Fiscal Challenges in Public Debt Management – a Romanian Perspective

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Abstract: *The economic shocks triggered by the outbreak and spread of the COVID – 19 pandemic prompted national governments to implement a series of large – scale expansionary fiscal measures to counteract the negative effects recorded globally on economic activity. This article aims to analyse the dynamics of fiscal and budgetary policies at the national level in Romania, as well as at the European and global levels, with a particular focus on the evolution of public debt and budget deficits, in the context of economic policies adopted in response to the health crisis. Accordingly, the study seeks to assess the effectiveness and sustainability of fiscal and budgetary measures adopted by national governments, through the lens of relevant macroeconomic indicators and the institutional constraints imposed by both national and European frameworks. In the case of Romania, the results of the analysis highlight a significant deterioration in fiscal balances, reflected in a sharp increase in public debt, both in absolute and relative terms, accompanied by a persistent high level of the budget deficit and current account deficit. In this context, the article examines the risks associated with Romania's current fiscal trajectory, as well as the implications for financial stability and fiscal discipline in the medium and long term. The article concludes with a series of policy recommendations aimed at fiscal consolidation and the alignment of Romania with the objectives of the European Union's Stability and Growth Pact.*

Keywords: public budget, public debt management, fiscal deficit, fiscal consolidation.

JEL Classification: H30, H61, H62, H63.

Introduction

In the post – pandemic period, public debt and budget deficits have emerged as central themes in international economic discourse, as the exceptional fiscal measures adopted to mitigate the impact of the COVID – 19 crisis have profoundly altered the trajectory of public finances. Fiscal stimulus policies – alongside increased spending on healthcare and social protection – were predominantly financed through public borrowing, leading to a notable rise in sovereign debt levels and national fiscal deficits.

Although these interventions were justified by the unprecedented socio – economic circumstances, they have heightened concerns about fiscal sustainability in the aftermath of the crisis, especially in economies that already exhibited elevated public debt burdens. This study examines these developments through a multi – level lens: the global context, the European fiscal framework, and Romania's particular case.

Globally, stimulus efforts have driven public debt to record highs. The International Monetary Fund (IMF) estimated that global public debt reached approximately 100% of GDP in 2020 – an unparalleled level in the absence of a major military conflict. While fiscal responses proved critical in preventing a deep recession, current attention has shifted to the long – term implications of sustained high debt levels, including reduced fiscal space, mounting pressure on interest rates, and concerns over intergenerational equity.

Notable disparities persist between countries. Advanced economies have experienced rapid increases in public debt, reigniting debates over fiscal sustainability. In contrast, emerging markets have faced more acute fiscal constraints, higher financing costs, and heightened exposure to external volatility.

Within the European Union, the pandemic exposed the limitations of the Stability and Growth Pact, which was suspended via the activation of the general escape clause. In parallel, the EU introduced the Recovery and Resilience Facility (RRF), a €750 billion mechanism designed to support economic recovery through grants and loans tied to structural reforms. While the RRF played a pivotal role in post – crisis recovery efforts, it also contributed to rising public debt at the EU level, underscoring the need to reassess the long – term coherence of the fiscal governance framework. Persistent disparities between Northern and Southern member states have complicated discussions on reform, and the temporary nature of the NextGenerationEU instrument highlights the imperative for permanent structural solutions.

In Romania, the pandemic triggered a rapid deterioration of the fiscal stance. Structural vulnerabilities – such as a narrow tax base, inefficient public spending, and the procyclical orientation of fiscal policy – were exacerbated by the health crisis. The budget deficit exceeded 9% of GDP in 2020 and remained above the European reference threshold in subsequent years, resulting in the activation of the Excessive Deficit Procedure. Although Romania's public debt, as a share of GDP, remains below the EU average, its upward trajectory and persistent imbalances raise significant concerns regarding long – term fiscal sustainability.

This article aims to provide an integrated analysis of debt and deficit trends in the post – pandemic period, with an emphasis on comparative dimensions at the global, European, and national levels. The study seeks to identify the implications of adopted fiscal measures, the costs of delayed consolidation, and the prospects for a sustainable fiscal path, in the context of growing uncertainty, budgetary pressures, and accelerated structural transformations.

1. Literature review

As previously emphasized, the COVID – 19 pandemics has had a profound impact on fiscal and budgetary policies worldwide, prompting significant shifts in public debt management strategies. Within the European Union, calls for structural reform of the fiscal framework have gained momentum. Arnold (2022) argues that this crisis exposed deep – seated weaknesses in the EU's fiscal rules, particularly their limited flexibility and inconsistent enforcement. He advocates for a more integrated institutional approach at the European level, linking national oversight institutions with supranational bodies, to strengthen both fiscal discipline and the capacity to respond to crises.

From a broader theoretical standpoint, Blanchard (2022) reexamines conventional assumptions underpinning fiscal sustainability in the context of persistently low interest rates. His findings suggest that when the interest rate remains below the growth rate, higher deficits may be sustainable over time. Nonetheless, he cautions against complacency, highlighting the risks posed by abrupt shifts in market sentiment.

Focusing on the Romanian context, Daianu, Dumitru, and Uzum (2025) investigate the persistence of the "twin deficits" syndrome – marked by high fiscal and current account deficits – and its implications for macroeconomic stability. They underscore structural inefficiencies within Romania's public finance system and propose a gradual process of fiscal consolidation.

In terms of debt accumulation dynamics, Patel and Peralta – Alva (2024) provide empirical evidence from both emerging and advanced economies, demonstrating that the effectiveness of fiscal interventions depends significantly on initial debt levels and domestic fiscal contexts. Their study highlights the long – term costs associated with delaying fiscal consolidation in countries where public debt accounts for a large share of GDP.

Razinkova (2024) offer an additional perspective by identifying a shift in academic focus from debt sustainability to institutional capacity and governance quality. Their research emphasizes the importance of an adaptive fiscal framework for debt management, particularly in low – and middle – income countries.

Likewise, Weise (2023) assesses the adjustments made to national fiscal frameworks during the economic crisis triggered by the COVID – 19 pandemic. While temporary suspensions of fiscal rules allowed governments to increase public spending to support critical emergency services, she notes that most national systems failed to undertake meaningful post – crisis fiscal consolidation, leaving them vulnerable to future fiscal slippages.

Taken together, these studies highlight the need to rethink the architecture of fiscal governance to ensure resilience, especially in the face of recurrent economic shocks and the evolving dynamics of public debt.

2. Global trends in public debt and fiscal deficit

Public debt, alongside fiscal deficits, outlines a global economic landscape that remains far from reassuring. According to recent estimates by the International Monetary Fund (IMF), by the end of 2024, global public debt was expected to surpass the symbolic threshold of 100 trillion U.S. dollars.

As illustrated in Table 1, the trajectory of public debt has followed a persistent upward trend since the 1970s, culminating in an unprecedented peak of 100% of global GDP in 2020. A critical turning point occurred on March 11, 2020, when the World Health Organization (WHO) officially declared COVID – 19 a global pandemic – a decision that precipitated a surge in public spending, particularly in the areas of healthcare and social protection.

Noteworthy in this context are the exceptionally high levels of public debt recorded in 2020 by Japan (258.30% of GDP) and the United States (132.60% of GDP), highlighting the scale of fiscal interventions undertaken to mitigate the economic and social consequences of the pandemic.

Table 1. Historically evolution of global public debt, 1950–2023 (% of GDP)

	1950s	1960s	1968	1970s	1980s	1986	1990s	2000s	2004	2010s	2019	2020	2021	2022	2023
World	**56.2**	**39.8**	**36.4**	**33.1**	**48.1**	**55.1**	**62.4**	**66.8**	**69.9**	**80.9**	**84.7**	**100.0**	**95.2**	**91.8**	**93.8**
Advanced Economies	**64.0**	**44.3**	**39.5**	**36.2**	**51.5**	**58.6**	**67.1**	**75.8**	**77.1**	**104.5**	**105.1**	**123.7**	**117.4**	**112.3**	**112.0**
Euro Area	32.6	24.8	25.1	27.8	47.2	52.3	67.1	69.7	69.5	90.4	85.6	98.6	95.9	91.5	89.3
Japan	13.1	10.1	11.8	23.4	64.3	74.1	89.1	166.6	169.5	227.5	236.4	258.3	253.9	257.1	251.6
United Kingdom	134.0	81.6	71.0	56.4	41.3	42.9	39.0	42.7	39.8	84.9	85.7	105.8	105.2	100.4	101.1
United States	69.7	54.4	48.7	43.9	53.4	60.1	68.2	65.7	67.4	104.5	108.5	132.6	125.4	120.4	123.0
Emerging Market Economies	**15.4**	**18.6**	**20.7**	**21.3**	**35.3**	**39.9**	**41.0**	**40.5**	**43.7**	**44.1**	**55.4**	**65.5**	**64.5**	**64.7**	**69.0**
China 1/							21.2	26.9	26.4	44.3	60.4	70.1	71.8	77.1	84.3
Others	15.4	18.6	20.7	21.3	38.2	45.4	45.7	44.2	48.4	43.7	51.7	61.4	57.9	54.5	57.1
Low-Income Developing Countries				**15.5**	**36.0**	**42.9**	**64.6**	**45.7**	**51.0**	**34.7**	**42.4**	**48.0**	**47.5**	**47.9**	**50.3**

Source: IMF, Global Debt Database, 2024

Japan's public debt represents a distinctive case among advanced economies, marked not only by its unparalleled magnitude but also by a surprising degree of financial stability. With a debt-to-GDP ratio exceeding 250% (see Table 1), Japan holds the highest public debt level globally. Nevertheless, despite this significant burden, the country has not experienced a sovereign debt crisis. A key explanatory factor lies in the composition of its debt: the overwhelming majority of Japanese Government Bonds (JGBs) are held domestically – by institutions such as the Bank of Japan (BoJ), commercial banks, pension funds, and insurance companies – thereby limiting the country's vulnerability to fluctuations in foreign capital flows.

Moreover, Japan's public debt is almost entirely denominated in its national currency, the yen, affording the government greater flexibility in managing its liabilities. This capacity is further supported by an accommodative monetary stance: the BoJ has maintained ultra – low interest rates, including periods of negative rates, and has engaged in yield curve control. These policies have significantly lowered borrowing costs, despite the country's substantial nominal debt. However, the interplay between fiscal and monetary authorities has raised concerns over fiscal dominance, especially given that the BoJ now holds over 40% of outstanding JGBs.

Chronic fiscal deficits have also been a structural feature of the Japanese economy since the 1990s, driven by efforts to combat prolonged economic stagnation, respond to natural disasters, and provide stimulus during global downturns – including the COVID-19 crisis. These fiscal pressures have been compounded by Japan's demographic trajectory: an aging population and a shrinking labour force are pushing social spending upward while simultaneously eroding the tax base. Although short-term risks to debt sustainability remain contained, long-term prospects are increasingly challenged by demographic constraints and the potential rise in borrowing costs.

The United States likewise holds one of the world's largest public debt stocks, with its debt-to-GDP ratio surpassing 130% in 2020 (see Table 1). Unlike Japan, a substantial share of U.S. government debt is held by a mix of both domestic and foreign investors. Foreign holdings – particularly by countries such as China and Japan – account for approximately 25% of outstanding Treasury securities. The privileged status of the U.S. dollar as the world's primary reserve currency, coupled with the depth and liquidity of U.S. Treasury markets, ensures continued strong demand for U.S. sovereign debt, underpinning its sustainability despite widening fiscal imbalances.

These imbalances stem from persistent mismatches between revenues and expenditures, exacerbated by successive rounds of tax cuts, increased defense spending, and extensive fiscal packages introduced in response to the 2008 financial crisis and the COVID-19 pandemic. While historically low interest rates have helped keep debt servicing costs manageable, the recent tightening of monetary policy by the Federal Reserve – aimed at containing inflationary pressures – has led to a notable increase in interest payments.

Although the U.S. continues to benefit from monetary sovereignty and privileged access to global capital markets, concerns persist regarding the long-term viability of its fiscal trajectory. Rising entitlement spending, demographic aging, and ongoing political gridlock over structural fiscal reforms pose mounting risks – especially if market sentiment deteriorates or interest rates trend upward.

Globally, the pandemic has triggered a structural transformation in the trajectory of public debt relative to GDP. According to the IMF (2025), the global public debt-to-GDP ratio surged from 83.8% in 2019 to 98.9% in 2020 – an unprecedented increase in the absence of a major military conflict (see Table 2 and Figure 1). This dramatic escalation was driven by large-scale fiscal interventions aimed at mitigating the economic disruptions caused by COVID-19. Although a slight decline was observed in 2021 and 2022, the upward trend resumed in 2023 and is projected to continue throughout the decade, with estimates suggesting the global ratio will approach 99.6% by 2030 (see Table 2). These developments signal a potential departure from pre-pandemic fiscal norms, raising concerns regarding long-term debt sustainability.

In the euro area, public debt dynamics closely mirror global trends, although post-pandemic fiscal consolidation has taken place in a more controlled manner. The public debt-to-GDP ratio increased by 12.9 percentage points, from 83.6% in 2019 to 96.5% in 2020. In the subsequent years, a gradual decline in the debt burden was observed, driven by the implementation of relatively prudent fiscal measures and coordinated policy efforts at the European level.

Table 2. Post – pandemic evolution of global public debt (% of GDP)

							IMF Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
World	83,8	98,9	94,0	89,9	91,3	92,3	95,1	96,7	97,5	98,2	98,9	99,6
Euro Area	83,6	96,5	93,9	89,5	87,4	87,7	88,7	89,7	90,4	91,1	91,9	92,9
SUA	108,2	132,0	124,7	118,8	119,0	120,8	122,5	123,7	124,9	125,9	127,0	128,2
Japan	236,4	258,4	253,7	248,3	240,0	236,7	234,9	233,7	232,1	231,2	231,1	231,7

Source: IMF, 2025

Nevertheless, euro zone's projections by the International Monetary Fund suggest a slow but steady increase in public debt levels, with estimates indicating that the ratio will reach 92.9% of GDP by 2030. Although the euro area has managed to contain the acceleration of public debt dynamics, unlike other parts of the global economy, public debt levels are not expected to return to their pre-pandemic values, pointing to a possible increase in fiscal obligations.

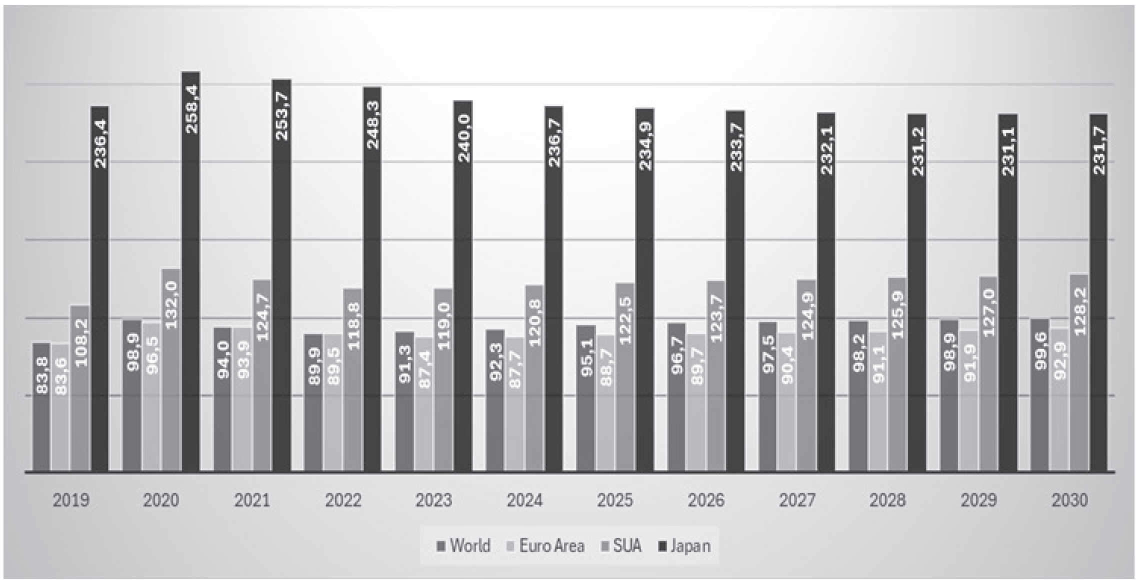
As previously noted, the United States is experiencing a significantly sharper and more sustained increase in public debt. The modest fiscal consolidation in the years following the COVID-19 pandemic led to a 23.8 percentage point rise in the public debt-to-GDP ratio, from 108.2% in 2019 to 132.0% in 2020, approximately double the proportional increase recorded in the euro area. According to IMF estimates, this upward trajectory is expected to continue, with the debt ratio projected to reach 128.2% by 2030. This persistent dynamic reflects deep structural imbalances, such as rising public expenditures on healthcare and social security, as well as political constraints that hinder revenue mobilization. Given the size of the U.S. economy, its fiscal position carries significant implications for international financial markets and global macroeconomic stability.

Japan, long known for its exceptionally high levels of public debt, experienced a 22-percentage point increase in its debt-to-GDP ratio, similar in magnitude to that of the United States, from 236.4% in 2019 to 258.4% in 2020. Unlike other advanced economies, however, Japan has entered a phase of gradual debt reduction, with projections indicating a decline to approximately 231.7% by 2030. Nonetheless, the scale of Japan's public debt remains unparalleled globally.

Overall, these developments reflect a profound transformation of the international fiscal landscape. While the acute phase of the COVID-19 pandemic has passed, its effects continue to be felt in the form of elevated public debt levels and beyond. It is important to note that none of the major economies are projected to return to their pre-pandemic debt levels by 2030. In this context, the sustainability of public debt will remain a central concern for policymakers, particularly in an environment characterized by restrictive monetary policy and growing geopolitical uncertainty.

The fiscal landscape of global economies has been profoundly shaped by the COVID-19 crisis, as evidenced by the substantial deterioration in general government fiscal balances during and after the pandemic's onset. The data from Table 3 (IMF, 2025) shows a sharp and broad-based fiscal expansion in 2020, followed by gradual, though incomplete, adjustment efforts across regions.

Figure 1. Trends in Global Public Debt in the Post-Pandemic Period (% of GDP)



Source: IMF, 2025

At a global scale, the fiscal deficit increased considerably, rising from -3.5% of GDP in 2019 to -9.5% in 2020 (see Table 3). This sharp deterioration in the fiscal-budgetary context was largely driven by large-scale government interventions aimed at mitigating the economic repercussions of the COVID-19 public health emergency. Although efforts toward fiscal consolidation were observed shortly after the health crisis subsided, the high global deficit has persisted, fluctuating around -5.0% of GDP since 2024. Projections extending to 2030 point to a continued, albeit moderate, deficit ranging between -4.5% and -4.6% of GDP. These figures suggest that the fiscal imbalances that emerged during the pandemic have taken on a structural character, posing long-term challenges to the sustainability of public finances.

Table 3. Post – pandemic evolution of government fiscal balance (% of GDP)

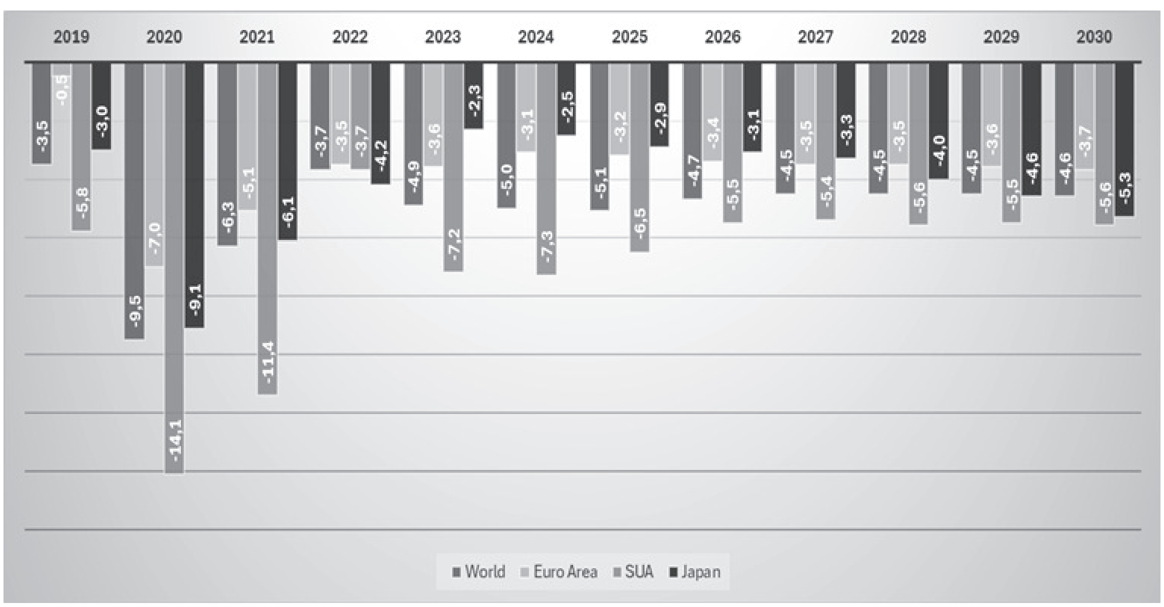
							IMF Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
World	-3,5	-9,5	-6,3	-3,7	-4,9	-5,0	-5,1	-4,7	-4,5	-4,5	-4,5	-4,6
Euro Area	-0,5	-7,0	-5,1	-3,5	-3,6	-3,1	-3,2	-3,4	-3,5	-3,5	-3,6	-3,7
SUA	-5,8	-14,1	-11,4	-3,7	-7,2	-7,3	-6,5	-5,5	-5,4	-5,6	-5,5	-5,6
Japan	-3,0	-9,1	-6,1	-4,2	-2,3	-2,5	-2,9	-3,1	-3,3	-4,0	-4,6	-5,3

Source: IMF, 2025

As previously mentioned, within the Euro Area, the fiscal response to the pandemic was relatively moderate, with the budget deficit increasing from -0.5% of GDP in 2019 to -7.0% in 2020 (see Figure 2). Subsequently, a relatively steady path of fiscal consolidation was observed, with the deficit narrowing to -3.1% by 2024. Nevertheless, projections point to a gradual increase in the deficit, reaching –3.7% by 2030, likely driven by demographic pressures, the costs associated with the energy transition, and the fiscal burden of structural reforms undertaken by member states. While the Euro Area's fiscal position is expected to remain more sustainable than that of the global economy or the United States, a return to pre-crisis budgetary levels appears unlikely.

The United States is experiencing the most severe fiscal deterioration among the major economies (see Figure 2). The federal budget deficit surged from -5.8% of GDP in 2019 to a striking -14.1% in 2020 and has remained elevated in the following years, reaching -7.3% by 2024. Although a gradual decline to -5.6% is projected by 2030, the U.S. is expected to maintain one of the highest fiscal deficits among advanced economies throughout the decade. This trend reflects deeply rooted structural imbalances, particularly in relation to entitlement spending, the rigidity of tax policy, and the rising cost of servicing public debt. Such developments raise serious concerns about the long-term sustainability of U.S. public finances and the narrowing of available fiscal space.

Figure 2. Fiscal balance dynamics in the Post-Pandemic Period (% of GDP)



Source: IMF, 2025

In contrast, Japan – a country that has grappled for decades with exceptionally high levels of public debt – has adopted a relatively more moderate fiscal stance in the years following 2020. Starting from a budget deficit of -3.0% of GDP in 2019, the country recorded a deficit of

-9.1% of GDP in 2020. However, the pace of post-pandemic fiscal consolidation has been notably faster than that observed in other advanced economies, resulting in a reduction of the deficit to -2.3% of GDP by the 2023 fiscal year. Current IMF projections, however, suggest a reversal of this trend, with the deficit expected to widen again, reaching -5.3% by 2030. This development is most likely driven by mounting demographic pressures and increasing social expenditure, in a context where fiscal space for further adjustments is becoming increasingly constrained.

The data under review reveal a structural transformation of the global fiscal architecture in the post-pandemic period (see Figure 3). While short-term fiscal stimulus was essential in cushioning the economic shock caused by the COVID-19 pandemic, the continued prevalence of elevated deficits across most regions suggests that fiscal normalization will be both gradual and prolonged. The fiscal paths of the world's major economies, particularly those of the United States and Japan, will have a significant influence on global interest rates, capital flows, and overall macroeconomic stability. Against the backdrop of tightening monetary policy and rising public debt servicing costs, the need for credible medium-term fiscal frameworks that strike a balance between economic growth and financial sustainability is becoming increasingly urgent.

In the longer term, the trajectory of global fiscal policy will play a decisive role in shaping the international economic outlook. Reestablishing credible medium-term budgetary frameworks, alongside structural reforms aimed at fostering economic growth, will be crucial to mitigating systemic risks and ensuring lasting macroeconomic resilience.

3. Romania's fiscal performance and budgetary outlook

From a fiscal and budgetary perspective, Romania's economy is facing increasingly acute challenges within a deteriorating international environment, marked by heightened uncertainty and growing risks. The escalation of a trade conflict – initiated by the United States through the imposition of tariffs on all of its major trading partners – has triggered swift retaliatory measures from the affected countries, significantly worsening global economic prospects, particularly in financial markets. This already unfavourable international context is further aggravated by a major regional military conflict between the Russian Federation and Ukraine, which has been ongoing for more than three years.

Adding to these developments is the stagnation of disinflationary trends in many economies. Moreover, forecasts for national economic growth – which were already conservative – have undergone substantial downward revisions.

Considering the current global economic conditions, Romania's fiscal policy is under pressure to meet multiple, and at times conflicting, objectives. These include reducing public debt, which has reached a record high of 54.6% of GDP (see Table 4), while at the same time increasing public spending, particularly in defence. All of this must be accomplished in a context where the IMF projects GDP growth of only 1.6%, financing costs remain elevated, and macroeconomic risks continue to intensify.

Table 4. Trends in Romania's public debt

	2018	2019	2020	2021	2022	2023	2024	EC Projections 2025	EC Projections 2026
Public debt (Mil. RON)	329.900	372.900	498.600	576.300	665.500	784.400	964.346	1.079.400	1.244.600
Public Debt-to-GDP Ratio (%)	34,38	34,96	46,61	48,34	47,90	48,89	54,60	56,08	59,70

Source: AMECO Database, Eurostat, MF, 2025

Over the past decade, Romania's public debt has followed a markedly upward trajectory, driven both by persistent structural fiscal imbalances and by the macroeconomic shocks triggered by the COVID-19 pandemic, as well as the fiscal pressures of the post-pandemic period. According to projections by the European Commission, the nominal value of public debt is expected to rise from RON 329.9 billion in 2018 to over RON 1.24 trillion by 2026, amounting to an almost fourfold increase in less than ten years.

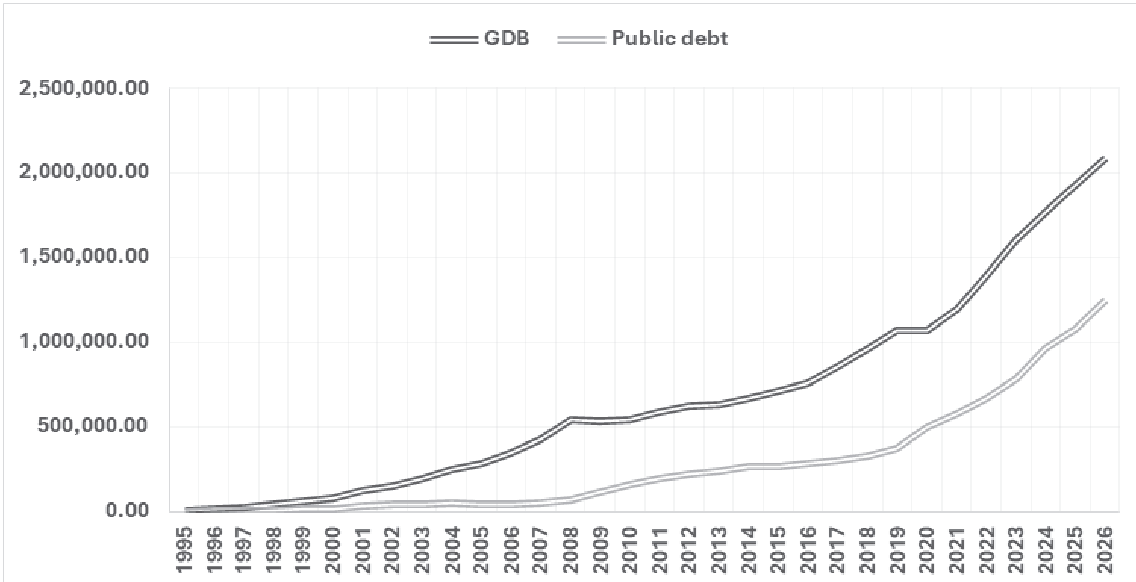
This dynamic is also reflected in the evolution of the public debt-to-GDP ratio, which has experienced a significant increase over the same period. From a relatively sustainable level of 34.4% of GDP in 2018, the ratio jumped to 46.6% in 2020, largely because of the expansionary fiscal policies implemented in response to the health crisis. Although the indicator appeared to stabilize around 48% during the 2021–2023 period, current forecasts point to a continued rise, reaching 59.7% of GDP by 2026.

This trend raises serious concerns about the long-term sustainability of Romania's public finances, especially in a context marked by elevated interest rates, modest economic growth prospects, and heightened external vulnerabilities. Particularly noteworthy is the projected increase to 54.6% in 2024, which brings Romania dangerously close to the 60% threshold set by the Maastricht Treaty, signalling an increased exposure to fiscal risks in the event of adverse macroeconomic developments.

Moreover, the nominal increase in public debt, by nearly RON 700 billion between 2018 and 2026, highlights the structural nature of fiscal deficits and the ongoing accumulation of public liabilities. These pressures are further exacerbated by the growing need for public spending, particularly in the areas of defense, pensions, and healthcare, against the backdrop of a rigid and relatively inflexible revenue base.

As illustrated in Figure 3, Romania's macroeconomic profile between 1995 and 2024 reveals a dual transformation, marked by the parallel growth of both GDP and public debt. While nominal GDP expanded more than 270-fold, from approximately RON 7.6 billion in 1995 to an estimated RON 2.08 trillion in 2026, this impressive economic growth has increasingly been accompanied, and at times even outpaced, by the accumulation of public debt.

Figure 3. Long-term dynamics of Romania's GDP and Public Debt (Mil. RON)



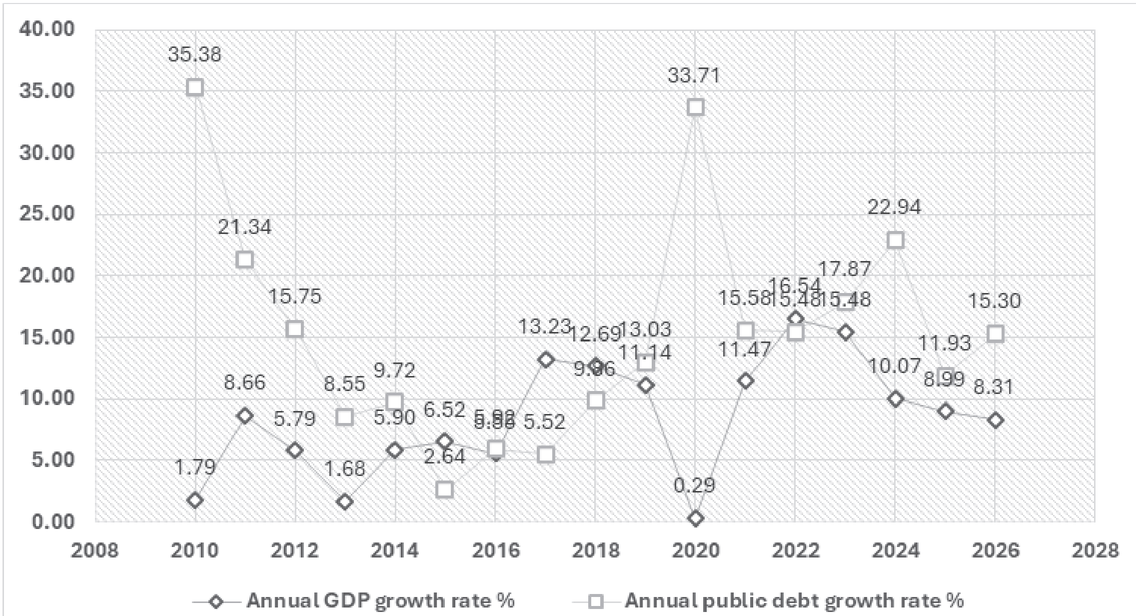
Source: AMECO Database, Eurostat, MF, 2025

In absolute terms, the public debt rises from a modest RON 500 million in 1995 to over RON 1.24 trillion projected for 2026, indicating a disproportionately sharp increase relative to GDP. Notably, while the public debt-to-GDP ratio remained contained in the early years, its sustained rise post – 2008 signals a structural decoupling between economic growth and fiscal prudence.

This divergence has become particularly evident in the period following 2020. Although Romania has continued to register consistent nominal GDP growth, the pace of public debt accumulation has intensified more sharply, pointing to an increasing reliance on borrowing not only for counter-cyclical measures but also for financing the structural components of the budget. This trend signals a weakening correlation between economic expansion and public debt stabilization, which may significantly constrain fiscal space in the event of future economic shocks.

Therefore, while Romania's GDP trajectory suggests a growing economy, the rising proportion of public debt within that growth highlights underlying vulnerabilities. The long-term sustainability of this dual path will ultimately depend on the capacity of fiscal policy to recalibrate debt dynamics in alignment with both the pace and the quality of economic output.

Figure 4. Comparative evolution of annual GDP and public debt growth (%)



Source: Author's calculations based on data from AMECO, Eurostat, MF, 2025

Between 2010 and 2026, Romania has experienced a period marked by considerable volatility in both GDP growth and the pace of public debt expansion (see Figure 4). Following modest economic growth in 2010 (+1.79%), the Romanian economy entered several cycles of accelerated expansion, with notable peaks recorded in 2011 (+8.66%), 2017 (+13.23%), and especially in 2022 (+16.54%). In parallel, the dynamics of public debt showed significant fluctuations, with two major increases: +35.38% of GDP in 2010 and +33.71% of GDP in 2020.

The year 2020, marked by the outbreak of the COVID-19 pandemic, represented a critical turning point. GDP growth contracted sharply, reaching just +0.29%, reflecting the negative effects of lockdown measures, global supply chain disruptions, and heightened economic uncertainty. At the same time, the public debt growth rate rose to +33.71% of GDP, most likely as a result of counter-cyclical fiscal policies, emergency spending, and increased budget allocations to the healthcare sector. This combination illustrates the immediate fiscal pressure experienced by the Romanian government in the face of an unprecedented global health crisis.

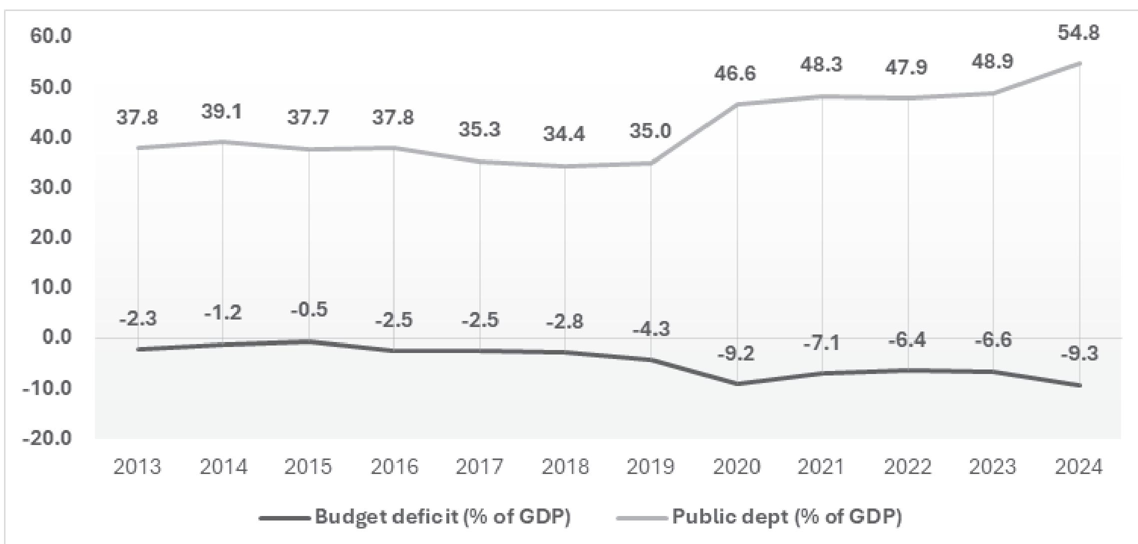
In the post-pandemic period (2021-2024), the data point to a strong economic recovery, with annual GDP growth rates exceeding 10% in several years, +11.47% in 2021, +16.54% in 2022, and +15.48% in 2023. This rebound can be attributed to the resurgence in consumer demand, the resumption of economic activity, and the application of supportive macroeconomic policies. However, this GDP expansion was accompanied by a continued increase in public debt, which remained in the double-digit range, suggesting that the recovery was, at least in part, financed through borrowing.

It is important to note that the data do not reveal a consistent inverse relationship between GDP growth and public debt accumulation. For instance, periods of strong economic expansion, such as the 2017–2019 interval, often coincided with moderate or even high levels of debt accumulation. Similarly, in the post-COVID-19 recovery phase, both indicators increased in parallel, raising concerns about a potential structural dependence on public borrowing, even outside crisis contexts.

For the years 2025 and 2026, economic growth is expected to moderate, with projected rates of +8.99% and +8.31%, respectively, while public debt is expected to continue rising at elevated rates of +11.93% and +15.30%. This divergence may reflect the waning of post-crisis momentum, combined with the persistence of underlying fiscal imbalances. It also highlights the importance of transitioning from emergency fiscal measures to sustainable, long-term public finance policies.

Recent fiscal developments in Romania point not only to a significant increase in public debt, but also to a budget deficit that has reached a highly unsustainable level of 9.4% of GDP (see Figure 5).

Figure 5. Dynamics of Romania's budget deficit and public dept (% of GDP)



Source: Eurostat, 2025

The crisis triggered by the COVID-19 pandemic marked a major turning point in Romania's fiscal trajectory, signalling the beginning of a structural shift in both the budget deficit and public debt accumulation. In 2020, the general government budget deficit sharply increased to -9.2% of GDP, reflecting an unprecedented fiscal imbalance in Romania's recent history outside the context of military conflict. This pronounced deterioration was primarily the result of expansive counter-cyclical fiscal measures implemented to mitigate the economic impact of the pandemic, compounded by substantial revenue losses due to the contraction in economic activity.

Romania's public debt responded immediately to this fiscal shock, rising from 35.0% of GDP in 2019 to 46.6% in 2020, an increase of more than 11 percentage points in a single year. Subsequent developments suggest that post-pandemic fiscal adjustment has remained incomplete and insufficiently rooted in a structural consolidation framework. Although the deficit narrowed slightly in 2021 and 2022 (-7.1% and -6.4% of GDP, respectively), it remained well above the 3% reference threshold established by the Maastricht Treaty, indicating a prolonged deviation from fiscal discipline.

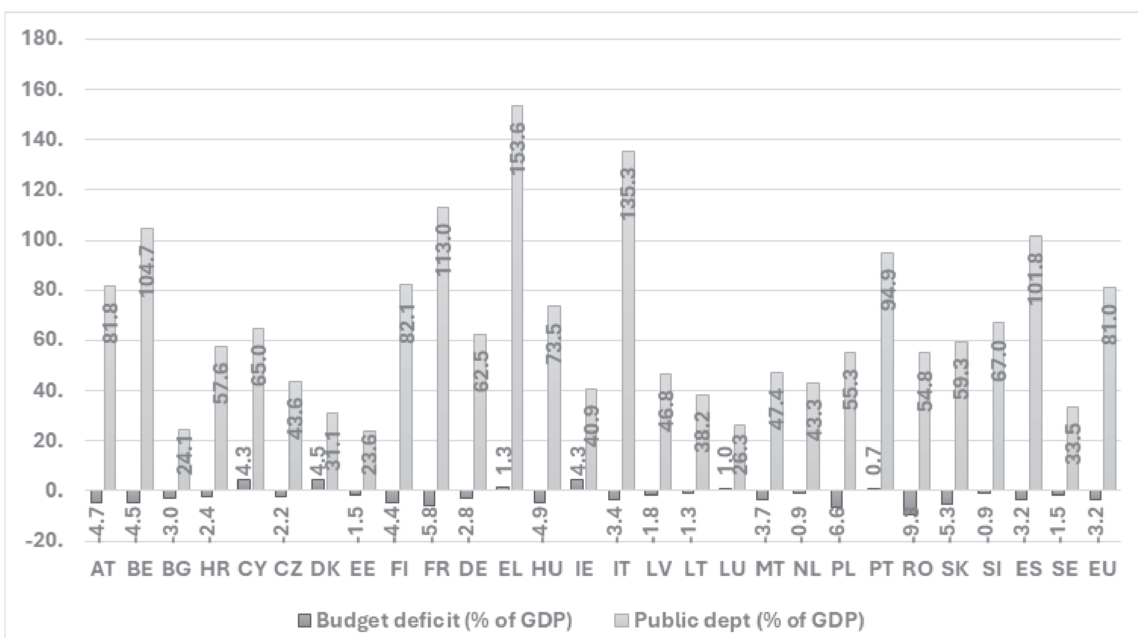
In parallel, public debt continued to grow, albeit at a slower pace, reaching 48.9% of GDP in 2023 and an estimated 54.8% in 2024. This persistent upward trend reflects the cumulative effect of elevated primary deficits, rising financing costs, and possibly weak nominal GDP growth. The fact that public debt has continued to accumulate even during years of relative deficit reduction points to increasing structural rigidity within Romania's fiscal framework.

Furthermore, the projected renewed widening of the budget deficit in 2024, to -9.3% of GDP, suggests a reversal of earlier consolidation efforts and raises serious concerns about the medium-term sustainability of public debt. In an environment shaped by tighter global financial conditions and rising risk premia, this fiscal deterioration may increase Romania's exposure to refinancing risks and external shocks.

In essence, the pandemic-induced fiscal expansion appears to have evolved into a post-crisis fiscal drift, where temporary emergency measures have gradually transformed into persistent structural imbalances. The current challenge lies not only in reducing the deficit, but also in restoring fiscal policy credibility and reanchoring public debt onto a sustainable trajectory through consolidation strategies compatible with long-term economic growth.

At the European Union level, fiscal outlooks for 2024 reveal significant heterogeneity in both budget deficit levels and the public debt-to-GDP ratio, reflecting differences in national policy responses, the structural characteristics of individual economies, and institutional capacity (see Figure 6). At EU level, the average budget deficit is estimated at –3.2% of GDP, while the average public debt ratio stands at 81.0% of GDP. Although many member states remain within the parameters of the Stability and Growth Pact, several continue to diverge significantly from its benchmarks.

Figure 6. Comparative overview of fiscal deficits and public debt in the European Union, 2024 (% of GDP)



Source: Eurostat, 2025

As can easily be observed, Romania represents a notable case among European Union member states, reporting the highest budget deficit at –9.3% of GDP, nearly three times higher than the EU average and substantially exceeding the 3% threshold established by the Maastricht Treaty on nominal convergence. This considerable deficit not only reflects the persistence of expansionary fiscal policies but also highlights significant structural imbalances, indicating ongoing challenges related to revenue collection and the control of public expenditures. Romania's deficit surpasses even those of countries traditionally confronted with substantial fiscal imbalances, such as France (–5.8%), Poland (–6.6%), and Slovakia (–5.3%).

Regarding public debt, Romania exhibits a relatively moderate level, at 54.8% of GDP, below the EU average and considerably lower than highly indebted economies such as Greece (153.6%), Italy (135.3%), and France (113.0%). Nevertheless, this comparatively moderate debt level should not conceal the risks associated with its rapid accumulation, particularly given the context of elevated financing costs and adverse demographic trends.

The decoupling between Romania's public debt level and the magnitude of its deficit suggests that, although previous prudence in debt management provides a certain buffer, the sustainability of the current fiscal policy remains questionable without structural consolidation measures. Moreover, Romania's fiscal stance sharply contrasts with several member states that anticipate fiscal surpluses in 2024, such as Denmark (4.5%), Ireland (4.3%), and Cyprus (4.3%), further accentuating fiscal divergences within the Union.

Romania's case underscores the urgent need to recalibrate fiscal policy, aligning it both with internal macroeconomic fundamentals and European fiscal governance standards. Failure to undertake such recalibration risks undermining investor confidence, jeopardizing medium-term fiscal sustainability, and adversely affecting Romania's credibility within the European Union.

3. Conclusions

In conclusion, Romania's fiscal trajectory over the past decade underscores profound structural challenges and persistent macroeconomic vulnerabilities exacerbated by recent global shocks, notably the COVID-19 pandemic and ongoing geopolitical tensions. The sharp deterioration of fiscal balances and rapid accumulation of public debt observed since 2020 illustrate a critical juncture in Romanian public finance management, highlighting underlying weaknesses in revenue mobilization and expenditure control.

Navigating in EU fiscal governance imperatives, Romania's fiscal stance, marked by the EU's highest budget deficit at -9.3% of GDP in 2024, positions it as a conspicuous outlier within the European Union. The activation of the Excessive Deficit Procedure and the impending reinstatement of the Stability and Growth Pact underscore the imperative for Romania to recalibrate its fiscal policies in alignment with EU norms. Failure to enact robust structural consolidation risks undermining investor confidence and eroding Romania's credibility within the Union.

In global contextualization, the global public debt surge to 98.9% of GDP in 2020 and the persistence of fiscal deficits delineate a broader post-pandemic fiscal paradigm, within which

Romania's experience is both reflective and distinctive. While mirroring global trends of heightened borrowing, Romania's rapid debt accumulation, relative to its economic capacity, contrasts with the fiscal resilience of economies like Japan and the United States, which benefit from greater monetary sovereignty and market depth. This comparative perspective accentuates the urgency of bespoke fiscal strategies tailored to Romania's unique constraints.

The analysis reveals that, although Romania's public debt remains comparatively moderate relative to heavily indebted EU economies, the alarming pace of debt accumulation combined with persistently high fiscal deficits significantly amplifies medium-term sustainability risks. The projected escalation of the budget deficit to levels substantially above the Maastricht Treaty threshold reflects not merely temporary counter-cyclical fiscal measures, but rather entrenched structural imbalances demanding immediate policy attention.

Romania's fiscal position also stands in stark contrast to the broader EU context, where several member states have managed to achieve fiscal surpluses and debt stabilization through prudent management and structural reforms. This divergence underscores the urgent need for Romania to realign its fiscal policies to European governance frameworks and domestic macroeconomic fundamentals, emphasizing credible consolidation strategies that balance growth imperatives with fiscal discipline.

The path forward necessitates comprehensive fiscal reforms aimed at enhancing revenue efficiency, rationalizing public expenditures, and reinforcing institutional capacities to maintain debt sustainability. Without decisive and timely action, Romania risks undermining investor confidence, exacerbating vulnerabilities to external shocks, and impairing its credibility within the European Union framework.

Ultimately, addressing these fiscal challenges requires not only targeted policy measures but also robust political commitment and effective governance structures capable of navigating Romania toward a stable, sustainable, and resilient fiscal future.

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