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Why Romania is running as a one-engine economy

Flat 2Q26 GDP confirms that investment is keeping the Romanian economy afloat, while the rest of the economy remains under pressure. We maintain our forecast for a 0.5% contraction in 2026, with risks still skewed to the downside

Investment remains the Romanian economy's only meaningful growth engine for now

Romania's statistics office confirmed that GDP stagnated in 2Q26 versus the previous quarter. On the unadjusted series, the economy contracted by 0.4% year-on-year, leaving GDP down 0.7% in the first half of the year. Following growth of just 0.9% in 2024 and 0.7% in 2025, the economy remains on course for its first annual contraction since 2020.

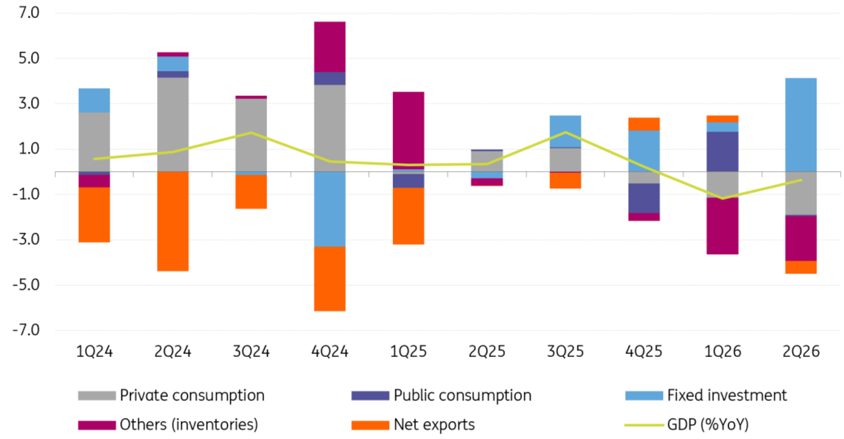
Investment does the heavy lifting

The expenditure breakdown reveals an increasingly unbalanced growth mix. Gross fixed capital formation increased by 16.5% year-on-year, contributing 4.1 percentage points to GDP growth and preventing a contraction.

By contrast, household consumption fell by 3.1% in volume terms, subtracting 1.9 percentage points from growth. Net exports were a further drag, as import growth of 2.6% outpaced the 1.4% increase in exports. Inventories subtracted another 2.0 percentage points, possibly reflecting cautious destocking in response to subdued demand and weak confidence.

The message is clear: investment remains the economy's only meaningful growth engine, while domestic demand is still applying the brakes.

GDP growth (YoY, %) and contributions (ppts)



Construction stands out against broad-based weakness

The supply-side breakdown tells a similar story. Construction expanded by 15.3% in volume terms and added 0.9 percentage points to growth, supported by infrastructure projects still under execution. Agriculture made a modest positive contribution of 0.1 percentage points.

Most other sectors contracted. Trade, transport and hospitality subtracted 1.0 percentage point, while industry reduced growth by 0.7 percentage points as output declined by 4.2%. Real estate activities contributed a further 0.5 percentage point drag, and ICT also moved into negative territory. Recreation, culture and other services provided some support, but not enough to offset the broader weakness across market services.

High frequency data shows a still-weak start to the third quarter

Recent indicators offer little evidence of an imminent consumption-led recovery. Retail sales fell by 6.0% year-on-year in July and were down by 5.7% in the first seven months of 2026. All major categories declined, led by non-food products, followed by food, beverages and tobacco, and automotive fuel. Romania recorded the steepest annual decline in retail sales in the EU in July, contrasting with average growth of 1% across the bloc.

Industry remains similarly weak. Output contracted by 3.5% in the first half of 2026, and manufacturing fell by 6.0% year-on-year in June. This extends a multi-year industrial downturn rather than representing a temporary setback.

A slow recovery, with the benefits shifting into 2027

We expect activity to improve only gradually during the second half of the year. Any recovery in confidence and domestic demand is likely to come too late to materially change the 2026 outcome, with the benefits feeding primarily into 2027 through the carry-over effect.

The current growth pattern is therefore likely to persist in the near term: weak consumption but strong investment on the expenditure side, alongside subdued industrial activity but resilient construction on the production side. Infrastructure projects opening later in the year could support productivity and confidence, although investment momentum may weaken as the Recovery and Resilience Facility (RRF) implementation window approaches its end. SAFE and Cohesion funding could provide a partial offset.

Forecast unchanged at -0.5%

The detailed 2Q26 data reinforces our forecast for a 0.5% contraction in 2026, but risks are more pronounced and skewed to the downside. A delayed recovery in household demand, slower investment project execution and continued industrial weakness would leave the economy with few alternative sources of growth. Domestic political developments, sovereign rating decisions and volatility in international energy markets add further uncertainty to the outlook.

Provided investment remains supportive and rating pressures do not intensify, we expect growth to recover to 2.2% in 2027. For now, however, Romania remains a one-engine economy, and that engine will need to keep running if a deeper contraction is to be avoided.

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