Fiscal Council of Romania

Fiscal Council's Opinion on the State Budget Law for 2025, the Social Security Budget Law for 2025 and the 2025-2027 Fiscal Strategy

Summary

- Romania is one of the eight EU countries subject to the excessive deficit procedure, having the largest budgetary imbalance. It is a positive thing that an agreement has been reached with the European Commission to extend the macroeconomic adjustment (of the budget deficit) over several years, considering the reforms involved and the magnitude of the correction – from over 9% of GDP, if the full impact of pension recalculation is taken into account, to below 3% of GDP. In November 2024, the EU Council approved Romania's National Medium-Term Fiscal-Structural Plan (MTP).
- The fragmentation of the global system continues (multilateralism is unraveling), protectionism is intensifying, and successive shocks (the pandemic, the energy crisis, climate change, the war in Ukraine) have weakened the EU economy. Financial markets may experience "freezes" (sudden stops), making access to financing more difficult for economies with large deficits. This context forces national governments to make difficult choices, painful compromises, in economic policies.
- The draft budget for 2025 starts from the necessity of reversing the trend of budget deficit increasing, and this is not only because the MTP dictates it; a responsible fiscal policy demands it, as does the need to prevent a downgrade of Romania's sovereign risk to investment junk status. Romania's borrowing costs are the highest among EU states.
- The 7% deficit target for 2025 is very ambitious and requires measures on both the expenditure and revenue sides. It is worth noting that Romania has the lowest tax revenues (including contributions) in the EU, except for Ireland. The adjustment in 2025 is only the beginning of the macroeconomic correction; measures will need to be adopted in the following years as well. Macroeconomic correction is also mandatory to reduce the current account deficit and ease the pressure on the national currency.
- European resources are intended to mitigate the impact of the inevitable contraction in domestic absorption. The intention to allocate as many resources as possible for

investments – both from European funds and national sources, amounting to 7.8% of GDP in 2025 – is commendable. These investments should focus on developing the country's infrastructure, supporting the energy transition, and fostering the growth of tradable production (exportable goods and services that can replace imports).

- The correlation of recent economic information and data with the dynamics of relevant macroeconomic variables projected by NCSP (real GDP, GDP deflator, inflation, and labor market indicators) leads to the conclusion of a plausible trajectory for these aggregates in 2025.
- The budget execution for 2024 indicates a cash deficit of 8.65% of GDP, significantly exceeding both the initial budget target (5% of GDP) and the revised target from the September 2024 budget revision (6.94% of GDP). A major concern is that a large portion of the additional expenditures are permanent, which complicates the macroeconomic correction.
- The budget construction for 2025 takes into account a deficit target of 7% of GDP, according to the cash methodology, representing a reduction of 1.6 percentage points of GDP compared to the budget deficit recorded in 2024. It is worth noting that the effort to adjust the deficit is greater, as the full impact of pension recalculation will be felt in 2025. This reduction is planned in the budget by increasing total budget revenues by approximately 2.3 percentage points of GDP, while total budget expenditures are planned to grow by 0.7 percentage points of GDP.
- The budget correction measures adopted succeed in halting the trend of widening the deficit and steering it toward a significant reduction.
- The Fiscal Council (FC) cannot take into account hypothetical revenues derived from improved tax collection by the National Agency of Fiscal Administration (NAFA) in its assessment. Consequently, in its evaluation of the 2025 public budget, the FC estimates revenues to be approximately 9.7 billion lei lower, representing around 0.5% of GDP, compared to the targets set in the budget proposal.
- On the expenditure side, the FC identifies an additional funding requirement of at least 4.5 billion lei for goods and services expenditures and interest payments, representing approximately 0.2% of GDP. Additionally, there are further risks concerning compliance with the projected levels for personnel expenditures and social assistance spending.
- Considering the points outlined above and based on a prudent approach to forecasting revenues and expenditures, the FC estimates that the budget framework for 2025 is compatible with a cash deficit of approximately 7.7% of GDP.
- A more effective collection of tax revenues, additional adjustments to capital expenditures, the use of any savings resulting from budget execution, and the prioritization of projects could help bring the actual budget deficit closer to the 7% of

GDP target. This would ensure compliance with the budget deficit adjustment trajectory that Romania has committed to under the National Medium-Term Fiscal-Structural Plan agreed upon with the European Commission.

- The analysis of the fiscal-budgetary framework for 2026-2028 shows that it is built on the assumption of strict control over budget expenditures, which would lead to a reduction in their share of GDP, without considering a visible progress in tax revenues (including contributions). Additionally, the share of public investments in GDP is expected to decrease by 2.5 percentage points.
- Consequently, the Fiscal Council reiterates that maintaining the trajectory of budget deficit reduction, as assumed through the MTP, requires a significant increase in tax revenues, which are currently at a very low level relative to Romania's investment needs and compared to other EU countries. A deep reform of NAFA, leading to a permanent increase in revenues from this source, is imperative.
- The Fiscal Council considers that, in the absence of fiscal policies supporting the trajectory of fiscal consolidation on the revenue side as well, a medium-term budget deficit adjustment solely through expenditure reductions is not credible. The balance of risks is tilted towards higher deficits than those projected by the 2026-2028 fiscal framework. This observation is even more relevant given the evolution of the international environment and the significant challenges economic policies face with.
- The MTP must take into account the consequences of an inevitable decrease in the contribution of European funds to the investment process and the support of programs for the development of our economy. A significant decline in European funds (with the completion of the Recovery and Resilience Plan and a lower allocation from the Multiannual Financial Framework) will impact the dynamics of potential GDP and likely the economic growth rate unless the contribution of domestic resources increases as a compensatory factor. This anticipated reduction can be partially offset by improving the efficiency and quality of public investments.
- In general, it is to be expected that the implementation of the fiscal-structural plans of EU member states will be significantly influenced by the highly unfavorable evolution of the international environment.
- It must be emphasized that the NRRP is not repeatable, and the next MFF will not be as generous for Romania, given the major economic difficulties of the EU and the enormous challenges it faces. Romania must make full use of the European funds available under the current MFF and NRRP.

Fiscal Council's Opinion on the State Budget Law for 2025, the Social Security Budget Law for 2025 and the 2025-2027 Fiscal Strategy

On the evening of January 30, the Ministry of Finance (MF) submitted to the Fiscal Council (FC), via address 532983/29.01.2025, the *Report on the macroeconomic situation for 2025 and its projection for the 2026-2028 period*, *the Draft state budget law for 2025*, *the Explanatory Memorandum*, *the Draft state social security budget law for 2025*, *the Explanatory Memorandum*, and *the Draft law for the approval of ceilings for certain indicators specified in the fiscal framework for 2025*, requesting, based on Article 53, paragraph (2) of the Fiscal Responsibility Law No. 69/2010 (FRL) (republished), the FC's opinion on these documents.

According to Article 53, paragraph (4) of the FRL, the Government and Parliament are required to analyze FC's opinions and recommendations when developing the fiscal strategy, the annual budget laws, as well as when drafting other measures derived from the application of the FRL, and to consider/approve them accordingly.

Given the Government's intention to approve the aforementioned documents on February 1, the FC issued a preliminary opinion on February 1, 2025, considering the very short time frame available for analyzing all the received documents. The current opinion complements the previous one, providing an extensive analysis of the draft budget for 2025 and the medium-term fiscal framework.

1. Context

2024 recorded a budget deficit of 8.65% of GDP, the second highest after the pandemic year, when it reached 9.55% of GDP. Public expenditures grew at almost twice the pace of public revenues. In 2024, Romania also had a current account deficit of over 8% of GDP, the highest among emerging economies in the EU, with more than 60% of its financing relying on debt. Public debt reached approximately 54% of GDP by the end of 2024 – a level still reasonable compared to the EU average, but its rapid growth in recent years poses a significant threat.

Romania is one of the eight EU countries subject to the excessive deficit procedure, having the largest budgetary imbalance. It is a positive thing that an agreement has been reached with the European Commission to extend the macroeconomic adjustment (of the budget deficit) over several years, considering the reforms involved and the magnitude of the correction – from over 9% of GDP, accounting for the full impact of pension recalculations, to below 3% of GDP. In November 2024, the EU Council approved Romania's National Medium-Term Fiscal-Structural Plan (MTP).

It remains to be seen whether markets will have the patience for a relatively long adjustment period (seven years), especially given the increasingly complex and uncertain European and global context. The fragmentation of the global system continues (multilateralism is unraveling), protectionism is intensifying, and successive shocks (the pandemic, the energy crisis, climate change, the war in Ukraine) have weakened the EU economy. The EU is losing ground in the global technological race and requires radical reforms (as emphasized in the Draghi Report), while rising defense expenditures put additional pressure on national budgets and may exacerbate the cost-of-living crisis. Financial markets could experience "freezes" (sudden stops), making access to financing more difficult for economies with high deficits. This environment forces national governments into tough economic policy choices and painful compromises, as challenges proliferate while resources remain limited. Internal tensions are also rising in political life, with the ascent of radical groups, as many governments struggle to deliver public goods in line with citizens' expectations. Additionally, there is a widespread crisis of trust, with elites under constant pressure.

The draft budget for 2025 is based on the necessity of reversing the trend of an increasing budget deficit, not only because the MTP mandates it, but also due to the need for responsible fiscal management and the imperative to prevent a downgrade of Romania's sovereign risk to investment junk status. Fitch and S&P have issued warnings in this regard, shifting Romania's outlook from stable to negative. Romania's borrowing costs are the highest among EU member states.

The 7% deficit target for 2025 is highly ambitious and requires measures on both the expenditure and revenue sides. The challenge of correcting the budget deficit in 2025 is further complicated by the full impact of pension recalculations. The adjustment in 2025 is only the beginning of the macroeconomic correction, with further measures needed in the coming years. Tax revenues must increase significantly, as Romania has the lowest fiscal revenues (including contributions) in the EU, except for Ireland – approximately 27% of GDP compared to the EU average of around 41%. Improved tax collection could substantially contribute to this objective. Macroeconomic correction is also essential to reduce the current account deficit and ease pressure on the national currency.

European resources are intended to mitigate the impact of the inevitable contraction in domestic absorption. The intention to allocate as many resources as possible for investments – both from European funds and national sources, amounting to 7.8% of GDP in 2025 – is commendable. These investments should focus on developing the country's infrastructure, supporting the energy transition, and promoting the growth of tradable production (exportable goods and services that can substitute imports).

2. The macroeconomic framework underpinning the 2025 Budget Law and the 2025-2027 Fiscal Strategy

The Fiscal Council's analysis of the plausibility of the provisions in the 2025 Budget Law and the 2025-2027 Fiscal Strategy is based on the domestic and external macroeconomic framework that underpins them. The following considerations take into account, among other sources, the "2024 Autumn Forecast – Projection of 2024-2028 Key Macroeconomic Indicators", published by the National Commission for Strategy and Prognosis (NCSP) in December 2024, along with the accompanying explanatory note.

The economic coordinates in this forecast are based on recent data, which highlight: (i) a slowdown in the pace of economic growth, (ii) an increase in imbalances, especially the external one (the current account deficit) and the fiscal deficit, accompanied by an easing of the internal imbalance (inflation). The latest data on gross domestic product (GDP), published by the National Institute of Statistics (NIS) on January 10, 2025, show a slight decrease in real economic activity in the first quarter of 2024 and its stagnation in the following quarters.

Thus, the quarter-on-quarter variation of real GDP for Q3 2024 (the latest available observation) shows stagnation at the same level as in Q2 2024. Meanwhile, the year-on-year variation for Q3 2024 shows an increase of 1.2%. This is reflected, from the perspective of the GDP formation/production method, in: (i) negative contributions from certain sectors, such as agriculture (-1.9 percentage points, hereafter pp) and real estate transactions (-0.1 pp); (ii) weak positive contributions from other sectors, including trade (+0.7 pp), professional and related activities (+0.4 pp), entertainment and related activities (+0.2 pp), public administration (+0.1 pp), and construction (+0.1 pp); (iii) net taxes on products contributing +1.6 pp to the 1.2% GDP growth rate; (iv) neutral contributions from the remaining sectors of the economy (industry, information and communications, financial intermediation, and insurance).

From the perspective of the GDP expenditure/use method, we can observe: (i) the predominance of consumption in explaining growth (contributing +3.2 pp to the 1.2% year-on-year increase); (ii) the gross fixed capital formation contributing +0.2 pp[1]; (iii) net exports acting in the opposite direction, with a negative contribution of -1.8 pp; (iv) changes in inventories, also contributing negatively, with -0.4 pp. From the perspective of intra-annual economic growth distribution, the small contraction in Q1 2024 (-0.4%) was followed by an advance of 0.1% and stagnation in Q2 and Q3 of last year. This indicates both the very likely stagnation of annual growth for the previous year at a level below 1%, and a decelerating trajectory of the economy compared to previous periods. These developments, as well as

[1] The NIS press release from December 11, 2024, regarding net investments in the national economy, indicates that their volume increased by only 0.4% in the first 11 months of 2024, compared to the same period of the previous year.

expectations of similar future trends in both direction and magnitude, are visible in higher-frequency indicators, such as the negative performance of industry[2] and construction[3], and the increase in retail sales[4], driven by the preservation of purchasing power for wages[5] and pensions[6]. This dynamic has led, on the one hand, to an increase in the trade balance deficit[7] – and therefore a widening external deficit, and, on the other hand, to an inflation rate of 5.1%[8] in December 2024, exceeding the projected level.

Under these conditions, the revision made by NCSP between the Autumn 2024 forecast (published in December 2024) and the Summer 2024 forecast (from September 18, 2024), regarding both the real economic growth for the previous year and for the current year, which anticipates a reduction to +1% in 2024 and +2.5% in 2025 (declines of 1.8 pp and 1 pp, respectively, compared to the previous NCSP forecast), appears to be in line with economic

[2] Industrial production contracted by 1.6% cumulatively in the first 11 months of 2024 compared to the same period in 2023 (NIS report from January 15, 2025). The industry turnover for the first 10 months of 2024 compared to the same period in 2023 increased in nominal terms by only 5.3% (NIS report from December 17, 2024), while new orders in the manufacturing industry grew nominally by just 2.7% in the first 10 months of 2024 compared to the same period in 2023 (NIS report from January 23, 2025). Additionally, the report on economic activity trends (January 28, 2025) indicates stagnation or regression in the manufacturing sector in the coming period, both in terms of activity and employment. Furthermore, the NIS report on primary energy resources (December 13, 2024) highlights a total reduction of 1.5%, particularly affecting energy resources based on coal, hydroelectric, wind, and solar power, nuclear heat, as well as the availability of both usable natural gas and imported petroleum products. Industrial production prices in November 2024 (NIS report from January 9, 2025), amid the continued decline in production, indicate a deflationary trend, with recorded price reductions of 0.4%.

[3] The report on economic activity trends (published by NIS on January 28, 2025) indicates a downward trajectory for the construction sector, both in the past/present (December-February) and in the future (January-March). The report on construction works (published by NIS on January 20, 2025) shows a contraction of 3.9% in the first 11 months of 2024 compared to the same period of the previous year, with an accelerating trend. The report on housing construction in Q3 2024 (published by NIS on December 11, 2024) highlights a decrease in completed dwellings by approximately 8.6% (1,540 fewer units in the first three quarters of 2024 compared to the same period in the previous year). At the same time, building permits (data from January 9, 2025) for residential buildings show a marginal increase of 3.3% in the first 11 months of 2024 compared to the first 10 months of 2023, accompanied by a 6% rise in authorized surface areas (November 2024/November 2023). However, regarding permits for non-residential buildings, their number increased by 9.5% in November 2024 compared to November 2023, while the authorized construction surface area decreased significantly by 42.9%.

[4] Retail trade turnover increased by 8.1% in the first 11 months of 2024 compared to the same period in 2023, according to the NIS report published on January 10, 2025. The report on wholesale trade turnover (published on December 20, 2024) indicates a real-negative advance, with a nominal increase of only 1.9% for the first 10 months of 2024 compared to the same period in 2023. The economic activity trend in retail trade (NIS report from January 28, 2025) suggests an expected contraction in the January-March 2024 period. However, this is accompanied by an estimated increase in the number of employees, driven by the continued rise in prices.

[5] The NIS report on the average gross salary earnings, published on January 16, 2025, indicates a real increase of 7.6% in November 2024 compared to November 2023.

[6] The report on the average monthly pension indicates a real increase of 5.1% in Q3 2024 compared to Q2 2024, following the implementation of Law No. 360/2023 on the public pension system, which came into effect on September 1, 2024.

[7] The press release from January 10, 2025, shows an accelerating increase in the euro-denominated deficit, rising by 17.7% in the first 11 months of 2024, compared to the same period in 2023.

[8] NIS press release of December 13.

developments and trends, thereby increasing the plausibility of macroeconomic projections. The revision of economic growth for 2024 is primarily based on historical data published by NIS and extrapolates the trend revealed by them.

For 2025, the acceleration of economic growth projected by NCSP, compared to the previous year, albeit at a relatively modest level, is based, on one hand, on the inertia of real income increases in the economy (particularly pensions and wages, as previously mentioned), and, on the other hand, on the dampening effects of a negative fiscal impulse resulting from the fiscal adjustment process. These previously described factors also represent risk elements for the macroeconomic projection, as different trajectories of wages, pensions, and fiscal adjustment could alter the course of the economy.

Additional risk factors can also be considered: (i) a shift in the international macroeconomic environment – under the impact of a potential recession in developed economies, as a result of the possible imposition of tariffs and trade barriers[9] that could trigger a global trade war; (ii) an economic slowdown in the EU due to a loss of momentum (Eurozone economic growth data for Q4 2024 already indicate stagnation[10], and the ECB has already cut interest rates partly in response to these developments, though they remain at restrictive levels), which could be further exacerbated by fiscal pressures to increase defense spending to a (much) higher level than in the past; (iii) the outbreak of new geopolitical conflicts or the escalation of existing ones, leading to significant pressures on commodity and energy markets; (iv) the deterioration of economic growth prospects in Asia, particularly in China, due to sectoral issues, in the context of very high debt levels; (v) a series of shocks that could trigger a decline in investor risk appetite, a reduction in transaction volumes, and an increase in financing costs, especially for emerging economies, against the backdrop of corrections in major capital markets and in the context of more restrictive monetary policies, particularly in the U.S., driven by potentially higher inflation expectations.

It can be noted that some of the developments outlined in these risk scenarios have already been reflected in the evolution of implicit financing yields for Romanian government bonds, which have increased by approximately 100 basis points[11] from November 2024 to the present (see Figure 5 in Annex VII). This is also mirrored by a spread increase of the same magnitude relative to German bonds (see Figure 3 in Annex VII), accompanied by a rise in Romania's risk premium (5-year CDS) (see Figure 4 in Annex VII). These recent developments reinforce the need for a prudent fiscal forecast capable of accommodating adverse

[9] Of the Smoot-Hawley type (implemented in 1930).
[10] Eurostat flash estimate report on Q4 2024 GDP, published on January 30, 2025: https://ec.europa.eu/eurostat/web/products-euro-indicators/w/2-30012025-ap.
[11] 1 percentage point.

developments in both the domestic and international macroeconomic framework, should some of the risks mentioned above materialize.

Under these conditions, the economic growth rate projected by NCSP, which underpins the 2025 budget at 2.5% in real terms, appears to be well-founded and can also be corroborated with recent projections by international institutions (e.g., the 2024 Autumn forecast by the European Commission or the IMF). Regarding the structure of economic growth, which is just as important for fiscal impact as its level, we can observe the continuation of current trends, with the main drivers of growth being private consumption and gross fixed capital formation, while net exports contribute negatively – resulting in a tax-rich composition of growth.

For the last two years underpinning the 2025-2027 Fiscal Strategy, NCSP anticipates a continued acceleration of economic growth to 3.0% in 2026, followed by a deceleration to 2.6% in 2027 – levels below the potential growth rate of the Romanian economy, which is likely in the range of 3.5-4%. This primarily reflects the process of adjustment and rebalancing of the Romanian economy. In NCSP's forecast, the consequence is a gradual closing of the demand deficit[12], which is expected to be fully eliminated by 2028. A demand deficit supports the trajectory of structural consolidation by reducing the estimated structural deficit relative to the actual deficit. However, the existence of a demand deficit at the starting point of the projection is unlikely, given the presence of an external imbalance exceeding 8% of GDP in 2024, an inflation rate of 5.1%, and a cash budget deficit of 8.65% of GDP.

A more plausible trajectory of excess demand, which starts from positive initial values and is then gradually reduced as actual growth remains below or equal to the economy's potential, would result in a downward but still positive trend for most of the forecast period. Keeping excess demand in positive territory for a significant portion of the forecast period could, on one hand, *ceteris paribus*, slow the reduction of inflation and the external deficit while supporting a faster structural adjustment. On the other hand, it would justify a more dynamic evolution of macroeconomic bases and, consequently, an accelerated growth of tax revenues.

Regarding the structure of economic growth in 2026-2027, the NCSP projection highlights a strong emphasis on gross fixed capital formation (GFCF), accompanied by a significant contribution of private consumption, though with a slower growth rate compared to GFCF. At the sectoral level, there is an increasing contribution from "services", "construction", and "industry", while "agriculture, forestry, and fishing" is expected to show only modest growth – elements that are highly plausible.

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[12] This is demonstrated by the table "Potential GDP Growth and the Cyclical Component of the Budget Deficit", on page 34 of the Fiscal Strategy, showing that the demand deficit from 2024 gradually closes until 2028.

As for the projected levels of real economic growth, throughout the forecast horizon, the cumulative effect can be considered close to the upper bound of a probable range of evolution, given the factors previously outlined, particularly fiscal adjustment and the adverse macroeconomic and financial environment. For these reasons, the Fiscal Council considers that the real GDP forecast for 2025-2027 is realistic, albeit with slight optimism in the first year of the projection. However, it remains highly dependent on a high absorption rate of European funds (both multiannual and related to the NRRP), with a significant acceleration needed to recover previous delays. Moreover, this macroeconomic forecast is strictly dependent on the non-materialization of the international risks previously mentioned.

In NCSP's current projection, the GDP deflator growth rate of 8.8% in 2024 (the starting point) can be considered relatively prudent. It is noteworthy that the CPI inflation rate, published by NIS for December 2024, stood at 5.6% (annual average) – with the GDP deflator being closer to average inflation values rather than end-of-period figures. Additionally, the industrial production price inflation rate for November 2024 was -0.37% (year-on-year). This prudent characteristic of the GDP deflator forecast extends into 2025, where the anticipated level of +5.8% also appears to be cautious.

For the final years of the projection horizon (2026 and 2027), NCSP forecasts GDP deflator values of +4.9% and +4.6%, respectively – which are very likely near the lower bound of a plausible projection range (as confirmed by comparisons with recent projections from both domestic and international institutions). Even though the economic growth forecast for 2025 might carry a slight optimism, the projected GDP deflator values act as a compensating factor, ensuring that the nominal GDP trajectory remains highly plausible, considering all currently available economic data.

Thus, nominal GDP is anticipated to grow by 8.4% in 2025 (following a projected increase of 9.9% in 2024) and by 8.0% and 7.3% in 2026 and 2027, respectively. The increase in nominal GDP contributes to the reduction of fiscal imbalances (expressed as share of GDP) through both additional tax revenues and the denominator effect. The prudent projection of its growth rate in the current forecast provides a degree of confidence regarding the risk of overestimation.

The forecasted CPI inflation rate (year-on-year, end of period) for 2025 is 3.8% (unchanged from the previous NCSP projection), while the average inflation rate is expected to be 4.4% (slightly revised upward from 4.2%). This is considered relatively prudent, including from a fiscal base perspective. The latest Inflation Report (from November 2024, covering Q3 2024) by the National Bank of Romania (NBR) projects a CPI inflation rate of 3.5% in December 2025. The plausibility of this projection is also supported by the exceptionally high uncertainty associated with recent economic forecasts.

For the next two years of the projection (2026 and 2027), NCSP forecasts the inflation rate at 2.9% and 2.7% (end of period) and 3.3% and 3.0% (annual averages), placing these values within a plausible variation range. Even if inflation in 2025 were to be slightly higher, the forecasts for the following two years appear to be toward the lower bound of the projected confidence interval. This contributes to a credible trajectory, particularly in the context of its use for pension indexation starting in 2026 (the law states that pensions are indexed based on the average inflation rate from T-2 and half of real wage growth) and in the subsequent years, as well as for the indexation of salaries and other budgetary benefits.

The dynamics and structure of the national economy (emphasizing domestic absorption – final consumption and gross fixed capital formation) are also reflected in the size of external imbalances, which, although adjusting, remain high. The trade balance deficit is projected at €33.4, €35.9, €37.5, and €39.0 billion for 2024-2027. The current account deficit is forecast by NCSP[13] at 7.9%, 7.4%, 6.9%, and 6.3% of GDP[14] for 2024-2027, all significantly above the 4% threshold set by the EC's Macroeconomic Imbalances Procedure (MIP).

It is worth noting that the slow narrowing of external deficits can be correlated both with the gradual fiscal adjustment toward the 3% target, which is planned to be reached in 2031, according to the medium-term plan, and with the near-potential growth of GDP. A key current and future issue is the financing method for these deficits. The most recent balance of payments data, covering the first 11 months of 2024, indicate a decline in the share covered by non-debt-generating inflows (considered to be the capital account balance and, from the financial account, only "equity investments") to just 30% of the total current account deficit (€7.9 billion out of €26.3 billion), compared to 72% in the same period of 2023 (€14.3 billion out of €19.8 billion). The high levels of external deficits (whether in the current account balance or the trade balance), combined with an unfavorable financing structure represent a major vulnerability for the Romanian economy, increasing the risk of a sudden stop (an abrupt end of external financing).

Additionally, analyzing the last 10 years (2015-2024), this external deficit has been almost entirely driven by the public sector deficit. In NCSP's projection, the public sector deficit fully explains the external deficit for 2024-2027. The slow fiscal deficit adjustment also highlights an increasing contribution of the private sector to the total deficit, from the perspective of the savings-investment gap. This raises concerns about how to finance both the private and public deficits from autonomous sources, in a complex domestic and international macroeconomic and financial environment, marked by significant risks, some of which have

[13] Under the conditions of a delayed fiscal adjustment, with the deficit reaching 3% of GDP only in 2031.
[14] Corresponding to current account balance deficits of €28.1 billion, €28.3 billion, €28.2 billion, and €27.5 billion in the 2024-2027 period.

already materialized. At the same time, the relatively large imbalances sharply raise the issue of economic adjustment and how this adjustment should be distributed.

On the labor market[15], according to NCSP's forecast, there will be an increase in the average number of employees in 2024 – which serves as the starting point for the 2025 budget projection and the 2025-2027 Fiscal Strategy – of 0.9%, along with a 15.3% rise in gross average wages. The unemployment rate remains close to previously projected values, standing at 5.4% (BIM unemployment rate[16], compared to 5.3% in the previous NCSP projection) and 3.2% (registered unemployment at the end of the year[17], up from 3.1% in the previous forecast). These new parameters, which are relatively similar in terms of overall macroeconomic and fiscal bases, indicate – in line with previous assessments – a plausible trajectory for labor market aggregates. For 2025, the average number of employees is expected to increase by 1.2%, while the average gross wage is projected to rise by 6.2%, along with an unemployment rate of 5.3% (BIM) or 3.1% (registered unemployment). This places labor market dynamics, particularly regarding gross wages, at a slightly more pessimistic level than other projections while still maintaining a high degree of plausibility, according to the FC.

In 2026 and 2027, the increase in the number of employees is expected to accelerate to +1.4% and then, in line with GDP growth trends[18], to decelerate to +1.2%. Meanwhile, the gross average wage growth rate is projected at 6.7% and 6.4%, respectively, according to NCSP. The Fiscal Council assesses that these projections are positioned toward the upper bound of a plausible range for future developments. As a result, their aggregated impact on the overall wage bill in the economy and the cumulative effect over the two years (where deviations compound and amplify their impact) suggest a risk of overestimation of these macroeconomic bases for tax revenues, both in terms of level and share. Thus, these factors represent additional risk elements for the fiscal projections for the 2026-2027 period.

A separate issue, particularly relevant for 2026-2027 and only to a lesser extent for 2025, is the relatively large gap between the growth rate of the total wage bill across the entire economy (+7.5%, +8.2%, and +7.7% for 2025-2027) and the growth rate of the public sector wage bill (+3.0%, +5.5%, and +5.9% for 2025-2027). Such trajectories (and the gap between them) could materialize in practice, but they require the specification of measures within the

[15] Important due to its macroeconomic bases related to income tax, social contributions, and certain expenditure elements, such as unemployment benefits and social transfers, all of which have a significant impact on the deficit value.
[16] The latest available data being from November 2024.
[17] According to ANOFM data.
[18] Respecting the so-called "Okun's Law", which in fact represents the (positive) correlation between economic activity and employment levels and, consequently, also the (negative) correlation between economic activity and the unemployment rate.

public sector to justify this restrictive approach. Additionally, a new unitary wage law (included as a measure in the NRRP) could invalidate these projections. Without specific measures to justify these forecasted public sector trends, the public sector wage expenditure projections for the final two years of the Fiscal Strategy can be considered underestimated, leading to a lower projected deficit.

Regarding the unemployment rate for 2026 and 2027, under the BIM methodology, the projected values are 5.2% and 5.1%, while under the national methodology they are 2.9% and 2.8% – plausible values, considering both the forecasted GDP evolution and the latest available information.

The correlation of recent economic information and data with the dynamics of relevant macroeconomic variables projected by NCSP (real GDP, GDP deflator, inflation, and labor market indicators) leads to the conclusion of a plausible trajectory for these aggregates in 2025.

For 2026-2027, the nominal GDP projection can be considered plausible, with a slight overestimation regarding the labor market (total wage bill) and an underestimation of the public sector wage bill dynamics, in the absence of specific measures for these years. The Fiscal Council considers that the NCSP's macroeconomic projection is plausible and, overall, has been made with caution.

Although not specified in the NCSP projection, the trajectory of the implicit yield on Romanian government securities represents an important risk factor for both the fiscal and macroeconomic projection, particularly in relation to the projection of government public debt service. The November 2024[19] projection of this debt service indicates a total of approximately 45 billion lei, exceeding the budgeted level of 41.9 billion lei. Additionally, this raises the issue of not incorporating into interest costs the recent increase in the implicit yield on government securities, which – although following a recent downward trend – can remain at higher levels compared to the last government projection.

[19] https://mfinante.gov.ro/static/10/Mfp/buletin/executii/Servdatpubguv2023-2033piatadeemisiune112024_2031.pdf and https://mfinante.gov.ro/static/10/Mfp/buletin/executii/Servdatpubguv2023-2033rezidentacreditorului112024_2031.pdf.

3. Fiscal framework

Fiscal developments throughout 2024

The assessment of the 2025 budget projection begins with an analysis of the evolution of the main aggregates of the general consolidated budget (GCB) throughout 2024. The 2024 draft budget initially set a deficit target of 5% of GDP, but budget execution indicates a cash deficit of 8.65% of GDP, which is 73% higher than the initial projection. This discrepancy reflects an unrealistic budget framework, both in terms of revenues and expenditures. Budget revenues were overestimated due to the *ex-ante* inclusion of additional amounts expected to be generated from digitalization and improved tax collection. Most expenditure categories (personnel, goods and services, social assistance, and capital spending) significantly exceeded their initial allocations. In its opinion on the budget law, the FC warned about the risks associated with the budget framework and assessed that, under a no-policy-change scenario, the deficit was likely to be around 6.4% of GDP.

The first part of 2024 saw the implementation of several measures with a negative impact on budget execution. As the FC anticipated in its opinion on the budget draft, following its adoption, several discretionary wage increases were granted in the public sector. Additionally, in the first quarter of the year, the Government relaxed certain public spending measures that had been included in Law No. 296/2023 on fiscal measures to ensure Romania's long-term financial sustainability. Budgetary arrears of approximately 9 billion lei, generated by the postponement of certain payments at the end of 2023, further amplified pressures on budget execution in the first part of 2024.

In May 2024, the Government, through a series of derogations from the fiscal framework, revised the functioning of the contingency reserve fund for 2024. The main provision allowed for the allocation of funds from the contingency reserve fund, based on Government decisions, to finance both current and capital expenditures of main credit authorizing officers. Through these measures, as in 2023, the authorities created a framework that enabled the use of the contingency reserve fund to balance both local and central budgets.

The budget execution for the first six months of 2024 recorded a cash deficit of 3.6% of GDP (72% of the total deficit planned for 2024 and 1.3 pp higher than in the same period of the previous year). Although budget revenues performed better than expected (+13.5% compared to the same period in 2023, while the 2024 budget projected a 12.4% increase over the previous year's execution), the growth rate of budget expenditures was significantly higher (+21.2%, whereas the 2024 budget anticipated an increase of only 10% compared to the previous year's execution).

In the second half of the year, the growth in expenditures continued at a sustained pace. The magnitude of the pension recalculation effect and the tendency for certain expenditure categories to concentrate in the last months of the year placed additional pressure on budget execution. To mitigate these effects, in early September, the Government adopted an emergency ordinance introducing fiscal amnesty measures, with an estimated budgetary impact of 7.9 billion lei, along with public expenditure restrictions, expected to save approximately 2.1 billion lei.

At the end of September, the Government adopted the budget revision draft, which included a significant nominal increase in both revenues (+29.6 billion lei) and expenditures (+65.8 billion lei). The estimated general consolidated budget deficit was revised to 6.94% of GDP, 1.94 pp higher than the original budget target, confirming the lack of realism in the initial budget framework. However, the budget revision was based on optimistic assumptions, with the Fiscal Council considering a budget deficit of around 8% of GDP to be more plausible and warning of a significant risk of exceeding this level.

The lack of realism in both the initial budget and the September budget revision is further reinforced by the unprecedented use of the contingency reserve fund to balance the budgets of credit authorizing officers, particularly those at the central administration level. In 2024, approximately 64 billion lei were allocated from the contingency reserve fund (58.6 billion lei for central administration and 5.4 billion lei for local administrations). The share of contingency reserve fund allocations in total budget expenditures reached 8.8%, an increase of 3.6 pp compared to 2023 and 7.6 pp above the 2007-2023 average. It is worth noting that before 2022 the share of contingency reserve fund allocations in total budget expenditures ranged between 0.2% and 1.9%. In 2024, 96% of the contingency reserve fund allocations occurred after May 14, when the derogations regarding its operation were adopted. Before May 14, 2024, 2.5 billion lei were allocated from the contingency reserve fund. Between May 14 and September 23 (the date of the budget revision), 27.5 billion lei were allocated. Between September 24 and December 31, an additional 33.9 billion lei were allocated. It is noteworthy that, despite the budget revision adopted on September 23, the Government continued to make significant use of the contingency reserve fund, highlighting the unrealistic projection of financing needs at the level of credit authorizing officers.

At the beginning of December, due to the significant deviation of budget aggregates from the values established in the September budget revision, a series of measures were adopted to modify the ceilings for fiscal indicators. The revision targeted both the general consolidated budget balance and the ceilings set for total expenditures and personnel expenditures. As a result of these adjustments, the ceiling for the general consolidated budget deficit in 2024 was increased to 8.58% of GDP in cash standards. This revision effectively amounted to a new *de facto* revision of the public budget.

The 2024 budget execution confirms a significant overtake of the deficit targets set in both the initial budget and the September budget revision, with a cash deficit of approximately 152.7 billion lei, representing 8.65% of GDP. This deficit is 3 pp higher than the 2023 level and 1.7 pp above the projection from the budget revision.

Budget revenues increased compared to the 2023 execution (+10.2%), but remained below the targets set in the initial budget (+12.4%) and the budget revision (+18.1%). Thus, although the first months of 2024 recorded faster growth rates in budget revenues, this trend slowed toward the end of the year, despite the positive impact of amounts collected from the fiscal amnesty. At the level of the main revenue categories, the following developments were recorded compared to the previous year's execution: corporate income tax, +23.5% (compared to +21.3% in the initial budget and +25.2% in the budget revision); personal income tax, +21.4% (compared to +14% in the initial budget and +24.2% in the budget revision); VAT, +15.9% (compared to +14.4% in the initial budget and +16.4% in the budget revision); excise duties, +24.3% (the planned increase was +9.4% in the initial budget and +16.1% in the budget revision); social security contributions, +19.4% (compared to +15.4% in the initial budget and +22.9% in the budget revision); non-tax revenues, +15% (the planned increase was +7.2% in the initial budget and +9.2% in the budget revision); amounts received from the EU for payments made, +168.7% (compared to +284.3% in the initial budget and +428.9% in the budget revision); amounts related to non-reimbursable financial assistance allocated for the NRRP, +332.6% (the planned increase was +1,185.8% in the initial budget and +604.9% in the budget revision). It is important to note that a series of permanent expenditure increases[20] have substantially influenced budget revenues.

The increase in expenditures was significantly faster than the growth in revenues (+19%), far exceeding the initial budget projection (+10%), but remaining below the budget revision estimate (+20.8%). The execution of the main expenditure categories, compared to the previous year, shows the following developments: personnel expenditures: +24% (compared to +10.2% in the initial budget and +23.7% in the budget revision); expenditures on goods and services: +21.4% (the planned increase was +5.7% in the initial budget and +19.5% in the budget revision); social assistance expenditures: +17.2% (compared to +9.7% in the initial budget and +14.8% in the budget revision); interest payments: +18.5% (the planned increase was +13.8% in the initial budget and +21.6% in the budget revision); subsidies: -5.1% (compared to -29.2% in the initial budget and -8.3% in the budget revision); other expenditures: +79.3% (the planned increase was +33% in the initial budget and +49.1% in the budget revision); capital expenditures: +67.9% (the planned increase was +7.9% in the initial budget and +36.5% in the budget revision); projects financed from non-reimbursable external funds: +189.7% (compared to +275.1% in the initial budget and +405.4% in the budget revision); projects financed from non-reimbursable financial assistance under the NRRP: +344.9% (compared to +1,275.6% in the initial budget and +589.3% in the budget revision); projects financed from the loan component of the NRRP: +267% (the planned increase was +138.6% in the initial budget and +190.3% in the budget revision).

[20] Particularly salaries and pensions.

The substantial gap between the actual budget deficit (8.65% of GDP) and the targets set in the initial budget (5% of GDP) and the September 2024 budget revision (6.94% of GDP) highlights serious deficiencies in the budget planning process, further exacerbated by the electoral cycle. A major concern is that a significant portion of the additional expenditures are permanent, which complicates macroeconomic correction.

The high budget deficit in 2024, in the context of the new EU economic governance framework, has significant implications for the fiscal consolidation trajectory in the coming years, requiring stricter adjustment measures to reduce and sustain the deficit below 3% of GDP.

In this context, the FC reiterates the importance of realistic budget frameworks that help anchor investor and public expectations. Additionally, it is essential to emphasize the importance of adhering to fiscal rules, as this would help mitigate the effects of electoral cycles and discretionary political decisions on budget execution.

Objectives and targets of the fiscal policy for the 2025-2028 period

The 2025 budget framework targets a deficit of 7.04% of GDP, according to the cash methodology, representing a reduction of 1.61 pp of GDP compared to the 2024 budget execution level (8.65% of GDP). It is worth noting that the effort to adjust the deficit is greater, as 2025 will reflect the full impact of pension recalculations. According to the Ministry of Finance (MF), similar values are recorded for both indicators under the ESA 2010 methodology, while the structural deficit is expected to decrease by 1.8 pp of potential GDP, from 8.2% in 2024 to 6.4% in 2025. The structural deficit is estimated in the context of a negative output gap[21].

Given the entry into force of the new EU economic governance framework on April 30, 2024, Romania published its National Medium-Term Fiscal-Structural Plan (MTP) for 2025-2031 on October 25, 2024[22], which was subsequently approved by the EU Council on November 26, 2024[23]. The main objective of the plan is for Romania to re-enter a fiscal adjustment trajectory starting in 2025, laying the groundwork for exiting the excessive deficit procedure and stabilizing public debt. During the adjustment period, the ESA budget deficit is set to gradually decrease from 7% of GDP in 2025 to 2.5% of GDP in 2031, corresponding to an average annual

[21] The structural budget balance is calculated by subtracting from the actual budget balance both the cyclical component of the budget deficit and one-off and temporary measures. The relationship between the structural balance and the output gap is established through the calculation method of the cyclical component of the budget balance, which is expressed as the product of the output gap and the semi-elasticity of the budget deficit in response to changes in economic activity levels.

[22] https://economy-finance.ec.europa.eu/document/download/64332c57-5463-4390-aa2a-10b3384c798e_ro?filename=national_medium-term_fiscal-structural_plan_romania_ro.pdf&prefLang=en

[23] https://economy-finance.ec.europa.eu/document/download/0c908fc5-311e-4a05-a49e-6b7f023864f4_en?filename=RO_COM_2024_725_1_EN.pdf

reduction of 0.75 percentage points of GDP, following this trajectory: 7% in 2025, 6.4% in 2026, 5.7% in 2027, 5% in 2028, 4.2% in 2029, 3.4% in 2030, and 2.5% in 2031.

The commitments undertaken through the MTP will need to be implemented by the Government, ensuring compliance with the net expenditure trajectory and the execution of the set of reforms and investments that justified the extension of the fiscal adjustment period to seven years. The implementation of measures to reduce the budget deficit will be carried out through annual budgets over the entire adjustment period.

In this context, the 2025 budget draft and the fiscal framework for 2026-2028 follow the deficit reduction trajectory established in the MTP, with deficit targets under both the ESA and the cash methodology aligning with those set in the MTP and approved by the European Commission. Thus, the ESA deficit is projected to decrease by 0.6 pp of GDP in 2026, by 0.7 pp of GDP in 2027, and by another 0.7 pp of GDP in 2028, reaching 5% of GDP. The cash deficit projections by the MF are similar to those estimated under the ESA methodology. Regarding the structural deficit, according to MF projections, it is expected to decrease by 0.4 pp of potential GDP in 2026, by 0.5 pp of potential GDP in 2027, and by another 0.5 pp of potential GDP in 2028, reaching 5% of potential GDP. This indicates a deviation of 4 pp from the medium-term objective (MTO), which is a structural deficit of 1% of potential GDP. It should be noted that MF anticipates a narrowing negative output gap over the 2026-2028 period.

Assessment of the 2025 budget framework

The 2025 budget framework aims to reduce the budget deficit under the national methodology to 7% of GDP, representing a decrease of approximately 1.6 pp of GDP compared to the level estimated by the MF for 2024. This reduction is reflected in budget planning through an increase in total budget revenues by approximately 2.3 pp of GDP, while total budget expenditures are planned to rise by 0.7 pp of GDP.

The significant increase in revenues as a share of GDP is largely attributed to the forecasted increase in the absorption of European funds. Excluding the impact of EU funds, other revenue categories are planned to increase by nearly 0.2 pp of GDP, while the remaining expenditure categories are projected to decrease by 1.5 pp of GDP in the budget plan.

I. Budget revenues

Budget revenues, according to the cash methodology, are projected to increase by approximately 16.2% (+92.9 billion lei) in nominal terms in 2025 compared to 2024, with their share of GDP expected to rise by 2.3 pp. Notable changes in revenue-to-GDP ratios are expected in the following budget revenue categories: amounts received from the EU under the 2021-2027 MFF (+1.4 pp), non-reimbursable financial assistance allocated for the NRRP (+1.0 pp), VAT (+0.3 pp), personal income tax (+0.2 pp), corporate income tax (+0.1 pp), other taxes on income, profit, and capital gains (-0.1 pp), excise duties (-0.1 pp), amounts received from the EU/other donors for payments made and pre-financing under the 2014-2020 MFF (-0.1 pp), other taxes and duties on goods and services (-0.3 pp).

The main assumptions that shape the nominal budget revenue growth projected for 2025 include:

- the projected macroeconomic framework, which considers: real GDP growth of 2.5%, GDP deflator of 5.8%, increase in the average number of employees by 1.2%, growth in the gross average wage by 6.2%, average inflation rate of 4.4%;
- fiscal policy measures adopted, particularly those introduced through Emergency ordinance no. 156/2024, regarding fiscal measures for public spending, supporting the 2025 general consolidated budget, modifying and supplementing certain legal provisions, and postponing certain deadlines (the "train" ordinance), and Emergency ordinance no. 107/2024, which regulates fiscal measures for managing budgetary claims and the budget deficit for the 2024 general consolidated budget, as well as amendments to existing legislation;
- the upward trajectory of European fund absorption, specifically: +123.1% increase in funds allocated through the 2021-2027 MFF, compared to 2024, +222.9% increase in non-reimbursable financial assistance allocated through the NRRP, compared to 2024, -15.9% decrease in EU funds attracted under the 2014-2020 MFF, compared to 2024;
- the expected revenue amounts from improved tax collection by NAFA, included as a source of additional revenue projections.

The measures adopted through Emergency ordinance no. 156/2024 primarily concern: (i) elimination of tax incentives in the construction, agriculture, food industry, and software development sectors; (ii) increase in the dividend tax rate, from 8% to 10%, for dividends distributed starting January 1, 2025; (iii) reduction of the revenue threshold for micro-enterprises, from 500,000 euros to 250,000 euros, including during the fiscal year, and further lowering it to 100,000 euros starting January 1, 2026; (iv) introduction of a tax on special constructions, calculated by applying a 1% rate on the value of constructions owned by legal entities. Some of these measures aim to reduce tax exemptions and loopholes used for fiscal optimization, an approach that the Fiscal Council has repeatedly advocated for, considering both tax fairness and the need to increase tax revenues.

According to the Ministry of Finance, the budgetary impact of these fiscal policy measures is estimated at approximately 7.11 billion lei (0.37% of GDP). The breakdown of the impact by revenue category is as follows: corporate income tax, +0.75 billion lei, resulting from the reduction of the micro-enterprise threshold from 500,000 euros to 250,000 euros; property taxes, +1.02 billion lei, due to the introduction of the special tax on constructions; personal income tax, +5.34 billion lei, driven by elimination of tax incentives (+3.94 billion lei), increase in the dividend tax rate by 2 pp (+1.4 billion lei).

Emergency ordinance no. 107/2024, in addition to provisions regarding fiscal amnesty, also established a 3% tax credit on corporate income tax due and paid in 2024 and income tax for micro-enterprises. The tax credit can be used for offsetting other taxes and duties owed in 2025. According to Ministry of Finance data, the negative impact on budget revenues is estimated at approximately 0.15 billion lei, affecting revenues collected in the second half of the year. The final version adopted by Parliament increased the tax credit to 5%. However, some provisions of the law adopting the ordinance were challenged before the Constitutional Court, and, at this time, the 3% rate remains in effect.

In 2024, revenue aggregates were also influenced by the effects of fiscal amnesty, a one-off measure that will no longer have an impact in 2025. According to MF data, the fiscal amnesty provisions generated additional revenues of approximately 5.7 billion lei, equivalent to 0.32% of GDP. By revenue category, the additional revenues from the amnesty were distributed as follows: corporate income tax, +0.75 billion lei; personal income tax, +0.24 billion lei; VAT, +1.21 billion lei; excise duties, +2.31 billion lei; social security contributions, +0.98 billion lei; non-tax revenues, +0.21 billion lei. For a realistic projection of revenue aggregates for 2025, the baseline represented by 2024 revenues must be adjusted downward by excluding the one-off fiscal amnesty revenues.

The 2025 budget revenue projection is based on macroeconomic assumptions, supplemented by fiscal policy measures and NAFA's revenue collection targets, as previously mentioned. Regarding the fiscal policy measures adopted through the "train" ordinance, it is important to emphasize the persistence of uncertainties regarding the effective implementation of certain measures, particularly concerning the special construction tax. The impact of lowering the revenue threshold for micro-enterprises is reflected in a higher share of corporate income tax in GDP in 2025 and a reduction in revenues from income taxes, profit taxes, and capital gains taxes.

In addition to the elements mentioned earlier, the 2025 budget also highlights a significant decrease in revenues from other taxes and duties on goods and services (-0.3 pp of GDP, or -4.6 billion lei). This decline is driven by the reduction in amounts flowing through the Energy Transition Fund, as the extra tax on energy producers was declared unconstitutional and the energy price compensation scheme is set to end on March 31, 2025.

According to information provided by the MF, the 2025 budget revenue projections include additional revenues from improved tax collection by NAFA, amounting to 9.7 billion lei. By revenue category, these additional revenues are distributed as follows: corporate income tax, +0.7 billion lei; personal income tax, +0.2 billion lei; VAT, +5.7 billion lei; social security contributions, +3.1 billion lei. The share of additional revenues from improved tax collection in GDP is 0.5%.

Regarding NAFA's tax collection improvement targets, the Fiscal Council does not consider it appropriate to include these revenues *ex-ante* in the budget framework, a position it has emphasized in numerous previous opinions. Several arguments support this approach.

The Fiscal Responsibility Law (FRL) requires the Government to adhere to the principle of fiscal responsibility and, consequently, to manage fiscal policy prudently (Article 4 of the FRL). Therefore, the *ex-ante* inclusion of additional revenues from improved tax collection should only be done based on historical data that supports this assumption.

However, despite the recurring inclusion of additional revenues from improved collection efficiency in recent years (10.65 billion lei in 2022, 8.7 billion lei in 2023, and 19 billion lei in 2024), the share of tax revenues in GDP has remained relatively constant. Moreover, budget execution in these years has not shown revenue developments that significantly exceed the growth of relevant macroeconomic bases, making it difficult to clearly attribute any revenue increase to improvements in collection efficiency.

Improving tax collection must be based on deep structural reforms at both the tax administration level and within the legislative framework, requiring significant financial, human, and time resources. In 2023 and 2024, progress was made in this direction through legislative adoption and implementation of digital tax monitoring tools, including E-invoice, E-transport, E-seal and SAF-T. The mandatory use of E-invoice starting in the second half of 2024 and the expansion of SAF-T reporting to all companies beginning in 2025 are positive steps toward reducing the VAT collection gap. However, solid data reflecting an actual improvement in tax collection efficiency is essential before relying on these revenues in the budget framework.

The potential to generate additional revenues from improved tax collection does exist, particularly considering Romania's VAT collection gap. In this regard, the Fiscal Council has consistently advocated in its analyses for enhancing tax collection efficiency to support the fiscal consolidation process. However, the existence of this potential does not justify the inclusion of hypothetical revenues in the budget framework. A prudent approach would require that any additional revenues resulting from improved tax collection, as reflected in actual budget execution throughout the year, be recognized during budget revisions rather than being included *ex-ante* in the initial budget planning.

Taking all these aspects into account, the Fiscal Council does not consider hypothetical revenues from improved tax collection by NAFA in its evaluation. As a result, based on a prudent approach to the 2025 budget revenue projection, the FC estimates that actual revenues could be approximately 9.7 billion lei lower, representing about 0.5% of GDP, compared to the targets set in the budget draft. Additionally, several risks could negatively impact the current revenue projection, including: the continued slowdown in economic activity, the persistence of social, economic, and political uncertainties at the domestic level, low absorption of EU funds, near-zero economic growth among Eurozone trading partners, geopolitical tensions.

II. Budgetary expenditures

Budgetary expenditures, according to the cash methodology, are projected to increase in 2025 compared to 2024 by approximately 10.3% in nominal terms (representing +74.9 billion lei), with their share in GDP expected to rise by 0.7 pp. More significant changes in the GDP share are anticipated for the following categories of budgetary expenditures: projects financed from the 2021-2027 MFF (+1.5 pp), projects financed from non-reimbursable financial assistance under the NRRP (+1.1 pp), capital (-0.5 pp), personnel (-0.5 pp), goods and services (-0.4 pp), projects financed from the 2014-2020 MFF (-0.4 pp), other expenditures (-0.3 pp), and other transfers (-0.3 pp). Thus, the planned dynamics of budgetary expenditures as a share of GDP are mainly influenced by the increase in expenditures on projects financed from European funds (a net impact of approximately +2.3 pp), partially offset by the reduction in capital expenditures, personnel costs, goods and services, other expenditures, and other transfers.

Personnel expenditures are planned to increase by 3%, representing +4.9 billion lei compared to the previous year's execution, driven by measures adopted through the "train" ordinance, which include: maintaining the gross amount of base salaries at the level of November 2024; keeping the amount of bonuses, allowances, compensations, premiums, and other elements of the wage system at the level granted for November 2024; not granting in 2025 any awards, overtime payments, bonuses, or value tickets, except for childcare vouchers; reducing the vacation voucher amount for the public sector to 800 lei, provided that the beneficiary ensures a co-payment of at least 800 lei; maintaining the meal allowance for the public sector at the level of December 2024; and paying in installments court rulings that become enforceable in 2025.

In this context, the FC welcomes the Government's intention to keep personnel expenditures under control, as they represent 21.1% of total budgeted expenditures for 2025. However, it warns that in previous years there have been systematic overruns in this category. Specifically, the budgeted level for personnel expenditures was exceeded by 12.6% in 2024, by 4% in 2023, and by approximately 2% in 2022. An additional risk regarding compliance with the projected level of personnel expenditures relates to the way in which protests by employees in various sectors (defense, public order, transportation, etc.) – triggered by measures adopted by the Government through the "train" ordinance – are resolved.

Expenditures on goods and services are planned to increase by only 1.1%, representing +1 billion lei, due to restrictions on the purchase of furniture, vehicles, equipment, and inventory items. However, this growth is significantly lower than both the projected nominal GDP growth (8.4%) and the anticipated average inflation rate for 2025 (4.4%). The Fiscal Council has repeatedly stated in its opinions that strict control of expenditures on goods and services is necessary. However, in the absence of structural reforms in the public procurement system, budget executions in previous years have recorded substantial overruns compared to initially planned levels: by 14.8% in 2024, by 3.3% in 2023, and by 9.2% in 2022. Given the unfavorable track record of containing expenditures on goods and services within budget targets, the Fiscal Council believes that a more prudent projection of this expenditure category should be based on the anticipated average inflation rate for 2025, which would lead to an additional funding requirement of at least 3 billion lei.

Interest expenditures are planned to increase by 15.4% (+5.6 billion lei) in 2025, reaching a total of 41.9 billion lei, in the context of rising public debt stock as a consequence of budget deficits, as well as anticipated developments in the cost of debt. Although the 2025 budget proposal presents a more reasonable projection of interest expenditures compared to previous years[24], it does not align with the latest forecast from the Ministry of Finance regarding the government public debt service[25], which estimates interest and related fees for 2025 at approximately 45 billion lei. Given the evolution of interest rates after this forecast (November 2024), a prudent projection of interest expenditures should account for an additional requirement of at least 1.5 billion lei.

Social assistance expenditures are planned to increase by 8.2% in 2025 compared to 2024 (representing +18.3 billion lei), in the context of maintaining the payment of public pension system benefits, as well as those from the special pension system, at the level of November 2024. Additionally, all categories of allowances granted under the law and child allowances will also be maintained at the November 2024 level. Furthermore, within this expenditure category, 1.5 billion lei are allocated for the payment of reimbursement requests submitted under the provisions of Emergency ordinance no. 27/2022[26]. In the event that full payment of the submitted reimbursement requests cannot be ensured, the Ministry of Labor, Family, Youth, and Social Solidarity is authorized to make payments from its own budget to cover these obligations.

It should be noted that maintaining pension payments at the level of November 2024, while limiting the increase in social assistance expenditures, also significantly contributes to the rise of this budgetary aggregate through the annualization of the impact of pension recalculations from September 2024. This recalculation only affected four months of the previous year's

[24] In 2023, interest expenditures were planned at a level similar to the actual amount recorded in 2022, with the year-end budget execution registering an overrun of 5.3%. In 2024, although a 13.8% increase was planned for this category compared to the 2023 level, the year-end budget execution recorded an overrun of 4.1% compared to the initial projection. Thus, similar to the previously analyzed expenditure categories, interest expenditures have also been systematically under-budgeted in past financial exercises.

[25] Available at https://mfinante.gov.ro/ro/web/trezor/datorie-guvernamentala, November 2024.

[26] Regarding the measures applicable to end customers in the electricity and natural gas market during the period from April 1, 2022, to March 31, 2023, as well as for the amendment and completion of certain regulatory acts in the energy sector.

budget execution. At that time, the Fiscal Council warned that the impact of the new pension law was considerable, posing a significant risk of substantially deviating from the planned fiscal correction trajectory toward a 3% of GDP deficit, and stressed out that it would have been necessary to schedule the implementation of the pension reform over several years.

Compliance with the projected level of social assistance expenditures in 2025 entails several significant risks related to: the unfavorable track record of meeting budget targets for this category (which were exceeded by 6.9% in 2024, by 5.5% in 2023, and by 8.7% in 2022), the impact of the pension minor recalculation[27] on the state social insurance budget, the potential indexation of military pensions – depending on the Constitutional Court's decision –, with an annual impact estimated by the Ministry of Finance at approximately 0.4% of GDP, the possible granting of a one-off aid for pensions below a certain threshold, and the effects of the energy price compensation scheme.

Total public investment expenditures, from both domestic and external sources, are planned to increase in 2025 by approximately 30.9 billion lei (+26%) compared to the previous year, reaching 7.8% of GDP – an increase of about +1.1 pp compared to 2024. This growth is supported by increased allocations for projects financed through non-reimbursable financial assistance and loans under the NRRP (+23.1 billion lei), allocations for projects financed from post-accession non-reimbursable external funds (+10.6 billion lei), as well as expenditures related to programs financed through repayable funding (+0.8 billion lei). On the other hand, there is a reduction in capital expenditures (-2.8 billion lei) and other investment-related transfers (-1 billion lei).

It is worth noting the ambitious target set for investment expenditures in 2025, which represents the highest level recorded in the 2009-2028 period, both in absolute terms and as a share of GDP. Additionally, these expenditures are projected to remain high beyond 2025, with an anticipated average of nearly 6% of GDP for the 2026-2028 period. The intention to finance a significant portion of public investment expenditures through non-reimbursable external funds (MFF and NRRP) is also commendable, with these funds expected to account for 52.3% in 2025, 47.4% in 2026, 38% in 2027, and 35.9% in 2028 of total investment expenditures.

On the other hand, in the context of a high budget deficit that significantly limits the government's available fiscal space, public investment expenditures that do not have non-reimbursable financing – particularly capital expenditures and the loan component of the NRRP – may pose major constraints on the public budget. This issue is evident in the execution

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[27] By March 2025, the National House of Public Pensions will recalculate pensions, taking into account the valorization of income and non-permanent bonuses on which social security contributions were paid before April 1, 2001. This process may lead to an increase in social assistance expenditures.

of capital expenditures in 2024, which exceeded the initially budgeted level by 23.3 billion lei (+55.7%), contributing to the significant budgetary slippage recorded in the previous year.

In conclusion, regarding budgetary expenditures, the FC identifies an additional allocation requirement of at least 4.5 billion lei (approximately 0.2% of GDP) for goods and services expenditures and interest payments. Furthermore, the FC has highlighted additional risks concerning compliance with projected levels of personnel and social assistance expenditures.

The FC acknowledges the Government's intention to construct a budget that emphasizes strict control over current expenditures (particularly personnel, goods and services, and social assistance). However, past experience demonstrates how difficult and complex such an undertaking can be.

Considering the aforementioned aspects and based on a prudent approach to forecasting revenues and expenditures, the Fiscal Council considers the budgetary framework for 2025 to be compatible with a cash deficit of approximately 7.7% of GDP[28].

A more effective collection of tax revenues, an additional adjustment of capital expenditures, the utilization of any savings resulting from budget execution, and the prioritization of projects could help bring the actual budget deficit closer to the 7% of GDP target. This would ensure compliance with the fiscal deficit adjustment trajectory that Romania has committed to under the MTP agreed upon with the European Commission.

The process of fiscal consolidation is imperative from the perspective of Romania's financial credibility. A firm commitment to reducing the budget deficit is essential for maintaining the country's credit rating and international investor confidence, stabilizing the level of public debt, reducing external vulnerabilities, and ensuring the stability of the national currency.

4. Medium-term fiscal-budgetary outlook – budget construction beyond the 2025 horizon

The medium-term fiscal-budgetary framework is defined by three strategic documents: (i) the National Medium-Term Fiscal-Structural Plan (MTP), (ii) the Fiscal Strategy (FS) for the 2025-2027 period, (iii) the Report on the Macroeconomic Situation (RMS) for 2025 and its Projection for 2026-2028. The MTP was published by the Ministry of Finance at the end of October 2024 and was approved by the EU Council in November 2024. The FS and RMS were published by the Ministry of Finance at the end of January 2025.

From a fiscal perspective, the three documents consider a common set of indicators: budget revenues and expenditures (broken down into main aggregate components), budget deficit

[28] The assessment of the cash deficit takes into account a no-policy-change scenario, the information available to the Fiscal Council) at this time, as well as a series of uncertainties and risks.

(both cash and ESA), structural deficit, public debt-to-GDP ratio. However, the three documents differ in terms of their projection horizons: MTP projects indicators up to 2031, FS projects indicators up to 2027, RMS projects indicators up to 2028. It is important to note that FS and RMS are based on the same fiscal projections, with the only difference being the time horizon. Therefore, this analysis will focus on the fiscal framework from RMS, as it extends the projection by one additional year (2028).

The MTP is the document through which Romania commits to complying with the fiscal rules set by the EU governance framework, ensuring that, by the end of a seven-year adjustment period, the public debt-to-GDP ratio follows a plausibly declining trajectory or remains below 60% of GDP, while the budget deficit falls below 3% of GDP.

In principle, the data included in MTP and RMS should indicate a similar projection for the mentioned indicators. However, since they were developed at different points in time, a comparative analysis of the key elements is justified (see Table 4 in Annex IX).

Thus, the 2026-2028 fiscal framework follows the deficit reduction trajectory established in MTP. The deficit targets, both under ESA and cash methodology, remain consistent with those set in MTP, namely: 6.4% of GDP in 2026, 5.7% of GDP in 2027, 5.0% of GDP in 2028. However, differences arise in the volume of budget revenues and expenditures. The MTP projection for 2026-2028 is, on average, higher by approximately 1.6 pp of GDP compared to the RMS projection, specifically: +1.3 pp in 2026, +1.6 pp in 2027, +2.0 pp in 2028.

On the revenue side, this difference is mainly reflected in tax revenues, which are on average 1.1 pp of GDP higher in MTP compared to RMS. This likely corresponds to the anticipated impact of the fiscal reform, which at that time was expected to be implemented in 2025, with a projected budgetary impact of 1.1 pp of GDP. Additionally, the MTP revenue projection also included an additional 0.5% of GDP, expected to be obtained through improved tax collection efficiency starting in 2026. As previously noted in the budget analysis, these hypothetical additional revenues have already been incorporated into the RMS revenue projections for 2026-2028, as they were included starting in 2025. Beyond tax revenues, another notable difference is observed in the funds received from the EU, which are on average 0.6 pp of GDP higher in MTP compared to RMS. While MTP projected budget revenue growth based on both a fiscal reform and improved collection efficiency, the new 2026-2028 fiscal framework in RMS appears to retain only the tax collection efficiency improvement component (expected to take effect from 2025), along with a reduced projection for EU funds received.

On the expenditure side, the difference between the two plans for 2026-2028 is primarily found in investment expenditures, which are on average 0.8 pp of GDP higher in MTP compared to RMS. This most likely corresponds to MTP’s more optimistic projection of EU funds received, as mentioned above[29]. Additionally, there is a 0.5 pp difference in expenditures on goods and services, which are also higher in MTP than in RMS. On the other hand, personnel and social assistance expenditures, which represent the largest components of budget expenditures, do not show significant differences between the two projections. While MTP planned for a budget expenditure adjustment through personnel, social assistance, and investment expenditures, the new 2026-2028 fiscal framework in RMS maintains these parameters, but programs a more extensive adjustment in investment expenditures, along with an additional adjustment in goods and services expenditures. This approach aims to compensate for the lower projected budget revenues in RMS compared to MTP (as previously discussed), so that, ultimately, the budget deficit targets for 2026-2028 remain identical in both documents.

On the other hand, it should be noted that the structural deficit adjustment between 2026-2028 is projected to occur at a slower pace in RMS compared to MTP, despite the starting point for 2025 being very similar: 6.4% of potential GDP in RMS versus 6.3% in MTP. However, by the end of 2028, RMS forecasts a structural deficit of 5% of potential GDP, while MTP anticipated a lower structural deficit of 4.3% of potential GDP.

Additionally, the public debt trajectory differs between the two documents, primarily due to different starting estimates. At the time of MTP's drafting, public debt was anticipated to be 52.2% of GDP in 2024. The latest estimates in RMS, however, place it at 54.9% of GDP (a 2.7 pp gap). Nonetheless, this gap between the two projections gradually narrows by 2028, when public debt is projected at 62% of GDP in MTP and 63.4% of GDP in RMS. This difference is most likely due to RMS's more optimistic projection of real GDP growth for 2026-2028, which is on average 0.3 pp higher than MTP's forecast.

Given that the most recent projections from the Ministry of Finance are found in FS and RMS – which, as shown earlier, differ from the previous MTP projection –, the fiscal framework analysis for 2026-2028 will be based on the data from FS and RMS.

[29] In both MTP and RMS, investment expenditures follow a downward trend compared to 2025 (-1.8 pp in MTP and -2.5 pp in RMS). This reduction is driven by the declining absorption of EU funds, due to the completion of the NRRP and the 2014-2020 MFF. The differences in the rate of decline are explained by the fact that RMS projects a more substantial reduction in EU funds compared to MTP, extending until 2028.

Analysis of the 2026-2028 fiscal framework

The 2026-2028 fiscal framework indicates a planned budget deficit adjustment, following the trajectory set in MTP 6.4% of GDP in 2026, 5.7% of GDP in 2027, 5.0% of GDP in 2028.

This adjustment is primarily planned to take place on the expenditure side. Compared to 2025, the share of total revenues in GDP declines by 3.4 pp by 2028 (from 34.9% of GDP in 2025 to 31.5% of GDP in 2028). Regarding budget expenditures, their share in GDP decreases by approximately 5.4 pp by 2028 compared to 2025 (from 41.9% to 36.5%).

An analysis of the main categories of budget revenues reflects: a marginal decline in the share of current revenues in GDP, a more significant decline in the share of EU funds. More specifically: the share of tax revenues in GDP decreases by 0.15 pp in 2028 compared to 2025, the share of social security contributions remains relatively constant, non-tax revenues are estimated to decrease by 0.2 pp of GDP. In contrast, EU funds received decline significantly, from 4.6% of GDP in 2025 to 1.5% in 2028, due to the completion of the 2014-2020 MFF and NRRP. The decline in EU funding revenues is not offset by an increase in the share of tax revenues in GDP.

Both the FS and RMS list a series of measures that are expected to be adopted during the 2025-2028 period. However, considering the marginal decline in the share of tax revenues in GDP, the overall effect of these measures appears to be neutral. In comparison, the MTP projected an increase in the share of tax revenues by approximately 1.6 pp of GDP over the 2025-2031 period, compared to 2024.

The most important measures targeting budget revenues, as outlined in the FS and RMS, include: the implementation of an IT system for an automated property assessment system; the revision of the mechanism for granting tax incentives to limit and reassess exemptions; the gradual reduction of labor taxes and contributions; the implementation of the World Bank's recommendations, which the Romanian Government considers necessary, aiming at a tax system adapted to economic developments to facilitate economic growth and increase the share of tax revenues in GDP; and the increase in excise duties.

It is worth emphasizing that the measures related to the property assessment system and the implementation of the World Bank's recommendations on the tax system are commitments that Romania has undertaken within the framework of the NRRP. It is surprising that this set of measures does not lead to a significant increase in tax revenues. How will the domestic economy manage to build reserves (buffers), compensate through its own resources for the anticipated decline in EU funds (as the NRRP concludes and less will be allocated from the MFF), cope with the need for increased defense spending, and address other challenges and adverse shocks?

The fiscal-structural plan must take into account the consequences of an inevitable reduction in the contribution of EU funds to the investment process and the support of programs for the development of our economy. A sharp decline in EU funds allocated to Romania will impact potential GDP dynamics and likely the economic growth rate, unless the contribution of internal resources increases as a compensatory factor. This anticipated reduction can be partially offset by improving the efficiency and quality of public investments.

In general, it is to be expected that the implementation of the fiscal-structural plans of EU member states will be significantly influenced by the strongly unfavorable evolution of the international environment.

The downward trajectory of the share of budget expenditures in GDP is reflected in the dynamics of most expenditure categories: personnel expenditures decrease by 0.4 pp (from 8.9% of GDP in 2025 to 8.5% of GDP in 2028); social assistance expenditures decline by 0.9 pp (from 12.7% of GDP in 2025 to 11.8% of GDP in 2028); investment expenditures decrease by 2.5 pp (from 7.8% of GDP in 2025 to 5.3% of GDP in 2028); expenditures on goods and services decline by 0.5 pp (from 5% of GDP in 2025 to 4.5% in 2028), while interest expenditures increase by 0.8 pp (from 2.2% of GDP in 2025 to 3% of GDP in 2028). A more significant decrease is also observed in the expenditure aggregates related to projects financed by EU funds. Thus, in 2028, compared to 2025, the share of EU-funded amounts in GDP decreases by approximately 4 pp, due to the conclusion of the 2014-2022 MFF and the NRRP.

Regarding personnel expenditures, the projected levels for the 2026-2028 period assume an annual nominal increase higher than the estimated average annual inflation rates for the same period: a 5.5% increase compared to an estimated average inflation of 3.3% in 2026, a 5.9% increase compared to an estimated average inflation of 3% in 2027, and a 6.4% increase compared to an average inflation of 3% in 2028. However, the growth rates of personnel expenditures are lower than the nominal GDP growth rates: 8.1% in 2026, 7.3% in 2027, and 7% in 2028. Under these conditions, over the projection horizon, the share of personnel expenditures in GDP declines.

Social assistance expenditures are projected to decrease in terms of their share in GDP, but in nominal values, this category of expenditures records annual increases of 5.8% in 2026, 3.9% in 2027, and 5.1% in 2028. Similar to the situation regarding personnel expenditures, the growth rate of social assistance expenditures exceeds the projected average inflation rate for this period, but remains below the nominal GDP growth rate. Therefore, provided that personnel and social assistance expenditures are adjusted for inflation, it is possible that these categories will remain within the projected targets.

The proposed adjustment in expenditures on goods and services indicates a level of 4.5% of GDP in 2028, with an annual growth rate of 5.4% in 2026, 2.9% in 2027, and 3.9% in 2028. The 2028 GDP share represents an absolute minimum for the 2022-2028 period, falling below the average expenditure on goods and services of approximately 5% of GDP during the same period, as well as below the 2024 budget execution level (5.3% of GDP). This suggests that the targeted level for this expenditure category may be insufficient relative to needs indicated by historical trends.

The share of interest expenditures in GDP increases by approximately 0.8 pp in 2028 compared to 2025 (from 2.2% of GDP to 3% of GDP). This trend is driven by the rise in public debt, which reaches a peak of 63.4% of GDP in 2028.

After reaching a projected high of 7.8% of GDP in 2025, investment expenditures follow a downward trajectory, declining to 5.3% of GDP in 2028. The 2.5 pp reduction in investment expenditures is one of the key factors contributing to the decrease in the budget deficit over the 2026-2028 period.

Regarding budget expenditures, the MTP and RMS outline a series of measures to ensure their alignment with the targets: directing available resources toward public investments in infrastructure, agriculture and rural development, energy, green and digital transition; reorienting public investment expenditures to gradually transition from investments fully financed from national sources to investments co-financed with EU funds; accelerating the pace of EU fund utilization to improve the absorption rate and operationalizing the NRRP; continuing the financing of state aid schemes; and continuing the process of improving the efficiency and quality of budget expenditures.

From an analytical perspective, it would have been beneficial if the MTP and RMS had assessed whether the projected dynamics of budget expenditures align with the adjustment trajectory of net primary expenditures outlined in the MTP. This would have enhanced the credibility of these documents and anticipated such a request from the EC.

The analysis of the 2026-2028 fiscal framework shows that it is built on the assumption of strict control over budget expenditures, which would lead to a reduction in their share of GDP, without considering a visible improvement in tax revenues (including social security contributions). Additionally, the share of public investments in GDP is projected to decrease by 2.5 pp. Consequently, the FC reiterates that maintaining the trajectory of budget deficit reduction, as committed in the MTP, requires a significant increase in tax revenues, which are currently at a very low level relative to Romania's investment needs and in comparison with other EU countries. A deep reform of the National Agency for Fiscal Administration, aimed at permanently increasing revenues from this source, is urgently needed.

The Fiscal Council considers that, in the absence of fiscal policies supporting the fiscal consolidation trajectory on the revenue side, it is not credible that the budget deficit can be adjusted in the medium term solely through expenditure-side measures. The risk balance is tilted towards higher deficits than those projected in the 2026-2028 fiscal framework. This observation is even more relevant given the evolution of the international environment and the significant challenges facing economic policies.

5. Public debt: evolution, cost, and structure

The new EU governance framework keeps the balance of the budget deficit and public debt at the core of fiscal rules. Specifically, in EU member states, the budget deficit must be below 3% of GDP, and public debt must remain under 60% of GDP. Otherwise, member states must implement policies and investments ensuring that, by the end of an adjustment period of four or seven years, the public debt-to-GDP ratio follows a plausibly declining trajectory or remains below 60% of GDP in the medium term, while the budget deficit decreases below 3% of GDP[30].

In recent years, the dynamics of public debt in Romania has followed a sharply upward trajectory. Thus, from a share of approximately 35.1% of GDP in 2019, it reached around 54.9% of GDP in 2024. The year 2020, amid the health crisis that caused a high deficit (9.2% of GDP in ESA standards) and a significant decline in real GDP (-3.7%), led to a substantial increase in public debt by about 11.6 pp (up to 46.7% of GDP). In the following two years, the debt-to-GDP ratio fluctuated marginally, with an increase in 2021 (+1.8 pp) followed by a decrease in 2022 (-1 pp). During these two years, real economic growth and the negative real interest rate mitigated the negative impact of budget deficits.

Starting in 2023, the public debt-to-GDP ratio resumed an upward trajectory (see Figure 6 in Annex X), recording an increase of 1.3 pp. Preliminary data for 2024 indicate a rapid dynamic (+6.1 pp) in the debt-to-GDP ratio. The high and increasing budget deficit was the main factor contributing to this trend. At the same time, the real economic growth rate and the real interest rate played a lesser role in offsetting the impact of the budget deficit on public debt. Specifically, in 2024, the primary budget deficit balance led to an increase in the public debt-to-GDP ratio by approximately 6.6 pp. Additionally, the stock-flow adjustment contributed to a rise in public debt by 1.9 pp, with these influences being partially offset by the effect of the real interest rate (-0.5 pp) and the real economic growth rate (-1.9 pp).

The increase in the public debt-to-GDP ratio was also influenced by the high financing costs for both domestic and foreign currency loans. On the domestic market, the downward trend in sovereign yields (observed in 2020 and 2021) was strongly reversed during the 2022-2024 period, with the cost of raising new loans in local currency increasing, on average, by approximately 3 pp across most maturities (see Figure 7 in Annex X).

[30] A description of the new EU economic governance framework can be found in the Fiscal Council's Annual Report for 2023 (http://www.fiscalcouncil.ro/EN%20CF%20RA%202023.pdf)

In 2022 and the first part of 2023, the evolution of the cost of new loans in local currency was influenced by the rapid rise and persistence of inflation[31], as well as by heightened geopolitical uncertainty. In 2024, although the inflation rate continued its downward trend, the decline in sovereign bond yields was moderate. For example, the average yield on 10-year sovereign bonds (6.7%) decreased by only 0.5 pp compared to 2023. The large and increasing budget deficit, along with electoral and political uncertainty, kept sovereign risk at a high level. However, despite a slight decrease in the bid-to-cover ratio for government securities issued in local currency (from 1.5 in 2023 to 1.44 in 2024), it still indicates sustained demand for government bonds.

The internal tensions of 2024 can also be observed in the evolution of the average yield for 6-month maturity bonds, which reached the highest level in the analyzed period. Additionally, there was an upward trend in yields towards the end of 2024. For example, in December, the average yield for 10-year maturity bonds reached 7.5%, the highest value recorded in 2024. This trend continued into January 2025, when the average yield on 10-year sovereign bonds reached 8% (see Figure 5 in Annex VII). These values also reflect recent rating agency revisions regarding Romania's long-term debt risk outlook. In a regional comparison, for local currency issuances at the end of January, the 10-year yield was 4.1% for the Czech Republic, 6% for Poland, and 6.8% for Hungary (see Figure 5 in Annex VII).

In 2024, Romania issued three dollar-denominated bonds on international markets, totaling approximately \$6.1 billion, and six euro-denominated bonds, amounting to approximately €10.5 billion. In 2023, Romania had three dollar-denominated issuances (totaling \$4.6 billion) and two euro-denominated issuances (totaling €4.4 billion). The yields on external issuances remained high in 2024. For example, the 10-year yield for dollar-denominated bonds was around 6.4%, while the 20-year yield for euro-denominated bonds was approximately 6%. In a regional comparison, data from January 2025 indicate that Romania has some of the highest yields on euro-denominated bonds with a 10-year maturity (+2.7 pp compared to Poland, +1.9 pp compared to Hungary, and +2.6 pp compared to Bulgaria).

The rising budget deficits and high yields in recent years are also reflected in the increasing financing needs of Romania (see Figure 8 in Annex X). In 2024, the gross financing requirement – comprising the budget deficit, refinancing, principal repayments, and pre-financing for the following year – stood at 14.2% of GDP (approximately 251 billion lei[32]), up from 12.7% in 2023 and 10.7% in 2022. This upward trend was primarily driven by a significant 69.9% increase in the financing of the general consolidated budget deficit (152.7 billion lei in 2024, compared to 89.9 billion lei in 2023). Notably, in 2024, due to a substantial overshooting of the initial

[31] Which required the tightening of monetary policy.
[32] According to the Public Debt Reports available on the Ministry of Finance (MF) website.

budget deficit target, the financing requirement was revised three times throughout the year: from the initially planned 181 billion lei to 217 billion lei, then to 235 billion lei, and finally to 250 billion lei. In 2024, the debt service (including refinancing, principal repayments, and interest expenses) amounted to 7.5% of GDP, slightly decreasing compared to 2023, as scheduled repayments and refinancing in 2024 were at a similar level to those in 2023.

The analysis of debt structure indicates balanced shares between domestic and external debt during the 2019-2024 period (see Figure 9 in Annex X). The share of domestic debt in total debt ranged from 53% in 2019 to 49% in October 2024, while the share of external debt varied between 46% in 2019 and 51% in October 2024[33]. The significant share of external borrowing also implies a degree of dependence on foreign investor sentiment toward Romania. Resilient fiscal and economic policies can anchor investor confidence, while imprudent fiscal and macroeconomic conduct could lead to the sell-off of Romania's sovereign bonds, with negative effects on macroeconomic stability.

In the coming years, to reverse the upward trend in the public debt-to-GDP ratio, Romania must adhere to the budget deficit trajectory outlined in the fiscal-structural plan. Under this scenario, at the end of the 7-year adjustment period, public debt should reach 61.5% of GDP and should be on a downward trajectory.

6. Absorption of European Funds. National Recovery and Resilience Plan

Structural and Cohesion Funds from the 2021-2027 MFF

The Structural and Cohesion Funds (SCF) allocated to Romania under the 2021-2027 Multiannual Financial Framework (MFF) amount to 31 billion euros. As of the end of December 2024, according to data from the Ministry of Finance, reimbursements from the European Commission for SCF across the entire financial period stood at 618 million euros[34], resulting in an effective absorption rate[35] of only 2% (excluding advances)! This situation should put the Romanian authorities on high alert; the causes behind this low absorption rate must be identified, and actions and measures must be undertaken at both central and local levels starting from the first months of 2025 to swiftly initiate the utilization of SCF as extensively as possible and to achieve a high absorption rate by the end of the current financial period, without resorting to the N+3 facility. Otherwise, as government officials have

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[33] The share of financing in hard currency is reflected in the size and structure of the current account deficit financing.

[34] https://mfinante.gov.ro/static/10/Mfp/buget/sitebuget/BFN_2024_12_31.pdf

[35] The effective absorption rate represents the ratio between reimbursements from the Structural and Cohesion Funds received from the European Commission and the total allocated funds. SCF advances, even if utilized, represent expenditures that are yet to be (or may not be) validated by the EC and therefore cannot be taken into account when calculating the effective absorption rate.

warned, there is a risk of de-commitment of 5.2 billion euros[36], which would deprive Romania of a significant non-reimbursable financial resource, negatively impacting the country's investment potential and making fiscal consolidation efforts even more challenging.

National Recovery and Resilience Plan (NRRP)

Through the Next Generation EU plan, Romania was allocated €12.1 billion in grants and €14.9 billion in loans, along with an additional €1.4 billion in grants from REPowerEU, bringing the total funding under the Recovery and Resilience Facility (RRF) to €28.5 billion. Within the RRF, Romania received €4.1 billion in pre-financing and managed to obtain European Commission approval only for the first two payment requests, totaling €5.3 billion. However, the implementation of the reforms and investment measures outlined in the National Recovery and Resilience Plan faces major difficulties and significant delays, given that all milestones, targets, and related payment requests must be completed by August 2026. Any failure to meet these obligations will result in funding losses or even repayment of funds.

Payment request No. 3, worth €2 billion (excluding pre-financing), was sent late, in December 2023, and received only preliminary approval from the European Commission in October 2024. However, by January 2025, the Economic and Financial Committee had not yet approved the payment. Since some milestones related to state-owned enterprise governance were deemed unmet or only partially met, this situation will lead to a partial suspension of payment, estimated at around €1.1 billion, until the European Commission officially communicates its decision. Excluding from the €9.4 billion executed as of December 31, 2024, the €1.1 billion related to the unvalidated third payment request and the estimated €2.7 billion in unused pre-financing, the effective execution amounts to €5.8 billion. When compared to the total allocation of €28.5 billion, this results in an effective absorption rate of less than 20% for NRRP funds.

The critical state of the NRRP is further highlighted by the fact that in 2024, aside from a €288 million pre-financing under REPowerEU, no payments were received from the EC – contrasting with the €3.6 billion that the Ministry of Finance had planned for that year.

Given the current domestic and international context, marked by major economic risks and geopolitical tensions, the low absorption rates of both the 2021-2027 MFF funds and NRRP funds negatively impact: the macroeconomic correction and fiscal consolidation according to the National Medium-Term Fiscal-Structural Plan; the implementation of structural reforms and investment programs; the efforts to counteract slowing economic growth and mitigate domestic and external financial imbalances, including currency volatility; Romania's ability to

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[36] https://www.startupcafe.ro/fonduri-europene/absorbtie-fonduri-europene-termen-mica-arata-bine-cerere-plata-pnrr-ministru-bolos

maintain its investment-grade credit rating; the financing needs of the budget deficit and the refinancing of public debt at reasonable costs.

It is crucial to note that the NRRP is a one-time opportunity, and the next MFF will not be as generous to Romania, considering the economic difficulties facing the European Union and the enormous challenges ahead. Romania must maximize the use of European funds available through the current MFF and NRRP to support economic growth, structural reforms, and fiscal stability.

Conclusions

- Romania is one of the eight EU countries subject to the excessive deficit procedure, having the largest budgetary imbalance. It is a positive thing that an agreement has been reached with the European Commission to extend the macroeconomic adjustment (of the budget deficit) over several years, considering the reforms involved and the magnitude of the correction – from over 9% of GDP, if the full impact of pension recalculation is taken into account, to below 3% of GDP. In November 2024, the EU Council approved Romania's National Medium-Term Fiscal-Structural Plan (MTP).
- The fragmentation of the global system continues (multilateralism is unraveling), protectionism is intensifying, and successive shocks (the pandemic, the energy crisis, climate change, the war in Ukraine) have weakened the EU economy. Financial markets may experience "freezes" (sudden stops), making access to financing more difficult for economies with large deficits. This context forces national governments to make difficult choices, painful compromises, in economic policies.
- The draft budget for 2025 starts from the necessity of reversing the trend of budget deficit increasing, and this is not only because the MTP dictates it; a responsible fiscal policy demands it, as does the need to prevent a downgrade of Romania's sovereign risk to investment junk status. Romania's borrowing costs are the highest among EU states.
- The 7% deficit target for 2025 is very ambitious and requires measures on both the expenditure and revenue sides. It is worth noting that Romania has the lowest tax revenues (including contributions) in the EU, except for Ireland. The adjustment in 2025 is only the beginning of the macroeconomic correction; measures will need to be adopted in the following years as well. Macroeconomic correction is also mandatory to reduce the current account deficit and ease the pressure on the national currency.
- European resources are intended to mitigate the impact of the inevitable contraction in domestic absorption. The intention to allocate as many resources as possible for investments – both from European funds and national sources, amounting to 7.8% of GDP in 2025 – is commendable. These investments should focus on developing the

country's infrastructure, supporting the energy transition, and fostering the growth of tradable production (exportable goods and services that can replace imports).

- The correlation of recent economic information and data with the dynamics of relevant macroeconomic variables projected by NCSP (real GDP, GDP deflator, inflation, and labor market indicators) leads to the conclusion of a plausible trajectory for these aggregates in 2025.
- The budget execution for 2024 indicates a cash deficit of 8.65% of GDP, significantly exceeding both the initial budget target (5% of GDP) and the revised target from the September 2024 budget revision (6.94% of GDP). A major concern is that a large portion of the additional expenditures are permanent, which complicates the macroeconomic correction.
- The budget construction for 2025 takes into account a deficit target of 7% of GDP, according to the cash methodology, representing a reduction of 1.6 percentage points of GDP compared to the budget deficit recorded in 2024. It is worth noting that the effort to adjust the deficit is greater, as the full impact of pension recalculation will be felt in 2025. This reduction is planned in the budget by increasing total budget revenues by approximately 2.3 percentage points of GDP, while total budget expenditures are planned to grow by 0.7 percentage points of GDP.
- The budget correction measures adopted succeed in halting the trend of widening the deficit and steering it toward a significant reduction.
- The Fiscal Council (FC) cannot take into account hypothetical revenues derived from improved tax collection by the National Agency of Fiscal Administration (NAFA) in its assessment. Consequently, in its evaluation of the 2025 public budget, the FC estimates revenues to be approximately 9.7 billion lei lower, representing around 0.5% of GDP, compared to the targets set in the budget proposal.
- On the expenditure side, the FC identifies an additional funding requirement of at least 4.5 billion lei for goods and services expenditures and interest payments, representing approximately 0.2% of GDP. Additionally, there are further risks concerning compliance with the projected levels for personnel expenditures and social assistance spending.
- Considering the points outlined above and based on a prudent approach to forecasting revenues and expenditures, the FC estimates that the budget framework for 2025 is compatible with a cash deficit of approximately 7.7% of GDP.
- A more effective collection of tax revenues, additional adjustments to capital expenditures, the use of any savings resulting from budget execution, and the prioritization of projects could help bring the actual budget deficit closer to the 7% of GDP target. This would ensure compliance with the budget deficit adjustment trajectory that Romania has committed to under the National Medium-Term Fiscal-Structural Plan agreed upon with the European Commission.

- The analysis of the fiscal-budgetary framework for 2026-2028 shows that it is built on the assumption of strict control over budget expenditures, which would lead to a reduction in their share of GDP, without considering a visible progress in tax revenues (including contributions). Additionally, the share of public investments in GDP is expected to decrease by 2.5 percentage points.
- Consequently, the Fiscal Council reiterates that maintaining the trajectory of budget deficit reduction, as assumed through the MTP, requires a significant increase in tax revenues, which are currently at a very low level relative to Romania's investment needs and compared to other EU countries. A deep reform of NAFA, leading to a permanent increase in revenues from this source, is imperative.
- The Fiscal Council considers that, in the absence of fiscal policies supporting the trajectory of fiscal consolidation on the revenue side as well, a medium-term budget deficit adjustment solely through expenditure reductions is not credible. The balance of risks is tilted towards higher deficits than those projected by the 2026-2028 fiscal framework. This observation is even more relevant given the evolution of the international environment and the significant challenges economic policies face with.
- The MTP must take into account the consequences of an inevitable decrease in the contribution of European funds to the investment process and the support of programs for the development of our economy. A significant decline in European funds (with the completion of the Recovery and Resilience Plan and a lower allocation from the Multiannual Financial Framework) will impact the dynamics of potential GDP and likely the economic growth rate unless the contribution of domestic resources increases as a compensatory factor. This anticipated reduction can be partially offset by improving the efficiency and quality of public investments.
- In general, it is to be expected that the implementation of the fiscal-structural plans of EU member states will be significantly influenced by the highly unfavorable evolution of the international environment.
- It must be emphasized that the NRRP is not repeatable, and the next MFF will not be as generous for Romania, given the major economic difficulties of the EU and the enormous challenges it faces. Romania must make full use of the European funds available under the current MFF and NRRP.

The opinions and recommendations formulated above by the FC were approved by the President of the Fiscal Council, in accordance with the provisions of Article 56, paragraph (2), letter d) of Law No. 69/2010 (republished), following their adoption by the members of the Council through a vote in the meeting held on February 3, 2025.

February 3, 2025

Chairman of the Fiscal Council

Professor Daniel DĂIANU

Annexes

Annex I	Budget execution 2024 (mil. lei)	Initial budget 2025 (mil. lei)	Initial budget 2025 -Budget execution 2024 (mil. lei)	Initial budget 2025 -Budget execution 2024 (%)	Budget execution 2024 (% of GDP)	Initial budget 2025 (% of GDP)	Initial budget 2025 -Budget execution 2024 (% of GDP)
	1	2	3=2-1	4=3/1	5	6	7=6-5
TOTAL REVENUE	**574 598.8**	**667 523.1**	**92 924.4**	**16.2%**	**32.6%**	**34.9%**	**2.34%**
Current revenue	**530 281.4**	**578 311.2**	**48 029.8**	**9.1%**	**30.1%**	**30.2%**	**0.18%**
Tax revenue	**291 708.1**	**319 654.4**	**27 946.3**	**9.6%**	**16.5%**	**16.7%**	**0.18%**
Taxes on profit, wages, income and capital gains	90 776.7	**102 659.1**	**11 882.4**	**13.1%**	**5.1%**	**5.4%**	**0.22%**
Corporate income tax	35 979.1	41.274.6	5 295.5	14.7%	**2.0%**	**2.2%**	0.12%
Personal income tax	49 044.8	56.552.3	7 507.5	15.3%	**2.8%**	**3.0%**	0.18%
Other taxes on income, profit and capital gains	5 752.8	4 832.2	-920.7	-16.0%	**0.3%**	**0.3%**	-0.07%
Property tax	**8 286.6**	**10 015.4**	**1 728.8**	**20.9%**	**0.5%**	**0.5%**	**0.05%**
Taxes on goods and services	**189 060.3**	203 102.4	**14 042.1**	**7.4%**	**10.7%**	**10.6%**	**-0.10%**
VAT	120 946.1	136 089.2	15 143.2	12.5%	**6.9%**	**7.1%**	0.26%
Excises	46 328.1	48 589.3	2 261.2	4.9%	**2.6%**	**2.5%**	-0.09%
Other taxes on goods and services	13 413.7	8 852.3	-4 561.4	-34.0%	**0.8%**	**0.5%**	-0.30%
Taxes on the use of goods, on authorizing the use of goods and on carrying activities	8 372.4	9 571.6	1 199.2	14.3%	**0.5%**	**0.5%**	0.03%
Taxes on foreign trade and international transactions (customs duty)	1 926.8	2 088.5	**161.7**	**8.4%**	**0.1%**	**0.1%**	**0.00%**
Other tax revenue	**1 657.7**	**1 789.0**	**131.3**	**7.9%**	**0.1%**	**0.1%**	**0.00%**
Social security contributions	**189 510.1**	**205 918.5**	**16 408.5**	**8.7%**	**10.7%**	**10.8%**	**0.03%**
Nontax revenue	**49 063.3**	**52 738.3**	**3 675.0**	**7.5%**	**2.8%**	**2.8%**	**-0.02%**
Additional revenues collected from digitization	**0.0**	**0.0**	**0.0**		**0.0%**	**0.0%**	**0.00%**
Capital revenue	**1 401.8**	**1 499.1**	**97.3**	**6.9%**	**0.1%**	**0.1%**	**0.00%**
Grants	**12.7**	**4.6**	**-8.0**	**-63.3%**	**0.0%**	**0.0%**	**0.00%**
Amounts received from the EU on account of payments made 2021-2027	**23 216.5**	**51 800.9**	**28 584.4**	**123.1%**	**1.3%**	**2.7%**	**1.39%**
Financial operations	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.00%**
Amounts collected in the single account, at the state budget	**294.0**	**0.0**	**-294.0**	**0.0%**	**0.0%**	**0.0%**	**-0.02%**

Other funds from the EU	**686.8**	**0.0**	**-686.8**	**0.0%**	**0.0%**	**0.0%**	**-0.04%**
Amounts received from the EU/other donors in the account of payments made and pre-financing for financial framework 2014-2020	**10 257.6**	**8 628.3**	**-1 629.4**	**-15.9%**	**0.6%**	**0.5%**	**-0.13%**
Amounts related to the non-reimbursable financial assistance allocated to NRRP	**8 448.0**	**27 279.0**	**18 831.0**	**222.9%**	**0.5%**	**1.4%**	**0.95%**
TOTAL EXPENDITURE	**727 316.2**	**802 170.1**	**74 854.0**	**10.3%**	**41.2%**	**41.9%**	**0.72%**
Current expenditure	**665 123.3**	**740 466.9**	**75 343.6**	**11.3%**	**37.7%**	**38.7%**	**1.02%**
Personnel	164 595.4	169 535.7	4 940.3	3.0%	9.3%	8.9%	-0.46%
Goods and services	93 658.8	94 679.7	1 020.9	1.1%	5.3%	5.0%	-0.36%
Interest	36 278.3	41 860.9	5 582.6	15.4%	2.1%	2.2%	0.13%
Subsidies	17 096.0	13 930.7	-3 165.3	-18.5%	1.0%	0.7%	-0.24%
Total Transfers	**352 111.2**	415 907.6	**63 796.4**	**18.1%**	**20.0%**	**21.7%**	**1.79%**
Transfers for public entities	3 175.2	4 722.7	1 547.5	48.7%	0.2%	0.2%	0.07%
Other transfers	35 197.6	33 338.9	-1 858.6	-5.3%	2.0%	1.7%	-0.25%
Projects funded by external post accession grants	29 281.4	60 508.6	31 227.2	106.6%	1.7%	3.2%	1.50%
Social assistance	223 932.3	242 262.0	18 329.7	8.2%	12.7%	12.7%	-0.02%
Projects funded by external post accession grants 2014-2020	17 460.8	12 175.2	-5 285.6	-30.3%	1.0%	0.6%	-0.35%
Other expenditure	19 558.4	16 235.3	-3 323.1	-17.0%	1.1%	0.8%	-0.26%
Projects with financing from the amounts representing the non-reimbursable financial assistance related to NRRP	10 690.7	32 199.5	21 508.8	201.2%	0.6%	1.7%	1.08%
Projects financed from the amounts related to the loan component of NRRP	12 814.8	14 465.3	1 650.5	12.9%	0.7%	0.8%	0.03%
Reserve funds	**0.0**	**2 362.0**	**2 362.0**		**0.0%**	**0.1%**	**0.12%**
Expenditure funded from reimbursable funds	**1 383.6**	**2 190.2**	**806.6**	**58.3%**	**0.1%**	**0.1%**	**0.04%**
Capital expenditures	**65 194.0**	**61 703.3**	**-3 490.8**	**-5.4%**	**3.7%**	**3.2%**	**-0.47%**
Financial operations	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.00%**
Payments made in previous years and recovered in the current year	**-3 001.2**	**0.0**	**3 001.2**	**0.0%**	**-0.2%**	**0.0%**	**0.17%**
EXCEDENT(+) / DEFICIT(-)	**-152 717.4**	**-134 647.0**	**18 070.4**	**-11.8%**	**-8.7%**	**-7.0%**	**1.61%**

Source: MF

Annex II	FS projection 2025 (mil. lei)	FS projection 2026 (mil. lei)	FS projection 2026 -FS projection 2025 (mil. lei)	FS projection 2026 -FS projection 2025 (%)	FS projection 2025 (% of GDP)	FS projection 2026 (% of GDP)	FS projection 2026 -FS projection 2025 (% of GDP)
	1	2	3=2-1	4=3/1	5	6	7=6-5
TOTAL REVENUE	**667 523.1**	**682 367.9**	**14 844.8**	**2.2%**	**34.9%**	**33.0%**	**-1.89%**
Current revenue	**578 311.2**	**621 279.8**	**42 968.6**	**7.4%**	**30.2%**	**30.1%**	**-0.18%**
Tax revenue	**319 654.4**	**344 909.3**	**25 254.8**	**7.9%**	**16.7%**	**16.7%**	**-0.03%**
Taxes on profit, wages, income and capital gains	**102 659.1**	**111 311.5**	**8 652.4**	**8.4%**	**5.4%**	**5.4%**	**0.02%**
Corporate income tax	41 274.6	46 351.6	5 077.0	12.3%	2.2%	2.2%	0.08%
Personal income tax	56 552.3	60 864.4	4 312.0	7.6%	3.0%	2.9%	-0.01%
Other taxes on income, profit and capital gains	4 832.2	4 095.6	-736.6	-15.2%	0.3%	0.2%	-0.05%
Property tax	**10 015.4**	**10 771.5**	**756.1**	**7.5%**	**0.5%**	**0.5%**	**0.00%**
Taxes on goods and services	**203 102.4**	**218 635.3**	**15 533.0**	**7.6%**	**10.6%**	**10.6%**	**-0.04%**
VAT	136 089.2	148 182.5	12 093.3	8.9%	7.1%	7.2%	0.05%
Excises	48 589.3	52 515.8	3 926.5	8.1%	2.5%	2.5%	0.00%
Other taxes on goods and services	8 852.3	7 967.9	-884.3	-10.0%	0.5%	0.4%	-0.08%
Taxes on the use of goods, on authorizing the use of goods and on carrying activities	9 571.6	9 969.1	397.6	4.2%	0.5%	0.5%	-0.02%
Taxes on foreign trade and international transactions (customs duty)	**2 088.5**	**2 257.3**	**168.8**	**8.1%**	**0.1%**	**0.1%**	**0.00%**
Other tax revenue	**1 789.0**	**1 933.6**	**144.6**	**8.1%**	**0.1%**	**0.1%**	**0.00%**
Social security contributions	**205 918.5**	**222 445.5**	**16 526.9**	**8.0%**	**10.8%**	**10.8%**	**-0.01%**
Nontax revenue	**52 738.3**	**53 925.1**	**1 186.8**	**2.3%**	**2.8%**	**2.6%**	**-0.15%**
Additional revenues collected from digitization	**0.0**	**0.0**	**0.0**		**0.0%**	**0.0%**	**0.00%**
Capital revenue	**1 499.1**	**1 602.4**	**103.3**	**6.9%**	**0.1%**	**0.1%**	**0.00%**
Grants	**4.6**	**2.9**	**-1.8**	**-37.9%**	**0.0%**	**0.0%**	**0.00%**
Amounts received from the EU on account of payments made 2021-2027	**51 800.9**	**42 310.7**	**-9 490.1**	**-18.3%**	**2.7%**	**2.0%**	**-0.66%**

Financial operations	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.00%**
Amounts collected in the single account, at the state budget	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.00%**
Other funds from the EU	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.00%**
Amounts received from the EU/other donors in the account of payments made and pre-financing for financial framework 2014-2020	**8 628.3**	**2.0**	**-8 626.3**	**-100.0%**	**0.5%**	**0.0%**	**-0.45%**
Amounts related to the non-reimbursable financial assistance allocated to NRRP	**27 279.0**	**17 170.1**	**-10 108.9**	**-37.1%**	**1.4%**	**0.8%**	**-0.60%**
TOTAL EXPENDITURE	**802 170.1**	**815 489.1**	**13 318.9**	**1.7%**	**41.9%**	**39.5%**	**-2.49%**
Current expenditure	**740 466.9**	**749 855.2**	**9 388.4**	**1.3%**	**38.7%**	**36.3%**	**-2.44%**
Personnel	169 535.7	178 805.3	9 269.6	5.5%	8.9%	8.7%	-0.21%
Goods and services	94 679.7	99 805.6	5 125.9	5.4%	5.0%	4.8%	-0.12%
Interest	41 860.9	48 456.1	6 595.2	15.8%	2.2%	2.3%	0.16%
Subsidies	13 930.7	12 594.0	-1 336.7	-9.6%	0.7%	0.6%	-0.12%
Total Transfers	**415 907.6**	**407 950.9**	**-7 956.7**	**-1.9%**	**21.7%**	**19.7%**	**-2.01%**
Transfers for public entities	4 722.7	4 647.6	-75.1	-1.6%	0.2%	0.2%	-0.02%
Other transfers	33 338.9	35 766.9	2 428.0	7.3%	1.7%	1.7%	-0.01%
Projects funded by external post accession grants	60 508.6	55 516.9	-4 991.7	-8.2%	3.2%	2.7%	-0.48%
Social assistance	242 262.0	256 267.5	14 005.4	5.8%	12.7%	12.4%	-0.27%
Projects funded by external post accession grants 2014-2020	12 175.2	439.2	-11 736.0	-96.4%	0.6%	0.0%	-0.62%
Other expenditure	16 235.3	17 502.6	1 267.3	7.8%	0.8%	0.8%	0.00%
Projects with financing from the amounts representing the non-reimbursable financial assistance related to NRRP	32 199.5	22 176.0	-10 023.5	-31.1%	1.7%	1.1%	-0.61%
Projects financed from the amounts related to the loan component of NRRP	14 465.3	15 634.1	1 168.8	8.1%	0.8%	0.8%	0.00%
Reserve funds	**2 362.0**	**1 000.0**	**-1 362.0**	**-57.7%**	**0.1%**	**0.0%**	**-0.08%**
Expenditure funded from reimbursable funds	**2 190.2**	**1 243.3**	**-946.9**	**-43.2%**	**0.1%**	**0.1%**	**-0.05%**
Capital expenditures	**61 703.3**	**65 633.8**	**3 930.6**	**6.4%**	**3.2%**	**3.2%**	**-0.05%**
Financial operations	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.00%**
Payments made in previous years and recovered in the current year	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.00%**
EXCEDENT(+) / DEFICIT(-)	**-134 647.0**	**-133 121.2**	**1 525.8**	**-1.1%**	**-7.0%**	**-6.4%**	**0.60%**

Source: MF

Annex III	FS projection 2026 (mil. lei)	FS projection 2027 (mil. lei)	FS projection 2027 -FS projection 2026 (mil. lei)	FS projection 2027 -FS projection 2026 (%)	FS projection 2026 (% of GDP)	FS projection 2027 (% of GDP)	FS projection 2027 -FS projection 2026 (% of GDP)
	1	2	3=2-1	4=3/1	5	6	7=6-5
TOTAL REVENUE	**682 367.9**	**705 162.8**	**22 795.0**	**3.3%**	**33.0%**	**31.8%**	**-1.23%**
Current revenue	**621 279.8**	**664 566.2**	**43 286.4**	**7.0%**	**30.1%**	**30.0%**	**-0.10%**
Tax revenue	**344 909.3**	**368 585.3**	**23 676.0**	**6.9%**	**16.7%**	**16.6%**	**-0.07%**
Taxes on profit, wages, income and capital gains	**111 311.5**	**118 826.9**	**7 515.4**	**6.8%**	**5.4%**	**5.4%**	**-0.03%**
Corporate income tax	46 351.6	49 761.2	3 409.6	7.4%	2.2%	2.2%	0.00%
Personal income tax	60 864.4	64 869.1	4 004.7	6.6%	2.9%	2.9%	-0.02%
Other taxes on income, profit and capital gains	4 095.6	4 196.7	101.1	2.5%	0.2%	0.2%	-0.01%
Property tax	**10 771.5**	**11 509.5**	**737.9**	**6.9%**	**0.5%**	**0.5%**	**0.00%**
Taxes on goods and services	**218 635.3**	**233 751.0**	**15 115.7**	**6.9%**	**10.6%**	**10.5%**	**-0.04%**
VAT	148 182.5	158 670.0	10 487.5	7.1%	7.2%	7.2%	-0.02%
Excises	52 515.8	56 362.3	3 846.6	7.3%	2.5%	2.5%	0.00%
Other taxes on goods and services	7 967.9	8 037.1	69.2	0.9%	0.4%	0.4%	-0.02%
Taxes on the use of goods, on authorizing the use of goods and on carrying activities	9 969.1	10 681.6	712.4	7.1%	0.5%	0.5%	0.00%
Taxes on foreign trade and international transactions (customs duty)	**2 257.3**	**2 422.6**	**165.3**	**7.3%**	**0.1%**	**0.1%**	**0.00%**
Other tax revenue	**1 933.6**	**2 075.2**	**141.7**	**7.3%**	**0.1%**	**0.1%**	**0.00%**
Social security contributions	**222 445.5**	**239 222.0**	**16 776.6**	**7.5%**	**10.8%**	**10.8%**	**0.02%**
Nontax revenue	**53 925.1**	**56 758.9**	**2 833.8**	**5.3%**	**2.6%**	**2.6%**	**-0.05%**
Additional revenues collected from digitization	**0.0**	**0.0**	**0.0**	**#DIV/0!**	**0.0%**	**0.0%**	**0.00%**
Capital revenue	**1 602.4**	**1 702.7**	**100.3**	**6.3%**	**0.1%**	**0.1%**	**0.00%**
Grants	**2.9**	**2.9**	**0.0**	**0.5%**	**0.0%**	**0.0%**	**0.00%**
Amounts received from the EU on account of payments made 2021-2027	**42 310.7**	**38 847.2**	**-3 463.5**	**-8.2%**	**2.0%**	**1.8%**	**-0.30%**
Financial operations	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.00%**
Amounts collected in the single account, at the state budget	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.00%**

Other funds from the EU	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.00%**
Amounts received from the EU/other donors in the account of payments made and pre-financing for financial framework 2014-2020	**2.0**	**0.0**	**-2.0**	**-100.0%**	**0.0%**	**0.0%**	**0.00%**
Amounts related to the non-reimbursable financial assistance allocated to NRRP	**17 170.1**	**43.8**	**-17 126.3**	**-99.7%**	**0.8%**	**0.0%**	**-0.83%**
TOTAL EXPENDITURE	**815 489.1**	**832 510.5**	**17 021.4**	**2.1%**	**39.5%**	**37.5%**	**-1.93%**
Current expenditure	**749 855.2**	**750 141.5**	**286.3**	**0.0%**	**36.3%**	**33.8%**	**-2.46%**
Personnel	178 805.3	189 422.3	10 617.0	5.9%	8.7%	8.5%	-0.11%
Goods and services	99 805.6	102 727.5	2 921.9	2.9%	4.8%	4.6%	-0.20%
Interest	48 456.1	61 435.2	12 979.1	26.8%	2.3%	2.8%	0.42%
Subsidies	12 594.0	11 894.4	-699.6	-5.6%	0.6%	0.5%	-0.07%
Total Transfers	**407 950.9**	**382 399.6**	**-25 551.3**	**-6.3%**	**19.7%**	**17.2%**	**-2.50%**
Transfers for public entities	4 647.6	4 728.5	80.9	1.7%	0.2%	0.2%	-0.01%
Other transfers	35 766.9	35 167.6	-599.3	-1.7%	1.7%	1.6%	-0.15%
Projects funded by external post accession grants	55 516.9	52 317.4	-3 199.6	-5.8%	2.7%	2.4%	-0.33%
Social assistance	256 267.5	266 271.3	10 003.8	3.9%	12.4%	12.0%	-0.40%
Projects funded by external post accession grants 2014-2020	439.2	493.4	54.2	12.3%	0.0%	0.0%	0.00%
Other expenditure	17 502.6	16 937.6	-565.0	-3.2%	0.8%	0.8%	-0.08%
Projects with financing from the amounts representing the non-reimbursable financial assistance related to NRRP	22 176.0	54.0	-22 122.0	-99.8%	1.1%	0.0%	-1.07%
Projects financed from the amounts related to the loan component of NRRP	15 634.1	6 429.8	-9 204.3	-58.9%	0.8%	0.3%	-0.47%
Reserve funds	**1 000.0**	**1 000.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.00%**
Expenditure funded from reimbursable funds	**1 243.3**	**1 262.5**	**19.2**	**1.5%**	**0.1%**	**0.1%**	**0.00%**
Capital expenditures	**65 633.8**	**82 369.0**	**16 735.1**	**25.5%**	**3.2%**	**3.7%**	**0.54%**
Financial operations	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.00%**
Payments made in previous years and recovered in the current year	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.00%**
EXCEDENT(+) / DEFICIT(-)	**-133 121.2**	**-127 347.7**	**5 773.5**	**-4.3%**	**-6.4%**	**-5.7%**	**0.70%**

Source: MF

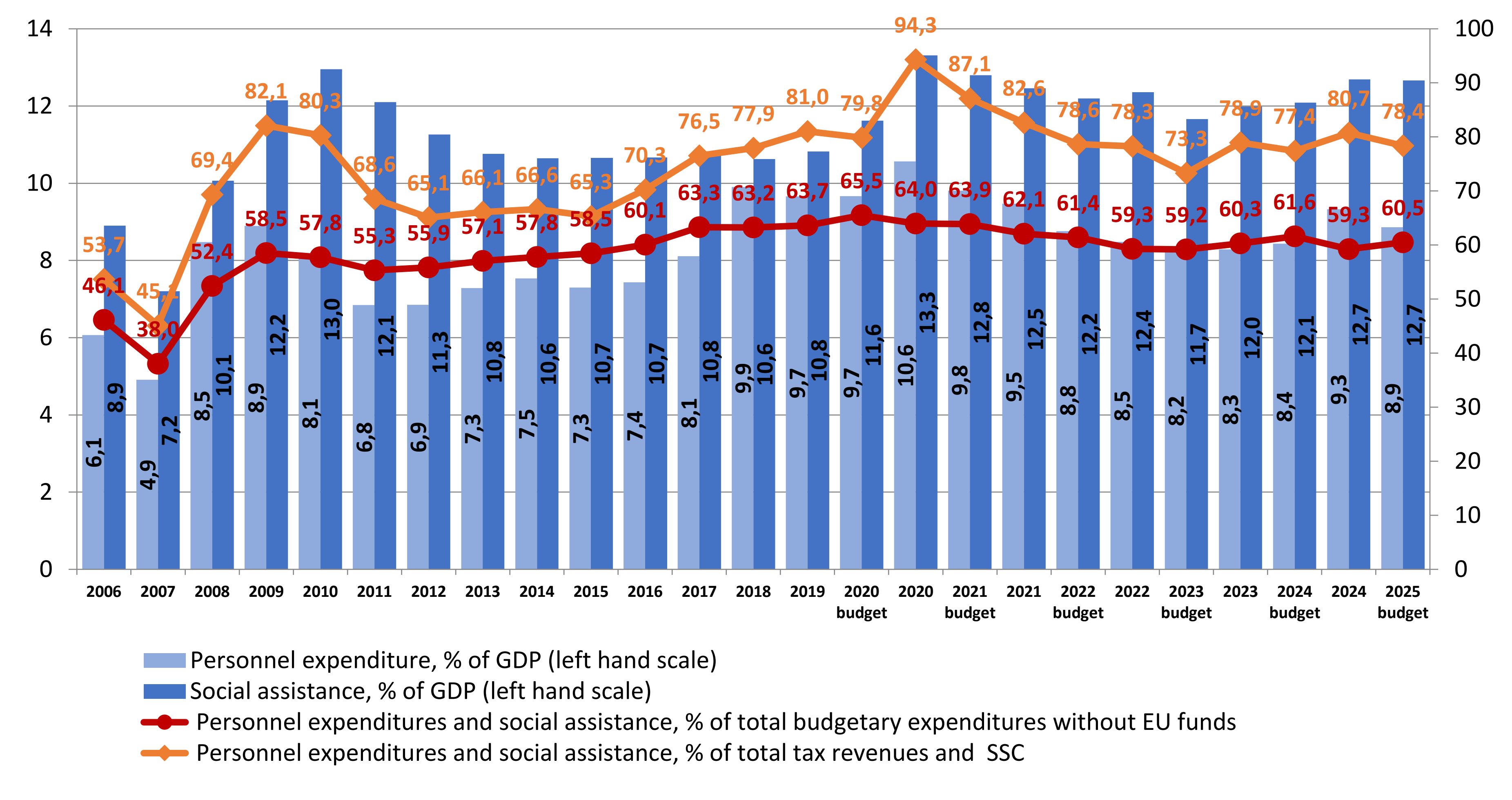
Annex IV	FS projection 2027 (mil. lei)	FS projection 2028 (mil. lei)	FS projection 2028 -FS projection 2027 (mil. lei)	FS projection 2028 -FS projection 2027 (%)	FS projection 2027 (% of GDP)	FS projection 2028 (% of GDP)	FS projection 2028 - FS projection 2027 (% of GDP)
	1	2	3=2-1	4=3/1	5	6	7=6-5
TOTAL REVENUE	**705 162.8**	**746 744.6**	**41 581.8**	**5.9%**	**31.8%**	**31.5%**	**-0.32%**
Current revenue	**664 566.2**	**709 044.6**	**44 478.4**	**6.7%**	**30.0%**	**29.9%**	**-0.07%**
Tax revenue	**368 585.3**	**393 145.1**	**24 559.8**	**6.7%**	**16.6%**	**16.6%**	**-0.05%**
Taxes on profit, wages, income and capital gains	**118 826.9**	**126 384.9**	**7 558.0**	**6.4%**	**5.4%**	**5.3%**	**-0.03%**
Corporate income tax	49 761.2	53 177.3	3 416.2	6.9%	2.2%	2.2%	0.00%
Personal income tax	64 869.1	68 915.1	4 046.1	6.2%	2.9%	2.9%	-0.02%
Other taxes on income, profit and capital gains	4 196.7	4 292.5	95.8	2.3%	0.2%	0.2%	-0.01%
Property tax	**11 509.5**	**12 260.4**	**751.0**	**6.5%**	**0.5%**	**0.5%**	**0.00%**
Taxes on goods and services	**233 751.0**	**249 688.7**	**15 937.7**	**6.8%**	**10.5%**	**10.5%**	**-0.01%**
VAT	158 670.0	169 370.1	10 700.1	6.7%	7.2%	7.1%	-0.01%
Excises	56 362.3	60 286.9	3 924.5	7.0%	2.5%	2.5%	0.00%
Other taxes on goods and services	8 037.1	8 266.3	229.2	2.9%	0.4%	0.3%	-0.01%
Taxes on the use of goods, on authorizing the use of goods and on carrying activities	10 681.6	11 765.4	1 083.9	10.1%	0.5%	0.5%	0.01%
Taxes on foreign trade and international transactions (customs duty)	**2 422.6**	**2 591.3**	**168.7**	**7.0%**	**0.1%**	**0.1%**	**0.00%**
Other tax revenue	**2 075.2**	**2 219.7**	**144.4**	**7.0%**	**0.1%**	**0.1%**	**0.00%**
Social security contributions	**239 222.0**	**256 225.8**	**17 003.8**	**7.1%**	**10.8%**	**10.8%**	**0.01%**
Nontax revenue	**56 758.9**	**59 673.7**	**2 914.9**	**5.1%**	**2.6%**	**2.5%**	**-0.04%**
Additional revenues collected from digitization	**0.0**	**0.0**	**0.0**	**#DIV/0!**	**0.0%**	**0.0%**	**0.00%**
Capital revenue	**1 702.7**	**1 804.2**	**101.5**	**6.0%**	**0.1%**	**0.1%**	**0.00%**
Grants	**2.9**	**2.9**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.00%**
Amounts received from the EU on account of payments made 2021-2027	**38 847.2**	**35 891.8**	**-2 955.4**	**-7.6%**	**1.8%**	**1.5%**	**-0.24%**
Financial operations	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.00%**
Amounts collected in the single account, at the state budget	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.00%**

Other funds from the EU	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.00%**
Amounts received from the EU/other donors in the account of payments made and pre-financing for financial framework 2014-2020	**0.0**	**0.0**	**0.0**	**#DIV/0!**	**0.0%**	**0.0%**	**0.00%**
Amounts related to the non-reimbursable financial assistance allocated to NRRP	**43.8**	**1.0**	**-42.8**	**-97.7%**	**0.0%**	**0.0%**	**0.00%**
TOTAL EXPENDITURE	**832 510.5**	**866 343.8**	**33 833.3**	**4.1%**	**37.5%**	**36.5%**	**-1.02%**
Current expenditure	**750 141.5**	**780 943.6**	**30 802.2**	**4.1%**	**33.8%**	**32.9%**	**-0.90%**
Personnel	189 422.3	201 594.0	12 171.7	6.4%	8.5%	8.5%	-0.04%
Goods and services	102 727.5	106 717.3	3 989.8	3.9%	4.6%	4.5%	-0.13%
Interest	61 435.2	70 013.7	8 578.5	14.0%	2.8%	3.0%	0.18%
Subsidies	11 894.4	12 200.6	306.2	2.6%	0.5%	0.5%	-0.02%
Total Transfers	**382 399.6**	**388 090.5**	**5 690.9**	**1.5%**	**17.2%**	**16.4%**	**-0.88%**
Transfers for public entities	4 728.5	4 791.7	63.3	1.3%	0.2%	0.2%	-0.01%
Other transfers	35 167.6	35 058.0	-109.5	-0.3%	1.6%	1.5%	-0.11%
Projects funded by external post accession grants	52 317.4	48 738.2	-3 579.1	-6.8%	2.4%	2.1%	-0.30%
Social assistance	266 271.3	279 719.8	13 448.5	5.1%	12.0%	11.8%	-0.21%
Projects funded by external post accession grants 2014-2020	493.4	1 095.3	601.9	122.0%	0.0%	0.0%	0.02%
Other expenditure	16 937.6	15 374.4	-1 563.2	-9.2%	0.8%	0.6%	-0.12%
Projects with financing from the amounts representing the non-reimbursable financial assistance related to NRRP	54.0	1.3	-52.8	-97.7%	0.0%	0.0%	0.00%
Projects financed from the amounts related to the loan component of NRRP	6 429.8	3 311.7	-3 118.1	-48.5%	0.3%	0.1%	-0.15%
Reserve funds	**1 000.0**	**1 000.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.00%**
Expenditure funded from reimbursable funds	**1 262.5**	**1 327.6**	**65.0**	**5.2%**	**0.1%**	**0.1%**	**0.00%**
Capital expenditures	**82 369.0**	**85 400.2**	**3 031.2**	**3.7%**	**3.7%**	**3.6%**	**-0.11%**
Financial operations	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.00%**
Payments made in previous years and recovered in the current year	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.00%**
EXCEDENT(+) / DEFICIT(-)	**-127 347.7**	**-119 599.2**	**7 748.5**	**-6.1%**	**-5.7%**	**-5.0%**	**0.70%**

Source: MF

Annex V

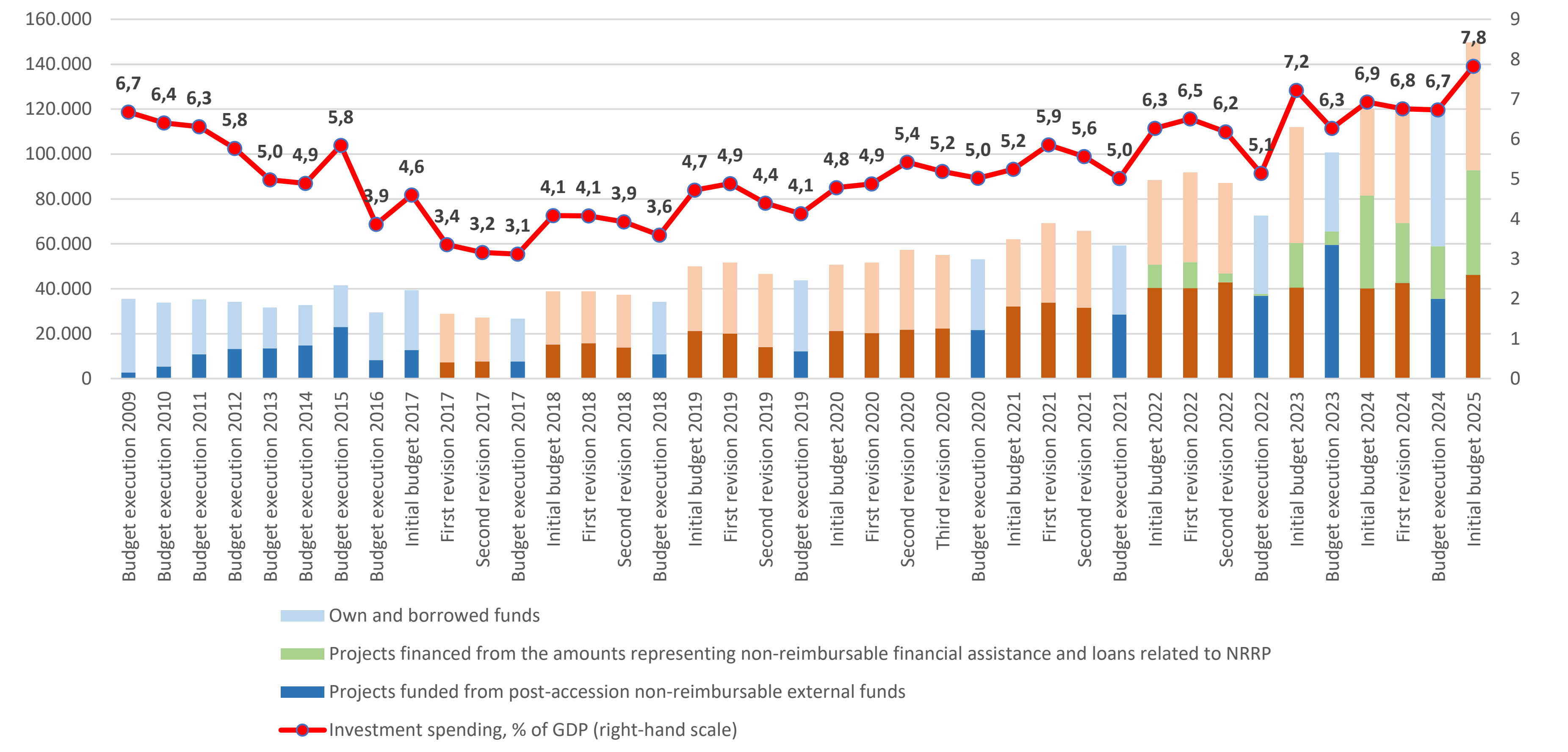
Figure 1. Evolution of personnel and social assistance expenditures during 2006-2025 (mil. lei)



Source: MF, FC's calculations

Annex VI

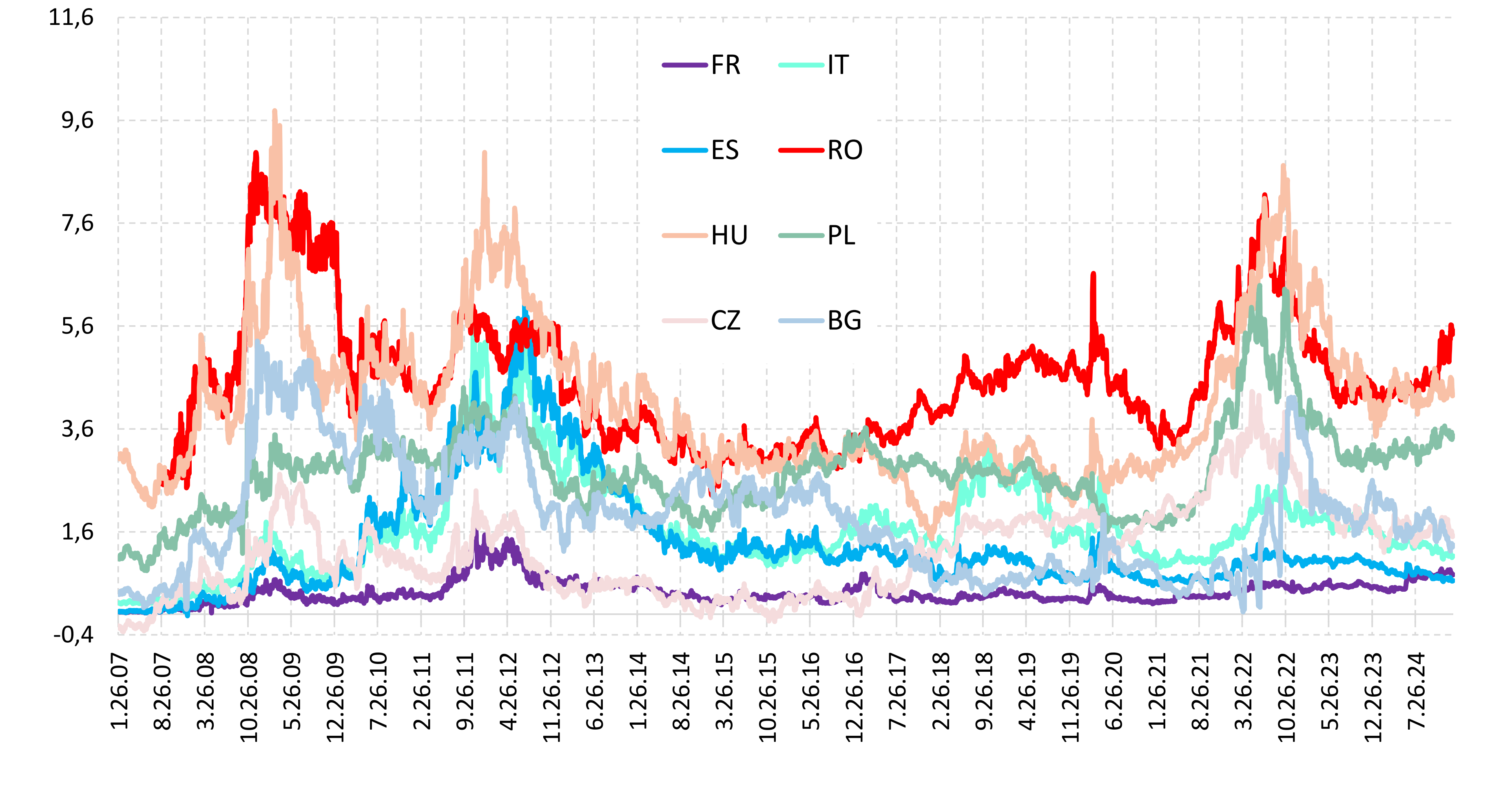
Figure 3. The evolution of public investment expenditures between 2009-2025 – planned vs actual level (mil. lei)



Source: MF, FC's calculations

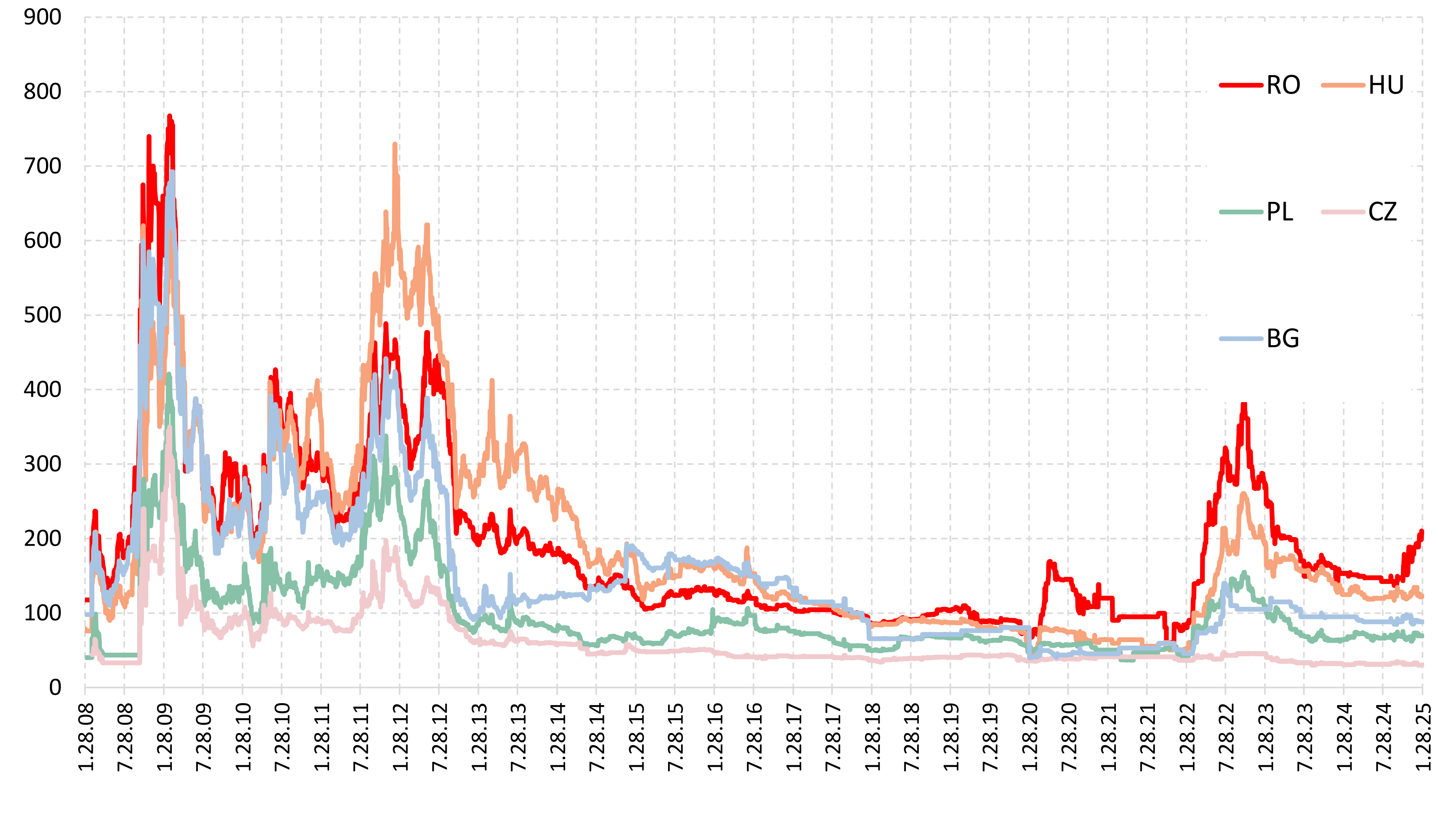
Annex VII

Figure 3. The evolution of spreads against German bonds (percentage points)



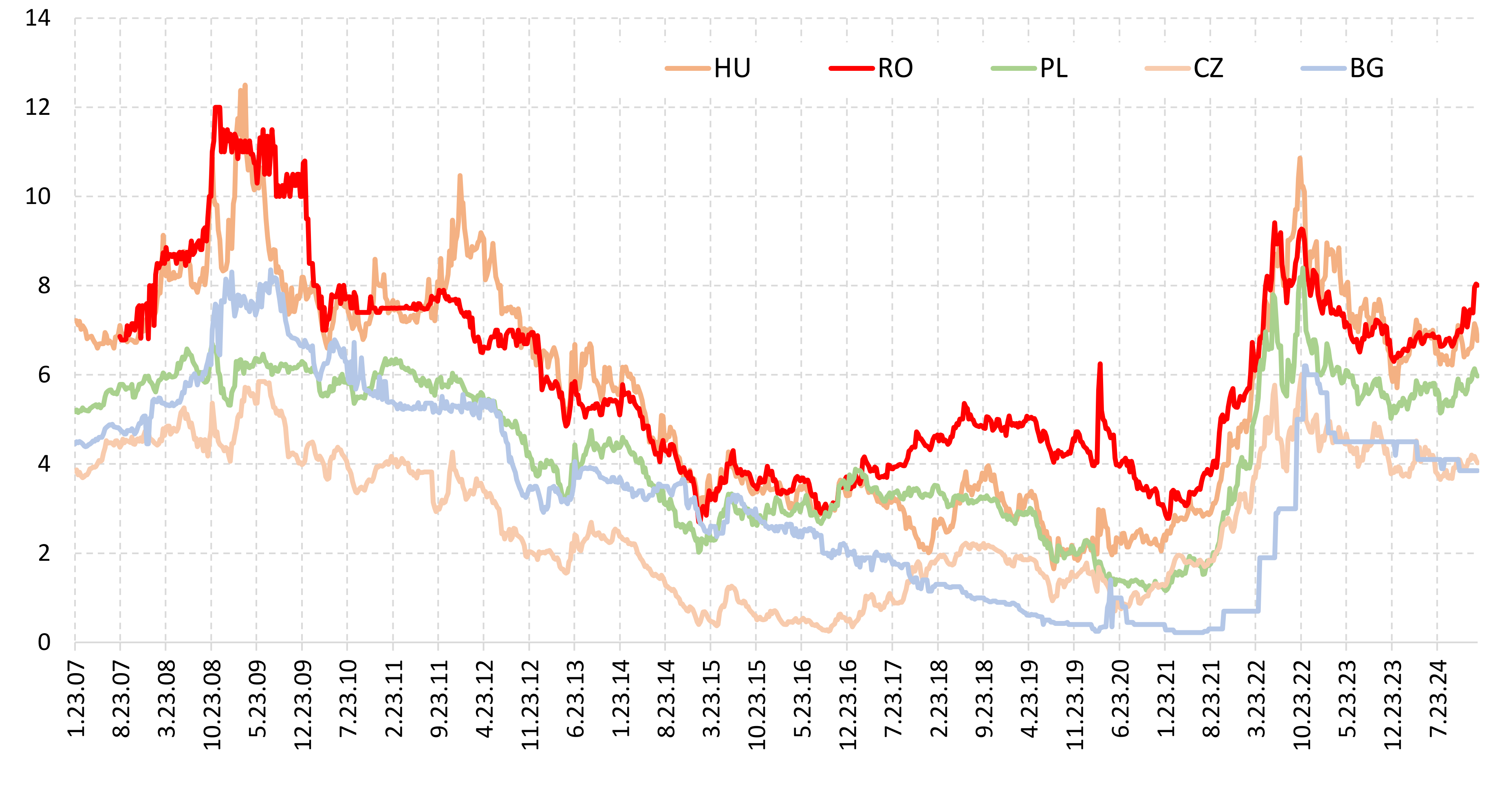
Source: Refinitiv Datastream

Figure 4. The evolution of 5-year government bond CDS (basis points)



Source: Refinitiv Datastream

Figure 5. The evolution of 10-year government bond yields (percentages)



Source: Refinitiv Datastream

Annex VIII

Table 1. The evolution of the budget balance in the states in EDP and the peer states of Romania in the period 2019-2024 (% of GDP)

Country/Year	2019	2020	2021	2022	2023	2024
BE	-2	-9	-5.4	-3.6	-4.2	-4.6
BG	2.2	-3.8	-3.9	-2.9	-2	-2.6
CZ	0.3	-5.6	-5	-3.1	-3.8	-2.5
FR	-2.4	-8.9	-6.6	-4.7	-5.5	-6.2
IT	-1.5	-9.4	-8.9	-8.1	-7.2	-3.8
HU	-2	-7.5	-7.1	-6.2	-6.7	-5.4
MT	0.7	-8.7	-7	-5.2	-4.5	-4
PL	-0.7	-6.9	-1.7	-3.4	-5.3	-5.8
RO	-4.3	-9.2	-7.1	-6.4	-6.5	-8
SK	-1.2	-5.3	-5.1	-1.7	-5.2	-5.8

Source: AMECO
Note: Bulgaria and the Czech Republic are not part of the excessive deficit procedure (EDP)

Table 2. The evolution of the current account balance in the states in EDP and the peer states of Romania in the period 2019-2024 (% of GDP)

Country/Year	2019	2020	2021	2022	2023	2024
BE	0.1	0.9	1.8	-1.3	-0.7	0.3
BG	1.7	0.4	-1.1	-2.6	0.9	0.3
CZ	0.3	1.8	-2.1	-4.7	0.3	2.2
FR	0.6	-2.1	0.3	-1.2	-1	0.5
IT	3.2	3.8	2.1	-1.7	0	1.1
HU	-0.6	-0.9	-3.9	-8.5	0.8	2
MT	17.9	16	9.4	-0.8	6.4	5.6
PL	-0.3	2.4	-1.3	-2.2	1.8	0.8
RO	-4.9	-4.9	-7.2	-9.2	-7	-8
SK	-3.5	-0.5	-4.8	-9.6	-1.7	-2.8

Source: AMECO
Note: Bulgaria and the Czech Republic are not part of the excessive deficit procedure (EDP)

Table 3. **The evolution of public debt in the states in EDP and the peer states of Romania in the period 2019-2024 (% of GDP) (% of GDP)**

Country/Year	2019	2020	2021	2022	2023	2024
BE	97.5	111.2	108.4	102.6	103.1	103.4
BG	20.1	24.4	23.8	22.5	22.9	24.5
CZ	29.6	36.9	40.7	42.5	42.4	43.4
FR	98.1	114.8	112.7	111.2	109.9	112.7
IT	133.6	154.3	145.7	138.3	134.8	136.6
HU	65	78.7	76.2	73.8	73.4	74.5
MT	39.2	48.7	49.6	49.4	47.4	49.8
PL	45.2	56.6	53	48.8	49.7	54.7
RO	35	46.6	48.3	47.9	48.9	52.2
SK	47.9	58.4	60.2	57.7	56.1	58.9

Source: AMECO
Note: Bulgaria and the Czech Republic are not part of the excessive deficit procedure (EDP)

Annex IX

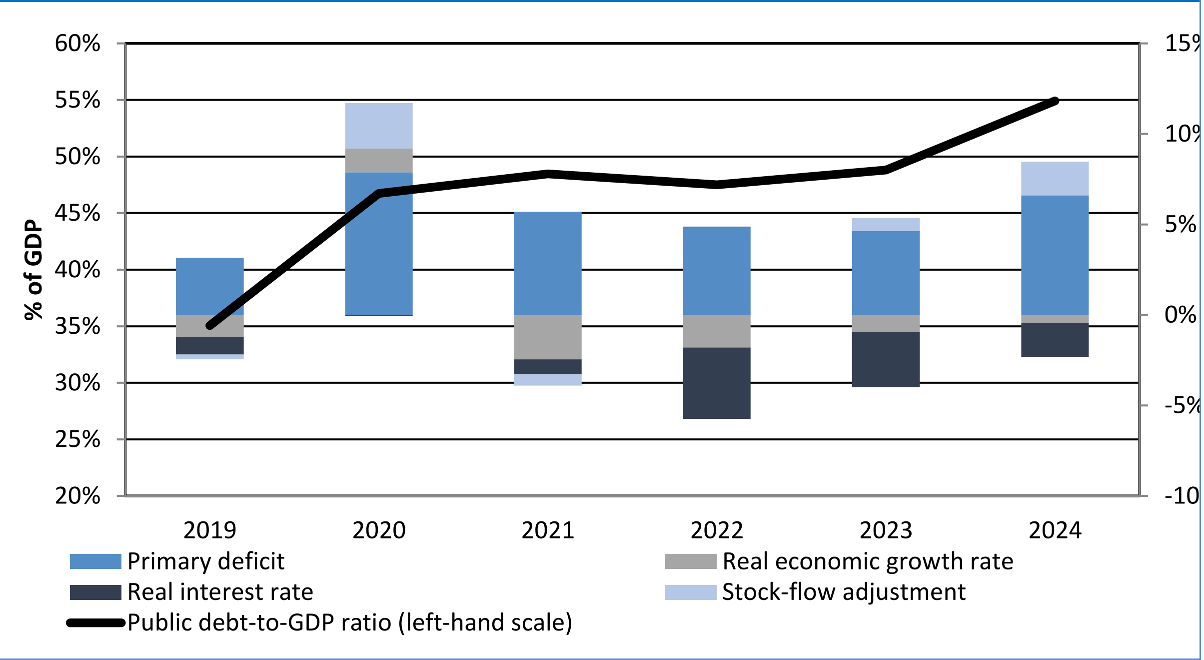
Table 4. 2025-2028 Fiscal Framework – MTP Projection vs. RMS Projection (% of GDP)

Indicator	Document	2025	2026	2027	2028
ESA Budget Deficit	MTP	-7	-6.4	-5.7	-5
	RMS	-7	-6.4	-5.7	-5
Cash Budget Deficit	MTP	-7	-6.4	-5.7	-5
	RMS	-7	-6.4	-5.7	-5
Structural Budget Deficit	MTP	-6.3	-5.7	-5.1	-4.3
	RMS	-6.4	-6	-5.5	-5
Total Budget Revenues	MTP	34.2	34.3	33.4	33.5
	RMS	34.9	33	31.8	31.5
Total Budget Expenditures	MTP	41.2	40.7	39.1	38.5
	RMS	41.9	39.5	37.5	36.5
Government Debt	MTP	55.7	58.5	60.6	62
	RMS	57.8	60.1	62.2	63.4

Source: The National Medium-Term Fiscal-Structural Plan (MTP), the Report on the Macroeconomic Situation for 2025, and its Projection for 2026-2028 (RMS)

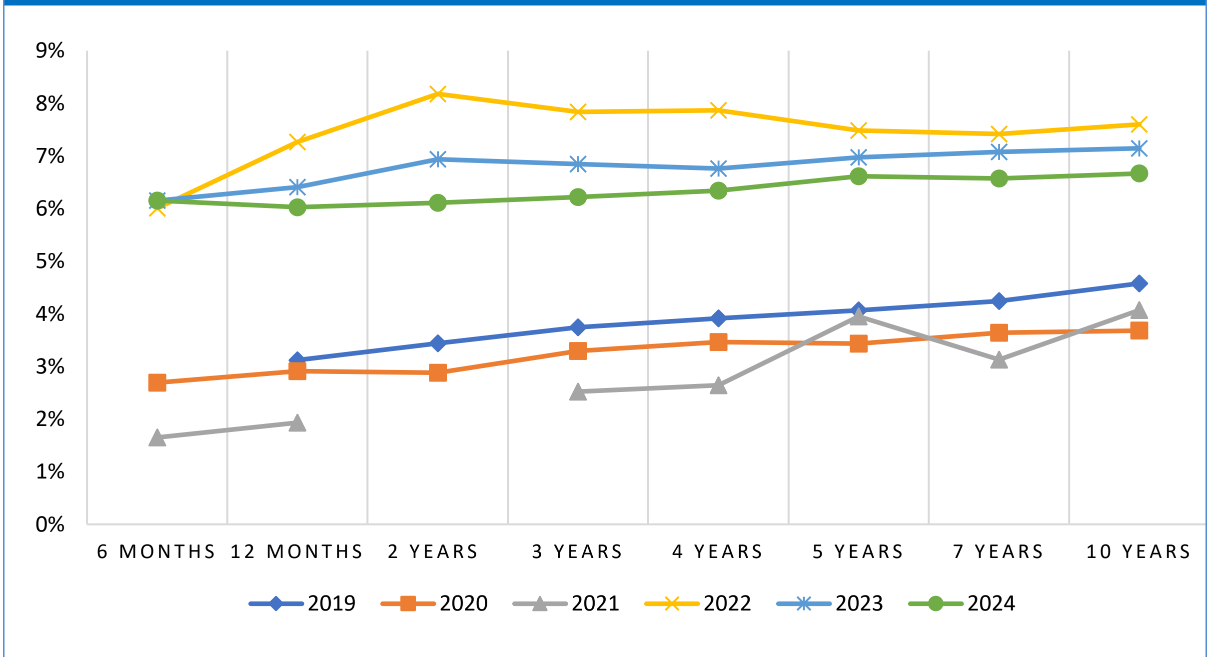
Annex X

Figure 6: Contributions to the change in the public debt-to-GDP ratio, 2019-2024



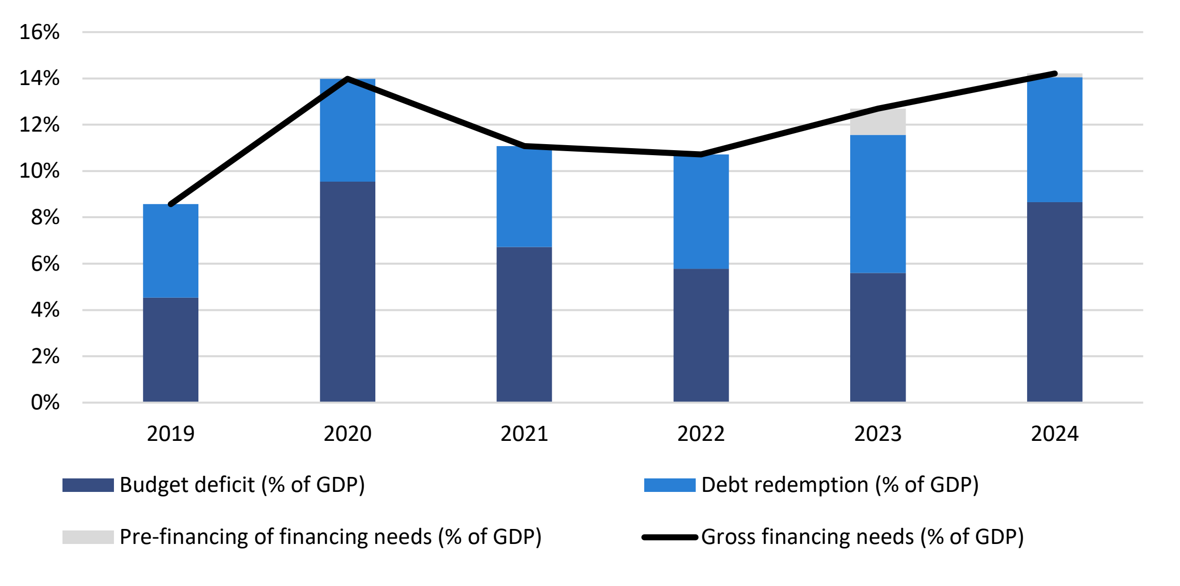
Source: Eurostat for 2019-2023 period and the preliminary data included in the 2025-2027 Fiscal Strategy for 2024, FC's calculations

Figure 7: Yield curve for local currency government bonds, 2019-2024



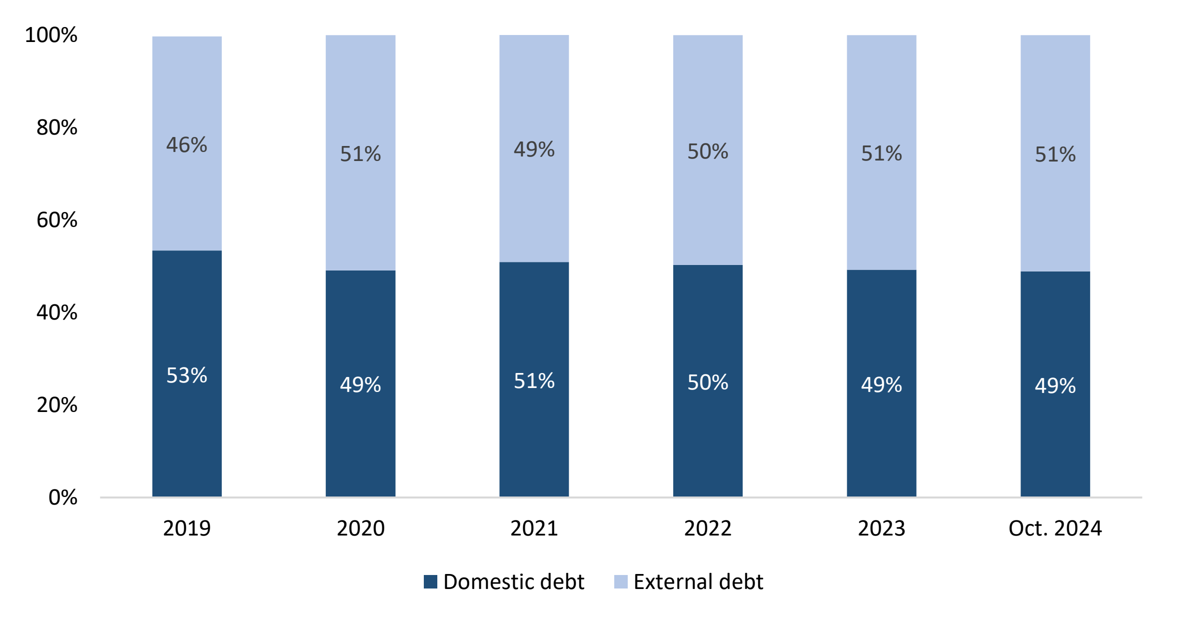
Source: National Bank of Romania

Figure 8: The evolution of government financing needs (% of GDP), 2019-2024



Source: MF

Figure 9: Share of domestic and external debt in total government debt, 2019-2024



Source: MF