Romanian Fiscal Council

Fiscal Council's Opinion on the 2025 First Budget Revision

Summary

- The three major rating agencies have reaffirmed Romania's sovereign risk at a level just above junk status (not recommended for investment), based on the measures taken by the new government. In the first part of the year, there was a risk of a downgrade in the sovereign rating.
- After discussions with the European Commission, the Romanian Government revised the cash deficit target for this year to 8.4% of GDP. In 2026, the cash deficit is expected to be around 6.5% of GDP. This revision takes into account the significant pressures on the public budget in 2025.
- The fiscal correction initiated by the new government could be the turning point in restoring confidence in Romania's public finances, but the process is challenging and will take several years.
- A significant improvement in tax revenue collection is essential for a stronger fiscal consolidation.
- In the absence of corrective measures this year, as indicated by the budget execution over the first eight months, the budget deficit would reach around 9% of GDP.
- Various analyses (including those by rating agencies) highlight risks and the need for consistency in the period ahead, as the scale of the required adjustment is unprecedented for an EU member state that is not facing a deep financial crisis or a severe shock such as the pandemic.
- In Romania, the budget crisis is self-inflicted. Electoral years cannot justify major imprudence in the management of public finances. The 2024 budget deficit (8.67% cash and 9.3% ESA, both as a share of GDP) was deepened mainly by increases in permanent expenditures.

- The claim that reducing the budget deficit leads to an economic crisis overlooks the fact that Romania cannot sustain deficits of 9% of GDP indefinitely. Moreover, the adjustment is gradual.
- In Romania, the level of tax revenues is very low (28.8% of GDP in Romania, compared to 35% in the Czech Republic, 35% in Hungary, 37.5% in Poland, and an EU average of 40.1% in 2024).
- The freezing of public sector wages and the non-indexation of pensions, measures adopted in December 2024, did not stop their average nominal increase in 2025; for pensions, the annualized impact of recalculation was felt, while for wages, the increase implemented in 2024 continued to have an effect. Therefore, the volume of pension and wage expenditures continued to grow in 2025, even though inflation is eroding their share of GDP.
- The Fiscal Council (FC) emphasized in its documents that the budget deficit adjustment cannot be achieved solely through spending cuts, and this assessment is reflected in the set of measures initiated by the new government.
- The reasoning that much better and faster tax collection could be achieved without changes to the tax system is illusory. Changes in the tax regime have been imposed by the harsh reality of increasingly difficult access to financing and refinancing. Time was no longer patient with a country that ended 2024 with a record budget deficit in the EU.
- A budget revision that shifts the budget deficit target for 2025 from 7.04% of GDP (as in the approved budget) to 8.4% of GDP could be considered "positive", but:
  - The initial target of 7.04% was far from reality, deliberately overestimating revenues and underestimating expenditures – a fact highlighted by documents from international institutions, the European Commission, the Fiscal Council, and some domestic analysts.
  - When assessing the ongoing budget correction, it is important to consider the level of the budget deficit that would occur in a scenario without adjustment measures, even though it is clear that markets would have reacted strongly to the absence of fiscal correction.
  - The benchmark indicating the nature of the September 2025 budget revision is a deficit level around 9% of GDP (in the *no-policy change* scenario). The inference is that the budget revision is negative.
- The impact of the measures for 2025 would be around 0.6% of GDP, assuming no optimizations are made in carrying out public investments.
- Public investments (including those financed with European funds) are estimated, according to the budget revision, to be around 8% of GDP, which should also be considered in relation to the fact that funding from the Recovery and Resilience Plan (NRRP) ends in 2026.

- Over-contracting reflects poor financial/budget planning, as well as a level of cooperation between the Ministry of Finance (MF) and the Ministry of Investments and European Projects (MIEP) that should be improved.
- Romania's budget deficit is a striking example of fiscal dominance, which not only undermines access to financing and refinancing, but also puts significant pressure on monetary policy. Excess aggregate demand fuels inflation and forces the central bank to keep policy rates at high levels. It is important to note the "twin deficits" syndrome, with a current account deficit exceeding 8% of GDP in 2024, largely financed through borrowing. The scale of these twin deficits sets Romania apart within the EU.
- Fiscal correction is absolutely necessary to maintain confidence in the national currency; such correction can prevent a run on the national currency.
- The evolution of the international environment (trade wars, economic slowdown in Europe, economic fragmentation and regionalization of trade flows, the need for increased defense spending, geopolitical tensions, uncertainties that raise risk aversion etc.) greatly complicates the inevitable fiscal correction in Romania.
- The domestic and international environments are full of uncertainties, requiring cautious examination of figures and information.
- There can be no talk of joining the Eurozone without achieving fiscal consolidation.
- There is an additional burden from increased military spending in the coming years. Reducing tax evasion can help in this regard, given the very low level of tax revenue collection.
- The correction is painful, and to achieve it, social calm and solidarity are needed, even if these ideals may sound naive.
- The main developments in the macroeconomic framework underlying the budget revision can be summarized as follows: (i) the forecasted economic growth rate for the current year is slowing down, (ii) inflation is increasing, (iii) the external imbalance remains significant, and (iv) labor market indicators show a slight additional tightening.
- Correlating recent economic information and data with the projected dynamics of relevant macroeconomic variables (as of September this year) by the National Commission for Strategy and Prognosis (real GDP, GDP deflator, inflation, labor market indicators) leads to a conclusion about a possible trajectory for these aggregates for 2025 and 2026, with safety margins present for most indicators.
- It can be noted that the projections for inflation and the GDP deflator are particularly cautious, and higher values of these could lead, both through a denominator effect (higher nominal GDP) and through nominal increases in most budget revenues, to a favorable impact on fiscal variables expressed as a percentage of GDP, despite the negative effects on real economic growth.

- Risks to the macroeconomic projection stem from the evolution of the external environment (risk aversion in international markets, affecting the volume and cost of financing Romanian debt, as well as the dynamics of the global economy, especially the European economy), the size and speed of absorption of multiannual European funds including those from the NRRP, and the consistent implementation of the adopted fiscal-budgetary adjustment plan.
- The recent reduction in yields paid by Romania on government bonds, combined with the substantial restructuring of public debt service in the budget revision, but still at a relatively high level compared to other Central and Eastern European (CEE) countries, should encourage fiscal authorities in our country to make a prudent forecast of interest expenses. This forecast should be based on a median scenario in terms of probability, grounded on historical data over a longer period.
- Compared to the initial budget, the revision provides for an increase in budget revenues of approximately 6.7 billion lei and an increase in budget expenditures of about 31.8 billion lei. Expressed as a percentage of GDP, the cash deficit level is 8.4%, which is 1.36 pp above the target in the initial budget.
- The revenue target in the revision can be considered, overall, plausible. Relatively optimistic forecasts for some revenue categories are balanced by prudent projections for others. Achieving the revenue projections, especially for aggregates such as VAT, excise duties, and social contributions, is positively influenced and conditioned by the assumed effect of the package of measures adopted in July 2025.
- The analysis of the proposed revisions for the main expenditure categories shows adjustments compared to the current budget execution (especially in interest payments, social assistance, and goods and services), creating the conditions to meet the new proposed targets.
- Based on the available data, the Fiscal Council assesses that the new budget framework coordinates are compatible with a cash budget deficit of around 8.4% of GDP in 2025, subject to risks highlighted in the analysis. It should be noted that this new target must be considered in relation to a higher deficit (around 9% of GDP) that would have emerged in the absence of adjustment measures.
- The fiscal-budgetary measures package adopted in July has a limited positive impact on the 2025 deficit, affecting budget execution starting in September. However, the deficit reduction effect will be considerably greater in 2026, leading to a deficit of around 6.5% of GDP, which would represent a significant adjustment compared to the very high levels of previous years.
- Regarding the public debt ceiling, according to EU methodology, it was increased during the budget revision to 59.6% of GDP, compared to 58.5% of GDP at the time of the initial budget.

- If no budget correction measures were adopted, in a *no-policy change* scenario, the public debt-to-GDP ratio would follow an explosive path, with average annual increases of over 6 pp, reaching 83% in 2029 and exceeding the 100% threshold by 2032. This deeply unsustainable trajectory of public debt highlights the urgency of adopting budget correction measures, even though they are painful. Within the context of the new EU governance framework, public debt sustainability is ensured through committing to and adhering to the deficit correction trajectory.
- The absorption of European funds, an essential financial resource for the sustainable development of the economy and the maintenance of fiscal-budgetary and financial-currency balances, has faced major difficulties and significant delays mainly due to weak administrative capacity. At the end of August 2025, according to Ministry of Finance data, with reimbursements from the European Commission amounting to 3.2 billion euros out of total allocations of 30.7 billion euros, the effective absorption rate (excluding advances) of Structural and Cohesion Funds from the 2021-2027 Multiannual Financial Framework was 10.4%.
- In the case of the Recovery and Resilience Plan, at the end of August 2026, the effective absorption rate (excluding pre-financing) was 30.7%, noting that, through the NRRP revision, the new allocation for Romania was set at 21.6 billion euros.

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On September 26, 2025, the Ministry of Finance (MF) sent to the Fiscal Council (FC), by address no. 536886/25.09.2025, the Report on the economic and budgetary situation for the first six months of 2025, the draft revision to the 2025 general consolidated budget (GCB), the explanatory note and the draft of the Government Emergency Ordinance on the revision of the 2025 state budget, as well as the explanatory note and the draft of the Government Emergency Ordinance for the revision of the 2025 social security budget, requesting, based on Article 53, para. (2) of the Fiscal Responsibility Law (no. 69/2010, republished, hereinafter referred to as FRL), the opinion of the Fiscal Council.

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

On September 29, the Fiscal Council received from the Ministry of Finance a set of new data regarding the budget revision. These data, which contain minor changes to the budget, are not sufficient to alter the Fiscal Council's opinion, which is based on the documents received from the Ministry of Finance on September 26.

1. Context: An ongoing budget correction, a negative budget revision

The three major rating agencies have reaffirmed Romania's sovereign risk at a level just above junk status (not recommended for investment), based on the measures taken by the new government. In the first part of the year, there was a risk of a downgrade in the sovereign rating.

After discussions with the European Commission, the Romanian Government revised the cash deficit target for this year to 8.4% of GDP. In 2026, the cash deficit is expected to be around 6.5% of GDP. This revision takes into account the significant pressures on the public budget in 2025.

In the absence of corrective measures this year, as indicated by the budget execution over the first eight months, the budget deficit would reach around 9% of GDP.

The budget correction undertaken by the new government can be a turning point in restoring confidence in Romania's public finances, but the process is arduous and will take several years.

It should be noted that various analyses (including those by rating agencies) emphasize risks and the need for consistency in the coming period, as the scale of the required adjustment is unprecedented for an EU member state not facing a deep financial crisis or a severe shock like the pandemic.

In Romania, the budget crisis is self-inflicted. Election years cannot justify major imprudence in managing public finances. The 2024 budget deficit (8.67% cash and 9.3% ESA, both as a percentage of GDP) was deepened mainly due to increases in permanent expenditures.

The claim that adjusting the budget deficit leads to an economic crisis overlooks the fact that Romania cannot sustain deficits of 9% of GDP indefinitely. Moreover, the correction is gradual, not something that happens within 2-3 years. In public discourse, there are also inexplicable arguments suggesting that tax cuts would be the way to overcome the budget crisis through anticipated increases in fiscal revenues.

In Romania, the level of tax revenues is very low (28.8% of GDP in Romania, compared to 35% in the Czech Republic, 35% in Hungary, 37.5% in Poland, and 40.1% EU average in 2024), a fact that also reflects the neglect of the necessity to have tax revenues sufficient to meet the needs of Romanian society – not least the need to maintain a sustainable level of public debt.

The freezing of public sector salaries and the non-indexation of pensions, measures adopted in December 2024, did not stop their average nominal growth in 2025; for pensions, the annualized impact of recalculation was felt, and for salaries, the increases implemented in 2024 were reflected. For this reason, the volume of expenditures on pensions and salaries continued to rise in 2025, even though inflation erodes their share of GDP.

The budget execution for the first eight months of 2025 indicates that this year's deficit would be around 9% of GDP in the absence of the government's applied measures. The Fiscal Council emphasized in its documents that the budget deficit adjustment cannot be done solely on the expenditure side, and this judgment is confirmed by the configuration of the measures initiated by the new government. The reasoning that much better and rapid tax collection could be achieved to avoid changes in the tax regime is illusory. Changes in the tax regime were imposed by the harsh reality of increasingly difficult access to financing and refinancing. Time no longer had patience with a country that ended 2024 with a record budget deficit in the EU. Unfortunately, we are forced by circumstances to be procyclical (when the economy slows down), because there were significant mistakes made in fiscal policy in recent years (being procyclical when the economy was recovering after the pandemic and the energy crisis).

A budget revision that shifts the deficit target for 2025 from 7.04% of GDP (as in the approved budget) to 8.4% of GDP can be considered "positive", but:

- The initial target of 7.04% of GDP was far from reality, deliberately overestimating revenues and underestimating expenditures – as highlighted by documents from international institutions, the European Commission, the Fiscal Council, and some domestic analysts.

- When assessing the ongoing budget correction, we should take into account the level of the budget deficit that would occur in a scenario where no adjustment measures were adopted, although it is clear that the markets would have reacted harshly to the absence of budget correction measures.
- **The benchmark indicating the nature of the September 2025 budget revision is a deficit level around 9% of GDP (in the *no-policy change* scenario). The inference is that the budget revision is negative**.

The impact of the measures for 2025 would be around 0.6% of GDP, assuming no optimizations are made in the execution of public investments.

Public investments (including those financed with European funds) would amount to approximately 8% of GDP according to the budget revision, which should also be considered in relation to the fact that NRRP funding ends in 2026.

The government did not accept the avalanche of additional funding requests from ministries. Over-contracting in relation to NRRP funds forced drastic decisions to take into account severe internal and external budgetary constraints. Over-contracting indicates faulty financial/budgetary planning, as well as cooperation between the Ministry of Finance (MF) and the Ministry of Investments and European Projects (MIEP) that should be improved.

Romania's budget deficit is a flagrant example of fiscal dominance, which not only undermines access to financing and refinancing, but also places significant pressure on monetary policy conduct. Excess aggregate demand fuels inflation and forces the central bank to maintain high policy interest rates. The twin deficits syndrome must be noted here, with the current account deficit exceeding 8% of GDP in 2024, financed predominantly through borrowing. The scale of these twin deficits makes Romania stand out within the EU. Budget correction is absolutely necessary to maintain confidence in the national currency; such correction can help prevent a run on the currency.

Romania is the country in the region with the most fragile current account deficit situation. The correction of the budget deficit must also be examined from this perspective.

The evolution of the international environment (trade wars, economic slowdown in Europe, economic fragmentation and regionalization of trade flows, the need to increase defense spending, geopolitical tensions, rising uncertainties that heighten risk aversion etc.) greatly complicates Romania's inevitable budgetary correction. It is worth noting that the adjustment is planned to be completed by the end of the decade.

Eurozone accession is out of the question without fiscal consolidation.

There is an additional burden from the increase in military spending in the coming years. Reducing tax evasion can help in this regard, given the very low level of tax revenue collection.

The correction is painful, and to achieve it, social calm and solidarity are needed, even if these goals may sound naive. It is not surprising that every social group or interest group tries to minimize its contribution to the adjustment effort. However, it is essential to reach a common understanding without causing significant collateral damage. What matters most is to avoid deadlocks, social unrest, and political disorder.

2. *Macroeconomic framework underpinning the first budget revision of 2025*

The first budget revision of this year is based on the macroeconomic framework presented in the latest projection by the National Commission for Strategy and Prognosis (NCSP) on September 5, 2025. The coordinates of the macroeconomic scenario related to this projection will be analyzed only from the perspective of 2025 – relevant for the revision horizon – taking into account both internal economic developments and international trends.

The main developments in the macroeconomic framework underpinning the budget revision can be summarized as follows: (i) the forecasted economic growth rate for the current year is slowing down, (ii) inflation is increasing, (iii) the external imbalance remains significant, and (iv) labor market indicators show a marginal additional tension.

Evaluation of the forecasts, especially for the gross domestic product (GDP) and its components, is based on the latest available historical data – those pertaining to the second quarter of 2025, published by the National Institute of Statistics (NIS) on September 5, 2025 (1.2%[1]). These data indicate a moderate quarter-on-quarter GDP growth in Q2 2025 and a weak, zig-zag evolution of this indicator during 2024 and the first quarter of 2025 (with small contractions of real GDP in Q1 and Q2 2024, and timid positive dynamics in the other two quarters of 2024 as well as in Q1 2025). Regarding the year-on-year GDP dynamics, growth has plateaued compared to the previous slightly declining trend, but at a low level of only +0.3% in Q2 2025 (Q2 2025 compared to Q2 2024[2]). This reflects the inertia/persistence of the previously higher economic growth and a still significant positive fiscal impulse, partially offset by external conditions and financial-monetary factors acting to temper economic activity.

The GDP growth in Q2 2025, at 0.3%, is determined, from the production approach perspective, by the following sectoral developments: (i) declines in professional and related activities (-0.3 pp) and real estate transactions (-0.1 pp); (ii) stagnation in sectors such as industry, financial intermediation and insurance, public administration and related activities, and arts and entertainment activities (all with 0 pp); (iii) increases in agriculture (0.1 pp), construction (0.1 pp), trade (0.1 pp), information and communication (0.1 pp), as well as net taxes on products (0.3 pp).

[1] See the seasonally adjusted GDP series, with dynamics reported relative to the previous quarter.
[2] See the raw (non-adjusted) GDP series.

From the perspective of the expenditure approach for calculating GDP, we can observe (i) the predominance of consumption in explaining growth (+0.5 pp of the year-on-year growth of 0.3%; the persistence of positive consumption is driven by the positive dynamics of real pensions[3] and the maintenance of nominal wages at a high level, with the recent increase in inflation causing only a slight decrease in real wages – by 2.4% – and this only in the last month analyzed[4], July 2025), accompanied by the also positive contribution of (ii) changes in inventories with +0.3 pp. Acting in the opposite direction are (iii) net exports, with -0.4 pp, determined by weaker export performance (a positive contribution of only 1.6 pp) compared to the negative performance of imports (-2 pp) – reflecting both the deterioration of the trade balance[5] and the increase in the current account deficit of the balance of payments[6]. A negative contribution to real economic growth is also made by (iv) gross fixed capital formation, albeit with a marginal value of -0.1 pp[7].

The decelerating trajectory of economic growth, which additionally starts from a very low level (with GDP growth for the entire year 2024 being only 0.8%, and 0.3% for both the first and second quarters of the current year), may plausibly indicate, *ceteris paribus*, a placement of economic dynamics in the NCSP summer projection (from September 5, 2025), both for the current year and for 2026, at lower values (compared to the previous NCSP projection – the spring one published on May 14, 2025) –, which is also visible in higher-frequency indicators available at moments closer to the current one.

In this context, the revision made by NCSP between the 2025 summer and 2025 spring forecasts, both for real economic growth in the current year and the following year, anticipates a reduction to +0.6% in 2025 and +1.2% in 2026 (reductions of 0.8 pp and 1.2 pp, respectively, compared to the previous NCSP forecast). Under these conditions, the economic growth rate (projected by NCSP) underlying the deficit calculations for this year, at 0.6% in real terms, appears probable and prudent (*ceteris paribus*). Regarding the structure of economic growth – which is as important as its level in terms of fiscal impact –, we can observe a continuation of current trends that place the weight of economic growth on gross fixed capital formation and private consumption, with a negative contribution from net exports for the current year. The situation regarding net exports reverses in 2026, according to the NCSP forecast. All these

[3] See the NIS press release from September 12, 2025, regarding the average monthly pension, where the year-on-year real increase is about 15-16%.

[4] The NIS press release on the average gross wage in the economy for July 2025, published on September 12, 2025.

[5] Data published by NIS on September 9, 2025, show an increase in the trade balance deficit (in euros) for the first seven months compared to the same period in 2024, by 7.1% (however, this rate is decreasing month by month – the increase in imbalance is becoming relatively smaller).

[6] Data for the January-July 2025 period, compared to the same period last year, expressed in euros, show a 17.3% increase in the deficit; however, the growth rate is decelerating compared to previous periods.

[7] The NIS press release from September 12, 2025, regarding net investments made in the national economy, indicates a 0.5% decrease in their volume in Q2 2025 compared to Q2 2024.

factors lead to a GDP composition that generates high fiscal revenues (tax rich), as economic growth is centered on domestic absorption.

For 2026, the acceleration of economic growth projected by NCSP compared to the previous year, but still at a relatively modest level, appears less likely to materialize. This is because the factors pushing for higher growth (the inertia of real income growth in the economy, especially pensions and wages, and a still significant growth potential due to the stock of capital, labor force, and technology) are offset by factors working in the opposite direction (the forecast of very negative fiscal impulses, relatively tight financial-monetary and external conditions, marked by volatility as a result of uncertainty). The net effect of these factors could lead to economic growth in 2026 that is even lower than in 2025. Nevertheless, the NCSP projection falls within a plausible range of variation.

The reduction of the deficit in 2026 does not exactly coincide with the scale of the measure packages (Package 1 – assessed by the Fiscal Council[8] – and Package 2, already adopted or in the process of adoption), due to second-round/secondary effects. In 2025, the second-round effects are insignificant because the measure packages were implemented starting in August.

Regarding the real GDP growth, we can note the following risk factors:

- Uncertainty regarding the impact of the measures packages – only the data on the budget execution for September will provide a clearer picture of their effects – highlighted by controversies surrounding the fiscal multiplier relevant to the adopted packages, as well as the magnitude of the influence of GDP and its components on budget aggregates (e.g., the semi-elasticity[9] of the budget balance to GDP dynamics) may lead to even lower economic growth. Additionally, the impact of rising inflation – both due to increases in VAT and excise taxes, and as a result of the re-liberalization of electricity prices – on economic dynamics may also lead to adverse effects on the macroeconomic bases relevant from a fiscal perspective (operating profits of firms, wage bill, public and private consumption).
- In these conditions, the evolution of consumption and investments may be slower than projected, possibly also due to worsening expectations among economic agents and households, which could cause additional pressures (even beyond the second-round effects mentioned earlier) on budget revenues and, therefore, on the deficit. The very significant impact of the measures – especially in 2026 – makes them essential in assessing the GDP dynamics. To these effects, two other elements must be added that could influence budget execution: (i) the assumption that previous measures (including those from the "train ordinance" of December 2024) have exhausted their potential to generate effects compared to current forecasts (for example, recalculations of pensions might

[8] See FC - EN - Opinion on the Draft Law on Certain Fiscal-Budgetary Measures.pdf

[9] The semi-elasticity of the budget deficit relative to GDP is a term specific to public sector economics that describes how the budget deficit (the difference between government expenditures and revenues) changes when the gross domestic product increases or decreases. Since the relationship is between a level variable (the deficit) and a logged variable (GDP), this coefficient is called a semi-elasticity; if both variables were expressed in logarithmic scale, the estimate would be a true elasticity.

produce a small difference in impact, given many recalculation decisions – such as for bonuses – have not yet been implemented in payments), and (ii) interest expenditures, although substantially increased, could differ from anticipated levels – the high volatility of implicit yields observed recently could cause both positive variations (due to a tempering of risk aversion in international markets) and negative ones from the deficit perspective (due to rising implicit yields and, thus, financing costs, possibly accompanied by a reduction in maturity of issued securities, as a result of increased risk aversion).

The recent decline in yields paid by Romania on issued government bonds[10], although still at a relatively high level compared to other countries in the CEE region, should motivate our fiscal authorities to prepare a prudent forecast of interest expenditures. This forecast should be based on a median scenario in terms of probability of realization, grounded in historical data over a longer period of time.

Considering the elements above, the structure of economic growth in the NCSP projection for the current year, and especially for 2026, may require adjustment toward a composition less rich in fiscal revenues – also against the backdrop of accelerating inflation. Given that the emphasis is on gross fixed capital formation (GFCF), accompanied by a persistent significant contribution from private consumption, albeit growing at a slower pace than GFCF, the budget adjustment package could negatively impact the dynamics of these components. The renegotiation of European funds and their relatively low absorption rate also pose risks to the tax revenue-rich composition of GDP. Additionally, risks include the potentially significant effect of income freezes (pensions, wages, social benefits) on consumption and saving behaviors.

The latest inflation values (measured by NIS through the Consumer Price Index[11]) show a year-on-year rate of 9.9% in August 2025 – impacted by both increases in VAT and excise duties, as well as the re-liberalization of electricity prices. Additionally, the re-liberalization of natural gas prices starting in April 2026 and the possible future impact of environmental taxes, especially on fuels, inform the forecast evaluation concerning the GDP deflator. In the current NCSP projection (summer 2025), the GDP deflator growth rate was revised upward to 7.4% in 2025 and 5.9% in 2026. These increases compared to the previous NCSP (spring) projection represent a rise of +1.3 pp in 2025 and +0.9 pp in 2026, respectively. These values underscore the prudence of the NCSP's assessments, providing a safety margin for projections of nominal GDP dynamics, even if risks to real GDP growth rates materialize. In line with the GDP deflator assessment, the average inflation rates – 7.1% in 2025 and 5.8% in 2026 – and the end-of-period inflation rates – 8.9% in 2025 and 3% in 2026 – also appear prudent. They have been significantly revised upwards compared to the previous NCSP projection, especially for 2025.

[10] See the chart on the evolution of 10-year government bond yields in Romania and regional countries (%), in the annexes.
[11] See the press release regarding inflation and the evolution of consumer prices for August 2025, published on September 11 of the current year.

The realization of deflators and inflation rates higher than forecasted, despite their negative effect on real variables, would have a favorable impact on the budget balance through increased revenues from most taxes and duties.

The nominal GDP is anticipated (by NCSP; in the latest forecast, summer 2025) to increase by 8% in 2025 (after a 9.7% growth in 2024) and by 7.2% in 2026 (revisions of +0.5 pp – faster dynamics in 2025 and, respectively, 0.3 pp slower nominal GDP growth in 2026). The increase in nominal GDP leads, through the channel of additional fiscal revenues and the denominator effect, to a reduction of fiscal/budgetary imbalances expressed as shares of GDP. The prudent projection of its dynamics is, in the case of the current forecast, expected to provide a degree of comfort regarding the risk of overestimating it. **In the context of a negative effect on economic growth, but a significant and opposite effect on the evolution of the deflator, a combined favorable effect is expected from the perspective of the public sector deficit expressed as a percentage of GDP**.

The dynamics of the national economy and its structure (with an emphasis on domestic absorption – gross fixed capital formation and final consumption) are also reflected in the size of external imbalances which, although adjusting, remain high – the current account deficit of the balance of payments is projected by NCSP to be 8% and 7.1% of GDP[12] in 2025 and 2026, respectively – all values significantly above the 4% threshold set by the EU Macroeconomic Imbalance Procedure. It is noteworthy that, according to the NCSP assessment, the incorporation of fiscal measure packages does not seem to reduce the magnitude of the external deficit in 2025, but does impact, in terms of somewhat smaller imbalances, the indicators for 2026. This occurs in the context of significant twin deficits in the Romanian economy, with the external deficit having been largely determined in the past by the fiscal deficit – which is expected to adjust as a result of the measure packages.

On the labor market[13], according to the NCSP forecast from May of the current year, an increase in the average number of employees of +0.6% is expected in 2025, along with a growth in average gross wages of 7.9%. The unemployment rate remains close to previously forecasted values, standing at 6% – the BIM unemployment rate (5.3% in the previous NCSP projection) and 3.3% – the registered unemployment rate at the end of the year[14] (also 3.3% in the previous forecast). These new coordinates, relatively similar overall from the perspective of macro-fiscal fundamentals, indicate, similar to the assessments in previous FC opinions, a plausible trajectory of labor market aggregates, all other things being equal. For 2026, the average number of employees is anticipated to increase by 0.5%, and the average gross wage, by 5.5%, combined with an unemployment rate of 6.1% (BIM) or 3.5% (official

[12] Corresponding to current account deficits of the balance of payments amounting to 30.2 billion euros and 30.7 billion euros in 2025 and 2026, respectively.
[13] Important due to the macroeconomic bases related to wage tax, social contributions, and certain expenditure elements such as unemployment benefits and social transfers, all of which have a significant impact on the deficit value.
[14] According to National Employment Agency data.

registered unemployment). This places labor market dynamics, especially regarding gross wages, at a slightly more optimistic level in 2025, but slightly more pessimistic for 2026; regarding the wage bill, similarly, it is projected to grow faster in the current projection for 2025 (by about 1 percentage point) and more slowly in 2026 (by about 2 pp). The forecast is considered by the FC to have a high level of plausibility and prudence.

The correlation of recent economic information and data with the projected dynamics of relevant macroeconomic variables (in September of the current year) by NCSP (real GDP, GDP deflator, inflation, labor market coordinates) leads to the conclusion of a possible trajectory for these aggregates for 2025 and 2026, with additional safety margins present for most indicators.

Additional risk factors are represented by the evolution of (i) the implicit yield on Romanian government bonds – a key indicator for the servicing of government public debt, influenced by an uncertain and therefore highly volatile external environment, as well as difficult-to-predict internal developments[15]. Another important risk element is (ii) the dynamics of the economies within the EU and the global economy, knowing that the Romanian economy – especially the industry sector – is highly integrated with the rest of the EU economy. Other risk factors may include (iii) the perception of international markets, and especially rating agencies, regarding Romania's budget adjustment trajectory, both in terms of the current package and those that will need to be adopted in the future to reach the 3% of GDP threshold by the end of the decade; the perception of international markets and rating agencies concerning the country's social and political stability is also a risk factor. All of these implicitly affect the volume and cost of external savings available for lending to our country. Finally, (iv) the size and speed of absorption of multiannual European funds and those related to the Recovery and Resilience Plan (NRRP) – the only ones capable of significantly offsetting the effects of budgetary adjustment. To these risks regarding institutional external flows, additional obligations and rights may arise (an European defense plan with substantial allocations for Romania, the need for military expenditures amounting to 3.5% of GDP in the medium term and close to 5% of GDP in the longer term are just a few examples).

3. Updated coordinates of budget revenues and expenditures

The analysis of the budget revision draft starts from the initial budget framework and the most recent data regarding budget execution. The initial budget for 2025 envisaged a deficit target of 7.04% of GDP, according to the cash methodology; this was a target far from reality for several reasons (assumed revenues from better collection, non-consideration of some inevitable expenditures, such as those related to interest and the full impact of pension recalculations etc.). Budget execution for the first 8 months of 2025 recorded a deficit of approximately 86.4 billion lei, equivalent to about 4.54% of GDP, a value almost identical to

[15] The presence of an increased turnover tax on banks – set at 4% – may have a dual effect on lending to the government sector, with a high probability that the net result could lead to higher borrowing costs.

the deficit for the corresponding period of the previous year, which suggested the deficit in 2025 was heading towards the 2024 level in the absence of reduction measures.

In execution, during the first 8 months, budget revenues grew below the estimates of the initial budget: +11.8%, compared to a target of +16.2%. The dynamics of fiscal revenues and insurance contributions exceeded the growth targets projected in the budget, but these developments were offset by the below-expectation dynamics of non-fiscal revenues and revenues from European funds (both those related to the multiannual framework and those related to the grant component of the Recovery and Resilience Plan). Regarding budget expenditures, in the first 8 months, execution recorded an increase of 10.9%, compared to a target of +10.3%. Growth rates above those foreseen in the initial budget were recorded for most categories of expenditures, with a higher gap for interest expenses and social assistance.

The unfavorable dynamics of budget execution became evident already in the first half of 2025, a point emphasized by the FC in its analysis of the six-month execution, as reflected in its annual report[16]. In the absence of corrective measures for the deficit, budget execution under the *no-policy-change* scenario would lead to a budget deficit of around 9% of GDP. In this context, given the significant deviation from the budget consolidation targets set in the national medium-term fiscal-structural plan (MTP), the sharply upward trajectory of public debt as a percentage of GDP, and the risk of sovereign rating downgrade, the Government adopted a first budget correction package (Law on certain fiscal-budgetary measures no. 141/2025) in July 2025. The adopted measures, affecting both revenues and expenditures, are presumed to have a positive impact on the budget deficit, estimated at around 0.6% of GDP – as calculated in the opinion regarding the first package of measures[17] for the current year.

Current budget execution, the effects of the budget correction package, and macroeconomic dynamics require the adoption of a budget revision that incorporates the impact of these factors on revenues and expenditures. Compared to the initial budget, the revision draft foresees an increase in budget revenues by approximately 6.7 billion lei and an increase in budget expenditures by about 31.8 billion lei. Consequently, the deficit of the general consolidated budget is set at 159.8 billion lei, according to the national (cash[18]) methodology, which is 25.1 billion lei higher than the amount forecasted in the initial budget. Expressed as a percentage of GDP, the estimated level of the GCB deficit is 8.4%, which is 1.36 pp above the initial budget target. It should be noted, however, that this revision appears favorable only in relation to a poorly prepared budget and compared to an unrealistic target of 7.04%.

[16] https://consiliulfiscal.ro/CF_RA_2024.pdf
[17] FC - EN - Opinion on the Draft Law on Certain Fiscal-Budgetary Measures.pdf
[18] The cash methodology assumes recording revenues upon collection and expenditures upon payment. The ESA 2010 methodology differs from the cash methodology mainly through the following adjustments: revenues and expenditures are recorded on an accrual basis; interest expenses are recorded as they accrue over time; and purchases of military equipment are reflected at the time of delivery.

The revision of budget revenues is influenced by four main elements: (i) the evolution of relevant macroeconomic bases[19]; (ii) the starting point represented by up-to-date budget execution; (iii) the inclusion in revenue aggregates of the effects of the budget correction package; (iv) changes regarding revenues from European funds.

The categories of budget revenues are adjusted, compared to the values projected in the initial budget, as follows:

- *Fiscal revenues*: +2.6 billion lei, with the main changes found in the following components:
    - *Corporate income tax*: -1.4 billion lei. The downward revision is driven by the difference between the target growth rate set in the initial budget (+14.7%) and the actual growth of the aggregate in the first 8 months (+11.7%). In the initial budget, the projection for corporate income tax revenues for 2025 was increased beyond the dynamics of the relevant macroeconomic base due to additional revenues from changes in the micro-enterprises regime and expected collections from improved tax collection efforts. Budget execution for the first 8 months indicates an 11.7% increase in corporate income tax revenues compared to the same period of the previous year, a growth rate higher than the evolution of the relevant macroeconomic base (the nominal GDP growth rate for 2025 is estimated by NCSP at +8%, based on a real growth of +0.6% and a GDP deflator of +7.4%). The growth above the relevant macroeconomic base is most likely explained by the change in the micro-enterprises regime, but it is insufficient to meet the initial budget projection. The figure established in the revision implies a growth of +10.8% compared to budget execution in 2024, with the target being slightly optimistic considering the trajectory of the aggregate in the last months of the year and the deteriorating growth outlook.
    - *Wage and income tax*: +1.7 billion lei. The upward revision is supported by a combination of factors: (i) the better-than-expected evolution of the relevant macroeconomic base (the total wage bill in the economy), (ii) the effect of eliminating tax exemptions previously granted to employees in the construction, agriculture, food industry, and IT sectors, and (iii) the strong increase in revenues from the tax on dividend income. The 8-month execution reflects a growth rate of +20.5%, exceeding both the +15.3% target set in the initial budget and the wage bill growth in the economy during this period (+11%). The new target value in the revision draft, in connection with the

[19] The relevant macroeconomic base is the macroeconomic aggregate that best approximates the evolution of revenues for a specific category of budget revenues (for example, private consumption for VAT; wage bill for income and payroll taxes and social contributions; inflation rate for property taxes; nominal GDP growth rate for corporate income tax). The projected dynamics of this indicator is used as the starting point for estimating the evolution of the corresponding tax revenues.

current execution dynamics, implies an annual growth rate of +18.7% compared to the previous year.

- *Other taxes on income, profit, and capital gains*: +1.3 billion lei. The 8-month budget execution reflects a better-than-expected performance compared to the projection in the initial budget (-3.6% versus -16%). This improved dynamic is due to higher collections from the micro-enterprise income tax and the dividend tax paid by legal entities. The target set in the budget revision draft represents a +6% increase compared to the previous year's execution – a slightly optimistic figure, considering the evolution of the relevant macroeconomic base and the 8-month execution dynamics.
- *Taxes on property*: +0.14 billion lei.
- *VAT*: -1.9 billion lei. The revision is driven by the gap between the target growth rate set in the initial budget (+12.5%) and the actual evolution of the aggregate in the first 8 months (+6.9%), partially offset by the effect of the VAT rate increase, a measure implemented starting August 1, 2025[20]. In the initial budget, the VAT revenue target was increased beyond the dynamics of the relevant macroeconomic base, with additional revenues of approximately 5.7 billion lei projected from improved tax collection. The 8-month execution not only failed to confirm this assumption, but VAT collections also trailed the growth of the relevant macroeconomic base (NCSP data from September 2025 indicate a nominal increase in private consumption of +8.3%, with a real growth of +1.1% and an average annual inflation rate of +7.1% in 2025). In the revision draft, these negative effects are partially offset by the positive impact of the VAT rate increase, estimated by the Ministry of Finance at around 5.9 billion lei. Based on a prudent assumption that the current growth rate will continue over the last four months of 2025, along with the impact of the VAT increase starting August 1, the projected VAT revenue appears plausible.
- *Excise duties*: +0.5 billion lei. The positive revision is driven by better-than-expected excise collections in the first 8 months of the year (+15.9%, compared to an initial budget target of +4.9%), as well as the effect of the excise duty increase (approximately +1.5 billion lei), a measure adopted in the first budget correction package. The new aggregate excise value corresponds to a growth rate of +6% compared to the previous year's execution. Considering that the effect of the tax amnesty (which boosted the 2024 budget execution) is partially offset by the excise increases in 2025, along with the above-projection dynamics of the 8-month execution, the revised revenue target appears prudent.
- *Other taxes and fees on goods and services*: +1.3 billion lei. The upward revision is driven by better-than-expected execution (-13.6%, compared to -34% in the

[20] This will be reflected in the level of collections starting in September.

budget draft) and the additional turnover tax imposed on credit institutions, established through the budget correction package. These effects are partially offset by the reduction of contributions to the Energy Transition Fund.

  - *Tax on the use of goods, authorization for the use of goods, or on conducting activities*: +0.6 billion lei. The positive revision takes into account the inclusion in the projection of the impact of the increased additional taxation on gambling (+0.5 billion lei), a measure introduced through the budget correction package.
  - *Tax on foreign trade (customs duties)*: +0.5 billion lei. The positive revision is consistent with the better-than-expected performance of the aggregate in the first 8 months (+34.8%, compared to the +8.4% increase in the initial budget).

- *Social security contributions*: +2.1 billion lei. The upward revision of this aggregate is driven by an execution dynamic over the first 8 months (+10.3%) exceeding the initial budget target (+8.7%) and the inclusion in projections of the positive effect of measures included in the Law on certain fiscal-budgetary measures no. 141/2025 (+1.4 billion lei). Considering the projected evolution of the wage bill for 2025 (+8.6%), which represents the relevant macroeconomic base for this aggregate, and the effect of the newly adopted measures, the growth target in the revision (+9.8%) seems plausible.
- *Non-fiscal revenues*: -0.1 billion lei. The execution over the first 8 months shows a growth rate of +4.6%, compared to +7.5% in the initial budget. The downward revision only partially reflects the below-expectation evolution of this aggregate, with the target in the revision maintaining a high growth rate of +7.2% compared to the previous year's execution.
- *EU funds for payments made*: -0.8 billion lei. The downward revision reflects the reduced absorption in execution. Data at 8 months indicate an absorption of 16.2 billion lei, representing 31% of the amount forecasted in the initial budget. The revised target shows a significant acceleration of absorption in the last months of the year.
- *Non-reimbursable financial assistance allocated for the NRRP*: +2.1 billion lei. Execution data at 8 months indicate an absorption of about 32% of the value planned in the initial budget. The positive revision implies a more optimistic target, requiring a considerable increase in the amounts absorbed during the last 4 months of the year to achieve it.

Considering the results of the 8-month budget execution, the historical trends of revenue aggregates in the last months of the year, the dynamics of relevant macroeconomic bases, and the assumed budgetary impact of the correction package, the revised revenue target in the budget revision can be regarded, overall, as plausible. Relatively optimistic values projected for some revenue categories are balanced by prudent projections for others. The achievement of revenue projections, especially for VAT, excise duties, and social

contributions aggregates, is positively influenced and conditioned by the assumed effect of the measures package adopted in July 2025[21].

It should be reiterated that this adjustment appears positive only in relation to the initial target (7.04% of GDP), which was detached from reality. Compared to the deficit that would result in the absence of corrective measures (around 9% of GDP), the revision aims to reduce it, and therefore it is negative.

On the budget expenditure side, there is a significant increase (+31.8 billion lei compared to the initial budget), mainly driven by additional allocations for interest expenses, social assistance, projects financed from European funds, and expenditures on goods and services[22]. The upward revision occurs across most of the main expenditure categories, as follows:

- *Personnel expenses*: +0.8 billion lei. The marginal increase in this aggregate takes into account the budget execution dynamics over the first 8 months, which show a 6.9% increase in personnel expenses compared to the same period last year, while the initial budget target was only 3%. In the revision draft, the new growth target is set at 3.5%, and there are grounds to believe it can be met, considering: (i) the base effect of the salary increases granted in 2024, which should ease as we approach the end of the current year, thus reducing the growth rate of personnel expenses, (ii) the impact of measures aimed at reducing salary increases for staff managing projects financed by European funds, as well as the limitation of bonuses provided by various regulations for certain staff categories. Additionally, a potential adoption of measures to reduce the number of positions in central/local administration could generate savings in personnel expenses.
- *Goods and services*: +3.9 billion lei. The increase in allocation takes into account the budget execution dynamics over the first 8 months, which show a 4% growth in the goods and services aggregate, significantly above the initial budget target of 1.1%. The additional amounts are largely allocated to the National Health Insurance Fund to ensure continuity in the provision of medical supplies and services (+3 billion lei), with goods and services related to National Health Insurance Fund accounting for nearly 59% of the total aggregate. The growth target in the revision draft is 5.2%, exceeding the dynamics recorded at 8 months, possibly to accommodate the VAT increase starting August 1.
- *Interest expenses*: +12.4 billion lei, representing the largest upward revision made, as the 8-month execution shows an increase of this aggregate by 45.2% compared to the same period of the previous year, while the programmed target was only 15.4%. The considerable increase in interest expenses is driven by the rise in bond yields, the increased financing needs, and, implicitly, the contracting of new loans, amid the discrepancy between an unrealistic deficit target (7.04%) and the needs arising from

[21] The impact will become evident in the revenue levels starting from September.
[22] There are some one-off budget expenditures whose mitigation will occur gradually and are not reflected in the 2025 execution.

budget execution. The new growth target in the revision draft is 49.6%, exceeding the execution dynamics, due to probable new loans in the latter part of the year.

- *Subsidies: +0.4 billion lei*. The marginal revision of the aggregate is mainly influenced by the allocations to the Ministry of Energy for the payment of compensation for electricity and thermal energy prices.
- *Transfers between public administration units:* -0.4 billion lei.
- *Other transfers:* +2.3 billion lei, the increase being mainly at the state budget level (+1.7 billion lei). It is worth noting that the budget execution for the first 8 months of the year recorded a decrease of 1%, although the initial budget provided for a decrease of 5.3% compared to the execution of the previous year. The revised target establishes an increase of 1.2% compared to 2024.
- *Social assistance:* +8.2 billion lei. The substantial revision of the aggregate mainly reflects the increase in expenditures related to the state budget (+4.4 billion lei) and the state social insurance budget (+3.1 billion lei) for the payment of pension rights and other social assistance rights, the granting and settlement of sick leave, the compensation of energy prices for household consumers and the granting of vouchers for the payment of energy bills. The execution at 8 months indicates a 13.9% increase in social assistance expenditures, this dynamics reflecting the annualized impact of the recalculation of pensions in the public system starting with September 1, 2024, which should moderate as the base effect dissipates. In this context, the new growth target in the rectification project is 11.8%, and there are premises for its compliance. However, in addition to the difficulty of meeting the programmed values for this budgetary aggregate, observed in most previous years, an important risk is represented by the "small recalculation of pensions", including contributions paid for non-permanent income, the implementation of which has been postponed at this time.
- *Other expenditures*: +0.3 billion lei.
- *Projects financed from 2021-2027 post-accession non-reimbursable external funds*: -4.2 billion lei. Following this revision, the new programmed level of the aggregate is 56.3 billion lei, and the execution at 8 months records a degree of achievement of only 34.7%. It is assumed that at the end of the year the absorption degree will be higher.
- *Projects financed from non-reimbursable external funds related to the 2014-2020 financial framework*: +0.7 billion lei.
- *Projects financed from the amounts representing the non-reimbursable financial assistance related to the NRRP*: +2.6 billion lei. The new programmed level of the aggregate is 34.8 billion lei, and the execution at 8 months records a degree of achievement of only 30.6%, which will probably increase in the coming period.
- *Projects financed from the amounts related to the loan component of the NRRP:* +7 billion lei, representing an increase of about 48% compared to the initial budget. Compared to the new target, the execution at 8 months indicates a degree of achievement of 56.6%; given a similar dynamics to the previous year, it is possible to

fully absorb the budgeted amount. It should be noted, however, that, unlike the categories of expenditure related to non-reimbursable external funds (which have a counterpart on the revenue side), the increase in the amounts related to the loan component of the NRRP is directly reflected in the deficit.

- *Reserve funds:* 2 billion lei. The amounts will be subsequently distributed by budget categories depending on the actual needs.
- *Expenditure related to programs with reimbursable financing: -0.3 billion lei.*
- *Capital expenditures:* -1.5 billion lei. The marginal decrease in the aggregate leads to a programmed level of 60.2 billion lei, with the execution at 8 months recording a degree of achievement of 60.3%. At the same time, the downward revision of nationally financed expenditures has a direct effect of reducing the budget deficit.

Total public investment expenditures, from domestic and external sources, are increased in planning by 1.4 billion lei (+0.9%) compared to the level provided for in the draft budget (changing as a share in GDP from 7.9% to 8%, both as a result of the marginal decrease in the nominal GDP projection and as an effect of the marginal increase in the amounts allocated to investments). In structure, the share in GDP of public investment expenditures is made up of:

- projects financed from non-reimbursable external funds (2.1% of GDP);
- projects financed from non-reimbursable financial assistance (1.8% of GDP) and from the loan component (1.1% of GDP) related to the NRRP;
- expenditures related to programs with reimbursable financing (0.1% of GDP);
- capital expenditures (2.7% of GDP) and other investment-type transfers (0.2% of GDP).

Compared to the initial budget, increases are found at the level of projects financed from the amounts related to the loan component of the NRRP (+7 billion lei, representing an increase of about 48% compared to the initial budget) and from the non-reimbursable financial assistance related to the NRRP (+2.6 billion lei). These increases are largely offset by the decrease in projects financed from post-accession non-reimbursable external funds (-6.5 billion lei), other transfers of an investment nature and capital expenditures (both by -0.7 billion lei) and expenditures related to programs with reimbursable financing (-0.3 billion lei).

It is worth noting that, in the context of efforts to reduce the budget deficit, in the *no-policy change* scenario the budget deficit would have been around 9% of GDP. The programmed investment expenditures are located at about 8% of GDP. The budget revision redirects approximately 3.9 billion lei, initially planned to be financed from external grants, to the loan component of the NRRP. Given the need to achieve budgetary consolidation, it is desirable that the steps to prioritize investments and renegotiate the NRRP help this objective.

The over-contracting of the NRRP (according to the Government's statements, contracting of 47.5 billion euros, compared to a renegotiated value of the NRRP of 21.6 billion euros – of which 13.5 billion euros represent the grant component and 8.1 billion euros, the loan component) shows how defective the budgetary programming in Romania and the inter-ministerial collaboration are.

Public investments represent an essential pillar for the modernization of the infrastructure and for the economic convergence of Romania with the developed EU states. However, they do not automatically ensure the increase in the production of exportable goods (tradables), a fact visible in the rapid increase in the trade and current account deficits. At the same time, investment allocations must take into account internal and external financial constraints, as well as the imperative need to reduce the budget deficit.

The analysis of the proposed revisions for the main categories of budget expenditure shows an adjustment in relation to the current budget execution (especially at the level of interest, social assistance and goods and services expenditure), creating the premises for compliance with the new proposed targets. However, there are risks regarding the social assistance aggregate, given the uncertainties regarding the "small pension recalculation", while a possible adoption of measures to reduce the number of positions in the central/local administration could generate savings in personnel expenditure.

It should be emphasized that the pressure on budget expenditure will increase in the coming years as a result of the commitments assumed by Romania to increase defense spending. Allocating a higher percentage of GDP to defense will impose additional constraints on the budget, intensifying the need to prioritize and streamline public spending to allow the deficit correction process to continue. Additionally, currently, allocations to education and health remain undersized, compared to the average in EU member states and the needs of Romanian society.

Based on the available data, the FC assesses that the new coordinates of the budget construction are compatible with a cash budget deficit of around 8.4% of GDP in 2025, subject to some risks that were highlighted in the analysis. It is worth noting that this new target must be judged in relation to a higher deficit (around 9% of GDP), which would be taking shape in the absence of adjustment measures.

The other packages of measures to be implemented by the end of the year will not fundamentally modify the budget execution in 2025. This is explained by the nature of the structural reforms, which have a visible impact in the medium and long term, as well as by the short time period remaining until the end of the year, in which they can still produce effects.

The fiscal package adopted in July has a limited positive impact on the 2025 deficit, influencing budget execution starting in September. However, the deficit-reducing effect will be considerably greater in 2026, due to the annualized impact of the increase in VAT rates, the introduction of the social health contribution for pension incomes above 3,000 lei, the additional taxation of credit institutions and gambling, and the additional increase in excise duties, combined with the freezing of salaries and pensions. In addition, the annualized impact of the measures to restrict spending in the field of education, to limit some increases in the public sector, to revise the calculation of vacation allowances, and to limit spending determined by people benefiting from health insurance will contribute to mitigating the spending trajectory. In addition, other measures included in the other packages (e.g., reviewing the way property tax is calculated) will support the budgetary correction in 2026.

The assumed impact of these measures will lead to a deficit of around 6.5% of GDP by the end of 2026, which would represent a significant adjustment compared to the very high values in previous years. Reducing the deficit would increase the credibility of government commitments, giving Romania easier access to financing and refinancing on international markets, and would improve risk perception, contributing to lower borrowing costs.

Against the backdrop of high budget deficits, data from recent years highlight a strongly upward trajectory of public debt (in ESA 2010 methodology, the share of public debt in GDP increased to 57.2% in June 2025, compared to 54.8% in December 2024 and 48.9% in December 2023). If budgetary correction measures had not been adopted, in a *no-policy change* scenario, the share of public debt in GDP would have had an explosive evolution, with average annual increases of over 6 pp, reaching 83% in 2029 and exceeding the 100% threshold in 2032[23].

This deeply unsustainable trajectory of public debt highlights the urgency of adopting budgetary correction measures, albeit painful ones. In the context of the new EU governance framework, the sustainability of public debt is ensured by assuming and respecting the budgetary deficit correction trajectory. Considering a gradual correction period, between 2025 and 2030, the adjustment effort aims to achieve a budgetary deficit of 3% of GDP in 2030.

4. Absorption of European funds

The FC systematically and with the utmost attention follows the evolution of the absorption of European funds for reasons that can be summarized as: i) the contribution of European funds, most of which are non-reimbursable, to the growth of the real economy; ii) the contribution of these funds to maintaining fiscal-budgetary and financial-currency balances and, iii) in addition, in case of failure to comply with the fiscal consolidation calendar under the constraints of the excessive deficit procedure and if it does not take effective actions (according to the Council recommendations), leading to the return of the budget deficit to the 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 on the programs financed from the Structural and Cohesion Funds related to the 2021-2027 Multiannual Financial Framework (MFF) and, respectively, the National Recovery and Resilience Plan

[23] A more detailed analysis can be found in Annex I.

(NRRP), both managed by the Ministry of Investments and European Projects (MIEP), which is the managing authority for the 7 national programs of the MFF, and is also the national coordinator of the NRRP.

The FC has repeatedly emphasized in its previous opinions and reports that, for Romania, European funds represent a key financial resource for economic and social development, through the investment strategy, as well as the sustainability of public finances. It is of vital importance that Romania capitalizes on this historic opportunity, benefiting from allocations of over 80 billion euros from the EU budget (31 billion euros Structural and Cohesion Funds and over 20 billion euros from the Common Agricultural Policy and Cohesion Policy). Added to these are allocations from the NRRP of 12.1 billion euros in grants (+1.4 billion euros in grants from REPowerEU) and 14.9 billion euros in loans through the Recovery and Resilience Mechanism (28.5 billion euros in total), the most important financial facility within the NGEU.

Following the renegotiation, the NRRP was reduced to 21.6 billion euros, of which 13.5 billion euros represent the grant component and 8.1 billion euros, the loan component, a topic that will be developed later.

The absorption of the non-reimbursable Structural and Cohesion Funds from the 2021-2027 MFF constitutes an objective of maximum national interest in the short, medium and long term, representing an essential financial resource for the sustainable development of the economy, through a series of positive and driving effects, such as: smart growth, digitalization and financial instruments, green and digital transition, improving the quality of the education and health system, increasing employment, developing a sustainable transport network and making investments in infrastructure, reducing social disparities, poverty and social exclusion.

Situation of absorption of Structural and Cohesion Funds (SCF) for the 2021-2027 programming period as of 31.08.2025 (million euros)					
2021-2027 MFF	**Programmed 2021-2027**	**2021-2024 Execution at 31.12.2024**	**Estimates 2025**	**2025 Execution at 31.08.2025**	**2021-2025 Execution at 31.08.2025**
SCF, of which:	30.744,04	2.424,62	4.867,99	3.055,66	5.480,28
Advances from SCF	2.290,02	1.806,39	483,63	483,63	2.290,02
Reimbursements from SCF	28.454,02	618,24	4.384,35	2.572,03	3.190,26

Source: Evolution of financial flows between Romania and the European Union (Net Financial Balance) 31.08.2025, Ministry of Finance

At the end of August 2025, according to the MF data presented above, relating the effective reimbursements from the EC in the amount of 3.2 billion euros to the total allocations of 30.7

billion euros, **the effective[24] absorption rate of the Structural and Cohesion Funds from the 2021-2027 MFF was 10.4%.**

In the current domestic and international context, marked by major economic risks and political and geopolitical tensions, including armed conflicts, the absorption of SCF to the greatest extent possible can contribute to supporting macroeconomic correction and the fiscal consolidation process, carrying out structural reforms and implementing investment programs, counteracting the slowdown in economic growth that may degenerate into decline, mitigating internal and external financial imbalances, including foreign exchange, maintaining the country rating at investment grade level and, implicitly, supporting the needs for financing the budget deficit and refinancing public debt at reasonable costs.

Through **the National Recovery and Resilience Plan**, which includes the Next Generation EU Recovery and Resilience Mechanism (RRM) facility, Romania was allocated 12.1 billion euros in grants and 14.9 billion euros in loans, to which 1.4 billion euros in grants from REPowerEU were added, bringing the total amounts allocated through the NRRP to 28.5 billion euros [25].

The implementation of the reform and investment measures provided for in the PNRR is facing major difficulties and significant delays, in the context in which all milestones and targets, including the related payment requests, must be completed by August 2026, any failure to achieve them resulting in losses or even returns of funds.

By August 2025, under the RRM, Romania had received pre-financing of 4.1 billion euros (2.14 billion euros in grants and 1.94 billion euros in loans), managing to obtain EC approval only for two payment requests totaling 5.3 billion euros (3.6 billion euros in grants and 1.7 billion euros in loans). It should be noted that payment request no. 2 was approved by the EC under suspension of payments[26], withholding an amount of 53 million euros due to the failure to meet two energy milestones, partially recovered in December 2024 (37 million euros in loans).

Payment request no. 3, worth 2.1 billion euros (excluding pre-financing) submitted late in December 2023, was preliminarily assessed positively by the EC in March 2025[27], but only in June 2025 did it receive the opinion of the Economic and Financial Committee[28], with the

[24] The effective absorption rate represents the ratio between the reimbursements from the SCF by the EC and the total related allocations. Advances from the SCF, even if used, partially or fully, represent expenditure to be (or not) validated by the EC and cannot be taken into account when calculating the effective absorption rate.

[25] Following the renegotiation, the NRRP was reduced to 21.6 billion euros, of which 13.5 billion euros represent the grant component and 8.1 billion euros, the loan component.

[26] The procedure for suspending payments, which grants an additional deadline for meeting interim objectives, is explained at the following link: https://commission.europa.eu/system/files/2023-02/COM_2023_99_1_EN.pdf

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

[28] It is worth noting that, if the EC usually examines payment requests received from member countries within a period of about two months, after which it communicates the proposal whether or not to reimburse, in whole or in part, payment request no. 3 from Romania registered an absolute negative record at EU level, remaining in the examination and partial payment stage for 18 months (December 2023-May 2025)!

payment being made for the amount of 1.3 billion euros. The difference of 869 million euros (814 million euros – grant component and 55 million euros – loan component) fell under the impact of the suspension of payments, caused by the partial fulfillment or non-fulfillment of 6 milestones[29]. The 6 outstanding milestones relate to the governance of state-owned enterprises (in particular, the operationalization of the Agency for Monitoring and Evaluation of the Performance of Public Enterprises (AMEPPE) and the appointment of administrators in energy companies), transport investment contracts and the special tax regime for micro-enterprises, which were not fulfilled satisfactorily. Romania will also have to meet the requirements of the milestone on special pensions, which remains unmet. The EC will consider paying the difference of 869 million euros if, within 6 months, Romania has satisfactorily met the outstanding milestones.

Calendar of European Commission payments to Romania, related to the NRRP, during the 2021-August 2025 period (including pre-financing)			
Date	**Budget type**	**Payment request**	**Sum (euro)**
June 10, 2025	Grants	3	622.487.484
June 10, 2025	Loans	3	657.288.757
December 23, 2024	Loans	2 (Part 2)	37.055.259
January 25, 2024	Grants	Pre-financing	288.078.244
September 29, 2023	Grants	2	1.868.317.381
September 29, 2023	Loans	2	893.345.055
October 27, 2022	Grants	1	1.772.317.380
October 27, 2022	Loans	1	789.672.460
January 13, 2022	Loans	Pre-financing	1.942.479.890
December 2, 2021	Grants	Pre-financing	1.851.159.668
TOTAL			**10.722.201.578**

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

The examination of the schedule of payments related to the NRRP, made by the EC to Romania during the 2021-August 2025 period (presented above), highlights the fact that from September 2023 to June 2025, for almost two years, with the exception of a pre-financing of 288 million euros related to REPowerEU, Romania did not manage to absorb a single euro of the NRRP funds! This fact reveals the deficit of administrative capacity of the authorities in pursuing the achievement of the targets and milestones of the NRRP, respectively for carrying out reforms and implementing investments in compliance with the assumed deadlines.

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

Without ignoring a certain indecision on the part of the EC, probably determined by the extension of the consultations, sometimes contradictory, with the Romanian authorities[30], *de facto*, this delay did not allow the submission of payment request no. 4, regardless of whether it had been prepared or not.

In summary, the effective absorption rates (excluding pre-financing) of the funds related to the NRRP are extremely low in relation to the time remaining until the end of this program, namely August 2026. For the NRRP as a whole, in mid-2025, the effective absorption rate was 23.3%, for the grants component being 31.6%, and for the loans component, 15.8%.

Effective absorption rate of NRRP funds as of 31.08.2025			
Budget type	Allocations (million euro)	Amounts paid by the EC, excluding pre-financing (million euro)	Effective absorption rate (%)
Grants	13.566	4.263	31,6%
Loans	14.931	2.377	15,8%
Total NRRP	**28.497**	**6.640**	**23,3%**

Source: European Commission, Ministry of Finance, FC's calculations

The low level of achievements over a four-year period in relation to the deadline for completing all milestones and targets related to the NRRP (by the end of August 2025 only 27% of the milestones and targets had been met![31]) makes it extremely difficult to recover the delays in just one year, which implies the risk of losing significant amounts of European money and the failure to implement important reforms and investment projects.

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 by August 2026, the rescheduling of payment requests. The MIEP Press Release from the end of July[32] states that, following technical consultations and high-level meetings, negotiations on the revision of the NRRP were finalized, the main results being the full allocation of non-reimbursable funds, obtaining additional financing for projects under implementation and a total allocation for the loan component of 8 billion euros.

[30] During the meeting of the Interministerial Coordination Committee of the National Recovery and Resilience Plan on February 12, 2025, attended by representatives of the European Commission, including Céline Gauer, Director General of SG RECOVER, the Romanian Government was subjected to very harsh criticism from the EC for the backlog in implementing the NRRP, stating that Romania risks losing 10 billion euros of European funds allocated through the NRRP.

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

[32] https://mfe.gov.ro/romania-finalizeaza-negocierile-cu-comisia-europeana-pentru-revizuirea-pnrr-investitii-critice-salvate-si-noi-finantari-obtinute/

In mid-August, the Government approved a Memorandum[33] of the MIEP on the renegotiation and revision of the NRRP. According to the Memorandum, the new allocation for Romania was set at 21.6 billion euros (compared to 28.5 billion euros, the initial allocation), with the grant component remaining in full, while the value of the loan component was reduced to 8.1 billion euros (compared to 14.9 billion euros initially foreseen) in order to avoid a negative impact on the budget deficit. As a result of the new allocation, the figures on the effective absorption rate of NRRP funds presented previously change as follows: total NRRP 30.7%, loan component 29.7%, while the grant component remains at 31.6%.

On August 18 of this year, the Government approved an Emergency Ordinance (no. 41/19.08.2025)[34] on the establishment of measures for prioritizing and monitoring investments financed through the NRRP, which mainly provides:

- Projects with an execution rate of over 30% remain in the NRRP, provided that they are completed by August 31, 2026.
- Abandoning investment projects without a work start order, so that resources can be focused on initiatives at an advanced stage, with a low degree of risk regarding their implementation by the end of August 2026.
- Suspending investment projects with an execution rate between 0% and 30%, due to the high risk of not completing on time, namely August 2026.
- The ministries, within 15 days of the adoption of the GEO, must submit detailed lists of projects that meet these criteria, as well as the costs, funding sources, and risks associated with non-implementation.
- Prioritizing the completion of advanced projects, with alternative sources of funding to be identified for them (programs with 2021-2027, respectively 2028-2034 MFF European funding, local budgets or international credit lines).

It should be noted that these measures do not imply the definitive abandonment of projects in their early stages[35], but rather a re-prioritization and a subsequent analysis of identifying funds from other sources in order to continue those projects that are suspended. Thus, MIEP will identify alternative sources of financing for projects that cannot be completed by August 31, 2026 or that no longer fall within the budget ceiling (approximately 17,000 projects), so that useful investments, including for school renovations, equipment, energy efficiency components, development of transport infrastructure and local communities etc. are not wasted.

The Ordinance establishes an exceptional mechanism for projects that need to be accelerated, so that Romania meets the milestones agreed with the EC and prohibits the use

[33] https://sgg.gov.ro/1/wp-content/uploads/2025/08/MEMO-2.pdf
[34] https://legislatie.just.ro/public/DetaliiDocument/301423
[35] Projects with progress below 30% will only be able to continue with the approval of the Government, based on the approval of the Ministry of Finance and MIEP, and 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 MIEP.

of NRRP funds for investments reported as being in non-compliance with European legislation in the field of public procurement.

Regarding the national investment programs – National Local Development Program 1 and 2, "Anghel Saligny", but also other programs managed by the National Investment Company –, the Ordinance introduces special rules for 2025 regarding the assumption of new commitments and the award of new contracts.

In August 2025, 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, which is well above the limit of 21.6 billion euros (the revised value of NRRP). Over-contracting complicated the selection of projects maintained in NRRP and the financing of the multiple works started, creating pressure on the state budget, both this year and in 2026[36].

The Romanian authorities made all these changes with the agreement of the EC experts, so that the revised NRRP was transmitted to Brussels on September 12, 2025, as confirmed in the EC Scoreboard[37]. In these circumstances, an improvement in the absorption rates of the funds related to the 2021-2027 MFF, respectively the NRRP, is foreseen.

5. Compliance with fiscal rules

The budget revision provides for the modification of the ceilings in nominal terms for the indicators specified in the fiscal-budgetary framework for 2025, established by Law no. 8/2025, as follows:

- the nominal ceiling of the GCB deficit is increased by 25.1 billion lei, up to the level of 159.8 billion lei;
- the nominal ceiling of the total GCB expenditures, excluding financial assistance from the European Union and other donors, is increased by 30 billion lei, up to the level of 744.5 billion lei;
- the nominal ceiling of the GCB primary deficit is increased by 12.7 billion lei, up to the level of 105.5 billion lei.

At the same time, the indicators expressed as a share in GDP have also increased compared to the limits provided by Law no. 8/2025 (8.4% of GDP compared to 7% of GDP in the case of the GCB deficit, respectively 9% compared to 8.9% of GDP in the case of GCB personnel expenditures).

Regarding the public debt ceiling, according to the EU methodology, it was increased during the budget revision to the level of 59.6% of GDP, compared to 58.5% of GDP at the time of the initial budget.

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[36] https://www.bursa.ro/-pislaru-am-gasit-un-pnrr-intarziat-si-supracontractat-cu-19-miliarde-euro-peste-limita-reala-63440753#google_vignette
[37] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/country_overview.html

The Government Ordinance on the revision of the state budget for 2025 stipulates the necessary derogations from the fiscal rules established by the FRL and redefines the ceilings of budgetary aggregates in accordance with the levels provided for in the revision proposal.

Conclusions

- The three major rating agencies reconfirmed Romania's sovereign risk at a level just above junk (not recommended for investment) based on the measures taken by the new government. In the first part of the year, there was a risk of a downgrade in sovereign risk.
- After discussions with the EC, the Romanian Government revised the cash deficit target for this year to 8.4% of GDP. In 2026, the cash deficit should be around 6.5% of GDP. This revision takes into account the very high pressures on the public budget in 2025.
- The budgetary correction initiated by the new government may be the turning point in restoring confidence in public finances in Romania, but the process is difficult and will take several years.
- In the absence of corrective measures this year, as indicated by the budget execution at 8 months, the budget deficit would reach around 9% of GDP.
- The claim that adjusting the budget deficit leads to an economic crisis omits the fact that Romania cannot perpetuate deficits of 9% of GDP. In addition, the correction is gradual.
- The FC emphasized in its documents that adjusting the budget deficit cannot be done exclusively on the expenditure side and this judgment is verified in the configuration of the measures initiated by the new government.
- The reasoning according to which a much better rapid collection of taxes and duties could be achieved, which would avoid changes in the fiscal regime, is illusory. Changes in the fiscal regime were imposed by the ruthless reality of an increasingly difficult access to financing and refinancing. Time had no patience with a country that had ended 2024 with a record budget deficit in the EU.
- A revision that moves the budget deficit target for 2025 from 7.04% of GDP (as it was in the approved budget) to 8.4% of GDP could be considered "positive", but:
    - The initial target of 7.04% was far from reality, deliberately overestimating revenues and underestimating expenditures – which was highlighted by documents from international institutions, the EC, the FC, and some local analysts.
    - In judging the ongoing budget correction, it is appropriate to consider the level of the budget deficit that would be recorded in a scenario when adjustment

measures were not adopted, although it is clear that the markets would have reacted virulently to the lack of budget correction measures.

  - The benchmark indicating the nature of the budget correction in September 2025 is a deficit level of around 9% of GDP (in the *no-policy change* scenario). The inference is that the budget correction is negative.

- The impact of the measures for 2025 would be about 0.6% of GDP, if optimizations in the performance of public investments are not taken into account.
- Public investments (including those financed from European funds) would be, according to the budget revision, about 8% of GDP, which is also related to the fact that financing from the NRRP ends in 2026.
- The budget deficit in Romania is a blatant example of fiscal dominance, which not only makes access to financing and refinancing vulnerable in itself, but also exerts great pressure on the conduct of monetary policy. Excess aggregate demand fuels inflation and forces the central bank to maintain monetary policy rates at high levels. The twin deficit syndrome should be noted here, with a current account deficit that exceeded 8% of GDP in 2024 and which was financed mainly through loans. The size of the twin deficits makes Romania unique within the EU.
- Budgetary correction is also absolutely necessary to maintain confidence in the national currency; correction can prevent a run of the national currency.
- The evolution of the international environment (trade war, slowdown in economic activity in Europe, economic fragmentation and regionalization of trade flows, the need to increase defense spending, geopolitical tensions, uncertainties that increase risk aversion etc.) greatly complicates the inevitable budgetary correction in Romania.
- There can be no question of joining the Eurozone if budgetary consolidation is not achieved.
- There is an additional burden of increasing military spending in the coming years. Reducing tax evasion can help us in this regard, given the very low level of tax revenue collection.
- The correction is painful and to achieve it requires social peace and solidarity, even if these aspirations may sound naive.
- The corroboration of recent economic information and data with the dynamics of relevant macroeconomic variables projected (in September this year) by the NCSP (real GDP, GDP deflator, inflation, labor market coordinates) leads to the conclusion of a possible trajectory of these aggregates for the years 2025 and 2026, with, in addition, safety margins at the level of most indicators.
- We can note that the projection of inflation and the GDP deflator are particularly cautious, and higher values of these could lead, both through a denominator effect

(higher nominal GDP) and through the nominal increase of most budget revenues, to a favorable influence on fiscal variables expressed as a ratio to GDP, with all the negative effects on real economic growth.

- The risks to the macroeconomic projection stem from the evolution of the external environment (risk aversion of international markets, with an effect on the volume and cost of financing the Romanian debt, as well as the dynamics of the world economy and, in particular, the European economy), from the size and speed of the absorption of multiannual European funds and those related to the NRRP, as well as from the consistent application of the adopted fiscal-budgetary adjustment plan.
- The revenue target in the revision project can be considered, overall, as plausible.
- The analysis of the proposed revisions for the main categories of expenditure shows an adjustment of these in relation to the current budget execution (especially at the level of interest, social assistance and goods and services expenditures), creating the premises for compliance with the new proposed targets.
- Based on the available data, the FC assesses that the new coordinates of the budget construction are compatible with a cash budget deficit of around 8.4% of GDP in 2025, subject to some risks that were highlighted in the analysis. It is worth noting that this new target must be judged in relation to a higher deficit (around 9% of GDP), which would be emerging in the absence of adjustment measures.
- The package of fiscal and budgetary measures adopted in July has a limited positive impact on the deficit in 2025, influencing the budget execution starting in September. However, the effect of reducing the budget deficit will be considerably greater in 2026, leading to a deficit of around 6.5% of GDP, which would represent a significant adjustment compared to the very high values of previous years.
- Regarding the public debt ceiling, according to the EU methodology, it was increased during the budget revision to the level of 59.6% of GDP, compared to 58.5% of GDP at the time of the initial budget.
- If no budgetary correction measures were adopted, in a *no-policy change* scenario, the share of public debt in GDP would have an explosive evolution, with average annual increases of over 6 pp, reaching 83% in 2029 and exceeding the 100% threshold in 2032. This deeply unsustainable trajectory of public debt highlights the urgency of adopting budgetary correction measures, although they are painful. In the context of the new EU governance framework, the sustainability of public debt is ensured by assuming and respecting the budget deficit correction trajectory.
- The absorption of European funds, an essential financial resource for the sustainable development of the economy and maintaining fiscal-budgetary and financial-currency balances, has faced major difficulties and significant delays mainly related to weak administrative capacity. At the end of August 2025, according to MF data, relating the reimbursements from the EC in the amount of 3.2 billion euros to the total allocations

of 30.7 billion euros, the effective absorption rate (excluding advances) of the Structural and Cohesion Funds from the 2021-2027 MFF was 10.4%.

- In the case of the NRRP, at the end of August 2026, the effective absorption rate (excluding pre-financing) was 30.7%, with the mention that by revising the NRRP the new allocation for Romania was established at the level of 21.6 billion euros.

The opinions and recommendations formulated above by the Fiscal Council were approved by the Chairman of the Fiscal Council, according to the provisions of art. 56, para. (2), letter d) of Law no. 69/2010 republished, following their approval by the Council members, through vote, in the meeting of September 30, 2025.

September 30, 2025

Chairman of the Fiscal Council

Professor Daniel DĂIANU

ANNEXES

Annex I: Expected dynamics of Romania's public debt in a *no-policy change* scenario and in the budget correction scenario over a 6-year period

In Romania, the pro-cyclical fiscal policies of recent years, materialized through permanent public expenditure increases, low tax revenues and multiple derogations from fiscal rules, have led to a sharp increase in the budget deficit, with significant negative implications on the trajectory of public debt. The latest EC[38] assessments indicated for Romania a public debt dynamics that is not sustainable in the long term, its financing costs reaching high values, well above those specific to a country with an investment grade rating.

The projected trajectory for public debt, in a *no-policy change* scenario, using the DSA methodology, the assumptions and rules underlying the new EU governance framework, and taking into account the latest data and projections of the EC, is presented in *Figure 1*[39] (the simulation does not take into account the effects of the budgetary correction package, adopted in July 2025, which will be visible starting with the execution of September 2025).

The projection results indicate, in a *no-policy change* scenario, an explosive dynamics of the share of public debt in GDP, with average annual increases of over 6 pp of GDP. Thus, in the absence of budgetary correction measures, the share of public debt in GDP would rise to about 83% in 2029, exceeding the current average of public debt in GDP in the EU (in 2024, the average of public debt in the EU was 81%), and would exceed the 100% threshold in 2032, reaching about 103% of GDP. The actual data recorded in recent years confirm the strongly upward trajectory of public debt (the share of public debt in GDP increased to 57.2% in June 2025, compared to 54.8% in December 2024 and 48.9% in December 2023).

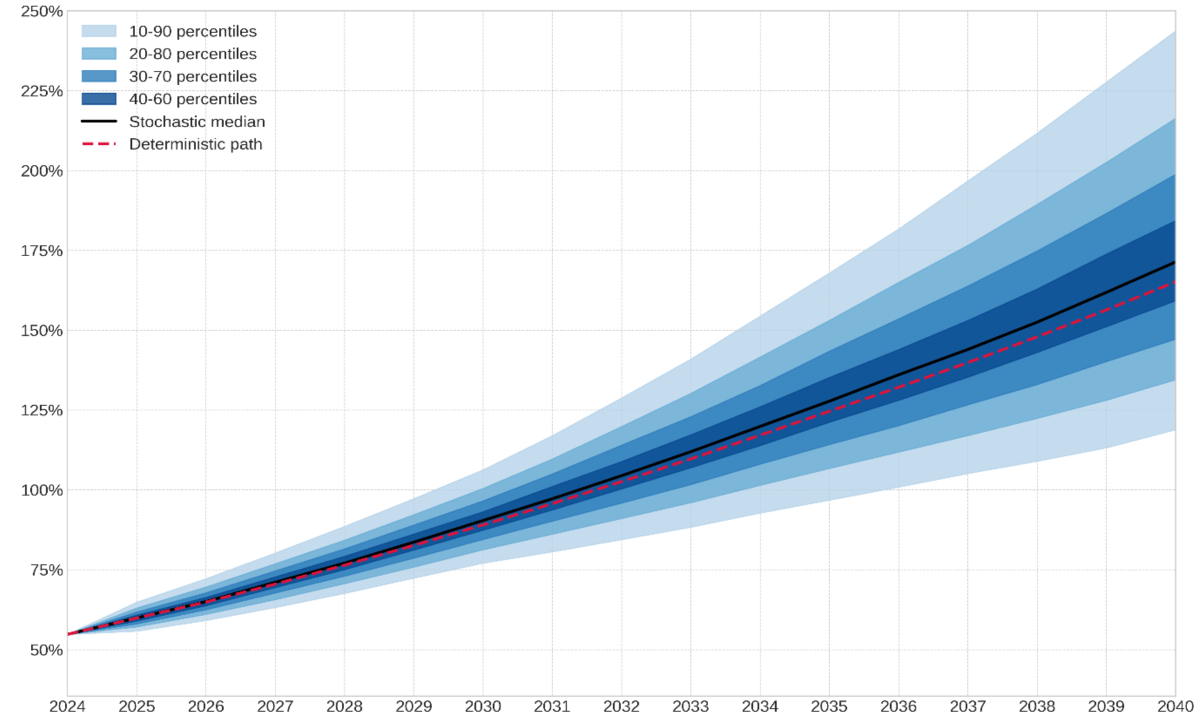
On a more distant horizon, the probable variation ranges widen, reflecting high uncertainty. It should be noted that, even in the most optimistic scenarios (corresponding to the 10th percentile, found in the lower part of the probable variation range), built on the basis of historical stochastic simulations, public debt has a large upward evolution, exceeding the percentage of 100% in 2036.

The assumptions of the *no-policy change* scenario show that the main cause of the increase in public debt is the primary deficit, varying over the entire projection horizon around the value of 6.5% of GDP to reflect the presumption of maintaining the current situation, characterized by high permanent expenditures and insufficient tax revenues.

[38] *Debt Sustainability Monitor*, 2024.

[39] The estimates were performed in Python, using the DSA analysis replication code developed by Darvas, Z., L. Welslau and J. Zettelmeyer (2023). A quantitative evaluation of the European Commission's fiscal governance proposal, Working Paper 16/2023, Bruegel.

Figure 1: Projected trajectory of Romania's public debt in a *no-policy change* scenario (% of GDP)



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

Note: The uncertainty ranges are determined based on 10,000 alternative paths for public debt, generated through stochastic simulations. These use symmetric shocks, extracted from the historical distribution of key macroeconomic variables. The simulation period is comparable to the 6-year adjustment scenario, followed by a 10-year sustainability assessment period.

Although the exercise of designing the long-term public debt trajectory is counterfactual, the *no-policy change* scenario being implausible given the explosive dynamics of public debt in GDP and the assumption of non-reaction of markets and rating agencies, it further highlights the urgency of budgetary correction measures. In their absence, in a short time horizon, the deficit adjustment would have been carried out by the markets. Such a correction would have been severe, involving a sharp increase in sovereign yields, a depreciation of the national currency, high social costs, and *ad-hoc* cuts in public spending.

Although the MTP set a 7-year budget deficit consolidation trajectory, its realism was questioned by the establishment of an erroneous starting point, as well as the lack of specification of concrete measures to increase budget revenues and reduce budget expenditures, respectively. In 2024, it ended with a budget deficit of 9.3% of GDP in ESA terms, significantly exceeding the 7.9% estimate of the MTP. This deviation invalidated the starting point of the MTP and, implicitly, its assumptions. It also created the premises for a more severe budget correction in the following years.

Thus, in June 2025, the EU Council revised the net expenditure trajectory to 2.8% in 2025, 2.6% in 2026, 4.6% in 2027, 4.4% in 2028, 4.2% in 2029 and 4.0% in 2030[40]. These values imply a completion of the excessive deficit procedure by 2030, but also a higher effort in the first years of the adjustment period. In comparison, the MTP envisaged a 7-year public debt adjustment period (2025-2031) and a net expenditure trajectory of 5.1% in 2025, 4.9% in 2026, 4.7% in 2027, 4.3% in 2028, 4.2% in 2029, 3.9% in 2030 and 3.8% in 2031.

The budgetary correction effort is reflected in the fiscal-budgetary package, adopted in July 2025, which foresees an increase in budgetary revenues by 1.75% of GDP in 2026, in line with the EU Council recommendation of June 2025 to increase budgetary revenues by 1.7% of GDP. Additionally, the measures included a freeze on personnel and social assistance expenditures in 2026, contrary to the projections in the MTP which envisaged their indexation. The adoption of this package reveals that postponing the budgetary correction implies tougher measures and higher social costs to bring the public debt dynamics towards a sustainable trajectory.

The more severe correction compared to the assumptions in the MTP is also highlighted by the amplitude of the adjustment of the structural primary balance. Thus, given the latest data and projections of the EC in 2025, in order to ensure a downward trajectory of public debt and, implicitly, its sustainability, over a 6-year adjustment period (2025-2030), Romania should aim to achieve a structural primary balance of 1.75% of GDP[41] in 2030 (in comparison, in the MTP, the target for the structural primary balance was 1.7% in 2031).

Achieving a structural primary balance of 1.75% of GDP over a 6-year period is equivalent, given the EC assumptions and data, to a budget deficit of around 3% of GDP, a value to be achieved in 2030. Given that a structural primary deficit of 6.4% of GDP was recorded in 2024, the budget correction is equivalent to an adjustment effort of around 8.15 pp over a 6-year period. The results of the DSA model, for a 6-year adjustment period, indicate reaching a maximum point of public debt in 2028-2029, of around 68.8% of GDP (*Figure 2*). Subsequently, from 2030, the debt follows a downward trajectory.

Given a 6-year adjustment period and the achievement of the structural primary balance target at the end of the adjustment period, and subsequently under the assumption of a *no-policy change* scenario, the public debt trajectory is downward in the long term. The probability of a decrease in public debt for a period of five years, after the end of the adjustment period, is validated in the 70th percentile[42], and the debt trajectory continuously decreases for 10 years (the assessment criteria used by the EC to establish the plausibility of

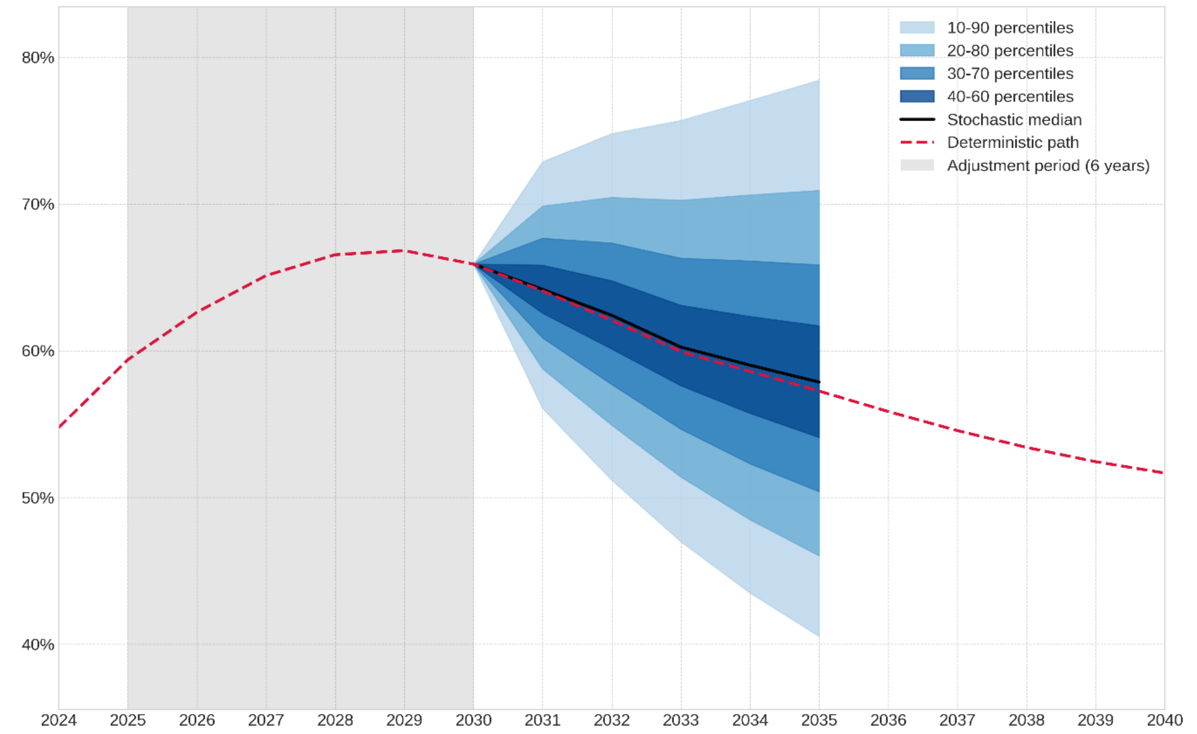
[40] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=COM:2025:344:FIN

[41] This value of the structural balance complies with the EC criteria on public debt in the new economic governance framework: (i) the debt trajectory should be continuously declining (or remain at prudent levels) for 10 years, in the case of deterministic scenarios within the debt sustainability analysis; (ii) in the next five years after the completion of the MTP, the share of public debt in GDP will decrease with a probability of at least 70%.

[42] About 70% of the scenarios have a downward trajectory for the share of public debt in GDP.

the downward trajectory of public debt). The scenario indicates a difficult budgetary correction in the coming years, but it allows ensuring the sustainability of the public debt trajectory.

Figure 2: Projected trajectory of Romania's public debt in a 6-year linear adjustment scenario, 2025-2030 (% of GDP)



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

Note: The uncertainty ranges are determined based on 10,000 alternative paths for public debt, generated through stochastic simulations. These use symmetric shocks, drawn from the historical distribution of key macroeconomic variables. The simulation period corresponds to the 6-year adjustment period and the 10-year sustainability assessment period.

The analysis of Romania's public debt sustainability demonstrates the importance of predictable, rules-based budgetary planning. In the context of the new EU governance framework, public debt sustainability is ensured by assuming and respecting the budget deficit correction path set out in the MTP. However, given that 2024 ended with an ESA budget deficit 1.4 pp of GDP higher than anticipated in the MTP, the starting point of the projection is significantly higher. Thus, the budgetary correction will be more severe in the following years, requiring additional measures to increase budget revenues and reduce budget expenditures, compared to those initially foreseen in the MTP. Considering a 6-year adjustment period, the effort to adjust the structural primary balance to stabilize the public debt trajectory would be 8.15 pp of GDP. Although the required correction is considerable, it is absolutely necessary, as the projected trajectory of public debt in a *no-policy change* scenario has shown.

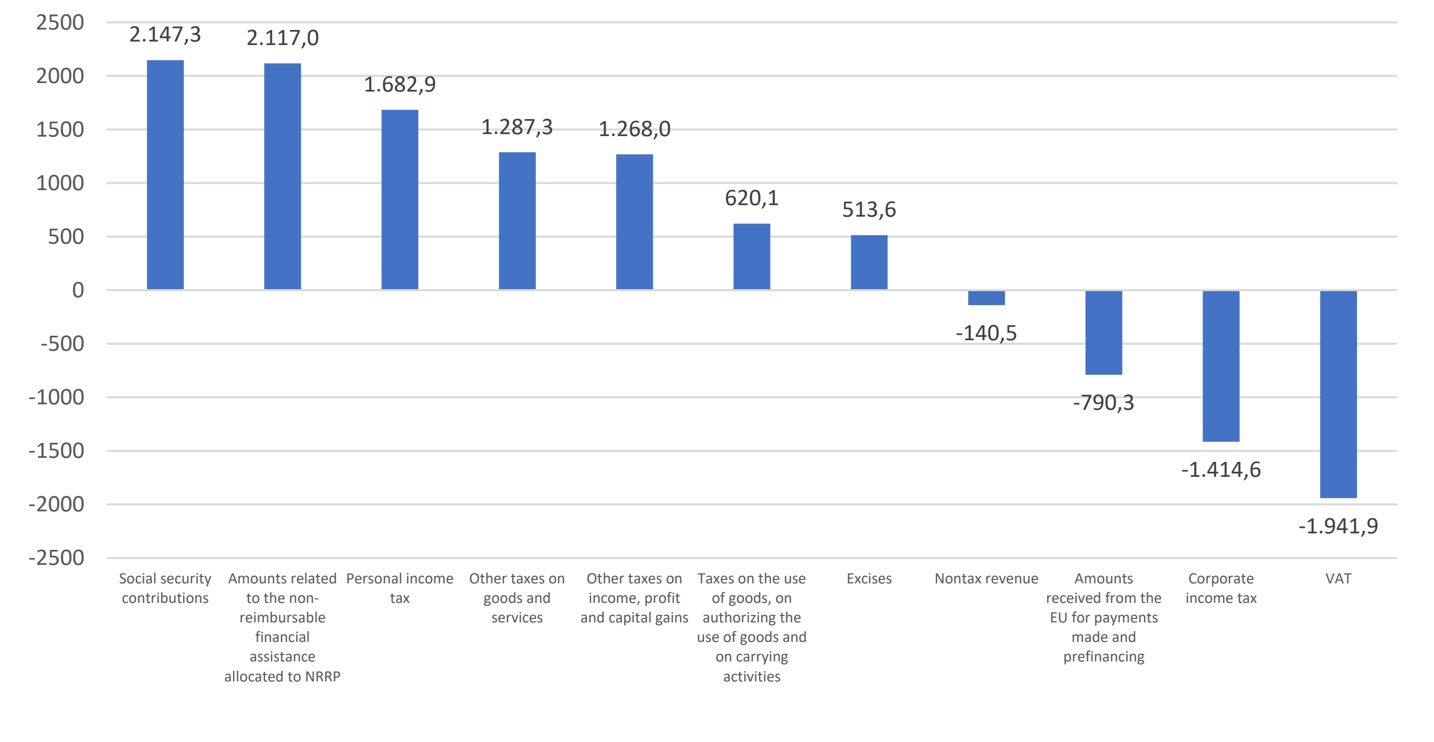
ANNEX II - Budget revision vs initial budget	Budget execution 2024	Initial budget 2025	First budget revision (R1) 2025	R1 - Budget execution 2024	R1 - Initial budget 2025	R1/Budget execution 2024 %	R1/Initial budget 2025 %
	1	2	3	4=3-1	5=3-2	6=3/1	7=3/2
TOTAL REVENUE	**574,598.8**	**667,523.11**	**674,181.27**	**99,582.51**	**6,658.16**	**17.33%**	**1.00%**
Current revenue	530,281.4	578,311.22	582,923.87	52,642.47	4,612.64	9.93%	0.80%
Tax revenue	291,708.1	319,654.43	322,260.26	30,552.16	2,605.82	10.47%	0.82%
Taxes on profit, wages, income and capital gains	90,776.7	102,659.09	104,195.42	13,418.71	1,536.33	14.78%	1.50%
Corporate income tax	35,979.1	41,274.61	39,860.00	3,880.92	-1,414.61	10.79%	-3.43%
Personal income tax	49,044.8	56,552.31	58,235.21	9,190.43	1,682.90	18.74%	2.98%
Other taxes on income, profit and capital gains	5,752.8	4,832.16	6,100.21	347.36	1,268.04	6.04%	26.24%
Property tax	8,286.6	10,015.41	10,160.32	1,873.72	144.91	22.61%	1.45%
Taxes on goods and services	189,060.3	203,102.40	203,581.57	14,521.31	479.17	7.68%	0.24%
VAT	120,946.1	136,089.24	134,147.37	13,201.29	-1,941.87	10.92%	-1.43%
Excises	46,328.1	48,589.31	49,102.92	2,774.83	513.61	5.99%	1.06%
Other taxes on goods and services	13,413.7	8,852.27	10,139.57	-3,274.10	1,287.31	-24.41%	14.54%
Taxes on the use of goods, on authorizing the use of goods and on carrying activities	8,372.4	9,571.58	10,191.70	1,819.29	620.12	21.73%	6.48%
Taxes on foreign trade and international transactions (customs duty)	1,926.8	2,088.54	2,533.94	607.10	445.40	31.51%	21.33%
Other tax revenue	1,657.7	1,789.00	1,789.02	131.33	0.02	7.92%	0.00%
Social security contributions	189,510.1	205,918.53	208,065.84	18,555.79	2,147.32	9.79%	1.04%
Nontax revenue	49,063.3	52,738.26	52,597.77	3,534.52	-140.50	7.20%	-0.27%
Subsidies	0.0	0.00	0.00	0.00	0.00		
Additional revenues collected from digitalization	0.0	0.00	0.00	0.00	0.00		
Capital revenues	1,401.8	1,499.10	1,764.58	362.76	265.48	25.88%	17.71%
Grants	12.7	4.64	12.20	-0.46	7.56	-3.62%	162.84%
Amounts received from the EU for payments made and prefinancing	23,216.5	51,800.88	51,010.58	27,794.06	-790.30	119.72%	-1.53%
Financial operations	0.0	0.00	0.00	0.00	0.00		
Amounts collected in the single account, at the state budget	294.0	0.00	0.00	-294.00	0.00	-100.00%	
Other amounts received from the EU for operational programmes funded under the convergence objective	686.8	0.00	409.36	-277.41	409.36	-40.39%	
Amounts received from the EU/other donors in the account of payments made and pre-financing for financial framework 2014-2020	10,257.6	8,628.28	8,664.72	-1,592.92	36.44	-15.53%	0.42%

Amounts related to the non-reimbursable financial assistance allocated to NRRP	8,448.0	27,278.99	29,395.97	20,948.01	2,116.98	247.97%	7.76%
TOTAL EXPENDITURE	**727,316.2**	**802,170.13**	**833,946.29**	**106,630.13**	**31,776.16**	**14.66%**	**3.96%**
Current expenditure	665,123.3	740,466.85	773,729.55	108,606.24	33,262.69	16.33%	4.49%
Personnel	164,595.4	169,535.71	170,343.30	5,747.90	807.59	3.49%	0.48%
Goods and services	93,658.8	94,679.71	98,566.51	4,907.73	3,886.81	5.24%	4.11%
Interest	36,278.3	41,860.89	54,265.54	17,987.26	12,404.65	49.58%	29.63%
Subsidies	17,096.0	13,930.73	14,291.21	-2,804.82	360.47	-16.41%	2.59%
Total Transfers	352,111.2	415,907.62	432,353.89	80,242.71	16,446.28	22.79%	3.95%
Transfers for public entities	3,175.2	4,722.75	4,362.07	1,186.84	-360.68	37.38%	-7.64%
Other transfers	35,197.6	33,338.94	35,633.91	436.36	2,294.97	1.24%	6.88%
Projects funded by external post accession grants	29,281.4	60,508.62	56,319.23	27,037.82	-4,189.39	92.34%	-6.92%
Social assistance	223,932.3	242,262.05	250,456.03	26,523.71	8,193.98	11.84%	3.38%
Projects funded by external post accession grants 2014-2020	17,460.8	12,175.23	12,833.92	-4,626.90	658.69	-26.50%	5.41%
Other expenditure	19,558.4	16,235.29	16,505.29	-3,053.06	270.00	-15.61%	1.66%
Projects with financing from the amounts representing the non-reimbursable financial assistance related to NRRP	10,690.7	32,199.48	34,775.72	24,085.02	2,576.24	225.29%	8.00%
Projects financed from the amounts related to the loan component of NRRP	12,814.8	14,465.27	21,467.72	8,652.93	7,002.45	67.52%	48.41%
Reserve funds	0.0	2,362.00	2,042.82	2,042.82	-319.18		-13.51%
Expenditure funded from reimbursable funds	1,383.6	2,190.20	1,866.28	482.64	-323.92	34.88%	-14.79%
Capital expenditures	65,194.0	61,703.28	60,216.75	-4,977.28	-1,486.53	-7.63%	-2.41%
Financial operations	0.0	0.00	0.00	0.00	0.00		
Payments made in previous years and recovered in the current year	-3,001.2	0.00	0.00	3,001.17	0.00	-100.00%	
SURPLUS(+) / DEFICIT(-)	**-152,717.4**	**-134,647.02**	**-159,765.03**	**-7,047.61**	**-25,118.01**	**4.61%**	**18.65%**

Source: MF, FC's calculations

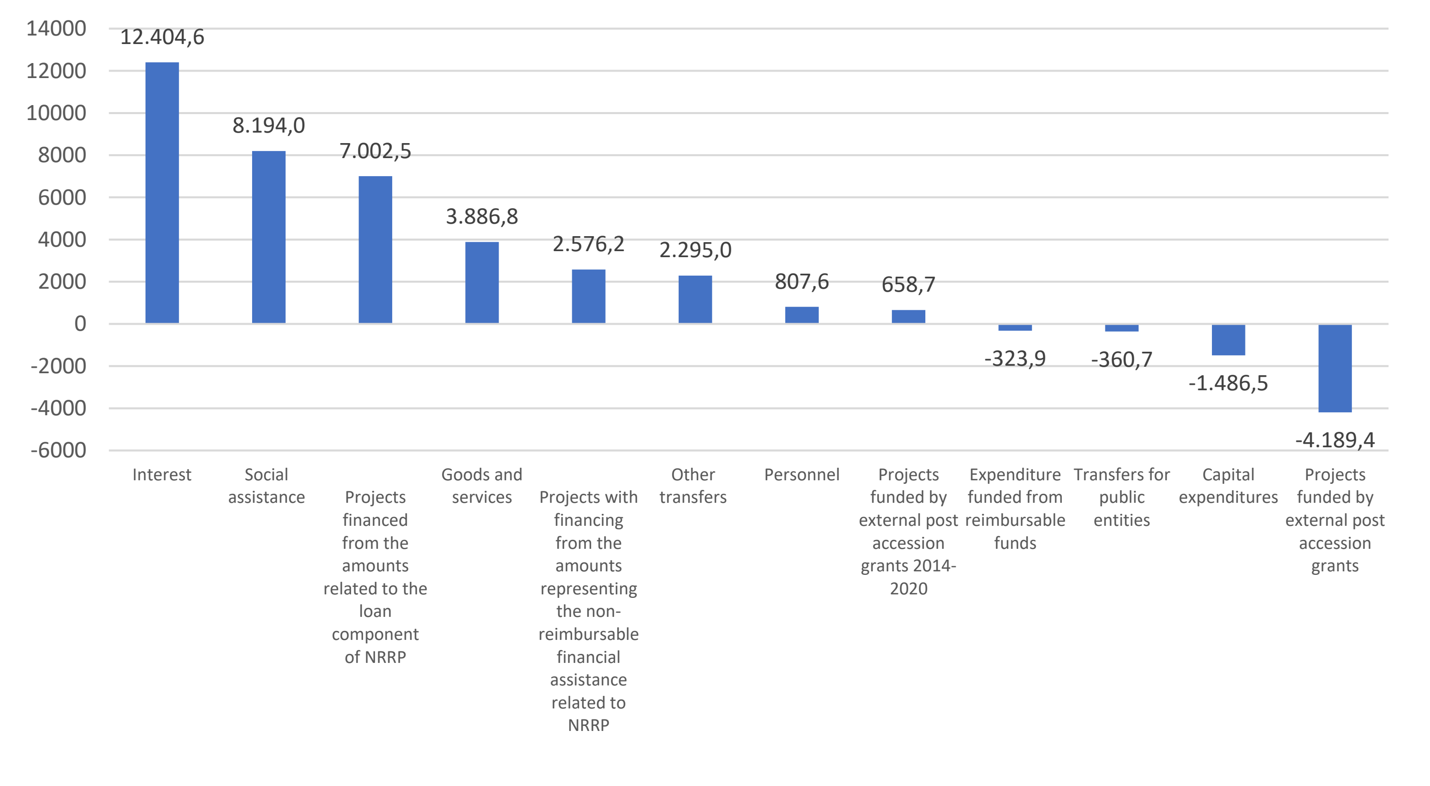
Annex III

Figure 3. The main changes in revenues after the budget revision (mil. lei)



Source: MF, FC's calculations

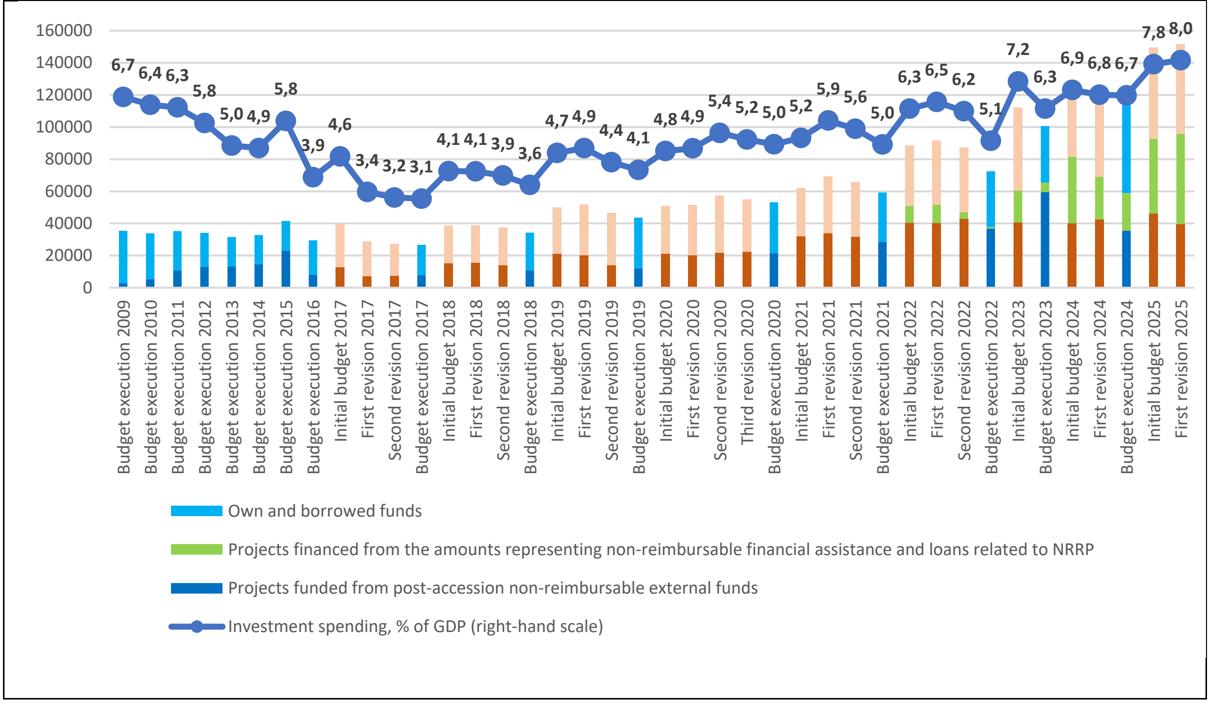
Figure 4. The main changes in expenditures after the budget revision (mil. lei)



Source: MF, FC's calculations

Annex IV

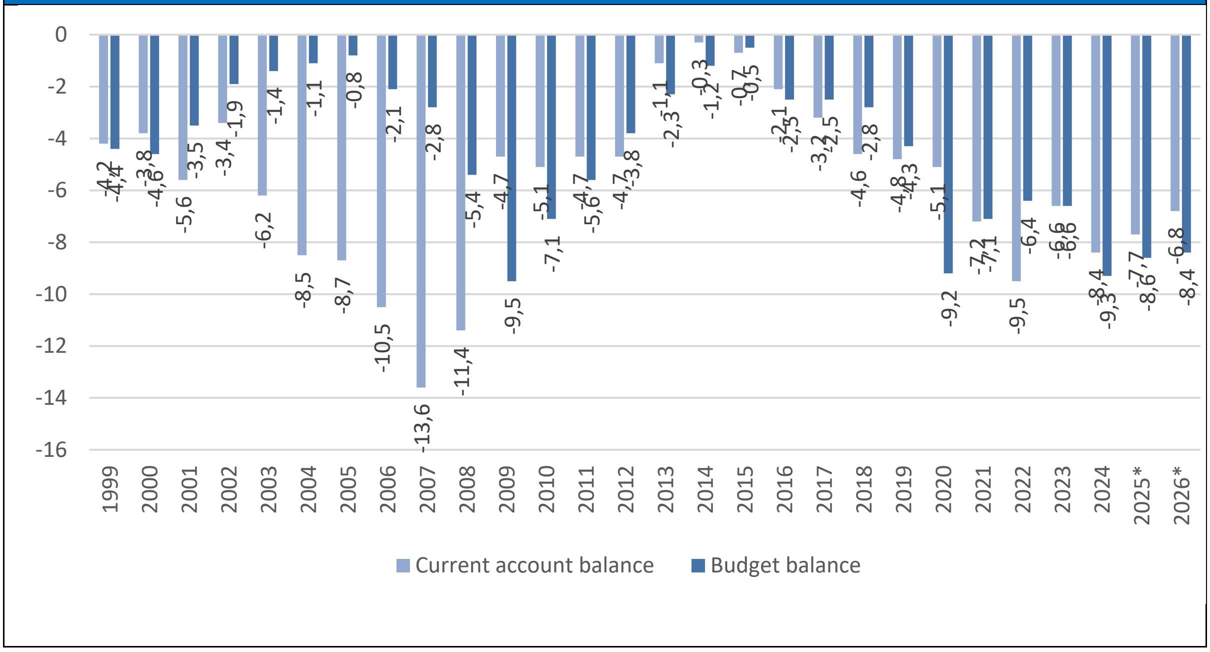
Figure 5. The evolution of public investment expenditures between 2009-2025 – planned vs actual level (mil. lei)



Source: MF, FC's calculations

Annex V

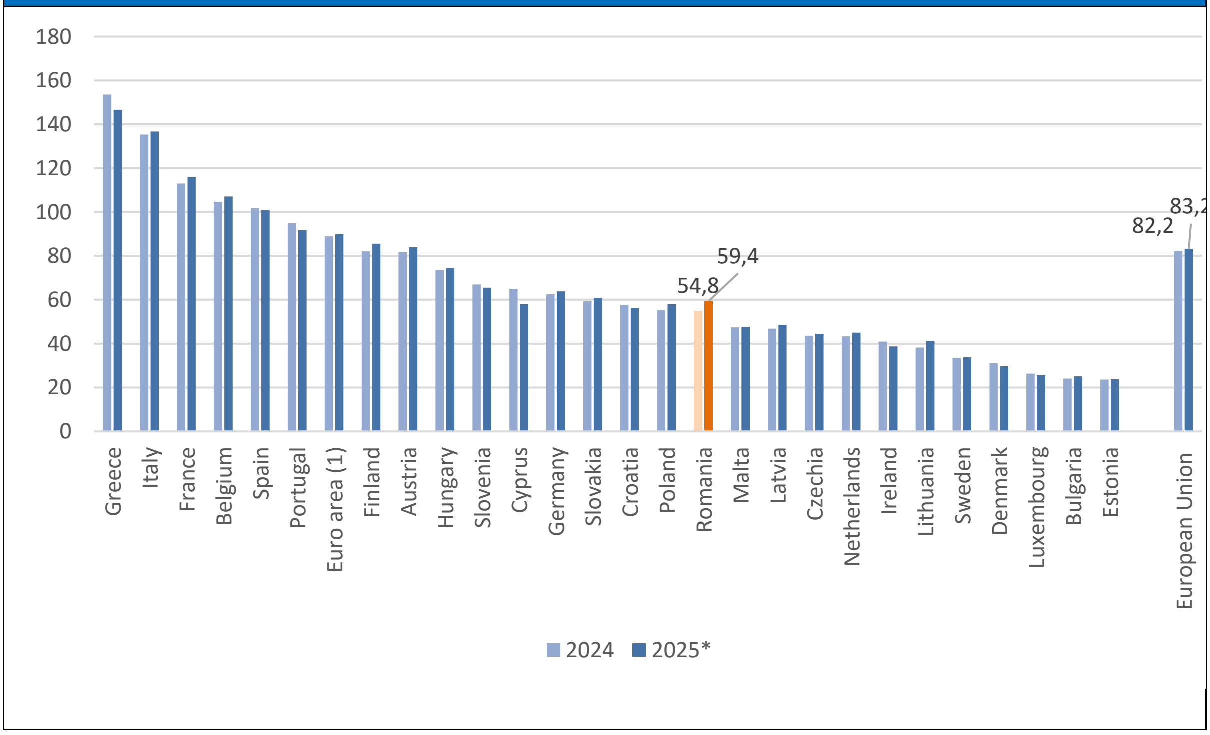
Figure 6. Budget and current account balance evolution in the 1999-2026 period (% of GDP, ESA 2010)



Source: AMECO

Note: *For 2025 and 2026, values represent AMECO forecast.

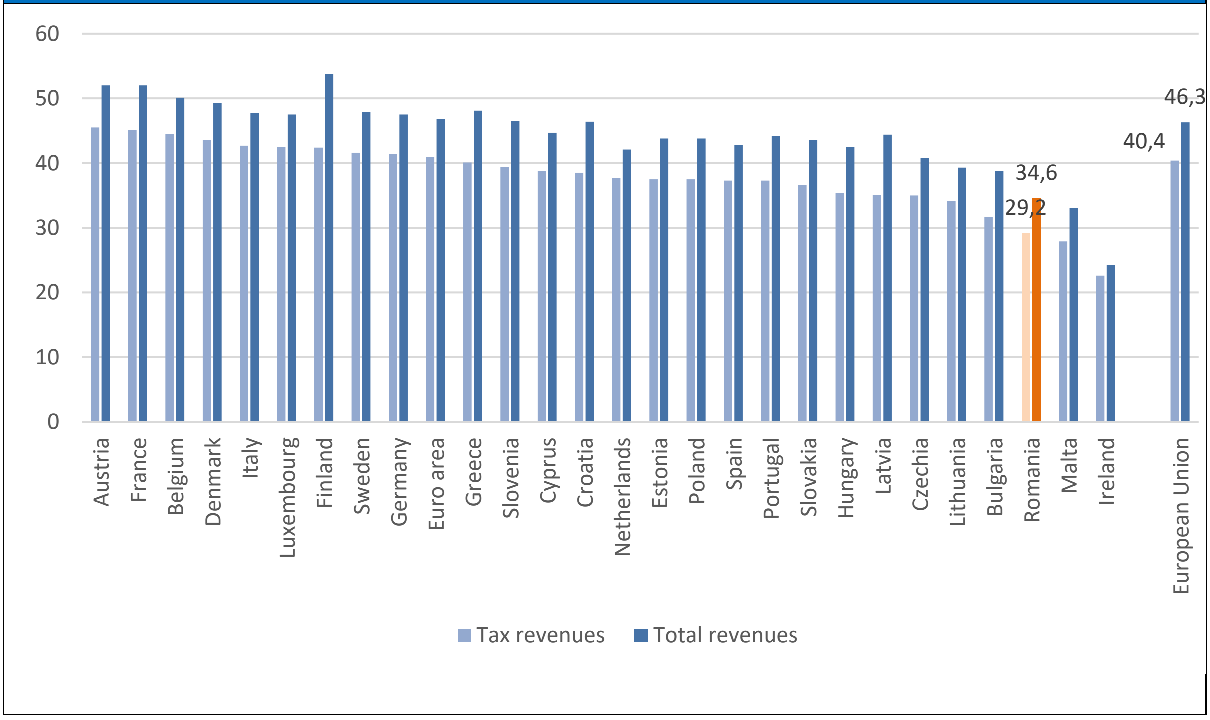
Figure 7. Public debt evolution in EU states in 2024 and 2025 forecast (% of GDP)



Source: AMECO

Note: *For 2025, values represent AMECO forecast

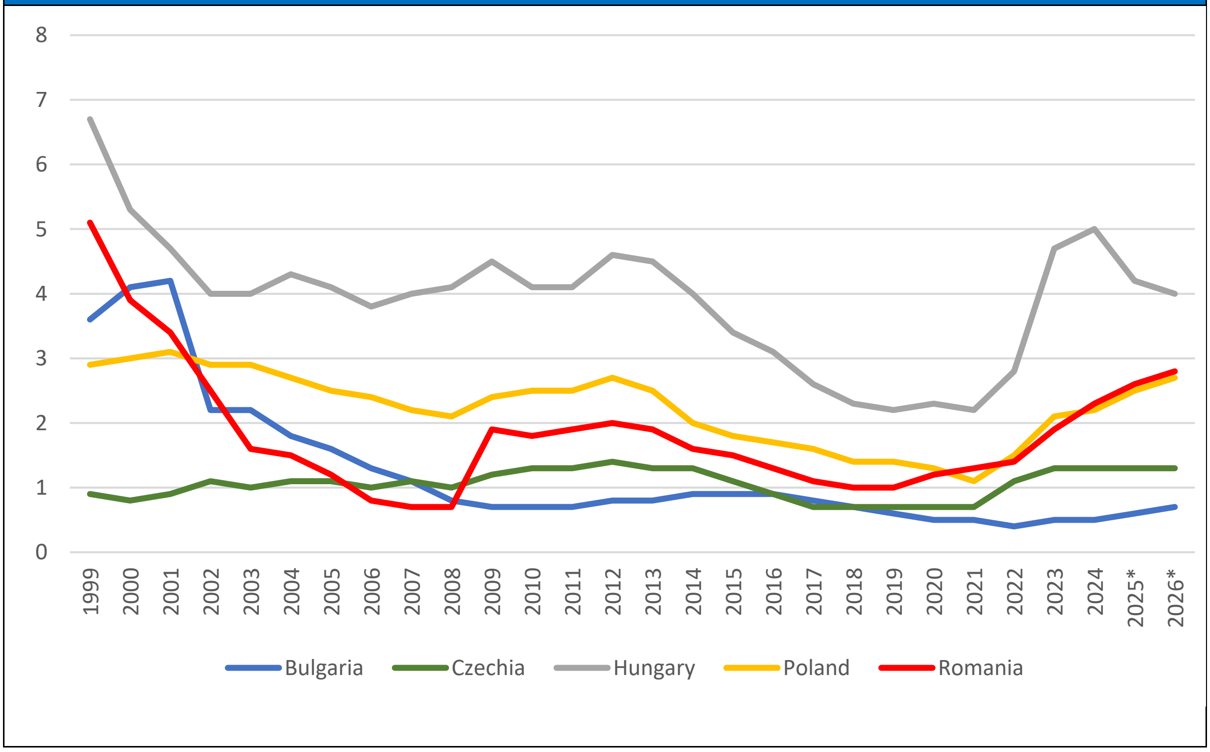
Figure 8. Total budget revenues and tax revenues in 2025* (% of GDP, ESA 2010)



Source: AMECO

Note: *For 2025, values represent AMECO forecast

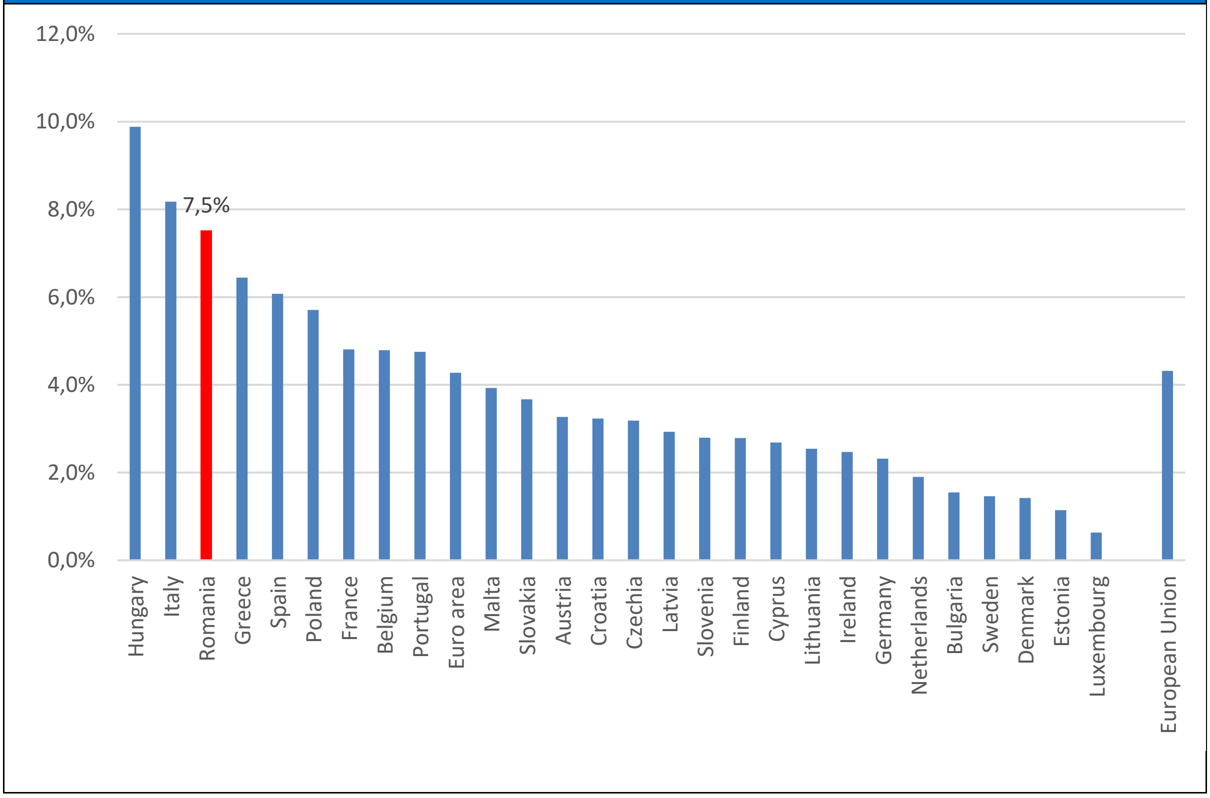
Figure 9. Interest expenditure evolution in Romania and peer countries (% of GDP)



Source: AMECO

Note: *For 2025 and 2026, values represent AMECO forecast

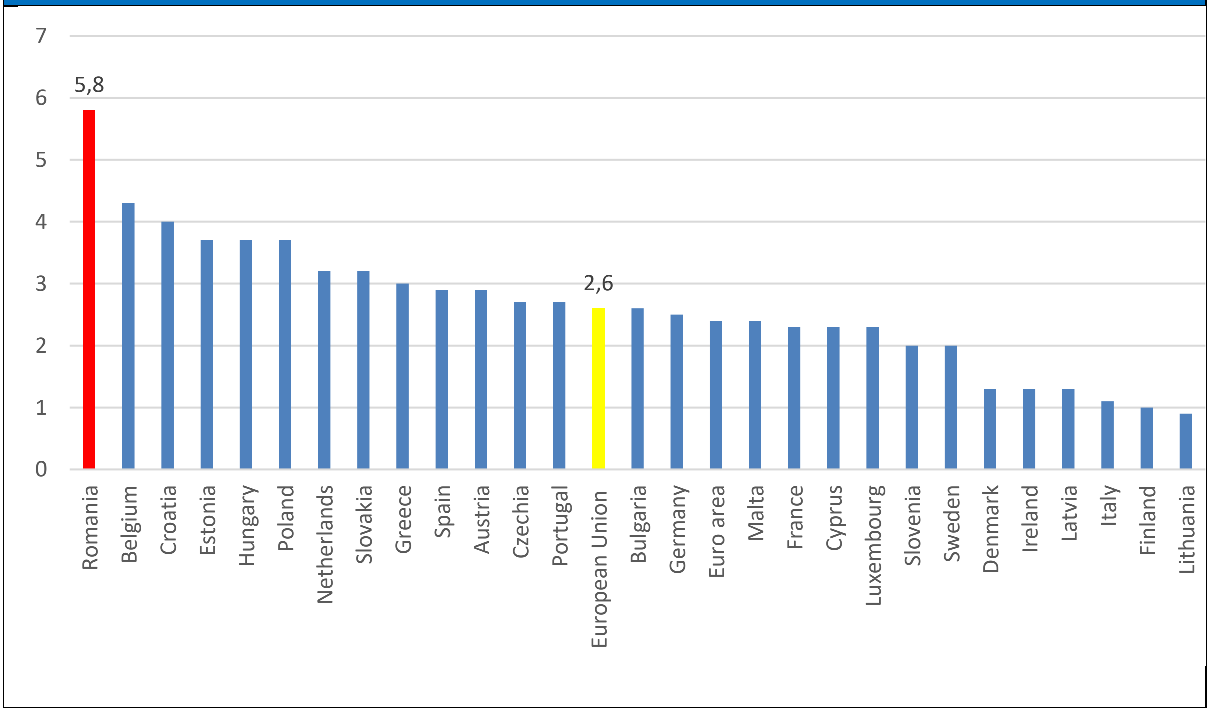
Figure 10. Share of interest expenditures in total revenues in 2025* (%)



Source: AMECO

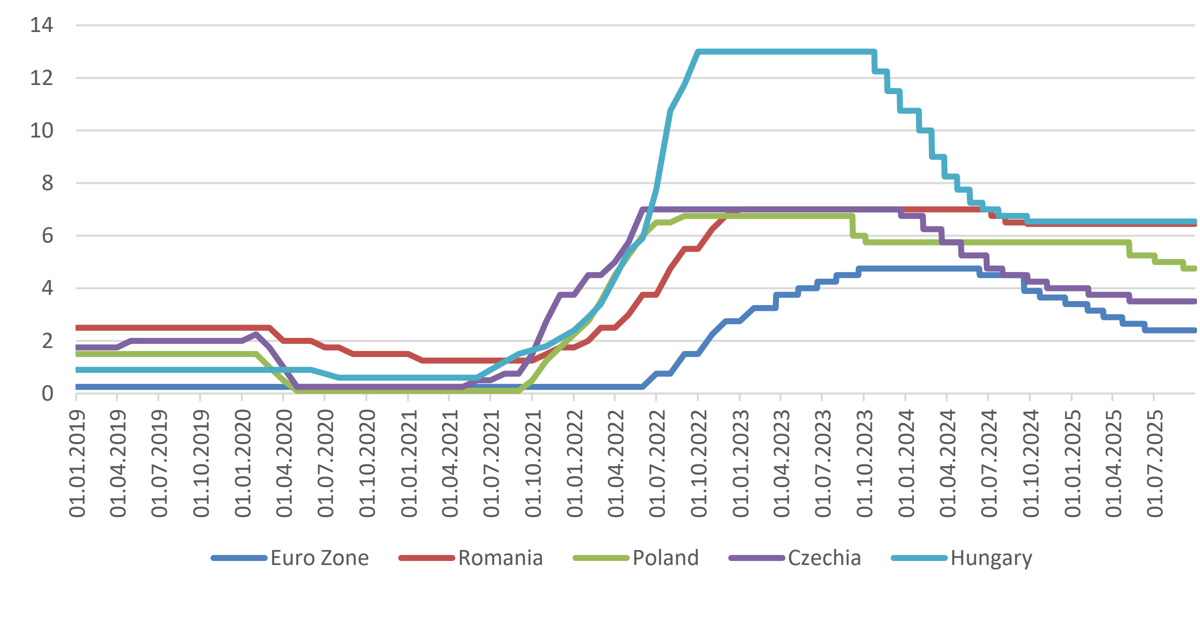
Note: *For 2025, values represent AMECO forecast.

Figure 11. HCPI in EU states in 2024 (%)



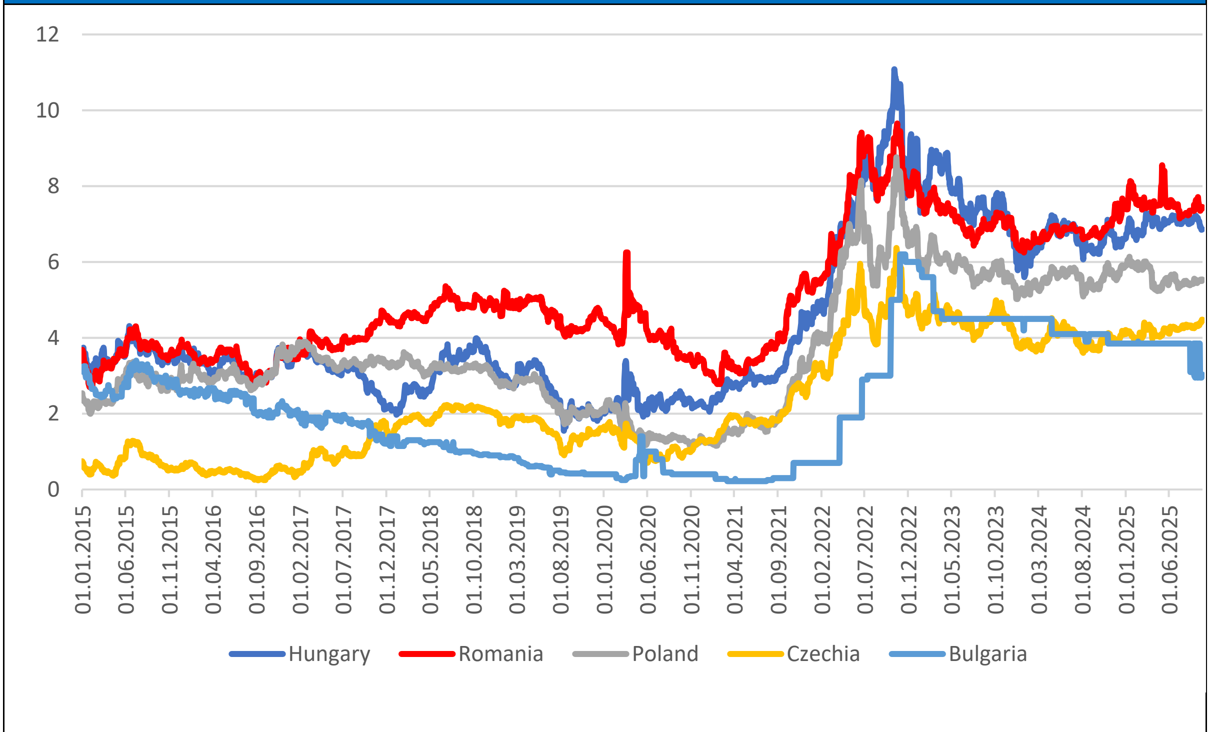
Source: EUROSTAT

Figure 12. Monetary policy interest rate evolution in Romania, peer countries and Euro Zone (%)



Source: central banks websites

Figure 13. The evolution of 10-year government bond yields (percentages)



Source: Refinitiv Datastream