant domestic demand. It increased further in the second half of the year mainly due to administrative measures and closed 2025 at 8.6%. At the same time, core inflation increased at a slower pace than headline inflation (i.e. from 6% at end-2024 to 8.4% at end-2025) helped by a significant moderation in wage growth. The jump in inflation has had a depressing effect on real incomes and private consumption, helping tame the previous rapid growth in domestic demand. Prices are set to decelerate in the second half of 2026 due to a strong base effect and the continued weak private consumption fuelled by the moderation of real incomes.

**Wage growth started to moderate strongly in the second half of 2025 triggering a deceleration in unit labour costs.** Double-digit increases in nominal wages in 2023 and 2024 pushed up inflation and reduced cost competitiveness. Wage growth slowed markedly in 2025, reaching 4.8% y-o-y in December 2025, from close to 12% at end-2024, following a freeze in public sector wages, more prudent income policies and slowing labour demand. With HICP inflation at almost 9% at end-2025, real wages declined markedly, somewhat correcting developments over the past 5 years, when real wages increased by 20 pps. more than productivity. Nominal wage growth is projected to moderate further in 2026 on account of the continued freeze in public sector wages, additional labour supply due to planned public sector lay-offs and an increase in the minimum wage of 6.8% as of July 2026, at par with the average inflation over 2025. This trend is also reflected in nominal unit labour costs growth, which decelerated significantly from about 18% in 2024 to slightly above 6% in 2025 (Graph 2.1.e). Given feeble productivity growth, wage moderation needs to continue to make up for previous losses in cost competitiveness.

**The RON depreciated by almost 3% due to political uncertainty and market stress in May 2025 but stabilised subsequently.** After focusing on a relatively steady nominal exchange rate in recent years, particularly against the euro, the NBR allowed more flexibility in 2025, while intervening in the market to mitigate excessive volatility around the election period. Despite the small nominal depreciation, the real effective exchange rate (REER) deflated by ULCs continued to appreciate by around 1% in 2025, adding to the cumulative appreciation of more than 15% over 2020-24 (Graph 2.1.f). In a broader context, Romania's cumulative REER appreciation was similar to that of many Central and Eastern Europe peers during this period <sup>(11)</sup>, which shielded somewhat export competitiveness. In a longer-term perspective, according to both the European Commission and IMF's External Balance

<sup>(11)</sup> See International Monetary Fund. 2025. "Romania: 2025 Article IV Consultation." IMF Country Report No. 25/294. Washington, D.C. [Romania: 2025 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Romania; IMF Country Report No. 25/294; October 15, 2025](#)

Assessment (EBA) CA model, the CPI-based REER is estimated to be overvalued relative to fundamentals, this trend being somewhat mitigated by productivity growth<sup>(12)</sup>. In 2025, export performance improved significantly relative to advanced economies, strengthening export market shares. In value terms, total exports of goods and services increased by about 5% and 10%, respectively.

### ***Non-cost competitiveness***

#### **Productivity growth has slowed recently as private investment, innovation and digitalisation have been held back by still important competitiveness weaknesses.**

Further catching up is hampered by insufficient progress in strengthening physical and human capital, government effectiveness, business environment, access to finance, and competition. In its Economic Survey of Romania<sup>(13)</sup>, the OECD notes that Romania's productivity growth has slowed after very strong catching-up during the last two decades. Real labour productivity per hour worked grew on average by about 4.5% per year from 2015 to 2019 but slowed markedly to around 2% per year from 2020 to 2025. The country is positioned at mid-level in global value chains (GVC), but advancing further would require better innovation capacities of domestic firms, more international integration through higher R&D investment and better access to finance. According to European Commission analysis<sup>(14)</sup>, human capital formation is hampered by low skills, which would require improving educational and training opportunities, tackling deficiencies in education and vocational training while emigration remains substantial and continues to weigh on labour supply and skill availability. Despite a gradual improvement, the business environment is still hampered by high regulatory barriers, low competition in certain sectors, inefficient judiciary and insolvency procedures, and difficult access to finance, in particular for SMEs. Competition and the fiscal position could be enhanced by fully implementing the corporate governance system for State Owned Enterprises. According to the Worldwide Governance Indicators<sup>(15)</sup> Romania performs worse on average than other EU countries regarding government effectiveness, regulatory quality, control of corruption and the rule of law. Government effectiveness has strengthened in 2024, although from a low level, while political stability has deteriorated. The government's administrative and public procurement capacities and efficiency remain weak, in particular as regards public investment projects. Further implementation of the large civil engineering projects aimed at closing the large gaps in transport and IT infrastructure remains key. Romania went down slightly and continued to rank poorly in Transparency International's indicator of perceived corruption<sup>(16)</sup>.

### *Assessment of MIP relevant policies*

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<sup>(12)</sup> Idem.

<sup>(13)</sup> See OECD. 2026. "Romania", in OECD Economic Surveys, March 2026. OECD Publishing, Paris. [OECD Economic Surveys: Romania 2026 | OECD](#).

<sup>(14)</sup> See European Commission. June 2025. 2025 Romania Country Report. [2025 European Semester: Country Reports - Economy and Finance](#).

<sup>(15)</sup> See Daniel Kaufmann and Aart Kraay (2025). [Worldwide Governance Indicators, 2025 Home | Worldwide Governance Indicators \(worldbank.org\)](#).

<sup>(16)</sup> See Transparency International. 2026. Corruption Perceptions Index 2025. [Corruption Perceptions Index 2025 - Transparency.org](#)

**Income policies have moderated recently.** Romania adopted a new minimum wage legislation in early 2025 aimed at improving the predictability of minimum wage increases. The legislation links minimum wage increases to productivity gains and inflation to preserve job creation and competitiveness. Against this backdrop, the government decided to increase the gross minimum wage by 6.8% as of July 2026, broadly in line with inflation and productivity developments, after very high ad-hoc increases close to 30% cumulated in 2023, another 12% in 2024 and close to 10% in January 2025. In addition, the government has fulfilled its commitment in the MTFSP to keep public sector wages within the envelope foreseen in the plan and has frozen civil servant remuneration during 2025 and 2026, with a moderating impact on the economy-wide wage growth.

**Strengthening competitiveness and productivity growth through bold structural reforms to promote investment and improve the business environment remains a key ingredient to address external vulnerabilities.** Romania made further progress in simplifying licencing, reducing administrative burden and digitalising public services, including the judiciary. Steps were taken to modernise the tax administration, necessary to limit informality and improve tax collection. Romania has advanced the implementation of EU-funded investment programmes, with a focus on upgrading transport connectivity and electricity networks and advance decarbonisation. The recently set-up Investment and Development Bank should improve access to finance for SMEs in particular, strengthening investment and innovation. The adoption of adjustments to the insolvency legislation aims at streamlining firm restructuring and a more efficient allocation of factors of production. Legislation was updated to improve the monitoring of the weak corporate governance in SOEs and green budgeting was enhanced. The successful implementation of additional reforms included in Romania's RRP would further support competitiveness and reduce macro-economic vulnerabilities.

Table A: **Main policies increasing or reducing risks of imbalances considered in this IDR**

<b>Vulnerability</b>	<b>Policies</b>	<b>Implementation status</b>
<b>Fiscal/External</b>	<i>Policy 1 Fiscal</i> Romania adopted its medium-term fiscal-structural plan (MTFSP) foreseeing a reduction of the budget deficit to 2.5% of GDP until 2031.	Adopted in 2024 for implementation over 7 years
	<i>Policy 2 Fiscal</i> The government adopted a significant fiscal consolidation package in 2025, amounting to ca. 3.7% of GDP, with main measures including increases in VAT, excises and property taxes and a wage and pensions freeze.	Implemented at end 2025, with some important positive spillovers for 2026
	<i>Policy 3 Fiscal</i> An ambitious tax reform to generate additional tax revenues is included in both RRP and MTFSP.	Adopted and implemented in 2025
	<i>Policy 4 Banking supervision</i> The NBR has further kept the countercyclical capital buffer at 1% and issued recommendations on prudent FX lending and distribution of dividends.	Implemented in 2025
	<i>Policy 5 Banking supervision</i> The NCMO recommended the government to	Implemented in 2025

	increase the effectiveness of government credit guarantee programmes.	
	<i>Policy 6 Public sector wages</i> MTFSP commitment to reducing personnel expenditure by approximately 1 pp of GDP between 2025 – 2031, including the recent freeze in public sector wages in 2025 and 2026.	To be designed and adopted in the course of 2026
<b>Cost competitiveness</b>	<i>Policy 1 Minimum wage</i> The minimum wage reform improves the predictability of minimum wage increases in line with productivity gains and inflation.	Implemented in 2025
<b>Non-cost competitiveness</b>	<i>Policy 1 Infrastructure</i> Further significant progress with building up transport infrastructure	Implemented in 2025 and in the course of 2026
	<i>Policy 2 Digitisation</i> Progress with the digitisation of public administration and enhancing cybersecurity	Implemented in 2025
	<i>Policy 3 Judiciary efficiency</i> Strengthening digitisation in the judiciary sector	Implemented in 2025
	<i>Policy 4 Green transition</i> Progress with the green transition in terms of green budgeting and one-stop shops (RRP)	Implemented in 2025
	<i>Policy 5 Access to finance</i> Setting-up the Investment and Development Bank	Implemented in 2025
	<i>Policy 6 SOEs</i> Updated legislation and improved monitoring of the weak corporate governance in SOEs (RRP)	Implemented in 2025 and in the course of 2026

Note: This table lists the main measures that may increase or reduce the risks of macroeconomic imbalances. The measures are described more at length and reviewed in the text of this IDR.

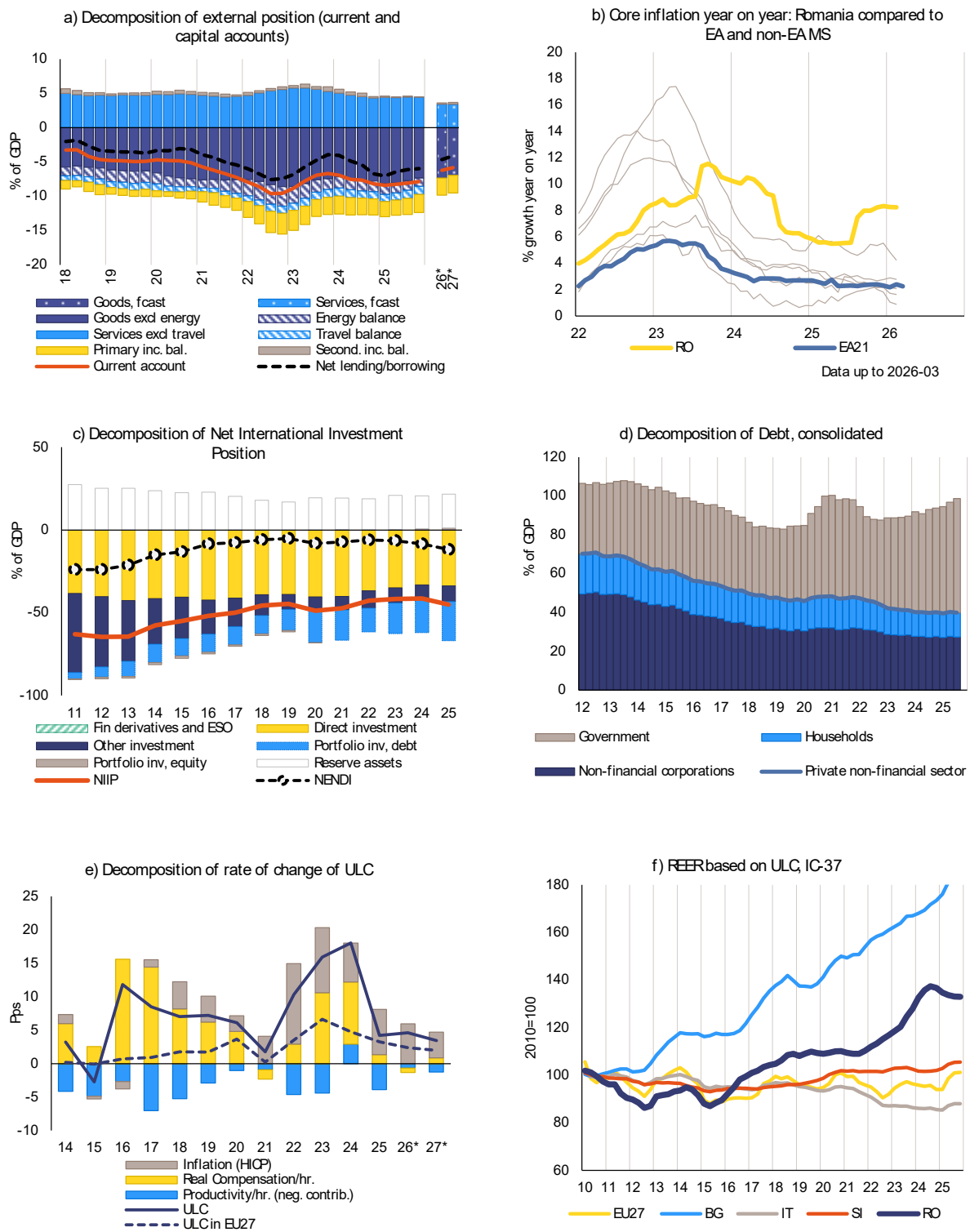
## Conclusions

**Romania continues to face vulnerabilities related to large fiscal and external deficits.** Despite an improvement in 2025, the fiscal and external deficits remain large. Borrowing costs for the sovereign are still elevated, also due to the high sovereign-bank nexus, and Romania's sovereign credit rating is just at investment grade, calling for further fiscal adjustment. At the same time, unit labour costs are decelerating considerably from very high growth rates of earlier years. Advances in transport infrastructure projects and additional structural reforms under the RRP supported exports and external competitiveness. Moreover, overall macroeconomic risks receded, domestic and external debt stocks are moderate and the banking sector has remained resilient.

**The bold fiscal consolidation packages adopted in 2025 were an important step in addressing Romania's vulnerabilities, but the current policy stance needs to be maintained.** Comprehensive fiscal measures, in particular the freeze in public sector wages and pensions and the increase in VAT and other taxes, put the government deficit on a

downward trajectory and allowed Romania to start regaining investor confidence. The ambitious fiscal consolidation has also led to more prudent income policies and a strong moderation in private consumption while the planned minimum wage adjustment in July 2026 seems to support efforts to improve cost competitiveness. These policy measures stifled imports and helped putting the large current account deficit on a gradual downward path, while its financing mix has become more robust. Nevertheless, without further vigorous fiscal consolidation in line with EDP recommendations, complemented by prudent income policies and structural reforms as outlined in the RRP and the European Semester Country-Specific Recommendations, Romania remains vulnerable to high interest rates and changes in investor sentiment.

Graph 2.1: Selected graphs, Romania



Source: ECB, Eurostat, and European Commission forecasts and calculations.

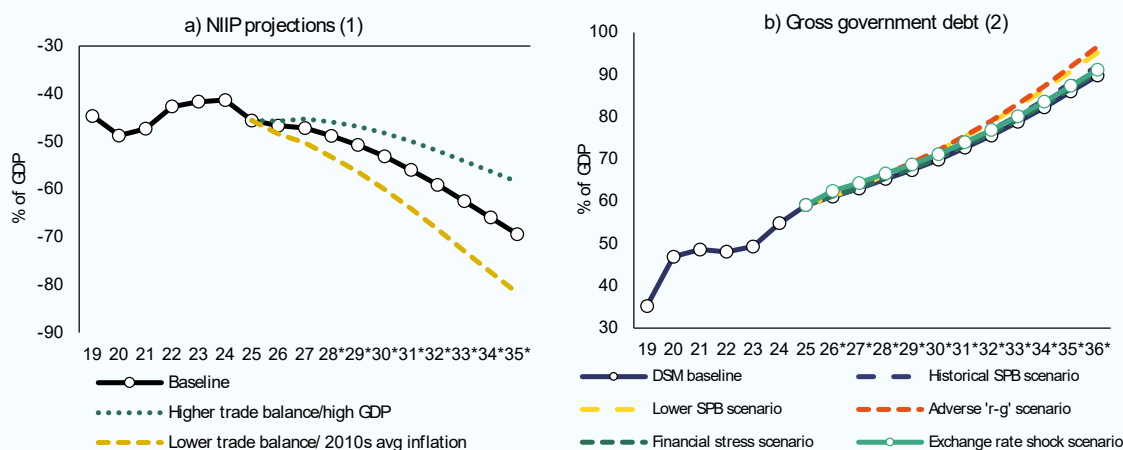
### Box 2.2: Medium-term external and government debt projections

This Box summarises external and government debt-to-GDP projections for Romania over the next decade, based on scenario analysis. It covers diverse scenarios to take into account different underlying assumptions and to understand how they affect the debt trajectories, as well as the outcomes of the latest government debt sustainability analysis conducted by the Commission.

**Romania's net international investment position (NIIP) is projected to worsen further under current trends, despite a forecasted trade balance improvement.** Under the baseline assumptions (based on the 2025 autumn forecast) for GDP growth, and the trade deficit projected to stay at  $-3.49\%$  of GDP beyond 2027, the NIIP is projected to worsen, as a deteriorating income balance coincides with weakening nominal GDP growth over the next decade (Graph 1a). In an adverse scenario of a  $4\%$  of GDP trade deficit over the entire projection horizon and an annual inflation assumed to be equal to the average of the decade of the 2010s, i.e., on average 1.4 pps below the baseline, the NIIP would further decline to around  $-82\%$  of GDP by 2035. Even under an optimistic scenario with a narrower trade deficit and higher real growth, the Romanian NIIP would fall to  $-58.4\%$  of GDP. Under any scenario, the Romanian NIIP would thus remain beyond the prudential threshold of  $-50\%$  of GDP. Immediate risks are partly mitigated by the fact that around 35 pps of GDP of net liabilities are composed of FDI. The NENDI (NIIP net of non-defaultable instruments) currently accounts for a small though widening part of the NIIP.

**Medium-term fiscal sustainability risks for Romania are high, whereas long-term fiscal sustainability risks are medium<sup>(1)</sup>.** The debt sustainability analysis carried out by the Commission indicates that, under the baseline scenario, the government debt-to-GDP ratio is projected to increase to around  $70\%$  in 2030 and to around  $86\%$  in 2035 (Graph 1.b). The increase in the government debt ratio is largely driven by the assumed structural primary deficit of  $2.3\%$  of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027). To assess the impact of changes in key assumptions, the baseline scenario is stress tested against alternative deterministic scenarios; by the end of the projection period, the debt ratio would exceed the baseline the most in the case of the adverse interest rate-growth differential scenario, in which the interest rate-growth differential deteriorates by 1 pp. compared with the baseline (Graph 1b).

Graph 1: External and government debt projections, based on scenario analysis for Romania



(1) The baseline NIIP projections are based on the Commission's medium-term forecasts for GDP and interest rates. Additionally, assumptions are made about the drawdown of NGEU and MFF funds, and the median value of the last three years is used for non-investment income. The 'higher trade balance/high GDP' scenario assumes higher trade balance in 2025 and beyond, with the difference to the baseline calculated as half the interquartile range of the annual 10-year average change in trade balance to GDP ratios over 2014-2024 and additionally reflects a permanent 1 pp increase in GDP growth relative to the baseline scenario. The 'lower trade balance/2010s avg inflation' scenario assumes a change in the trade balance of the same size as the previous scenario but with an opposite sign and, in addition, reflects a change rate in the GDP deflator equal to the country-specific average change rate in the GDP deflator observed over the 2010s.

(2) The projections for government debt are taken from the Debt Sustainability Monitor 2025. The DSM baseline is stress-tested against alternative deterministic scenarios to assess the impact of changes in key assumptions: the 'historical structural primary balance (SPB)' scenario, in which the SPB returns to its historical 15-year average of  $-2.6\%$  of GDP; the 'lower SPB' scenario, in which the SPB is 0.5 pp. lower than in the baseline; the 'adverse interest rate-growth differential' scenario, in which the interest rate-growth differential is 1 pp. higher compared with the baseline; and the 'financial stress' scenario, in which market interest rates temporarily increase by 1 pp. compared with the baseline; the 'exchange rate shock' scenario: in which, for 2026, the exchange rate varies by the maximum annual change in the country's exchange rate observed over the last 10 years, after which the baseline assumption prevails (no appreciation or depreciation afterwards).

**Source:** Eurostat, Debt Sustainability Monitor 2025, European Commission forecasts and calculations.

(1) The sustainability risks and debt projections presented here are based on the European Commission (2026), Debt Sustainability Monitor 2025, [European Economy Institutional Paper 332](#).

(Continued on the next page)

Table 2.1: Key economic and financial indicators, Romania

	average 2017-2019	average 2020-2022	2023	2024	2025*	forecast	
						2026	2027
<b>Output and Prices</b>							
Real GDP (1 year % change)	5.9	2.0	2.3	0.9	0.7	1.1	2.1
Real GDP per capita (1 year % change)	6.4	2.6	2.2	0.9	0.8	1.2	2.1
GDP deflator (1 year % change)	6.0	7.2	12.4	9.6	8.2	6.8	5.8
Harmonised index of consumer prices (1 year % change)	3.0	6.1	9.7	5.8	6.8	5.9	3.8
Core inflation (HICP excluding energy, food, alcohol and tobacco) (1 year % change)	1.8	3.7	9.7	8.4	6.6	5.6	3.9
<b>External position</b>							
<b>Current account balance, balance of payments (% GDP, 3y average)</b>	<b>-3.2</b>	<b>-6.0</b>	<b>-7.8</b>	<b>-8.1</b>	<b>-7.6</b>	<b>-7.4</b>	<b>-6.7</b>
Current account balance, balance of payments (% of GDP)	-4.2	-7.3	-6.7	-8.2	-7.9	-6.2	-5.8
of which: trade balance (% GDP)	-3.4	-5.7	-4.9	-6.0	-5.2		
of which: income balance (% GDP)	-0.8	-1.6	-1.8	-2.2	-2.6		
Current account norm (% of GDP) (1)	-0.4	0.0	-0.2	-0.2	-0.2	-0.2	-0.1
Current account req. to reach fund. NIIP (% of GDP) (2)	-3.0	-2.6	-1.7	-1.3	0.0		
<b>Net international investment position (% of GDP)</b>	<b>-46.7</b>	<b>-46.2</b>	<b>-41.6</b>	<b>-41.3</b>	<b>-45.1</b>	<b>-47.1</b>	<b>-48.4</b>
NENDI - NIIP excluding non-defaultable instruments (% of GDP)	-6.2	-7.1	-6.5	-8.4	-11.8		
Net lending-borrowing (% of GDP)	-3.0	-5.3	-3.9	-6.7	-6.0		
<b>Competitiveness</b>							
<b>Nominal unit labour cost index per hour worked (3y % change)</b>	<b>24.0</b>	<b>18.9</b>	<b>30.2</b>	<b>51.0</b>	<b>42.6</b>	<b>28.7</b>	<b>12.8</b>
Nominal unit labour cost index per hour worked (1 year % change)	7.6	6.0	15.9	18.0	4.2	4.6	3.5
<b>Real effective exchange rate - 42 trad. part., HICP defl. (3y % change)</b>	<b>-2.0</b>	<b>2.4</b>	<b>6.8</b>	<b>9.7</b>	<b>11.7</b>	<b>8.1</b>	<b>7.1</b>
Real effective exchange rate - 42 trading partners, HICP deflator (1 year % change)	0.1	0.9	5.5	2.7	3.1	2.6	1.7
<b>Export performance against advanced economies (3y % change)</b>	<b>11.5</b>	<b>5.4</b>	<b>6.8</b>	<b>2.0</b>	<b>6.3</b>	<b>4.7</b>	<b>7.9</b>
Export performance against advanced economies (1 year % change)	3.0	1.2	5.4	-2.6	5.7	3.2	2.4
Core inflation differential vis-à-vis the euro area (pps.)	0.8	1.6	4.7	5.6	4.2	3.4	1.9
<b>Corporations</b>							
<b>Non-financial corporate (NFCs) debt, consolidated (% of GDP)</b>	<b>32.7</b>	<b>31.4</b>	<b>28.4</b>	<b>27.7</b>	<b>27.4</b>	<b>27.4</b>	<b>26.9</b>
NFC (excl. FDI) credit flow, cons. (% debt stock t-1, excl. FDI)	2.1	10.2	11.6	10.1	15.2	13.0	10.6
<b>Households and housing market</b>							
<b>Household debt, consolidated (% of GDP)</b>	<b>15.8</b>	<b>15.3</b>	<b>12.7</b>	<b>12.5</b>	<b>12.8</b>	<b>13.2</b>	<b>13.5</b>
Household debt, consolidated (% of GDI)	24.3	22.8	19.5	18.5	20.8		
<b>Household credit flow, consolidated (% debt stock t-1)</b>	<b>7.7</b>	<b>5.8</b>	<b>4.3</b>	<b>10.9</b>	<b>11.5</b>	<b>10.6</b>	<b>10.3</b>
<b>House price index, nominal (1 year % change)</b>	<b>5.0</b>	<b>5.4</b>	<b>3.3</b>	<b>5.0</b>	<b>5.7</b>	<b>5.0</b>	<b>5.0</b>
House prices over/undervaluation gap (3)	-5.6	-10.3	-18.1	-23.2	-25.4		
Standardised price-to-income ratio	71.5	61.7	52.6	48.2	47.3		
Building permits (m <sup>2</sup> per 1000 inh)	542.3	591.6	456.3	461.7	509.4		
<b>Government</b>							
<b>General government gross debt (% of GDP)</b>	<b>35.0</b>	<b>47.9</b>	<b>49.3</b>	<b>54.8</b>	<b>59.1</b>	<b>61.1</b>	<b>62.7</b>
General government balance (% of GDP)	-3.2	-7.7	-6.7	-9.3	-8.4	-6.2	-5.9
<b>Banking sector</b>							
Return on equity of banks (%)	12.5	12.6	16.8	17.7			
Tier-1 capital ratio banking sector (% risk-weighted assets)	18.1	20.5	19.9	20.9			
Gross non-performing loans, domestic and foreign entities (% gross loans)	5.3	3.4	2.5	2.6	3.0		
Cost of borrowing for households for house purchase (%), new loans	4.9	4.8	7.3	6.4	5.9		
Cost of borrowing for NFCs (%), new loans	5.4	5.7	9.0	8.2	8.9		
<b>Labour market</b>							
<b>Unemployment rate (% labour force Y15-74)</b>	<b>5.4</b>	<b>5.8</b>	<b>5.6</b>	<b>5.4</b>	<b>6.1</b>	<b>5.8</b>	<b>5.6</b>
<b>Labour force participation rate - % pop. aged 15-64 (3y change in pp)</b>	<b>2.9</b>	<b>3.0</b>	<b>2.7</b>	<b>1.8</b>	<b>0.3</b>	<b>0.1</b>	<b>-0.4</b>

\*If actual data were unavailable at the cut-off date, forecast or nowcast data are presented instead

(1) Current accounts in line with fundamentals (current account norms): derived from reduced form regressions capturing the main determinants of the saving-investment balance, including fundamental determinants, policy factors and global financial conditions. See Coutinho, Turini, and Zauggner (2018), "Methodologies for the Assessment of Current Account Benchmarks", European Economy, Discussion Paper 86, DG ECFIN, European Commission

(2) Current account required for a specific NIIP target: calculations make use of Commission's T+10 projections. See Coutinho, Turini, and Zauggner (2018), "Methodologies for the Assessment of Current Account Benchmarks", European Economy, Discussion Paper 86, DG ECFIN, European Commission

(3) House prices over/undervaluation gap: is the simple average of the price-to-income, price-to-rent and model valuation gaps. The model valuation gap is estimated in a cointegration framework using a system of five fundamental variables: total population, real housing stock, real disposable income per capita, real long-term interest rate and price deflator of final consumption expenditure. Based on Philipponnet and Turini (2017), "Assessing House Price Developments in the EU", European Economy, Discussion Papers 48, DG ECFIN, European Commission

**Source:** Eurostat and ECB; European Commission for forecast figures (Autumn Forecast 2025).