Romanian Fiscal Council

Fiscal Council's Opinion on the 2026 First Budget Revision

Summary

- This year's budget revision has been delayed by a major political crisis. The crisis has generated considerable uncertainty and has inevitably affected economic developments, beyond the contractionary impact of fiscal adjustment. The political crisis has heightened risk aversion, which likely also partly explains the decline in foreign direct investment in the economy.
- The highly adverse international environment (protracted wars, renewed increases in the prices of energy and commodities denominated in US dollars, tighter monetary policies pursued by the Fed and the ECB, with repercussions across international financial markets, etc.) has dealt a further blow to the domestic economy.
- The budget revision was the new government's most urgent priority and will help clear some overdue invoice payments.
- A budget revision was necessary to update projected revenue and expenditure levels in line with current budget execution and macroeconomic developments. The revision also aims to secure funding for the regular operations of certain primary budget holders through the end of the year; to ensure the continued provision of medicines, medical supplies and healthcare services; to finance other programmes and benefits for school pupils and persons with severe disabilities; and to settle outstanding payments recorded in the accounts of administrative-territorial units and subdivisions, including public institutions financed wholly or partly from local budgets and public hospitals under the authority of local governments.
- The cash deficit reported by the Ministry of Finance for the first nine months, at 3.8% of GDP, is substantially lower than the figure recorded in the same period last year (5.35%). This deficit should also be assessed considering possible payment delays.
- The amounts cited in public debate, which may broadly be described as "payment delays", fall into several categories: possible delays in settling invoices for expenditure already budgeted under the Anghel Saligny programme (thus excluding projects for which no budget funding had been allocated); possible delays in VAT refunds; funding needs arising in certain ministries during budget execution, as the budget cannot anticipate every

eventuality (this is precisely where a budget revision serves to adjust budget execution to address urgent needs in areas such as healthcare); unexpected obligations that weigh on the public budget (such as amounts awarded to magistrates by the courts); and, last but not least, a specific feature of 2026 – the overlapping implementation of projects under the National Recovery and Resilience Plan (NRRP), which has put pressure on the public budget to provide co-financing and, above all, involves a substantial lag in reimbursements from the European Commission.

- The political crisis has hampered Romania's issuance of government bonds, making it more difficult to secure liquidity flows; this, too, must be taken into account.
- A balanced approach is needed when discussing claims that tens of billions of lei have been omitted from budget execution calculations.
- It should not be overlooked that Romania's budget execution is closely monitored by the European Commission and rating agencies, and that no one can afford to manipulate the figures. Romania still faces a credibility test in 2026 to avoid a sovereign rating downgrade. Overheated public debate does not help!
- The adjustment of the budget deficit in 2025 and 2026 enabled Romania to avoid a sovereign risk downgrade by the major rating agencies. However, if the fiscal consolidation process encounters obstacles, a sovereign risk downgrade will become imminent. The yields on Romania's sovereign borrowing reflect market perceptions of our economy, the outlook for fiscal consolidation, and the political situation.
- The establishment of a government with a full mandate was absolutely necessary, whereas calling early elections, as advocated by various voices, would have risked triggering a downgrade of Romania's sovereign risk by prolonging the political crisis and increasing uncertainty.
- Meeting the financing needs associated with the deficit and the refinancing of public debt was considerably hampered by the political crisis.
- The greatest risk to this year's budget execution is the absorption of European funds and the reimbursement of amounts available to Romania that are included in the budget projections.
- Other risks to budget execution include potential additional external shocks and pressures on the budget arising from various state obligations, both longstanding and more recent, such as obligations towards magistrates. These obligations, like other liabilities, may be rescheduled in order to mitigate their impact on the budget.
- Firm action against tax evasion and aggressive tax optimisation is essential for increasing tax revenues and continuing the fiscal-budgetary correction. Budget expenditure may also be adjusted for this purpose.
- As in previous projections, a less favourable GDP performance cannot be ruled out. However, in the National Commission for Strategy and Forecasting projection, this is offset by prudent GDP deflator forecasts, which enhances the projection's realism and, implicitly, the likelihood that the nominal GDP forecast will materialise.
- It is worth noting that the dynamics and structure of the national economy – with an emphasis on domestic absorption, namely gross fixed capital formation and final

consumption – are also reflected in the scale of the external imbalance. Although this imbalance is projected to narrow in the NCSP forecast, it remains significant: the NCSP projects the current account deficit of the balance of payments to amount to 7.7% of GDP in 2026, considerably above the 4% of GDP threshold under the European Commission's Macroeconomic Imbalances Procedure.

- Cross-referencing recent economic information and data with the dynamics of the relevant macroeconomic variables projected by the National Commission for Strategy and Forecasting in October this year – real GDP, the GDP deflator, inflation, and labour-market indicators – leads to the conclusion that these aggregates are following a plausible trajectory for the current year. In addition, there is a small margin of safety regarding nominal GDP growth, resulting from the projected dynamics of the GDP deflator. From the perspective of their impact, this is offset by the possibility of a more favourable labour-market forecast, particularly in terms of its effects on the budget.
- The budget revision increases the budget of the Ministry of Labour, Family, Youth and Social Solidarity by 3.32 billion lei, mainly to balance the pension budget. The Ministry of Health receives a net amount of 72 million lei, following additional allocations for wages, emergency departments and health programmes, partly offset by reductions in funding for European projects with low execution rates. Separately, the budget of the National Health Insurance Fund is increased by 3.22 billion lei. The Ministry of Internal Affairs receives 631.6 million lei, while the Ministry of Agriculture and Rural Development benefits from an additional 1.47 billion lei.
- At the same time, the revision reduces the amounts initially withheld from several ministries. This mechanism is provided for under Article 21(5) of Public Finance Law No. 500/2002, pursuant to which 10% of the appropriations approved under the budget law were withheld and could not be committed during the first half of the year. The largest reductions in these withheld amounts concern the Ministry of Development, by 1.09 billion lei; the Ministry of Transport, by 560 million lei; the Ministry of Agriculture, by 490 million lei; the Ministry of Education, by 280 million lei; and the Ministry of Energy, by 250 million lei. Outside the ministries' budgets, local budgets receive a net amount of 2.81 billion lei, of which 2 billion lei is earmarked for settling arrears.
- Compared with the initial budget, the revision draft provides for a decrease of approximately 2.8 billion lei in budget revenues and approximately 0.3 billion lei in budget expenditure. Consequently, the general consolidated budget deficit is set at 130.3 billion lei, according to the national cash-based methodology, approximately 2.5 billion lei higher than the amount provided for in the initial budget. Expressed as a percentage of GDP, the estimated general consolidated budget deficit remains at 6.25%, against the background of an upward revision to projected nominal GDP.
- In light of the nine-month budget execution results and the historical trends in budget revenues during the last quarter of the year, the revised revenue targets can be considered relatively plausible. It should be noted, however, that the planned levels of VAT revenues, non-tax revenues and the amounts related to non-reimbursable financial

assistance allocated under the National Recovery and Resilience Plan appear slightly optimistic in the context of current budget execution.

- The analysis of the proposed revisions to the main categories of budget expenditure reflects an update based on budget execution during the first nine months of the year. A ceiling has also been provided for the newly introduced category of expenditure related to the SAFE instrument. Although the goods and services expenditure aggregate has been revised upwards, strict control is necessary to keep it within the projected envelope.
- Based on the revised parameters of the budget framework and the developments reflected in the budget execution during the first nine months of the year, there are grounds for the cash-based budget deficit to reach this year's target of 6.25% of GDP, subject to the risks highlighted in the Fiscal Council's analysis.
- Regarding the cash-based deficit, the report to be presented by the Ministry of Finance will provide further clarification. Romania's compliance with its deficit-reduction commitment under the Excessive Deficit Procedure is assessed based on the deficit calculated according to the European System of Accounts (ESA) methodology. This measure is not affected by the deferral of certain payments, as revenues and expenditure are recorded on an accrual basis. Unlike cash-based budget execution, which is available monthly, however, the ESA deficit is finalised after the end of the calendar year.
- Given the contribution of European funds – most of which are non-reimbursable – to real economic growth, the implementation of structural reforms, and the preservation of fiscal-budgetary and financial-exchange-rate equilibria, the Fiscal Council systematically monitors the absorption of these funds.
- Regarding non-reimbursable structural and cohesion funds under the 2021-2027 Multiannual Financial Framework (MFF), at the end of September 2026, according to data published by the Ministry of European Investments and Projects (MEIP), cross-referenced on a comparable-period basis with data published by the Ministry of Finance, the effective absorption rate was 30.8% for National Programmes and 27.4% for National and Regional Programmes combined.
- For the NRRP as a whole, at the end of September 2026, the effective absorption rate, excluding pre-financing, was 54.9%: 63.8% for the grants component and 36.4% for the loans component.
- The 2026 budget was built on the assumption that the NRRP financing scheduled for this year would be fully drawn – approximately €8 billion, comprising €6.5 billion in grants and €1.5 billion in loans – in correlation with the expenditure planned for investments and reforms. Consequently, the receipt of the amounts related to Payment Requests No. 5 and No. 6 is crucial for covering expenditure already incurred and meeting the budget-deficit target.
- Of utmost importance for the 2026 budget revision and the preparation of the 2027 budget is aligning the budget appropriations allocated to NRRP projects with the payment tranches still to be received and with the payments that can actually be made by 31 December 2026. The key benchmarks for preparing the 2027 budget are the level of permanent current expenditure – personnel, social assistance and interest payments –

the budgetary impact of legislative acts adopted that will enter into force or produce effects in 2027, outstanding payments under contracts concluded within the NRRP, legal commitments related to ongoing public investment projects, and commitments undertaken through the European SAFE instrument for defence.

Fiscal Council's Opinion on the 2026 First Budget Revision

On October 29, 2026, the Ministry of Finance (MF) sent to the Fiscal Council (FC), by address no. 494696/26.10.2026, the Report on the economic and budgetary situation for the first six months of 2026, the draft revision to the 2026 general consolidated budget (GCB), the explanatory note and the draft of the Government Emergency Ordinance on the revision of the 2026 state budget, as well as the explanatory note and the draft of the Government Emergency Ordinance for the revision of the 2026 social security budget, requesting, based on Article 53, para. (2) of the Fiscal Responsibility Law (no. 69/2010, republished, hereinafter referred to as FRL), the opinion of the Fiscal Council.

According to Article 53, para. (4) of the FRL, the Government and Parliament have the obligation to analyse the opinions and recommendations of the Fiscal Council when they draft the Fiscal Strategy, the annual budget laws, as well as other measures determined by the implementation of this law and, respectively, when they approve them.

1. Introduction

This year's budget revision is taking place with a delay as a result of a major political crisis. The crisis has generated significant uncertainty and has inevitably affected economic developments, in addition to the contractionary impact of the budgetary adjustment. Risk aversion has been fuelled by the political crisis, which probably also partly explains the decline in foreign direct investment in the economy.

The highly hostile international environment – protracted wars, a renewed increase in energy and commodity prices, which are denominated in US dollars, and a tightening of monetary policies by the Federal Reserve and the ECB, with repercussions across international financial markets, among other factors – has placed additional pressure on the domestic economy. In this context, the depreciation of the leu, resulting from significant pressure on the national currency, has contributed to the persistence of high inflation, above initial forecasts. It is true that higher inflation helps keep nominal GDP broadly in line with the projected figure. Various assessments place real GDP growth in 2026 somewhere between -0.5% and stagnation.

The Romanian economy has therefore been affected by a major domestic political crisis and severe external shocks.

The cash-based deficit reported by the Ministry of Finance after nine months, at 3.8% of GDP, is significantly lower than the figure recorded during the same period last year (5.35%). This deficit should also be assessed in light of any possible payment delays.

It should be noted that the amounts discussed in the public debate, which may be referred to generically as "payment delays", may fall into several categories: possible delays in the payment of invoices related to the amounts budgeted for the Anghel Saligny Programme – i.e., not projects for which no budgetary funding had been provided; possible VAT refunds; needs arising for

certain ministries during budget execution, given that the budget cannot anticipate every eventuality – in this respect, one of the roles of a budget revision is precisely to reorganise budget execution in order to address emergencies in certain areas, such as healthcare; obligations arising unexpectedly and placing pressure on the public budget, such as the amounts awarded to magistrates by the courts; and, last but not least, a feature specific to 2026, namely the implementation this year of certain projects under the NRRP. This has placed pressure on the public budget to provide co-financing and, above all, has created a significant delay in the reimbursement of funds by the European Commission, involving the leu equivalent of several billion euros.

Romania's political crisis made it more difficult to issue government bonds, creating challenges in ensuring adequate liquidity flows; this factor must also be taken into account.

A balanced approach is necessary when discussing tens of billions of lei allegedly omitted from the calculations concerning budget execution.

It should not be underestimated that Romania's budget execution is closely monitored by the European Commission and the rating agencies, and that no one can afford to manipulate the figures. Romania still has to pass a credibility test in 2026 in order to avoid a sovereign rating downgrade. Exacerbated public debate does not help!

The adjustment of the budget deficit in 2025 and 2026 enabled Romania to avoid a sovereign risk downgrade by the major rating agencies. However, if the fiscal consolidation process encounters obstacles, a sovereign risk downgrade will become imminent. The yields on Romania's sovereign borrowing reflect market perceptions of our economy, the outlook for fiscal consolidation, and the political situation.

The establishment of a government with a full mandate was absolutely necessary, whereas calling early elections, as advocated by various voices, would have risked triggering a downgrade of Romania's sovereign risk by prolonging the political crisis and increasing uncertainty.

Meeting the financing needs associated with the deficit and the refinancing of public debt was considerably hampered by the political crisis.

It should be noted that, according to the data available as of 12 October, Romania's financing needs until the end of the year amounted to approximately 79.9 billion lei, of which 28.9 billion lei was to be raised on the domestic market and 51 billion lei on external markets. The gross financing requirement for 2026, estimated by the Ministry of Finance, amounted to 278.5 billion lei – comprising a budget deficit of 127.8 billion lei and 150.7 billion lei in debt to be refinanced[1]. This situation clearly illustrates how the political crisis made it more difficult for the Ministry of Finance to access external markets to finance the deficit and refinance public debt.

[1] The net financing plan amounts to 265 billion lei – approximately 160 billion lei on the domestic market and 105 billion lei on external markets. The difference of 13.5 billion lei results from a reduction in the Treasury's foreign-currency reserve – approximately 2 billion euros, equivalent to around 10.5 billion lei – and from 3 billion lei in loans contracted by local administrative units.

The greatest source of risk to this year's budget execution is the absorption of European funds and the reimbursement of the amounts available to Romania that are included in the budget projections. As noted in the section of the Opinion concerning European funds, **any amount from the grants component that is not validated has a direct impact on the deficit, since the expenditure incurred will no longer be financed from these grants and will instead have to be covered from the national budget or other sources**. With regard to the amounts borrowed under the NRRP, however, payments from this component are reflected in the budget deficit, irrespective of when the tranches are received.

Other risks to budget execution include potential additional external shocks and pressures on the budget arising from various state obligations, both longstanding and more recent, such as obligations towards magistrates and the litigation involving Pfizer. Such obligations may be rescheduled in order to mitigate their impact on the budget.

Firm action against tax evasion and aggressive tax optimisation is essential for increasing tax revenues and continuing the fiscal-budgetary correction. Budget expenditure may also be adjusted for this purpose.

The budget revision was the new government's first priority and will help eliminate some delays in the payment of invoices.

2. *Macroeconomic framework underpinning the 2026 first budget revision*

The first budget revision of this year is based on the macroeconomic framework presented in the latest projection of the National Commission for Strategy and Forecasting (NCSP), dated 29 October 2026. The parameters of the macroeconomic scenario underlying this projection will be analysed solely from the perspective of the current year – the period relevant to the revision – taking into account both domestic and international economic developments.

The main changes in the macroeconomic framework underpinning the budget revision, compared with the projection underlying the budget and the Fiscal Strategy published by the NCSP in autumn 2025, can be summarised as follows: (i) the forecast rate of economic growth for the current year has been revised downwards; (ii) inflation has increased, also as a result of a weaker exchange rate; (iii) the external current-account imbalance has been revised upwards, with the trade balance deficit following a similar trajectory; and (iv) labour-market indicators continue to point to a tight labour market.

The assessment of the forecasts, particularly those concerning gross domestic product and its components, is based on the latest available historical data – those for the second quarter of 2026[2] – supplemented by revisions to the historical GDP data series from 2018 to the present, particularly for 2024 and 2025. All data were published by the National Institute of Statistics (NIS) on 9 October 2026. These data indicate quarter-on-quarter GDP stagnation in Q2 2026 (0.0%[3]) and a marginal contraction in the three preceding quarters. In year-on-year terms, GDP

[2] Provisional 2 data for Q2 2026, from NIS Press Release No. 257 of 9 October 2026.
[3] See the seasonally adjusted GDP series, with growth measured against the previous quarter.

contracted marginally by 0.2% in Q2 2026, compared with Q2 2025[4], following another quarter of economic contraction. The revision of the historical GDP series is also noteworthy, as it changed the structure of economic growth, particularly in 2024, as well as the level of nominal GDP. Under the new data, nominal GDP has been revised upwards by approximately 0.76% in Q2 2026, with a similar magnitude of revision in previous years, mainly as a result of revisions to the GDP deflators.

From the perspective of the GDP production approach, the 0.2% contraction in GDP in Q2 2026 was determined by: (i) negative developments in sectors such as trade (-0.9 percentage points), real estate transactions (-0.7 pp), industry (-0.6 pp), public administration and related activities (-0.3 pp), and information and communications (-0.2 pp); (ii) increases recorded in sectors such as construction (+1.2 pp), entertainment, cultural and related activities (+0.6 pp), agriculture (+0.1 pp), financial intermediation and insurance (+0.1 pp), and professional and related activities (+0.1 pp), as well as net taxes on products, which made a contribution of +0.4 pp.

From the perspective of the expenditure approach to calculating GDP, we can observe (i) the predominance of consumption in explaining the contraction, with a contribution of -2.2 pp to the overall 0.2% contraction. The continued negative contribution of consumption is driven by the sharply negative dynamics of real pensions, as well as by the decline in real wages. This was accompanied by the also negative contribution of (ii) changes in inventories, at -2.6 pp. The opposite effects came from (iii) gross fixed capital formation, with a contribution of +4.3 pp, also explained by the high level of public investment, particularly investment financed from European funds under the NRRP and the multiannual framework, and from net exports, with a contribution of +0.3 pp. The latter was, in turn, driven by faster export growth, which contributed positively by 1.6 pp, compared with the negative contribution of imports, at -1.3 pp.

Despite the marginal upward revision to real economic growth made by the NIS for both 2024 – from 0.9% to 1.1% – and 2025 – from 0.7% to 0.8% – as well as the upward revision to nominal GDP, the NCSP forecast for real GDP growth in 2026, reflecting the challenging economic situation, has been revised downwards from +1.0% to -0.4%. Taking into account the developments in higher-frequency indicators, the economic growth rate projected by the NCSP and underpinning the calculations concerning this year's deficit appears plausible and relatively prudent. Nevertheless, as in previous projections, a less favourable GDP performance remains possible. In the NCSP projection, however, this is offset by prudent forecasts for the GDP deflator, which reinforces the realism and, implicitly, the likelihood that the nominal GDP forecast will materialise. Regarding the structure of economic growth – which is just as important as its level in terms of its fiscal impact – we can observe a continuation of current trends, with gross fixed capital formation at the centre of economic growth, a negative contribution from consumption in the current year, and a marginal contribution from net exports. Consequently, GDP will have a composition that generates lower tax revenues, in the sense that the positive contribution comes from categories of macroeconomic tax bases that are subject to lower taxation, such as investment and exports.

[4] See the unadjusted GDP series.

Regarding real GDP growth, the following risk factors should be noted: (i) persistently high and/or rising prices for commodities and energy, including natural gas, oil and electricity; (ii) depreciation of the national currency, which has a negative impact on economic growth through the wealth and balance-sheet channels; (iii) rising financing costs for Romania's private and public sectors, as well as a reduction in available financing volumes, amid a global repricing of financial instruments issued by the artificial-intelligence sector, also linked to the crypto-currency and private-credit markets, including synthetic risk transfer (SRT) instruments; (iv) the possible re-emergence of a sovereign debt crisis in Europe, against the backdrop of high public-debt levels, large deficits and uncertainty surrounding fiscal policies; and (v) weaker-than-projected domestic absorption of funds under the NRRP and the multiannual European-funds programme.

The dynamics and structure of the national economy – with an emphasis on domestic absorption, namely gross fixed capital formation and final consumption – are also reflected in the scale of the external imbalance. Although this imbalance is projected to narrow in the NCSP forecast, it remains significant: the NCSP projects the current-account deficit of the balance of payments to amount to 7.7% of GDP[5] in 2026, compared with 7.4% of GDP in 2025, equivalent to €28.4 billion[6]. This remains considerably above the 4% of GDP threshold under the European Commission's Macroeconomic Imbalances Procedure.

In the NCSP's current projection, prepared for the October 2026 budget revision, the GDP deflator growth rate for 2026 has been revised upwards to 8.5%, from 6.1% in the previous forecast, which formed the basis for approval of the current budget. This increase adds realism to the macroeconomic projection underpinning the current revision. However, in light of recent developments – such as higher prices for energy and energy commodities, including oil and fuels, gas and electricity, as well as exchange-rate depreciation – the deflator could reach even higher levels by year-end. One argument in this respect is the 11.82% increase in the industrial producer price index in August 2026 compared with August 2025[7]. A possible overestimation of real economic growth, as mentioned above, is therefore offset by a relatively prudent estimate of the deflator. This provides a safety margin for projections of nominal GDP growth, even if risks to real GDP growth materialise. Consistent with the assessment of the GDP deflator, the figures for average inflation – 8.4% in 2026 – and end-of-period inflation – 6.4% in 2026 – appear prudent, although they have been significantly revised upwards compared with the NCSP's previous projection, in which the corresponding figures were 6.5% and 3.6%, respectively. If deflators and inflation rates exceed the forecast levels, this would have a negative effect on real variables but would generate a favourable impact on the budget balance by increasing revenues from most taxes and duties. Accordingly, nominal GDP is projected by the NCSP, in its latest forecast from

[5] Corresponding to a current-account deficit of 30.9 billion euros.

[6] This revision reflects the approximately 5% deterioration in the current account of the balance of payments during the first eight months of 2026 compared with the same period in 2025. The share of the current-account deficit covered by autonomous flows also declined, from approximately 42% during the first eight months of last year to approximately 27% over the same period this year.

[7] The deflator can be approximated as a weighted average of the consumer price index and the industrial producer price index.

October 2026, to grow by approximately 8.1% in the current year, following growth of approximately 9.2% in 2025, based on the revised data.

Regarding the labour market[8], the latest NCSP forecast from October this year has been revised slightly compared with the projection underpinning the 2026 budget and the 2026-2028 Fiscal Strategy, anticipating a modest easing of labour-market pressures. Thus, for 2026 – the only year analysed by the Fiscal Council and the one relevant to the current revision – the NCSP anticipates a 0.6% decline in the number of employees, compared with stagnation in the previous forecast, and a 4.8% increase in average gross earnings, compared with the previously forecast increase of 5.5%. The unemployment rate remains close to the previously projected levels: 6.6% according to the ILO unemployment rate – compared with 6.1% in the previous NCSP projection – and 3.5% according to the registered unemployment rate at year-end[9], compared with 3.4% in the previous forecast. Overall, these new parameters are relatively similar in terms of their implications for the relevant macroeconomic tax bases. In line with the assessments in the Fiscal Council's previous opinions, they indicate a relatively plausible ceteris paribus trajectory for labour-market aggregates. However, recent developments, discernible in the latest higher-frequency data, could point to an even more pronounced easing of labour-market pressures – namely, a larger decline in the number of employees and weaker gross-wage growth. This would shift the trajectory of certain revenue categories, such as social security contributions and wage taxes, downwards and would result in a slightly larger deficit.

Cross-referencing recent economic information and data with the dynamics of the relevant macroeconomic variables projected by the NCSP in October – real GDP, the GDP deflator, inflation and labour-market indicators – leads to the conclusion that these aggregates are following a plausible trajectory for the current year. In addition, there is a small margin of safety regarding nominal GDP growth, resulting from the projected dynamics of the GDP deflator. From the perspective of their effects, this is offset by the possibility of a more favourable labour-market forecast, particularly in terms of its impact on the budget.

Within the NCSP projection, the trajectory of the implicit yield on Romanian government securities is not specified, although it is particularly relevant, especially given the weaker coverage of this year's financing needs compared with the same period last year. This trajectory therefore represents an important risk factor for the fiscal projection, particularly from the perspective of projected general government public-debt servicing costs. Forecasting interest expenditure on the basis of a plausible yield curve, incorporating a necessary margin for the materialisation of external and domestic risks that are plausible in light of historical experience, could both preserve a margin relative to the deficit target and produce credible projections in terms of Romania's deficit commitments and European fiscal legislation. This is particularly important at present, given the possible materialisation of a large-scale adjustment in external financial markets following a correction in assets issued by the artificial-intelligence sector, as well

[8] The labour market is important because of the macroeconomic bases underlying wage taxes and social contributions, as well as certain expenditure items, such as unemployment benefits and social transfers, all of which have a significant impact on the size of the deficit.

[9] According to data from the National Employment Agency (ANOFM).

as the potential deterioration of the geopolitical situation or even the renewed outbreak of acute phases in certain regional conflicts, with an impact on commodity markets, particularly energy markets.

3. Updated budget revenue and expenditure parameters

The analysis of the budget revision draft is based on the initial budget framework and the latest available budget-execution data. The initial 2026 budget set a deficit target of 6.25% of GDP, according to the cash methodology, representing a reduction of approximately 1.4 pp of GDP compared with the level recorded in 2025. In its Opinion on the 2026 State Budget Law, the 2026 State Social Security Budget Law and the Fiscal Strategy for 2026-2028, and based on a prudent approach to revenue and expenditure projections, the Fiscal Council assessed the 2026 budget framework as consistent with a cash deficit close to the target set by the Government. This assessment did not take into account potential severe effects of the war in the Middle East, any related measures, or other unforeseen events.

Budget execution during the first nine months of 2026 recorded a deficit of 78.3 billion lei, equivalent to approximately 3.81% of GDP, which was 1.5 pp of GDP lower than in the same period of the previous year (5.31% of GDP). This reduction in the deficit was mainly driven by revenues, which increased by 1.23 pp of GDP compared with the first nine months of the previous year, while expenditure declined by 0.27 pp of GDP.

During the first nine months of 2026, budget revenues increased by 11.9% compared with the same period of the previous year, exceeding the growth rate projected in the initial budget (+11.1%). The aggregate dynamics nevertheless reflect divergent developments across the main revenue categories. On the one hand, execution exceeded the growth rates projected in the initial budget for VAT (+24.8%, compared with a target of +16.7%), corporate income tax (+8.7%, compared with +3.6%), wage and income tax (+7.8%, compared with +2.4%), and other taxes and duties on goods and services (+18.3%, compared with +4.5%). On the other hand, dynamics below the initial expectations were recorded for excise duties (+2.4%, compared with +8.6%), social security contributions (+6.8%, compared with +8.8%), and non-tax revenues (-6.8%, compared with -2.7%).

Regarding budget expenditure, execution during the first nine months recorded a 5.5% increase compared with the same period of the previous year, below the growth rate provided for in the initial budget (+6.9%), but accelerating from +0.8% at six months, +2.9% at seven months and +4.2% at eight months. Developments below the growth rates projected in the initial budget were recorded mainly for personnel expenditure (-3.5%, compared with +0.3%), subsidies (+2.4%, compared with +13.8%), other expenditure (-19.5%, compared with +3.8%) and capital expenditure (-11.6%, compared with -1.7%). By contrast, expenditure growth exceeded the rates projected in the initial budget mainly for interest payments (+26.8%, compared with +20.4%), goods and services (+9.4%, compared with +4.7%) and social assistance expenditure (0%, compared with -0.7%). It should be noted, however, that budget execution in September 2026 included, for the first time, expenditure related to the SAFE plan, amounting to 6.3 billion lei

(0.31% of GDP). This category was not included in the initial budget and, consequently, no expenditure ceiling had been provided for it.

Under these circumstances, the adoption of a budget revision was necessary in order to update the projected levels of revenues and expenditure – including the establishment of a ceiling for expenditure related to the SAFE plan – in line with current budget execution and macroeconomic developments. The initial budget had been built on the assumption of 1% real GDP growth, whereas provisional data for the first half of 2026 indicate a 0.6% contraction in real GDP. According to the explanatory notes accompanying the revision, it also seeks to ensure funding for the normal operation of certain chief authorising officers until the end of the year; continuity in the provision of medicines, medical supplies and healthcare services; other programmes and benefits for pupils and persons with severe disabilities; and the settlement of arrears recorded in the accounts of administrative-territorial units and subdivisions, including public institutions financed wholly or partially from local budgets and public hospitals within the network of local public administration authorities.

The budget revision directs the largest additional allocations to the budget of the Ministry of Labour, Family, Youth and Social Solidarity, which is increased by 3.32 billion lei, mainly to balance the pension budget. The Ministry of Health receives a net amount of 72 million lei, following additional allocations for wages, emergency departments and health programmes, partly offset by reductions in funding for European projects with low execution rates. Separately, the budget of the National Health Insurance Fund is increased by 3.22 billion lei. The Ministry of Internal Affairs receives 631.6 million lei to pay December pensions and recruit graduates of the Police Academy, while the Ministry of Agriculture and Rural Development benefits from an additional 1.47 billion lei for projects financed with European funds.

At the same time, the revision reduces the amounts initially withheld from several ministries. This mechanism is provided for under Article 21(5) of Public Finance Law No. 500/2002, pursuant to which 10% of the appropriations approved under the budget law were withheld and could not be committed during the first half of the year. The largest reductions in these withheld amounts concern the Ministry of Development, by 1.09 billion lei; the Ministry of Transport, by 560 million lei; the Ministry of Agriculture, by 490 million lei; the Ministry of Education, by 280 million lei; and the Ministry of Energy, by 250 million lei. These reductions do not necessarily represent a net decrease in the ministries' budgets. Indeed, the Ministry of Agriculture is receiving additional funding for European-funded projects, even though other withheld amounts are being reduced in parallel. Outside the ministries' budgets, local budgets receive a net amount of 2.81 billion lei, of which 2 billion lei is earmarked for settling arrears.

Compared with the initial budget, the revision draft provides for a decrease of approximately 2.8 billion lei in budget revenues and approximately 0.3 billion lei in budget expenditure. Consequently, the consolidated general government budget deficit is set at 130.3 billion lei, according to the national cash methodology[10], approximately 2.5 billion lei higher than the

[10] Under the cash methodology, revenues are recorded when collected and expenditure when paid. The ESA 2010 methodology differs from the cash methodology mainly in the following respects: revenues and expenditure are

amount provided for in the initial budget. Expressed as a percentage of GDP, the estimated consolidated general government budget deficit remains at 6.25%, against the background of an increase in projected nominal GDP from 2,045.2 billion lei in the initial budget to 2,086.3 billion lei in the latest NCSP forecast.

The main changes to budget revenue concern the following categories:

- *Tax revenue: +*6.6 billion lei, with the main adjustments affecting the following components:
    - *Corporate income* tax: +1.2 billion lei, reflecting stronger growth than initially expected: +8.7% in the first nine months, compared with growth of 3.6% projected in the initial budget. The new revenue target implies an increase of 6.5% over the 2025 budget outturn and may be considered prudent in the light of current budget execution.
    - *Personal income tax: +*1.6 billion lei, reflecting stronger growth than initially expected: +7.8% in the first nine months, compared with growth of 2.4% projected in the initial budget. Receipts under this heading are supported by tax on individuals' dividend income, following the increase in the tax rate from 10% to 16%, and by income tax paid through the single tax return. The new revenue target implies an increase of 5.1% over the 2025 budget outturn and may be considered prudent in the light of budget execution in the first nine months.
    - *Other taxes on income, profits and capital gains:* +0.9 billion lei, reflecting higher receipts from tax on dividend income received by legal entities.
    - *Property taxes:* -0.23 billion lei.
    - *VAT:* +7.2 billion lei, reflecting stronger growth than initially expected: +24.8% in the first nine months, compared with growth of 16.7% projected in the initial budget. Growth in VAT receipts was supported both by changes in VAT rates and by strong price increases (the GDP deflator rose by 10.9% in the first half of 2026). The new revenue target represents an increase of 22.1% over the 2025 budget outturn and may be considered achievable, albeit optimistic.
    - *Excise* duties: -3.7 billion lei, reflecting performance significantly below initial expectations (+2.4% in the first nine months, compared with growth of 8.6% projected in the initial budget) and the estimated effect of the reduction in excise duty on diesel. The revised excise revenue figure corresponds to growth of around 1% over the previous year's outturn, which appears prudent in the light of current budget execution.
    - *Other taxes on goods and services:* +1.5 billion lei, reflecting receipts from the turnover tax on credit institutions and additional taxes in the natural gas sector, together with the impact of the solidarity contribution.
    - *Taxes on the use of goods, permission to use goods or to perform activities: -1.7* billion lei, reflecting developments in gambling tax receipts following the

recorded on an accrual basis; interest expenditure is recorded as it accrues over time; and military equipment purchases are recorded when the equipment is delivered.

contraction of activity in this sector. The downward revision reflects performance significantly below initial expectations: +7.8% in the first nine months, compared with growth of 24.7% projected in the initial budget.

- *Social insurance* contributions: -4.3 billion lei, reflecting growth below initial expectations: +6.8% in the first nine months, compared with growth of 8.8% projected in the initial budget. The new revenue target implies an increase of 6.8% over the 2025 budget outturn, matching the growth recorded in the first nine months of the year.
- *Non-tax revenue:* -0.9 billion lei, following a decline of 6.8% in the first nine months, compared with a fall of only 2.7% envisaged in the initial budget. According to the Ministry of Finance (MF), this reflects receipts from dividends paid by national companies and enterprises and from the logistics levy on the management of flows of non-EU goods. The new revenue target is equivalent to a decline of only 4.4% relative to the previous year's outturn and is relatively optimistic in the light of current budget execution.
- *EU funds received as reimbursement for payments* made: -4.4 billion lei, reflecting low absorption recorded in budget execution. Nine-month data show absorption of 24.4 billion lei, representing 40% of the amount envisaged in the initial budget and 43.1% of the revised downward target.
- *Grants allocated under the National Recovery and Resilience Plan (NRRP):* -1.4 billion lei, an amount that is unclear given the revenue loss associated with the milestone on the Unified Pay Law and other unfulfilled NRRP commitments (for example, payment request No. 3). Nine-month data show absorption of 22.7 billion lei, representing 61.2% of the amount envisaged in the initial budget and 63.7% of the revised downward target. Absorption of the NRRP amounts included in the budget is expected to depend critically on the extent to which the European Commission (EC) disburses payment requests No. 5 and 6. The materialisation of further risks to NRRP absorption could lead to additional revenue losses relative to the forecast.

Given the nine-month budget outturn and historical developments in budget revenue in the final quarter of the year, the revised revenue targets may be considered relatively plausible. However, planned VAT revenue, non-tax revenue and NRRP grants appear somewhat optimistic in the light of current budget execution.

The main revisions to expenditure aggregates are as follows:

- *Personnel expenditure:* -4 billion lei, reflecting a decline of 3.5% in the first nine months, whereas the initial budget projected an increase of 0.3%. The revised level of personnel expenditure implies a decline of 2.1% relative to the 2025 budget outturn and may be considered prudent in the light of current budget execution.
- *Goods and services:* +2.4 billion lei, reflecting an increase of 9.4% in the first nine months, whereas the initial budget projected growth of 4.7%. The increase concerns the National Health Insurance Fund, to ensure continuity in the provision of medicines, medical supplies and medical services (+3.2 billion lei). This allocation is partly offset by reductions in spending on goods and services in other components of the general consolidated budget. The revised level implies an increase of 7.1% over the 2025 budget outturn, below

the growth recorded at nine months, requiring strict control of this aggregate to remain within the projected envelope.

- *Interest* expenditure: +3.7 billion lei, with the nine-month outturn showing an increase of 26.8% over the same period of the previous year, compared with growth of 20.4% programmed in the initial budget. The additional allocation also reflects higher Romanian government bond yields, including against the backdrop of geopolitical tensions and domestic political instability. The revised level implies an increase of 27.7% over the 2025 budget outturn and may be considered prudent in the light of the first nine months' outturn. Interest payment requirements may be slightly overestimated.
- *Subsidies:* -1.2 billion lei, mainly reflecting savings identified in the execution of this aggregate at the Ministry of Energy. The reduction is supported by the fact that subsidies increased by only 2.4% in the first nine months, whereas the initial budget envisaged an increase of 13.8% over 2025.
- *Social assistance:* +1.5 billion lei, reflecting the fact that expenditure remained broadly unchanged in the first nine months (0%) compared with the same period of the previous year, whereas the initial budget projected a decline of 0.7%. The revised level implies a decline of 0.1% relative to the 2025 budget outturn (close to the rate recorded at nine months) and may be considered plausible in the light of current budget execution, subject to strict control of this aggregate. Maintaining discipline in social assistance spending is particularly important as this aggregate accounts for around 29% of projected general consolidated budget expenditure, and any slippages could significantly affect the budget deficit.
- *Projects financed by post-accession external grants for 2021-2027:* -7 billion lei, reflecting low absorption recorded in budget execution. Nine-month data show expenditure of 31.2 billion lei, representing 42.5% of the amount envisaged in the initial budget and 47% of the revised target.
- *Projects financed by NRRP grants:* -3.5 billion lei. *Nine-month data show* expenditure of 28.1 billion lei, representing 59.9% of the amount envisaged in the initial budget and 64.7% of the revised target.
- *Projects financed by the NRRP loan component:* +3.3 billion lei. Nine-month data show expenditure of 13.1 billion lei, representing 79.4% of the amount envisaged in the initial budget and 66.1% of the revised target. Absorption of the NRRP amounts included in the budget (both grants and loans) is expected to depend critically on the extent to which the EC disburses payment requests No. 5 and 6.
- *Reserve funds:* +0.2 billion lei. These amounts will subsequently be allocated across budget categories according to actual needs.
- *Expenditure under the SAFE* plan: +6.4 billion lei. This expenditure category was not explicitly included in the initial budget. It first appeared in the September 2026 outturn, at 6.3 billion lei, representing almost full execution of the planned level.
- *Capital expenditure:* -1.9 billion lei, with the nine-month outturn showing a decline of 11.6% compared with the same period of the previous year, whereas the initial budget programmed a decline of only 1.7%. The revised level implies a decline of 4.5% relative to

the 2025 budget outturn and, given the nine-month trend, could, if needed, provide scope for further adjustment of the budget deficit.

Planned total public investment expenditure, from domestic and external sources, is increased by 6.3 billion lei (+3.7%) relative to the level envisaged in the draft budget (rising from 8% to 8.2% of GDP). Its composition, expressed as shares of GDP, is as follows:

- projects financed by external grants (2.4% of GDP);
- projects financed by the NRRP grant component (1.9% of GDP) and loan component (0.9% of GDP);
- expenditure on programmes financed by loans (0.1% of GDP);
- expenditure under the SAFE plan (0.3% of GDP);
- capital expenditure (2.4% of GDP) and other investment transfers (0.2% of GDP).

Compared with the initial budget, increases concern projects financed by the NRRP loan component (+6.3 billion lei, an increase of around 34.3% over the initial budget) and expenditure under the SAFE plan (+6.4 billion lei). These increases are offset by reductions in capital expenditure (-2.8 billion lei), projects financed by NRRP grants (-2.8 billion lei), projects financed by post-accession external grants (-0.5 billion lei) and expenditure on programmes financed by loans (-0.3 billion lei).

Public investment is a key pillar of infrastructure modernisation and Romania's economic convergence with developed EU Member States. However, it does not automatically ensure an increase in the production of tradable goods or economic growth. Investment allocations must also take account of domestic and external financial constraints and the pressing need to reduce the budget deficit.

The analysis of the proposed revisions to the main categories of budget expenditure shows that they have been updated to reflect budget execution in the first nine months of the year, with a ceiling also envisaged for the newly introduced category of expenditure under the SAFE plan. Although the goods and services aggregate has been revised upwards, strict control is necessary to remain within the projected envelope.

Based on the revised budget framework and developments in the first nine months of the year, there are grounds to expect this year's cash budget deficit to meet the target of 6.25% of GDP, subject to the risks highlighted in the analysis.

The report to be presented by the Ministry of Finance will provide clarification regarding the cash deficit. Romania's compliance with its deficit reduction commitment under the excessive deficit procedure is assessed on the basis of the deficit calculated under the European methodology (ESA). This measure is unaffected by the postponement of payments, as revenue and expenditure are recorded on an accrual basis. However, unlike the cash outturn, which is available monthly, the ESA deficit calculation is finalised after the end of the calendar year.

A major risk to this year's budget deficit concerns the absorption of EU funds included in the budget. Unvalidated amounts under the grant component have a direct impact on the deficit, as expenditure already incurred will have to be covered by the national budget or other sources.

Expenditure under the loan component is reflected in the budget deficit regardless of when the instalments are received.

Further risks relate to existing or potential budgetary obligations, whether longstanding or recent, including outstanding salary entitlements owed to magistrates and liabilities arising from the proceedings brought against the Romanian state by the pharmaceutical company Pfizer.

4. Absorption of EU funds

The Fiscal Council systematically monitors the absorption of EU funds, primarily because of their contribution, largely through grants, to real economic growth and structural reform implementation, as well as to maintaining fiscal, financial and external balances.

Following a third revision of the NRRP, requested by Romania in May 2026 and approved by the EC in July **2026, the grant component** underwent changes through the removal and introduction of **measures, but its allocation** of 13.6 billion euros remained unchanged. Meanwhile, the cancellation of some investments at risk of missing **the implementation deadline reduced** the loan component by **1.3 billion euros to 6.5 billion euros. Consequently, Romania's total NRRP allocation fell to EUR 20.1 billion.**

As regards non-repayable Structural and Cohesion Funds (SCF) under the 2021-2027 Multiannual Financial Framework (MFF), at the end of September 2026, according to data published by the Ministry of Investments and European Projects (MIPE)[11], combined on a temporally comparable basis with those published by the MF[12] *(Table 1),* the **effective absorption rate**[13] of **SCF stood at 30.8% for National Programmes**[14] **and 27.4% for all National and Regional Programmes**[15].

[11] https://mfe.gov.ro/stadiul-absorbtiei-fondurilor-ue/

[12] https://mfinante.gov.ro/static/10/Mfp/buget/sitebuget/BFN2026_09_30.pdf

[13] The effective absorption rate is the ratio of SCF reimbursements from the EC to the corresponding total allocations. SCF advances, even when partly or fully used, represent expenditure still to be validated (or not) by the EC and are excluded from the calculation of the effective absorption rate.

[14] **The effective SCF absorption rate for National Programmes as at 30 September 2026, of 30.8%, was calculated** by dividing reimbursements **of 6.8 billion euros by EU allocations (excluding advances) of 22.1 billion euros** for these programmes (https://mfe.gov.ro/stadiul-absorbtiei-fondurilor-ue/). If the Transport Operational Programme 2021-2027, managed by the Ministry of Transport and Infrastructure, is excluded from both allocations and EC reimbursements for the eight National Programmes, the SCF absorption rate at **the end of September 2026 for the seven National Programmes managed by MIPE, calculated as 4.4 billion euros in EC reimbursements divided by 17.5 billion euros in allocations, was only 25.1%!**

[15] **As at 30 September 2026, the** effective absorption rate of 27.4% for all National and Regional Programmes was calculated by dividing SCF reimbursements of EUR 8.5 billion by total allocations (excluding advances) of 31 billion euros(https://mfe.gov.ro/stadiul-absorbtiei-fondurilor-ue/).

Table 1: Absorption of Structural and Cohesion Funds for the 2021-2027 programming period as at 30 September 2026 (EUR million)					
2021-2027 MFF	**Programmed 2021–2027**	**2021-2025 Execution at 31 Dec 2025**	**2026 estimates**	**2026 Execution at 30 Sep 2026**	**2021-2026 Execution at 30 Sep 2026**
Structural and Cohesion Funds (SCF), of which:	31,024.78	7,300.42	5,840.42	4,237.61	11,538.02
Advances from SCF	2,800.74	2,418.92	381.83	379.24	2,798.15
Refunds from SCF	28,224.04	4,881.50	5,458.60	3,858.37	8,739.87

Source: Financial flows between Romania and the European Union (Net Financial Balance), 30 September 2026, Ministry of *Finance; Absorption status of programmes financed by European Funds 2021-2027 under Cohesion Policy, 30* September 2026, MIPE.

The National Recovery and Resilience Plan includes the Recovery and Resilience *Facility* (RRF) under NextGenerationEU. Implementation of the reforms and investments envisaged in the NRRP faces major difficulties and significant delays, given that all milestones and targets, including the related payment requests, were to be completed by the end of August 2026. Any failure to do so results in losses or even repayments of funds[16].

By August 2025, Romania had obtained EC approval for **Payment requests No. 1 and 2,** totalling 5.3 billion euros (3.6 billion euros in grants and 1.7 billion euros in loans). Payment request No. 2 was approved subject to a payment suspension[17], with 53 million euros withheld owing to the non-fulfilment of two energy milestones; this amount was partly recovered in December 2024 (37 million euros under the loan component). **Payment request** No. 3, worth 2.1 billion euros (excluding pre-financing), submitted in December 2023, received a positive preliminary EC assessment in March 2025[18], but the Economic and Financial Committee delivered its opinion only in June 2025, with 1.3 billion euros subsequently disbursed[19]. The remaining 869 million euros (814 million euros in grants and 55 million euros in loans) was subject to a payment suspension owing to the partial fulfilment or non-fulfilment of six milestones[20]. In May 2026, following negotiations with the Romanian authorities, the EC decided that 350.7 million euros of

[16] By the end of September 2026, only 52% of milestones and targets had been fulfilled! (RRF Scoreboard – Romania, https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/country_overview.html).

[17] The payment suspension procedure provides an additional six months to remedy shortcomings and fulfil intermediate objectives (https://commission.europa.eu/system/files/2023-02/COM_2023_99_1_EN.pdf).

[18] https://ec.europa.eu/commission/presscorner/detail/sv/ip_24_5242

[19] Whereas the European Commission generally examines payment requests received from Member States within around two months and then communicates its proposal on full or partial disbursement, **Romania's payment request No 3 set an adverse record, remaining under examination and subject to partial payment for 18 months** (December 2023-May 2025)!

[20] https://ec.europa.eu/commission/presscorner/detail/en/mex_25_1474

the 869 million euros would be released to Romania, while 458.7 million euros [21] represented the penalty imposed for failure to fulfil satisfactorily the milestones concerning AMEPIP governance and state-owned energy and transport companies[22].

In mid-December 2025, RRF **Payment request No. 4** was submitted to Brussels**,** covering 62 milestones and targets exclusively under the grant component and aimed at developing key sectors of the economy[23]. Following its preliminary assessment in May 2026 that all 62 milestones and targets had been satisfactorily fulfilled[24], and a favourable opinion from the Council's Economic and Financial Committee, the EC disbursed 2.25 billion euros to Romania on 23 June 2026 (excluding pre-financing)[25].

Alongside resetting the list of NRRP-financed investment projects according to the established criteria, the Romanian authorities **faced over-contracting** of 170-200%, around 20 billion euros above the actual ceiling of 21.4 billion euros. Rather than serving as a corrective mechanism, as it could have done within a range of 100-120%, over-contracting became a source of distortion. It complicated the selection of projects retained in the NRRP and the financing of numerous works already started, placing pressure on the state budget in both 2025 and 2026.

According to the schedule of NRRP payments made by the EC to Romania between 2021 and June 2026, from September 2023 to June 2025, a period of almost two years, Romania did not absorb a single euro of NRRP funds, apart from EUR 288 million in REPowerEU pre-financing! This highlights inadequate administrative capacity at both central and local levels to monitor achievement of NRRP milestones and targets, namely the delivery of reforms and investments in accordance with the commitments and deadlines undertaken[26].

[21] https://mfe.gov.ro/decizia-finala-a-comisiei-europene-privind-cererea-de-plata-nr-3-din-pnrr/

[22] Most milestones and targets subject to payment suspensions can be fulfilled within the six-month period during which Member States take additional corrective measures, with only a limited proportion leading to permanent reductions. Of the 34 milestones and targets subject to suspended payments, only four remained unsatisfactorily fulfilled at the end of the six-month suspension period, showing that Member States generally implement corrective measures within this period. In some cases, suspension decisions were revoked following NRRP revisions. At the end of September 2026, 1.55 billion euros remained suspended for Bulgaria (445 million euros), Spain (198 million euros), Malta (38 million euros) and Romania (869.8 million euros) (Report from the Commission to the European Parliament and the Council on the implementation of the Recovery and Resilience Facility, COM(2026) 546 final, Brussels, 7 October 2026. https://www.consilium.europa.eu/en/meetings/european-council/2026/10/15-16/)

[23] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/country_overview.html

[24]https://ec.europa.eu/commission/presscorner/api/files/document/print/en/mex_26_1431/MEX_26_1431_EN.pdf

[25] https://ec.europa.eu/commission/presscorner/detail/en/mex_26_1431

[26] Against the backdrop of Romania's excessive macroeconomic imbalances, a recent European Commission report finds that, without robust fiscal consolidation, complemented by prudent income policies and structural reforms as set out in the NRRP and the European Semester country-specific recommendations, Romania remains vulnerable to high interest rates and changes in investor sentiment. It notes that implementing NRRP investment projects remains challenging, while implementing reforms would help strengthen competitiveness and reduce macroeconomic vulnerabilities (European Commission, In-Depth Review 2026, Romania, DG Economic and *Financial Affairs, European* Economy Institutional Paper 338, Luxembourg, 2026).

At the end of September 2026, the effective absorption rate for the NRRP as a whole (excluding pre-financing) stood at 54.9%, with 63.8% for the grant component and 36.4% for the loan component *(Table* 2).

Table 2: Effective absorption rate of NRRP funds as at 30 September 2026			
Component	**Allocations (EUR million)**	**EC disbursements, excluding pre-financing (EUR million)**	**Effective absorption rate (%)**
Grants	13,566	8,654	63.8%
Loans	6,534	2,377	36.4%
Total NRRP	**20,100**	**11,031**	**54.9%**

Source: European Commission, Ministry of Finance, FC calculations

According to Romania's country-specific recommendations under the 2026 European Semester Spring Package, despite the efforts made in 2025, recurring delays in implementing EU programmes, including the NRRP, revealed major shortcomings in the public administration's capacity to plan, organise and implement complex projects[27]. One of the six recommendations explicitly calls for action in 2026 and 2027 to ensure continuity of NRRP reforms and investments and accelerate implementation of projects under the 2021-2027 MFF, including cohesion policy programmes, drawing, where appropriate, on reallocations towards strategic priorities and the flexibilities provided under the cohesion policy review[28].

Payment request No. 5 was submitted on 14 August 2026, covering 75 milestones and targets: 21 relating to reforms and 54 to investments. Its gross value is 2.8 billion euros (including pre-financing), but the expected net receipt is approximately 2.1 billion euros, comprising 1.65 billion euros in grants and 430 million euros in loans[29]. Given the urgency with which this request was finalised, there is a risk that failure to complete essential elements could affect compliance with the criteria for certain milestones and targets[30]. This would lead the EC to adopt decisions reducing financial contributions and loans, resulting in actual disbursements below the expected 2.1 billion euros.

Following the failure to reach agreement on the adoption of the Public Sector Pay Law, in early October the rating agency Moody's[31] warned that this failure adversely affected Romania's sovereign credit profile. According to the agency's experts, failure to adopt the law was not confined to the loss of 770 million euros (0.2% of 2025 GDP) in EU grants, but also affected the country's credit profile. **The political impasse that blocked the law's adoption made it harder to**

[27] *Recommendation for a COUNCIL RECOMMENDATION on the economic, social, employment, structural and budgetary policies of Romania* {SWD(2026) 223 final}. Brussels, 3.6.2026).
[28] Ibid.
[29] https://agerpres.ro/economic/2026/08/15/pislaru-romania-a-depus-oficial-vineri-seara-cererea-de-plata-nr-5-din-pnrr--1585170
[30] Government of *Romania, Note on the fulfilment of targets and milestones under payment request No 5 as at 13 August 2026.*
[31] https://www.moodys.com/researchandratings/region/romania/042013

contain expenditure growth and borrowing costs, complicating the groundwork for negotiations on the 2027 general consolidated budget.

At the end of September 2026, **Payment request No. 6** was submitted through the European Commission's information system, with a net value of 4.3 billion euros. Final EC payments are due by 31 December 2026.

Only at the end of this year, depending on the EC's assessment of the fulfilment of the milestones and targets in payment requests No. 5 and 6, will the exact amount of disbursements to Romania be known, allowing the effective absorption rates for NRRP grants and loans to be calculated. The overall picture of how NRRP funds have been used, including their contribution to Romania's economic development, the efficiency of their use and their macroeconomic and financial impact, can also be completed by estimating relevant indicators, including national co-financing, its composition and its budgetary impact in 2026.

After almost six months of political crisis, during which Romania was governed by a caretaker government[32], political instability against an unfavourable international backdrop generated significant domestic and external costs. These arose from the materialisation of risks concerning recession, a deterioration in the current account balance, depreciation of the national currency, the absorption rate of EU funds and restrictive financial market conditions for financing the budget deficit and refinancing public debt.

In a press release dated 16 October 2026, the Ministry of Finance presented its **Note on budget execution in the first nine months of 2026**[33]. This recorded a cash budget deficit of 3.82% of GDP, down *by* 1.53 pp from the same period of the previous year, with revenue increasing by more than one pp of GDP and expenditure falling by 0.5 pp of GDP.

Regarding the NRRP, the press release states that the amounts still to be received depend on the validation of payment requests No. 5 and 6, noting that **any unvalidated amount under the grant component has a direct impact on the deficit, as expenditure already incurred will no longer be financed by these grants and will have to be covered by the national budget or other sources.** It also specifies that NRRP loans do not constitute budget revenue: expenditure under this component is reflected in the budget deficit regardless of when the instalments are **received.**

The 2026 **budget was based on the assumption that all NRRP financing scheduled for this year would be received** (around 8 billion euros, comprising 6.5 billion euros in grants and 1.5 billion euros in loans), in line with planned investment and reform expenditure. Consequently, receipt of the amounts under payment requests No. 5 and 6 (estimated by the MF at **a maximum of**

[32] Under Article 110(4) of the Constitution, a caretaker government performs only the acts necessary for the administration of public affairs. More specifically, under Article 37(3) of the Administrative Code, a caretaker government may not promote new policies, initiate draft laws or issue ordinances or emergency ordinances.
[33] https://mfinante.gov.ro/presa-comunicate-de-presa

around 6.4 billion euros) is crucial to covering expenditure already incurred and meeting the budget deficit target[34].

For the 2026 budget revision and preparation of the 2027 budget, it is essential to align budget appropriations for NRRP projects with the outstanding payment instalments and the payments that can actually be made by 31 December 2026. **Key reference points for the 2027 budget** include permanent current expenditure (personnel, social assistance and interest), the budgetary impact of adopted legislation taking effect or producing effects in 2027, outstanding payments under NRRP contracts, legal commitments relating to ongoing public investment, and commitments under the European SAFE defence instrument.

At the government working meeting on the NRRP on 23 October[35], the main conclusion was the need for all ministers responsible for outstanding milestones to mobilise urgently, given the extremely tight deadlines and substantial risks of losing funds. To respond promptly to EC requests for clarification and ensure rapid data flows, the Government activated a task force to unblock these last two payment requests, identify critical issues quickly and accelerate communication between reform coordinators and institutions[36]. The ministries with the most problematic outstanding NRRP milestones were found to be those managing major structural reforms and infrastructure projects: Transport, Energy, Health, Agriculture and Justice. Romania must submit all final supporting documents for payment requests No. 5 and 6 to the EC by 12 November 2026, with the EC's final decision scheduled for 20 November 2026.

In this context, it was reiterated that the final deadline for completing unfinished investments is 31 December 2026. Projects not implemented by that date lose NRRP financing and will have to be completed entirely from beneficiaries' own resources, the state budget or other sources. Where these projects are not completed by 31 December 2026, NRRP amounts paid to beneficiaries are recovered in proportion to the extent of non-fulfilment of the agreed

[34] In fact, by the end of September 2026, **actual NRRP losses already totalled 1,230 million euros,** comprising the payment suspension relating to payment request No 3 (**EUR 460 million**) and the penalty for failure to adopt **the Pay Law** (770 million euros). Further losses may arise from unsatisfactory fulfilment of milestones and targets during validation of payment requests No. 5 and 6. **Meanwhile, 1,100** million euros represents the difference between pre-financing of 1,942 million euros for the loan component (13% of the initial 14.9 billion euros allocation) and pre-financing of 845 million euros (13% of the final 6.5 billion euros loan allocation). Although this is not a loss as such, unless repaid, it is expected to be included by the EC in the amount still receivable under payment requests No. 5 and 6, without being disbursed again, as it was transferred to Romania in January 2022. Consequently, while the exact level of EC disbursements will become known towards the end of 2026, current data suggest, by way of illustration, that the expected 6.4 billion euros following validation of payment requests No. 5 and 6 is overstated. **The foreseeable actual amount appears to be at least 1.5-2.5 billion euros** lower, with a significant expected budgetary **impact.**

[35] https://gov.ro/ro/guvernul/sedinte-guvern/declaratii-sustinute-de-premierul-luca-niculescu-la-inceputul-sedintei-extraordinare-de-guvern-din-23-octombrie-2026

[36] According to the new Government's programme, the priority for EU funds is to focus administrative resources on documenting the milestones and targets in payment requests No. 5 and 6. An NRRP closure unit established within MIPE and among reform and investment coordinators is to respond to each EC request within a maximum of five working days. For unfinished NRRP investments, an alternative source of financing is to be identified (2021-2027 MFF, other European programmes, EIB/EBRD/World Bank and, as a last resort, the national budget) (https://gov.ro/fisiere/pagini_fisiere/PROGRAM_DE_GUVERNARE_2026-2028.pdf).

indicators[37]. These may be qualitative and/or quantitative (outputs and physical or financial results), in accordance with the financing contracts, decisions or orders.

The deadline for reform and investment coordinators to submit final NRRP closure reports is 30 March 2027, while the national Final NRRP Closure Report is due by 30 June 2027. A single mechanism will also be established to monitor post-NRRP obligations (operation, maintenance and indicators), remaining operational until 2031. That year marks the end of the sustainability period for financed projects and is a major reference point for Romania's fiscal consolidation path and achievement of its medium-term budgetary and structural targets.

5. Compliance with fiscal rules

The draft budget revision provides for changes to the nominal ceilings for the indicators specified in the 2026 fiscal framework, established by Law No 42/2026, as follows:

- the nominal ceiling for the general consolidated budget deficit is increased by 2.55 billion lei to 130.3 billion lei;
- the nominal ceiling for total general consolidated budget expenditure, excluding financial assistance from the European Union and other donors, is increased by 3.9 billion lei to 769.4 billion lei.

The public debt ceiling under the EU methodology was increased as part of the budget revision to 63% of GDP, from 62.5% of GDP when the initial budget was prepared.

The draft Government Ordinance on the revision of the 2026 state budget stipulates the necessary derogations from the fiscal rules established by the Fiscal Responsibility Law and redefines the ceilings for budget aggregates in line with the levels envisaged in the proposed revision.

[37] Under Article 27(4) of Law No 183/2026, 'Failure to *complete the investment by the deadline laid down in paragraph (1)* (31 December 2026, author's *note) entails recovery of amounts from beneficiaries in proportion to the extent of non-fulfilment of the agreed indicators, subject to Article 12 of Government Emergency Ordinance No 124/2021, as amended by this Law, and in accordance with the provisions of the financing contracts, decisions or orders lawfully concluded'* (https://lege5.ro/Gratuit/ge4tinbzgu2di/legea-nr-183-2026-privind-inchiderea-operationala-si-financiara-a-planului-national-de-redresare-si-rezilienta). Under Article 12 of Government Emergency Ordinance *No 124/2021, 'Reform and/or investment coordinators are responsible for recovering amounts relating to projects whose indicators have not been fulfilled and are required to recover amounts paid to beneficiaries in accordance with the provisions of the financing contracts, decisions or* orders' (https://lege5.ro/Gratuit/geydimjzgyytm/art-12-managementul-financiar-al-fondurilor-europene-aferente-mecanismului-de-redresare-si-rezilienta-ordonanta-de-urgenta-124-2021?dp=gq2danjwgyzdioi).

This opinion of the Fiscal Council was approved by the Chairman of the Fiscal Council, in accordance with the provisions of Article 56, paragraph (2), letter d) of Law No. 69/2010 (republished), following its endorsement by the Council members, through vote, in the meeting held on October 30, 2026.

October 30, 2026

Chairman of the Fiscal Council

Professor Daniel DĂIANU

ANNEXES

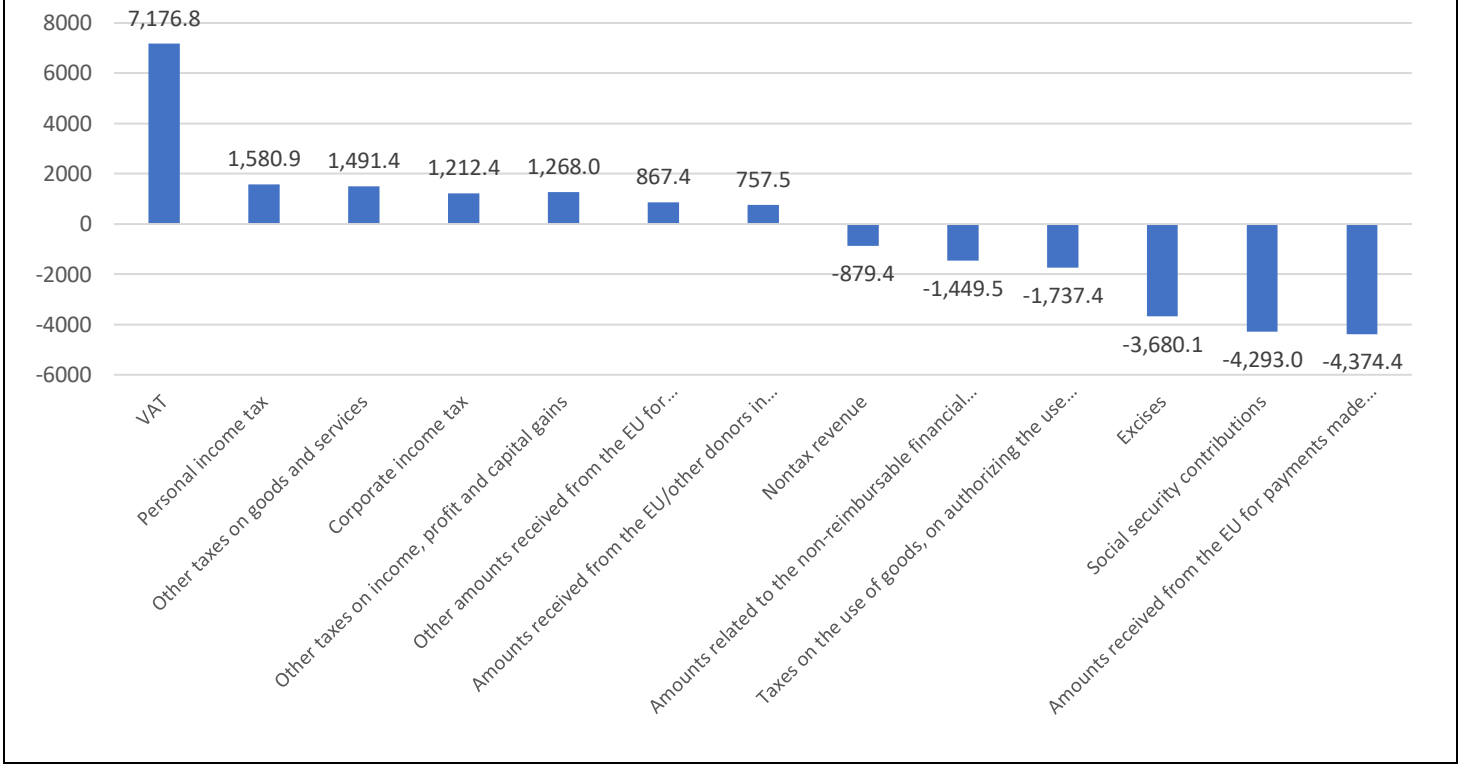
ANNEX I – Budget revision vs initial budget	Execution 2025	Initial 2026 budget	First 2026 revision	R1 – Execution 2025	R1 – Initial 2026 budget	R1/ Execution 2025 %	R1/Initial 2026 budget %
	1	2	3	4=3-1	5=3-2	6=3/1	7=3/2
TOTAL REVENUE	**662,698.2**	**736,532.01**	**733,696.92**	**70,998.75**	**-2,835.09**	**10.71%**	**-0.38%**
Current revenue	584,976.4	636,348.06	637,812.33	52,835.89	1,464.27	9.03%	0.23%
Tax revenue	323,131.0	357,577.12	364,213.85	41,082.82	6,636.73	12.71%	1.86%
Taxes on profits, wages, income and capital gains	104,954.5	106,694.98	110,404.40	5,449.95	3,709.42	5.19%	3.48%
Corporate income tax	41,011.6	42,480.40	43,692.83	2,681.25	1,212.43	6.54%	2.85%
Personal income tax	58,822.1	60,250.67	61,831.54	3,009.42	1,580.87	5.12%	2.62%
Other taxes on income, profits and capital gains	5,120.8	3,963.92	4,880.04	-240.72	916.12	-4.70%	23.11%
Property taxes	9,990.6	12,882.35	12,652.16	2,661.53	-230.19	26.64%	-1.79%
Taxes on goods and services	203,774.2	233,285.26	236,535.98	32,761.80	3,250.72	16.08%	1.39%
VAT	133,901.2	156,294.87	163,471.72	29,570.55	7,176.84	22.08%	4.59%
Excise duties	48,320.0	52,465.72	48,785.63	465.60	-3,680.08	0.96%	-7.01%
Other taxes on goods and services	11,652.2	12,177.86	13,669.21	2,017.05	1,491.35	17.31%	12.25%
Taxes on the use of goods, permission to use goods or to perform activities	9,900.8	12,346.82	10,609.42	708.60	-1,737.40	7.16%	-14.07%
Taxes on international trade (customs duties)	2,468.4	2,644.46	2,543.34	74.99	-101.12	3.04%	-3.82%
Other taxes and levies	1,943.4	2,070.06	2,077.96	134.56	7.90	6.92%	0.38%
Social insurance contributions	208,033.9	226,429.73	222,136.71	14,102.86	-4,293.02	6.78%	-1.90%
Non-tax revenue	53,811.6	52,341.20	51,461.77	-2,349.79	-879.44	-4.37%	-1.68%
Subsidies	0.0	0.00	0.00	0.00	0.00		
Additional revenue from digitalisation	0.0	0.00	0.00	0.00	0.00		
Capital revenue	1,615.5	1,432.21	1,331.81	-283.67	-100.40	-17.56%	-7.01%
Donations	13.7	2.49	2.48	-11.21	0.00	-81.87%	-0.16%
EU reimbursements for payments made and pre-financing	39,694.2	60,892.35	56,517.99	16,823.83	-4,374.37	42.38%	-7.18%
Financial operations	0.0	0.00	0.00	0.00	0.00		
Amounts received in the state budget single account / pending allocation	185.1	0.00	0.00	-185.09	0.00	-100.00%	
Other EU funds received for operational programmes	3,267.2	771.09	1,638.47	-1,628.77	867.38	-49.85%	112.49%

under the Convergence Objective							
EU/other donor reimbursements for payments made and pre-financing under the 2014-2020 financial framework	10,014.7	0.00	757.49	-9,257.20	757.49	-92.44%	
Grants allocated under the NRRP	22,931.4	37,085.81	35,636.35	12,704.96	-1,449.46	55.40%	-3.91%
TOTAL EXPENDITURE	**808,731.4**	**864,283.71**	**863,996.92**	**55,265.50**	**-286.79**	**6.83%**	**-0.03%**
Current expenditure	744,632.0	798,297.13	793,520.81	48,888.77	-4,776.32	6.57%	-0.60%
Personnel expenditure	167,715.9	168,263.64	164,259.02	-3,456.86	-4,004.61	-2.06%	-2.38%
Goods and services	100,634.4	105,359.38	107,779.82	7,145.43	2,420.44	7.10%	2.30%
Interest	50,498.2	60,799.59	64,482.50	13,984.26	3,682.91	27.69%	6.06%
Subsidies	12,553.9	14,286.09	13,141.43	587.49	-1,144.67	4.68%	-8.01%
Transfers – Total	411,525.7	447,150.19	441,559.22	30,033.52	-5,590.97	7.30%	-1.25%
Transfers between general government units	3,730.8	6,057.40	5,433.86	1,703.02	-623.54	45.65%	-10.29%
Other transfers	36,611.5	36,772.22	37,701.63	1,090.14	929.41	2.98%	2.53%
Projects financed by external grants	47,211.2	73,466.45	66,428.74	19,217.50	-7,037.71	40.71%	-9.58%
Social assistance	250,878.9	249,212.03	250,666.17	-212.69	1,454.13	-0.08%	0.58%
Projects financed by post-accession external grants for 2014-2020	14,311.4	1,240.31	1,934.37	-12,377.05	694.05	-86.48%	55.96%
Other expenditure	16,313.0	16,932.65	16,096.99	-216.02	-835.65	-1.32%	-4.94%
Projects financed by NRRP grants	28,748.5	47,017.35	43,522.74	14,774.20	-3,494.61	51.39%	-7.43%
Projects financed by the NRRP loan component	13,720.3	16,451.77	19,774.72	6,054.43	3,322.95	44.13%	20.20%
Reserve funds	0.0	100.00	288.70	288.70	188.70		188.70%
Expenditure on programmes financed by loans	1,703.9	2,338.24	2,010.13	306.23	-328.11	17.97%	-14.03%
Expenditure under the SAFE plan	0.0	0.00	6,370.14	6,370.14	6,370.14		
Capital expenditure	67,104.6	65,986.57	64,105.97	-2,998.62	-1,880.61	-4.47%	-2.85%
Financial operations	0.0	0.00	0.00	0.00	0.00		
Payments made in previous years and recovered in the current year	-3,005.2	0.00	0.00	3,005.22	0.00	-100.00%	
SURPLUS (+) / DEFICIT (-)	**-146,033.2**	**-127,751.70**	**-130,300.00**	**15,733.24**	**-2,548.30**	**-10.77%**	**1.99%**

Source: Ministry of Finance, Fiscal Council calculations

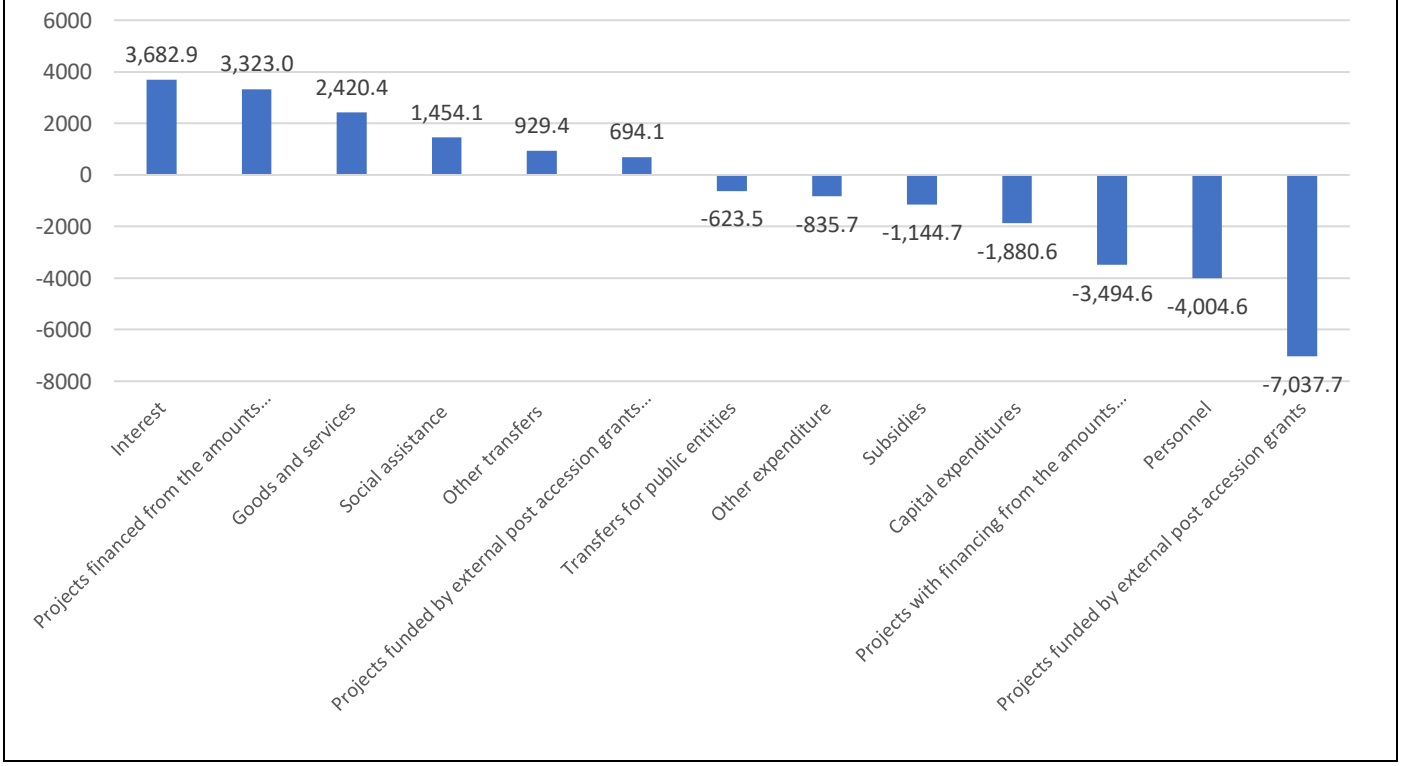
Annex II

Figure 1. Main changes in budget revenues compared to the initial programme (million lei)



Source: Ministry of Finance, Fiscal Council calculations

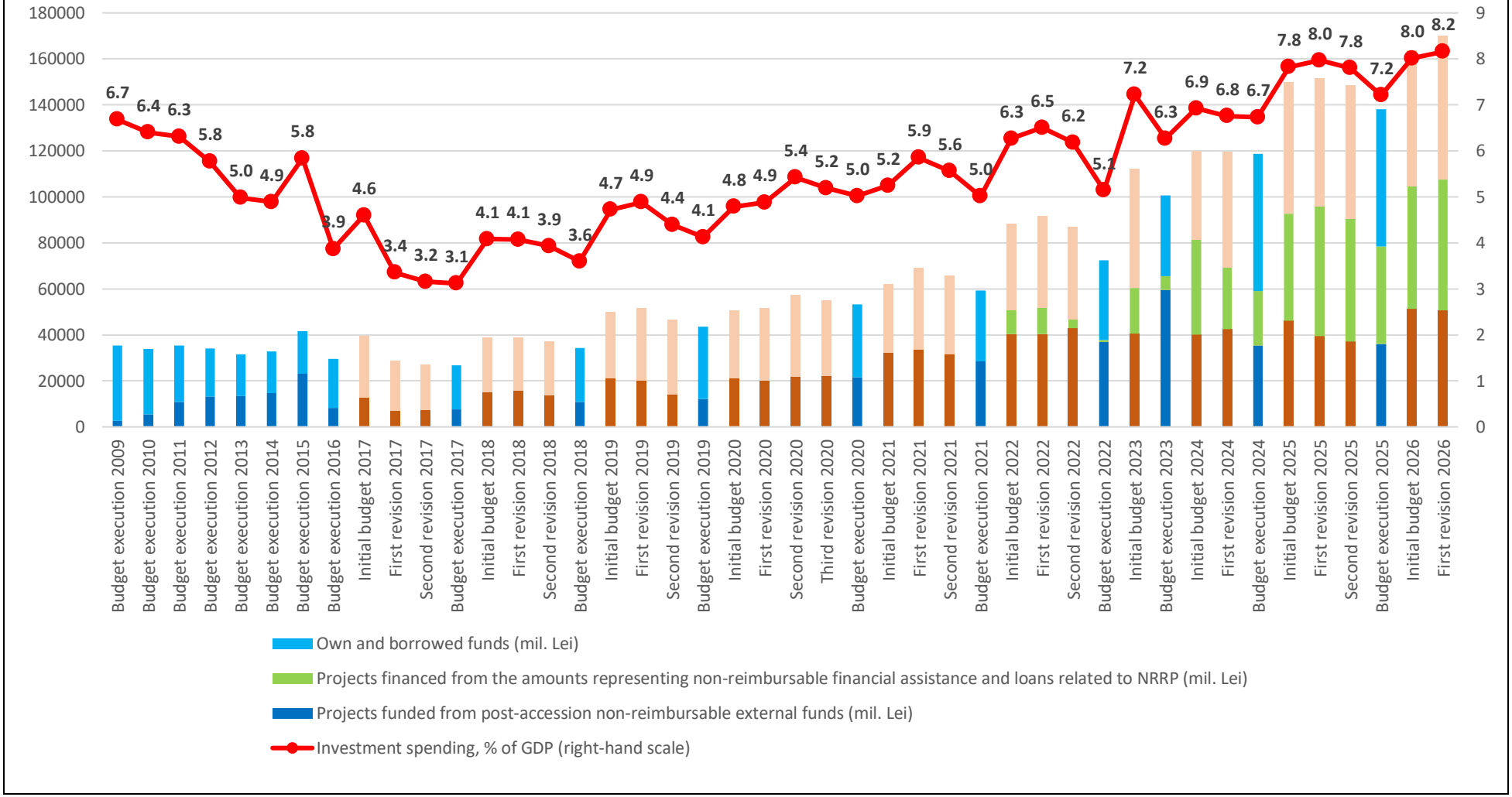
Figure 2. Main changes in budget expenditures compared to the initial programme (million lei)



Source: Ministry of Finance, Fiscal Council calculations

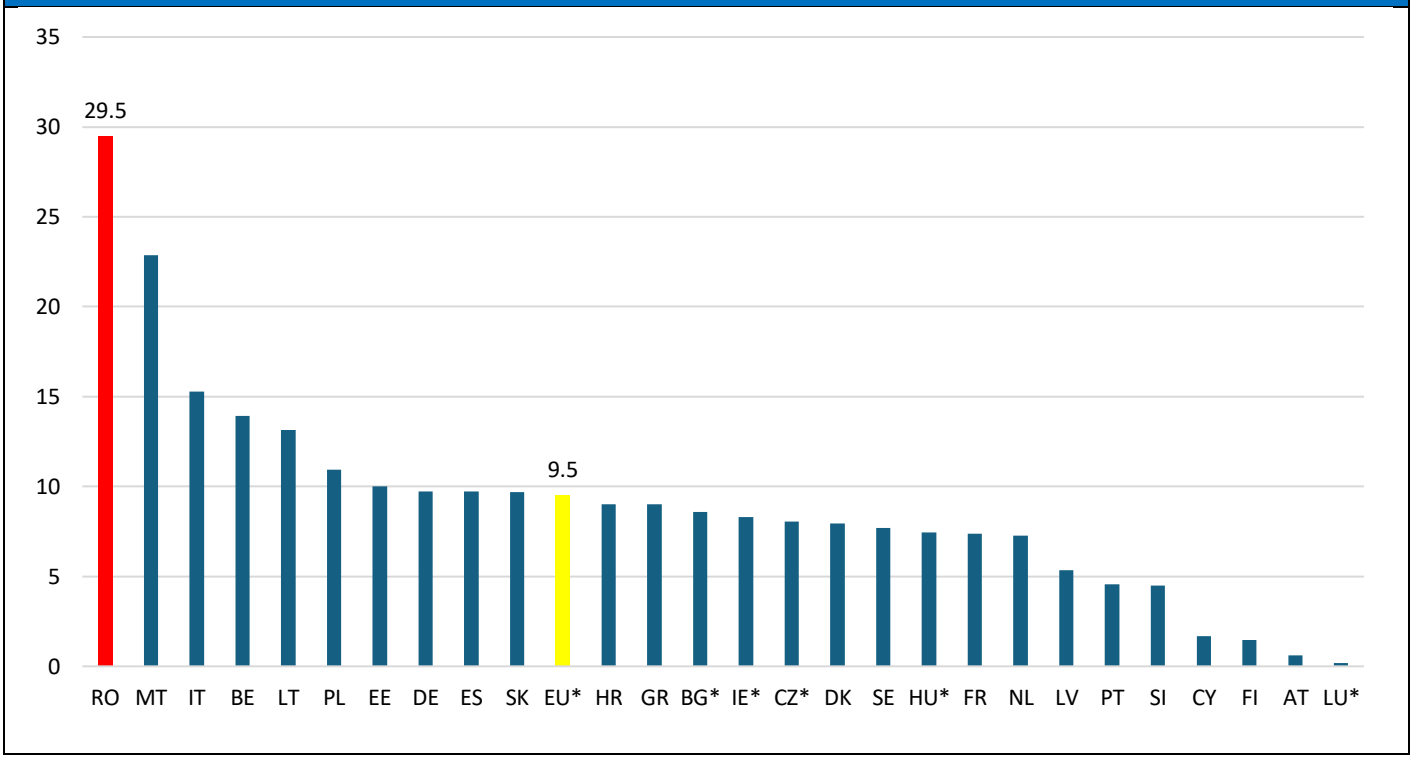
Annex III

Figure 3. Evolution of public investment expenditures in the 2009-2026 period - planned level vs. achievements (million lei)



Source: Ministry of Finance, Fiscal Council calculations

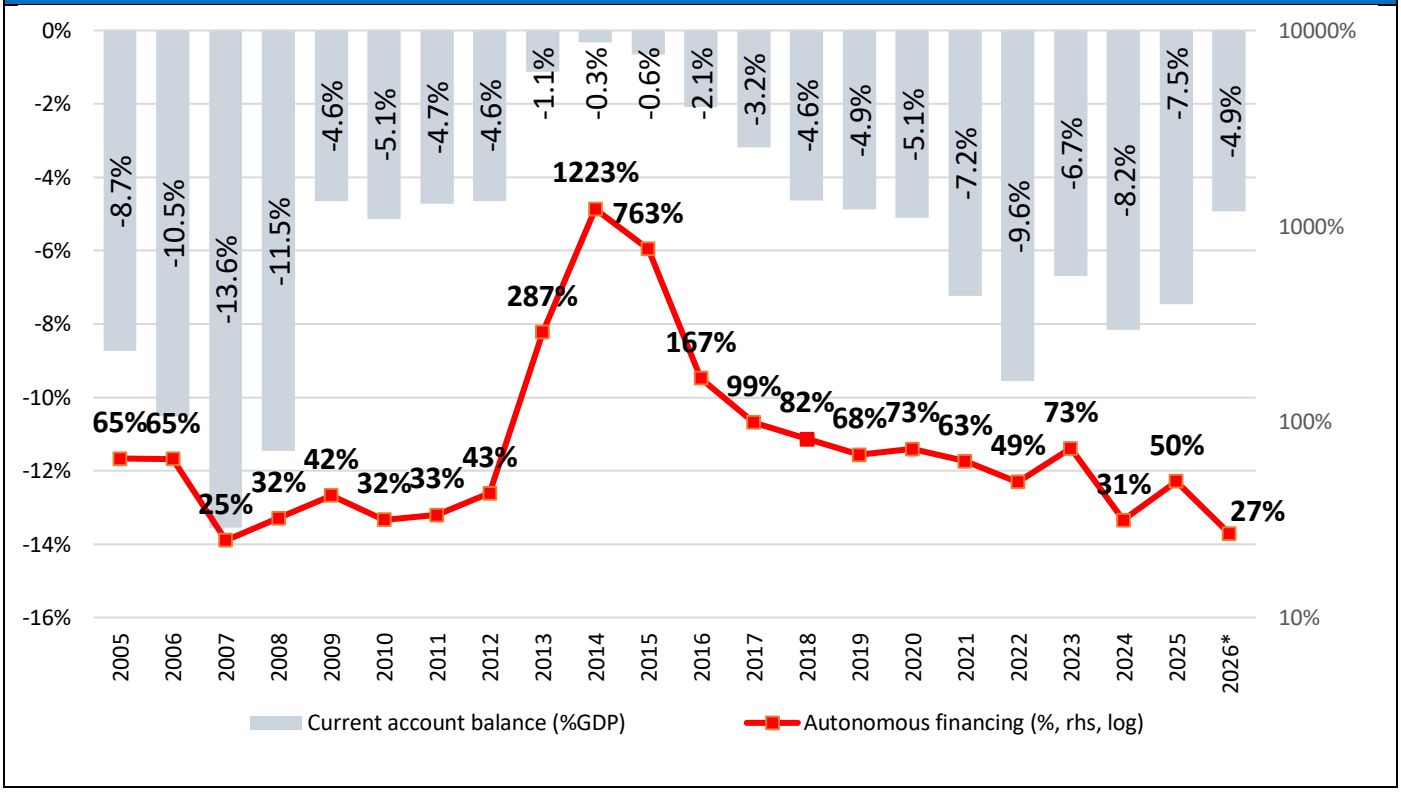
Figure 4. VAT compliance gap in the EU in 2024 (% of VTTL)



Source: DG TAXUD

Note: For countries marked with (*), 2024 data are unavailable, and the figure shows 2023 values.

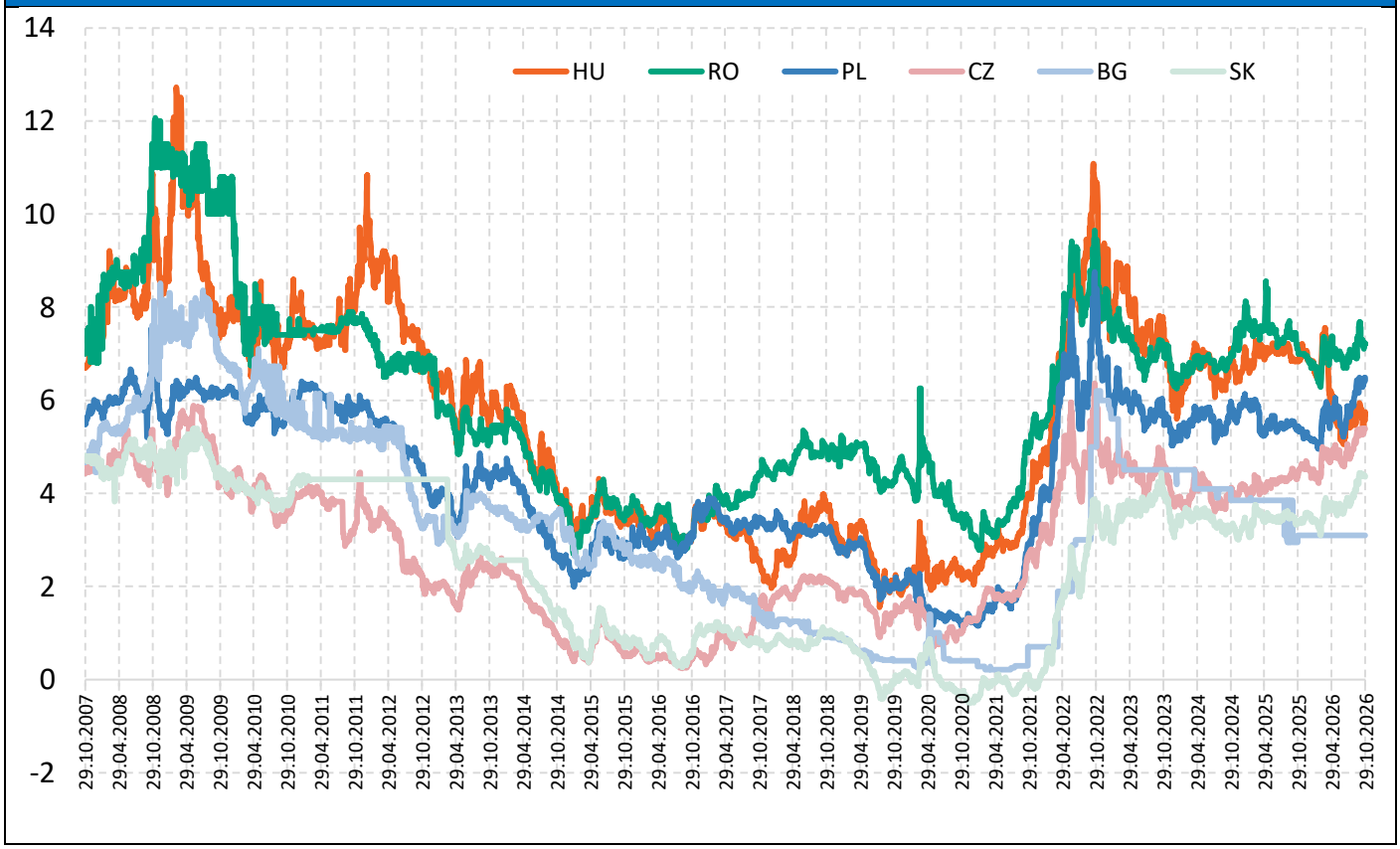
Figure 5. Current account balance and its autonomous financing



Source: National Bank of Romania, Eurostat, Fiscal Council calculations

Note: Data for 2026 cover January to August.

Figure 6. Trends in 10-year government bond yields in Romania and peer countries (%)



Source: Refinitiv Datastream