Issue Monitoring

Weekly Fiscal and Political Report

October 20 - 27, 2023

Report prepared by

Ana-Maria Anghel, Cezar Petrescu

Contents

Political Updates

INTERNAL AFFAIRS

EXTERNAL AFFAIRS

Fiscal and Economic Updates

OVERVIEW

ON THE RECOVERY AND RESILIENCE PLAN

Political Updates

INTERNAL AFFAIRS

Although last week, the liberal leader Nicolae Ciucă declared that it is still too early to know who the PNL candidate is for next year's presidential elections, it seems that the **PNL spokesperson, Ionuț Stroe**, has a different opinion. Although he reinforces the idea that it is indeed too early for such a decision, **his choice in the race for the Cotroceni Palace would be Nicolae Ciucă**. A choice based, according to Ionuț Stroe's statements, on *"the seriousness that is needed at the moment in Romanian politics"*, an attribute that the PNL president would have. This a somewhat logical choice, if we consider, as we mentioned in our latest report, the tradition of Romanian parties to send their political leaders to the presidential race.

And if we had expected for a moment that the PNL would support an independent candidate in this race, for example, **Mircea Geoană**, **Ionuț Stroe gives the latter a very small chance of reaching the second round of the presidential elections**. The spokesperson of PNL claims that the victory in this specific election is ensured by the support given by one of the *"really strong"* parties in Romania. And so, Ionuț Stroe eliminates from the calculation any scenario in which Mircea Geoană could represent the liberals in such a race, arguing that he could rather represent the social democratic parties (PSD) - ***"Clearly, PNL does not consider Mircea Geoană as a presidential candidate"***.

Another name going back and forth among liberals, for the presidential elections, would have been the former head of the Romanian Intelligence Service (SRI) and former PNL member, Eduard Hellvig. But it seems that he is no longer in the cards for the presidential elections, but rather for the European Parliament elections. **PNL sources**, quoted by the national press, **claim that famous names such as Eduard Hellvig or Cluj-Napoca Mayor Emil Boc would be on the PNL list for the European Parliament elections**. In addition to the two, the liberals would also support, for another term, Adina Vălean, Cristian Bușoi, or Siegfried Mureșan. On the other hand, **there are also several current members of the Cabinet from the Victoria Palace who would like a MEP mandate: Cătălin Predoiu** (Ministry of Internal Affairs), **Alina Gorghiu** (Ministry of Justice) or **Luminița Odobescu** (Ministry of External Affairs). Of course, this being only information based on sources, we cannot give it a character of truth, but it can be considered so that we can get an idea of what Romanian politics will look like starting next year, both at the national and European level, at least from the perspective of PNL.

Leaving these scenarios behind, we propose to turn our attention to the rule of law in Romania and its evolution. This week, the World Justice Project published its **Rule of Law Index for 2023**, which shows the state and evolution of the rule of law in 142 countries. It also shows a rather embarrassing moment for **Romania, as it ranks 40th in the world in this index, with a**

score of 0.63/1, the same as last year. According to this index, the rule of law has gnawed again in most countries this year, including Romania, decreasing in 78% of the studied countries. For example, concerning the factor on constraints on Government powers, Romania has a score of 0.61, way below the 0.74 average, while the factor concerning the absence of corruption gives us a score of 0.56, the average being 0.73. A higher score, 0.67 is registered in the fundamental rights factor, while the average is 0.77. While **the highest score - 0.83 was given to the order and security factor**, the **lowest one was attributed to criminal justice - only 0.52**. The only conclusion we can get from this index is that the rule of law in Romania is far from being a proper one, with issues such as criminal justice and corruption still needing big improvements.

EXTERNAL AFFAIRS

The Schengen situation for Romania is becoming more and more complicated, another element being added to Austria's opposition to this expansion. Amid the war in Israel and the protests and terrorist attacks in Europe, several Schengen member states have reintroduced border controls to stop the possibility of terrorists infiltrating among migrants. In this context, **President Klaus Iohannis** explained **that *"the Schengen area no longer works and almost no longer exists"***, precisely because of these reintroduced controls. However, the head of state claims that, although there has been talk for a long time about the modernization of the legal framework behind the Schengen area, there are countries that oppose both this proposal and the expansion of the area - an allusion to Austria. The President of Romania believes, in this case, that although Schengen has problems, **Romania's accession would be a strong point**, given that we manage the borders of the Union. Regarding the intention to sue Austria the Court of Justice of the European Union, on the background of its opposition to the Schengen extension, Klaus Iohannis mentioned that *"it is a very complicated legal matter"*, which requires time for thought and analysis.

And if we still brought up the modernization of the Schengen Agreement, we could stay in the European area, more precisely regarding the intention of the MEPs to reform the Union's treaties. Thus**, the latest report of the Committee on Constitutional Affairs seeks to amend the EU Treaties through several institutional reforms**. For example, the MEPs called for **a more bicameral system** that would strengthen Parliament's role and change voting mechanisms in the Council, increasing the number of decisions by qualified majority voting. Additionally, the **Parliament wants to have the role of the Council in the election of the Commission's President** and, thus, to nominate them, while the Council would approve them. The report also calls for **the establishment of a European-wide referendum on relevant issue**s. Other matters proposed by the MEPs address subjects such as a social progress protocol, an integrated European energy union, additional competencies for Europol common minimum citizenship and visa standards, and stronger border security measures. Of course, the MEP's wish is yet to

be debated, as it is not that easy to amend the functioning Treaties of the EU. In this regard, the report is to be voted in the plenary session of the Parliament held between November 20 – 23, 2023.

Fiscal and Economic Updates

OVERVIEW

Yesterday, President Klaus Iohannis signed the **decree** **for the promulgation** of the ***Law*** ***on some fiscal-budgetary measures to reduce the budget deficit.*** We remind you of several measures that will apply starting with January 1, 2023: (1) a turnover tax for large companies, (2) an additional tax for banks of initially 2%, (3) new tax rates for the income of micro-enterprises, (4) increases in VAT and in excise duties, (5) a specific turnover tax of 0.5% for companies operating in the oil and gas sectors (except those licensed by the National Energy Regulatory Authority), as well as the fact that (6)companies are required between January 1 – June 30, 2024, to submit invoices issued in **RO e-Invoice System**. Starting from November 1, 2024, there will be changes in the payment of income tax/social security contributions for the IT, construction, agriculture, and food industry sectors. The Law is expected to be published in the Official Gazette at any given moment.

Moving on, Prime Minister Marcel Ciolacu held a series of meetings this week with representatives of the **Council of Foreign Investors** and the representatives **National Tripartite and Social Dialogue Council**, where he discussed, among other things, the current fiscal climate in Romania. During these meetings, Marcel Ciolacu stated that the Romanian Government wants to **continue its efforts to combat tax evasion** and to implement the tax fairness measures that he believes it is currently undertaking. In order to achieve these goals, the Prime Minister indicated that among the main concerns of the cabinet he leads are the **accelerated digitalization of the National Agency for Fiscal Administration (ANAF) and the reorganization of the Ministry of Finance.** In addition, Marcel Ciolacu reiterated the dialogue between the Government and the business community in terms of providing assistance in understanding the rules for the application of tax measures in the area of turnover tax for large companies. Last but not least, the prime minister stressed that the Government will increase the wages in the construction sector, 4,582 RON/month, for a normal work schedule, as well as in the agricultural and food industry sectors - 3,436 RON/month, with the Government planning to adopt an Emergency Ordinance in this regard.

The inability of the Romanian tax authorities to ensure good VAT collection has been illustrated again, this time in the Report VAT Gap: Progress made in VAT compliance in 2021 , published this week by the European Commission. Thus, at the EU level, **Romania remains in first place among the EU Member States in terms of VAT non-collection**, **with an estimated deficit of 36.7% in 2021**, slightly decreasing from 37.3% in 2020, but increasing in nominal

terms. To further illustrate how large is the VAT deficit lost by Romania, the next countries with the highest VAT collection deficits are Malta (25.7%), Greece (17.8%), and Lithuania (14.5%), while at the opposite pole, with the lowest deficits recorded, are the Netherlands (minus 0.2%), Finland (0.4%), Spain (0.8%) or Estonia (1.4%). Even more worrying is the fact that, in nominal terms, the highest VAT collection deficits were recorded in Italy (€14.6 billion), France (€9.5 billion), and Romania (€8.9 billion), while Romania's GDP is much lower than Italy or France, which are in the world's top 10 ranking when it comes to this indicator. The data represents revenues lost mainly to VAT fraud, evasion and avoidance, non-fraudulent bankruptcies, miscalculations, and financial insolvencies, among other drivers.

ON THE RECOVERY AND RESILIENCE PLAN

Discussions about sending **the third payment request** for European funds allocated through the National Recovery and Resilience Plan were opened again this week, this time by Marcel Ciolacu, who declared that these efforts **will be done by November 1**. Thus, concerning milestone 206, which provides for a gradual reduction in the application of the special tax regime applicable to micro-enterprises, Ciolacu said that there are discussions at the Ministry of Finance that will be concluded next week. At the same time, within the context of his visit to Brussels, the Prime Minister also had a meeting with the European Commissioner for Economic and Financial Affairs Paolo Gentiloni, during which the European official expressed his appreciation for the revised form of the NRRP submitted by Romania, as well as the progress acknowledged by the Commission on the new pension law.

Issue Monitoring provides companies and business associations with real time alerts and periodic reports on various policies that are under debate in Parliament, Government or Authorities. The monitoring includes the entire legislative life cycle of draft bills, relevant news in mass media and stakeholders' profiles. For an in-depth monitoring, experts are present at public debates and industry events, providing a detailed synthesis of discussions.