UKRAINE – 4 YEARS OF WAR / Daniel Dăianu: Europe Faces a Multiple Shock. We have entered a Different World[i]

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The invasion of Ukraine in 2022 intensified a succession of crises that have hit European economies in recent years, ranging from the pandemic to the surge in energy prices. Romania has felt these shocks acutely against the backdrop of an already high fiscal deficit and existing structural vulnerabilities, according to the Chairman of the Fiscal Council, Daniel Dăianu, in an analysis for AGERPRES.

Recent years have brought extraordinary negative shocks for European countries. The effects of the global financial crisis had already left deep scars; elevated public debt and unconventional central bank operations which, although they saved commercial banks and companies, distorted resource allocation and widened income distribution within society. The balance sheets of major central banks expanded many times over, with large-scale money issuance. Inflation did not surge because the propensity to hold liquidity increased sharply. Romania, although it had a low public debt (around 12-13% of GDP in 2008), was hit by the "freezing" of financial markets and was forced to request financial assistance from the EU, the IMF, and the World Bank. At that time, an austerity programme was implemented through cuts in public sector wages and an increase in VAT in order to reduce the budget deficit.

The pandemic shock in 2020 led to partial shutdowns of economies, resulting in declines in output and increases in budget deficits; in Romania, the budget deficit, which had exceeded 4% of GDP in 2019, rose to over 9% of GDP in 2020. Global production chains were disrupted, and international trade was harmed. The situation was further complicated by policies related to climate change and the energy transition. In 2021, as economies reopened, tax revenues increased automatically and budget deficits narrowed; this was also seen in Romania, where the ESA budget deficit in 2021 stood at 7.2% of GDP.

The invasion of Ukraine in 2022 disrupted Europe profoundly. Dependence on Russian gas has revealed as a major vulnerability and exacerbated the “energy crisis” in Europe. Efforts to reduce this dependence as much as possible have proven to be a difficult and costly process. Procuring liquefied natural gas from the United States and other regions is expensive, even though a “security premium” is being paid. Europe faces a significant competitive disadvantage in terms of energy costs.

Inflation rose rapidly across Europe in 2022 amid the sharp increase in energy costs and disruptions in production chains, intensifying a cost-of-living crisis that fuelled the rise of political radicalism; a crisis of trust between citizens and mainstream political parties also deepened (a situation already visible after the financial crisis). In Romania, the average inflation rate increased from 5.1% in 2021 to 13.8% in 2022. The ESA budget deficit in Romania declined in 2022 to 6.5% of GDP, a dynamic driven by tax revenues that were significantly boosted by the high inflation of that year.

Economic growth in Romania declined substantially after 2022, despite large budget deficits, illustrating the impact of the war – from a GDP growth rate of 5.6% in the post-pandemic recovery year, to 4.2% in the year of the invasion, followed by 2.3% in 2023, 0.9% in 2024, and 0.6% in 2025. European funds significantly cushioned these shocks.

The succession of shocks (the pandemic, the energy crisis, the invasion of Ukraine) led to the suspension of fiscal rules in the EU and made budgetary corrections more difficult. Romania entered this cascade of successive shocks with the highest budget deficit in the EU, which triggered the excessive deficit procedure in 2020. Although it was natural for governments to try to protect citizens and certain companies, budget planning and execution were imprudent, and the need for higher fiscal revenues was neglected in Romania. In an election year, the budget deficit reached levels similar to those during the pandemic year. Pension reform was justified, but it was implemented in a non-gradual manner, while public sector wage increases underestimated the state of the public budget. In 2024, public investment was high – 6.7% of GDP – but this does not justify that year’s deficit (around 9.3% of GDP under ESA standards), as many projects were financed with non-reimbursable European funds.

A downgrade of sovereign risk had become imminent in 2025, making a large-scale fiscal correction a top priority. The correction programme, which began to operate in the second half of the year, resulted in a deficit lower than the target assumed at the November budget revision: a cash deficit of 7.65% of GDP, compared to 8.4% of GDP. This outcome was due to the restructuring of the National Recovery and Resilience Plan (shifting projects from loans to grants), interest expenditures lower than initially projected, constraints on personnel and subsidy spending, and increases in certain budget revenues. The ESA deficit in 2025 was likely around 8% of GDP.

The reduction in the budget deficit achieved in 2025 allows for fiscal consolidation in 2026 toward a deficit level of around 6% of GDP. The government is targeting a deficit of 6.2% of GDP, and there would be no need for new taxes or tax increases. Launching a programme to support economically sensitive sectors (a recovery plan) and the most vulnerable citizens should not jeopardize fiscal consolidation; ideally, such measures should be financed through European funds.

The increase in taxes was a very difficult but unavoidable decision. Relying solely on spending cuts (as it has sometimes been argued – without plausible numerical backing) was not feasible. Nor was a sudden, strong increase in fiscal revenues through improved tax collection realistic – it was a fantasy. Public debates often overlook the inevitable trade-offs involved in economic policy choices. For example, higher inflation could not have been avoided under conditions of tax increases and the liberalisation of electricity tariffs. This option for deficit adjustment must be judged against the impossibility of relying exclusively on cuts in public spending. Higher inflation reduced budget expenditures on wages and pensions in real terms, a situation that will also apply in 2026. The economy did not contract in 2025, but there was a 'technical recession'; the economy did not decline because the propensity to consume, although weakening, was supported by income gains recorded in 2024 and by public investments reaching 7.2% of GDP. The year 2026 will have a similar profile, with the economy supported by public investments scheduled to reach around 8% of GDP (although it is not clear whether all projects under the National Recovery and Resilience Plan will be completed). Inflation will quite likely fall substantially in the second half of the year, and the National Bank of Romania will cut its policy interest rate".

The claim that fiscal adjustment "collapsed" output and consumption in 2025 is untrue, as it is sufficient to compare GDP dynamics in 2024 with those in 2025.

And the idea that Romania's economy is consumption-based has no foundation; in all countries, public and private consumption account for the bulk of total expenditure. What the initial phase of correction has done is to curb the surge in consumption spending, which was not sustainable. The problem of the budget deficit was caused not by investment, but by excessive stimulation of consumption and the neglect of the need to increase fiscal revenues.

Fiscal consolidation is mandatory in order to improve Romania's sovereign rating and ensure economic stability. If the deficit were to remain stuck at around 6% of GDP, it is unlikely that the rating would improve; it could even deteriorate if public debt is not stabilised. Comparisons with other EU countries that have substantially higher public debts must take into account factors such as the size of the economy, industrial strength and national wealth, the degree of competitiveness, the level of budget revenues, access to domestic market financing, the external balance, and other structural characteristics.

What will happen after 2026? This question concerns the ability to continue reducing the budget deficit. If the VAT gap and other tax revenues gaps are significantly reduced, together with other measures (such as tight control of budget expenditures), the deficit could fall below 4% of GDP within a few years, and public debt would stabilise. At the same time, the external (current account) deficit – another major vulnerability of our economy – would also decline. The need to increase defence spending should not be underestimated, but this must be done in line with the existing fiscal space. Unfortunately, the SAFE programme does not include a grant component, which would have been appropriate for the EU's eastern flank states. Increasing fiscal revenues is a battle that must be won; this is where political will will be tested, as well as the capacity to overcome vested interest groups that prefer the current situation. The reform of the National Agency for Fiscal Administration (ANAF) is necessary, along with changes in legislation (the insolvency law).

Reforms and a better functioning of the state are necessary so that citizens have confidence in political authorities, in institutions, and in the idea of fairness. Political stability would fiscal consolidation.

There are voices calling for an agreement with the IMF; this is a meaningless view given the ongoing deficit correction, access to financing and refinancing, and declining borrowing costs. As for accession to the euro area, it cannot take place as long as we do not have low deficits (around 3%) and sustainably low inflation. Romania's macroeconomic imbalances are caused primarily not by non-membership of the euro area, but by imprudence in fiscal and budgetary policy.

The foreign policy and geopolitical vision promoted by President Donald Trump in his new term (with signs already detectable during his first term) have unsettled Europeans. A trade war on all fronts, a logic of spheres of influence and the creation of trade blocs, disregard for rules, the dismantling of institutions, the intensification of *Realpolitik* in international relations, and pressure to sharply increase military spending greatly complicate public governance in EU countries and create dilemmas that would have been inconceivable not long ago. The transatlantic relationship is eroding, including as a result of an ideological dispute – between liberals and conservatives/authoritarians. American and European officials speak openly about a new world order, in a multipolar world. The United States is engaging in direct dialogue with Russia, while the EU is not.

European economies will likely undergo significant structural changes stemming from the need to allocate more resources to defence, with considerations of economic and military security becoming paramount. Choices in the construction of national budgets will become more difficult and will have an impact on citizens. The peace dividend following the fall of the Berlin Wall has been lost, and a new Cold War is taking shape.

Europeans must seek to establish their own deterrence capability (a call also made by the United States in its new security doctrine). It would be beneficial for the EU to become more cohesive and to ensure better functioning of its markets (energy, capital markets, etc.). Without deep integration and higher public and private investment, the EU will be dominated by the United States and China, especially in cutting-edge technological fields (including the use of artificial intelligence). A relative decline of the EU would inevitably affect Romania as well.

The logic of variable geometry is returning to the EU agenda, with countries seeking deeper cooperation and integration (France, Germany, Italy, the Netherlands, Poland, Spain – the U6 group). Whether the EU can become a geopolitical actor remains to be seen; the United States is a union both de facto and de jure, whereas the EU still has a significant path to travel in core areas – defence, industrial policies, taxation, financial markets, and, not least, institutional architecture.

It is possible that the war in Ukraine and the new geopolitical view of the United States will stimulate integration processes in the EU and the formation of building blocks for strategic autonomy. However, Europeans clearly have a strong military and strategic dependence on the United States. Further EU enlargement can find a rationale from a geopolitical perspective, but it will make the Union more heterogeneous and harder to govern.

For Romania, it is vital that the war in Ukraine ends with security guarantees for that country and with security arrangements in Europe (a sort of "Helsinki 2"), with the United States remaining a central pillar of NATO and a strategic partner. Romania must not, if possible, get a marginal status within the EU. These are increasingly complex and uncertain times – we have entered a different world. That is why we must make the best possible use of the material and, above all, human resources at our disposal in order to withstand adversity as a society.

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[i] https://agerpres.ro/economic/2026/02/24/ucraina---4-ani-de-razboi-daniel-daianu-soc-multiplu-pentru-europa-s-a-intrat-intr-o-alta-lume--1531122