

Romania's 2026 budget draft: balancing fiscal consolidation and growth

Romania's 2026 budget targets a 6.2% GDP deficit via revenue led consolidation, tight control of current spending and record public investment. Growth and inflation assumptions look somewhat optimistic, with execution and EU fund absorption as key risks. But the framework is broadly credible



We think Romania's budget draft is broadly realistic. The main risks are related to its implementation.

The Ministry of Finance has [published](#) the draft state budget for 2026, together with updated medium term projections for the 2027-2029 period. The proposed cash deficit target is set at 6.2% of GDP, in line with the fiscal framework communicated in recent weeks and therefore largely priced in by the market. The draft confirms the authorities' commitment to a gradual fiscal consolidation path, anchored in higher revenues, tight control of current spending, and a continued focus on public investment.

Macroeconomic assumptions: optimistic real growth, benign inflation

On the macroeconomic front, the authorities assume real GDP growth of 1.0% in 2026, with activity driven primarily by investment and a positive contribution from net exports, while private consumption is expected to remain subdued under the weight of fiscal tightening and still elevated inflation. In our view, this growth assumption appears optimistic. We expect GDP growth closer to

0.6%, reflecting a more pronounced drag from fiscal consolidation and weaker than assumed domestic demand.

Today's retail sales data offers a grim insight into household behaviour at the start of the year. Retail sales fell by 3.7% in January compared to December (and by 6.5% annually), making this the weakest January since 2010 and signalling a marked increase in consumer caution. All major categories contributed negatively, with non food items recording the largest drag, as discretionary spending came under pressure. This heightened caution is likely to persist in the near term as the economy grapples with a stagflationary backdrop, adding further downside risks to an already fragile growth outlook and reinforcing our more conservative GDP forecast. The draft budget also assumes an average inflation rate of 6.5%, which we see as likely underestimated. Our newer forecast stands at around 7.6%, with risks tilted to the upside, considering the recent spike in oil prices. Taken together, these differences between growth and inflation suggest that nominal GDP growth could end up broadly similar to the authorities' assumptions, but with a less favourable mix between the two.

Medium-term fiscal projections

% of GDP	2023	2024	2025	2026	2027	2028	2029
Revenues	32.7	32.7	34.7	36.0	34.2	33.7	33.0
Expenditures	38.4	41.3	42.4	42.3	39.3	37.9	36.2
Budget balance (cash)	-5.7	-8.7	-7.6	-6.2	-5.1	-4.2	-3.2
Budget balance (ESA)	-6.7	-9.3	-7.8	-6.0	-5.2	-4.2	-3.2
Structural balance	-6.5	-9.0	-7.3	-5.4	-4.7	-3.9	-3.1

Source: MinFin projections

Fiscal framework: revenue-driven adjustment

The consolidation effort in 2026 is front loaded on the revenue side. The budget incorporates a wide-ranging package of tax measures, most of which were already announced or legislated in 2025:

- The standard VAT rate has been increased from 19% to 21%, while most reduced rates are consolidated at 11%
- Excise duties are raised for fuel, tobacco, alcohol, and sugary drinks
- The dividend tax increases from 10% to 16%
- A reform of property taxation raises the taxable base and effective rates
- Health insurance contributions are extended to pensions above a defined threshold and to certain non wage income categories
- The microenterprise regime is tightened, with a lower turnover threshold and simplified taxation rules

As a result, budget revenues are projected to rise to around 36% of GDP in 2026, from 34.7% in 2025. While the direction of travel is clearly positive, execution risks remain significant, particularly given Romania's historically weak tax collection and the reliance on administrative improvements.

Expenditure policy: current spending capped, investment prioritised

On the expenditure side, the authorities maintain a tight grip on current spending. Public sector

wages and pensions are effectively frozen at their end 2025 levels, while spending on goods and services, subsidies, and transfers is tightly controlled. This approach mirrors the strategy used in earlier consolidation episodes, shifting the adjustment burden away from investment and towards current outlays.

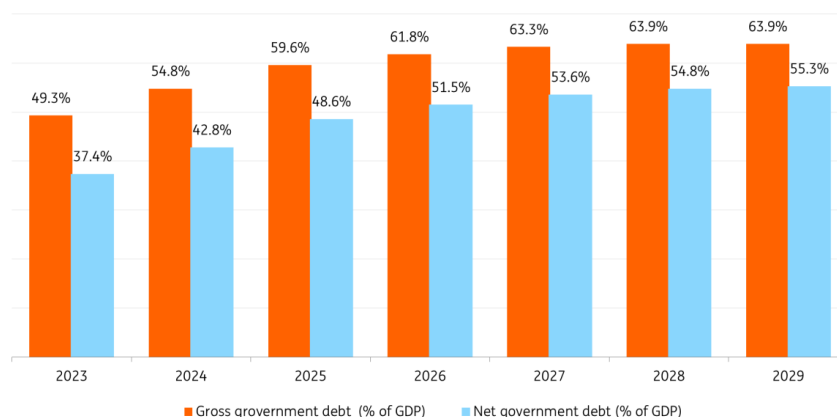
The standout feature of the 2026 budget is the exceptionally high level of public investment. Capital spending is projected at around 8% of GDP, the highest share on record, equivalent to approximately RON 164bn. This investment push is largely financed through EU funds and the Recovery and Resilience Facility (RRF), with 2026 being the final year for implementing most RRF projects. Beyond supporting short term growth, this strategy is intended to lift potential output and mitigate the negative effects of fiscal tightening on the economy.

Medium-term outlook: slow but steady consolidation

Looking beyond 2026, the authorities envisage a gradual reduction of the deficit over the 2027–2029 period, with the cash deficit declining from 6.2% of GDP in 2026 to around 3.2% by 2029. This trajectory implies a prolonged adjustment period, reflecting both the scale of the starting imbalance and the desire to avoid an excessive drag on growth.

Public debt is projected to rise further in the near term, from an estimated 61.8% of GDP in 2026, towards 63.9% in 2029. While this remains manageable in a European context, it does reduce Romania's fiscal buffers and increases sensitivity to growth or financing shocks.

Government debt dynamics



Source: MinFin projections

Risks: implementation, politics, and the external environment

Overall, this is a broadly realistic budget, at least on paper, although the heavy reliance on EU funds could be considered both a strength and a potential hazard. Nevertheless, the main risks seem no longer related to the design of the fiscal framework, but to its implementation:

- Political risk is very relevant, as delivering sustained consolidation over several years will require continued discipline in a challenging domestic environment
- Revenue execution risk remains high, given Romania's track record and the ambitious assumptions embedded in the budget
- External risks, including weaker euro area growth or renewed energy price shocks, could

- undermine both growth and fiscal outcomes
- EU funds absorption is critical: delays or shortfalls would put additional pressure on domestic financing and growth.

What we make of it

The 2026 budget marks a pivotal stage in Romania's fiscal adjustment. Given the consolidation imperative, the authorities have chosen a pragmatic mix of tax increases, tight control of current spending, and an ambitious, EU funded investment programme. While the headline numbers are broadly credible, the success of the strategy will ultimately depend on political resolve and administrative capacity. 2026 will be a decisive year for restoring fiscal sustainability while safeguarding medium term growth.

Author

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

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