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THE EFFECTS OF THE ECONOMIC CRISIS ON THE ROMANIAN ECONOMY IN THE PERIOD 2024–2026

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Abstract: *During the period 2024–2026, the Romanian economy went through a difficult phase, characterized primarily by a strong fiscal impulse in 2024, persistent inflationary pressures, and policy adjustments in 2025.* To understand why these problems accumulated, it is useful to look at preceding years as well: in 2022–2023, Romania had relatively loose fiscal policies and rapid wage growth, and these trends created vulnerabilities that were amplified in 2024–2025. The earlier years thus explain why the 2024 impulse had such a powerful impact, and the analysis must focus in particular on what happened in 2024 and 2025, when the imbalances became evident.

Keywords: *public, investments, fiscal, policies, economic, crisis, Romania.*

1. Introduction

In brief, in 2024 the government increased expenditure and wages, which stimulated consumption but also raised imports. At the same time, supply-side shocks emerged (higher energy prices, climate-related issues) that kept prices elevated. In 2025, the first corrective measures were adopted (expenditure freezes or cuts and a medium-term fiscal plan), yet the effects of the 2024 policies and external shocks were still being felt throughout the economy.

The aim of this paper is to assess the effects of the economic crisis on the Romanian economy in the period 2024–2026 and to formulate public policy recommendations for restoring macroeconomic sustainability and improving competitiveness.

1. How did private and public investment evolve in Romania in the period 2024–2026, and what were the main causes?
2. To what extent did the fiscal policies of 2024 influence the current account and the structure of external financing?
3. What role did the NRRP play in stabilising economic activity and offsetting private-sector contraction?
4. What are the main risks for 2026 and which policies are advisable?

2. Theoretical Framework

2.1 Twin Deficits and the Open Economy Identity

Twin deficits describe the situation in which a budget deficit (public expenditure exceeds revenues) is accompanied by a current account deficit (imports and external payments exceed exports). A persistent budget deficit tends to increase domestic demand and imports, thereby deteriorating the current account, with consequences for the external position and financing costs. This can be demonstrated through the macroeconomic identity:

$$CA = S - I$$

CA is the current account of a country. **S** represents the total savings of the economy, whilst **I** represent total investment. This identity states that the surplus or deficit of the current account equals the difference between what a country saves and what it invests. Two cases emerge: if $S > I$, the economy saves more than it invests, resulting in a current account surplus (net export of capital abroad); or if $S < I$, the economy invests more than it saves, resulting in a current account deficit (external financing must be attracted).

2.2 Supply Shocks vs. Demand Shocks

Supply shocks are events that affect the capacity or cost of production of the economy, reducing the supply of goods and services or increasing input prices. For example, a sudden rise in energy prices or a drought that reduces agricultural output. Demand shocks are events that abruptly change the level of aggregate demand for goods and services, either upwards or downwards; for instance, a sharp increase in public expenditure or a sudden drop in consumer confidence that reduces consumption.

Macroeconomic policies must be calibrated to distinguish between these two types of shocks.

2.3 Public Investment

Public investment refers to expenditure undertaken by public authorities for the creation, maintenance, or improvement of physical and human capital (infrastructure, education, health, digitalisation), with the aim of enhancing productive capacity and well-being over the medium and long term.

3. Macroeconomic Context

3.1 Twin Deficits

In 2024, Romania recorded a significant deficit: the budget deficit rose to 8.7% of GDP, driven by wage increases and pension expenditure (European Commission, 2025). This fiscal loosening generated a demand impulse that increased imports and, in turn, a current account deficit (Eurostat, 2024–2026).

3.2 Monetary Policy

The National Bank of Romania (NBR) maintained a prudent monetary policy in 2024–2025, keeping the policy rate at elevated levels to guard against inflationary pressures: "The NBR Board of Directors decided to maintain the monetary policy interest rate at 6.50 per cent per annum" (National Bank of Romania [NBR], 2026).

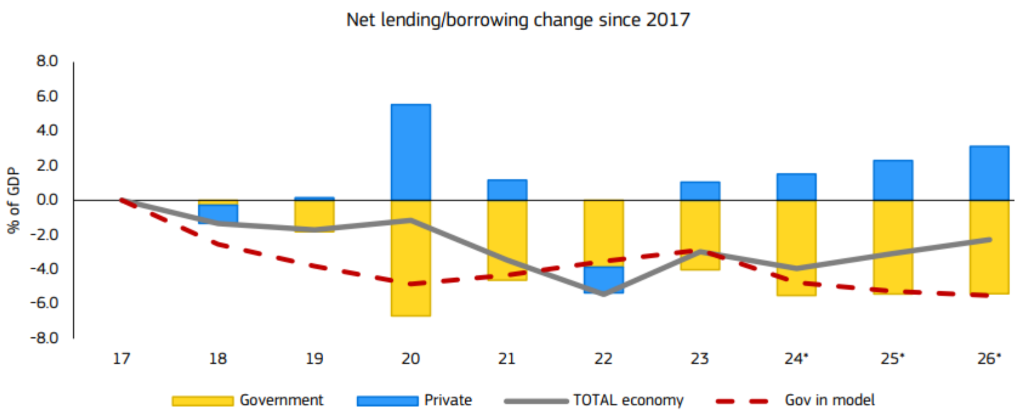
3.3 External Shocks and Energy

Energy shocks (the removal of price caps, oil price volatility) and geopolitical tensions increased pressure on prices and the trade balance, a vulnerability also highlighted in assessments of Romania's external position (International Monetary Fund, 2023–2025). The liberalisation of energy prices for businesses represents an additional risk for costs and inflation.

4. Main Effects of the Crisis

4.1 Investment Trends 2024–2026

Figure 1. Change in Net Position (government, private sector, total economy) as % of GDP



Source: (European Commission, 2025)

This section presents and interprets the chart "Change in Net Position (government, private sector, total economy) as % of GDP", briefly explaining what each series (Government, Private, Total) measures and the significance of the projections for 2024–2026. The inflection point of 2024 and its link to investment dynamics are highlighted.

In 2024, a strong fiscal impulse is observable: **government expenditure** increased significantly, and public investments (including NRRP projects) amplified short-term activity. In parallel, **private investment** contracted. Firms postponed large-scale projects owing to uncertainty (including the electoral context), financing costs, and weak external prospects. Part of the additional demand generated by the state was met through imports of inputs, which reduced the multiplier effect on domestic production and deepened the economy's net financing position.

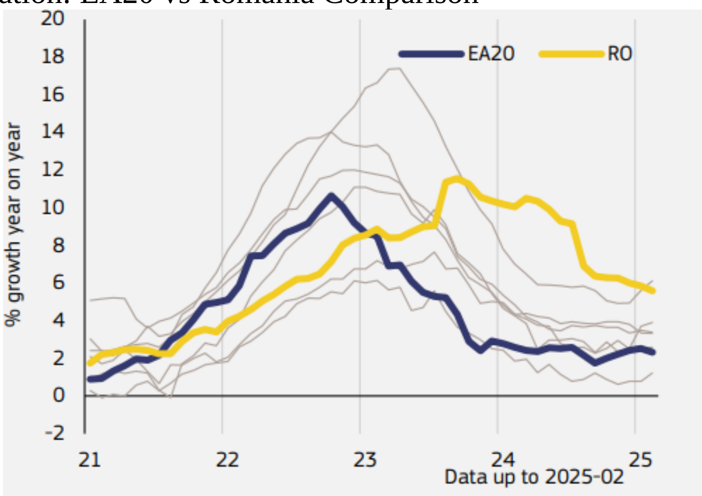
Fiscal consolidation measures and the acceleration of NRRP absorption led to a partial reallocation of resources towards productive public investments in 2025, with signs of stabilisation beginning to appear in the second half of the year. Nevertheless, the recovery of private investment remained incomplete: access to credit for SMEs was still restricted, and investor confidence was being restored only slowly; in sectors intensive in imported inputs (e.g., construction), the positive effect of public investment was attenuated by the weight of imports.

Should consolidation prove credible and reforms improving productivity and access to financing be implemented, 2026 could bring a moderate recovery in private investment and a gradual reduction of the external deficit; absent these conditions, vulnerabilities persist and the recovery will be slow. Policies that increase domestic procurement, facilitate SME credit, and prioritise NRRP projects with productivity effects will be decisive for transforming the public impulse into a durable investment driver.

4.2 Inflation

Inflation in Romania during 2024–2026 was driven simultaneously by demand-side and supply-side factors. On the demand side, nominal wage growth, which outpaced productivity gains, strongly fuelled domestic demand and raised unit labour costs. On the supply side, energy shocks and increases in indirect taxes (VAT and excise duty rises in 2025) pushed up production costs. The cost-price transmission mechanism meant that a significant proportion of these costs was passed on to final prices, keeping core inflation at elevated levels and affecting the competitiveness of exporters.

Figure 2. Core Inflation: EA20 vs Romania Comparison

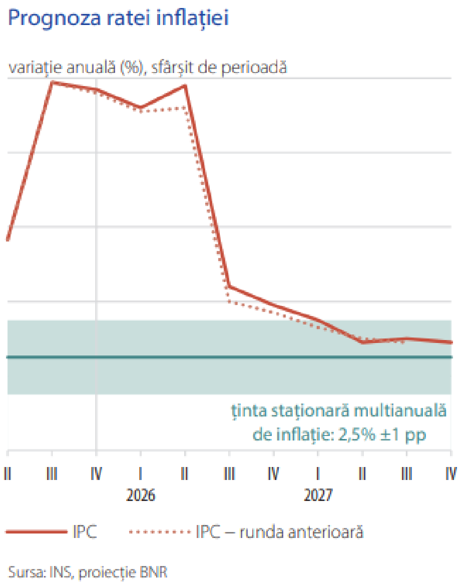


Source: (European Commission, 2025)

Core inflation: EA20 vs Romania comparison (2021–2025). The comparative chart shows that Romania recorded a much steeper rise in core inflation in 2022–2023 compared with the EA20 average, reaching a peak around 2023, followed by a slow moderation in 2024–2025. This trajectory reflects the combination of the domestic fiscal and wage impulse alongside external shocks: whilst the euro area (EA20) also experienced inflation, the amplitude and persistence of the phenomenon were greater in Romania.

The NBR's forecast chart shows a two-phase trajectory: a period of elevated levels and volatility in the first phase (through the second half of 2026), followed by a relatively rapid decline towards the multi-annual target (2.5% ±1 pp) in 2027. The projected peak around early 2026 reflects base effects and the impact of earlier measures (the removal of price caps, tax increases), and the subsequent correction is conditional upon the effects of fiscal consolidation, the moderation of domestic demand, and the normalisation of international energy and food prices.

Figure 3. Inflation Rate Forecast (annual change %, end of period). Shaded band: multi-annual stationary inflation target of 2.5% ±1 pp. Red line: CPI; dotted line: CPI – previous round.



Source: NIS, NBR projection.

4.3 Labour Market

Based on NBR assessments, the evolution of unemployment in 2025–2026 is driven more by the correction of aggregate demand than by an immediate structural labour market crisis. Redundancy pressures driven largely by wage growth are easing. Nevertheless, the compression of economic activity in Q3 2025 creates a context in which a moderate increase in the unemployment rate in 2026 remains probable, concentrated in demand-sensitive sectors (trade, consumption-oriented services, construction) and in industrial branches affected by costs and weak external demand.

Table 1. Unemployment Rate

Year	Unemployment Rate
2024	5.4%
2025	5.7% – 6.1%
2026	5.7% – 5.8% (moderate growth forecast)

5. Stabilisation and Destabilisation Mechanisms

Stabilisation involves reducing cyclical variations in GDP and prices through automatic stabilisers (taxes, social benefits), counter-cyclical fiscal policy, and monetary policy (Ailincă, 2019). Destabilisation refers to external shocks (fuel prices), delays in investment implementation, loss of fiscal credibility, and administrative bottlenecks.

5.1 The Role of the NRRP as a Stabilisation Mechanism

During 2024–2026, the National Recovery and Resilience Plan (NRRP) functioned as Romania's principal macroeconomic stabilisation mechanism, in a context marked by high inflation, slowing economic growth, and external pressure on energy prices. By virtue of its scale, representing over €28 billion directed towards infrastructure, energy, digitalisation, and structural reforms (Ministry of European Investments and Funds, n.d.), the NRRP compensated for the weakness of private investment and sustained aggregate demand during a period of fiscal consolidation. Investments in infrastructure and energy played an anti-cyclical role, maintaining activity in construction and related industries, whilst green transition projects reduced vulnerability to energy shocks. Overall, the NRRP acted as an economic buffer, limiting the destabilising effects of external shocks and providing a reform framework that strengthens economic resilience over the medium term.

5.1.1 Case Study: Impact of NRRP Investments on Public Construction Works

This case study evaluates how NRRP payments in 2025–2026 influenced the volume, pace, and structure of public construction works in Romania.

The documents analysed include payments from the period 2025–2026 in accordance with the reports of the Ministry of Environment (Ministry of Environment, Waters and Forests, n.d.) for: water and sewerage networks, road modernisation, municipal infrastructure, afforestation and environmental works, eco-islands, and waste management. These are categories of works that directly involve construction firms, designers, materials suppliers, and equipment providers.

A relevant project is that of the National Administration "Romanian Waters", with large payments for hydraulic works (some exceeding RON 80 million).

The analysis reveals the following: the large volume of payments indicates a period of expansion in the public construction sector; projects are distributed uniformly across regions, reducing seasonality and dependence on a few areas; construction firms benefit from predictability, as payments are recurrent and projects span multiple years; pressure on supply chains increases, particularly for materials (concrete, pipes, aggregates); and the workforce becomes a critical factor given the large number of simultaneous projects.

In conclusion, NRRP investments represent a major stimulus for the construction sector, generating a high volume of public works that are diverse and nationally distributed. The documents analysed confirm an acceleration in fund absorption and a structural dependence of the sector on public investment. For construction firms, the period 2025–2026 is one of opportunity but also of operational pressure.

5.2 The Iran Shock – Destabilisation

The events of March 2026, marked by the escalation of conflict in Iran, represent an unpredictable occurrence with massive consequences. The primary cause of this shock is the disruption of global energy flows, which pushed the Brent crude price above the critical threshold of USD 110 per barrel. For Romania, a country that relies on energy imports to supplement its domestic requirements, this signified an immediate "supply shock". Unlike a crisis caused by excessive consumer demand, this shock directly increased the cost of the economy's basic "ingredients": transport, industrial production, and utilities. The knock-on effect was inevitable, leading to a re-acceleration of inflation at precisely the moment when forecasts had indicated a relaxation, thereby forcing the National Bank to block any attempt to lower the benchmark interest rates in order to protect the stability of the national currency.

6. Public Policy Recommendations

6.1 Immediate Priorities

The most urgent need is intelligent fiscal consolidation. This would entail reducing the budget deficit not through undifferentiated cuts, but through the elimination of waste and improved collection efficiency. A critical priority is the full digitalisation of the National Agency for Fiscal Administration (ANAF), a measure that allows the state to increase revenues without placing additional pressure through new taxes on an already fragile private sector; strengthening institutional and governance capacity in this way is consistent with indicators of government effectiveness (World Bank, 2024). Furthermore, in the face of the oil price shock from Iran, the state must replace generalised energy subsidies with protection measures targeted strictly at vulnerable groups. This approach frees up essential financial resources that can be redirected towards “high-multiplier” projects, that is, investments that generate added value and long-term employment.

6.2 Medium-Term Priorities

Over the medium term, the financial strategy must be linked to the rigorous implementation of the NRRP. This is not merely a capital flow, but an instrument of structural reform (OECD, 2026). The priority must be to advance energy infrastructure projects and the transition towards renewable sources, so as to reduce economic dependence on Brent oil price volatility.

Another strategic step concerns the labour market: the allocation of funds for large-scale retraining programmes, necessary to correct the skills mismatch between supply and demand. By leveraging the NRRP for modernisation, Romania can ensure exchange rate stability and regain the confidence of private investors. In essence, national resilience depends on the government’s capacity to maintain fiscal discipline whilst ensuring that every public leu is invested towards decoupling the economy from external geopolitical uncertainties.

7. Conclusions

The analysis indicates that the Romanian economy is at a moment of profound transformation, transitioning from a model based on overconsumption to one of structural readjustment. This transition is marked by a severe “macroeconomic vice”, whereby inflationary persistence limits purchasing power whilst overall economic activity decelerates. Systemic vulnerability remains the exposure to external supply shocks, particularly oil price volatility caused by the conflict in Iran, a factor that acts as a cost multiplier across the entire national production chain.

Nevertheless, economic resilience is sustained by the NRRP, which acts as an anti-cyclical stabilisation mechanism. In a context where the private sector has adopted a defensive stance, European funds serve as the principal driver of investment, whilst also ensuring the currency stability necessary to prevent major economic derailment. The resulting strategic imperative is fiscal consolidation: the state must discipline its current expenditure in order to allow a reallocation of resources towards high-value-added investments. This readjustment is not merely an austerity measure, but a necessity for decoupling the economy from geopolitical uncertainties and laying the foundations for sustainable growth.

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