CPAG

ANALYSIS PAPER

ONE YEAR ON:

ROMANIA'S FISCAL ADJUSTMENT HAS BEEN COMPLICATED, ONLY PARTLY EFFICIENT, WITH NO SUPPORT TO ECONOMIC GROWTH.

FISCAL ADJUSTMENT NEEDS A RESET TO JUMPSTART THE ECONOMY.

What the first seven months of 2026 tell us about the 2025 fiscal package — and how it compares with what CPAG proposed in June 2025

FOLLOW-UP TO

“Fiscal Adjustment Must Be Simple, Efficient, and to Support Economic Growth”

(Lungu, Kállai, Ştefan, 4 June 2025)

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Key findings at a glance

What the budget execution data for the first seven months of 2026 show, one year after the fiscal package

+0.8 pp

VAT gain, as a share of GDP

Rolling 12 months to July 2026 — more than the entire +0.7 pp net rise in fiscal revenue

–2.3%

Budget deficit, Jan–Jul 2026

Of estimated 2026 GDP — down from a 9.3%-of-GDP peak in 2024

–65,000

Jobs lost over the last year alone

1.3% of total employment; unemployed up 10%; ≈ RON 2.5 bn/year fiscal cost

–0.5%

GDP growth, average of the last three quarters

Only 1.0% a year on average since 2023 — its lowest, during the PNRR inflow

–0.2 pp

SSC, as a share of GDP

11.1% → 10.9% despite repeated broadening of the CASS base

≈ 42%

Current government spending, % of GDP

Still far too high — real cuts, not inflation, must offset any relief

Summary

- VAT did essentially all of the revenue work over the past year; profit tax and social contributions are flat as a share of GDP.
- Despite repeated broadening of the CASS base, social security contributions actually fell as a share of GDP on a rolling-12-month basis — the labour-tax measures are not delivering the revenue their base-broadening was designed to raise, partly due to the large number of job losses in the economy.
- Growth kept decelerating even during the largest EU-funded capital inflow in a decade, and the economy lost around 65,000 jobs over the last year alone, costing the budget an estimated minimum of RON 2.5 billion a year in forgone revenue and benefit costs.
- The budget deficit has fallen to -2.3% of GDP in the first seven months of 2026, a remarkable achievement in itself. But the remaining consolidation, from roughly -6% to the -3% target by 2031, is structurally harder than the first phase, and signs of adjustment fatigue are already visible.
- Policy priorities: enforce the VAT gap, deliver the SSC relief we originally proposed, revisit the 16% dividend rate if full-year 2026 collections disappoint, target support to SMEs squeezed by the dividend tax and weaker sales, and cut current spending (still close to 42% of GDP) rather than letting inflation erode it.
- Sequencing and credibility matter as much as the size of individual measures: rising global bond yields and a credit rating held up mainly by the credibility of the deficit path make further ad hoc emergency ordinances a bigger risk now than a year ago.

01 INTRODUCTION

One instrument out of a dozen did all the work

In our paper "Fiscal Adjustment Must Be Simple, Efficient, and to Support Economic Growth" (with Ella Kállai and George Ştefan, 4 June 2025 - https://www.cpag.ro/docs/Ajustare%20fiscala_Macro%20plan_04Jun25_EN.pdf , we proposed what the title suggested, a simple fiscal reform based on economic logic, namely increasing the tax on consumption but balancing this with a small cut in labour costs and no increase in capital taxes.

One year on, the effects of fiscal policies implemented by the authorities show that essentially one instrument, out of roughly a dozen, did all of the work, namely the VAT increase. Budgetary results for the first seven months of 2026 show that we were right. VAT gains accounted for 0.7% of GDP while current revenues rose by only 0.4% of GDP. Of everything raised in 2025, largely VAT – and to a small extent property taxes - actually moved the needle in the budget execution data. Compared to the same period a year ago, profit tax and social contributions are virtually flat as a share of estimated GDP; the dividend tax's apparent 2025 gain is very likely a one-off pulled forward ahead of the 16% rate; the turnover taxes and the construction tax raise revenue but not enough, relative to their size and the number of times they were touched, to show up as anything more than rounding in the execution totals.

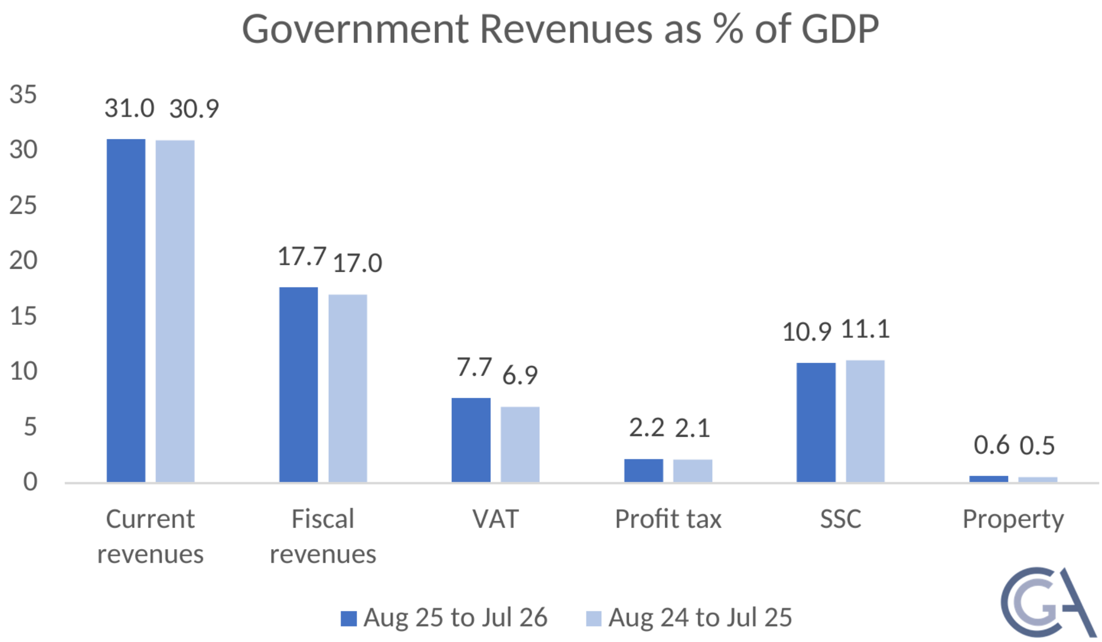
✓ CPAG RECOMMENDATION, JUNE 2025 — CONFIRMED | Raise the consumption tax — VAT is the instrument that works

Budgetary results for the first seven months of 2026 show that the consumption tax did the revenue work, as CPAG proposed in June 2025: VAT gains of 0.7% of GDP, against a rise in current revenues of only 0.4% of GDP. Profit tax and social contributions are virtually flat as a share of GDP.

Taking a rolling-12-month view (i.e. comparing revenue data for the period Aug 25-Jul 26 against the Aug 24-Jul 25 period) actually sharpens the results. Although these are only partial results, based on the 2026 Q2 GDP estimate, they actually outline a trend.

The most striking thing is that VAT alone (+0.8pp of GDP) accounts for slightly more than the entire net increase in fiscal revenue (+0.7pp). That is only possible because something else fell: in our preliminary estimates SSC actually declined as a share of GDP, from 11.1% to 10.9% (-0.2pp). This is notable given how much of the 2025 measure list was aimed at broadening the CASS base. None of that shows up as a net revenue gain here — if anything, the ratio moved the wrong way. Profit tax (2.1%→2.2%) and property (0.5%→0.6%) are both essentially flat, each contributing a rounding error's worth of GDP. So on a full rolling year, VAT is not just the biggest riser — it is doing more than 100% of the work, with everything else roughly cancelling out.

Figure 1. Government revenues as % of GDP, rolling 12 months: Aug 25–Jul 26 vs Aug 24–Jul 25



Source: CPAG calculations using Ministry of Finance, INSSE, NBR data and own estimates for GDP in 26Q2

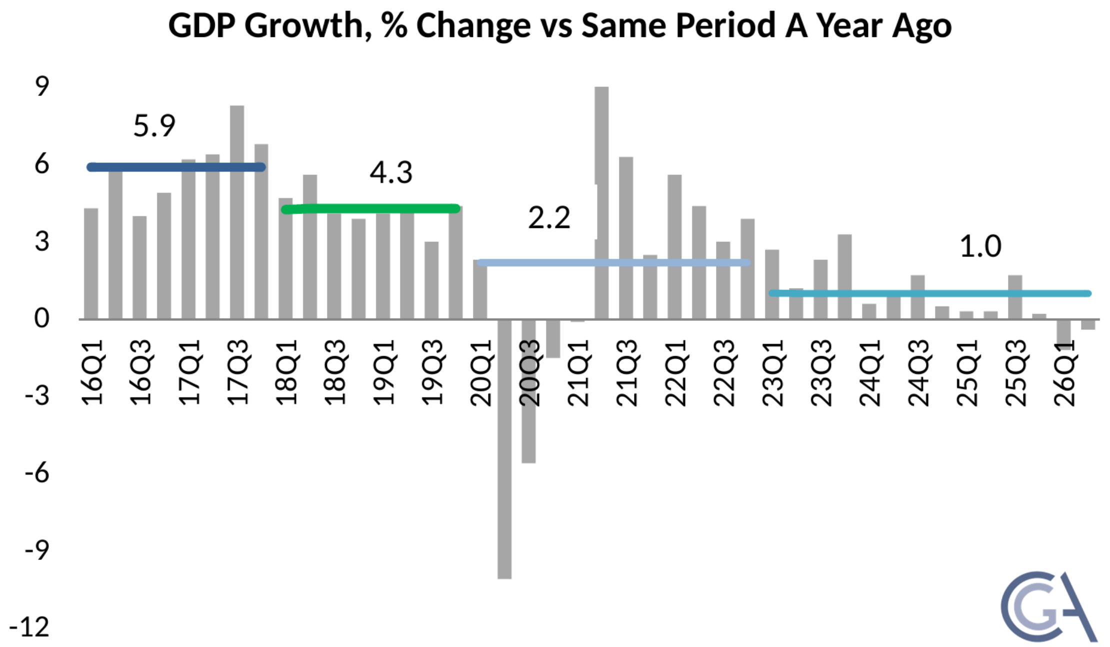
Scheme 1. Where the extra revenue came from — change in each item, pp of GDP, rolling 12 months

Revenue item	Change, Aug 24–Jul 25 → Aug 25–Jul 26	pp of GDP	Reading
VAT *6.9% → 7.7% of GDP*		**+0.8 pp**	Doing more than 100% of the work
Social contributions (SSC) *11.1% → 10.9% of GDP*		**-0.2 pp**	Fell despite repeated base-broadening
Profit tax *2.1% → 2.2% of GDP*		**+0.1 pp**	Essentially flat
Property taxes *0.5% → 0.6% of GDP*		**+0.1 pp**	Essentially flat
Fiscal revenues, total *17.0% → 17.7% of GDP*		**+0.7 pp**	Net result: everything other than VAT roughly cancels out

Source: CPAG calculations using Ministry of Finance, INSSE, NBR data and own estimates for GDP in 26Q2. Figures rounded to one decimal.

The economy is on a decelerating path, averaging -0.5% growth over the last three quarters. This is to be expected given a fiscal consolidation of this scale. But the real worry is that the fall in trend economic growth has been consistent over the last decade. And in a period in which Romania benefited from one of the largest inflows of free capital, via its National Recovery and Resilience Plan (PNRR), average growth was at its lowest, at only 1%:

Figure 2. GDP growth, % change vs same period a year ago — period averages: 5.9% (2016–17), 4.3% (2018–19), 2.2% (2020–22), 1.0% (2023–26)



Source: CPAG calculations from the INSSE data

The economy also lost almost 65,000 jobs over the last year (1.3% of total employment), pushing up the number of unemployed by 10%. Those job losses were largely occurring in the private sector. This explains why the broadening of the SSC base did not yield the results the authorities anticipated. The economy seems to have now reached a point where any increase in taxes threatens to bring in less revenue and slow economic growth further.

✓ CPAG WARNING, JUNE 2025 — CONFIRMED | Taxing labour further would bring in less, not more

CPAG's June 2025 paper argued that further taxes on labour would have a poor cost-benefit ratio. One year on, social contributions have fallen as a share of GDP, some 65,000 jobs have been lost, and the broadening of the SSC base has not yielded the revenue the authorities anticipated.

The real progress has been achieved by reducing the government's budget deficit to -2.3% of estimated 2026 GDP during the first seven months of the year. This was indeed the main purpose of the reform. But there are different paths to achieve the same outcome, some entailing lower costs than others. The risk now is that the effects of government measures will create a permanent supply destruction, pushing future GDP growth potential even lower while reducing Romania's competitiveness. Coupled with the potential negative shocks coming from abroad in the near future, the situation could become even bleaker. This requires new thinking and, by looking at what went wrong over the last year, a new set of measures aimed at restarting growth should be carefully, and rather quickly, taken into consideration.

That should have been the starting point for the initial policy design. What actually happened across four legislative vehicles in three years was the opposite of a philosophy: taxes on labor, capital and consumption were all raised, more or less simultaneously, with no attempt to sequence them, to protect the bases with the better growth trade-off, or to give the economy any respite — any room to absorb one adjustment before the next ordinance arrived. Each package reads as a response to that year's budget gap rather than as part of a considered view of which taxes Romania could raise without damaging the recovery it needed. That was purely an accounting exercise. It was not economics, which would have asked what each instrument's behavioral response and growth cost actually were before choosing between them. Our own June 2025 paper made exactly this distinction, citing the IMF's own ranking of which taxes are more and less distortive; the actual policy record shows little sign that ranking informed the sequence of ordinances that followed it.

◆ Why this matters — accounting versus economics

An accounting approach asks how much each measure raises on paper; an economic approach asks how people and firms respond to it, and what that response costs in growth. CPAG's June 2025 paper made exactly this distinction, citing the IMF's ranking of which taxes are more and less distortive; the policy record since shows little sign that the ranking informed the sequence of ordinances that followed, taxes on labour, capital and consumption were all raised, more or less simultaneously, and only VAT delivered.

The VAT gap is the clearest evidence that this was not about matching the instrument to the objective. The enforcement push we advocated has not yielded any tangible results so far. The government rightly chose to increase the effective VAT rate, but the slower structural work of actually collecting VAT is largely not visible. Given that VAT is the one instrument that is actually working, a stalled VAT gap is not a side issue — it is the single largest remaining source of revenue, one that would not require another tax increase on labor or capital at all.

✕ CPAG RECOMMENDATION, JUNE 2025 — NOT YIELDING RESULTS | Pair the VAT rise with VAT-gap enforcement

The one CPAG proposal that required no new tax — collecting more of the VAT already legislated through enforcement — alongside the rate increase, has produced no tangible results so far. It is the single largest remaining source of revenue, one that would not require another tax increase on labour or capital at all.

02 WHAT WAS ACTUALLY IMPLEMENTED VS OUR ECONOMIC PHILOSOPHY

Four legislative vehicles, three years, taxes raised on every base

Annex 1 lists the measures adopted over the past three years, splitting them into labour, consumption and capital/property. Taxes were raised across all these categories with no clear economic strategy in sight, hurting future growth and making economic recovery conditions much more difficult.

Table B. Measures adopted 2023–2026, by economic base (from Annex 1)

Economic base	Distinct measures	Direction of travel	Main legislative vehicles
A. Labour (income tax, CAS/CASS, minimum wage)	6	Up — base broadened in 2023, 2025 and again for 2026; the only relief is the tax/CAS-free allowance at the minimum wage	Law 296/2023; OUG 156/2024; Law 141/2025; Law 239/2025
B. Consumption (VAT, excises, gambling)	5	Up — VAT raised and restructured, excises widened; e-invoicing is a compliance measure, not a rate change	Law 296/2023; Law 141/2025; Law 239/2025
C. Capital / business (turnover taxes, dividend tax, micro-enterprise regime)	7	Up — the most frequently amended base; dividend tax raised three times since 2022; only the oil & gas ICAS lapsed	OG 16/2022; Law 296/2023; OUG 156/2024; Law 141/2025; GEO 89/2025; Law 239/2025
D. Property (real estate, vehicles)	3	Up — luxury tax tripled, taxable values revalued and raised, reduced rates for legal entities removed	Law 296/2023; local tax reform; Law 239/2025

Source: CPAG, from Annex 1.

Two patterns stand out. First, capital/business is the most frequently amended base: seven distinct measures, several of them touched more than once, with the direction almost uniformly upward — every turnover tax introduced from 2024 was still in place in mid-2026, and the dividend tax was raised three times since 2022. The one genuine piece of capital-side relief in the whole record is the oil & gas turnover tax (ICAS), quietly allowed to lapse at end-2025 rather than renewed — a partial vindication of the "eliminate the turnover taxes" recommendation in our June 2025 paper.

✓ CPAG RECOMMENDATION, JUNE 2025 — CONFIRMED | Eliminate the turnover taxes (partial)

The oil & gas turnover tax (ICAS) was allowed to lapse at end-2025 — a partial vindication of the 'eliminate the turnover taxes' recommendation in the June 2025 paper. The other turnover taxes were retained or expanded.

Second, on labor the direction only ever goes one way: the 2023 law broadened the CASS base (vouchers, sectoral exemptions), the August 2025 package removed the remaining exemptions and added a new levy on higher pensions, and Law 239/2025 broadened it again for 2026, raising the self-employed CASS cap and closing the last co-insurance exemptions (non-earning spouses, pregnant and postpartum women), while the only genuine relief anywhere in the record, the minimum-wage tax/CAS-free allowance, is narrowly targeted at the bottom of the wage distribution.

Our June 2025 note argued for a narrow, contingent package: a temporary VAT increase paired with VAT-gap enforcement, a cut (not a rise) in social contributions, and elimination of the turnover and construction taxes — on the grounds that taxing capital and labor further would have a poor cost-benefit ratio given already weak gross value added growth. The government's actual package, finalised two months later in Law 141/2025, moved in the same direction on VAT and on the profit-tax rate, but in the opposite direction on almost everything else.

Table 1. CPAG proposal (4 June 2025) versus what was actually implemented

Dimension	What we proposed (4 June 2025)	What was actually implemented
Consumption (VAT)	Temporary +3pp on the effective VAT rate, delivered partly through VAT-gap closure (enforcement) and partly through the rate, paired with anti-evasion tools (e.g. a refundable deposit for high-risk new registrations).	Standard rate raised 19%→21% and the reduced-rate structure collapsed from 5%/9% into a single 11% rate — broader and more front-loaded than we proposed. No comparable VAT-gap enforcement package (e.g. the deposit mechanism) was adopted alongside it.
Labor (CAS/CASS)	Cut CAS/CASS by 1pp and cap contributions on non-salary income at 5 average wages, to protect competitiveness and partly offset the VAT hit to real wages.	Not adopted. The direction of travel was the opposite: remaining sectoral exemptions were removed (broadening the base) and a new 10% CASS was imposed on pensions above ~RON 3,000/month.
Capital (turnover/construction taxes)	Eliminate the turnover tax, the special construction tax and additional energy-related taxes; conceptually, any further tax increase on capital or labor is sub-optimal at this stage.	Retained and expanded: the credit-institution turnover tax doubled (2%→4%), the minimum turnover tax (IMCA) was kept, and the construction tax was reinstated (Jan 2025) — its repeal only legislated for 2027.
Capital (dividend tax)	Flags the dividend tax as one of several recently imposed taxes already weighing on capital; implicit caution against raising it further.	Raised again, from 10% to 16% (legislated mid-2025, effective Jan 2026) — directly counter to our caution. ANAF full-year receipts nearly doubled in 2025 (RON 5.81bn→10.33bn), but Section 3.1 argues much of that looks like a pull-forward ahead of the 16% rate rather than a durable gain.
Profit tax	Do not touch the profit-tax rate; the macro backdrop (near-zero real GVA growth) makes it the wrong lever.	Headline 16% rate left unchanged, consistent with our proposal — though the falling micro-enterprise threshold pushes more small firms into the standard regime over time.
Spending	Primary lever for 2025: freeze/cut current and especially investment-related spending; address the structural rise in personnel and social-assistance outlays.	Substantially followed: personnel, social-assistance and capital spending all fell as a share of GDP in the H1 2026 execution data, largely due to inflation — with capital expenditure absorbing the largest relative cut.

Source: CPAG.

The practical effect is that the 2025–26 package is broader and more evenly spread across consumption, labor and capital than the package we proposed. This is exactly the combination we warned had "a high cost-benefit ratio" and "lacks economic logic."

✓ CPAG WARNING, JUNE 2025 — CONFIRMED | A broad, evenly spread package

CPAG warned in June 2025 that raising taxes on consumption, labour and capital at the same time had "a high cost-benefit ratio" and "lacks economic logic". That is the package that was adopted — and the outcome, a deficit that fell while VAT alone carried the revenue and growth turned negative, is what that warning described.

03 THE HIDDEN COST: RISING UNEMPLOYMENT AND THE BUDGET

Every job lost now costs the budget somewhere between RON 2,100–5,100 a month

Tighter labor demand is itself costing the budget. The simultaneous increase in labour costs and consumption taxes was likely the main factor behind the loss of 65,000 jobs over the last year alone. At the same time, the unemployed count rose by 10%, or 51,000 — implying that the roughly 14,000 gap between the two figures reflects people leaving the labour market altogether, rather than being counted as unemployed, and raising the risk of structural unemployment. This comes at a time when youth unemployment is itself on the rise, with almost one young person in three out of work.

Fiscal cost of job losses at 65,000 redundancies, minimum wage vs. average wage. Per-person monthly costing includes the forgone CAS/CASS/income tax and employer CAM, forgone VAT on 80% of net wage split 20%/60% between utilities and other consumption at 11%/21% VAT rates, and the expected-value unemployment benefit at 22% coverage.

Table 2. Fiscal cost of job losses — per redundant worker and annualised over 65,000 redundancies

Per additional redundant worker	Minimum wage	Average wage
Gross wage	RON 4,100/month	RON 9,700/month
Forgone CAS + CASS + income tax + employer CAM	**RON 1,600/month**	**RON 4,100/month**
Total forgone VAT	**RON 300/month**	**RON 700/month**
TOTAL forgone revenue + benefit cost, per person/month	**RON 2,100**	**RON 5,100**
Annualised over 65,000 redundancies	**≈ RON 1,600 million**	**≈ RON 4,000 million**
As % of 2026 GDP	**≈0.08%**	**≈0.19%**

Source: CPAG calculations

The true figure would likely sit in the lower half of the range, closer to the minimum-wage bound than the average-wage one, probably around RON 2.5 Bn. or even more. For policy, the implication is that the hidden fiscal offset from labor-market deterioration is quite large. It could be more than 0.1% of 2026 estimated GDP as the calculation excludes further second-round effects (weaker household spending feeding through to profit tax and to other households' incomes), which would push the true cost higher. Moreover, the trend is likely to continue in the coming months if specific policy actions to reverse it are not taken. This should strengthen the case for SSC relief and a lower non-wage cost of labor.

Scheme 2. From higher labour and consumption taxes to a fiscal cost of their own

TRIGGER
Simultaneous increase in labour costs (CASS base broadening) and consumption taxes (VAT 19% → 21%, reduced rates → 11%)

▼

LABOUR MARKET
≈ 65,000 jobs lost (1.3% of employment), largely in the private sector · unemployed +10% (+51,000) · ≈ 14,000 people leave the labour market altogether · almost one young person in three out of work

▼

BUDGET
Forgone CAS/CASS/income tax and employer CAM + forgone VAT on lost consumption + unemployment benefits: RON 2,100–5,100 per person per month → ≈ RON 1.6–4.0 billion a year (≈ 0.08–0.19% of 2026 GDP), before second-round effects

▼

POLICY IMPLICATION
The hidden fiscal offset strengthens the case for SSC relief and a lower non-wage cost of labour — a fiscal argument, not only a competitiveness one

Source: CPAG.

▲ Key takeaway

Labour-market deterioration is no longer a side effect of the adjustment: at between 0.1-0.2% of GDP a year in forgone revenue and benefit costs, it is a fiscal item in its own right — and one that argues for lowering, not raising, the non-wage cost of labour.

04 FISCAL OPTIONS TO RELAUNCH THE ECONOMY

A specific policy menu, offset by real spending cuts

The findings from above point toward a fairly specific policy menu: consumption and property taxes are doing the revenue work; capital and labor taxes are largely not, once the dividend-tax pull-forward is accounted for; and the labor market is now generating a real, growing fiscal cost of its own that argues for treating labor costs, not just headline tax rates, as a policy lever. On that basis:

Treat the 2025 dividend-tax windfall as one-off, and be ready to revisit the 16% rate once 2026 data are in. Collections nearly doubled in 2025 (from RON 5.81bn to RON 10.33bn), but a large part of that was entrepreneurs pulling distributions forward to beat the January 2026 rate rise — revenue collected once, not a repeatable base. Budgeting on the assumption that ~RON 10bn/year (or even a somewhat lower level) is the new normal risks a shortfall once the pulled-forward stock is exhausted. If full-year 2026 collections come in structurally weak relative to a "no front-loading" counterfactual, that would be the real evidence of the poor cost-benefit ratio we warned about, and the case for reverting toward 10%

rather than holding at 16%. This would give a breathing space for a large number of small and medium enterprises which have been operating on very thin margins.

Deliver the SSC relief. A 1pp cut in social contributions or more, or a cap on contributions for non-salary income at a multiple of the average wage, would partially offset the real-wage hit from the VAT increase, support formal employment, and directly address Romania's above-EU-average tax wedge. Every incremental job lost is now costing the budget on the order of RON 2,000–5,100 a month, depending on the wage level, once forgone payroll tax and the VAT on lost consumption are both counted, so a policy that keeps the labor cost of hiring down is not just a competitiveness argument, it is a fiscal one as well.

Shift enforcement to close the VAT gap. Romania's VAT gap still remains the highest in the region by a wide margin. ANAF digitalisation, full follow-through on e-invoicing, and targeted anti-evasion tools (such as the deposit-at-registration mechanism used in the Czech Republic for high-risk sectors, which our paper cites) would let the state collect more of the VAT already legislated.

Target support to local producers narrowly and temporarily, prioritising the small and medium-sized enterprises that have absorbed this cycle hardest. SMEs have been squeezed from both directions at once: the large dividend tax rise falls disproportionately on them because owner-distributions are how most SME profits reach their owners, unlike larger firms with more scope to retain and reinvest earnings. And the VAT increase to 21%, together with higher utility and input costs, has hit domestically-facing SMEs as a genuine sales-volume problem, not just a margin squeeze, since their customers are the same households absorbing the same price rises. The right instruments are SME-specific rather than broad handouts: faster, simplified VAT refund cycles for SME manufacturers and exporters, whose working capital is currently tied up for months in refund backlogs; accelerated depreciation for domestic manufacturing investment; and a capped, temporary relief on the dividend tax specifically for profits retained and reinvested in the business. Lowering non-wage labour costs (there are different options here) reinforces this, since SMEs are typically more labor-intensive than large firms and have less capacity to absorb contribution increases without cutting headcount.

All of the above measures should be offset by real cuts in government spending. Relying on inflation alone to do the job — letting spending erode in real terms — is not a viable option, since current government spending, at close to 42% of GDP, is already far too high.

◐ CPAG RECOMMENDATION, JUNE 2025 — VERDICT PENDING | Do not raise the dividend tax further

CPAG cautioned in June 2025 against raising the dividend tax further. Receipts nearly doubled in 2025, but this was largely a pull-forward ahead of the 16% rate. Full-year 2026 collections, compared with a "no front-loading" counterfactual, will settle the verdict — and, if weak, make the case for reverting toward 10%. What is more important however, is the fact that this large increase in dividends tax was hugely counterproductive. Bankruptcies and unemployment rose, consumption contracted while the net impact on fiscal revenues was negative.

05 STRATEGIC CONSIDERATIONS FOR THE FISCAL OPTIONS

Composition, external exposure, fatigue, growth, credibility and the electoral cycle

1. Spending cuts vs. revenue increases: composition, not just size, determines durability

Romania retains one of Europe's lowest tax-to-GDP ratios, despite the consecutive fiscal packages implemented over the past three years, which focused almost entirely on tax increases rather than on the spending side. Debt dynamics are being driven by rigid current spending — namely wages, pensions and social transfers — which is exactly the category that has not been touched. That is harder politically, but it is also where the literature on fiscal consolidations consistently finds the more durable, less growth-damaging adjustments come from. This reinforces our point: it is not only that spending cuts are needed, but that the current mix is unbalanced and closer to what tends to have the shortest shelf life.

2. External risk from rising global yields is showing up in real time, and Romania is unusually exposed to it

The 10-year US Treasury yield reached its highest level since November 2023 in early September 2026, as a broader global bond sell-off pushed up government yields worldwide. Romania's own financing position makes it a magnified version of that story: gross financing needs are around 14% of GDP in 2026, interest payments alone will consume around 3% of GDP, and the country only recently saw its 10-year yield compress from roughly 7.5% to 6.6% on the back of demonstrated fiscal discipline. That compression is fragile. Rating agencies have kept Romania's investment-grade rating in place "merely by the credibility of the deficit reduction path," not by the underlying fiscal position itself. If global yields keep rising, Romania does not just face a generic external headwind — it could face a direct repricing of an unusually large annual refinancing need, at a moment when the anchor holding it at investment grade is thin. A downgrade to junk would be a step change in financing costs.

Table C. Why rising global yields matter more for Romania

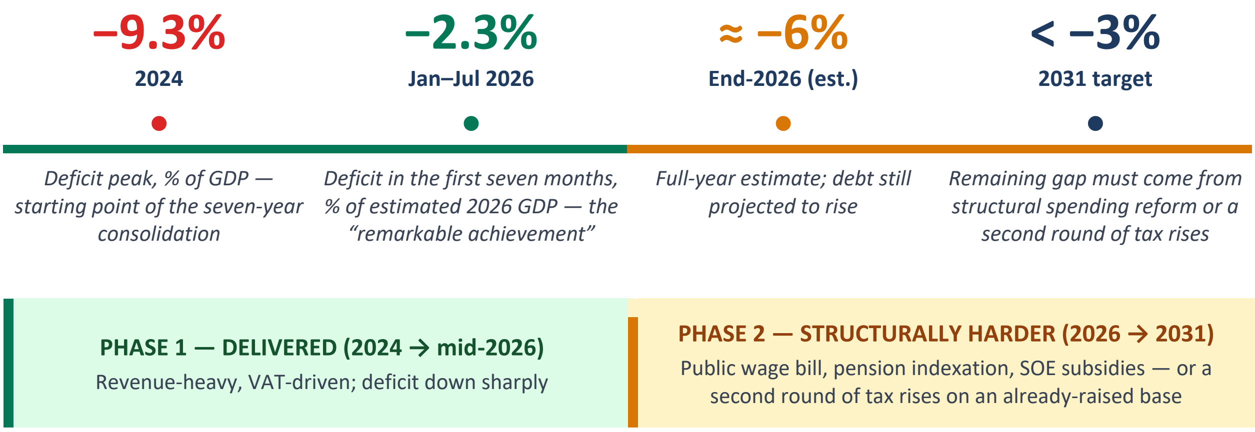
Indicator	Romania, 2026	What it means
Gross financing needs	≈ 14% of GDP	An unusually large annual refinancing need exposed to global repricing
Interest payments	~ 3% of GDP	Interest alone will consume around 3% of GDP in 2026
10-year government bond yield	≈ 7.5% → 6.6%	Compression earned by demonstrated fiscal discipline — and fragile
Investment-grade rating	Held "merely by the credibility of the deficit reduction path"	A downgrade to junk would be a step change in financing costs
10-year US Treasury yield	Highest since November 2023 (early September 2026)	The global bond sell-off is the external trigger

Source: CPAG.

3. The fiscal consolidation effort is not a sprint — it is a multi-year project, and fatigue is already visible

Authorities are targeting a budget deficit to GDP ratio of below -3% by 2031, a seven-year consolidation from the 9.3%-of-GDP deficit peak in 2024. This requires a considerable and sustained effort. There is a high risk that fatigue will settle in sooner or later. Romania is a country roughly a third of the way into a seven-year program already showing signs of adjustment exhaustion. This is precisely the mechanism by which a slower, revenue-heavy path becomes politically self-defeating and needs backloading or reversal, extending the whole timeline further. Despite the considerable progress achieved on fiscal consolidation so far, reducing the budget deficit further, from -6% (estimated for end 2026) to -3% of GDP, raises a different kind of problem. Debt is still projected to increase, and the remaining gap has to come from either structural spending reform (public wage bill, pension indexation rules, SOE subsidies) or a second round of tax increases on a base that has already been raised repeatedly. This is where diminishing returns and evasion/avoidance responses start to be felt. The second half of this consolidation is structurally harder than the first, not just numerically larger.

Scheme 3. The consolidation path — a seven-year project, first half delivered



Source: CPAG.

4. Growth-restarting measures are not optional — they are becoming a self-defeating spiral risk

Growth forecasts for Romania have been cut while restrictive fiscal policy is itself cited as the main drag. That matters for the deficit math: if GDP growth stalls, the deficit-to-GDP and debt-to-GDP ratios deteriorate. Fiscal consolidation has to be paired explicitly with growth-supportive measures.

5. Credibility and implementation risk cut both ways

The investment-grade anchor is explicitly described by market analysts as resting on the credibility of the path, not the deficit number itself. That means implementation missteps carry outsized market cost: when Romania's Constitutional Court blocked a judges' pension reform, it froze €231 million in EU recovery funds. That is a relatively small fiscal amount, but it nonetheless signals execution risk to investors. The strategic implication is that consistency and follow-through on announced measures may matter to financing costs as much as the measures' size.

6. Election-cycle risk

Consolidation has to be "treated as a multi-annual project that transcends electoral cycles." There is a risk scenario where the next electoral cycle produces a government that campaigns against the current path. This argues for locking in structural (legislated, multi-year) measures now rather than annual emergency ordinances — which also ties back to the "accounting not economics" critique set out earlier in this note: ad hoc packages are both less durable and read by markets as less credible than a legislated multi-year plan.

7. Tailored fiscal policy approach

Romania's fiscal problem is less a rate problem than a collection problem: VAT and labor-tax compliance gaps remain among the widest in the EU, and a large share of economic activity still moves through the informal sector. That means the deficit can be narrowed by strengthening tax administration, digitizing collection (e-invoicing, cross-checking, audit capacity), and formalizing the gray economy — without touching the low, flat rates that make the country attractive to investors. This approach preserves the fiscal signal that draws FDI while still generating real revenue, rather than trading away competitiveness for a rate hike that may not even close the gap if enforcement stays weak. It also avoids the political cost of raising taxes on households and businesses already operating in the formal system, who would otherwise bear a disproportionate share of any rate increase.

> ▲ **Key takeaway**
>
> *The first phase of the consolidation has been delivered, and the deficit path — not the deficit number — is what holds the investment-grade rating in place. The second phase needs legislated, multi-year measures on the spending side, paired with growth-restarting measures; further ad hoc emergency ordinances are now a bigger risk than a year ago.*

Disclaimer

A1 CLASSIFICATION OF FISCAL MEASURES, 2023–2026

Grouped by the economic base each measure falls on

The table below groups the substantive tax and social-contribution measures enacted through the relevant legislative vehicles by the economic base they fall on. Where the same measure was adjusted more than once (the dividend tax being the clearest case), we list it once and give all the years in which it changed, rather than repeating the row. A "+" marks a tax increase or base-broadening measure, "–" marks relief, and "~" marks a measure that mainly redistributes the burden within a base rather than raising or lowering it overall.

+ / ++ / +++	–	⇄	+/– · n/a
tax increase or base-broadening (number of + = repeated rounds)	relief	redistributes within a base — no net increase	introduced then lapsed · compliance measure, no rate change

Measure	Years	Direction	Source act(s)
A. LABOR (income tax, CAS/CASS, minimum wage)			
CASS/CAS base broadened: meal and holiday vouchers added to the CASS base; sectoral exemptions removed for construction, food, agriculture and, from 2025, IT	2024, 2025	+	*Law 296/2023; OUG 156/2024*
Tax on income from unidentified sources raised from 16% to 70%	2024	+ +	*Law 296/2023*
CASS base for independent-activity income capped at 60x gross minimum wage (annual)	2024	⇄	*Law 296/2023*
Minimum gross wage raised to RON 4,050; RON 300 tax/CAS-free allowance for wages below RON 4,300	2025	-	*OUG 156/2024*
New 10% CASS levied on pension income above roughly RON 3,000/month (~€600)	2025	+	*Law 141/2025*
CASS base broadened again: self-employed cap raised from 60 to 72 minimum wages (RON 243,000→291,600/year); remaining free co-insurance removed for non-earning spouses/parents and pregnant/postpartum women, who must now pay CASS themselves or opt into the new voluntary scheme	2026	+	*Law 239/2025*
B. CONSUMPTION (VAT, excises, games of chance)			
VAT raised and restructured: several reduced-rate categories reclassified upward in 2024; standard rate raised 19%→21% and reduced 5%/9% rates merged into a single 11% rate in 2025	2024, 2025	+ +	*Law 296/2023; Law 141/2025*

Measure	Years	Direction	Source act(s)
New or higher excises: vaping liquids, heated-tobacco products and sugary non-alcoholic drinks (2024); alcohol, tobacco and energy products, and — newly — still wine (2025–26)	2024, 2025, 2026	+	*Law 296/2023; Law 141/2025*
B2B e-invoicing made mandatory (compliance/anti-evasion measure, not a rate change)	2024	n/a	*Law 296/2023*
Tax on gambling winnings raised from 3% to 4%	2025	+	*Law 141/2025*
New RON 25 logistics tax on each low-value parcel (under €150) imported into Romania from outside the EU	2026	+	*Law 239/2025*
C. CAPITAL / BUSINESS (turnover taxes, dividend tax, micro-enterprise regime)			
Dividend tax raised in three steps: 5%→8%→10%→16%	2023, 2025, 2026	+ + +	*OG 16/2022; OUG 156/2024; Law 141/2025*
New or expanded turnover taxes still in place	2024, 2025	+/-	*Law 296/2023; Law 141/2025*
0.5% oil & gas turnover tax (ICAS) introduced, then allowed to expire and not renewed for 2026	2024–2025 (lapsed 2026)	+/-	*Law 296/2023; Law 239/2025 (non-renewal)*
Special tax on constructions reinstated at 1% of asset value (repeal legislated only from 2027)	2025 (repeal 2027)	+	*OUG 156/2024; GEO 89/2025*
Micro-enterprise regime tightened: rates restructured into 1%/3% bands; revenue threshold cut to €250,000, then to €100,000	2024, 2025, 2026	+	*Law 296/2023; OUG 156/2024*
New 10% income tax on sales of metal waste	2025	+	*Law 141/2025*
Deductibility of related-party IP/management/consulting fees paid to non-resident affiliates capped at 1% of total expenses; virtual-currency gains taxed at 16%; capital gains on securities restructured to 3%/6% by holding period	2026	+	*Law 239/2025*
D. PROPERTY (real estate, vehicles)			
Luxury tax on high-value residential property and vehicles: introduced at 0.3% above RON 2.5m (property) / RON 375,000 (vehicles) in 2024, then tripled to 0.9% on the same thresholds	2024, 2026	+ +	*Law 296/2023; Law 239/2025*
Local property-tax base revalued to updated reference/market values (2025), with taxable values per m² raised a further ~2.5–3x for 2026	2025, 2026	+	*Local tax reform; Law 239/2025*
Reduced property-tax rates for residential buildings owned by legal entities eliminated; now taxed at the standard commercial rate (0.2%–1.3%, up from 0.08%–0.2%)	2026	+	*Law 239/2025*

A2

ANNEX 2: SCORECARD — CPAG'S JUNE 2025 PROPOSALS, ONE YEAR ON

What CPAG proposed in June 2025, what the government did, and what the data show one year on

Table A. What CPAG proposed or warned — what happened — what the data say

CPAG, June 2025	What the government did	What the data show (Jan–Jul 2026)	Verdict
Increase the tax on consumption (VAT), balanced by a small cut in labour costs and no increase in capital taxes	Standard VAT rate 19% → 21%; reduced rates merged into a single 11% rate (Law 141/2025)	VAT did essentially all the revenue work: +0.7% of GDP in Jan–Jul 2026 and +0.8 pp on a rolling-12-month basis — more than the entire net revenue gain	**✓ Confirmed**
Do not touch the profit-tax rate	Headline 16% rate left unchanged	Profit tax flat at 2.1% → 2.2% of GDP — a rounding error, as expected from an untouched base	**✓ Followed**
Cut social contributions by 1 pp (not raise them); warned that further taxes on labour would have a poor cost-benefit ratio	Opposite direction: CASS base broadened repeatedly, new 10% CASS on pensions above ~RON 3,000/month	SSC fell as a share of GDP (11.1% → 10.9%); ≈ 65,000 jobs lost; base-broadening did not deliver the revenue it was designed to raise	**✓ Warning confirmed**
Eliminate the turnover taxes and the special construction tax	Mostly retained or expanded (bank turnover tax 2% → 4%, IMCA kept, construction tax reinstated; repeal only from 2027). The oil & gas ICAS was allowed to lapse at end-2025	Turnover and construction taxes raise revenue but not enough to show up as more than rounding in the execution totals	**◐ Partial vindication**
Caution against raising the dividend tax further	Raised again, 10% → 16% from January 2026	2025 receipts nearly doubled (RON 5.81 bn → 10.33 bn), but very likely a one-off pull-forward ahead of the 16% rate; the real test is full-year 2026	**◐ Pending 2026 data**
Pair the VAT rise with VAT-gap enforcement (e.g. a refundable deposit for high-risk registrations)	No comparable enforcement package adopted alongside the rate increase	The enforcement push has not yielded any tangible results so far; the VAT gap remains the highest in the region	**✕ Not yielding results**
Use spending as the primary lever: freeze or cut current and investment-related spending	Substantially followed	Personnel, social-assistance and capital spending all fell as a share of GDP in H1 2026 — capital expenditure took the largest relative cut	**✓ Followed**
Warned that a package spread across consumption, labour and capital "lacks economic logic" and has a high cost-benefit ratio	Taxes raised on all three bases, more or less simultaneously, across four legislative vehicles in three years	Growth averaged −0.5% over the last three quarters; the deficit fell, but at a higher cost than necessary	**✓ Warning confirmed**

Source: CPAG; the June 2025 proposal is available at https://www.cpag.ro/docs/Ajustare%20fiscala_Macro%20plan_04Jun25_EN.pdf