

TWIN DEFICITS AND ROMANIA’S MACROECONOMIC VULNERABILITY: AN ASSESSMENT IN THE CONTEXT OF CURRENT ECONOMIC CHALLENGES

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Abstract

Twin deficits — the budget deficit and the current account deficit — represent important factors in assessing Romania’s macroeconomic stability, particularly in the volatile context of the global economy. The evolution of these deficits reflects both internal structural imbalances, such as expansionary fiscal policies and import dependence, and external pressures stemming from fluctuations in financial and energy markets. This study analyzes the evolution of the twin deficits based on statistical data provided by European and national institutions for the period 2022–2027, evaluating how these deficits influence economic stability, financing risk, and Romania’s capacity to withstand external shocks. The results highlight the persistence of structural macroeconomic imbalances in the Romanian economy, exacerbated in recent years by expansionary fiscal policies, limited revenue collection capacity, and a high dependence on external financing. Comparative analysis at the European Union level reveals that Romania stands out for having the highest budget and current account deficits, as well as an upward trajectory in public debt. The conclusions emphasize the need for coherent and sustainable economic policies, aimed at fiscal consolidation, structural reforms, and enhancing the economy’s competitiveness over the medium and long term.

Keywords: budget deficit, current account deficit, public debt, macroeconomic stability, twin deficits

JEL Classification: E61, E62, F34, H62, M48

1. Introduction

Twin deficits — the budget deficit and the current account deficit — constitute a key indicator for assessing Romania’s macroeconomic stability, especially in the current context marked by global uncertainty and volatility. The evolution of these deficits reflects both internal structural imbalances, driven by expansionary fiscal policies, low revenue collection, and high import dependence, and external pressures arising from fluctuations in international financial, energy, and trade markets.

In recent years, twin deficits have become a chronic issue in the Romanian economy, exacerbated by successive global crises. Although some global economic conditions have improved — particularly the decline in commodity, oil, natural gas, and energy prices, as well as sustained economic growth in the United States and globally — Romania continues to face a persistent current account deficit, projected to decrease only gradually in the coming period. Addressing these imbalances requires the government to implement a comprehensive package of measures, including fiscal policies (increasing budget revenues through improved collection, reducing budget expenditures by streamlining the public administration and cutting inefficiencies, and prioritizing spending on infrastructure investments that attract higher foreign direct investment or exploit the country’s untapped potential in specific sectors), monetary policies, and exchange rate policies aimed at encouraging exports and reducing imports, as well as possible tariff barriers for products imported from outside the European Union [6].

The study examines the dynamics of Romania’s twin deficits and their impact on economic stability, financing risk, and the country’s capacity to withstand external shocks. The results of the analysis highlight that the Romanian economy faces persistent twin deficits, which reached historic levels in 2024, simultaneously exceeding 8% of GDP. The high budget deficit, financed to a significant extent in foreign currency, has contributed to heightened external vulnerabilities and the rapid increase of public debt. Comparative analysis shows that Romania records the highest budget

deficits in the European Union, significantly surpassing the EU and Eurozone averages, reflecting structural problems in revenue collection and public expenditure efficiency. Furthermore, the findings confirm the existence of a strong relationship between the budget deficit and the current account deficit, supporting the twin deficits hypothesis. The evolution of public debt indicates a concerning upward trajectory, with the potential to exceed 60% of GDP in the absence of firm fiscal consolidation measures.

2. Research Methodology

Aiming to analyze the dynamics of twin deficits and their impact on macroeconomic stability, this study adopts a predominantly qualitative-descriptive approach, complemented by elements of quantitative analysis, using statistical data from official sources such as the European Commission (*European Economic Forecast*), the National Bank of Romania, Eurostat, and specialized literature. The document analysis method forms the theoretical foundation of the research. This involved a systematic review of national and international specialized literature, including academic studies, scientific articles, reports from international financial institutions, and official documents issued by European and national authorities. The bibliographic analysis allowed for clarification of the concepts of budget deficit, current account deficit, and twin deficits, as well as identification of the main theoretical and empirical approaches existing in economic literature.

For the analysis of macroeconomic developments, descriptive statistical analysis was applied to series of data on budget deficits, current account deficits, public debt, and budget revenues and expenditures, expressed as percentages of gross domestic product. Indicators were analyzed over an extended period (2022–2027), including both historical data and forecasts, which allowed capturing medium- and long-term trends. The study also employs a comparative analysis, relating Romania’s fiscal and external performance to the averages of the European Union, the Eurozone, and Central and Eastern European countries. This method highlighted Romania’s relative position within Europe, identified deviations from fiscal convergence criteria, and emphasized structural particularities of the Romanian economy. Additionally, graphical analysis was used to represent the evolution of macroeconomic indicators in the form of charts and summary tables. This approach facilitated the visual interpretation of trends, correlations, and structural breaks occurring during the analyzed period, contributing to a better understanding of the interdependence between the budget deficit and the current account deficit. Complementing the quantitative analysis, contextual and interpretative analysis was employed to integrate empirical results within the context of fiscal, monetary, and economic policies adopted at the national and European levels. Data sources used in the research include official databases and institutional reports from the European Commission (*European Economic Forecast*), the National Bank of Romania, Eurostat, and specialized academic literature, ensuring consistency, comparability, and credibility of the results obtained.

Based on the general and specific objectives of the study, as well as the theoretical and empirical framework analyzed in the literature, the research is structured around a set of questions designed to clarify the nature, causes, and implications of twin deficits in the Romanian economy:

Q1: What are the determinants of the persistence of twin deficits in Romania’s economy?

Q2: To what extent do budget deficits contribute to the widening of the current account deficit, according to the “twin deficits” hypothesis?

Q3: How does Romania compare to other European Union member states in terms of twin deficits and public debt?

Q4: What are the implications of twin deficits for public debt dynamics and macroeconomic stability in the medium term?

By addressing these questions in an integrated manner, the research aims to provide a coherent and evidence-based perspective on the mechanisms underlying twin deficits in Romania, as well as the need for coordinated economic policies to correct macroeconomic imbalances and

ensure long-term sustainability.

3. The Twin Deficits Hypothesis

The “twin deficit” hypothesis suggests that budget deficits are crucial factors driving current account deficits, and numerous empirical studies show a statistically significant positive correlation between budget deficits and current account deficits [11]. Furthermore, the simultaneous existence of the two deficits — commonly referred to in economic literature as “twin deficits” — indicates a fundamental problem related to the imbalance between national savings and investment, as well as an excessive reliance on external financing. Perhaps the greatest perceived threat of the coexistence of budget and external deficits (trade or current account deficits) is their capacity to induce macroeconomic imbalances that affect a country’s long-term economic development trends [20].

The “twin deficits” syndrome is pronounced and raises numerous questions regarding domestic fiscal policy. At the same time, it should be noted that Romania has among the lowest tax revenues (including social security contributions) in the European Union, excluding Ireland, which is considered a tax haven [5]. Domestically, the deepening of twin deficits remains the most significant risk factor [22]. Several authors have examined the twin deficits situation in Romania. For many years, the budget deficit and current account deficit, as a tandem, have remained at very high levels — a unique case within the EU. In 2024, both deficits exceeded 8% of GDP, considering that approximately half of the budget deficit was financed in foreign currency (the cash budget deficit was 8.64% in 2024) [5].

3.1. Budget Deficit

The budget deficit is metaphorically defined as a “sin,” being perceived as something morally wrong, very difficult to avoid, not always easy to identify, and fairly difficult to measure accurately [7]. Some specialists argue that the budget deficit is not a well-defined concept in economic literature, but rather a numeric value whose magnitude depends on how certain budgetary operations are recorded [1]. In specialized literature, the budget deficit is explained as the situation in which government expenditures (resources used by the government) exceed revenues (resources coming from other institutional sectors) within an annual budget [9]. Public financial imbalance results from an excessive demand for public financial resources compared to the funds available to the state, and the term “budget deficit” is commonly used to express this gap in monetary terms [2].

At the national level, Law no. 500/2002 on public finances [26] defines the budget as a document subject to both legal and economic approval, through which revenues and expenditures are forecasted and approved annually by Parliament. It is important to note that the state budget, as an official document, specifies:

▣ The maximum level of approved expenditures — with precise destinations and objectives that cannot be ignored. Violation of these financial discipline conditions constitutes misappropriation, waste, and abuse;

▣ The minimum limits approved for revenues to be collected and subsequently made available to the state. However, exceeding these limits in accordance with fiscal legislation does not constitute a breach of budgetary discipline, placing significant responsibilities on collection and control authorities to identify all revenue sources and ensure full collection owed to the state, without committing fiscal abuses.

The budget deficit has become a characteristic phenomenon of the contemporary world and undoubtedly reflects the economic situation of a country. An increase in the budget deficit and its maintenance at a high level can generate significant macroeconomic imbalances, including higher inflation rates, an increase in external debt, depreciation of the national currency, and many other phenomena with a negative impact on the national economy [2]. The causes of budget deficits can arise from both internal factors and the international situation, and they can lead to the emergence of this phenomenon in countries with developed economies, as well as in developing or transitional

economies. Broadly, as identified in the specialized literature, these causes include [15]:

- High costs of maintaining the governmental apparatus;
- Expenditures related to the repayment of public debt;
- High military expenditures in most countries and, all types of unproductive spending;
- Low budget revenues due to a narrow tax base;
- Large expenditures for administrative structures;
- A decline in production levels and, consequently, in the gross domestic product;
- A significant increase in the inflation rate.

The budget deficit (general budget balance) is an indicator used to monitor fiscal and budgetary policies and reflects the degree to which convergence criteria are met. The Maastricht Treaty stipulates that the budget deficit of a European Union member state must not exceed 3% of GDP. The growth of the budget deficit is influenced by several factors: fluctuations in economic activity, unemployment rate (an increase in unemployment during recessions leads to high social service costs, resulting in a higher budget deficit), interest rates, inflation rate, institutional factors (budgetary procedures, public decision-making processes), etc [18].

Financing the budget deficit can be achieved through several methods, each with distinct economic implications (as can be seen in Figure no. 1).

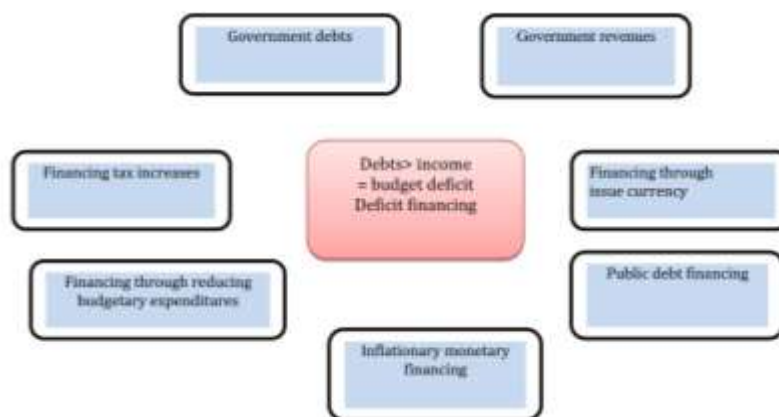


Figure no. 1. Methods of Financing the Budget Deficit

(Source: [2])

One of the options for financing the budget deficit is increasing taxes, which raises government revenues but can discourage consumption, saving, and private investment. Another method is reducing budgetary expenditures, which contributes to fiscal consolidation but may affect the provision of public services and short-term economic growth. Financing through monetary issuance involves printing money to cover the deficit, which can generate inflationary pressures and depreciation of the national currency, and is considered a risky solution. The most commonly used method is financing through public debt, by contracting domestic or external loans, which allows immediate coverage of the deficit but leads to an increase in public debt and future interest costs. The choice of financing method must consider fiscal sustainability, the macroeconomic context, and the long-term impact on economic stability.

Fiscal policies play a crucial role in the sustainable development of national economies, and the level of fiscal pressure can significantly influence investment decisions [13]. Generally, reducing the budget deficit involves either cutting expenditures, increasing revenues, or a combination of both. However, it is very important that any increase or decrease in tax levels is analyzed from both short-term and long-term perspectives, as these levels influence both the supply of saved funds and the demand for these funds. Additionally, the efficient and comprehensive use of resources must be ensured, based on non-inflationary economic growth [2]. Raising taxes is not desirable as it can have negative effects on economic growth; a high level of taxation may also

increase tax evasion proportionally to the value of undeservedly earned income. Methods and legislative frameworks must be found to prevent “tax optimization” at the edge of legality, practiced by large corporations [14].

Over time, economists’ views [19],[17] on the effects of the budget deficit on a country’s economic performance have focused on two main approaches. On one hand, deficits resulting from reductions in marginal tax rates have been considered to have a stimulative effect on the productive labor force. On the other hand, budget deficits have been seen as a cause of economic stagnation and instability.

3.2. Current account deficit

According to economic theory, the current account is an essential mechanism for smoothing intertemporal consumption, thereby enhancing economic welfare and reflecting changes in domestic macroeconomic and financial stress. Therefore, maximizing the benefits of intertemporal trade through current accounts and preventing potential negative effects of imbalances has long been a critical concern for both theorists and policymakers [11].

International trade is an important factor in the balanced development of an economy, influencing investments, technological progress, and the optimal utilization of available resources in each country, thereby ensuring sustainable functionality at both the national and global levels. Promoting responsible trade policies can contribute to economic growth, job creation, population welfare, new development opportunities, opening of new markets in emerging economies, as well as new cooperation partnerships [10]. During the integration of countries into the global market, the issue of rising current account deficits becomes particularly important, as does the assessment of its risk in relation to economic growth [8].

In recent years, global value chains have been disrupted by a series of factors: cyber threats, the trade war between the US and China, the pandemic, climate shocks, the military conflict in Ukraine, and weakening international political cooperation during this period [12]. The fragmentation of international trade, resulting from new trade restrictions, rising energy, oil, and natural gas prices in 2022, and tight monetary policies, has slowed economic growth in European Union countries and, consequently, reduced their external demand. In this context, Romania has experienced negative effects in the form of decreased exports (with the European Union being its main trading partner) and increased imports in value terms, leading directly to a widening current account deficit [14]. A very large trade imbalance highlights a competitiveness problem that has become chronic over time [5]. Some authors point out that if a country’s current account deficit (as a percentage of GDP) rises for several consecutive years, it indicates that the country is transferring a significantly larger portion of its GDP abroad, reducing domestic income. A rising current account deficit shows that the country, in purchasing goods and services, is spending abroad more than it can sell in foreign markets [8].

Current account deficits, typical of emerging economies, which lead to a deterioration of the trade balance due to higher investments (accelerating imports of capital goods), do not represent a major problem, since technology transfer can support productivity growth and, consequently, long-term export growth. However, the macroeconomic outlook can deteriorate if the imbalances become excessive [16]. The dynamics of GDP, the evolution of the state budget balance, the structure of trade relations, the level and structure of exports and imports, combined with existing trade restrictions and the degree of trade fragmentation, as well as the level and evolution of inflation, foreign direct investment, the international investment position, the level of external public debt, and the cost of debt servicing, both nationally and globally, are the most important factors determining the evolution of the current account [14].

To reduce the current account deficit, the following measures can be considered [16]:

➤ **Promoting long-term exports of consumer goods**, primarily through the resumption of structural reforms and increasing the economy’s competitiveness: in agriculture and industry, this

can be achieved by supporting the development of complete production chains and processing domestic agricultural production into finished products with higher added value.

➤ **Boosting agricultural production** could reduce or even eliminate the deficit in the agro-food balance and can be achieved through measures such as: rehabilitating and modernizing major irrigation infrastructure, and implementing risk management strategies in agriculture to address the effects of climate change.

➤ **Encouraging farmers’ associations**, which would bring multiple benefits: increasing economies of scale, facilitating access to irrigation systems, cooperating along short supply chains for the joint delivery of agro-food products directly to supermarket networks, etc.

➤ **Investments targeting export-oriented (tradable) sectors**, such as the automotive and chemical industries, while also supporting domestic sectors with negative net exports (agro-food products, pharmaceutical industry, tourism services, etc.).

➤ **Public investments in transport, energy, and education infrastructure** can increase the cost-competitiveness of the entire economy and generate new economic opportunities, including attracting foreign direct investment in export-oriented sectors. At the same time, infrastructure investments would enhance Romania’s energy efficiency, reducing fuel consumption and, consequently, petroleum imports.

➤ **Improving energy efficiency** can also be achieved through measures that reduce energy consumption at the household and business levels: implementing a long-term strategy for the energy rehabilitation of buildings, promoting programs for installing renewable energy-based heating systems (through co-financing), reducing company energy consumption via systematic audits, information campaigns on energy management, and encouraging energy-saving activities.

4. Developments of Twin deficits at the European and National Level

The deterioration of domestic macroeconomic balances continues to represent one of the main systemic risks at the national level. Data for the first half of 2024 indicated a deepening of the twin deficits compared to the previous report, and expectations were that Romania would record, by the end of 2024, some of the largest deficits (both fiscal and current account) in Europe, reflecting both structural and cyclical factors [23]. Exceeding the 8% of GDP threshold at the end of 2024 for both the budget deficit and the current account deficit reflects a significant deterioration of macroeconomic balances, with structural implications for financial stability. The problematic nature of this situation is amplified by the fact that approximately half of the budget deficit is financed in foreign currency, which increases the economy’s vulnerability to external shocks and exchange rate fluctuations [25].

At the European Union level, the evolution of budget balances relative to GDP among member states during 2023–2024, illustrated in chart no. 1, shows significant differences between countries. While countries such as Denmark, Cyprus, and Ireland record notable budget surpluses exceeding 4%, most countries face deficits, some of them quite high. Romania clearly stands out with the largest budget deficit in the EU, at -9.3%, a much deeper value compared to the EU average of -3.2% or the Eurozone, where the average deficit is -3.1%.

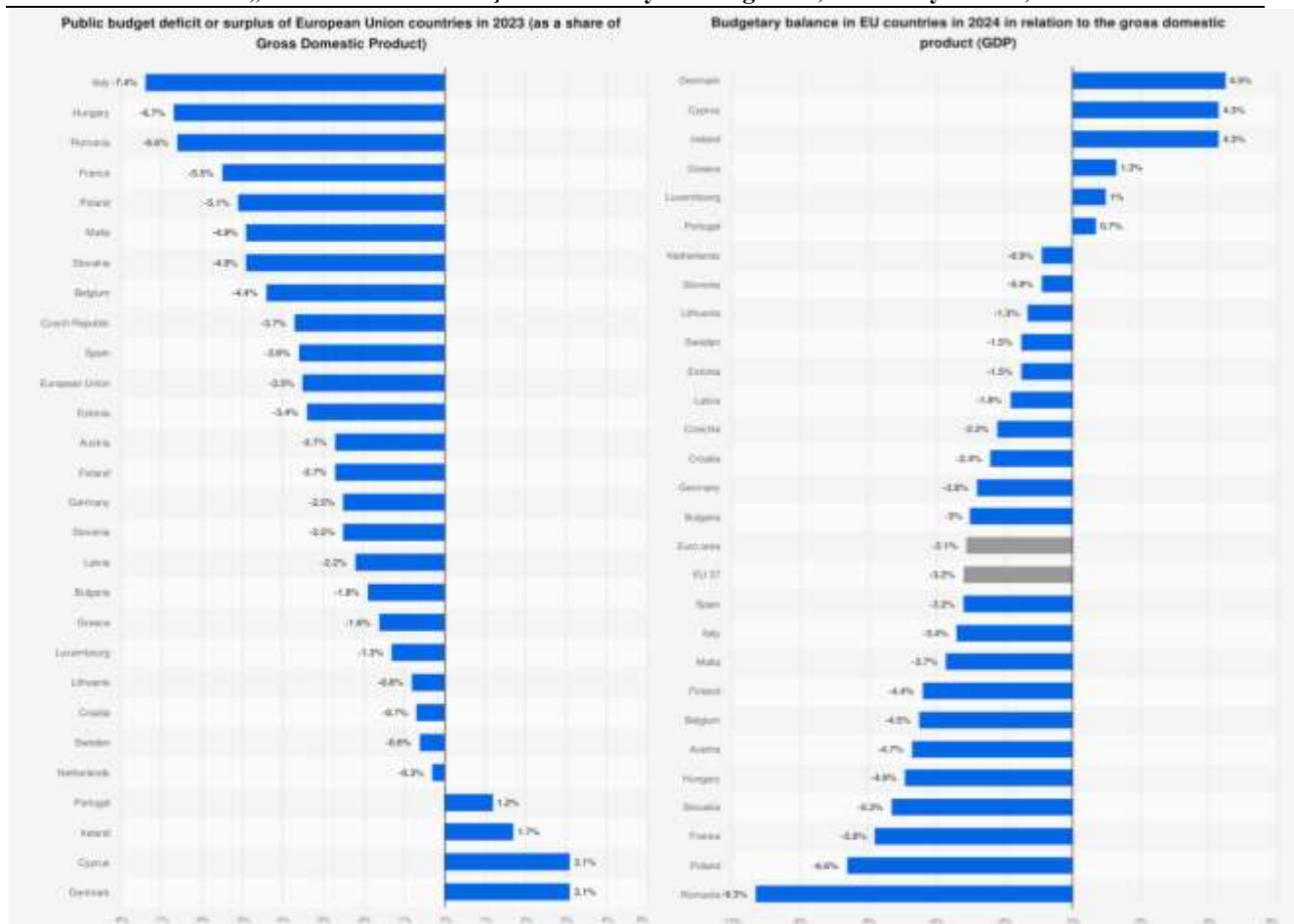


Chart no. 1. Evolution of the budget balance as a percentage of GDP for European Union countries in 2023-2024
(Source:[21], [3])

Comparing the data on the budget deficit of European Union countries for 2023 and 2024 reveals a worrying trend for Romania, which shifts from a substantial deficit of -6.6% of GDP in 2023 to a much more pronounced level of -9.3% in 2024, thus becoming the country with the largest budgetary imbalance in the EU. While in 2023 Romania ranked third, after Italy (-7.4%) and Hungary (-6.7%), in terms of deficit size, in the following year it clearly distances itself from the rest, signaling a severe fiscal deterioration and significant pressure on the sustainability of public finances. This increase in the deficit stands in sharp contrast to the situation of countries such as Denmark, Cyprus, and Ireland, which record notable budget surpluses in both charts, suggesting a far more efficient management of fiscal balance. Moreover, the EU average and the euro area maintain a moderate deficit, around -3%, well below the risky level reached by Romania. These disparities highlight the fragility of Romania's financial position, indicating major difficulties in balancing public expenditures with fiscal revenues. Such imbalances may lead to a rapid increase in public debt, inflationary pressures, and broader macroeconomic risks. This situation therefore imposes an urgent need for Romanian authorities to adopt firm and well-designed fiscal consolidation measures, through increased budgetary revenues, strict expenditure control, and the stimulation of sustainable economic growth, in order to prevent budgetary imbalances from undermining medium- and long-term economic stability, especially in the context of an international and European environment characterized by economic and financial uncertainties. Compared with other Member States, Romania must address this issue as a priority and with responsibility, in order to avoid further deepening imbalances and to restore fiscal credibility and stability in the eyes of European partners and international investors.

In the fourth quarter of 2024, the average budget deficit in the European Union stood at 3.4%. Almost all countries in Central and Eastern Europe (CEE)—with the exception of Bulgaria, Latvia, and Slovenia—recorded a budget deficit during this period. Chart no. 2 illustrates the evolution of the budget deficit as a percentage of GDP in Central and Eastern European countries over the period Q4 2022–Q4 2024, highlighting significant cross-country differences and a general trend of fiscal deterioration in the region. Romania stands out negatively by recording the highest budget deficit, at approximately -9.9% of GDP, a level significantly above the European Union average.

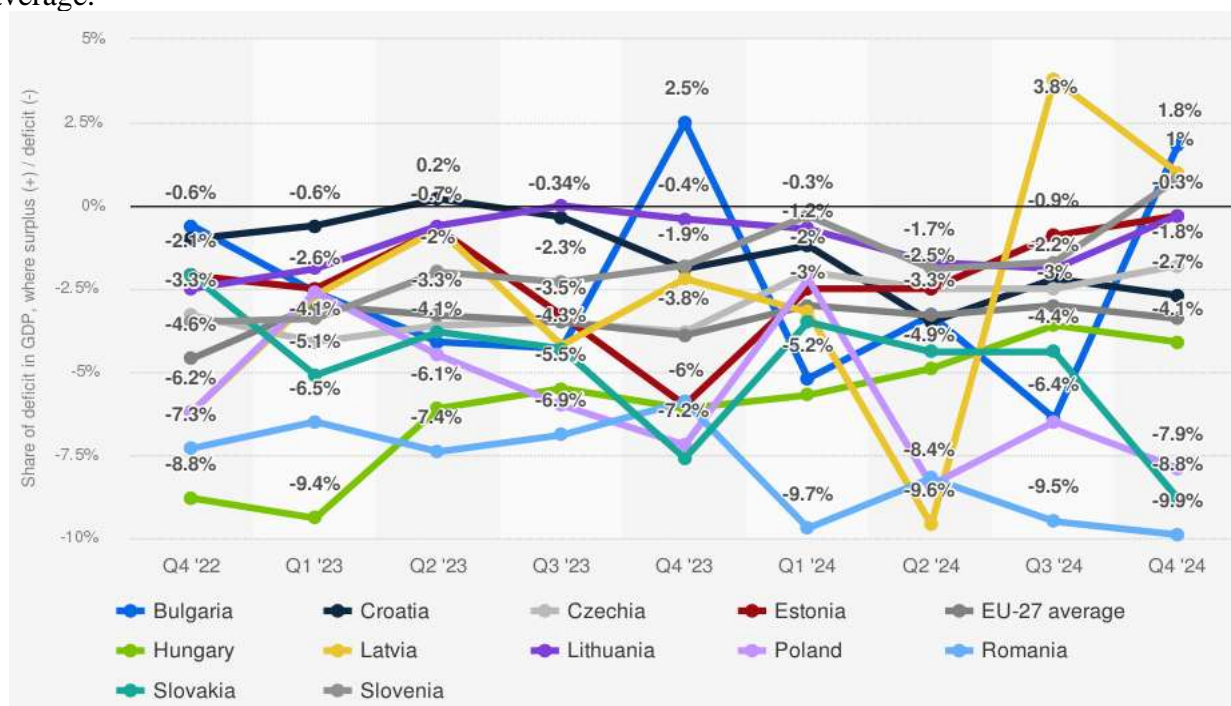


Chart no. 2. Evolution of the budget deficit as a percentage of GDP in Central and Eastern European countries, Q4 2022 – Q4 2024
(Source: [4])

The EU-27 average remains relatively stable, around -2% to -3% of GDP, indicating stronger fiscal discipline compared with most Central and Eastern European (CEE) countries. In contrast, Romania stands out with the highest deficits throughout the entire period analyzed, characterized by persistently elevated values and a clear deterioration in 2024, when the deficit exceeds -9% of GDP, reaching approximately -9.9% in Q4 2024. This reflects significant fiscal pressures and a structural budget imbalance. Slovakia and Hungary also record high deficits, though less severe than Romania's, frequently ranging between -5% and -8% of GDP, with high quarter-to-quarter volatility. Poland exhibits substantial fluctuations, with a marked deterioration in the first part of 2024, followed by a slight correction toward the end of the period. By contrast, countries such as Bulgaria, Czechia, Slovenia, and Lithuania display more moderate deficits, at times close to budgetary balance and, in certain quarters, even marginal surpluses, suggesting a relatively stronger fiscal position.

According to the latest forecasts for the 2025–2027 period, a significant number of Member States (twelve EU Member States) are expected to record budget deficits exceeding the 3% of GDP reference threshold, indicating the persistence of structural fiscal imbalances. In this context, Poland, Romania, and Belgium are projected to post deficits close to or even above 6% of GDP in 2027, assuming current fiscal policies are maintained (European Economic Forecast, 2025). In this regard, Chart no. 3 illustrates the evolution of the general government balance in EU Member States over the 2025–2027 period, providing a comparative perspective on fiscal positions and the degree of deviation from European criteria.

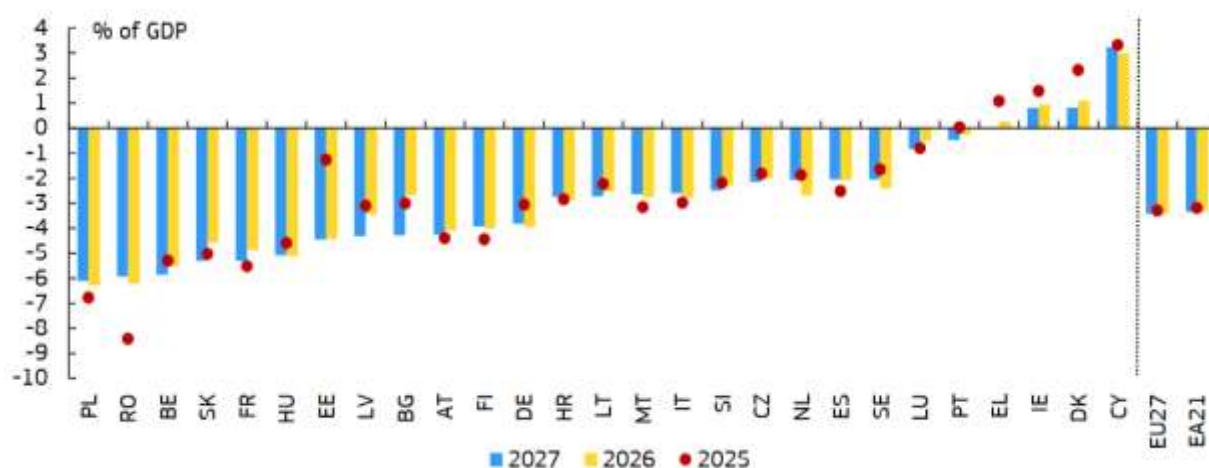


Chart no. 3. General government balance in the Member States of the European Union, 2025–2027
(Source: [25])

A significant dispersion of fiscal positions across countries can be observed, as well as the persistence of budget deficits in most European economies throughout the entire 2025–2027 forecast horizon. The majority of Member States remain above the 3% of GDP reference threshold in deficit terms, indicating ongoing difficulties in returning to fiscal discipline in line with European rules, despite the exit from the crisis period. The chart shows that while some economies experience a gradual improvement in their budget balance, a limited group of countries—particularly from Central and Eastern Europe—continue to exhibit high and persistent deficits. In this context, Romania clearly stands out with one of the highest budget deficit levels in the European Union, alongside Poland and Belgium, with projected values close to or exceeding 6% of GDP in 2027, assuming current policies are maintained. This positioning reflects structural fiscal vulnerabilities and suggests a limited capacity for medium-term budgetary adjustment, reinforcing the perception of Romania as one of the main contributors to the aggregate deviation of the fiscal balance at the EU level.

For a more detailed understanding of the determinants of the budget deficit, Chart no. 4 presents the comparative evolution of Romania’s budgetary revenues and expenditures as a share of GDP, relative to the European Union and Euro Area averages, over the 2022–2027 period, including estimates for 2025–2027.

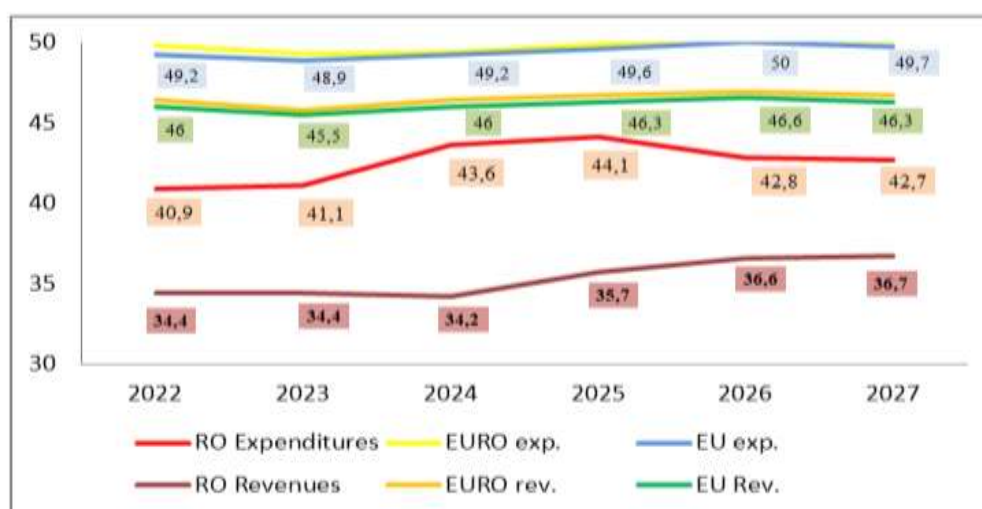


Chart no. 4. Evolution of Romania’s budgetary revenues and expenditures in comparison with the European Union and Euro Area averages, 2022–2027
(Source: author’s processing based on data from [25])

It can be observed that, throughout the entire period, Romania's expenditures (red line) are significantly lower than the European average (blue line for the EU and yellow line for the Euro Area), standing at around 41% of GDP in 2022 and rising slightly to approximately 42.7% in 2027, according to forecasts. At the same time, Romania's budget revenues (brown line) are much lower compared to the EU and Euro Area averages, starting at about 34.4% of GDP in 2022 and projected to increase moderately to 36.7% in 2027. This substantial gap between expenditures and revenues reflects a persistent and relatively high budget deficit, indicating a structural issue in revenue collection or Romanian fiscal policy. Furthermore, the fact that the data from 2025 to 2027 are forecasted suggests that this trend of maintaining a deficit is expected to continue, requiring heightened attention from policymakers in adjusting economic and fiscal policies to ensure medium-term public finance sustainability. In comparison, the EU and Euro Area manage to maintain a more stable balance between revenues and expenditures, with closer and higher values, indicating a stronger fiscal base and a greater capacity to finance public spending.

After reaching a peak of 9.3% of GDP in 2024, mainly driven by rapid expenditure growth, Romania's general budget deficit is projected to decline by over 3 percentage points, reaching 5.9% of GDP in 2027. This decrease reflects the adoption of several fiscal consolidation packages since the end of 2024. In December 2024, the Parliament adopted a fiscal consolidation package, including a nominal freeze on public sector salaries and pensions in 2025 and revenue-generating measures equivalent to 0.3% of GDP. In July 2025, the Parliament approved additional fiscal consolidation measures, comprising significant increases in tax revenues (higher VAT rates, expansion of the health contribution tax base, excise duty increases, and a higher dividend tax rate) and an extension of the nominal freeze on public sector salaries and pensions until 2026. In September, Parliament also approved an increase in recurrent taxation of residential properties and environmental taxes. Fiscal policy is expected to be contractionary in 2025 and 2026, before becoming neutral in 2027 [24]. The current account deficit is estimated to gradually decrease, reaching 6% of GDP in 2027 [25].

In 2026, the full effect of the extensive fiscal consolidation measures—namely, the freeze on public sector salaries and pensions and tax increases—combined with still-high inflation, is expected to lead to a slight contraction in private consumption. Public consumption is also projected to continue declining [25].

To capture the scale and interdependence of the main macroeconomic imbalances, Chart no. 4 presents the evolution of the twin deficits at the national level—namely, the budget deficit and the current account deficit—over the 2022–2027 period.

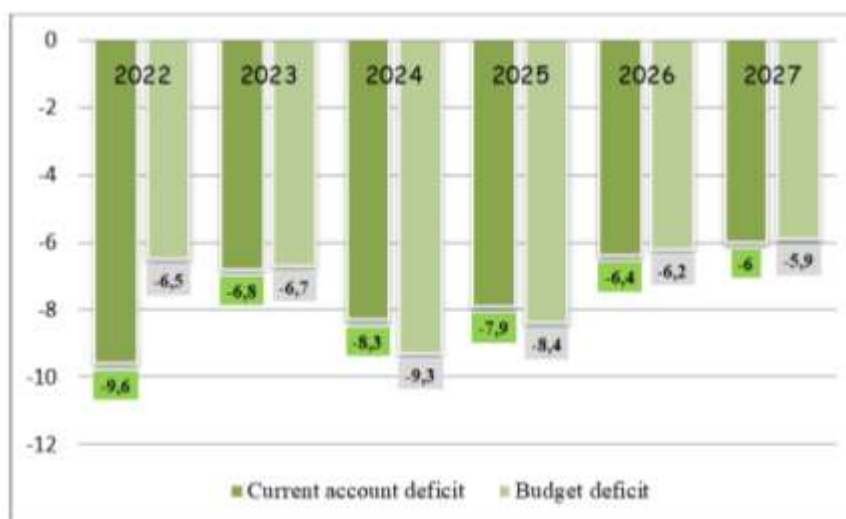


Chart no. 4. Evolution of the twin deficits in Romania, 2022–2027
(Source: author's processing based on data from [25])

The chart highlights an irregular evolution of the current account deficit and the budget deficit over the 2022–2027 period, showing an initial phase of pronounced macroeconomic imbalances, followed by a gradual adjustment. In 2022, the highest values of the current account deficit are recorded (approximately -9.6% of GDP), alongside a significant budget deficit (around -6.5%), indicating strong pressures on both the external balance and public finances. In 2023, the current account deficit decreases slightly but remains at a high level, while the budget deficit deepens marginally, signaling the persistence of structural imbalances. The year 2024 marks a further deterioration of the fiscal position, with the budget deficit reaching the peak of the period (approximately -9.3%), while the current account deficit remains elevated, reflecting a combination of internal and external vulnerabilities. Starting in 2025, a turning point is observed, with both deficits entering a downward trajectory, indicating the initiation of macroeconomic correction measures and fiscal consolidation. The improvement trend continues in 2026 and 2027, when both the current account and budget deficits gradually decline toward values close to -6% of GDP, though they do not disappear entirely.

5. The relationship between twin deficits and public debt

The persistence of twin deficits has direct implications for the dynamics of public debt. Financing large budget deficits requires continuous debt issuance, which leads to a rapid increase in public debt relative to GDP.

It should be emphasized that the current account deficit is financed to a significant extent through borrowing (over 60% in 2024), which explains the rise in external debt. Public debt, in the absence of fiscal consolidation, could easily exceed the 60–70% of GDP threshold in the near future. Romania has a relatively low sovereign rating (although still within the investment grade), and the yield demanded by investors for its bonds is relatively high [5].

Public debt is projected to increase from less than 55% of GDP in 2024 to approximately 63% of GDP in 2027, largely driven by high government primary deficits and expected growth in interest payments [24].

Chart no. 5 illustrates the evolution of Romania’s public debt as a percentage of GDP over the 2010–2027 period, showing dynamics marked by several distinct phases, closely linked to the economic and fiscal context.

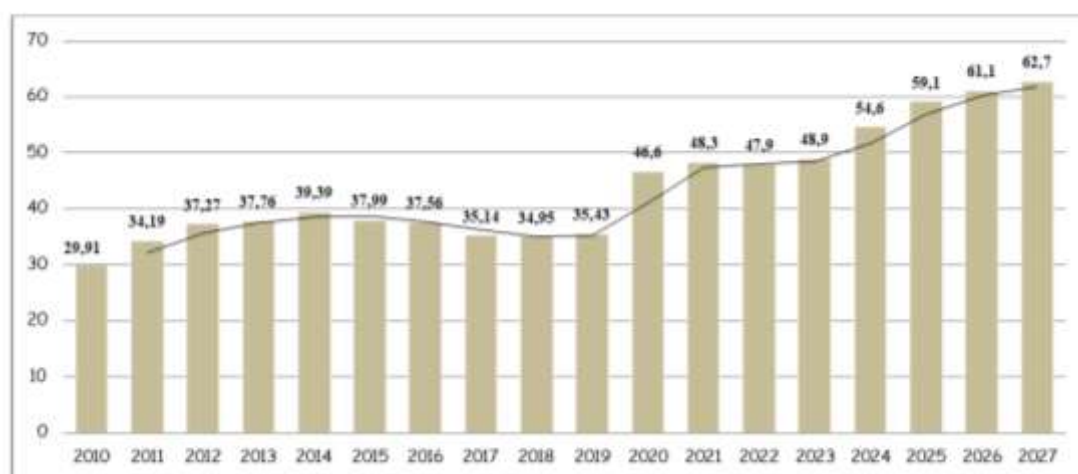


Chart no. 5. Evolution of Romania’s public debt as a share of GDP, 2010–2027
(Source: author’s processing)

Between 2010 and 2014, public debt increased steadily, from approximately 30% of GDP to nearly 40%, as a result of the effects of the global financial crisis and high budget deficits needed to support the economy. During 2015–2019, debt stabilized and even recorded a slight decrease,

remaining around 35% of GDP, supported by solid economic growth and a relative improvement in the fiscal position. The year 2020 marks a major turning point, when public debt rose sharply to approximately 46.6% of GDP, reflecting the impact of the COVID-19 pandemic, which led to increased public spending and reduced budget revenues. Between 2021 and 2023, debt continued to rise at a moderate pace, approaching 49% of GDP, due to the maintenance of high budget deficits and rising financing costs. By the end of 2024, the share of public debt in GDP increased significantly, reaching approximately 54.6% of the country's GDP, an unusually high level for Romania. According to forecasts for 2025–2027, public debt is expected to rise rapidly, from 54.6% of GDP in 2024 to 62.7% of GDP in 2027, driven by persistent primary deficits, higher interest expenditure, and the state's high financing needs. This trajectory indicates a deterioration in the sustainability of public finances and underscores the importance of adhering to the fiscal consolidation path to limit macroeconomic risks.

6. Conclusions

Twin deficits represent one of the most important sources of macroeconomic vulnerability for Romania. The persistence of high budget and current account deficits reflects deep structural imbalances, generated by pro-cyclical fiscal policies, an insufficient revenue base, and an economic growth model dependent on consumption and imports. In a European context, Romania stands out negatively due to the magnitude of its fiscal and external imbalances, as well as the accelerated dynamics of public debt.

By combining theoretical analysis with empirical data examination for the 2022–2027 period, this study aimed to analyze the dynamics of twin deficits in Romania's economy and evaluate their implications for public debt sustainability and macroeconomic stability in a comparative European context. Regarding the determinants of the persistence of twin deficits, the research findings indicate that Romania's economy is characterized by a fragile fiscal structure, marked by a low capacity for revenue collection, rigid public expenditures, and frequent use of fiscal policy in a pro-cyclical manner. High budget deficits have stimulated domestic demand beyond the economy's production potential, leading to higher imports and, consequently, a deepening of the current account deficit. Moreover, significant dependence on external financing, particularly in foreign currency, has amplified macroeconomic vulnerabilities, exposing the economy to currency risks and adverse changes in international financial conditions.

The results of the analysis highlight that Romania's economy faces persistent twin deficits, which reached historic levels in 2024, simultaneously exceeding 8% of GDP. The high budget deficit, financed to a significant extent in foreign currency, contributed to heightened external vulnerabilities and the rapid growth of public debt. Comparative analysis shows that Romania records the highest budget deficits in the European Union, significantly exceeding the EU and Euro Area averages, reflecting structural problems in revenue collection and the efficiency of public spending. Furthermore, the results confirm a close relationship between the budget deficit and the current account deficit, supporting the twin deficits hypothesis.

Regarding the impact of twin deficits on public debt, the analysis shows that persistent budget deficits have led to a rapid increase in public debt relative to GDP, both in nominal and structural terms. Although the level of public debt currently remains below the 60% of GDP threshold, its upward trajectory raises concerns regarding medium-term sustainability, particularly in the context of rising financing costs and currency exposure. The interaction between the budget deficit, current account deficit, and public debt creates a mechanism for propagating macroeconomic risks, which can limit the maneuvering space of economic policies in the future.

In conclusion, the study demonstrates that twin deficits represent a major structural problem for Romania's economy, with direct implications for macroeconomic stability and European convergence. Addressing these challenges requires a coherent set of economic policies aimed at gradual fiscal consolidation, increasing the efficiency of public spending, broadening the tax base,

and stimulating productive investment and exports. Only through an integrated approach, based on fiscal discipline and structural reforms, can Romania reduce the vulnerabilities associated with twin deficits and ensure a sustainable public debt trajectory in the medium and long term.

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