

Public Debt Sustainability in Romania

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One of the main objectives of the EU's new economic governance framework is to simplify the fiscal rules. To this end, the framework has established a single operational indicator – the net primary expenditure path – which serves as the main reference benchmark under the excessive deficit procedure (EDP).

The targets associated with the net primary expenditure path are calibrated so that, by the end of the adjustment period, they ensure a downward trajectory of public debt and the correction of the excessive deficit. The plausibility of the declining public debt path is assessed based on the debt sustainability analysis (DSA) methodology. In this context, the DSA becomes a key instrument for monitoring compliance with the fiscal rules, making it necessary to assess the public debt trajectory on a regular basis.

This analysis updates the assessment of Romania's public debt sustainability¹ using the European Commission's latest data and projections from the 2026 Spring Forecast. It incorporates the effects of the fiscal consolidation measures adopted during 2025, as well as the latest macroeconomic developments. The analysis is structured as follows: (i) the public debt trajectory under a no-policy-change scenario, (ii) the public debt trajectory under a scenario of continued fiscal consolidation, (iii) stress testing of the public debt trajectory, (iv) risks and uncertainties surrounding the public debt trajectory, and (v) conclusions. The methodological assumptions underlying the debt sustainability analysis are presented in the Annex.

Public debt trajectory under the no-policy-change scenario

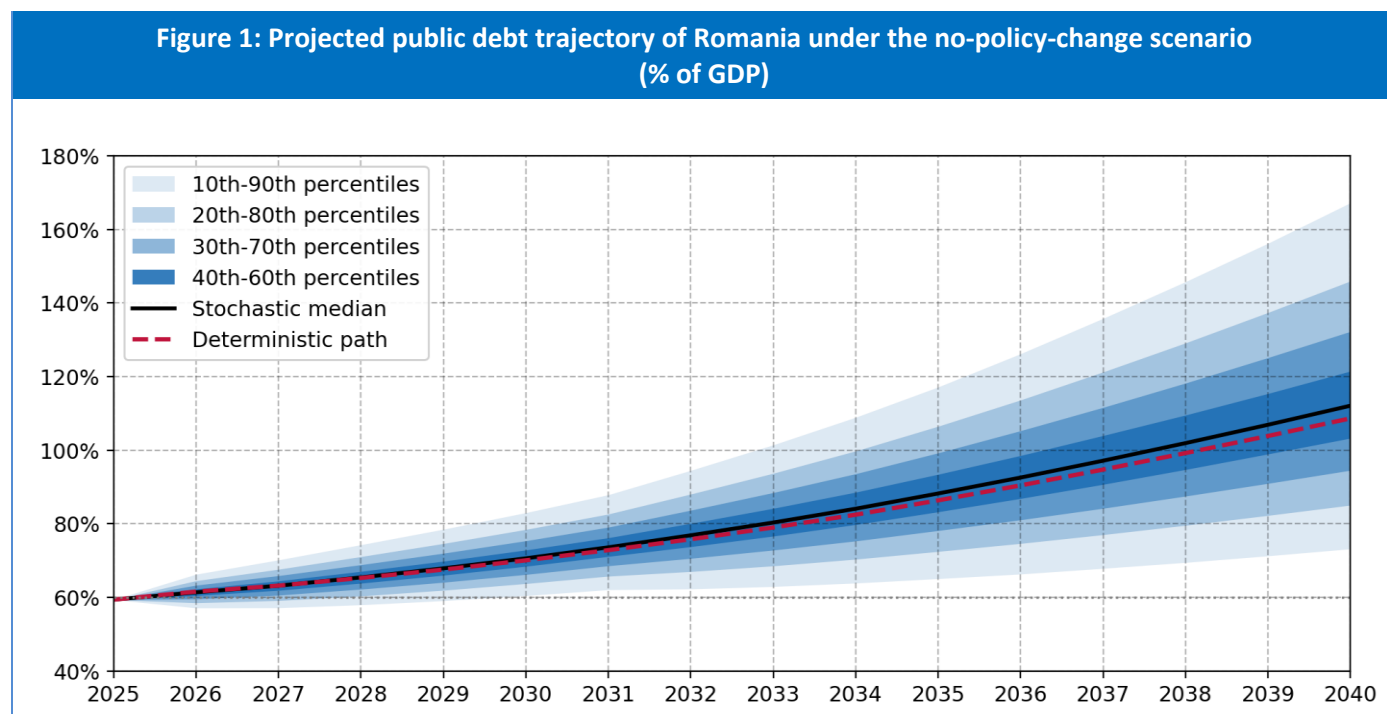
The projected public debt trajectory under the no-policy-change scenario incorporates, for 2026, the effects of the fiscal consolidation measures already adopted, assuming a budget deficit target of 6.2% of GDP, on an ESA basis. From 2027 onwards, the scenario assumes that the structural primary balance remains at its end-2026 level and is subsequently adjusted only to reflect the cost of population ageing.

The projections indicate that, under this scenario, the public debt-to-GDP ratio follows a rapidly increasing path, rising by an average of around 3.4 percentage points (pp) per year over the projection horizon ([Figure 1](#)). Accordingly, should fiscal consolidation targets not be achieved in the coming years, public debt would exceed 70% of GDP by 2030, rise to around 80% of GDP by 2034, and surpass 100% of GDP by 2039. The stochastic analysis confirms the unsustainable nature of this trajectory: the median of the stochastic projections reaches approximately 112% of GDP by 2040, highlighting that the risks are predominantly tilted towards an even faster accumulation of public debt.

The upward trajectory of public debt is also reflected in the deterioration of gross financing needs (defined as the sum of debt rollover requirements and deficit financing). Under the no-policy-change scenario, gross financing needs are projected to increase from around 15% of GDP in 2026 to approximately 20% of GDP

¹ Previous assessments are presented in the Fiscal Council's Annual Report, published in September 2025, and in the Fiscal Council's Opinion on the 2026 State Budget Law, published in March 2026.

by 2034, exceeding 25% of GDP towards the end of the projection horizon, thereby substantially increasing refinancing risks. An equally important vulnerability stems from the projected increase in interest expenditures, which are expected to rise from around 3% of GDP in 2026 to approximately 5% of GDP by 2034, reaching about 7% of GDP by 2040. Such an increase would absorb a significant share of budgetary resources, progressively reducing the available fiscal space. These pressures are compounded by the fact that approximately 53% of Romania's public debt is denominated in foreign currency, increasing the sensitivity of the debt trajectory to exchange rate movements.



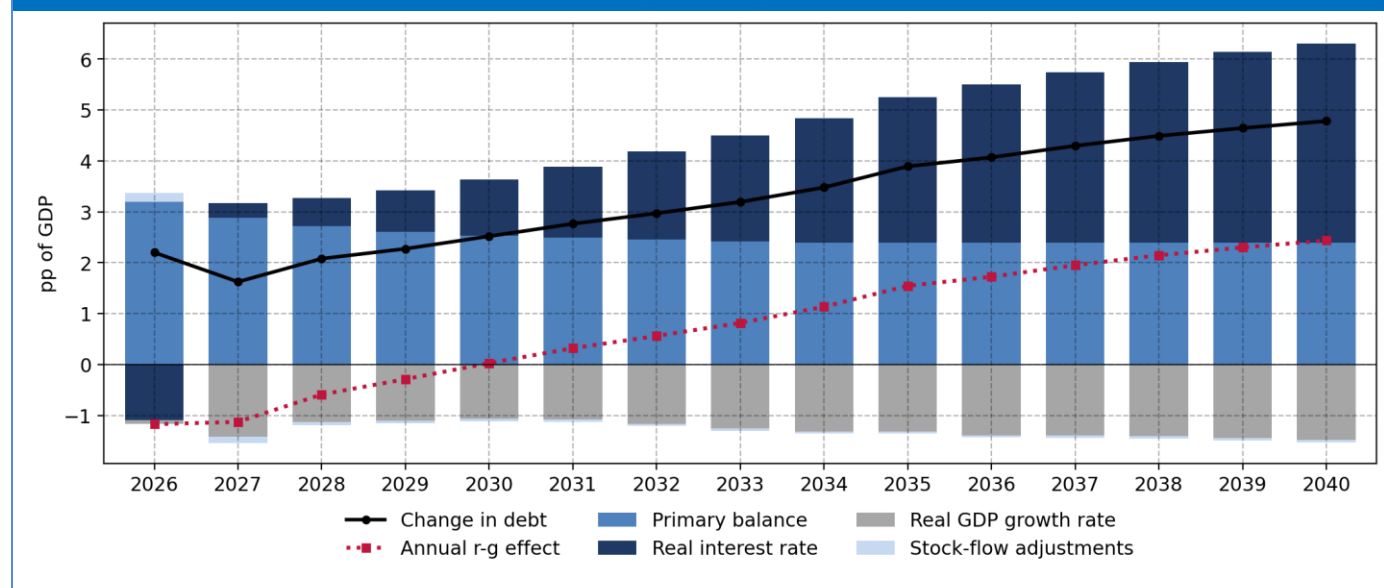
Source: Fiscal Council calculations based on the DSA replication code

The main driver of public debt accumulation is the primary deficit, which, under this scenario, remains within the range of 2.4-2.7% of GDP throughout the projection horizon. This reflects the assumption that the budgetary structure prevailing at the end of 2026 is maintained, characterized by high permanent expenditures and insufficient tax revenues. Another factor influencing debt dynamics is the gradual fading of the debt-reducing effect of inflation on the public debt-to-GDP ratio. As the GDP deflator moderates, the differential between the effective interest rate and GDP growth ($r - g$) deteriorates. Consequently, while the $r - g$ differential contributes to reducing public debt over the 2025-2029 period, from 2030 onwards it becomes a factor contributing to public debt accumulation ([Figure 2](#)).

Compared with the no-policy-change projections produced prior to the adoption of the fiscal consolidation measures, the current DSA points to a more moderate debt trajectory. The measures adopted in 2025 have mitigated the previously explosive dynamics of public debt, but they are not sufficient to stabilize it. Although the long-term debt projection is inherently hypothetical, as financial markets and credit rating

agencies would likely react well before the debt reaches the projected thresholds, the forecasted debt dynamics clearly highlights the need to continue the fiscal consolidation process.

Figure 2: Decomposition of the projected change in Romania's public debt under the no-policy-change scenario (% of GDP)



Source: Fiscal Council calculations based on the DSA replication code

Public debt trajectory under the continued fiscal consolidation scenario

For Romania, the constraints arising from the excessive deficit procedure, the rules embedded in the European Union's new economic governance framework, the commitments undertaken through the Medium-Term Fiscal-Structural Plan (MTP), as well as the unsustainable trajectory of public debt, make it imperative to continue fiscal adjustment in the coming years. Although the MTP established a seven-year fiscal consolidation path starting in 2025, its implementation was adversely affected by the use of an incorrect starting point – one that was lower than the actual fiscal position –, as well as by the absence of clearly specified measures to increase revenues and reduce expenditures. These shortcomings laid the groundwork for a more severe fiscal adjustment in the subsequent years.

Consequently, in June 2025, the Council of the European Union recommended that Romania completes the EDP by 2030 and established a net primary expenditure path requiring a front-loading fiscal adjustment, together with a revenue package with an annualized impact of approximately 1.75% of GDP in 2026. In line with these requirements, beginning in July 2025, Romania adopted a series of fiscal consolidation measures on both the revenue and expenditure sides of the budget.

To ensure a declining public debt trajectory, maintain a budget deficit below 3% of GDP, and comply with the debt sustainability requirements under the various stress scenarios, Romania should aim to achieve a structural primary surplus of approximately 2.1% of potential GDP by 2030. This would be equivalent to a primary surplus of around 1.2% of GDP and an ESA budget deficit of approximately 1.9% of GDP. This target

has been estimated using the DSA framework, taking into account the requirement that it simultaneously satisfies the three plausibility criteria² and the applicable safeguards³.

Given an estimated structural primary balance of approximately -2.2% of potential GDP at the end of 2026, achieving the target of around 2.1% of potential GDP by 2030 requires a cumulative fiscal adjustment of approximately 4.3 pp of potential GDP. Considering the front-loading requirement, the adjustment effort is concentrated in the early years of the 2027-2030 period. Accordingly, the structural primary balance is assumed to improve by 1.7 pp of potential GDP in 2027, 1.3 pp in 2028, 0.9 pp in 2029, and 0.4 pp in 2030.

Starting from an estimated structural primary balance of approximately -2.2% of potential GDP at the end of 2026 and the adjustment path described above, the resulting public debt dynamics are presented in [Figure 3](#). The results of the DSA indicate that the public debt-to-GDP ratio peaks in 2027 at approximately 62.3% of GDP. Thereafter, public debt follows a declining trajectory, falling below 60% of GDP by 2030, while the ESA budget deficit declines below 3% of GDP from 2029 onwards. The other two plausibility criteria are also satisfied. The requirement that public debt declines over the five years following the adjustment period is satisfied at the 70th percentile of the stochastic simulations, while the debt trajectory continues to decline throughout the 10-year post-adjustment period, including under each of the three deterministic stress tests: a lower structural primary balance scenario, an r-g stress scenario, and a financial stress scenario.

[Figure 3](#) also illustrates the difference between a front-loading adjustment and a linear adjustment designed to achieve the same structural primary balance target. Under the assumption of a linear adjustment, with the fiscal effort distributed evenly through 2030, the public debt trajectory would be less favourable: the debt ratio would peak at around 65% of GDP in 2028 and would remain above the 60% of GDP threshold at the end of the adjustment period. Consequently, the front-loading requirement results in a more favourable debt trajectory and a lower peak in the public debt-to-GDP ratio.

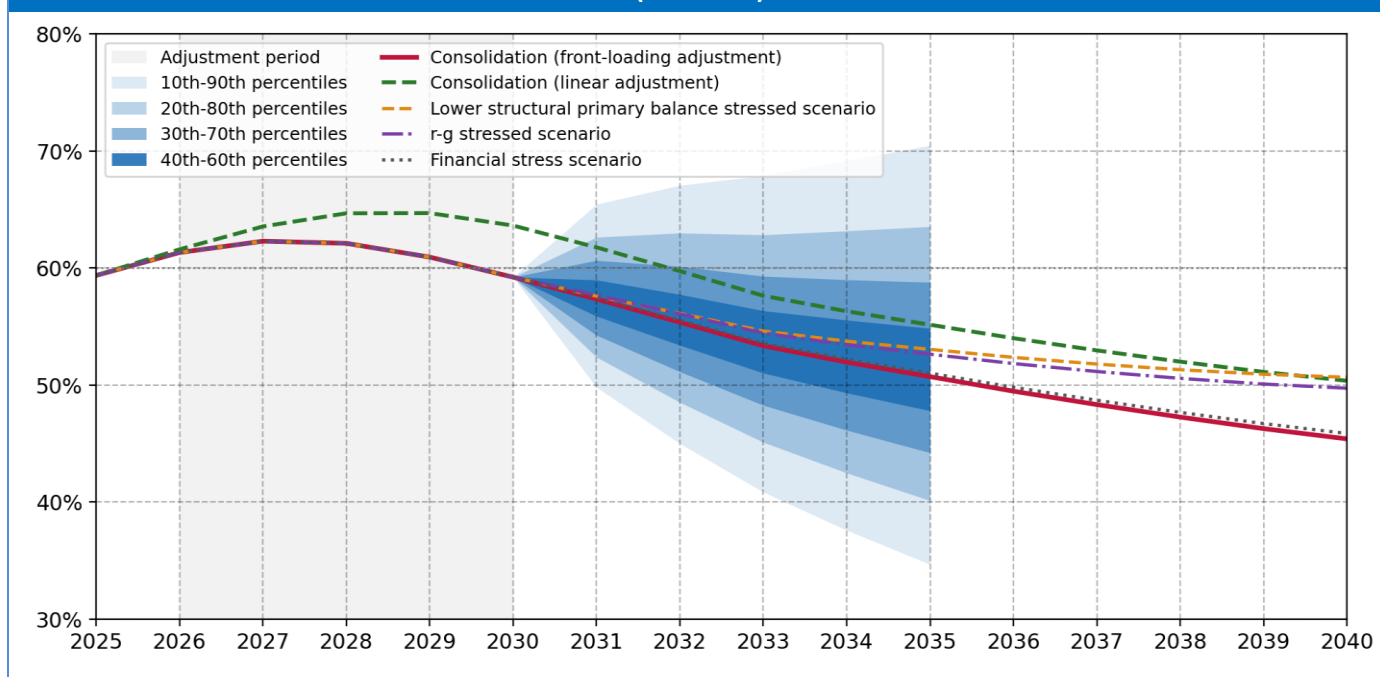
This continued fiscal consolidation scenario requires a substantial adjustment of the structural primary balance over the 2027-2030 period, with the adjustment effort concentrated in the early years. However, following two consecutive years (2025 and 2026) during which social assistance expenditures and compensation of employees were frozen, together with the implementation of revenue-raising measures,

² Compliance with the three criteria requires that: (i) public debt declines or remains below 60% of GDP during the 10 years following the adjustment period, both under the baseline scenario and under the three deterministic stress tests (for debt levels above 60% of GDP, the criterion requires a plausibly declining debt trajectory, whereas for debt levels below 60% of GDP, it requires debt to remain at prudent levels below this threshold), (ii) public debt declines with a probability of at least 70% over the five years following the adjustment period (the stochastic criterion), and (iii) the budget deficit falls below 3% of GDP and remains below that threshold. Among these, the binding criterion is the requirement that public debt decline with a probability of at least 70% during the five years following the adjustment period.

³ The debt sustainability safeguard requires that compliance with the expenditure path results in an average annual reduction in the public debt-to-GDP ratio of at least 1 pp of GDP when public debt exceeds 90% of GDP, or 0.5 pp of GDP when the debt ratio lies between 60% and 90% of GDP. The deficit resilience safeguard requires fiscal adjustment to continue until the budget deficit reaches a level that ensures a common structural resilience margin of 1.5% of GDP relative to the 3% of GDP deficit reference value. This is achieved through an annual improvement in the structural primary balance of 0.4 pp of GDP, reduced to 0.25 pp where the adjustment period is extended to seven years.

further fiscal adjustment through continued expenditures restraint and additional tax increases would be socially and politically challenging. In this context, improving tax revenue collection would provide important support for the fiscal consolidation process.

Figure 3: Projected public debt trajectory of Romania under the continued fiscal consolidation scenario (% of GDP)



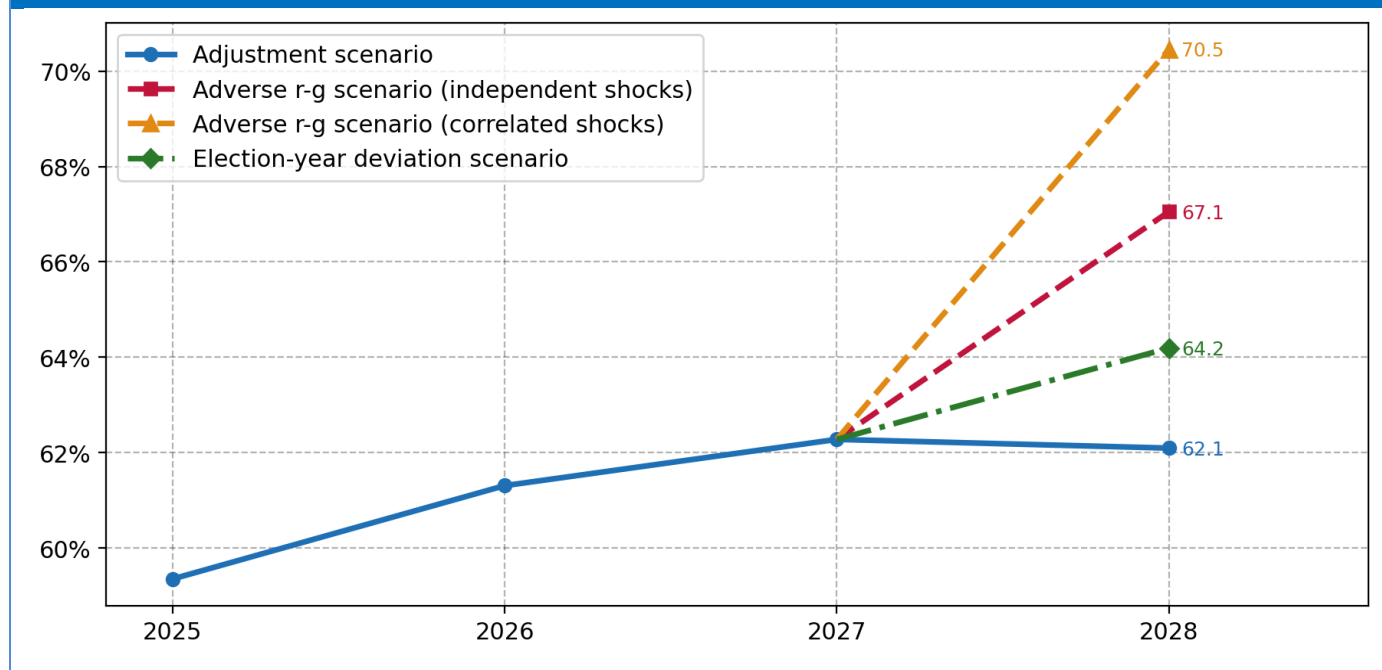
Source: Fiscal Council calculations based on the DSA replication code

Stress analysis

The robustness of the public debt trajectory to adverse macroeconomic shocks is assessed through a stress analysis applied to the projected debt path during the fiscal consolidation period. The stress analysis is based on annual historical data for the 2005-2025 period covering the variables included in the stochastic DSA framework: the RON/EUR exchange rate, the short-term interest rate, the long-term interest rate, nominal GDP, and the primary budget balance-to-GDP ratio. To avoid the arbitrary specification of a crisis scenario, the analysis relies on the historical covariance matrix of these variables. Accordingly, the stress analysis starts from a triggering shock and estimates the likely response of the other variables included in the analysis on the basis of the correlations observed for the Romanian economy over the 2005-2025 period.

The differential between the long-term financing cost (r) and the nominal GDP growth rate (g) was selected as the triggering factor. Under favourable conditions, when r is lower than g , this differential contributes to a declining public debt trajectory. However, a sharp reversal of the $r - g$ differential, as typically observed during periods of financial stress, can lead to a rapid increase in public debt over a relatively short period. The shock applied to the $r - g$ differential was calibrated to replicate the most severe historical episode observed during the 2005-2025 period. The propagation of this shock was simulated for 2028, corresponding to the midpoint of the fiscal adjustment period.

Figure 4: Stress analysis of the public debt trajectory (% of GDP)



Source: Fiscal Council calculations based on the DSA replication code

The transmission of the $r - g$ differential shock to the other macroeconomic variables – namely the exchange rate, the short-term interest rate, and the primary balance – can be modelled in two ways (Figure 4). Under the first approach (independent shocks), each variable responds individually to the initial shock according to its own historical relationship with the $r - g$ differential, without taking into account the historical correlations among the other variables. Under this assumption, the public debt-to-GDP ratio would increase from approximately 62.1% under the fiscal consolidation scenario to around 67.1% in 2028, representing an increase of about 5 pp. The second approach (correlated shocks) recognizes that, during periods of financial stress, macroeconomic variables tend to move simultaneously and often in the same direction. By incorporating the full historical correlation structure among the variables, this approach captures a broader transmission of the initial shock. Under this scenario, the public debt-to-GDP ratio would reach approximately 70.5% in 2028, an increase of around 8.4 pp. Intuitively, the results of the two scenarios indicate that the severity of the initial shock is amplified when it propagates simultaneously across all macroeconomic variables.

Another risk, which is not captured by the standard scenarios, is the tendency toward fiscal deviation in election years. To quantify this risk, a separate scenario was constructed, calibrated on the basis of the historical behaviour of the primary balance during parliamentary election years over the 2005-2025 period: 2008, 2012, 2016, and 2024 (the year 2020 was excluded, as the data were significantly affected by the pandemic). On average, the primary balance deteriorated by approximately 1.3 pp of GDP in these election years. The only exception was 2012, when the primary balance improved, as Romania was implementing a fiscal consolidation programme agreed with IMF and the European Commission.

The fiscal slippage is assumed to occur in 2028, corresponding to the next parliamentary elections. In addition to the direct fiscal impact, the scenario also incorporates the likely market response, estimated on the basis of historical correlations: fiscal relaxation in an election year has typically been accompanied by a depreciation of the Romanian leu, which increases the domestic currency value of foreign currency-denominated public debt. Taken together, these effects increase the public debt-to-GDP ratio by approximately 2 pp in 2028, of which around 1.3 pp are attributable to the deterioration in the primary balance, with the remainder resulting from the exchange rate depreciation.

Risks and uncertainties surrounding the public debt trajectory

The public debt trajectory under the continued fiscal consolidation scenario is conditional on the realization of the underlying macroeconomic assumptions and the assumed adjustment path of the structural primary balance. Beyond the assumptions underpinning the debt sustainability analysis, a number of additional risks may adversely affect the projected public debt trajectory.

First, the prolonged political uncertainty in Romania, compounded by the deterioration in the economic outlook, poses significant challenges to the fiscal consolidation process and increases the risk of a sovereign credit rating downgrade. Romania's sovereign rating currently remains at the lowest investment-grade level, with a negative outlook. A downgrade to non-investment-grade (junk) status would have severe consequences, including a significant increase in government financing costs and stronger depreciation pressures on the exchange rate. Given that more than 50% of Romania's public debt is denominated in foreign currency, such exchange rate movements would further increase the debt burden. Moreover, the combination of higher interest rates and weaker economic growth would pose a serious threat to the sustainability of the projected public debt trajectory.

Another important source of risk is of geopolitical nature. The ongoing military conflict in Romania's immediate neighbourhood, together with broader global geopolitical uncertainties – particularly those related to developments in the Middle East conflict – pose a risk of an energy shock, with adverse effects on economic growth. At the same time, in an environment of heightened global risk aversion, Romania is exposed to the risk of rising sovereign bond yields and, consequently, higher government financing costs. Such developments would worsen the $r - g$ differential, with a direct adverse impact on the dynamics of public debt.

The process of stabilizing the public debt trajectory is further complicated by Romania's NATO commitment to increase defense expenditures. Given the overriding need to reduce the fiscal deficit, the public budget would face considerable difficulty in accommodating annual defense expenditures of 3.5% of GDP, let alone achieving the 5% of GDP target by 2035. Meeting such a target would require additional increases in tax and non-tax revenues and/or further expenditures reductions.

In the context of rising defense expenditures, it is also important to highlight the risks associated with the absorption of loans under SAFE instrument. Unlike grants, these loans are recorded as public debt and affect the budget deficit when the related expenditure is incurred. Romania's allocation, amounting to

approximately EUR 16.6 billion (equivalent to around 4.1% of GDP), to be disbursed over the 2026-2030 period, requires the creation of additional fiscal space to ensure compliance with the net primary expenditure path, including through the application of the national escape clause. In the absence of such fiscal space, the use of SAFE loans could add approximately 3.5-4 pp of GDP to the public debt trajectory.

A structural risk with implications for both the short and the long term is posed by demographic developments. As the large post-war baby boom generation reaches retirement age, the cost of population ageing – partially incorporated into the baseline projection in line with the assumptions of the Ageing Report⁴ – will exert additional pressure on public expenditures. According to these projections, public pension expenditures in Romania are expected to increase by 2030. Over the longer term, population ageing is expected to erode both government revenues and the economy's potential growth rate, thereby further weighing on public debt sustainability.

These pressures are compounded by Romania's low labour force participation rate (around 67%, compared with the EU average of 75.3%), which narrows the tax base and constrains potential economic growth. Lower potential growth, in turn, weakens the denominator effect that helps reduce the public debt-to-GDP ratio, thereby increasing the dependence of the debt trajectory on sustained fiscal discipline. Mitigating these risks would require a range of structural reforms, including measures to increase labour force participation, a gradual adjustment of the statutory retirement age in line with life expectancy, and the elimination of exceptions to the standard retirement age.

Finally, the rapid expansion of artificial intelligence is likely to require a substantial volume of investment, potentially giving rise to a global crowding-out effect, resulting in a relative scarcity of capital and an increase in the natural rate of interest in international financial markets. Such developments could widen economic disparities across both firms and countries, while increasing the likelihood of future sovereign debt crises. Should the cost of financing exceed the nominal GDP growth rate, public debt sustainability would deteriorate. Romania, in turn, would be adversely affected by an increase in the natural interest rate at global level and by tighter external financing conditions.

Conclusions

In the absence of additional fiscal adjustment measures, Romania's public debt would remain on an unsustainable trajectory, exceeding 80% of GDP by 2034 and 100% of GDP by 2039. The fiscal consolidation measures adopted to date have moderated this trajectory but are not sufficient to stabilize it, making the continuation of the fiscal consolidation process indispensable.

Continuing the fiscal consolidation process by achieving a structural primary surplus of approximately 2.1% of potential GDP by 2030 would place public debt on a declining trajectory and reduce the ESA budget deficit below 3% of GDP by 2029, thereby meeting the debt sustainability criteria. However, the required

⁴ European Commission, 2024 Ageing Report: Economic & budgetary projections for the EU Member States (2022-2070), Institutional Paper 279.

adjustment effort is substantial and front-loaded. Following two consecutive years of frozen compensation of employees and social assistance expenditure, alongside increases in the tax burden, further fiscal adjustment is becoming increasingly difficult from both a social and political perspective. In this context, improving tax revenue collection represents a more realistic alternative for supporting the fiscal consolidation process. It should also be emphasized that maintaining public debt on a declining trajectory requires the regular reassessment of the net primary expenditure path against its underlying fiscal anchor – the structural primary balance – whose values consistent with a declining debt trajectory must be periodically recalibrated as new data and macroeconomic projections become available.

The projected public debt trajectory is robust to the standard deterministic stress tests, but remains vulnerable to correlated macroeconomic shocks and to the fiscal slippage typically associated with election years. These vulnerabilities are compounded by geopolitical risks, the absorption of SAFE loans, and demographic pressures, all of which tilt the balance towards a faster accumulation of public debt. Accordingly, the sustainability of Romania's public debt remains critically dependent on maintaining fiscal discipline throughout the entire projection horizon.

DSA Annex: Methodological assumptions and data underlying the debt sustainability analysis (DSA)

The assessment of public debt sustainability is conducted in accordance with the European Commission's DSA methodology, as described in the Debt Sustainability Monitor 2023⁵. The assessment is based on three pillars: (i) a baseline scenario (the fiscal adjustment scenario), assuming the absence of adverse shocks, (ii) deterministic stress tests, in which the main debt drivers are subjected to predefined adverse shocks, and (iii) a stochastic analysis, which quantifies uncertainty on the basis of historical distribution of shocks.

The application of the DSA methodology to the deterministic scenarios involves the use of more than 30 variables, while the stochastic analysis relies on five key variables. The data are drawn from the European Commission's 2026 Spring Forecast, the Ministry of Finance, the Ageing Report, Eurostat, the European Central Bank (ECB), as well as market quotations obtained from Reuters Eikon and Bloomberg. The estimates were produced in Python, using the DSA replication code⁶.

In the baseline scenario, public debt dynamics are derived from the standard debt accumulation equation, whereby changes in the public debt-to-GDP ratio reflect the snowball effect – comprising the contributions of the effective interest rate, real GDP growth, and inflation –, the impact of exchange rate movements on foreign currency-denominated debt, the primary balance, and the stock-flow adjustment. The projections for the variables included in the model are based on several methodological assumptions. Economic growth follows the European Commission's potential GDP projections over a T + 55 horizon, adjusted to account for a common fiscal multiplier of 0.75. The GDP deflator is assumed to converge linearly towards market inflation expectations. For Euro Area member states, the GDP deflator converges linearly to market inflation

⁵ European Commission, Debt Sustainability Monitor 2023, Institutional Paper 271.

⁶ Darvas, Z., L. Welslau & J. Zettelmeyer. A quantitative evaluation of the European Commission's fiscal governance proposal, Working Paper 16/2023, Bruegel.

expectations until $T + 10$, and thereafter converges linearly to the ECB's 2% inflation target. For member states with inflation targets different from that of the ECB, it is assumed that half of the inflation differential relative to the Euro Area observed at $T + 2$ persists until $T + 10$. Thereafter, the national central bank's inflation target is gradually reached by $T + 30$. Projections for interest rates on new debt issuance converge to market expectations by $T + 10$, and subsequently to a 2% real interest rate by $T + 30$. In Romania's case, given the National Bank of Romania's 2.5% inflation target, this convergence implies a long-term nominal interest rate of approximately 4.5%. The primary balance consists of the structural primary balance, the cyclical component, the cost of population ageing – based on the Ageing Report projections⁷ – and property income. Following the adjustment period, the structural primary balance is assumed to remain constant, with subsequent changes reflecting only the cost of population ageing. The stock-flow adjustment follows the European Commission's forecast until $T + 2$ and is assumed to be zero thereafter.

The public debt trajectory is assessed against three criteria: (i) public debt declines or remains below 60% of GDP during the 10 years following the adjustment period, both under the baseline scenario and under the three deterministic stress tests (for debt levels above 60% of GDP, the criterion requires a plausibly declining debt trajectory, whereas for debt levels below 60% of GDP, it requires debt to remain at prudent levels below this threshold), (ii) public debt declines with a probability of at least 70% over the five years following the adjustment period (the stochastic criterion), and (iii) the budget deficit falls below 3% of GDP and remains below that threshold. The assessment also incorporates the debt sustainability safeguard and the deficit resilience safeguard. The debt sustainability safeguard requires that compliance with the expenditure path results in an average annual reduction in the public debt-to-GDP ratio of at least 1 pp of GDP where the debt ratio exceeds 90% of GDP, or 0.5 pp of GDP where the debt ratio lies between 60% and 90% of GDP. The deficit resilience safeguard requires fiscal adjustment to continue until the budget deficit reaches a level that ensures a common structural resilience margin of 1.5% of GDP relative to the 3% of GDP deficit reference value, achieved through an annual improvement in the structural primary balance of 0.4 pp of GDP, reduced to 0.25 pp where the adjustment period is extended to seven years.

The plausibility of the declining public debt trajectory is also assessed through three deterministic stress scenarios. These scenarios are applied in the first year following the adjustment period and assume: (i) a lower structural primary balance, under which the structural primary balance deteriorates by a cumulative 0.5 pp of GDP (0.25 pp in each of the first two years) and remains at that level thereafter; the shock corresponds to one-half of the historical standard deviation observed across EU member states, (ii) an adverse $r - g$ differential, whereby the difference between the effective interest rate and the economic growth rate increases permanently by 1 pp over the entire projection horizon, and (iii) financial stress, under which market interest rates increase temporarily by 1 pp for one year, supplemented by an additional risk premium for countries with a public debt-to-GDP ratio exceeding 90%. These stress scenarios are based on common assumptions applied uniformly across all EU member states.

⁷ European Commission, 2024 Ageing Report: Economic & budgetary projections for the EU Member States (2022-2070), Institutional Paper 279.

In the stochastic analysis, shocks are simulated around the baseline scenario for the five variables included in the debt accumulation equation: the primary balance, the short-term and long-term nominal interest rates, nominal GDP growth, and, for Romania as a non-Euro Area member state, the exchange rate. The shocks are defined as the first differences of the respective data series, with extreme values replaced by the 5th and 95th percentile thresholds. The resulting variance-covariance matrix captures the historical volatility of the variables as well as the correlations among them. Based on a multivariate normal distribution with a zero mean, 1,000,000 alternative debt trajectories are generated over the five-year period following the adjustment period. The simulated shocks are symmetric, implying that the probability of a positive shock is the same as that of a negative shock.