

CITI'S TAKE

Political uncertainty in Romania persists amid a caretaker cabinet, with ROMGBs repricing sharply as 10y yields near 7.5%, underperforming most of the EM complex since late February. We think fresh elections are unlikely in the near term given the AUR's significant 36% polling lead, making another technocratic-led government likely the path of least resistance and in our view a realistic scenario to avoid a sovereign credit downgrade. This week will likely see some volatility with Mr Muresan facing a confidence vote on Wednesday and S&P's rating review is scheduled for Friday. While we expect Romania to avoid a downgrade this week, we see materially higher downgrade risk early next year if the political gridlock persists, consistent with recent comments from Fitch. As a mitigating factor, fiscal execution has beaten expectations so far, with the budget deficit tracking at 2.9% compared with 4.5% a year ago.

Romania Strategy

Bhumika Gupta

Romania Strategy

Romania has seen a sharp re-pricing in its ROMGB curve in the last few weeks, after holding out for a long while against a challenging global backdrop. Nominal yields on 10y ROMGB are now close to 7.55% at the time of writing, the highest level since the start of the US-Iran conflict. Higher absolute levels were only briefly seen around elections in May 2025. However, on spread

terms versus the core yields, the selloff has been less acute as most EM bond yields have compressed against the US (Figure 1). In the bond space, only POLGBs have underperformed UST yields since the start of the conflict, and Romania sits just after US, as 10y yields are about 120bps wider since late-February, underperforming rest of the EM complex across the three geographies. This underperformance prompts us to take a closer look at the curve.

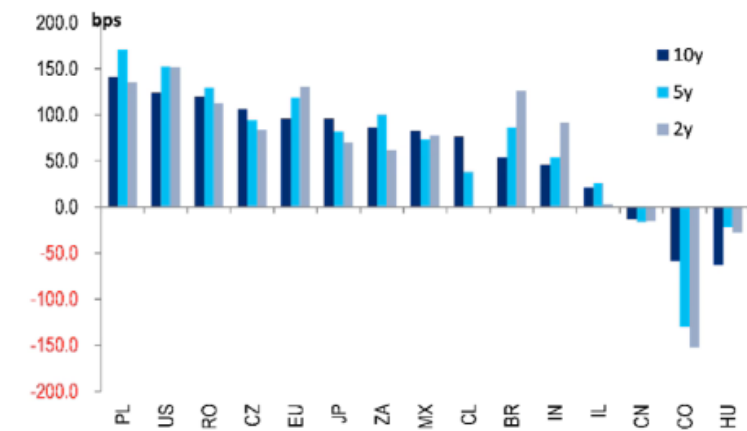
As we mentioned in our previous update [here](#), political impasse remains unresolved. While President Dan has proposed a new technocratic PM candidate, Mr. Mureșan, it appears unlikely that he would be able to secure a parliamentary approval in Wednesday's confidence vote following the PSD's indication that it will not support his candidacy (Bloomberg, 21 & 23-Sep). If Mr. Mureșan fails to win the latest confidence vote, then in principle President Dan could call for fresh elections. While markets have historically tended toward underpricing political risk in Romania, we continue to view an early election as unlikely in the near term. With AUR polling at approximately 36%, compared with around 23% for PSD and 18% for PNL¹, none of the parties are likely to have a strong incentive to return to the polls. Thus, in our view, the path of least resistance still remains the appointment of another technocratic candidate who can secure sufficient parliamentary support to pass the 2027 budget and maintain some degree of policy continuity into the next year. We believe such a scenario is likely to be the best chance for Romania to avoid a sovereign downgrade in the near term. If President Dan were to appoint a technocratic candidate with support from the PSD, there may be a greater possibility of navigating through the current political gridlock. While it is difficult to assign a high probability to this scenario unless we see a new nomination come through, it is also evident in some ways that the current political establishment, especially the PSD, appears reluctant to go to polls and thus the incentives for a workable compromise remain firmly in place.

Given that the political impasse is likely to persist in the near term, the key question for investors is the risk of a sovereign downgrade. S&P review is due on Oct 2nd which is being closely watched by the markets. While we think that the probability of a downgrade this week is low, the chances of a downgrade increase into early next year especially if this political situation remains unresolved, consistent with the [recent commentary from Fitch](#) (Bloomberg, 18-Sep-26). However, risks of a downgrade would be mitigated if there is a government in place with some form of budget next year with a non-expansionary fiscal plan. The 2027 budget remains uncertain at this stage amid the political backdrop, and while there is no formal deadline for passing the budget, the fiscal path remains the key consideration for rating agencies. While our base case is that Romania avoids a downgrade this year, we see significantly higher probability in Q1 next year, as the appetite for further fiscal consolidation appears to be low outside the pro-EU parties.

On the fiscal side, as our economists also mention below, the execution so far this year has been better than initial expectations. To put in context, this time last year the fiscal deficit was already tracking at 4.5% by August-end, while it is close to 2.9% this year (Figure 2). As this year's execution will most likely adhere to the already-passed budget laws, we think the 6.2% fiscal deficit target for 2026 will very likely be met or outperformed. Also, the headline CPI has passed the August-base effects, thus dropping from 8.2% to 6.2%, and the real wages are starting to post a recovery, along with a pick-up in nominal wages (Figure 4).

On FX, the central bank has recently shown a larger appetite for movement (albeit in a tight band), however offshore participation in recent FX moves has remained limited, as noted from the evolution of FX reserves in NBR (Figure 3). On the ROMGB curve, offshore positioning remains light following the US-Iran conflict and the domestic political challenges. In terms of valuation, ROMGBs screen as expensive versus the Romani curve, after FX-hedging the yields (see our [scanner](#), Figures 35 and 36) and locals tend to prefer the hard currency bonds at these levels. We also think that the ROMGB curve trades quite flat amid the domestic outlook and the global macro backdrop and thus could present tactical opportunities more in the front-end than the belly of the curve for carry trades at current levels. On issuance front, total issuance YTD is 63bn RON vs our forecast of 90bn total for the year in the ROMGB market. This implies a reasonable pace of issuance for the rest of the year, at just under RON 7bn/month.

Figure 1. Change in govt bond yields since 27th Feb (bps)



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Source: Citi Research, Bloomberg

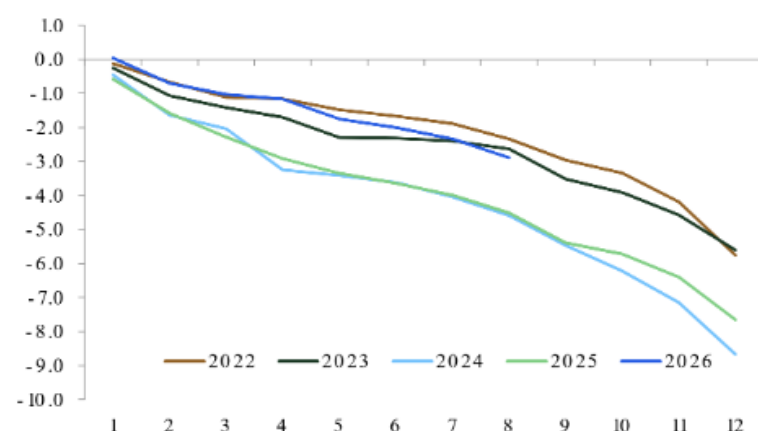
Figure 3. NBR FX reserves and Gold reserves



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Source: Citi Research, Bloomberg

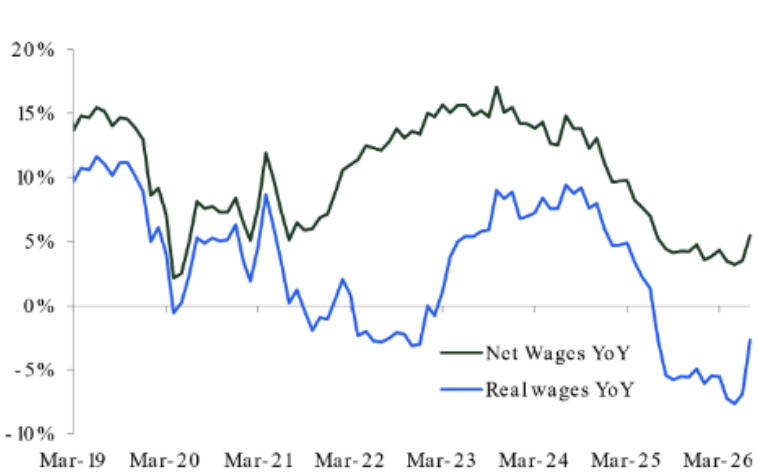
Figure 2. Fiscal deficit evolution (%GDP)



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Source: Citi Research, Bloomberg

Figure 4. Nominal vs real wage growth in RO (YoY%)



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Source: Citi Research, Bloomberg

Romania Economics

Gultekin Isiklar

Romania Economics

The macroeconomic framework continues to point toward a normalization in growth composition, decelerating inflation, and strong budget execution. Specifically, real GDP contracted by 0.7% YoY in the first half of the year, driven by a sharp drop in private consumption that subtracted 2.2 percentage points (pp) from growth. This was broadly offset by a rebound in gross fixed capital formation.

The cumulative budget deficit for the first seven months of the year narrowed to 2.3% of GDP, from 4.0% of GDP over the same period in 2025 — a significant improvement. The adjustment was broad-based: expenditure restraint accounted for 1.1pp of the total 1.7pp improvement, while strong tax revenues — underpinned by the lasting impact of the August 2025 VAT hike — provided additional support (Figure 2). Although our simulations suggest that a full-year deficit below 6.0% of GDP is achievable on current trajectory, we view material fiscal slippages as highly likely given the prevailing political environment. Accordingly, we maintain our full-year budget deficit forecast at 6.5% of GDP.

Inflation decelerated from 8.2% in July to 6.2% YoY in August, driven primarily by favourable base effects associated with the August 2025 VAT hike. While both seasonally adjusted data and the diffusion index point to an improving inflation outlook, we caution that a reversal in food inflation — combined with elevated energy inflation — could constrain the pace of disinflation going forward. As a result, we expect inflation to remain broadly at current levels, ending the year at about 6%, in line with the NBR's projections in its latest Inflation Report.

On the external balance, the current account deficit widened to EUR 16.3bn in the first seven months of the year, from EUR 15.7bn over the same period in 2025. The moderate deterioration was driven mainly by primary and secondary income balances, partially offset by an improvement in the services balance. The goods balance was broadly unchanged over the period, though the sectoral composition of trade shifted: increased exports of food products were broadly offset by higher imports of energy-sensitive goods — including fuel and chemical products — whose prices have been affected by the recent rise in energy costs. On the financing side, FDI and portfolio inflows lost momentum; however, this was broadly offset by a strong rise in other investment and EU fund inflows, the latter of which we expect to amount to about EUR 17bn — driven mainly by a marked increase in RRF disbursements, notwithstanding the loss of about EUR 0.8bn associated with the wage law.

In all, the emerging backdrop reinforces our view that the NBR is likely to maintain its cautious stance. Elevated inflation, compounded by uncertainty in both the global environment and the domestic political landscape, leads us to expect the policy rate to remain unchanged until April 2027.