



# Financial Sustainability

*From Deficits to Nominal Convergence*

ECONOMIC@BNR

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Coordinator

Cosmin Marinescu

DEPUTY GOVERNOR



NATIONAL BANK OF ROMANIA

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**FINANCIAL  
SUSTAINABILITY**

*From Deficits  
to Nominal  
Convergence*

- The *Economic@BNR* project provides a platform for discussions on the progress, vulnerabilities and challenges specific to Romania's economy, including from a regional and a European perspective, representing a comprehensive framework for information and debate, in the broader context of domestic and international policies.
- *Economic@BNR* aims both to help in the alignment to best international practices, through enhanced contributions from the National Bank of Romania to raising the level of economic and financial education, and to provide constant support for substantiating economic policy decisions.
- **"Financial Sustainability – From Deficits to Nominal Convergence"** is the analysis meant to address a key priority for Romania and not only, because Romania's fiscal and budget consolidation path over these years is essential for regaining credibility.
- From the broader perspective of economic and social policy objectives, financial sustainability must pave the way, in an environment currently riddled with multiple risks and uncertainties, for advancing the process of Romania's lasting development and economic and monetary integration in EU structures.

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## Introduction

The increase in public debt worldwide has resurfaced as a matter of concern, in an environment of far-reaching changes

- The escalating global uncertainty and the paradigm shifts in terms of the nature and path of public policies are significantly reshaping the economic outlook, in a world where public finances are already under great pressure. Weak financial positions trigger geostrategic realignments globally, with implications on a decennial scale.
- Global gross government debt is nearing the 100%-of-GDP mark. Sovereign debt has been rising not only in emerging market and developing economies, China in particular, but also in advanced economies, with the US accounting for roughly a third of world debt and Japan standing out through its debt more than double the GDP.
- On a similar trend, the European Union has seen, in the last 20 years, public debt soaring to over 80% of GDP, with an upward forecasted path as well, especially given the need to ensure security and regain economic competitiveness.
- Global geopolitical priorities now appear to be shifting drastically, from development to defence, from the economy to security, with rising risks in terms of geopolitical and security tensions, but also of an indefinite postponement of addressing long-term vulnerabilities, including climate-related, that mankind is currently facing.

Romania stands out lately through the step-up in public debt, amid high fiscal deficits

- Within this framework, Romania stands out in the region and among European countries through the recent pick-up in debt growth, at an average annual pace of around 4 percentage points of GDP during 2020-2025, triple compared with pre-pandemic years (2005-2019).
- Hence, Romania's gross government debt has reached 60% of GDP, which is the threshold laid down in the Maastricht set of criteria on nominal convergence. Other peer countries, particularly Poland and Hungary, have seen an upward path as well, with the latter even exceeding 70% of GDP, yet with much more moderate dynamics.
- The notable increase in Romania's public debt over the last years largely reflects the fiscal policy tendency to stimulate consumption and (only recently) investment. The wide fiscal deficits owed to the faster growth of spending, particularly the rigid expenditure, but also that on interest, than the rise in revenue.
- Corrections may occur abruptly especially when authorities consider that economic development should be fostered the easy way, through persistent fiscal deficits, until financial sustainability is affected and investors re-assess their portfolios, focusing on shorter-term assets.

Overlapping  
crises turn into a  
vortex of shocks  
and risks,  
and the  
authorities are  
faced with the  
sustainability  
test

- Generally, the authorities are bound to look for a trade-off between moderating the rise in debt and identifying resources to address heightened needs and risks, as the economy grows at a modest pace and financing costs are significant. Robust economic growth will support the effectiveness of public finance consolidation efforts.
- The increase in public debt can be more easily managed when the economies are not faced with major shocks, such as the Great Recession that ushered in soaring debt-to-GDP ratios in euro area countries (Greece, Ireland, Italy, Portugal, Spain).
- The overlapping crises in recent years have acted like a vortex of significant shocks and economic risks, with governments facing again the test of financial sustainability. It can only be addressed through consistency, decision-making coherence, credibility and professionalism in implementing the committed measures.
- Pursuing sound public finances implies a multiannual societal effort, with major contributions from education and digitalisation, conferring resilience and durability to the transformations from public policy implementation, in consonance with the social ethos.

Romania's  
significant  
post-accession  
progress has  
not been  
neutral  
from the  
perspective of  
imbalances

- During Romania's post-accession evolution, a major focus of the authorities, but also of the society overall, was the step-up in real convergence, to support income growth and higher living standards in general.
- In hindsight, Romania's path within a European context was marked by major achievements in economic, social and institutional terms, with the objectives being fulfilled through adherence to EU values, but also through a relative resilience amidst crises.
- The catching-up process implied, however, the prioritisation of quantitative build-ups, with an emphasis on investment inflows and, generally, on policies to increase income and living standards.
- Yet the catching-up did not unfold in a neutral context from the perspective of domestic economic imbalances. As a matter of fact, in retrospect, the other European countries also accumulated certain disequilibria during their own convergence paths.
- A qualitative adjustment stage is now necessary, as economic and financial equilibria need to be restored; the key challenges consist in public finance consolidation and financial sustainability.

It is necessary  
to move  
on from  
quantitative  
progress to  
qualitative  
consolidation.  
2026 is the  
year of  
economic  
consolidation

- This is the time when a shift in the economic policy agenda is warranted, the priority for policymakers becoming the lasting macroeconomic equilibria restoration. Economic policies must pursue convergently a gradual correction path of macroeconomic imbalances.
- The efforts follow, in fact, a certain cyclicity that is normal in the realm of public policies. While the last two decades have seen policies fostering quantitative progress in Romania, it is now time to internalise and promote qualitative consolidation, paving the way for sustainable development, through competitiveness and innovation.
- The current juncture calls for a transition from the expansionary model, centred on raising income and investment for catching-up purposes, to an economic model based primarily on addressing imbalances. It is necessary to shift from a quantitative to a qualitative model that is both sustainable and resilient to challenges.
- The change in public policy direction must acknowledge the importance of adequate, balanced and consistently applied adjustments, to ensure a gradual reduction in economic disequilibria by pursuing fiscal consolidation and fostering competitiveness.

Regaining  
economic  
credibility is  
the key  
ingredient of  
financial  
sustainability

- Fiscal consolidation and public debt sustainability have become defining challenges for Romania, the fulfilment of these objectives requiring balance, judicious decisions and political consensus.
- The consolidation efforts call not only for political support, but also for a certain social cohesion, in order to regain economic policy credibility, a key ingredient of financial sustainability.
- The commitments provide for a gradual reduction of the fiscal deficit to reach the 3%-of-GDP target in 2031, a trajectory that implies comprehensive fiscal and budget reforms and a hefty effort to (re)balance general government revenue and expenditure.
- An adequate fiscal and budget consolidation, whose effects should stand the test of time, requires a complex approach in terms of public policies, to underpin macroeconomic stability and mitigate the economy's vulnerabilities to external shocks.
- The successful completion of the undertaken commitments also implies laying the groundwork for sustainable economic growth, by continuing investment, especially EU-funded projects, capable of fostering the development potential.

The in-depth analysis of indicators is a significant empirical support in substantiating economic policies

- This paper highlights, from a national, regional and European perspective, the main indicators relevant for the fiscal and external positions, including key aspects regarding the financial and banking system, social imbalances and financial discipline.
- The breadth and depth of the analysis, as well as the correlations captured in the paper reflect its clear objective to provide significant empirical support in substantiating economic policies, both in the short run and especially over the coming years.
- The analysis corroborates the assessment according to which the drivers behind sustainable economic growth can only be ensured by effectively using EU funds and foreign direct investment, which support the alignment with current technological trends and energy efficiency, helping enhance economic competitiveness.
- Economic and political predictability is essential for improving the quality of the business environment and supporting private initiative, aspects correlated with strengthening financial discipline, but also corporate governance across state-owned enterprises, some of which have a strategic role in terms of security and growth potential.

The relevance of the analysis is enhanced by the multitude of indicators under scrutiny, as well as by the identified correlations

- The particular importance attached to assessing state-owned enterprises' corporate governance is fully warranted, in the context of fiscal consolidation, *inter alia* through measures to improve the efficiency of companies where the state holds the majority stake.
- Another topical issue under analysis refers to the contribution balance as regards the current financing of social systems, particularly of the public pension system, whose financing continues to put pressure on public debt, to the detriment of other sectors.
- Other key aspects are the correlations between government revenue developments from a EU perspective and the rates of the main tax categories in Romania and other EU countries, but also the government's collection capacity, particularly the VAT gap size, the prioritisation of this topic being now both timely and necessary.
- The paper also examines relevant aspects on private companies, such as external services expenses, profit margins, level of indebtedness and financial health measure or, as regards the banking sector, the share of government securities in total assets, the return on equity and the tax on bank net revenue (turnover tax).

The nominal  
criteria  
represent the  
quantitative  
matrix of  
sustainability  
benchmarks

- Lasting development should be pursued through a foreign policy to make Romania attractive and competitive, a pillar of stability, geopolitical included, and a driver of growth in Europe. The strategy for promoting Romanian exports and trade diplomacy are thus essential.
- The task of public policies is to foster the lasting rebalancing of macroeconomic indicators. Thus, along this challenging path, with unpredictable elements, it is necessary to keep away as much as possible from the logic of circumstantial or opportunistic reactions, which may then be invalidated by economic developments.
- At the same time, the implementation of structural reforms, with complex mechanisms for far-reaching efficiency improvement, set in motion across all economic sectors, is essential for sustainable economic growth and for public finance consolidation, a framework fostering *inter alia* the effective transmission of monetary policy.
- The nominal convergence criteria represent the quantitative matrix of sustainability benchmarks. The international framework is currently marked by the heightened volatility of the main indicators, amid a sequence of global crises and geopolitical tensions.

Effectively  
harnessing the  
advantages  
will enable the  
pursuit of the  
euro adoption  
strategic  
objective

- Even though Romania's macroeconomic framework is the realm of contrasts, with GDP growth accompanied by persistent imbalances, debt and social inequalities, time is still on our side, both as a nation and as an economy, to capitalise on our own competitive advantages.
- Economic and social welfare, no matter how we define it, cannot be safeguarded, consolidated and developed without responsibly reacquiring our ability to manage national resources efficiently and optimally, while macroeconomic imbalances are the most obvious negative aspects indicative of this behavioural equation.
- Romania's European path and aspirations need to be defended, protected and pursued diligently and with a constructive mindset; over the coming years, our country has clear targets to meet in terms of sustainability and the consolidation of trust in delivering on the commitments, with mutual benefits within the EU.
- Euro adoption remains a strategic objective, of major importance for Romania, and the sustainable fulfilment of the nominal convergence criteria is conditional upon achieving a high degree of structural alignment with euro area countries, a process that requires determination in meeting the undertaken objectives.

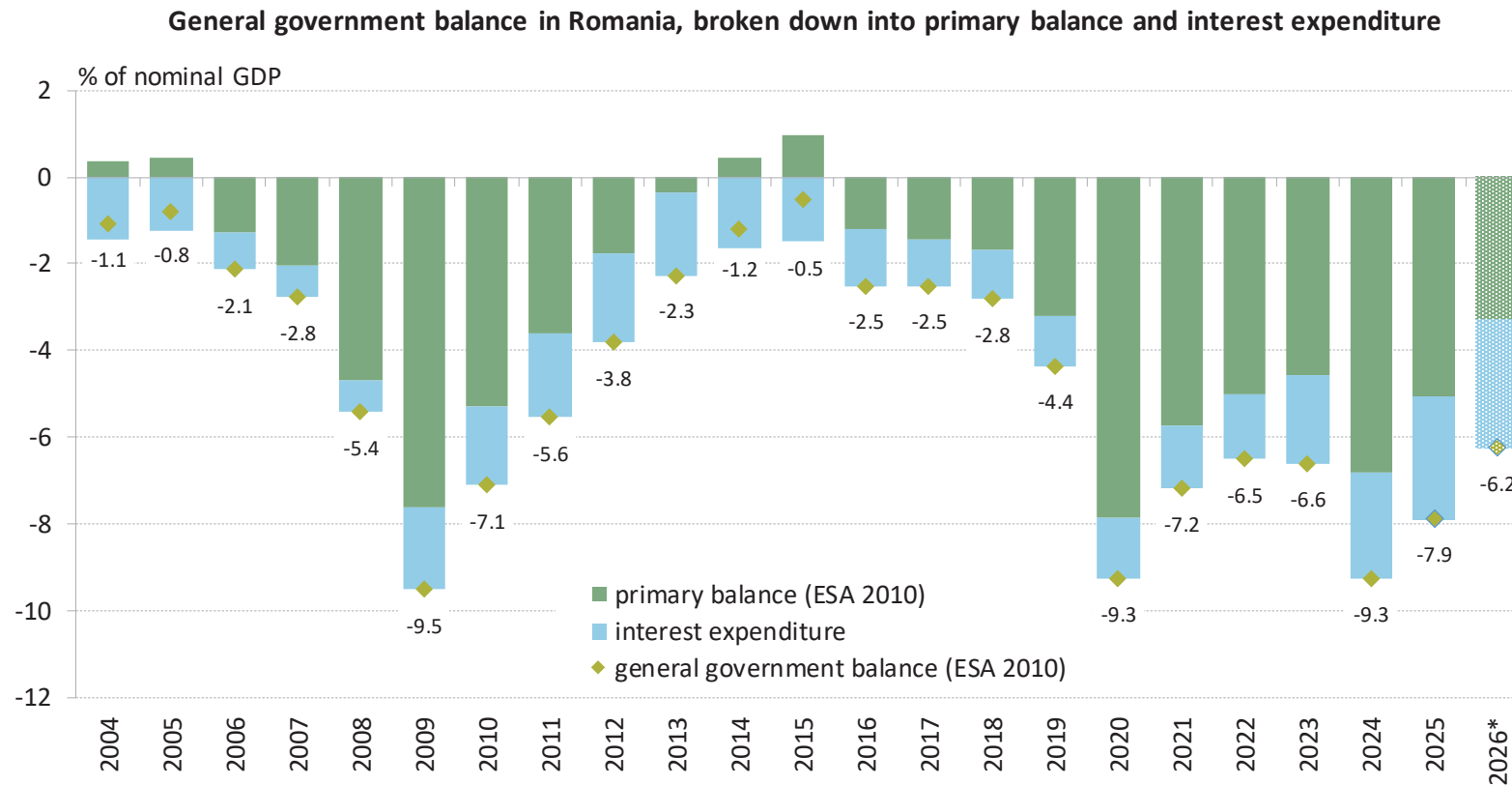
## Chapter I

### Sustainability of Public Finances

#### The General Government Deficit Issue

- At EU level, Romania faced a record-high general government deficit (9.3% of GDP in 2024 under ESA 2010, followed however by a sizeable correction in 2025, with the deficit narrowing to 7.9% of GDP). Against this background, the present analysis aims to identify the factors that led to this fiscal slippage. To provide a broad perspective on the developments in fiscal and budgetary indicators, the reference period covers 2004-2025.
- At the same time, the chapter also includes a set of relevant comparisons meant to shed light on Romania's position relative to EU Member States overall, with a specific focus on its regional peers: Bulgaria, Czechia, Hungary and Poland.
- Romania has been subject to the *Excessive Deficit Procedure* since as early as 2020. In this context, the analysis sets out key elements of this process, highlighting the repeated deviations of the deficit from the fiscal adjustment path committed to on several occasions.
- The analysis makes a comparison between Romania's *National Medium-Term Fiscal-Structural Plan* and those of other European countries, including regional peers. In this respect, Romania's fiscal consolidation process appears to be already running behind schedule.

In 2014-2015, Romania recorded a primary surplus, as a result of the fiscal consolidation carried out after the global financial crisis. Subsequently, in less than four years, the expansionary fiscal policy stance pushed the deficit above the 3% of GDP threshold. In recent years, high general government deficits and the significant increase in financing costs have placed interest expenditure on a steep upward path (reaching 3% of GDP in 2026).

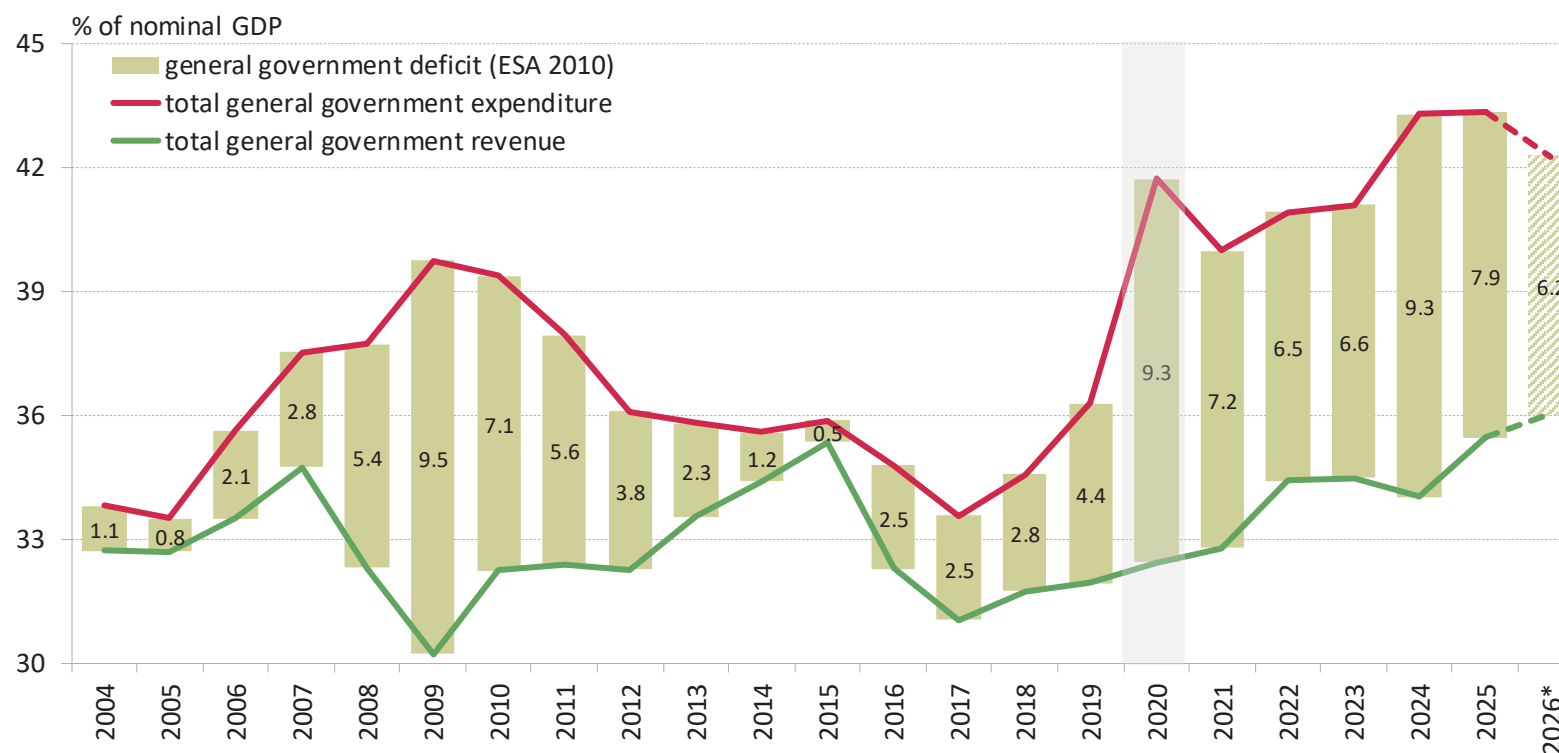


\*) for 2026, national methodology (cash) estimates according to the general government budget

Source: Eurostat, Ministry of Finance, Fiscal Council, NBR calculations

Romania has been subject to the *Excessive Deficit Procedure* since 2020. The deterioration of the budgetary position became visible following the entry into force of a new Tax Code that entailed cuts in some taxes and duties, mainly the VAT rate. The notable widening of the general government deficit was driven by the acceleration in expenditure growth, which substantially outpaced the increase in general government revenue, particularly in 2020-2024.

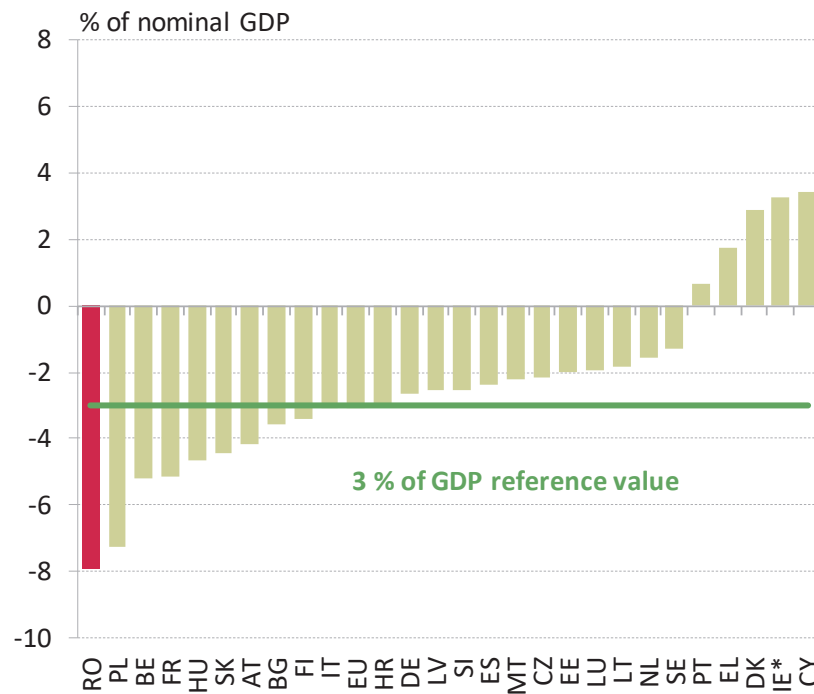
General government deficit (ESA 2010) in Romania



\*) for 2026, national methodology (cash) estimates according to the general government budget  
 Source: Eurostat, Ministry of Finance, Fiscal Council, NBR calculations

In 2025 as well, Romania recorded the highest general government deficit among EU Member States, standing at 7.9% of GDP under ESA 2010, around 0.6 percentage points above Poland’s deficit (7.3% of GDP), which was the second largest. The breakdown of the general government deficit shows that the distinguishing feature for Romania lies less in the size of total general government expenditure and more in the low level of total general government revenue.

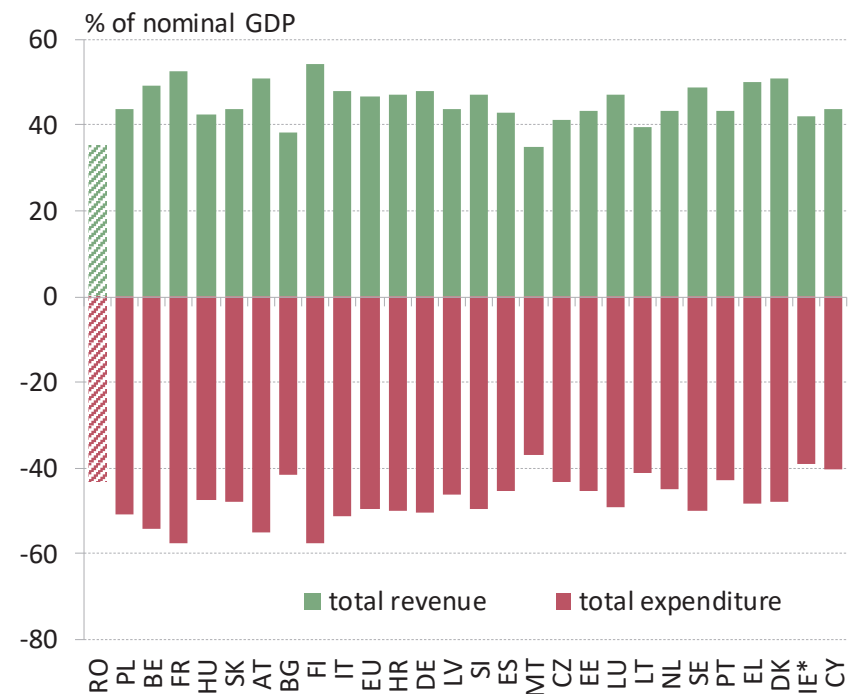
**General government balance (ESA 2010) in 2025**



\*) share in adjusted gross national income

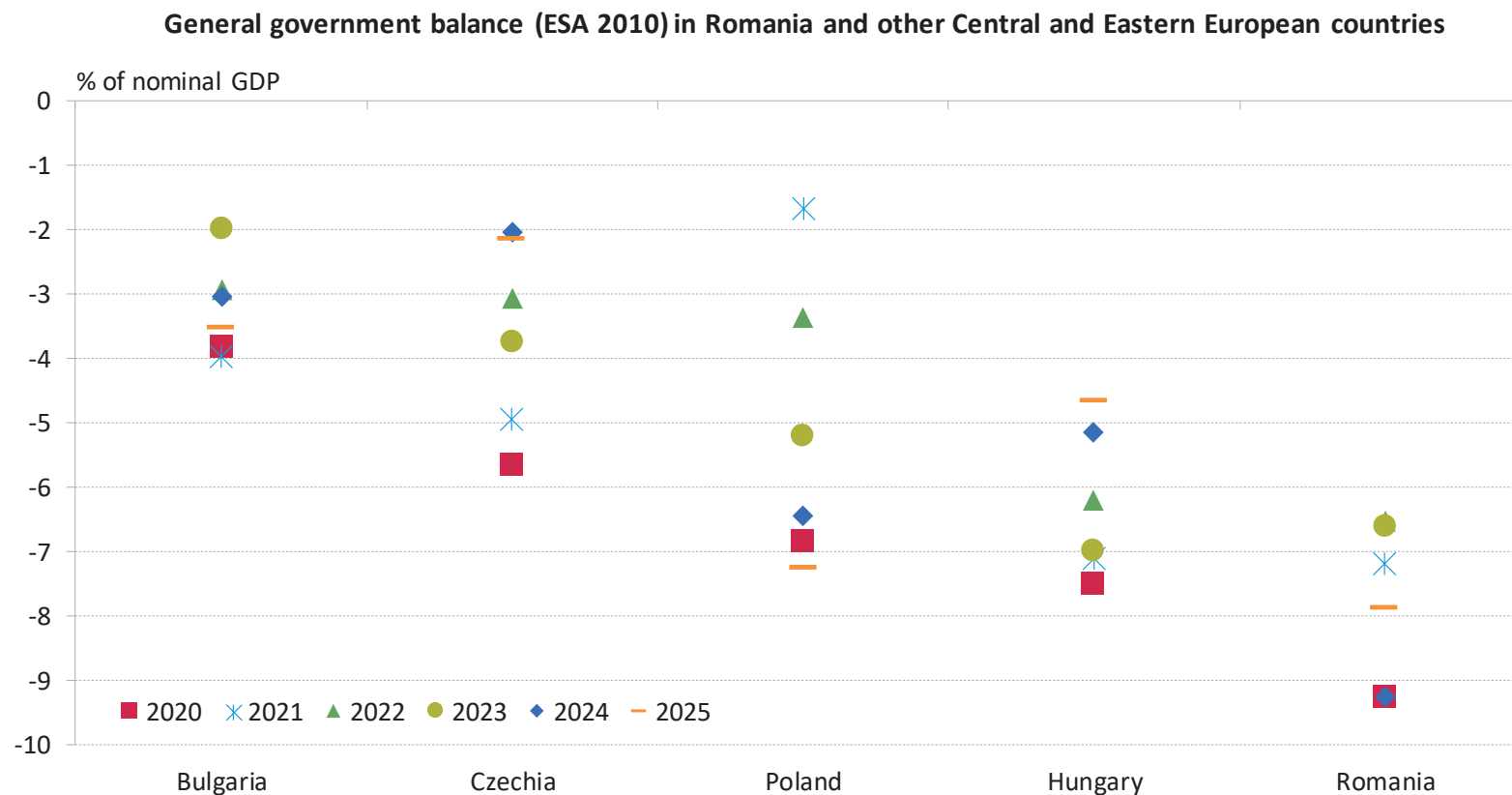
Source: Eurostat

**Breakdown of general government balance (ESA 2010) into revenue and expenditure, 2025**



\*) share in adjusted gross national income

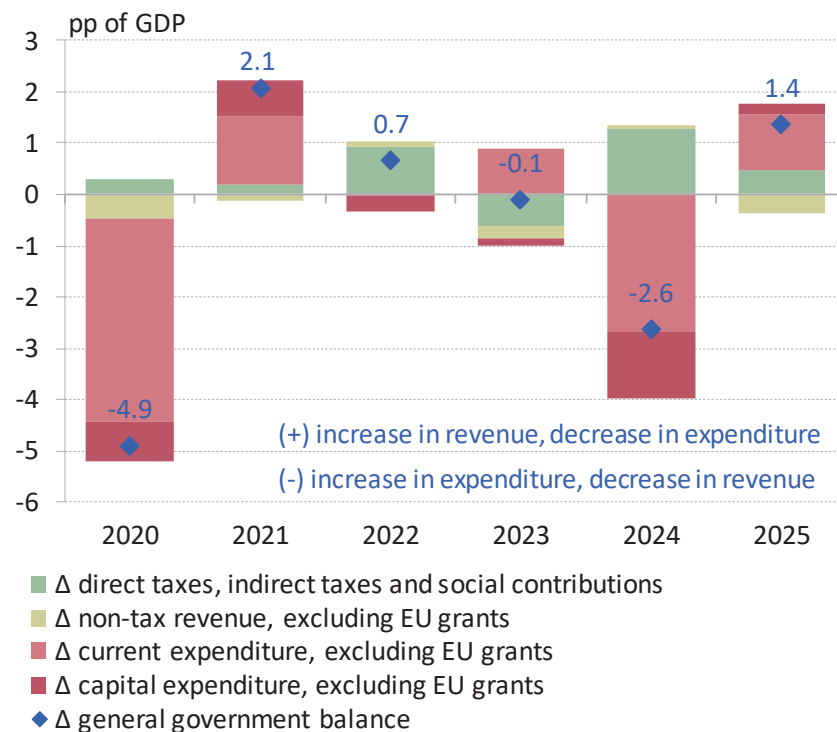
The year 2025 was not an isolated case in terms of fiscal slippage: over the past six years, Romania’s general government deficit has been persistently higher than those posted by other countries in the region. While most countries corrected the high deficits incurred in 2020, the year of the pandemic, Romania returned in 2024 to a level close to that seen at the time, after an only temporary improvement in 2021-2023. Poland followed a similar path.



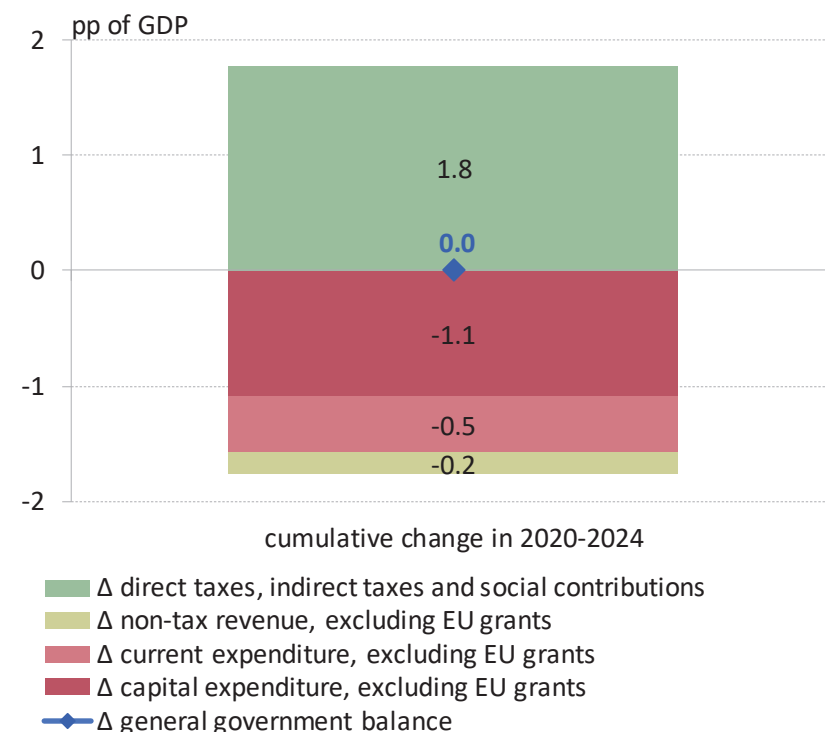
Source: Eurostat, NBR calculations

In 2021, as some exceptional measures related to the health crisis expired, current expenditure declined, with an impact on the general government balance. In 2024 however, current expenditure (especially spending on wages and pensions) soared. To this added a rise in capital expenditure financed from repayable funds. Therefore, compared with 2020, the increase in expenditure seen in 2024 fully offset the advance in tax revenue.

**Breakdown of the annual change in general government balance (ESA 2010) in Romania**



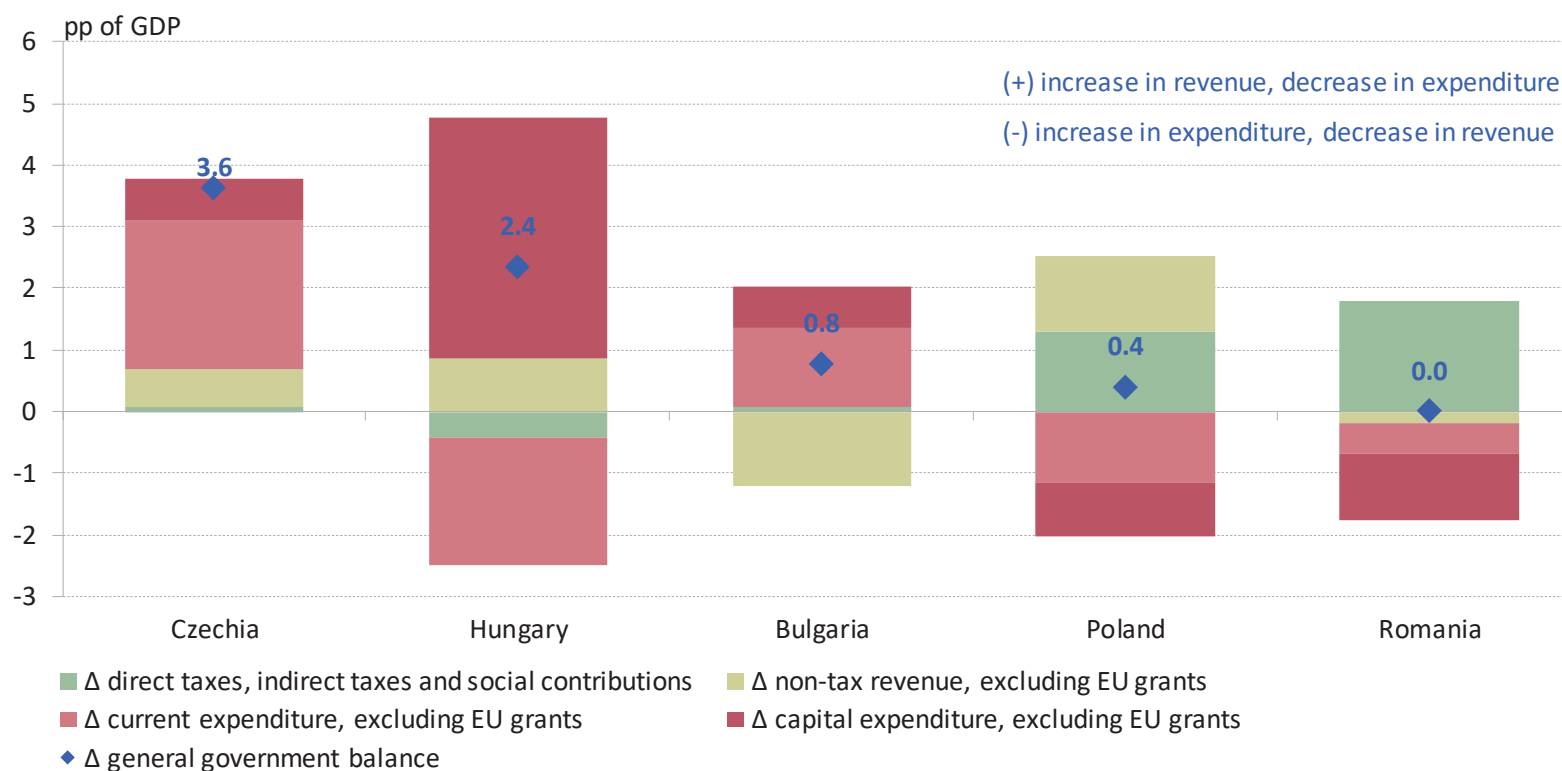
**Breakdown of the 2020-2024 cumulative change in general government balance (ESA 2010) in Romania**



Source: Eurostat, NBR calculations

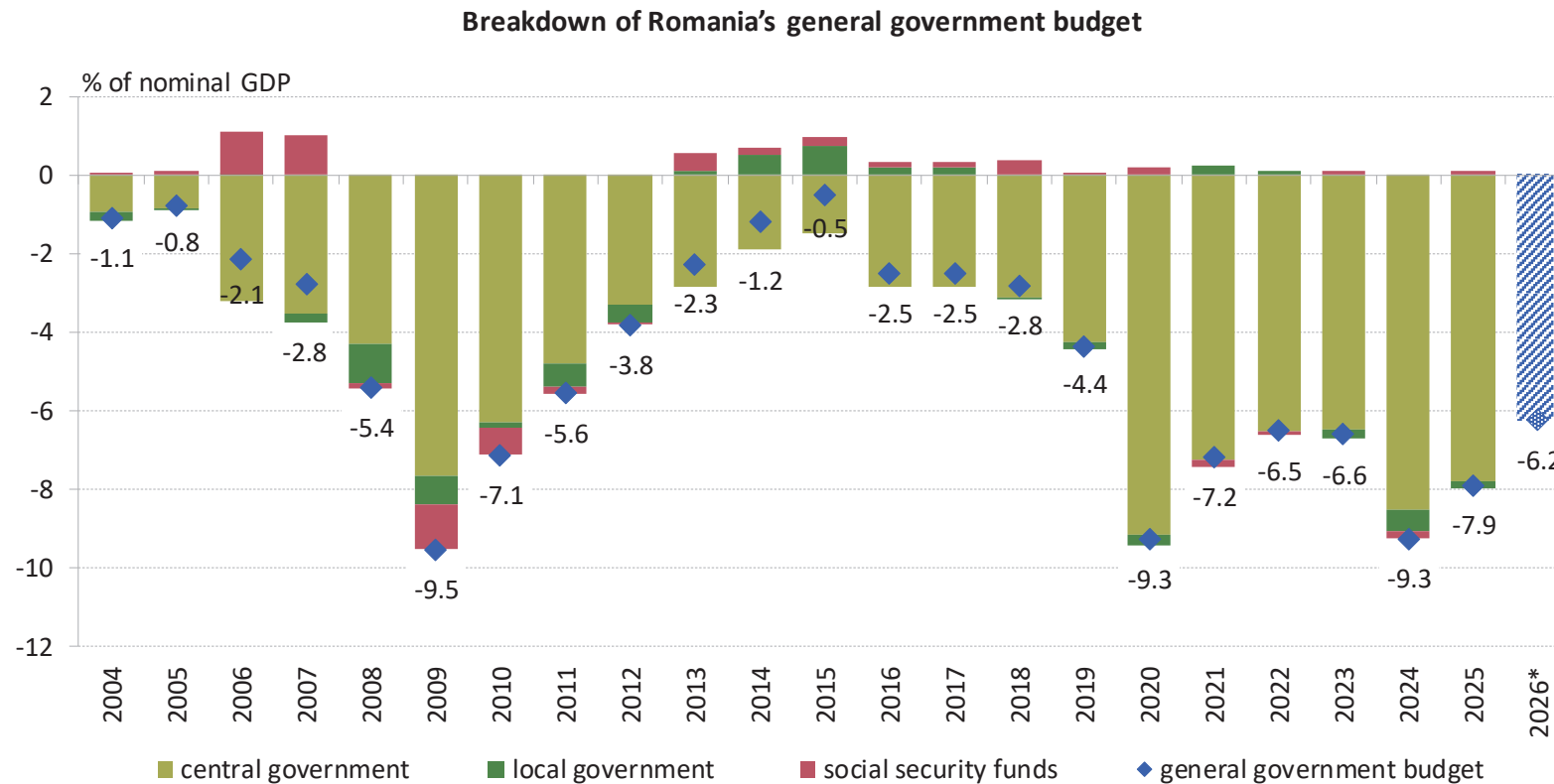
Across the region, Romania was the only country to incur a higher general government deficit in 2024 than in 2020, the pandemic year. In Poland, for instance, the increase in general government expenditure was offset by more favourable developments in both tax and non-tax revenue. Conversely, in Czechia, Hungary and Bulgaria, the deficits were corrected mainly through a reduction in government expenditure.

Breakdown of the 2020-2024 cumulative annual change in the general government balance



Source: Eurostat, NBR calculations

In Romania, the social security funds subsector alternated between moderate surpluses (yet larger in 2005-2006) and deficits, which rose during the global financial crisis. By contrast, the central government budget has posted a persistent deficit over the past two decades, while local government deficits have resumed a worsening trend in recent years, contributing to the widening of the general government deficit.

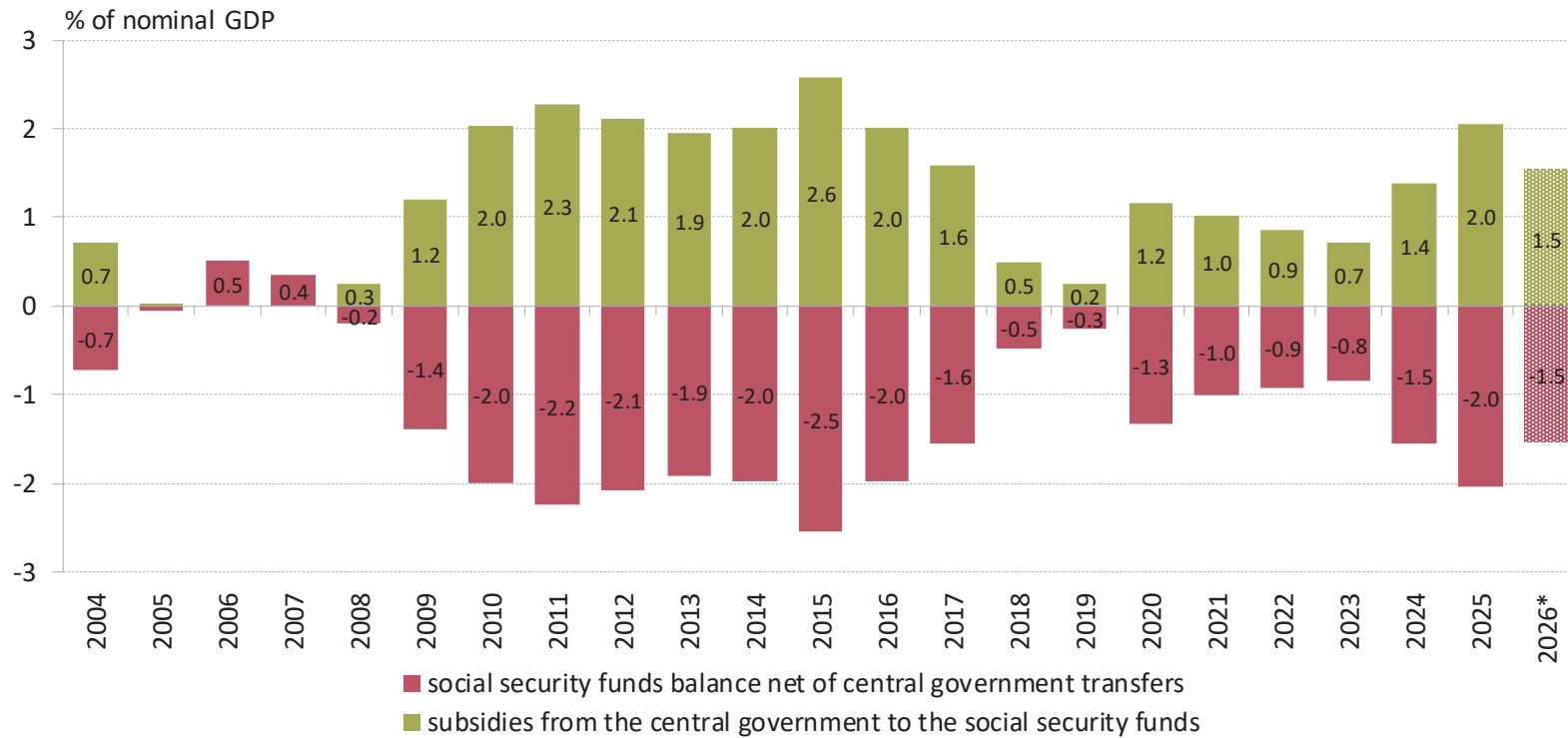


\*) for 2026, national methodology (cash) estimates according to the general government budget

Source: Eurostat, Ministry of Finance, Fiscal Council, NBR calculations

Since 2008, social security funds have constantly required significant subsidies from the central government budget. However, the amount of balancing transfers fell sharply in 2018, amid the reconfiguration of social security contributions and personal income tax. Subsequently, transfers quickly returned to significant levels, recently amplified by the effects of the new pension law, which led to sizeable increases.

Balancing transfers from the central government to the social security funds

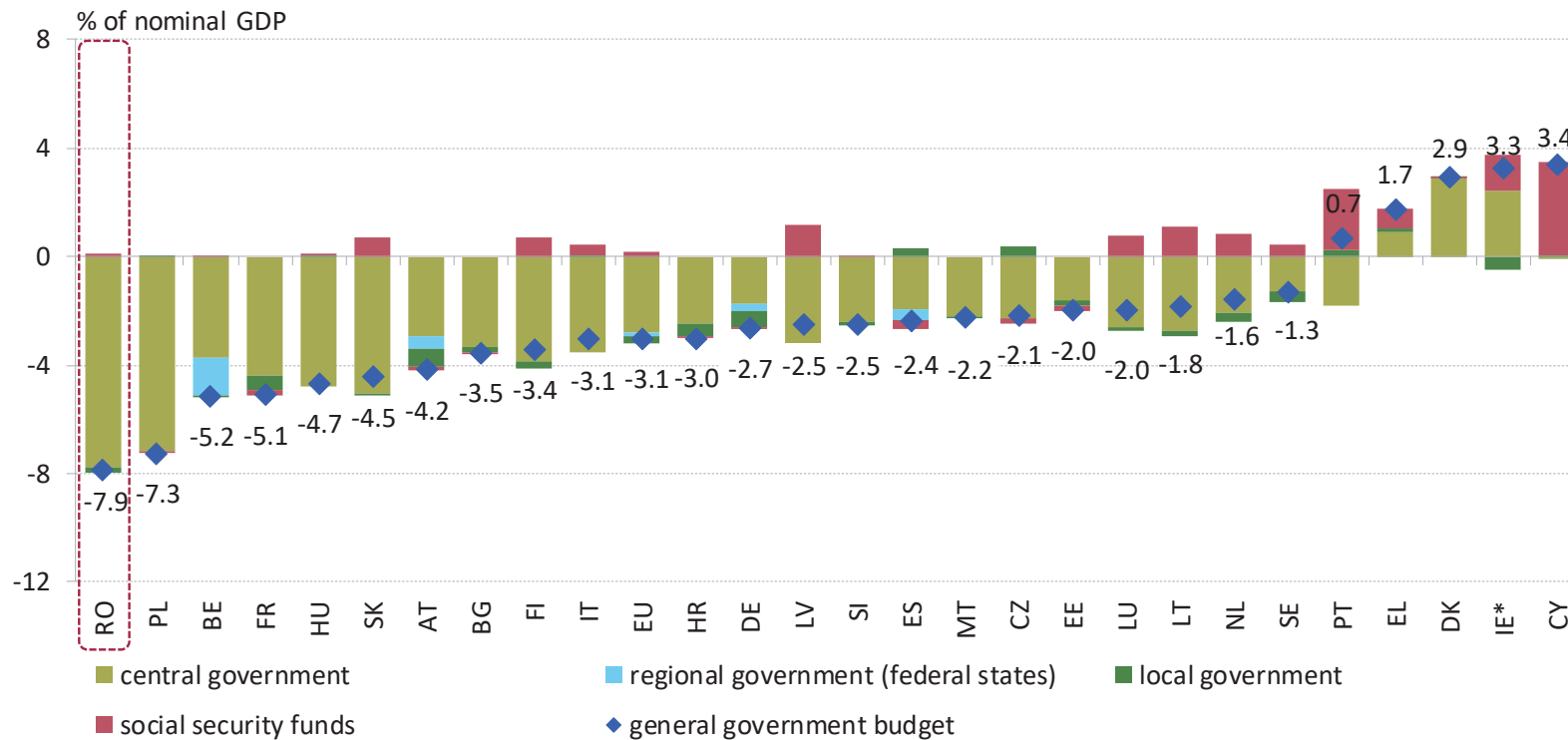


\*) according to the draft of the general government budget

Source: Ministry of Finance, Fiscal Council, NBR calculations

The breakdown of Romania’s general government deficit by component size shows that the central government budget was the main contributor in 2025. This is also broadly the case in other EU Member States. By contrast, an important feature of economies running fiscal surpluses or low deficits is the presence, as a rule, of (often substantial) social security funds surpluses.

**Breakdown of the general government budget in 2025 – comparisons across EU Member States**

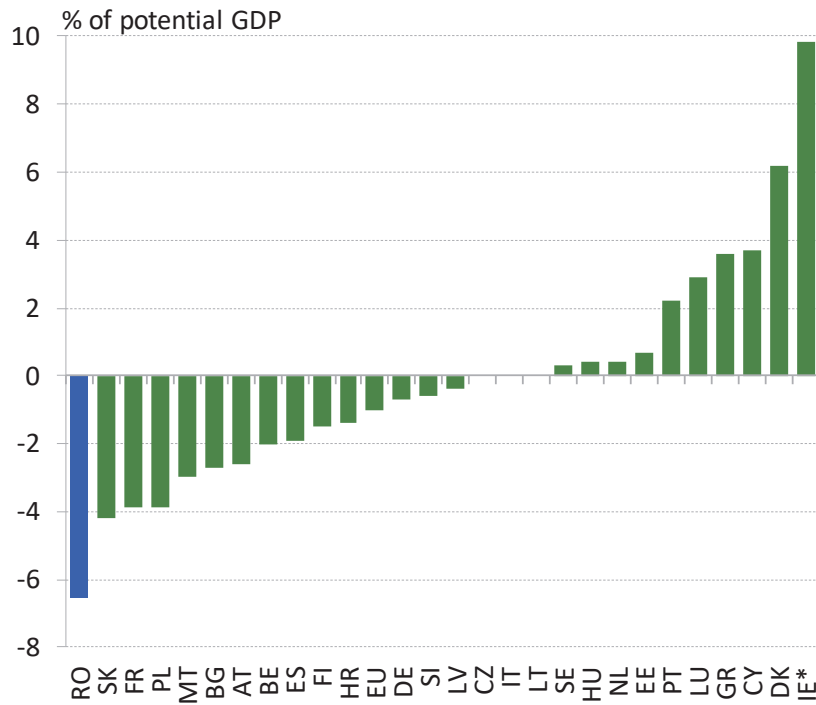


\*) share in adjusted gross national income

Source: Eurostat, NBR calculations

Compared with other EU countries, Romania currently runs the largest general government structural primary deficit. From a regional perspective, although in 2015 Romania had recorded a stronger budgetary position than other countries, it experienced the fastest deterioration in the general government balance until end-2024 (by 7.8 pp of potential GDP, more than double that seen in Poland), which is equivalent to the highest cumulative degree of fiscal stimulus.

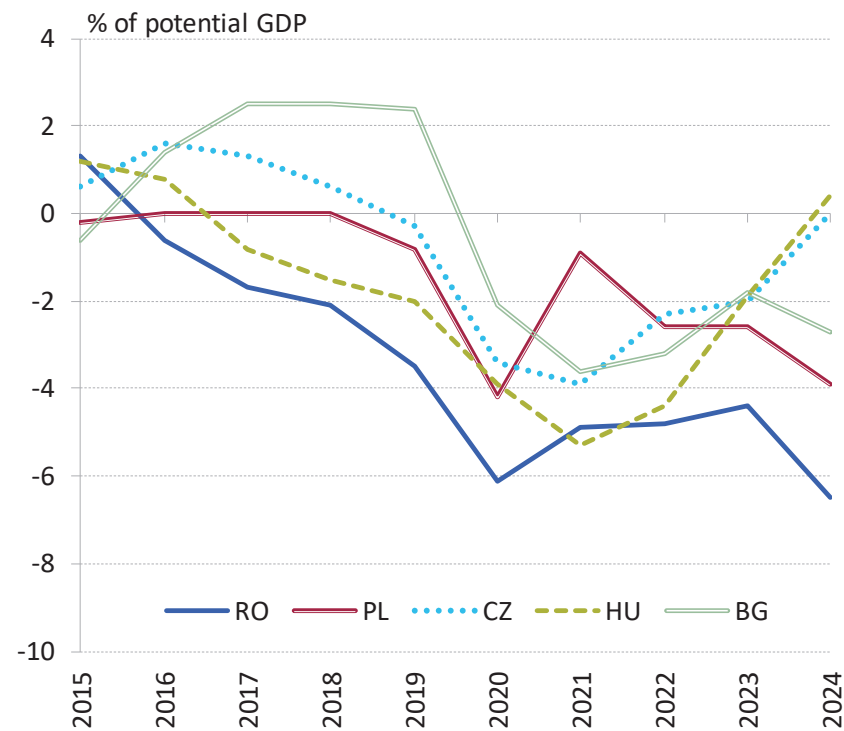
General government structural primary balance in 2024



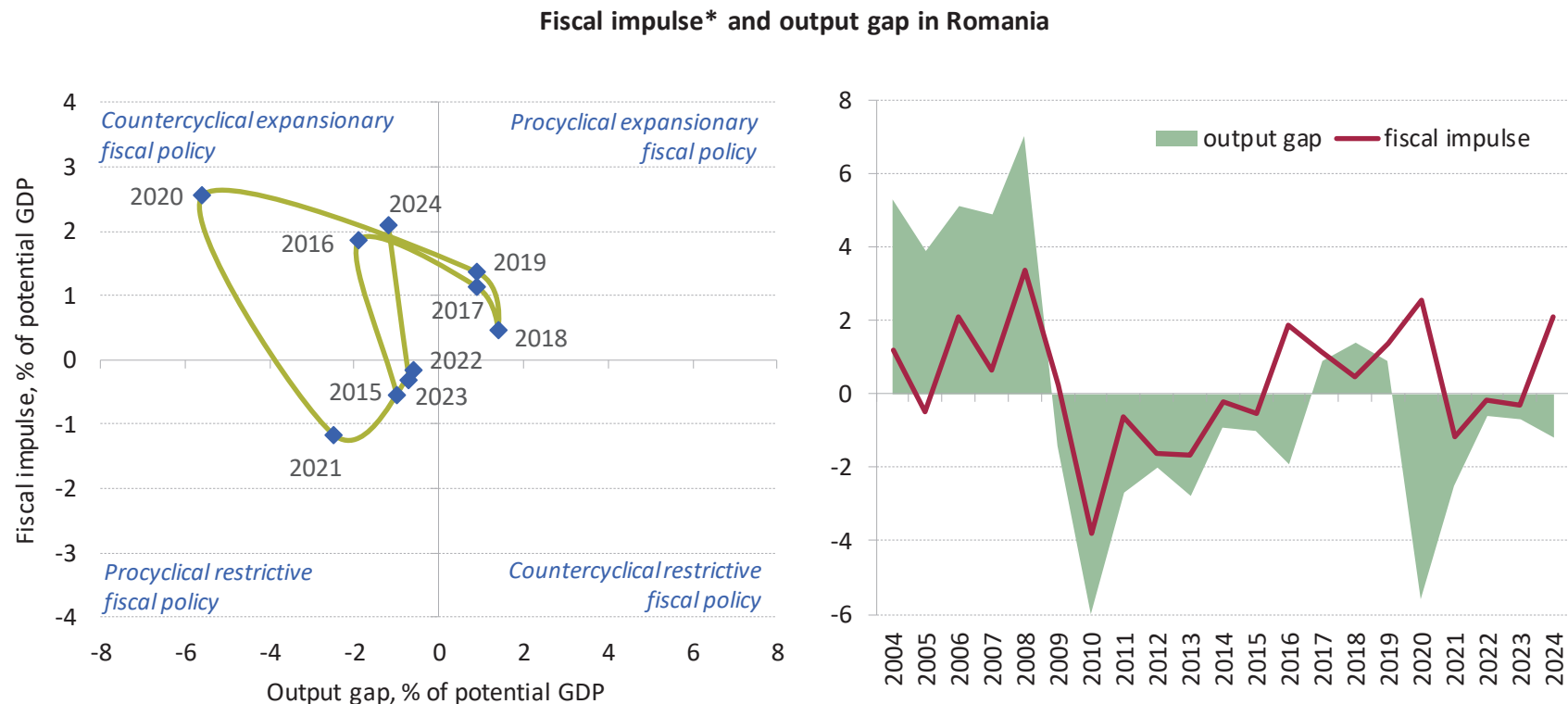
\*) share in adjusted gross national income

Source: AMECO

General government structural primary balance



Fiscal policy in Romania was procyclical in 2017-2019, contributing to the overheating of the economy just before the pandemic shock. In 2020, fiscal and budgetary measures cushioned the effects of the pandemic crisis, while in 2021-2023 they had a restrictive impact on aggregate demand. In 2024, amid a particularly busy electoral calendar, with multiple election rounds, the fiscal impulse turned strongly positive again.

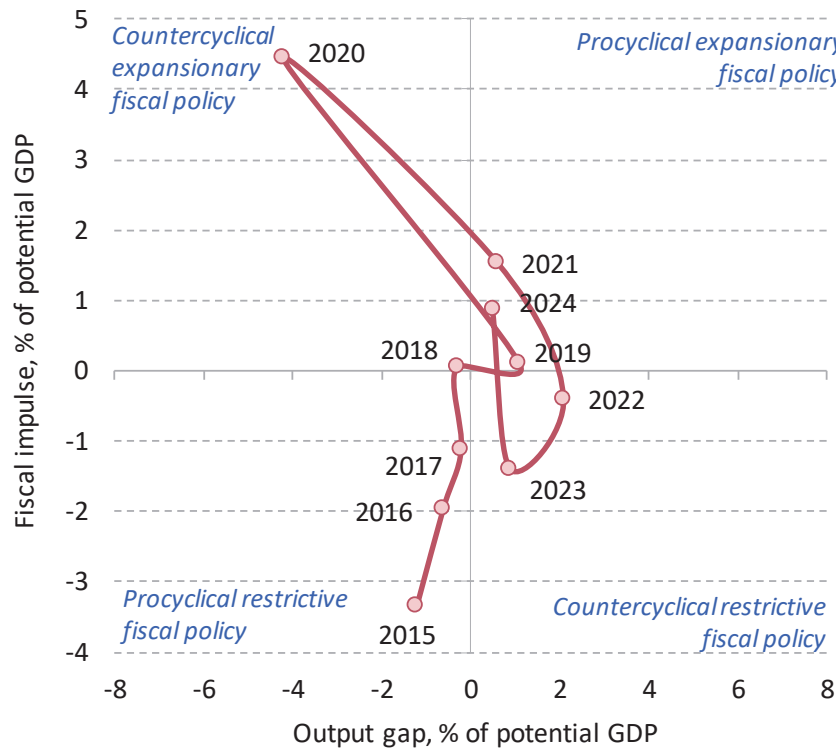


\*) The fiscal impulse is defined as the change in the structural primary deficit. A positive value reflects expansionary fiscal policy effects, whereas a negative fiscal impulse signals restrictive effects.

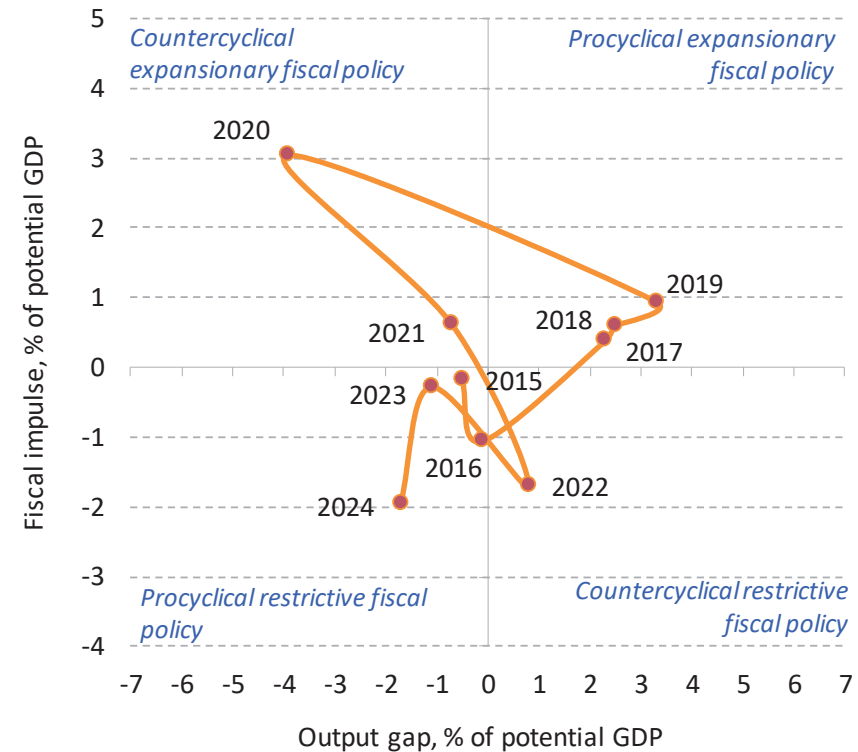
Source: AMECO, NBR calculations

A similar picture also emerges for Czechia. Procyclicality in 2017-2019 was followed by a mitigation of the economic effects of the COVID crisis in 2020. In 2024 however, Czechia’s fiscal policy stance was assessed as restrictive. By contrast, in Bulgaria, the fiscal impulse was assessed as positive in 2024, marking a shift in direction compared with the previous year.

Fiscal impulse and output gap – Bulgaria



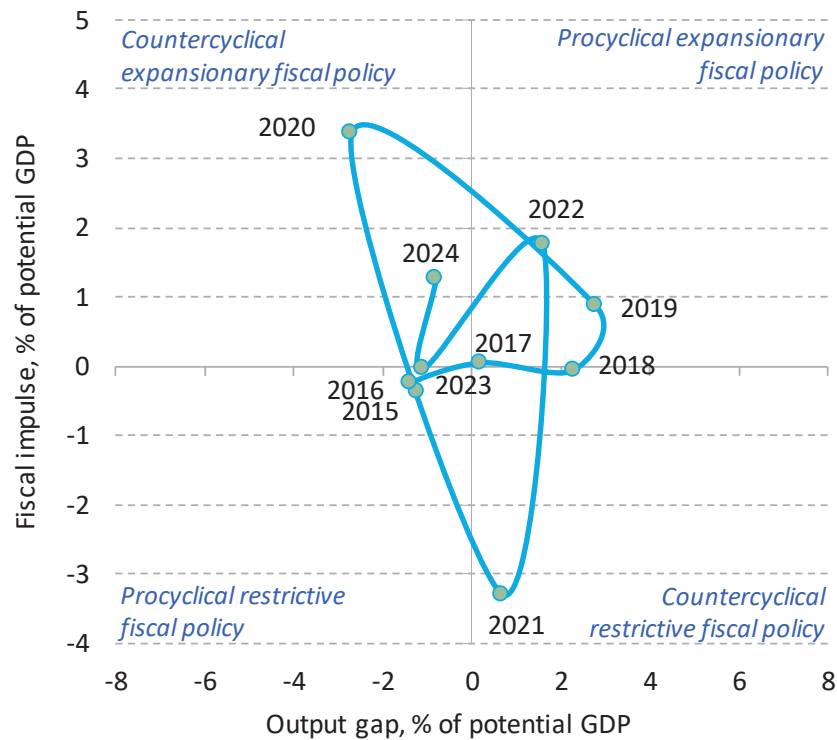
Fiscal impulse and output gap – Czechia



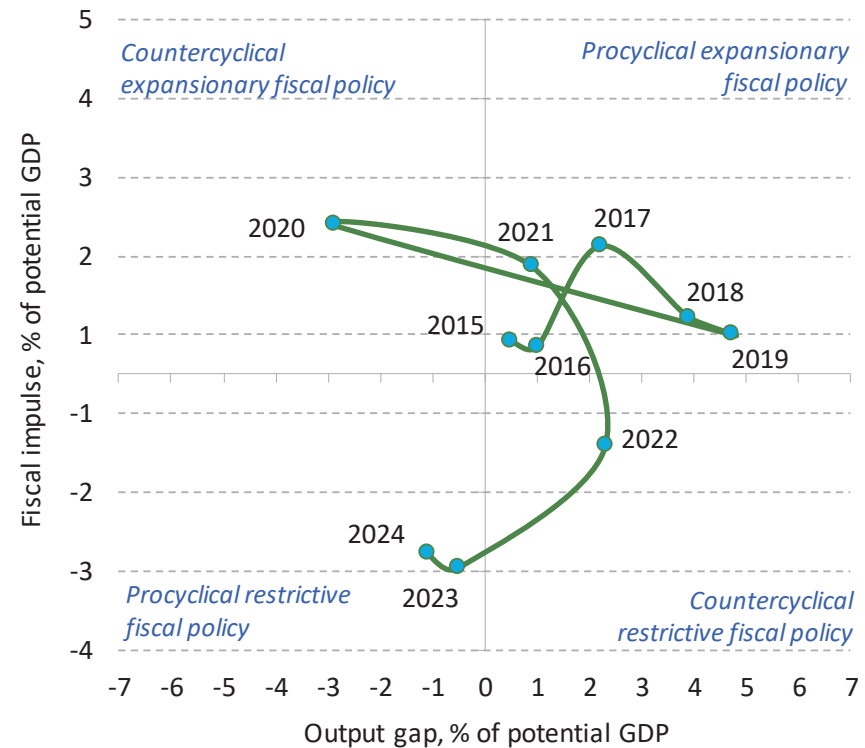
Source: AMECO, NBR calculations

In Poland, the fiscal impulse was broadly neutral during several years. By contrast, in 2024, the fiscal policy stance turned expansionary, helping to mitigate the aggregate demand deficit. Hungary’s fiscal policy followed a similar pattern to that of Romania, being marked by long periods of procyclicality. However, as of 2022, the fiscal impulse remained negative, thereby exerting clear restrictive effects on GDP dynamics.

Fiscal impulse and output gap – Poland



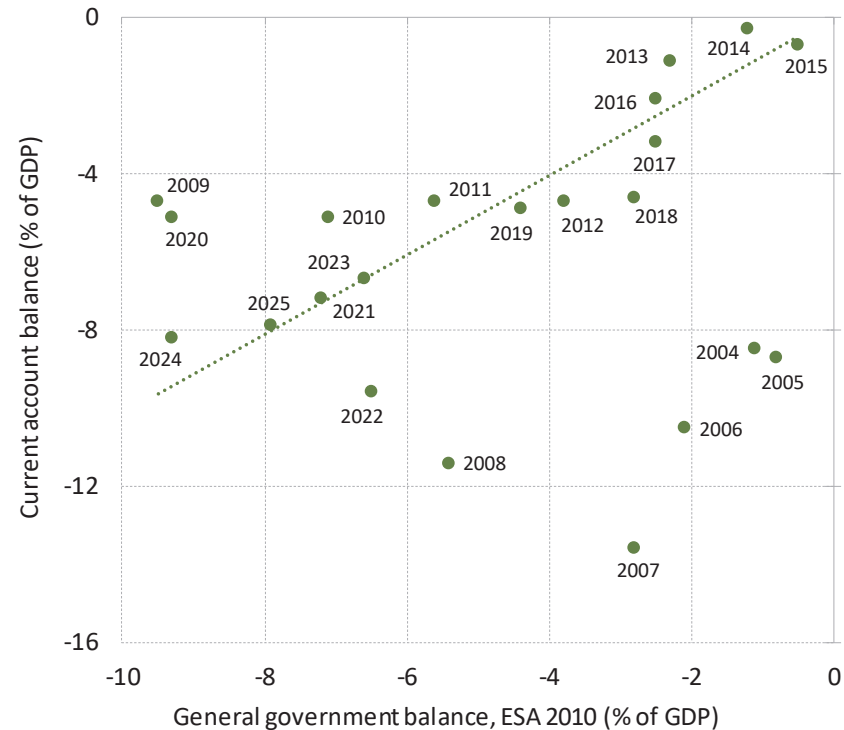
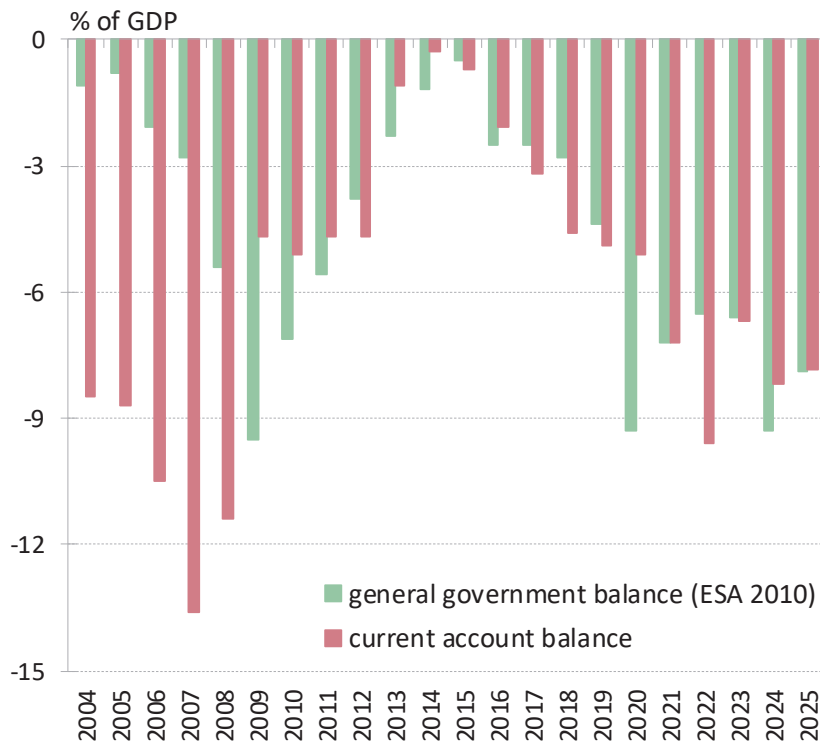
Fiscal impulse and output gap – Hungary



Source: AMECO, NBR calculations

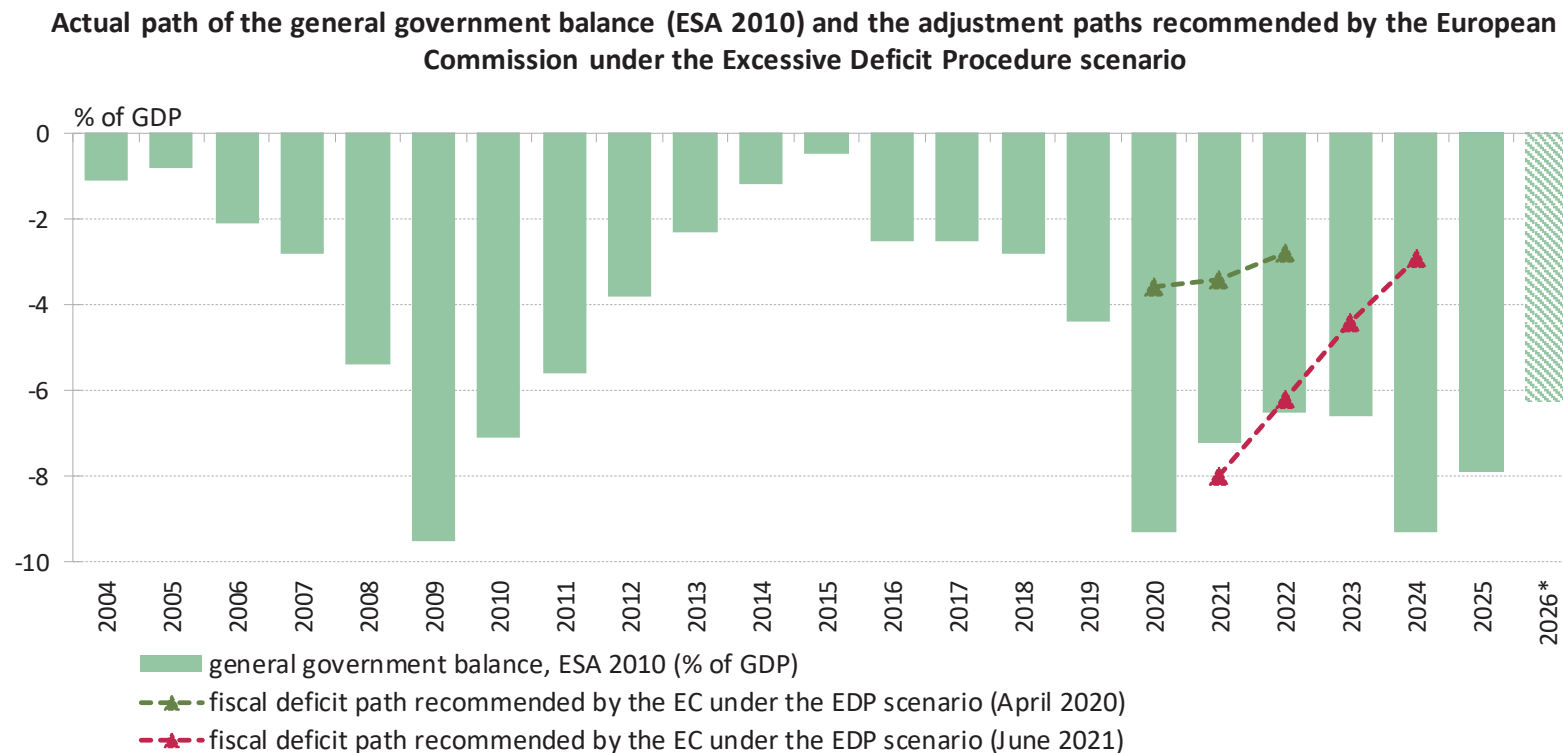
In line with the twin deficits hypothesis, over the past two decades the general government and current account deficits have shown correlated dynamics – episodes of fiscal deficit widening were accompanied by a deterioration in the current account deficit, while fiscal consolidation after the global financial crisis coincided with a narrowing of the negative current account balance. In recent years, both deficits have reached their highest levels in the post-global financial crisis period.

General government balance and balance-of-payments current account balance



Source: Eurostat

In 2020, the *Excessive Deficit Procedure* was opened and Romania was recommended to correct the deficit by 2022; amid the pandemic crisis, this deadline was extended by two years. In 2021, the deficit fell below the target, but deviations widened thereafter. The structural deficit and the dynamics of net expenditure also stood well above the recommended levels. In 2024 and in 2025 H1, the EU Council stated that Romania’s response was insufficient to ensure deficit correction.

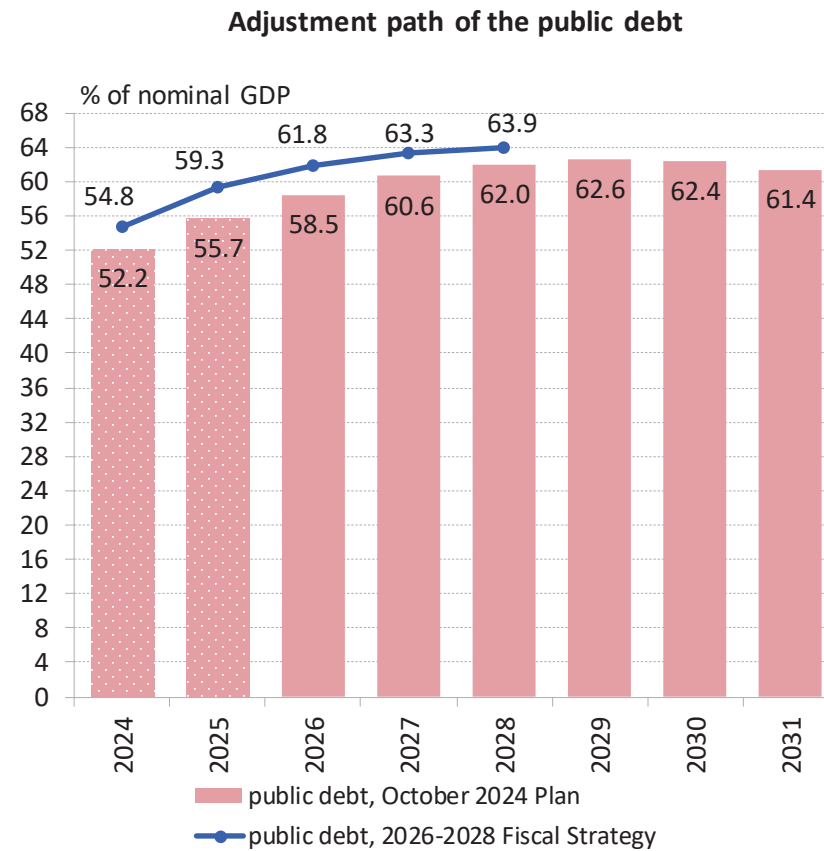
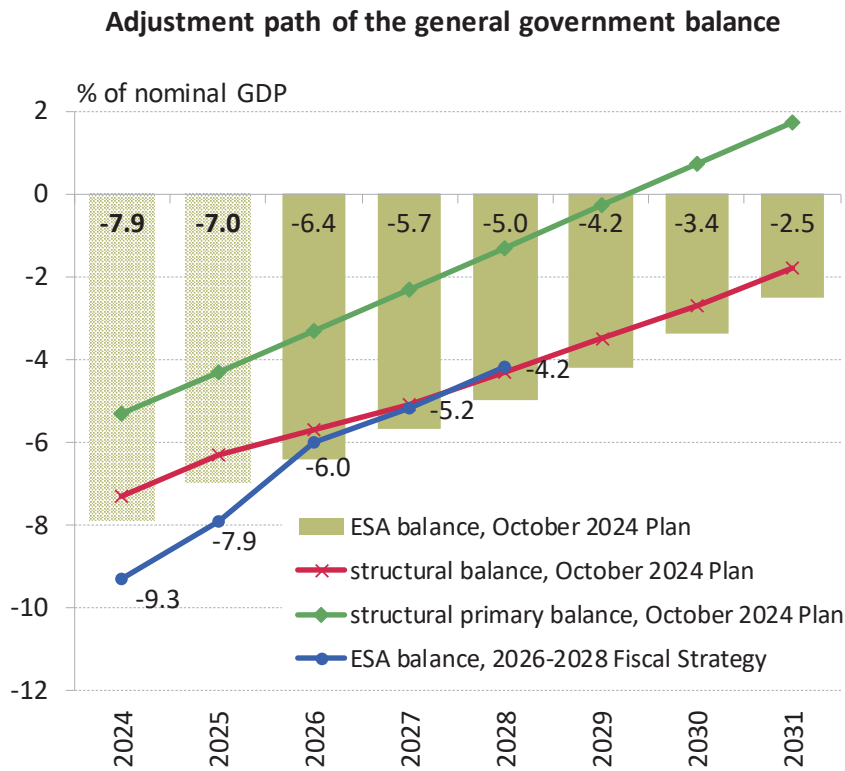


Note: The entry into force of the new economic governance framework in 2024 shifted the focus from fiscal deficit targets to caps on the growth rates of the government’s net expenditure.

\*) for 2026, national methodology (cash) estimates according to the general government budget

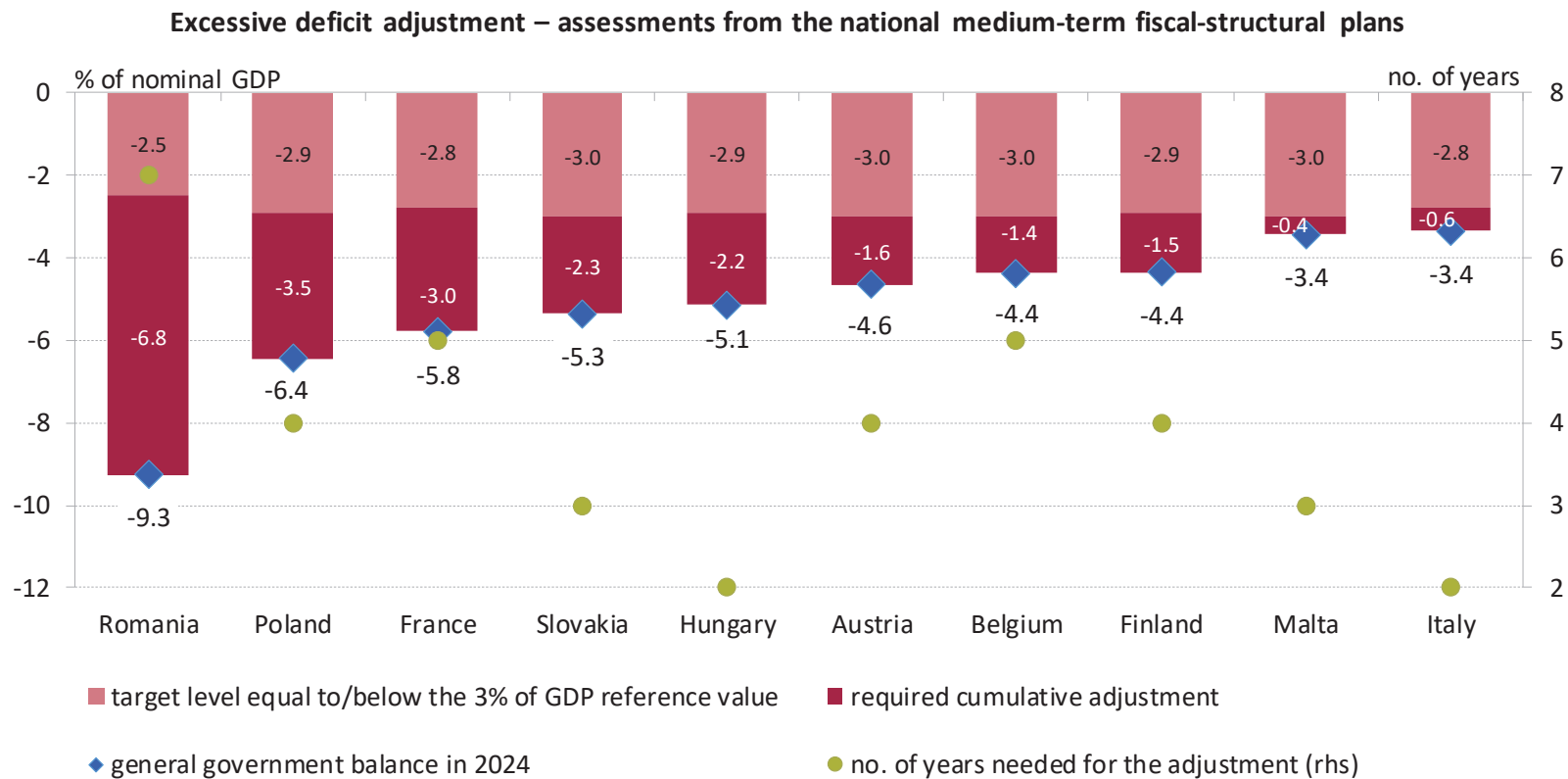
Source: Eurostat, Ministry of Finance, Fiscal Council, EC

According to Romania’s *National Medium-Term Fiscal-Structural Plan*, a general government deficit below the 3% of GDP reference value is expected to be reached in 2031, as an extended 7-year adjustment period (versus the standard 4-year period) was granted on the grounds of investment needs. At the same time, the substantial consolidation packages adopted recently may even pave the way for more favourable developments in 2026 than those envisaged under the Plan.



Source: *The National Medium-Term Fiscal-Structural Plan (October 2024)*, Ministry of Finance, Fiscal Council

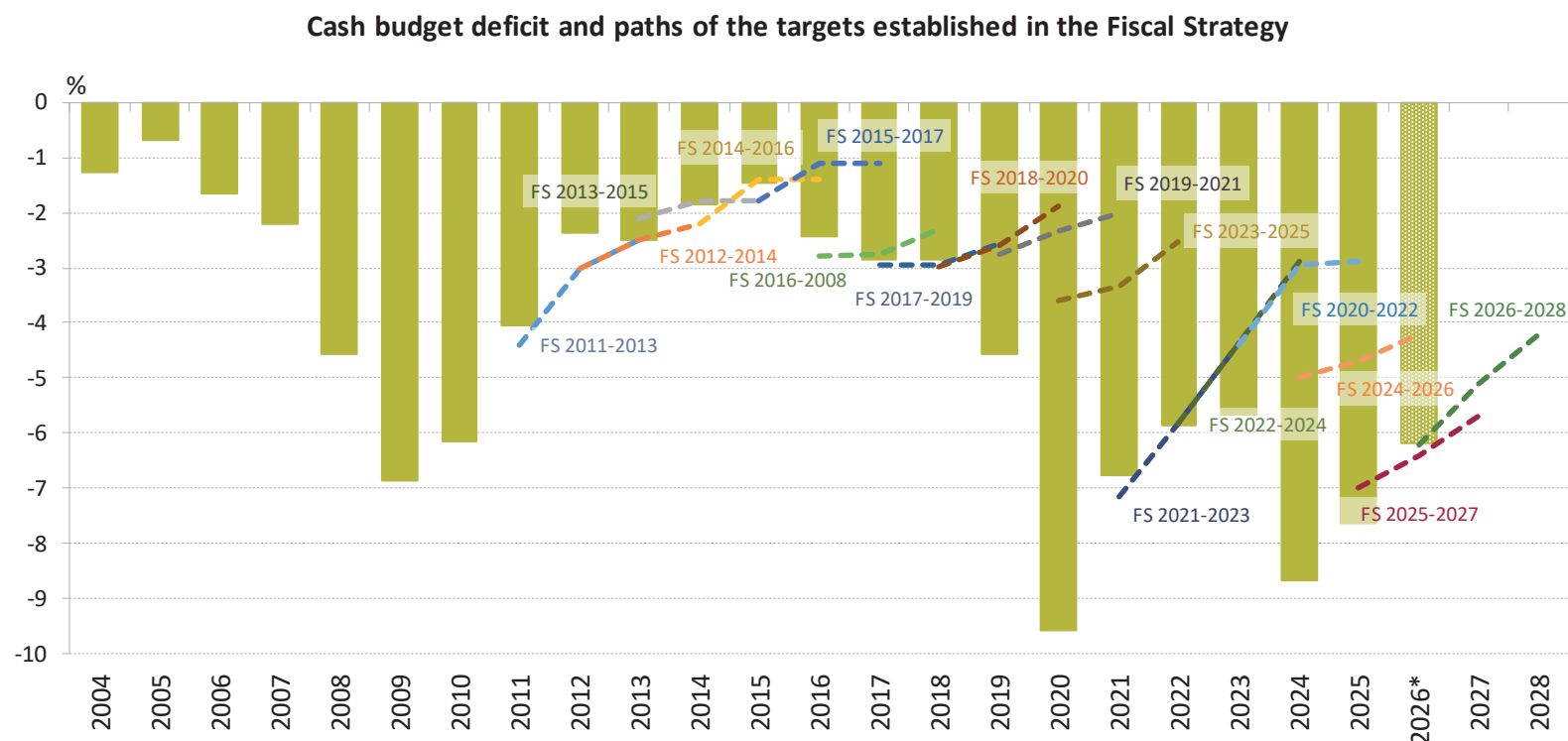
Since 2024, Romania has no longer been the only country subject to the *Excessive Deficit Procedure*, as 9 other EU countries also entered the procedure. Given Romania’s extremely high budget deficit in 2024, the required adjustment is larger and entails a longer timeframe than in the other countries. Through the adoption of two substantial fiscal consolidation packages, Romania has taken important steps towards correcting the excessive deficit.



Note: For Finland, the *Excessive Deficit Procedure* was opened in January 2026 recommending the deficit adjustment by 2028.

Source: Eurostat, European Commission, national medium-term fiscal-structural plans as at December 2025

Starting in 2019, Romania has witnessed significant deviations from the fiscal targets for the cash deficit. The planned levels were met in 2021-2022, but deviations widened again from 2023 onwards, with the deficit reaching 8.7% of GDP in 2024 – the second highest level recorded in recent decades. In 2025, fiscal consolidation led to a decline in the deficit to 7.6% of GDP, with the downward path expected to continue and the deficit projected at 4.2% in 2028.

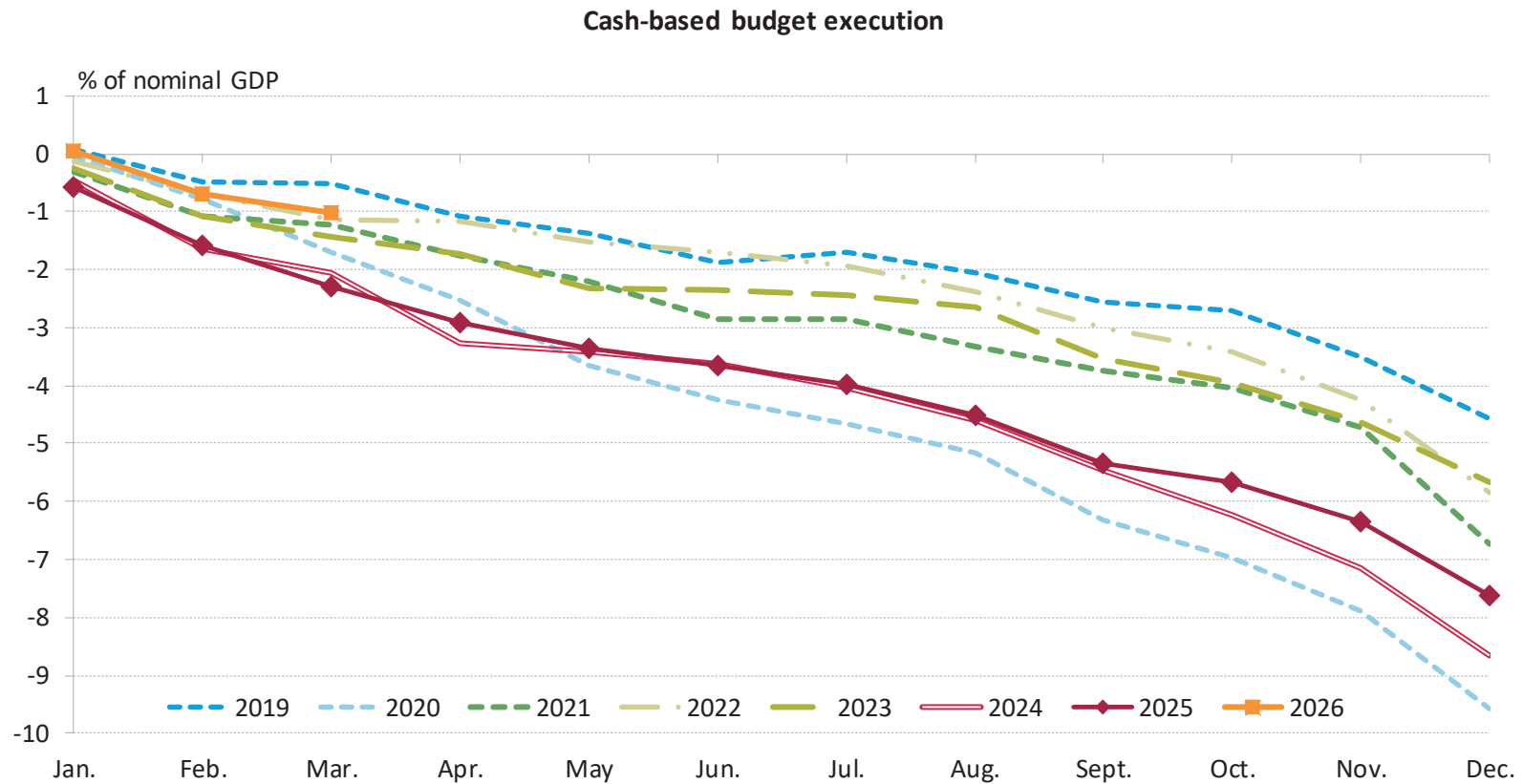


Note: The cash deficit targets are taken from the Fiscal Strategy published annually since 2010, which sets the budget deficit path for the following three years.

\*) according to the draft of the general government budget

Source: Ministry of Finance, Fiscal Council

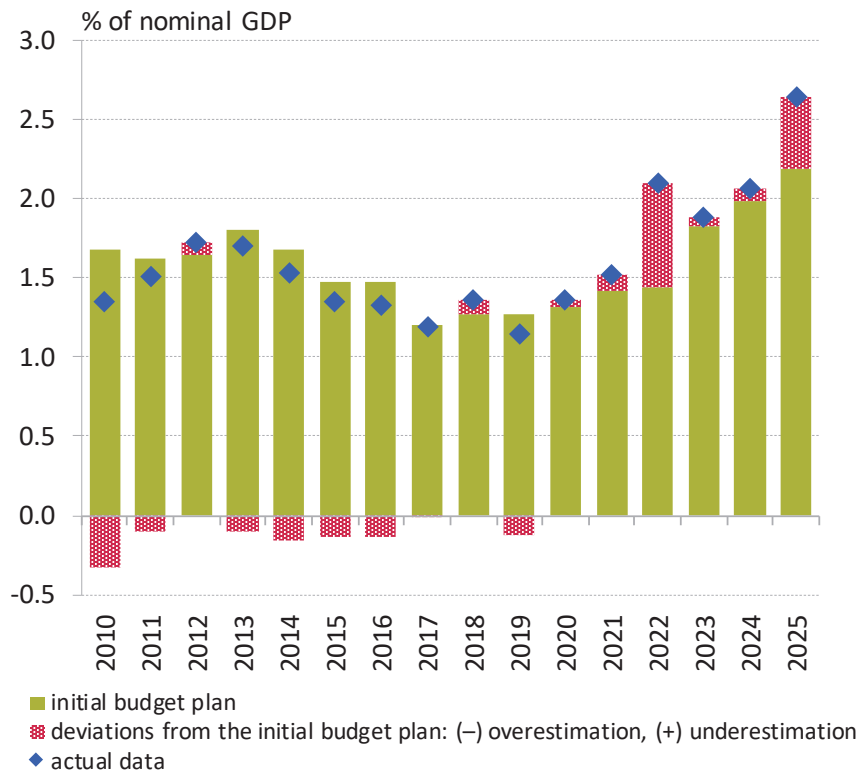
The year 2025 also failed to break the problematic pattern of budget planning seen in recent years, marked by revenue overestimation and expenditure underestimation. The budget law was built on a cash deficit of 7% of GDP. Execution at year-end pointed to a deficit of 7.6% of GDP, even after the adoption of a sizeable fiscal consolidation package that contributed to a gradual improvement in the budgetary position during 2025 H2.



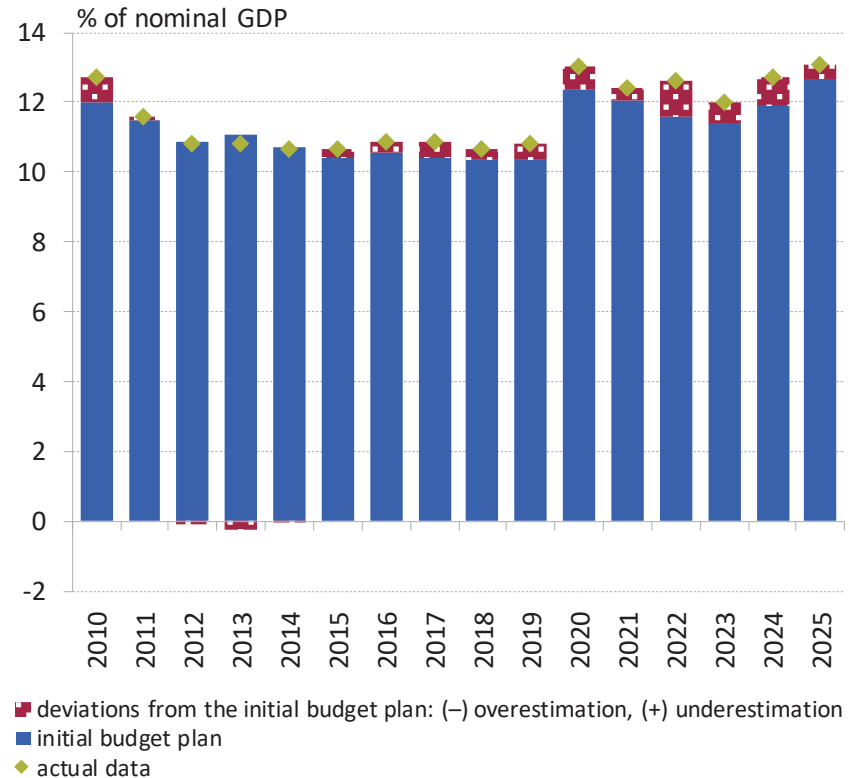
Source: Ministry of Finance, NBR calculations

Interest expenditure has a history of moderate overestimation in the pre-pandemic period. In recent years, however, amid the systematic rise in financing costs, interest expenditure has been visibly underestimated, with particularly large discrepancies in 2022 and 2025. As regards social security spending, there is a clear track record of systematic and relatively substantial underestimation, which became more pronounced in the years following the pandemic.

**Interest expenditure: actual data vs. initial budget plan**



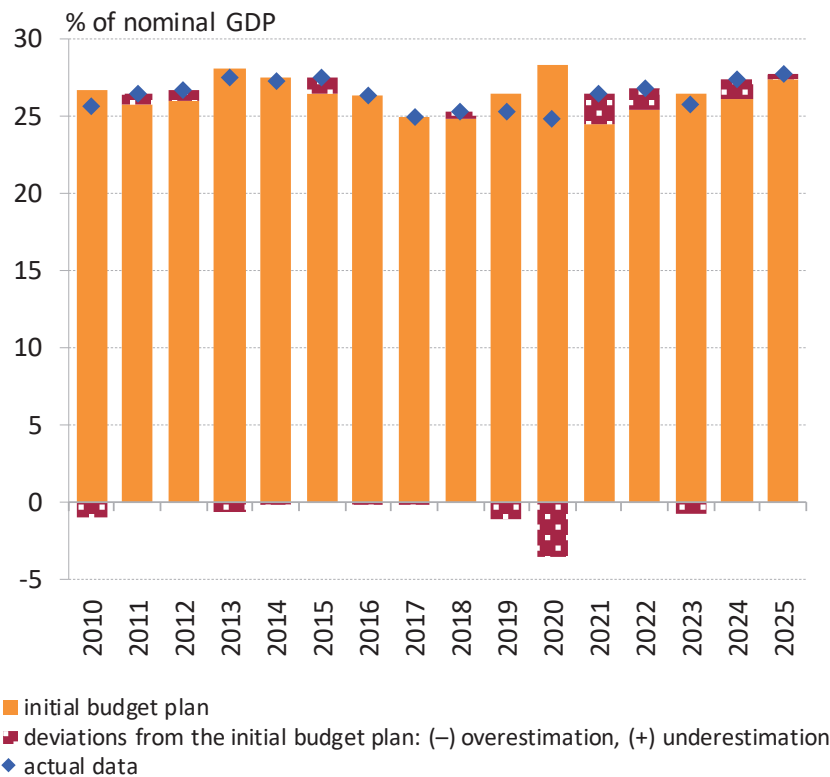
**Social security spending: actual data vs. initial budget plan**



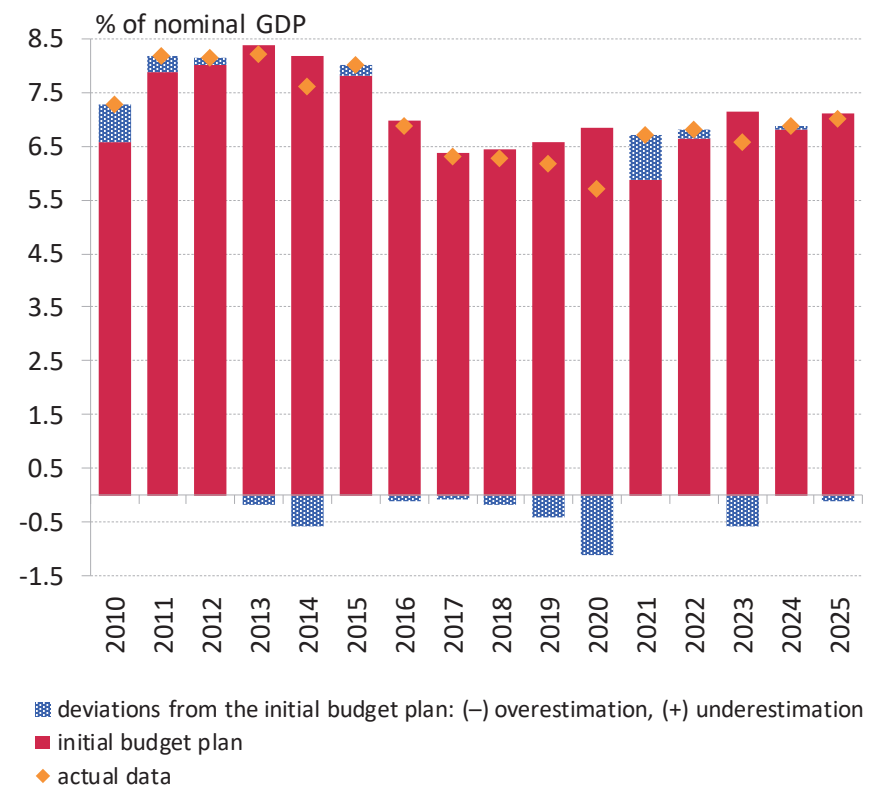
Source: Ministry of Finance, Fiscal Council opinions

In the case of budget revenues, episodes of under- or overestimation are less pronounced than the expenditure-side target misses. To some extent, higher revenue collections mirror increases in certain expenditure categories, such as staff costs. As regards VAT receipts, there has been a noticeable tendency towards overestimation, often reflecting overly optimistic assumptions about the objective of improving VAT collection.

**Tax revenues and social contributions: actual data vs. initial budget plan**

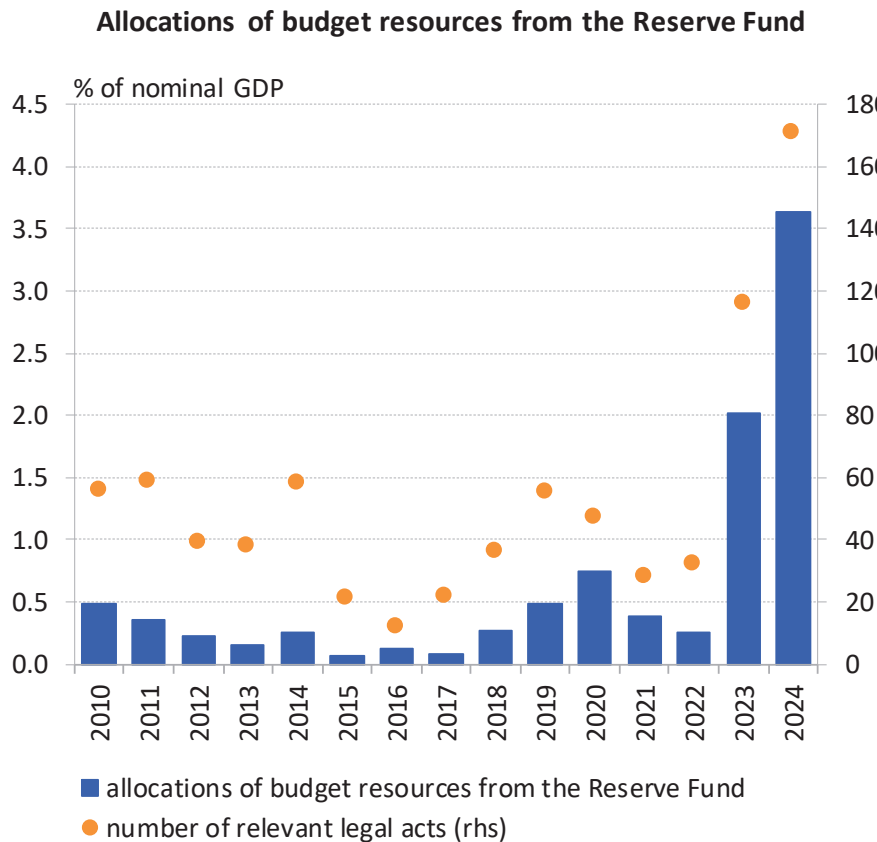


**VAT collections: actual data vs. initial budget plan**

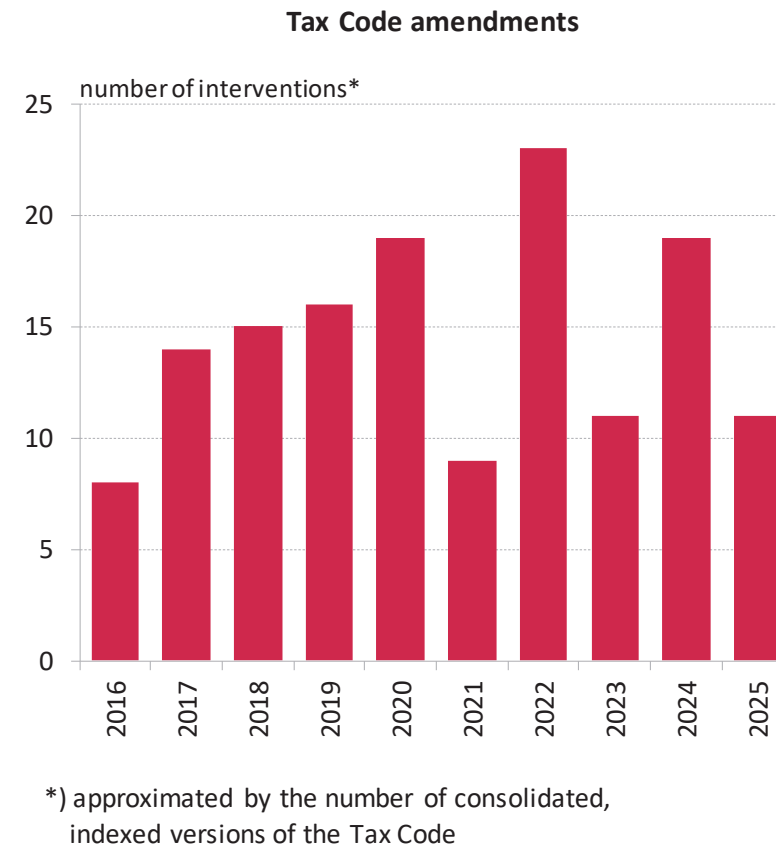


Source: Ministry of Finance, Fiscal Council opinions

The failure to meet the targets set in the Budget Law also reflects certain unpredictability in the fiscal framework. In recent years, for example, discretionary measures have frequently been financed through resource allocation from the *Reserve Fund*, avoiding recourse to budget revisions. As for revenues, the Tax Code has been subject to frequent revisions. Such patterns show the need for higher quality and coherence in budget planning and economic policymaking.



Source: Fiscal Council



Source: Legislative portal, <https://legislatie.just.ro/>

## Chapter I

Romania was the only country in the region with a deficit in 2024 similar to that recorded in 2020, followed, however, by a correction in 2025

- Over the past six years, Romania's deficit has been constantly higher than those of other countries in the region. In 2024, Romania's general government deficit reached a record high, due to low revenue and increased expenditure, amid a protracted election year, which delayed the adoption of fiscal correction measures.
- The 2024 deficit of 9.3% of GDP under ESA 2010 was the highest in the European Union, similar to that seen in 2020 — the year of the COVID-19 pandemic, marked by a contraction in real GDP alongside sizeable economic support measures.
- The year 2024 fully eroded the progress made in 2021-2023, through marked increases in both current expenditure and capital expenditure. In this context, Romania was the only country in the region to incur in 2024 a deficit similar to that posted in 2020, the year of the COVID-19 pandemic.
- Poland is another country where the deficit adjustment in 2024 compared with 2020 was relatively modest, at -0.4 pp of GDP. It recorded some increases in expenditure that were even larger than Romania's, but they were accommodated by higher revenue.

## Chapter I

Romania's  
fiscal policy  
has been  
predominantly  
procyclical in  
recent years,  
contributing  
to the  
widening of  
the current  
account deficit

- In Romania, the deterioration of the budgetary position became visible in the years following the entry into force of a new Tax Code. Subsequently, the widening of the deficit was mainly driven by the significant increase in budget expenditure.
- From the perspective of the fiscal impulse (defined as the change in the general government structural primary deficit), Romania's fiscal policy has been predominantly procyclical in recent years, thereby making a significant contribution to the overheating of the economy (especially in the pre-pandemic period).
- The substantial increase in budget expenditure boosted domestic demand while also stimulating imports. At the same time, weaker external demand from Romania's main trading partners, together with the circumstantial and limited impact of other factors, led to a considerable widening of the current account deficit.
- Regionally, although in 2015 Romania had recorded a stronger budgetary position than other countries, it experienced the fastest deterioration in structural primary balance until end-2024. Thus, Romania can be assessed as having experienced the highest cumulative degree of fiscal stimulus.

## Chapter I

Fiscal targets were repeatedly missed, with deviations occurring amid intensified discretionary allocations

- Expansionary and, most often, procyclical fiscal policy led to a significant breach of the 3% of GDP reference value in 2019 and to the opening of the Excessive Deficit Procedure. However, the budgetary correction was not achieved within the agreed deadline.
- The general government deficit target has been missed repeatedly, with recurrent deviations from the paths set out in budget planning, especially as regards interest expenditure and social security spending. In 2024 and in 2025 H1, the Council of the EU concluded that Romania had not taken effective action to correct the deficit.
- The large deviations of the deficit from the official targets occurred alongside a sharp increase in discretionary allocations of budget resources, with this mechanism eventually substituting for budget revisions as the legal budgetary procedure.
- According to the *National Medium-Term Fiscal-Structural Plan*, the deficit is expected to return to values below 3% of GDP only in 2031, supported by wide-ranging fiscal reforms. The extended seven-year period represents a much longer adjustment horizon than in other European countries, being justified by investment needs.

## Chapter II

### General

### Government

### Revenue

### Comparative

### Analysis in a

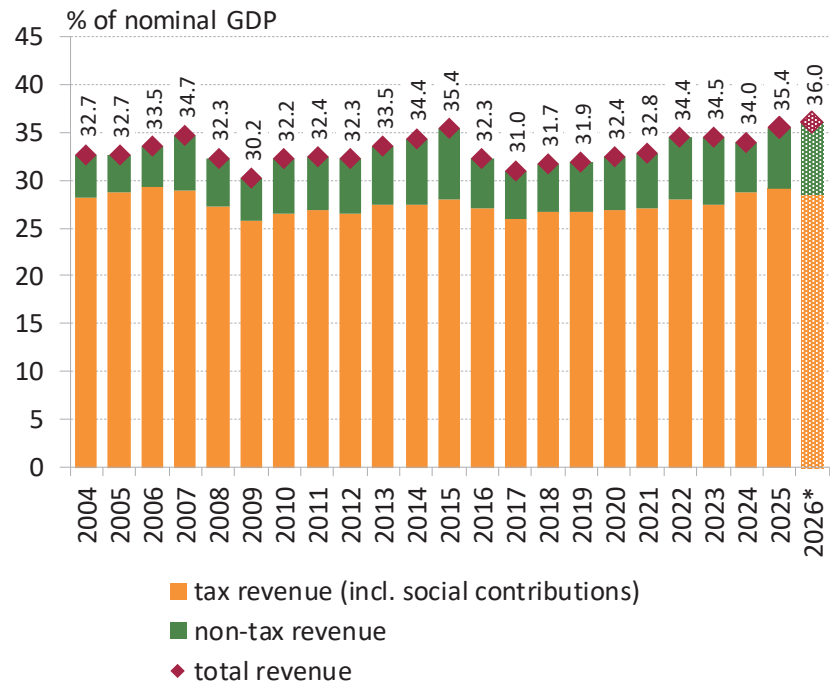
### European

### Context

- At EU level, Romania stands out due to the very low general government revenue, which highlights the need for comprehensive fiscal and budgetary reforms to be rigorously implemented.
- The analysis of budget revenue, i.e. both total revenue and its sub-components, along with the comparative analysis in a European context, shows not only the improbability of Romania's current situation, but also potential needs and directions for development.
- The different rates for the main tax categories in Romania and other EU countries (e.g. VAT, excise duties, income tax) may indicate, in certain situations, public policy alternatives with significantly better results in terms of collecting general government revenue.
- Another factor explaining some of the gaps is revenue collection capacity. As Romania stands out due to the highest VAT compliance gap in the EU, it is both timely and necessary to prioritise this topic.
- This conclusion actually also reflects the result of the counterfactual exercise that estimates Romania's additional receipts, assuming a VAT gap comparable to the EU average.

Romania stands out among EU countries due to the second-lowest general government revenue as a share of GDP, well below the EU average. Some notable differences mainly occur regarding tax revenue (direct taxes, indirect taxes, and social contributions), given the relatively low tax rates, but especially in the context of significant tax revenue collection gaps.

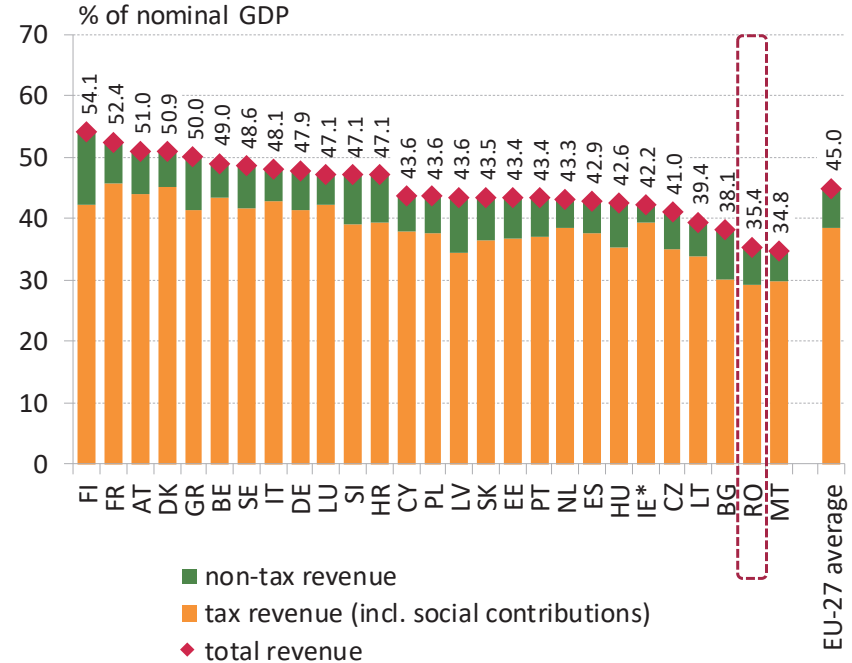
**Total general government revenue (ESA 2010)  
in Romania – 2004-2025**



\*) for 2026, national methodology (cash) estimates according to the general government budget

Source: Eurostat, MF, Fiscal Council, NBR calculations

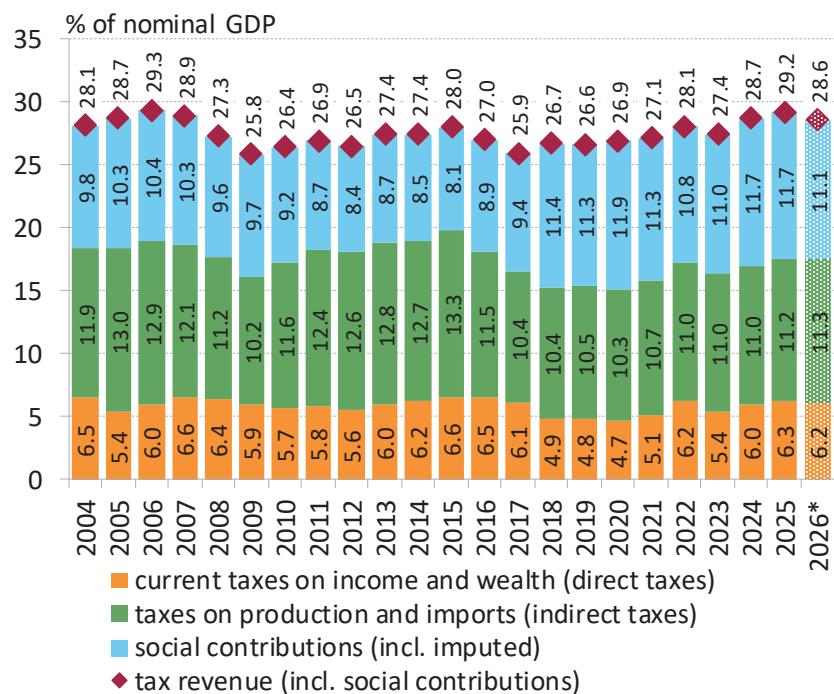
**Total general government revenue  
(ESA 2010), 2025**



\*) share in adjusted gross national income

Direct tax receipts are substantially below the EU average, a common trait of the standard CEE4 comparison group – Bulgaria, Czechia, Hungary, and Poland. In Romania, the 2018 tax restructuring, by transferring the social contributions payable by employers to the charge of employees, along with cutting the personal income tax rate, prompted the significant change in tax revenue composition in favour of social contributions.

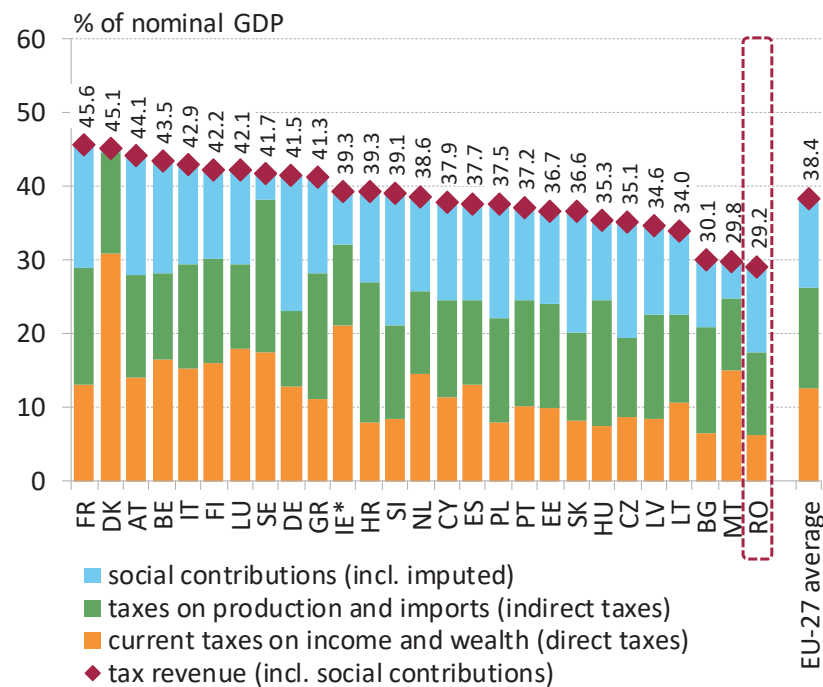
Tax revenue (incl. social contributions) in Romania – 2004-2025



\*) for 2026, national methodology (cash) estimates according to the general government budget

Source: Eurostat, MF, Fiscal Council, NBR calculations

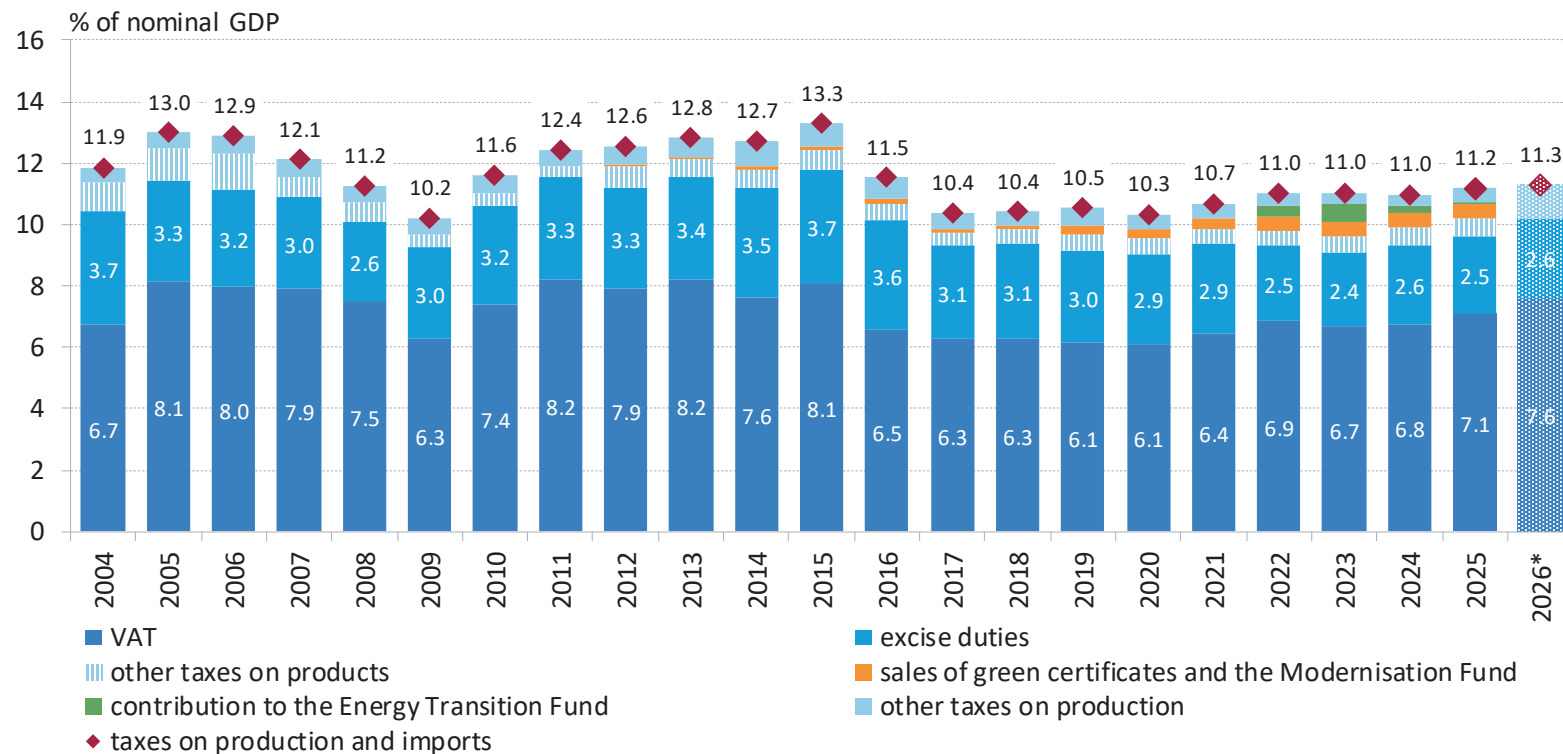
Tax revenue (incl. social contributions), 2025



\*) share in adjusted gross national income

Indirect tax receipts primarily reflect developments in subcomponents relating to VAT and excise duties. Revenue has gone up since 2022, in the context of the additional taxation of the energy sector and higher receipts from green certificates. However, at the end of 2024, indirect tax receipts were significantly lower than those prior to the entry into effect of the Tax Code in 2016.

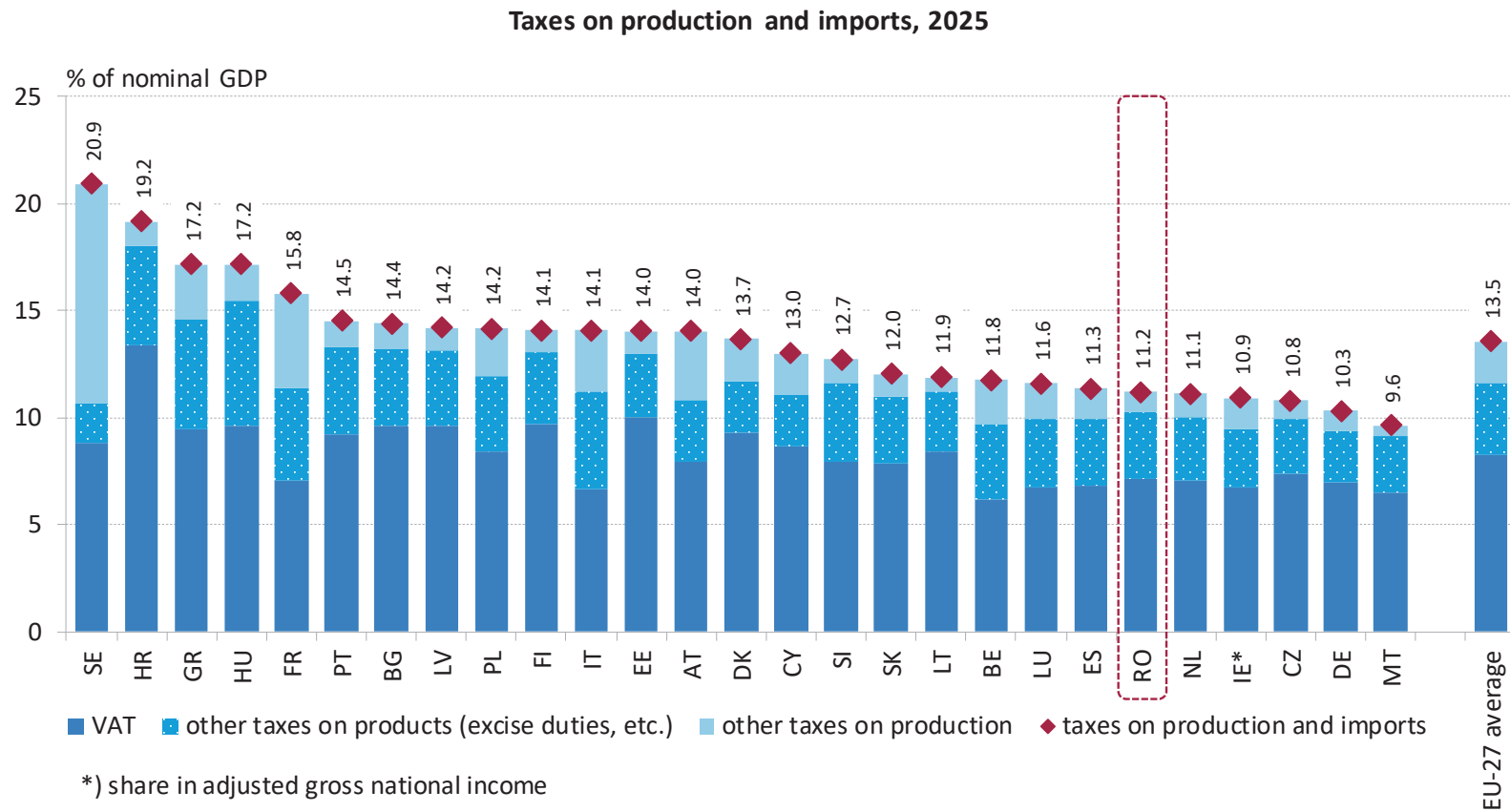
Taxes on production and imports in Romania, 2004-2025



\*) for 2026, national methodology (cash) estimates according to the general government budget

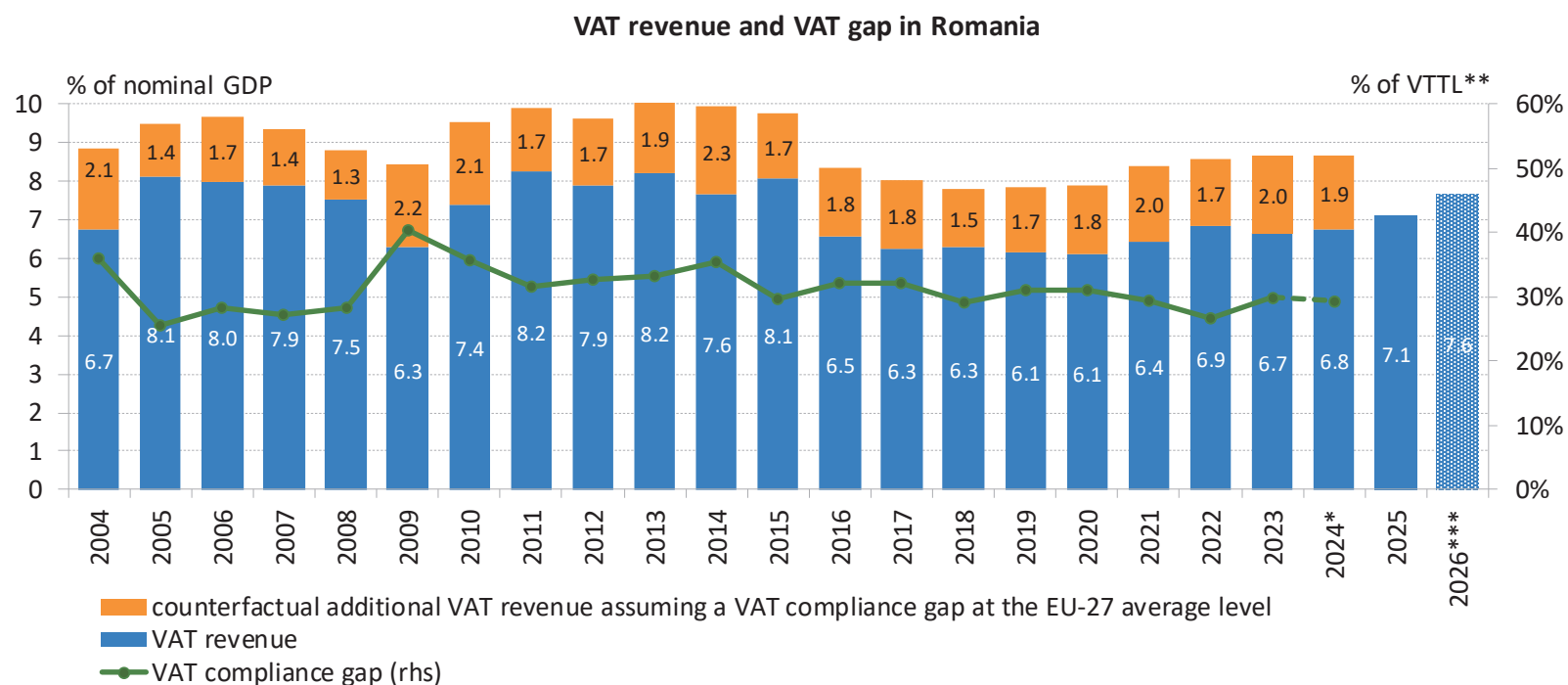
Source: Eurostat, MF, Fiscal Council, NBR calculations

Romania’s indirect tax revenue is considerably below the EU average, yet, looking at the region, it is above that of Czechia. The gap to the EU average mainly stems from VAT. By contrast, given the relatively large size of excise duty revenue, the “other taxes on production” sub-component is close to the EU average. Moreover, Sweden is an outlier, as some revenue items are classified in a different manner.



Source: Eurostat, NBR calculations

Apart from the declines in 2016 and 2017, driven by the standard VAT rate cut, the dynamics of VAT revenue are closely linked to the VAT gap, which is systemically and significantly above the EU average. A counterfactual improvement in VAT collection in line with the EU average could have generated, over time, additional tax revenue of around 2% of GDP annually.



\*) provisional data on VAT compliance gap

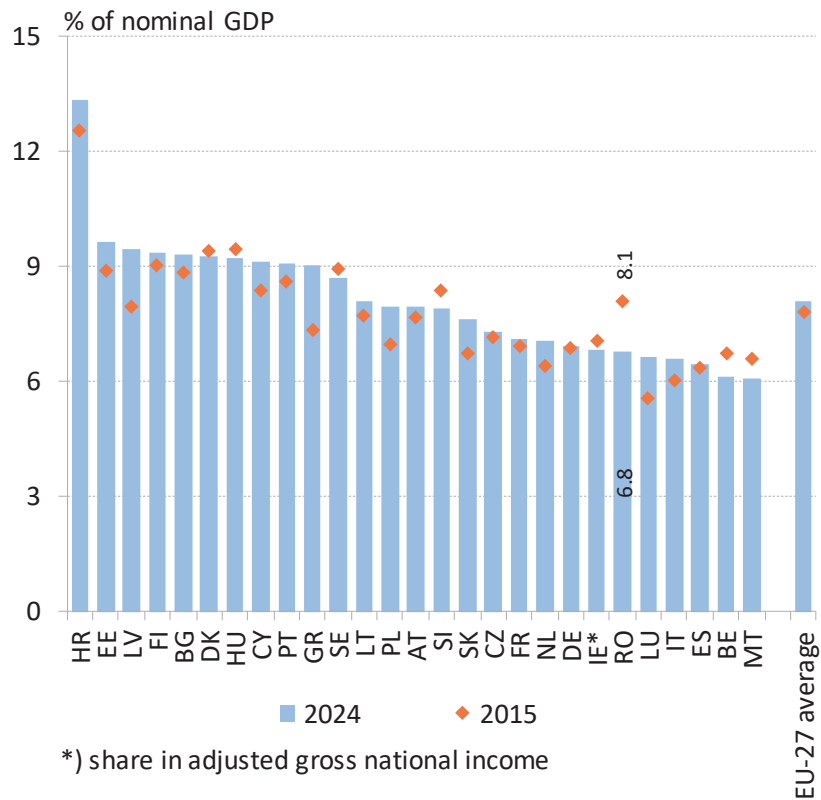
\*\*\*) VTTL (VAT Total Tax Liability) refers to the estimated amount of VAT that is theoretically collectable based on the current legislation, assuming full compliance

\*\*\*) for 2026, national methodology (cash) estimates according to the general government budget

Source: Eurostat, EC – VAT gap report (2025), MF, Fiscal Council, NBR calculations

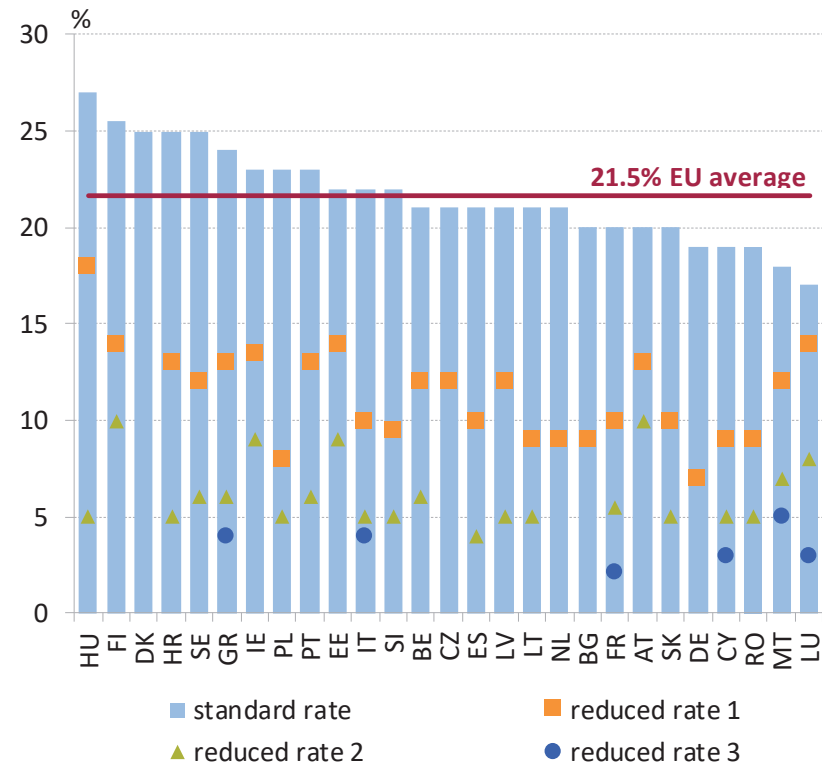
During 2024, Romania’s VAT revenue was significantly below the EU average, in contrast with the ranking in 2015. This difference mainly reflects the cumulative cut by 5 percentage points in the standard rate, implemented in 2016 and 2017. The 19% standard VAT rate in effect until 1 August 2025 was one of the lowest VAT rates in the European Union and in the region.

VAT revenue in EU-27



Source: Eurostat, NBR calculations

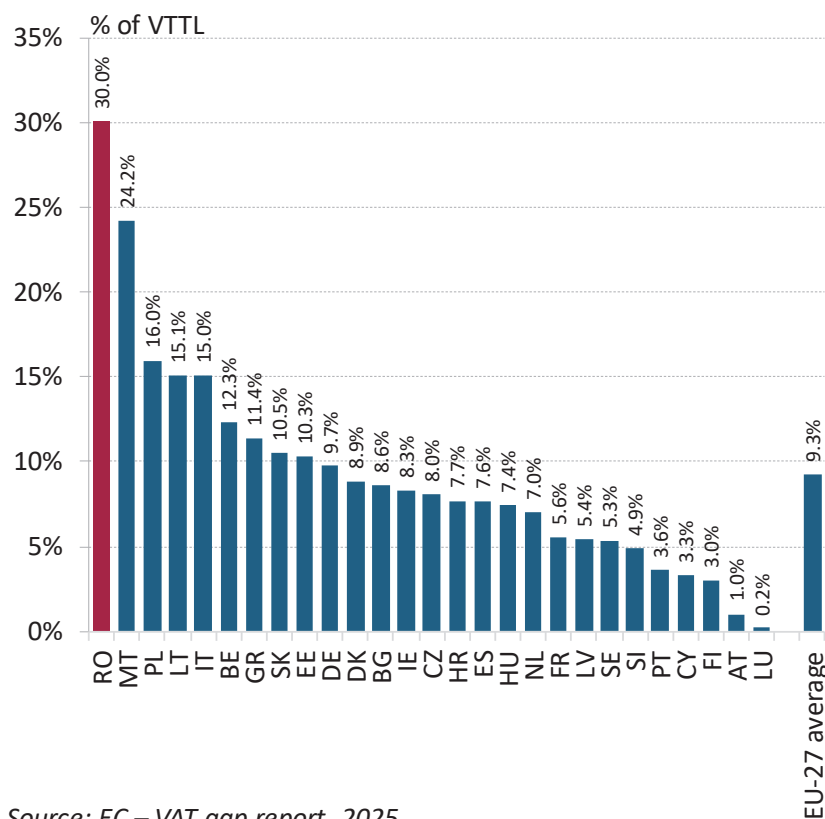
VAT rates in EU-27 countries, 2024



Source: EC – TEDB, PwC – Worldwide Tax Summaries, NBR calculations

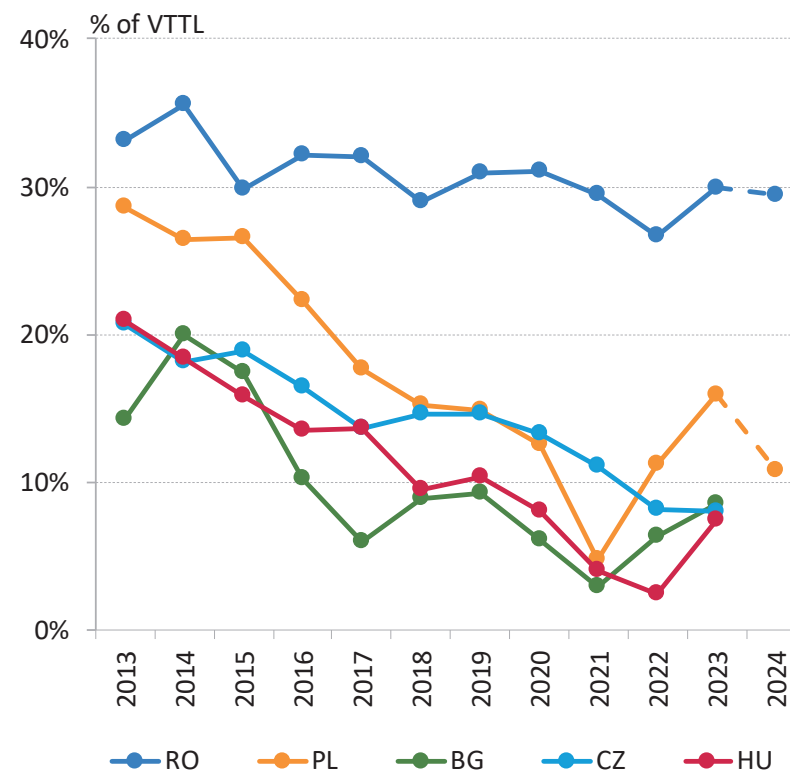
Despite some improvement, the VAT gap remains the highest in the EU and substantially above the EU average. The situation in Romania is at odds with the significant declines in the region. The notable decrease in 2022, i.e. by 2.8 percentage points, which was possibly linked to the extension of e-reporting obligations for large taxpayers, has not proven to be permanent. Thus, the VAT gap must be a key priority for fiscal policy.

VAT compliance gap, 2023

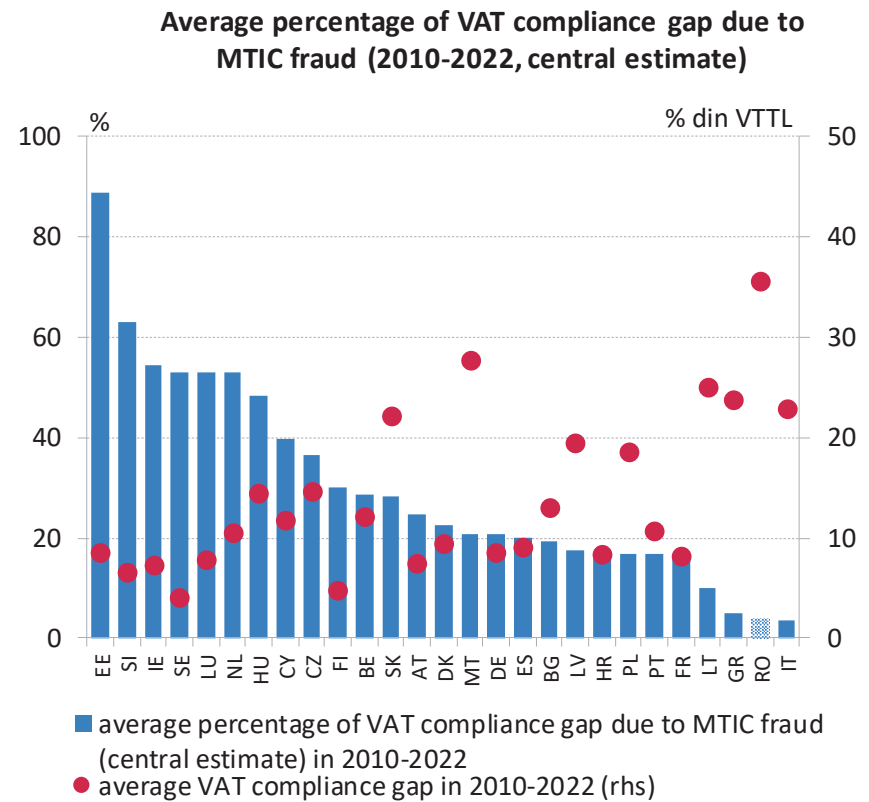
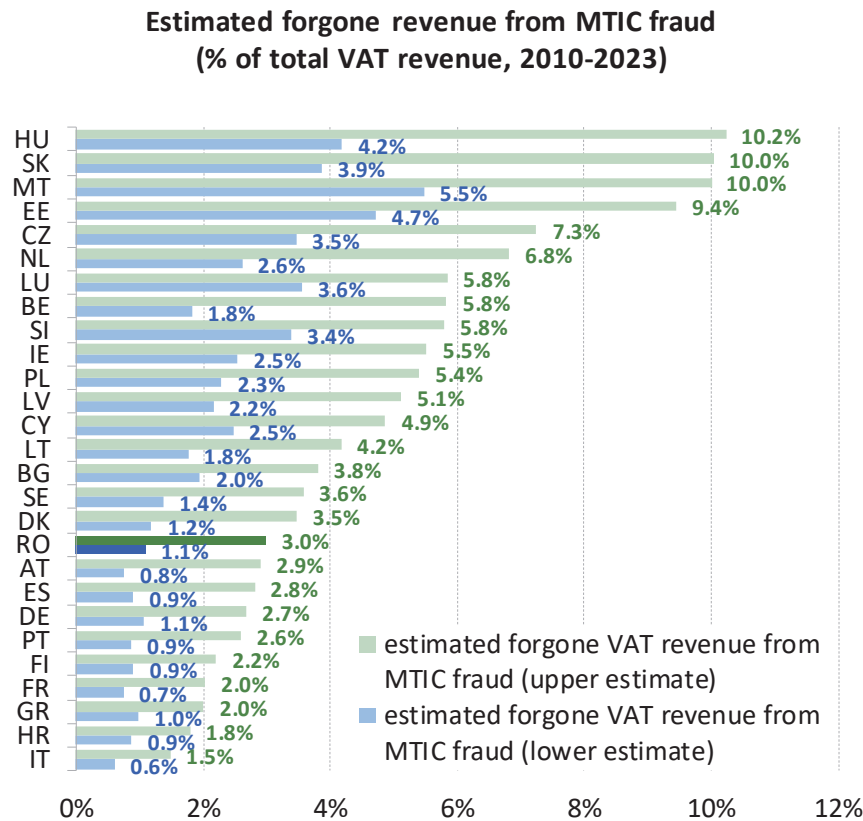


Source: EC – VAT gap report, 2025

VAT compliance gap in the countries in the region

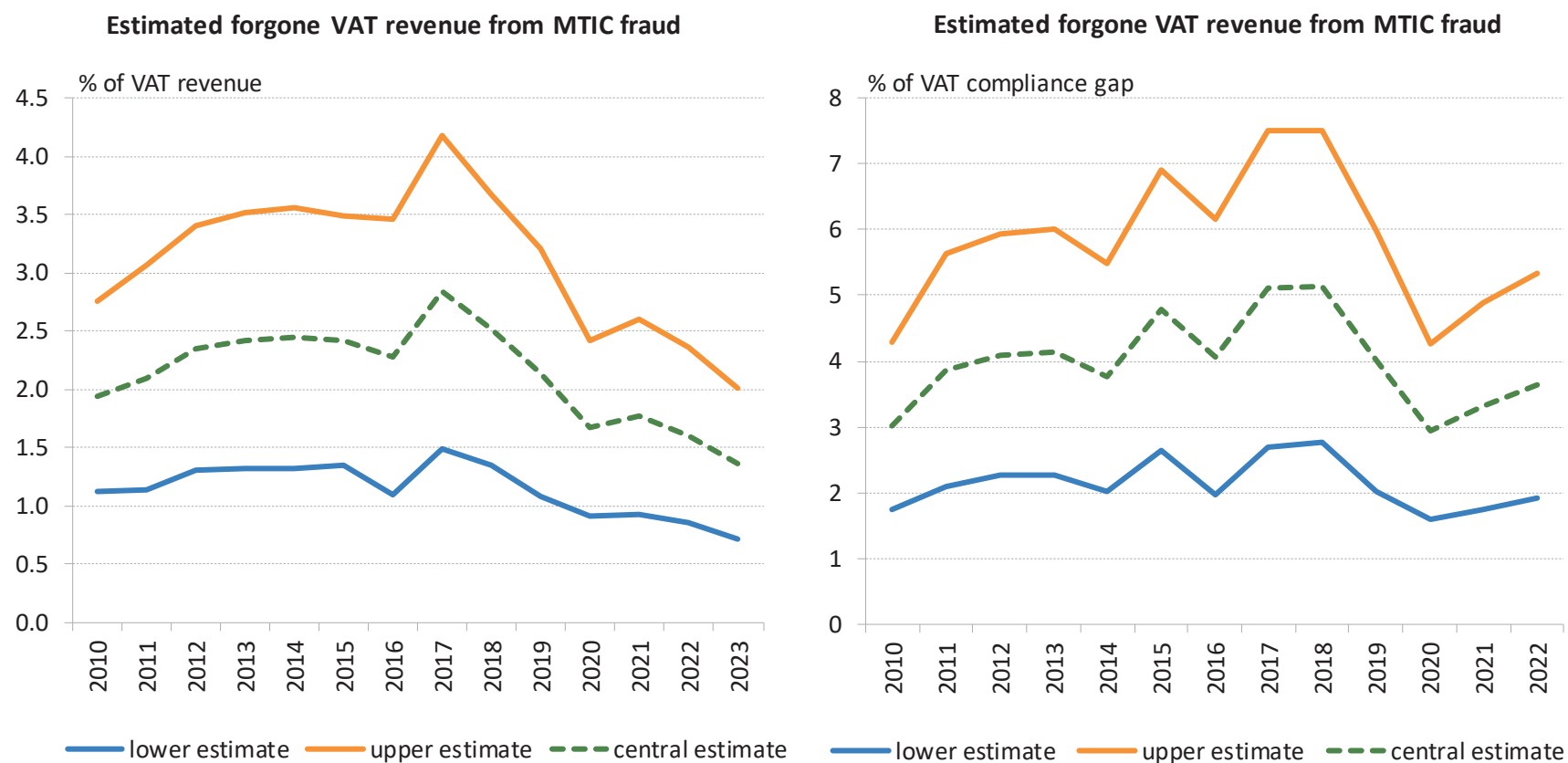


The estimated size of the VAT carousel fraud (MTIC – Missing Trader Intra-Community) accounts only to a small extent for the historical compliance gap in Romania. MTIC fraud generates significant forgone revenue in Romania, although its share in VAT receipts is relatively low. At EU level, the largest relative incidence is in Hungary, the EU Member State with the highest VAT rate.



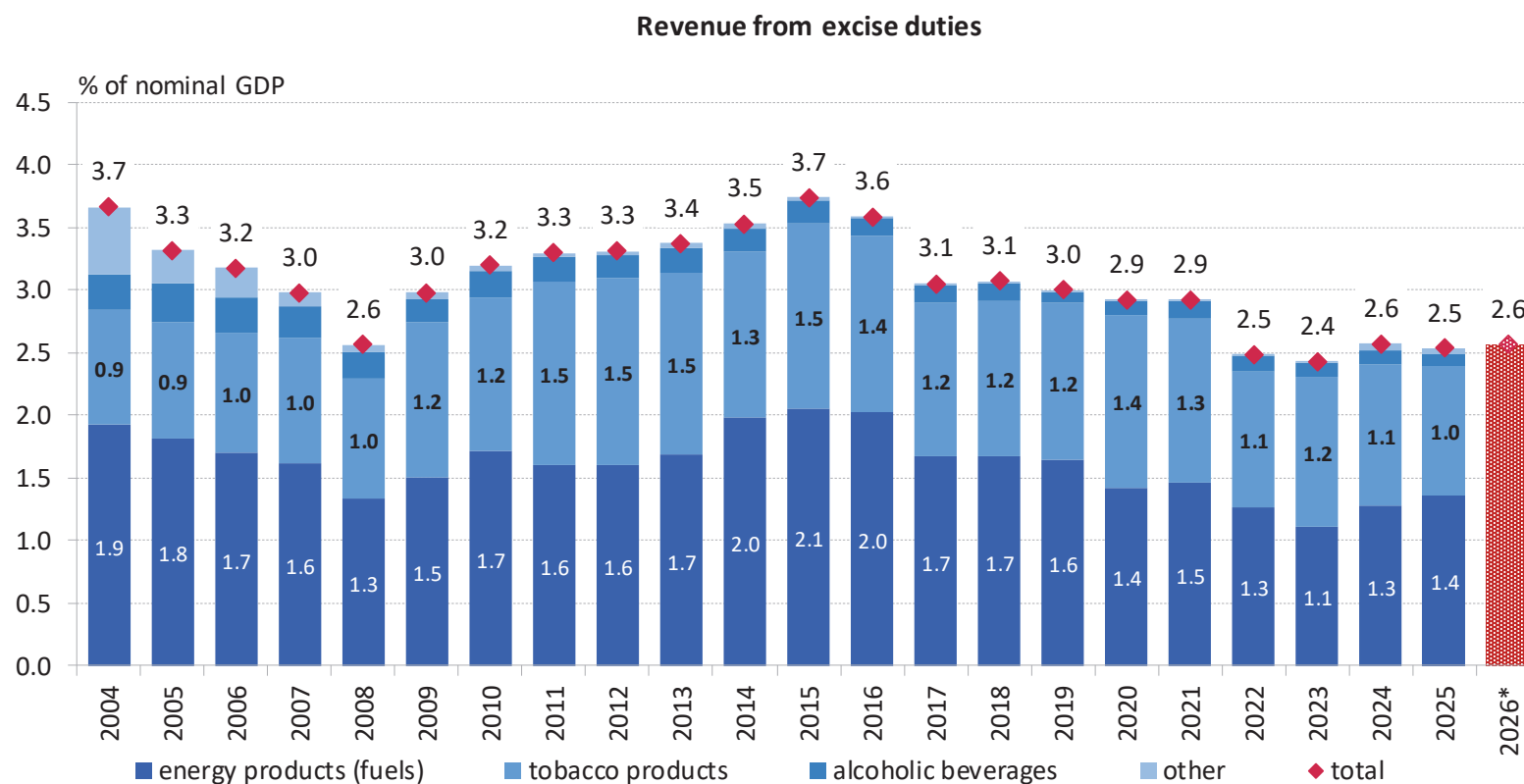
Source: EC – VAT compliance gap due to Missing Trader Intra-Community (MTIC) fraud – Final report. Phase II

A downtrend in the assessed size of MTIC fraud, along with a somewhat narrower gap between the upper and lower estimates of the related confidence interval, can be noticed after 2017, when the standard VAT rate cuts were implemented. In addition, the coverage of the reverse charge mechanism introduced in 2013 was extended in 2016. However, there is still enough room for improvement in VAT revenue collection.



Source: EC – VAT compliance gap due to Missing Trader Intra-Community (MTIC) fraud – Final report. Phase II

The significant erosion of excise duty revenue between 2016 and 2022, especially from excise duties on fuels, was driven by the features of the indexation mechanism and the removal of the excise duty surcharge on motor fuels. In 2023, the applicable excise duty on fuels was at the minimum level allowed in the EU, while during 2024 it returned gradually to the higher values stipulated by the Tax Code.



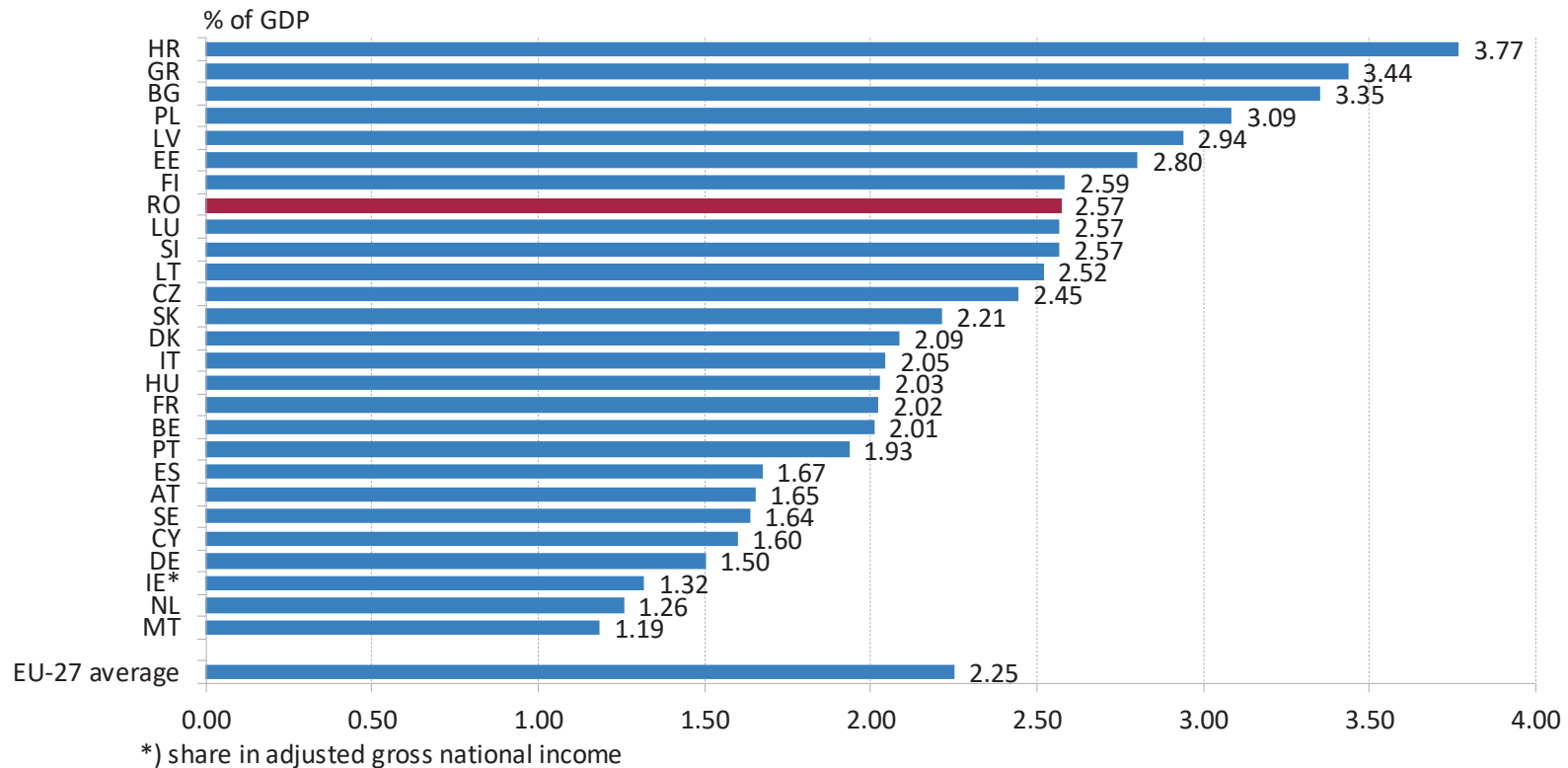
\*) for 2026, national methodology (cash) estimates according to the general government budget

Source: Eurostat, MF, Fiscal Council, NBR calculations

In 2024, the volume of excise duty revenue in Romania exceeded the EU average.

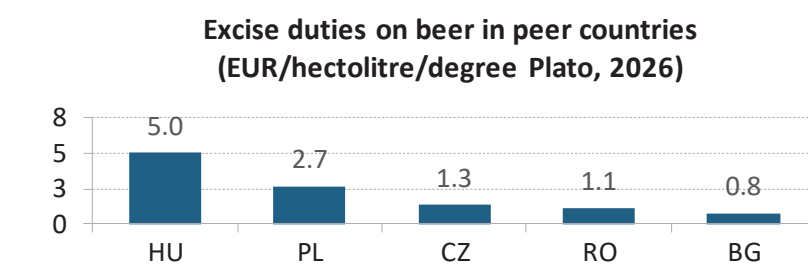
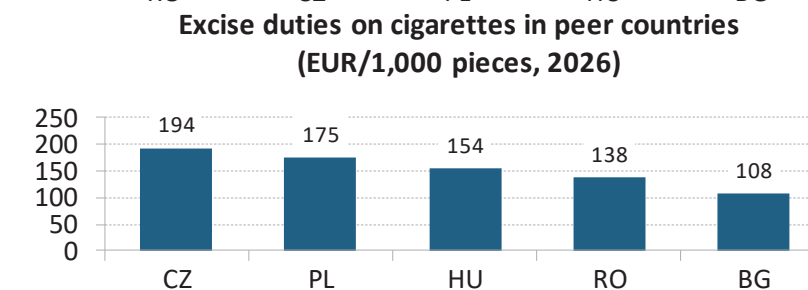
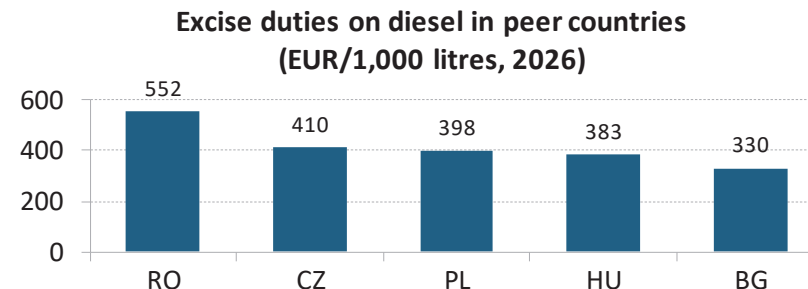
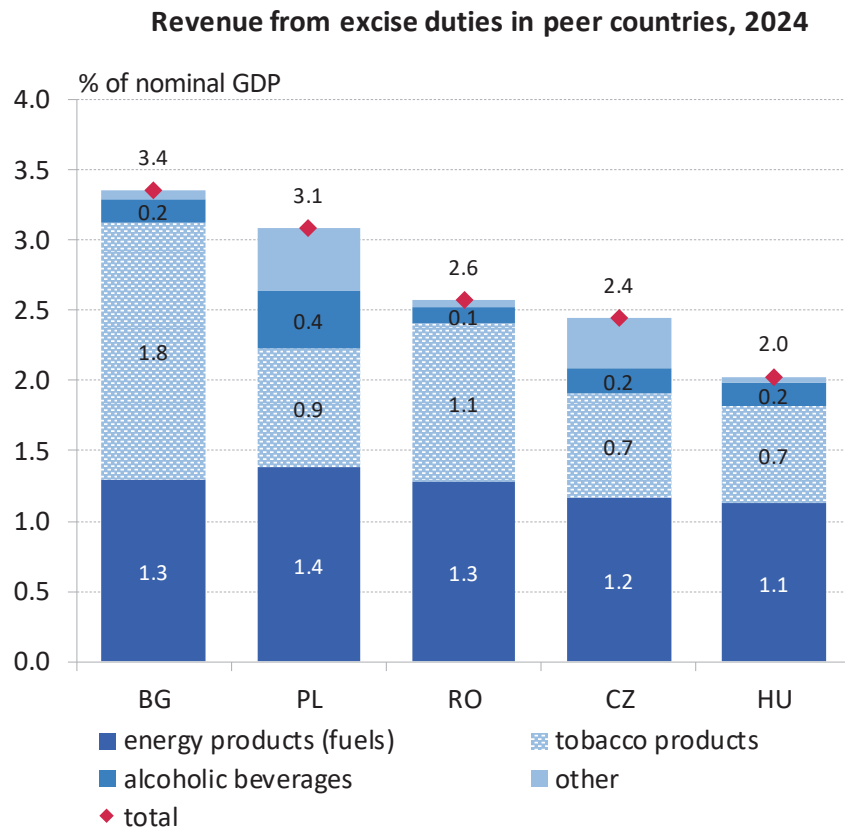
Relatively high levels for this revenue are common in most CEE countries, as well as in some Baltic countries, whereas at the opposite end are countries such as the Netherlands, Malta, and Germany. The recent fiscal consolidation measures in Romania are likely to increase this revenue as of 2025.

Revenue from excise duties in 2024



Source: Eurostat, NBR calculations

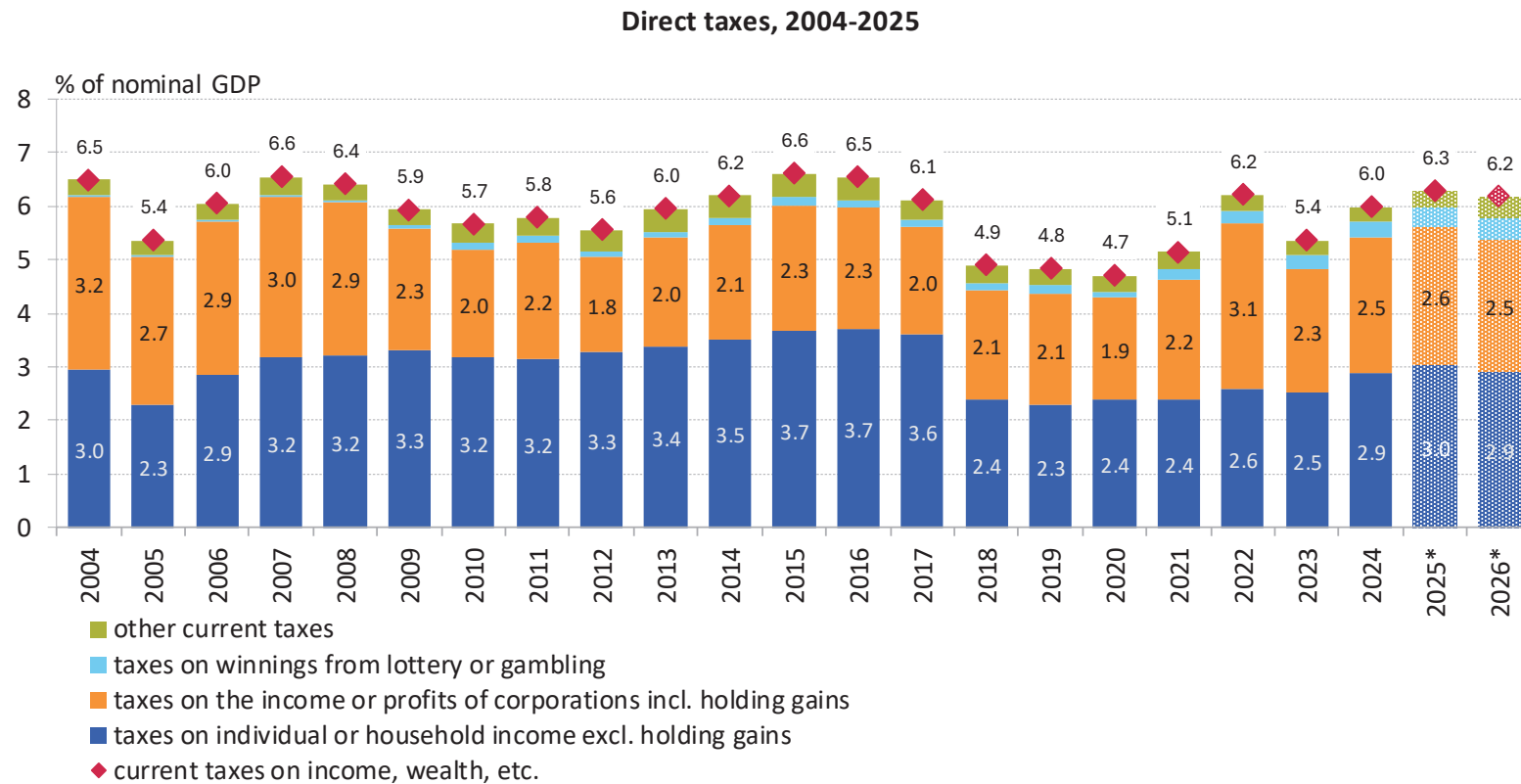
In 2026, Romania’s excise duties on fuels are the highest in the region, but lower on cigarettes and alcohol. Within the standard comparison group, Poland and Bulgaria exceeded Romania in terms of excise duty receipts. At the same time, Bulgaria stands out due to high revenues from excise duties on tobacco and energy products, although the statutory excise duty levels for these categories are among the lowest in the region.



Source: Eurostat, CE-TEDB, NBR calculations

The downward trend in direct tax revenue after the 2015 peak can be attributed to the repeated, more favourable changes in the corporate and individual income tax regimes.

The post-pandemic trend reversal is associated with the narrower scope of preferential tax treatments, as well as with tax revenue receipts from the additional taxation of energy companies.

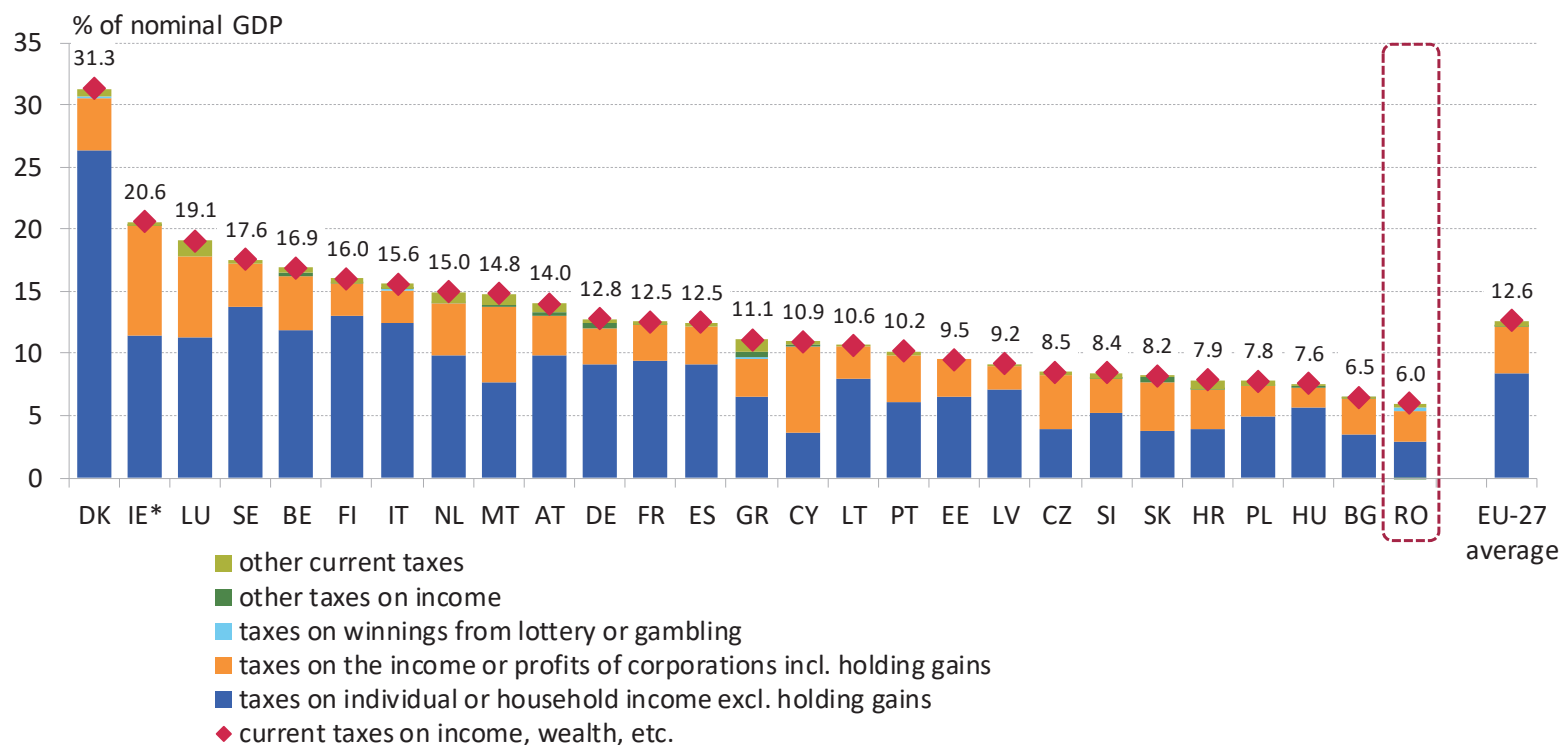


\*) In 2025, sub-components derived from budget execution, national methodology (cash); for 2026, estimates according to the general government budget.

Source: Eurostat, MF, Fiscal Council, NBR calculations

Romania stands out due to the lowest direct tax receipts in the EU, significantly below the EU average and visibly below the second-to-last in the ranking (Bulgaria). Given the low tax rates, the difference reflects modest receipts in terms of both corporate and personal income taxes. The most significant gap is in the case of receipts from the taxation of individual income.

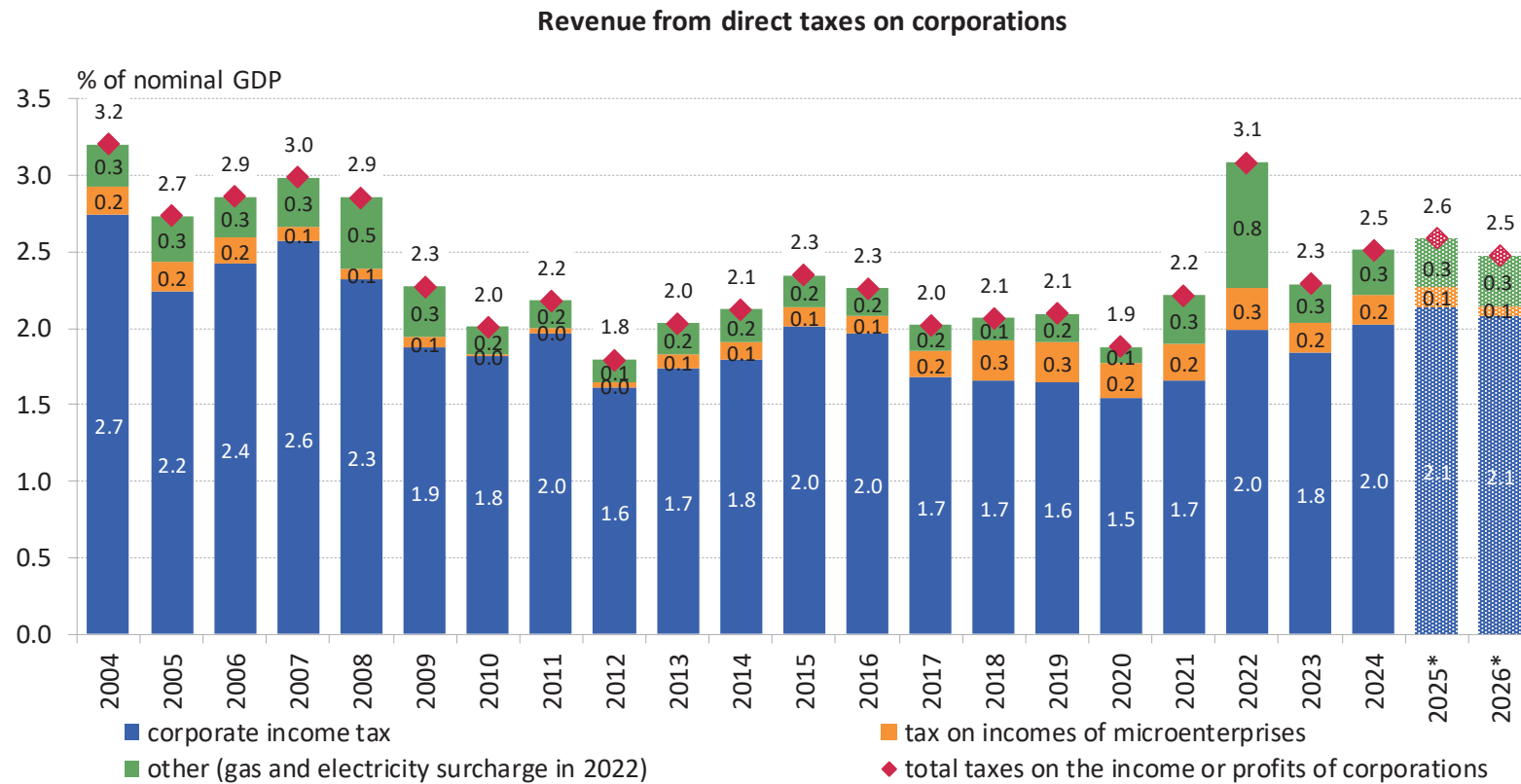
Direct taxes, 2024



\*) share in adjusted gross national income

Source: Eurostat, NBR calculations

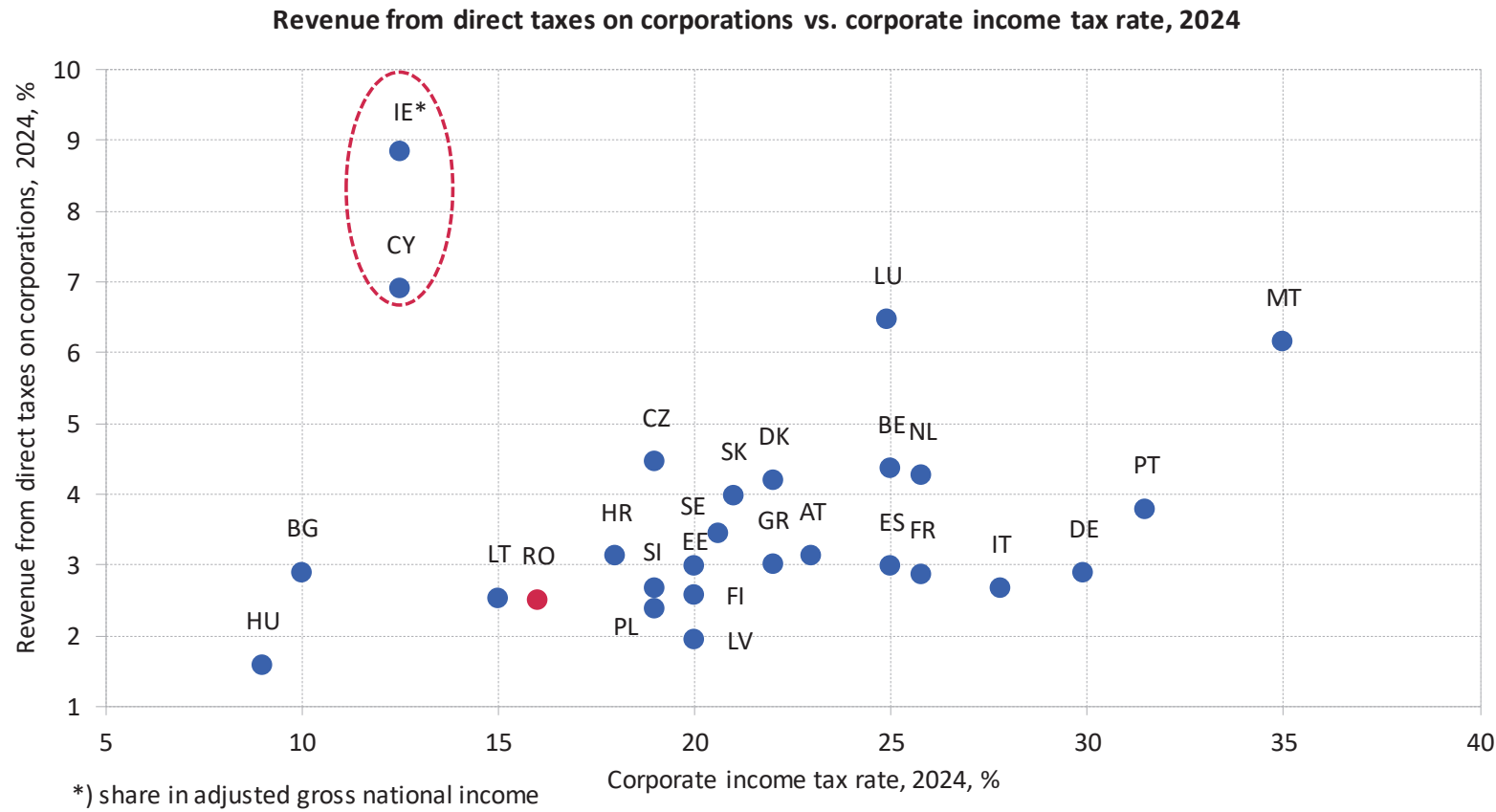
The extensions of the preferential tax regime for microenterprises in 2016-2018 led to lower receipts from corporate income tax. The 2022 hike was driven by the additional taxation of the energy sector. Since 2023, the applicability of the tax regime for microenterprises has been subject to limitations and the related tax rates were raised in 2024, when a minimum tax applicable to large companies was also implemented.



\*) budget execution, national methodology (cash); for 2026, the general government budget draft

Source: Eurostat, MF, Fiscal Council, NBR calculations

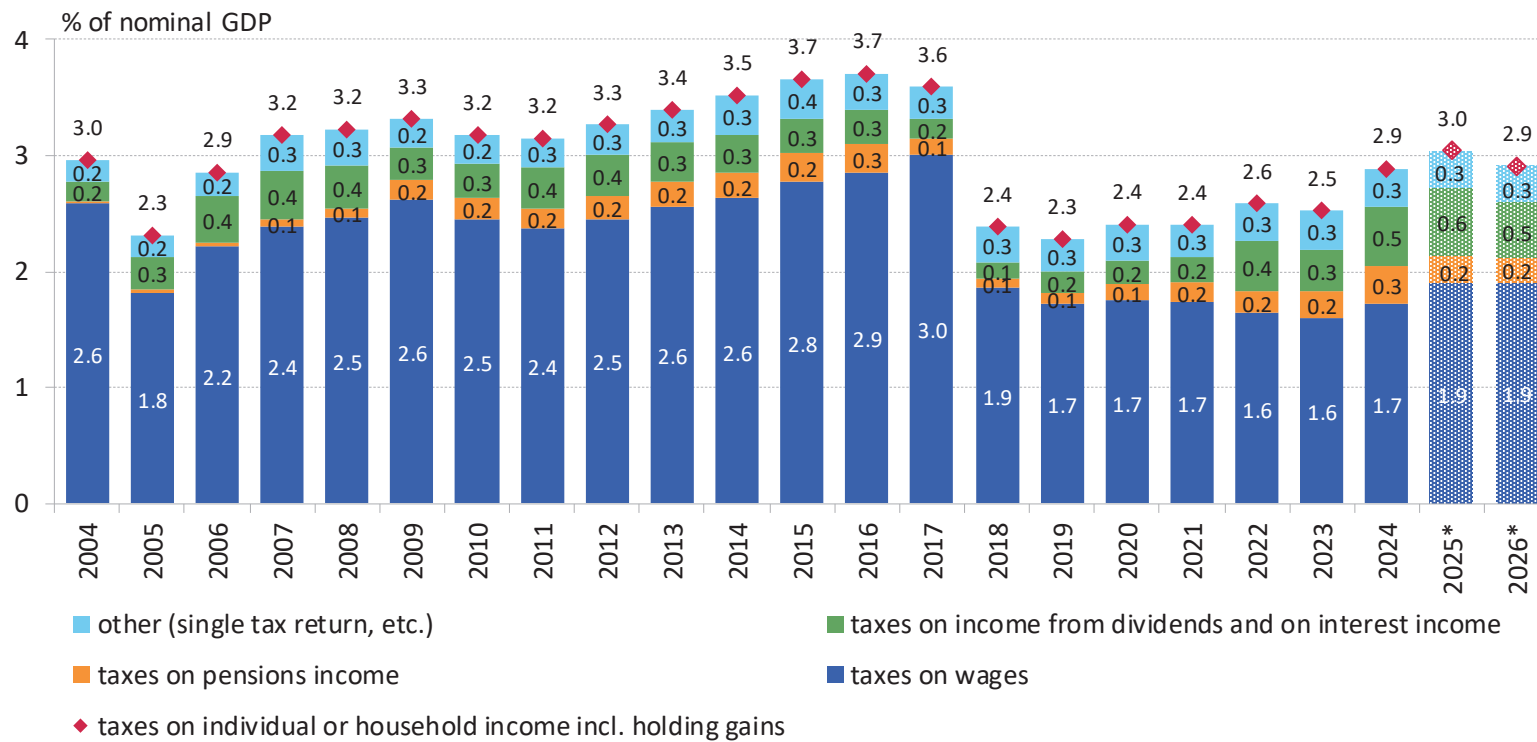
From a European perspective, Romania’s low corporate tax receipts are also correlated with the relatively low corporate income tax rate. Specific cases are Ireland and Cyprus, influenced by the global tax competition, as well as Estonia and Latvia, where corporate income is taxed only upon distribution, the latter two having higher tax rates than Romania. Hungary stands out with the lowest corporate income tax rate.



Source: Eurostat, NBR calculations, taxfoundation.org

The uptrend in household income tax receipts halted in 2016. Subsequently, dividend tax was cut (as of 2016), the non-taxable threshold for pensions was doubled (in 2017), the personal income tax rate was lowered (in 2018), whereas some sectors were tax exempt. The hikes in dividend tax in 2023 and 2025 led to an acceleration in dividend distribution in the years preceding their entry into force.

Revenue from taxes on individual income, 2004-2024



\*) budget execution, national methodology (cash); for 2026, the general government budget draft

Source: Eurostat, MF, Fiscal Council, NBR calculations

Romania records the smallest individual income tax revenue among the EU Member States, mainly due to the low personal income tax rate, which is the lowest in the EU. In the region, the maximum tax rates range from 10% to 36%. Bulgaria is the only country with a comparable level of taxation, whereas the rest of the European countries apply significantly higher tax rates.

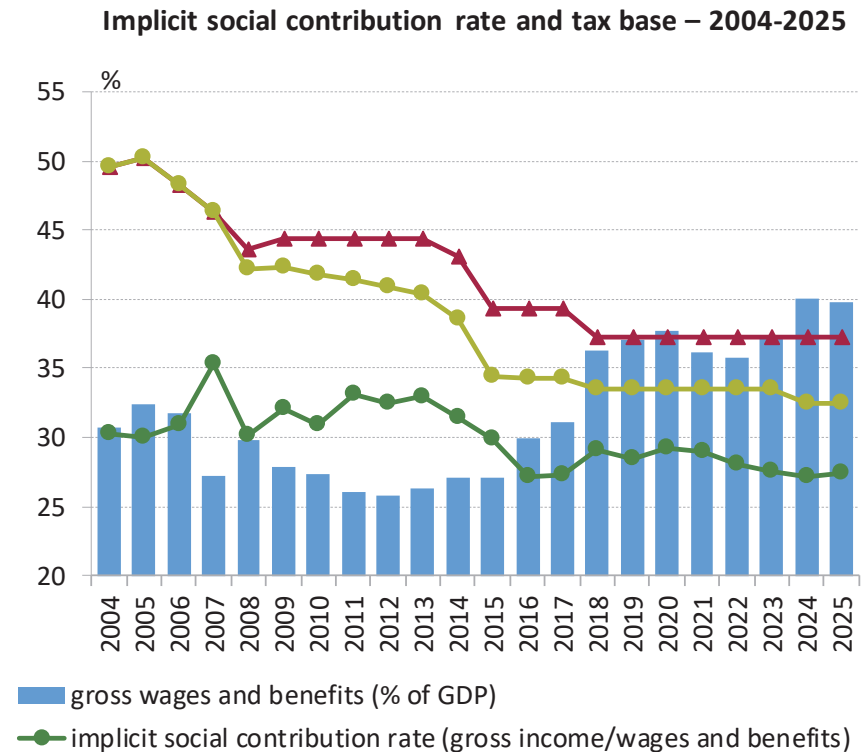
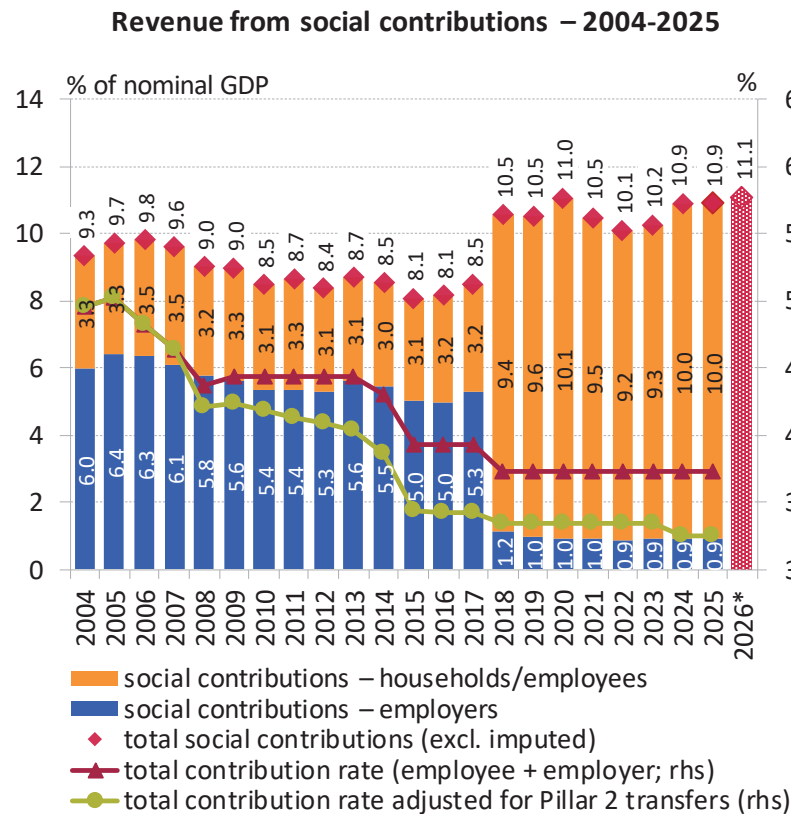
Maximum personal income tax rate and revenue from taxes on household income, 2024



\*) share in adjusted gross national income

Source: Eurostat, NBR calculations, taxfoundation.org

Revenue from social contributions followed a downtrend until 2016, amid the cut in total contribution rate and the increase in the rate for Pillar 2 of the mandatory pension scheme. The shift in social contributions burden in 2018 and the slightly improved compliance pushed receipts up. The rises in recent years stem from the strong dynamics of the tax base and the removal of important sectoral tax exemptions for health insurance.

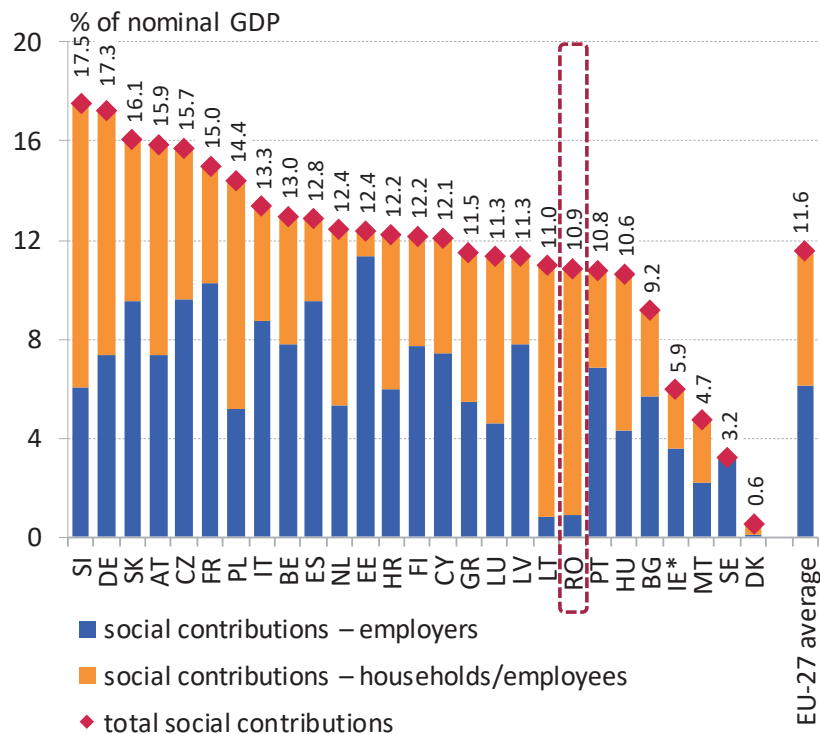


\*) for 2026, national methodology (cash) estimates according to the general government budget

Source: Eurostat, MF, Fiscal Council, NBR calculations

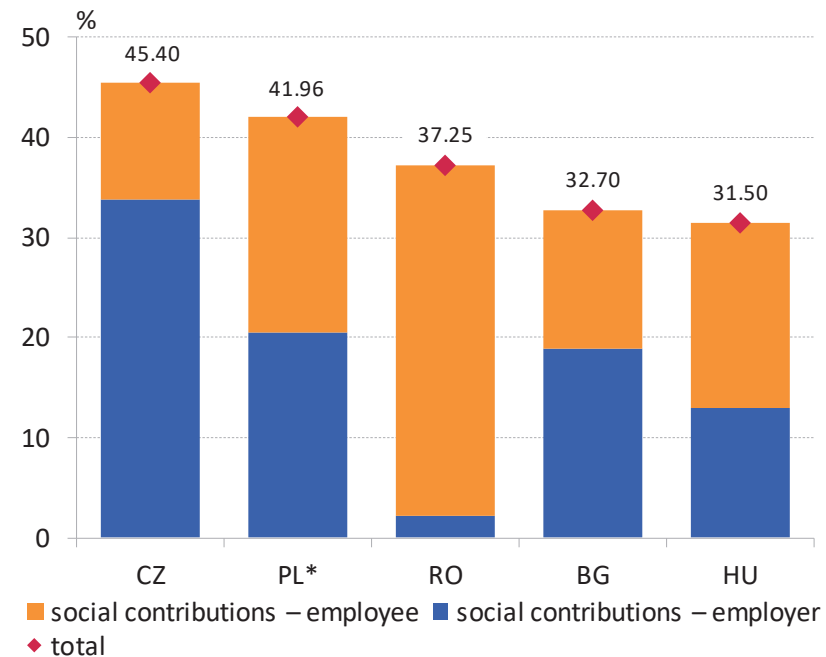
In 2025, Romania’s revenue from social contributions as a share of GDP stood close to the EU average. Compared to the regional peers, social contribution rates are higher than in Hungary and Bulgaria, but lower than in Czechia and Poland, as reflected in the relative revenue position. An atypical distribution of the tax burden between employees and employers, such as in Romania’s case, can also be encountered only in Lithuania.

Revenue from social contributions (excl. imputed contributions), 2025 Current social contribution rates in peer countries, 2025



\*) share in adjusted gross national income

Source: Eurostat, NBR calculations

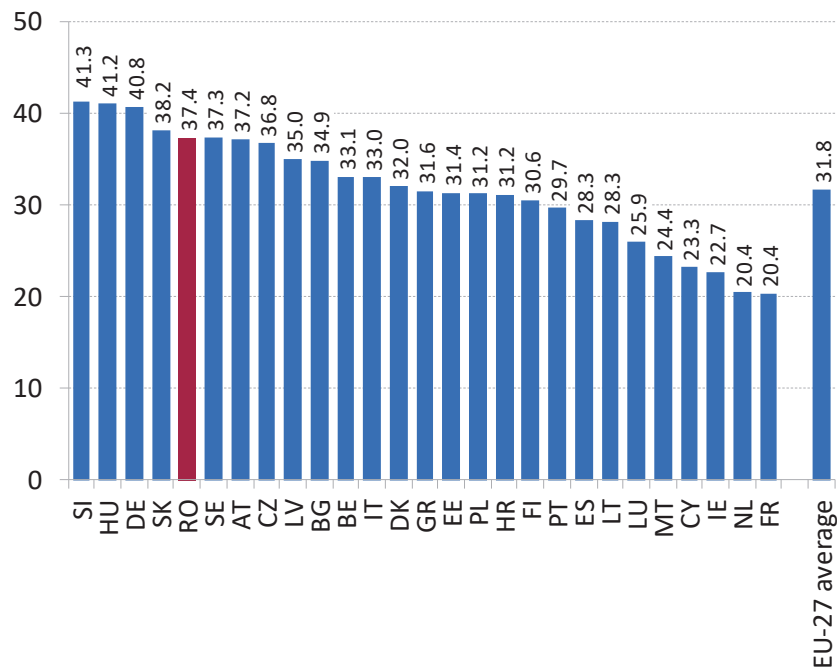


\*) aggregate value adjusted for the fact that the other social contributions of the employee are deductible from the calculation base of the 9% health insurance contribution

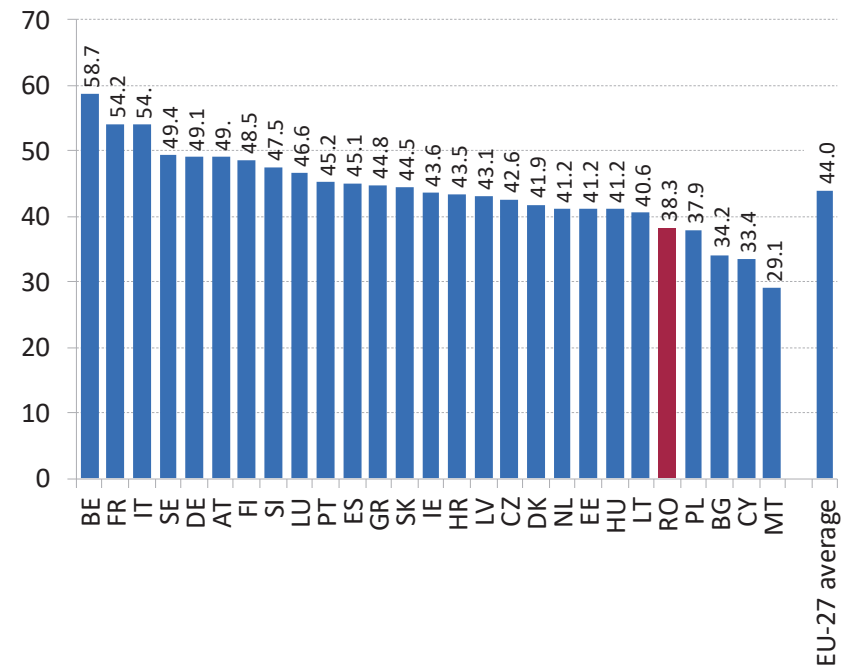
Source: EC – TEDB, PwC – Worldwide Tax Summaries, NBR calculations

The characteristics of the Romanian tax system (the flat personal income tax rate and the heavy dependence on revenue from social contributions being relevant in this respect) imply one of the highest tax wedges\* on low wage income in the EU. Conversely, looking at high wage income, the tax wedge is diametrically opposed.

**Tax wedge\* on low wage income (single worker earning 50% of the average wage), 2024**



**Tax wedge\* on high wage income (single worker earning 167% of the average wage), 2024**

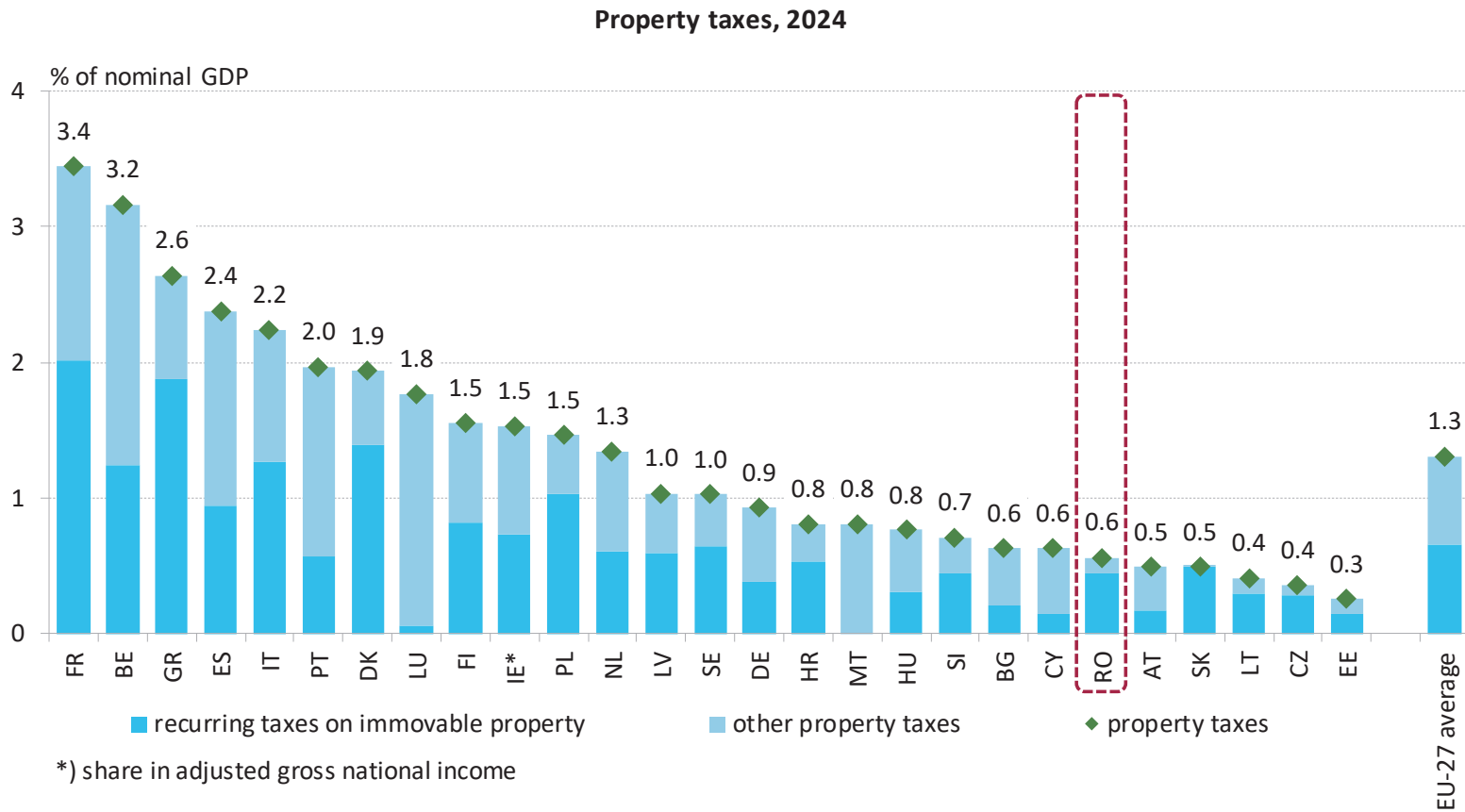


\*) The tax wedge measures the difference between the employer's labour costs and the worker's net earnings, namely the sum of social security contributions and personal income taxes expressed as a percentage of the employers' total labour costs.

Source: EC-DG ECFIN Tax and Benefits Database

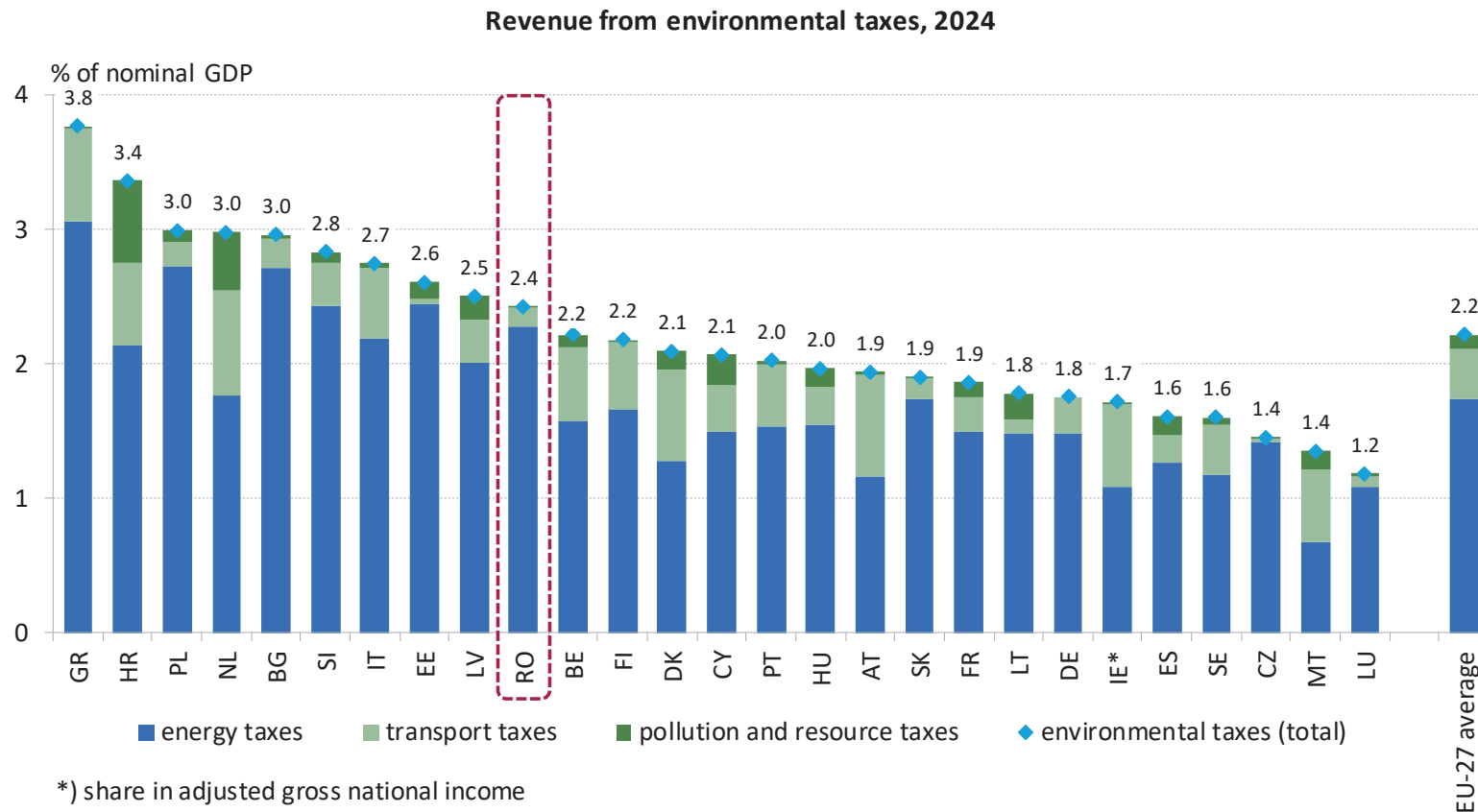
Source: Eurostat, NBR calculations

Property tax revenue is below the EU average and below the levels recorded in the standard comparison group (excluding Czechia). Revenue from recurrent taxes on immovable property is lower only than the situation in Poland, while other property taxes (which include taxes on gifts, inheritance, real estate and financial transactions, stamp duties, etc.) are very small.



Source: European Commission – Data on Taxation Trends, NBR calculations

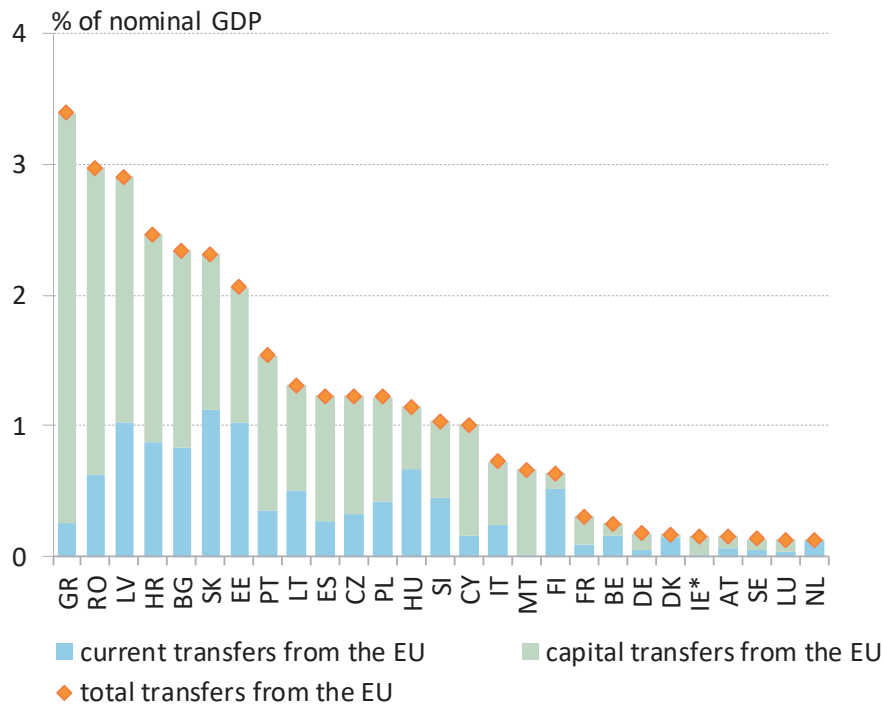
Environmental tax revenue in Romania is above the EU average, but solely on account of the energy component, which includes excise duties on energy products, revenue from the surcharge on electricity and natural gas producers and from green certificates. However, transport taxes (e.g. taxes on motor vehicles) and pollution and resource taxes seem low from a European and regional perspective.



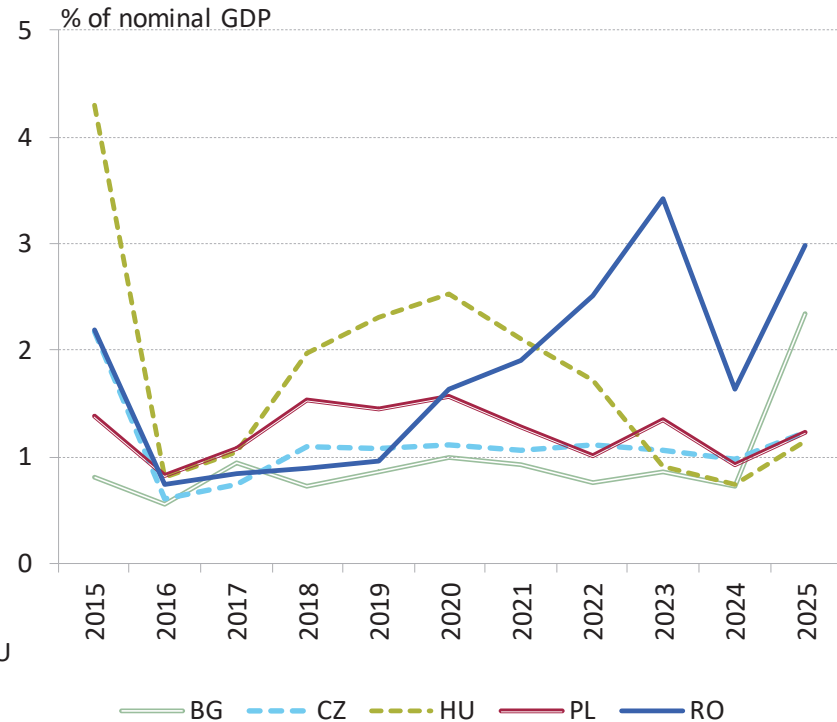
Source: European Commission – Data on Taxation Trends, NBR calculations

Romania is among the recipients of the highest EU transfers, with significant investment allocations. In recent years, capital transfers have been persistently greater than to the regional peers. The end of the 2014-2020 financial framework led to a sharp decrease in financial flows in 2024, but these transfers are recovering via the faster absorption under the 2021-2027 MFF and the NRRP.

Transfers from the EU used in 2025



Transfers from the EU used in Romania and other countries in the region

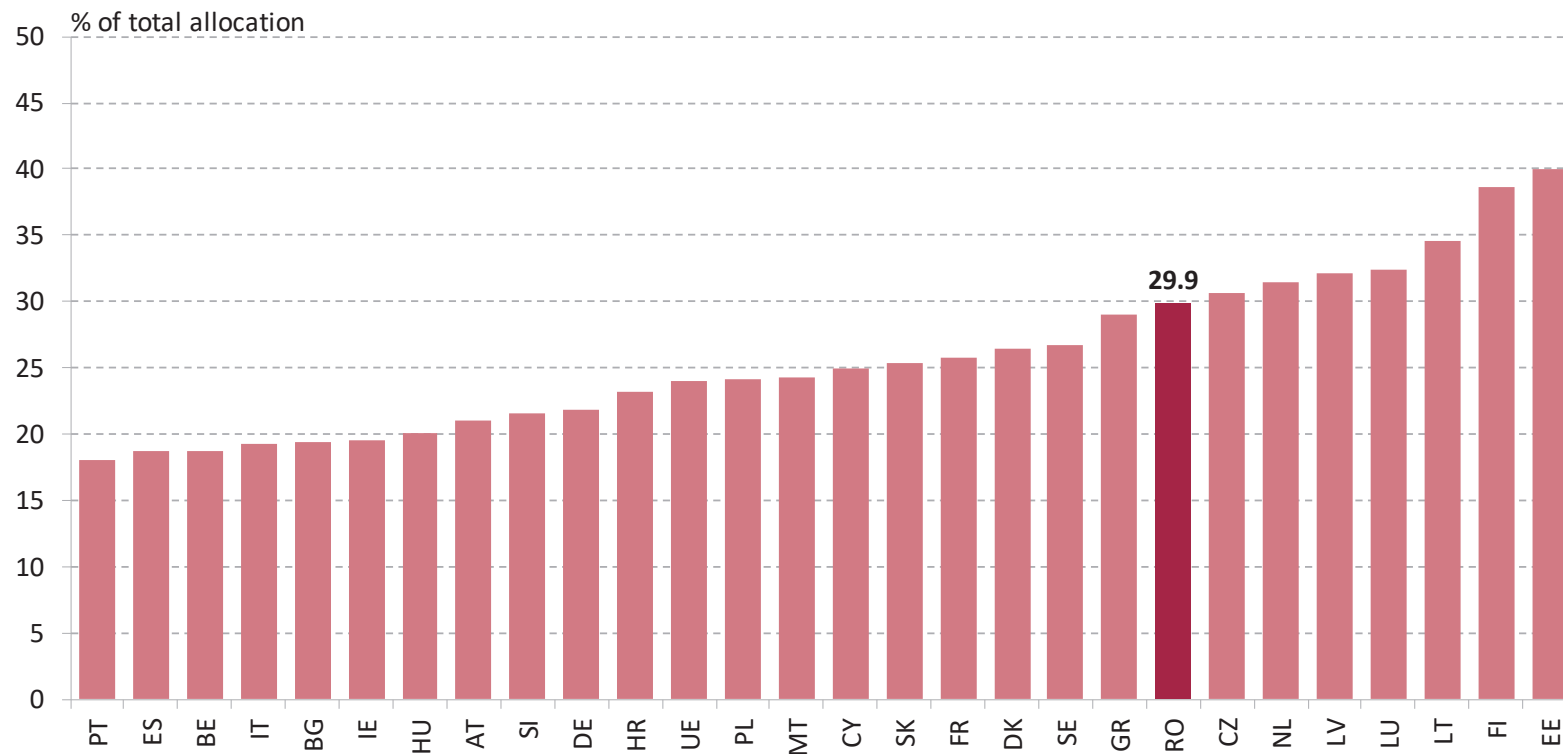


\*) share in adjusted gross national income

Source: Eurostat, NBR calculations

In terms of EU disbursements under the Multiannual Financial Frameworks (MFFs), Romania shows gradual progress. Under the 2007-2013 MFF, it managed to absorb under 90% of structural and cohesion funds, with only Croatia performing more modestly. By contrast, under the 2014-2020 MFF, absorption was close to 100%, while under the 2021-2027 MFF, Romania is now in the first half of the ranking by absorption rate.

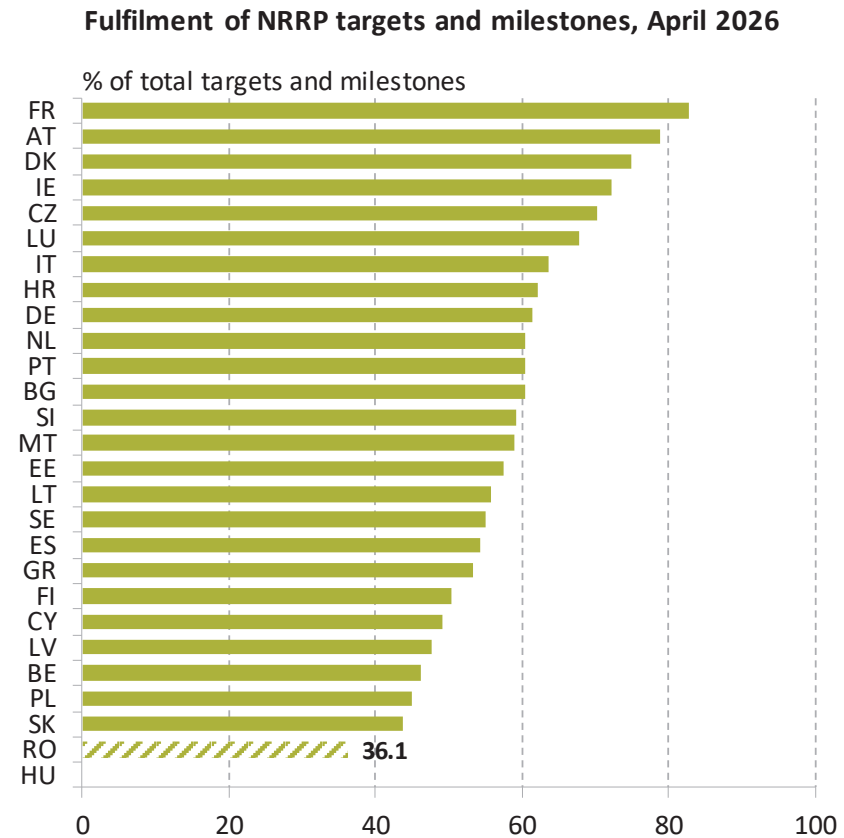
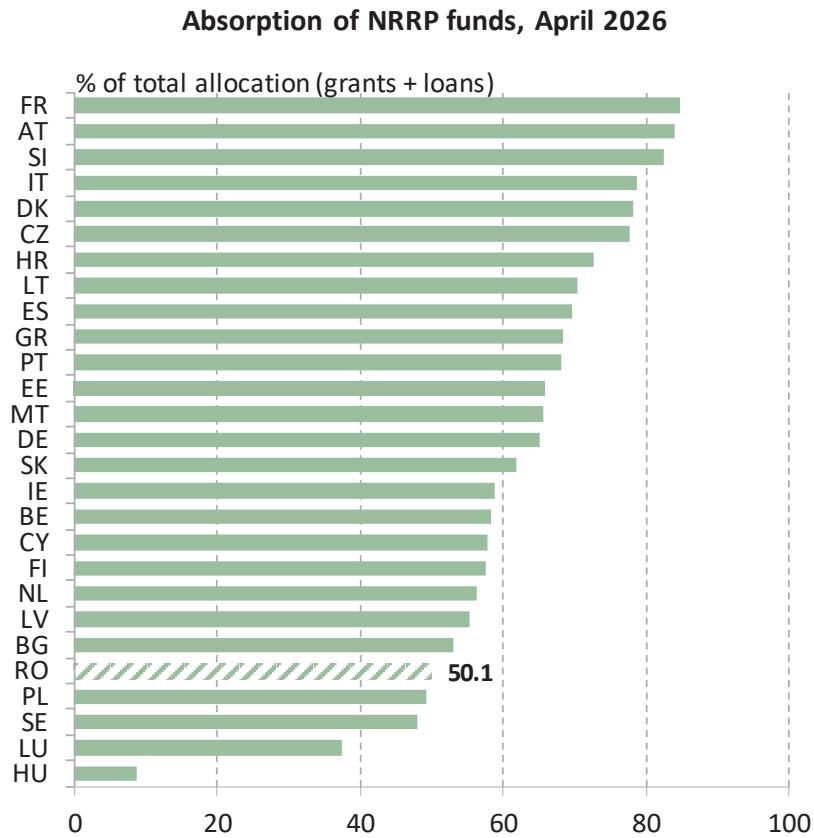
**Cohesion policy\*: absorption rate under the 2021-2027 MFF (April 2026)**



\*) ERDF, CF, ESF+, JTF

Source: EC, cohesion data platform

Under the Recovery and Resilience Facility (NRRP), Romania witnessed much more subdued developments than other EU countries. Delays in fulfilling NRRP targets and milestones led to a slow submission of payment requests. The revised NRRP, negotiated with the European Commission, includes a significant reduction in loans by approximately EUR 7 billion. Conversely, the renegotiated plan sets out to maintain grant allocation.



Source: EC, Recovery and Resilience Scoreboard

## Chapter II

The most significant differences can be identified for direct tax revenue

- Romania's general government revenue from taxes and social contributions expressed as a share of GDP is the lowest in the EU\* and seems insufficient to support public services at quality levels aligned with European averages.
- The largest differences in the size of budget revenue relative to the EU average can be found in the case of direct tax revenue, whereas the differences in revenue from social contributions are significantly lower.
- The characteristics of the current tax system, such as the flat personal income tax rate or the heavy reliance on revenue from social contributions, imply a tax wedge on low wage income that is among the highest in the EU.
- In spite of some recent favourable developments, the size of tax revenue is constrained by comparatively low tax rates, but also by the large and persistent compliance gaps.

*\* If the size of Ireland's economy is assessed using adjusted national income, an indicator constructed to eliminate the particularly strong effects of globalisation on Ireland, which would be comparable to the GDP of other countries.*

## Chapter II

In a European context, Romania stands out due to a wide VAT compliance gap and high excise duties

- Looking at VAT, the standard 19% rate, which prevailed until 1 August 2025, was one of the lowest in the EU. However, the VAT compliance gap is the highest in the EU, well above the average.
- The VAT carousel fraud, although relevant in size, accounts only to a small extent for the historical compliance gap. Nevertheless, given also the developments in the region, this remains an important topic in terms of preventing and combating VAT fraud.
- The modest receipts from household income taxes are largely attributable to the low personal income tax rate. Bulgaria is the only country with a level of taxation comparable to Romania's, the rest of the Member States being characterised by significantly higher tax rates.
- Excise duties are a sub-component of revenue with a size above the EU average, the receipts coming from the taxation of fuels and tobacco products. At regional level, Romania has the highest excise duties on fuels, whereas for cigarettes, only Bulgaria has lower excise duties.

## Chapter III

### General

### Government

### Expenditure

### Comparative

### Analysis in a

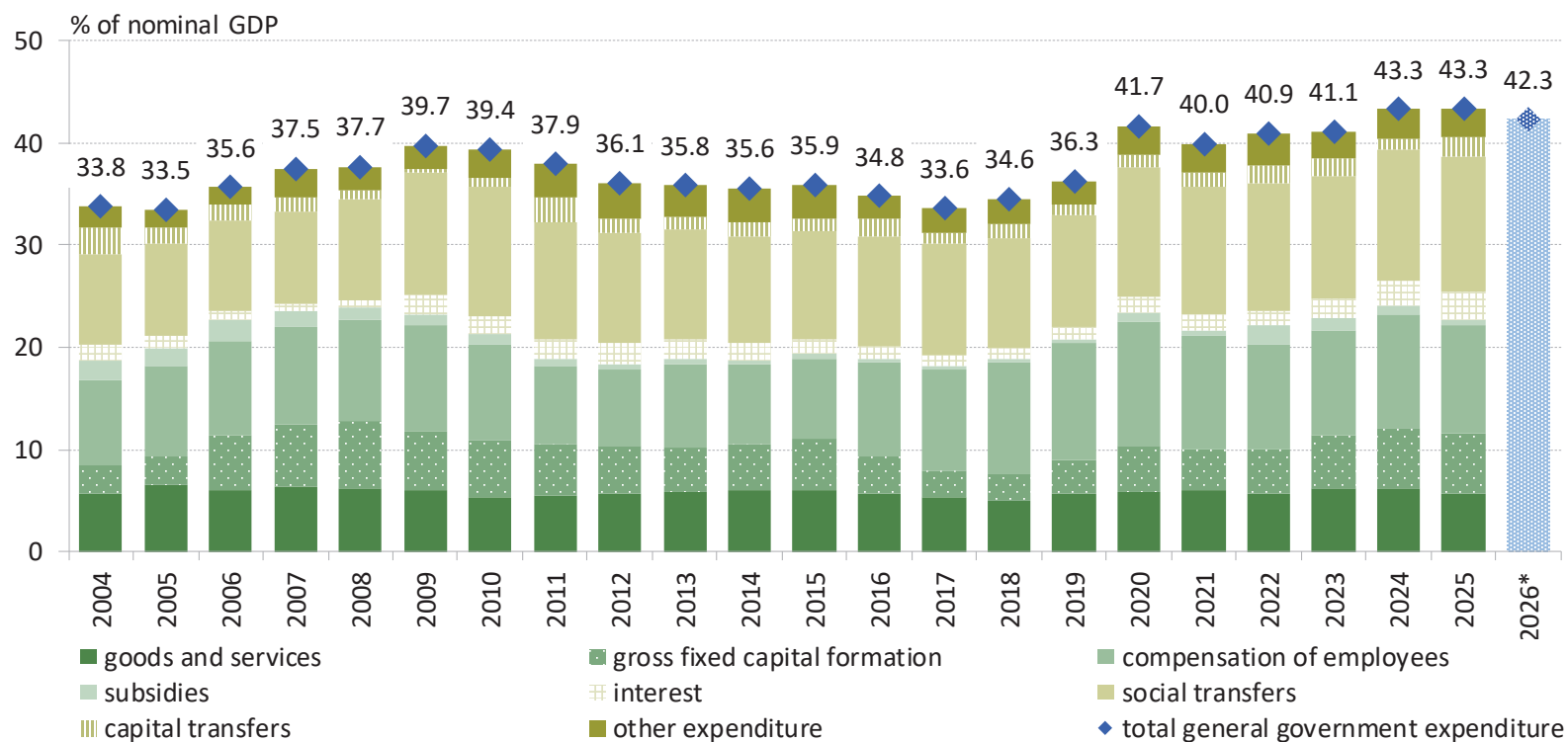
### European

### Context

- In Romania, even though the widening of the general government deficit is mainly attributed to the surge in public expenditure, the latter is not among the highest in the European Union.
- Similarly to the analysis of general government revenue, the synthetic overview of general government expenditure envisages a general top-down approach, initially targeting the characteristics of total expenditure and then those of its main sub-components.
- On the one hand, the developments in these indicators are captured over time and, on the other hand, the comparison between these indicators and those in other EU Member States is analysed, highlighting the most important common and relative characteristics.
- For a better understanding of how public financial resources are allocated, public expenditure is analysed by both the economic classification and the government functions it performs.
- The analysis goes into detail in areas where activity has a long-term impact on the quality of life, such as essential public services: health services, education services and defence.

Since 2018, general government expenditure in Romania has followed a strongly upward path, mainly due to higher current expenditure. Generous wage policies boosted compensation of employees and pension indexations exerted additional upward pressures. Moreover, public investment spending was fuelled by both EU-funded projects and key national programmes such as the *National Local Development Programme (PNDL)* or *Anghel Saligny*.

General government expenditure in Romania according to the economic classification

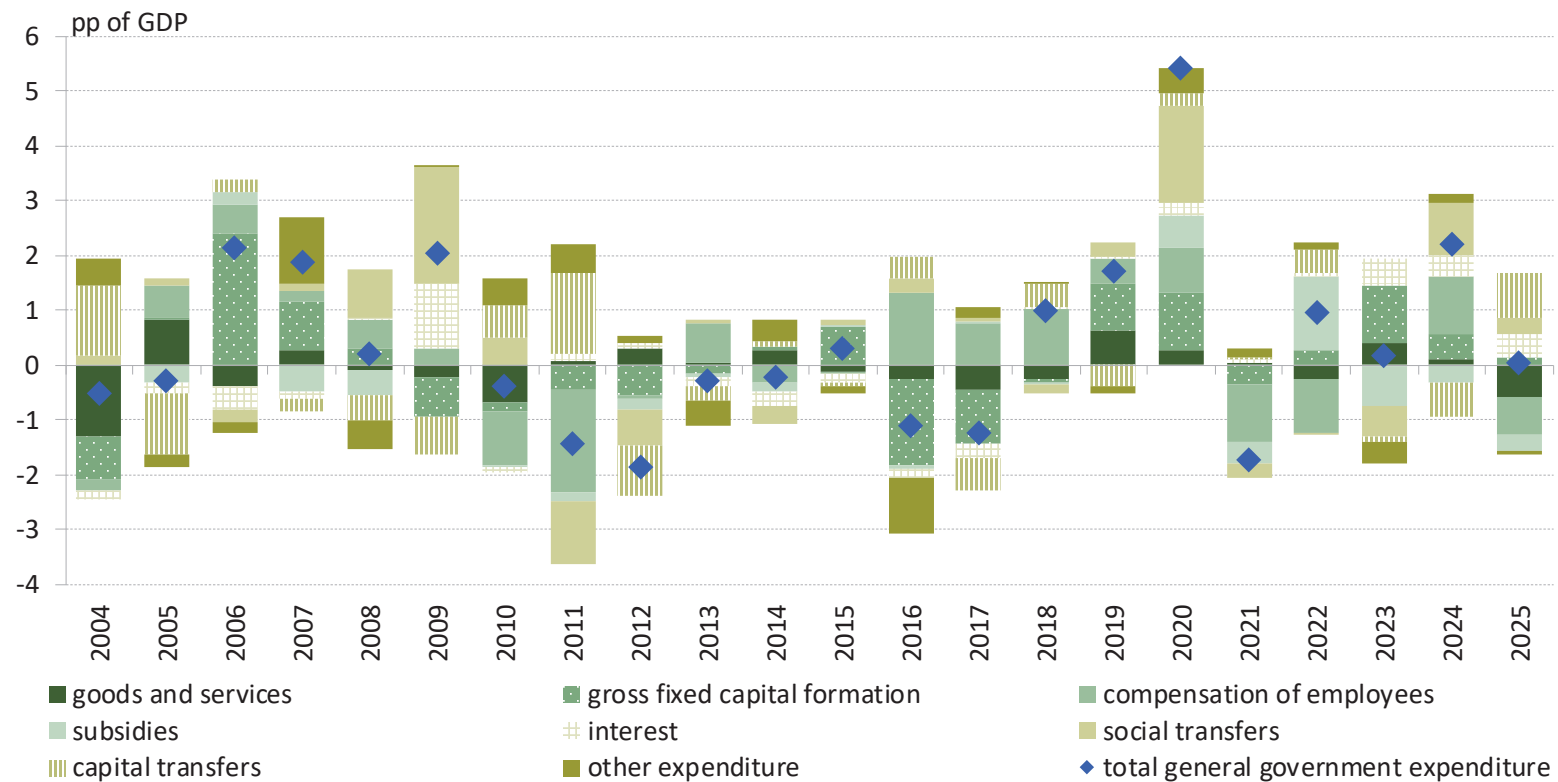


\*) for 2026, national methodology (cash) estimates according to the general government budget

Source: Eurostat, Ministry of Finance, Fiscal Council, NBR calculations

During the COVID-19 pandemic, the fast-paced rise in expenditure reflected the impact of temporary crisis management measures. Subsequently, new forms of support, such as subsidies, were introduced following the hike in energy prices amid the Russo-Ukrainian war. In 2024, which saw multiple election rounds, compensation of employees, social transfers (the new pension law) and capital transfers increased markedly.

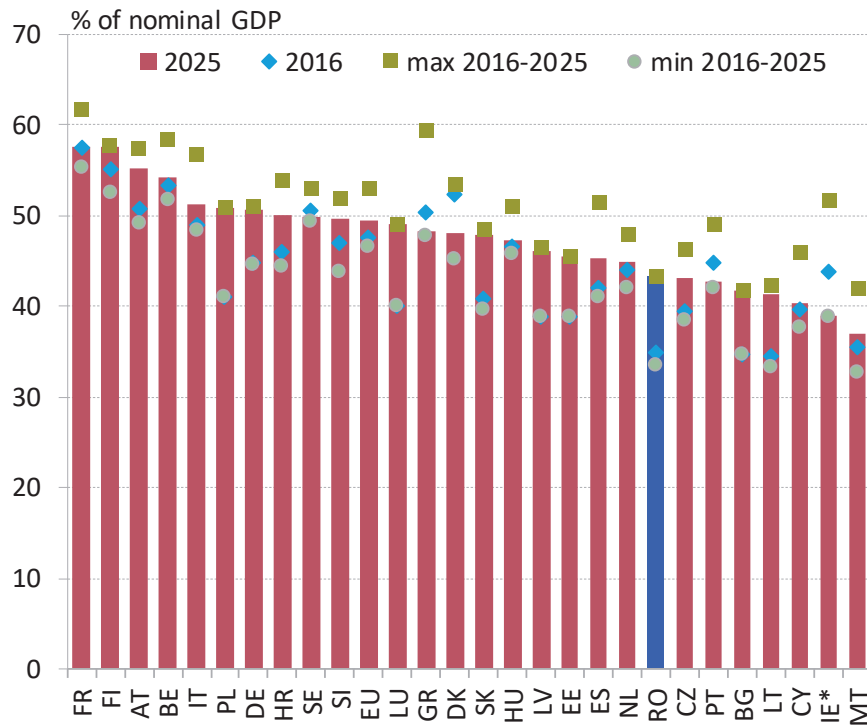
General government expenditure in Romania according to the economic classification



Source: Eurostat, NBR calculations

At EU level, Romania is positioned towards the lower end of the rankings with regard to the size of total general government expenditure. In 2025, its share was 6.2 percentage points below the EU average. As for the developments over the past ten years, Romania stands out among the Member States as general government expenditure remained high also after 2020 (the year of the pandemic) and expanded sharply in 2024 (election year).

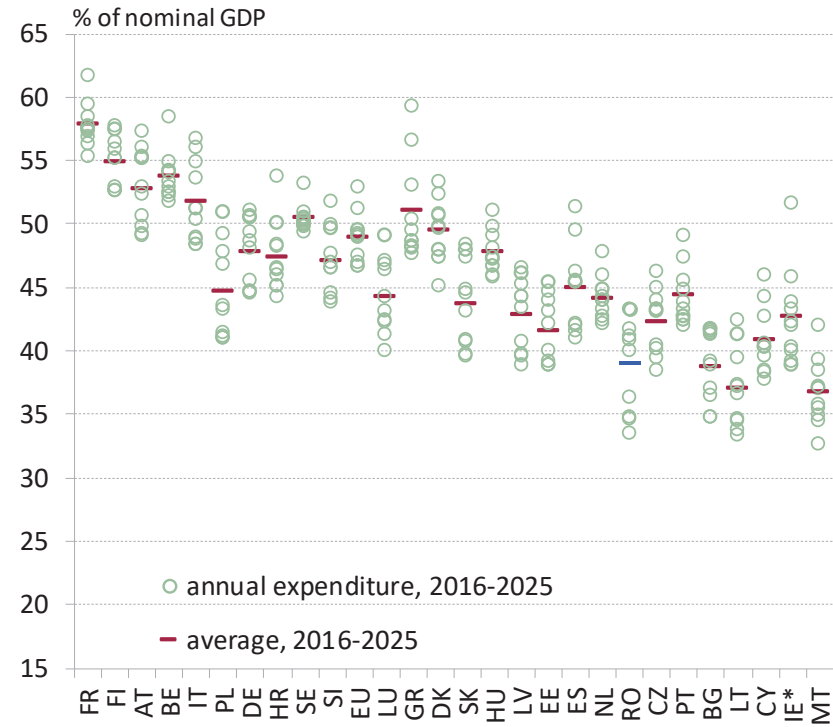
General government expenditure



\*) share in adjusted gross national income

Source: Eurostat, NBR calculations

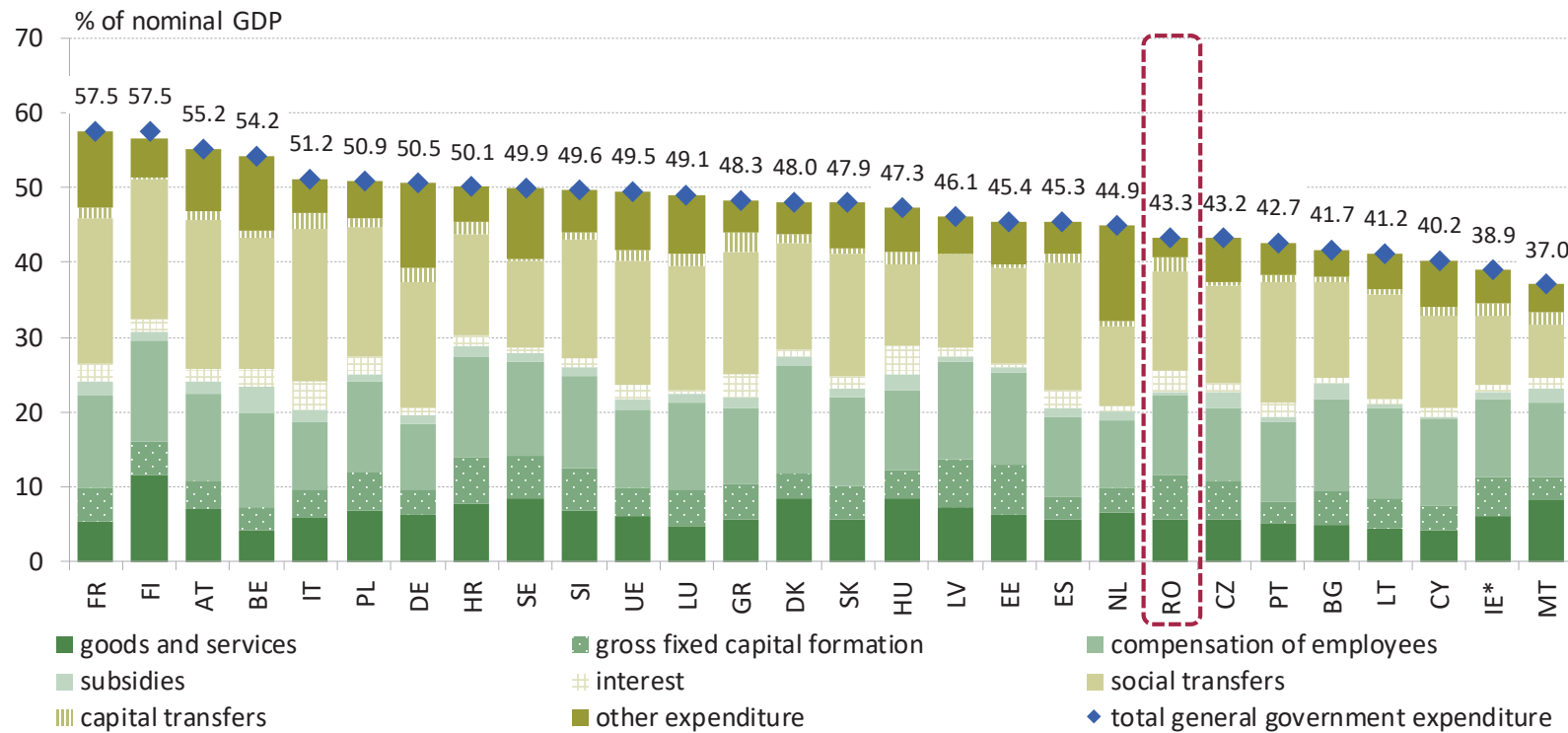
General government expenditure in 2016-2025



\*) share in adjusted gross national income

The highest general government expenditure in Romania is allocated for social transfers and compensation of employees, accounting for over 50 percent of total public spending. Similar developments occur in most EU Member States. Out of the other expenditure types, investment and purchases of goods and services also hold significant shares.

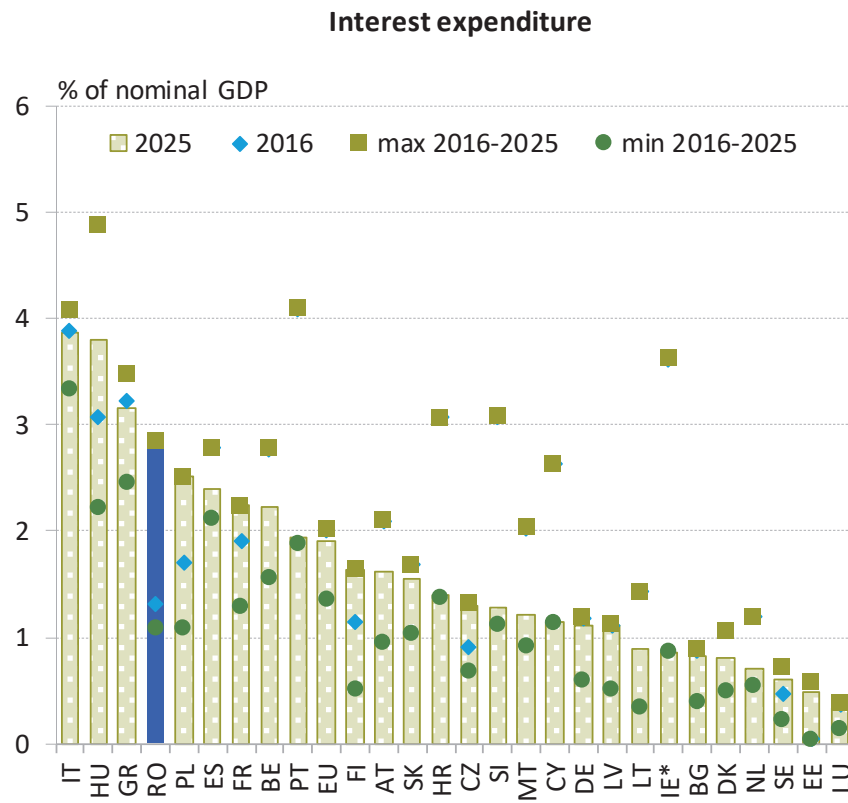
General government expenditure according to the economic classification, 2025



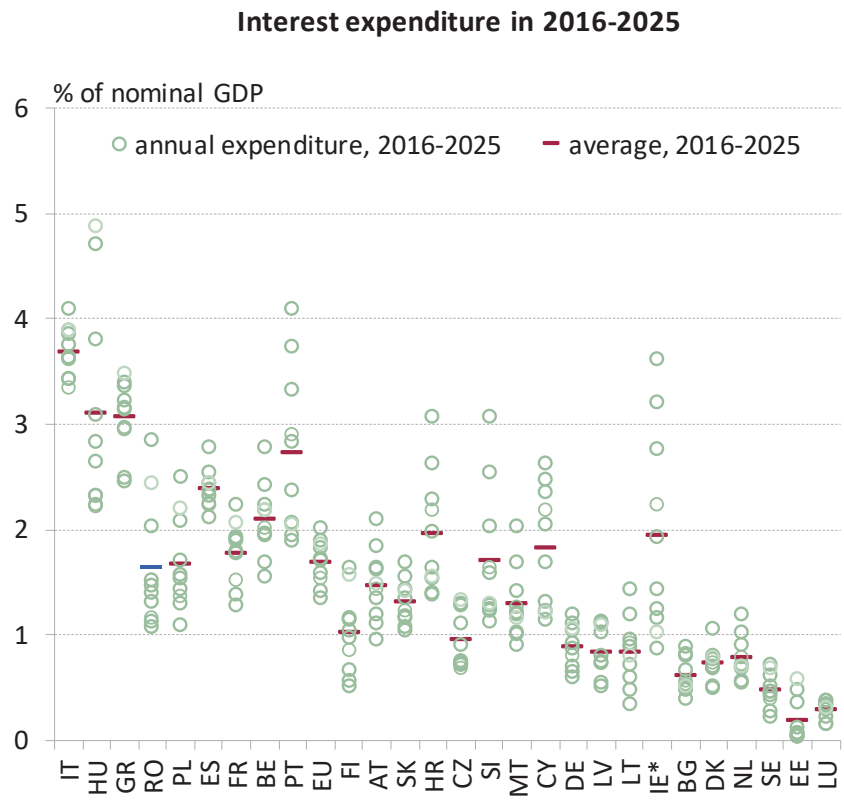
\*) share in adjusted gross national income

Source: Eurostat

Romania counts among the EU Member States with a high share of interest expenditure, due to the strong increase in deficit financing costs between 2016 and 2025 amid severe deficits and larger public debt. By comparison, Hungary – one of the countries with the highest interest payments – reports sharp volatility in this expenditure.



\*) share in adjusted gross national income

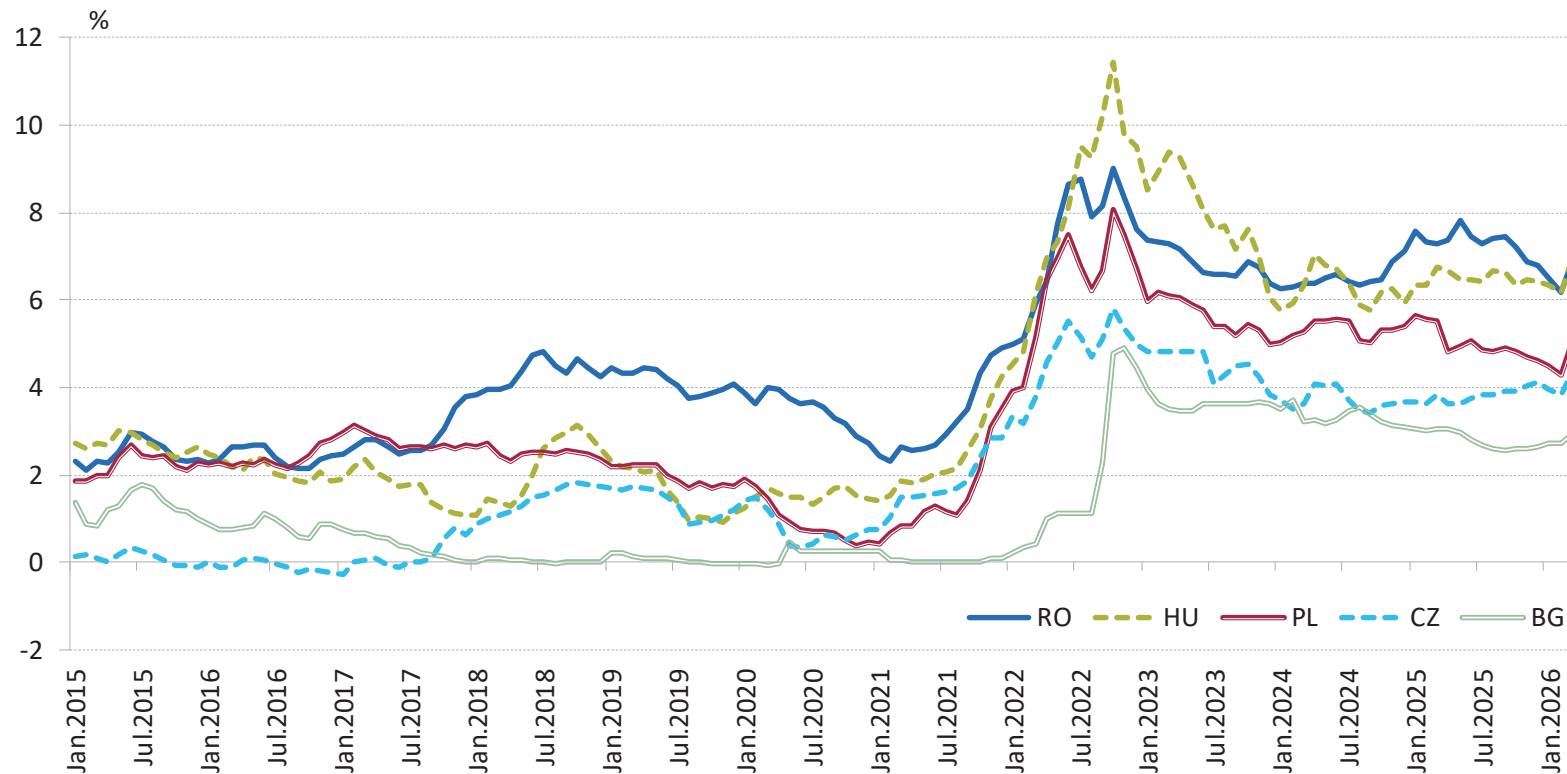


\*) share in adjusted gross national income

Source: Eurostat, NBR calculations

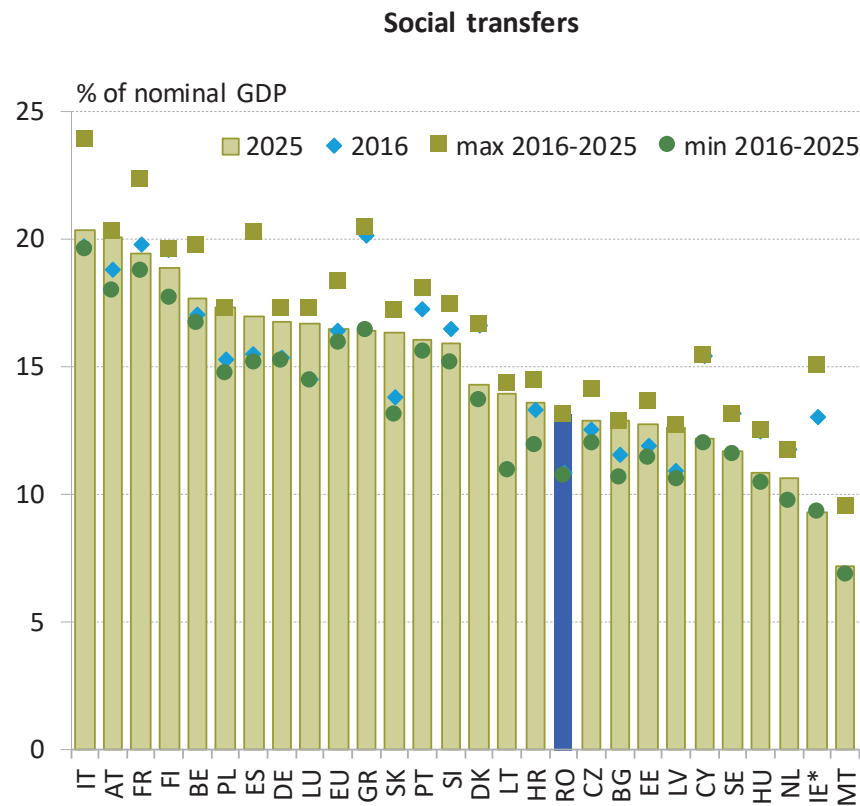
Romania currently posts the highest yields on government bonds in the region, as the persistent (domestic and external) macroeconomic imbalances, together with political tensions, have led to a higher risk premium. Poland and Czechia have higher credit ratings and therefore manage to raise finance at much lower costs. Conversely, Bulgaria, despite pronounced political volatility, benefits from a stronger fiscal position.

Yields on 5-year government bonds



Source: Bloomberg

In terms of social transfers, Romania is in the lower half of the European ranking. In 2025, such expenditure amounted to 13.2% of GDP, 3.3 percentage points lower than the EU average. However, compared to 2016, most countries have reduced or preserved their social security spending, while Romania recorded the third highest increase after Slovakia and Lithuania.



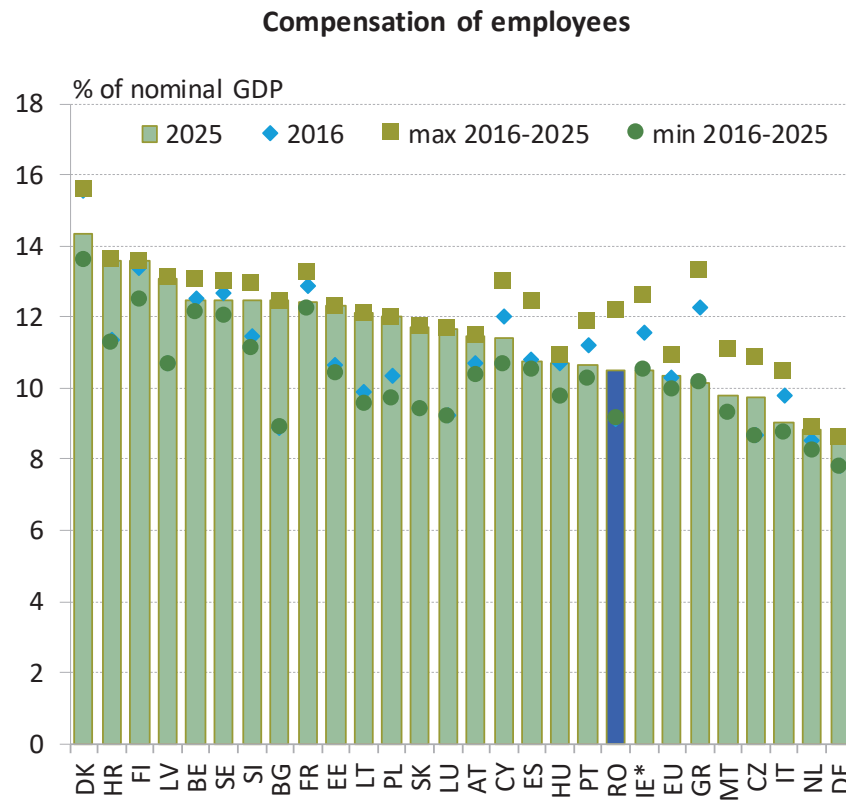
\*) share in adjusted gross national income

Source: Eurostat, NBR calculations



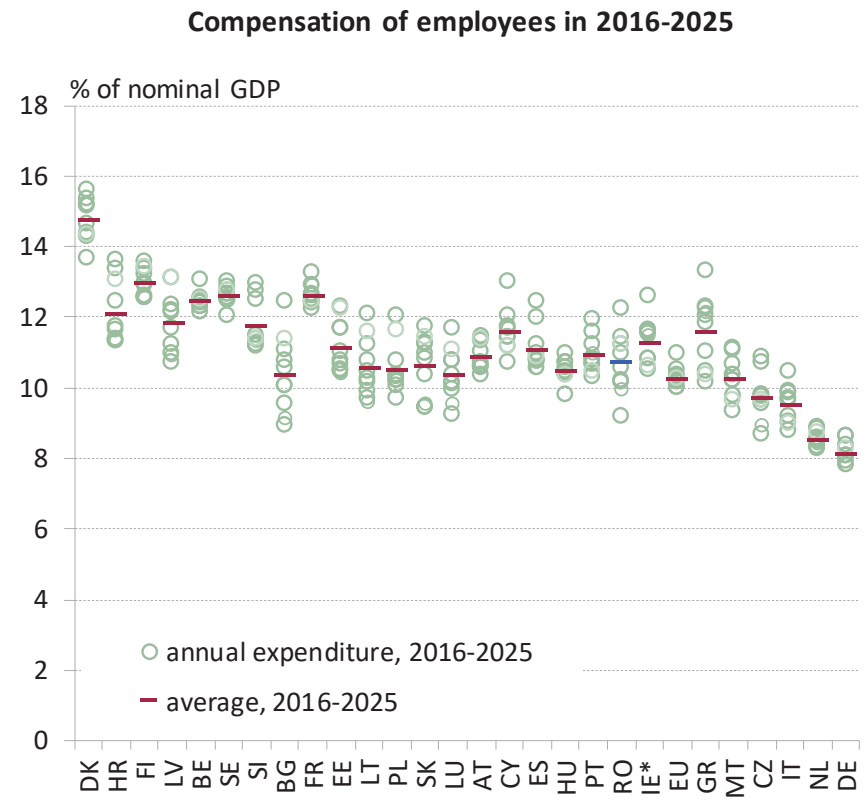
\*) share in adjusted gross national income

In terms of compensation of employees, Romania advanced from a level close to the EU-wide low in 2016 to slightly surpassing the EU average in 2025. Specifically, compared to other Member States, in Romania the volatility of this expenditure was higher, a phenomenon that can also be attributed to the frequent discretionary rises in public sector wages, particularly in an electoral context.



\*) share in adjusted gross national income

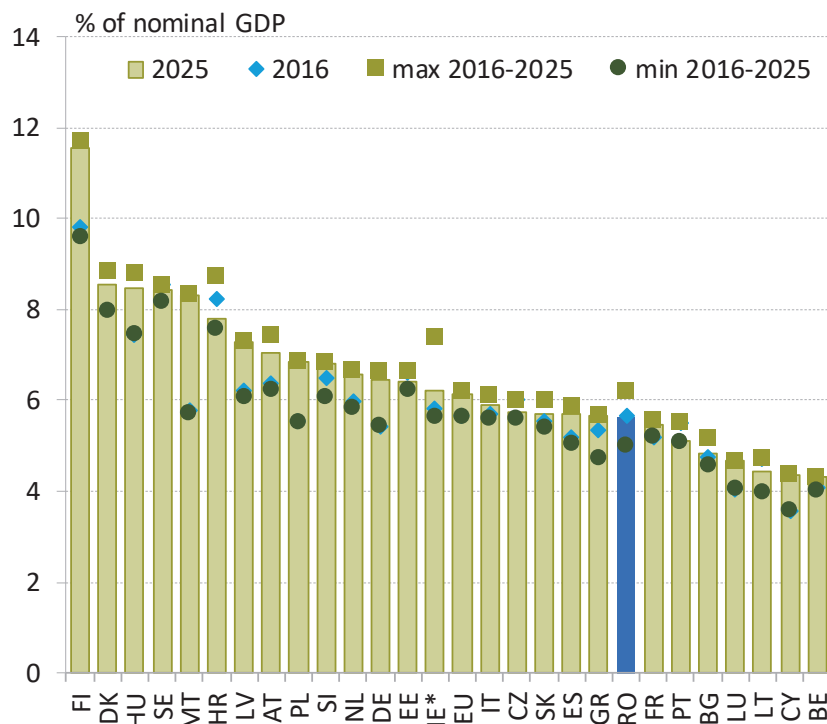
Source: Eurostat, NBR calculations



\*) share in adjusted gross national income

General government expenditure on purchases of goods and services in Romania are in line with the EU average, with no significant changes over the past decade. Within the Union, only Finland stands out, recording significantly higher values of intermediate consumption, which could be ascribed to the long-established, stronger role of the Finnish state in providing health and education services.

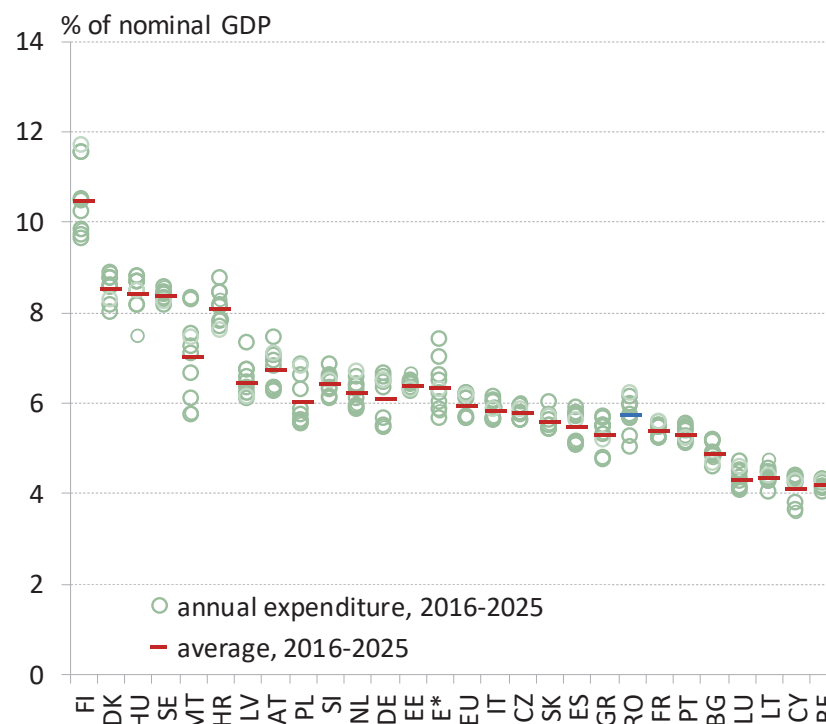
Purchases of goods and services



\*) share in adjusted gross national income

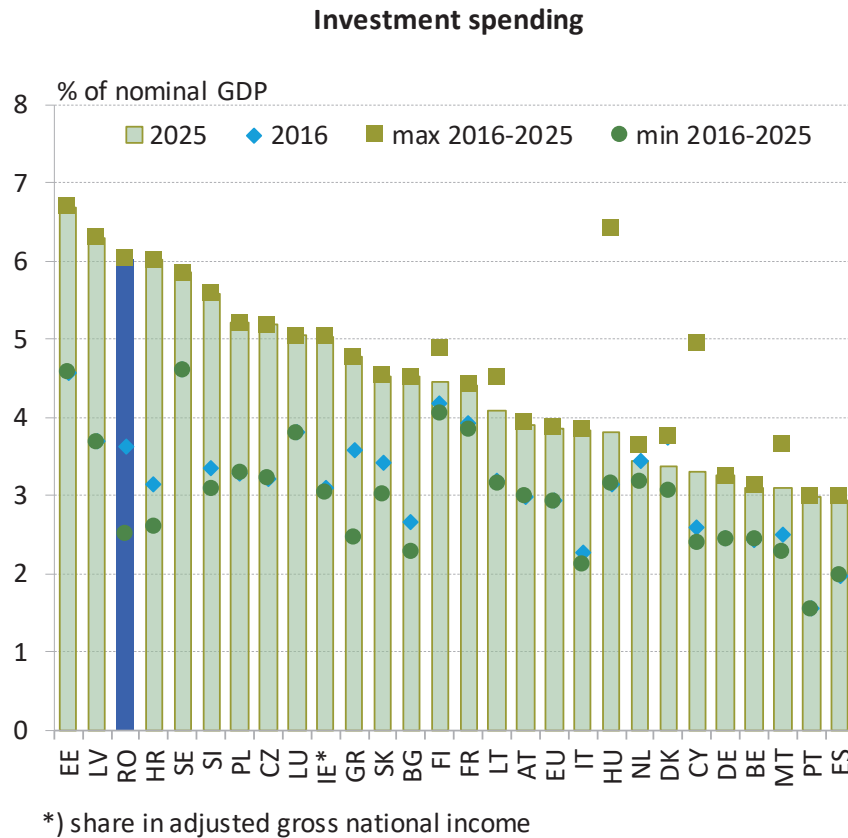
Source: Eurostat, NBR calculations

Purchases of goods and services in 2016-2025



\*) share in adjusted gross national income

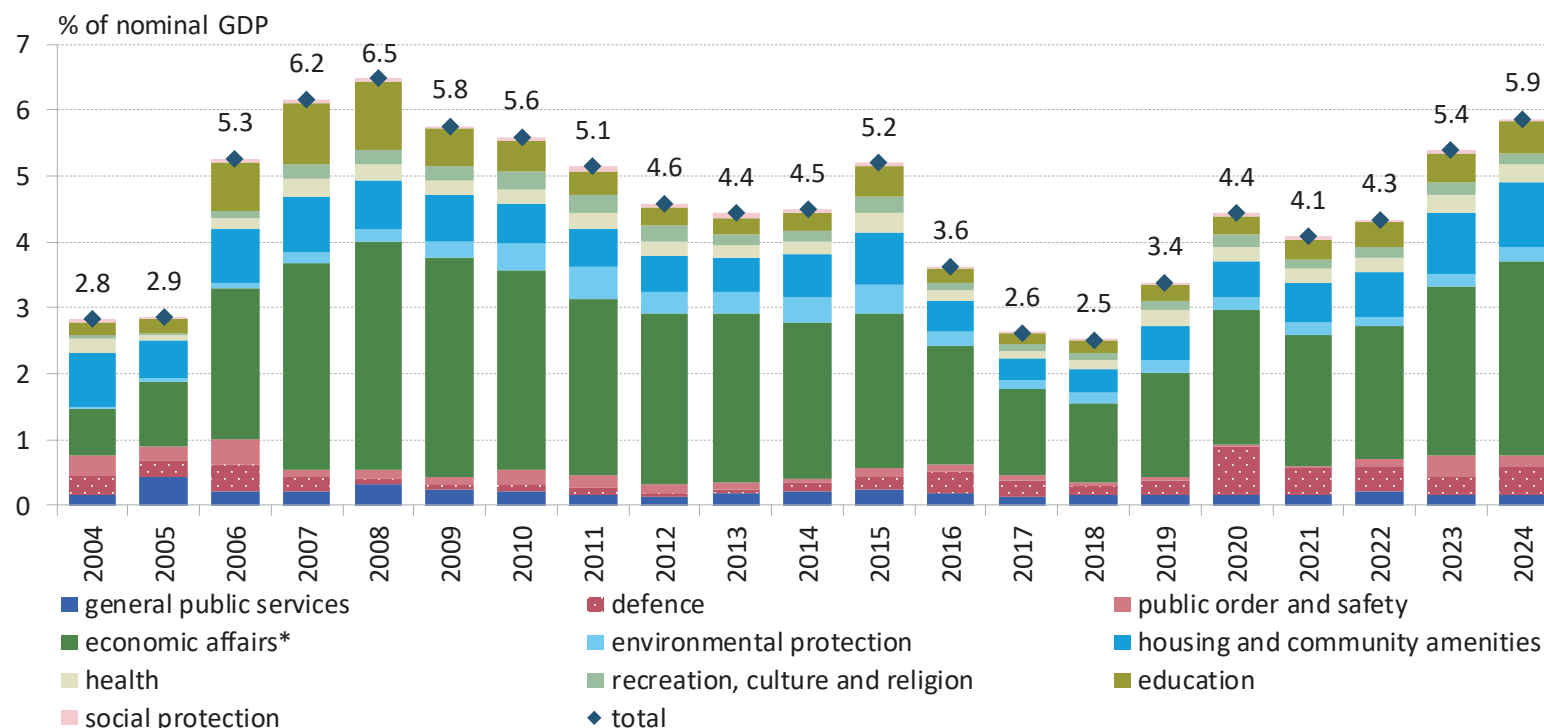
Romania recorded pronounced volatility also in public investment spending, which calls for investment policies more coherently designed over time. Between 2016 and 2025, public investment expenditure fluctuated between 2.5% of GDP and 6% of GDP. A similar pattern, with sharp swings, can be seen in Hungary as well. In 2025, Romania recorded one of the highest levels of public investment spending.



Source: Eurostat, NBR calculations

In the aftermath of the 2009 financial crisis, public investment expenditure in Romania embarked on a visibly downward path. It was only from 2019 onwards that investments reemerged as a public policy priority. By purpose, the most significant investments are attributed particularly to transport infrastructure, followed by the construction of community housing. Defence investment has recently seen some increases.

Public investment in Romania according to the functional classification

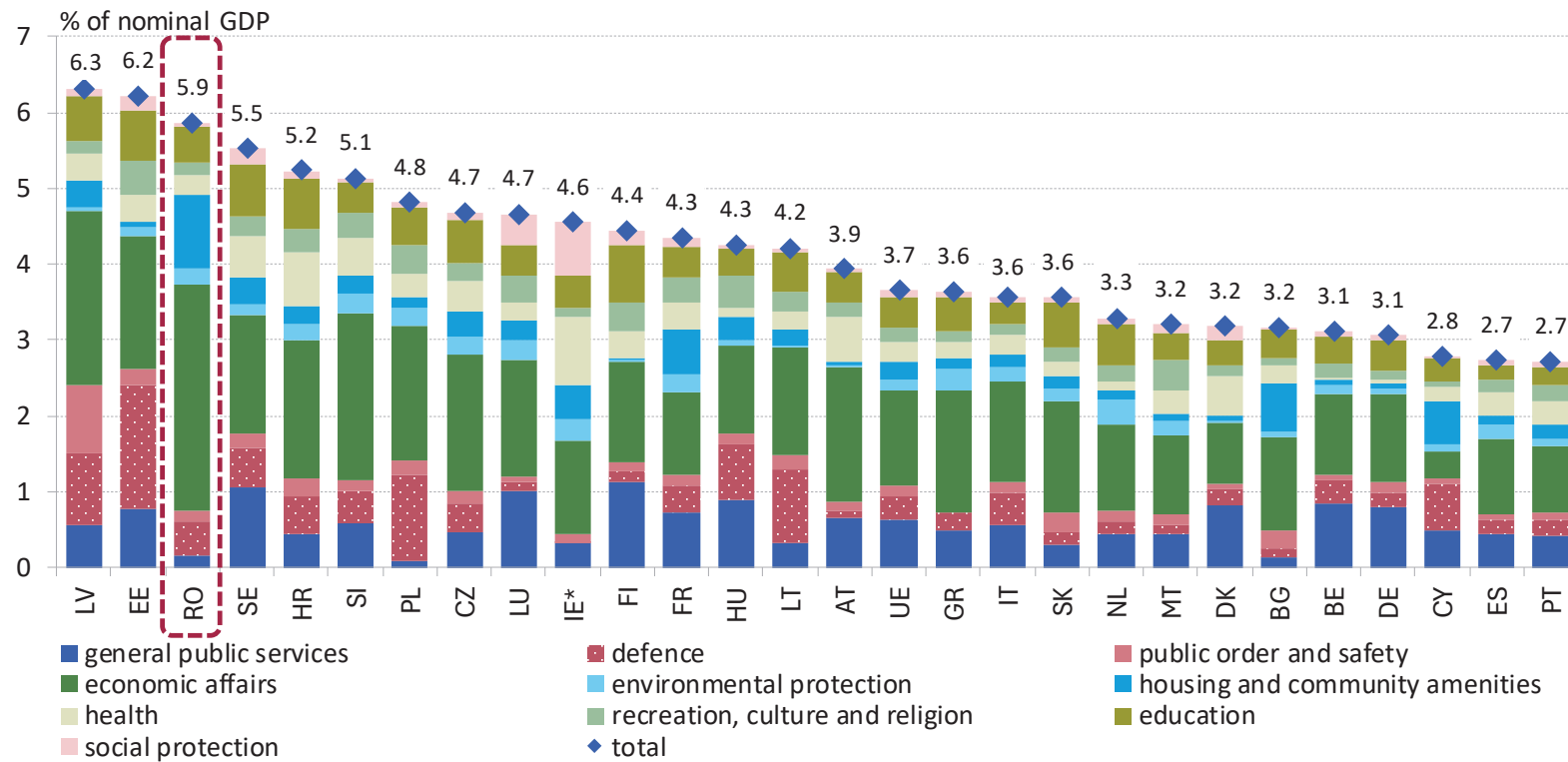


\*) (i) general economic, commercial and labour affairs; (ii) agriculture, forestry, fishing and hunting; (iii) fuel and energy; (iv) mining, manufacturing and construction; (v) transport; (vi) communication; (vii) other industries; (viii) R&D related to economic affairs; (ix) economic affairs n.e.c.

Source: Eurostat, NBR calculations

At EU level, Romania boasts some of the highest investments for economic affairs (transport, communications, commercial affairs) and community amenities. In areas such as education and health the front-runners are Estonia, Latvia, Sweden or Croatia. Conversely, compared to the other Member States, investments for general public services in Romania are among the lowest in the European Union.

Public investment in the EU according to the functional classification, 2024

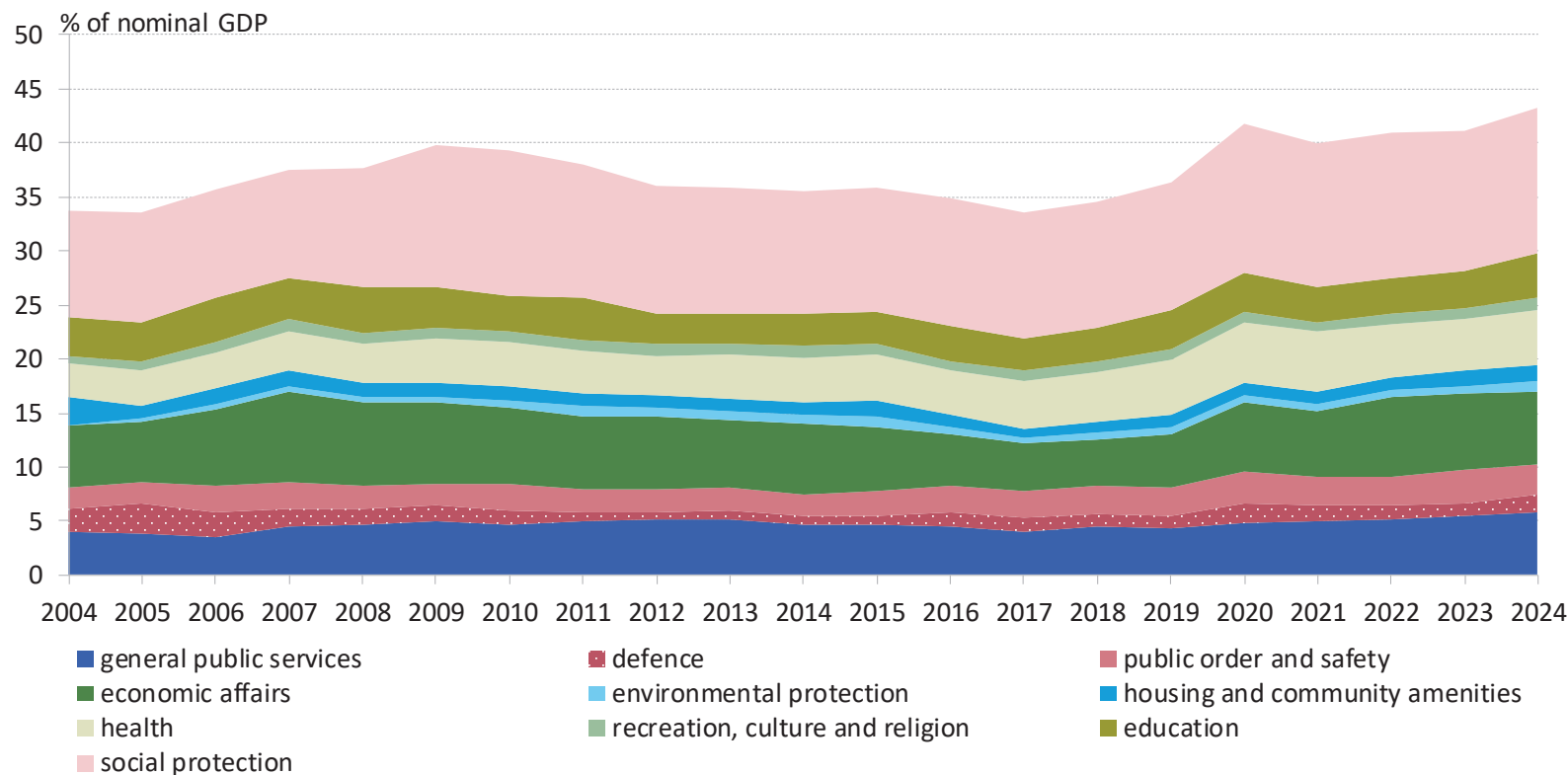


\*) share in adjusted gross national income

Source: Eurostat, NBR calculations

According to the classification of government functions, the highest general government expenditure, i.e. almost a third of total, is that on social protection. Compared to the pre-pandemic period, it rose by around 2 percentage points of GDP. Spending on economic affairs displayed a similar trend, yet marked by sharper volatility. With regard to defence expenditure, there was a gain in momentum after 2015.

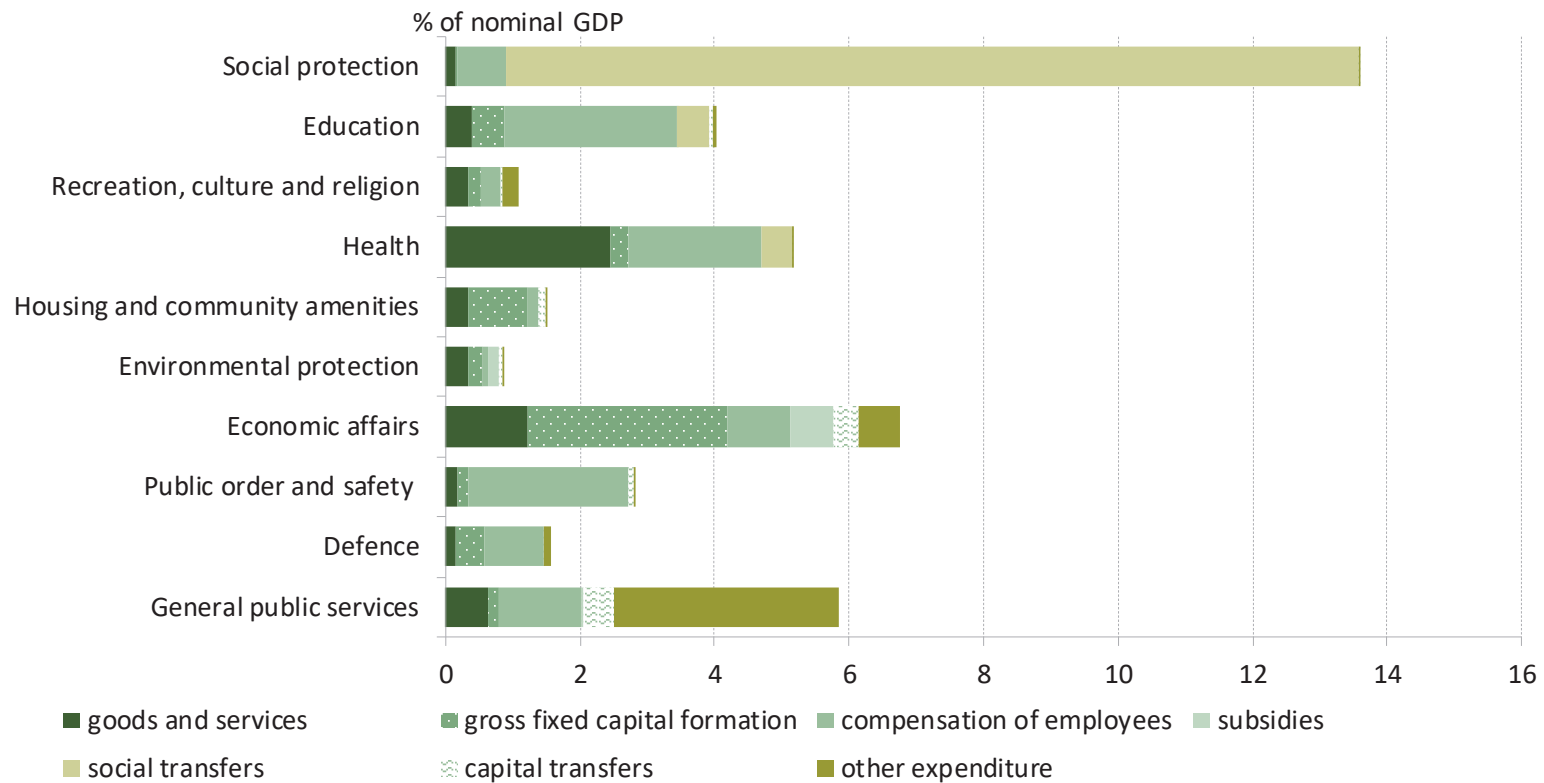
General government expenditure in Romania by function



Source: Eurostat, NBR calculations

As expected, public investment falls mostly under “economic affairs” (e.g. transport infrastructure). In environmental protection and especially in education and health, the share of investment is low and the composition of expenditure in these areas is dominated by compensation of employees and purchases of goods and services. Compensation of employees also holds relatively large shares in defence and public order.

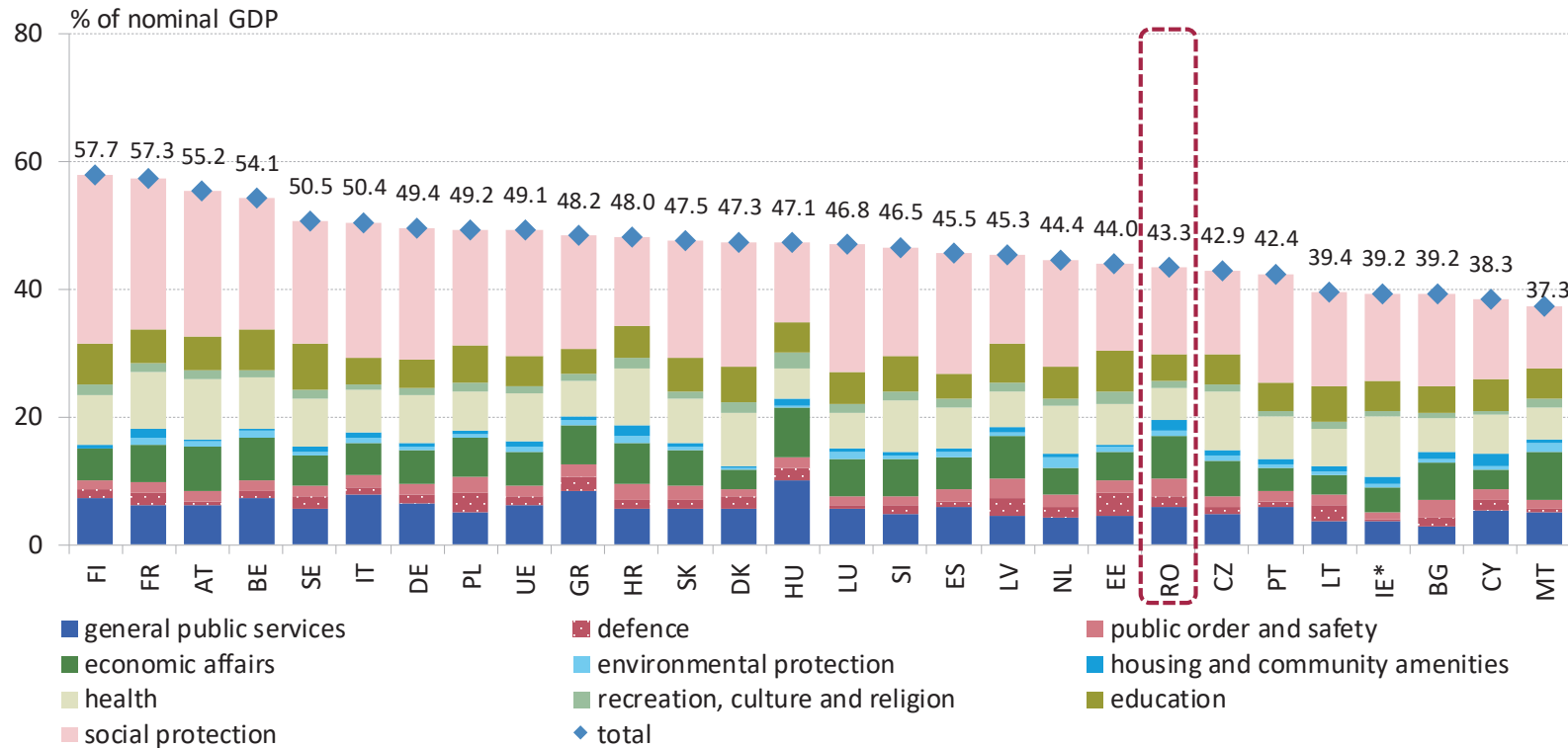
**Distribution of general government expenditure in Romania by function, 2024**



Source: Eurostat, NBR calculations

The large share of social protection expenditure is specific to all EU Member States. By contrast, for Romania worth noting is the lower level of health and education expenditure. In fact, both categories make significant contributions to explaining the differences between the total amount of expenditure in Romania and the other countries. Romania also stands out with larger allocations for “economic affairs”.

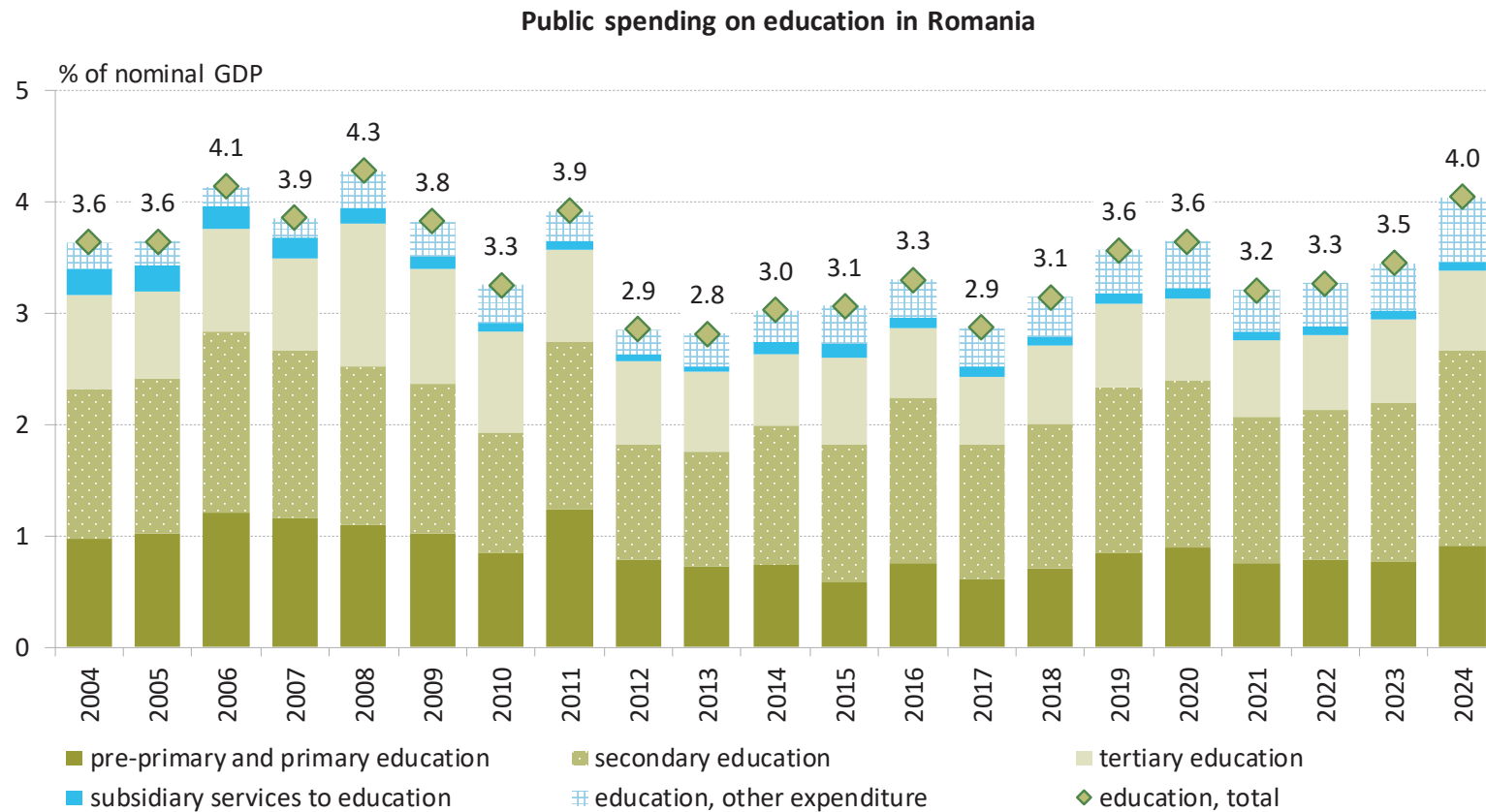
General government expenditure by function, 2024



\*) share in adjusted gross national income

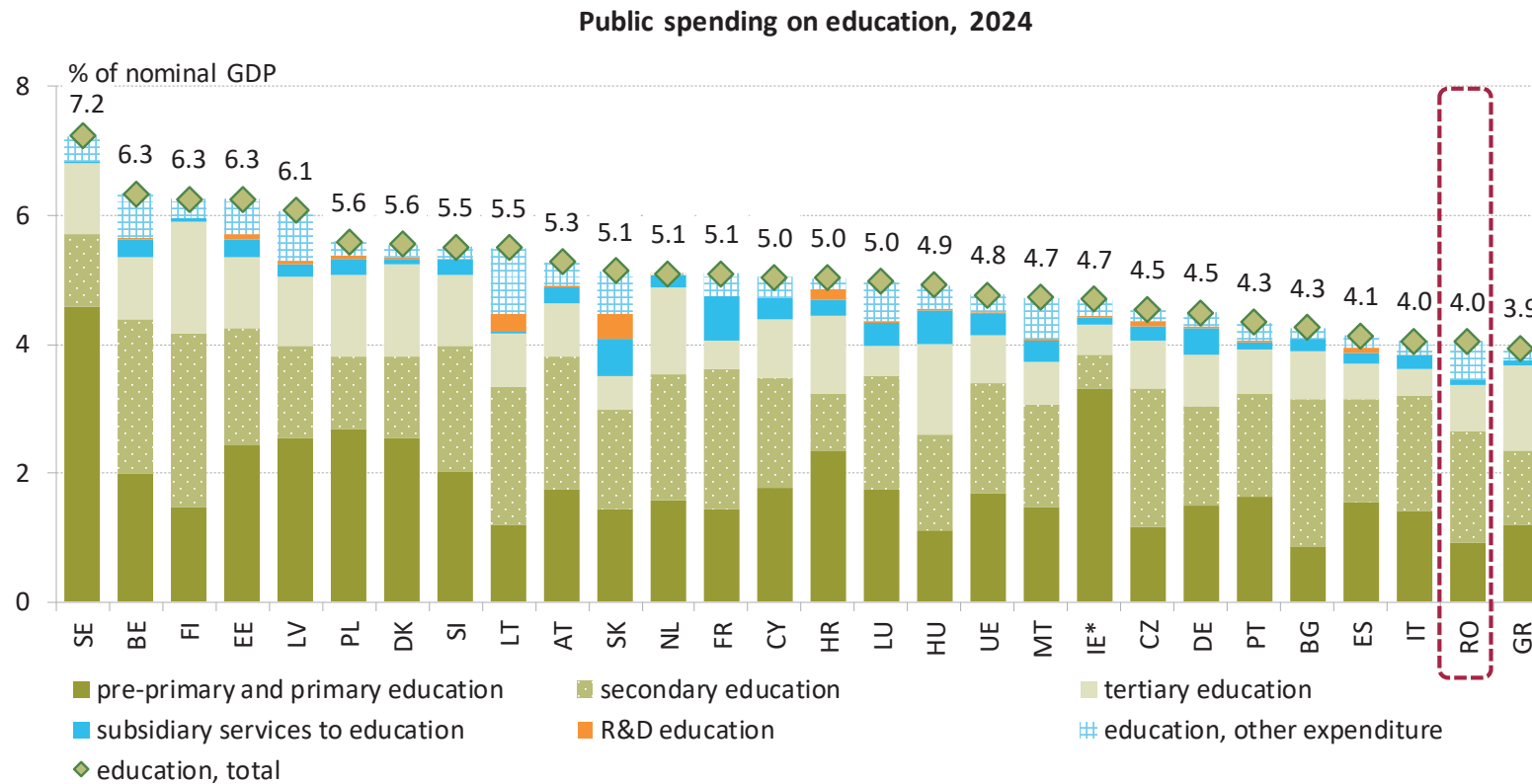
Source: Eurostat, NBR calculations

In Romania, government expenditure on education hovered around 3.5% of GDP. It stood persistently below the target of 4%-6% of GDP, set as a benchmark in UNESCO's 2015 agenda. In fact, according to an OECD technical report (2024), public spending on education is very low and redistribution and equalisation policies to support poorer parts of the country are still underdeveloped.



Source: Eurostat

The insufficient allocations for education place Romania in the second-to-last position in the EU in terms of expenditure for this purpose. Most EU Member States report expenditure ranging from 4% to 6% of GDP and in some cases there are also allocations for research and development in education. According to a UNESCO report (2024), education expenditure in Romania is among the lowest in the world (123/171).

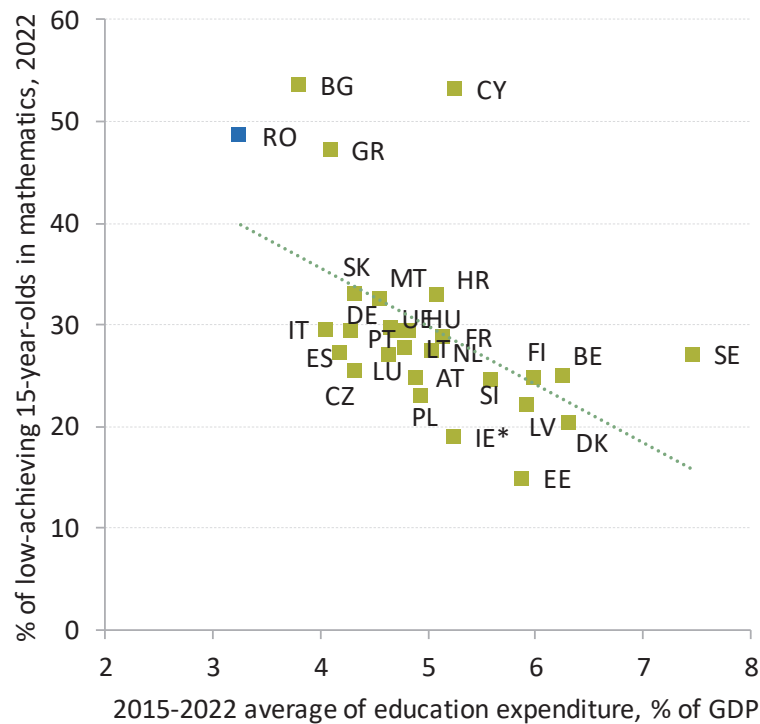


\*) share in adjusted gross national income

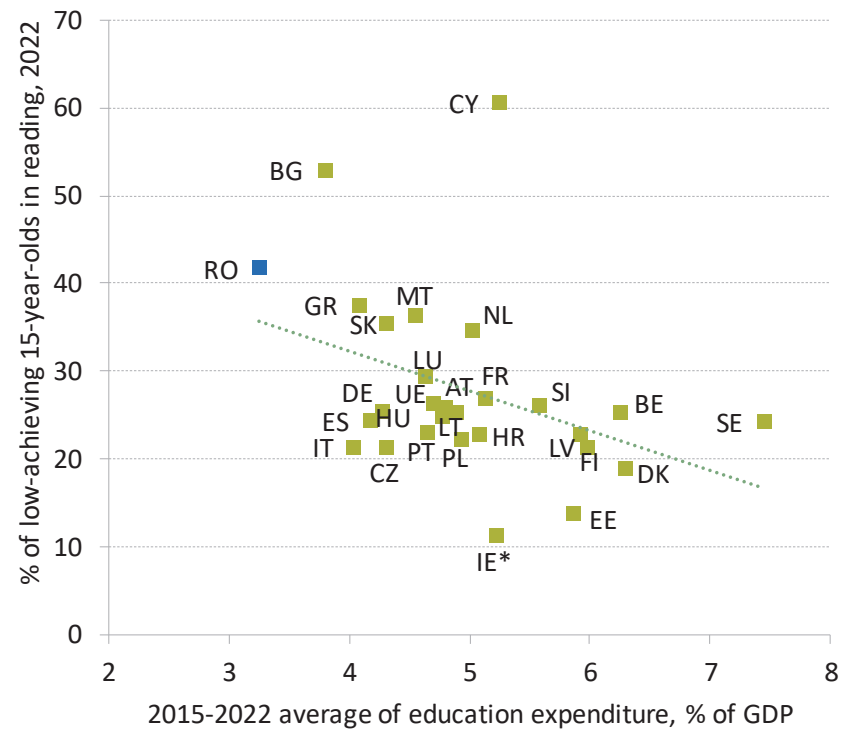
Source: Eurostat

Expenditure on education seems correlated with school performance, with the small budget allocations in Romania also being seen as one of the reasons why Romanian students are among the weakest performers in PISA (*Programme for International Student Assessment*) tests. Thus, among 15-year-olds, about 50% of them are low achievers in mathematics and over 40% have reading difficulties.

**Correlation between education expenditure and the share of low-achieving 15-year-olds in mathematics**



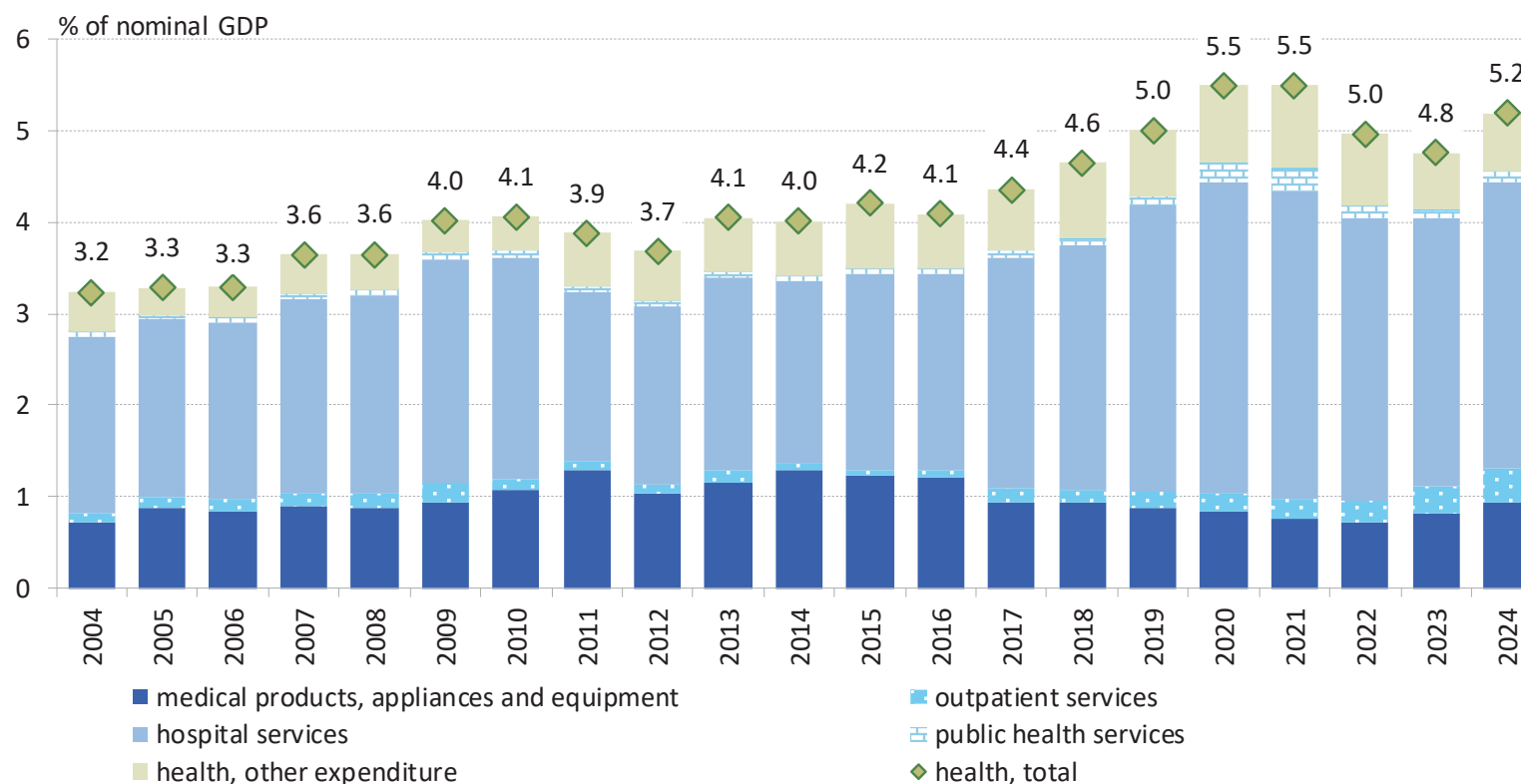
**Correlation between education expenditure and the share of low-achieving 15-year-olds in reading**



Source: Eurostat, NBR calculations

Since 2017, health expenditure in Romania has embarked on an upward trend, with a strong boost in 2020-2021 amid the pandemic, especially in hospital services. According to the National Health Strategy 2023-2030, health expenditure remains high and even accelerates over the medium term for modernising, increasing flexibility and developing the health services.

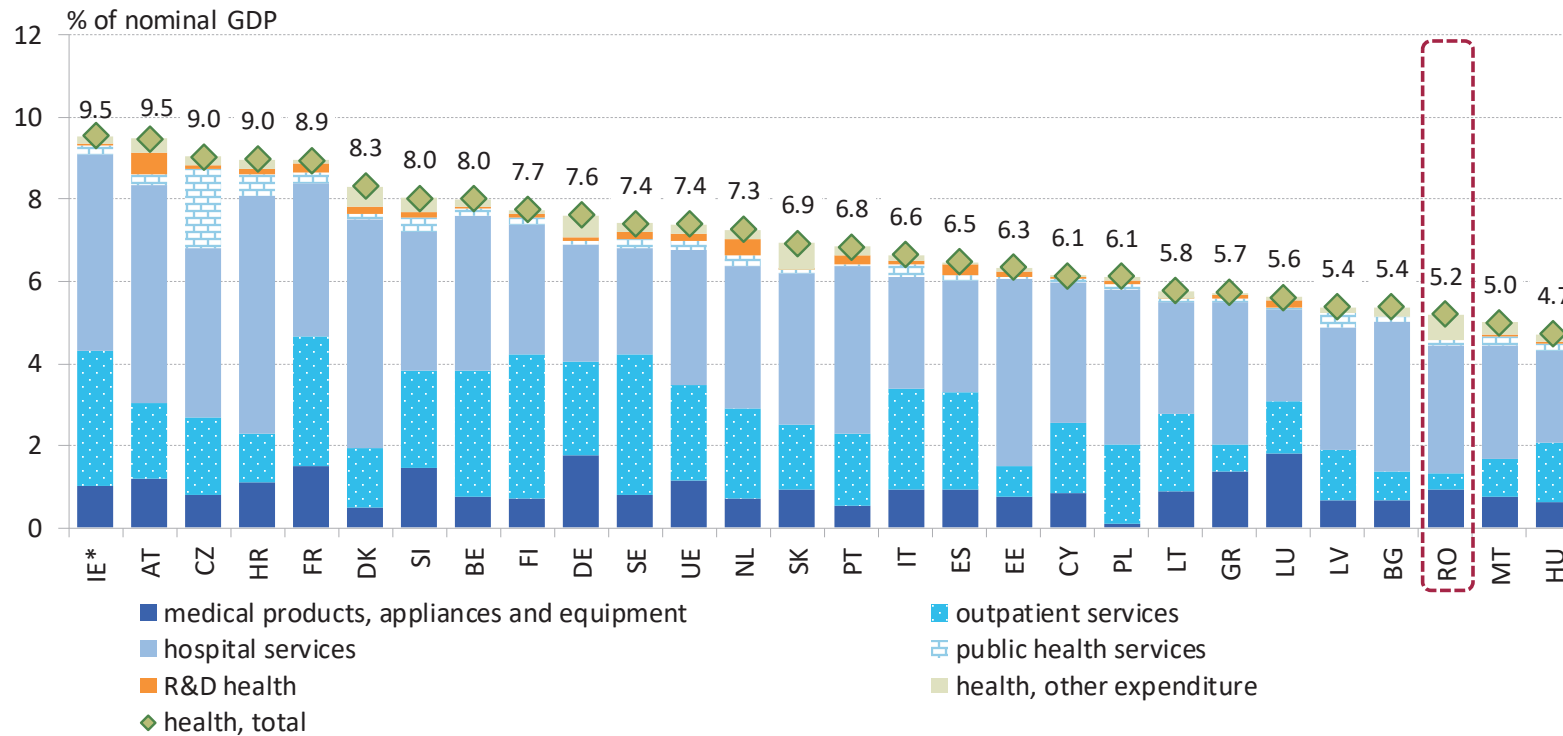
Public spending on health in Romania



Source: Eurostat, NBR calculations

Romania does not excel in terms of budget allocations for health either. At EU level, only Hungary and Malta had lower government expenditure in 2024 than Romania. Moreover, outpatient health services in Romania are the least developed EU-wide. Similarly to education, other countries, such as Austria, the Netherlands, Spain or Portugal, allocate funds also for research and development in health.

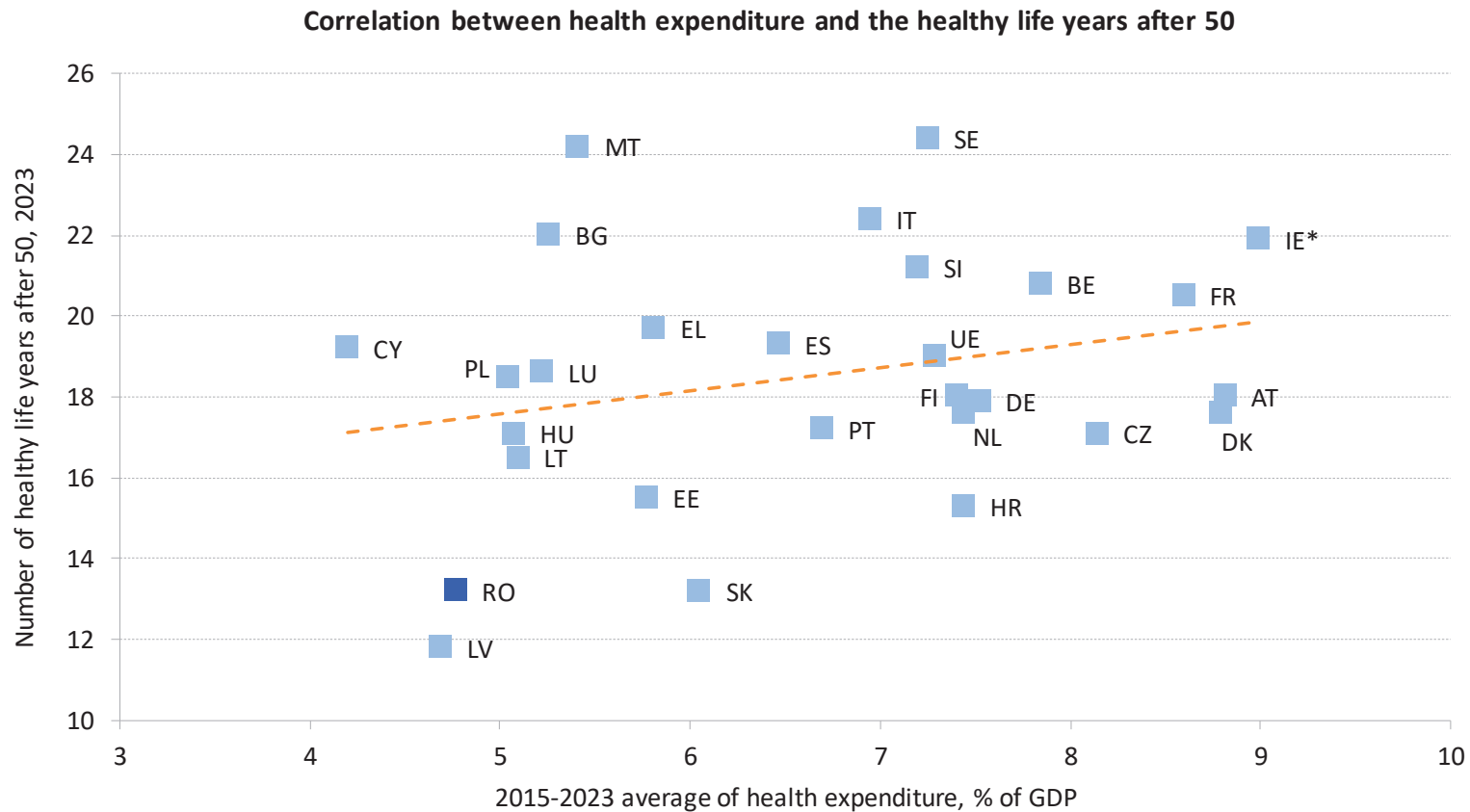
Public spending on health, 2024



\*) share in adjusted gross national income

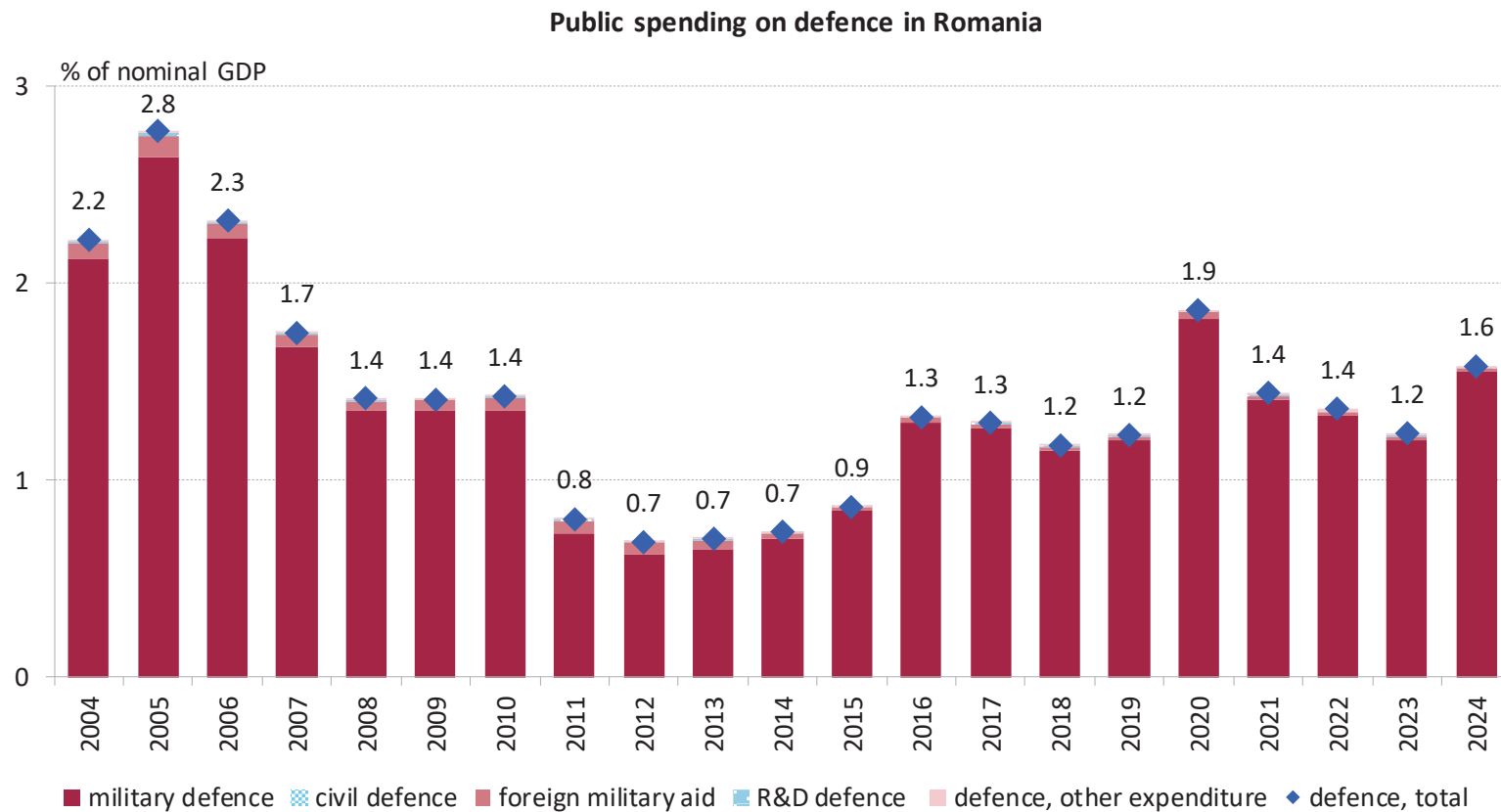
Source: Eurostat, NBR calculations

Romania ranks among the EU Member States with the highest avoidable mortality, with elevated death rates from preventable causes through public health interventions and from treatable causes through effective care. Romania does not fare better either in the case of expected healthy life years after the age of 50, given the strong correlation between this indicator and the size of government expenditure on health.



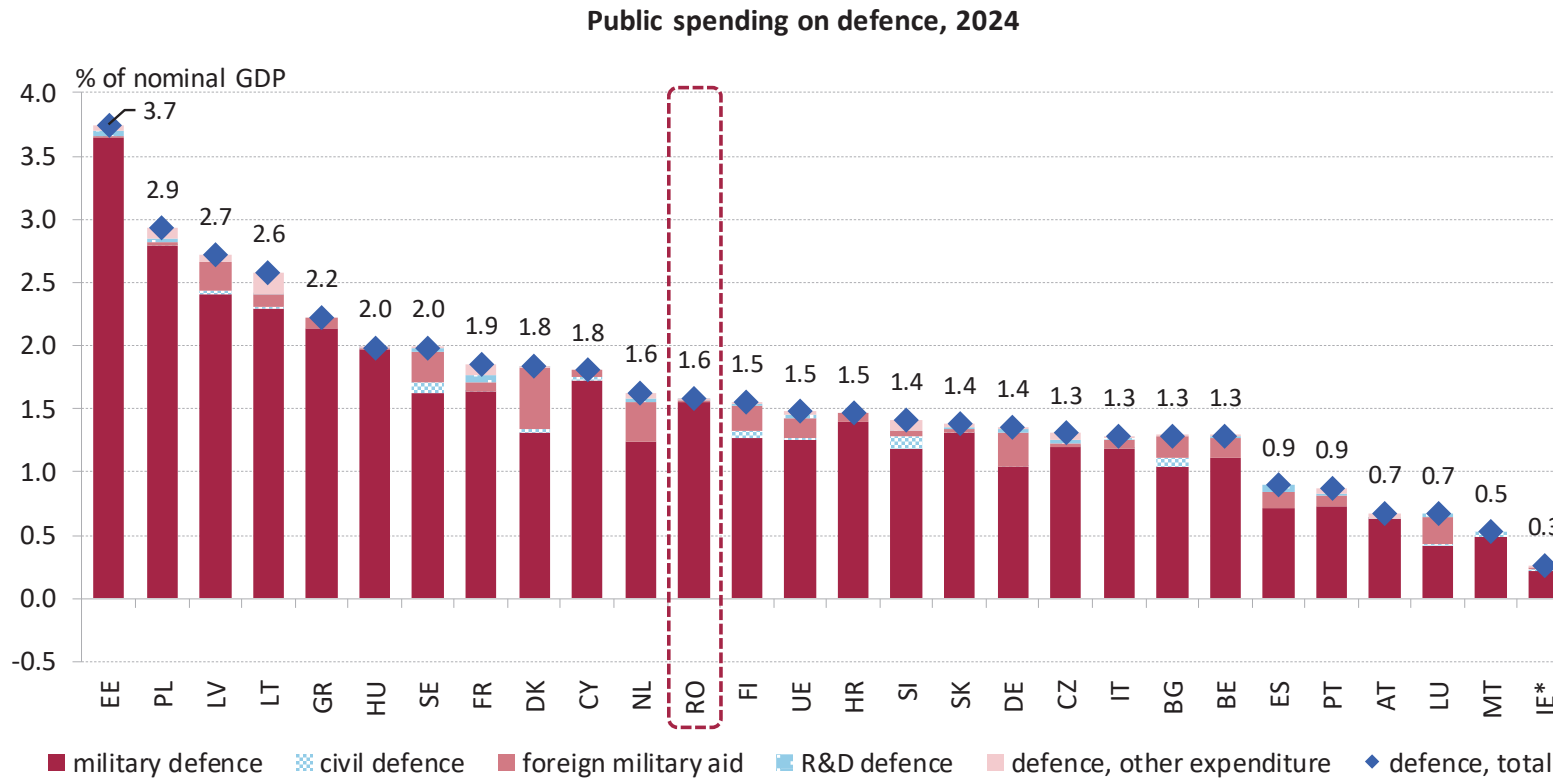
Source: Eurostat, NBR calculations

Turning to defence expenditure in Romania, subsequent to more modest levels in 2011-2015, it recorded a more important contribution, with a surge in 2024. The breakdown shows that defence spending is almost entirely aimed at military defence, also amid the launch of several medium-term endowment programmes to modernise the armed forces.



Source: Eurostat, NBR calculations

For comparison, defence expenditure in Romania is above the average for EU Member States, where the Baltic States rank at the top with outlays exceeding 2.5% of GDP. The breakdown shows that most expenditure refers to military defence, but there are countries, such as France, Estonia and the Netherlands, with separate allocations for research and development in defence.

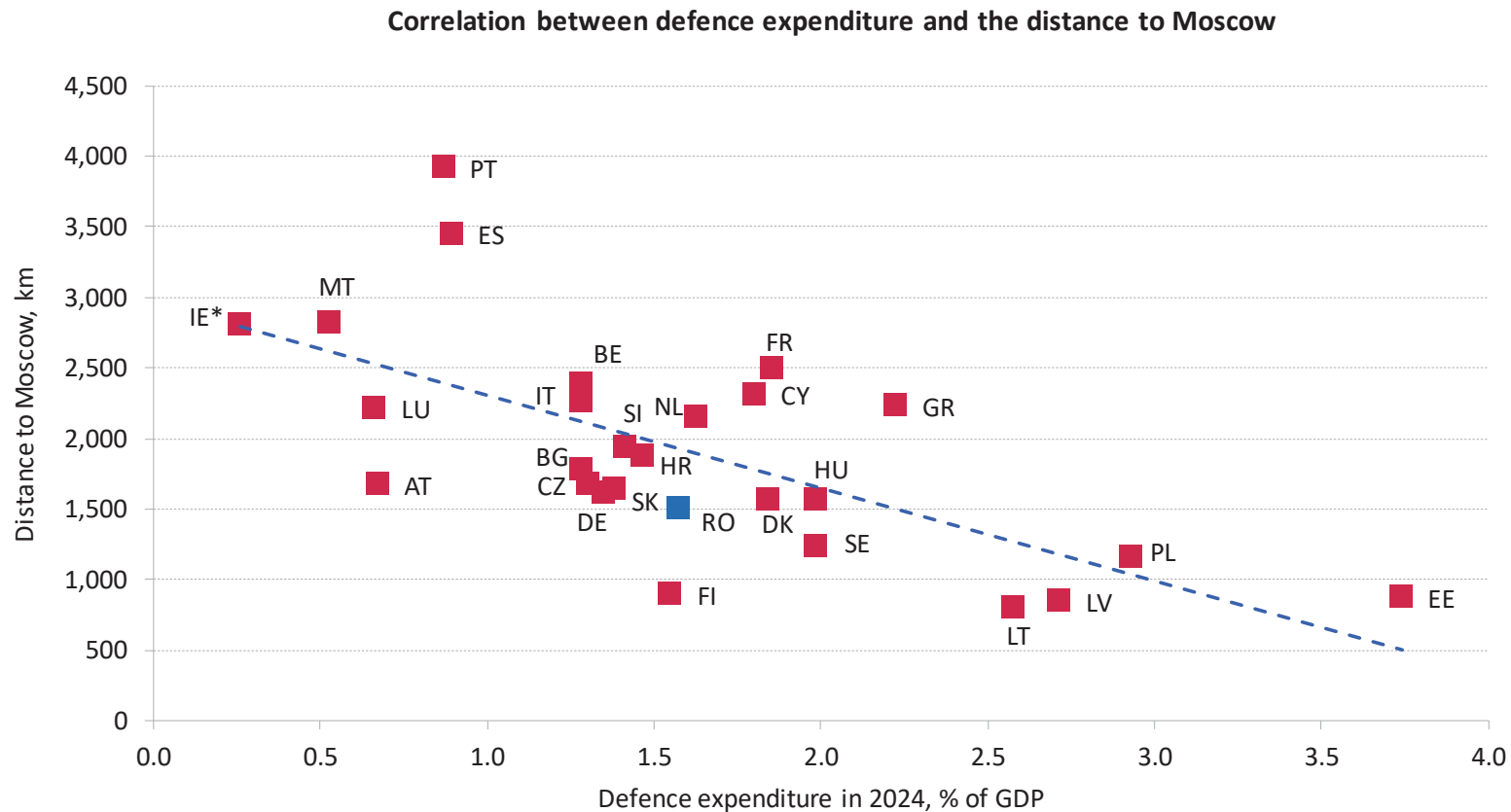


\*) share in adjusted gross national income

Source: Eurostat, NBR calculations

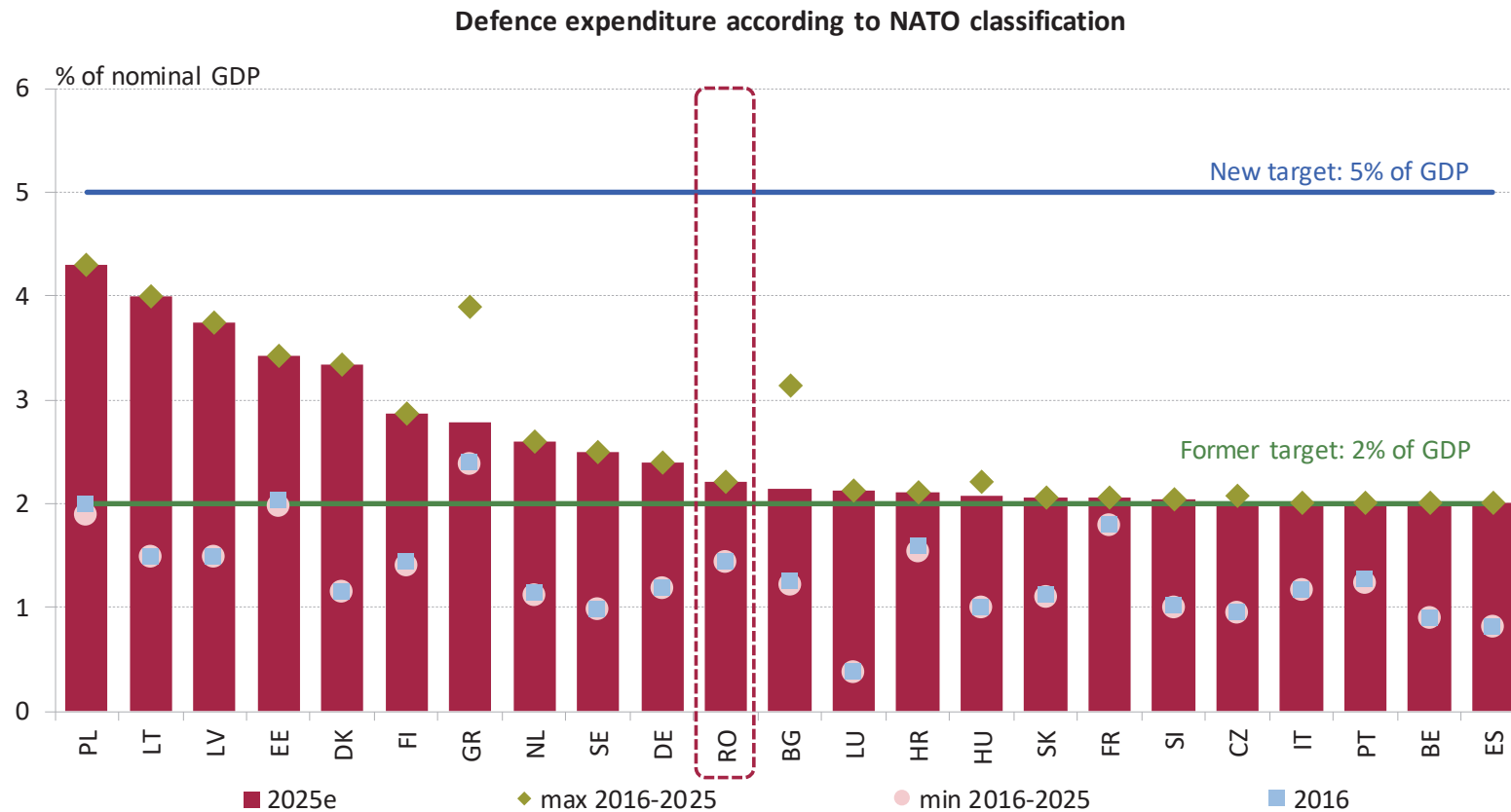
Russia's invasion of Ukraine prompted the need to increase defence expenditure. Its amount, as a share of GDP, is inversely proportional to the distance from Russia – in other words, the closer the countries are to Moscow, the larger the share of allocations tends to be.

Specifically, the highest allocations were made by Estonia, Lithuania and Latvia. Romania, about 1,500 km from the Russian capital, is slightly above the EU average.



Source: Eurostat, Georgetown University, NBR calculations

In 2025, according to NATO estimates, all EU Member States in NATO complied with the minimum 2%-of-GDP level for defence expenditure. In the summer of 2025, NATO allies committed to an increase in annual defence spending to 5% of GDP by 2035, of which 3.5% of GDP for core defence expenditure and 1.5% of GDP for related spending and investments, including in innovation programmes and strengthening the defence industrial base.



Source: NATO (Annual Report, 2025), NBR calculations

## Chapter III

Public  
spending rose  
markedly  
compared  
with 2020, yet  
it is still below  
the EU  
average

- In terms of EU rankings, Romania's general government expenditure is in the middle range. However, while most EU Member States curbed their spending compared to 2020, in Romania it rose further.
- Both the COVID-19 pandemic and rising energy prices prompted the introduction of temporary economic support measures in all EU Member States. Romania saw multiple election rounds in 2024, leading to sharp increases in compensation of employees, social transfers (pension law) and capital transfers (investment).
- In 2025, public investment in Romania was among the highest across the EU. The breakdown shows that, over the years, the most significant investments, even though characterised by strong volatility, are those for economic affairs, transport in particular.
- Romania's current expenditure by category can be assessed as relatively moderate from a European perspective, whereas sectoral expenditures are below the EU averages. There are, however, some exceptions, notably the sharp increase in interest expenditure in recent years on the back of persistent deficits and rising public debt.

## Chapter III

Expenditure on education and health is among the lowest in the EU, while defence spending is above the EU average

- The large share of general government expenditure on “social protection” is specific to all EU Member States. By contrast, in Romania, the share of spending on health and education is low.
- Subdued budget allocations appear correlated with the performance of the education system, since Romanian students are among the weakest performers in PISA tests. According to OECD assessments, redistribution and equalisation policies to support the poorest regions of the country are underdeveloped.
- Similar developments are observed also for expenditure on health. For example, in 2024, only Hungary and Malta reported lower health spending as a share of GDP. The quality of health services may also reflect, to some extent, reduced efficiency of the healthcare system.
- Turning to defence spending, Romania ranks above the EU average, such outlays being allocated almost entirely to military defence. As for the commitment to meeting the new NATO target of 5% of GDP, a gradual rise in expenditure on defence is foreseen, which includes innovation and strengthening of the defence industrial base.

## Chapter IV

### Social System

### Imbalances

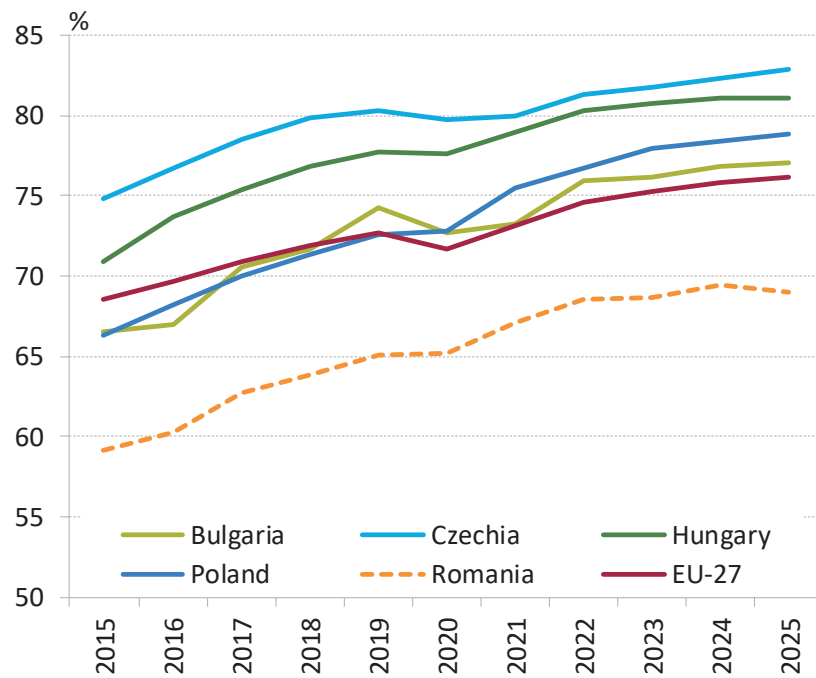
### The Contributory Pension Scheme

### Sustainability

- The adverse demographic developments over the past decades, correlated with the worsening of public finances in Romania, impose sustainability requirements for social systems, mainly the pension system, and the identification of adequate solutions.
- The correlations between the pension and the social contribution amounts, issues concerning the retirement age or the adjustment of budgetary projections relative to demographic forecasts are key principles for financial sustainability. In Romania, convergence towards the EU average pension level has not always been accompanied by adequate measures to uphold these key principles.
- Post-pandemic pension increases were only partly supported by economic recovery, whereas private pension funds recorded positive returns, their investment profile being relatively conservative, with most of their assets being invested in government securities.
- Supplementing the pension income of certain socio-professional categories with a lower retirement age by paying government-funded, non-contributory benefits adds pressure on the general government deficit and public debt sustainability.

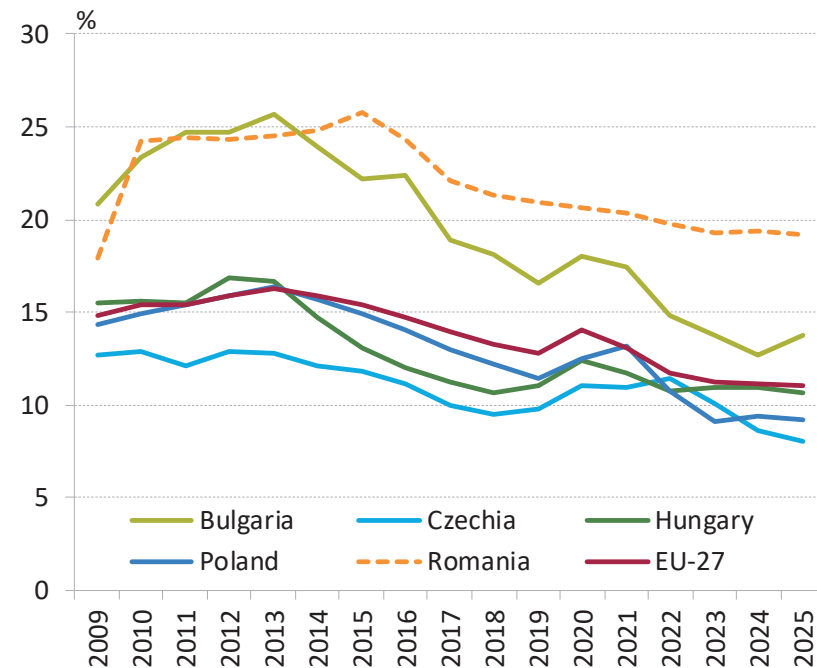
The employment rate in Romania is lower than both those in its regional peers and the EU average, while the share of young people neither in employment nor in education and training (NEET) is the highest in the region. A robust and competitive labour market and the reduction of development gaps and early school leaving require adequate structural reforms for transitioning to the economy of the future.

**Employment rate**



\*) working-age population (20 to 64 years)

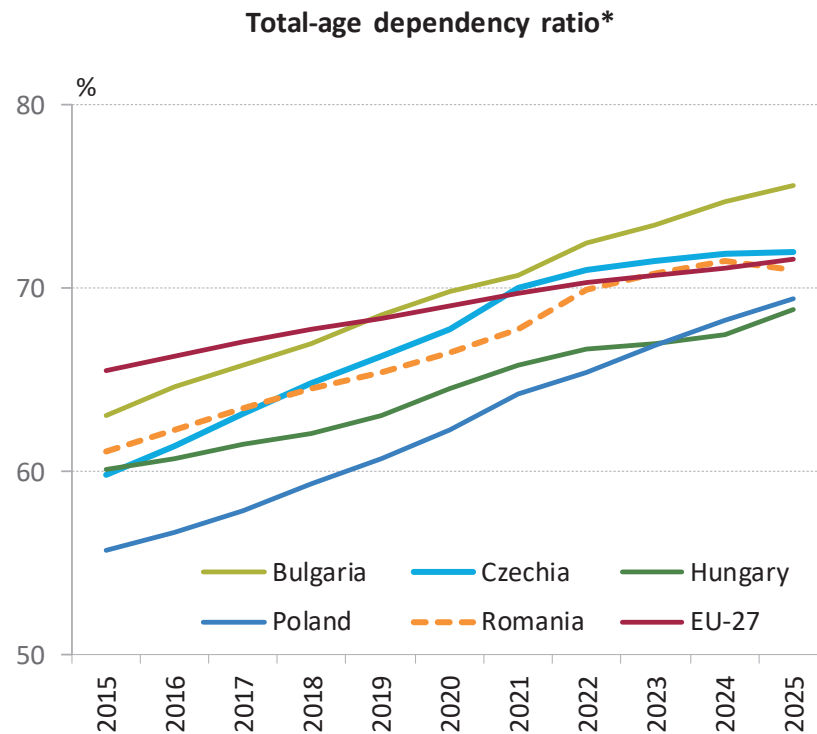
**Young people (15 to 29 years) neither in employment nor in education and training (NEET)**



\*) share of total young people

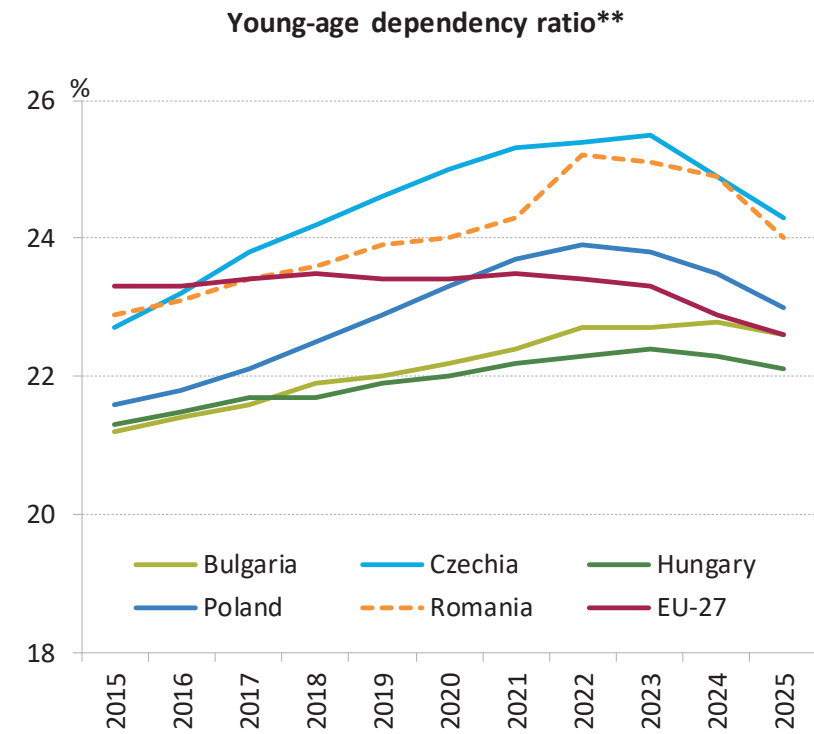
Source: Eurostat

Romania faces significant social challenges amid the faster dynamics of the total (young and old) age dependency ratio than those of the EU average. The declining labour force may prompt weaker growth of labour productivity, slower economic convergence towards the EU income level and structural fiscal pressures, which underscore the need for reforms.



\*) population aged 0 to 19 years and 65 and over compared to population aged 20 to 64 years

Source: Eurostat

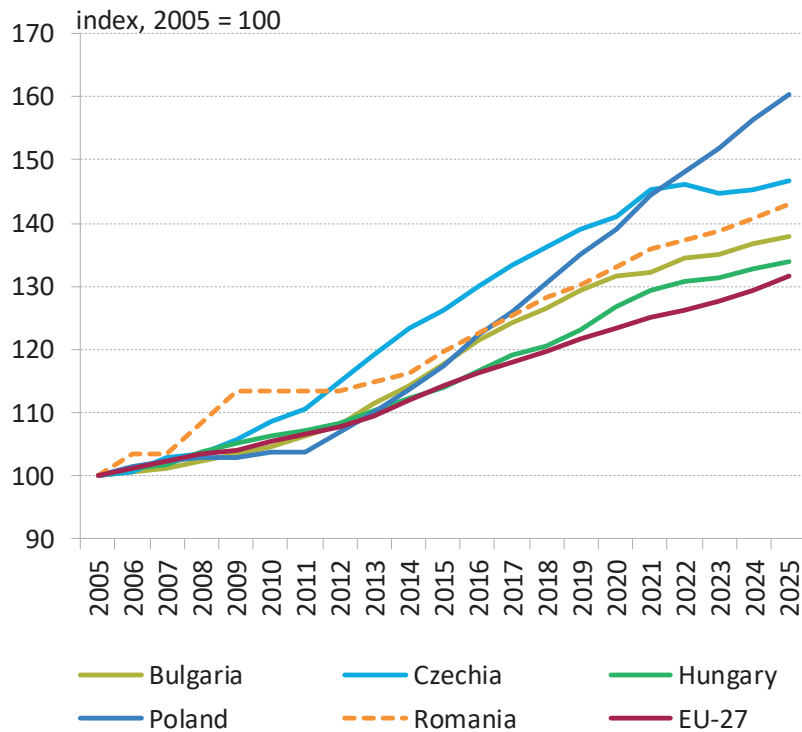


\*\*) population aged 0 to 14 years compared to population aged 15 to 64 years

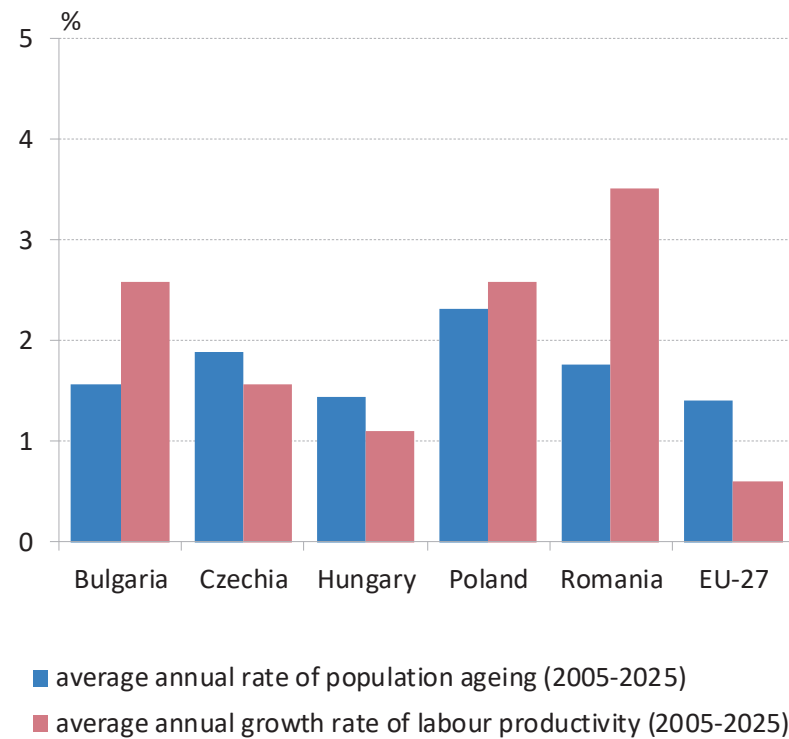
Source: Eurostat, NBR calculations

The fast rate of population ageing is a structural problem in all EU Member States, not solely in Romania. A solution for balancing the pension budget may be to increase revenue by improving labour efficiency. It takes persistent favourable developments in labour productivity to make up for a potential decrease in the number of economically active persons, alongside measures to boost employment.

Population ageing



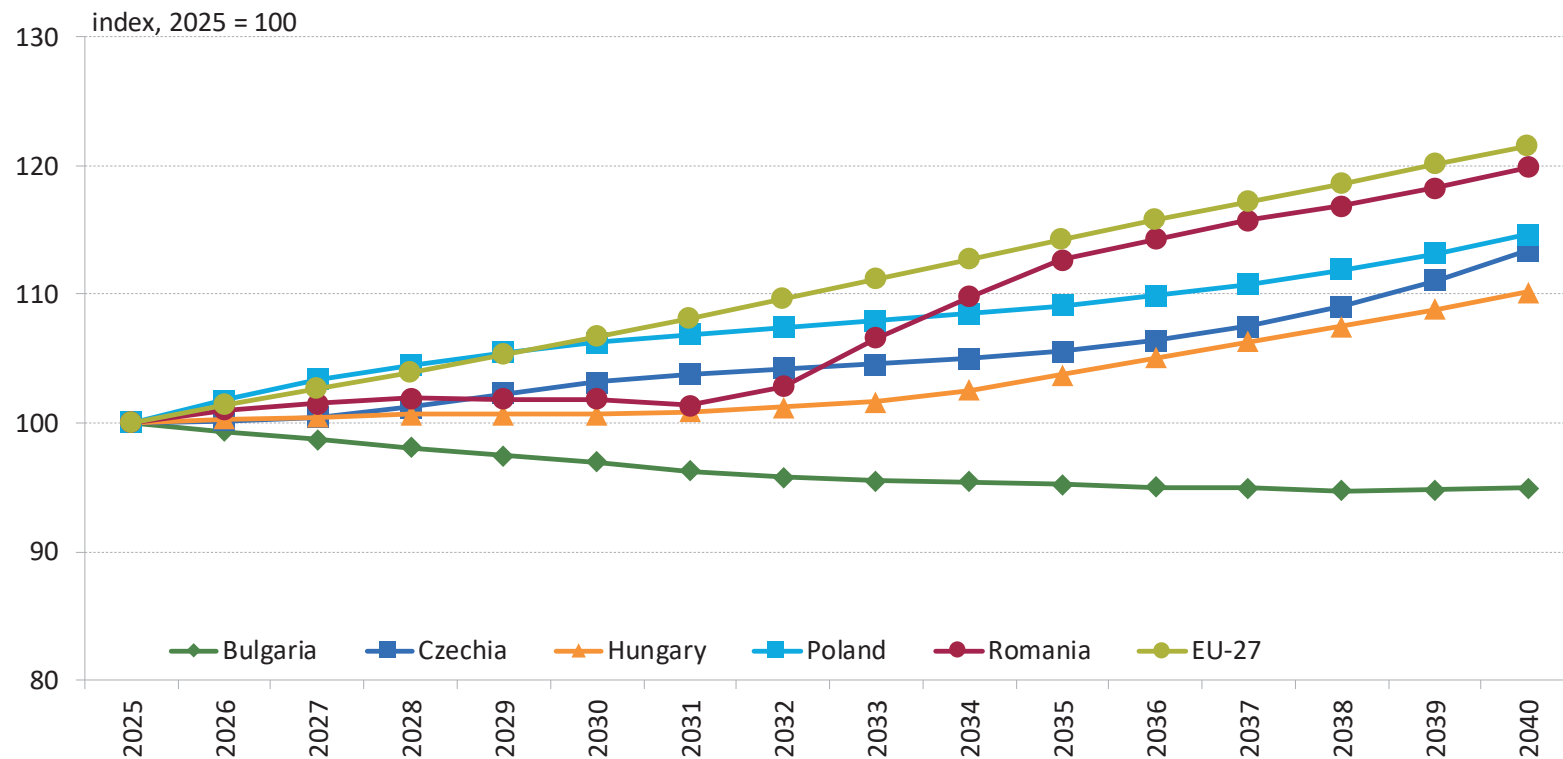
Annual rate of population ageing and annual growth rate of labour productivity (2005-2025)



Source: Eurostat, NBR calculations

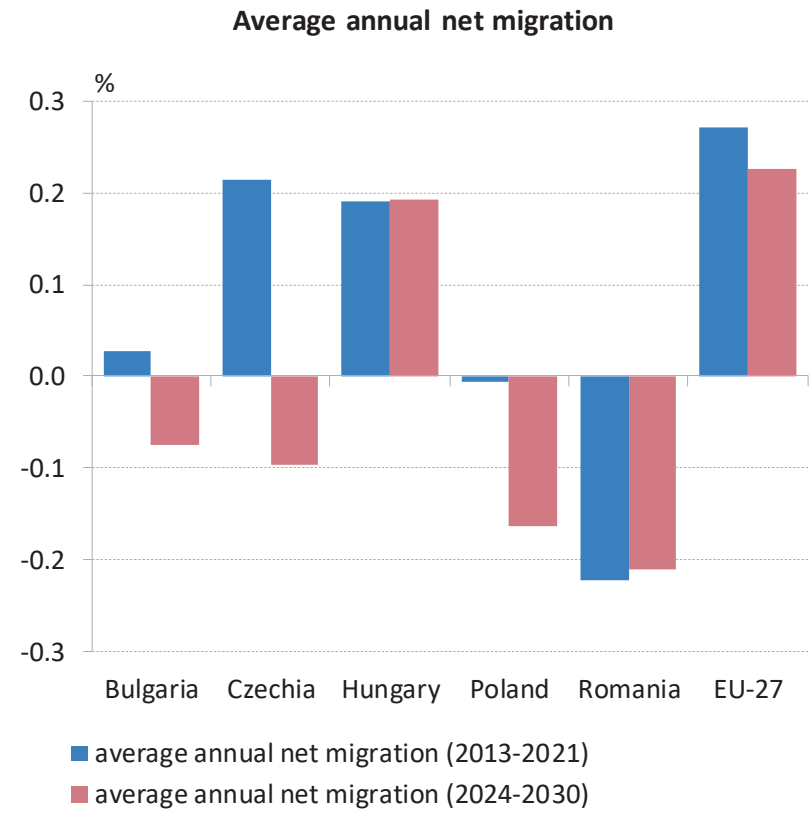
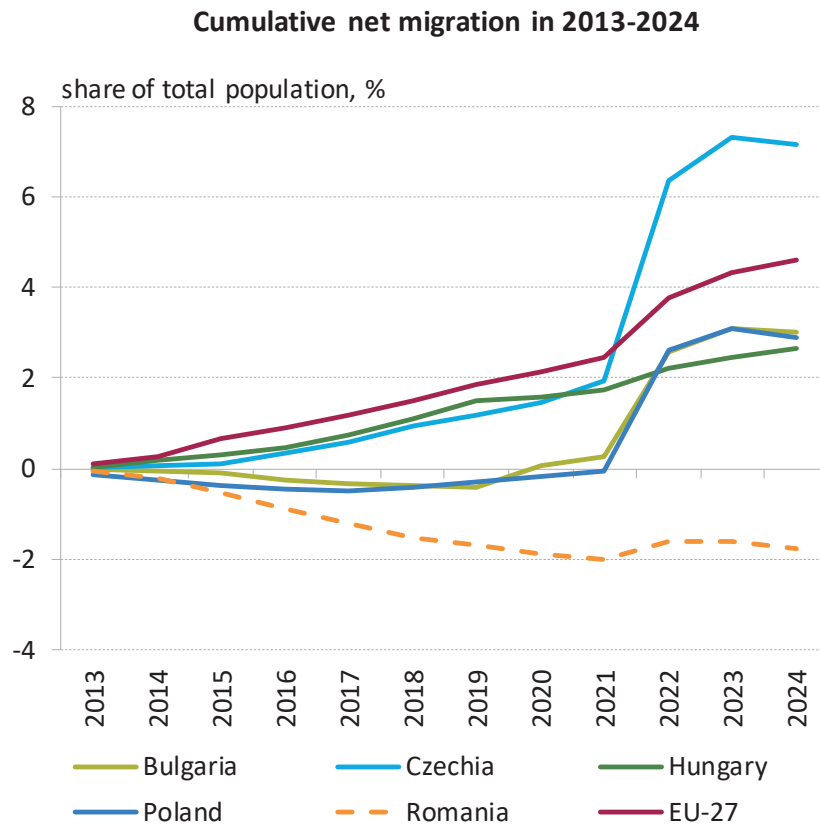
Population ageing in Romania and other EU Member States is an ongoing process, with more or less similar effects. In Romania, the number of persons aged over 65 is expected to grow significantly as of 2033. The risks to the sustainability of the pension system will be on the rise over the following years, in the absence of an increase in the number of contributors and/or in labour productivity.

Expected number of pensioners aged over 65 in 2025-2040 (European Commission forecast)



Source: European Commission's 2024 Ageing Report, NBR calculations

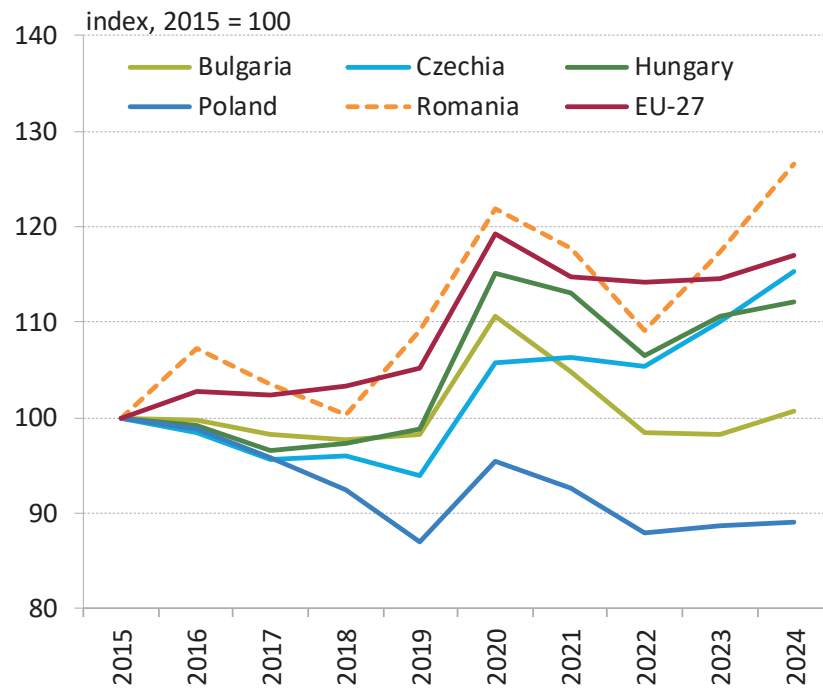
Net migration was largely negative over the last years, with prospects being hardly optimistic. This puts additional pressure on the public pension system in Romania, lowering the potential revenue from pension contributions of the economically active population. The sustainability of the pension budget thus becomes conditional upon favourable economic developments, as well as upon balancing demographic dynamics.



Source: Eurostat, European Commission’s 2024 Ageing Report, NBR calculations

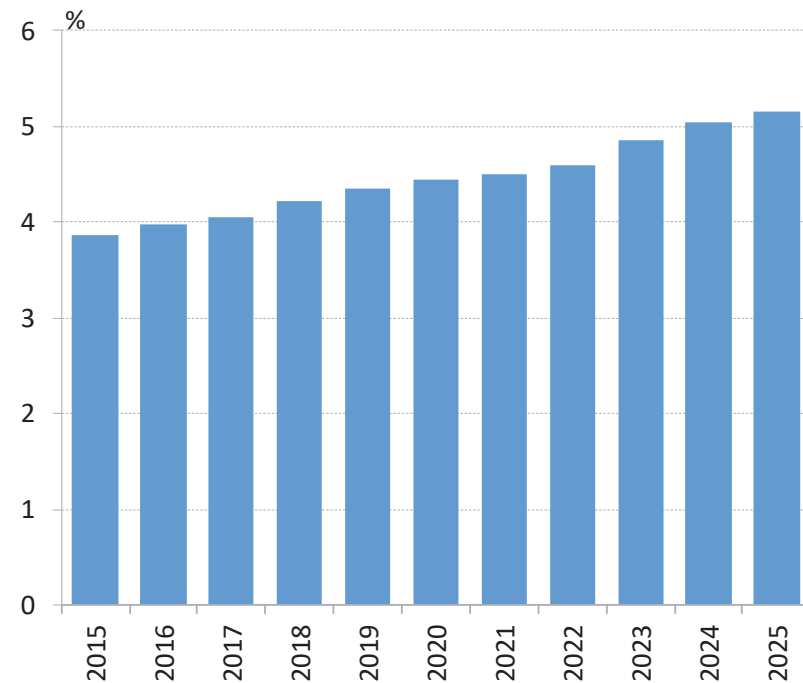
In Romania, social protection expenditure has doubled over the past ten years, outpacing economic growth and, relative to GDP, recorded higher dynamics than those of its regional peers and the EU average. Moreover, the number of beneficiaries of disability benefits has increased constantly over the past decade. In this regard, accountability is required for beneficiaries' balance and benefit measures should target persons with real needs.

**General government expenditure on social protection as a share of GDP**



Source: Eurostat, NBR calculations

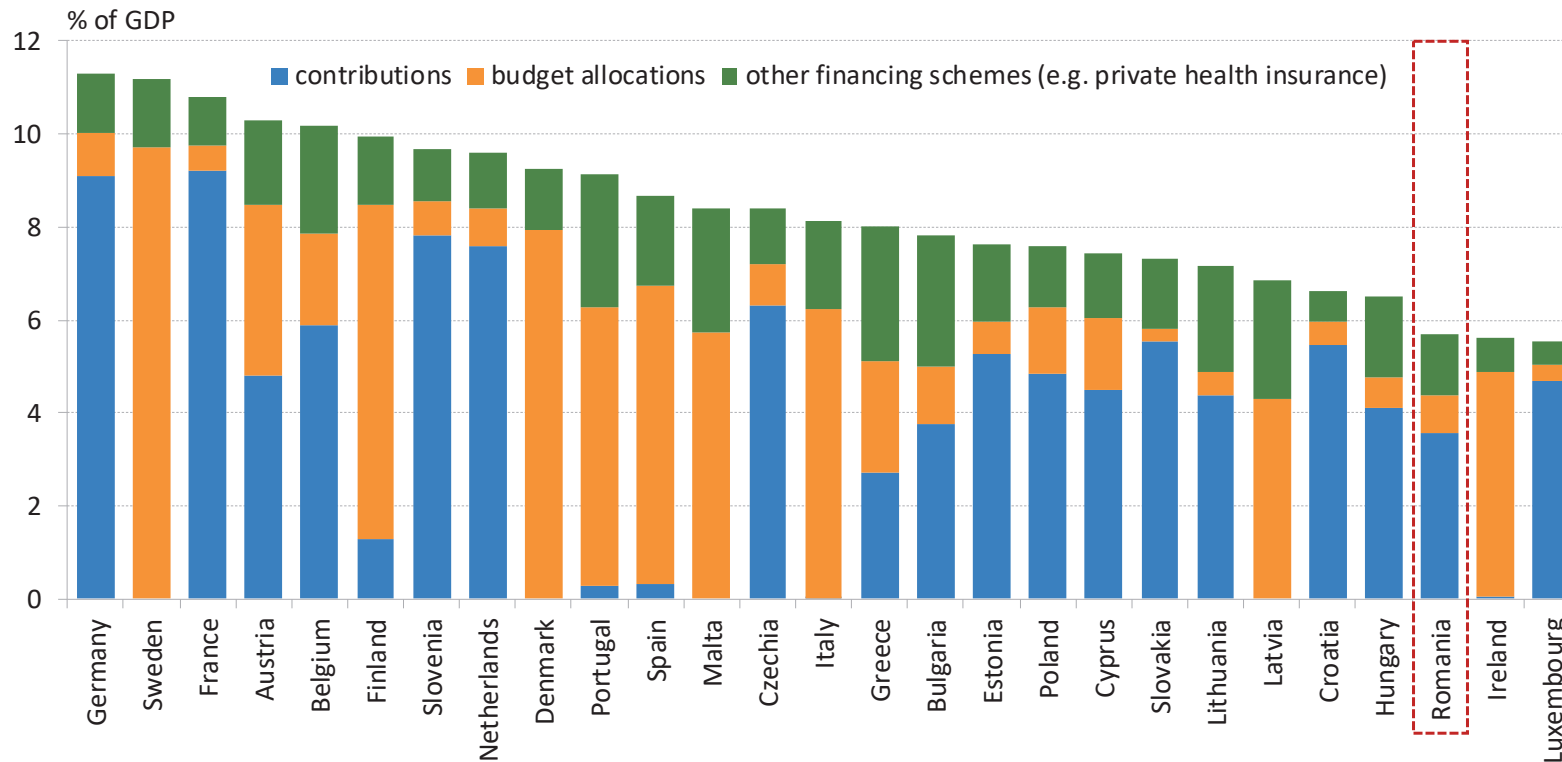
**Share of persons with disabilities in total population in Romania**



Source: National Authority for the Protection of Rights of Persons with Disabilities, Eurostat, NBR calculations

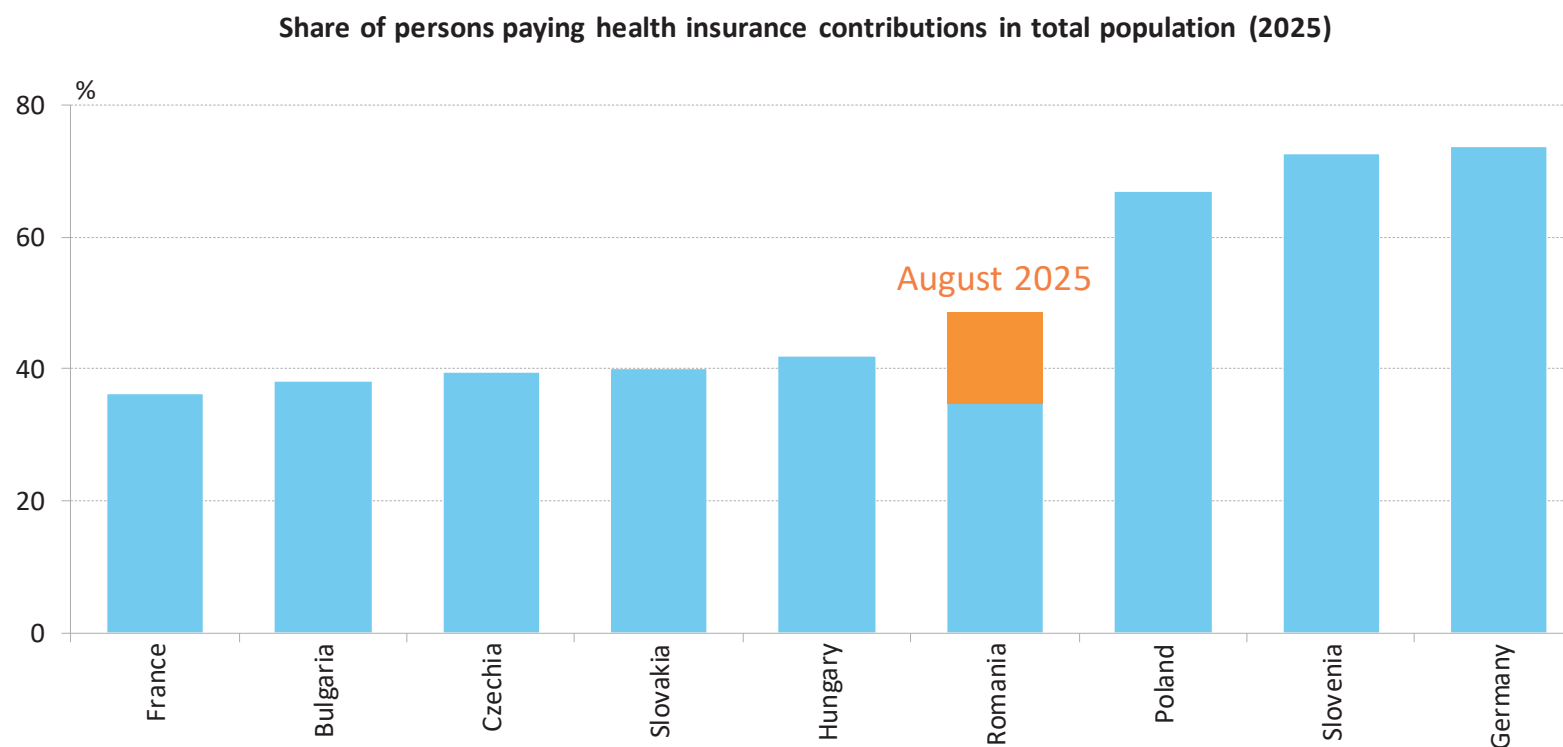
The financing of healthcare expenditure in Romania comes, similarly to most EU countries, from health insurance contributions, budget allocations and private funds. Nevertheless, the breakdown shows fairly different shares. For instance, healthcare expenditure in Romania, which is among the lowest in the EU, is primarily based on social insurance contributions, an expansion of the contributory base enabling an increase in total expenditure.

Sources of financing of healthcare expenditure (2023-2024)



Source: Eurostat, NBR calculations

In 2024, Romania posted the lowest share of persons paying health insurance contributions in total population in the region, the main reason being the low labour force participation rate. The expansion of the number of categories of contributors as of August 2025 somewhat mitigated the pressure on the health budget, the current contributory level being similar to those in most regional peers.

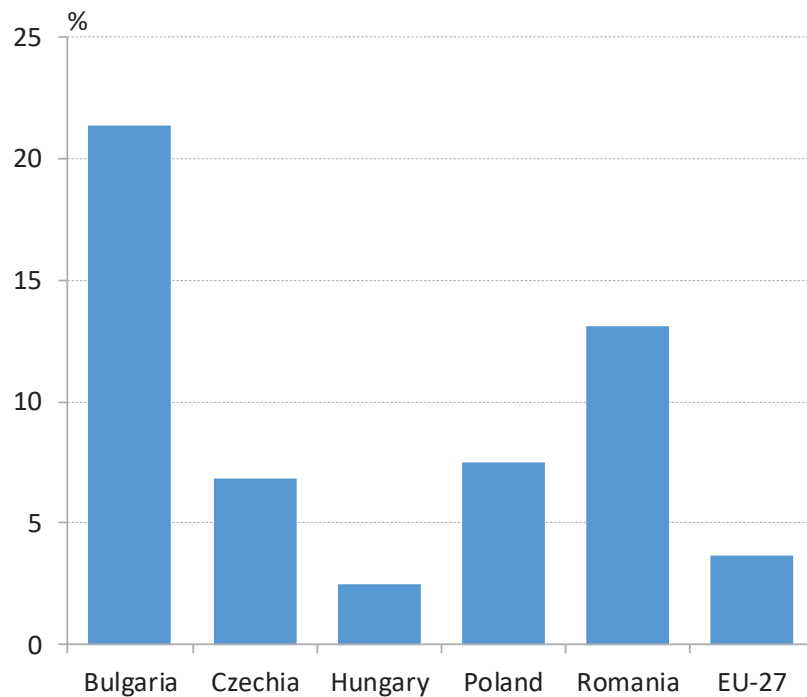


\*) The increase for Romania owes to expanding the number of categories of contributors as of August 2025 (Law No. 141/2025).

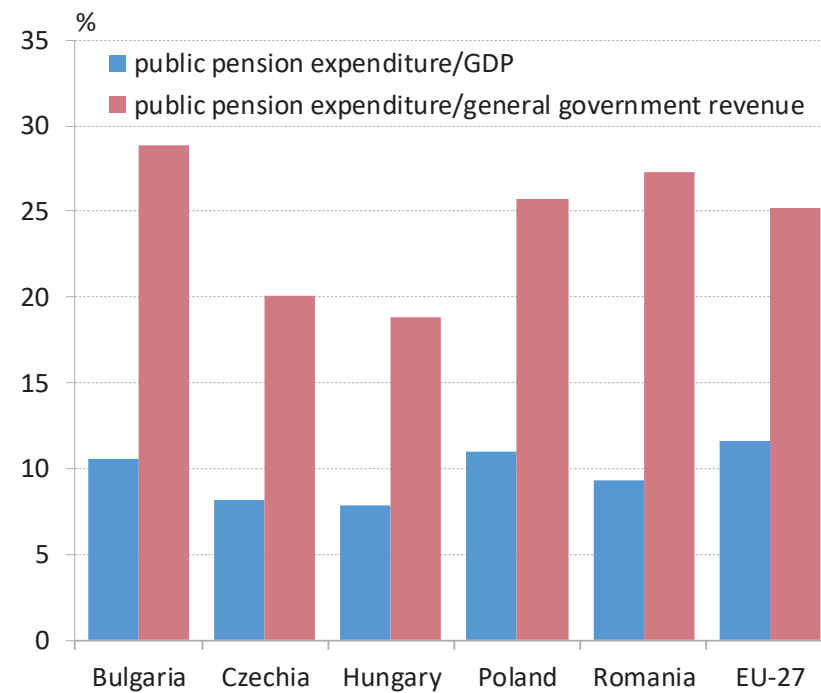
Source: Eurostat, National Health Insurance House, NBR calculations

Over the past 17 years, public spending on pensions in Romania increased, on average, by around 13% annually, the growth rate stepping up to 22.2% in 2024. Thus, looking at general government revenue, Romania’s effort to cover public pension expenditure is greater than those of most regional peers and the EU average. At the same time, the pension system sustainability is also based on the improved collection of general government revenue.

**Average annual growth of total pension expenditure in 2008-2024**

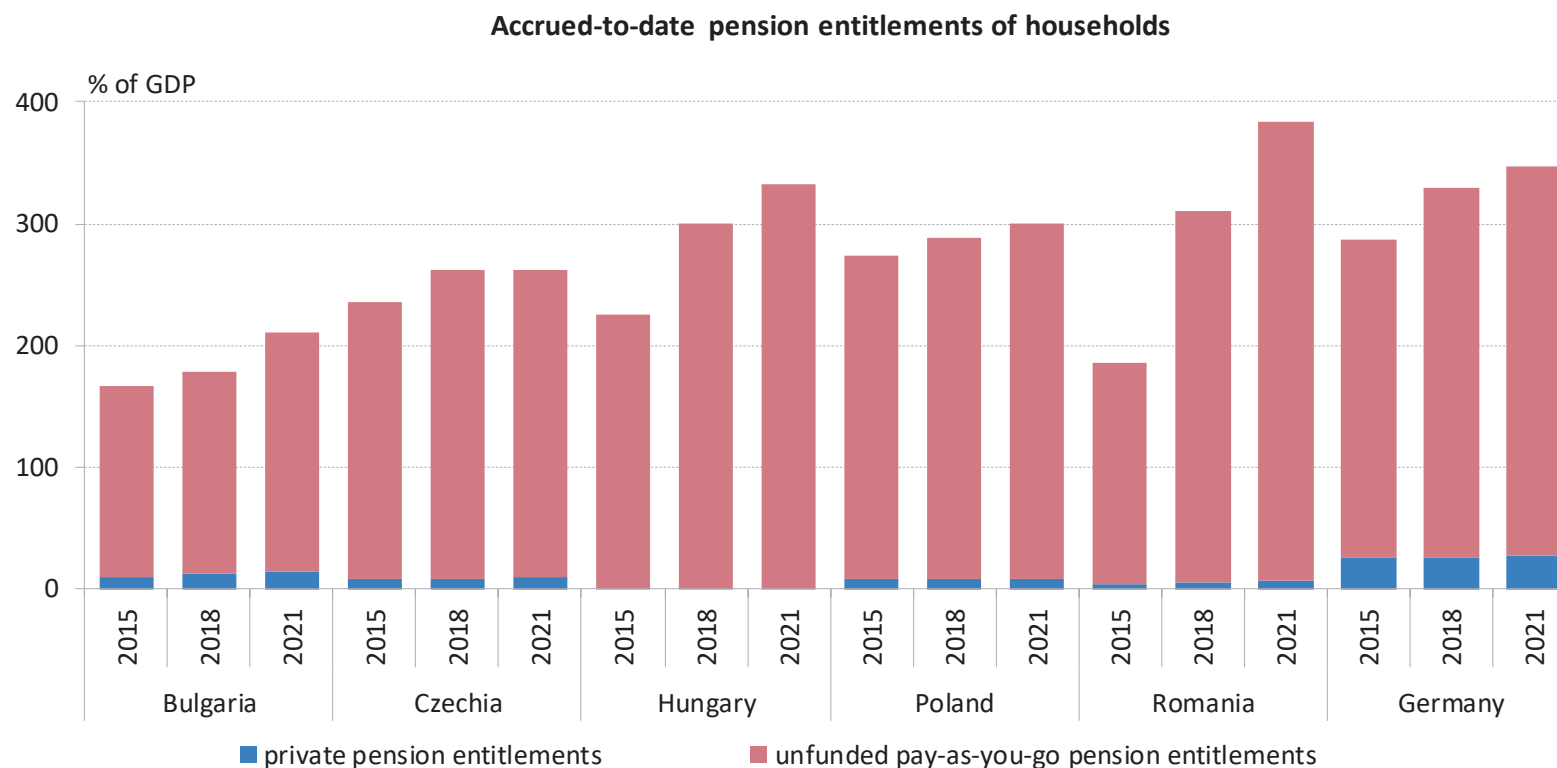


**Public pension expenditure as a share of GDP and of general government revenue (2024)**



Source: Eurostat, European Commission’s 2024 Ageing Report, NBR calculations

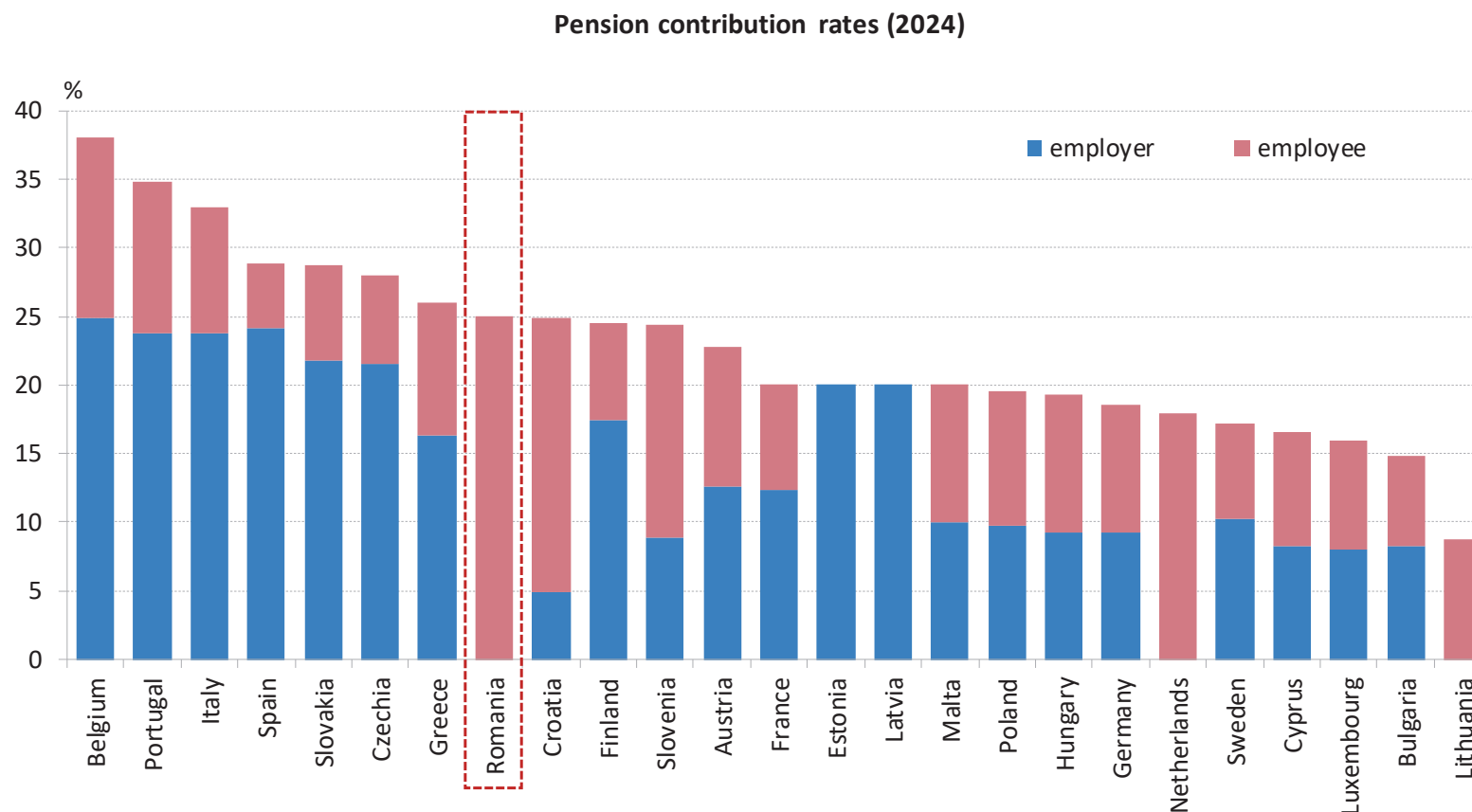
The substantial increase in pensions in Romania over the last years led to a doubling of the accrued-to-date pension entitlements of households. This indicator reflects households' total future pension income (in current prices), based on economic growth and life expectancy projections. This future household income is an implicit long-term liability of the public pension system, whose sustainability requires proper funding.



\*) The accrued-to-date pension entitlements of households reflect households' total future pension income expressed in current prices, based on economic and life expectancy projections.

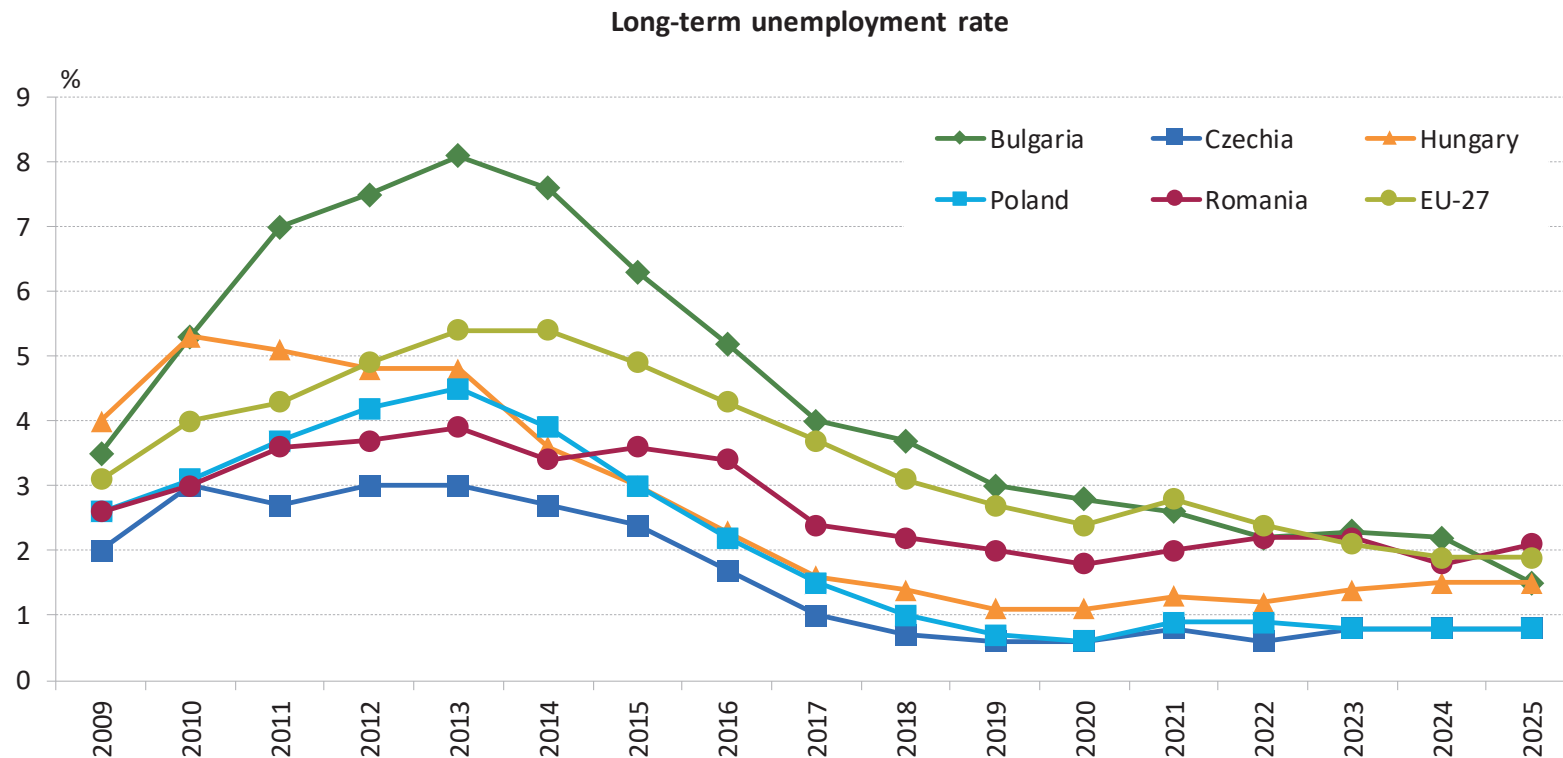
Source: Eurostat

In a context of demographic decline, the pension contribution rate in Romania, accounting for 25% of gross income (contributions specific to normal working conditions), is among the highest in the EU. The prevailing EU model provides that the payment of social contributions is split between the employee and the employer. In Romania, the Netherlands and Lithuania, contributions are paid by the employee, while in Estonia and Latvia they are paid by the employer.



Source: European Commission's 2024 Ageing Report

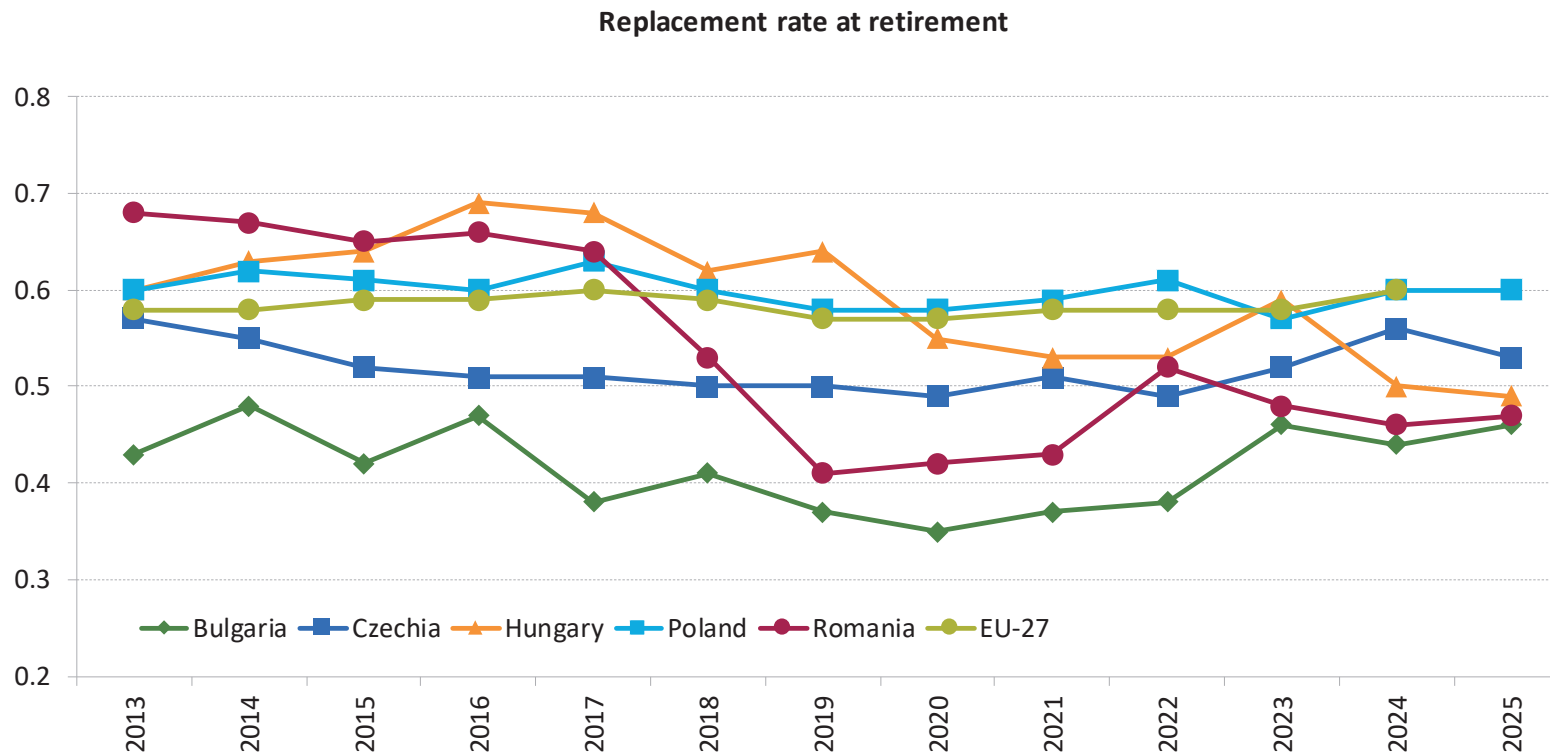
The long-term unemployment rate in Romania is relatively high from a regional perspective, despite the considerable decline seen over the past ten years. Encouraging labour market participation supports household income, benefiting also the pension budget. However, through the pressures exerted on employees' net income, the high social contributions may discourage job search and/or entrance into an individual contract of employment.



\*) The long-term unemployment rate is the share of persons unemployed for 12 months or more in the total labour force.

Source: Eurostat

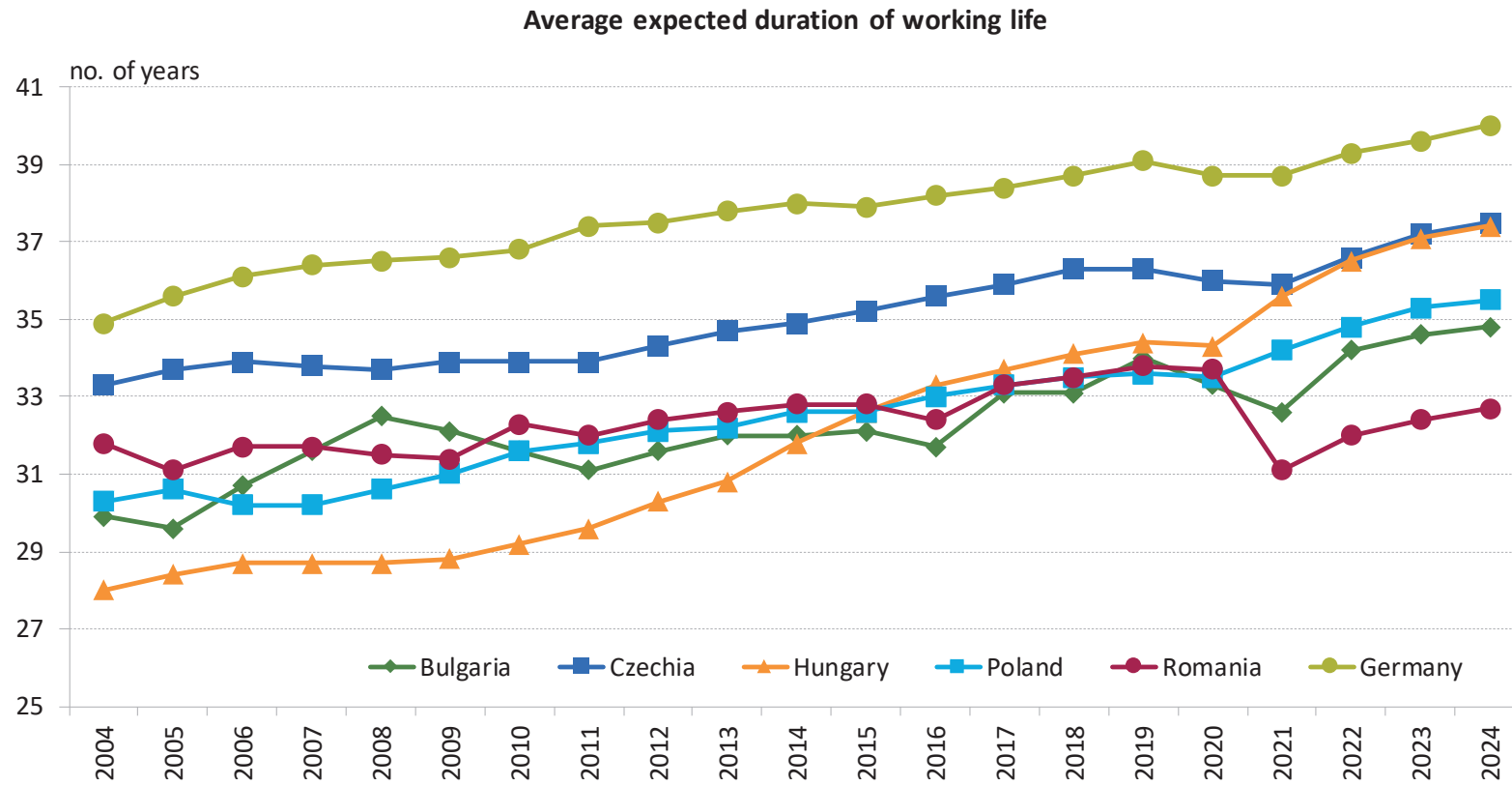
In Romania, the replacement rate of wage with the public pension stands at around 47%, while the EU average is 60%. Nevertheless, the significant increase in pension expenditure over the past years calls for caution in calibrating its future dynamics, given that the pension contribution rate is already among the highest in the region and general government revenue as a share of GDP is among the lowest in the EU.



\*) ratio of the first pension received to the last wage earned

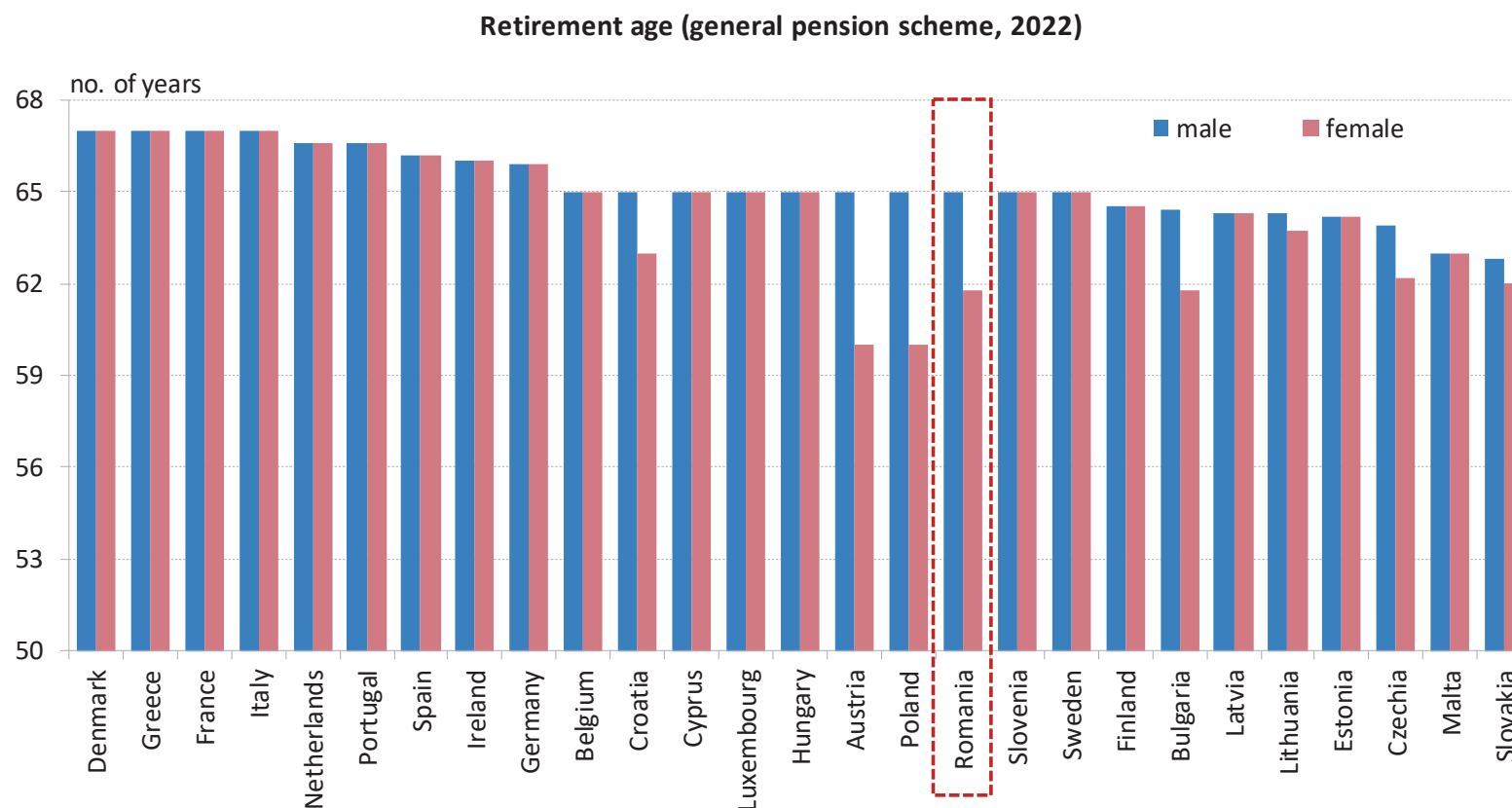
Source: Eurostat

The average expected duration of working life in Romania is about 33 years, the lowest in the region and well below the level in advanced EU Member States (e.g. 40 years in Germany). The convergence of the average pension in Romania with the EU standards may be achieved through increasing labour productivity and working life duration, which should be mirrored in the higher number of years of pensionable service.



Source: Eurostat

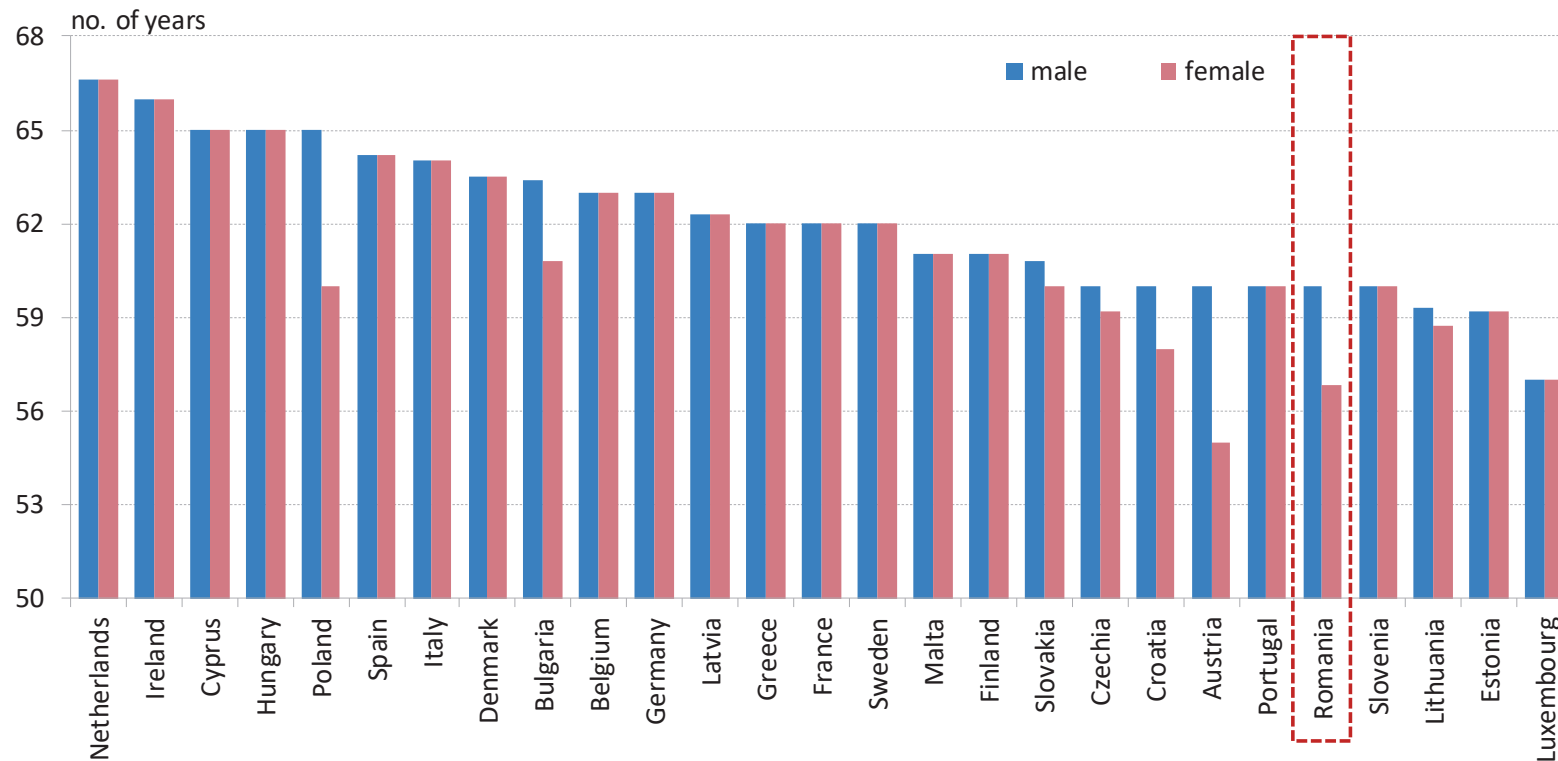
Under the general pension scheme, the retirement age in Romania is below the EU average for men and the fourth lowest in the EU for women. A higher retirement age for men than for women is found in most EU Member States in Central and Eastern Europe. Conversely, in advanced EU economies, with increased life expectancy, the standard retirement ages for men and women are equal in most cases.



Source: European Commission's 2024 Ageing Report

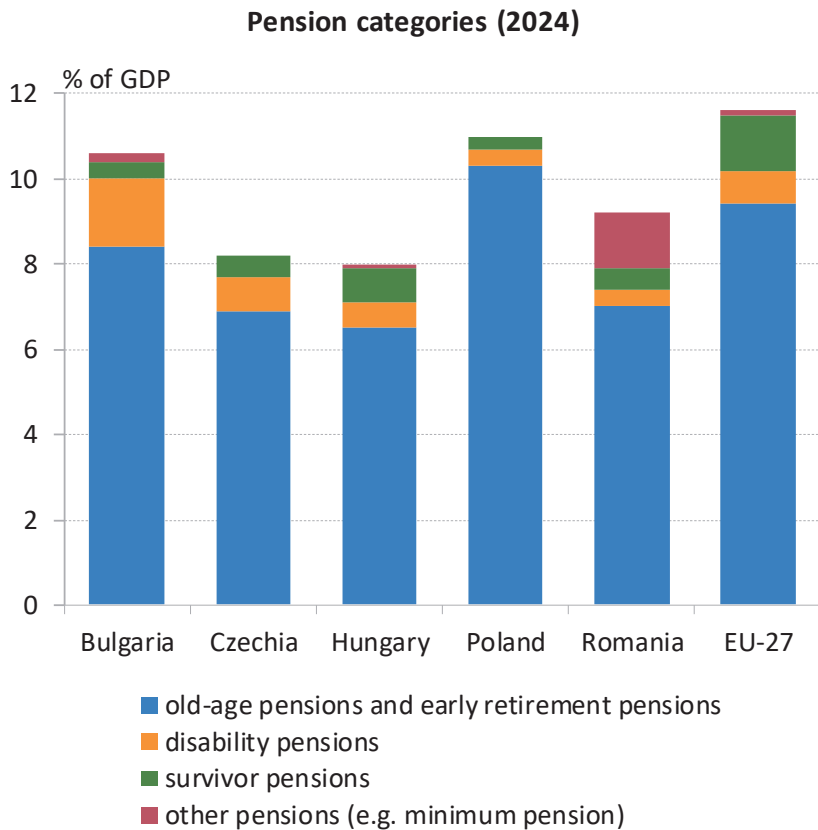
In correlation with the standard retirement age under the general pension scheme, the early retirement age in Romania is also among the lowest in the EU. Four EU Member States (Ireland, Cyprus, the Netherlands and Poland) do not have early retirement schemes. A lower number of years of pensionable service leads to an unfavourable ratio of active persons to pensioners, affecting the pension income.

Early retirement age (general pension scheme, 2022)

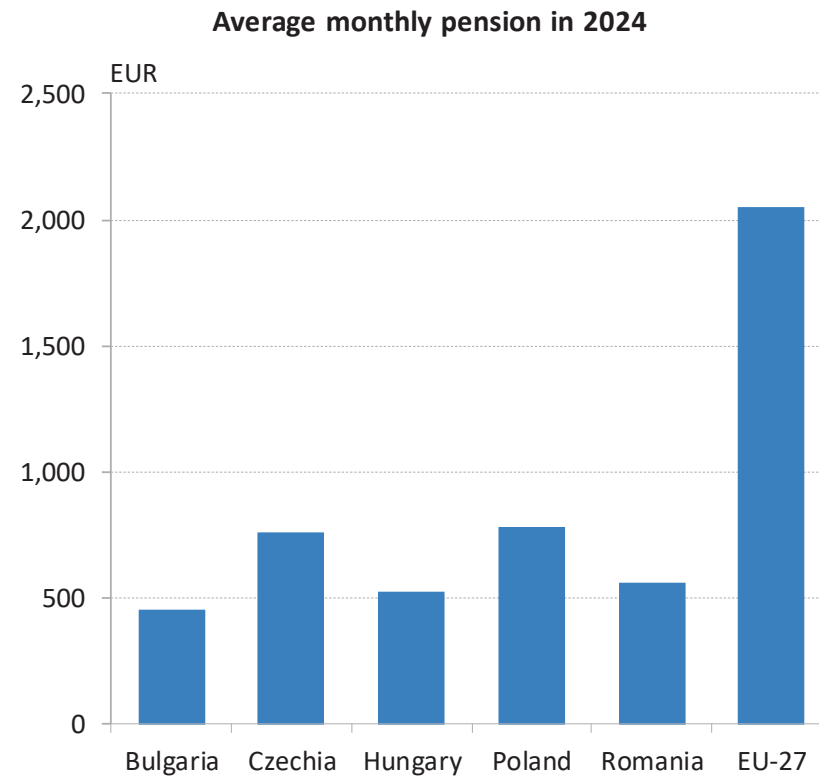


Source: European Commission's 2024 Ageing Report

Public pension categories in Romania exhibit a similar variety to those in the EU. Nonetheless, compared with its regional peers, it is worth noting that, unlike Poland and Czechia, where no “other pensions” (e.g. minimum pension) are paid, in Romania the share of this category in GDP exceeds the cumulative share of survivor and disability pensions. Thus, the large weight of minimum pensions indicates a lower average pension in Romania.

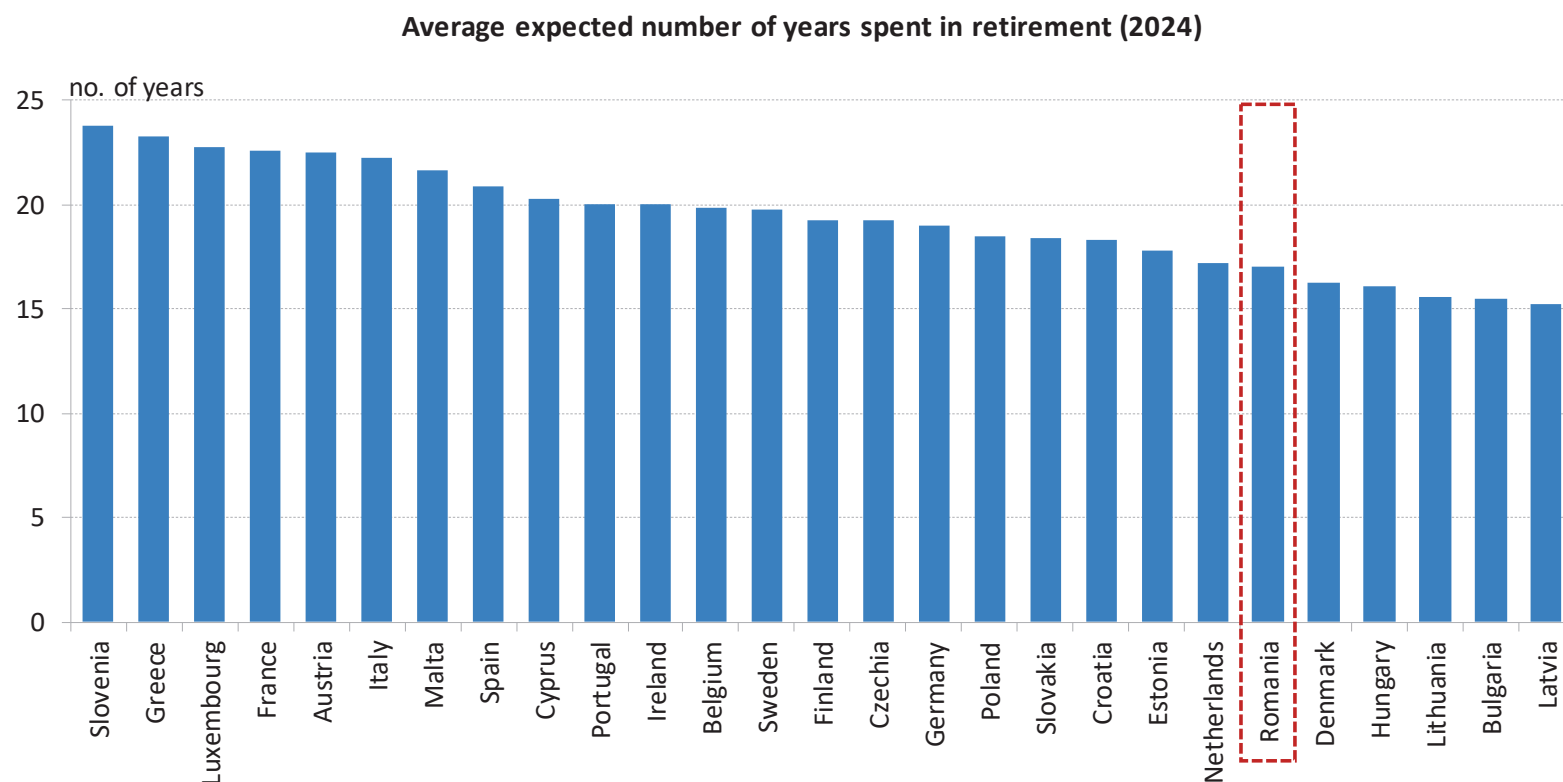


Source: European Commission’s 2024 Ageing Report



Source: Eurostat, European Commission’s 2024 Ageing Report, National House of Public Pensions, NBR, NBR calculations

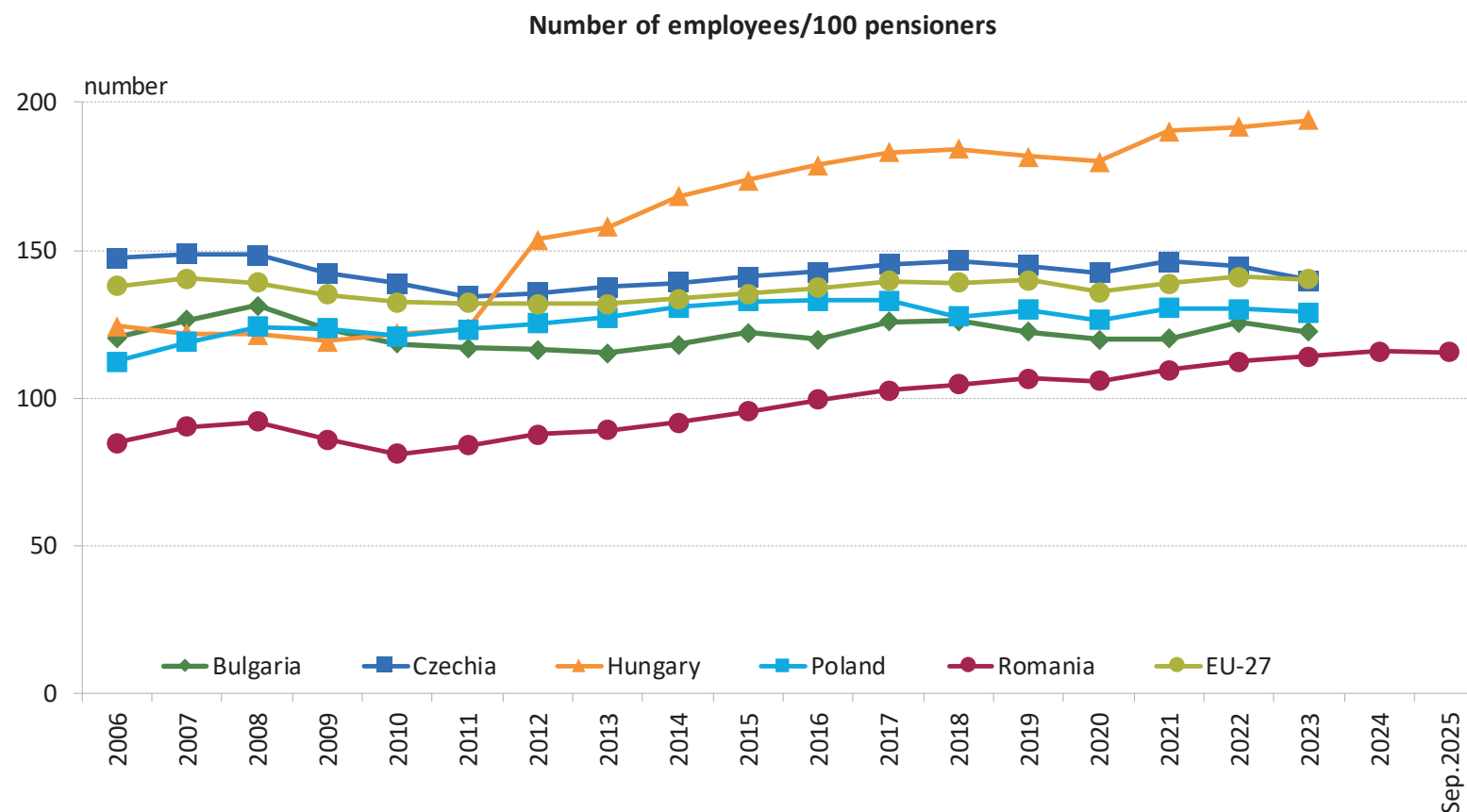
Although the retirement age under the general pension scheme in Romania is below the EU average, the low life expectancy leads to a lower number of years spent in retirement than in most EU countries. Thus, promoting longer working life duration should be achieved by improving healthcare services and education, so that balancing the pension system should occur through boosting labour productivity and without affecting the pension income.



\*) difference between average life expectancy (2024) and average retirement age (2023)

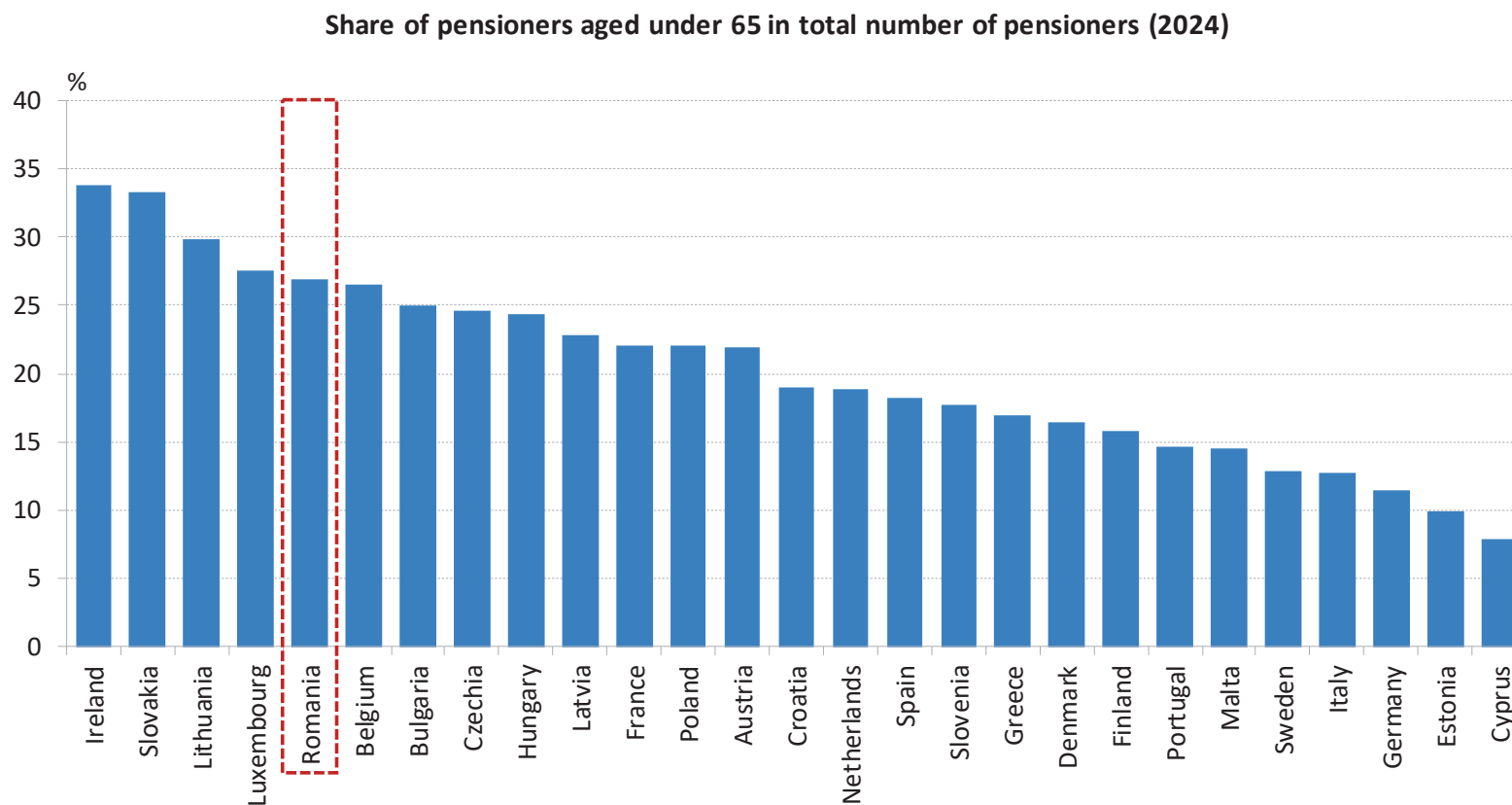
Source: Eurostat, NBR calculations

The ratio of employees to pensioners is above one and has improved in Romania over the past years, yet it is constantly the lowest in the region. For instance, in September 2025, in Romania there were around 5.7 mil. employees and 6.6 mil. contracts of employment, the structural problems in terms of demography and labour market dynamics contributing significantly to the pressures exerted on the public pension budget.



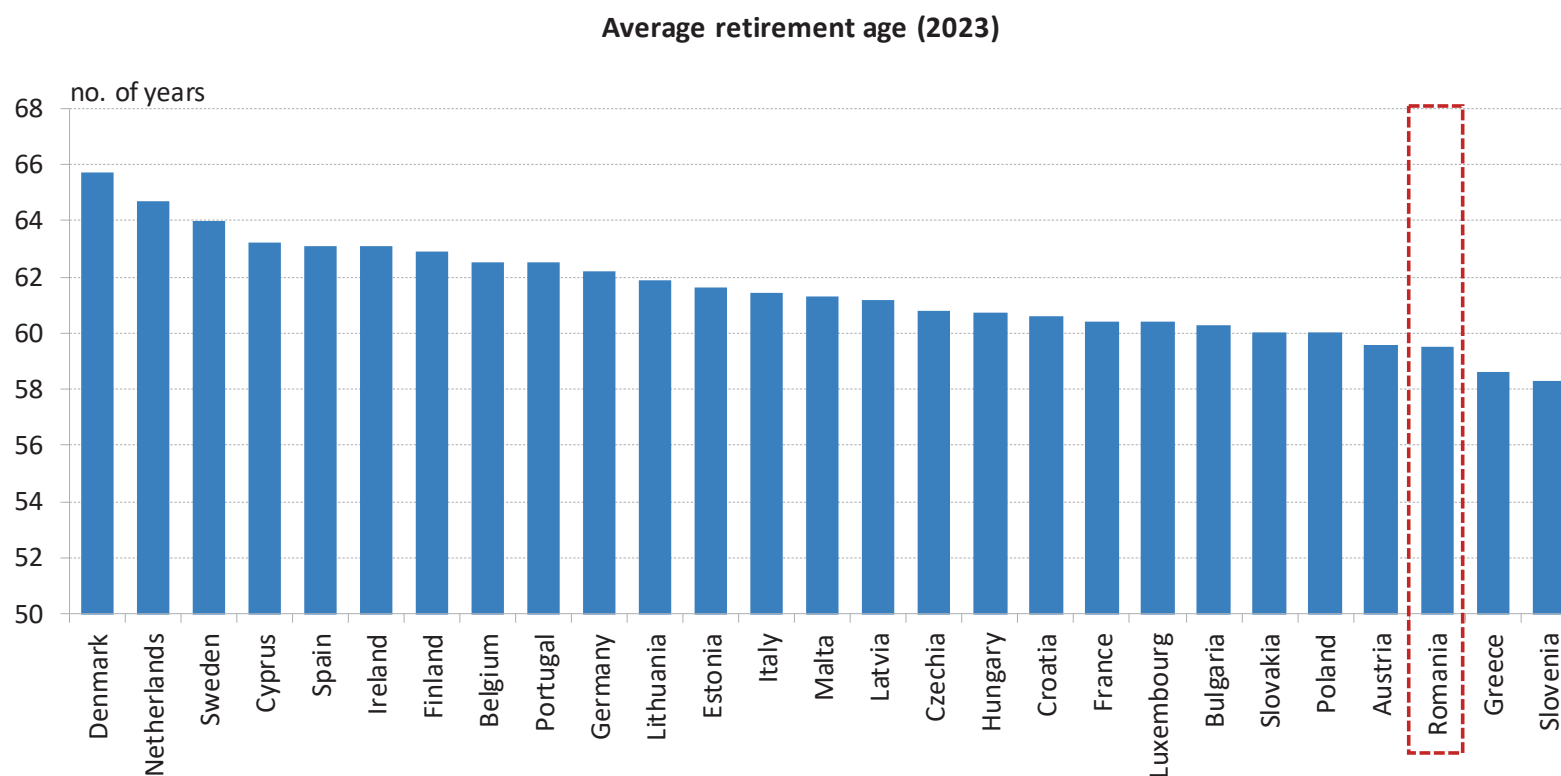
Source: Eurostat, National Institute of Statistics, NBR calculations

Due to the possibility of early retirement before turning 65, but especially to the much lower retirement age for civil servants with special status, the share of individuals with public pension income before turning 65 in Romania is among the highest in the EU, i.e. over 25%. The public pension budget is affected by both lower receipts and higher spending.



Source: European Commission's 2024 Ageing Report

The lower retirement age in Romania than in most Member States, both for the general public pension scheme and particularly for civil servants with special status, results in an average retirement age of 59.5, the third lowest in the EU. However, the lower retirement age for the general pension scheme is linked to the lower life expectancy in Romania, i.e. 76.5 years in 2024, the third lowest in the EU.

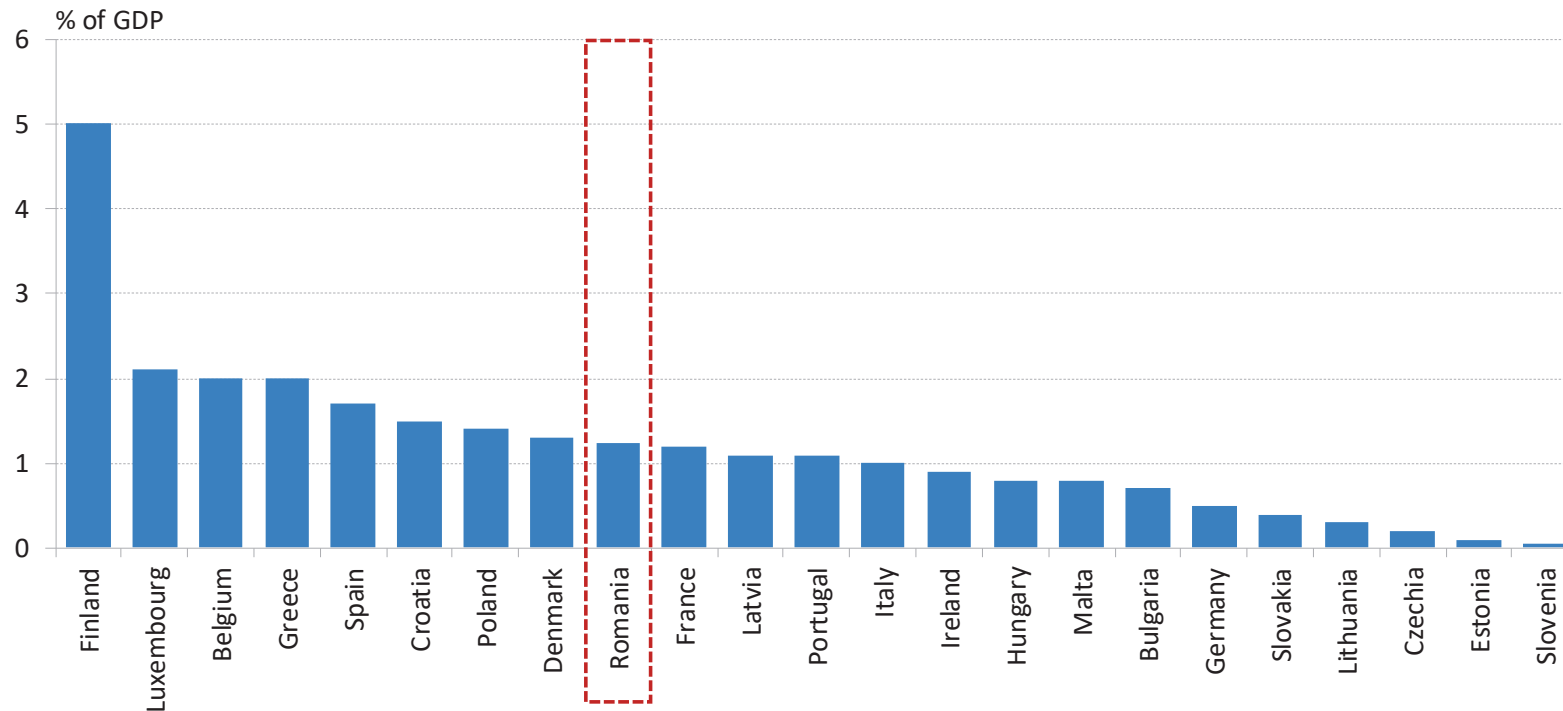


\*) To determine the average retirement age, the population aged between 50 and 69 was taken into consideration.

Source: Eurostat

The lower retirement age of civil servants with special status in Romania compared to the EU Member States leads to a higher share of pensioners who worked in these areas, which is also reflected in the pension costs for the respective categories of individuals. Therefore, “special pension” expenditure in Romania has stood at around 1% of GDP for more than a decade.

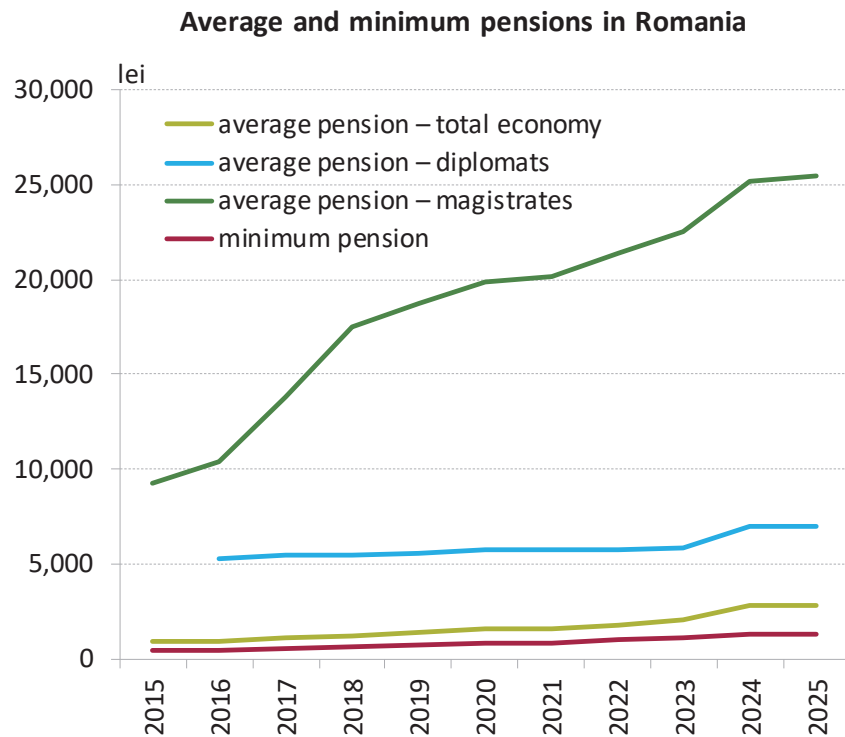
**Special pension expenditure as a share of GDP (2022)**



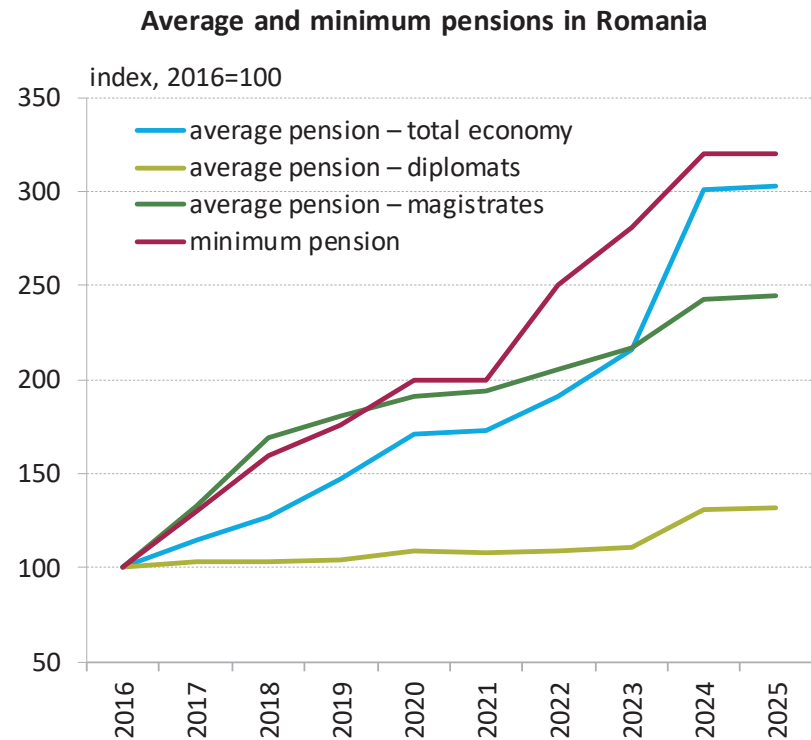
\*) 2019 data for Luxembourg, Croatia, Denmark, France, Latvia, Hungary, Malta, Bulgaria, Germany, Lithuania, Czechia, and Slovenia

Source: European Commission's 2021 and 2024 Ageing Reports

The average pension in Romania for some professional categories far exceeds the average pension economy-wide. Although the minimum and average pensions have had higher growth rates in recent years, the pension gap between different professions continues to be very wide. A sustainable pension system, given the pressure of limited budget resources and population ageing, requires a more balanced and equitable public pension structure.



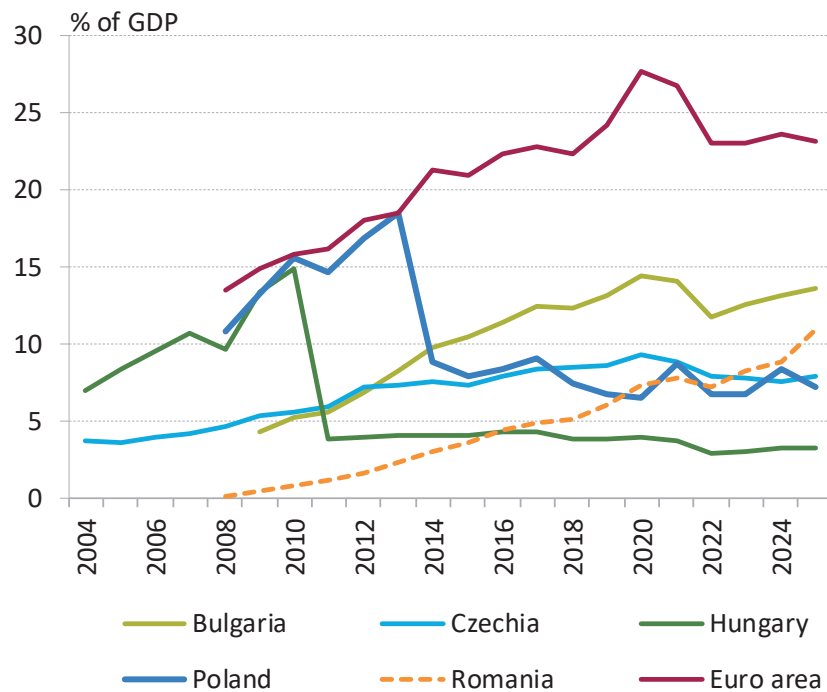
Source: National House of Public Pensions, Ministry of Labour, Family, Youth and Social Solidarity



Source: National House of Public Pensions, Ministry of Labour, Family, Youth and Social Solidarity, NBR calculations

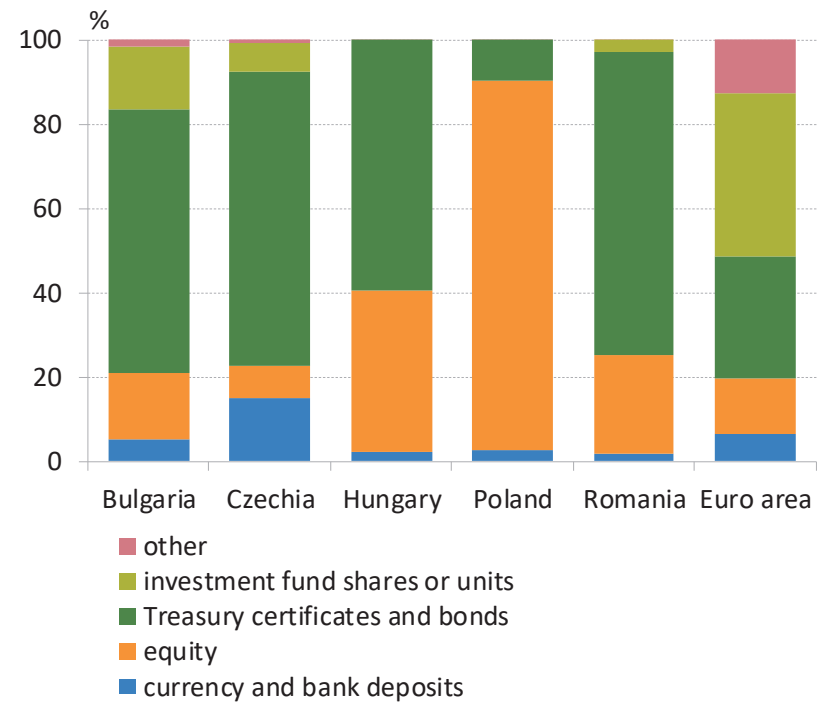
The assets of private pension funds in Romania stood at 10.9% of GDP at end-2025, which is high compared to other regional peers. Pension funds have a relatively prudent investment profile, with most resources invested in government securities. The lower share of investments in equity and investment funds shielded local pension funds from capital market adjustments during the COVID-19 pandemic.

**Assets of private pension funds**



Source: Financial Supervision Commission (Bulgaria), World Bank, OECD, FSA, NIS, ECB, Eurostat, NBR calculations

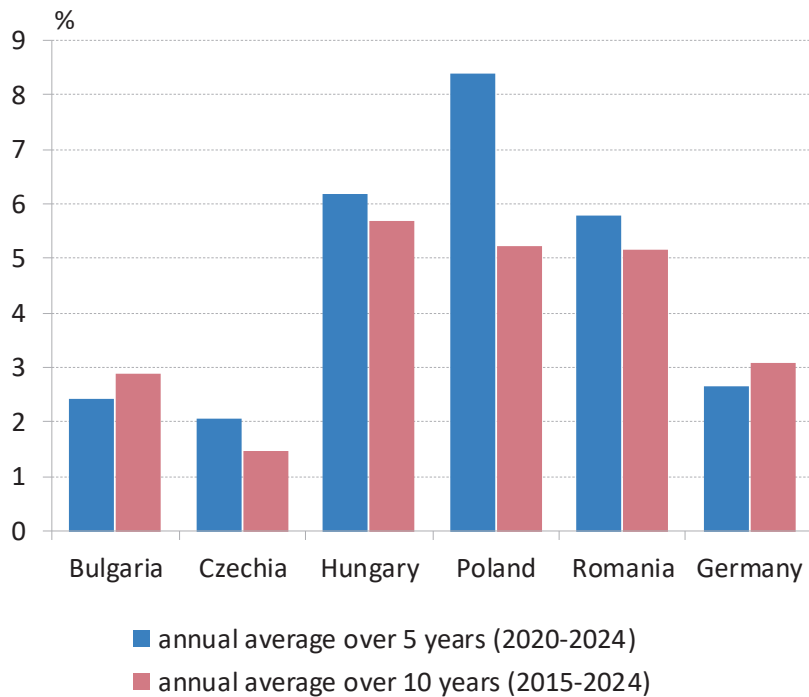
**Composition of private pension funds' investment portfolio (2024)**



\*) 2023 data for Hungary, Poland and Euro area  
Source: OECD, ECB

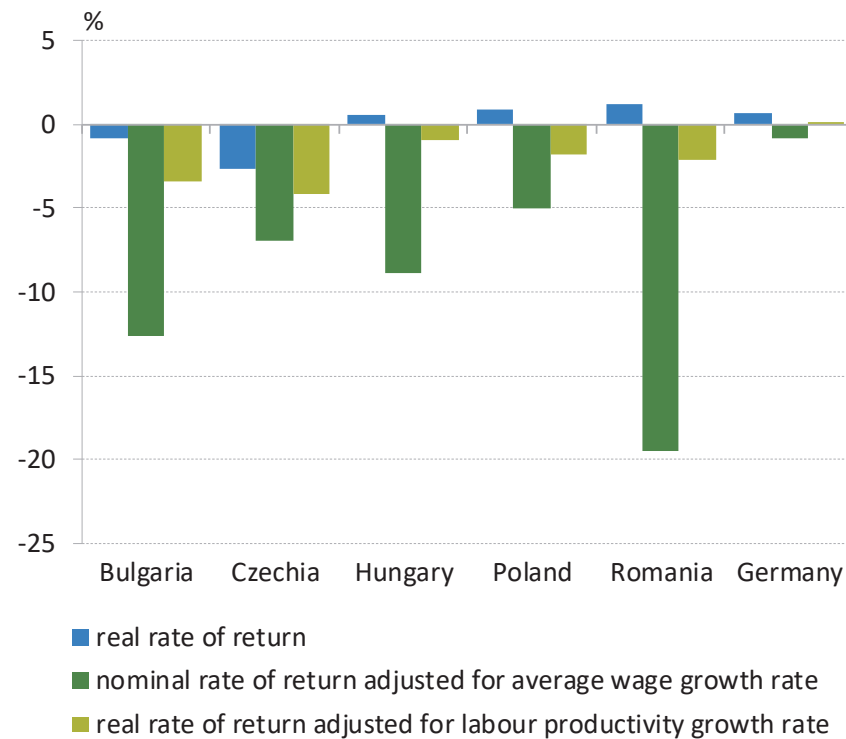
Private pension funds in Romania have had high, real positive rates of return, supporting the accumulation of assets to cover future expenses. However, these rates were lower than the average wage dynamics, one of the indicators considered for the indexation of public pensions. Private pensions can reduce strain on the general government budget if the indexation rate of public pensions becomes correlated with the investment rate of return.

Average nominal rate of return of private pension funds



Source: OECD's Pension Markets in Focus 2025

Average annual rate of return of private pension funds (2015-2024)



Source: OECD's Pension Markets in Focus 2025, Eurostat, NBR calculations

## Chapter IV

The sustainability of the public pension system can be supported by increasing productivity or the role of private pensions

- The employment rate is lower in Romania than in its regional peers, due to a high number of young people neither in employment nor in education and training and of persons with disabilities, as well as in the context of development disparities and early school leaving.
- At regional level, employees in Romania pay among the highest pension contribution rates, because the number of employees is only slightly higher than that of pensioners, which may lead to significant imbalances in the labour market and to a long-term structural deficit.
- Population ageing and the risk of negative net migration in the coming years puts further strain on the pension budget. The sustainability of the public pension system can be supported by increasing productivity and labour market participation and by encouraging the development of the private pension system.
- The possibility of early retirement, along with the much lower retirement age for professional categories with special status, has an adverse impact on the ratio of employees to pensioners, which is already affected by the steep population ageing.

## Chapter IV

It is necessary  
to ensure  
social equity,  
based on the  
contributory  
principle

- The standard retirement age is lower in Romania than in most EU countries, but it does not translate into a longer retirement period, given the lower life expectancy in Romania compared to other Member States.
- A longer working life may be supported by improving healthcare and education, which are areas that also underpin economic development.
- There are significant differences between the pensions of various socio-professional categories. The main reason lies in funding from the government budget for the pensions of certain categories, in addition to the income resulting from their contributions.
- In this context, given the pressure of limited budget resources and an ageing population, it is important to ensure social equity by strengthening the contributory principle.
- The capacity of private pension funds to reduce the strain on the government budget also depends on how public pensions are indexed. In this respect, it is important that the indexation rate of public pensions be correlated with the investment rate of return.

## Chapter V

### Financial

### Discipline of

### State-Owned

### Enterprises

### Governance

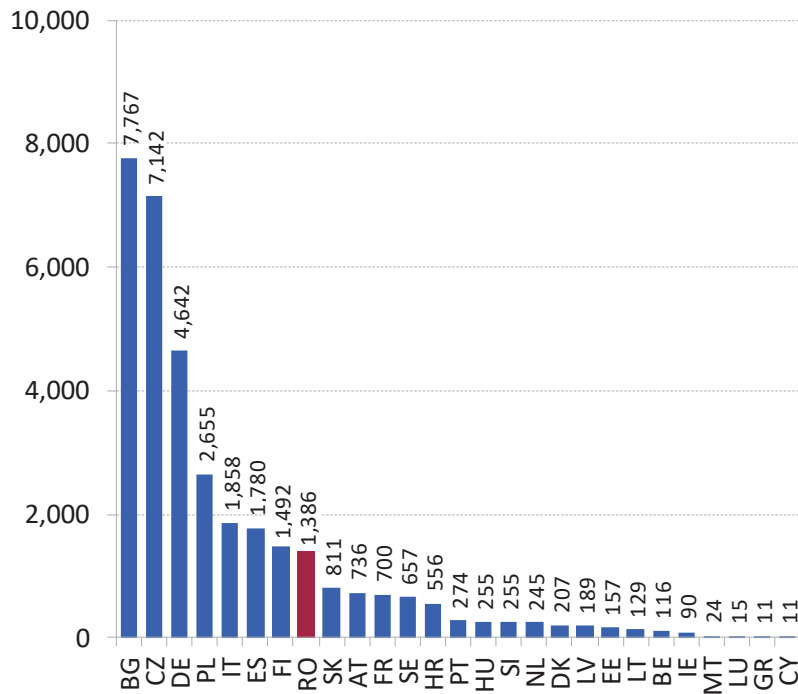
### Arrears

### Performance

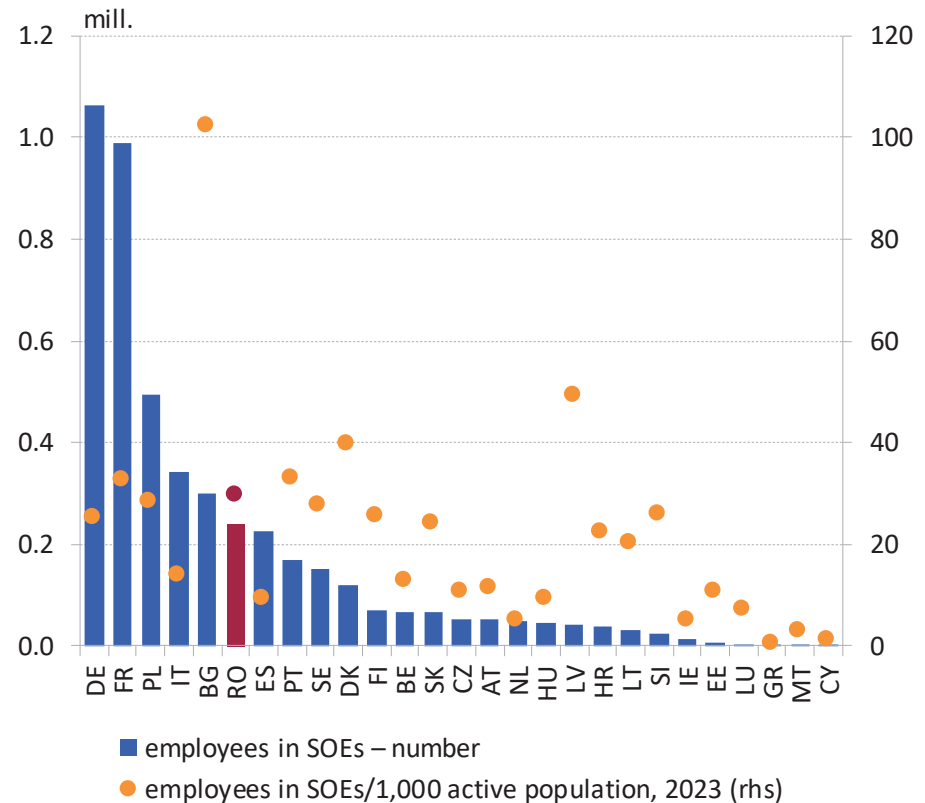
- The financial discipline of state-owned enterprises is particularly relevant to the Romanian economy. State-owned companies are analysed by comparison with those in EU countries, considering the structural differences arising from the privatisation modalities, governments' current strategies or other specific factors.
- The analysis of state-owned enterprises covers aspects related to the size of the sector, the concentration and financial health of companies with majority state capital. Relevant issues concerning compliance with OECD recommendations are also addressed.
- From a fiscal perspective, the contribution of state-owned enterprises to the general government balance is shown over time in order to assess their multidimensional impact and to highlight potential pressures on public finances.
- The weaker financial health of some companies with majority state capital illustrates the dependence of a significant part of them on the general government budget, serving as a warning signal for the risks posed by this sector to public finances.

In most European countries there is an important sector of state-owned enterprises (SOEs) and their role differs significantly. In Western European economies, SOEs are concentrated in strategic sectors, but in the region, the state holds a broader portfolio of companies operating in several areas. Turning to the number of employees, Romania’s presence in the top 10, alongside other countries in the region, shows the state’s larger footprint in the labour market.

State-owned enterprises, 2023

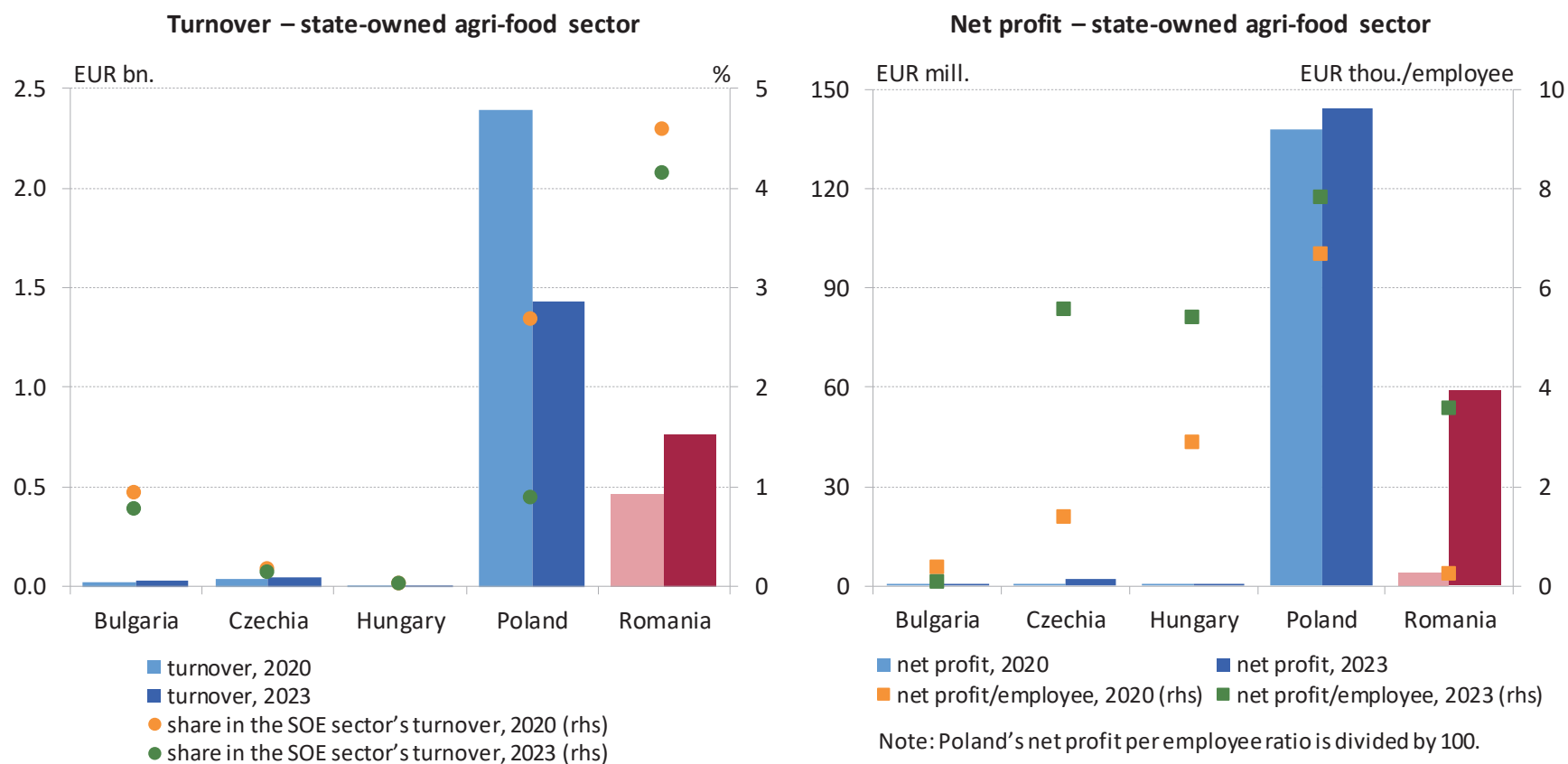


Employees in state-owned enterprises, 2023



Source: ORBIS, MF, NBR calculations

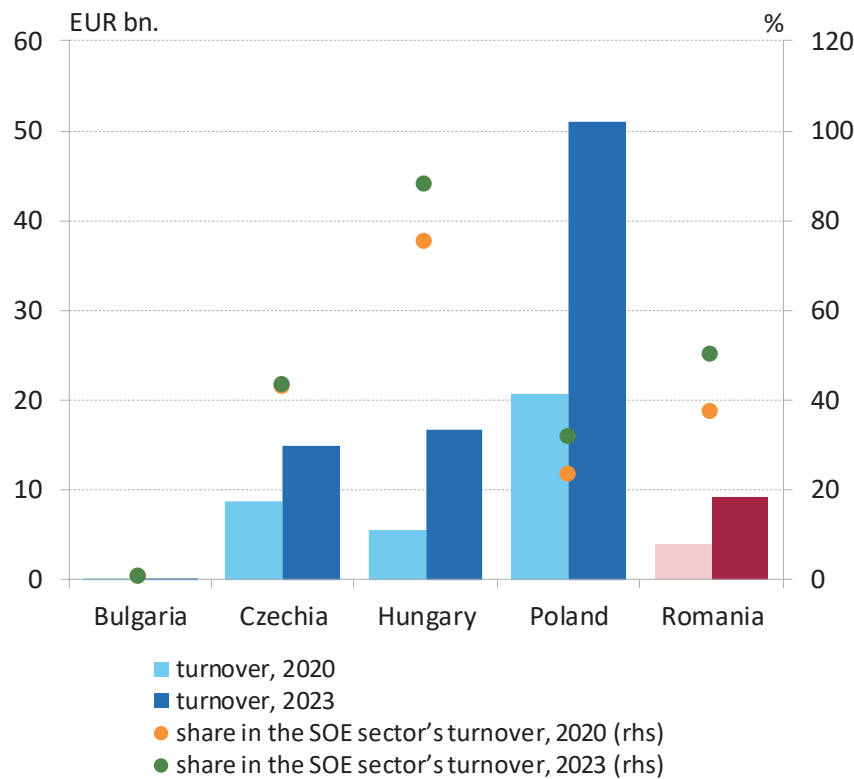
The strategic sectors identified by the NCMO that can support the structural transformation of Romania's economy are: food security, energy security, defence industry and high value-added sectors. In the case of the agri-food sector, Romania holds the largest number of SOEs and the greatest number of employees, reporting however a significantly lower economic performance compared to other countries in the region.



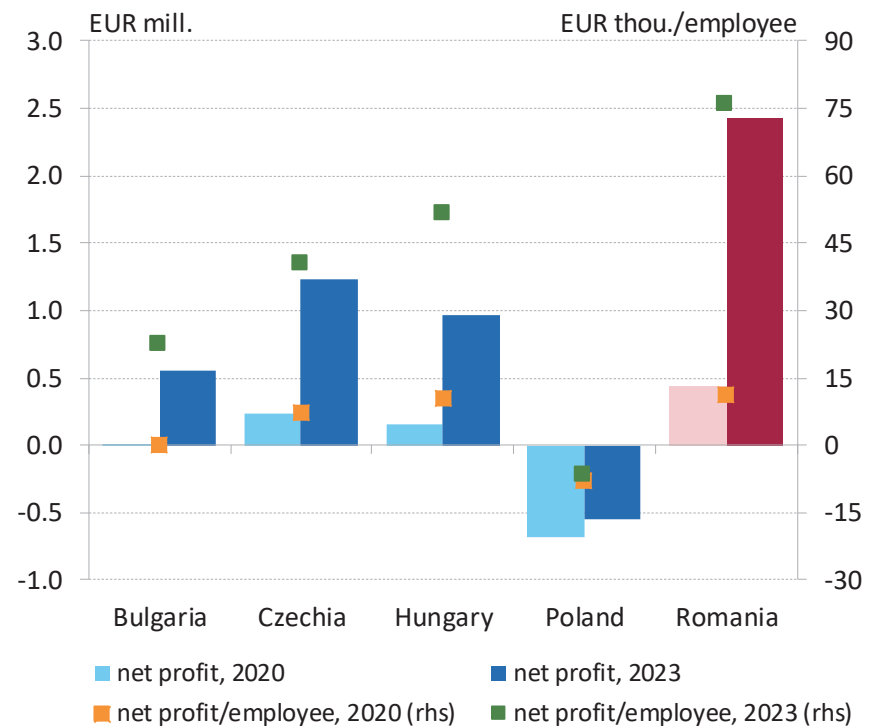
Source: ORBIS, MF – for Romania, NBR calculations

Energy security is essential for economic, social and political stability, and in order to achieve this, it is necessary to implement coherent policies that take into account international developments and challenges. In countries such as Hungary or Bulgaria, SOEs in the energy sector are organised as holding companies. They can foster better strategic coordination, increased efficiency and larger investments.

Turnover – state-owned energy sector



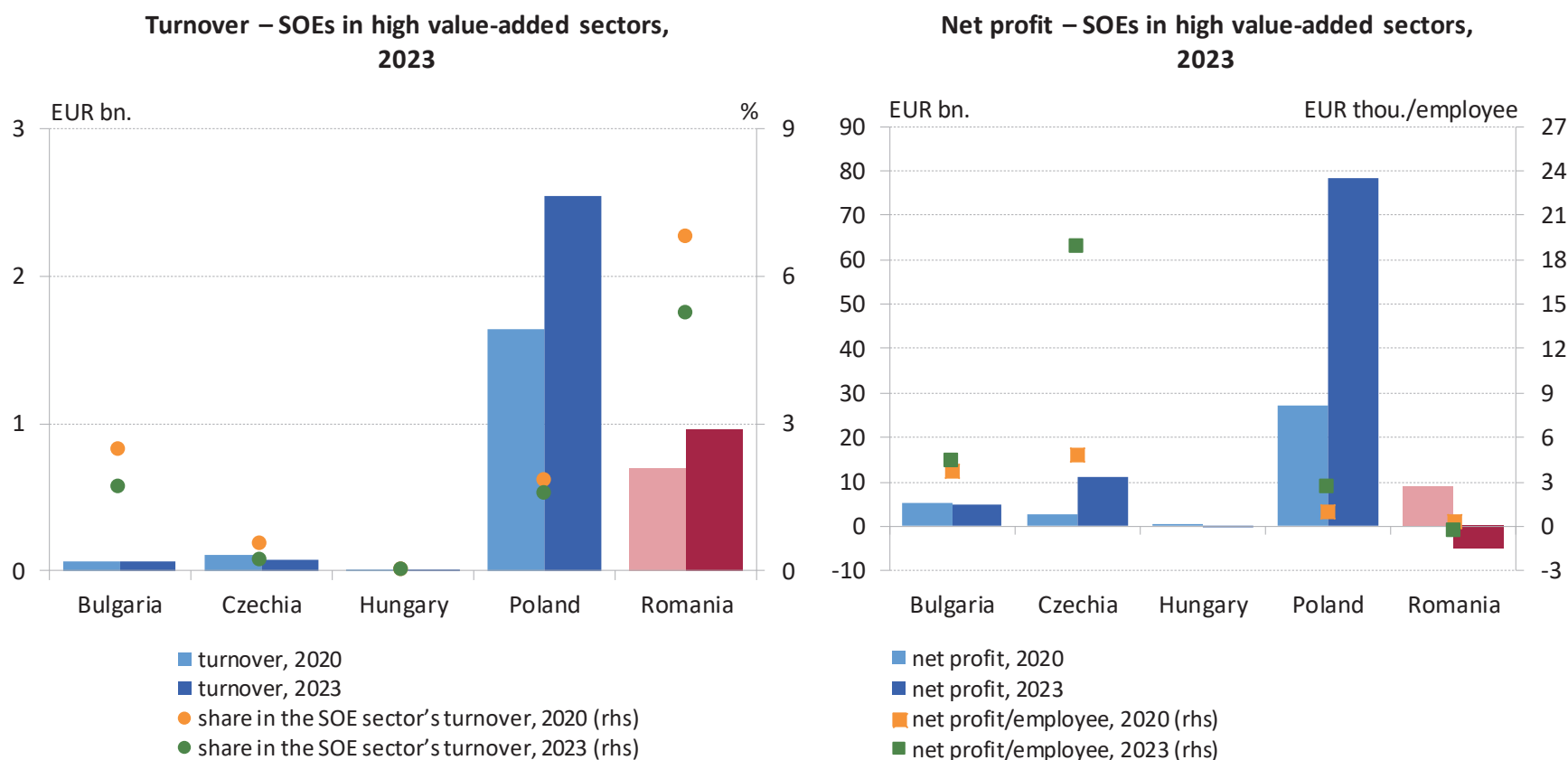
Net profit – state-owned energy sector



Note: Bulgaria's net profit per employee is divided by 100.

Source: ORBIS, MF – for Romania, NBR calculations

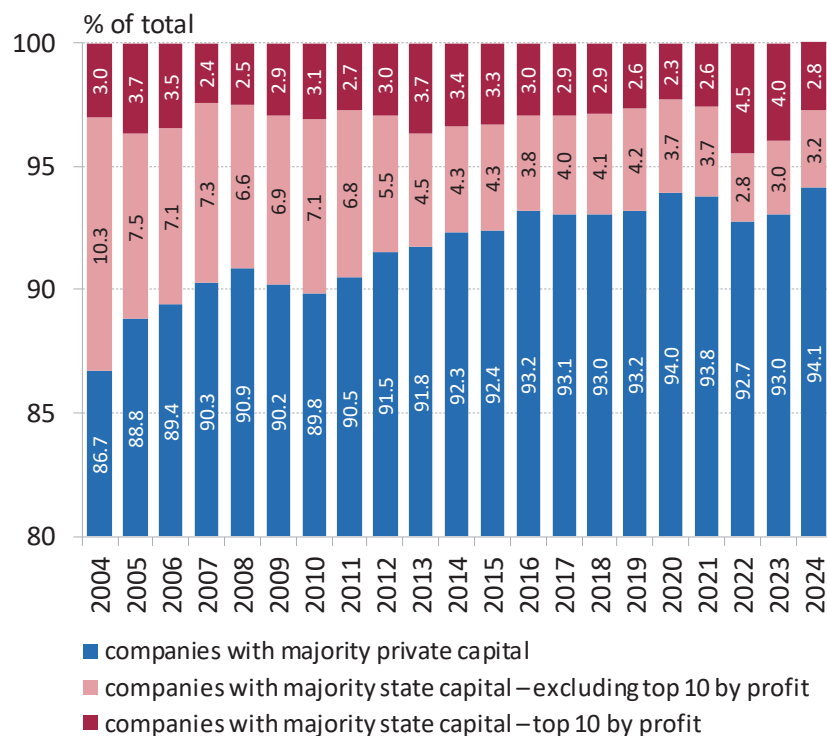
In high value-added sectors, given the nature of their activities, state-owned enterprises can contribute not only by generating revenues, but also by actively stimulating innovation, by developing related emerging industries and improving competitiveness. In Romania, their presence is greater than in the region, yet they feature significant concentration in terms of the potential to support a sustainable economic growth model.



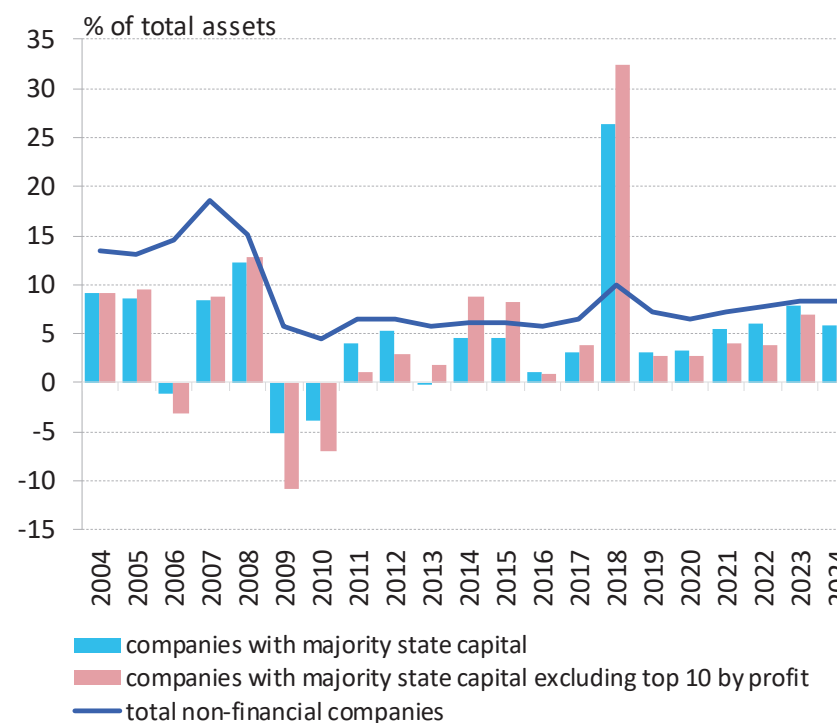
Source: ORBIS, MF – for Romania, NBR calculations

Over the past two decades, SOEs accounted for about 10% of the economy’s GVA, their contribution gradually decreasing. The large fluctuations in investments have limited their capacity to provide public interest services, with companies often having to postpone the necessary technology modernisation in favour of other resource-allocation policies, such as the dividend policy at the end of financial years, with the aim of increasing budget revenues.

Distribution of GVA across the economy



Investment rate

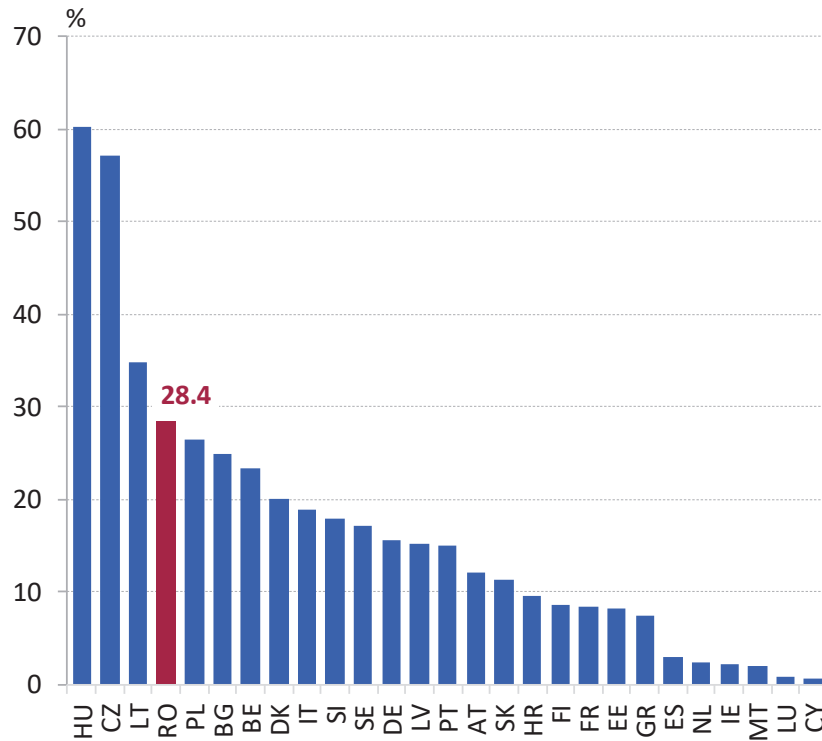


Note: The investment rate is calculated as a ratio of the investment-related cash flow to assets.

Source: ORBIS, MF – for Romania, NBR calculations

Achieving good financial performance helps SOEs provide quality public services, while poorer financial results may indicate oversized payrolls or the prevalence of non-commercial objectives. In the case of Romania, although the sector ranks higher in terms of asset utilisation efficiency, its position in terms of profit per employee is modest.

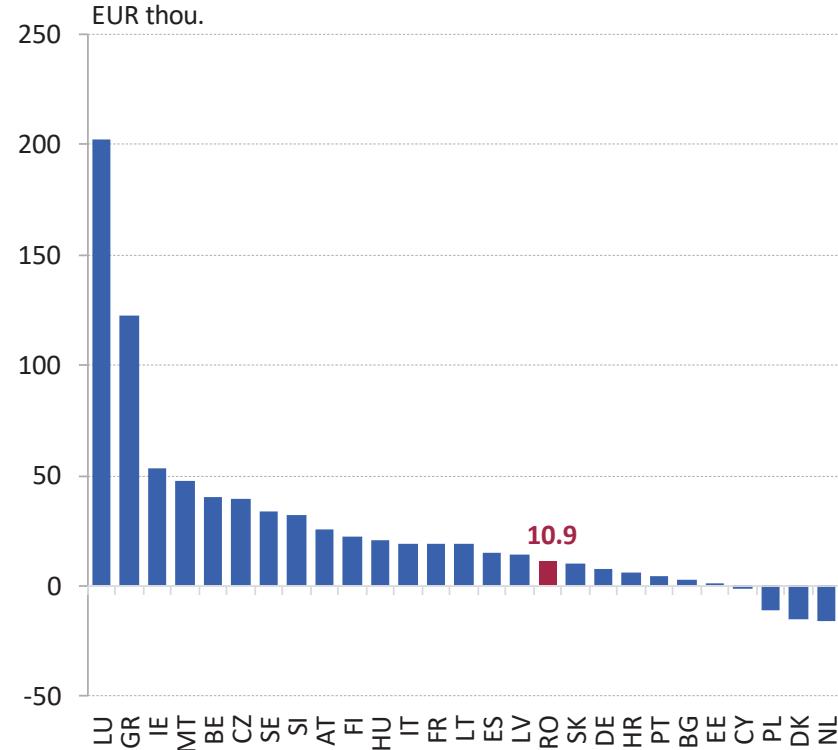
Asset turnover ratio, 2023



Note: The asset turnover ratio is calculated as a ratio of sales to total assets.

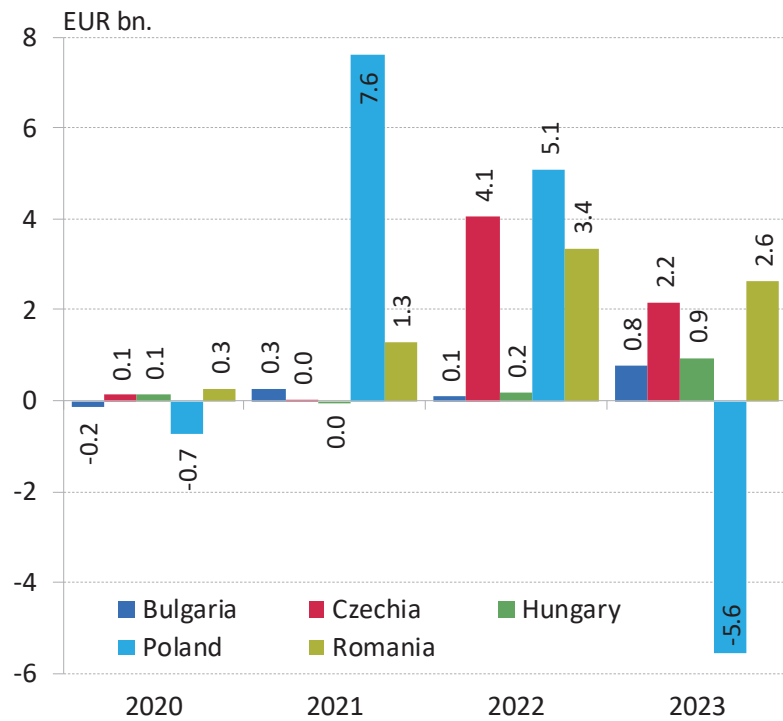
Source: ORBIS, MF, NBR calculations

Net profit/employee, 2023



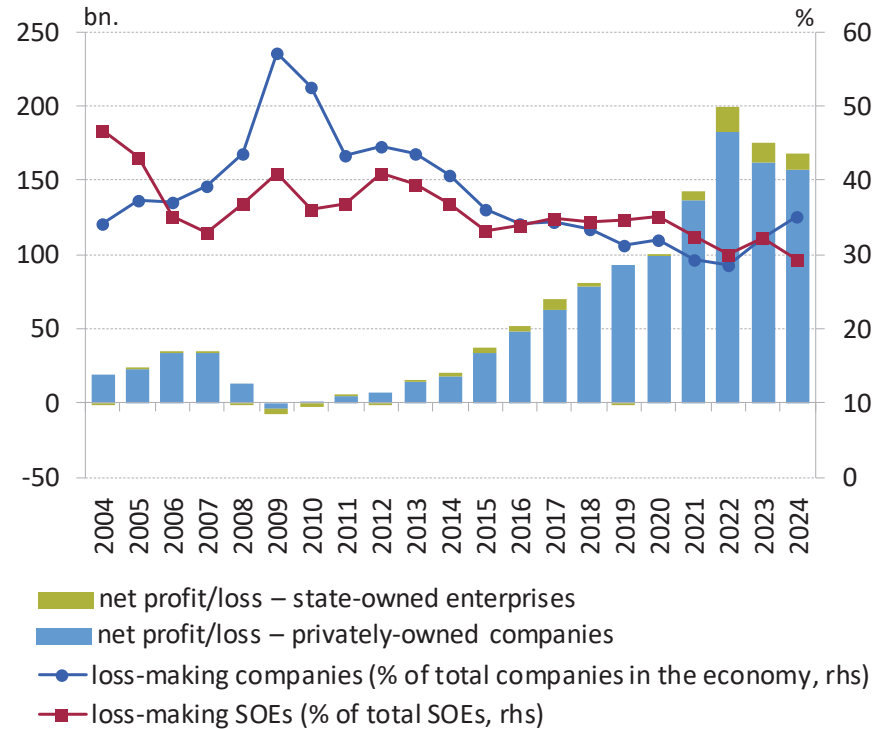
The financial results of SOEs in Romania stayed in positive territory in the post-pandemic period, the same as in peer countries, except for Poland, which saw large fluctuations. The aggregate financial results should be analysed with caution, given the pronounced heterogeneity of this sector. The share of loss-making state-owned companies, albeit on a slight decline, remained significant throughout the business cycle.

Net profit/loss of companies with majority state capital in Romania and peer countries



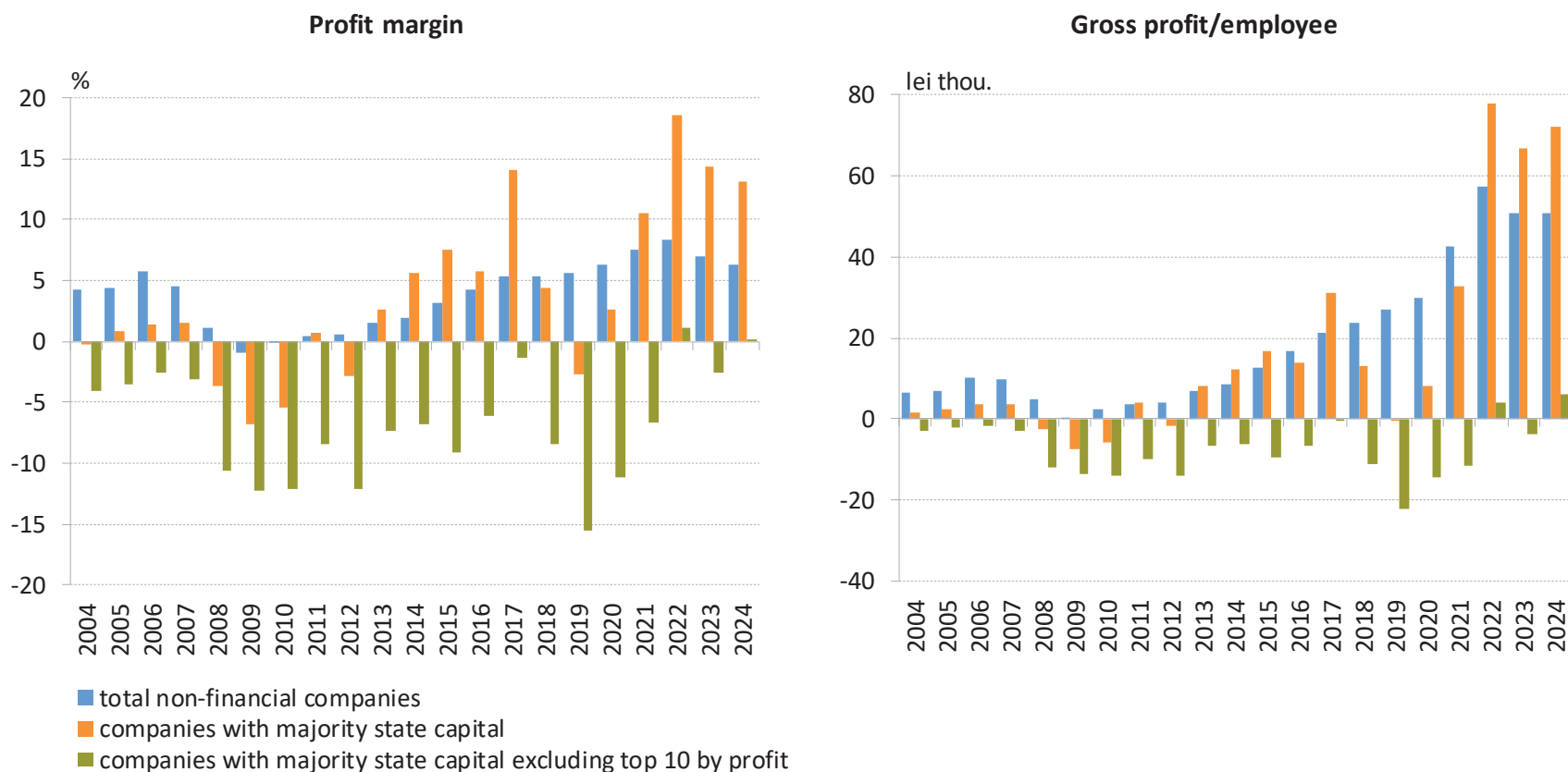
Source: ORBIS, MF, NBR calculations

Net profit/loss of companies and the share of loss-making companies nationwide



Source: MF, NBR calculations

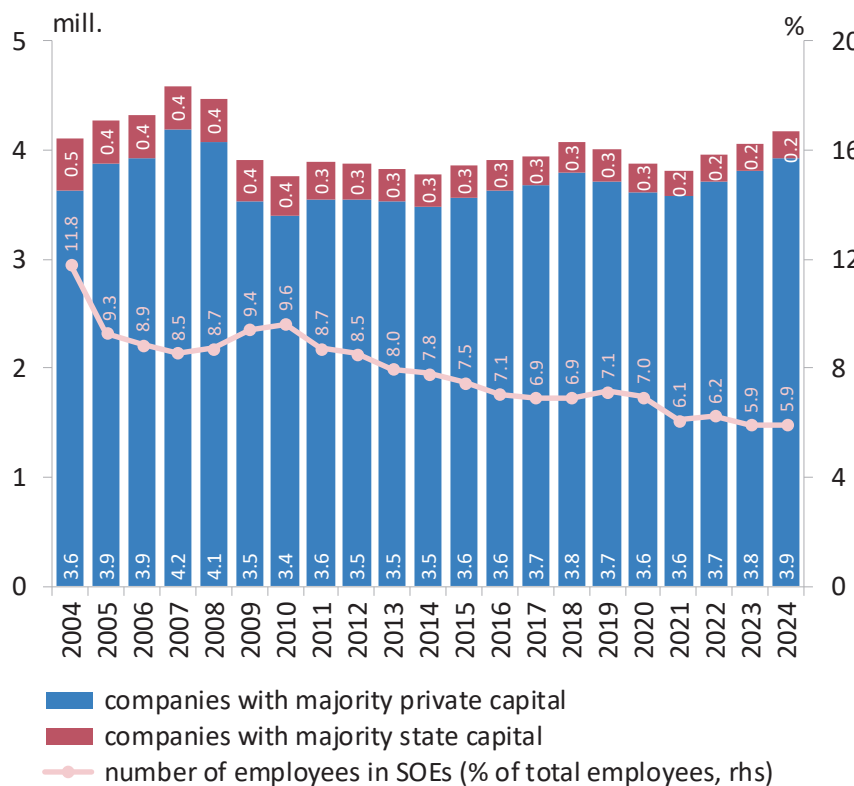
The in-depth analysis of the performance of SOEs in Romania shows pronounced divergent developments. The top 10 companies by profit report better results, also supported by privileged positions in the market. A matter of concern is that over 30% of SOEs reported no profit, which reflects both management deficiencies of these companies and the state's decision to continue subsidising some goods and sectors.



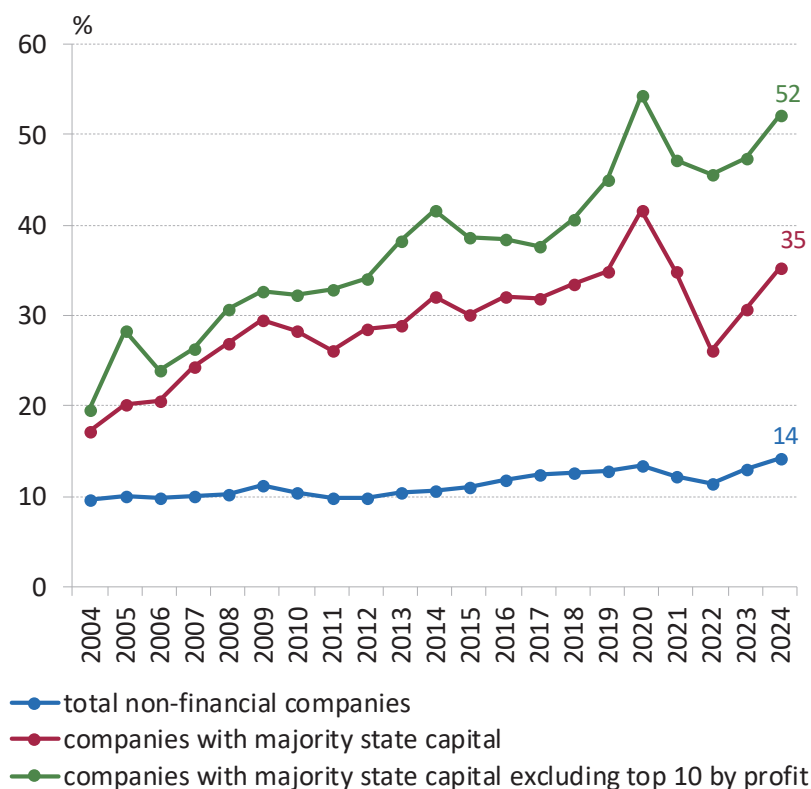
Source: MF, NBR calculations

Wages are an important part of the expenses incurred by SOEs, holding a significantly higher share in turnover compared to the private sector, even despite the fall in the number of employees. In addition, the indicator recorded large fluctuations, on an upward trend, and it exceeded 50% in the case of SOEs with lower profitability which account for most of the sector’s employees.

Employees in state-owned enterprises in Romania

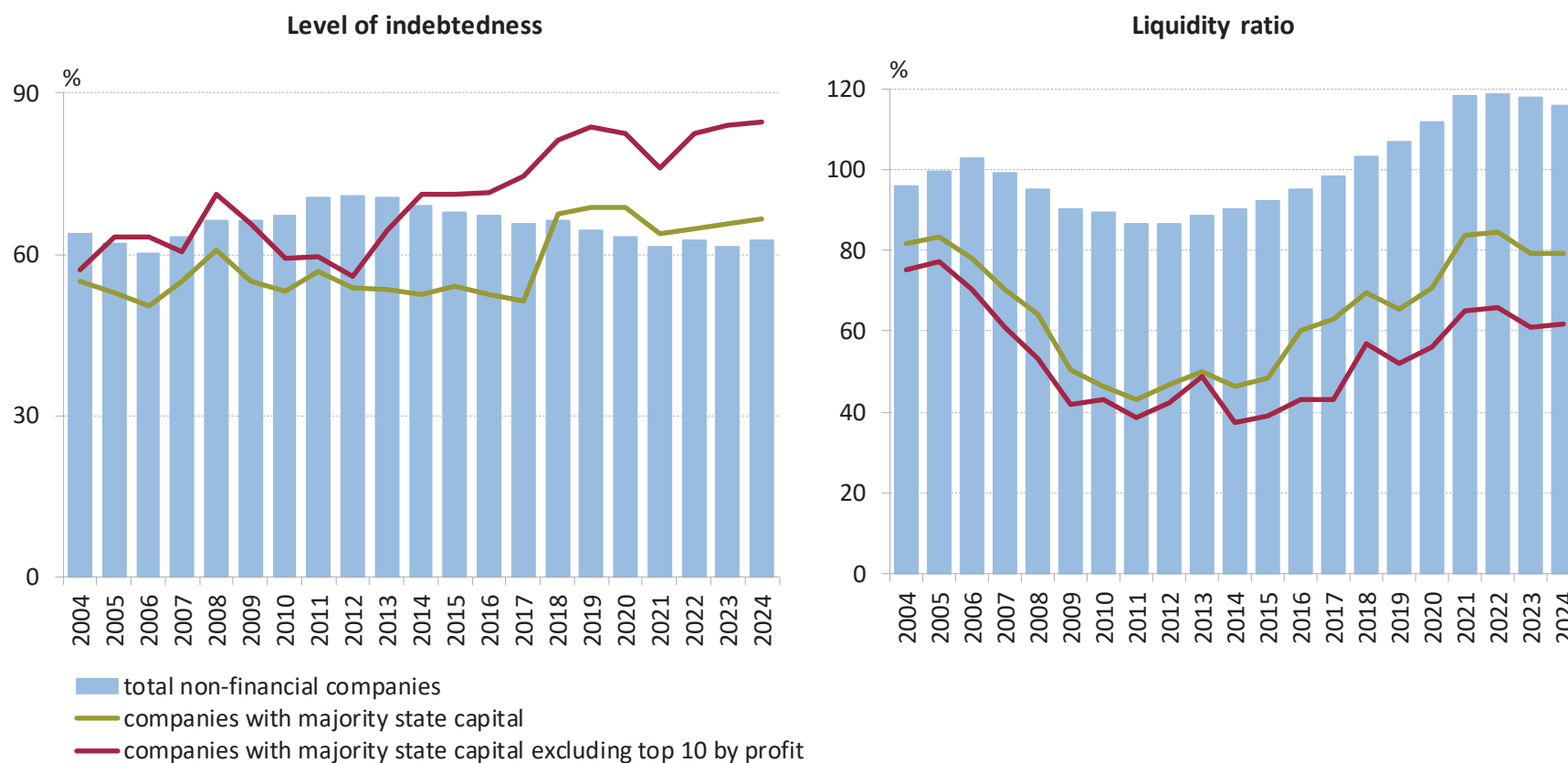


Share of wage costs in turnover



Source: MF, NBR calculations

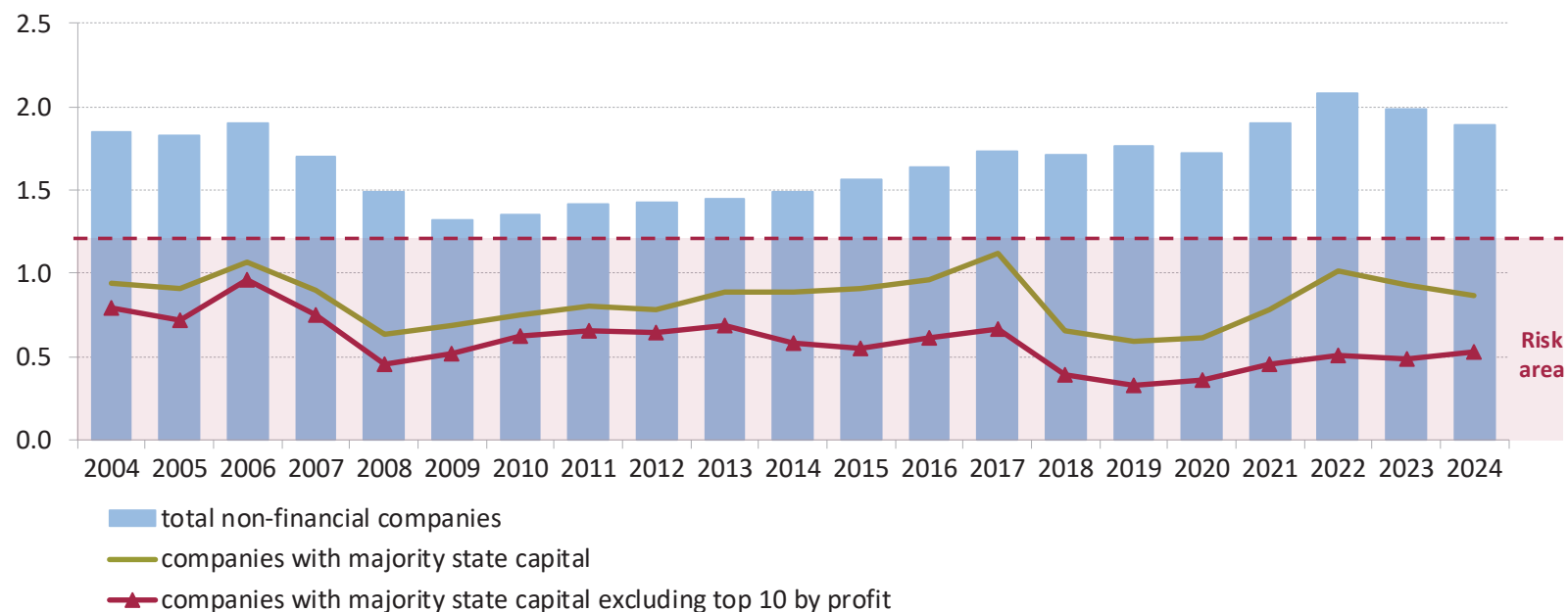
State-owned enterprises have weaker solvency and liquidity positions compared with companies with private capital, and larger differences are seen for SOEs with lower profitability. Moreover, in the latter's case, the level of indebtedness has been on an upward trend over the past twenty years, discontinued primarily during crises, while the liquidity ratio remained below one, showing a relatively high level of risk.



Source: MF, NBR calculations

The financial health measure for state-owned enterprises remained in the high-risk area, all its components standing at much lower values compared to the private sector. Moreover, the indicator for SOEs with lower profitability, i.e. companies with majority state capital excluding top 10 by profit, has decreased visibly over the last 20 years and has seen only a slight improvement in the post-pandemic period.

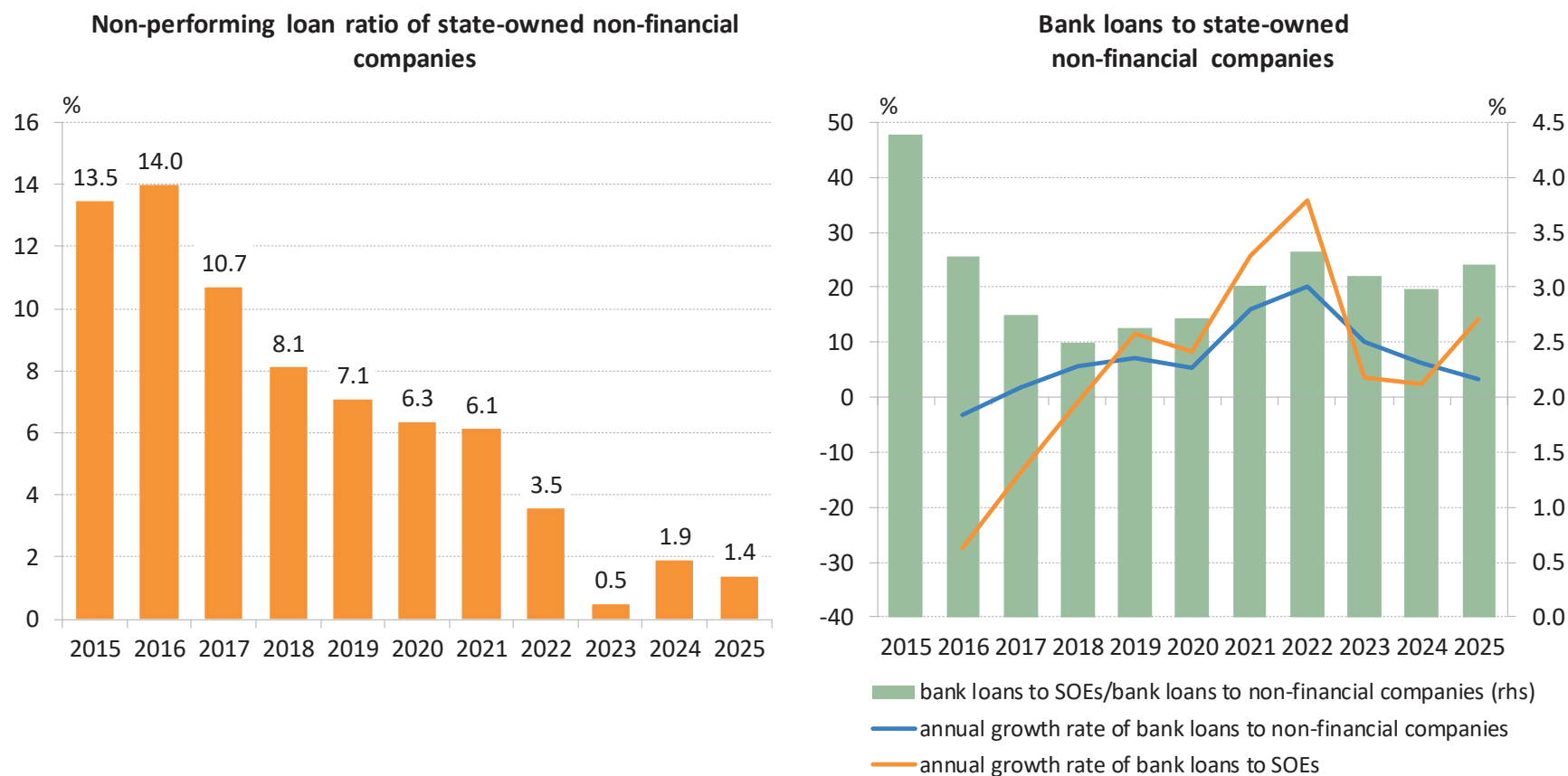
Financial health measure of the non-financial companies sector



Note: The overall financial health measure of the non-financial companies sector was determined based on the methodology developed by Edward Altman – “Predicting financial distress of companies: Revisiting the Z-score and ZETA models”, 2000. Considering that the non-financial companies sector in Romania comprises overwhelmingly unlisted firms, the indicator was calculated by using the method adapted for private companies: Z-score was built based on the following formula:  $Z' = 0.717(X1) + 0.847(X2) + 3.107(X3) + 0.420(X4) + 0.998(X5)$ , where:  
 X1 – Net current assets/Total assets; X2 – Net retained earnings/Total assets; X3 – EBIT/Total assets; X4 – Equity/Debt; X5 – Sales/Total assets.

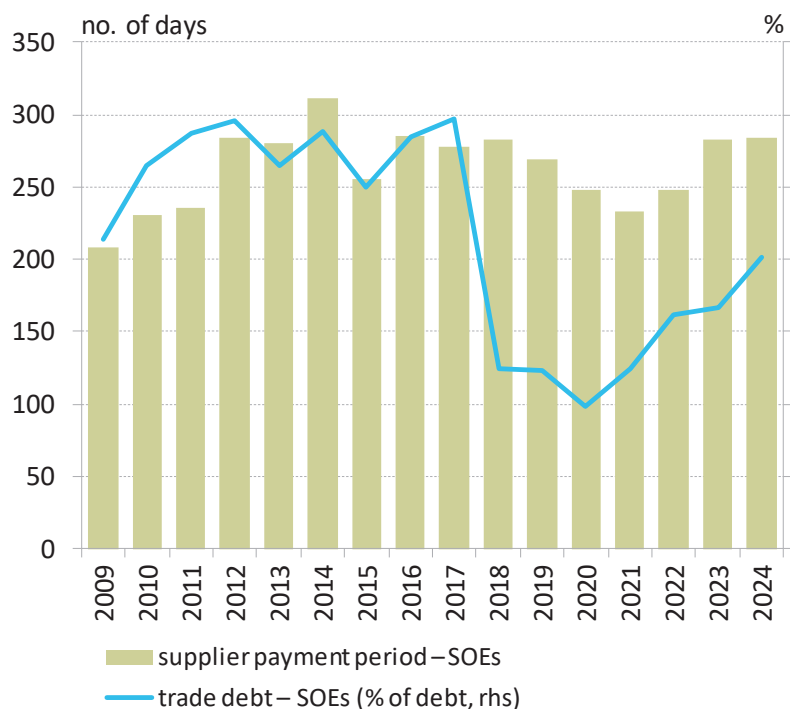
Source: MF, NBR calculations

The recourse by SOEs to bank credit is very low, i.e. below 5% of total credit to companies. The annual growth rate of loans to these enterprises accelerated in the post-pandemic years, but it subsequently slowed down. The quality of bank loans to SOEs has seen an adjustment in recent years, yet it calls for caution, given macroeconomic developments and the international environment.

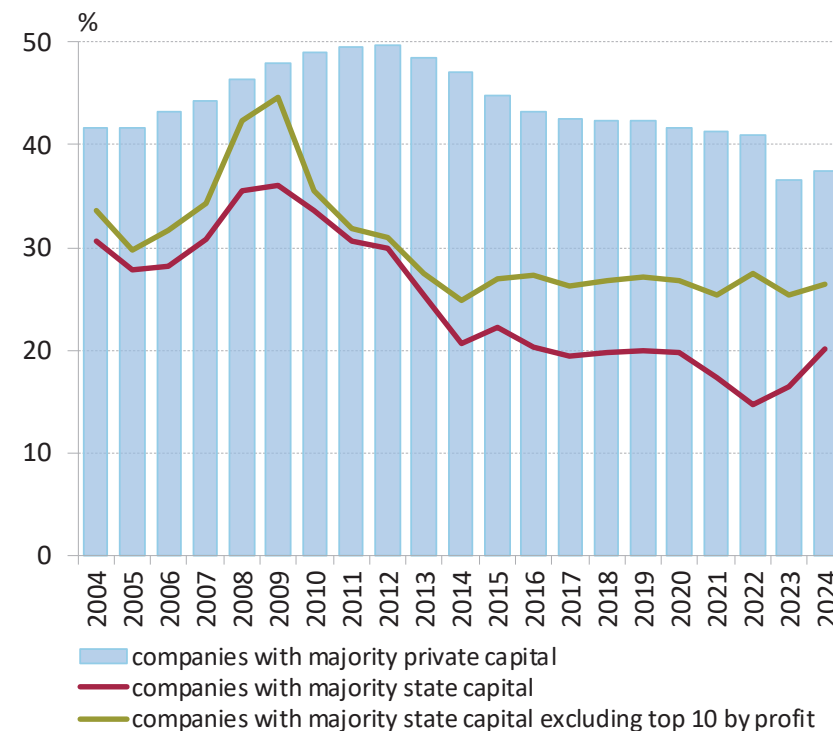


Weak payment discipline and tax optimisation practices affect fiscal sustainability, given the postponement of or default on payment obligations and the redirection of resources aimed at reducing tax liabilities. State-owned enterprises, even though they resort to trade credit to a similar extent, report significantly longer delays, while private firms make greater use of external services, which may indicate a preference for tax optimisation.

Trade debt: relevance, payment period



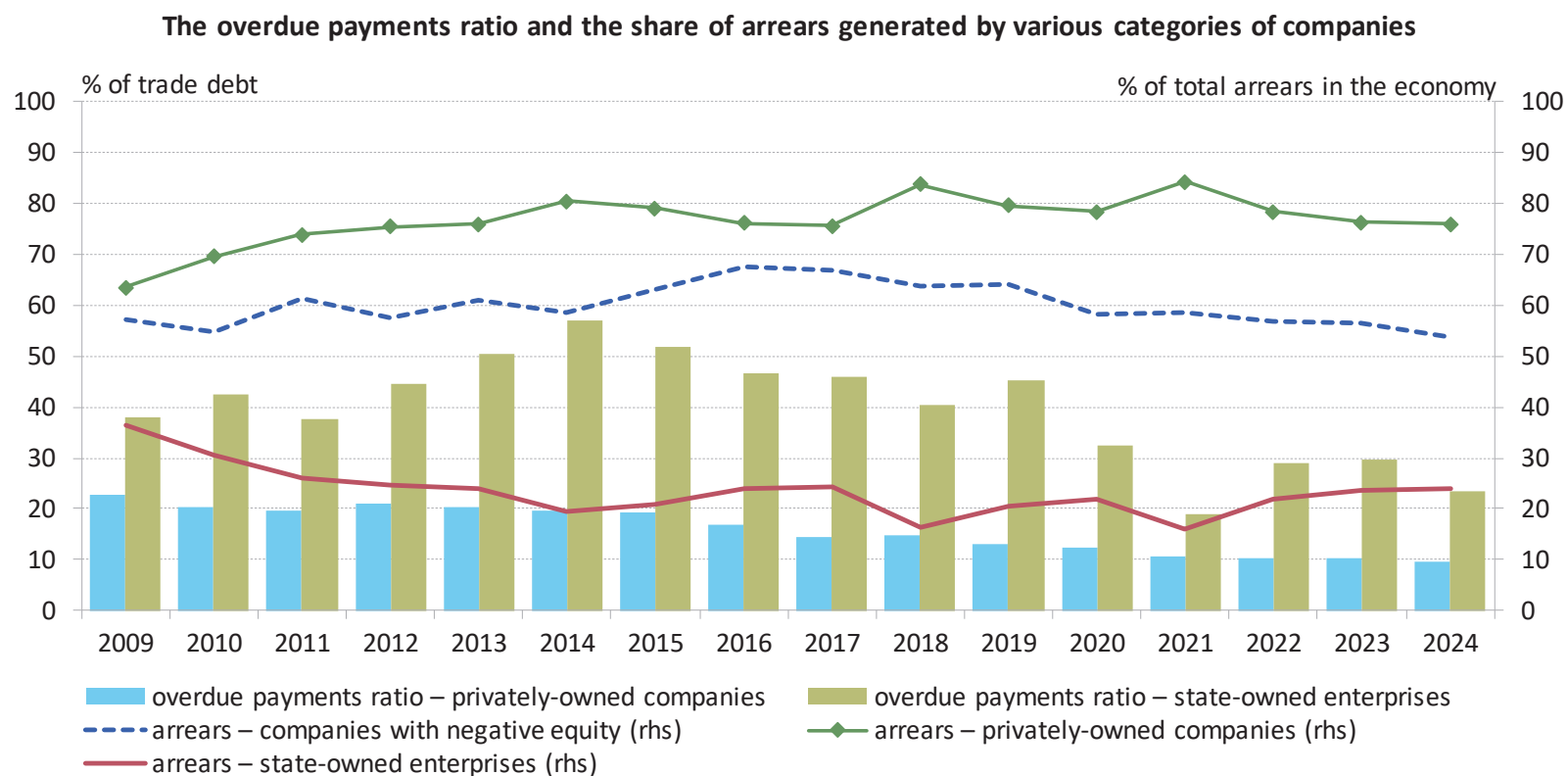
External services expenses (% of GVA)



Note: External services expenses include the costs incurred for telecommunications services, rental services, consulting services, expertise, advertising services etc.

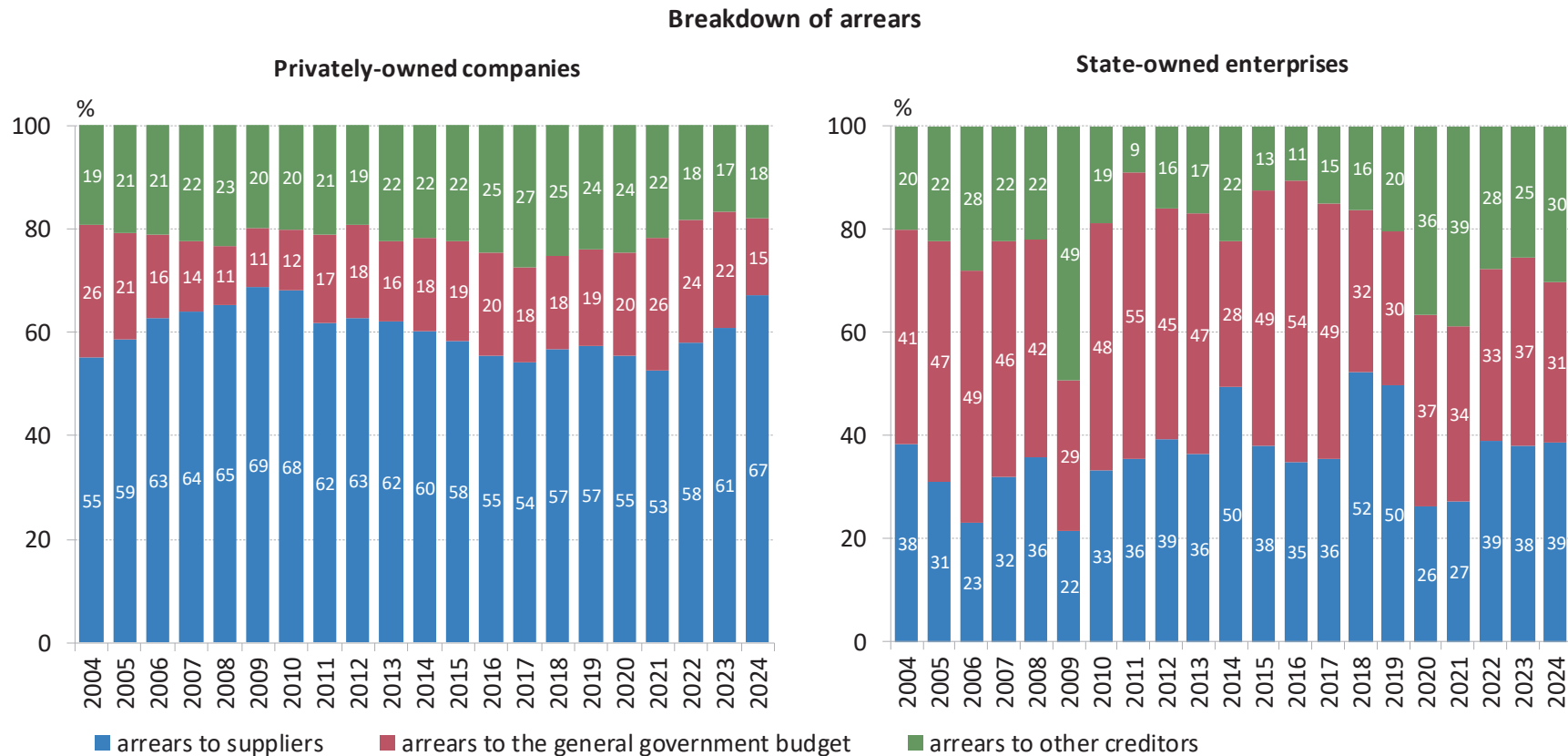
Source: MF, NBR calculations

Private companies account for the largest volume of arrears generated in the economy i.e. over 70%, given the size of the sector, with undercapitalised companies accounting for more than half of them. Even though the overdue payments ratio for companies with majority state capital declined visibly over the past years, the indicator remains well above that for private companies, reflecting major difficulties in managing payments.



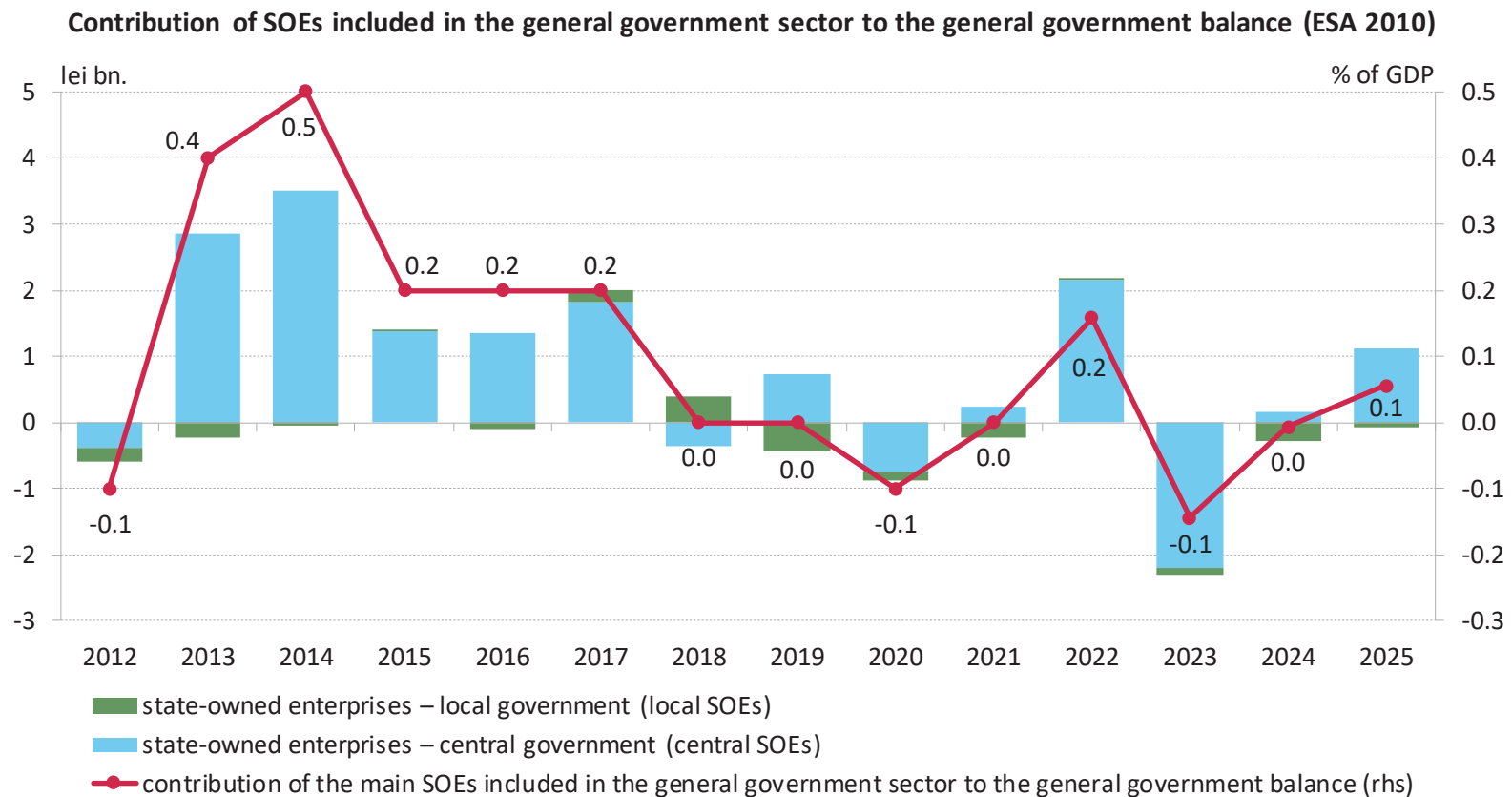
Source: MF, NBR calculations

Arrears to suppliers account for the largest share of total arrears of private companies, while in the case of state-owned enterprises, arrears to the general government budget are significant, exceeding 40% of total. In the case of companies with majority state capital, the problem of arrears has become entrenched for certain companies and sectors, such as mining, heating supply or the chemical industry.



Source: MF, NBR calculations

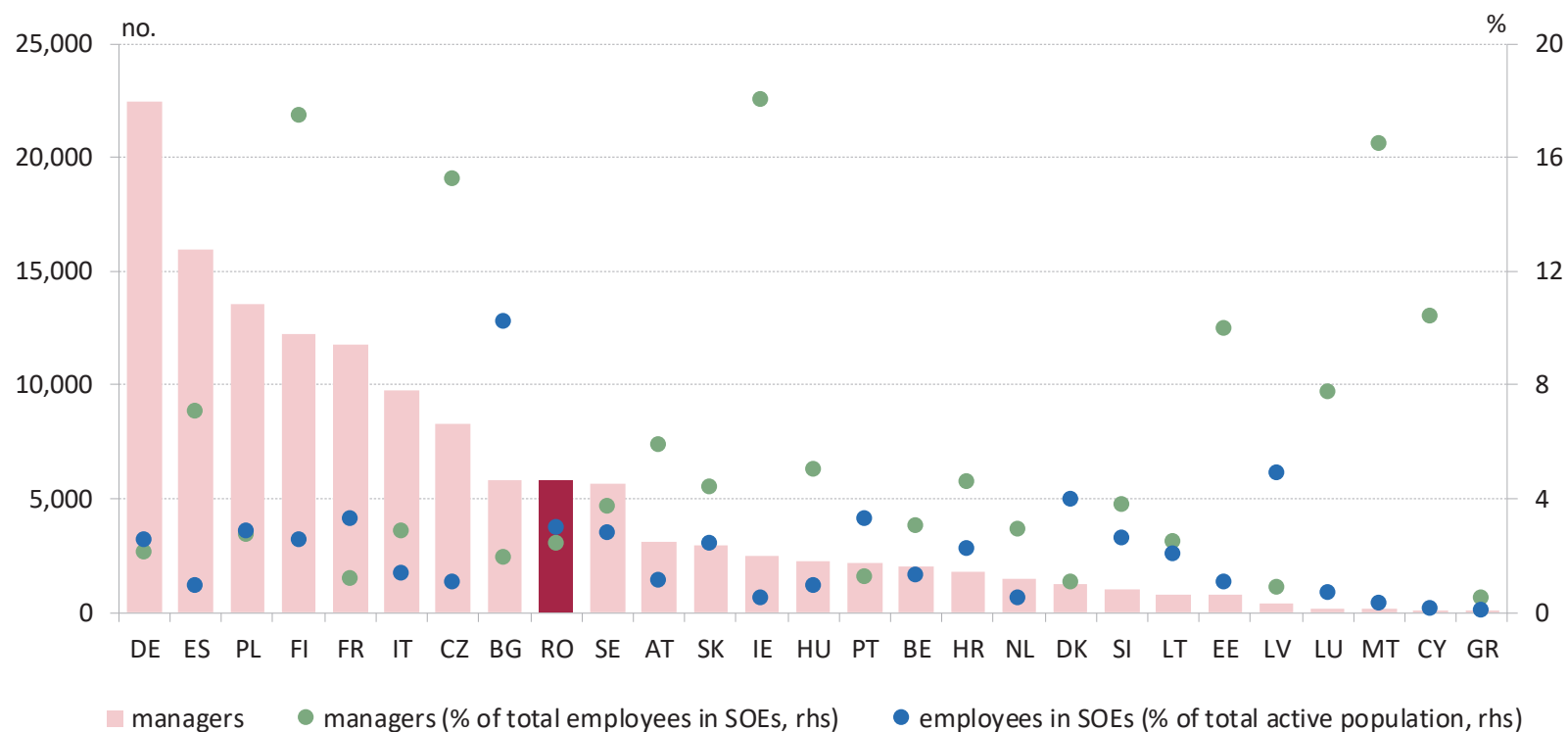
State-owned enterprises may impact the budget balance via the issuance of government guarantees, the reclassification of some SOEs within the general government and the inclusion of their results in the budget balance. In the reviewed period, the contribution of SOEs to the general government balance was subdued, with a generally positive contribution coming from the results of central SOEs.



Source: NIS, Eurostat, Fiscal Council

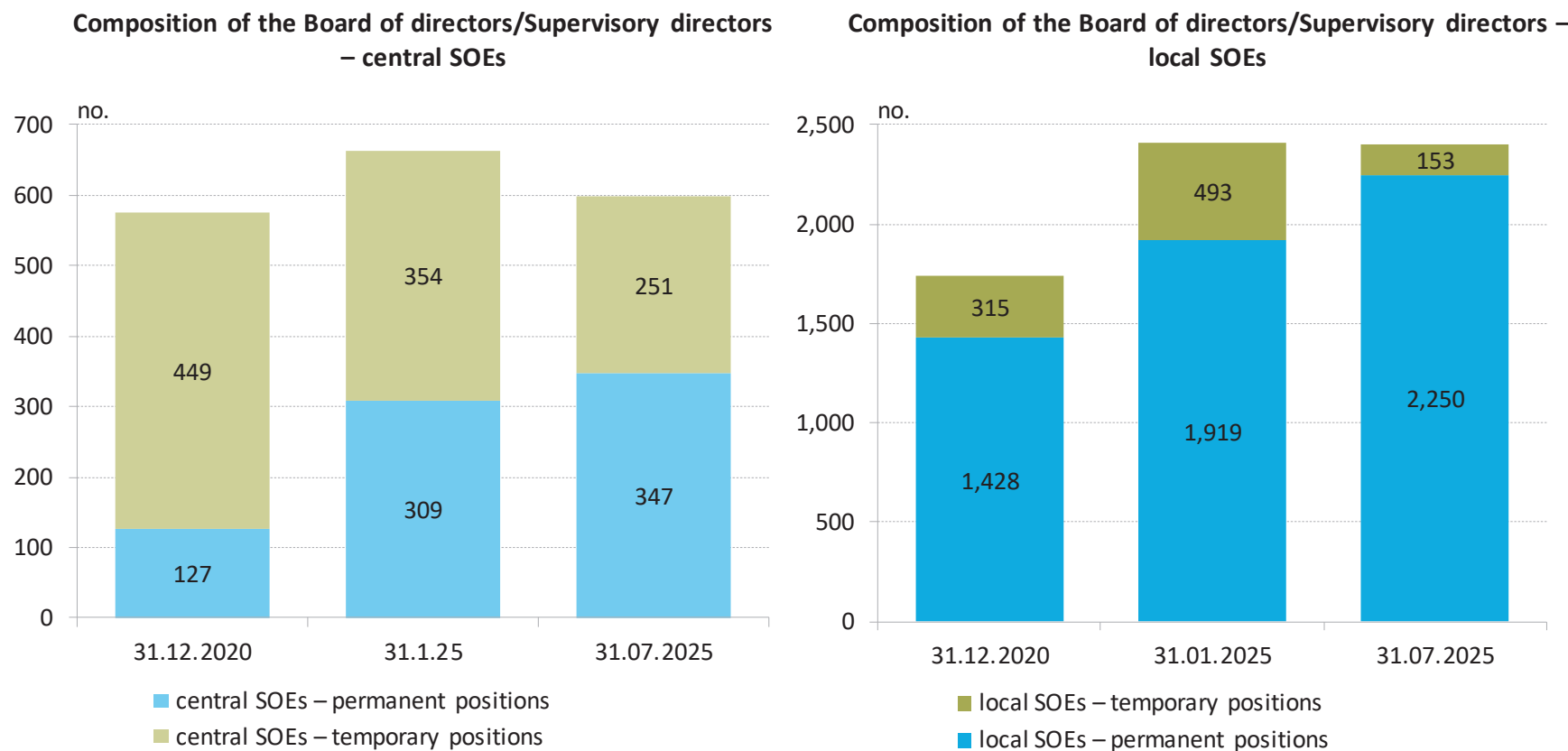
Looking at the governance of state-owned enterprises, Romania does not stand out in the EU in terms of the share of managers in SOEs. However, some disparities persist. The recent change to the legislative framework regarding corporate governance, while an important step, must also be supported by its proper implementation, in line with the OECD recommendations.

Corporate governance and the impact of state-owned enterprises on the labour market



Source: ORBIS, MF, Eurostat, NBR calculations

Between 2020 and 2025, nationwide, the number of permanent management positions rose significantly, both at central level (+173%) and at local level (+57.6%). Permanent management is generally preferable in terms of the stability of corporate governance and the management of state-owned enterprises, provided that the selection process for these managers is transparent, based on professionalism and competence.



Source: Agency for Monitoring and Evaluation of Performance of Public Enterprises (AMEPIP)

Romania has made significant progress in aligning with OECD standards since 2022 when the accession process began. The progress relates to opening up markets, improving the institutional framework for the business environment, the labour market and the public pension system. As regards the governance framework of state-owned enterprises, Romania ranks in the middle position in the region, with six criteria either fully or partially fulfilled.

Level of compliance with OECD standards on best practices for SOE boards, 2024	Bulgaria	Czechia	Hungary	Poland	Romania
Board structure	1	2	1	1	1
Definition of objectives	3	4	3	3	3
Board nomination	2	3	3	1	3
Minimum number of independent directors	2	4	2	3	2
Conflicts of interest safeguards	2	2	2	2	2
Primary point of contact between state and board	3	3	3	2	4
Employee representation		2	3	3	
Specialised board committees	1	1	3	2	1
Performance evaluation	3	3	3	3	2
Oversight of internal audit function	1	4	3	1	1

Legend: 1 – Full alignment with OECD standards for all SOEs, 2 – Full alignment with OECD standards for some SOEs, 3 – No alignment, 4 – Practice is missing

Source: OECD, *Ownership and Governance of State-Owned Enterprises 2024*

Looking at the transparency of SOEs, Romania has made progress in recent years, *inter alia* by listing several companies on the BSE, and now it occupies an average position across the region in OECD assessments. The further listing of other SOEs, with the state remaining the majority shareholder, supports the effort to improve their governance, in particular their transparency, and it can also contribute to capital market development.

Level of compliance with OECD standards on disclosure and transparency practices of SOEs, 2024	Bulgaria	Czechia	Hungary	Poland	Romania
Financial and non-financial reporting and disclosure	2	1	2	1	3
SOE objectives and their fulfilment	3	1	1	4	2
Separation of accounts related to public service obligations	2	4	1		3
Governance, ownership and voting structure of the enterprise	2	1	3	3	3
Remuneration of board members and key executives	2	2	1	4	1
Board member qualifications, independence and selection process	3	1	2	3	2
Main risk factors and their risk management systems	2	4	2	2	2
Guarantees and/or subsidies	1	2	3	3	3
Disclosure requirements for transactions with related parties	2	2	2	2	1
Disclosure of issues related to employees and stakeholders	2	4	4	2	2
External audits by an independent auditor	2	2	1	2	2
Aggregate reporting	2	3	4	4	2

Legend: 1 – Full alignment with OECD standards for all SOEs, 2 – Full alignment with OECD standards for some SOEs, 3 – No alignment, 4 – Practice is missing

Source: OECD, *Ownership and Governance of State-Owned Enterprises 2024*

## Chapter V

SOEs continue

to face

deficiencies,

with strong

performance

concentrated in

a relatively

small number

of companies

- State-owned enterprises have a strategic role in the economy, but their performance is uneven. At aggregate level, financial results are positive, but they are concentrated only in a small number of large companies, while a significant part of SOEs remain vulnerable to the risk-laden environment.
- Dependence on the government budget has been a structural problem for many state-owned enterprises. Financial health indicators show that some state-owned enterprises do not operate on sustainable foundations and continue to rely on public support.
- Arrears point to soft budgetary constraints. Although overdue payments are higher in the private sector in absolute terms, when analysed relative to the volume of trade debt, state-owned enterprises accumulate much higher arrears. In addition, the latter account for 40% of arrears to the general government budget.
- Performance indicators should be interpreted with caution. Favourable results are influenced by preferential market positions and circumstantial developments, and not always by managerial efficiency or sustainable investments.

## Chapter V

The analysis of state-owned enterprises should be aligned with the requirements of modern corporate governance

- Corporate governance is of the essence to generate sustainable change with significant socio-economic impact. The recently adopted legislation, which is in line with the OECD standards, is a step forward, but the real impact depends on the responsible, transparent and strict application of the rules.
- The professionalisation of the management of SOEs must become the rule, not the exception, at all stages that lead to the appointment of members. The increase in the number of permanent positions is a positive change, provided that the selection is based on competence and expertise in the field, not on administrative or political criteria.
- Adequate capitalisation and financial discipline must replace temporary solutions. Repeated subsidies and arrears cannot substitute for the structural reforms needed to increase competitiveness, access new markets and ensure the long-term viability of companies.
- State-owned enterprises can thus become a pillar of stability, not an additional source of risk. Through robust governance, transparency and performance orientation, they can contribute more effectively to economic growth, investments and the stability of public finances.

## Chapter V

It is necessary to carry on the efforts to improve corporate governance and economic resilience through reforms and investments

- SOEs in strategic sectors are also instruments for security and economic development. The performance of these companies in key areas, such as the agri-food, energy, defence or high value-added sectors, can contribute to the structural transformation of the domestic economy.
- Romania has made good progress in aligning with OECD standards since 2022. The further listing of SOEs on the BSE, with the state retaining its strategic position as the majority shareholder, supports the effort to improve the governance and transparency of these companies and can also contribute to the development of the capital market.
- At the same time, SOEs must be viewed as strategic providers of public value, not just as sources of government revenue. The role of the companies in which the state holds a majority stake is not exclusively to generate profit, but to provide essential services to the entire economic and social system in an efficient and sustainable manner.
- Successful SOEs reform is actually a long-term investment in national credibility and financial sustainability. Improving governance and financial discipline strengthens the confidence of investors and external partners in Romania's economy.

## Chapter VI

### Financial

### Discipline in the Private Sector

### Financing

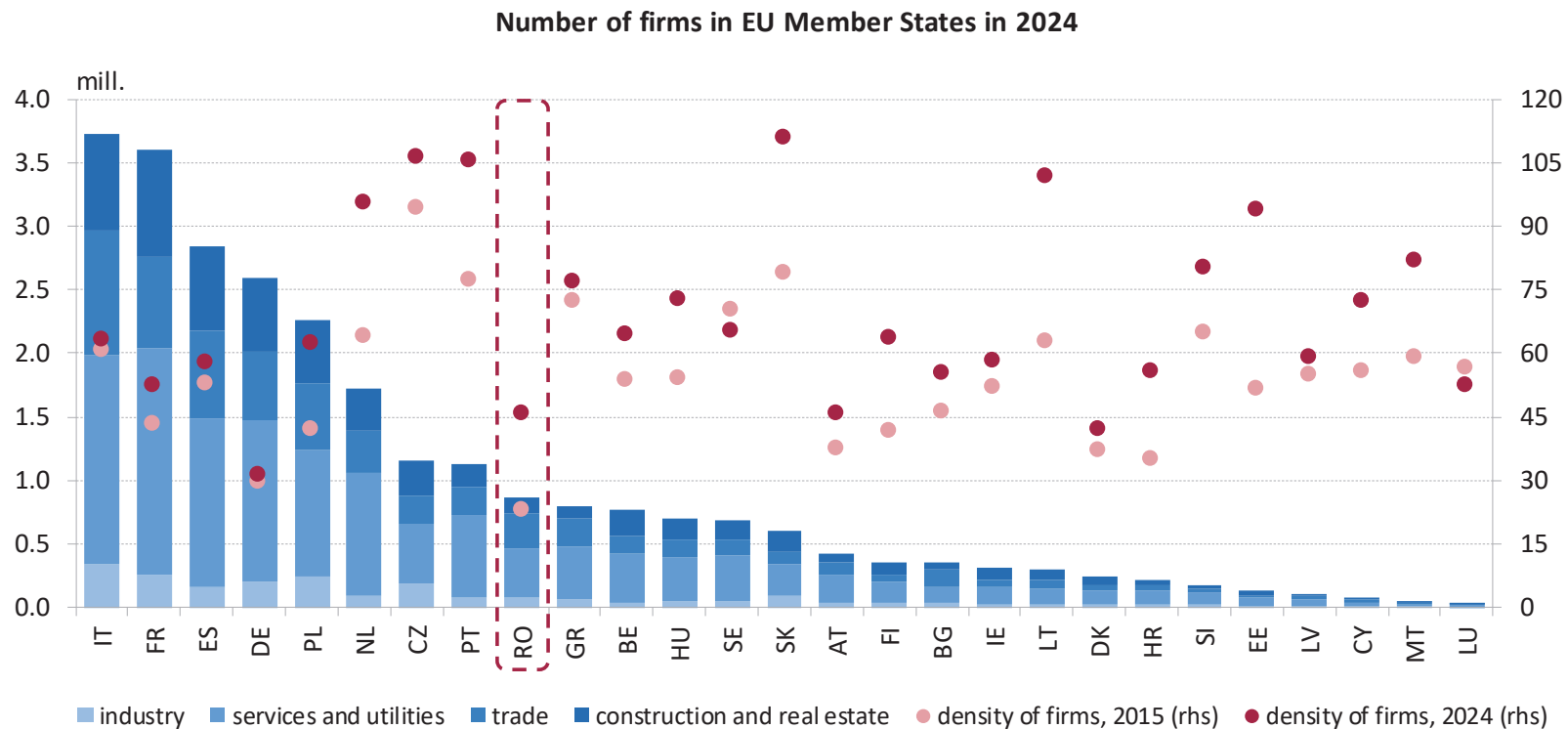
### Debt

### Arrears

- The analysis highlights the developments in key indicators on private sector companies in Romania and the EU over the past two decades. The assessed parameters are companies' size, economic and financial performance, level of indebtedness and financial health.
- This approach is aimed at showing the significant changes to the non-financial companies sector, as well as at analysing the vulnerabilities that continue to dampen the growth of these firms, which calls for implementing adequate structural measures.
- Major steps that could be taken to strengthen the financial soundness of companies domestically are to spur capitalisation, enhance payment discipline in the economy and lower the number of firms with atypical features, *inter alia* by improving more notably the resolution mechanisms for non-viable firms.
- Moreover, the analysis captures certain indicators of national wealth and their correlations with economic development, illustrating inequalities among regions. The main causes include the low efficiency of functions assimilated to public finance, informal economy and unequal access to education.

At EU level, Romania saw a fast increase in the number of companies, their density doubling over the past decade, from an EU-wide low to about 80% of the European average.

The uptrend can be correlated with the development of the economy and the real convergence that led to the narrowing of certain gaps. However, structural vulnerabilities persist, and they should be addressed to ensure a more sustainable business climate.

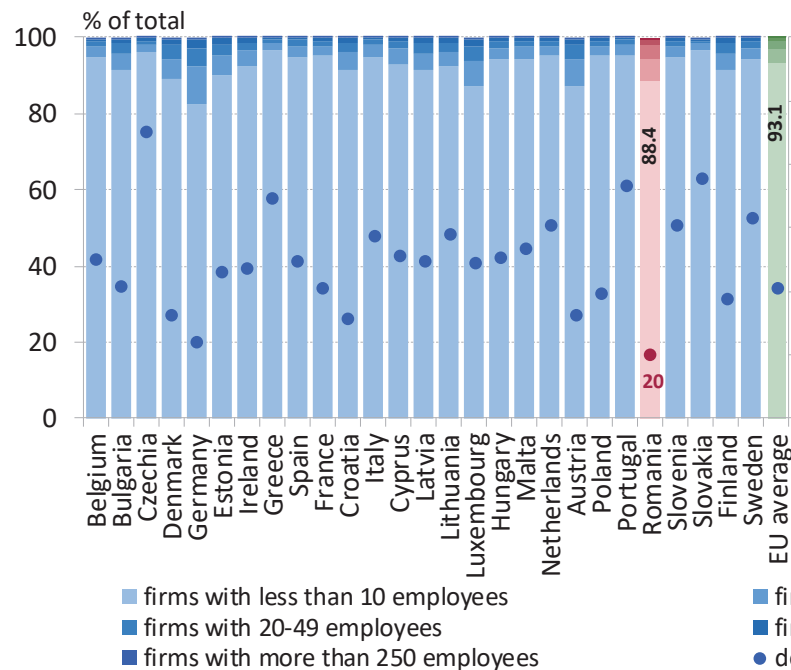


Notes: All non-financial companies, except those in agriculture, public administration and defence, education, social work and other services, activities of households and extra-territorial organisations and bodies. The density of firms is the number of firms per 1,000 inhabitants.

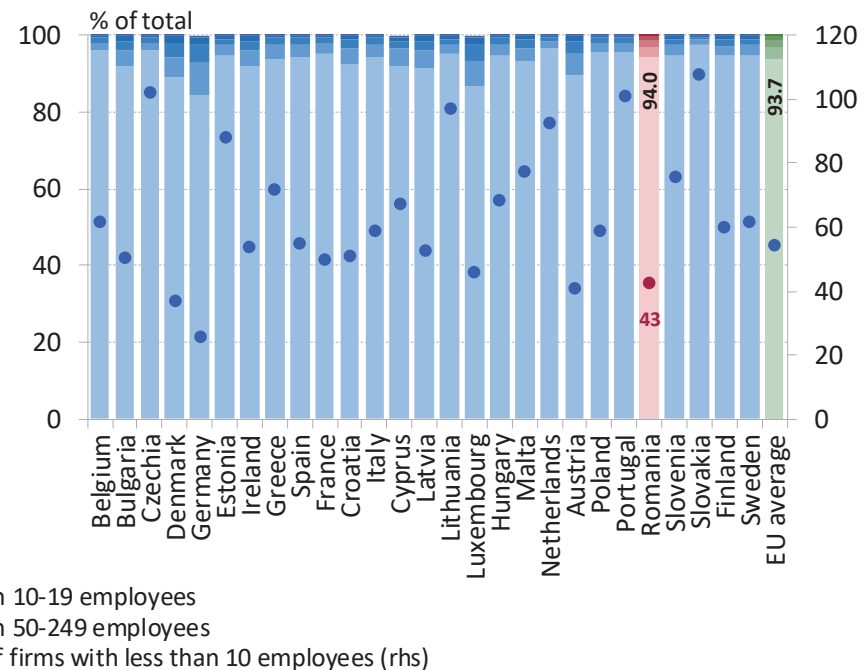
Source: Eurostat, NBR calculations

By the number of employees, Romania reported a concentration of firms with less than 10 employees over the last decade, from 86% to 94%. This may be attributed to an increase in entrepreneurial initiatives, but it may also mask certain forms of fiscal optimisation of labour taxes and contributions in favour of capital taxation. The rise in the density of these firms, at the fastest pace in the EU, can support this argument.

**Composition of number of firms by size and density of firms with less than 10 employees in 2015**



**Composition of number of firms by size and density of firms with less than 10 employees in 2024**

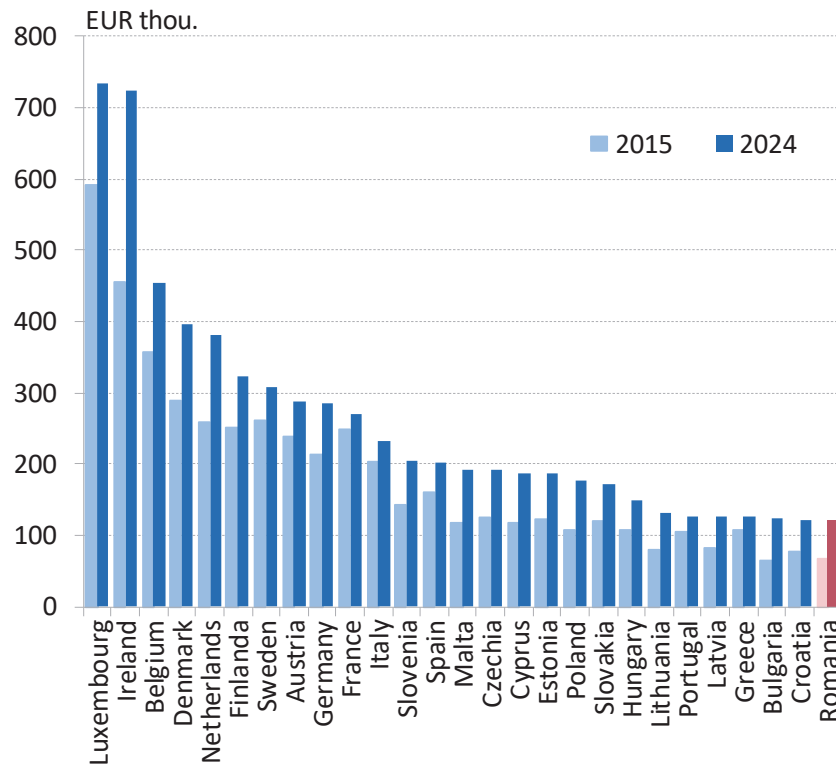


Notes: All non-financial companies, except those in agriculture, public administration and defence, education, social work and other services, activities of households and extra-territorial organisations and bodies. The density of firms is the number of firms per 1,000 inhabitants.

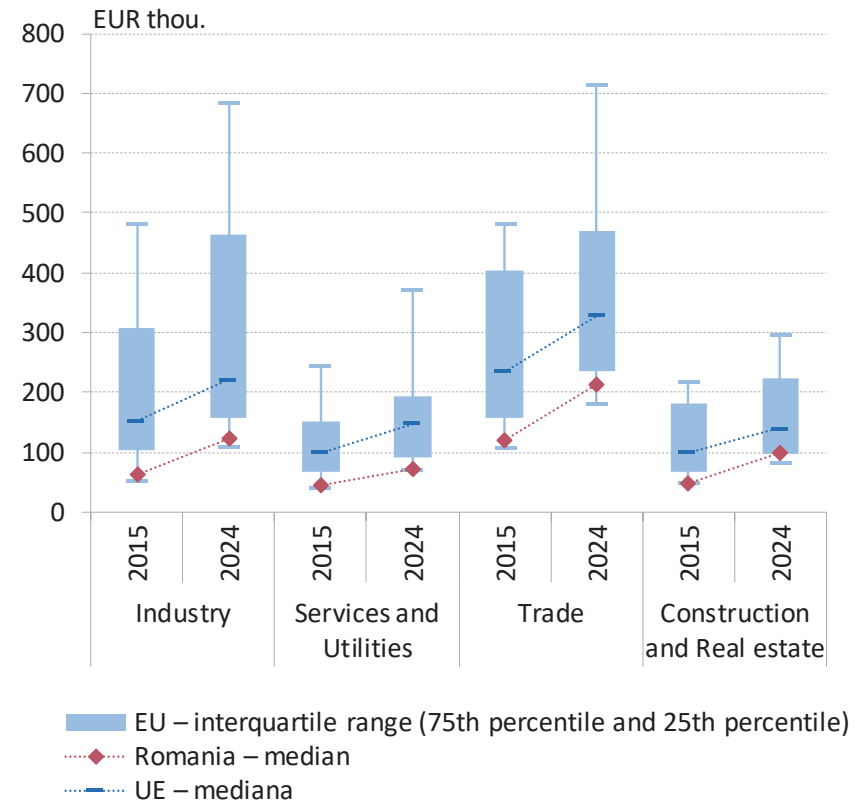
Source: Eurostat, NBR calculations

The sales-per-employee ratio reflects a firm’s performance in terms of productivity. Even though in Romania this indicator rose significantly in recent years, the performance of Romanian companies is among the lowest in Europe and across the region. This is also the case at sectoral level. Further efforts to improve firms’ competitiveness are therefore needed as an essential condition for developing Romania’s economy.

Sales per employee

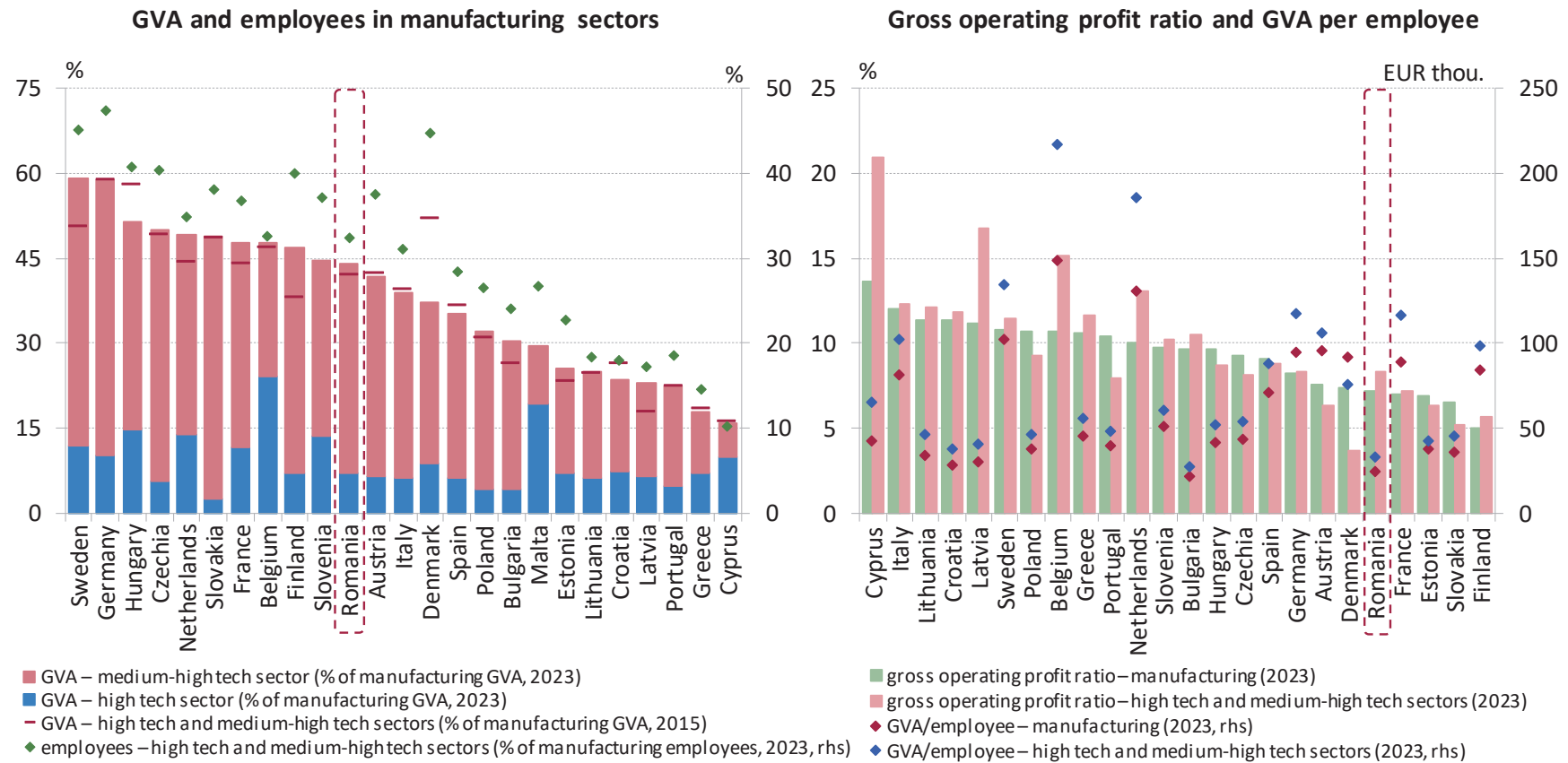


Sales per employee by business sector



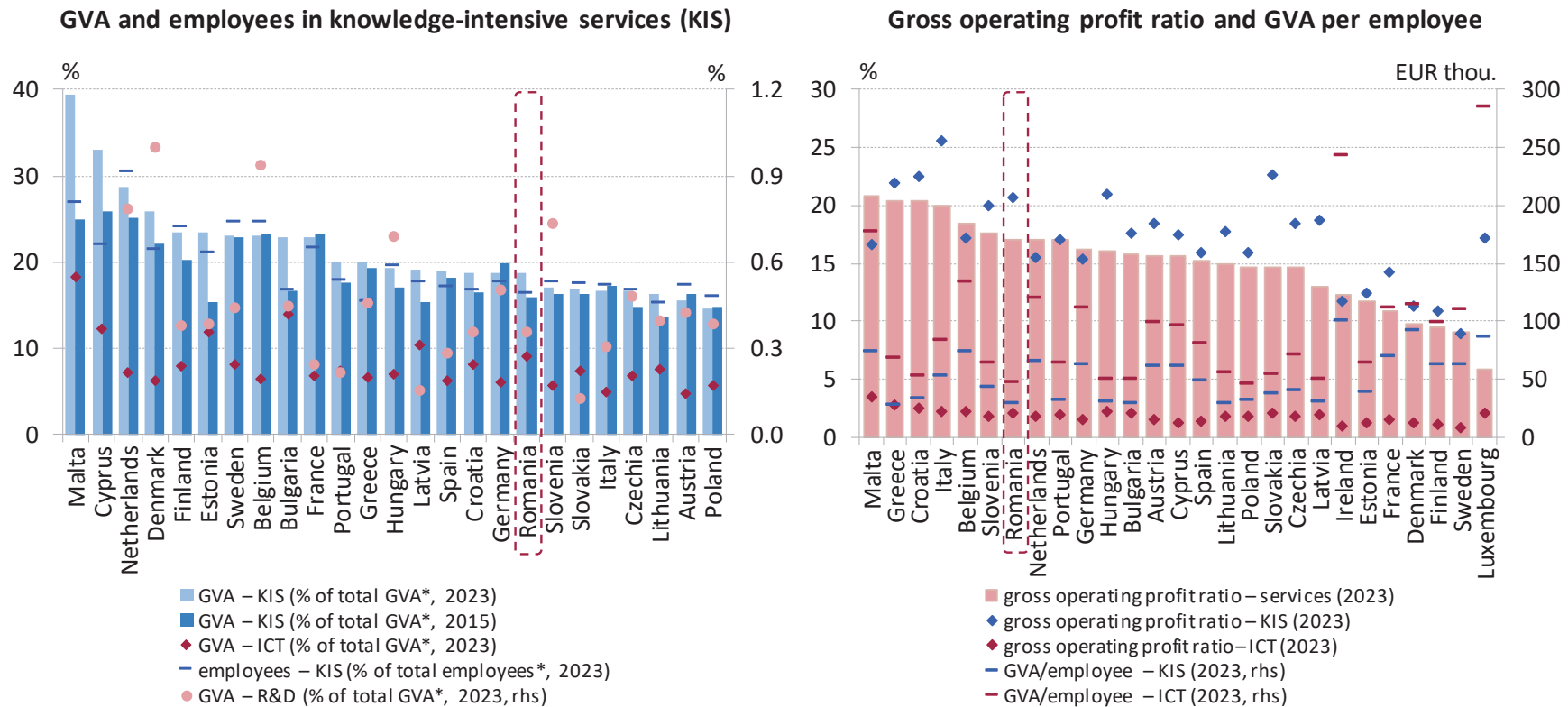
Source: Eurostat, NBR calculations

Looking at the structure of the economy by the level of technological intensity, Romania is at the middle of the European ranking, where it stayed over the last decade. Countries in the region report either better results (Hungary and Czechia) or a lower contribution to GVA (Poland and Bulgaria). However, Romania does not record comparable performance levels in terms of economic efficiency and productivity.



Source: Eurostat

The development of the IT sector in recent years, also upheld by tax breaks, strengthened the role of knowledge-intensive services, with Romania climbing three places in the EU ranking in the last decade. Unlike the IT sector, however, research and development activities remained modest. In the region, Bulgaria and Hungary have higher contributions of knowledge-intensive services to GVA.

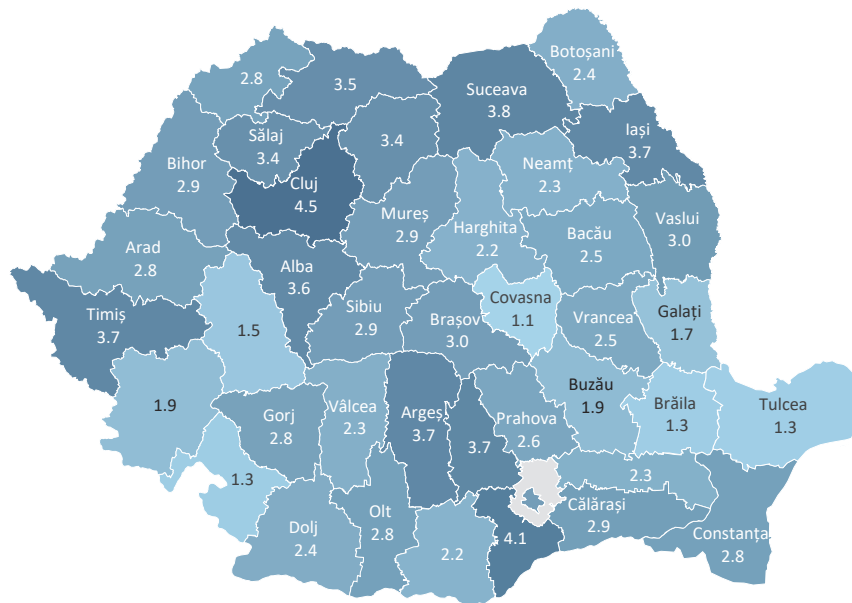


\*) all non-financial companies, except those in agriculture, public administration and defence, education, social work and other services, activities of households and extra-territorial organisations and bodies

Source: Eurostat

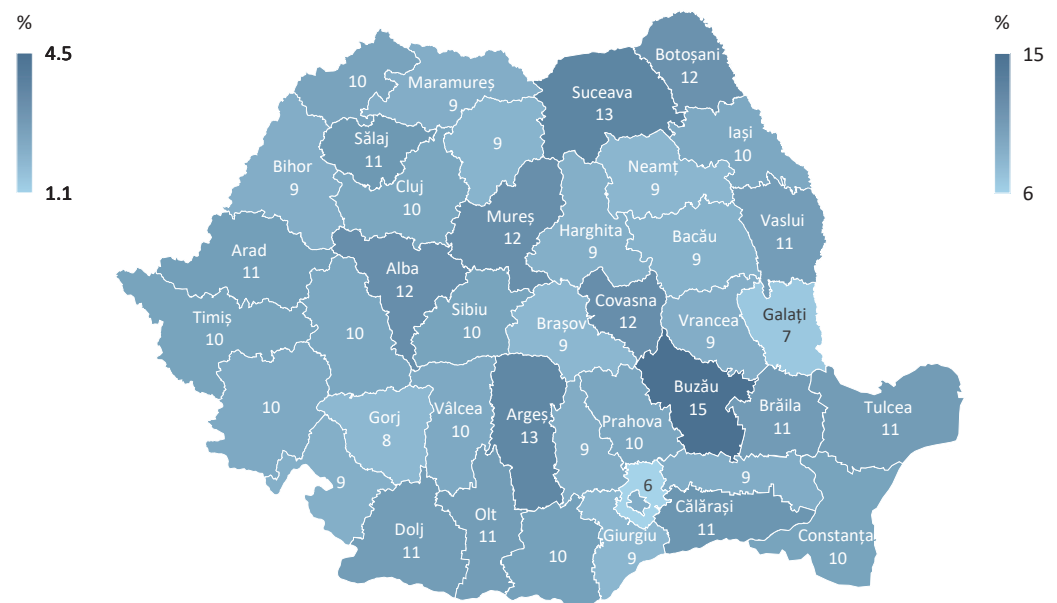
Companies' analysis by region shows significant development heterogeneities. Swifter dynamics in the number of firms have been recorded in major university centres, which have also benefited from faster growth in the highly skilled workforce. In terms of performance, there has been an important catching-up process, some regions with low sales-per-employee ratios posting high increases in the indicator over the past 20 years.

**Annual change in the number of firms (2004-2024)**



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**Annual change in the sales-per-employee ratio (2004-2024)**

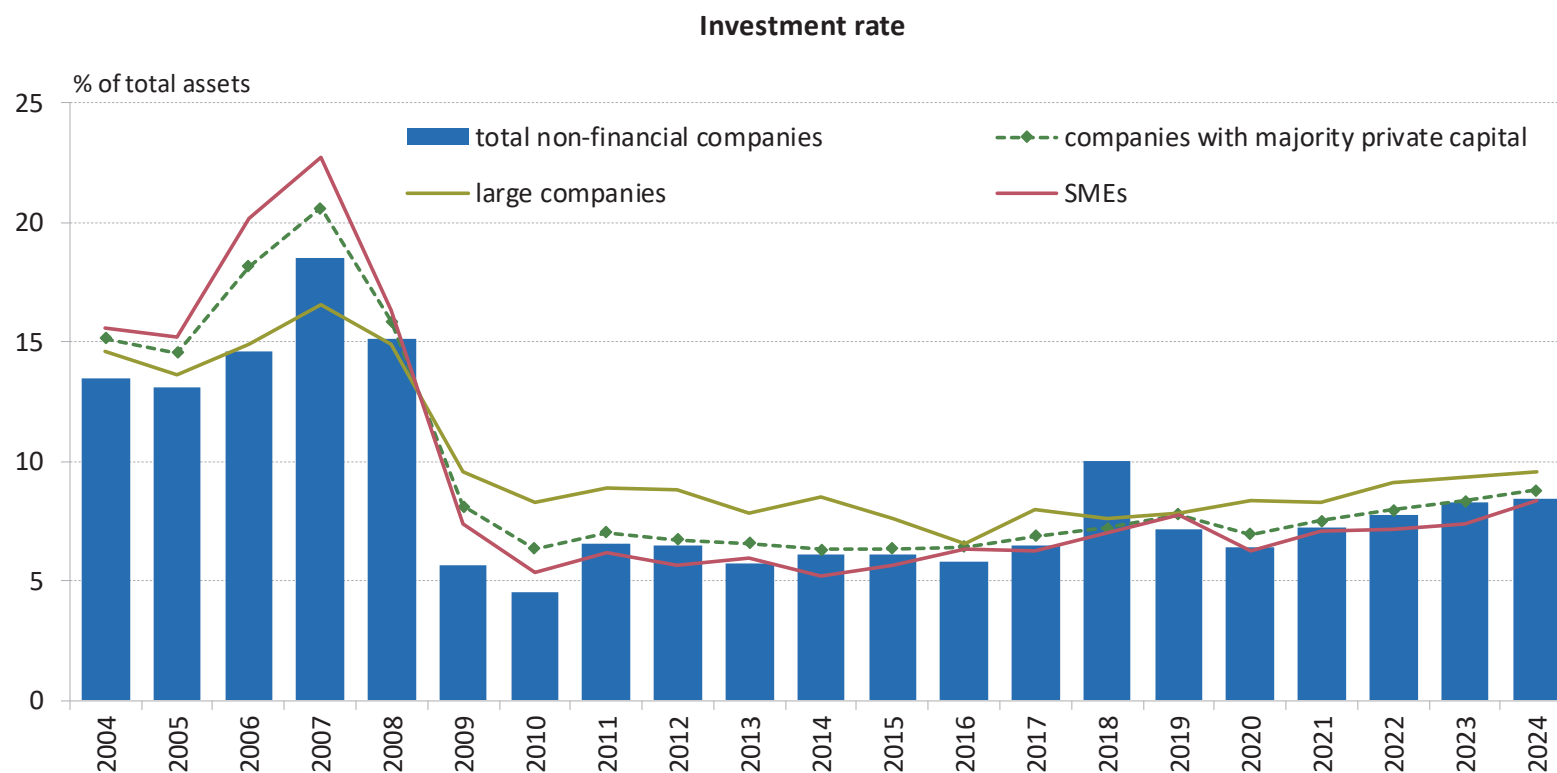


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Note: For the annual change in the number of firms, Ilfov county was excluded from the analysis due to its very high dynamics, i.e. over 10%.

Source: MF, NBR calculations

The private sector investment rate declined significantly in the aftermath of the global financial crisis, with large companies posting slightly higher values, given their better capitalisation, stronger market positions and, implicitly, easier access to finance. In recent years, an improvement trend has emerged, which is expected to continue as the crowding-in effects from the EU funds absorption strengthen.

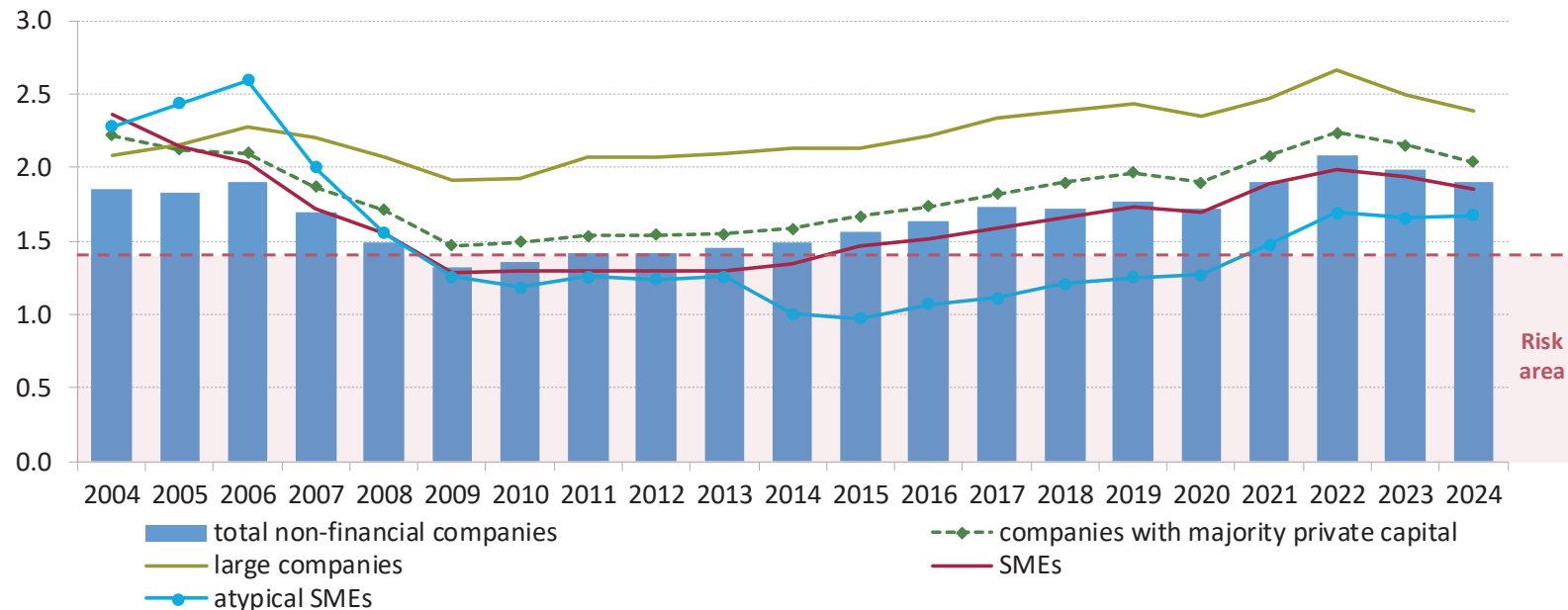


Note: The investment rate is calculated as a ratio of the investment-related cash flow to assets.

Source: MF, NBR calculations

The financial health measure of private sector companies shows an adequate level, yet worsening slightly in recent years. At sectoral level, worth noting are the recent deterioration of this indicator for agricultural firms and the sharper negative adjustment for mining and utilities companies, amid higher indebtedness and less efficient asset utilisation. The fallout from recent crises may fuel the ongoing deterioration trend.

Financial health measure by company size

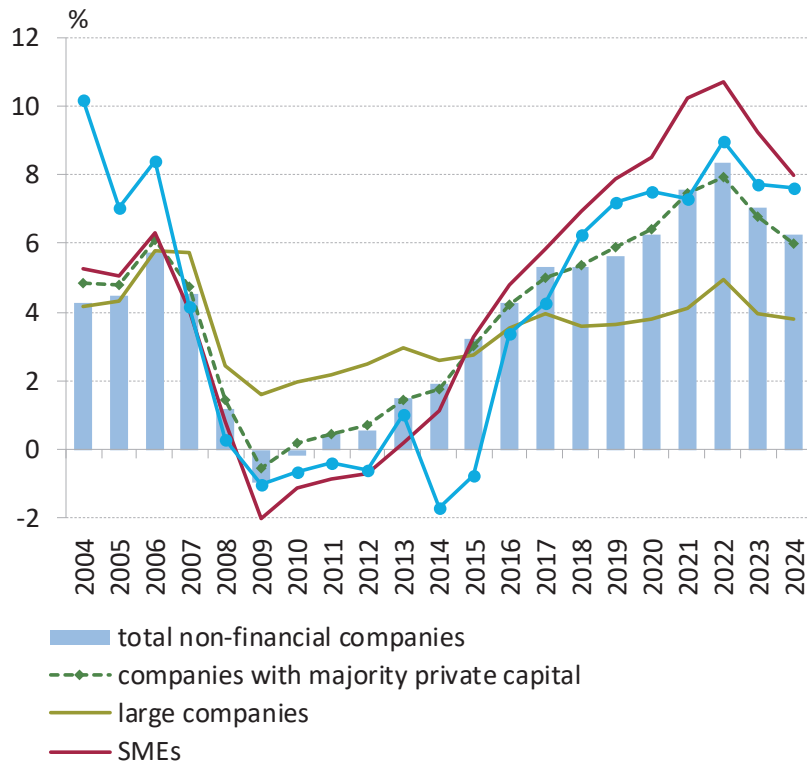


Note: The overall financial health measure of the non-financial companies sector was determined based on the methodology developed by Edward Altman – “Predicting financial distress of companies: Revisiting the Z-score and ZETA models”, 2000. Considering that the non-financial companies sector in Romania comprises overwhelmingly unlisted firms, the indicator was calculated by using the method adapted for private companies: Z-score was built based on the following formula:  $Z' = 0.717(X1) + 0.847(X2) + 3.107(X3) + 0.420(X4) + 0.998(X5)$ , where:  
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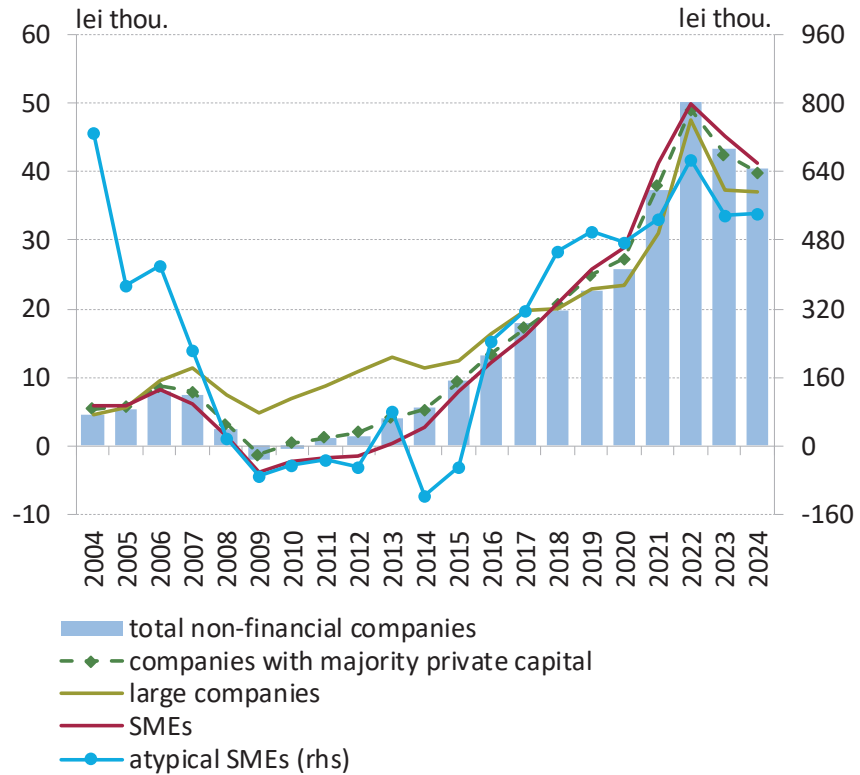
Source: MF, NBR calculations

The financial performance of private sector firms has improved markedly since the global financial crisis, but developments in recent years point to worsening trends. SMEs report higher profitability rates than those of large companies, but this may mask important structural vulnerabilities, especially as regards atypical SMEs, related to fiscal optimisation and employed workers.

Profit margin by type of private non-financial companies

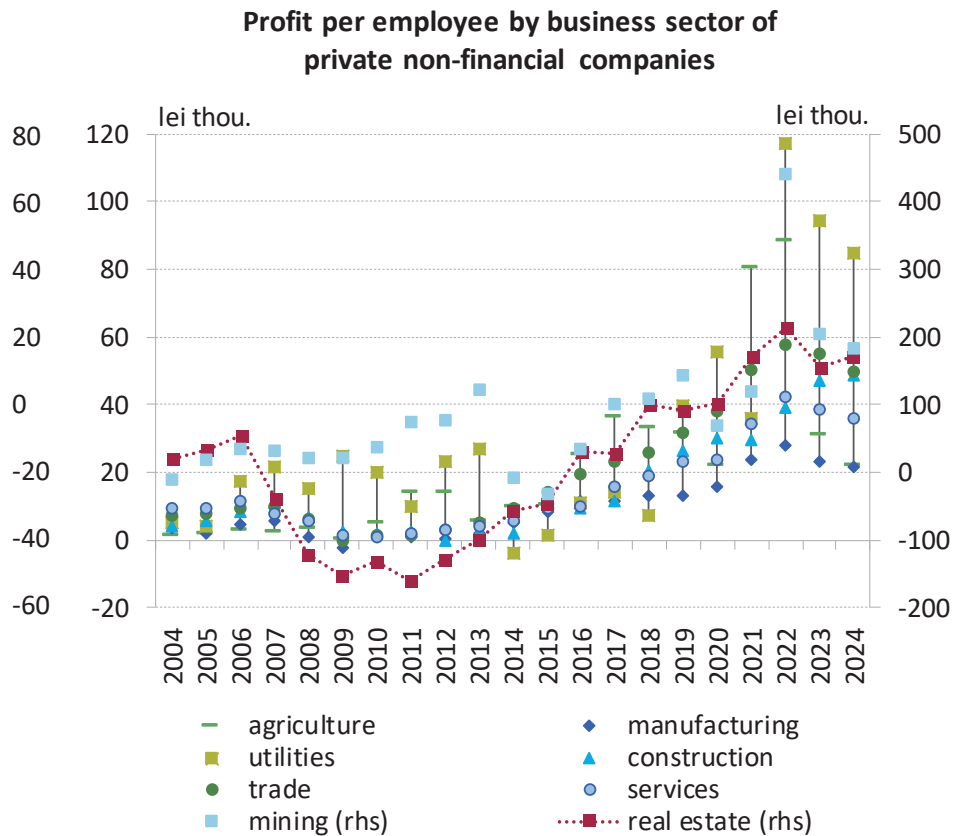
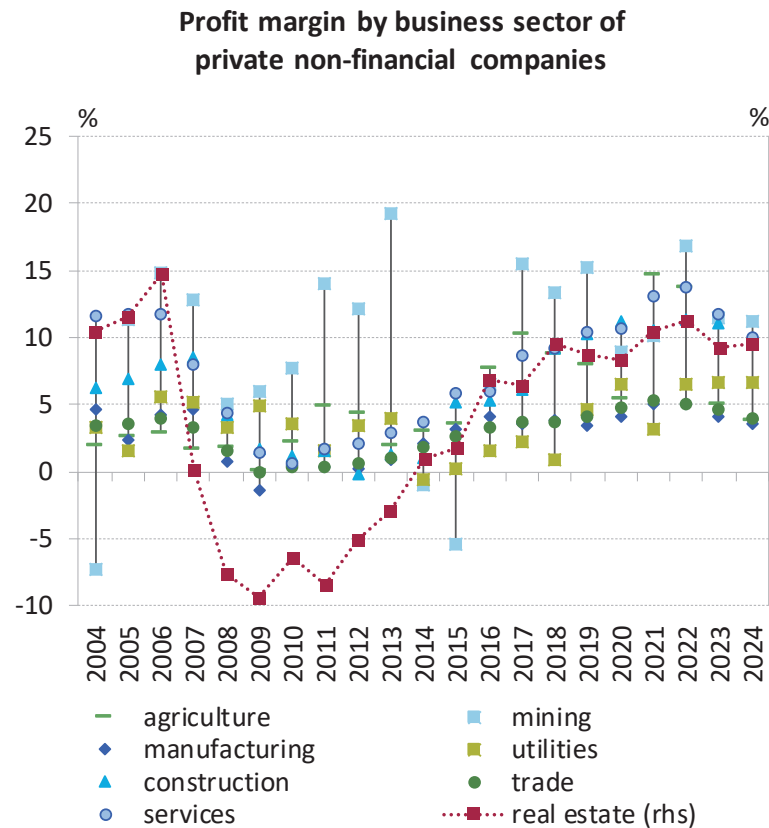


Profit per employee by type of private non-financial companies



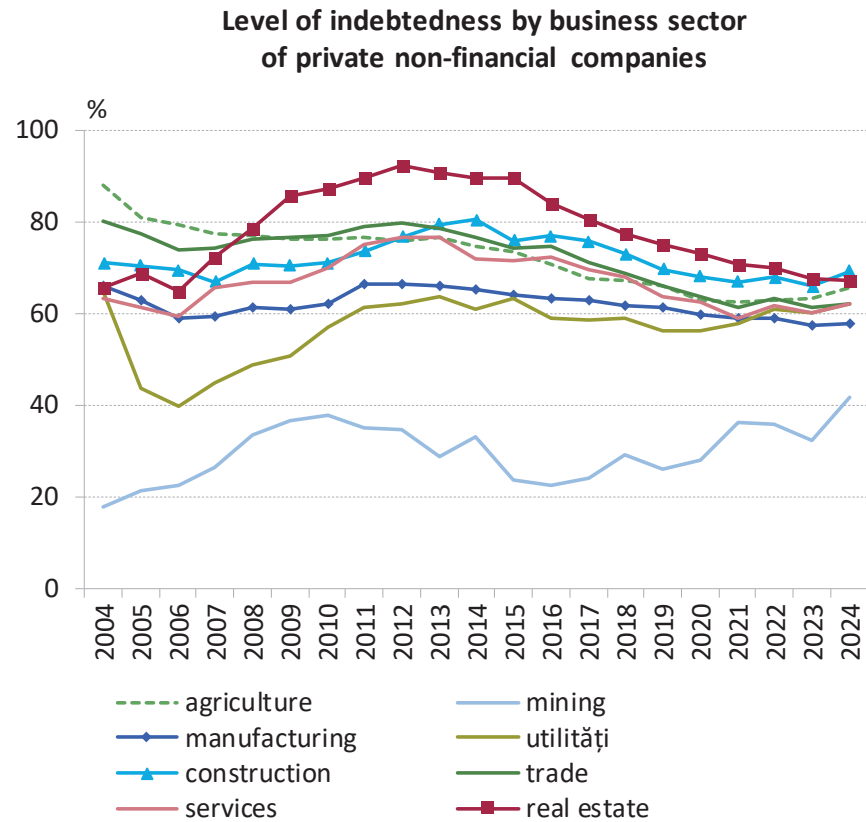
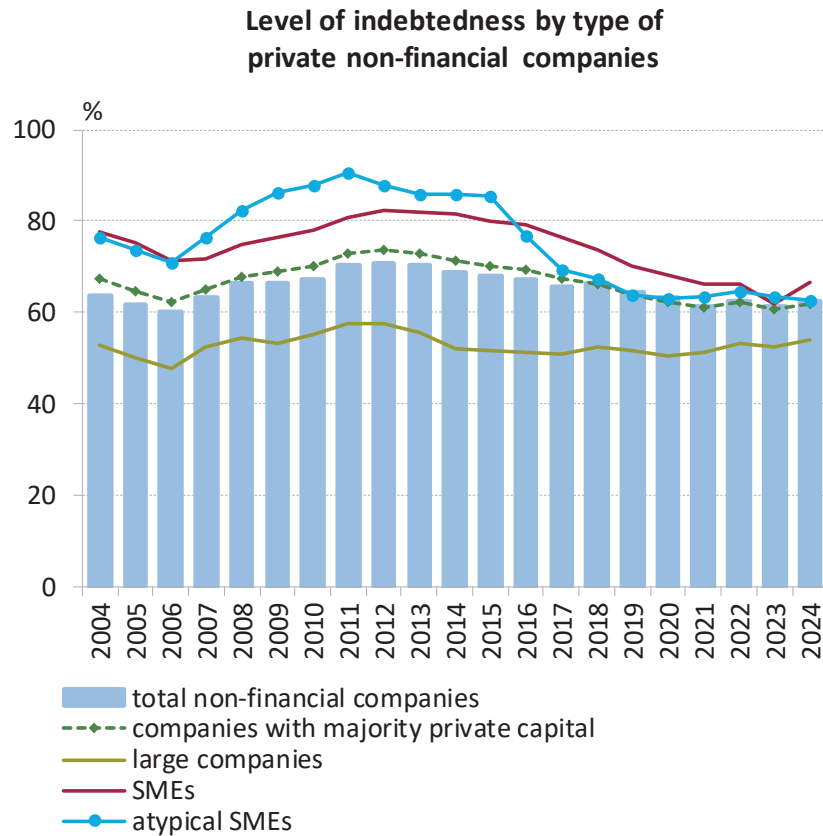
Source: MF, NBR

Private companies strengthened their profitability across all economic sectors, especially from 2014 onwards, as illustrated by developments in the profit margin and the profit-per-employee ratio. The real estate sector has stood out in recent years through the highest profit margin and a business model with higher profitability per employee, but also through higher pro-cyclicality – a challenge to resilience.



Source: MF, NBR

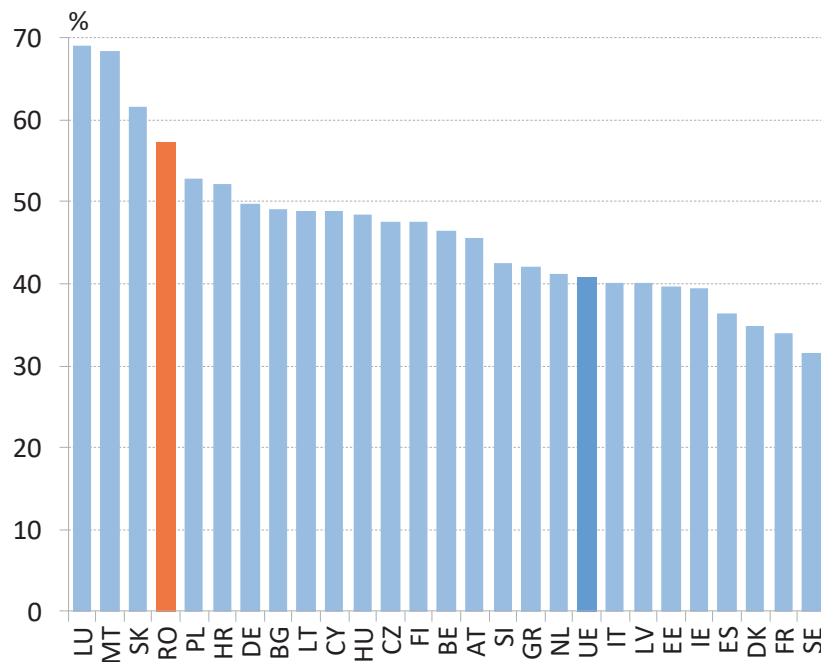
The balance sheet consolidation of private sector firms in the period after the international financial crisis was also reflected in deleveraging, particularly in the case of SMEs. The recent succession of global crises may alter this path, especially in the sectors more vulnerable to large fluctuations in energy prices, this being already quite visible in the case of mining companies.



Source: MF, NBR

The level of indebtedness of non-financial companies in Romania is high from a European and regional perspective. The debt composition accurately reflects Romania’s low financial intermediation and the structural vulnerabilities of firms, which prefer resorting to trade credit instead of directly accessing the financial market. Among the EU Member States, the importance of trade credit is the highest in Romania, similarly to Bulgaria and Croatia.

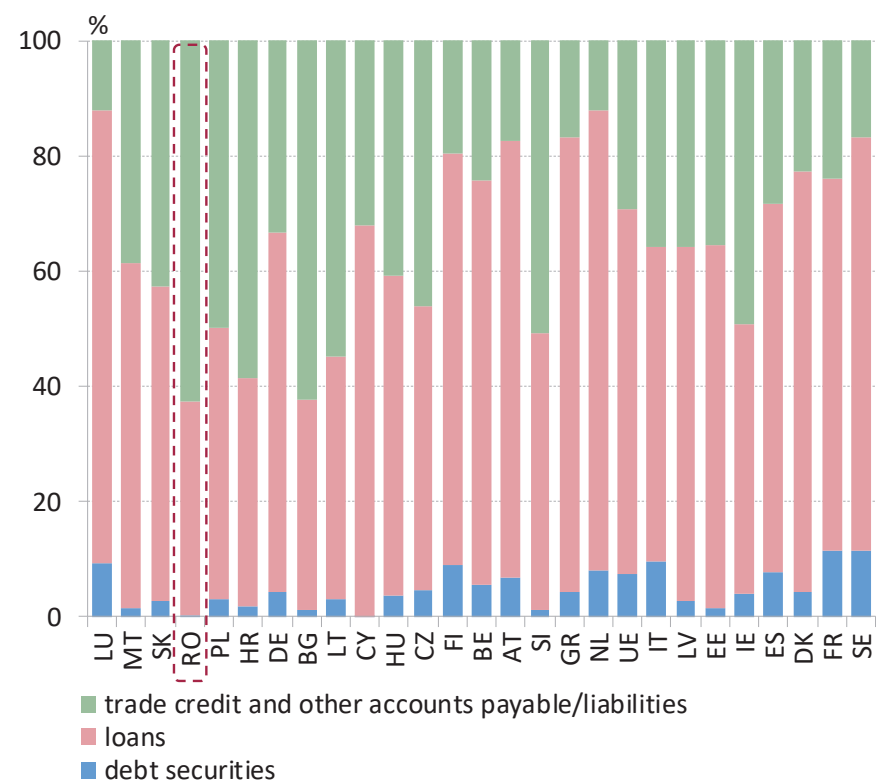
**Level of indebtedness of non-financial companies in EU Member States (2024)**



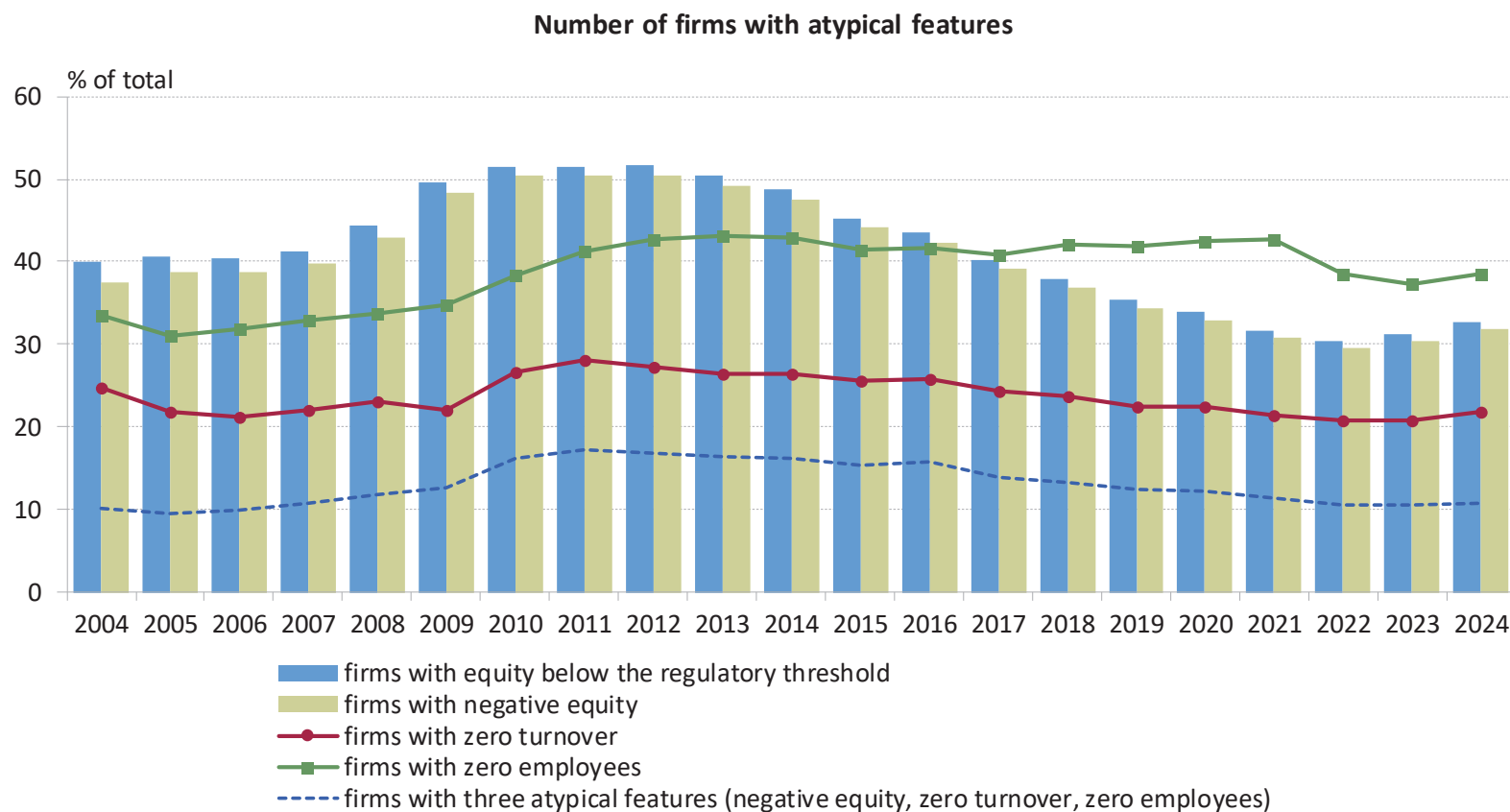
Note: The level of indebtedness is calculated as the ratio between the main categories of financial debt and total assets.

Source: Eurostat, NBR calculations

**Composition of financial debt by main items in EU Member States (2024)**

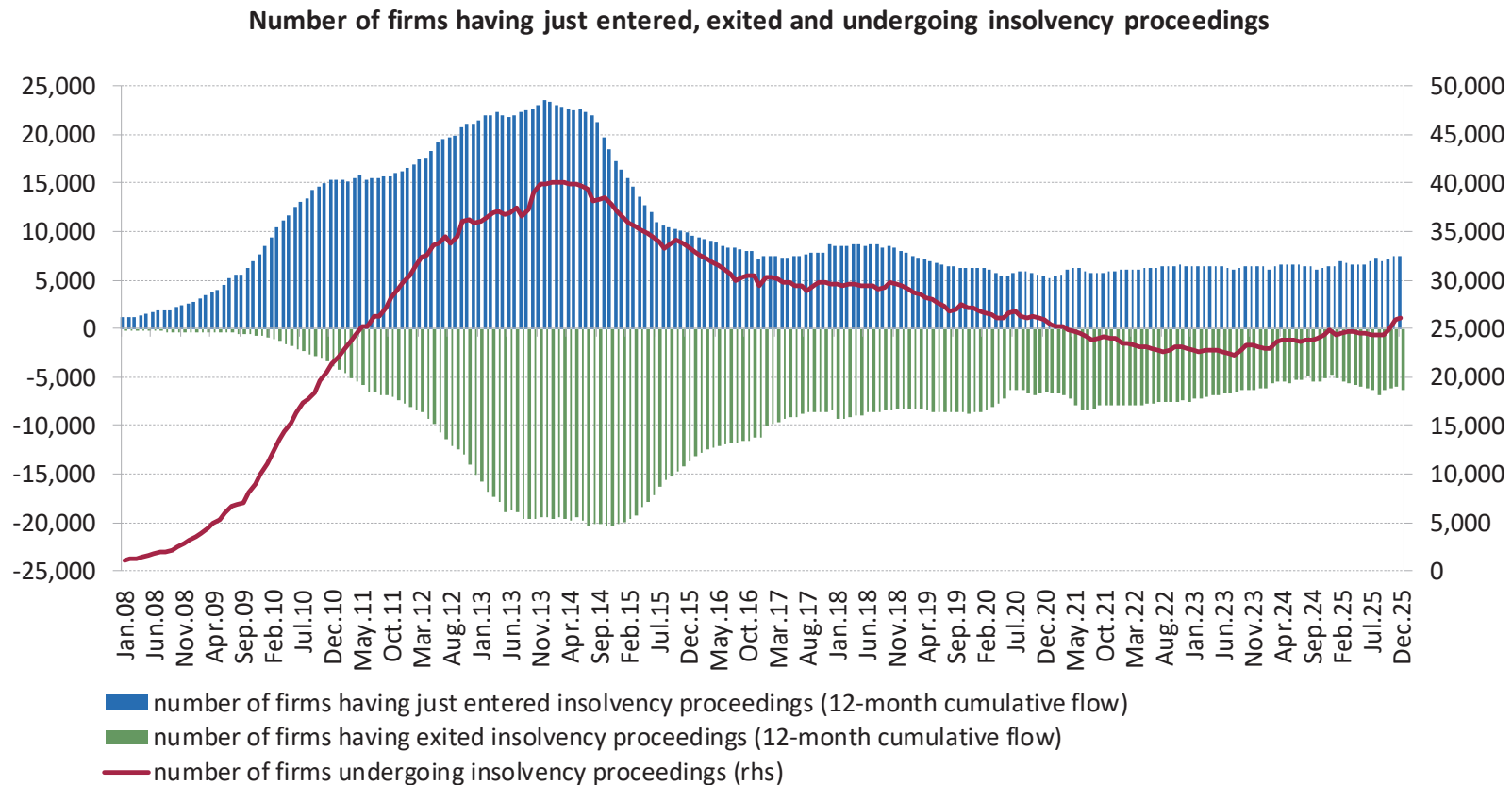


Looking at non-financial companies, there are a significant number of firms with atypical features. A third of companies have inadequate capitalisation, while a fifth have zero turnover. The large share of these companies points to important barriers to resolving non-viable firms, exposing the sector to additional vulnerabilities. Furthermore, these companies remain outside the bankable segment, putting a serious drag on financial intermediation.



Source: MF, NBR calculations

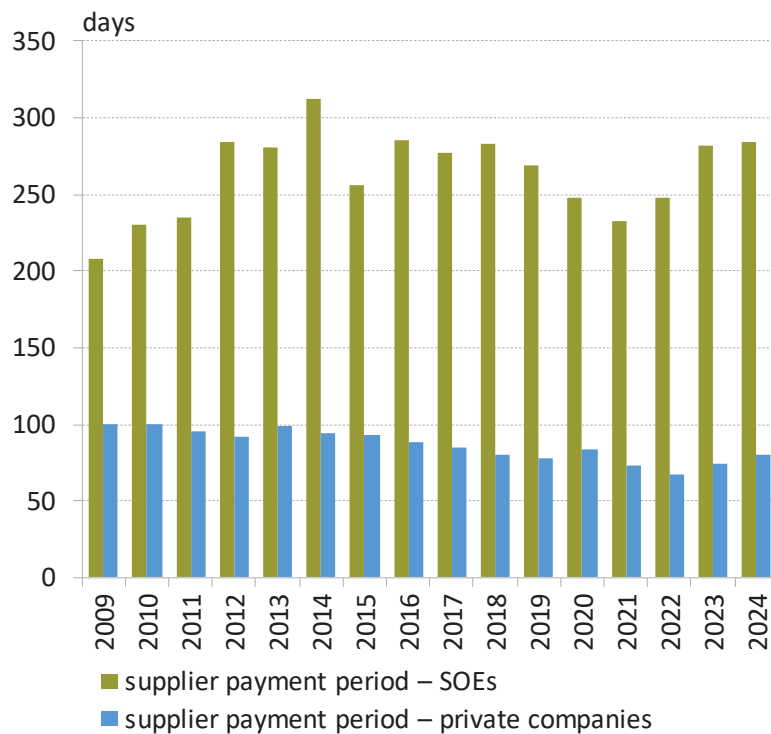
The lengthy resolution of companies undergoing insolvency proceedings and the related cost significantly reduce the efficiency of the market exit mechanism for non-viable firms and thus distort the allocation of resources in the economy. In addition, although insolvent firms make a modest contribution to the economy (1.6% of GVA), they trigger important vulnerabilities, accounting for a third of overdue payments to suppliers and banks.



Source: National Trade Register Office, NBR

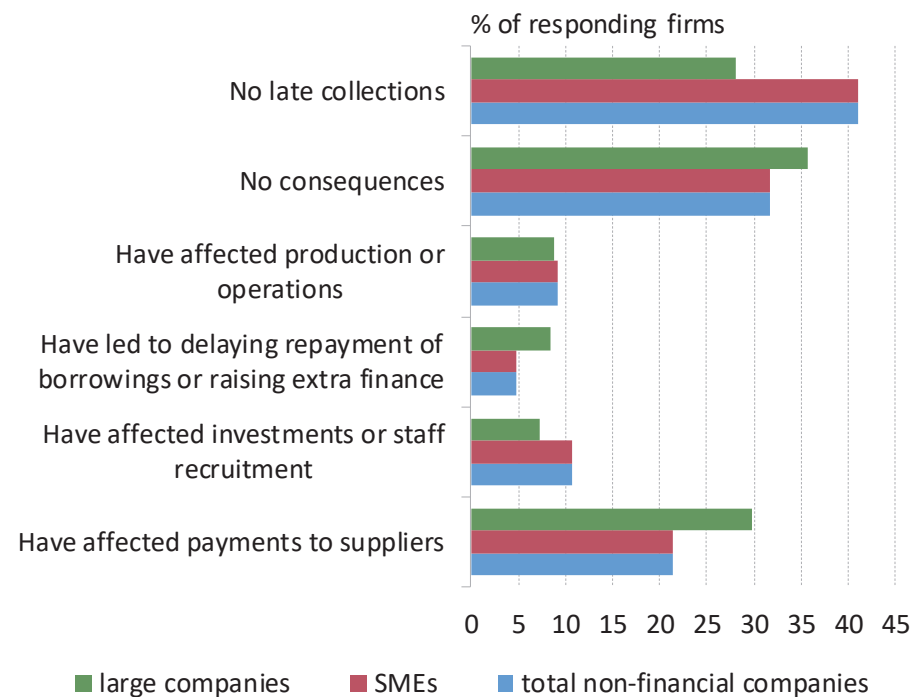
Weak payment discipline is one of the structural vulnerabilities of companies. Only 40% of local firms did not experience delays in collecting receivables, which affected large companies more strongly. The payment period, although visibly shorter than during the financial crisis, is still well above the EU-wide requirement (60 days) and thus constrains firms’ performance given the persistence of an increased preference for this type of financing.

Trade credit: supplier payment period



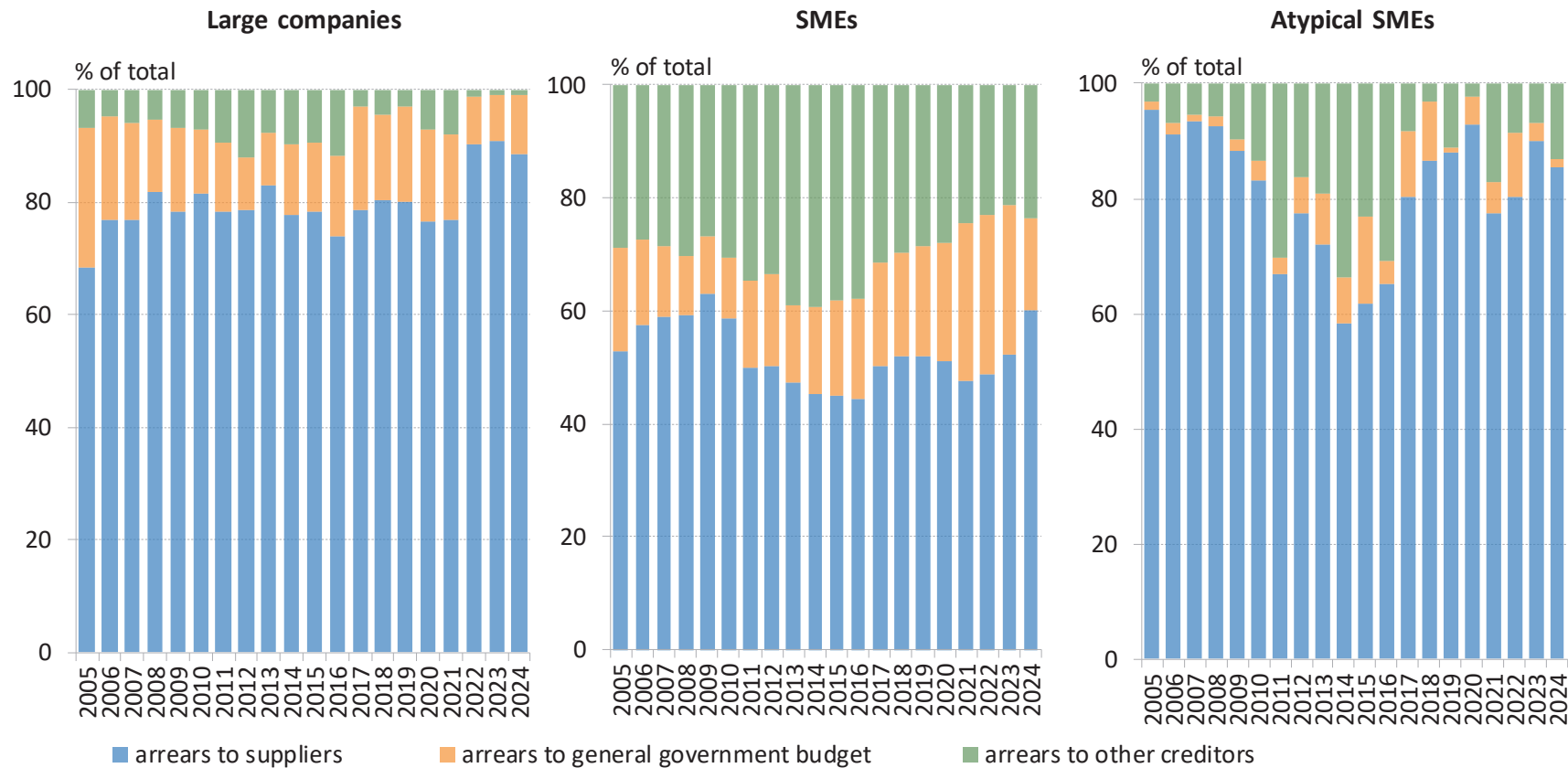
Source: MF, NBR calculations

Consequences of late collections from public/private entities in the past 12 months



Source: NBR, Survey on the access to finance of non-financial corporations in Romania, June 2025

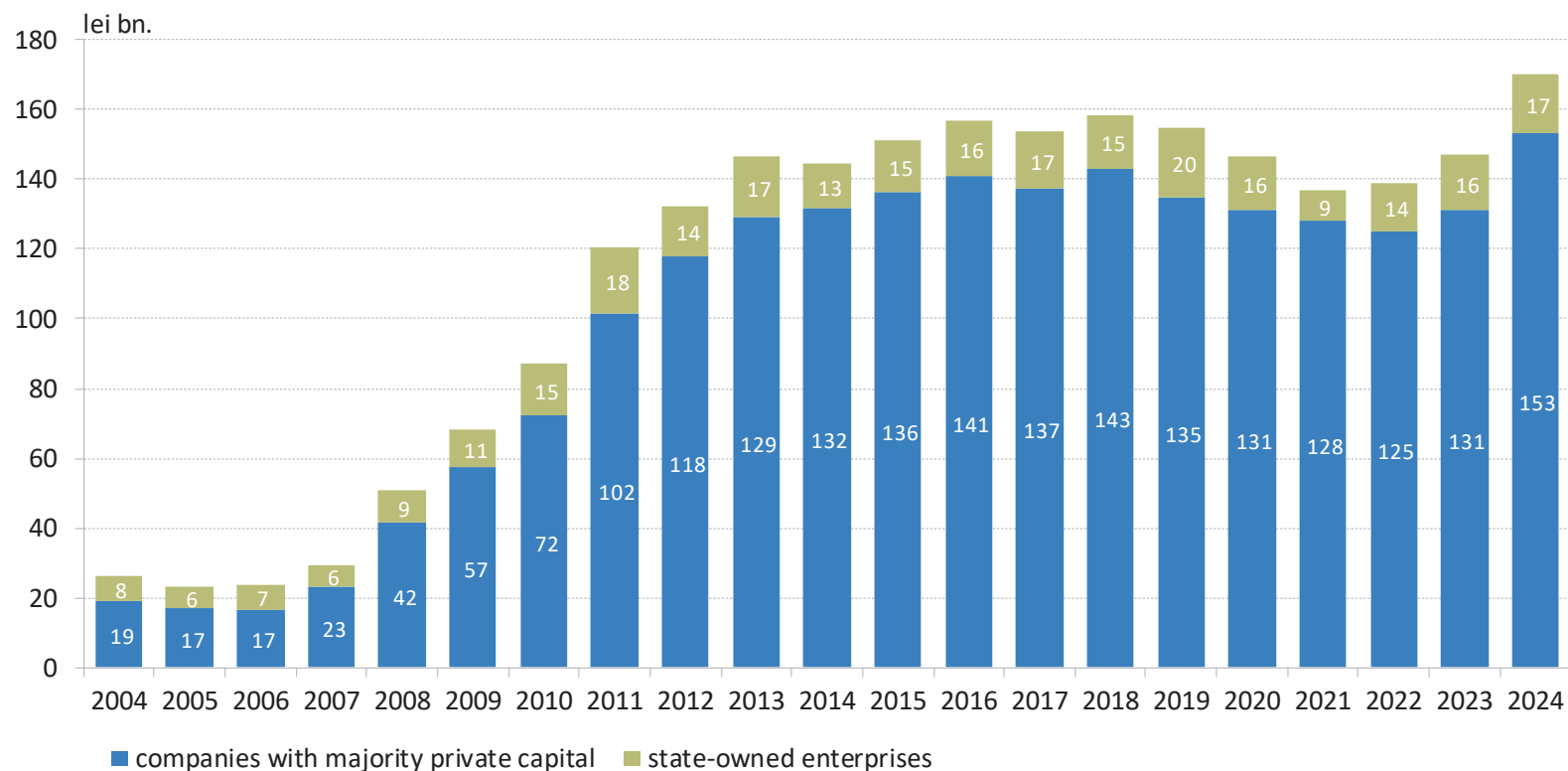
Arrears are another key factor that hampers the sector’s development and reduces its resilience. Firms with major capital shortages account for most of the overdue payments in the economy. The effects that may arise in the economy as a result of these practices include cascading financial bottlenecks, delays in launching investment projects and in innovation, higher insolvency risk or market distortion.



Source: MF, NBR calculations

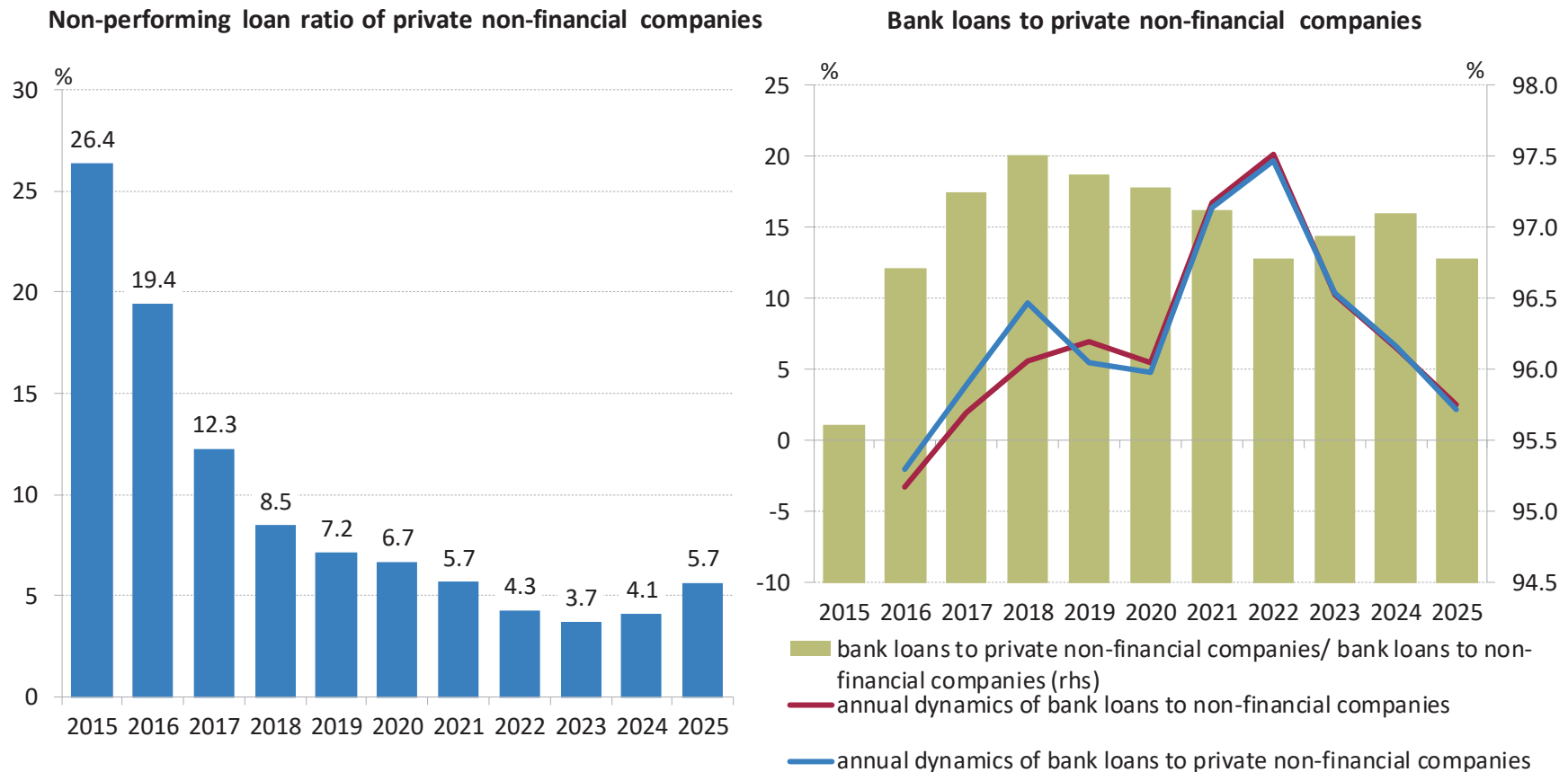
The capitalisation needs of companies resumed an upward trend after the pandemic crisis, 90% of them being attributable to private sector entities. Undercapitalised firms make a relatively small contribution to economic activity, accounting for 6% of turnover and for 6.9% of total workforce. The recapitalisation of companies can foster economic growth by approximately 3-4 pp in the following years, with positive effects on the general government budget.

Recapitalisation needs of companies in the economy



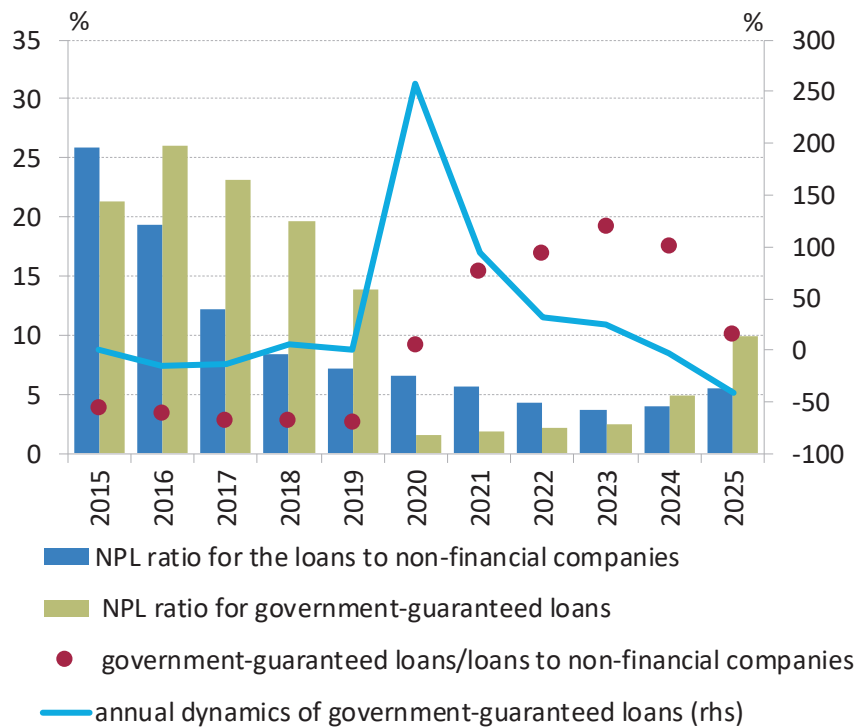
Source: MF, NBR calculations

Loans to private sector firms have made up the bulk of banks' portfolios, exceeding 95% in the last decade. Bank asset quality improved significantly over the past ten years, as shown by declining non-performing loan ratios, *inter alia* against the backdrop of prudent credit standards and macroprudential requirements. Since 2024, loan quality has tended to deteriorate somewhat, also amid the slowdown in economic activity.

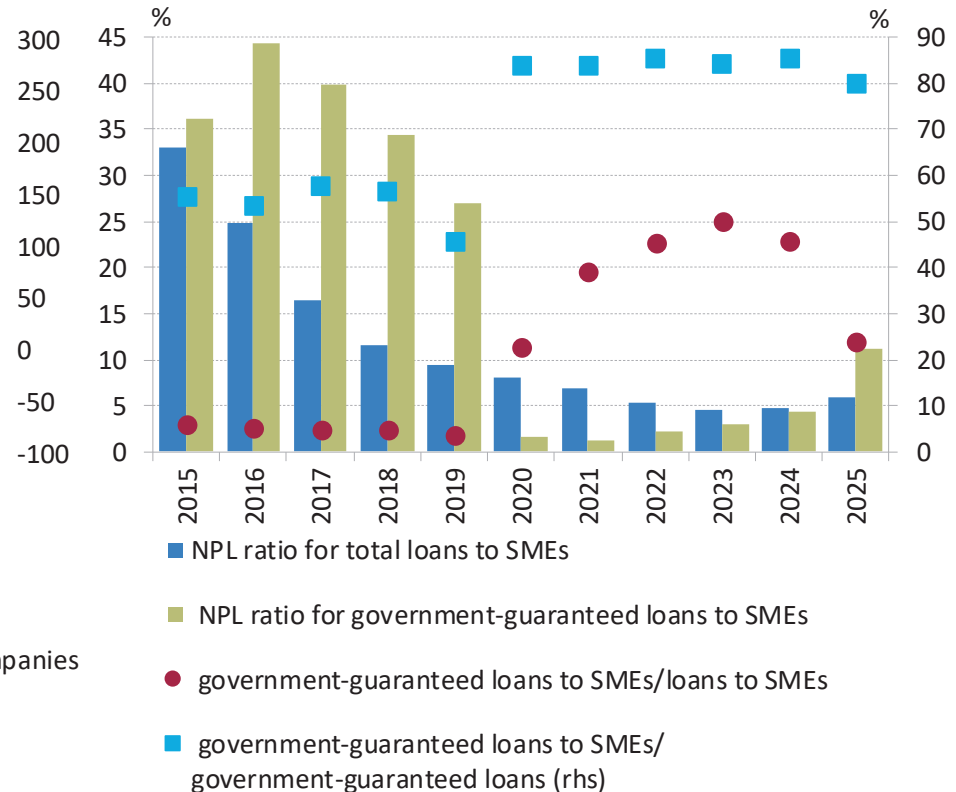


Government-guaranteed loans granted by banks under government programmes gained considerable momentum during the pandemic period, with SMEs being the main recipients. In 2025, their share narrowed to merely 10% of total. The deterioration in the quality of these loans in recent years shows the need to better target the beneficiary sectors in terms of the necessary investments and the challenges firms face in implementing the projects.

**Government-guaranteed loans to non-financial companies: performance, dynamics, share of lending**



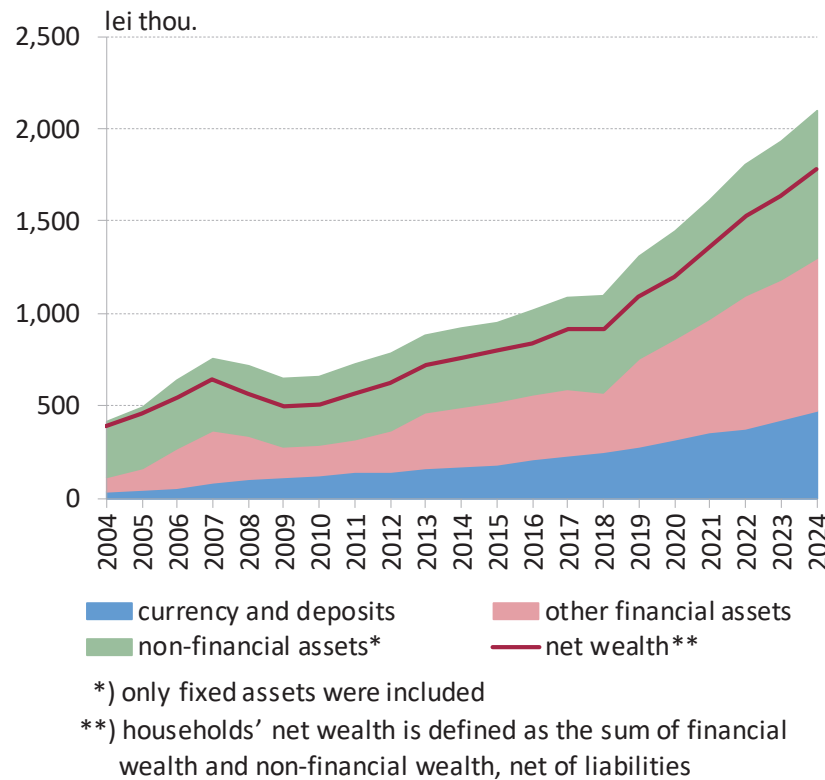
**Government-guaranteed loans to SMEs: performance, share of lending**



Source: NBR, MF, Central Credit Register

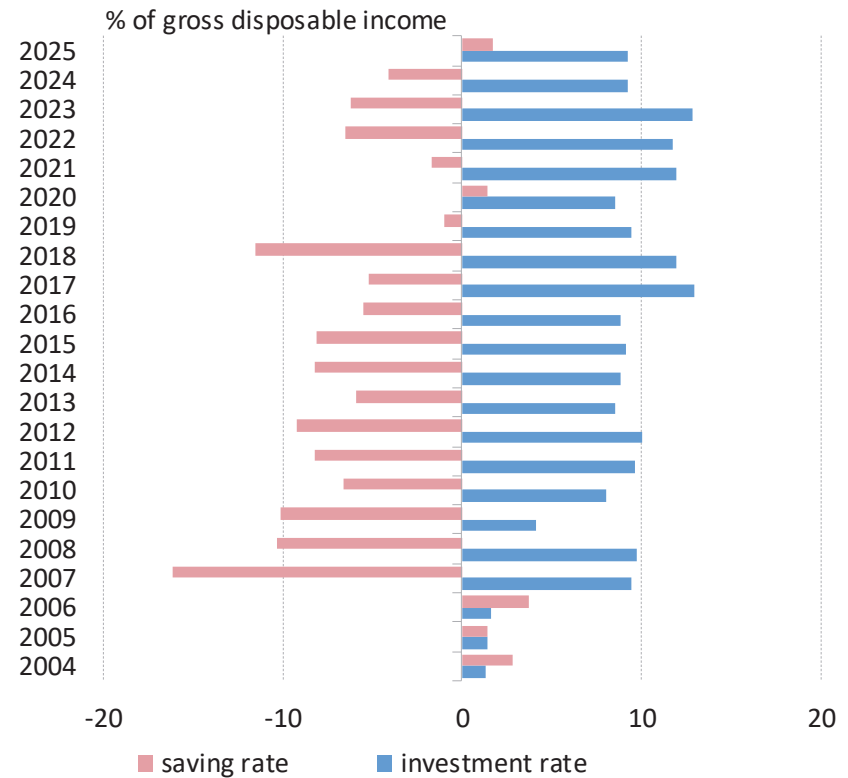
Households' net wealth went up markedly over the past decade, providing an important financial buffer to households should adverse shocks occur. Households' behaviour shows an imbalance between consumption and income, reflected in a negative saving rate, which also implies a need for additional coverage, through either external financing sources or previously accumulated liquid assets.

**Households' net wealth**



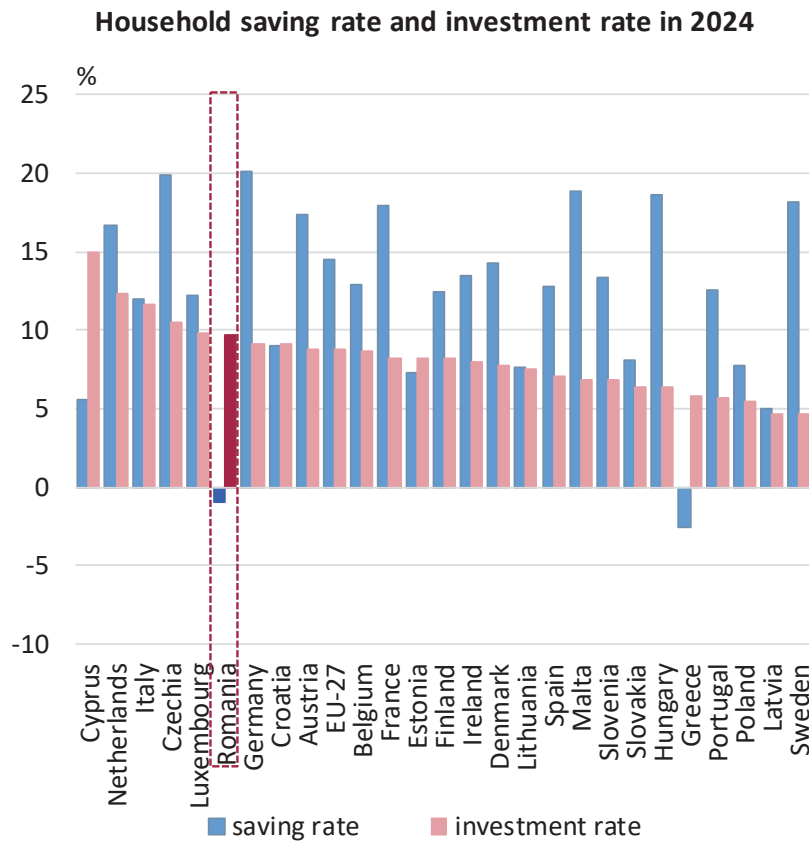
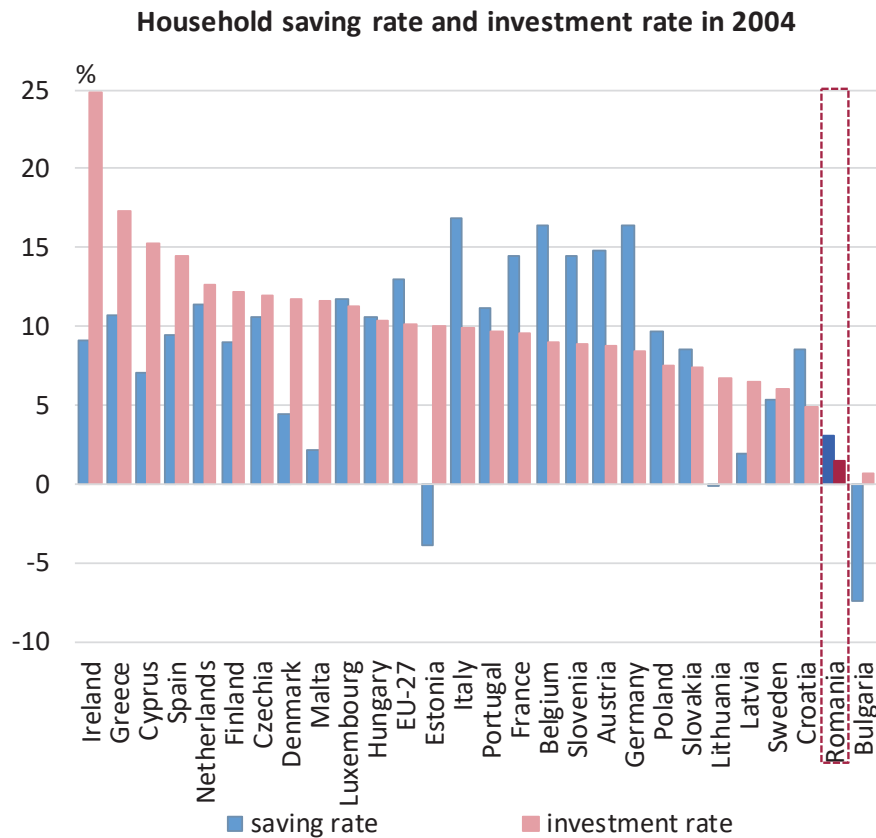
Source: NBR, NIS, NBR calculations

**Household saving rate and investment rate**



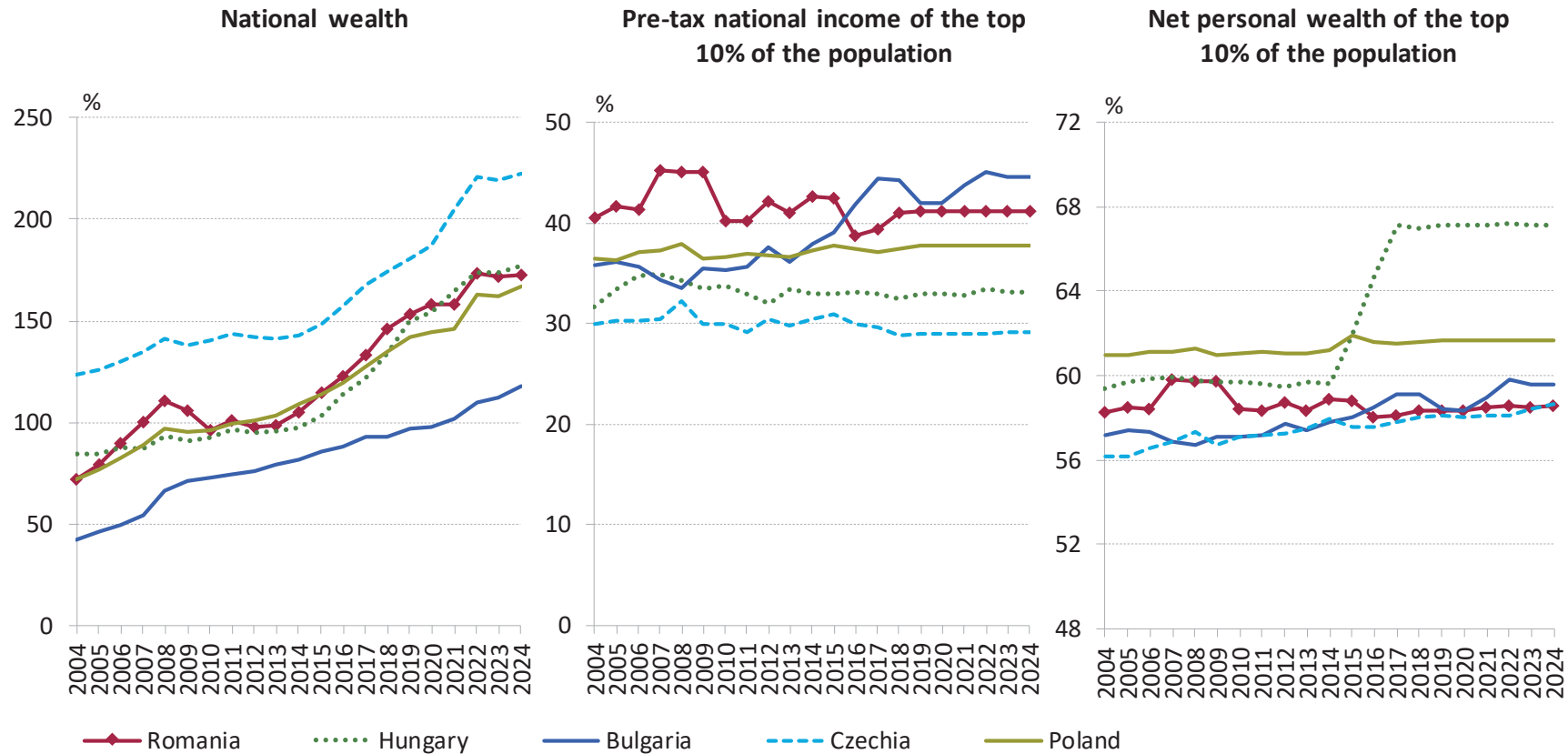
Source: NIS, NBR calculations

Romania’s ranking among the EU Member States shifted significantly in terms of household saving and investment rates. As for the investment rate, Romania advanced into the upper part of the ranking, from the penultimate position in the Union at end-2004. This performance shows the increase in households’ capacity to allocate resources to investment, due to rises in disposable income, but also to the development of financial intermediation.



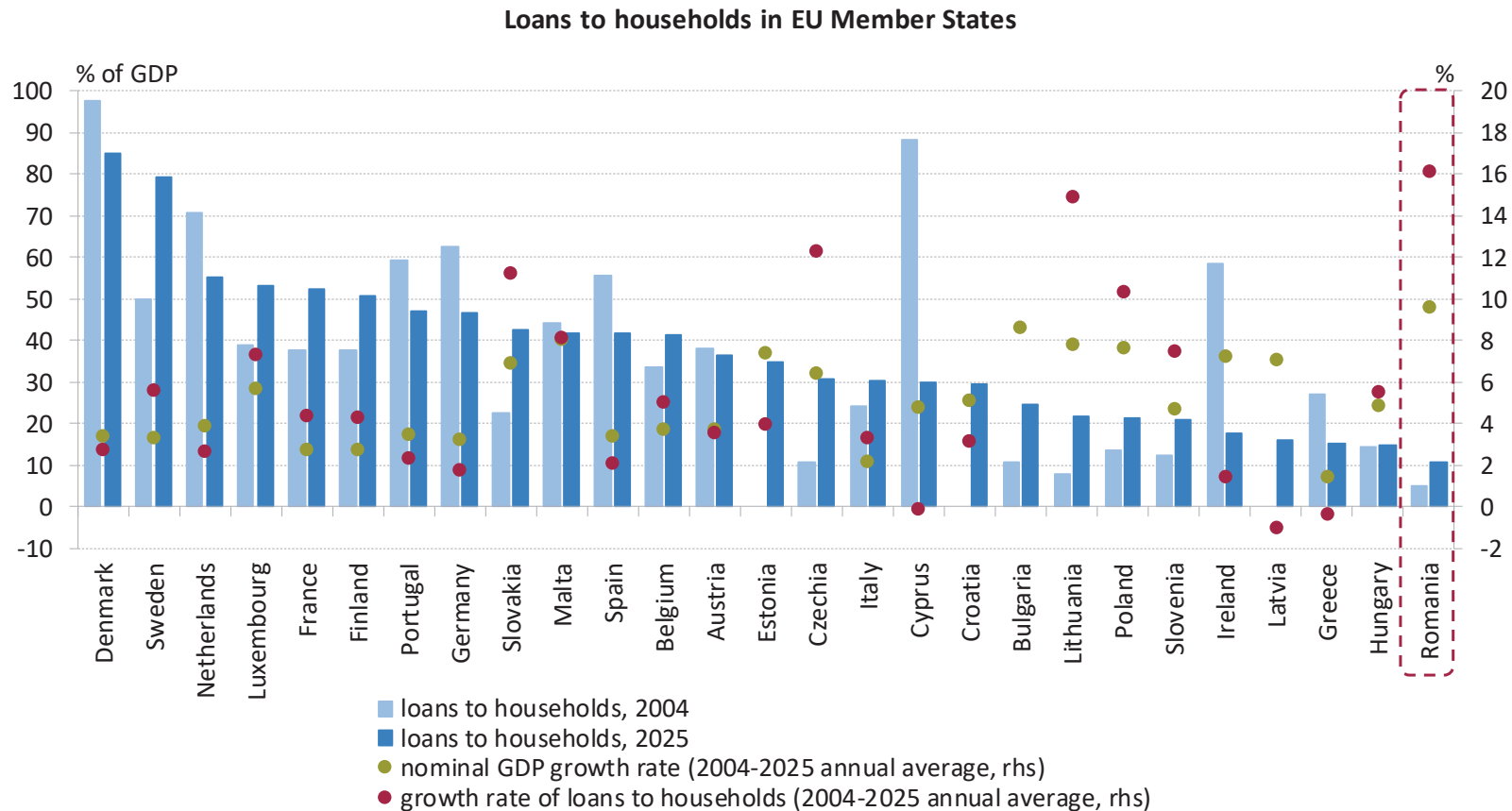
Source: Eurostat

The fast economic growth of the last 20 years made national wealth post the second-highest rate of increase in the region. But the economic advance was achieved amid the persistence of significant inequalities, with top 10% of the population holding over 40% of the pre-tax national income. Several factors contributed to this, including regional disparities, inefficient public finance functions, informal economy and unequal access to education.



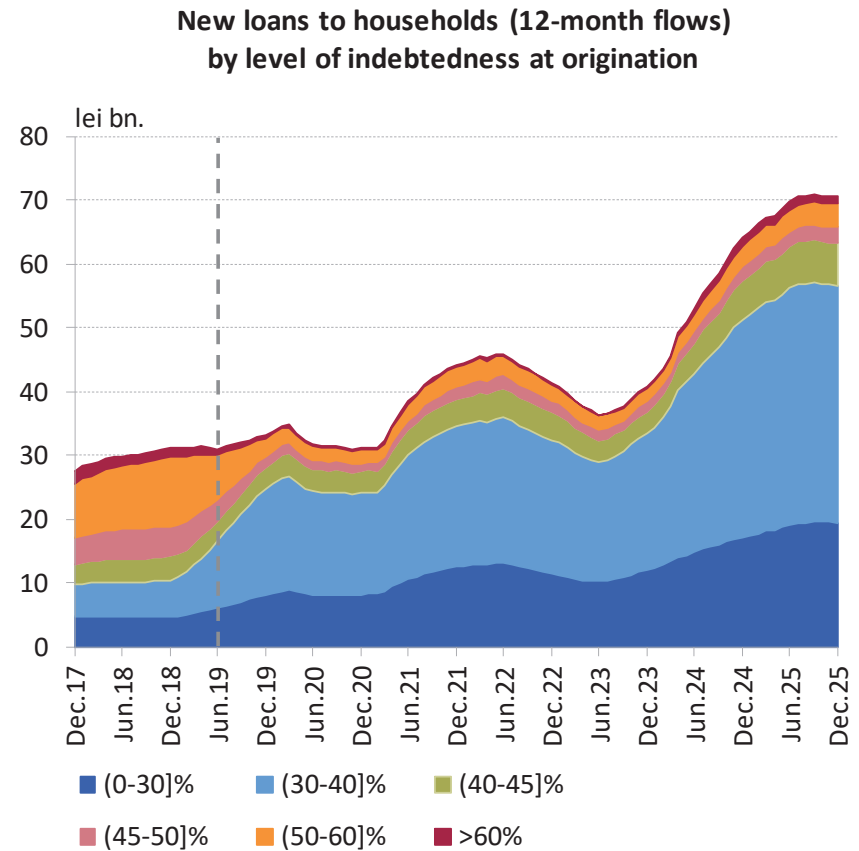
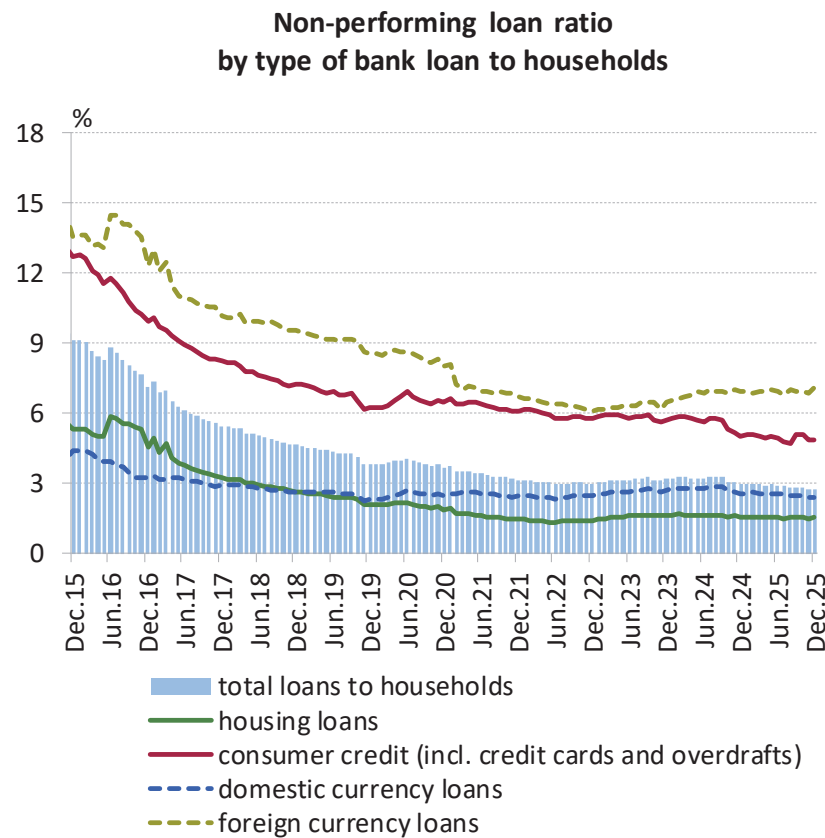
Source: World Inequality Database

Loans to households played an important role in Romania’s development over the past 20 years. However, while lending recorded one of the highest growth rates, its level remained at the bottom of the EU ranking. But the acceleration of digitalisation is likely to help boost lending to this sector, and so it is essential that, by ensuring an adequate level of indebtedness, developments should not generate vulnerabilities to households.



Source: ECB, NBR calculations

Households’ payment discipline improved, but the structure of lending reveals the persistence of a higher risk in the case of consumer or foreign currency loans. Macroprudential measures such as the introduction of a cap on the level of indebtedness or down-payment requirements, which also targeted foreign currency loans, improved borrowers’ risk profile, proved effective and gradually contributed to increasing the resilience of the banking sector.



Source: NBR, Credit Bureau

## Chapter VI

Despite weak productivity performance, private sector firms show an adequate level of financial health

- The swift rise in the number of companies is a clear signal of the economy's dynamism, but this pace may also mask certain vulnerabilities. Romania experienced sustained entrepreneurial development, but some firms remain small, which reduces their ability to withstand shocks.
- The economy is adjusting towards a more knowledge-intensive services model, but there is still room to shift to higher value-added areas. Productivity and competitiveness are still sluggish, pointing to the need for investment in technologies and skills.
- Firms' financial health, supported by strengthening profitability and deleveraging in the period after the international financial crisis, is at an adequate level, but has worsened slightly in recent years amid successive global crises.
- However, economic development is unevenly distributed across the country. Specifically, large urban centres concentrate well-performing firms, infrastructure better aligned to needs and highly skilled workforce, while other regions tend to lag behind. This situation underscores the importance of strategic investments, in particular with support from EU funds.

## Chapter VI

Atypical SMEs

conceal

structural

weaknesses,

revealed by the

large amplitude

of profitability

indicators

- Undercapitalisation remains a major issue for Romania's economy, and promptly addressing this matter would provide an incentive for the economy. Many firms operate with insufficient capital, which constrains their investment capacity and makes them vulnerable to rising costs or flagging demand.
- Payment discipline generally remains weak and leads to cascading bottlenecks. Delays in collecting receivables affect firms' liquidity, postpone investments and, perpetuated indefinitely, can turn into financial difficulties spreading from one company to another.
- Atypical firms weigh on and even distort the functioning of the economy. The large number of companies without employees, without turnover or with negative equity hinders competition and, implicitly, reduces financial intermediation.
- In times of substantial economic downturns, some business sectors are much more exposed to shocks and cyclical risks. Agriculture, real estate and construction can amplify, also through interconnections, the existing vulnerabilities on several layers of the economy, affecting financial stability.

## Chapter VI

Capitalisation  
of companies  
has the  
potential  
to act as a  
major catalyst  
for economic  
growth

- Capitalisation of Romanian firms is an important measure to support the potential for economic growth. Strengthening the capital base can underpin investments, productivity and general government revenue over the medium term, reducing dependence on external financing and improving the sector's resilience.
- Better financial discipline supports the stability of the entire economy. Timely payments and the decline in arrears can mitigate contagion risks and improve confidence among firms and between companies and the financial sector.
- Access to finance must be accompanied by a responsible and judicious attitude. Support programmes and government guarantees can prove very useful, but for robust, long-term results, a strategic allocation is needed to underpin viable firms and preclude future risks from building up.
- The private sector plays a key role in sustainable economic growth based on competitiveness principles. From a broader perspective, through substantial investments, ongoing innovation and sound financial governance, private sector firms support real convergence, economic resilience and higher living standards.

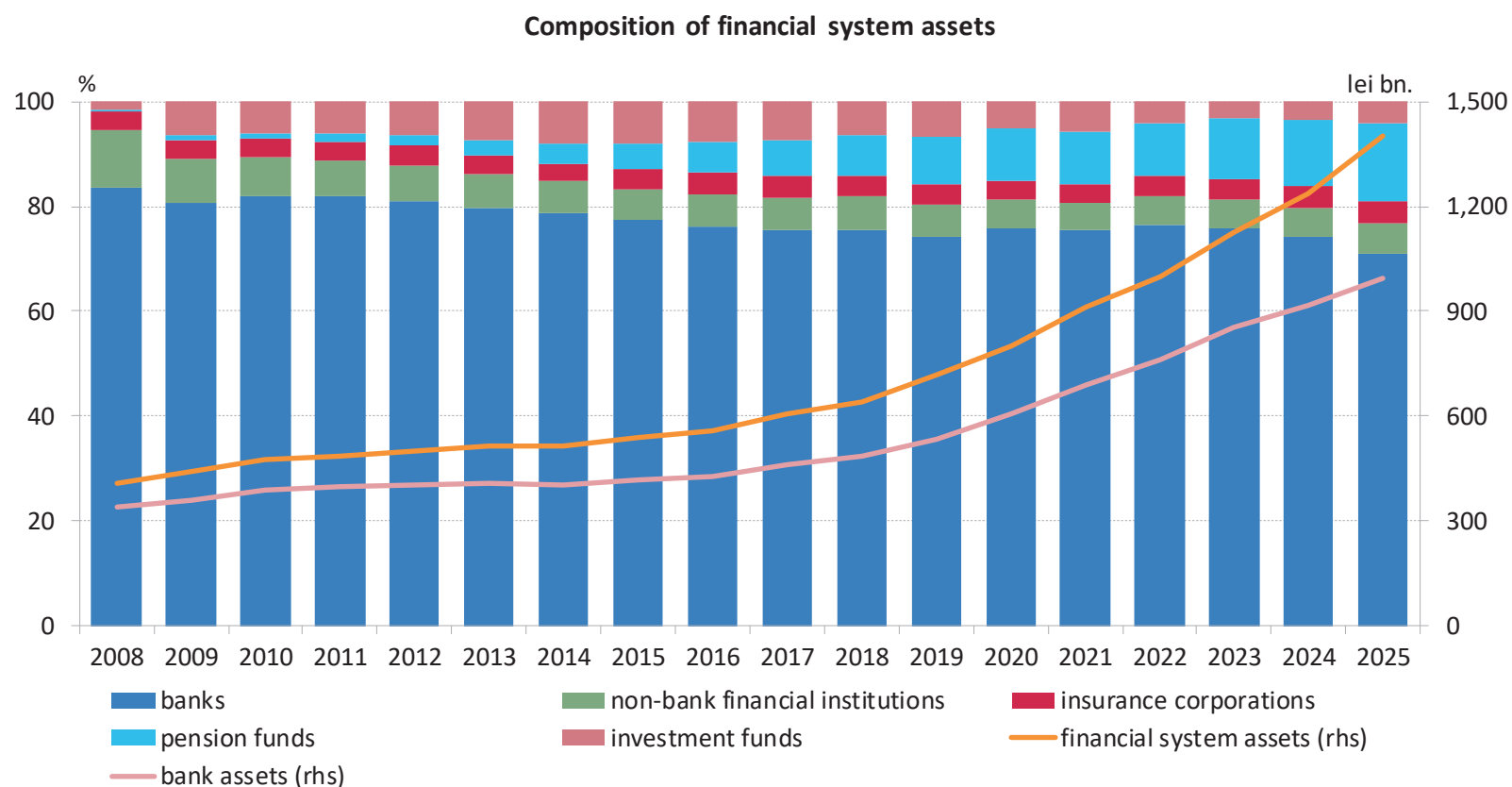
## Chapter VII

### The Banking and Financial System

#### Part of the EU Sustainability Framework

- The analysis of the banking and financial system is conducted from an EU perspective and it focuses on the main financial soundness indicators of the Romanian banking sector (such as solvency, liquidity, asset quality, profitability, efficiency and structural aspects) over the past two decades.
- This review highlights the strengths and risks of the Romanian banking sector to assess its resilience and its capacity to support the real economy and the government.
- An adequate prudential position of the Romanian banking sector also paves the way for a positive contribution to sovereign rating assessments and underpins the increase in financial intermediation and financial inclusion.
- However, the management of structural and emerging risks requires continuous adaptation of the banking sector and a proactive response from macro- and microprudential authorities.
- The analysis of non-bank actors provides a comprehensive perspective on their role in increasing financial intermediation, an area in which Romania still records a notable gap.

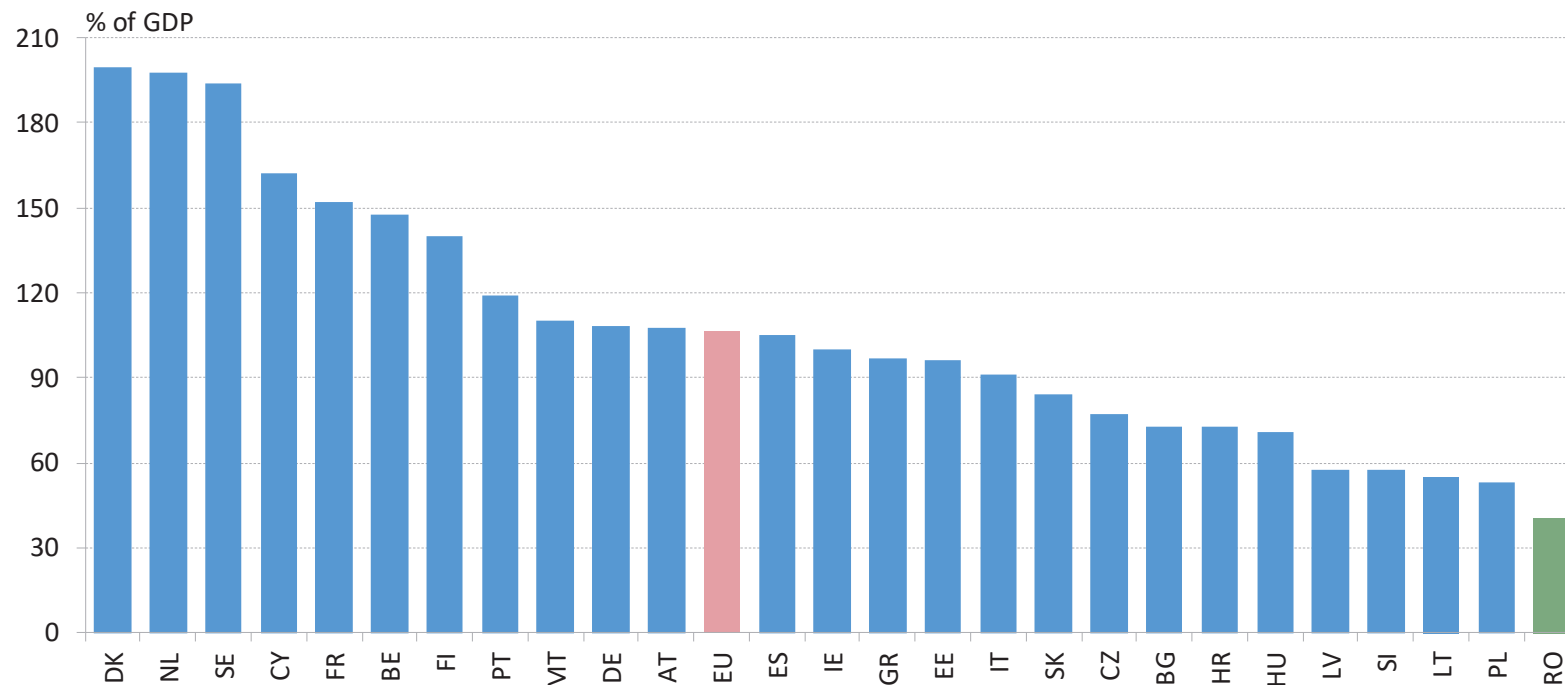
Although financial system assets tripled over the past 15 years, they account for only around 70% of GDP. The banking sector is the main actor of the financial system, holding roughly three quarters of total assets, while non-bank financial institutions have gained in importance, showing the strongest links with the banking sector. Pension funds (Pillar II and Pillar III) have recorded a significant expansion in recent years.



Source: NBR, FSA

In the context of a financial system dominated by the banking sector, Romania continues to rank last among EU countries in terms of financial intermediation, amid persistent structural vulnerabilities of non-financial companies (limited eligibility for bank lending, mainly due to low capitalisation) and low financial inclusion of households, which points to significant financial weaknesses.

**Financial intermediation: financial debt of the private sector, 2025**

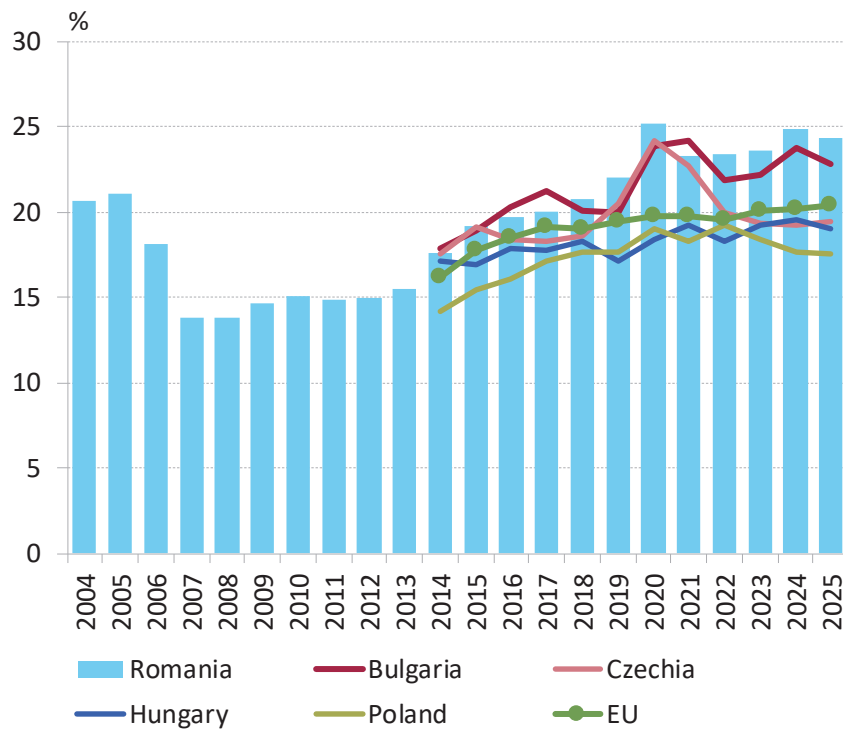


Note: Financial debt is the sum of loans to non-financial companies and households and of borrowed funds in the form of debt securities issued by non-financial companies.

Source: European Central Bank

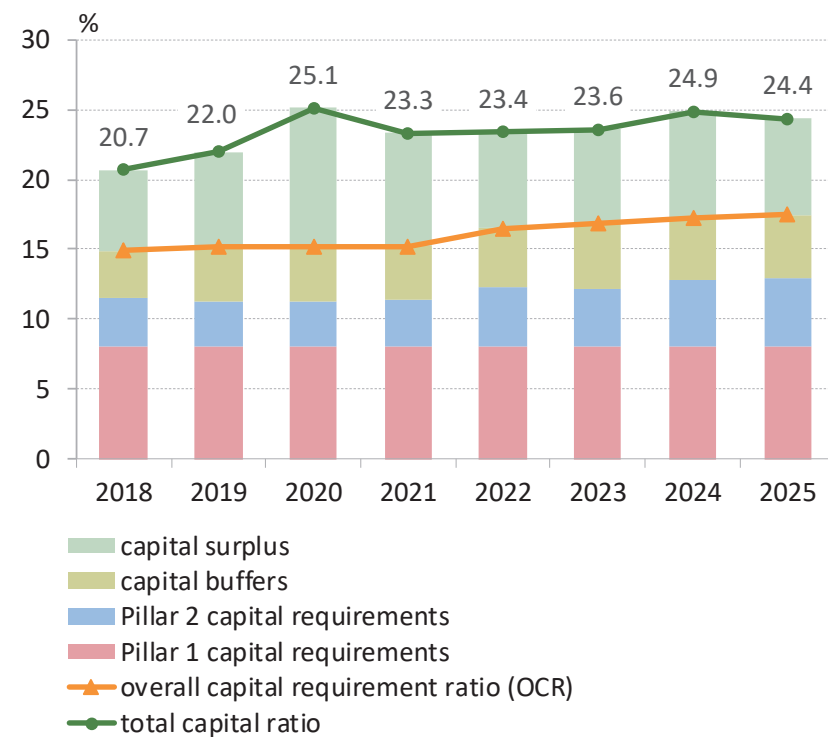
The Romanian banking sector has adequate solvency, the related indicators exceeding the EU average. Over the past two decades, the strengthening of solvency was also supported by the introduction of macro- and microprudential requirements. Profit retention in recent years has contributed to an increase in bank capital and resilience to economic shocks, as reflected by the results of the solvency stress test for the banking sector.

**Total capital ratio – regional comparisons**



Source: NBR, EBA

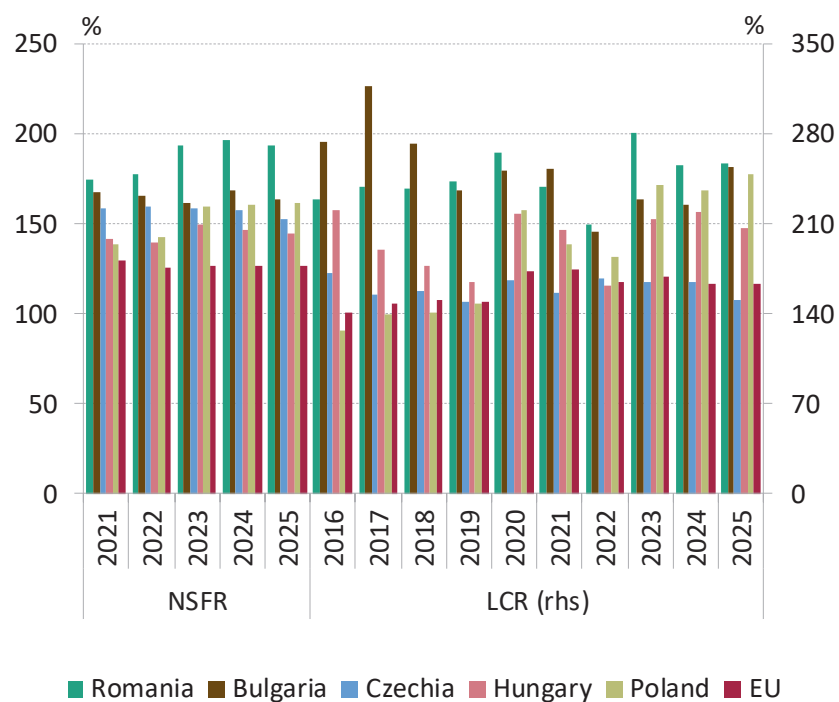
**Breakdown of total capital ratio by type of capital requirements**



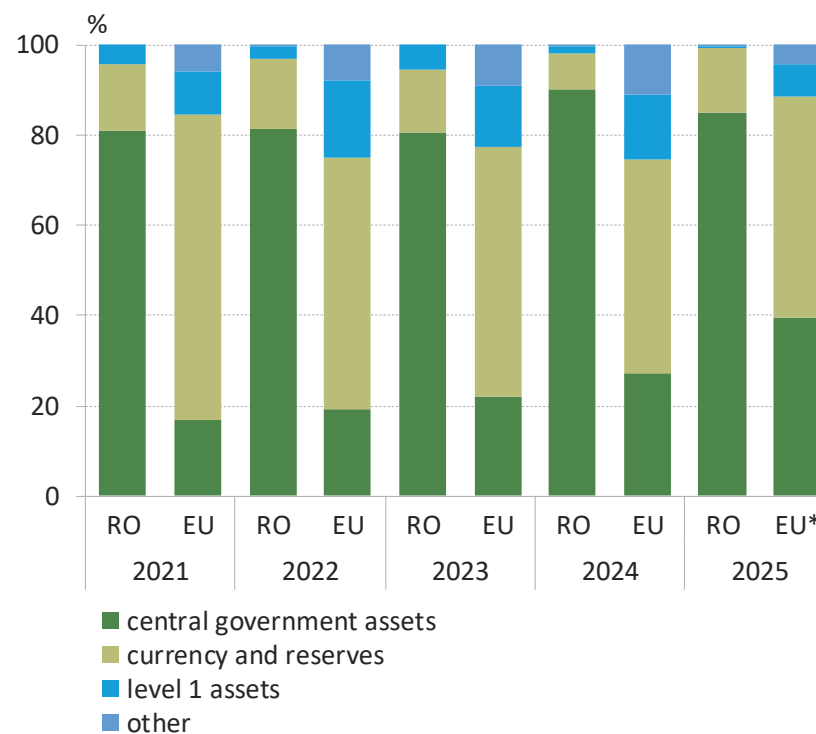
Source: NBR, individual reporting

Banks' liquidity in Romania is adequate and their resilience is ensured by the traditional funding model and a substantial reserve of liquid assets, mainly government securities, unlike the EU practice characterised by a significantly more diversified structure. Liquidity indicators, by major currencies as well, stand at adequate levels, thus showing the availability of resources for increasing lending and supporting the economy.

Liquidity indicators: LCR and NSFR – regional comparisons



Composition of the liquidity buffer (numerator of LCR) – Romania vs. EU

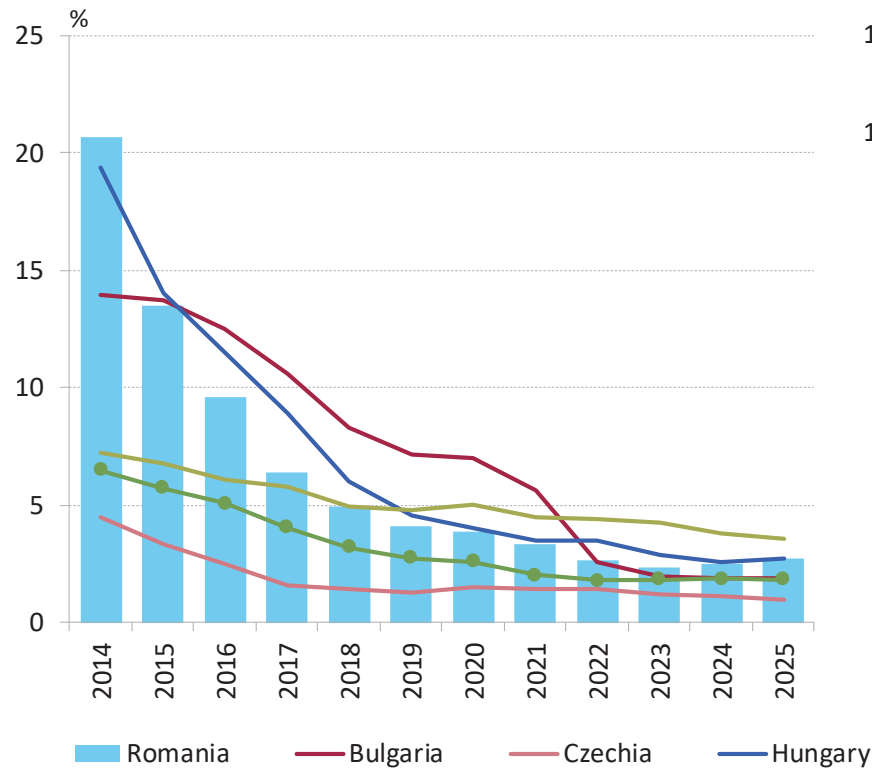


\*) data available for 2025 Q2

Source: NBR, EBA

Bank asset quality in Romania has improved significantly over the past decade, amid the micro- and macroprudential measures aimed at bringing prudential indicators to (EBA defined) low-risk bucket levels and at ensuring the sustainability of household debt. The non-performing loan ratio and the forborne loan ratio are nearing EU averages, with better positioning than in Poland.

Non-performing loan ratio – regional comparisons



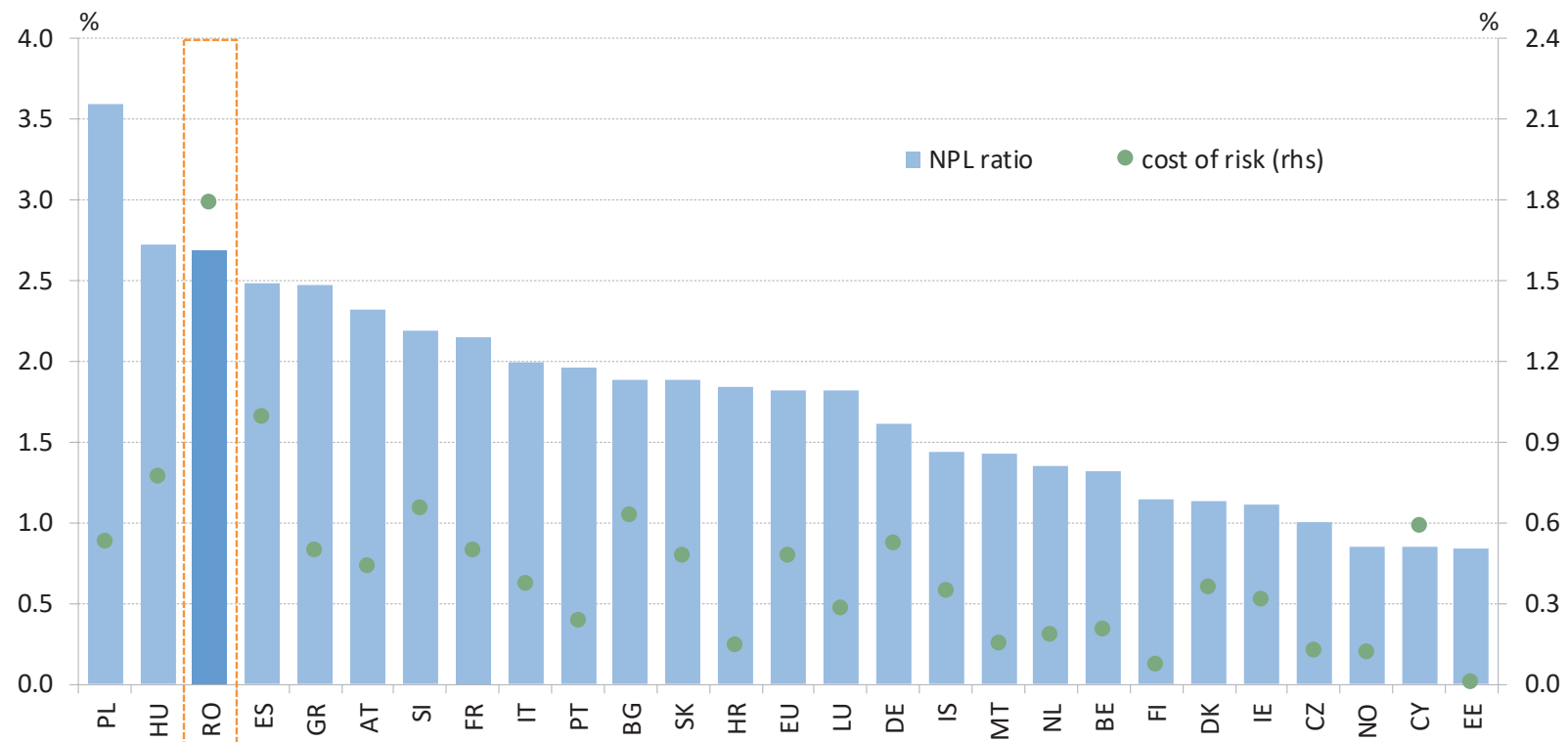
Forborne loan ratio – regional comparisons



Source: NBR, EBA

Compared to EU Member States, banks in Romania record one of the highest levels of the non-performing loan ratio, despite low financial intermediation. However, this indicator falls within the low-risk bucket. The default risk for loans to the private sector, particularly that associated with non-financial companies, shows some potential for deterioration, as also reflected by the rising cost of risk.

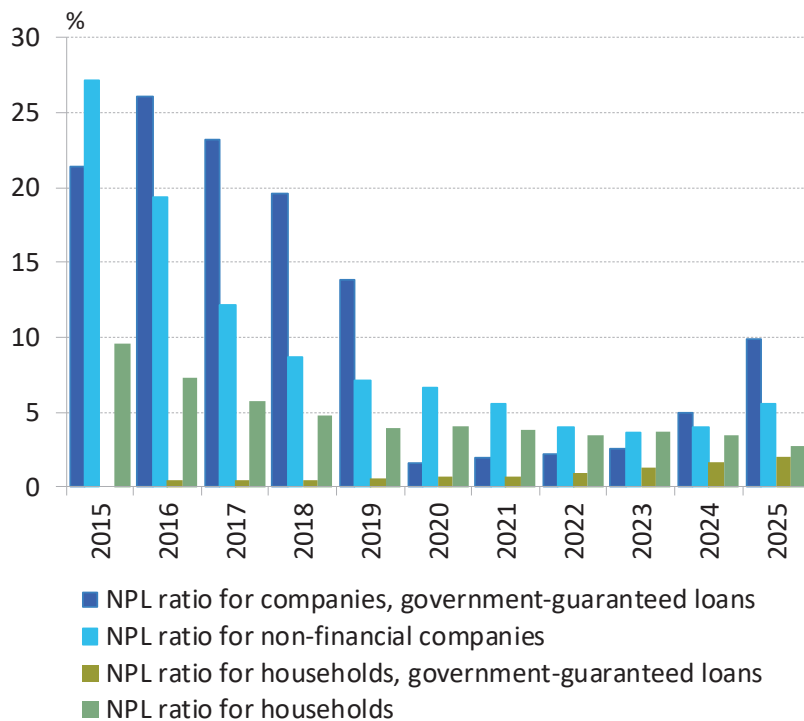
The non-performing loan ratio and the cost of risk in EU Member States (December 2025)



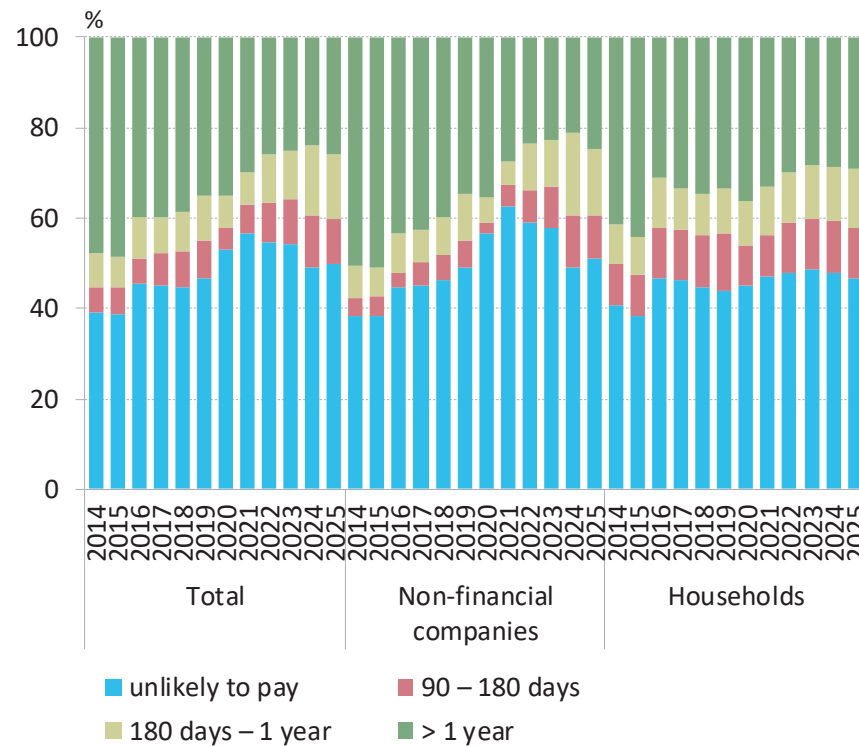
Source: EBA, NBR

Around 10% of loans to non-financial companies are government-guaranteed loans, and their quality has recently deteriorated. Banks have adopted a proactive approach in classifying loans as non-performing, given the indications of unlikelihood to pay. Over the past decade, the share of non-performing loans past due for more than one year has declined, alongside banks' increased efforts to clean up their balance sheets.

**NPL ratio for loans to the real sector:  
government-guaranteed loans vs. total**

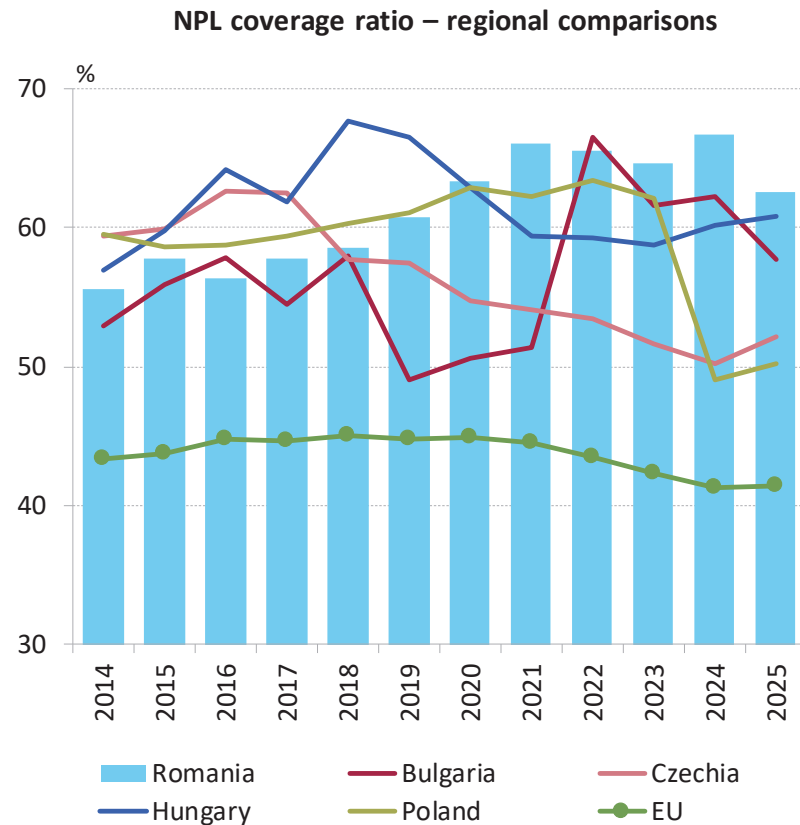


**Composition of non-performing loans  
by days past due bucket and portfolio**

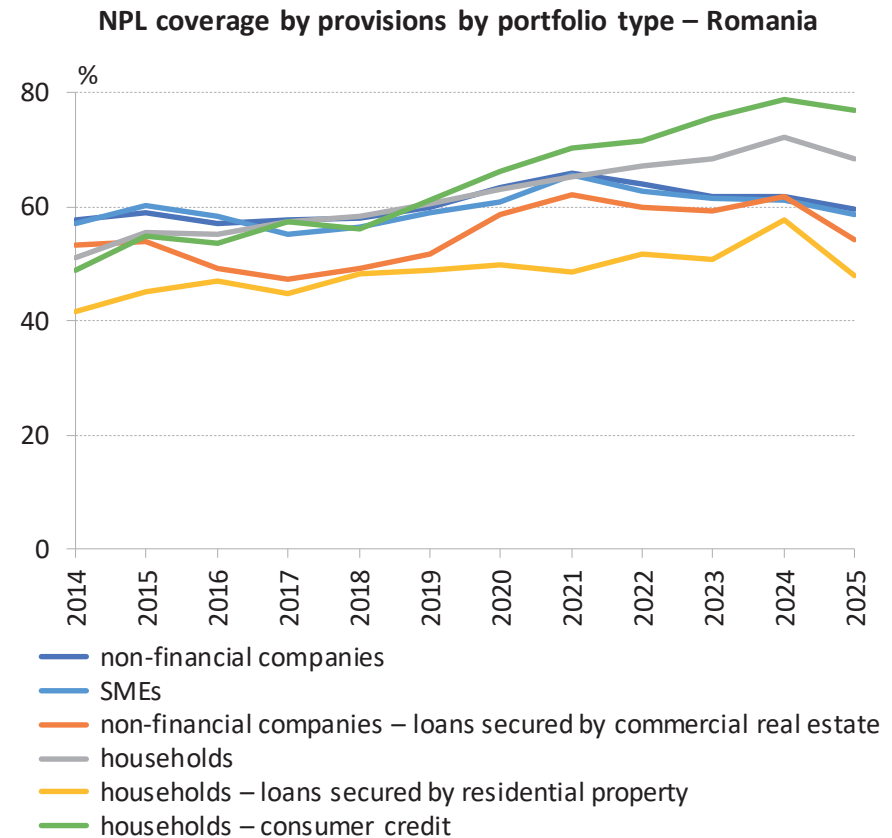


Source: NBR

The non-performing loan coverage by provisions places Romania in a favourable position from an EU perspective. Banks' prudence is also reflected across the main exposure classes. The proactive recognition of losses is more pronounced for unsecured loans, while real estate collateral ensures a higher level of loss recovery, implying a significantly lower coverage ratio.



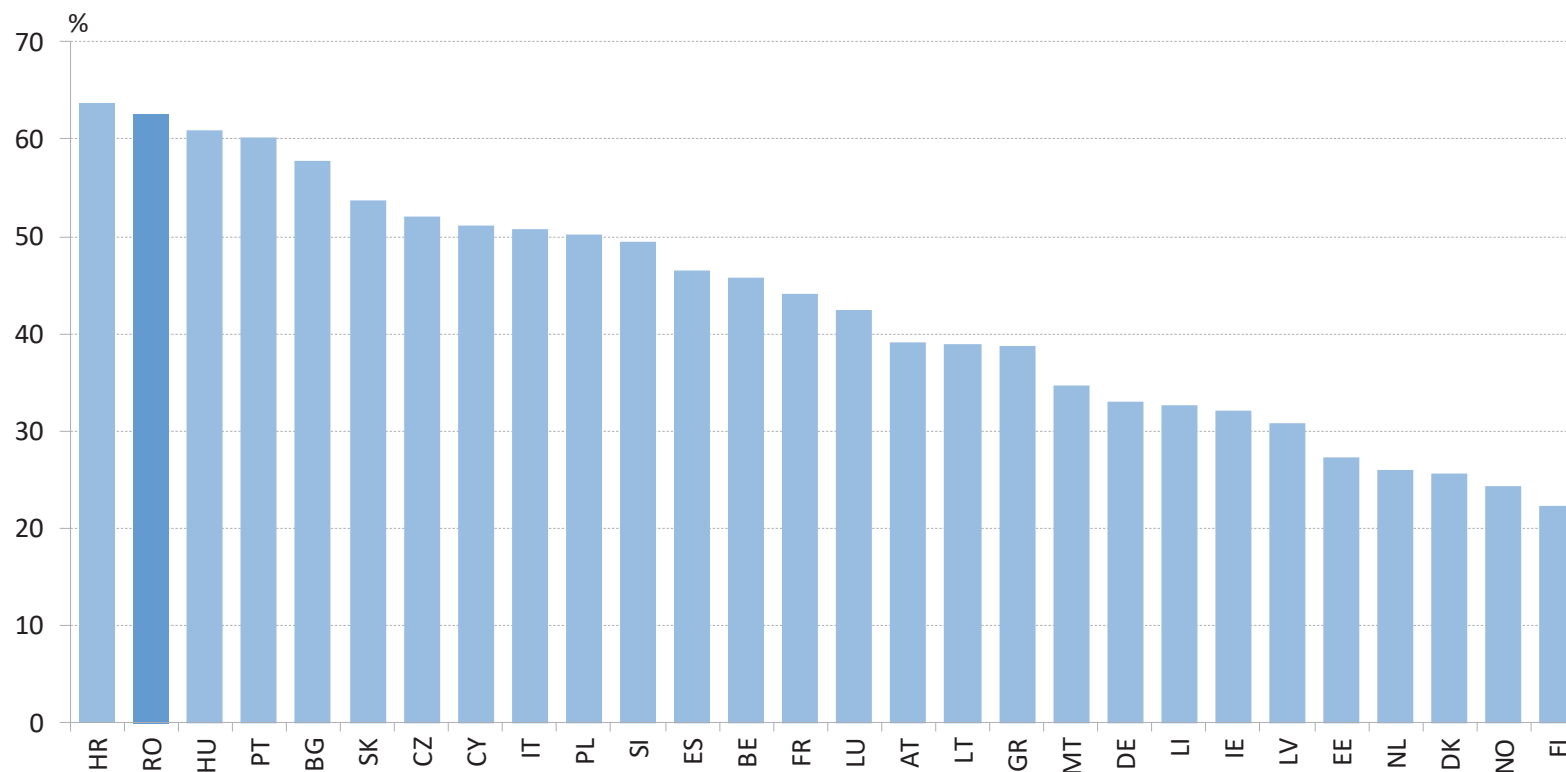
Source: NBR, EBA



Source: NBR

Banks in Romania display a high coverage by provisions compared to both EU countries and the EBA low-risk bucket. This positioning reflects a prudent approach amid macroeconomic and geopolitical uncertainties. Microprudential supervision, alongside macroprudential measures such as the systemic risk buffer, supports the maintenance of adequate asset quality indicators.

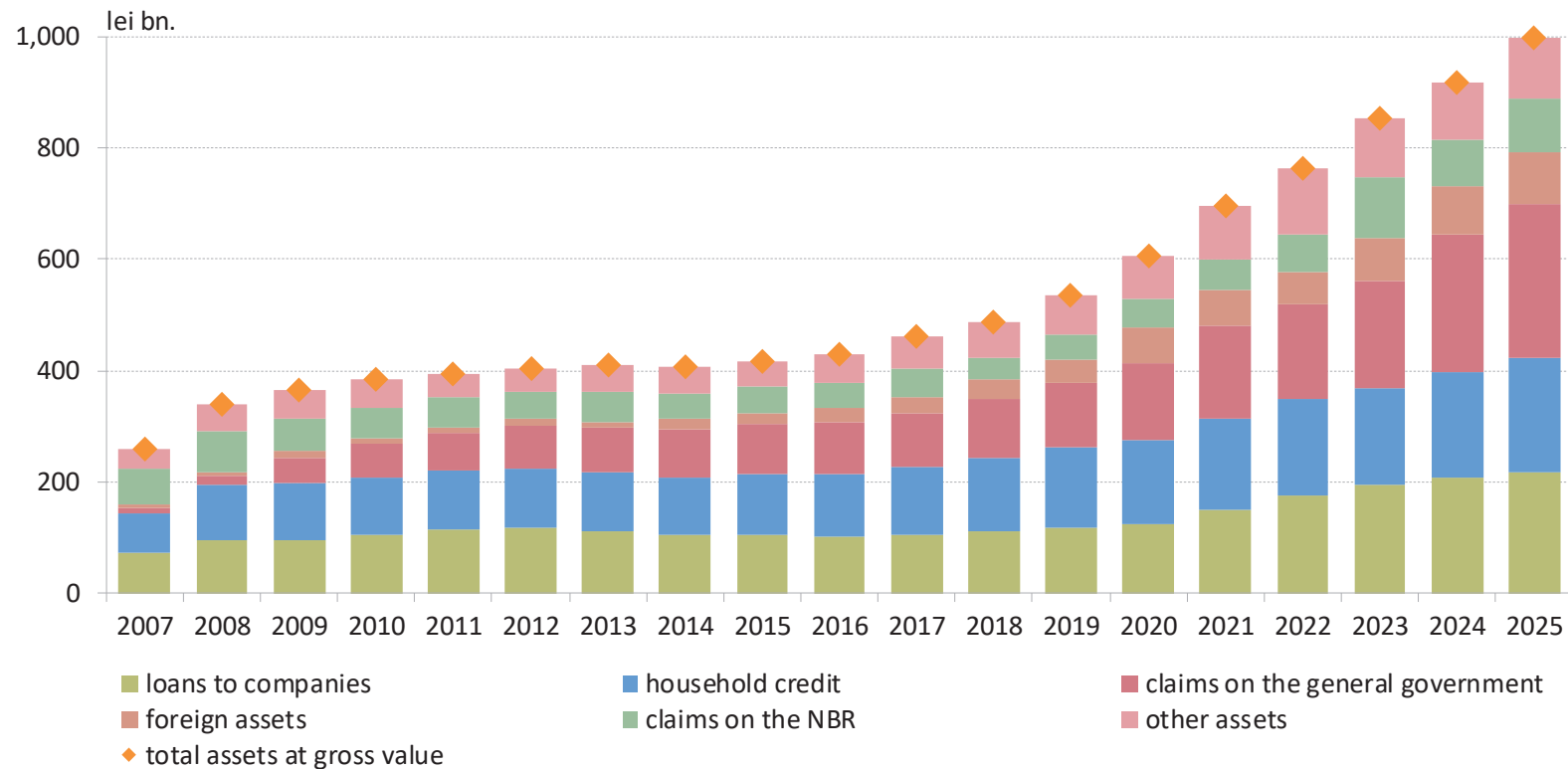
NPL coverage ratio in EU Member States (December 2025)



Source: EBA, NBR

Bank assets increased 3.8 times over the past two decades, their structure reflecting both the strengthening of lending to the real economy and a marked shift towards government exposures in the post-pandemic period. In 2025, loans to companies and households accounted for around 42% of total assets. The share of corporate lending is similar to that in Bulgaria, Greece and Estonia, while housing loans play a smaller part than in most EU countries.

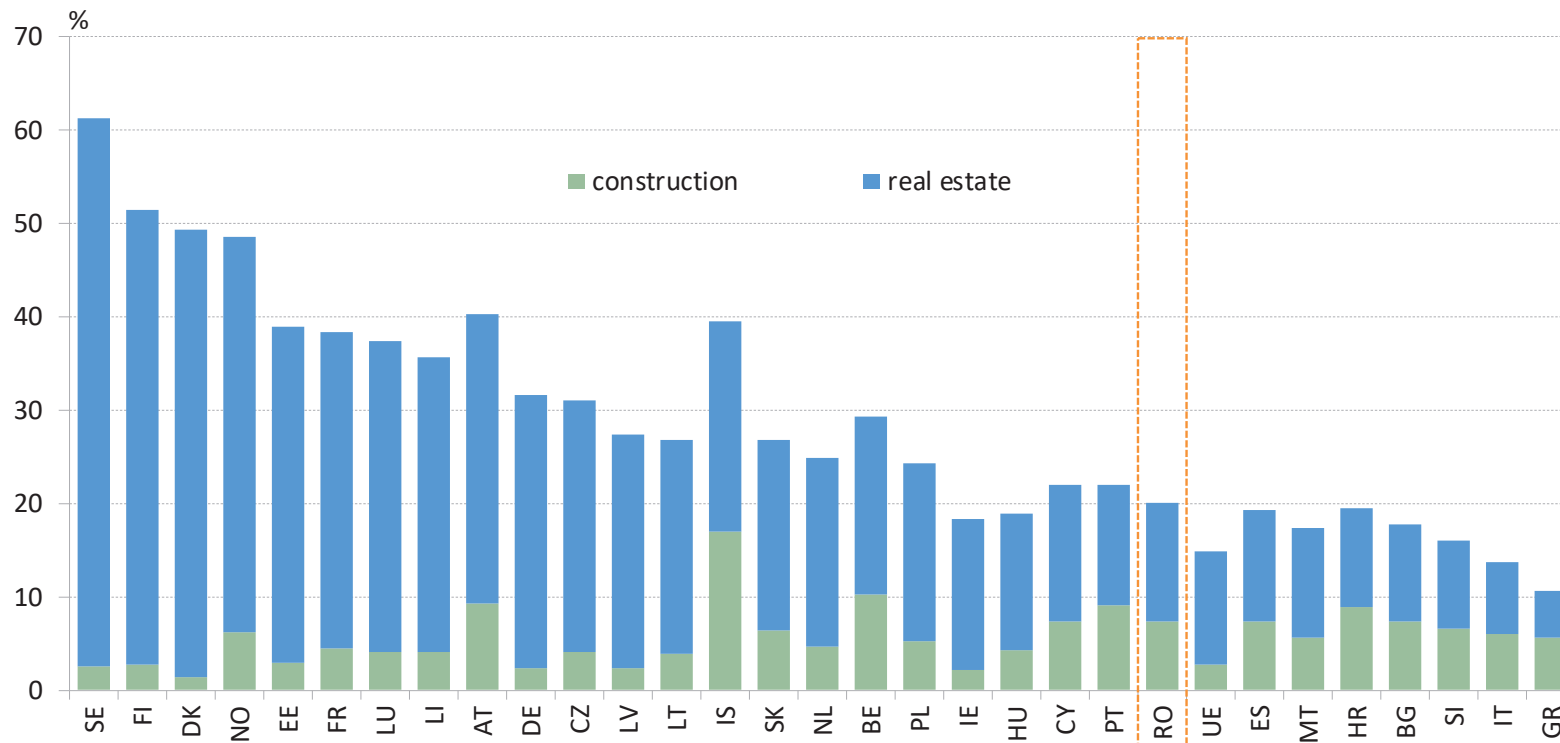
Breakdown of bank assets and the role of lending in Romania



Source: NBR

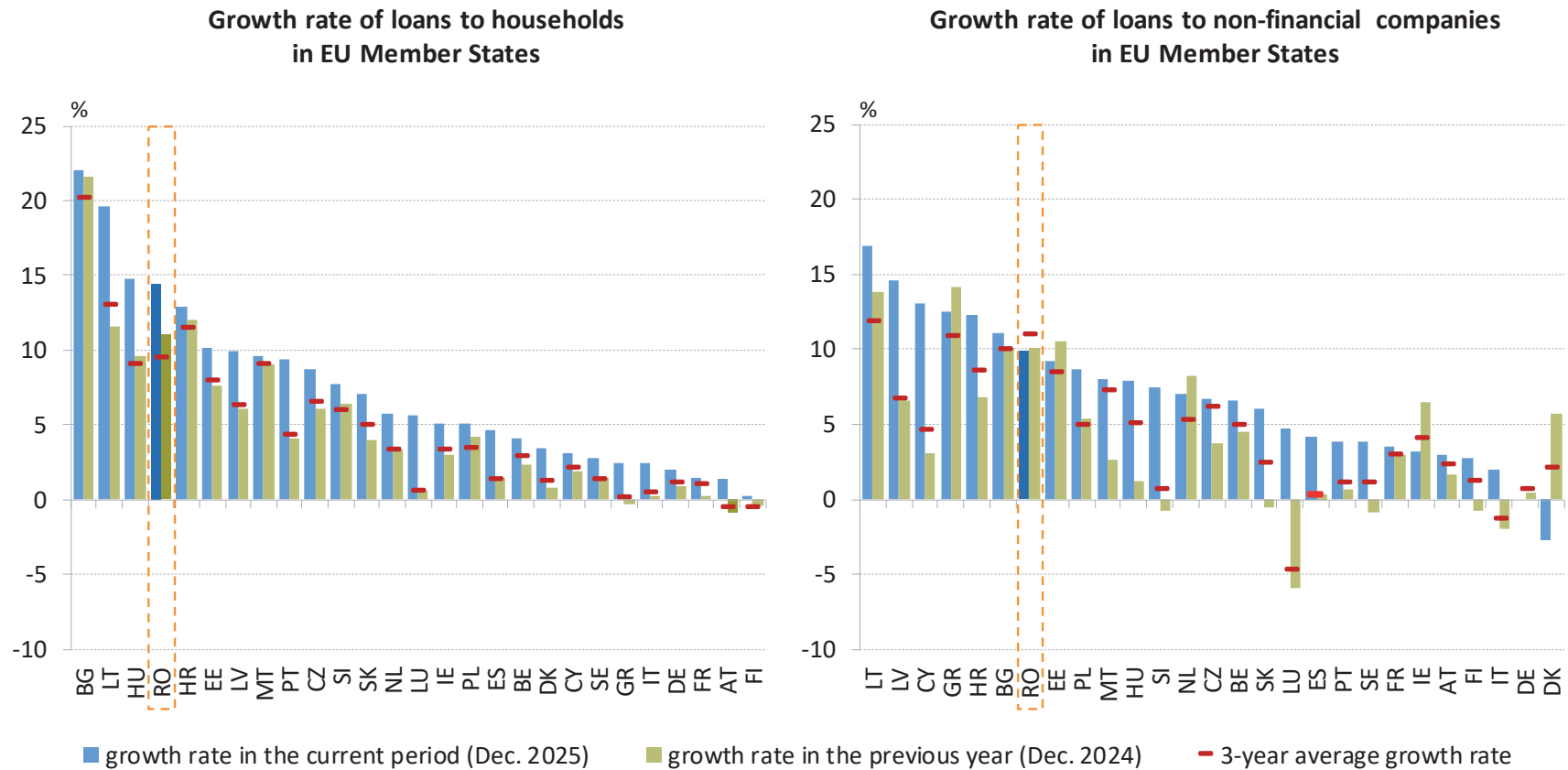
In most European countries, banks play a major role in financing real estate investments. Nordic countries stand out with the highest bank exposure to the commercial real estate market, reflected in a high share of loans granted to construction and real estate companies. By contrast, similarly to its regional peers, Romania is characterised by a moderate contribution of these sectors to total corporate credit.

**Bank loans to non-financial companies in the real estate and construction sectors as a share of total bank loans to non-financial companies (December 2025)**



Source: EBA

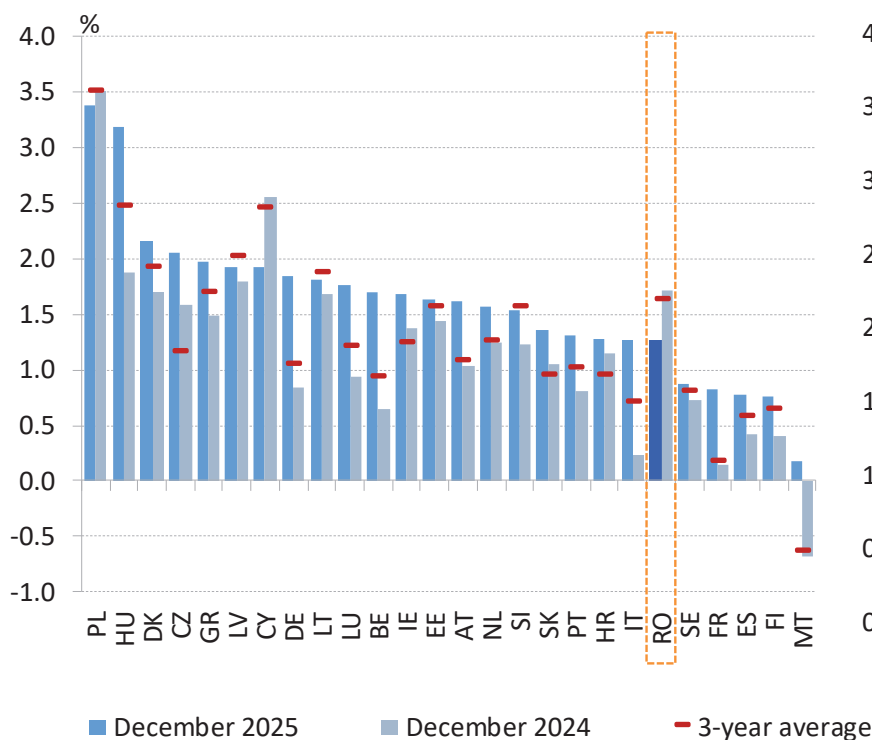
Despite low financial intermediation, the Romanian banking sector has ensured relatively sustained lending to the real economy over the past three years. The recent growth rate of loans to the private sector has been among the highest in the EU. In this context, Romania recorded the fourth fastest growth rate for household loans and the seventh for lending to non-financial companies.



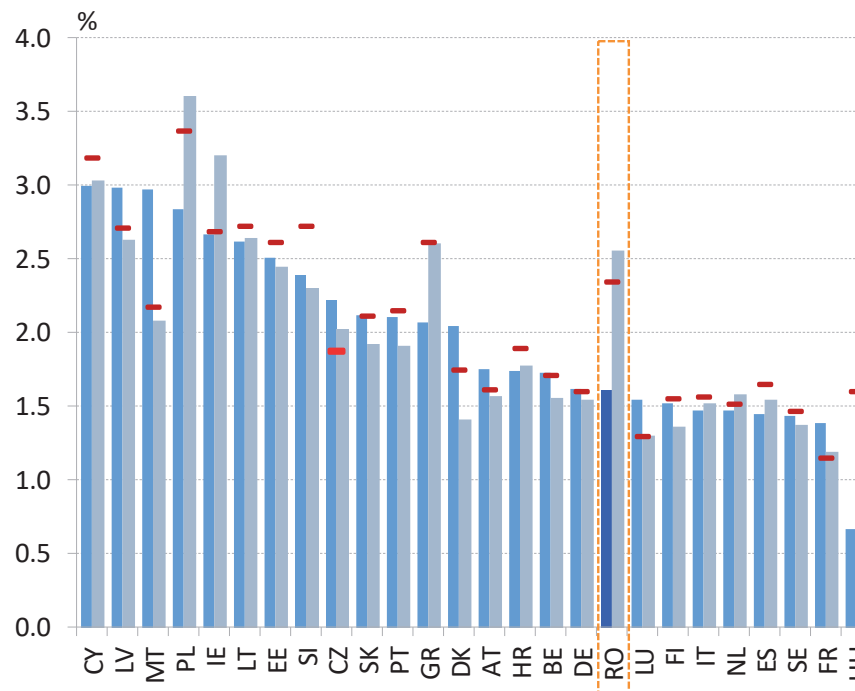
Source: ECB, ESRB

Lending margins for the real sector in Romania have followed a downward path in recent years, with values placed in the bottom half of the ranking for both housing and corporate loans. By comparison to Central and Eastern European countries, lending margins are generally lower in Romania, whereas Poland is at the opposite end, displaying some of the highest values across the EU, although declining, particularly for companies.

Margins on housing loans



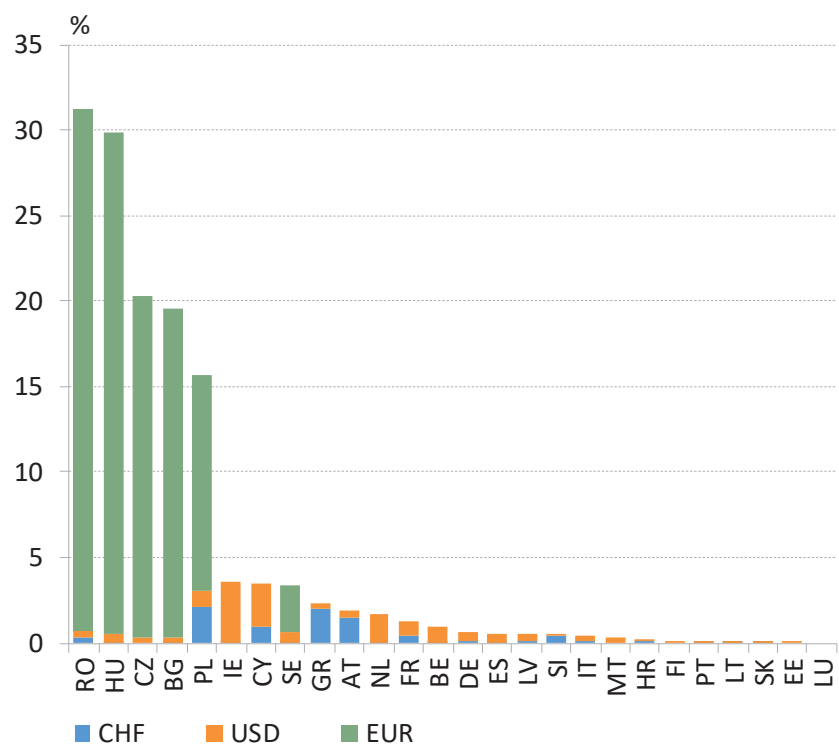
Margins on loans to non-financial companies



Source: ECB, ESRB

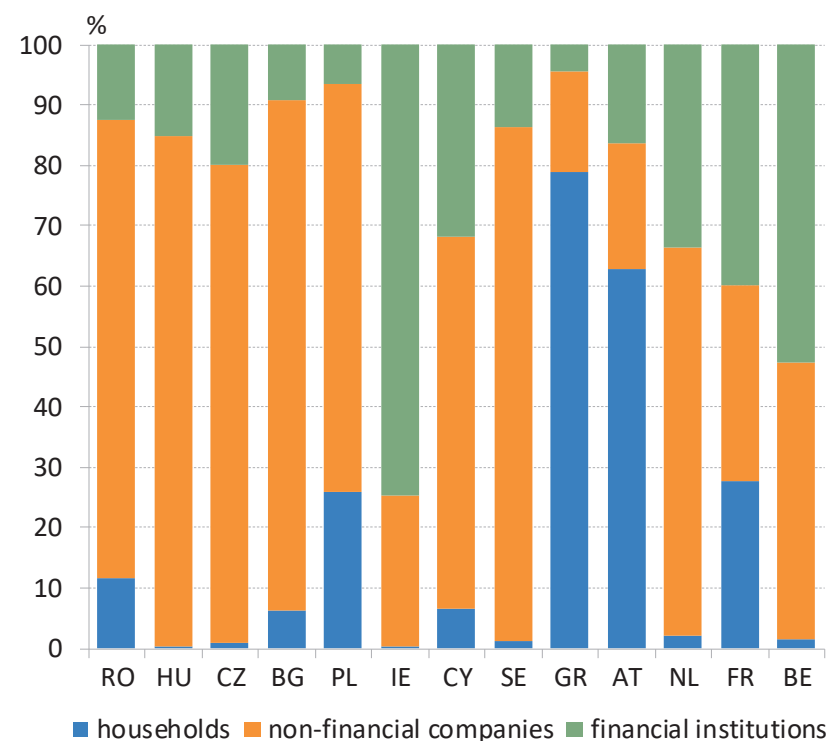
Compared to other EU Member States, Romania has the largest share of foreign currency loans, close to that of Hungary, but well above the levels seen in other regional peers. Foreign currency financing is mainly granted to non-financial companies. In Romania, forex loans to households declined after the introduction of macroprudential measures aimed at strengthening credit standards for unhedged borrowers.

Share of foreign currency loans in total loans



Source: ECB

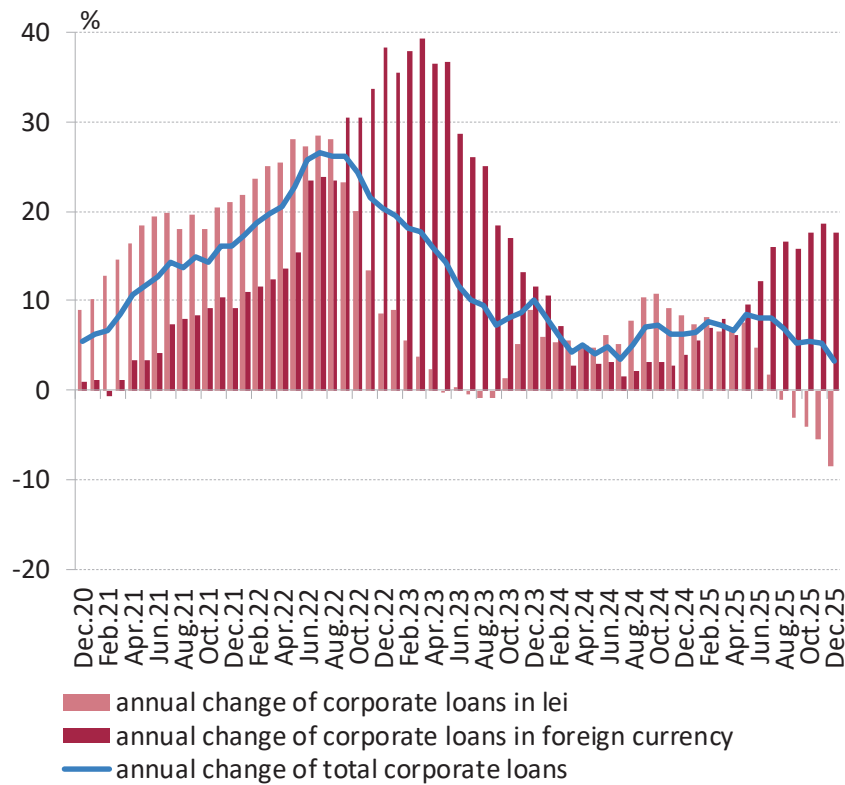
Composition of foreign currency loans by borrower (September 2025)



Source: ECB; countries where loans in foreign currency > 1% of total

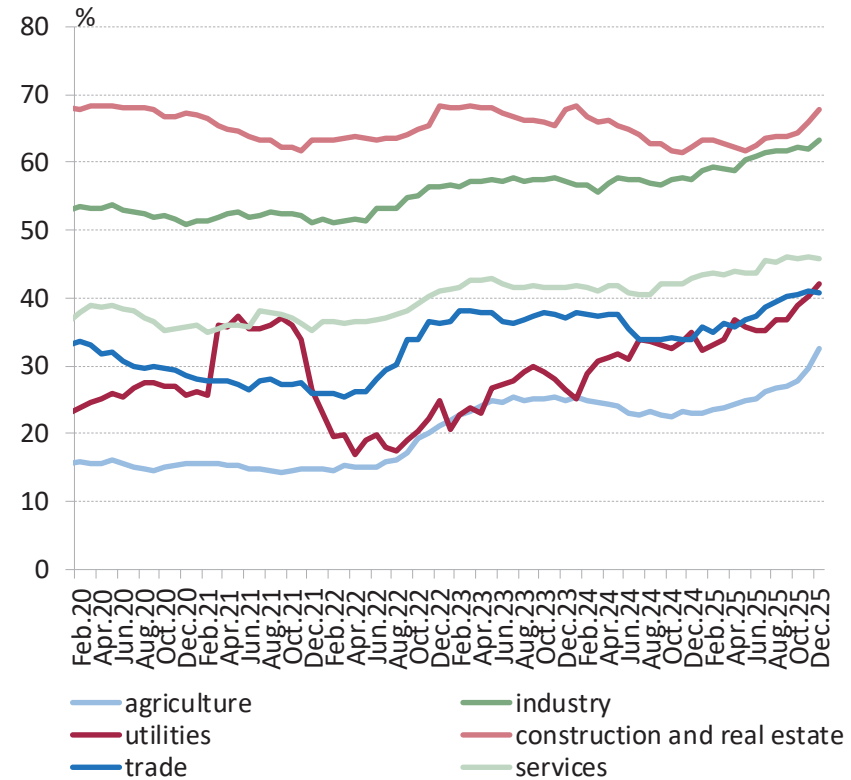
In 2025, foreign currency loans to non-financial companies in Romania rose substantially faster, their dynamics significantly outpacing those of lending in domestic currency. Thus, the share of foreign currency financing exceeded half of the banks’ portfolio. The highest shares of foreign currency loans pertain to construction, real estate and industrial sectors, which also contribute the most to the total stock of forex loans.

Annual growth of bank loans to companies by currency



Source: NBR

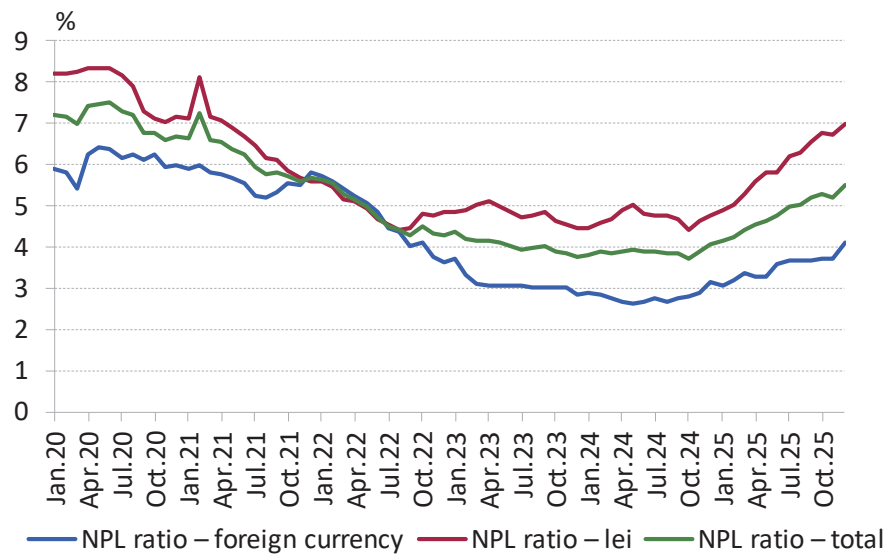
Share of foreign currency loans in total credit to sectors



Source: NBR, MF

Although foreign currency loans to non-financial companies in Romania have recorded robust growth, there are some factors that mitigate the related risks to a certain extent. On the one hand, the NPL ratio for forex loans is significantly lower than that for loans in lei. On the other hand, part of these loans are granted to companies that are naturally hedged against currency risk (exporters, in particular).

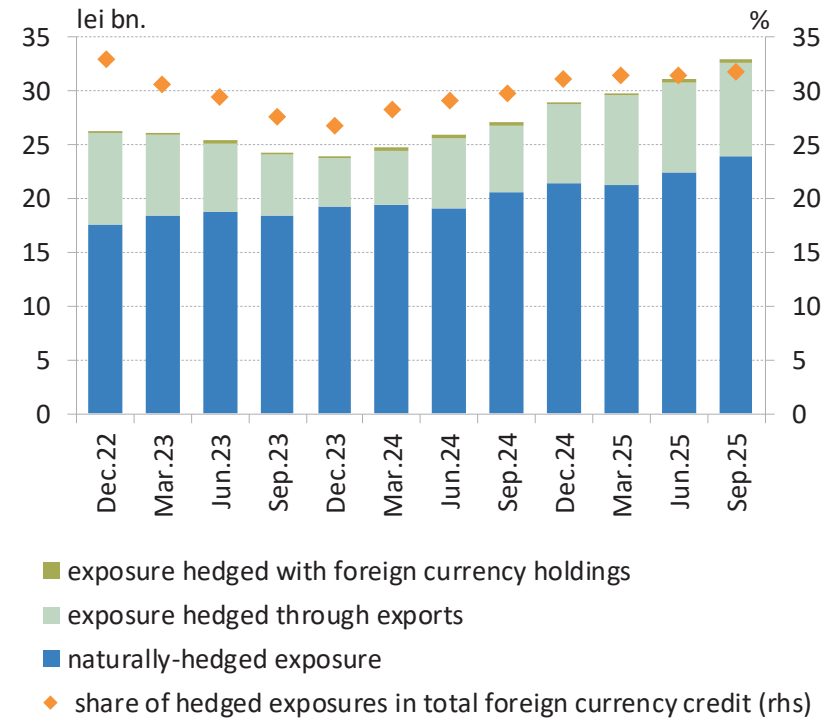
**Non-performing loan ratio for non-financial companies by currency**



Note: Companies hedged through exports are those with the ratio of net exports to debt service exceeding 0.5. Naturally hedged companies operate in sectors where domestic market prices are EUR-denominated. These sectors include telecommunications, motor vehicle sales, real estate and operating leasing. Companies hedged with foreign currency holdings are those whose current accounts and cash in foreign currency, as reported in their annual financial statements, exceed half of their annual debt service. Each hedged company is classified in a single category so as to avoid double counting.

Source: NBR, MF

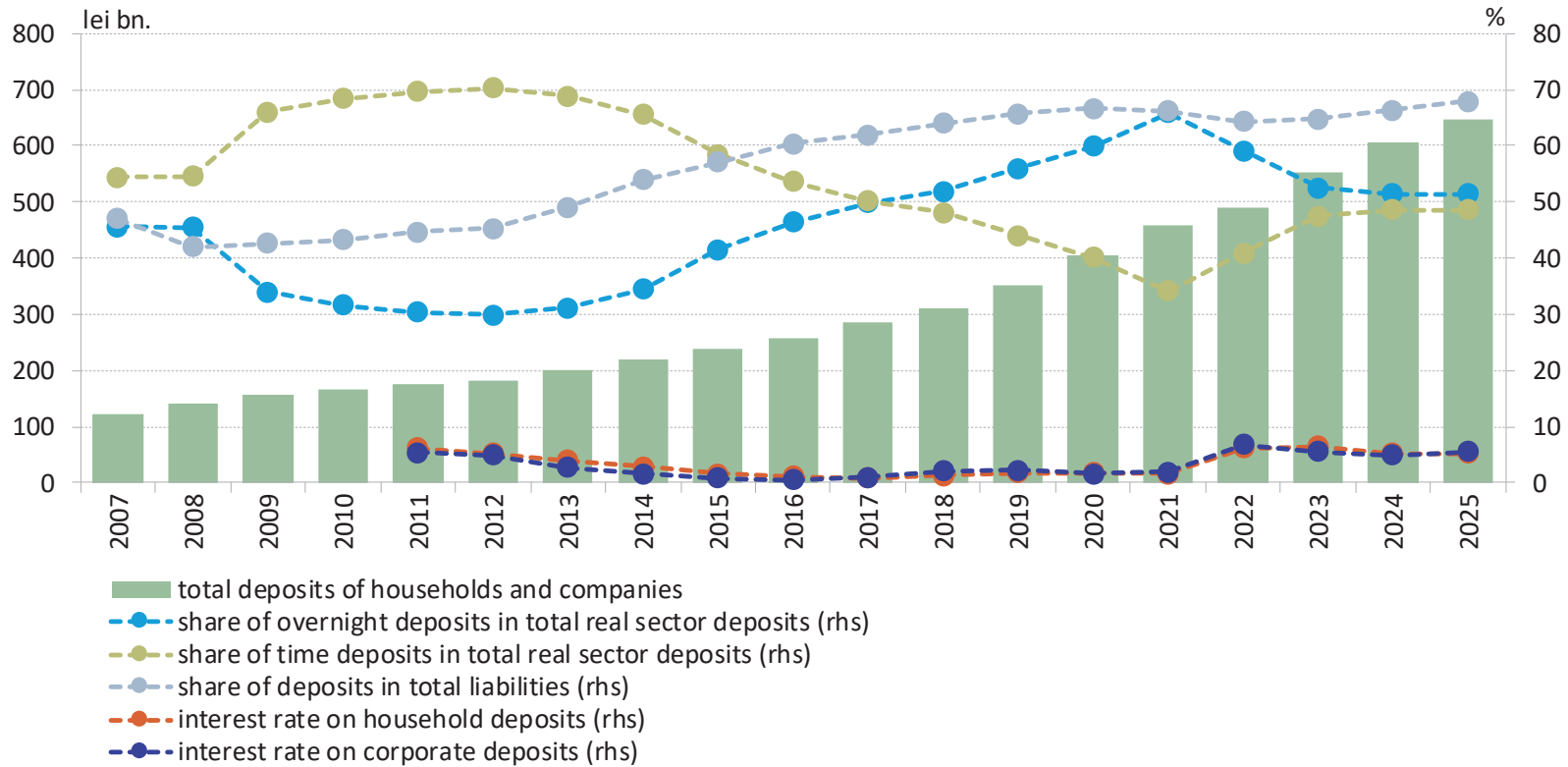
**Exposures of naturally hedged non-financial companies to currency risk**



Source: NBR calculations

The bank funding model has increasingly shifted towards local sources to the detriment of foreign liabilities, which had supported the financing of the credit cycle before the global financial crisis. Overnight deposits make a significant contribution thereto and hence ensure low funding costs, support bank profitability and provide additional resources for lending and for fostering the economy’s growth potential.

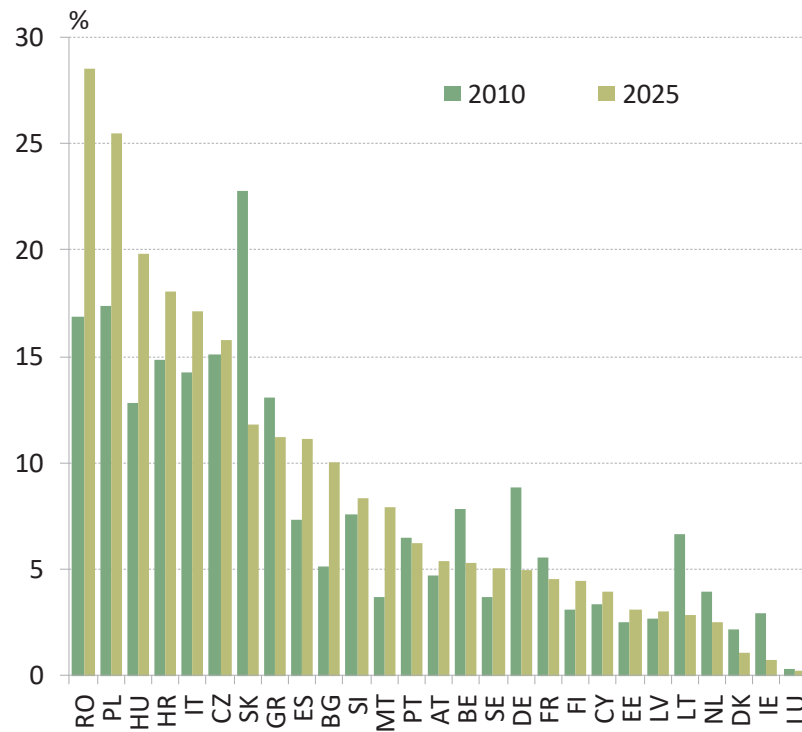
Breakdown of deposits in the Romanian banking sector and interest rates



Source: NBR

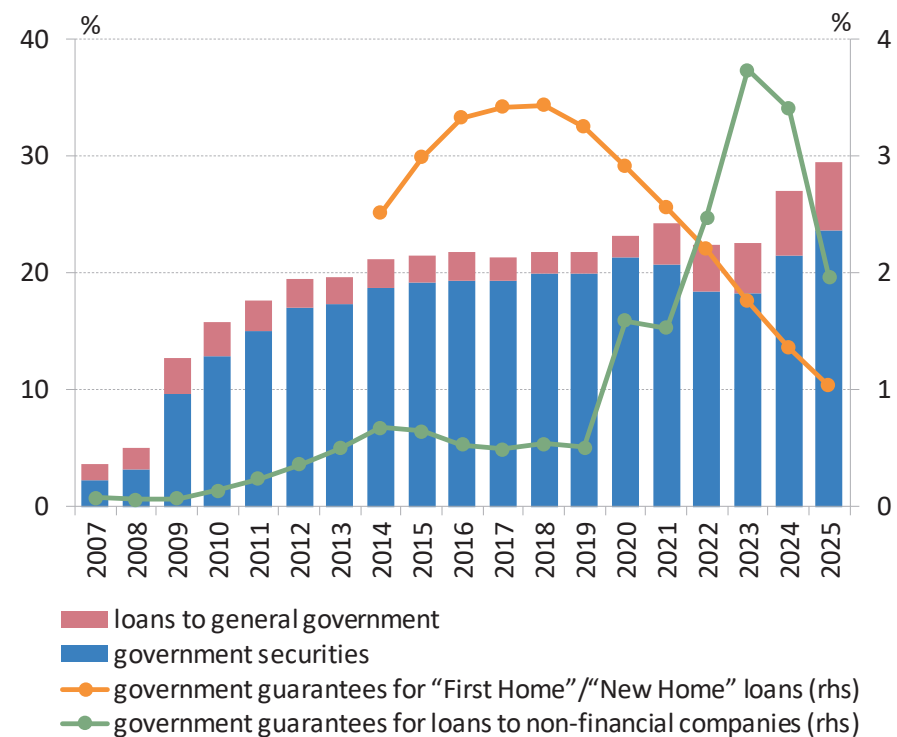
The sovereign-bank nexus in Romania is one of the strongest in the EU, alongside other countries in the region. In our country, government exposures as a share of bank assets have surged in recent years, driven by rising government financing needs. Moreover, government credit guarantee programmes have strengthened this linkage, highlighting the need for better targeting in order to enhance their effectiveness.

**Bank claims on general government as a share of total bank assets – EU comparisons**



Source: ECB

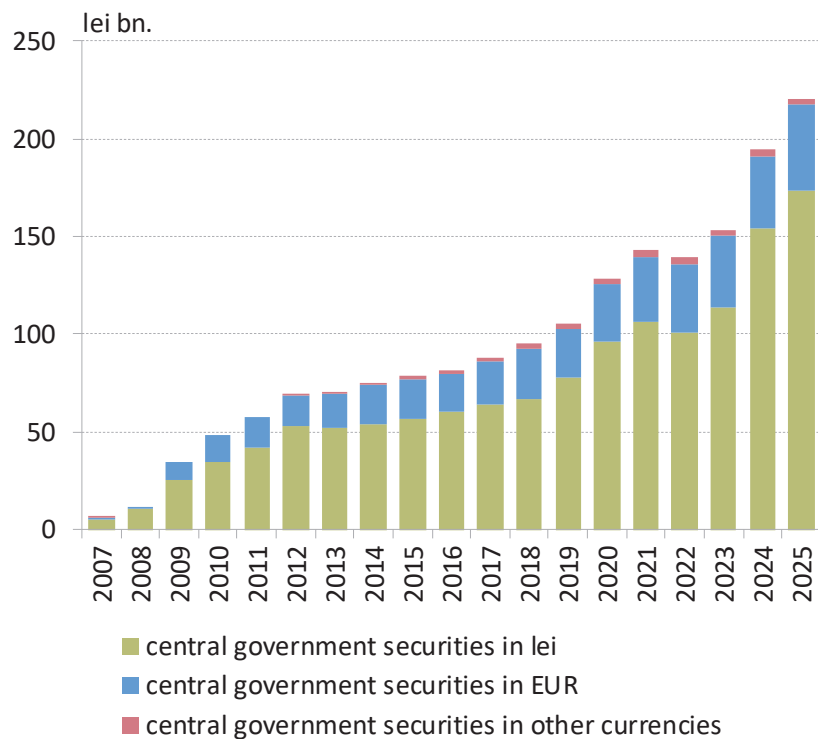
**Bank claims (direct and indirect via government-guaranteed loans) on general government as a share of total bank assets**



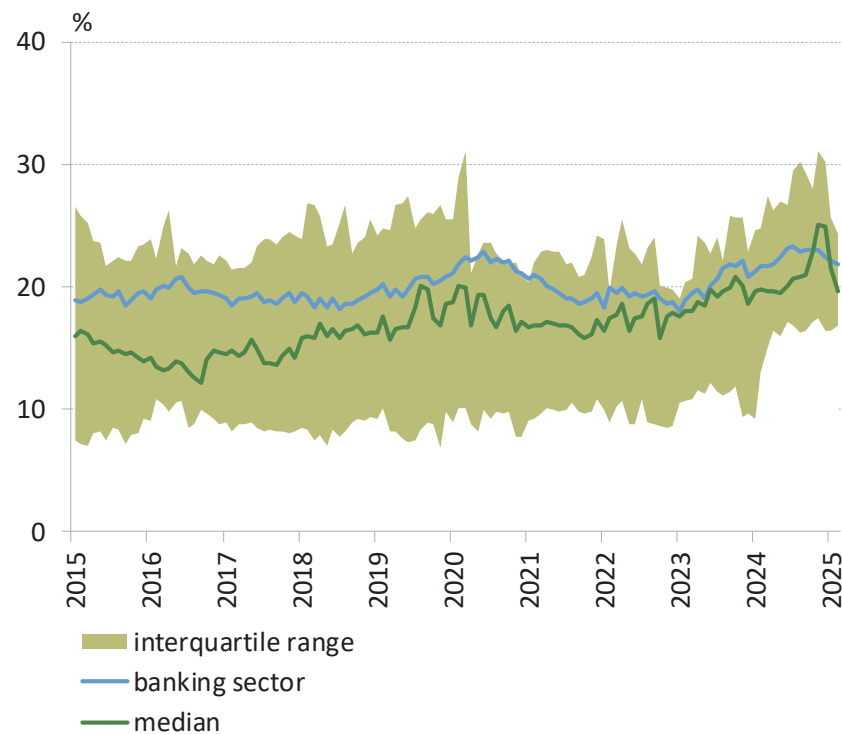
Source: NBR

Holdings of government securities, predominantly leu-denominated, make up the largest share of bank claims on central government. While the median share stands at around 20%, a granular analysis points out that the importance of government securities holdings in total assets varies substantially across individual banks; in some cases, this share is very high, resulting in limited space for additional government exposures.

**Breakdown of government securities held by banks by currency**



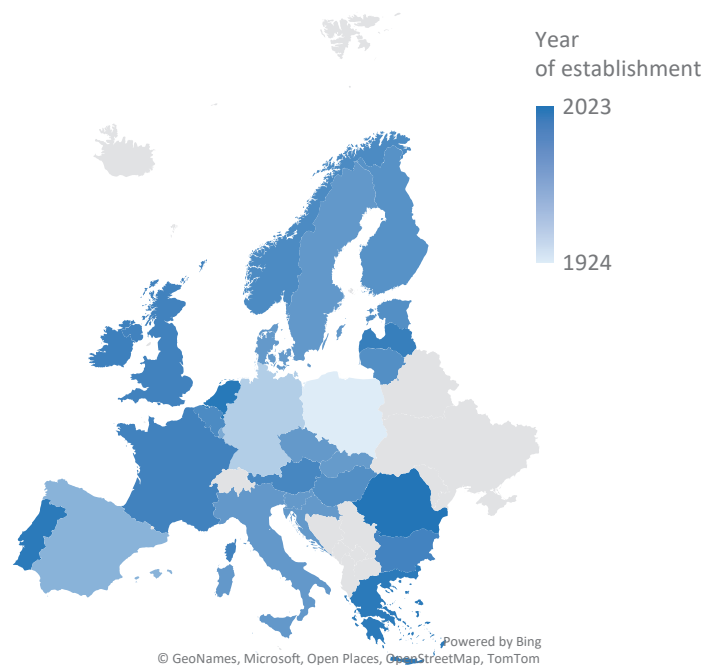
**Share of government securities held by banks in total bank assets – various descriptive statistics**



Source: NBR

National development banks have a long history in many European countries, with specific objectives related to financing or guaranteeing of SMEs, infrastructure, innovation and research, external activities or green transition. The recent establishment of the Investment and Development Bank in Romania aims to complement the banking sector’s activity by leveraging EU funds, as well as by financing strategic and infrastructure projects.

**Development banks in European countries**



	Total assets of local development banks (June 2025, EUR mill.)
Romania	622
Czechia*	1,398
Bulgaria**	1,600
Hungary**	9,358
Poland	83,619

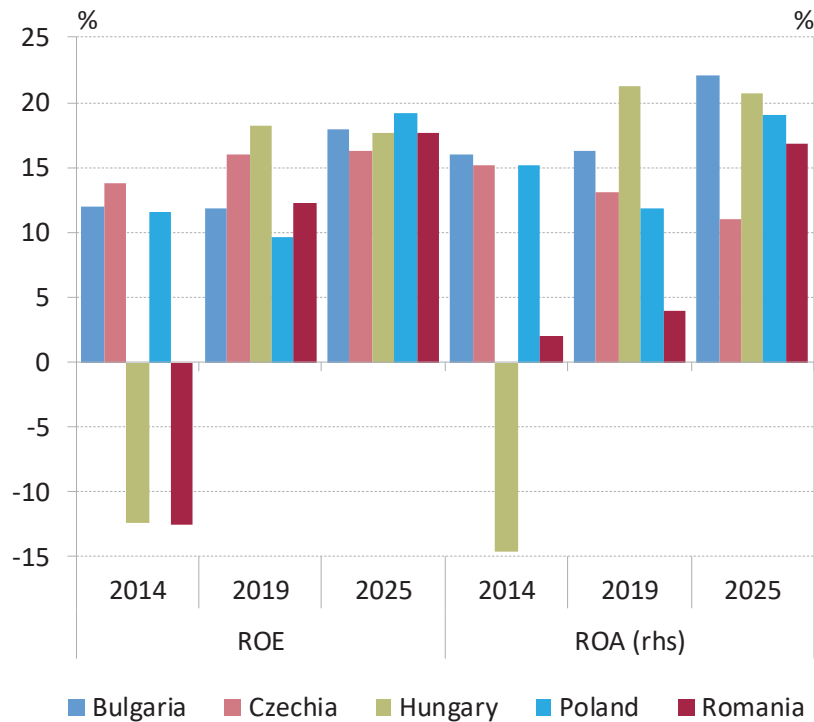
\* 2023; \*\* 2024

Source: *websites of development banks*

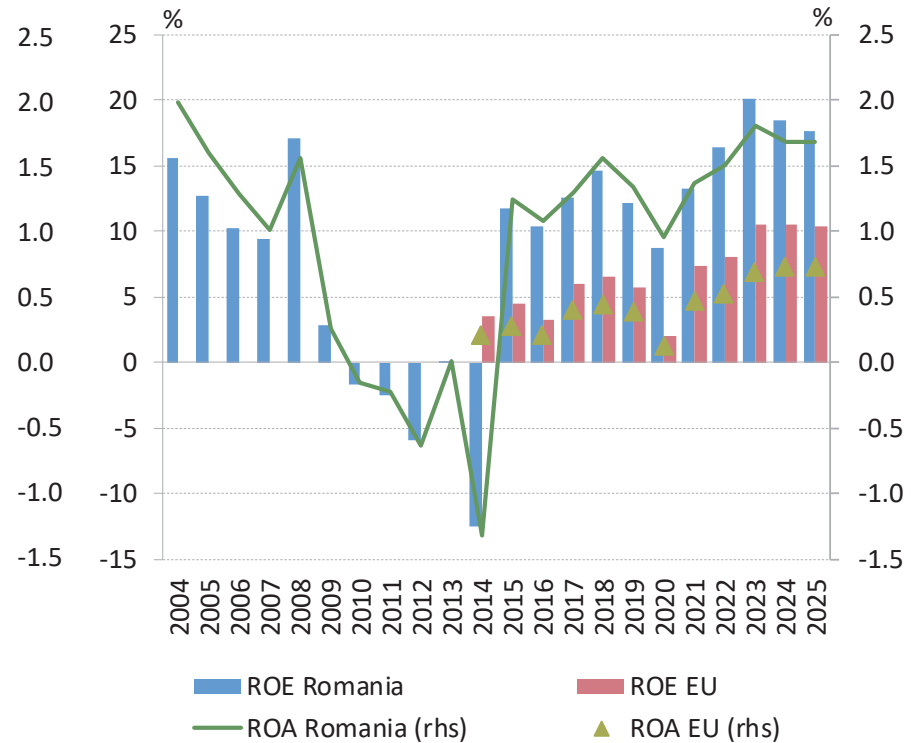
Source: *Wikipedia, websites of development banks*

Profitability indicators have generally exceeded the EU average over the past 10 years, following a balance sheet clean-up process related to credit risk losses. At the regional level, return on equity (ROE) nears that of CEE countries, while return on assets (ROA) stands lower, due to the differences in financial intermediation that limit economies of scale. Profitability has been an important source for strengthening bank capital in Romania.

**Return on equity (ROE) and return on assets (ROA)**  
– regional comparisons



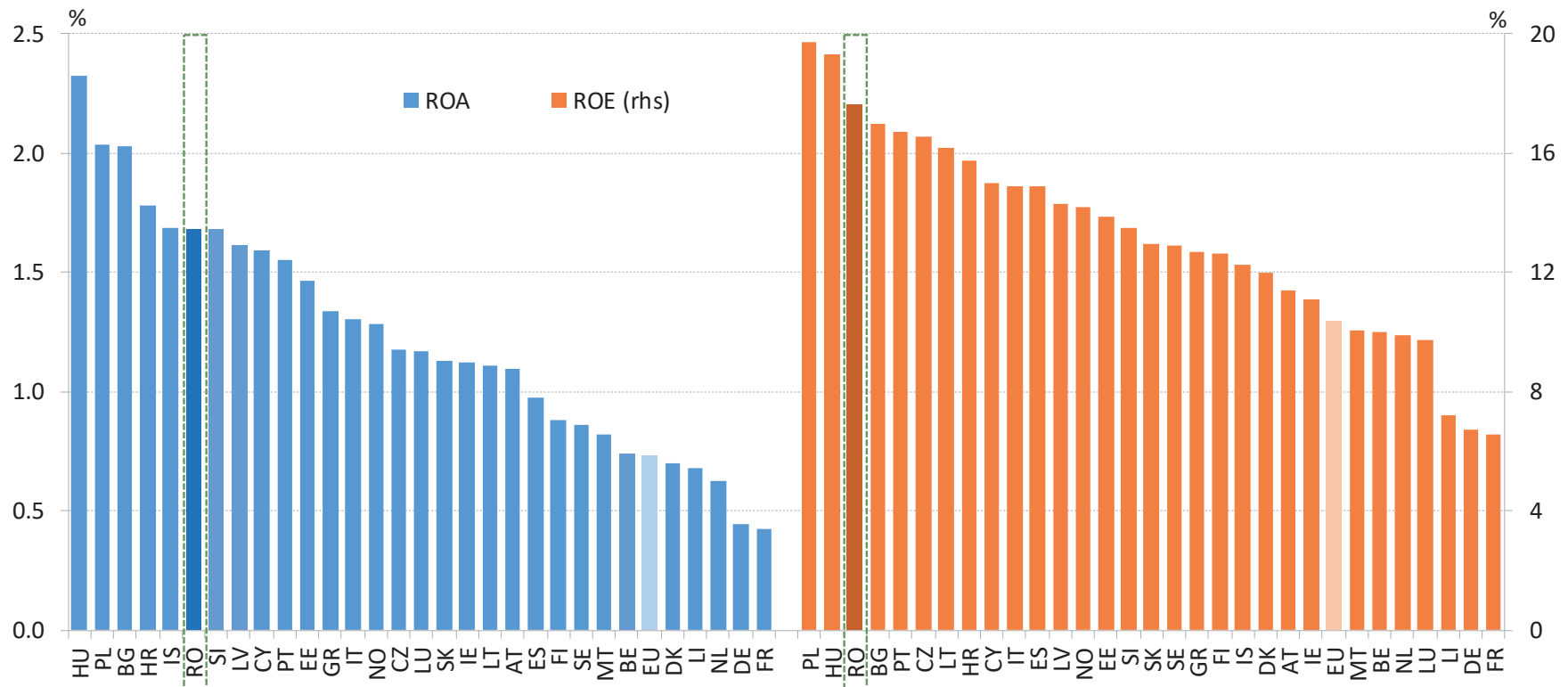
**Return on equity (ROE) and return on assets (ROA)**  
– Romania and the EU



Source: NBR, EBA

Return on equity of the Romanian banking sector ranks as the third highest in the EU, after Poland and Hungary, while return on assets is lower than in the regional peers; however, both indicators exceed those recorded in mature Western European markets. This advantage seems to be also related to the specific features of converging economies, where credit markets are still unsaturated and financial intermediation is still low.

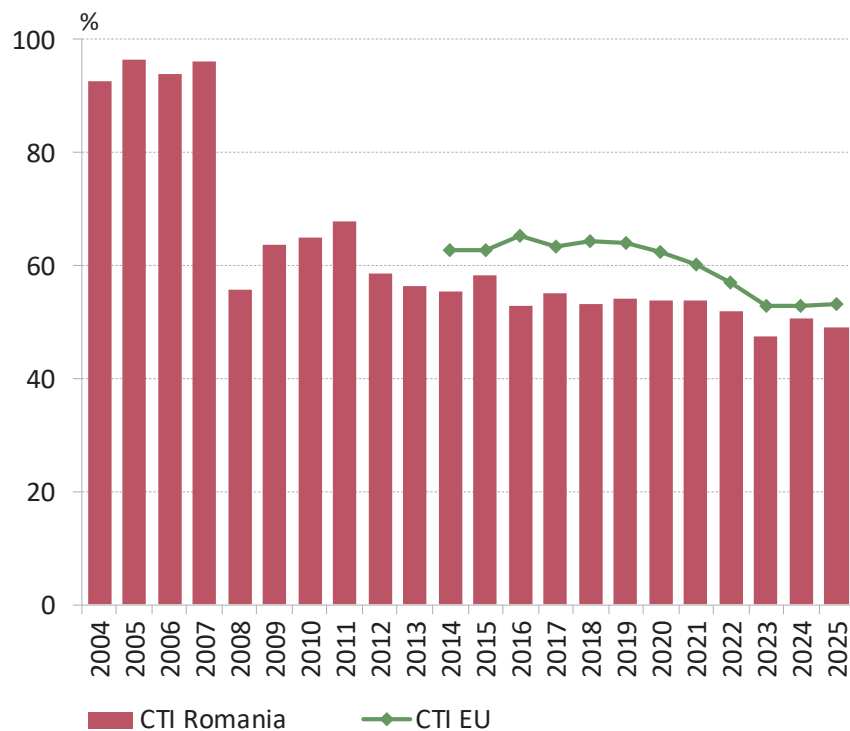
Return on equity (ROE) and return on assets (ROA) in EU Member States (December 2025)



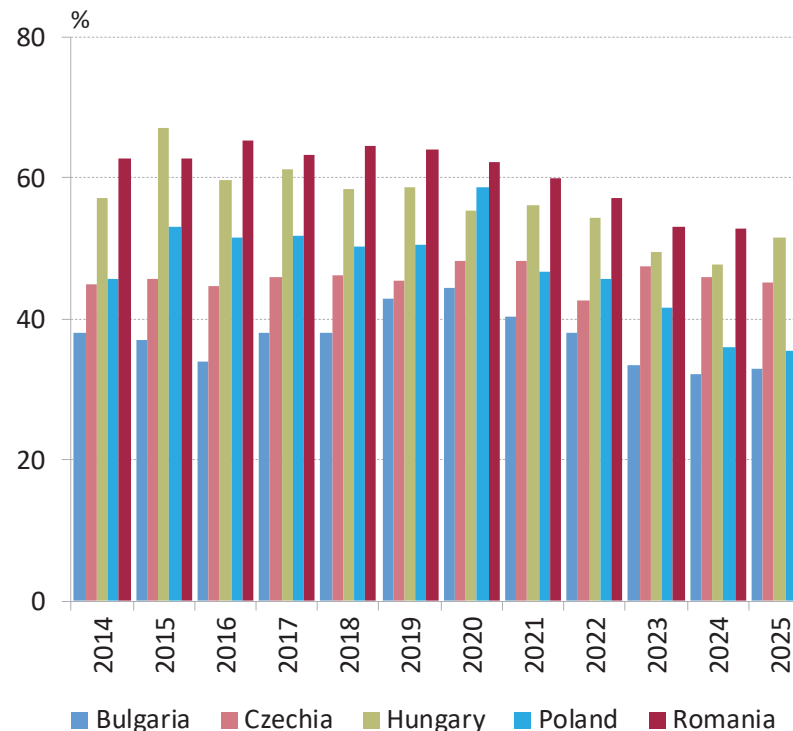
Source: NBR, EBA

Operational efficiency followed a favourable path in Romania after the privatisation of some major banks two decades ago. Subsequently, the improvement trend was supported by sector consolidation through mergers and acquisitions, along with the digitalisation of financial services. Nevertheless, disparities by bank size, cost adjustments and the introduction of taxes have put additional pressure, the indicator remaining at a high level.

Operational efficiency (CTI: cost-to-income) in Romania and the EU



Operational efficiency (CTI) – regional comparisons



Source: NBR, EBA

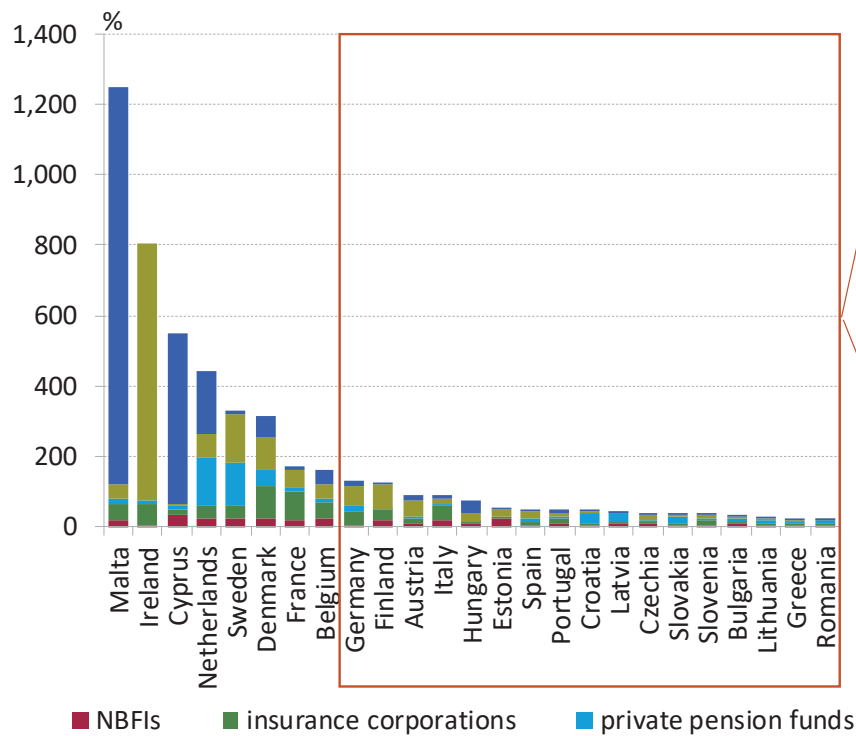
Various taxes have been imposed on banks across the EU, particularly in recent years, as profitability improved in the post-pandemic period. In Romania, the additional tax on net revenue has been in force since 2024, with the applicable rate increased as of 2025 until end-2026, differentiated by bank size, but still exerting additional strain on operational efficiency, especially for small banks.

Country	Tax base	Tax	Period of tax application	Revenue (EUR bn.)
Romania	Net revenue	2% for all banks in 2024	Initially on a permanent basis/as of 2025 for a period of 2 years, but at a higher rate	0.26 in 2024
		2% for all banks in January-June 2025		0.39 estimate 2025
		2% for banks with a market share below 0.2% during July 2025 – December 2026		0.52 estimate 2026
		4% for banks with a market share above 0.2% during July 2025 – December 2026		
Hungary	Net income	10% (2022), 8% (January-June 2023) and progressively up to 30% (July 2023 – December 2024)	2-3 years	0.64
Czechia	Profits	60%	3 years	0.6
Slovakia	Profits	30% (2024), 25% (2025), 20% (2026), 15% (2027)	3 years	0.34
Latvia	Profits	20%	1 year	0.14
Lithuania	Excess net interest income	60%	1 year și 7,5 mos.	0.25
Estonia	Profits	20% (2024), 22% (2025)	2 years	0.06
Italy	Excess net interest income	40%	1 year	3
Spain	Excess net revenue	4.8%	3 years	1.2
Denmark	Excess profit	3.2% (2023), 4% (2024)	permanent	n.a.
Ukraine	Profits	50% (2023), 50% (2024), 25% (2025)	permanent	0.6

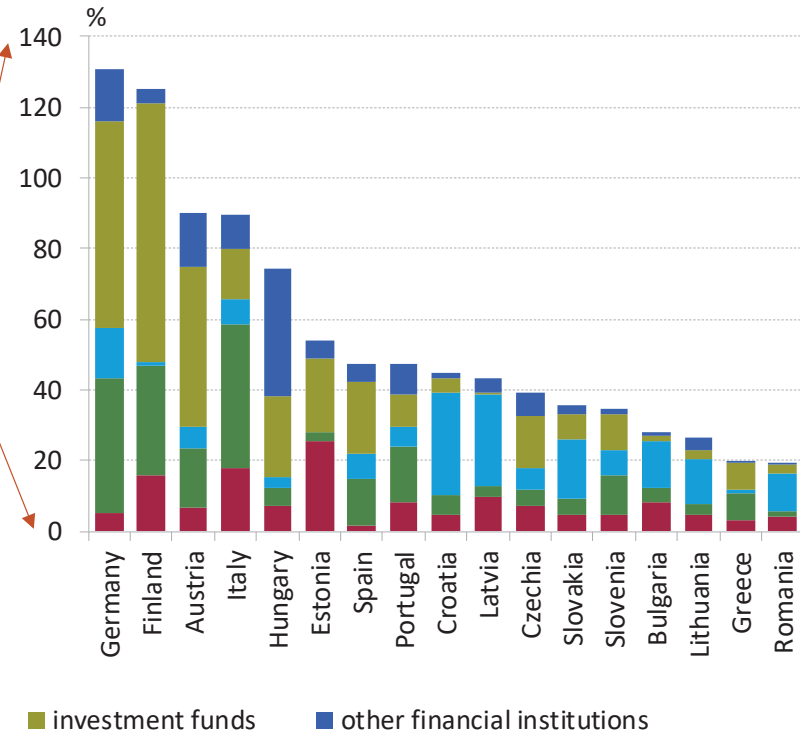
Source: NBR calculations, Refinitiv Datastream, The taxation of the EU's financial sector, European Parliament, Directorate-General for Economy, Transformation and Industry Authors: A. Pekanov, M. Schratzenstaller, 2025

Across EU Member States, the non-bank financial sector is highly relevant and diversified. Investment funds prevail, holding around 20% of GDP, followed by insurance corporations (13% of GDP) and non-bank financial institutions (NBFIs) with 8% of GDP. The strengthening of these institutions' position in the financial system was generally the result of their increased reliance on bank funding, thus fuelling the risk of contagion.

**Breakdown of the non-bank financial sector as a share of GDP, EU comparisons, December 2025**



**Detail: breakdown of the non-bank financial sector as a share of GDP, EU comparisons, December 2025**



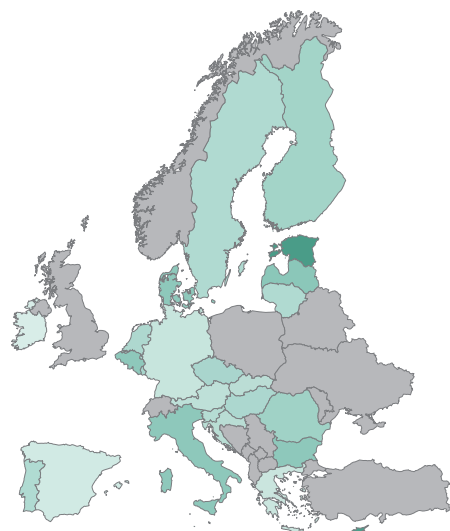
Source: Eurostat, NBR calculations

In Romania, non-bank financial institutions (NBFIs) are one of the financial sector’s significant components. At EU level, the NBFIs sector accounts for 4.3% of total financial system assets.

In Romania, this share stands at 5.6% and NBFIs are predominantly owned by foreign capital banks. Lending is mainly directed towards non-financial companies, with the NPL ratio remaining at a prudent level.

Share of NBFIs assets in total financial system assets, December 2025

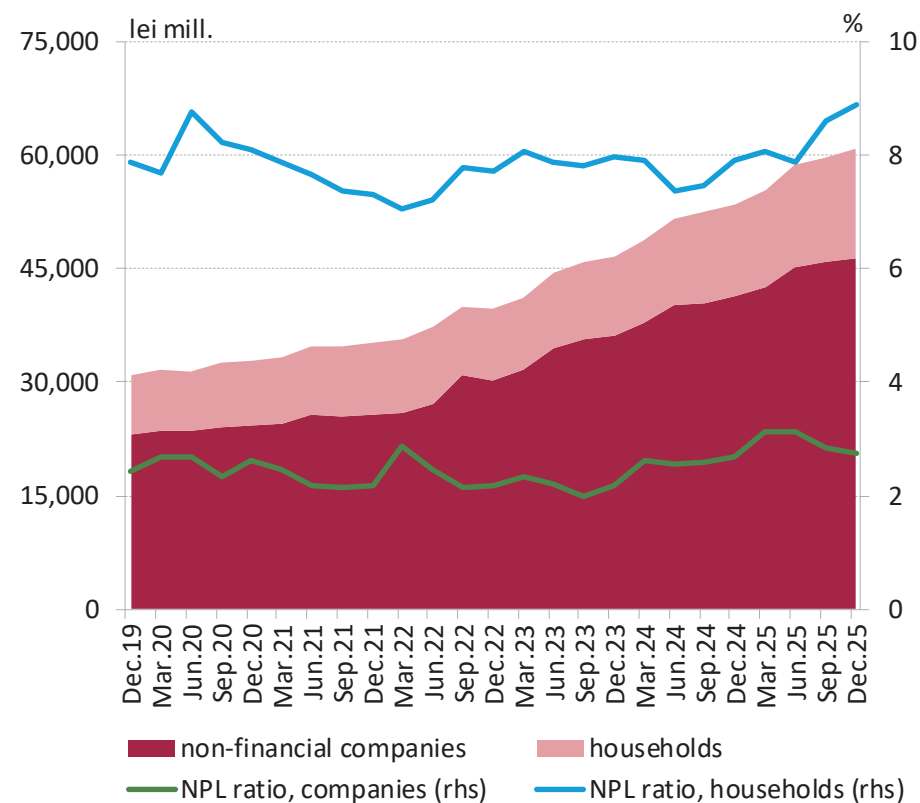
share of NBFIs assets in the financial system 0.3 16.1



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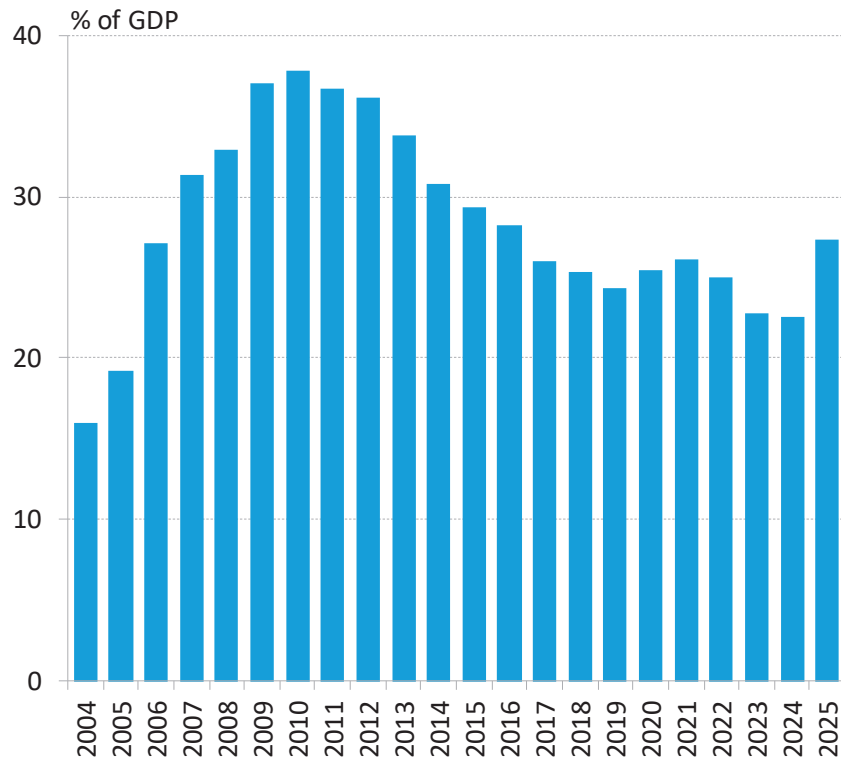
Source: Eurostat, NBR calculations

Loan stock and NPL ratio by credit segment



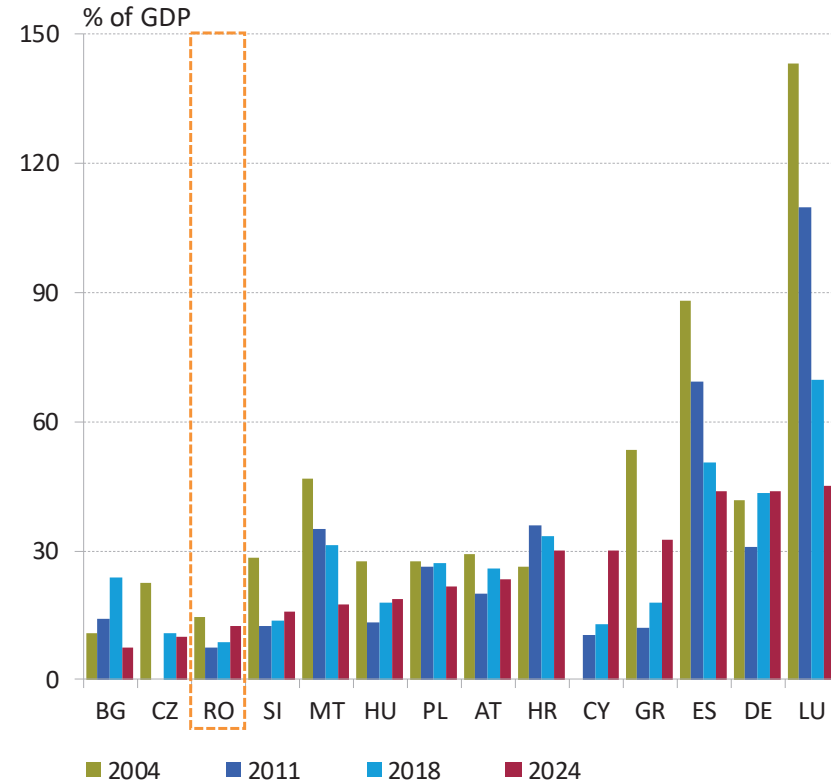
The capital market still plays a relatively limited role in the Romanian financial system, but has the potential to support local companies and increase access to finance. Romania is among the EU Member States with a low stock market capitalisation-to-GDP ratio. In 2025, the market value of shares listed on the Bucharest Stock Exchange (BSE) rose significantly, by 49% compared with 2024, reflecting a positive investor outlook on listed companies.

Stock market capitalisation in Romania



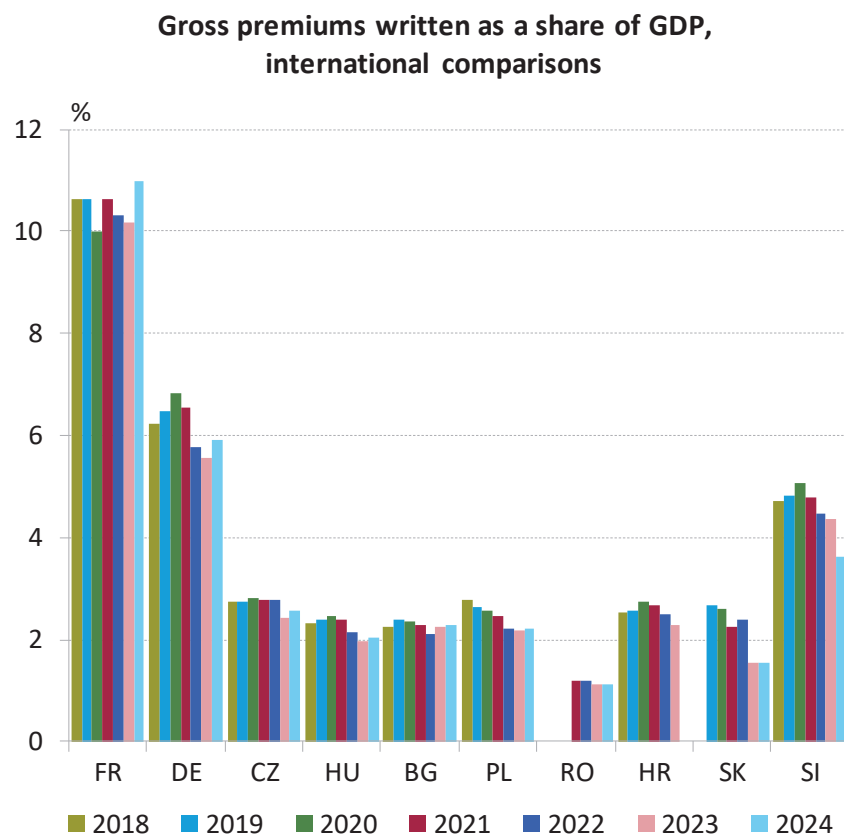
Source: BSE, NIS, FSA, NBR calculations

Stock market capitalisation in EU Member States

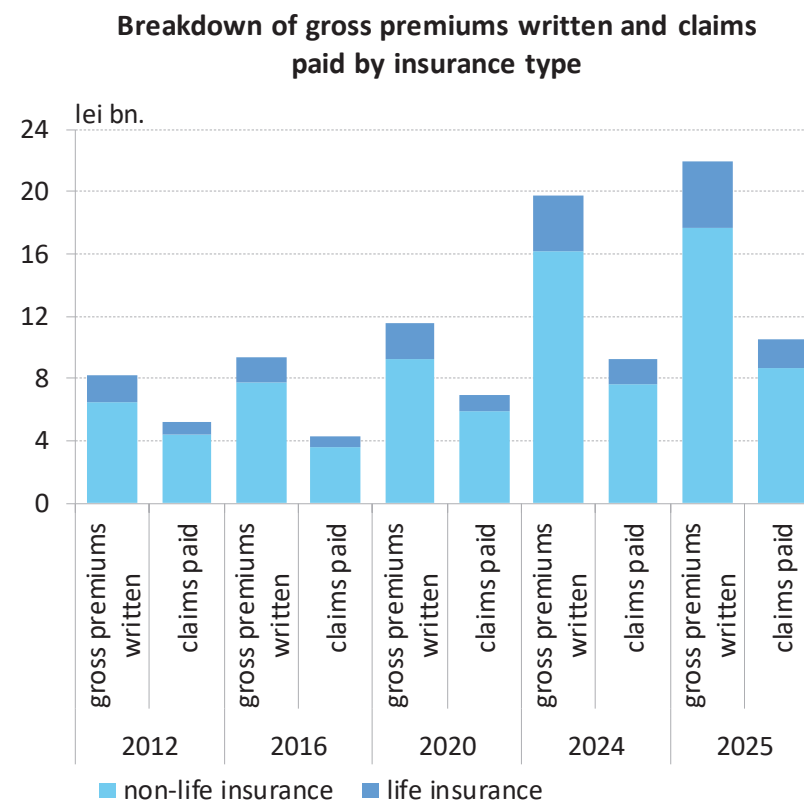


Source: World Bank

The insurance sector in Romania holds the smallest share of assets in GDP among EU Member States and the lowest ratio of gross premiums written to GDP among Central and Eastern European countries. Non-life insurance takes up about 80% of total, while life insurance plays a limited role. In the non-life segment, claims paid are significantly lower than premiums written, with funds invested primarily in government securities.



Source: OECD

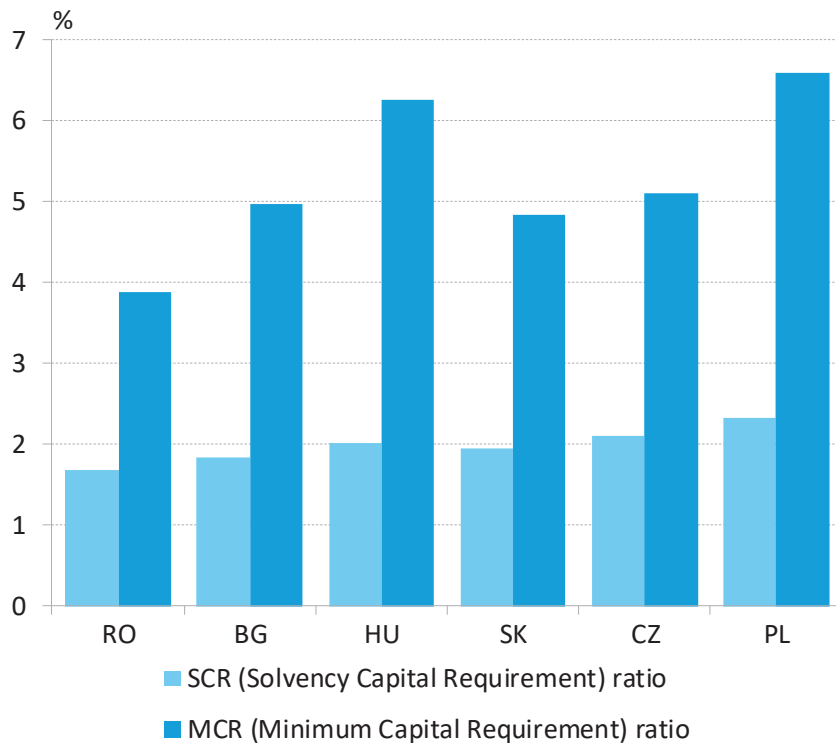


\*) Only insurance companies licensed and regulated by the FSA are included.

Source: FSA

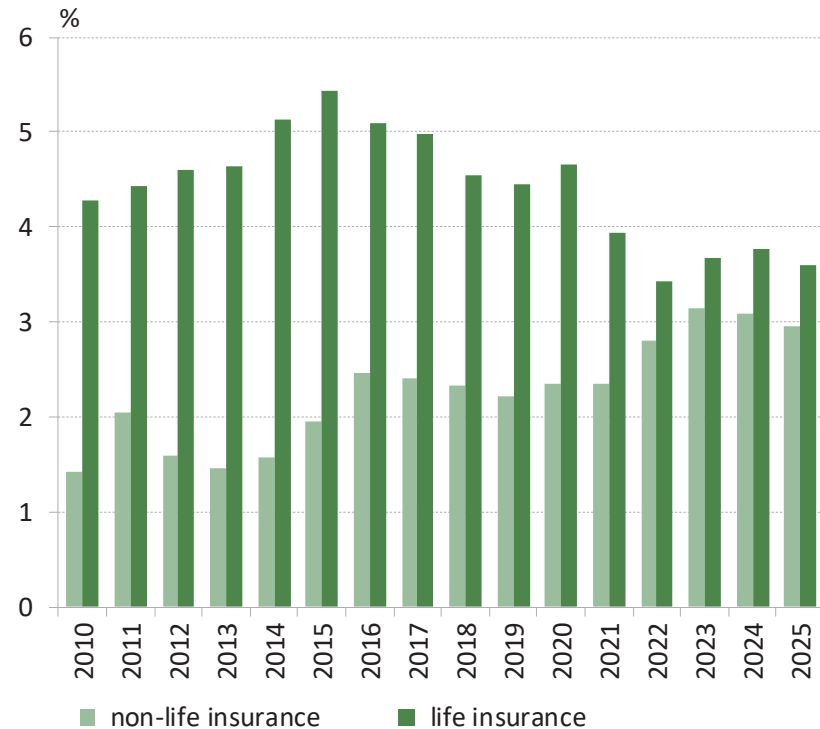
Solvency indicators for insurance companies licensed and supervised by the FSA are above one, although lower than those in the regional peers. As for liquidity indicators, they are higher in the case of life insurance. The profitability of the insurance sector has been positive since 2016, following several years of losses, with stronger profit dynamics in the post-pandemic period.

**Solvency indicators – regional comparisons,  
(2025 Romania, 2024 CEE countries)**



Source: EIOPA, FSA calculations

**Liquidity indicators of insurance companies  
in Romania by insurance type**



Source: FSA

## Chapter VII

The banking sector is resilient to shocks, but further efforts are required to increase financial intermediation

- The Romanian banking sector is sound and well prepared to withstand potential adverse developments, with adequate solvency, liquidity and asset quality indicators, which represent a key strength in international assessments of the Romanian economy.
- However, financial intermediation in Romania is the lowest across the European Union, amid firms with capital shortfalls and low financial inclusion. Banks have the necessary resources to support financial intermediation and sustainable economic growth through additional efforts aimed at strengthening long-term, productive investment partnerships with the real sector.
- Increasing financing in the economy does not depend solely on banks – the ongoing development of the capital market, alongside improvements in financial and digital literacy, can contribute to diversifying financing sources and enhancing the resilience of the economy.
- Profitability remains a key element for banks' financial soundness. Compared with the EU average, banks in Romania are favourably positioned in terms of prudential indicators.

## Chapter VII

The sovereign-  
bank nexus  
has  
strengthened,  
while new  
challenges  
arise from  
emerging risks

- Stress tests show that banks are adequately capitalised and able to absorb losses even under adverse scenarios. A significant contribution to this favourable position has come from the prudent dividend distribution policy pursued in recent years, in line with the NBR recommendations.
- The composition of bank assets has changed markedly over the past years. Lending to the real sector has grown faster than in many other EU Member States; however, at the same time, banks have increasingly invested in government securities, particularly in the post-pandemic period, bringing the interconnection between the two sectors to the highest levels in the EU.
- Government credit guarantee programmes have supported financing, but have also reinforced the sovereign-bank nexus. The deteriorating quality of some guaranteed loans indicates that these programmes need to be more carefully calibrated for an enhanced effectiveness.
- Banks in Romania face challenges similar to those across Europe: geopolitical uncertainty, heightened cyber and technological risks, as well as the effects of climate change, which add to specific structural challenges.

## Chapter VII

The development of non-bank financial sectors could contribute to strengthening financial intermediation

- Non-bank financial institutions (NBFIs) contribute to financial intermediation, with a focus on lending to non-financial companies; however, asset quality shows a slight deterioration trend.
- The capital market still plays a relatively limited role in the Romanian financial system, but it has the potential to support local companies and increase access to finance.
- Developments in recent years point to improved economic conditions, reflected in the upward dynamics of financial markets. A broader access to finance should be pursued in parallel with enhancing financial literacy, particularly in the relevant terms of risk management and investment horizon.
- Privately managed pension funds are a segment with high potential for both savings and supporting domestic assets, mainly government securities issuance. Moreover, they contribute to diversifying income sources for the elderly.
- The insurance sector in Romania is relatively underdeveloped compared with other EU economies, its faster growth being relevant also in the context of rising climate risks.

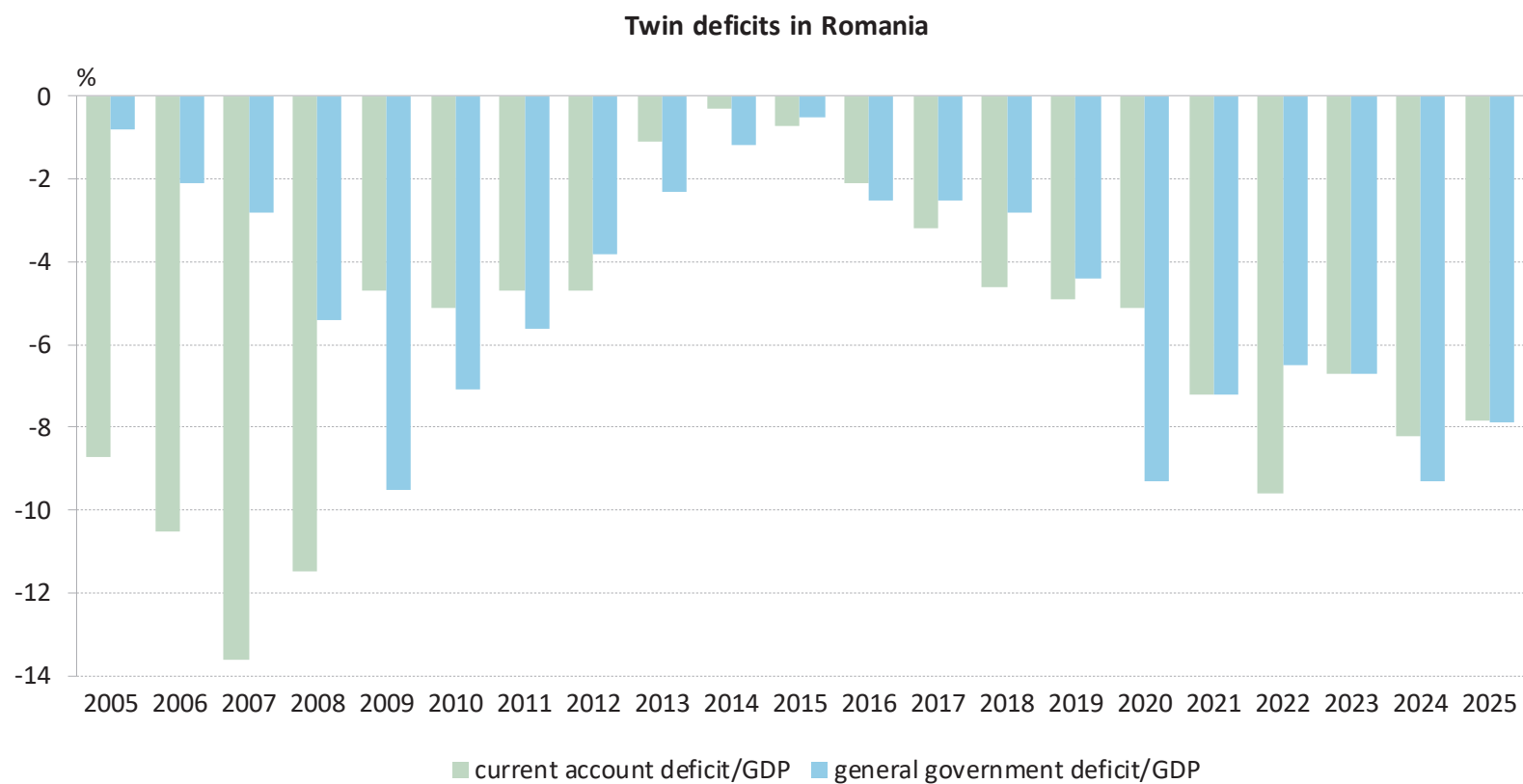
## Chapter VIII

### External Imbalances

#### Balance of Payments and External Debt

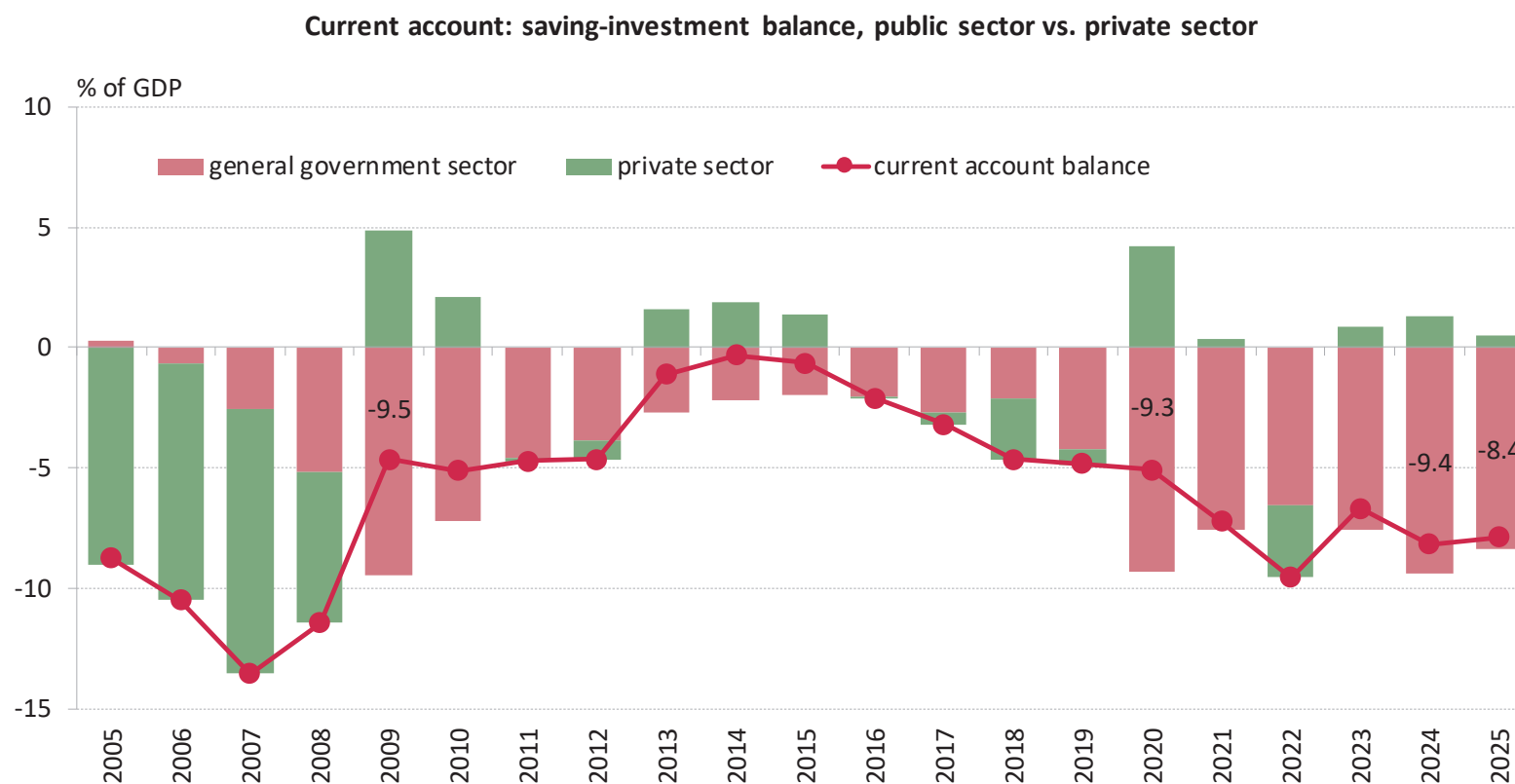
- Persistent large twin deficits signal a vulnerability of the economy, raising concerns regarding fiscal policy, external policy, the competitiveness of domestic products, the financing of these imbalances, and the level of public indebtedness.
- Through public policies, decision-makers can significantly shape the path and structure of the current account and its financing. In this broader framework, strategies to strengthen export competitiveness and trade diplomacy are essential over the long term.
- A procyclical fiscal policy can overstimulate consumption, which can further widen the trade deficit. At the same time, fiscal policy can help enhance the attractiveness of the business environment, with foreign direct investment flows serving as a preferable channel for financing the external deficit and fostering the economy's potential.
- EU funds are another source of sustainable financing for the current account deficit. Making full use of them, however, requires a strategic vision for national investments, consistency in implementing EU-recommended reforms and the allocation of funding to viable, well-substantiated projects.

Romania has constantly recorded high twin deficits in the post-accession period, except in 2013-2016, when their levels were deemed sustainable. Government policies in recent years have led to a worsening of macroeconomic equilibria. Having entered the Excessive Deficit Procedure following the fiscal deficit incurred in 2019, Romania failed to meet the agreed targets, while successive crises aggravated the effects of this procyclical policy.



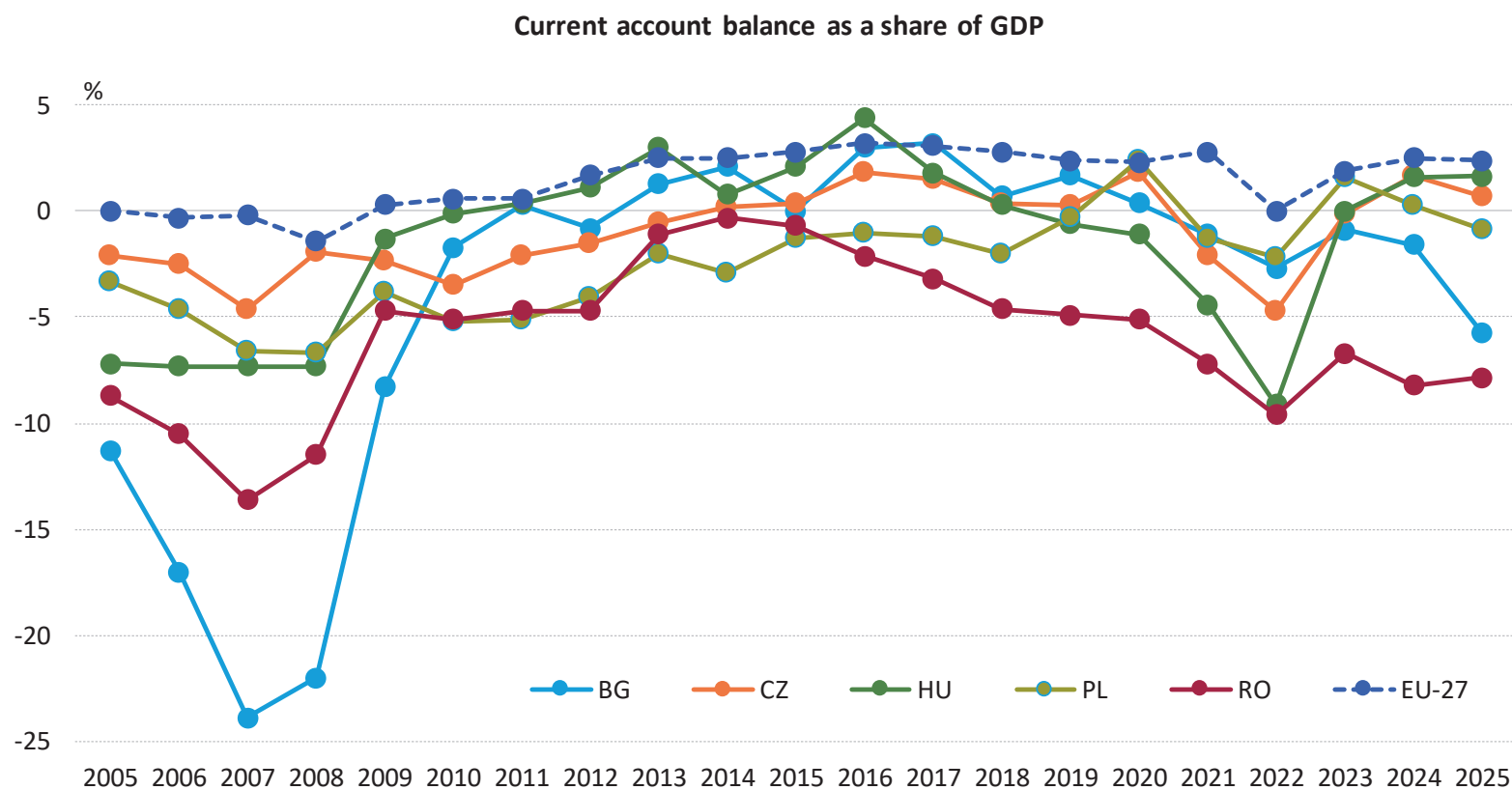
Source: AMECO

Except for the period prior to the outbreak of the global financial crisis, when the expansion in domestic consumption and investments drove a massive increase in imports by the private sector, the large current account imbalance over the past two decades has mainly been attributable to the general government component. Nevertheless, the latter narrowed somewhat in 2025, amid fiscal consolidation.



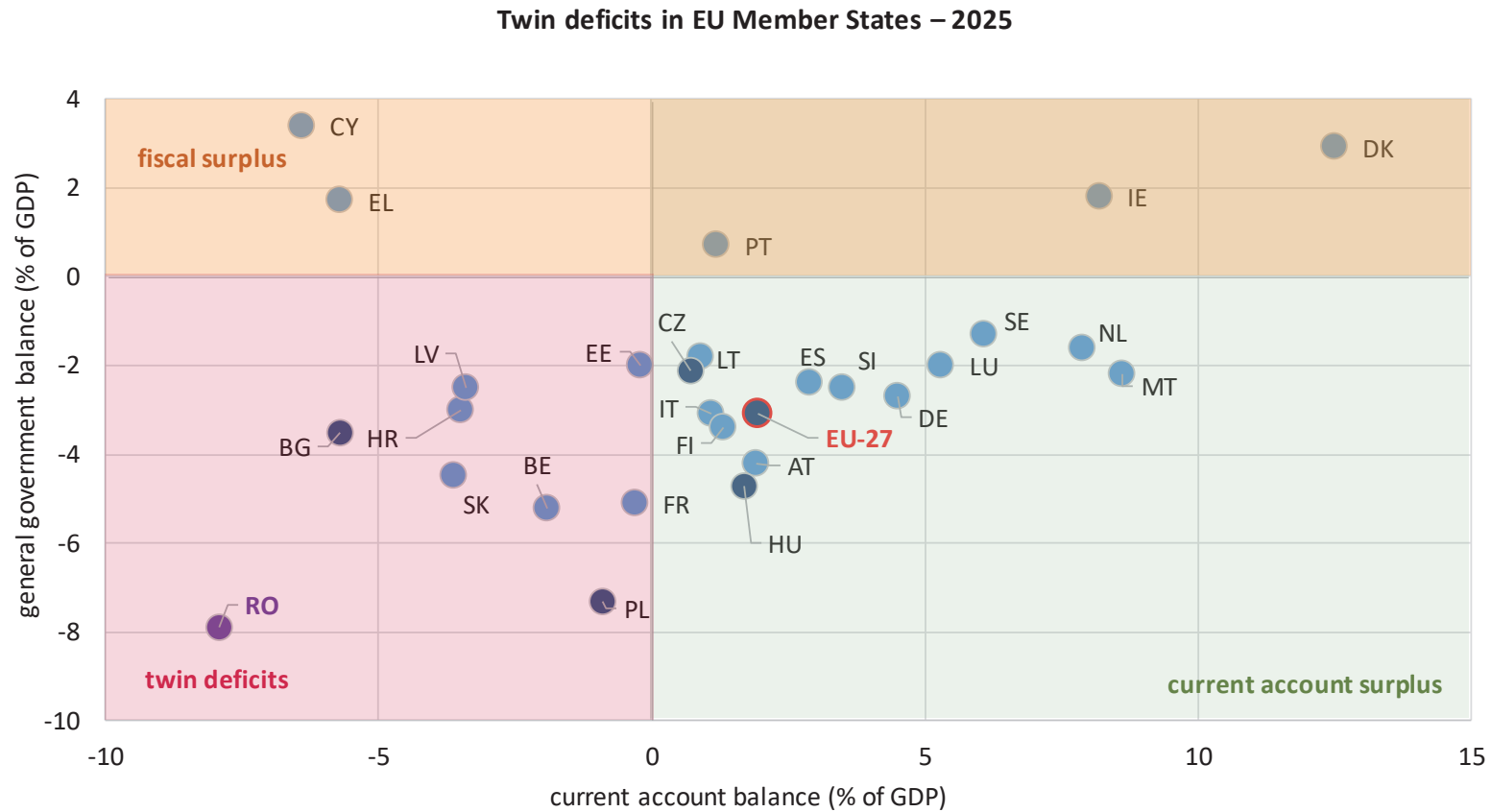
Source: NIS, NBR, Eurostat

Peer countries saw significant improvements in the current account balance-to-GDP ratio, which moved closer to the EU average. In terms of economic resilience to the major shock caused by the energy crisis, compounded by the war in Ukraine, regional peers, apart from Romania, managed to overcome the negative economic impact relatively quickly and, over the past two years, to return to the pre-crisis trend.



Source: Eurostat, AMECO

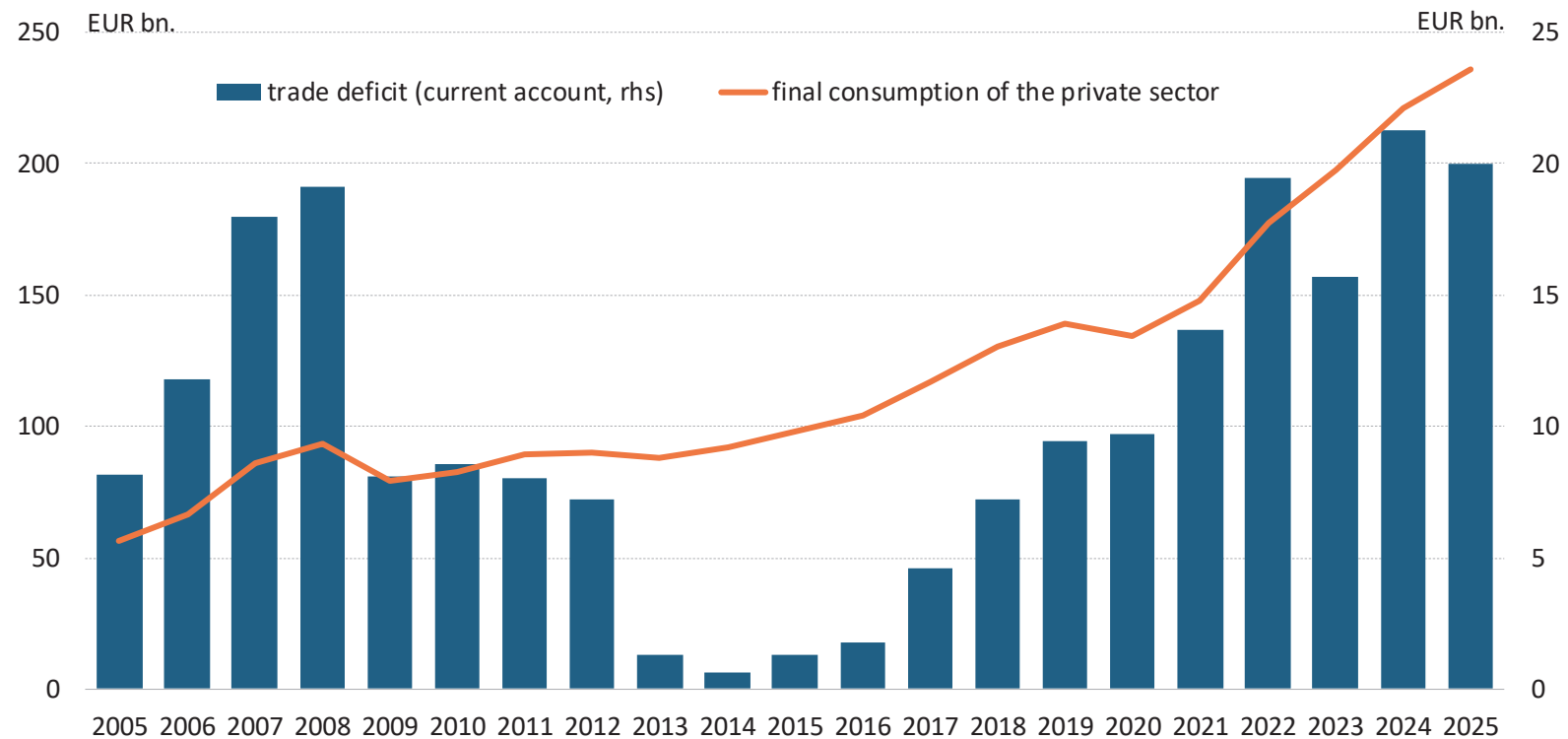
Generous budgetary measures for wages and pensions, alongside strong public investment in the recent period, boosted domestic demand. The stimulative effects on imports, coupled with the weak external demand, contributed to the worsening of the trade balance. Thus, in 2025, the magnitude of both the general government deficit and the current account deficit continued to set Romania apart from the other EU countries.



Source: Eurostat

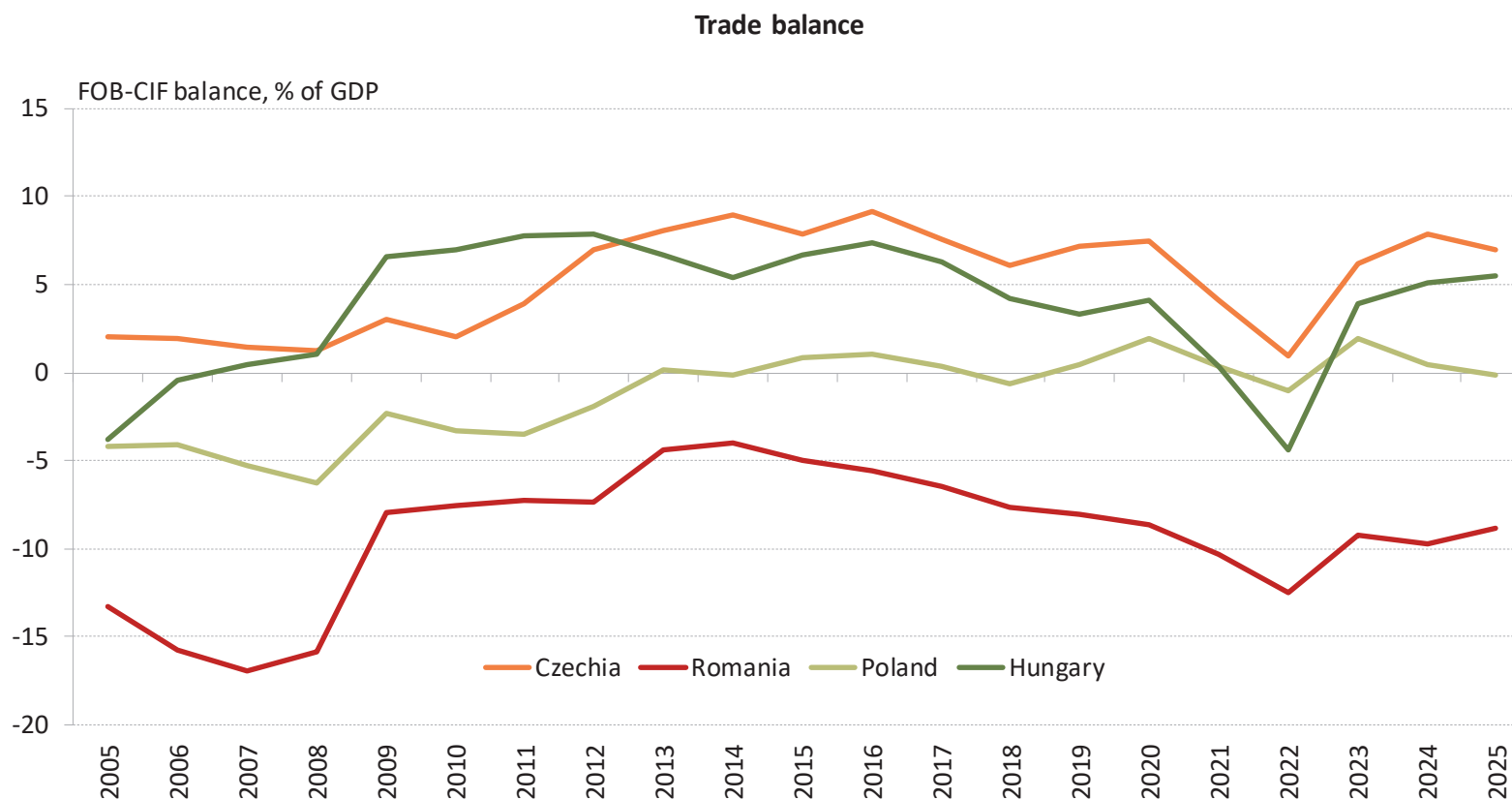
Unlike other countries in the region, Romania has run chronic trade deficits. During the years of economic growth, the government’s procyclical measures encouraged private consumption, which was largely met through imports. The severe adjustments during the financial crisis had a direct impact on the trade balance and, for a short period, brought it within levels deemed sustainable.

**Trade balance vs. final consumption of the private sector**



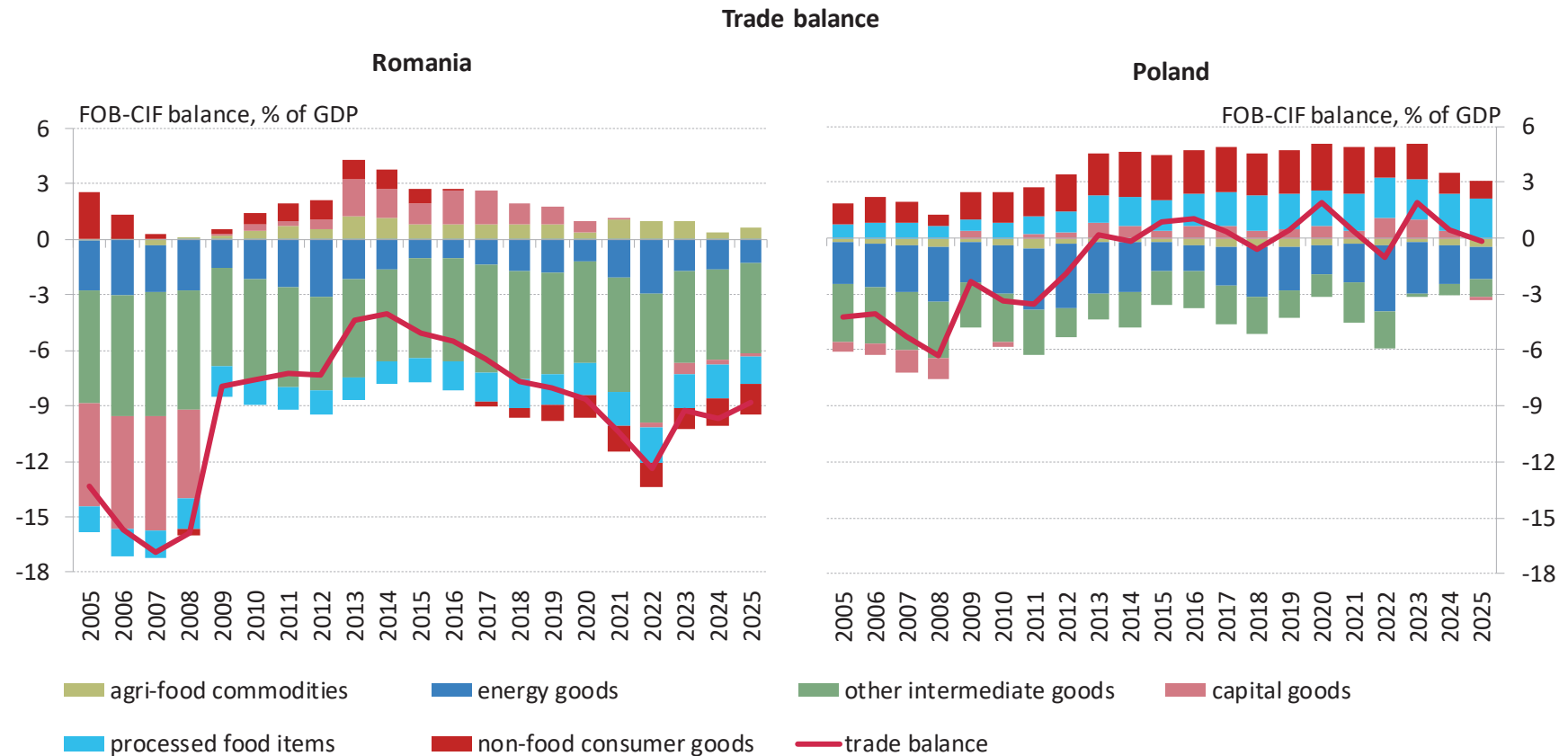
Source: NBR – BOP flows, AMECO

Compared with peer economies, Romania’s position in terms of trade balance has been persistently unfavourable over the past two decades. Specifically, while Hungary and Czechia recorded trade surpluses on average, and Poland posted an average deficit slightly above 1% of GDP, Romania’s imbalance exceeded 9% of GDP, pointing to structural vulnerabilities.



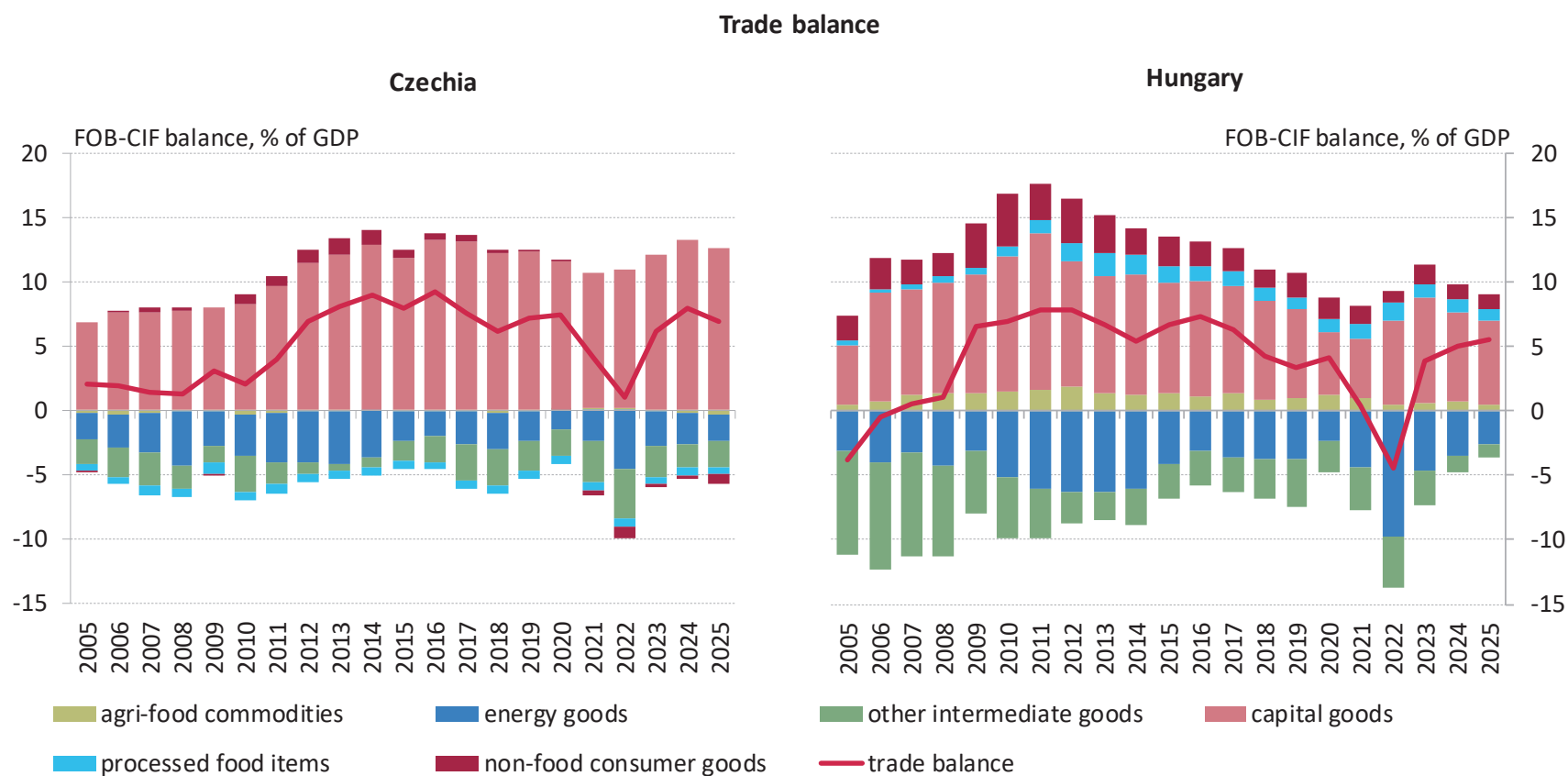
Source: Eurostat

One of the weaknesses in Romania’s foreign trade concerns its composition by product group. In the agri-food sector, for instance, Romania is a net exporter of agri-food commodities but runs a chronic deficit in processed food items, unlike Poland, where retaining a significant part of the production chain domestically is also reflected in a sizeable food trade surplus.



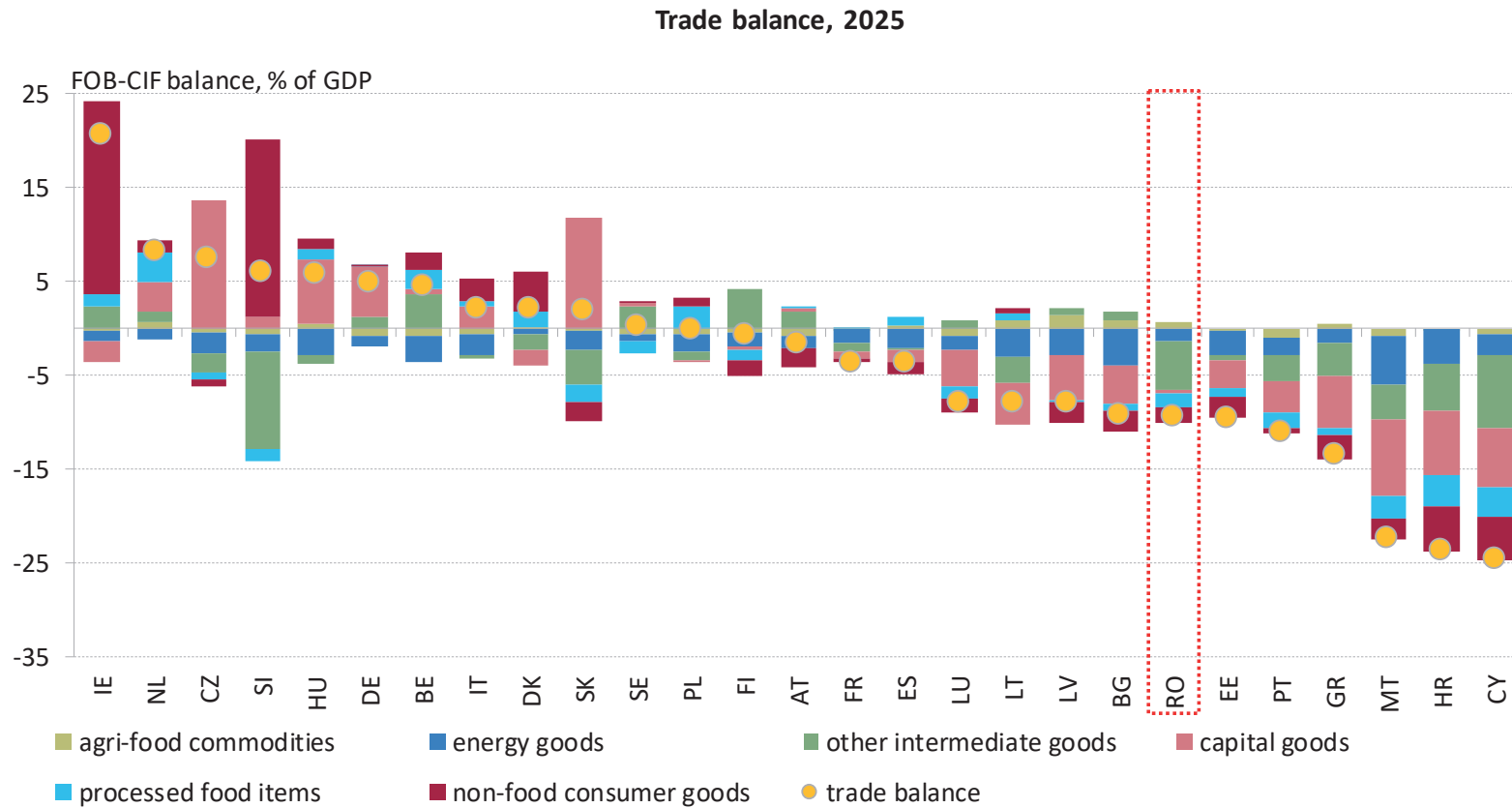
Source: Eurostat

The cases of Czechia and Hungary are even more illustrative in terms of the structure of the trade balance, as their economic sectors are oriented towards high value-added exports, which is reflected in trade surpluses for final goods (capital and consumer goods). These surpluses averaged at around 10% of GDP over the past two decades.



Source: Eurostat

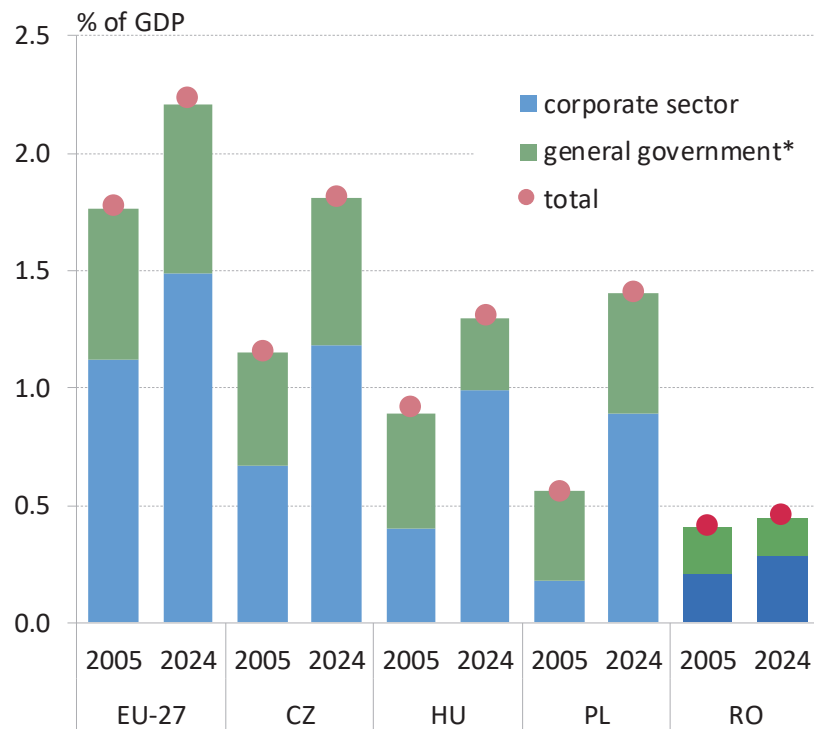
In 2025, Romania was among the seven EU Member States with trade deficits across all categories of non-agricultural products, amounting to a significant cumulative value of around 9% of GDP or more. As regards the agri-food sector, although Romania is a net exporter of agri-food commodities, its trade deficit in processed food items ranked fifth worst in the EU.



Source: Eurostat

A key factor in narrowing the competitiveness gaps with Central and Eastern European countries, including by improving the position of the domestic industrial sector in EU value chains, is the gradual shift from an economic growth model based on the labour cost advantage towards one based on productivity gains driven by investment in research and development and innovative technologies.

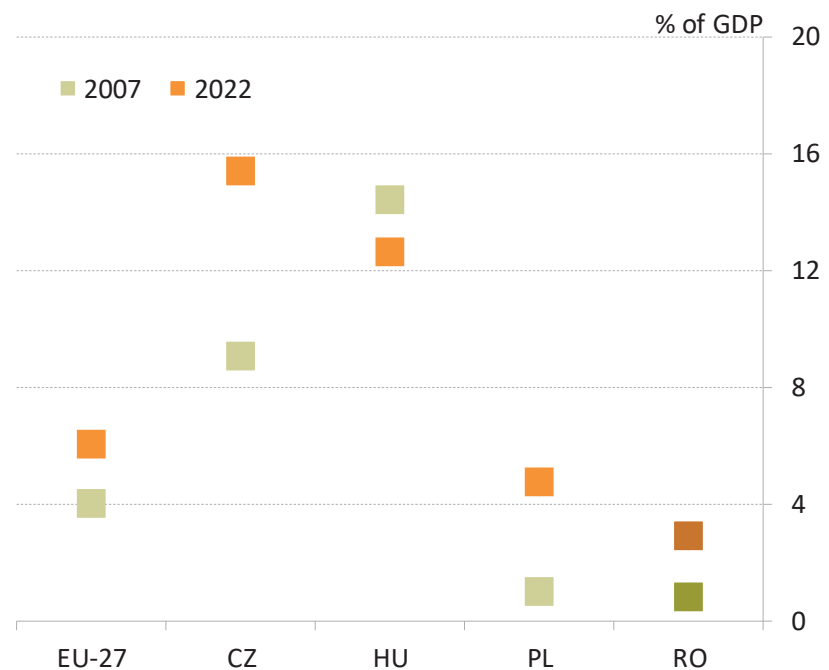
Research & development expenditure



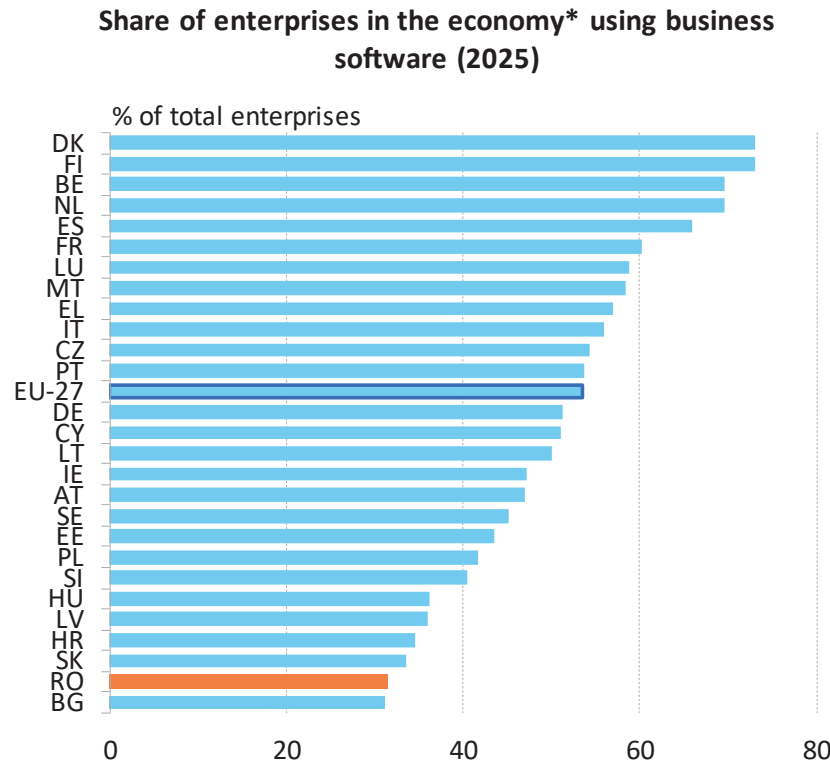
\*) government and higher education sectors

Source: Eurostat

Exports of high-tech goods

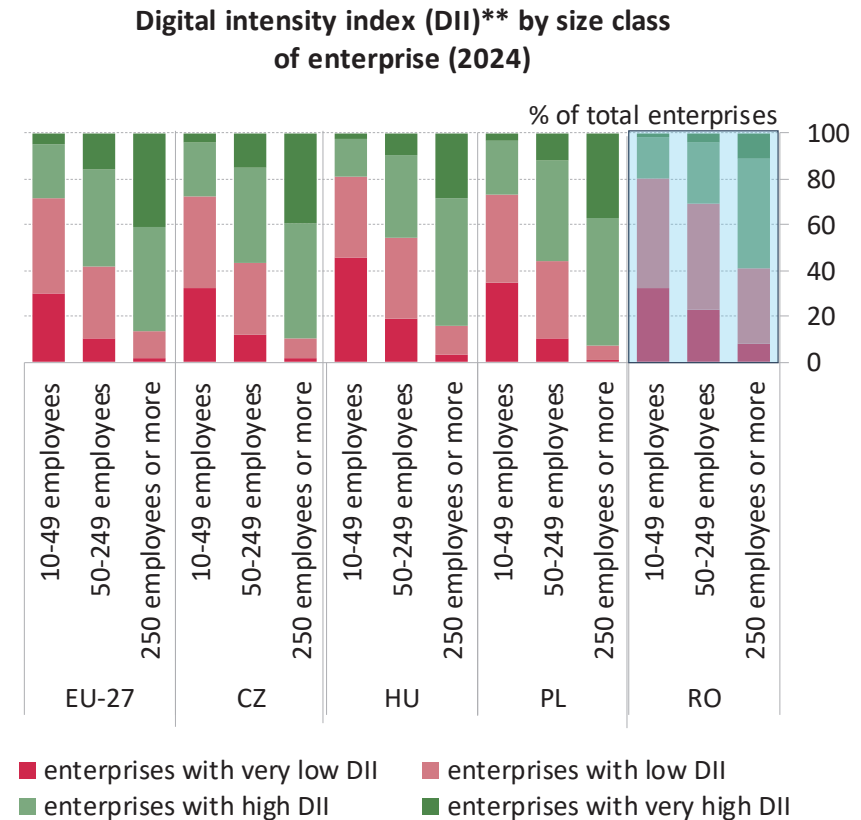


Important progress is also expected in the digital transformation of the corporate sector, another area where Romania stands well below the EU average. Increasing the digital intensity of enterprises supports productivity through various channels, such as better resource allocation and the continuous streamlining of processes, including through automation, while also being an indispensable prerequisite for the necessary improvement in non-price competitiveness.



\*) excluding agriculture and the financial sector

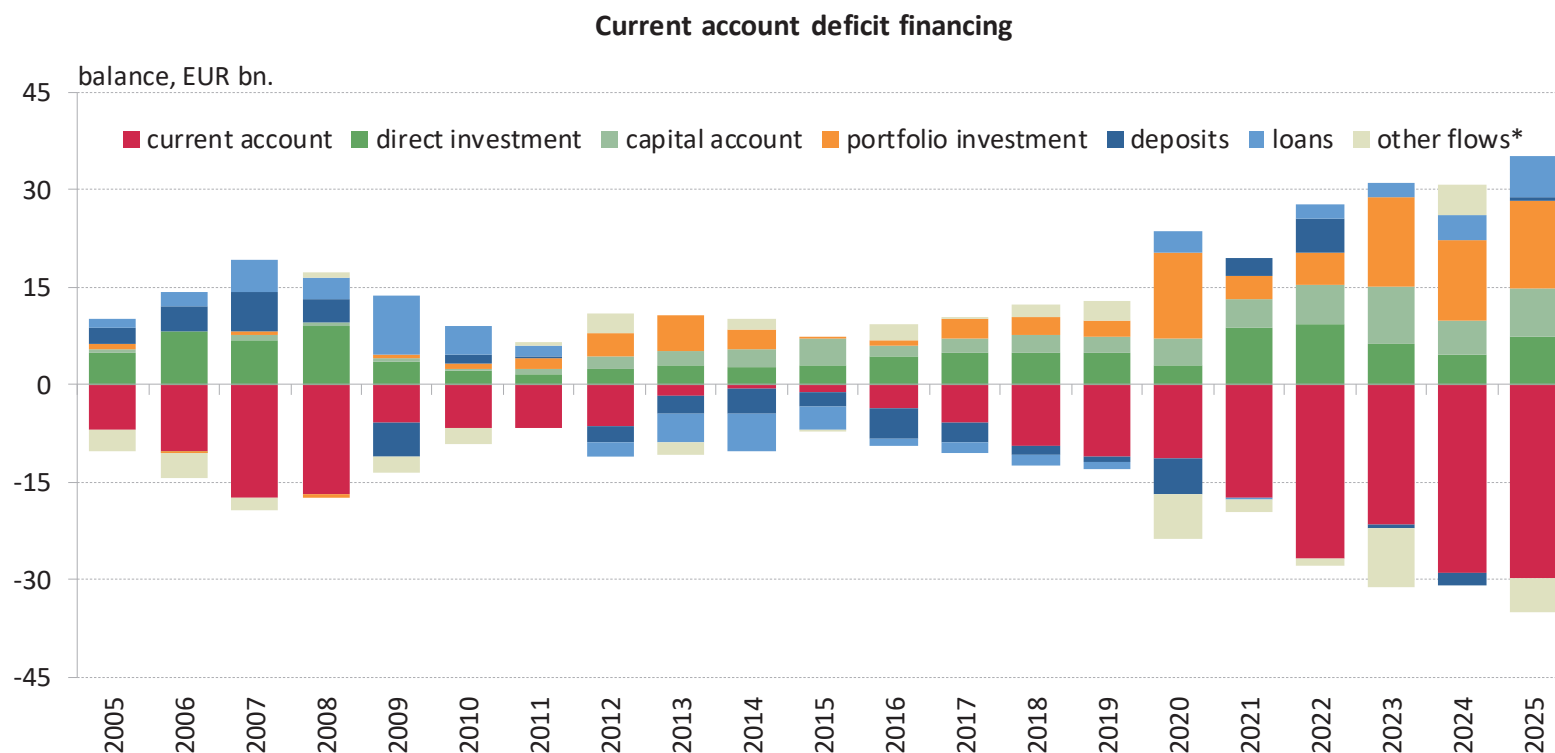
Source: Eurostat



■ enterprises with very low DII    ■ enterprises with low DII  
 ■ enterprises with high DII    ■ enterprises with very high DII

\*\*\*) composite indicator

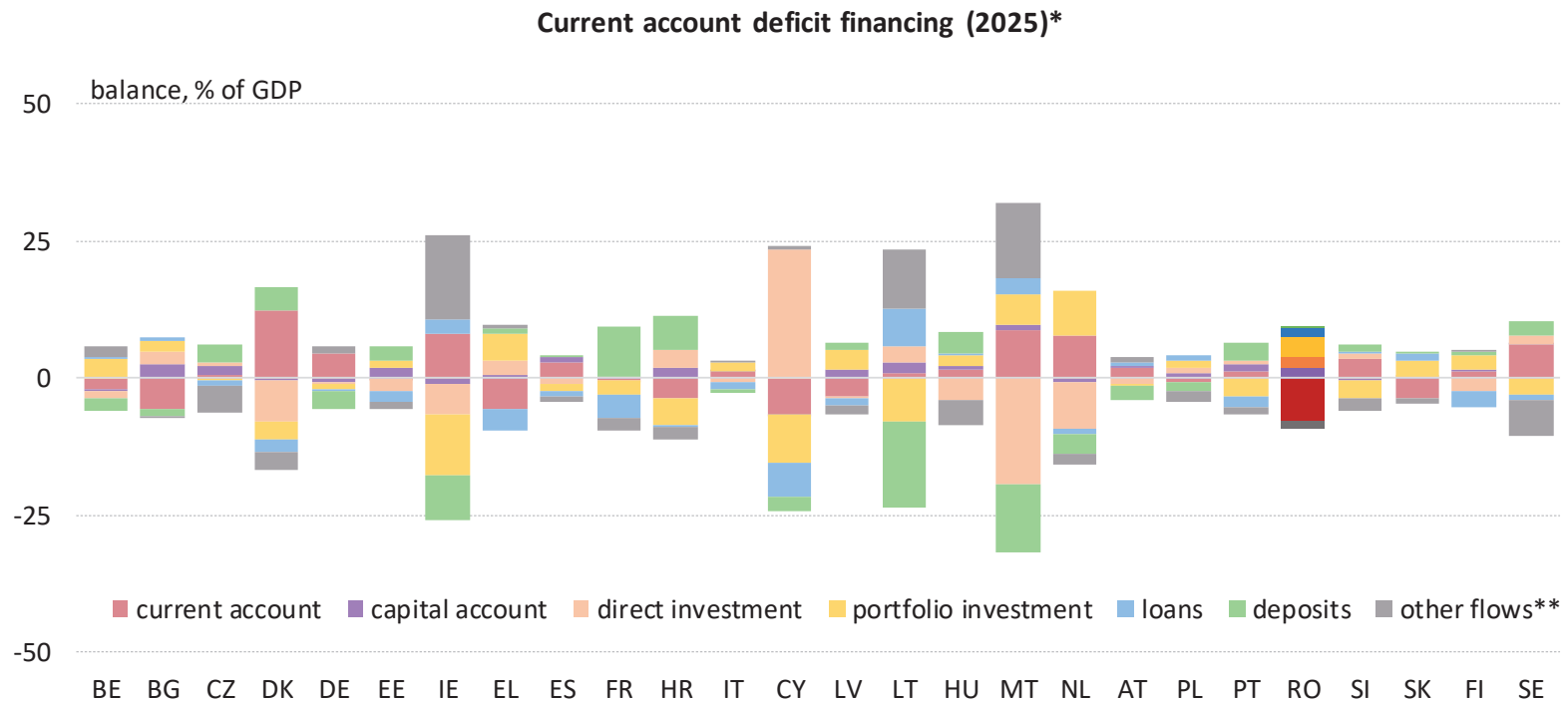
Non-debt-creating capital flows made a larger contribution to current account deficit financing in the early years of the period under review (marked by substantial direct investment inflows amid Romania’s accession to NATO and the EU), as well as in 2013-2015, given a faster absorption of EU funds. Subsequently, in the context of a widening external deficit, the support provided by these sources declined markedly in favour of debt-creating flows.



\*) mainly trade credit and advances, other accounts receivable/payable, increase in reserve assets; “+” inflows, “-” outflows of funds

Source: NBR

In 2025, Romania's position among the EU Member States in terms of current account balance may be considered unsatisfactory, ranking last as a share of GDP. At the same time, Romania posted the fifth weakest performance in terms of current account deficit financing through stable flows, namely capital account flows and direct investment.

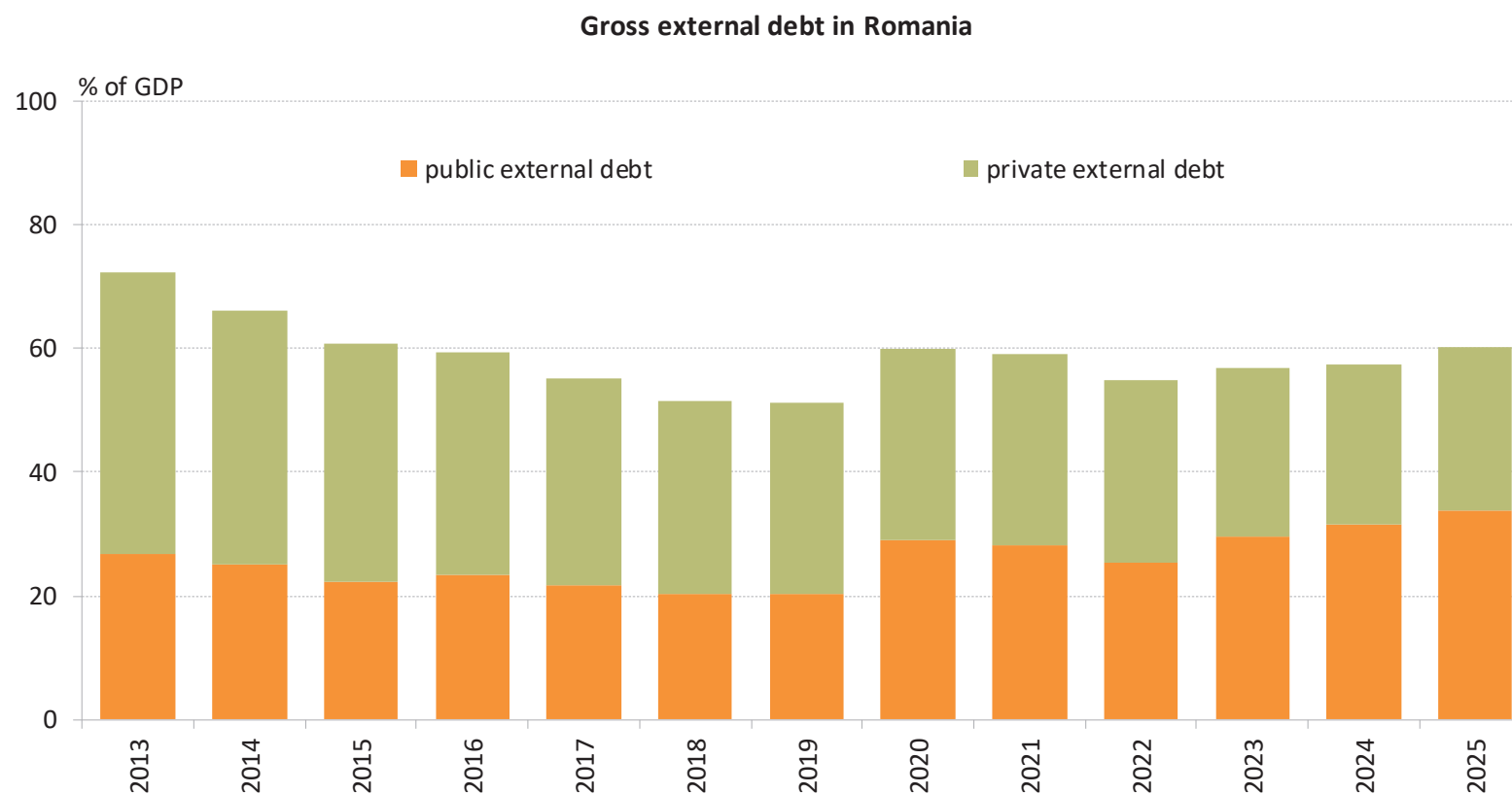


\*) Luxembourg is excluded from the set of countries presented, as its current account surplus has large financial flows as counterpart, which change the scale of the vertical axis, reducing the readability of the values for most countries.

\*\*\*) mainly trade credit and advances, other accounts receivable/payable, increase in reserve assets; "+" inflows, "-" outflows of funds

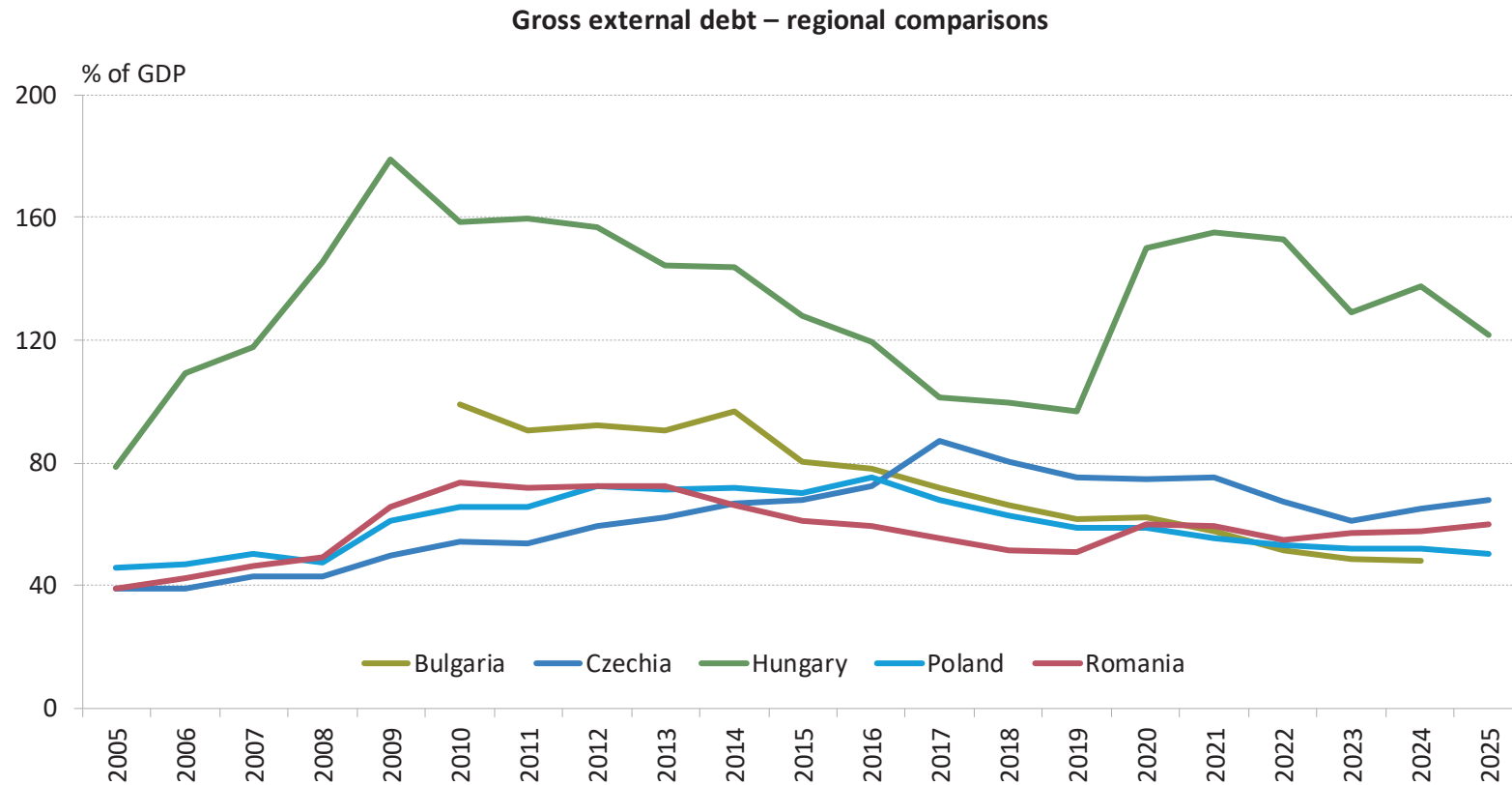
Source: Eurostat

In the context of the COVID-19 pandemic, expenditure related to the measures taken by Romania’s government authorities to support the economy led to a significant increase in Eurobond issues. As a result, over recent years, also against the background of highly expansionary fiscal policies, the share of public external debt has risen by an average of around 7 percentage points of GDP compared with the pre-pandemic period.



Source: NIS, NBR

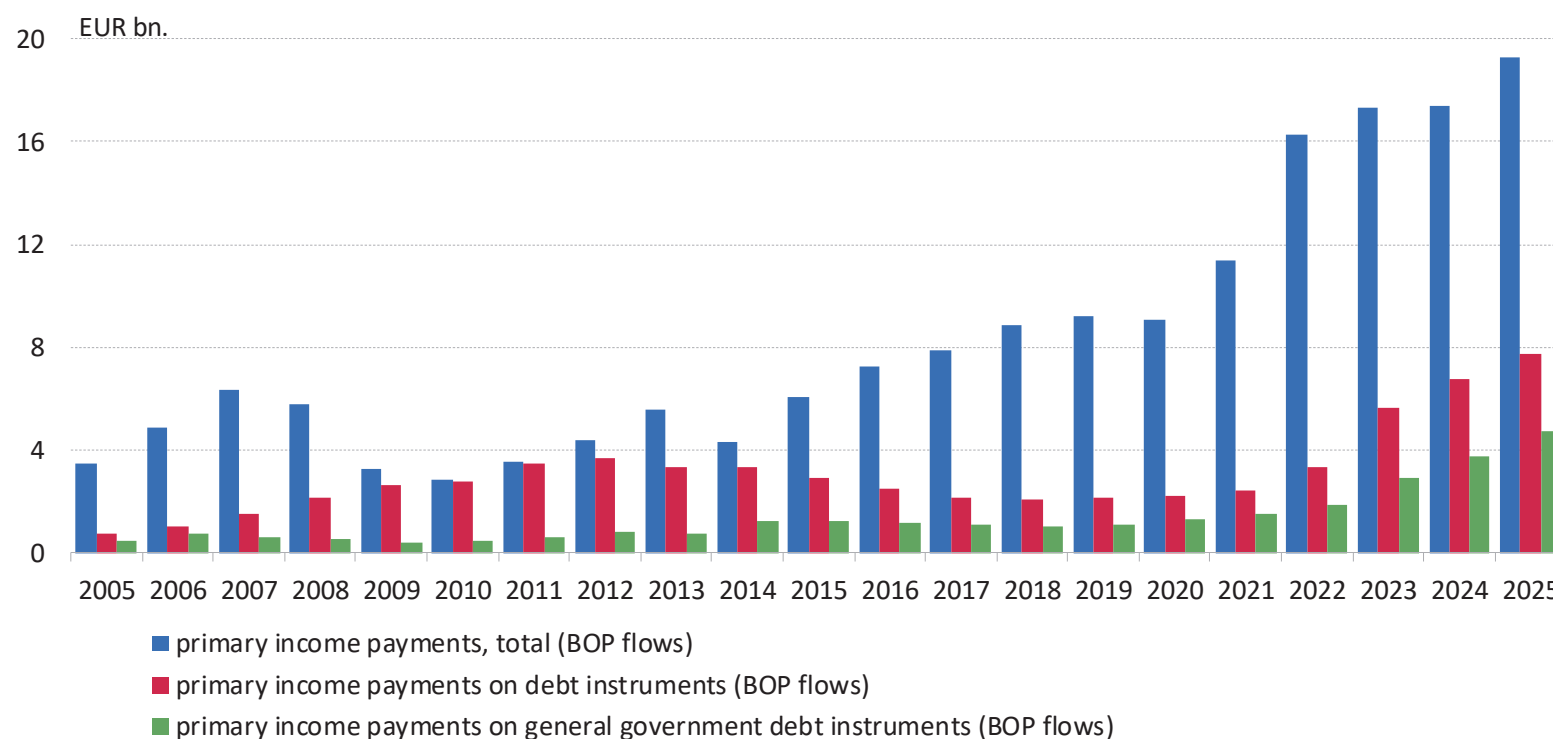
The raising of interest-bearing external funds was reflected in the higher indebtedness of the Romanian economy, albeit at levels comparable to those seen in most countries in the region. In the run-up to the financial crisis, inflows in the form of deposits and loans, including support from the IMF and other international institutions, prevailed, while in recent years government bond issues have become dominant.



Source: NIS, Eurostat

Although BOP primary income payments generally followed an upward trend, the share of interest payments in total primary income payments declined over time, due to higher outflows in the form of dividends and reinvested earnings related to foreign direct investment flows. However, the breakdown shows that interest paid by general government has increased considerably in recent years.

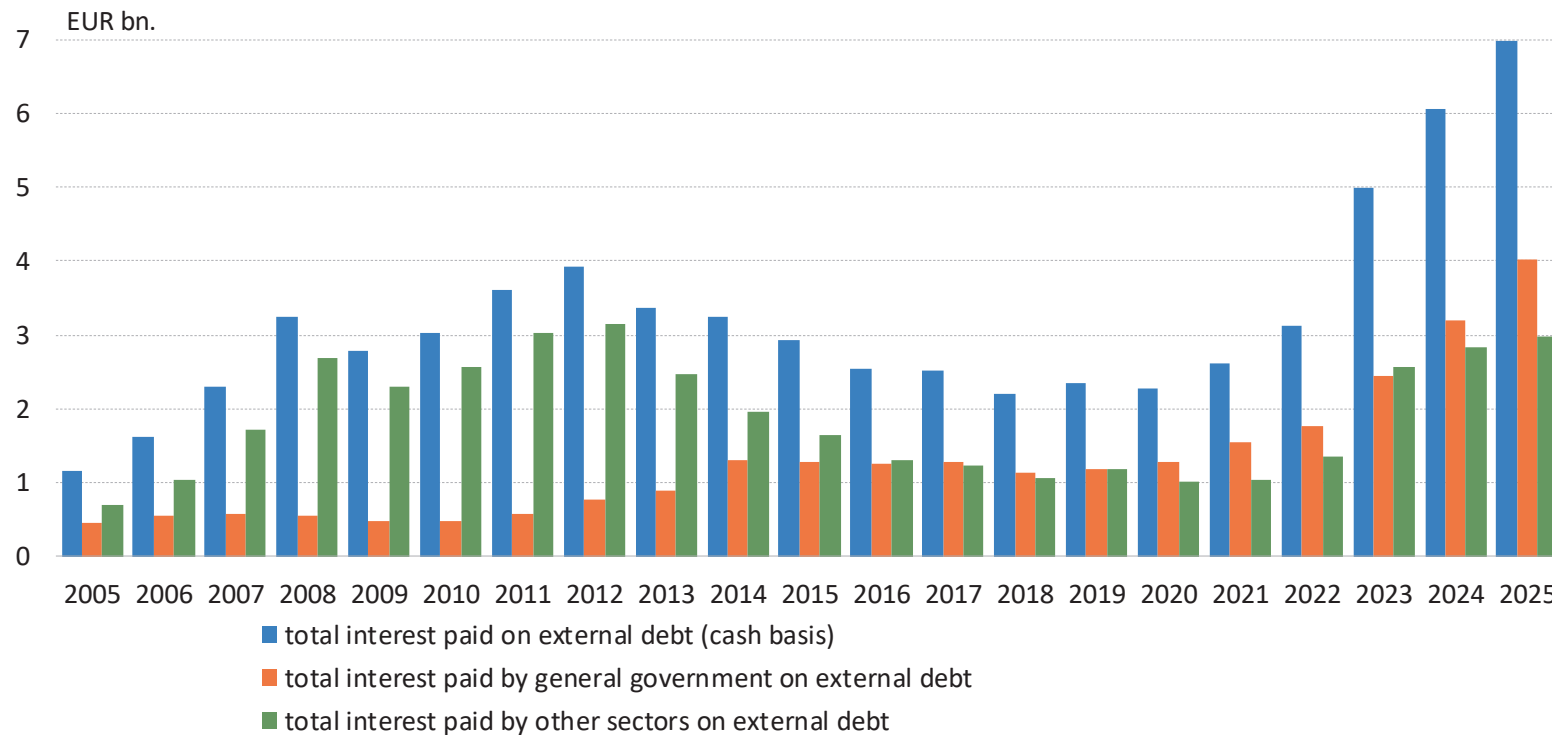
**BOP primary income payments, of which interest payments on external debt and on general government external debt**



Source: NBR – BOP flows

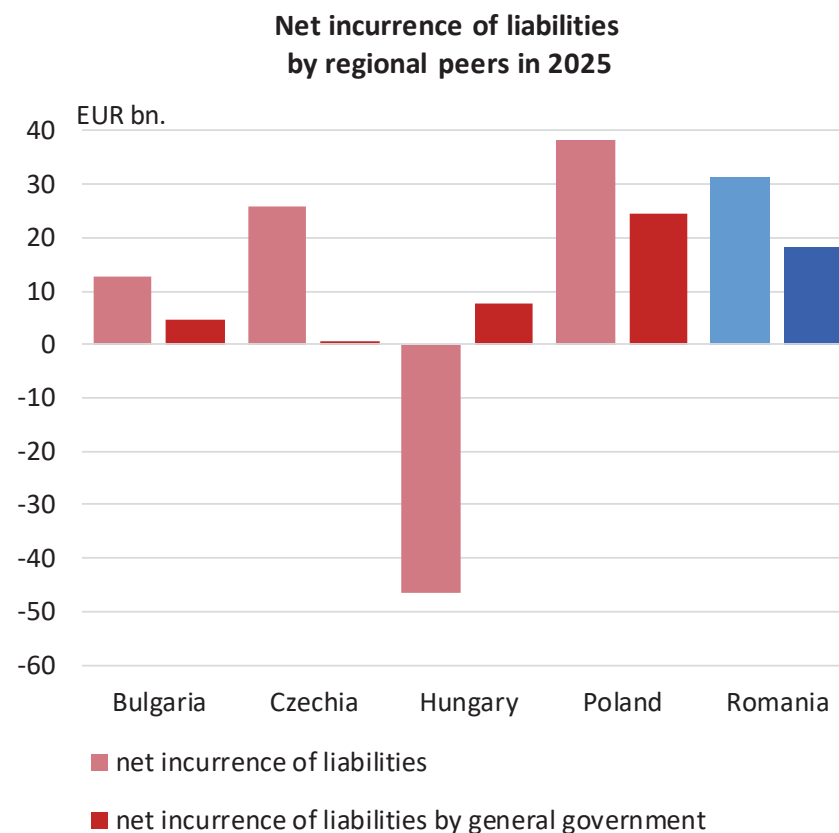
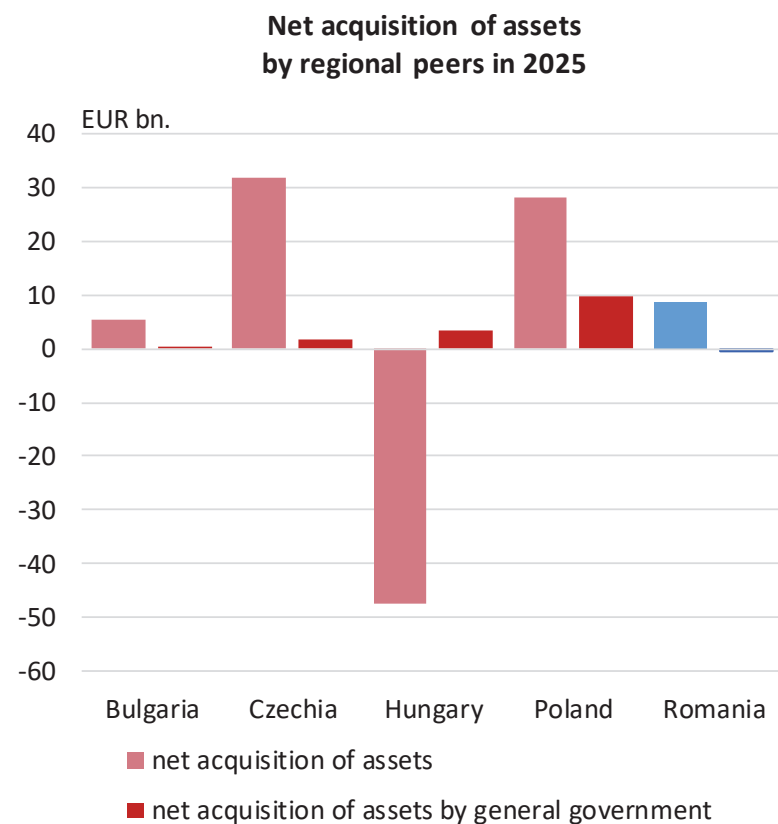
Over the recent years, interest paid on public external debt has exceeded the interest paid by banks and the real sector. This was driven both by successive year-on-year increases in the stock of government debt financed by non-residents and by a certain rising trend in the cost of external financing, amid a relative deterioration of Romania's economic and financial situation.

**Interest payments on external debt –  
general government sector vs. other sectors**



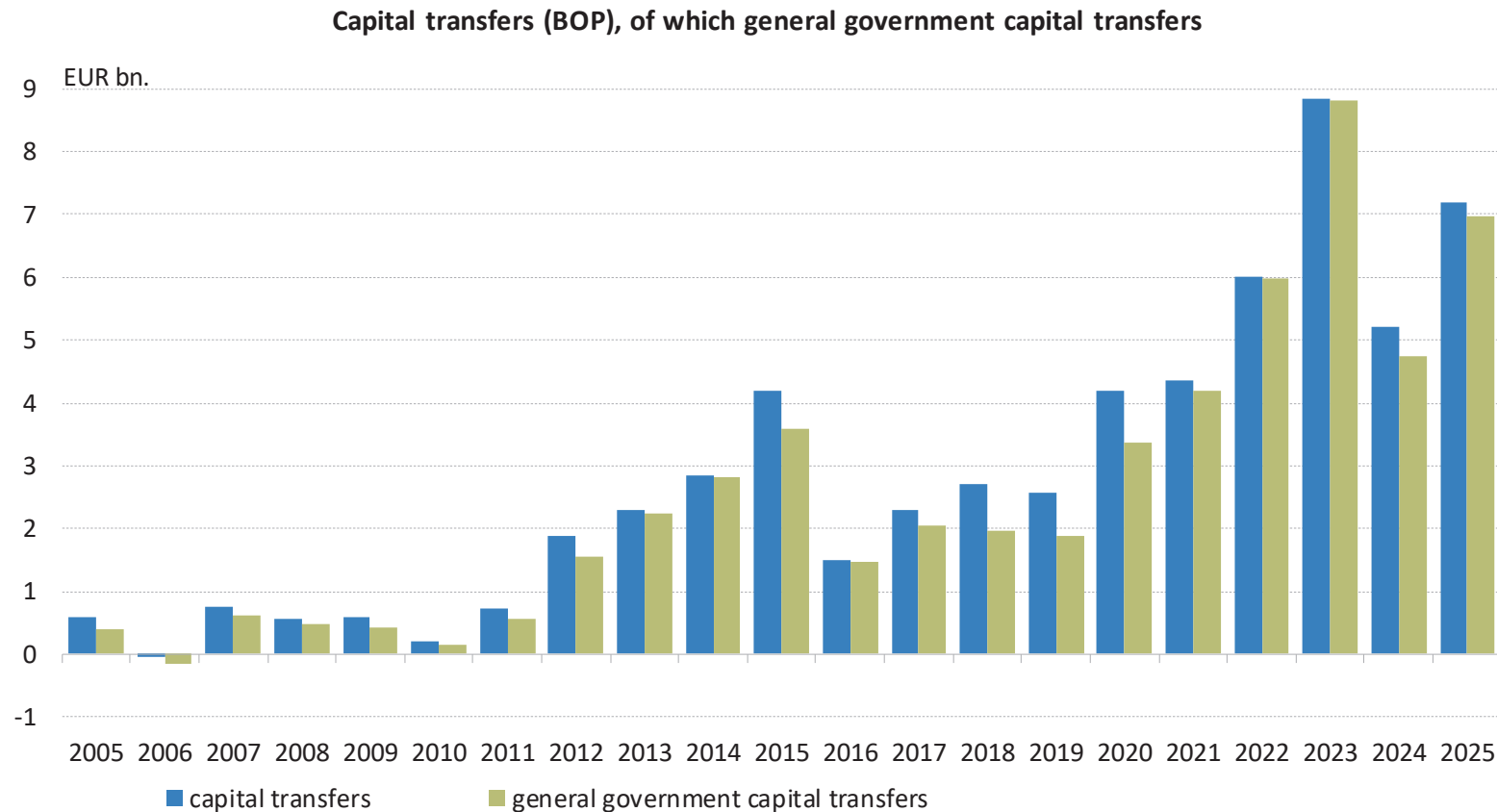
Source: NBR, MF

In Poland, foreign financing used to cover the fiscal deficit led to a rise not only in the net incurrence of liabilities, but also in the net acquisition of assets, namely the central bank’s reserve assets. In Romania, however, this trend was less pronounced, with significant increases visible only on the liabilities side. In the other countries, net acquisition of assets and net incurrence of liabilities by general government had no material impact on the totals.



Source: Eurostat

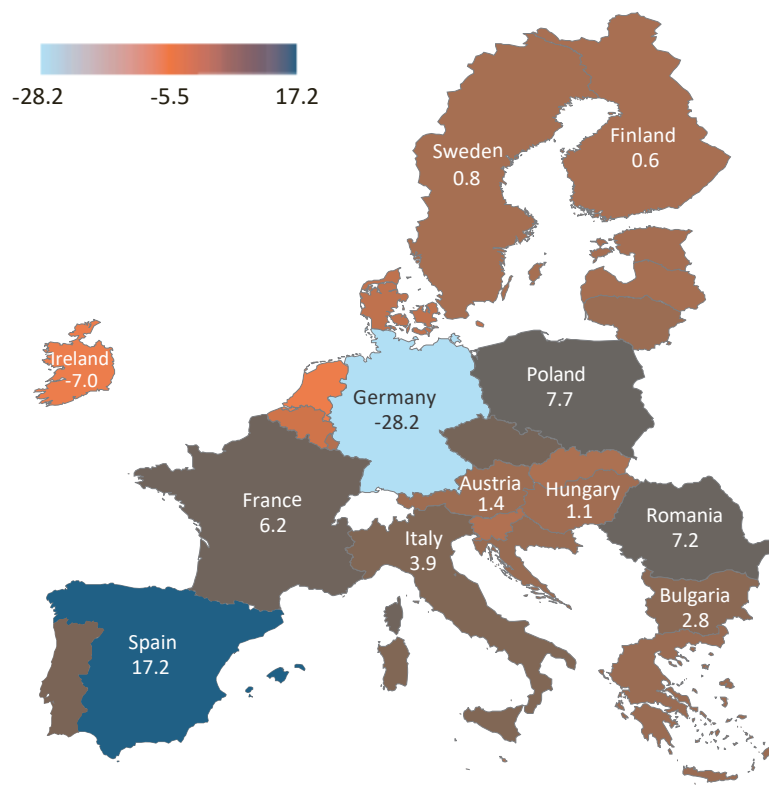
In addition to current transfers, capital transfers are a way of financing the external deficit that does not involve interest, coupon or dividend payments to non-residents, but rather takes the form of grants used to purchase fixed assets. While these amounts were modest in the first part of the period under review, capital transfers surged following EU integration, being channelled mainly towards general government.



Source: NBR – BOP flows

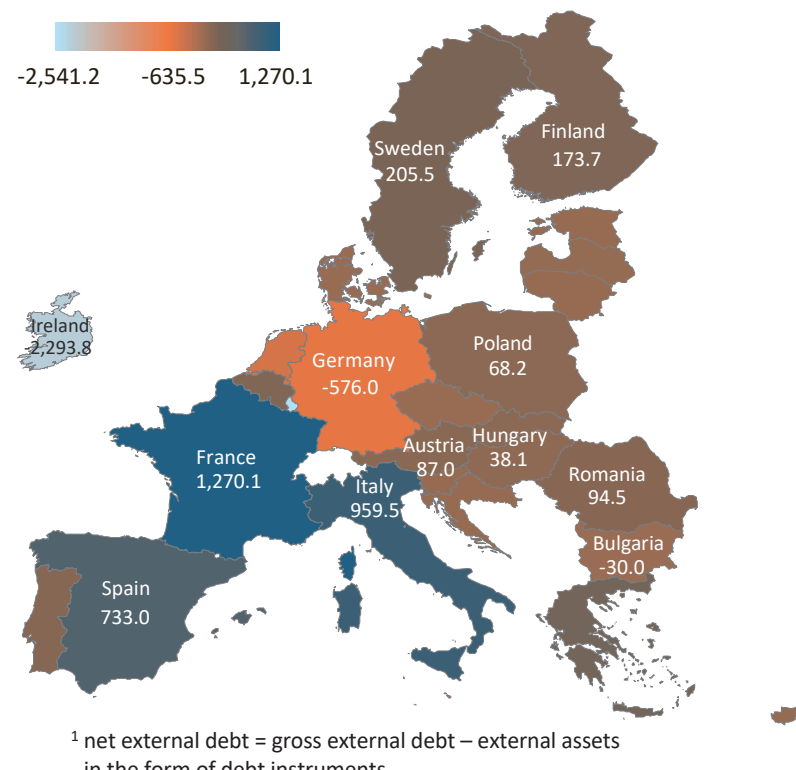
Alongside the other economies in the region, Romania benefits from capital inflows in the form of EU structural funds, while countries such as Germany, the Netherlands and Ireland remain net contributors. The persistence of fiscal/external deficits in some countries, such as France, Spain and Romania, has led to an increase in net external debt, while in other countries (e.g. Germany), current account surpluses have strengthened their net creditor position.

Capital account of EU Member States in 2025 (EUR bn.)



Source: Eurostat

Net external debt<sup>1</sup> of EU Member States in 2025 (EUR bn.)



<sup>1</sup> net external debt = gross external debt – external assets in the form of debt instruments

The analysis of financing flows provides an aggregate picture of financial exposures in the economy and of its links with the rest of the world. It helps identify the sources of financing and the use of funds by the different sectors of the economy, as well as the financial interdependencies, while also offering indications of potential shock transmission channels. In 2025, general government financing relied significantly on foreign resources.

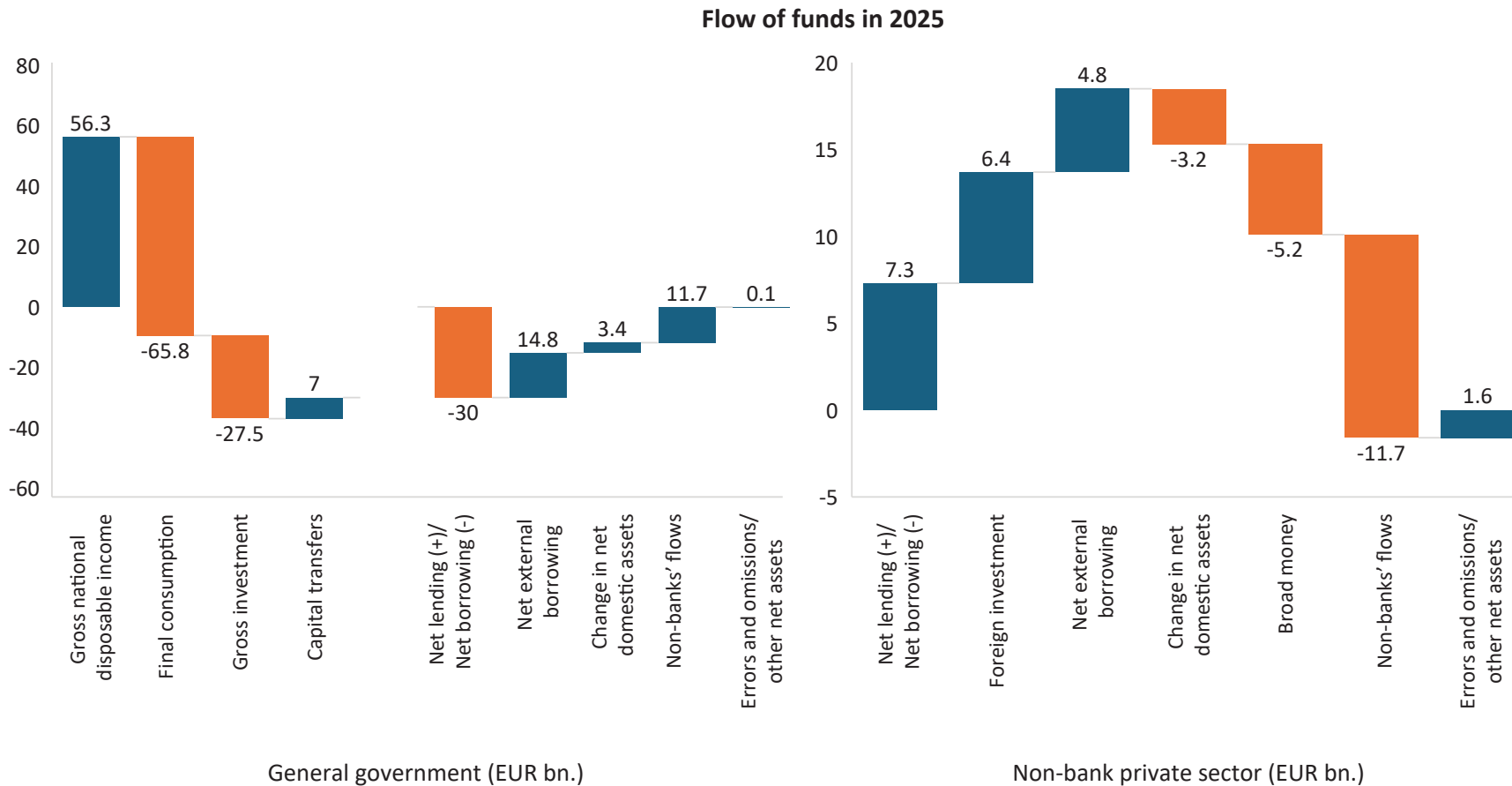
Use of funds in 2025	Total economy	Domestic economy	of which:			External sector
			General government	Private sector	Banking sector	
Gross national disposable income	-370.2	370.2	56.3	313.9		
Final consumption	301.6	-301.6	-65.8	-235.8		
Gross investment	98.5	-98.5	-27.5	-71.0		
Exports of goods and services	134.9	0.0				-134.9
Imports of goods and services	-154.9	0.0				154.9
Primary income (net)	-10.0	0.0				10.0
Secondary income (net)	0.1	0.0				-0.1
Capital transfers	0.0	7.2	7.0	0.2		-7.2
<b>Net lending (+) / Net borrowing (-)</b>	<b>0.0</b>	<b>-22.7</b>	<b>-30.0</b>	<b>7.3</b>	<b>0.0</b>	<b>22.7</b>
Financing sources in 2025	Total economy	Domestic economy	of which:			External sector
			General government	Private sector	Banking sector	
Foreign financing	0.0	22.5	14.8	11.2	-3.5	-22.5
Non-monetary	0.0	26.0	14.8	11.2	0.0	-26.0
Foreign investment <sup>1</sup>	0.0	6.4		6.4		-6.4
Net external borrowing <sup>2</sup>	0.0	19.6	14.8	4.8		-19.6
Monetary		-3.5	0.0	0.0	-3.5	3.5
Change in foreign assets	0.0	-3.5			-3.5	3.5
Domestic financing	0.0	0.0	15.1	-20.1	5.0	0.0
Monetary	0.0	0.0	3.4	-8.4	5.0	
Change in domestic assets	0.0	0.0	3.4	-3.2	-0.2	
Broad money	0.0	0.0		-5.2	5.2	
Non-monetary		0.0	11.7	-11.7	0.0	
Non-banks' flows <sup>3</sup>	0.0	0.0	11.7	-11.7		
Errors and omissions/other net assets	0.0	0.2	0.1	1.6	-1.5	-0.2

<sup>1</sup> does not include transactions related to the banking sector, which are recorded under change in foreign assets

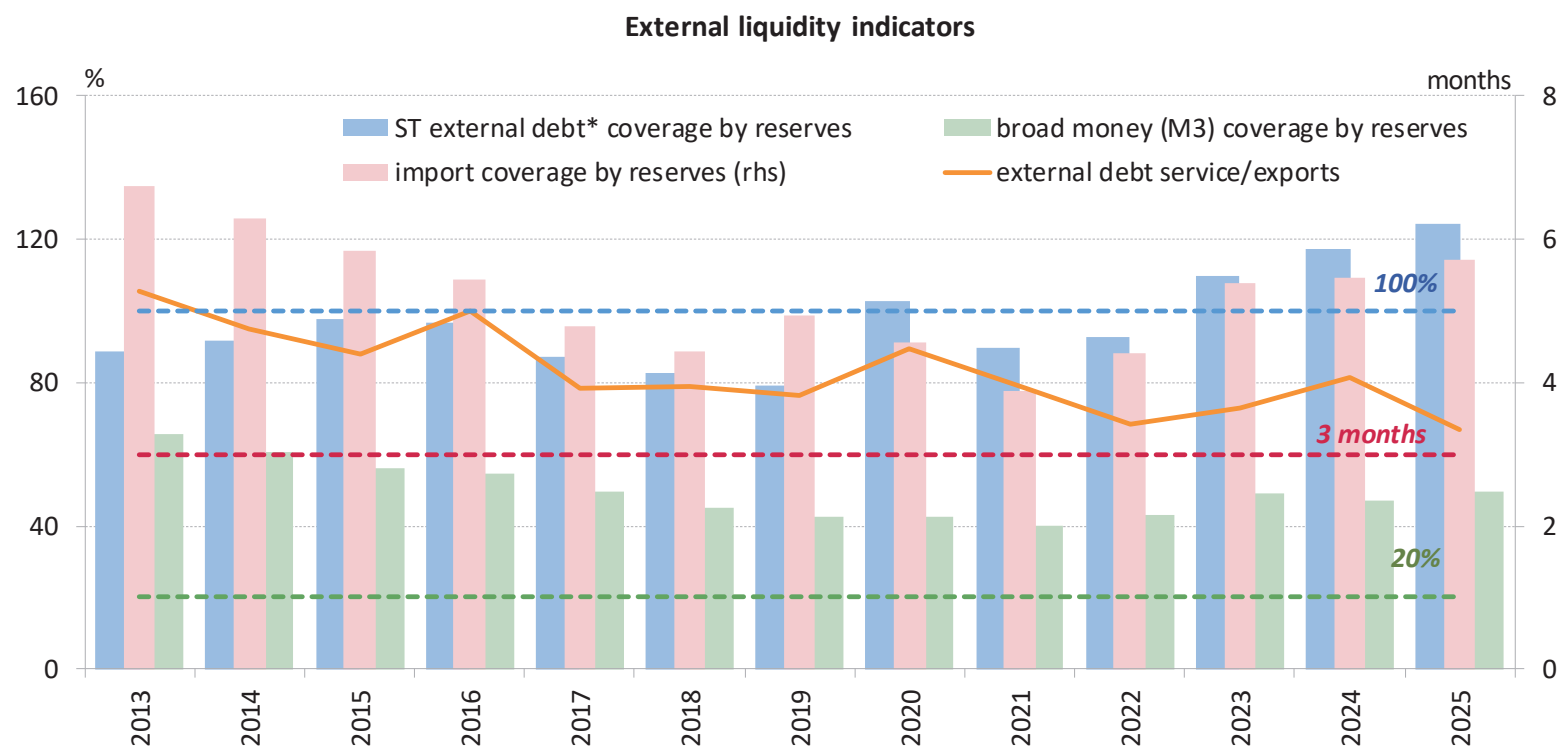
<sup>2</sup> includes portfolio investment and other investment flows recorded in the BOP, excluding transactions related to the banking sector

<sup>3</sup> mainly refer to purchases by the private sector of government securities, including also those under the „Tezaur” programme

The general government financing composition shows that securities issues on both external and domestic financial markets, alongside EU funds, play a key role in covering the fiscal deficit. In parallel, the private sector, supported by substantial foreign investment inflows, channelled a significant share of its resources towards general government, mainly through securities purchases. Broad money also expanded chiefly through the increase in government credit.



External liquidity stands at comfortable levels, with the external debt service-to-exports ratio remaining below one over the past decade. At the same time, international reserves provide adequate capacity to manage potential balance-of-payments risks related to the coverage of current payments, i.e. import cover, to possible outflows of capital held by residents, as well as to the rollover of short-term external debt.



\*) at remaining maturity

Note: Dotted lines show the minimum recommended values.

Source: NIS, NBR

## Chapter VIII

The excessive widening of the trade deficit reflects generous fiscal and income policies

- Following the substantial adjustment after the outbreak of the global financial crisis, Romania's general government deficit and external imbalance gradually narrowed, reaching low levels as a share of GDP in 2013-2015.
- Starting in 2016, against the backdrop of a broadly procyclical fiscal policy, macroeconomic balances came under strain, with the twin deficits reaching unsustainable levels, particularly in recent years, well above those seen in other countries in the region.
- Unlike the 2005-2008 episode, when the private sector played the decisive role in the widening of the external imbalance, in recent years the high current account deficit has been mainly attributable to the general government component, making its rebalancing imperative.
- Prior to 2025, the rapid increase in household purchasing power, amid generous fiscal and income policies, led to strong growth in consumer demand. Given the insufficient domestic production, this demand was largely met through imports, thereby widening the trade deficit. The fiscal consolidation measures adopted in 2025 brought these developments to a halt.

## Chapter VIII

The trade deficit and interest payments are key indicators requiring a strategic approach

- The breakdown of the trade deficit by product group points to important structural weaknesses that require more coherent sectoral policies, especially in the agri-food and high value-added sectors, where Romania has significant gaps to close, including relative to countries in the region.
- Current account financing has depended on the financial capacity of the general government and private sector alike. After the financial crisis, foreign investment and EU funds played the main role in current account financing; over the past few years, however, their contribution has declined in favour of debt-creating flows, worsening Romania's net debtor position.
- In recent years, against the backdrop of the stimulative fiscal policy stance and the large trade deficit, an important source of financing for the current account deficit has consisted of government Eurobond issues on external markets.
- Alongside the trade deficit, the current account was also eroded by the increase in interest payments to non-residents, amid the rise in public external debt and the higher cost of external financing.

## Chapter IX

### General

### Government

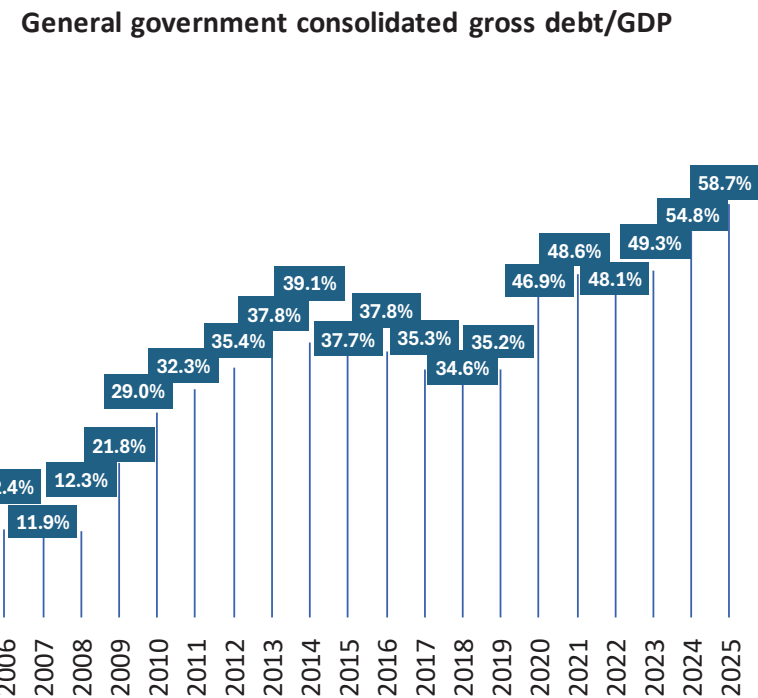
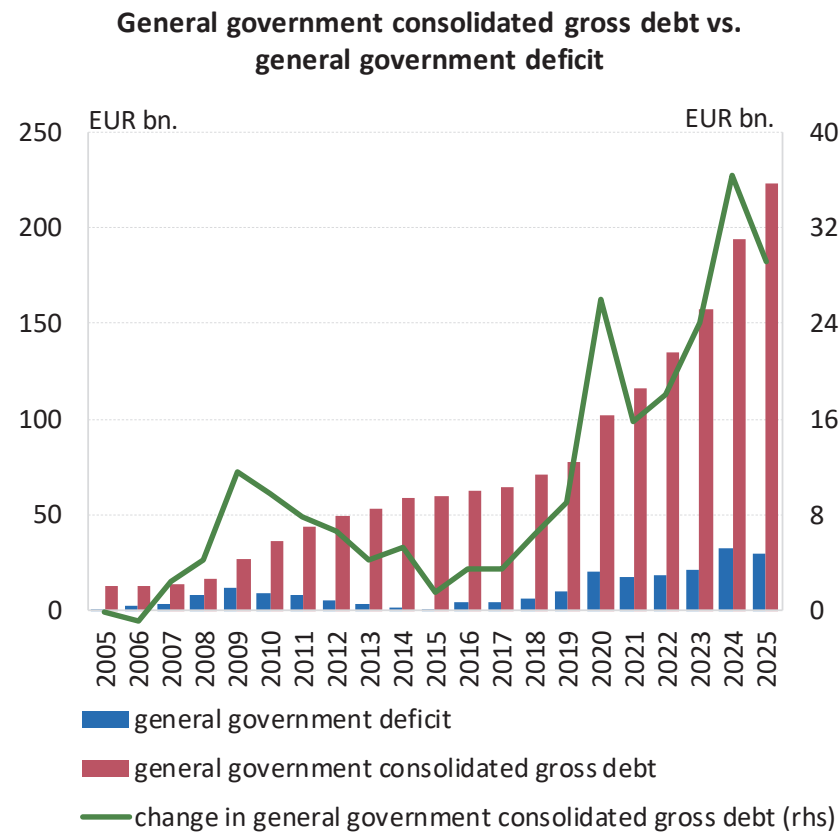
### Debt

### Sustainability

### Assessments

- A high public debt level is generally difficult to sustain and puts pressure on interest rates, which, in turn, increase debt service, a component of the general government deficit. This repetitive process reduces the fiscal room for manoeuvre and weighs on the flexibility of macroeconomic policies.
- Under the pressure of the 2009-2010 financial crisis, Romania lowered its fiscal deficit, yet, once the economy started to recover, the upward trend in deficits resumed, driven by rising public expenditure and persistently inefficient revenue collection.
- Given the imbalance of the general government sector, its financing requirement followed a notable upward path, directly contributing to an increase in general government debt and the related financing costs.
- In this context, the issue of public debt sustainability is raised, its assessment requiring an analysis of costs, of the currency and maturity composition of debt and of the trend of some indicators such as external financing, foreign exchange reserves or the developments in general government expenditure composition.

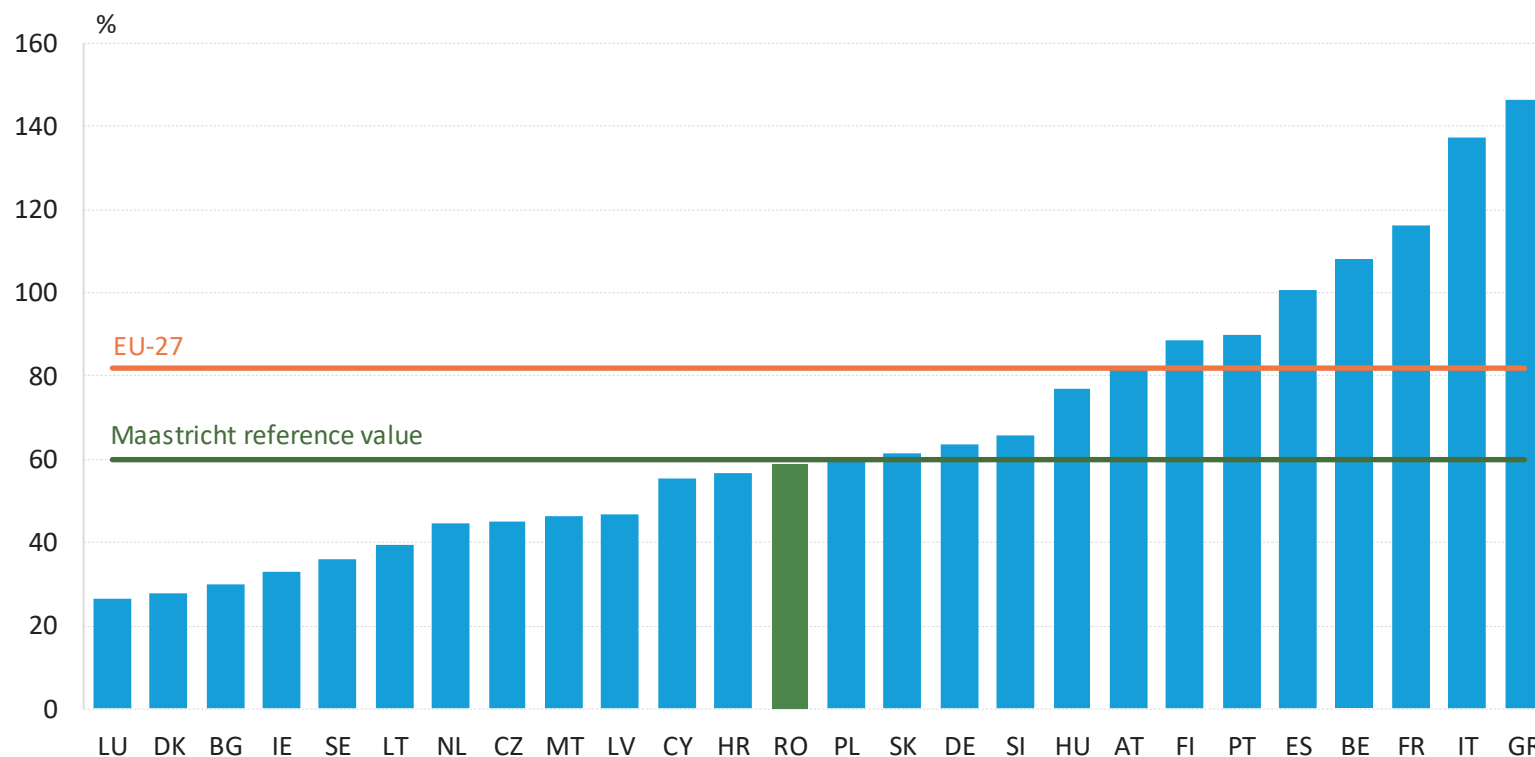
Although general government consolidated gross debt was persistently below 60% as a share of GDP, it fluctuated noticeably, posting notable increases both during the financial crisis and in 2020 and most of the post-pandemic period. Financial assistance in the form of loans from international financial institutions and government securities issuance were reflected, as they occurred, in further increases in the debt stock.



Source: Eurostat data – EDP notification

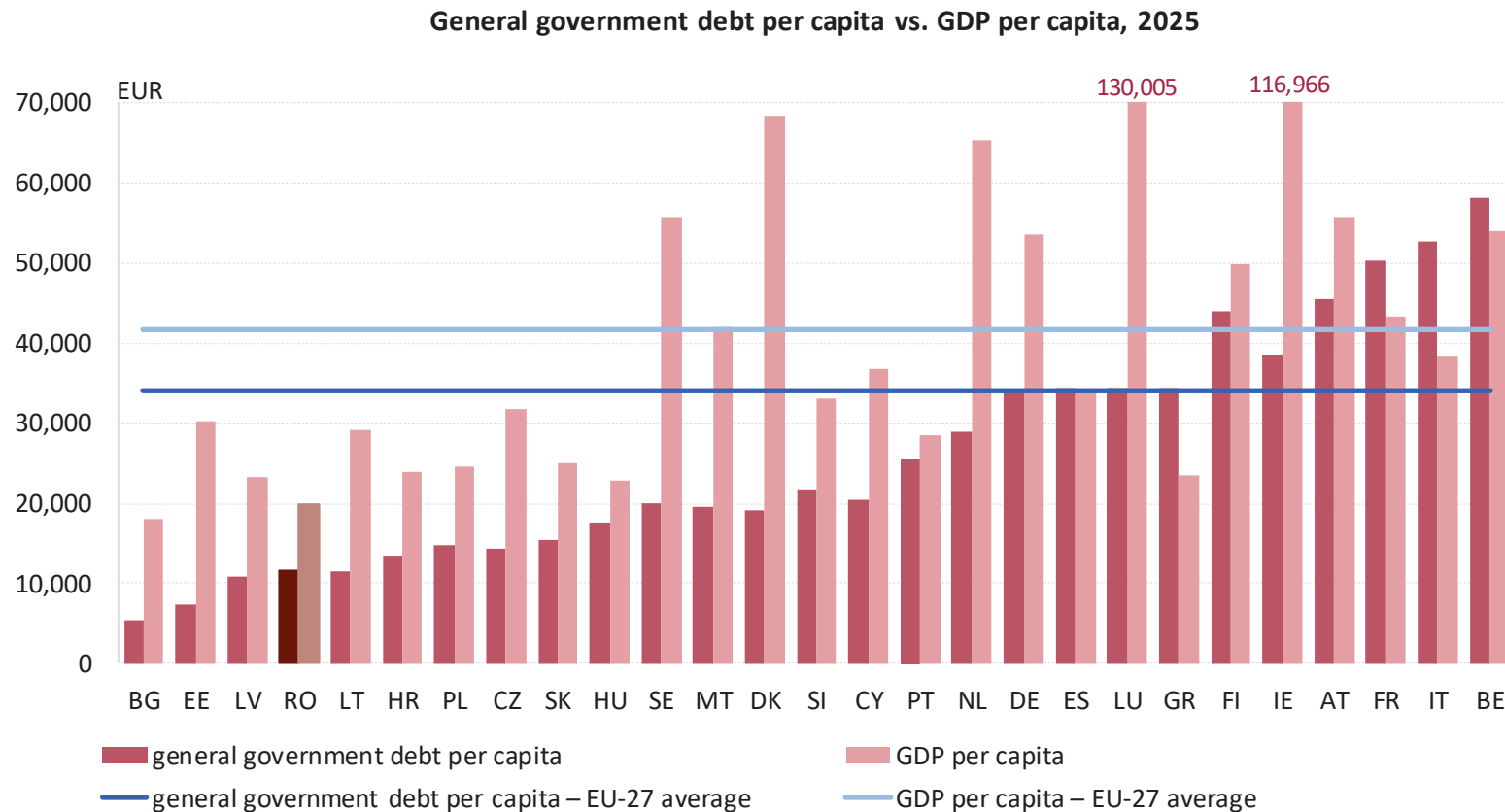
Even though Romania’s general government consolidated gross debt-to-GDP ratio at end-2025 was markedly below those of other EU countries and lower than the EU average, it is nearing the reference value, as in the case of Poland. In the future, however, our country’s path might differ from that of Poland, which has seen a significantly stronger economic growth trend, as well as current account surpluses.

General government consolidated gross debt/GDP in 2025



Source: Eurostat

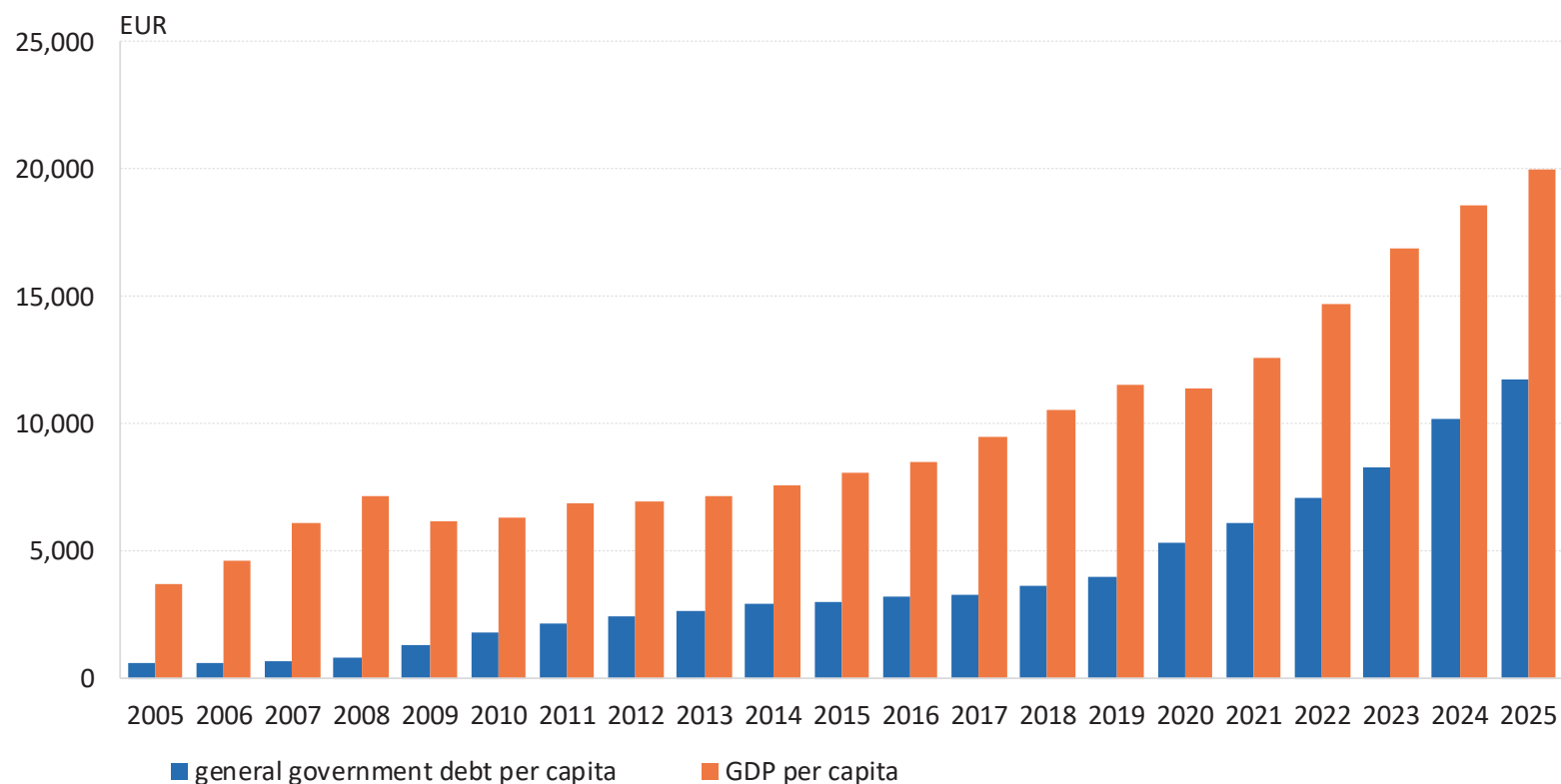
In Romania, general government debt per capita remains, nevertheless, at a level that may be deemed moderate, well below the EU average. This indicator can be analysed in parallel with measures reflecting the relative size of the economy. Thus, Romania, alongside Bulgaria, the Baltic states, Hungary or Poland, also has one of the lowest GDP per capita levels in the EU and hence it is further necessary to continue the efforts towards real convergence.



Source: Eurostat, AMECO

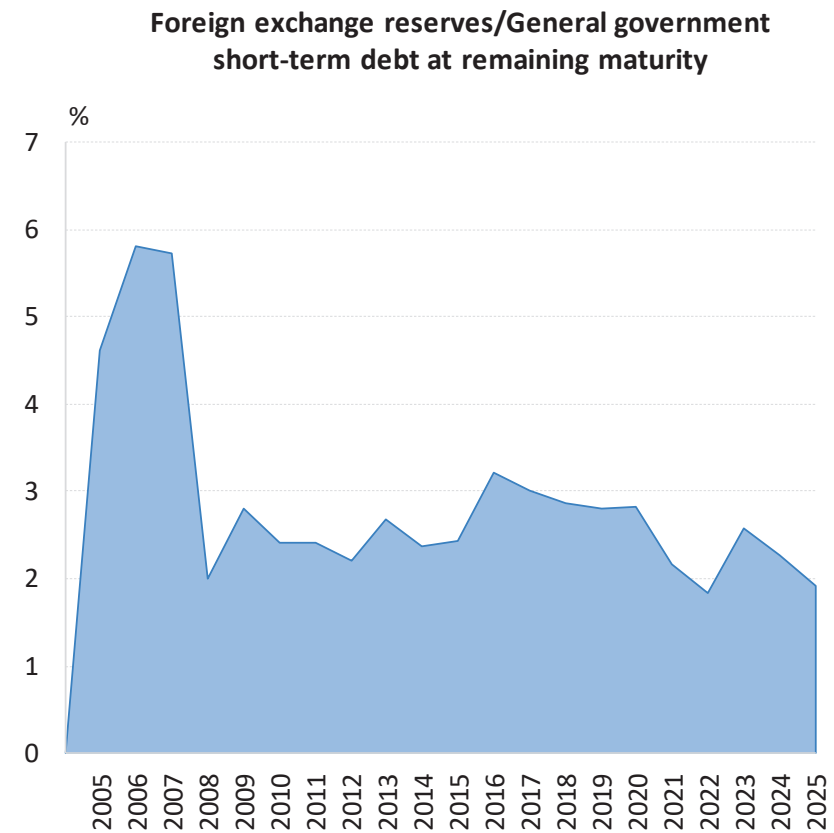
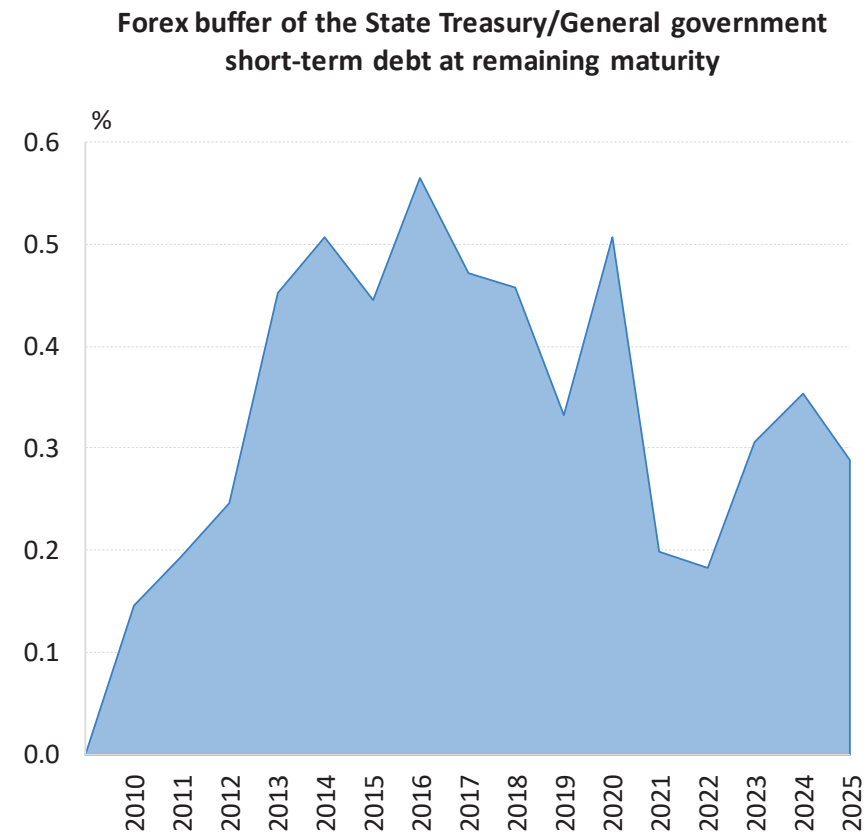
Over the past two decades, GDP per capita has risen more than five times, following economic activity expanding at an unprecedented pace after Romania’s joining the European Union, as well as amid the drop in population. General government debt per capita has followed the same trend, which was even faster over the last years, also against the backdrop of successive crises, its level at end-2025 being almost double that recorded in 2020.

General government debt per capita vs. GDP per capita – Romania



Source: Eurostat, AMECO

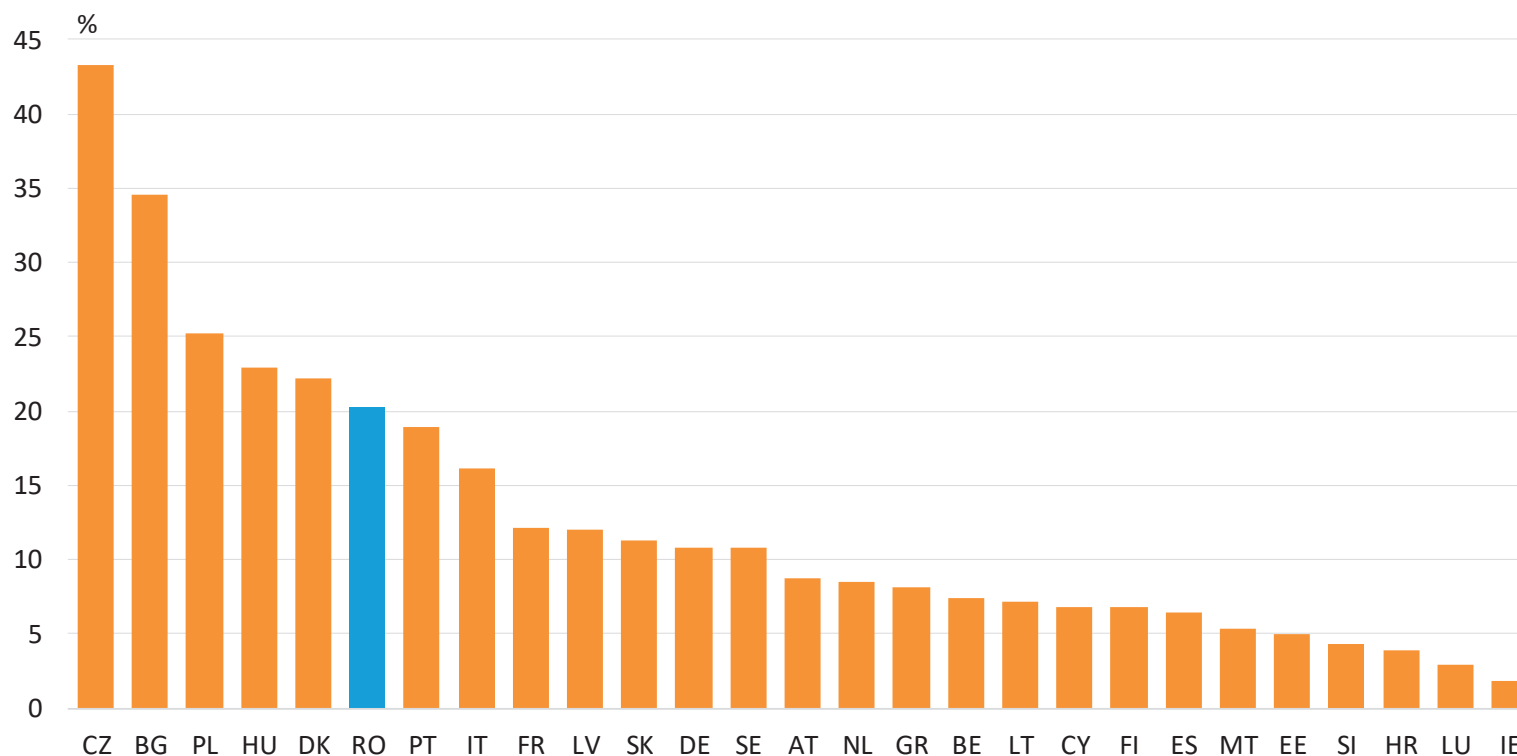
The sustainability of sovereign debt is assessed in relation to the assets earmarked for public debt servicing. In recent years, Romania's foreign exchange reserves have comfortably covered the stock of general government short-term debt. At the same time, the forex buffer of the State Treasury has covered, on average, almost 30% of the above-mentioned debt over the past five years, its fluctuations notwithstanding.



Source: MF, NBR

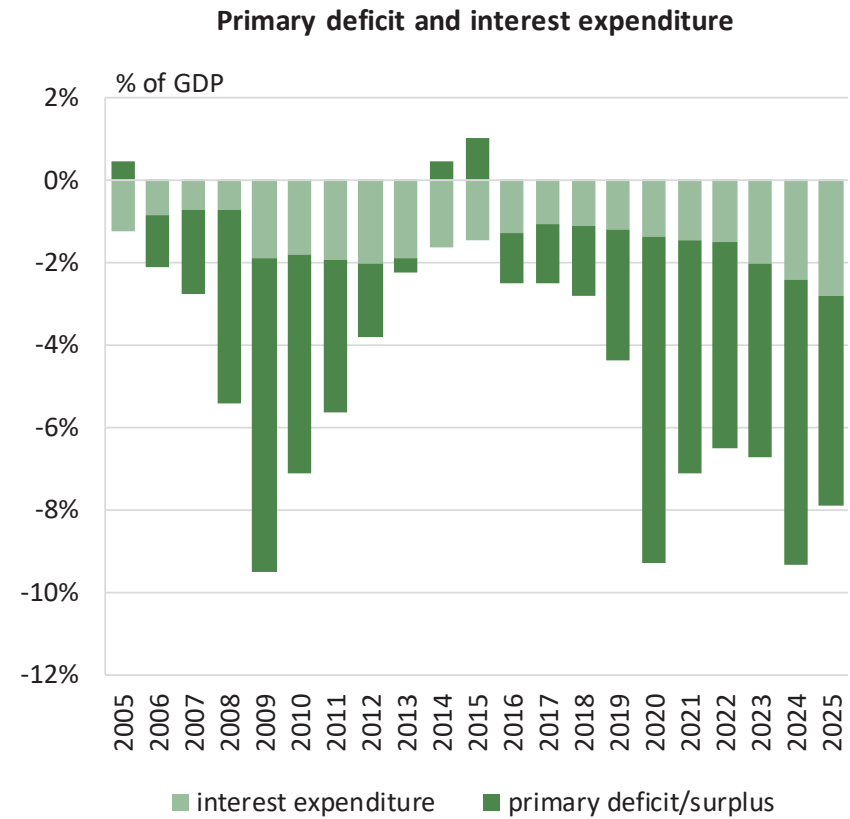
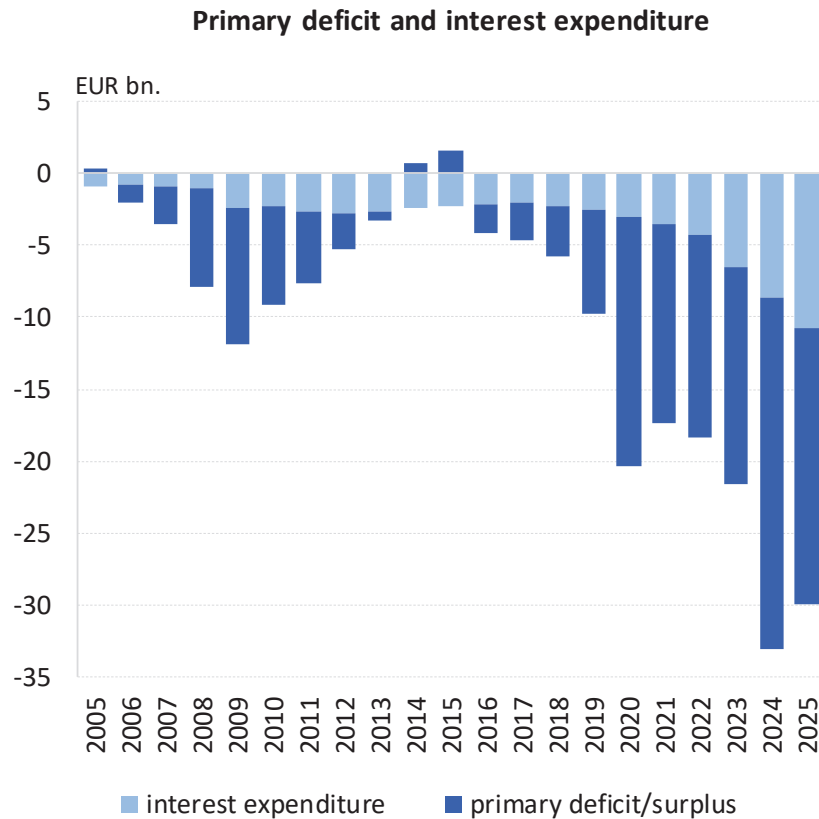
At the EU level, non-euro area central banks record the highest reserve assets as a share of GDP. The decision to build up such reserves is not accidental, as, operating outside the ECB’s protective umbrella, these central banks consider that sizeable foreign exchange reserves significantly help ensure financial stability and cushion the effects of potentially adverse shocks.

Reserve assets of EU countries as a share of GDP at end-2025



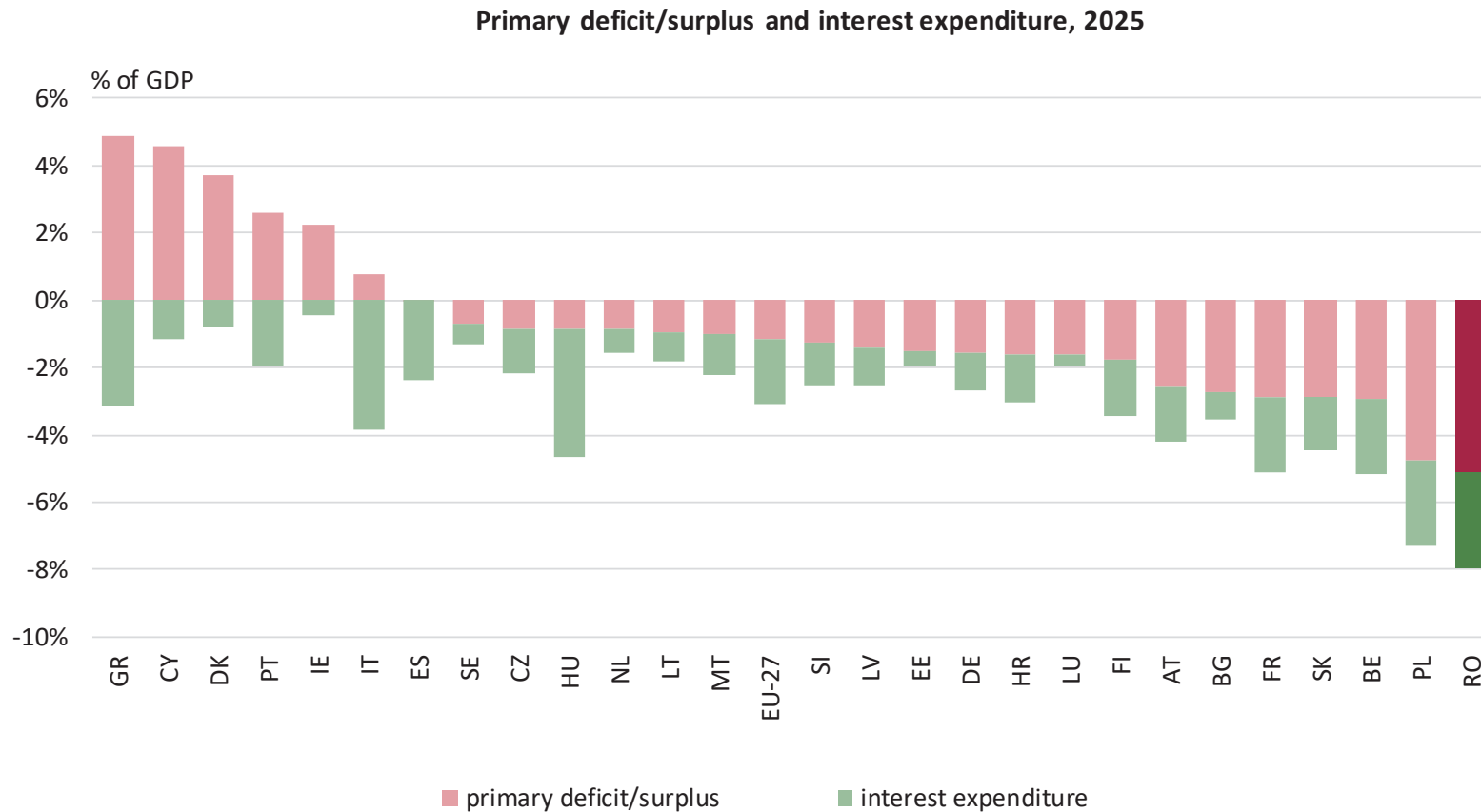
Source: Eurostat

From a historical perspective, except for 2005, 2014 and 2015, when Romania posted general government primary surpluses, primary deficits were recorded over the remainder of the period under review, amid the steady increases in public sector wage costs, as well as in public pension expenditure, above general government revenue. Interest expenditure has generally fluctuated below 2% of GDP, exceeding however this threshold over the last years.



Source: Eurostat

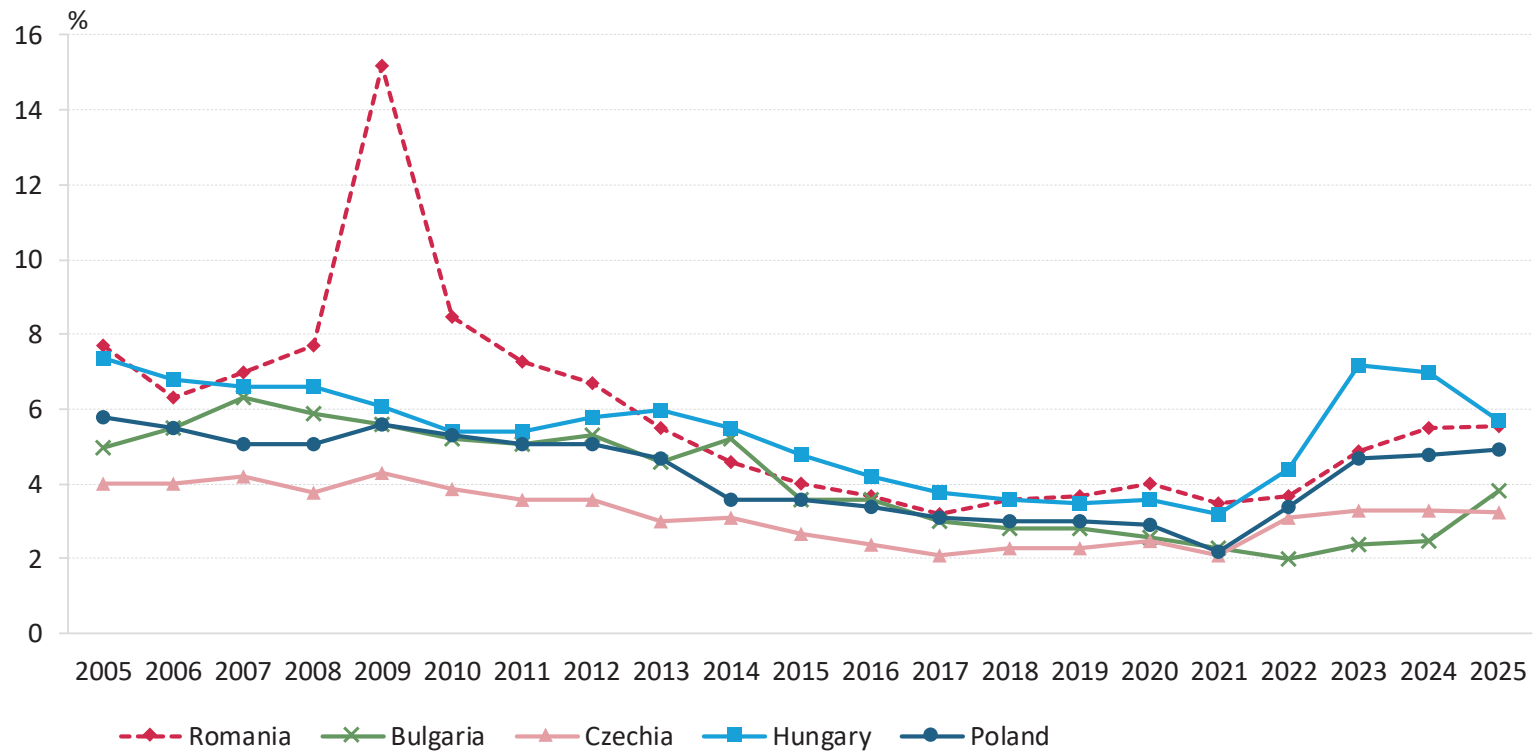
In 2025, Romania posted the highest primary deficit among the EU countries, followed by Poland, Belgium and Slovakia. Particularly noteworthy is the case of Italy, which recorded a primary surplus, but whose interest expenditure was so high that it led to general government deficits, even though its general government revenue exceeded the remainder of public spending.



Source: Eurostat

The rising share of interest expenditure is an indicator of public debt (non-)sustainability. In Romania's case, it peaked in 2009, amid the international financial crisis, two of the credit rating agencies downgrading Romania's sovereign debt to non-investment grade. Over the last years, amid successive crises, interest payments on government debt in both Romania and its regional peers have followed an upward trend.

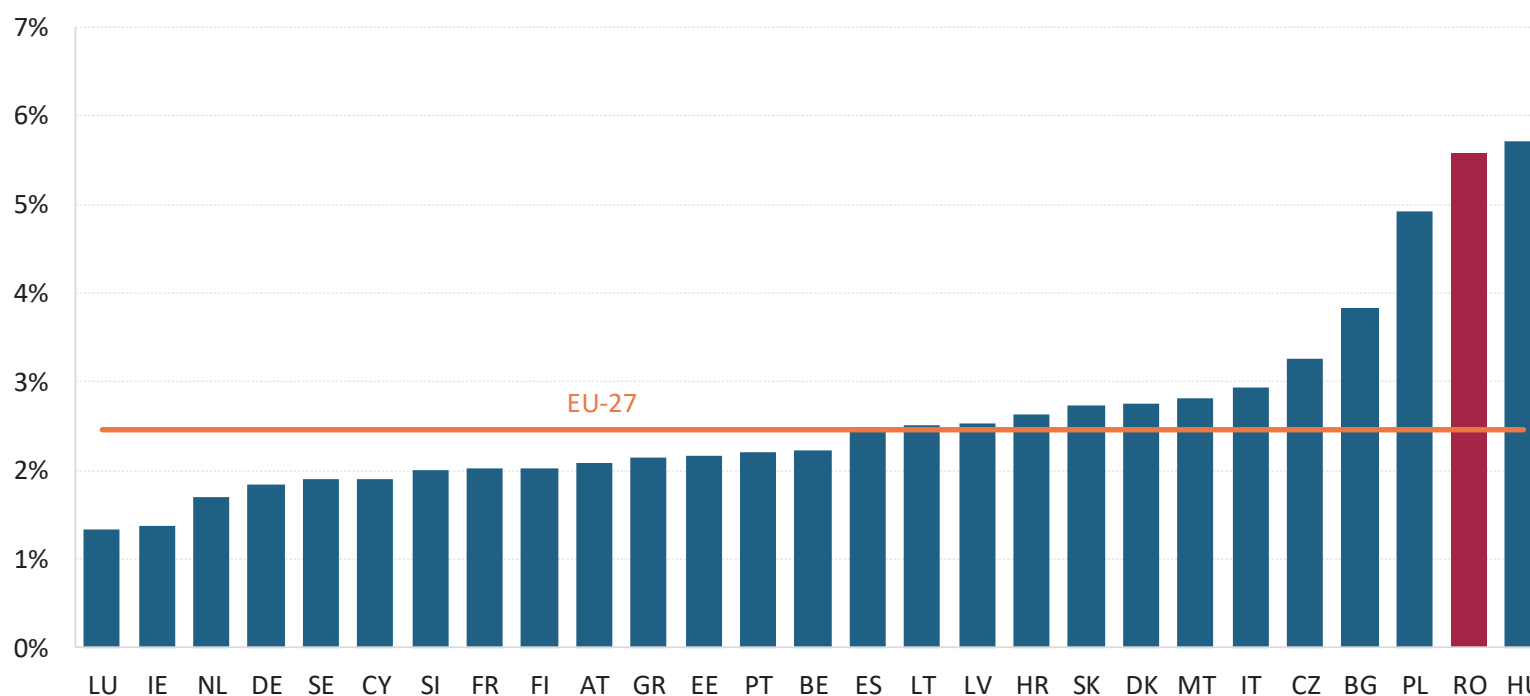
Interest payments in the current year/General government gross debt in the previous year



Source: AMECO, Eurostat

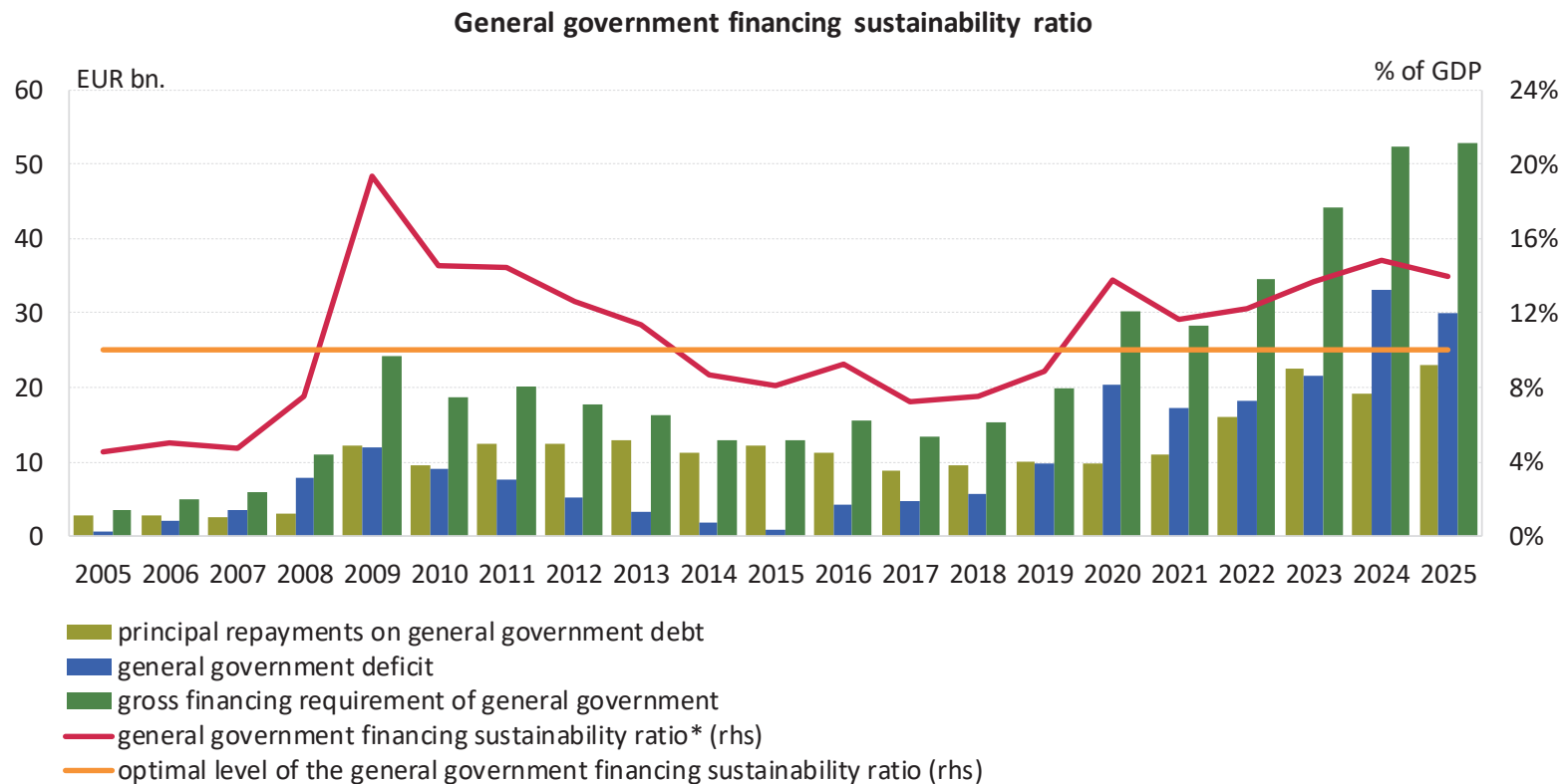
Compared with EU Member States, Romania, together with Hungary and Poland, posts some of the highest levels of the implicit interest rate, i.e. the ratio of interest payments to general government debt. This reflects both the fast-paced increase in the general government debt stock and the deterioration of investor perception of public finances amid persistent general government deficits, including the primary deficit.

Interest payments in the current year/General government gross debt in the previous year, 2025



Source: Eurostat

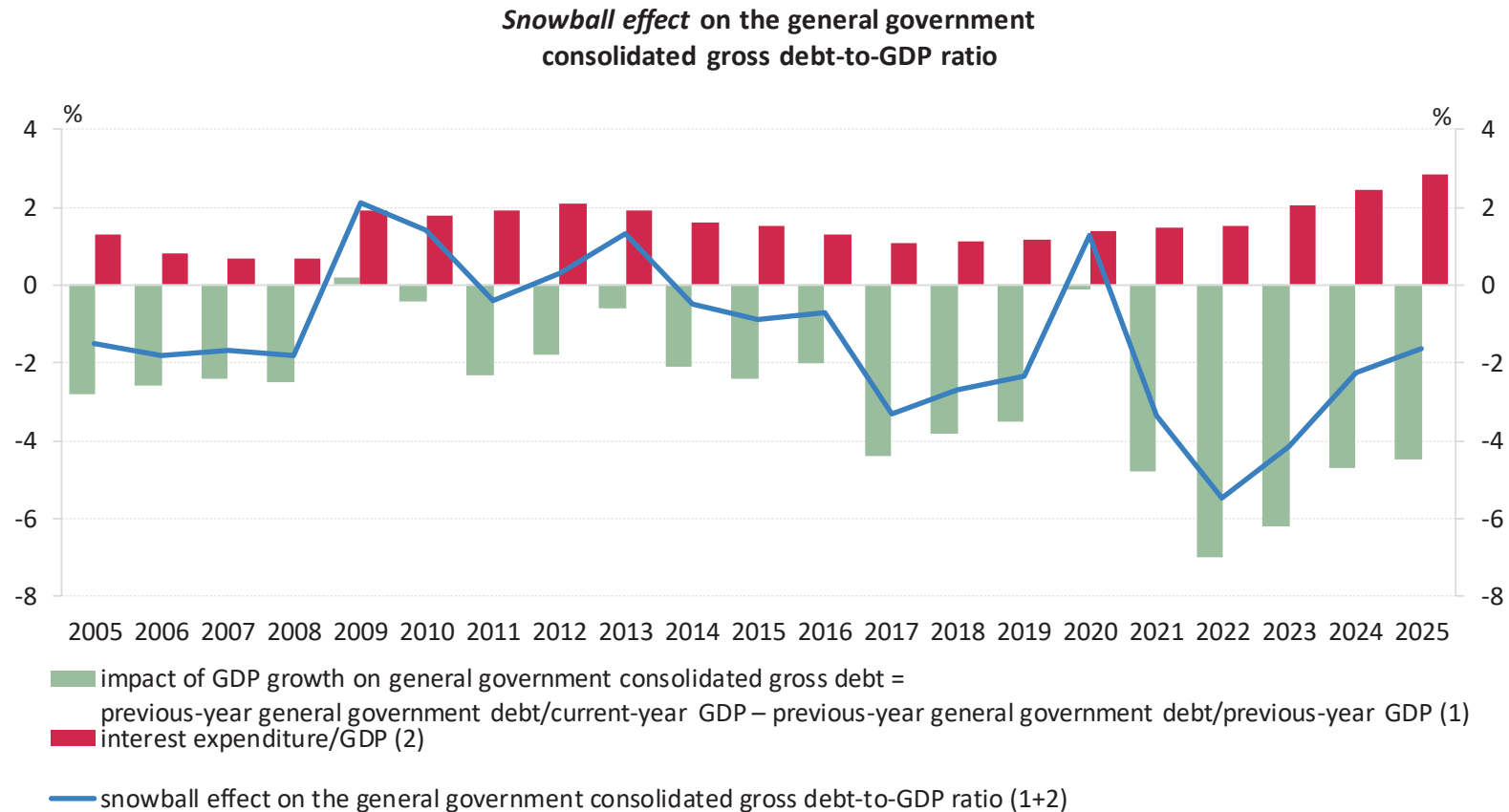
The gross financing requirement of general government to GDP is a measure of the sector's financial sustainability. In Romania, the sudden worsening during the financial crisis was followed by some comfortable levels until 2019, amid the narrowing of imbalances. The fiscal slippages in recent years have again led to higher borrowing needs and the general government financing sustainability ratio exceeded the 10% threshold, up to which values are considered sustainable.



\*) General government financing sustainability ratio = Gross financing requirement of general government/GDP

Source: MF, Eurostat, ESA methodology

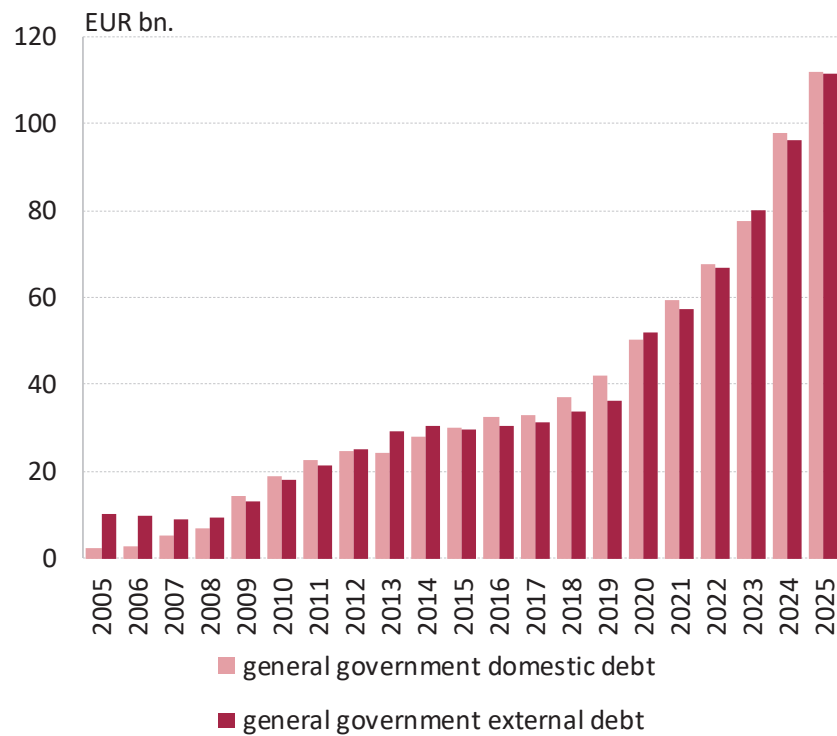
*The snowball effect* cumulates the impact on sovereign debt of nominal GDP growth, on the one hand, and of developments in interest expenditure, on the other hand. During the financial and pandemic crises, amid the economic contraction, alongside the increase in debt, the contribution of the effect to the debt-to-GDP ratio was positive. However, overall, the impact of nominal GDP growth offset the effect of higher interest expenditure.



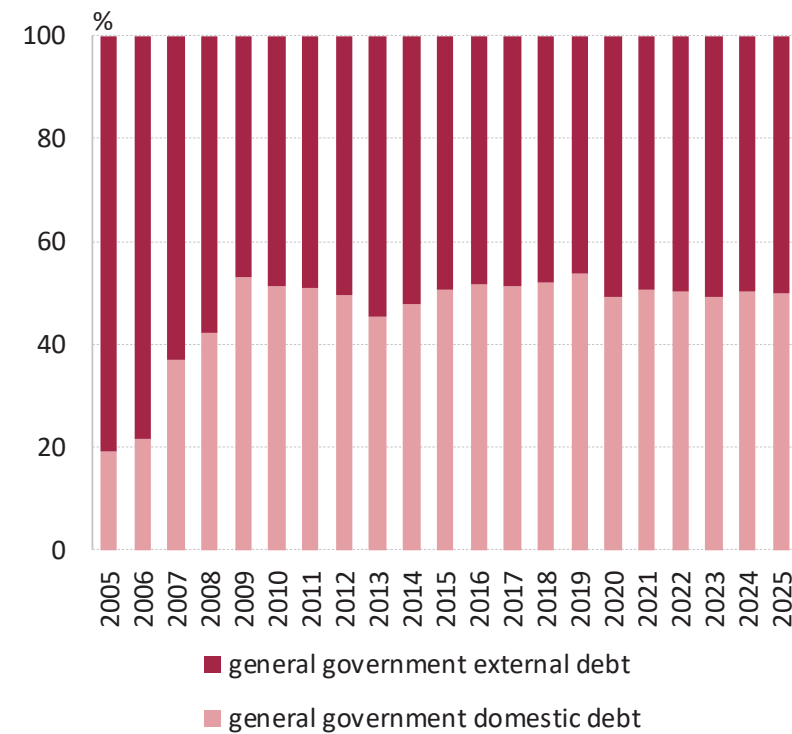
Source: AMECO

Compared with the first part of the period under review, when the financing of fiscal deficits was mainly provided by foreign creditors, with Romania’s joining the EU and the strengthening of the domestic financial market, the share of domestic investors rose markedly, close to 50%. The consolidation of external financing reflects the continued attractiveness of Romanian debt instruments to foreign investors, yet it also poses certain currency and market risks.

**General government consolidated gross debt by residence of creditors/investors**



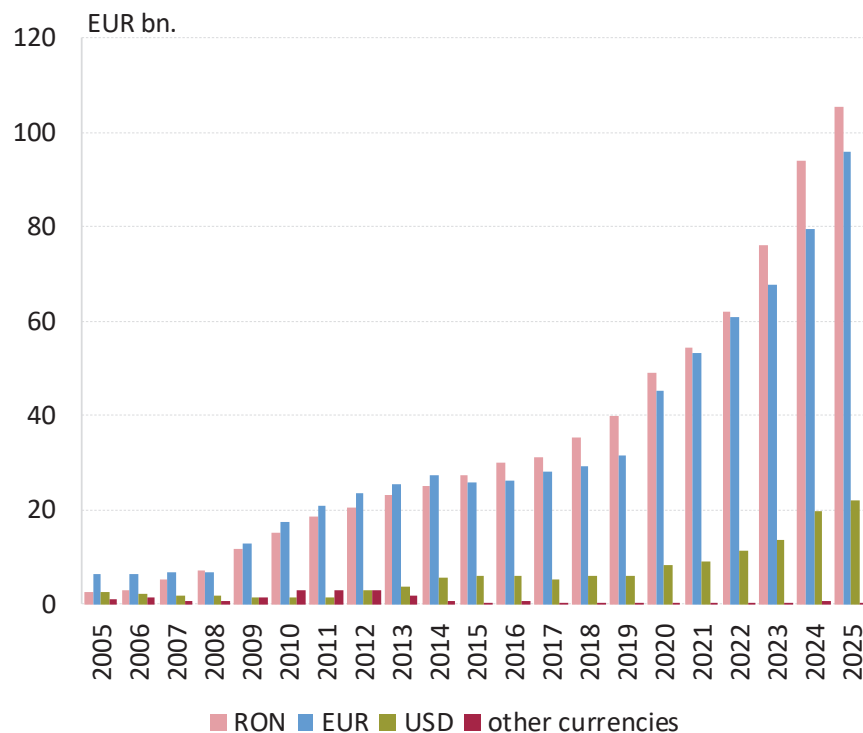
**General government consolidated gross debt by residence of creditors/investors**



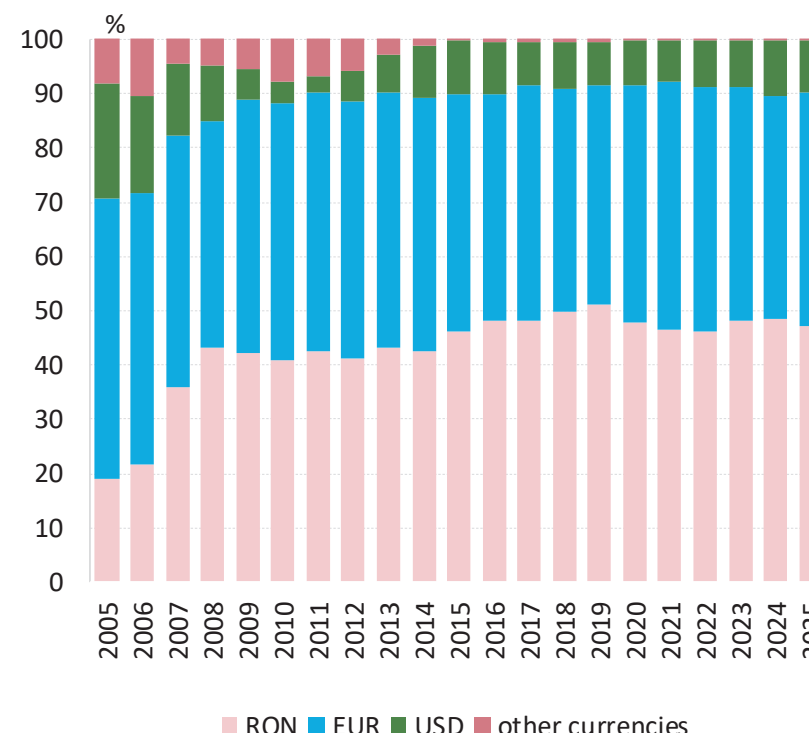
Source: MF

The relevance of the analysis of sovereign debt by main currencies stems from the fact that around 50% of the debt incurred by the Romanian government is foreign currency-denominated. Caution is further needed, as, in the event of a sharp economic slowdown, in the context of weak export growth or lower capital inflows, the repayment of foreign currency debt could pose risks, exerting exchange rate pressure.

General government consolidated gross debt by main currencies



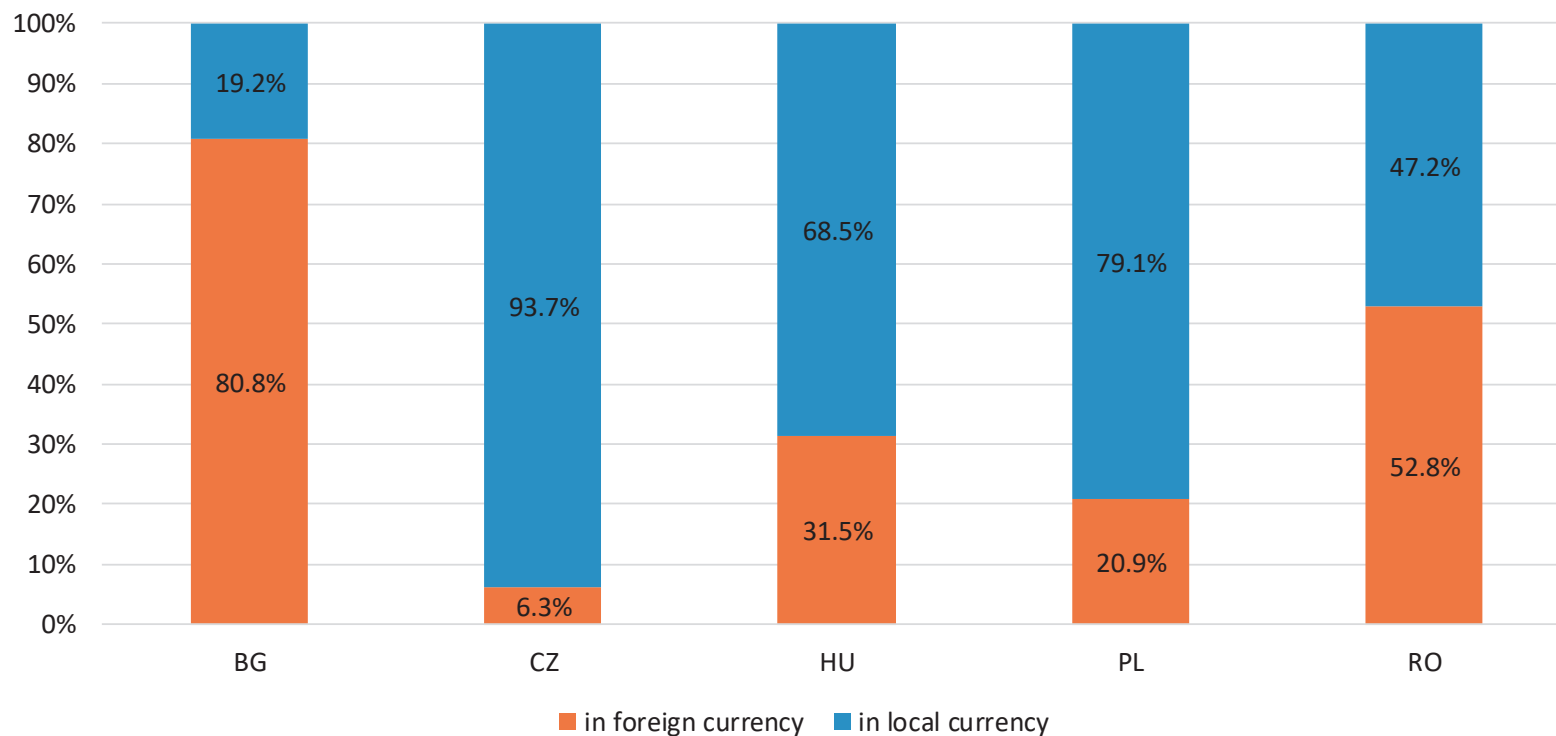
General government consolidated gross debt by main currencies



Source: MF

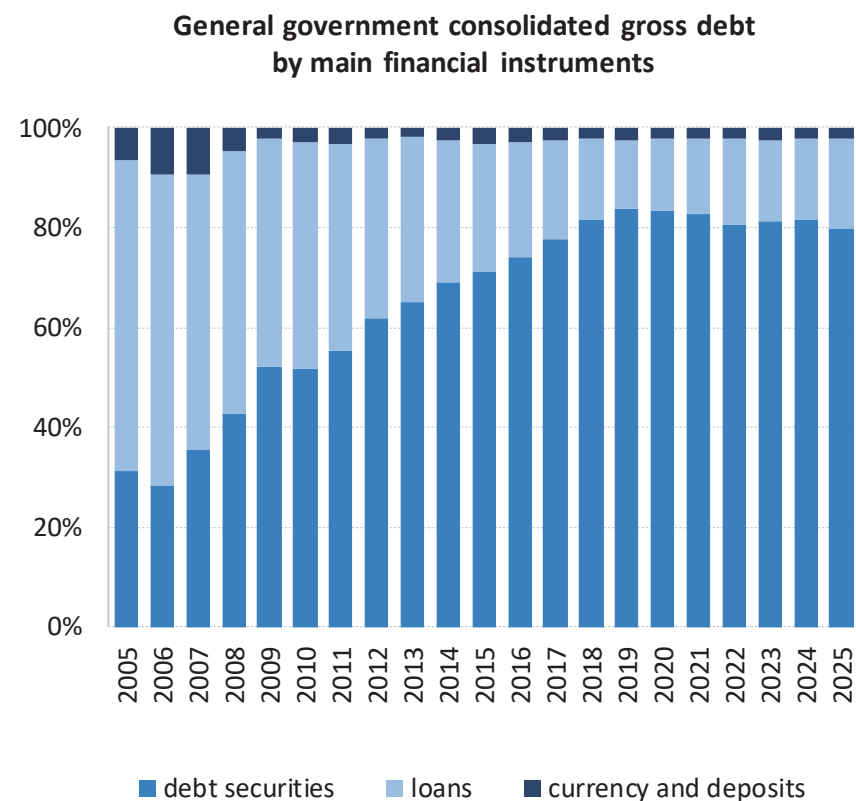
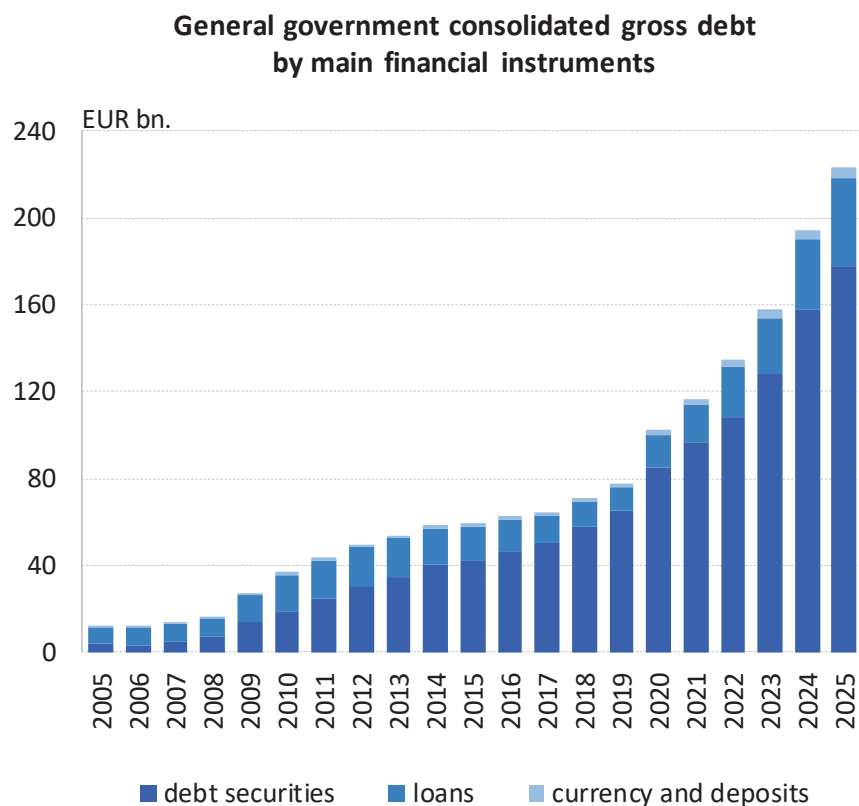
Except for Bulgaria, whose strategy was aligned with the objective of joining the euro area, the governments of Romania’s regional peers mainly incurred local currency debt. The differences in shares by type of issue depend largely on economic performance, particularly the developments in macroeconomic imbalances, but also on general investor strategies, which carefully assess the existing projections.

**Currency composition of general government debt in Romania and regional peers at end-2025  
(stock includes trade credits)**



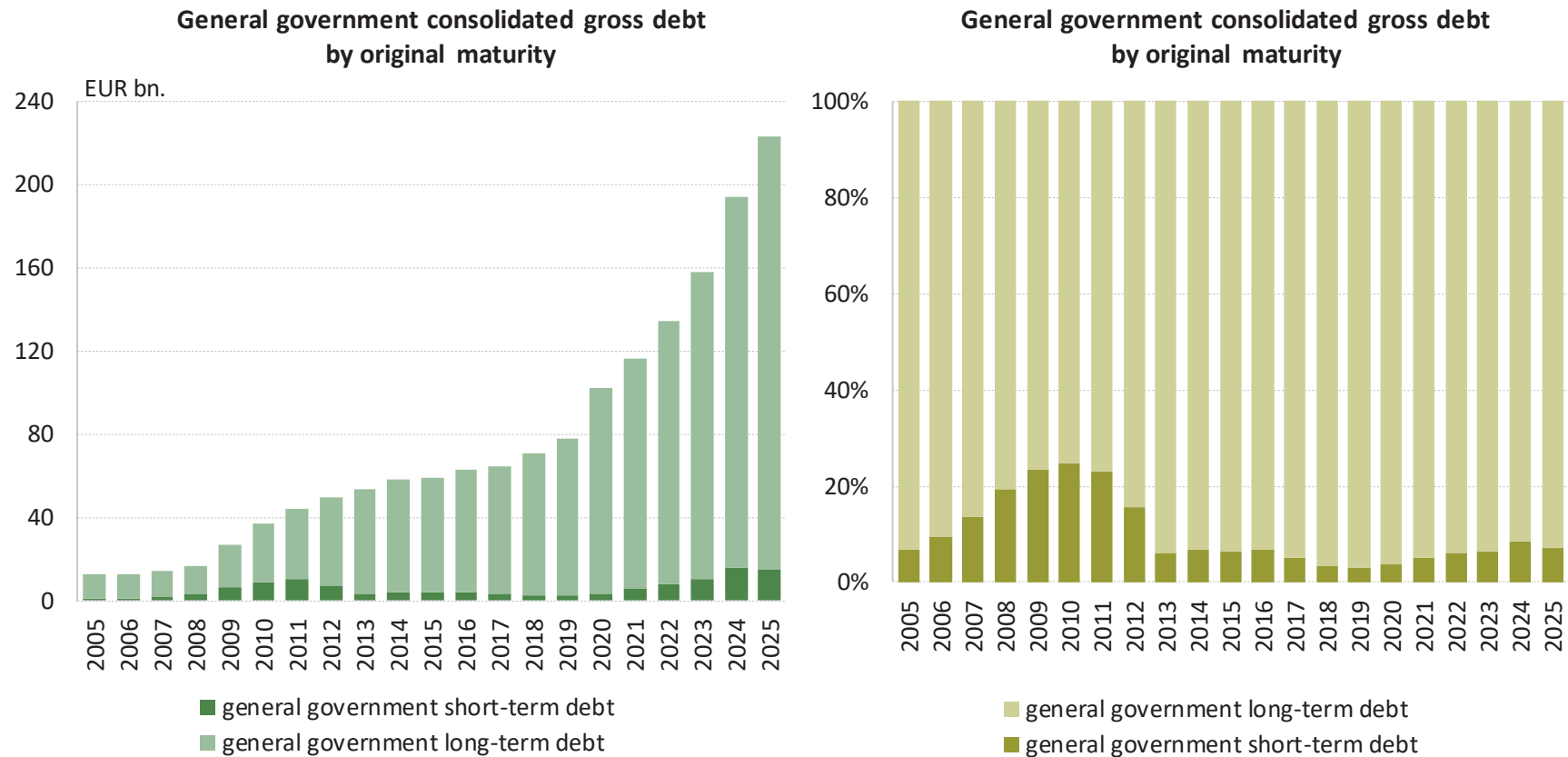
Source: IMF (SDDS+ statistics)

The composition of general government debt by main financial instruments shows that in recent years, in parallel with the acknowledgement of Romania’s economic performance, as well as with its larger borrowing needs, the authorities have pursued portfolio diversification in favour of marketable instruments issued on both the domestic market and external markets in and outside the EU.



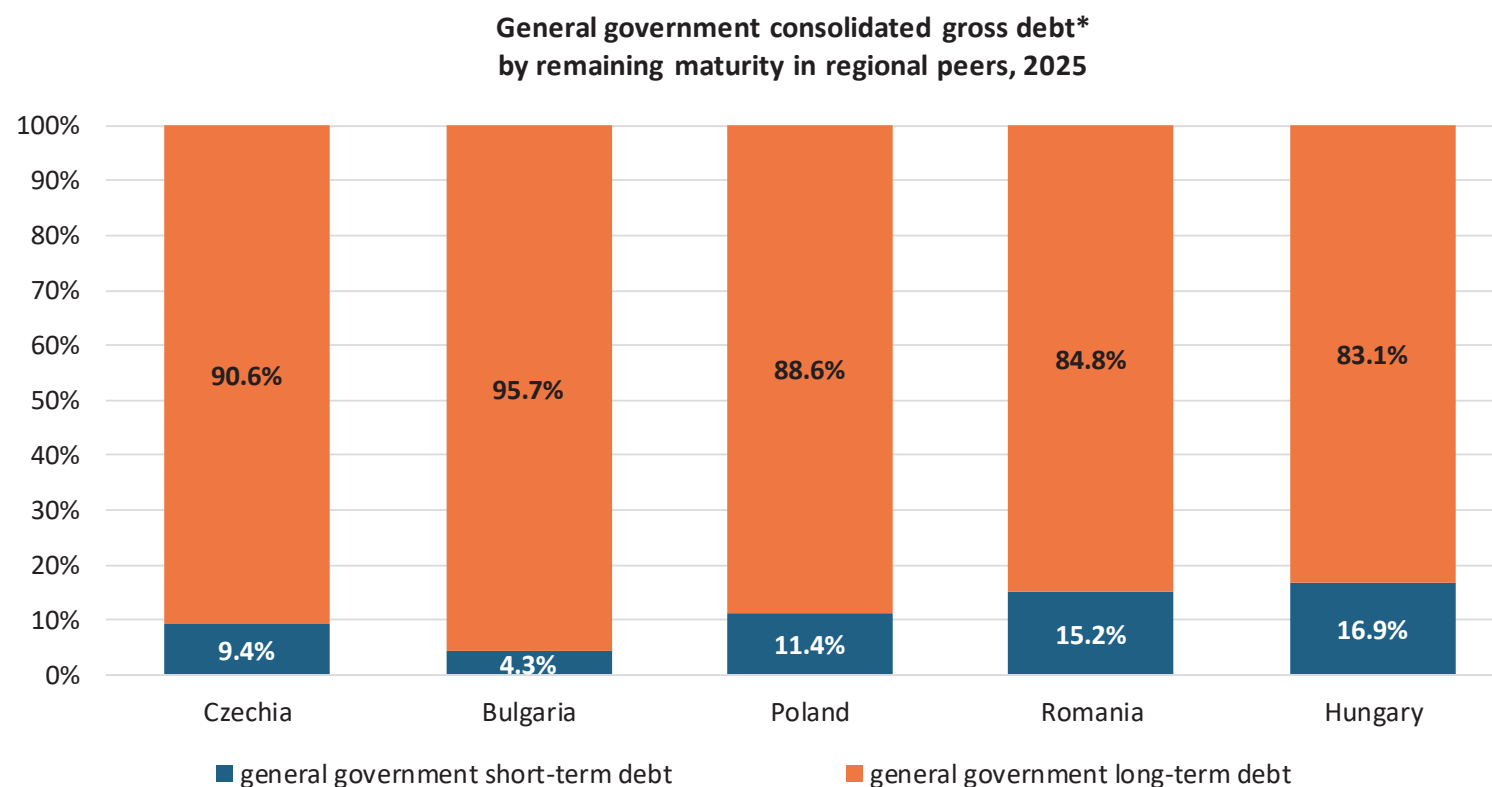
Source: MF

The breakdown of general government debt by maturity captures the government's efforts to improve the average maturity of its debt. The lower financing requirement for covering budgetary imbalances made debt management possible, in a certain period, without resorting to short-term liabilities. Their share in general government debt resumed its upward trend amid the re-emergence of fiscal slippages.



Source: MF

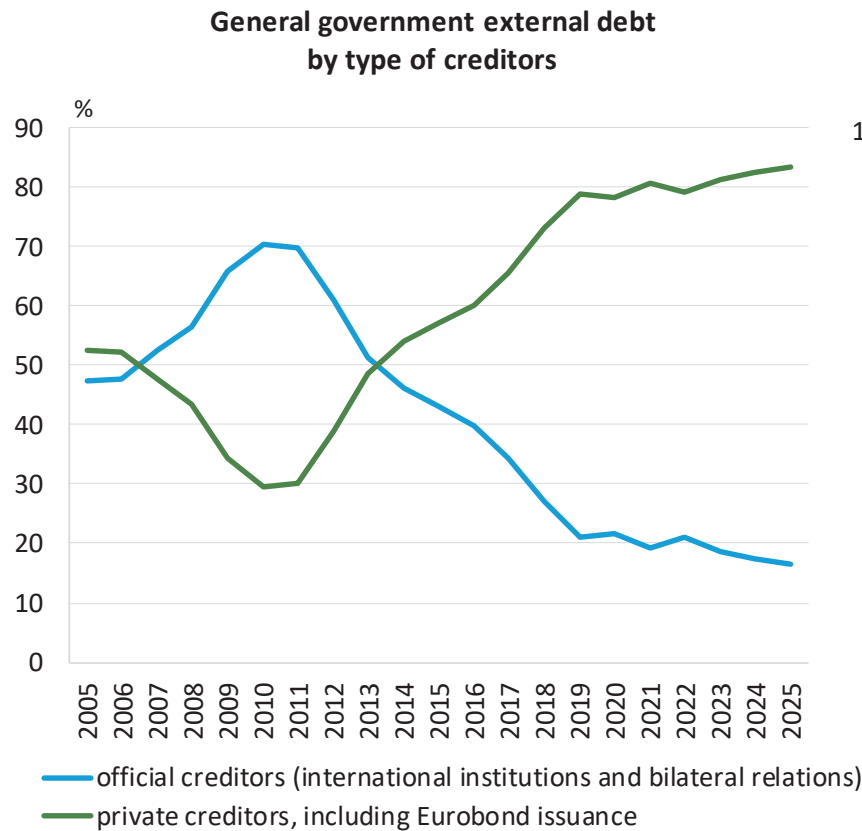
The comparative analysis of general government debt by remaining maturity highlights the efforts of regional peers to reach and maintain a share of outstanding short-term debt as low as possible. However, any worsening of the fiscal and macroeconomic indicators contributes to a lower average maturity of government debt, implicitly leading to an increase in repayments with a maturity of up to one year.



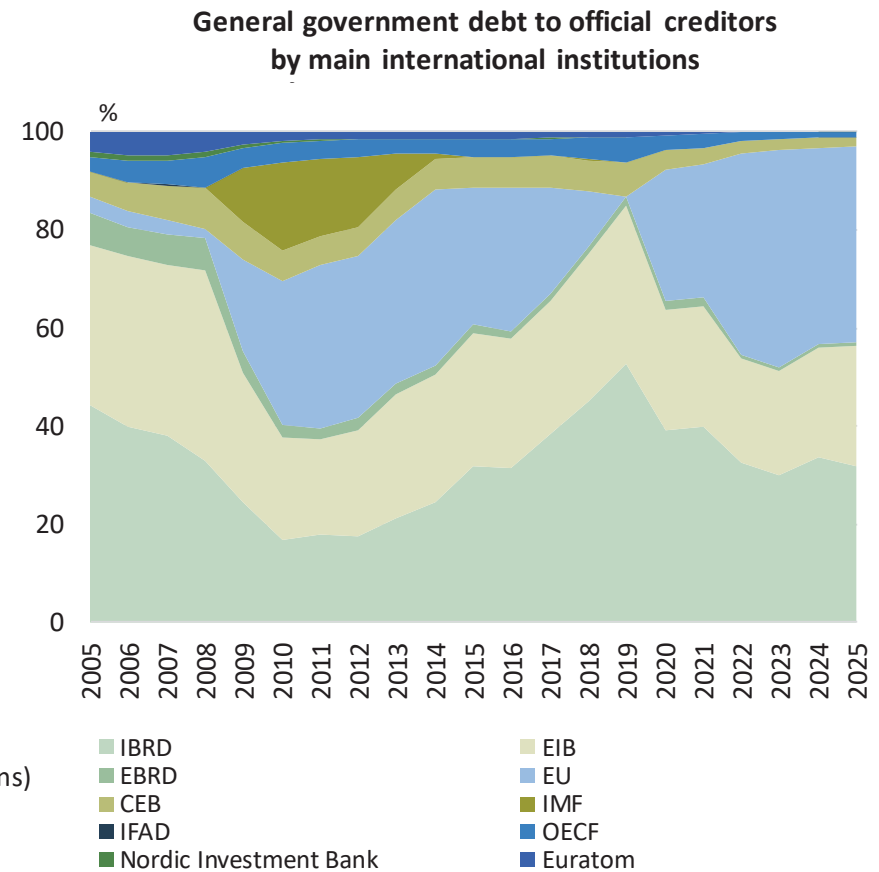
\*) general government debt also includes trade credits

Source: IMF (SDDS+ statistics), public debt management reports

After the financial crisis, the Romanian government shifted towards private investors by extending the issuance of government securities on capital markets. With the repayment of the financial assistance package received from international institutions in 2009, the share of official investors followed a downtrend, with certain changes coming from funds received as loans under the NRRP and Next Generation EU programmes.

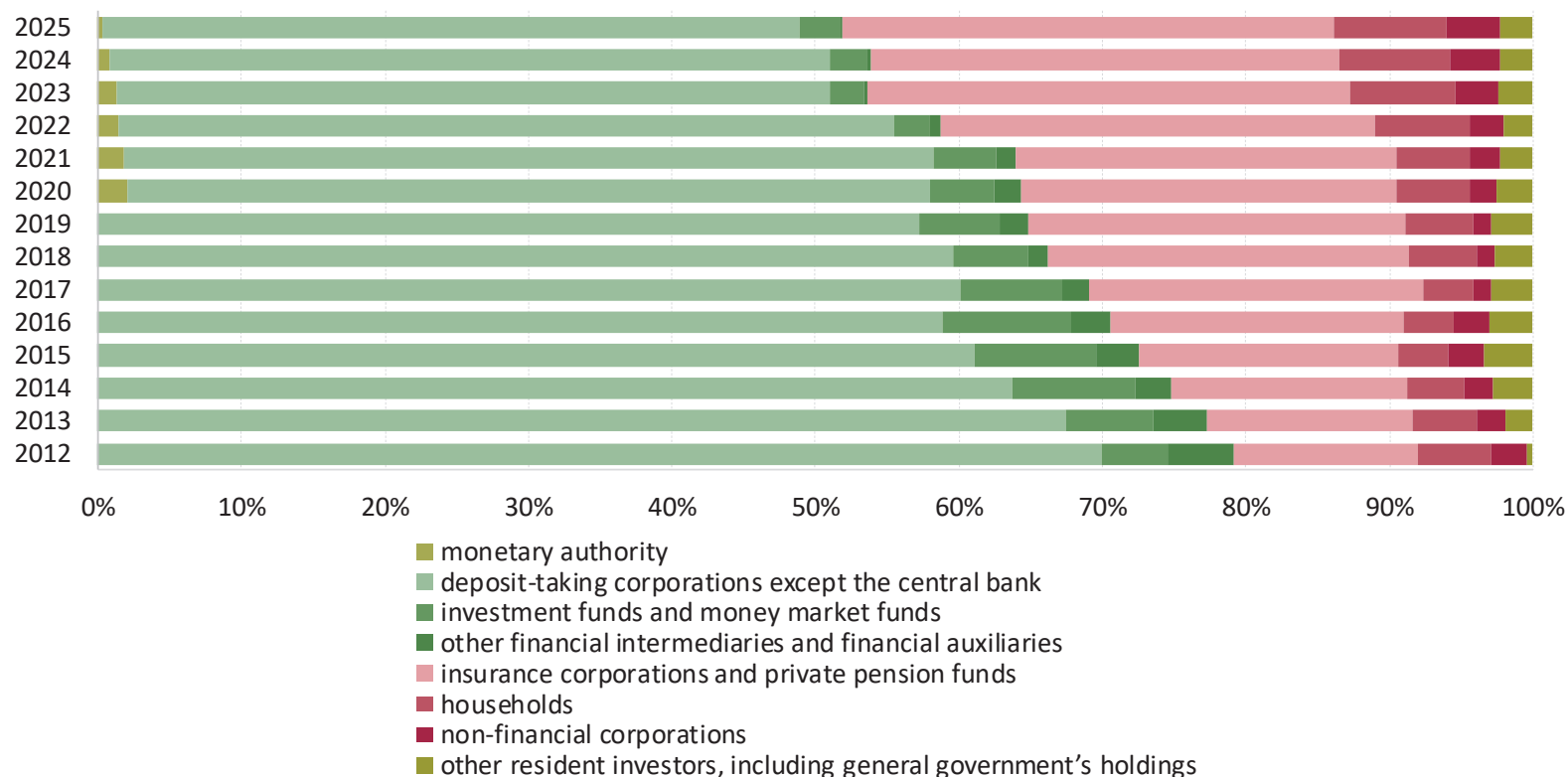


Source: NBR, MF



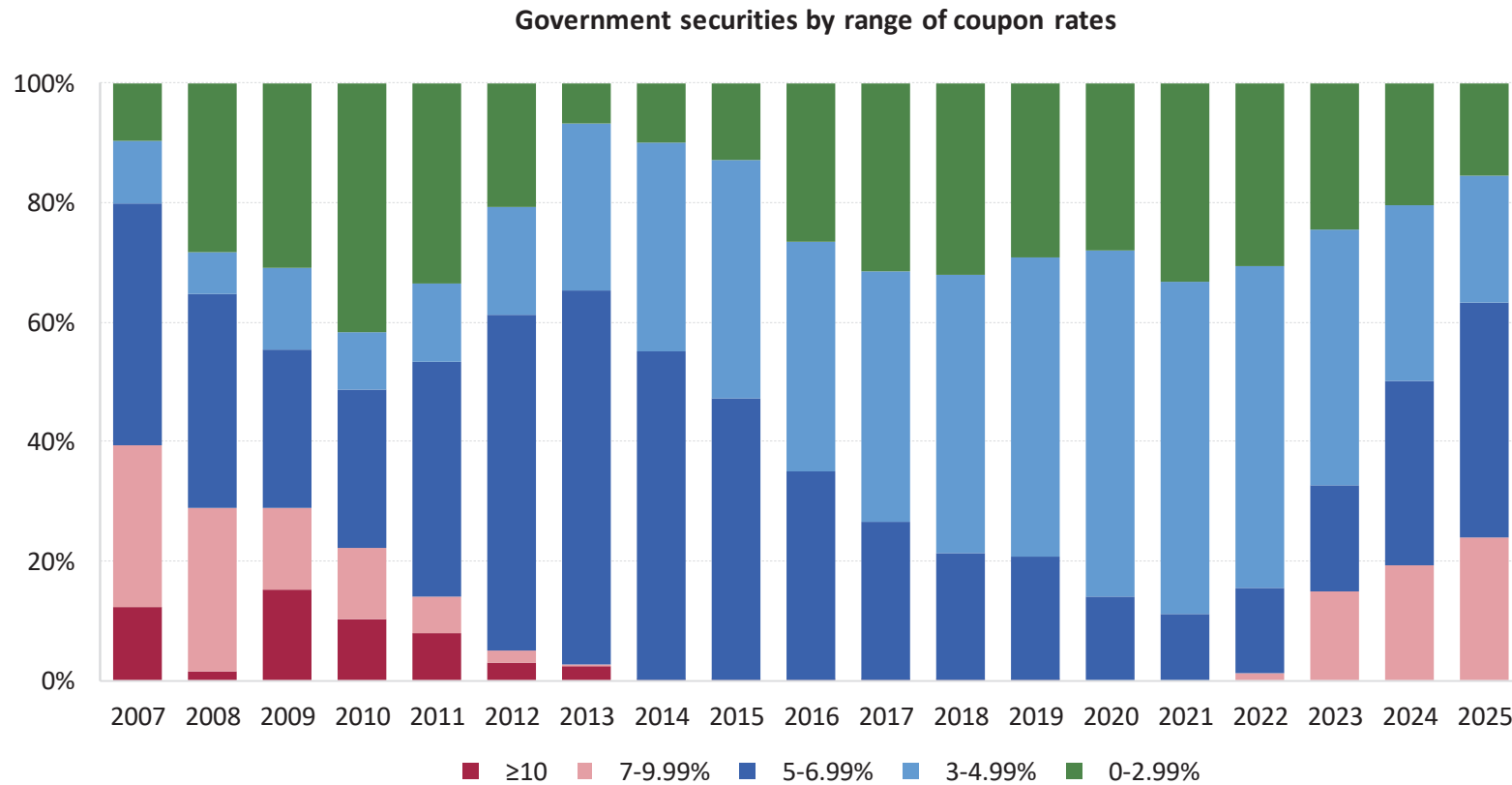
Viewed as safe instruments with an attractive interest rate, Romanian government securities have become an appealing saving option for resident investors. Among these, banks hold the dominant position, followed by private pension funds and households. Even though the banking sector has reduced its share in total domestic investors, it still holds, however, the largest sovereign exposure in the EU.

Government securities by main resident institutional sectors



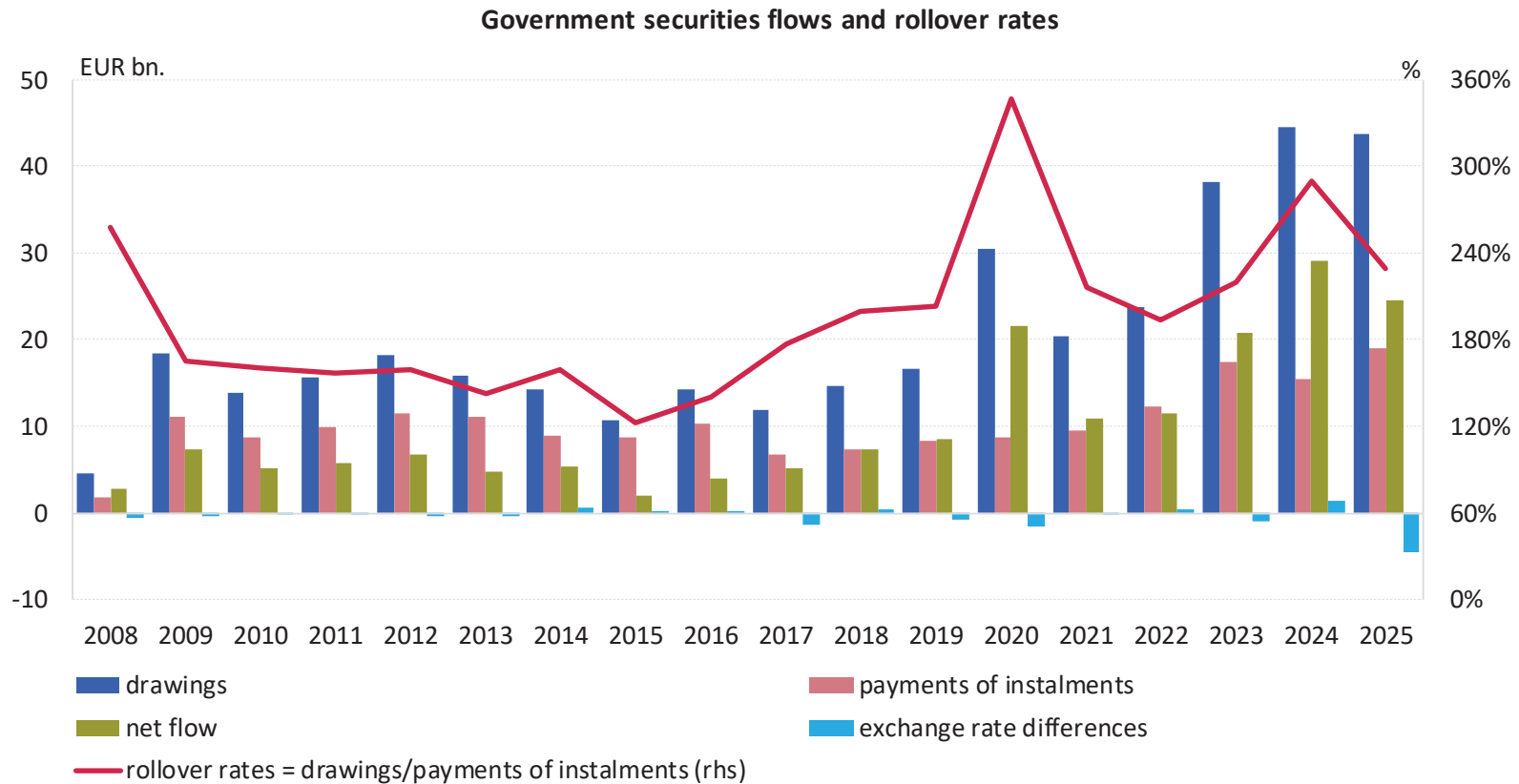
Source: NBR

The 2009 financial crisis prompted an increase in the government's financing costs and its recourse to short-term financial resources, such as zero-coupon Treasury certificates, to cover the fiscal deficit. With the pre-pandemic economic recovery and the alleviation of vulnerabilities, the government debt financing cost embarked on a downtrend, yet coupon rates have again been adjusted upwards in recent years.



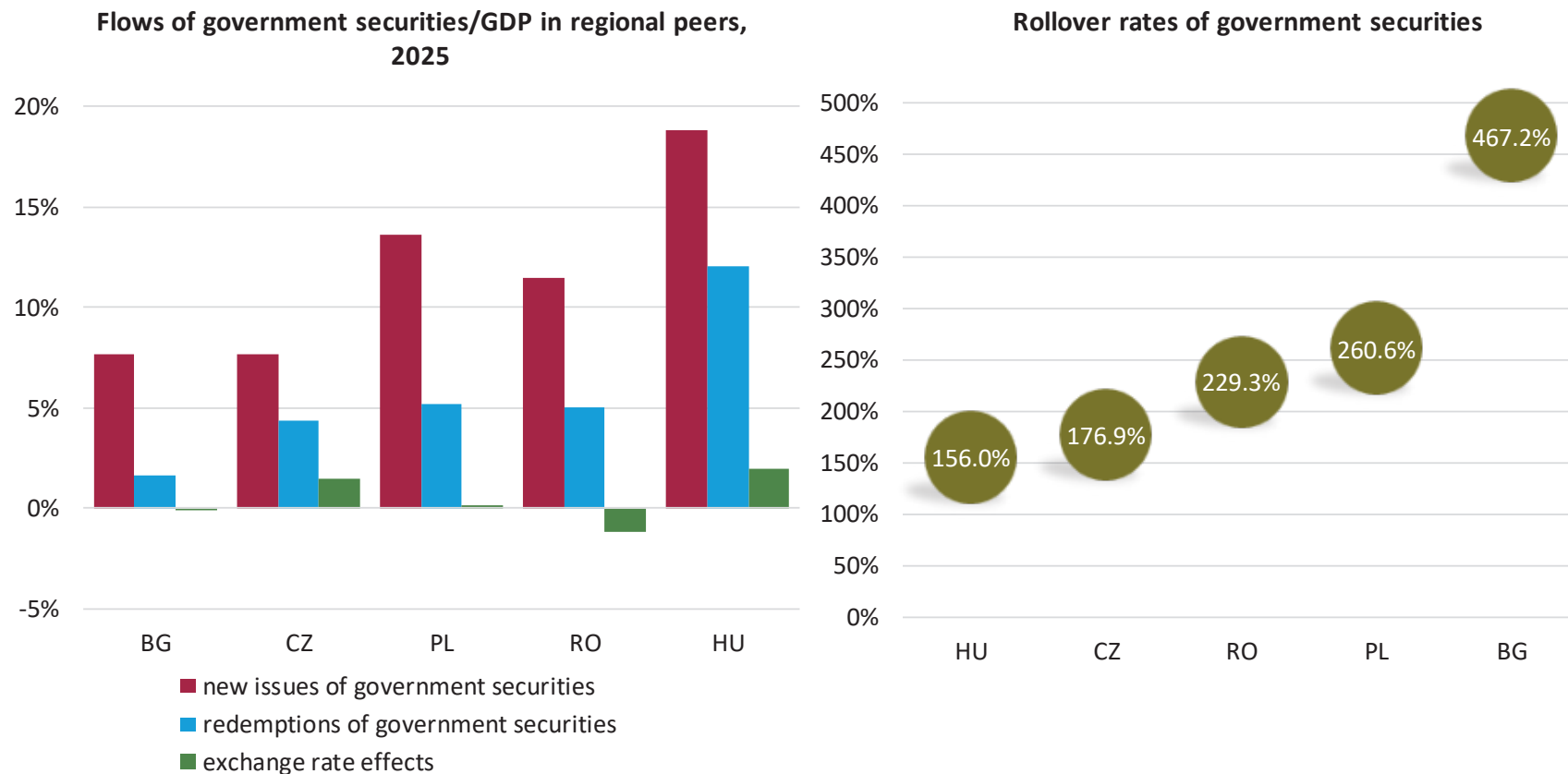
Source: NBR

Every year, the Romanian government has managed to roll over the public debt issued in the form of government securities, reflecting the attractiveness of these instruments for private investors. However, annual drawings and payments of instalments have posted, especially in recent years, relatively fast growth rates, doubling from the pre-pandemic period, when rollover rates were considered sustainable.



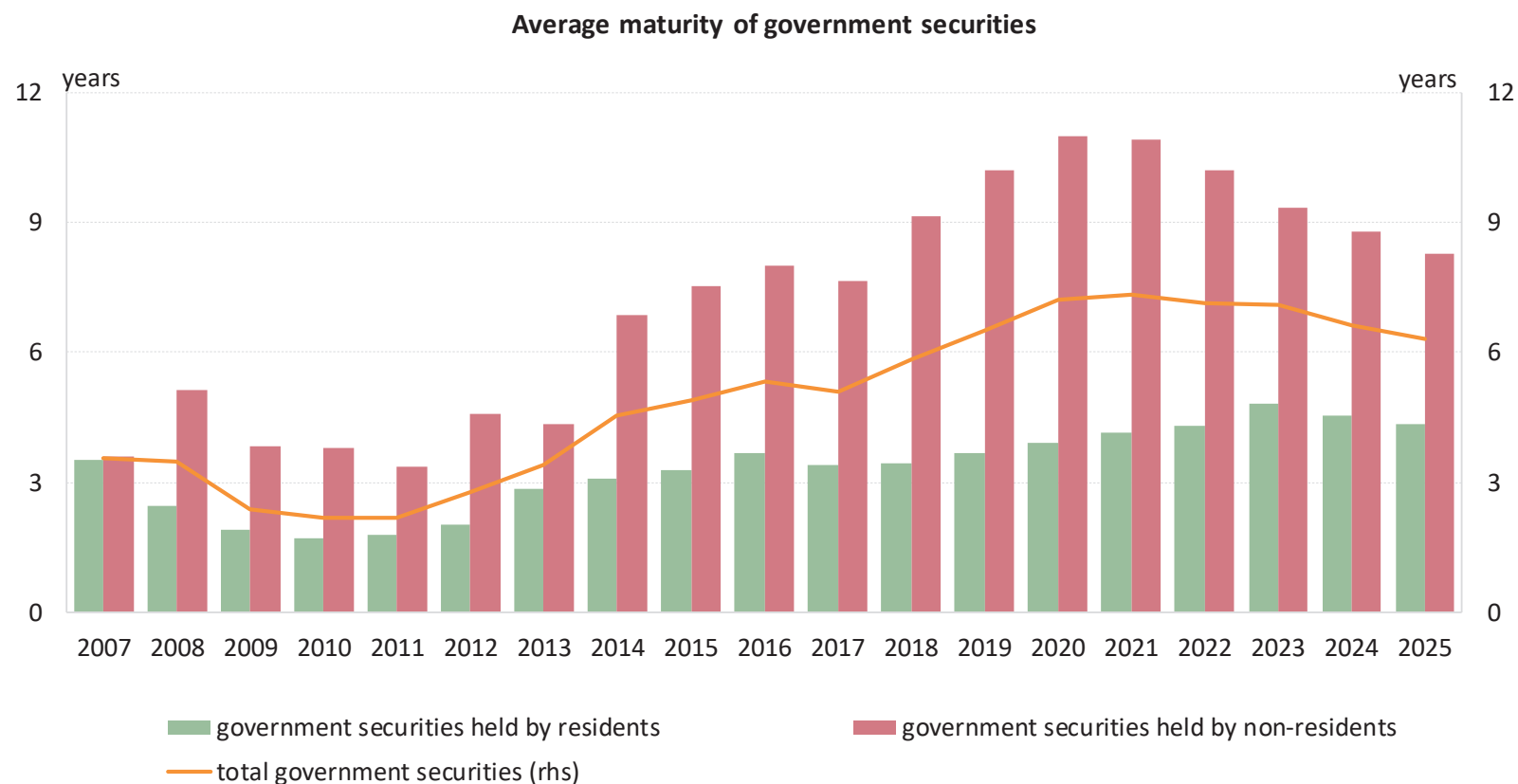
Source: NBR

In Hungary's case, the blocking of EU funds in recent years has forced the government to resort to financing in the form of government securities, which is why the country has the largest flows of issues relative to GDP. At the same time, amid fiscal slippages in Poland and Romania, the deficits were mainly covered through new issues of government securities, as also reflected in their high rollover rates.



Source: ECB (CSEC Statistics)

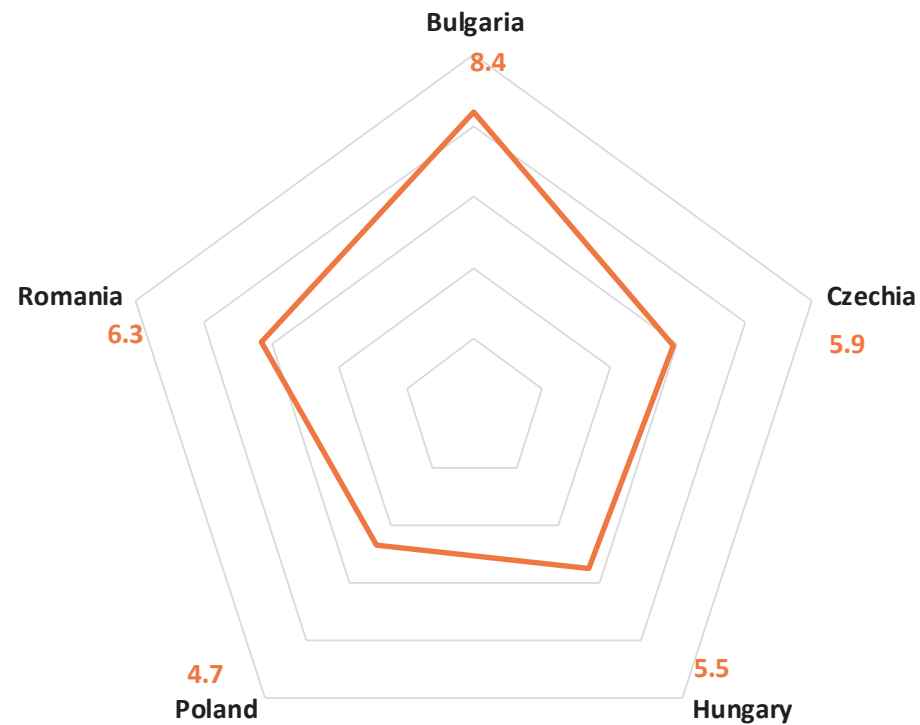
During the financial crisis, the average maturity of government securities hit an all-time low, yet after the substantial macroeconomic adjustments that followed, it improved and then held steady at over six years. The breakdown by investor shows foreign investors’ preference for instruments with a longer average maturity and a higher risk level, whereas residents opt for securities with an average maturity of up to five years.



Source: NBR

Debt with a high average maturity leads to fixed costs for several years and contributes to the extension of refinancing obligations over time, but usually at a higher financing cost. A comparison on the average maturity of government securities shows that, except for Poland, public debt managers in Central and Eastern European countries maintained this indicator at a comfortable level of over five years.

Average maturity (in years) of securities issued by the general government in regional peers, 2025



Source: NBR

## Chapter IX

The increase in the debt stock led to higher principal repayments and interest payments

- Although Romania's general government debt constantly remained below 60% of GDP, at a level deemed sustainable, it is concerning that its pace of growth has picked up in recent years, also amid economic slowdown and sluggish structural reforms.
- The main causes for the build-up of government debt were the procyclical fiscal policies during economic booms and the succession of events with major global implications, i.e. the financial crisis, the pandemic crisis, the energy crisis, the war in Ukraine.
- As a direct result of the rise in the government debt stock in recent years, the interest expenditure incurred by the Romanian government has followed an upward path, as a share of both GDP and the stock of debt, highlighting the need to promptly continue the fiscal consolidation programme.
- Romania's efforts must address the general government's financing requirement as a share of GDP. Its sustainability is assessed based on a 10% threshold reflecting the Maastricht criteria (fiscal deficit, government debt) and on the share of short-term government debt in total debt.

## Chapter IX

Romania's  
post-accession  
progress  
allowed for  
frequent  
recourse to the  
issuance of  
Eurobonds and  
government  
securities

- In the recent period, the slowdown in economic growth, the fiscal system vulnerabilities, and the domestic political vulnerabilities are factors that have contributed to the worsening of investor sentiment on public finances in Romania, hence the higher cost of financing.
- The effect of economic growth on sovereign debt generally offset the trend of higher government debt financing costs. However, a potential economic slowdown, amid relatively high financing costs, would trigger an adverse snowball effect in the case of government debt.
- Post-accession economic progress made it possible for Romania to change the government debt management paradigm by gradually shifting away from official creditors to frequently resort to the issuance of Eurobonds and government securities.
- At the same time, concerted effort was made to steer the average maturity to higher values, above six years, differentiated by investor. Prudent and responsible government debt management is important to avoid peak repayments.

## Chapter IX

The debt management strategy is crucial for ensuring a high level of liquidity

- In addition to the external imbalances caused by excessive imports of goods, the comparatively high level of foreign-currency government liabilities may exert pressure on the exchange rate, which results, *inter alia*, in relatively stronger vulnerabilities to external shocks for Romania.
- Both the volume of foreign exchange reserves and the size of the forex buffer of the State Treasury remained at levels deemed comfortable for debt servicing. The rollover of sovereign debt at favourable rates is a basic requirement for ensuring liquidity and debt sustainability.
- Debt-financed deficits have a major impact on risk perception. To improve its rating and credit default swap spreads, Romania needs to restore macroeconomic balance consistently by strengthening public finances.
- Public policies should avoid perpetuating the creation and financing of rigid fiscal budgets, where spending on wages and pensions holds the prevailing share, inevitably leading to a steady and strong rise in government debt.

## Chapter X

### Nominal Convergence

### Sustainability Benchmarks

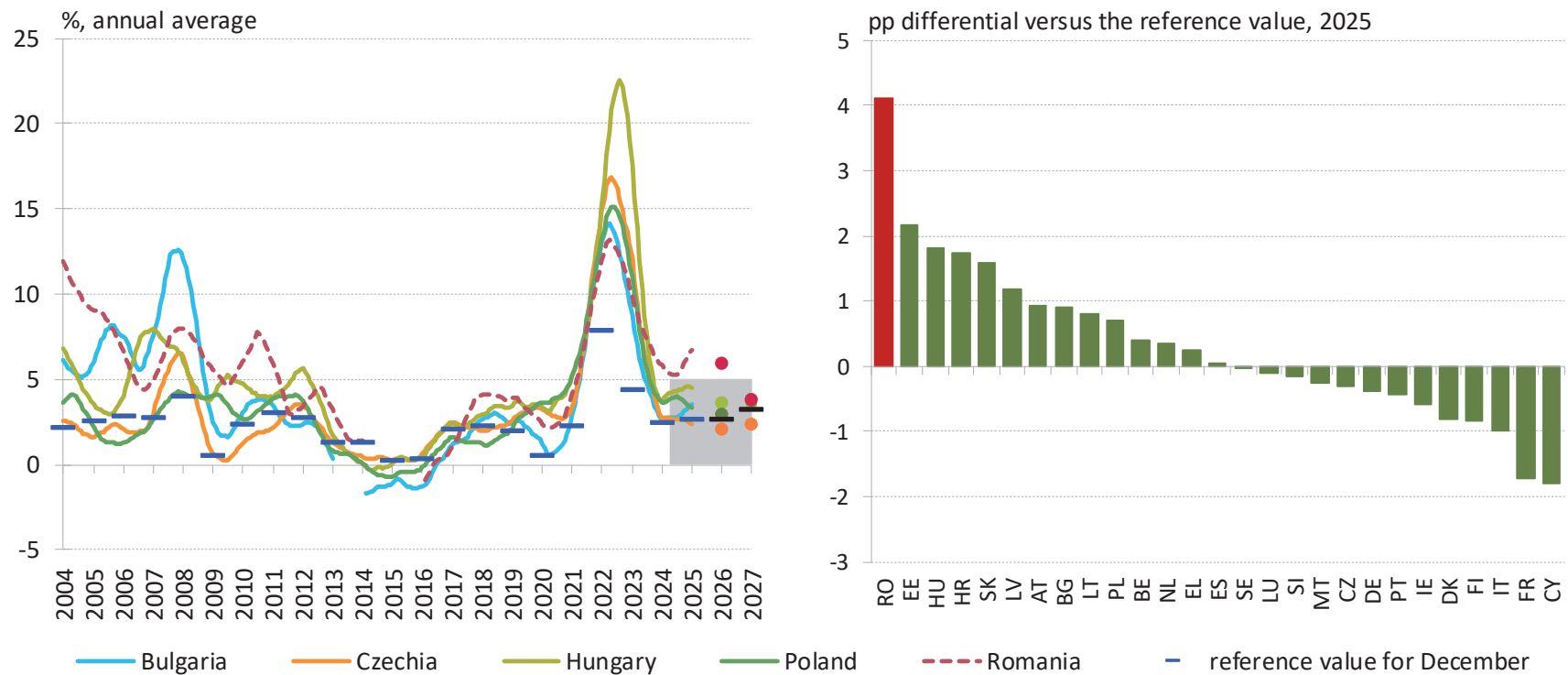
- Romania needs sustainability. Nominal convergence is a highly complex process which, in order to unfold sustainably and enable euro adoption over a reasonable horizon, requires an ambitious and realistic calendar, as well as a sound and consistent economic strategy.
- Monitoring the fulfilment of the Maastricht criteria is essential for assessing the sustainability of Romania's economic development, yet the information provided by these criteria should be complemented by evidence from other indicators as well.
- The multi-tiered macroeconomic imbalance procedure (MIP) scoreboard is highly relevant for capturing those developments that should be corrected to ensure a lasting convergence.
- It is important to identify the adequate period for initiating the euro area accession steps, as forcing nominal convergence can affect the fundamentals of sustainable growth, while an above-potential expansion of economic activity may jeopardise the fulfilment of nominal convergence criteria.

Over the last years, the established indicators on inflation rate, long-term interest rates and general government deficit as a share of GDP continued to exceed the reference values, with the differentials recorded in 2025 staying at high values. Looking at government debt-to-GDP ratio, while marginally below the ceiling set in the Treaty, the indicator has trended strongly upwards, especially in recent years.

Indicators	Maastricht criteria	Romania		
		2025	2026 <sup>3</sup>	2027 <sup>3</sup>
Inflation rate (HICP) (%, annual average)	≤1.5 pp above the average of the three best-performing EU Member States <sup>1</sup>	6.8% (reference value: 2.6%)	5.9%	3.8%
General government deficit* (% of GDP)	below 3%	7.9%	6.2%	5.9%
Government debt* (% of GDP)	below 60%	59.3%	61.1%	62.7%
Long-term interest rates (% p.a., annual average)	≤2 pp above the average of the three best-performing EU Member States <sup>1</sup> in terms of price stability	6.9% (reference value: 5.3%)		
Exchange rate vs. the euro (2-year maximum percentage change)	±15%	+0.03/-2.8% <sup>2</sup>		
*) ESA 2010 1) The reference value for end-2025 was calculated by taking into account Cyprus, France and Italy. 2) Maximum percentage changes in the exchange rate versus the euro during 1 January 2025 – 20 April 2026. Calculations are based on daily data series, by reference to the average for December 2024. 3) Based on the European Commission's Autumn <i>European Economic Forecast</i> (November 2025). Source: Eurostat, NBR calculations				

Global inflationary pressures have moderated considerably over the past two years, yet in Romania the HICP inflation rate has further recorded the highest level in the European Union, its annual average reaching 6.8% in December 2025, significantly above the 2.6% reference value. According to European Commission forecasts, inflation is seen declining mildly in 2026 and more steeply in 2027.

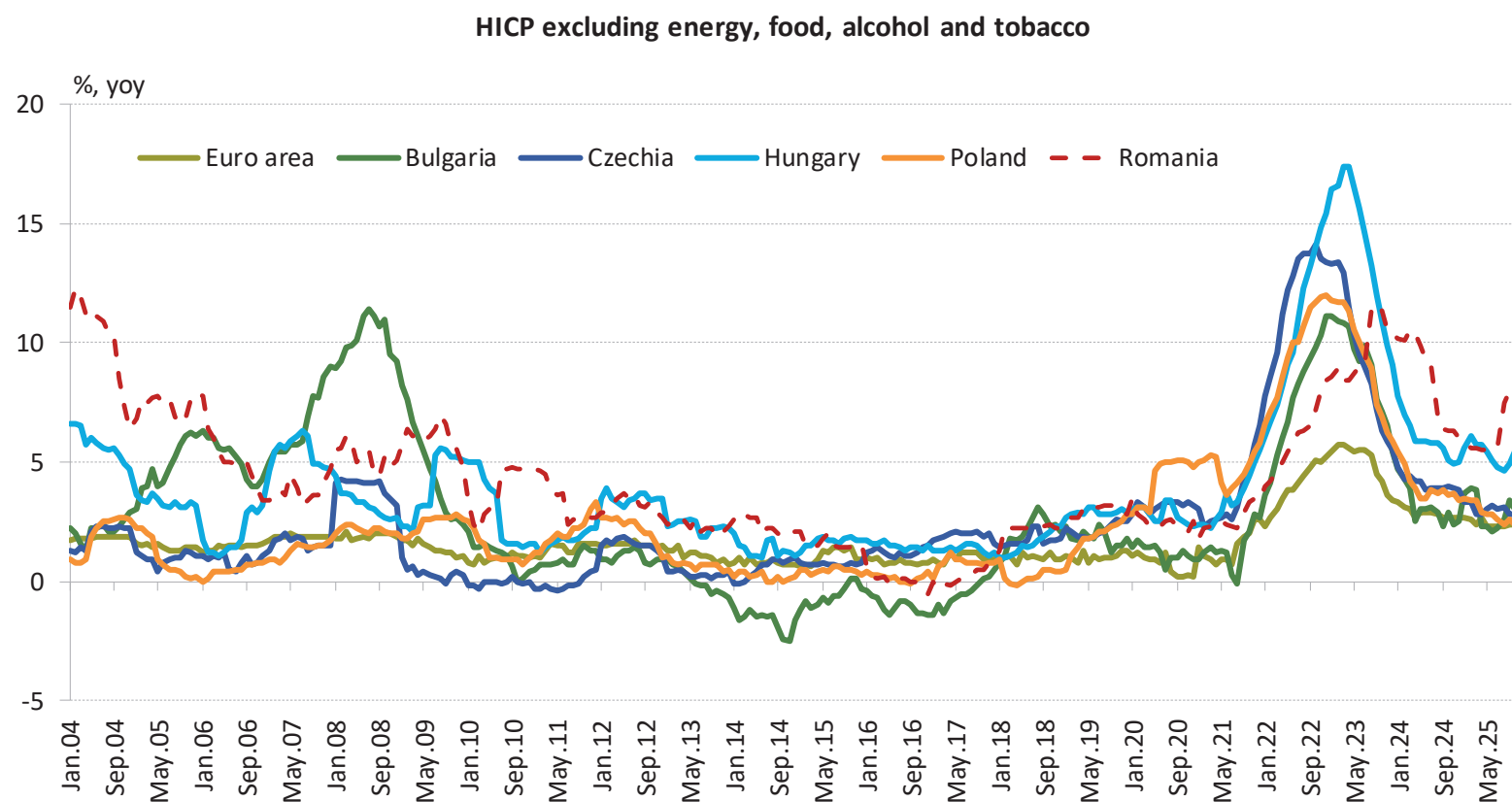
The Maastricht criterion on the inflation rate (HICP)



Note: Data for 2026 and 2027 are based on the EC's Autumn *European Economic Forecast* (November 2025).

Source: Eurostat, NBR calculations

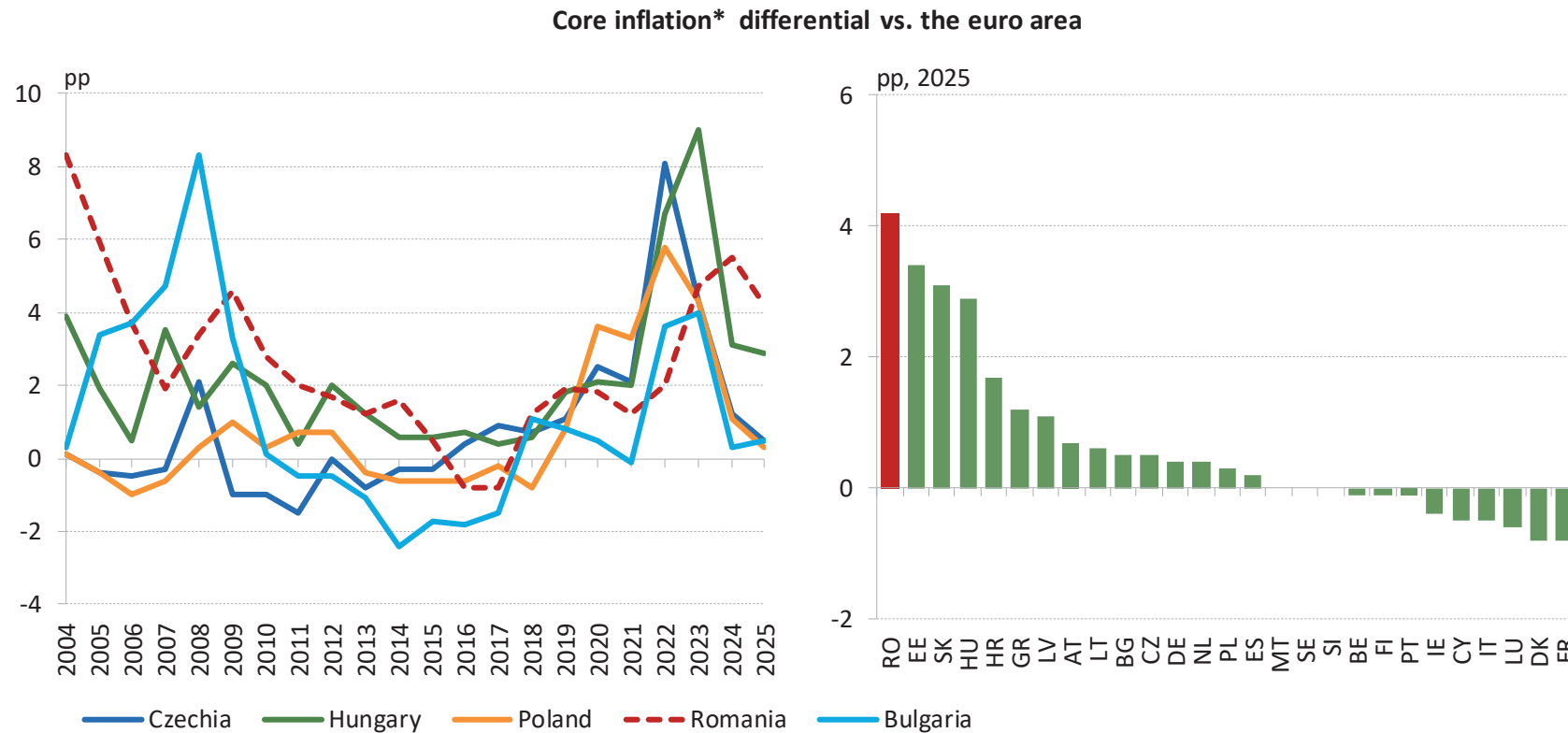
Inflation is higher in Romania even when using the ECB’s core definition. Even though 2025 saw a decline in consumer demand and a moderation of labour cost pressures, core inflation in Romania strongly reflected the impact of the increase in VAT rates starting August, which – alongside a new pick-up in short-term inflation expectations – pushed the annual rate to roughly 8% at the end of the year.



Source: Eurostat

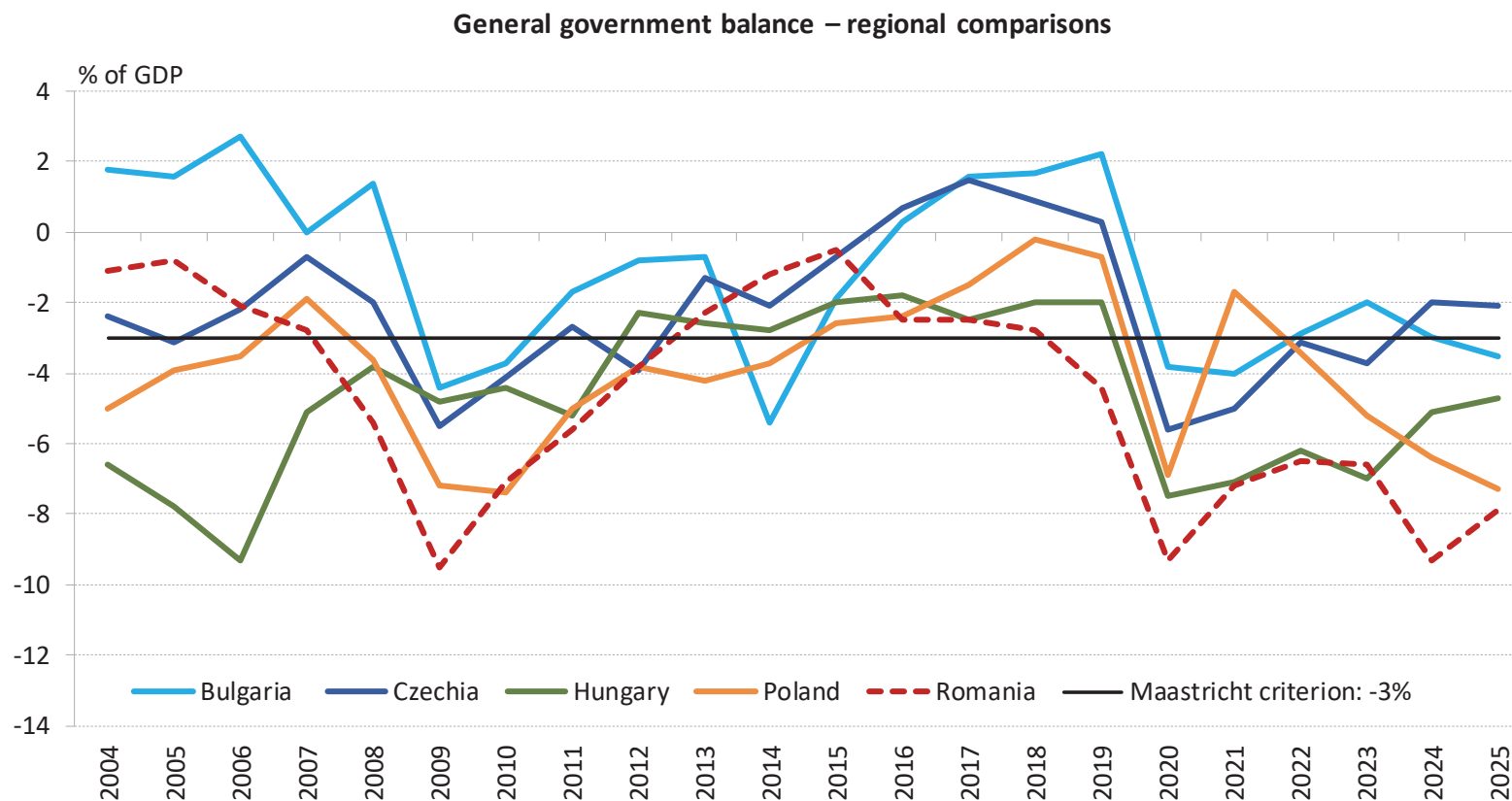
Over the last years, Romania's core inflation differential vis-à-vis the euro area has been narrower than those of the main countries in the region. However, the year 2024 marked a trend reversal, with the core inflation differential coming to stand at the highest value.

Although its position is similar to that recorded two decades ago, in the run-up to EU accession, the current inflationary environment is significantly different.



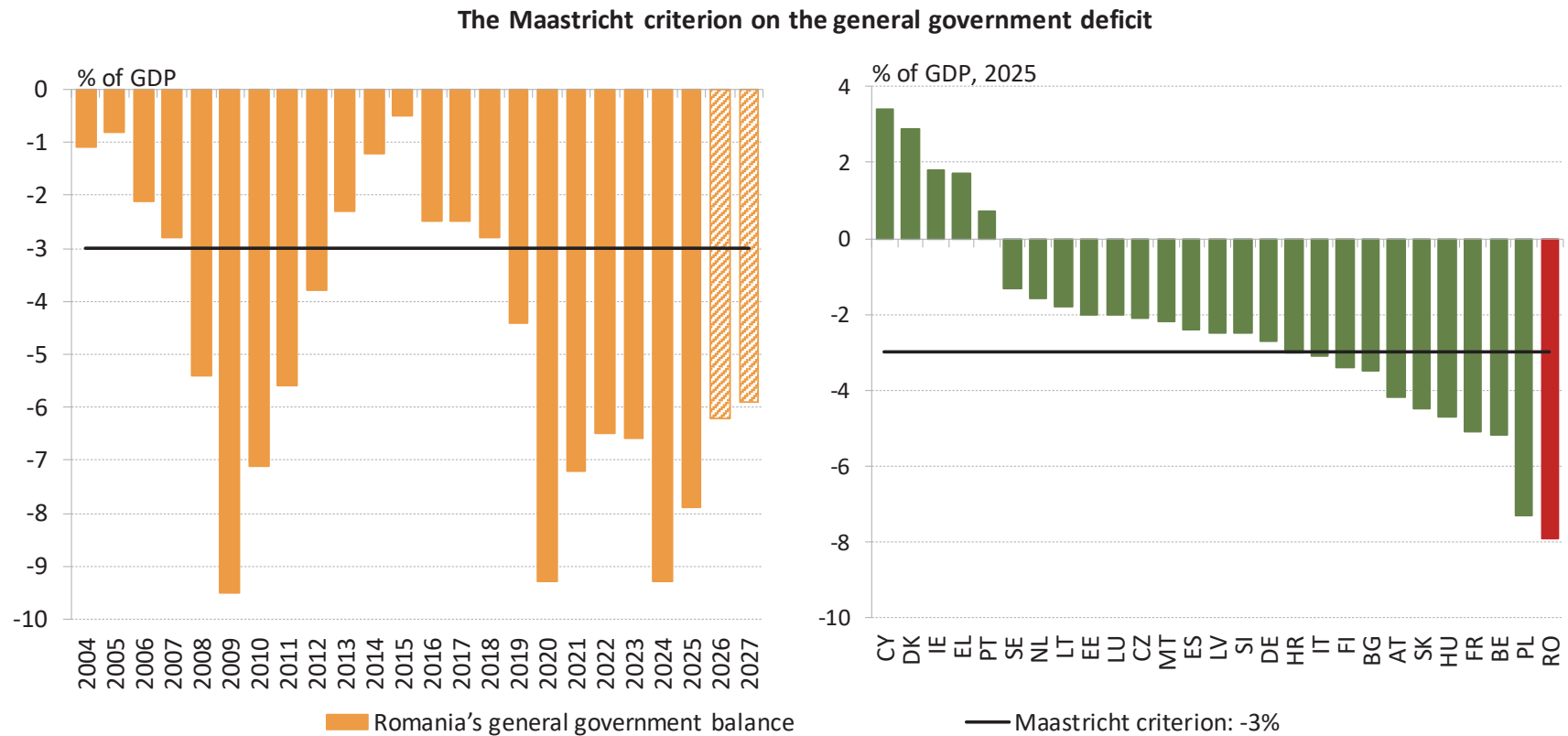
Source: Eurostat

The pandemic crisis led to the emergence or deepening of general government deficits in all economies across the region. Afterwards, they embarked on a correction path, which continued in 2025 in Bulgaria, Czechia and Hungary. Conversely, Poland and Romania further recorded sizeable fiscal imbalances: Poland saw its deficit widen to 7.3% of GDP, while Romania, although posting a correction versus 2024, incurred the widest deficit in the EU, i.e. 7.9% of GDP.



Source: Eurostat

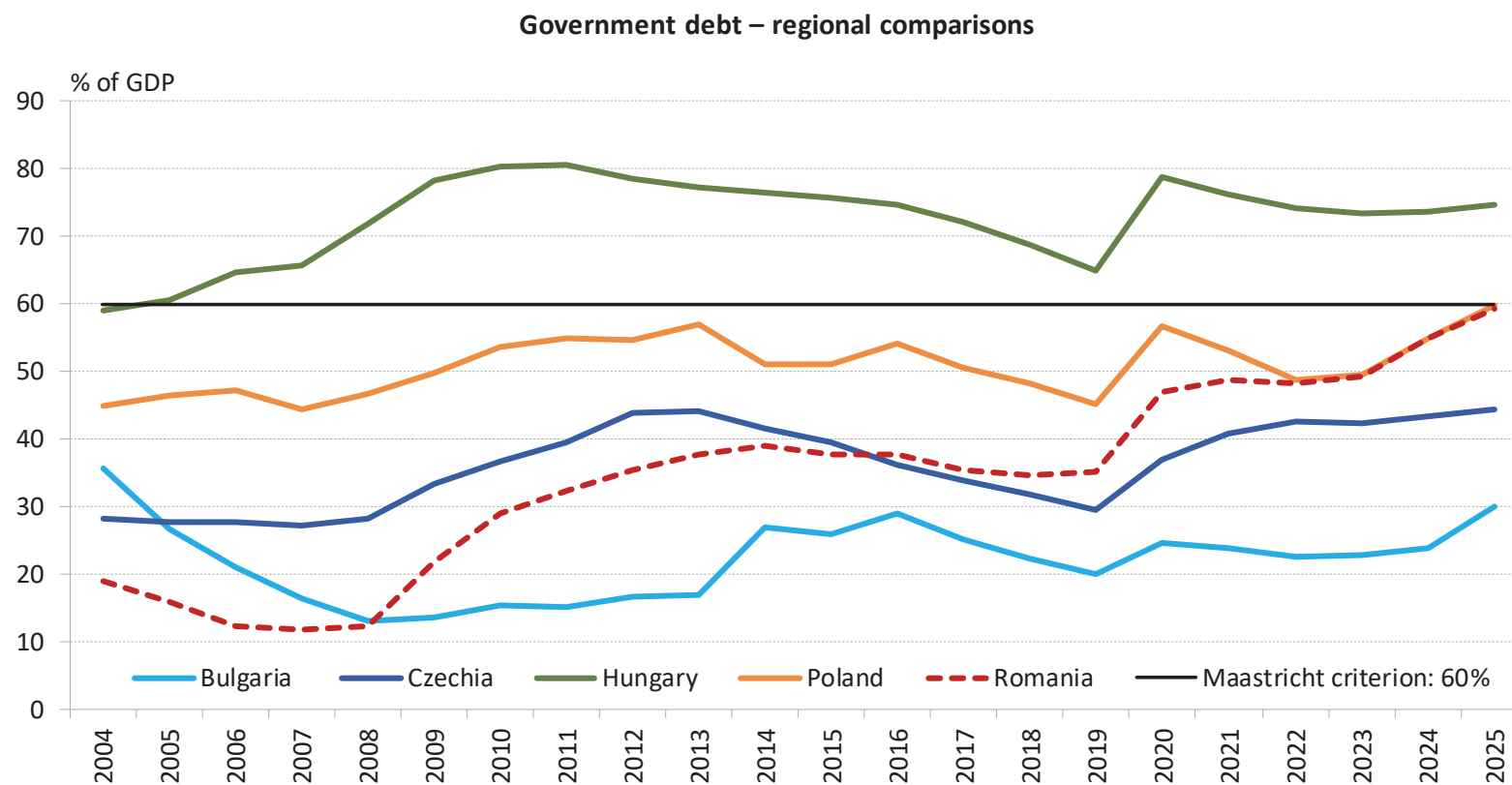
In Romania, after the abrupt widening of the deficit in 2020, the budget consolidation led to the moderation of the fiscal imbalance, a trend halted in 2024, when the deficit reached 9.3% of GDP, the largest slippage in the EU. In 2025, the adjustment was resumed, with the ESA deficit shrinking to 7.9% of GDP. European Commission forecasts anticipate that the correction will continue to 5.9% in 2027, which is however still significantly above the Maastricht criterion.



Note: Data for 2026 and 2027 are based on the EC's Autumn *European Economic Forecast* (November 2025).

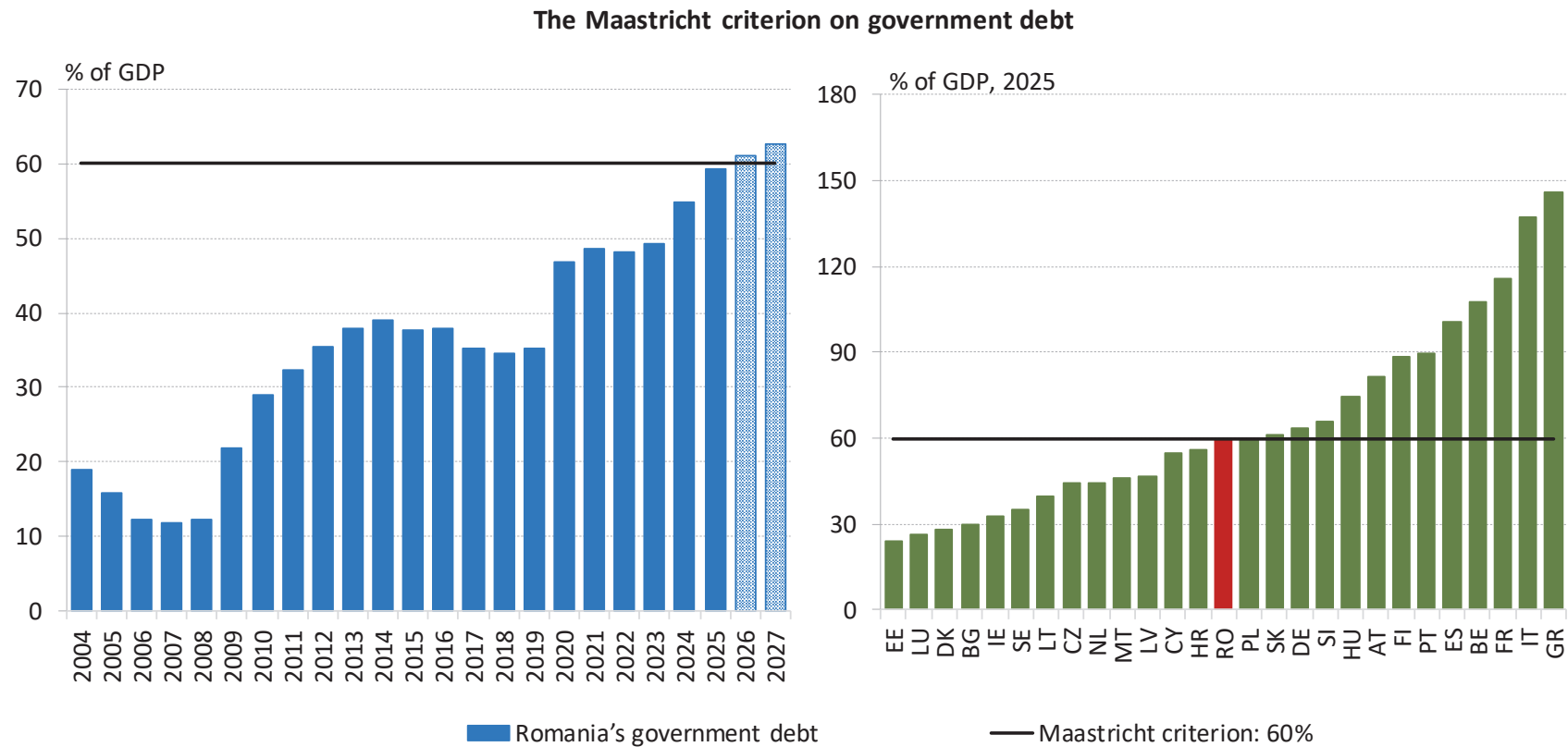
Source: Eurostat

In terms of regional comparisons, Romania has recorded, over the last decades, one of the lowest government debt levels, alongside Bulgaria and Czechia, while Hungary stood, almost throughout the period under review, significantly above the 60%-of-GDP ceiling laid down in the Treaty. By contrast, in recent years, Romania has witnessed a significantly faster growth in government debt, outpacing the regional peers.



Source: Eurostat

Romania's government debt as a share of GDP has risen swiftly over the past two years, reaching 59.3% at end-2025. In terms of European comparisons, Romania stands in the lower half of the EU Member States' ranking, yet European Commission forecasts anticipate that the 60% ceiling will be exceeded starting 2026. Putting a lid on government debt will depend to an important extent on the effectiveness of fiscal consolidation measures.

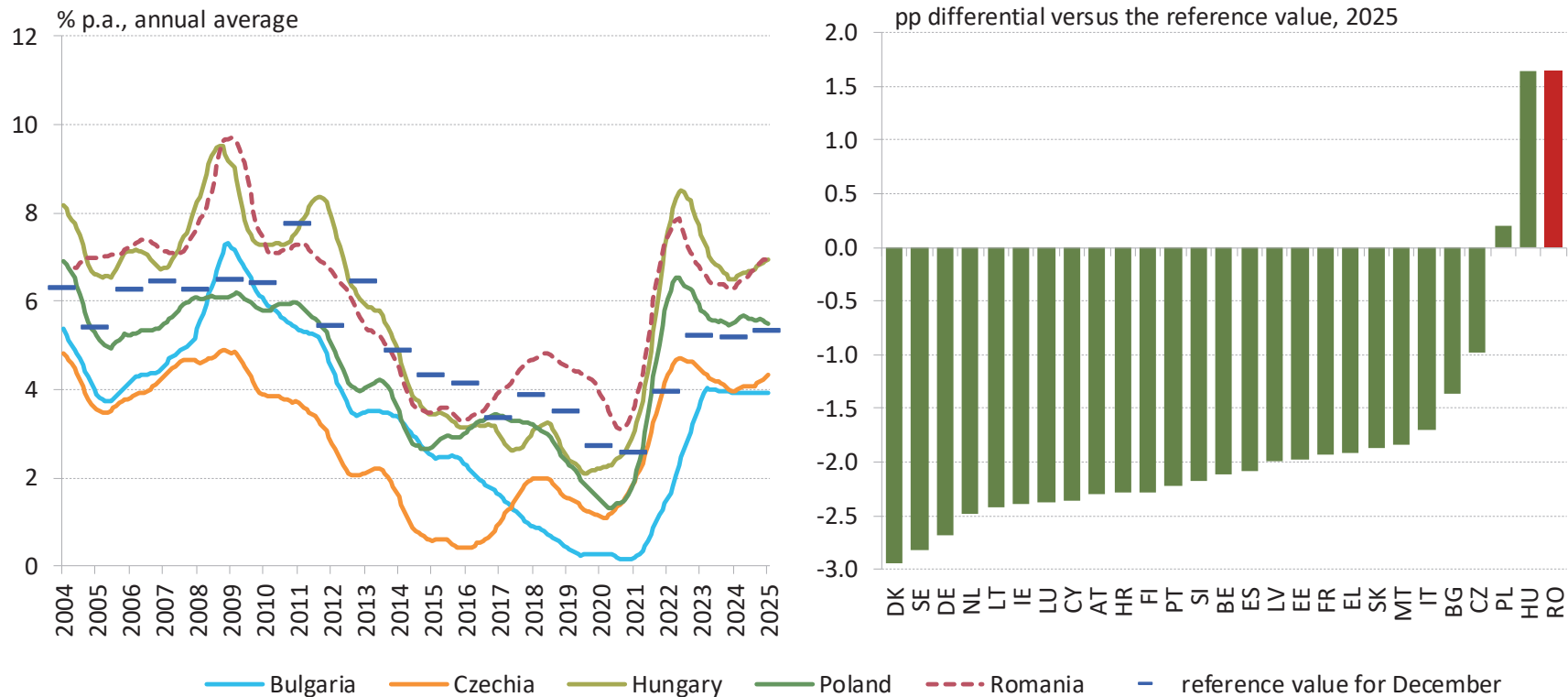


Note: Data for 2026 and 2027 are based on the EC's Autumn *European Economic Forecast* (November 2025).

Source: Eurostat

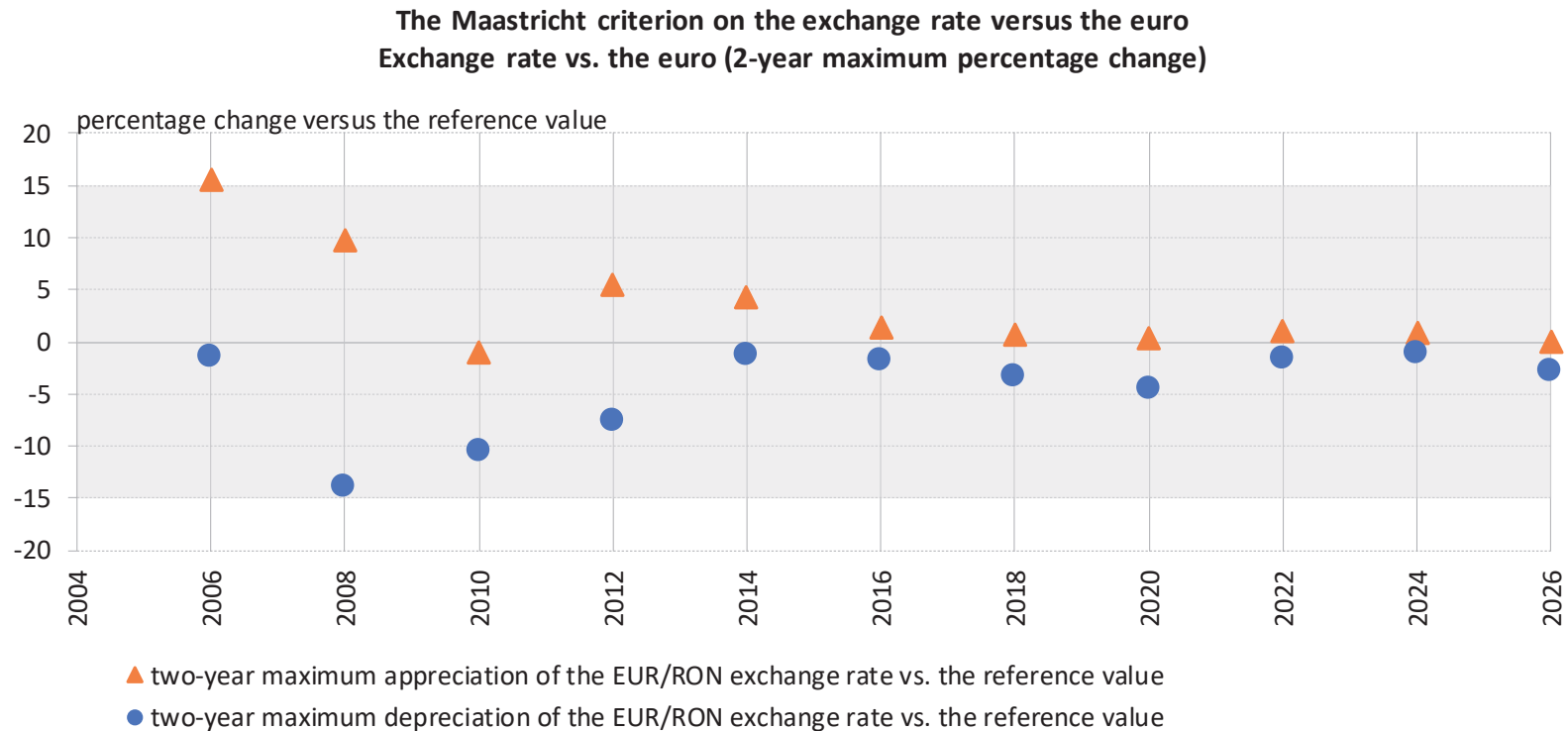
After the peaks recorded in 2022, long-term interest rates in Romania and in the regional peers embarked on a downward path. In 2025, however, they resumed growth, reaching 6.9% in Romania, a similar reading to that in Hungary and significantly above the 5.3% reference value. Poland, Romania and Hungary are the only EU countries with long-term interest rates above the reference value.

The Maastricht criterion on long-term interest rates



Source: Eurostat, NBR calculations

The Romanian leu does not participate in the Exchange Rate Mechanism II (ERM II), yet it is under a managed float (flexible) exchange rate regime. Over the past 10 years, the leu's exchange rate versus the euro has posted significantly lower fluctuations compared to the  $\pm 15\%$  fluctuation band, which represents an important macro-financial stability anchor.

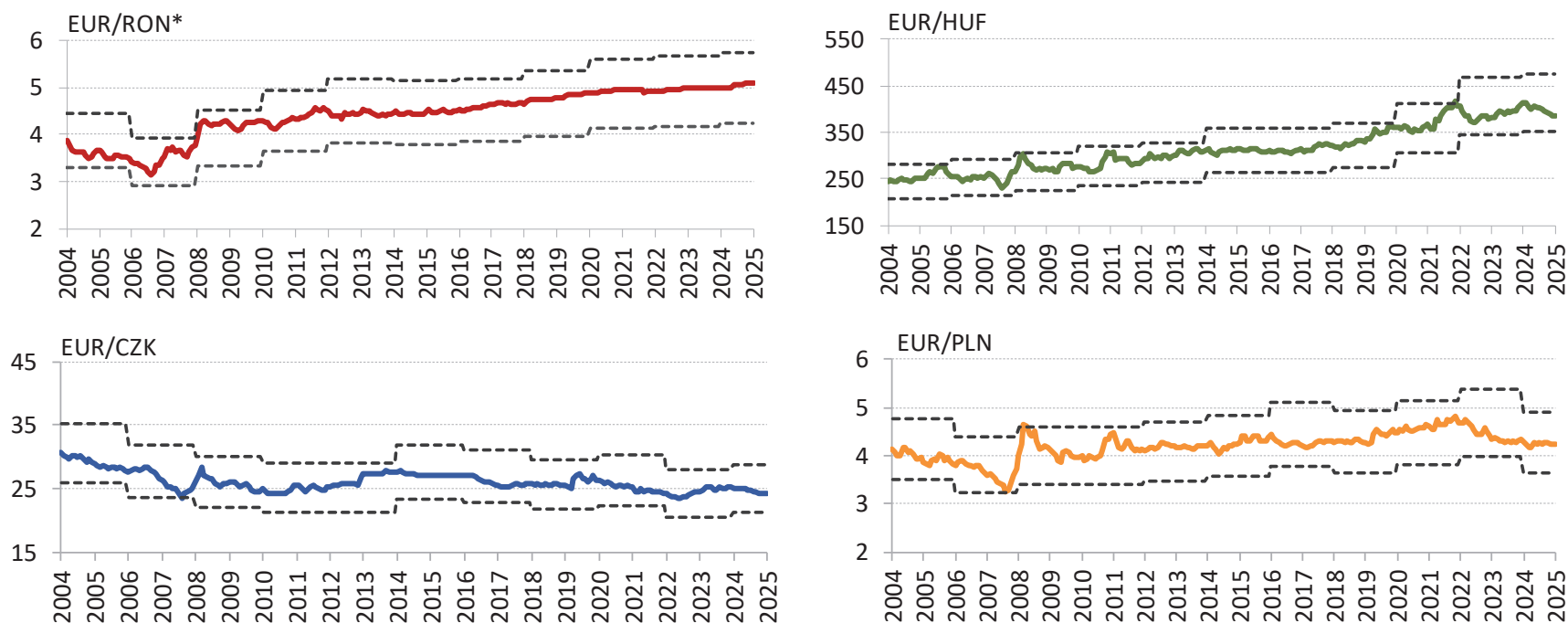


Note: The shaded area denotes the  $\pm 15\%$  fluctuation band of the EUR/RON exchange rate, while the markings  $\Delta$  and  $\circ$  show the maximum daily appreciation and depreciation during each two-year period against a reference value represented by the December average (e.g., December 2004 for the 2005-2006 period, December 2006 for 2007-2008, etc.). The cut-off date for the data in the 2025-2026 reference period was 20 April 2026.

Source: NBR, NBR calculations

At a regional level, the Bulgarian lev participated in the ERM II starting July 2020 until the country joined the euro area on 1 January 2026, whereas the Hungarian forint, the Czech koruna and the Polish zloty are not part of this exchange rate mechanism. These currencies are under a flexible exchange rate regime, with fluctuations that have stood within the  $\pm 15\%$  fluctuation band.

Exchange rate of the leu and exchange rates of the main currencies in the region vs. the euro

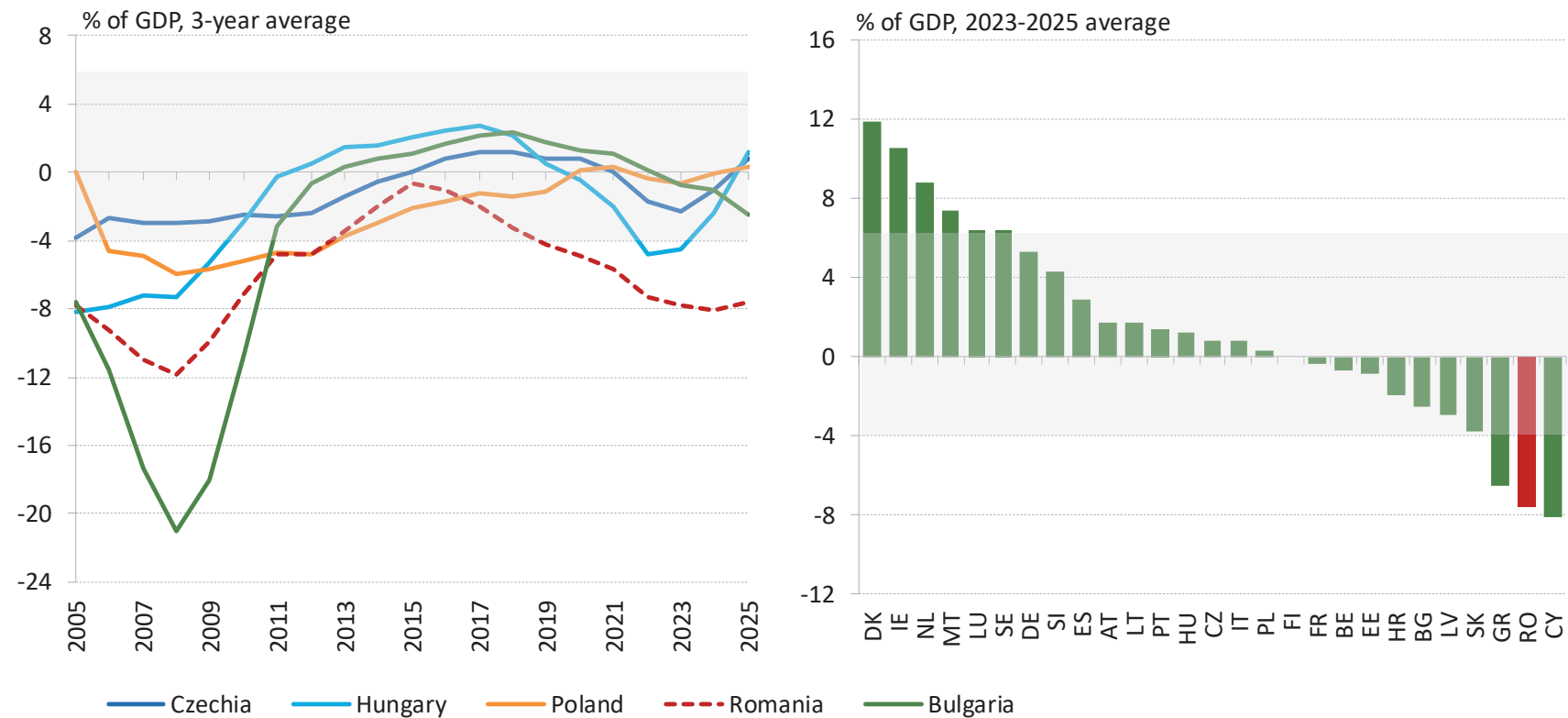


\*) For the period from January 2004 to June 2005, the exchange rate was converted from ROL to RON based on the redenomination rate, i.e. RON 1 = ROL 10,000.  
 Note: The dotted lines stand for the margins of the  $\pm 15\%$  fluctuation band versus the December average used as a reference value for the following two years (December 2004 for 2005-2006, December 2006 for 2007-2008, etc.)

Source: NBR, ECB, NBR calculations

In terms of external imbalances, Romania stands out among EU Member States with one of the widest current account deficits for 2025. In the recent years, unlike the countries in the comparison group, which have met the related scoreboard criterion for more than 10 years, Romania has been the odd one out ever since 2019, deviating markedly from the lower threshold of the current account balance of -4% of GDP.

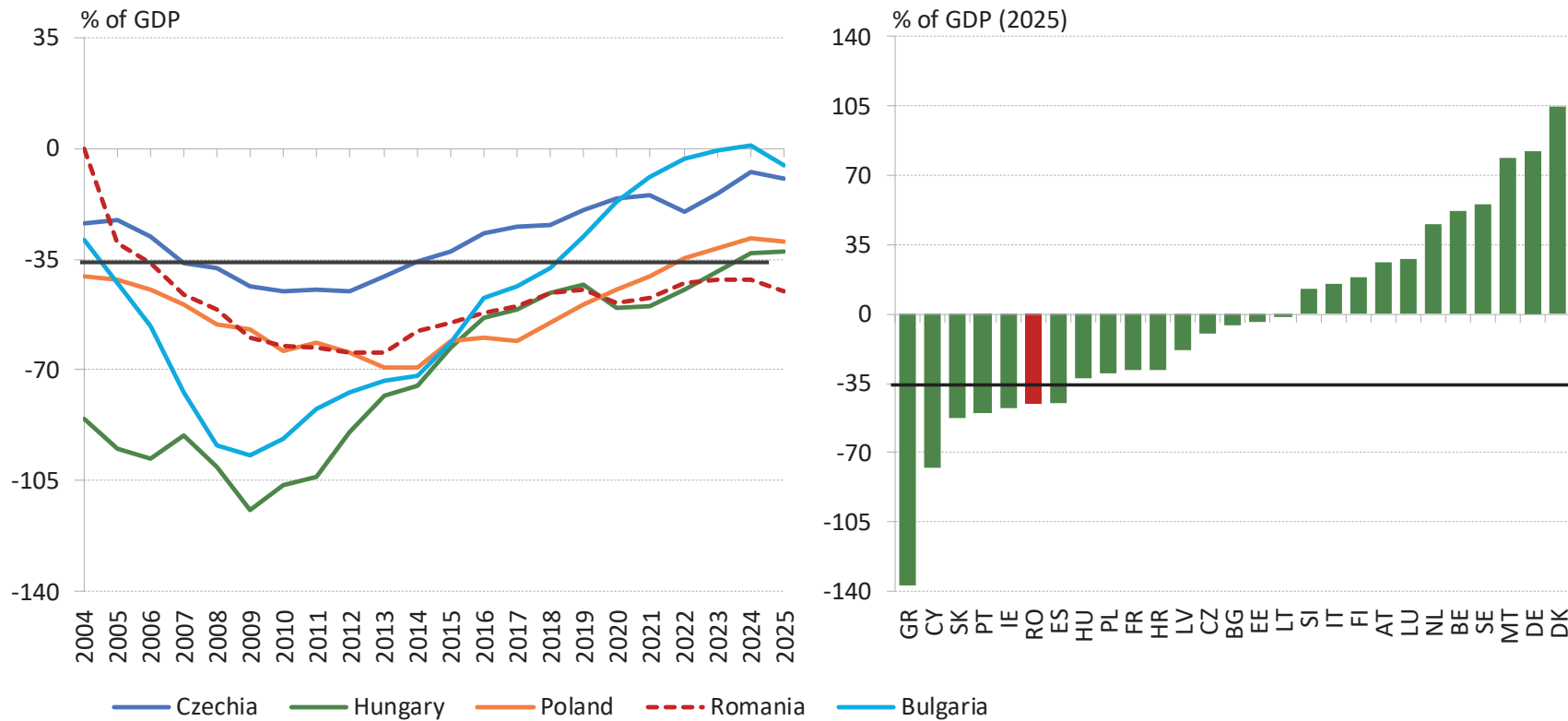
MIP criterion for the current account balance [-4%/+6% of GDP]



Source: Eurostat

Developments in Romania’s net international investment position have been in line with the regional peers. The worsening seen in the first decade of the period under review, reflecting the rise in external debt amid the swift economic expansion and the global financial crisis, was followed by a trend reversal, mainly ascribable to direct investment in Romania’s economy, whose net position exceeded 80% of total over the past 10 years, thanks to the investment attractiveness.

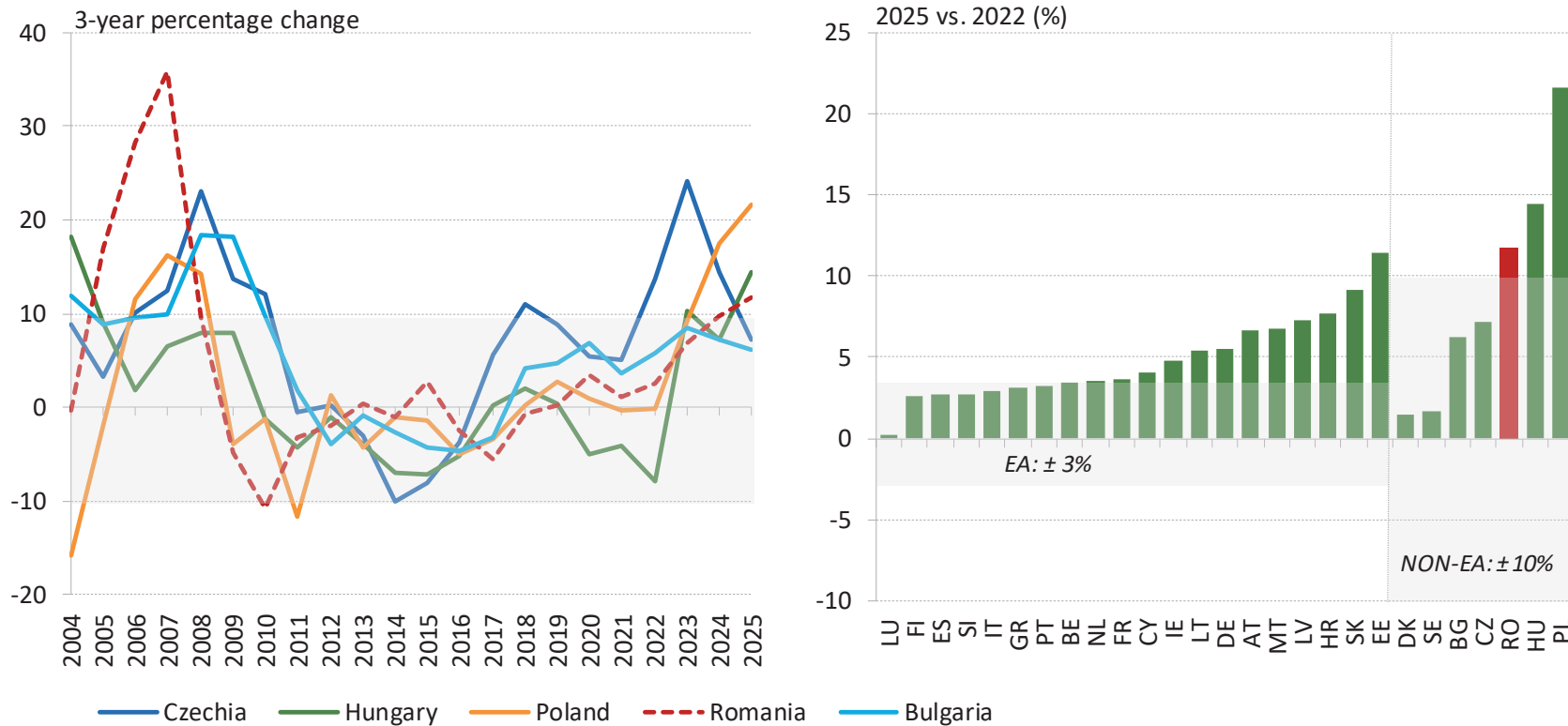
MIP criterion for the net international investment position [-35% of GDP]



Source: Eurostat

Romania no longer met in 2025 the scoreboard criterion for the HICP-based real effective exchange rate. Even though price competitiveness was one of the drivers behind the favourable performance of exports in the post-financial crisis period, this competitive advantage has tended to erode recently. This calls for higher investment and the increase in non-price competitiveness.

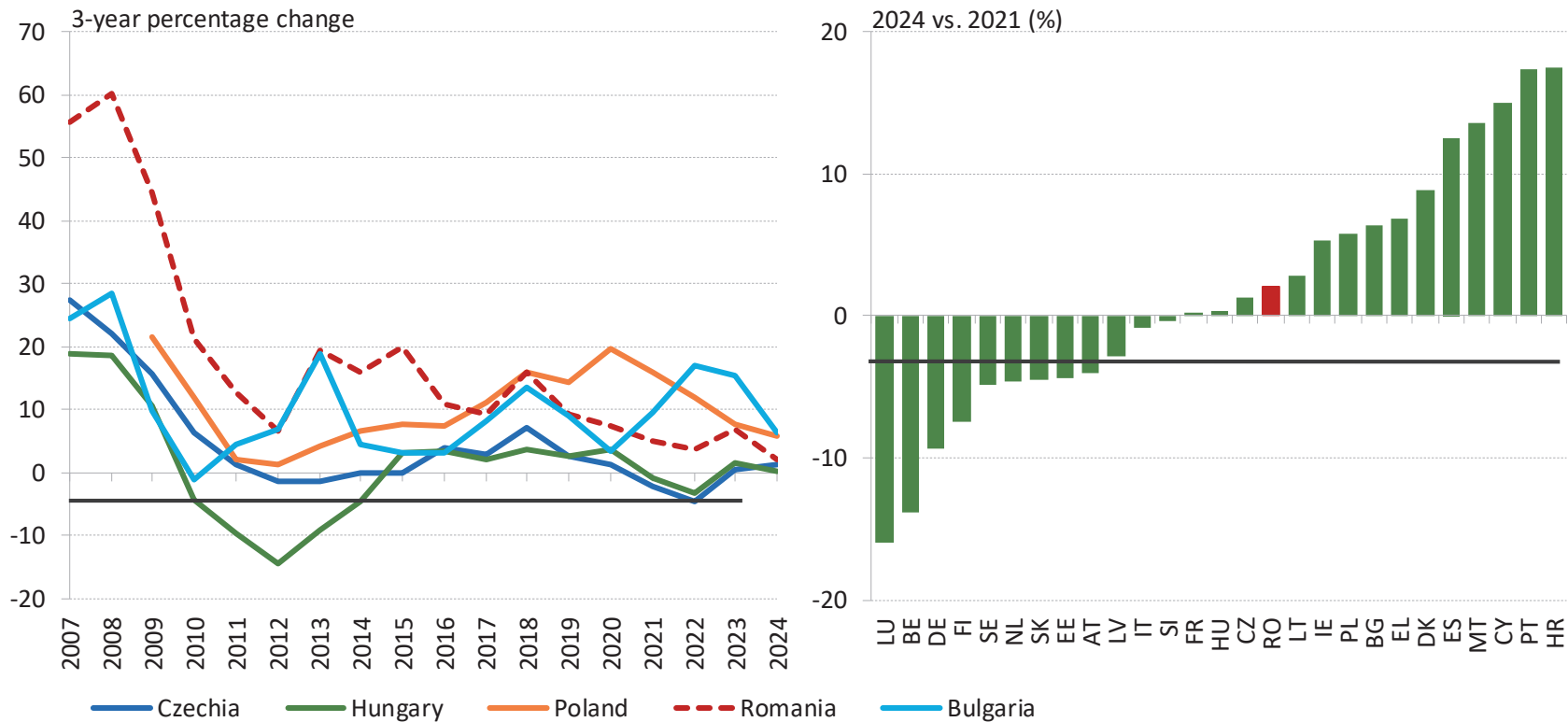
MIP criterion for the HICP-based real effective exchange rate [ $\pm 3\%$  (EA);  $\pm 10\%$  (non-EA)]



Source: Eurostat

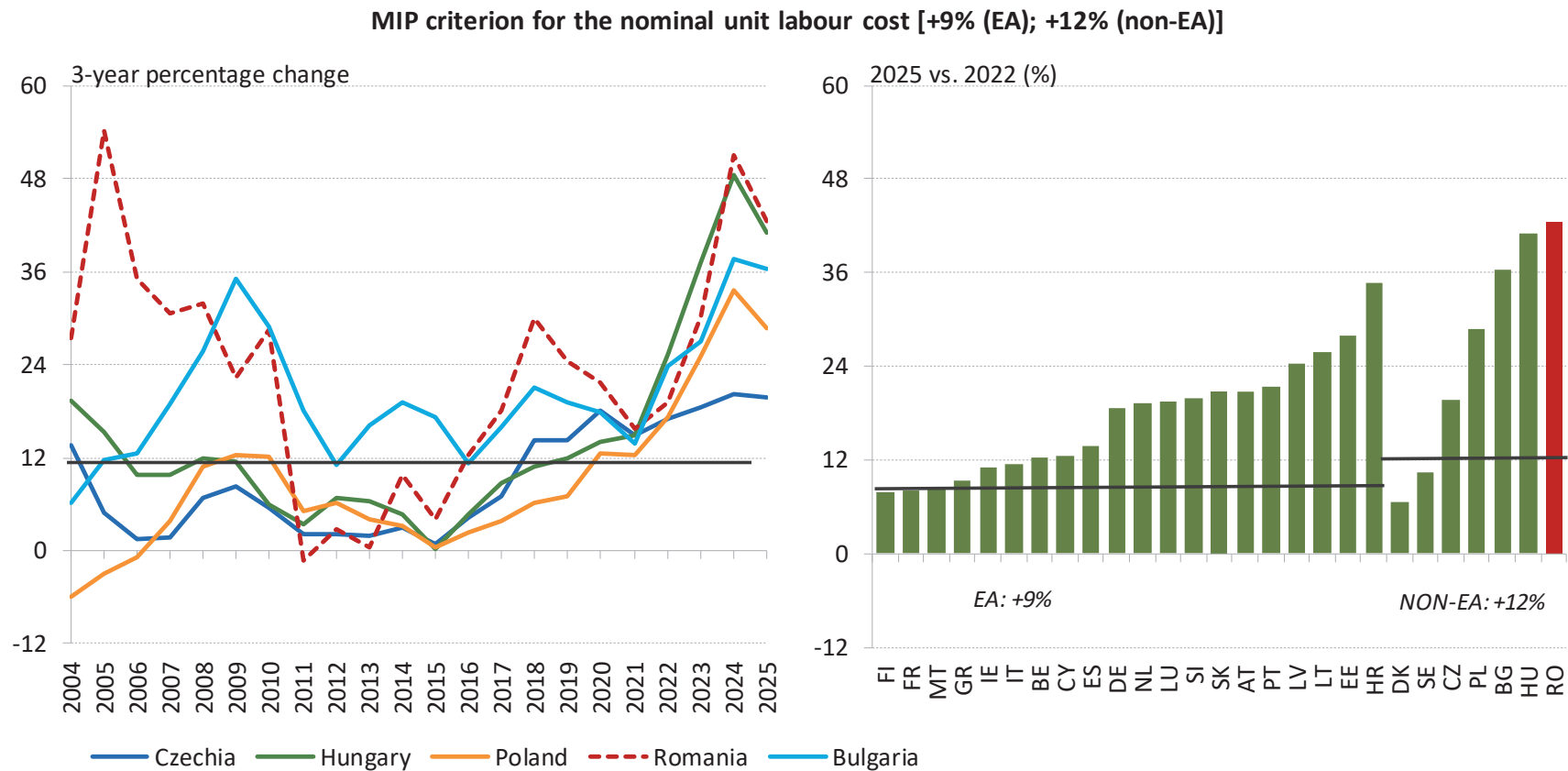
The share of Romania’s exports in total exports of advanced economies surged in the post-accession period and then it continued to grow at a sustained pace. Recent years have shown a slowdown in the pace of increase of export share, reflecting relative competitiveness losses for Romania, as the loss of momentum of external demand and the protectionist policies affected the majority of economies.

MIP criterion for the share of exports in total exports of advanced economies [-3%]



Source: Eurostat

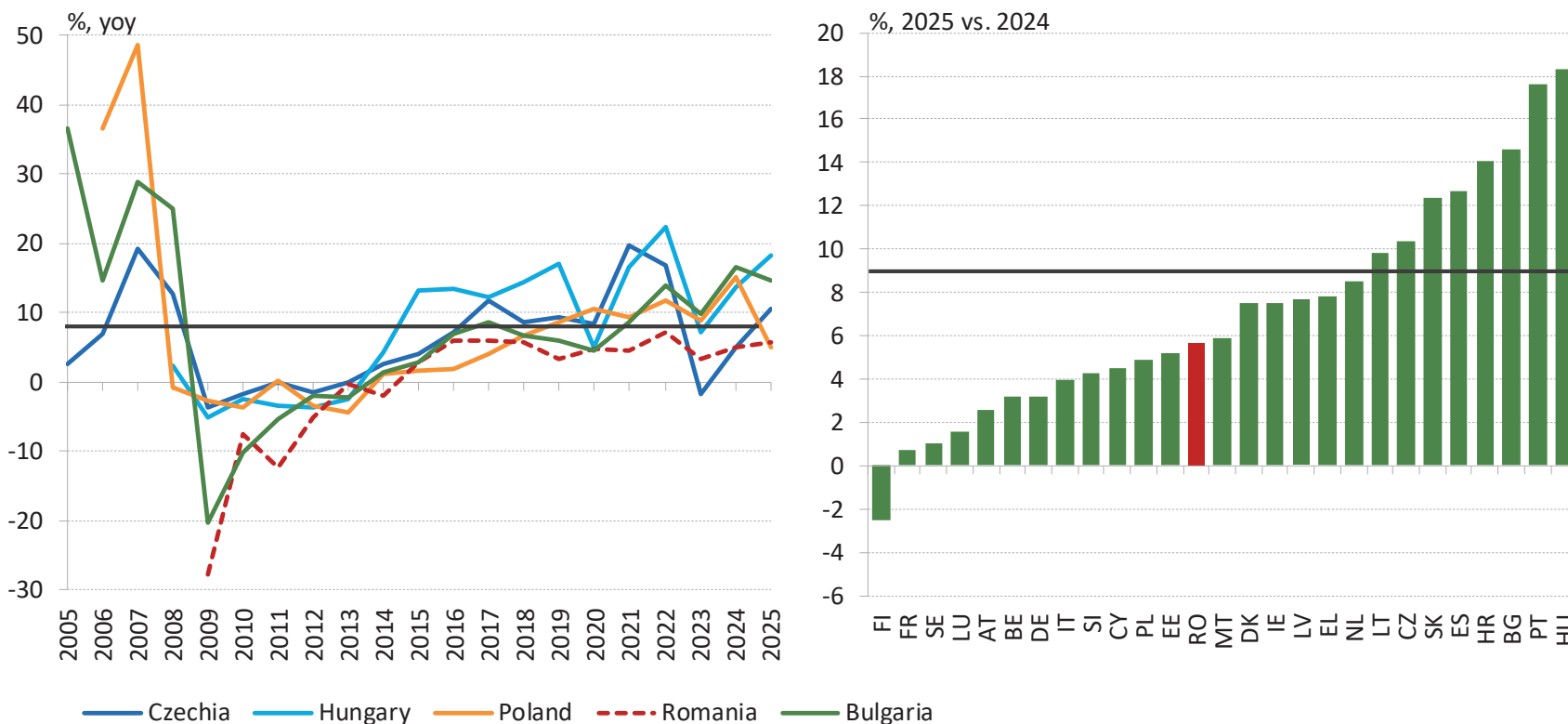
The dynamics of nominal unit labour costs in Romania have recurrently exceeded the threshold, *inter alia* due to increases in the minimum wage economy-wide and public sector pay rises, entailing a wage-productivity mismatch. Aside from the unfavourable effect on external competitiveness, labour cost growth has a significant bearing on inflation as well, hampering the nominal convergence process.



Source: Eurostat

In terms of domestic imbalances, worth noting is the housing bubble that characterised the Romanian economy as well in the context of the 2008-2009 financial crisis. Afterwards however, in the case of Romania, the rebound of house prices was more moderate than in other countries in the region, with price dynamics comfortably meeting the related scoreboard criterion and thus indicating the absence of any significant imbalances building up in this segment.

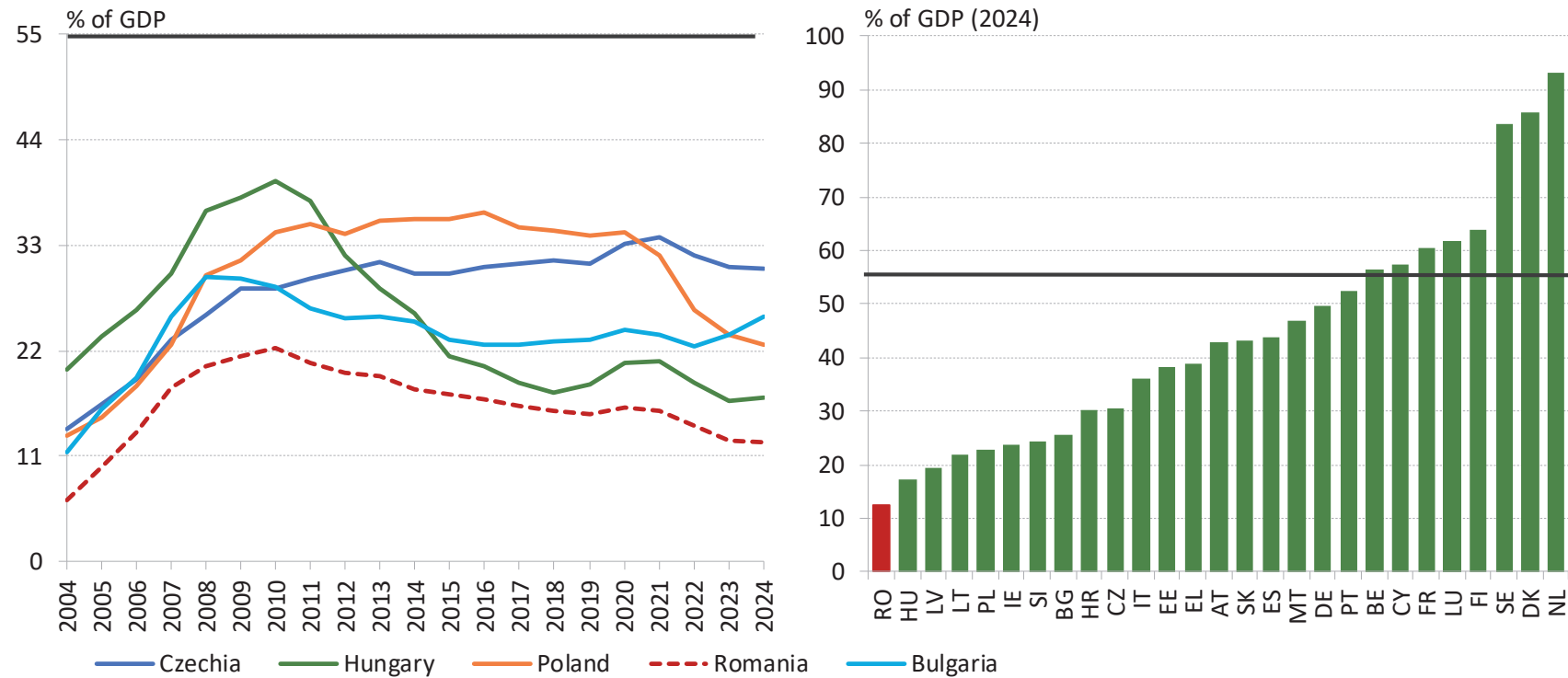
MIP criterion for the house price index [+9%]



Source: Eurostat

The assessment of private sector debt is carried out distinctly for households and non-profit institutions serving households and for non-financial companies respectively. Amid still very low financial intermediation, the debt-to-GDP ratio for the former category is small, well below the indicative threshold and, moreover, ranking last among EU countries.

MIP criterion for household debt including NPISH\* [55% of GDP]

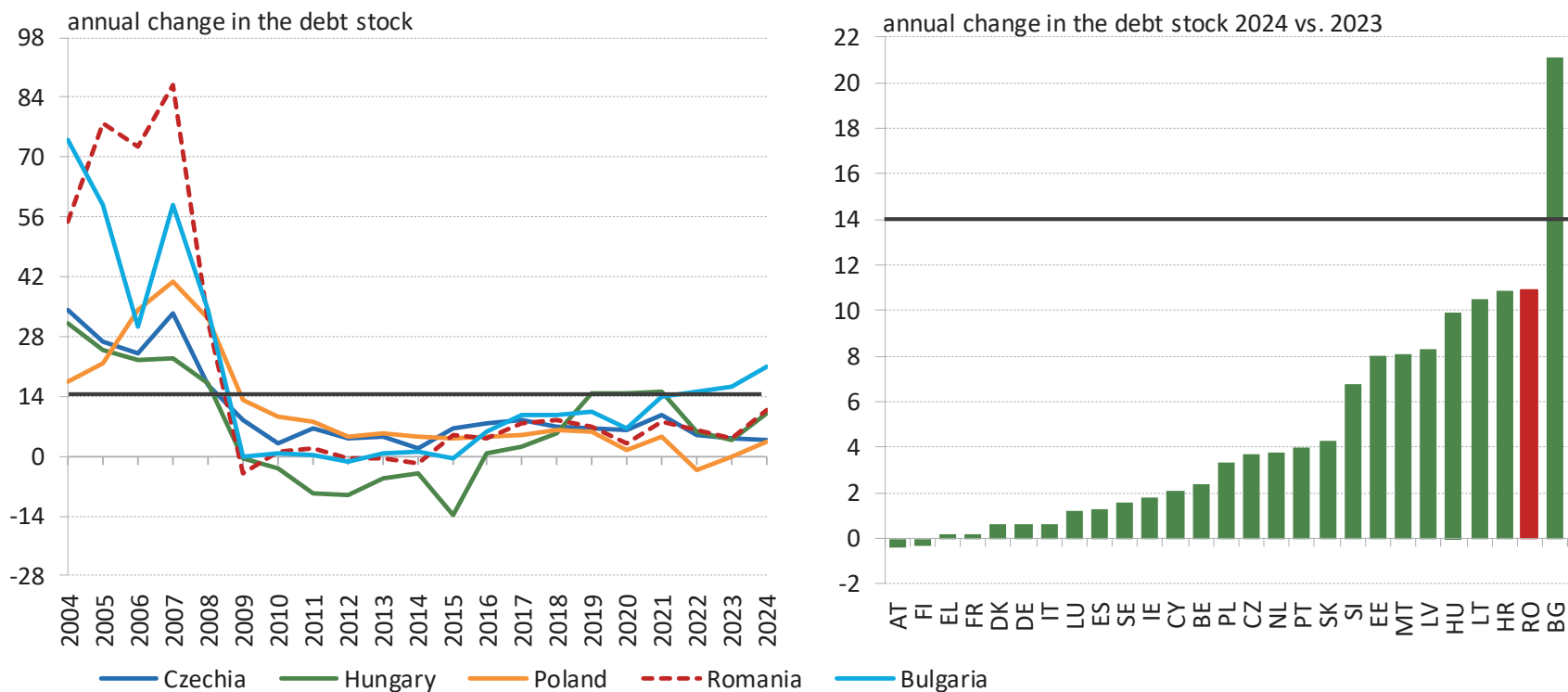


\*) non-profit institutions serving households

Source: Eurostat

The flow of credit to households and non-profit institutions serving households saw a strong correction after the financial crisis and then recorded moderate developments, so that the criterion was fulfilled progressively. The upward path of this type of credit has recently benefited from the increase in households’ disposable income, with bank loans representing, in the given context, the main source of finance.

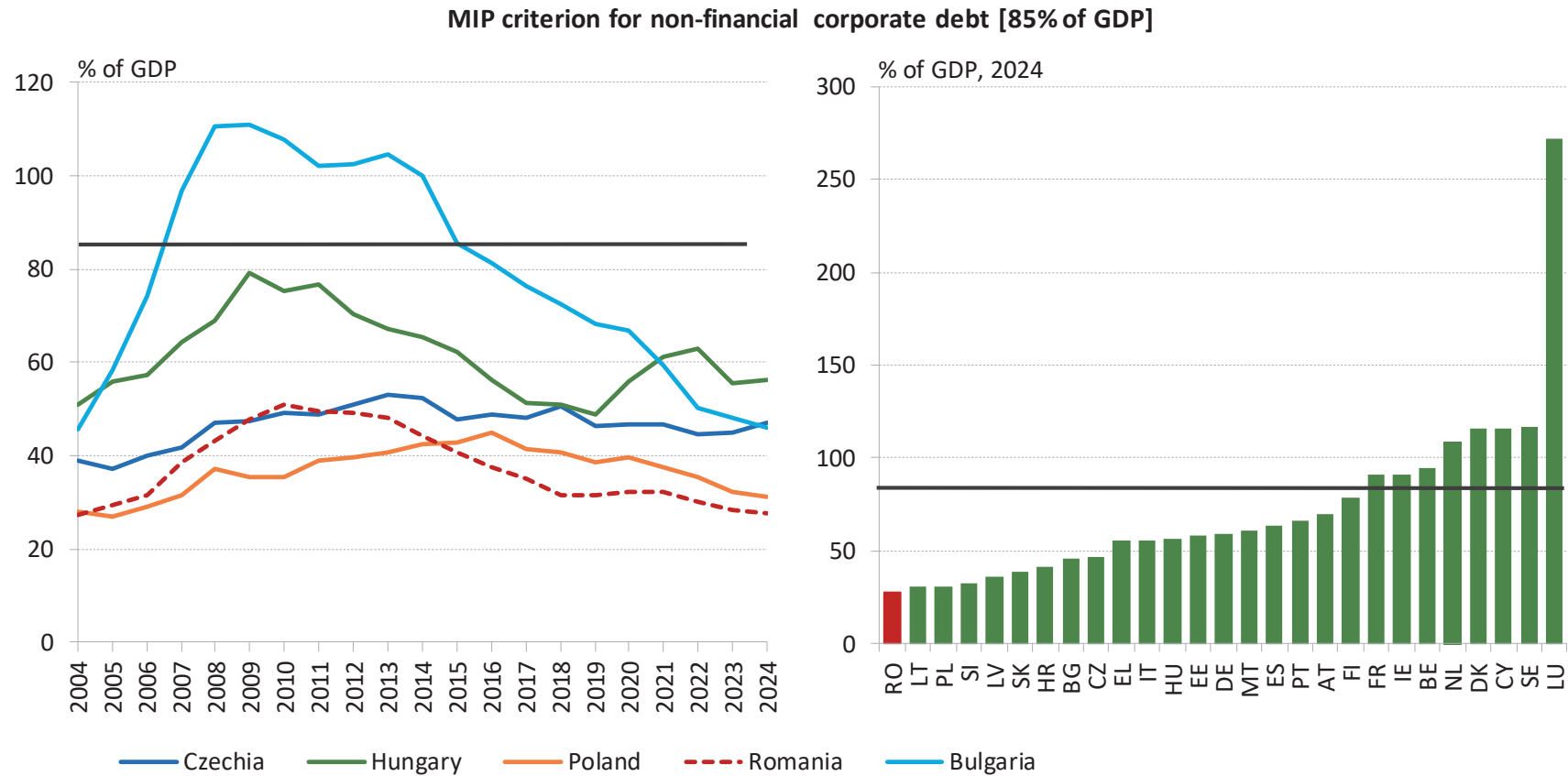
MIP criterion for household including NPISH\* credit flow [14%]



\*) non-profit institutions serving households

Source: Eurostat

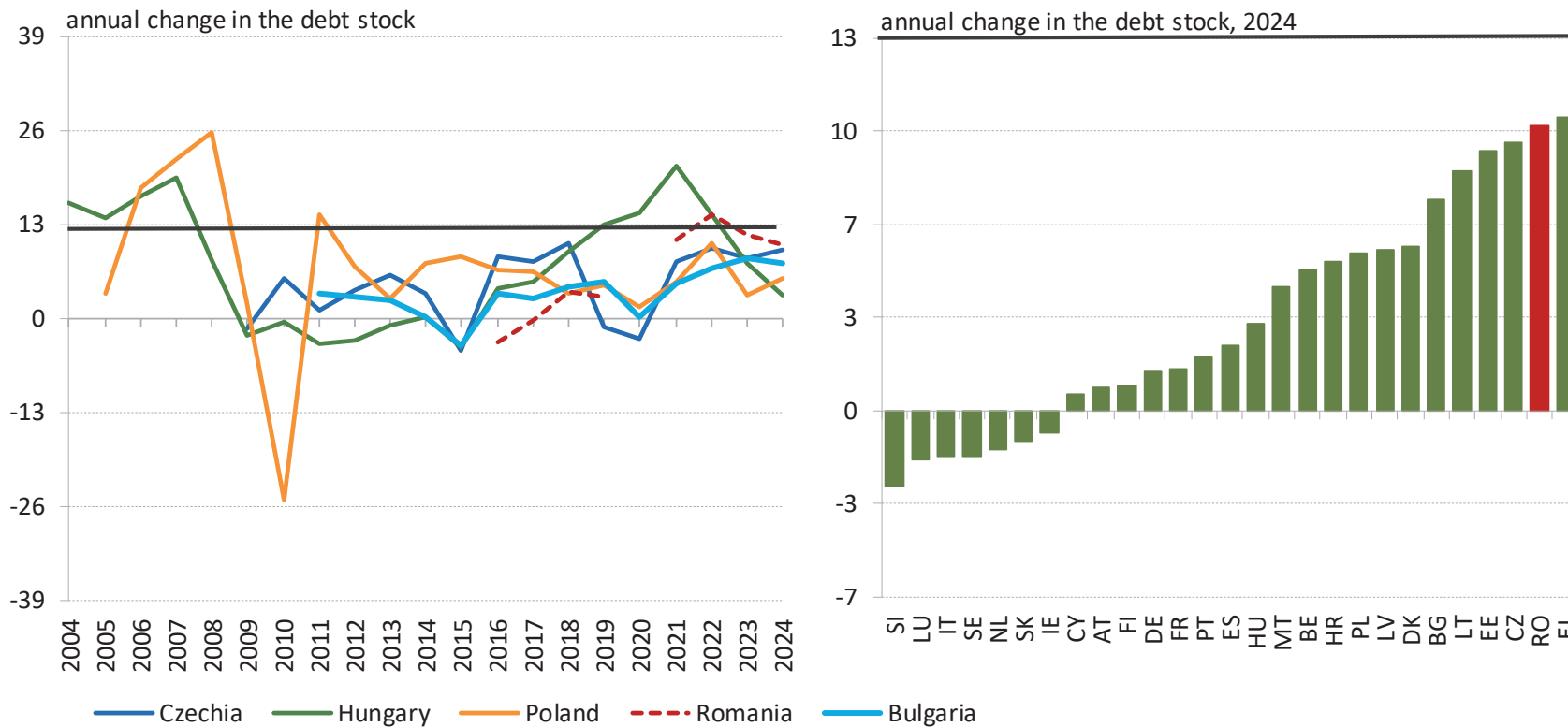
Moreover, the share of non-financial corporate debt in GDP is very small, with the criterion being met both in recent years and from a longer historical perspective, as recourse to bank credit is relatively low. According to the NBR survey, internal funds rank first in the financing structure, followed by loans from shareholders or affiliates and by trade credit, whereas the financial sector is in a much more disadvantageous position.



Source: Eurostat

Looking at the recent years, Romania fulfilled the criterion for credit flows to non-financial companies (NFCs), which was in fact met during most of the historical period, except for 2022, when the limit was slightly exceeded. Actually, all EU Member States have been in line with this criterion recently, which is clearly indicative of the financial soundness of the EU banking system.

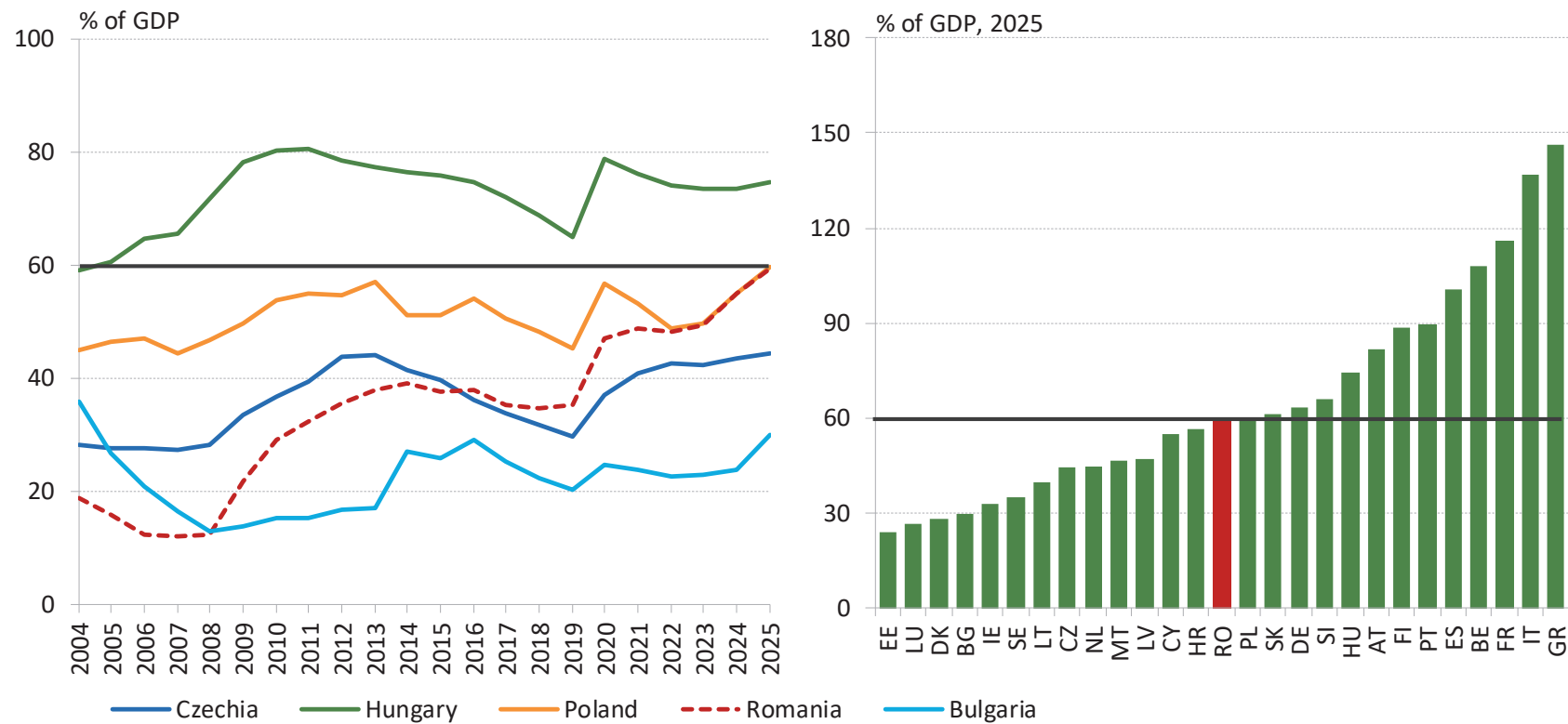
MIP criterion for credit flows to NFCs excluding FDI [13%]



Source: Eurostat

Even though general government debt as a share in GDP did not exceed the 60% indicative threshold until the end of 2025, the recent years' strongly upward trend, amid the excessive fiscal deficits, is a matter of concern for Romania, which is the odd one out among the countries in the comparison group. Despite the progress in fiscal consolidation in line with the targets committed to, the threshold will be exceeded over the medium term.

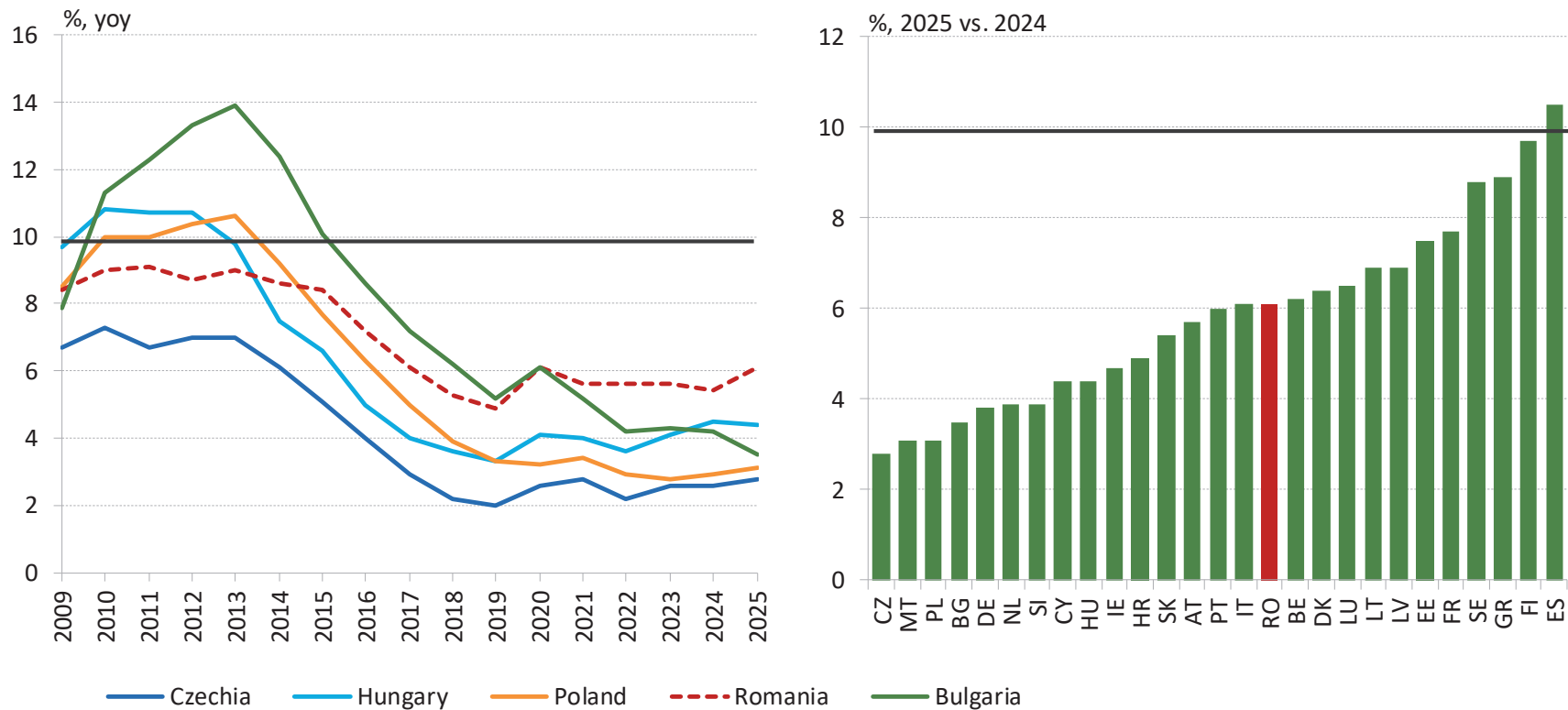
MIP criterion for general government gross debt [60% of GDP]



Source: Eurostat

From the perspective of aggregate employment indicators, the scoreboard does not point to labour market imbalances. The unemployment rate, while higher than those of the regional peers over the last years, stays however below the 10% indicative threshold. The relatively low unemployment rate is, nevertheless, accompanied by a high inactivity rate, so that the employment rate is among the lowest in the EU (63% in 2025).

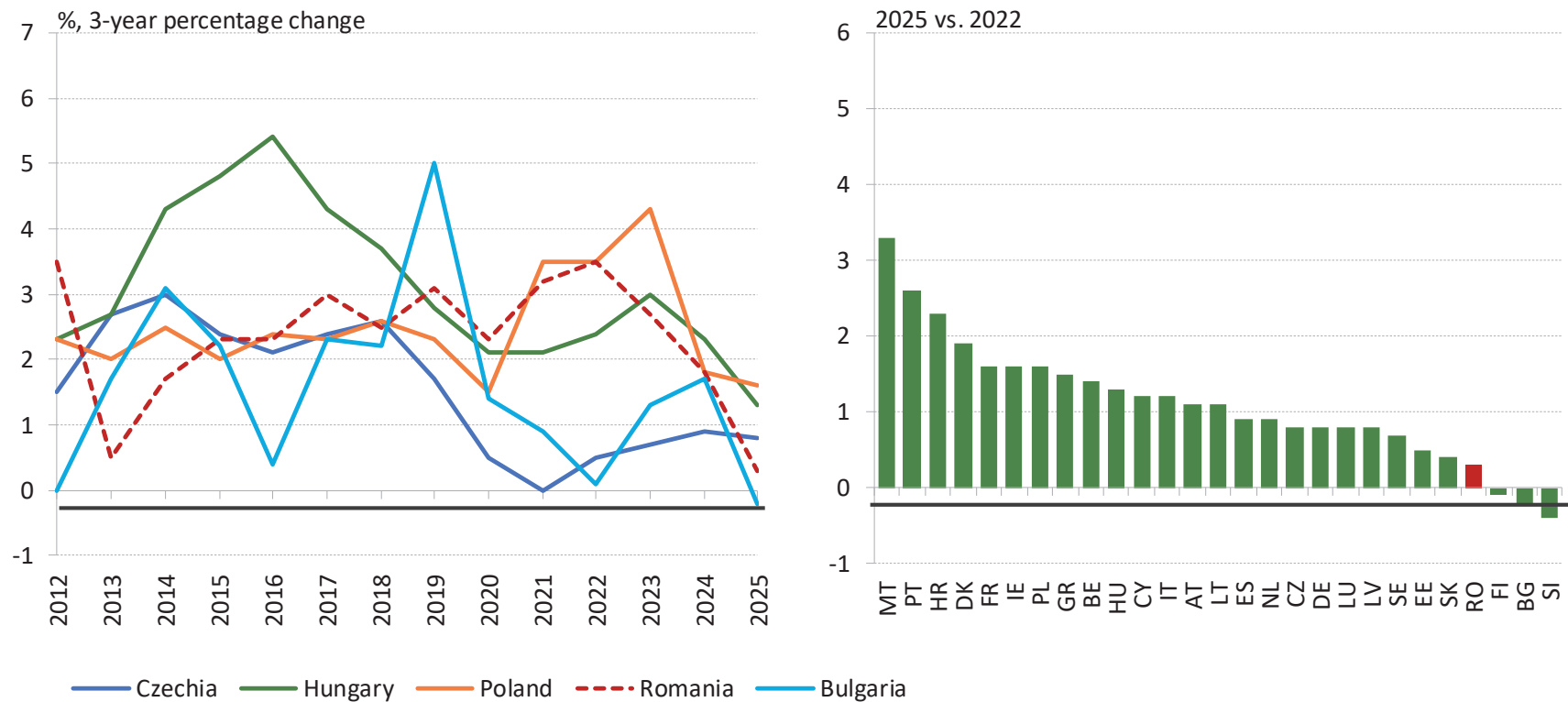
MIP criterion for the unemployment rate [+10%]



Source: Eurostat

The labour force participation rate as a percentage of total population aged 15-64 (includes both employed and unemployed persons) trended upwards in the period from 2013 to 2022, with the pace of increase moderating significantly afterwards. Thus, it remains, similarly to the employment rate, among the lowest in the EU, at merely 67.1% in 2025, i.e. almost 10 percentage points below the average participation rate in the EU.

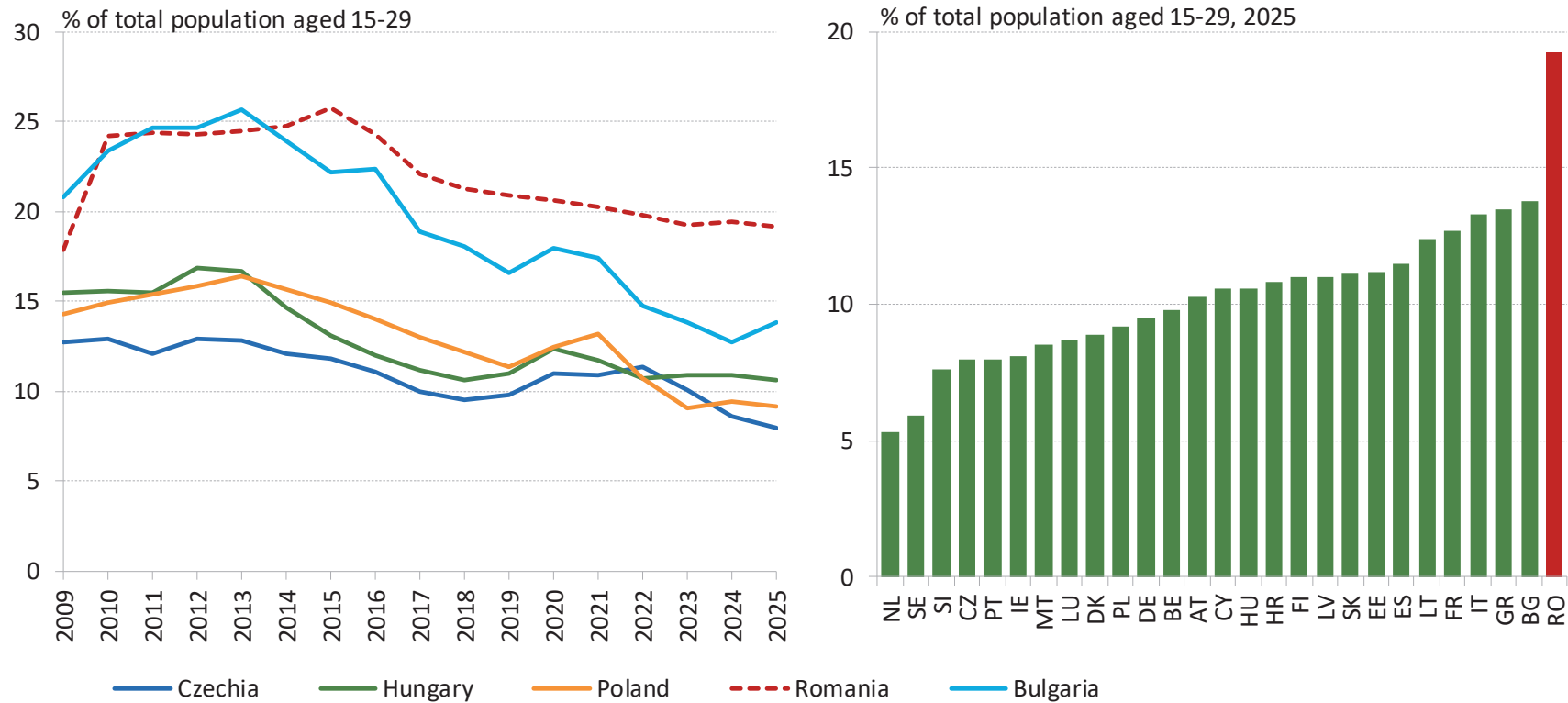
MIP criterion for the labour force participation rate (percentage of total population aged 15-64) [-0.2%]



Source: Eurostat

The social reality in Romania is more faithfully depicted by the very large share of young people neither in employment nor in education, reflecting the heightened regional disparities. There are reforms aimed at these young people, such as subsidising part of the wage for a certain period – a measure included in the 2025-2028 government programme and co-financed from EU funds.

Young people neither in employment nor in education and training (NEET)



Source: Eurostat

## Chapter X

The balance between nominal and real convergence is essential for sustainability

- Romania temporarily fulfilled the nominal convergence criteria in the period from July 2015 to November 2017, yet without participating in the ERM II. Afterwards, amid the build-up of macroeconomic imbalances, Romania persistently deviated from some of the reference values.
- In 2025, Romania did not meet the criteria on the inflation rate, long-term interest rates and fiscal sustainability (government debt stood below 60% of GDP, yet the general government deficit ran well above the 3%-of-GDP benchmark), and it is unlikely for these criteria to be accomplished in the coming years.
- As regards the stability of the leu's exchange rate versus the euro, the 2024-2025 period saw much lower fluctuations compared to the  $\pm 15\%$  fluctuation band, but Romania is not part of the ERM II. The exchange rate remains a macro-financial stability anchor.
- The balance between nominal and real convergence is essential. This ensures a gradual path to financial sustainability, *inter alia* for preparing the economy to withstand, in the future, competition pressures in the euro area.

## Chapter X

### Sustainability

implies seriously addressing the specific imbalances, but especially the structural issues

- The assessment of sustainability does not imply merely fulfilling the nominal criteria at a given point in time, but also ensuring a lasting convergence, and a good measure of progress in pursuing this objective will remain the in-depth monitoring of both external and domestic imbalances against the established benchmarks.
- Export development strategies based on investment-driven productivity gains should be tailored to Romania's needs, given that the country exceeds the thresholds for external imbalances as regards the current account balance, net international investment position and unit labour costs.
- While no breaches are recorded for employment indicators, the structural issues of the labour market persist, hampering the correction of imbalances. Turning to private sector financing and house price developments, Romania has followed a balanced path in the post-financial crisis period.
- Since the sustainable fulfilment of nominal criteria is more important than the pace of the convergence process, the necessary transformations should be generated by reforms that address vulnerabilities and also enhance economic advantages.

## Conclusions and Prospects

Postponing the fiscal and budget consolidation would have meant a lack of awareness of economic reality

- Romania has recurrently performed far from the budget targets committed to, which prompted a sharper uptrend of public debt. More robust economic growth would have mitigated the imbalances that built up, but also the magnitude and the imperative of the fiscal and budget consolidation measures.
- The current challenge is to judiciously implement public policies that manage in a balanced manner the adjustment of deficits and the potential growth factors alike, otherwise vulnerabilities persist and opportunities are more difficult to harness. A robust economic growth will enhance the expected effectiveness of the consolidation efforts.
- Romania must be aware of the need to escape the procyclical economic policy trap, by building up policy space during economic upturns, so that adjustments can be implemented gradually, without excessive costs or additional pressures on more prudent policies.
- The budget adjustment measures need to be consistently doubled by policies for fostering economic competitiveness and innovation, yet without postponing the committed reforms indefinitely. When correctly implemented, reforms build confidence in the authorities.

## Conclusions and Prospects

The  
predictability  
of the fiscal  
framework  
derives from  
designing  
realistic and  
coherent plans

- The fiscal deficit widening trend over the last decade, whereby Romania stands out at a European level, reflects primarily the rise in expenditure, although the latter is not among the highest in the EU. Hence, effective adjustment solutions should be aimed especially at general government revenue.
- The consolidation efforts act within the narrow margin imposed by the rigidity of government expenditure, where social transfers and personnel costs hold large shares, while revenue – particularly from direct taxes – has obvious and ample room to cover, especially through the responsible and consistent implementation of fiscal reforms.
- Overly optimistic revenue forecasts and the underestimation of expenditure made up the pattern of deviations from the Fiscal Strategy targets. Therefore, realistic plans need to be designed so as to bridge these gaps gradually and consistently.
- Moreover, this calls for ensuring predictability of the fiscal framework and approaching those issues that contributed to the failure to meet the targets in the initial Budget Law and to discretionary allocations which substituted for budget revisions.

## Conclusions and Prospects

Advancing the implementation of investment fosters economic growth and, hence, the viability of consolidation

- Household welfare growth can be achieved, on the one hand, by feeding the channels that support public services at levels comparable to European averages and, on the other hand, through action steps to shift and balance the fiscal burden.
- The recent favourable trend of tax revenue has to overcome the constraints from relatively low tax rates, as well as from the large and persistent compliance gaps. The improvement in revenue collection in line with the EU average is a priority, which would generate additional tax revenue of at least 2% of GDP annually.
- Most EU countries cut their government expenditure compared to the pandemic year, but in Romania it kept growing, despite the expiry of support measures. It is important for staff costs and social transfers to gradually re-enter a sustainability path.
- Investment expenditure has stood out in terms of both size, particularly in 2024 and 2025, and volatility. Investment, especially that financed from European funds, plays a strategic role in ensuring the viability of the fiscal consolidation path and in supporting a lasting economic growth.

## Conclusions and Prospects

A legitimate  
and effective  
pension  
system implies  
social equity, by  
strengthening  
the contributory  
principle

- The objective is streamlining current expenditure such as personnel costs or social transfers and thus ensuring a further moderate size of the public sector in terms of workforce, especially amid an unavoidable offsetting trend of rising defence expenditure.
- The high contribution rates and the number of employees, close to that of pensioners, entail structural imbalances in the labour market. Besides, the significant pension gap between different professions underlines the imperative need for social equity, based on strengthening the contributory principle.
- The demographic trends will put further strain on the pension budget, while the sustainability of the public pension system can be supported by increasing productivity, *inter alia* through extended digitalisation, and labour market participation, but also by encouraging the development of the private pension system.
- It is therefore essential to extend citizens' working life, supported also by the broad-based improvement in healthcare services and the provision of competitive, high-quality education, enhancing the workforce contribution to economic development.

## Conclusions and Prospects

State-owned enterprises, active in key sectors, need to be managed effectively and competitively

- SOEs must be viewed as strategic providers of public value, not just as mere sources of government revenue. Through robust governance, transparency and performance orientation, these entities – and especially those in strategic sectors – can contribute to the structural transformation of the domestic economy.
- Positive financial results are concentrated in a small number of large state-owned enterprises, while others further report losses and rely on public support. Besides, the large fluctuations in investment impair this sector's capacity to provide quality services.
- Weak payment discipline is more pronounced in the case of SOEs, whose payment delays and overdue payments ratio significantly exceed those in the private sector. In addition, they make up a large share of arrears to the general government budget.
- Corporate governance is of the essence to generate structural change with significant socio-economic impact. Romania has achieved major progress in terms of corporate governance, in line with OECD-recommended practices, but the real impact depends on the responsible application of rules.

## Conclusions and Prospects

Fiscal measures should also be aimed at any forms of fiscal optimisation

- In the context of real convergence, the business volume of majority privately owned companies surged, the shift towards a higher value-added growth model being visible across the economy. Promoting private initiatives needs, however, to be correlated with the objective of mitigating regional disparities.
- The large share of the number of small firms points to an increase in entrepreneurship, but it may also mask certain forms of fiscal optimisation. Some administrative measures, clearly and effectively structured, should be aimed at those practices that lead to a reduction in contributions from labour taxes.
- Consistent competitiveness-enhancing policies are needed because, from a European perspective, labour productivity in private companies operating in Romania is still lagging behind, although growth rates are high, due to the catching-up process.
- The overall financial health measure is adequate, and private companies' resilience to shocks can be enhanced through measures to improve corporate governance, particularly in the SOEs sector, and to strengthen payment discipline.

## Conclusions and Prospects

An adequate capitalisation level of the private sector supports the development and resilience of the economy

- The undercapitalisation of an important part of companies and firms' weak payment discipline limit the development capacity of the non-financial companies sector and dent its resilience to shocks, with negative effects on other economic sectors as well.
- Companies with negative equity account for more than half of total arrears, while a large share of firms experience major delays in collecting receivables. Measures to spur capitalisation to an adequate level and enhance payment discipline could foster economic growth in the following years.
- The restructuring and orderly market exit mechanisms for non-viable firms, including the insolvency procedure, should be improved for cost cutting and a more efficient allocation of resources in the economy.
- Further efforts to mitigate these major structural vulnerabilities are needed to underpin the growth potential of Romania's economy. Besides, the continued strategic investment can support the economy's transition to a sustainable, more technology- and knowledge-intensive model.

## Conclusions and Prospects

Investor  
sentiment is  
influenced by  
advantages  
and challenges  
alike

- Although financial system assets tripled over the last 15 years and the banking sector is the main actor, Romania faces the lowest bank intermediation in the EU, which underlines the relatively imperative need to address the structural vulnerabilities that limit lending, affecting the entrepreneurial environment.
- The banking sector visibly consolidated capital adequacy to the risk profile and the loss-absorbing capacity, but at the same time new challenges are emerging, stemming from cyber risks and digital transition, with all the operational aspects of these processes, as well as from the adaptation to rising climate risk.
- The strengthening of the sovereign-bank nexus, while beneficial in terms of credit and liquidity risk, increases banks' exposure to the interest rate risk and to the concentration risk.
- An adequate prudential position of the banking sector paves the way for a positive contribution to the sovereign rating and fosters financial intermediation and financial inclusion, and hence economic growth, through a more productive investment partnership.

## Conclusions and Prospects

Trade diplomacy and export-promoting strategies are essential over the long term

- The 2024 fiscal slippage reflected in unsustainable twin deficits, well above those in other countries in the region. Public policies can however significantly shape the current account composition – with recent years seeing a majority contribution from the general government component –, as well as the current account financing.
- In this broader framework, in order to address the external imbalance, trade diplomacy and export-promoting strategies are essential over the long term, particularly by rendering companies more efficient in managing production factors.
- Economic predictability and the narrowing of gaps help improve the financial conditions which, in the context of the rise in public external debt, have so far generated higher interest payments, eroding the current account.
- A tighter correlation between purchasing power and productivity becomes indispensable. So far, this mismatch has led to a consumer demand that was largely met through an increase in imports and in the trade deficit, key drivers behind the marked worsening of the external position.

## Conclusions and Prospects

Financial  
sustainability  
requires  
*inter alia* a  
balance  
between  
nominal and real  
convergence

- A positive market sentiment towards the economic environment remains key for deficit financing. The optimal government debt management will further aim to avoid peak repayments, improve the average maturity of securities and maintain a liquidity buffer.
- The nominal convergence criteria remain unquestionable economic health indicators. The balance between nominal and real convergence is essential for a credible and sustainable path to fulfilling the criteria and adequately preparing the economy to accommodate, in the future, any new competitive requirements.
- Institutional capacity-building and convergence sustainability are more important than the pace of fulfilling nominal criteria, while the consolidation of adjustments, through sound economic growth, allows the preservation of confidence in Romania's European path.
- Euro area accession can be Romania's strategic project for the next decade. For Romania, joining the euro area would mean a stronger economy, but also better living standards. The economy would be based on a more efficient and broader market, lower interest rates and sounder financial reserves.



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