Romania

Fiscal Council

Annual Report

2024

Note:

The 2024 Annual Report was approved by the Chairman of the Fiscal Council, according to art. 56, para. (2), letter d) of Law no. 69/2010, after being adopted by the members of the Council through vote, on September 8, 2025.

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List of abbreviations

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

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I. Summary

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

In Romania, real economic growth in 2024 was 0.8%, driven by household consumption. Additionally, the change in inventories made a positive contribution to economic growth, while investment and net exports had a significant contractionary impact.

In Romania, economic growth slowed significantly in 2024, with real GDP advancing by only 0.8%. Household consumption, supported by real wage growth, was the main driver of economic growth (+3.7 pp), along with the positive contribution from the change in inventories (+0.8 pp). These effects were partially offset by negative contributions from investment (-0.9 pp) and net exports (-2.9 pp). On the supply side, services made a marginal contribution to economic growth, industry had a neutral effect, and agriculture had a negative contribution. External geopolitical uncertainties and tensions remained elevated in 2024, with the latter part of the year also recording a significant increase in domestic uncertainty.

In 2024, the annual inflation rate continued its downward trajectory from the previous year, but the disinflationary trend was slower. The current account deficit increased by 1.7 pp compared to 2023, reaching 8.4% of GDP. The Romanian economy continues to be characterized by a high level of twin deficits, which poses significant challenges to the country's economic stability.

In 2024, the annual inflation rate continued its downward trajectory from the previous year, but the disinflationary trend was slower, reaching 5.14% in December 2024, compared to 6.61% in December 2023. The decrease in the GDP deflator was more pronounced compared to the previous year (-4 pp), on the back of a significant fall in the contribution of unit profits and taxes. The current account deficit stood at 8.4% of GDP at the end of 2024, an increase of 1.7 pp compared to the previous year. The coverage of the current account deficit by non-debt-generating flows decreased to 28% in 2024, from 64.7% in the previous year. It should be noted that the average current account deficit over the last 3 years was 8.2% of GDP, far exceeding the 4% alert threshold set by the European Macroeconomic Imbalance Procedure Scoreboard. This highlights a major external imbalance and a high vulnerability to shocks.

The labour market showed a positive development, with the

In December 2024, non-government credit registered a 3.6% increase in real terms compared to the same period of the previous

average number of employees increasing by 0.9% compared to the previous year, while the ILO unemployment rate decreased to 5.4%. The average gross wage continued its upward trend from previous years, recording a nominal increase of 15.3% compared to 2023, while the real wage grew by 8.3%.

year, driven by the rise in the national currency denominated loan component. The growth in non-government credit was supported by the continued high growth rate of wage income, as well as by the start of the key interest rate reduction cycle. In 2024, labour market data indicated a slight increase in the average number of employees to 5,412 thousand persons (+0.9% compared to the previous year), and an ILO unemployment rate of 5.4%, down from the previous year. The average gross wage for the whole economy was 8,118 lei (+15.3% compared to 2023). The average net wage was 5,047 lei (+14.4% compared to 2023), and the real wage grew by 8.3%.

The results of the 2024 budget execution indicate a deficit of 152.7 billion lei, according to the national methodology, which is 66.1 billion lei above the level set in the initial budget. As a share of GDP, the cash deficit was 8.68% (compared to a target of 5%), and the ESA deficit was 9.3%, with the gap compared to the initial budget projection (4.9%) being even wider in this case.

The initial budget for 2024 set a cash deficit target of 5% of GDP, representing a decrease of 0.94 pp from the 5.94% of GDP level estimated for 2023 at that time. Expressed in ESA 2010 terms, the budget deficit was estimated at 4.9% of GDP, down by 1.1 pp from the level assessed by the Ministry of Finance for 2023 at that moment. The main macroeconomic assumptions underpinning the 2024 draft budget included a real GDP growth of 3.4%, a GDP deflator of 5.9%, and an average annual inflation rate of 6%.

The budget revision provided for a substantial nominal increase in both budget revenues (+29.6 billion lei, representing about 5.06% of the initially projected revenues) and budget expenditures (+65.8 billion lei, representing about 9.8% of the initially projected expenditures). Consequently, the consolidated general budget deficit was approximately 36.2 billion lei higher in the revised budget draft, increasing from 86.6 billion lei to 122.8 billion lei. Expressed as a percentage of GDP, the estimated deficit was 6.95%, about 1.95 pp higher than the target in the draft budget.

The results of the 2024 budget execution indicate a deficit of 152.7 billion lei, according to the national methodology, which is 66.1 billion lei above the level set in the initial budget (86.6 billion lei). As a share of GDP, the cash deficit was 8.68% (compared to a target of 5%), and the ESA deficit was 9.3%, with the gap compared to the initial budget projection (4.9%) being even wider in this case.

The primary deficit was 7% of GDP in 2024 (up by approximately 2.3 pp from the previous year), with Romania having the largest primary deficit among EU member states in both 2023 and 2024. The high level of the primary deficit fueled the accelerated growth of the public debt-to-GDP ratio, which reached 54.8% in December 2024.

The substantial increase in the deficit in 2024 is likely to further complicate Romania's fiscal-budgetary situation. Given the fiscal consolidation trajectory established by the National Structural-Budgetary Plan, the risk of a sovereign rating downgrade, and the unfavourable international environment, correcting the budget deficit is of the utmost urgency.

The substantial increase in the deficit in 2024 is likely to further complicate Romania's fiscal-budgetary situation, an aspect also highlighted by the EU Council's decision of June 13, 2025, which determined that the country has not taken effective measures to correct its excessive deficit. In this context, given the fiscal consolidation trajectory established by the National Structural-Budgetary Plan (which stipulated an ESA budget deficit target of 7% for 2025), the risk of a sovereign rating downgrade (with significant consequences for access to international markets and financing costs), as well as the unfavourable international environment marked by instability, trade, and armed conflicts, correcting the budget deficit is of the utmost urgency. In the absence of a credible and firm package of measures, the risk of losing access to financing and refinancing becomes imminent.

Similar to previous years, in 2024 Romania also recorded a very low level of budget revenues and tax revenues as a share of GDP, ranking among the lowest in the EU.

According to the ESA 2010 methodology, Romania's budget revenue-to-GDP ratio in 2024 was 34.1%, 0.1 pp higher than the previous year, but well below the European average of 46%, marking a gap of 11.9 pp. Thus, Romania ranks second to last in the EU27, with only Ireland recording lower budget revenues. The level of tax revenues (taxes and social contributions) increased by 1.6 pp, from 27.2% of GDP in 2023 to 28.8% in 2024, but remains well below the European average of 40.1%, placing Romania, again, second to last in the EU27. The tax revenue-to-GDP ratio recorded by Romania in 2024 is significantly below that of other countries with similar economies, such as Slovenia (38.7%), Poland (37.5%), Czechia (34.8%), and Hungary (35.1%).

Romania's ranking among the last countries in the EU27, in terms of budget and tax revenues as a share of GDP, is the result of an expansionary fiscal policy, flaws in the design of the tax system, a failure to acknowledge the need for higher tax revenues, and an insufficiently modernized tax administration system with slow and partial reforms. Given the

Romania's ranking among the last countries in the EU27, in terms of budget and tax revenues as a share of GDP, is the result of an expansionary fiscal policy, flaws in the design of the tax system, a failure to acknowledge the need to raise tax revenues from a very low level, and an insufficiently modernized tax administration system with slow and partial reforms. Given the high level of the budget deficit in Romania and the urgent need to correct it, government authorities must prioritize the digitalization of NAFA as an essential lever for increasing tax revenues by improving collection.

high level of the budget deficit in Romania and the urgent need to correct it, government authorities must prioritize increasing tax revenues, which are at an unacceptably low level, including through the digitalization of NAFA to improve collection.

From the perspective of the Digital Economy and Society Index, Romania has made significant progress in digitalization, but it remains marked by sharp contrasts between areas where it excels and those where significant delays persist. The most extensive progress is recorded in fixed connectivity, the uptake of high-speed internet, and ultra-fast connections, with this solid infrastructure providing an essential foundation for the digitalization process. Romania has also made progress in the digitalization of public services, but it continues to rank last among member states in basic digital skills. Another significant weakness is the delay in implementing 5G technology, which limits the digitalization potential in certain industrial sectors where it could bring significant advantages. Regarding the integration of digital technology by businesses, Romanian companies insufficiently integrate new technologies into their processes, and the use of artificial intelligence and data analytics tools remains at extremely low levels compared to the European average.

Starting in 2016, the implementation of discretionary increases in permanent expenditures has led to a growing rigidity in the structure of budget spending. In 2024, an increase in personnel and social assistance expenditures was observed, with their share of total budget revenues rising for both indicators.

Starting in 2016, with the implementation of the new Fiscal Code which led to a large-scale fiscal easing (resulting in lower tax revenues), there was an increased reliance on discretionary increases in permanent expenditures. This resulted in a growing rigidity of the budget expenditure structure. In 2024, the ratio of personnel expenditures to total budget revenues increased from 29.7% to 32.8%, placing Romania first in the EU rankings. Moreover, the ratio of social assistance expenditures to budget revenues also entered an upward trend, rising from 36.8% in 2023 to 39.9% in 2024. This trend was driven by the faster growth rate of this expenditure category (on the back of a 13.8% increase in the pension point and the recalculation of public system pensions), compared to the growth rate of budget revenues.

In 2024, personnel and social assistance expenditures were equivalent to 72.6% of budget revenues. Indexing these expenditure categories according to transparent, predictable rules, linked to economic developments and purchasing power, is

In Romania, the structure of budget expenditures continued to be characterized by the predominance of wage and social assistance spending in 2024, reaching 72.6% of budget revenues. This development was driven by wage increase measures, in addition to the indexation and recalculation of public system pensions. In this context, the nominal growth of budget revenues was only 10%, while the growth rate of nominal expenditures on wages and social assistance was 20.3%. The significant shift in the share of these two expenditure categories in budget revenues reflects the discretionary nature of the policies for increasing wages and

necessary to ensure the long-term sustainability of public finances.

indexing public system pensions. Anchoring them to transparent, predictable rules, linked to economic developments and purchasing power, is necessary to ensure the sustainability of public finances.

In 2024, investment expenditure reached 6.8% of GDP, 0.5 pp above the level recorded in the previous year. The Fiscal Council considers that a high absorption of the European resources available to Romania can help maintain a high level of investment in the medium term, given the urgent need to reduce the budget deficit in the coming years.

In 2024, investment expenditure accounted for 6.8% of GDP, 0.5 pp above the level recorded in 2023. The nominal increase compared to the previous year was 19.6 billion lei, driven by own and borrowed funds (+26 billion lei) and projects financed from the grant and loan components of the NRRP (+17.6 billion lei), while projects financed from post-accession non-reimbursable external funds decreased by 24.1 billion lei.

Maximizing the absorption of the significant volume of European funds available to Romania is the essential prerequisite for maintaining the upward investment trend of recent years in the medium term, given the urgent need to reduce the budget deficit in the coming years. At the same time, the firm application of the existing legal framework and a better prioritization of public investments, aimed at directing them towards research, development, and innovation in strategic areas, can contribute to closing infrastructure gaps, reducing polarization and regional disparities, and improving the competitiveness of the Romanian economy.

In 2024, approximately 64 billion lei were allocated from the contingency reserve fund, representing an unprecedented use of this budgetary tool. The share of funds used from the contingency reserve fund in total budget expenditures was approximately 8.8%, an increase of 3.6 pp compared to 2023 and 7.6 pp higher than the average for the 2007-2023 period.

In May 2024, the Government, through a series of derogations from the fiscal-budgetary framework, revised the operating mechanism of the contingency reserve fund for 2024. The main provision allowed for the allocation of funds from the contingency reserve fund, based on Government decisions, to finance the current and capital expenditures of main authorizing officers. Through these measures, as in 2023, the authorities created a framework that permitted the use of the contingency reserve fund to balance local and central budgets. The lack of realism in both the initial budget and the revision adopted in September 2024 is reinforced by the unprecedented use of the contingency reserve fund to balance the budgets of authorizing officers, especially those at the central administration level. In 2024, approximately 64 billion lei were allocated from the contingency reserve fund (58.6 billion lei at the central administration level and 5.4 billion lei at the local administration level). The share of funds used from the contingency reserve fund in total budget expenditures was approximately 8.8%, an increase of 3.6 pp compared to 2023 and 7.6 pp higher than the average for the 2007-2023 period.

Using the contingency reserve fund to reallocate resources within the general consolidated budget involves major risks, ranging from a lack of transparency in budget execution to discretionary use and an increased reliance on derogations from fiscal rules.

The Fiscal Council reiterates its recommendation from previous reports regarding the explicit identification of expenditures that can be committed from the contingency reserve fund, including through periodic reporting to Parliament on the manner and level of the contingency reserve fund utilization. Furthermore, the Fiscal Council's warnings remain relevant that using the contingency reserve fund to reallocate resources within the general consolidated budget involves major risks, ranging from a lack of transparency in budget execution to discretionary use and an increased reliance on derogations from fiscal rules.

In 2023, the first two public spending reviews were conducted, focusing on education and health. A brief analysis of the structure of public spending in Romania for 2023 shows that allocations for education and health are lower than the EU average. Expenditures in these areas are not analysed within a methodological impact assessment framework, and the proposed measures are not always accompanied by quantifiable financial targets. This hinders their implementation in the drafting of the general consolidated budget, their ongoing monitoring, and the ex-post evaluation of the effects of these measures.

In 2023, the first two public spending reviews were conducted, focusing on education (the pre-university education sector) and health (the outpatient healthcare services sector). A brief analysis of the structure of public spending in Romania for 2023 shows that allocations for education and health are lower than the EU average. In the FC's opinion, both spending reviews are lacking in terms of representativeness and in achieving the objective of identifying and quantifying potential savings. The expenditures in the reviewed areas are not analysed within a methodological impact assessment framework that could support the substantiation of the proposed measures for reviewing and improving spending efficiency. Furthermore, the proposed measures are not always accompanied by quantifiable financial targets, which hinders their implementation in the drafting of the general consolidated budget, their ongoing monitoring, and the evaluation of their effects.

Ex-post evaluation involves not only a quantitative but also a qualitative analysis, and this requires a high level of expertise in the fields of education and health. 2024 was characterized by a significant worsening of the budget deficit, driven by the accelerated growth trend of public spending, far beyond the limits set in the initial budget. In this context, the rigorous identification and quantification of the efficiency of certain budget allocations is limited, as any effort to improve the efficiency of public spending requires a predictable and coherent framework for budget planning and execution.

A public debt sustainability analysis, under a no-policy-change

Pro-cyclical fiscal policies in recent years have led to a sharp increase in the budget deficit and have put public debt on an

scenario, indicates a strong upward trend for the public debt-to-GDP ratio. Public debt sustainability can only be ensured by adopting budgetary correction measures and by complying with the rules of the new EU governance framework.

upward trajectory. A public debt sustainability analysis, under a no-policy-change scenario, indicates a strong upward trend for the public debt-to-GDP ratio: it is projected to rise to around 60% in 2025 and will exceed the 100% threshold by 2032. Public debt sustainability can only be ensured by adopting budgetary correction measures and by complying with the rules of the new EU governance framework. Under both a 7-year and a 4-year adjustment period, provided that the structural primary balance target is met during the adjustment period, the public debt trajectory becomes downward in the long term. Both scenarios indicate a difficult budgetary correction in the coming years, but this approach yields results in ensuring the sustainability of the public debt trajectory.

In 2025, a marginal improvement in economic growth is anticipated compared to the previous year. Thus, the EC estimates economic growth of 1.4% for Romania, a value close to the IMF's projection of 1.6%. The NBR forecasts a CPI inflation rate of 8.8% at the end of 2025, expected to follow a downward path thereafter.

In its Spring Forecast, the European Commission anticipates real GDP growth in Romania of 1.4% in 2025 – marginally lower than the IMF's projection of 1.6% from April 2025. For 2026, the trend is identical – an acceleration of growth – but the gap widens, with the IMF forecasting 2.8% growth and the European Commission, only 2.2%. The drivers of GDP growth over the next two years are projected to be gross fixed capital formation and private consumption, on the back of rising real disposable income in the economy. European funds (multiannual and NRRP) are expected to support aggregate demand and provide financing for the external deficit. Net exports are anticipated to have a negative contribution to economic growth. According to the Inflation Report, published by the NBR in August 2025, the annual CPI inflation rate will reach 8.8% by the end of 2025, following a downward path thereafter.

The NCSP's projection of a 1.4% economic growth rate for 2025, which forms the basis for this year's deficit calculations, preceded the package of fiscal measures adopted in July 2025. Real growth in 2025 could be lower as a result of a decrease in domestic absorption. Compared to the NCSP's projections, the GDP deflator could be considerably higher, considering the tax increases and the liberalization of

The National Commission for Strategy and Prognosis forecast of a 1.4% economic growth rate for 2025, which underpins the deficit calculations for this year, preceded the package of fiscal measures adopted in July 2025. Consequently, real growth in 2025, as well as in the following year, could be significantly lower as a result of a decrease in domestic absorption. In the NCSP's current projection, the GDP deflator growth rates of 6.1% for 2025 and 5.0% for 2026 can be considered very conservative/low – even without factoring in the legislative package for fiscal adjustment. Even if we were to consider that the real GDP growth rate might be lower, the dynamic of the GDP deflator could offset such a development, given that nominal developments are what is relevant for the fiscal sector. Moreover, in the context of value added tax increases with a

energy prices, which would be a factor having a favourable impact on the budget balance.

significant impact on inflation, rises in excise duties, as well as the re-liberalization of electricity prices from July 2025 and natural gas prices from July 2026, it can be considered that the GDP deflator values (for both 2025 and 2026) could be considerably higher, which would be a factor generating a favourable impact on the budget balance.

The draft budget for 2025 envisaged a deficit target of 7% of GDP, both according to the national methodology and the ESA 2010 methodology. Based on a prudent approach to forecasting revenues and expenditures, and according to available data, the FC assessed the 2025 budget construction to be consistent with a cash deficit of around 7.7% of GDP.

The draft budget for 2025 envisaged a cash deficit target of 7% of GDP, representing a decrease of 1.6 pp of GDP compared to the level recorded in the previous year, with the deficit target having a similar value under the ESA 2010 methodology. The planned deficit reduction was projected to be achieved by increasing budget revenues by approximately 2.3 pp of GDP, while budget expenditures were planned to increase by 0.7 pp of GDP. Excluding the aggregate impact of EU funds, the other revenue categories were planned to increase by almost 0.2 pp of GDP, while the remaining expenditure categories were planned to decrease by 1.5 pp of GDP. This shows that the deficit adjustment was planned to be achieved primarily on the expenditure side. Based on a prudent approach to forecasting revenues and expenditures, and according to available data, the FC assessed the 2025 budget construction to be consistent with a cash deficit of around 7.7% of GDP.

Without fiscal policies to support the fiscal consolidation path on the revenue side as well, an adjustment of the budget deficit based solely on the expenditure side is not credible, with the balance of risks tilted towards recording higher deficits than those projected in the fiscal-budgetary framework for the 2026-2028 period.

In the medium term, without fiscal policies to support the fiscal consolidation path on the revenue side as well, an adjustment of the budget deficit based solely on the expenditure side is not credible, with the balance of risks tilted towards recording higher deficits than those projected in the fiscal-budgetary framework for the 2026-2028 period. This observation is all the more relevant given the developments in the international environment and the major challenges facing economic policies, especially concerning defense spending and trade tensions. At the same time, the consequences of an inevitable decrease in the contribution of European funds to the investment process and to supporting Romania’s economic development must be taken into account. A decline in European funds will affect the dynamics of potential GDP and, likely, the economic growth rate, unless the contribution of domestic resources increases as a compensating factor. This anticipated decrease can be partially offset by an increase in the efficiency and quality of public investments.

The budget execution for the first 6 months of 2025 recorded a cash deficit of 69.8 billion lei (approximately 3.7% of GDP). In the absence of budget deficit correction measures, the dynamics of the main revenue and expenditure categories in the first half of 2025 are consistent with a cash budget deficit significantly above 8.5% of GDP.

The budget execution for the first 6 months of 2025 recorded a cash deficit of 69.8 billion lei (approximately 3.7% of GDP), about 0.1 pp higher than the deficit recorded in the first 6 months of 2024 and up by 0.3 pp from the deficit in May 2025. Budget revenues increased compared to the same period in 2024 (+12.7%), but their dynamic is below the target set in the 2025 budget, which projected a 16.2% revenue increase compared to the previous year's execution. Budget expenditures also grew compared to the first 6 months of 2024 (+12.1%), but their dynamic is faster than initially programmed in the budget, which had forecast an expenditure increase of only 10.3% compared to the 2024 execution. The analysis of the budget execution for the first six months of the year is likely to worsen the FC's assessment made at the time of the draft budget's adoption, which had projected a cash deficit of around 7.7% of GDP. Thus, in the absence of budget deficit correction measures, the dynamics of the main revenue and expenditure categories in the first half of 2025 are consistent with a cash budget deficit significantly above 8.5% of GDP. The unfavourable dynamic of budget execution is also reflected in the increase in public debt, which reached 56.6% of GDP by the end of April 2025, according to the European methodology, and 61.1% of GDP, according to the national methodology.

The budgetary correction measures create the conditions for reducing the budget deficit in 2025 and for meeting the budget deficit target in 2026. However, even with the reduction/prioritization of some public investment expenditures, the budget deficit in 2025 will not fall below 8% of GDP. The budgetary correction is the price that must be paid to ensure public debt sustainability and to avoid a more severe adjustment.

At the beginning of July 2025, the Parliament adopted a first package of budgetary correction measures. In addition to this, the Government announced that other projects targeting public expenditures would also follow. The budgetary correction measures indicate a budgetary impact, estimated by the Ministry of Finance, of 0.6% of GDP in 2025 and 3.35% of GDP in 2026, creating the conditions for reducing the budget deficit in 2025 and, respectively, for meeting the budget deficit target in 2026. However, even with the reduction/prioritization of some public investment expenditures (planned for in subsequent packages of measures), the budget deficit in 2025 will not fall below 8% of GDP. The budgetary correction, which means a reduction in domestic absorption (affecting personal incomes and company revenues), is the price that must be paid to ensure public debt sustainability and to avoid a more severe adjustment.

II. Macroeconomic framework in 2024

In 2024, economic growth slowed down significantly, with real GDP increasing by only 0.8%[1] compared to the previous year. Household consumption, supported by the rise in real wages, was the main driver of economic growth, along with a favourable contribution from inventory changes. These effects were partially offset by the evolution of investments and net exports. On the supply side, services contributed marginally to economic growth, industry had a neutral impact, and agriculture had a negative contribution. External geopolitical uncertainties and tensions remained high in 2024, and the latter part of the year also saw a significant increase in domestic uncertainty.

At the EU level, Malta (6%), Croatia (3.9%), and Denmark (3.7%) recorded the highest economic growth rates. Romania (0.8%), Italy (0.7%), and Hungary (0.5%) experienced marginal growth, while Finland (-0.1%), Germany (-0.2%), Estonia (-0.3%), Latvia (-0.4%), and Austria (-1.2%) registered negative economic growth rates. Based on real growth in 2024, Romania ranks 20th out of the 27 EU member states. The average GDP growth in the EU bloc was around 1%, while in the Eurozone it was 0.9%[2].

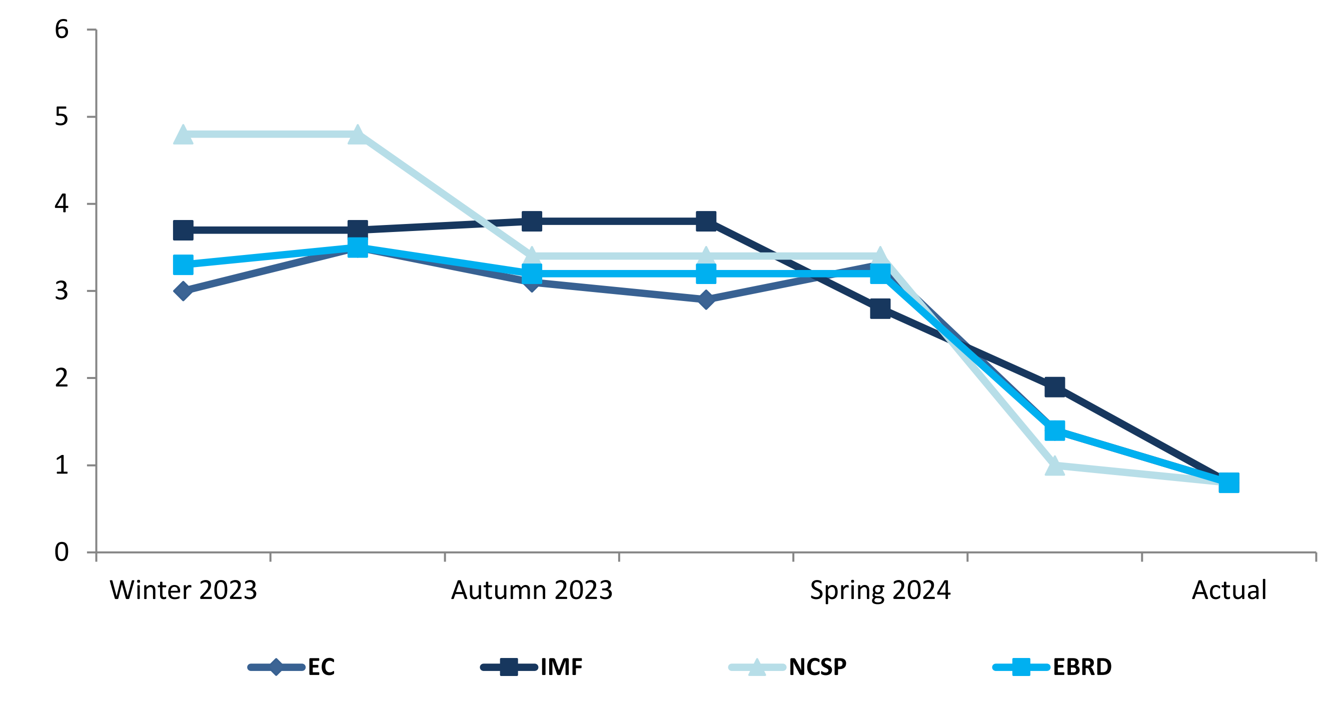
Forecasts from international financial institutions (the European Commission, IMF, and EBRD), as well as from the National Commission for Strategy and Prognosis (NCSP), made in 2023, anticipated economic growth for 2024 to fall within the range of 3% to 4.8% (see *Figure 1*). Among these, the NCSP projection was the most optimistic, indicating a growth rate of 4.8% during the winter and spring of 2023. In the autumn of 2023, the NCSP revised its forecast for 2024 down to 3.4%, highlighting heightened geopolitical uncertainties and the slow recovery of the industrial sector and external demand. In 2023, the IMF's forecast for 2024 showed the least variability, projecting an economic growth rate of 3.7%-3.8%, while the European Commission and the EBRD started with estimates of 3% and 3.3%, respectively.

In the first half of 2024, forecasts did not change significantly compared to the latest data from 2023. In the spring of 2024, the European Commission, EBRD, and NCSP projected economic growth rates of 3.3%, 3.4%, and 3.2%, respectively. A more substantial revision was made by the IMF in its spring 2024 forecast, lowering its estimate by 1 pp – from 3.8% to 2.8%. As data for 2024 pointed to slow economic growth, external geopolitical tensions remained high, and domestic economic and political uncertainties increased, the forecasts were revised downward in the autumn of 2024, ranging from 1.9% (IMF) to 1% (NCSP). Ultimately, the real GDP growth rate for 2024 was 0.8%.

[1] According to the GDP data for the fourth quarter of 2024 (second provisional data), published by the National Institute of Statistics (NIS) on April 10, 2025.

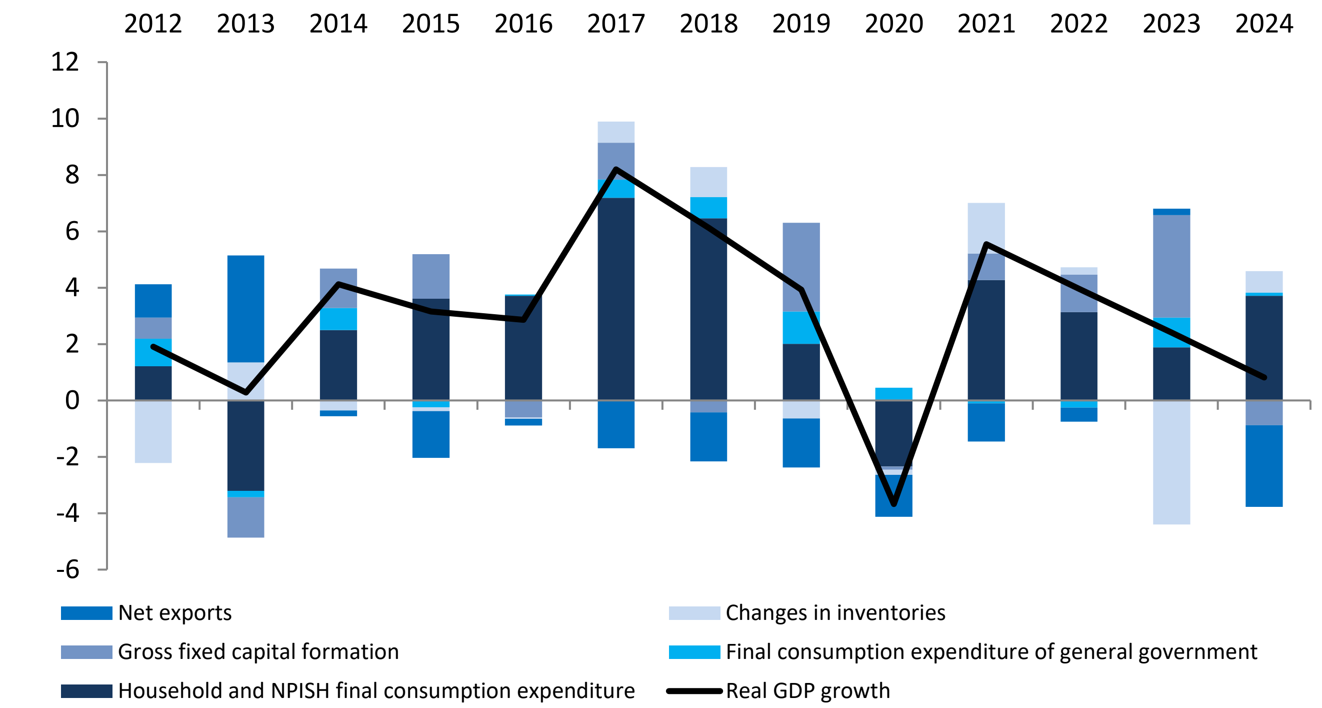
[2] According to the provisional data on real GDP growth, published by Eurostat and accessed on April 16, 2025.

Figure 1: The evolution of economic growth forecasts for 2024



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

Figure 2: Contributions to real GDP growth



Source: Eurostat, FC's calculations

On the demand side (see *Figure 2*), household consumption (+3.7 pp) made the largest contribution to the positive dynamic of economic activity, along with government consumption (+0.1 pp) and changes in inventories (+0.8 pp). These positive contributions were partially offset by the contractionary impact of net exports (-2.9 pp) and gross fixed capital formation (-0.9 pp).

The comparison with the previous year highlights several differences in the contribution levels on the demand side. Thus, the contribution of household consumption to GDP growth accelerated from 1.9 pp in 2023 to 3.7 pp in 2024. The real wage increase of 8.3% compared to the previous year supported the accelerated dynamic of household consumption. In contrast, the contribution of government consumption to GDP growth slowed from 1.1 pp in 2023 to 0.1 pp in 2024.

Gross fixed capital formation significantly reduced its contribution to economic growth. From a contribution of approximately 3.6 pp in 2023, the data for 2024 indicate a negative contribution of -0.9 pp, amid a decline in the real growth rate of gross fixed capital formation from 14.5% in 2023 to -3.3% in 2024. The decrease is mainly driven by household investments, as the share of gross fixed capital formation in GDP for the household sector dropped by about 2 pp compared to the previous year (from 8.1% in 2023 to 6.1% in 2024). For the public sector, the share of gross fixed capital formation in GDP increased marginally, from 5.4% in 2023 to 5.5% in 2024, while for the corporate sector, it rose from 13.5% of GDP in 2023 to 14.1% in 2024.

Changes in inventories – historically characterized by large fluctuations – made a positive contribution to economic growth (+0.8 pp), increasing from the significant negative value recorded in 2023 (-4.4 pp). In contrast, net exports of goods and services had a significant negative contribution to economic growth (-2.9 pp), in contrast to the marginal positive contribution in 2023 (+0.2 pp).

On the supply side, the contribution of economic sectors to GDP growth was mixed, with total gross value added contributing only 0.1 pp, and net taxes on products contributing 0.7 pp. The sectors with a positive contribution to GDP growth were: wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; hotels and restaurants (+0.3 pp), accounting for about 20.7% of GDP formation; public administration and defense; compulsory social security; education; health and social work (+0.1 pp), representing about 12.9% of GDP formation; arts, entertainment and recreation activities; repair of household goods and other services (+0.2 pp), with a share of about 3.1%. Conversely, negative contributions to GDP growth were recorded in the following sectors: agriculture, forestry and fishing (-0.2 pp), with a share of about 3.3% of GDP formation; construction (-0.2 pp), with a share of about 7.5%; and real estate activities (-0.1 pp), with a share of about 7.3%. Finally, the economic sectors represented by industry, information and communications, financial intermediation and insurance, professional, scientific and technical activities, administrative services, and support services had a neutral contribution to GDP growth.

In 2024, the annual inflation rate continued the downward trajectory from the previous year, although the disinflation trend was slower. Thus, the annual inflation rate decreased from 6.61% in December 2023 to 5.14% in December 2024. The average annual inflation rate followed a more pronounced downward path, falling to 5.6% in 2024 compared to 10.4% in 2023. Price dynamics in the energy and food sectors, as well as changes in certain taxes and indirect taxes were the main factors influencing the annual inflation rate.

In the first quarter of 2024, the annual inflation rate was influenced by changes in taxes and indirect taxes that came into effect in January, as well as by an increase in crude oil prices. Thus, in January 2024, the annual inflation rate rose to 7.41%. By the end of the first quarter of 2024, the annual inflation rate fell back to a level similar to that of December 2023, at 6.61%. In the second quarter of 2024, the disinflation trend was more pronounced, with the annual inflation rate dropping to 4.94% at the end of June. This development was supported by favourable price dynamics in electricity and natural gas. Throughout all months of the second quarter, the annual variation in electricity and natural gas prices was negative[3]. By the end of the third quarter, the annual inflation rate fell to 4.62%, but the last quarter of the year marked a turning point, with the annual inflation rate rising to 5.14% in December due to an unexpected increase in fuel prices. Throughout 2024, the adjusted Core2 inflation rate was higher than the CPI inflation rate, driven by significant fluctuations in the prices of non-food goods and services[4].

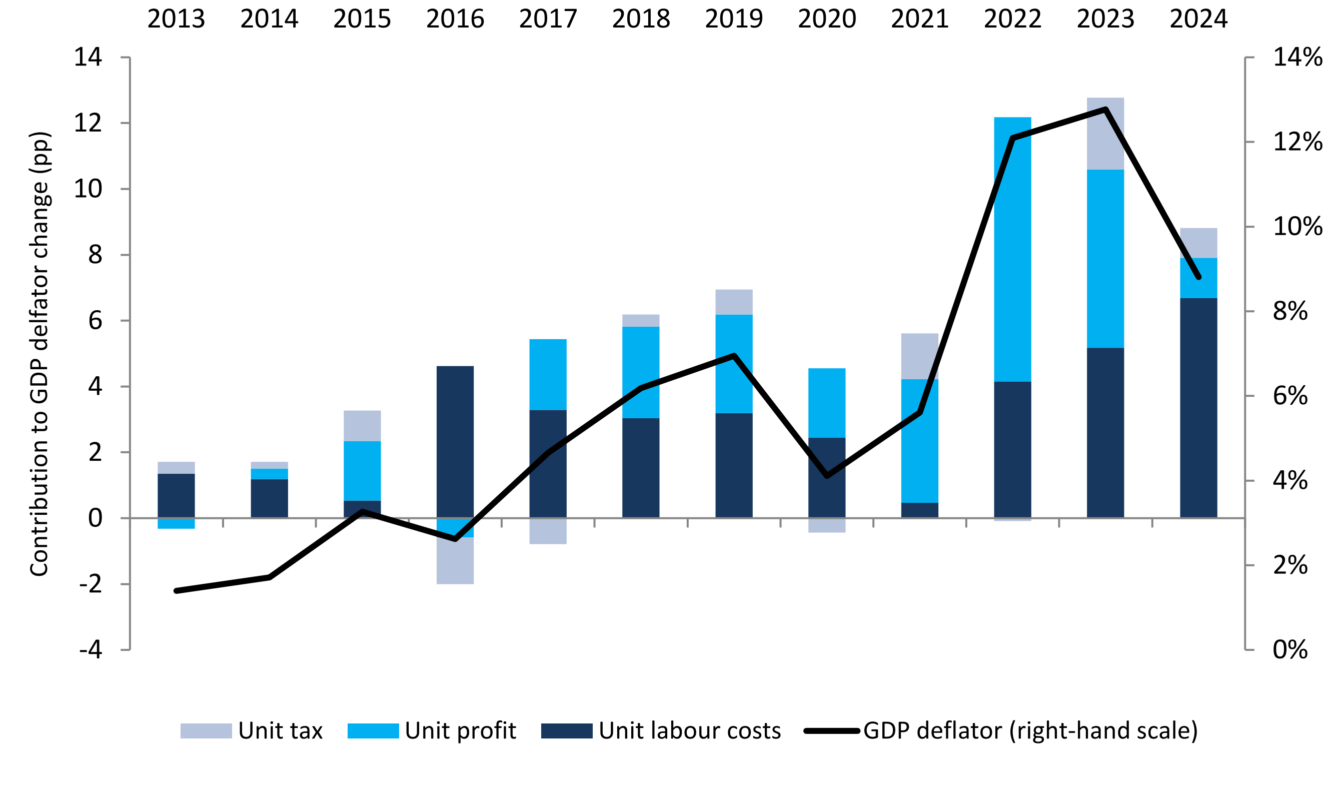
In 2024, the GDP deflator decreased to 8.8%, down from 12.8% in 2023. The slowdown was mainly due to a significant reduction in the contribution of unit profits and unit taxes to the formation of the deflator. In contrast, the contribution of unit labour costs to the deflator increased compared to the previous year. Analysis of *Figure 3* reveals, compared to the previous year, an intensification of wage pressures, which led to an increase of approximately 1.5 pp in the contribution of unit labour costs to the GDP deflator variation (from 5.2 pp in 2023 to 6.7 pp in 2024). Regarding unit profits, there was a decrease in their contribution to the deflator variation by about 4.2 pp (from 5.4 pp in 2023 to 1.2 pp in 2024), while the contribution of unit taxes to the deflator variation declined by approximately 1.3 pp compared to the previous year.

Amid a slower disinflationary trajectory in the early months of the year, the central bank maintained the key interest rate at 7%. The easing of inflationary pressures, more evident in the second quarter, along with signals of slower economic activity created the conditions for a reduction in the key rate. Thus, in two consecutive meetings, in July and September, the NBR’s Board of Governors decided to lower the monetary policy rate by 0.25 pp at each meeting. At the last meeting of 2024, the NBR decided to keep the key interest rate steady at 6.5%, citing high uncertainties and risks to economic activity and inflation developments, both externally and domestically. Regarding the reserve requirement ratio (RRR), it was maintained at 8% for liabilities in local currency, while for foreign currency liabilities, the RRR stood at 5%.

[3] According to the Inflation Report of the National Bank of Romania, August 2024.

[4] According to the Inflation Report of the National Bank of Romania, February 2025.

Figure 3: GDP deflator decomposition



Source: Eurostat, FC's calculations

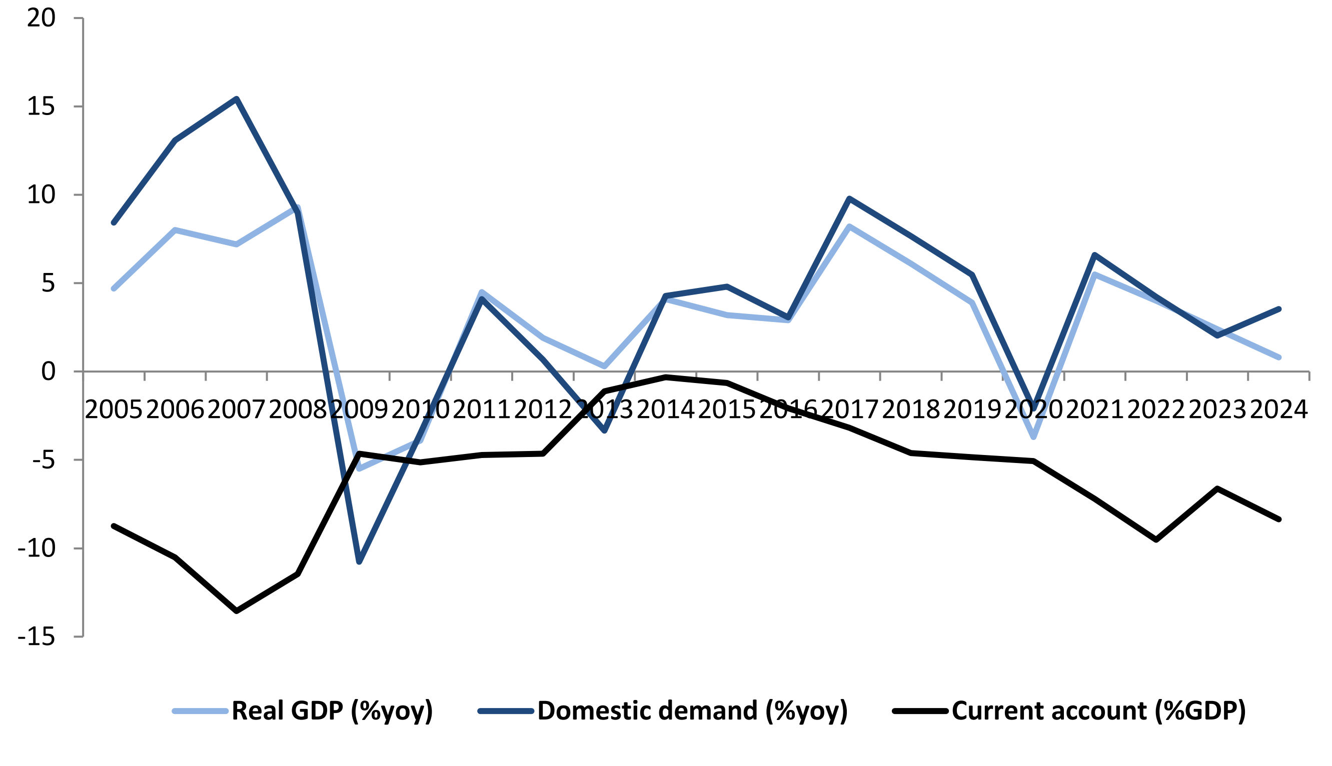
The current account deficit[5] reached 8.4% of GDP at the end of 2024 (*Figure 4*), up by 1.7 pp compared to the previous year, continuing the upward trend observed since 2015. The only exception was in 2023, when the current account deficit decreased due to the favourable contribution of the terms of trade, driven by a larger variation in export prices compared to import prices[6].

The level of the current account deficit remains high and raises concerns regarding the evolution of external imbalances and competitiveness, with the European scoreboard setting an alert threshold when the average current account deficit over the past three years exceeds 4% of GDP. In Romania's case, this average reached 8.2% of GDP in 2024, with the 4% threshold being significantly exceeded in each of the last three years. In 2024, alongside the deepening of the current account deficit, the budget deficit in ESA terms increased by about 2.7 pp (from 6.6% to 9.3% of GDP), exacerbating the issue of twin deficits and posing significant challenges for the country's economic stability.

[5] Data source: NBR, interactive database.

[6] According to NIS data on unit value indices in international trade in 2023.

Figure 4: The evolution of real GDP, domestic demand and current account balance between 2005-2024



Source: NBR, Eurostat, FC's calculations

The increase in the current account deficit was driven by the widening deficit in goods and services, rising from 15.7 billion euros in 2023 to 21.4 billion euros in 2024 (equivalent to an increase of 36.3%). This dynamic was mainly caused by the evolution of the goods balance, whose deficit expanded by 3.9 billion euros (from 29 billion euros in 2023 to 32.9 billion euros in 2024). The contribution of the surplus balance of services to reducing the current account deficit decreased compared to the previous year, as its value declined by 1.8 billion euros (from 13.3 billion euros in 2023 to 11.5 billion euros in 2024).

The deepening of the current account deficit was also influenced by the primary income balance, whose deficit increased by 1.3 billion euros (from 8 billion euros in 2023 to 9.3 billion euros in 2024). The secondary income balance remained in surplus; however, its contribution to reducing the current account deficit diminished, as its surplus decreased by 0.9 billion euros (from 2.2 billion euros in 2023 to 1.3 billion euros in 2024).

Analysing the evolution of the current account from the perspective of the savings-investment balance, it is observed that the savings rate, as a share of GDP, decreased by 3.2 pp, from 19.1% in 2023 to 15.9% in 2024, while the investment rate declined by 1.4 pp, from 25.7% in 2023 to 24.3% in 2024. This explains the widening of the current account deficit from 6.6% of GDP in 2023 to 8.4% of GDP in 2024.

Regarding the financing of the current account deficit (29.6 billion euros), this was mostly achieved through the financial account of the balance of payments (21.2 billion euros in 2024, compared to 10.5

billion euros in 2023) and, to a lesser extent, through the capital account (4.2 billion euros, down from 8.8 billion euros in 2023). Within the financial account, net direct investments (in the form of equity participation as well as debt instruments) amounted to about 5.7 billion euros, compared to 6.6 billion euros in 2023. The decrease was mainly driven by a reduction in the reinvested earnings component (4 billion euros in 2024, compared to 5 billion euros in 2023). The share of net direct investments in the financial account was 27%, compared to 61% in 2023. Portfolio investments increased slightly compared to the previous year (from 14 billion euros in 2023 to 14.4 billion euros in 2024), while the value of other investments remained unchanged at 3.8 billion euros in 2024, similar to 2023. The capital account balance was 4.2 billion euros in 2024, compared to 8.8 billion euros in 2023, as capital transfers from public administration – reflecting European funds from the MFFs and grants from the NRRP – declined from 8.8 billion euros in 2023 to 3.8 billion euros in 2024. In this context, coverage of the current account deficit by non-debt-creating flows (considered to be the capital account balance and, from the financial account, only "Equity participation in direct investment, including reinvested earnings") decreased to 28% in 2024, down from 64.7% in the previous year, due to the reduction of direct investments and the capital account balance, combined with the increase of the current account deficit.

In 2024[7], Romania's gross external debt increased by 11.8% compared to the previous year, reaching approximately 205 billion euros at the end of December. Its share in GDP rose by 1.4 pp compared to December 2023, reaching 57.9%. This development continues the upward trend started in 2023 but contrasts with the trend during 2013-2022, when, except for 2020, the share of external debt in GDP gradually decreased. Given the persistence of high twin deficits, it is likely that the external debt growth trend will continue in the coming years.

Of the total external debt at the end of 2024, 75.7% was long-term debt, this category slightly increasing its share from the previous level of 74.8%, driven by a 13.1% growth (from 137 billion euros in 2023 to 155 billion euros in 2024). A slower growth rate was observed for short-term external debt, which increased by 3.7 billion euros (+7.9%) in 2024, reaching 49.9 billion euros, while its share in total external debt decreased by 0.9 pp to 24.3%. The shift of external debt towards longer maturities can be seen as a positive signal in terms of reducing exposure risk to financial market volatility.

The evolution of long-term debt in 2024 was mainly driven by the increase in the volume of debt securities issued by the public administration (+12.3 billion euros), public administration loans (+2.1 billion euros), the volume of debt securities issued by deposit-taking corporations, excluding the central bank (+1.3 billion euros), and loans contracted by other sectors (+0.7 billion euros).

Public administration debt increased by 15.5 billion euros at the end of 2024 compared to 2023, mainly due to the rise in the volume of long-term debt securities issued by the public administration (+12.3 billion euros). Consequently, the share of external public debt in total external debt rose from 67.6% in 2023 to 69.6% in 2024. While the share of the central bank's external debt increased slightly in 2024,

[7] Data source: NBR, interactive database.

from 2.4% to 2.9% of total external debt, the share of private external debt in total external debt decreased from 30% in 2023 to 27.4% in 2024.

Non-governmental credit[8] recorded a real increase of 3.6% in December 2024 compared to the same period of the previous year (in nominal terms, non-governmental credit grew by 8.9%). The local currency (lei) component of non-governmental credit increased by 6.1% in real terms (11.5% in nominal terms), while foreign currency loans, expressed in lei equivalent, decreased by 1.8% in real terms (+3.3% nominal). The sustained high growth rate of wage incomes, as well as the start of the monetary policy interest rate reduction cycle, supported the positive dynamics of non-governmental credit. In the segment of local currency loans granted to households, there was a real increase of 7.7% in 2024 (13.2% nominal). Foreign currency loans to households, expressed in lei, registered a significant real decrease of 22.2%, corresponding to a nominal contraction of 18.2%. Under these conditions, the share of foreign currency non-governmental credit granted to households in total non-governmental credit to households declined from 12.2% in 2023 to 9.2% in 2024. The share of loans granted through the "First Home" / "New Home" program in total mortgage loans continued to decline[9], reaching about 25% in September 2024 compared to approximately 45% in September 2018. Local currency loans granted to non-financial corporations and non-monetary financial institutions increased by 3.9% in real terms (+9.2% nominal), while foreign currency loans, expressed in lei equivalent, rose by 2.6% in real terms (+7.8% nominal). Government programs continued to support the dynamics of loans granted to the non-financial sector, with the volume of state-guaranteed loans representing 19% of total bank exposures to the non-financial sector[10].

In 2024, the downward trajectory of the non-performing loan (NPL) ratio, observed in previous years, marked a turning point, rising to 2.9% in December 2024 from 2.3% in December 2023 (the EU average level was 1.9% in 2024)[11]. The coverage ratio with provisions reached 64.8% at the end of 2024, down from 67.2% in 2023 – significantly above the European average of 41.2%. From a macroprudential perspective, the banking system displayed comfortable liquidity, with the liquidity coverage ratio standing at 255%[12] at the end of 2024, compared to an EU average of 163%. Furthermore, in 2024, the loan-to-deposit ratio for households and non-financial corporations stood at approximately 62%, highlighting difficulties in credit absorption at both the corporate and household levels (by comparison, the EU average for this indicator was 105%). For companies, the main driver is the capitalization issue within the real sector, leading to a reduced number of bankable economic agents. At the household level, the significantly below-one loan-to-deposit ratio is also influenced by the high poverty risk (Romania had the second highest percentage of the population exposed to poverty risk among EU countries in 2024[13]). These factors reduce the appetite for bank loans as well as the creditworthiness of potential borrowers.

[8] Data source: NBR, interactive database.

[9] According to the Financial Stability Report of the National Bank of Romania, December 2024.

[10] According to the Financial Stability Report of the National Bank of Romania, December 2024.

[11] According to the European Banking Authority Risk Dashboard, Q4 2024.

[12] According to the Financial Stability Report of the National Bank of Romania, June 2025.

[13] According to Eurostat data on the population at risk of poverty, accessed on July 1, 2025.

In 2024, labour market data showed a slight increase in the average number of employees, reaching 5,412[14] thousand persons (+0.9% compared to the previous year), as well as a ILO unemployment rate of 5.4%, down from the previous year. The average gross monthly wage across the economy was 8,118 lei[15] (+15.3% compared to 2023). The average net monthly wage was 5,047 lei (+14.4% compared to 2023), and the real wage increased by 8.3%.

Given the obligation of the FC to include in its annual report an *ex-post* evaluation of the macroeconomic and budgetary forecasts contained in the fiscal strategy that is the subject of the report (according to Article 61 of the Fiscal Responsibility Law), *Table 1* presents the main macroeconomic forecasts from the 2024-2026 Fiscal Strategy, compared with the actual values recorded for 2024, based on the most recent available data.

In 2024, nominal GDP was 1.5% higher than the forecast in the 2024-2026 Fiscal Strategy (FS), under conditions where the GDP deflator exceeded the initial estimates by 2.9 pp. Real economic growth was 2.6 pp lower compared to the forecast in the Fiscal Strategy (0.8% versus 3.4%). Regarding the GDP components, actual growth was higher than initial estimates for final consumption (+1.5 pp). This difference was driven by private consumption increasing 2.6 pp above initial estimates, while government consumption grew below the forecasted dynamics (-2.5 pp). Significant differences between estimated and actual values were also observed for gross capital formation (-9.8 pp) and exports of goods and services (-6.5 pp), whereas for imports of goods and services, the difference was smaller (-0.8 pp).

According to the 2024-2026 FS, the inflation rate at the end of 2024 was forecasted at 4.6%, and the average inflation rate at 6%, with actual recorded values differing from the forecasts by +0.5 pp and -0.4 pp, respectively. The rise in the inflation rate in December 2024, above the forecast in the 2024-2026 FS, was driven by a higher-than-expected increase in fuel prices, particularly pronounced in the last quarter of the year. On the other hand, the annual average inflation rate was lower than forecasted in the 2024-2026 FS, due to a sharper slowdown in economic activity in the latter part of the year. A larger difference between the forecast in the 2024-2026 FS and the actual recorded value can be observed in the case of the GDP deflator – which measures the overall price dynamics in the economy, not just the prices of final goods and services – forecasted for 2024 at 5.9%, while the actual value was 8.8%. The above-expected value of the GDP deflator was determined by the sustained high growth rate of unit labour costs. In the labour market, the ILO unemployment rate was in line with the FS forecast, with differences between actual and initial forecast values of -0.7 pp for the growth rate of the average number of employees, and +5.1 pp for the growth rate of net wages.

[14] According to the NCSP spring forecast from May 2025.

[15] According to the NCSP spring forecast from May 2025.

Table 1: Main macroeconomic indicators in 2024 (Fiscal Strategy forecast versus actual)		
	FS 2024-2026	**Actual 2024**
	%, change, year on year	
Gross domestic product		
GDP (mil. lei)	1,733,821	1,760,118
Real GDP	3.4	0.8
GDP deflator	5.9	8.8
GDP components		
Final consumption	3.3	4.8
Private consumption expenditure	3.4	6.0
Government consumption expenditure	3.2	0.7
Gross fixed capital formation	6.5	-3.3
Exports of goods and services (volume)	3.4	-3.1
Imports of goods and services (volume)	4.6	3.8
Inflation		
December 2023	4.6	5.1
Annual average	6.0	5.6
Labour market		
ILO unemployment rate (end of period)	5.4	5.4
Average number of employees	1.6	0.9
Net average wage	9.3	14.4

Source: NCSP, Eurostat, MF

III. Fiscal policy in 2024

III.1. Main features of the fiscal-budgetary policy in 2024

After a trend of budget deficit reduction in 2021 and 2022, 2023 and 2024 marked a significant deviation from the fiscal consolidation targets. The main features of the fiscal-budgetary policy in 2024 will be summarized below, with further details provided later in this report:

- For 2024-2026, the Fiscal-Strategy set a cash budget deficit target of 5% of GDP for 2024, representing a decrease of 0.94 pp compared to the level of 5.94% of GDP estimated at that time for 2023. Expressed in ESA 2010 terms, the budget deficit was estimated at 4.9% of GDP, down by 1.1 pp compared to the level assessed by the Ministry of Finance for 2023 at that point (6% of GDP). The main macroeconomic assumptions underlying the 2024 draft budget included a real GDP growth of 3.4%, a GDP deflator of 5.9%, and an average annual inflation rate of 6%. Based on a prudent approach to revenues and expenditures, the FC considered the 2024 budget construction to be compatible with a cash deficit of around 6.4% of GDP. This assessment took into account the information available to the FC, the uncertainties regarding the final form of the measures adopted by the authorities, and the assumption that no forced expenditure cuts would be implemented. Under these circumstances, the FC highlighted the existence of major risks concerning the consolidation process.
- According to the medium-term fiscal-budgetary framework, fiscal consolidation during 2025-2027 was planned to be achieved exclusively on the expenditure side, with the share of budget revenues in GDP showing a downward trend over the analysed period. In its opinions and analyses, the FC emphasized that macroeconomic adjustment and fiscal consolidation require a significant increase in tax revenues. At the same time, the FC consistently pointed out that, for Romania, European funds represent a key financial resource for economic development.
- The budget revision (approved through Emergency Ordinance no. 113 and no. 114 of September 23, 2024) included a significant nominal increase in both budget revenues (+29.6 billion lei, representing approximately 5.06% of the initially projected revenues) and budget expenditures (+65.8 billion lei, representing approximately 9.8% of the initially projected expenditures). As a result, the general consolidated budget (GCB) deficit was about 36.2 billion lei higher in the revised draft, rising from 86.6 billion lei to 122.8 billion lei. Expressed as a percentage of GDP, the estimated level of the general consolidated budget deficit was 6.95%, approximately 1.95 pp above the target set in the initial budget draft. In its opinion on the budget revision, the FC estimated that the cash budget deficit would be around 8% of GDP in 2024 and recommended that the Government maintain strict control over expenditures for the rest of the year.
- On December 5, 2024, the Government adopted Emergency Ordinance no. 138 regarding the amendment and completion of certain legislative acts in the fiscal-budgetary domain, as well as for regulating other measures. Under this ordinance, by derogation from the Fiscal-Budgetary Responsibility Law no. 69/2010 and from the provisions of Law no. 417/2023 approving the

ceilings for certain indicators specified in the 2024 fiscal-budgetary framework, a series of provisions were adopted to revise those ceilings compared to the values set during the September 2024 budget revision. In addition to the changes in ceilings, Emergency Ordinance no. 138/2024 authorized the Ministry of Finance to reduce the amounts allocated under the category "Additional revenues collected from digitalization" – which implicitly led to an increase in the budget deficit. The revision of previously set ceilings, along with the reduction in expected revenues from digitalization, confirmed the views expressed by the FC regarding the 2024 budget and the September revision. Thus, the FC highlighted in its opinions the underestimation of certain categories of budget expenditures, raised concerns about discretionary increases in personnel spending, and pointed to uncertainties regarding social assistance expenditures. It also warned that the *ex-ante* inclusion of projected digitalization revenues in the budget construction was not a prudent approach.

- The budget execution results for 2024 show a deficit of 152.7 billion lei, according to the national methodology, which is 66.1 billion lei higher than the level set in the initial budget (86.6 billion lei). As a share of GDP, the cash deficit stood at 8.68% (compared to a target of 5%), while the ESA deficit reached 9.3%, with an even larger gap compared to the initial budget projection of 4.9%.

The significant increase in the deficit in 2024 is likely to further complicate Romania's fiscal-budgetary situation, as highlighted by the Council's decision on June 13, 2025, which determined that our country has not taken effective measures to correct the excessive deficit. In this context, considering the budget consolidation trajectory established by the National Structural Budget Plan (which set an ESA budget deficit target of 7% for 2025), the risk of sovereign rating downgrade (with significant consequences on access to international markets and financing costs), as well as the unfavourable international environment marked by instability, trade conflicts, and armed conflicts, the FC considers that adopting deficit correction measures is an absolute urgency. In the absence of a credible and firm package of measures, the risk of blocking access to financing and refinancing becomes imminent.

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

According to article 61, paragraph (2) of the Fiscal Responsibility Law no. 69/2010 republished (FRL), the Fiscal Council's annual report must contain: "an analysis of the fiscal policy implemented during the previous year compared to the objectives that were set out in the fiscal strategy and the annual budget" and will include:

a) an ex-post evaluation of the macroeconomic and budgetary forecasts set out in the fiscal strategy and the annual budget to which the annual report corresponds, including the reporting, where applicable, of any persistent deviations in the same direction of macroeconomic forecasts compared to actual data, which were recorded over a period of at least 4 consecutive years;

b) an assessment of objectives, targets and indicators set out in the fiscal strategy and annual budget to which the annual report corresponds;

c) an assessment of the Government's compliance with the principles and rules of this law during the previous budget year;

d) opinions and recommendations of the Fiscal Council aimed at improving the conduct of fiscal policy during the current year, according to the principles and rules of this law.

In the characterization of the fiscal-budgetary policy for 2024, the following will be analysed: the initial budget for 2024; the draft revision of the general consolidated budget for 2024; Emergency Ordinance no. 138 regarding the amendment and completion of certain legislative acts in the fiscal-budgetary domain, as well as the regulation of other measures; compliance with fiscal rules in the budget programming process; and budget execution.

1. The initial budget for 2024

According to the provisions of art. 26, paragraphs (1) and (2) of the FRL, by July 31 of each year, the Ministry of Finance (MF) has the obligation to submit to the Government the fiscal strategy for the next three years, accompanied by the draft law approving the ceilings for certain indicators specified in the fiscal-budgetary framework. The fiscal strategy for 2024-2026 was submitted simultaneously with the budget proposal[16], which implied an identical fiscal-budgetary framework for 2024 in both documents mentioned above. Under these circumstances, the FC's obligation to evaluate, within the annual report, the objectives, targets, and indicators established by the fiscal strategy and the annual budget is reduced to an exclusively *ex-post* analysis of the projections contained in the budget draft. The *ex-ante* monitoring of compliance with the limits set for budgetary indicators through the ceilings law remains, as in previous years, irrelevant.

Considering the repeated non-compliance with the legal calendar for the elaboration and approval of the FS in recent years, the FC notes that the perpetuation of this situation reduces the relevance of the ceilings established for budgetary indicators and undermines the guiding role that a medium-term fiscal strategy must have for the budget, as it (the FS) remains recurrently dependent on short-term objectives.

The fiscal strategy for 2024-2026 set a cash budget deficit target of 5% of GDP for 2024, representing a decrease of 0.94 pp compared to a deficit of 5.94% of GDP estimated at that time for 2023. Expressed in ESA 2010 terms, the budget deficit was estimated at 4.9% of GDP, down by 1.1 pp from the level assessed by the Ministry of Finance for 2023 at that time (6% of GDP). The main macroeconomic

[16] On the evening of December 9, 2023, the Ministry of Finance submitted to the Fiscal Council, via letter no. 468,605/09.12.2023, the draft of the general consolidated budget for 2024-2027, the report on the macroeconomic situation for 2024 and its projection for 2025-2027, the draft of the state budget law for 2024 along with the explanatory memorandum, the draft of the social security budget law for 2024 along with the explanatory memorandum, and the draft law for the approval of ceilings for certain indicators specified in the fiscal-budgetary framework for 2024 together with the explanatory memorandum, as well as the fiscal-budgetary strategy for 2024-2026, requesting, under Article 53, paragraph (2) of the Fiscal Responsibility Law no. 69/2010 (FRL) republished, the FC's opinion on these documents. On the afternoon of December 13, 2023, via letter no. 468,791/13.12.2023, the MF submitted a new set of documents regarding the 2024 budget draft and the medium-term fiscal strategy, which significantly modified the trajectories of budgetary variables over the entire forecast horizon, both as a result of changes in the underlying assumptions and due to an Emergency Government Ordinance that was approved together with the 2024 budget draft and the 2024-2026 FS.

assumptions underlying the 2024 budget draft included a real GDP growth of 3.4%, a GDP deflator of 5.9%, and an average annual inflation rate of 6%.

In the medium term, considering Romania's placement under the excessive deficit procedure (EDP)[17], the fiscal strategy emphasizes the commitment to fiscal consolidation in a sustainable and balanced manner, one that does not undermine the economy's ability to sustain itself and promote investment. It estimates a reduction in the ESA budget deficit by 0.7 pp in 2026 compared to 2024 (to 4.2% of GDP, down from 4.9% of GDP).

In its opinion[18] on the 2024 budget law, the FC considered that the draft budget and the 2024-2026 fiscal strategy were developed in an extremely complex international context, marked by economic, political, and geopolitical tensions, as well as military conflicts. Among the main issues highlighted by the FC are the following:

- The projected reduction of the cash deficit in 2024 was based on an increase in budget revenues by 0.92 pp of GDP, while budget expenditures were expected to decrease marginally by 0.02 pp of GDP.
- The factors influencing the programmed dynamics of budget revenues in nominal terms in 2024 were mainly represented by the projected macroeconomic framework, the adopted fiscal policy measures, the amount of hypothetical revenues stemming from the expected improvement in tax collection efficiency/digitalization of the National Agency for Fiscal Administration (NAFA), and the anticipated evolution of the absorption of European funds. Regarding the *ex ante* inclusion in the budget projection of hypothetical revenues amounting to 19 billion lei, resulting from the desired improvement in tax collection efficiency/digitalization of NAFA, the FC stated that it could not take them into account, based on the prudence principle. Consequently, the FC considered it possible that revenues might be lower by approximately 19 billion lei, representing about 1.1% of GDP, compared to the targets assumed in the draft budget.
- The planned evolution of budget expenditures, expressed as a share of GDP, was primarily the result of increases in expenditures on projects financed by European funds, personnel expenses, social assistance, and other expenditures, offset by reductions in subsidies, other transfers, and expenditures on goods and services. The FC considered an additional budget allocation of approximately 4.5 billion lei for goods and services and social assistance expenditures likely, representing about 0.26% of GDP.
- Based on a prudent approach to revenues and expenditures, the FC considered the budget construction for 2024 compatible with a cash deficit of around 6.4% of GDP. The assessment of the cash deficit took into account the information available to the FC, uncertainties regarding the final form of the measures adopted by the authorities, and the assumption that no forced spending cuts would be implemented. Under these conditions, the FC highlighted the existence of significant risks concerning the consolidation process.

[17] Triggered in April 2020, following the breach in 2019 of the 3% of GDP reference threshold for the budget deficit, as defined by European standards.

[18] https://www.fiscalcouncil.ro/EN%20-%20Opinie_CF_buget_2024.pdf

- According to the projected medium-term fiscal-budgetary framework, fiscal consolidation during 2025-2027 was to be achieved exclusively on the expenditure side, with the share of budget revenues in GDP showing a downward trend over the analysed period. The FC emphasized in its opinions and analyses that macroeconomic adjustment and fiscal consolidation require a significant increase in tax revenues. At the same time, the FC has consistently highlighted that, for Romania, European funds represent a key financial resource for economic development.
- The FC considered that, in the absence of sufficiently concrete and credible policies to support fiscal-budgetary consolidation in the medium term on the revenue side, as well as improvements in collection efficiency, the balance of risks was tilted toward experiencing higher deficits than those projected by the fiscal-budgetary framework for the 2025-2027 period.

2. Revision of the general consolidated budget for 2024

The budget revision (approved through Emergency Ordinance no. 113 and Emergency Ordinance no. 114 of September 23, 2024) provided for a substantial nominal increase in both budget revenues (+29.6 billion lei, representing approximately 5.06% of the initially projected revenues in the draft budget) and budget expenditures (+65.8 billion lei, representing approximately 9.8% of the initially projected expenditures in the draft budget). As a result, the deficit of the general consolidated budget was approximately 36.2 billion lei higher in the revised draft, increasing from 86.6 billion lei to 122.8 billion lei. Expressed as a percentage of GDP, the estimated level of the general consolidated budget deficit stood at 6.95%, approximately 1.95 pp higher than the target set in the initial draft budget.

By category of budget revenues, upward revisions of the levels projected in the initial budget occurred for most of them, as follows:

- Fiscal revenues: +26 billion lei, with the main changes observed in the following components:
    - *Corporate income tax*: +1.1 billion lei. The revision of this aggregate took into account the increase in the nominal GDP projection by 35 billion lei, revenue collections slightly exceeding expectations compared to the estimated program, as well as the inclusion of 720 million lei, representing part of the positive impact of the tax amnesty.
    - *Wage and income tax*: +4.1 billion lei. The revision took into account the updated forecast of the macroeconomic aggregates that formed the basis of the initial budget, namely: the average number of employees was adjusted from +1.6% to +0.9%, and the gross average wage from +9.1% to +14.6%, which corresponds to an increase in the total wage bill in the economy by approximately 5 pp above initial expectations. Additionally, the revision included 450 million lei, representing part of the positive impact of the tax amnesty.
    - *Other taxes on income, profits, and capital gains*: -1.3 billion lei. The downward revision of this aggregate was driven by the performance of microenterprise income tax collections, with the revenue target for this category being reduced by approximately 2.3 billion lei.
    - *VAT*: +2.1 billion lei. The revision mainly took into account the inclusion in the projection of the expected positive impact of the tax amnesty, amounting to nearly 2 billion lei.

- *Excise duties*: +2.5 billion lei. The increase was driven by higher-than-expected revenue collections compared to initial estimates, due to consumption growing at a faster pace than planned in the draft budget, the introduction in 2024 of an excise duty on sugar-sweetened non-alcoholic beverages, as well as the inclusion in the projection of approximately 230 million lei, representing part of the positive impact of the tax amnesty.
- *Other taxes and duties on goods and services*: +4.2 billion lei. The positive revision reflected the better-than-expected performance of this aggregate. Thus, the execution during the first seven months of the year showed a decrease of only 4.9% in revenues compared to the same period of the previous year, whereas the draft budget had anticipated a decline of 53.1%.

➢ *Contributions*: +11.99 billion lei. The significant increase was primarily driven by the better-than-expected evolution of the relevant macroeconomic base (the wage bill in the economy), as well as the inclusion in the projection of the expected impact of the tax amnesty.

➢ *Non-tax revenues*: +0.87 billion lei. The revision reflected the better-than-expected performance of the budget execution for this aggregate: +18.4% in the first 7 months of the year, compared to a target of only 7.2% in the initial budget.

➢ *Additional revenues collected from digitalization*: the amount forecasted in the initial budget, approximately 10.5 billion lei, remained unchanged despite the fact that the execution in the first 7 months of the year did not show any amount collected under this budget line.

➢ *Amounts received from the EU/other donors for payments made and pre-financing related to the 2014-2020 Multiannual Financial Framework (MFF)*: +2.2 billion lei.

➢ *Amounts related to non-reimbursable financial assistance allocated for the Recovery and Resilience Plan*: -11.3 billion lei. The downward revision only partially reflected the low absorption in the first part of the year. Thus, execution in the first 7 months showed an absorption of 3.05 billion lei, equivalent to achieving only 12.1% of the initial budget target. Despite the downward revision of the aggregate, the target remained optimistic, with the 7-month execution representing 22.1% of the new target, which would have implied a significant acceleration in the last months of the year.

As also highlighted in its previous analyses, the Fiscal Council did not take into account, in its assessment, revenues originating from the Ministry of Finance's planned increase in collection efficiency/digitalization of NAFA. The draft budget revision maintained the revenue projection of 10.5 billion lei from digitalization, equivalent to an overestimation of budget revenues by 0.6% of GDP. Additionally, the Fiscal Council signalled uncertainties regarding the impact of the tax amnesty, estimated at 7.9 billion lei (equivalent to approximately 0.45% of GDP).

There was also a significant increase in budget expenditures compared to the parameters approved in the budget draft, mainly driven by the supplementation of personnel expenses, expenses on goods and services, social assistance, and capital expenditures. The upward revision occurred across almost all main categories of expenditures, as follows:

➢ *Personnel expenses*: +18 billion lei. The upward revision of this aggregate was driven by salary increases in several public sectors in the first part of the year, with some of these increases scheduled to be granted also in the last quarter of 2024. The FC had signalled in its opinion on the budget draft that discretionary salary increases in 2023 implied heightened risks of additional pressures from other public sectors in 2024.

- *Goods and services*: +10.6 billion lei. The increase in this indicator only partially reflected the dynamics of budget execution, most likely relying on the public expenditure restriction measures included in Government Emergency Ordinance no. 107/2024, whose impact was estimated by the Government at around 2.05 billion lei. The execution dynamics in the first 7 months of the year indicated a growth in the goods and services aggregate of about 25.7% compared to the same period in 2023, significantly above the 5.7% increase set in the initial budget. Additionally, the FC noted that restricting spending on goods and services, similar to the previous year, could have led to payment delays, which would be reflected in the 2025 budget execution.
- *Interests*: +2.4 billion lei. The increase in this category was driven by the higher financing needs and, consequently, the contracting of new loans amid the widening deficit.
- *Subsidies*: +3.8 billion lei. The revision of this aggregate only partially reflected the dynamics of budget execution. Thus, in the first 7 months, subsidy expenses increased by 18.8% compared to the same period the previous year, compared to a target of -29.2% in the budget draft. The increase in the aggregate in the budget revision draft adjusted the target to -8.3%, significantly below the actual budget execution dynamics.
- *Transfers between public administration units*: +1.2 billion lei. The increase reflected changes in the budgets of several credit authorizing officers for the payment of salary rights of personnel in subordinate institutions and to ensure funds for state social insurance contributions related to unemployment benefits.
- *Other transfers*: +3.7 billion lei.
- *Projects financed from non-reimbursable external funds*: +13.2 billion lei.
- *Social assistance*: +9.8 billion lei. The increase in this aggregate indicated a 4.67% rise compared to the initial budget target, reflecting an increase in the budget of the state social security by approximately 0.98 billion lei for the payment of recalculated pension rights, an increase in the Ministry of Labour's budget by around 4 billion lei, and smaller supplements at the level of other credit authorizing officers.
- *Projects financed from post-accession non-reimbursable external funds 2014-2020*: +6 billion lei. The increase was about 41% compared to the target in the budget draft.
- *Other expenses*: +1.8 billion lei.
- *Projects financed from non-reimbursable financial assistance related to the Recovery and Resilience Plan (RRP)*: -16.5 billion lei. The revision of this category indicated a decrease of almost 50% compared to the target in the budget draft.
- *Projects funded from the loan component of the NRRP*: +1.8 billion lei. The revision indicated an increase of 21.67% compared to the target in the budget draft.
- *Reserve funds*: Analysing the government decisions through which allocations from the budget reserve fund were made up to September 20, 2024, the practice initiated in 2023 was maintained, whereby unspent resources from the main credit authorizing officers were redistributed to other areas. Allocations from the reserve fund had already reached the amount

of 30 billion lei, with estimates at that time indicating that they would exceed the previous year's level (32.08 billion lei).

- *Capital expenditures*: +11.1 billion lei. The increase in the aggregate was driven by the substantial rise in capital expenditures in the first part of the year (an element also reflected in the budget execution for the first 7 months of the year, increasing by 97% compared to the same period of the previous year), against the backdrop of under-execution and postponement of some capital expenditures in 2023. In the budget draft, the target for the growth of capital expenditures compared to 2023 was 7.9%. The revision of the aggregate indicated a projected increase of approximately 36.5% compared to 2023.

Total public investment expenditures, from both internal and external sources, were reduced in the planning phase by 0.5 billion lei (-0.5%) compared to the level provided in the draft budget (with their share of GDP changing from 6.9% to 6.8%, due both to the increase in nominal GDP and the marginal decrease in amounts allocated for investments). Structurally, the share of public investment expenditures in GDP was composed of: projects financed from non-reimbursable external funds (2.4% of GDP); projects financed from non-reimbursable and reimbursable financial assistance related to the NRRP (1.5% of GDP); expenditures related to programs with reimbursable financing (0.1% of GDP); capital expenditures (2.6% of GDP); and other investment-related transfers (0.2% of GDP).

The FC emphasizes the shift towards making investments from internal sources, which come to represent 40.9% of total investments, compared to 31.2% in the initial budget, raising the question: why is a higher absorption of resources from the Recovery and Resilience Plan not being achieved?

Following the analysis of the revised budget expenditure targets, the FC assessed that these were underestimated by approximately 0.5% of GDP, additionally noting that there were risks concerning the evolution of social assistance expenditures and capital expenditures.

In its opinion on the budget revision, the FC estimated that the cash budget deficit was expected to be around 8% of GDP in 2024, recommending that the Government maintain strict control over expenditures for the rest of the year.

3. Revision of the ceilings compared to the values established by the budget revision

On December 5, 2024, the Government adopted Emergency Ordinance no. 138 regarding the amendment and completion of certain normative acts in the fiscal-budgetary domain, as well as the regulation of other measures. Within this ordinance, by way of derogation from the Fiscal Responsibility Law no. 69/2010 and the provisions of Law no. 417/2023 approving the ceilings for certain indicators specified in the fiscal-budgetary framework for 2024, a series of provisions were adopted aimed at modifying these ceilings compared to the values established in the budget revision carried out in September 2024.

The revision of the ceilings targeted both the balance of the general consolidated budget and the state budget, as well as the ceilings set for total expenditures and personnel expenditures. Following these adjustments, the ceiling for the deficit of the general consolidated budget in 2024 was increased to 7.9%

of GDP in ESA terms and to 8.58% of GDP in cash standards. The main revisions of the ceilings, compared to those established in the September 2024 budget revision, were as follows:

- *The nominal ceiling for the general consolidated budget deficit* was increased by 29 billion lei, from 122.8 billion lei to 151.8 billion lei, a revision equivalent to an increase in the general consolidated budget deficit, in cash terms, from 6.94% of GDP to 8.58% of GDP.
- *The ceiling for the general consolidated budget deficit*, in ESA terms, was set at 7.9% of GDP. In the initial budget for 2024, the ESA deficit target was 4.9% of GDP.
- *The nominal ceiling for the primary deficit of the general consolidated budget* was increased by 29 billion lei, from 85.6 billion lei to 114.6 billion lei, revision equivalent to an increase in the primary deficit of the general consolidated budget from 4.84% of GDP to 6.48% of GDP.
- *The public debt ceiling* was adjusted upward from 51.5% of GDP to 54.5% of GDP.
- *The nominal ceiling for total expenditures of the general consolidated budget*, excluding financial assistance from the European Union and other donors, was revised upward by 19.3 billion lei, from 665.9 billion lei to 685.2 billion lei, equivalent to an increase of 1.1 pp of GDP compared to the September 2024 budget revision (from 37.65% of GDP to 38.75% of GDP).
- *The nominal ceiling for personnel expenses of the general consolidated budget* was increased by 1.6 billion lei, from 164.2 billion lei to 165.8 billion lei, equivalent to a revision from 9.3% of GDP (the level set at the September 2024 revision) to 9.4% of GDP.

Besides the modification of the ceilings, Emergency Ordinance no. 138/2024 authorized the Ministry of Finance to reduce the amounts allocated under the chapter “Additional revenues collected from digitalization” – which implicitly led to an increase in the budget deficit.

The revision of the previously established ceilings, as well as the reduction of additional revenues collected from digitalization confirmed the opinions expressed by the FC regarding the 2024 budget and the budget revision carried out in September. Thus, the FC highlighted in its opinions the underestimation of certain categories of budget expenditures, drew attention to the discretionary measures increasing personnel expenses, pointed out the uncertainties related to social assistance expenditures, and indicated that the *ex-ante* inclusion of projected revenues from digitalization in the budget framework is not prudent.

4. Compliance with fiscal rules in the budget programming process

Romania is subject to the excessive deficit procedure initiated prior[19] to the activation of the temporary derogation clause from the Stability and Growth Pact (SGP), under which budgetary rules were suspended during 2020-2023[20] to provide member states with the necessary flexibility to implement

[19] As a result of exceeding the 3% of GDP threshold in 2019, following the European Commission’s recommendation on March 4, 2020, the Council decided on April 3, 2020, to apply the excessive deficit procedure to Romania, with a recommendation to reduce the excessive deficit by 2024.

[20] In May 2022, the European Commission extended by one more year the activation of the derogation clause that allowed the temporary exceeding of the limits set in the Stability and Growth Pact, due to the uncertain economic context caused by the war in Ukraine.

appropriate measures for managing the difficult situations caused by the pandemic developments, rising energy prices, and the war in Ukraine, all of which had significant budgetary consequences.

On June 18, 2021, taking into account the special circumstances, the EU Council adopted the recommendation within the excessive deficit procedure, stating that Romania should end the excessive deficit situation by 2024 at the latest. The deadline for correction allowed for a gradual effort and a balance between fiscal consolidation and economic recovery, thereby avoiding major shocks to the economy. According to this recommendation, to meet the deadline, Romania was expected to follow a gradual trajectory for reducing the ESA budget deficit: 8% of GDP in 2021, 6.2% of GDP in 2022, 4.4% of GDP in 2023, and 2.9% of GDP in 2024. While Romania managed to comply with the budget deficit levels set in the fiscal consolidation calendar in 2021 and 2022, a major deviation from the 4.4% target was recorded in 2023, with an ESA deficit of 6.6%. Consequently, on July 26, 2024, the Council adopted Decision 2024/21305, establishing that Romania had not taken effective measures in response to the recommendation of June 18, 2021.

The budgetary slippage continued in 2024, with the budget deficit increasing to 9.3% of GDP according to the ESA methodology, surpassing even the level recorded in the first year of the pandemic. In this context, on January 21, 2025, the Council adopted another recommendation, requesting Romania to end the excessive deficit situation by 2030, based on a corrective trajectory of net expenditures. On June 13, 2025, considering that Romania had not submitted the annual report on progress made regarding actions taken in response to the Council's recommendation and based on the most recent available budget information, the Council decided that Romania had not taken effective measures in response to the January 21, 2025 recommendation. This has resulted in a high and persistent budget deficit, jeopardizing the correction of the excessive deficit by 2030[21].

The assessment of compliance with fiscal rules will be carried out by analysing the changes in the ceilings defined by Law no. 417/2023 for approving the ceilings of certain indicators specified in the fiscal-budgetary framework for 2024, through derogations established during the budget revision and through Government Emergency Ordinance no. 138 regarding the amendment and completion of certain normative acts in the fiscal-budgetary domain, as well as for regulating other measures.

[21] https://data.consilium.europa.eu/doc/document/ST-10157-2025-INIT/ro/pdf

Table 2: Nominal ceilings for GCB balance, total and personnel expenditure									
	Law no. 417/2023			GEO no. 113 & 114/2024			GEO no. 138/2024		
	GCB balance	Total expenditure *	of which: Personnel expenditure	GCB balance	Total expenditure *	of which: Personnel expenditure	GCB balance	Total expenditure *	of which: Personnel expenditure
mil. lei	**-86,635.1**	**603,749.7**	**147,708.4**	**-122,930.4**	**666,010.3**	**164,282.9**	**-151,796.4**	**685,162.6**	**165,847.4**
% of GDP initial budget	**-5.00%**	**34.8%**	**8.5%**	**-6.95%**	**37.7%**	**9.3%**	**-8.58%**	**38.7%**	**9.4%**
% of GDP budget execution	*-4.92%*	*34.3%*	*8.4%*	*-6.98%*	*37.8%*	*9.3%*	*-8.62%*	*38.9%*	*9.4%*

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

It is worth noting that Law no. 417 of 2023 for the approval of the ceilings of certain indicators specified in the fiscal-budgetary framework for 2024 set the cash deficit limit at 5% of GDP for 2024, corresponding to an ESA deficit of 4.9% of GDP, which is 2 pp above the target for 2024 according to the European Commission's June 2021 recommendation under the Excessive Deficit Procedure (2.9% of GDP). By way of derogation from the provisions of Articles 6, 7, and Article 26 (3) of the Fiscal Responsibility Law, Law no. 417/2023 did not provide a path for adjustment towards the medium-term budgetary objective, with the structural balance for 2024 and 2025 estimated at -4.3% of potential GDP, with a slight decrease projected for 2026 (-4.1%).

Table 2 presents the limits of the main indicators, established by Law no. 417/2023, the budget revision carried out during 2024, and Government Emergency Ordinance no. 138 regarding the amendment and completion of certain normative acts in the fiscal-budgetary domain, as well as for regulating other measures. The figures in italics represent the values of the indicators as a percentage of GDP recalculated with updated GDP data (Eurostat, May 2025), namely 1,760.12 billion lei, compared to 1,733.8 billion lei (the level estimated in the initial budget).

The emergency ordinances adopted subsequently (GEO 113, 114, and 138 of 2024) stipulated, by way of derogation from the ceiling law, increases in the nominal limits compared to the initial budget (in line with the evolution over the year of revenue and expenditure aggregates). This practice reflects the persistence of major weaknesses in the construction of public budgets in Romania, institutionalizing arbitrariness in resource allocation to the detriment of national fiscal rules, which can thus be easily circumvented, limiting the role these rules should play in guiding the medium-term fiscal-budgetary policy.

As can be seen from the table above, *the first budget revision* (Government Emergency Ordinances no. 113 & 114/2024) resulted in an increase in the nominal ceiling for both *total expenditures* (+62.2 billion lei) and *personnel expenditures* (+16.6 billion lei), while the *budget deficit* limit increased by 36.3 billion lei compared to the initial budget for 2024. As a share of GDP, the budget deficit deepened by approximately 1.95 pp. The share of total expenditures in GDP rose to 37.7% from 34.8%, while the share of personnel expenditures increased to 9.3% of GDP from 8.5% (as initially set out in ceiling law no. 417/2023).

Compared to the first budget revision, Government Emergency Ordinance no. 138/2024 increased the ceiling for *total expenditures* by 19.2 billion lei, the ceiling for *personnel expenditures* by 1.6 billion lei, and the ceiling for the *budget deficit* by 28.9 billion lei. As a share of GDP, all these indicators recorded increases as well: total expenditures from 37.7% to 38.7%, personnel expenditures from 9.3% to 9.4%, and the budget deficit from 6.95% to 8.58%.

If the indicators expressed as a share of GDP are recalculated using the updated GDP value from May 2025 (the last row of *Table 2*, in italics), an increase in the budget deficit can be observed – from 4.92% of GDP in the initial budget, to 6.98% of GDP at the revision, and then to 8.62% of GDP following Government Emergency Ordinance no. 138/2024. Similarly, the share of total expenditures increased successively from 34.3% (initial projection), to 37.8% (revision), and then to 38.9% (GEO no. 138/2024). Personnel expenditures as a share of the updated GDP rose from 8.4% (initial projection) to 9.3% (revision), and then to 9.4% (GEO no. 138/2024).

The nominal ceiling for the primary deficit increased by 33.9 billion lei at the budget revision (from 51.8 billion lei in the initial projection to 85.7 billion lei) and by a further 28.9 billion lei through GEO no. 138/2024, reaching 114.6 billion lei. The public debt ceiling, expressed as a share of GDP, rose successively during 2024 – from 49.8% (initial projection), to 51.5% (revision), and then to 54.5% (GEO no. 138/2024).

5. Budget execution for 2024

The results of the budget execution for 2024 indicate a deficit of 152.7 billion lei, according to the national methodology, which is 66.1 billion lei above the level set in the initial budget (86.6 billion lei). As a share of GDP, the cash deficit was 8.68% (compared to a target of 5%), while the ESA deficit was 9.3%, the gap compared to the initial budget projection (4.9%) being even larger in this case.

The difference between the deficit levels calculated according to the two methodologies, resulting in an increase in the ESA deficit, was mainly determined by the following factors: interest expenses (4.8 billion lei), revenues from super-dividends (2.8 billion lei), the difference between new compensation titles issued by National Authority for Property Restitution (NAPR) in 2024 and payments made for historical claims (1.1 billion lei), expenses incurred/invoiced but unpaid (9.2 billion lei), and capital transfers to EXIMBANK and CEC (1.4 billion lei). These differences were partially offset, reducing the gap between the ESA and cash deficits, by temporary adjustments to cash execution[22] (2.9 billion lei), ESA military

[22] The difference between revenues collected in the period February 2024 - January 2025 compared to January 2024 - December 2024, used as a proxy for the difference between taxes and duties owed and those actually paid.

capital expenditures being lower (equipment deliveries) than payments made (4.2 billion lei), and other effects[23] with a net amount of 1.4 billion lei.

The execution of 2024 reveals a significant underachievement, especially regarding the expenditure targets set in the initial budget, while the deviation from the initial target was smaller in the case of revenues. *Table 3* presents the evolution of the main budget aggregates throughout 2024 in cash standards.

Table 3: The evolution of the main budgetary aggregates during 2024 (billion lei)			
	Initial budget	Revision	Budget execution
Total revenues, of which:	**586.1**	**615.8**	**574.6**
Tax revenues	276.4	289.6	291.7
Social security contributions	183.1	195.1	189.5
EU funds	69.0	72.7	42.6
Total expenditures, of which:	**672.8**	**738.6**	**727.3**
Current expenditure, of which:	630.9	685.6	665.1
Projects from EU funds*	47.8	37.3	28.2
Capital expenditures	41.9	53.0	65.2
Budget deficit	**-86.6**	**-122.8**	**-152.7**

Source: MF

** Amounts excluding the loan component of the NRRP*

Total budget revenues were 11.5 billion lei below the initial estimate. In the structure, below-expectation developments were recorded at the level of *EU funds* (including *amounts received from the EU for operational programs financed under the convergence objective*, as well as *amounts related to non-reimbursable financial assistance allocated for the NRRP*, -26.4 billion lei). Revenues that exceeded expectations included: *tax revenues* (+15.3 billion lei), *social contributions* (+6.4 billion lei), and *non-tax revenues* (+3.3 billion lei).

In the structure of *fiscal revenues*, significant overruns were recorded compared to the initial provisions at the level of collections from *excise duties* (+5.5 billion lei), *other taxes and fees on goods and services* (+5.4 billion lei), *income and salary tax* (+3 billion lei), *VAT* (+1.5 billion lei), and *profit tax* (+0.6 billion lei). The largest shortfalls compared to the initial program were in *other taxes on income, profit, and capital gains* (-1.5 billion lei).

[23] The difference between cash payments made for historical court rulings and the amount of compensations resulting from court decisions during 2024, the difference between cash payments for the energy price compensation scheme and the payment obligations incurred during 2024, and the reimbursements of health insurance contributions to pensioners.

The level of budget expenditures was 54.6 billion lei above the initially programmed amount. The main expenditure aggregates that recorded significant overruns were: *capital expenditures* (+23.3 billion lei), *personnel expenses* (+18.4 billion lei), *social assistance* (+14.4 billion lei), *expenses for goods and services* (+12.1 billion lei), *other transfers* (+5.6 billion lei), and *subsidies* (+4.3 billion lei). On the other hand, the largest under-executions of budgeted amounts were recorded in *projects funded by EU funds* (-19.6 billion lei).

Table 4 presents the evolution of budget revenues and expenditures from the perspective of the national methodology (cash), expressed as a share of GDP. Compared to the previous year, in 2024 there was an increase in the budget deficit as a percentage of GDP by 3.06 pp, explained by a marginal increase in the share of budget revenues by 0.2 pp, along with an increase in the share of budget expenditures by 3.26 pp.

The GCB revenues with the most favourable evolution were *fiscal revenues* (+0.93 pp), *social insurance contributions* (+0.88 pp), and *non-fiscal revenues* (+0.18 pp), while decreases occurred in collections from *amounts received from the EU for payments made* (-2.06 pp).

At the level of *fiscal revenues*, increases compared to the previous year were recorded for *VAT* (+0.37 pp), *excise duties* (+0.31 pp), *income and salary tax* (+0.27 pp), *profit tax* (+0.23 pp), and *property taxes and fees* (+0.02 pp).

Regarding GCB expenditures, compared to the previous year, the most significant reductions were recorded in expenditures on *projects financed from post-accession non-reimbursable external funds* (-1.62 pp) and *subsidies* (-0.15 pp). On the other hand, increases compared to 2023 were recorded in *capital expenditures* (+1.28 pp), *personnel expenses* (+1.08 pp), *social assistance* (+0.82 pp), *goods and services* (+0.51 pp), and *interest payments* (+0.2 pp).

Table 4: The evolution of public revenues and expenditures (national methodology, % of GDP)											
	2015	**2016**	**2019**	**2020**	**2021**	**2022**	**2023**	**Initial budget 2024**	**Execution 2024**	**Initial budget 2024 - Initial budget 2023**	**Execution 2024-2023**
Total revenues	**32.8**	**29.4**	**30.3**	**30.4**	**31.9**	**32.8**	**32.4**	**33.3**	**32.6**	**-0.26**	**0.20**
Tax revenue (without SSC)	19.4	17.8	14.8	14.2	15.7	16.4	15.6	15.7	16.6	-0.40	**0.93**
Personal income tax	3.7	3.6	2.2	2.3	2.4	2.4	2.5	2.6	2.8	0.29	**0.27**
Corporate tax	1.9	2.0	1.7	1.5	1.7	1.9	1.8	2.0	2.0	-0.05	**0.23**
Property tax	0.8	0.8	0.6	0.6	0.6	0.5	0.5	0.5	0.5	-0.15	**0.02**
VAT	8.0	6.8	6.2	5.7	6.7	6.7	6.5	6.8	6.9	-0.29	**0.37**
Excise duties	3.7	3.5	3.0	2.9	2.9	2.5	2.3	2.3	2.6	-0.08	**0.31**
SSC	8.1	8.0	10.5	10.5	10.7	9.9	9.9	10.4	10.8	0.33	**0.88**
Non-fiscal revenues	2.7	2.3	2.6	2.3	2.2	2.8	2.6	2.6	2.8	-0.26	**0.18**
Donations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00	**0.00**
Amounts received from the EU for payments made	2.4	1.0	2.4	3.3	3.2	3.3	4.0	2.5	1.9	-1.22	**-2.06**
Total expenditures	**34.2**	**31.6**	**34.9**	**40.0**	**38.7**	**38.5**	**38.1**	**38.2**	**41.3**	**0.41**	**3.26**
Personnel expenditures	7.3	7.5	9.7	10.4	9.4	8.4	8.3	8.3	9.4	0.36	**1.08**
Goods and services	5.7	5.4	5.0	5.4	5.4	5.2	4.8	4.6	5.3	-0.02	**0.51**
Interest	1.3	1.3	1.1	1.4	1.5	2.1	1.9	2.0	2.1	0.17	**0.20**
Subsidies	0.9	0.9	0.7	0.8	0.7	1.3	1.1	0.7	1.0	0.02	**-0.15**
Projects funded from non-refundable external post-accession funds	3.4	0.8	2.6	3.3	3.5	3.6	4.9	4.9	3.3	-0.10	**-1.62**
Social assistance	10.7	10.7	10.8	13.1	12.4	12.4	11.9	11.9	12.7	0.63	**0.82**
Capital expenditures	2.6	2.5	2.9	3.1	2.8	2.9	2.4	2.4	3.7	-1.00	**1.28**
Budget balance	**-1.45**	**-2.2**	**-4.59**	**-9.61**	**-6.73**	**-5.76**	**-5.61**	**-4.92**	**-8.68**	**-0.67**	**-3.06**

Source: MF, FC's computation

Note: Amounts without swap compensation schemes for outstanding obligations

Table 5 presents the evolution of budget revenues and expenditures according to ESA 2010 standards[24], expressed as a percentage of GDP.

Table 5: The evolution of public revenues and expenditures (ESA 2010, % of GDP)									
	2015	**2016**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**Changes 2024/2023**
Total revenues	**35.4**	**32.3**	**31.7**	**32.3**	**32.6**	**34.3**	**34.0**	**34.1**	**0.1**
Indirect taxes, of which:	13.3	11.5	10.5	10.3	10.6	11.0	11.0	11.0	0.0
VAT	8.1	6.5	6.1	6.1	6.4	6.8	6.6	6.8	0.2
Excise + custom duties	5.2	5.0	4.4	4.2	4.2	4.2	4.4	4.2	-0.2
Direct taxes, of which:	6.6	6.5	4.8	4.7	5.1	6.2	5.3	6.0	0.7
Personal income tax	3.7	3.7	2.3	2.4	2.4	2.6	2.5	...	...
Corporate tax	2.3	2.3	2.1	1.9	2.2	3.1	2.3	...	...
SSC	8.1	8.9	11.2	11.8	11.2	10.8	10.9	11.8	0.9
Other current revenues	1.9	1.5	1.8	1.7	1.7	2.1	2.2	1.9	-0.3
Amounts from the EU	2.7	1.4	1.1	1.6	1.7	1.8	2.6	1.5	-1.1
Total expenditures	**35.9**	**34.8**	**36.1**	**41.5**	**39.8**	**40.7**	**40.6**	**43.5**	**2.9**
Intermediate consumption	5.9	5.7	5.7	6.0	6.0	5.8	6.1	6.2	0.1
Compensation of employees	7.8	9.2	11.3	12.1	11.1	10.1	10.1	11.2	1.1
Interest	1.5	1.3	1.0	1.2	1.3	1.4	1.9	2.3	0.4
Social assistance	11.5	11.7	11.8	13.3	13.1	13.2	12.5	13.6	1.1
Subsidies	0.4	0.3	0.3	0.9	0.5	1.8	1.0	0.8	-0.2
Other current expenditures	2.4	1.4	1.5	2.1	2.3	2.2	1.9	2.2	0.3
Gross fixed capital formation	5.2	3.6	3.4	4.4	4.1	4.4	5.4	5.7	0.3
Budget balance	**-0.5**	**-2.5**	**-4.3**	**-9.2**	**-7.1**	**-6.4**	**-6.6**	**-9.3**	**-2.7**

Source: Eurostat

The fiscal consolidation initiated in 2010 to correct the major imbalances in the public finances position was characterized by a rapid pace, with Romania managing to reduce the ESA budget deficit to 0.5% of GDP in 2015 within a relatively short period. Between 2016 and 2019, expansionary fiscal policy led to a reversal of this trend, with a significant increase in the budget deficit, driven both by declining revenues and rising expenditures. Thus, 2019 marked the exceeding of the 3% of GDP threshold (the recorded deficit was 4.3%), and Romania was placed under the excessive deficit procedure in April 2020. The fiscal

[24] The data included in this table are not fully comparable with those in *Table 4*, the differences arising from the differing scopes of the two standards, ESA 2010 and the national standard.

measures taken in 2020 to mitigate the social and economic effects amid the outbreak of the pandemic put additional pressure on the budget, with the GCB deficit reaching 9.2% of GDP. 2021 saw an economic recovery due to government support measures and improvements in the health situation; compared to the previous year, budget revenues increased by 0.3 pp of GDP, while total expenditures decreased by 1.7 pp of GDP, resulting in a deficit of 7.1% of GDP, 2.1 pp below the 2020 level. In 2022 and 2023, the significant growth of GDP, both in nominal and real terms, generated a strong increase in budget revenues – 20.8% in 2022 and 14.2% in 2023 – but this growth was not used to reduce the deficit, rather to finance additional expenditures[25].

In 2024, budget revenues accounted for 34.1% of GDP. The most significant increases compared to 2023 were recorded for *social contributions* (+0.9 pp of GDP), followed by *direct tax revenues* (+0.7 pp of GDP). The increases in *VAT* revenues (+0.2 pp of GDP) were offset by an equal decrease (-0.2 pp of GDP) in revenues from *excise duties and customs taxes*. *Funds received from the EU* saw a notable decline of 1.1 pp of GDP.

The share of budget expenditures in 2024 was 43.5% of GDP, an increase of 2.9 pp compared to the previous year. The most significant increases were recorded in *employee compensation* and *social assistance* expenditures (+1.1 pp of GDP each), followed by *interest payments* (+0.4 pp), *gross fixed capital formation*, and *other current expenditures* (+0.3 pp of GDP each), while *subsidies* decreased compared to the previous year (-0.2 pp).

The significant increase in the deficit in 2024 is likely to further complicate Romania's fiscal and budgetary situation, as highlighted by the Council's decision on June 13, 2025, which determined that our country has not taken effective measures to correct the excessive deficit. In this context, considering the budgetary consolidation trajectory set out in the National Budgetary-Structural Plan (which targeted an ESA budget deficit of 7% in 2025), the risk of sovereign rating downgrade (with major consequences on access to international markets and financing costs), as well as the unfavourable international environment marked by instability, trade, and armed conflicts, the Fiscal Council assesses that adopting deficit correction measures is an absolute urgency.

At the same time, it should be noted that in the National Budgetary-Structural Plan, agreed upon by Romania and the European Commission, the starting point for fiscal consolidation was supposed to be a budget deficit of 7.9% of GDP in 2024. Given that the ESA deficit was 9.3% of GDP in 2024, the adjustment process will be even more severe in the coming years. In the absence of a credible and firm package of measures, the risk of blocked access to financing and refinancing becomes imminent.

III.3. The structural budget balance in Romania

The European Union adopted a new economic governance framework in April 2024. It maintains the two reference criteria from the Maastricht Treaty (a budget deficit below 3% of GDP and public debt below 60% of GDP), but proposes a single operational indicator, the trajectory of net expenditures, compliance

[25] https://www.eumonitor.eu/9353000/1/j4nvhdfdk3hydzq_j9vvik7m1c3gyxp/vme95hgjzdvu

with which aims to ensure that: (i) the public debt-to-GDP ratio is placed on a plausible downward trajectory or remains below 60% of GDP in the medium term, and (ii) the public deficit decreases below 3% of GDP and is maintained below this reference value in the medium term[26]. The establishment of the net expenditure trajectory is based on the European Commission's methodology for public debt sustainability analysis[27]. Within this methodology, fiscal adjustment is primarily reported to the structural primary balance[28], which leads to the setting of target values for the structural primary balance to ensure compliance with the fiscal rules of the EU's new governance framework.

Defining fiscal rules based on the structural deficit involves an effective deficit target adjusted according to the economy's position within the business cycle. Thus, when the output gap turns positive, compliance with the structural deficit target requires the effective deficit levels to be lower than the structural deficit (since the cyclical component[29] of the budget balance is positive).

Although the structural budget balance more accurately reflects the fiscal position of an economy, it has several disadvantages, the most important being the uncertainties associated with its estimation. Thus, the value of the structural balance depends on the level of the output gap, which is calculated relative to potential GDP – an unobservable variable, often subject to more or less significant revisions depending on updates to statistical data and the methodology used. For example, the estimate of the output gap for Romania, presented in the FC's 2023 annual report, was revised from -1.26% for 2022, -1.95% for 2023, and -1.44% for 2024 (AMECO, June 2024) to -0.25% for 2022, -0.61% for 2023, and -1.66% for 2024 (AMECO, May 2025).

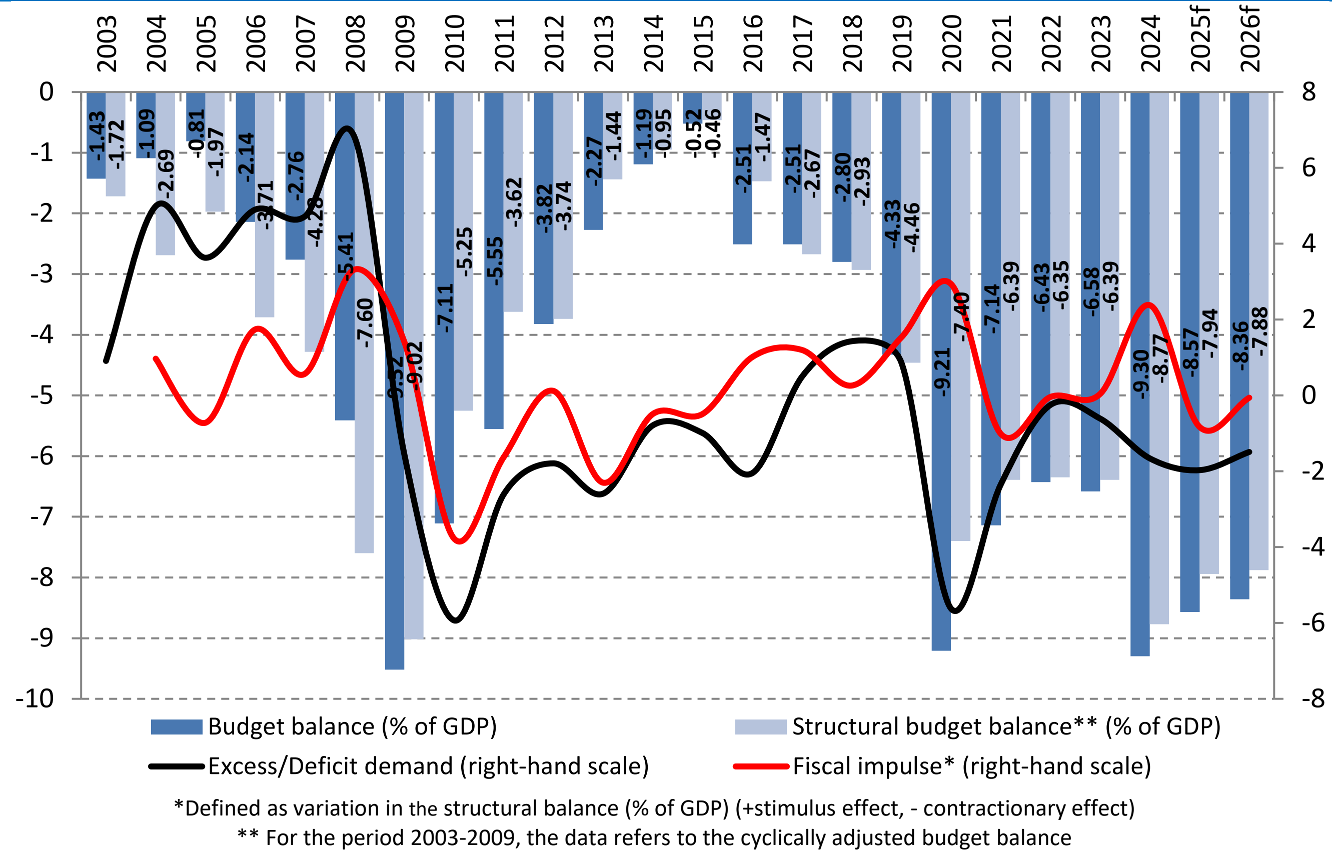
[26] A more detailed description of the EU's new economic governance framework can be found in the FC's Annual Report for 2023 (pp. 124-128).

[27] The methodology for public debt sustainability analysis is detailed in the Debt Sustainability Monitor 2024, pp. 251-257.

[28] The structural primary balance is determined by removing interest payments from the structural budget balance. The structural budget balance is calculated by subtracting from the actual budget balance the cyclical component of the budget deficit and one-off and temporary measures. For details, see https://www.fiscalcouncil.ro/annualreport2012.pdf, pp. 48-59.

[29] The cyclical component of the budget balance = output gap * ε, where ε represents the semi-elasticity of the budget deficit with respect to changes in the volume of economic activity.

Figure 5: Structural deficit, fiscal impulse and the excess demand



Source: AMECO, FC's calculations

The evolution of the structural deficit, fiscal impulse, and demand gap (as shown in *Figure 5*) illustrates how, during 2003-2024, Romania predominantly pursued a pro-cyclical fiscal-budgetary policy[30]. The discretionary policy of strong, yet unnecessary and counterproductive, stimulus during pre-crisis expansion periods (2006-2008 and 2017-2019), and of fiscal tightening when the economy was operating below potential (2010-2015 and 2021-2022) contributed to amplifying economic cycle fluctuations through its pro-cyclical nature, effectively neutralizing the impact of automatic stabilizers.

Between 2009 and 2015, the structural budget deficit was reduced from 9% of potential GDP in 2009 to 0.5% in 2015, with an average adjustment pace of 1.4 pp per year. The very high starting level, relative to financing constraints, required the rapid adoption of radical measures, especially in 2010. These measures led to a structural deficit adjustment of nearly 3.8 pp in 2010, mainly on the expenditure side. The fiscal consolidation process continued until 2015, when both the ESA budget deficit and the structural budget deficit reached 0.5% of GDP. Starting in 2016, the fiscal consolidation process was reversed following the entry into force of the new Fiscal Code, which brought extensive fiscal relaxation, alongside legislation for significant permanent increases in expenditures (wages and pensions[31]). Maintaining the expansionary character of fiscal policy, under conditions of a positive output gap from

[30] Except for the years 2005, 2009, 2012, 2016, 2020, and 2024.

[31] Starting in 2017, a series of *ad-hoc* increases in the pension point were legislated (+65% between 2017 and 2020).

2017 onward, as well as the deliberate evasion of the rules established by the Fiscal Compact Treaty (FCT) and the Fiscal Responsibility Law (FRL) regarding compliance with the structural deficit target contributed to the rapid deterioration of the public finance position. The 2019 budget execution ended with an ESA deficit of 4.3% of GDP, above the allowed limit of 3% of GDP, and a structural deficit of nearly 4.5% of GDP. Thus, Romania entered the excessive deficit procedure in March 2020.

The outbreak of the COVID-19 pandemic amplified the budget deficit, with 2020 recording an ESA budget deficit of 9.2% of GDP and a structural deficit of 7.4% of potential GDP. Given the adverse cyclical developments[32] caused by the pandemic, the 2020 fiscal-budgetary policy was countercyclical, featuring a strong stimulative character (fiscal impulse of 2.9 pp), driven by measures to support the economy, the population, and the healthcare sector, alongside increased expenditures (pension point and child allowance increases) and tax cuts and reductions decided prior to the pandemic outbreak (elimination of the extra excise tax and the bank asset tax).

2021 and 2022 saw a reduction in both the ESA budget deficit and the structural deficit. The latter decreased from 7.4% in 2020 to 6.4% in 2021, and to nearly 6.3% in 2022. The fiscal adjustment in 2021 was driven by the recovery of the macroeconomic environment and the better-than-expected collection of budgetary obligations related to 2020, which had been postponed by economic agents. The year 2022 recorded a substantial upward revision of budget revenues compared to initial projections, due to higher-than-expected inflation and additional revenues from the surtaxing of electricity and natural gas producers. However, this revenue surplus was matched by increased budget expenditures, particularly on social assistance, interest payments, other transfers, and goods and services, resulting in only a 0.1 pp adjustment in the structural deficit.

2023 and 2024 saw a reversal of the fiscal consolidation trend. Discretionary fiscal-budgetary measures, adopted through exemptions from national fiscal rules and intensified by the political and electoral context, led to substantial deviations of the deficit from the assumed targets. This trend was especially evident in 2024, when the structural budget deficit reached 8.8% of potential GDP, up from 6.4% in 2023. Although the 2024 budget draft had set an ESA deficit target of 4.9% of GDP, the budget execution indicated an ESA deficit of 9.3% of GDP, which is 90% higher than the initial projection. This difference reflects a deeply unrealistic budget construction, both in terms of revenues and expenditures. Budget revenues were overestimated due to the *ex ante* consideration of additional amounts expected to be obtained from digitalization and improved collection efficiency. At the same time, for most expenditure categories (personnel, goods and services, social assistance, and capital), the initial allocations were significantly exceeded. There was also a pension reform, which complicated the state of public finances.

The budget construction for 2025 envisages a reduction of the ESA budget deficit by 2.3 pp compared to the level recorded in 2024, down to 7% of GDP. According to the Ministry of Finance[33], this evolution

[32] According to the European Commission, from a demand excess of 0.9% of potential GDP in 2019 to a demand deficit of 5.6% in 2020.

[33] According to the Report on the Macroeconomic Situation for 2025 and its Projection for 2026-2028, issued by the Ministry of Finance.

is compatible with a reduction of the structural deficit by 2.4 pp, from 8.8% of potential GDP in 2024 to 6.4% in 2025. In the MF's view, the consolidation process will be mainly supported by the measures introduced through Emergency Ordinance no. 156/2024 concerning certain fiscal-budgetary measures in the field of public expenditures for the foundation of the general consolidated budget for 2025, the amendment and completion of certain normative acts, as well as the extension of some deadlines (the so-called "*train ordinance*"), supplemented by the amount of additional revenues expected to be collected from improved NAFA tax collection. In its analysis of the 2025 budget draft and based on available data, the FC considered that the programmed target is not plausible, estimating that the cash budget deficit is likely to be around 7.7% of GDP.

In its analyses, the FC has repeatedly highlighted the particularly difficult fiscal situation Romania is facing, characterized by insufficient budget revenues relative to expenditures, as well as a high level of structural deficit and external deficits. With the adoption of the 2025 budget, the authorities have committed to a series of measures aimed at increasing the efficiency of public spending and imposing restrictions. These measures represent a step forward; however, given the underfunding of education, healthcare, and national defense, budgetary adjustment solely on the expenditure side is not feasible. The share of fiscal revenues in GDP remains low compared to other countries in the region (28.8% of GDP in Romania, compared to 35% in the Czech Republic, 35% in Hungary, and 37.5% in Poland in 2024[34]).

In addition, the way the tax burden is distributed (e.g., high tax burdens on low wages), the existence of imbalances between the remuneration of labour and capital, and the lack of solid measures to support demographic, educational, and healthcare policies have adverse effects on economic and social resilience. On the external front, increased geopolitical uncertainties require additional funding for defense, while trade tensions negatively impact economic growth prospects.

Thus, fiscal consolidation through increased tax revenues is a matter of economic security and national solidarity, enabling the public budget to cope with both current and future significant needs. Moreover, in the coming years, budget planning must take into account the rules of the new economic governance framework, as transposed into the Medium-Term Fiscal-Structural Plan (MTP). These can serve as credible anchors around which realistic annual budgets can be built.

[34] According to preliminary Eurostat data, accessed on July 1, 2025.

III.4. Budget revenues

GCB revenues increased in 2024 by 10.4% (+54 billion lei), compared to the previous year, supported by the positive dynamics of nominal GDP (against a deflator of 8.8%) and labour market indicators (increase in the average number of employees by 0.9% and in the average gross salary by 15.3%) and by the fiscal policy measures adopted (especially those introduced by Law no. 296/2023 on some fiscal-budgetary measures to ensure Romania's long-term financial sustainability, with an impact estimated by the Ministry of Finance at 15.9 billion lei). Thus, budget revenues stood at a level of 574.6 billion lei (representing about 32.6% of GDP), which records an increase of 0.2 pp compared to the level of 32.4% of GDP in 2023.

Tax revenues recorded an increase in the share in GDP (+0.9 pp compared to the previous year), a situation that manifested itself at the level of most of the component aggregates *(profit tax +0.2 pp; wage and income tax +0.3 pp; VAT +0.4 pp; excise duties +0.3 pp),* the main exception being *other taxes and duties on goods and services (-0.3 pp).* Increases in the share in GDP were also recorded in the case of *social contributions (+0.9 pp), non-tax revenues (+0.2 pp), amounts received from the EU on account of payments made and pre-financing (+0.8 pp) and amounts related to non-reimbursable financial assistance allocated for the NRRP (+0.4 pp).* On the other hand, the most significant decrease in the share in GDP was recorded in *the amounts received from the EU on account of payments made and pre-financing related to the 2014-2020 financial framework (-2.8 pp),* against the background of the conclusion of this multiannual financial framework.

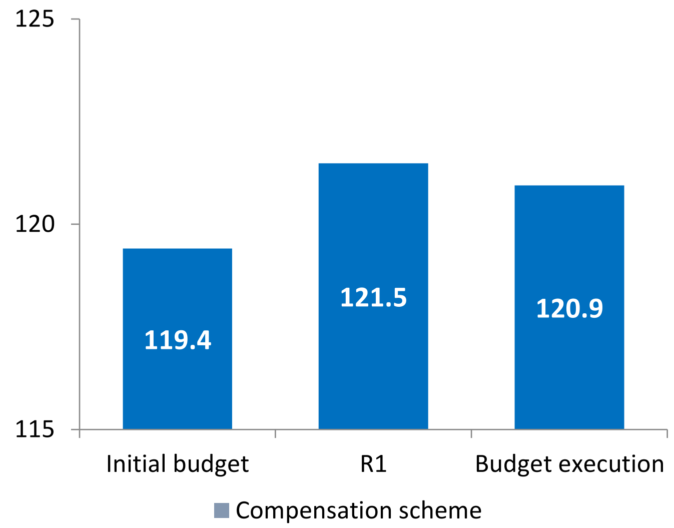
Compared to the initial budget projection, the GCB revenues actually collected in 2024 recorded a shortfall of 11.5 billion lei (representing almost 0.7% of GDP). The failure to meet the programmed level was mainly found in European funds: amounts from the EU on account of payments made and pre-financing (-10 billion lei, -0.6 pp of GDP) and amounts related to non-reimbursable financial assistance allocated to the NRRP (-16.7 billion lei, -0.9 pp of GDP), but also in the level of additional revenues expected to be collected from digitalization (-10.5 billion lei, -0.6 pp of GDP). These shortfalls were partially offset by exceeding the programmed levels for the other main revenue categories: tax revenues (+15.3 billion lei, +0.9 pp of GDP), insurance contributions (+6.4 billion lei, +0.4 pp of GDP) and non-tax revenues (+3.3 billion lei, +0.2 pp of GDP). At the same time, it should be noted that the revenues projected in the initial budget also included amounts of 8.5 billion lei coming from an anticipated increase in collection efficiency/reduction of tax evasion.

In the case of tax revenues, the above-projected increase is mainly due to revenues from excise duties (+5.6 billion lei, +0.3 pp of GDP), other taxes and duties on goods and services (+5.4 billion lei, +0.3 pp of GDP) and from the tax on wages and income (+3 billion lei, +0.2 pp of GDP).

III.4.1. VAT and excise duties

VAT revenues in cash standards recorded a level of 120.9 billion lei in 2024, standing at 1.5 billion lei above the level provided for in the initial budget. At the September revision, VAT revenues were revised upwards to 121.5 billion lei, but the execution of 2024 recorded a failure to meet the rectified level by about 0.5 billion lei. The accompanying graph presents the evolution of VAT revenues, programmed in the initial budget, compared to the level established at the revision, respectively with the value actually recorded in the budget execution.

Figure 6: VAT revenues in 2024 (billion lei)



Source: MF (cash standards)

The evolution of VAT receipts was supported by the measures introduced by Law No. 296/2023 regarding, among other things, the elimination of reduced VAT rates at a series of products and services, with an impact estimated by the Ministry of Finance at 2.8 billion lei. Added to these are a series of other measures[35] implemented in the second semester of 2024, which aimed at digitalization and increasing the efficiency of collection, with an impact estimated by the Ministry of Finance at 3.2 billion lei on VAT revenues. These measures aimed at amending and supplementing some normative acts in the field of management and implementation of the national system regarding electronic invoices, electronic fiscal cash registers, the pre-filled e-VAT return, as well as the valorisation of data and information by implementing a specific governance system. At the same time, private final consumption increased in 2024 by 12.6%, exceeding the dynamics estimated by the NCSP at the time of drafting the budget (+8.9%).

Compared to the previous year, the level of receipts corresponding to this budgetary aggregate increased by 15.9% (+16.6 billion lei). To investigate the performance of VAT receipts, an *ex post* projection of them was made in order to compare them with the actual achievements. Thus, starting from the budget execution for 2023 of VAT revenues, a 12.6% increase in private final consumption was applied and the effect of the fiscal policy measures adopted in 2024 (excluding those related to the increase in collection), estimated by the Ministry of Finance at about 2.8 billion lei, as well as the expected positive impact of the tax amnesty (of almost 2 billion lei, according to the Ministry of Finance) were taken into account. Under the influence of these factors, the *ex post* projection of VAT receipts for 2023 is slightly above 122 billion lei, while the actual execution recorded a level of 120.9 billion lei. Consequently, the execution of VAT revenues does not provide conclusive evidence regarding the improvement of the efficiency of their

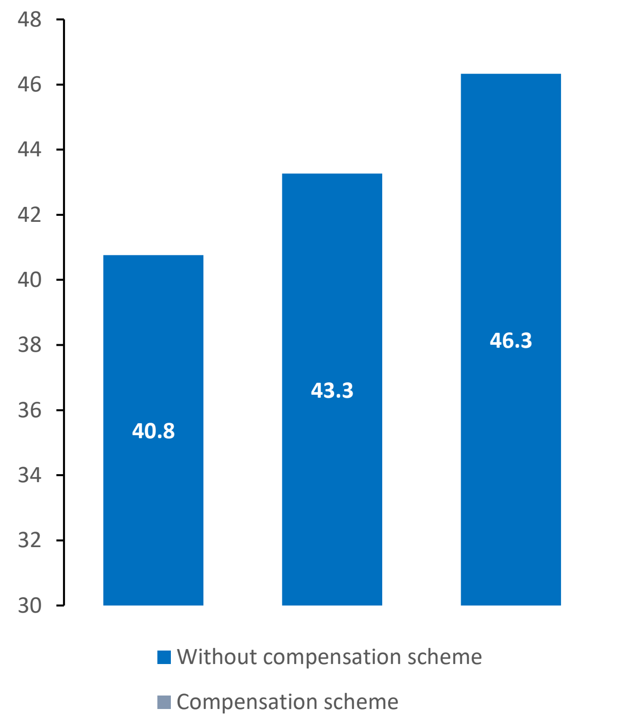
[35] GEO no. 69/2024 and GEO no. 70/2024.

collection, which should have generated additional revenues of 3.2 billion lei, according to the initial projections of the MF.

Therefore, although there is potential for additional revenue from improved collection, especially given the VAT collection gap in Romania, this is not an argument for including hypothetical revenues in the budget construction. The eventual materialization of additional revenues from increased collection efficiency will be reflected in the results of budget execution during the year and may be recognized during budget rectifications.

Revenues collected from **excise duties** amounted to 46.3 billion lei in 2024, exceeding the estimate in the draft budget by 5.5 billion lei. The initial program had foreseen revenues from excise duties worth 40.8 billion lei, given a forecasted increase in final consumption in real terms of about 3.3% and taking into account the impact of the measures adopted by Law no. 296/2023 and the *train-ordinance* (estimated by the Ministry of Finance at about 3 billion lei) and additional revenues of 1 billion lei, expected to be obtained from improved collection. In the budget revision, the revenue target was revised upwards to 43.3 billion lei, against the backdrop of the higher-than-expected growth in final consumption (+4.8%) and the inclusion of the impact of the tax amnesty, estimated at about 230 million lei. The 2024 budget execution recorded an exceedance of the revenue target from the revision by about 3 billion lei, the level of excise revenues being higher by 9.1 billion lei (+24.3%) compared to that recorded in 2023.

Figure 7: Excise duties in 2024 (billion lei)



Source: MF (cash standards)

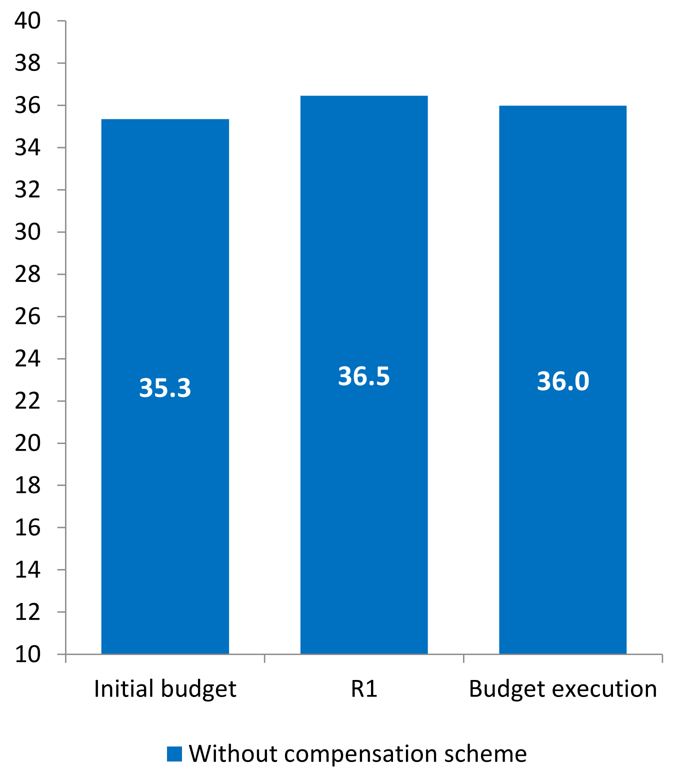
Given that excise duties are presented in aggregate form in the budget construction, which does not allow studying the impact of a single category change, it is of interest to carry out an analysis of the structure of excise duty revenues. Thus, with a share of 49% (up 1 pp compared to the level recorded in the previous year), excise duties on energy products continue to represent the most important component of this aggregate, followed by excise duties on tobacco products, with a share of 45.5% (down from the level of 47.4% recorded in the previous year) and excise duties on alcohol, distillates and alcoholic beverages, with a share of 4.3% (down 0.2 pp compared to the previous year). Last but not least, it is worth mentioning the excise duties on non-alcoholic beverages with added sugar, introduced by Law no. 296/2023, which represented almost 1.3% of total receipts (0.6 billion lei).

Analysing the changes recorded compared to 2023 at the level of each product category, it is found that excise tax revenues on energy products increased considerably, by about 27% (+4.8 billion lei, against the background of an increased level of excise tax on diesel and unleaded gasoline from July 1, 2024), high growth rates being also recorded in excise tax revenues on tobacco products (+3.4 billion lei, representing +19.2%, against the background of an increased level of excise tax on cigarettes), respectively from excise taxes on alcohol, distillates and alcoholic beverages (+0.3 billion lei, representing +18.1%). Considering the increases recorded at the level of all excise tax categories, these exceeding the dynamics of the relevant macroeconomic base and the impact estimated by the Ministry of Finance of the fiscal measures adopted, the budget execution of 2024 indicates a possible improvement in collection at the level of this aggregate. However, it must be borne in mind that excise tax revenues are also influenced by the policy of economic agents regarding fiscal warehousing of excisable products.

III.4.2. Direct taxes

Revenues from **corporate tax** in 2024 were approximately 36 billion lei, representing an increase of 6.9 billion lei (+23.5%) compared to 2023, but also exceeding the initially projected target by 0.6 billion lei. The 2024 budget provided for revenue from corporate tax in the amount of 35.3 billion lei, in the context of an anticipated increase in the relevant macroeconomic base (nominal GDP) by 9.5% and including the impact of the measures adopted by Law no. 296/2023 and the *train-ordinance*, estimated by the Ministry of Finance at approximately 2.5 billion lei. Added to this were the additional revenues expected to be collected due to improved collection, estimated by the Ministry of Finance at 0.6 billion lei. In the budget revision, given the dynamics above initial expectations of nominal GDP and the estimated impact of the tax amnesty (720 million lei), the revenue target was revised upwards to 36.5 billion lei, but the budget execution of 2024 recorded a failure to meet the revised target by about 0.5 billion lei.

Figure 8: Corporate income tax revenues in 2024 (billion lei)



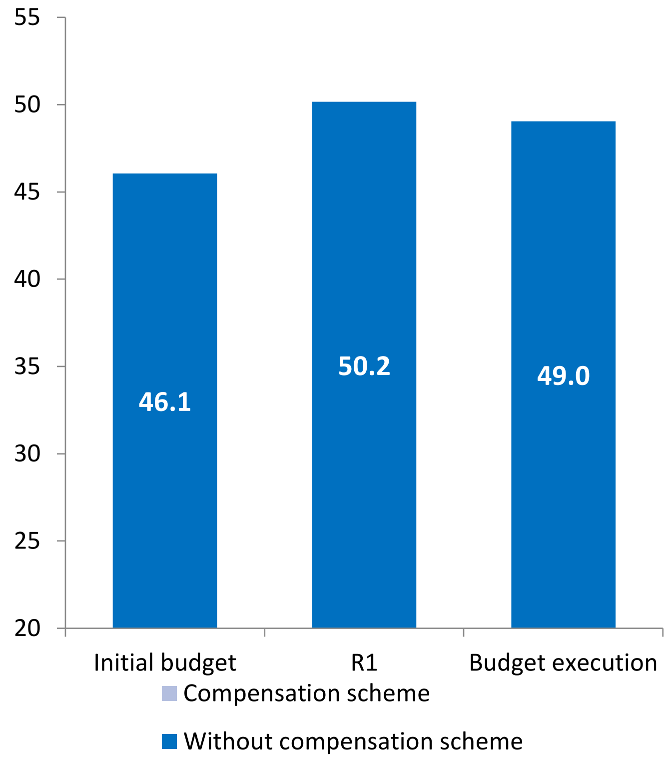
Source: MF (cash standards)

The increase in corporate income tax revenues by 23.5% compared to the previous year was significantly above the actual dynamics of nominal GDP, which was 9.7%. Thus, starting from the budget execution for 2023 of corporate income tax revenues, the increase by 9.7% of nominal GDP was applied and the effect of the fiscal policy measures implemented in 2024 (presented above) was taken into account, including the estimated impact of the tax amnesty. Under the influence of these factors, the *ex post* projection of corporate income tax revenues for 2024 is almost 35.2 billion lei (about 0.8 billion lei below the actual execution of this aggregate), which could suggest an improvement in the degree of collection.

An analysis of the structure of corporate income tax revenues shows, similarly to previous years, that the greatest impact was exerted by corporate income tax paid by economic agents in the non-financial sector, which represents the main component of this aggregate, with 95.1% of total revenues. Compared to the previous year, significant increases were recorded both in corporate income tax paid by economic agents in the non-financial sector (+6.5 billion lei, i.e. +23.6%), and in corporate income tax paid by commercial banks (+0.7 billion lei, i.e. +32.7%).

Income tax revenues amounted to 49 billion lei, which represents an almost 3 billion lei excess over the budgeted level at the beginning of 2024, but also a 1.1 billion lei shortfall compared to the level established in the September revision. Thus, the initial program provided for revenues of 46.1 billion lei on account of an estimated increase in the average number of employees by 1.6%, respectively of a 9.1% increase in the average gross salary. At the same time, the initial revenue projection included the impact of some fiscal policy measures adopted (mainly through Law no. 296/2023), with an impact estimated by the Ministry of Finance at 0.9 billion lei, to which were added the additional revenues expected to be collected on account of improved collection, assessed by the Ministry of Finance at 0.5 billion lei.

Figure 9: Personal income tax revenues in 2024 (billion lei)



Source: MF (cash standards)

In the revision carried out in September, the target for this aggregate was revised upwards by 4.1 billion lei, against the backdrop of a more favourable forecast regarding the relevant macroeconomic fundamentals (the average number of employees from +1.6% to +0.9% and the average gross salary from +9.1% to +14.6%, which is equivalent to a growth rate of the wage bill in the economy by almost 5 pp above initial expectations) and the inclusion of the impact of the tax amnesty, estimated by the MF at 450 million lei.

Compared to the previous year, income and wage tax revenues increased by 21.4% (+8.6 billion lei), the dynamics of this category exceeding the actual increase in the wage bill in the economy, of about 16.3%. In the structure of revenues related to this budgetary aggregate, the tax on wage income represents 62.3% of total revenues, followed by the tax on dividend income (12%), the tax on pension income (11.7%) and the income tax related to the single declaration (7%), the other subcategories having marginal shares in total revenues.

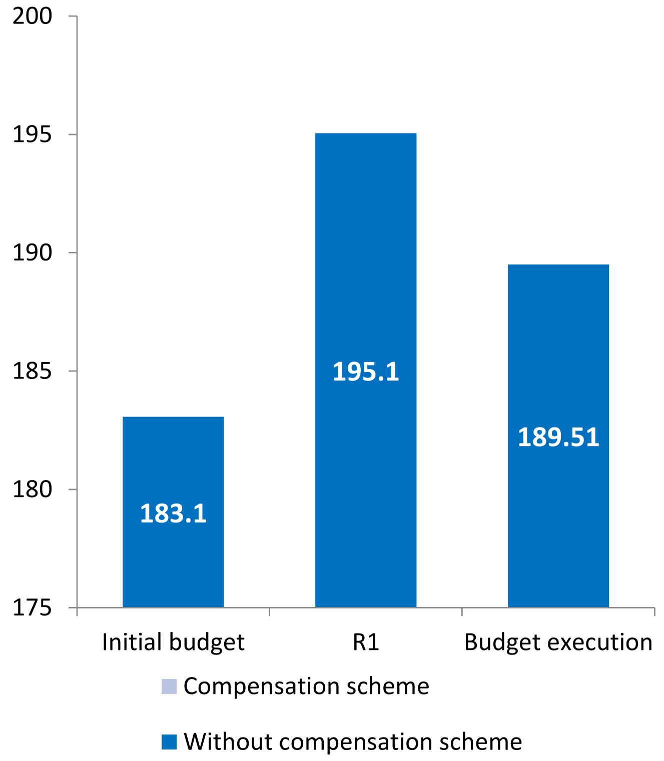
Revenues from the tax on income from salaries increased by about 5 billion lei (+20%), this evolution being in line with the increase in the wage bill in the economy (16.3%) and with the measures adopted (the most important being the restriction of tax facilities in the construction, agriculture, food industry and IT sectors, as well as the increase in the minimum gross basic wage per country), with no signs of improvement in collection being observed.

The dynamics of income and salary tax receipts were also significantly supported by receipts from pension income tax (+2.1 billion lei, representing +60.3%), against the backdrop of the increase in the pension point by 13.8%, the recalculation of pensions in the public system in accordance with the provisions of Law no. 360/2023, as well as the increase in the non-taxable ceiling from 2,000 lei to 3,000 lei. Other categories with a rapid growth rate in 2024 compared to 2023, but with reduced weights in the aggregate structure, are the interest income tax (+60.7%, with a weight of 1.8% in total receipts) and the gambling income tax (+32%, with a weight of 2% in total receipts).

III.4.3. Social security contributions

SSC revenues stood at 189.5 billion lei at the end of 2024, about 6.4 billion lei above the estimates in the initial budget, against the backdrop of a 16.3% increase in the wage bill in the economy (when the draft budget was prepared, an increase of only 10.8% of the relevant macroeconomic base was forecast). The initial projection also included the impact of the adopted fiscal policy measures (mainly those adopted by Law no. 296/2023, the increase in the minimum gross basic wage per country and the increase in the contribution rate to Pillar II of pensions to 4.75%), with a total impact estimated by the Ministry of Finance at about 5 billion lei. Added to this were the additional revenues expected to be collected due to improved collection, assessed by the Ministry of Finance at 2.2 billion lei. In addition, the planned value of enforceable titles for 2024 was about 2.5 billion lei, while actual payments were 3.4 billion lei, which led to an increase in actual receipts from the SSC, compared to the budgeted level, by about 0.3 billion lei.

Figure 10: Social security contributions in 2024 (billion lei)



Source: MF (cash standards)

In the budget revision carried out in September, an increase of 12 billion lei was foreseen for this aggregate, based on the evolution above initial expectations of the wage bill in the economy and the inclusion of the expected impact of the tax amnesty (estimated by the Ministry of Finance at 1.1 billion lei). However, the projection from the revision proved to be unrealistic, with the actual execution of the SSC being lower by about 5.5 billion lei.

Compared to the previous year, SSC revenues increased by 30.9 billion lei (+19.4%), a higher dynamic than the evolution of the wage bill in the economy (+16.3%). Starting from the budget execution for 2023 of SSC revenues, the increase in the wage bill in the economy was applied and the effect of the fiscal policy measures adopted in 2024 (presented above) was taken into account, including the estimated impact of the tax amnesty. Under the influence of these factors, the *ex post* projection of SSC revenues for 2024 is slightly above 190.5 billion lei (more than 1 billion lei above the actual execution), so there is no conclusive evidence of improved collection in this category of revenues.

To more accurately reflect the dynamics of the SSC during the 2021-2024 period, the table below shows the adjusted series of this budgetary aggregate[36], as well as its gross series obtained by eliminating swap compensation schemes and adding transfers to Pillar II.

Table 6: Social security contributions (billion lei)

		Budget execution 2021	Budget execution 2022	Budget execution 2023	Budget execution 2024
Adjusted series	**1**	**127.493,4**	**139.920,2**	**158.655,4**	**189.510,1**
Swap	2	396,6	664,8	-	-
Pillar II	3	9.768,6	10.986,6	12.818,4	17.898,1
Gross series*	**4=1-2+3**	**136.865,4**	**150.241,9**	**171.473,8**	**207.408,2**
*out of which enforceable titles		461,5	577,5	568,7	1.165,7

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

Thus, if we consider the gross series, it is observed that in 2024, SSC revenues amounted to over 207 billion lei, exceeding the previous year's receipts by approximately 21% (+35.9 billion lei), the dynamics being superior to the increase in SSC revenues from budget execution (+19.4%), because the gross series also includes transfers to the Second Pillar of pensions, which increased more rapidly (+39.6%, also against the background of the increase in the contribution rate to 4.75%). Eliminating the impact of enforceable titles from the gross series, SSC revenues increased in 2024 compared to the previous year by 20.7% (+35.3 billion lei), against the background of the increase in payments related to this category.

III.5. Budget expenditures

Budget expenditures increased by 19.1% compared to the previous year (+116.7 billion lei), reaching 727.3 billion lei at the end of 2024. Given a nominal GDP increase of 9.7%, against a deflator of 8.8%, the share of budget expenditures in GDP increased by 3.3 pp, respectively from about 38% to 41.3% of

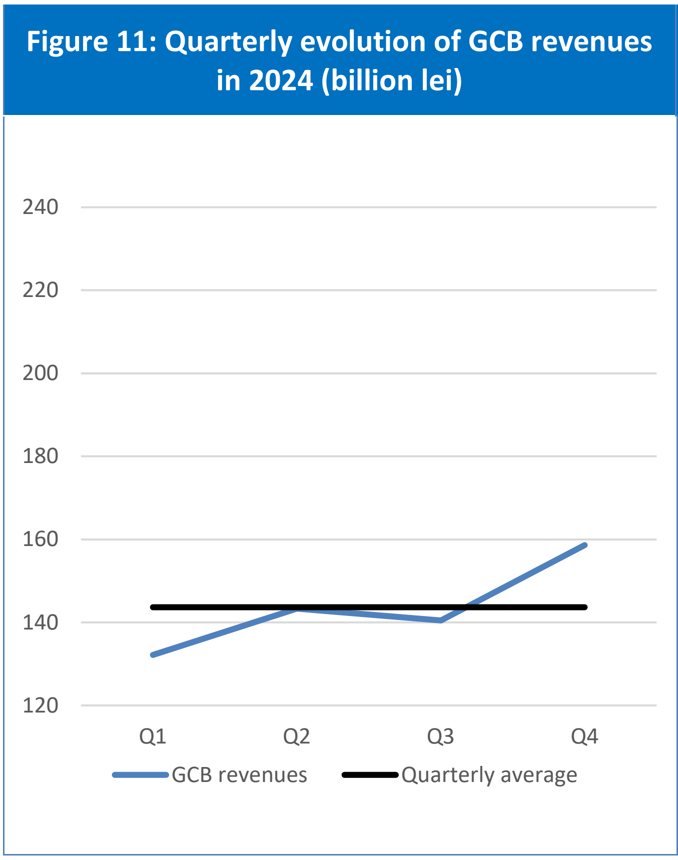
[36] Taken from the budget execution of each year.

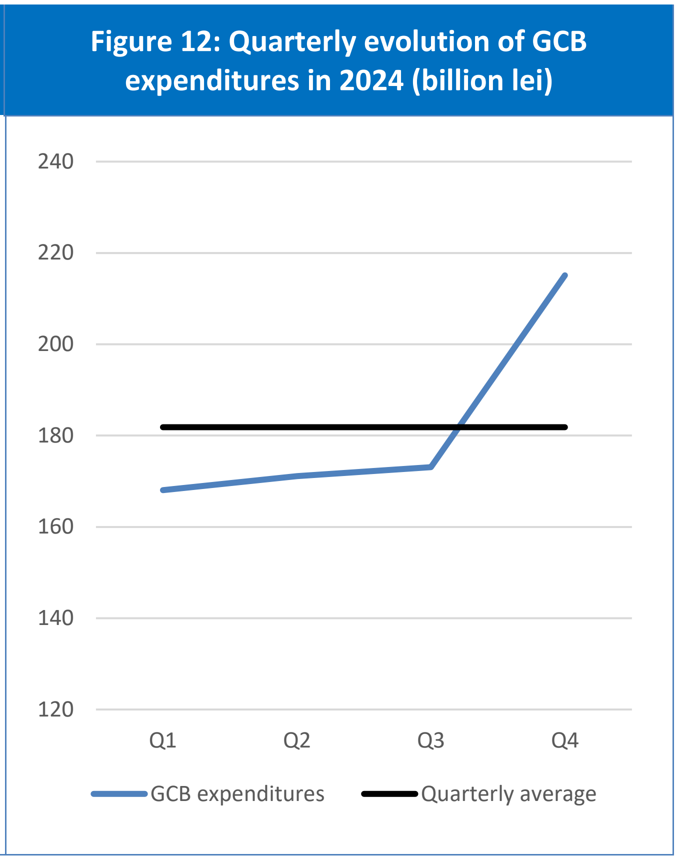
GDP. The increase in the share of budget expenditures in GDP was mainly driven by capital expenditures (+1.3 pp), personnel expenditures (+1.1 pp), projects financed from non-reimbursable external funds (+1 pp), social assistance (+0.8 pp), expenditures on goods and services (+0.5 pp), projects financed from the amounts related to the loan component of the NRRP (+0.5 pp), projects financed from the amounts representing the non-reimbursable financial assistance related to the NRRP (+0.5 pp) and other expenditures (+0.4 pp). The evolution of these aggregates was partially counterbalanced by the dynamics of projects financed from non-reimbursable external funds post-accession 2014-2020 (-3.1 pp). As for the other expenditure aggregates, they recorded marginal changes in the share in GDP compared to the execution of 2023.

Compared to the allocations established by the draft budget for 2024, budget expenditures were higher by 54.6 billion lei (+8.1%), respectively by 3.1 pp of GDP, exceeding the initially budgeted amounts being recorded at the level of most expenditure aggregates, the most significant being: capital expenditures (+1.3 pp), personnel expenditures (+1 pp), social assistance (+0.8 pp) and expenditures on goods and services (+0.7 pp). On the other hand, the main categories of expenditures that recorded a failure to meet the levels provided for in the initial budget are represented by projects financed from the amounts representing non-reimbursable financial assistance related to the NRRP (-1.3 pp), a situation similar to 2023, which attests to the maintenance of delays in the implementation of projects financed through the NRRP, and projects financed from non-reimbursable external funds (-0.5 pp).

The analysis of the quarterly execution of GCB expenditures in 2024 shows, similar to previous years, a concentration of them in the last quarter, the share of the fourth quarter in the total year being, however, marginally decreasing compared to 2023 (29.6%, compared to 30.6%). Thus, total expenditures in the fourth quarter of 2024 amounted to 215.1 billion lei (compared to 186.9 billion lei in the fourth quarter of 2023, representing an increase of about 15.1%), being 24.3% higher than the level in the previous quarter (compared to a 29.3% increase in expenditures made in the fourth quarter compared to the third quarter of 2023).

Analysing the increase in expenditures in the fourth quarter of 2024, compared to the previous quarter, by category, we note projects financed from non-reimbursable external funds (+325.2%, with a contribution of 28.7% of the total increase in the fourth/third quarter), capital expenditures (+44.9%, with a contribution of 16.7% of the total increase in the fourth/third quarter) and expenditures on goods and services (+30.8%, with a contribution of 15.4% of the total increase in the fourth/third quarter). The concentration of expenditures in the last quarter of the year highlights deficiencies in the budget programming process, especially with regard to public investment expenditures (capital expenditures and European funds). Although the principle of prudence may justify to a certain extent the postponement of some expenditures until revenue projections become more certain, this practice indicates inefficient planning. As for budget revenues, they were also mostly concentrated in the last quarter, but in a slightly lower proportion compared to the previous year (with a share in the total year of 27.6%, compared to 29.4% in 2023, respectively an increase compared to the previous quarter of 12.9%, compared to 22.5% in 2023). In this context, the FC reiterates the recommendation formulated in previous years regarding the need to reduce the volatility of budget execution at a quarterly level.

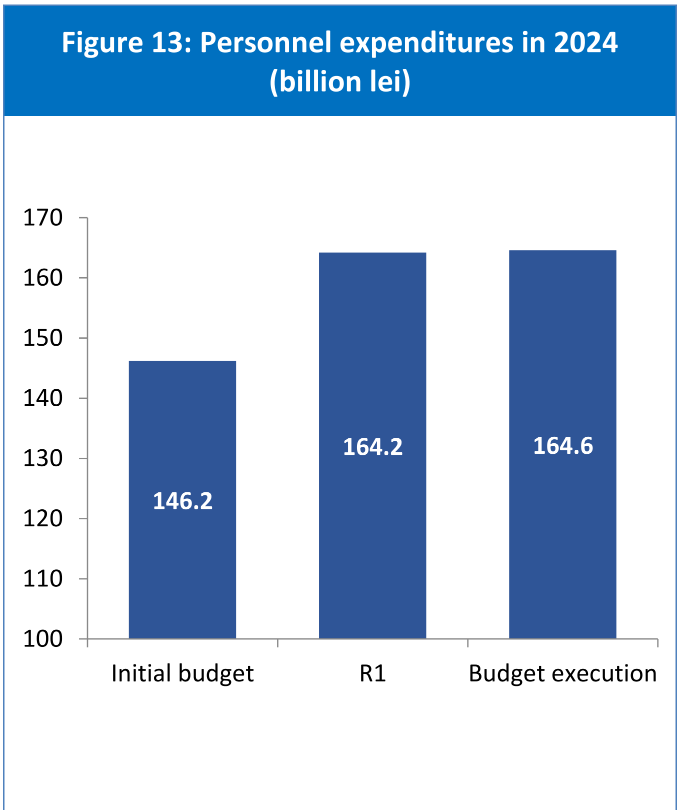




Source: MF (cash standards)

III.5.1. Personnel and social assistance expenditures

The execution of **personnel expenses** recorded an increase of 18.4 billion lei compared to the level considered when preparing the draft budget for 2024. Initially estimated at a level of 146.2 billion lei, the final value of these expenses was 164.6 billion lei, respectively 9.35% of GDP. This level recorded an exceeding of the ceiling of 8.5% of GDP established by Law no. 417/2023 for the approval of some indicators specified in the fiscal-budgetary framework for 2024. The FC had indicated in its opinion on the draft budget that the discretionary salary increases in 2023 implied increased risks in terms of additional pressures from other public sectors in 2024. Thus, the execution for the first seven months of 2024 already indicated a 23.9% increase in personnel expenses, compared to the same period of the previous year, given that the increase projected in the initial budget was only 10.2%.



Source: MF (cash standards)

On the occasion of the budget revision, the level foreseen for this aggregate was increased by approximately 18 billion lei (+12.3%), representing an increase of 23.7% compared to the previous year, in line with the execution dynamics. In its opinion on the budget revision, the FC indicated that the upward revision of the aggregate was determined by the increase in salaries in several public sectors in the first part of the year. Furthermore, the FC drew attention to the fact that the last part of the year will involve a second tranche of increases for some public sectors, which will create a risk of exceeding the ceiling in the revision.

Compared to 2023, personnel expenses increased by 31.9 billion lei (+24%), slightly exceeding the level established in the budget revision. In 2024, there was an increase in the amounts paid on account of court decisions regarding the payment of salary differences for some categories of public servants, from 1,661.4 million lei to 3,405.5 million lei. On the other hand, at the level of newly issued enforceable titles, a decrease of 69.4% was observed in 2024 (2,493 million lei) compared to 2023 (8,147 million lei).

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

		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total
Enforceable titles issued, including Law no. 85/2016	Central administration (State budget)	3,8	82,3	1599,4	67,4	996,9	1461,6	2812,3	1163,3	2340,5	8063,5	2431,5	21562,6
	Local administration	1614,4	1064,1	2094,3	20,3	0,0	0,0	10,3	74,0	117,1	76,4	50,2	6569,3
	Social security budget	5,5	12,2	7,6	1,2	0,0	0,9	0,0	0,0	3,0	7,1	11,3	91,7
	Total	**1623,6**	**1158,5**	**3701,2**	**88,9**	**996,9**	**1462,5**	**2822,6**	**1237,3**	**2460,6**	**8147,0**	**2493,0**	**28223,6**
Enforceable titles paid, including Law no. 85/2016	Central administration (State budget)	1531,7	1234,6	363,1	476,2	80,8	999,7	1551,5	1314,6	1652,9	1628,0	3285,8	14592,2
	Local administration	2447,2	2806,1	544,6	705,0	79,2	947,7	17,5	31,4	33,8	32,6	112,8	8216,9
	Social security budget	59,3	0,0	0,6	0,6	0,6	4,2	2,4	2,3	0,5	0,8	6,9	175,0
	Total	**4038,2**	**4040,7**	**908,4**	**1181,8**	**160,6**	**1951,6**	**1571,5**	**1348,3**	**1687,2**	**1661,4**	**3405,5**	**22984,1**

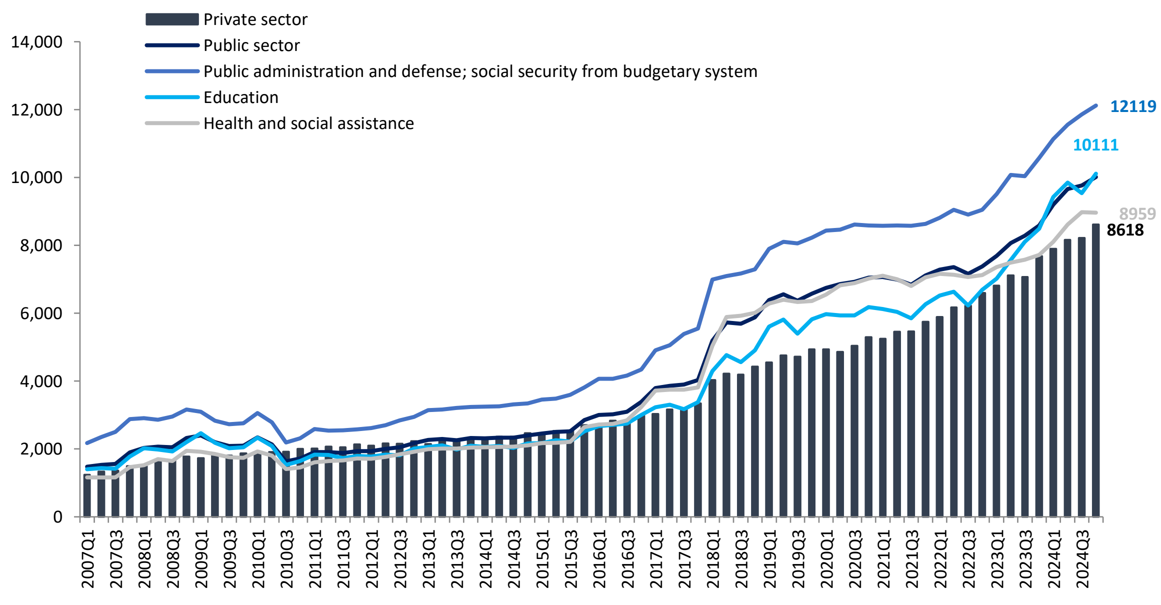
Source: MF

The average gross salary (*Figure 14*) in the public sector reached 9,660 lei/month in 2024, 18.5% higher than in 2023, exceeding by 17.5% that in the private sector, which stood at 8,223 lei/month (up 14.7% compared to the previous year). Considering quarterly averages, the average gross monthly salary in the public sector for the fourth quarter of 2024 registered a level of 10,013 lei, 16.6% more than in the same period in 2023, while the salary in the private system was 8,618 lei, up 12.2% compared to the fourth quarter of 2023.

Taking into account the areas of activity of the public sector, the three most important in terms of weight had the following evolution of the average gross salary in the fourth quarter of 2024 compared to the fourth quarter of 2023: in education the dynamics recorded was 19.1%, in health the increase was 16.1%, and in public administration and defense, 14.6%.

Following the increase of 165,600 people recorded between 2005 and 2008, the total number of employees in the government sector decreased by 91,329 people between December 2008 and December 2024, to a level of 1.3 million (*Figure 15*). However, most of the staff reduction took place in the 2009-2011 period, when the number of employees in the budgetary sector decreased by about 180 thousand. The adjustment recorded in the 2009-2024 period occurred especially at the level of local executive authorities (-28,704 occupied positions), the Ministry of Internal Affairs (-22,438 occupied positions), other institutions fully financed from their own revenues (-12,701 occupied positions), the Ministry of Justice[37] (-10,786 occupied positions), the Ministry of Finance (-9,174 occupied positions), the Ministry of Agriculture and Rural Development (-5,026 occupied positions). On the other hand, in the same period, increases were recorded at the level of the healthcare system, including the Ministry of Health (+29,982 occupied positions), the High Court of Cassation and Justice (+14,313 occupied positions), the Ministry of Investments and European Projects (+2,030 occupied positions), state higher education institutions (+2,007 occupied positions) and the General Secretariat of the Government (+1,858 occupied positions).

Figure 14: Average gross earnings in the private and public sectors between 2007-2024 (lei/month)



Source: NIS, FC's computation

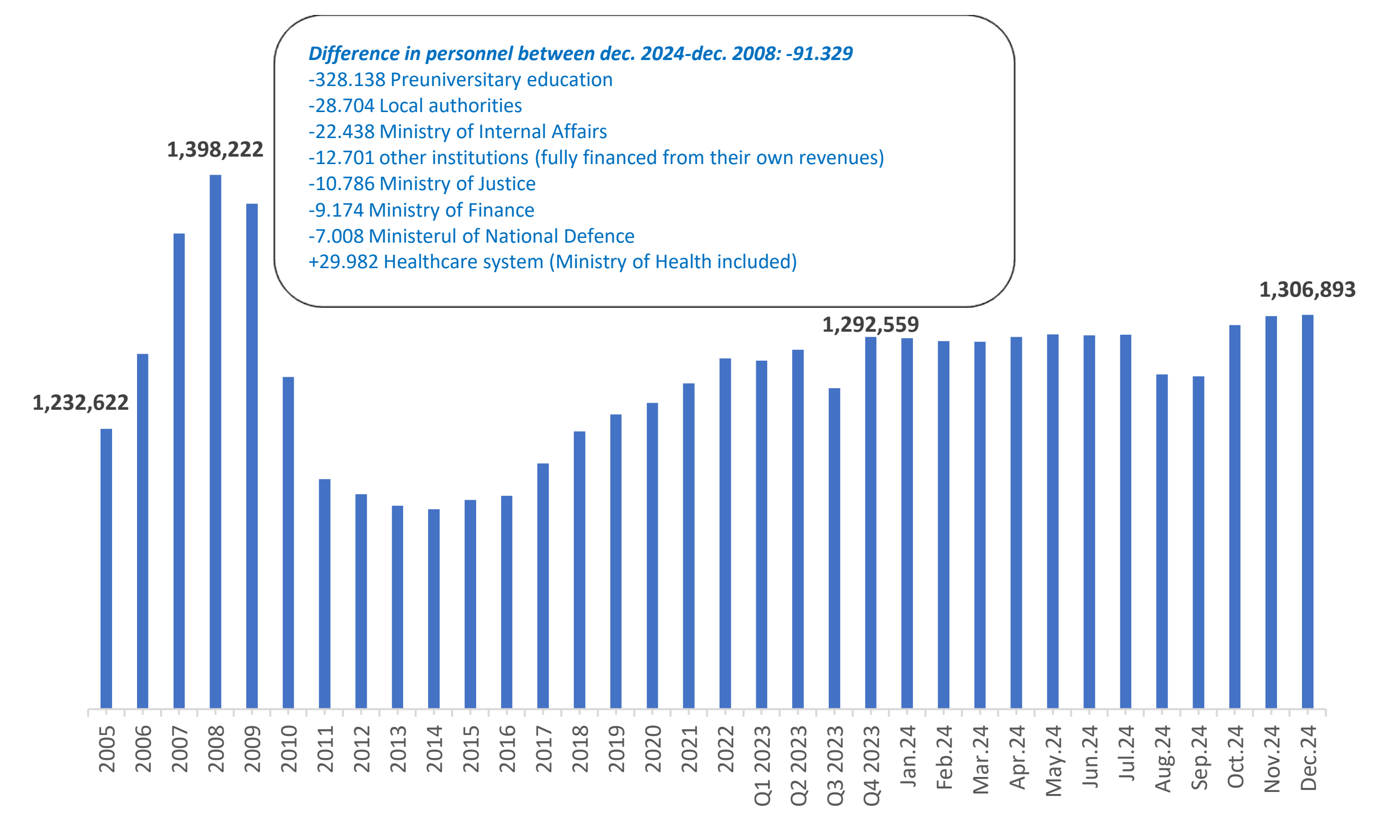
At the same time, it should be noted that in 2024 the growth rate of the number of employees was higher than that recorded in the previous year, namely 1.1% (+14,334 people) compared to 1.08% (+13,871 people). The staff increases were recorded especially at the level of the Ministry of National

[37] As a result of the transfer, starting from January 1, 2023, of the employees of the courts from the Ministry of Justice to the High Court of Cassation and Justice.

Defense (+6,186 occupied positions), the Ministry of Education (+5,504 occupied positions) and the local executive authorities (+1,717 occupied positions). On the other hand, the most important staff reductions were recorded at the level of the General Secretariat of the Government (-635 occupied positions) and the Ministry of Finance (-337 occupied positions).

The adjustment between 2009 and 2012 was mainly the result of enforcing the rule of “1 new employee per 7 departures” given that most of the exits from the system were made through voluntary departures or retirement. The abandonment of this rule starting in 2013 was intended to reduce adverse selection and allow the operation of some changes in the structure of the employed personnel. Thus, the reduction operated in the 2009-2012 period was based only to a small extent on qualitative criteria, such as reducing staff where a surplus of employees was identified simultaneously with new hires in deficit areas, taking into account rigorously defined cost standards and establishing an optimal level of operation. The FC considers such an approach appropriate and recommends that new hires be made in areas with insufficient personnel, even by transferring positions from areas with a surplus of staff to those with a deficit, taking into account at the same time the strict inclusion in the previously approved salary envelope.

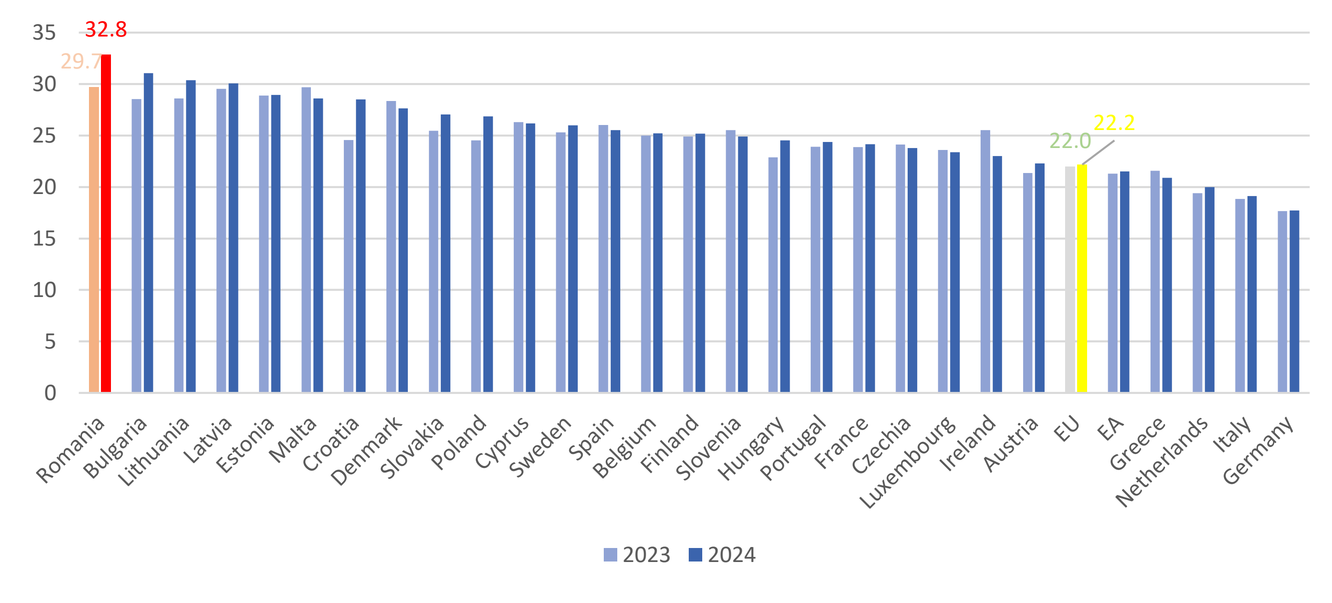
Figure 15: The evolution of public sector employment between 2005-2024



Source: MF

With regard to the ratio between budget sector personnel expenditures and total revenue received (*Figure 16*), according to ESA 2010 standards, in 2024, this indicator increased compared to the previous year, with Romania moving up to first position in the EU. Analysing data from recent years, Romania also ranked first among the 27 EU countries in the 2018-2021 period. If, until 2009, Romania was placed in the first half of the ranking (in eighth position in 2008, respectively, in tenth in 2009), in 2011, as a result of the fiscal consolidation measures initiated in mid-2010, Romania dropped to 19th position out of 27. In 2013, Romania had reached 17th position in this ranking, due to wage recoveries and the increase in salaries of some categories of public sector employees, and in 2015 it occupied 20th place out of 27, in the context of a slight increase in revenues collected by the budget and the maintenance of wage expenditures as a percentage of GDP. Starting with 2016, the situation changed and Romania rose sharply to 10th place, reaching second place in 2017, and from 2018 occupying first position until 2021. In 2022, amid a decrease in the share of wage expenditures in total budget revenues, Romania dropped to second position in the ranking, and in 2023 it was in third position, being overtaken by Latvia.

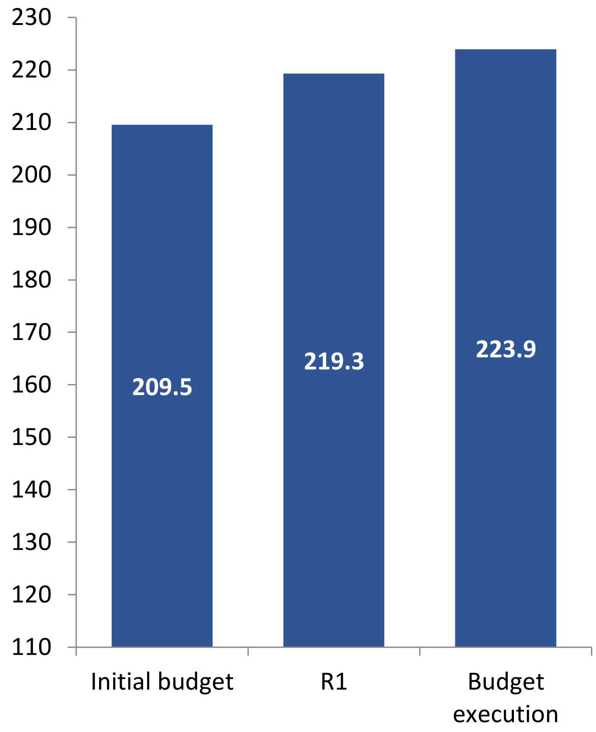
Figure 16: Personnel expenditures as a share of total budget revenues in EU27 countries



Source: Eurostat

Social assistance expenditures in 2024 were significantly higher than planned in the initial budget. Thus, although estimated in the budget proposal for 2024 at a level of 209.5 billion lei, the actual execution of social assistance expenditures was 223.9 billion lei, 6.9% (equivalent to about 14.4 billion lei) more than in the initial program. Compared to the execution of the previous year, this category of expenditures increased by 17.2% (equivalent to 32.9 billion lei), mainly as a result of the application of the new pension law starting with September 1, 2024. The dynamics of this aggregate was recognized during the budget revision, the allocation for social assistance expenditures being increased by about 9.8 billion lei, but the FC warned that risks of overruns persisted, given the uncertainties regarding the impact of the pension recalculation in the public system. The execution for 2024 revealed the materialization of these risks, the level established in the budget revision being exceeded by 4.6 billion lei.

Figure 17: Social assistance expenditure in 2024 (billion lei)

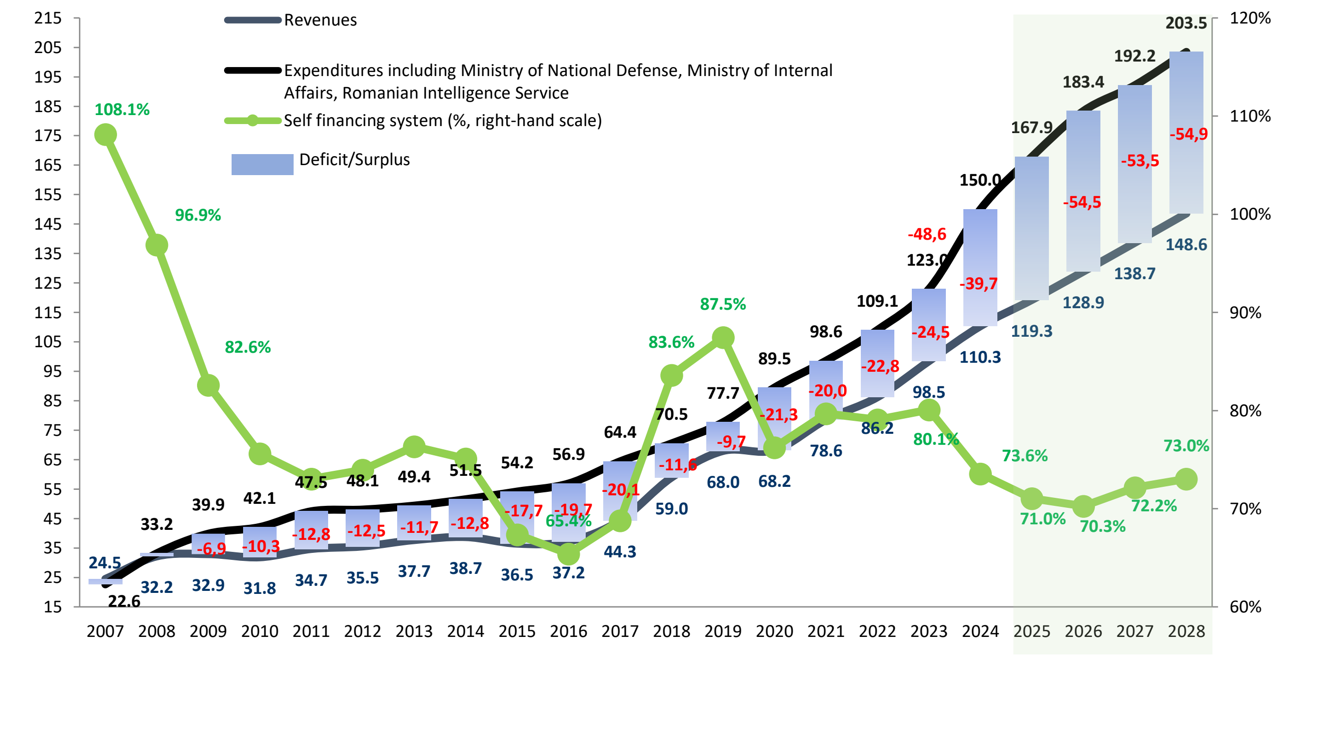


Source: MF (cash standards)

Since 2009, the social security budget deficit, including special/service pensions, has deepened significantly, reaching 39.7 billion lei in 2024 (*Figure 18*), increasing by 15.2 billion lei compared to the previous year. In 2018, it had decreased to 11.6 billion lei, mainly as a result of the adoption of fiscal measures regarding the resettlement of the taxation structure of income from salaries, pensions, self-employment and copyrights by transferring contributions from the employer to the employee. Thus, although the total contribution rates decreased from 39.25% to 37.25%, their transfer from the employer to the employee determined a significant increase in the gross salary, practically leading to an increase in the level of taxation through insurance contributions by about 13.9%. In addition to the increase in labour taxation through SSC, the reduction of the deficit in 2018 is also explained by the reduction in the contribution rate to the Second Pension Pillar (from 5.1% in 2017 to 3.75% in 2018). In 2019, the social security budget deficit continued to decrease, reaching 9.7 billion lei, as a result of the increase in the number of employees in the economy. However, in 2020, it deepened significantly both due to the increase in pensions and the unfavourable evolution of incomes, as a result of the recession generated by the pandemic.

The Ministry of Finance estimates for the coming years project an upward trend for the social security budget deficit, up to a level of 54.9 billion lei in 2028, amid the impact of the new pension law, but also considering that the "decree generation" is approaching retirement.

Figure 18: The evolution of revenues and expenditures from the social security budget (billion lei)



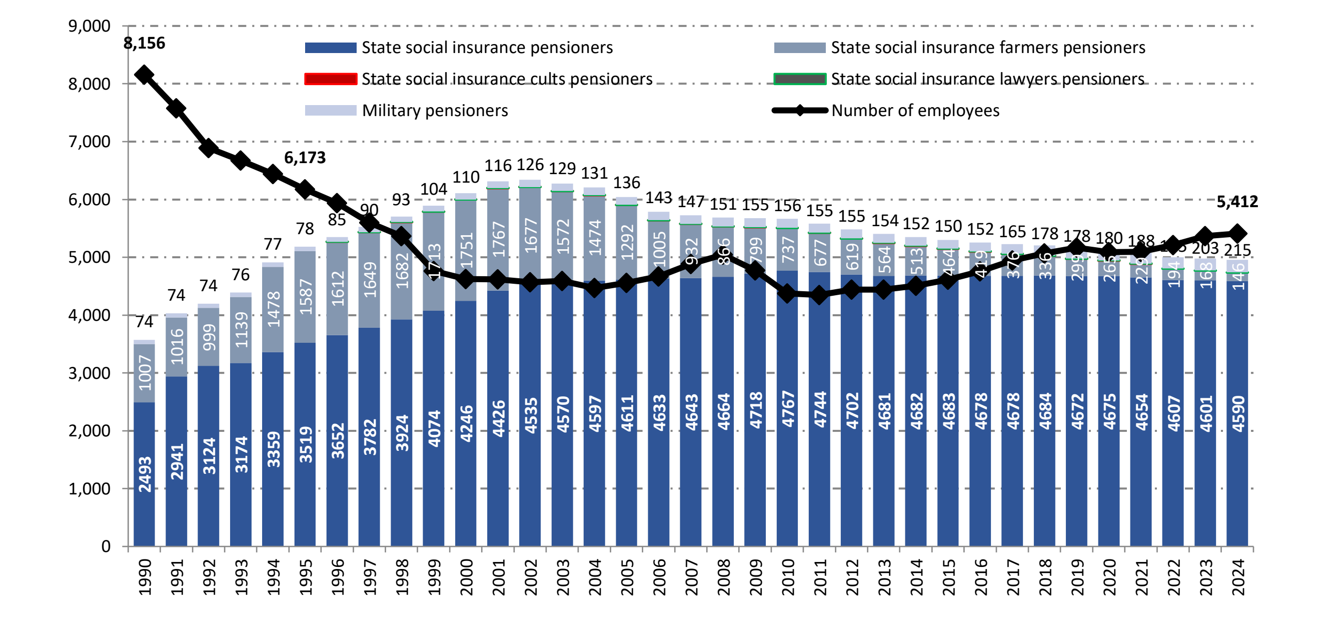
Source: MF (cash standards)

Note: In addition to the expenditures of the social security budget, military pensions were also included for the 2016-2022 period. According to Law no. 223/2015, since January 1, 2016 the necessary funds for paying military pensions and other social security rights due to military pensioners are provided from the state budget, through the budgets of the following institutions: Ministry of National Defence, Ministry of Internal Affairs and Romanian Intelligence Service.

From the perspective of expressing the deficit as a percentage of GDP, the achievements indicate a decrease from 2.29% in 2011 to 1.92% in 2014, followed by a new increase in 2015 to 2.48%, then by a significant decrease in 2018, when it reached 1.2% of GDP, and in 2019, when it reached 0.92%. The downward trend of the deficit as a share of GDP was reversed in 2020, reaching 1.99%, in the context of the economic contraction caused by the COVID-19 pandemic, but also of the significant increase in the aggregate of social assistance expenditures (by 15.15%), while the revenues collected remained relatively constant compared to 2019. In 2021, the deficit as a share of GDP entered a slightly downward trend, which was maintained until 2023, when it reached 1.53%. In the context of the new pension law, starting with 2024 the deficit follows a deepening trend, from 2.25% of GDP to a historical maximum of 2.68% of GDP in 2026, with the deficit decreasing to 2.35% of GDP by 2028.

The state social security budget entered into deficit due to the excessive increase in its expenditures in the 2007-2009 period (+75.8%), in the context of a favourable dynamics of contributions revenues in the period preceding the financial crisis, which was anticipated to be maintained in the future. However, a significant part of the increase in contributions revenues proved to be cyclical, with subsequent developments disproving the optimistic forecasts that underpinned the substantial increase in the pension point. The self-financing of the system declined sharply from 2006 (from 111.8%) to 2011 (to 73.02%), reaching a historical low of 65.4% in 2016. In 2018, the self-financing capacity recorded a slight recovery, reaching 83.6%, and the increase continued in 2019, when the value of 87.5% was recorded. In 2020, there was a significant reduction in the degree of self-financing of the system, its value being 76.24%, followed by a gradual increase to 80.1% in 2023. In 2024, the self-financing of the system recorded a significant decrease to the level of 73.55%, with the Ministry of Finance projections indicating a reduction of the indicator to 70.3% in 2026, followed by a return to 73% in 2028.

Figure 19: The evolution of the number of pensioners vs the number of employees (thousand persons)



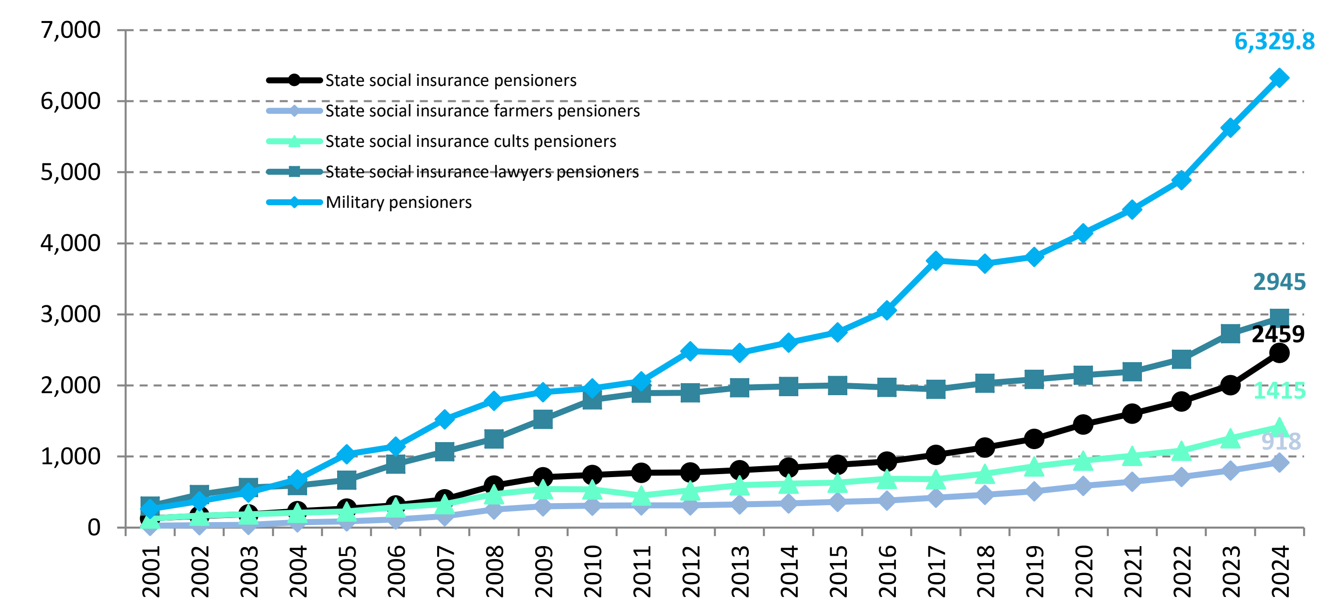
Source: NIS, except for the number of employees in 2023 and 2024, for which the source is NCSP, Spring Forecast 2025

The decision to increase permanent expenses, such as those related to pensions, should take into account the trend in contributions, as well as forecasts regarding the employee-pensioner ratio, especially since, in the context of the increasing phenomenon of demographic aging, on January 1, 2018, the population aged 65 and over numerically exceeded the population aged 0-14. The ratio between the number of taxpayers and the number of beneficiaries (*Figure 19*) has fallen sharply in the last 30 years, from 2.28 employees to one pensioner in 1990, to just 1.09 in 2024. Moreover, projections EC[38] estimates that this ratio will be reduced to 0.84 employees per pensioner by 2050. Thus, the need to identify an indexation rule that would ensure the long-term sustainability of the social security budget instead of the discretionary approach of the past has become evident, and from this point of view, the entry into force of the new pension law is welcome.

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

According to NIS reports, in 2024, the average monthly pension (*Figure 20*) was 2,581 lei, up 22.2% compared to the previous year, due to the recalculation of pensions from September 1, 2024. Pensions paid from the social security budget were at an average level of 2,459 lei, and those corresponding to agricultural pensioners were on average 918 lei. At the same time, pensions granted to military personnel reached an average monthly level of 6,330 lei, up 704 lei (12.5%) compared to the level in 2023. The average monthly pension corresponding to beneficiaries from the defense, public order and national security system recorded an increase of approximately 223% between 2010 and 2024. During the same period, the average monthly pension of pension beneficiaries from the state social security budget increased by approximately 233%.

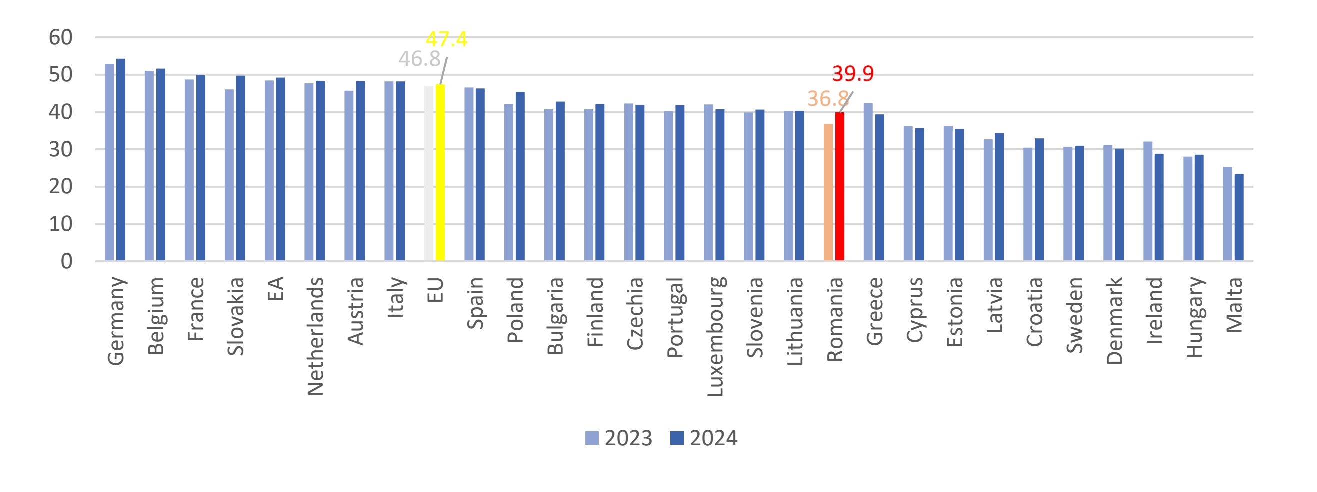
Figure 20: The evolution of average pension (lei) between 2001-2024



Source: NIS

In 2024, Romania ranked one position higher in the ranking of EU member states according to the share of social assistance expenditures in total budget revenues (*Figure 21*), occupying position 17, compared to position 18 in 2023. This evolution occurred against the background of the 3.1 pp increase in the share of social assistance expenditures in total budget revenues, an increase determined by the faster growth rate of this category of expenditures compared to the growth rate of budget revenues.

Figure 21: Social assistance expenditures as a share of total budget revenues in EU27 countries

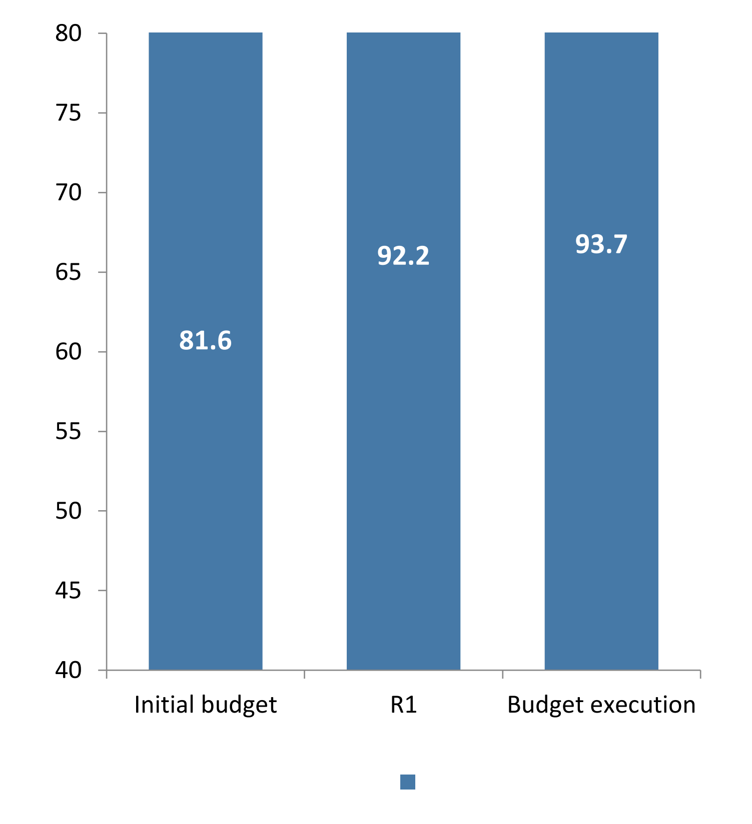


Source: Eurostat

III.5.2. Goods and services expenditures

The execution of **expenditures on goods and services** recorded a significantly higher level compared to that envisaged in the draft budget (+12.1 billion lei), exceeding the value projected in the budget revision by about 1.5 billion lei. Initially estimated at 81.6 billion lei, the final execution of this aggregate reached a level of 93.7 billion lei, confirming the assessment of the FC, which had signalled an underestimation of expenditures on goods and services in its Opinion on the draft budget for 2024. The note accompanying the execution of the general consolidated budget for 2024[39] shows that at the level of this aggregate, an increase of 15.4% was noted in local budgets and 23.8% in the budget of the National Health Fund, compared to the previous year, for the settlement of medicines.

Figure 22: Goods and services in 2024 (billion lei)



Source: MF (cash standards)

[39] https://mfinante.gov.ro/static/10/Mfp/buletin/executii/nota_bgc31122024.pdf

Compared to the previous year's execution, expenditures on goods and services increased by 16.5 billion lei (+21.4%), while nominal GDP growth was only 9.7%. Thus, the share of expenditures on goods and services in GDP reached 5.3%, up 0.5 pp compared to the previous year. Compared to the execution of 2023 (77.2 billion lei), an increase of only 4.4 billion lei was projected for this category of expenditures in the initial budget for 2024.

On the occasion of the budget revision carried out in September 2024, the budget allocation for goods and services expenditures was increased by 10.6 billion lei, the revised level being 19.5% above the execution of this aggregate in 2023. The execution dynamics for the first 7 months of 2024 indicated an increase in goods and services expenditures by about 25.7% compared to the same period of the previous year, significantly above the target of 5.7% projected in the initial budget. In its opinion on the revision, the FC noted the substantial increase in this category of expenditures, but considered that the revision carried out was insufficient. The final execution of goods and services expenditures confirmed the FC's assessment, recording a level of 93.7 billion lei, 1.5 billion lei higher than the value projected at the revision.

It is worth noting that in previous years the aggregate of goods and services expenditures was also difficult to control. Thus, in the periods 2011-2013 and 2017-2023, the execution of this category of expenditures exceeded both the initial estimates and those revised in the framework of the budget revisions. In this context, the FC signals the existence of chronic deficiencies in the budget programming of goods and services expenditures, as well as the lack of transparency regarding the assumptions underlying their projection. Improving transparency becomes all the more necessary as the overruns are often significant and may affect the achievement of budget deficit targets or compliance with fiscal rules. Therefore, the FC recommends that the draft budget include realistic projections of this aggregate, accompanied by a clear breakdown of the destination of the funds. Also, more efficient control of goods and services expenditures could be supported by a profound reform of the public procurement system and by increasing the efficiency of the use of these resources.

III.5.3. Public investment expenditures

Investment expenditures include, according to the budget classification, capital expenditures (nonfinancial assets), projects financed from post-accession non-reimbursable external funds, expenditures related to reimbursable financing programs, capital transfers and other transfers of an investment nature and, starting with 2022, the projects financed from the amounts representing non-refundable financial assistance related to the NRRP, respectively the projects financed from the amounts related to the loan component of the NRRP. Within this chapter, the structural analysis of this budgetary aggregate complies with the above definition.

In the initial budget construction of 2024, investment expenditures, in cash standards, were estimated at 120.1 billion lei, 8 billion lei above the level programmed for 2023. The financing structure was designed in favour of external sources of financing (projects financed from non-reimbursable external post-accession funds and projects financed from amounts representing non-reimbursable financial assistance and loans related to the NRRP accumulating 67.8% of the total, 13.8 pp more than in the initial budget of 2023), with internal sources accounting for the remaining 32.2% of the total (compared to the share of 46% in the initial budget of 2023). This structure was also determined by the fact that, in 2024, the investment budget was built on the assumption of absorbing a significant volume of European funds. The FC supports, similar to its previous reports, the financing of the highest possible proportion of public investments from European funds, given the high budget deficit and the economic context characterized by uncertainty.

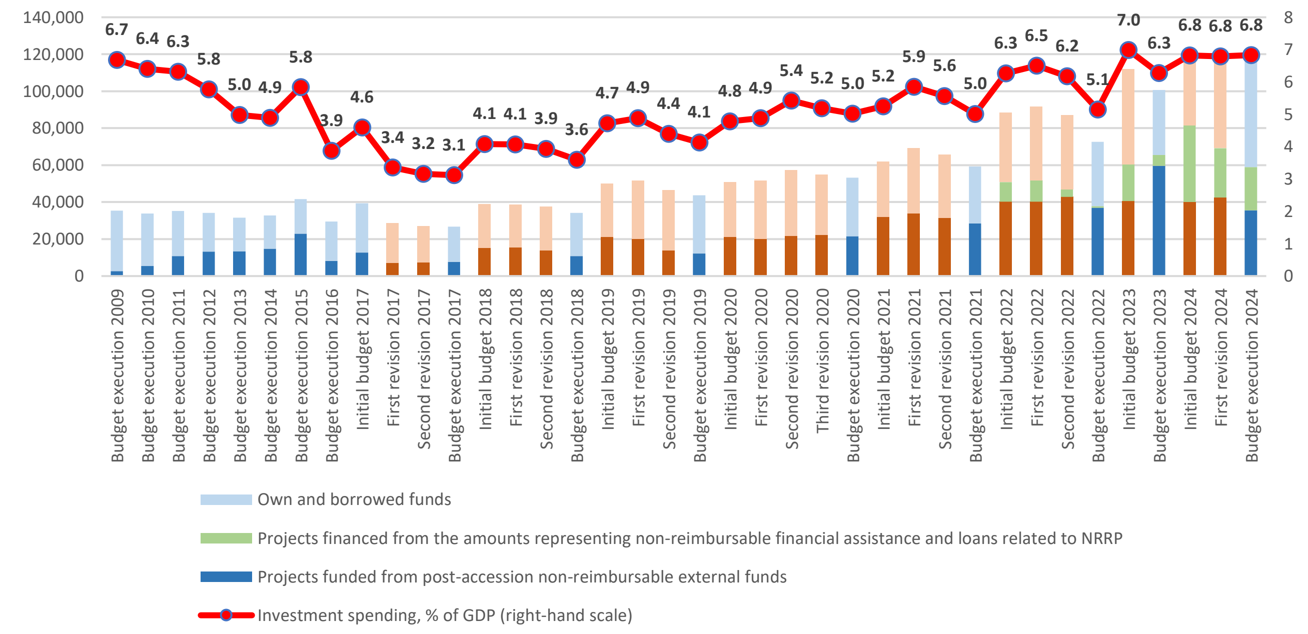
In execution, the increase compared to the previous year was 19.6 billion lei (at a level of 120.2 billion lei), representing an increase of almost 19.4% in nominal terms. In structure, compared to the previous year, the advance was made on the account of two components, namely: projects financed from the amounts representing non-reimbursable financial assistance and loans related to the NRRP (+17.6 billion lei) and own and borrowed funds (+26 billion lei), while projects financed from non-reimbursable external post-accession funds decreased by 24.1 billion lei compared to the execution of 2023. Thus, in 2024, the ratio between external sources[40] and the internal financing of state investment expenditures has become sub-unitary, decreasing from 186.1% in 2023 to 96.4% (in 2024). This evolution refutes the thesis that the budget deficit is largely due to public investments.

The share of investment expenditures in GDP reached 6.8% in 2024, 0.5 pp above the level recorded in the previous year, representing an advance of approximately 3.1 pp compared to the average of the years 2016-2019 and exceeding by 1 pp the average of the years 2009-2015 (5.8% of GDP). Thus, the year 2024 recorded the continuation of the investment revival of recent years, the share of public investments in GDP significantly exceeding the average of the last 10 years, of 4.9% of GDP. Also, from the perspective of the share of investments in total budget revenues, a level of 20.9% was recorded in 2024, representing the maximum of the last 10 years. But this share cannot justify the large deepening of the budget deficit in 2024.

The evolution of this budgetary aggregate from the perspective of the comparison between the actual achievements and the values planned in the initial budget, or established during the budget revisions, is illustrated in *Figure 23* for the 2017-2024 period, with the execution results for the years 2009-2016 also presented. In recent years, there has been a high volatility in the forecasts during the year regarding public investment expenditures, with the execution results usually being lower than the estimates in the initial budgets and those made during budget revisions.

[40] Starting from 2022, this category also includes the aggregate of *projects financed from the amounts representing non-reimbursable financial assistance and loans related to the NRRP.*

Figure 23: Investment expenditures between 2009-2024



Source: MF (cash standards)

The evolution in 2024 deviates from this trend, with the execution of investment expenditures exceeding the level programmed in the initial budget by 0.1 billion lei. This was achieved on the account of own and borrowed funds, which were higher in execution compared to the amounts in the initial budget by 22.6 billion lei, while non-achievement of the targets set for projects financed from the amounts representing non-reimbursable financial assistance and loans related to the NRRP (-17.9 billion lei), respectively for projects financed from non-reimbursable external post-accession funds (-4.6 billion lei). This shows a weak capacity for planning and absorbing European funds, with important consequences for the budget deficit in 2024. The FC appreciates the intention to finance a significant part of public investment spending from external funds (given the very low level of tax revenues in Romania), but major failures to achieve European fund absorption targets show shortcomings in the budgeting process. These may hinder the budget consolidation process given the limited fiscal space available to our country.

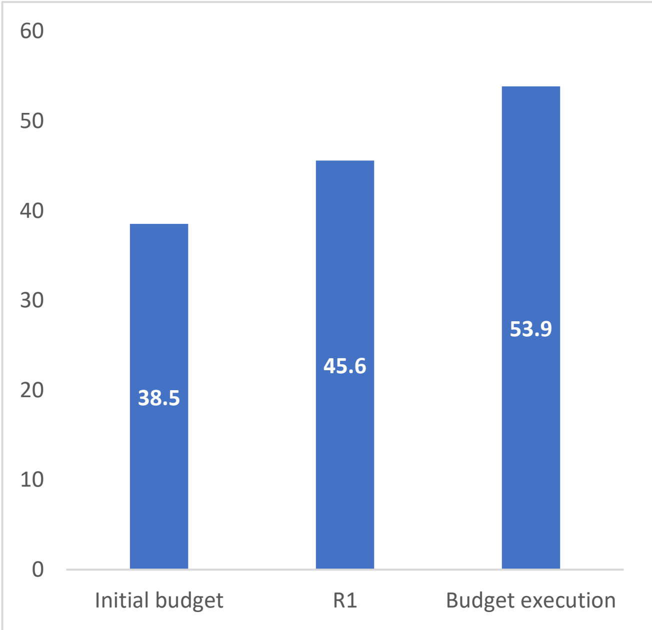
The quarterly distribution of the share of investment expenditures in total execution indicates high volatility, fluctuating from 18.7% in the first quarter, to 19.6% in the second quarter, to 23.9% in the third quarter and to 37.9% in the last quarter. Practically, in the last 3 months of the year, investment expenditures were 1.8 times higher than the average of the previous three quarters. Considering that the same pattern was systematically manifested in previous years, this practice calls into question the efficiency of the budget programming process from the perspective of the management of investment projects and the establishment of criteria for their implementation in accordance with their importance and usefulness.

The following presents the evolution of the main components of investment expenditures during 2024 (summed up, they represent about 94% of the total) by comparing actual achievements with the levels programmed in the initial budget.

In 2024, capital expenditures for public investments[41] were projected in the initial budget at a level of 38.5 billion lei and increased to 45.6 billion lei during the budget revision. Compared to the execution of 2023, this category of expenditures was increased by 7.8 billion lei, representing an increase of approximately 25.5%.

The final execution recorded an excess of 15.4 billion lei (+39.9%) of the level programmed in the initial budget of 2024, against the background of the compensation from national funds of the non-achievements regarding the attraction of European funds.

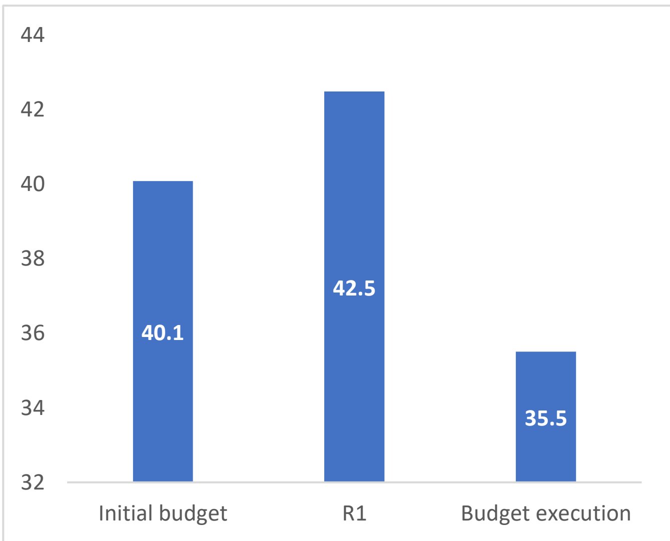
Figure 24: Capital expenditures in 2024 (billion lei)



Source: MF (cash standards)

Projects financed from post-accession non-reimbursable external funds (NREF) for public investments were estimated in the initial budget of 2024 at 40.1 billion lei, 19.5 billion lei below the level recorded in the execution of 2023. On the occasion of the budget revision, this aggregate was increased to 42.5 billion lei, and the final execution of 2024 recorded a failure to achieve the target in the initial budget by 4.6 billion lei, the degree of achievement of the program being about 89%, significantly below that recorded in the previous year (147%). At the same time, this level represents a decrease of 24.1 billion lei compared to the execution of projects financed from the post-accession NREF for public investments in the previous year.

Figure 25: Projects financed from post-accession NREF in 2024 (billion lei)



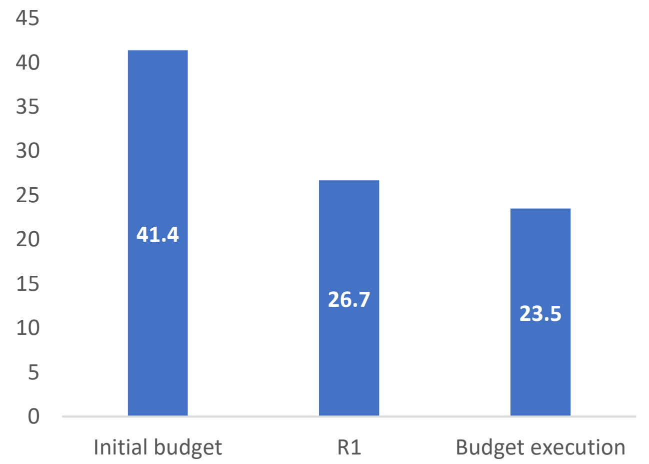
Source: MF: (cash standards)

[41] These represent the main component of capital expenditure in GCB (which also includes capital transfers and inventories).

Projects financed from the amounts representing non-reimbursable financial assistance and loans related to the NRRP were estimated in the initial budget for 2023 at a level of 41.4 billion lei. During the budget revision, the allocation was significantly reduced to 26.7 billion lei, and the actual execution in 2024 recorded a level of only 23.5 billion lei, representing approximately 57% of the initially budgeted amount.

The FC draws attention to the fact that loans from the NRRP may have an additional impact on the budget deficit to the extent that they cannot be accommodated by restricting other categories of expenditure and/or by increasing budget revenues.

Figure 26: The evolution of expenditures with projects financed from the amounts representing non-reimbursable financial assistance and loans related to the NRRP in 2024 (billion lei)



Source: MF (cash standards)

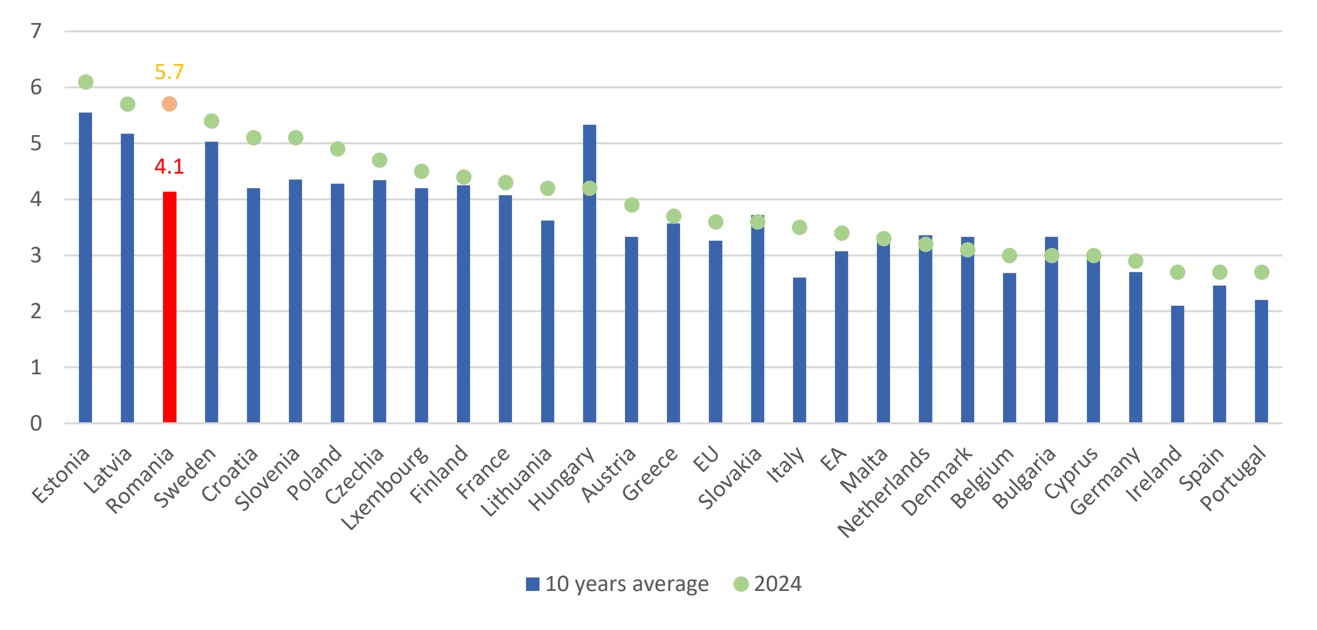
An analysis of the efficiency of investment spending over the last 10 years reveals an unsatisfactory result for our country compared to other EU member states. Given that Romania had, in the last decade, one of the highest shares of investment expenditure in GDP compared to the EU average, the infrastructure is insufficient both in terms of quantity and quality, a sign of a low efficiency of public investment expenditures, but the progress made in recent years should be noted, especially in the case of road infrastructure. During the 2015-2024 period, the share of capital expenditures in GDP (*Figure 27*) placed Romania in the first half of the ranking (11th place in the EU), with an average share of 4.1% of GDP, approximately 0.8 pp above the EU average. Compared to the first ranked country, Estonia, the gap is 1.4 pp, and compared to the second ranked country, Hungary, 1.2 pp. Regarding the ranking achieved in 2024, Romania is in second position, equal with Latvia, with a share of 5.7% of GDP, only behind Estonia (gap of 0.4 pp).

Analyses developed in recent years by the EC and various international financial institutions [42] show that, systematically, the quality of infrastructure in Romania is among the lowest in Europe, especially in critical sectors such as road, rail and energy infrastructure, due to the modest performance of most state-owned enterprises – the main infrastructure providers in these areas – and the lack of progress in restructuring loss-making enterprises. According to the latest FC analysis of the performance of state-owned companies, the rate of new investments (% of total assets) in these companies has fluctuated in

[42] For example, *Infrastructure Governance Assessment* (World Bank, 2020), *Global Competitiveness Report* (World Economic Forum, 2019), *Romania Diagnostic* (Milatovic and Szczurek, 2020) etc.

recent years (9.5% in 2023, 6% in 2022, 7.2% in 2021, compared to 1.3% in 2018 or 4.7% in 2015), being well below the pre-crisis average (around 12%).

Figure 27: Capital expenditures in 2024 and the 10-year average (% of GDP, ESA 2010)



Source: Eurostat

The Country Report prepared by the EC [43] states that, despite recent improvements, investment in the maintenance and improvement of transport infrastructure remains insufficient. The report highlights that Romania's transport network is among the shortest and least frequent in the EU, due to inefficient and insufficient previous public investment. As regards investment in the railway infrastructure, which is extensive but slow and partly electrified, significant funds are available under cohesion policy and the NRRP, but progress so far has been modest. The EC suggests continuing to implement the planned priorities, paying particular attention to the railway network, sustainable urban transport, and the completion of the TEN-T networks. Addressing these shortcomings can help reduce commuting times, with around 43% of the employed population in Romania spending at least 30 minutes commuting.

Also, the Report prepared by the OECD in 2024 [44] mentioned polarization and regional disparities as priority problems for Romania. The study shows that our country also faces a problem of internal mobility between regions, and solving it could reduce massive departures to the diaspora, also leading to a reduction in unemployment in less developed regions. Furthermore, the report emphasizes that investments from European funds represented an important support for domestic economic activity in 2024, given the still high interest rates and the pressures related to the election year.

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

[44] *OECD Economic Surveys*: Romania 2024.

In this context, the FC advocates for the firm application of the existing legal framework regarding public investment management and appreciates that good prioritization of investments, their orientation towards research, development and innovation in strategic areas, in physical infrastructure and especially in digital infrastructure can contribute to eliminating infrastructure gaps, reducing polarization and regional disparities, as well as improving the level of competitiveness of the Romanian economy.

At the same time, given the significant volume of European funds that Romania benefits from, the FC recommends accelerating efforts to implement reform measures in the field of public investments in order to take maximum advantage of the funding allocated through the 2021-2027 MFF and through the NRRP in order to achieve our country's priority investment objectives. A high absorption of the allocated European funds is the essential premises for the upward investment trend of recent years to be maintained in the medium term, given the urgent need to reduce the budget deficit in the coming years.

III.5.4. The contingency reserve fund and the intervention fund at Government's disposal

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

The contingency reserve fund at the Government's disposal is allocated to main authorizing officers of the state budget and local budgets, based on Government decisions, for financing urgent or unforeseen expenditures arising during the budget exercise. The allocation of amounts from the contingency reserve fund at the Government disposal, for local budgets, is done by increasing the amounts subtracted from some state budget revenues or the transfers from the state budget to local budgets for investments partially financed by external loans, as the case may be.

The utility of a contingency reserve fund lies in the flexibility given to the Government regarding the annual budget execution, particularly for covering urgent or unforeseen expenditures. The reserve fund can be established as a separate fund from the budget (off-budget) or as an integrated component within the budget, and it is found in the vast majority of OECD countries[45]. The opportunity of including a contingency reserve fund into the general budget is confirmed by the literature on budget programming, which also highlights the necessity of finding a balance regarding the dimension of such a fund. Therefore, a level of the contingency reserve fund that is too low might be insufficient to cover unforeseen expenditures, while an oversized fund might grant too much power for the authorities to spend excessively, without the Parliament's approval.

The legal framework provided by Law no. 500/2002, however, only specifies generically the type of allocations allowed from the reserve fund (respectively for "unforeseen or urgent" situations), without explicitly establishing the categories of expenditures that can be committed from the reserve fund or

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

the amount of allocated sums, which gives room for discretionary and non-transparent allocations. In this sense, the Fiscal Council notes the lack of transparency of the destination of allocations from this fund, the absence of clear criteria for establishing the expenditures that can be financed from the budget reserve fund and the lack of control by the Parliament. Thus, considering the evolution in recent years of the amounts spent from this fund that are not intended for urgent or unforeseen situations, the Fiscal Council firmly advocates for the amendment of the legislation that establishes the way of using the reserve fund, in the sense of establishing clear criteria and procedures of its use, exclusively for unpredictable or urgent situations, which cannot be foreseen in the process of establishing budget allocations.

The intervention fund at the Government's disposal is allocated to main authorizing officers of the state budget and local budgets, based on Government decisions, for the financing of urgent expenditures in order to remove the effects of natural calamities and support the impacted persons. Unlike the possible destinations of allocations from the contingency reserve fund, which leave room for interpretation, in the case of the intervention fund, they are clearly specified by the law, the opportunity of the existence of such fund being justified. Over the course of the year, this fund can be supplemented from the reserve fund, depending on the needs regarding the provision of the amounts necessary to eliminate the effects of natural calamities.

The present section of the report analyses the use of the two funds during 2023, based on the Government decisions published in the Official Gazette of Romania, by which sums are allocated to authorizing officers and destinations. As for the intervention fund, no allocations were made from it in 2024.

In May 2024, the Government, through a series of derogations from the fiscal-budgetary framework, revised, for 2024, the functioning of the contingency reserve fund. The main provision concerned the possibility of allocating from the contingency reserve fund, based on Government decisions, amounts to finance the current and capital expenditures of the main credit authorizing officers. Through these measures, as in 2023, the authorities created a framework that allowed the use of the contingency reserve fund to balance local and central budgets.

The lack of realism, both of the initial budget and of the revision adopted in September 2024, is reinforced by the unprecedented use of the contingency reserve fund to balance the budgets of the credit authorizing officers, especially of the credit authorizing officers at the central administration level. In 2024, about 64 billion lei were allocated from the contingency reserve fund (58.6 billion lei at the central administration level and 5.4 billion lei at the local administration level). The share of the amounts used from the contingency reserve fund in total budget expenditures is about 8.8%, up by 3.6 pp compared to 2023 and 7.6 pp more than the average for the 2007-2023 period.

It should be noted that, until 2022, the share of contingency reserve fund allocations in total budget expenditures varied between 0.2% and 1.9%. In 2024, 96% of contingency reserve fund allocations were made after May 14, when the derogations regarding its functioning were adopted. Thus, until May 14, 2024, 2.5 billion lei were allocated from the contingency reserve fund, between May 14 and September

23 (the date of adoption of the budget revision), 27.5 billion lei were allocated from the contingency reserve fund, and from September 24 to December 31, 33.9 billion lei were allocated. It should be noted that, despite the budget revision adopted on September 23, the Government continued to use the contingency reserve fund significantly, which indicates an unrealistic projection of the financing needs at the level of the credit authorizing officers.

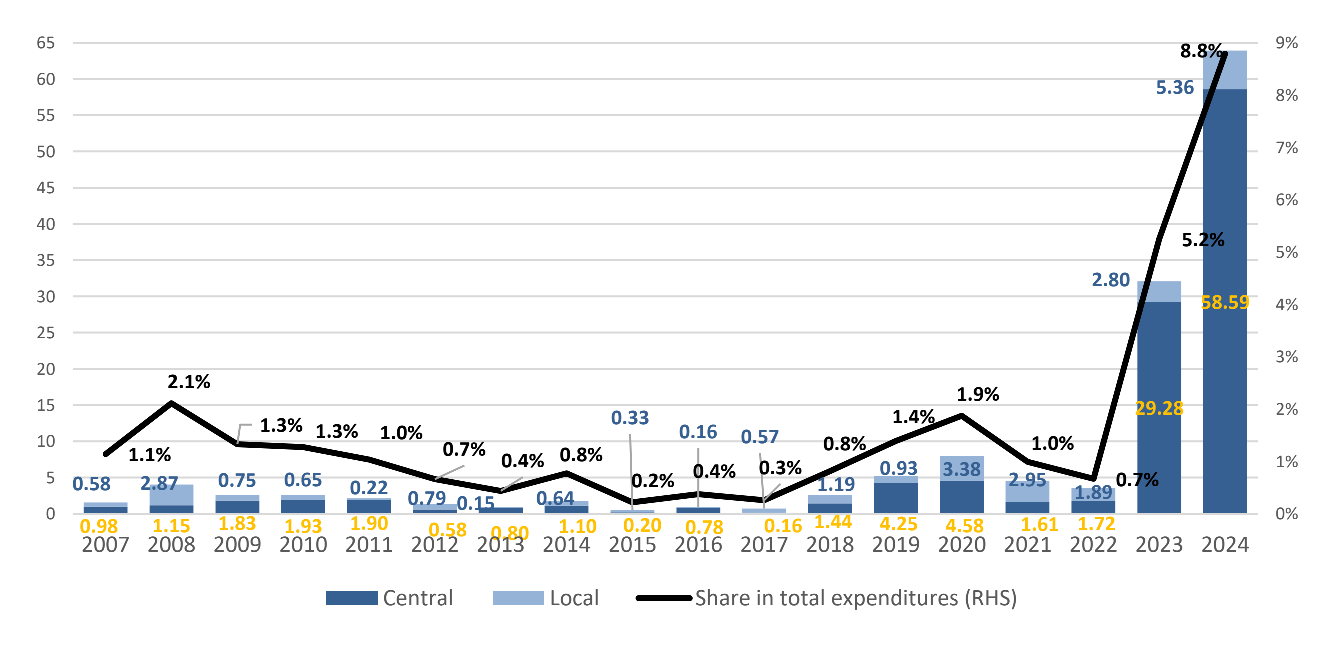
In the construction of the state budget for 2024, approximately 1 billion lei (999,067,000 lei) were provided for as reserve funds. At the same time, two derogations were established from the provisions of art. 30 paragraph (2) of Law no. 500/2002, namely for the Ministry of Development, Public Works and Administration, in order to finance the National Local Development Program, including the second stage, and the "Anghel Saligny" National Investment Program, as well as for financing the expenses of the main credit authorizing officers related to the organization and conduct of the elections for the European Parliament, the elections for the Senate and the Chamber of Deputies, the elections for the President of Romania and the elections for local public administration authorities (within the limit of 800 million lei).

However, during the year, the use of amounts from the reserve fund beyond the framework stipulated in Public Finance Law no. 500/2002 continued, namely for expenses that cannot be classified as urgent or unforeseen and that should have been taken into account when elaborating the state budget and local budgets, such as:

- purchase of cars, furniture, office equipment, medical devices and appliances;
- implementation of state aid schemes;
- financing of project selection sessions for the thematic action sub-programs "Memorial Houses", "Train Stations", "Open-air Museums";
- granting non-reimbursable financial assistance to the Republic of Moldova to finance the project "Strengthening capacities for managing public order situations - phase I";
- granting social cash benefits;
- establishment of the state-owned company Carpatica Feroviar - S.A.;
- payment of obligations arising from Romania's financial commitments to the Council of Europe budget;
- ensuring the necessary for projects financed under the NRRP and for projects financed from post-accession non-reimbursable external funds (NREF);
- payment of instalments related to Romania's annual contribution to the budget of the European Peace Facility (EPF), pillar II;
- financing the expenses related to the provision of support and humanitarian assistance by the Romanian state to foreign citizens or stateless persons in special situations, coming from the armed conflict area in Ukraine, for the January-June 2024 period;
- payment of personnel expenses;
- various current and capital expenses;
- Romania's contribution to the regular budget of the United Nations;
- granting vacation vouchers for staff employed in public health units;
- balancing local budgets, for the payment of current and capital expenses.

Similar to the previous year, in 2024, allocations to the central administration predominated (approximately 92% of total allocations in both years), with administrative-territorial units receiving approximately 8% of total allocations. The evolution of the amounts allocated from the contingency reserve fund and their share in total expenditures is shown in *Figure 28*.

Figure 28: Total allocations from the reserve fund at the Government's disposal (billion lei)

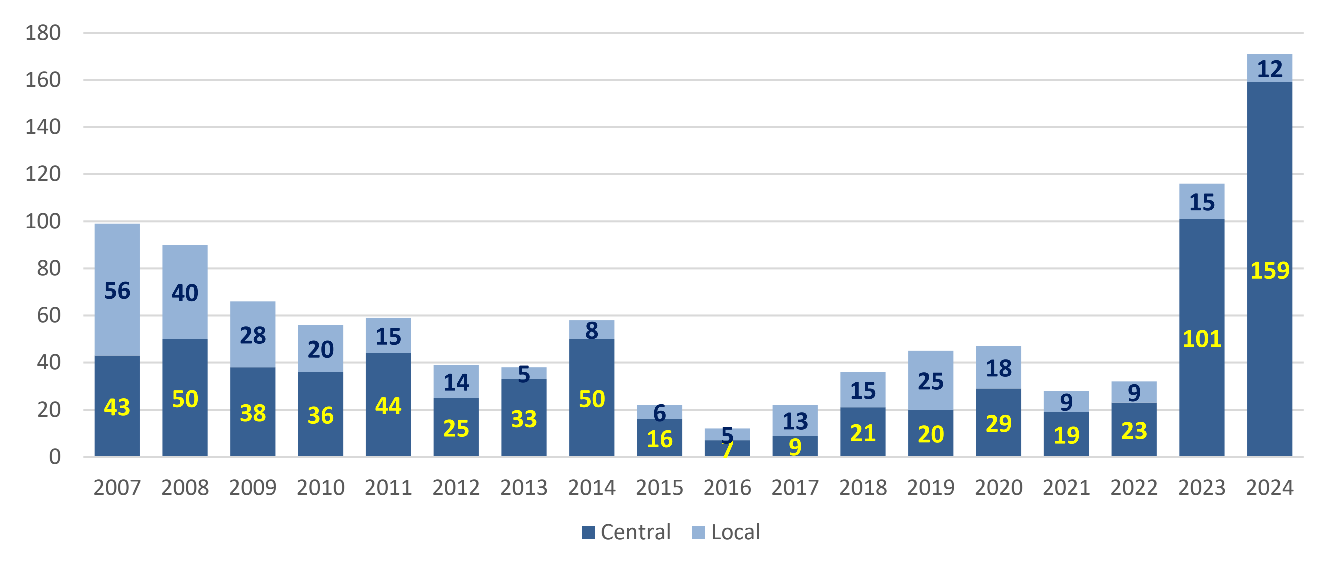


Source: Fiscal Council's calculations based on Government decisions regarding the contingency reserve fund allocations

Regarding the number of Government decisions for the allocation of amounts from the contingency reserve fund, a new record was registered in 2024, after the one in the previous year: 171 decisions, of which 96 were given after the budget revision in September. At the same time, in 2023 and 2024, the trend of committing almost half of the total expenditures from the budget contingency reserve fund towards the end of the year is noticeable. In December 2024, 29 of the 171 decisions were approved, allocating amounts in the amount of 7.7 billion lei, which represents only 12.04% of the allocations for the entire year. However, this situation cannot be classified as an improvement, given the change in the legislative framework and the derogations regarding the functioning of the contingency reserve fund.

27 of the 29 Government decisions adopted in December were for allocations to the central administration, in the amount of 7.4 billion lei, the main beneficiaries being the Ministry of Development, Public Works and Administration (in order to ensure the necessary for projects financed under the NRRP, for financing the National Local Development Program and the National Investment Program "Anghel Saligny" and for financing the National Program for Construction of Public or Social Interest) and the High Court of Cassation and Justice (in order to pay the instalments due and unpaid in 2023, representing salary differences, and interest related to salary differences, respectively for goods and services).

Figure 29: Number of Government decisions regarding contingency reserve funds allocations



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

In 2024, the main beneficiaries of the contingency reserve fund (*Figure 30*) were:

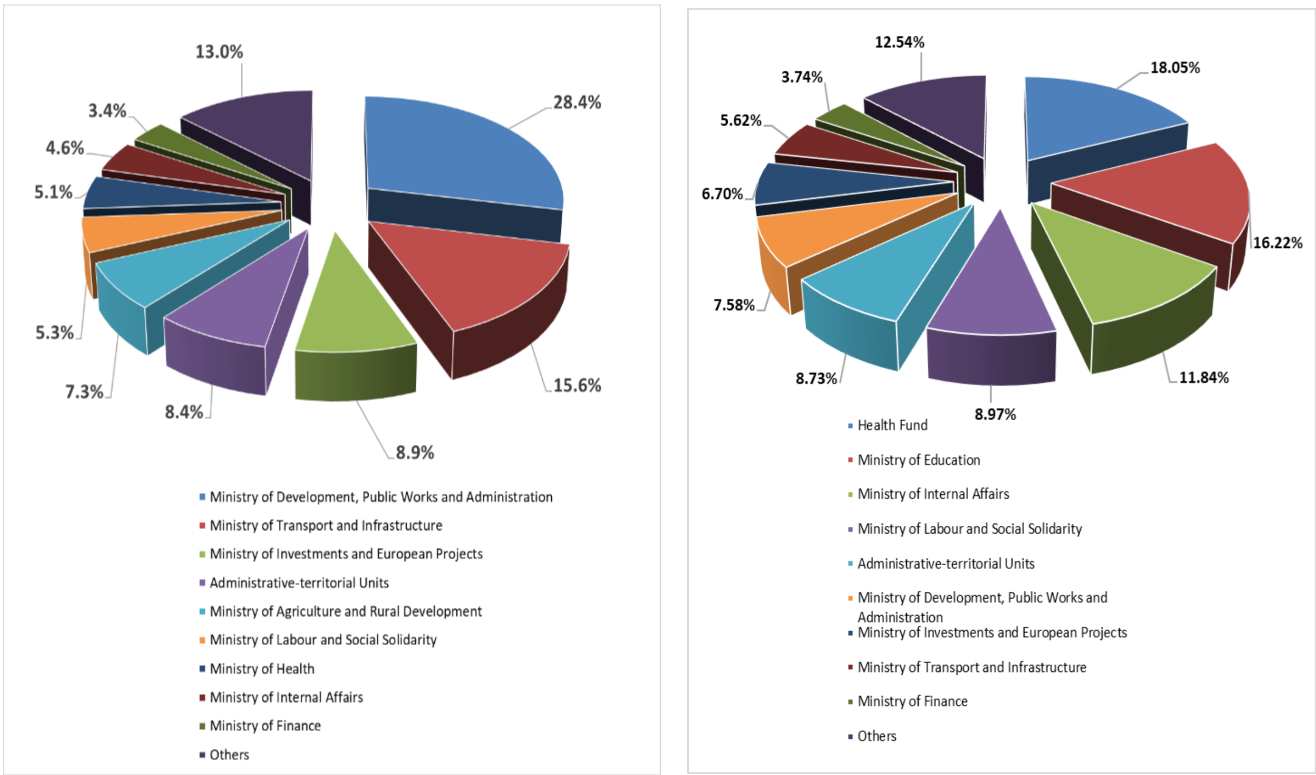
- *Ministry of Development, Public Works and Administration*, 28.4% of total allocations (18.2 billion lei), whose budget was supplemented 12 times during the year, to ensure the necessary for projects financed under the NRRP, to finance the National Local Development Program and the "Anghel Saligny" National Investment Program, to finance the National Program for Construction of Public or Social Interest, for projects financed from the post-accession NREF, to finance current expenses and to ensure the minimum conditions necessary for carrying out specific activities;
- *Ministry of Transport and Infrastructure*, 15.6% of the total allocations (10 billion lei), whose budget was supplemented 16 times during the year, to achieve the performance targets set for TAROM, as part of an individual restructuring state aid, for the purchase of medical equipment and devices, for the conduct of medical activity under optimal conditions, in order to establish the state-owned company Carpatica Feroviar - S.A., in order to ensure universal service for all categories of beneficiaries of travel facilities, to increase the state contribution to the share capital of the National Railway Company "C.F.R." - S.A., in order to cover current and capital expenses, for expropriation procedures, ensuring the necessary financing of projects financed within the NRRP, for increasing the share capital of the Bucharest Metro Transport Commercial Company METROREX - S.A., for paying arrears and contributions to the state budget, in order to ensure its own contribution related to the value of the VAT quota, for projects financed from the Modernization Fund;
- *Ministry of Investments and European Projects*, 8.9% of total allocations (5.7 billion lei), whose budget was supplemented 11 times during the year, to ensure the necessary financing of payment/reimbursement requests to beneficiaries of the Regional Operational Program, the Large Infrastructure Operational Program, the Sustainable Development Program 2021-2027, in order to ensure financial resources for the implementation of investments/reforms financed

from the Recovery and Resilience Mechanism, for the implementation of the measure to provide material support for certain categories of disadvantaged people;

- *Administrative-territorial units,* 8.4% of total allocations (5.4 billion lei), whose budgets were supplemented 12 times during the year, to balance local budgets;
- *Ministry of Agriculture and Rural Development*, 7.3% of total allocations (4.7 billion lei), whose budget was supplemented 9 times during the year, for subsidies and for the implementation of state aid schemes financed from the state budget and projects financed from non-reimbursable external funds, for personnel expenses, goods and services, transfers between public administration units and non-financial assets, for general economic, commercial and labour actions, for agriculture, forestry, pisciculture and hunting;
- *Ministry of Labour and Social Solidarity*, 5.3% of total allocations (3.4 billion lei), whose budget was supplemented 5 times during the year, for social insurance, for supporting families and single people affected by the exceptional meteorological phenomena produced in September 2024;
- *Ministry of Health*, 5.1% of total allocations (3.3 billion lei), whose budget was supplemented 8 times during the year, to ensure continuity in the provision of medical materials and services, to ensure salary rights, to carry out projects with reimbursable financing, for national financing of investment objectives approved for financing from the NRRP;
- *Ministry of Internal Affairs*, 4.6% of the total allocations (2.9 billion lei), whose budget was supplemented 9 times during the year, for the payment of salary-related rights, for the expenses necessary for the preparation and holding of the elections for Romanian members of the European Parliament, local elections, elections for the Senate and Chamber of Deputies, elections for the President of Romania, for the provision of non-reimbursable financial assistance to the Republic of Moldova, for support and humanitarian assistance to foreign citizens or stateless persons in special situations (the conflict in Ukraine), for the payment of salary-related rights;
- *Ministry of Finance*, 3.4% of total allocations (2.2 billion lei), whose budget was supplemented 9 times during the year, in order to ensure operating expenses, for projects financed from the post-accession NREF, for the completion of border customs projects, to ensure the payment of state aid, in order to make the e-Seal system operational in an emergency regime.

Figure 30: The beneficiaries of the contingency reserve fund (% of total allocations)

2024 **2023**



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

The Fiscal Council reiterates the recommendation from previous reports regarding the explicit identification of expenditures that can be incurred from the reserve fund, including by periodically reporting to Parliament on the manner and level of use of the contingency reserve fund. In addition, the FC's warnings regarding the fact that the use of the contingency reserve fund for the reallocation of resources at the level of the general consolidated budget involves major risks, from the lack of transparency in budget execution to discretionary use and the increased use of derogations from fiscal rules remain relevant.

III.5.5. Arrears of the general consolidated budget

At the end of 2024, GCB total arrears[46] stood at 520 million lei, up by 240 million lei (+85.7%) compared to the level recorded in December 2023. Analysing their structure, it is found that the vast majority of arrears were recorded at the level of local budgets (88.9% of the total). Regarding the number of days of delay, 27.9% of arrears are between 90 and 120 days, 54.4% between 90 and 360 days, and the remaining 17.7%, over 360 days.

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[46] According to the Public Finance Law no. 500/2002 with subsequent amendments and additions, overdue payments older than 90 days, calculated from their due date, are considered arrears.

GCB arrears to suppliers were 515.9 million lei, compared to 274.5 million lei at the end of the previous year (+241.4 million lei, respectively +87.9%), and these were found predominantly at the level of local budgets.

The following table shows the quarterly evolution of the stock of total outstanding payments of the GCB overall and for each budget category (state budget, local budgets and social security budget), compared to the previous year.

Table 8: Quarterly evolution of GCB outstanding payments (0-360 days) in 2024 (million lei)

	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
State budget	**22,7**	**33,5**	**50,7**	**45,2**	**57,4**
Over 90 days	6,0	10,7	29,1	19,0	32,9
Over 120 days	7,4	11,0	9,6	13,4	12,3
Over 360 days	9,2	11,8	12,0	12,9	12,2
Local budgets	**257,3**	**356,4**	**419,7**	**540,5**	**462,5**
Over 90 days	101,5	152,2	108,3	135,3	112,1
Over 120 days	98,6	142,6	252,1	326,1	270,8
Over 360 days	57,2	61,6	59,3	79,2	79,7
Social security budget	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**
Between 90 and 360 days	0,0	0,0	0,0	0,0	0,0
Total arreas (90-360 days)	**280,0**	**389,9**	**470,4**	**585,7**	**520,0**
Over 90 days	107,6	163,0	137,4	154,3	145,0
Over 120 days	106,0	153,6	261,7	339,4	283,1
Over 360 days	66,4	73,4	71,3	92,0	91,9

Source: MF

The significant increase in GCB arrears (90-360 days) to the private sector in 2024 compared to the previous year – although still at a level much lower than that recorded in 2012, of 3.8 billion lei – marks a reversal of the downward trend observed in recent years. This evolution may indicate a possible relaxation of financial discipline in the context of the election year, characterized by additional pressures on public budgets and the postponement of the application of effective corrective mechanisms.

III.6. Evaluation of public expenditure reviews in the education and health sectors

In recent years, overlapping crises (notably the Covid-19 pandemic and the war between Russia and Ukraine) have placed significant pressure on national budgets. This pressure has been particularly evident in the area of public spending. For example, in the EU, in 2024, data indicate an average increase of approximately 2.6 pp in the share of public expenditure in GDP compared to 2019, while the average share of budget revenues in GDP decreased by 0.2 pp. At the level of member states, during the same period, the share of public expenditure in GDP increased in 24 countries, with values ranging between 0.3 and 8 pp. In Romania, the share of public expenditure in GDP rose to 43.5% in 2024, compared to 36.1% in 2019 (over the same period, the share of budget revenues in GDP increased by approximately 2.4 pp). These developments have resulted in sharply rising budget deficits and public debt levels, with negative effects on fiscal sustainability.

In Romania, with an ESA budget deficit of 4.3% of GDP recorded as early as 2019, compounded by discretionary measures that increased public spending in recent years, the budget deficit has widened significantly, and the sustainability of public debt has become uncertain. Under these circumstances, fiscal consolidation is urgent, and identifying optimal measures to adjust public expenditures and revenues is one of the main priorities of public policy.

On the expenditure side, achieving fiscal consolidation objectives can be supported through budgetary tools designed to analyse and evaluate public spending. For example, in its 2025 report on public policies in member states, the OECD[47] highlights a series of instruments that can contribute to expenditure adjustment: (i) medium-term budgetary planning and the establishment of top-down expenditure ceilings based on fiscal projections; (ii) the use of a performance-based budgeting system, such as monitoring and reporting mechanisms, publication of performance reports, regular reporting to Parliament, budgetary targets, and consequences for non-compliance; (iii) public spending reviews.

Public spending reviews were first implemented in the Netherlands, Canada, and the United Kingdom during the last decades of the previous century. Following the global financial crisis, spending reviews became a common practice. Thus, in 2023, 34 out of 35 OECD member states reported having conducted at least one public expenditure review (OECD, 2024)[48]. In the EU, their importance is further reinforced by the fact that, under the new fiscal governance framework – which centers around the net expenditure rule –, spending reviews can serve as a key instrument to ensure compliance with this rule.

In Romania, with the aim of improving the budget programming mechanism, references to public expenditure reviews were included in NRRP, under milestones 201 (completion and publication of the public spending review in the health and education sectors), 202 (adoption of a multiannual strategy and a calendar for the systematic review of expenditures across all sectors), and 203 (the 2024 draft budget includes the recommendations from the spending reviews in the health and education sectors). Additionally, milestone 204 provides for a periodic *ex post* evaluation of public spending reviews. This task was assigned to the FC through amendments to the Fiscal Responsibility Law (FRL), which extended the FC's mandate to include *ex post* evaluations of expenditure reviews conducted by the Ministry of Finance and main credit authorizing officers, starting with the 2024 budget.

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

[48] OECD. 2024. Spending Reviews Experiences of OECD countries, https://www.oecd.org/en/topics/sub-issues/spending-reviews.html.

Public spending reviews: conceptual framework

There is no standardized definition of public expenditure reviews in OECD and European Commission documents. This is due to the ongoing evolution and adaptation of the way in which such reviews are conducted.

In an early extended formulation, the OECD (2013)[49] defined public expenditure reviews as the process of identifying and adopting saving measures through the systematic examination of public spending. The review can lead to expenditure adjustments either by increasing the efficiency of public service delivery (output) or through cost savings resulting from actual reductions in spending (input). The first approach, also known as tactical or operational review, aims to identify opportunities to reduce costs while maintaining the same level of public services by enhancing efficiency, reforming, and modernizing the system. The second approach, referred to as strategic review, involves assessing expenditures with the aim of reducing certain public services based on pre-established criteria, such as identifying inefficient spending. The expenditure review process is generally structured around four stages: (i) defining the main characteristics of the review; (ii) setting targets, identifying the areas to be reviewed, and establishing the timeline; (iii) identifying the savings that could lead to expenditure revisions (either by the line ministries individually, by the Ministry of Finance, or through collaboration between the two); (iv) making final decisions regarding the implementation of the measures. Thus, the conceptual framework of public expenditure reviews is centered on the adoption of measures aimed at generating budgetary savings.

Currently, the OECD (2025) offers a slightly more nuanced definition of public spending reviews. Specifically, they are defined as analytical tools for public spending that enable authorities to manage the level of expenditures, identify savings or reallocations to fund new priorities, and improve the effectiveness of public programs and policies. Thus, compared to the earlier description, cost-saving measures are no longer a core requirement of public spending reviews.

At the EU level, European Commission studies associate public expenditure reviews with a public policy evaluation tool that examines the impact of spending in order to identify and assess possible savings measures (EC 2014, 2024)[50]. Public expenditure reviews aim to determine whether the expenditure aggregates under review: (i) still represent a priority of public policies; (ii) are effective in achieving objectives, considering the outcomes and public services delivered (output); (iii) are cost-effective, analysing the relationship between allocated resources (input) and the services obtained (output); (iv) are sustainable; (v) have positive or negative side effects. In the long term, at the macroeconomic level, when the identified impact of spending reduction measures is significant, spending reviews can support fiscal consolidation and/or create fiscal space for other public policies. Additionally, the revision of certain public policies and/or the reallocation of resources toward new public policies can support

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

[50] EC. 2014. Public Spending Reviews: design, conduct, implementation, Economic Papers 525, Bruxelles, iulie, https://ec.europa.eu/economy_finance/publications/economic_paper/2014/pdf/ecp525_en.pdf; EC. 2024. How Have Spending Reviews Recently Evolved Through EU Initiatives?, Discussion Paper 200, Bruxelles, May, https://economy-finance.ec.europa.eu/document/download/0b318e96-3fd0-4d63-b3bc-e1d9fad0aeba_en?filename=dp200_en_1.pdf.

resilient economic growth. These characteristics give public spending reviews structural and selective features compared to other budget consolidation tools.

Although, as mentioned earlier, there are no standardized approaches, the European Commission (2014) proposes five basic stages for conducting public spending reviews. The first stage involves institutional and political agreement at the decision-makers' level regarding the conditions and mandate of the public expenditure reviews. This stage also includes setting macro-level objectives, such as a target for expenditure reduction, for the reviews. The second stage concerns establishing the framework of the spending reviews, specifying the policies, programs, or spending units for which the reviews will be conducted. Subsequently, for each review, objectives, responsible parties, timeline, and expected outcomes are defined. The third stage is the actual execution of the spending reviews. At this stage, considering the expected outcomes and the current situation, expenditure revision targets are set, including savings estimates and reform implementation scenarios. Based on the impact analysis of public spending effects, various reform options are selected, taking into account impact, cost, efficiency, and risk factors. It is recommended that a feasibility analysis – including risks, implementation horizon, possible contagion effects, etc. – accompany the reform options (OECD, 2023)[51]. In the fourth stage, the selected reforms are implemented through legislative changes, procedural adjustments, reorganizations, etc. The final stage is cross-cutting, covering both the execution and implementation stages, and is based on governance, coordination, and progress evaluation of the spending reviews. This stage includes an *ex post* evaluation of the reviews, considering the achieved results, initial targets, and mandate.

The OECD (2016[52], 2023) and the European Commission (2014) emphasize that the success of public spending reviews depends on a series of specificities and good practices, established during the stage of defining the framework for these reviews. Firstly, the purpose and scope of the public expenditure reviews must be clearly determined. The purpose, depending on the established expenditure target, may involve choosing between tactical and strategic reviews or a mix of both. The scope of the reviews can be comprehensive, covering a majority portion of public spending, or selective, focusing on a limited range of expenditures.

Secondly, savings targets should be calibrated according to the budgetary objective. For example, fiscal consolidation involves setting higher targets, while creating fiscal space for new policies requires lower targets. Regardless of the magnitude of the targets, it is very important that they exist to ensure accountability of decision-makers.

Thirdly, political commitment is essential in defining roles and responsibilities. The OECD recommends that the finance minister and the ministers responsible for the sectors under review play key roles in establishing expenditure review options. In a top-down approach, the finance minister sets the expenditure revision targets, whereas in a bottom-up approach, the sectoral ministers determine the

[51] OECD. 2023. Public governance directorate committee of senior budget officials - OECD Best practices for spending reviews Strengthening the impact of spending reviews, Athens, https://one.oecd.org/document/GOV/SBO(2023)13/en/pdf.

[52] OECD. 2016. Spending Reviews in Ireland, Journal on Budgeting Volume 2016/2, https://doi.org/10.1787/budget-v16-2-en.

targets. Additionally, the assumption of roles and responsibilities also depends on the technical and scientific expertise, as well as the financial resources, of the team conducting the public expenditure reviews.

Fourthly, identifying available, relevant, and high-quality information and data, along with an optimal methodology, is key to the success of public spending reviews. Regarding the methodology of public spending reviews, the European Commission emphasizes that identifying the actual (or expected) impact of an expenditure/public policy, in terms of savings and costs, is the main challenge of these reviews. A proper assessment of this impact requires a counterfactual analysis, based on the hypothetical situation that would have existed in the absence of the expenditure/public policy under review. Difference-in-differences analysis, regression discontinuity, and instrumental variable-based models are common methods used to evaluate the effect of an instrument. Estimating these models involves complex methodology as well as the availability of a comprehensive dataset.

Finally, ensuring the integrity, transparency, and periodic updating of spending reviews, as well as directly linking them to budget programming are principles that lead to the achievement of the established objectives.

Public expenditure in the fields of education and health

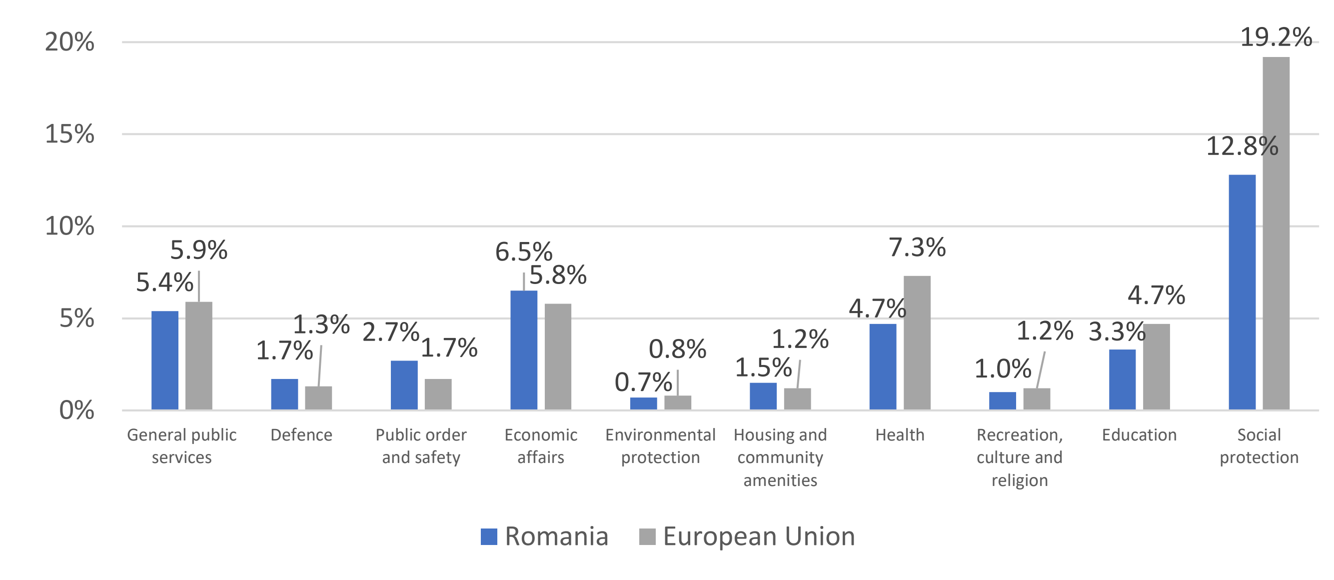
In Romania, in 2023, the first analyses of public expenditure (for the fields of education[53] and health[54]) were published, as well as the strategy for public expenditure analysis for 2024-2030. In the same year (2023), the share of public expenditure in GDP in Romania was 40.3%, this value being the fifth lowest in the EU. In comparison, the average for EU member states was 49% of GDP. The highest shares of public expenditure in GDP were recorded in France (57%), Finland (56%), Italy (53.7%), and Belgium (53.3%). The lowest shares were recorded in Bulgaria (38.8%), Lithuania (37.4%), and Malta (36.6%). These significant differences between member states, exceeding 20 pp, are also reflected in the efficiency, quality, and availability of public services.

In Romania, in 2023, the structure of public expenditures, according to the functional classification (*Figure 31*), shows a share of social assistance expenditures of 12.8% of GDP, compared to the EU average of 19.2% of GDP. In dynamics, compared to 2015, when the ESA budget deficit reached 0.5% of GDP – the lowest value in the 1995-2024 period – the data indicate an increase in the share of social assistance expenditures in GDP by 1.2 pp. Nevertheless, the gap compared to the EU average remains significant. Negative differences compared to the EU average can also be observed regarding health expenditures, which in Romania accounted for 4.7% of GDP, compared to 7.3% of GDP in the EU, as well as education expenditures (3.3% of GDP, compared to 4.7% of GDP in the EU). In comparison with the EU average, higher shares of GDP can be observed in Romania for economic actions (6.5% of GDP, compared to 5.8% of GDP in the EU), public order and national security (2.7% of GDP, compared to 1.7% of GDP in the EU),

[53] https://mfinante.gov.ro/static/10/Mfp/buget/anexamemorandumeducatie_21122023.pdf
[54] https://mfinante.gov.ro/static/10/Mfp/buget/anexamemorandumsanatate_21122023.pdf

defense (1.7% of GDP, compared to 1.3% of GDP in the EU), and housing, community amenities, and public development (1.5% of GDP, compared to 1.2% of GDP in the EU).

Figure 31: The structure of public expenditures in Romania and the EU in 2023 (% of GDP)

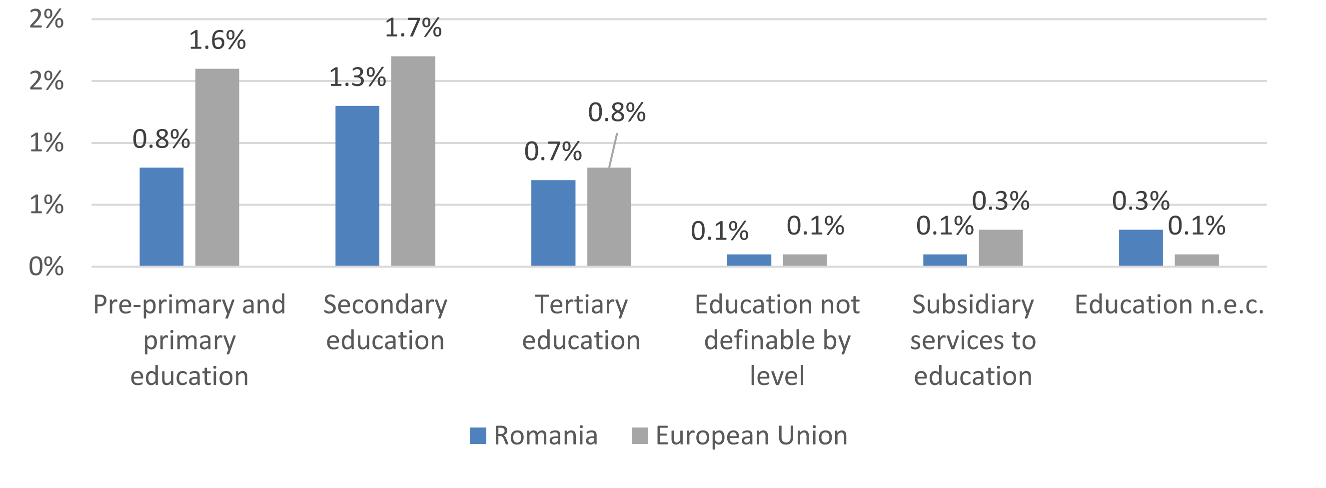


Source: Eurostat

Regarding the allocation of expenditures by sector, expressed as a share of total public expenditures, about one-third of Romania's public expenditures in 2023 were allocated to social assistance (31.8% of the total, compared to the EU average of 39.1%). High shares were also recorded for economic actions (16.1%, compared to 11.8% in the EU), general public services (13.4%, compared to 12% in the EU), health (11.7%, compared to 14.9% in the EU), education (8.2%, compared to 9.6% in the EU), and public order and national security (6.7%, compared to 3.5% in the EU).

From the brief analysis of the structure of public expenditures in Romania at the level of 2023, allocations for education and health are lower in our country compared to the EU average. Considering that the analysis of public expenditures on education focuses on expenditures related to pre-university education, the composition of allocations for education by subcategories will be further examined (*Figure 32*). Thus, in Romania, in 2023, the shares of the main subcategories of education expenditures as a percentage of GDP are lower compared to the EU: expenditures for preschool and primary education (0.8% of GDP in Romania, and 1.6% of GDP in the EU); expenditures for secondary education (1.3% of GDP in Romania, and 1.7% of GDP in the EU); expenditures for higher education (0.7% of GDP in Romania, and 0.8% of GDP in the EU). Regarding expenditures for pre-university education, for which the analysis of public expenditures in Romania was carried out, the total share is 2.1% of GDP, compared to 3.3% in the EU. A higher share of GDP can be observed in Romania only for other education-related expenditures (0.3% of GDP, compared to 0.1% of GDP in the EU).

Figure 32: The structure of public education expenditures in Romania and the EU in 2023 (% of GDP)



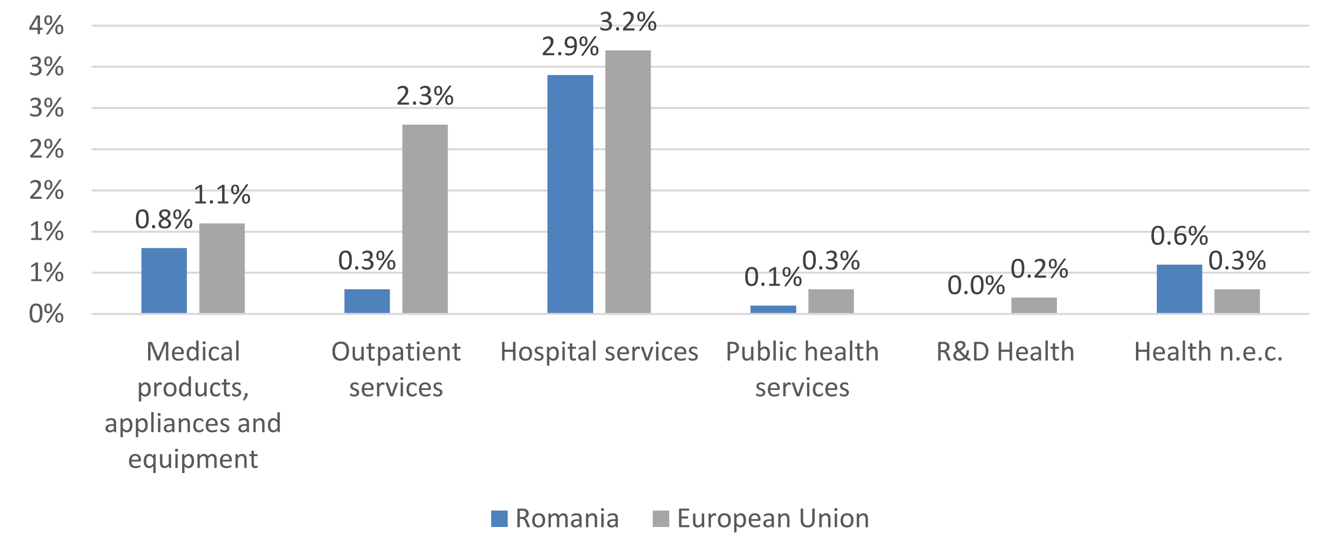
Source: Eurostat

Differences between Romania and the EU can also be observed regarding allocations by subcategories, expressed as a share of total public education expenditures. Compared to the EU, Romania had lower shares of total education expenditures for preschool and primary education (24.2% in Romania and 34.8% in the EU) and for ancillary services for education (3% in Romania and 6.5% in the EU). In contrast, secondary education (39.4% in Romania and 37% in the EU), higher education (21.2% in Romania and 17.4% in the EU), and other education-related expenditures (9.1% in Romania and 2.2% in the EU) are categories that had higher shares within total education expenditures in Romania compared to the EU average. For pre-university education, Romania shows a share of 63.6% of total education expenditures, which is 8.2 pp lower than in the EU.

In conclusion, in 2023, Romania's allocations for pre-university education, for which the public expenditure analysis in the education sector was carried out, had a share in GDP that was 1.2 pp lower in Romania than in the EU, and a share in total education expenditures that was 8.2 pp lower in Romania than in the EU.

Regarding the analysis of public health expenditures, it focuses on allocations for outpatient medical services, so the composition of health expenditures by subcategories will be further examined (*Figure 33*). In 2023, the shares of GDP by component indicate the largest difference between Romania and the EU in allocations for outpatient medical services (0.3% in Romania and 2.3% in the EU), with differences for other components being almost entirely negative: pharmaceuticals, specific medical supplies, and medical devices (0.8% in Romania and 1.1% in the EU); inpatient medical services (2.9% in Romania and 3.2% in the EU); public health services (0.1% in Romania and 0.3% in the EU); applied research and experimental development in health (0% in Romania and 0.2% in the EU). The only category with a positive difference is other health-related expenditures (0.6% of GDP in Romania and 0.3% of GDP in the EU).

Figure 33: The structure of public health expenditures in Romania and the EU in 2023 (% of GDP)



Source: Eurostat

The analysis of the share of allocations by subcategories within total public health expenditures provides a more nuanced picture. Thus, despite a significantly lower volume of health expenditures compared to the EU, Romania recorded higher shares in total health expenditures for pharmaceuticals, specific medical supplies, and medical devices (17% in Romania and 14.9% in the EU), inpatient medical services (61.7% in Romania and 43.2% in the EU), and other health-related expenditures (12.8% in Romania and 4.1% in the EU). In contrast, lower shares are associated with outpatient medical services (6.4% in Romania and 31.1% in the EU), public health services (2.1% in Romania and 4.1% in the EU), and applied research and development.

In conclusion, in 2023, Romania's allocations for outpatient medical services, for which the public expenditure analysis in the health sector was conducted, had a share in GDP that was 2 pp lower in Romania than in the EU, and a share in total health expenditures that was 24.7 pp lower in Romania than in the EU.

***Ex post* evaluation of the analysis of public expenditures in the education sector**

The analysis of public expenditures in the education sector focuses only on pre-university education. Thus, it is a selective analysis and does not form part of a broad exercise in analysing public expenditures. However, in 2023, the Public Expenditure Analysis Strategy for 2024-2030[55] was also published. This initiative will be comprehensive, covering the majority of public expenditures and will include the education and health sectors. Expanding analyses to multiple sectors and to various categories of

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

expenditures within the same sector can effectively support the improvement of public expenditure efficiency.

The framework for conducting the analysis of expenditures on pre-university education is aligned with the standard requirements for this type of analysis. It was developed based on a government-approved memorandum, which established the theme, objectives, targets, and timeline, prepared by a working group composed of the Ministry of Finance, the Ministry of Education, and the World Bank. This is a standard practice in carrying out public expenditure analyses, aiming to ensure inter-institutional coordination, technical validation, and partial independence.

The report on the public expenditure analysis states that the evaluation considers all expenditures financed from the state budget for pre-university education, so that any identified savings can be redistributed to services where funding is insufficient. Contrary to the recommendations for public expenditure analysis practices, the report does not establish, at the aggregate level of pre-university education, a savings target, a target for redistributed expenditures, and/or a target for possible additional allocations. Under these conditions, integrating the measures into budget planning represents a challenge.

The report cites four main objectives: reducing the dropout rate for primary and lower secondary education; increasing the number of graduates from lower secondary education; improving student performance in international standardized assessments; and increasing access to education for all social categories, especially those from disadvantaged backgrounds. From a quantitative perspective, these objectives are not associated with clear targets that would allow for an analysis of the efficiency and effectiveness of expenditures in relation to the results achieved.

The analysis report is structured into seven parts, as follows: general elements; descriptive data and comparative provisions regarding key institutions in the pre-university education sector; applicable legislation in the pre-university education sector; characteristics of pre-university education (organization system, network and school population, staff, performance indicators, funding elements); brief references to university education; presentation of the Ministry of Education's budget. The final part proposes measures to improve the efficiency of public spending for the pre-university education system.

As noted in the presentation of the conceptual framework for public expenditure analyses, an essential element in underpinning the proposed measures is the use of a methodology for estimating the impact of public expenditures/policies. Based on this, efficiency measures and financial objectives are then formulated. The analysis report on public expenditures for pre-university education does not rely on such a methodology, instead using an approach based on descriptive data, both regarding dynamic evolution and comparisons with other countries. Consequently, the actual and expected impact, considering the resources allocated and the results obtained, of expenditures on pre-university education is not evaluated.

The final part of the report proposes six measures to improve the efficiency of public expenditures on pre-university education: (i) reorganization of state pre-university educational units with legal personality that have a small number of students and are not the only ones within their administrative-territorial unit; (ii) annual correlation of coefficient 1 related to the standard cost per ante-preschool/preschool/student with the legislative measures in force regarding basic funding for pre-university education; (iii) improvement of the management of the education system database in Romania and training of the responsible personnel; (iv) elaboration of methodological norms for the implementation of the staffing plan and the administrative staff scheme, aimed at hiring auxiliary teaching and non-teaching staff; (v) implementation of a centralized public procurement system for products and services, through the National Office for Centralized Acquisitions, for the public procurement of products and services of the Ministry of Education and its subordinate/coordinated institutions; (vi) operationalization of the "Remedial Learning" pilot program for 2024-2028. The analysis of the measures and their associated objectives seems to indicate that two of the measures aim to reduce expenditures in pre-university education (measures 1 and 5), one measure foresees a redistribution of expenditures (measure 4), and three measures provide for additional expenditure allocations (measures 2, 3, and 6).

The effective implementation of these measures, their integration into the budget project starting from 2024, monitoring the achievement of target indicators, and the possibility of *ex-post* evaluation require the formulation of transparent and clear quantitative targets. Considering the information included in the report and in the implementation plan for the measures, it is observed that for most measures, quantitative targets to support implementation and evaluation of their effects are not established. For example, the first measure provides for a reduction in personnel expenses without specifying a financial objective. Similarly, the second measure does not mention revision targets for the standard cost, the number of teaching staff, or the planned number of students by educational cycle, and the last measure does not establish target indicators regarding dropout rates or expenses related to the operationalization of the "Remedial Learning" program. The only measure that includes a quantifiable financial objective is measure 5, which aims to reduce public procurement expenses for goods and services in pre-university education by at least 30%. Anchoring the measures through quantitative financial targets, included in budget programming, can support optimal resource allocation, improved efficiency of public services, and *ex-post* evaluation of the impact of expenditures incurred.

***Ex-post* evaluation of the public expenditure analysis in the health sector**

The analysis of public expenditures in the health sector was conducted for outpatient medical services. This analysis is not part of a comprehensive public expenditure evaluation exercise, which is scheduled for 2024-2030. The framework for preparing this analysis was established based on a government-approved memorandum, which set the theme, objectives, targets, and timeline, developed by a working group consisting of the Ministry of Finance, Ministry of Health, National Health Insurance House, and the World Bank.

The purpose of the public expenditure analysis report for outpatient medical services was to identify ways to improve spending efficiency so that any savings identified could be redistributed to services with greater allocation needs. The report does not specify quantitative targets for the identified savings and/or the amounts to be redistributed. The main objective of expenditure efficiency will be to improve the quality of services at the outpatient care level by strengthening the role of services provided by family doctors and outpatient clinical and paraclinical care.

The report is structured into two parts. The first part provides a diagnosis of the Romanian health system, analysing the population's health status, health strategies, health services and their financing, as well as the financial indicators of the budget of the National Health Fund. The evaluation emphasizes imbalances in financing and resource use, identifying disparities in the allocation of funds to hospitals compared to preventive medicine and outpatient services, in the operation of the financing mechanism that favours territorial and demographic inequities, as well as in the National Health Fund budget, which is supported by a narrow base of contributors and suffers from inefficient collection. These conclusions are based on a descriptive data analysis, which was preferred over impact analyses recommended by public expenditure analysis methodologies.

The second part of the report proposes five corrective measures targeting the main sources of inefficiency. The first measure aims to encourage preventive consultations within family medicine – a strategic measure intended to reduce the incidence of advanced-stage diseases and, consequently, hospital costs. The second measure proposes a digitalized mechanism to track chronic patients through referral and follow-up in outpatient care, aiming to reduce avoidable hospitalizations. The third measure focuses on rationalizing medical leave benefits so that they are more realistically correlated with the net incomes of the beneficiaries – a proposal with significant budgetary potential. The fourth measure suggests broadening the contributor base by eliminating unjustified exemptions and improving collection – one of the most challenging but necessary measures, as the system's sustainability directly depends on a high degree of tax compliance. The final measure proposes reforming the drug reimbursement scheme by promoting the use of generic and similar medicines that have the potential to generate significant savings without compromising treatment effectiveness.

It is noteworthy that the mentioned measures are associated with quantitative financial targets and estimates regarding their impact on system efficiency, subject to support for their implementation through digitalization, institutional interoperability, continuous monitoring, legislative adjustments, and simplification of administrative procedures. For example, the quantitative objectives linked to the measures include a target of at least 1,265,000 preventive consultations per year; a reduction in hospitalization expenses by at least 0.5% per year; a reduction in per capita payments to 20% of the regulated level in the first half of 2023; at least 70% of referral notes issued by family doctors for patients under monitoring, for clinical/paraclinical specialty services, to be completed with the provision and reimbursement of services from National Health Fund; and an annual 5% increase in the number of biosimilar drug prescriptions and the volumes dispensed for generic medicines.

The analysis report can serve as a basis for improving the efficiency of expenditures on outpatient medical services, providing proposals for cost-saving measures and a strategic realignment of priorities. However, for their proper implementation, it is necessary that the proposed measures be taken into account during the preparation of the general consolidated budget, and subsequently, the effects of these measures should be demonstrated through reporting against quantitative financial targets.

Conclusions

- The approach regarding the public expenditure analysis (spending review), initiated by the Ministry of Finance, represents, so far, a tentative step towards achieving the objectives of strengthening budget programming and supporting fiscal consolidation. Achieving these objectives depends on adhering to the recommendations made by the OECD and the European Commission, as well as on good practices in the field. These entail setting clear fiscal targets, political commitment and responsibility, integrating evaluations into budget programming, transparent implementation, periodic updating, and the involvement of adequate financial and scientific resources.
- In 2023, Romania conducted its first two public expenditure analyses. These focused on education (the pre-university education sector) and health (outpatient medical services). Compared to the EU average, both sectors are significantly underfunded, and the analyses aimed to identify resource savings that could be redistributed to other areas where funding is insufficient.
- In the opinion of the FC, with a certain degree of tolerance given the lack of experience in conducting such analyses – despite the assistance of the World Bank – both expenditure analyses suffer in terms of representativeness and in achieving their main objective, namely identifying and quantifying the amounts that can be saved, thus contributing to the efficiency of expenditures and budgetary resources (in terms of value for money). They do not meet the analytical, structural, and operational standards set by the EU/OECD.
- Although they were supposed to be comprehensive, with an analytical approach covering the entire sector, the expenditure analyses – based on a government-approved memorandum, without any explanation for this choice – are limited to outpatient medical services (family medicine services and clinical and paraclinical specialty outpatient services, representing about 16% of total health expenditures) and pre-university education. Thus, important subsectors are excluded, namely hospitals (about 60% of total budget health expenditures) and university education (about 25% of total budget education expenditures, noting that higher education also has its own revenues).
- The expenditures in the addressed areas are not analysed within the framework of a methodological approach for impact assessment, which would support the evaluation of the proposed measures for revising and streamlining the expenditures. Furthermore, the proposed measures are not accompanied by quantifiable financial targets, making their implementation difficult in the preparation of the general consolidated budget, as well as in the ongoing monitoring and *ex post* evaluation of the effects of these measures.
- No information has been made public regarding the inclusion of the measures resulting from the expenditure analysis (those with budgetary impact) in the State Budget Law for 2024, nor regarding their potential contribution to the efficiency of public spending.
- It is necessary to specify that the *ex post* evaluation of the proposed measures involves an extended time horizon and impact analyses that require access to detailed data regarding the analysed areas, data which are not available to the FC.

- *Ex post* evaluation involves not only a quantitative analysis but also a qualitative one, for which a high level of expertise in the fields of education and health is required. 2024 was marked by a significant deepening of the budget deficit, amid an accelerated trend of public expenditure growth, far exceeding the limits set in the initial budget. In this context, the identification and rigorous quantification of the efficiency of certain budget allocations is limited, as any effort to streamline public spending requires a predictable and coherent framework for budget planning and execution.

III.7. Public debt

Public debt, measured according to the European methodology ESA 2010, increased by 179.7 billion lei (+22.9%) in 2024 compared to the previous year, while its share in GDP rose by 5.9 pp, from 48.9% in December 2023 to 54.8% in December 2024. From the perspective of the national methodology[56], public debt increased by approximately 173 billion lei (+18.1%). Given the slower growth in nominal GDP, its share in GDP rose by 4.6 pp, from 59.6% in 2023 to 64.2% in 2024. The upward trajectory of public debt was driven by the significant increase in the budget deficit in 2024.

In terms of the structure of public debt[57], the share of central government debt increased marginally in 2024, reaching 97.7% of the total, compared to 97.6% in the previous year, to the detriment of local government debt, which declined to 2.3%, from 2.4% in the previous year. Government bonds maintained their position as the main instrument of government public debt, accounting for 33.7% of the total (compared to 34.3% in 2023), along with Eurobonds, which also held a share of 33.7% (up from 31.8% in 2023). These were followed by loans (14%, down from 15.5% in 2023), retail government securities (4.5%, compared to 3.7% in 2023), and Treasury bills (1.8%, compared to 0.8% in 2023). Meanwhile, the share of loans from the general account of the State Treasury decreased to 10.7%, from 12.6% in 2023. The currency structure of public debt reveals a decrease in the share of loans denominated in the national currency, from 56.1% in 2023 to 54.8% in 2024, as well as a slight decrease in the share of loans contracted in euro, from 36.5% to 36%. Conversely, the share of debt denominated in U.S. dollars increased from 7.3% in 2023 to 9% in 2024.

In 2024, the gross financing requirement, consisting of the budget deficit, refinancing, principal repayments, and pre-financing for the following year, amounted to 14.1% of GDP (approximately 248 billion lei), an increase compared to 12.7% of GDP in 2023 (around 204 billion lei)[58]. This rise was driven by an approximately 70% increase in the consolidated general budget deficit (152.7 billion lei in 2024 compared to 89.9 billion lei in 2023), while the amounts allocated for refinancing and principal repayments remained relatively stable (95.7 billion lei in 2024, compared to 95.8 billion lei in 2023). In 2024, the authorities chose not to build a buffer for pre-financing the following year's financing needs.

[56] Public debt, according to the national methodology, includes, in addition to the debt measured under the European methodology, the government-guaranteed debt repaid from the beneficiaries' own sources, as well as loans from the general account of the State Treasury.

[57] According to the national methodology, the information is available on the Ministry of Finance website, regarding the structure of public debt as of April 30, 2025.

[58] According to the Public Debt Reports available on the Ministry of Finance website.

Thus, in 2023, the financing requirement included a buffer of about 18 billion lei. It is worth noting that in 2024, due to exceeding the deficit target set in the budget, the financing requirement was revised three times – from the initially planned 181 billion lei to 250 billion lei. For 2025, the indicative issuance program mentions a financing requirement of approximately 232 billion lei, determined based on the target budget deficit level (135 billion lei, equivalent to 7% of GDP) and the volume of debt to be refinanced, amounting to 97 billion lei.

Interest expenses, in cash standards, recorded an increase of nearly 5.7 billion lei (+18.5%) in 2024 compared to the previous year. This dynamic was driven, on the one hand, by the accelerated growth of the public debt stock in recent years (+18% in 2021, +18% in 2022, +16.2% in 2023, and +18.1% in 2024[59]), and, on the other hand, by the continued high level of interest rates. The share of interest expenses in GDP rose from 1.9% to 2.1%, in the context of a 9.7% increase in nominal GDP, while the actual execution of this expenditure item was almost 1.4 billion lei above the projection in the initial budget. The average interest rate paid on public debt[60], according to the national methodology, increased slightly from 3.7% in 2023 to 3.8% in 2024, after a 0.5 pp decrease in 2023.

From the perspective of the ESA 2010 methodology, interest expenses recorded a more significant increase compared to the previous year (+10.5 billion lei, representing +34.2%) than under the national methodology. The difference in the variation of interest expenses between the two methodologies can be explained by the different treatment of issuance discounts[61] and premiums[62]. Thus, under the national methodology, these are recorded in full as part of the interest expenses, whereas under the ESA methodology, they are amortized gradually over the entire lifetime of the loan.

During the analysed period, the cost of raising new loans in the national currency (*Figure 34*) went through several cycles of evolution. In 2015-2016, sovereign yields followed a downward trajectory, driven by the 2014 sovereign rating upgrade decision, excess liquidity on financial markets, and the monetary policy easing measures implemented by the NBR. Starting in 2017, this trend reversed, with the cost of raising new loans in the national currency increasing. This upward trajectory intensified significantly in 2018, amid a sharp rise in inflation and a widening budget deficit. 2019 marked a slight reduction (between 0.1 and 0.4 pp) in the cost of new borrowing in the national currency across most considered maturities. This downward trend continued in 2020 and 2021, when interest rate cuts were strongly influenced by the monetary policies adopted by central banks, including significant reductions in policy rates, liquidity injections into the banking system, and asset purchase programs. 2022 brought a new inflection point in the evolution of borrowing costs in the national currency, as the downward

[59] From the perspective of the national methodology.

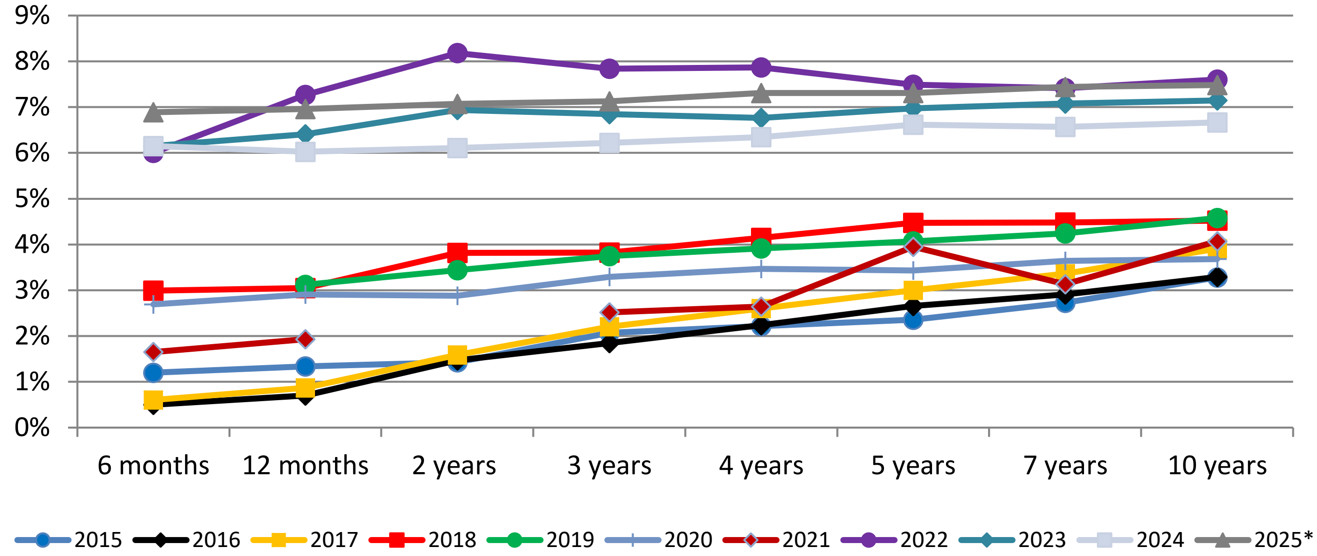
[60] Calculated as the ratio between the interest expenses of the current year and the public debt stock at the end of the previous year.

[61] The discount represents the difference between the issue price of a government security and its nominal value, when the price is lower than the nominal value. Discounts on the nominal value of government securities are granted when reopening older issues that carry lower yields than the market yield at the time of reopening, in order to align with the current market yield.

[62] The premium is the difference between the issue price of a government security and its nominal value, when the price is higher than the nominal value.

trend in yields observed in recent years was sharply reversed. The cost of raising new loans in the national currency increased by approximately 5 pp on average for securities with maturities of 12 months, 2 years, 3 years, and 4 years, and by around 3.5 pp for 5- and 10-year maturities. This development was driven by the rapid rise and persistence of inflation, which led to successive hikes in the key policy rate – from 1.75% at the beginning of 2022 to 6.75% by the end of the year. In 2023, the cost of raising funds in the national currency slightly decreased across most maturities. These developments were influenced by the disinflationary trend, which led to the end of the key rate tightening cycle. Accordingly, in 2023, the NBR implemented only one interest rate increase – by 0.25 pp in the January meeting – after which the key policy rate remained unchanged.

Figure 34: The yield curve for government bonds, issued in domestic currency between 2015 - 31 May 2025



Source: NBR

2024 marked the continuation of the downward trend in borrowing costs in the national currency, with yield reductions of approximately 0.4 pp observed for most maturities. Exceptions were seen for securities with maturities of up to 6 months, where yields were similar to those in 2023, and for 2-year maturities, where yields decreased by 0.8 pp. The yield trajectory was positively influenced by the ongoing disinflationary trend and, in this context, by the central bank's decisions to lower the key policy rate. Acting in the opposite direction were the significant deviation of the budget deficit from the initial target and domestic political and fiscal uncertainties, which became particularly pronounced in the latter part of the year. Moreover, fiscal and political uncertainties were reflected in an upward trend in borrowing costs during the first five months of 2025. For all maturities, the data show an increase in yields of approximately 0.7-0.9 pp. For short-term issuances with maturities of up to six months, the highest yield of the analysed period (6.9%) was recorded. Meanwhile, the average 10-year yield stood at around 7.5%, very close to the peak of 7.6% reached during the high-inflation environment of 2022.

The value of government securities denominated in the national currency and issued on the domestic market was approximately 108.9 billion lei in 2024, representing a decrease of about 6.9% compared to 2023. Additionally, there were two euro-denominated issuances on the domestic market, which raised funding equivalent to approximately 1.7 billion lei in national currency terms. Regarding the maturity structure of government securities denominated in the national currency and issued on the domestic market in 2024, there was an increase both in short-term issuances with maturities up to 1 year and in bond issuances with medium-term maturities between 1 and 5 years. Conversely, the share of issuances with maturities between 5 and 10 years and those with maturities over 10 years decreased. Thus, treasury bills with maturities up to 1 year accounted for 23.3% of the value of new loans contracted in 2024, an increase of about 7.9 pp compared to the previous year. Bonds with maturities between 1 and 5 years represented 40.2% of the value of new loans contracted in 2024 (up from 23.7% in 2023). Issuances with maturities between 5 and 10 years accounted for 26.1% (down from 40.7% in 2023), while those with maturities over 10 years represented 10.4% (a decrease of 9.8 pp compared to 2023). Consequently, the weighted average residual maturity of government securities denominated in the national currency newly issued on the domestic market fell to 4.5 years in 2024, down from 6.6 years in 2023. The trend toward shorter maturities can be explained by increased domestic uncertainties and the shift of longer-term issuances toward the external market.

The bid-to-cover ratio for government securities issued in the national currency decreased slightly (from 1.5 in 2023 to 1.44 in 2024), reflecting the continued strong demand for government securities. The decline was more pronounced for short-term maturities, with the ratio for treasury bills falling from 1.39 in 2023 to 1.32 in 2024. For bonds with maturities over 10 years, the ratio decreased from 1.48 in 2023 to 1.45 in 2024.

Borrowing on external markets experienced strong growth in 2024, reaching approximately 80.4 billion lei (in national currency equivalent), an increase of 84.9% compared to the previous year[63]. The preference for issuances in dollars and euros can be explained by the favourable interest rate differential, especially for issuances with maturities over 10 years. In 2024, three dollar-denominated issuances with maturities of 5, 10, and 11 years were launched, totalling 6.1 billion dollars, representing a 33.6% increase compared to dollar issuances in 2023. Financing costs for dollar issuances decreased slightly. Yields on 5- and 10-year maturities fell by approximately 0.8 pp compared to similar maturities issued in January 2023. Regarding euro-denominated issuances, six were launched in February, May, and September 2024, with maturities of 7, 8, 12, 13, and 20 years. The total value of these issuances amounted to approximately 10.6 billion euros, up from 4.6 billion euros in 2023. Yields ranged from 5.1% for the 7-year maturity issuance to 6% for the 20-year maturity issuance. From a financing cost perspective, the maturities of the euro issuances in September 2024 are not directly comparable with those launched in September 2023. Nevertheless, data indicate a decrease in yields, as the issuances with 7- and 20-year maturities in September 2024 had lower costs than the 5- and 10-year issuances launched in September 2023.

[63] According to the Ministry of Finance data, accessed on July 1, 2025.

The evolution of public debt, expressed as a percentage of GDP, can be analysed starting from the following relationship[64], derived from the budget identity:

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

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

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

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

Essentially, the relationship shows that the public debt-to-GDP ratio at time t depends on the ratio from the previous period multiplied by the difference between the real interest rate and the real economic growth rate, to which the primary deficit of the general government sector expressed as a percentage of GDP is added. When the economic growth rate exceeds the real interest rate on public debt, the public debt-to-GDP ratio tends to decrease, whereas if the economic growth rate is lower than the real interest rate, the public debt ratio tends to increase. The actual dynamics depends on the sign and magnitude of the primary budget balance. Thus, the coefficient λ_t can be interpreted as the real interest rate adjusted by economic growth.

2024 brought a sharp increase (+5.9 pp) in the public debt-to-GDP ratio (see *Figure 35*). Using the previously presented dynamic equation, it is observed that the high primary deficit is the main factor driving the increase in the public debt-to-GDP ratio (+7 pp), to which the stock-flow adjustment effect (+0.9 pp) is also added[65]. It should be noted that Romania recorded the highest primary deficit among EU member states in both 2023 and 2024 (see *Figure 36*). Moreover, in 2024, Romania's primary deficit increased by approximately 2.3 pp (from 4.7% of GDP in 2023 to 7% of GDP in 2024), the largest increase

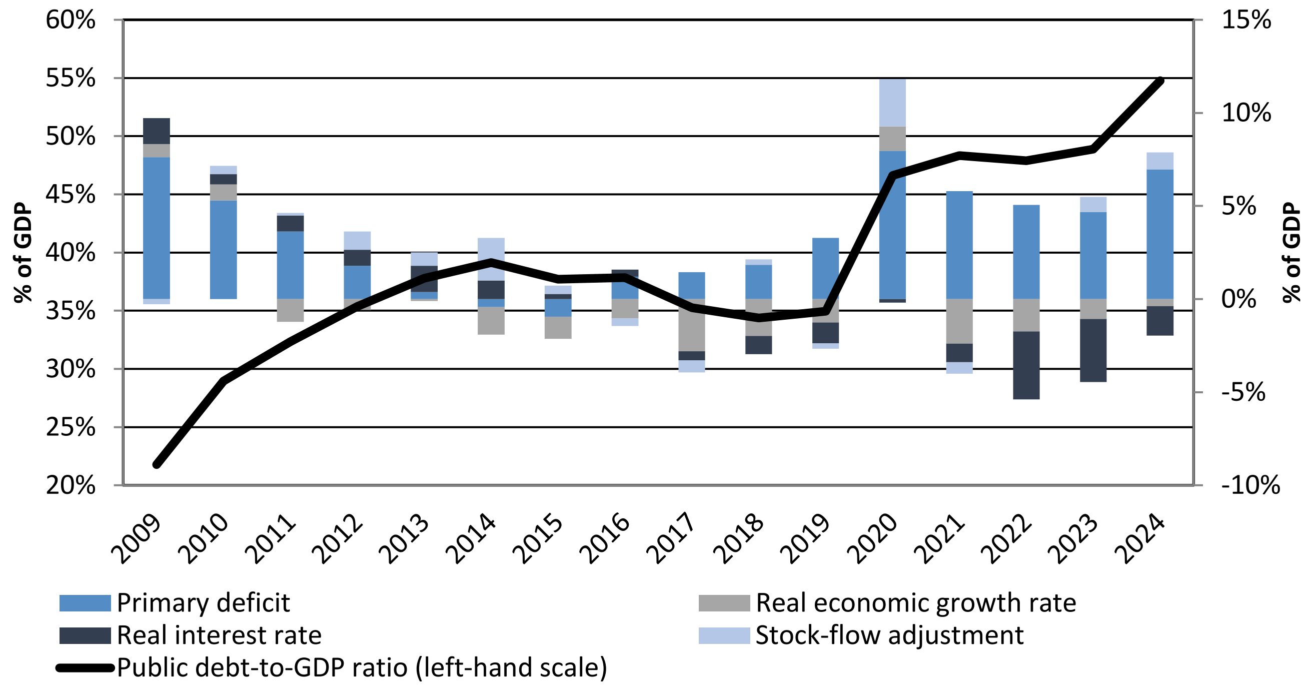
[64] Cafiso, G. 2012. "A Guide to Public Debt Equations", available online: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1975710](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1975710. A relatively similar model is also presented by Escolano, J. 2010. "A Practical Guide to Public Debt Dynamics,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

[65] Regarding the stock-flow adjustment, it had a small contribution to the increase in the public debt-to-GDP ratio, which is the result of several significant factors acting in opposite directions. Thus, the liquidity reserves available in the State Treasury, advance payments for military acquisitions, receivables mainly related to taxes and social contributions, amounts paid and amounts borrowed by the Government to finance projects from EU funds but not yet reimbursed, as well as the depreciation of the national currency, were the main factors that led to the increase in public debt. Their effect was partially offset by super dividends paid by state-owned companies, differences in interest recording for government securities with issuance premiums or discounts, as well as other payable amounts mainly related to goods and services purchased but not yet paid, court decisions with retroactive effect, EU funds received from the EU but not paid to primary beneficiaries, and unpaid tax reimbursements.

among member states. Real economic growth (with an effect of -0.4 pp, decreasing compared to the previous year due to the slowing real GDP dynamics) and the real interest rate (with an effect of -1.6 pp, also decreasing compared to the previous year due to the reduction in inflation and the GDP deflator) partially offset the effect of the primary deficit and the stock-flow adjustment on the public debt-to-GDP ratio.

In conclusion, in 2024, economic growth of 0.8% coincided with a negative real interest rate (-3.6%), which led to a negative value of the coefficient λ_t and, consequently, a favorable impact on the dynamics of public debt expressed as a percentage of GDP. However, this effect only partially offset the considerable impact of the primary budget deficit on the increase in the public debt-to-GDP ratio. Furthermore, compared to previous years, the favourable effect of the real interest rate and real economic growth has diminished. This development, along with the experience of 2020 when this gap suddenly reversed, resulting in a significant increase in the debt ratio, call for caution in managing the budget and the level of public debt.

Figure 35: Contributions to changes in the public debt-to-GDP ratio for the 2009-2024 period

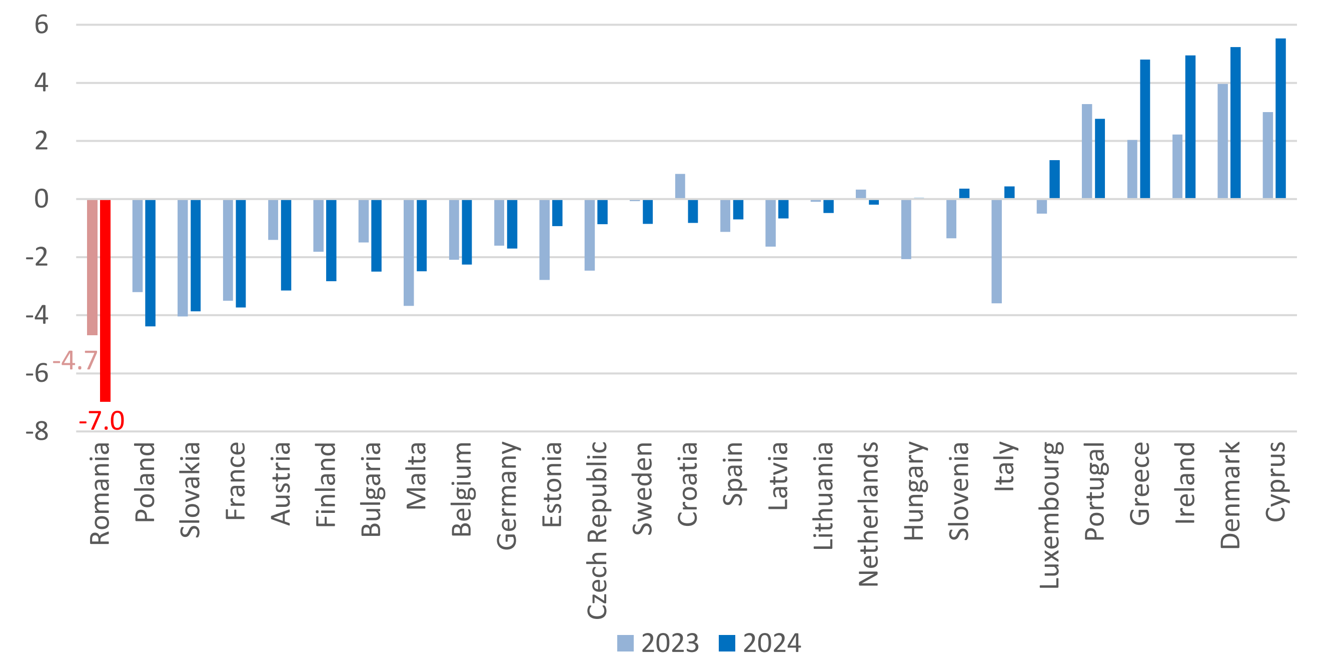


Source: Eurostat, FC's calculations

Analysing the level of public debt at the end of 2024 (54.8% of GDP), it should be noted that this falls within the second alert range, between 50% and 55% of GDP, established by the Fiscal Responsibility Law. In this situation, according to current legislation, the Government must present and implement, as soon as possible, a program to reduce the public debt-to-GDP ratio, which will include, but is not limited to, measures that freeze total public sector wage expenditures. It should be mentioned that, through the so-called "train ordinance" adopted at the end of 2024, public sector wage expenditures were frozen at the level of November 2024. Additionally, the same ordinance froze social assistance expenditures within the public system. This measure is provided by the FRL in the event that the 55% of GDP threshold is exceeded. The most recent available data show that the public debt-to-GDP ratio reached 56.6% in April 2025[66]. According to a report on public debt developments published on the Ministry of Finance website[67] in April 2025, to maintain the public debt-to-GDP ratio at a sustainable level, the Government plans to stimulate economic growth potential through an increase in the share of investment expenditures in GDP, estimated to reach 7.9% in 2025, supported by accessing European funds from the Multiannual Financial Framework and by implementing reforms and investments outlined in the National Recovery and Resilience Plan. Obviously, achieving the 7.9% figure is no longer possible under the current fiscal consolidation measures package.

In addition to these measures, to place the public debt-to-GDP ratio on a downward trajectory, the Government has committed to a series of reforms included in the MTP.

Figure 36: Primary balance in EU member states, in 2023 and 2024 (% of GDP, ESA 2010)



Source: Eurostat

The analysis of the evolution of public debt in Romania showed that the primary deficit was the main determinant of its upward trajectory. During 2021-2024, the real economic growth rate and the real interest rate mitigated the adverse impact of the primary deficit. However, their effects have gradually narrowed due to the slowdown in economic activity and the rising interest rate cycle. Despite measures to freeze public sector wage expenditures and social assistance spending, the future outlook remains unfavourable. Assuming compliance with the budget deficit targets, reforms, and investments outlined in the MTP, the public debt-to-GDP ratio is projected to reach a peak of 62.6% of GDP in 2029. However,

[66] According to the Ministry of Finance data on the evolution of government debt according to EU methodology.

[67] https://mfinante.gov.ro/static/10/Mfp/buletin/executii/Informprivindevdatpubluna042025.docx

as highlighted by the Fiscal Council in its note from March 2025[68], the fiscal-budgetary outlook projected by the MTP carries a number of uncertainties, with the risk balance tilted towards higher deficits and, consequently, higher levels of public debt.

An additional constraint is related to the high level of public debt compared to the depth of the domestic financial sector and the limited absorption capacity of additional public debt stock at the current level of financial intermediation. Thus, at the end of 2024, Romania's public debt-to-total bank assets ratio was approximately 109% (compared to about 98% in the previous year), while the exposure to the government sector relative to the assets of local banks[69] (which are the main holders of public debt in the domestic market) was around 27% (up from 22.5% in 2023), with these indicators being among the highest in the EU. This situation has the potential to lead to increased dependence on non-resident investors, which is associated with growing vulnerability to interest rate and exchange rate shocks, changes in risk appetite on global financial markets, as well as a possible sovereign rating downgrade.

[68] https://www.fiscalcouncil.ro/2025-03-24%20mar%20-%20EN%20-%20Not%C4%83_PBSTM.pdf

[69] The banking system's exposure to the government sector is calculated as the ratio between banks' claims on the government sector (consisting of securities and loans) and total bank assets, based on information available in the European Central Bank's database

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

The Fiscal Council 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 not taking effective actions, according to the Council's recommendations, leading to the return of the budget deficit to the trajectory assumed and agreed with the European Commission, 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 (SCF) related to the 2021-2027 Multiannual Financial Framework and, respectively, the National Recovery and Resilience Plan, both managed by the Ministry of Investments and European Projects (MIEP), which is the managing authority for the 7 national programs, being also the national coordinator of the NRRP.

The Fiscal Council has repeatedly emphasized in its opinions and reports that, for Romania, European funds represent a key financial resource for economic and social development, in terms of 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). To these are added 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.

The absorption of the non-reimbursable SCF 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.

It is essential that Romania attracts as much as possible the Structural and Cohesion Funds related to the 2021-2027 MFF, capitalizing on the experience of the previous financial year, when it was possible (under the conditions of the n+3 Rule) to achieve an absorption rate of almost 100%.

At the end of June 2025, according to the MF data presented in *Table 9*, calculated by reporting the effective reimbursements in the amount of 2.6 billion euros to the total allocations of 30.6 billion euros,

the effective[70] absorption rate of the SCF from the 2021-2027 MFF (excluding advances) was only 8.5%[71], an extremely low level for the middle of the financial year, making it difficult to recover the delays, even given that Romania will continue to benefit from the n+3 Rule.

Table 9: Situation of absorption of structural and cohesion funds for the programming period 2021-2027 as of 30.06.2025 (million euros)					
MFF 2021-2027	Programmed 2021-2027	2021-2024 Execution at 31.12.2024	Estimates 2025	2025 Execution at 30.06.2025	2021-2025 Execution at 30.06.2025
SCF, of which:	30.663,93	2.424,62	4.735,85	2.466,02	4.890,64
Advances from SCF	2.290,02	1.806,39	483,63	483,63	2.290,02
Reimbursements from SCF	28.373,91	618,24	4.252,91	1.982,39	2.600,62

Source: Evolution of financial flows between Romania and the European Union (Net Financial Balance) 30.06.2025, Ministry of Finance

Although this situation would have put the Romanian authorities on high alert this year, especially since it had become critical since the end of 2024, with the effective absorption rate being only 2%, they continued to ignore the imperative of accelerating the attraction of European funds. The causes that generated it, mainly related to administrative incapacity and lack of political will, must be identified with the utmost urgency, so that actions can be taken at central and local level to quickly start using the SCF and achieve the highest possible degree of their absorption, otherwise, the risk of automatic decommitment of funds could materialize as a result of the simultaneous application of the n+3 and n+2 Rules, losses that Romania cannot afford.

In the current domestic and international context, marked by major economic risks and political and geopolitical tensions, including armed conflicts, absorption of SCF to the greatest extent possible can contribute to accelerating 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 of financing the budget deficit and refinancing public debt at reasonable costs.

Through the **National Recovery and Resilience Plan**, which includes the Recovery and Resilience Mechanism (RRM) facility under Next Generation EU, 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, the total amounts allocated through the RRM amounting to 28.5 billion euros.

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

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[70] The effective absorption rate represents the ratio between the reimbursements from the SCF from the EC and the total related allocations. The advances from the SCF, even if used, partially or fully (as shown in *Table 9*), represent expenditure to be (or not) validated by the EC and cannot be taken into account when calculating the effective absorption rate.

[71] https://mfinante.gov.ro/static/10/Mfp/buget/sitebuget/BFN2025_06_30.pdf

payment requests, must be completed by August 2026, any failure to achieve this resulting in losses or even returns of funds.

By June 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 totalling 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[72], withholding an amount of 53 million euros due to the failure to meet two energy milestones, partially recovered in December 2024 (37 million euros on the loan component).

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[73], but only in June 2025 did it receive the opinion of the Economic and Financial Committee[74], with the 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 fulfilment or non-fulfilment of 6 milestones[75]. 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 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 remaining 869 million euros if, within 6 months, Romania has satisfactorily met the six outstanding milestones.

The examination of the schedule of payments related to the NRRP, made by the EC to Romania during the 2021 - June 2025 period (*Table 10*), 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 clearly reveals the deficit of administrative capacity of the authorities in pursuing the achievement of the targets and milestones of the NRRP, respectively for the implementation of reforms and the implementation of investments in compliance with the assumed deadlines.

[72] The procedure for the suspension of payments, which grants an additional deadline for the fulfilment of the intermediate objectives, is explained at the following link: https://commission.europa.eu/system/files/2023-02/COM_2023_99_1_EN.pdf

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

[74] It is worth noting that, if the European Commission 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 them, 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)!

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

Table 10: Calendar of European Commission payments to Romania, related to the NRRP, during the 2021 - June 2025 period (including pre-financing)			
Date	**Budget type**	**Payment request**	**Amount (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

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[76], this delay *de facto* prevented 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% (*Table 11*).

Table 11: Effective absorption rate of NRRP funds as of 30.06.2025			
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: FC calculations

[76] 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.

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 June 2025 only 27% of the milestones and targets had been met![77]) makes it extremely difficult to recover the delays in just one year and two months, which implies the loss of significant amounts of European money and the failure to implement important reforms and investment projects, which could have contributed to keeping Romania on the path of sustainable development, by accelerating the green and digital transition, restructuring the economy, modernizing infrastructure and increasing competitiveness, implicitly supporting the fiscal consolidation process.

The disruption of the entire calendar of financial flows related to the NRRP exposes Romania to other risks of payment suspensions and sanctions, with direct and collateral effects on the degree of absorption of allocated funds, both on the grants and loans side, against the backdrop of the constraints imposed by the entry into force of the new EU economic and fiscal governance framework and the excessive deficit procedure.

Given the state of public finances and the vulnerabilities of the external balance of payments, in an extremely unfavourable international environment, marked by instability, trade and armed conflicts, European funds can counteract the contractionary effects of fiscal consolidation, helping the Romanian economy, through reforms and investments, to become more robust and competitive.

In the context of the difficult path of fiscal consolidation, agreed with the EC within the framework of the excessive deficit procedure, as well as the pressure exerted on the country's economic and financial stability, the new Government of Romania has the mission of resetting the maximum interest in accelerating the absorption of European funds at all levels of public administration and the business environment, which has become even more significant for reducing the degree of strain on the public budget, intensifying the pace of absorption of these funds, both from the 2021-2017 MFF and from the NRRP, representing a national priority. 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 risk of implementation until August 2026, the rescheduling of payment requests. The MIEP Press Release from the end of July[78] states that, following technical consultations and high-level meetings, the negotiations on the revision of the NRRP were finalized, the main result being the full allocation of non-reimbursable funds (13.6 billion euros), obtaining additional financing for projects under implementation and a total allocation for the loan component of 8 billion euros. It is worth noting that the agreement on the final form of the revised NRRP was agreed during the videoconference on July 30 between Ms. Director General Gauer, the Romanian Minister of Investments and European Projects and the technical teams. The revised form of the NRRP is to be officially submitted to the EC to complete the approval process.

[77] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/country_overview.html
[78] https://mfe.gov.ro/romania-finalizeaza-negocierile-cu-comisia-europeana-pentru-revizuirea-pnrr-investitii-critice-salvate-si-noi-finantari-obtinute/

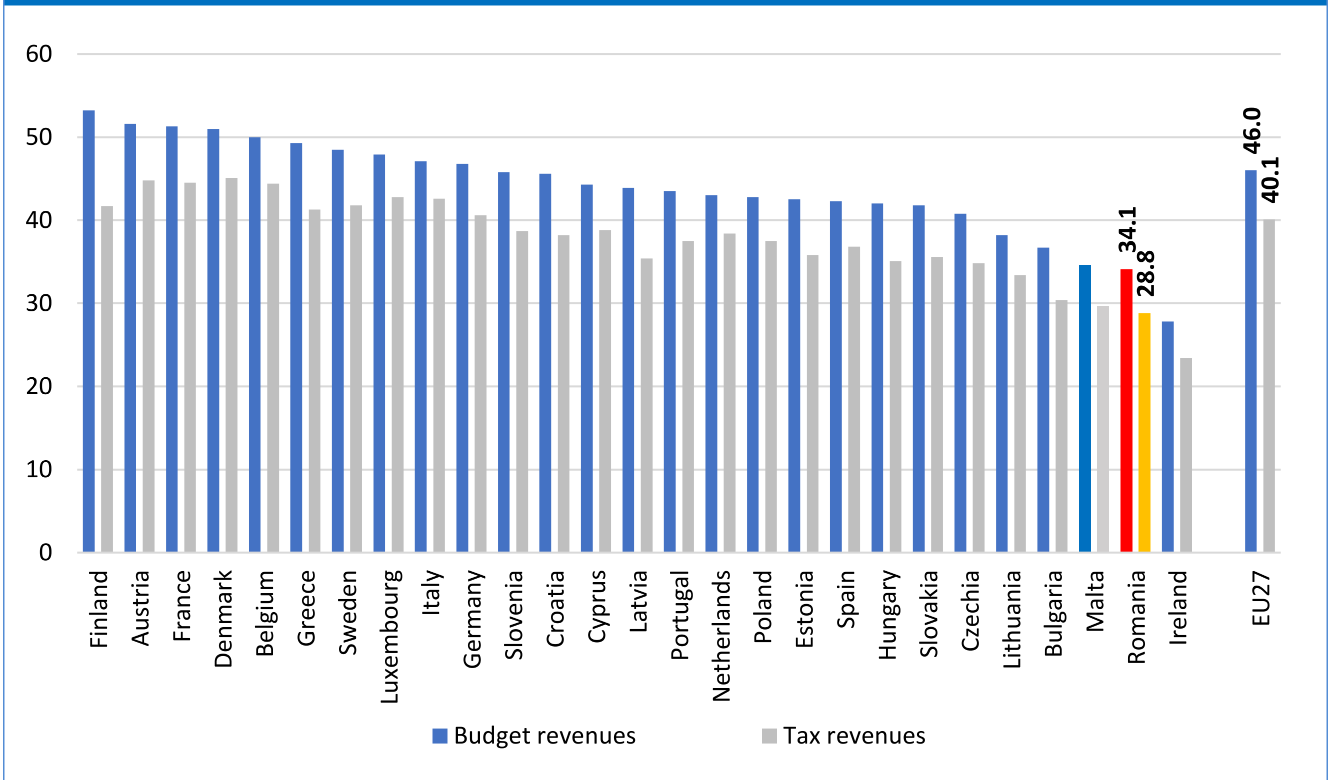
V. Tax collection and the structure of budget expenditures – international comparisons

V.1. Tax collection in Romania – international comparisons

In 2024, according to the ESA 2010 methodology, Romania recorded a level of budget revenues as a share of GDP of 34.1%, 0.1 pp above the previous year, but well below the European average of 46%, registering a gap of 11.9 pp. Thus, Romania occupies the penultimate position in the EU27, with only Ireland recording lower budget revenues. The level of fiscal revenues (taxes and social contributions) increased from 27.2% of GDP in 2023 to 28.8% in 2024, by 1.6 pp, but is positioned well below the European average of 40.1%, registering a gap of 11.3 pp, a situation that also places Romania in penultimate place in the EU27.

Analysing the evolution of these indicators compared to the previous year, it is observed that the gap between Romania and the EU27 average has increased in the case of budget revenues (from 11.5 pp in 2023, to 11.9 pp), respectively, a reduction in the case of tax revenues (from 12.4 pp, to 11.3 pp).

Figure 37: Budget revenues and tax revenues in 2024 (% of GDP, ESA 2010)



Source: Eurostat

Note: Tax revenues also include SSC

The share of tax revenues in GDP recorded by Romania in 2024, even though it increased by 1.6 pp compared to the previous year, is significantly below that of other countries with similar economies, such as Slovenia (38.7%), Poland (37.5%), the Czech Republic (34.8%) and Hungary (35.1%), which also recorded increases in the share of tax revenues in GDP (except Hungary). Compared to Bulgaria, the share of budget revenues in GDP in Romania is lower by 2.6 pp, and that of tax revenues by 1.6 pp, these differences being decreasing compared to the previous year. The low level of tax and budget revenues in Romania is both the effect of an inefficient tax administration and of successive fiscal relaxation, starting with 2012, especially in the sphere of capital income taxation, household income taxation, but also of the VAT rate.

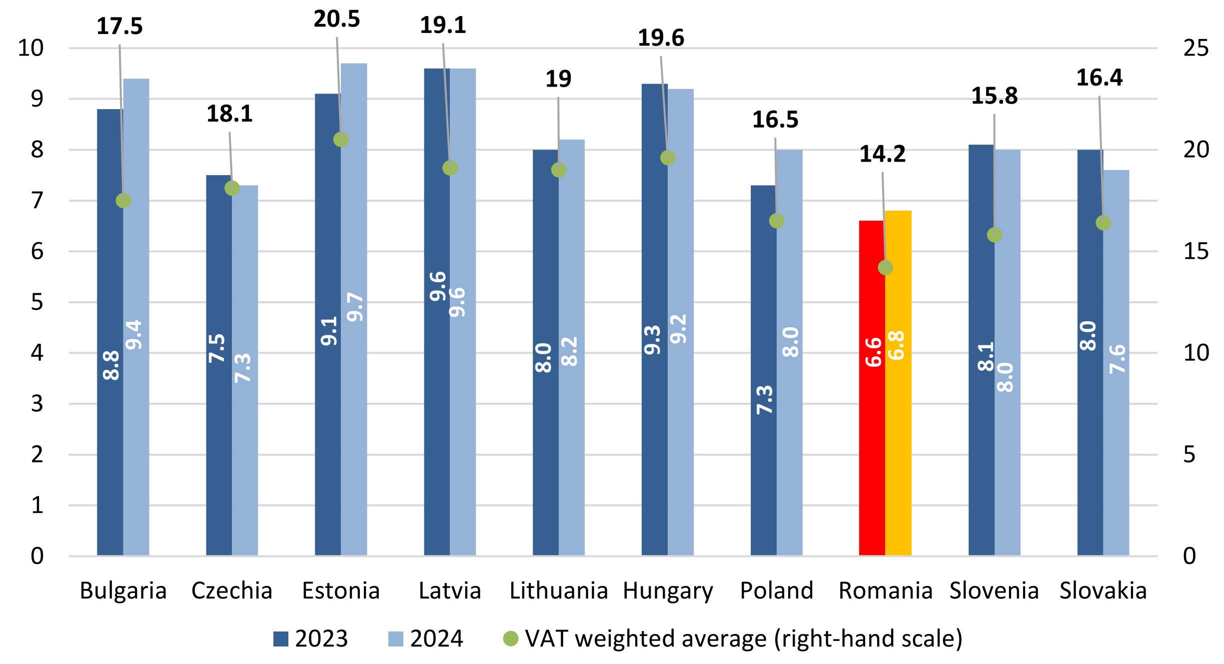
From the perspective of the structure of tax revenues, the share of indirect tax revenues in Romania remains in 2024 at a level higher than the European average (35.8% compared to 27.6%), but below the level recorded by Croatia (48.6%), Hungary (46.1%) and Bulgaria (45.8%). The share of social security contributions in tax revenues reached a level of 42.6%, above the EU average of 37.1%. Based on this indicator, Romania ranks 6th in the EU27 (compared to 5th in 2023), after the Czech Republic (46.3%), Slovakia (46.2%), Slovenia (46.1%), Germany (44.2%) and Poland (43.9%). In terms of direct taxes, Romania has one of the lowest shares in tax revenues in the EU[79], namely 21.7%, compared to 20.6% in 2023, now 13.6 pp below the EU27 average, compared to 14.6 pp in 2023.

Thus, the structure of tax revenues in Romania remained in 2024 mainly oriented towards indirect taxes and social security contributions – summed up, these represent 78.4% of tax revenues, 2nd place in the EU27, after Croatia, and 13.6 pp above the EU average. In contrast, at the European level, a richer composition of tax revenues in direct taxes and social security contributions is observed, the share of indirect taxes being lower (respectively, an EU average of 35.3%, 37.1% and 27.6%).

A brief analysis is presented below from the perspective of the collection of VAT and social security contributions revenues in Romania, compared to the CEE states. Compared to similar CEE economies, Romania has an unsatisfactory degree of VAT revenue collection (*Figure 38*). Thus, similar to previous years, from the perspective of the share of VAT revenues in GDP and the level of the weighted average VAT rate, Romania ranked last among the CEE states in 2024 as well.

[79] The reduction in income tax from 16% to 10% in 2018 contributed to this result.

Figure 38: VAT revenues in 2024 compared to the previous year (% of GDP)



Source: EC, Eurostat

At a weighted average VAT rate of 14.2% (compared to a legal rate of 19%), Romania collected about 6.8% of GDP from VAT, 1.2 pp of GDP behind Slovenia, which collected 8% of GDP at a weighted average VAT rate of 15.8% – Slovenia was chosen for comparison because, among the CEE countries, it is the closest to Romania in terms of the weighted average VAT rate.

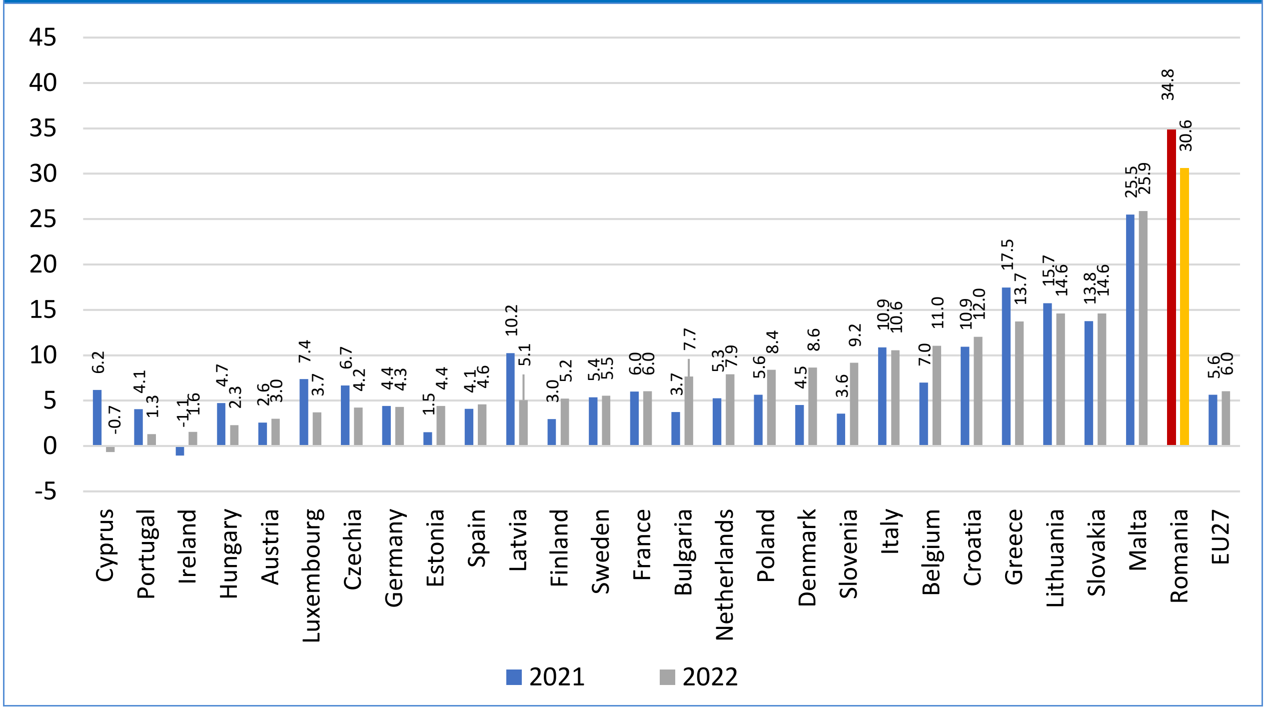
The performance of Bulgaria, with a relatively similar economic structure to that of our country and a weighted average VAT rate of 17.5%, which collected 9.4% of GDP, is noteworthy. Bulgaria was only surpassed by Estonia, with 9.7% of GDP (the highest share), at a weighted average VAT rate of 20.5% (the highest among the CEE states), and by Latvia, with 9.6% of GDP, at a weighted average VAT rate of 19.1%, but surpassing countries with higher average VAT rates, such as Hungary, Lithuania and the Czech Republic.

VAT revenues are affected by the VAT gap[80], an indicator that measures the effectiveness of measures to ensure compliance and conformity with VAT legislation. It is calculated as the difference between the VAT revenues theoretically estimated to be collected (VTTL, amounts owed by economic agents, under conditions of full compliance) and those actually collected by the tax administration. According to the

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

most recent assessments (October 2024) from the EC[81] annual study on this indicator, for 2022, a VAT collection deficit of around 8.5 billion euros was estimated for Romania, respectively, a share of 30.6% of the theoretically estimated revenues to be collected, the highest value in the EU (*Figure 39*).

Figure 39: VAT gap (% of VTTL)



Source: EC, VAT Gap in the EU Report 2024

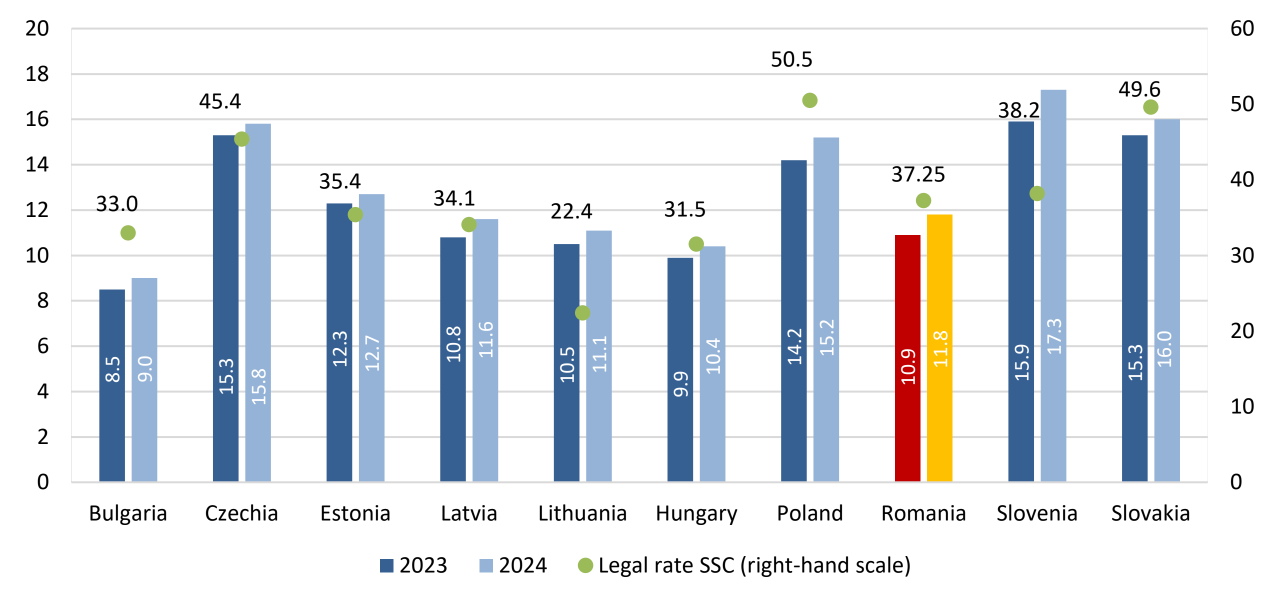
Compared to the previous year, the deficit in Romania decreased by 4.2 pp, with reductions also recorded by other states, such as the Czech Republic (-2.4 pp), Greece (-3.8 pp) or Latvia (-5.2 pp). However, most EU27 countries recorded increases in the VAT collection deficit (Bulgaria +3.9 pp, Estonia +2.9 pp, Poland +2.8 pp, Slovenia +5.6 pp), the EU27 average increasing by 0.4 pp (to 6%, from 5.6%).

The excessive deficit recorded in VAT collection in Romania (about 5 times higher than the EU average) is determined, in particular, by the poor computerization of NAFA. Modern solutions, specific to digital transformation, which have been applied for several years in most EU countries, have been implemented in Romania only partially and with great delays.

From the perspective of revenues collected from social security contributions paid by employees and employers (expressed as a share of GDP), compared to the same set of countries, Romania is positioned in the middle of the ranking, with a relatively low level of collection compared to the legal social contribution quota (*Figure 40*).

[81] European Commission: Directorate-General for Taxation and Customs Union, Centre for Social and Economic Research (CASE), Oxford Economics, Syntesia, Bonch-Osmolovskiy, M. et al., The VAT Gap in the EU – 2024 report, Poniatowski, G. (editor), Publications Office of the European Union, 2024, https://data.europa.eu/doi/10.2778/2476549

Figure 40: Social security contribution revenues in 2024 (% of GDP)



Source: EC, Eurostat, Taxes in Europe Database

In 2024, SSC revenues recorded an upward trend compared to the previous year (+0.9 pp of GDP), reaching a level of 11.8% of GDP, at a legal rate of 37.25%, which is the fourth largest among the analysed countries (after Poland, Slovakia, the Czech Republic and Slovenia). However, the revenues collected are superior only to Bulgaria (9% of GDP, at a legal rate of 33%), Hungary (revenues of 10.4% of GDP, at a legal rate of 31.5%), Lithuania (11.1% of GDP, at a legal rate of 22.4%) and Latvia (11.6% of GDP, at a legal rate of 34.1%).

On the other hand, Estonia (12.7% of GDP) surpassed Romania, given that the legal share of social security contributions is lower (35.4%), and Slovenia, which ranks first, recorded revenues of 17.3% of GDP (5.5 pp of GDP higher than Romania), at a legal share of 38.2%.

Romania's positioning among the last countries in the EU27, in terms of budget and tax revenues expressed as a share of GDP, is the effect of an expansionist fiscal policy, of errors in the construction of the fiscal regime and of an insufficiently modernized fiscal administration apparatus, with slow and partial reforms.

The reform of NAFA through digitalization, provided for in the NRRP, starts from the recognition that, in order to correct the budget deficit, there is a need to quickly streamline the activity of collecting public revenues and improve the relationship with taxpayers. The reform plan is built on two directions – increasing voluntary compliance by developing digital services (priority digital interaction, through the VPS (Virtual Private Space) and by using pre-filled forms, where possible; creating a mechanism for assessing taxpayers' satisfaction in their relationship with NAFA and their permanent consultation) and improving tax and duty administration processes, including by implementing integrated risk management (reducing the level of non-compliance, among other things, by interconnecting the IT systems of the Ministry of Finance/NAFA with the corresponding ones of the European Commission and with those of the tax administrations of the Member States).

From the perspective of the Digital Economy and Society Index (DESI, see *Box 1*), according to the Report prepared by the EC in 2025[82], Romania has registered some progress (see *Box 2*), but remains among the last countries in the EU.

Analysing the structure of the digital skills axis, Romania is below the EU average in all indicators. A level close to the EU average (90.4%, compared to 91.7%) is recorded in terms of the internet usage indicator. On the other hand, important gaps are recorded in basic digital skills (27.7% versus 55.6%) and in digital skills above the basic level (9% versus 27.3%). Thus, sustained efforts are needed to improve the digital skills of the population.

Regarding the *digital infrastructure* axis, Romania records a favourable situation in connectivity, with 95.9% of households having access to very high capacity fixed networks, above the EU average of 82.5%, to broadband services of at least 100 Mbps (96.9%, compared to 71.9%), to internet use of at least 1 Gbps (34.2%, compared to 22.3%), and to mobile broadband use (88.5%, compared to 89.9%). However, overall 5G coverage is only 46.7%, well below the EU average of 94.3%, and 5G spectrum at 38.3%, compared to the EU average of 74.6%. A number of measures have been implemented in previous years and are expected to lead to progress in this area, in particular the new 5G network security law, as well as the implementation of various recommendations set out in the EU connectivity instruments.

The axis of *integrating digital technology into business*, although it has registered progress, remains a major challenge for Romania, with all indicators below the EU average, with notable differences in electronic information sharing (21.4%, compared to 42.1%), artificial intelligence (2.8%, compared to 12.6%), SMEs selling online (13.5%, compared to 20.1%), and e-commerce turnover (8.7%, compared to 12.4%). Several measures currently being implemented are expected to lead to progress in this area, including a support scheme under the NRRP, aimed at the development and adoption of digital technologies by SMEs, and a measure financed by the European Regional Development Fund (ERDF), aimed at the development of innovation clusters.

[82] https://digital-strategy.ec.europa.eu/en/library/state-digital-decade-2025-report. The data is for the year 2024.

Box 1: Digital Economy and Society Index (DESI)[83]

The DESI report monitors the overall digital performance of the EU, tracking the progress made by Member States towards a digital economy and society. Starting in 2021, the DESI composite index had 4 major axes (instead of 5 axes in 2014-2020), in line with two policy initiatives with a major impact on the digital transformation: the Recovery and Resilience Facility and the Digital Decade Compass. From 2023[84], DESI provides a multidimensional and detailed picture of the annual progress towards the objectives of the Digital Decade 2030, structured on 4 main axes and sub-domains that are relatively similar from year to year, which we briefly present below, according to the DESI 2025 methodological note:

1. ***The digital skills*** axis is structured on the following sub-domains: internet use, at least basic digital skills, digital skills above the basic level, enterprises offering ICT training, ICT specialists;

2. ***The digital infrastructure*** axis is structured on the following sub-domains: use of fixed broadband services of at least 100 Mbps, use of services of at least 1 Gbps, coverage of fixed very high capacity networks (VHCN), coverage of fibre optic networks to the inside of the building (Fibre to the Premises – FTTP), use of mobile broadband, general 5G coverage, 5G coverage in the 3.4-3.8 G band, 5G spectrum, 5G SIM cards, estimated number of edge nodes deployed;

3. ***The axis integrating digital technology into business*** is structured on the following sub-domains: SMEs with at least a basic level of digital intensity, electronic information sharing, big data analysis, cloud technology, artificial intelligence, AI/cloud/data analysis, number of unicorns, SMEs selling online, e-commerce turnover;

4. ***The axis digitizing public services*** is structured on the following sub-domains: e-government users, digital public services for citizens, digital public services for businesses, pre-filled forms, transparency of service provision, design and personal data, user support, compatibility with mobile devices, access to electronic health records.

The DESI report for 2025 (published in June 2025) includes an analysis of digital policies at the level of each member state, providing details on the structural elements and progress in the digitalization of the economy and society, identifying performances and those aspects that require improvement efforts.

[83] Box developed on the basis of the Methodological Note on DESI 2023.

[84] Commission Implementing Decision (EU) 2023/1353 of 30 June 2023 establishing key performance indicators to measure progress towards the digital objectives set out in Article 4(1) of Decision (EU) 2022/2481 of the European Parliament and of the Council.

Box 2: Structural situation of the DESI index, Romania versus EU 27, in 2025[85]

Subdomains	RO	EU27	unit of measurement	Axis
Internet use	90.4	91.7	% of population	1. Digital skills
At least basic digital skills	27.7	55.6		
Digital skills above basic level	9.0	27.3		
ICT specialists	2.8	5	% of total employment	
Companies offering ICT training	12	22.3	% of enterprises	
Use of fixed broadband services of at least 100 Mbps	96.9	71.9	% of fixed broadband internet subscriptions	2. Digital infrastructure
Use of services of at least 1 Gbps	34.2	22.3	% of households	
Coverage of fixed very high capacity networks (VHCN)	95.9	82.5		
Coverage of fibre to the premises (FTTP)	95.7	69.2		
Use of mobile broadband	88.5	89.9	% of population	
Overall 5G mobile broadband coverage	46.7	94.3	% of households	
5G coverage in the 3.4-3.8G band	32.8	67.7		
5G spectrum	38.3	74.6	% of total 5G harmonized spectrum	
5G SIM cards	15	35.6	% of total population	
Estimated number of edge nodes deployed	11	2257	Number of edge nodes	
SMEs with at least a basic level of digital intensity	69.1	72.9	% of SMEs	3. Integrating digital technology into business
Electronic information sharing	21.4	42.1		
Big data analytics	Missing data	Missing data	% of enterprises	
Cloud technology				
Artificial intelligence	2.8	12.6		
AI/cloud/data analytics	Missing data	Missing data		
Number of unicorns	0	286	Number of unicorns	
SMEs selling online	13.5	20.1	% of SMEs	
E-commerce turnover	8.7	12.4	% of turnover	
E-Government Users	26.9	74.7	% of Internet users	

[85] The subdomains have been updated according to the DESI 2025 Methodological Note, developed by the EC and published on June 16, 2025 (https://digital-strategy.ec.europa.eu/en/library/digital-decade-2025-desi-methodological-note).

Digital Public Services for Citizens	62.7	82.3	Score (0 to 100)	4. Digitalization of public services
Digital Public Services for Businesses	55.1	86.2		
Pre-filled Forms	24.4	70.1		
Transparency of Service Delivery, Design and Personal Data	43.1	69.5		
User Support	71.7	88.7		
Mobile Compatibility	85.5	96.1		
Access to Electronic Health Records	75.1	82.7		

Regarding the *digitization of public services* axis, here too all the indicators related to Romania are below the EU average. Significant gaps are recorded in the use of e-government services by internet users (26.9%, compared to 74.7%), in the availability of digital public services for citizens (score of 62.7, compared to the EU average of 82.3) and for businesses (score of 55.1, compared to the EU average of 86.2), in the use of pre-filled forms (score of 24.4, compared to the EU average of 70.1), as well as in the transparency of service provision, design and personal data (score of 43.1, compared to the EU average of 69.5).

The progress report on the achievement of the Digital Decade objectives notes that Romania has made significant progress in digitalisation, but remains marked by strong contrasts between areas where it excels and those where significant delays persist. Of the progress, the strongest remains fixed connectivity, where Romania continues to rank among the top EU countries. The fixed Very High Capacity Network (VHCN) covers almost 96% of households, including in rural areas, and Romania has the highest high-speed internet take-up rate (>100 Mbps) and ranks third in the EU for ultra-fast connections (>1 Gbps). This solid infrastructure provides an essential foundation for the digitalisation process.

Regarding the digitalization of public services, Romania is making important steps, confirmed by DESI scores for digital services for citizens and businesses that have increased significantly in the last year, along with access to electronic health records, even if gaps persist in complete data coverage and in the integration of healthcare providers.

Despite this progress, Romania continues to be the last Member State in terms of basic digital skills. Only 27.7% of Romanians have these skills, well below the European average. Despite efforts to integrate digital education in schools and increased budget allocations, a major gap persists, especially among the adult population and in rural areas. Another important weakness is the delay in the implementation of 5G technology. With a coverage of only 46.7% in 2024, Romania remains far behind the European average (94.3%). This delay, both in terms of network coverage and spectrum allocation, limits the potential for digitalization in certain industrial sectors, where 5G could bring significant advantages. Digitalization of the business environment is another challenge. Romanian companies insufficiently integrate new digital technologies into their processes, and the use of artificial intelligence and data analysis tools remains at extremely low levels, compared to the European average.

Regarding the progress of NAFA digitalization, one of the notable achievements is the implementation of the Virtual Private Space (VPS) – a central interaction platform that became in 2024 the main digital channel through which taxpayers interact with NAFA, recording a constant increase in users and exceeding the threshold of 8 million active accounts, including individuals, companies and independent professionals. However, the VPS interface remains criticized by users for its lack of ergonomics and difficulty in use, especially for people less familiar with technology. The implementation of the e-Invoice system, starting with January 1, 2024, is also an important achievement in the digitalization process of NAFA, the system being operational and starting to prove its usefulness in increasing the traceability of economic transactions. However, for many companies, the integration of e-Invoice into their own accounting systems involved significant costs and technical efforts, which generated dissatisfaction, especially among SMEs.

SAF-T (Standard Audit File for Tax) reporting became mandatory for large companies in 2024 and has started to be gradually extended to medium-sized taxpayers. NAFA uses the collected data for tax risk analysis and more efficient selection of tax inspections, which marks an important step towards a modern and predictable tax administration. However, SAF-T represents a major challenge for taxpayers, as it involves extracting and structuring large volumes of data from accounting systems, requiring investments in software and tax consultancy. Progress is also being made in the digitalization of NAFA's internal processes in terms of integrating tax databases with other state institutions, in order to simplify controls and reduce bureaucracy.

However, there are a number of challenges and limitations regarding the digitalization of NAFA, among the most important being: the uneven use of digital services, with a significant gap between large taxpayers, familiar with digitalization, and individuals or small businesses, especially in rural areas, where the degree of use of VPS and other digital services remains low; technical and ergonomic problems of NAFA's digital platforms, which suffer from excessive loads during peak periods, generating blockages, the interfaces are not always intuitive, and the administrative language used is often difficult to understand for ordinary users; lack of specialized human resources, with NAFA facing a shortage of IT specialists and an acute need for well-trained personnel in new digital applications, aspects that limit the speed with which the institution can implement new projects and improve existing systems; incomplete integration of digital tax controls, with inspections remaining largely traditional, based on physical checks and printed documents.

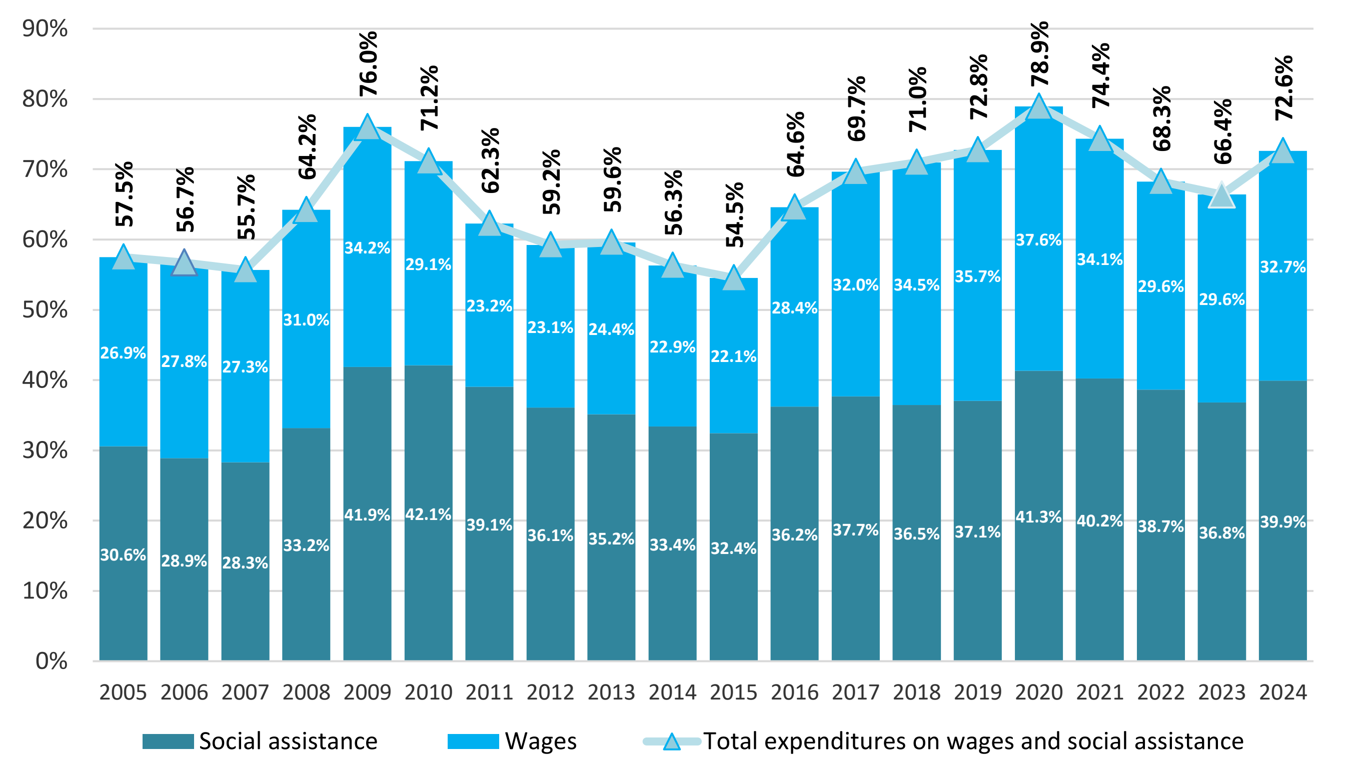
Given the high level of the budget deficit in Romania, well above the limits set by the SGP, and the urgent need to correct it to avoid a downgrade of the sovereign rating and blocking access to financing, government authorities must prioritize the digitalization of NAFA as an essential lever for increasing tax revenues by improving collection.

V.2. Public expenditures – structure and sustainability

In Romania, the structure of budget expenditures continues to be characterized by the preponderance of expenditures on wages and social assistance (pensions, social benefits etc.). Although their relative importance significantly decreased between 2011-2015, as a result of the fiscal consolidation process, with 2015 representing the lowest period analysed, a strong reversal of this evolution was recorded in the 2016-2020 period (see *Figure 41*). Thus, at the end of 2020, the share of expenditures on wages and social assistance in budget revenues was higher by about 24.5 pp compared to 2015, reaching the level of 78.9%. This applies to the maximum of the analysed period. In the 2021-2023 period, there is a trend towards an increase in the share of expenditures on salaries and social assistance in total budget revenues, reaching 66.4% of budget revenues in 2023. The year 2024 brought a reversal of this pattern, with the share of wage and social assistance expenditures in budget revenues increasing by 6.2 pp compared to 2023. The evolution was determined by measures to increase public sector wages, to which the indexation and recalculation of public system pensions were added. In this context, in 2024, the nominal growth of budget revenues was only 10%, and the growth rate of nominal wage and social assistance expenditures was 20.3%.

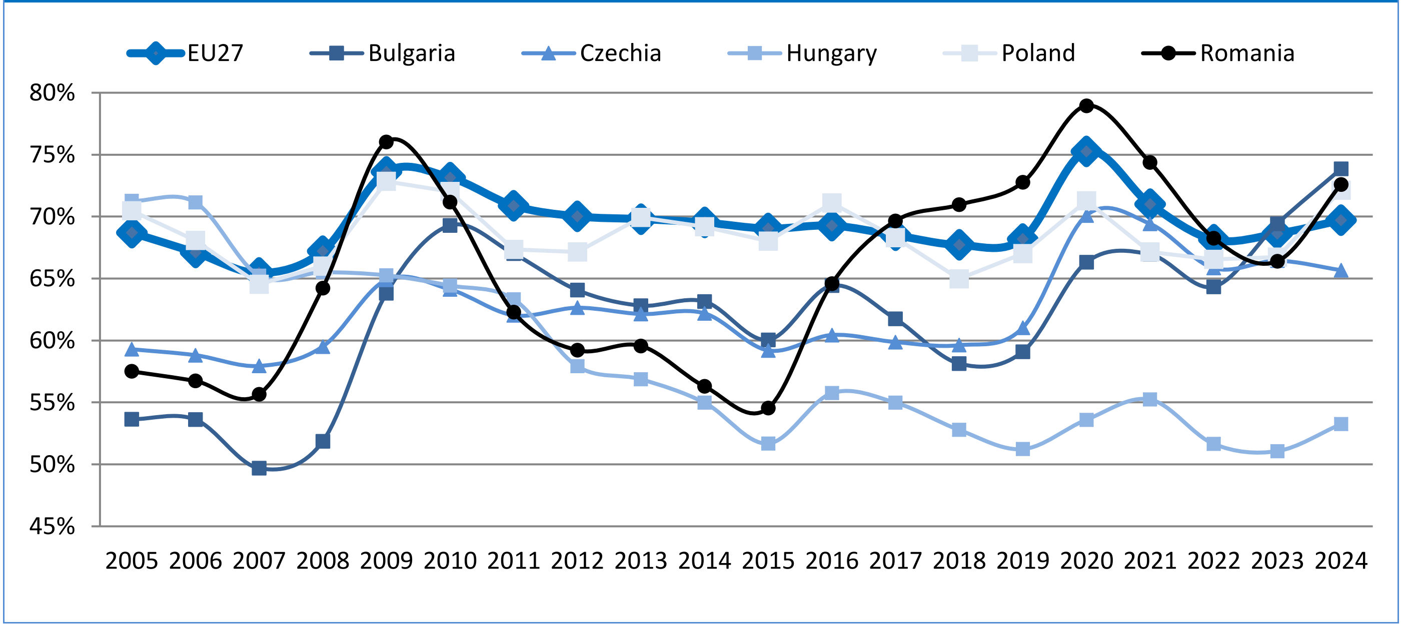
The analysis by components shows that, in 2024, both the share of wage expenditure in total budget revenues (32.7%) and that of social assistance expenditure (39.9%) are slightly above the averages of the 2008-2010 period (31.4% and 39%, respectively), but are significantly higher than the averages of the fiscal consolidation period between 2011 and 2015 (23.2% and 35.2%, respectively). Compared to the 2016-2020 period, in which the expansionary fiscal policy led to an increase in the average shares of the two categories of expenditure, and the Covid-19 pandemic amplified this effect, in 2024, the share of wage expenditure was below the average of that period (33.6%), and the share of social assistance expenditure was above the average of that period (37.8%). The wide variation in the shares of the two categories of expenditure in budget revenues, during the analysed period, reflects the discretionary nature of the policies for increasing salaries and indexing pensions in the public system. Anchoring them in transparent rules, correlated with the evolution of economic activity and purchasing power, is necessary to ensure the long-term sustainability of public finances.

Figure 41: The evolution of social assistance and personnel expenditures as a share of total budget revenues in Romania during 2005-2024 (ESA 2010, %)



Source: Eurostat

Figure 42: The share of personnel and social assistance expenditures (including pensions) in total budget revenues in EU27 and CEE between 2005-2024 (ESA 2010, %)



Source: Eurostat

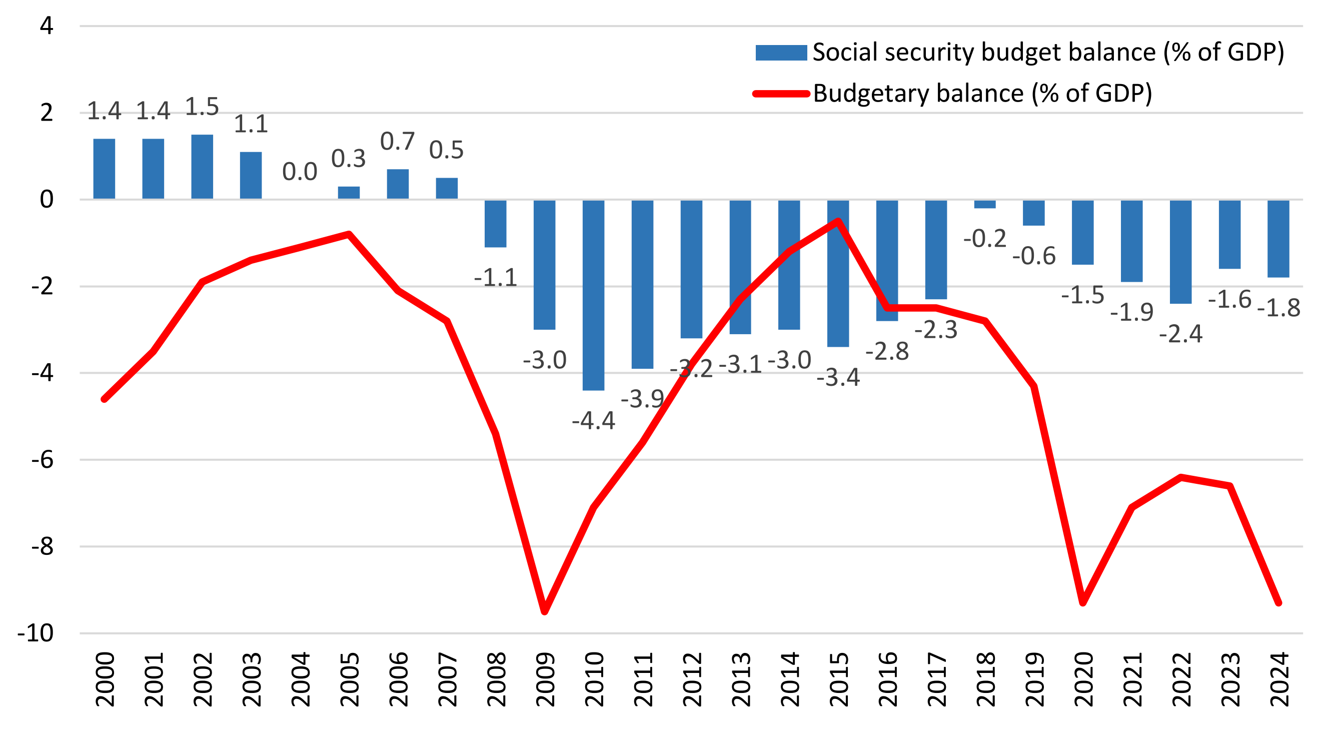
During the analysed period, it is observed that, after a relatively stable evolution compared to budget revenues, before 2007, in Romania, expenses on salaries and pensions increased at an alert pace during the 2008-2010 [86] period, reaching 76% in 2009, the highest level in the region. Following the implementation of the fiscal consolidation program, their share decreased significantly during the 2013-2015 period, to a level lower than the CEE countries, with the exception of Hungary. However, starting in 2016, amid the increase in public sector salaries and pensions, an upward trend was resumed, with the highest values in the region for wage and social assistance expenditures relative to budget revenues recorded in 2018-2020 (71% in 2018, 72.8% in 2019 and 78.9% in 2020), exceeding the EU27 average (see *Figure 42*). Starting in 2021, this growth trend was reversed, and wage and social assistance expenditures entered a downward trajectory. However, this evolution ended in 2024, when the share of wage and social assistance expenditures in total budget revenues increased sharply by 6.2 pp compared to 2023.

Increasing trends in the share of the two categories of expenditure in budget revenues were also recorded in Bulgaria (+4.5 pp), Poland (+5.5 pp) and Hungary (+2.2 pp). In a regional comparison, at the end of 2024, Romania (72.6%) is below Bulgaria (73.8%), at a level close to Poland (72.1%) and above the EU27 average (69.7%). In the region, in 2024, the lowest share of the two categories of expenditure in budget revenues was recorded in Hungary (53.2%). In the case of our country, the evolution of the shares is also affected by the fact that budget revenues, expressed as a percentage of GDP, are the lowest compared to CEE countries. Specifically, in 2024, the share of budget revenues in GDP in Romania was 34.1%, in Bulgaria 36.7%, in the Czechia 40.8%, in Hungary 42% and in Poland 42.8%, while the EU27 average is 46%.

Regarding the evolution of social security budgets (pensions, unemployment and health, see *Figure 43*), it is observed that, if in the 2000-2007 period they were characterized by a predominantly surplus balance, after 2008 they switched to deficit and came to represent an important component of the total deficit, respectively between 62% and 92% in the 2010-2017[87] period. In 2019, the deficit of social security systems represented 14% of the total budget deficit, as a result of fiscal measures to reallocate taxation, materialized in the increase in taxation through social security contributions. In the 2020-2022 period, a trend of amplification of the deficit of social security systems can be observed, reaching a share of 37.5% of the budget deficit in 2022. In 2023, the share of the social security budget balance in the budget deficit improved by about 13.3 pp compared to the previous year, reaching almost 24%, and in 2024 it decreased to 19%, despite a more rapid increase in the share of expenditures in GDP (+1.1 pp), compared to that of the share of revenues in GDP (+0.9 pp). This trend was determined by a larger increase in the budget deficit (+2.7 pp), compared to the deficit of social security budgets (+0.2 pp).

[86] Respectively, an average of their share in total budget revenues of 70.5%.
[87] In the 2013-2016 period, exceeding the budget deficit level.

Figure 43: Social security budget balance (pensions, unemployment and health) and total budget balance in the period 2000-2024 (ESA 2010, % of GDP)



Source: Eurostat

In 2024, the share of public investment expenditure, according to the European methodology, was 5.7% of GDP[88], higher than in the previous year by 0.3 pp, maintaining the upward trend that began in 2021. Compared to 2015[89], in 2024, public investment expenditure as a percentage of GDP was higher by 0.5 pp. From the perspective of this indicator, Romania occupied, in 2024, 2nd place in the EU27, after Estonia, respectively ninth position if we consider the average investment expenditure in the 2012-2024 period, of 4.2% of GDP (see *Figure 44*).

The share of public investment expenditure in total budget revenues in 2024 (16.8%) was 1 pp higher than the previous year and 2.1 pp higher than 2015. In the EU27, from the perspective of the share of investment in budget revenues, Romania ranks first and third if we consider the average investment expenditure in the 2012-2024 period. At the same time, it should be noted that, during the analysed period, European funds played an important role in supporting public investment expenditure.

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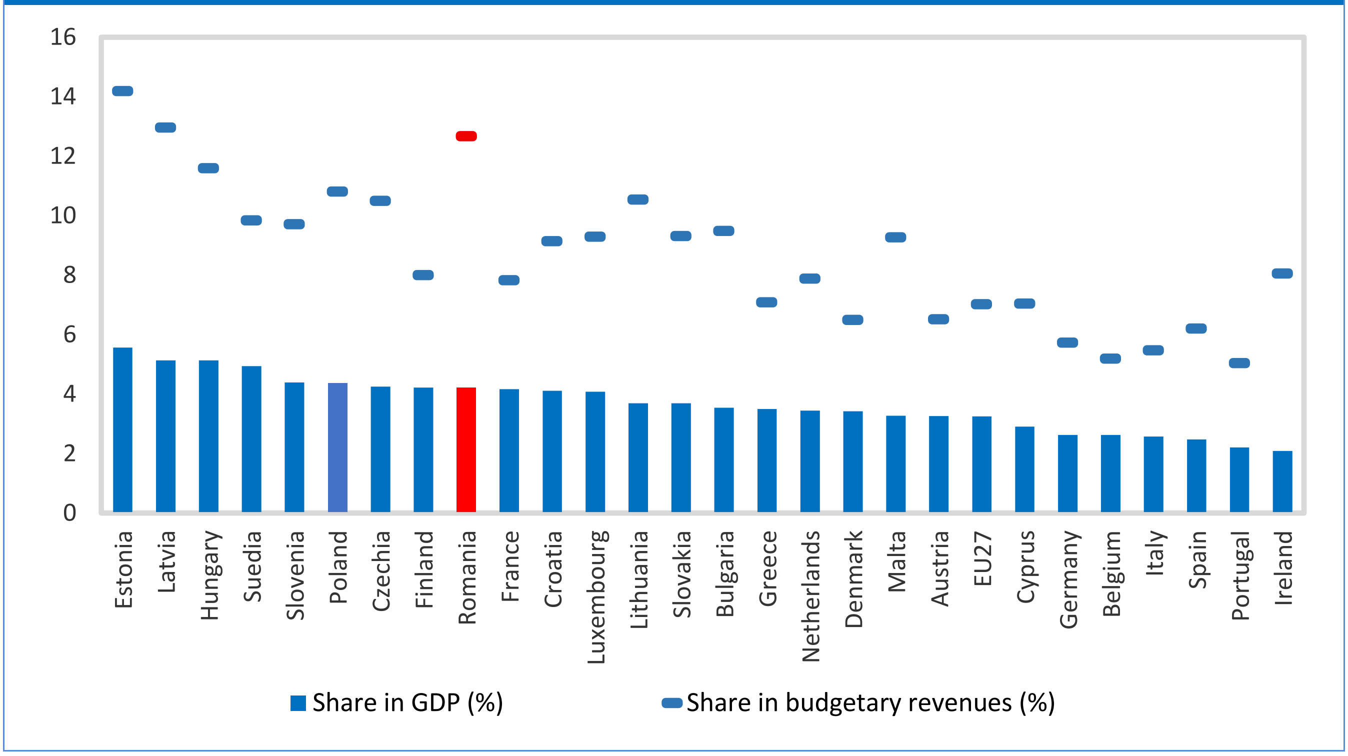
[88] Investment expenditure, according to the ESA 2010 methodology, represents expenditure for gross fixed capital formation. This indicator is used at EU level and can be a comparative reference for investment expenditure in the Member States. The differences between the level of investment expenditure according to the cash methodology and, respectively, according to the European methodology generally stem from the different way of recording arrears, defence expenditure, as well as some categories of non-reimbursable external funds.

[89] The year 2015 was the first year after 2008 in which public investment expenditure increased as a percentage of GDP compared to the previous year, given that this year was the deadline for attracting European funds for the 2007-2013 financial year.

Figure 44: The share of investment expenditures in GDP and in total budget revenues (2012-2024 average, ESA 2010)



Source: Eurostat

VI. Medium term budgetary-structural plan and public debt sustainability

The overlapping crises of recent years have led to severe adverse shocks and high pressure on national budgets in most EU Member States. In Romania, under pro-cyclical fiscal policies, the growth trajectory of the budget deficit has been higher than in other Member States, being amplified by the 2024 electoral cycle. In this context, the EC assessments, as well as those of the rating agencies, indicate a public debt dynamics that is not sustainable in the long term, with debt financing costs reaching high values, well above those specific to a country with an investment-grade rating.

In this context, budgetary correction is stringent, and, in the coming years, national fiscal rules and those of the new EU governance framework[90], adopted in April 2024, can represent credible anchors around which to build realistic annual budgets, which maintain investor confidence and ensure the sustainability of public debt.

The new economic governance framework of the European Union

The new EU governance framework maintains as its main references a budget deficit of less than 3% of GDP and a public debt of less than 60% of GDP. In order to increase transparency, simplify fiscal rules and ensure compliance with the two limits, the new framework proposes a single operational indicator – the net expenditure path.

In EU documents, there are two references for net expenditure. On the one hand, in Regulation (EU) 2024/1263, net expenditure is defined as public expenditure excluding interest expenditure, discretionary revenue measures, expenditure related to EU programmes that are fully covered by revenue from EU funds, national expenditure with co-financing of EU-financed programmes, cyclical elements of unemployment benefit expenditure, exceptional measures and other temporary measures. On the other hand, in the Debt Sustainability Monitor (2023), the determination of the net expenditure path through the Debt Sustainability Analysis (DSA) methodology is based on the structural primary balance. The existence of two calculation methods for net expenditure raises some questions regarding the comparability of the results obtained.

The EC transmits the net expenditure path to countries with public debt above 60% of GDP and/or a budget deficit above 3% of GDP. After a technical dialogue with the EC, all Member States, including those with budget deficits and public debt below the mentioned thresholds, will transmit a medium-

[90] It is based on three documents: (1) Regulation (EU) 2024/1263 on effective coordination of economic policies and multilateral budgetary surveillance and repealing Regulation (EC) No 1466/97; (2) Regulation (EU) 2024/1264 amending Regulation (EC) No 1467/97 on speeding up and clarifying the application of the excessive deficit procedure; (3) Directive (EU) 2024/1265 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States.

term budgetary and structural plan[91] (MTP), based on the net expenditure path[92] and the measures necessary for its implementation. The MTP covers a period of four years. This period can be extended to seven years, subject to the undertaking of additional reforms and investments that will support economic growth, fiscal sustainability, EU priorities and country-specific recommendations. The Commission assesses the MTP and submits a recommendation to the EU Council, which approves the MTP or may request its revision.

The governance framework sets out a series of requirements that compliance with the net expenditure path and the MTP must ensure: (i) by the end of the adjustment period, in the absence of additional budgetary measures, the expected public debt ratio is placed on or remains on a plausible downward path or remains at prudent levels below 60% of GDP over the medium term; (ii) the expected public deficit falls below 3% of GDP during the adjustment period and is maintained below that reference value over the medium term, in the absence of additional budgetary measures; (iii) the budgetary adjustment effort over the MTP period is, as a rule, linear and at least proportional to the total effort over the entire adjustment period.

The assessment of the plausibility of the downward debt path is carried out based on the criteria mentioned in the EC Debt Sustainability Monitor (Debt Sustainability Monitor, 2023). It uses the structural primary balance as the main reference for the fiscal adjustment. This implies targeting a structural primary balance such that, at the end of the adjustment period, two criteria are met: (i) the debt path is continuously declining (or remains 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 public debt-to-GDP ratio will decrease with a probability of at least 70%, in line with the threshold defined by the EC in the DSA methodology.

The regulations also establish a debt sustainability backstop and a deficit resilience backstop. The former ensures that compliance with the net expenditure path will lead to a decrease in the public debt-to-GDP ratio by an average annual value of at least: (i) 1 pp of GDP, if the public debt-to-GDP ratio exceeds 90%; (ii) 0.5 pp, if the public debt-to-GDP ratio is between 60% and 90%. The latter ensures that the budgetary adjustment continues, if necessary, until the Member State reaches a level of deficit that provides a resilience margin in structural terms of 1.5% of GDP compared to the 3% of GDP deficit reference value, and the annual improvement in the structural primary balance to reach the required margin must be 0.4

[91] The main elements included in the MTP concern: the net expenditure trajectory; the underlying macroeconomic assumptions and the planned budgetary-structural measures to comply with the limits and requirements regarding public debt and budget deficit; how the Member State will ensure the implementation of reforms and investments; the actions taken to follow up on the country-specific recommendations; the reforms and investments undertaken to extend the adjustment period to seven years; the impact of reforms and investments already carried out by the Member State concerned, paying increased attention to the impact on budget revenues and expenditures; other information on the main macroeconomic and budgetary assumptions, the impact of reforms and investments, public investment needs etc.

[92] Member States may base their budgetary-structural plan on a net expenditure trajectory higher than that transmitted by the EC, but, in this case, economic arguments, based on data, will have to be included in the plan to justify the difference.

pp of GDP and may be reduced to 0.25 pp of GDP in the event of an extension of the adjustment period to seven years.

In the new economic governance framework, the DSA methodology plays an important role in assessing compliance with the new fiscal rules. The EC highlights certain adjustments to this methodology, which is currently used to assess the trajectory of public debt and its response to various shocks, in order to be used to determine the trajectory of net expenditure (Debt Sustainability Monitor, 2023; Darvas et al., 2024[93]). Thus, the establishment of the trajectory of net expenditure, so as to achieve the objective of stabilising public debt, is carried out on the basis of the change in the structural primary balance, as follows:

Nominal growth in net primary expenditure = annual growth in potential GDP + GDP deflator – change in structural primary balance/share of primary expenditure in GDP

The evolution of public debt and its response to various shocks is assessed, through the DSA methodology, based on several scenarios: (i) the analysis of the adjustment scenario in the absence of shocks and based on the macroeconomic assumptions that determine the evolution of debt (real GDP growth rate, interest rates, inflation rates, primary balance, etc.); (ii) deterministic stress tests, in which the determinants of debt evolution are subjected to unfavourable shocks of a predefined magnitude; and (iii) stochastic analysis.

The adjustment scenario begins with the period of MTP implementation and is subsequently followed by a 10-year period, in which the hypothesis underlying the trajectories considers unchanged fiscal policies (no-policy change) and a series of assumptions regarding the dynamics of the variables included in the model[94]. In deterministic stress tests, the assessment of the public debt trajectory is carried out considering less favourable circumstances, compared to the baseline scenario: the scenario of a lower structural primary balance; the scenario of an adverse evolution of the real GDP growth rate compared to the real interest rate; the financial stress scenario. Through stochastic analysis, the uncertainty intervals associated with the evolution of public debt are estimated. Thus, stochastic analysis uses the basic projections regarding the basic variables included in the model, i.e. economic growth, interest rates or the costs of population aging etc. The probabilities of the evolution of public debt are estimated by applying shocks to the basic variables. The shocks are estimated based on the variance-covariance matrix, calculated taking into account historical quarterly data for the share of the primary balance in GDP, nominal GDP growth, short-term interest rate, long-term interest rate and, for countries outside

[93] Darvas, Z. M., Welslau, L., & Zettelmeyer, J. 2024. *The implications of the European Union's new fiscal rules* (No. 10/2024). Bruegel Policy Brief.

[94] For example, GDP growth over a T+10 horizon is based on the estimates of the European Commission's output gap working group. After this horizon, the methodology is based on macroeconomic projections of GDP and the cost of ageing, included in the Ageing Report. The value of the fiscal multiplier is equal to 0.75 for all EU Member States. Interest rates and inflation rates converge over a 10-year horizon to country-specific values, which reflect financial market expectations. After this horizon, they converge to values common to all countries, in line with the Ageing Report data for interest rates and central bank targets for inflation. The stock-flow adjustment is in line with the Commission's projection for T+2, and thereafter its value is zero.

the Eurozone, the exchange rate (these variables are included in the DSA equation, being considered the main elements of influence on public debt). Based on the historical distribution of shocks, 10,000 random shocks are applied to the underlying variables. The nature of the shocks is symmetric, i.e. the probability of a positive shock is similar to that of a negative shock. Additionally, through stochastic analysis, the EC assesses whether, under the conditions of a specific shock, the path of public debt will be decreasing with a probability of at least 70% in the 5 years following the adjustment period.

Each year, Member States submit to the EC an annual report on progress in implementing the MTP. The EC monitors the progress made by each Member State and, in particular, compliance with the net expenditure path and the reforms and investments that underpin the extension of the adjustment period. To this end, the EC will create a control account in which cumulative deviations from the path will be highlighted: expenditure deviations that are above the path will be recorded on the debit side, and expenditure deviations that are below the path on the credit side. The control account becomes an important reference in triggering the excessive deficit procedure. Thus, the EC will draw up a report, based on art. 126, para. 3, of the TFEU, in the situation where the share of public debt in GDP exceeds the reference value, the budgetary position is not close to balance or in surplus, and deviations in the control account exceed 0.3 pp of GDP on an annual basis or 0.6 pp of GDP on a cumulative basis. Following the report drawn up by the EC, the Council decides on the existence of an excessive deficit and makes recommendations to the Member State, setting a maximum period of 6 months for the adoption of effective measures and a deadline for the correction of the excessive deficit. The Member States shall submit to the Council a report on the measures adopted and the revenue and expenditure targets that correspond to the Council's recommendations. If, on the basis of the report submitted by the Member States, the Council decides that no effective measures have been taken to reduce the deficit, it shall adopt a notice requesting the implementation of a corrective path for net expenditure and shall indicate the measures that support the achievement of this path. The excessive deficit procedure shall be suspended if the Member State has complied with the Council's recommendations/notices. Otherwise, the Council may adopt sanctions under Art. 126, para. 11, of the TFEU.

As mentioned above, the new economic governance framework grants independent fiscal institutions an advisory role in advising on the macroeconomic forecasts and assumptions underlying the net expenditure path, in the analysis of the compliance of budgetary data with the net expenditure path and in the excessive deficit procedure. In addition, EU Directive 2024/1265 clarifies the functions and requirements associated with independent fiscal institutions, starting from the premise that they represent an important pillar of budgetary frameworks.

Expected dynamics of Romania's public debt in a no-policy change scenario

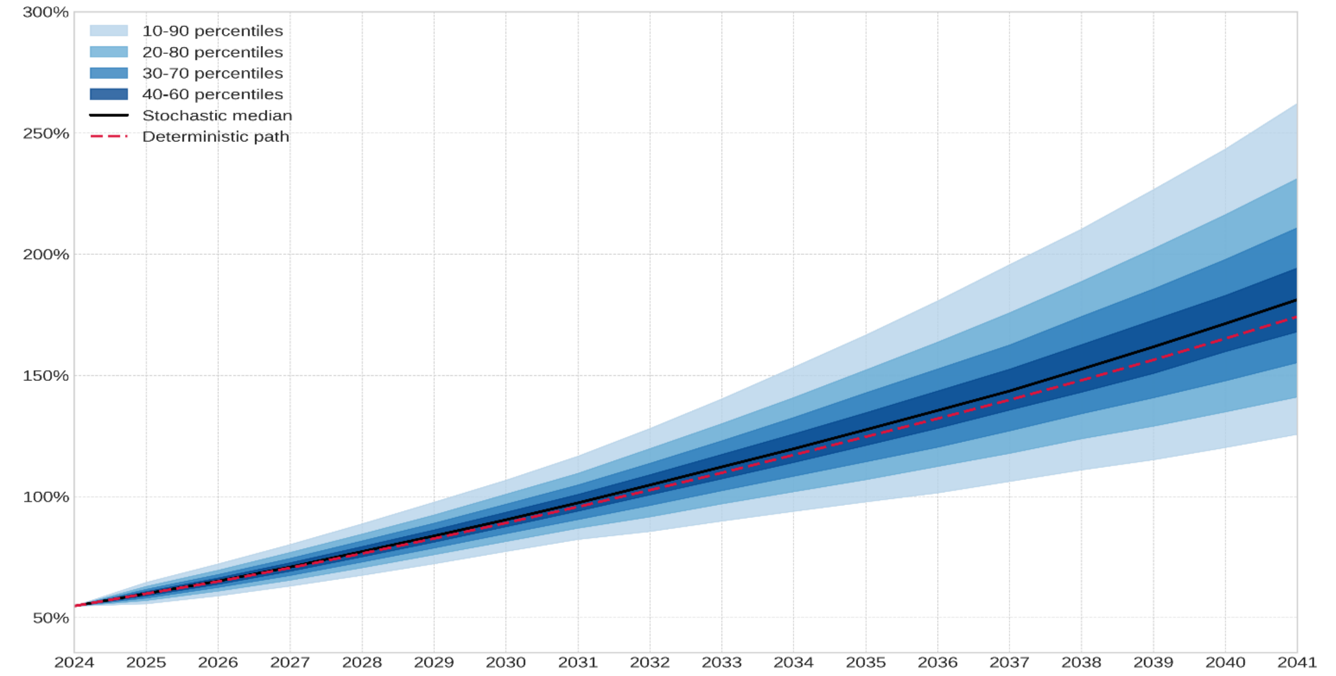
The pro-cyclical fiscal policies of recent years, materialized through increases in public spending, in conditions of low tax revenues, and through multiple derogations from fiscal rules, have led to a sharp increase in the budget deficit and put public debt on an upward trajectory.

In the long term, this trajectory is not sustainable. EC projections indicate, in a no-policy change scenario, reaching a public debt-to-GDP ratio of over 105% in 2035 (Debt Sustainability Monitor, 2024). Also, ratings agencies' assessments indicate that maintaining public debt sustainability is essential for maintaining the sovereign rating[95].

The projected trajectory of public debt, in a no-policy change scenario, using the DSA methodology, EC assumptions and the latest available data as of May 2025, is presented in *Figure 45*[96].

The projection results indicate an explosive dynamics of the public debt-to-GDP ratio, with average annual increases of over 6 pp. Thus, in the absence of budgetary correction measures, the public debt-to-GDP ratio will rise to around 60% in 2025, reach 83% in 2029, exceeding the current average of public debt-to-GDP in the EU (in 2024, the average public debt in the EU was 81%), and will exceed the 100% threshold in 2032, reaching around 103% of GDP. On a more distant horizon, the probable ranges of variation increase, reflecting high uncertainty. It is worth noting that, even in the most optimistic scenarios (corresponding to the 10th percentile), built on the basis of historical stochastic simulations, highlighted in the lower part of the probable variation range, public debt has a large upward trend, exceeding 100% in 2036.

Figure 45: Projected trajectory of Romania's public debt in a no-policy change scenario (% of GDP)



Note: The uncertainty ranges are determined based on 10,000 alternative paths for public debt generated by stochastic simulations. These use symmetric shocks, drawn from the historical distribution of key macroeconomic variables. The simulation period is comparable to the 7-year adjustment scenario, followed by a 10-year sustainability assessment period.

Source: CF own calculations based on the DSA replication code (Darvas et al., 2023)

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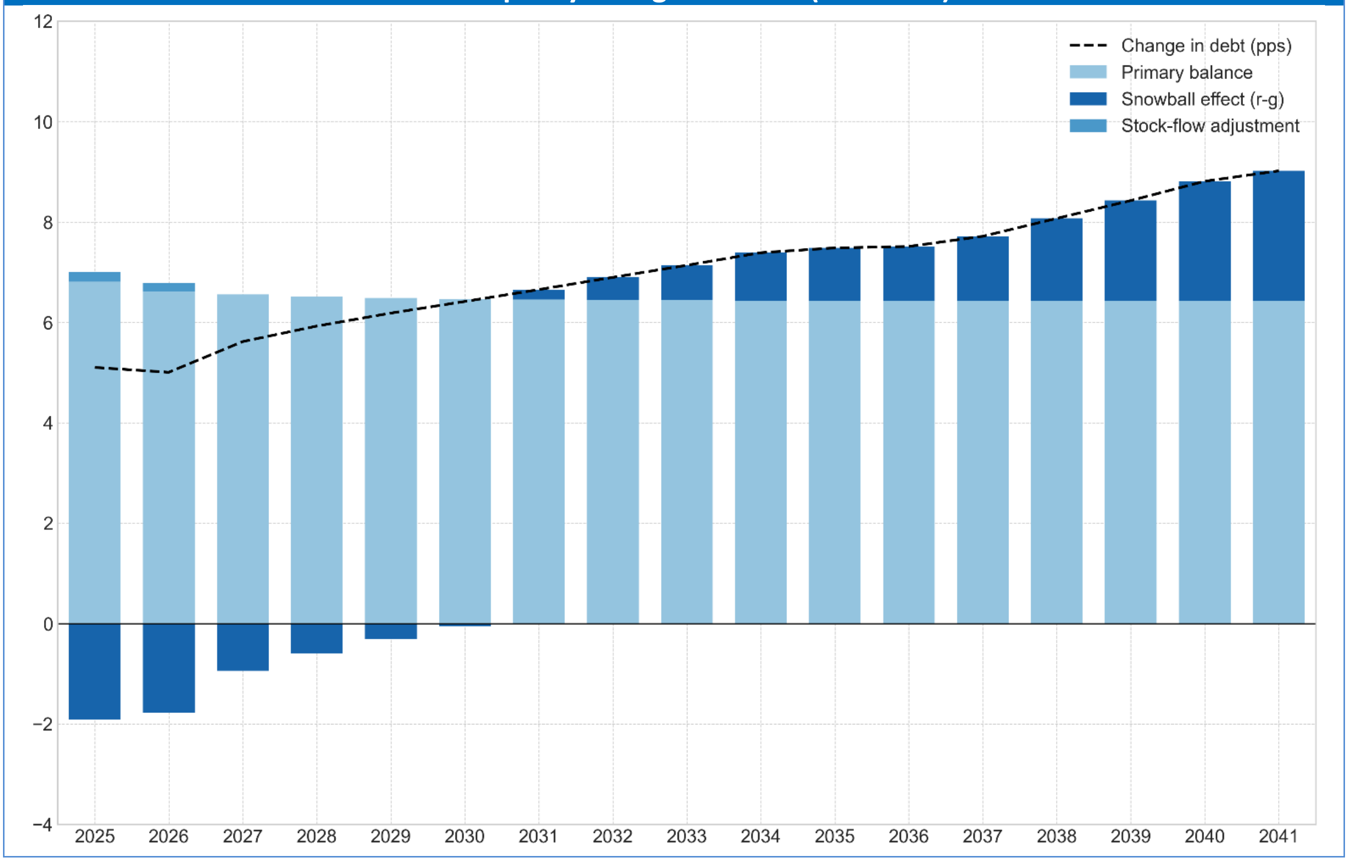
95 https://www.fitchratings.com/research/sovereigns/romanian-deficit-reduction-debt-stabilisation-remain-key-for-sovereign-rating-11-06-2025, https://ratings.moodys.com/ratings-news/439299

96 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.

The upward trajectory of public debt is also reflected in the increase in the gross financing need (represented by debt "rolling over" and deficit financing). Thus, in the no-policy change scenario, the financing need would reach about 26% of GDP in 2032, and obtaining such financing on international markets is not plausible.

The assumptions of the no-policy change scenario show that the main cause of the increase in public debt is the primary deficit, which varies around 6.5% of GDP over the entire projection horizon to reflect the assumption of maintaining the current situation, characterized by high permanent expenditures and insufficient tax revenues. In the early years of the projection, the differential between the interest rate and economic growth is favourable, mitigating the impact of the structural primary deficit on public debt (*Figure 46*). However, later, this differential decreases and becomes positive (the cost of debt is higher than nominal economic growth), contributing, in turn, to the positive variation of public debt. The other assumptions of the EC in the no-policy change scenario are relatively favourable: economic growth is positive, the trajectory of interest rates is downward, and the costs related to population aging are constant.

Figure 46: Decomposition of the projected change in public debt in a no-policy change scenario (% of GDP)



Source: CF's own calculations based on the DSA analysis replication code (Darvas et al., 2023)

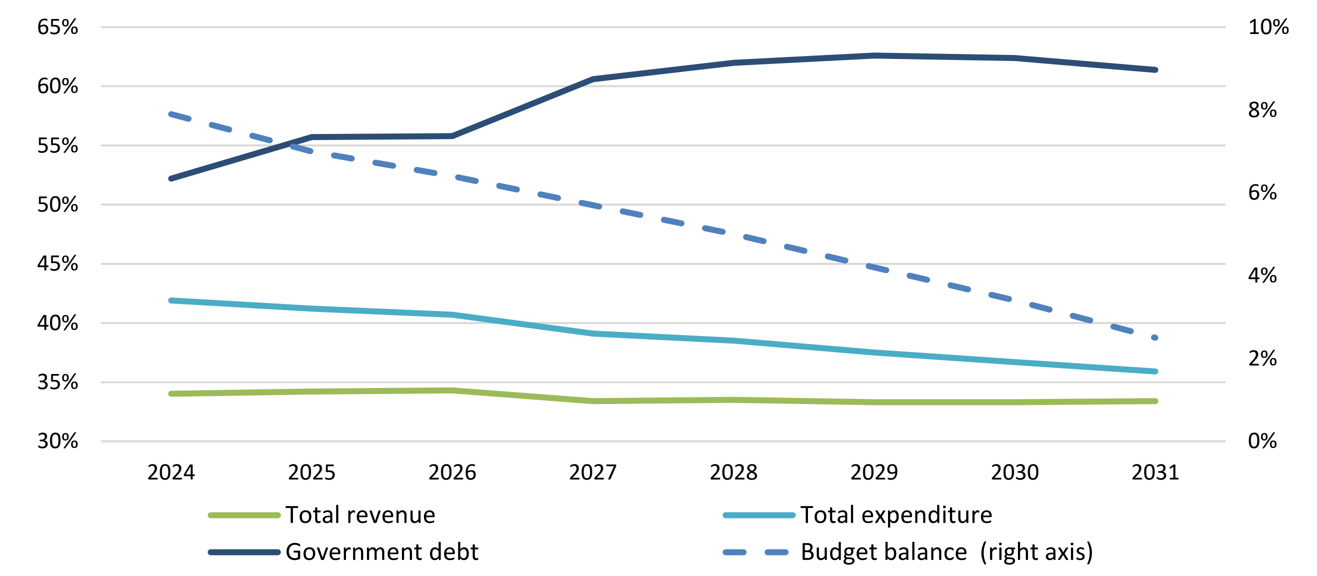
Although the exercise of projecting the long-term public trajectory is counterfactual, the no-policy change scenario being impossible given the explosive dynamics of public debt in GDP, it reveals the need to urgently adopt some corrective measures. Moreover, the real data from recent years also confirm the strongly upward trajectory of public debt (for example, the share of public debt in GDP increased to 56.6% in April 2025, compared to 54.8% in December 2024 and 48.9% in December 2023). In the absence of corrective measures, it is very likely that, in a short time horizon, the budgetary correction will be carried out by the markets. Such a correction would be severe, implying a sharp increase in sovereign yields, a depreciation of the national currency, high social costs and *ad-hoc* cuts in public spending.

Romania's Medium-Term Structural Budgetary Plan

In the new governance framework, the main mechanism for ensuring public debt sustainability lies in assuming and respecting the net expenditure trajectory, established by the MTP. Romania published the MTP in October 2024, and in November 2024, it was approved by the EU Council. The Romanian authorities defined in the MTP the measures, reforms and investments necessary to bring the deficit below 3% of GDP and reduce public debt and requested a 7-year adjustment period, subject to the assumption of additional reforms and investments. This extension of the adjustment period was approved by the EC. Over this horizon, the MTP envisaged the adjustment of the ESA budget deficit from a level, estimated at that time, of 7.9% of GDP for 2024, to 2.5% of GDP in 2031, with an average adjustment step of around 0.77 pp per year (*Figure 47*).

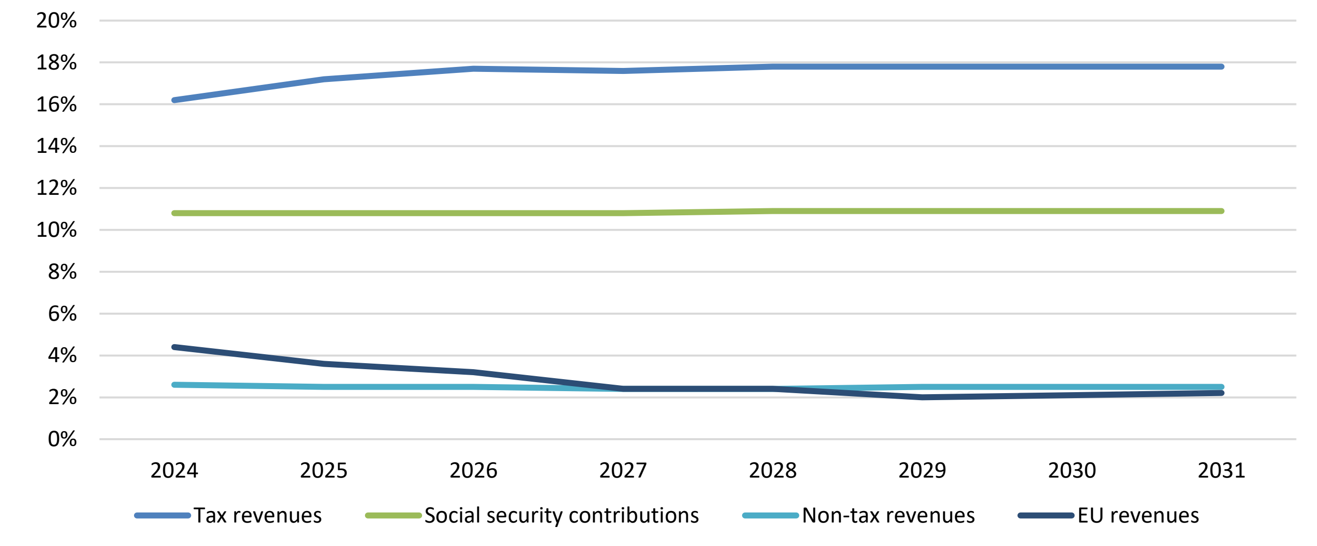
On the budget revenue side, MTP anticipated a decrease in their share in GDP by 0.6 pp, from 34% in 2024 to 33.4% in 2031. At the level of the main revenue categories, the following changes were projected (*Figure 48*): tax revenue, increase from 16.2% of GDP in 2024 to 17.8% of GDP in 2031; insurance contributions, increase from 10.8% of GDP in 2024 to 10.9% of GDP in 2031; non-tax revenue, decrease from 2.6% of GDP in 2024 to 2.5% of GDP in 2031; amounts collected from the EU, decrease from 4.4% of GDP in 2024 to 2.2% of GDP in 2031, due to the conclusion of the NRRP and the decrease in European funds for agriculture. Thus, the main changes in the categories of budget revenues are found at the level of tax revenues (+ 1.6 pp during the adjustment period) and at the level of the amounts expected to be collected from the EU (-2.2 pp during the adjustment period).

Figure 47: Budget balance, total revenues, total expenditures and public debt, according to MTP projections (% of GDP)



Source: MTP

Figure 48: Projection of the main revenue categories, according to MTP (% of GDP)

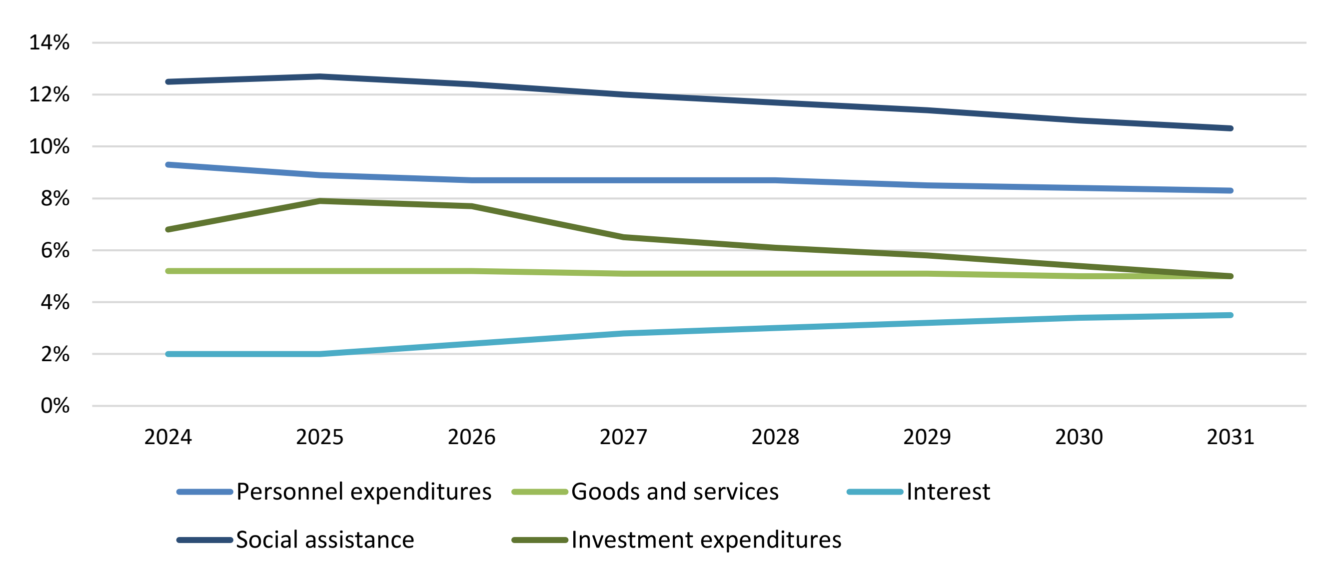


Source: MTP

The increase in tax revenues was planned to be achieved through the implementation of the tax reform, provided for by milestones 207[97], 208[98] and 237[99] of the NRRP, with an impact of at least 1.1% of GDP in 2025, net of the impact of the increase in the non-taxable ceiling for pension income. In the MTP, the 1.1% GDP increase was not broken down by tax revenue category, noting that the specific measures would be established based on the scenarios developed by the World Bank under milestone 205. In addition to the tax measures, the MTP projected an improvement in tax revenue collection, with an impact of 0.5% of GDP, starting in 2026.

The decrease in the amounts collected from the EU (-2.2 pp in the adjustment period) is mainly determined by the decrease in agricultural funds (-1.6 pp in the adjustment period) and the conclusion of the NRRP in 2026 (-0.9 pp). On the other hand, EU funds from cohesion policy were projected to increase by 0.3 pp (1.6% of GDP in 2031, compared to 1.3% of GDP in 2024).

Figure 49: Projection of the main expenditure categories, according to MTP (% of GDP)



Source: MTP

On the expenditure side, MTP envisaged a large decrease in their share in GDP, by about 6 pp, from 41.9% of GDP in 2024 to 35.9% of GDP in 2031, as follows (*Figure 49*): personnel expenses, decrease

[97] It provides for the revision of the fiscal framework by the entry into force of: (i) amendments to the Fiscal Code (Law No. 227/2015) to reduce and/or eliminate other tax incentives with the aim of simplifying the tax system, making it more efficient, transparent and equitable; (ii) legislation to extend green taxation. The new law will amend the Fiscal Code by implementing the recommendations resulting from the review of the tax system to ensure that the tax system contributes to promoting and maintaining sustainable economic growth.

[98] It provides for the revision of the fiscal framework by the entry into force of amendments to the Fiscal Code (Law No. 227/2015) that gradually reduce tax incentives for personnel employed in the construction sector.

[99] It provides for technical assistance for the revision of the fiscal framework, namely for the creation of an operational IT system that would allow the implementation of an automated model for the valuation of properties subject to property taxes. These values will be used to determine the tax base for property taxation.

from 9.3% of GDP in 2024 to 8.3% of GDP in 2031; social assistance expenses, decrease from 12.5% of GDP in 2024 to 10.7% of GDP in 2031; investment expenses, decrease from 6.8% of GDP in 2024 to 5% of GDP in 2031; interest expenses, increase from 2% of GDP in 2024 to 3.5% of GDP in 2031, amid the increase in public debt.

With regard to personnel expenses, except for 2025, the projected levels for the period 2025-2031 imply an annual nominal increase higher than the average annual inflation rates estimated for the same period: 3.1% increase compared to an average inflation of 4.2% in 2025; 5.1%, compared to an average inflation of 3.3% in 2026; 7.3% compared to an average inflation of 3% in 2027; 7% compared to an average inflation of 3% in 2028; 4.3% compared to an average inflation of 3% in 2029; 5.3% compared to an average inflation of 3% in 2030; 5.1% compared to an average inflation of 3% in 2031. Analysis of MTP data indicated a freeze in public sector wages in 2025 (the nominal increase of 3.1% due to the transfer of the increases granted in 2024 to the entire year 2025). This finding was confirmed by the general consolidated budget adopted for 2025.

Over the period covered by the MTP, the annual growth rates of personnel costs are below the nominal GDP growth rates: 7.7% in 2025, 7.5% in 2026, 7.3% in 2027, 7% in 2028, 6.8% in 2029, 6.6% in 2031 and 6.4% in 2031. Under these conditions, the share of personnel costs in GDP is projected to decrease. The realization of this trajectory is conditional both on the inclusion of personnel costs within the stipulated limits and on the materialization of the MTP forecasts regarding economic growth and inflation evolution.

The share of social assistance expenditures in GDP is projected to decrease by about 1.8 pp. In nominal terms, this category of expenditures is expected to increase by 9.4% in 2025, 5% in 2026, 3.8% in 2027, 4.3% in 2028, 4.1% in 2029, 2.9% in 2030 and 3.5% in 2031. Similar to personnel expenditures, the annual growth rate of social assistance expenditures is higher than the average annual forecasted inflation rate, but, with the exception of 2025, lower than the nominal annual GDP growth rate.

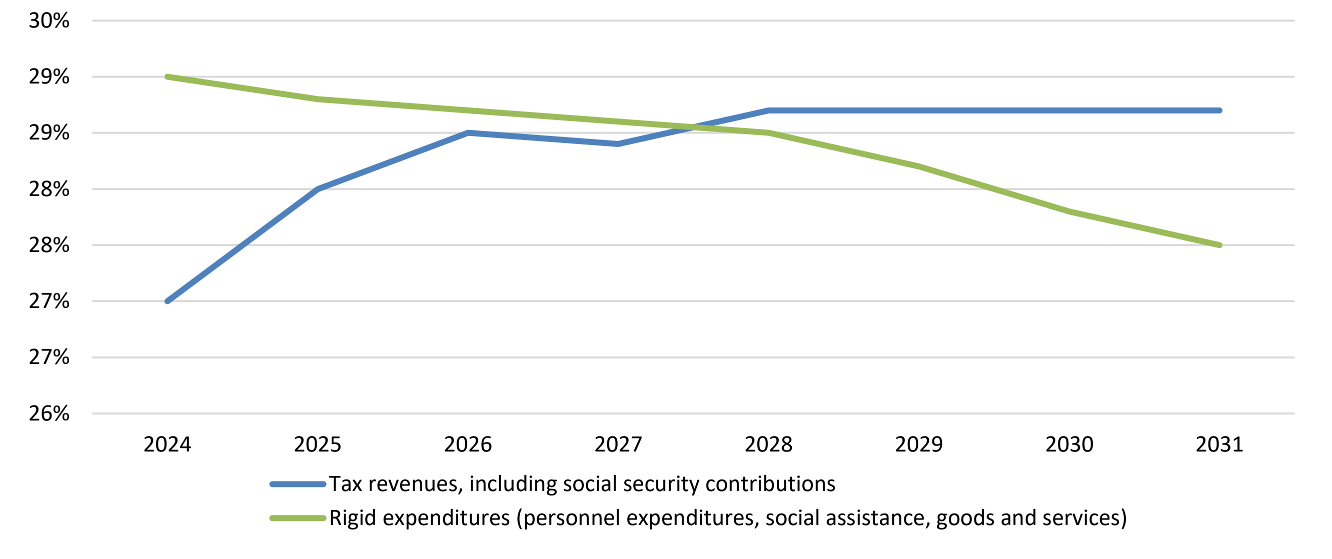
The level foreseen for social assistance expenditures in 2025 includes the annualization of the impact of the pension recalculation. Thus, by adjusting the starting point of social assistance expenditures (the execution recorded in 2024) with the annualized impact of the pension recalculation, it is found that the MTP foreseen the freezing of social assistance expenditures in 2025. This finding was confirmed by the general consolidated budget adopted for the current year.

The dynamics of expenditures on goods and services reflects an adjustment of 0.2 pp of GDP during the implementation period of the MTP. Compared to historical data, starting with 2027, the share of this aggregate in GDP is projected at a level lower than the average of expenditures on goods and services in the period 2020-2024, of about 5.2% of GDP, revealing risks regarding compliance with the ceilings established by the MTP.

The share of interest expenses in GDP is forecast to increase by 1.5 pp due to the increase in public debt, which is expected to peak at 62.6% of GDP in 2029, and the maintenance of a high cost of financing.

At the level of investment expenditure, at the end of the adjustment period, a decrease is expected compared to 2024. Thus, in 2031, the share of investment expenditure in GDP is projected to reach 5% of GDP, compared to 6.8% of GDP in 2024. The decrease in investment expenditure is mainly determined by the reduction in European fund allocations, due to the conclusion of the NRRP, but also by the slight decrease in public investments financed from national funds. It should be noted that, in accordance with the assumptions in the MTP, in 2025, investment expenditure should have reached a maximum point of the adjustment period (7.9% of GDP). It is obvious that the figure of 7.9% is no longer possible to achieve under the conditions of the budget consolidation measures package.

Figure 50: Projection of tax revenues and rigid expenditures, according to MTP (% of GDP)



Source: MTP

Summarizing the evolution projected by MTP for the main categories of budget revenues and expenditures, it is observed that, eliminating the impact of European funds, the adjustment is expected to be achieved on the basis of an increase in tax revenues by 1.6 pp of GDP, simultaneously with a decrease in the share in GDP for personnel, social assistance and goods and services expenditures, which fall to minimum values towards the end of the adjustment period. However, by 2031, tax revenues are expected to be only 1.2 pp of GDP higher than fixed expenditures (personnel, social assistance, goods and services and interest – *Figure 50*). Under these conditions, the expected decrease in investment expenditures (-1.8 pp of GDP), against the background of the decrease in European fund allocations, is not compensated by the evolution of tax revenues, also taking into account the anticipated increases in interest expenditures (+1.5 pp of GDP). Thus, to support an adequate level of public investment, which meets Romania's development and defense needs, it is imperative that the gap between tax revenues and rigid expenditures increases.

Estimate of the budget correction needed to ensure public debt sustainability

Although the MTP established a 7-year budget deficit consolidation trajectory, its realism was called into question by the establishment of an erroneous starting point, as well as the lack of specification of concrete measures to increase budget revenues, respectively, to reduce budget expenditures.

Thus, 2024 ended with a budget deficit of 9.3% of GDP in ESA terms, significantly exceeding the MTP estimate of 7.9%. This deviation of 1.4 pp of GDP invalidated the MTP starting point and, implicitly, its assumptions. It also created the premises for a more severe budget correction in the following years.

Despite this situation, the 2025 draft budget did not include additional measures to offset the higher deficit in 2024. On the revenue side, although the MTP envisaged an increase in tax revenues by 1.1% of GDP, the 2025 draft budget included measures to increase revenues by only 0.9% of GDP (0.4% from tax measures and 0.5% from a hypothetical improvement in collection), amplifying the differences from the assumed targets. On the expenditure side, the decisions to freeze wage and social assistance expenditures were in line with the MTP projections, but these measures are not sufficient to compensate for the high level of expenditures from which they started in 2025 (the impact of wage and pension increases granted in 2024 being translated to the level of the entire year 2025).

Consequently, in order to meet the deficit targets set by the MTP, which are based on a significantly lower budget deficit than the one actually recorded in 2024, additional measures are needed to increase budget revenues and reduce budget expenditures, compared to those initially set in the MTP. In fact, 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[100]. These values imply a completion of the excessive deficit procedure by 2030, but also a higher effort in the period 2025-2026. 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 provides for an increase in budget revenues by 1.75% of GDP by 2026. Additionally, the measures included a freeze on personnel and social assistance expenditures in 2026, contrary to the projections in the MTP that provided for 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 is also highlighted by the amplitude of the structural primary balance adjustment. Thus, given the latest available data, from May 2025, in order to ensure a downward trajectory of public debt and, implicitly, its sustainability, over a 7-year adjustment period (2025-2031), Romania should aim to achieve a structural primary balance of 2% of GDP[101] (in comparison, the

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

[101] 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

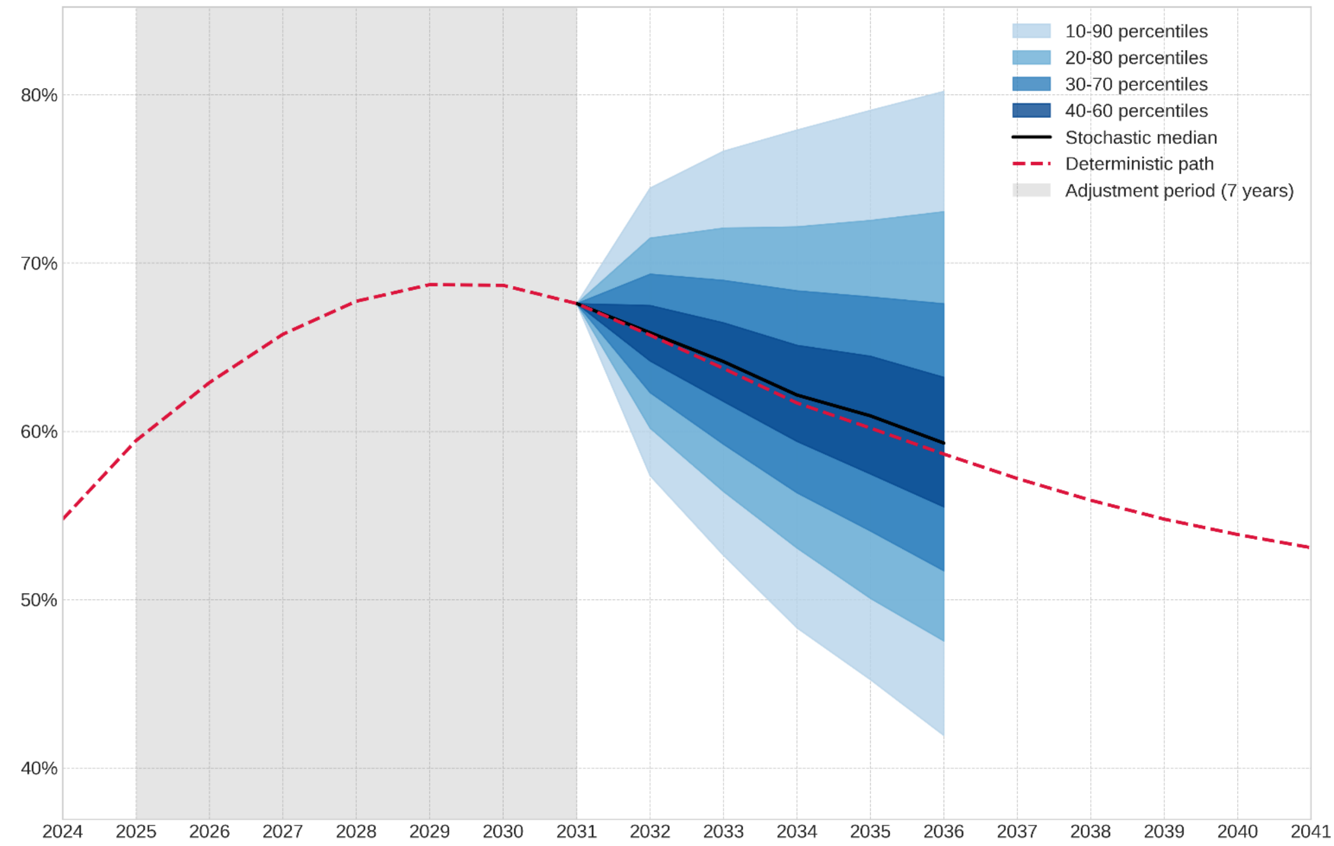
structural primary balance foreseen in the MTP was 1.7%). It should be noted that achieving a structural primary balance of 2% of GDP, over a 7-year period, is equivalent, given the EC assumptions and data, to a budget deficit of around 2.9% of GDP, a value reached at the end of the adjustment period. Given that a structural primary deficit of 6.4% of GDP was recorded in 2024, the budgetary correction is equivalent to an adjustment effort of about 8.4 pp over a 7-year period. The results of the DSA model, for a 7-year adjustment period, indicate that the public debt will peak in 2029-2030, at about 68.7% (*Figure 51*). Subsequently, from 2031, the debt trajectory follows a downward slope.

If a 4-year adjustment period were considered (2025-2028), the structural primary balance that would ensure the sustainability of public debt would be 1.6% of GDP, which implies an adjustment effort of about 8 pp, but in a shorter time frame. It should be noted that achieving a structural primary balance of 1.6% of GDP, over a four-year period, is equivalent, given the EC assumptions and data, to a budget deficit of about 3% of GDP, a value reached in 2028. The results of the DSA model, for a 4-year adjustment period, indicate reaching a maximum point of public debt in 2027, of 62.6% of GDP (*Figure 52*). Subsequently, from 2028, the debt trajectory follows a downward slope.

Both in the case of a 7-year and a 4-year adjustment period, provided that the structural primary balance target is achieved during the adjustment period, and subsequently in the case 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, and the debt trajectory continuously decreases for 10 years (the assessment criteria used by the EC to establish the plausibility of the downward trajectory of public debt). The stabilization of public debt is faster in a 4-year adjustment scenario, and the trajectory is anchored at lower values, but the adjustment effort is more gradual over the 7-year period. Both scenarios indicate a difficult budgetary correction in the coming years, but this results in ensuring the sustainability of the public debt trajectory.

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%.

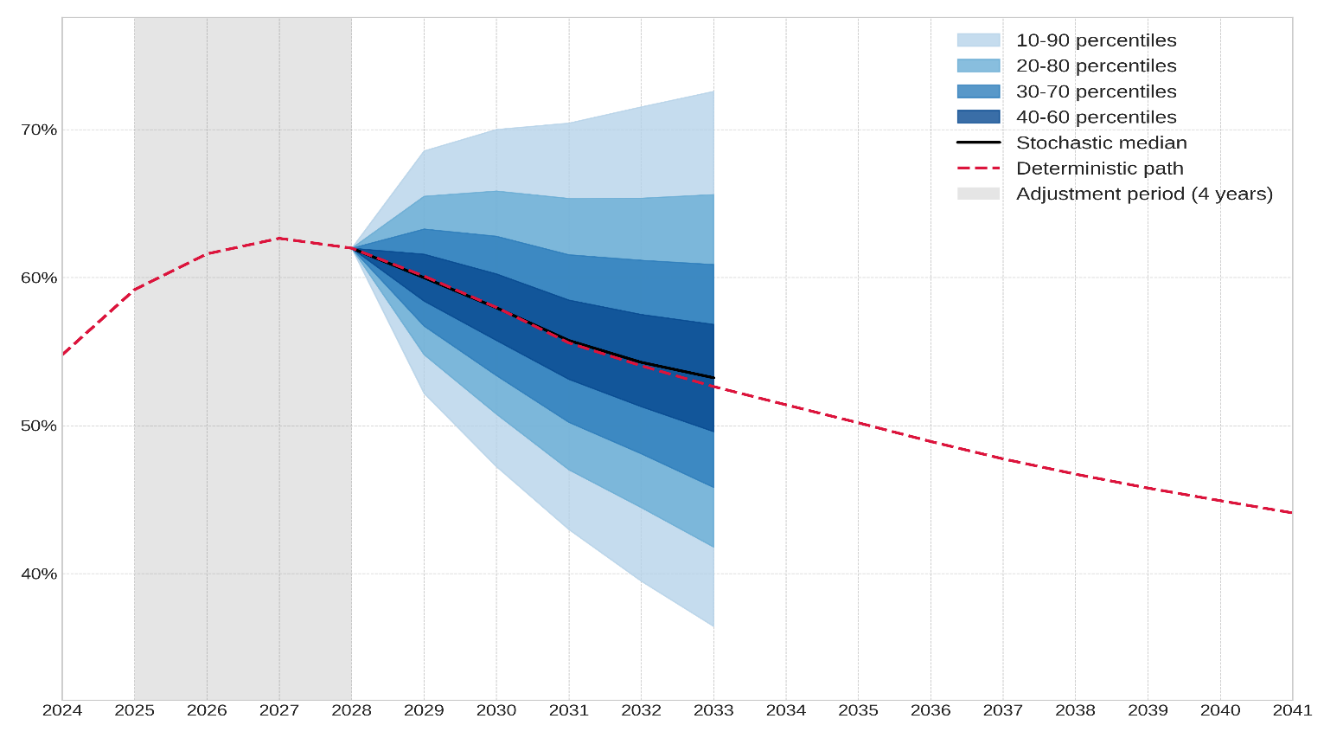
Figure 51: Projected trajectory of Romania's public debt in a 7-year linear adjustment scenario (% of GDP)



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 7-year adjustment period and the 10-year sustainability assessment period.

Source: FC own calculations based on the DSA replication code (Darvas et al., 2023)

Figure 52: Projected trajectory of Romania's public debt in a 4-year linear adjustment scenario (% of GDP)



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 is comparable to the 7-year adjustment scenario, followed by a 10-year sustainability assessment period.
Source: FC own calculations based on the DSA replication code (Darvas et al., 2023)

Romania's public debt sustainability analysis demonstrates the importance of predictable, rules-based fiscal planning. In the context of the new EU governance framework, public debt sustainability is ensured by assuming and respecting the fiscal 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 fiscal 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 7-year adjustment period, the effort to adjust the structural primary balance to stabilize the public debt trajectory would be 8.4 pp of GDP, respectively 8 pp of GDP in the case of a shorter adjustment period of 4 years. Although the necessary correction is considerable, there is no alternative to it, as the projected trajectory of public debt in a no-policy change scenario has shown.

Budgetary correction, which means reducing internal absorption (affecting personal income, corporate revenues), is the price we must pay to ensure the sustainability of public debt and avoid an even more severe correction. In the absence of a credible, firm package of measures, the risk of blocking access to financing and refinancing was imminent. Thus, the package of fiscal-budgetary measures, adopted in July 2025, represents an important step towards re-entering the deficit adjustment trajectory in the MTP. and, implicitly, ensuring the sustainability of public debt.

VII. 2025 – Macroeconomic and fiscal outlook

VII.1. Macroeconomic framework

Romania's economy recorded a real growth rate of 0.8% year-on-year in 2024, with consumption – particularly private consumption, but to a lesser extent public consumption – being the main driver of real GDP growth. Thus, total actual final consumption contributed 3.8 pp to the 0.8% year-on-year increase in real GDP, while gross fixed capital formation had a negative contribution (-0.9 pp), partially offset by changes in inventories (+0.8 pp), and net exports reduced the growth rate by 2.9 pp.

These developments were mainly driven by: (i) a loose fiscal policy, reflected also in (ii) a highly expansionary income policy, marked by significant real increases in wages and pensions. At the same time, (iii) monetary policy, though slightly restrictive (especially considering the dynamics of the real exchange rate and its deviation from equilibrium), contributed to economic growth, as real interest rates remained only marginally positive – promoting financial intermediation, credit expansion, and thus supporting both consumption and investment. (iv) External demand exerted a predominantly dampening influence on economic growth, through the export channel, while (v) access to external financial markets (particularly for the public sector) and (vi) the inflow of EU funds (advances and reimbursements) stimulated the dynamics of value added in the economy. A similar impact came from (vii) foreign direct investment, which, although lower than in 2023, continued to represent in 2024 an important source of financing – and of new technologies.

The most recent detailed forecast[102] by the International Monetary Fund (IMF)[103] estimates that global GDP will grow by 2.8% in real terms in 2025, a slightly slower pace compared to +3.3% in 2024, marking a similar deceleration (of 0.5 pp) relative to the previous forecast[104]. The main factor behind these adverse developments is the global trade war – initiated by the new US administration – and, in particular, the uncertainty it has generated. The high tariff levels applied to certain jurisdictions, along with uncertainty regarding the outcomes of bilateral negotiations, are leading to a "cooling" of the global economy, closely following the contraction in world trade volumes. The conclusion of some of these negotiations – regardless of their outcomes in terms of tariffs – has helped reduce uncertainty, making possible a slight upward revision in the IMF's latest forecast (the partial update from July 2025), projecting global economic growth of 3.0% in 2025 and 3.1% in 2026 (an increase of 0.1 pp compared to the previously projected 3% growth rate for 2026).

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[102] With only a partial update – covering just some economies – of the previous forecasts, published at the end of July 2025, https://www.imf.org/en/Publications/WEO/Issues/2025/07/29/world-economic-outlook-update-july-2025

[103] World Economic Outlook – April 2025, https://www.imf.org/en/Publications/WEO/Issues/2025/04/22/world-economic-outlook-april-2025

[104] Update (https://www.imf.org/en/Publications/WEO/Issues/2025/01/17/world-economic-outlook-update-january-2025) World Economic Outlook from January 2025.

The pace of convergence toward higher living standards (measured by GDP *per capita*) has slowed and is projected to continue slowing. The main factor behind this trend is the deceleration of global economic growth, driven by weak structural reforms, unfavourable demographic developments, and long-term fiscal policy challenges, as well as, in the short term, the impact of new trade measures – both through their direct effects on trade and their influence on uncertainty and business confidence. The slowdown projected for the next five years is expected to be more pronounced in emerging and developing economies, which implicitly means a slower convergence of incomes and living standards. However, the key factor identified by the IMF report for this reduced pace of convergence is demographic change. Population aging is expected to dampen productivity growth, lower labour force participation rates, and thereby significantly reduce future economic growth. This phenomenon can be partially mitigated through migration and effective migrant integration policies, although only to a limited extent.

Advanced economies are expected to grow by 1.4% in real terms in 2025 (and marginally faster, by 1.5% in 2026), driven mainly by the performance of the US economy, which is projected to expand by 1.8% in 2025 and 1.7% in 2026. Both the historical data – showing 2.8% growth in 2024 – and the projections confirm the resilience of the US economy. In Europe, economic growth in the Euro Area is projected to decline slightly, from 0.9% in 2024 to 0.8% in 2025, before accelerating to 1.2% in 2026, while the UK economy is also expected to gain momentum, rising from 1.1% in 2024 and 2025 to 1.4% in 2026.

Emerging and developing economies are projected to grow by 3.7% in 2025 (and by 3.9% in 2026), after a stronger pace of +4.3% in 2024. Much of this growth is explained by the performance of India and China (as well as other Asian countries), where gross value added is expected to increase by 6.2% and 4.0% in 2025, respectively, and by 6.3% and 4.0% in 2026. Central and Eastern European countries are projected to grow by 2.1% in both 2025 and 2026, slowing from 3.4% in 2024, due to weaker economic performance in both the Euro Area and Russia – the latter facing not only a relatively low level of growth but also a substantial deceleration, from 4.1% in 2024 to 1.5% in 2025 and only 0.9% in 2026.

The global developments projected by the IMF support the expectation of a weaker world economic performance, amid the ongoing trade war and the high level of uncertainty it has generated – both of which are undermining consumer and investor confidence.

The risks, described as asymmetric (with a greater likelihood of adverse outcomes), include: (i) Tariffs represent a negative supply shock, reallocating resources toward less competitive goods-producing sectors. This may lead to a greater loss of aggregate productivity – and thus output – while also resulting in higher costs and prices than those included in the baseline projection. At the same time, for trading partners, tariffs act as a negative external demand shock, potentially causing stronger adverse effects on their economies. (ii) In the medium term, these developments could weaken competition, discourage innovation, and encourage rent-seeking behaviour. Combined with the amplifying effects of modern global value chains, this could lead to more problematic outcomes than the relatively mild ones assumed in the baseline scenario. (iii) Uncertainty is one of the main transmission mechanisms contributing to slower global growth – through its impact on consumption, investment, and international financial flows. This uncertainty could be heightened by new rounds of negotiations and retaliatory economic policies. (iv) Monetary policy faces a difficult challenge in responding to a combination of a supply shock (from higher domestic tariffs) and a demand shock (from partner countries' tariffs). Achieving balance means avoiding recession while maintaining controlled inflation, yet any policy missteps could negatively affect global economic prospects. (v) Foreign exchange and asset markets may experience significant volatility, potentially resulting in outcomes weaker than those in the current forecast. (vi) Fiscal policy could face increasing challenges amid sluggish growth, high debt levels, and rising financing costs. Less stabilizing fiscal actions could therefore lead to more adverse global economic results. (vii) Finally, a weaker focus on structural reforms – including efforts to remove barriers to innovation, implementation, and the diffusion of new technologies – could also lead to weaker medium-term outcomes, constituting an additional source of risk.

These figures and explanations are largely confirmed by the IMF's brief projection update released at the end of July 2025[105], which places additional emphasis on the temporary easing of trade and financial tensions caused by the global trade war.

The European Commission's most recent forecast – the Spring 2025 edition[106], published in May 2025 – projects real GDP growth of 1.1% for the EU-27[107] and 0.9% for the Euro Area in the current year. These figures are broadly similar to those recorded in 2024, when growth stood at 1.0% in the EU-27 and 0.9% in the Euro Area. For 2026, the EC projects an acceleration in growth to 1.5% in the EU-27 and 1.4% in the Euro Area. Compared with the Autumn 2024 forecast (published on 15 November 2024), economic growth has been revised downward by 0.4 pp in 2025 for both the EU-27 and the Euro Area. Similarly, the 2026 projections have also been lowered – by 0.3 pp for the EU-27 and 0.2 pp for the Euro Area. The main factor, as identified by the European Commission, remains the global trade war and the uncertainty it continues to generate.

The economic scenario and its underlying assumptions take into account the following factors: (i) high uncertainty generated by the global trade war and by economic policy decisions adopted in response to earlier actions taken by international partners; (ii) a relatively favourable starting point for the EU economy, characterized by growth driven by both private consumption and government demand, yet accompanied by a decline in investment volumes due to heightened uncertainty; (iii) working assumptions regarding the outcomes of tariff negotiations with the United States – namely, for the EU-27, a return to pre-existing tariff levels and the absence of retaliatory measures by the EU, and for China, a continuation of the no-policy-change assumption typically used in EC forecasts – both of which imply a significant reduction in US-China trade flows; (iv) a downward trajectory of commodity prices, reflecting weak global demand; (v) a slightly accommodative monetary policy stance toward the end of the forecast horizon, in response to easing inflationary pressures; and (vi) neutral fiscal policies throughout both projection years (2025 and 2026) across the EU-27 and the Euro Area.

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105 Update World Economic Outlook – July 2025, https://www.imf.org/en/Publications/WEO/Issues/2025/07/29/world-economic-outlook-update-july-2025

106 European Economic Forecast, Spring 2025, https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/spring-2025-economic-forecast-moderate-growth-amid-global-economic-uncertainty_en, published on May 19, 2025.

107 Excluding the United Kingdom.

The more substantial revisions in the EC's Spring 2025 forecast, compared with the Autumn 2024 edition, are mainly due to the outbreak of the global trade war – indeed, many of the risks previously anticipated have since materialized.

The risks, in terms of potential adverse developments, identified in the European Commission's current forecast, include: (i) a renewed escalation of trade tensions between the US and the EU-27, which could lead to lower GDP growth and a resurgence of inflation; (ii) recent episodes of financial stress highlight the potential contagion risk from the non-financial sector, which, by affecting the financial sector, could negatively impact credit supply and capital flows; (iii) persistently high inflation in the US could prompt a more restrictive monetary policy, which, through global spillover effects, might tighten global financial conditions and, in turn, dampen global demand for European products. Conversely, the upside risks mentioned in the forecast are: (iv) a trade agreement between the US and China could revitalize the global economy, leading to stronger growth than currently projected by the European Commission; (v) a reduction in US-EU tensions would likely have a similar positive impact, supporting European economic growth; (vi) negative external shocks could accelerate the process of European integration and structural reforms – particularly in capital markets and the savings-investment union – yielding positive long-term effects; (vii) higher military spending by Germany, along with the use of derogation clauses from EU fiscal rules to finance infrastructure and defense investments, could advance the goal of enhancing European security, while also contributing to stronger economic growth.

A persistent risk, highlighted both in the current and previous European Commission reports, concerns climate change and the increasing volatility of extreme weather events. Without sustained efforts to mitigate these phenomena, climate change could generate substantial additional economic and fiscal costs, thereby undermining the resilience of economic growth.

Regarding growth forecasts for EU-27 member states, the Spring 2025 forecast anticipates higher growth rates for countries such as Malta (4.1%), Denmark (3.6%), Ireland (3.4%), Poland (3.3%), and Croatia (3.2%). The lowest GDP dynamics are expected in Austria (a contraction of -0.3%), Germany (economic stagnation in 2025), Latvia (+0.5%), France (+0.6%), and Italy (+0.7%).

The projection indicates that the dispersion of GDP *per capita* (in euros) across European countries may widen slightly, reflecting different starting points and, despite strong convergence in growth rates, leading to a larger gap between countries and regions over the projection horizon. The pace of economic growth in 2026 is expected to increase or remain elevated in most European countries (with an aggregate growth rate of 1.5%, up by 0.4 pp compared to the previous year), particularly in: Malta (growth slightly lower, at 4.0%, -0.1 pp), Lithuania (3.1%, up by 0.3 pp), Poland (3.0%, down by 0.3 pp), Croatia (2.9%, down by 0.3 pp), and Cyprus (2.5%, decreasing from 3.0% in 2025).

The countries with the lowest projected economic growth in 2026 are Belgium and Italy (each with 0.9%, a marginal acceleration compared to the previous year), Austria (1.0%, recovering from a projected contraction of -0.3% in 2025), Germany (1.1%, rebounding from the stagnation expected in 2025), and the Netherlands (1.2%, slightly slower, by 0.1 pp, compared to the previous year). These growth projections are shaped both by the assumptions underlying the forecast and by the relatively high level of risks identified in this projection round.

For the current year, the European Commission's inflation outlook, expressed through the Harmonised Index of Consumer Prices (HICP) and estimated based on standard macroeconomic relationships, indicates that inflation will stand at 2.1% for the EU-27 and 2.3% for the Euro Area. This represents a decline compared to the previous year, both for the EU-27 (down from 2.6% in 2024, a reduction of 0.3 pp) and for the Euro Area (down from 2.4%, also a reduction of 0.3 pp). Thus, inflation remains at levels consistent with the targets set by the central banks of the EU-27 and the European Central Bank for the Euro Area.

It is noteworthy that, in the current forecast as well, emerging economies within the Euro Area – and especially those outside of it – are expected to record higher HICP inflation levels than other member states. These differences stem both from a stronger impact of adverse (mostly supply-side) shocks on domestic prices in each country, and from differences in economic policies and structures – including exchange rate regimes and the degree of exchange rate pass-through – which also distinguish countries in terms of their internal resilience, as reflected by price dynamics. From the perspective of HICP inflation, the largest gap among EU-27 countries in the 2025 forecasts is between the higher inflation rates expected in Romania (5.1%)[108], Hungary (4.1%), Slovakia (4.0%), Estonia (3.8%), and Bulgaria (3.6%), on the one hand, and the lower projected rates for France (0.9%), Denmark and Ireland (1.6%), Finland (1.7%), and Italy (1.8%), on the other.

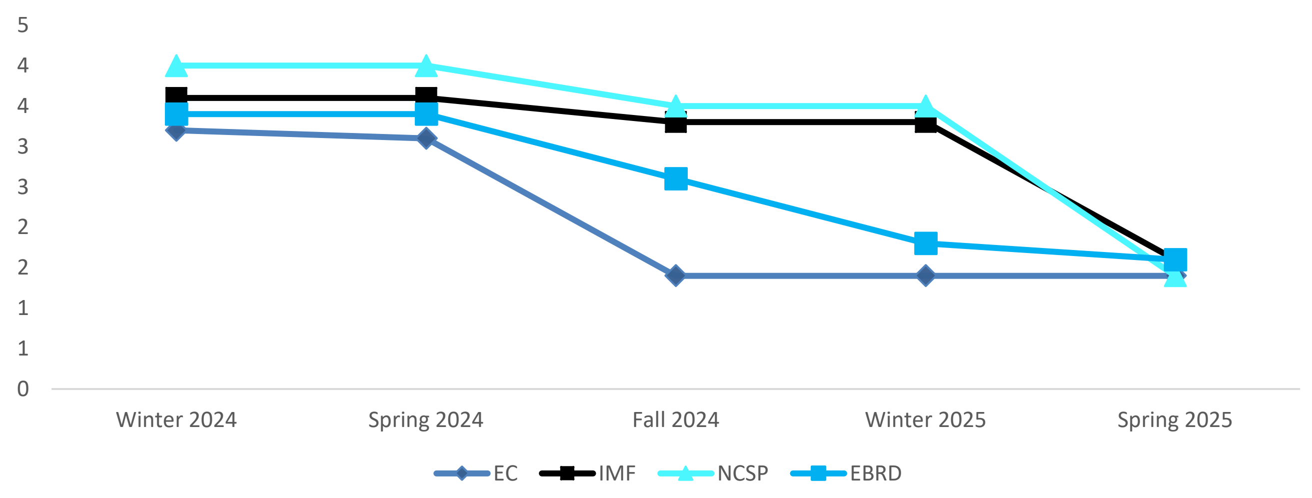
In its latest forecast – the Spring 2025 edition – the European Commission projects real GDP growth in Romania of 1.4% for 2025, slightly below the IMF's estimate of 1.6% from its most recent detailed forecast (April 2025). For the following year, 2026, both institutions anticipate an acceleration of growth, though the gap widens: the IMF forecasts 2.8%, while the European Commission projects only 2.2%. The main drivers of GDP growth over the next two years are expected to be gross fixed capital formation and private consumption, supported by the increase in real disposable income in the economy. EU funds – both multiannual allocations and the Recovery and Resilience Facility – are expected to support aggregate demand and provide financing for the external deficit.

As in previous forecasts, net exports are projected to make a negative contribution to economic growth, despite the expected adjustment of external imbalances (reflected in the trade and current account deficits – the latter anticipated to remain around 7.9-7.0% of GDP over the projection horizon, following a downward trajectory). This evolution of the external imbalance is explained by both weak external demand from Romania's main EU trading partners and the slow pace of fiscal consolidation (in the EC's April 2025 forecast), as well as the gradual erosion of real incomes in the economy.

[108] The European Commission's estimate of Romania's HICP inflation predates the fiscal correction measures adopted in July 2025, and the value is expected to be updated in the EC's Autumn 2025 forecast. According to the National Bank of Romania's Inflation Report, published in August 2025, the annual CPI inflation rate, calculated using the national methodology, is projected to reach 8.8% by the end of 2025.

The European Commission's latest forecast predates the announcement of Romania's fiscal adjustment measures and therefore does not account for the effects of higher VAT and excise duties, nor for the full impact of the re-liberalization of electricity and gas prices. Inflation had previously been projected to remain around 5% in 2025 and to decline toward 4% in 2026. Under the new conditions, however, the reacceleration of inflation in late 2025 is expected to persist until mid-2026, when base effects will significantly lower the inflation rate. Monetary policy cannot directly respond to supply-side shocks, and its slightly restrictive stance – particularly with regard to the real exchange rate – is expected to remain in a fragile balance between pursuing the inflation target and maintaining currency stability, without undermining economic growth or credit expansion. The main risks concern fiscal policy, which could lead to a more significant fiscal adjustment over the projection horizon as a result of discretionary measures.

Figure 53: Evolution of economic growth forecasts for Romania in 2025



Source: EC, IMF, NCSP, EBRD

For the current year, the initial forecasts of the EC, IMF, and EBRD anticipated that Romania's economic growth would exceed its potential, thereby amplifying the domestic demand surplus. The subsequent downward revisions of these forecasts – now projecting growth below Romania's potential output – reflect the impact of less favourable recent developments, driven by both external and internal factors. On the external side, the decline stems from weak foreign demand, itself influenced by trade tensions and uncertainty, as well as the sluggish performance of major European economies. On the internal side, the fiscal policy adjustment, aimed at reducing the deficit, has dampened aggregate demand and contributed to the correction of external imbalances, while monetary policy – as indicated by the Monetary Conditions Index – has maintained a slightly restrictive stance.

The worsening of these forecasts for 2025 can already be observed in the GDP data for the first quarter of 2024 (provisional version 2), published by the National Institute of Statistics (NIS) on July 10, 2025. The new data confirm a modest year-on-year economic growth rate of 0.3% (slower than in previous quarters), while the quarter-on-quarter change (Q1 2025 vs. Q4 2024) indicates stagnation in real activity. Based on the production-side breakdown of GDP for Q1 2025 (year-on-year growth of 0.3%), the positive contributions came from the following sectors: construction (+0.4 pp), information and communications (+0.1 pp), real estate transactions (+0.1 pp), public administration and related services (+0.1 pp), agriculture, financial intermediation, and insurance had a neutral contribution to GDP dynamics, while several sectors acted in the opposite direction, including: industry (-0.5 pp), trade (-0.2 pp), professional and related activities (-0.2 pp), arts, entertainment, and related services (-0.1 pp), net taxes on products contributed +0.6 pp to GDP growth. On the expenditure side, final consumption contributed +0.5 pp, gross fixed capital formation +1.1 pp, and changes in inventories +1.5 pp, while net exports had a negative contribution of -2.8 pp, resulting in the overall growth rate of 0.3%.

Given the very large fiscal deficit in 2024 (9.3% of GDP under ESA 2010 methodology and 8.65% under the national methodology), reflected in the current account deficit of 8.4% of GDP, alongside relatively weak economic growth, an important issue concerns the sources of future economic growth. Since total factor productivity is unlikely to play a dominant role in driving future growth, the increase in output will need to come from capital accumulation, labour input, or a combination of both. However, given that the Romanian economy suffers from extreme disparities in firm capitalization (the Financial Stability Report, December 2024, shows that only 2.7% of firms – 22,455 out of approximately 830,000 – are high-performing/bankable, while a significant share face severe structural issues: one-third have no or negative equity, over one-third have no employees, one-fifth report zero turnover, and around 10% exhibit all three problems simultaneously), and due to numerous dysfunctions in the capital accumulation process, the potential for capital to substantially boost value added in the future may be significantly constrained.

Regarding the labour factor, it is noteworthy that the employment rate among the working-age population (as defined by the National Institute of Statistics – ages 15-64) stood at 67.4% for the entire year 2024, the second-lowest in the EU-27, with only Italy recording a lower rate (66.6%). The next country above Romania was Greece, with an employment rate of 70.5%[109]. This exceptionally low employment rate – whose downward trend continued in Q1 2025 – is explained, according to the economic literature, by the large gender participation gap, which may in turn be influenced by factors such as the structure of the economy, the degree of technological advancement at work and at home, the education and healthcare systems, societal discrimination, divorce legislation, the prevalence of part-time contracts, and the availability of family-oriented services (e.g., nurseries and kindergartens). In addition to these structural determinants, economic research also identifies the regressivity of the tax system – Romania's being among the most regressive in Europe – as a significant barrier to labour market entry, particularly for young workers. Under these circumstances, achieving substantial economic growth in the future will require reforms aimed at stimulating both capital accumulation and labour force participation; otherwise, Romania risks falling into the middle-income trap.

At the same time, given the significant twin deficits recorded in recent years – namely, a fiscal deficit of 9.3% in 2024 and a current account deficit of 8.4% of GDP – the Romanian economy remains highly vulnerable to shifts in investor sentiment, as reflected in financial market dynamics. This sentiment, in turn, depends to a large extent on the performance of the public sector and on its ability to follow a

[109] The European Union (EU-27) average being 75.3%.

sustainable fiscal consolidation path – one that ensures compliance with Romania's Medium-Term Structural Budget Plan and the commitment to reduce the deficit to below 3% of GDP after 2030. The public saving-investment imbalance thus remains the main driver of Romania's external disequilibrium, underscoring the need for credible and coherent fiscal policy measures to strengthen confidence among domestic and international investors.

From the perspective of fiscal adjustment (as reflected in the law on certain fiscal-budgetary measures) and its two-way interaction with macroeconomic dynamics, the following points can be observed: (i) Despite the slowdown in real growth resulting from fiscal consolidation, the impact on nominal GDP dynamics – particularly through prices and deflators – is expected to more than offset this deceleration. For public revenue aggregates, the determining factor will remain the nominal growth of macroeconomic bases and indicators, even assuming the occurrence of significant second-round effects. (ii) The adjustment package could be supported by easier access to both domestic and international capital markets, as the risk associated with Romanian government assets declines – a result of the narrowing of both the current account and fiscal deficits. However, this positive effect will likely be counterbalanced by the still relatively rapid pace of public debt accumulation, driven by a high primary deficit and a growth-interest rate differential that, while initially slightly favourable, remains accompanied by relatively high implicit yields demanded by investors. (iii) It is particularly important to ensure effective absorption of EU funds – both from the multiannual financial framework and the Recovery and Resilience Facility – as this not only enhances potential growth but also helps finance part of the external deficit. This could occur through the substitution of nationally financed investments with EU-funded projects, thereby contributing to a reduction in the overall deficit. (iv) Achieving fiscal adjustment in a sustainable economic and social manner – along the path toward the 3% deficit target (and the 60% public debt ceiling, which is expected to be temporarily exceeded in the coming years) – requires intelligent and consistently applied fiscal programs. These should offset the inherent contractionary effects of consolidation through structural reforms designed to stimulate future economic development.

Regarding the forecasts for the external (current account) and fiscal deficits, the European Commission's latest projection anticipates parallel trajectories for the two indicators. Since the fiscal deficit – or the public sector saving-investment gap – is the main driver of the external deficit, fiscal consolidation is expected to reduce, in roughly equal measure, the net saving requirement that Romania must finance from abroad. Thus, the EC's forecast, prepared prior to the adoption of the first fiscal adjustment package, projects a 0.7 pp reduction in the fiscal deficit in 2025 (from 9.3% to 8.6% of GDP) and a further 0.2 pp decline in 2026. In parallel, the current account deficit is expected to narrow by 0.6 pp in 2025 (from 8.5% to 7.9% of GDP) and by 0.9 pp in 2026 (from 7.9% to 7.0% of GDP). With a faster fiscal adjustment in 2026 – as a result of the newly adopted policy measures – the external deficit is also projected to adjust more rapidly, though it will continue to display greater inertia. In Romania's case, both the historical evolution and the future tandem movement of these two deficits at relatively similar levels justify the use of the economic theory term "twin deficits."

According to the Inflation Report published by the National Bank of Romania in August 2025, the annual CPI inflation rate[110] is expected to reach 8.8% by the end of 2025, followed by a downward trajectory thereafter. By the end of 2026, the report projects an inflation rate of 3.0%.

“Over the projection horizon, in the context of the ending of the electricity price cap scheme and the implementation of the fiscal consolidation package, the indicator is expected to undergo substantial reconfigurations. In the first part of the period, the trajectory incorporates the significant impact of the electricity tariff increase in July 2025 and the rise in indirect taxes[111] (VAT and excise duties) in August of the same year, with the first-round effects of each shock estimated at 2 pp, affecting the annual CPI inflation rate for four consecutive quarters. Thus, in the third quarter of 2025, the inflation rate is projected to record a sharp jump, reaching a peak of 9.2% in September, followed by a slight decrease by year-end, to 8.8%. Subsequently, in the third quarter of 2026, the indicator is expected to decline significantly, re-entering the target variation band, driven by both base effects[112] and the persistence – and even notable deepening – of the negative output gap by the end of the following year. […] Under these conditions, the annual inflation rate is projected to follow a downward path in the second half of 2026 and the first half of 2027. Accordingly, the forecasted values for the end of 2026 and for the second quarter of 2027 – the projection horizon – are 3.0% and 2.7%, respectively. [...] From the perspective of the distribution of inflationary pressures within the CPI structure, after a period (2023-2024) in which the annual CORE2 adjusted inflation rate exceeded that of the exogenous components of the basket, an inversion of this relationship is expected to occur starting from the third quarter of the current year”.

The projection for adjusted CORE2 inflation for 2025 reflects the developments previously described in the report, reaching 6.8% by the end of the current year, while the moderation of core inflation toward 2.7% by the end of 2026 is expected to occur gradually: “The annual adjusted CORE2 inflation rate rose slightly in the second quarter, from 5.2% in March 2025 to 5.7% in June. In the short term, the anticipated trajectory is significantly influenced by the increase in indirect taxes in August 2025, compounded by persistent cost pressures stemming from agri-food raw materials, labour costs, and inflation expectations. Following the spike in Q3 2025, with a peak of 7.1% in September, the annual core inflation

[110] Calculated according to the national methodology. It differs from the HICP inflation rate, which is computed using the European (harmonised) methodology.

[111] In the case of VAT, the adopted measures include: (i) raising the reduced VAT rate from 9% to 11%, applicable to products such as food items (except those with added sugar), pharmaceuticals, hotel, catering, and restaurant services, as well as water supply and sewerage services; (ii) raising the reduced VAT rate from 5% to 11%, applicable to items such as thermal energy, firewood, and books; (iii) raising the standard VAT rate from 19% to 21%, applicable to food products with added sugar, non-food goods, fuels, electricity and natural gas, tobacco and alcohol, and other services. For estimating the degree of pass-through of VAT rate changes into final consumer prices, working assumptions were based on previous adjustment episodes and the characteristics of the CPI subcomponents – such as price adjustment frequency and price elasticity of demand. These yielded an average pass-through rate of approximately 78% across the entire consumer basket. In the case of excise duties, the increases amount to 10% for fuels, alcoholic beverages, and sugar-sweetened non-alcoholic drinks, and 2.25% for tobacco products.

[112] The temporary, one-year nature of the first-round impact of one-off shocks was also observed, for example, during the 2010-2011 period, when the annual inflation rate rose sharply following the VAT rate increase in July 2010, and then fell sharply twelve months later.

rate is expected to enter a continuous downward path, with a more pronounced decline once the first-round effects of higher indirect taxes drop out of the base in Q3 2026. This reduction will also be supported by the weakening of aggregate demand, which will lead to the accumulation – and over time, the intensification – of disinflationary pressures, amid the slowdown in economic activity, mainly driven by fiscal consolidation. Both nominal and real incomes will be affected by developments such as the freeze on public sector wages and pensions, the moderation of private sector wage growth, and the temporary intensification of inflation. After a sharp increase and an anticipated peak in Q3 2025, inflation expectations are forecast to follow a downward trajectory throughout the projection period. Additional disinflationary pressures will also come from import prices, in line with the gradual decline in HICP inflation excluding energy in the Euro Area. Under these conditions, the annual adjusted CORE2 inflation rate is projected at 6.8% at the end of the current year, 2.7% in December 2026, and 2.0% in Q2 2027".

The most recent statistical data published by the National Institute of Statistics – specifically for the first quarter of 2025 – indicate a situation of near-stagnation when comparing quarter-on-quarter figures (seasonally adjusted data), marking a slowdown relative to developments in previous quarters. The positive year-on-year growth rate (+0.3%) for the current quarter is primarily explained by the above-average performance of certain sectors such as construction, information and communications, real estate transactions, and public administration, according to the production-side composition of GDP. From the expenditure-side perspective, consumption, investment, and changes in inventories account for the evolution observed in the first quarter of 2025, while net exports continue to make a negative contribution to economic growth. This is further confirmed by the high level of the current account deficit of the balance of payments, which reached 12.6 billion euros in the first five months of 2025 (cumulative). Moreover, this deficit continues to widen rapidly, recording a 46.7% increase (in euro terms) during the first five months of the current year compared to the same period in the previous year.

This dynamic stems from the following developments: (i) an increase in the trade in goods deficit (+18%), (ii) a sharp widening of the primary income deficit (+32.9%), (iii) the shift of the secondary income account into deficit (a 59 million euros deficit in the first five months of 2025, compared to a 1.3 billion euros surplus in the same period of the previous year), all partially offset by (iv) a larger surplus in services (+9.3%). These developments in GDP and the external balance occur against the backdrop of a 7.6% year-on-year increase in real wages in May 2025[113], and a 15% year-on-year increase in real pensions in the first quarter of the year[114]. Together with the positive trends in the construction sector[115] – as reflected by the number of building permits issued[116] – and the overall dynamics of economic activity[117], these factors help to corroborate both the structure of the economic growth described above and the evolution of the external balance.

[113] NIS Press Release No. 177 / July 11, 2025.
[114] NIS Press Release No. 146 / June 13, 2025.
[115] NIS Press Release No. 183 / July 18, 2025.
[116] NIS Press Release No. 193 / July 31, 2025.
[117] NIS Press Release No. 190 / July 28, 2025.

In its opinion issued on July 8, 2025, regarding the law on certain fiscal-budgetary measures, the Fiscal Council stated that: "The revision made by the National Commission for Strategy and Prognosis (NCSP) between the Spring 2025 forecast (May 14, 2025) and the Autumn 2024 forecast (December 2024) – both for real economic growth in the current year and for the following year – which anticipates their reduction to +1.4% in 2025 and +2.4% in 2026 (decreases of 1.1 pp and 0.6 pp, respectively, compared to the previous CNSP forecast), appears to be consistent with the observed trends and developments in the economy, thus indicating a high degree of plausibility for these macroeconomic projections. Under these conditions, the economic growth rate projected by NCSP and used as the basis for calculating this year's deficit – 1.4% in real terms – appears to be plausible (*caeteris paribus*). Regarding the structure of economic growth – which is just as important for fiscal impact as its magnitude –, we can observe the continuation of current trends, placing the core drivers of economic growth in the areas of private consumption and gross fixed capital formation, with a negative contribution from net exports. Consequently, the composition of GDP is expected to remain rich in tax-generating components".

Given that the macroeconomic forecast "precedes the law on certain budgetary measures and therefore, by implication, does not incorporate – and cannot incorporate – the second-round effects of this fiscal adjustment package (nor those of any subsequent packages that are likely to follow), the real growth rate in 2025, as well as that for the following year, could be significantly lower, due to the reduction in domestic absorption (private and public consumption and investment) brought about by the substantial fiscal measures. Regardless of the size of the fiscal multipliers one might assume, spending cuts and revenue increases lead to a compression of effective demand in the economy and, consequently, to lower macroeconomic bases for the main categories of revenue. […] In light of the above, the structure of economic growth, as projected by the NCSP for the current year and for 2026, may require an adjustment toward a composition less rich in fiscal revenues".

"In the current NCSP projection, the GDP deflator growth rates – 6.1% in 2025 and 5.0% in 2026 – can be considered very cautious or even understated, even without taking into account the effects of the fiscal adjustment package, which is not yet included in the projection. It should be noted that the CPI inflation rate published by the National Institute of Statistics for May 2025 was 5.0% (annual average) – with the GDP deflator being typically closer to average inflation values rather than end-of-period levels – while the industrial producer price inflation rate for the same month was 0.85% (year-on-year). Even assuming that the real GDP growth rate might be lower due to the implementation of the fiscal adjustment package, the evolution of the GDP deflator (and inflation) in the NCSP projection could offset such a slowdown, since what matters for the fiscal sector are not the real developments of variables, but their nominal growth rates (i.e., the tax bases). Moreover, in the context of significant increases in VAT – with a notable impact on inflation – together with the rise in excise duties, and the re-liberalization of electricity prices starting in July 2025 and natural gas prices from July 2026, it can be inferred that the GDP deflator values for both years (2025 and 2026) could be considerably higher, which would, in turn, generate a favourable impact on the budget balance".

"The correlation of recent economic information and data with the dynamics of key projected macroeconomic variables (real GDP, GDP deflator, inflation, and labour market indicators) as published by NCSP in May of this year, leads to the conclusion that the projected trajectories for 2025 and 2026 are plausible, in the absence of second-round effects stemming from the fiscal adjustment currently in the process of being legislated. The inclusion of the likely effects of the fiscal adjustment – which will be substantial in 2025-2026, with a stronger impact in 2026 – will require a significant revision of the macroeconomic bases used for fiscal projections, which were previously developed with caution, according to the Fiscal Council. However, this revision – due both to the very conservative nature of the prior forecast and to the character of the adjustment, which will lead to a temporary resurgence of price growth – is expected to more than offset the slowdown in real dynamics through higher price indices. Consequently, it can be considered that the overall effect will be positive – or, at worst, neutral – on the dynamics of most macroeconomic bases".

VII.2. Fiscal framework

The 2024 budget execution resulted in a deficit of 8.65% of GDP (on a cash basis) and 9.3% of GDP (according to the ESA 2010 methodology). These figures are significantly above the targets set in the draft budget, which were 5% of GDP (on a cash basis) and 4.9% of GDP (according to the ESA 2010 methodology), respectively. Thus, 2024 marked the second-largest deficit after that of 2009, when it reached 9.5% of GDP[118]. The worsening of the fiscal imbalance was driven by the growth rate of public expenditure, which was nearly double that of budget revenues.

Similar to previous years, in 2024, Romania faced an insufficient level of budget revenues (approximately 34.1% of GDP, compared to an EU average of around 46% of GDP) and tax revenues (28.5% of GDP, the second-lowest value among EU member states, versus an EU average of 40.1%), along with a high structural deficit (8.8% of potential GDP, the highest in the EU). Data on budget expenditure indicate a share of GDP of about 43.5%, compared to the EU average of 49.2%. In addition to the fiscal imbalance, the magnitude of the current account deficit is also noteworthy, at approximately 8.4% of GDP, the highest value among EU member states. The level of the twin deficits poses significant challenges to the country's economic stability.

In this context, the draft budget for 2025 envisaged a cash deficit target of 7% of GDP, representing a decrease of 1.6 pp of GDP compared to the level recorded in the previous year, while the deficit target had a similar value under the ESA 2010 methodology. The planned deficit reduction was projected to be achieved by increasing budget revenues by approximately 2.3 pp of GDP, while budget expenditures were planned to increase by 0.7 pp of GDP. These trajectories, however, were influenced by estimates regarding the absorption of EU funds. Excluding the aggregate impact of EU funds, the other revenue categories were planned to increase by almost 0.2 pp of GDP, while the remaining expenditure categories were planned to decrease by 1.5 pp of GDP. These data indicate that the fiscal adjustment was designed to be achieved primarily on the expenditure side. In its opinion on the 2025 draft budget and the medium-term projections, the FC noted the following main aspects:

[118] According to the Eurostat data, accessed on July 1, 2025.

- Romania had the largest budget deficit in the EU in 2024 and is subject to the EDP, with a correction agreed upon with the EC over a 7-year period.
- It is a positive development that an agreement was reached with the EC for the budget deficit adjustment to be spread over several years, considering the reforms involved and the magnitude of the correction, from over 9% of GDP to below 3% of GDP.
- The 2025 adjustment is only the beginning of the macroeconomic correction. Measures will need to be adopted in the following years as well, on both the budget revenue and budget expenditure sides.
- The macroeconomic correction is also necessary to reduce borrowing costs, alleviate pressure on the national currency, comply with the medium-term structural-budgetary plan, and prevent a downgrade of Romania’s sovereign risk rating.
- The 2025 deficit target of 7% of GDP is very ambitious, given the current revenue and expenditure structure, as Romania is among the EU countries with the lowest tax revenues (including social contributions).
- The budget projection for revenue growth was partly based on optimistic estimates regarding the absorption of European funds and improved collection by NAFA. On the expenditure side, the FC identified a need for additional allocations for goods and services and interest payments, mentioning that there are further risks related to staying within the projected levels for personnel and social assistance expenditures.
- Considering the above, based on a prudent approach to forecasting revenues and expenditures, and according to available data, the FC assessed the 2025 budget construction to be consistent with a cash deficit of around 7.7% of GDP.
- In the medium term, without fiscal policies to support the fiscal consolidation path on the revenue side as well, an adjustment of the budget deficit based solely on the expenditure side is not credible, with the balance of risks tilted towards recording higher deficits than those projected in the fiscal-budgetary framework for the 2026-2028 period. This observation is all the more relevant given the developments in the international environment and the major challenges facing economic policies, especially concerning defence spending and trade tensions.
- Adherence to the trajectories outlined in the medium-term structural-budgetary plan can serve as an anchor for fiscal consolidation.
- The structural-budgetary plan must take into account the consequences of an inevitable decrease in the contribution of European funds to the investment process and to supporting Romania’s economic development programs. A sharp decline in EU funds (as the NRRP ends and lower allocations from the MFF are expected) will affect the dynamics of potential GDP and, likely, the economic growth rate, unless the contribution of domestic resources increases as a

compensating factor. This anticipated decrease can be partially offset by an increase in the efficiency and quality of public investments.

The most important measures aimed at increasing revenues and limiting budget expenditure in the first part of 2025 were adopted through GEO No. 156/2024.

On the revenue side, starting in January, the Government, through GEO No. 156/2024, completely eliminated the income tax and social contribution exemptions for employees in the IT, construction, and agri-food sectors. GEO No. 156/2024 also increased the dividend tax rate from 8% to 10%, applicable to dividends distributed after January 1, 2025. At the same time, the microenterprise tax regime was modified as part of the process of broadening the tax base. The revenue threshold for qualifying as a microenterprise was reduced from €500,000 to €250,000 starting January 1, 2025, with the threshold set to decrease further to just €100,000 from January 1, 2026. Consequently, companies with a turnover exceeding €250,000 transitioned to the corporate income tax system in 2025, thus expanding the corporate income taxpayer base. Additionally, GEO 156/2024 removed the condition regarding revenues from consulting and management activities (max. 20% of total revenues) for applying the microenterprise tax and laid the groundwork for introducing the tax on special constructions. The application of this tax was substantiated by GEO No. 21/2025, published in April, which provided clarifications on the calculation and declaration mechanism for the tax on constructions. This amendment was necessary to create a clear legal framework to prevent misinterpretations and ensure voluntary compliance by taxpayers.

On the public expenditure side, the Government primarily adopted measures to limit personnel and social assistance spending. Through GEO No. 156/2024, it was decided that, starting January 1, 2025, the gross value of base salaries, function salaries, monthly allowances, bonuses, indemnities, compensations, premiums, and other elements of the salary system would be maintained at the November 2024 level. The value and the conditions for granting holiday vouchers were also limited. Concurrently, a freeze on hiring for vacant positions in public authorities and institutions was imposed from January 1, 2025, regardless of the financing source or subordination. This provision exempted unique positions. Furthermore, a maximum of 15% of the positions that subsequently become vacant could be filled, but only with strict approvals and within the budgeted personnel expenses. Regarding social assistance expenditure, GEO No. 156/2024 stipulated that pensions from the public system, service pensions, and military pensions would not be indexed, and that all categories of allowances and child benefits would be maintained at their November 2024 levels.

The budget execution for the first 6 months of 2025 recorded a cash deficit of 70.2 billion lei (approximately 3.7% of GDP), about 0.1 pp higher than the deficit recorded in the first 6 months of 2024 (3.6% of GDP) and up by 0.3 pp from the deficit in May 2025. Budget revenues increased compared to the same period in 2024 (+12.7%, a slower pace than at the end of May, when the growth was 13.6%), but their dynamic is below the target set in the 2025 budget, which projected a 16.2% revenue increase compared to the previous year's execution. Budget expenditures also grew compared to the first 6 months of 2024 (+12.1%, a rate similar to that recorded at the end of May), but their dynamic is faster than initially programmed in the budget, which had forecast an expenditure increase of only 10.3% compared to the 2024 execution.

Regarding budget revenues, the main concern relates to the lower-than-expected performance of VAT collections (+3.8% compared to the same period of the previous year, well below the 12.5% growth rate projected in the initial budget), especially since they represent the second-largest revenue category of the general consolidated budget, with a 20.4% share of the total revenues planned for 2025. On the expenditure side, the main concerns are related to the significant increase in interest payments (+43.3% compared to the same period of the previous year, substantially above the 15.4% increase foreseen in the initial budget, an evolution that reflects the budget deficit dynamics and Romania's high financing costs) and social assistance expenditure (+15.3%, well above the 8.2% growth rate planned in the initial budget, reflecting the full-year impact of the public pension recalculation measures from September 1, 2024, as well as the compensation for electricity and natural gas bills). It should be noted that social assistance expenditure is the largest category of budget spending, with a 30.2% share of the total expenditures programmed for 2025.

In conclusion, the analysis of the budget execution for the first 6 months of 2025 is likely to worsen the FC assessment made at the time of the draft budget's adoption, which had projected a cash deficit of around 7.7% of GDP. Consequently, in the absence of budget deficit correction measures, the dynamic of the main revenue and expenditure categories in the first half of 2025 is consistent with a cash budget deficit significantly above 8.5% of GDP. This assessment is reinforced by the latest EC[119] estimates, which place the ESA budget deficit at 8.6% of GDP, as well as by the EU Council's decision[120], dated June 13, 2025, which determined that Romania had not taken effective measures in response to the Council's recommendations. The unfavourable dynamic of budget execution is also reflected in the increase in public debt, which reached 56.6% of GDP[121] by the end of April 2025, according to the European methodology, and 61.1% of GDP[122], according to the national methodology.

In this context, considering the significant deviation from the budgetary consolidation trajectory established by the National Medium-Term Structural-Budgetary Plan (which projected an ESA budget deficit target of 7% for 2025), the risk of a sovereign rating downgrade (with significant consequences for access to international markets and financing costs), as well as the unfavourable international environment, marked by instability, trade, and armed conflicts, the adoption of a consistent package of measures to correct the fiscal imbalance represented an absolute urgency. It should be noted that in the National Structural-Budgetary Plan, agreed upon by Romania and the EC, the starting point for fiscal consolidation should have been a budget deficit of 7.9% of GDP in 2024 (while the actual deficit in 2024 was 9.3%), which makes the adjustment process more severe in the coming years. In the absence of a credible, firm package of measures, the risk of blocked access to financing and refinancing was imminent.

[119] https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/romania/economic-forecast-romania_en, May 2025.
[120] https://data.consilium.europa.eu/doc/document/ST-10157-2025-INIT/ro/pdf
[121] https://mfinante.gov.ro/static/10/Mfp/buletin/executii/EvdatguvconformUERo042025.pdf
[122] https://mfinante.gov.ro/static/10/Mfp/buletin/executii/Raportdatoriapub042025.pdf

At the beginning of July 2025, Parliament adopted the draft Law on certain fiscal-budgetary measures, published for public transparency on July 3, 2025. This package included measures aimed at both increasing budget revenues and decreasing budget expenditures. Some of these will be applied in the second half of 2025, while others will be implemented in 2026. In addition to this initial package of budgetary correction measures, the Government announced that further projects targeting public expenditure would follow.

On the budget revenue side, with application in the second half of 2025, the most important measures included: (i) increasing the standard VAT rate from 19% to 21%; (ii) maintaining a single reduced VAT rate, set at 11%, compared to the two reduced rates of 5% and 9% in force when the law was adopted; (iii) increasing excise duties by approximately 10% for alcohol and alcoholic beverages, by about 5% for processed tobacco, and by around 10% for energy products; (iv) introducing health insurance contributions for pensions exceeding RON 3,000; (v) increasing the surtax rate for credit institutions, applied to their turnover, from 2% to 4%, with the exception of credit institutions with a market share below 0.2%; (vi) increasing taxes for gambling operators and raising the lower tax rate for gambling revenues; and (vii) increasing road taxes. In 2025, the measures provided for in the analysed draft law could have a positive impact on budget revenues of approximately 0.5% of GDP, based on a prudent assessment. On the expenditure side, with application from 2025, the main measures involved restructuring the bonus system in the public sector, limiting the number of public sector employees who receive a meal allowance, reducing the number of beneficiaries of health services and, implicitly, the associated social assistance expenditures, and adjusting the calculation method for sick leave benefits. The impact of the expenditure reduction measures, as estimated by the MF, is approximately 0.1% of GDP in 2025.

In 2026, on the budget revenue side, the main change involved increasing the dividend tax to 16%, compared to the current 10% rate. Also in 2026, budget revenue execution will be positively influenced by the annualized impact of the measures coming into force in the latter part of 2025. For 2026, the MF estimates the impact of the revenue-side measures to be approximately 1.75% of GDP. On the expenditure side, for 2026, the draft law provides for, similar to 2025, freezing personnel expenditures and most social assistance spending (public pensions, service pensions, military pensions, other categories of allowances) at their December 2025 levels. These measures, together with those taking effect in 2025, will have an expenditure-reducing effect of about 1.6% of GDP.

In addition to this law, the subsequent packages of deficit reduction, announced by the Government, will include other measures for improving the efficiency of public sector spending and for prioritizing investment projects. Furthermore, renegotiating the NRRP could lead to the shifting of some projects, financed from the NRRP's loan component, to the grant component or to multiannual European funds. These measures will, in turn, also reduce budget expenditures.

The budgetary correction measures in the law adopted by Parliament indicate a budgetary impact of 0.6% of GDP in 2025 and 3.35% of GDP in 2026, creating the conditions for reducing the budget deficit in 2025 and, respectively, for meeting the budget deficit target in 2026. However, even with the reduction/prioritization of some public investment expenditures (planned for subsequent packages of measures), the budget deficit in 2025 will not fall below 8% of GDP. The budgetary correction, which entails a reduction in domestic absorption (affecting personal incomes and company revenues), is the price that must be paid to ensure the sustainability of public debt and to avoid a more severe adjustment. Unfortunately, this adjustment is taking place under highly unfavourable domestic and international conditions.

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Appendix – Glossary of terms

Adjustment program – a detailed economic program, usually supported by IMF resources, that is based on an analysis of the economic problems of the member country and specifies the policies implemented or that will be implemented by the country in the monetary, fiscal, balance of payments and structural areas to set the basis for economic stabilization and sustainable economic growth.

Aggregate demand – total expenditures of internal and external users for acquiring final goods and services produced in an economy. It is computed as the sum between internal demand and exports of goods and services.

Aggregate supply – represents all goods and services offered on the domestic market by all domestic and foreign operators. In other words, the aggregate supply is the total domestic production of economic goods plus foreign countries offer (imports).

Annual spending ceiling – the maximum amount, set by law, that can be allocated to a certain category of government spending in one year.

Arrears of the general consolidated budget – money loans or debt that have become overdue for more than 90 days following the breach of a contract between economic entities and the state as a result of contractual terms' violations.

Automatic disengagement – part of the budgetary commitment that is automatically disengaged by the European Commission if it remains unused or if no request for payment is received by the end of the third year after the budgetary commitment. The difference between the two values (the one allocated and the one forwarded to the Commission for reimbursement) is lost through the automatic disengagement procedure.

Automatic stabilizers – tools for self-regulating the economy with the aim of reducing economic fluctuations; for example: taxation in proportional percentage rates, social benefits for unemployment.

Balance of payments – accounting record describing the transactions concluded between a country and its external partners in a specified period of time.

Balance of the general consolidated budget – indicator computed as the difference between total public revenues and total public expenditures.

Base point – unit of measure for the interest rate, equivalent to 0.01%.

Budget revision – operation through which the budget is amended during a budgetary year.

Budgetary policy – financial policy of the state regarding budget expenditures; public resource allocation policy.

Buffer – a reserve established by the Ministry of Finance in the Treasury in order to cover in advance the financing needs and which serves to protect against the event of adverse conditions in financial markets.

Capital account – flows of capital transfers and acquisitions /sales of non-financial and intangible assets.

Cash methodology – involves recording revenues when they are actually received and recording expenditures at the time of payment.

Classification by function – the classification of expenditures based on their destination, in order to assess public funds allocations.

Clawback tax – charge imposed on the pharmaceutical industry that requires all manufacturers of medicinal products to help the funding of the public health system with part of the profits made from sales of subsidized drugs in excess of their allocated quota from the national health fund.

Cohesion Fund – financial instrument supporting investments in transport infrastructure and environment.

Conditionalities – economic policies that members intend to follow as a condition for the use of IMF resources. These are often expressed as performance criteria (for example, monetary and budgetary targets) or benchmarks, and are intended to ensure that the use of IMF credit is temporary and consistent with the adjustment program designed to correct a member's external payments imbalance.

Consolidation – the operation of eliminating transfers between two component budgets of the general consolidated budget, in order to avoid their double accounting.

Contagion – the transmission of shocks to several economic sectors, internally and abroad.

Contingency reserve fund – amount of money available to the Government, which is allocated to main authorizing officers from central and local budgets, based on the Government's decisions to finance urgent or unforeseen expenditures incurred during the year.

Contribution – compulsory imputation of a share from the revenues of employees or firms, with or without the possibility of obtaining a public service in exchange.

Countercyclical fiscal policy – fiscal policy behaviour which has the role of stabilizing the economic cycle and helps to reduce cyclical fluctuations and inflationary pressures from excess demand.

Country risk premium – additional return required by an investor to compensate for the increased risk posed by a certain investment in a country. This is reflected in CDS quotations which measure the cost of insuring against default risk.

Current account deficit – occurs when total imports of goods, services and transfers to a country exceed exports of goods, services and transfers from that country; in this case, that country becomes a net debtor to the rest of the world.

Cyclical adjustment of budget revenues – elimination of the budget revenues' component dependent on the demand excess/deficit (economic expansion/contraction), eliminating trend deviations; the level of cyclically adjusted budget revenues is the level that would have been collected if the GDP reached its potential growth.

Cyclical component of budget balance – modification of the budget balance due to cyclical developments in the economy.

Cyclically adjusted budget balance – the balance of the general consolidated budget, net of the cyclical component. It is a measure of the fundamental trend in the budget balance.

Direct public debt – total public debt, except for guaranteed public debt.

Disinflation – the process of reducing inflation.

Economic classification – the classification of expenditures based on their economic nature and effect.

ESA 2010 methodology (*European System of National and Regional Accounts*) – accounting reporting framework used internationally for a systematic and detailed description of an economy (region, country or group of countries), or its components and relationships with other economies. The main difference between ESA 2010 methodology and the cash methodology is that revenues and expenditures are recorded in "accrual" system (based on commitments, not actual payments as in the cash system). ESA 2010 methodology replaced ESA 95 methodology, being adopted in 2013.

Euro Plus Pact – it is also known as the Competitiveness Pact and its objective is the stability of euro area, Member States committing themselves to take measures to encourage competitiveness, employment and consolidation of public finances.

European Agricultural Guarantee Fund – European funds for the implementation of support measures for farmers.

European Regional Development Fund – Structural Fund which supports the less developed regions by financing investments in the productive sector, infrastructure, education, health, local development and small and medium enterprises.

European semester – additional tool for the preventive surveillance of economic and fiscal policies of the Member States; it is an annual cycle of economic and budgetary policy coordination, which takes place in the first six months of the year, in order to identify any inconsistencies and emerging imbalances of economic and fiscal policies that would violate the rules set out in the Stability and Growth Pact.

European Social Fund – Structural Fund for Social Policy of the European Union, which supports employment measures for labour and human resource development.

Eurosystem – the central banking system of the euro area. It comprises the European Central Bank and the national central banks of EU Member States from the euro area.

Excessive Deficit Procedure – the corrective arm of the Stability and Growth Pact that imposes penalties in cases of no prompt correction of excessively high deficits (having breached or being in risk of breaching the deficit threshold of 3% of GDP at market prices) or excessively high debt (having violated the debt rule by having a government debt level above 60% of GDP, which is not diminishing at a satisfactory pace. This means that the gap between a country's debt level and the 60% reference needs to be reduced by 1/20th annually on average over three years).

Exchange Rate Mechanism II – the exchange rate arrangement established on January 1, 1999 that provides a framework for exchange rate policy cooperation between the Eurosystem and EU Member States that are not in the euro area. Although membership in ERM II is voluntary, Member States with derogation are expected to join. This involves establishing both a central rate for their respective currency's exchange rate against the euro and a band for its fluctuation around that central rate. The standard fluctuation band is ±15%, but a narrower band may be agreed on request.

Excise duty – special consumption tax applied to domestic and imported products, borne by consumers and included in the sale price of certain specific commodities.

Expansionary fiscal policy – fiscal policy behaviour that has an accelerating effect on aggregate demand growth and may lead to an amplification of inflationary pressures.

Expansionary monetary policy – monetary policy that stimulates aggregate demand and a possible amplification of inflationary pressures.

Fee – amount paid as remuneration for services provided by an economic agent or a public institution.

Final consumption – component of the aggregate demand which includes private consumption and government expenditures for public goods and services.

Financial account – flows of transactions associated with ownership change regarding the assets or liabilities of a country. It includes foreign direct investments, portfolio investments, financial derivatives, other capital investments and reserve assets.

Fiscal Compact – part of the Treaty on Stability, Coordination and Governance signed on March 2, 2012 by all EU member states, except for the United Kingdom and Czechia. The treaty is aimed at strengthening fiscal discipline by introducing an automatic correction mechanism and stricter surveillance. The fiscal compact establishes a requirement for national budgets to be in balance or in surplus. This criterion is met if the annual structural government deficit does not exceed 0.5% of GDP at market prices. If public debt is significantly below 60% of GDP and risks posed to long-term public finance sustainability are low, the structural deficit may reach a maximum level of 1% of GDP.

Fiscal consolidation – policy aimed at reducing budget deficits and the accumulation of public debt.

Fiscal impulse – the impact of discretionary fiscal policy on aggregate demand. It is computed as the change of structural balance relative to the previous period; a positive value corresponds to an expansionary fiscal policy and a negative value to a restrictive fiscal policy.

Fiscal policy – policy that aims to influence the economy using the tax system.

Fiscal rule – a long-term constraint on fiscal policy through numerical limits on budgetary aggregates. Fiscal rules are intended to avoid pressure from incentives and excessive spending, especially in the upward phase of the economic cycle so as to ensure accountability in the management of public finances and public debt sustainability.

Fiscal space – 1. the difference between current public debt and a threshold of public debt that does not involve increasing costs for financing the deficit and which takes into account the historical evolution of fiscal adjustment; 2. financial resources available for additional expenditures required to implement development projects.

Fiscal strategy – public policy document designed to set out fiscal objectives and priorities, revenue and expenditure targets of the general consolidated budget and its components and the evolution of the budget balance for a three-year period.

Fiscal sustainability – a set of policies is said to be sustainable if the state is able to meet its debt payments without any major additional correction in the budget balance.

Fiscal/Tax revenues – budget revenues collected through taxation. Fiscal revenues include: personal income taxes, corporate income taxes, capital gain taxes, property taxes and fees, goods and services taxes and fees, taxes on foreign trade and international transactions, other taxes and fees, social security contributions.

GDP deflator – an indicator that reflects the change in prices of the goods and services composing the GDP; it is computed as a ratio between GDP in current prices and GDP in prices of the base year.

GDP deviation – an indicator that measures the difference between the actual GDP of an economy and its potential GDP. It is also known as output-gap.

General consolidated budget – the set of budgets (provided in art. 1 para. (2) of Law 500/2002 on Public Finances, to which local budgets are added), aggregated and consolidated to form a whole.

Guaranteed public debt – loans guaranteed by the Ministry of Finance and local government authorities.

Harmonized Index of Consumer Prices – consumer price index whose methodology has been harmonized between EU countries; the inflation objective of the European Central Bank and the euro area inflation rate are expressed based on this index.

Implicit tax rate – the ratio between the actual collected revenue for a specific type of tax and the corresponding macroeconomic tax base.

Inflation – reflects the widespread and persistent increase in prices and it is typically measured by the consumer price index.

Inflation target – is set by central banks that have adopted the inflation targeting strategy. The target can be set as a fixed level of inflation and/or as a range. The National Bank of Romania sets the target as a midpoint within a target band of +/- 1 pp.

Informal economy – legal economic activity, but hidden from public authorities in order to avoid paying taxes, social security contributions or to avoid compliance with legal standards on labour and with other administrative procedures.

Medium Term Objective – is the medium-term objective for the budgetary position and differs for each EU Member State. For states that have adopted the euro or are in the Exchange Rate Mechanism II, it is -1% of GDP or a budget surplus. Reassessment of medium-term objectives is done every four years or when a major structural reform is adopted.

Monetary policy interest rate – the interest rate used for the main operations of the NBR. At present, these are one-week repo operations, established by fixed interest rate auctions.

Nominal convergence criteria (Maastricht) – the four criteria set out in Article 140 (1) of the TFEU that must be fulfilled by each EU Member State before it can adopt the euro, namely: 1) the inflation rate must not exceed by more than 1.5 pp the average of the three best performing EU countries in this respect; 2) the long-term nominal interest rate must not exceed by more than 2 pp the average interest rate in the first three member states with the best performance in terms of price stability; 3) the public budget deficit must be less than 3% of GDP, the public debt to GDP ratio must be less than 60%; 4) exchange rate fluctuations must not exceed +/- 15% in the last two years preceding the examination.

Nominal variables – variables expressed in current prices.

Non-fiscal/Non-tax revenues – other budget revenues that do not include taxation, such as royalties, payments from SOEs' profit, fines, charges.

One-off component of the budget balance – component of revenues or expenditures that has a temporary nature.

Pillar 1 of the pension system – the name given to the state pension system; it has a compulsory character and is based on the redistribution of money collected during a financial year, the "pay as you go" system (present employees pay for the currently retired population).

Pillar 2 of the pension system – name given to the private pension system; it has a compulsory character for employees below the age of 35 years at the time of its introduction (2007) and aims to provide a private pension that supplements the public pension. Contributions to private pension funds are nominal and immediately after they are paid into the employee's account, they become his property.

Potential GDP – real GDP that can be produced by the economy without generating inflationary pressures. Potential GDP is determined by long-term fundamental factors such as organization of the economy and the productive capacity determined by technology and demographic factors that affect labour etc.

Primary balance of the general consolidated budget – the difference between total budget revenues and expenditures, excluding the interest payments with regard to public debt.

Primary structural budget deficit – structural budget deficit net of the "non-discretionary" component of the budgetary policy - interest expenses related to public debt; it is used in the analysis of the sustainability of fiscal policy.

Pro-cyclical fiscal policy – fiscal policy behaviour that does not fulfil a stabilizing role of the economic cycle but rather contributes to amplifying cyclical fluctuations and inflationary pressures from excess demand.

Proxy – a variable that estimates/approximates and replaces another variable, an unobservable one.

Quasi-fiscal deficit – takes into account public sector expenditures not recorded into the budget; particularly, it refers to the losses of state-owned enterprises which translate in the default of their financial obligations to the public budgets and public utilities.

Real convergence – reaching a high degree of similarity and cohesion of economic structures of the candidate countries; although the Maastricht Treaty does not mention real convergence criteria, these can be summarized by a series of economic indicators like GDP per capita, the openness of an economy, the share of trade with Member States in foreign trade, the structure of the economy.

Real GDP – represents the value of final goods and services produced in an economy in a given period, adjusted for price increases. Real GDP dynamics is used to measure the economic growth of a country.

Real variables – variables expressed in constant prices (the prices of a base year).

Reference interest rate – starting with September 1, 2011, the NBR's reference interest rate is the monetary policy interest rate, established by decision of the NBR's Board of Directors.

Relevant macroeconomic basis – macroeconomic aggregate on which proceeds from a certain category of budget revenues depend.

Restrictive monetary policy – monetary policy behaviour that constrains the aggregate demand in order to reduce inflation.

Royalty – payment to the holder of a patent, copyright or resource for the right to use their property.

S0 – an "early detection indicator" which is designed to highlight shorter term risks of fiscal stress (within a 1-year horizon) through the "signals approach".

S1 – indicator of the sustainability gap that shows the required increase in taxes or decrease in expenditures (as a percentage of GDP) subject to a debt level of 60% of GDP at the end of the period.

S2 – indicator of the sustainability gap that indicates the required fiscal effort (as a percentage of GDP) subject to the inter-temporal budget constraint on an infinite time horizon.

Seasonality – periodic pattern in the evolution of an economic variable that systematically appears at certain times of the year.

Stability and Growth Pact – consists of two EU Council Regulations, on "the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies" and on "speeding up and clarifying the implementation of the excessive deficit procedure", and of a European Council Resolution adopted at the Amsterdam Summit on June 17, 1997. More specifically, budgetary positions close to balance or in surplus are required as the medium-term objective for Member States since this would allow them to deal with normal cyclical fluctuations while keeping their government deficit below the reference value of 3% of GDP. In accordance with the Stability and Growth Pact, countries participating in EMU will submit annual stability programs, while non-participating countries will provide annual convergence programs.

Stand-by Arrangement – an arrangement for an IMF member through which the country is assured that it will be able to make purchases (drawings) from the General Resources Account up to a specified amount and during a specified period of time, usually one to two years, provided that the member respects the terms set out in the supporting arrangement (see **Conditionalities**).

Stock-flow adjustment of public debt – process that ensures consistency between changes in the debt stock and net lending flows. It takes into account accumulation of financial assets, changes of foreign currency debt and statistical adjustments.

Structural budget balance – is determined by subtracting the temporary elements (one-offs) from the cyclically adjusted budget balance.

Structural budget deficit – the budget deficit that would be recorded if GDP was at its potential level; it is the size of the deficit recorded in the absence of business cycle influences.

Swap – chain compensation scheme for outstanding obligations to the general consolidated budget; operation that implements the extinction of outstanding budgetary obligations, with equivalent impact on revenues and expenditures.

Tax – compulsory and non-refundable levy, without immediate and direct compensation, charged by a public authority with the purpose of financing public goods and services.

Taxation efficiency index – index through which it is measured the effectiveness of tax collection. It is computed as the ratio between the implicit tax rate and the statutory tax rate.

Trade balance – section of the balance of payments that records the difference between exports and imports of goods and services made in a certain period of time.

Voluntary compliance – principle under which taxpayers will comply with the tax laws and, more importantly, will accurately report income and the deductions they benefit from, without direct compulsion by the authorities empowered to do so.