Fiscal Council of Romania

Fiscal Council's Opinion
on the Draft Law on Certain Fiscal-Budgetary Measures

Summary: A self-inflicted budget crisis!

The very serious budget situation and the risk of a downgrade

- Romania is one of the eight EU member states currently subject to the excessive deficit procedure (EDP), holding the highest budgetary imbalance. It is a positive development that an agreement was reached with the European Commission for the macroeconomic adjustment (of the budget deficit) to be spread over several years, considering the reforms involved and the magnitude of the correction – from over 9% of GDP, taking into account the full impact of the pension recalculation, to below 3% of GDP. In November 2024, the EU Council approved Romania's National medium-term fiscal-structural plan (MTP).

- At the beginning of 2020, Romania was the only EU member state under the excessive deficit procedure, with a structural deficit of around 4.5% of GDP and a large primary deficit.

- Election years cannot justify major imprudence in the management of public finances. The current major budgetary issue, which is also one of balance of payments, as well of credibility, must be addressed in a deteriorating European and international context. The domestic context is also highly tense.

- The budget deficit reached 9.3% of GDP (ESA methodology) (or 8.65% in cash terms) in 2024, the highest in the EU, exceeding even the level recorded during the pandemic year (9.2%). **The deficit deepened primarily due to an increase in permanent expenditures.**

- The budget deficit is accompanied by a current account deficit, which in 2024 exceeded 8% of GDP – the highest in the region – and is financed predominantly through borrowing.

- **In the absence of a credible correction package with upfront measures, the risk of a downgrade is very high.**

- We are forced by circumstances to be procyclical (when the economy slows down), because there have been many mistakes in fiscal policy in recent years (through procyclicality when the economy was recovering after the pandemic and the energy crisis).
- **The public debate is full of confusion, ideological biases, and fundamentalisms. An example is the claim that budget adjustment can only be done on the expenditure side.**
- There is an additional burden from the increase in military expenditures. Reducing tax evasion can help in this regard, considering the VAT collection gap of approximately 30%.
- **The 2025-2026 budget correction package can prevent Romania's sovereign risk downgrade.**

There is no alternative to a severe correction

- **The optimality of the examined correction package is difficult to assess, especially since distributional aspects (including equity) and second-round effects come into play.**
- **The budget correction, which means a reduction in domestic absorption (affecting personal incomes and company revenues), is the price we must pay to ensure public debt sustainability and avoid an even more severe correction.**
- In Romanian society, each social or interest group seeks to minimize its contribution to the adjustment effort. What matters is to avoid deadlocks and social disorder.
- **Even if we consider that the real GDP growth rate could be lower – under the implementation of the fiscal adjustment package –, the evolution of the GDP deflator (and the inflation rate) in the NCSP projection can offset such a trend, given that what matters for the fiscal sector are not the real changes in variables, but the nominal changes (in tax bases).**
- The substantial fiscal adjustment package will have a significant effect in reducing the external imbalance.
- **The analysis of budget execution for the first five months of 2025 is likely to worsen the Fiscal Council's assessment from the time the budget draft was adopted, which projected a cash deficit of around 7.7% of GDP. Thus, in the absence of adopting corrective measures for the budget deficit, the dynamics of the main revenue and expenditure categories in the first part of 2025 are consistent with a cash budget deficit exceeding 8.5% of GDP.**

- **The Fiscal Council considers that adopting a consistent package of measures to correct the budget imbalance is an absolute urgency. In the absence of a credible and firm package, the risk of blocked access to financing and refinancing becomes imminent.**

Review of measures and their impact on the budget deficit

- **This analysis concerns only the draft law on certain fiscal-budgetary measures, published for public transparency on July 3, 2025. In addition to this draft, two more packages targeting public expenditures will follow.**

- **In 2025, the measures provided by the draft law on budget correction could have a positive impact on budget revenues, in a prudent estimate, of about 0.5% of GDP.**

- **The Ministry of Finance estimates the effect of expenditure reduction measures at around 0.1% of GDP in 2025, assuming no reduction in public investments.**

- **In 2026, the positive impact of the measures proposed by the draft law on the revenue side, projected under a no-policy-change scenario, is about 1.75% of GDP. This figure aligns with the recommendation of the EU Council from June 23, 2025, to increase budget revenues by 1.7% of GDP.**

- **In addition to the measures included in this package, considering the commitments assumed under the NRRP (National Recovery and Resilience Plan) and the MTP, it is likely that in 2026 there will also be a revision of the property tax calculation method and the introduction of an environmental tax on means of transport. Both measures would have an additional positive effect on the budget revenue trajectory.**

- **In 2026, the impact of expenditure adjustment measures, projected under a no-policy-change scenario, is about 1.6% of GDP.**

- **In addition to the measures included in this draft law, it is likely that the next two announced government packages will include further measures to improve the efficiency of public sector spending and to prioritize investment projects.** Also, the renegotiation of the NRRP may lead to shifting some projects, currently financed through the loan component of the NRRP, towards the grant component or multiannual European funds. These measures would, in turn, reduce budget expenditures.

- **The draft law indicates a budgetary impact of 0.6% of GDP in 2025 and 3.35% of GDP in 2026, creating the premises for reducing the budget deficit below 8% of GDP in 2025 and for meeting the budget deficit target in 2026.**

- **For 2025, the reduction/prioritization of some public investment expenditures (which would be included in the upcoming packages) would bring the budget deficit to around 7.5% of GDP.**

- **The deficit correction measures must be included in the budget revision project and serve as the basis for the new budget deficit trajectory.**

- **The Fiscal Council's analysis considers first-round effects, although there are also second-round effects related to GDP dynamics in connection with the adopted budget deficit correction measures. The second-round effects cannot outweigh the first-round effects and cannot decisively erode the positive impact of these measures on the budget deficit in 2025 and 2026.**

- At the end of May 2025, according to Ministry of Finance data, **the effective absorption rate of Structural and Cohesion Funds from the 2021-2027 Multiannual Financial Framework (excluding advances) was only 5.2%**[1], an extremely low level for the midpoint of the financial exercise, making it difficult to catch up on delays, even though Romania will continue to benefit from the n+3 rule.

- The implementation of the reform and investment measures outlined in the NRRP is facing major difficulties and significant delays, given that all milestones and targets, including related payment requests, must be completed by August 2026. Currently, Romanian authorities are negotiating with the European Commission a revision of the NRRP, aiming for full absorption of non-reimbursable funds, simplification of targets and milestones, maintaining mature projects with a low risk of implementation by August 2026, rescheduling payment requests, with the fourth request planned to be submitted this fall and reimbursed by the end of the year at the latest.

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- ***The budget correction, which means a reduction in domestic absorption (affecting personal incomes and company revenues), is the price we must pay to ensure public debt sustainability and avoid a more severe adjustment.***

[1] https://mfinante.gov.ro/static/10/Mfp/buget/sitebuget/BFN2025_05_31.pdf

Fiscal Council's Opinion
on the Draft Law on Certain Fiscal-Budgetary Measures

On July 3, the Ministry of Finance (MF) submitted to the Fiscal Council (FC)[2], via address 564697/03.07.2025, the draft law on certain fiscal-budgetary measures, requesting, based on Article 53, paragraph (2) of the Fiscal Responsibility Law No. 69/2010 (FRL) (republished), the FC's opinion on this document.

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.

1. Context

"The draft budget for 2025 starts from the necessity of reversing the trend of budget deficit increasing, and this is not only because the MTP dictates it; a responsible fiscal policy demands it, as does the need to prevent a downgrade of Romania's sovereign risk to investment junk status. Romania's borrowing costs are the highest among EU states" (Fiscal Council's Opinion on the State Budget Law for 2025)[3].

1.1. A self-inflicted budget crisis!

A series of major adverse shocks (the pandemic, with the partial shutdown of the economy; the energy shock and the sharp inflationary surge of 2022; the invasion of Ukraine; the cost-of-living crisis; trade tensions) cannot alone explain Romania's large structural budget deficit. It is worth recalling that, at the beginning of 2020, Romania was the only EU member state under the excessive deficit procedure, with a structural deficit of around 4.5% of GDP and a large primary deficit[4].

Election years cannot justify major imprudence in the management of public finances. The serious budgetary issue, which is also one of balance of payments, as well of credibility, must be

[2] The Fiscal Council's opinion assesses the draft law on certain fiscal-budgetary measures in the form received from the Ministry of Finance.
[3] Numerous documents from the Fiscal Council have highlighted the imprudence of budgetary policy in recent years and the need for fiscal consolidation, emphasizing that the adjustment cannot rely solely on the expenditure side, and that tax revenues (the lowest in the EU, except for Ireland) need to increase.
[4] See Table 1, in the Annexes, for Romania, with comparative figures for the 2022-2024 period.

addressed in a deteriorating and unfavorable European and international context. The domestic context is also highly tense.

1.2. A severely deteriorated European and international context

The world is witnessing a trade war, rising protectionism, and the continued erosion of multilateralism in the structuring of economic relations between states, leading to the fragmentation of the global economy. The strong appreciation of the euro against the US dollar[5] may prove to be a poisoned gift, as it is not based on high EU competitiveness in cutting-edge sectors (see also the Draghi Report), and could slow down European economies. Inflation dynamics in Europe have been on a downward path and are now close to the ECB's target for the euro area.

Military security concerns and geopolitical tensions are becoming an obsession for governments, and NATO (see also the decisions from the high-level summit in The Hague in June this year) is calling on member states to increase military spending towards 5% of GDP – a target that could seriously disrupt many public budgets.

1.3. A budgetary slippage unique within the EU, which has made access to financing and refinancing more difficult – an imminent balance of payments crisis looming in the absence of the necessary correction

Romania has made undeniable progress in recent decades, especially after joining the EU – illustrated by GDP per capita (at purchasing power parity), infrastructure, and more. However, the macroeconomic developments of recent years have been unsustainable and have led to a very precarious state of public finances and an imminent balance of payments crisis.

The budget deficit, reaching 9.3% of GDP (ESA) (8.65% under the cash methodology) in 2024 (the highest in the EU), which is higher than the deficit during the pandemic year (9.2%), **has deepened mainly due to an increase in permanent expenditures**.

At the end of 2024, the country's public debt stood at 54.6% of GDP, and its growth rate is rapid (from approximately 35% of GDP before the pandemic). Those who point out that other EU countries have considerably higher public debts present a flawed argument; Romania is not in the eurozone, there is currency risk, and large budget deficits make access to financing more difficult and can trigger nervous market reactions. Those who note that other countries also have large budget deficits fail to consider the full picture. For instance, Poland had a budget deficit of 6.6% in 2024, but a current account deficit below 1% of GDP – whereas Romania's was over 8% in 2024. Slovakia also had a budget deficit above 5% of GDP in 2024, but it is in the eurozone and does not face currency risk.

[5] The euro was trading above 1.17 USD at the beginning of July this year.

The budget deficit is accompanied by a current account deficit, which in 2024 exceeded 8% of GDP, the highest in the region (see Table 2 in the Annexes). The Czech Republic, Poland, and Hungary have small deficits or even surpluses. The financing of the current account deficit was predominantly through loans (about two-thirds of the total in 2024), which explains the increase in external public debt.

The National Bank of Romania does not issue reserve currency, so it cannot engage in special operations when needed; interventions have taken place but were limited, only to help the money market function.

Romania must reduce its budget deficit to 3% of GDP by the end of the decade.

1.4. Romania faces a severe currency constraint: in the absence of a credible correction package with upfront measures, the risk of a downgrade is very high

Romania faces increasingly difficult access to financing and refinancing. Although Romania has an investment grade sovereign rating, it is at the lowest level and risks a downgrade.

The credibility of public policies is strongly affected, and it should not be overlooked that financial markets operate based on a "track record" (history of concrete results) and perceptions.

We are forced by circumstances to be procyclical (when the economy slows down) because there have been significant mistakes in budgetary policy in recent years (through procyclicality when the economy was recovering after the pandemic and the energy crisis).

1.5. The public debate is full of confusion, ideological bias, and fundamentalisms

There are a number of mistaken theses that perpetuate confusion and a lack of realism in addressing the current budget crisis. Thus, it is claimed that:

- correction can be made exclusively on the expenditure side;
- tax revenues should be better collected before increasing taxes. The urgency Romania faces, the functioning of financial markets, and the fact that promises like those made in previous years cannot be repeated are not understood – this is a matter of credibility and seriousness;
- only the private economy creates jobs. It is ignored that there are public goods that even the private economy needs;
- low tax revenues reflect a social contract, and the State should not take more from citizens;
- European funds finance both the budget deficit and the current account deficit;
- the listing of state-owned companies on the stock exchange can solve the deficit problem. The magnitude of the required budget correction (from 9% to 3% of GDP) is

underestimated, and the resources obtained from such listings do not affect the structural deficit. However, listings can improve the performance of some state-owned companies;
- the deficits in 2023 and 2024 are explained by investments; this is false, given that a large part of public investments is financed by European funds;
- having a low income means not working enough – this is a mistaken interpretation of how society functions and of the socio-economic model in the EU.

It is true that when a budgetary/fiscal reform involves the incomes of people and companies, disputes take on paroxysmal tones and emotions are heightened. However, it is no less true that theses and confusions like those mentioned above show a lack of understanding of how serious Romania's budgetary situation is.

Romania could quickly face a cutoff in access to financing, a sudden stop caused by its own errors in budgetary policy.

1.6. The analogy with the year 2009 makes sense but has limited relevance

In 2008-2009, markets froze everywhere. Romania's public debt was much lower (12-13% of GDP). The external imbalance was also caused by the private economy, which had benefited from large capital inflows after joining the EU.

At the beginning of 2020, Romania was the only EU country subject to EDP, with a structural deficit of around 4.5% of GDP. In the same year (the pandemic year), the deficit sharply increased to 9.2% of GDP, due to the partial shutdown of the economy – as happened in all countries, of course, but to varying degrees. In 2021, the deficit nearly adjusted itself after the pandemic, to 7.2% of GDP. In 2022, the surprise inflation was not used to further reduce the deficit – the ESA deficit stood at 6.2% of GDP. In 2023, the deficit began to rise again, and 2024 was the year of massive slippage.

There was no focus on increasing tax revenues (which are the lowest in the EU – around 27% of GDP, compared to an EU average of 40%), nor on reducing the VAT gap.

Romania faces an acute twin deficit problem and must firmly reduce the budget deficit in the coming years to ensure the sustainability of public debt.

The growth rate (g) of nominal GDP must not be lower than the growth rate of public debt (r) – which depends on the primary deficit and the public debt service. This is a difficult condition to achieve over time if the real GDP growth rate is low and the deflator does not favor nominal GDP growth. We should aim to achieve a primary surplus in the long term.

We must also consider the additional burden of increasing military expenditures. Reducing tax evasion can help in this regard, given the approximately 30% VAT collection gap.

1.7. The 2025-2026 correction package can prevent the downgrade of Romania's sovereign risk[6]

There is no alternative to a severe correction. The optimality of the examined correction package is difficult to assess, especially as distributional aspects (including equity) and second-round effects come into play; moreover, there is no time for fine tuning, as it is sometimes requested.

According to some high-ranking government officials, progressive taxation and an increase in the flat tax rate were among the options presented for analysis to those who decided on the package of measures (options also suggested by the IMF, World Bank, and European Commission). Ultimately, the choice was made to increase VAT and other taxes, along with expenditure cuts.

In Romanian society, each social or interest group seeks to participate as little as possible in the adjustment effort. It is important to avoid deadlocks and social disorder.

Times are difficult and turbulent, almost everywhere in the world. We must primarily help ourselves. However, there must be solidarity in the face of difficulties to avoid greater harm – a brutal correction of the deficit forced by the markets, through the loss of access to financing and refinancing.

The budgetary correction, which means a reduction in domestic absorption (affecting personal incomes and company revenues), is the price we must pay to ensure the sustainability of public debt and avoid a more severe adjustment.

2. The macroeconomic framework underpinning the law on certain fiscal-budgetary measures

The law on certain fiscal-budgetary measures starts, in presenting their necessity and implicitly calculating their impact, from the macroeconomic framework that underpins the deficit projection for 2025 and 2026. The coordinates of this macroeconomic scenario are presented in the latest projection (and the accompanying note) of the National Commission for Strategy and Prognosis (NCSP) dated May 14, 2025, and their assessment requires taking into account the latest developments of the main indicators characterizing the Romanian economy.

The main developments in this forecast, based on recent information, can be summarized as follows: (i) the pace of projected economic growth (for the current year and 2026) is slowing down; (ii) the size of imbalances (internal, mainly represented by inflation, and external,

[6] It is worth noting the evolution of the BET index and the yield on Romanian government bonds following the public disclosure of the legislative package.

represented by the current account deficit of the balance of payments) is increasing; and (iii) labor market indicators show a further, but marginal, tightening.

This revision of forecasts, especially for GDP, is based on the latest available historical data – those for the first quarter of 2025, published by the National Institute of Statistics (NIS) on June 6, 2025 (0.0%[7]). These data indicate stagnation of GDP quarter-on-quarter in Q1 2025 and a weak, zigzag evolution of this indicator during 2024 (small contractions of real GDP in Q1 and Q3 2024 and timidly positive dynamics in the other two quarters of the year). Regarding year-on-year GDP dynamics, it has been in a process of constant deceleration since Q3 2024, with the current value of +0.3% (Q1 2025 compared to Q1 2024[8]) reflecting the inertia/persistence of the previously higher economic growth and still significant fiscal impulse, partially offset by external and financial-monetary conditions that act to temper economic activity.

The GDP growth of 0.3% in Q1 2025, from the perspective of the production approach, is driven by: (i) negative developments in sectors such as industry (contribution of -0.5 pp) and professional and related activities (-0.2 pp); (ii) stagnation in sectors such as agriculture, trade, financial intermediation and insurance, as well as entertainment and related activities (all with 0 pp contribution); (iii) growth recorded in sectors such as construction (+0.4 pp), information and communications (0.1 pp), real estate transactions (0.1 pp), public administration and related activities (0.1 pp), and net taxes on products (0.3 pp).

From the perspective of the expenditure approach to calculating GDP, we can observe: (i) the predominance of consumption in explaining the growth (+2.5 pp out of the year-on-year increase of 0.3%), accompanied by the contribution of (ii) gross fixed capital formation with +0.9 pp[9] and inventory variation with +1 pp. Acting in the opposite direction are (iii) net exports, with a negative contribution of -4.1 pp, driven by a negative evolution of exports (contribution of -0.3 pp) and a positive and relatively rapid increase in imports (negative contribution to GDP dynamics of 3.8 pp) — which reflects both the deterioration of the trade balance and the increase/acceleration in the current account deficit of the balance of payments.

The decelerating trajectory of economic growth, which also starts from a very low level (GDP growth for the entire year 2024 was only 0.8%), may plausibly indicate, *ceteris paribus*, that economic dynamics for both the current year and 2026 will be lower (compared to the previous projection by NCSP) – which is also visible in higher-frequency indicators available closer to the current period.

[7] See the seasonally adjusted GDP series, with quarter-on-quarter dynamics.
[8] See the unadjusted GDP series
[9] The press release of the NIS from June 12, 2025, regarding net investments made in the national economy indicates an increase in their volume of +4.3% in Q1 2025 compared to Q1 2024.

In this context, the revision made by NCSP between the Spring 2025 forecast (May 2025) and the Autumn 2024 forecast (December 2024), both for the real economic growth of the current year and the following year, which anticipates reductions to +1.4% in 2025 and +2.4% in 2026 (reductions of 1.1 pp and 0.6 pp respectively compared to the previous NCSP forecast), appears consistent with the developments and trends in the economy, thus indicating a high degree of plausibility of these macroeconomic projections. Under these conditions, the economic growth rate (projected by NCSP) that underlies the deficit calculations for this year, of 1.4% in real terms, appears plausible (*ceteris paribus*). Regarding the structure of economic growth – which is as important for fiscal impact as its level –, we can observe the continuation of current trends, placing the center of gravity of economic growth in the areas of private consumption and gross fixed capital formation, with a negative contribution from net exports, thus leading to a GDP composition rich in taxes.

For 2026, the acceleration of economic growth projected by NCSP compared to the previous year, albeit at a relatively modest level, is based, on one hand, on the inertia of real income growth in the economy (especially pensions[10] and wages[11]), within the context of a still significant growth potential of the economy, and, on the other hand, on forecasts of negative fiscal impulses, as well as relatively tight financial-monetary and external conditions – characterized by volatility as a result of uncertainty.

However, regarding the real GDP growth, the following risk factors can be noted:

- This macroeconomic forecast (dated May 14, 2025) precedes the “law on certain fiscal-budgetary measures” and, consequently, does not incorporate, and cannot incorporate, the second-round effects of this fiscal adjustment package (nor those of potential subsequent measures). As a result, the real growth for 2025, as well as for the following year, could be significantly lower due to the reduction in domestic absorption (both public and private consumption and investment) caused by substantial fiscal measures. Regardless of the size of the fiscal multipliers considered, spending cuts and revenue increases lead to a compression of effective demand in the economy and, therefore, to a lower macroeconomic base for the main types of income.
- Under these conditions, the evolution of consumption and investment may be slower than projected, possibly also due to worsening expectations among economic agents and households, which could exert additional pressure on the budget deficit. Moreover, the size of the adjustment package in 2025, and especially in 2026, both substantial, is crucial for assessing GDP dynamics. To these effects, two other factors should be added that could

[10] Their real year-on-year growth remains at relatively high levels, around +15-16%, as indicated by the NIS press release dated June 13, 2025, regarding the average monthly pension in Q1 2025.
[11] The NIS press release dated June 13, 2025, regarding the gross average wage shows a real year-on-year increase of +3.2% in April 2025, adjusted for inflation.

influence budget execution: (i) the assumption that previous measures (including those from the "train ordinance" of December 2024) have exhausted their potential to generate effects relative to current forecasts (for example, pension recalculations might still have a minor impact, given many recalculation decisions have not yet been implemented), and (ii) interest expenditures could differ from those anticipated, both an increase is possible (in a highly uncertain and therefore volatile domestic and international context) and a downward adjustment seems plausible – if the perception of Romania's sovereign risk improves – as indicated by the 5-year credit default swap and recent bond yields.

Considering the above elements, the structure of economic growth in the NCSP projection for the current year and 2026 may require adjustment toward a composition less rich in fiscal revenues. Given that the focus is on gross fixed capital formation (GFCF), accompanied by a persistent and very significant contribution from private consumption, albeit growing at a slower pace than GFCF, the fiscal adjustment package could negatively impact the dynamics of these components. Furthermore, the very significant sectoral contributions from "Services", "Construction", and "Agriculture, Forestry, and Fishing", alongside the modest evolution of "Industry", could be significantly altered by income freezes (pensions, wages, social benefits) and nominal reductions in investments.

In the current NCSP projection, the GDP deflator growth rate of 6.1% in 2025 and 5.0% in 2026 can be considered very cautious/low – even in the absence of the fiscal adjustment legislative package from the projection. It is noteworthy that the CPI inflation rate published by NIS for May 2025 was 5.0% (annual average; the GDP deflator being closer to average inflation values rather than end-of-period values), while the industrial producer price inflation rate for May 2025 was 0.85% (year-on-year). **Even if we consider 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 rate[12]) in the NCSP projection can compensate for such a trend, given that nominal developments (tax bases) rather than real variable evolutions are relevant for the fiscal sector.** Moreover, in the context of significant increases in value-added tax, excise duties, as well as the re-liberalization of electricity prices from July 2025 and natural gas prices from July 2026, we can assess that the GDP deflator values (for both years, 2025 and 2026) could be considerably higher, which would constitute a factor generating a favorable impact on the budget balance.

The nominal GDP is forecasted by NCSP to grow by 7.6% in 2025 (after an increase of 9.7% in 2024) and by 7.4% in 2026. The rise in nominal GDP leads, through additional fiscal revenues and the denominator effect, to a reduction in fiscal/budgetary imbalances expressed as shares of GDP. The prudent projection of its dynamics, even prior to the adoption of the fiscal adjustment package, provides, in the current forecast, a degree of comfort regarding the risk of overestimation. In the context of a negative effect on economic growth, but a significant opposing

[12] This is projected to be 4.3% (year-on-year) and 4.9% (average) in 2025, and 3.0% and 3.4% in 2026, respectively.

effect on the evolution of the deflator, a combined favorable effect is expected from the perspective of the public sector deficit expressed as a percentage of GDP.

The dynamics of the national economy and its structure (with an emphasis on domestic absorption – final consumption and gross fixed capital formation) are also reflected in the size of external imbalances which, although adjusting, remain high – the trade balance deficit is forecasted at 35.9 and 37.5 billion euros for 2025 and 2026, respectively, while the current account deficit of the balance of payments is projected by NCSP[13] to be 8.0% and 7.6% of GDP[14] in 2025 and 2026 – all values significantly above the 4% threshold set by the EU Macroeconomic Imbalance Procedure.

It is worth noting that the substantial fiscal adjustment package will exert a significant effect in narrowing the external imbalance, as a considerable part of the adjustment in domestic absorption will translate into a reduction of the trade deficit and the current account deficit of the balance of payments. This relationship is also highlighted by the historical reality over the past 10 years (2015-2024), where the external deficit was almost entirely determined by the public sector deficit.

On the labor market[15], according to the NCSP forecast from May this year, the average number of employees is expected to increase by 1.0% in 2025, alongside a 6.4% rise in the average gross wages. The unemployment rate remains close to previously forecasted values, at 5.3% – the BIM unemployment rate (5.3% in the previous NCSP projection) and 3.3% – the registered unemployment rate at the end of the year[16] (up from 3.1% in the previous forecast). These new coordinates, overall relatively similar in terms of fiscal macroeconomic bases, indicate, similarly to previous FC assessments, a plausible trajectory for labor market aggregates, *ceteris paribus*. For 2026, the average number of employees is anticipated to grow by 1.2%, while the average gross wage is expected to increase by 6.7%, correlated with an unemployment rate of 5.2% (BIM) or 3.2% (official registered unemployment). This places the labor market dynamics, especially regarding gross wages, at a slightly more pessimistic level than other projections, yet still maintaining a high degree of plausibility – according to FC. Given the implementation of the fiscal adjustment package, with second-round effects not yet taken into account, the labor market coordinates will need to be significantly revised downward. However, the NCSP forecast (from May 2025), being very prudent, is likely to accommodate at least a significant part of this

[13] In the absence of an immediate fiscal adjustment in the NCSP's May forecast of this year.

[14] Corresponding to current account deficits of 30.2 billion euros and 30.7 billion euros in 2025 and 2026, respectively.

[15] Important due to the macroeconomic bases related to payroll taxes, social contributions, and certain expenditure elements such as unemployment benefits and social transfers, all of which have a significant impact on the deficit value.

[16] According to the National Employment Agency data.

downward revision, with the impact of the new macroeconomic bases related to the labor market being relatively limited on fiscal revenues.

Combining recent economic information and data with the projected dynamics of relevant macroeconomic variables (as of May this year) by NCSP (real GDP, GDP deflator, inflation, labor market indicators) leads to the conclusion of a plausible trajectory for these aggregates in 2025 and 2026, in the absence of second-round effects related to the fiscal adjustment currently under legislation.

The inclusion of the likely effects of the substantial fiscal adjustment in 2025-2026, with an emphasis on the following year, will lead to a significant revision of the previously prudently projected fiscal macroeconomic bases, according to FC. **However, this revision – both due to the exceptionally cautious prior forecast and the nature of the adjustment, which will cause a temporary reacceleration of price increases resulting in an overcompensation of the reduction in real growth dynamics through an additional rise in price indices – can be considered to have a positive, or at worst neutral, effect on the dynamics of most macroeconomic bases.**

Additional risk elements are represented by the developments of (i) the implicit yield on Romanian government bonds – a key indicator of government public debt servicing, influenced by an uncertain external environment (for example, the reapplication of tariffs imposed by the US on goods exported by European economies starting July 9, 2025, or uncertainty regarding commodity prices, especially energy, amid geopolitical tensions in several conflict zones), which makes it highly volatile, as well as by internal developments that are difficult to anticipate (the presence of an increased tax on banks' turnover – 4% – may have dual effects on government sector lending, most likely resulting in higher borrowing costs). Another important risk element is (ii) the dynamics of EU economies and the global economy, given that the Romanian economy – especially its industry – is highly integrated with the rest of the European Union economy. Other risk factors could be represented by (iii) the perception of international markets, particularly rating agencies, regarding the fiscal adjustment trajectory adopted by Romania, which implicitly affects the volume and cost of external savings available for lending to our country, and (iv) the size and speed of absorption of multiannual European funds and those related to NRRP – the only ones that can significantly offset the effects of fiscal adjustment – as well as the emergence of other obligations and rights in this regard (a European armament plan with substantial allocations for Romania, the necessity of military expenditures of 3.5% of GDP in the medium term and close to 5% of GDP in the long term are examples).

3. The fiscal-budgetary context and the necessity of adopting measures to reduce the budget deficit

The analysis of the draft law regarding certain fiscal-budgetary measures takes into account, on one hand, the initial budget construction for the year 2025, which set a deficit target of 7% of GDP according to the cash methodology, and, on the other hand, the most recent available information regarding the budget execution for the current year (May 2025).

In its opinion on the draft budget, based on the macroeconomic framework projected at that time, the FC considered the budget construction for 2025 compatible with a cash deficit of around 7.7% of GDP. In this regard, the FC emphasized that it is not prudent to include *ex ante* hypothetical revenues sourced from improved NAFA (National Agency for Fiscal Administration) collection in the budget construction and identified risks of overruns in some categories of expenditures. So far, there is no data confirming or refuting any potential improvement in collection.

The budget execution in the first 5 months of 2025 recorded a cash deficit of 62.4 billion lei (3.39% of GDP), a value similar to the deficit recorded in the first 5 months of 2024 (3.4% of GDP) and an increase of 0.44 pp compared to the deficit in April 2025. Budget revenues increased compared to the same period in 2024 (+13.6%), but their growth rate is below the target set in the 2025 budget, which projected a 16.2% increase in revenues compared to the previous year's execution. Budget expenditures also rose compared to the first 5 months of 2024 (+12.2%), but their growth pace is faster than initially planned in the budget, which forecasted only a 10.3% increase compared to the 2024 execution.

At the level of the main revenue categories, the following developments are recorded compared to the same period last year:

- corporate tax (+4.1%, significantly slower than the growth rate programmed in the initial budget of 14.7%, in the context of a downward revision of the nominal GDP projection for the current year and considering that the programmed level for this aggregate includes additional revenues of 0.7 billion lei due to increased collection efficiency);
- payroll and income tax (+21.7%, above the growth rate programmed in the initial budget of 15.3%, driven by higher collections from dividend tax and payroll tax, following the elimination of tax incentives granted to employees in certain sectors);
- property taxes and fees (+22.9%, compared to the 20.9% increase forecasted in the draft budget);
- VAT (+2.3%, well below the growth rate forecasted in the initial budget of 12.5%, also considering that the programmed level for this aggregate includes additional revenues of 5.7 billion lei due to increased collection efficiency);

- excise duties (+17.1%, significantly above the growth rate programmed in the initial budget of 4.9%, however it should be noted that the budget realization rate for the entire year is only 38.1%);
- social contributions (+11.5%, above the 8.7% increase forecasted in the initial budget, with the dynamics for May also reflecting payments made related to the single declaration);
- non-tax revenues (+19.3%, well above the growth rate forecasted in the initial budget of 7.5%, although the May collections include the recovery of state aid amounting to 1.6 billion lei from CFR Marfă S.A.).

Given the developments presented above, the main concern relates to the underperformance of VAT collections, especially since VAT represents the second largest category of revenues in the general consolidated budget, accounting for 20.4% of the total revenues programmed for 2025.

Regarding revenues from European funds, a low fulfillment rate of the programmed levels is observed: 23.8% for amounts received from the EU/other donors in terms of payments made and pre-financing, and 16.3% for amounts related to the grant component of the NRRP. In this regard, in February 2025, the FC issued a note warning about the risks arising from the significant delays in the absorption of European funds from the 2021-2027 Multiannual Financial Framework (MFF) and the NRRP, emphasizing the vital importance of these funds for our country[17].

At the level of the main expenditure categories, the following developments are recorded compared to the same period of the previous year:

- personnel expenses (+11.3%, significantly exceeding the 3% increase forecasted in the initial budget, considering that salary increases granted during 2024 impact the entire year of 2025);
- goods and services (+0.8%, slightly below the growth rate programmed in the initial budget of 1.1%, suggesting better control over this category in the current year);
- interest payments (+42.9%, substantially above the 15.4% increase forecasted in the initial budget, reflecting the dynamics of the budget deficit and Romania's high financing costs);
- subsidies (-29.2%, decreasing more sharply compared to the 18.5% reduction programmed in the initial budget);
- social assistance (+15.2%, well above the growth rate programmed in the initial budget of 8.2%, reflecting, on one hand, the full-year impact of pension recalculation measures in the public system starting September 1, 2024, and, on the other hand, the compensation of electricity and natural gas bills for the first 5 months of 2025);
- other expenses (+1%, although the initial budget had forecasted a 17% reduction in this budget aggregate, the MF clarifies that this category mainly reflects scholarships for

[17] Note on the absorption of European funds, February 2025, https://www.fiscalcouncil.ro/2025-02-21%20feb%20-%20EN%20FC%20-%20Absorption%20of%20European%20Funds.pdf

students and pupils, support for religious cults, other civil compensations, and amounts related to payment titles issued by the ANRP – National Authority for Property Restitution).

Given the developments presented above, the main concerns on the expenditure side relate to the significant increase in interest payments and the higher-than-expected growth in social assistance expenses, the latter being the largest category of budget expenditures, accounting for 30.2% of the total expenditures programmed for 2025.

Regarding expenditures from European funds, a low fulfillment rate of the programmed levels is also observed here, confirming significant delays in the absorption of European funds: 23.4% for projects financed from non-reimbursable external funds, 16.9% for projects financed from the grant component of the NRRP, with the only category showing a faster pace being projects financed from the loan component of the NRRP (fulfillment rate of 47.8% as of May 2025).

In conclusion, the analysis of the budget execution for the first 5 months of 2025 tends to worsen the Fiscal Council's assessment at the time of adopting the budget draft, which anticipated a cash deficit of around 7.7% of GDP. Thus, in the absence of corrective measures to reduce the budget deficit, the dynamics of the main revenue and expenditure categories in the first part of 2025 appear consistent with a cash budget deficit exceeding 8.5% of GDP. This assessment is reinforced by the latest estimates from the European Commission (EC)[18], which place the ESA budget deficit at 8.6% of GDP, as well as by the decision of the EU Council on June 20, 2025[19], which determined that Romania has not taken effective measures in response to the Council's recommendations. Net expenditures have increased much faster than the trajectory agreed upon in the MTP, leading to a high and persistent public deficit and jeopardizing the correction of Romania's excessive deficit.

In this context, considering the significant deviation from the fiscal consolidation trajectory established by the MTP (which set an ESA budget deficit target of 7% for 2025), the risk of sovereign rating downgrade (with important consequences on access to international markets and financing costs), as well as the unfavorable international environment marked by instability, trade, and armed conflicts, the Fiscal Council considers the adoption of a comprehensive package of measures to correct the budget imbalance an absolute urgency. It is worth noting that in the MTP, agreed upon by Romania and the European Commission, the starting point for fiscal consolidation should have been a budget deficit of 7.9% of GDP in 2024 (while in 2024 the actual deficit was 9.3%), which makes the adjustment process more severe

[18] https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/romania/economic-forecast-romania_en, May, 2025
[19] https://www.consilium.europa.eu/ro/press/press-releases/2025/06/20/stability-and-growth-pact-council-decides-on-way-ahead-for-belgium-and-romania-under-the-excessive-deficit-procedure/

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.

4. The impact analysis of the draft law on certain fiscal and budgetary measures

This analysis concerns only the draft law on certain fiscal and budgetary measures, published for public transparency on July 3, 2025. In addition to this draft, two more packages of measures targeting public expenditures will follow.

The effects of the fiscal measures on budget revenues in 2025

On the budget revenue side, with implementation starting in the latter part of 2025, the most important measures target the increase of VAT rates, the increase of excise duties, the introduction of health insurance contributions (CASS) for pensions exceeding 3,000 lei, higher taxation for credit institutions and gambling operators, and an increase in the road toll (ro-vignette).

Starting August 1, 2025, the draft law provides for an increase in the standard VAT rate from 19% to 21%. Additionally, only one reduced VAT rate will be maintained, set at 11%, compared to the two reduced rates currently in place of 5% and 9%. The reduced VAT rate will apply to medicines, food products including beverages, water and sewage services, chemical fertilizers, school textbooks, books, magazines, access to museums, castles, historic monuments etc., thermal energy during the cold season, and hotel, restaurant, and catering services. Compared to the current provisions, the scope of the reduced rate is more limited. During its application period in 2025, the positive impact on budget revenues, based on a prudent assessment that considers risks of consumption slowdown, is approximately 0.3% of GDP.

Regarding excise duties, the draft law provides for an increase, effective from August 1, 2025, for all three product categories included in this group: alcohol and alcoholic beverages; processed tobacco; and energy products. Specifically, the updated excise values indicate an increase of about 10% for alcohol and alcoholic beverages, about 5% for processed tobacco, and about 10% for energy products. The Ministry of Finance estimates the impact on budget revenues for the remaining period of 2025 at approximately 0.08% of GDP.

The draft law also provides for the broadening of the taxpayer base for the health insurance contribution (CASS). In this regard, the application of the CASS rate to pension beneficiaries is established, along with a non-taxable threshold of 3,000 lei. Consequently, the 10% CASS rate will apply only to pension income exceeding 3,000 lei. This provision harmonizes the application of CASS with that of the tax on pension income. By introducing CASS on pensions, the estimated impact on budget revenues for the remaining period of 2025 is approximately 0.07% of GDP.

Provided that, after any potential constitutional review, this provision remains valid, the target impact is achievable, considering the current impact of income tax on pension revenues.

The surtax rate on credit institutions is set to increase from 2% to 4%, except for credit institutions with a market share below 0.2%. This surtax is applied to turnover and is additional to the corporate income tax. The draft law provides for its application starting July 1, 2025. For the application period in 2025, the positive impact on budget revenues is estimated at around 0.03% of GDP. The activity dynamics of credit institutions this year indicate that the target can be achieved.

Another measure with a positive impact on budget revenues is the increase of taxes for gambling operators. The Ministry of Finance estimates the impact on budget revenues for the remaining period of 2025 at around 0.03% of GDP. This impact is also considered highly certain, given the activity dynamics in this sector. However, authorities need to corroborate this projection with additional control activities targeting unlicensed online betting operations.

The draft law also includes other measures, applicable from 2025, with a marginal cumulative effect on budget revenues. Thus, it provides for a significant increase, starting September 1, of about 80% in road taxes for passenger cars and vehicles with a transport weight less than or equal to 3.5 tons. Additionally, the draft law modifies the lower tax rate for gambling income from 3% to 4% for incomes up to 10,000 lei.

In 2025, the measures provided in the draft law under analysis may have a positive impact on budget revenues, in a prudent assessment, of approximately 0.5% of GDP.

The effects of fiscal measures on budget revenues in 2026

Effective from January 1, 2026, the draft law provides for an increase in the dividend tax to 16%, compared to the current rate of 10%. The positive impact of this measure on the 2026 budget execution is estimated by the MF at approximately 0.2% of GDP. However, part of this impact may be reflected in the 2025 execution, due to a dividend distribution optimization effect.

Also, in 2026, budget revenues will be positively influenced by the annualized impact of measures that come into effect in the latter part of 2025. Thus, in 2026, the annualized impact of the changes regarding the VAT regime, as currently provided in the draft law, is estimated at about 0.9% of GDP. Regarding excise duties, the draft law foresees, starting in 2026, an additional increase compared to the 2025 levels, with the estimated impact of these changes on budget revenues being about 0.25% of GDP. The introduction of health insurance contributions for pension incomes above 3,000 lei is expected to have an annualized impact in 2026 of about 0.2% of GDP. The additional taxation of credit institutions and gambling operators could have a positive impact, according to MF estimates, in 2026 of about 0.07% and 0.05% of GDP, respectively. Measures concerning the increase of road taxes and the lower tax rate on gambling income could also bring a marginal positive effect on budget revenues of about 0.1% of GDP.

In 2026, the positive impact of the measures proposed by the draft law on budget revenues, projected under a no-policy-change scenario, is approximately 1.75% of GDP. This value is in line with the recommendation of the EU Council from June 23, 2025[20], which called for an increase in budget revenues of 1.7% of GDP.

Besides the measures included in this package, considering the commitments made under the NRRP and the MTP, in 2026 it is likely that the property tax calculation method will be revised and an environmental tax on means of transport will be introduced. Both measures could have an additional positive impact of approximately 0.3% of GDP on the trajectory of budget revenues.

The effects of fiscal measures on budget expenditures in 2025

The draft law also includes a series of measures aimed at adjusting public expenditures. Some of these will be implemented in the latter part of 2025, while others target the year 2026. It is worth mentioning that, in 2025, personnel and social assistance expenses were not indexed in accordance with the existing legislation. Freezing these at the 2024 levels has already generated significant budget savings. Without this measure, the budget deficit would most likely have exceeded 10% of GDP. Therefore, the main effects of the expenditure-related measures provided in the draft law are expected to impact the year 2026.

For 2025, the most important budgetary adjustment measures focus on restructuring the system of bonuses granted within the public sector, limiting the number of public sector employees eligible for meal allowances, reducing expenses in the education sector, decreasing the number of healthcare service beneficiaries and, consequently, the associated social assistance expenditures, and adjusting the method of calculating medical leave benefits.

The measures regarding bonuses aim to reduce the 50% increase applied to base salaries for employees managing projects funded by EU. Additionally, the conditions for granting this bonus are being restricted. Another measure related to restructuring bonuses was adopted prior to the draft law and limited the hazardous conditions bonus from 15% of the gross salary, but no more than 1,500 lei in gross terms, to a maximum gross amount of 300 lei. Together, these two measures could lead to a reduction in expenditures in 2025 by approximately 0.04% of GDP.

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[20] https://economy-finance.ec.europa.eu/document/download/01b66537-d04e-45fe-95b4-9203635ca4e5_en?filename=CELEX_52025DC0344_EN_TXT.pdf

The legislative package limits, upon its entry into force, the granting of meal allowances in the public sector to individuals with a net monthly salary of up to 6,000 lei, compared to the current limit of 8,000 lei. The budgetary impact for 2025 is negligible.

The measures to reduce education expenses target an increase in teaching workload, a reduction in scholarships, and a reorganization of school units. In 2025, these measures could lead to a decrease in budget expenditures by approximately 0.02% of GDP.

Another important set of measures targets the modification of the calculation method for leave allowances. Currently, these are calculated by applying a percentage to the calculation base. The draft law establishes the application of a 55% rate for medical leave up to 7 days; 65% for medical leave between 8 and 14 days; and 75% for medical leave exceeding 15 days. Additionally, the draft limits the number of people who benefit from health insurance without paying the social health insurance contribution, maintaining a small number of exceptions. The estimated impact of these measures in 2025 is approximately 0.04% of GDP.

The impact of the budget expenditure reduction measures, as estimated by the Ministry of Finance, is about 0.1% of GDP in 2025. Although the effect of these measures may seem marginal, their role is to set the trajectory of structural expenditures according to the targets outlined in the MTP, especially with regard to the year 2026.

It is important to emphasize that these figures result from the set of measures approved by the Government in the Friday session. This project will be followed by others that will implement additional adjustments to budget expenditures in 2026, through investment prioritization. **This situation explains why there has been public speculation about the package of measures leading to a reduction of the budget deficit by 1.23% of GDP in 2025 and, respectively, by 3.75% of GDP in 2026.**

The effects of fiscal measures on budget expenditures in 2026

In 2026, the draft law provides, similar to 2025, a freeze on personnel expenditures (the gross amount of base salaries, functional pay, position salaries, monthly position allowances, bonuses, indemnities, compensations, premiums, and other elements of the wage system) at the level of December 2025. This measure will lead to a reduction in budget expenditures by approximately 0.4% of GDP. The effect is driven, on the one hand, by the freezing of personnel costs at the December 2025 level, and, on the other hand, by the nominal increase in GDP in 2026. Additionally, the draft law limits the granting of vacation vouchers in the public sector to employees with net monthly salaries of up to 6,000 lei, with a marginal impact of around 0.02% of GDP.

Moreover, in 2026, the draft law provides for a freeze on the majority of social assistance expenditures (including public pensions, service pensions, military pensions, and other types of allowances) at the level of December 2025. This measure is expected to reduce social assistance spending by approximately 0.8% of GDP. Similar to the effect on personnel expenditures, the reduction is driven by the freezing of pensions at the December 2025 level and the nominal growth of GDP in 2026.

In addition, in 2026, the expenditure trajectory will also be influenced by the annualized impact of measures that will come into effect in the latter part of 2025. Thus, in 2026, the annualized impact of the bonus limitation measures would reduce budget expenditures by 0.08% of GDP, while the reduction in the number of individuals eligible for the meal allowance would result in savings equivalent to 0.01% of GDP. Provisions targeting the education sector would reduce expenditures by approximately 0.2% of GDP, and the annualized impact of the measures revising the calculation method for medical leave allowances and limiting expenditures related to individuals benefiting from health insurance without contributing would amount to around 0.07% of GDP.

In 2026, the impact of expenditure adjustment measures, projected under a no-policy-change scenario, is estimated at around 1.6% of GDP.

In addition to the measures included in this draft law, it is likely that the next two deficit-reduction packages announced by the Government will also include further measures to improve the efficiency of public sector spending and to prioritize investment projects.

Furthermore, the renegotiation of the NRRP could lead to the reallocation of certain projects – currently financed through the loan component of the NRRP – toward the grants component or multiannual EU funding. These measures would also contribute to a reduction in budget expenditures.

Under these conditions, the Fiscal Council expects a budget revision to follow, which will include the impact of these packages on the budget deficit trajectory.

The draft law indicates a budgetary impact of 0.6% of GDP in 2025 and 3.35% of GDP in 2026, creating the premises for reducing the budget deficit below 8% of GDP in 2025 and for meeting the budget deficit target in 2026.

For 2025, the reduction/prioritization of certain public investment expenditures (which would be included in the upcoming packages of measures) would bring the budget deficit to around 7.5% of GDP. The deficit correction measures must be reflected in the budget revision project and form the basis for the new deficit trajectory.

The Fiscal Council's analysis considers first-round effects, although second-round effects related to GDP dynamics in connection with the adopted deficit correction measures also exist. The second-round effects cannot outweigh the first-round effects and cannot decisively erode the positive impact of these measures on the budget deficit in 2025 and 2026.

Budget correction, which means reducing internal absorption (affecting personal incomes and company revenues), is the price that must be paid to ensure public debt sustainability and avoid a more severe adjustment.

5. *European funds absorption*

The Fiscal Council's analysis of the absorption rate of European funds focuses on programs financed through the Structural and Cohesion Funds under the 2021-2027 Multiannual Financial Framework and the National Recovery and Resilience Plan, both managed by the Ministry of Investments and European Projects (MIEP). MIEP acts as the managing authority for the seven national programs and is 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, both from an investment strategy perspective and in terms of public finance sustainability. It is vitally important for Romania to seize this historic opportunity, benefiting from over €80 billion in allocations from the EU budget (€31 billion from Structural and Cohesion Funds and over €20 billion from the Common Agricultural Policy). These amounts are supplemented by allocations from the NRRP of €12.1 billion in grants (+€1.4 billion in grants from REPowerEU) and €14.9 billion in loans through the Recovery and Resilience Mechanism (€28.5 billion in total), the most significant financial facility under the NGEU.

At the end of May 2025, according to data from the Ministry of Finance presented in Table 1, **the actual absorption rate**[21] **of the Structural and Cohesion Funds from the 2021-2027 Multiannual Financial Framework (excluding advances) was only 5.2%**[22], calculated by comparing actual reimbursements of €1.6 billion to total allocations of €30.6 billion. This is an extremely low level for the midpoint of the financial exercise, making it difficult to recover delays, even though Romania will continue to benefit from the n+3 rule.

Table 1: The absorption status of Structural and Cohesion Funds for the 2021-2027 programming period (million euros)

MFF 2021-2027	Program 2021-2027	2021-2024 Execution as of 31.12.2024	Estimates 2025	2025 Execution as of 31.05.2025	2021-2025 Execution as of 31.05.2025
Structural and Cohesion Funds (SCF), of which:	30,663.87	2,424.62	4,731.56	1,001.89	3,426.52
Advances from SCF	1,811.29	1,806.39	4.90	4.90	1,811.29
Reimbursements from SCF	28,852.57	618.24	4,726.66	996.99	1,615.22

Source: Evolution of financial flows between Romania and the European Union (Net Financial Balance) as of 31.05.2025, Ministry of Finance

In the current domestic and international context, marked by major economic risks and political and geopolitical tensions, including armed conflicts, maximizing the absorption of Structural and Cohesion Funds can contribute to accelerating macroeconomic correction and the fiscal consolidation process, implementing structural reforms and investment programs, counteracting the slowdown of economic growth that could lead to decline, mitigating internal and external financial imbalances, including currency-related ones, maintaining the country's investment-grade rating, and thereby supporting the financing needs for the budget deficit and public debt refinancing at reasonable costs.

Through the **National Recovery and Resilience Plan**, which includes the Recovery and Resilience Facility (RRF) under Next Generation EU, Romania has been allocated €12.1 billion in grants and €14.9 billion in loans, with an additional €1.4 billion in grants from REPowerEU, bringing the total amount allocated through the RRF to €28.5 billion.

[21] The effective absorption rate represents the ratio between reimbursements from the Structural and Cohesion Funds (SCF) by the European Commission and the total allocated amounts. Advances from the SCF, even if partially or fully utilized (as shown in Table 1), represent expenditures that are yet to be (or may not be) validated by the European Commission and therefore cannot be included in the calculation of the effective absorption rate.

[22] https://mfinante.gov.ro/static/10/Mfp/buget/sitebuget/BFN2025_05_31.pdf

The implementation of the reforms and investment measures outlined in the NRRP faces major challenges and significant delays, given that all milestones and targets, including related payment requests, must be completed by August 2026. Failure to meet these requirements could result in losses or even the return of funds.

By June 2025, within the RRF, Romania had received pre-financing of €4.1 billion (€2.14 billion in grants and €1.94 billion in loans), managing to obtain European Commission approval for only two payment requests totaling €5.3 billion (€3.6 billion in grants and €1.7 billion in loans). It should be noted that payment request no. 2 was approved by the European Commission under a suspension regime[23], withholding €53 million due to the non-fulfillment of two energy milestones, partially recovered in December 2024 (€37 million on the loan component).

Payment request no. 3, amounting to €2.1 billion (excluding pre-financing), submitted with delay in December 2023, was preliminarily positively evaluated by the European Commission in March 2025[24]; however, it only received the approval of the Economic and Financial Committee in June 2025, with the payment made at the level of €1.3 billion. The difference of €869 million (€814 million in grants and €55 million in loans) was subject to payment suspension due to the partial or non-fulfillment of six milestones[25]. The six outstanding milestones relate to the governance of state-owned enterprises (particularly the operationalization of the Agency for Monitoring and Evaluation of Performance of Public Enterprises (AMEPIP) and the appointment of administrators in energy companies), investment contracts in transport, and the special tax regime for micro-enterprises, which were not satisfactorily fulfilled. Romania will also need to comply with the milestone requirements regarding special pensions, which remain unmet. The European Commission will consider releasing the remaining €869 million if Romania satisfactorily meets the six outstanding milestones within six months.

An examination of the payment schedule related to the NRRP, made by the European Commission to Romania during the period 2021-June 2025 (Table 2), highlights that from September 2023 to June 2025, for nearly two years, with the exception of a pre-financing of €288 million related to REPowerEU, Romania did not manage to absorb a single euro from NRRP funds! This situation reveals a deficit in the administrative capacity of the authorities to monitor the achievement of the NRRP targets and milestones, as well as to implement reforms and investments within the committed deadlines.

[23] The payment suspension procedure, which grants an additional deadline for fulfilling intermediate objectives, is explained at the following link: https://commission.europa.eu/system/files/2023-02/COM_2023_99_1_EN.pdf
[24] https://ec.europa.eu/commission/presscorner/detail/sv/ip_24_5242
[25] https://ec.europa.eu/commission/presscorner/detail/en/mex_25_1474

Table 2: Schedule of payments from the European Commission to Romania, related to the NRRP, for the period 2021-June 2025 (including pre-financing)			
Date	**Budget Type**	**Payment Request**	**Amount (euro)**
10 Jun 2025	Grants	3	622,487,484
10 Jun 2025	Loans	3	657,288,757
23 Dec 2024	Loans	2 (Part 2)	37,055,259
25 Jan 2024	Grants	Pre-financing	288,078,244
29 Sept 2023	Grants	2	1,868,317,381
29 Sept 2023	Loans	2	893,345,055
27 Oct 2022	Grants	1	1,772,317,380
27 Oct 2022	Loans	1	789,672,460
13 Jan 2022	Loans	Pre-financing	1,942,479,890
2 Dec 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

In summary, the effective absorption rates (excluding pre-financing) of the funds related to the NRRP are extremely low relative to the remaining time until the program's completion in August 2026. Overall, by mid-2025, the effective absorption rate for the NRRP was 23.3%, with the grant component at 31.6% and the loan component at 15.8% (Table 3).

Table 3: Effective absorption rate of NRRP funds			
Budget Type	**Allocations (mil. euro)**	**Amounts paid by the EC, excluding pre-financing (mil. 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: RRF Scoreboard – Romania https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/index.html

The low level of achievements over a four-year period, relative to the deadline for completing all milestones and targets under the NRRP (by the end of June 2025, only 27% of milestones and targets had been met![26]), makes it extremely difficult to recover the delays in just one year and two months. This implies the loss of significant amounts of European funds and the failure to implement important reforms and investment programs[27] that could have contributed to keeping Romania on a sustainable development path by accelerating the green and digital transition, restructuring the economy, modernizing infrastructure, and increasing competitiveness, thereby implicitly supporting the fiscal consolidation process.

Currently, Romanian authorities are negotiating with the European Commission a revision of the NRRP, aiming for the full absorption of non-reimbursable funds, simplification of targets and milestones, maintaining mature projects with a low risk of implementation by August 2026, and rescheduling payment requests, with the 4th request intended to be submitted this fall and reimbursed no later than the end of the year. According to statements from MIEP officials[28], these negotiations are expected to conclude by mid-July, after which the revised NRRP will be sent to Brussels for approval, a process that will take approximately three months.

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

[27] According to the statement of the new Minister of MIEP, following a preliminary analysis, it was found that Romania could lose €7.8 billion from the loan component of the NRRP. This amount represents the investment projects whose implementation is delayed relative to the final deadline of the NRRP (August 2026), risking being abandoned or postponed (https://www.zf.ro/eveniment/romania-risca-piarda-fonduri-europene-valoare-7-8-mld-euro-pnrr-22841867).

[28] https://economedia.ro/video-dragos-pislaru-vom-trimite-pnrr-renegociat-pe-14-15-daca-totul-e-lucrat-bine-putem-avea-inclusiv-plata-aferenta-cererii-de-plata-4-pana-la-finalul-anului.html

Conclusions

The very serious budget situation and the risk of a downgrade

- At the beginning of 2020, Romania was the only EU member state under the excessive deficit procedure, with a structural deficit of around 4.5% of GDP and a large primary deficit.

- Election years cannot justify major imprudence in the management of public finances. The current major budgetary issue, which is also one of balance of payments, as well of credibility, must be addressed in a deteriorating European and international context. The domestic context is also highly tense.

- The budget deficit reached 9.3% of GDP (ESA methodology) (or 8.65% in cash terms) in 2024, the highest in the EU, exceeding even the level recorded during the pandemic year (9.2%). **The deficit deepened primarily due to an increase in permanent expenditures.**

- The budget deficit is accompanied by a current account deficit, which in 2024 exceeded 8% of GDP – the highest in the region – and is financed predominantly through borrowing.

- **In the absence of a credible correction package with upfront measures, the risk of a downgrade is very high.**

- There is an additional burden from the increase in military expenditures. Reducing tax evasion can help in this regard, considering the VAT collection gap of approximately 30%.

- **The 2025-2026 budget correction package can prevent Romania's sovereign risk downgrade.**

There is no alternative to a severe correction

- **The optimality of the examined correction package is difficult to assess, especially since distributional aspects (including equity) and second-round effects come into play.**

- **The budget correction, which means a reduction in domestic absorption (affecting personal incomes and company revenues), is the price we must pay to ensure public debt sustainability and avoid an even more severe correction.**

- **Even if we consider that the real GDP growth rate could be lower – under the implementation of the fiscal adjustment package –, the evolution of the GDP deflator (and the inflation rate) in the NCSP projection can offset such a trend, given that what matters for the fiscal sector are not the real changes in variables, but the nominal changes (in tax bases).**

- The substantial fiscal adjustment package will have a significant effect in reducing the external imbalance.

- **The analysis of budget execution for the first five months of 2025 is likely to worsen the Fiscal Council's assessment from the time the budget draft was adopted, which projected a cash deficit of around 7.7% of GDP. Thus, in the absence of adopting corrective measures for the budget deficit, the dynamics of the main revenue and expenditure categories in the first part of 2025 are consistent with a cash budget deficit exceeding 8.5% of GDP.**

- **The Fiscal Council considers that adopting a consistent package of measures to correct the budget imbalance is an absolute urgency. In the absence of a credible and firm package, the risk of blocked access to financing and refinancing becomes imminent.**

Review of measures and their impact on the budget deficit

- **This analysis concerns only the draft law on certain fiscal-budgetary measures, published for public transparency on July 3, 2025. In addition to this draft, two more packages targeting public expenditures will follow.**

- **In 2025, the measures provided by the draft law on budget correction could have a positive impact on budget revenues, in a prudent estimate, of about 0.5% of GDP.**

- **The Ministry of Finance estimates the effect of expenditure reduction measures at around 0.1% of GDP in 2025, assuming no reduction in public investments.**

- **In 2026, the positive impact of the measures proposed by the draft law on the revenue side, projected under a no-policy-change scenario, is about 1.75% of GDP. This figure aligns with the recommendation of the EU Council from June 23, 2025, to increase budget revenues by 1.7% of GDP.**

- **In addition to the measures included in this package, considering the commitments assumed under the NRRP and the MTP, it is likely that in 2026 there will also be a revision of the property tax calculation method and the introduction of an environmental tax on means of transport. Both measures would have an additional positive effect on the budget revenue trajectory.**

- **In 2026, the impact of expenditure adjustment measures, projected under a no-policy-change scenario, is about 1.6% of GDP.**

- **In addition to the measures included in this draft law, it is likely that the next two announced government packages will include further measures to improve the efficiency of public sector spending and to prioritize investment projects.** Also, the renegotiation of the NRRP may lead to shifting some projects, currently financed through the loan component of the NRRP, towards the grant component or multiannual European funds. These measures would, in turn, reduce budget expenditures.

- **The draft law indicates a budgetary impact of 0.6% of GDP in 2025 and 3.35% of GDP in 2026, creating the premises for reducing the budget deficit below 8% of GDP in 2025 and for meeting the budget deficit target in 2026.**
- **For 2025, the reduction/prioritization of some public investment expenditures (which would be included in the upcoming packages) would bring the budget deficit to around 7.5% of GDP.**
- **The deficit correction measures must be included in the budget revision project and serve as the basis for the new budget deficit trajectory.**
- **The Fiscal Council's analysis considers first-round effects, although there are also second-round effects related to GDP dynamics in connection with the adopted budget deficit correction measures. The second-round effects cannot outweigh the first-round effects and cannot decisively erode the positive impact of these measures on the budget deficit in 2025 and 2026.**
- At the end of May 2025, according to Ministry of Finance data, **the effective absorption rate of Structural and Cohesion Funds from the 2021-2027 Multiannual Financial Framework (excluding advances) was only 5.2%**, an extremely low level for the midpoint of the financial exercise, making it difficult to catch up on delays, even though Romania will continue to benefit from the n+3 rule.
- The implementation of the reform and investment measures outlined in the NRRP is facing major difficulties and significant delays, given that all milestones and targets, including related payment requests, must be completed by August 2026. Currently, Romanian authorities are negotiating with the European Commission a revision of the NRRP, aiming for full absorption of non-reimbursable funds, simplification of targets and milestones, maintaining mature projects with a low risk of implementation by August 2026, rescheduling payment requests, with the fourth request planned to be submitted this fall and reimbursed by the end of the year at the latest.

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- ***The budget correction, which means a reduction in domestic absorption (affecting personal incomes and company revenues), is the price we must pay to ensure public debt sustainability and avoid a more severe adjustment.***

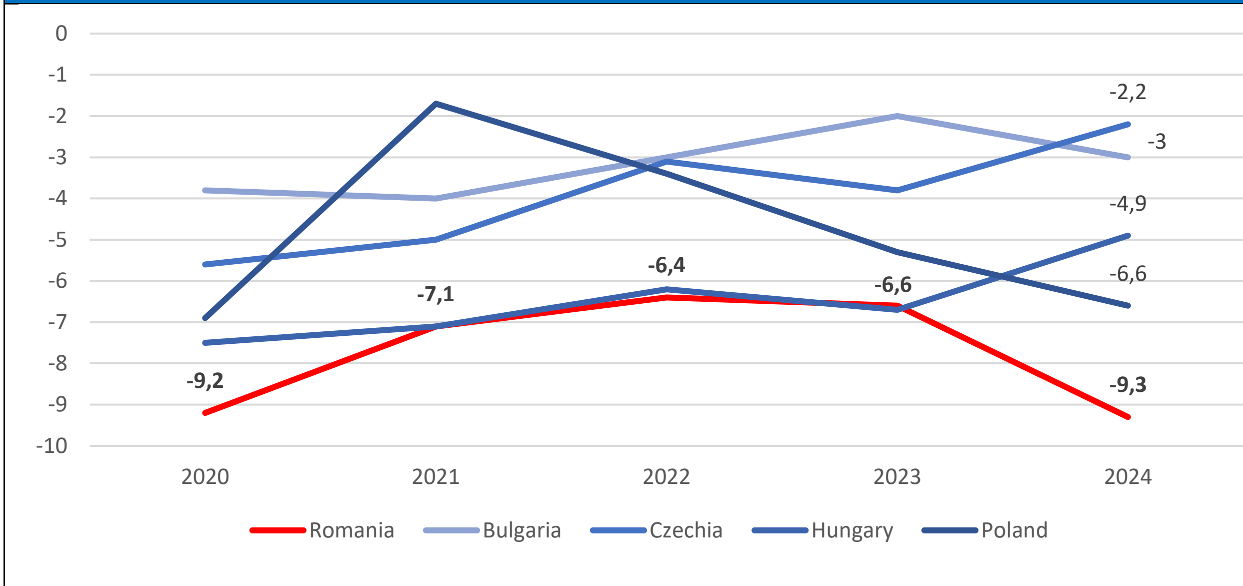
The opinions and recommendations outlined above by the Fiscal Council were approved by the Chairman of the Fiscal Council, in accordance with the provisions of Article 56, paragraph (2), letter d) of Law No. 69/2010, republished, following its adoption by the Council members through a vote in the meeting held on July 7, 2025.

July 7, 2025 | Chairman of the Fiscal Council

Professor Daniel DĂIANU

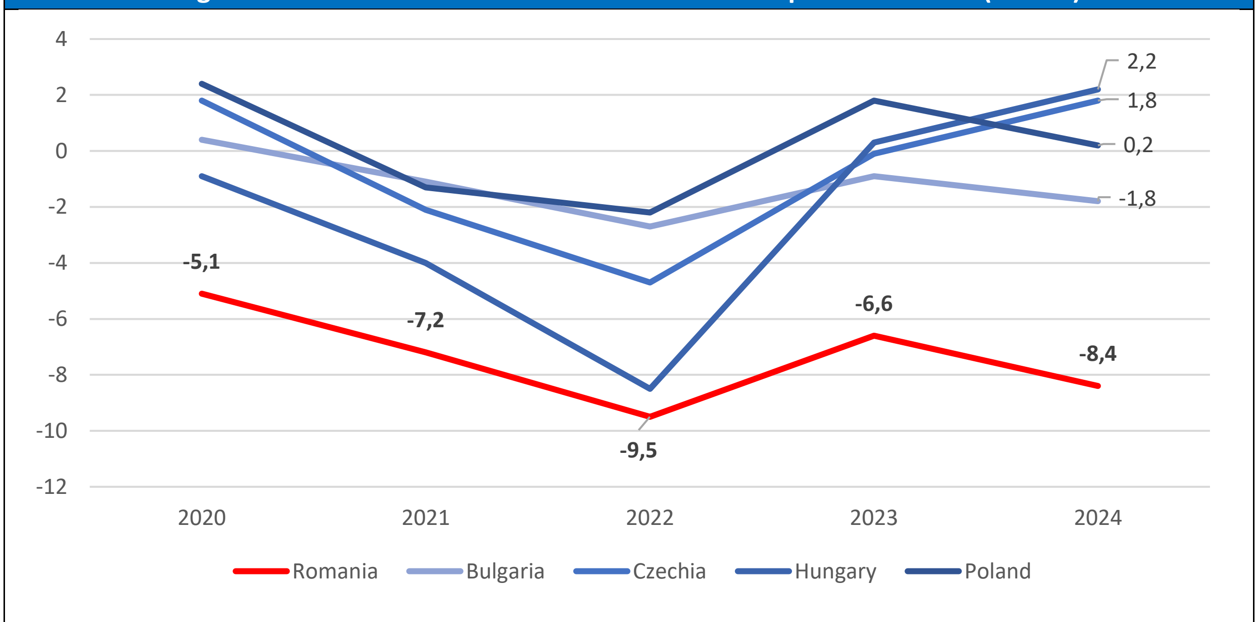
Annexes

Figure 1. Budget balance in Romania and peers countries (% GDP)



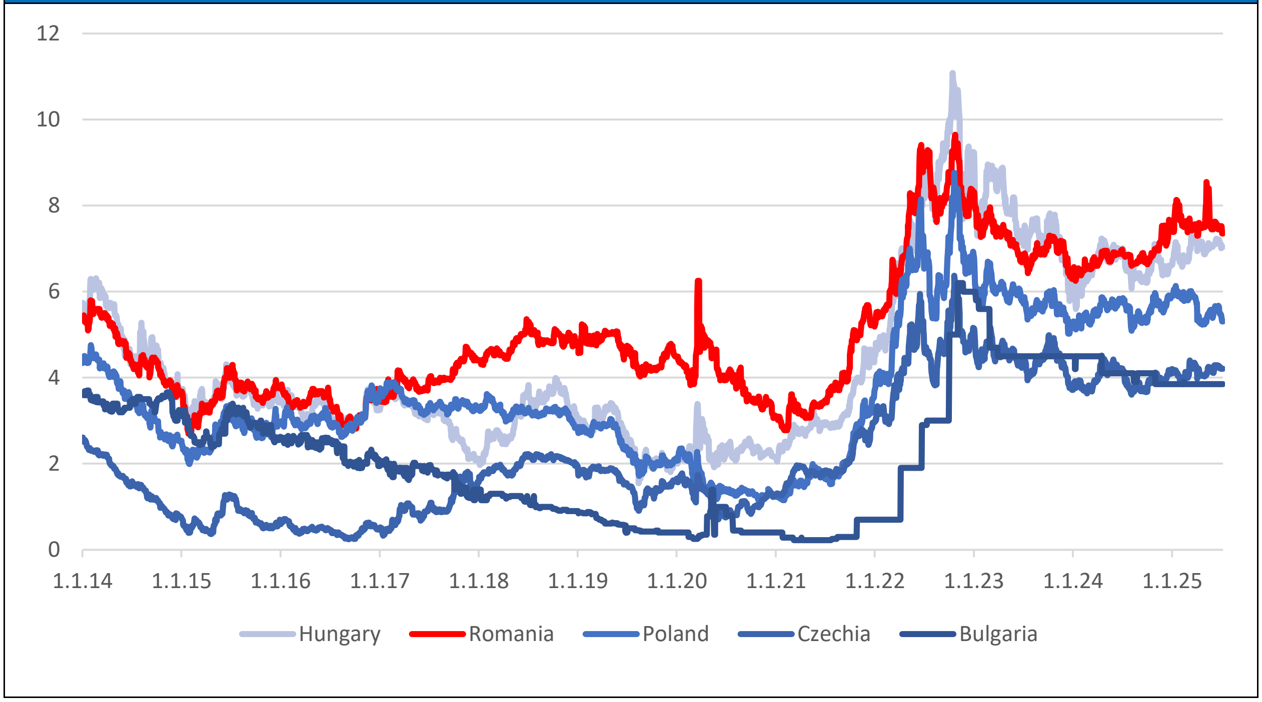
Source: AMECO

Figure 2. Current account balance in Romania and peers countries (% GDP)



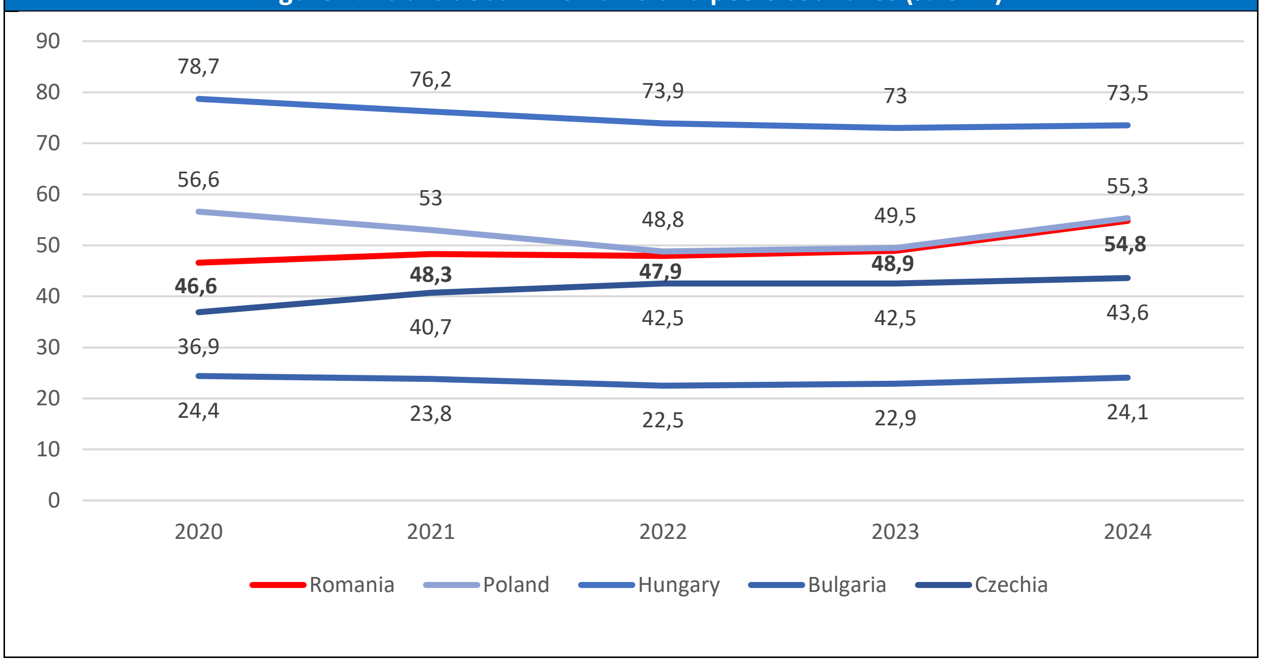
Source: AMECO

Figure 3. Yields on 10Y government bonds in Romania and peers countries (%)



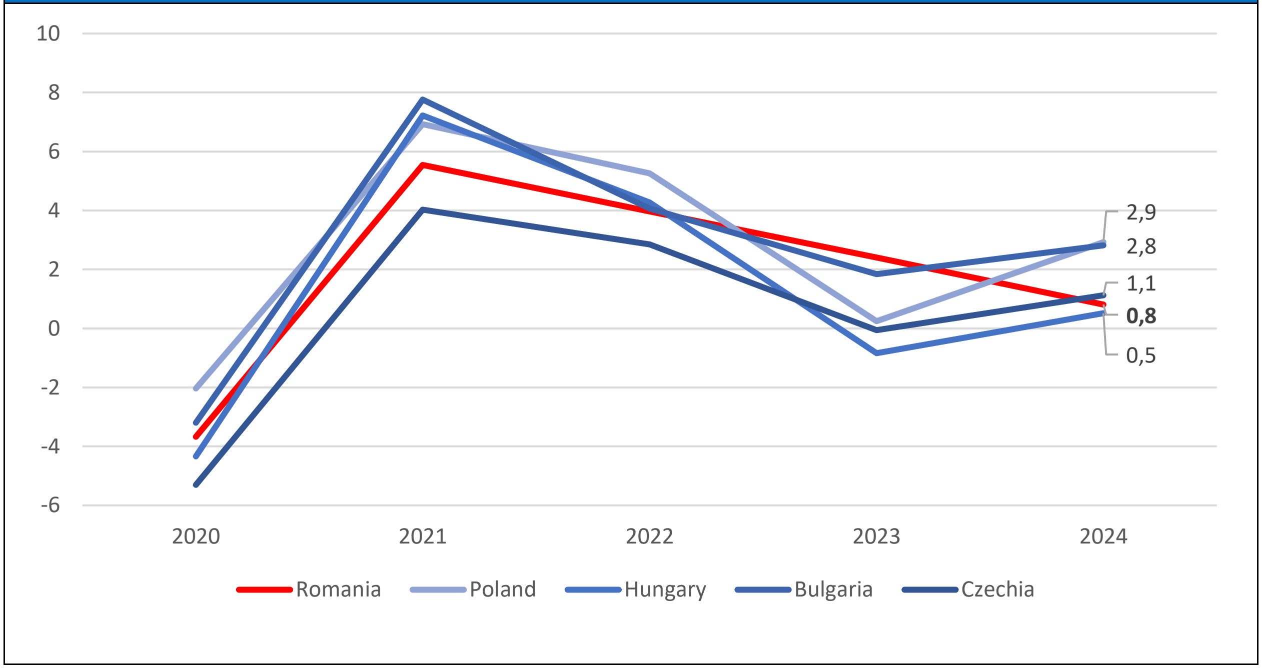
Source: Refinitiv Datastream

Figure 4. Public debt in Romania and peers countries (% GDP)



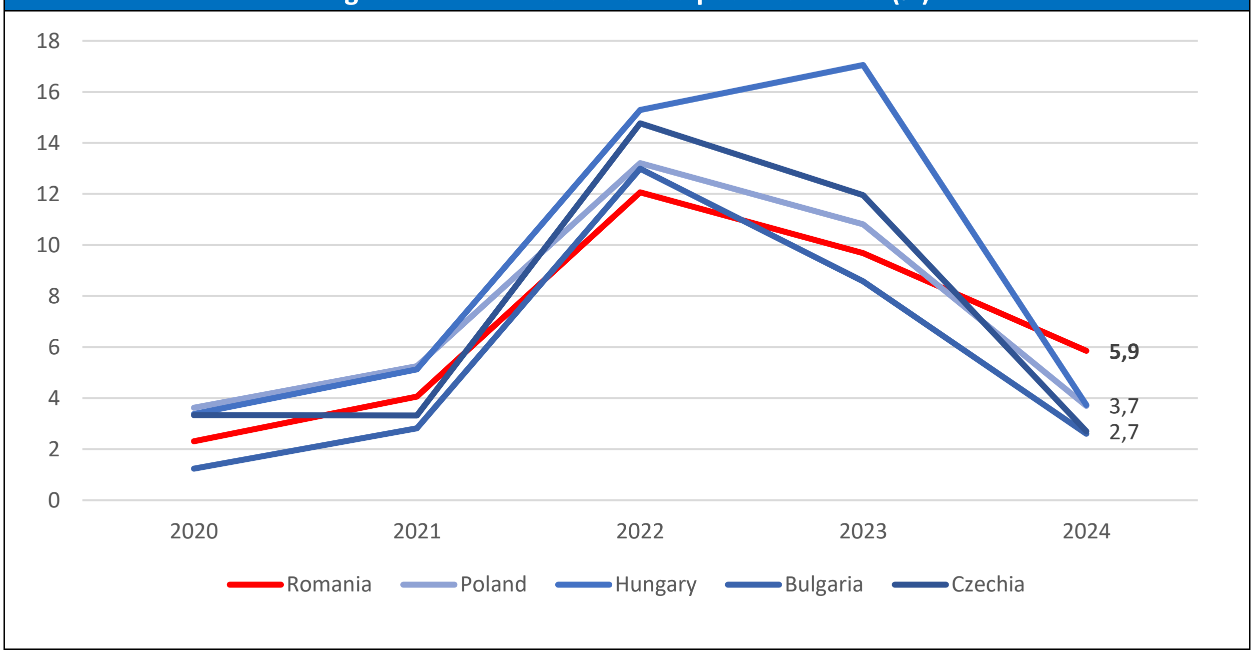
Source: AMECO

Figure 5. Economic growth rates in Romania and peers countries (% GDP)



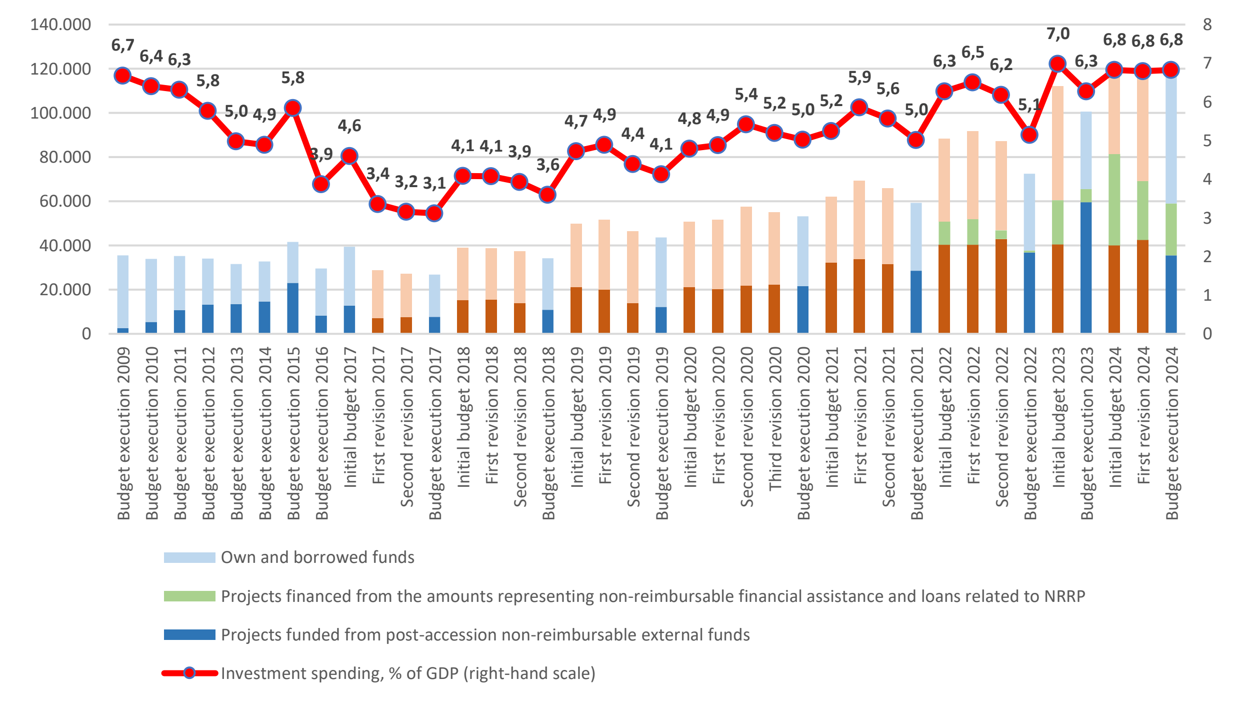
Source: AMECO

Figure 6. HICP in Romania and peers countries (%)



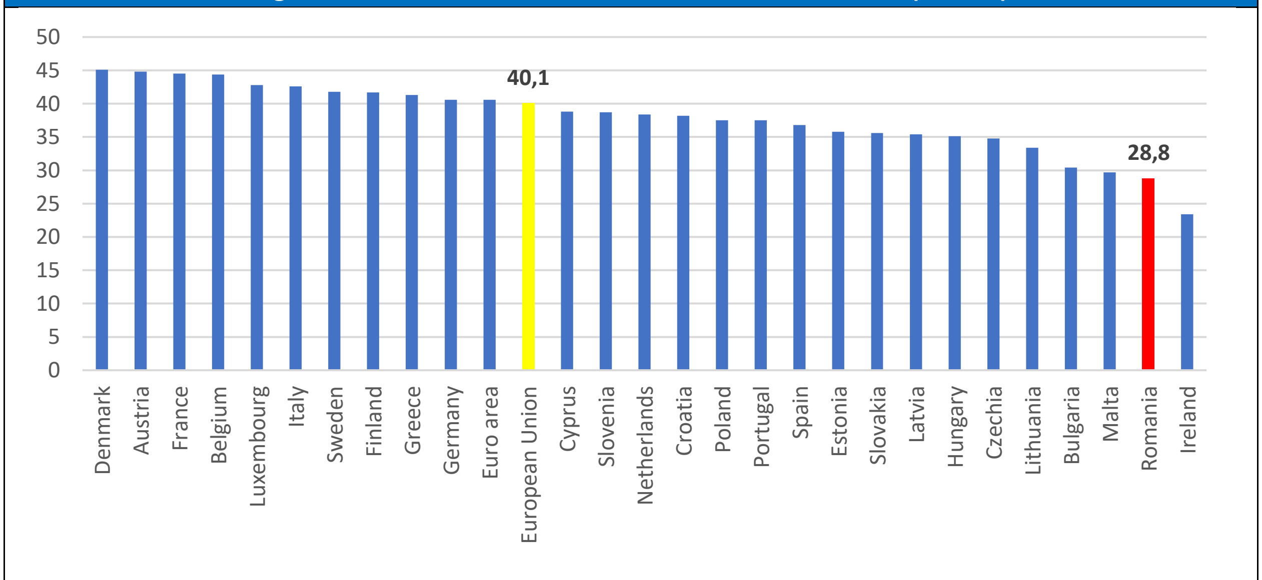
Source: AMECO

Figure 7. The evolution of public investment expenditures between 2009-2024 – planned vs. actual level (mil. lei)



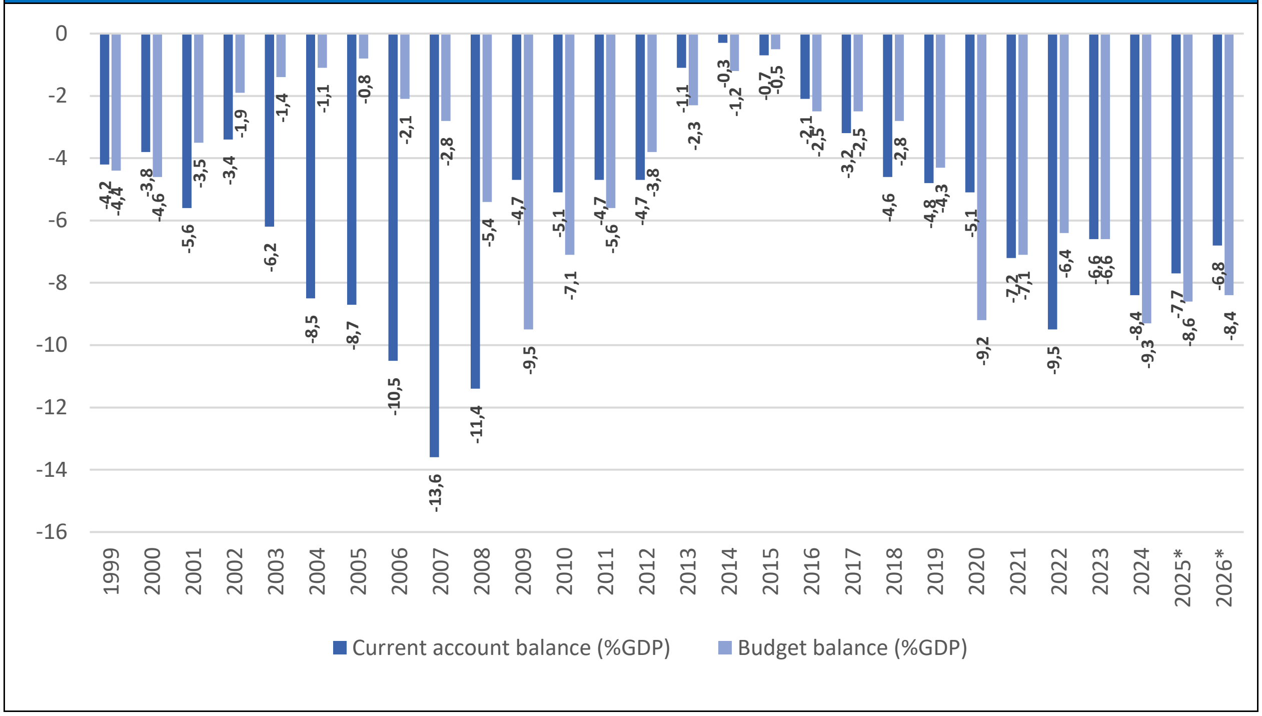
Source: MF, FC calculations

Figure 8. Fiscal revenues in EU member states in 2024 (% GDP)



Source: AMECO, FC calculations

Figure 9. Budget and current account balance between 1999 and 2026 in Romania (% GDP)



*Note: * represents the EC forecast, for 2025 and 2026, in a no-policy change scenario.*
Source: AMECO

Table 1. Primary and structural balance in EU states (% GDP)						
	2022		2023		2024	
	Primary balance (% GDP)	Structural balance (% GDP)	Primary balance (% GDP)	Structural balance (% GDP)	Primary balance (% GDP)	Structural balance (% GDP)
European Union	-2.2	-3.7	-1.7	-3.5	-1.1	-3
Belgium	-2.8	-4.4	-2.3	-4.1	-2.1	-4.2
Bulgaria	-3.2	-3.5	-1.8	-2.8	-2.7	-2.7
Czechia	-2.2	-3.3	-1.9	-3.2	-0.2	-1.6
Denmark	5.2	4.4	5.1	4.6	5.7	5.6
Germany	-1.6	-2.1	-1.3	-2.1	-1	-2.1
Estonia	-1	-1.3	-0.9	-1.2	1.2	0.6
Ireland	-2.8	-3.5	2.1	1.5	5.6	2.3
Greece	0.5	-2.5	1.6	-1.6	3.9	0.6
Spain	-2.3	-4.6	-1.5	-3.8	-1.6	-3.2
France	-2.9	-4.8	-3.5	-5.3	-3.7	-5.7
Croatia	0	-1.1	-0.3	-1.9	-1.8	-3.3
Italy	-5	-9.4	-4.4	-8.4	-0.1	-4.1
Cyprus	1.6	0.3	1.4	0.1	4.1	2.9
Latvia	-4.3	-4.8	-1.9	-2.6	-0.5	-1.6
Lithuania	-0.7	-1.3	0.6	0	0.2	-0.6
Luxembourg	1	0.8	1.1	0.8	3	2.7
Hungary	-4.4	-7.3	-1.9	-6.6	0.5	-4.5
Malta	-3.6	-4.5	-3.3	-4.4	-2.4	-3.6
Netherlands	-0.8	-1.2	0.2	-1	0.2	-0.4
Austria	-3.8	-4.8	-1.6	-2.8	-2.5	-4
Poland	-2.7	-4.5	-2.6	-4.7	-4	-6.1
Portugal	1	-0.8	2.7	1.1	2.4	0.3
Romania	**-5**	**-6.4**	**-4.5**	**-6.4**	**-6.4**	**-8.8**
Slovenia	-3.2	-4.3	-2.3	-3	-0.2	-1.2
Slovakia	-0.9	-1.9	-4.2	-5.4	-3.8	-5.2
Finland	0.7	0.1	-0.5	-1.7	-1.1	-2.7
Sweden	1.4	0.9	0.7	0	0.1	-0.5
Euro Area	-2.4	-4	-1.9	-3.6	-1.1	-3

Source: AMECO

Table 2. Current account balance in EDP states (% GDP)				
	2022	2023	2024	2025*
Romania	-9.5	-6.6	-8.4	-7.7
Poland	-2.2	1.8	0.2	1
Hungary	-8.5	0.3	2.2	1.8
Slovakia	-9.6	-0.9	-2.8	-3.4
France	-1.2	-1	0.4	0.3
Italy	-1.7	0.1	1.1	1.5
Belgium	-1.3	-0.7	-0.9	-1.3
Malta	-0.8	6.4	5.7	5.8
EU states average	-1.4	1.4	2.3	2.1

*Note: * represents EC forecasts.*
Source: AMECO

Table 3. Romania's and peers countries rating, according to the rating agencies						
Agency/Country	Fitch		Moody's		Standard&Poors	
	Rating	Starting year	Rating	Starting year	Rating	Starting year
Romania	BBB-	2011	Baa3	2006	BBB-	2014
Bulgaria	BBB+	2021	Baa1	2020	BBB	2019
Czechia	AA-	2018	Aa3	2019	AA-	2011
Poland	A-	2007	A2	2002	A-	2018
Hungary	BBB	2019	Baa2	2021	BBB-	2023

Source: Fitch, Moody's, Standard&Poors