



## **Fiscal Council's Opinion on the State Budget Law for 2026, the Social Security Budget Law for 2026 and the 2026-2028 Fiscal Strategy**

On 5 March 2026, the Ministry of Finance (MF) submitted to the Fiscal Council (FC), via address no. 491107/05.03.2026, the Report on the macroeconomic situation for 2026 and its projection for the 2027-2029 period, the Draft state budget law for 2026, the Explanatory Memorandum, the Draft state social security budget law for 2026, the Explanatory Memorandum, and the Draft law for the approval of ceilings for certain indicators specified in the fiscal framework for 2026, requesting, based on Article 53, paragraph (2) of the Fiscal Responsibility Law No. 69/2010 (FRL) (republished), the FC's opinion on these documents.

According to Article 53, paragraph (4) of the FRL, the Government and Parliament are required to analyze FC's opinions and recommendations when developing the fiscal strategy, the annual budget laws, as well as when drafting other measures derived from the application of the FRL, and to consider/approve them accordingly.

The FC's opinion is based on the documents received from the Ministry of Finance up to March 11, 2026. A prolongation of the war in the Middle East, accompanied by persistently high prices for oil, natural gas (including liquefied natural gas), would call into question certain assumptions underlying the budget framework.

### ***Summary***

- Romania's budget for 2026 has been adopted with a considerable delay. This situation reflects not only difficulties in the functioning of a broad coalition, but also complicated decisions regarding fiscal consolidation in a tense social and economic context.
- Shortly before the government adopted this year's budget, a war broke out in the Middle East. If it proves to be prolonged, it will have severe consequences for European economies, including Romania's, through the channel of a new energy shock; economic growth and inflation will be affected. The budget deficit could nevertheless remain close to the planned level if the effect of higher inflation (than forecast) on nominal GDP compensates for weaker economic dynamics.

- The absence of a program to restore public finances placed Romania in an extremely difficult situation in the first part of 2025, when the prospect of a downgrade of its sovereign rating was looming.
- The increase in taxes, although painful for citizens, was necessary. Cutting expenditures alone (as was sometimes argued in the public debate – without, however, providing plausible numerical support) would not have made it possible to reach the deficit target.
- It is bold to speak about an “economic recovery” in 2026, a year in which fiscal (budgetary) consolidation is underway.
- Public investments can support production and aggregate demand in 2026 as well, but they cannot offset the negative fiscal impulse required by fiscal consolidation.
- However, one can speak about economic policy measures aimed at supporting vulnerable citizens and certain firms.
- The problem of the budget deficit was caused not by investments, but by the excessive stimulation of consumption and the neglect of the need to have higher fiscal revenues, appropriate to the needs of an EU member state.
- Reforms in the public sector are important for its efficiency and can help reduce the budget deficit; these reforms are also important from the perspective of economic and social equity. However, such reforms take time, as they involve institutional factors, social behavior, and interest groups with significant power in society.
- Fiscal consolidation is necessary to keep public debt under control, which has exceeded 60% of GDP.
- If the VAT gap and the corporate tax gap are substantially reduced, and together with other measures (e.g., controlling budget expenditures in relation to the dynamics of nominal GDP), the deficit could fall below 4% of GDP within a few years.
- For sustainable fiscal consolidation and the creation of fiscal space, tax collection must become much more efficient (the National Agency for Fiscal Administration – NAFA – has an essential role in this area), an effective insolvency regime must operate (which requires legislative changes), and the sense of impunity that many who defraud the public budget currently feel must disappear. The justice system must also work more actively in this regard.
- Increasing fiscal revenues through much better tax collection (reducing the VAT gap and gaps in other taxes) is an internal “war” that Romania must win. This will also test political will and the capacity to overcome opposing interest groups. It may sound naïve, but the stakes are enormous; the low level of fiscal/budgetary revenues is a matter of national security, given the pressures on the public budget.
- The relationship between the growth rate of nominal GDP (the real growth rate plus the deflator) and the cost of borrowing (public debt rollover) must be taken into account. Under favorable conditions, this relationship can support fiscal consolidation,

but there is also the other side of the coin. The electoral year 2028 also poses risks for budgetary consolidation. Moreover, the relationship mentioned above can be disrupted by external shocks.

- A challenge for fiscal consolidation is the need to increase defense spending.
- Fiscal consolidation is absolutely necessary to improve Romania's sovereign rating. If the deficit were to remain stuck at around 6% of GDP in the coming years, it is unlikely that the current sovereign rating would improve; it could even deteriorate if public debt is not stabilized.
- Accession to the euro area cannot take place as long as Romania does not maintain small budget deficits (below 3% of GDP) and sustainably low inflation.
- The increasingly high level of uncertainty in the international system, the erosion of rules and arbitrariness in the policies of some countries, the return to spheres of influence and a new arms race, wars, and widespread disorder all place growing pressure on national budgets and create major challenges for both public and private policies.
- A shift appears to be taking place (which needs to be confirmed by subsequent data) in the center of gravity of economic growth – from consumption toward investment and net exports – against the backdrop of substantial public sector investments. However, the efficiency of public investments (from all sources of financing) remains low; economic growth, even under conditions of very significant investments in quantitative terms (around 6.7% and 7.2% of GDP in 2024 and 2025), has not exceeded 1 percentage point.
- The macroeconomic forecast used for the draft budget and the fiscal strategy is realistic. However, it is worth noting the need for greater caution regarding the trajectory of the effective interest rates on government securities – which determine the projected path of interest expenditures. Another element that requires a more prudent approach is the dynamics of the public sector wage bill over the horizon of the fiscal strategy.
- The realism of the projection may be eroded by the materialization of risks generated by geopolitical tensions stemming from the conflict that began at the end of February this year in the Middle East. However, it is still too early to quantify the magnitude and persistence of these shocks, which would be strictly necessary in order to incorporate them into the baseline fiscal and macroeconomic scenario.
- The high levels of the external deficit (either the current account deficit of the balance of payments or the trade deficit), in the context of an unfavorable financing structure, represent a major vulnerability of the Romanian economy. They increase the risk of a sudden stop (a sudden interruption of financing) and thus constitute, in themselves, a reason for the need for fiscal adjustment, which would also reduce financing needs and stabilize the trajectory of public debt.

- The numerous and significant internal and external risks (in terms of their potential/possible effects), combined with the vulnerable position of the Romanian economy – given the atypically large twin deficits (even for emerging economies, whose development is often marked by imbalances) and public debt exceeding 60% of GDP (a very high level for a country with Romania’s economic characteristics) – underscore the urgency and necessity of fiscal adjustment, a *sine qua non* process for easing and mitigating these vulnerabilities.
- The budget framework for 2026 envisages a cash budget deficit of 6.25% of GDP, representing a reduction of 1.4 pp of GDP compared with the level recorded in 2025. This reduction is planned in the budget through an increase in total revenues by 1.3 pp of GDP, while total expenditures are planned to decrease marginally by 0.1 pp of GDP.
- Excluding the impact of EU funds aggregates, the other categories of revenues are planned to increase by 0.46 pp of GDP, while the remaining categories of expenditures are set to decrease by 1.44 pp of GDP. Thus, the budgetary correction in 2026 is planned to be achieved predominantly on the expenditure side.
- The analysis of the Ministry of Finance’s forecast regarding budget revenues for 2026, taking into account the National Commission for Strategy and Prognosis (NCSP) projection on macroeconomic developments and the adopted fiscal policy measures – including the contractionary macroeconomic effects of consolidation measures – appears to indicate an achievable value for the aggregate revenue target, albeit surrounded by uncertainties and risks.
- The Fiscal Council considers that there are premises for staying within the ceilings established for the expenditures of the general consolidated budget. However, the budget is built on the assumption of strict control over these expenditures, and the experience of previous years has shown how difficult such an undertaking can be. Depending on developments in the national and international economic environment, there are risks regarding compliance with the projected levels, particularly in the case of expenditures on interest, goods and services, and social assistance.
- There are uncertainties regarding the full implementation of projects under the National Recovery and Resilience Plan (NRRP). The inability to fully absorb these funds would not only deprive the economy of a growth engine, but could also lead to an unexpected increase in the budget deficit, thereby jeopardizing the fiscal consolidation trajectory.
- **Based on a prudent approach to forecasting revenues and expenditures, the Fiscal Council considers the budget framework for 2026 to be compatible with a cash deficit of around 6.25% of GDP. This assessment by the Fiscal Council does not take into account either the potential severe effects of the war in the Middle East or any possible measures associated with them.**
- The plausibility of the projection of budget revenues and expenditures is closely linked to the evolution of the macroeconomic framework, with the escalation of global

tensions raising additional risks. A prolongation of the conflict in the Middle East could have a negative impact on economic growth and tax bases, as well as increase risk aversion in international financial markets.

- The analysis of the fiscal-budgetary framework for the 2027-2029 period shows that, compared with 2026, the reduction of the budget deficit in the medium term is planned to be achieved mainly on the expenditure side. Fiscal revenues are projected to increase by only 0.5 pp of GDP, while social security contributions are expected to decrease by 0.1 pp of GDP. Regarding the adjustment on the expenditure side, the Fiscal Council has signaled risks concerning the projected trajectories for personnel expenditures, social assistance, and interest payments, as well as the need to reflect increasing military expenditures, which may not allow for a significant adjustment in investment spending.
- In the absence of support for the consolidation process on the revenue side, adjusting the budget deficit over the medium term – based predominantly on reducing expenditures – raises questions. Under these circumstances, the balance of risks appears tilted toward the possibility of recording larger deficits than those estimated in the fiscal-budgetary framework for the 2027-2029 period. A substantial improvement in the collection of fiscal revenues would greatly help in achieving the budget deficit targets in the coming years.
- An increase in budget revenues is mandatory to ensure compliance with the consolidation trajectory and to exit the excessive deficit procedure by 2030.
- Although the budget deficit declined in 2025 and is projected to adjust toward 6.25% of GDP this year, the continuation of the budgetary consolidation process is mandatory. If the correction of the deficit were not to continue in the coming years (the no-policy-change scenario), public debt would follow a steep upward path, reaching around 80% of GDP by 2034. Such a trajectory would not be sustainable, and financial markets would penalize it.
- By contrast, in the scenario of continuing budgetary consolidation after 2026, in line with the trajectory of net primary expenditures recommended by the European Commission, public debt would reach a peak of about 63% in the 2027-2028 period. Subsequently, starting in 2029, public debt would follow a downward path, falling below 60% of GDP by 2030. There is a time lag between the adjustment of the deficit and the stabilization of the debt trajectory.
- A structural risk with a direct impact on the consolidation period is represented by the dynamics of social assistance expenditures. Mitigating this risk requires structural measures aimed at increasing the participation of able-bodied individuals in the labor market, gradually adjusting the retirement age in line with changes in life expectancy, and eliminating exceptions to the standard retirement age.
- The stress analysis of public debt sustainability indicates a high vulnerability to adverse shocks, reinforcing the need to continue fiscal consolidation to ensure macroeconomic

stability and highlighting the importance of creating fiscal space that would allow the absorption of future shocks.

- The absorption of European funds, an essential financial resource for the sustainable development of the economy and for maintaining fiscal-budgetary and financial-exchange rate balances, has faced major difficulties and significant delays. With regard to the European funds related to the 2021-2027 Multiannual Financial Framework (MFF), by the end of November 2025 the effective absorption rate was 15.2% for National Programmes, and 13.4% for the total of National and Regional Programmes.
- The low level of achievements over a period of almost five years, relative to the deadline for completing all milestones and targets under the National Recovery and Resilience Plan, namely August 2026, makes it extremely difficult to recover the delays in just six months. This entails the risk of losing significant amounts of European funds and failing to implement important reforms and investment projects.
- European funds will continue to represent an essential element for the domestic investment process. It is vital to succeed in fiscal consolidation and to move toward a growth model that targets sectors with higher value added and reduces external imbalances.
- The importance of public expenditure reviews is supported by the rule anchoring net primary expenditures in the new governance framework.
- By the end of 2025, the Government of Romania, through the Ministry of Finance and several line ministries, conducted public spending reviews in the following areas: education, health, environment, and transport (ongoing). It also approved, through a memorandum, the Public Expenditure Review Strategy for the 2024-2030 period.
- The *ex-post* evaluation of the public spending reviews for education, health, and environment carried out by the Fiscal Council highlighted that these analyses were conducted within a formalized procedural framework, involving interinstitutional working groups and showing a tendency to align with international best practices for spending reviews. Regarding the *ex-post* evaluation of the public spending review in the transport sector, the Fiscal Council noted that the Report on the spending review in transport is not available for the general public.