CFA Society Romania

FY 2026
Macroeconomic Outlook

7th OCTOBER 2025

CFA Society Romania FY 2026 Macroeconomic Outlook[1]

Key highlights

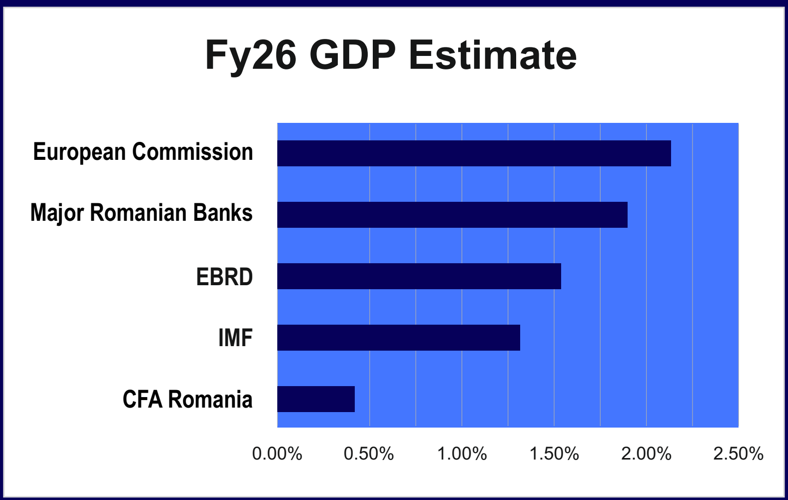
- Difficult year ahead, amid major concerns regarding political risk and adjustment of the fiscal deficit
- Gross domestic product in FY26 will hover around 0 – 0.5%, accessing EU funds is key to resume economic growth from FY27 onwards
- Inflation will remain at elevated levels in the context of likely further tax increases and continuing high budget deficits
- The foreign exchange rate is likely to resume its gradual depreciation in the context of high inflation and large economic imbalances
- Fiscal policy will continue to tighten via tax increases and financial repression with negative effects on the demand

Macroeconomic estimates

In FY26, the GDP growth will remain modest, with headwinds coming from local conditions: unpredictable and discretionary fiscal policy and the need for further fiscal consolidation, decreasing of real wages in the context of high inflation and decelerating of wages growth, reducing contribution to growth of the constructions and IT sectors and others. The disinflation process will probably resume in the second part of the year, with the fiscal policy remaining the most important risk to inflation. Interest rates will remain elevated in the context of high and persistent inflation.

1. Gross Domestic Product evolution

- In September, the Q2 GDP data was published, data which showed basically a stalling economy (+0.3% yoy) and half year (also +0.3% yoy on gross data). The growth data was positive due to a technicality – the downward revision with 0.5pp of the 2024 Q2 data. The negative evolution of the economy is shown by the gross value added, which was at -0.2% in the first half of the year, while the difference to 0.3% being attributed to taxation. The main positive contributors to this GDP in the first half of the year were the private consumption 0.9pp, stocks 0.8pp and investments 0.8pp, while net export had a contribution of -1.4pp.
- The higher frequency data, as of July 2025, points to mixed results: on the one hand, constructions had a positive evolution (+12% yoy), coming from all three components - investments in infrastructure, residential and non-residential buildings, and retail sales were still in expansion amid steep deceleration. On the other hand, services for both individuals and companies are stalling and industrial production is still on negative territory (nevertheless there are some signs of stabilization from industrial new orders and sales).
- Hence, for 2025, the economy will be probably stalling, with GDP growth around 0%, with risks on the downside, as recession risk continues to be present.
- For FY26, there will be more headwinds to the economic growth. The private consumption will continue to decelerate in the context of decreasing purchasing power as a result of inflation and further increase in taxation. The fiscal impulse, in the context of unsustainable budget deficits, will continue to be negative.



[1] Since 2024, every year in September-October, we are issuing the macroeconomic overview for the coming year, as a support for companies in their forecasting and budgeting efforts.

- In this context, the GDP growth rate will remain modest, probably around 0.5%, pending Romania being able to get European funds. Risks are on the downside.
- This is a consequence of a procyclical fiscal policies, which tend to increase the amplitude of economic cycles by increasing taxation when economy is weak, due to lack of fiscal space.
- A key to resume economic growth for FY27 onwards is accession of available EU funds.

2. Taxation

- The most notable tax increase in FY25 has been the increase in VAT rate, from 19% to 21% (which is closer to the EU average of 21.4%).
- We foresee additional tax increases likely in FY26, due to the high need of fiscal consolidation under the conditions that the budget deficit will likely not go lower than 8%[2] of GDP this year. Further tax spikes likely to be implemented in FY26 (some of them already announced):
    - Increase in property taxation (although impact to total tax revenue is small – probably less than 0.1% of GDP)
    - Capital taxation. Romania historically had one of the lowest capital taxation in the European Union. There is already planned increase in dividend tax rate and capital gains tax rate (from 10% to 16%) as well as a small increase for capital market transactions. Again, however, given the weight of capital taxation in the total tax revenue, the impact is likely to be small (less than 0.5% of GDP).
    - VAT is likely to increase again in FY26 by 1pp to 22%, in parallel with a revisit and reduction of span of transactions with preferential VAT rates (e.g. horeca, others). VAT is the largest single contributor to the tax revenue (not counting social security contributions).
    - Excise duties. There was already an excise duty increase of 10% in August 2025, with further increases probable in FY26 especially for energy products. Both VAT and excise duty increases will put continuous pressure on inflation.
    - Social security is unlikely to increase in FY26 to the relatively high burden of labour taxation. However, we will potentially see a continuous effort to consolidate the tax base based on the contributivity principle with reduction of number and span of beneficiaries of social security without contribution.
    - Other aspects (progressive taxation, generalized increase in property taxation) are unlikely to change in FY26 due to timing of implementing the necessary changes.
- Increases in taxes without a cost reduction agenda is unsustainable. There are second half of FY26 – the base effect from VAT increase starting with August 2025. Hence, for end year end 2026, the inflation rate may drop in the 6%-7% range. A more significant drop in inflation may come in a negative scenario such a recession. and to deliver results on digitalization of the tax administration.

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[2] Source: CFA Romania Confidence Indicator, September 2025.

3. Inflation, consumption and interest rates

- A possible downward pressure on inflation may come in FY26 from reducing oil prices. In the context of Saudi Arabia increasing oil production in order to keep its market share, oil prices are expected to drop in the 50s range. Nevertheless, that drop in oil prices may be canceled by further increase in excises during FY26.
- In the context of high stock on public debt and high budget deficits (which are inflationary), there may be a temptation from the government to register higher inflation rates in order to devaluate the public debt, that way, and increase budget revenues. Moreover, a pro-cyclical fiscal policy is reducing the effectiveness of the monetary policy. Hence, for the following years we may expect an environment with high inflation.
- The interest rates will remain elevated, in the context of high inflation, but in the real negative territory (i.e. lower than inflation), given the need of government to finance its debt.
- Although the current rate of inflation could have been triggered increase in key policy rates, given the weak economy, and the procyclical fiscal policy, which does not have fiscal space to be expansionary, probably, for the rest of FY25 and the first half of FY26, key policy rate will be kept at the current level. An earlier cut in the key rate may come in the negative scenario of recession.
- Depending on inflation performance, a key rate cut of 25-50 bps could come in the second half of FY26.
- Higher interest rates may happen in a negative scenario of Romania being downgraded to non-investment grade. This scenario is still relevant in our opinion and not totally unlikely.

In this context, although the negative real interest rates will be a tailwind for private consumption, a headwind will come from decrease in real wages in both FY25 and probably FY26 as well as from the base effect. Hence, in FY26, the private consumption will continue to decelerate.

4. Exchange rates

- Before the 2022 energy crisis, RON depreciated against EUR with 2%-3% per year, in line with inflation differential between Romania and Eurozone. As a result, it had a neutral effect on the Romania's external competitiveness.
- Starting with 2022, in the context of high inflation environment, EURRON exchange rate was used as a anti-inflationary target. Hence EURRON was stable around 4.97. This policy was abandoned in May 2025. In the context of high capital outflows caused by risk aversion generated by the Romanian elections.
- Hence the gradual RON depreciation, in line, more or less with Romania – Eurozone inflation differential, will probably be resumed.
- In this context, the expectation for EURRON exchange rate for FY26 is in the range of 5.15-5.20. Higher depreciation may happen in a negative scenario in which political risk is materialized or Romania is downgraded in the non-investment grade rating.

5. Competitiveness and innovation

- Romania consistently lags behind in the European Union's competitiveness index[3] with the only exception being Bucharest (which is comparable to e.g. Germany, in the latest iteration of the index).
- Romania also continues to have the lowest R&D expenditure relative to GDP (0.5% of GDP, compared with an EU average of 2.2%) and lowest number of R&D employees (less than 0.5% of total labor force[4]). These numbers affect labor productivity and external trade, both further discussed below.

6. Labor market

- The Romanian labor market continues to be characterized by well-known structural deficiencies: (i) low labor rate participation – especially among women and young graduates and (ii) weakening demographics.
- Romania has one of the highest gaps between women and men labor participation rates in the EU (with a worsening trend in the last 10 years), and one of the highest number of young people (aged 18-25) not in employment, training or education[5] which continues to put pressure on the labor market.
- A characteristic of FY25 however (a trend we believe will continue in FY26) is the stabilization of the number of workers in various industries, thus reducing the pressure on new resources. This is coupled with a tendency of salaries not keeping up with inflation; even so, we do not expect the unemployment rate to spike, given the relatively high number of persons engaged in unremunerated work and gig workers etc.
- Also, since in the last years the gross salaries increased much more than inflation and productivity, there will be additional downward wages, as Romania enters the “war for talent” with other EU jurisdictions but also with cheaper Asia (competition for resources).
- Weakening demographics are shown by increasing number of retirees supported by people in employment, which is shown by the deepening old age dependency ratio (31% in FY24 compared to 30 in Fy23). This is still lower than the EU average of 34%.
- Taxation of labor remains relatively high compared to other EU countries and FY25 has seen closing the gap of salary taxation in certain industries (constructions, IT and agrifood).
- Also, the last 14 years saw a 4.5 times increase in gross wages (450%). In the same period, inflation was only 80%. Wage productivity in real terms increased by only 40%[6]. At the same time, Romania's average worker cost for hours is now very close to Central Europe (only 10-15% lower on average) which will continue to put downward pressure on investments.

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[3]A https://ec.europa.eu/regional_policy/assets/regional-competitiveness/index.html#/

[4]All Eurostat data for last reference year 2023.

[5]All Eurostat data for last reference year 2023.

[6]All Eurostat data for last reference period 2024.

7. Selected industries

- In the first seven months of 2025 industrial production continued to decrease. But some signs emerged that we may have reached the bottom, as there seems to be some pick-up in both orders and industrial sales. Hence we may expect some stabilization of the industrial production in 2026.
- In the first seven months of 2025 constructions activity picked (+12.2%) up for all its segments: infrastructure (+16.3%), residential (+9.7%) and non-residential (+6.2%) areas. For 2026, probably there will be a deceleration for all the segments in the context of reducing public spending, reducing purchasing power as well as the base effect.
- The IT services sector, which in the previous years was a driver for the GDP growth, stalled in 2024 and is decreasing in the first 7 months of 2025. This development come in the context of AI implementation in the IT services industry and layoffs (for some big tech companies for the first time in their history). Hence, also in 2026, we may be in a situation of stalling of this sector, with risks being on the downside.

8. Risks - both internal and external

- *Political risk* – government coalition is fragile, and hence risk of reforms being derailed is high.
- *Geopolitical risk* - Romania is bordering a conflict zone; hence the risk of conflict escalation remains present, though lower than in previous years.
- *Fiscal risk* - In the context of high budget deficit there is high risk that taxation and financial repression will continue to increase also in FY26, for both consumers and companies, further reducing purchasing power and investment potential.
- *Financial risk* – The risk of being downgraded from investment grade remains present, in our view considering that Romania will be running unsustainable twin deficits for the next 3-4 years. In case of powerful external shocks or global high-risk aversion episodes, those deficits may become very hard to be financed. These deficits will also pose a risk to Romania's credit rating.
- *Compliance risk* - Risk of Romania not willing (due to lack of political will to conduct reforms) or not being able to access its EU funds (due to not complying to its budget deficits targets).

Authors

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Alexandra Smedoiu is a Partner at Deloitte, with over 20 years of experience in capital markets. She has held the CFA® charter since 2011 and holds a PhD in Economics, specializing in public fiscal policy. Throughout her career, Alexandra has been involved in the structuring and implementation of complex transactions in areas such as mergers and acquisitions, financial restructurings, and strategic advisory. She has contributed to the development and improvement of Romania's tax legislation, having a significant impact on increasing transparency and efficiency in the financial market.

Alexandra is a member of the ACCA (Association of Chartered Certified Accountants), the Romanian Chamber of Tax Consultants, and the Chartered Institute of Taxation in the United Kingdom—credentials that reflect her commitment to the highest professional standards. As Vice President of CFA Society Romania, she actively promotes continuous education and professional development in the financial field, supporting the ethical and professional standards of the industry.

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Adrian Codirlașu has over 25 years of experience in the banking sector, with a strong specialization in risk management, financial markets, and macroeconomics. He has held the CFA® charter since 2006 and holds a PhD in Economics with a focus on International Finance, which gives him a deep understanding of the dynamics of financial markets and global economic instruments.

Adrian Codirlașu is an Associate Professor at DOFIN – the Doctoral School of Finance within the Bucharest University of Economic Studies, where he teaches courses in econometrics, financial markets, derivatives, fixed income instruments, and risk management. As an educator, he shares his expertise with the next generation of finance professionals, promoting both theoretical and practical understanding of financial instruments and risk management in a globalized context.

As President of CFA Society Romania, Adrian Codirlașu plays an active role in promoting financial education and professional standards in the financial industry, supporting the continuous development of the sector and the formation of professionals with a high level of competence and integrity.

About CFA Society Romania:

CFA Society Romania is the organization of investment professionals in Romania who hold the Chartered Financial Analyst (CFA®) designation, a qualification administered by the CFA Institute (USA). CFA Society Romania is one of over 160 member organizations of the CFA Institute and its mission is to promote the interests of investment professionals and to uphold high standards of integrity and professional excellence.

Currently, CFA Society Romania has over 270 members who hold the Chartered Financial Analyst (CFA®) designation. The CFA community also includes approximately 140 candidates at various levels of the CFA program examination. The professionals who are members of the CFA Society Romania work in regulatory institutions, supranational organizations, banks, insurance companies, brokerage firms, asset management companies, pension funds, consulting firms, the public sector, educational institutions, and companies operating in various economic sectors.

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