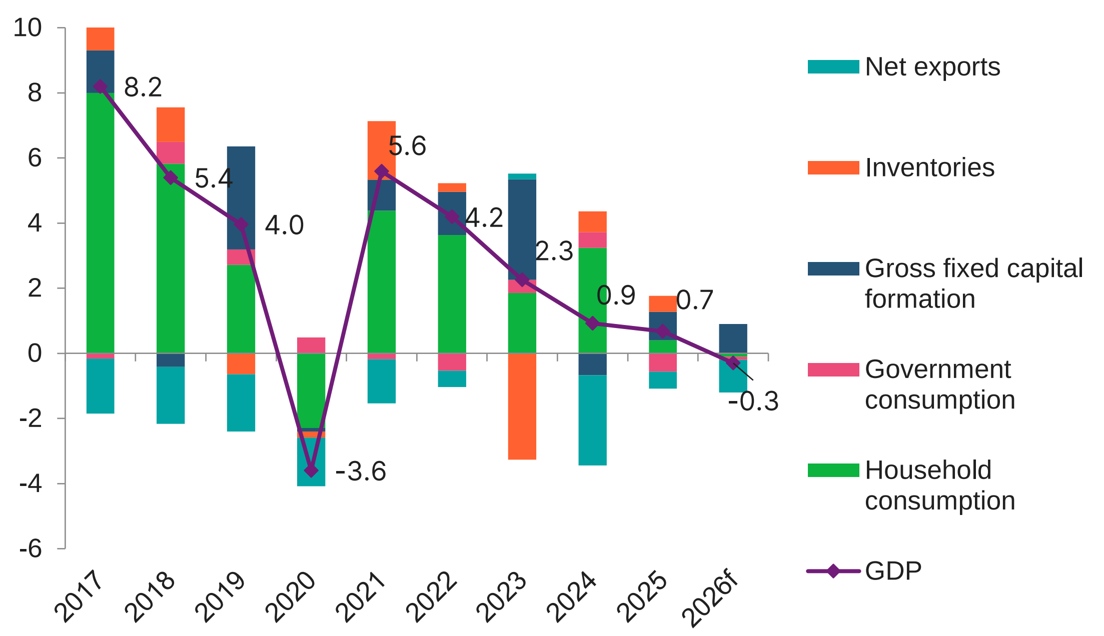
Macro outlook: at the crossroads

Ciprian Dascalu, Chief Economist, BCR
24-Jun-26

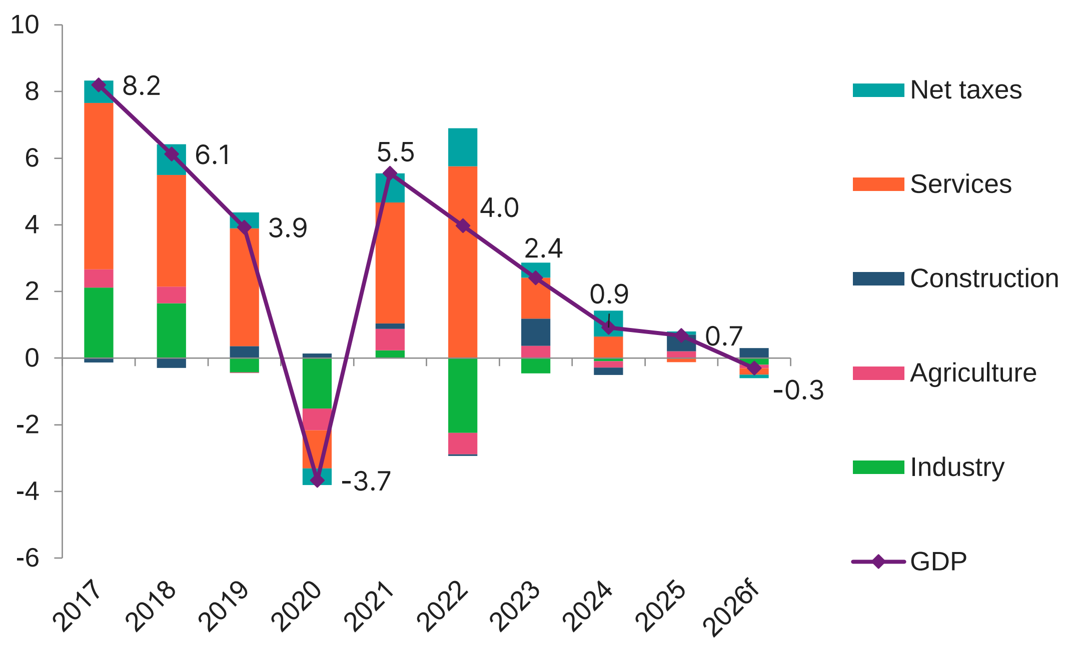
GDP growth: stuck between structural and cyclical headwinds

Recession becomes baseline for 2026. Consumption-driven growth model reached its limits. The economy stuck between structural and cyclical headwinds

Real GDP growth: demand side (contribution, pp)



Real GDP growth: supply side (contribution, pp)



2026 is likely to be the third consecutive year with well-below potential GDP growth and we are now expecting a recession as our baseline. Heavy data revision revealed two technical recessions over the past couple of years. Additional data revisions are likely.

Negative statistical carry-over effect weighs on 2026 growth outlook. Investments are seen main growth driven this year. Consumption expected to have a negative contribution.

Meager growth across all sectors in 2025. Bottoming-out for domestic manufacturing is in sight as German industry warms up its engines, though protracted war in Iran might postpone the recovery.

We see 2026 GDP growth at -0.3% y/y. Upside potential on EU-funded investments, though absorption could disappoint vs plans. Downside potential due to depressed consumer confidence and external shocks.

Source: NIS, BCR Research

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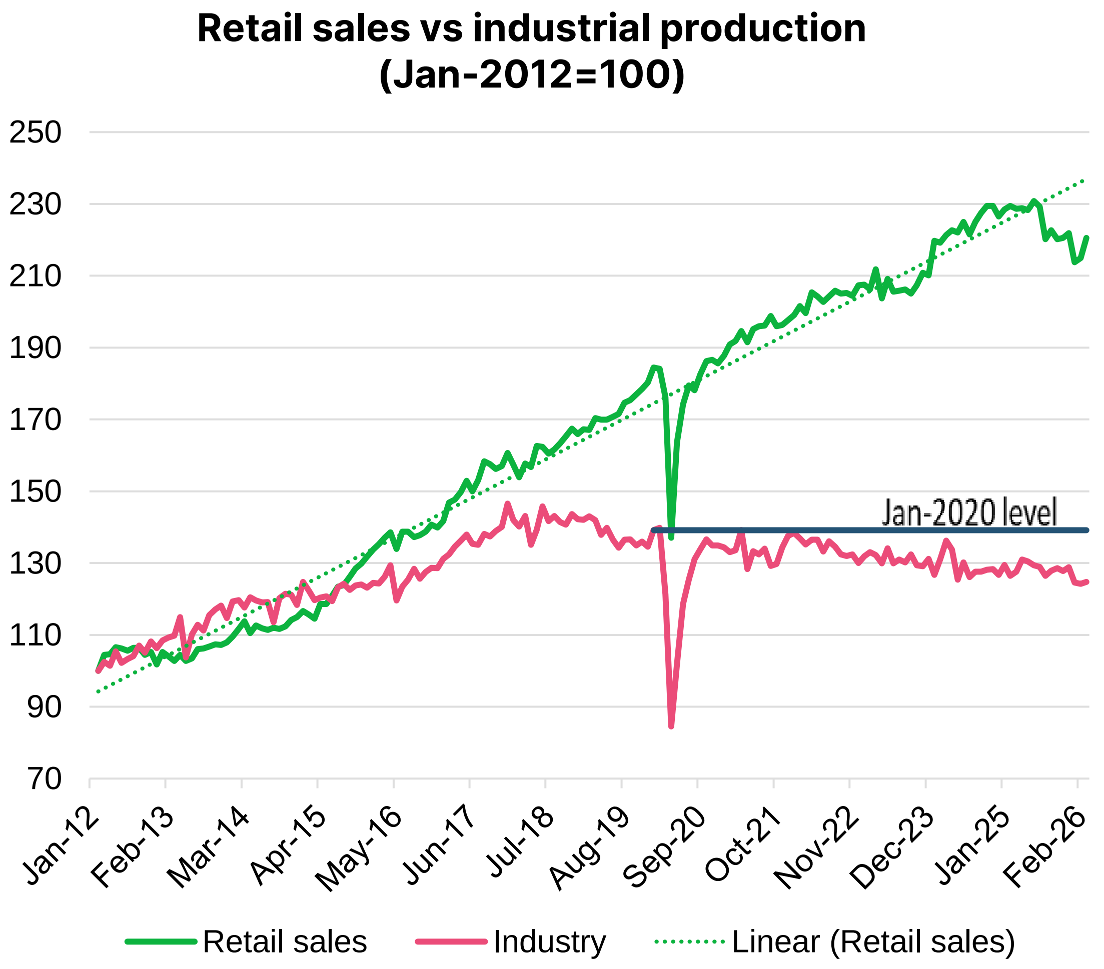
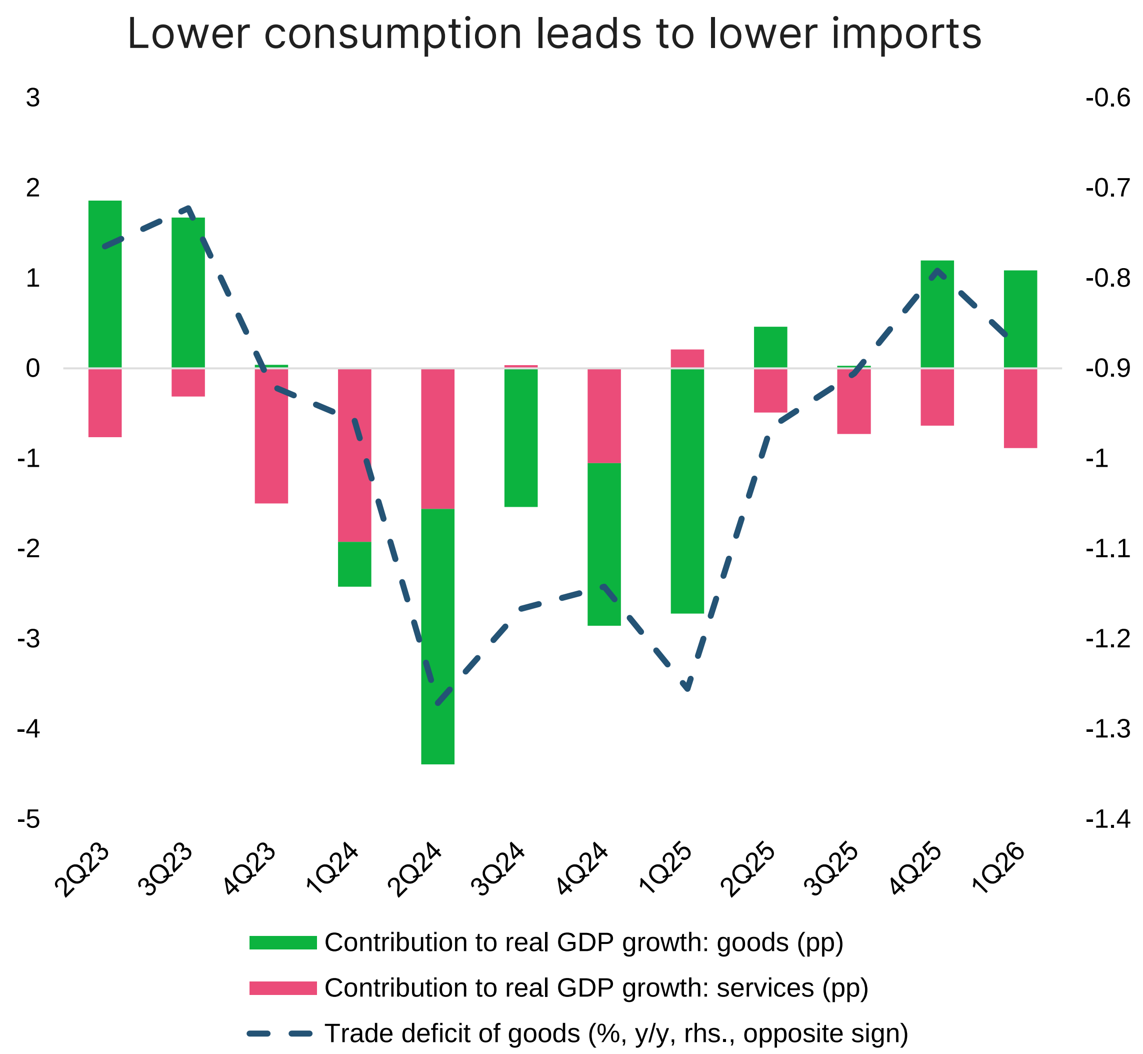
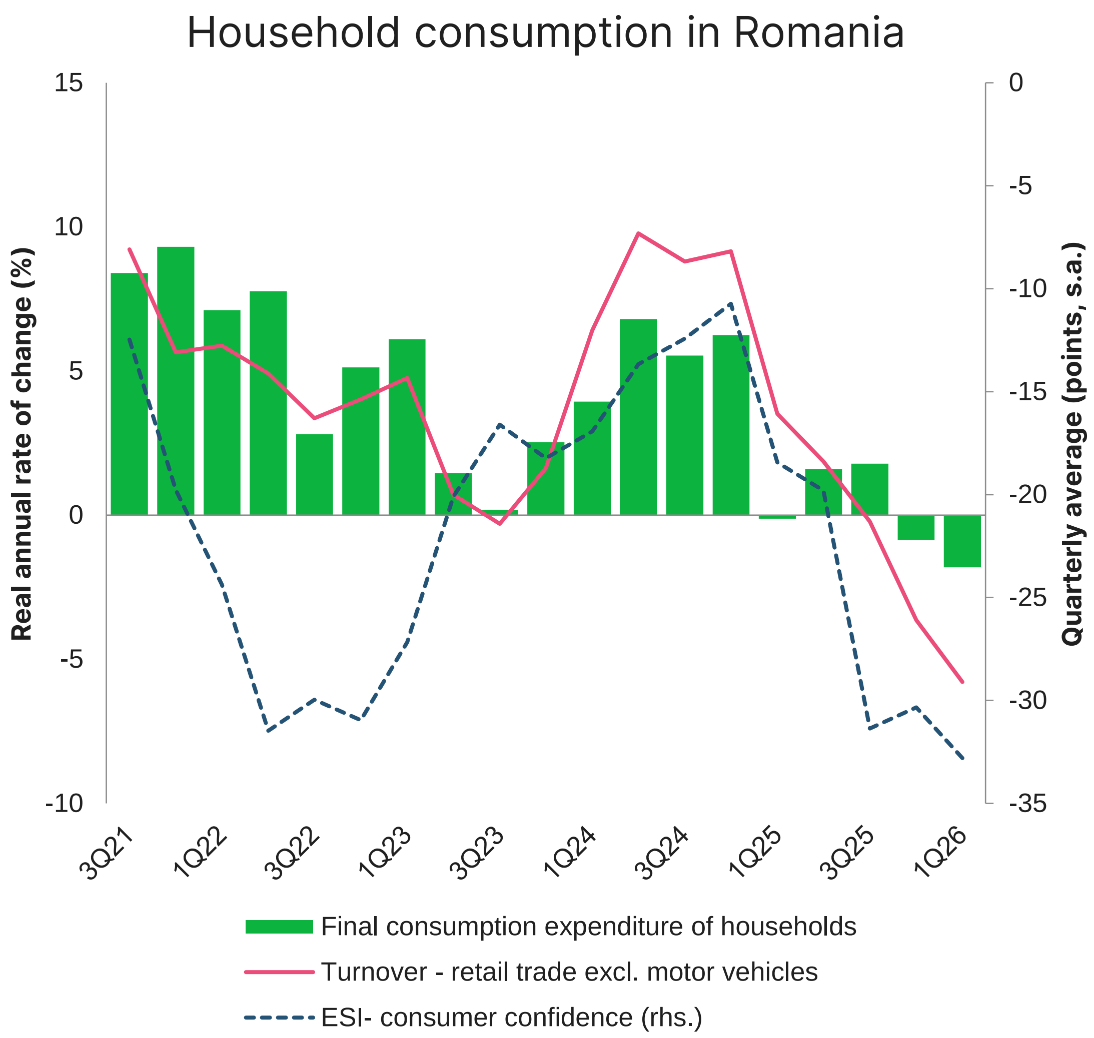
Aftermath of so-called 'wage-led growth' policy: unfounded wage expectations and competitiveness issues



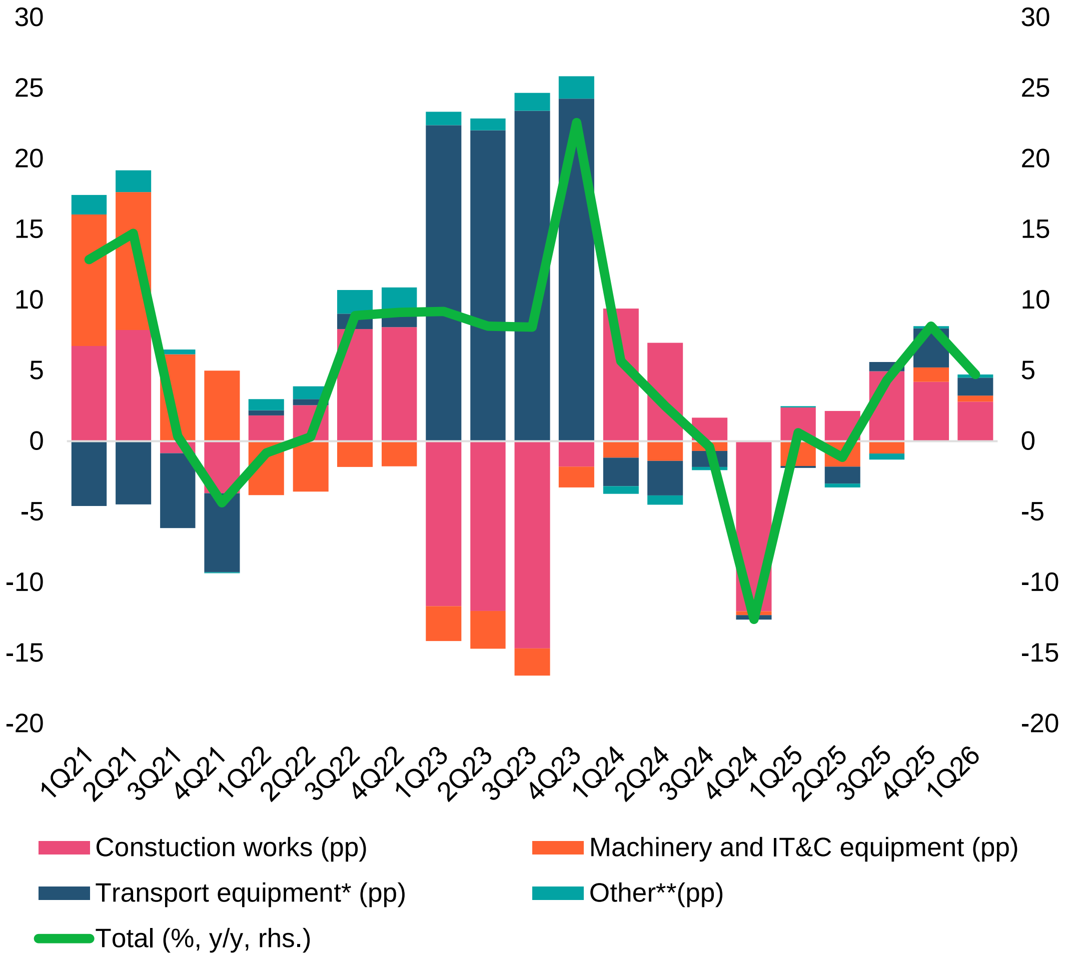
Net exports is becoming more growth supportive



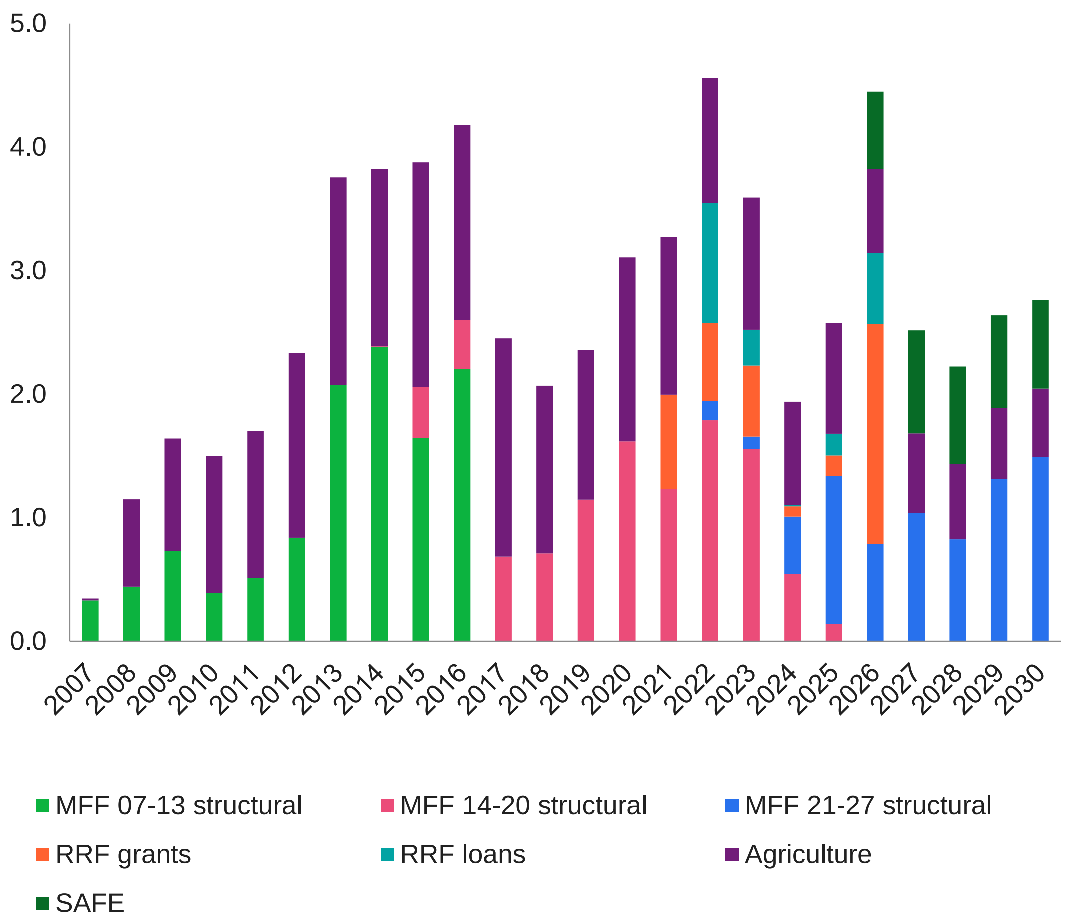


Source: NIS, EC,, BCR Research

Peak EU funds as % of GDP in 2026?



*) purchased by private companies and public institutions
**) IT&C software, agriculture investments, R&D, real estate, etc.



Source: Eurostat, European Commission, MinFin, BCR Research

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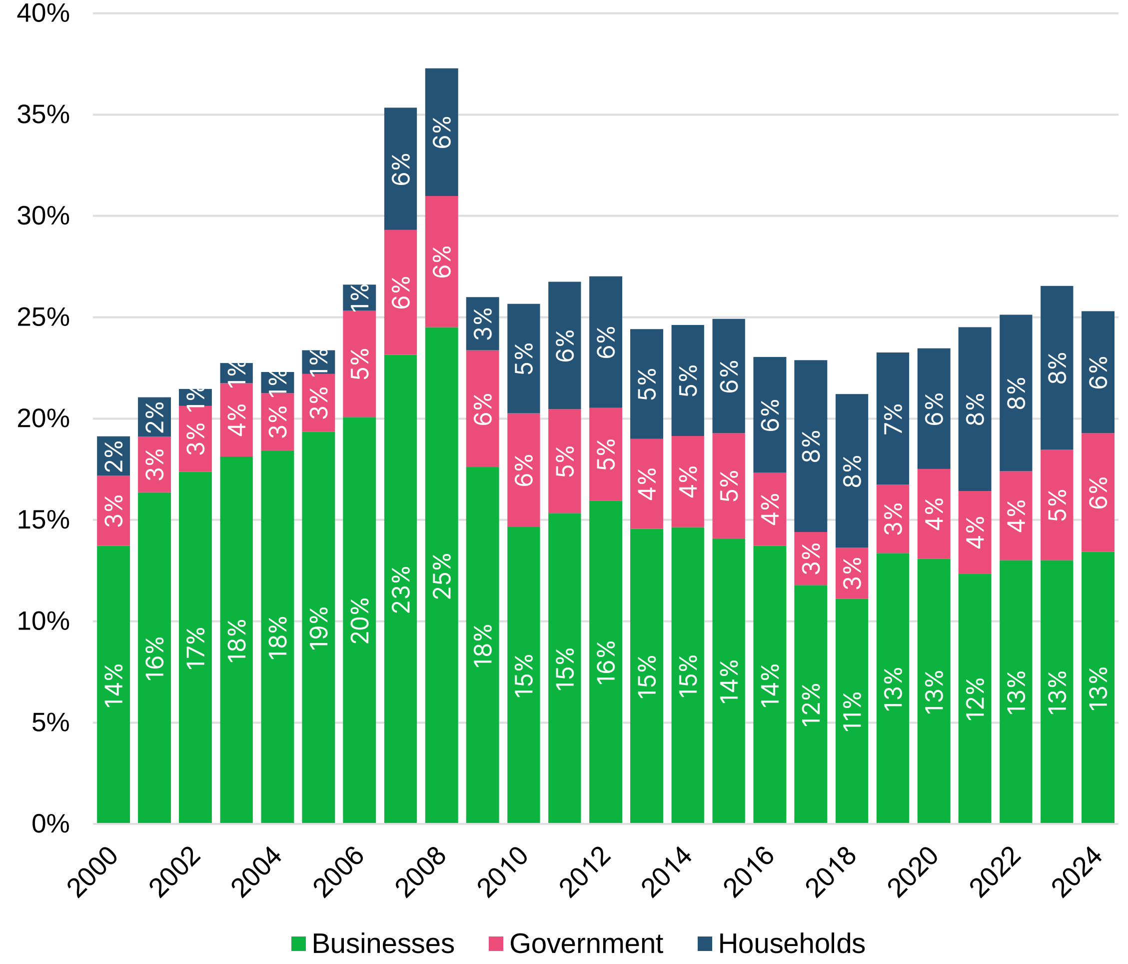
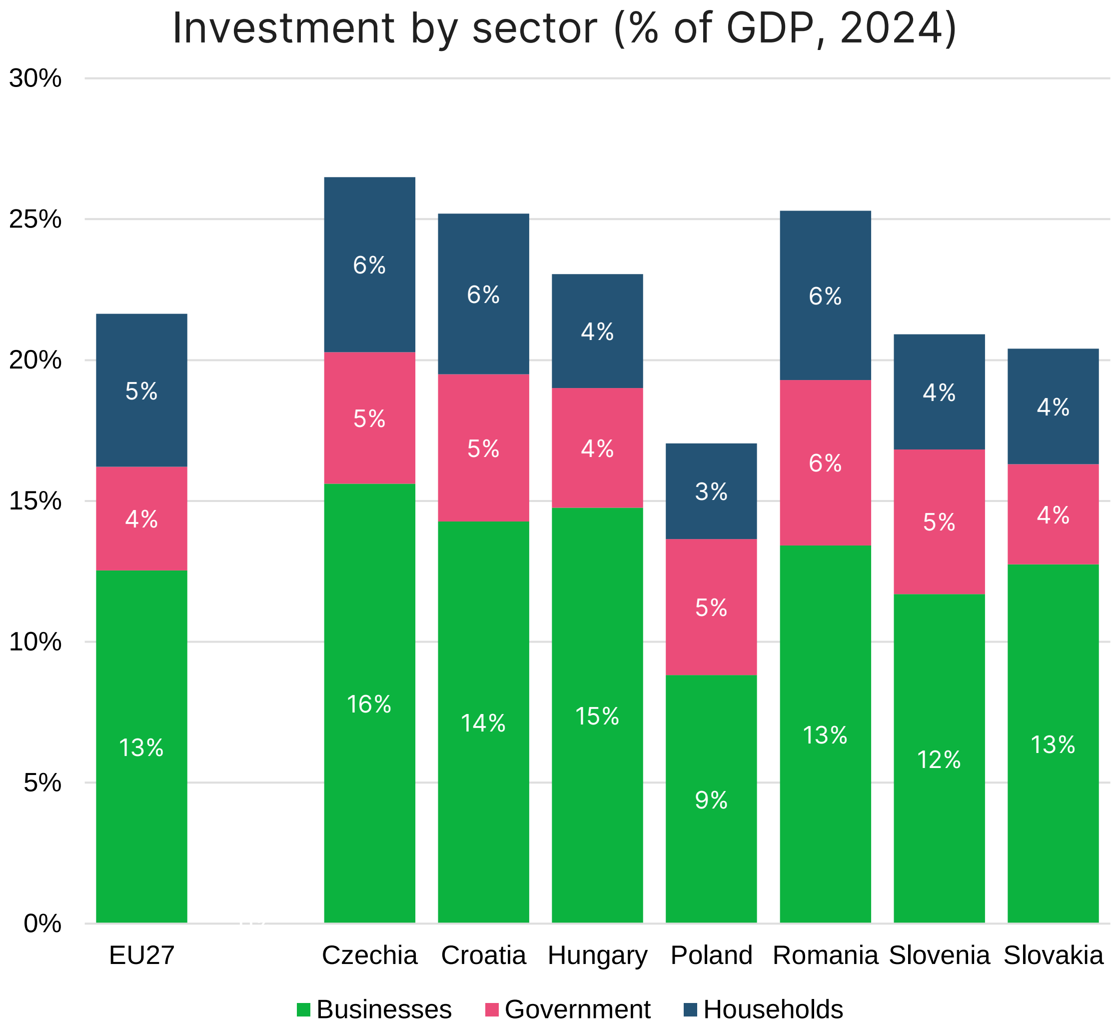
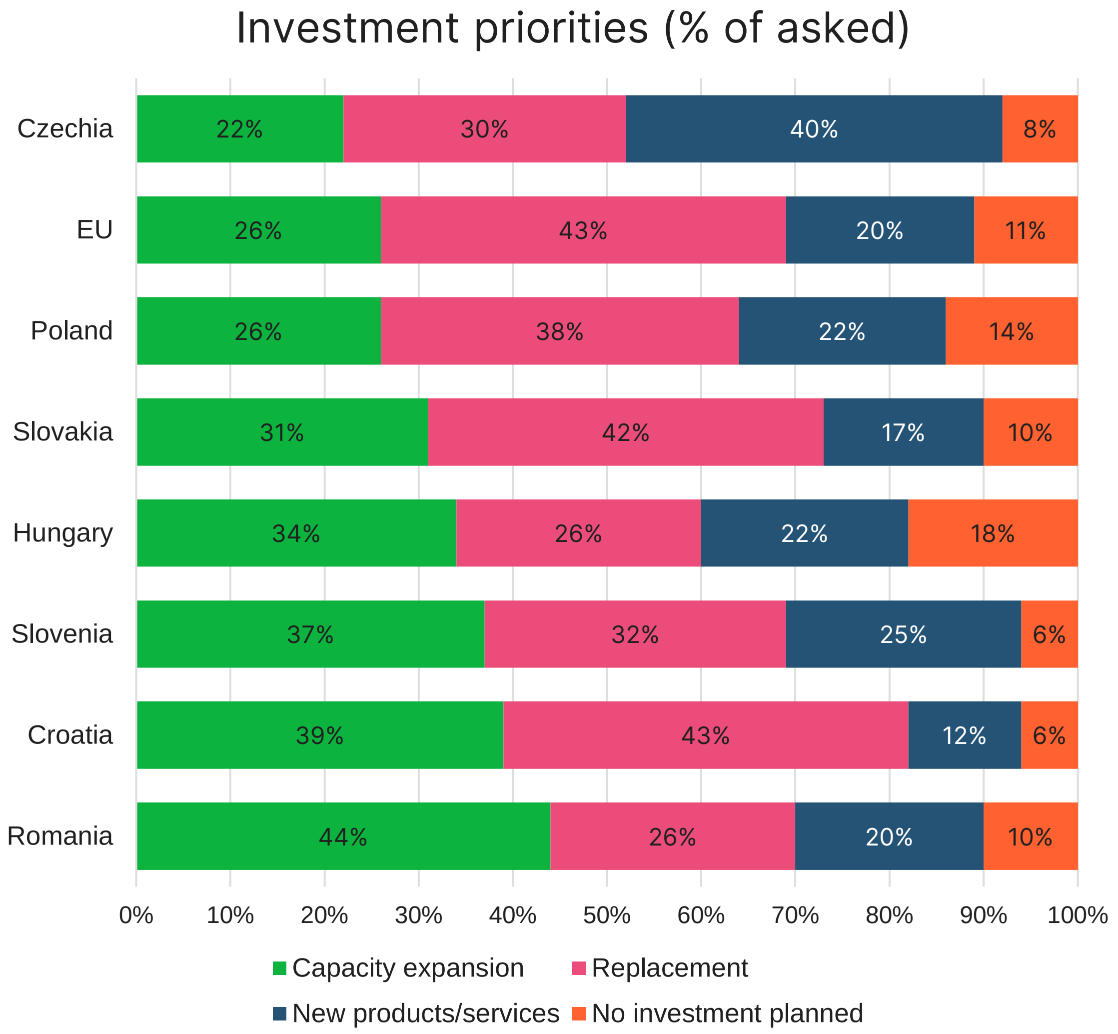
Private sector the main driver of investments, but government share has been on the rise recently

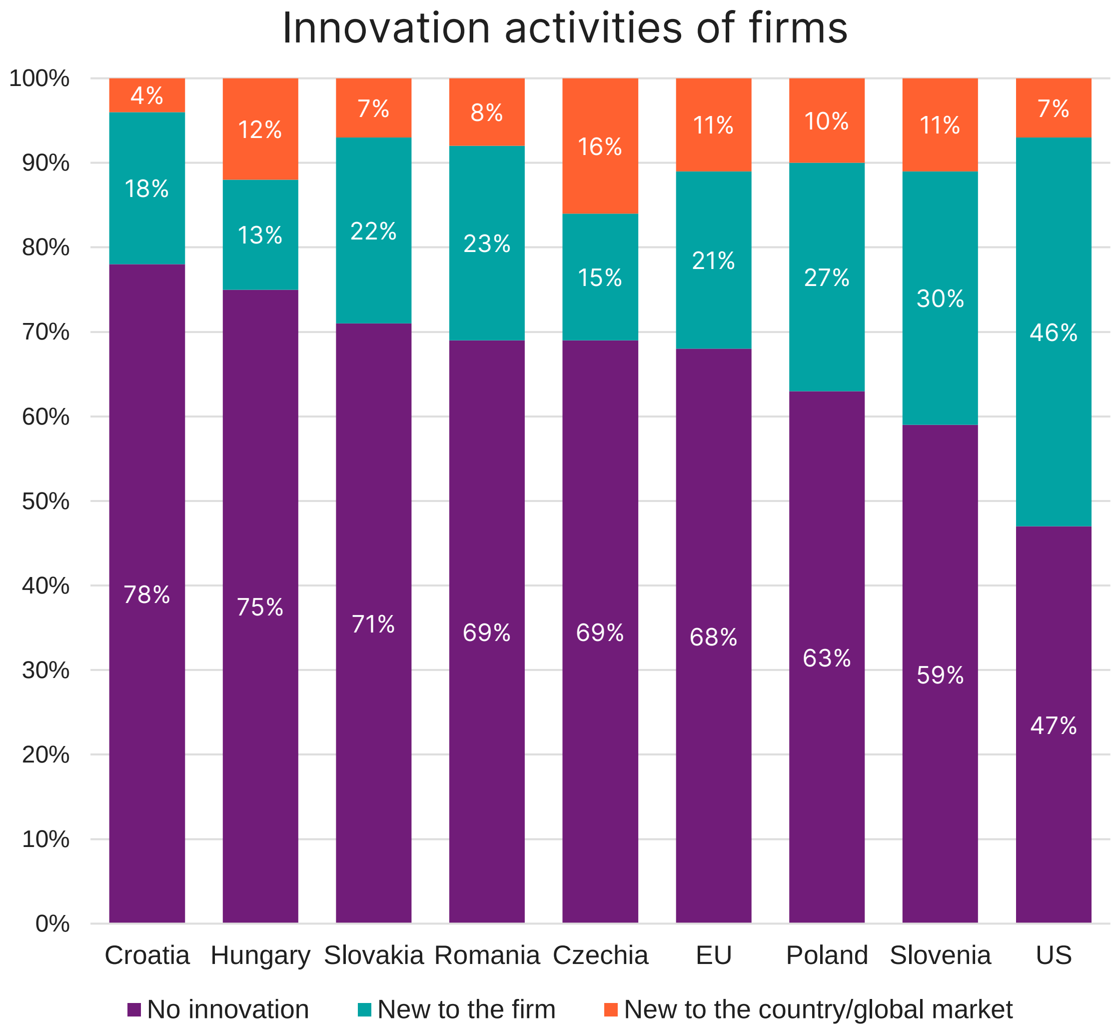




Source: Eurostat, BCR Research

Corporate investment prioritizes capacity expansion, while innovation ("new to the country or global market“) remains subdued





Source: Eurostat, BCR Research

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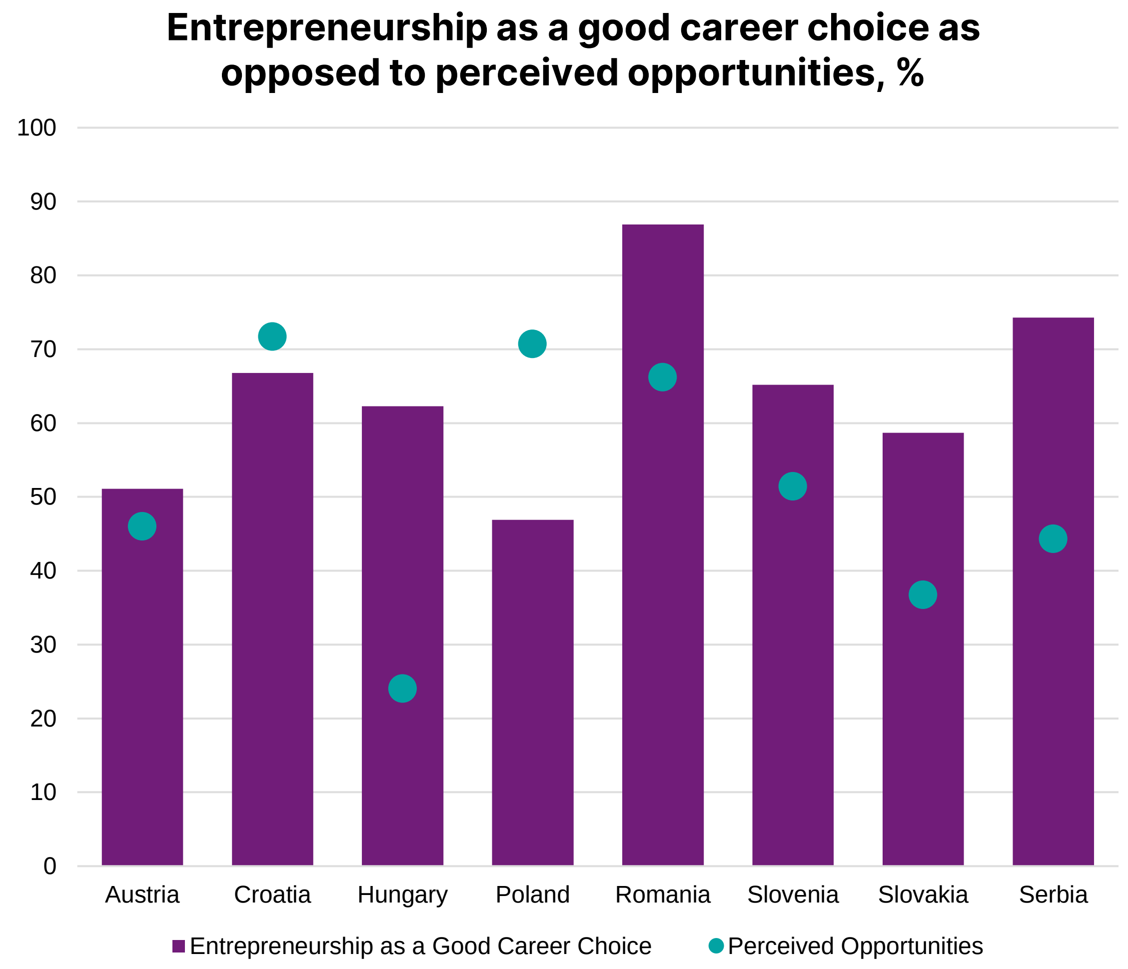
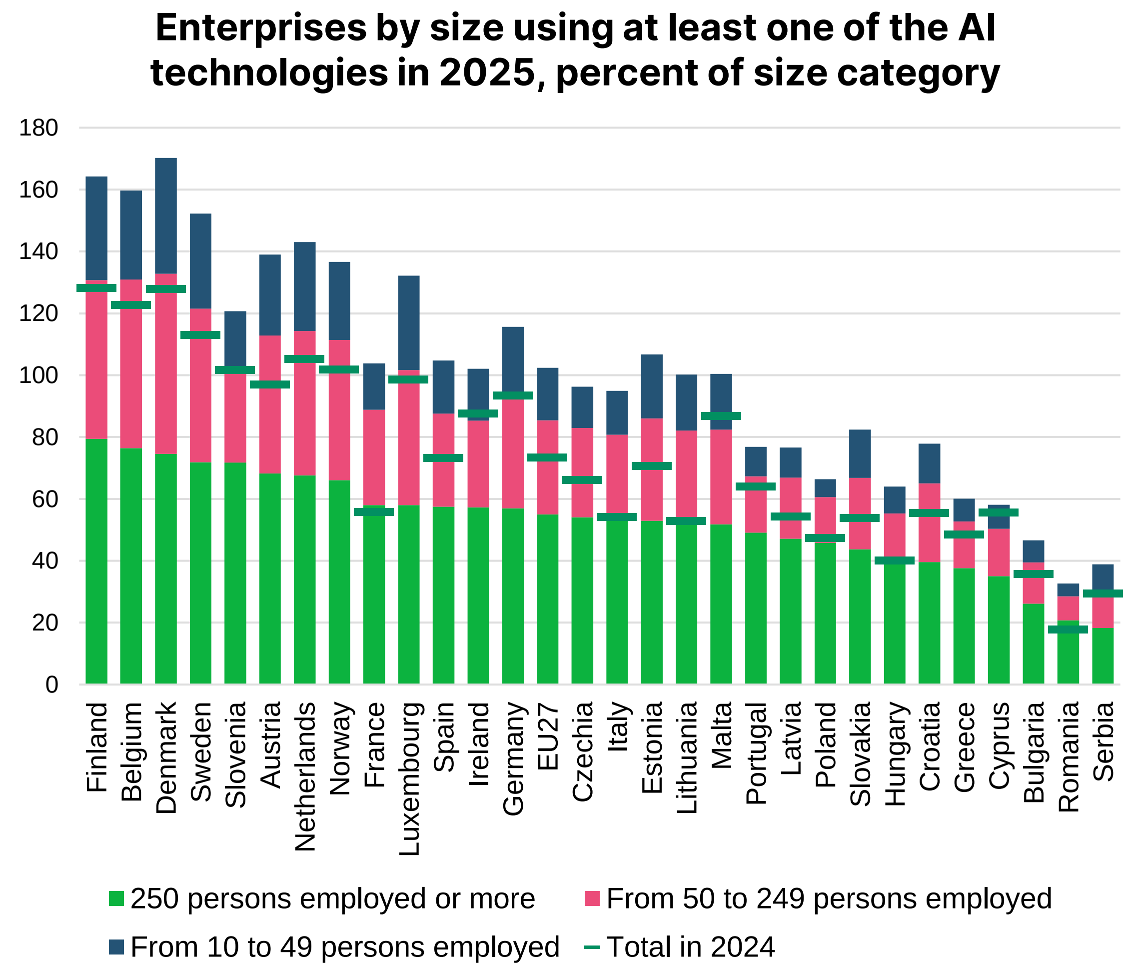
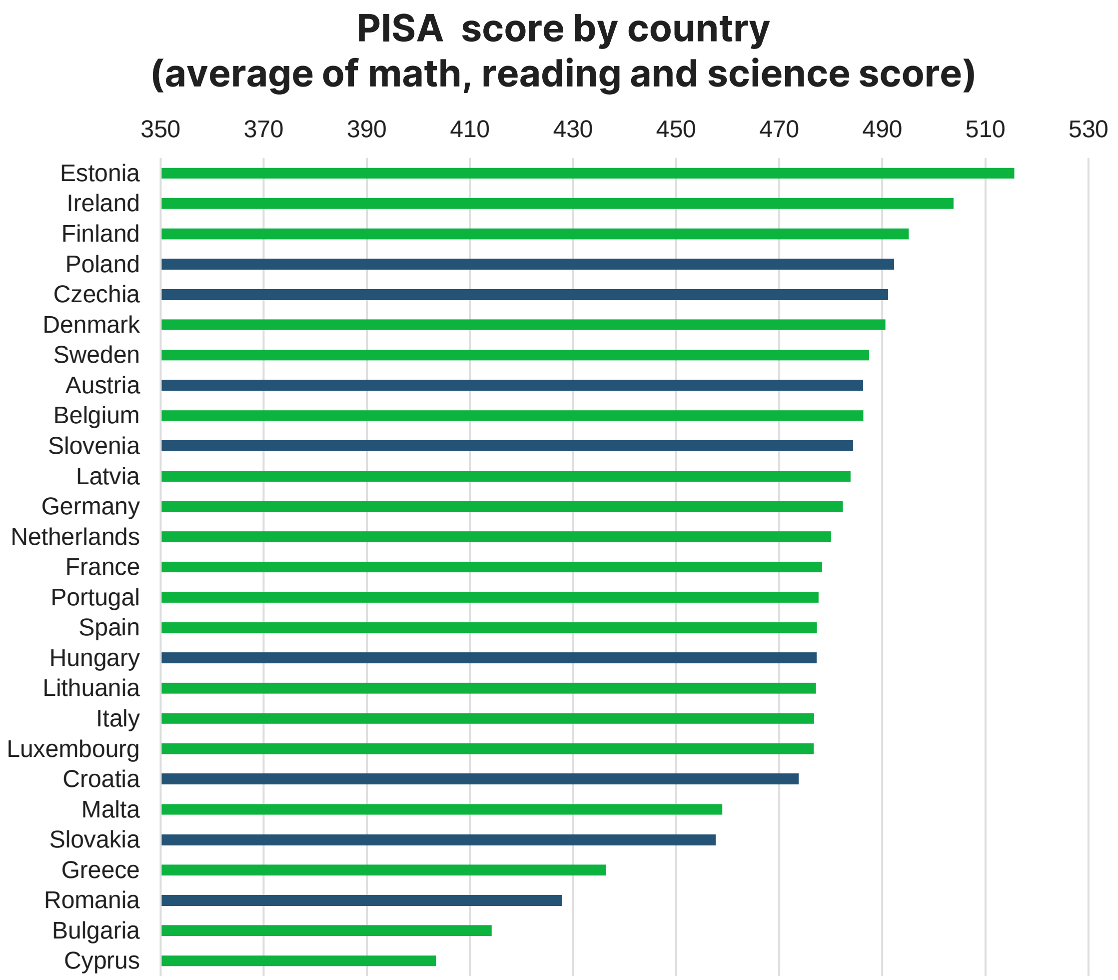
Strong entrepreneurship drive. Low AI adoption rates

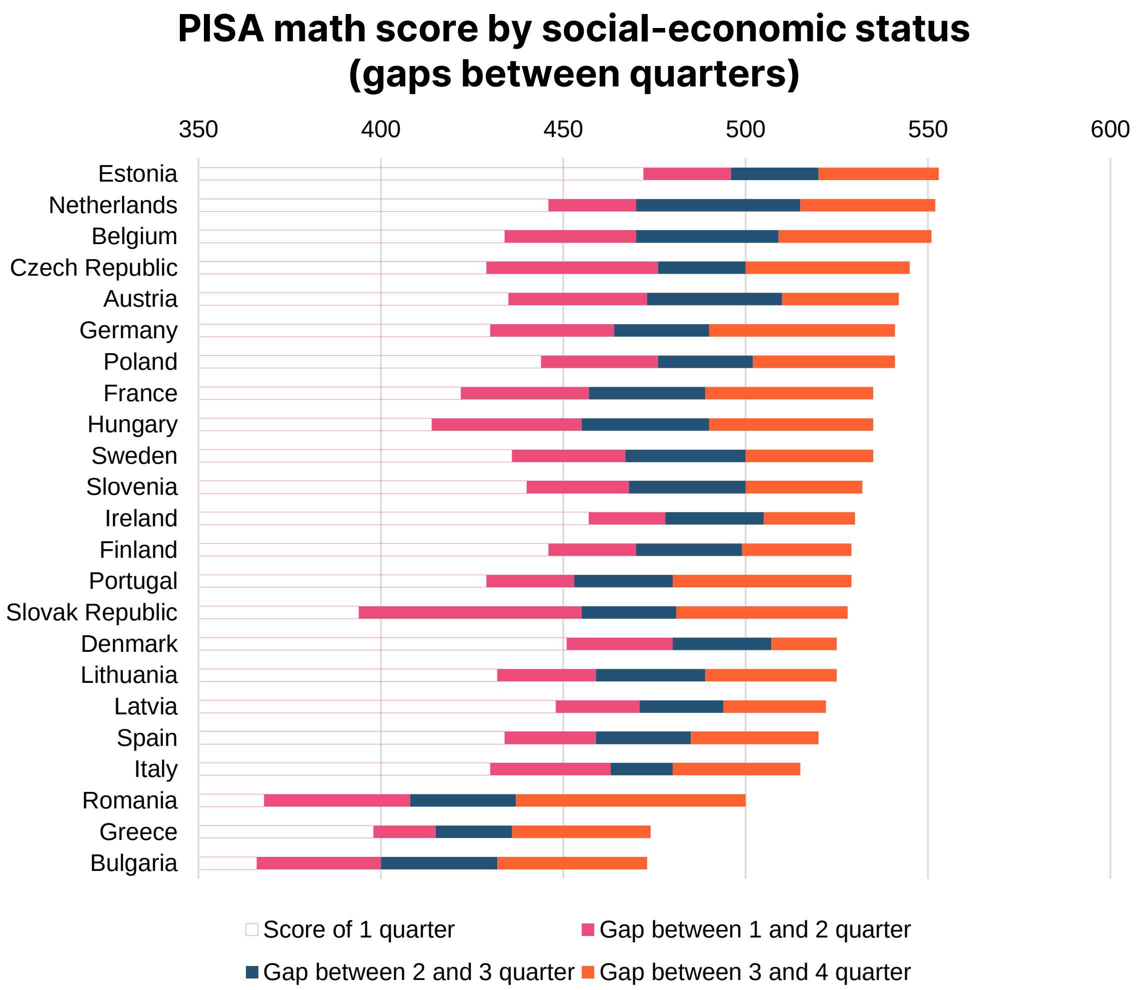




Source: Eurostat, BCR Research

Romanian students score very low in PISA, large gaps among social-economic statuses





Source: Erste Group Research

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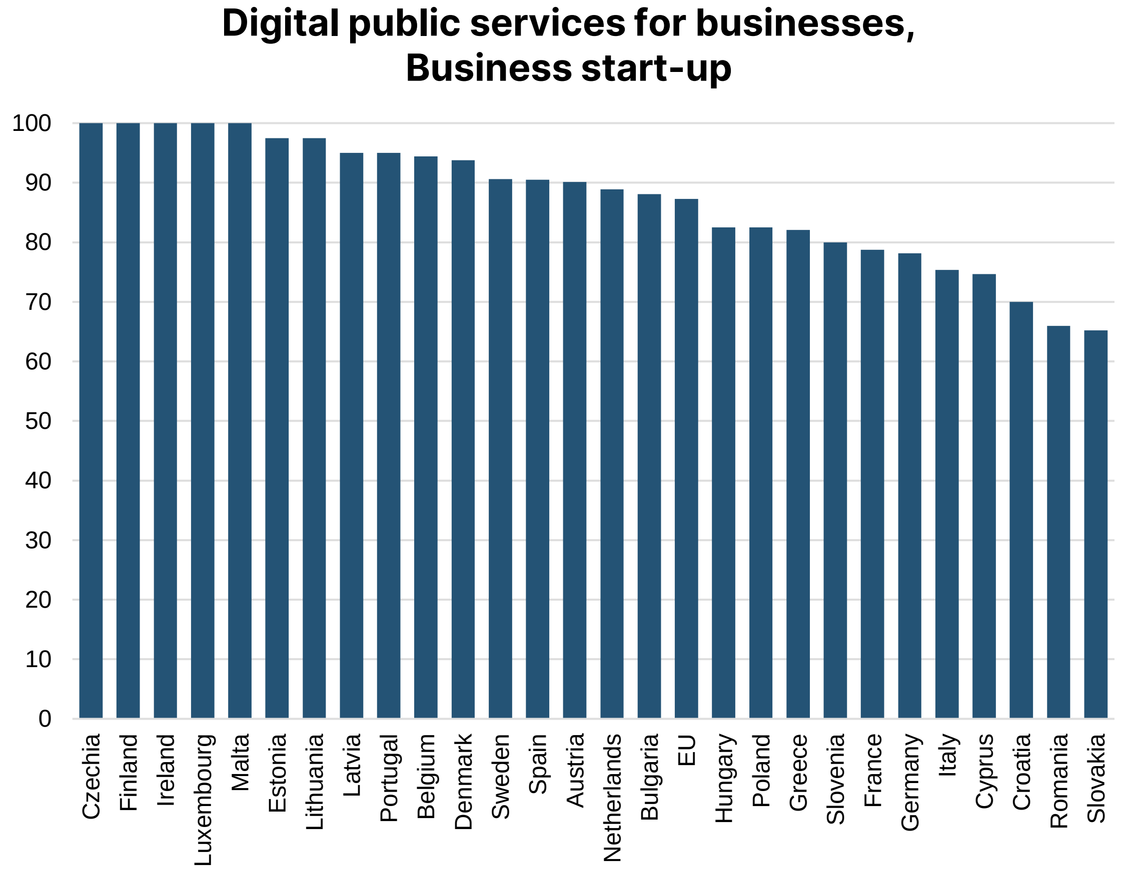
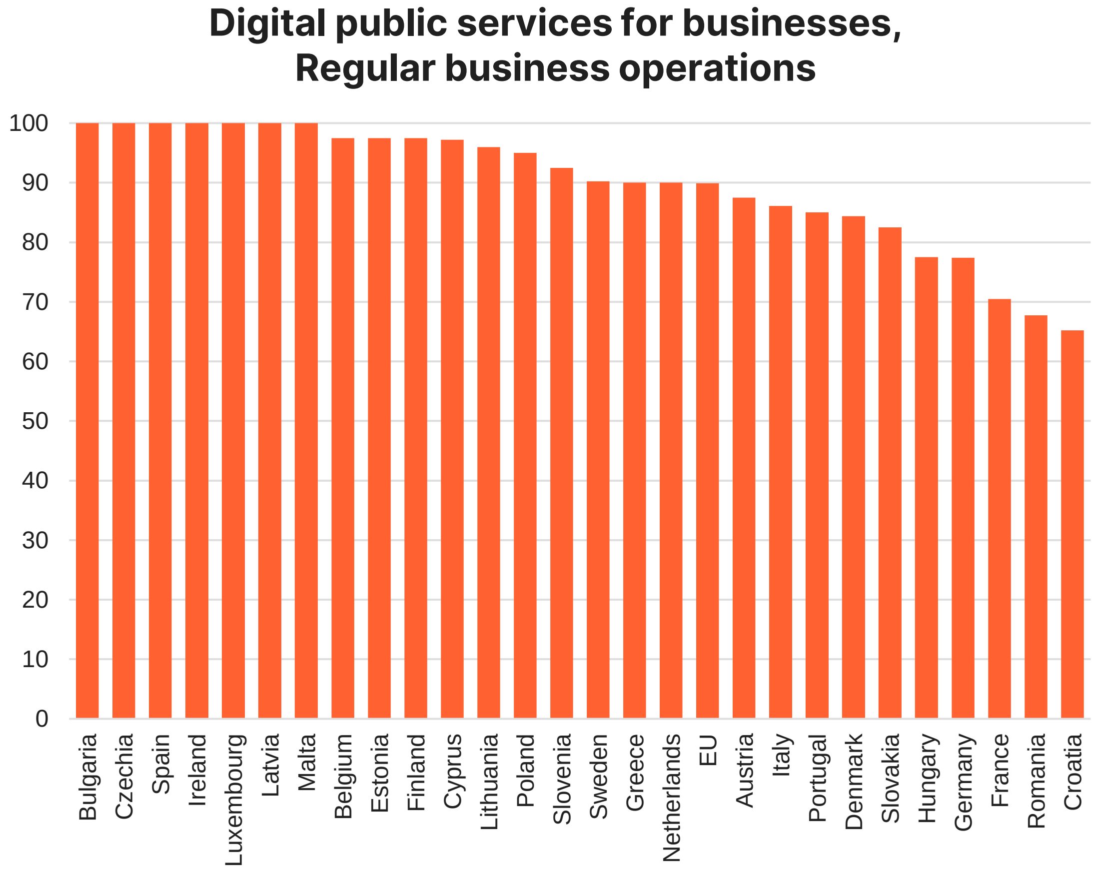
Poor digital public services for businesses

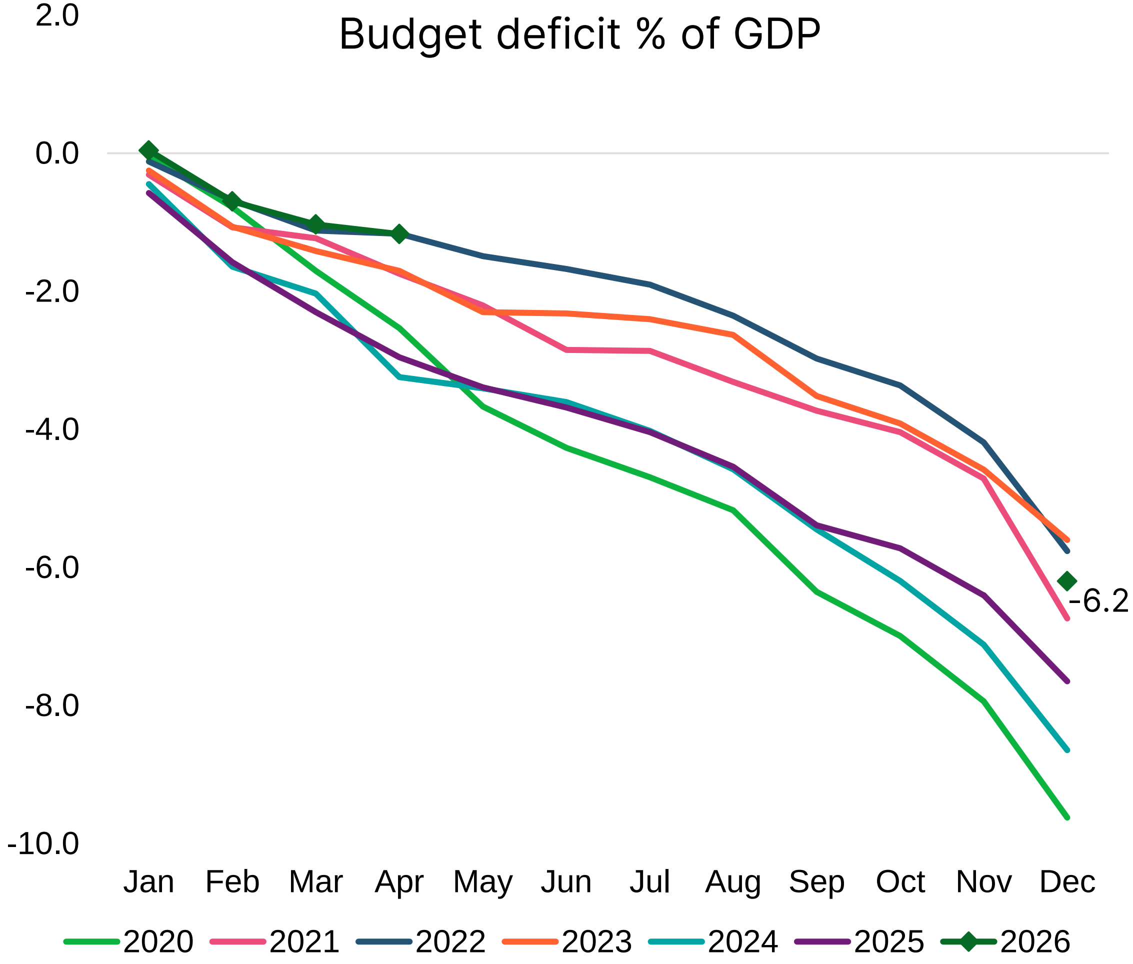


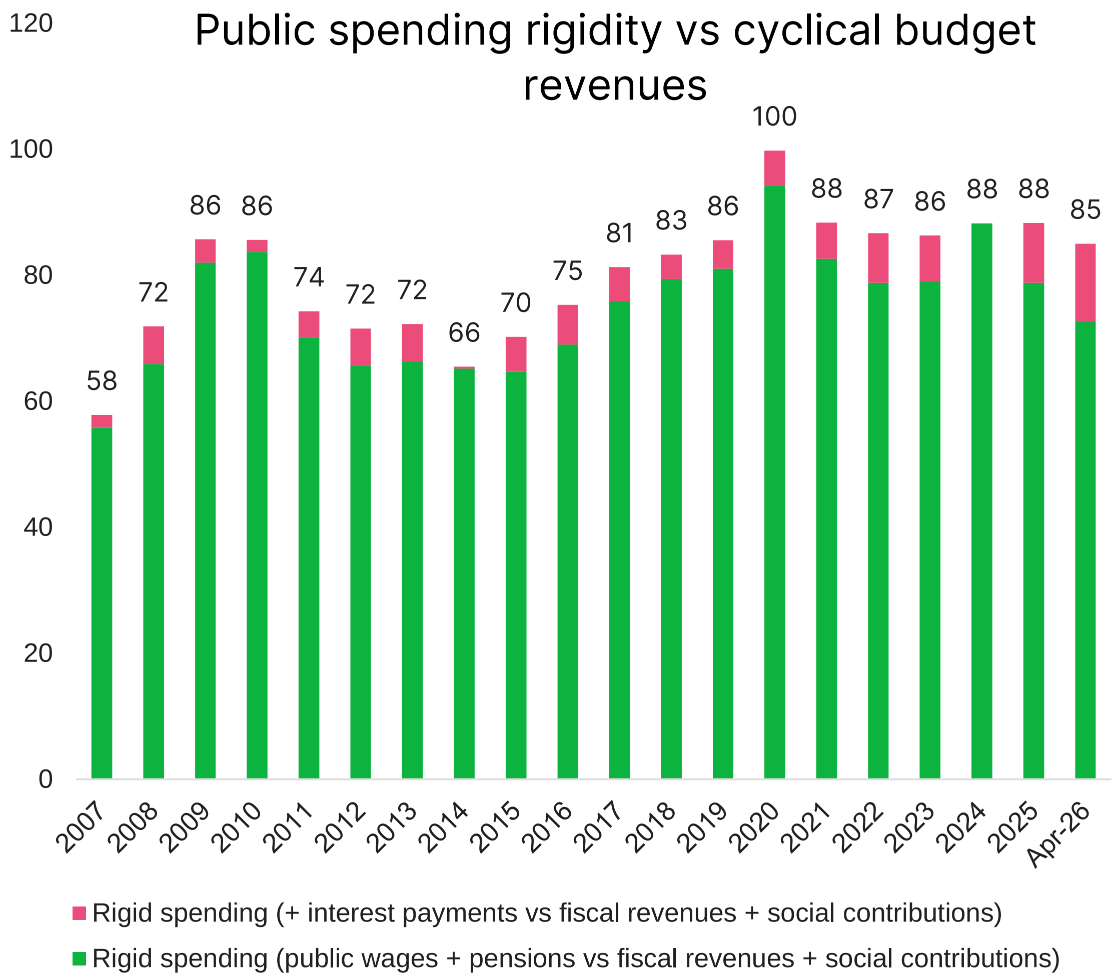


This indicator shows online provision of key public services for entrepreneurs, measured as the share of administrative steps that can be completed fully online for major life events (when starting a business and later during regular operations).

Constrains: between the rock and the hard place

Budget deficit: 6.0% of GDP seems like new 3.0% post-Covid; high rigidity in fiscal expenditures





Source: MinFin, BCR Research

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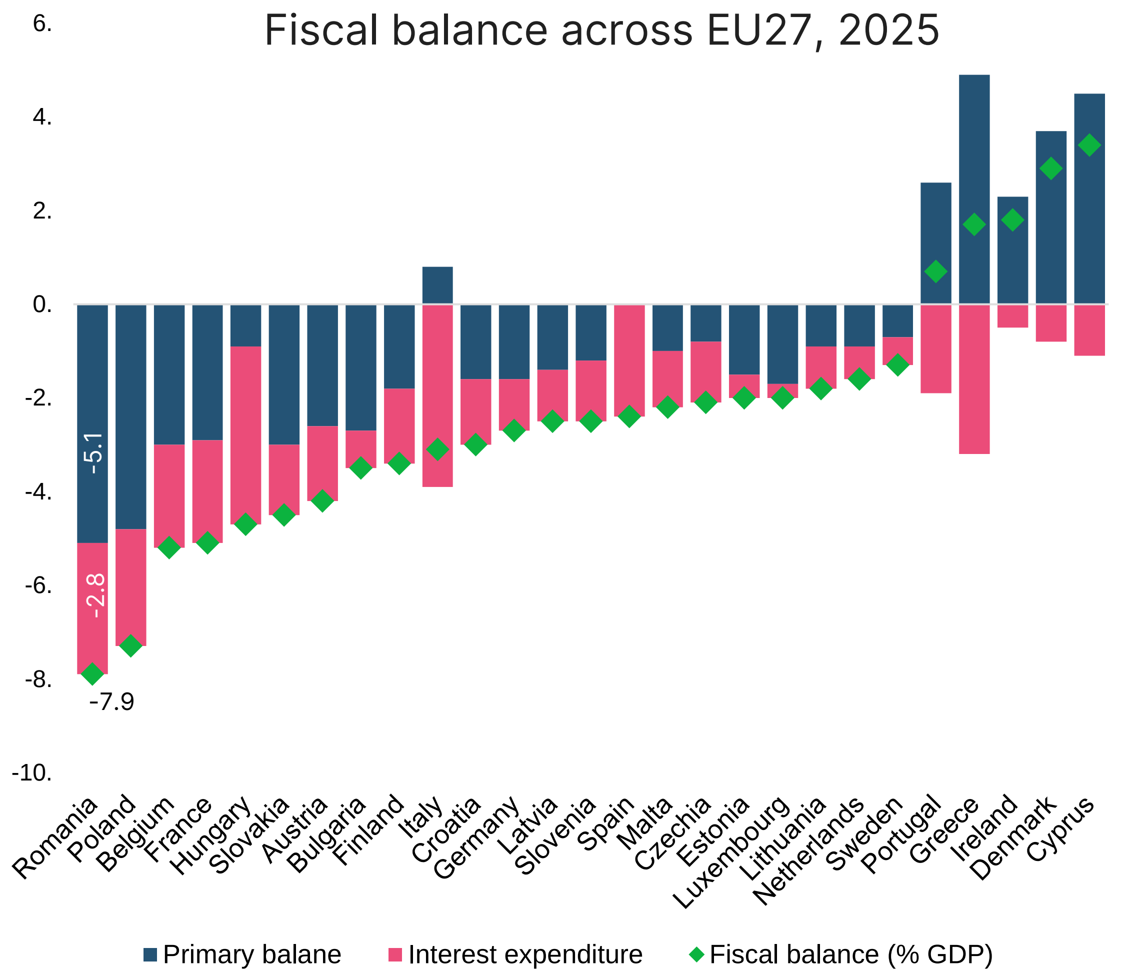
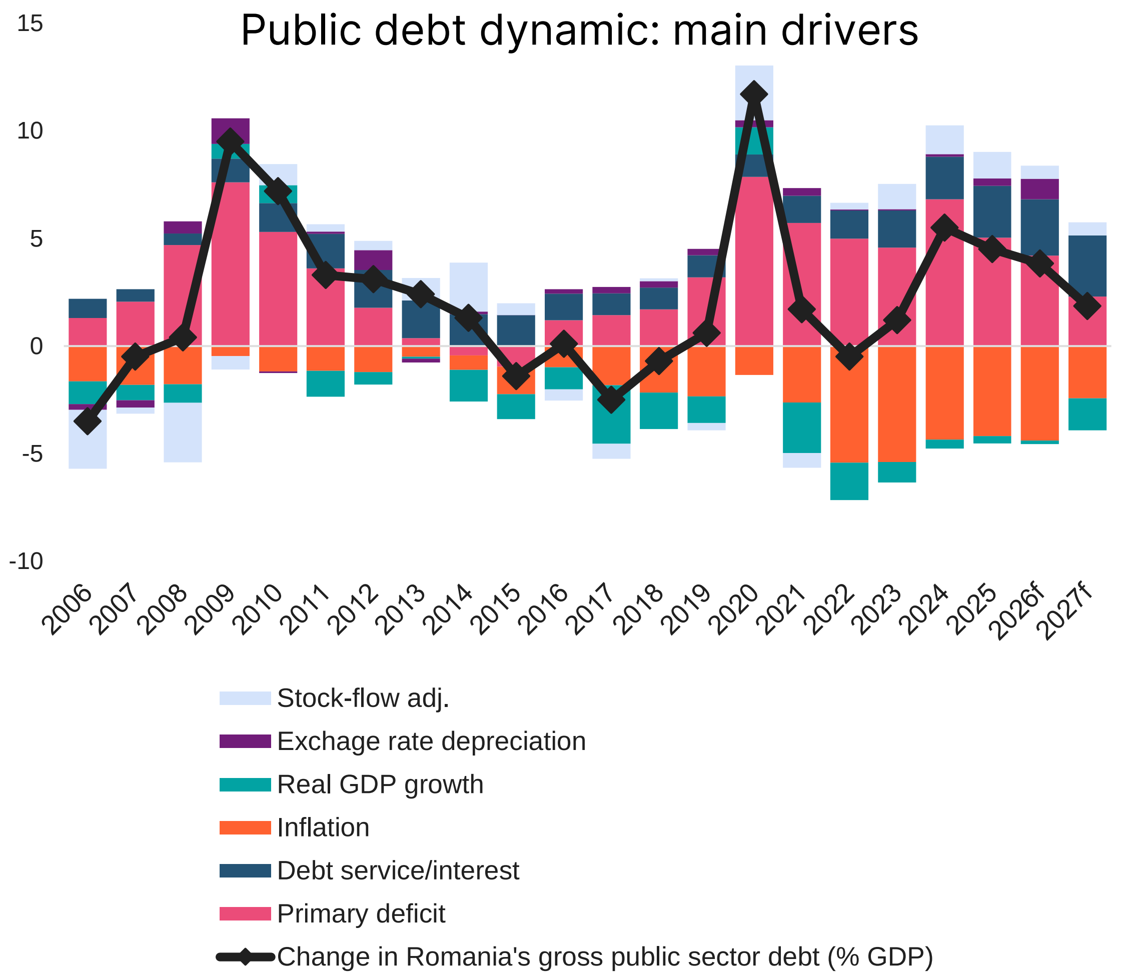
Largest fiscal gap in EU, growing public debt-to-GDP; 1% FX depreciation adds +0.3pp to debt-to-GDP ratio





Source: MinFin, Eurostat ,NBR, Erste Group Research

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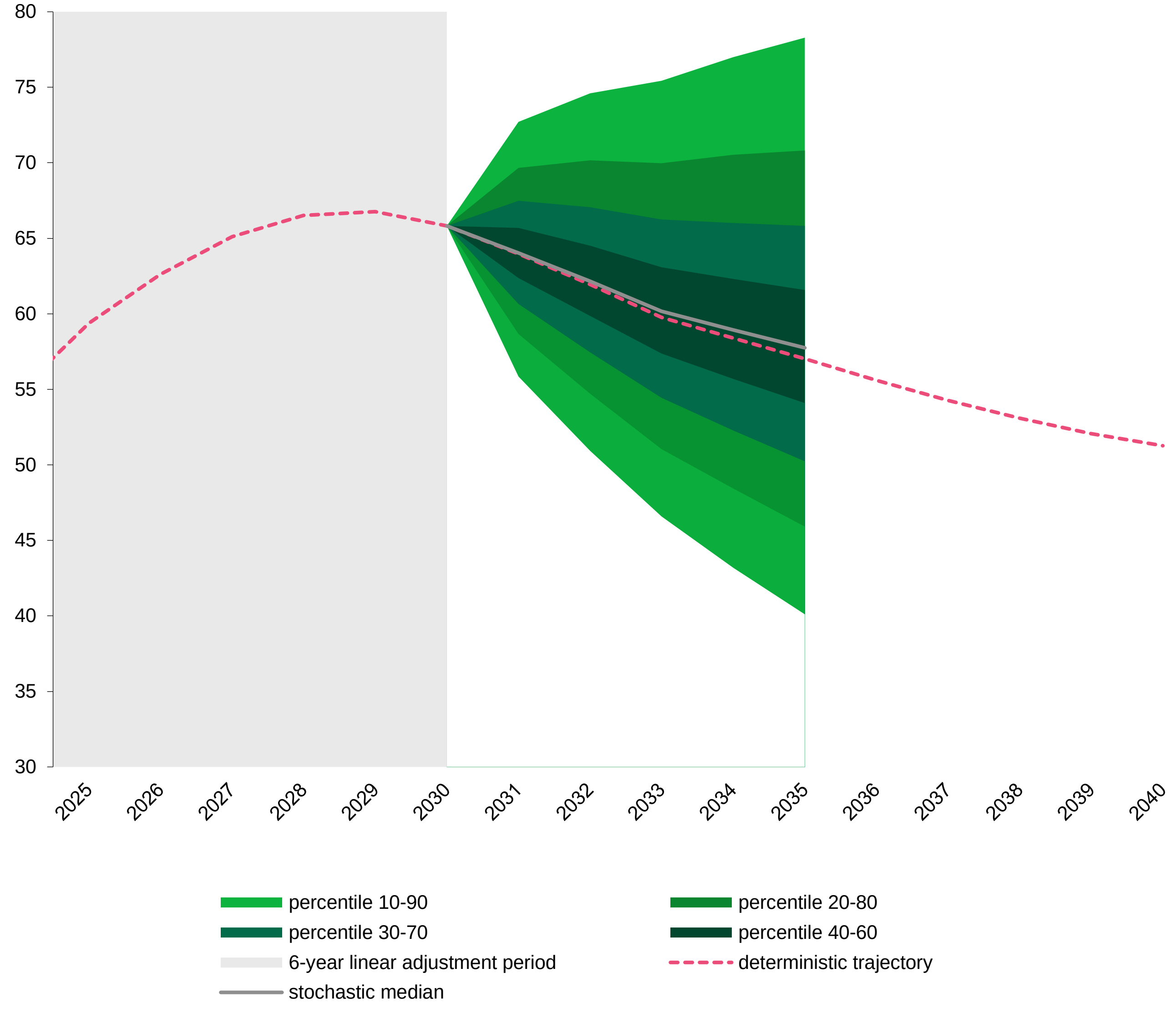
Public debt to GDP ratio projected trajectory in 6-year linear adjustment scenario, 2025-30 (% of GDP)*



Debt-to-GDP ratio: key indicator for markets

We believe that any discussion regarding a possible change of the outlook back to stable will require some improvement in fiscal metrics. The debt-to-GDP ratio is one of the most important indicators for both markets and rating agencies.

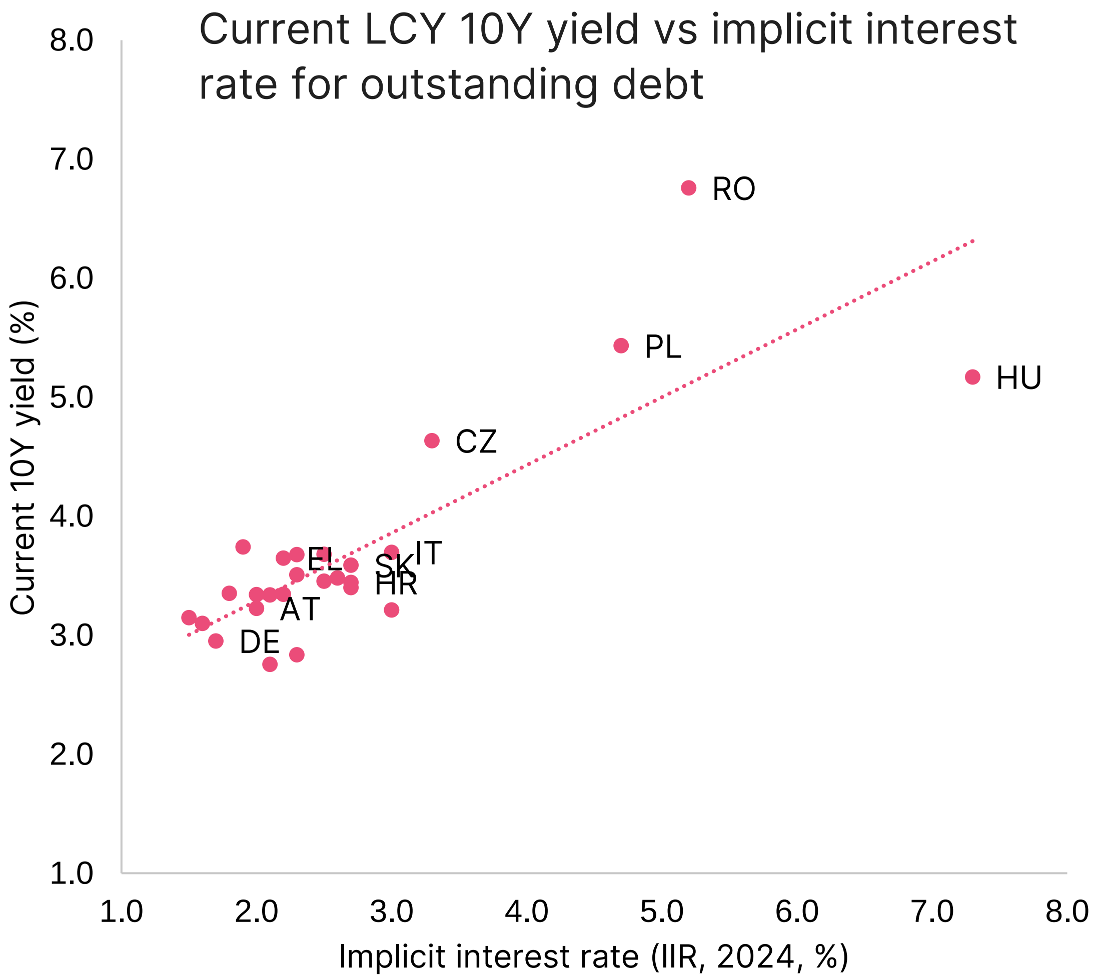
Romania has agreed with the EC on a fiscal adjustment plan stretching for multiple years to bring the budget gap to the 3% threshold. This, in turn, should stabilize the debt-to-GDP ratio, which has been growing at an accelerated pace in the past couple of years.

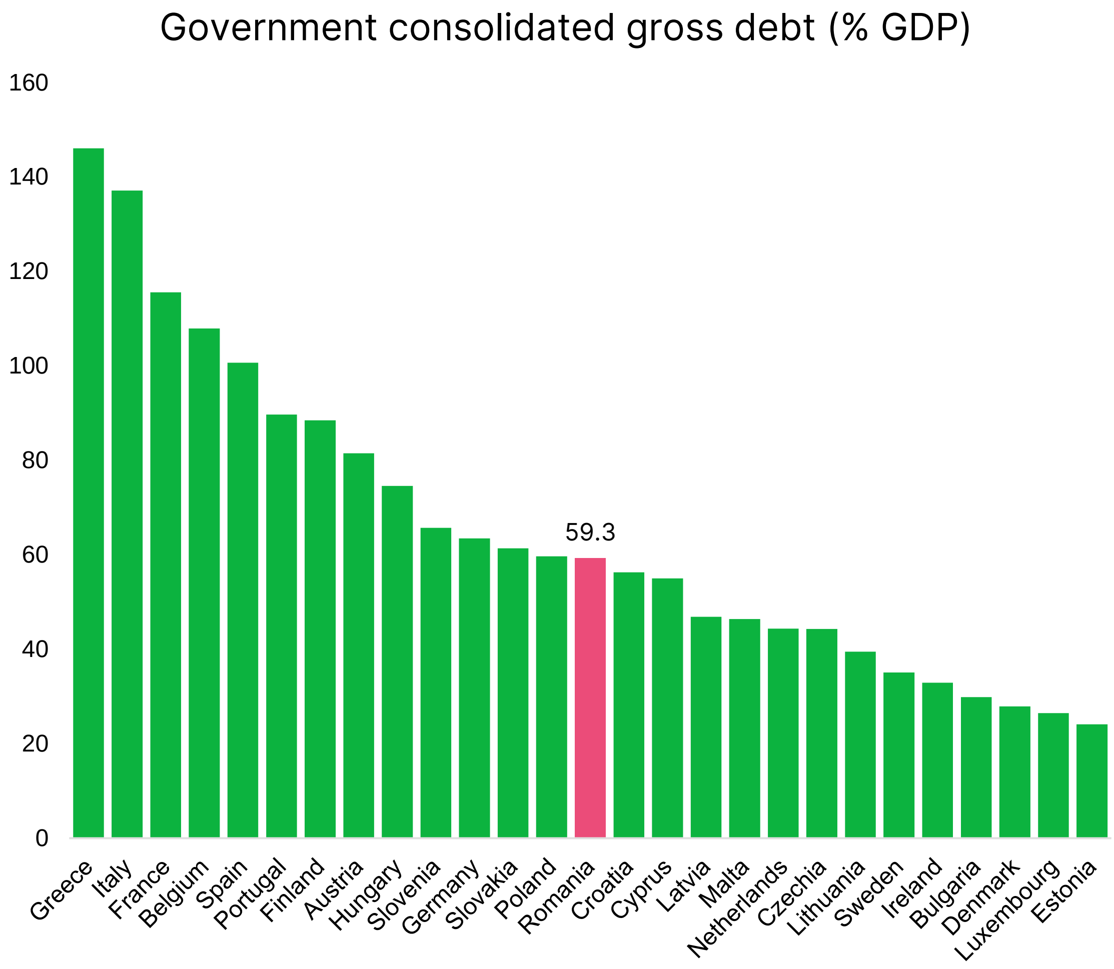
A quantitative approach regarding the debt trajectory shows that, after an adjustment period of six years, stabilization could be reached around 2028-29, with the debt-to-GDP ratio peaking at around 67-68% and gradually going down afterwards in a no-policy change scenario.

To reach the primary surplus required for debt stabilization, a fiscal adjustment of over 8pp is required during the 6-year adjustment period.

Source: Erste Group Research

Unsustainable borrowing costs: nominal rates (r) > nominal GDP growth (g). Primary surplus can revert debt-to-GDP ratio path

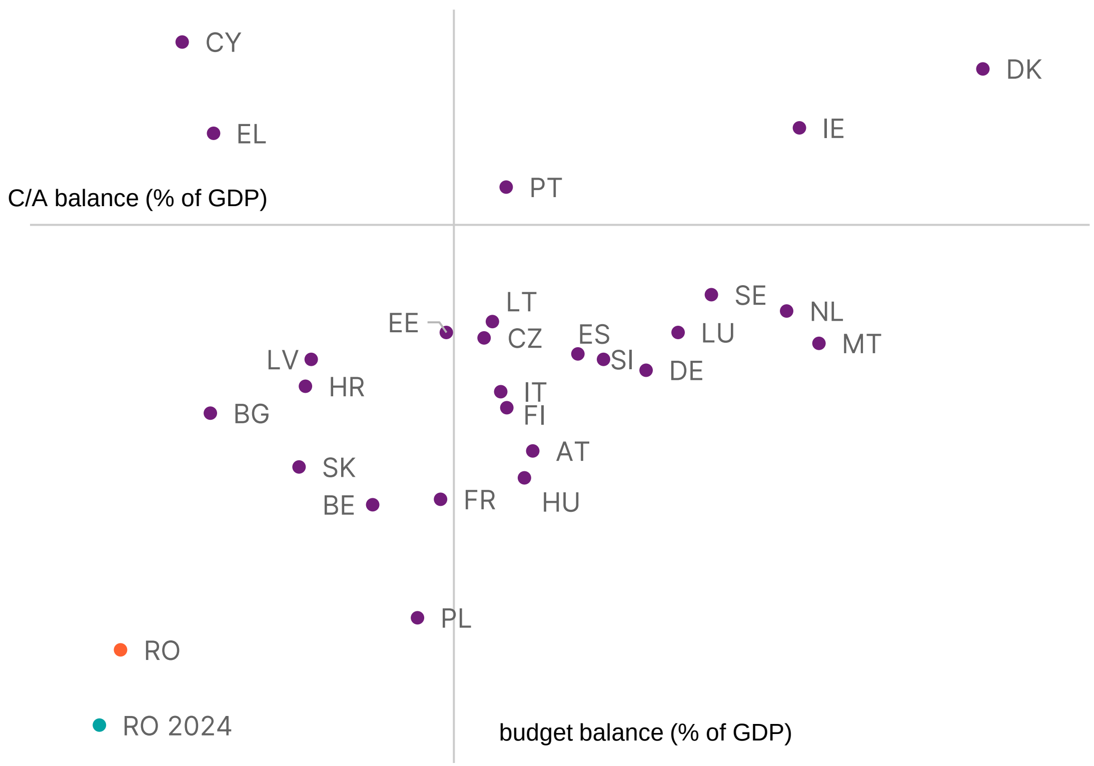




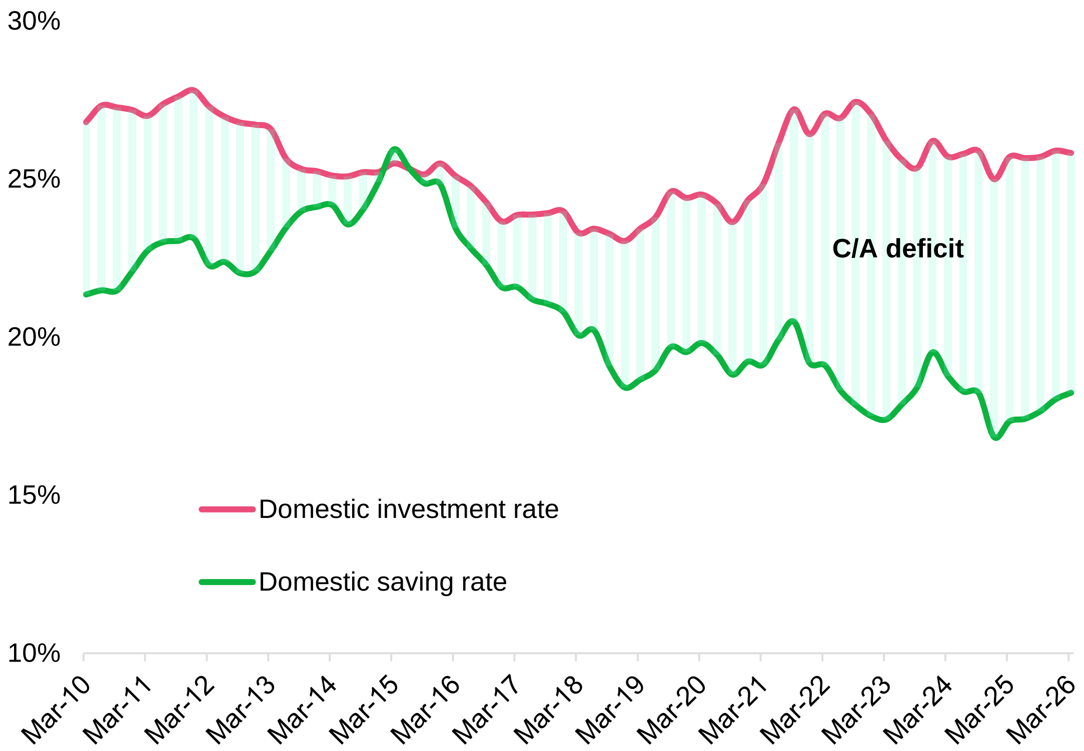
Source: Ameco, Eurostat, BCR Research

Romania – EU outlier in terms of twin deficits

Twin deficits: most vulnerable position within EU

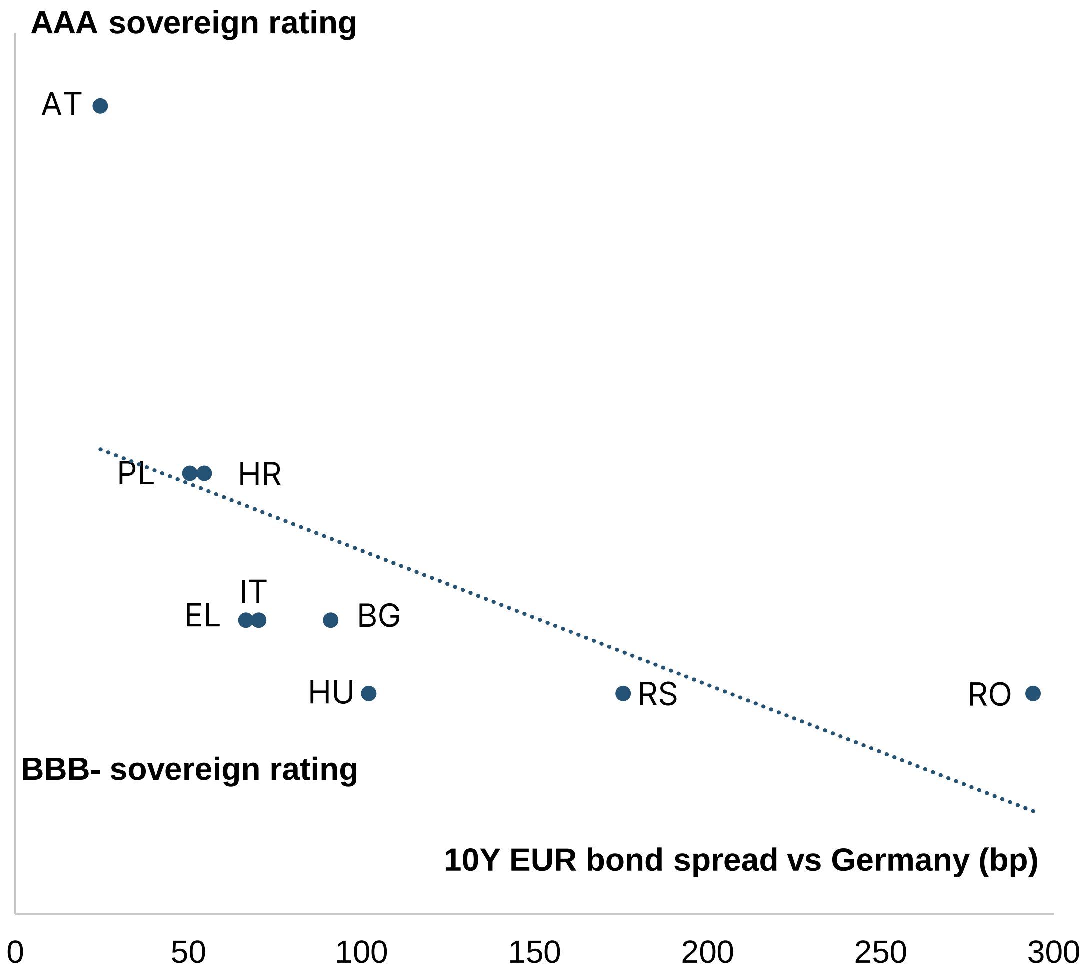


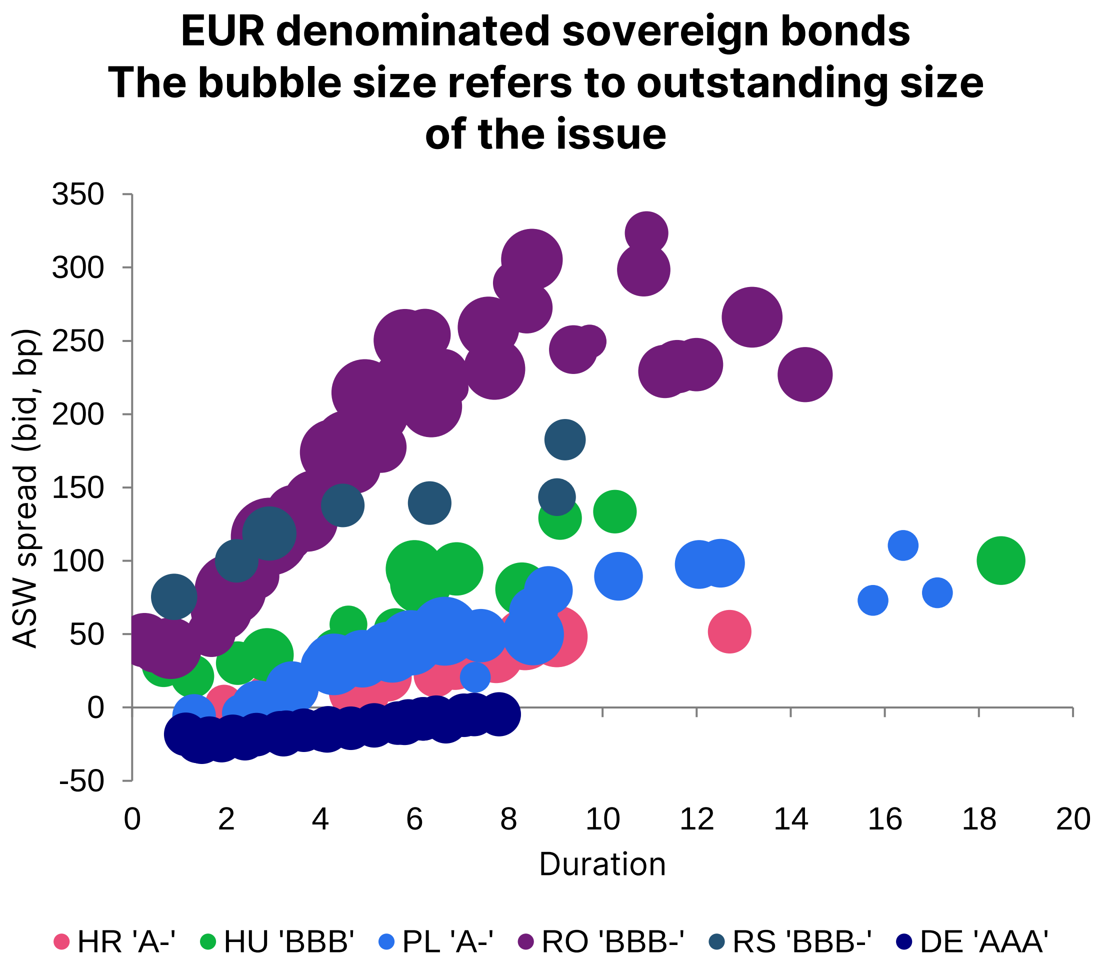
Decrease in savings & relatively high domestic investments



Source: Eurostat, NIS, BCR Research

Political risks added to pressure on spread widening on top of heavy supply and higher C/A financing needs





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Sursa: Bloomberg, BCR Research

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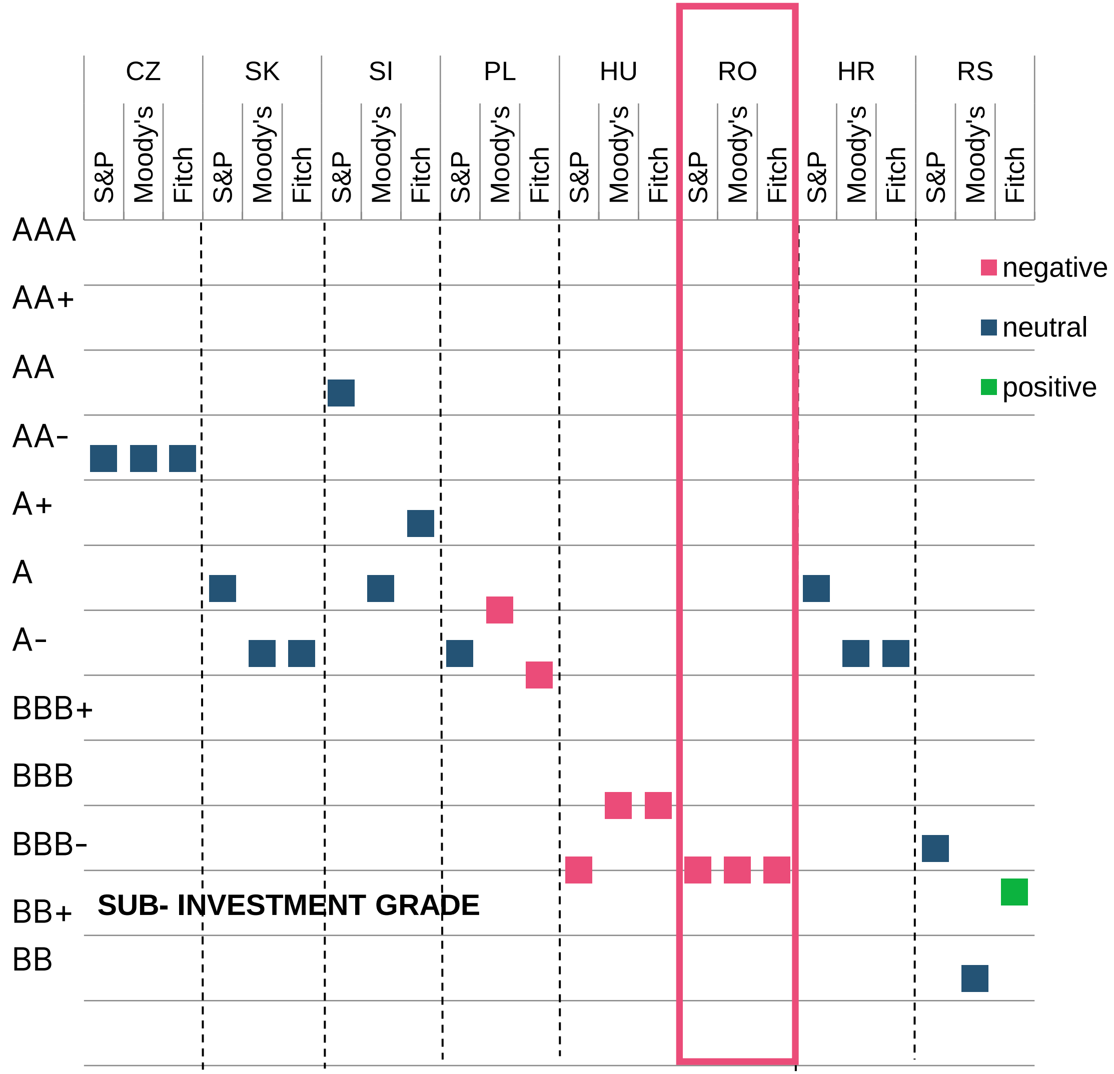
On verge of losing IG status in 2027 if fiscal slippage not avoided



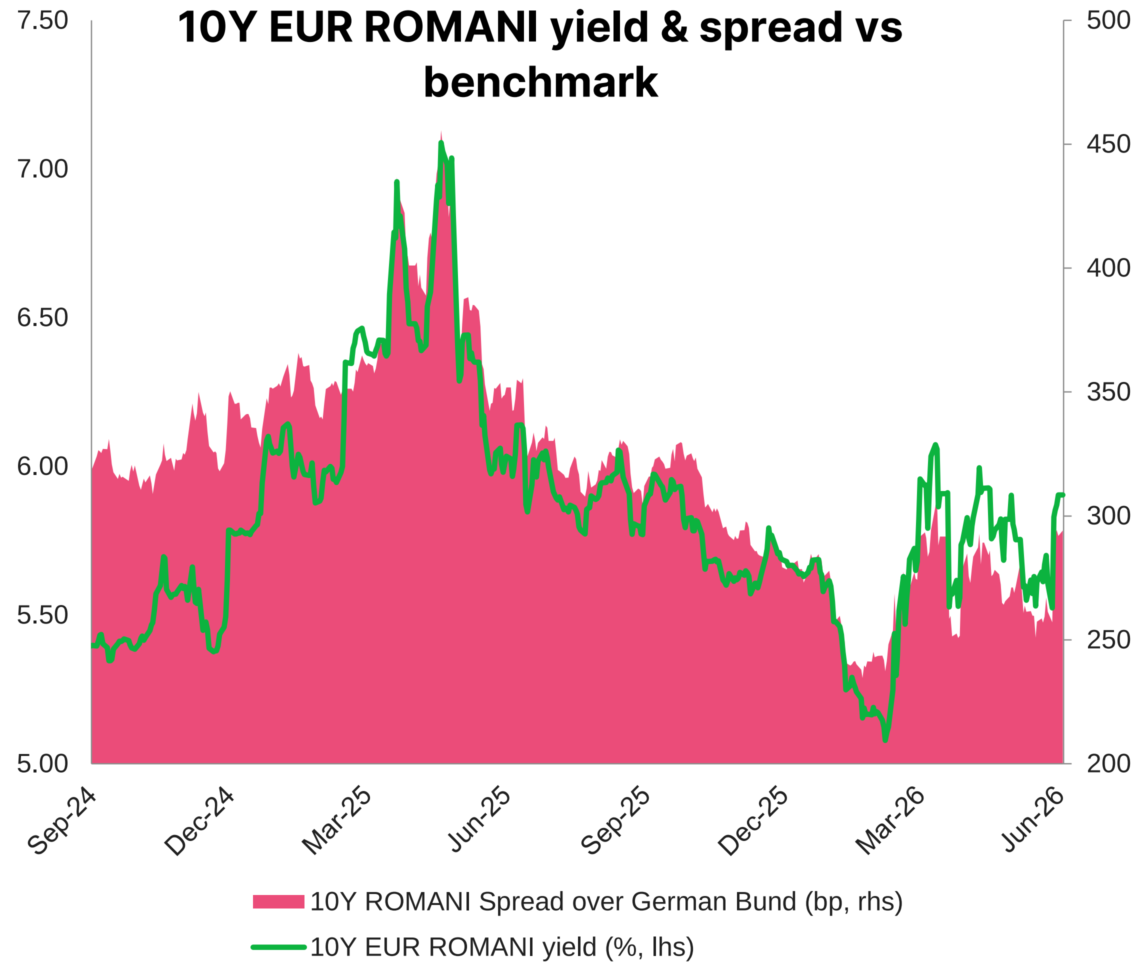
Fitch: "The implications of the current political crisis for the credibility of Romania's medium-term fiscal plans and prospects for implementation under a new administration will therefore be key to our sovereign credit analysis in our scheduled 31 July rating review."

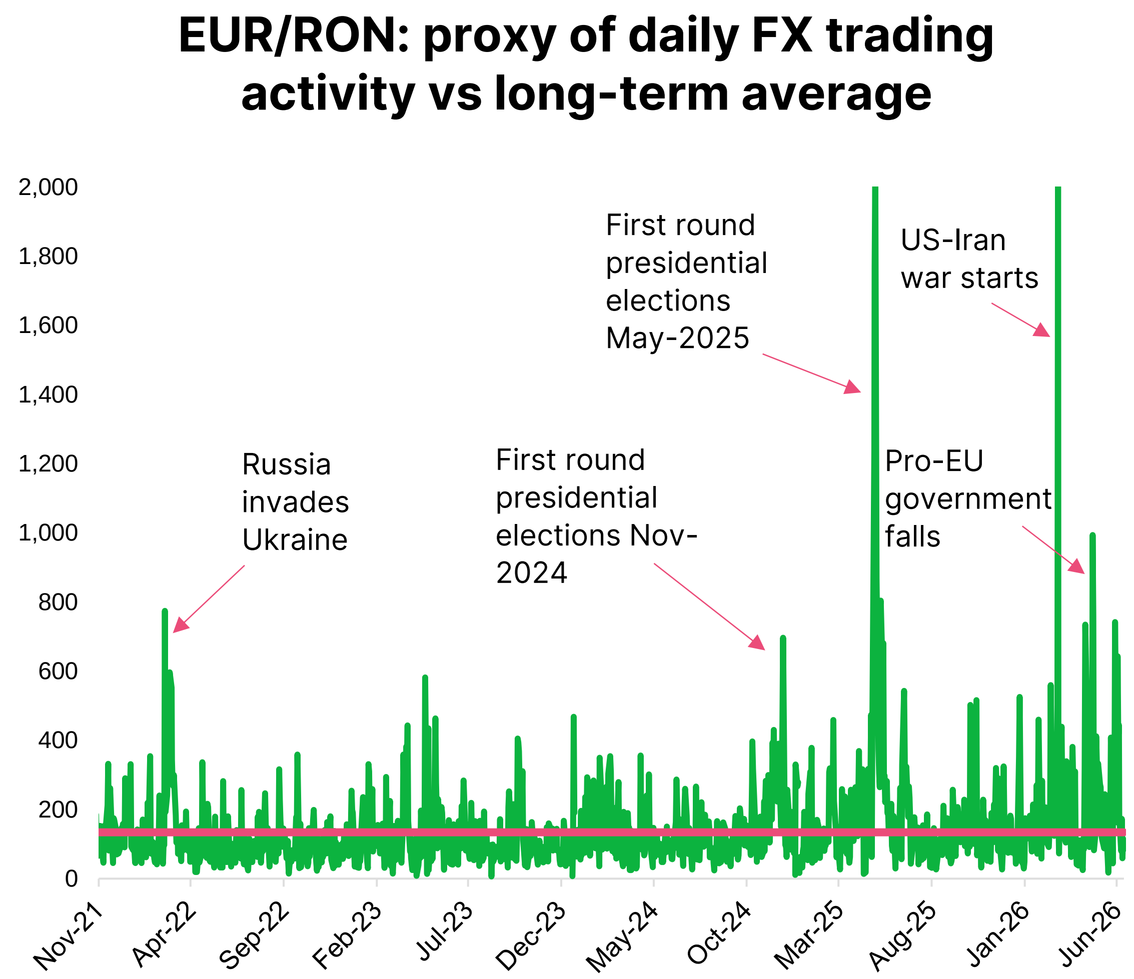
S&P: "The dissolution of the four-party coalition will complicate efforts to reduce Romania's wide twin current account and fiscal deficits as the 2028 elections approach." "We could lower our ratings on Romania if its government stalemate protracted or led to an inability to further reduce fiscal deficits in 2027."

Moody's: "The government's collapse is credit negative because it increases the risks of a prolonged period of policy deadlock and is likely to weaken the already difficult prospects for fiscal consolidation in 2027 and beyond."

Upcoming credit rating reviews schedule: Fitch Ratings – July 31, Moody's – August 7, S&P – October 2.

Rollercoaster ride for Romanian markets over past 1.5 years





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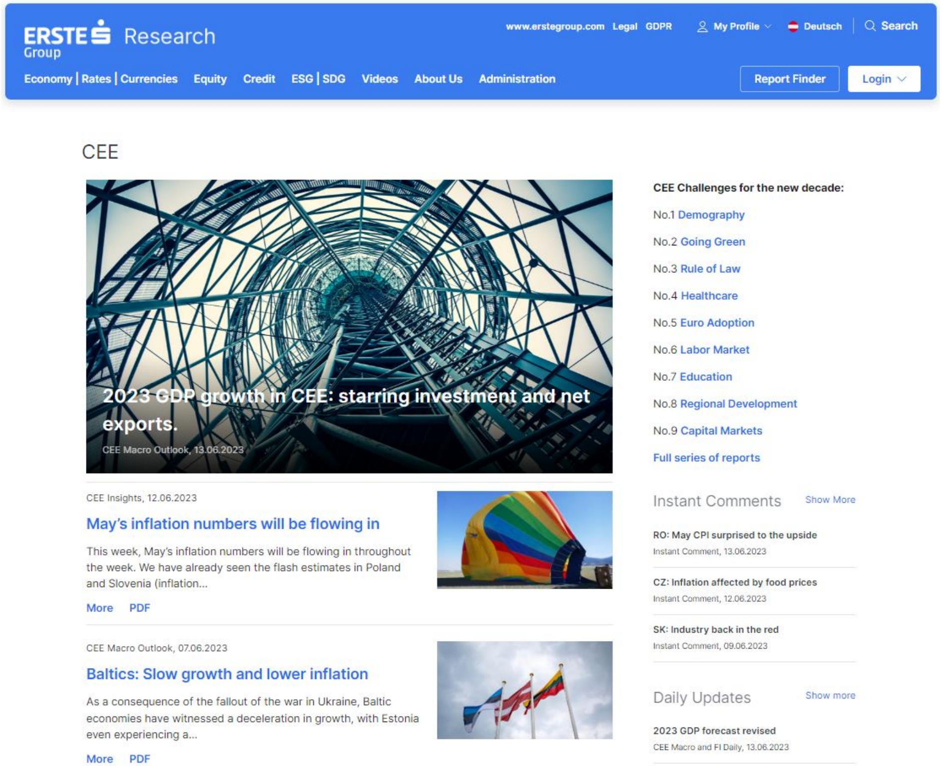

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Source: Refinitiv, Eurostat, Erste Group Research
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Contacts

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Erste Group Research (Vienna)

Fritz Mostböck, CEFA®, CESGA®
Head of Group Research
+43 5 0100 11902
friedrich.mostboeck@erstegroup.com

Juraj Kotian
Head of CEE Macro/ FI Research
+43 5 0100 17357
juraj.kotian@erstegroup.com

Henning Eßkuchen, CESGA®
Head of CEE Equity Research
+43 5 0100 19634
henning.esskuchen@erstegroup.com

Rainer Singer
Head of Major Markets & Credit Research
+43 5 0100 11909
rainer.singer@erstegroup.com

Local Research Offices

Bratislava
Slovenska Sporitelna
Head: Maria Valachyova
+421 (0)911 891 102
valachyova.maria@slsp.sk

Budapest
Erste Bank Hungary
Head: Jozsef Miro
+36 (1) 235 5131
jozsef.miro@ersteinvestment.hu

Bucharest
Banca Comerciala Romana (BCR)
Head: Ciprian Dascalu
+40 3735 10 424
ciprian.dascalu@bcr.ro

Prague
Ceska Sporitelna
Head: David Navratil
+420 224 995 439
dnavratil@csas.cz

Warsaw
Erste Securities Polska / Erste Bank Polska
Heads: Piotr Bielski, Cezary Bernatek
+48 691 393 119, +48 22 257 5751
piotr.bielski@erste.pl
cezary.bernatek@erstegroup.com

Zagreb/ Belgrade
Erste Bank
Heads: Alen Kovac, Mladen Dodig
+385 72 37 1383, +381 1122 09178
akovac2@erstebank.com
mladen.dodig@erstebank.rs

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