Romania continues its fiscal consolidation

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Chairman of the Romanian Fiscal Council

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Overview

1. **International context**

2. **Romania’s fiscal adjustment in the regional context**

3. **Final remarks**

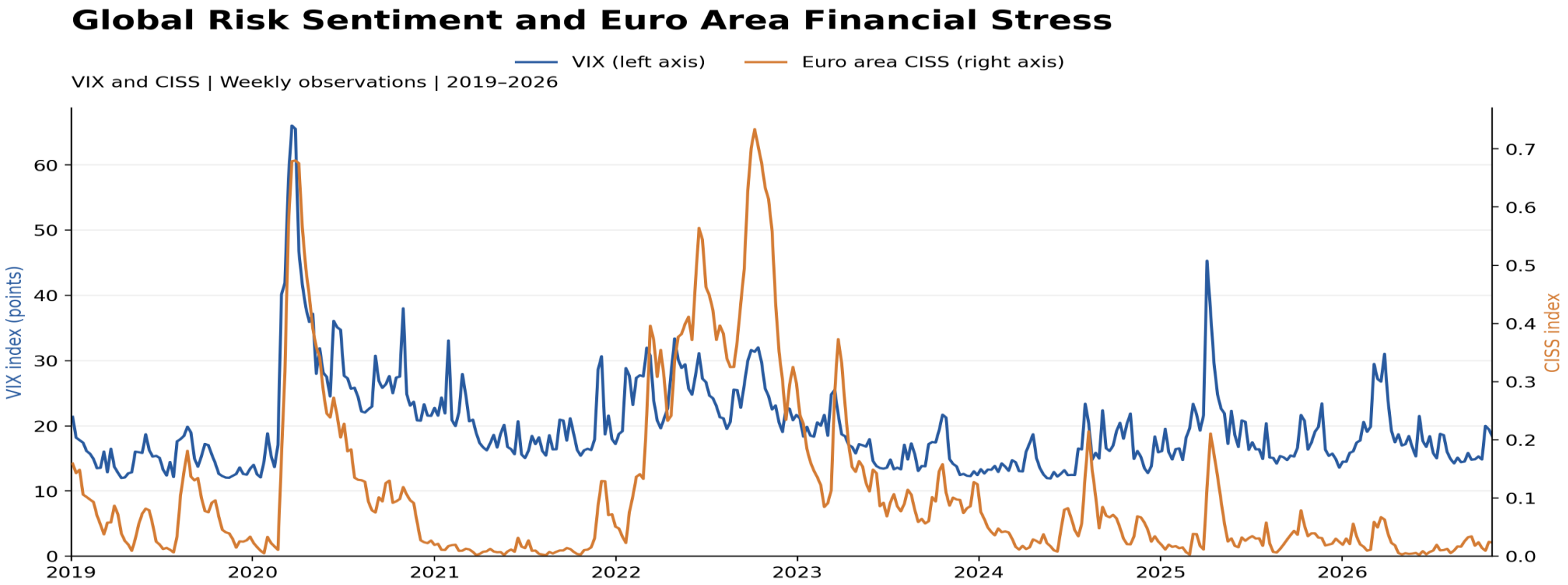
1. International context

Threats to fiscal sustainability and financial stability

The global macroeconomic context continues to worsen

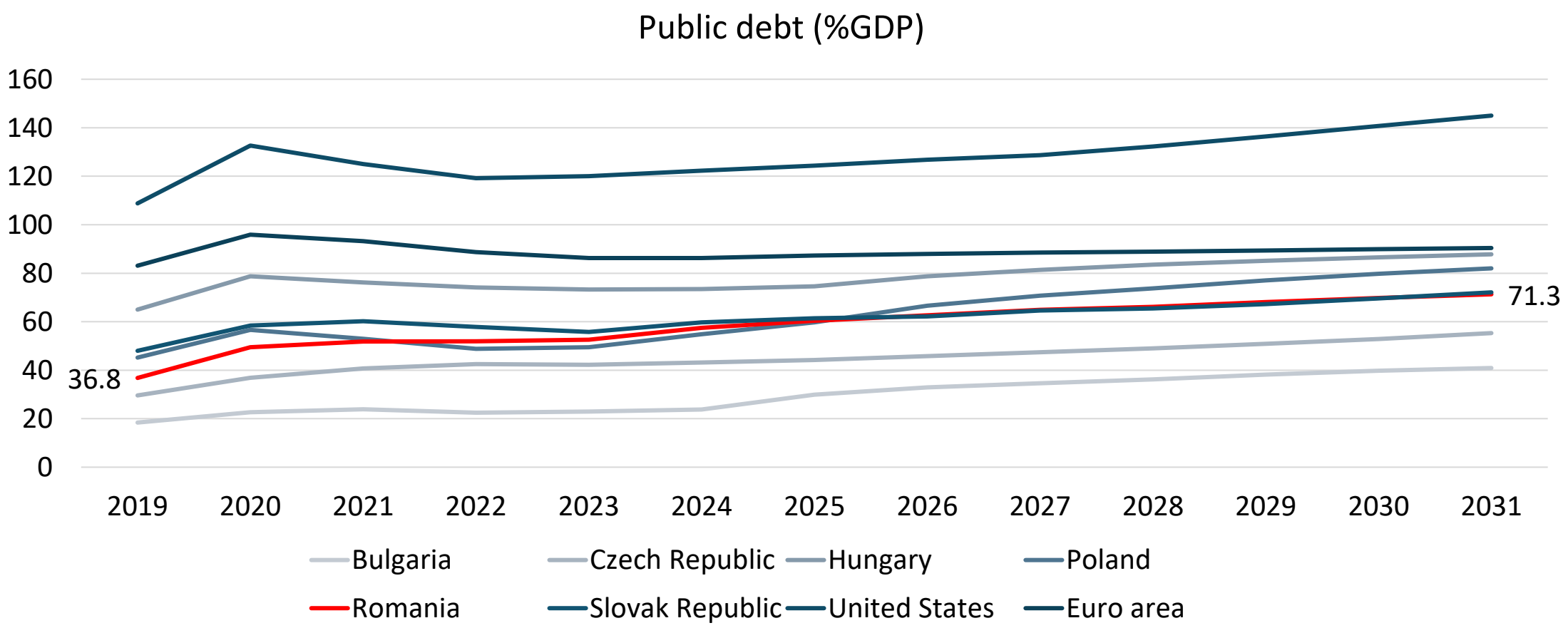
- Multiple shocks: wars, energy shocks, trade conflicts, climate change
- Public budgets under much strain …fiscal space is quite limited
- Higher debts and deficits in not a few cases
- An inflationary bout…policy rates up…public debts impact
- Financial markets nervous…flight to “safe havens”, but which…
- An AI linked crowding out effect (higher interest rates)
- **Fiscal dominance…**.central banks (CBs) in a conundrum…higher policy rates increase debt servicing
- **Financial and fiscal risks may prod CBs to intervene again**

Global financial market volatility and Euro Area Systemic Stress exhibit distinct responses to episodes of heightened uncertainty



Sources: Cboe (VIX daily close); ECB (New CISS). Weekly Friday/last available observation. Data through 26 Oct 2026.

Public debt on the rise: mounting fiscal sustainability challenges



Source: IMF, WEO 2026, October 2026

Financial stability under threat

- Crypto, non-bank credit… poor regulation
- **Financial deregulation**
- Cyber attacks…(Mythos moment…vulnerabilities of Banks)
- Social platforms…disinformation….trust and truth…panic
- Artificial intelligence: benefits, but also systemic risks
- Weaker drivers of economic growth
- A new sovereign debt crisis…?

A new wave of financial deregulation

- Lessons of the Great Recession crisis seem to have receded (a new credit cycle)
- Banks demand relaxation of capital and liquidity requirements (competition with American banks is again alluded to)…and competition with NBFI
- NBFIs‘ share in funding has risen greatly
- The regulation of private (non-bank) credit is inadequate…**all finance be regulated**
- ECB sees private credit as a risk to financial stability (Luis de Guindos)
- Stable coins gain traction in Europe too (Bini Smaghi, L. Reichlin…DeFi…)….for the sake of competing with American entities….Banks fear migration of deposits to stable coins ‘issuers…..tokenization (BIS) is the way
- **Free banking**…huge risk….**impact on public finance**

2. Romania’s fiscal adjustment in the regional context

Fiscal and Macroeconomic developments

Romania maintains investment-grade ratings amid fiscal challenges

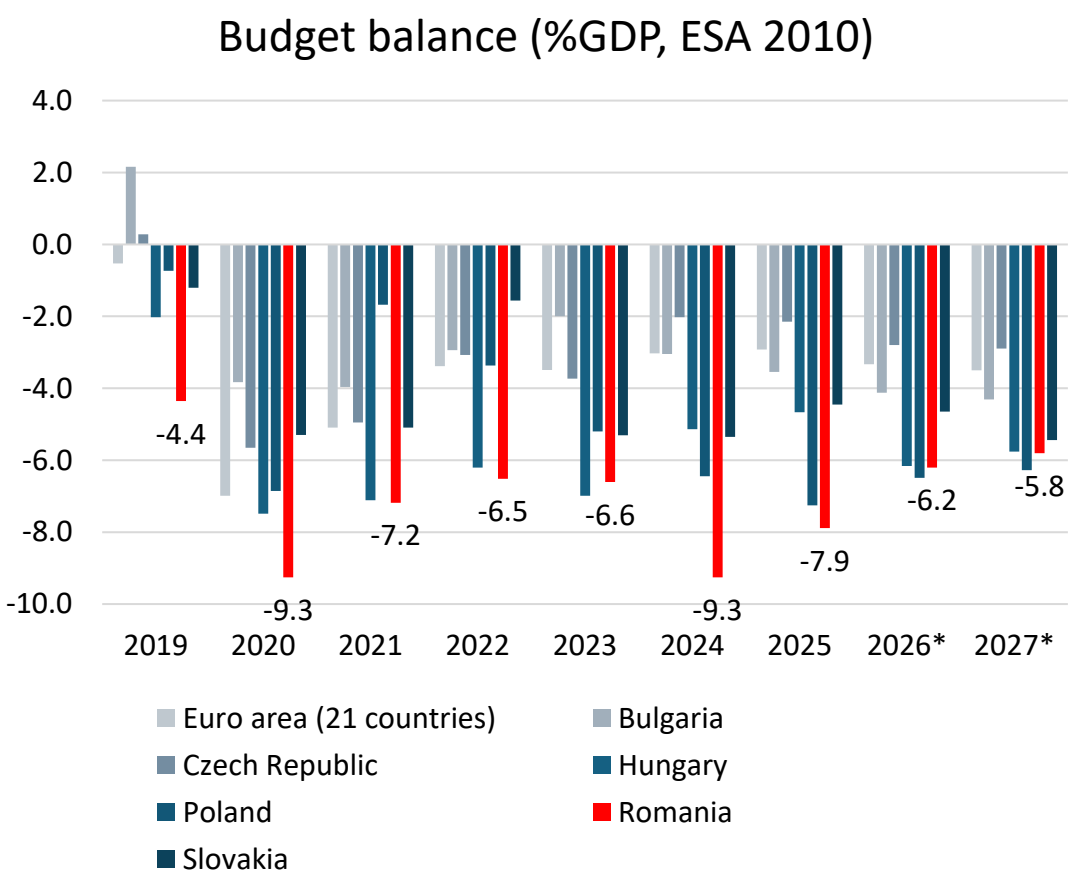
Country ratings

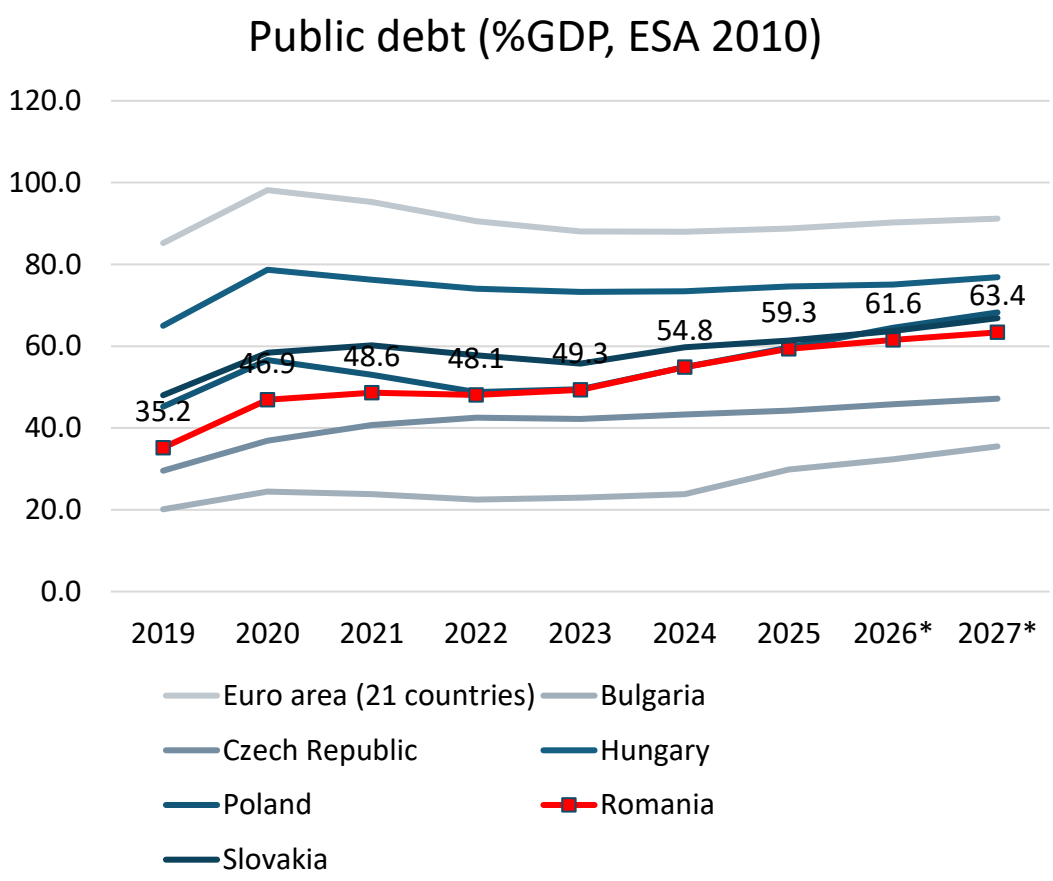
Country/Agency	S&P	Fitch	Moody's
Bulgaria	BBB+	BBB+	Baa1
Czech Republic	AA-	AA-	Aa3
Hungary	BBB-	BBB	Baa2
Poland	A-	A-	A3
Romania	BBB-	BBB-	Baa3
Slovakia	A	A-	A3

Source: S&P, Fitch, Moody's

- **Investment-grade status preserved:** Romania has its sovereign rating at the lowest investment-grade level.
- **Negative outlook reflects persistent vulnerabilities:** still large fiscal and external imbalances weigh on Romania's credit profile.
- **Fiscal consolidation is a must:** deficit reduction and debt stabilization are key to preserving sovereign creditworthiness and stabilize public debt.

Fiscal divergence across CEE: Romania's substantial consolidation challenge





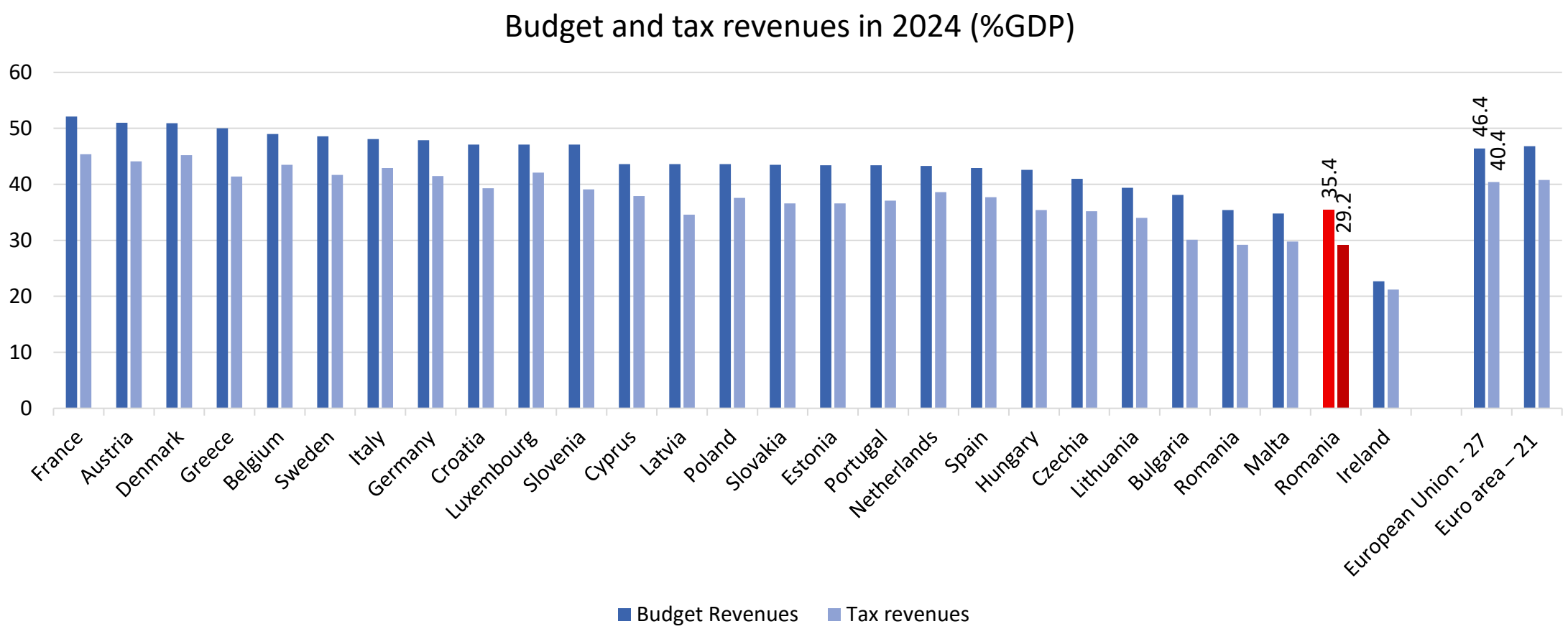
Source: AMECO, figures for 2026 and 2027 represent forecasts

Romania's fiscal imbalances highlight the scale of the required consolidation

Year	Budget balance (%GDP, ESA 2010)	Public debt (%GDP, ESA 2010)
2019	-4.4	35.2
2020	-9.3	46.9
2021	-7.2	48.6
2022	-6.5	48.1
2023	-6.6	49.3
2024	-9.3	54.8
2025	-7.9	59.3
2026*	-6.2	61.6
2027*	-5.8	63.4

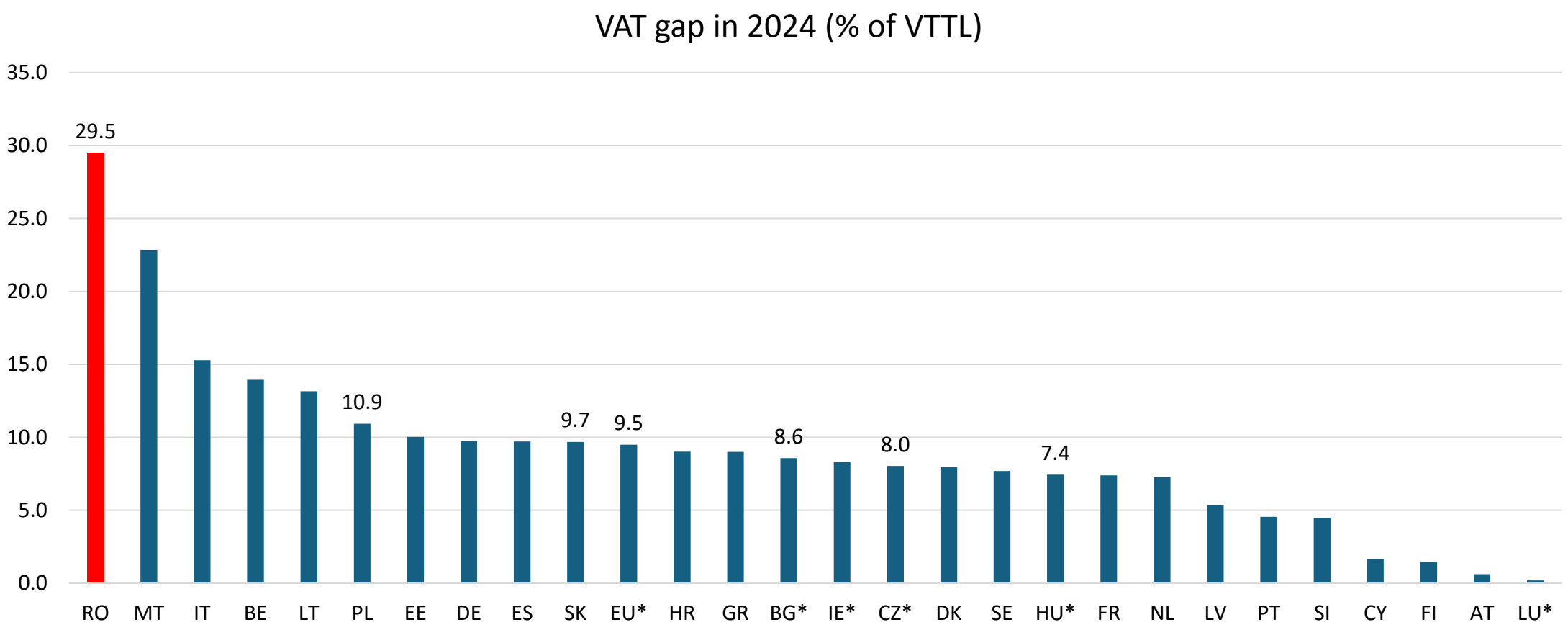
Source: AMECO, figures for 2026 and 2027 represent forecasts

Tax revenues (compared to peers and EU) in 2025 – much room for fiscal consolidation



Source: EUROSTAT, fiscal revenues include SSC

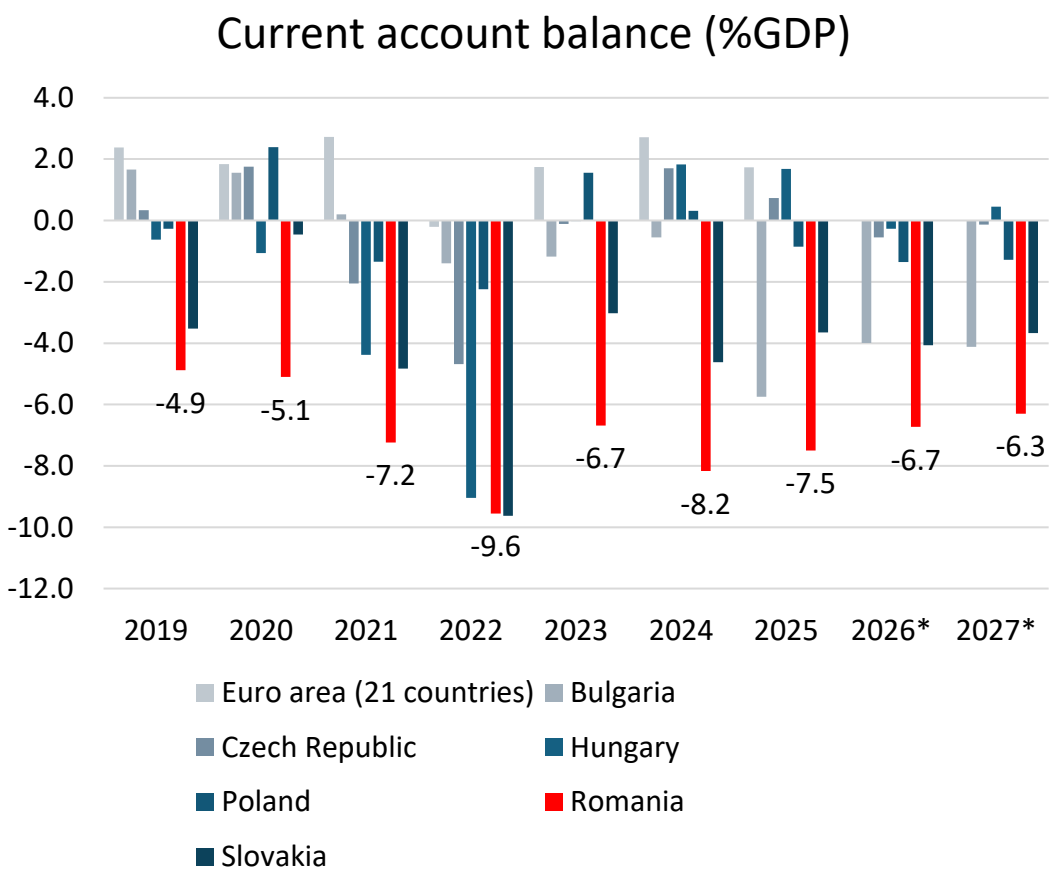
Improving VAT collection could support Romania's fiscal adjustment



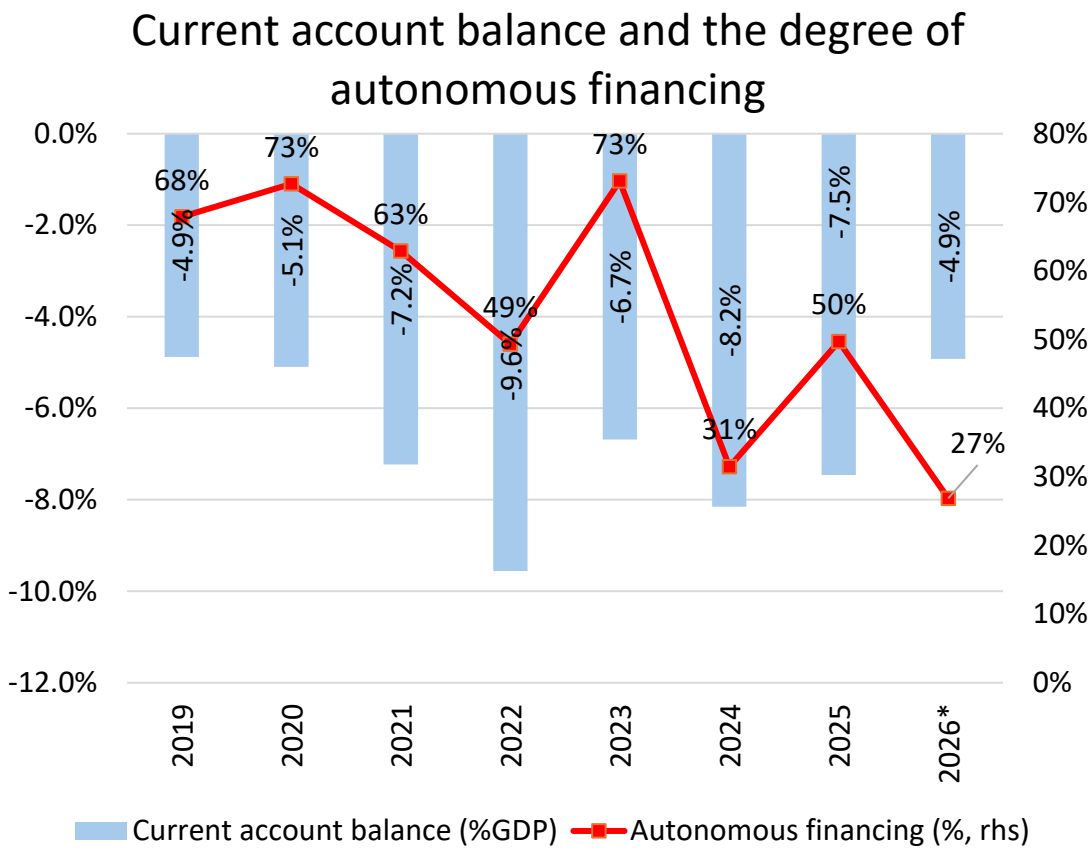
Source: DG TAXUD

Note: countries with * do not have data available for 2024, the last available year is 2023

External imbalances highlight Romania's financing vulnerabilities



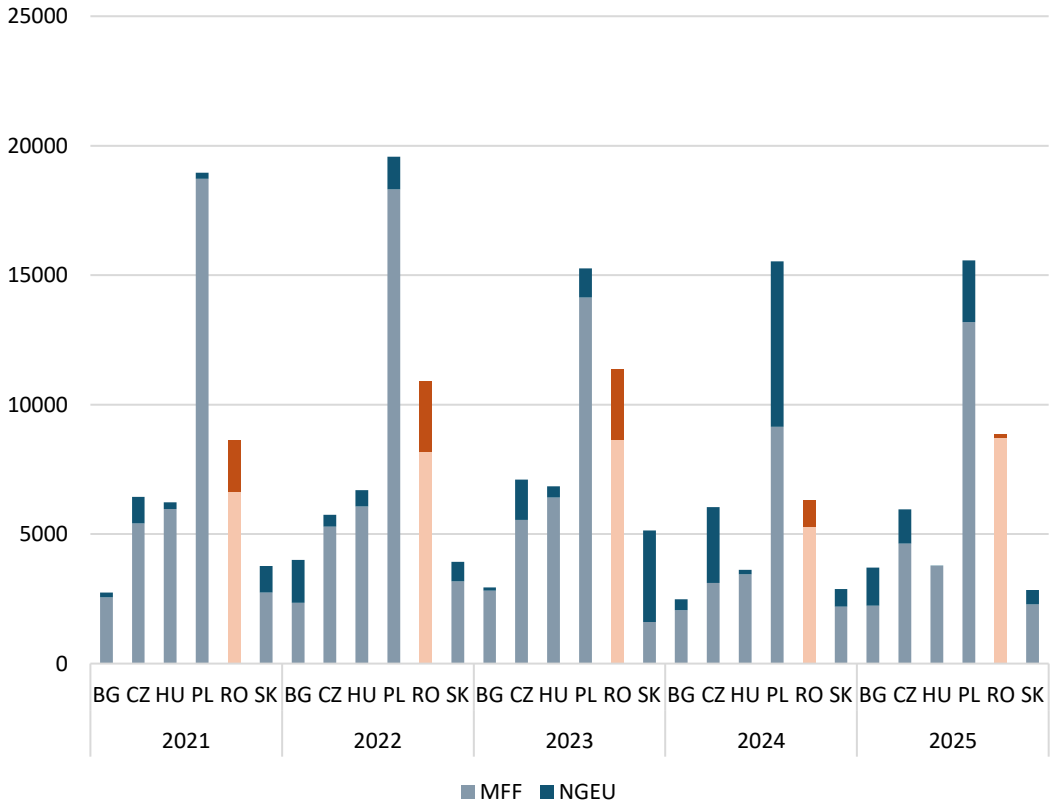
Source: NBR, AMECO, figures for 2026 and 2027 represent forecasts



Source: NBR, for 2026 data available are until August

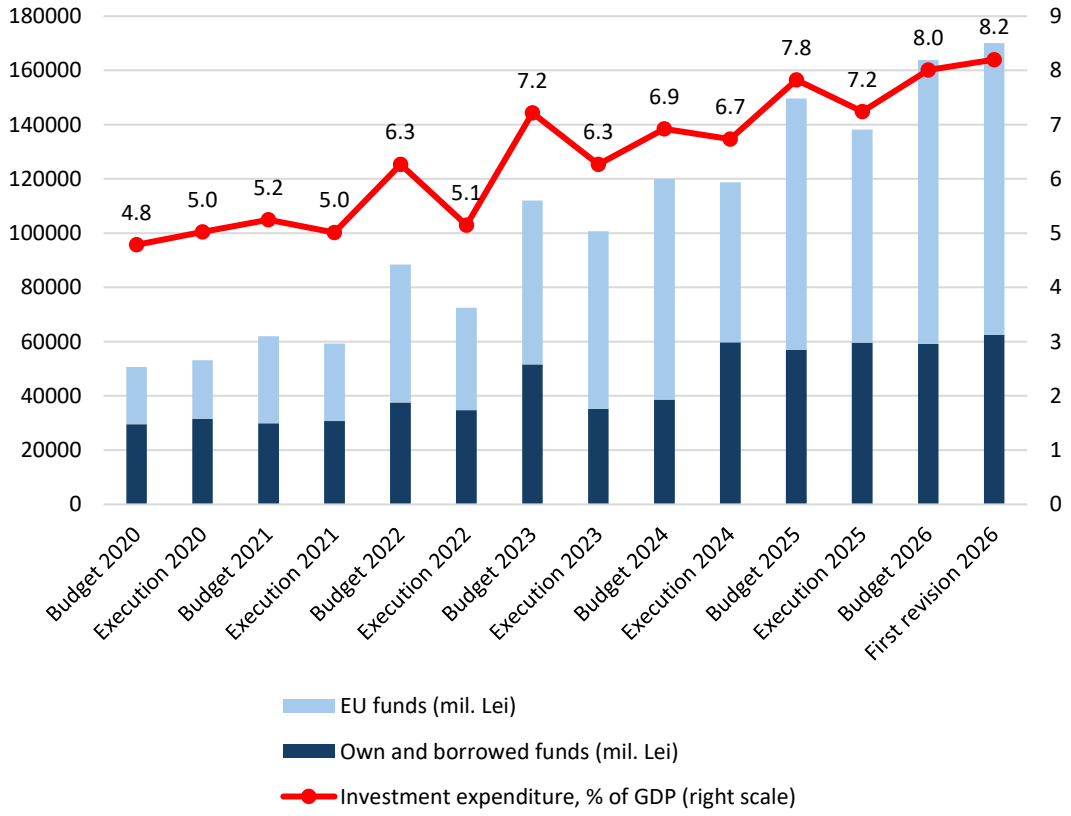
The role of EU funds in public investment and; the end of RRPs

EU funds absorbed (mil. Euro)



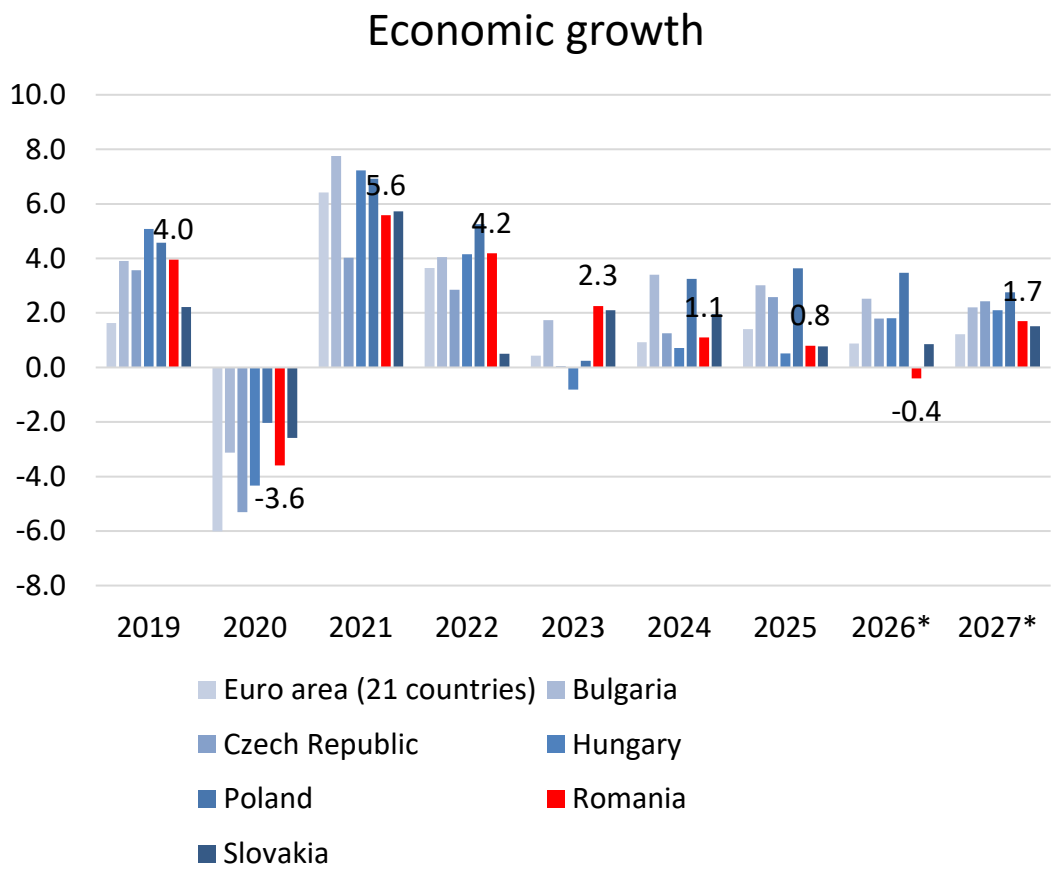
Source: European Union spending and revenue 2021-2027

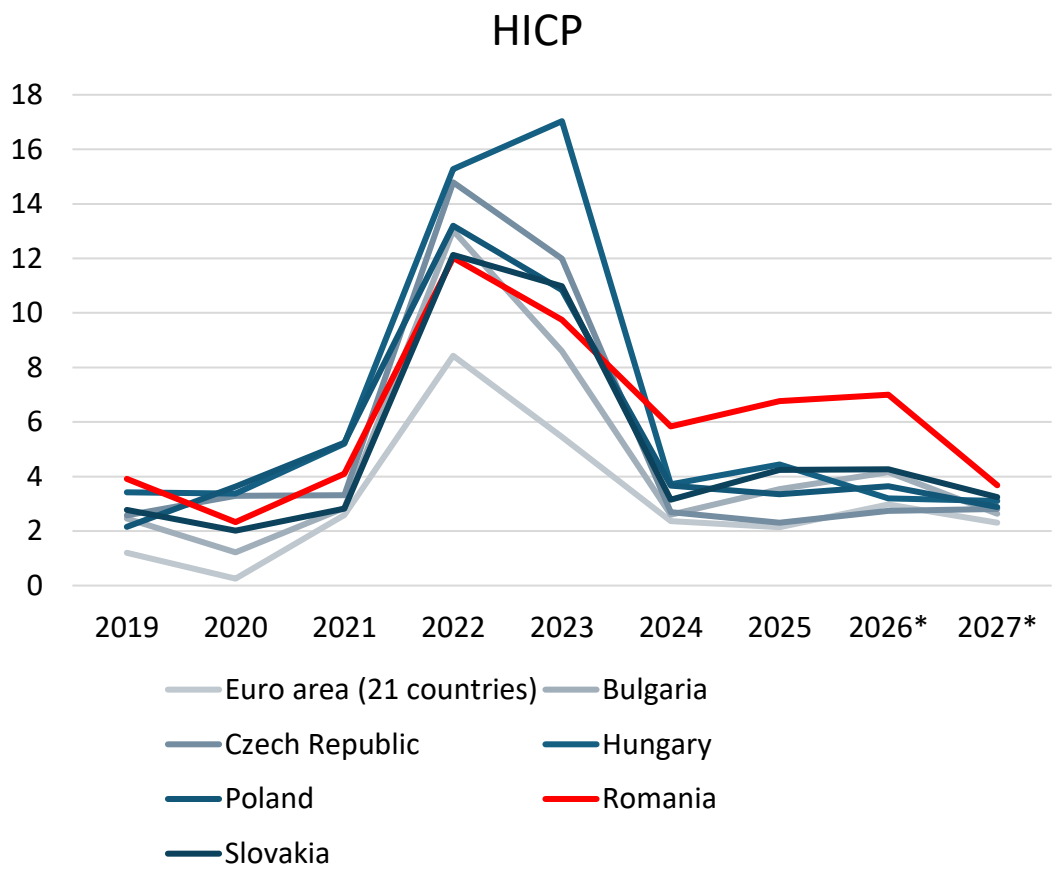
Public investment expenditure



Source: MF, FC calculations

Fiscal consolidation against a precarious growth-inflation environment



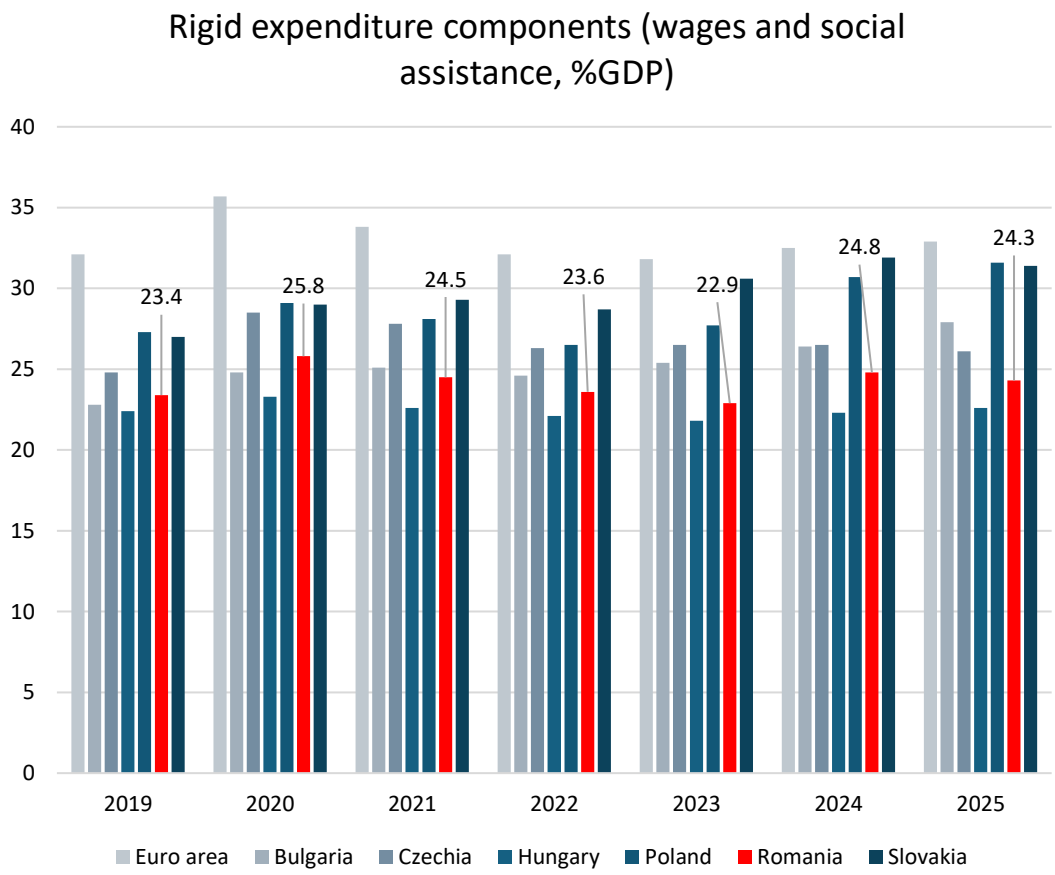


Source: AMECO, figures for 2026 and 2027 represent forecasts

Note: Regarding economic growth, the latest data from the National Commission for Strategy and Prognosis's (NCSP) forecast were used for Romania.

Romania's inflation outlook is sensitive to fiscal measures

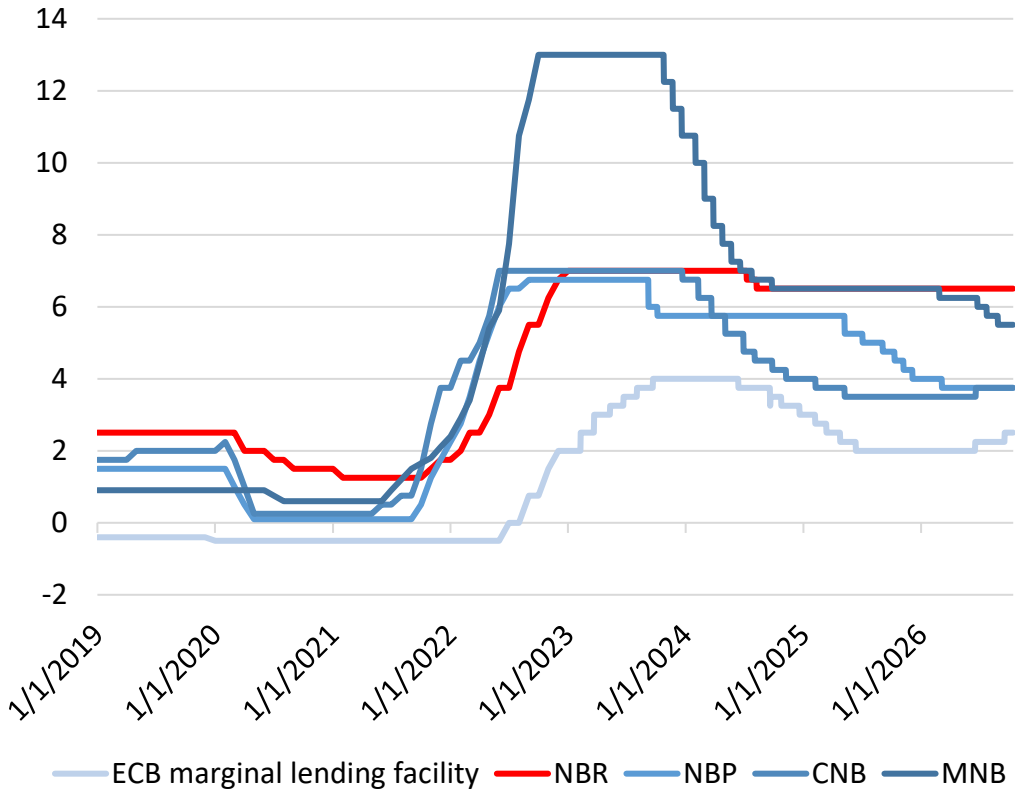
- **Upward pressures on inflation** have been generated by higher international prices of energy, commodities and various inputs (relevant for some consumer goods), big rises in rigid expenditure until 2024, and, lately, by lifting caps on electricity prices and the hikes in VAT and excises in 2025
- The freeze of wages and pensions in 2025 and 2026 has helped fiscal consolidation



Source: AMECO

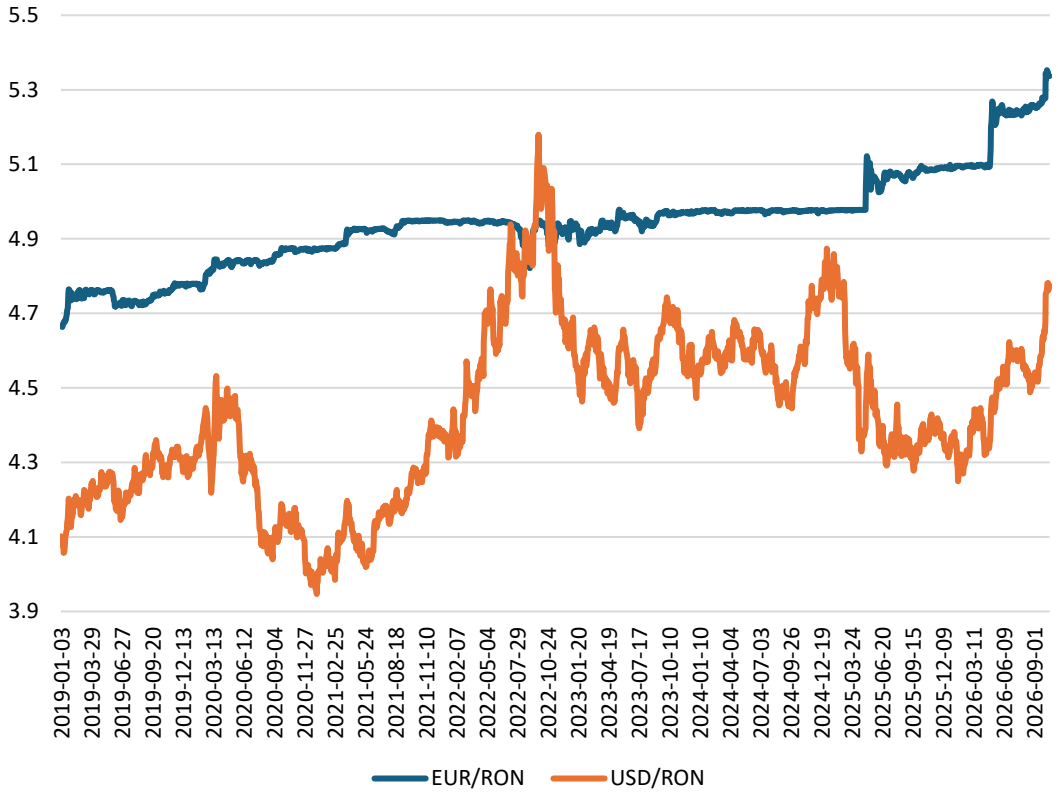
Monetary policy divergence and exchange rate developments shape financial conditions

Key rates



Source: ECB, NBR, NBP, CNB, MNB

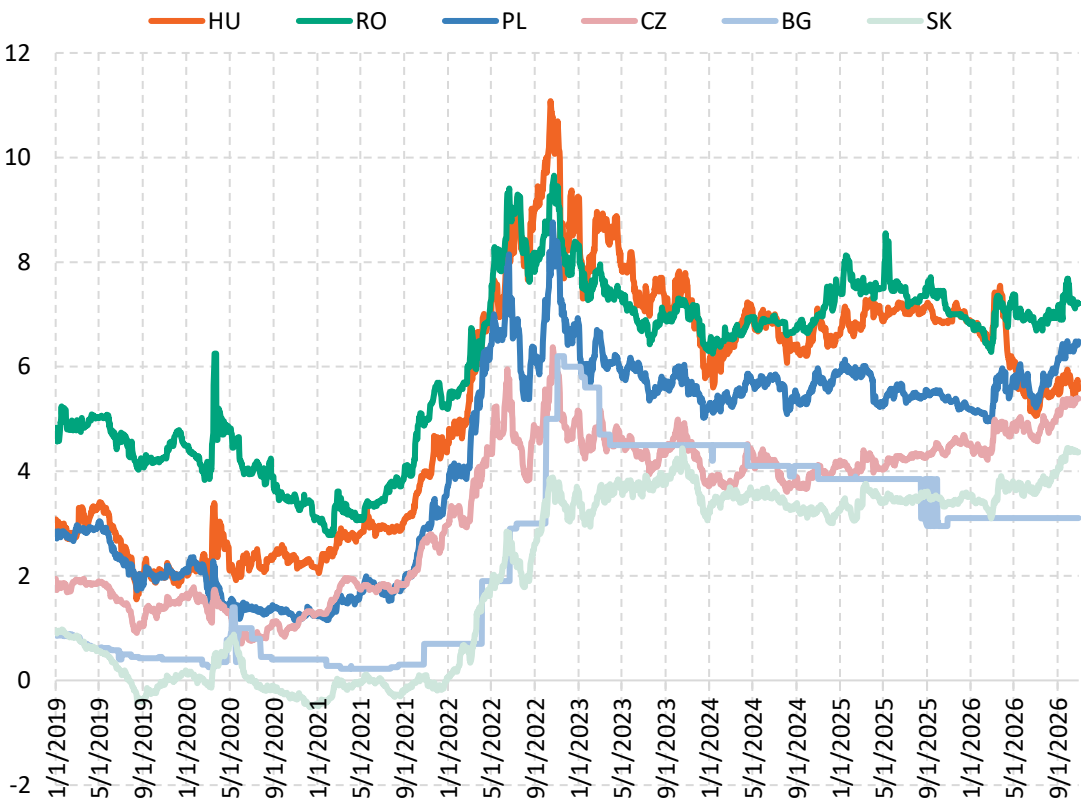
EUR and USD fx rate against RON



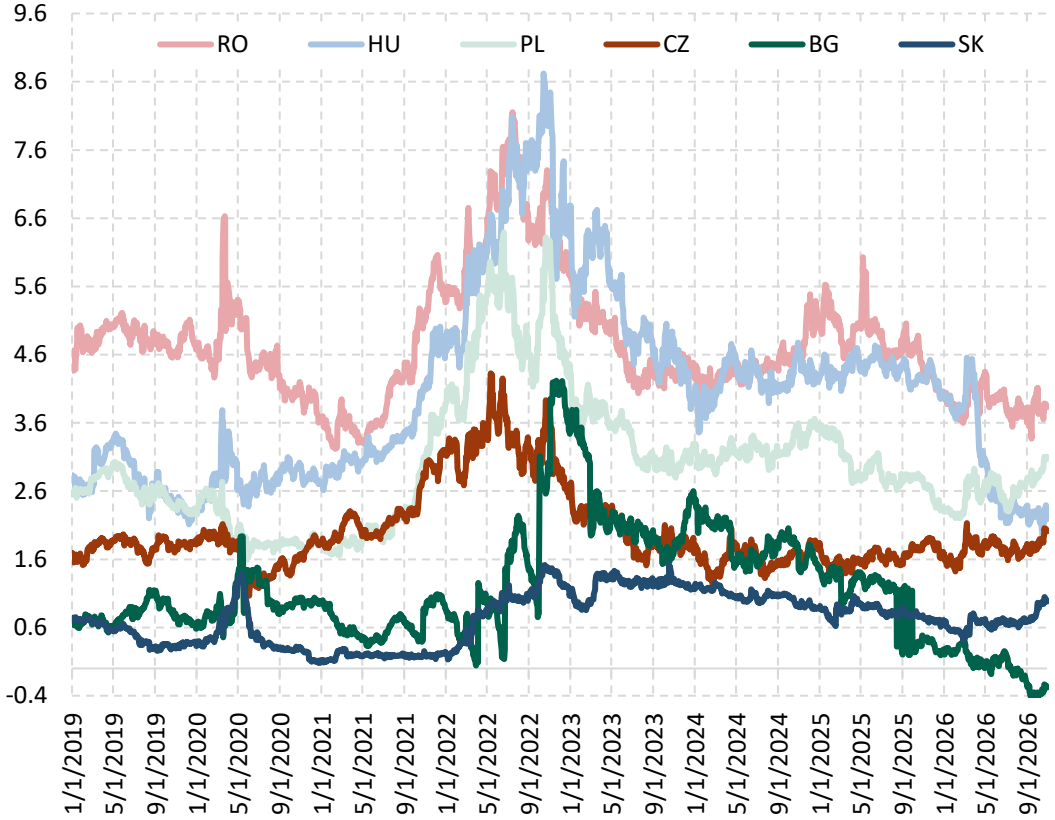
Source: NBR

Romania's sovereign borrowing costs are elevated relative to regional peers

CEE countries 10y sovereign yields (%)



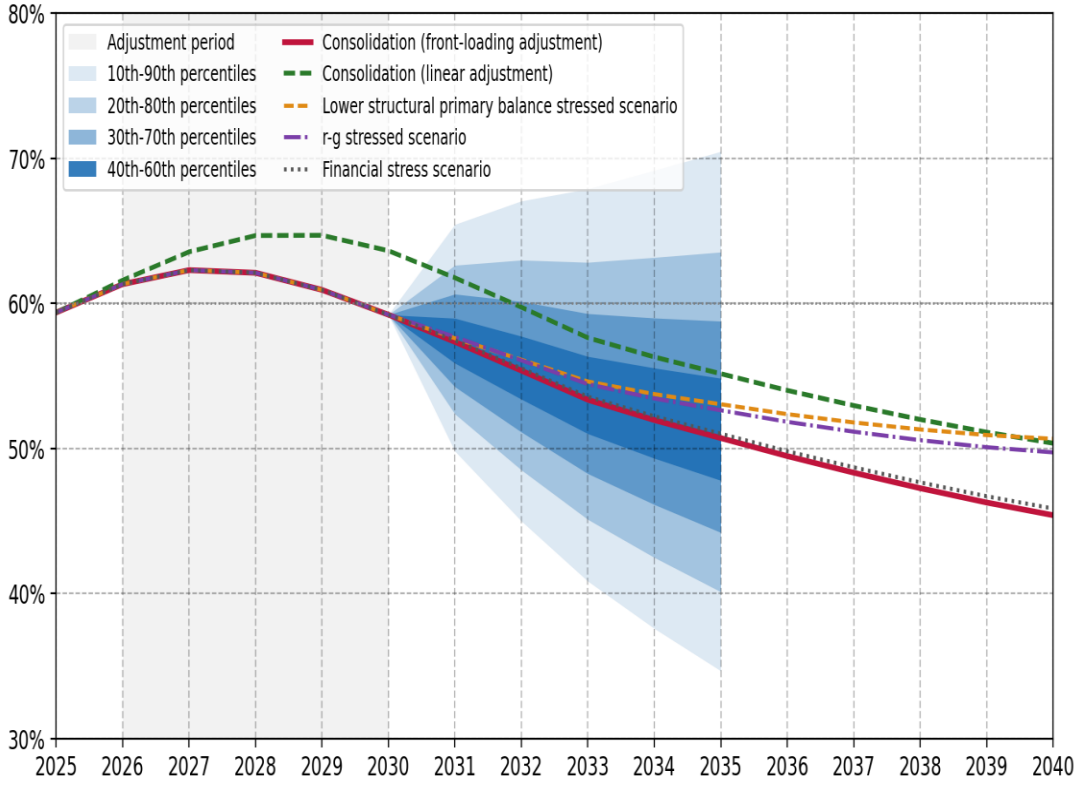
CEE countries spread against German bunds (bp)



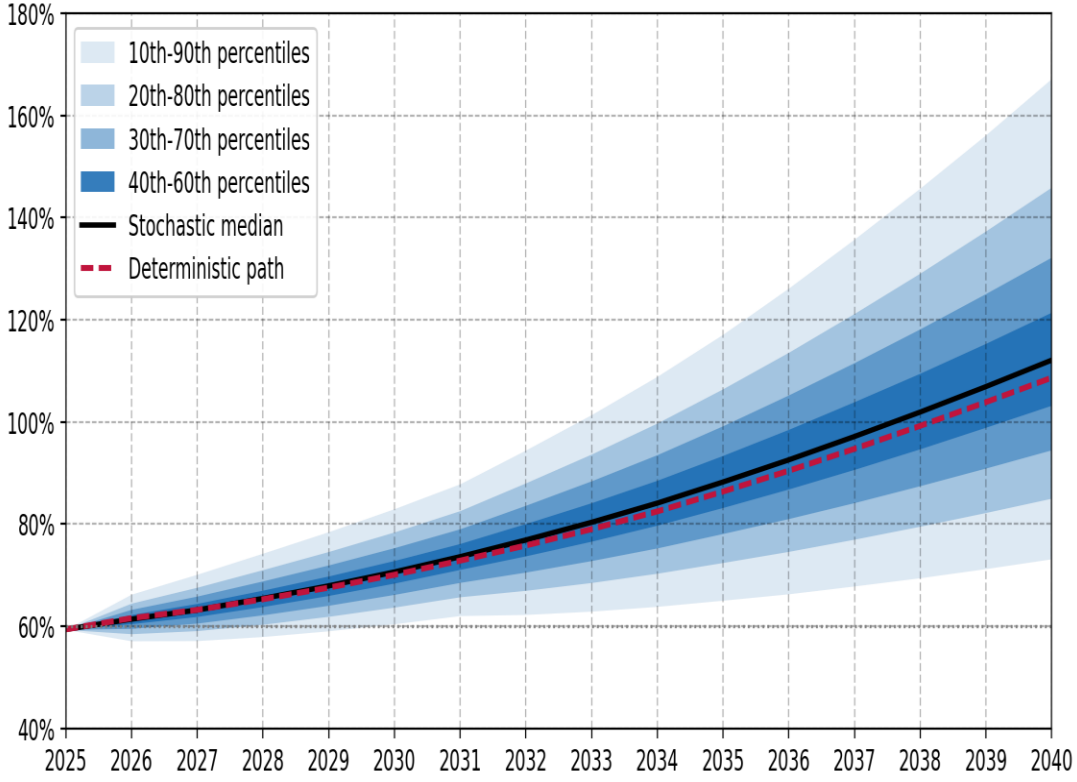
Source: Refinitiv

Sustained fiscal adjustment is essential to stabilize Romania's public debt

Projected trajectory of public debt in the scenario of continued budget consolidation (% of GDP)



Projected trajectory of public debt in the no-policy-change scenario (% of GDP)



Source: own calculations of CF based on the replication code of the DSA analysis

Final remarks on finance in the EU – financial stability and fiscal sustainability

- **Romania has embarked on an ambitious fiscal consolidation**
- A new sovereign debt crisis?
- The euro area needs EDIS, a safe asset, more overall integration (single market …The capital and investment union (EDIS, safe asset…)…but political constraints hamper it
- Regulate crypto, stable coins, so that bank deposits do not migrate….
- Defense expenditure: fiscal stimulus, but painful trade-offs…deficits
- Cost of energy a big handicap in Europe…energy transition
- To join the euro area Romania needs solid fiscal consolidation (deficit less than 2% of GDP by 2030-31) and steady productivity gains
- AI: the big unknown, that can have devastating efects…