Issue Monitoring

Weekly Fiscal and Political Report

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INTERNAL AFFAIRS

RAREŞ BOGDAN, ON A RIGHT-WING COALITION. PNL MEP Rareș Bogdan seems to have started his personal political campaign, calling for a right-wing coalition (#dreaptaUNITA), to the detriment of the current governing alliance with the social democrats. In this sense, Rareș Bogdan claims that he is holding discussions for such a coalition, given the *"unbearable"* character that the PNL-PSD coalition acquired following the declarations of the social democrats according to which the liberals would oppose the increase in pensions. In addition, the liberal MEP went further, declaring with regard to PSD that *"we must watch them, not to put their hands even more into the budgets of private companies and into the pockets of Romanians"* - a reference to the increase in pensions, for which the Government would not have funds.

PM MARCEL CIOLACU'S REPLY TO RAREŞ BOGDAN. The Coalition won't break soon, as PM Marcel Ciolacu (PSD) declared shortly after Rareș Bogdan's statements. Additionally, the prime minister launched a personal attack on the liberal MEP, as he accused him of being unmannered, because, through his statements, wants to *"cover up the 30,000 euros-watch scandal"*. He further added that the liberal had no issue to express during the latest coalition meeting, when all government matters were discussed, including the pension law.

NICOLAE CIUCĂ PLEADS FOR THE ACTUAL COALITION. As a first liberal reaction to these statements, PNL President Nicolae Ciucă drew attention to the fact that the current governing coalition is an assumed political construct that must be carried *"to the end"*. The former prime minister considers that the respect should be mutual and that the country's stability is more important than any "*personal vanity*". Of course, we won't expect the current coalition to come to an end just because one party member wishes for another alliance, but these kinds of statements like the one coming from Rareș Bogdan have the potential to add fuel to the small fire that was always between two historically opposing parties.

PSD WANTS TO GIVE ROMANIA ITS FUTURE PRESIDENT. Moving on to more serious matters, PSD President PM Marcel Ciolacu wishes for Romania to have, from 2024, a social democrat president. He claims that he has not yet decided to run for next year's presidential elections, but he did have a conversation with the President of the Romanian Academy, Ion-Aurel Pop, whom he described as *"a complete leftist"*. Marcel Ciolacu considers that Romania needs this kind of president in the next 5 years, a wish shared by former PSD Prime Minister Mihai Tudose. The latter claims that even though a PNL – PSD tandem, with Nicolae Ciucă president and Marcel Ciolacu prime minister, is not impossible, he does consider that PSD

deserves to give the next president. And the person who Mihai Tudose finds suitable to be the next president is Marcel Ciolacu, as the president of their party. The problem seems to be that, according to the director of INSCOP, NATO Secretary-General Mircea Geoană ranks first in Romanians' preferences for the position of president, in all national polls. This comes as no surprise, given that he represents our country at one of the highest geopolitical levels and he does have a solid expertise in foreign affairs, a necessary attribute for the president of Romania.

EXTERNAL AFFAIRS

NOTICES AND INFRINGEMENT FOR ROMANIA. This week, the European Commission opened an infringement procedure after Romania failed to transpose the Directive on waste (Directive 2018/851/EU). The authorities in Bucharest had until July 2020 to transpose the European Directive which sets legally binding targets for municipal waste recycling and preparation for reuse. Additionally, the European Executive calls for Romania to transpose Directive (EU) 2020/1828 on actions in representation for consumers' protection. The Romanian Government did issue and adopt the draft bill on this matter, but it was delayed in the Parliament, the MPs being the ones who must approve this project for it to come into force. In this case, the Parliament had until December 2022 to pass this Directive that gives the harmed consumers the possibility to seek remedial measures, such as compensation, repair, or replacement. For now, Romania has 2 months to communicate the implemented measures to the European Commission.

Fiscal and Economic Updates

OVERVIEW

"NO TAX INCREASE IN 2024". As we get closer to next year's elections, we see politicians' statements shifting toward promises such as the non-introduction of taxes or pension increases, the main topics these days. Thus, Senate President Nicolae Ciucă said that a future tax increase in 2024 would be "*unfair*" to the business environment, adding that the current governing coalition has pledged not to raise taxes. With a very similar position also came Prime Minister Marcel Ciolacu, who stressed at the beginning of Thursday's Government meeting that no new taxes will be introduced in 2024. In addition, Marcel Ciolacu seems satisfied with the increase in the collection rate of the National Agency for Fiscal Administration recorded in October, considered to be near the Government's target, believing that this progress can contribute to Romania's compliance with the budget deficit target agreed with the European Commission. Concluding the list of politicians who have promised that taxes will not increase next year, we find the Liberal MP Florin Roman, who announced that Liberal MPs will submit an amendment to the draft state budget law for 2024, which will provide for no tax raises.

INFLATION FALLS. The downward trend of inflation seems to be confirmed both at national and European levels. This week, the National Institute of Statistics and the European Commission published data sets on the evolution of inflation, where we note, concerning Romania, that it dropped to 8.1% in October, from 8.8% in September, despite price rises in food, non-food and services categories. We recall that the downward trend of inflation in Romania was also mentioned by the Governor of the National Bank of Romania, Mugur Isărescu, who maintained the inflation forecast for the end of this year at 7.5% and slightly increased it to 4.8% for the end of 2024. Also, in an optimistic outlook come the European Commission's data, which estimates that inflation in the EU has fallen to its lowest level since July 2021, with even more substantial declines to come in 2024 and 2025, when we will be approaching 2% inflation per year.

ON THE RECOVERY AND RESILIENCE PLAN

NRRP REVIEW & THE NEW INVESTMENT AND DEVELOPMENT BANK. The Minister of Investment and European Projects, Adrian Câciu, announced at the end of Thursday's Government meeting the conclusion of negotiations with European Commission representatives on the revision of the NRRP. Thus, according to the minister, Romania succeeded in integrating within its national plan the REPowerEU chapter, amounting to EUR 1.4 billion, to which is added the removal of the ceiling of 9.4% of GDP for the public pension system. Romania's updated plan is due to be approved at the EU finance ministers' (ECOFIN) meeting on December 8. Another notable event related to yesterday's government meeting was the adoption of the act establishing the Investment and Development Bank, part of *Component 8 - Tax Reform and Pension Reform,* with the main purpose of this new institution being to support strategic projects that cannot find financing in the regular banking system.

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