

Mugur Isrescu: South-east Europe's next leap forward

Speech by Mr Mugur Isrescu, Governor of the National Bank of Romania, at the Economist Impact event: Romania Government Roundtable, Bucharest, 30 March 2026.

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Honourable President of Romania,
Governor Stournaras,
Professor Acemoglu of Massachusetts Institute of Technology,
President Letta of Jacques Delors Institute,
Dear Chairs of the Conference, Hoey and Ross,
Ladies and gentlemen,

It is my honour to be here, at the Romanian Athenaeum, and share my views on the Romanian economic environment with all the distinguished attendants. I am also keen to convey my warmest greetings to all the foreign guests of honour here tonight. This prestigious high-level conference is dedicated to public economic policies at a time when such reflections are desirable and essential, alike.

On this note, allow me to express my personal regards to Governor Stournaras of the Bank of Greece, and member of the European Central Bank Governing Council, also a distinguished academic personality with extensive economic research in his career. Governor Stournaras and I, as well as all other colleagues leading monetary authorities, are navigating a complex international environment, marked by geopolitical tensions and trade disputes.

While the Greek and the Romanian banking sectors have strengthened significantly and non-performing loans have declined, we still face the challenge of safeguarding the financial stability amid global shocks such as rising energy prices, trade tariffs, and geopolitical conflicts that may disrupt growth and monetary policy decisions. At the same time, the interplay between the fiscal and monetary policy requires the delicate balancing act of maintaining fiscal discipline, supporting sustainable wage and productivity growth, and encouraging investment at the same time, while preserving price and financial stability.

Indeed, we are steering in challenging times for all economies and sectors, marked by heightened global uncertainty. In a larger global perspective, geopolitical tensions, military conflicts in our broader neighbourhood, fragmentation of traditional trade relations, as well as a reconfiguration of strategic alliances are redefining the environment in which companies and banks operate.

The values that are at the very core of the long-standing transatlantic relationship between Europe and the United States have been brought up in the forefront of diplomacy. In such a complex world, economic stability is no longer a passive outcome. Ensuring economic stability is an active policy objective that must be constantly reminded of, as a fundamental principle: sustainable growth cannot be built on macroeconomic imbalances. Stability is not an end by itself, it is the foundation upon which investment, innovation, and social progress can flourish.

Ladies and gentlemen,

The post-Covid19 restart of economies gave way to an inflationary shock, seconded by the energy crisis. Central banks across advanced and emerging economies embarked on one of the most forceful monetary tightening cycles in recent decades; Eastern and South-Eastern Europe made no exception. In addition, the war in Ukraine has brought further pressures on the economic stability. Despite these overlapping shocks, monetary policies have been adequate and inflation has moderated, yet it remains vulnerable to renewed supply shocks, commodity price volatility, and geopolitical disruptions.

At the same time, fiscal space has narrowed in many countries – Romania included - while public expectations remain high to allow for offsetting, at least in part, the negative social impact. The relationship between monetary normalization, fiscal consolidation, and structural reforms has become more delicate.

The economies in the South-East of Europe are highly integrated into the European value chains and are part of the interconnected EU Single Market. Since the EU Eastern enlargement, cohesion increased and the new member states have closed the gap in terms of income and productivity with EU, becoming more convergent.

The region shares common characteristics: convergence aspirations, exposure to external shocks and the need to attract long term investment flows. Regional cooperation within the larger frame of the European Systemic Risk Board, European Banking Authority, Single Resolution Board and the European Central Bank enhance resilience. Modern payment systems and the digitalization of financial services are among the newest topics discussed in regional forums, seeking to strengthen the efficiency and performance of our economies. Yet technological progress must be accompanied by robust risk management frameworks.

Ladies and gentlemen,

As Governor of the National Bank of Romania, I would like to outline how we view these developments and how our monetary policy framework is calibrated to preserve stability while supporting sustainable growth.

Romania's economy - interconnected with those of South-East Europe - undertook continuous efforts and engagement over the past 20 years to accelerate its convergence with the EU; yet it still needs positive policy measures and investments to continue the progress path and benefit from the opportunities arisen.

In the recent years our economy has demonstrated resilience, although the situation of public finances is facing the pressure of past higher budgetary expenditures. Growth has continued, albeit at a more moderate pace, supported by investment, EU funds absorption, and a still-robust labour market.

At the same time, we face structural vulnerabilities: a persistent current account deficit, fiscal imbalances, and sensitivity to external financing conditions. The interlinkages between fiscal and monetary conditions underlines the fact that the path forward requires, among others, a gradual and credible fiscal consolidation, continued structural

reforms to enhance productivity, an effective absorption of European funds and strengthening the institutional credibility.

Inflation, which peaked under the impact of energy and food price shocks after the Covid19, had been on a downward trajectory up to last summer when it flared-up as a result of supply side shocks (energy prices and tax increase) caused by fiscal adjustment measures. According to the National Bank of Romania's latest assessments on the inflation outlook, the underlying pressures on prices dynamics continue to require our vigilance.

The ongoing conflict in the Middle East generates significant risks – including upward pressure on energy prices, deterioration in economic growth prospects, and heightened risk aversion in international financial markets. Should the conflict prove protracted, its impact on the economy could be severe. Notwithstanding these risks, fiscal adjustment must continue.

It is true that when inflation accelerates, purchasing power erodes; when geopolitical risks rise, precautionary saving increases. Consumer confidence becomes more fragile, and consumption patterns adjust. However, the National Bank of Romania should maintain a firm stance to anchor inflation expectations and safeguard financial stability.

Our decisions are grounded in a comprehensive analysis of domestic conditions, external developments and risk scenarios, that are transparently reflected in the published minutes of our monetary policy meetings.

In parallel, Romania's external position and the Balance of Payments data underline the importance of maintaining international investors' confidence and ensuring sustainable financing conditions. We have adequately preserved our international reserves levels for them to be an essential buffer acting as an anchor of confidence, next to the stability of the exchange rate within a flexible regime. In this environment, impacted by volatility and uncertainty, the central bank's role is not to eliminate uncertainty, but to prevent uncertainty from turning into instability.

Our monetary policy framework has price stability as its primary objective. However, price stability is linked with financial stability, these two policy dimensions raise the challenge of several trade-offs: how to act decisively against inflation without unduly constraining economic activity, how to preserve the exchange rate stability while maintaining its flexibility and how to support credit intermediation while safeguarding prudential lending standards.

To navigate these trade-offs, we rely on a data-driven and forward-looking approach, on public communication to anchor expectations and on close cooperation within the National Committee for Macroprudential Oversight, recognizing that macroeconomic stability requires policy coherence.

In the current global context, coordination at the European level is equally vital. As geopolitical tensions intersect with economic policy, be it through sanctions, trade measures or strategic investment program, central banks must carefully assess second-round effects on inflation and financial stability.

In this context, the National Bank of Romania will continue to act with prudence, professionalism and independence. Our mandate compels us to look beyond short-term fluctuations and to safeguard long-term stability.

Ladies and gentlemen,

We live in an era where economic policy needs to respond to critical shocks that include various major determinants, such as climate change, digital and new technologies, energy security, defense expenditures and geopolitics.

The transatlantic relationship, European integration and regional cooperation are not abstract diplomatic constructs, as they influence the global markets dynamics, the interest rates, the investment flows, the exchange rates and ultimately, the well-being of society.

In times of turbulence, credibility becomes one of the most valuable assets of a central bank. Credibility is earned through consistency, communication and a firm commitment to fulfil the mandate to the best of our abilities.

Let this conference be an opportunity to deepen the dialogue, to confront difficult trade-offs and to reaffirm the shared responsibility for economic stability and sustainable growth. The challenges we face are significant. But with sound policies, institutional strength, and cooperation at national, European, and transatlantic levels, we can transform uncertainty into resilience and resilience into long-term prosperity.

Thank you for your attention!