Issue Monitoring

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Weekly Fiscal and Political Report

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PACKAGE 2 AND THE FOUR MOTIONS OF CENSURE. The government assumed responsibility on Monday, September 1, for five draft laws (excluding the sixth, which included cuts to local administration) that make up **Package 2** of fiscal-budgetary measures the government aims to implement this autumn. After assuming responsibility, the opposition had three days to submit a motion of censure; otherwise, the bills would have been automatically declared adopted.

The law on magistrates' pension reform did not receive any motion from the opposition. However, the joint plenary of the two chambers of Parliament met on Thursday for the reading of the four motions submitted by the opposition against the Bolojan Government.

The motions submitted by AUR, S.O.S. Romania, and POT are titled:

- "Resignation of the Bolojan Government – the best treatment for the healthcare system and for Romania!"
- "Stop the politicization of public companies. Stop the mockery of state property!"
- "The government pretends to reform – ASF, ANRE, and ANCOM continue to be corrupt, incompetent, and malicious institutions, captive to political clients and lacking professional governance"
- "Stop impoverishing Romanians! Cut from yourselves, not from them!"

Each motion targets one of the four remaining draft laws.

Although the chances of a motion passing are zero (except in the case of a coalition party defection), the debate and vote on the four motions were scheduled by the joint parliamentary offices for Sunday. If the motions fail, the laws are automatically declared adopted. However, there is still the possibility that the Constitutional Court could rule some of them unconstitutional or that President Dan could return them to Parliament for reconsideration.

TENSIONS IN THE COALITION. The governing coalition appears increasingly close to collapse due to disagreements over cuts to positions within local administration. Press sources report that at the latest meeting, **Paul Stănescu, PSD's Secretary General, told party**

colleagues that it is only a matter of time before PSD leaves the government. This, although still based on unofficial sources, suggests that the "barons" at the top of PSD fear that potential cuts to local administration positions could lead to a loss of political support in the regions. Ionuț Pucheanu, mayor of Galați and PSD vice president, also opposes potential 45% cuts, noting that the coalition had initially agreed on 25%. **Pucheanu adds that multinationals are exempt from Package 2**, though many believe they should have been included on the "list of contributors."

PNL is also threatening to leave the government, in the context of PSD demanding a 25% reduction in the bureaucracy, while Prime Minister Bolojan says the percentage is too low to achieve meaningful reform and is pushing for a 45% cut. Furthermore, Bolojan indicated that if the law on magistrates' pensions is declared unconstitutional by the Constitutional Court, he would resign, considering that his government would lose legitimacy. On the other side, **public administration unions announced that protests will continue and intensify, potentially culminating in a sector-wide general strike** if Prime Minister Bolojan does not withdraw the measures he has announced.

Meanwhile, USR President Dominic Fritz said that coalition discussions and negotiations are "at a good point" and sided with the social democrats who requested a two-week postponement of the local administration reform. Fritz thus finds both PSD's position, asking for more time before implementing cuts, and Prime Minister Bolojan's push for reforms, to be legitimate.

Returning to Prime Minister Ilie Bolojan, he held a press conference in which he presented the main measures for which the government is assuming responsibility in Parliament, as well as how these influence relations within the coalition. **The head of the Executive stated that no discussion had taken place about raising VAT to 23% and that, with strict expenditure control, no new tax increases would be necessary next year**. He emphasized that all decisions are made in dialogue with PSD, and that the coalition's strength will be reflected in parliamentary votes.

Regarding staff reductions, the Prime Minister mentioned approximately 13,000 layoffs, arguing that the dismissed employees could be absorbed by the private market. **Bolojan also stated that he has a normal working relationship with President Nicușor Dan,** considered a partner in implementing reforms, but acknowledged that he had told coalition partners he could resign if agreements on reducing expenditures are not respected.

Kelemen Hunor also commented on the coalition tensions and on how Prime Minister Bolojan is handling the situation. The UDMR leader acknowledged that **the Prime Minister is making compromises and significant efforts to keep the coalition partnership functioning**, even though in his previous career as mayor and president of the Bihor County Council, he was used to holding the majority alone. He also warned that **not all currently adopted measures can be considered genuine reforms**, citing increases in taxes or excises as examples. Regarding the coalition's future, Hunor expressed optimism, stating that "chances are good" that it will last at least until the end of the year.

Where is President Nicușor Dan? **The President of Romania believes that the current governing coalition "functions well,"** even though

the likelihood seems to be growing that we may soon see a break in the alliance and the emergence of a future “sovereignist” government coalition.

JUDGES’ REVOLT. Angry at the potential loss of their current benefits, judges have united across the country, a stance that recently materialized through action by **the High Court of Cassation and Justice, which filed a challenge of unconstitutionality regarding the law with the Constitutional Court**. The main issue, as seen by the magistrates, is that the gradual increase in retirement age, combined with limiting the net amount of the service pension to 70% of the net income earned in the last month before retirement, “violates judicial independence,” is “contrary to the rule of law,” and discriminates against judges. Of course, we will now see other judges decide whether it is acceptable for magistrates to retain their current benefits, a situation that appears more like a conflict of interest, especially given the unity magistrates have shown on this issue. Once again, the fate of Romania’s political future rests in the hands of the Constitutional Court, which is expected to issue a decision.

External Affairs

FORMER ROMANIAN PRIME MINISTERS, NEXT TO PUTIN AND KIM JONG UN. Former PSD Prime Ministers **Adrian Năstase and Viorica Dăncilă were present in Beijing** at the largest military parade in China’s history, marking 80 years since Japan’s official surrender at the end of World War II, alongside dictators such as Vladimir Putin and Kim Jong Un. Only one EU leader attended the event, Slovak Prime Minister Robert Fico, while Bulgaria and Hungary sent representatives. Of course, we are aware of the attachment former PSD leaders have to Russia and China, with the party’s founder, Ion Iliescu, maintaining close ties to Moscow.

In response to this diplomatically problematic situation for Romania’s image, where former officials no longer even hide the side they support, **Foreign Minister Oana Țoiu stated that Romania is not, and cannot be, represented by politicians who proudly pose next to Putin**. She also reaffirmed Romania’s European path and its support for democracies and neighboring countries during this difficult period.

VISIT OF THE EUROPEAN COMMISSION PRESIDENT TO CONSTANȚA. European Commission President Ursula von der Leyen arrived in Romania on Monday at the Mihail Kogălniceanu Air Base (Base 57), after which she visited the Constanța military port and attended a press conference alongside Mayor Nicușor Dan. In her statements, von der Leyen emphasized that the defense industry needs predictability and long-term contracts, which is the goal of the SAFE program. **She expressed optimism that the first projects will receive funding by the end of this year or early next year.** “You are helping us keep Europe safe,” the Commission President said, adding that 19 countries have joined the SAFE program within REARM and highlighting that “Romania is an asset for European security.”

Regarding investments, von der Leyen explained that the new European budget provides a structural response to strengthen defense, which includes tripling funds for border security, **a fivefold increase in defense investments, and a tenfold increase in military mobility funding.**

ROMANIA CONTINUES TO SUPPORT UKRAINE. At the Coalition of Will Summit (Ukraine's allies), which he attended virtually from Bucharest, President Nicușor Dan announced that Romania supports the imposition of new sanctions as a means of pressuring Russia. In his Thursday address, he praised the "unity and transatlantic coordination" and highlighted the ongoing efforts and progress made regarding the security guarantees provided to Ukraine. He emphasized that **U.S. involvement remains essential to achieving a ceasefire and lasting peace**, stressing that "**a secure Ukraine and the strengthening of NATO's position on the eastern flank and in the Black Sea go hand in hand**." Additionally, the President noted that the support provided to the Republic of Moldova and its democratic and European path is equally important for the stability and security of the region.

THE U.S. DISTANCES ITSELF FROM EUROPE. It is well known that President Trump views Europe more as a competitor than an ally, and this has been made quite clear in his recent statements. We recall that, under pressure from Trump, U.S. NATO allies agreed in June to increase their defense spending to 5% of GDP. Official sources told the Financial Times that **the U.S. plans to phase out security assistance programs for European armies along Russia's border, pushing the continent to pay for more of its own defense**. Pentagon officials reportedly informed European diplomats last week that the U.S. would no longer fund programs that train and equip militaries in Eastern European countries that would be on the frontline in any conflict with Russia.

This move affects states such as **Estonia, Latvia, and Lithuania,** and comes at a highly inopportune moment, as international efforts continue to negotiate a slowdown of the war initiated by Russia in Ukraine. It also threatens Europe's security vis-à-vis Russia and, by forcing European states to significantly increase military spending, Trump is putting direct pressure on their budgets, which now must allocate more to military equipment than to the social programs citizens have been accustomed to. This development further fuels extremism and destabilizes European society, caught between a dictator in the East and a transactional U.S. president who seems to wish he could act like a dictator in the West.

Fiscal and Economic Updates

Overview

AMENDMENTS TO THE NEW TAX MEASURES. The Draft Law on new fiscal-budgetary measures, part of Package 2, has reached Parliament after being amended following proposals from MPs. Among the key changes is the adjustment of minimum share capital for limited liability companies (SRLs), now set at RON 5,000 for firms with annual revenues above RON 400,000 and RON 500 for newly established companies. On taxation, the final version keeps both the minimum turnover tax (IMCA) and introduces an affiliate tax, following coalition negotiations. The tax on cryptocurrency transactions will increase from 10% to 16%, the calculation base for health contributions (CASS) on independent incomes will be raised, and large fortunes as well as non-compliant employers will face tougher penalties.

Dividend distribution rules have also been tightened, with companies paying quarterly dividends will no longer be able to grant loans to shareholders or affiliated parties until any differences are settled. The measure requiring mandatory capitalization of loans granted by shareholders and investors to companies remains in place. Additionally, a logistics tax of 25 lei per non-EU parcel with a declared value under €150 will apply starting November 1, 2025. The bill will follow the normal legislative process: if the no-confidence motion against it fails and the Constitutional Court does not rule it unconstitutional, the law will be sent for promulgation.

BOLOJAN DOES NOT BELIEVE THAT THE DEFICIT WILL FALL BELOW 8%. Ilie Bolojan stated that Romania's budget deficit will not fall below 8% this year, with the effects of current measures expected to become visible only next year, and the first estimates to be presented during this month's budget revision. This highlights the fact that major cost-cutting opportunities, such as curbing questionable public procurement, reforming the tax authority or strengthening institutions, seem to have been pushed into the background, even though they could directly help address the country's fiscal crisis.

Given that a significant number of public servants are expected to be laid off if the legislative project is approved by the coalition, Bolojan argued that private companies are in a position to absorb many of those dismissed, stressing that "in many areas of Romania's private sector, there is simply no one left to hire." However, such an approach risks fueling further radicalization among citizens whose incomes are already eroded by inflation and higher taxes, making them increasingly receptive to the rhetoric of far-right "sovereigntist" movements. The dismissal of hundreds of thousands of public employees could have profound consequences, and not only for them but also for their families.

On the Recovery Plan

ROMANIA AIMS NRRP COMPLETION. Prime Minister Ilie Bolojan stated that Romania aims to complete all remaining projects under the PNRR. **Projects that can no longer be completed within the current framework should be transferred to future European funding programs**, such as cohesion funds; this includes certain hospitals and major infrastructure works like highways and express roads. Completion may also involve full implementation with adjustments to milestones that cannot be met, requiring constructive dialogue with the European Commission.