THE SUSTAINABLE NATURE OF FISCAL AND BUDGETARY CONSOLIDATION FROM A LOGICAL AND INSTITUTIONAL PERSPECTIVE

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Abstract:

The article investigates the sustainability of fiscal consolidation from a dual perspective: logical-economic and institutional, with a focus on the interaction between fiscal adjustment strategies and the broader governance framework. The study goes beyond the restrictive accounting approach of consolidation, arguing that sustainability depends both on the logical coherence of fiscal policy design and on the institutional robustness of implementation mechanisms.

Methodologically, the analysis combines the conceptual assessment of the logical consistency of fiscal rules with an empirical examination of the institutional arrangements that shape budgetary outcomes in Romania and the European Union.

The results show that sustainable consolidation involves more than meeting deficit and debt thresholds: it depends on the credibility of tax institutions, administrative capacity and the integration of fiscal strategies into long-term growth and social resilience objectives. Moreover, research suggests that credible institutions and rule-based frameworks reduce procyclical biases and increase fiscal discipline, while fragile governance erodes the effectiveness of consolidation efforts.

The contribution of the article is to articulate a bridge between the logical models of fiscal coherence and the institutional economics of governance, highlighting the need for gradual consolidation strategies, anchored in clear and institutionally integrated rules.

Keywords: *fiscal consolidation and sustainability; institutional governance; fiscal policies; fiscal rules; European Union; Romania*

JEL classification: *E62, H60, H83*

Introduction

This article investigates the sustainability of fiscal consolidation from a dual perspective – logical-economic and institutional – aiming to highlight how fiscal rule design and institutional robustness intersect to shape fiscal outcomes.

The topic is topical because fiscal consolidation is a global priority in the context of post-pandemic imbalances, the green transition, the technological revolution 5.0 and demographic pressures. Its sustainability analysis, from a logical and institutional perspective, is essential for macroeconomic stability and the credibility of public policies, both globally and in the EU. Sustainable fiscal consolidation becomes essential for economies marked by high public

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debt, green and digital transitions, inflationary pressures and increased social needs. The logical and institutional analysis makes it possible to assess the coherence of EU policies and, in particular, Romania's ability to ensure long-term stability.

Armed conflicts and current geostrategic approaches play a major role in shaping the sustainability of fiscal consolidation, by amplifying economic uncertainties, increasing military spending and affecting trade and energy flows. They lead to the reconfiguration of fiscal priorities, emphasizing the need for prudent and institutionally resilient fiscal policies. The issue of fiscal consolidation becomes central in Romania: i) in the context of the pressures generated by the recent economic crises, by the structural transitions; ii) under the imperative of the need to align with the European objectives of stability and sustainable development, iii) for the effective governance of national security.

It follows that beyond an accounting understanding of fiscal adjustment, its sustainability requires a multidimensional analysis, which captures both the logical coherence of fiscal rules and the institutional resilience of the implementation mechanisms.

In the European Union, fiscal consolidation is often viewed in terms of compliance with deficit and debt thresholds. Macroeconomic imbalances, such as budget deficits and persistent inflation, are analysed in the ESA 2010, which provides a key European statistical framework for assessing economic performance and comparability of data between Member States. The experience of recent decades shows that these criteria are not sufficient to guarantee a sustainable trajectory.

Romania illustrates the difficulties and paradoxes of consolidation: rapid but often procyclical adjustments, strained by institutional constraints and a fragile governance framework.

The article advocates defining fiscal consolidation as reducing the deficit relative to GDP, stressing the importance of expressing it in relative terms to allow comparisons in time and space and to integrate European convergence criteria (such as the Maastricht Treaty). This is a contribution that provides a solid basis for debates on the sustainability of fiscal consolidation and the implementation of new mathematical and institutional models.

Literature Review

The existing literature suggests that the success of consolidation policies depends not only on traditional macroeconomic parameters, but also on the quality of institutions, the coherence of fiscal rules, and the state's ability to adapt strategies in the context of external shocks (Alesina & Ardagna, 2010; IMF, 2023).

This section reviews the relevant literature at three levels: (i) theoretical frameworks and models for assessing fiscal sustainability; (ii) institutional and regulatory perspectives, with a focus on the European Union; and (iii) external shocks (e.g. effects of geopolitical and military decisions) on fiscal consolidation. Finally, the conceptual implications for Romania are discussed.

i)Theoretical frameworks and models of fiscal sustainability

The assessment of fiscal sustainability was initially approached through simple debt accumulation models and arithmetic debt sustainability relationships, in which public debt is analyzed in terms of economic growth, interest rates and primary deficit (Bohn, 1998; Elmendorf & Mankiw, 1999). These models, although useful for diagnosis, can be criticized for optimistic assumptions regarding the output-gap, the stability of macroeconomic parameters and the ignorance of institutional interdependencies.

In recent decades, the literature has advanced towards Debt Sustainability Analysis (DSA), combining macroeconomic scenarios and stochastic simulations. Recent analyses integrate risks of external shocks, structural vulnerabilities and distributional effects, revealing that simply reducing the deficit does not guarantee long-term sustainability (IMF, 2023; European Commission, 2022a). For example, comparative studies show that countries with credible fiscal institutions can sustain higher levels of debt without compromising stability, while states with weak governance risk losing market confidence and increasing financing costs (Afonso et al., 2006).

In parallel, the literature underlines the importance of the composition of consolidation: adjustments based on increasing public revenues are more sustainable and less damaging to economic growth than those based solely on reducing spending. However, the integration of spending for the green and digital transition or for national security raises the complexity of sustainability assessment, requiring more sophisticated scenarios.

ii) Institutional perspectives and regulations in the European Union

At European level, the literature highlights the role of institutional frameworks in the success of consolidations. The EU's fiscal rules, revised after the sovereign debt crisis and the COVID-19 pandemic, aim to balance fiscal discipline with the necessary flexibility for strategic public investment (European Commission, 2022b). Recent studies emphasize that the effectiveness of rules depends on their consistency with national strategies and the ability of institutions to monitor and sanction slippages (Hallerberg, M & von Hagen, J, 1999; Von Hagen & Harden, J., 2019; Regling, K., 2022).

Moreover, the literature highlights the interdependence between fiscal rules and growth policies: rigid consolidations that do not take into account strategic investments can compromise competitiveness in the long term, while flexible frameworks allow fiscal discipline to be maintained without affecting structural objectives (European Fiscal Board, 2023). Thus, the EU framework becomes a tool for assessing sustainability, not only in terms of traditional financial indicators, but also in terms of institutional coherence and strategic priorities.

iii) Impact of external shocks

The emerging literature highlights that external shocks — including armed conflicts and geopolitical tensions — significantly influence fiscal consolidation. Military spending increases pressure on public budgets, reducing the fiscal space available for other strategic and social investments (OECD, 2023). Conflicts also affect trade flows, financial market stability, and energy security, which can lead to unexpected and temporarily unsustainable fiscal adjustments (IMF, 2023).

Recent models suggest that integrating geopolitical risks into DSA scenarios allows for a more realistic assessment of sustainability. For example, macro-fiscal simulations for EU states show that persistent increases in defence spending, combined with investments for the green transition, can strain the fiscal balance, requiring flexible and coordinated policies at supranational level (European Parliament, 2025).

Thus, the literature highlights the need for a balance between fiscal discipline, national security and strategic investments, stressing that ignoring the geopolitical dimension can turn seemingly sustainable consolidations into vulnerabilities in the medium term.

In the Romanian context, the literature emphasizes that the success of consolidations depends on: i) the quality of fiscal institutions and fiscal governance — credible institutions and transparent fiscal rules increase investor confidence and facilitate sustainable

adjustments (Popa & Grosu, 2020); ii) composition of adjustment — revenue-based measures are more compatible with economic growth, while indiscriminate cuts in social spending can generate long-term adverse effects, iii) ***coherence with strategic priorities*** — Romania is in simultaneous transition to the green economy, digitalisation and defence capacity building; the literature highlights that fragmented or reactive fiscal policies risk undermining sustainability (Iancu, 2022); iv) resilience to external shocks — recent geopolitical and economic shocks require flexible scenarios and medium-term planning to ensure the continuity of critical investments.

Thus, the conceptual literature suggests that the sustainability of consolidation in Romania cannot be assessed only by traditional indicators (deficit/debt), but by an integrated approach that combines fiscal governance, strategic coherence and resilience to external shocks.

Therefore, the proposed research can contribute to filling methodological and conceptual gaps, providing through the logical method an integrated framework combining fiscal-budgetary, institutional and geopolitical analysis for the assessment of sustainability in the medium and long term.

Description of the Problem

The questions that the research seeks answers to are:

1. What does sustainable fiscal consolidation mean?

2. What are its logical and institutional limits?

3. How do Romania and the EU position themselves in this context?

Typically, fiscal consolidation means the reduction of the budget deficit from the actual state to the predetermined state (either institutionally or operationally). An important feature is the obligation, regardless of the way the final target is set, respectively the fiscal consolidation process cannot fail to occur, from the perspective of economic and regulatory action.

In accordance with the most significant programmatic documents of the European Union: the Maastricht Treaty, the Stability and Growth Pact, the Fiscal Compact, we are talking about sustainable fiscal consolidation at the maximum value of the budget deficit of 3% of GDP and the debt of 60% of GDP. Although these thresholds, which are very present in analyses and even public and political debates, have remained unchanged, their significance and the way of assessing the progress made towards achieving them have undergone extensive conceptual changes through the reform of the European Union's economic governance framework.

Methodology and Data

The study uses a methodological combination [1] that allows the articulation of an integrated perspective, which captures not only the formal rules, but also the institutional context in which they operate:

-conceptual assessment of the logical consistency of fiscal rules, by analysing the European framework and national adaptations, in relation to macroeconomic and social objectives,

-empirical analysis of institutional arrangements, using:

1. comparative data on tax governance in the European Union;

2. case studies for Romania and other emerging economies;
3. fiscal sustainability indicators (structural deficit, cyclically adjusted public debt, public investment expenditure).

Contextual framework:

▪ Romania registers significant deviations in the budget deficit compared to the 3% threshold established by the Maastricht Treaty, as shown in Figure 1.

Figure 1: Budget deficit situation in Romania in the last 10 years

Source: Eurostat and own calculations

The reference year for calculations is 2014, when the budget deficit was 1.2%. A smoothed annual rate means the rate that would have been recorded if the average annual rate for the analyzed period (i.e. 22.7%) had been applied for each year.

The following observations can be extracted from Figure 1: i) the budget deficit complied with the condition of the Maastricht Treaty only for the period 2015 – 2018; ii) starting with 2019, the benchmark in question is exceeded, even by a high rate (by 43%), and in 2020 the exceedance rate becomes 207% - the same exceedance rate will occur in 2024, i.e. 210%; iii) in 2020, Romania has already entered the excessive budget deficit procedure, as a result of the relative budget deficit of 4.3% reached in 2019; there are two episodes of fiscal consolidation, of course, without returning to the EU benchmark, in 2021 (year-on-year rate: -23%) and 2022 (year-on-year rate: -10%);

The EU's forecast for 2025 is 8.6%, and for 2026 it is 8.4%. (EU, Spring 2025 Economic Forecast). The EU expects a fiscal consolidation process to start in 2025, with the following annual consolidation rates: -7.5% in 2025 compared to 2024 and 2.3% in 2026 compared to 2025.

▪New European governance regulations enter into force in April 2024, the benchmarks

of the Treaty on the Functioning of the EU – TFEU being maintained, namely the 3% ceiling

for the relative deficit of the consolidated general budget and the 60% ceiling for the total relative public debt. Failure to comply with these ceilings implies a process of adjustment of public finances over a period of four years or, if the country concerned commits to structural reforms (including through public investment), the adjustment period may be extended up to seven years. In the case of Romania, it is a period of adjustment of public finances, a period of fiscal consolidation of seven years, i.e. the period 2025 – 2031.

- In October 2024, Romania drew up its first Medium-Term Structural Budgetary Plan,

approved by ECOFIN with 5 objectives: i) including the trajectories in the 7 years within the ceilings established by the Maastricht Treaty: 3% budget deficit; 60% of the total public debt; ii) in 2031the effective achievement, at the end, of the value of 2.5% of the relative budget deficit; iii) starting with 2029 the introduction of a public finance model in which the state's operating expenses do not generate a budget deficit (they are fully covered by the collected tax revenues), so that the budget deficit is proportional to the investment expenditures); iv) correlation of the annual rates of public investments with the annual absorption rates of European funds; The estimates in terms of GDP are as follows: 2025: 7.9%; 2026: 7,7%; 2027: 6,5%; 2028-2031: 5%. Through the Cohesion Policy, 46 bln. euro, and through the Recovery and Resilience Mechanism 29.7 billion euros must be absorbed. euro; v) ensuring the predictability of the tax system, by increasing the share of current revenues of the consolidated general budget in GDP (from 29.6% in 2024 to 31.1% in 2031 – an increase of 5.2%, i.e. 1.53 pp).

Conceptual framework:

An in-depth analysis of the concept of fiscal consolidation starts from the theoretical foundation of the role of the state in ensuring public goods and services that the free market cannot produce or distribute efficiently. The distinction between material public goods, related to the standard of living and quality of life, and non-material goods, such as freedom or equity, is clarified. In this logic, the fiscal-budgetary structure of the state is defined, composed of the fiscal sub-structure (design and administration of public revenues) and the budgetary sub-structure (design and administration of public expenditures).

Describing in detail the mechanisms of the fiscal-budgetary binomial, one can observe and describe the statutory, functional, resilience and robustness benchmarks, which govern the relationship between revenues and expenditures and influence the level of the deficit differentiation of the types of budget deficit: objective (caused by actual expenditure needs), methodological (due to estimation errors) and administrative (resulting from the inability to collect revenue).

Thus, there is always a benchmark of the budget deficit, to which both the establishment of budget expenditures and that of budget revenues are aligned. In research I considered that this benchmark could be, first of all, a ceiling threshold and classified it as follows:

✓statutory *benchmark* (BS) – which is imposed by the external environment to the fiscal-budgetary process (Constitution, Public Finance Law, Treaties or other mandatory EU documents, etc.); In the case of Romania, which is a member state of the European Union, the statutory benchmark is provided for in the Maastricht Treaty, taken over in the Fiscal Compact, respectively in the Stability and Growth Pact – it has a value of 3% of GDP and is, as is known, one of the five nominal economic convergence criteria for joining the Eurozone (Economic and Monetary Union).

✓functional benchmark (BF) – which is established by the internal environment of the fiscal-budgetary process, (e.g. the National Committee for Macroprudential Oversight (NCMO)),

based on ex ante impact studies on the impact of the budget deficit on the two major macroeconomic variables: inflation and economic growth (in fact, employment);

✓resilience benchmark (BE) – which is established at government level (in consultation with the central bank) and which has the role of resolving a previous imbalance, i.e. it has an active role in macroeconomic dynamics (i.e. it has a role of predetermined fiscal-budgetary impulse); This is the case in Romania at the moment, where the strong overcoming of the budget deficit generated the need to conclude an agreement with the European Commission in order to consolidate fiscal consolidation in the next seven years (this is, therefore, the case study of the research, i.e. the testing of the hypothesis proposed in the study on the ordinance of sustainable fiscal consolidation).

✓robustness benchmark (BR) – which is determined at government level (in consultation with the central bank) and which has the role of obtaining budget surpluses to be hoarded in order to finance unfavourable fiscal situations in the future (this process is recommended by the EU, as well as by the various relevant international organisations in the economic and financial field, to ensure buffer funds or working capital, macroeconomic level in order to overcome critical situations in fiscal-budgetary matters).

We also raised the question of whether there should be a floor threshold in addition to the ceiling threshold and of course we analyzed it along the way, but it will be exposed in another work, in accordance with the logic of the research and the economy of this project presentation work.

On the cutting side, budget expenditure is a structural element of aggregate demand, so it functions as an impulse oriented towards economic growth. But economic growth generates increases in the tax bases in the economy which, even at the same tax rate, generate increases in budget revenues. Budget revenue, as the source of financing budgetary expenditure, also has a momentum effect: an increase in budget revenue can ensure an increase in budgetary expenditure or, most of the time, given that budgetary expenditure is rigid in the short term and sometimes even in the medium term (e.g. structural expenditure, i.e. mandatory/unavoidable, expenditures on programs), this increase is constituted in that specific reserve of the budget surplus, with a subsequent impact on both the budget revenues themselves and on the budget expenditure.

It follows from the above that there is a strong and permanent structural, functional and causal dependence between budget revenues and budget expenditures that influences the budget deficit.

From an operational point of view, there is its own, distinct mechanism in each of the components of the fiscal-budgetary binomial.

In the case of the tax process, the tax revenues – (the result variable of this process) is determined by the product of three variables: VF

•$VF = r \cdot b \cdot c$ (1)

where:

r - the tax rate is the variable of qualitative control (intensity),

b - the tax base is the quantitative order variable (extension),

c- the degree of collection of budgetary obligations is the structural (administrative) command variable.

If the variables and, obviously, are at the discretion of the state, the variable can be acted by both the decisions of the state and the decisions of the economic actors, the analysis of the functioning of the mechanism being accepted according to Dinga (2024).rcb

In the case of the budgetary process, the budgetary expenditure – (the result variable of this process) is determined by the product of three variables: CB

•$CB \equiv \beta = \alpha \cdot \gamma$ (2)

where:

β- the budget appropriation is the variable of the order of the possibility of spending;

α - the commitment appropriation is the variable of the order of necessity of the expenditure;

γ - the degree of absorption of budgetary expenditure is the structural (administrative) command variable, which ultimately refers to the capacity of the economy (in fact, of society as a whole) to effectively spend the public funds made available through the public budget. All three variables are at the discretion of the state.

The budget balance is determined as the accounting difference between tax revenues and budget expenditures, and starting from the value of the budget balance (regardless of whether it is surplus or deficit), feedback reactions are generated, both to the determinants of tax revenues and to those of budget expenditures, in an integrated mechanism that targets BFB as a whole.

Thus, co-evolutionary valences of the fiscal-budgetary binomial can be examined, such as:

▪directly, there are no causal relationships, from an accounting perspective, between tax revenues and budgetary expenditures; Mandatory budgetary expenditures are those budgetary expenditures that cannot be left out: salaries for the public sector, goods and services for the functioning of public institutions and authorities, national defense, public education and health, and the like. These expenditures can only be adjusted (e.g. reduced) if their substantiation basis is reduced (e.g. the number of employees in the public sector). Non-compulsory budgetary expenditure generally refers to public investments which, although useful, having a multiplier role at macroeconomic level, sometimes in the medium or long term (echo effect), can be reduced or even cancelled in certain justified circumstances.

▪indirectly, however, such causal relationships work by relating to the fiscal-budgetary multipliers. For example: an increase in the personal income tax rate will lead to a decrease in national income (measured by GDP), in which case the tax multiplier is negative; an increase in government (budgetary) spending by one unit leads to an increase in national income (GDP) by a number of units equal to the inverse of the marginal inclination to save. Unlike the case of the fiscal multiplier in which the variation of the command variable (personal income tax) led to an opposite variation of GDP, in the case of the budgetary multiplier, the variation of the command variable (budgetary expenditures) leads to a variation in the same direction of GDP.

A relationship that arouses a lot of emotion is: budget deficit - public debt that also produces negative expectations. When the budget deficit appears at the level of the consolidated general budget, it must be financed somehow, that is why the state will contract loans. The loan can be contracted either within the national system (from the population or the private sector) or outside the national system (from other governments, central banks or commercial banks), or from any other sources, such as, for example, from the international capital market, through the issuance of government (sovereign bonds), so-called bonds. Of course,

the loan in question carries interest (and, possibly, bank charges) so it will have to be repaid corrected by a multiplier, which we can call the debt service multiplier. The best situation is that there is no budget deficit, that is, all budget expenditures should be financed (covered) by the tax revenues actually collected from the public budget. However, the budget deficit is not only possible, but seems to be a rule, even worldwide.

For the concept of fiscal consolidation, we used an operational definition: *reducing the public deficit relative to GDP*. Two elements are important in this operational definition: *i) the first element – the public deficit and ii) the second element would be the relative deficit*, in relation to which, some considerations are necessary and useful:

➢the absolute deficit is likely to fall and yet the relative deficit to GDP is likely to increase.

For the demonstration we make some simple formalization:

Let's note:

✓D the absolute value of the BGC deficit (i.e. it is the absolute difference between tax revenues and budget expenditures);$D = V - C$

✓Y gross domestic product (GDP) in absolute terms;

✓d the deficit relative to GDP, i.e. ;$d = \frac{D}{Y}$

✓with , respectively, two moments of time were noted in which empirical (statistical) observations are madeij

We can have the following situation (hypothetical, but relevant from a conceptual and methodological point of view):

$$D_i = V_i - C_i$$

$$D_j = V_j - C_j$$

$$d_i = \frac{D_i}{Y_i}$$

$$d_j = \frac{D_j}{Y_j}$$

✓α the GDP growth index,

✓β Budget deficit growth index

Then we have:

$$D_j = \beta \cdot D_i$$

$$Y_j = \alpha \cdot Y_i$$

So, we can write:

$d_j = \frac{\beta \cdot D_i}{\alpha \cdot Y_i} = \frac{\beta}{\alpha} \cdot d_i$ (3)

Assuming that, which means that the budget deficit, in absolute value, decreases, which means that the GDP, in absolute value, also decreases, but if, under these conditions, it follows that the budget deficit decreases in absolute value but it increases in expression relative to GDP. $\beta < 1 \alpha < 1 \beta > \alpha d_j > d_i$

The question arises: "why would the value of the budget deficit relative to GDP be more relevant than the value of the budget deficit in absolute value?". The relevance in question arises from a number of considerations, of which I attach particular importance to comparability. Comparability (time and space): the use of the relative value to GDP of the consolidated general budget deficit also ensures, from a methodological point of view, the comparability of the values in question between different points in the same fiscal system or comparability between different fiscal systems at the same point in time. A direct comparison of the absolute values of the budget deficit would have no relevance, as shown above.

Further analyzing, a process of fiscal consolidation, at the level of a given fiscal-budgetary system, occurs when the budget deficit registers a decrease between two moments of time. Thus, if we note with the budget deficit recorded at the time and with $d_i ig_i$*the absolute time gap of the budget deficit*, we can write, between two successive moments (between two successive recordings or measurements):

$g_i = d_i - d_{i-1}$ (4)

This absolute coefficient is expressed in percentage points, since the values of the budget deficit are expressed in a number of percentages, i.e.:

$g_i(pp) = d_i(\%) - d_{i-1}(\%)$ (5)

The following distinct (and alternative) situations may arise:

i)absolute tax deconsolidation, when ;$g_i > 0$

ii)absolute fiscal stagnation, when ;$g_i = 0$

iii)absolute fiscal consolidation, when ;$g_i < 0$

From a methodological point of view, we can identify the following cases/situations of the fiscal consolidation process:

➢A *linear* movement of the budget deficit gap: refers to whether any

of the three cases above (deconsolidation, consolidation, stagnation) register a linear trajectory (as, recently, the Romanian Government signed an agreement with the European Commission for fiscal consolidation from the current budget deficit to the benchmark value of the Maastricht Treaty, within a period of seven years. In this case, between any two moments of time (or recording moments), which must be regular, i.e. there must be the same interval between any two moments taken into account, the budget deficit gap has the same numerical value, i.e. the same number of percentage points; From a formal point of view, we have:

$$p_i = p_{i-1}$$

where:

- the slope of the curve joining two successive values of GDB, for , $pi \in [1,2,\dots,n]$

n - the number of measurements made on the interval of interest considered.

Three distinct situations arise within a linear motion:

✓upward linear *motion*: the GDB values increase equally from measurement to measurement, with the size required by the slope (positive, in this case) of the curve in question; the logical condition being:

$$(p_i > 0) \wedge (p_i = p_{i-1}) \wedge (g_i = g_{i-1}) \wedge (g_i > 0)$$

✓decreasing linear *motion*: the GDB values decrease equally from measurement to measurement, with the size required by the slope of the curve in question (negative); formally, the mathematical condition is:

$$(p_i < 0) \wedge (p_i = p_{i-1}) \wedge (g_i = g_{i-1}) \wedge (g_i < 0)$$

✓constant linear *motion*: GDB values are null from measurement to measurement; the slope of the curve is zero, and the logical-mathematical condition is:

$$(p_i = 0) \wedge (g_i = 0)$$

The slope of the line that ensures the linearity of the motion in question can be higher or lower, as the case may be – it is essential that the slope in question be constant over the entire interval on which the measurements are made, since this is the mathematical condition of linearity.

In the above conditions there is a redundancy, logically, but I have kept it, to reinforce the basic idea:

$$(p_i > 0) \leftrightarrow (g_i > 0)$$

$$(p_i < 0) \leftrightarrow (g_i < 0)$$

$$(p_i = 0) \leftrightarrow (g_i = 0)$$

➢a non-linear movement of the budget deficit gap, which is not impossible, although it seems rather unrealistic. Assessments of linear motion can also be made here, mutatis mutandis.

Sustainability of fiscal consolidation: refers to ensuring the conditions, in terms of the size of the consolidation tranche produced at a given time, for the process to penetrate, in terms of the consolidation effect, into the functioning structure of the real economy and the nominal one with which the real economy interacts. The sustainability of fiscal consolidation is a phenomenon that occurs in the medium term (but, as a rule, in the long term) and has a structural nature, which ensures its preservation, which is equivalent, from the point of view of the referential, to sustainability. The question that arises is whether a sustainable process should be considered irreversible? A sustainable process cannot continue sine die, so we cannot say (at least, following this research) that the sustainability of fiscal consolidation – allows reversibility without, eo ipso, losing its very property of sustainability, so the answer to the question is negative.

Logically, we can construct a threshold, a *synergistic threshold for inducing the sustainability of fiscal consolidation* (noted) which is a function – most likely, non-linear – of three thresholds: the temporal threshold (), the dimensional threshold () and the structural threshold () – the index comes from the term mix, referring to the combination of the amount of fiscal stimulus on budget revenues and the amount of fiscal stimulus on budgetary expenditures –, that is, we have the function:$P_S^{CF} P_T^{CF} P_D^{CF} P_M^{CF} M$

$$P_S^{CF} = h(P_T^{CF}, P_D^{CF}, P_M^{CF}) \quad (5)$$

For the convenience of writing, the following notation substitutions are used: $P_S^{CF} \coloneqq y P_T^{CF} \coloneqq x_1 P_D^{CF} \coloneqq x_2 P_M^{CF} \coloneqq x_3$. Then the function h is written:

$$y = h(x_1, x_2, x_3)$$

Consequently, fiscal consolidation is ensured by the simultaneous achievement of those three materiality thresholds. The question arises: are the thresholds of significance ontological thresholds (of an objective nature) or epistemological thresholds (of a subjective nature, of the nature of the project or of the purpose)? In short, the logical analysis of the question reveals:

-*First of all*, it must be said that there are, of course, objective correlations between the fiscal-budgetary variables, on the one hand, and the other economic variables, on the other hand, correlations that occur and have effects independently of the subjectivity of the economic agents or regulatory agents – for example, the tax is strictly the result of multiplying the tax rate by the tax base existing at a given time, no subject can intervene here;

-*Secondly*, on top of these objective correlations (causal, conditional, functional, etc.), the subjective decision intervenes – for example, the tax collected (actually) may differ from the calculated tax (the latter being generated by the objective correlation) if the degree of collection of budgetary obligations is subunitary. Basically, the degree of collection can be unitary only by accident, because there will always be either incapacities of the collection authority (in Romania, ANAF), incapacities aimed at either corruption, or capacities of the taxpayer to hide the tax base or reduce it (tax fraud), etc. There may also be rarer cases in which the collection rate is supraunitary, when outstanding debts are recovered or late payment penalties are added to the tax obligations due. This is obviously a subjective factor;

-*Thirdly,* the economic action (therefore also the fiscal-budgetary one), either at the level of the taxpayer, or at the level of the normative authority or/or of the fiscal administration authority, is an artifact, it is initiated and oriented by goals and objectives, so that the dominant factor in establishing the three thresholds of significance is the subjective factor. Of course, the subjective factor will have to take into account the objective movement of the fiscal-budgetary phenomenology precisely in order not to take decisions or carry out actions that are contradictory to the mentioned objective side.

To be sustainable, fiscal consolidation must be maintained (i.e. not reversible) for a period of time beyond the time threshold PT^{CF}. Although this threshold is also conditioned by objective factors, i.e. acting from the perspective of the fiscal-budgetary process itself, for the most part it is a parameter at the disposal of the fiscal-budgetary normative authority, i.e. having an accentuated character of economic policy.

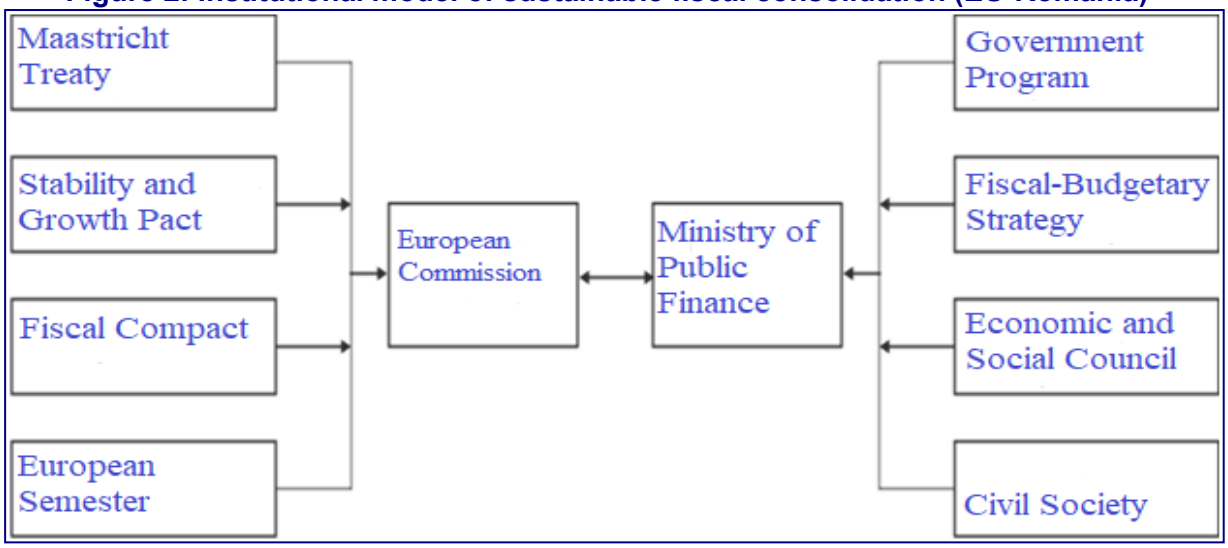
The budget deficit gap must be reduced to the level of the PDCF dimensional threshold, from a sustainability perspective. A gap above this threshold will also pose the risk of reversibility of fiscal consolidation.

Taking into account the last considerations, the answer to the question of a sustainable process must be considered irreversible is nuanced in the sense that the irreversibility of tax processes, in this case of fiscal-budgetary consolidation, is given by the mentioned thresholds.

The above exposition, being a purely theoretical one, must also ensure a praxiological perspective, mainly from that of ensuring resources, of any kind, intended to achieve this goal, which resources must be allocated in the appropriate quantity, order and pace.

Institutional framework: is formalized and presented in figure no. 2

Figure 2: Institutional model of sustainable fiscal consolidation (EU-Romania)



Source: elaborated by the author from unpublished paper of research project of CCFM 2025, coordinator Dutcas.

As the figure reveals, the model targets the generic institutional structures of an economic system that must ensure the design, implementation and control of the impact of fiscal-budgetary decisions that have a consolidating and sustainable effect. The decisions support the ability of the economic system – the national economy – to generate a multiplier, either budgetary, i.e. budgetary expenditures, or fiscal, i.e. tax revenues (or the average tax rate) that does not irreversibly disrupt the functioning of the economic system in question, i.e., in general, keep the economic system in a certain area of stability/sustainability.

Specifically, if we refer to the conditions of the Maastricht Treaty, that structural and functional state of the national economy in which the gap between the annual pace of budgetary expenditures and the annual pace of gross national income does not exceed 3 pp.

The objectives assumed by Romania through the Medium-Term Budgetary-Structural Plan for the sustainability indicators of public finances are presented and analyzed in the following Table:

Table 1: Analysis of the sustainability of Romania's fiscal consolidation objectives

	Indicator	2024	2025	2026	2027	2028	2029	2030	2031
1.	Potential GDP – annual rate (%)	2,7	2,7	2,5	2,4	2,2	2,1	2,0	2,0
2.	GDP deflator – annual rate (%)	7,2	5,0	4,9	4,8	4,7	4,6	4,5	4,4
3.	Net primary expenditure – annual rate (%)		5,1	4,9	4,7	4,3	4,2	3,9	3,8
4.	ESA budget balance (in GDP) %	-7,9	-7,0	-6,4	-5,7	-5,0	-4,2	-3,4	-2,5
5.	Relative structural budget balance (in GDP) %	-7,3	-6,3	-5,7	-5,1	-4,3	-3,5	-2,7	-1,8
6.	Relative structural primary budget balance (in GDP) %	-5,3	-4,3	-3,3	-2,3	-1,3	-0,3	0,7	1,7
7.	Budget deficit target ceiling - pp	3	3	3	3	3	3	3	3
8.	Total Relative Gross Government Debt (in GDP) - %	52,2	55,7	58,5	60,6	62,0	62,6	62,4	61,4
9.	Annual change in total relative gross government debt (in GDP) - pp	3,4	3,5	2,8	2,1	1,4	0,6	-0,2	-1,0
10	Sustainability assessment	-	-	-	+	+	+	+	+

Source: PBSNTM

Analysis of the data in the Table:

-the annual decrease in the potential GDP rate can be explained by the base effect (equal increases in absolute value are found in slight decreases in relative value or, as the case may be, in the stagnation of these relative values);

-the deflator at the level of goods and services in the consumer basket (consumer goods price index, inflation) is not taken into account because fiscal consolidation is the cumulative, integrated and synergistic effect of both demand and supply, both from the perspective of consumption and from the perspective of other components of aggregate demand (e.g. expenditure on public investment, including from European funds), so the GDP deflator is relevant, not inflation;

-as for the public debt, Romania does not aim to reach the ceiling for 2024, the relative budget balance (in GDP). In the 2010 ESA (European System of Accounts) accrual reporting system is, according to EUROSTAT data, -9.3%, but we have kept the value -7.9 in the table, as it was estimated in October 2024 for the entire year 2024. Throughout the analysis we made the calculations based on the ESA 2010 methodology, although there are differences between the values calculated according to the ESA and those calculated according to the cash methodology (in the cash methodology, the expenses actually paid are taken into account, while, in the ESA methodology, the expenses due are also taken into account even if they are not yet paid, which explains how on the cash methodology, the relative budget deficit in 2024 was 8.65%, while, according to the ESA methodology, it was 9.3%).

-the structural primary budget balance becomes positive (i.e. the structural primary consolidated general budget becomes surplus) in the last two years of the fiscal adjustment/consolidation period: 2030 and 2031, respectively; moreover, the consolidation in question is relatively accelerated (in 2031 the positive balance of this budget increases, compared to 2031, by almost 143%);

-public debt at a maximum level of 60% of GDP at the end of the fiscal adjustment/consolidation period, on the contrary, in relative terms, it increases permanently between 2025 and 2029, only starting with 2030 assuming a very slight decrease (by 0.2 pp), so that, in the last year of the period (2031) a decrease of 1 pp is assumed. It should be noted that in the document Romania's Medium-Term Budgetary-Structural Plan there is no structure of the public debt, neither by sources of financing nor by destinations (use), in order to carry out a more detailed analysis.

Results

- Theoretical models and DSA tools provide a useful framework, but do not sufficiently integrate geopolitical risks and strategic priorities;
- EU regulations and comparative experiences underline the importance of institutions and cross-temporal policy coherence;
- The emerging literature highlights the role of armed conflicts and increased defence spending as factors putting pressure on fiscal sustainability;
- In Romania, the main gaps are related to the integration of strategic and institutional dimensions into a coherent conceptual framework to underpin public policy.
- The functioning of the economy (and of the state) during the period of fiscal consolidation,

when the economic growth impulse is slowed down by the trajectory of reducing the budget deficit, needs external resources (monetary injections) – either from the private sector (internal or external) or from the public sector (external).

Conclusions

The results of the research show that a sustainable fiscal-fiscal consolidation is not reduced to the observance of numerical deficit and debt thresholds.

The sustainable nature of the fiscal-budgetary consolidation process implies:

-logical coherence between fiscal rules and the objectives of stability, efficiency and fairness;

-institutional credibility and increased administrative capacity;

-integrating fiscal adjustment strategies into a broader framework of economic development and social resilience.

Fragile fiscal governance undermines fiscal discipline and accentuates procyclicality, while credible, independent institutions well anchored in the European framework can turn consolidation into a gradual, sustainable and development-oriented process.

Future Directions

In the future, the analysis can be extended by: i) integrating structural determinants, such as the green transition, digitalisation and demographic change, into the modelling of fiscal sustainability; ii) applying dynamic models (ECM, DSGE with fiscal constraints) to estimate the long-term effects of rules and institutions on fiscal balance and growth.

Future research can help inform more resilient fiscal policies that align fiscal discipline with sustainable development goals.

Text notes

[1] Econometric methods aimed at identifying the relationship between institutional robustness and fiscal consolidation performance, including tests for procyclical biases and effects on macroeconomic stability, were used in the research, but will not be exposed for reasons of economy of the paper.

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