The *Fiscal Question* in Romania (talking points)

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Overview

1. International context
2. Fiscal/Budget strains in the EU; the new fiscal rules
3. Romania's *fiscal question*
4. Macroeconomic/fiscal correction in Romania

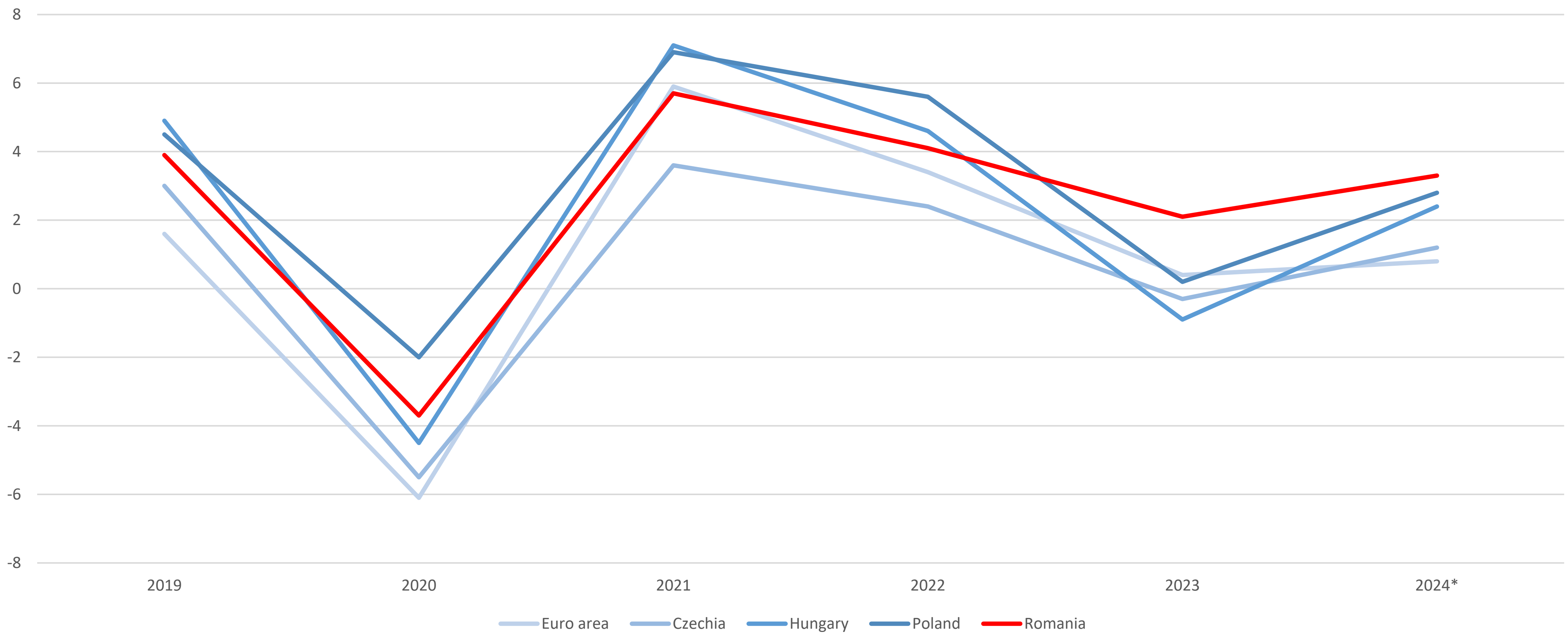
1. International context

- Fragmentation continues in the world economy…
- Shift of economic power (toward Asia)
- Security concerns, geopolitical tensions
- Rising public debts and budget deficits
- AI, both a blessing and a curse: risks it poses to financial stability
- The EU's competitiveness gap (The Draghi Report)
- The Trump2 effect: trade warfare, inflation, currency wars, stability risks due to deregulation of finance, lower economic growth (though higher defense expenditure stimulates economies short-term, but…

2. Fiscal/Budget strains in the EU

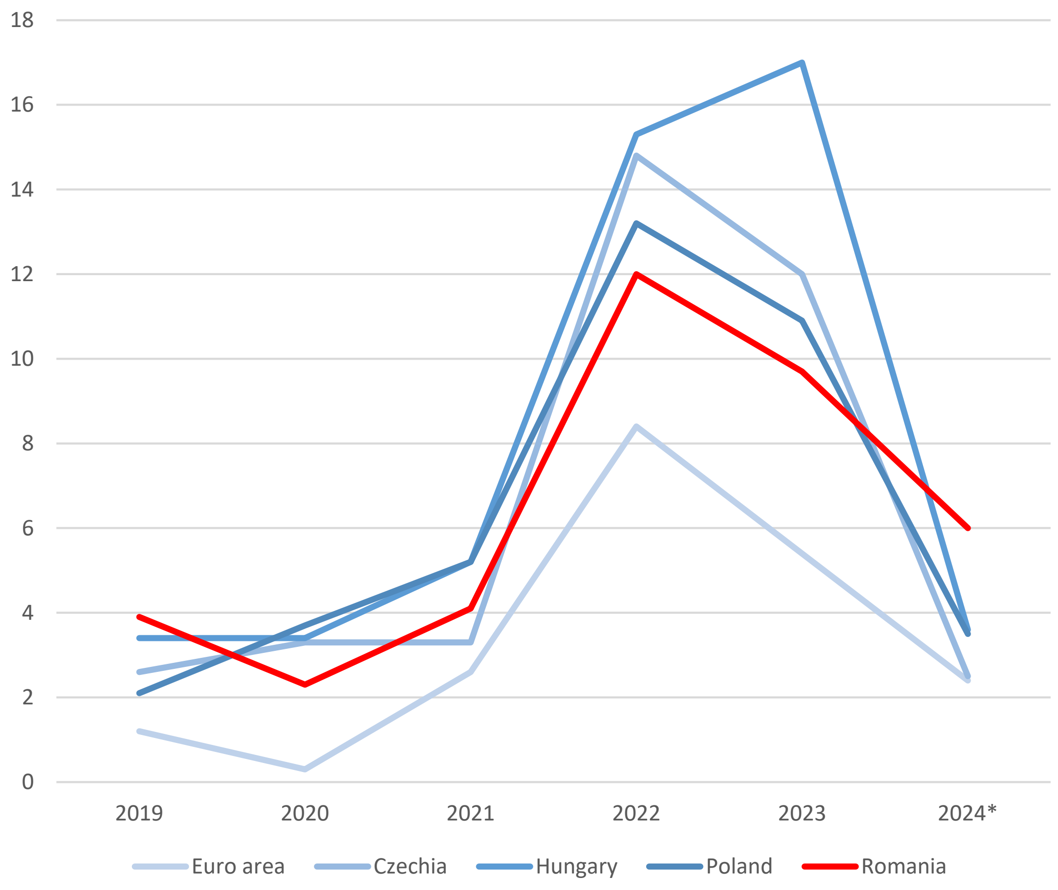
- Lower economic growth due to shocks (the pandemic, climate change, energy crisis, the war in Ukraine)
- Positive real monetary policy rates, though nominal policy rates have declined significantly due to descending inflation…debt service…
- Budget deficits on the rise in CEE, in other EU member states (FR, IT)…
- 7 EU member states under EDP
- Defense expenditures on the rise, painful trade-offs

Economic growth

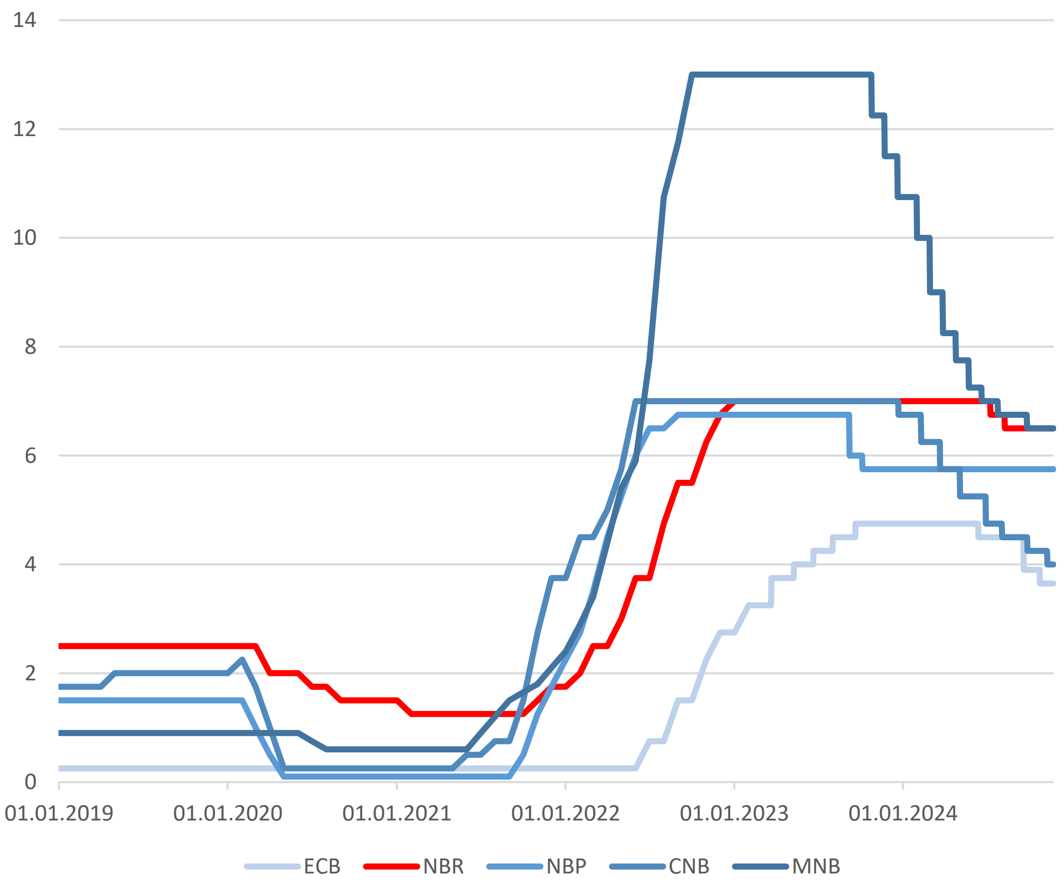


Source: EUROSTAT

HICP and key monetary policy rates



Source: EUROSTAT
Note: *annual average rate of change for the first three quarters of 2024



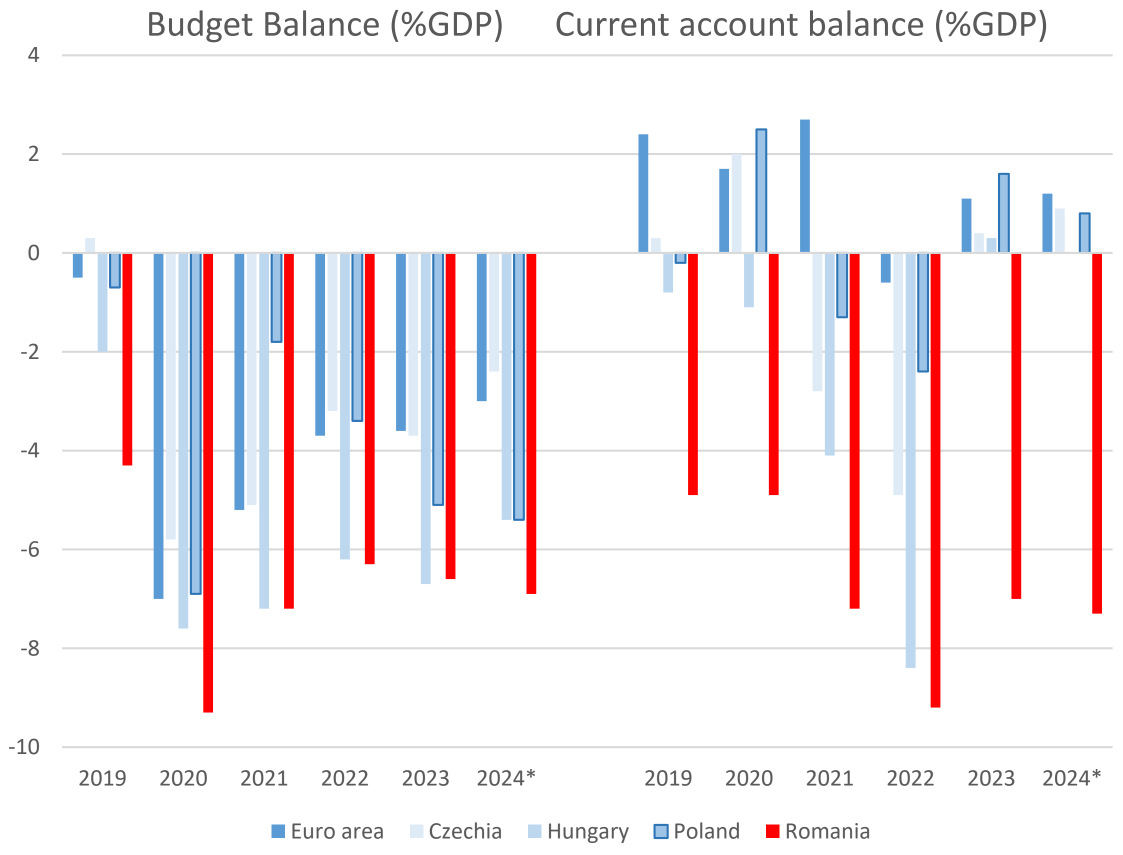
Source: ECB, NBR, NBP, CNB, MNB

2.1 New fiscal rules in the EU

- They provide more flexibility for macro corrections, but…
- Do not address the basic design flaws of the euro area, of the EU: no joint fiscal capacity, no EDIS, no safe asset
- They may underestimate the impact of climate change, trade “wars”, “war economy” syndrome, etc. on macro imbalances
- The control variable is **net expenditure**
- Member states have to correct major imbalances over periods of 4 or seven years, so that fiscal sustainability be ensured
- Higher tax revenues will likely be needed in not a few countries…massive social resistance

3. Romania's fiscal question

- Very large budget deficits, though public debt is still manageable
- Budget deficit on the rise (cca 8% in 2024)…an election year!
- A twin deficits syndrome; half of the current account deficit funding is through borrowing
- Half of the budget deficit funding is on domestic markets (which are thin…)
- Very low tax revenues (27% vs cca 40% of GDP EU average and 34-35% of GDP in peer countries…there is much scope to raise tax revenues

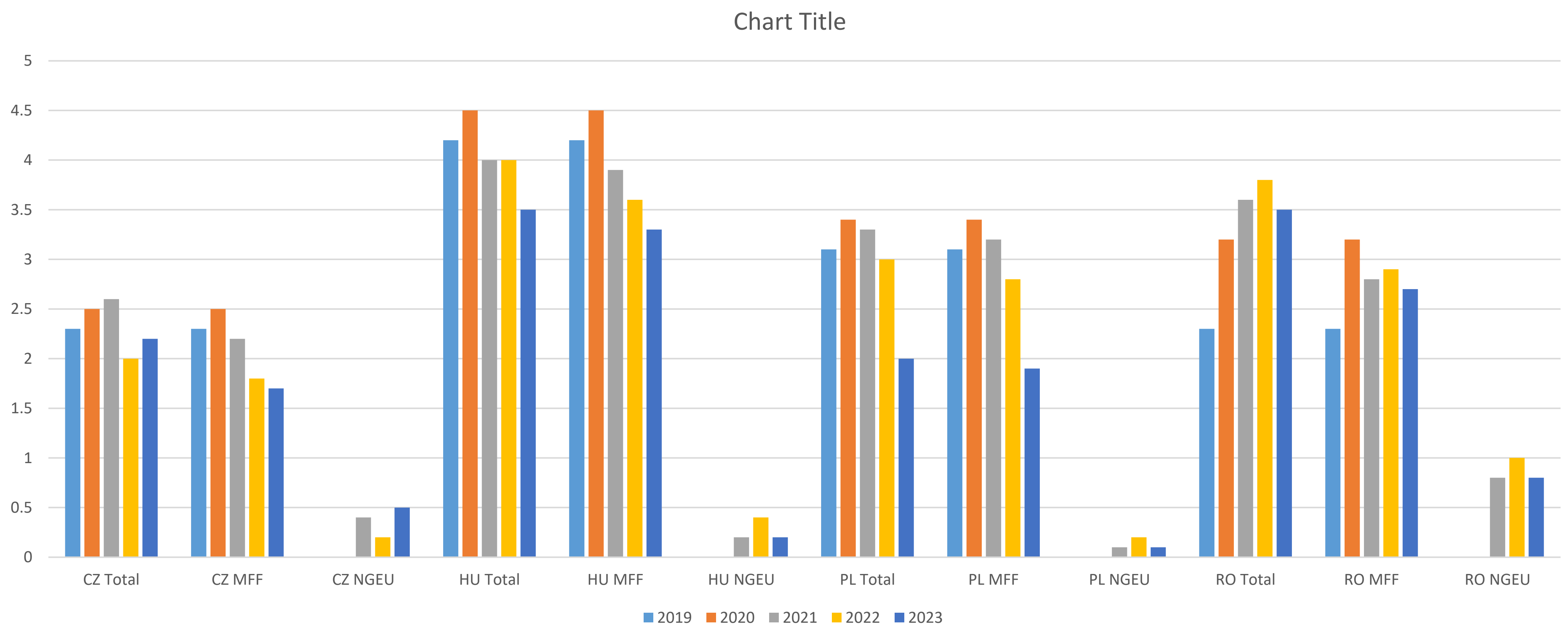


Source: Eurostat

4. Macroeconomic/fiscal correction

- Bringing the budget deficit to 2.5% in seven years is a big challenge; both the revenue and expenditure sides must be dealt with to cut the deficit
- Stabilize public debt at cca. 60% (it is slightly above 50% of GDP currently)
- Bring the current account deficit toward 3-4% of GDP by curtailing the budget deficit…there is some overvaluation of the Ron as well…
- The key role of EU funds for economic stability (a large share of public investment)…but these funds will be downsized in the future (EC) in view of the challenges the EU is confronted with
- Being in the EU is a major plus in order to mitigate shocks
- The international environment is highly complicated…new shocks?

EU FUNDS



Source: European Union spending and revenue 2021-2027

Thank you for attention!