



# Weekly Briefing

**Romania economy briefing:**  
**Fiscal consolidation measures for dealing with the budget deficit**  
**Oana Popovici**

## China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Ju Weiwei

Kiadásért felelős személy: Feng Zhongping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 [office@china-cee.eu](mailto:office@china-cee.eu)

 [china-cee.eu](http://china-cee.eu)

## **Fiscal consolidation measures for dealing with the budget deficit**

*Romania's budget deficit rose to 2.32% of GDP after the first five months of the year, which is 46% higher than in the same period of 2022, although the intention for 2023 is to draw the budget deficit to the target of 4.4% of GDP which could help Romania to return faster to the threshold of 3% of the budget deficit, considered safe for the economy. The fiscal consolidation measures are, however, hard to be implemented, given the elections next year. The Government has the possibility to work on fiscal facilities, but no political consensus was achieved so far, although some measures are intended to enter into force in September. Consensus was achieved on over-taxation of some profits and properties, while discussions continue on waste reduction in the public sector and increases in taxes.*

### **Introduction**

Since 2017, the European Commission (EC) has initiated the excessive deficit procedure for Romania, given the surpassing of the threshold for the budget deficit. As a consequence, Romania has agreed with the EC to adopt measures for fiscal consolidation in order to avoid any economic slippages on the long term. Therefore, Romania assumed for 2023 to reduce the budget deficit from 5.7% of GDP in 2022 to 4.4% of the GDP, in order to return as soon as possible to the budget deficit threshold which is considered safe for the good running of the economy.

However, the budget execution for the first five months of the year shows a deficit of 2.32% of GDP<sup>1</sup>, which is 46% higher than in the same period of 2022, and throw doubts that the target of the deficit could be achieved by the end of the year. For now, the expenses are RON 37 billion (about EUR 7.4 billion) higher than revenues. More than that, some economists warn that, at the half of the year, the deficit might be around 3% of the GDP<sup>2</sup>. Therefore, urgent measures are needed, otherwise Romania risks a possible suspension of funds from the European Commission. National Bank of Romania<sup>3</sup> experts consider that such measures should

---

<sup>1</sup> Pora, A., 2023. Avertismentul economistului șef al BNR: Măsuri urgente pentru reducerea deficitului bugetar, altfel riscăm să pierdem fonduri europene, <https://romania.europalibera.org/a/bnr-avertisment-deficit-buget-fohnduri-europene-/32501510.html> (accessed 25 July 2023).

<sup>2</sup> Barbuta, F., 2023. Tănase Stamule: La 6 luni deficitul este de aproximativ 3% din PIB / Moștenirea lui Căciu, un bolovan uriaș legat de economia României, [https://economie.hotnews.ro/stiri-finante\\_banci-26398104-tanase-stamule-6-luni-deficitul-este-aproximativ-3-din-pib-mostenirea-lui-caciu-bolovan-urias-legat-economia-romaniei.htm](https://economie.hotnews.ro/stiri-finante_banci-26398104-tanase-stamule-6-luni-deficitul-este-aproximativ-3-din-pib-mostenirea-lui-caciu-bolovan-urias-legat-economia-romaniei.htm) (accessed 25 July 2023).

<sup>3</sup> Idem 1

enter into force from the 1<sup>st</sup> of September and the fiscal package should be equivalent to at least 2% of GDP to ensure that fiscal consolidation takes place this year.

### **Potential fiscal measures**

Despite the warning at the beginning of the year on the improper structure of the budget, no corrections were made so far. Now, it seems that such measures are necessary, but the Government's task is difficult given that wages for some categories were just raised (the latest increase in the revenues was for professors, who went on strike for about three weeks during May-June) and there are other promises that target the increase of pensions. Moreover, the electoral year which is approaching makes difficult for the Government to implement measures that could affect the wellbeing of citizens. On the other hand, the problem of revenues collection still exists, as only 27% of GDP is collected in tax revenues in Romania, the lowest level in the EU. The reform of the Agency responsible with managing the finances have not yet increased the efficiency in revenues collection. The solution remains in the elimination of fiscal facilities, which draw the protest of the targeted sectors.

The governing coalition started to discuss potential measures, but despite the fact that fiscal facilities are a potential work field, nothing is clear. On one hand, economists and experts are drastic, considering that all fiscal facilities must be withdrawn, without exception, as eliminating exemptions would bring about 3-4% of GDP as revenues to the budget<sup>4</sup>. On the other hand, the parties in the governing coalition discussed a series of fiscal measures, but failed to reach a final conclusion<sup>5</sup>. While the liberals in the National Liberal Party (NLP) claim that they will not agree under any circumstances to increases in fees and taxes, the social-democrats in the Social Democrat Party (SDP) tend to impose new taxes. For example, the measures in which there it seems to be compromise so far are the 15% over-taxation of transfer amounts in the case of companies that outsource their profits outside or offshore and the 1% taxation for residential properties worth over EUR 500,000. Other measures lead to hot debates, without obtaining political consensus, such as the increase of taxes on dividends and the introduction of a tax of 1% on the turnover of micro-enterprises that exceed a rate of profitability of 30%.

Other discussions target the reduction of the very dense budgetary apparatus from the central level, by reducing posts and positions and increasing its efficiency. Changes in the level

---

<sup>4</sup> Idem 1

<sup>5</sup> Pirvu, L., 2023. *Variantele puse pe masă de PSD și PNL pentru a acoperi gaura bugetară. Unde se despart „viziunile” social-democraților și liberalilor și la ce s-au înțeles*, <https://www.hotnews.ro/stiri-politic-26408162-masuri-fiscale-propun-psd-pnl-pentru-acoperirea-celor-20-miliarde-lei-lipsa.htm> (accessed 26 July 2023).

of the value added tax (VAT) for some sectors (such as restaurants or animal food) is also considered, as well as the introduction of the social health insurance contribution for construction, agriculture and food industry employees, the increase of taxes for alcohol, tobacco and gambling licenses, or the elimination of the holiday vouchers for employees in the public environment.

The “waste reduction” in the public environment is often mentioned as a measure that should be applied, given the constraints under which the private sector is also working. Such measure would target the regionalization of some structures or the cut of several bonuses, which are not available for other employees. For example, there are some agencies at the county level which are inefficient, as their transition to the regional level would massively reduce costs<sup>6</sup>, or new public agencies with hundreds of positions in the organizational chart continue to be established, although the public sector is already large and mostly inefficient. Only after a drastic evaluation and improvement of such situation an increase of taxation could be considered<sup>7</sup>.

### **The reaction of the private environment and civil society**

The Government is not yet decided on the list of fiscal measures to be adopted, but it seems that some of them will enter into force from September 1, and others from January 1, 2024. In this context, the private environment – especially the most affected sectors – took position. Among them, the National Association of Romanian Travel Agencies<sup>8</sup> representing the hotel sector, the one which could be the most affected, draw the attention that the elimination of vacation vouchers for public employees would encourage the reappearance of informal tourism and would decrease the number of investments, while the increasing in the VAT would lead to a minimum 10% increase in the costs of tourist services in Romania, to social problems and even to the reduction of the attractiveness for international tourists.

The private environment, this time under the voice of the American Chamber of Commerce in Romania (AmCham), draws the attention on measures that could affect the long

---

<sup>6</sup> Idem 2

<sup>7</sup> Barbuta, F., 2023. *Creșteri de taxe de la 1 septembrie și 1 ianuarie / Voucherele bugetarilor și unele bonusuri ar putea dispărea / Interviu VIDEO cu Tănase Stamule* <https://economie.hotnews.ro/stiri-finante-26395633-cresteri-taxe-1-septembrie-1-ianuarie-voucherele-bugetarilor-unele-bonusuri-putea-disparea-interviu-video-tanase-stamule.htm> (accessed 26 July 2023).

<sup>8</sup> \*\*\*, 2023. *Hotelierii români nu vor să audă de eliminarea voucherelor de vacanță pentru sectorul bugetar / Eliminarea ar duce la probleme sociale și la adâncirea deficitului bugetar*, [https://economie.hotnews.ro/stiri-finante\\_banci-26407599-hotelierii-romani-nu-vor-auda-eliminarea-voucherelor-vacanta-pentru-sectorul-bugetar-tva-19-scoate-definitiv-harta-turismului-internationa-spun.htm](https://economie.hotnews.ro/stiri-finante_banci-26407599-hotelierii-romani-nu-vor-auda-eliminarea-voucherelor-vacanta-pentru-sectorul-bugetar-tva-19-scoate-definitiv-harta-turismului-internationa-spun.htm) (accessed 25 July 2023).

term economic growth due to the fact that they are taken untimely and without being enough analysed and recommend a long-term oriented vision for the plans meant to bring fiscal consolidation. The problem is that the envisaged measures could generate budget revenues on the short term, but after that, negatively and durably affect the economy, on both the economic growth and inflation. More than that, AmCham suggests that the funds obtained through the National Recovery and Plan (NRRP) “represents the biggest, if not the only, stimulus we have not only to avoid entering economic recession, but also to ensure sustainable economic growth”, therefore no measures affecting the flow of money obtained based on the reforms in NRRP should be applied. Their requirement is that the Government has a transparent dialogue with the business environment, before a final decision is taken<sup>9</sup>.

Other institutions representing the civil society also made efforts for achieving regular meeting with the representatives of the Government in which to be faster informed about the intentions in public policies, measures and reforms and to be able to draw responses to analyse and formulate reasoned opinions regarding proposed laws and public policies<sup>10</sup>. At this moment, the main subject was related to the proposed fiscal changes. The civil society organizations also demanded not to change the Fiscal Code until the beginning of 2024. In fact, they insist on reducing and streamlining budget expenditures<sup>11</sup>, as an urgent fiscal adjustment cannot be made instantly through increases of fees and taxes. In addition, the general consensus is that it is not normal to find out, at the middle of the year, that there is not enough money, and companies to be in the situation to pay supplementary from one month to the other, following increases in taxes. Therefore, they suggest dialogue and sufficient implementation time for adaptation.

---

<sup>9</sup> \*\*\*, 2023. AmCham România, apel către guvernanți: Să nu sacrificăm creșterea economică pe termen lung pentru câștigurile pe termen scurt, [https://economie.hotnews.ro/stiri-finante\\_banci-26397196-amcham-romania-apel-catre-guvernanti-nu-sacrificam-cresterea-economica-termen-lung-pentru-castigurile-termen-scurt.htm](https://economie.hotnews.ro/stiri-finante_banci-26397196-amcham-romania-apel-catre-guvernanti-nu-sacrificam-cresterea-economica-termen-lung-pentru-castigurile-termen-scurt.htm) (accessed 25 July 2023).

<sup>10</sup> \*\*\*, 2023. Florin Jianu: I-am spus premierului că nu e normal să aflăm la jumătatea anului că nu ne ajung banii. Și că ar fi o lovitură pentru firme să aște de la o lună la alta că vor avea de plătit taxe în plus, [https://economie.hotnews.ro/stiri-finante\\_banci-26406863-florin-jianu-spuse-premierului-nu-normal-aflam-jumatatea-anului-nu-ajung-banii-lovitura-pentru-firme-aște-luna-alta-vor-avea-platit-taxe-plus.htm](https://economie.hotnews.ro/stiri-finante_banci-26406863-florin-jianu-spuse-premierului-nu-normal-aflam-jumatatea-anului-nu-ajung-banii-lovitura-pentru-firme-aște-luna-alta-vor-avea-platit-taxe-plus.htm) (accessed 25 July 2023).

<sup>11</sup> Idem 10

## **Conclusion**

Fiscal changes with large implications for the population are soon expected. It is important that the measures are founded on healthy pillars, which to reshape the economy and orient it on a good path for the long term, and to avoid the situation in which the efforts are made only for a temporary coverage of a budget hole, as happened in different circumstances so far. It is however difficult to enhance a real reform in the actual context of gloomy perspectives for the economic growth all around the world and the domestic context of elections in the next year. However, given that the Government' leadership is in the hands of the two most important parties, and both could be similarly affected by unpopular decision, the adoption of the needed solutions can now find the most favorable context.