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Assessment of external macroeconomic imbalances in Romania

Ana-Maria ALBIȘORU
Bucharest University of Economic Studies, Romania
anemary1002@gmail.com
Florența-Larisa ILE
Bucharest University of Economic Studies, Romania
larisa.ile@gmail.com

Abstract. *The issue of external macroeconomic imbalances – the case of Romania – arouses particular interest among policymakers, the business community, and citizens, considering the measures that should be adopted by the authorities to adjust these imbalances. This research aims to assess the key trends observed in Romania in the recent years in the context of the Macroeconomic Imbalances Procedure and to identify the specific challenges. The second part of the paper focuses on the macroeconomic imbalances indicators, using time-series data to assess the Romania's situation within the European Union. Where possible, the assessed indicators were examined with the purpose of identifying the macroeconomic imbalances outlooks. Finally, the paper briefly presents the main conclusions of the analysis, as well as potential policy recommendations for mitigating macroeconomic vulnerabilities at the national level.*

Keywords: European Semester, macroeconomic imbalances, current account deficit, budget deficit.

JEL Classification: E62, F32, H62, O52.

1. Introduction

The European Semester was introduced in 2011 to enhance the coordination of economic, budgetary, employment, and social policies within the European Union. The cycle begins each year in November with the publication by the European Commission of the "European Semester Autumn Package", which includes, among other documents, the Alert Mechanism Report.

This report analyses the latest economic developments in all EU Member States and identifies those for which In-Depth Reviews must be conducted, in order to assess whether they are affected by imbalances that require a policy response. Subsequently, the European Commission prepares the in-depth reviews for the relevant Member States. These are released in the first half of the subsequent year and is the main document that Commission considers in determining the categorisation of the macroeconomic imbalances.

As part of the "European Semester Spring Package" (generally published in May-June), Member States receive country-specific policy recommendations aimed at reducing imbalances or providing tailored guidance on economic policy. In this context, it is important to clarify that imbalances denote macroeconomic evolutions that adversely affect the functioning of a national economy, the Economic and Monetary Union, or the EU as a whole. By contrast, excessive imbalances refer to particularly acute distortions that pose risks to the adequately functioning of the Economic and Monetary Union.

The Alert Mechanism Report includes both quantitative and qualitative economic and financial assessments, based on a scoreboard comprising a set of 13 headline indicators (alongside 23 auxiliary indicators), their values being compared to a set of specific thresholds. The report may also take into account other economic and financial indicators, as well as the evolution of imbalances within the European Union, indicating whether the breach of certain thresholds may signal the emergence of an imbalance. Therefore, it can be concluded that detecting macroeconomic imbalances is not a mechanical process, but the result of a comprehensive and multidimensional analysis. However, at the European level, the economic assessment of countries with high current account deficits, such as Romania, may differ from that of Member States that record significant current account surpluses.

The role of the scoreboard and its 13 measurable indicators is to facilitate the identification and the assessment of macroeconomic imbalances. In particular, these can be classified as follows:

- Internal imbalances, which may be reflected by indicators such as public and private debt, household credit, housing prices, and others;
- External imbalances, associated with developments in the current account deficit, the net international investment position, the real effective exchange rate, export dynamics and unit labour cost trends.

The indicators included in the scoreboard, their structure, thresholds for the euro area and non-euro area countries, as well as the methodology applied, may be revised, the most recent update taking place at the end of the previous year.

For countries whose economic developments indicate the possible emergence of imbalances, the European Commission prepares an In-Depth Review, a detailed analysis determining whether the Member State is experiencing imbalances. Following this analysis, a Member State may be classified as having "no imbalances," "imbalances," "excessive imbalances," or "excessive imbalances with corrective measures needed."

In cases where the Excessive Imbalance Procedure is triggered, the Council of the European Union requests the Member State concerned to implement corrective actions outlined in a Corrective Action Plan.

Failure to comply with these corrective measures may result in sanctions of up to 0.1% of GDP for euro area countries or the suspension of access to EU funds, the latter applying to all Member States. Although the corrective arm has not yet been operational, the new governance framework aims to make this procedure effective.

Until 2024, Member States submitted in April their National Reform Programmes and Stability/Convergence Programmes, which included measures and actions to correct imbalances or to respond to the previous year's Country-Specific Recommendations.

In the context of the new EU economic governance rules, applicable from 2024, Member States are required to submit medium-term fiscal-structural plans, setting out the net expenditure trajectory, as well as priority investments and reforms, including those aimed at addressing macroeconomic imbalances in countries facing such challenges. Member States should also report on the progress related to the adjustment of the imbalances within the Annual progress reports, which are submitted since 2025.

Another important process is the Excessive Deficit Procedure (EDP), which was launched for Romania in 2020, but it was put on hold during the pandemic when fiscal requirements were temporarily relaxed for all Member States to allow them to better manage the health crisis. Meanwhile, energy market tensions, rising inflation, and the war in Ukraine have further deteriorated fiscal conditions in several European economies, prompting the activation of the EDP for several countries.

The new economic governance framework could offer Romania an opportunity to ensure the fiscal predictability needed for long-term sustainable development in the investment and reform commitments foreseen in the medium-term fiscal-structural plan will be adequately implemented.

2. Literature review

The academic literature reveals a sustained concern on macroeconomic imbalances, their origins, and their correction mechanisms. The discussion begins with the definition proposed by Wieser (2011), former Chair of the Economic and Financial Committee (European Union committee), who described them as the negative or positive position of internal, external, or financial variables which, if not corrected over time, leads to an unsustainable national savings-investment balance that will self-correct abruptly, causing significant adjustment shocks.

Therefore, the persistence of imbalances over an extended period implies losses of competitiveness, excessive credit growth, rising housing prices, and debt accumulation. In this regard, Dăianu et. al (2025) analyses the economic and social implications of deficits and suggests solutions to prevent or mitigate their negative effects on the economy.

According to Blanchard and Giavazzi (2002), the launch of the Economic and Monetary Union (EMU) led to a marked decline in the correlation between savings and investment among Member States, driven by the greater financial integration that accompanied the adoption of the single currency. The authors further observed a positive relationship between per capita income and current account balances among Member States, with capital typically flowing from richer, capital-abundant countries to poorer nations with scarce financial resources.

Although Blanchard and Giavazzi (2002) did not initially consider the persistent current account imbalances within the euro area as a major concern, they acknowledged the existence of significant nominal rigidities, the inability to adjust nominal exchange rates, and the absence of sufficiently countercyclical fiscal rules as factors that distort resource allocation. Capital flows proved to fuel imbalances driven by domestic distortions and misallocation of capital. These included credit-fueled asset price bubbles, excessive budget deficits, and unrealistic expectations of future growth (Kämpfe and Knedlik, 2017).

In the mid-2000s, other authors pointed out that differences in macroeconomic conditions across euro area Member States could pose significant concerns (Lane, 2006; Mongelli and Wyplosz, 2008). In addition, Zemanek et al. (2009) and Berger and Nitsch (2010) documented a tendency for capital to flow toward countries where domestic economic distortions were most pronounced, particularly in the absence of effective structural reforms.

Several studies (Trichet, 2005 and 2006; ECB, 2008; Bini-Smaghi, 2007; Papademos, 2007) highlighted substantial competitiveness challenges and macroeconomic imbalances in multiple countries, emphasizing that, even ten years after the EMU's establishment, most euro area Member States continued to face structural constraints due to rigid legal and regulatory frameworks, high labour taxation, and inflexible wage-setting practices.

Overall, relatively little focus was given to the institutional variations among the countries that joined the euro area, despite Acemoglu's (2004) influential findings demonstrating that long-term real convergence depends not only on per capita income disparities but also on the quality of governance and institutional frameworks. More recently, studies have begun to examine in greater depth the interaction between macroeconomic outcomes and the initial levels of public debt in euro area countries (Masuch et al., 2017).

High-growth economies experienced stronger wage and price inflation, which reduced real interest rates and further stimulated domestic demand. The rapid expansion of nominal demand meant that fiscal rules were effectively non-binding, as rising nominal GDP and sustainable tax revenues eased fiscal constraints. In slow-growing economies, the opposite dynamic prevailed: weaker nominal growth translated into higher real interest rates and tighter budgetary positions, making fiscal rules more binding and reinforcing austerity pressures.

These divergent trajectories generated persistent external imbalances - current account deficits in the fast-growing economies and surpluses in the slower ones - creating creditor-debtor relationships that ultimately proved unsustainable. After the "sudden stop" of the crisis, these imbalances were corrected asymmetrically: adjustment fell disproportionately on deficit countries, which were compelled to enact severe and unilateral deflationary austerity policies, with extremely high economic and social costs (Koll and Watt, 2022).

3. Methodology

The assessment was conducted using Eurostat data for the period 2015-2023 covering the 27 EU Member States, with a particular focus on Romania. The analytical method applied consists in the comparative analysis (based on graphical approach), aiming to highlight Romania's situation by comparing indicators reflected in the Macroeconomic Imbalance Scoreboard and the 2025 Alert Mechanism Report. The data presented in these documents refer to the year 2023, while subsequent evaluations also use additional data sources.

In this respect, we used the following indicators to assess the external imbalances:

3.1. Current Account - calculated as the total of the trade balance (exports minus imports of goods and services), the income balance, and net current transfers. The current account represents a component of the balance of payments, which records the country's economic and financial transactions with the rest of the world over a specific period, usually one year. It measures the net flow of income and payments between a country and other economies, indicating either a surplus or a deficit. According to the scoreboard, the reference range for the current account balance, expressed as a percentage of GDP and averaged over three years, lies between -4% (lower limit) and +6% (upper limit) of GDP.

3.2. Net International Investment Position (NIIP) - denotes the balance between a country's external financial assets and liabilities. When the NIIP is positive, the country holds a net creditor position, while when negative, it is considered a net debtor.

3.3. Real Effective Exchange Rate (REER) - calculated as a weighted average of the national currency against a basket of currencies (corresponding to 42 trading partners) and adjusted for inflation (using the Harmonised Index of Consumer Prices - HICP). This indicator assesses shifts in a country's price or cost competitiveness compared with other nations. A rise in the REER index signals a decline in competitiveness.

The reference thresholds for this indicator's variation are ±3% for euro area countries and ±10% for non-euro area countries, calculated as a three-year average.

3.4. Export Market Share relative to Advanced Economies - indicates the proportion of a country's goods and services exports within the total exports of advanced economies. In addition, there is a need to clarify that advanced economies includes OECD member states as well as five EU countries not in the OECD: Bulgaria, Croatia, Cyprus, Malta, and Romania. The threshold considered for this indicator is -3%.

3.5. Nominal Unit Labour Cost Index (ULC) - defined as the ratio between labour costs and labour productivity.

Labour cost is calculated as the ratio of employee compensation to the number of hours worked, while labour productivity is measured as the ratio of GDP to total hours worked.

The scoreboard indicator is expressed as a percentage change over three years, with thresholds set at 9% for euro area countries and 12% for non-euro area countries.

The procedure applicable to external deficit correction aims to ensure that all Member States maintain a low level of public debt or reduce their indebtedness to sustainable levels. Therefore, this analysis also includes the level of public debt as a share of GDP, even though this indicator is generally part of the assessment of internal imbalances.

Public debt refers to the total financial obligations of the state (government, public institutions, financial institutions, and local administrative units) at a given time, arising from domestic and external borrowing (in local and foreign currency) contracted over the short, medium, and long term, as well as the state's obligations to its own treasury for temporarily advanced amounts aimed at covering the budget deficit.

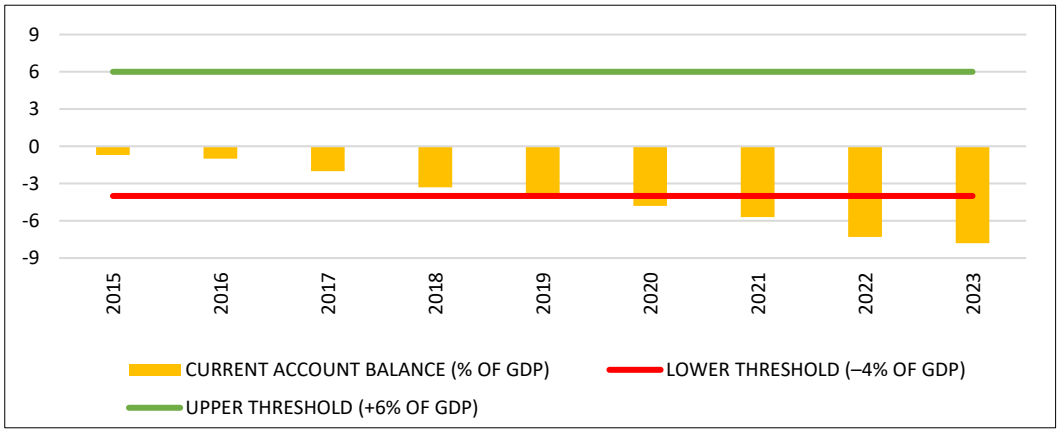
4. Results and interpretations

According to the 2025 Alert Mechanism Report, published at the end of last year, macroeconomic risks for Romania related to external sustainability and competitiveness are increasing. Analysing the scoreboard for external imbalances, in 2023, three indicators exceeded the prescribed thresholds: the current account balance, the net international investment position, and the nominal unit labour cost.

To understand the scale of external imbalances at the national level, this analysis aims to compare these indicators with those reported for other EU Member States and to identify the magnitude of deviations from the thresholds set in the scoreboard.

Regarding the evolution of the current account deficit (three-year average), according to *Figure 1*, the scoreboard data indicate a continuous deterioration since 2019, with the -4% of GDP threshold being exceeded.

Figure 1. *Current account balance – Romania (%GDP)*



Source: Authors' processing based on data extracted from the Eurostat platform

Negative performances in the current account deficit led, in 2023, to it reaching the highest value in the EU, at -7.8% of GDP as a three-year average. Romania was followed by Greece, with a deficit of 7.7% of GDP, and Cyprus (–6.7% of GDP).

In fact, according to Eurostat data, more pronounced deteriorations of the current account deficit began to appear in the post-pandemic period, with 2021 marking a deepening of the deficit by 2.1 percentage points of GDP. This deterioration, which brought the current account deficit to –7.2% of GDP (*Table 1*), was mainly driven by the trade balance, which contributed to worsening the external imbalance, in the context of global supply chain disruptions and widespread increases in commodity prices.

The process continued the following year, with 2022 marking a peak in the current account deficit of 9.5% of GDP, the highest level recorded since 2008. The current account deficit thus reached EUR 26.8 billion, an increase of 54% compared to 2021. Once again, the widening of the current account deficit was mainly driven by the trade deficit, as domestic production was insufficient to cover domestic absorption.

Table 1. *The evolution of deficits*

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Current account deficit (billion euros)	-1.0	-3.5	-6.0	-9.5	-10.9	-11.2	-17.4	-26.8	-21.5
- % of GDP	-0.7	-2.1	-3.2	-4.6	-4.8	-5.1	-7.2	-9.5	-6.6
Trade deficit - goods (billion euros)	-8.4	-10.0	-13.0	-15.4	-17.6	-18.7	-24.4	-34.1	-29.0
- % of GDP	-5.2	-6.0	-6.9	-7.5	-7.8	-8.5	-10.1	-12.1	-8.9

Source: Authors' processing based on data extracted from the Eurostat platform

A significant adjustment occurred in 2023, when the current account deficit decreased to 6.6% of GDP, following a recovery in the goods trade balance, particularly due to a reduction in commodity prices. The analysis above highlights the key role of goods trade in the evolution of the current account balance, indicating the need for measures aimed at enhancing export competitiveness to reduce the current account deficit.

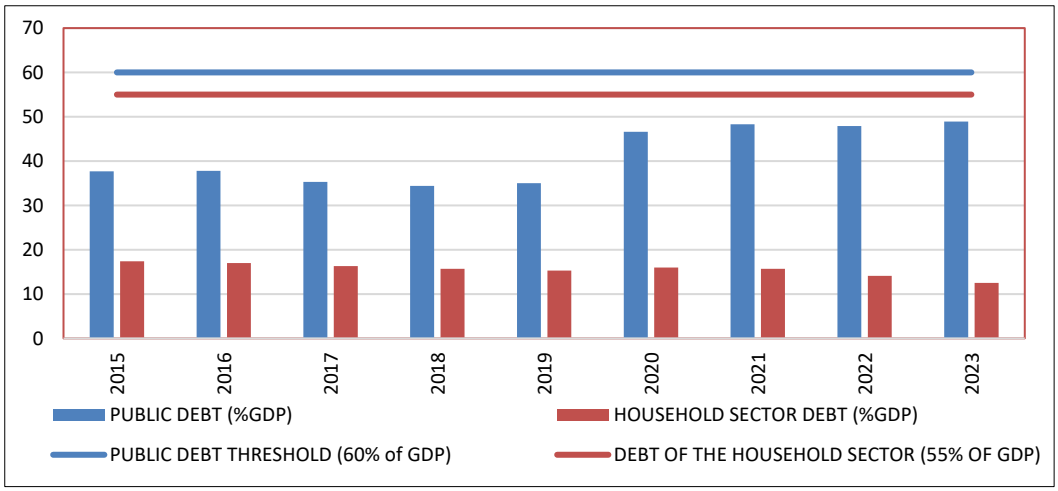
However, it should be noted that this reduction in the current account deficit is not reflected in the scoreboard indicator, due to unfavorable results in previous years. Considering that, according to National Bank of Romania data, the current account deficit exceeded €29 billion in 2024, equivalent to approximately 8.3% of GDP, which is in line with a three-year average over 8% of GDP for 2024, signaling a continuation of the negative trend.

Another important cause of the significant current account deficit consists in the high budget deficit, which have fueled domestic demand. Indeed, within the EU, Romania is among the countries with the most pronounced current account and budget deficits (twin deficits). In this context, it is important to consider the positive effect of the budget deficit on the current account deficit in Romania, estimated at between 0.43 and 0.65 percentage points of GDP for each 1 percentage point increase in the budget deficit (Dăianu et al., 2025).

Pressure on budget deficits also comes from the increasing cost of government debt, which, although still below the 60% of GDP threshold set by the Maastricht Treaty, has accelerated in recent years, reaching 48.9% of GDP in 2023.

Romania's public debt as a share of GDP reached 54.6% by the end of 2024, according to the Ministry of Finance (*Figure 2*), approaching the maximum allowed threshold of 60%. In absolute terms, government debt exceeded €964 billion lei, with the budget deficit being the main driver of the increase.

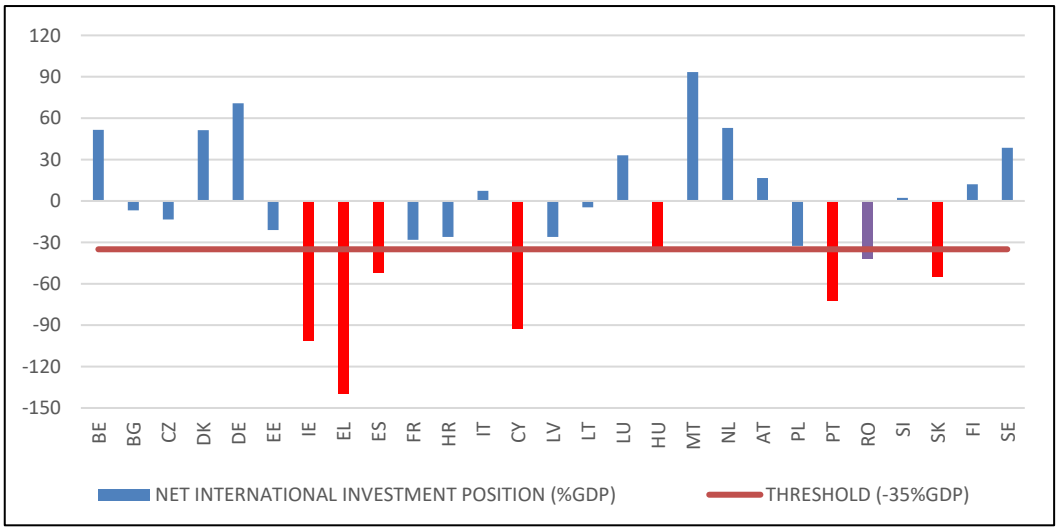
Figure 2. *Public debt and household sector debt*



Source: Authors' processing based on data extracted from the Eurostat platform.

At the same time, household debt (% of GDP) declined from 17.4% in 2015 to 12.5% in 2023. Romania currently has the lowest level of household debt among EU member states, but with the expected reduction in loan interest rates, it is anticipated that household debt will return to an upward trend.

Figure 3. *Net international investment position (% of GDP - 2023)*



Source: Authors' processing based on data extracted from the Eurostat platform.

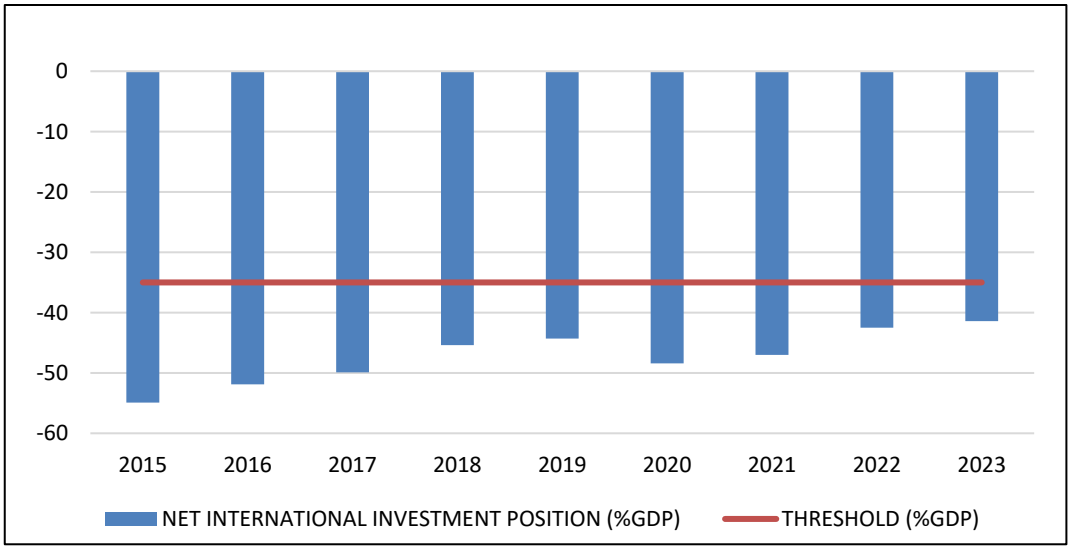
The net international investment position (*Figure 3*), another relevant indicator of external macroeconomic imbalances, reflects the transactions recorded in the financial account of the balance of payments and is an important measure in assessing the external sustainability of the economy. Similar to other emerging European Union economies, Romania records a negative net international investment position, indicating a significant reliance on foreign investment to finance both the current account deficit and the economy in general.

The situation is not alarming for Romania, as there are countries, such as Greece and Ireland, where the negative threshold of 100% of GDP is exceeded. Other countries with more pronounced negative values than Romania include Cyprus, Portugal, Slovakia, and Spain.

As can be observed in *Figure 4*, Romania has experienced a significant improvement since 2015, when the net international investment position (NIIP) was nearly –55% of GDP, reaching -41.4% of GDP in 2023, only 6.4 percentage points above the prescribed threshold. It is worth noting that an improvement in the absorption of non-reimbursable EU funds could contribute to further adjustment of this indicator.

Unit labour cost (ULC) represents another indicator of external imbalances for which Romania exceeds the 12% threshold set for non-euro area countries. Romania is not an isolated case, as unit labour costs have risen in most European Union countries.

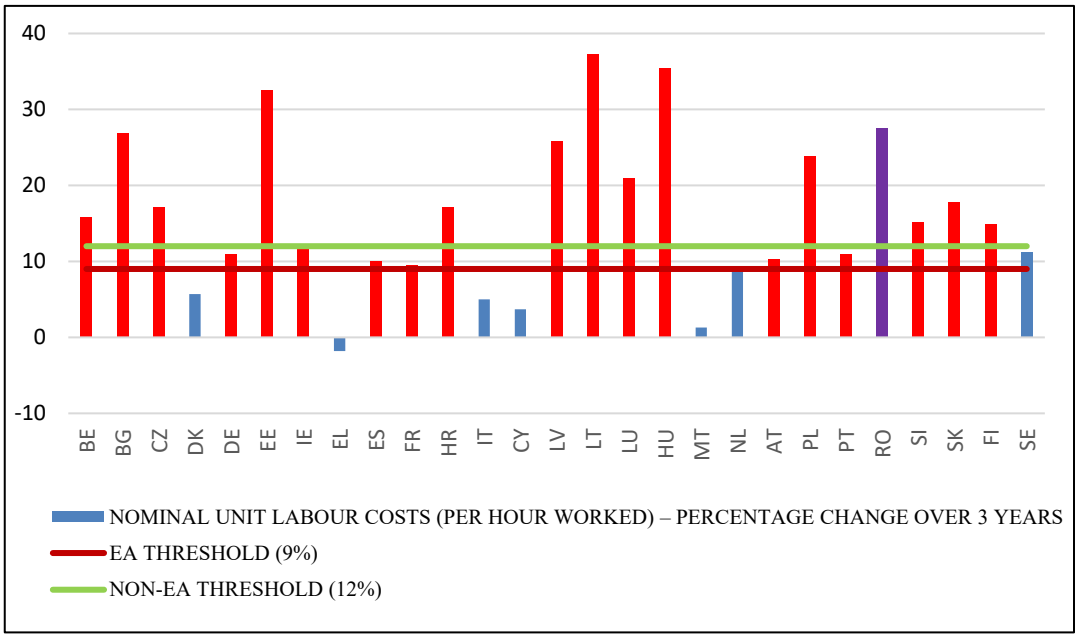
Figure 4. *Net international investment position - Romania (% of GDP)*



Source: Authors' processing based on data extracted from the Eurostat platform.

The increase in costs, calculated as a three-year average, is widespread and has been driven by a period of high inflation, which led to significant wage growth. Labour productivity was unable to offset the rises in compensation, resulting in an increase in unit labour costs. In the ranking of unit labour cost increases for 2023, Romania is in fourth place, after Lithuania, Hungary, and Greece (*Figure 5*).

Figure 5. *Nominal unit labour costs (per hour worked) – percentage change over 3 years*



Source: Authors' processing based on data extracted from the Eurostat platform.

Concerns regarding labour costs remain relevant for 2024 due to wage increases, including the minimum wage, which have created some pressures on the business environment. The adverse effects have been felt on external competitiveness, negatively impacting the evolution of goods and services exports and, consequently, the current account balance.

5. Conclusions

Given the unfavorable trends of the main indicators monitoring external imbalances, it is expected that the European Commission will decide to keep Romania in the category of countries with excessive imbalances in the next European Semester cycle (2026). Additionally, the challenges in managing the budget deficit, which increased to 9.3% of GDP in 2024, as well as losses in competitiveness, highlighted by both rising unit labour costs and an increase in the real effective exchange rate, must also be taken into account.

Our paper recommends an in-depth structural investigation of trade deficits, identifying the main factor behind the deterioration of the current account. Such an analysis is essential to identify sectoral vulnerabilities and guide policies aimed at recovering activities that traditionally generate trade deficits, results that should be also reflected in a national strategy for adjusting trade balance.

In addition, there is a need to implement the appropriate policies to end the excessive budget deficit situation and to keep public debt under 60% of GDP.

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