

## Country in focus: Romania



### POLITICAL TUG-OF-WAR PLACES ECONOMIC STABILITY IN DANGER

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*A long history of socialist-liberal coalitions came to an end in May 2026. The government that had saved the country from downgrading and that had made progress on the reforms required to access EU funds imploded. Whether the bulwark against the right-wing, anti-EU parties can be rebuilt remains an open question at the time of writing. What is clear is that the country risks severe fiscal and monetary instability if the fiscal consolidation programme fails and if access to EU funds is restricted in the absence of functioning legislative power.*

### A coalition that nobody liked but that did what it had to do

Various coalitions of the two main parties – the centre-left Social Democratic Party (PSD) and the centre-right National Liberal Party (PNL) – have governed Romania over the last five years. They have disagreed on major social issues – the post-communist PSD relies mainly on rural voters, while the PNL is anchored in the urban pro-business tradition – and they have often been in conflict with one another. And yet the parliamentary arithmetic provided no alternative to cooperation. To secure a stable majority, they took the party of the Hungarian minority (UDMR) and latterly also the liberal urban Save Romania Union (USR) into the government. This broad coalition of EU-oriented parties took office on 23 June 2025, led by Prime Minister Ilie Bolojan (PNL), and served as a bulwark against the burgeoning far-right Alliance for the Union of Romanians (AUR).

The government had three main economic tasks included in the coalition agreement:

- › to correct the soaring fiscal deficit accumulated under the previous PSD-led government
- › to unlock EU funding under the Recovery and Resilience Facility (RRF), much of which seemed to have been lost due to institutional underperformance
- › to reboot economic growth by implementing structural and institutional reform.

Following a hesitant start, the pace of work picked up after the presidential election of 18 May 2025. The coalition agreed on critical steps for fiscal consolidation and reviewed the gridlocked RRF absorption process. However, implementation came under strain, as the coalition partners exhibited different approaches to reform – even after they formally co-signed the policy roadmaps in July 2025. The PSD

sought to limit the economic hardship caused by the austerity measures and resisted the streamlining of local administrations, which constitute the core of the party's client system. But the party's coalition partners and Prime Minister Bolojan opposed any watering-down of the agreed consolidation programme.

On 23 April 2026, this coalition of the four mainstream parties collapsed when the PSD formally withdrew its political support. Subsequently, on 5 May 2026, a motion of no confidence jointly initiated by the PSD and AUR successfully toppled the Bolojan government. The administration was then forced to continue as a three-party caretaker government, with severely restricted legislative powers. Following the vote of no confidence, pressure on both the PSD and the PNL leadership to resolve the governance crisis intensified throughout May. Rumours of party splitting surfaced. PNL leaders publicly declared their refusal to enter into any future coalition framework with the PSD. In the absence of a viable political consensus, on 4 June President Nicușor Dan nominated his senior advisor, Eugen Tomac, as prime minister designate, tasking him with forming a non-partisan technocratic government. While technocratic administrations historically lack long-term stability in Romania, this institutional arrangement could provide a brief respite in which to pass critical legislative measures.

### **Divisive fiscal consolidation programme**

The Romanian budget has exhibited severe structural imbalances since 2020, prompting the European Council to formally launch the Excessive Deficit Procedure (EDP) in April of that year. Throughout the subsequent period, the fiscal consolidation timeline underwent multiple revisions due to repeated slippage. While fiscal revenue recovered following the pandemic-related macroeconomic shock, public expenditure escalated even more rapidly. The deficit drifted at a time when GDP growth was decelerating. Consequently, the seven-year fiscal adjustment path negotiated with the European Union in 2024 was abandoned. Fiscal underperformance persisted into the first half of 2025, with the deficit breaching the intermediate targets, while economic growth fell short of baseline projections.

The fiscal deficit widened to 9.3% of GDP in 2024 (EU definition; 8.7% on cash basis) from 6.6% the previous year. The European Council subsequently approved a revised deficit-reduction plan, which extended the horizon for bringing the fiscal shortfall below 3% by 2030. Under this new framework, the deficit targets were set at 8.4% of GDP for 2025 and 6.2% for 2026. In its mid-2026 assessment, the European Commission concludes that Romania has implemented effective measures to address its budgetary gap, thus avoiding further restrictive steps under the EDP.

To achieve this stabilisation, the then-governing coalition had enacted a series of tough fiscal consolidation measures. With effect from August 2025, the authorities introduced revenue-side measures that raised the VAT rate, hiked excise duties, broadened the overall tax base and eliminated health insurance contribution exemptions for those pensioners on a higher income. On the expenditure side, economic subsidies were scaled back and budgetary allocations for the education sector were reduced. A second consolidation package launched in the autumn continued to target the expenditure side, specifically addressing special pension regimes, reducing public healthcare spending and enhancing the financial governance of state-owned enterprises (SOEs). Furthermore, a public-sector wage freeze was introduced for 2025-2026, accompanied by a reduction in public administration employment. These interventions reduced the fiscal deficit by an estimated 0.6 percentage points of

GDP in 2025, while tax revenue exceeded the projections. As a result, the full-year fiscal deficit closed at 7.9% of GDP – better than the government's revised target.

With protracted negotiations inside the coalition, it took until 18 March this year for the 2026 Budget Law to be passed. The underlying revenue and expenditure projections were calibrated against a macroeconomic scenario that assumed real GDP growth of 1% and average consumer price inflation of 6.5%. Budgetary adjustments in 2026 will affect mainly the expenditure side. Continued public administration wage freezes and structural layoffs are projected to reduce personnel expenses, supplemented by further subsidy cuts to loss-making SOEs and lower fiscal allocations for healthcare and social safety nets. Budgetary revenue is also projected to expand, driven by the annualised compounding effects of the August 2025 tax reforms, alongside the increases in excise duties and local property taxes effective from January 2026.

However, the fiscal tightening sent Romania into recession in Q1 2026, primarily on account of the contraction of real incomes and reduced household consumption. The PSD regarded the negative social effects of the fiscal consolidation as a result of some 'overshooting' of the programme. Despite having signed up to the initial programme, in view of the consequences the party tried to water it down. The party saw its support dwindling in its heartlands. Beyond alienating local mayors, the consolidation measures placed significant political pressure on well-paid executives at state-owned enterprises. In an effort to wring concessions from the prime minister, the PSD dissolved the governing coalition. This political brinkmanship has introduced significant institutional instability. In the absence of a viable alternative government, the coalition's collapse directly threatens Romania's compliance with its RRF milestones, risking the suspension of capital inflows from the EU worth billions of euro.

### **Danger of losing substantial RRF funds**

Access to EU funds, particularly the non-repayable grants, has been a cornerstone of Romania's macroeconomic convergence strategy. As a member state that is striving to catch up, the country has successfully absorbed inflows in the range of 2-4% of GDP annually under the EU Multi-annual Financial Framework (MFF) 2021-2027 and the RRF 2021-2026. Looking ahead, additional financing will become available under the Security Action for Europe (SAFE) programme, which will provide capital to complete some of the outstanding RRF-related investments. These resources have decisively shaped Romania's domestic political and economic agenda and have generated broad-based popular and electoral support for both the national and local administrations.

The initial RRF allocation earmarked for Romania in 2022 totalled EUR 28.5bn, of which EUR 13.6bn was in the form of grants and EUR 14.9bn in loans. The disbursement of these funds is conditional on the country hitting specific qualitative and quantitative milestones. The government at the time agreed to the policy targets and commitments without establishing detailed implementation frameworks. Consequently, three successive administrations after 2022 all failed to meet the conditions in time. It also turned out that the earmarked funds exceeded the country's institutional and construction capacity. In response, Romania was formally obliged to renounce approximately half of the loan component in July 2025, reducing the total available facility to EUR 21.4bn (equivalent to roughly 6% of GDP). This optimisation strategy is not without regional precedent: Bulgaria undertook a similar reduction, while Czechia has taken up only a small part of the loan facility. Concurrently, Romania restructured and

rescheduled its investment targets, shifting the focus onto those that had a better chance of being met by the end of 2026.

Under the revised [RRE](#), Romania has at its disposal EUR 21.41bn, comprising EUR 13.57bn in grants and EUR 7.84bn in loans.<sup>1</sup> On 14 May 2026 the Commission gave a preliminary thumb-up to the country's request for the payment of the fourth tranche amounting to EUR 2.62n. This disbursement request, originally submitted by the government on 19 December 2025, received formal sign-off from the EU's Economic and Financial Committee on 7 June. In the assessment, the Commission confirmed that Romania had reached the necessary milestones and targets, including:

- › Digital Infrastructure: Significant operational progress in deploying the unified governmental cloud infrastructure.
- › Green Transition: Deployed structural measures to accelerate the transition to a low-carbon economy.
- › Fiscal Reform: Enacted legislative changes to make the tax system fairer and more efficient, reducing administrative burden and improving tax compliance.

This fourth payment will bring the funds paid out to Romania under the RRF to EUR 13bn. That corresponds to some 60% of the aggregate funding under the revised plan.

Like all other member states, Romania must reach the outstanding milestones and targets by August 2026 and submit its final payment request by the end of September. As of mid-May 2026, [Romania faced a backlog](#) of 38 outstanding targets and milestones required to unlock the remaining funds. That includes 11 targets which are beyond the executive mandate of a caretaker government, since they require primary legislative approval from parliament. For these measures to be passed, a new government needs to be formed in short order or an ad-hoc parliamentary majority secured. Furthermore, some of the laws – including comprehensive reform of the judiciary – face pushback from affected stakeholders and are being blocked by the constitutional court. Highlighting these problems, the Minister of Investments and European Integration [warned](#): 'The pace of reform implementation is slow, with very little progress, and in some cases no progress. This situation creates significant risks in terms of compliance with the deadlines set by the National Recovery and Resilience Plan. In this context, we draw attention to the substantial penalties applicable in case of failure to meet the deadlines, stressing the need to accelerate measures and increase the involvement of the responsible coordinators.'

The most sensitive milestones that directly affect the economic and fiscal outlook are the following:

- › Pension reform: focus on sustainability and fairness – there is political and public resistance to tightening some rules.
- › Public-sector wages: a new, simplified and unified wage law should reduce differentiation and increase transparency – it challenges the vested interests of several occupation groups and also complicates fiscal tightening.
- › Governance of state-owned enterprises: professional and depoliticised management should be installed – it is being blocked by incumbent political appointees.

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<sup>1</sup> Compiled based on: [https://reforms-investments.ec.europa.eu/recovery-and-resilience-facility-1/country-pages/romania-recovery-and-resilience-plan\\_en](https://reforms-investments.ec.europa.eu/recovery-and-resilience-facility-1/country-pages/romania-recovery-and-resilience-plan_en) and [https://ec.europa.eu/economy\\_finance/recovery-and-resilience-scoreboard/country\\_overview.html?country=Romania](https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/country_overview.html?country=Romania)

These structural issues represent precisely those friction points that the previous coalition failed to agree on, ultimately triggering its collapse. As of early June 2026, the probability of reaching a legislative compromise that both satisfies EU conditionality and secures a domestic parliamentary majority remains low. Furthermore, even if these reform bills pass, they will need to be implemented immediately. Even if the milestones are met, investment projects must be completed on time. Chronic public procurement delays, inadequate project preparation, legal disputes among construction companies and institutional friction between state agencies have all delayed major rail, road and healthcare infrastructure projects. Compounding this, the aggressively tightened domestic fiscal environment has eroded the capacity of local municipalities to provide pre-financing. Therefore, the authorities are again revising all plans, dropping unrealistic projects and focusing on achievable milestones.

Failure to reach a timely political consensus on the remaining milestones risks the loss of outstanding RRF funds. Even under a positive scenario, featuring a supportive parliamentary majority, approximately half of the outstanding EUR 7.5bn is likely to be lost due to project slippages.

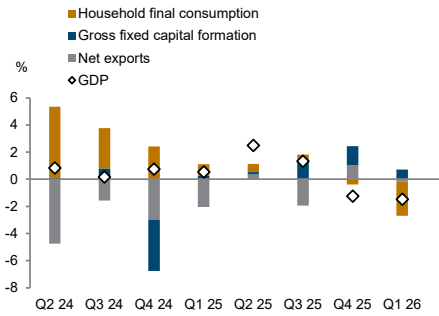
### **Protracted vulnerability**

At the time of writing, there appears to be no viable immediate escape from the political impasse and the scenario of economic 'muddling through'. The short-term political outlook is defined by a very fragile government architecture, characterised by weak legislative execution and the steady advance of right-wing populist parties in the opinion polls. Concurrently, the economy has got itself into a recession, while inflation remains high, driven both by the domestic fiscal shock and by international commodity prices. Consequently, the country continues to teeter on the critical threshold of non-investment grade across the major ratings agencies.

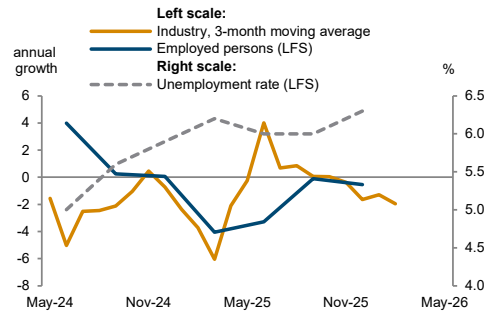
Will the International Monetary Fund ultimately be called in to provide a financial backstop, mirroring the stabilisation intervention in the wake of the 2008 global financial crisis? While current macroeconomic imbalances are far less severe than the acute liquidity crisis of 2008, a strict policy mix combining fiscal austerity with adherence to EU grant conditionality appears to be the only way out of the current impasse.

# Romania

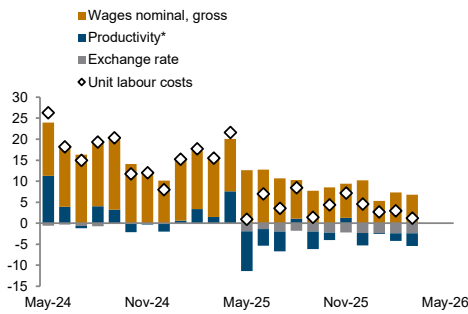
**Real GDP growth and contributions**  
y-o-y



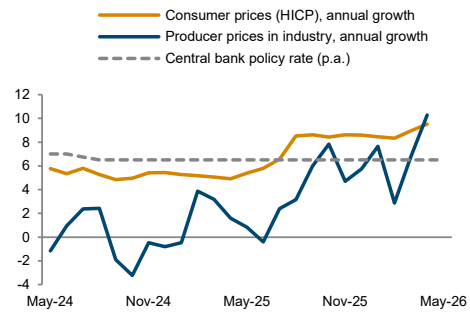
**Real sector development**  
in %



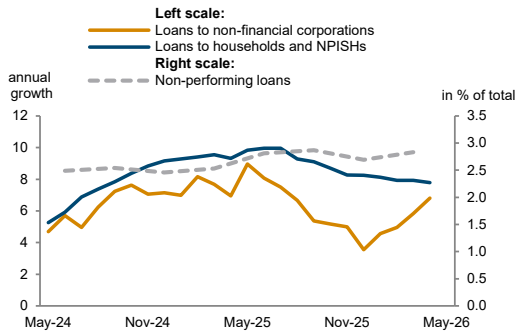
**Unit labour costs in industry**  
annual growth rate in %



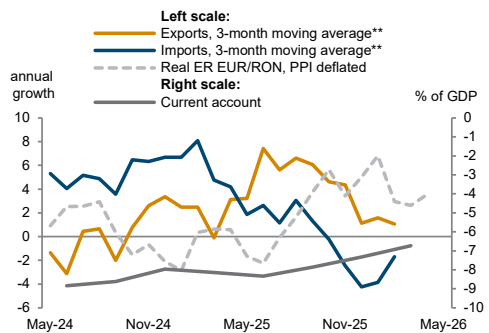
**Inflation and policy rate**  
in %



**Financial indicators**  
in %



**External sector development**  
in %



\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

\*Note: HICP - Harmonised Index of Consumer Prices, NPISHs - Non-profit institutions serving households.

Source: wiiw Monthly Database incorporating Eurostat and national statistics. Baseline data, definitions and methodological breaks in time series are available under: <https://data.wiiw.ac.at/monthly-database.html>