Issue Monitoring

Weekly Fiscal and Political Report

November 03 – 10, 2023

Report prepared by

Emilian Aignătoaei, Cezar Petrescu

Contents

Political Updates

INTERNAL AFFAIRS

EXTERNAL AFFAIRS

Fiscal and Economic Updates

OVERVIEW

ON THE RECOVERY AND RESILIENCE PLAN

Political Updates

INTERNAL AFFAIRS

PNL – BY OURSELVES! Last Friday, the PNL leadership decided that the party will have candidates on separate lists for all four elections of the next year, and not in an alliance with PSD as it was circulated until now, nor in a coalition of right-wing parties. The President of PNL, Nicolae Ciucă, stated that the party will remain in the governing alliance with PSD, to fulfil its objectives, but we will see if it also happens after the 2024 elections, given the fact that the two parties might not to be able to achieve a parliamentary majority next year. Moreover, there are also some disagreements between the two parties, an example being the law on the ceilings on cash payments. In this sense, PNL deputy Robert Sighiartău declared that the governing alliance will not break, but PNL will no longer accept all PSD proposals that affect the business environment and there will be a different approach regarding the relationship between the two parties. Other voices from the PNL, such as MEP Gheorghe Falcă, say that, after the elections, there is also the possibility of a collaboration between PNL and the other right-wing parties.

2024 – ELECTIONS AND GOVERNANCE. If a decision regarding the parties for next year's elections was already made, a consensus regarding the candidates for the presidency has not yet been reached, with different names being circulated for the position of President. According to the results of a survey published this week, Mircea Geoană, current Deputy Secretary General of NATO, is in the first place in voting intentions, in the second place is Prime Minister Marcel Ciolacu, followed by the AUR leader George Simion. Regarding the voting intention for the parties, PSD remains in the first place, with 29.5% of the votes, but AUR comes in the second position with a percentage of 20.2%, surpassing PNL which is in the third position with a percentage of 18.4%, followed by USR which would obtain 14.1% of the votes. Another survey commissioned by PNL has slightly different results, PSD would still be in the first place with 30%, while PNL would be in the second place with 20%, followed by AUR with 19%, USR with 14%, the SOS Party of Diana Șoșoacă with 6% and UDMR with 5%. If the survey commissioned by PNL shows that PSD and PNL could form a governing coalition from 2024, according to the first survey the political calculation would be complicated, PSD and PNL would not have the majority to form a Government, UDMR would not enter Parliament, AUR is an isolated party and avoided by all parties, and USR would most likely refuse to enter the Government, especially with PSD.

EXTERNAL AFFAIRS

ROMANIA'S ACCESSION TO SCHENGEN. Prime Minister Marcel Ciolacu recently stated that Romania could request separation from Bulgaria in terms of accession to the Schengen area and he will ask the Spanish Presidency of the Council of the European Union to organize

an extraordinary meeting of the JHA Council in December in order to re-analyze Romania's candidacy. On the other hand, President Klaus Iohannis claims that the negotiation for Schengen accession continues at all levels, but the best solution is for Romania to join together with Bulgaria. At the same time, the Minister of Foreign Affairs of Hungary, Peter Szijjarto, declared that his country will promote Romania's accession to Schengen next year when Hungary holds the rotating presidency of the EU. Now, it remains to see what will happen in December, especially next year.

MOLDOVA – EU ACCESION NEGOTIATIONS. The European Commission gave a recommendation for the start of EU accession negotiations for the Republic of Moldova and Ukraine, after the two countries received last year the status of candidate states. The Republic of Moldova has fulfilled partially the objectives set out in the application for accession, but, in order to start negotiations, it must reach nine milestones in areas such as justice, public finance management or public administration reform. Both President Klaus Iohannis and Prime Minister Marcel Ciolacu expressed their support in this process of accession of the Republic of Moldova to the EU. While President Iohannis stated that this process is a long-term one and the EU member states must prepare additionally for it, the Prime Minister said that Romania will continue to be a reliable partner for Ukraine and Moldova. The Commission's recommendation will be voted by EU leaders at the Council's meeting which will take place next month.

Fiscal and Economic Updates

OVERVIEW

RETURN OF CASH PAYMENT CEILINGS. Less than a month after the publication of Law 296/2023, which brought a new series of tax changes, the Government adopted an Emergency Ordinance that provides for a return to the ceilings on cash receipts and payments as before. The government believes that Romanian society is not fully prepared to move away from cash payments, as the private sector, especially SMEs, has expressed its opposition to such an approach. It should be recalled that at the same time, an initiative proposing the abolition of these ceilings has been registered in the Senate, being an USR initiative. However, unlike the Government Emergency Ordinance, this legislative proposal provides for the elimination of all ceilings by repealing Law 70/2015, which provides for limitations on cash payments and establishes the rule of electronic payments.

NO NEW TAX CODE CHANGES IN 2024? The possibility of introducing a new set of changes to the Tax Code in 2024 has been dismissed by both Finance Minister Marcel Bolos and Romanian Prime Minister Marcel Ciolacu. Thus, according to Boloș, the tax measures that the government has taken recently with the adoption of Law 296/2023 are only a series of "*transitional measures*", as the real tax reform, assumed through the NRRP, will be

undertaken from 2025. Furthermore, as regards the newly introduced turnover tax for large companies, Bolos believes that this is also a transitory measure, and here we are considering the fact that Romania must implement an OECD directive that provides for an additional 15% tax for multinational companies from 2024. It is worth mentioning here that the draft Bill transposing these provisions at national level was approved by the Government yesterday and will be sent to Parliament for debate. On the other hand, Prime Minister Marcel Ciolacu declared, at the beginning of yesterday's Government meeting, that "*categorically in 2024 there will be no tax increase in Romania*", but stressed that he expects from the Minister of Finance solutions regarding the increase of the collection rate to the State Budget, as well as regarding the digitalization of National Agency for Fiscal Administration and the customs system.

MONETARY POLICY INTEREST RATE UNCHANGED. Moving on, earlier this week the Governing Council of the National Bank of Romania decided to maintain the monetary policy interest rate at 7% per year. However, members of the NBR warn of the potential increase in inflation in the first months of 2024, which they attribute to the increase and introduction of some taxes that are included in Law 296/2023. However, this increase will be followed by a gradual decrease, with a considerable decrease in inflation in 2025.

MOODY'S AFFIRMS ROMANIA'S BAA3 RATING. Shifting our attention to the international level, we learn from the Ministry of Finance that Moody's rating agency has reconfirmed Romania's government debt rating at Baa3 for long-term debt and P-3 for short-term debt. The rating agency also forecasts a gradual increase in economic growth of 2% in 2023, 3.2% in 2024 and 3.5% in 2025, mostly due to foreign direct investment and European funds.

ON THE RECOVERY AND RESILIENCE PLAN

WHY NRRP REFORMS WERE DELAYED? The fact that 2024 will be an election year is seen as an impediment to the implementation of the reforms foreseen in the NRRP, this opinion being shared by the Minister of Culture, Raluca Turcan. The Minister also believes that the delay of the Reforms has been caused by the fact that politicians do not take on these necessary changes as they may lead to a decrease in the polling percentages and, therefore, to a decrease in popular support for the elections. Even so, Turcan said that Romania cannot afford to lose the EU funds as this would have a catastrophic effect on the country. However, it is worth remembering that the two governing parties, PNL and PSD, have been late in implementing the NRRP reforms since last years, without being involved in an election campaign.

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.