

Country Risk Analysis: Romania

**Brief highlights of developments across Dun & Bradstreet's country risk indicators – written as of 11th March 2025*

Short-Term Economic Outlook

- The Romanian economy is slowing. GDP expanded by 0.7% in Q4 2024, dropping from a 1.2% rise in Q3 2024.
- Inflation reduced to 5% in January 2025 from 5.1% in each of the previous two months. While this signals an improvement, it is minor relative to the overall elevated inflation level. The National Bank of Romania held the key interest rate steady at 6.5% in February 2025.
- In 2024, the budget deficit reached ~8.65% of GDP, significantly exceeding the EU target of 3%. To address this budgetary challenge, Romania has introduced a fiscal corrective package.

Long-Term Economic Potential

- Long-term prospects for the Romanian economy will be adversely impacted by its need to stabilise its fiscal position. The restricted government spending will likely damage the economy going forward.
- Demographically, Romania has one of the most rapidly ageing populations in Europe, putting additional pressure on the economy.
- Certain long-term developments are in progress that will bolster the economy. For example, Romania's plans to double electricity production by 2032 will enhance its role as a prominent energy exporter for the region.

Market Potential

- Market potential will be negatively impacted by Romania's concerning budget deficit, as the fiscal corrective package will likely limit the degree of spending in areas such as research and development.
- There has been significant disruption to markets caused by boycotts on supermarkets (following similar actions as Croatia and Bulgaria) in response to rising prices.
- In January 2025, Romania's minimum wage rose by 22.7% compared to January 2024. This increase in disposable income will increase consumption, driving market activity, albeit with heightened inflationary pressure.

FX Risk

- The Romanian Leu has experienced stable exchange rates in Q1 2025, closing at 4.98 RON/EUR. However, the rising political instability in the country will exert downward pressure on the currency.
- Between January and February 2025, Romania's FX reserves increased from €69.81b to €71.76b, indicating a positive sign for FX prospects.
- The Romanian government issued two FX bonds in January and February this year, worth an approximate total of \$2.25b. This issuance is intended to generate capital so the government can maintain spending. As a direct impact, this would likely cause a depreciation in the Leu as the bonds are denominated in Euros and US dollars (there would be increased demand for these currencies).

Transfer Risk

- Foreign banks are actively increasing their presence in Romania, which will increase the ease of currency convertibility. For example, Poland's largest Bank Polski and Hungary's digital Granit Bank expanded their operations in Romania this year.
- The government is enhancing the regulation of the local cryptocurrency market, which would have a dual impact on transfer risk. On one hand, transfer risk would be reduced from the perspective of transaction reliability and compliance. On the other hand, transfer risk would be increased due to more administrative processes that would complicate currency conversion.
- The far-right-induced political turmoil taking hold in Romania will result in greater transfer risk, as there may be a case of capital flight with businesses moving their assets out of Romania.

Business Regulatory Environment

- The government's need to address its budget deficit problem will increase the burden on businesses from a tax perspective. For example, the tax rate on dividend income was increased from 8% to 10% in January.
- The Romanian government has extended the cap on electricity prices until June 2025 and has extended the cap on gas prices until March 2026. While this has some positive impacts by instilling price stability into the markets, it is nevertheless restrictive from a business activity perspective.

Business Continuity Risk

- Business continuity will be supported by infrastructure initiatives. For example, Prime Minister Ciolacu has stated that over 200km of highways and express roads are planned to be built in 2025.
- Cross-border travel restrictions are being eased further which will stimulate business activity. Earlier this year, Romania became a full member of the Schengen area, which will simplify travel for Romanians within Europe. Moreover, starting from 31st March 2025, Romanians will be able to travel visa-free to the US.
- However, the turbulent political backdrop with a threat from the far-right may reverse the positive momentum for cross-border travel, as there may be increased hostility between Romania and other countries in the future.

Political Insecurity Risk

- The political situation in Romania remains volatile. The 2024 election (in which far-right candidate Georgescu was leading) was annulled by the Constitutional Court, pointing to illegal campaign funding and cyberattacks related to Russian interference.
- The annulled election is expected to be re-run in May 2025 and on 9th March it was announced that Georgescu has been banned from running in the upcoming election. This sparked violent protests in Bucharest. The growing sense of public discontent will likely continue to fuel far-right sentiment in Romania.
- Against this backdrop of political instability, deeper geopolitical concerns have also emerged. For instance, recently Macron warned that Romania would eventually be threatened if Russia's territorial expansion continues.

Expropriation/Nationalisation Risk

- Georgescu's campaign called to return companies operating in strategic sectors (such as energy and water) back to Romanian state ownership. However, the fact that Georgescu was banned

from the upcoming election means that his potential policy measures no longer pose an immediate risk of strengthened expropriation/nationalisation trends.

- It is necessary to consider that as a member of the EU, Romania is restricted by the EU's internal market rules. This means that any attempts of nationalising foreign-owned assets would result in various legal challenges.

I have rated Romania's overall outlook as deteriorating because the significant political upheaval will likely intensify in the foreseeable future. On the economic front, developments have been mixed, leaning more towards stagnation than expansion.

Following the annulled election in December 2024, the political tensions in Romania are intensifying amidst growing concerns regarding its institutional legitimacy and democratic structures. This has resulted in rising civil discontent and a strengthening far-right sentiment across Romania. In fact, the unstable political environment has reached a stage where it is now directly disrupting business activity and supply chains. Economically, Romania has seen a mixture of trends, on balance more negative than positive. Romania's economic growth rate is falling, and its inflation rate is high. Furthermore, the country's budget deficit remains a major point of concern, as it is one of the highest in Europe. Romania's urgency to address this fiscal challenge will further undermine the country's position in tackling its overarching economic issues.