

MACROECONOMIC OUTLOOK FOR ROMANIA IN 2025

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Abstract

The macroeconomic climate deteriorated in Romania in 2024, as the annual dynamics of the fixed investments decelerated, under the pressure of the multiple challenges and uncertainties, including the stance of the public finance in the electoral context. The most recent available estimates point to the increase of the GDP by an annual pace below 1% for the period January – September 2024, the weakest dynamics since the pandemic year 2020. This paper employs standard econometric tools and uses the database of Eurostat in order to assess the recent macroeconomic developments and to calibrate the macroeconomic forecasts for the main macroeconomic indicators (GDP, unemployment rate, and inflation). According to the results of the methodology, in the core macroeconomic scenario the Romanian economy is forecasted to increase by an accelerating pace in 2025, an evolution supported by the improvement of the net foreign demand and by the continuity of the investment flows (also those oriented for the development of the critical infrastructure). However, we point out to the risk factors, including the deterioration of the climate on the international financial markets and the domestic fiscal policy that may determine a weaker macroeconomic performance, including the loss of the investment grade for Romania in 2025.

Keywords: Romanian economy, investments, net foreign demand, public finance

JEL Classification: C51, C52, E21, E22, F10

1. Introduction

The real and financial sides of the Romanian economy were influenced in 2024 by the international macro-financial climate and by the domestic factors, including the electoral context. There can be noticed the deterioration of the investment climate, in the context of the persistence of the uncertainties and the high level of the interest rates. For instance, the budget deficit/GDP ratio widened significantly in 2024, to almost 9% (the highest level since the pandemic year 2020) determining the continuity of the upward trend for the public debt/GDP ratio (rapidly converging towards 60%). These factors contributed to the severe decline of the economic confidence indicator in December 2024 (towards the lowest level since February 2024), being noticed the deterioration of the components industry, consumer, and retail, according to the European Commission (2025).

On the other hand, the household consumption accelerated in 2024, an evolution supported by the positive climate on the labour market (as the income

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policy was expansionary in the electoral context) and by the slowing-down of the inflationary pressures.

The deterioration of the investment climate corroborated with the unsustainable income policy (the spending with the public wages advanced by over 23% YoY in 2024) resulted in the widening of the international trade gap past year, with the net foreign demand subtracting 1.8pps from the annual pace of the GDP during January-September 2024, according to the provisional data (2) released by the National Institute of Statistics (2025, a).

2025 started in a context of the persistence of the uncertainties at a very high level, either at the world and European levels (given the geo-political tensions and the unknowns regarding the policies to be implemented in USA), or in Romania (the political context and the tough stance in terms of public finance). For instance, the Fitch (2024) decided in December last year to downwardly revise the rating outlook for Romania, from stable to negative, given the high level of political uncertainty, the large budget deficit and the increase of the public debt.

However, the New Administration launched fiscal consolidation measures (including the freezing of the public wages and of the public pensions, as also underlined by Euractiv (2024)) aiming to respect the target for the budget deficit/GDP ratio established with the European Commission (2024) for this year (7%).

Furthermore, the public investment plans (financed by the European Commission) are forecasted to continue in 2025.

In this paper standard econometric tools are implemented and Eurostat database is used in order to assess the recent developments and to forecast the evolutions for the main macroeconomic indicators in Romania (GDP, unemployment rate, and inflation) in 2025.

The results of the econometric analysis express prospects for the continuity of the post-pandemic recovery process in Romania, with an accelerating pace in 2025, unless the climate on the international financial markets deteriorates significantly.

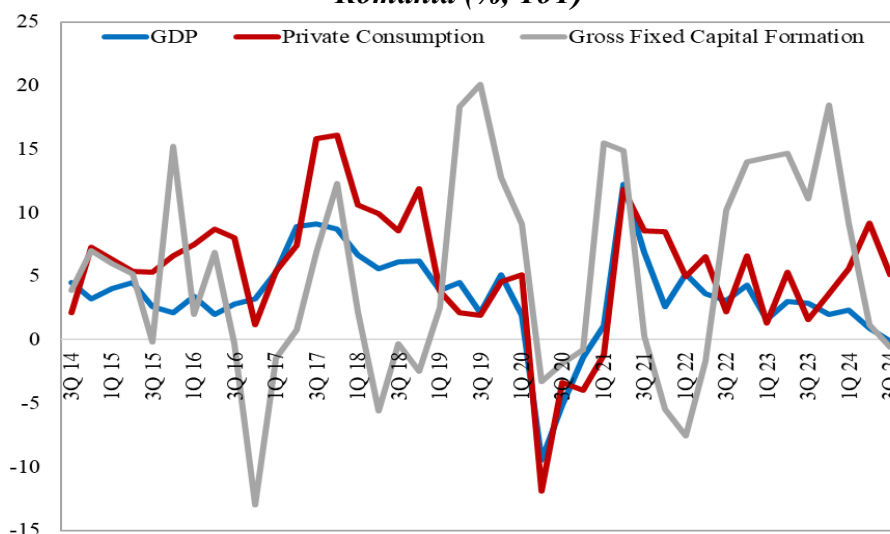
The rest of the paper has the following structure: next chapter focuses on the recent macroeconomic developments in Romania; the third chapter briefly presents the methodology employed; the interpretation of the results is realised in the fourth chapter; the main conclusions are drawn in the last chapter.

2. The Recent Macroeconomic Developments in Romania

The Romanian economy continued the post-pandemic recovery process in 2024, but the annual pace of the GDP deteriorated, due to the international tensions, the tough macroeconomic climate in the European Union (the main economic partner) and the domestic challenges (public finance and political landscape), with negative impact for the investments.

According to the estimates of Eurostat (2025, a) the GDP contracted by 0.1% YoY in 3Q 2024, the weakest performance since 4Q 2020, as the gross fixed capital formation resumed contraction (down by 0.6% YoY), for the first time since 2Q 2022, as can be noticed in the following chart (Figure 1). The deterioration of the investment climate (also confirmed by the decline of the foreign direct investments to EUR 5,852mn during January – November 2024, from EUR 6,611mn a year ago, according to the estimates of the National Bank of Romania (2025)) was determined by several factors, including the widening budget deficit in the electoral context, the persistence of the geo-political tensions and the high levels of the financing costs.

Figure 1. GDP, Private Consumption and Gross Fixed Capital Formation in Romania (% YoY)



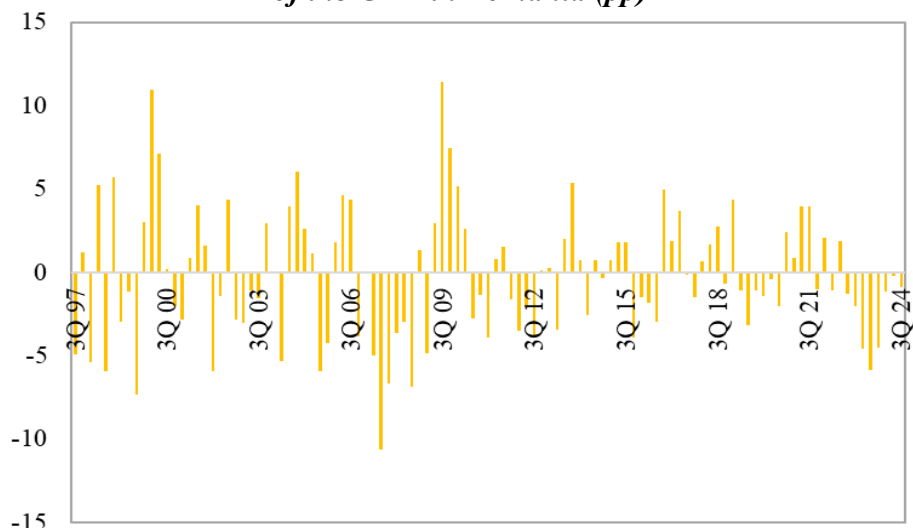
Source: Eurostat (2025)

Furthermore, the volume of the exports declined for the fifth quarter in a row in 3Q 2024, by an intensifying YoY pace to 6.0%, the most severe contraction since 3Q 2020, given the weak dynamics of the economic activity in the European Union and the challenges in terms of international competitiveness of the domestic economy. These challenges are also reflected by the upward trend for the real effective exchange rate of the RON, towards the highest level since the autumn of 2007, according to the estimates of the Bank for International Settlements (BIS, 2025).

Last, but not least, the change in inventories had a negative contribution to the annual pace of the GDP for the eighth quarter in a row in 3Q 2024, the longest timespan since Eurostat publishes quarterly data, as can be noticed in the following chart (Figure 2).

On the other hand, the private consumption (the main component of the GDP, with a contribution of around 62% in 2023) continued to increase by a strong pace in 3Q 2024, above 5% YoY, an evolution supported by the expansionary income policy in the electoral context.

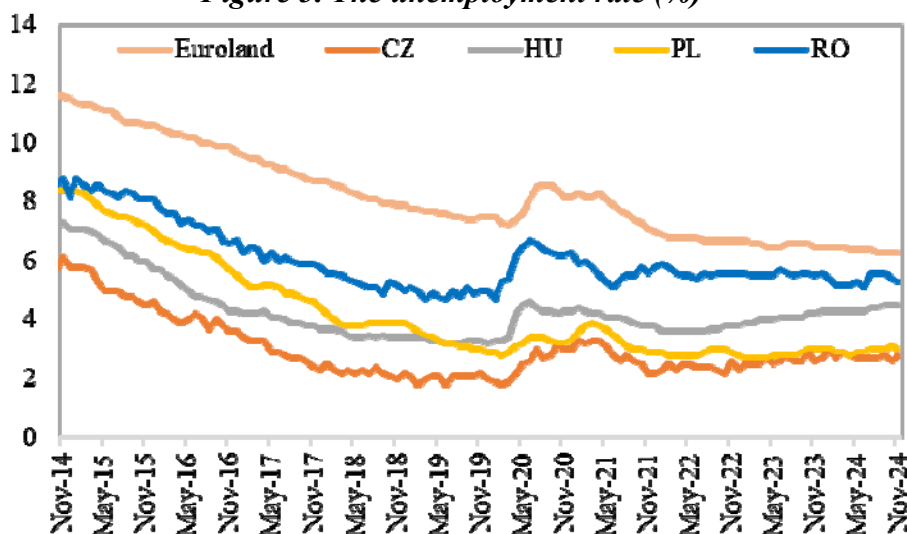
Figure 2. The contribution of the change in inventories to the YoY pace of the GDP in Romania (pp)



Source: Eurostat (2025)

However, despite the deterioration of the dynamics of the GDP the climate on the labour market improved in 2024. The estimates of Eurostat (2025, b) show the decline of the number of unemployed (15 – 74 years) by an average annual pace of 1.3% in Romania in the period January – November 2024. This evolution was in convergence with that in Euroland (down by 1.4%), but in divergence with the developments across the CEE countries. The Eurostat estimates indicate the increase of the number of the unemployed by average annual paces of 5.1% in Poland, 4.0% in Czechia, and 8.5% in Hungary for the period January – November 2024.

The unemployment rate declined for the second month in a row in November 2024, by 0.1pps MoM to 5.3%, the lowest level since June 2024. Consequently, during January – November 2024 the unemployment rate presented an average level of 5.4% in Romania, down from 5.6% a year ago, an evolution in convergence with that in Euroland (down by 0.2pps YoY to 6.4%). In Poland, Czechia, and Hungary the unemployment rate presented average levels of 3.0%, 2.8% and 4.4% for the period January – November 2024, up by 0.1pps YoY, 0.1pps YoY, and 0.3pps YoY, respectively, as can be noticed in the following chart (Figure 3).

Figure 3. The unemployment rate (%)

Source: Eurostat (2025)

On the other hand, the inflationary pressures decelerated in 2024, the consumer prices climbing by an average annual pace of 5.6% (according to the estimates of the National Institute of Statistics, 2025, b), slowing down from 10.5% in 2023. This evolution was mainly determined by the deceleration of the YoY pace for the prices of the food goods, from 15.2% in 2023 to 3.6% in 2024. Furthermore, the prices of the non-food goods and the services' tariffs rose by average annual paces of 5.8% and 8.9% in 2024, weaker dynamics compared to 7.2% and 11.2% in 2023.

In terms of the Harmonised Index of the Consumer Prices (HICP) the consumer prices rose by an average annual pace of 5.9% in 2024, slowing down from 9.7% in 2023.

In the summer of 2024 the National Bank of Romania (2024) initiated a rate cut cycle, given the slowing-down of the inflationary pressures and the deterioration of the pace of the economic activity. The central bank cut the monetary policy rate by 25bps at the meetings in July and August 2024. However, the central bank interrupted this cycle in the autumn of 2024, as the annual pace of the consumer prices persisted above the target, while the risk perception intensified, in the context of the political tensions. Therefore, at the end of 2024 the monetary policy rate stood at 6.50%, down from 7.00% the level of the end of 2023.

At the end of this chapter we point out to the deterioration of the economic confidence in Romania at the end of last year (the indicator estimated by the European Commission declined to the lowest level since February 2024), an evolution determined by the political tensions and the critical stance of the public finance.

3. Methodology

In this paper we applied standard econometric tools and the database of Eurostat and National Institute of Statistics (NIS) in order to forecast the evolutions in the mid-run for the main macroeconomic indicators in Romania – GDP, unemployment rate, and inflation rate.

First of all, the GDP was decomposed from the demand side perspective, as in the following relation:

$$\text{GDP} = \text{Private Consumption} + \text{Gross Capital Formation} + \text{Public Consumption} + \text{Exports} - \text{Imports} \quad (1)$$

Afterwards, the ARIMA (Auto-Regressive Integrated Moving Average) models in order to forecast the evolution of the annual pace of the components of the GDP (as in the previous relation), the unemployment rate and the inflation rate in Romania for the period 2025 – 2027.

The ARIMA model can be expressed by following relation, as emphasized by University of Duke (2025):

$$\hat{y}_t = \mu + \phi_1 y_{t-1} + \dots + \phi_p y_{t-p} - \theta_1 e_{t-1} - \dots - \theta_q e_{t-q} \quad (2)$$

in which $\hat{y}_t$ is the macroeconomic indicator, ϕ_{1-p} represent the Auto-Regressive parameters, while θ_{1-q} are the Moving Average parameters.

As regards the components of the GDP we worked with quarterly observations for their annual pace (unadjusted data, neither seasonally adjusted, nor calendar adjusted dat) from the database of Eurostat (2025, a), for the period 1Q 1996 – 3Q 2024.

For the unemployment rate in Romania we used the monthly observations, seasonally and calendar adjusted data, from Eurostat (2025, b).

In order to forecast the dynamic of inflation in Romania in the mid-run we used the montly observations for the annual pace of the consumer prices (Harmonised Index of the Consumer Prices) from the database of the National Institute of Statistics (2025, b).

The ARIMA models were applied for the macroeconomic indicators, but also for the trend components of these macroeconomic indicators.

The trend component of the macroeconomic indicators was estimated by applying the Hodrick-Prescott (1997) methodology, which is expressed in the following relation:

$$\text{Min} \sum_{t=1}^T (\ln Y_t - \ln Y_t^*)^2 + \lambda \sum_{t=2}^{T-1} ((\ln Y_{t+1}^* - \ln Y_t^*) - (\ln Y_t^* - \ln Y_{t-1}^*))^2 \quad (3)$$

where Y_t , Y_t^* și λ are the macroeconomic indicator, its trend, and the smoothness parameter (the lower its value, the closer is the pace of GDP to its trend).

For the components of GDP (quarterly observations) we applied a parameter of 1600, while for unemployment rate and inflation (monthly observations) a parameter of 14400 was used, as recommended by the article of Hodrick-Prescott.

Before applying the ARIMA models the data were tested for stationarity by applying the Augmented Dickey-Fuller method, as described by Mushtaq (2011).

After we selected the parameters of the ARIMA models and estimating the regressions we started the assessment of the model, by looking at the histogram of the residuals.

The results of the regressions were used eventually in order to calibrate the so-called core macroeconomic scenario, also taking into account the prospects for the evolution of the world economy and the economy of Euroland (the main economic partner of Romania), as outlined by the International Monetary Fund (2024) in the World Economic Outlook, the edition of October 2024.

Last, but not least, in calibrating the forecasts for the evolution of the main macroeconomic indicators in Romania in the mid-run we took into account our assessment regarding the balance of risks (geo-political, macro-financial, and climate), international and domestic.

4. The Interpretation of the Results

According to the calibrated macroeconomic scenario (based on the methodology described in the previous chapter) the Romanian GDP may increase by annual paces improving from around 1% estimated for 2024 to 2.7% in 2025, 3.1% in 2026 and 3.3% in 2027.

In this scenario the post-pandemic investment cycle would continue in the coming quarters, supported by the implementation of the programs to develop the critical infrastructure and by the prospects for the gradual improvement of the macroeconomic climate in Euroland (with impact for the dynamics of the exports) and for the rebalancing of the economic policy-mix in Romania.

In our view the Administration would implement strong measures for the consolidation of the public finance (in order for the budget deficit/GDP ratio to attain the threshold of 7% in 2025), while the central bank would continue to cut the monetary policy rate (by at least 1pp this year), as inflation converges to the target interval (1.5% - 3.5%).

For the private consumption (the main component of the GDP from the demand side perspective, weighting 61.9% in 2023) the forecasts point to the significant slowing-down of the annual pace, from an estimated 6.1% in 2024 to 2.7% in 2025, given the prospects for the increase of the household savings rate (towards the highest level since the pandemic year 2020), in the context of the persistence of the uncertainties and the implementation of fiscal consolidation measures (including the freezing of the public wages and pensions).

However, annual pace of the private consumption would gradually accelerate afterwards, to 3.0% in 2026 and 3.4% in 2027, as inflationary pressures are slowing down (with impact for interest rates), while the wages would continue the convergence process towards the Western European countries.

As regards the public consumption our forecasts point to the increase by annual paces of 1.3% in 2025, 1.7% in 2026, and 1.6% in 2027 (following the estimated stagnation in 2024), as the manoeuvre room in terms of fiscal and income policies is limited, after the significant widening of the budget deficit in 2024 (to around 9% of GDP).

Moving to the net foreign demand, we forecast the gradual improvement of the annual pace of the exports in the mid – run, 1.9% in 2025, 2.3% in 2026 and 2.5% in 2027, after the estimated contraction by over 3% in 2024. This perspective is supported by the prospects for the improvement of the macroeconomic climate in the Euroland and by structural factors, including the full entry into the Schengen area from 1st January 2025.

In our scenario annual pace for the volume of the total imports (goods and services) would decelerate in 2025 (to 1.3%), from an estimated 3.4% in 2024, as the fiscal consolidation process would determine the increase of the savings rate. The annual pace of the imports may accelerate afterwards, to 2.2% in 2026 and 2.4% in 2027 in this macroeconomic scenario.

Across the labour market, the calibrated forecasts point to the gradual increase of the annual rate of unemployment, from around 5.3% in 2024 to 5.5% in 2025, 5.6% in 2026, and 5.8% in 2027. This perspective is supported by the intensification of the implementation of the technological progress (especially in the public sector) and by the prospects for the reform of the public administration.

Also the prospects for the intensification of the mergers and acquisitions across all sectors of the economy and the continuity of the upward trend for the minimum wages would contribute to the increase of the unemployment rate in the coming quarters.

However, the unemployment rate would maintain below the average level in Euroland in the coming years in our view.

Last, but not least, in this calibrated macroeconomic scenario the consumer prices (based on the EU Harmonised Index) would increase by average annual paces slowing down from 5.9% in 2024 to 4.9% in 2025, 4.3% in 2026 and 3.6% in 2027.

The prospects for the evolution of inflation and for the implementation of the measure to consolidate the public finance would contribute to the increase of the manoeuvre room for the central bank to continue to cut the monetary policy rate, by at least 1pp in 2025, and 0.5pps in 2026 and 2027, in our view.

5. Conclusions

The calibrated macroeconomic scenario for the Romanian economy in the mid-run may appear optimistic at the beginning of 2025, taking into account the challenges, international (the geo-political tensions, and the uncertainties associated to the economic policy to be implemented in the United States) and domestic (including the difficult stance of the public finance).

However, we point out that unless the risks intensify the growth pace in Romania may accelerate even more in 2025, as the contribution of the change in inventories to the annual pace of the economy was negative for eight quarters in a row (the longest period over the past decades), while the agricultural output may hit a record high level this year. Furthermore, the full entry into the Schengen area and the impact of the infrastructure projects finished in 2024 and under implementation in 2025 are factors that may contribute to a higher increase of the fixed investments and of the exports.

On the other hand, we point out the risk factors for the evolution of the Romanian economy in the short-run: the possibility of a significant deterioration of the investment climate on the international financial markets; the probability for Romania to be downgraded to junk category by the Rating Agencies (if the fiscal consolidation measures needed for the adjustment of the budget deficit ratio to 7% of GDP are not implemented); the persistence of the geo-political tensions and of the geo-economic fragmentation at high levels; the political landscape in Romania.

In the adverse macroeconomic scenario (if the above-mentioned risk factors materialise) the Romanian economy may be confronted with a severe recession in 2025.

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