Romania

Fiscal Council

Annual Report

We badly need to repair the public finances

2025

Note:

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List of abbreviations

CEE	Central and Eastern Europe
CPI	Consumer Price Index
DESI	Digital Economy and Society Index
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EDP	Excessive Deficit Procedure
EMFF	European Maritime and Fisheries Fund
ESA 2010	European System of National and Regional Accounts 2010
ESA 95	European System of Accounts 1995
EU	European Union
FC	Fiscal Council
FRL	Fiscal Responsibility Law no. 69/2010
FS	Fiscal Strategy
GCB	General consolidated budget
GDP	Gross Domestic Product
GEO	Government Emergency Ordinance
HICP	Harmonized Index of Consumer Prices
IMF	International Monetary Fund
MIEP	Ministry of Investments and European Projects
MF	Ministry of Finance
MFF	Multiannual Financial Framework
MTO	Medium-term objective
NAFA	National Agency for Fiscal Administration
NBR	National Bank of Romania
NCFI	National Centre for Financial Information
NCSP	National Commission for Strategy and Prognosis
NIS	National Institute of Statistics
NREF	Non-reimbursable external funds
NRRP	National Recovery and Resilience Plan
OP	Operational Program
Pp	percentage points
RRF	Recovery and Resilience Facility
SGP	Stability and Growth Pact
SME	Small and Medium Enterprises
SSC	Social Security Contribution
TSCG	Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (The Fiscal Compact)
TUEF	Temporary unavailability of European funds
VAT	Value Added Tax
WB	World Bank

Table of contents

Introduction 9

I. Summary 12

II. Macroeconomic framework in 2025 23

III. Fiscal policy in 2025 32

III.1. Main features of the fiscal-budgetary policy in 2025 32

III.2. The assessment of objectives, targets and budgetary indicators 34

III.3. Budget revenues 47

III.3.1. VAT and excise duties 48

III.3.2. Direct taxes 50

III.3.3. Social security contributions 52

III.4. Budget expenditures 53

III.4.1. Personnel and social assistance expenditures 55

III.4.2. Goods and services expenditures 65

III.4.3. Public investment expenditures 66

III.4.4. The contingency reserve fund and the intervention fund at Government's disposal 72

III.4.5. Arrears of the general consolidated budget 77

III.5. Evaluation of public spending reviews 78

III.5.1. Evaluation of the public spending review in the environmental sector 78

III.5.2. Ex post evaluation of the implementation of measures in the education sector 82

III.5.3. Ex post evaluation of the implementation of measures in the health sector 85

III.6. Public debt 87

IV. Compliance of the national fiscal-budgetary framework with the new European Union economic governance rules 95

IV.1. Net primary expenditure trajectory 96

IV.2. Structural budget balance in Romania 101

IV.3. Public debt sustainability in Romania 104

V. Absorption of European funds from the MFF 2021-2027 and the NRRP 113

VI. Tax collection and budget expenditure structures – international comparisons 124

VI.1. Tax collection and budget expenditure structures – international comparisons 124

VI.2. Public expenditure – structure and sustainability 137

VII. 2026 – Macroeconomic and fiscal outlook.....143

VII.1. Macroeconomic framework.....143

VII.2. Fiscal framework.....158

Bibliography 163

Appendix – Glossary of terms.....172

List of tables

Table 1: Main macroeconomic indicators in 2025 (FS forecast versus actual outcomes).....31

Table 2: Nominal ceilings for GCB balance, total and personnel expenditure.....40

Table 3: The evolution of the main budgetary aggregates during 2025 (billion lei).....42

Table 4: The evolution of public revenues and expenditures (national methodology, % of GDP).....44

Table 5: The evolution of public revenues and expenditures (ESA 2010, % of GDP).....45

Table 6: Social security contributions (billion lei).....53

Table 7: Enforceable titles issued/paid on the account of the court decisions regarding the payment of salary differences for certain categories of public employees, million lei.....56

Table 8: Quarterly evolution of GCB outstanding payments (0-360 days) in 2025 (million lei).....77

Table 9: Summary of the ex post evaluation of the implementation of measures resulting from the public spending review in the education sector.....83

Table 10: Summary of the ex post evaluation of the implementation of measures resulting from the public spending review in the health sector.....86

Table 11: Initial and revised trajectories of net primary expenditure growth rates (%).....97

Table 12: Net primary expenditure trajectory and deviation from reference values.....98

Table 13: Situation of absorption of the structural and cohesion funds for the programming period 2021-2027 as of 30.06.2026 (million euro).....115

Table 14: Calendar of the European Commission payments to Romania, related to the NRRP, during 2021 -June 2026 period (including pre-financing).....119

Table 15: Effective absorption rate of NRRP funds as of 30.06.2026.....120

List of figures

Figure 1: The evolution of economic growth forecasts for 2025 24

Figure 2: Contributions to real GDP growth 24

Figure 3: GDP deflator decomposition 26

Figure 4: The evolution of real GDP, domestic demand and current account balance between 2005-2025 27

Figure 5: VAT revenues in 2025 (billion lei) 48

Figure 6: Excise duties in 2025 (billion lei) 49

Figure 7: Corporate income tax revenues in 2025 (billion lei) 50

Figure 8: Personal income tax revenues in 2025 (billion lei) 51

Figure 9: Social security contributions in 2025 (billion lei) 52

Figure 10: Quarterly evolution of GCB revenues in 2025 (billion lei) 54

Figure 11: Quarterly evolution of GCB expenditures in 2025 (billion lei) 54

Figure 12: Personnel expenditures in 2025 (billion lei) 55

Figure 13: Average gross earnings in the private and public sectors between 2007-2025 (lei/month) 57

Figure 14: The evolution of public sector employment between 2005-2025 58

Figure 15: Personnel expenditures as a share of total budget revenues in EU27 countries 59

Figure 16: Social assistance expenditure in 2025 (billion lei) 60

Figure 17: The evolution of revenues and expenditures from the social security budget (billion lei) 61

Figure 18: The evolution of the number of pensioners vs the number of employees (thousand persons) 63

Figure 19: The evolution of average pension (lei) between 2001-2025 63

Figure 20: Social assistance expenditures as a share of total budget revenues in EU27 countries 64

Figure 21: Goods and services in 2025 (billion lei) 65

Figure 22: Investment expenditures between 2009-2025 67

Figure 23: Capital expenditures in 2025 (billion lei) 68

Figure 24: Projects financed from post-accession NREF in 2025 (billion lei).....69

Figure 25: The evolution of expenditures with projects financed from the amounts representing non-reimbursable financial assistance and loans related to the NRRP in 2025 (billion lei) 69

Figure 26: Capital expenditures in 2025 and the 10-year average (% of GDP, ESA 2010).....70

Figure 27: Total allocations from the reserve fund at the Government's disposal (billion lei).....74

Figure 28: Number of Government decisions regarding contingency reserve funds allocations.. 75

Figure 29: The beneficiaries of the contingency reserve fund (% of total allocations) 76

Figure 30: Structure of public expenditure in Romania and the European Union in 2024 (% of GDP).....79

Figure 31: Structure of public environmental expenditure in Romania and the European Union in 2024 (% of GDP).....80

Figure 32: The yield curve for government bonds, issued in domestic currency between 2015 - 31 May 2026.....90

Figure 33: Contributions to changes in the public debt-to-GDP ratio for the 2009-2025 period 93

Figure 34: Primary balance in EU member states, in 2023 and 2024 (% of GDP, ESA 2010).....94

Figure 35: Structural deficit, fiscal impulse and excess demand 101

Figure 36: Projected public debt trajectory under the no-policy-change scenario (% of GDP).....105

Figure 37: Decomposition of the change in public debt under the no-policy-change scenario (% of GDP).....105

Figure 38: Projected public debt trajectory under the continued fiscal consolidation scenario (% of GDP).....107

Figure 39: Stress analysis of the public debt trajectory (% of GDP).....108

Figure 40: Budget revenues and tax revenues in 2025 (% of GDP, ESA 2010).....124

Figure 41: Structure of tax revenues in EU countries in 2025 (% of GDP, ESA 2010).....125

Figure 42: VAT revenues in 2025 compared to the previous year (% of GDP).....126

Figure 43: VAT gap (% of VTTL).....128

Figure 44: Social security contribution revenues in 2025 compared to the previous year (% of GDP).....129

Figure 45: Comparative chart of DESI indicators, Romania - EU (2025).....132

Figure 46: The Evolution of the Share of Spending on Personnel and Social Assistance in Total Budget Revenue in Romania, 2006-2025 (ESA 2010, %)……..138

Figure 47: The share of spending on wages and social assistance (including pensions) in total budget revenue in the EU27 and CEE 2006-2025 (ESA 2010, %) ……139

Figure 48: Social security budget balance (pensions, unemployment and health) and total budget balance 2006-2025 – ESA 2010 (% of GDP)……140

Figure 49: The share of public investment expenditure in GDP and in total budget revenue (2012-2025 average, ESA 2010)……141

Figure 50: Evolution of economic growth forecasts for Romania in 2026……150

List of boxes

Box 1: Methodological assumptions and data used in the DSA.....111

Box 2: Digital Economy and Society Indicators (DESI).....130

Box 3: Main indicators of the DESI Scoreboard, Romania versus the EU average, in 2025.....133

Introduction – We badly need to repair the public finances

The Fiscal Council's 2025 Report opens with an introduction that takes as its starting point the exceptional nature of both the domestic and international circumstances. Last year marked the beginning of a major fiscal adjustment. In May 2026, the Bolojan government fell following a vote of no confidence, triggering a prolonged political crisis. The domestic political situation is complicating the fiscal consolidation process against an increasingly unfavourable international backdrop.

For several years, Romania had been living well beyond its means as a result of misguided fiscal/budget policies, and it was only a matter of time before it had to face a very harsh reality: the imminence of a large-scale fiscal adjustment. It is worth recalling that, even before the pandemic year of 2020, Romania was the only EU country subject to the excessive deficit procedure. In 2020, the budget deficit exceeded 9% of GDP, admittedly also as a consequence of the partial shutdown of the economy. The Romanian economy has also been displaying an acute twin-deficit syndrome – a large budget deficit coupled with a large current account deficit, more than 55% of which is financed through borrowing. This situation pushed public debt above 60% of GDP in 2026, compared with 35% of GDP in 2019, with approximately half of the debt being external.

Fitch and Moody's have maintained Romania's sovereign credit rating recently, in view of the remarkable budget deficit correction achieved over the past two years. The budget deficit, which reached 9.3% of GDP in 2024, declined to 7.9% of GDP (ESA methodology) in 2025 and is projected to stand at around 6% of GDP in 2026. Budget execution over the first seven months of the year, showing a deficit of 2.34% of GDP – around 1.7 pp of GDP lower than in the corresponding period of 2025 – indicates that fiscal adjustment is continuing firmly. The reduction in the budget deficit was achieved through a freeze on public-sector wages and pensions (reducing their share in GDP) and increases in certain taxes, primarily VAT and excise duties. This combination of measures was unavoidable, as other means of rapid adjustment which were aired in public debate – drastic expenditure cuts or a massive and rapid increase in tax revenues – were not realistic. This is also what the Fiscal Council has argued in its analyses. Both rating agencies, however, pointed to political instability/fragility as a factor that could jeopardise Romania's sovereign rating, since their assessments also take into account the outlook for the budget consolidation process.

The budget deficit adjustment entails an economic and social cost that cannot be avoided. In an increasingly unforgiving world, there are no free gifts, and even assistance comes at a price that can become overburdening. A budget deficit adjustment of more than 3 pp of GDP over 2025-2026 could not have taken place without someone bearing the effects of the measures; these effects concern both citizens' purchasing power and the business environment. It is worth noting that economic growth in 2024 was only 0.9%, despite public investment amounting to almost 7% of GDP (capital expenditure and European funds). In 2025, economic growth was only 0.7%, which is hardly surprising given the scale of the budget deficit adjustment.

In 2026, even if not all the funds available under the NRRP are absorbed (as is also the case with the unitary pay law), European funds will provide substantial support to the economy at a time when the impact of fiscal adjustment is severe; this year, Romania may experience a mild recession.

The break-up of the governing coalition in May this year threw the political landscape into turmoil and raised questions about the institutional capacity to continue the budget consolidation process and implement necessary reforms – including the reform of the unitary public-sector pay system.

Political instability can be seen in other EU countries too, but Romania alone faces such a severe combination of internal and external imbalances, a very low level of tax revenues (including social security contributions) and, not least, a relatively low credibility in economic policy. As Romania is not a member of the Euro Area, it is also exposed to exchange-rate risk. Romania's major advantage, however, is that it belongs to the EU and benefits from substantial European funds, as well as from support should it find itself in serious difficulty (as happened in the aftermath of the global financial crisis). But such support is subject to strict conditionality.

The unitary public-sector pay law has strained political dialogue and reached an impasse, hopefully only a temporary one. The loss of 770 million euros represents a cost to the budget, but cannot, in itself, cause fiscal slippage. Romania urgently needs the reform of the unitary public-sector pay system, as it would correct inequities and ensure predictability in the evolution of public-sector wages, preventing the kind of sharp increases that put public finances at risk. It is regrettable that this legislation was not discussed in due time. In the months ahead, efforts should be made to reach a consensus on this reform, so that it can be incorporated into the 2027 draft budget, while taking into account the constraints arising from the need to continue budget deficit correction. The reform of the unitary public-sector pay system must not be abandoned; it would support Romania's sovereign rating and strengthen the credibility of economic policy.

For 2027, projected public expenditure on wages and pensions should not grow faster than nominal GDP, and any indexation should be prudent. In 2027, economic growth could be around 2%, while inflation could fall below 4% by the end of the year, provided that no further major shocks occur.

The revision of the 2026 budget and the preparation of the 2027 budget require the formation of a fully empowered government as soon as possible. Both the domestic and international circumstances call for such a government.

In 2027, budget consolidation must continue, with the aim of bringing its deficit down to around 5.5% of GDP. This will not be easy, but it can happen, especially if tax revenue collection improves substantially. An inadequate tax regime, permissive legislation, and vested interests seeking to preserve privileges have fostered a culture of impunity, fraud against the public budget, and resistance to reforms. There has also been a systematic neglect of the need to raise tax revenues; in Romania, these revenues (including social security contributions) amounted to around 29% of GDP in 2025, compared with an EU average of over 40% of GDP.

The development of defence capabilities in Europe, including Romania, will place increasing pressure on public budgets. The devastating consequences of climate change must also be taken into account, as they erode national wealth and alter economic flows and resource allocation. Geopolitics and geo-economics increasingly dominate international relations. The technological race driven by AI (artificial intelligence) is generating an enormous appetite for energy and resources, which will tighten financial conditions internationally; a global crowding-out effect is likely to emerge. There is also a trend towards deregulation of the financial industry which, together with the rapid development of AI, may amplify systemic risks. Domestic financial markets will also be affected by these developments, further complicating the budget consolidation process and the objective of bringing its deficit down to 3% of GDP by around 2030.

Romania must achieve a primary budget surplus that should enable public debt to stabilise. Without low and readily financeable deficits, there can be no serious discussion of joining the Euro Area.

The increasingly adverse international environment, the war between Russia and Ukraine, the war in the Middle East, hybrid attacks (including those targeting Romania), trade conflicts, and the erosion of rules governing relations among states call for greater responsibility at home and require public governance to operate in a state of permanent crisis management.

We must tap the efficiency reserves that exist in the public sector, make the best possible use of European funds (the NRRP comes to an end this year), take full advantage of the SAFE programme, effectively combat tax evasion and aggressive tax optimisation, as well as corruption, and carry out necessary reforms in the public sector. We must also make intelligent use of our energy resources and raw materials. If we will advance in these areas, we will facilitate a further reduction in the budget deficit (and the current account deficit), the stabilisation of public debt, a more competitive economy, and a greater capacity to absorb adverse shocks.

Repairing the public budget is like a battle for heavy water!

Professor Daniel DĂIANU, Fellow of the Romanian Academy

I. Summary

The Fiscal Council (FC) is an independent authority, established by the Fiscal Responsibility Law no. 69/2010 (FRL), which supports the Government and the Parliament in designing and implementing fiscal-budgetary policies and promotes the transparency and sustainability of public finances. According to the FRL, the FC has among its prerogatives to elaborate an Annual Report that analyses the conduct of fiscal budgetary policy during the previous year, against the framework set out in the Fiscal Strategy (FS) and the annual budget.

In Romania, real economic growth stood at 0.7% in 2025, driven mainly by gross fixed capital formation. Changes in inventories and household consumption also made positive contributions to economic growth, while government consumption and net exports exerted a contractionary impact.

In 2025, economic growth remained modest, with real GDP increasing by 0.7%. The main driver of economic growth was gross fixed capital formation (+0.9 pp), complemented by positive contributions from changes in inventories (+0.5 pp) and household consumption (+0.3 pp). These effects were partly offset by the negative contributions of government consumption (-0.5 pp) and net exports (-0.5 pp). On the supply side, construction (+0.5 pp) was the main driver of growth, followed by information and communication (+0.3 pp) and agriculture (+0.2 pp), while industry made a virtually neutral contribution and professional activities and support services (-0.3 pp) contributed negatively. Externally, geopolitical tensions intensified, while domestically, political uncertainties in the first part of the year and fiscal consolidation measures in the second half influenced macroeconomic developments.

In the first half of 2025, the inflation rate fluctuated around 5%. Starting in July 2025, the removal of the cap on electricity prices, together with increases in VAT and excise duties, led to a significant acceleration in inflation, which reached 9.7% at the end of the year. The current account deficit declined by 0.3 pp compared with 2024, reaching 7.9% of GDP.

In 2025, the annual inflation rate followed two distinct phases. In the first half of the year, it fluctuated around 5%. Starting in July 2025, the removal of the cap on electricity prices, together with increases in VAT and excise duties, led to a significant acceleration in inflation, which reached 9.7% in December 2025. The current account deficit stood at 7.9% of GDP at the end of 2025, 0.3 pp lower than in the previous year. The coverage of the current account deficit by non-debt-creating flows improved to 42.8% in 2025, from 31.4% in 2024. The average current account deficit recorded over the past three years was 7.6% of GDP, well above the 4% alert threshold established by the European scoreboard, highlighting a persistent external imbalance and a high degree of vulnerability to shocks.

In 2025, the average number of employees increased by 0.3%

In December 2025, credit to the private sector declined by 3.2% in real terms compared with the same period of the previous year,

compared with the previous year, while the ILO unemployment rate rose to 6.1%. Compared with 2024, average net earnings recorded a nominal increase of 6.1%, while real earnings declined by 1.1%.

against the backdrop of a more pronounced contraction in the leu-denominated lending segment. In 2025, labour market data showed a slight increase in the average number of employees, to 5.468 million (+0.3% compared with the previous year), while the ILO unemployment rate rose to 6.1%. Average net earnings amounted to 5,264 lei (+6.1% compared with 2024), while real earnings declined by 1.1%.

The 2025 budget execution resulted in a cash-based budget deficit of 7.62% of GDP, significantly below the 8.4% of GDP projected in both budget revisions. According to the ESA methodology, the budget deficit stood at 7.9% of GDP in 2025, representing an adjustment of 1.4 pp compared with the previous year. The reduction in the budget deficit was an encouraging signal for the continuation of fiscal consolidation in the years ahead; however, rigorous budget planning and compliance with fiscal rules are essential prerequisites for the success of this process.

The initial budget set a cash deficit target of 7.04% of GDP for 2025, representing a reduction of 1.6 pp of GDP compared with the level recorded in 2024. According to the Ministry of Finance, the deficit target in ESA terms was similar to that established under the cash methodology. The main macroeconomic assumptions underpinning the initial 2025 budget envisaged real GDP growth of 2.5%, a GDP deflator of 5.8%, and an average annual inflation rate of 4.4%. The initial 2025 budget was built on unrealistic assumptions. It should be noted, however, that pensions and public sector wages were frozen in 2025.

Budget execution deviated significantly from the trajectory set out in the initial budget, with the deficit reaching 3.7% of GDP at the end of June 2025. Given both the risk of a sovereign rating downgrade and the unfavourable international environment, correcting the budgetary imbalance had become an absolute priority. Against this background, Law No. 141/2025 on certain fiscal measures was adopted in July, comprising a package of measures aimed at both increasing budget revenues and reducing budget expenditures, with a cumulative impact estimated by the Ministry of Finance at 0.6% of GDP in 2025 and 3.35% of GDP in 2026, respectively. The increase in taxes and duties was necessary, given the urgency of achieving a visible reduction in the deficit in 2025, the impossibility of relying solely on expenditure cuts for the fiscal adjustment, and the inability to achieve a substantial and rapid improvement in tax revenue collection (including by reducing the VAT gap).

The first budget revision envisaged, compared with the initial budget, an increase in budget revenues of approximately 6.7 billion lei and an increase in budget expenditures of around 31.8 billion lei. As a percentage of GDP, the cash deficit was estimated at 8.4%, 1.36 pp above the target set in the initial budget, a level that should be assessed against the larger deficit (around 9% of GDP) that

would have materialised in the absence of adjustment measures. The second budget revision made only marginal changes to the projections of the previous revision, leaving the budget deficit target unchanged. The main adjustments concerned revenue and expenditure categories related to projects financed from European funds, as well as capital expenditure.

The budget execution at the end of 2025 recorded a cash-based budget deficit of 7.62% of GDP, significantly below the 8.4% of GDP projected in both budget revisions. This outcome was driven by the shortfall relative to the targets set for EU funds, with a larger favourable impact on expenditures, as well as by savings on interest payments, subsidies, personnel expenditures and social assistance, and by tax and non-tax revenues slightly exceeding the projected levels. In the opposite direction, capital expenditures and expenditures on goods and services exceeded the programmed levels.

According to the ESA methodology, the budget deficit stood at 7.9% of GDP in 2025, representing an adjustment of 1.4 pp from the 9.3% of GDP recorded in 2024. The adjustment was driven primarily by lower intermediate consumption, compensation of employees and subsidies, while expenditures on interest and social benefits increased compared with the previous year. Higher revenues from direct taxes and VAT also had a favourable impact, slightly offset by lower revenues from excise duties and customs duties.

The reduction in the budget deficit in the second half of 2025 was an encouraging signal for the continuation of the fiscal consolidation path in the years ahead. In this regard, rigorous budget planning and compliance with fiscal rules are essential prerequisites for the success of the consolidation process and send a clear signal regarding the credibility of budget projections.

In 2025, the budget revenues and tax revenues as a share of GDP increased compared with the previous year. Nevertheless, their levels remain very low, with Romania continuing to rank among the lowest in the EU.

In 2025, according to the ESA 2010 methodology, Romania recorded total budget revenues of 35.4% of GDP, up by 1.4 pp from the level recorded in the previous year. Over the same period, tax revenues (including social security contributions) increased from 28.7% to 29.2% of GDP. Despite these developments, Romania continues to rank among the lowest EU member states, standing 11 pp below the EU27 average (46.4% of GDP) in terms of budget revenues and 11.2 pp below the EU27 average (40.4% of GDP) in terms of tax revenues. At the same time, Romania recorded a share

of tax revenues in GDP significantly below that of other countries with similar economies, such as Poland (37.6%), Hungary (35.4%) and Czechia (35.2%).

Romania's position among the lowest-ranking EU27 countries in terms of budget and tax revenues as a share of GDP reflects repeated flaws in the design of the tax system, an insufficiently modernised tax administration, as well as legislation and law enforcement practices that have fostered a culture of impunity, facilitating fraud against the public budget. These factors have resulted in poor collection of public revenues. Given the pressing need to continue the fiscal consolidation process, improving revenue collection through investment in the digitalisation of tax administration is essential to keeping the budget deficit on a downward trajectory in the years ahead.

Romania's position among the lowest-ranking EU27 countries in terms of budget and tax revenues as a share of GDP reflects repeated flaws in the design of the tax system, with the need to increase tax revenues having been overlooked, as well as an insufficiently modernised tax administration, characterised by slow and partial reforms. At the same time, legislation and its enforcement have fostered a culture of impunity that has enabled fraud against the public budget. These factors have resulted in public revenues collection well below the EU average. Given the pressing need to continue the fiscal consolidation process, improving revenues collection through investment in the digitalisation of tax administration is essential to keeping the budget deficit on a downward trajectory in the years ahead.

It should be emphasised that the pension reform and the reform of public sector wages (included in the NRRP) have complicated the fiscal consolidation effort. It should also be noted that budget execution in the first seven months of 2026 (with a budget deficit of 2.34% of GDP) indicates that the fiscal consolidation process is continuing and that the cash deficit target of 6.25% of GDP is achievable.

From the perspective of the Digital Economy and Society Index, Romania continued to make progress but remained below the European average for most indicators, being characterised by a contrast between its relatively well-developed digital infrastructure and the comparatively low level of digitalisation of the economy, public administration and the population's digital skills. Thus, although connectivity infrastructure and the digitalisation of public services have advanced, persistent gaps in digital skills, business digitalisation, the interoperability of public services and the effective use of electronic platforms limit the impact of these investments on the efficiency of tax administration and public revenue collection.

Starting in 2016, discretionary increases in permanent expenditures led to an increasingly rigid structure of budget

Starting in 2016, discretionary increases in permanent expenditures led to an increasingly rigid structure of budget expenditures, with personnel and social assistance expenditures accounting for a predominant share. In 2025, their share in total

expenditures. In 2025, the share of personnel and social assistance expenditures in total budget revenues decreased by 4.2 pp compared with the previous year, reaching 68.8%. Nevertheless, the pressure on the budget deficit remains high, given Romania's low level of budget revenues relative to the European average.

budget revenues declined by 4.2 pp compared with the previous year, against the backdrop of the freeze on public sector wages and pensions, reaching 68.8%, below the EU27 average of 69.5%. A breakdown by component shows that the share of personnel expenditures in total budget revenues fell to 29.7% in 2025 (-3.2 pp compared with 2024), while the share of social assistance expenditures declined to 39.1% (-1 pp compared with 2024). Nevertheless, the pressure exerted by personnel and social assistance expenditures on the budget deficit remains high, given Romania's low level of budget revenues relative to the European average.

Strict control over the dynamics of personnel and social assistance expenditures is essential for the success of the fiscal consolidation process, helping to maintain the credibility of fiscal policy and preserve investor confidence. Anchoring these expenditures to transparent and predictable rules, linked to developments in economic activity and purchasing power, is necessary to ensure the sustainability of public finances.

The deficit of the social insurance budgets (pensions, unemployment and healthcare) increased slightly in 2025, with population ageing representing the main structural risk over the medium and long term.

Although the budget deficit, calculated according to the European methodology, decreased by 1.4 pp of GDP in 2025 compared with the previous year, the deficit of the social insurance budgets increased by 0.3 pp of GDP. This divergent trend led to an increase in the share of the social insurance budget deficit in the overall budget deficit, to 27.8%, with population ageing representing the main structural risk over the medium and long term. Against this background, increasing labour market participation, broadening the contribution base, and gradually adjusting the retirement age in line with life expectancy could help reduce pressure on the budget deficit.

Investment expenditures reached 7.2% of GDP in 2025, the highest level recorded over the 2009-2025 period. Prioritising investment can help secure a long-term competitive advantage, reduce development gaps, and enhance the competitiveness of the Romanian economy.

In 2025, investment expenditures accounted for 7.2% of GDP, 0.4 pp above the level recorded in 2024. In nominal terms, it increased by 18.8 billion lei compared with the previous year, driven by projects financed through grants and loans under the NRRP (+18.9 billion lei). Thus, the investment recovery observed in recent years continued in 2025, with public investment expenditures reaching its highest share of GDP over the 2009-2025 period.

After two decades of rapid convergence towards advanced economies, based on a growth model driven primarily by consumption and low labour costs, investment should become the

main engine of sustainable economic growth in the period ahead. Romania's capacity to make effective use of EU funds and implement the reforms it has committed to will be crucial for sustaining the pace of development. In this regard, prioritising high-impact investments can help secure a long-term competitive advantage, reduce development gaps, and enhance the competitiveness of the Romanian economy.

Regarding non-repayable structural and cohesion funds under the 2021-2027 MFF, at the end of June 2026, the effective absorption rate (excluding advances) stood at 28.1% for National Programmes and 24.6% for National and Regional Programmes combined. For the NRRP as a whole, at the end of June 2026, the effective absorption rate (excluding pre-financing) stood at 55.4%, with an absorption rate of 64.6% for the grant component and 36.4% for the loan component.

For the 2021-2027 period, Romania benefits from allocations of nearly 75 billion euros from the EU budget, the vast majority of which are provided under the 2021-2027 MFF and the NRRP. Regarding non-repayable structural and cohesion funds under the 2021-2027 MFF, at the end of June 2026, the effective absorption rate (excluding advances) stood at 28.1% for National Programmes and 24.6% for National and Regional Programmes combined.

For the NRRP as a whole, at the end of June 2026, the effective absorption rate (excluding pre-financing) stood at 55.4%, with the rate reaching 64.6% for the grant component and 36.4% for the loan component. It should be noted that the exact amount of reimbursements to Romania will only be known at the end of this year, depending on the European Commission's assessment of the fulfilment of the milestones and targets associated with Payment Requests No. 5 and No. 6. This will allow the effective absorption rates of NRRP funds to be calculated for both the grant and loan components.

While in 2023 and 2024 the Government, through a series of derogations from fiscal rules, allowed the contingency reserve fund to be used to finance current and capital expenditures of main authorising officers, this harmful practice was discontinued in 2025. During the year, 8.8 billion lei were allocated from the contingency reserve fund, accounting for approximately 1.1% of total budget expenditures, significantly down from 8.8% in 2024.

While in 2023 and 2024 the Government, through a series of derogations from fiscal rules, allowed the contingency reserve fund to be used to finance current and capital expenditures of main authorising officers, this harmful practice was discontinued in 2025. During the year, 8.8 billion lei were allocated from the contingency reserve fund (8 billion lei at central government level and 0.8 billion lei at local government level), while the amounts used from the contingency reserve fund accounted for approximately 1.1% of total budget expenditures, significantly down from 8.8% in 2024. The number of Government Decisions authorising allocations from the contingency reserve fund also declined, from a peak of 171 in 2024 to 30 in 2025.

The Fiscal Council welcomes the return to a reasonable use of the contingency reserve fund, but reiterates its recommendations regarding the explicit identification of the categories of

expenditures that may be financed from the contingency reserve fund and enhanced transparency through periodic reporting to Parliament on the manner and extent of its use.

The Public Expenditure Review Report in the environmental sector, published in 2025, operationalises the link between strategic planning, programme budgeting and performance evaluation, but does not fulfil the specific function of a spending review, namely to identify measurable savings or reallocations that can be incorporated into the budgetary process.

In 2025, the Public Expenditure Review Report in the environmental sector, covering the 2019-2022 period, was published. The report was completed later than the deadline set out in the Public Expenditure Review Strategy for 2024-2030, while the time lag between the period under review (2019-2022) and the publication date limits the relevance of its conclusions for the current structure of expenditures. The report operationalises the link between strategic planning, programme budgeting and performance evaluation and sets out measures with designated responsible entities and implementation timelines. However, the monitoring indicators are predominantly output- and process-oriented, such as the preparation of plans, amendment of procedures, submission of reports and development of IT systems. Thus, from a budgetary perspective, the report does not fulfil the specific function of a spending review, namely to identify measurable savings or reallocations that can be incorporated into the budgetary process.

Ex post monitoring of the implementation status of public expenditure efficiency measures in the education and healthcare sectors shows that legislative and procedural measures have achieved a higher degree of implementation, while complex institutional and organisational reforms have progressed slowly or have been postponed. Assessing their contribution to fiscal consolidation remains constrained by incomplete reporting and the absence of quantifiable financial targets.

In 2026, the first reports monitoring the implementation status of public expenditure efficiency measures in the education and healthcare sectors for 2024 were completed. The monitoring shows that, in both sectors, legislative and procedural measures achieved a higher degree of implementation, while complex institutional and organisational reforms progressed slowly or were postponed. Assessing their contribution to fiscal consolidation remains constrained by incomplete reporting and the absence of quantifiable financial targets. Strengthening the role of spending reviews requires financial targets to be established from the mandate-setting stage, budgetary and outcome indicators to be associated with the measures, and complete reporting by all authorising officers involved.

For Romania, the latest European Commission data and projections indicate compliance with the reference trajectory for net primary expenditure, with the actual growth rate of the indicator

The new EU economic governance framework seeks to ensure compliance with fiscal rules through a single operational indicator – net primary expenditure. For Romania, the latest data and projections of the European Commission indicate compliance with the reference trajectory for net primary expenditure established by the Council of the EU recommendation of July 2025, with the actual

in 2025 and the rate projected for 2026 remaining below the ceilings recommended by the Council of the EU.

growth rate of the indicator in 2025 and the rate projected for 2026 remaining below the recommended ceilings.

The debt sustainability analysis shows that the measures adopted so far mitigate the explosive dynamics of public debt but are insufficient to stabilise it. In the absence of additional measures, under a no-policy-change scenario, public debt would exceed 80% of GDP by 2034. Continued fiscal consolidation is essential to place public debt on a sustainable downward trajectory.

The debt sustainability analysis shows that the measures adopted so far mitigate the explosive dynamics of public debt but are insufficient to stabilise it. In the absence of additional measures, under a no-policy-change scenario, public debt would exceed 80% of GDP by 2034. By contrast, continuing the fiscal consolidation process and achieving a structural primary surplus of around 2.1% of potential GDP by 2030 would place public debt back on a sustainable downward trajectory and bring the deficit below 3% of GDP. Under this scenario, depending on the pace of budget deficit adjustment, the public debt-to-GDP ratio would peak at around 62-65% in 2027-2028 and decline thereafter. Adverse developments in the r - g differential, political uncertainty, rising defence expenditure, demographic pressures (compounded by the low labour market participation rate), climate change, and the potential crowding-out effect associated with the development of artificial intelligence could adversely affect the public debt trajectory over the short and medium term.

Continued fiscal consolidation is essential for stabilising public debt, but it requires a substantial adjustment of the structural primary balance over the 2027-2030 period, following two consecutive years in which social assistance and personnel expenditures were frozen and measures were adopted to increase tax revenues. Against this background, improving tax revenue collection would provide fundamental support for the fiscal consolidation process.

The European Commission forecasts economic growth of 0.1% for Romania in 2026, lower than the IMF projection of 0.7%. The NBR forecasts a CPI inflation rate of 6.1% at the end of 2026, followed by a downward trajectory thereafter.

In its latest forecast – the Spring Forecast – the European Commission expects Romania's real GDP to grow by 0.1% in 2026, a lower rate than the 0.7% projected by the IMF in April 2026. A mild recession in 2026 cannot be ruled out, given the scale of fiscal consolidation and the unfavourable international environment. In 2027, economic growth is likely to recover, with only a small difference between the institutions' projections: the IMF forecasts growth of 2.5%, while the European Commission projects 2.3%. Gross fixed capital formation is expected to be the main driver of GDP growth over the next two years, joined by private consumption

from 2027 onwards, as real disposable income recovers amid easing inflation. EU funds under the 2021-2027 MFF are expected to support aggregate demand and provide financing for the external deficit. Net exports are projected to make a slightly positive contribution to economic growth, against the backdrop of weaker domestic demand, thereby helping to mitigate the external imbalance. According to the Inflation Report published by the NBR in August 2026, the annual CPI inflation rate is projected to reach 6.1% at the end of 2026 and to follow a downward trajectory thereafter, declining to 3.4% at the end of 2027 and 2.8% in June 2028, the end of the projection horizon.

In its opinion on the draft 2026 budget and the medium-term fiscal strategy, the Fiscal Council assessed, based on the information available at the time, that the nominal GDP growth projected by the National Commission for Strategy and Prognosis (NCSP) for the 2026-2028 period had a high degree of plausibility. However, the assessment of this baseline scenario for the Romanian economy could not have taken into account the materialisation of shocks affecting commodity and financial markets.

The NCSP forecast for the economic growth rate in 2026, which underpins the budget deficit estimates, was 1%. In its opinion on the draft 2026 budget and the medium-term fiscal strategy, the Fiscal Council considered that the macroeconomic variables could be revised to less favourable levels, particularly if commodity prices continued to rise and risk sentiment deteriorated against the backdrop of the war in the Middle East. Regarding the NCSP macroeconomic forecast for the 2026-2028 period, and considering real growth together with developments in GDP deflators, the Fiscal Council assessed, based on the information available at the time, that the projected nominal GDP dynamics had a high degree of plausibility. However, the assessment of this baseline scenario for the Romanian economy could not have taken into account the materialisation of shocks (of unknown magnitude and persistence) affecting commodity markets (particularly energy markets) and financial markets. A much sharper and more persistent increase in prices on these markets, potentially accompanied by a significant rise in risk premia in financial markets and, consequently, in interest rates, would result in a different and less favourable macroeconomic outlook.

The initial 2026 budget envisages a deficit target of 6.25% of GDP, according to the national methodology. Based on a prudent approach to revenue and expenditure forecasting, the Fiscal Council assessed the 2026 budget framework as consistent with a cash deficit of around 6.25% of

The initial 2026 budget envisages a cash deficit target of 6.25% of GDP, representing a reduction of around 1.4 pp of GDP compared with the level recorded in the previous year. In ESA 2010 terms, the deficit target is 6% of GDP. The reduction in the cash deficit is planned to be achieved through an increase in budget revenues of 1.3 pp of GDP and a decrease in budget expenditure of 0.1 pp of GDP. However, excluding the impact of EU fund aggregates, the other revenue categories are projected to increase by 0.46 pp of GDP, while the remaining expenditure categories are projected to

GDP, without taking into account the potential severe effects of the war in the Middle East and any measures that might be adopted in response.

decline by 1.44 pp of GDP. Thus, the fiscal adjustment in 2026 is planned to take place predominantly on the expenditure side.

Based on a prudent approach to revenue and expenditure forecasting, the Fiscal Council assessed the 2026 budget framework as consistent with a cash deficit of around 6.25% of GDP, without taking into account the potential severe effects of the war in the Middle East and any measures that might be adopted in response.

For the 2027-2029 period, in the absence of support for the fiscal consolidation process on the revenue side as well, an adjustment based predominantly on expenditure cuts raises concerns, with the balance of risks tilted towards the possibility of larger deficits than projected.

According to the fiscal framework for the 2027-2029 period, the reduction in the budget deficit over the medium term is planned to be achieved predominantly on the expenditure side, with tax revenues projected to increase by only 0.5 pp of GDP. In the absence of support for the fiscal consolidation process on the revenue side as well, an adjustment based predominantly on expenditure cuts raises concerns, with the balance of risks tilted towards the possibility of larger deficits than projected. Adherence to the budget deficit reduction path must be supported by higher tax revenues (including social security contributions), as Romania has significant potential to increase budget revenues by improving collection efficiency.

Budget execution in the first seven months of 2026 recorded a cash deficit of 2.34% of GDP, around 1.7 pp of GDP lower than the deficit recorded in the corresponding period of 2025. The budget execution confirms the downward trend in the deficit observed in previous months and creates the conditions for meeting the target set for 2026.

Budget execution in the first seven months of 2026 recorded a cash deficit of approximately 48 billion lei (2.34% of GDP), around 1.7 pp of GDP lower than the deficit recorded in the corresponding period of 2025. Budget revenues increased by 11.2% compared with the first seven months of 2025 (+0.48 pp of GDP), a rate slightly higher than that recorded after six months (+10.3%) and close to the growth rate projected in the initial budget (+11.1%). This development was supported by the dynamics of tax revenues (+0.62 pp of GDP) and, to a lesser extent, by EU funds (+0.3 pp of GDP). Budget expenditures increased by only 2.9% (-1.22 pp of GDP), below the growth rate projected in the initial budget (+6.9%), with the decline in its share of GDP driven mainly by personnel expenditures (-0.61 pp of GDP), social assistance expenditures (-0.66 pp of GDP), and capital expenditures (-0.40 pp of GDP).

Budget execution in the first seven months of the year confirms the downward trend in the deficit observed in previous months and creates the conditions for meeting the target set for 2026. This development confirms the remarkable fiscal adjustment achieved

over the past two years and supported the decisions by Fitch and Moody's to maintain Romania's sovereign rating.

The continuation of the fiscal consolidation process over the short and medium term may be affected by the materialisation of a range of risks, including domestic political instability. Nevertheless, fiscal consolidation is essential for maintaining macroeconomic stability and Romania's sovereign rating, as well as for placing public debt on a sustainable downward trajectory. The parameters underpinning the 2027 budget and the medium-term fiscal strategy will send an important signal regarding the direction of the consolidation process in the years ahead.

The continuation of the fiscal consolidation process over the short and medium term may be affected by the materialisation of a number of risks related to budget execution. It should be noted that failure to meet certain milestones and targets under the NRRP leads to a reduction in the funds reimbursed to Romania. In this regard, losses related to the NRRP grant component may adversely affect the budget balance to the extent that the lost funding is replaced from national sources, while amounts related to the NRRP loan component are recorded in budget execution only on the expenditure side. Additional risks include: the imposition of payment obligations relating to salary entitlements for certain categories of public sector employees, as established by court rulings; the possibility of a negative revision of the sovereign rating; the persistence and/or escalation of geopolitical tensions and military conflicts, also closely linked to Romania's commitment to increase defence expenditure, including through access to SAFE loans; and increasing demographic pressures on social assistance expenditures.

In addition to these risks, a high degree of domestic political uncertainty and instability persists, which may adversely affect the commitment to reducing the budget deficit in 2027 and 2028, particularly as the approaching elections could intensify pressures for fiscal easing.

Continued fiscal consolidation is essential for maintaining macroeconomic stability and Romania's sovereign rating, as well as for placing public debt on a sustainable downward trajectory. Therefore, the parameters underpinning the 2027 budget and the medium-term fiscal strategy will send an important signal regarding the direction of the consolidation process in the years ahead.

II. Macroeconomic framework in 2025

In 2025, economic growth remained modest, with real GDP increasing by 0.7%[1] from the previous year. The main determinant of economic growth was gross fixed capital formation, to which was added the contribution of inventory changes and, to a much lesser extent, household consumption. These effects were partially offset by the negative contributions of government consumption and net exports. On the supply side, construction was the main driver of growth, followed by information and communications and agriculture, while industry had a quasi-neutral contribution, and professional activities and support services had a negative impact. On the external front, geopolitical tensions intensified, while domestically, political uncertainties in the first half of the year and fiscal consolidation measures in the second half influenced macroeconomic developments.

In 2025, among the EU member states[2], Ireland (8%), Malta (4%), Cyprus (3.8%), and Poland (3.6%) recorded the highest rates of economic growth, while Romania (0.7%), Estonia (0.6%), Luxembourg (0.6%), Italy (0.5%), Hungary (0.5%), and Germany (0.2%) experienced modest increases. In 2025, Romania's real GDP growth was below the EU-27 average of 1.4% and the euro area average of 1.2%, ranking 22nd among the 27 EU countries.

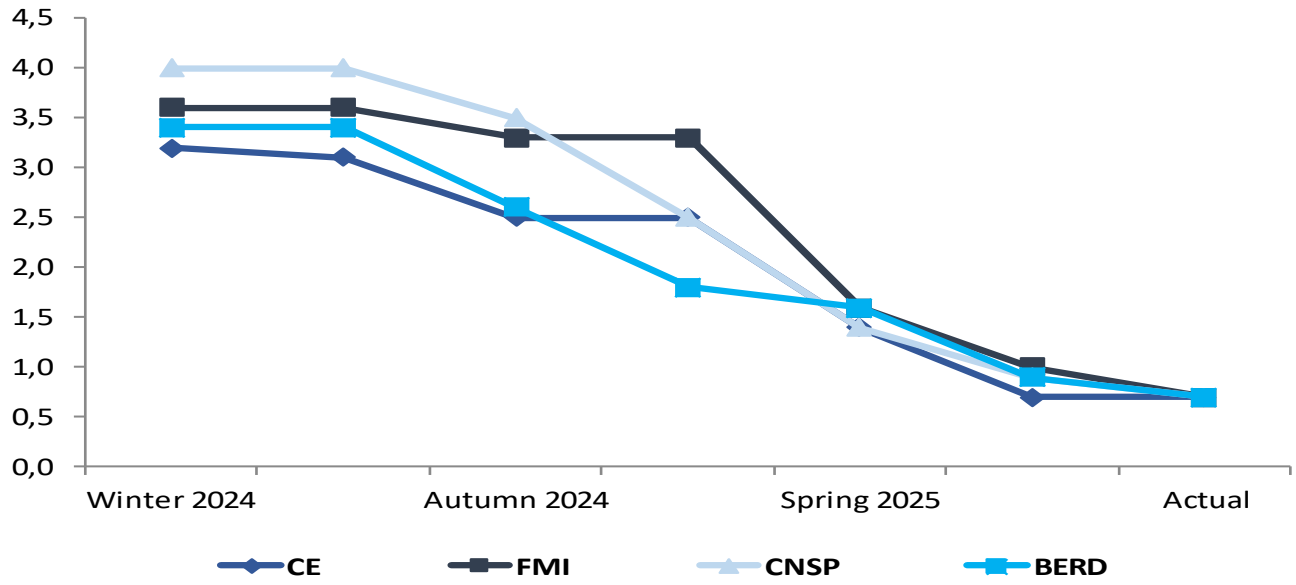
The forecasts of international financial institutions (the European Commission, IMF, and EBRD) and the NCSP for the first half of 2024 anticipated economic growth in the range of 3.1-4% for 2025 (see *Figure 1*). Among these, the NCSP projection was the most optimistic, indicating a 4% economic growth in the winter and spring of 2024. The IMF forecast was at 3.6%, while the EC and EBRD projections started from estimates of 3.1-3.2% and 3.3-3.4%, respectively. In the autumn of 2024, the forecasts were revised downward: the NCSP adjusted its estimate to 3.5%, the EC to 2.5%, the IMF to 3.3%, and the EBRD to 2.6%, reflecting a deterioration in economic outlooks at both the European and local levels.

Revisions continued into the spring of 2025, with estimates from the EC, IMF, NCSP, and EBRD ranging between 1.4% and 1.6%, reflecting a significant deterioration in growth prospects. In the autumn of 2025, forecasts declined even further, falling within the 0.7% to 1% range. Ultimately, the real GDP growth rate for 2025 was 0.7%, a figure similar to the EC's estimate from the autumn of 2025.

[1] According to the data on GDP in the fourth quarter of 2025 (provisional data (2)), published by the National Institute of Statistics (NIS) on 9 April 2026.

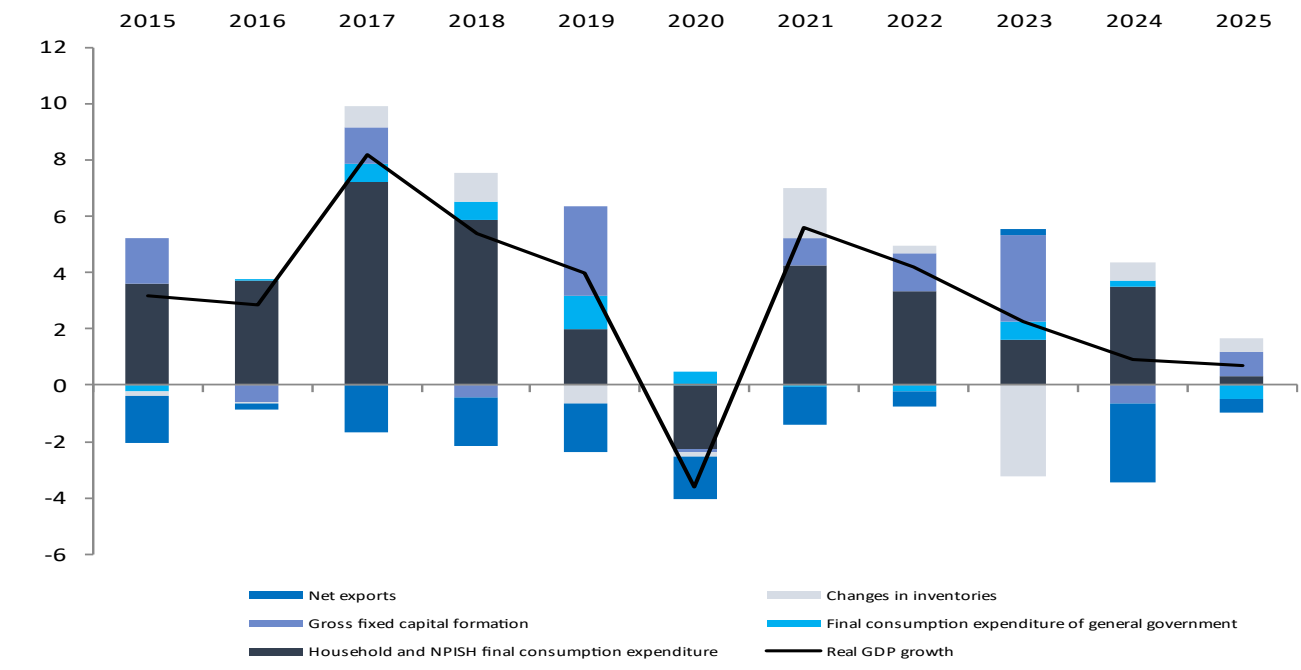
[2] According to provisional data on real GDP growth published by Eurostat and accessed on 23 July 2026.

Figure 1: The evolution of economic growth forecasts for 2025



Source: EC, International Monetary Fund (IMF), National Commission for Strategy and Prognosis (NCSP), European Bank for Reconstruction and Development (EBRD)

Figure 2: Contributions to real GDP growth



Source: Eurostat, FC's calculations

The quarterly distribution of economic growth reveals a slowdown in the second half of the year. Based on the seasonally adjusted series, the quarterly GDP growth was -0.5% in the first quarter, +1% in the second quarter, -0.1% in the third quarter, and -1.8% in the last quarter. Compared to the corresponding quarter in 2024, the dynamics slowed from +2.1% in the second quarter to -1.4% in the last quarter.

On the demand side (see *Figure 2*), gross fixed capital formation (+0.9 pp) made the most significant positive contribution to economic growth, followed by changes in inventories (+0.5 pp) and household consumption (+0.3 pp). These positive contributions were partially offset by negative contributions from government consumption (-0.5 pp) and net exports (-0.5 pp).

Compared to the previous year, there are changes regarding the level of contributions on the demand side. Household consumption's contribution to GDP growth slowed significantly, from 3.5 pp in 2024 to 0.3 pp in 2025, due to the decrease in purchasing power in the second half of the year. While real wage gains increased in the first half of 2025, reaching about +4.7% in January and gradually decreasing to +1.4% in June, the removal of electricity price caps and the increase in VAT negatively impacted purchasing power and, consequently, consumption dynamics. The evolution of real wage gains gradually entered negative territory starting in July (-2.6%). From August to December 2025, real declines intensified, ranging between -5% and -6%. Overall, real wages decreased by approximately 1.1% in 2025. Similarly, the contribution of government consumption to GDP growth decreased from +0.2 pp in 2024 to -0.5 pp in 2025, amid fiscal consolidation efforts.

On the other hand, gross fixed capital formation increased its contribution to economic growth, from -0.7 pp in 2024 to +0.9 pp in 2025, against the backdrop of a real growth rate of approximately 3.4%. The share of gross fixed capital formation in GDP slightly increased compared to 2024, from 25.3% to 25.6% in 2025. The public sector recorded an increase in its share of investment in GDP, from 5.9% in 2024 to 6% in 2025, amid efforts to absorb European funds. The share of household investments in GDP rose from 6% to 6.2%, while the business sector maintained a relatively constant share of about 13.4%.

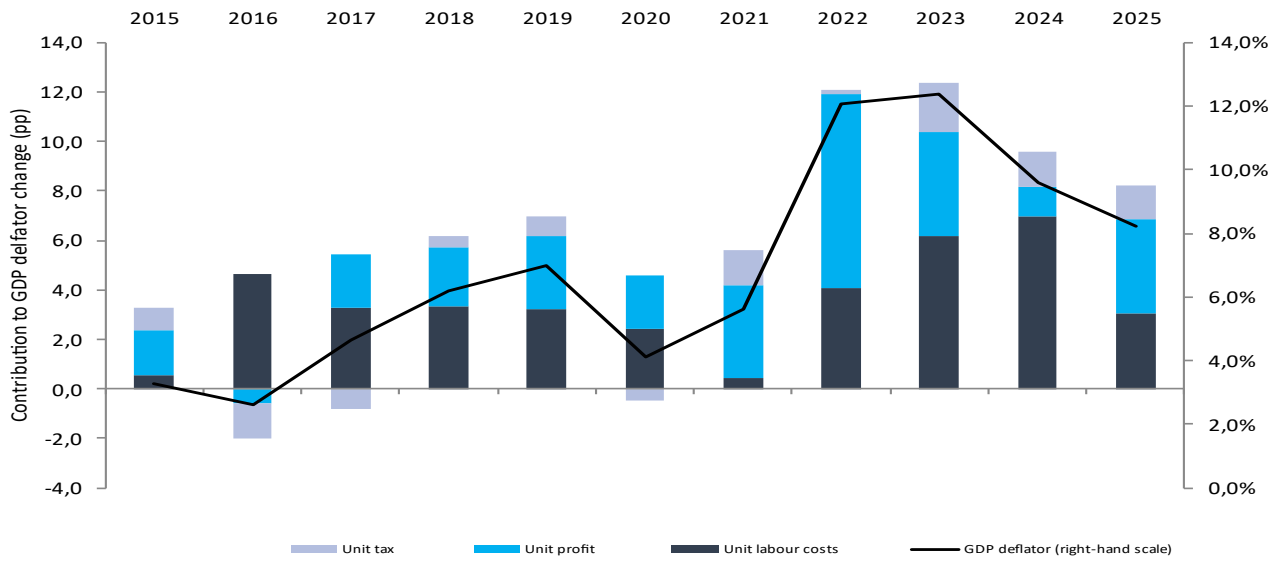
Changes in inventories – which have historically been characterised by significant fluctuations – contributed positively to economic growth (+0.5 pp), slightly decreasing compared to 2024 (+0.6 pp). Net exports of goods and services made a negative contribution of -0.5 pp, significantly lower than in 2024 (-2.8 pp). The improvement reflects an increase in exports of about 4.3% and an import growth rate of approximately 4.9%, compared to -2.5% and 4%, respectively, in 2024.

On the supply side, the contribution of economic sectors to GDP growth was mixed, with gross value added contributing approximately 0.7 pp, while the contribution of net taxes on products was neutral. Sectors with a positive contribution to GDP growth included: construction (+0.5 pp), accounting for 8.6% of GDP formation, with a real increase of about 6.9%; information and communications (+0.3 pp), representing 7.1% and experiencing a real growth of 4.1%; agriculture, forestry, and fishing (+0.2 pp), with a 3% share and a 6.6% increase. Conversely, professional, scientific, and technical activities, administrative and support service activities (-0.3 pp) slowed growth, amid a real decrease of about 4%. Other economic sectors – industry, wholesale and retail trade, financial intermediation and insurance, real estate transactions, public administration, as well as entertainment and service activities – had a neutral contribution to GDP growth.

In 2025, the annual inflation rate experienced two distinct phases. According to data from the National Bank of Romania (NBR)[3], in the first half of the year, the annual inflation rate stabilised around 5%, with a low of 4.85% in April and a high of 5.7% in June, compared to 5.1% in December 2024. Starting in July 2025, the removal of price caps on electricity, along with increases in VAT and excise taxes, triggered a sharp and significant acceleration in inflation: from 5.7% in June, the Consumer Price Index (CPI) inflation rose to 7.8% in July and reached a peak of 9.9% in September, remaining around 9.7% until the end of the year. As a result, the average annual inflation rate increased to 7.3% in 2025, up from 5.6% in 2024. The adjusted CORE2 inflation also accelerated in the second half of the year, from 5.6% in June 2025 to 8.5% in December 2025.

In 2025, the GDP deflator remained high at 8.2%, but decreased compared to 9.6% in 2024. Unlike 2024, when unit labour costs were the main factor driving the increase in the deflator, the balance between components shifted in 2025. Analysis of *Figure 3* shows a significant reduction in the contribution of unit labour costs to the variation of the GDP deflator, from 7 pp in 2024 to about 3.1 pp in 2025. Conversely, the contribution of unit profits increased to approximately 3.8 pp (up from 1.2 pp in 2024), reflecting higher company profit margins. The contribution of unit taxes to the variation of the deflator was about 1.3 pp, relatively similar to that in 2024. The combined analysis of CPI data and the GDP deflator reveals an inflationary episode driven by a fiscal and regulatory shock, amplified by the increase in companies' profit margins.

Figure 3: GDP deflator decomposition



Source: Eurostat, FC's calculations

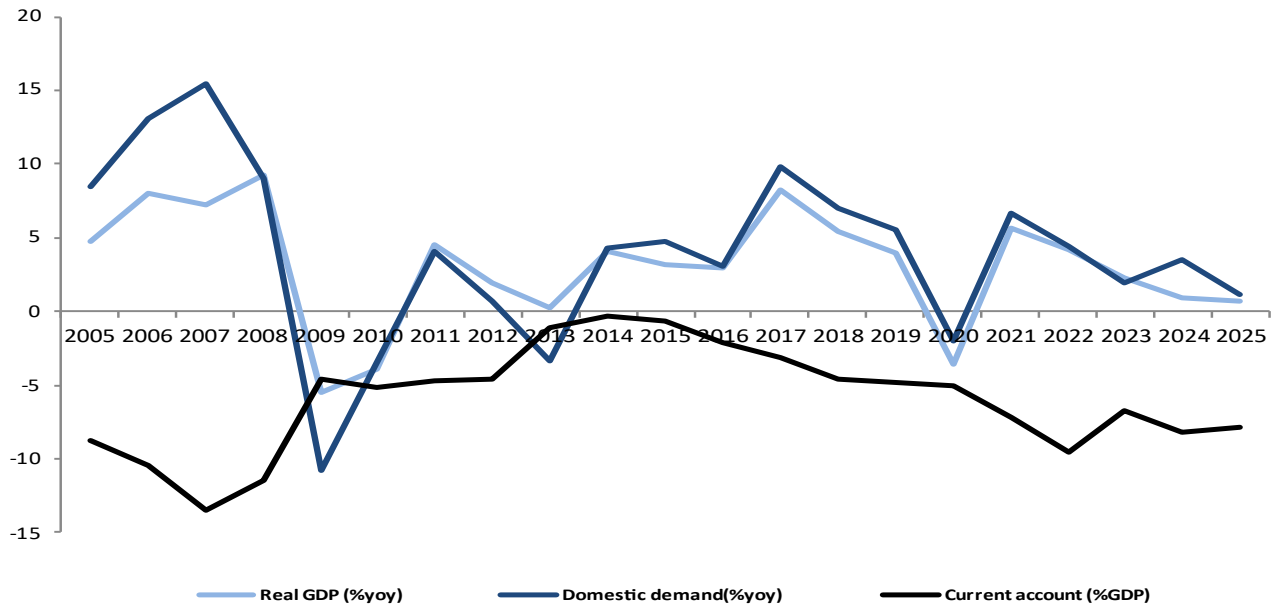
Throughout 2025, the National Bank of Romania (NBR) maintained the monetary policy interest rate at 6.5%, a level established following the decision to reduce it by 0.25 pp in August 2024. The stabilisation of inflation in the early months of the year created prospects for further reductions in the key interest

[3] The Inflation Reports of the National Bank of Romania, published in 2025 and in the first part of 2026.

rate; however, the acceleration of price increases in the second half of 2025, caused by fiscal and regulatory factors, led the NBR to keep the monetary policy rate unchanged. Maintaining it at 6.5% amid rising inflation resulted in a negative real reference interest rate towards the end of the year, compared to slightly positive values in the first part of 2025. Regarding the minimum reserve requirement ratio, it was kept at 8% for liabilities in national currency and at 5% for liabilities in foreign currency.

The current account deficit[4] registered a level of 7.9% of GDP at the end of 2025 (*Figure 4*), a decrease of 0.3 pp compared to 8.2% of GDP recorded in 2024, although in absolute value, the deficit increased by 1 billion euros, reaching 29.9 billion euros. The reduction of the deficit as a share of GDP was driven by a faster growth of nominal GDP. The easing of the trade deficit dynamics was also supported by favourable developments in the terms of trade, with export prices increasing by 0.9% compared to the 2024 average, while import prices decreased by 0.3%[5].

Figure 4: The evolution of real GDP, domestic demand and current account balance between 2005-2025



Source: NBR, Eurostat, FC's calculations

The current account deficit level remains high and raises questions about the evolution of external imbalances and the degree of competitiveness. The European dashboard sets an alert threshold when the average current account deficit over the last three years exceeds 4% of GDP. In Romania's case, this average reached 7.6% of GDP in 2025, with the 4% threshold continuing to be exceeded in each of the last three years (6.6% in 2023, 8.2% in 2024, and 7.9% in 2025). In 2025, the budget deficit, although decreasing, recorded a high level (7.9% of GDP) in ESA terms, perpetuating challenges associated with

[4] According to data from the National Bank of Romania (NBR), accessed through its interactive database on 23 July 2026.
[5] According to data from the National Institute of Statistics (NIS) on unit value indices in international trade in 2025.

twin deficits and requiring ongoing fiscal consolidation efforts to ensure macroeconomic stability. Combined with the current account deficit of 7.9% of GDP, the combined pressure of the two deficits on financing needs and external sustainability remains one of the highest in the EU.

Analysing the evolution of the current account from the perspective of the saving-investment balance, it is observed that the savings rate, as a share of GDP, increased by 1.2 pp, from 16.8% in 2024 to 18% in 2025, and the investment rate rose by 0.9 pp, from 25% in 2024 to 25.9% in 2025. Since the increase in the savings rate slightly exceeded the growth of the investment rate, the current account deficit decreased from 8.2% in 2024 to 7.9% of GDP in 2025.

The narrowing of the current account deficit as a percentage of GDP was supported by an improvement in the balance of goods and services, whose deficit decreased from 21.3 billion euros in 2024 to 20 billion euros in 2025. This evolution was driven, on one hand, by a reduction in the goods balance deficit by 0.5 billion euros (from 33 billion euros in 2024 to 32.5 billion euros in 2025), and on the other hand, by an increase in the surplus of the services balance by 0.9 billion euros (from 11.7 billion euros in 2024 to 12.6 billion euros in 2025).

By contrast, the primary income balance contributed to the widening of the current account deficit, with its deficit increasing by 1.7 billion euros (from 8.3 billion euros in 2024 to 10 billion euros in 2025), a rise largely driven by the widening deficit in income from foreign direct investments and from portfolio investment income. The secondary income balance remained marginally surplus, with a net of only 0.1 billion euros in 2025, down from 0.7 billion euros in 2024, significantly reducing its positive contribution to the current account balance.

Regarding the financing of the current account deficit (29.9 billion euros), it was primarily achieved through the financial account of the balance of payments (22.5 billion euros in 2025, compared to 19.9 billion euros in 2024) and, to a lesser extent, through capital account contributions (7.2 billion euros, compared to 5.2 billion euros in 2024). Within the financial account, net direct investments (in the form of equity participations and debt instruments) amounted to approximately 7.5 billion euros, compared to 4.7 billion euros in 2024, covering about 25% of the current account deficit. The component represented by reinvested profits increased to 4.1 billion euros, from 3 billion euros in 2024. The share of net direct investments in the financial account rose to 33.6%, from 23.8% in 2024. Portfolio investments increased to 13.5 billion euros in 2025, from 12.4 billion euros in 2024, and other investments grew to 6.2 billion euros, from 3.6 billion euros in 2024. The capital account balance increased to 7.2 billion euros in 2025, from 5.2 billion euros in 2024, driven by higher capital transfers from general government, which include European funds under the MFF and grants from the NRRP, reaching 7 billion euros, compared to 4.7 billion euros in 2024. In this context, covering the current account deficit with non-debt-generating flows (considered to be the balance of the capital account, and from the financial account, only “equity participations of the nature of direct investments, including reinvested profits”) improved to 42.8% in 2025, from 31.4% in 2024, due to increased direct investments and higher absorption of European funds reflected in the capital account.

In 2025[6], Romania's gross external debt increased by 12.3% compared to the previous year, reaching approximately 228.5 billion euros at the end of December. Its share in GDP grew by 2.5 pp compared to December 2024, reaching 60.1%. Given the continued high twin deficits, this trend continues the upward trajectory of recent years, with the external debt's share of GDP increasing by about 12 pp compared to 2022.

By the end of 2025, 78.9% of the total external debt was represented by long-term debt, this category increasing in its share compared to the 76.8% level reached in 2024, driven by a 15.3% increase (from €156.4 billion in 2024 to €180.3 billion in 2025). A slower growth rate can be observed in short-term external debt, which increased by €1 billion (+2.1%) in 2025, reaching €48.1 billion, and its share of total external debt decreased by 2.1 pp to 21.1%. The shift of external debt towards longer maturities may signal a positive development in terms of reduced exposure to financial market volatility. Additionally, the central bank's international reserves (approximately €77 billion at the end of 2025, including €61.6 billion in foreign exchange reserves) cover about 1.6 times the short-term external debt and the equivalent of roughly six months of goods and services imports.

The evolution of long-term debt in 2025 was primarily determined by the increase in the volume of debt securities issued by general government (+14.4 billion euros), general government loans (+4.6 billion euros), loans contracted by other sectors (+3.2 billion euros), and debt securities issued by deposit-taking companies, excluding the central bank (+1 billion euros).

The general government debt increased by approximately 18.6 billion euros by the end of 2025 compared to the previous year, mainly due to the growth in the volume of debt securities issued by general government with long-term maturity (+14.4 billion euros) and long-term general government loans (+4.6 billion euros). As a result, the share of external public debt in total external debt rose from 69.5% in 2024 to 71% in 2025. While the share of central bank external debt decreased in 2025 from 2.9% to 1.8% of total external debt, the share of private external debt remained relatively stable at 27.2%, compared to 27.6% in 2024.

Non-governmental credit[7] recorded a 3.2% decrease in real terms in December 2025 compared to the same period of the previous year, amid a consumer price index of 9.7% (in nominal terms, non-governmental credit increased by 6.1%). In the segment of lei-denominated loans granted to the population, there was a modest real increase of 0.5% in 2025 (in nominal terms, +10.2%). Loans in foreign currency granted to the population, expressed in lei, experienced a significant real decrease of 20.9% during the same period, corresponding to a nominal contraction of 13.3%. The share of loans granted through the "First Home" programme in total real estate loans continued to decline[8], reaching about 16% in March 2026, compared to approximately 45% in September 2018. Loans in lei granted to non-financial corporations and non-monetary financial institutions contracted in real terms by 14.6% (a 6.4% decrease in nominal terms). Conversely, loans in foreign currency granted to companies, expressed

[6] According to data from the National Bank of Romania, accessed through its interactive database on 23 July 2026.

[7] Source: National Bank of Romania, interactive database.

[8] According to the Financial Stability Report of the National Bank of Romania, June 2026.

in lei, increased in real terms by 6.5% (+16.8% in nominal terms), indicating a preference for euro-denominated financing.

In 2025, the non-performing loan rate continued its upward trajectory initiated in 2024, reaching 3.1% in December 2025, compared to 2.9% in December 2024 (the EU average level was 1.8% in 2025)[9]. The provision coverage ratio reached 62.3% at the end of 2025, down from 64.5% in 2024 – remaining well above the European average level of 41.4%. From a macroprudential perspective, adequate liquidity is evident at the banking system level, with the liquidity coverage ratio at 257% in 2025[10], compared with the EU average of 163%. Also, in 2025, the credit-to-deposit ratio for households and non-financial corporations remained below one (62.3%), highlighting structural challenges in credit absorption both at the corporate and household levels (by comparison, the average of this indicator in the EU was 104.8%). For companies, the main issue is the decapitalisation of the corporate sector, which reduces the number of bankable firms. At the household level, the persistently low loan-to-deposit ratio is also determined by the high risk of poverty, with Romania continuing to record one of the highest percentages of the population exposed to poverty risk among EU countries[11]. These characteristics reduce the appetite for bank loans as well as the creditworthiness of potential borrowers.

In 2025, labour market data showed an average of approximately 5,468[12] thousand employees (+0.3% compared to the previous year), a significantly slower growth rate than in previous years, due to the freezing of public sector jobs and modest economic dynamics. The ILO unemployment rate increased to 6.1%, from 5.4% in 2024, reflecting a deterioration in labour market conditions. Average net earnings[13] increased by 6.1% in nominal terms compared to 2024, reaching approximately 5,264 lei, but real wage gains decreased by 1.1%, as the average annual inflation accelerated to 7.3%, up from 5.6% in 2024, due to increases in VAT, excise taxes, and the removal of energy price caps.

Considering FC's obligation to include in its annual report an ex-post evaluation of the macroeconomic and budgetary forecasts contained in the fiscal strategy that is the subject of the report (according to art. 61 of the FBRL), *Table 1* presents the main macroeconomic forecasts for FS 2025-2027, compared with the actual values achieved in 2025, based on the most recent available data.

In 2025, nominal GDP was 0.2% higher than the forecast in the FS 2025-2027 (1,916.4 billion lei, compared to the forecasted 1,912.6 billion lei), under conditions where the GDP deflator exceeded initial estimates by 2.4 pp (8.2% versus 5.8% forecasted). Real economic growth was 1.8 pp lower than the forecast in the FS 2025-2027 (0.7% versus 2.5%), reflecting the impact of domestic demand contraction. Regarding GDP components, actual final consumption growth was significantly below the initial forecast (-2.3 pp compared to the FS). This divergence is driven both by private consumption (2 pp below the FS), due to income stagnation and rising prices, and by government consumption, which decreased by 2.6%, 3 pp below the initial forecast, as a direct effect of public expenditure reduction measures. Gross fixed

[9] According to the European Banking Authority Risk Dashboard, Q4 2025.

[10] According to the Financial Stability Report of the National Bank of Romania, June 2026.

[11] According to Eurostat data on the population at risk of poverty, accessed on 23 July 2026.

[12] According to the Spring Forecast of the National Commission for Strategy and Prognosis, May 2026.

[13] According to the Spring Forecast of the National Commission for Strategy and Prognosis, May 2026.

capital formation increased by 3.4%, 2.5 pp below the FS 2025-2027 forecast. Exports exceeded initial estimates by 2 pp (+4.3%, compared to +2.3% forecasted), while imports grew by 4.9%, surpassing the FS forecast by 1.1 pp.

Table 1: Main macroeconomic indicators in 2025 (FS forecast versus actual outcomes)

	FS 2025-2027	Actual 2025
	percentage change from the previous year (%)	
Gross domestic product		
Gross domestic product (RON million)	1,912,587	1,916,405
Real gross domestic product	2.5	0.7
GDP deflator	5.8	8.2
GDP expenditure components		
Final consumption	2.1	-0.2
Private consumption expenditure	2.5	0.5
Government consumption expenditure	0.4	-2.6
Gross fixed capital formation	5.9	3.4
Exports of goods and services (volume)	2.3	4.3
Imports of goods and services (volume)	3.8	4.9
Inflation rate		
December 2025	3.8	9.7
Annual average	4.4	7.3
Labour market		
ILO unemployment rate (end of period)	5.3	6.1
Average number of employees	1.2	0.3
Average net earnings	6.1	6.1

Source: NCSP, Eurostat, MF

According to the FS 2025-2027, the inflation rate at the end of 2025 was expected to be 3.8%, with an average of 4.4%, but the actual values recorded significantly exceeded the forecasts by 5.9 pp (9.7% in December) and 2.9 pp (7.3% annual average), respectively. The substantial overshoot of the inflation target was mainly driven by the increase in the standard VAT rate, higher excise taxes, and the removal of energy price caps – factors not included in the forecast from the FS 2025-2027. A notable difference between the forecast in the FS 2025-2027 and the actual value can also be observed in the GDP deflator – which measures the price dynamics across the entire economy, not just at the final goods and services level – which was anticipated at 5.8%, while its actual value was 8.2% (+2.4 pp). The ILO unemployment rate stood at 6.1%, 0.8 pp above the forecast of 5.3% in the FS 2025-2027, indicating a deterioration in labour market conditions relative to expectations. This deterioration is also confirmed by the average number of employees, which increased by only 0.3%, 0.9 pp below the initial forecast of 1.2%. The net wage increase was 6.1%, similar to the forecast in the FS 2025-2027, but in real terms, it decreased by 1.1% due to rising inflation.

III. Fiscal policy in 2025

III.1. Main features of the fiscal-budgetary policy in 2025

After a declining trend in the budget deficit in 2021 and 2022, 2023 and 2024 marked a significant deviation from the fiscal consolidation targets. Although the budget deficit narrowed in 2025, the continuation of the fiscal consolidation process remains absolutely necessary. The main features of fiscal policy in 2025 are summarised below and examined in greater detail later in this report:

- The initial budget envisaged a cash deficit of 7.04% of GDP in 2025, representing a reduction of 1.61 pp of GDP compared with the level recorded in 2024. According to the Ministry of Finance, the ESA deficit target was similar to that set under the cash methodology. The main macroeconomic assumptions underpinning the initial 2025 budget included 2.5% real GDP growth, a GDP deflator of 5.8%, and an average annual inflation rate of 4.4%. Based on a prudent approach to forecasting revenues and expenditures, the Fiscal Council considered the 2025 budget framework consistent with a cash deficit of around 7.7% of GDP, while noting additional risks regarding compliance with the projected levels of staff expenditure and social assistance expenditure.
- Over the medium term, given that Romania was subject to the excessive deficit procedure, the 2025-2027 Fiscal Strategy followed the deficit-reduction path set out in the Medium-Term Fiscal-Structural Plan. Accordingly, the ESA deficit was projected to decline by 0.6 pp of GDP in 2026 and by a further 0.7 pp in 2027, reaching 5.7% of GDP. The Ministry of Finance's projections for the cash deficit were similar to those estimated under the ESA methodology. The analysis of the medium-term fiscal framework showed that it was built on the assumption of strict control over budgetary expenditure, without envisaging a visible improvement in tax revenues. Consequently, the Fiscal Council noted that maintaining the budget deficit reduction path required a significant increase in tax revenues and that a comprehensive reform of the National Agency for Fiscal Administration (NAFA) was urgently needed. In the absence of revenue-side fiscal policies supporting the fiscal consolidation path, the Fiscal Council considered that a medium-term adjustment of the budget deficit based solely on expenditure restraint was not credible.
- The absence of a public-finance adjustment programme placed Romania in an extremely difficult position in the first half of 2025, when the prospect of a sovereign credit-rating downgrade and increasingly difficult access to financing and refinancing emerged. Budget execution showed a significant deviation from the fiscal consolidation path set out in the initial budget, with the deficit reaching 3.7% of GDP at end-June. Given both the risk of a sovereign credit-rating downgrade and the unfavourable international environment – marked by instability, trade disputes and armed conflicts – correcting the budget imbalance became an absolute urgency. In this context, Law No. 141/2025 on certain fiscal-budgetary measures was adopted in July. It included a package of measures aimed both at increasing budget revenues and reducing budget expenditure. Their cumulative impact was estimated at 0.6% of GDP in 2025 and 3.35% of GDP

in 2026, creating the conditions for reducing the budget deficit in 2025 and meeting the 2026 budget-deficit target. Tax increases were necessary, given the urgency of achieving a visible reduction in the deficit in 2025, the impossibility of limiting the fiscal adjustment solely to expenditure cuts, and the inability to achieve a large and rapid improvement in tax collection, including through a reduction in the VAT gap.

- The first budget revision, approved through Emergency Ordinances No. 50 and No. 51 of 1 October 2025, envisaged – compared with the initial budget – an increase in budget revenues of approximately 6.7 billion lei and an increase in budget expenditure of around 31.8 billion lei. As a share of GDP, the cash deficit was estimated at 8.4%, 1.36 pp above the target set in the initial budget. Based on the available data, taking into account both budget execution developments and the package of measures adopted in July 2025, the Fiscal Council considered the revised budget framework to be consistent with a cash budget deficit of around 8.4% of GDP in 2025. It noted that this new target should be assessed against the higher deficit – around 9% of GDP – that was emerging in the absence of adjustment measures.
- The second budget revision (Emergency Ordinances No. 64 and No. 65 of 28 November 2025) involved only a marginal revision of the projections in the previous budget revision, while leaving the budget-deficit target unchanged at 8.4% of GDP. Both revenue and total expenditure under the general consolidated budget were reduced by around 1.8 billion lei. The main adjustments concerned revenue and expenditure categories related to EU-funded projects, as well as capital expenditure. They reflected the renegotiation of the National Recovery and Resilience Plan (NRRP), whereby certain projects were shifted between the grant and loan components. The effect was partly offset by the need to finance from national funds projects whose NRRP allocations had been reduced.
- Budget execution at end-2025 recorded a cash budget deficit of 7.62% of GDP, significantly below the 8.4% of GDP projected in the two budget revisions. Compared with the second revision, the lower deficit was supported by: (i) reduced expenditure on compensation of employees, interest, subsidies and social assistance; (ii) changes in the financing structure of investments funded from EU and national sources; (iii) payments made in previous years and recovered in the current year; and (iv) higher tax and non-tax revenues. Under the ESA methodology, the budget deficit amounted to 7.9% of GDP in 2025, representing a correction of 1.4 pp from 9.3% of GDP in 2024. This correction was driven mainly by lower intermediate consumption, compensation of employees and subsidies, while interest expenditure and social assistance expenditure increased compared with the previous year. Higher receipts from direct taxes and VAT also had a favourable impact, partly offset by lower revenue from excise duties and customs duties.
- The reduction in the budget deficit in the second half of 2025 was an encouraging signal for maintaining the fiscal consolidation path in the years ahead. However, rigorous budget planning and compliance with fiscal rules are essential prerequisites for the success of the consolidation process. In this context, it should be noted that, although recording a deficit of 7.62% of GDP represents an achievement relative to the 8.4% target reaffirmed in the second budget revision at end-November 2025, the emergence of a substantial gap between the target and actual

outturns over such a short period raises questions about the rigour of budget planning. Aligning projections with actual budget execution provides predictability for the economic environment and sends a clear signal about the plausibility of budgetary frameworks.

III.2. The assessment of objectives, targets and budgetary indicators

Under Article 61(2) of the republished Fiscal-Budgetary Responsibility Law No. 69 (FBRL), the Fiscal Council's annual report must contain "*an analysis of the implementation of fiscal policy in the previous year against that approved in the fiscal strategy and the annual budget*" and must include:

„a) an objective and comprehensive ex post assessment of the annual and multiannual macroeconomic and budgetary forecasts included in the fiscal strategy and the annual budget for the budget year covered by the report, including, where applicable, the identification of a significant bias affecting macroeconomic forecasts over a period of at least four consecutive years;

b) an assessment of the objectives, targets and indicators established in the fiscal strategy and the annual budget for the budget year covered by the report;

c) an assessment of the Government's performance and of compliance with the principles and rules laid down in this Law during the previous budget year;

c[1]) an ex post assessment of the public expenditure review carried out in accordance with Article 31 of Law No. 500/2002, as subsequently amended and supplemented;

d) the Fiscal Council's opinions and recommendations aimed at improving fiscal-budgetary policy in the current budget year, in accordance with the principles and rules laid down in this Law."

The following aspects of fiscal-budgetary policy in 2025 are analysed below: the initial 2025 budget; the first revision of the 2025 general consolidated budget; the second revision of the 2025 general consolidated budget; compliance with fiscal rules in the budget-planning process; and budget execution at year-end.

1. The initial budget for 2024

Under Article 26(1) and (2) of the Fiscal-Budgetary Responsibility Law, the Ministry of Finance is required, by 31 July each year, to submit to the Government the fiscal strategy for the following three years, accompanied by the draft law approving ceilings for certain indicators specified in the fiscal-budgetary framework. The fiscal strategy for 2025-2027 was prepared simultaneously with the proposed budget, resulting in an identical fiscal-budgetary framework for 2025 in the two documents. Under these circumstances, the Fiscal Council's obligation to assess, in its annual report, the objectives, targets and indicators set out in the fiscal strategy and the annual budget is limited to an exclusively ex post analysis of the projections included in the draft budget. As in previous years, ex ante monitoring of compliance with the statutory ceilings for budgetary indicators, as established by the Ceiling Law, is not meaningful. Moreover, the repeated failure to comply with the statutory timetable for preparing and approving the fiscal strategy undermines the guiding role that the medium-term strategy should play in budget planning and in ensuring the continuity of the consolidation process.

The initial budget envisaged a cash deficit of 7.04% of GDP in 2025, representing a reduction of 1.61 pp of GDP compared with the level recorded in 2024. According to the Ministry of Finance, the ESA deficit target was similar to that set under the cash methodology. The main macroeconomic assumptions underpinning the initial 2025 budget were 2.5% real GDP growth, a GDP deflator of 5.8%, and an average annual inflation rate of 4.4%. The initial 2025 budget framework was unrealistic. It should be noted, however, that pensions and wages were frozen in 2025.

Over the medium term, given that Romania was subject to the excessive deficit procedure (EDP)[14], the 2025-2027 Fiscal Strategy followed the deficit-reduction path set out in the Medium-Term Fiscal-Structural Plan. Accordingly, the ESA deficit was projected to decrease by 0.6 pp of GDP in 2026 and by a further 0.7 pp in 2027, reaching 5.7% of GDP. The Ministry of Finance's projections for the cash deficit were similar to those estimated under the ESA methodology.

In its opinion[15] on the 2025 State Budget Law, the 2025 State Social Security Budget Law and the Fiscal Strategy for 2025-2027, the Fiscal Council considered that the draft budget was based on the need to reverse the trend of a widening budget deficit, including in order to prevent Romania's sovereign credit rating from being downgraded to junk status. The main points raised by the Fiscal Council include:

- The deficit target was highly ambitious and required measures on both the expenditure and revenue sides. The 2025 adjustment was only the beginning of the macroeconomic correction; further measures would also be needed in subsequent years. Macroeconomic correction was also necessary to reduce the current account deficit and alleviate pressure on the national currency.
- The projected reduction in the cash deficit in 2025 was based on an increase in total budget revenues of around 2.3 pp of GDP, while total budget expenditure was planned to rise by 0.7 pp of GDP.
- The planned increase in revenues as a share of GDP was largely attributable to the projected increase in the absorption of EU funds. Excluding the impact of EU-fund-related aggregates, other revenue categories were planned to increase by almost 0.2 pp of GDP, while the remaining expenditure categories were projected to decline by 1.5 pp of GDP. Excluding the hypothetical revenues expected to result from improved tax collection by NAFA, the Fiscal Council estimated revenues to be around 9.7 billion lei – approximately 0.5% of GDP – below the targets assumed in the draft budget.
- The planned increase in budget expenditure as a share of GDP was driven mainly by higher spending on EU-funded projects, partly offset by lower capital expenditure, compensation of employees, expenditure on goods and services, other expenditure, and other transfers. The Fiscal Council estimated that at least 4.5 billion lei in additional allocations – around 0.2% of GDP – would be needed for expenditure on goods and services and interest payments. It also

[14] The procedure was initiated in April 2020, following the breach in 2019 of the 3% of GDP reference value for the budget deficit expressed in European standards.

[15] https://www.fiscalcouncil.ro/FC%20-%20EN%20-%20Opinion%20-%202025%20Budget.pdf

highlighted additional risks regarding compliance with the projected levels of compensation of employees and social assistance expenditure.

- Based on a prudent approach to forecasting revenues and expenditures, the Fiscal Council considered the 2025 budget framework consistent with a cash deficit of around 7.7% of GDP, with the possibility of moving towards the 7% of GDP target if tax revenue collection proved stronger than anticipated, capital expenditure was further adjusted, any savings arising during budget execution were used, and projects were prioritised.
- The analysis of the fiscal-budgetary framework for 2026-2028 showed that it was built on the assumption of strict control over budget expenditure, without envisaging any visible improvement in tax revenues, including social security contributions. Consequently, the Fiscal Council reiterated that maintaining the budget-deficit reduction path required a significant increase in tax revenues, which are very low relative to Romania's investment needs and compared with those of other EU Member States. A comprehensive reform of NAFA was therefore urgently needed.
- The Fiscal Council considered that, in the absence of revenue-side fiscal policies supporting the fiscal consolidation path, a medium-term adjustment of the budget deficit based solely on expenditure restraint was not credible. Therefore, the balance of risks was tilted towards higher deficits than those envisaged in the 2026-2028 fiscal-budgetary framework – an observation that was all the more relevant given developments in the international environment and the major challenges facing economic policies.

2. First revision of the 2025 general consolidated budget

The absence of a public-finance adjustment programme placed Romania in an extremely difficult position in the first half of 2025, as the prospect of a sovereign credit-rating downgrade emerged alongside increasingly difficult access to financing and refinancing. Budget execution reflected a significant deviation from the path set in the initial budget, with the deficit reaching 3.7% of GDP at end-June. Given both the risk of a sovereign credit-rating downgrade and the unfavourable international environment – marked by instability, trade disputes and armed conflicts – correcting the budget imbalance became an absolute urgency. In this context, Law No. 141/2025 on certain fiscal-budgetary measures was adopted in July. It included a package of measures aimed both at increasing budget revenues and reducing budget expenditure. Their cumulative impact was estimated at 0.6% of GDP in 2025 and 3.35% of GDP in 2026. Tax increases were necessary, given the urgency of achieving a visible reduction in the deficit in 2025, the impossibility of limiting the fiscal adjustment solely to expenditure cuts, and the inability to achieve a large and rapid improvement in tax collection, including through a reduction in the VAT gap.

In this context, taking into account budget execution developments and the package of measures adopted in July 2025, the first budget revision – approved through Emergency Ordinances No. 50 and No. 51 of 1 October 2025 – envisaged, compared with the initial budget, an increase in budget revenues of approximately 6.7 billion lei and an increase in budget expenditure of around 31.8 billion lei. As a share of GDP, the cash deficit was estimated at 8.4%, 1.36 pp above the target set in the initial budget.

The main adjustments to budget revenues, compared with the amounts projected in the initial budget, were as follows:

- *Tax revenues*: +2.6 billion lei, with the main changes recorded in the following components:
  - *Corporate income tax*: -1.4 billion lei, a downward revision reflecting the gap between the growth rate assumed in the initial budget (+14.7%) and the aggregate's performance in the first eight months of the year (+11.7%).
  - *Wage and income tax*: +1.7 billion lei, an upward revision supported by: (i) stronger-than-expected growth in the economy-wide wage bill; (ii) the effect of eliminating tax incentives for employees in the construction, agriculture, food industry and IT sectors; and (iii) higher receipts from the tax on dividend income.
  - *Other taxes on income, profits and capital gains*: +1.3 billion lei, an upward revision supported by receipts from the microenterprise income tax and the tax on dividends paid by legal entities.
  - *VAT*: -1.9 billion lei, a downward revision reflecting the gap between the growth rate assumed in the initial budget (+12.5%) and the aggregate's performance in the first eight months of the year (+6.9%), partly offset by the effect of the VAT increase effective from 1 August 2025.
  - *Excise duties*: +0.5 billion lei, an upward revision driven by stronger-than-expected excise-duty receipts in the first eight months of the year (+15.9%, compared with the +4.9% target set in the initial budget), as well as by the effect of the increase in excise-duty rates introduced under the package adopted in July 2025.
  - *Other taxes and duties on goods and services*: +1.3 billion lei, an upward revision driven by better-than-expected budget execution (-13.6%, compared with -34% in the draft budget) and by the additional tax on the turnover of credit institutions, introduced under the package adopted in July 2025.
  - *Taxes on the use of goods, on permission to use goods, or on activities*: +0.6 billion lei, an upward revision reflecting the impact of higher additional taxation of gambling, introduced under the package adopted in July 2025.
  - *Taxes on international trade and transactions (customs duties)*: +0.5 billion lei, an upward revision in line with stronger-than-expected execution of this aggregate in the first eight months of the year (+34.8%, compared with the +8.4% target set in the initial budget).
- *Social security contributions*: +2.1 billion lei, an upward revision reflecting stronger-than-targeted growth in receipts over the first eight months of the year (+10.3%, compared with +8.7% in the initial budget), as well as the inclusion in the projections of the positive effects of the measures introduced under the package adopted in July 2025.
- *Amounts received from the EU in respect of payments made*: -0.8 billion lei, a downward revision reflecting the low absorption rate recorded in budget execution.
- *Amounts related to non-reimbursable financial assistance allocated under the National Recovery and Resilience Plan (NRRP)*: +2.1 billion lei, although budget execution after eight months indicated absorption of around 32% of the amount planned in the initial budget.

On the expenditure side, a substantial increase took place (+31.8 billion lei compared with the initial budget), with upward revisions affecting most of the main expenditure categories, as follows:

- *Personnel expenses*: +0.8 billion lei, reflecting the growth in budget execution over the first eight months (+6.9% compared with the corresponding period of the previous year), against an initial-budget target of only 3%.
- *Goods and services*: +3.9 billion lei. Budget execution over the first eight months showed a 4% increase, significantly above the +1.1% target projected in the initial budget.
- *Interests*: +12.4 billion lei, the largest upward revision. Execution over the first eight months recorded a 45.2% increase in this aggregate compared with the corresponding period of the previous year, against a programmed target of only +15.4%. The substantial increase in interest expenditure was driven by higher bond yields, increased financing needs and the contracting of new loans.
- *Other transfers*: +2.3 billion lei, with the increase concentrated mainly in the state budget.
- *Social assistance*: +8.2 billion lei, a substantial upward revision reflecting mainly higher expenditure in the state budget and the state social security budget for the payment of pension entitlements and other social assistance benefits, the payment and reimbursement of sick leave, compensation for household energy prices, and energy-bill vouchers.
- *Projects financed from non-reimbursable external funds, 2021-2027 post-accession programming period*: -4.2 billion lei; budget execution after eight months showed an implementation rate of only 34.7%.
- *Projects financed from non-reimbursable external funds under the 2014-2020 financial framework*: +0.7 billion lei.
- *Projects financed from amounts representing non-reimbursable financial assistance under the NRRP*: +2.6 billion lei; budget execution after eight months showed an implementation rate of only 30.6%.
- *Projects financed from amounts under the NRRP loan component*: +7 billion lei, representing an increase of around 48% compared with the initial budget. Relative to the new target, budget execution after eight months indicated an implementation rate of 56.6%; if developments were similar to those in the previous year, full absorption of the budgeted amount was possible.
- *Reserve funds*: +2 billion lei, with the amounts to be subsequently allocated across expenditure categories, depending on actual needs.
- *Capital expenditure*: -1.5 billion lei; budget execution after eight months showed an implementation rate of 60.3%.

Total public investment expenditure, financed from domestic and external sources, was increased in the budget plan by 1.4 billion lei (+0.9%) compared with the level envisaged in the draft budget, raising its share in GDP from 7.9% to 8.0%. By component, public investment expenditure as a share of GDP comprised: projects financed from non-reimbursable external funds (2.1% of GDP); projects financed under the NRRP non-reimbursable financial assistance component (1.8% of GDP) and loan component

(1.1% of GDP); expenditure related to programmes financed through repayable funds (0.1% of GDP); capital expenditure (2.7% of GDP); and other investment-related transfers (0.2% of GDP).

The Fiscal Council noted that public investment is an essential pillar of infrastructure modernisation and Romania's economic convergence with the more developed EU Member States. However, it does not automatically ensure an increase in the production of exportable goods (tradables), as illustrated by the rapid widening of the trade and current account deficits. At the same time, investment allocations must take account of domestic and external financing constraints, as well as of the pressing need to reduce the budget deficit.

The Fiscal Council also stressed that pressure on budget expenditure will intensify in the years ahead as a result of Romania's commitments to increase defence spending. Allocating a higher share of GDP to defence will place additional constraints on the budget, reinforcing the need to prioritise and improve the efficiency of public expenditure. Allocations to education and healthcare are undersized relative to the EU Member State average and to Romanian society's needs.

Based on the available data, the Fiscal Council considered the revised budget framework consistent with a cash budget deficit of around 8.4% of GDP in 2025, noting that this target should be assessed against the higher deficit - around 9% of GDP - that was emerging in the absence of the July package of measures. These measures had a limited positive impact on the 2025 deficit, as they began to affect budget execution only from September; however, their expected effect on the 2026 deficit was considerably larger. A significant correction of the budget deficit would enhance the credibility of government commitments, facilitate Romania's access to financing and refinancing on international markets, improve risk perceptions, and contribute to lower borrowing costs.

3. Second revision of the 2025 general consolidated budget

The second budget revision (Emergency Ordinances No. 64 and No. 65 of 28 November 2025) made only marginal changes to the projections under the previous revision, while leaving the budget-deficit target unchanged at 8.4% of GDP (159.8 billion lei). Both revenue and total expenditure of the general consolidated budget were reduced by around 1.8 billion lei. The main adjustments concerned revenue and expenditure categories related to EU-funded projects, as well as capital expenditure. They reflected the renegotiation of the NRRP, whereby certain projects were shifted between the grant and loan components. This effect was partly offset by the need to finance from national funds projects whose NRRP allocations had been reduced.

On the revenue side, compared with the first revision, there was a marginal upward revision of tax revenues (+0.1 billion lei), mainly due to a higher projection for corporate income tax receipts, alongside lower projections for other taxes on income, profits and capital gains. Non-tax revenues were also revised upwards (+0.4 billion lei), while social security contribution revenues remained unchanged. These increases were offset by downward revisions to EU funds, both those under the multiannual financial framework (-0.4 billion lei) and those under the NRRP grant component (-1.9 billion lei).

On the expenditure side, compared with the first revision, expenditure ceilings were raised mainly for goods and services (+0.6 billion lei), social assistance (+1 billion lei), capital expenditure (+2.1 billion lei), and projects financed from non-reimbursable funds under the 2014-2020 Multiannual Financial Framework (+3.1 billion lei). These increases were offset by reductions in other categories, particularly interest expenditure (-1.1 billion lei), projects financed from non-reimbursable funds (-3.3 billion lei), projects financed under the NRRP grant component (-2.1 billion lei), and projects financed under the NRRP loan component (-0.6 billion lei).

The analysis of the proposed revisions to the main revenue and expenditure categories showed that they had been adjusted in line with budget execution over the first ten months of the year, creating the conditions for meeting the new targets. The main uncertainty concerned the absorption of EU funds. In this context, the Fiscal Council considered the revised budget framework to remain consistent with a cash budget deficit of around 8.4% of GDP in 2025.

4. Compliance with fiscal rules in the budget programming process

The assessment of compliance with fiscal rules takes into account the changes to the ceilings set by Law No. 8/2025 approving ceilings for certain indicators specified in the 2025 fiscal-budgetary framework, through derogations introduced with the two budget revisions.

Table 2: Nominal ceilings for GCB balance, total and personnel expenditure

	Law no. 8/2025			GEO no. 50 & 51/2025			GEO no. 64 & 65/2025		
	GCB balance	Total expenditure*	of which: Personnel expenditure	GCB balance	Total expenditure*	of which: Personnel expenditure	GCB balance	Total expenditure*	of which: Personnel expenditure
mil. lei	**-134,647.0**	**714,457.3**	**170,778.8**	**-159,765.0**	**744,578.1**	**171,180.0**	**-159,765.0**	**744,969.2**	**171,180.0**
% of GDP initial budget	**-7.04%**	**37.4%**	**8.9%**	**-8.40%**	**39.1%**	**9.0%**	**-8.40%**	**39.2%**	**9.0%**
% of GDP budget execution	*-7.03%*	*37.3%*	*8.9%*	*-8.34%*	*38.9%*	*8.9%*	*-8.34%*	*38.9%*	*8.9%*

** Exclusive financial assistance from the EU and other donors*
Source: MF, Eurostat

Law No. 8/2025 approving ceilings for certain indicators specified in the 2025 fiscal-budgetary framework set the limit for the cash deficit of the general consolidated budget at approximately 134.6 billion lei, equivalent to 7.04% of GDP. By derogation from Articles 6, 7 and 26(3) of the Fiscal-Budgetary Responsibility Law, Law No. 8/2025 did not provide for an adjustment path towards the medium-term budgetary objective. The structural balance for 2025 was estimated at -6.4% of potential GDP, with prospects of a reduction in 2026 and 2027 (-6% and -5.5%, respectively).

Table 2 presents the limits for the main indicators, as established by Law No. 8/2025 and, respectively, by the two budget revisions made during 2025. Figures in italics represent the values of the indicators as a percentage of GDP, recalculated using updated GDP data (Eurostat, May 2026): 1,916.4 billion lei,

compared with 1,912.6 billion lei (the estimate available when the initial budget was prepared) and 1,902 billion lei (the estimate available when the two budget revisions were adopted).

It should be noted that, as in previous years, the budget revisions provided, by derogation from the Ceiling Law, for increases in the limits of certain indicators specified in the fiscal-budgetary framework, both in nominal terms and as a share of GDP. This practice reflects persistent weaknesses in Romania's budget-planning process, since fiscal rules can be easily circumvented through derogations, thereby limiting the role they should play in guiding fiscal-budgetary policy.

As shown in the preceding table, the first budget revision acknowledged the significant deviation from the path set out in the initial budget. It increased the nominal ceiling for total expenditure by 30.1 billion lei, while the ceiling for the general consolidated budget deficit was raised by 25.1 billion lei compared with the provisions of Law No. 8/2025. As a result of the increase in the nominal limits, the budget-deficit ceiling expressed as a share of GDP was also raised from 7% to 8.4%. Although the nominal ceiling for general consolidated budget compensation of employees was not revised, it increased from 8.9% to 9.0% of GDP, owing to the downward revision of the 2025 nominal GDP projection.

The second revision made only minor changes compared with the first budget revision, increasing the total expenditure ceiling by 0.4 billion lei while keeping the ceilings for the budget deficit and general consolidated budget compensation of employees unchanged, both in nominal terms and as shares of GDP.

Recalculating the indicators expressed as shares of GDP using the updated May 2026 GDP figure (the final row of *Table 2*, shown in italics) reveals that the budget deficit ceiling increased from 7.03% of GDP in the initial budget to 8.34% of GDP in both the first and second budget revisions. The share of total expenditure also rose from 37.3% in the initial projection to 38.9% in the two revisions. By contrast, the nominal ceiling for general consolidated budget compensation of employees was not changed during the year and remained at 8.9% of updated GDP.

The nominal ceiling for the primary deficit was increased by 12.8 billion lei in the first budget revision, from 92.8 billion lei in the initial projection to 105.6 billion lei, and by a further 2 billion lei in the second revision, to 107.6 billion lei. The public-debt ceiling, expressed as a share of GDP, was also raised successively during 2025, from 58.5% in the initial projection to 59.6% in the first revision and then to 60% in the second revision.

5. Budget execution for 2025

Budget execution at end-2025 recorded a cash budget deficit of 146 billion lei, 11.4 billion lei above the level set in the initial budget (134.6 billion lei), but 13.8 billion lei below the target updated in the two budget revisions (159.8 billion lei). As a share of GDP, the cash deficit stood at 7.62%, above the initial target of 7.04%, but significantly below the 8.4% of GDP projected in the two revisions. Under the ESA methodology, the budget deficit amounted to 7.9% of GDP in 2025; in this case, the gap relative to the initial-budget projection (7%) was slightly wider.

The difference between the deficit levels calculated under the two methodologies, increasing the ESA deficit relative to the cash deficit, was mainly due to: interest expenditure (3.9 billion lei); one-off items related to NRRP amounts (3.5 billion lei); adjustments related to greenhouse-gas emission allowance transactions (2.8 billion lei); revenue from extraordinary dividends (2.7 billion lei); the difference between cash payments related to historical court judgments and the amount of compensation resulting from court rulings issued during 2025 (1.7 billion lei); adjustments related to the Energy Transition Fund (1.5 billion lei); and the difference between new compensation certificates issued by the National Authority for Property Restitution in 2025 and payments made in respect of historical claims (0.7 billion lei). These differences were partly offset, reducing the gap between the ESA and cash deficits, by adjustments related to the procurement of military equipment (6.9 billion lei), timing adjustments to cash execution[16] (5 billion lei), and the difference between cash payments under the energy-price compensation scheme and payment obligations arising during 2025 (0.8 billion lei).

Table 3 presents the evolution of the main budgetary aggregates during 2025 on a cash basis.

Table 3: The evolution of the main budgetary aggregates during 2025 (billion lei)

	Initial budget	First revision	Second revision	Budget execution
Total revenues, of which:	**667.5**	**674.2**	**672.4**	**662.7**
Tax revenues	319.7	322.3	322.4	323.1
Social security contributions	205.9	208.1	208.1	208.0
EU funds	87.7	89.5	87.2	75.9
Total expenditures, of which:	**802.2**	**833.9**	**832.2**	**808.7**
Current expenditure, of which:	740.5	773.7	769.8	744.6
Projects from EU funds*	104.9	103.9	101.6	90.3
Capital expenditures	61.7	60.2	62.3	67.1
Budget deficit	**-134.6**	**-159.8**	**-159.8**	**-146.0**

Source: MF

** Amounts excluding the loan component of the NRRP*

Total budget revenues were 4.8 billion lei below the initial estimate. By category, below-expectations developments were recorded for EU funds (-11.8 billion lei), while tax revenues (+3.5 billion lei), social security contributions (+2.1 billion lei) and non-tax revenues (+1.1 billion lei) performed above expectations. Within tax revenues, significant overperformance relative to the initial projections was recorded for receipts from other taxes and duties on goods and services (+2.8 billion lei) and taxes on wages and income (+2.3 billion lei). The largest shortfalls relative to the initial programme were recorded for VAT (-2.2 billion lei), excise duties and corporate income tax (-0.3 billion lei each).

Relative to the estimates in the second budget revision, budget revenues were 9.7 billion lei lower, owing to the failure to achieve the envisaged level of EU funds (-11.3 billion lei). Social security contributions

[16] The difference between revenues collected during February 2025 - January 2026 and those collected during January - December 2025, used as a proxy for the difference between taxes and duties due and those effectively paid.

were close to the programmed level, while tax revenues and non-tax revenues each exceeded projections by around 0.8 billion lei.

Budget expenditure was 6.6 billion lei above the initially programmed level. The main expenditure aggregates showing significant overruns were: interest expenditure (+8.6 billion lei), social assistance (+8.6 billion lei), goods and services (+6 billion lei), and capital expenditure (+5.4 billion lei). Conversely, the largest shortfalls relative to budgeted amounts were recorded for projects financed from EU funds (-15.4 billion lei), payments made in previous years and recovered in the current year (-3 billion lei), compensation of employees (-1.8 billion lei), and subsidies (-1.4 billion lei).

Compared with the estimates in the second budget revision, budget expenditure was 23.4 billion lei lower. The main expenditure categories below their projected levels were: projects financed from EU funds (-18.5 billion lei), payments made in previous years and recovered in the current year (-3 billion lei), interest expenditure (-2.7 billion lei), compensation of employees (-2.5 billion lei), subsidies (-1.8 billion lei), and social assistance (-0.6 billion lei). Conversely, the largest overruns relative to the programmed amounts were recorded for capital expenditure (+4.8 billion lei) and goods and services (+1.5 billion lei).

The reduction in the budget deficit in the second half of 2025 was an encouraging signal for maintaining the fiscal consolidation path in the years ahead. However, rigorous budget planning and compliance with fiscal rules are essential prerequisites for the success of the consolidation process. In this context, although recording a deficit of 7.62% of GDP (146 billion lei) was an achievement relative to the 8.4% target (159.8 billion lei) confirmed in the second budget revision at end-November 2025, the substantial gap between revenue and expenditure projections and actual outturns over such a short period raises questions about the rigour of budget planning. Aligning projections with actual budget execution provides predictability for the economic environment and sends a clear signal regarding the plausibility of budgetary frameworks.

Table 4 presents developments in budget revenues and expenditure under the national (cash) methodology, expressed as shares of GDP. Compared with the previous year, the budget deficit declined by 1.05 pp of GDP in 2025, explained by a 1.92 pp increase in the share of budget revenues in GDP, alongside a 0.87 pp increase in the share of budget expenditure in GDP.

General consolidated budget revenues, expressed as shares of GDP, increased across the main categories: amounts received from the EU in respect of payments made (+0.69 pp), tax revenues (+0.28 pp), social security contributions (+0.08 pp), and non-tax revenues (+0.01 pp).

Within tax revenues, increases compared with the previous year were recorded for taxes on wages and income (+0.28 pp), VAT (+0.11 pp), corporate income tax (+0.09 pp), and property taxes (+0.05 pp), while excise duties declined by 0.11 pp.

Regarding general consolidated budget expenditure, expressed as shares of GDP, the largest reductions compared with 2024 budget execution were recorded for compensation of employees (-0.60 pp), subsidies (-0.32 pp), capital expenditure (-0.20 pp), and goods and services (-0.06 pp). Conversely,

increases relative to 2024 were recorded for projects financed from non-reimbursable external funds under the post-accession programming period (+1.45 pp), interest expenditure (+0.57 pp), and social assistance (+0.36 pp).

Table 4: The evolution of public revenues and expenditures (national methodology, % of GDP)												
	2015	2016	2019	2020	2021	2022	2023	2024	Initial budget 2025	Execution 2025	Initial budget 2025 - initial budget 2024	Execution 2025-2024
Total revenues	**32.8**	**29.4**	**30.3**	**30.4**	**31.9**	**32.8**	**32.4**	**32.7**	**34.8**	**34.6**	**1.53**	**1.92**
Tax revenue (without SSC)	19.4	17.8	14.8	14.2	15.7	16.4	15.6	16.6	16.7	16.9	0.98	**0.28**
Personal income tax	3.7	3.6	2.2	2.3	2.4	2.4	2.5	2.8	3.0	3.1	0.33	**0.28**
Corporate tax	1.9	2.0	1.7	1.5	1.7	1.9	1.8	2.0	2.2	2.1	0.15	**0.09**
Property tax	0.8	0.8	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.05	**0.05**
VAT	8.0	6.8	6.2	5.7	6.7	6.7	6.5	6.9	7.1	7.0	0.32	**0.11**
Excise duties	3.7	3.5	3.0	2.9	2.9	2.5	2.3	2.6	2.5	2.5	0.22	**-0.11**
SSC	8.1	8.0	10.5	10.5	10.7	9.9	9.9	10.8	10.7	10.9	0.34	**0.08**
Non-fiscal revenues	2.7	2.3	2.6	2.3	2.2	2.8	2.6	2.8	2.8	2.8	0.15	**0.01**
Donations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00	**0.00**
Amounts received from the EU for payments made	2.4	1.0	2.4	3.3	3.2	3.3	4.0	1.9	3.2	2.6	3.15	**0.69**
Total expenditures	**34.2**	**31.6**	**34.9**	**40.0**	**38.7**	**38.5**	**38.1**	**41.3**	**41.9**	**42.2**	**3.64**	**0.87**
Personnel expenditures	7.3	7.5	9.7	10.4	9.4	8.4	8.3	9.4	8.8	8.8	0.54	**-0.60**
Goods and services	5.7	5.4	5.0	5.4	5.4	5.2	4.8	5.3	4.9	5.3	0.31	**-0.06**
Interest	1.3	1.3	1.1	1.4	1.5	2.1	1.9	2.1	2.2	2.6	0.21	**0.57**
Subsidies	0.9	0.9	0.7	0.8	0.7	1.3	1.1	1.0	0.7	0.7	0.00	**-0.32**
Projects funded from non-refundable external post-accession funds	3.4	0.8	2.6	3.3	3.5	3.6	4.9	3.3	5.5	4.7	5.47	**1.45**
Social assistance	10.7	10.7	10.8	13.1	12.4	12.4	11.9	12.7	12.6	13.1	0.74	**0.36**
Capital expenditures	2.6	2.5	2.9	3.1	2.8	2.9	2.4	3.7	3.2	3.5	0.84	**-0.20**
Budget balance	**-1.45**	**-2.2**	**-4.59**	**-9.61**	**-6.73**	**-5.76**	**-5.61**	**-8.67**	**-7.03**	**-7.62**	**-2.10**	**1.05**

Source: MF, FC's computation

Note: Amounts without swap compensation schemes for outstanding obligations

Table 5 presents developments in budget revenues and expenditure under ESA 2010 standards[17], expressed as percentages of GDP.

[17] The data in this table are not fully comparable with those in *Table 4*, owing to differences in the scope of the two standards: ESA 2010 and the national standard.

Table 5: The evolution of public revenues and expenditures (ESA 2010, % of GDP)										
	2015	2016	2019	2020	2021	2022	2023	2024	2025	Changes 2025/2024
Total revenues	**35.4**	**32.3**	**31.9**	**32.4**	**32.8**	**34.4**	**34.5**	**34.0**	**35.4**	**1.4**
Indirect taxes, of which:	13.3	11.5	10.5	10.3	10.7	11.0	11.0	11.0	11.2	0.2
VAT	8.1	6.5	6.1	6.1	6.4	6.9	6.7	6.8	7.1	0.3
Excise + custom duties	5.2	5.0	4.4	4.2	4.3	4.1	4.3	4.2	4.1	-0.1
Direct taxes, of which:	6.6	6.5	4.8	4.7	5.1	6.2	5.4	6.0	6.3	0.3
Personal income tax	3.7	3.7	2.3	2.4	2.4	2.6	2.5	2.9	...	...
Corporate tax	2.3	2.3	2.1	1.9	2.2	3.1	2.3	2.5	...	...
SSC	8.1	8.9	11.3	11.9	11.3	10.8	11.0	11.7	11.7	0.0
Other current revenues	2.1	1.8	2.0	2.1	1.7	2.2	2.3	2.1	2.0	-0.1
Amounts from the EU	2.6	1.1	0.9	1.4	1.7	1.8	2.6	1.2	2.4	1.2
Total expenditures	**35.9**	**34.8**	**36.3**	**41.7**	**40.0**	**40.9**	**41.1**	**43.3**	**43.3**	**0.0**
Intermediate consumption	5.9	5.7	5.6	5.9	5.9	5.7	6.1	6.2	5.6	-0.6
Compensation of employees	7.8	9.2	11.4	12.2	11.2	10.2	10.2	11.2	10.5	-0.7
Interest	1.5	1.3	1.2	1.4	1.5	1.5	2.0	2.4	2.8	0.4
Social assistance	11.5	11.7	11.8	13.4	13.2	13.3	12.6	13.6	13.9	0.3
Subsidies	0.4	0.3	0.3	0.9	0.5	1.9	1.1	0.8	0.5	-0.3
Other current expenditures	2.4	1.4	1.5	2.1	2.3	2.2	1.9	2.0	1.9	-0.1
Gross fixed capital formation	5.2	3.6	3.4	4.4	4.1	4.3	5.4	5.9	6.0	0.1
Budget balance	**-0.5**	**-2.5**	**-4.4**	**-9.3**	**-7.2**	**-6.5**	**-6.6**	**-9.3**	**-7.9**	**1.4**

Source: Eurostat

The fiscal consolidation initiated in 2010 to correct the major imbalances in public finances proceeded at a rapid pace, enabling Romania to reduce its ESA budget deficit to 0.5% of GDP in 2015 within a relatively short period. Between 2016 and 2019, expansionary fiscal policy reversed this trend, resulting in a significant increase in the budget deficit, mainly due to lower revenues but also to higher expenditure. Thus, 2019 marked the breach of the 3% of GDP threshold, and Romania was placed under the excessive deficit procedure in April 2020.

The fiscal measures adopted in 2020 to mitigate the social and economic effects of the outbreak of the pandemic put additional pressure on the budget, with the general consolidated budget deficit reaching 9.3% of GDP. In 2021, the economy recovered amid government support measures and an improvement in the public-health situation, while the deficit fell to 7.2% of GDP, 2.1 pp below its 2020 level. In 2022

and 2023, substantial GDP growth, both in nominal and real terms, generated a strong increase in budget revenues. However, these additional revenues were used not to reduce the deficit, but to increase budget expenditure. Consequently, amid declining revenues and rapidly rising expenditure, 2024 saw a major fiscal slippage, resulting in a deficit of 9.3% of GDP, similar to that recorded in the first year of the pandemic.

In 2025, budget revenues amounted to 35.4% of GDP, 1.4 pp higher than in the previous year. The largest increases relative to 2024 were recorded for amounts received from the EU (+1.2 pp of GDP), and receipts from direct taxes and VAT (+0.3 pp of GDP each). Receipts from excise duties and customs duties, as well as other current revenue, each declined by 0.1 pp of GDP.

Budget expenditure amounted to 43.3% of GDP in 2025, similar to the previous year. Increases were recorded for interest expenditure (+0.4 pp of GDP), social assistance (+0.3 pp of GDP), and gross fixed capital formation (+0.1 pp of GDP). The largest decline was recorded for compensation of employees (-0.7 pp of GDP), followed by intermediate consumption (-0.6 pp of GDP), subsidies (-0.3 pp of GDP), and other current expenditure (-0.1 pp of GDP).

Although the budget deficit declined significantly in 2025, it remains well above the 3% of GDP threshold laid down in the EU Treaties. If deficit correction were not to continue in the years ahead, Romania's public debt would remain on an unsustainable path and markets would penalise such developments. The consolidation measures adopted so far mitigate this dynamic but are insufficient to stabilise it, making the continuation of fiscal consolidation indispensable.

Under a scenario in which fiscal consolidation continues beyond 2026, deficit adjustment would bring public debt back onto a declining path. However, the required effort is substantial and front-loaded. After two years of frozen expenditure on compensation of employees and social assistance, combined with a higher tax burden, further adjustment becomes difficult from a social and political perspective. In this context, improving tax revenue collection represents the more realistic alternative for supporting the fiscal consolidation process.

III.3. Budget revenues

General consolidated budget revenues increased by 15.3% in 2025 (+88.1 billion lei) compared with the previous year. This development was supported in particular by: (i) positive nominal GDP growth, underpinned by an 8.2% GDP deflator, and labour-market developments, namely a 0.3% increase in the average number of employees and an 8% increase in average gross earnings; (ii) fiscal-policy measures adopted at end-2024, particularly those introduced under Emergency Ordinance No. 156/2024, concerning the elimination of tax incentives for the construction, agriculture, food industry and computer-programming sectors; the increase in the dividend tax rate from 8% to 10%; the reduction in the revenue threshold for microenterprises; and the introduction of the special construction tax; and (iii) measures set out in Law No. 141/2025, adopted in July 2025, particularly higher VAT rates, increased excise duties, the extension of the health insurance contribution tax base to pension income, and additional taxation of credit institutions and gambling activities. Thus, budget revenues amounted to 662.7 billion lei, or around 34.6% of GDP, an increase of 1.9 pp from 32.7% of GDP in 2024.

Tax revenues increased as a share of GDP (+0.28 pp compared with the previous year). On the one hand, this was driven by increases in corporate income tax (+0.09 pp), taxes on wages and income (+0.28 pp), property taxes (+0.05 pp) and VAT (+0.11 pp). These effects were partly offset by declines in other taxes on income, profits and capital gains (-0.06 pp), excise duties (-0.11 pp) and other taxes and duties on goods and services (-0.15 pp). The share of GDP also increased for social security contributions (+0.08 pp), while non-tax revenues remained at a share similar to that of the previous year. With regard to revenue from EU funds, the data indicate increases in the share of GDP for amounts received from the EU in respect of payments made and pre-financing (+0.76 pp) and amounts related to non-reimbursable financial assistance allocated under the NRRP (+0.72 pp), while amounts received from the EU in respect of payments made and pre-financing under the 2014-2020 Multiannual Financial Framework declined (-0.06 pp).

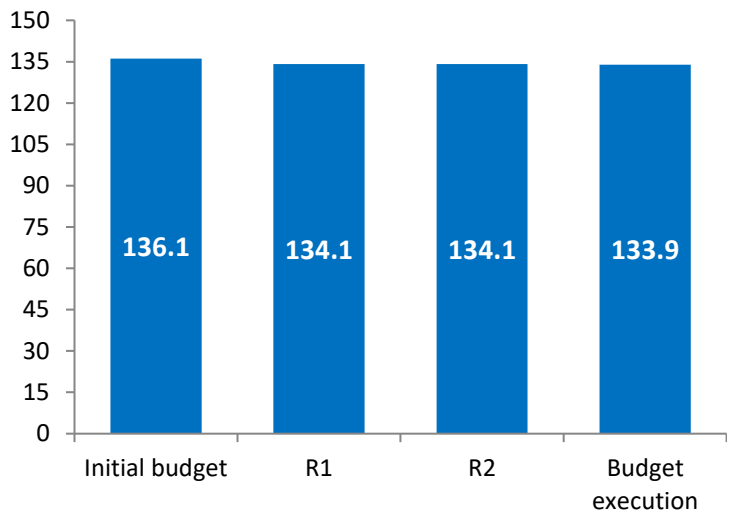
Compared with the initial budget projection, general consolidated budget revenues actually collected in 2025 fell short by 4.8 billion lei, equivalent to around 0.25% of GDP. This shortfall was concentrated mainly in EU funds: amounts received from the EU in respect of payments made and pre-financing (-12.1 billion lei, -0.63 pp of GDP) and amounts related to non-reimbursable financial assistance allocated under the NRRP (-4.3 billion lei, -0.23 pp of GDP). A shortfall was also recorded for VAT (-2.2 billion lei, -0.11 pp of GDP). These shortfalls were partly offset by outturns above the programmed levels for other taxes and duties on goods and services (+2.8 billion lei, +0.15 pp of GDP), taxes on wages and income (+2.3 billion lei, +0.12 pp of GDP), social security contributions (+2.1 billion lei, +0.11 pp of GDP), and non-tax revenues (+1.1 billion lei, +0.06 pp of GDP). It should also be noted that revenues projected in the initial budget included 9.7 billion lei expected to result from improved collection efficiency and reduced tax evasion, distributed as follows: corporate income tax (+0.7 billion lei), taxes on wages and income (+0.2 billion lei), VAT (+5.7 billion lei), and social security contributions (+3.1 billion lei).

III.3.1. VAT and excise duties

The accompanying chart presents the evolution of **VAT** receipts projected in the initial budget, compared with the levels set in the two budget revisions and the actual budget-execution outturn. In 2025, VAT receipts under the cash methodology amounted to 133.9 billion lei, 2.2 billion lei below the level envisaged in the initial budget. In the September revision, VAT revenue was revised downwards to 134.1 billion lei, despite including a positive impact, estimated by the Ministry of Finance at around 6 billion lei, from the increase in VAT rates effective from 1 August 2025. In light of budget execution over the first ten months of the year, the second revision maintained the level set in the first revision, with actual receipts only 0.2 billion lei lower.

Figure 5: VAT revenues in 2024

(billion lei)



Source: MF (cash standards)

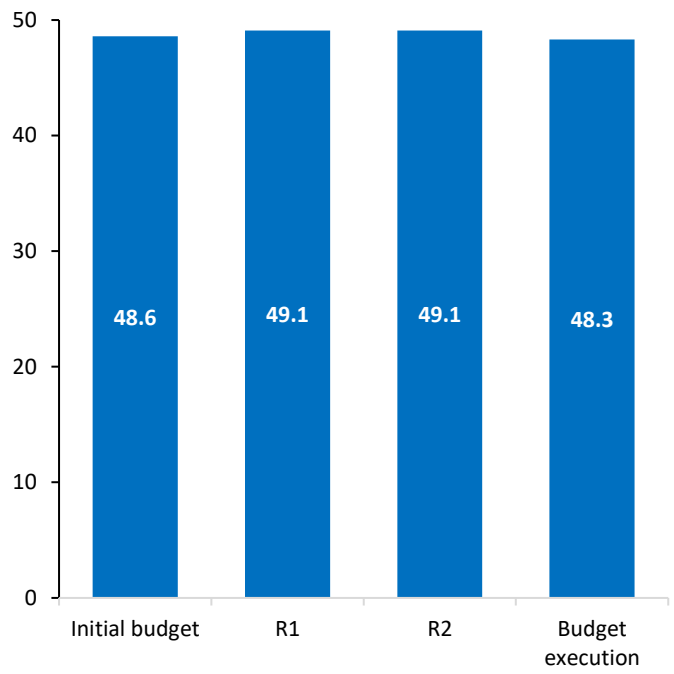
The evolution of VAT receipts was supported by the measures introduced under Law No. 141/2025, which included an increase in the standard VAT rate from 19% to 21% and the retention of a single reduced VAT rate of 11%, replacing the two previously applicable reduced rates of 5% and 9%. At the same time, private consumption increased by 8.1% in 2025, slightly exceeding the growth rate projected by the National Commission for Strategy and Forecasting (NCSP) when the draft budget was prepared (+7.3%).

Compared with the previous year, receipts under this budget aggregate increased by 10.7% (+13 billion lei). To assess the performance of VAT receipts, an ex post projection was prepared for comparison with actual outturns. Starting from the 2024 budget execution of VAT revenues, adjusted for the effect of the tax amnesty granted that year, the calculation applied the 8.1% increase in private consumption and took account of the effect of the fiscal-policy measures adopted in 2025 to increase VAT rates. Under the influence of these factors, the ex post projection for VAT receipts in 2025 amounts to around 135.4 billion lei, compared with actual receipts of 133.9 billion lei. Consequently, VAT revenue execution provides no evidence of an improvement in collection efficiency, which, according to the Ministry of Finance's initial projections, should have generated additional revenue of 5.7 billion lei.

Therefore, although increasing tax revenues through improved collection is desirable, especially given Romania's significant VAT compliance gap, this does not justify including hypothetical revenues in the budget framework. Any additional revenue resulting from improved collection efficiency should first be reflected in budget-execution outturns during the year and may subsequently be recognised in budget revisions.

Revenue collected from **excise duties** amounted to 48.3 billion lei in 2025, 0.3 billion lei below the estimate in the initial budget. The initial budget projected excise-duty revenue of 48.6 billion lei, based on projected real private-consumption growth of around 2.5%, as well as planned increases in excise-duty rates on 1 January 2025 – by 6.1% for energy products and by 4.4% for alcohol, spirits and alcoholic beverages – and on 1 April 2025 – by 2.2% for tobacco products. In the first budget revision, the revenue target was revised upwards to 49.1 billion lei, following the adoption of measures to increase excise-duty rates from 1 August 2025, included in Law No. 141/2025. The second revision maintained the revenue target at 49.1 billion lei; however, actual execution was 0.8 billion lei lower. Compared with 2024 budget execution, excise-duty receipts increased by around 2 billion lei (+4.3%).

Figure 6: Excise duties in 2025 (billion lei)



Source: MF (cash standards)

Since excise duties are presented in aggregate form in the budget framework, which does not allow the impact of changes affecting a single category to be analysed, an analysis of the composition of excise-duty receipts is warranted. With a 53.9% share of total receipts, up 4.9 pp from the previous year, excise duties on energy products continued to represent the largest component of this aggregate. They were followed by excise duties on tobacco products, which accounted for 40.6% of total receipts, down from 45.5% in the previous year, and by excise duties on alcohol, spirits and alcoholic beverages, which represented 4.1% of total receipts, 0.2 pp lower than in the previous year.

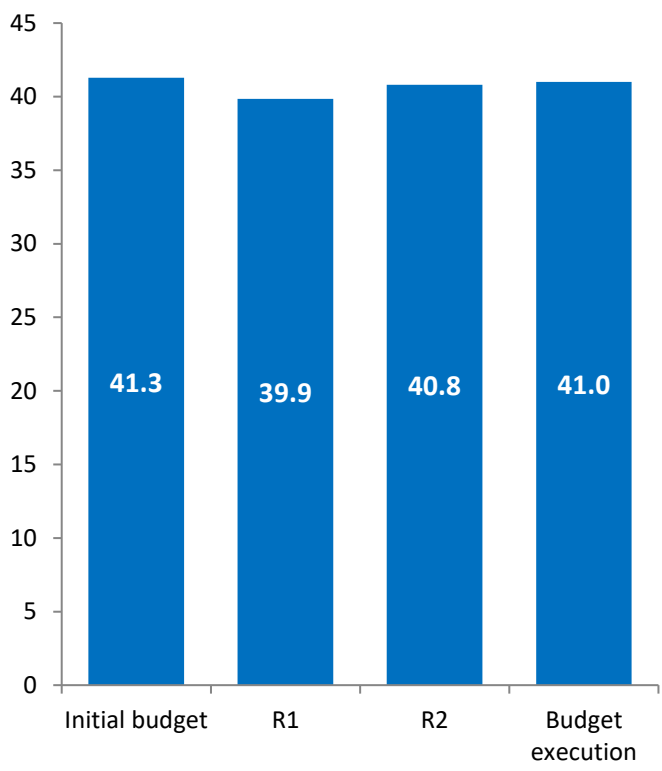
Analysing the changes in each product category relative to 2024 shows that excise-duty receipts from energy products increased by 14.7% (+3.3 billion lei), driven mainly by the impact of the two excise-duty increases in 2025: +25% in January 2025 compared with January 2024, and +16.7% in August 2025 compared with August 2024. By contrast, receipts from excise duties on tobacco products declined (-1.5 billion lei, equivalent to an annual rate of -6.9%), while excise duties on alcohol, spirits and alcoholic beverages were broadly unchanged (+7 million lei, equivalent to an annual growth rate of +0.4%). Taking into account developments across all excise-duty categories, the evolution of the relevant macroeconomic base – private consumption increased by 0.5% in real terms – the changes in excise-duty rates during 2025, and the fact that 2024 receipts included the effect of the tax amnesty, amounting to around 2.3 billion lei, 2025 budget execution does not appear to indicate an improvement in revenue collection for this aggregate.

III.3.2. Direct taxes

Receipts from **corporate income tax** amounted to around 41 billion lei in 2025, an increase of 5 billion lei (+14%) compared with 2024, but 0.3 billion lei below the initially projected target. The 2025 budget envisaged corporate income tax receipts of 41.3 billion lei, based on expected growth of 8.4% in the relevant macroeconomic base, namely nominal GDP. The projection also incorporated the impact of the measure to lower the revenue threshold for microenterprises, adopted through Emergency Ordinance No. 156/2024, as well as additional revenue expected from improved collection, estimated by the Ministry of Finance at 0.7 billion lei.

In the first budget revision, the revenue target was revised downwards to 39.9 billion lei. The second revision increased it to 40.8 billion lei, given that receipts in the first ten months exceeded the programmed level by around 0.9 billion lei. Budget execution in 2025 exceeded the revised target by approximately 0.2 billion lei.

Figure 7: Corporate income tax revenues in 2025 (billion lei)



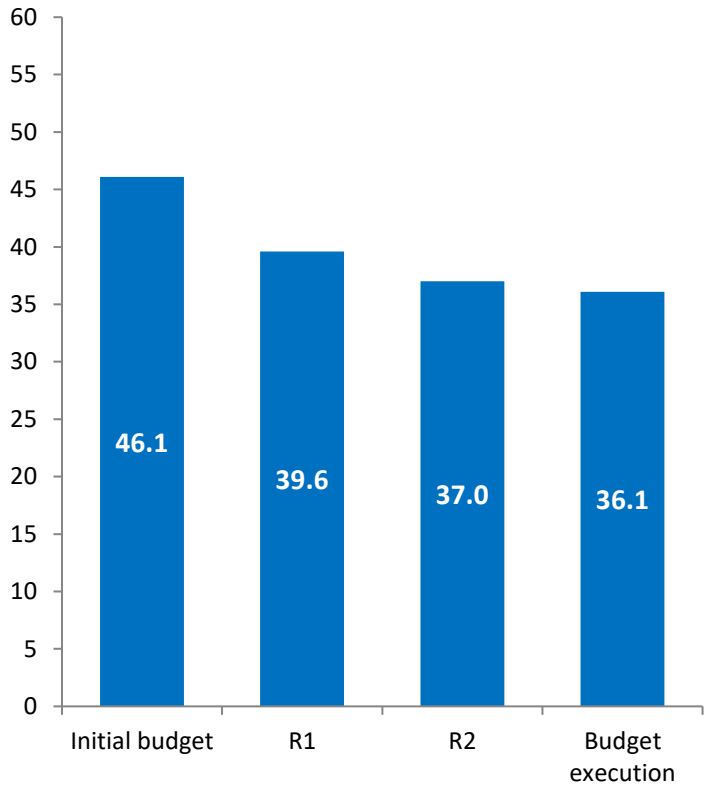
Source: MF (cash standards)

The 14% increase in corporate income tax receipts compared with the previous year exceeded actual nominal GDP growth, which amounted to around 8.9%. Starting from the 2024 budget execution of this aggregate, adjusted for the effect of the tax amnesty granted that year, estimated by the Ministry of Finance at 0.75 billion lei, the calculation applied the 8.9% increase in nominal GDP and took account of the effects of fiscal-policy measures implemented in 2025, the most important of which was the reduction in the revenue threshold for microenterprises. Under the influence of these factors, the ex post projection for corporate income tax receipts in 2025 amounts to almost 39.1 billion lei, around 1.9 billion lei below actual execution. This could suggest an improvement in collection efficiency.

The analysis of the composition of corporate income tax receipts shows, as in previous years, that the largest contribution came from corporate income tax paid by non-financial corporations, which accounted for 95.1% of total receipts. Compared with the previous year's budget execution, increases were recorded both in corporate income tax paid by non-financial corporations (+4.8 billion lei, or +14%) and in corporate income tax paid by commercial banks (+0.3 billion lei, or +10.5%).

Income tax revenues amounted to 58.8 billion lei, exceeding the level budgeted at the beginning of 2025 by around 2.2 billion lei and the level set in the second budget revision by 0.5 billion lei. The initial programme envisaged receipts of 56.6 billion lei, based on projected growth of 1.2% in the average number of employees and 6.2% in average gross earnings. The initial revenue projection also incorporated the effects of fiscal-policy measures adopted through Emergency Ordinance No. 156/2024: the elimination of tax incentives in the construction, agriculture, food industry and computer-programming sectors, and the increase in the dividend tax rate from 8% to 10%. It also included additional revenue expected from improved collection, estimated by the Ministry of Finance at 0.2 billion lei. The first budget revision increased the revenue target by 1.6 billion lei, owing to a more favourable forecast for tax receipts from dividend income, while the second revision made only a marginal adjustment (+0.1 billion lei).

Figure 8: Personal income tax revenues in 2025 (billion lei)



Source: MF (cash standards)

Compared with the previous year, income and wage tax revenues increased by 19.9% (+9.8 billion lei). Their growth exceeded the actual increase in the economy-wide wage bill, of around 9.3%[18], owing to the fiscal-policy measures adopted, whose total impact was estimated by the Ministry of Finance at 5.3 billion lei. Within this budget aggregate, tax on wage income accounted for 61.9% of total receipts, followed by tax on dividend income (17.6%), tax on pension income (7.8%), and income tax related to the single tax return (5.1%); the remaining subcategories had marginal shares.

Receipts from tax on wage income increased by around 6.1 billion lei (+20.2%) compared with the previous year. This increase was lower than the growth in the economy-wide wage bill adjusted for the effect of eliminating tax incentives in the construction, agriculture, food industry and computer-programming sectors (+3.9 billion lei), with no evidence of improved collection.

Revenue from taxes on income and wages was also strongly supported by tax on dividend income (+4.5 billion lei, or +77.8%). This aggregate was driven mainly by revenue collected in the second half of 2025, the final months in which the tax rate stood at 10%, ahead of its increase to 16% from 1 January 2026. Revenue from tax on pension income declined by 1.1 billion lei (-18.9%), following the increase, effective from 1 October 2024, in the tax-exempt threshold for pension income from 2,000 lei to 3,000 lei. Another

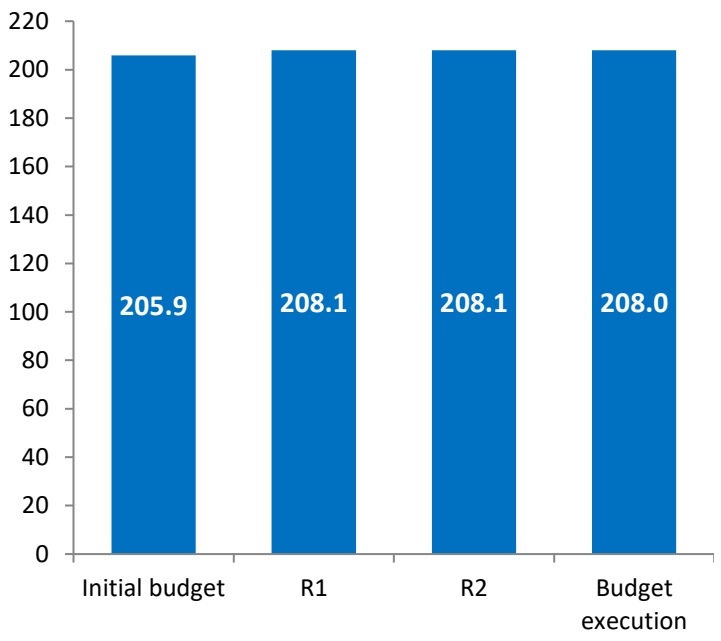
[18] Development over December 2024 - November 2025 compared with December 2023 - November 2024.

category recording rapid growth in 2025 relative to 2024, but accounting for a small share of the aggregate, was tax on gambling income (+21.1%, but only 2% of total revenue).

III.3.3. Social security contributions

Revenue from social insurance contributions amounted to 208 billion lei in 2025, around 2.1 billion lei above the initial-budget estimate. This development was driven by 9.3% growth in the economy-wide wage bill, compared with the 7.4% growth projected when the draft budget was prepared; the introduction of health insurance contributions on pension income exceeding the 3,000 lei threshold; and the elimination of certain exemptions from health insurance contribution payment under Law No. 141/2025. The initial projection also included additional revenue expected from improved collection, estimated by the Ministry of Finance at 3.1 billion lei. The budgeted amount of enforceable payment titles for 2025 was around 1.9 billion lei, whereas actual payments amounted to only 0.2 billion lei, reducing actual social insurance contribution revenue by around 0.6 billion lei relative to the budgeted level.

Figure 9: Social security contributions in 2025 (billion lei)



Source: MF (cash standards)

In the first budget revision, the social insurance contribution revenue target was revised upwards to 208.1 billion lei, mainly reflecting the inclusion of the impact of the measures set out in Law No. 141/2025, estimated at 2 billion lei. The second revision maintained this revenue target, and actual execution was very close to it.

Compared with the previous year, social security contribution (SSC) revenues increased by 18.5 billion lei (+9.8%), a growth rate exceeding that of the economy-wide wage bill (+9.3%). Starting from the 2024 budget execution for SSC revenues, adjusted for the effect of the tax amnesty granted that year (estimated by the Ministry of Finance at around 1 billion lei), the growth in the economy-wide wage bill was applied and the effect of the fiscal policy measures adopted in 2025 was taken into account. Under the influence of these factors, the ex post projection of SSC revenues for 2025 stands at around 208.1 billion lei (0.1 billion lei above the actual outturn). Consequently, there is no evidence of an improvement in collection performance for this revenue category.

To more accurately reflect the dynamics of SSC revenues over the 2022-2025 period, the table below presents the adjusted series for this budgetary aggregate[19], as well as its gross series, obtained by removing swap-type compensation schemes and adding transfers to the second pension pillar.

Table 6: Social security contributions (billion lei)					
		Budget execution 2022	Budget execution 2023	Budget execution 2024	Budget execution 2025
Adjusted series	**1**	**139,920.2**	**158,655.4**	**189,510.1**	**208,033.9**
Swap	2	664.8	-	-	-
Pilar II	3	10,986.6	12,818.4	17,898.1	22,320.3
Gross series*	**4=1-2+3**	**150,241.9**	**171,473.8**	**207,408.2**	**230,354.2**
*out of which Enforceable titles		577.5	568.7	1,165.7	62.5

Source: Association for Privately Managed Pensions in Romania, MF, FC calculations

Thus, based on the gross series, SSC revenues exceeded 230 billion lei in 2025, surpassing the previous year's receipts by around 11.1% (22.9 billion lei). This growth rate was higher than that recorded for SSC revenues in the budget execution (+9.8%), as the gross series also includes transfers to the second pension pillar, which increased more rapidly (+24.7%). After removing the impact of enforcement orders from the gross series, SSC receipts rose by 11.7% (24 billion lei) in 2025 compared with the previous year, against the background of lower payments related to this category.

III.4. Budget expenditures

Budgetary expenditure increased by 11.2% compared with the previous year (81.7 billion lei), reaching 808.7 billion lei at end-2025. With nominal GDP rising by 8.9%, the ratio of budgetary expenditure to GDP increased by 0.9 pp, from 41.3% to 42.2% of GDP. The increase in the expenditure-to-GDP ratio was driven mainly by projects financed from non-reimbursable financial assistance under the RRP (+0.9 pp), projects financed from non-reimbursable external funds (+0.8 pp), interest expenditure (+0.6 pp) and social assistance expenditure (+0.4 pp). These developments were partly offset by the dynamics of staff expenditure (-0.6 pp), subsidies (-0.3 pp), other expenditure (-0.3 pp), projects financed from post-accession non-reimbursable external funds, 2014-2020 (-0.2 pp), capital expenditure (-0.2 pp), other transfers (-0.1 pp) and expenditure on goods and services (-0.1 pp). The remaining expenditure aggregates recorded only marginal changes in their shares of GDP compared with the 2024 budget execution.

Compared with the allocations set in the initial 2025 budget, budgetary expenditure was higher by 6.6 billion lei (+0.8%), equivalent to 0.3 pp of GDP. Expenditure exceeded the amounts initially budgeted mainly for interest expenditure (+0.5 pp), social assistance expenditure (+0.5 pp), expenditure on goods

[19] Taken from each year's budget execution.

and services (+0.3 pp), capital expenditure (+0.3 pp), other transfers (+0.2 pp), and projects financed from post-accession non-reimbursable external funds, 2014-2020 (+0.1 pp). Conversely, the main expenditure categories that fell short of the levels envisaged in the initial budget were projects financed from non-reimbursable external funds (-0.7 pp) and projects financed from non-reimbursable financial assistance under the RRP (-0.2 pp), suggesting persistent delays in the implementation of projects financed by European funds. Lower-than-programmed levels were also recorded for staff expenditure and subsidies, with differences of around -0.1 pp of GDP for each category.

The analysis of the quarterly execution of general consolidated budget expenditure in 2025 shows, as in previous years, that spending was concentrated in the final quarter, with Q4 accounting for 29.6% of the annual total. Total expenditure in Q4 2025 amounted to 239.3 billion lei, compared with 215.1 billion lei in Q4 2024, an increase of around 11.3%. It was also 26.5% higher than in the preceding quarter, compared with a 24.3% increase in Q4 expenditure relative to Q3 in 2024.

Figure 10: Quarterly evolution of GCB revenues in 2025 (billion lei)

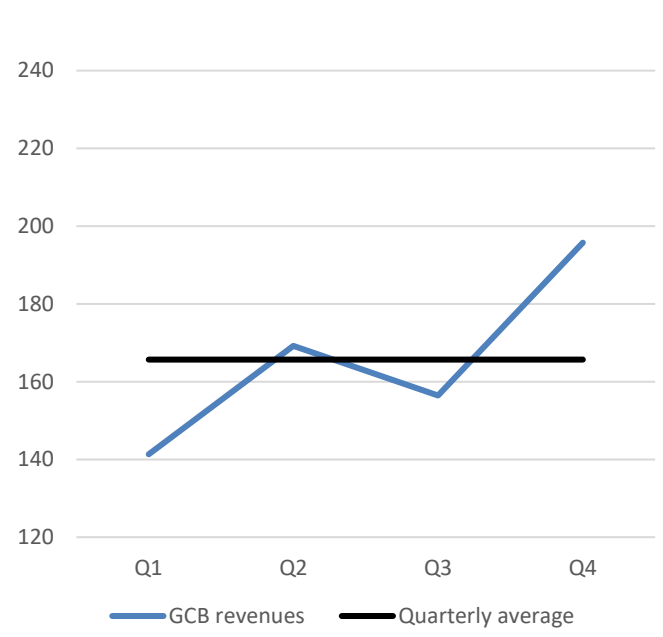
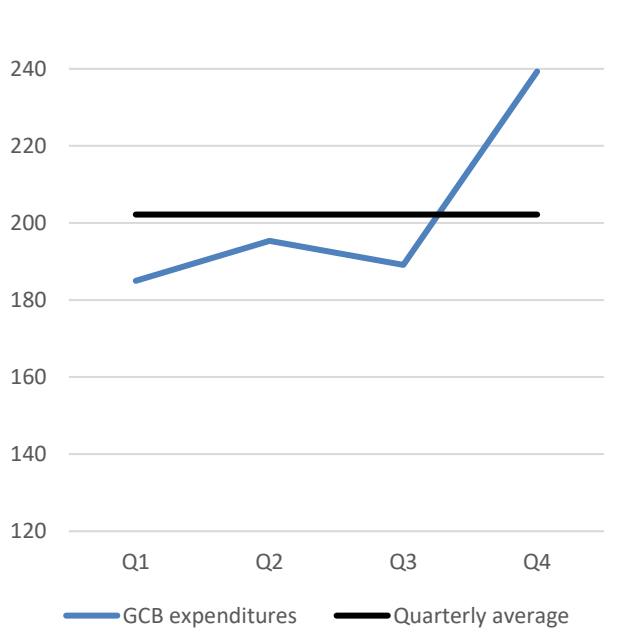


Figure 11: Quarterly evolution of GCB expenditures in 2025 (billion lei)



Source: MF (cash standards)

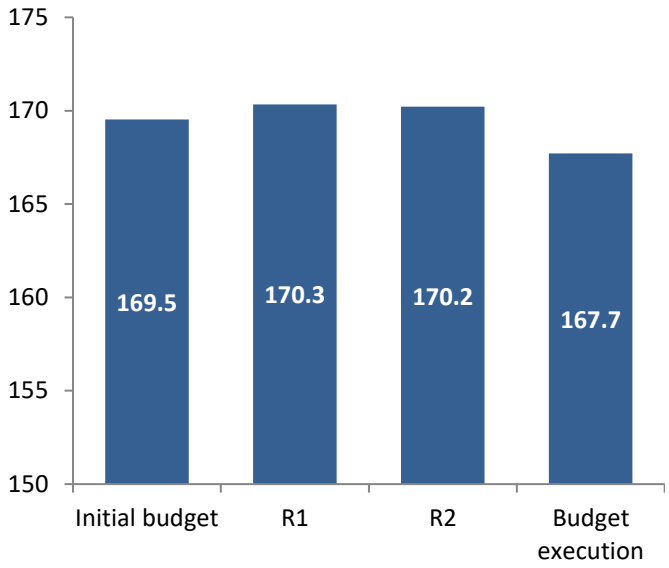
An analysis by category of the increase in expenditure in Q4 2025 compared with the preceding quarter highlights projects financed from non-reimbursable external funds (+312.1%, contributing 37.6% to total Q4/Q3 growth), capital expenditure (+116.4%, with a 29.2% contribution), and projects financed from non-reimbursable financial assistance under the RRP (+198.6%, with a 21.6% contribution). The concentration of expenditure in the last quarter of the year continues to point to deficiencies in the budget programming process, particularly with respect to public investment expenditure, namely capital expenditure and projects financed from European funds. While the prudence principle may, to some extent, justify postponing certain expenditure until revenue projections become more certain, this practice indicates inefficient planning. Budget revenues were likewise largely concentrated in the final

quarter, to a greater extent than in the previous year: Q4 accounted for 29.5% of the annual total, compared with 27.6% in 2024, while revenues were 25.1% higher than in the preceding quarter, compared with 12.9% in 2024. In this context, the Fiscal Council reiterates its recommendation from previous years on the need to reduce the volatility of budget execution at the quarterly level.

III.4.1. Personnel and social assistance expenditures

The execution of **personnel expenses** was 1.8 billion lei below the level envisaged when the 2025 draft budget was prepared. Initially estimated at 169.5 billion lei, the final outturn for this expenditure amounted to 167.7 billion lei, or 8.8% of GDP. The projections for staff expenditure during 2025 remained within the ceilings established by Law No. 8/2025 approving certain indicators specified in the fiscal-budgetary framework for 2025: a nominal ceiling of 170.8 billion lei and 8.9% of GDP. At the time of the first budget revision, the level envisaged for this budgetary aggregate was increased by around 0.8 billion lei (+0.5%), while the nominal GDP projection was revised down by 10.6 billion lei (-0.6%) compared with the projection used in preparing the initial budget.

Figure 12: Personnel expenditures in 2025 (billion lei)



Source: MF (cash standards)

In its opinion on the first budget revision, the Fiscal Council noted that the upward revision of this aggregate reflected the budget execution dynamics after eight months, which showed a 6.9% increase in staff expenditure compared with the same period of the previous year, whereas the growth rate projected in the initial budget was only 3%. In the revision proposal, the new growth target was 3.5%, and there were grounds to expect it to be met, given: (i) the base effect of the wage increases granted in 2024, which should have moderated as the end of the year approached, thereby also easing the growth in staff expenditure; and (ii) the effect of measures reducing the wage increase for staff managing projects financed from European funds, as well as measures limiting the incentives provided under various legislative acts for certain categories of staff.

As regards the second budget revision, this aggregate was kept broadly unchanged from the first revision. The Fiscal Council considered that the growth rate of staff expenditure had decelerated in the most recent months, owing to the fading base effect of the 2024 wage increases and to the measures reducing bonuses, adopted in the second half of 2025.

Compared with 2024, staff expenditure increased by 3.1 billion lei, or 1.9%. In 2025, a substantial decline was recorded in amounts paid pursuant to court rulings on wage differentials for certain categories of public-sector employees, from 3,405.5 million lei in 2024 to only 182.5 million lei. A decline was also observed in newly issued enforcement orders, albeit more moderate (-23.8%), from 2,493 million lei in 2024 to 1,898.6 million lei in 2025.

Table 7: Enforceable titles issued/paid on the account of the court decisions regarding the payment of salary differences for certain categories of public employees, million lei

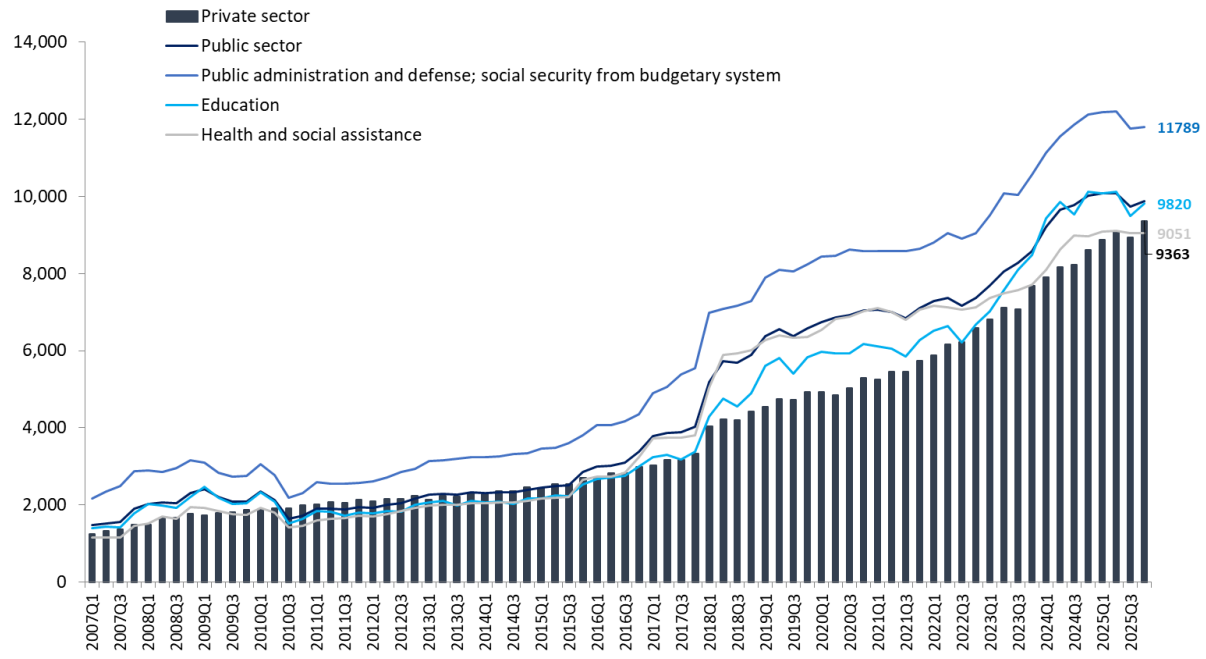
		2018	2019	2020	2021	2022	2023	2024	2025	Total
Enforceable titles issued, including Law no. 85/2016	Central administration (State budget)	996.9	1,461.6	2,812.3	1,163.3	2,340.5	8,063.5	2,431.5	1,887.1	21,156.7
	Local administration	0.0	0.0	10.3	74.0	117.1	76.4	50.2	11.5	339.5
	Social security budget	0.0	0.9	0.0	0.0	3.0	7.1	11.3	0.0	22.3
	Total	**996.9**	**1,462.5**	**2,822.6**	**1,237.3**	**2,460.6**	**8,147.0**	**2,493.0**	**1,898.6**	**21,518.5**
Enforceable titles paid, including Law no. 85/2016	Central administration (State budget)	80.8	999.7	1,551.5	1,314.6	1,652.9	1,628.0	3,285.8	175.2	10,688.5
	Local administration	79.2	947.7	17.5	31.4	33.8	32.6	112.8	6.5	1,261.5
	Social security budget	0.6	4.2	2.4	2.3	0.5	0.8	6.9	0.8	18.5
	Total	**160.6**	**1,951.6**	**1,571.5**	**1,348.3**	**1,687.2**	**1,661.4**	**3,405.5**	**182.5**	**11,968.5**

Source: MF

The average gross monthly wage (*Figure 13*) in the public sector reached 9,940 lei in 2025, 2.9% higher than in 2024. It exceeded the private-sector average by 9.7%, the latter standing at 9,064 lei per month, up 10.2% from the previous year. Based on quarterly averages, the average gross monthly wage in the public sector was 9,868 lei in Q4 2025, 1.4% lower than in the same period of 2024, while the private-sector average was 9,363 lei, up 8.7% from Q4 2024.

Across public-sector activity areas, the three largest by share recorded the following changes in average gross wages in Q4 2025 compared with Q4 2024: wages increased by 1% in health and social assistance, but declined by 2.7% in public administration and defence and by 2.9% in education.

Figure 13: Average gross earnings in the private and public sectors between 2007-2025 (lei/month)



Source: NIS, FC's computation

Following an increase of 165,600 persons during 2005-2008, total government-sector employment declined by 119,427 persons between December 2008 and December 2025, to around 1.28 million employees (*Figure 14*). Most of this staff reduction occurred during 2009-2011, when the number of employees in the budgetary sector fell by around 180 thousand. The adjustment recorded over 2009-2025 was concentrated mainly in local executive authorities (-31,854 occupied positions), the Ministry of Internal Affairs (-22,284), other institutions financed entirely from own revenues (-11,549), the Ministry of Justice[20] (-10,920), the Ministry of Finance (-9,912), and the Ministry of Agriculture and Rural Development (-5,169). Conversely, employment increased in the healthcare system, including the Ministry of Health (+28,719 occupied positions), the High Court of Cassation and Justice (+14,242), and the Ministry of European Investments and Projects (+2,024).

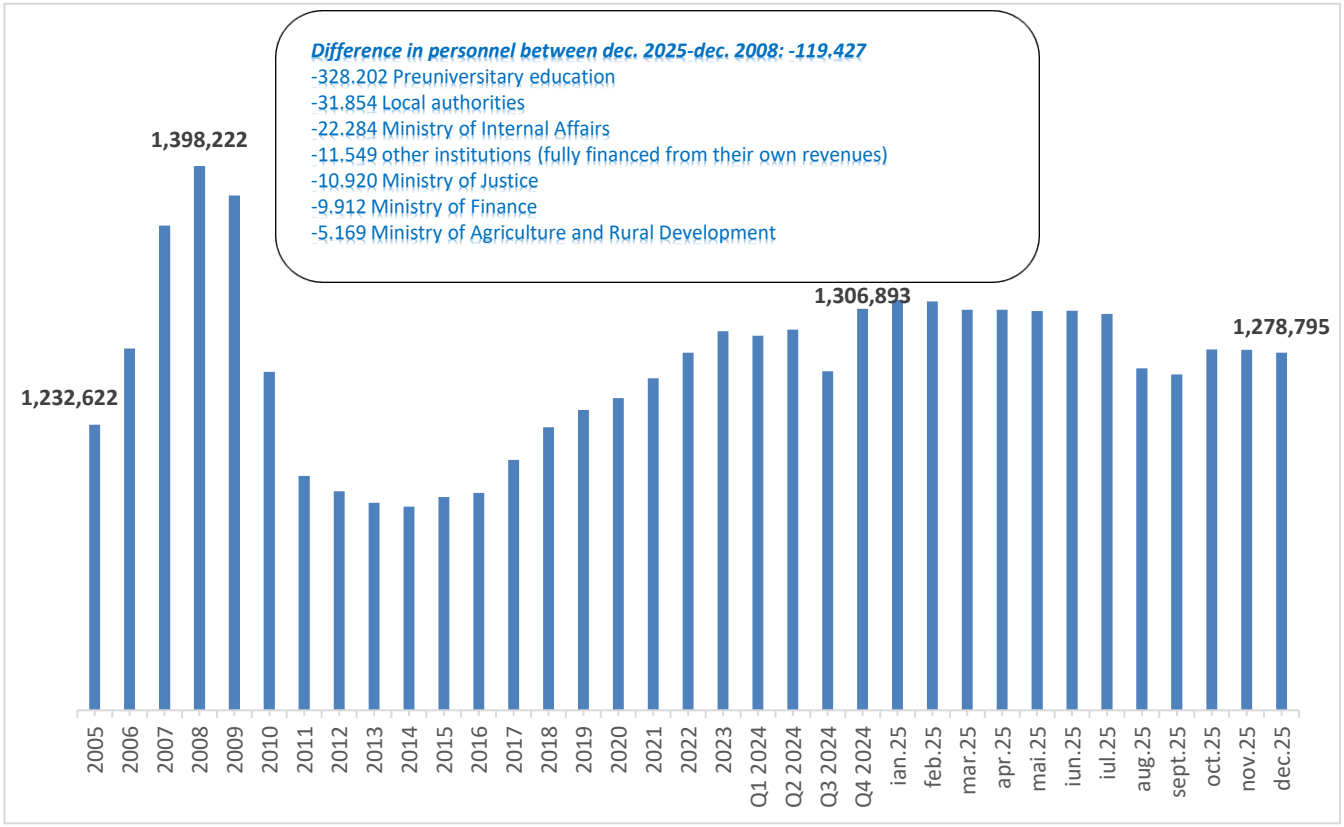
In 2025, government-sector employment decreased by 2.1% (-28,098 persons) compared with the previous year, following an increase of 1.1% (+14,334 persons) in the preceding year. The reduction in staffing levels was recorded mainly in local public authorities (-4,106 occupied positions), state higher-education institutions (-2,008), the healthcare system, including the Ministry of Health (-1,263), and the General Secretariat of the Government (-1,019). Conversely, the largest increases in staff were recorded at the Ministry of Internal Affairs (+154 occupied positions) and the Ministry of Labour, Family, Youth and Social Solidarity (+104).

The adjustment over 2009-2012 was mainly the result of applying the "one new employee for every seven departures" rule, with most exits from the system occurring through voluntary resignations or retirement. The abandonment of this rule from 2013 onwards was intended to reduce adverse selection and allow changes in the composition of the workforce. Thus, the staff reduction during 2009-2012 was based only to a

[20] As of 1 January 2023, employees of the courts were transferred from the Ministry of Justice to the High Court of Cassation and Justice.

limited extent on qualitative criteria, such as reducing staff where excess employment was identified, while simultaneously making new hires in understaffed areas on the basis of rigorously defined cost standards and by establishing an optimal operational level. The Fiscal Council considers such an approach appropriate and recommends that new hires be made in areas facing staff shortages, including through the transfer of positions from areas with surplus human resources, while also ensuring strict compliance with the approved wage bill envelope.

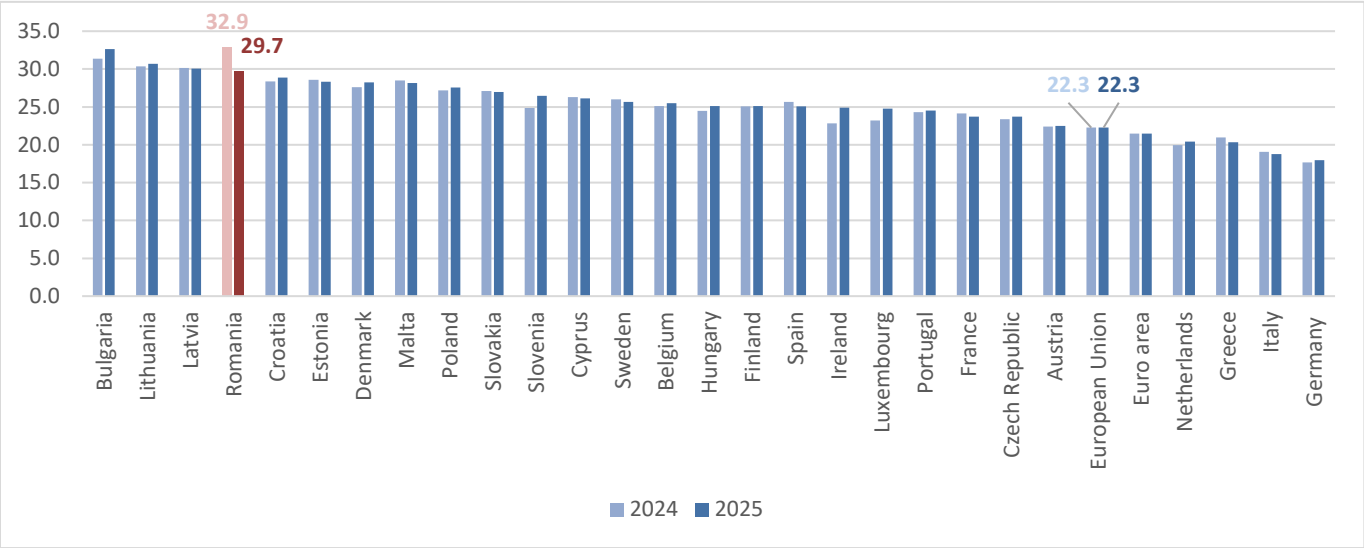
Figure 14: The evolution of public sector employment between 2005-2025



Source: MF

With regard to the ratio of public-sector wage expenditure to total budget revenues (*Figure 15*), according to ESA 2010 standards, this indicator declined in 2025 compared with the previous year. Romania therefore moved down to fourth place in the EU, after ranking first in the previous year. Whereas, until 2009, Romania had been placed in the upper half of the ranking in terms of the ratio of wage expenditure to total revenues – eighth in 2008 and tenth in 2009 – it fell to 19th out of 27 in 2011, following the fiscal consolidation measures initiated in mid-2010. In 2013, Romania ranked 17th, amid wage restorations and wage increases for certain categories of public-sector employees. In 2015, it ranked 20th out of 27, against the backdrop of a slight increase in budget revenues and a broadly unchanged ratio of wage expenditure to GDP. From 2016 onwards, the situation changed, with Romania climbing sharply to tenth place, then to second place in 2017, and ranking first from 2018 to 2021. In 2022, Romania fell to second place and ranked third in 2023, having also been overtaken by Latvia. In 2024, however, it returned to first place following wage increases in the public sector.

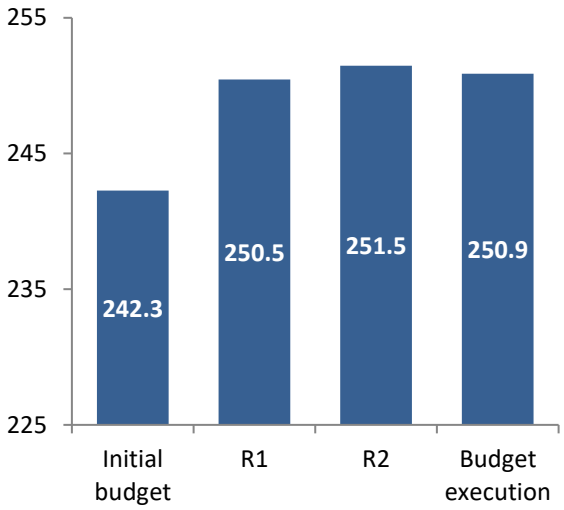
Figure 15: Personnel expenditures as a share of total budget revenues in EU27 countries



Source: Eurostat

Social assistance expenditure in 2025 was higher than envisaged in the initial budget. Although estimated in the 2025 budget proposal at 242.3 billion lei, actual execution amounted to 250.9 billion lei, 3.6% (around 8.6 billion lei) above the initial programme. Compared with the previous year's outturn, this expenditure category increased by around 12% (almost 27 billion lei), mainly due to the annualised effect of the recalculation of public-sector pensions from 1 September 2024. At the time of the first budget revision, the amount envisaged for this aggregate was revised upwards substantially, by 8.2 billion lei.

Figure 16: Social assistance expenditure in 2025 (billion lei)



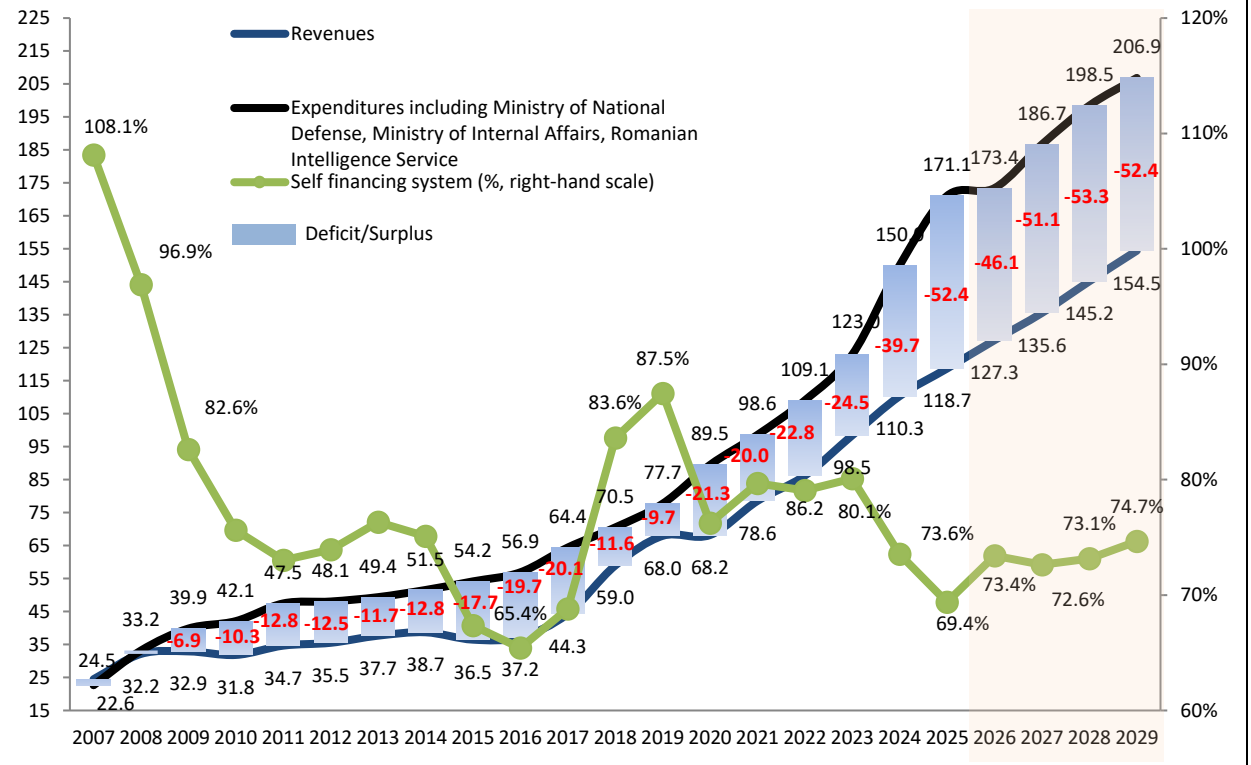
Source: MF (cash standards)

In its opinion on the first budget revision, the Fiscal Council noted that the substantial revision of this aggregate reflected higher expenditure under the state budget (+4.4 billion lei) and the state social insurance budget (+3.1 billion lei) for the payment of pension entitlements and other social assistance benefits, the granting and reimbursement of sick leave, the compensation of energy prices for household consumers, and the provision of vouchers for the payment of energy bills. Based on the information available at that time, the Fiscal Council considered that there were grounds to expect the revised target for social assistance expenditure to be met.

The second budget revision increased the ceiling for this expenditure by a further 1 billion lei, given its dynamics over the first ten months of the year, which were stronger than projected. However, the final outturn exceeded the level set at the first revision by only 0.4 billion lei.

From 2009 onwards, the deficit of the social insurance budget, including special/service pensions, widened significantly, reaching 52.4 billion lei in 2025, up 12.7 billion lei from the previous year (*Figure 17*). It should be noted that the upward trajectory of the deficit was partly reversed in 2018, when it declined to 11.6 billion lei, mainly as a result of fiscal measures restructuring the taxation of income from wages, pensions, self-employment and copyright income by shifting social contributions from employers to employees. Thus, although total contribution rates were reduced from 39.25% to 37.25%, shifting these contributions from employers to employees led to a significant increase in gross wages and, in practice, to an increase of around 13.9% in the level of taxation through social security contributions (SSC). In addition, the decline in the deficit in 2018 was also explained by the reduction in the contribution rate to the second pension pillar, from 5.1% in 2017 to 3.75% in 2018. In 2019, the social insurance budget deficit continued to narrow, reaching 9.7 billion lei, owing to the increase in the number of employees in the economy. From 2020 onwards, however, the deficit resumed its upward trajectory and widened significantly in 2024 and 2025, amid increases in public-sector pensions from 1 September 2024.

Figure 17: The evolution of revenues and expenditures from the social security budget (billion lei)



Source: MF (cash standards)

Note: In addition to expenditure under the state social insurance budget, expenditure on state military pensions was also included for the 2016-2025 period. Pursuant to Law No. 223/2015, from 1 January 2016, the funds required to pay state military pensions and other social insurance benefits due to military retirees have been provided from the state budget, through the budgets of the Ministry of National Defence, the Ministry of Internal Affairs and the Romanian Intelligence Service.

Ministry of Finance estimates for 2026-2029, based on the medium-term fiscal strategy, project a stabilisation of the social insurance budget deficit. It is expected to narrow in 2026, to 46.1 billion lei, before gradually returning towards the level recorded in 2025 (52.4 billion lei). In the adopted 2026 budget, social assistance expenditure is planned to decrease by 0.7%, to around 249 billion lei (12.2% of GDP). This projection is mainly driven by the restrictive measures adopted under Law No. 141/2025, the most important of which concern: maintaining public pension-system pensions and special pension-system pensions at their December 2025 levels; keeping the pension reference point at 81 lei; maintaining all categories of statutory social benefits and state child allowances at their December 2025 levels; revising the method for calculating sick-leave benefits; and limiting expenditure related to persons benefiting from health insurance. It should be noted that the measure freezing total social assistance expenditure in the public system is justified, pursuant to Article 13 of the Fiscal Responsibility Law, by the fact that public debt has exceeded the 60% of GDP threshold.

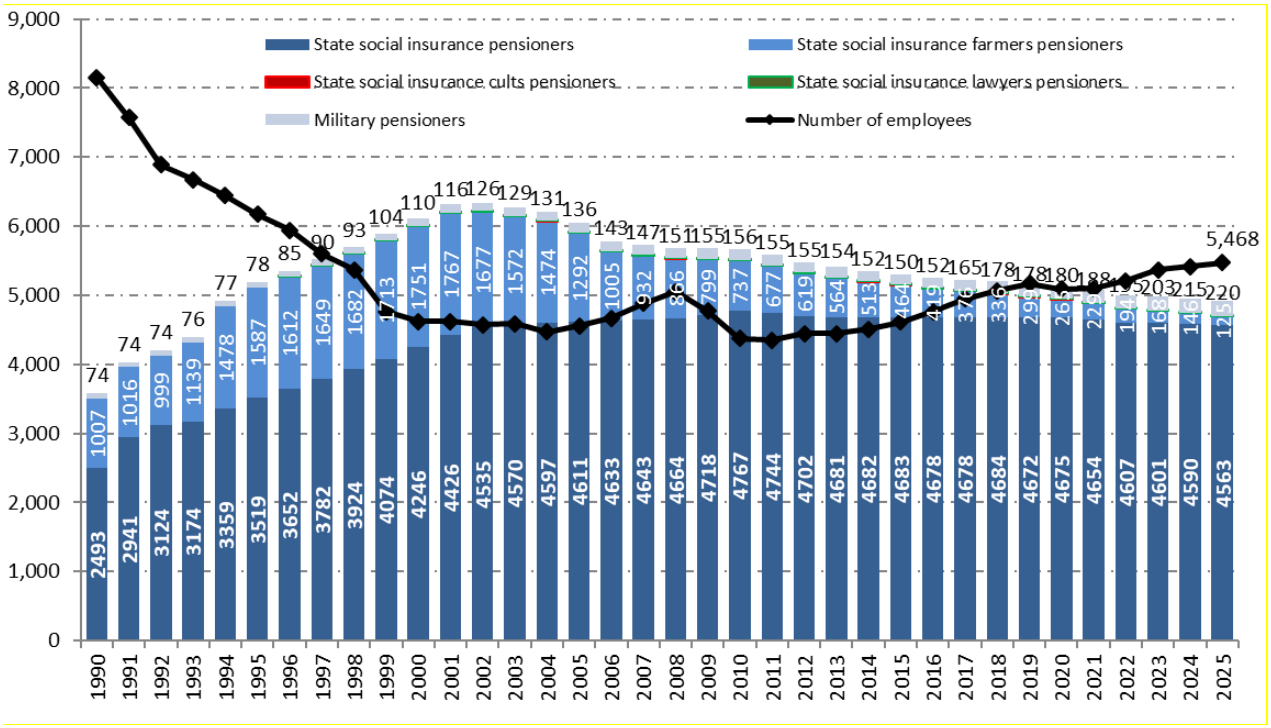
The system's self-financing ratio declined sharply from 111.8% in 2006 to 73% in 2011, reaching a historical low of 65.4% in 2016. In 2018, the self-financing capacity recorded a slight recovery, rising to 83.6%, and

continued to increase to 87.5% in 2019. In 2020, the system's self-financing ratio declined significantly to 76.2%, followed by a gradual increase to 80.1% in 2023. From 2024 onwards, it entered a downward trajectory, reaching 69.4% in 2025. Estimates over the forecast horizon indicate a gradual increase in this indicator, to 74.7% in 2029.

The decision to increase permanent expenditure, such as pension expenditure, should take into account the trend in contribution revenues and forecasts for the employee-to-pensioner ratio. This is particularly important given the intensifying demographic ageing process: according to INS data, on 1 January 2018 the population aged 65 and over exceeded the population aged 0-14 years (3.596 million versus 3.042 million persons). The ratio of contributors to beneficiaries (*Figure 18*) has declined sharply over the past 30 years, from 2.28 employees per pensioner in 1990 to only 1.11 in 2025. Moreover, European Commission projections[21] estimate that this ratio will fall to 0.84 employees per pensioner by 2050. In this context, the need to identify an indexation rule that ensures the long-term sustainability of the social insurance budget, rather than relying on the discretionary approach of the past, has become clear. From this perspective, the new pension law should provide greater transparency and predictability to the budget programming process for social assistance expenditure.

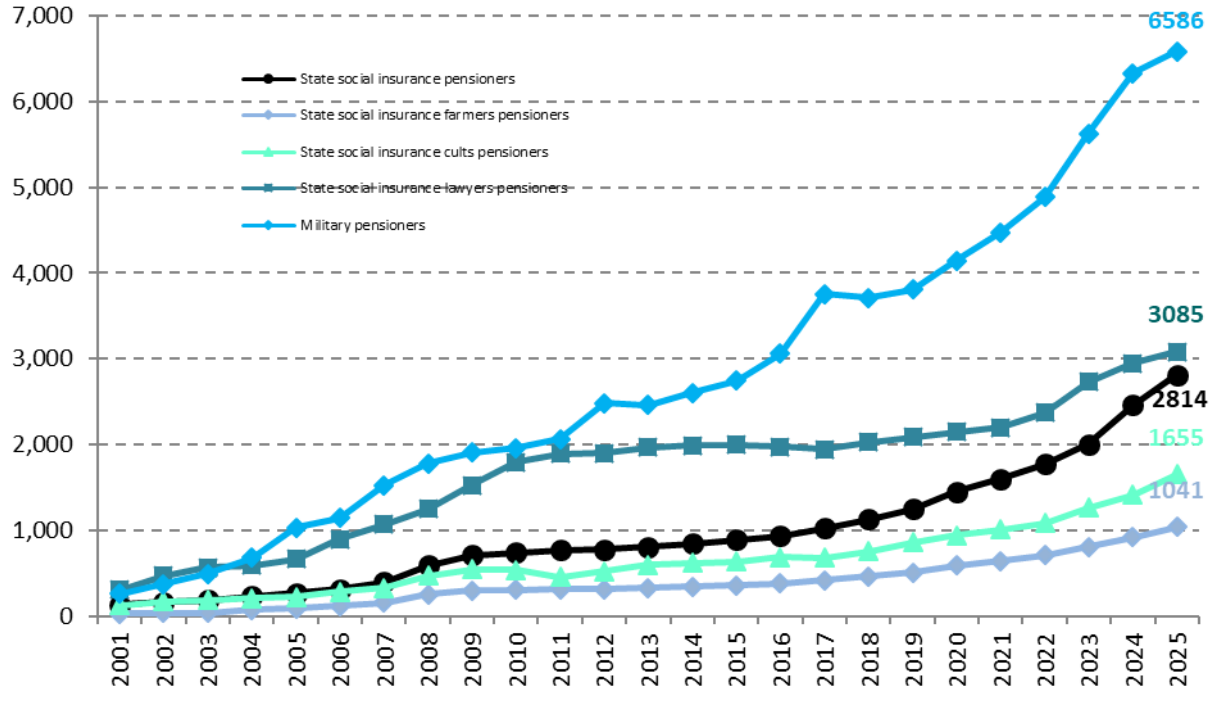
[21] According to the European Commission, *The 2024 Ageing Report: Economic and Budgetary Projections for the EU Member States (2022-2070)*, https://economy-finance.ec.europa.eu/document/download/971dd209-41c2-425d-94f8-e3c3c3459af9_en?filename=ip279_en.pdf

Figure 18: The evolution of the number of pensioners vs the number of employees (thousand persons)



Source: NIS, except for the number of employees in 2025, for which the source is NCSP, Spring Forecast 2026

Figure 19: The evolution of average pension (lei) between 2001-2025

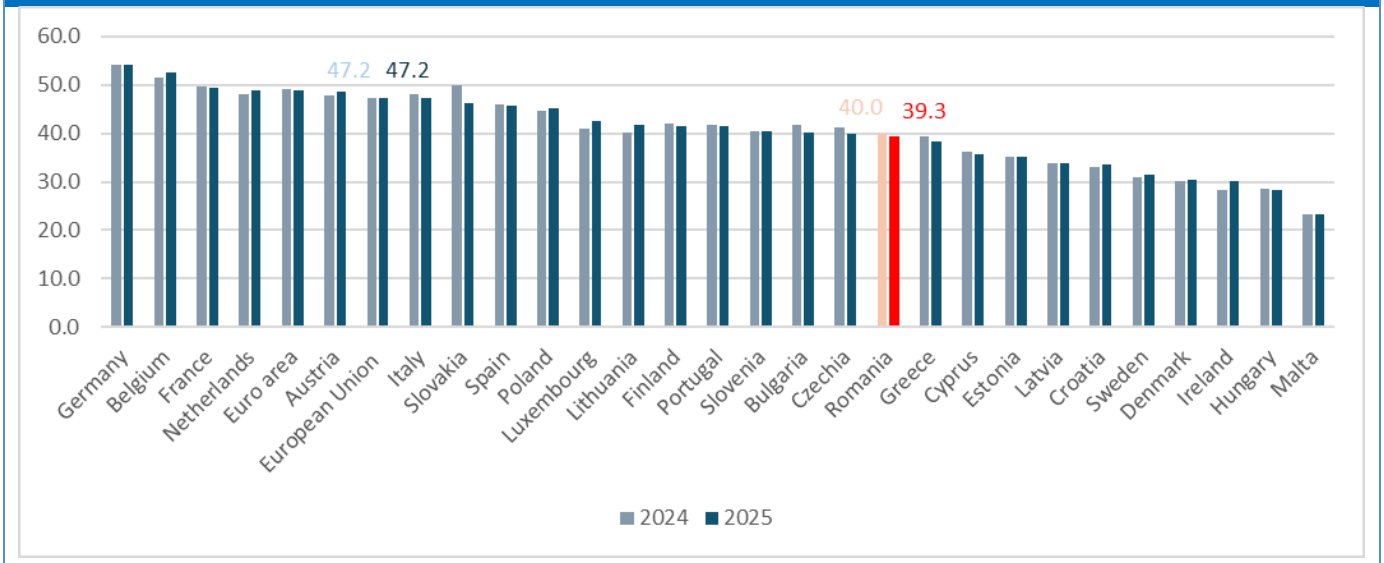


Source: INS

According to NIS data, the average monthly pension (*Figure 19*) was 2,937 lei in 2025, up 13.8% from the previous year, following the recalculation of pensions as of 1 September 2024. Pensions paid from the social insurance budget averaged 2,814 lei, while pensions for former agricultural workers averaged 1,041 lei. At the same time, pensions granted to military personnel reached an average monthly level of 6,586 lei, up by 256 lei (+4%) from their 2024 level. The average monthly pension of beneficiaries formerly employed in the national defence, public order and national security system increased by around 236% over 2010-2025. Over the same period, the average monthly pension of beneficiaries receiving pensions from the state social insurance budget increased by around 310%.

In 2025, as in the previous year, Romania remained 17th among EU Member States in terms of the share of social assistance expenditure in total budget revenues, according to ESA 2010 standards (*Figure 20*). Its position in the ranking was maintained despite a 0.7 pp decline in this share, driven by the slower growth of this expenditure category relative to budget revenues.

Figure 20: Social assistance expenditures as a share of total budget revenues in EU27 countries

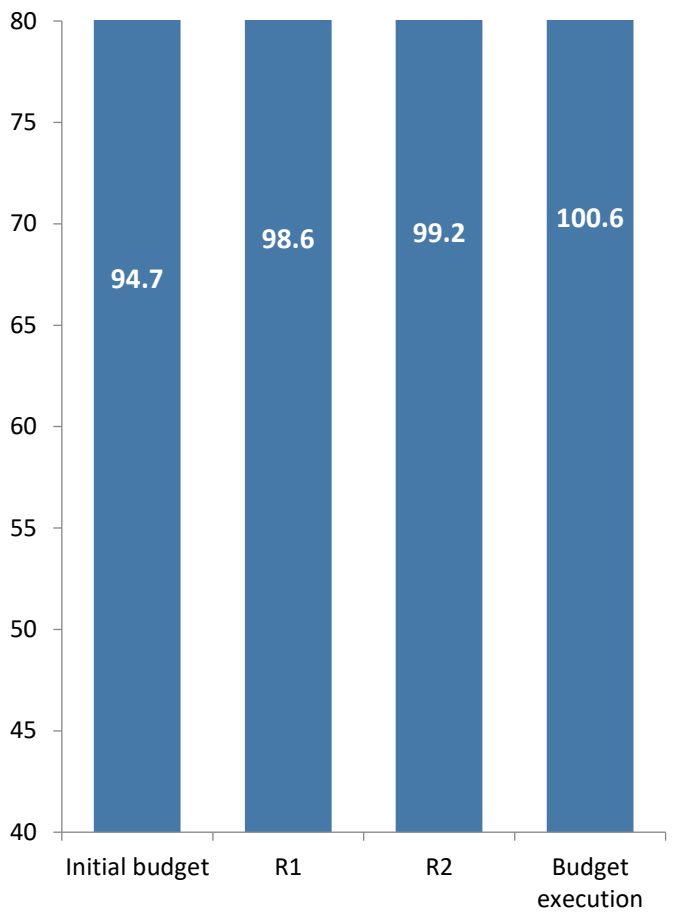


Source: Eurostat

III.4.2. Goods and services expenditures

The execution of **expenditure on goods and services** was significantly higher both than the level envisaged in the initial budget (+5.9 billion lei) and than the amounts projected at the two budget revisions carried out during the year. Initially estimated at 94.7 billion lei, the final outturn for this aggregate reached 100.6 billion lei, 1.4 billion lei above the level projected at the second revision (November 2025), confirming the tendency to underestimate expenditure on goods and services in the budget programming process. This development is consistent with the Fiscal Council's assessment, which had identified an underestimation of expenditure on goods and services in its opinion on the 2025 draft budget and indicated an additional financing need for this aggregate of at least 3 billion lei. The note accompanying the execution of the consolidated general government budget for 2025 [22] shows that expenditure under this aggregate increased by 3.8% in local budgets and by 12.9% in the budget of the National Single Health Insurance Fund, compared with the previous year, for the reimbursement of medicines.

Figure 21: Goods and services in 2025 (billion lei)



Source: MF (cash standards)

Compared with the 2024 budget execution, expenditure on goods and services increased by 7.3 billion lei (+7.8%), while nominal GDP rose by 8.9%. Consequently, the share of expenditure on goods and services in GDP declined marginally, by 0.06 pp, to 5.25%.

Relative to the 2024 budget execution (93.4 billion lei), the initial 2025 budget projected an increase of only 1.3 billion lei for this expenditure category. Subsequently, the budget allocation for expenditure on goods and services was increased at each of the two budget revisions. At the first revision, this aggregate was revised upwards by 3.9 billion lei, to 98.6 billion lei, given that execution after eight months showed a 4% increase in expenditure on goods and services compared with the same period of the previous year, versus a growth rate of only 1.1% envisaged in the initial budget. At the second revision, the allocation was increased by a further 0.6 billion lei, to 99.2 billion lei, implying a cumulative increase of 4.5 billion lei (+4.7%) relative to the initial programme. The successive revisions to budget allocations

[22] https://mfinante.gov.ro/static/10/Mfp/buletin/executii/nota_bgc31122025.pdf

highlighted the inadequacy of the amounts provided in the initial budget, requiring repeated adjustments during budget execution. Ultimately, expenditure on goods and services in 2025 exceeded the level envisaged at the second revision by 1.4 billion lei.

Thus, as in previous years, expenditure on goods and services again proved difficult to control in 2025, with the final outturn exceeding both the initial estimate and the estimates made in the budget revisions. This development points to persistent deficiencies in the budget programming process and to the need for a more rigorous substantiation of projections for this expenditure category. In this context, greater transparency is needed regarding the assumptions underlying the budget, along with a clear breakdown of the intended use of funds allocated to goods and services. More effective control of this expenditure could also be supported by continuing the reform of the public procurement system and improving resource-use efficiency, drawing on the findings of public expenditure reviews (spending reviews).

III.4.3. Public investment expenditures

According to the budgetary classification, investment expenditure comprises capital expenditure (non-financial assets), projects financed from post-accession non-reimbursable external funds, expenditure related to programmes financed by repayable funds, capital transfers and other investment-related transfers, and, from 2022 onwards, the aggregates for projects financed from amounts representing non-reimbursable financial assistance under the RRP and projects financed from amounts related to the loan component of the RRP. The breakdown analysis of this budgetary aggregate presented in this chapter follows the above definition.

In the initial 2025 budget, investment expenditure, on a cash basis, was estimated at 149.7 billion lei, 29.6 billion lei above the level planned for 2024. The financing structure was projected to favour external sources of financing, with projects financed from post-accession non-reimbursable external funds and projects financed from amounts representing non-reimbursable financial assistance and the loan component under the RRP accounting for around 62% of the total - 5.9 pp less than in the initial 2024 budget. Domestic sources accounted for the remaining 38%, compared with 32.2% in the initial 2024 budget. This structure also reflected the assumption, underlying the 2025 investment budget, of the absorption of a significant volume of European funds under the MFF and the RRP. As in its previous reports, the Fiscal Council supports financing the largest possible share of public investment from European funds, since, in the context of a high budget deficit, public investment expenditure without repayable financing may place significant constraints on the public budget.

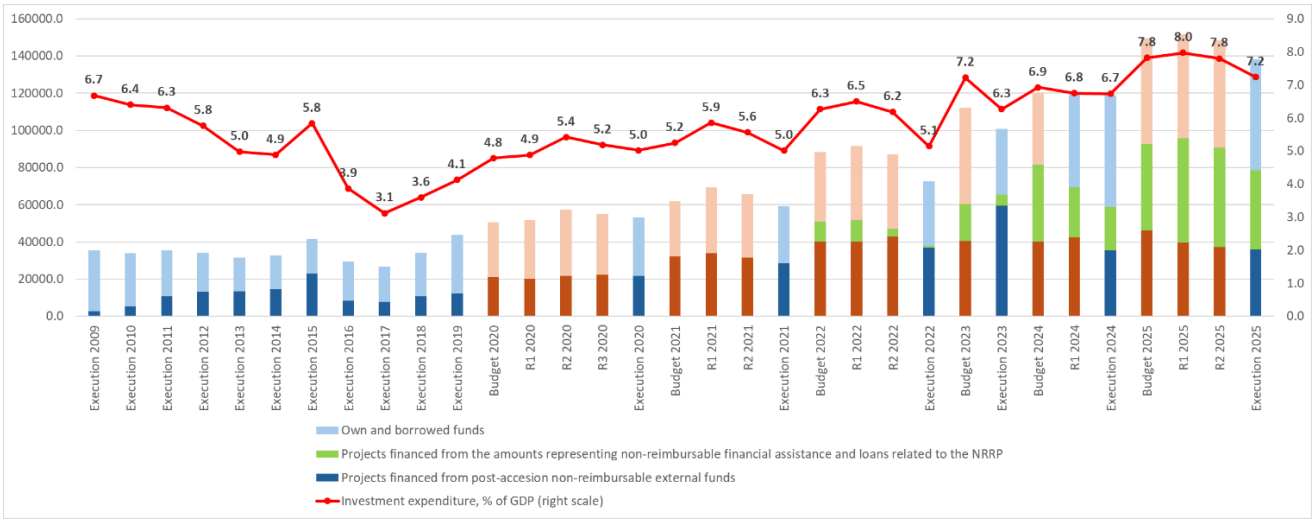
In the final outturn, investment expenditure increased by 18.8 billion lei compared with the previous year, reaching 138.2 billion lei, equivalent to a nominal increase of around 15.7%. Compared with 2024, the rise in investment expenditure was driven mainly by projects financed from amounts representing non-reimbursable financial assistance and the loan component under the RRP (+18.9 billion lei), while the remaining components recorded smaller changes relative to the 2024 outturn. Thus, in 2025, the

ratio of external[23] to domestic sources of financing for investment expenditure again exceeded one, standing at 131.7%, after having been 95.3% in 2024.

The share of investment expenditure in GDP reached 7.2% in 2025, 0.4 pp above the level recorded in the previous year. This was around 3.5 pp higher than the 2016-2019 average and around 1.4 pp above the 2009-2015 average (5.8% of GDP). Thus, 2025 marked a continuation of the investment recovery of recent years, with the execution of public investment expenditure reaching its highest share of GDP over the 2009-2025 period. In terms of the share of investment in total budget revenues, it stood at 20.9% in 2025, similar to the previous year and the highest level of the past decade.

The evolution of this budgetary aggregate, from the perspective of comparing actual outturns with the amounts planned in the initial budget or set at budget revisions, is illustrated in *Figure 22* for 2020-2025; budget execution outcomes for 2009-2019 are also presented. Recent years have seen high within-year volatility in projections for public investment expenditure, with final outturns generally falling short of the estimates in the initial budgets and those made at budget revisions.

Figure 22: Investment expenditures between 2009-2025



Source: MF (cash standards)

Developments in 2025 do not depart from this trend, with a gap of 11.5 billion lei between outturns and the level envisaged in the initial budget. The largest shortfall, of around 10 billion lei, was recorded for projects financed from post-accession non-reimbursable external funds, followed by projects financed from amounts representing non-reimbursable financial assistance and loans related to the RRP (-4.2

[23] From 2022 onwards, this category also includes the aggregate for *projects financed from amounts representing non-reimbursable financial assistance and the loan component under the RRP*.

billion lei). By contrast, amounts financed from own resources and borrowed funds were 2.8 billion lei higher in execution than in the initial budget. These differences, some of them substantial, demonstrate the weak capacity for planning and absorbing European funds. The Fiscal Council welcomes the intention to finance a significant share of public investment expenditure from external funds, given Romania's very low level of tax revenues. However, major failures to meet European-fund absorption targets point to shortcomings in the budgeting process. These may hinder the fiscal consolidation process, given the limited fiscal space available to Romania.

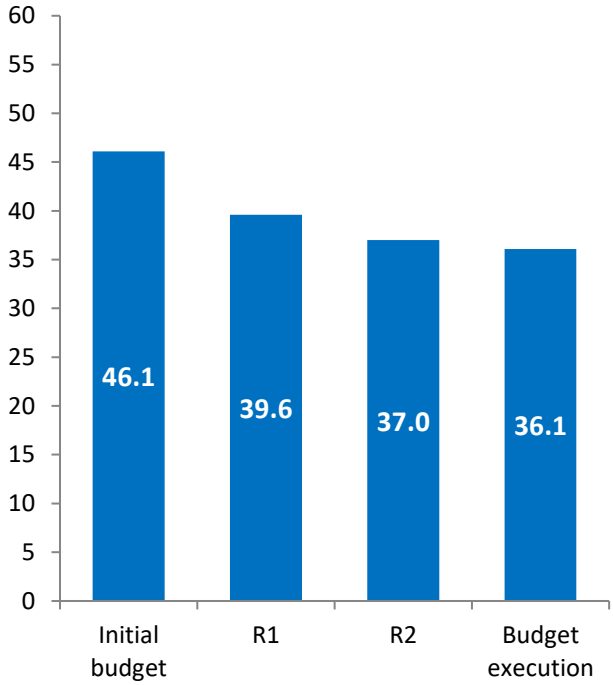
The quarterly distribution of investment expenditure as a share of total budget execution also indicates high volatility, fluctuating from 18.1% in the first quarter to 18.4% in the second quarter, 23.3% in the third quarter and 40.2% in the final quarter. In practice, investment expenditure in the final three months of the year was twice as high as the average for the preceding three quarters. Given that the same pattern has occurred systematically in previous years, this practice calls into question the effectiveness of the budget programming process, in terms of both investment-project management and the setting of implementation criteria in line with their importance and usefulness.

The following section presents the developments in the main components of investment expenditure during 2025 (which, taken together, account for nearly 96% of the total), by comparing actual outturns with the levels envisaged in the initial budget and subsequently revised through budget amendments.

In 2025, capital expenditure allocated to public investment[24] was budgeted at 51.1 billion lei in the initial budget. Compared with the 2024 outturn, this expenditure category was reduced by 2.8 billion lei, representing a decrease of approximately 5.1%.

At the first budget amendment, capital expenditure was marginally reduced to 51 billion lei. At the second amendment, however, the aggregate was increased by 2.1 billion lei, while the final outturn exceeded the level envisaged in the 2025 initial budget by 2.4 billion lei (+4.8%), reflecting the use of national funds to offset shortfalls in the absorption of European funds.

Figure 23: Capital expenditures in 2025 (billion lei)



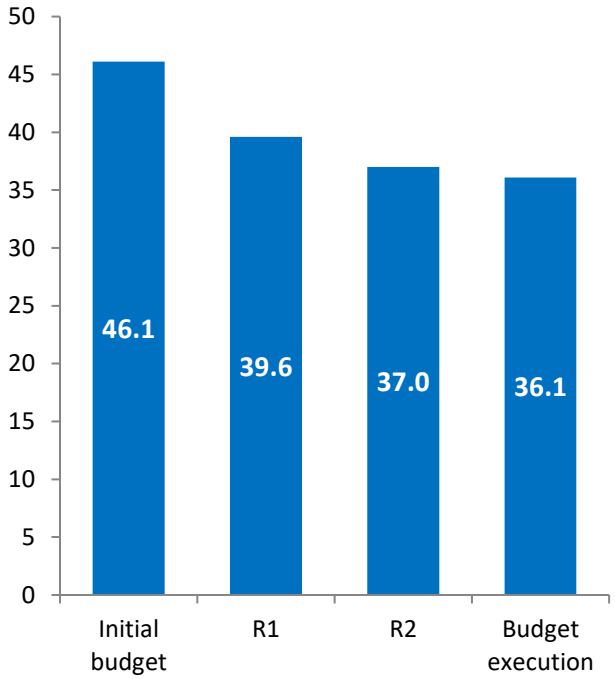
Source: MF (cash standards)

[24] This is the main component of capital expenditure in the general consolidated budget, which also includes capital transfers and inventories.

Projects financed from post-accession non-reimbursable external funds (NREF) allocated to public investment were budgeted at 46.1 billion lei in the 2025 initial budget, 11.4 billion lei above the level recorded in the 2024 outturn. Through the budget amendments, this aggregate was successively revised down to 39.6 billion lei at the first amendment and 37 billion lei at the second amendment.

The final 2025 outturn recorded a shortfall of 10 billion lei relative to the target set in the initial budget, with the programme implementation rate standing at around 78%, significantly below the level recorded in the previous year (89%). Compared with the 2024 outturn for projects financed from post-accession non-reimbursable external funds, an increase of approximately 1.3 billion lei was recorded in 2025.

Figure 24: Projects financed from post-accession NREF in 2025 (billion lei)

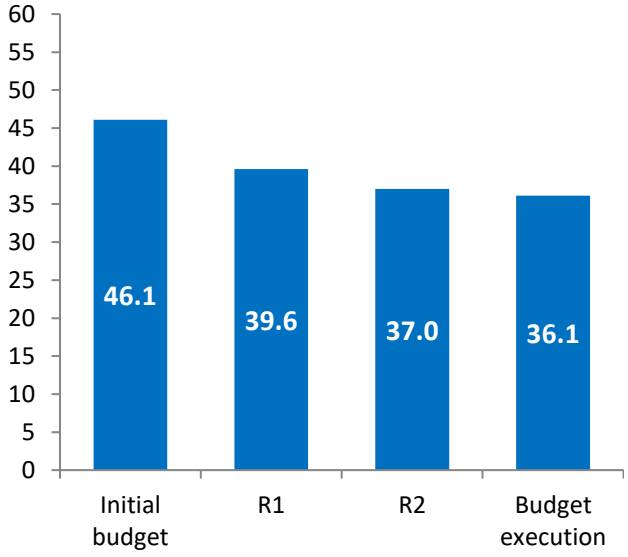


Source: MF (cash standards)

Projects financed from amounts representing non-reimbursable financial assistance and loans related to the RRP were budgeted at 46.7 billion lei in the 2025 initial budget, 23.1 billion lei (+98.3%) above the 2024 outturn. At the first budget amendment, the aggregate was substantially increased to 56.2 billion lei, before being revised slightly downwards (-2.6 billion lei) at the second amendment. Actual outturns showed an achievement rate of 91% of the initial target and an increase of 18.9 billion lei compared with the 2024 outturn.

The Fiscal Council notes that RRP loans place additional pressure on the budget deficit unless they can be accommodated by reducing other categories of expenditure and/or increasing budget revenues.

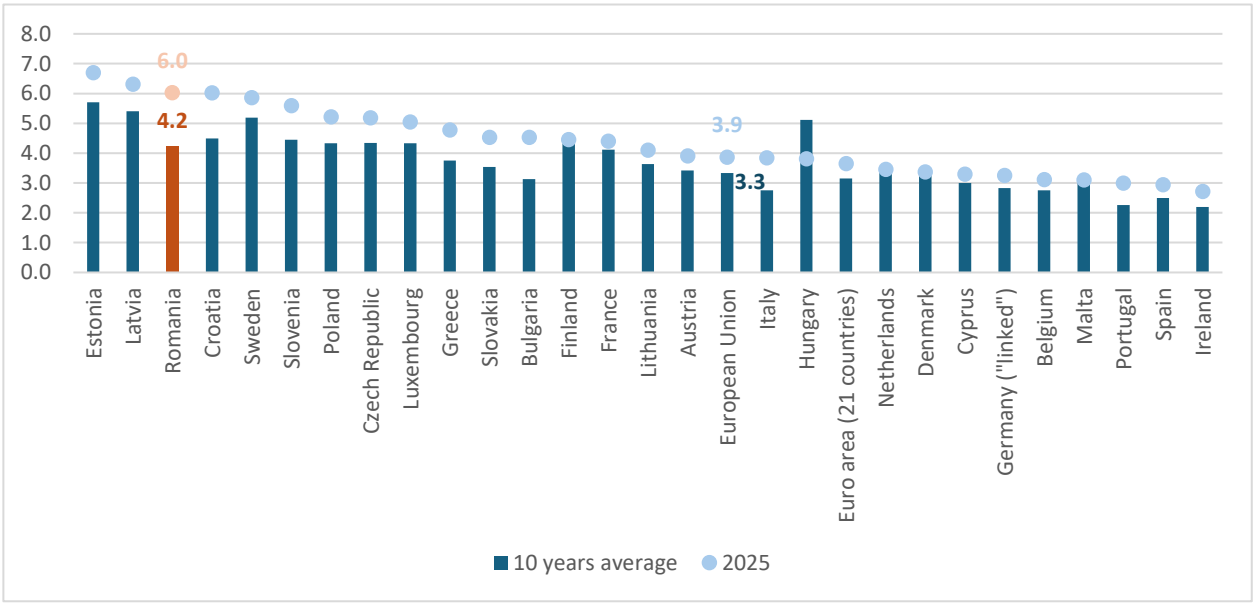
Figure 25: The evolution of expenditures with projects financed from the amounts representing non-reimbursable financial assistance and loans related to the NRRP in 2025 (billion lei)



Source: MF (cash standards)

An analysis of the efficiency of investment expenditure over the past ten years points to an unsatisfactory outcome for Romania relative to the other EU Member States. Although Romania recorded one of the highest capital expenditure-to-GDP ratios in the EU over the past decade, its infrastructure remains insufficient in both quantitative and qualitative terms, pointing to the low efficiency of public investment expenditure. Nevertheless, progress made in recent years should be noted, particularly in road infrastructure. Over the 2016-2025 period, the capital expenditure-to-GDP ratio (*Figure 26*) placed Romania in the top half of the EU ranking (11th), with an average share of 4.2% of GDP, approximately 0.9 pp above the EU average. The gap relative to Estonia, which ranked first, was 1.5 pp, and relative to Latvia, which ranked second, 1.2 pp. In the 2025 ranking, Romania ranked joint third with Croatia, with a share of 6% of GDP, but below Latvia (by 0.3 pp) and Estonia (by 0.7 pp).

Figure 26: Capital expenditures in 2025 and the 10-year average (% of GDP, ESA 2010)



Source: Eurostat

The European Commission's 2025 Country Report[25] notes that Romania has substantial investment potential, but that this is constrained by macroeconomic vulnerabilities, the slow pace of reforms and delays in implementing projects financed by European funds. Although public investment, particularly in infrastructure, remained robust, it was unable to offset the decline in private investment, which was affected by fiscal uncertainty, high energy costs and weak external demand. The European Commission stresses that the efficient absorption of European funds and the accelerated implementation of the RRP will be the main drivers of investment in the coming years. Romania also needs to reorient its economic growth model towards investment in research, innovation, digitalisation and high-value-added technologies in order to strengthen its competitiveness within the European market. The report recommends developing capital markets and diversifying companies' sources of financing, particularly for SMEs and start-ups, which currently rely to a large extent on their own resources. Investment in

[25] https://economy-finance.ec.europa.eu/document/download/7cb47fb4-4517-431a-95c8-17cb161d5078_en?filename=RO_CR_SWD_2025_223_1_EN_autre_document_travail_service_part1_v4.pdf

transport infrastructure, renewable energy, energy networks and workforce skills development is regarded as a strategic priority for supporting productivity and attracting private investment. At the same time, improving legislative predictability, reducing red tape and strengthening administrative capacity are essential conditions for creating a stable investment climate and capitalising on the opportunities provided by European funding.

The OECD report published in 2026[26] indicates that Romania is at a pivotal stage in its economic development process. After two decades of rapid convergence towards advanced economies, the growth model based mainly on consumption and low labour costs is reaching its limits. Going forward, investment will be the main driver of sustainable economic growth, while Romania's capacity to make effective use of European funds and implement its reform commitments will be decisive in sustaining its pace of development.

The report highlights that public investment in infrastructure, digitalisation, education and the green transition can have significant effects on productivity and the competitiveness of the economy. At the same time, private investment – particularly investment in innovation, research and development, and advanced technologies – is essential to increasing value added and further integrating Romanian companies into global production chains. The OECD emphasises that Romania remains attractive to foreign direct investment, but that stronger linkages between international investors and local firms are needed to fully capitalise on it.

Overall, the OECD's message is cautious but optimistic: Romania has the financial resources, opportunities and considerable potential to continue its economic convergence process. The success of this phase will, however, depend on its capacity to turn investment and structural reforms into a long-term competitive advantage, capable of supporting sustainable economic growth and improving living standards.

In this context, the Fiscal Council advocates the firm application of the existing legal framework governing public investment management. It considers that the sound prioritisation of investment, together with its orientation towards research, development and innovation in strategic fields, physical infrastructure and, in particular, digital infrastructure, can help close infrastructure gaps, reduce regional polarisation and disparities, and improve the competitiveness of the Romanian economy. At the same time, achieving the highest possible absorption rate of the substantial volume of European funds available to Romania is an essential prerequisite for sustaining the investment trend observed in recent years over the medium term, given the pressing need to continue fiscal consolidation in the years ahead.

[26] https://www.oecd.org/en/publications/oecd-economic-surveys-romania-2026_4844067e-en.html

III.4.4. The contingency reserve fund and the intervention fund at Government's disposal

In accordance with art. 30 of the Public Finance Law no. 500/2002, with subsequent amendments and additions, the **contingency reserve fund** at the Government's disposal and the intervention fund at the Government's disposal are included in the state budget.

The **contingency reserve fund** at the Government's disposal is allocated, by Government decisions, to principal authorising officers of the State budget and local budgets to finance urgent or unforeseen expenditure arising during the budgetary year. Amounts from the contingency reserve fund at the Government's disposal are allocated to local budgets, as appropriate, by increasing the amounts earmarked from certain State budget revenues or transfers from the State budget to local budgets for investments partly financed by external loans.

The usefulness of a reserve fund lies in the flexibility it gives the Government in implementing the annual budget, particularly to cover unforeseen or urgent expenditure. A reserve fund may be established as a separate, extra-budgetary fund or as an integral component of the budget; such funds exist in the vast majority of OECD countries[27]. The appropriateness of a reserve fund is confirmed by the budget-planning literature, which also emphasises the need to strike a balance regarding its size. Thus, a reserve fund that is too small may be insufficient to cover unforeseen expenditure in a timely manner, whereas an excessively large fund may grant the Executive undue authority to commit additional expenditure without parliamentary approval.

However, the legal framework provided by Law No. 500/2002 only broadly specifies the types of allocations permitted from the reserve fund – namely, those for "unforeseen or urgent" situations – without explicitly setting out the expenditure categories that may be financed from it or the amounts that may be allocated. This leaves scope for discretionary and non-transparent allocations. In this regard, the Fiscal Council notes the absence of clear criteria for determining expenditure eligible for financing from the contingency reserve fund, as well as the lack of parliamentary oversight. In view of the amounts spent from this fund in recent years, the Fiscal Council advocates amending the legislation governing the reserve fund to establish clear criteria and procedures for its use, exclusively for unforeseen or urgent situations that could not have been anticipated in the process of determining budget appropriations.

The **Intervention Fund** at the Government's disposal is allocated, by Government decisions, to principal authorising officers of the State budget and local budgets to finance urgent expenditure for mitigating the effects of natural disasters and assisting affected individuals. Unlike the possible uses of allocations from the contingency reserve fund, which are open to interpretation, the purposes of the Intervention Fund are clearly specified in the law. During the year, this fund may be supplemented with amounts from the contingency reserve fund, depending on the resources needed to mitigate the effects of natural disasters.

[27] OECD. 2020. Government at a Glance: Latin America and the Caribbean 2020, https://www.oecd-ilibrary.org/governance/government-at-a-glance-latin-america-and-the-caribbean-2020_13130fbb-en

The following section presents the use of the contingency reserve fund and the Intervention Fund during 2025, based on Government decisions published in the Official Gazette of Romania, which allocate amounts by authorising officer and purpose.

Whereas in 2023 and 2024 the Government, through a series of derogations from the fiscal-budgetary framework, allowed the contingency reserve fund to be used to balance local and central government budgets – drawing on it to finance current and capital expenditure of principal authorising officers – this detrimental practice was discontinued in 2025.

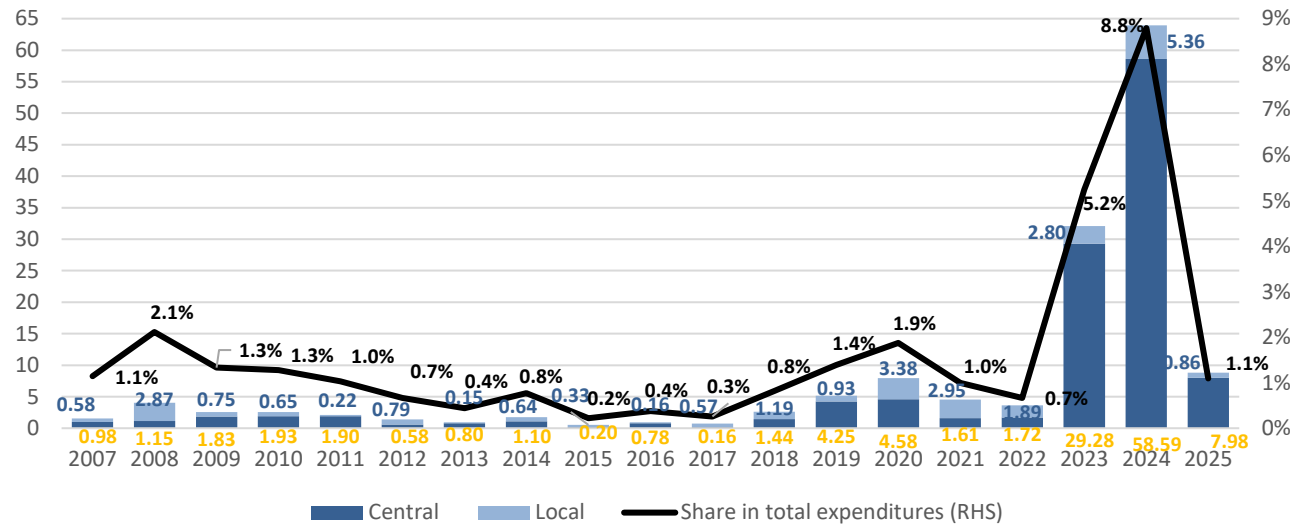
The 2025 budget provided for around 1.9 billion lei in reserve funds. It also established a single derogation from Article 30(2) of Law No. 500/2002, namely to finance expenditure related to the organisation and conduct of the 2025 election for the President of Romania and the 2025 partial local elections. During the year, around 8.8 billion lei was allocated from the contingency reserve fund – approximately 8 billion lei to central government and 0.8 billion lei to local government. The share of amounts used from the contingency reserve fund in total budget expenditure was around 1.1%, markedly lower than in 2024, when it reached 8.8% of total expenditure, and even below the average for the past ten years (2.2%).

However, amounts from the contingency reserve fund continued to be used beyond the scope established by Law No. 500/2002 on public finance, namely for expenditure that cannot be classified as urgent or unforeseen and that should have been taken into account in formulating the 2025 budget, such as:

- procurement of vaccines;
- administration of State aid schemes;
- payment of instalments related to Romania's annual contribution to the European Peace Facility (EPF), Pillar II;
- payment of wages and related social contributions;
- implementation of cultural and cultural-diplomacy projects;
- financing of national investment programmes;
- coverage of expenditure on medical supplies and services, as well as expenditure on sick leave and health social-insurance benefits;
- provision of the amounts needed to meet obligations arising from contracts for the procurement of military equipment and to finance military infrastructure projects;
- financing of the National Programme for Public or Social-Interest Construction;
- payment of Romania's voluntary contribution to the Prioritised Ukraine Requirement List mechanism;
- coverage of expenditure incurred in organising events dedicated to Romania's National Day;
- balancing local budgets, to finance current and capital expenditure.

Similar to the previous year, allocations to central government also predominated in 2025, accounting for approximately 90.3% of total allocations, while local administrative-territorial units received around 9.7%. The evolution of amounts allocated from the contingency reserve fund at the Government's disposal and their share in total budget expenditure is shown in *Figure 27*.

Figure 27: Total allocations from the reserve fund at the Government's disposal (billion lei)

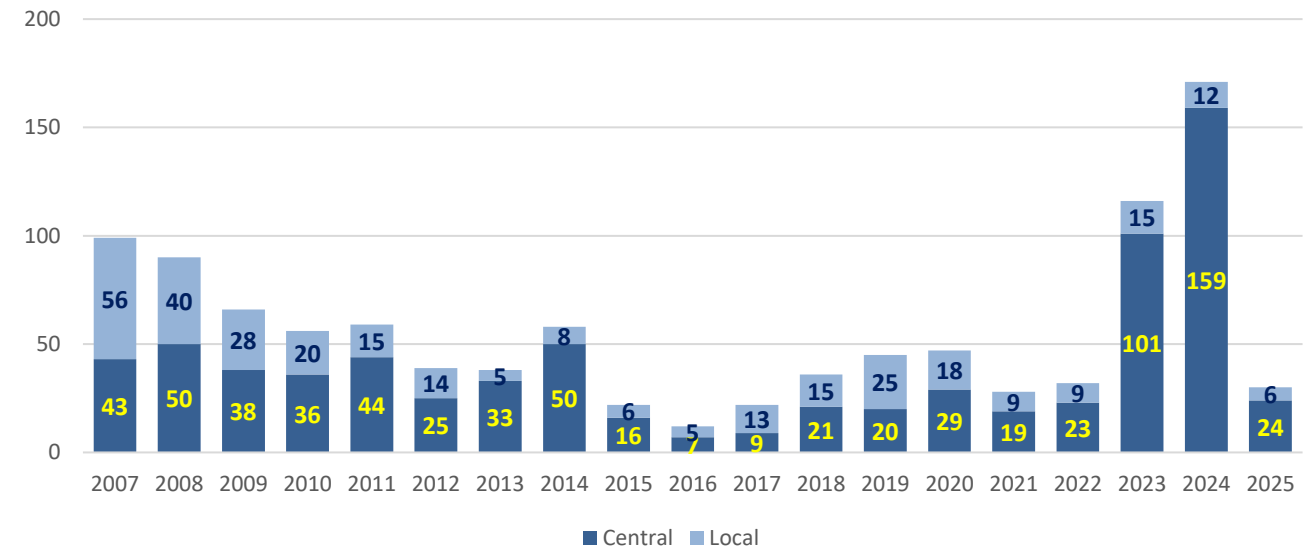


Source: Fiscal Council's calculations based on Government decisions regarding the contingency reserve fund allocations

As regards the number of Government Decisions allocating amounts from the contingency reserve fund, it declined from a peak of 171 decisions recorded in 2024 to 30 in 2025 (*Figure 28*).

While 2023-2024 marked a reversal of the previous tendency to commit most expenditure from the contingency reserve fund towards year-end, this practice resumed in 2025. In December 2025, 11 of the 30 decisions were approved, allocating 6.4 billion lei, or 72% of total allocations for the year. All Government Decisions adopted in December concerned allocations to central government. The main beneficiaries were the Ministry of Health (to cover expenditure on medical supplies and medical services, as well as expenditure on sick leave and health social insurance benefits); the Ministry of Development, Public Works and Administration (to finance national investment programmes—the "Anghel Saligny" National Investment Programme; the first and second stages of the National Local Development Programme; the National Programme for the Seismic Retrofitting of Buildings at High Seismic Risk; the "Safe and Healthy Schools" National Investment Programme; the Multiannual National Programme for Improving the Energy Performance of Residential Buildings; the National Programme for the Construction of Social and Emergency Housing; and the Multiannual Programme for financing the preparation and/or updating of localities' general urban plans and local urban planning regulations); and the Ministry of National Defence (to provide the funds required to meet obligations under contracts for the procurement of military equipment and to finance military infrastructure projects).

Figure 28: Number of Government decisions regarding contingency reserve funds allocations



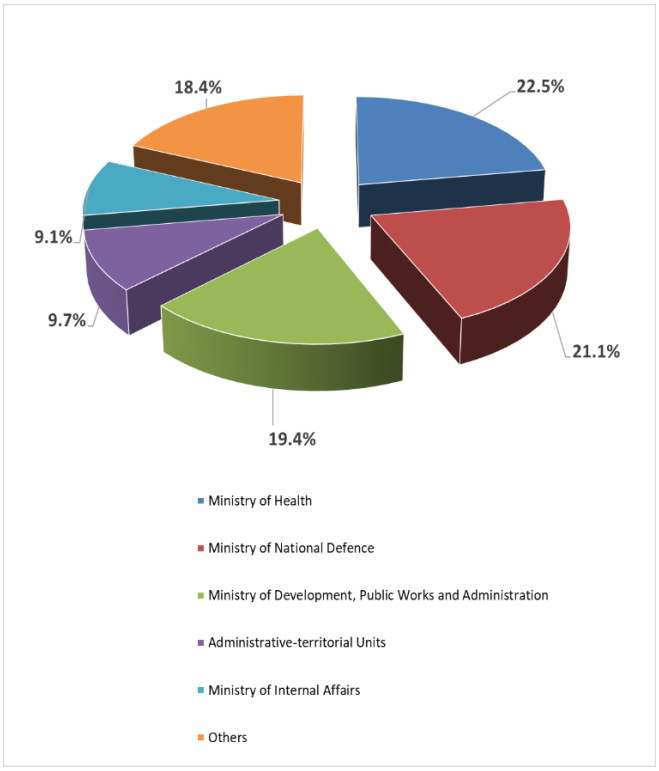
Source: Fiscal Council's calculations based on data from Government decisions regarding the allocation of amounts from the reserve fund

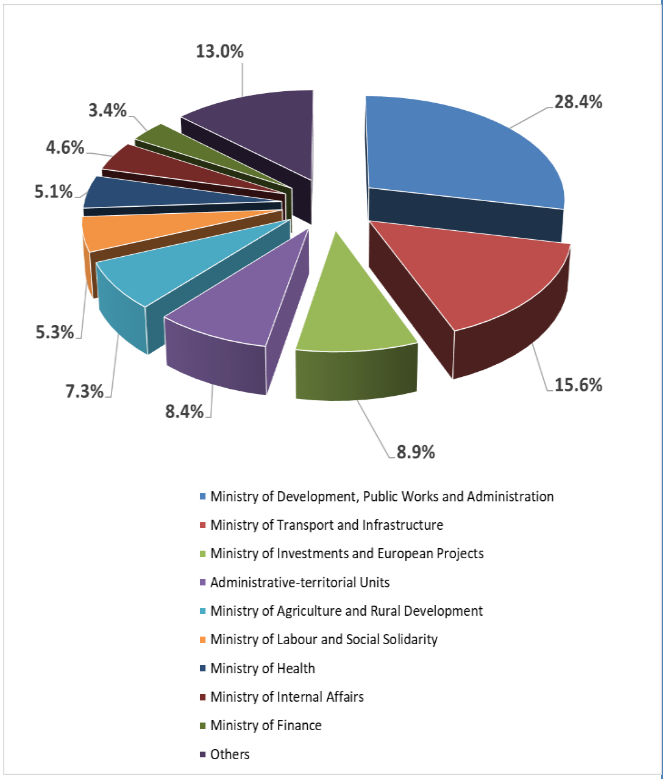
In 2025, the main beneficiaries of the contingency reserve fund (*Figure 29*) were:

- *Ministry of Health*, 22.5% of total allocations (1.98 billion lei). Its budget was supplemented twice during the year to provide funding for referring certain categories of patients for treatment abroad, and to cover expenditure on medical supplies and medical services, sick leave, and health social insurance benefits;
- *Ministry of National Defence*, 21.1% of total allocations (1.86 billion lei). Its budget was supplemented three times during the year to provide the amounts required to meet obligations under contracts for the procurement of military equipment, finance military infrastructure projects, and pay Romania's voluntary contribution to the Prioritised Ukraine Requirement List mechanism;
- *Ministry of Development, Public Works and Administration*, 19.4% of total allocations (1.71 billion lei). Its budget was supplemented twice during the year to finance the national investment programmes under implementation and the National Programme for the Construction of Public- or Social-Interest Buildings;
- *Administrative-territorial units*, 9.7% of total allocations (0.86 billion lei). Their budgets were supplemented six times during the year to balance local budgets;
- *Ministry of Internal Affairs*, 9.1% of total allocations (0.8 billion lei). Its budget was supplemented three times during the year to cover expenditure required for the preparation, organisation and conduct of the election for the President of Romania and local by-elections.

Figure 29: The beneficiaries of the contingency reserve fund (% of total allocations)

2025 **2024**





Source: Fiscal Council's calculations based on Government decisions regarding the contingency reserve fund allocations

The Fiscal Council reiterates its recommendation from previous reports to explicitly identify the expenditure that may be committed from the contingency reserve fund, including through periodic reporting to Parliament on the use and level of utilisation of the contingency reserve fund.

In 2025, only one allocation was made from the Intervention Fund, amounting to 1.2 million lei (no allocations were made from the Intervention Fund in 2024). Its purpose fell within the provisions of Public Finance Law No. 500/2002, with the funds used to carry out urgent and complex works necessitated by a landslide in Maramureș County. It should be noted that the Government Decision concerning the use of the Intervention Fund involved replenishing it from the contingency reserve fund.

III.4.5. Arrears of the general consolidated budget

At end-2025, general consolidated budget (BGC) arrears[28] stood at 599.7 million lei, up 79.7 million lei (+15.3%) from the level recorded in December 2024. Their composition shows that the bulk of arrears continues to be recorded at the local budget level (573.6 million lei), accounting for approximately 95.6% of the total. By number of days overdue, 23.6% of arrears were overdue by 90 to 120 days, 40.7% by 120 to 360 days, and 35.7% had been outstanding for more than 360 days.

General consolidated budget arrears to suppliers amounted to 595.1 million lei, compared with 515.9 million lei at end-2024 (+79.2 million lei, or +15.4%), with more than 96% recorded at the local budget level.

The following table shows the quarterly evolution of the stock of general consolidated budget arrears, in aggregate and broken down by the state budget, local budgets and the social insurance budget, compared with end-2024.

Table 8: Quarterly evolution of GCB outstanding payments (0-360 days) in 2025 (million lei)

	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
State budget	**57.4**	**31.3**	**32.6**	**33.4**	**26.6**
Over 90 days	32.9	10.4	10.6	14.4	9.9
Over 120 days	12.3	9.2	11.3	9.2	5.6
Over 360 days	12.2	11.7	10.7	9.8	11.1
Local budgets	**462.5**	**521.3**	**551.7**	**781.1**	**573.6**
Over 90 days	112.1	151.5	98.2	244.2	131.5
Over 120 days	270.8	230.8	302.2	347.4	238.6
Over 360 days	79.7	138.9	151.3	189.5	203.4
Social security budget	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Between 90 and 360 days	0.0	0.0	0.0	0.0	0.0
Total arrears (90-360 days)	**520.0**	**552.5**	**584.3**	**814.5**	**599.7**
Over 90 days	145.0	161.9	108.8	258.6	141.3
Over 120 days	283.1	239.9	313.5	356.6	244.1
Over 360 days	91.9	150.6	162.0	199.3	214.3

Source: MF

The moderate increase in *general consolidated budget arrears to the private sector* overdue by 90-360 days in 2025, compared with the previous year, was driven exclusively by developments in arrears recorded by local budgets, while the state budget saw its stock of arrears decline from 57.4 million lei to 26.6 million lei (-53.7%). The breakdown by number of days overdue indicates a growing share of arrears

[28] According to Public Finance Law No. 500/2002, as subsequently amended and supplemented, arrears are outstanding payments overdue by more than 90 days, calculated from the due date.

outstanding for more than 360 days, from 17.7% at end-2024 to 35.7% at end-2025, suggesting persistent difficulties in settling overdue obligations and a tendency for these arrears to become chronic.

III.5. Evaluation of public spending reviews

Successive crises in recent years – the COVID-19 pandemic, the energy crisis, intensifying geopolitical tensions and military conflicts – have increased pressure on public finances, with asymmetric effects on budget revenues and expenditures. In the EU, the share of public expenditure in GDP increased by around 2.9 pp in 2025 compared with 2019, while the share of budget revenues rose by only 0.2 pp. Against this background, public spending reviews have become a budget management tool integrated into the cycle of designing, implementing, and evaluating fiscal-budgetary policies. In 2023, 34 of the 35 OECD member countries reported having used them at least once[29].

The literature does not provide a uniform definition of public spending reviews. Nevertheless, recent approaches converge on the same conceptual perspective: a systematic process for evaluating public expenditure, integrated into the budget cycle and aimed at improving the efficiency, effectiveness and sustainability of public finances (OECD, 2024)[30]. The evolution of the concept marks a shift from a tool for identifying budgetary savings (OECD, 2013)[31] to a strategic mechanism for optimising resource allocation and underpinning structural reforms (OECD, 2025)[32]. In this sense, spending reviews assess the relevance of fiscal-budgetary policy objectives, the efficiency of resource use, the effectiveness of outcomes and the sustainability of programmes, examining the relationship between allocated resources (inputs), services delivered (outputs) and effects generated (outcomes). At the same time, they enable the reallocation of resources to higher-value areas and create the fiscal space needed to finance new strategic priorities without affecting the provision of essential public services.

In Romania, strengthening the institutional framework for spending reviews is all the more important as fiscal imbalances remain high. The NRRP accelerated the operationalisation of public spending reviews, so that, by the end of 2025, the Ministry of Finance (MF) had carried out public spending reviews in education, health and the environment and had approved, by memorandum, the Public Spending Review Strategy for 2024-2030. Accordingly, the Fiscal-Budgetary Responsibility Law (FBRL) was amended (Article 53(i)), assigning the Fiscal Council (FC) responsibility for the ex post evaluation of spending reviews conducted by the MF and the principal authorising officers, beginning with the 2024 budget.[33]

III.5.1. Evaluation of the public spending review in the environmental sector

The functional structure of public expenditure (see *Figure 30*) highlights substantial differences between Romania and the EU average in terms of budget resource allocation priorities. In 2024, Romania was below the European average in areas with a social impact - social protection (13.6% of GDP, compared

[29] https://www.oecd.org/en/topics/spending-reviews.html

[30] OECD. 2024. Spending Reviews Experiences of OECD countries.

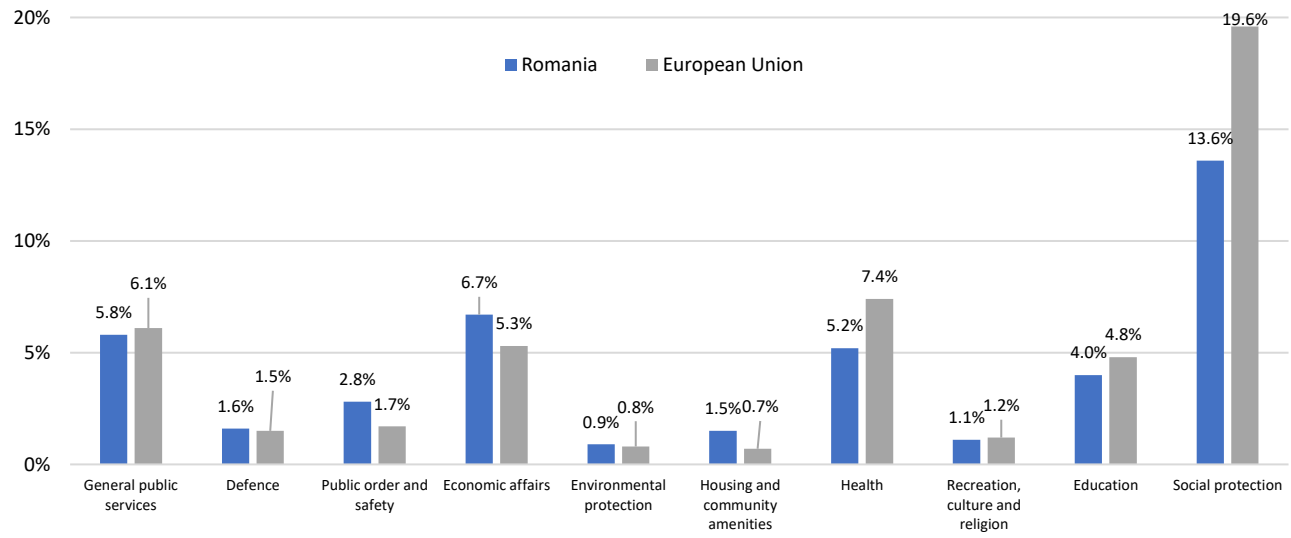
[31] OECD. 2013. Spending Reviews, Journal on Budgeting Volume 2013/2, https://doi.org/10.1787/budget-v13-2-en

[32] OECD. 2025. Government at a Glance 2025, OECD Publishing, Paris, https://doi.org/10.1787/0efd0bcd-en

[33] https://mfinante.gov.ro/static/10/Mfp/buget/SACP2024-2030_2072023.pdf

with 19.6% in the EU), health (5.2%, compared with 7.4%) and education (4%, compared with 4.8%). By contrast, Romania allocated relatively higher shares to economic affairs (6.7% of GDP, compared with 5.3% in the EU), public order and safety (2.8%, compared with 1.7%), defence (1.6%, compared with 1.5%) and housing and community amenities (1.5%, compared with 0.7% of GDP). Environmental protection expenditure accounted for 0.9% of GDP in 2024, slightly above the EU average of 0.8%. Therefore, in the environmental sector, the differences from the European average concern not the overall amount of resources allocated, but their allocation structure.

Figure 30: Structure of public expenditure in Romania and the European Union in 2024 (% of GDP)

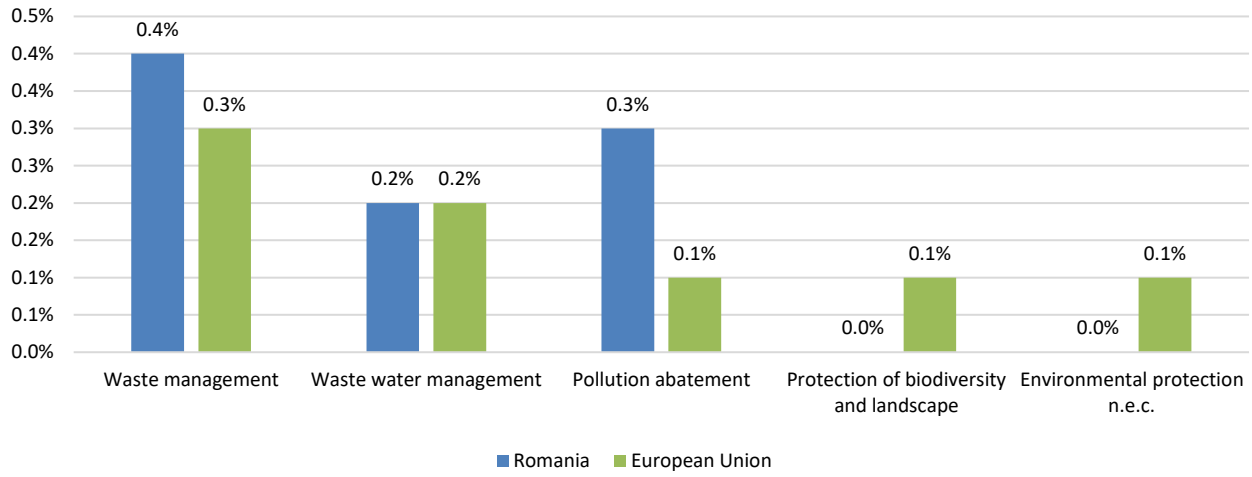


Source: Eurostat

The composition of environmental expenditure (see *Figure 31*) reveals important differences between Romania and the EU average in terms of funding priorities. Romania concentrates allocations on two components: waste management (0.4% of GDP, compared with 0.3% in the EU) and pollution abatement and control (0.3% of GDP, around three times the European average of 0.1%). Expenditure on wastewater management is in line with the EU average (0.2% of GDP), while protection of biodiversity and landscape, as well as other environmental protection activities, falls below the rounding threshold, compared with approximately 0.1% of GDP allocated to each at EU level.

These differences indicate an environmental policy primarily oriented towards compliance with obligations arising from the EU acquis on waste, wastewater and emissions, areas associated with infringement procedures and agreed compliance deadlines. By contrast, biodiversity conservation and ecosystem protection, although an important pillar of sustainable development, are not reflected in budget allocations. In this context, the spending review can contribute both to assessing the efficiency and effectiveness of environmental expenditure and to redirecting it towards areas with high economic, social and environmental impact.

Figure 31: Structure of public environmental expenditure in Romania and the European Union in 2024 (% of GDP)



Source: Eurostat

In 2025, the report on the review and efficiency of public expenditure in the environmental sector for 2019-2022 was published. It was prepared by the MF together with the Ministry of Environment, Waters and Forests (MEWF), based on the framework established by the memorandum approved by the Government, and the proposed measures have implementation deadlines extending to 2028. Accordingly, the present evaluation considers the process's compliance with the methodological framework, the quality of the analysis, and the quantification of the financial impact, while the ex post evaluation of implementation results will be carried out in subsequent reports[34].

The framework, topic, objectives, targets, terms of reference and timetable were established by memorandum, while the working group was set up by ministerial orders, which is consistent with the stages of institutional coordination and framework-setting found in European practice. The structure of the report aligns with the requirements of a spending review, comprising a sectoral diagnosis; an examination of the objectives and indicators in the MEWF Institutional Strategic Plan (ISP) 2024-2027; an analysis of expenditure and specific indicators in the selected areas; and the formulation of efficiency-enhancing measures. For each measure, objectives, actions, indicators, responsible institutions, and interim and final implementation and reporting deadlines are specified.

The timetable established by the Public Spending Review Strategy for 2024-2030 provided for this review to be carried out between Q4 2023 and Q2 2024 and for the measures to be reflected in the MEWF budget for 2025. The delayed completion of the report, after the adoption of the 2025 budget, resulted in the proposed measures being incorporated into the following budget exercise. In addition, the time lag between the period reviewed (2019-2022) and the publication date limits the relevance of the conclusions for the current expenditure structure.

[34] https://mfinante.gov.ro/static/10/Mfp/buget/raportanalizamediu_21102025.pdf

The scope of the review is selective, focusing on two areas: pollution prevention, abatement and control, and sustainable forest management. Selecting specific areas is an approach recommended in OECD and EC practice, as it allows for more in-depth examination. However, the selection criterion only partially aligns with the existing assessments cited in the report. Thus, on 1 May 2024, Romania had 35 unresolved cases of infringement of EU rules, of which 13 cases (37%) concerned the environment: 4 on air and pollution control, 4 on nature and forests, 3 on waste, and 2 on water and nature. The highest budgetary cost, however, was associated with waste (RON 3.7 billion paid during 2021-2024 as contributions for non-recycled plastic packaging waste), an area not covered by the review. Waste management, wastewater treatment, biodiversity protection and climate change adaptation are therefore not examined in the same depth. Consequently, the report cannot support an overall conclusion on the efficiency of environmental expenditure, nor can it identify savings or reallocations across the entire aggregate.

The review identifies shortcomings in the relationship between resources used and results achieved. In the area of air quality, these concern the operation of the monitoring network, the quality and continuity of data, the harmonisation of indicators, and reporting to European institutions. In forestry, the need to develop control and traceability systems, use risk analyses, and plan regeneration activities is highlighted. The underlying finding – that inefficiencies arise not only from insufficient resources, but also from fragmented responsibilities, the quality of indicators, administrative capacity, and weak links between funding, activities, and results – is consistent with Romania's position, as it allocates a slightly higher share to environmental protection than the European average.

Although one of the stated objectives of the review is to compare costs with results, the report does not address this objective. It does not use counterfactual analysis, cost-benefit or cost-effectiveness analysis, unit costs, or comparisons with the practices of other Member States. The description of allocations and of the legal and institutional framework is extensive, but the link between resources used and results achieved is not investigated.

The report sets out seven efficiency-enhancing measures aimed both at sustainable forest management and at improving air-quality monitoring and reporting. These include the annual preparation of the artificial regeneration plan, strengthening control and traceability of timber, improving indicators and data flows, and aligning reporting with European requirements.

As regards the quantification of the financial impact, only one effect is estimated across the seven proposed measures: RON 1,600 thousand for Measure 5, resulting from the transfer of study funding from the state budget to the Environmental Fund budget. Thus, at the level of the general consolidated budget (GCB), the effect is neutral. By contrast, the report mentions significant expenditure on pollution abatement and control during the period reviewed, as well as an allocation of RON 450,000 thousand from the Environmental Fund budget for the development of the national air-quality monitoring network by 2030.

The report does not set savings targets, but only public policy objectives. In OECD practice, the existence of a target, regardless of its magnitude, is a condition for decision-makers' accountability and supports

the choice between tactical and strategic reviews. In its absence, the measures are predominantly normative and institutional in orientation. The absence of estimates of incremental costs, expected savings, and a baseline scenario prevents anticipation of the impact on the budget deficit, the creation of fiscal space, and the optimisation of medium-term allocations.

Linking the measures to the MEWF's strategic objectives and budget programmes is a strength of the report, creating the conditions for integrating the conclusions into the ISP and into the budget preparation and execution process. Each measure has an implementation timetable, responsible institutions and an annual reporting obligation to the MF until the end of 2028. Responsibility for implementation lies with the MEWF, as the principal authorising officer, during both the strategic planning stage and budget preparation and execution.

The associated indicators are predominantly output and process indicators - preparation of plans, amendment of procedures, submission of reports and development of IT systems. There are also quantified outcome indicators, but these are concentrated exclusively in the air-quality area: compliance of at least 90% of fixed monitoring points with data-quality objectives by the end of 2025, full compliance with reporting obligations by 2027, and a reduction of at least 50% in infringement cases in the field starting in 2028 compared with the level recorded at the end of 2024. These targets provide a verifiable benchmark for subsequent evaluations. In the forestry component, the indicators relate to the degree of implementation of approved programmes rather than to changes in the phenomenon targeted, while the unit cost of achieving results is not estimated in either of the two areas.

In conclusion, the report operationalises the link between strategic planning, programme budgeting, and performance evaluation, and sets out measures with responsible entities, timetables, and monitoring indicators. From a fiscal-budgetary perspective, however, it does not fulfil the specific function of a spending review, namely identifying quantified savings or reallocations that can be integrated into the budget process. Accordingly, it is recommended that subsequent reviews include: (i) setting, at the mandate stage, an explicit savings or reallocation target depending on the fiscal consolidation objective; (ii) selecting review areas on a substantiated basis; (iii) estimating, for each measure, the associated cost, expected savings and a baseline scenario; (iv) supplementing monitoring indicators with outcome indicators and unit costs; and (v) synchronising the review timetable with the budget calendar so that recommendations can be reflected in the draft budget law for the following year.

III.5.2. Ex post evaluation of the implementation of measures in the education sector

Unlike the environmental sector, the spending review of pre-university education recorded a first year of monitored implementation, allowing an ex post evaluation of the status of implementation of the measures. The evaluation is based on the information note on the status of implementation of the measures for 2024, prepared by the MF. It should be noted that of the six measures, the Ministry of Education and Research (MER) submitted the completed indicator reporting template only for Measures 2 and 5, along with clarifications regarding the implementation status of the efficiency-enhancing measures. Thus, at the end of 2024, measures with a regulatory or procedural outcome had been

completed, while measures requiring operational or institutional changes had made limited progress (*Table 9*)[35].

Table 9: Summary of the ex post evaluation of the implementation of measures resulting from the public spending review in the education sector

Measure	Objective	Nature of intervention	Degree of implementation in 2024
Reorganisation of public pre-university education institutions	Optimising the school network and improving the efficiency of educational resource use	Administrative efficiency and expenditure optimisation	100%
Aligning the standard cost coefficient with the legislation in force	Improving the financing mechanism and ensuring efficient resource allocation	Improving the efficiency of education system financing	100%
Improving database management in the education system	Supporting decision-making through the use of integrated databases	Digitalisation and strengthening governance	0%
Developing methodological rules (staffing of auxiliary teaching and non-teaching personnel)	Optimising the human resources structure and improving administrative efficiency	Administrative reorganisation	0%
Centralising public procurement of products and services by the Ministry of Education and Research (MER)	Reducing procurement costs and improving the efficiency of public fund use	Procurement efficiency and direct savings	33%
Remedial learning	Reducing school dropout and improving educational performance	Investment in human capital and improved system performance	17%

Source: Public Spending Review in the Education Sector and Information Note on the Status of Implementation of the Public Expenditure Efficiency Measures in the Education and Health Sectors for 2024

Measure 1, concerning the reorganisation of state pre-university education units, completed the actions scheduled for 2024 by drafting rules, approving the timetable, and identifying the units concerned. The purpose of the measure is to improve the efficiency of personnel expenditure. According to the data provided in the MF note, out of a total of 6,321 state pre-university education units, starting with the 2025/2026 school year, 26 units with legal personality and 37 affiliated structures will enter the reorganisation process, while 12 state pre-university education units will lose their legal personality and

[35] The evaluation of the public spending review in the education sector was included in the FC Annual Report for 2024. This section covers the ex post evaluation of the status of implementation of the measures during the first year of monitoring.

two new state pre-university education units will be established. It should be noted that the measure is not accompanied by financial data: its budget is shown as zero for the entire 2025-2028 period.

Measure 2, concerning the alignment of the standard-cost coefficient with the legislation in force, was implemented by adopting methodological rules and submitting the relevant data. Monitoring of data from previous periods revealed substantial deviations between planning and execution: for the 2022/2023 school year, execution exceeded the budget planned on the basis of the standard cost by 14.1%, while for the 2023/2024 school year the planned budget exceeded execution by 21%. For 2025, the planned budget is RON 26.5 billion, while execution data were unavailable as of the reporting date. The differences between execution and planning in previous years, as well as the high budgetary value of the measure, support its inclusion in a spending-efficiency analysis, which should lead to realistic assessments and budget planning for the standard cost in the coming years.

Measure 3, concerning improved management of the education system database, made no progress, as none of the four actions planned for 2024 was completed. The information note prepared by the MF states that the data submitted by the MER were either only partially completed or did not reflect the indicators in the monitoring sheet.

Measure 4, concerning the development of methodological rules for the staffing plan and administrative personnel structure, was not implemented in 2024 and was rescheduled for 2025, when it is to be adopted by ministerial order. The purpose of the measure is to ensure uniform staffing and to redistribute auxiliary teaching and non-teaching staff. The reason cited by the MER for non-implementation is the difficulty of establishing staffing norms for non-teaching personnel in the context of social dialogue.

Measure 5, concerning the centralisation of public procurement of goods and services by the MER, progressed only as far as identifying seven common goods and services, while the operational procedure, the annual procurement plan and the target of centralising at least 10% of the common procurement of the MER and its subordinate institutions were not achieved. This is the only measure with a quantified financial objective (a reduction of at least 30% in public procurement expenditure on goods and services).

Measure 6, concerning the operationalisation of the "*Remedial Learning*" Programme, was limited to drafting the methodology and submitting it for public consultation; the selection of units and teacher training had not begun. The programme was postponed to the 2026/2027 school year and redirected towards financing from European funds and the NRRP, with an associated cost of RON 1.7 billion, while the reduction in the school dropout rate – the stated objective – was not expressed as a target value.

The ex post monitoring exercise for the implementation of education-sector measures shows that, on the one hand, the measures have responsible entities, timetables and indicators, but, on the other hand, the reporting mechanism to the MF did not function fully. Regulatory and administrative interventions achieved a high degree of implementation, while measures involving institutional reforms, digital infrastructure, or complex organisational changes progressed slowly or were postponed, including the only measure with a quantified financial objective: centralised procurement. Consequently, the effect on the efficiency of budget resource use cannot be established: for most measures, associated financial objectives are lacking, and where they do exist, implementation was not completed in the first year.

Moreover, a high degree of procedural completion does not in itself constitute evidence of increased efficiency. For example, the measure concerning the reorganisation of pre-university education units has a 100% completion rate but no associated financial effect, while the alignment of the standard cost is also shown as fully completed, even though monitoring revealed significant deviations between budget planning and execution.

For subsequent cycles, it is recommended to set an aggregate financial target from the mandate stage, link quantified measures to relevant budget indicators, prepare feasibility analyses for reform options, and complete the reporting template for all approved measures.

III.5.3. Ex post evaluation of the implementation of measures in the health sector

As in the case of education, the health-sector spending review recorded a first year of monitored implementation, allowing an ex post evaluation of the status of implementation of the measures. The reporting template was submitted by the National Health Insurance House (NHIH); however, data were not included for a significant share of the indicators, and the present evaluation is based on the information note on the status of implementation of the measures for 2024, prepared by the MF.[36]

At the end of 2024, some indicators had a completion rate of 0% because the data had not been submitted by the NHIH, while most indicators reported as completed concerned descriptive quantifications (number of legislative acts, contracts or services). In general, measures with a direct budgetary impact did not meet their financial objectives: medical leave expenditure increased, and the adjustment of reimbursement rates was not implemented. By contrast, the measures with higher completion rates concerned prevention and the prescribing of medicines (*Table 10*).

Measure 1, concerning an increase in the number of preventive consultations provided by family doctors, recorded the highest completion rate, with 8 of the 11 indicators fully achieved. Three indicators related to beneficiary monitoring and expenditure under national health programmes are shown as 0% because the NHIH did not submit the relevant data. It should be noted that most of the indicators achieved under this measure concern exclusively descriptive quantifications (number of legislative acts, contracts or services, and family doctors).

Measure 2, concerning incentives for family doctors and outpatient physicians to monitor patients with chronic conditions, has a completion rate of 33%. Of the three indicators associated with the measure, only the indicator concerning legislative acts was achieved (100%), while the indicators relating to referral pathways and monitored chronic patients were 0%, as the data were not submitted.

Measure 3, concerning the reduction of expenditure on medical leave, has a completion rate of 60%, with three indicators fully achieved and two indicators at 0%. The completed indicators concerned the adoption of three legislative acts (two in 2023 and one in 2024) and the quantification of the number of leave days and expenditure on medical leave in 2023 and 2024. By contrast, expenditure on medical leave increased by around RON 0.3 billion in 2024 compared with 2023 (indicator not achieved), while

[36] The evaluation of the public spending review in the health sector was included in the FC Annual Report for 2024. This section covers the ex post evaluation of the status of implementation of the measures during the first year of monitoring.

the measure to change the percentages used to determine health-insurance allowances was not implemented in 2024 (indicator not achieved).

Table 10: Summary of the ex post evaluation of the implementation of measures resulting from the public spending review in the health sector

Measure	Objective	Nature of intervention	Degree of implementation in 2024
Increasing the number of preventive consultations	Strengthening prevention and early detection of health conditions	Prevention and improved efficiency of healthcare services	73%
Encouraging the monitoring of patients with chronic conditions	Improving chronic disease management and reducing avoidable hospitalisations	Improving the efficiency of healthcare services	33%
Reducing expenditure on medical leave	Reducing the unjustified use of medical leave	Control and improved efficiency of public expenditure	60%
Improving the sustainability of the social health insurance system	Increasing National Health Insurance Fund (FNUASS) revenues and strengthening financial sustainability	Strengthening the financing base	17%
Optimising the prescribing and reimbursement of medicines	Improving the efficiency of resource use for reimbursed medicines	Improving the efficiency of pharmaceutical expenditure	67%

Source: Public Spending Review in the Health Sector and Information Note on the Status of Implementation of the Public Expenditure Efficiency Measures in the Education and Health Sectors for 2024

Measure 4, concerning the improvement of the sustainability of the social health insurance system by increasing the contribution collection rate and reassessing exemptions, has a completion rate of 17%. No data were submitted for five of the six indicators associated with the measure, resulting in a completion rate of 0% for those indicators. The completed indicator concerns the quantification of the evolution of social health insurance contribution receipts, from RON 44.4 billion in 2023 to RON 60.9 billion in 2024.

Measure 5, concerning the optimisation of the prescribing and reimbursement of medicines, has a completion rate of 67%, driven by an increase in biosimilar prescriptions (+29.5%) and in the volumes dispensed for generic medicines (+5.2%) in 2024. The indicator on legislative acts to change reimbursement rates was not achieved due to disagreement between the Ministry of Health and the National Agency for Medicines and Medical Devices over the reduction in the reimbursement level for

the assessed medicines. Consequently, the most important saving associated with this measure, estimated by the NHIH at RON 11-14 million per month, was not achieved.

The overall analysis of implementation shows that the level of completion is negatively affected by the non-submission of data for two measures, while for two other measures – medical leave and reimbursed medicines – the results are unfavourable: expenditure on medical leave increased, and the reduction in medicine reimbursement rates was not applied. The assessment of the contribution to fiscal consolidation, therefore, remains limited by a lack of data and the absence of an integrated quantification of the financial impact.

At the same time, implementation of these measures should be evaluated primarily from the perspective of their effects on the efficiency of public expenditure. In this respect, adopting legislative acts or achieving procedural/quantitative objectives is not sufficient to demonstrate the effectiveness of interventions and does not constitute indicators specific to public spending reviews. For example, in the case of measures concerning medical leave, the ex post evaluation should track the actual reduction in expenditure and in the number of medical leave days, while for preventive consultations and the monitoring of chronic patients it should examine the extent to which these contribute to reducing avoidable hospital admissions and the costs associated with hospital treatment. Similarly, the efficiency of measures concerning reimbursed medicines can be assessed only by linking the evolution of unit costs to changes in treatment volumes and patients' access to healthcare services.

Looking ahead, strengthening the role of spending reviews will depend on expanding their use, developing a common methodological framework, ensuring complete reporting by all authorising officers, and using financial and outcome indicators to quantify effects. Under these conditions, spending reviews can become an essential tool for underpinning budget decisions, improving the quality of public expenditure and supporting fiscal consolidation over the medium and long term.

III.6. Public debt

Public debt, measured according to the European System of Accounts (ESA 2010) methodology, increased by RON 172.5 billion (+17.9%) in 2025 compared with the previous year, while its share of GDP rose by 4.5 pp, from 54.8% in December 2024 to 59.3% in December 2025. Under the national methodology[37], public debt increased by approximately RON 154.1 billion (+13.6%). With nominal GDP growing at a slower pace, the debt-to-GDP ratio rose by 2.8 pp, from 64.2% in 2024 to 67% in 2025.

Regarding the structure of public debt[38], the share of central government debt increased marginally in 2025 (97.8% of the total, compared with 97.7% in the previous year), while that of local government debt declined (2.2%, compared with 2.3% in the previous year). Eurobonds were the main central

[37] In addition to the debt covered by the European methodology, public debt under the national methodology includes government-guaranteed debt repaid from the guarantee beneficiaries' own resources, as well as loans from the State Treasury's general account.

[38] Based on the national methodology, using information available on the Ministry of Finance website in the dataset "Structure of public debt as at 30 April 2026".

government debt instrument, accounting for 34.9% of the total (up from 33.7% in 2024), alongside government bonds, which accounted for 34.1% (up from 33.7% in 2024), followed by loans (12.9%, down from 14% in 2024) and government securities for retail investors (5.7%, up from 4.5% in 2024). Meanwhile, the share of loans from the available balances of the State Treasury's general account declined to 10%, from 10.7% in 2024. The currency composition shows a decrease in the share of domestic currency borrowing, from 54.8% in 2024 to 51.9% in 2025, an increase in the share of euro-denominated borrowing, from 36% to 39%, and an unchanged share of US dollar-denominated debt at 9%.

In 2025, gross financing needs, comprising the budget deficit, refinancing, principal repayments and pre-financing for the following year, amounted to 13% of GDP (approximately RON 249 billion), down from 14.1% of GDP in 2024 (approximately RON 248 billion)[39]. This reflected a decline of around 4.4% in the consolidated general budget deficit (RON 146 billion in 2025, compared with RON 152.7 billion in 2024), while the amount allocated to refinancing and principal repayments increased by 7.2% (RON 102.5 billion in 2025, compared with RON 95.7 billion in 2024). Financing needs for 2025 had initially been estimated at approximately RON 232 billion[40]. For 2026, the indicative government securities issuance programme puts financing needs at approximately RON 278.5 billion, based on the target budget deficit (RON 127.8 billion, equivalent to around 6.2% of GDP) and debt to be refinanced amounting to RON 150.7 billion.

Interest expenditure on a cash basis increased by almost RON 14.2 billion (+39.2%) in 2025 compared with the previous year. This increase was driven by both the rapid growth in the stock of public debt in recent years (+18% in 2022, +16.2% in 2023, +18.1% in 2024 and +13.6% in 2025[41]) and persistently high sovereign yields. Interest expenditure as a share of GDP rose from 2.1% to 2.6% on a cash basis, against a backdrop of 8.5% nominal GDP growth, while actual expenditure under this budget heading exceeded the initial budget projection by almost RON 8.6 billion. The average interest rate paid on public debt[42], measured according to the national methodology, increased from 3.8% in 2024 to 4.5% in 2025.

Under the ESA 2010 methodology, interest expenditure also rose substantially compared with the previous year (+RON 11.7 billion, or +27.4%), although at a slightly slower pace than under the national methodology. The difference between the two methodologies can be explained by the different treatment of issue discounts[43] and premiums[44]. Under the national methodology, these are recorded in

[39] According to the public debt reports as at 31 December 2025 and 30 April 2026, available on the MF website.

[40] According to the "Indicative Government Securities Issuance Programme for 2025", available on the MF website.

[41] Based on the national methodology.

[42] Calculated as the ratio of interest expenditure in the current year to the stock of public debt at the end of the previous year.

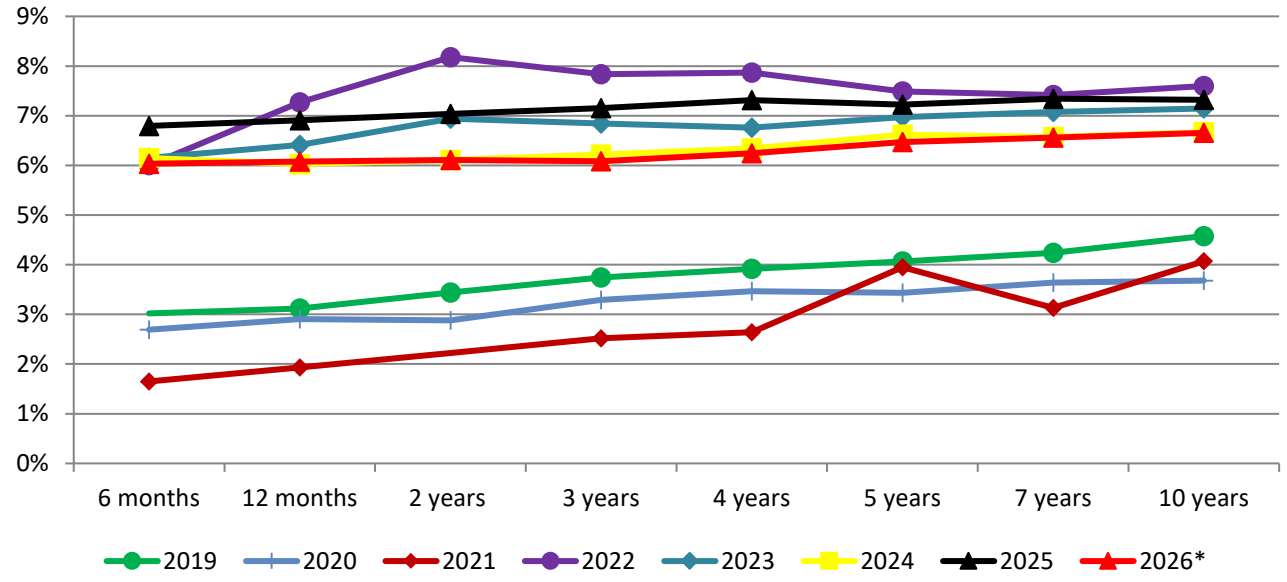
[43] An issue discount is the difference between a government security's nominal value and its issue price when the latter is below the former. Government securities are issued at a discount to their nominal value when older issues carrying yields below the prevailing market yield are reopened, in order to bring their yields into line with market levels.

[44] An issue premium is the difference between a government security's issue price and its nominal value when the former exceeds the latter.

full in interest expenditure, whereas under ESA they are amortised gradually over the entire life of the loan.

Over the past decade, the cost of new borrowing in domestic currency has gone through several cycles. In 2015-2016, sovereign yields followed a downward path, supported by the 2014 sovereign rating upgrade, excess liquidity in financial markets and monetary policy easing by the National Bank of Romania. From 2017 onwards, this trend reversed, with the cost of new domestic currency borrowing increasing. The upward trajectory steepened considerably in 2018 amid a sharp rise in inflation and a widening budget deficit. In 2019, the cost of new domestic currency borrowing declined slightly, by between 0.1 and 0.4 pp, across most of the maturities considered. This downward trend intensified in 2020 and 2021, when interest rate declines were significantly influenced by central banks' monetary policies, including substantial cuts in policy rates, liquidity injections into the banking system and asset purchases. The year 2022 marked another turning point in domestic currency borrowing costs, with the downward trend in yields observed in previous years reversing sharply. Amid rapidly rising inflation, the cost of new domestic currency borrowing increased by an average of around 5 pp for securities with maturities of 12 months, 2 years, 3 years and 4 years, and by around 3.5 pp for 5-year and 10-year maturities. In 2023, domestic currency borrowing costs declined slightly across most maturities. These developments were driven by the disinflationary trend, which brought the policy rate tightening cycle to an end. Domestic currency borrowing costs continued to decline in 2024, with yields falling by around 0.4 pp across most maturities. This trajectory was supported by continued disinflation and the central bank's consequent decisions to lower the policy rate (see *Figure 32*).

Figure 32: The yield curve for government bonds, issued in domestic currency between 2015 - 31 May 2026



Source: NBR

The year 2025 marked a turning point in yields, with domestic currency borrowing costs returning to an upward path. Yields rose by around 0.6-1 pp across all maturities compared with 2024, bringing the average yield to approximately 7.1% in 2025, up from 6.3% in the previous year. This development was driven, particularly in the first part of 2025, by heightened domestic political and fiscal uncertainty, including the budget deficit overshooting its target and tensions surrounding the electoral cycle. The average 10-year yield rose to around 7.3%, with yields at this maturity peaking at 7.9% during the year, above the 7.6% peak recorded in 2022. Towards the end of 2025 and in the first five months of 2026, however, borrowing costs began to decline, with yields falling by around 0.7-1.1 pp relative to the 2025 average, supported by easing domestic uncertainty and the fiscal consolidation measures adopted. As a result, the average yield across the maturities considered fell to approximately 6.3% in the first five months of 2026.

Domestic currency government securities issued on the domestic market amounted to approximately RON 98.9 billion in 2025, down by around 9.2% compared with 2024. In addition, three euro-denominated issues on the domestic market raised financing equivalent to approximately RON 9.3 billion, a substantial increase from around RON 1.7 billion in 2024. The maturity structure of domestic currency government securities issued on the domestic market in 2025 shows a shift towards the middle segment of the yield curve, alongside declining shares of short-term and long-dated issuance. Treasury bills with maturities of up to one year accounted for 13.2% of new borrowing in 2025, down by around 10.1 pp from the previous year. Bonds with maturities of between one and five years accounted for 40.3% of new borrowing, broadly unchanged from 40.2% in 2024. Issues with maturities of between five and ten years represented 40.6% of the total, up from 26.1% in 2024, while those with maturities exceeding ten years accounted for 5.9%, down by 4.5 pp compared with 2024. Consequently, the average residual

maturity of newly issued domestic currency government securities on the domestic market increased to five years in 2025, from 4.5 years in 2024.

The ratio of bids submitted to amounts allotted for domestic currency government securities (bid-to-cover ratio) increased significantly, from 1.44 in 2024 to 1.76 in 2025, reflecting robust and growing demand for government securities. Demand increased across all maturities: for Treasury bills, the ratio rose from 1.32 in 2024 to 1.62 in 2025, while for bonds with maturities exceeding ten years, it increased from 1.60 to 1.88.

Borrowing on external markets eased slightly in 2025, amounting to approximately 79.3 billion lei in domestic currency equivalent, down by around 6.3% from the previous year[45]. The use of US dollar- and euro-denominated issuance was supported by high financing needs and access to a diversified investor base, particularly for longer maturities. In 2025, three US dollar-denominated issues were launched, with maturities of 5, 11 and 12 years and a combined value of USD 5 billion, approximately 18% lower than in 2024. For maturities comparable with those issued in 2024, US dollar borrowing costs declined slightly in the five-year segment (5.8% in 2025, compared with 6% in 2024), while increasing by approximately 0.8 pp in the 11-year segment (6.6%, compared with 5.8% in 2024). Seven euro-denominated issues were launched in February, April and October 2025, with maturities of 5, 7, 8, 9, 12, 14 and 20 years. Their combined value amounted to approximately EUR 11.4 billion, broadly unchanged from 2024. Yields on euro-denominated issues ranged from 5.3% for the five-year issue to 6.8% for the 14-year issue. For maturities comparable with those issued in 2024, yields were around 0.2-0.6 pp higher (7 years: 5.9% versus 5.1%; 8 years: 5.5% versus 5.3%; 12 years: 6.2% versus 5.7%; 20 years: 6.6% versus 6%), reflecting the higher risk premia demanded by investors amid domestic political and fiscal uncertainty in the first part of 2025.

Public debt dynamics, expressed as a percentage of GDP, can be analysed using the following equation[46], derived from the budget identity:

$$\frac{d_t}{y_t} = (1 + \lambda_t) \times \frac{d_{t-1}}{y_{t-1}} + \frac{pb_t}{y_t} + sfa_t$$

where d_t is the stock of public debt at time t, y_t denotes nominal GDP at time t, pb_t represents the primary deficit in period t, sfa_t – denotes stock-flow adjustments in period t, and

$$1 + \lambda_t = \frac{1 + i_t}{(1 + \pi_t) \times (1 + \gamma_t)}$$

[45] According to Ministry of Finance data included in "Government Securities Issued on the External Market", accessed on 10 June 2026.

[46] Cafiso, G. (2012), "A Guide to Public Debt Equations", available online: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1975710. A broadly similar model is also presented in Escolano, J. (2010), "A Practical Guide to Public Debt Dynamics, Fiscal Sustainability, and Cyclical Adjustment of Budgetary Aggregates", IMF Technical Report, available online: https://www.imf.org/external/pubs/ft/tnm/2010/tnm1002.pdf.

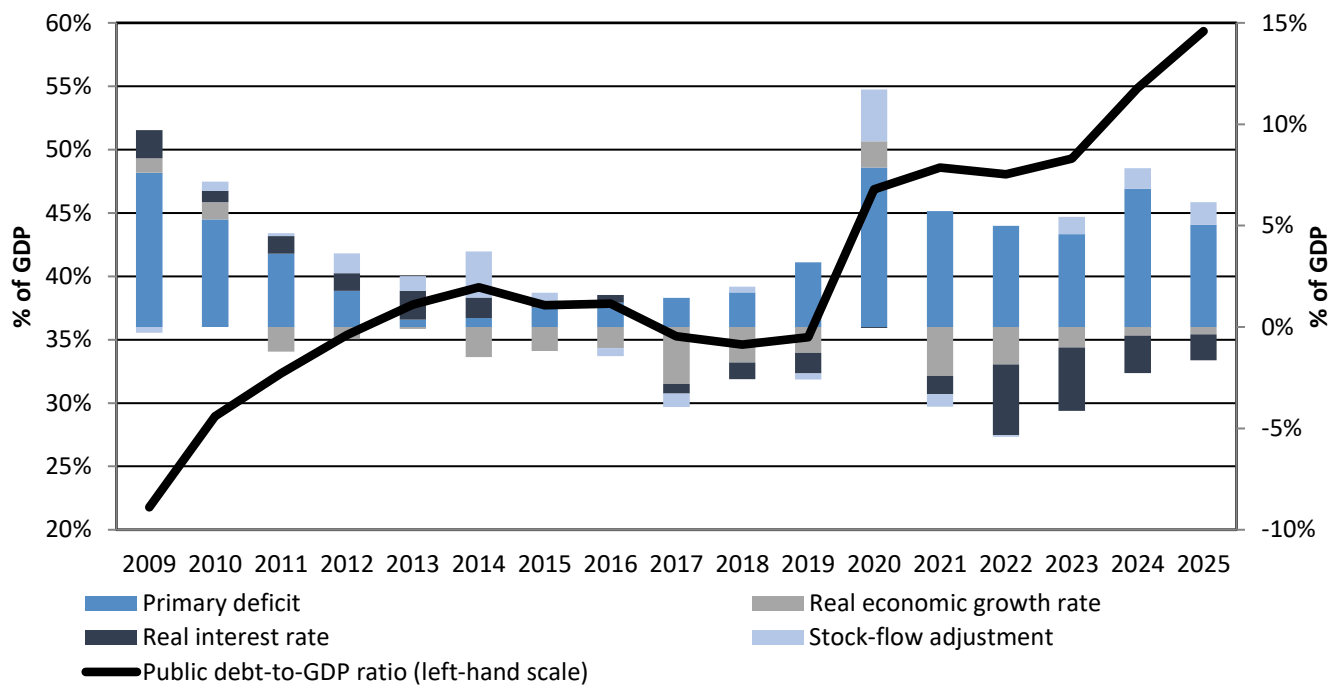
where γ_t– is the real GDP growth rate in period t , i_t – is the nominal interest rate at time t, and π_t – is inflation in period t measured by the GDP deflator.

The equation shows that the public debt-to-GDP ratio at time t depends on the ratio in the previous period multiplied by the difference between the real interest rate and the real economic growth rate, plus the primary deficit of the consolidated general budget expressed as a percentage of GDP. When economic growth exceeds the real interest rate on public debt, the debt-to-GDP ratio tends to decline. Conversely, when economic growth is lower than the real interest rate, the ratio tends to increase, with its actual trajectory depending on the sign and size of the primary budget balance. Thus, the coefficient λ_t can be interpreted as the growth-adjusted real interest rate.

In 2025, the public debt-to-GDP ratio recorded another sharp increase, of 4.5 pp (*Figure 33*). Applying the debt dynamics equation presented above shows that the large primary deficit remained the main driver of this increase (+5 pp), alongside the stock-flow adjustment (+1.1 pp)[47]. Romania recorded the largest primary deficit among EU Member States in both 2024 and 2025 (*Figure 34*). In 2025, however, Romania's primary deficit narrowed by around 1.8 pp, from 6.8% of GDP in 2024 to 5% of GDP, the largest reduction among Member States. The overall budget deficit narrowed more slowly than the primary deficit, declining by 1.4 pp, from 9.3% of GDP in 2024 to 7.9% in 2025, with the 0.4 pp difference reflecting higher interest expenditure. Real economic growth contributed −0.4 pp, an effect comparable to that of the previous year amid persistently weak real GDP growth, while the real interest rate contributed -1.3 pp, also a smaller debt-reducing effect than in the previous year. These factors partially offset the impact of the primary deficit and the stock-flow adjustment on the public debt-to-GDP ratio.

[47] In 2025, the stock-flow adjustment again made a relatively small contribution to the increase in the public debt-to-GDP ratio, reflecting several sizeable, offsetting effects. The main factors contributing to higher public debt were cash buffers held by the State Treasury; government loans and capital injections to state-owned entities; advance payments for military procurement; accounts receivable, primarily relating to taxes and social contributions; amounts paid or borrowed by the government to finance EU-funded projects for which reimbursement was still pending; and the depreciation of the domestic currency. Their impact was partially offset by superdividends paid by state-owned companies, differences in the recording of interest on government securities issued at a premium or discount, and other accounts payable. The latter primarily concerned goods and services purchased but not yet paid for, court rulings with retroactive effect, EU funds received but not yet disbursed to primary beneficiaries, and outstanding tax refunds.

Figure 33: Contributions to changes in the public debt-to-GDP ratio for the 2009-2025 period



Source: Eurostat, FC's calculations

In conclusion, in 2025, economic growth of 0.7% combined with a negative real interest rate (-2.4%), resulting in a negative value for the coefficient λ_t and, consequently, a favourable impact on public debt dynamics as a percentage of GDP. However, this effect only partially offset the substantial contribution of the primary budget deficit to the increase in the public debt-to-GDP ratio. Moreover, the favourable effect of the real interest rate weakened compared with previous years and will diminish further as inflation slows. The diminishing favourable effects of the real interest rate and economic growth on debt dynamics underscore the importance of continued fiscal consolidation to ensure public debt sustainability.

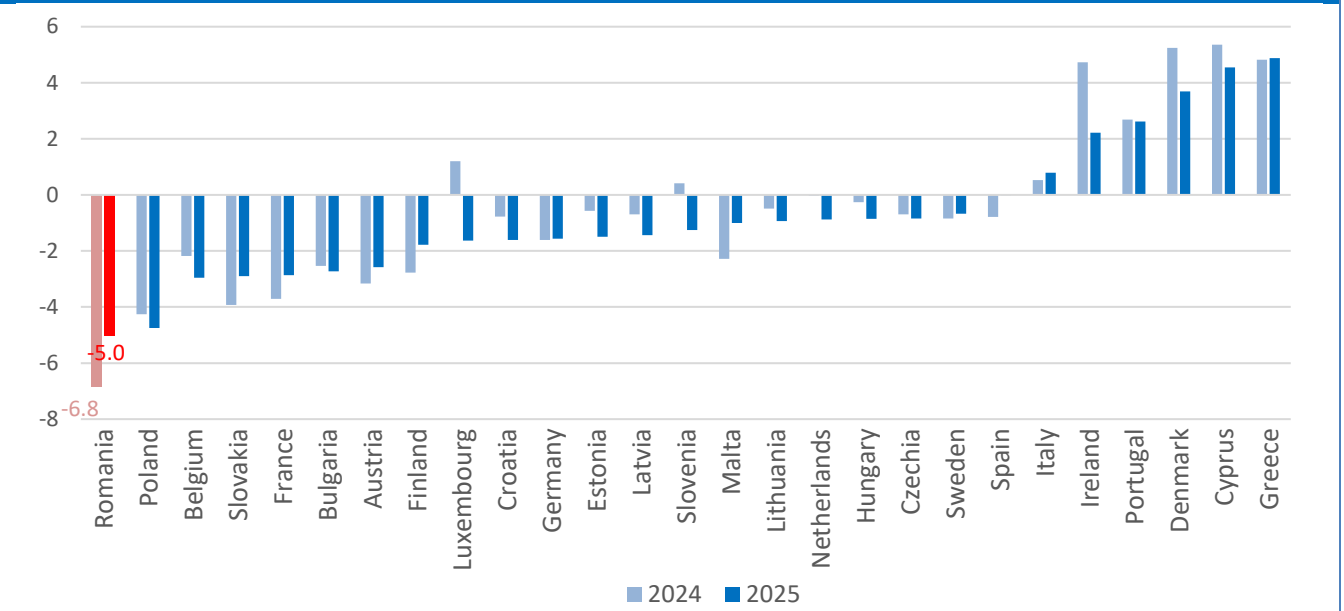
The latest available Ministry of Finance data put public debt at 60.2% of GDP in April 2026[48]. This level exceeds the reference threshold of 60% of GDP established by the EU Treaties and lies above the highest alert band set out in the Fiscal Responsibility Law. In these circumstances, the legislation in force requires the government to initiate and implement a public debt reduction programme. The consolidation measures adopted in the second half of 2025 and the first months of 2026[49] were consistent with this objective, helping to slow public debt growth. However, they are insufficient to stabilise the debt-to-GDP ratio, making continued fiscal consolidation essential[50].

[48] Based on the EU methodology, using information available on the Ministry of Finance website in the dataset "General Government Debt Developments under the EU Methodology, 2020-April 2026".

[49] The measures adopted and their impact were described in the Fiscal Council's analyses and opinions.

[50] See also the public debt sustainability analysis in subsection IV.3.

Figure 34: Primary balance in EU member states, in 2023 and 2024 (% of GDP, ESA 2010)



Source: Eurostat

An additional constraint stems from the high level of public debt relative to the depth of the domestic financial sector and its limited capacity to absorb additional debt at the current level of financial intermediation. At the end of 2025, Romania's ratio of public debt to total banking assets stood at approximately 119%, up from around 109% in the previous year. Meanwhile, local banks' exposure to the government sector as a share of their total assets[51] was approximately 28%, up from 27% in 2024. Local banks are the main holders of public debt on the domestic market, and both indicators were among the highest in the EU. This situation could lead to greater reliance on non-resident investors, increasing vulnerability to interest rate and exchange rate shocks, shifts in risk appetite in global financial markets, and a potential change in the sovereign credit rating.

The analysis of Romania's public debt dynamics showed that the primary deficit was the main driver of its upward trajectory, while real economic growth and the real interest rate mitigated the adverse impact of the primary deficit over 2021-2025. However, the combined contribution of real economic growth and the real interest rate gradually diminished from -5.4 pp in 2022 to -1.7 pp in 2025, amid slowing economic activity and rising interest rates. In this context, the fiscal consolidation measures adopted in 2025 and the first part of 2026 represent an important step towards stabilising the public debt trajectory. However, they are insufficient to achieve this objective, as shown by the medium- and long-term debt sustainability analysis presented in subsection IV.3.

[51] The banking system's exposure to the government sector is calculated as the ratio of banks' claims on the government sector, comprising securities and loans, to total banking assets, using information available in the European Central Bank's database.

IV. Compliance of the national fiscal-budgetary framework with the new European Union economic governance rules

The new EU governance framework, adopted in April 2024[52], retains the two established Maastricht Treaty reference values – a budget deficit below 3% of GDP and public debt below 60% of GDP – but changes the way compliance with them is monitored.

With a view to increasing transparency, simplifying fiscal rules and ensuring compliance with the two criteria, the framework introduces a single operational indicator – net primary expenditure. Compliance with the reference trajectory for net primary expenditure must ensure that, by the end of the adjustment period, in the absence of additional measures, the projected public debt-to-GDP ratio is placed on a plausibly declining path or remains at prudent levels below 60% of GDP over the medium term, while the budget deficit falls below 3% of GDP during the adjustment period and remains below this reference value over the medium term.

The plausibility of the downward public debt trajectory is assessed using the EC methodology for debt sustainability analysis (DSA), which uses the structural primary balance as the main reference for fiscal adjustment. Based on the assessment criteria, the DSA indicates a target value for the structural primary balance, which is then translated into a net primary expenditure trajectory.

To ensure a sustainable adjustment path, the framework introduces two safeguards. The debt sustainability safeguard requires compliance with the trajectory to lead to an average annual reduction in the debt-to-GDP ratio of at least 1 pp of GDP (for a public debt-to-GDP ratio above 90%) and 0.5 pp (for a public debt-to-GDP ratio between 60% and 90%). The deficit resilience safeguard requires the adjustment to continue until a structural margin of 1.5% of GDP relative to the 3% of GDP threshold is reached, through an annual improvement in the structural primary balance of 0.4 pp of GDP (reduced to 0.25 pp of GDP where the adjustment period is extended to 7 years).

Compliance with commitments under the adjustment process is monitored annually, and the EC records deviations in a control account, in which expenditure above the trajectory is entered on the debit side and expenditure below the trajectory on the credit side. Where deviations in the control account exceed 0.3 pp of GDP on an annual basis or 0.6 pp of GDP on a cumulative basis, the EC prepares a report under Article 126(3) of the Treaty on the Functioning of the EU, which may trigger the excessive deficit procedure. On this basis, the Council recommends that the Member State adopt effective measures within a maximum of six months.

The new economic governance framework gives independent fiscal institutions a consultative role in endorsing the macroeconomic forecasts and assumptions underlying the net primary expenditure

[52] Regulation (EU) 2024/1263 on the effective coordination of economic policies and on multilateral budgetary surveillance (preventive arm), Regulation (EU) 2024/1264 on the excessive deficit procedure (corrective arm), and Directive (EU) 2024/1265 on requirements for budgetary frameworks of the Member States.

trajectory, in analysing the consistency of budgetary data with that trajectory and within the excessive deficit procedure. Directive (EU) 2024/1265 clarifies the responsibilities of these institutions, on the premise that they constitute an essential pillar of national budgetary frameworks.

In Romania, the new governance framework was transposed into national legislation by adopting Law No. 45/2026, which amended and supplemented the Fiscal-Budgetary Responsibility Law No. 69/2010 (FBRL). The additional responsibilities assigned to the FC include, inter alia, identifying a situation of deviation from the medium-term budgetary objective or from the adjustment path towards it (Article 14(7) of the FBRL). A deviation is defined as a situation in which Romania departs significantly from the adjustment trajectory indicated in documents issued by EU institutions in the context of the budgetary surveillance process (Article 14(2) of the FBRL). To address this requirement, the present analysis is structured along the following lines: (i) the net primary expenditure trajectory, (ii) the structural budget balance and (iii) public debt sustainability.

IV.1. Net primary expenditure trajectory

According to Article 2(2) of Regulation (EU) 2024/1263, net primary expenditure is obtained from total expenditure by excluding interest expenditure, discretionary revenue measures, expenditure on EU programmes fully matched by revenue from EU funds, national expenditure on co-financing programmes funded by the EU, cyclical elements of unemployment benefit expenditure, one-off measures and other temporary measures.

The actual indicator monitored under the excessive deficit procedure is the nominal growth rate of net primary expenditure, which is compared with the maximum rate recommended by the Council of the EU. It should be noted that EC documents use two concepts of net primary expenditure: the operational concept defined by Regulation (EU) 2024/1263 and used for compliance monitoring, and the concept used to determine the trajectory through the DSA methodology, constructed on the basis of the structural primary balance.

The components of the net primary expenditure trajectory can be obtained consistently from the EC AMECO database. It should be noted that the values of the net primary expenditure trajectory are affected by revisions to budget execution data[53].

The new framework allows Member States to activate a national escape clause that excludes from the assessment of deviations the increase in defence expenditure above the 2021 level (up to a limit of 1.5% of GDP). By mid-2026, the clause had been activated by 18 Member States[54], but Romania was not among them. Consequently, defence expenditure is fully included in the net primary expenditure trajectory, without benefiting from any flexibility in the control account, and an increase in such expenditure, including expenditure financed through SAFE, reduces the available fiscal space.

[53] The data series for the variables comprising the net primary expenditure trajectory were updated on 3 June 2026 (and extracted from the AMECO database on 19 June 2026).

[54] https://www.consilium.europa.eu/en/policies/national-escape-clause-for-defence-expenditure-nec/

Since the beginning of 2020, Romania has been subject to the excessive deficit procedure. Under the new economic governance framework, in 2024 the EC transmitted to Romania the reference trajectory for the nominal growth rate of net primary expenditure for the preparation of the Medium-Term Fiscal-Structural Plan (MTP). The Plan was prepared on the basis of a seven-year adjustment period and submitted to the EC in October 2024. On 21 January 2025, the Council adopted Recommendation C/2025/647 approving Romania's MTP[55] and, implicitly, validated the reference trajectory for net primary expenditure included therein. In addition, under the excessive deficit procedure, the Council requested Romania to submit effective fiscal consolidation measures by 30 April 2025[56]. On 20 June 2025, by Decision 10157/25, the Council found that no effective response had been provided to this request. Moreover, in 2024, the growth rate of net primary expenditure was approximately 18.5% (above the 14.3% reference value in the MTP), while the budget deficit stood at 9.3% of GDP (compared with 7.9% of GDP in the MTP). Consequently, on 23 June 2025, the EC recommended revising the reference trajectory for net primary expenditure and, on 8 July 2025, the Council approved the new values for the growth rates of net primary expenditure[57] and the correction of the excessive deficit by 2030. The revised trajectory entails stricter values for net primary expenditure growth rates and an effort concentrated in the early years of the adjustment period (*Table 11*).

Table 11: Initial and revised trajectories of net primary expenditure growth rates (%)

	2024	2025	2026	2027	2028	2029	2030	2031
Initial annual trajectory	14.3%	5.1%	4.9%	4.7%	4.3%	4.2%	3.9%	3.8%
Initial cumulative trajectory (2023 base)	14.3%	20.2%	26.0%	31.9%	37.6%	43.3%	49.0%	54.7%
Revised annual trajectory	**–**	**2.8%**	**2.6%**	**4.6%**	**4.4%**	**4.2%**	**4.0%**	**–**
Revised cumulative trajectory (2024 base)	**–**	**2.8%**	**5.5%**	**10.4%**	**15.2%**	**20.1%**	**24.9%**	**–**

Source: Recommendations of the Council of the EU of 21 January 2025 and 8 July 2025.

The ESA-based data used to determine the growth rates of net primary expenditure, deviations from the reference trajectory and deviations in the control account are presented in *Table 12*. For 2023-2025, these refer to actual budget execution, while for 2026 and 2027 the data reflect EC projections. The growth rates of net primary expenditure calculated below are similar to those included in the EC Convergence Report[58].

[55] https://eur-lex.europa.eu/legal-content/RO/TXT/PDF/?uri=OJ:C_202500647

[56] https://economy-finance.ec.europa.eu/document/download/00e29702-df66-4e58-a35d-86e5c6680df9_en?filename=ecofin_5038_ro.pdf

[57] https://data.consilium.europa.eu/doc/document/ST-10349-2025-INIT/en/pdf

[58] European Commission (2026). Convergence Report 2026. Institutional Papers 343.

Table 12: Net primary expenditure trajectory and deviation from reference values							
	Variables	**Unit**	**2023**	**2024**	**2025**	**2026**	**2027**
1	Total expenditure	RON billion	653.6	761.5	830.4	884.3	927.6
2	Interest expenditure	RON billion	32.3	42.8	54.5	62.1	67.1
3	Cyclical unemployment benefit expenditure	RON billion	0.0	0.1	0.0	0.0	0.0
4	Expenditure financed by EU funds	RON billion	54.5	28.8	57.0	63.3	48.8
5	National co-financing of EU funds	RON billion	8.1	8.1	9.9	0.0	0.0
6	One-off expenditure	RON billion	0.0	0.0	3.5	0.0	0.0
7	Adjustments*	RON billion	0.0	0.0	0.0	11.8	8.3
8	**Net primary expenditure before adjustment for discretionary revenue measures (8 = 1-2-3-4-5-6-7)**	**RON billion**	**558.7**	**681.9**	**705.4**	**747.0**	**803.5**
9	Change in net primary expenditure before adjustment for discretionary revenue measures	RON billion		123.2	23.6	41.5	56.5
10	Discretionary revenue measures	RON billion		19.7	19.9	29.1	0.6
11	**Change in net primary expenditure after adjustment for discretionary revenue measures (11 = 9-10)**	**RON billion**		**103.5**	**3.7**	**12.4**	**55.9**
12	**Net primary expenditure growth rate**	**%**		**18.5%**	**0.5%**	**1.8%**	**7.5%**
13	**Reference net primary expenditure growth rate (revised trajectory)**	**%**			**2.8%**	**2.6%**	**4.6%**
14	Annual deviation (14 = (12-13) × 8(t-1))	RON billion			–15.4	–5.9	21.5
15	Cumulative deviation	RON billion			–15.4	–21.3	0.2
16	**Annual balance (15=14/18)**	**% of GDP**			**–0.80**	**–0.29**	**0.97**
17	**Cumulative balance (16=15/18)**	**% of GDP**			**–0.80**	**–1.03**	**0.01**
18	Nominal GDP	RON billion	1,590.7	1,759.2	1,916.4	2,062.0	2,211.6

Source: FC calculations based on AMECO and EC data[59]

*Note: *The estimates for 2026 and 2027 are adjusted to reflect national co-financing for EU funds and any one-off expenditure whose exact values will be known from actual budget execution.*

A comparison of the actual growth rates of net primary expenditure with the reference rates indicates values below the ceiling in 2025 (0.5%, compared with a reference of 2.8%) and in 2026 (1.8%, compared

[59] European Commission (2026). Data underpinning the calculation of net expenditure, including data on defence. 24th EUNIFI meeting.

with 2.6%). In terms of the annual deviation expressed as a share of GDP, these correspond to a favourable balance of -0.8% of GDP in 2025 and -0.29% of GDP in 2026. By contrast, EC projections indicate a 7.5% increase in net primary expenditure in 2027, above the 4.6% reference rate, corresponding to an unfavourable annual deviation of +0.97% of GDP. On a cumulative basis, a favourable balance is recorded in both 2025 and 2026 (-0.8% and -1.03% of GDP, respectively). This would, however, be offset by the projected 2027 overrun, with the cumulative balance reaching +0.01% of GDP by the end of the period, highlighting the pressing need to continue fiscal consolidation in the years ahead.

For 2025 and 2026, the data indicate compliance with the adjustment schedule and the net primary expenditure trajectory. These results reflect a concentrated consolidation effort on both the expenditure and revenue sides. In ESA terms, on the expenditure side, consolidation relied largely on freezing compensation of employees and social assistance expenditure, as well as keeping goods and services expenditure under control. The growth rate of compensation of employees moderated significantly to 2.3% in 2025 and is projected at 2.5% in 2026, from approximately 21.9% in 2024. Intermediate consumption (largely corresponding to expenditure on goods and services) fell by 1.2% in 2025, after increasing by approximately 12.3% in 2024, and is projected to rise by approximately 6.1% in 2026. Social assistance expenditure increased by 11.3% in 2025 (compared with 19.4% in 2024), reflecting the full-year impact of the September 2024 pension recalculation, with the growth rate projected to slow to 3% in 2026. By contrast, gross fixed capital formation recorded strong upward dynamics (+11.8% in 2025, projected at +22% in 2026), but this is supported by European funds under the MFF and NRRP, which are excluded from the calculation of net primary expenditure.

On the revenue side, the data indicate a substantial impact of discretionary measures amounting to RON 19.9 billion in 2025 and RON 29.1 billion in 2026. It should be stressed that discretionary revenue measures are a key element of the net primary expenditure trajectory, as they are deducted from the change in expenditure.

For 2025, the main revenue-increasing measures were adopted through Government Emergency Ordinance No. 156/2024 (lowering the revenue threshold for micro-enterprises, introducing the tax on special constructions, removing tax facilities in construction, agriculture, the food industry and IT, and increasing the tax rate on distributed dividends) and Law No. 141/2025 (increasing VAT rates, raising excise duties, broadening the assessment base for health insurance contributions, a further increase in dividend taxation, higher road charges, and additional taxation of credit institutions and gambling activities). At the time of adoption, the impact estimated by MF was approximately 1% of GDP – a value close to the EC assessment of discretionary revenue measures (RON 19.9 billion, also equivalent to approximately 1% of GDP).

For 2026, the main revenue-increasing measures were: the full-year impact of the measures in Law No. 141/2025, the increase in the taxable base for property tax and tax on means of transport, the introduction of a logistics charge on parcels originating outside the EU, and the increase in the assessment ceiling for health insurance contributions on income from self-employment (Law No. 239/2025). In the opposite direction, the main revenue-reducing measures concerned the reduction of

the minimum turnover tax (Government Emergency Ordinance No. 89/2025) and a package of incentives provided by Government Emergency Ordinance No. 8/2026: a 3% rebate on corporate income tax / micro-enterprise income tax/income tax for taxpayers required to submit the single tax return for fiscal year 2025, the tax credit for research and development, deductions for companies listing on the stock exchange, super-accelerated depreciation (deduction of 65% of the value of new investments), and deductions for amounts invested in shares/bonds/ETFs, up to EUR 400/year.

The budgetary impact on revenue was estimated by MF at approximately 1.3% of GDP in 2026, reflected mainly in tax revenue and social security contributions. This value is close to the EC estimate for discretionary revenue measures (RON 29.1 billion, equivalent to approximately 1.4% of GDP), with only a marginal difference that does not affect compliance with the reference value for the net expenditure trajectory in 2026.

It should be noted that discretionary revenue measures are included in the trajectory calculation at the nominal value of their estimated impact. If, in execution, the actual impact of the measures proves lower than estimated, the difference should be offset by additional measures in order to keep net primary expenditure on the reference trajectory. In these circumstances, given that discretionary revenue measures are a key component of the net primary expenditure trajectory, Romania's annual progress reports, published pursuant to the requirements of the new EU economic governance framework, should include a granular presentation of the impact of each measure. Such a presentation would allow a more rigorous assessment of the net primary expenditure trajectory and a comparison of estimates with actual budget execution.

IV.2. Structural budget balance in Romania

According to the DSA, the reference trajectory for net primary expenditure derives from a target value of the structural primary balance[60], used as the anchor for fiscal adjustment, so that compliance with the trajectory is equivalent to reaching a specific structural position.

Defining fiscal rules by reference to the structural deficit implies an actual deficit target adjusted according to the position of the economy in the economic cycle. For example, when the output gap moves into positive territory, compliance with the structural deficit target requires the actual deficit to be lower than that target (the cyclical component[61] of the budget balance being positive).

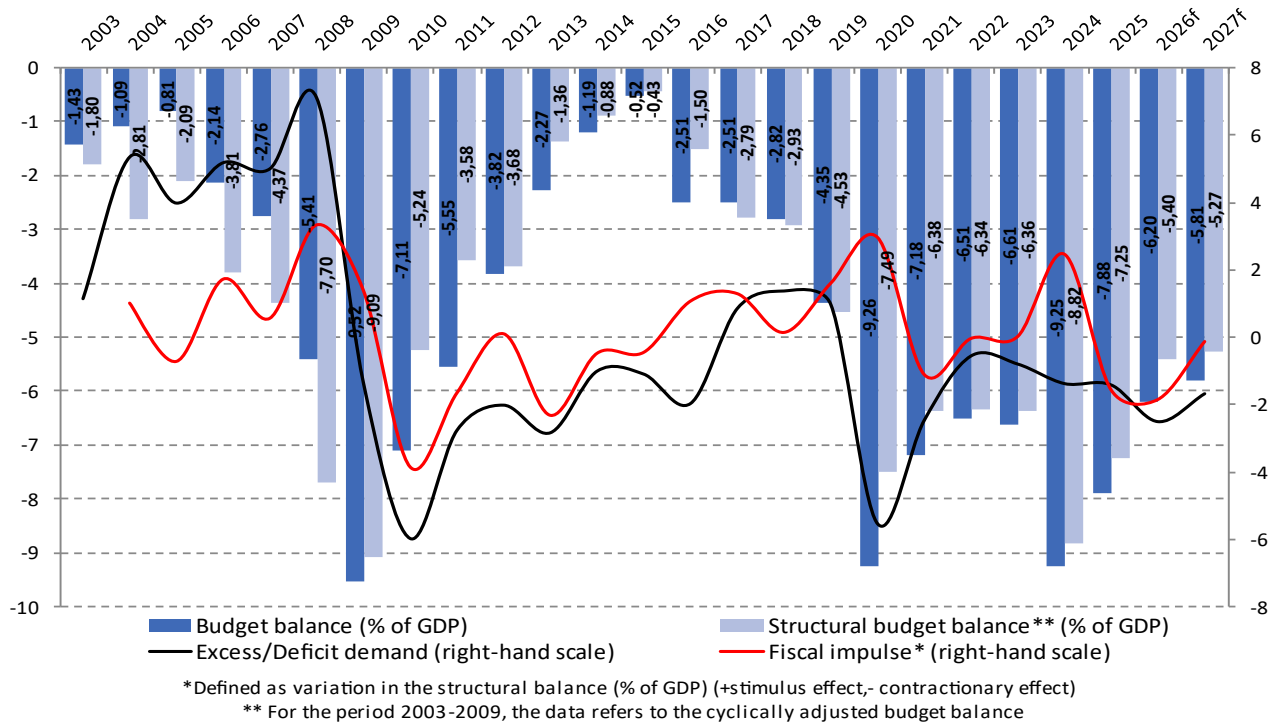
Although the structural budget balance more accurately reflects an economy's fiscal position, it has several disadvantages, the most important of which is the uncertainty inherent in its estimation. The value of the structural balance depends on the output gap, which is calculated relative to potential GDP – an unobservable variable that is often subject to more or less significant revisions depending on

[60] The structural primary balance is determined by excluding interest expenditure from the structural budget balance. The structural budget balance is calculated by subtracting the cyclical component of the budget deficit and one-off and temporary measures from the actual budget balance. For details, see http://consiliulfiscal.ro/Raport2011.pdf, pp. 48-59.

[61] Cyclical component of the budget balance = output gap * ε, where ε is the semi-elasticity of the budget deficit with respect to changes in the level of economic activity.

statistical data updates and the methodology used. For example, the estimate of Romania's output gap presented in the FC Annual Report for 2024 was revised from -0.25% for 2022, -0.61% for 2023, -1.66% for 2024 and -1.97% for 2025 (AMECO, June 2025) to -0.54% for 2022, -0.78% for 2023, -1.36% for 2024 and -1.40% for 2025 (AMECO, June 2026).

Figure 35: Structural deficit, fiscal impulse and excess demand



Source: AMECO, FC's calculations

The evolution of the structural deficit, fiscal impulse and excess demand (shown in *Figure 35*) illustrates that, over 2003-2025, Romania predominantly pursued a pro-cyclical fiscal policy[62]. The intense but unnecessary and counterproductive stimulation of the economy during pre-crisis expansion periods (2006-2008 and 2017-2019), and fiscal restraint when the economy was operating below potential (2010-2015 and 2021-2022), contributed to amplifying business-cycle fluctuations through the pro-cyclical nature of fiscal policy, offsetting the effect of automatic stabilisers.

The 2009-2015 period was one of consolidation, during which the structural budget deficit was reduced from 9.1% of potential GDP to 0.4%, with a significant effort in 2010 (an adjustment of approximately 3.9 pp, predominantly on the expenditure side). From 2016 onwards, the consolidation process was reversed, as the new Fiscal Code brought about broad fiscal easing accompanied by increases in permanent expenditure (wages and pensions[63]). Maintaining an expansionary fiscal stance even with a positive output gap from 2017 onwards, together with circumvention of the rules established by the

[62] Except for 2005, 2009, 2012, 2016, 2020, 2023 and 2024.

[63] From 2017 onwards, a series of ad hoc increases in the pension point were legislated (+65% over 2017-2020).

TSCG and FBRL regarding the structural deficit target, led to a rapid deterioration in the public finance position. Thus, 2019 ended with an ESA deficit of approximately 4.3% of GDP (a structural deficit of 4.5%), and Romania was placed under the excessive deficit procedure at the beginning of 2020.

The COVID-19 pandemic amplified the budgetary slippage in 2020 (ESA deficit of 9.3% of GDP, structural deficit of 7.5%), with the adverse economic shock[64] prompting a counter-cyclical fiscal policy response, reflected in a fiscal impulse of almost 3 pp. The reduction in the budget deficit by approximately 2.8 pp of GDP over 2021-2022 was supported by temporary factors – the macroeconomic recovery, collection of payment obligations deferred in 2020, high inflation and additional taxation of energy producers – so that the structural deficit fell by only 1.2 pp.

The years 2023-2024 marked another reversal of the budget-deficit reduction path, against the background of discretionary measures adopted through derogations from national rules and the electoral context. The structural deficit rose to 8.8% of potential GDP in 2024 (from 6.4% in 2023), while the ESA deficit reached 9.3% of GDP, 90% above the target programmed in the initial budget, reflecting a deeply unrealistic budget construction.

Against the background of high and persistent budget deficits and a substantial increase in public debt, as well as under the constraints of the excessive deficit procedure and the new governance framework, 2025 marked the beginning of a period of fiscal consolidation. Following the measures adopted during the year, the budget deficit declined to 7.9% of GDP and the structural deficit to 7.3% of potential GDP in 2025. Correspondingly, the structural primary balance improved from -6.4% in 2024 to -4.4% of potential GDP in 2025. The fiscal adjustment (a restrictive fiscal impulse of 1.6 pp and a restrictive primary fiscal impulse of 2 pp) was pro-cyclical, taking place in the context of a negative output gap.

According to MF projections, the 2026 budget framework envisages a reduction in the ESA budget deficit by 1.9 pp from the level recorded in 2025, to 6% of GDP. According to MF[65], this development is compatible with a 1.9 pp reduction in the structural deficit, from 7.3% of potential GDP in 2025 to 5.4% in 2026. The consolidation process is supported mainly by fiscal policy changes adopted through: (i) Law No. 141/2025 on certain fiscal-budgetary measures (Package 1) and (ii) Law No. 239/2025 establishing measures for the recovery and more efficient use of public resources and amending and supplementing certain legislative acts (Package 2), with effects on both expenditure and revenue. In its analysis of the 2026 draft budget, based on a prudent approach to forecasting revenue and expenditure, the FC assessed the 2026 budget framework as compatible with a cash deficit of around 6.25% of GDP.

In Romania, the share of tax revenue in GDP is low compared with other countries in the region (29.2% of GDP in Romania, compared with 35.2% in Czechia, 35.4% in Hungary and 37.6% in Poland in 2025[66]). Increasing budget revenue, supported mainly by tax revenue (including social insurance contributions), is essential to ensure compliance with the consolidation trajectory and exit from the excessive deficit procedure by 2030. Available data indicate that Romania has significant potential to increase budget

[64] According to the EC, from an excess demand of 1% of potential GDP in 2019 to a demand shortfall of 5.5% in 2020.

[65] According to the Fiscal Strategy for 2026-2028.

[66] According to Eurostat data, accessed on June 23, 2026.

revenue by improving collection efficiency. EC estimates show that Romania has the largest VAT compliance gap, at approximately 30%[67], and the largest corporate income tax compliance gap, at 43.6%[68], among EU Member States. Tax evasion and the shadow economy amount to approximately 29% of GDP[69]. At the same time, according to NAFA data[70], as of 31 December 2025, the cumulative payment obligations of companies in insolvency and bankruptcy proceedings represented more than 3% of GDP.

In this context, improving revenue collection should be a major fiscal policy priority, reflecting both the political will to implement structural reforms and to counter potential institutional resistance or opposing interests, as well as improved administrative efficiency. Reducing the VAT and corporate income tax compliance gaps and lowering outstanding liabilities to the state budget of companies in insolvency and bankruptcy proceedings should be key objectives of MF and NAFA. Achieving these objectives could generate additional revenue of more than 1.5 pp of GDP and would significantly support fiscal consolidation. Externally, heightened geopolitical uncertainty requires additional defence financing, while trade tensions adversely affect the economic growth outlook. Fiscal consolidation is therefore an issue of economic security and national solidarity, enabling the public budget to meet very substantial current and future needs.

As noted at the beginning of this section, compliance with the reference trajectory for net primary expenditure implies reaching a specific structural primary balance target at the end of the adjustment period, calibrated so as to place public debt on a plausibly declining path. The distance between the current position – a structural primary deficit of 4.4% of potential GDP in 2025 – and this target determines the scale of the remaining consolidation effort. The structural primary balance target and the associated public debt trajectory are quantified in the following section, devoted to the DSA.

IV.3. Public debt sustainability in Romania

The reference trajectory for net primary expenditure is set so as to ensure, by the end of the adjustment period, a declining public debt path and correction of the excessive deficit. The plausibility of the downward debt trajectory is assessed using the DSA methodology, which thus becomes a tool for monitoring compliance with fiscal rules.

The present analysis updates the assessment of Romania's public debt sustainability[71], using the latest EC data and projections from spring 2026. It incorporates the effects of the fiscal consolidation measures adopted during 2025, as well as the latest macroeconomic developments, and is structured as follows:

[67] VAT gap in Europe - Publications Office of the EU, 2025 and Mind the Gap Report. Challenges and opportunities for tax compliance and tax expenditure in the EU - Romania - European Commission, 2025.

[68] Mind the Gap Report - Taxation and Customs Union - European Commission, 2025 and The Corporate Income Tax Gap report - European Commission, June 2025.

[69] https://data.consilium.europa.eu/doc/document/ST-16801-2025-ADD-23/en/pdf

[70] https://www.anaf.ro/restante/index.xhtml

[71] Previous assessments are included in the Fiscal Council Annual Report published in September 2025 and in the Fiscal Council Opinion on the 2026 State Budget Law (March 2026).

(i) the public debt trajectory under a no-policy-change scenario, (ii) the public debt trajectory under a continued fiscal consolidation scenario, (iii) stress analysis of the public debt trajectory, and (iv) risks and uncertainties regarding the public debt trajectory. The methodological assumptions and data sources used in the DSA are presented in *Box 1*.

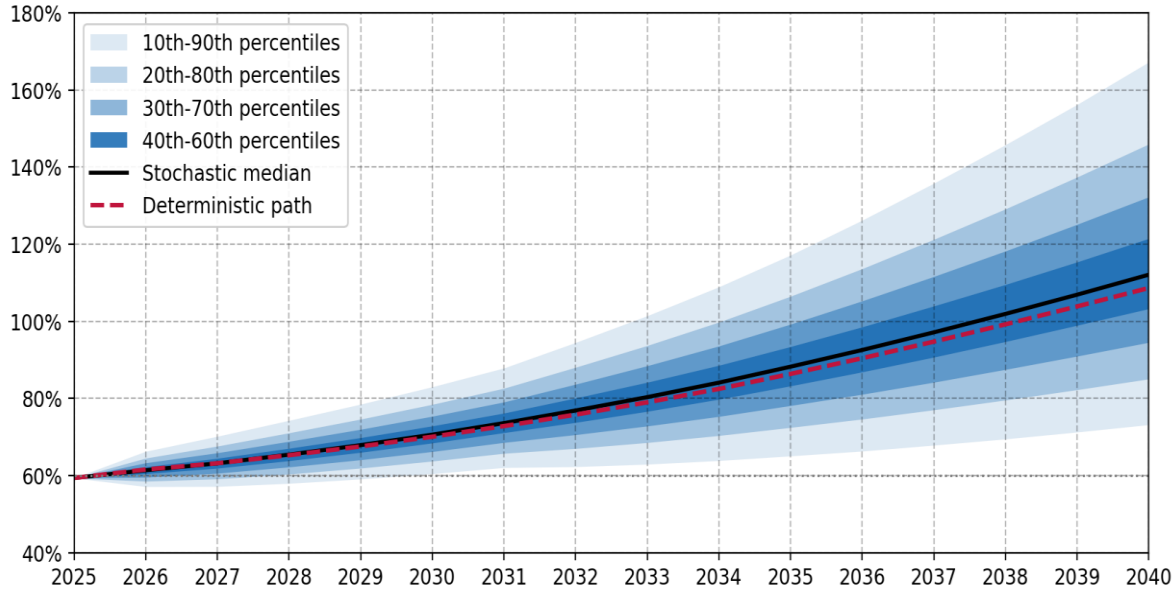
Public debt trajectory under the no-policy-change scenario

The projected public debt trajectory under a no-policy-change scenario incorporates in the 2026 projections the effects of the fiscal consolidation measures already adopted, taking into account an ESA budget deficit target of 6.2% of GDP. From 2027 onwards, the scenario assumes that the structural primary balance at the end of 2026 remains unchanged, subsequently adjusted only for the cost of population ageing.

Under this scenario, the projection results indicate a rapid increase in the public debt-to-GDP ratio, averaging approximately 3.4 pp per year over the projection horizon (*Figure 36*). Thus, if consolidation targets are missed in the coming years, public debt would exceed 70% of GDP in 2030, rise to around 80% of GDP in 2034, and exceed 100% of GDP in 2039. The stochastic analysis confirms the unsustainable trajectory: the median stochastic projection reaches approximately 112% of GDP in 2040, highlighting that risks are predominantly tilted towards an even faster accumulation of debt.

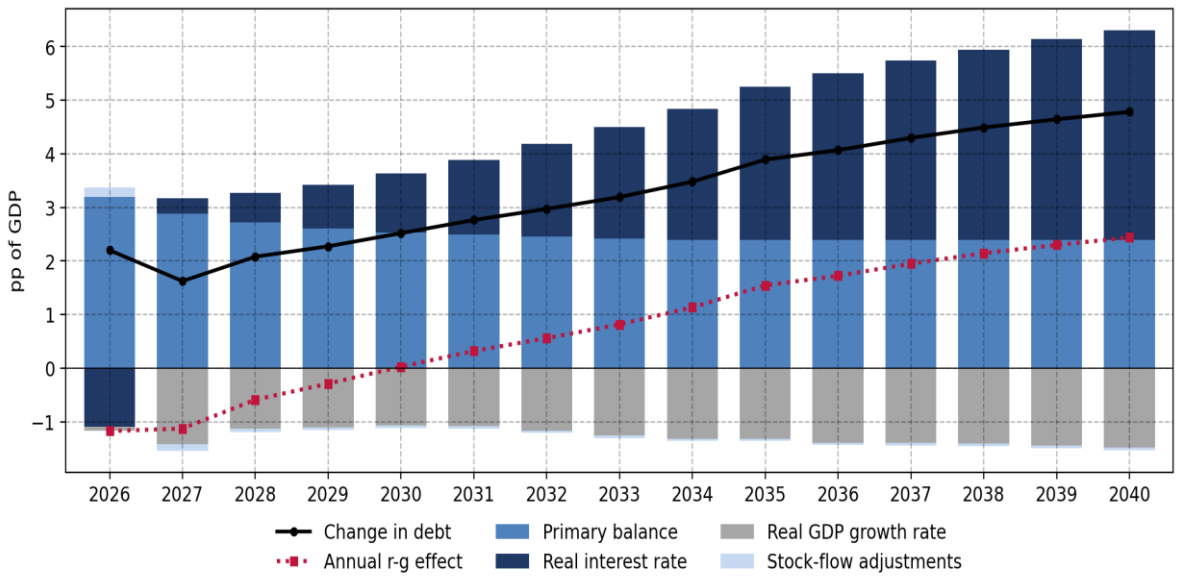
The upward public debt trajectory is also reflected in the deterioration of gross financing needs (the sum of debt rollover and deficit financing). Under the no-policy-change scenario, financing needs would rise from approximately 15% of GDP in 2026 to around 20% of GDP in 2034 and more than 25% of GDP towards the end of the horizon, substantially increasing refinancing risks. An equally important vulnerability is the dynamics of interest expenditure, projected to increase from approximately 3% of GDP in 2026 to around 5% of GDP in 2034 and approximately 7% of GDP in 2040. Such expenditure would absorb a significant share of budgetary resources, increasingly restricting available fiscal space. These pressures are compounded by the fact that approximately 53% of public debt is denominated in foreign currency, which increases the sensitivity of the trajectory to exchange-rate developments.

Figure 36: Projected public debt trajectory under the no-policy-change scenario (% of GDP)



Source: FC's calculations based on the DSA replication code

Figure 37: Decomposition of the change in public debt under the no-policy-change scenario (% of GDP)



Source: FC's calculations based on the DSA replication code

The main driver of public debt accumulation is the primary deficit, which, under this scenario, remains within the range of 2.4-2.7% of GDP over the horizon, reflecting the assumption that the budget structure at the end of 2026 is maintained, characterised by high permanent expenditure and

insufficient tax revenue. Another factor affecting the dynamics is the gradual weakening of the inflation-related reduction in the public debt-to-GDP ratio. As the GDP deflator declines, the differential between the financing cost and the GDP growth rate (r - g) deteriorates. Thus, the r - g effect, which is favourable to debt reduction over 2025-2029, becomes a driver of public debt accumulation from 2030 onwards (*Figure 37*).

Compared with no-policy-change projections prepared before the adoption of the consolidation measures, the DSA indicates a more moderate trajectory. The measures adopted in 2025 have tempered the explosive dynamics of public debt, but are not sufficient to stabilise it. Although the long-term debt projection is hypothetical, since financial markets and rating agencies would react well before the thresholds mentioned were reached, the projected dynamics underline the need to continue fiscal consolidation.

Public debt trajectory under the continued fiscal consolidation scenario

For Romania, the constraints associated with the excessive deficit procedure, the rules of the new economic governance framework, the commitments undertaken through the MTP, and the unsustainable public debt trajectory require continued fiscal adjustment in the coming years. The seven-year consolidation trajectory established through the MTP, starting in 2025, was affected by an incorrect starting point (lower than the actual one) and by the absence of concrete, specified measures to increase revenue / reduce expenditure. This required the Council of the EU to revise the trajectory, with correction of the excessive deficit by 2030 and an effort concentrated in the early years of the adjustment period (front-loading).

To ensure a declining public debt trajectory, a budget deficit below 3% of GDP and compliance with sustainability criteria under different stress scenarios, Romania should target a structural primary surplus of approximately 2.1% of potential GDP in 2030, equivalent to a primary surplus of approximately 1.2% of GDP and an ESA budget deficit of approximately 1.9% of GDP. This value was estimated using the DSA model, taking into account that it must simultaneously satisfy the three plausibility criteria[72] and the safeguards.

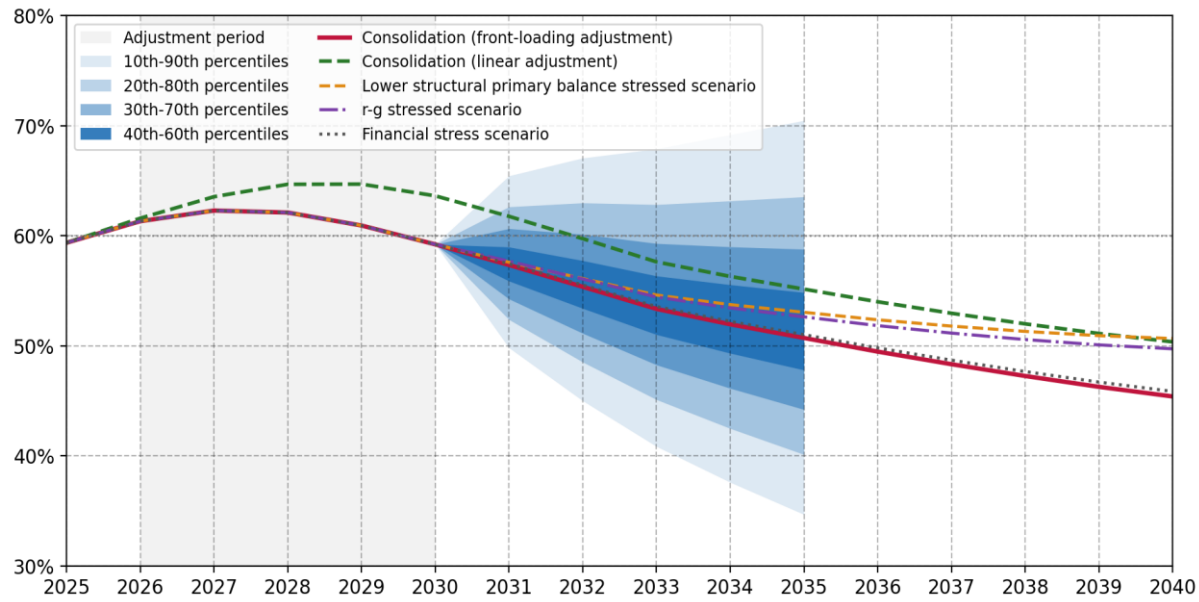
Given an estimated structural primary balance of approximately -2.2% of potential GDP at the end of 2026, the target of 2.1% of potential GDP for 2030 implies a total adjustment of approximately 4.3 pp of potential GDP. Taking into account the front-loading requirement, the adjustment effort in the structural primary balance is concentrated mainly in the early years of 2027-2030: 1.7 pp of potential GDP in 2027, 1.3 pp in 2028, 0.9 pp in 2029 and 0.4 pp in 2030. It should be noted that verifying whether public debt is placed on a declining path requires periodic assessment of the net primary expenditure trajectory

[72] Compliance with the three criteria implies that (i) debt declines or remains below 60% of GDP over the 10 years following the adjustment, both in the baseline scenario and under the three deterministic stress tests (for public debt levels above 60% of GDP, the criterion requires a plausibly declining trajectory, while for levels below 60% debt must remain at prudent values below this threshold); (ii) debt declines with a probability of at least 70% over the five years following the adjustment (stochastic criterion); and (iii) the deficit falls and remains below 3% of GDP. Of these, the binding criterion is the requirement that public debt decline with a probability of at least 70% over the five years following the adjustment period.

against its anchor – the structural primary balance – and the corresponding targets compatible with the objective of a declining debt path are recalibrated periodically according to actual budget execution and macroeconomic developments.

Starting from an estimated structural primary balance of approximately -2.2% of potential GDP at the end of 2026 and the adjustment path described above, the public debt dynamics are shown in *Figure 38*. The DSA results indicate that public debt reaches a peak of approximately 62.3% of GDP in 2027. Thereafter, debt follows a declining trajectory, falling below 60% of GDP in 2030, while the ESA budget deficit falls below 3% of GDP from 2029 onwards. The other two plausibility criteria are also met: the probability of a decline in public debt over the five years following the end of the adjustment period is validated at the 70th percentile, while the debt trajectory declines continuously over a 10-year period, including under the three deterministic stress tests (a lower structural primary balance, an adverse development in the r - g differential and financial stress).

Figure 38: Projected public debt trajectory under the continued fiscal consolidation scenario (% of GDP)



Source: FC's calculations based on the DSA replication code

Figure 38 also illustrates the difference between front-loaded and linear adjustment with the same structural primary balance objective. Under a linear adjustment, with the effort distributed evenly through 2030, the debt trajectory would be higher: the peak would rise to approximately 65% of GDP in 2028, and debt would remain above the 60% threshold at the end of the adjustment period. Consequently, the front-loading requirement ensures a more favourable debt trajectory and a lower peak.

This continued fiscal consolidation scenario requires a substantial adjustment in the structural primary balance over 2027-2030, with the effort concentrated at the beginning of the period. However, after a period in which social assistance expenditure and compensation of employees were frozen for two

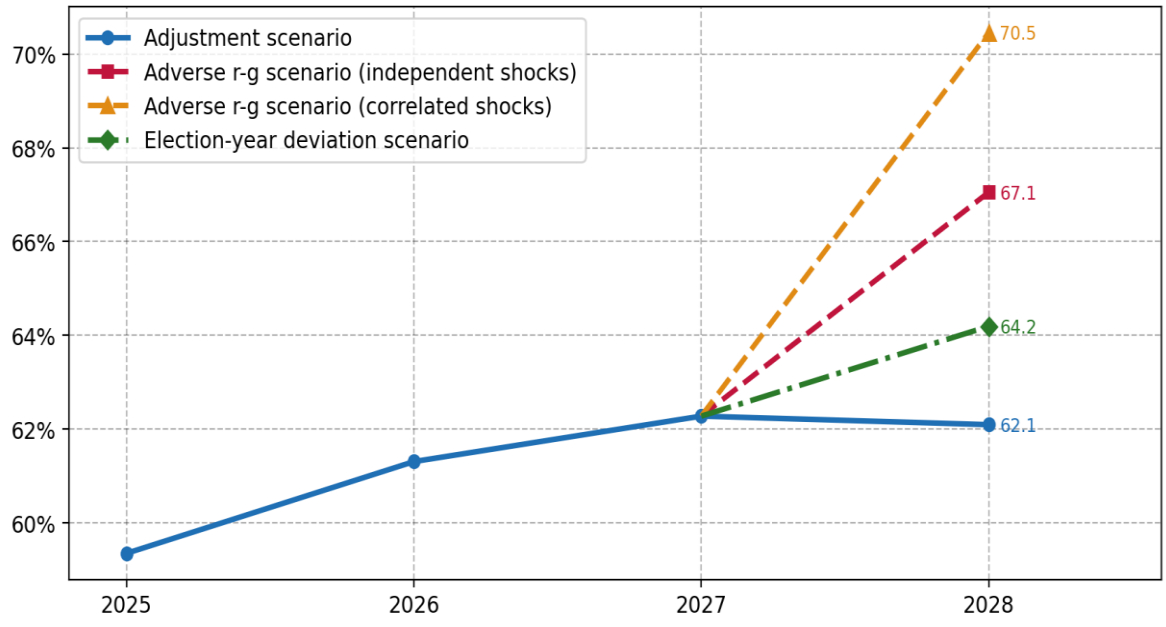
consecutive years (2025 and 2026), and measures to increase tax revenue were adopted, continuing the adjustment through expenditure freezes and additional measures increasing the tax burden is socially and politically difficult. In this context, improved tax revenue collection would provide fundamental support for the fiscal consolidation process.

Stress analysis of the public debt trajectory

The robustness of the public debt trajectory to adverse macroeconomic shocks is assessed through a stress analysis applied to the debt trajectory during the consolidation period. The stress analysis is based on annual historical data for 2005–2025 for the variables included in the stochastic DSA: the leu-euro exchange rate, the short-term interest rate, the long-term interest rate, nominal GDP, and the primary budget balance as a share of GDP. To avoid arbitrarily defining a crisis scenario, the historical covariance matrix of these variables was used. The stress analysis therefore starts from a trigger factor and estimates the likely response of the other indicators included in the analysis on the basis of the correlations observed in Romania over 2005-2025.

The differential between the long-term financing cost (r) and the nominal GDP growth rate (g) was used as the trigger factor. Under favourable conditions (when r is lower than g), this differential can help bring about a declining public debt trajectory. However, a sudden reversal of this differential, typical of crisis episodes, can lead to a sharp increase in public debt over a short period. The shock applied to the r - g differential was calibrated to reflect the most severe historical episode over 2005-2025. The propagation of this shock was simulated for 2028, in the middle of the adjustment period.

Figure 39: Stress analysis of the public debt trajectory (% of GDP)



Source: FC's calculations based on the DSA replication code

The transmission of the shock to the r - g differential to the other macroeconomic variables (exchange rate, short-term interest rate and primary balance) can be modelled in two ways (*Figure 39*). In the first approach (independent shocks), each variable reacts separately to the shock according to its individual historical relationship with the r - g differential, without taking into account the other correlations among the variables considered. Under this assumption, the public debt-to-GDP ratio would rise from approximately 62.1% in the consolidation scenario to around 67.1% in 2028, an increase of approximately 5 pp. The second approach (correlated shocks) takes into account that, during crisis episodes, macroeconomic variables move simultaneously and often in the same direction. Using the full structure of historical correlations among the variables, this approach captures a stronger response to the shock. In this case, public debt would reach approximately 70.5% in 2028, an increase of around 8.4 pp. Intuitively, the results of the two scenarios show that the severity of the initial shock is amplified by its simultaneous propagation to all macroeconomic variables.

Another risk not captured by the standard scenarios is the tendency towards fiscal easing in election years. To quantify it, a scenario was constructed and calibrated according to the behaviour of the primary balance in parliamentary election years over 2005-2025: 2008, 2012, 2016 and 2024 (2020 was excluded because the data were affected by the pandemic). On average, in these years the primary balance deteriorated by approximately 1.3 pp of GDP. The only exception was 2012, when the primary balance improved because Romania was then implementing a consolidation programme agreed with the IMF and the EC.

The fiscal deviation is applied in 2028, corresponding to the next parliamentary elections. In addition to the direct fiscal effect, the scenario also includes the likely market reaction, estimated on the basis of historical correlations: fiscal easing in an election year is generally accompanied by a depreciation of the leu, which increases the value of foreign-currency-denominated debt. Taken together, these effects result in a total impact on public debt of approximately 2 pp in 2028 – of which around 1.3 pp is due to the deterioration in the primary balance and the remainder to exchange-rate depreciation.

Risks and uncertainties regarding the public debt trajectory

The public debt trajectory under the continued fiscal consolidation scenario is conditional on compliance with the macroeconomic assumptions and those regarding the structural primary balance adjustment effort. In addition to the assumptions underlying the DSA, a number of risks may adversely affect the public debt trajectory.

First, a prolonged political crisis in Romania, combined with a deterioration in the economic situation, poses challenges to the fiscal consolidation process and creates conditions for a sovereign rating downgrade. Romania's rating is currently at the lower end of investment grade, with a negative outlook, but a downgrade to junk status would trigger severe effects: a significant increase in financing costs, greater pressure on the exchange rate (given that more than 50% of public debt is denominated in foreign currency), while the combination of higher interest rates and slower economic growth would seriously jeopardise the public debt trajectory.

Another important risk factor is geopolitical. The military conflict close to Romania's borders, together with global geopolitical uncertainty, particularly regarding developments in the war in the Middle East, entails a risk of an energy shock with adverse effects on economic growth. At the same time, in a context of global risk aversion, Romania is exposed to the risk of higher yields and, implicitly, higher financing costs. These developments would translate into a deterioration of the r - g differential, with a direct impact on debt dynamics.

The process of stabilising the public debt trajectory is also complicated by Romania's NATO commitment to increase defence expenditure. Given the absolute need to reduce the deficit, it would be very difficult for the public budget to accommodate annual military expenditure of 3.5% of GDP, let alone reach the target of 5% of GDP by 2035, which would require additional increases in tax and non-tax revenue and/or further expenditure cuts.

In the context of higher defence expenditure, the risk associated with drawing down loans under the European SAFE instrument should also be noted. Unlike grants, these loans are recorded as public debt and affect the deficit when the expenditure is incurred. Romania's allocation of approximately EUR 16.6 billion (equivalent to around 4.1% of GDP), distributed over 2026-2030, makes it necessary to create additional fiscal space in order to comply with net primary expenditure targets, including through application of the national escape clause. In its absence, approximately 3.5-4 pp of GDP could be added to the public debt trajectory.

A structural risk with both short- and long-term effects is demographic dynamics. As the large cohort born under the former pronatalist policy reaches retirement age, the cost of population ageing, partly incorporated into the baseline projection in accordance with the Ageing Report projections[73], places additional pressure on expenditure. According to these data, pension expenditure in Romania is projected to increase through 2030. Over the long term, population ageing erodes both budget revenue and economic growth potential. The pressure is amplified by the low labour market participation rate (approximately 67%, compared with an EU average of 75.3%), which narrows the contributor base and limits potential economic growth. Lower growth potential, in turn, reduces the denominator effect that moderates the public debt-to-GDP ratio, increasing the dependence of the debt trajectory on fiscal discipline. Mitigating these risks would require a series of structural measures: increasing labour market participation, gradually adjusting the retirement age in line with life expectancy, and eliminating exceptions to the standard retirement age.

Climate change is another major risk with effects in the short term and especially over the medium and long term. It may have devastating consequences, eroding national wealth stocks and altering resource allocation with adverse effects on budget expenditure (for example, unforeseen expenditure on compensation, infrastructure reconstruction, investment in climate-change adaptation and the green transition), as well as on budget revenue (for example, lower receipts due to reduced output in affected sectors). A useful instrument for managing climate-related risks could be the environmental spending

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

review, which has the potential to improve the efficiency of allocations for the green transition and climate change adaptation. Unfortunately, the environmental spending review prepared in 2025 does not examine climate-change adaptation in depth and does not identify quantifiable savings or reallocations that could be integrated into the budget process.

Last but not least, the rapid development of artificial intelligence requires substantial resources, which could generate a global crowding-out effect, creating a relative scarcity of capital and increasing the natural rate of interest on international markets. This phenomenon could deepen economic inequalities between companies and countries, laying the groundwork for new sovereign debt crises. If financing costs were to exceed the nominal GDP growth rate, public debt sustainability would deteriorate. Romania would also be affected by an upward movement in the global natural rate of interest and tighter external financing conditions.

Box 1: Methodological assumptions and data used in the DSA

The assessment of public debt sustainability is based on the EC DSA methodology described in Debt Sustainability Monitor 2023[74]. The assessment is based on three pillars: (i) a baseline scenario (the adjustment scenario), in the absence of shocks; (ii) deterministic stress tests, in which debt drivers are subjected to adverse shocks of predefined magnitude; and (iii) stochastic analysis, which quantifies uncertainty on the basis of the historical distribution of shocks.

Applying the DSA methodology to the deterministic scenarios involves using more than 30 variables, while the stochastic analysis uses 5 variables. The data come from the EC forecast (spring 2026), MF, the Ageing Report, Eurostat, the ECB, as well as market quotations extracted from Reuters Eikon and Bloomberg. The estimates were produced in Python using the DSA replication code[75].

In the baseline scenario, debt dynamics are constructed using the standard debt accumulation equation, in which the change in the debt ratio reflects the rollover effect, consisting of the contributions of the interest rate, real GDP growth, and inflation; the exchange-rate effect on foreign-currency-denominated debt; the primary balance; and the stock-flow adjustment. The data series included in the model rely on a number of assumptions. Economic growth is based on the EC potential GDP projections over a T + 55 horizon, adjusted using a common fiscal multiplier of 0.75. GDP deflator data assume linear convergence towards market expectations. In euro-area Member States, the GDP deflator converges linearly towards inflation expectations up to T + 10. After T + 10, the GDP deflator converges linearly towards the ECB's 2% target. For Member States with an inflation target different from that of the ECB, half of the differential vis-à-vis the euro area at T + 2 is assumed to persist until T + 10, after which the central bank's inflation target is reached over a T + 30 horizon. Interest-rate projections for new issuances converge towards expected rates up to T + 10 and, by T + 30, towards a real rate of 2%. In Romania's case, given the central bank's 2.5% inflation target, this convergence implies a nominal long-term interest rate of approximately

[74] European Commission, Debt Sustainability Monitor 2023, Institutional Paper 271.

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

4.5%. The primary balance comprises the structural primary balance, the cyclical component, the cost of ageing based on Ageing Report data, and property income. After the adjustment period, the structural primary balance remains constant and is modified only by the cost of ageing. The stock-flow adjustment follows the EC forecast up to T + 2 and is zero thereafter.

The trajectory of public debt is evaluated based on three criteria: (i) the debt decreases or remains below 60% of GDP over the 10 years following adjustment, both in the baseline scenario and under the three deterministic stress tests (for public debt levels above 60% of GDP, the criterion requires a plausible downward trajectory, while for levels below 60%, maintaining debt at prudent levels below this threshold is required); (ii) the debt decreases with at least a 70% probability within five years after adjustment (stochastic criterion); (iii) the deficit decreases and remains below 3% of GDP. The assessment also includes safety mechanisms regarding debt sustainability and deficit resilience.

The plausibility of the downward trajectory of public debt is also assessed through three stress scenarios. These are applied in the first year after the adjustment period and assume: (i) a smaller structural primary balance, in which it deteriorates by 0.5 pp of GDP in total (0.25 pp in the first two years), remaining at this level thereafter, with the shock representing half of the historical standard deviation at the EU level; (ii) adverse evolution of the differential r - g, where the difference between the interest rate and the economic growth rate permanently increases by 1 pp throughout the projection horizon; (iii) financial stress, where market interest rates temporarily increase by 1 pp for one year, plus a risk premium for countries with debt over 90% of GDP. These scenarios use common values for all member states.

In stochastic analysis, shocks are simulated around the baseline scenario for five variables of the debt equation: the primary balance, short-term and long-term nominal interest rates, nominal GDP growth, and, for Romania, as a country outside the Eurozone, the exchange rate. The shocks are defined as the first differences of the data series, with extreme values replaced by the 5th and 95th percentile thresholds. The resulting variance-covariance matrix captures historical volatility and correlations among the variables. Based on a common normal distribution with a mean of zero, 1,000,000 alternative trajectories are generated over a five-year horizon after the adjustment period. The nature of the shocks is symmetric, with the probability of a positive shock being similar to that of a negative shock.

V. Absorption of European funds from the MFF 2021-2027 and the NRRP

The contribution of European funds, for the reasons that can be summarized as: most of them are non-reimbursable, contribute to the growth of the real economy and the implementation of structural reforms, as well as to the maintenance of fiscal-budgetary stability as well as foreign exchange and financial balances, supporting the progress of budgetary consolidation and playing a decisive role in mitigating the contractionary effect of the correction of the structural budget deficit, are systematically monitors by FC. The FC analyses pay attention to the evolution of the absorption of these funds.

Another argument in support of this approach is that, in case of non-compliance with the fiscal consolidation timetable under the constraints of the excessive deficit procedure and the failure to take effective actions (as recommended by the Council), leading to the maintenance of the budget deficit on the downward trajectory assumed and agreed with the EC, Romania may suffer financial sanctions, including the suspension of European funds.

The FC analysis of the degree of absorption of European funds focuses mainly on the allocations from the Structural and Cohesion Funds (R) related to the National Programs of the MFF 2021-2027 managed by the Ministry of Investments and European Projects (MIPE) and, respectively, National Recovery and Resilience Plan (NRRP), MIPE being also the national coordinator of the NRRP.

For the period 2021-2027, Romania benefits from the EU budget from allocations of almost 75 billion euros, namely: 31 billion euros total SCF allocation (of which 22.1 billion euros from the EU for the 8 National Programs, 7 being managed by MIPE[76], and respectively 8.9 billion euros for the 8 Regional Programs managed by Regional Development Agency (RDA), over 20 billion euros from the Common Agricultural Policy and the Cohesion Policy related to the 2021-2027 MFF, to which are added allocations from the NRRP of 21.4 billion euros, of which 13.6 billion euros grants and 7.8 billion euros loans through the Recovery and Resilience Facility (RRF).

Succeeding the 2025 renegotiation of the NRRP with the EC, the loans component was reduced from 14.9 billion euros to 7.8 billion euros, while the grants component remained entirely at 13.6 billion euros; this resulted in a decrease in the total NRRP funds allocated to Romania from 28.5 billion euros to 21.4 billion euros. The revised NRRP was submitted to Brussels in mid-September 2025 and approved by the EC on November 11, 2025. Under a third revision of the NRRP- requested by Romania in May 2026 and approved by the EC in July 2026 – the grants component underwent certain modifications involving the waiver dropping or introduction of measures, yet the 13.6 billion euros allocations remained unchanged; meanwhile, the loan component was reduced by 1.3 billion euros due to the abandonment of

[76] The National Transport OP Program 2021-2027 is managed by the Ministry of Transport and Infrastructure, as a Managing Authority.

investments at risk of missing implementation deadlines. Consequently, the total NRRP allocation for Romania decreased from 21.4 billion euros to 20.1 billion euros.

Regarding the non-reimbursable structural and cohesion funds (SCF) under the 2021-2027 MFF, at the end of June 2026, according to data published by MIPE[77], corroborated under conditions of temporal comparability with those published by the MF[78] (*Table 13*), **the effective absorption rate[79] of SCF was 28.1% (National Programmes)[80] and 24.6% (total National and Regional Programmes)[81], respectively.**

Although they have improved in recent months, the relatively low levels of ESIF absorption make it difficult to catch up on delays during the 18 months remaining until the end of the 2021–2027 financial period—a process that could potentially be accelerated if Romania demonstrates firm political will by mobilizing all administrative and institutional resources to absorb these European funds and continues to benefit from the n+3 Rule.

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

[78] https://mfinante.gov.ro/static/10/Mfp/buget/sitebuget/BFN2026_06_30.pdf

[79] The effective absorption rate represents the ratio between the reimbursements from the SCF from the EC and the total of the related allocations. The advances from the SCF, even if used, partially or totally, represent expenses to be (or not) validated by the EC and are not taken into account in the calculation of the effective absorption rate.

[80] **The effective absorption rate of SCF related to the National Programmes of 28.1%** was calculated by relating **the repayments of €6.2 billion euros to the EU allocations (excluding advances) of €22.1 billion euros** for these programmes. (https://mfe.gov.ro/stadiul-absorbtiei-fondurilor-ue/). If the 8 National Programs exempt the Transport OP 2021-2027, managed by the Ministry of Transport and Infrastructure, both from allocations and from EC reimbursements, at the end of June 2026 the **absorption rate of SCF related to the 7 National Programs managed by MIPE, calculated as a ratio between 4.0 billion euros in reimbursements from the EC and 17.5 billion euros in allocations, was only 22.9%!**

[81] The effective absorption rate on total National and Regional Programmes of 24.6% was calculated by relating SCF reimbursements of EUR 7.6 billion euros to the total allocations (excluding advances) of EUR 31 billion euros. (https://mfe.gov.ro/stadiul-absorbtiei-fondurilor-ue/).

Table 13: Situation of absorption of the structural and cohesion funds for the programming period 2021-2027 as of 30.06.2026 (million euro)					
MFF 2021-2027	**Programmed 2021-2027**	**2021-2025 Execution at 31.12.2025**	**Estimates 2026**	**2026 Execution at 30.06.2026**	**2021-2026 Execution at 30.06.2026**
Structural and Cohesion Funds (SCF) of which:	**31,024.78**	**7,300.42**	**5,661.42**	**3,339.11**	**10,639.53**
Advances from the SCF	2,798.15	2,418.92	379.24	379.24	2,798.15
Reimbursements from the SCF	28,226.63	4,881.50	5,282.18	2,959.88	7,841.38

Source: Evolution of financial flows between Romania and the European Union (Net Financial Balance) 30.06.2026, MF; Absorption status for programmes financed from European Funds 2021-2027, related to Cohesion Policy, 30 June 2026, MIPE.

The absorption of the SCF to the greatest extent possible can contribute to supporting the macroeconomic correction and the fiscal consolidation process, to the implementation of structural reforms and the implementation of investment programs, to the mitigation of internal and external financial imbalances, including foreign exchange rates, to maintaining the country's rating at *investment grade* level and implicitly, to support the needs of financing the budget deficit and refinancing the public debt at acceptable costs, in the context of an adverse international environment, marked by major economic risks and political and geopolitical tensions, including armed conflicts.

The National Recovery and Resilience Plan (NRRP) includes the RRF related to the *Next GenerationEU*. As mentioned, following the renegotiation of the NRRP with the EC in 2025, the grants component was maintained in full at the level of 13.6 billion euros, and the loans component was reduced from 14.9 billion euros to 7.8 billion euros[82], which led to a decrease in the total NRRP funds allocated to Romania to 21.4 billion euros[83].

In July 2026, through a third revision of the NRRP, the amount related to the loans component was reduced by another 1.3 billion euros, so that **the total NRRP allocations for Romania decreased from 21.4 billion euros to 20.1 billion euros**.

The implementation of the reform and investment measures provided for in the NRRP faces major difficulties and significant delays, in the context in which all milestones and targets, including the related

[82] The decrease in the allocations of the loan component by 7.1 bln. euro entails a decrease to about half of the pre-financing of 1.94 bln. euro related to this component of the NRRP, it is not clear if and when it will be returned as such to the EC or if it will compensate, in whole or in part, a possible payment from the EC to Romania.

[83] In the second part of 2025, the Romanian authorities and the EC negotiated the revision of the NRRP, aiming at the full absorption of non-reimbursable funds, the simplification of targets and milestones, the maintenance of mature projects with a low degree of risk regarding implementation until August 2026, the rescheduling of payment requests, obtaining additional funding for projects under implementation.

payment requests, must be completed by August 2026, any failure to achieve them translating into losses or even repayment of funds[84].

It should be noted that by August 2025, Romania had managed to obtain EC approval for **Payment Requests 1 and 2**, totalling 5.3 billion euros (3.6 billion euros for the grants component and 1.7 billion euros for the loans component). Payment request no. 2 was approved under a suspension of payments[85], retaining an amount of 53 million euros due to the non-fulfilment of two energy milestones, partially recovered in December 2024 (37 million euros on the loans component).

Payment request No. 3, amounting to 2.1 billion euros (excluding pre-financing) submitted in December 2023, was preliminarily positively assessed by the EC in March 2025[86], but it was only in June 2025 that it received the opinion of the Economic and Financial Committee, the payment being made at the level of 1.3 billion euros. [87]

The remaining 869 million euro (814 million euro – grants component and 55 million euros – loans component) was subject to a suspension of payments, caused by the partial fulfilment or non-fulfilment of a number of 6 milestones[88]. In May 2026, following negotiations with the Romanian side, the EC decided that out of the amount of 869 million euros, 350.7 million euros should be returned to Romania, the difference of 458.7 million euros.[89] representing the penalty applied by the EC for the failure to properly meet the milestones on the governance of The Agency for the Monitoring and Evaluation of the Performances of Public Enterprises (AMEPIP), state-owned energy and transport companies.

In mid-December 2025, the Romanian authorities submitted to Brussels **the Payment Request No. 4** of the RRF, containing 62 milestones and targets exclusively on the grants component, which aimed at the development of important sectors of the economy[90]. After preliminarily assessing, in May 2026, that all 62 milestones and targets had been satisfactorily met[91], following the favourable opinion issued by the Economic and Financial Committee of the Council, on 23 June 2026, the EC reimbursed Romania the amount of 2.25 billion euros (excluding pre-financing)[92].

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

[85] The suspension procedure grants an additional 6 months to remedy the deficiencies and meet the interim targets (https://commission.europa.eu/system/files/2023-02/COM_2023_99_1_EN.pdf).

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

[87] It should be noted that, if as a rule, the European Commission examines the payment requests received from the member countries within a period of about two months, after which it communicates the proposal to be reimbursed, in whole or in part, the payment request no. 3 from Romania has recorded an absolute negative record at EU level, remaining in the stage of examination and partial payment for 18 months (December 2023 - May 2025)!

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

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

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

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

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

The EC experts noted that the satisfactory achievement of the milestones and targets highlights further reforms in key policy areas, including forest management reform, revision of the fiscal framework, promoting digitalisation and ensuring the independence and efficiency of the judiciary.

It also confirmed the progress made towards the completion of investment projects related to the implementation of the Government's *cloud* platform , the improvement of tax administration and public procurement processes, as well as the pre-hospital medical infrastructure[93].

On August 18, 2025, the Government approved GEO no. 41/2025 on the establishment of measures for prioritizing and monitoring investments financed through the NRRP[94]. With regard to the national investment programs – PNDL 1 and 2, "Anghel Saligny", but also other programs managed by the National Investment Company – the Ordinance introduced special rules on the assumption of new commitments and the award of new contracts.

In addition to resetting the list of investment projects financed from NRRP funds according to the established criteria, the Romanian authorities faced the problem of over-contracting reached 170-200%, which was about 20 bln. euros above the real limit of 21.4 bln. euros. Instead of a correction mechanism if it had been within a margin of 100-120%, over-contracting has turned into a distorting factor, complicating the selection of projects maintained in the NRRP and the financing of multiple works started, also creating pressure on the state budget, both in 2025 and in 2026.

MIPE launched ***the Dashboard*** in November 2025***,*** which is an interactive platform through which the projects financed from the MFF 2021-2027 are monitored according to the program, region, field and implementation stage[95], as well as the projects implemented from the NRRP, including allocations, contracts, absorption, validated payments[96].

In November 2025, the ECOFIN Council approved the revised form of Romania's NRRP[97]. We mention that, according to the minutes of the NRRP Monitoring Committee within MIPE, through this revision, investments with little or no progress of 1.5 billion euros were eliminated, 26 investments totalling 5.7 billion euros were moved from the loans component to the grants component and, the amount of 2.8 billion euros, respectively from the grants component to the loans component.

[93] https://reforms-investments.ec.europa.eu/document/download/70615f41-7451-49ab-a093-9b332cd5079e_en?filename=C_2026_3432_1_EN_annexe_acte_autonome_nlw_part1_v1.pdf

[94] Among these measures: projects with technical progress of more than 30% remain in the NRRP, provided that they are completed by August 31, 2026; investment projects without a work start order are abandoned; investment projects with physical progress between 0% and 30% are suspended, due to the high risk of non-completion on time; line managers must submit detailed lists of projects that meet these criteria, as well as costs, sources of financing, as well as risks associated with non-implementation. Projects with a progress below 30% will be able to continue only with the approval of the Government, based on the approval of the Ministry of Finance and the MIPE, and the projects that have exceeded the 30% threshold will be maintained only if there is a guarantee of their completion by August 31, 2026, with the approval of MIPE.

[95] https://mfe.gov.ro/map2021/

[96] https://mfe.gov.ro/pnrr-dashboard/

[97] https://data.consilium.europa.eu/doc/document/ST-14452-2025-INIT/en/pdf

As a backup solution for the difference in financing of the projects removed from the loans component, the capitalization of the Investment and Development Bank is targeted[98].

In this relatively confusing and complicated context, the revised NRRP underwent major changes after the application of the provisions of GEO no. 41/2025 and the removal or transfer of some projects from the loan component to the grants component and vice versa, while other projects were abandoned or postponed until other sources of financing were identified, with major financial implications, including by reducing the loan component by 7.1 billion euros.

The examination of the calendar of NRRP payments made by the EC to Romania between 2021 and June 2026 (*Table 14*) highlights the fact that, **from September 2023 to June 2025, for almost two years, except for a pre-financing of 288 million euros related to REPowerEU, Romania failed to absorb a single euro from NRRP funds!**

This fact reveals the deepening of the deficit in administrative capacity of the Romanian authorities, both at central and local level in pursuing the achievement of the targets and milestones of the NRRP, respectively for carrying out reforms and implementing investments, in compliance with the commitments and deadlines assumed.

On the NRRP as a whole, at the end of June 2026, the effective absorption rate (excluding pre-financing) was 55.4%, on the grants component being 64.6%, and on the loans component of 36.4% (*Table 15*).

In summary, it is noted that, after a period of almost six years, the effective absorption rates (excluding pre-financing[99]) of the NRRP funds, although they have improved in recent months, are at low levels compared to the deadline for the completion of all related milestones and targets, namely August 2026[100], implying the risk of losing significant amounts of European money and the failure to carry out important reforms and investment projects.

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[98] https://mfe.gov.ro/wp-content/uploads/2026/06/38bb9f43afa46978e39150e856deeb4e.pdf

[99] In addition to the fact that there is no clear picture of the pre-financing (destinations, absorption), the situation became more complicated after the revisions of the NRRP in 2025 and 2026, when a number of projects that did not meet the criteria established by GEO no. 41/2025 were removed from the PNRR due to the high risk of non-completion on time, with no certainty of recovery of the related pre-financings.

[100] Considering the closure of the RRF at the end of 2026, EU states must meet all outstanding milestones and targets by 31 August 2026. The NRRP closure calendar provides for the date of 30 September 2026 for the submission of the last payment request, and the EC will assess it by 20 November 2026, with the authorisation of payments scheduled for 18 December 2026, with the deadline for making these payments on 31 December 2026. If a milestone or target is assessed as not satisfactorily met after 31 August 2026, the Commission cannot apply the suspension of payments procedure by adopting a decision to reduce the financial contribution or loan. From 2027 onwards, the Commission will continue to monitor annually, within the framework of the European Semester, the implementation of the country-specific recommendations, including those addressed by RRF measures. **Crucially, it was specified that states' obligations do not cease with the last payment because, by 2031, the irreversibility of the targets / milestones met, the continuation of the reporting of common indicators and the preservation of project documentation must be ensured.** European Commission. *Guidance for Member States on the*

Table 14: Calendar of the European Commission payments to Romania, related to the NRRP, during 2021 -June 2026 period (including pre-financing)			
Date	**Budget type**	**Payment request**	**Amount (euro)**
Jun 23, 2026	Grants	4	2,251,48,951
Jun 10, 2025	Grants	3	622,487,484
Jun 10, 2025	Loans	3	657,288,757
Dec 23, 2024	Loans	2 (Part 2)	37,055,259
25 Jan 2024	Grants	Pre-financing	28,078,244
Sep 29, 2023	Grants	2	1.868,317,381
Sep 29, 2023	Loans	2	893,345,055
27 Oct 2022	Grants	1	1,772,317,380
27 Oct 2022	Loans	1	789,672,460
13 Jan 2022	Loans	Pre-financing	1,942,479,890
Dec 2, 2021	Grants	Pre-financing	1,851,159,668
TOTAL			**12,973,683,529**

Source: RRF Scoreboard – Romania https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/country_overview.html

operational aspects related to the final phase and closure of the Recovery and Resilience Facility, Official Journal of the European Union, C/2026/2614, 4.5.2026.
https://eur-lex.europa.eu/legal-content/RO/TXT/PDF/?uri=OJ:C_202602614

Table 15: Effective absorption rate of NRRP funds as of 30.06.2026			
Budget type	**Allocations (million euros)**	**Amounts paid by the EC, excluding pre-financing (million euros)**	**Effective absorption rate (%)**
Grants	13,566	8,766	64.6%
Loans	6,534	2,377	36.4%
Total NRRP	**20,100**	**11,143**	**55.4%**

Source: EC, FM, FC calculations

According to the country-specific recommendations for Romania, under the Spring Package of the European Semester 2026, despite the efforts made in 2025, the recurrent delays in the implementation of EU programmes, including the NRRP, indicate major deficiencies in the capacity of the public administration to plan, organise and implement complex projects[101].

On June 24, 2026, a request was sent to Brussels requesting the revision of the NRRP (the third) justified by the fact that it is not partially feasible for objective reasons and to avoid the risk of financial sanctions. It was specified that, on the grants component, a series of measures cannot be implemented due to the withdrawal of contractors, others due to unforeseen circumstances, beyond the control of the authorities, many requiring better alternatives. Romania also requested that the financial resources released by giving up these measures be used by introducing other measures and increasing the degree of implementation in the case of others. On the loans component, by giving up some investments for which there was a risk of non-compliance with the implementation deadline, the allocated amount was reduced from 7.8 billion euros to 6.5 billion euros.

Consequently, based on the fulfilment of the criteria set out in EU Regulation 2021/241, on July 13, 2026, the EC published the positive assessment of Romania's request for revision of the NRRP, respectively its approval, so that, taking into account the decrease suffered on the loans component, the total allocation of the NRRP was reduced to 20.1 billion euros[102].

[101] Thus, competition in public procurement is limited, deficiencies in tender planning and preparation are persistent, and public procurement remains an area with a high risk of corruption and fraud. In the same vein, it is noted that the implementation of climate change adaptation policies and investments in environmental infrastructure is hampered by a lack of expertise and resources at all levels of territorial governance, as well as systemic deficiencies in governance and administrative procedures, strategic planning, enforcement and data collection. The EC's recommendations for action in 2026 and 2027 includeensuring the continuity of reforms and investments under the Recovery and Resilience Facility, as well as maintaining the pace of implementation under cohesion policy programmes, relying, where appropriate, on the reallocation of funds to strategic priorities. (see *Recommendation for a COUNCIL RECOMMENDATION on the economic, social, employment, structural and budgetary policies of Romania* {SWD(2026) 223 final}. Brussels, 3.6.2026). https://reforms-investments.ec.europa.eu/document/download/a775d86f-b31d-430b-abd1-990650f44be4_en?filename=RO-COM_2026_223_1_EN_ACT_part1_v5.pdf

[102] European Commission, *Proposal for amending the Implementing Decision of 29 October 2021 on the approval of the assessment of the recovery and resilience plan for Romania* {SWD(2026) 229 final}, COM(2026) 378 final 2026/0207, Brussels,

According to the Note on the revision of the NRRP, adopted by the Government in the meeting of July 16, 2026[103], the new profile of **Payment Request No. 5**, agreed with the EC, includes 75 milestones and targets, respectively 21 related to reforms and 54 related to investments. It is specified that the reconfiguration of the demand ensures a more balanced distribution of milestones and targets between Payment Requests No. 5ANI and No. 6, reflecting the real stage of implementation of the projects.

Thus, following the third revision of the NRRP, the gross value of Payment Request no. 5 is 2.8 billion euros (including pre-financing), but the net amount expected to be collected is about 2.1 billion euros, of which 1.65 billion euros on the grants component and 430 million euros on the loans component[104].

MIPE, as national coordinator of the NRRP, monitored the swift completion of the supporting documents, normative acts and all necessary administrative and audit procedures**, Payment Request No. 5 being officially submitted on August 14, 2026**. We specify that due to the urgent completion of this request, there is a risk that the failure to meet some essential components will affect the fulfilment of the criteria related to the milestones and targets[105], which will determine the EC to apply decisions to reduce financial contributions, respectively loans, with repayments below the expected amount of 2.1 billion euros.

On August 26, 2026, convened in an extraordinary session, the Romanian Parliament approved *the Law on the operational and financial closure of the National Recovery and Resilience Plan*[106] containing important regulations, including: (i) the coordinators of reforms and/or investments have the obligation to submit to MIPE by September 15, 2026, the summary notes accompanied by the supporting documents attesting to the fulfilment of the targets and milestones under their responsibility, through the NRRP management and control information system; (ii) MIPE centralizes the financial and budgetary implications of the uncompleted reforms and unfinished investments, including the loss of revenues generated by them and informs the Government in this regard; (iii) in the case of reforms and/or investments eliminated/transferred from the NRRP for which legal commitments have been concluded, and their implementation continues to be carried out thereafter, these commitments continue to be executed, according to the contractual clauses, and the related payments are made from the beneficiary's own sources/other sources of funding and cannot be subject to reimbursement requests from the NRRP funds; (iv) for reforms classified as incomplete, the assessment of which results in a revenue loss, the reform coordinator shall develop and propose additional sectoral reform measures necessary to fully cover this revenue loss, including the estimated impact on GCB revenues; (v) for investments eliminated from the NRRP on the basis of the supporting documents submitted by the

13.7.2026. https://reforms-investments.ec.europa.eu/document/download/a125f84c-380b-4429-a6c1-6b318526e1fc_en?filename=COM_2026_378_1_EN_ACT_part1_v3.pdf

[103] https://gov.ro/ro/guvernul/sedinte-guvern/informatie-de-presa-privind-actele-normative-adoptate-in-edinta-guvernului-romaniei-din-16-iulie-2026

[104] See also https://agerpres.ro/economic/2026/08/15/pislaru-romania-a-depus-oficial-vineri-seara-cererea-de-plata-nr-5-din-pnrr--1585170

[105] Government of Romania, *Note on the status of the fulfillment of the targets and milestones within the Payment Request no.5 as of August 13, 2026.*

[106] https://www.cdep.ro/ords/pls/proiecte/docs?2026/pl539_pr539_26.pdf

beneficiaries and the assessment of the physical and financial status of the investment on August 31, 2026, as well as for those whose contracts/decisions/financing orders have been suspended or terminated under the conditions of GEO no. 41/2025, the investment coordinator approves their list, at the project level specifying the total value, the amount settled from the NRRP, the national public contribution paid, the related value added tax and the ineligible expenses; the update of the list will take place at the end of 2026, including the revenue minus generated at the level of the GCB, the failure to complete the investment within the stipulated deadline entailing the recovery of the amounts from the beneficiaries, proportional to the degree of non-fulfilment of the assumed indicators; (vi) the coordinator of reforms and/or investments prepares an analysis of the revenue deficit that the MF and MIPE submits within 60 days from the date of completion by the EC of the evaluation of the payment request no. 6, an analysis that will be used by the Government in substantiating the future fiscal strategy through appropriate sectoral policies; (vii) the NRRP closure report includes the consolidated situation of the classification of reforms and investments, by components and by coordinators of reforms and/or investments, with the distinct highlighting of the measures eliminated from the NRRP, the final financial statement of the NRRP comprising: the amounts settled from the non-reimbursable financial assistance and the loan component, the national public contribution, the value added tax, the ineligible expenses and the amounts subject to recovery, the total minus of revenues and the compensation measures, the stage of completion of investments as of December 31, 2026, the conclusions on the fulfilment of the targets and milestones assumed and the recommendations for the sustainability period.

It should be noted that among the normative acts that had to be adopted in August 2026, in order to fulfil the commitments assumed under the RRF (laws regulating unitary remuneration – unfulfilled, the integrity law regulated by the National Integrity Agency (ANI) – approved, rewarding MF staff for improving revenue collection to the state budget – approved, hydrogen code – approved, administrative code – approved, the Urban Planning Code – approved, the decarbonization of the heating and cooling sector – uncertain, notification of unconstitutionality to the Constitutional Court of Romania (CCR), the Law on Remuneration for Personnel Paid from Public Funds aimed at stabilizing and, subsequently, reducing the state's salary expenses proved to be the most politically sensitive. Given some deficiencies in decision-making transparency and despite heated debates, including at the level of trade unions, the political parties did not agree on this law. The draft salary law has generated discontent among various occupational categories (primarily in the health and education sectors), with street protests and strikes that risked paralyzing Romania in September 2026.

Given the failure to reach an agreement for the adoption of the Public Sector Payroll Law, the rating agency Moody's[107] warned that this failure has negative consequences on Romania's sovereign credit profile. According to the agency's experts, the impact of not adopting this law is not limited to the loss of 770 million. euros (0.2% of GDP in 2025) from EU non-reimbursable funds, but affects the country's credit profile, representing a signal that there may not be a political consensus in favour of implementing

[107] https://www.moodys.com/researchandratings/region/romania/042013

and maintaining a significant fiscal effort, which would structurally control the increase in spending. Moody's warns Romania that the political deadlock that has blocked the adoption of this law will make negotiations on the 2027 budget difficult and will make it difficult to control borrowing costs, which remain sensitive to fiscal and political developments, an essential aspect taking into account the interest burden, which continues to rise (to 3.3% of GDP in 2028 compared to 2.5% in 2025, according to Moody's baseline scenario).

Payment request No. 6 is scheduled to be submitted by the end of September 2026 via the EC's IT system, with final payments to be made by December 31, 2026. **It should be noted that only at the end of this year, depending on the EC's assessment of how to meet the milestones and targets related to Payment Requests No. 5 and No. 6, can the exact amount of reimbursements to Romania be known, which would allow the calculation of the effective absorption rates of NRRP funds, both on the grant and the loan components**. Also, the overview of how NRRP funds are used, including their contribution to the development of the Romanian economy, its efficiency, as well as their macroeconomic and financial impact, can be completed by estimating the level of relevant indicators, including national co-financing, its structure and the budgetary impact for 2026.

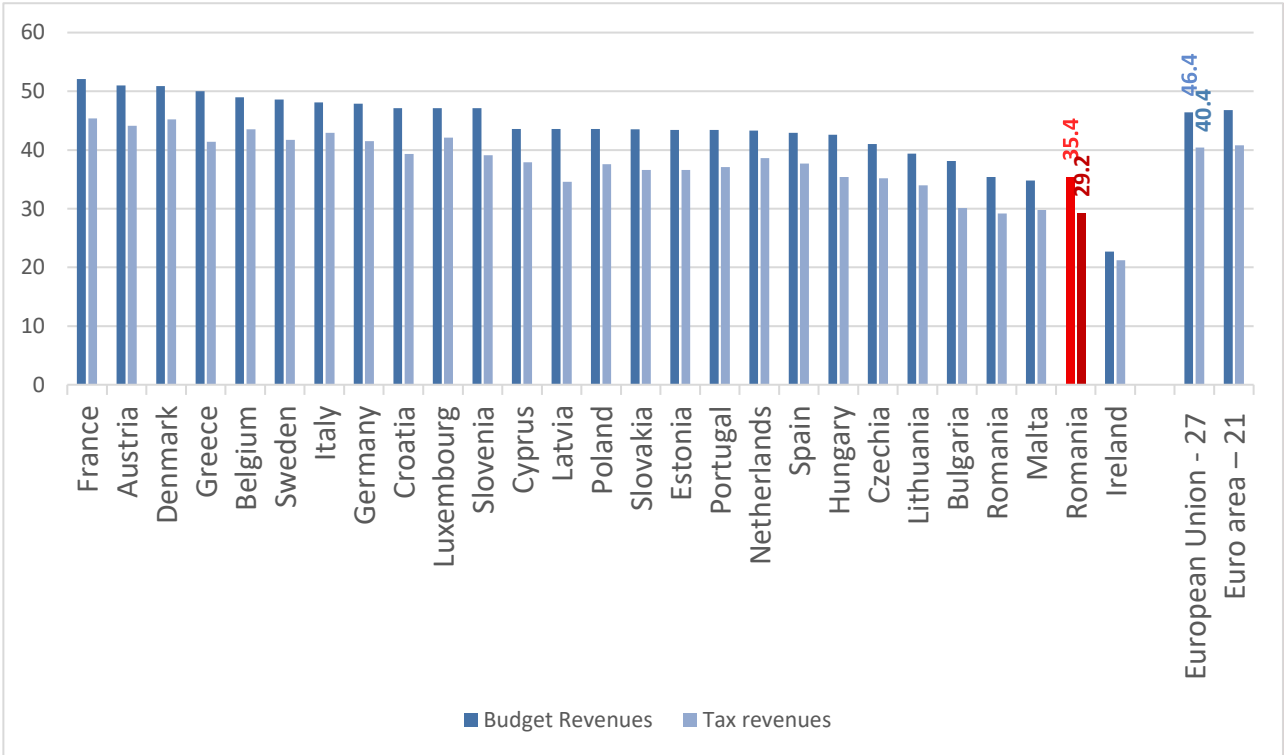
Given the persistent high degree of international uncertainty at the international level, mainly caused by the escalation of the conflict in the Middle East, as well as the increase in internal tensions as a result of the political crisis and the social costs generated by the application of austerity measures, with the risk of a recession of the Romanian economy in 2026, in the short term a modest increase in the absorption rate of European funds from the 2021-2027 MFF can be anticipated. Regarding the NRRP, given the time constraints and the remaining difficulties, expectations in this regard are marked by financial losses in the order of several billion euros.

VI. Tax collection and budget expenditure structures – international comparisons

VI.1. Tax collection in Romania – international comparisons

Romania recorded total budget revenues of 35.4% of GDP in 2025, according to the ESA 2010 methodology, up by 1.4 pp from 34% of GDP recorded in 2024 (*Figure 40*). Over the same period, the share of tax revenues (taxes and social security contributions) increased from 28.7% to 29.2% of GDP, by 0.5 pp, respectively. Despite these developments, Romania continues to rank near the bottom of EU member states in terms of the share of budget and tax revenues in GDP. With a level of budget revenues of 35.4% of GDP, Romania is 11 pp below the EU27 average (46.4% of GDP), and in terms of tax revenues, the gap with the European average (40.4% of GDP) is 11.2 pp, leaving Romania in second-to-last place in the EU27.

Figure 40: Budget revenues and tax revenues in 2025 (% of GDP, ESA 2010)



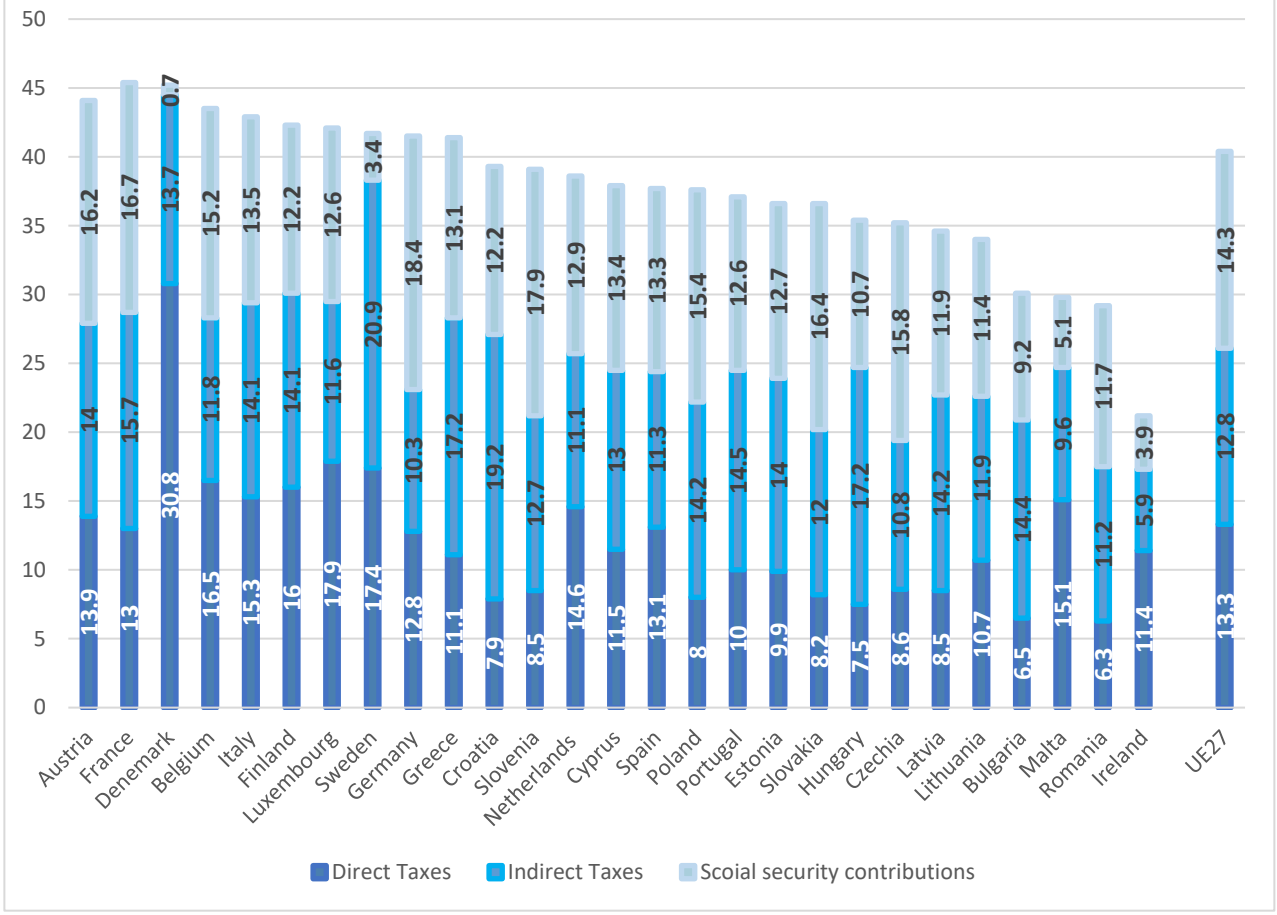
Source: Eurostat

Note: Tax revenues also include social security contributions (SSC)

Despite recording an increase in the share of budget and tax revenues in GDP, Romania continues to rank well below other CEE states such as Croatia (budget revenues at 47.1% of GDP; tax revenues at 39.3% of GDP), Slovenia (budget revenues at 47.1% of GDP; tax revenues at 39.1% of GDP) or Poland (budget revenues at 43.6% of GDP; tax revenues at 37.6% of GDP). Compared to Bulgaria, Romania's

share of budget revenues in GDP in is by 2.7 pp lower, and its tax revenues by 0.9 pp lower. The very low level of tax and budgetary revenues in Romania stems from both inefficient tax administration and lower tax rates, a consequence of past fiscal loosening.

Figure 41: Structure of tax revenues in EU countries in 2025 (% of GDP, ESA 2010)



Source: Eurostat

Note: Tax revenues also include SSC

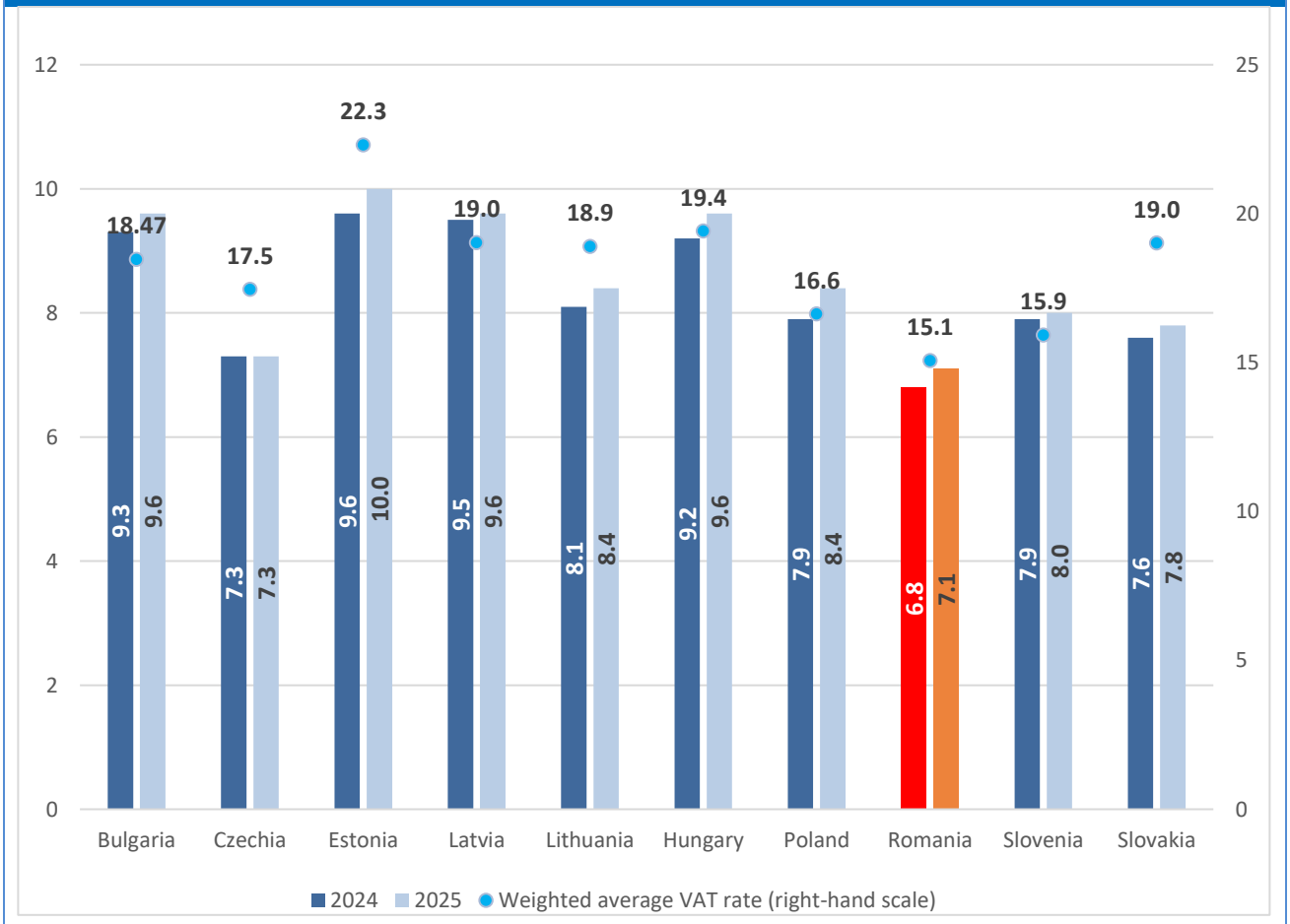
From the perspective of the structure of tax revenues (*Figure 41*), Romania has one of the lowest shares of direct tax revenues in the EU27, i.e. total tax revenues at 21.6%, 11.3 pp below the European average of 32.9%. This share is similar to Bulgaria's (21.6%) and Slovenia's (21.7%), and is above the levels recorded in Croatia (20.1%), Hungary (21.2%) and Poland (21.3%), but falls below the CEE average (23.4%). The share of indirect tax receipts in Romania exceeds the EU27 average (38.4% compared to 31.7%), but is significantly lower than the shares in Croatia (48.9%), Hungary (48.6%) and Bulgaria (47.8%) and is sits below the CEE average of 39.2%. Regarding social security contributions, Romania's share in 2025 stood at 40.1%, exceeding the EU27 average at 35.4%. At the regional level, Romania is above the CEE average (37.4%), but below Slovenia (45.8%), the Czech Republic (44.9%), Slovakia (44.8%) and Poland (41%).

Similar to previous years, the structure of tax revenues in Romania remained mainly oriented towards indirect taxes and social security contributions in 2025, which together represent 78.4% of tax revenues,

matching Bulgaria's level and standing 11.3 pp above the EU27 average. Similar results were recorded for other CEE states, such as Croatia (79.9%), Hungary (78.8%), Poland (78.7%), Slovenia (78.3%) and Slovakia (77.6%), compared to a regional average of 76.6%. Such a structure makes tax revenues more sensitive to consumption trends, leading to higher budget revenues volatility across economic cycles. It also, has the potential to affect the competitiveness of labour relative to capital, thereby encouraging "undeclared work", while raising concerns of fiscal fairness due to the regressive nature of indirect taxes. In contrast, at European level, the structure of tax revenues across the three categories is a much more balanced: direct taxes 32.9%, indirect taxes 31.7% and social security contributions 35.4%.

The following is a brief analysis from the perspective of VAT and social security revenue collection in Romania, compared to CEE states. Compared to its peers, Romania continues to underperform in VAT revenue collection (*Figure 42*). Thus, although VAT rates were increased as a result of the fiscal-budgetary package enacted in July 2025, in terms of the share of VAT revenues in GDP and the level of the weighted average VAT rate, Romania still ranked last among CEE countries in 2025.

Figure 42: VAT revenues in 2025 compared to the previous year (% of GDP)



Source: EC, Eurostat

With a weighted average VAT rate at 15.1% (compared to a legal rate of about 19.8%)[108], Romania collected about 7.1% of GDP in VAT in 2025, at 0.9 pp behind Slovenia, which collected 8% of GDP with a weighted average VAT rate of 15.9% – Slovenia was chosen for comparison, because it is the closest CEE country to Romania in terms of the average VAT weighted rate. Bulgaria is also note worthing; with an economic structure relatively similar to Romania's and a weighted average VAT rate of 18.5%, it collected 9.6% of GDP. Bulgaria was surpassed only by Estonia, with 10% of GDP, with a weighted average VAT-rate of 22.3% (the highest among CEE countries), putting it on a par with Latvia (which recorded revenues of 9.6% of GDP, despite a weighted average VAT-rate of 19%) and Hungary (also revenues of 9.6% of GDP, but at a weighted average VAT-rate of 19.4%).

VAT receipts are affected by the VAT collection gap[109], an indicator that measures the effectiveness of measures to ensure compliance with VAT legislation. It is calculated as the difference between the VAT revenues theoretically estimated to be collected (VTTL, amounts due by economic agents, under conditions of full compliance) and those actually collected by the tax administration. According to the latest EC annual study[110] (December 2025) on this indicator, the VAT collection gap increased from 26.7% in 2022 to 30% in 2023[111] (around €9.2 billion), with Romania remaining in first place in the EU (*see Figure 43*). The widening of this gap was driven by slowing economic growth, the increase in the share of services in gross value added and a reduction in the number of bankruptcies of companies in Romania. Conversely, the increasing volume of digital payments and slower growth in tourism helped narrow the VAT gap.

Compared to 2022, most EU27 countries (17 countries) recorded increases in the VAT gap, with the largest increases estimated for Ireland (+6 pp), Estonia (+5.1 pp), Hungary (+5 pp) and Poland (+4.8 pp). In contrast, nine countries recorded improvements in the indicator, the most significant decreases being the following: Croatia (-3.7 pp), Slovenia (-3.5 pp), Cyprus (-3 pp), the Netherlands (-2.5 pp) and Austria (-2 pp). Overall, the EU27 average VAT gap increased by 1.6 pp (to 9.5%, from 7.9%)[112].

The substantial VAT gap in Romania (about 3.2 times higher than the EU27 average) is primarily driven by the poor efficiency of the tax administration and the low degree of compliance of the taxpayers. Closing this gap depends to a decisive extent on the adoption and expansion of the use of digital tax

[108] Until 31.07.2025, three statutory VAT rates operated: 19% for most transactions and the reduced rates of 9% and 5%. After 01.08.2025, two statutory VAT rates operated: 21% for most transactions and the reduced rate of 11%. The value of the statutory VAT rate for 2025, related to most transactions, was calculated as a weighted average, with the calendar period of operation, of the rates of 19% and 21%, respectively.

[109] English. *VAT gap*. The calculation of the VAT collection gap is based on a common methodology for all EU states. It is determined in relation to the amounts remaining in the budget after tax refunds and amnesties, including accessories. It includes: non-compliance with payment, tax fraud, tax evasion, tax optimization, registration errors. It does not include the influence of fiscal policy (the deficit resulting from the application of reduced rates and the exemption regime).

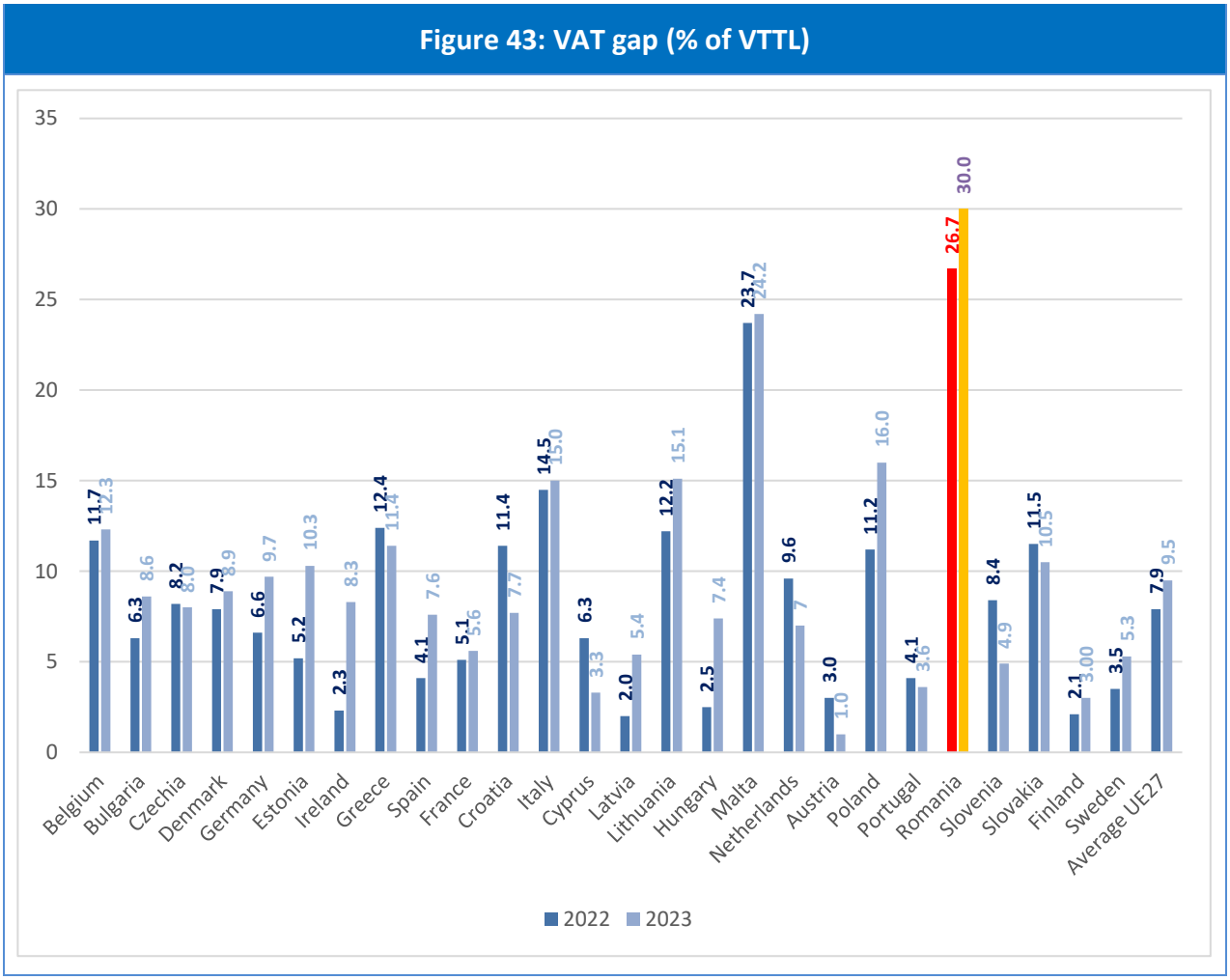
[110] European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., VAT gap in Europe – Report 2025, Publications Office of the European Union, Luxembourg, 2025, https://taxation-customs.ec.europa.eu/taxation/vat/fight-against-vat-fraud/vat-gap_en#vat-gap-in-europe--report-2025

[111] Percentage of the theoretically estimated revenues to be collected.

[112] The report does not include Luxembourg, as revisions of the data produced results outside the confidence ranges.

administration tools, which have been applied for several years in most EU countries, and on bolstering NAFA's capacity to monitor and analyse economic transactions in real time.

Figure 43: VAT gap (% of VTTL)



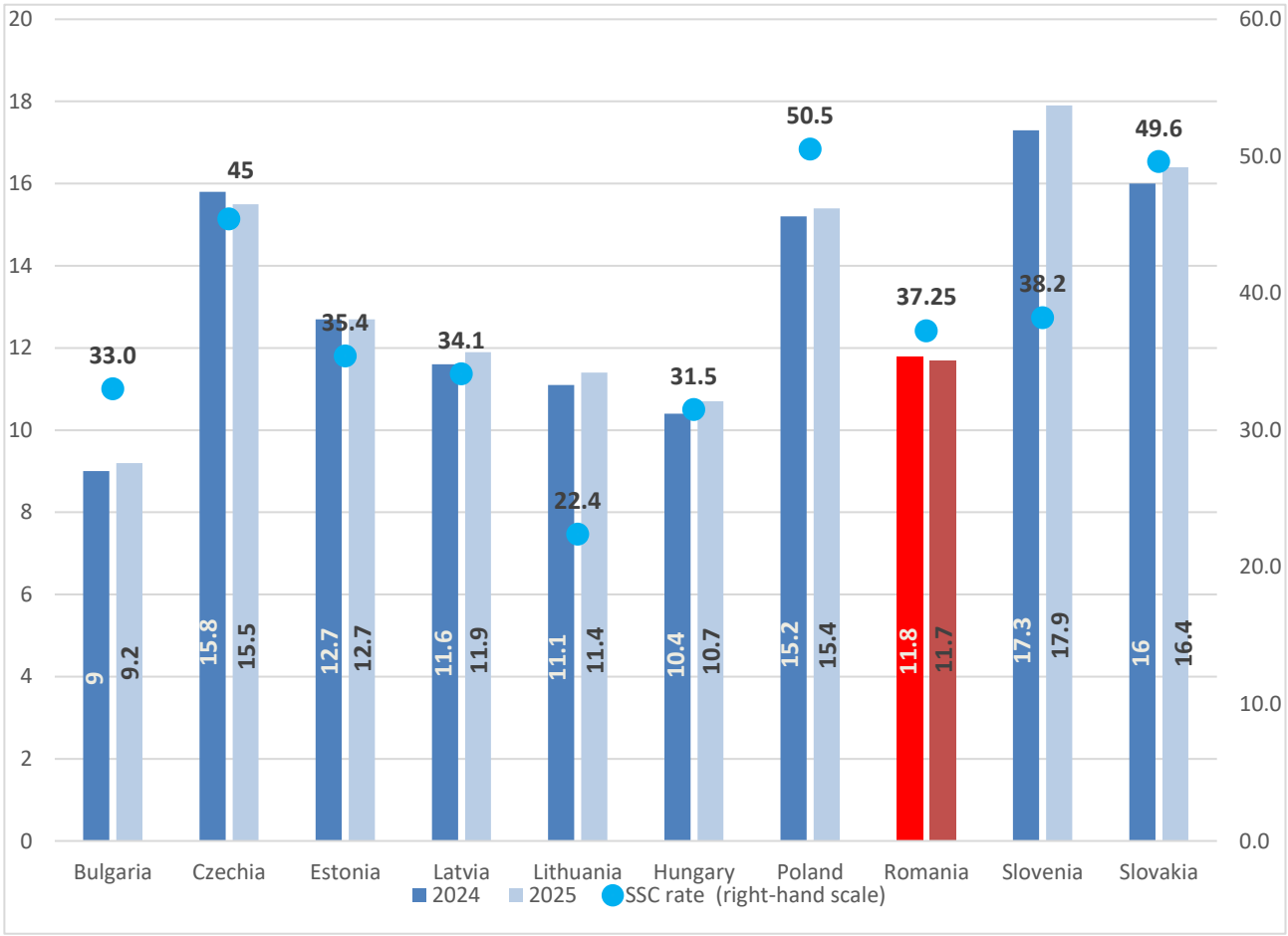
Source: EC, VAT Gap in the EU Report 2025

From the perspective of revenues collected from social security contributions paid by employees and employers (expressed as a share of GDP), compared to the same set of countries, Romania ranks in the middle, with a relatively low degree of collection relative to its statutory social contributions rate (*Figure 44*).

In 2025, SSC receipts remained at a similar level to the previous year (11.7% of GDP), with a statutory rate of 37.25% - the fifth highest among the analysed countries (after Poland, Slovakia, the Czech Republic and Slovenia). However, these collected revenues are higher only than those of Bulgaria (9.2% of GDP, at a legal rate of 33%), Hungary (10.7% of GDP, at a legal rate of 31.5%) and Lithuania (11.4% of GDP, at a legal rate of 22.4%). On the other hand, Latvia (11.9% of GDP) and Estonia (12.7% of GDP) overtook Romania, as their legal SSC quotas are lower (34.1%, respectively, 35.4%). Slovenia, which occupies the first place, recorded revenues of 17.9% of GDP (6.2 pp of GDP higher by than Romania's), at a legal rate of 38.2% (exceeding Romania's statutory rate by less than 1pp).

Romania's position near the bottom of the EU27, in terms of budget and tax revenues expressed as a share of GDP, stems from repeated flaws the tax regime design, a failure to address the need for higher tax revenues, and an outdated tax administration apparatus, with slow and partial reforms. At the same time, the legislation and its application have favoured a culture of impunity, which has allowed the tax evasion and budget fraud. These factors have led to a collection of public revenues well below the EU average. In this context, the digitization of tax administration is considered the primary tool for increasing voluntary compliance, reducing the underground economy and ensuring the sustainability of public finances.

Figure 44: Social security contribution revenues in 2025 compared to the previous year (% of GDP)



Source: EC, Eurostat, Taxes in Europe Database

The reform of NAFA through digitalization, outlined in the NRRP, is driven by the need to modernize the tax administration in order to increase the efficiency of public revenue collection and improve the relationship between the tax administration and taxpayers. The reform is structured around two complementary directions. The first aims to encourage voluntary compliance by expanding digital services for taxpayers, enhancing the Virtual Private Space, using pre-filled forms, where possible, as well as by establishing mechanisms for assessing taxpayer satisfaction and consulting with them. The second direction aims to modernize tax administration processes by implementing integrated risk management, developing data analysis tools and interconnecting the IT systems of the Ministry of

Finance and NAFA with those of the EC and the tax administrations of the member states, in order to reduce tax non-compliance and improving the efficiency of tax audits.

The digitalization of tax administrations needs to be seen in the broader context of the EU's digital transformation. Under the 2030 Digital Decade Policy Programme, digitalization has become strategically vital amid rising global technological competition, the accelerated development of artificial intelligence (AI) and the need to strengthen Europe's technological autonomy. Growing reliance on foreign digital infrastructures and technologies, rising cyber threats, and the increasing use of AI in the economy, society and defense have prompted the EU to strengthen its technological autonomy by launching major initiatives such as the AI Continent Action Plan, the development of AI factories/gigafactories and the expansion of *cloud* infrastructure. At the same time, the pressures from the persistent productivity gap with the US, supply chain vulnerabilities and the need to strengthen economic competitiveness have highlighted the importance of coordinated investment in digitalization.

In this context, the evaluation of Romania's digital performance through the DESI indicators (see *Box 2*) becomes relevant both for the analysis economic competitiveness and for assessing public administration capacity to support the modernization of the tax system and to improve budget revenue collection.

Box 2: Digital Economy and Society Indicators (DESI)[113]

DESI is a scoreboard of indicators that summarizes European performance on the four pillars of the 2030 Digital Decade policy agenda: people, infrastructure, business and economy, and public services. According to the DESI 2026 methodological note, around 50 indicators are presented at the national level, grouped by dimensions and subdimensions. The scoreboard has been updated with indicators that refine and develop the monitoring framework so as to make it more sustainable and prepare for the Digital Decade (expected for 2027) review process on an evidence-based assessment.

1. The people pillar **is** structured around the digital ***skills dimension*** (comprising the following indicators: internet use, at least basic digital skills, digital skills above the basic level, ICT professionals[114], ICT graduates, use of generative AI) and the ***digital content dimension*****:** ***trust*** (indicators: online exposure to untrue or questionable content and online verification of information) ***and safety*** [115] (indicator**:** online exposure to hostile or degrading messages);

2. The infrastructure pillar, specifically the fixed and mobile infrastructure ***component***, is structured around the following subfields: ***fixed broadband*** (indicators: general internet uptake, the share of fixed broadband subscriptions of at least 100 Mbps, the share of subscriptions to services of at least 1 Gbps, coverage of very high fixed capacity networks (VHCN), Fiber to the Premises (FTTP) coverage, ***edge nodes*** (indicator: estimated number of edge nodes deployed), ***mobile broadband*** (indicators:

[113] Box developed on the basis of the Methodological Note on DESI 2026.

[114] Definition based on the ISCO-08 occupation classification. It includes jobs such as ICT service managers, ICT professionals, ICT technicians, plumbers, and ICT service.

[115] Optional indicator, not included and reported by all EU Member States.

mobile broadband usage, overall 5G coverage, 5G coverage in the 3.4-3.8 GHz band, share of the population using 5G SIM cards);

3. The business and economy **pillar consists of** three dimensions: ***a) digital transformation in business, which*** is structured on four subfields: ***digital intensity of SMEs*** (indicators: SMEs with at least a basic level of digital intensity[116] and SMEs with a high level of digital intensity), ***digital technologies for business*** (indicators: data analytics, *cloud*, AI, including combinations of these indicators, e-commerce revenues, SMEs selling *online*, electronic information sharing), ***innovative start-ups*** (indicator: number of unicorns), ***cyber resilience*** (indicator: companies using at least five ICT security measures); ***b) the ICT carbon footprint, which*** includes two subfields: ***air emissions*** (indicators**:** air emissions from the ICT sector, ICT contribution to air emissions in the economy, distribution of air emissions from the ICT sector) and ***ICT recycling/reuse*** (indicator: electronic waste (e-waste) recycled or ready for reuse); **c) *ICT trade and online sales, within the EU and outside the EU*** (indicators: balance of international trade in ICT services within the EU, balance of international trade in ICT goods within the EU, number of enterprises with ICT sales to other EU countries, balance of international trade in ICT services outside the EU, balance of international trade in ICT goods outside the EU, enterprises with ICT sales to the rest of the world);

4. The public services **pillar**, focusing on the ***digitization of public services***, is structured around the following two subfields: **e-government** (indicators: e-government users, digital public services for citizens, digital public services for businesses, pre-filled forms, transparency of service delivery, design, and personal data, user assistance, compatibility with mobile devices) and **e-health** (indicator: access to electronic health records).

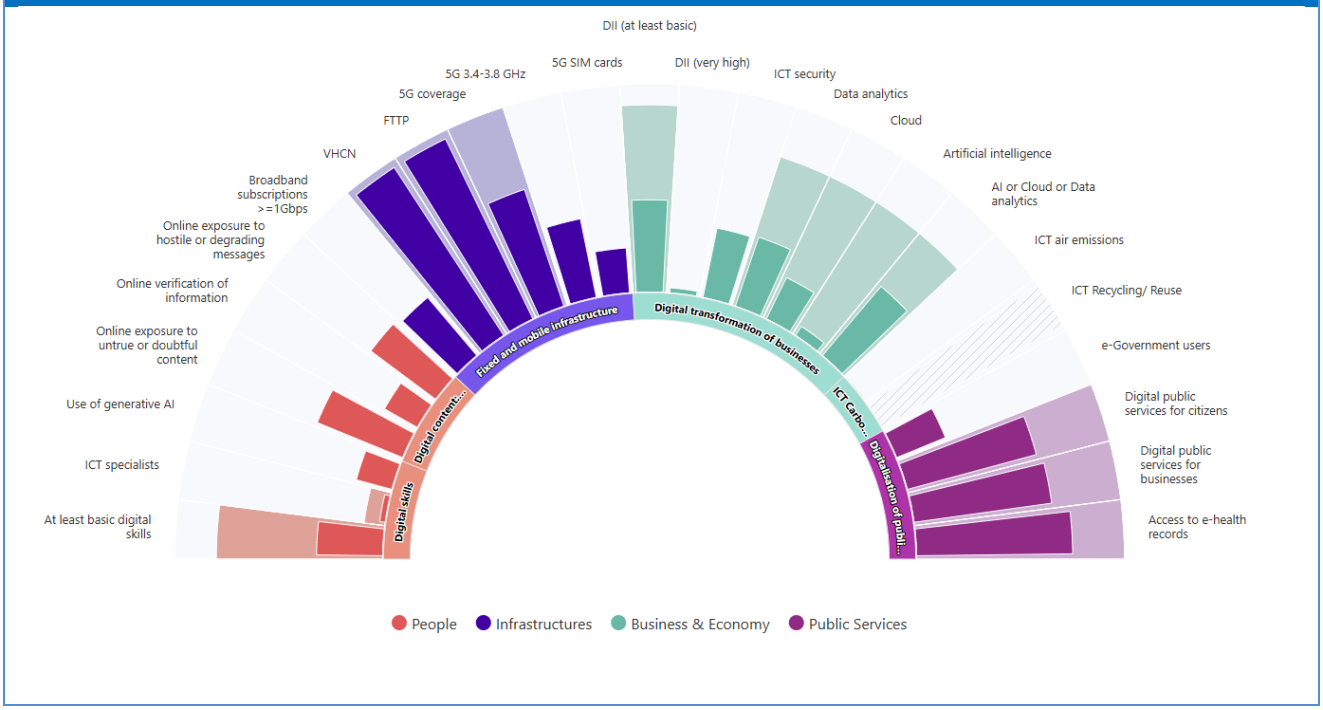
The DESI 2025 report[117] (published in June 2026) includes a new interactive scoreboard that provides a multidimensional overview of the latest national values and the gaps in reaching the 2030 Digital Decade goals. The analytical work from previous years is now complemented by new operational tools to decide and act accordingly, particularly in the context of the next MFF, 2026 thus marks a turning point in the EU's digital governance framework.

[116] Digital intensity is measured using the Digital Intensity Index (DII), which assesses the adoption of 12 technologies selected by companies. A baseline level of digital intensity is defined as an enterprise that uses at least 4 of these 12 technologies. The 2025 version of the DII index includes the following 12 technologies (Eurostat): "1. Enterprises where more than 50% of employees have used computers with internet access for business purposes; 2. The maximum contracted download speed of the fastest fixed-line internet connection is at least 30 Mb/s; 3. Enterprises with e-commerce sales of at least 1% of turnover; 4. Enterprises in which *online* sales represent more than 1% of total turnover and *Business to Consumer* sales more than 10% of *online* sales; 5. Enterprises that purchase *cloud computing* services used over the Internet; 6. Enterprises that purchase *sophisticated or intermediary cloud computing services; 7. Enterprises with a website*; 8. Enterprises that use any social networks; 9. Enterprises in which data analysis is carried out either by their own employees or by an external provider; 10. Businesses that use any AI technology; 11. Businesses that have an ERP *software* package to share information between different functional areas; 12. Businesses that use customer relationship management".

[117] https://digital-strategy.ec.europa.eu/en/policies/2026-state-digital-decade-package (dates are for 2025).

According to the 2026 DESI Report (for 2025 state), Romania has continued to make progress (see *Box 3*), but remains below the European average across most indicators (see *Figure 45*). Overall, the results highlight a contrast between its well-developed digital infrastructure and the relatively low level of digitalization within the economy, public administration, and the population's digital skills. From a public finance standpoint, this gap may limit the benefits of investing in digital infrastructure, adversely influencing the efficiency of tax administration and public revenue collection.

Figure 45: Comparative chart of DESI indicators, Romania - EU (2025)



Source: EC, https://digital-decade-desi.digital-strategy.ec.europa.eu/datasets/desi/charts/country-profile?country=RO&period=desi_2026. The interactive version of the diagram allows for data exploration and comparisons for each Member State, both with the European average and the 2030 target.

An analysis of Pillar 1 (people/citizens) reveals that Romania falls below the EU average in all indicators. While *Internet use* is close to the EU average (92.43%, compared to 92.73%), but there are significant gaps in at *least basic digital skills* (31.84% versus 60.4%) and digital *skills above-basic digital skills* (11.13% versus 31.43%), despite efforts to support ICT and integrate digital education in schools. These results show that the persistent digital skills shortage is one of the primary constraints on digital transformation in Romania, limiting both the adoption of e-government services and the efficiency implementation of modern tax administration and voluntary compliance tools. Regarding online exposure to misleading or questionable content, as well as *hostile or degrading messages*, Romania ranks below the EU average. While this is a favourable finding, the gap in *online information*, compared to the EU average is nearly 11 pp, making it easier premises for false or misleading information to spread.

Box 3: Main indicators of the DESI Scoreboard, Romania versus the EU average, in 2025[118]

1. People			
Indicators	**Romania**	**Media UE**	**UM**
Internet use	92.43	92.73	% of population (aged 16-74)
At least basic digital skills*	31.84	60.4	
Digital skills above the basic level	11.13	31.43	
ICT specialists*	2.7	5	% of total hires
Companies providing ICT training	11.99	22.29	% of enterprises
Use of generative AI	17.76	32.66	% of total population
Online exposure to misleading or questionable content	44.42	55.9	
Online verification of information	18.19	29.16	
Online exposure to hostile or degrading messages	38.95	39.72	
2. Infrastructure			
Overall Internet Adoption	95.47	94.74	% of households
Use of fixed broadband services of at least 100 Mbps	95.4	76.24	% of fixed, broadband internet subscriptions
Use of services of at least 1 Gbps	36.64	26.97	
Very High-Capacity Fixed Network (VHCN) coverage*	96.45	85.54	% of households
In-Building Fiber Optic Network Coverage (FTTP)*	96.25	74.13	
Use of mobile broadband	92.76	92.61	% of population (aged 16-74)
Overall 5G Mobile Broadband Coverage*	59.30	96.79	% of households
5G coverage in the 3.4-3.8 Ghz band	38,57	74.75	
5G spectrum	38.33	74.63	% of total harmonized 5G spectrum
5G SIM Card	21.64	55.55	% of total population
Estimated number of edge nodes deployed	252	7451	Number of Edge Nodes Deployed

[118] The indicators correspond to the pillars and areas updated according to the DESI 2026 Methodological Note, prepared by the EC and published on 16 June 2026 (https://digital-strategy.ec.europa.eu/en/library/digital-decade-2026-desi-methodological-note).

3. Business and Economics			
SMEs with at least a basic level of digital intensity*	44.34	71.39	% of SMEs
SMEs with a high level of digital intensity	2.42	9.07	
SMEs using *social media*	47.46	62.81	
Electronic sharing of information	27.98	45.19	
Data analysis*	34.02	38.59	% of enterprises
Cloud	21.44	45.74	
Artificial intelligence	4.68	18.9	
AI/*cloud*/data analytics*	42.49	62.32	
Number of unicorns*	0	324	number of Unicorns
Ecommerce Turnover	9.21	12.18	% of turnover
SMEs selling online (at least 1% of turnover)	13.54	19.59	% of SMEs
SMEs that have implemented at least 5 ICT security measures	32.65	55.74	
Air emissions from the ICT sector	27	22.8	kilogram of CO2, equivalent per capita
The ICT sector's contribution to air emissions	0.57	0.35	% of air emissions
Balance of international trade in ICT services within the EU	2,615.3	91,534	million euro
Balance of international trade in ICT goods within the EU	Data missing	11,159.4	
Balance of international trade in ICT services outside the EU	3,708.6	217,210.5	
Balance of international trade in ICT goods outside the EU	Data missing		
SMEs with *ICT web* sales to other EU countries	10.88	12.25	% of SMEs
SMEs with *ICT web* sales to the rest of the world	12.07	8.74	
4. Public services			
E-government users	25.43	76.03	% of internet users (in the last 12 months)
Digital public services for citizens*	64.25	84.64	
Digital public services for businesses*	66.83	88.59	
Pre-filled forms	20.22	75.93	

Transparency of the provision of services, design and personal data	38.04	69.59	Score (from 0 to 100)
User Support	75.66	97.35	
Compatibility with mobile devices	92.65	96.1	
Access to electronic health records*	75.1	86.51	

*Note: The Digital Decade performance indicators are marked with **

Romania records a more favourable situation in terms of Pillar 2 (infrastructure), with most indicators at high levels. Thus, 95.47% of households have *access to the internet*, above the EU average of 94.74%. *Broadband services of at least 100 Mbps* are accessible for 95.4% of households, compared to 76.24% in the EU, although this share registered a slight decrease over the last 12 months, from 96.9% the previous year. *Services of at least 1 Gbps* are used by 36.64% of households, compared to 26.97% in the EU, and *mobile broadband* by 92.76% of the population aged 16 to74, compared to 92.61% in the EU. However, a number of mobile broadband indicators are much lower, such as *overall 5G coverage* (59.3% of households, compared to 96.79%), *5G coverage in the 3.4-3.8 GHz band* (38.57% of households, compared to 74.75%) and *the use of 5G SIM cards* (21.64% of the total population, compared to 55.55%). Romania's higher performance in the field of digital infrastructure shows that the main limitations of digitalization are related to the slower pace of capitalizing on this infrastructure in the public administration and in the economy, affecting the potential to increase competitiveness and modernize public services, including in the tax administration.

Pillar 3 (business and economy), although making progress, still remains a major challenge for Romania, with almost all indicators being below the EU average, with notable gaps among *SMEs that have at least a basic level of digital intensity* (44.34% of SMEs, compared to 71.39%), *electronic information sharing* (27.98% of SMEs, compared to 45.19%), *artificial intelligence* (4.68% of companies, compared to 18.9%) and *cloud* (21.44% of companies, compared to 45.74%). The cumulative use of AI, *cloud* and data analytics is well below the EU27 average (42.49% of companies, compared to 62.32%). Only 32.65% of Romanian SMEs apply *at least five ICT security measures,* compared to the EU average of 55.74%. The environmental impact is not positive either, as the ICT sector in Romania is more polluting than the European average: it emits 27 kg of CO2 per capita (versus 22.8 kg in the EU) and represents 0.57% of the total emissions of the economy (versus 0.35% in the EU). Thus, the low level of digitization of companies limits both the use of advanced data analysis technologies and the efficiency of the electronic exchange of information between taxpayers and the tax administration, which diminishes the impact of NAFA's digitalization reforms and highlights the need to accelerate the digital transformation of the business environment.

Pillar 4 (public services) reveals a similar situation, with Romania having all related indicators below the EU average. Although massive investments have been made in *the government* cloud[119], interaction with

[119] For which 550 million euros were allocated through the NRRP. According to the DESI report, the project is in the final phase of the *hardware infrastructure*, but it is experiencing delays and bottlenecks in terms of effective migration, legislation and interoperability.

citizens and businesses remains bureaucratic and fragmented. The most alarming indicator is the number of *e-government* users: only 25.43% of internet users, down from 26.9% in 2024, compared to an EU average of 76.03% (up from 74.7% in 2024). *Services for citizens* (64.25 points) and those *for businesses* (66.83 points) are more than 20 points below the EU averages (84.64 and 88.59, respectively). *The use of pre-filled forms* registers a score of 20.22 (down from 24.4 in 2024), compared to the EU average of 75.93 (up from 70.1 in 2024), and access to electronic health records stagnates at 75.1 points, while the EU average is at 86.51 points. Romania has allocated 100 million euros in funding of through the NRRP, to rebuild and modernize the Integrated Health Insurance Platform (PIAS) in order to eliminate most of the paper forms, medical referrals, and sick leaves being digitized, to integrate prescriptions and to connect the Romanian system with the other EU systems through the European Health Data Space.

The results of the DESI indicators for Romania highlight that, despite the significant investments made in the digital infrastructure of public administration, the persistence of shortcomings in the interoperability of information systems and the still low use of digital services by citizens and businesses continue to limit the efficiency of tax administration and delay the transition to a fully digitalized public administration.

In terms of the progress made in the digitalization of tax administration, 2025 marked the consolidation stage of the main electronic systems (RO e-Invoice, SAF-T, RO e-Transport and RO e-VAT), marking the transition from the testing phase to mandatory application and sanctioning non-compliance with reporting obligations. In this context, effective January 2025, the use of the RO e-Invoice system has also become fully mandatory for transactions involving end consumers, so that each purchase is transmitted in real time to NAFA servers. Also, starting in January 2025, the reporting of the standard tax control file (Declaration 406 or SAF-T) has also become mandatory for small taxpayers, after having been applied only to large and medium-sized taxpayers in previous years, for reporting stocks, fixed assets and detailed accounting journals. The obligation to monitor international road transports and goods with high tax risk by GPS has been extended, a measure that has the potential to eliminate a large part of tax evasion from customs or warehouses.

The RO e-VAT system has started to generate pre-filled VAT returns based on data from the digital modules (e-Invoice, e-Cash Register, SAF-T, e-Transport and customs declarations). However, the increase of the standard VAT rate, from 19% to 21%, and the recalibration of the reduced rates to a single rate of 11% (by eliminating the 5% and 9% rates for most products) had an unfavourable impact on NAFA's automatic reporting algorithms, increasing the number of system errors. Following public pressure regarding frequent bottlenecks, the Virtual Private Space application will be updated to provide a modern, stable and user-friendly interface. At the same time, it is planned to integrate the databases of the Ministry of Labour with those of NAFA for the complete digital monitoring of employment contracts, salaries and contributions, in real time, a process that would be completed in 2026.

Overall, 2025 marked the transition from the stage of technical implementation of the main digital systems to the stage of their integrated use within Romania's tax administration process. However, the effectiveness of these reforms will depend on strengthening the interoperability of databases, the stability of IT applications and increasing the use of digital services by taxpayers.

In addition to the digital transformation indicators, citizens' perception completes the picture of the degree of social acceptance of digital reforms and the directions considered priorities for the future development of the EU and Romania. The results of the Eurobarometer for the Digital Decade 2026[120] indicate a high level of support from the Romanian population for strengthening digital transformation at the European level. Around 59% of respondents believe that digital policy must be a top priority for the EU (compared to 79% of respondents at European level), and the main areas where the EU should act in the next decade are strengthening cybersecurity and protecting against online threats (74%), developing digital skills through education and training (71%), and strengthening the regulation of digital platforms (71%). At the same time, almost two-thirds of respondents (64%) support reducing digital dependencies on non-EU countries, and 69% believe that investments in digital infrastructures and services developed and controlled in Europe must be a strategic priority. At the same time, almost half of Romanians (49%) say they would agree to use European digital service providers even at slightly higher costs, which reflects support for the development of European digital sovereignty.

The analysis highlights that the fact that Romania has favourable premises for accelerating the digital transformation, especially through the development of infrastructure and the completion of the reforms undertaken by the NRRP. However, the persistence of gaps in digital skills, digitization of enterprises, interoperability of public services and the effective use of electronic platforms limit the impact of these investments on tax administration efficiency and the full realization of the digital potential of the economy. At the same time, the consolidation of the digitalization of NAFA, the integration of public databases and the development of taxpayer-oriented digital services are essential conditions for increasing voluntary compliance, reducing the underground economy and improving revenue collection. Thus, given the still high level of the budget deficit in Romania and the urgent need to continue the consolidation process, improving revenue collection through investments in the digitalization of tax administration is an essential factor to keep the budget deficit on a downward trajectory in the coming years.

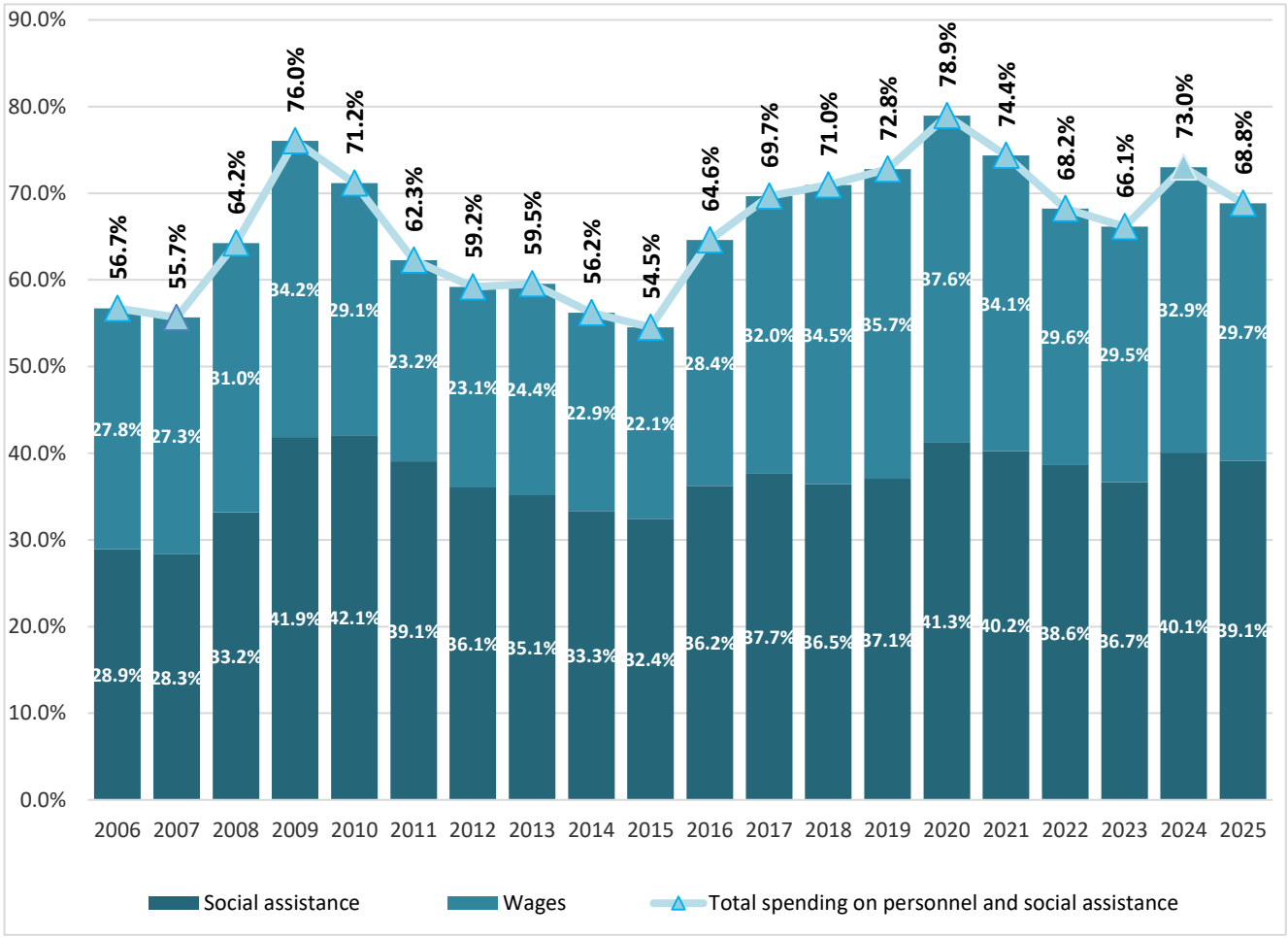
VI.2. Public expenditure – structure and sustainability

In Romania, the structure of budgetary expenditures continues to be characterized by the preponderance of spending on personnel and social assistance. Although their relative importance decreased significantly between 2011 and 2015, as a result of the fiscal consolidation process, with 2015 representing the minimum of the analysed period. In the 2016-2020 period, this evolution was reversed (see *Figure 46*). Thus, at the end of 2020, the share of expenditure on salaries and social assistance in budget revenues was about 24.4 pp higher than in 2015, reaching the level of 78.9%. This represents the peak of the 2006-2025 period. During the 2021-2023 period, a downward trend emerged in the share of spending on personnel and social assistance in total budget revenues, reaching 66.1% in 2023. The year 2024, amid measures to increase salaries in the public sector, to which the indexation and recalculation of pensions were added, brought a reversal of this evolution, with the share of spending on personnel and social assistance in budget revenues increasing by 6.9 pp from 2023 to 73%. In 2025, given the

[120] https://europa.eu/eurobarometer/surveys/detail/3682

freezing of compensation of employees and social assistance and other budgetary consolidation measures, there was a decrease in the share of these categories in total budget revenues by 4.2 pp compared to 2024. In this context, in 2025, compared to the previous year, the nominal increase in budget revenues was 13.5%, while the growth rate of nominal spending on personnel and social assistance was 7%.

Figure 46: The evolution of the share of spending on personnel and social assistance in total budget revenue in Romania, 2006-2025 (ESA 2010, %)

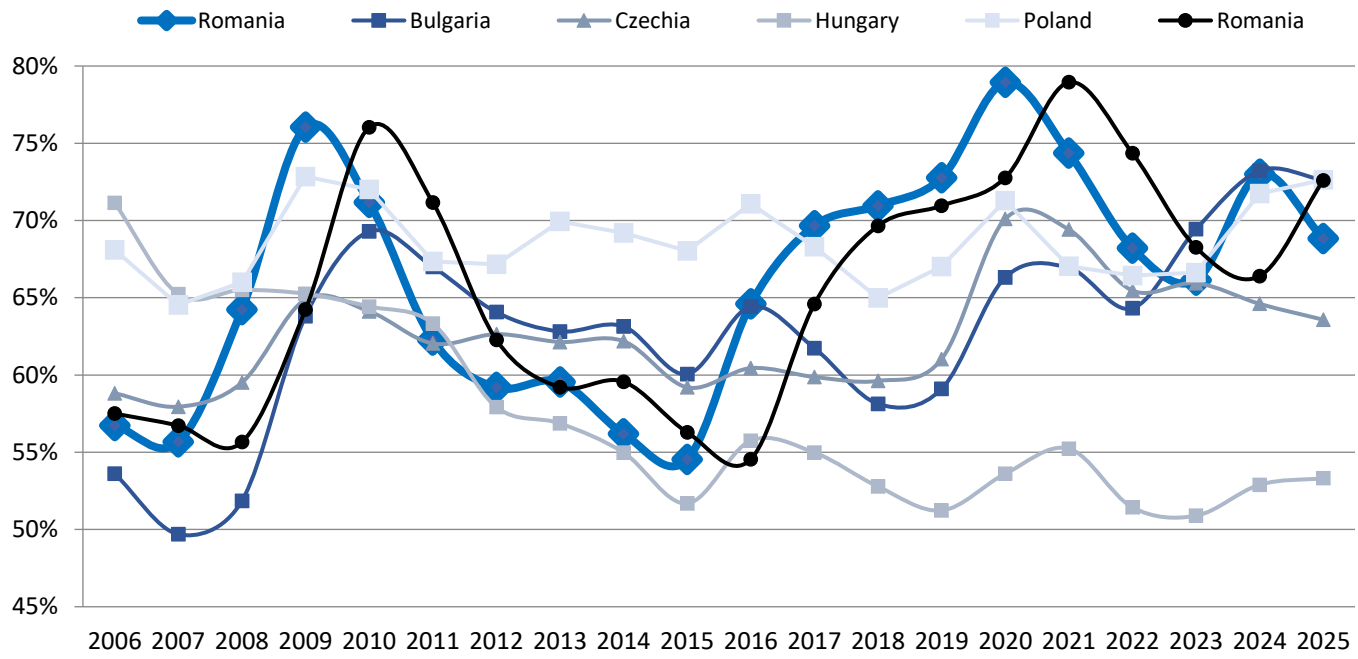


Source: Eurostat

The component analysis highlights that, in 2025, the share of salary expenditures in total budget expenditures was 29.7% (down 3.2 pp from the previous year), failing below the average recorded in 2008-2010, of 31.4%. Conversely, the share of social assistance spending, at 39.1% (down 1 pp from the previous year), is similar to the average recorded in the period 2008-2010 (39%). At the same time, the shares in 2025 are significantly higher than the averages of the fiscal consolidation period between 2011 and 2015 (of 23.1% and 35.2%, respectively). Compared to the 2016-2020 period, which was characterized by an expansionary fiscal policy stance, an effect also amplified by the COVID-19 pandemic, the share of salary expenditure is 3.9 pp below the average for that period (33.6%), while social assistance spending exceeds the of 37.8% average by 1.3 pp. The wide variation in the shares of

the two categories of expenditure in budget revenues during the analysed period reflects the discretionary nature of the policies of wage growth and indexation of pensions in the public system. Anchoring them with transparent rules, correlated with the evolution of economic activity and purchasing power, is necessary to ensure the long-term sustainability of public finances.

Figure 47: The share of spending on wages and social assistance (including pensions) in total budget revenue in the EU27 and CEE 2006-2025 (ESA 2010, %)



Source: Eurostat

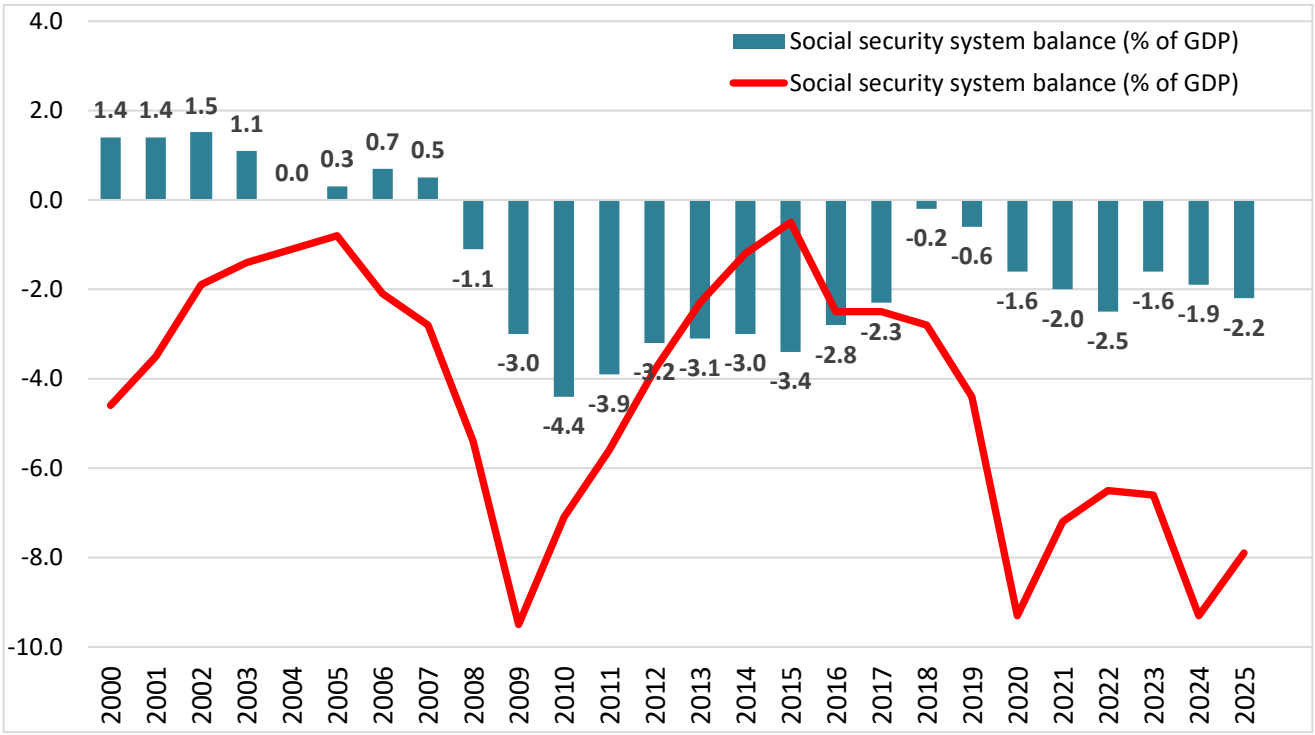
Analysed in an European and regional context, expenditure on personnel and pensions in Romania experienced an accelerated growth between 2008 and 2010 (the average share of salaries and pensions in total budget revenues was 70.5%), reaching 76% in 2009, the highest level in the region. After the implementation of the fiscal consolidation program, the share of these expenditures decreased significantly in the period 2011-2015, down to 54.5% in 2015, falling below the level recorded in most CEE countries (except Hungary). Since 2016, amid policies to increase salaries and pensions in the public sector, there has been a return to an upward trend. Thus, until 2020, the shares of expenditure on salaries and social assistance in relation to budget revenues increased steadily, with Romania recording the highest shares in the region (69.7% in 2017, 71% in 2018, 72.8% in 2019, and 78.9% in 2020), levels well above the EU27 average (see *Figure 47*). Starting in 2021, this growth trend was reversed, and the indicator entered a downward trajectory, falling to 66.1% in 2023, below the EU27 average (68.6%). However, in 2024 there was a further increase, by 6.9 pp compared to 2023.

In 2025, given the adoption of budgetary consolidation measures, the cumulative share of expenditure on salaries and social assistance decreased by 4.2 pp compared to 2024. Decreases in the share of the two categories of expenditure in budget revenues were also recorded in Bulgaria (-0.6 pp) and Czechia (-1 pp), while increases were recorded in Hungary (+0.4 pp) and Poland (+0.9 pp). At the end of 2025,

Romania, with a level of 68.8%, is below Bulgaria and Poland (both at 72.6%), as well as below the EU27 average (69.5%). At the same time, the lowest share of spending on personnel and social assistance in the region's budget revenue is recorded in Hungary, at 53.3%, respectively.

In the case of Romania, the relatively high level of these shares is also influenced by the small size of budget revenues relative to GDP, compared to other CEE economies. For instance, in 2025, budget revenue accounted for 35.4% of GDP in Romania, 38.1% in Bulgaria, 41% in the Czech Republic, 42.6% in Hungary and 43.6% in Poland, while the EU27 average stood at 46.4%. Consequently, Romania's primary challenge is not only to reduce the share of permanent spending, but also to increase budget revenues. In the absence of a tax base comparable to that of other member states, even a spending structure close to the EU average generates pressures on the budget deficit and limits the fiscal space necessary to finance investments and absorb future economic shocks.

Figure 48: Social security budget balance (pensions, unemployment and health) and total budget balance 2006-2025 – ESA 2010 (% of GDP)



Source: Eurostat

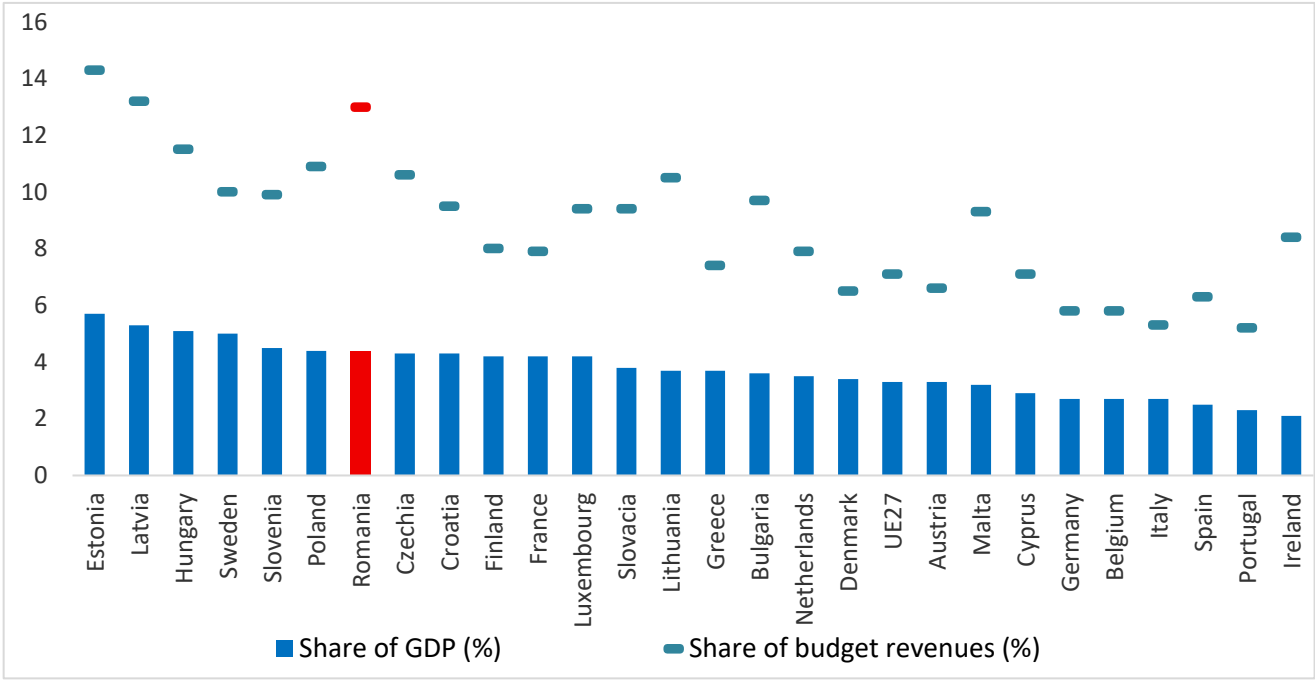
Tracking the evolution of the social security budgets (pensions, unemployment and health), reveals that, while they recorded a surplus during the 2006-2007 period they were characterized by a surplus balance, after 2008 they switched to a deficit, and in the period 2010-2017 they accounted for a significant share of the total deficit, ranging between 62% and 92%[121] (see *Figure 48*). In 2018, the deficit of the social security systems represented only 7.1% of the total budget deficit, due to fiscal measures aimed at restructuring the tax system, specifically through higher SSC rates. During the 2019-2022 period, the

[121] In the period 2013-2016 exceeding the level of the budget deficit.

social security systems deficit widening, reaching a share of 38.5% of the budget deficit in 2022. In 2023, the share of the balance of social security budgets in the budget deficit improved by about 14.3 pp from the previous year, reaching 24.2%, and in 2024 it decreased to 20.4%. In 2025, the deficit of social security budgets increased by 0.3 pp, while the budget deficit decreased by 1.4 pp, which led to an increase in the share of the deficit of social security budgets in the budget deficit to 27.8%.

Analysing social security budgets highlights that they represent a crucial component of public finances, influencing budgetary balance and fiscal sustainability. Although their contribution to the budget deficit remained stable over the period 2023-2025, population aging poses a structural risk with both short- and long-term impacts. In this context, increasing labour market participation, broadening the contribution base and gradually adjusting the retirement age, in correlation with life expectancy, can help reduce the pressure on the budget deficit.

Figure 49: The share of public investment expenditure in GDP and in total budget revenue (2012-2025 average, ESA 2010)



Source: Eurostat

In 2025, the share of public investments expenditure, according to the European methodology[122], stood at 6% of GDP, up 0.1 pp from the previous year, thereby maintaining the upward trend that began in

[122] Investment expenditure, according to the ESA 2010 methodology, represents expenditure intended for gross fixed capital formation. This indicator is used at EU level and can serve as a comparative reference for investment expenditure in the Member States. The differences between the level of investment expenditure according to the cash methodology and the European methodology generally stem from the different way of recording arrears, defense expenditure as well as categories of non-reimbursable external funds.

2021. Compared to 2015[123], this indicator was higher by 0.8 pp. From a comparative perspective at the EU27 level, Romania ranked 4th in 2025, behind Estonia and Latvia, on par with Croatia; furthermore, based on its 2012-2025 average of 4.35% of GDP, Romania ranks seventh position (see *Figure 49*).

Regarding the share of public investment expenditure in total budget revenue, it stood at 17% in 2025, down 0.2 pp from the previous year, but 2.3 pp above the 2015 level. At the EU27 level, Romania ranks first based of this indicator; however, it falls to third place, behind Estonia and Latvia, when the average for the period 2012–2025 is taken into account. It should be noted that, throughout the analysed period, European funds played an essential role in supporting public investment spending. Furthermore, during the 2022-2026 period, alongside to MFF allocations, investments are also supported by the NRRP.

[123] 2015 marked the first year after 2008 in which public investment expenditure increased as a share of GDP compared to the previous year, as this was the deadline for the absorption of European funds for the 2007-2013 MFF.

VII. 2026 – Macroeconomic and fiscal outlook

VII.1. Macroeconomic framework

Romania's economy recorded real growth of 0.7% year-on-year in 2025, driven mainly by gross fixed capital formation, changes in inventories and consumption – particularly private consumption, but, to a lesser extent, public consumption as well. Gross fixed capital formation thus made a significant contribution (+0.9 pp to real GDP growth), complemented by changes in inventories (+0.5 pp), while household final consumption expenditures and individual government consumption contributed +0.3 pp and +0.1 pp, respectively. These positive contributions were partly offset by a contraction in collective government consumption (-0.6 pp) and by net exports (-0.5 pp).

These developments were mainly driven by: (i) the sizeable fiscal adjustment implemented in 2025, (ii) which also resulted in a contraction in the purchasing power of employees and pensioners, (iii) accompanied by a substantial investment effort financed from both domestic sources and European funds (multiannual funds and the NRRP), (iv) against the backdrop of stagflationary supply shocks, resulting in export growth lagging behind import growth, (v) a broadly neutral, albeit slightly accommodative, monetary policy stance – supporting financial intermediation, particularly market-based financing solutions to meet government financing needs, (vi) weak external demand, itself affected by supply shocks and weak absorption, and (vii) a substantial contribution to Romania's economic dynamics from EU funds, foreign direct investment and portfolio investment.

The latest forecast by the International Monetary Fund (IMF)[124] – July this year – estimates that global real GDP will grow by 3% in 2026, slightly below the 3.5% growth recorded in 2025 and representing a modest deceleration of 0.1 pp compared with the previous detailed forecast[125] and a marginal one (-0,3 pp) compared with the January 2026 update[126]. The main driver of these adverse developments is the war in the Middle East and its consequences, which more than offset the positive effects of massive investment in artificial intelligence, the easing of trade tensions and the impact of tariffs, expansionary fiscal policies in some countries, and accommodative financial conditions, all of which had previously provided a persistent positive impulse. According to the IMF, the impact of the war in the Middle East operates through three transmission channels. The first is related to rising commodity prices – a negative supply shock – affecting all goods and services with high energy inputs, such as fertilisers, chemicals, food, transport services and heating. A second channel involves the second-round effects (an inflationary spiral) that could be triggered by these supply shocks, as higher prices may lead to successive

[124] Given that a partial update of the previous forecasts, covering only selected economies, was published in July 2026, https://www.imf.org/en/publications/weo/issues/2026/07/08/world-economic-outlook-update-july-2026.

[125] World Economic Outlook – April 2026, https://www.imf.org/en/publications/weo/issues/2026/04/14/world-economic-outlook-april-2026.

[126] World Economic Outlook from January 2026 – https://www.imf.org/en/publications/weo/issues/2026/01/19/world-economic-outlook-update-january-2026.

increases in wages and then prices, creating a feedback loop whose strength depends both on how firmly inflation expectations were initially anchored and on the characteristics of monetary policy in the country concerned. A third channel identified by the IMF operates through financial markets. The economic instability generated by the first two channels could lead to greater risk aversion, reducing the value of financial assets and increasing risk premia, while triggering capital repatriation and a flight to safe-haven assets. Nevertheless, for 2027, global real economic growth is projected at 3.4% (+0.4 pp compared with the forecast for 2026), representing an upward revision of 0.2 pp relative both to the previous forecast update (April 2026) and to the detailed forecast published in January 2026. This outlook for 2027 is supported mainly by expectations of a normalisation of energy markets following the reopening of the Strait of Hormuz.

The pace of convergence towards higher living standards (measured by GDP *per capita*) has slowed and is projected to slow further. The factors underlying this development are: (i) international trade is estimated to have lost some of its catalytic role as a driver of convergence; (ii) migration – which had positive effects on convergence in both countries of origin and destination – is declining as a result of recent measures adopted by some countries; and (iii) capital flows, including foreign direct investment, are expected to decline amid rising uncertainty, as firms reassess costs and benefits against the backdrop of increasingly restrictive barriers to the movement of goods and services, investment and labour across the global economy. These developments are expected to disrupt the diffusion of new technologies, the flow of innovative ideas and innovation.

Real GDP in advanced economies is projected to grow by 1.7% in 2026 and 1.8% in 2027, largely owing to the performance of the US economy, which is projected to grow by 2.3% in 2026 and 2.2% in 2027; both historical data – growth of 2.1% in 2025 – and the forecasts point to its resilience. In Europe, economic growth in the Euro Area is projected to slow from 1.4% in 2025 to 0.9% this year, followed by a modest acceleration to 1.2% in 2027.

Emerging market and developing economies are projected to grow by 3.8% in 2026 (and by 4.5% in 2027), down from a stronger growth rate of 4.5% in 2025. The economies of India and China (as well as those of other countries in Asia and Africa) largely account for this pace of growth, with their real GDP projected to expand by 6.4% and 4.6%, respectively, in 2026, and by 6.7% and 4.1%, respectively, in 2027. Emerging and developing European economies are projected to grow by 1.9% in 2026 and 2.1% in 2027, both close to the 2% rate recorded in 2025, against the backdrop of weak economic growth in both the Euro Area and Russia. Russia's economy is projected to expand by 1.1% in both 2026 and 2027, amid significant structural shifts, with rising government demand concentrated in the military-industrial sector.

The global developments projected by the IMF point to a mixed and contradictory outlook for the world economy, reflecting, on the one hand, the negative shock generated by the war in the Middle East and, on the other hand, the persistence and even acceleration of the positive shock stemming from investment in technology, particularly AI-related tools.

The risks – described as asymmetric, with the balance tilted towards less favourable outcomes – identified in the IMF's detailed April 2026 projections include the following: (i) developments in the Middle East – a renewed acute phase of the conflict could generate additional inflationary pressures, greater market volatility and uncertainty (including in financial markets), adverse supply shocks and pressures on exchange rates. With inventories already at low levels, a further reduction in the supply of energy products could trigger non-linear price movements, particularly if some countries were to take measures to insulate domestic supply. (ii) The adverse supply shock could spill over to the food sector if energy and fertiliser prices remain elevated. (iii) High prices could lead to wider current account imbalances, as well as (iv) disorderly capital movements, particularly outflows from jurisdictions with weaker economic fundamentals. (v) Higher military expenditure in the Middle East – although unproductive over the medium term – could support aggregate demand in these countries in the short term, but the prospect of war could result in human and material losses that would reverse these positive effects. (vi) Trade tensions could intensify again, involving both tariff and non-tariff barriers, thereby reducing economic growth. (vii) The almost exhausted room for manoeuvre in economic policy could act as an amplification mechanism – rather than a shock absorber – for adverse shocks to economic growth, closely linked to financing conditions and sovereign ratings as measures of public finance sustainability. Fiscal policies are constrained by high debt levels in some countries, while monetary policies – subject to fiscal and/or financing constraints – could underreact to high inflation and its second-round effects. This could lead to a de-anchoring of inflation expectations, requiring restrictive policies to remain in place for longer. (viii) The positive shock generated by large and rising investment in the technology sector is two-sided. On the one hand, such investment could raise productivity, thereby generating higher potential growth in the future. On the other hand, a downward revision of expectations regarding the productivity gains delivered by new technologies/AI – whose contribution to economic growth has historically been limited, with some economists referring to a new Solow paradox – could trigger a sharp decline in investment, which in turn could "deflate" the asset prices of firms in this sector. Given the high degree of concentration of these firms, including geographically in a limited number of countries, the materialisation of this risk could reduce consumption and investment through wealth effects, leading to tighter global financial conditions, pressures on corporate balance sheets and broadly anaemic economic growth. The materialisation of these risks could also give rise to outbreaks of macro-financial instability. Moreover, the development of AI could increase cybersecurity risks, whose materialisation could generate shocks to financial intermediation and payment systems, thereby undermining confidence. (ix) Each of the risks outlined above could, if developments proved more favourable than assumed in the baseline scenario, become a source of better macroeconomic outcomes. Overall, however, the IMF assesses the balance of risks as tilted towards less favourable developments. These considerations are overwhelmingly confirmed by the IMF's summary forecast update published at the end of July 2026[127].

[127] World Economic Outlook update – July 2026, https://www.imf.org/en/publications/weo/issues/2026/07/08/world-economic-outlook-update-july-2026.

The European Commission's latest forecast – the Spring Economic Forecast – [128], published in Mai 2026 – projects real GDP growth of 1.1% in the EU27 and 0.9% in the Euro Area in the current year, representing a deceleration from 2025, when growth stood at 1.5% in the EU27 and 1.4% in the Euro Area. In 2027, growth is projected to accelerate to 1.4% in the EU27 and 1.2% in the Euro Area. Compared with the European Commission's Autumn 2025 Forecast, published on November 17, 2025, economic growth has been revised down by 0.3 pp in 2026 for both the EU27 and the Euro Area, while for 2027 real GDP growth has been revised down by 0.1 pp in both the EU27 and the Euro Area. The main factor identified by the European Commission is the conflict in the Middle East and its consequences, particularly for energy markets.

The economic scenario set out in the European Commission's latest forecast and its underlying assumptions take into account: (i) the heightened uncertainty generated by the conflict in the Middle East and the energy shock it has triggered – the second in less than five years – with the closure of the Strait of Hormuz reducing seaborne oil flows by around 15% and LNG flows by around 20%; (ii) the relatively favourable starting point for the EU economy, marked by growth of 1.5% in 2025 (above expectations), a robust labour market and strong private-sector balance sheets, but also by weak competitiveness and public finances that already required attention; (iii) working assumptions derived from futures markets regarding the normalisation of energy supply – with the Strait of Hormuz possibly reopening in early summer 2026, followed by a rapid but partial normalisation of flows – and a no-policy-change assumption regarding US trade policy, whereby current tariffs remain unchanged over the forecast horizon, at a weighted average of 13.5% following the Supreme Court's February 2026 decision, while the EU-US trade agreement remains in force; (iv) a gradual decline in energy commodity prices from their peak in the second quarter of 2026, with Brent crude falling from around USD 109 per barrel to USD 76 per barrel in Q4 2027, although prices would remain around 20% above their pre-conflict levels at the end of 2027; (v) a slightly tighter monetary policy stance amid renewed inflationary pressures, with markets expecting a limited response of 50-75 basis points over the forecast horizon and the ECB policy rate at around 2.6% in the first quarter of 2027; and (vi) mildly expansionary fiscal policies in 2026, supported by increased use of EU funds as the RRF approaches its end, followed by a broadly neutral fiscal stance in 2027, in both the EU27 and the Euro Area.

The more significant changes in the European Commission's Spring Forecast compared with the previous Autumn Forecast are driven mainly by the outbreak of the conflict in the Middle East and the associated energy shock. EU GDP growth has been revised down to 1.1% in 2026 (-0.3 pp), followed by a modest recovery to 1.4% in 2027, while inflation is projected to rise to 3.1% in 2026 (an upward revision of a full pp) before easing to 2.4% in 2027. Indeed, many of the risks previously anticipated have since materialised, while the inflation projection for 2027 is also affected by the postponement of the introduction of the ETS2 scheme.

[128] European Economic Forecast, Spring 2026, https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/spring-2026-economic-forecast-slowdown-growth-energy-shock-drives-inflation_en, published on May 21, 2026.

The downside risks identified in the European Commission's current forecast include: (i) a protracted conflict and a slower normalisation of energy supply than implied by futures prices, which would result in stronger inflationary pressures and weaker growth – under the adverse scenario, the recovery in real GDP projected for 2027 would be entirely wiped out; (ii) although the risk of widespread energy shortages appears limited, critical vulnerabilities remain with respect to specific inputs – refined fuels, helium and fertilisers – with potential cascading effects on global production chains, including the semiconductor industry, as well as on food affordability and availability; (iii) persistent uncertainty surrounding the trade policies of major global players and the reconfiguration of geopolitical relations could disrupt critical value chains, adversely affecting industrial production and employment. In addition, the recent moderation in labour demand could prove to be a precursor to a sharper slowdown in employment and an erosion of purchasing power, with adverse implications for social cohesion; and (iv) the possibility of a significant correction in the valuations of AI-exposed equities in the United States, with spillovers to global financial markets. Conversely, upside risks include: (v) faster implementation of structural reforms addressing long-standing bottlenecks to EU competitiveness and growth, considered the main upside risk to the outlook; (vi) decisive progress in the energy transition, which would further strengthen the economy's resilience to future shocks; (vii) a just and lasting resolution of Russia's war of aggression against Ukraine, which would represent a clear net benefit for Romania as well as globally; and (viii) productivity gains generated by AI adoption, which could support investment and economic growth, as well as a faster normalisation of energy markets than reflected in the futures curves incorporated into the forecast, with favourable effects on the terms of trade and the disinflation process.

A persistent risk highlighted both in the European Commission's current report and in the previous one, which could weigh on economic developments, relates to climate change and the increasing volatility of weather patterns. Climate-related shocks could further disrupt economic activity and exert additional pressure on food prices. Without sustained efforts to address climate change, it could give rise to substantial additional economic and fiscal costs, thereby undermining the resilience of economic growth.

As regards growth forecasts for the EU27 member states, in its Spring Forecast the European Commission projects higher growth rates for the current year in countries such as Malta (3.7%), Poland (3.5%), Lithuania (2.9%), Croatia (2.7%) and Bulgaria (2.5%). The weakest GDP dynamics are expected in countries such as Ireland (a contraction of 1.2%, reflecting volatility associated with the multinational sector), Romania (economic stagnation in 2026, with growth of 0.1%), Italy (+0.5%), and Austria and Germany (+0.6% each).

The projection indicates that the degree of dispersion in GDP per capita, measured in euro, across European countries could widen further, reflecting different starting points despite the convergence of economic growth rates. The standard deviation of GDP per capita across member states is projected to increase from 25.7 thousand euros in 2024 to 27.1 thousand euros in 2025, 27.2 thousand euros in 2026 and 28 thousand euros in 2027, thereby widening disparities between countries and regions over the forecast horizon in terms of this indicator. The pace of economic growth in 2027 is expected to accelerate or remain robust in most European countries, with aggregate growth of 1.4%, 0.3 pp higher

than in the previous year. Particularly strong growth is projected for Malta (easing by 0.1 pp to 3.6%), Ireland (rebounding to 3.4% from a contraction of 1.2% in 2026), Poland (slowing by 0.7 pp to 2.8%), Cyprus (accelerating by 0.5 pp to 2.8%) and Croatia (slowing by 0.2 pp to 2.5%). A notable recovery is also projected for Romania, with growth accelerating by 2.2 pp from its 2026 rate to 2.3% in 2027.

The countries with the weakest economic growth projected for 2027 are Italy (0.6%, a marginal acceleration compared with the previous year), Austria and Germany (0.9% each, accelerating by around 0.3 pp relative to 2026), Belgium (0.9%, 0.3 pp higher than in the previous year), and the Netherlands (growth of 1.1%, 0.2 pp higher than in the previous year). These economic growth projections are likewise shaped both by the underlying assumptions and by the relatively elevated risks surrounding this forecast round.

For the current year, the European Commission's inflation outlook, as measured by the Harmonised Index of Consumer Prices (HICP), points to inflation of 3.1% at the aggregate EU27 level and 3.0% in the Euro Area. This would represent an increase compared with the previous year in both the EU27 (from 2.5% in 2025, an increase of 0.6 pp) and the Euro Area (from 2.1%, an increase of 0.9 pp). Inflation would thus temporarily remain above levels consistent with the targets pursued by EU27 central banks and, in the case of the Euro Area, by the ECB, before returning close to these levels in 2027 (2.4% in the EU27 and 2.3% in the Euro Area).

It is worth noting that, in the current forecast as well, emerging economies within the Euro Area and, in particular, those outside it record higher HICP inflation rates than the other member states. These differences reflect both the stronger impact of adverse shocks – largely supply-side shocks – on prices in individual countries and differences in economic policies and structures, including exchange-rate regimes and the degree of pass-through from exchange-rate fluctuations. From the perspective of HICP inflation, the largest disparities across EU27 countries in the 2026 forecast are between the rates projected for Romania (7.0%), Croatia (4.6%), Lithuania (4.4%), Estonia (4.3%) and Slovakia (4.3%), on the one hand, and those projected for Sweden (1.5%), Denmark (1.8%), France (2.4%), Finland (2.4%) and Malta (2.7%), on the other.

Average HICP inflation in the ten CEE member states is projected at 4.1% in 2026 and 2.8% in 2027, compared with 3.1% and 2.4%, respectively, for the EU27 as a whole. Romania records the highest projected inflation rate in the EU27 in both 2026 (7.0%) and 2027 (3.7%).

In its latest forecast – the Spring Forecast – the European Commission projects real GDP growth of 0.1% for Romania in 2026, lower than the IMF's April 2026 forecast of 0.7% and half the 1.4% rate projected by the Commission in autumn 2025. A mild recession in 2026 cannot be ruled out, given the scale of fiscal consolidation and the unfavourable international environment. For the following year, 2027, the projections point in the same direction – towards a recovery in growth – while the gap between the institutions remains small, with the IMF forecasting growth of 2.5% and the European Commission 2.3%. Forecasts by national and regional institutions also fall within a similarly narrow range, albeit with different signs: in its Spring Forecast, the National Commission for Strategy and Prognosis (NCSP) revised its 2026 growth projection from 1% to 0.1%, while the EBRD, in the May 2026 edition of its Regional

Economic Prospects, projects a contraction of 0.2% in 2026 – compared with growth of 1.2% forecast in February – followed by a recovery of only 1.8% in 2027, below its previous forecast of 2.2%. Gross fixed capital formation is expected to be the main driver of GDP growth over the next two years, joined by private consumption only from 2027 onwards, as real disposable income recovers amid easing inflation. EU funds – under the multiannual financial framework and the NRRP, which is entering its final implementation phase, as well as SAFE – are expected to support aggregate demand and provide financing for the external deficit.

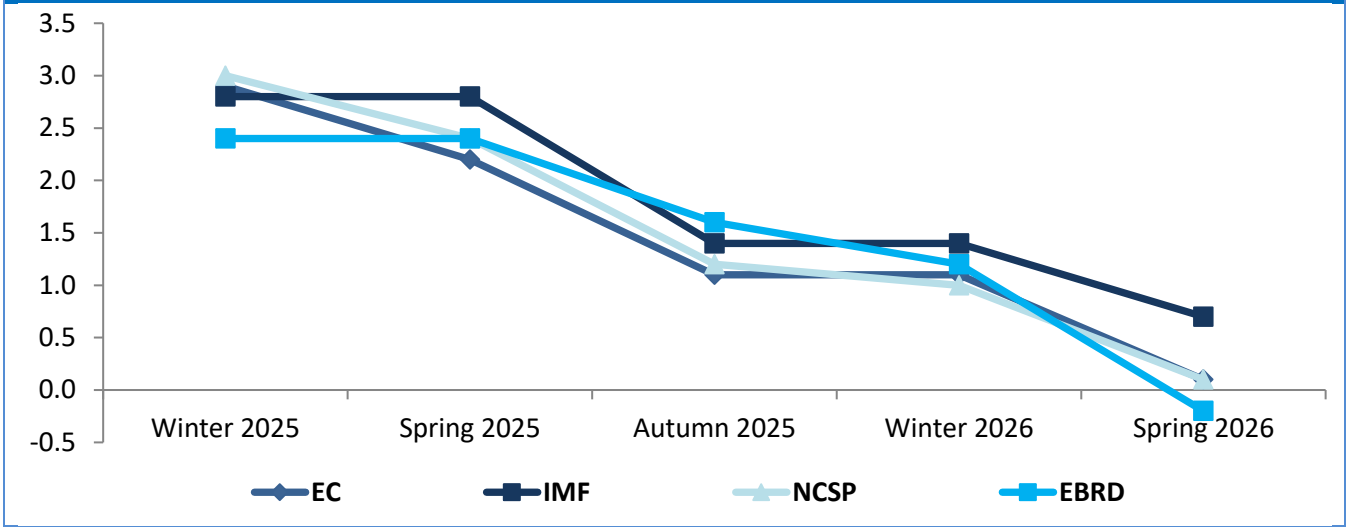
Unlike in previous forecasts, net exports are expected to make a slightly positive contribution to economic growth, against the backdrop of weaker domestic demand, thereby helping to mitigate the external imbalance (reflected in both the trade deficit and the current account deficit of the balance of payments). The latter is projected to decline from around 7.9% of GDP in 2025 to 6.9% in 2026 and 6.4% in 2027 according to the European Commission's forecast, and from 8.0% to 6.8% and 6.2%, respectively, according to the IMF forecast, thus remaining on a downward, albeit gradual, trajectory. This adjustment in the external imbalance reflects both weak external demand from Romania's main EU trading partners and the erosion of real incomes and contraction in consumption under the combined impact of fiscal consolidation and the energy shock. These factors are expected to curb imports, against the backdrop of a gradual recovery in exports.

The European Commission's latest forecast incorporates the fiscal consolidation packages as well as the effects of the increases in VAT and excise duties, together with those of the liberalisation of electricity prices. It is based on the assumption of a relatively rapid normalisation of energy markets, derived from futures prices. The European Commission projects HICP inflation at 7.0% in 2026 – the highest rate in the EU27 – declining to 3.7% in 2027, while the IMF forecasts 7.8% in 2026 and 3.9% in 2027. The NCSP, meanwhile, projects average annual inflation of 7.9% in 2026, 1.4 pp above its autumn estimate, and an end-of-year consumer price inflation rate of 5.3%. Under the new conditions, the inflation peak recorded in the first part of 2026 is expected to correct sharply in the third quarter, as the increases implemented in July-August 2025 drop out of the calculation base, with disinflation subsequently continuing at a gradual pace. Monetary policy cannot respond to the first-round effects of supply shocks, while its restrictive stance – particularly from the perspective of the real exchange rate – will remain in a delicate balance between pursuing the inflation target and preserving the stability of the national currency, without unduly sacrificing economic growth and credit to the economy. The main risks surrounding these projections relate to developments in the conflict in the Middle East and energy prices, as well as to fiscal policy, which could entail further adjustment over the forecast horizon as a result of discretionary measures required to comply with the budget deficit reduction path agreed with the European Commission.

For the current year, the initial forecasts of the European Commission, the IMF and the EBRD (*Figure 50*) envisaged economic growth at or below Romania's potential growth rate, but still sufficiently strong to avoid a significant widening of the domestic output gap. In autumn 2025, the IMF projected growth of 1.4%, while the EBRD forecast 1.6% in September 2025 and the European Commission 1.1% in its Autumn Forecast. The subsequent downward revision of these projections, with real GDP now expected

to stagnate or contract marginally – the Spring Forecasts of the European Commission and the NCSP point to growth of +0.1% this year, the IMF projects +0.7%, while the EBRD forecasts a contraction of 0.2% – against a backdrop of still elevated inflation, may be characterised as a stagflationary development, occurring under the impact of less favourable conditions. These include: (i) an unfavourable starting point, marked by the technical recession in the second half of 2025 and the 1.2% year-on-year contraction recorded in the first quarter of 2026; and (ii) adverse supply shocks[129], as well as (iii) unfavourable developments in domestic demand, driven in turn by both fiscal policy – which, through the adjustment of the budget deficit, reduces aggregate demand in the economy and the external deficit – and monetary policy. The monetary conditions index points to a moderately restrictive stance, becoming more restrictive over the forecast horizon, with the monetary policy rate remaining at 6.5% and the NBR expecting the negative output gap to widen more than previously anticipated; and (iv) weak external demand, itself affected by the energy shock triggered by the conflict in the Middle East and by uncertainty surrounding the trade policies of the major global players, also reflected in the weak performance of the major European economies.

Figure 50: Evolution of economic growth forecasts for Romania in 2026



Source: EC, IMF, NCSP, EBRD

The materialisation of these increasingly unfavourable forecasts for 2026 can be seen in the GDP data for the first quarter of 2026, provisional version (2), published by the National Institute of Statistics (NIS) on 9 July this year. These data confirm a year-on-year contraction in economic activity of 1.2% based on the unadjusted series (and 1.1% based on the seasonally adjusted series), marking a reversal of the dynamics recorded in previous quarters. The quarter-on-quarter change in GDP indicates stagnation in real economic activity, following the 1.9% contraction recorded in the fourth quarter of 2025. The latest GDP data for Q1 2026 show positive contributions, on the production side, from construction (+0.4 pp) and arts, entertainment, recreation and related activities (+0.3 pp). Agriculture, as well as financial intermediation and insurance activities made no contribution to GDP growth, while most sectors

[129] Increases in indirect taxes, the re-liberalisation of the electricity market, shocks in energy and fuel markets, insufficient electricity generation capacity, etc.

contributed negatively, including trade, transport and HoReCa (-0.7 pp), information and communication (-0.3 pp), industry (-0.2 pp), real estate activities (-0.2 pp), professional and related activities (-0.2 pp), and public administration and related activities (-0.2 pp). Net taxes on products also made a slightly negative contribution of -0.1 pp to economic growth. On the expenditure side of GDP, total actual final consumption made a positive contribution to GDP growth (+0.6 pp), but this was entirely attributable to the government component, namely actual collective final consumption of general government (+1.4 pp) and individual final consumption expenditures of general government (+0.4 pp), while household final consumption expenditures made a negative contribution (-1.2 pp). Gross fixed capital formation (+0.4 pp) and net exports (+0.3 pp) also contributed positively, but these effects were more than offset by changes in inventories, which exerted a strongly negative impact (-2.5 pp).

Given the still very large fiscal deficit recorded in 2025 – 7.9% of GDP under the European ESA 2010 methodology, according to data validated by Eurostat, down from 9.3% of GDP in 2024, and 7.65% of GDP under the national methodology, compared with 8.67% in 2024 – reflected in the large current account deficit of the balance of payments, of around 8% of GDP in 2025 (approximately 30 billion euros), and against the backdrop of relatively weak economic growth, an important issue concerns the drivers of future economic growth. Since total factor productivity cannot be expected to make an overwhelming contribution to future economic growth – as suggested both by developments in foreign direct investment and by the completion this year of certain EU programmes, including the NRRP –, growth will have to come either from capital, from labour, or, predominantly, from a combination of the two. However, given that the Romanian economy is characterised by an extreme polarisation in the level of capitalisation across firms[130] and by numerous dysfunctions in the capital accumulation process – as also evidenced by Romania having the lowest level of financial intermediation in the EU, with private-sector indebtedness standing at 40.7% of GDP in Q2 2025[131], compared with an EU average of 115.3% –, the substantial contribution of this factor to increasing value added in the economy could therefore be constrained in the years ahead.

As regards the labour factor, it is worth noting that the employment rate of the working-age population (as defined by the NIS, 15-64 years) stood at 63% for 2025 as a whole, down 0.8 pp from the previous year and the second lowest in the EU27, with only Italy recording a lower employment rate, at 62.5%. The gap relative to the EU average stood at 8 pp. This particularly low employment rate – which continued to decline, falling to 62.6% in the fourth quarter of 2025 – is attributable, according to the literature, to a wide gender gap in participation rates (71.4% for men compared with 54.4% for women

[130] The December 2025 Financial Stability Report shows that, in 2024, approximately one-third of all firms in the economy – 282.1 thousand companies – had equity below the statutory minimum, a slight increase from 31.3% in 2023. These firms accounted for 27% of the sector's total debt, while holding only 11% of total assets and employing 12% of the economy's workforce. Their recapitalisation needs amounted to 160.5 billion lei, equivalent to more than 9% of GDP and approximately equal to the entire net profit recorded by firms in 2024. The same firms accounted for around 56% of total corporate payment arrears and 69.6% of overdue payments to the state budget. Moreover, of the 305 thousand firms that recorded losses in 2024, approximately 26% – 80 thousand companies – had posted negative financial results in each of the previous three years.

[131] Data from Figure 1.20, page 37, of the National Bank of Romania's Financial Stability Report, December 2025.

in 2025). This gap may, in turn, reflect factors related to the structure of the economy, the degree of technological development in the workplace and at home, the education and healthcare systems, discrimination within society, divorce legislation, the prevalence of part-time employment, and the availability of services for families with children (nurseries, kindergartens, etc.). In addition to these factors, the economic literature identifies the regressivity of the tax system – Romania's tax system being among the most regressive in Europe – as a barrier to labour market entry, particularly for young people. In 2024, almost one in five people aged 15-29 was neither in employment nor in education or training, while adult participation in continuing education remained at 8.9%, below the EU average of 13.5%. Against this background, achieving substantial economic growth rates in the future will require reforms aimed at stimulating both capital accumulation and labour force participation; otherwise, Romania could fall into the middle-income trap.

At the same time, given the significant twin deficits recorded in recent years – with the fiscal deficit standing at 7.9% of GDP in 2025 and the current account deficit of the balance of payments at around 8% of GDP, meaning that the public saving-investment imbalance was the main driver of the external imbalance –, Romania's economy remains particularly vulnerable to shifts in investor sentiment, as reflected in financial markets. This vulnerability is all the greater as the public debt-to-GDP ratio has maintained its pronounced upward trend, reaching 59.6% at the end of 2025[132], up by 5 pp year-on-year, while the sovereign-bank nexus remains among the strongest in the EU, with banks' claims on public administration accounting for approximately 27% of their total assets[133]. Changing this situation depends to a large extent on the performance of the public sector and on placing it on a sustainable fiscal consolidation path in all respects, capable of ensuring compliance with the commitments undertaken by Romania under the excessive deficit procedure.

From the perspective of fiscal adjustment (as reflected in government documents) and its two-way interaction with the dynamics of macroeconomic indicators, the following points may be noted: (i) although the pace of real economic growth has already slowed and is expected to remain close to zero as a result of fiscal consolidation, the effects on nominal GDP dynamics (particularly on prices/deflators) are likely to more than offset this deceleration, since the dynamics of nominal macroeconomic indicators and tax bases are what ultimately determine public revenue aggregates; (ii) the fiscal adjustment packages are the reason why access to domestic and international capital markets has been preserved, as they have contributed to reducing the risk associated with Romanian government assets (against the backdrop of declining current account and fiscal deficits). This effect is, however, likely to be counterbalanced by the still relatively rapid increase in public debt, reflecting a persistently high primary deficit and an unfavourable growth-interest rate differential; (iii) the effective absorption of EU funds (under both the Multiannual Financial Framework and the NRRP, as well as SAFE) remains particularly important, as it contributes both to higher potential growth and to financing part of the external deficit, possibly through the substitution of nationally financed investment with

[132] Comparing the December 2025 figures with those for December 2024; public debt exceeded the 60% of GDP threshold established by the Maastricht Treaty in April 2026 (the latest available data), reaching 60.2% of GDP.

[133] Financial Stability Report of the National Bank of Romania (NBR), December 2025, https://www.bnr.ro/uploads/2025-12-09raportasuprastabilit%C4%83%C8%9Biifinanciare-decembrie2025_documentpdf_545_1774336479.pdf.

investment financed from EU funds, which may also help reduce the budget deficit; and (iv) it is essential that the adjustment be achieved in an economically and socially sustainable manner. The path towards the 3% of GDP deficit target (and the adjustment of public debt towards the 60% of GDP threshold, which will inevitably be exceeded in the coming years) requires well-designed fiscal programmes, implemented consistently, that offset their inherent contractionary effects through reforms aimed at fostering future economic development. In this regard, the fiscal-budgetary measures required to bring the public deficit below 6% of GDP should be specified in the period ahead and should be clear, well-defined, measurable and enacted into law in order to influence, *inter alia*, financial market perceptions. Such measures effectively constitute the necessary anchor for maintaining a favourable assessment of Romania's sovereign rating.

As regards the external deficit (the current account deficit of the balance of payments) and the budget deficit, the European Commission's latest forecast projects parallel trajectories for the two (given that the fiscal deficit, or the public sector saving-investment gap, is the main driver of the external deficit), with fiscal consolidation expected to produce a broadly similar reduction in Romania's net external financing requirement. Thus, the Commission's latest forecast starts from virtually identical levels for the two imbalances in 2025 – 7.9% of GDP for both the budget deficit (down from 9.3% in 2024) and the current account deficit (down from 8.4% of GDP in 2024) – and projects a rapid adjustment of the fiscal deficit in 2026, by 1.7 pp (from 7.9% to 6.2% of GDP), followed by a much slower adjustment of 0.4 pp in 2027 (to 5.8% of GDP). By comparison, the current account deficit of the balance of payments is projected to narrow by 1 pp in 2026 (from 7.9% to 6.9% of GDP) and by 0.5 pp in 2027 (from 6.9% to 6.4% of GDP). Comparing the adjustment of the fiscal deficit with that of the external deficit reveals greater persistence in the latter, with the gap between the two deficits standing at 0.6 pp at the end of the European Commission's forecast horizon, to the detriment of the external balance. In Romania's case, the trajectory of these deficits to date, as well as their projected evolution in tandem and at broadly similar levels, fits the concept known in economic theory as the "twin deficits".

According to the Inflation Report[134], published by the NBR in August 2026, the annual CPI inflation rate is projected to reach 6.1% at the end of 2026 and to follow a downward trajectory thereafter, declining to 3.4% at the end of 2027 and 2.8% in June 2028, the end of the projection horizon. The assumptions underlying the baseline scenario are as follows: (i) energy commodity prices, in the context of the conflict in the Middle East, represent one of the key elements of the current inflation projection; thus, the oil-price futures curve points to only a partial and short-lived easing of global supply disruptions, while over the medium term prices remain above their pre-conflict levels, albeit slightly below those incorporated in the previous projection round; (ii) the direct effects of the conflict, rapidly visible in fuel prices, affect the annual inflation rate for 12 months, after which they fade through base effects; indirect effects are transmitted gradually through production and distribution chains, accumulate as they propagate through the economy, and dissipate more slowly; (iii) the recent depreciation of the leu follows a similar time profile, with its inflationary impact building gradually before subsiding; (iv) in the opposite direction, fiscal consolidation exerts disinflationary effects throughout the projection horizon, alongside

[134] https://www.bnr.ro/uploads/2026-8inflationreportaugust_documentpdf_545_1788178568.pdf

easing inflation expectations and a significant slowdown in wage cost growth; (v) statistical base effects associated with the shocks of July-August 2025 – the liberalisation of the electricity market and increases in indirect taxes – account for the pronounced correction in the annual inflation rate in the third quarter of 2026, while the declines in fuel and electricity prices recorded between October and December 2025 generate unfavourable base effects in the fourth quarter of 2026; and (vi) imported goods price inflation increases slightly until the first quarter of 2027 and moderates thereafter, in line with developments in Euro Area HICP inflation excluding energy and the annual dynamics of the EUR/RON exchange rate. Conditions in international agri-food markets remain relatively benign, in contrast to persistent pressures on petrochemical and industrial metal prices, with a potential impact on non-food goods prices. The CPI inflation trajectory is also influenced by a number of specific temporary factors: the increase in telecommunications service prices in July 2026; higher compulsory motor third-party liability insurance premiums in the third quarter of 2026; the removal of the cap on mark-ups for basic food products in January 2027, with an impact on the adjusted CORE2 inflation rate; and the increase in state-regulated rents in April 2026, affecting the dynamics of administered prices.

The CPI inflation trajectory in the forecast accompanying the NBR's August Inflation Report is downward over almost the entire projection horizon, but lies above that anticipated in the previous projection round, mainly on account of assumptions regarding energy prices, compounded by the recent depreciation of the leu and a number of temporary factors. In the short term, the correction is relatively rapid, from 10.4% in June 2026 to 5.9% in September, mainly as a result of base effects associated with the shocks of July-August 2025. In the fourth quarter of 2026, a slight and temporary increase in the annual inflation rate is projected, again owing to base effects, this time operating in the opposite direction and associated with developments in energy prices a year earlier. From the first quarter of 2027 onwards, the trajectory resumes its downward path, with underlying economic fundamentals becoming the dominant drivers, against the backdrop of fiscal consolidation, the gradual dissipation of shocks and easing domestic inflationary pressures. The annual CPI inflation rate is projected at 6.1% in December 2026, 3.4% in December 2027 and 2.8% in the second quarter of 2028, at the end of the projection horizon, with inflation expected to re-enter the target range in the fourth quarter of 2027. In terms of its composition, medium-term disinflation is supported both by the energy component – fuels, electricity and natural gas – and by declining core inflation.

Unlike CPI inflation, the core inflation trajectory is downward throughout the entire projection horizon, without the temporary reacceleration projected for CPI inflation in the fourth quarter of 2026, which reflects an exogenous and temporary disturbance. The most pronounced correction likewise occurs in the third quarter of 2026, against the backdrop of the same base effect associated with the increase in indirect taxes in 2025. The adjusted CORE2 inflation rate is projected at 5.4% at the end of 2026, 3.1% in December 2027 and 2.3% in June 2028. In the first part of the projection horizon, disinflation is slowed by the temporary factors mentioned above and by the indirect effects of the energy shock, transmitted through energy and transport costs and also affecting core inflation. Over the medium term, disinflation is supported by the dissipation of these shocks, fiscal consolidation, the correction of inflation expectations and the moderation of wage cost growth.

CPI inflation and adjusted CORE2 inflation converge towards the end of the projection horizon in the NBR's August Inflation Report, albeit with different trajectories and adjustment mechanisms. CPI inflation starts from a much higher level (10.4% in June 2026) and declines relatively rapidly in the short term, with the initial movement driven predominantly by base effects and developments in energy components. Adjusted CORE2 inflation declines more gradually and steadily, reflecting to a greater extent the evolution of underlying inflationary pressures, although it is not insulated from the indirect effects of external shocks. The gap between the two narrows to 0.7 pp in December 2026 (6.1% compared with 5.4%) and to 0.3 pp in December 2027 (3.4% compared with 3.1%), before reaching 0.5 pp at the end of the projection horizon (2.8% compared with 2.3% in June 2028). The fact that core inflation remains below headline inflation indicates a net positive contribution from the exogenous components of the CPI basket to headline inflation. In the short term, the energy shock directly affects headline inflation and is gradually transmitted to adjusted CORE2 inflation through indirect effects. Over the medium term, this relationship reverses, with core disinflation, together with the normalisation of energy components supporting the return of headline inflation to the target range.

The latest statistical data published by the NIS, namely the signal estimates for the second quarter of 2026[135], point to stagnation in real GDP on a quarter-on-quarter basis (seasonally adjusted data). The negative year-on-year dynamics in the current quarter (-0.4%) reflect base effects and adverse developments in several sectors. Assuming some persistence in previous sectoral trends and taking into account recent developments, at least trade and related activities, industry, real estate activities and the IT sector can be identified as having contributed negatively; conversely, positive contributions[136], which partially offset the factors listed above, can be expected from sectors such as construction, agriculture and related activities.

These developments, as well as the only slightly positive contribution of net exports to economic growth (as shown by the detailed GDP data previously published by the NIS) are also consistent with the still high current account deficit of the balance of payments (approximately 14.2 billion euros cumulatively in the first six months of 2026). Moreover, this deficit increased slightly (+4.8% in euro terms in the first six months of the current year compared with the same period of the previous year, when it stood at approximately 13.6 billion euros), with its adjustment being both less pronounced and lagging behind the fiscal adjustment process.

This development (the slight widening of the current account deficit of the balance of payments) reflects: (i) primarily the widening of the primary income deficit, which increased by 22.1% in the first six months of 2026 compared with the corresponding period of 2025; and (ii) to a lesser extent, a more negative balance on trade in goods, whose deficit increased by 0.7%. These developments were partly offset, albeit to a smaller extent, by: (iii) services, which recorded a marginally higher surplus (+0.9%); and (iv) secondary income, which recorded a surplus of 0.2 billion euros this year, compared with a deficit of approximately 0.06 billion euros in the corresponding period of the previous year. These developments in GDP and the external balance are taking place against the backdrop of a 6.9% year-on-year contraction

[135] NIS press release no. 204/14 August 2026.

[136] Detailed GDP data (provisional estimate 1) for Q2 2026 will be published by NIS on 7 September 2026.

in real wages in the economy in May 2026[137] and an approximately 11% year-on-year decline in real pensions in the first quarter of the year[138], coupled with still-positive, albeit decelerating, developments anticipated in the construction sector[139] – one of the two sectors making a positive contribution to real GDP growth – as reflected in the negative dynamics of the area covered by building permits in this sector[140] (as well as in the number of building permits), together with trends in economic activity[141] in the main sectors of the economy, compounded by the contraction in the industrial sector[142] and in the retail trade sector[143] (as well as the weak performance of wholesale trade turnover[144] – nominal growth of only 1.2% in the first five months of 2026 compared with the corresponding period of the previous year).

In its March 2026 opinion on the 2026 State Budget Law, the 2026 State Social Security Budget Law and the Fiscal Strategy for 2026-2028, the Fiscal Council stated that: "Against this background, the revision made by the NCSP between its Autumn 2025 Forecast (December 2025) and its Summer 2025 Forecast (5 September 2025), projecting a slowdown in economic growth in the current year to 1% (from 1.2% previously), appears consistent with recent domestic economic developments, previous revisions to historical data series, trends reported primarily by the NIS, as well as the scale and duration of the fiscal adjustment (which was also reflected in a lower cash deficit, under the national methodology, for 2025 relative to the revised target). Nevertheless, the macroeconomic variables may need to be revised to even less favourable levels, particularly if commodity prices (oil and petroleum products, natural gas, electricity, etc.) continue to rise and risk sentiment deteriorates (as also reflected in interest rates/yields on domestic and international capital markets) – all against the backdrop of the war in the Middle East, particularly if the conflict proves protracted".

„As regards the composition of economic growth, projected by the NCSP at 1% in real terms and underpinning the 2026 budget – which is just as important from the perspective of its fiscal impact as the overall growth rate itself –, the continuation of current trends can be observed, with the main drivers of economic growth shifting towards investment (gross fixed capital formation) and net exports, while public and private consumption make a negative contribution in the short term. This development is consistent with the continuation of the fiscal adjustment process during the current year. Both the

[137] NIS press release no. 177/15 July 2026.

[138] NIS press release no. 144/12 June 2026.

[139] NIS press release no. 183/22 July 2026.

[140] NIS press release no. 192/31 July 2026.

[141] Stagnation in industry & services, contraction in trade, and growth in construction (NIS press release no. 190/28 July 2026).

[142] Industrial production declined by 3.1% in the first five months of the year compared with the same period of 2025 (NIS press release no. 179/17 July 2026), while industrial turnover decreased by 1.6% in nominal terms over the same period (NIS press release no. 181/22 July 2026). Industrial producer prices increased by 12.7% year-on-year in June 2026 (NIS press release no. 195/4 August 2026), while new orders in manufacturing declined by 3.6% in nominal terms in the first five months of the year compared with the corresponding period of the previous year (NIS press release no. 182/22 July 2026).

[143] NIS press release no. 171/06 July 2026.

[144] NIS press release no. 187/24 July 2026.

projected rate of economic growth and its composition are also broadly consistent with the forecasts of other national and international institutions.

For the final two years covered by the 2026-2028 Fiscal Strategy, the NCSP projects economic growth to accelerate to 2.2% in 2027 and subsequently to 2.4% in 2028, rates that are nevertheless likely to remain below Romania's potential growth rate, which may lie in the 2.5-3.5% range. These dynamics reflect, on the one hand, the adjustment and rebalancing of the Romanian economy and the persistence of their effects over time and, on the other hand, a return towards a higher potential growth rate. It is important to note that economic growth driven to a greater extent by investment and consumption supplied by domestic production is particularly important in making the fiscal adjustment more manageable, as the effects of the structural deficit adjustment could, in this case, be complemented by higher tax revenues".

Regarding real GDP and the deflators, the Fiscal Council's March 2026 opinion stated: "As regards the projected rates of real economic growth over the entire forecast horizon, their cumulative effect can be considered to fall within a plausible and likely range of outcomes, taking into account the factors outlined above and the combined materialisation of the risks identified (both some of the upside risks and some of the downside risks). For these reasons, the Fiscal Council considers the real GDP forecast for 2026-2028 to be realistic, and even slightly prudent at the beginning of the forecast horizon, partly offset by the projections for the final two years covered by the Fiscal Strategy. Nevertheless, this trajectory also depends on the aforementioned external risks not materialising, as some of these could significantly alter the trajectory of the global economy and, consequently, that of the Romanian economy.

In the NCSP's latest projection, the GDP deflator of 7.5% for 2025 (the starting point of the forecast) may be considered relatively prudent, given that data recently published by the NIS, on 6 March 2026, indicate a deflator of 7.9% for the previous year. It should be noted that the CPI inflation rate published by the NIS for December 2025 stood at 7.3% on an annual average basis (the GDP deflator being more closely related to average inflation rates than to end-of-period rates, which stood at 9.7%). This feature of the GDP deflator forecast is also apparent for 2026, with the projected increase of 6.1% likewise appearing prudent. For the final years of the forecast horizon (2027 and 2028), the NCSP projects GDP deflator increases of 4.5% and 4%, respectively, which are also very likely to lie around the midpoint of a plausible forecast range (as also indicated by comparison with recent projections by domestic and international institutions)".

The conclusion of this opinion regarding the NCSP's macroeconomic forecast for 2026-2028 was as follows: "Considering real GDP growth together with developments in the GDP deflators, it can be concluded that the projected nominal GDP dynamics have a high degree of plausibility, based on all the economic information available at present. Nevertheless, the assessment of this baseline scenario for the Romanian economy could not have taken into account the materialisation of shocks (of unknown magnitude and persistence) affecting commodity markets (particularly energy markets) and financial markets. A much sharper and more persistent increase in prices on these markets, potentially accompanied by a significant rise in risk premia in financial markets and, consequently, in interest rates, would result in a different and less favourable macroeconomic outlook."

VII.2. Fiscal framework

The 2025 budget execution recorded a general consolidated budget deficit of 7.62% of GDP (under the cash methodology) and 7.9% of GDP (under the ESA 2010 methodology), representing a significant reduction in the deficit compared with the previous year, both in cash terms (around -1 pp of GDP) and in ESA 2010 terms (-1.4 pp of GDP). The adjustment was achieved against the backdrop of the adoption of multiple fiscal consolidation measures, on both the expenditure and revenue sides.

Against the background of the continued fiscal consolidation process, the initial 2026 budget set a cash deficit target of 6.25% of GDP, representing a reduction of around 1.4 pp of GDP compared with the level recorded in the previous year, while the deficit target in ESA 2010 terms was set at 6% of GDP. The reduction in the cash deficit is planned to be achieved through an increase in budget revenues of 1.3 pp of GDP and a decrease in budget expenditures of 0.1 pp of GDP. However, excluding the impact of EU fund aggregates, the other revenue categories are projected to increase by 0.46 pp of GDP, while the remaining expenditure categories are planned to decline by 1.44 pp of GDP. Thus, the fiscal adjustment in 2026 is planned to take place predominantly on the expenditure side. In its opinion on the draft 2026 budget and the medium-term Fiscal Strategy, the Fiscal Council highlighted the following key points:

- The 2026 budget was adopted with a delay, reflecting not only the difficulties involved in the functioning of a broad governing coalition, but also the complexity of fiscal consolidation decisions in a strained social and economic environment.
- The absence of a programme to restore the health of public finances placed Romania in an extremely difficult position in the first part of 2025, when the prospect of a sovereign rating downgrade was looming.
- The increase in taxes and duties, although painful for citizens, was necessary. Expenditure cuts alone would not have made it possible to achieve the deficit target.
- Although the deficit declined in 2025 and is projected to adjust towards 6.25% of GDP in 2026, continuing the fiscal consolidation process is imperative in order to keep public debt under control, as it would exceed 80% of GDP by 2034 under a no-policy-change scenario.
- The large twin deficits, in the context of an unfavourable financing structure, constitute a major vulnerability, increasing the risk of a sudden stop in financing and representing, in themselves, a further reason why fiscal consolidation is necessary.
- Achieving sustainable fiscal consolidation and creating fiscal space require much more efficient tax collection, including a substantial reduction in the VAT and corporate income tax gaps (with the National Agency for Fiscal Administration – NAFA/ANAF – playing an essential role), as well as control over budget expenditures relative to nominal GDP dynamics.
- The macroeconomic forecast underpinning the draft budget and Fiscal Strategy is realistic. Nevertheless, greater prudence is needed regarding the trajectory of effective interest rates on government securities and the dynamics of the public sector wage bill over the medium term.
- The realism of the projection could be undermined by developments in the conflict in the Middle East. The conflict could have severe consequences for European economies, including Romania's, through a new energy shock. Nevertheless, the budget deficit could remain close to the

programmed level if the impact of higher inflation on nominal GDP offsets weaker economic growth.

- The analysis of the Ministry of Finance's forecast for budget revenues in 2026 appears to indicate that the aggregate revenue target is achievable, albeit surrounded by uncertainty and risks. There are also uncertainties regarding the full implementation of NRRP projects. Failure to fully absorb these funds would not only deprive the economy of an important growth driver but could also lead to an unforeseen increase in the budget deficit, jeopardising the fiscal consolidation path.
- The Fiscal Council assessed that the conditions were in place for compliance with the expenditure ceilings established for the general consolidated budget. However, the budget is built on the assumption of strict expenditures control, and experience from previous years has shown how difficult such an endeavour can be. Accordingly, there are risks to meeting the projected expenditures levels, particularly for interest payments, goods and services, and social assistance.
- Based on a prudent approach to revenue and expenditure forecasting, the Fiscal Council assessed the 2026 budget framework as consistent with a cash deficit of around 6.25% of GDP, without taking into account the potential severe effects of the war in the Middle East or any measures that might be adopted in response. The plausibility of the budget revenue and expenditure projections is closely linked to developments in the macroeconomic environment, with escalating global tensions creating additional risks.
- For the 2027-2029 period, the reduction in the budget deficit is planned to be achieved predominantly on the expenditure side, with tax revenues projected to increase by only 0.5 pp of GDP. In the absence of support for the fiscal consolidation process on the revenue side as well, an adjustment based predominantly on expenditure cuts raises concerns, with the balance of risks tilted towards the possibility of larger deficits than projected. A substantial improvement in tax revenue collection would greatly facilitate the achievement of the budget deficit targets in the years ahead.

As regards changes in fiscal policy, numerous measures have been adopted with the aim of increasing revenues and containing budget expenditures in 2026. On the revenue side, Law No. 141/2025 introduced increases in VAT rates and excise duties, a broadening of the contribution base for the health insurance contribution, additional taxation of credit institutions, higher taxation of gambling activities, and an increase in the dividend tax. Law No. 239/2025 provided for a broadening of the property tax base and the removal of certain exemptions (subsequently, Government Emergency Ordinance No. 9/2026 reinstated exemptions for persons with disabilities and for older buildings), an increase in the tax on means of transport, the introduction of a logistics levy on parcels originating from outside the EU, and an increase in the ceiling used to calculate health insurance contribution for self-employed activities. Government Emergency Ordinance No. 89/2025 revised the micro-enterprise tax regime (a single 1% tax rate and a 100,000 euros threshold) and reduced the non-taxable amount applicable to the minimum wage from 300 lei to 200 lei as of 1 July 2026. Conversely, a number of measures included in Government Emergency Ordinance No. 89/2025 (the reduction in the minimum turnover tax) and Government Emergency Ordinance No. 8/2026 (a 3% tax rebate on the tax due for fiscal year 2025, a tax credit for

research and development, deductions for companies listing on the stock exchange, super-accelerated depreciation, and deductions of up to 400 euros per year for amounts invested by employees and self-employed persons in shares, bonds or ETFs) have the effect of reducing budget revenues.

On the expenditure side, Law No. 141/2025 introduced a broad set of measures aimed at containing expenditure: freezing the gross salaries, military pay and allowances of personnel paid from public funds at their December 2025 levels; lowering the salary eligibility threshold for holiday vouchers and food allowances; reducing personnel expenditure in the education sector; paying in instalments amounts awarded by court rulings in favour of public sector employees that become enforceable in 2026; maintaining public pension benefits and special pensions at their December 2025 levels; freezing social allowances and state child allowances; revising the method for calculating sick-leave benefits; and limiting health insurance expenditure. These measures were complemented by stricter rules for controlling expenditures in state-owned enterprises (Government Emergency Ordinance No. 89/2025), a reduction in the number of positions in local government, a 10% reduction in personnel expenditures in central government (with exemptions for education, culture, healthcare, defence, public order and national security), an approximately 50% reduction in the doctoral degree allowance (Government Emergency Ordinance No. 7/2026), and the non-payment of the first day of sick leave (Government Emergency Ordinance No. 91/2025). By contrast, measures increasing public expenditures are included in Government Emergency Ordinance No. 8/2026 and provide for transfers to the Investment and Development Bank and Exim Banca Românească, as well as state aid schemes.

Budget execution in the first seven months of 2026 recorded a cash deficit of approximately 48 billion lei (2.34% of GDP), around 1.7 pp of GDP lower than the deficit recorded in the corresponding period of 2025. The reduction in the deficit as a share of GDP was driven mainly by lower expenditure (-1.22 pp of GDP), while higher revenues contributed 0.48 pp of GDP.

Budget revenues increased by 11.2% compared with the corresponding period of 2025 (+0.48 pp of GDP), a rate slightly higher than that recorded after six months (+10.3%) and close to the growth rate projected in the initial budget (+11.1%). This development was supported by the dynamics of tax revenues (+0.62 pp of GDP) and, to a lesser extent, EU funds (+0.3 pp of GDP). In the opposite direction, social security contributions (-0.11 pp of GDP) and non-tax revenues (-0.32 pp of GDP) made negative contributions. Compared with the first seven months of the previous year, the increase in tax revenues was driven mainly by VAT receipts (+26.5% and +0.61 pp of GDP) and, to a lesser extent, by receipts from taxes on property (+29.8% and +0.09 pp of GDP). These effects were partly offset by unfavourable developments in other taxes on income, profits and capital gains (-17.5% and -0.04 pp of GDP) and excise duties (+6.4% and -0.03 pp of GDP).

Budget expenditures increased by only 2.9% (-1.22 pp of GDP), below the growth rate projected in the initial budget (+6.9%). The main expenditure categories recorded the following developments compared with the corresponding period of the previous year: personnel expenditures (-4.1% and -0.61 pp of GDP), goods and services (+11.2% and +0.07 pp of GDP), interest expenditures (+26.5% and +0.28 pp of GDP), social assistance expenditures (-0.6% and -0.66 pp of GDP), and capital expenditures (-17.2% and -0.4 pp of GDP).

The adjustment in the budget deficit compared with the first seven months of the previous year continued to be supported by strict control over social assistance and personnel expenditures (a combined effect of -1.27 pp of GDP across the two categories), as well as by the low level of investment financed from national funds. However, after a slow start in capital expenditures (a monthly average of 2.3 billion lei between January and April), it accelerated significantly thereafter (a monthly average of 5.8 billion lei between May and July). At the same time, the growth rate of interest expenditures (+26.5%) accelerated sharply in July, exceeding the rate projected in the initial budget (+20.4%), and reflects the pressure exerted by the cost of public debt on the budget deficit. Finally, the growth rate of expenditures on goods and services has followed an almost uninterrupted upward trajectory since the beginning of the year and, since March, has exceeded the growth rate projected in the initial budget (+4.7%).

Budget execution in the first seven months of the year confirms the downward trend in the deficit observed in previous months and creates the conditions for meeting the target set for 2026. This assessment is consistent with the latest external forecasts: EC[145] projected, in May 2026, an ESA deficit of 6.2% of GDP, while subsequent assessments by the rating agencies, which also took into account the latest budget execution data, put the ESA deficit at 5.9% of GDP (Fitch[146]) and 5,8% of GDP (Moody's[147]), respectively. Both agencies confirmed Romania's sovereign rating at the lowest investment-grade level, but maintained the negative outlook, citing political uncertainty and risks surrounding the continuation of the fiscal consolidation process in the years ahead.

Risks to fiscal consolidation may materialise both in the short term and over a longer horizon. In the short term, although budget execution points to favourable developments, the pace of adjustment could moderate in the latter part of the year as a result of: (i) a faster increase in capital expenditures financed from national funds; (ii) expenditures on goods and services and interest payments continuing to grow at rates above those initially projected; (iii) weaker-than-expected developments in social security contributions and non-tax revenues, as well as in certain categories of tax revenues; and (iv) a moderation in the growth rate of VAT revenues over the final four months of the year, as the base effect associated with the increase in VAT rates fades.

With the NRRP due to be completed in August 2026, an important risk with potential short- and medium-term consequences stems from the failure to meet certain milestones and targets, which would result in a reduction in the funds reimbursed to Romania. In this regard, losses related to the NRRP grant component may adversely affect the budget balance to the extent that the lost funding is replaced from national sources, while amounts related to the NRRP loan component are recorded in budget execution only on the expenditure side. It should be noted that the exact amount of reimbursements to Romania will only be known at the end of this year, depending on the European Commission's assessment of the fulfilment of the milestones and targets associated with Payment Requests No. 5 and No. 6. This will

[145] https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/romania/economic-forecast-romania_en, May 2026.

[146] https://www.fitchratings.com/research/sovereigns/fitch-affirms-romania-at-bbb-outlook-negative-31-07-2026

[147] https://ratings.moodys.com/ratings-news/470687

allow the effective absorption rates of NRRP funds to be calculated for both the grant and loan components.

The continuation of the fiscal consolidation process over the medium term may also be affected by the materialisation of other risks, including: the imposition of payment obligations relating to salary entitlements for certain categories of public sector employees, as established by court rulings; the possibility of a negative revision of the sovereign rating; the persistence and/or escalation of geopolitical tensions and military conflicts, also closely linked to Romania's commitment to increase defence expenditures, including through access to SAFE loans; and increasing demographic pressures on social assistance expenditures.

In addition to these risks, a high degree of domestic political uncertainty and instability persists, which may adversely affect the commitment to reducing the budget deficit in 2027 and 2028, particularly as the approaching elections could intensify pressures for fiscal easing. Continued fiscal consolidation is essential for maintaining macroeconomic stability and Romania's sovereign rating, as well as for placing public debt on a sustainable downward trajectory. Therefore, the parameters underpinning the 2027 budget and the medium-term Fiscal Strategy will send an important signal regarding the direction of the consolidation process in the years ahead.

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Appendix – Glossary of terms

Adjustment program – a detailed economic program, usually supported by IMF resources, that is based on an analysis of the economic problems of the member country and specifies the policies implemented or that will be implemented by the country in the monetary, fiscal, balance of payments and structural areas to set the basis for economic stabilization and sustainable economic growth.

Aggregate demand – total expenditures of internal and external users for acquiring final goods and services produced in an economy. It is computed as the sum between internal demand and exports of goods and services.

Aggregate supply – represents all goods and services offered on the domestic market by all domestic and foreign operators. In other words, the aggregate supply is the total domestic production of economic goods plus foreign countries offer (imports).

Annual spending ceiling – the maximum amount, set by law, that can be allocated to a certain category of government spending in one year.

Arrears of the general consolidated budget – money loans or debt that have become overdue for more than 90 days following the breach of a contract between economic entities and the state as a result of contractual terms' violations.

Automatic disengagement – part of the budgetary commitment that is automatically disengaged by the European Commission if it remains unused or if no request for payment is received by the end of the third year after the budgetary commitment. The difference between the two values (the one allocated and the one forwarded to the Commission for reimbursement) is lost through the automatic disengagement procedure.

Automatic stabilizers – tools for self-regulating the economy with the aim of reducing economic fluctuations; for example: taxation in proportional percentage rates, social benefits for unemployment.

Balance of payments – accounting record describing the transactions concluded between a country and its external partners in a specified period of time.

Balance of the general consolidated budget – indicator computed as the difference between total public revenues and total public expenditures.

Base point – unit of measure for the interest rate, equivalent to 0.01%.

Budget revision – operation through which the budget is amended during a budgetary year.

Budgetary policy – financial policy of the state regarding budget expenditures; public resource allocation policy.

Buffer – a reserve established by the Ministry of Finance in the Treasury in order to cover in advance the financing needs and which serves to protect against the event of adverse conditions in financial markets.

Capital account – flows of capital transfers and acquisitions /sales of non-financial and intangible assets.

Cash methodology – involves recording revenues when they are actually received and recording expenditures at the time of payment.

Classification by function – the classification of expenditures based on their destination, in order to assess public funds allocations.

Clawback tax – charge imposed on the pharmaceutical industry that requires all manufacturers of medicinal products to help the funding of the public health system with part of the profits made from sales of subsidized drugs in excess of their allocated quota from the national health fund.

Cohesion Fund – financial instrument supporting investments in transport infrastructure and environment.

Conditionalities – economic policies that members intend to follow as a condition for the use of IMF resources. These are often expressed as performance criteria (for example, monetary and budgetary targets) or benchmarks, and are intended to ensure that the use of IMF credit is temporary and consistent with the adjustment program designed to correct a member's external payments imbalance.

Consolidation – the operation of eliminating transfers between two component budgets of the general consolidated budget, in order to avoid their double accounting.

Contagion – the transmission of shocks to several economic sectors, internally and abroad.

Contingency reserve fund – amount of money available to the Government, which is allocated to main authorizing officers from central and local budgets, based on the Government's decisions to finance urgent or unforeseen expenditures incurred during the year.

Contribution – compulsory imputation of a share from the revenues of employees or firms, with or without the possibility of obtaining a public service in exchange.

Countercyclical fiscal policy – fiscal policy behaviour which has the role of stabilizing the economic cycle and helps to reduce cyclical fluctuations and inflationary pressures from excess demand.

Country risk premium – additional return required by an investor to compensate for the increased risk posed by a certain investment in a country. This is reflected in CDS quotations which measure the cost of insuring against default risk.

Current account deficit – occurs when total imports of goods, services and transfers to a country exceed exports of goods, services and transfers from that country; in this case, that country becomes a net debtor to the rest of the world.

Cyclical adjustment of budget revenues – elimination of the budget revenues' component dependent on the demand excess/deficit (economic expansion/contraction), eliminating trend deviations; the level of cyclically adjusted budget revenues is the level that would have been collected if the GDP reached its potential growth.

Cyclical component of budget balance – modification of the budget balance due to cyclical developments in the economy.

Cyclically adjusted budget balance – the balance of the general consolidated budget, net of the cyclical component. It is a measure of the fundamental trend in the budget balance.

Direct public debt – total public debt, except for guaranteed public debt.

Disinflation – the process of reducing inflation.

Economic classification – the classification of expenditures based on their economic nature and effect.

ESA 2010 methodology (*European System of National and Regional Accounts*) – accounting reporting framework used internationally for a systematic and detailed description of an economy (region, country or group of countries), or its components and relationships with other economies. The main difference between ESA 2010 methodology and the cash methodology is that revenues and expenditures are recorded in "accrual" system (based on commitments, not actual payments as in the cash system). ESA 2010 methodology replaced ESA 95 methodology, being adopted in 2013.

Euro Plus Pact – it is also known as the Competitiveness Pact and its objective is the stability of euro area, Member States committing themselves to take measures to encourage competitiveness, employment and consolidation of public finances.

European Agricultural Guarantee Fund – European funds for the implementation of support measures for farmers.

European Regional Development Fund – Structural Fund which supports the less developed regions by financing investments in the productive sector, infrastructure, education, health, local development and small and medium enterprises.

European semester – additional tool for the preventive surveillance of economic and fiscal policies of the Member States; it is an annual cycle of economic and budgetary policy coordination, which takes place in the first six months of the year, in order to identify any inconsistencies and emerging imbalances of economic and fiscal policies that would violate the rules set out in the Stability and Growth Pact.

European Social Fund – Structural Fund for Social Policy of the European Union, which supports employment measures for labour and human resource development.

Eurosystem – the central banking system of the euro area. It comprises the European Central Bank and the national central banks of EU Member States from the euro area.

Excessive Deficit Procedure – the corrective arm of the Stability and Growth Pact that imposes penalties in cases of no prompt correction of excessively high deficits (having breached or being in risk of breaching the deficit threshold of 3% of GDP at market prices) or excessively high debt (having violated the debt rule by having a government debt level above 60% of GDP, which is not diminishing at a satisfactory pace. This means that the gap between a country's debt level and the 60% reference needs to be reduced by 1/20th annually on average over three years).

Exchange Rate Mechanism II – the exchange rate arrangement established on January 1, 1999 that provides a framework for exchange rate policy cooperation between the Eurosystem and EU Member States that are not in the euro area. Although membership in ERM II is voluntary, Member States with derogation are expected to join. This involves establishing both a central rate for their respective currency's exchange rate against the euro and a band for its fluctuation around that central rate. The standard fluctuation band is ±15%, but a narrower band may be agreed on request.

Excise duty – special consumption tax applied to domestic and imported products, borne by consumers and included in the sale price of certain specific commodities.

Expansionary fiscal policy – fiscal policy behaviour that has an accelerating effect on aggregate demand growth and may lead to an amplification of inflationary pressures.

Expansionary monetary policy – monetary policy that stimulates aggregate demand and a possible amplification of inflationary pressures.

Fee – amount paid as remuneration for services provided by an economic agent or a public institution.

Final consumption – component of the aggregate demand which includes private consumption and government expenditures for public goods and services.

Financial account – flows of transactions associated with ownership change regarding the assets or liabilities of a country. It includes foreign direct investments, portfolio investments, financial derivatives, other capital investments and reserve assets.

Fiscal Compact – part of the Treaty on Stability, Coordination and Governance signed on March 2, 2012 by all EU member states, except for the United Kingdom and Czechia. The treaty is aimed at strengthening fiscal discipline by introducing an automatic correction mechanism and stricter surveillance. The fiscal compact establishes a requirement for national budgets to be in balance or in surplus. This criterion is met if the annual structural government deficit does not exceed 0.5% of GDP at market prices. If public debt is significantly below 60% of GDP and risks posed to long-term public finance sustainability are low, the structural deficit may reach a maximum level of 1% of GDP.

Fiscal consolidation – policy aimed at reducing budget deficits and the accumulation of public debt.

Fiscal impulse – the impact of discretionary fiscal policy on aggregate demand. It is computed as the change of structural balance relative to the previous period; a positive value corresponds to an expansionary fiscal policy and a negative value to a restrictive fiscal policy.

Fiscal policy – policy that aims to influence the economy using the tax system.

Fiscal rule – a long-term constraint on fiscal policy through numerical limits on budgetary aggregates. Fiscal rules are intended to avoid pressure from incentives and excessive spending, especially in the upward phase of the economic cycle so as to ensure accountability in the management of public finances and public debt sustainability.

Fiscal space – 1. the difference between current public debt and a threshold of public debt that does not involve increasing costs for financing the deficit and which takes into account the historical evolution of fiscal adjustment; 2. financial resources available for additional expenditures required to implement development projects.

Fiscal strategy – public policy document designed to set out fiscal objectives and priorities, revenue and expenditure targets of the general consolidated budget and its components and the evolution of the budget balance for a three-year period.

Fiscal sustainability – a set of policies is said to be sustainable if the state is able to meet its debt payments without any major additional correction in the budget balance.

Fiscal/Tax revenues – budget revenues collected through taxation. Fiscal revenues include: personal income taxes, corporate income taxes, capital gain taxes, property taxes and fees, goods and services taxes and fees, taxes on foreign trade and international transactions, other taxes and fees, social security contributions.

GDP deflator – an indicator that reflects the change in prices of the goods and services composing the GDP; it is computed as a ratio between GDP in current prices and GDP in prices of the base year.

GDP deviation – an indicator that measures the difference between the actual GDP of an economy and its potential GDP. It is also known as output-gap.

General consolidated budget – the set of budgets (provided in art. 1 para. (2) of Law 500/2002 on Public Finances, to which local budgets are added), aggregated and consolidated to form a whole.

Guaranteed public debt – loans guaranteed by the Ministry of Finance and local government authorities.

Harmonized Index of Consumer Prices – consumer price index whose methodology has been harmonized between EU countries; the inflation objective of the European Central Bank and the euro area inflation rate are expressed based on this index.

Implicit tax rate – the ratio between the actual collected revenue for a specific type of tax and the corresponding macroeconomic tax base.

Inflation – reflects the widespread and persistent increase in prices and it is typically measured by the consumer price index.

Inflation target – is set by central banks that have adopted the inflation targeting strategy. The target can be set as a fixed level of inflation and/or as a range. The National Bank of Romania sets the target as a midpoint within a target band of +/- 1 pp.

Informal economy – legal economic activity, but hidden from public authorities in order to avoid paying taxes, social security contributions or to avoid compliance with legal standards on labour and with other administrative procedures.

Medium Term Objective – is the medium-term objective for the budgetary position and differs for each EU Member State. For states that have adopted the euro or are in the Exchange Rate Mechanism II, it is -1% of GDP or a budget surplus. Reassessment of medium-term objectives is done every four years or when a major structural reform is adopted.

Monetary policy interest rate – the interest rate used for the main operations of the NBR. At present, these are one-week repo operations, established by fixed interest rate auctions.

Nominal convergence criteria (Maastricht) – the four criteria set out in Article 140 (1) of the TFEU that must be fulfilled by each EU Member State before it can adopt the euro, namely: 1) the inflation rate must not exceed by more than 1.5 pp the average of the three best performing EU countries in this respect; 2) the long-term nominal interest rate must not exceed by more than 2 pp the average interest rate in the first three member states with the best performance in terms of price stability; 3) the public budget deficit must be less than 3% of GDP, the public debt to GDP ratio must be less than 60%; 4) exchange rate fluctuations must not exceed +/- 15% in the last two years preceding the examination.

Nominal variables – variables expressed in current prices.

Non-fiscal/Non-tax revenues – other budget revenues that do not include taxation, such as royalties, payments from SOEs' profit, fines, charges.

One-off component of the budget balance – component of revenues or expenditures that has a temporary nature.

Pillar 1 of the pension system – the name given to the state pension system; it has a compulsory character and is based on the redistribution of money collected during a financial year, the "pay as you go" system (present employees pay for the currently retired population).

Pillar 2 of the pension system – name given to the private pension system; it has a compulsory character for employees below the age of 35 years at the time of its introduction (2007) and aims to provide a private pension that supplements the public pension. Contributions to private pension funds are nominal and immediately after they are paid into the employee's account, they become his property.

Potential GDP – real GDP that can be produced by the economy without generating inflationary pressures. Potential GDP is determined by long-term fundamental factors such as organization of the economy and the productive capacity determined by technology and demographic factors that affect labour etc.

Primary balance of the general consolidated budget – the difference between total budget revenues and expenditures, excluding the interest payments with regard to public debt.

Primary structural budget deficit – structural budget deficit net of the "non-discretionary" component of the budgetary policy - interest expenses related to public debt; it is used in the analysis of the sustainability of fiscal policy.

Pro-cyclical fiscal policy – fiscal policy behaviour that does not fulfil a stabilizing role of the economic cycle but rather contributes to amplifying cyclical fluctuations and inflationary pressures from excess demand.

Proxy – a variable that estimates/approximates and replaces another variable, an unobservable one.

Quasi-fiscal deficit – takes into account public sector expenditures not recorded into the budget; particularly, it refers to the losses of state-owned enterprises which translate in the default of their financial obligations to the public budgets and public utilities.

Real convergence – reaching a high degree of similarity and cohesion of economic structures of the candidate countries; although the Maastricht Treaty does not mention real convergence criteria, these can be summarized by a series of economic indicators like GDP per capita, the openness of an economy, the share of trade with Member States in foreign trade, the structure of the economy.

Real GDP – represents the value of final goods and services produced in an economy in a given period, adjusted for price increases. Real GDP dynamics is used to measure the economic growth of a country.

Real variables – variables expressed in constant prices (the prices of a base year).

Reference interest rate – starting with September 1, 2011, the NBR's reference interest rate is the monetary policy interest rate, established by decision of the NBR's Board of Directors.

Relevant macroeconomic basis – macroeconomic aggregate on which proceeds from a certain category of budget revenues depend.

Restrictive monetary policy – monetary policy behaviour that constrains the aggregate demand in order to reduce inflation.

Royalty – payment to the holder of a patent, copyright or resource for the right to use their property.

S0 – an "early detection indicator" which is designed to highlight shorter term risks of fiscal stress (within a 1-year horizon) through the "signals approach".

S1 – indicator of the sustainability gap that shows the required increase in taxes or decrease in expenditures (as a percentage of GDP) subject to a debt level of 60% of GDP at the end of the period.

S2 – indicator of the sustainability gap that indicates the required fiscal effort (as a percentage of GDP) subject to the inter-temporal budget constraint on an infinite time horizon.

Seasonality – periodic pattern in the evolution of an economic variable that systematically appears at certain times of the year.

Stability and Growth Pact – consists of two EU Council Regulations, on "the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies" and on "speeding up and clarifying the implementation of the excessive deficit procedure", and of a European Council Resolution adopted at the Amsterdam Summit on June 17, 1997. More specifically, budgetary positions close to balance or in surplus are required as the medium-term objective for Member States since this would allow them to deal with normal cyclical fluctuations while keeping their government deficit below the reference value of 3% of GDP. In accordance with the Stability and Growth Pact, countries participating in EMU will submit annual stability programs, while non-participating countries will provide annual convergence programs.

Stand-by Arrangement – an arrangement for an IMF member through which the country is assured that it will be able to make purchases (drawings) from the General Resources Account up to a specified amount and during a specified period of time, usually one to two years, provided that the member respects the terms set out in the supporting arrangement (see **Conditionalities**).

Stock-flow adjustment of public debt – process that ensures consistency between changes in the debt stock and net lending flows. It takes into account accumulation of financial assets, changes of foreign currency debt and statistical adjustments.

Structural budget balance – is determined by subtracting the temporary elements (one-offs) from the cyclically adjusted budget balance.

Structural budget deficit – the budget deficit that would be recorded if GDP was at its potential level; it is the size of the deficit recorded in the absence of business cycle influences.

Swap – chain compensation scheme for outstanding obligations to the general consolidated budget; operation that implements the extinction of outstanding budgetary obligations, with equivalent impact on revenues and expenditures.

Tax – compulsory and non-refundable levy, without immediate and direct compensation, charged by a public authority with the purpose of financing public goods and services.

Taxation efficiency index – index through which it is measured the effectiveness of tax collection. It is computed as the ratio between the implicit tax rate and the statutory tax rate.

Trade balance – section of the balance of payments that records the difference between exports and imports of goods and services made in a certain period of time.

Voluntary compliance – principle under which taxpayers will comply with the tax laws and, more importantly, will accurately report income and the deductions they benefit from, without direct compulsion by the authorities empowered to do so.