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Weekly Fiscal and Political Report

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Political Updates

Fiscal and Economic Updates

Political Updates

Internal Affairs

ROMANIA'S NEW NATIONAL DEFENSE STRATEGY, ADOPTED BY THE MPS. This week, **the Parliament approved President Nicușor Dan's National Defense Strategy for 2025-2030**, emphasizing citizen protection, institutional modernization, and independent solidarity in cooperation with NATO allies. For **the business environment**, the strategy signals increased defense spending (targeting 5% of GDP by 2035), modernization of critical infrastructure, and investment in innovation areas such as cyber, AI, drones, and space technologies. It also aims to reduce bureaucracy, stimulate entrepreneurship, promote Romanian companies abroad, leverage European funds, and strengthen governance and anti-corruption measures, creating a more stable, transparent, and predictable environment for investment. Key provisions on energy security, digitalization, transport, telecoms, and critical supply chains could directly affect private sector operations, while deeper international partnerships may expand market opportunities and strategic cooperation. According to President Dan, **implementation will be guided by a detailed plan with deadlines and measurable indicators** to translate strategy into tangible economic and security benefits.

CHALLENGES IN PUBLIC ADMINISTRATION REFORM. The governing coalition has pursued a long-awaited effort to reform state-owned companies and local administration spending, a promise that has been on the table since the new government took office in the spring. Vice Prime minister **Oana Gheorghiu highlighted the reactivation of the National Committee for the Reform of State Companies**, aiming first to **end interim management across all state companies by March 2026** and to **begin restructuring at least three companies by August 2026**. A key innovation is the creation of a sectoral map to guide strategic decisions on which sectors the state should remain involved in and which could be gradually exited or privatized. The government plans to **pilot the reform with ten companies, mainly in the energy and transport sectors**, using a unified registry and monthly financial reporting to track progress in real time. The reform seeks to reduce political influence, improve efficiency, and ensure that state companies serve the public interest rather than generate losses.

At the same time, **PM Ilie Bolojan addressed reforms in local administration, targeting a 10% reduction in personnel expenses**. While the overall framework is clear, disagreements persist over how to implement spending cuts effectively. However, this plan faces resistance from **PSD leader Sorin Grindeanu, who has publicly rejected any cuts to public-sector salaries** and declared that the party “will not support salary reductions”.

We remind you once again that this reform is widely anticipated by citizens and civil society, especially given that the private sector has already faced significant tax increases to help reduce the budget deficit. Public expectations are rising for the state to contribute equally to

fiscal consolidation, while a great part of the society could easily turn their vote in favour of far-right and ultranationalist parties (AUR, POT, SOS), should the reform dilute or fail to pass.

PRESIDENT DAN URGES PRIVATE SECTOR TO DRIVE ROMANIA'S DIGITAL GOVERNANCE. Romanian **President Nicușor Dan** urged the **private sector to take an active role in shaping Romania's digital governance** by **preparing concrete legislative proposals and ready-to-implement solutions**, noting that the state itself may need up to two years to develop fully functional projects. Speaking at the 2025 Digital Governance Summit, Dan highlighted that digitalization is not an end in itself but a tool to save time for citizens, the economy, and the diaspora, while also reducing corruption and limiting the discretionary power of public officials.

He also stressed **the importance of artificial intelligence, cybersecurity, and combating disinformation** as essential components of a modern, efficient, and competitive state. Citing Estonia as a model, Dan affirmed that Romania has the political will and institutional capacity to succeed, provided **private and public sectors collaborate effectively to implement structured, strategic reforms**. The president framed the summit as a key step in fostering these partnerships and ensuring that digital governance delivers tangible benefits for both the economy and Romanian society.

External Affairs

ROMANIA AND WORLD BANK DEEPEN REFORM PARTNERSHIP. At the end of last week, **Prime Minister Ilie Bolojan** met with a **World Bank delegation led by Antonella Bassani**, Vice President for Europe and Central Asia, to discuss technical and financial support for advancing Romania's economic reforms and improving public sector performance. Key topics included financing for agriculture, energy, and public-private partnership projects, with Bolojan highlighting the need to develop domestic agro-processing to reduce reliance on imports and strengthen the trade balance. Discussions also covered modernizing the energy system, enhancing revenue collection, combating tax evasion, and reforming state-owned enterprises to improve governance and management. The World Bank confirmed its **readiness to provide loans, guarantees, and expertise to support these initiatives**, emphasizing that **continued reforms are essential for economic stability and sustainable public policies**. Bolojan stressed that the reforms aim to make the state more efficient, transparent, and trusted by citizens, while Bassani highlighted the Bank's commitment to helping Romania leverage its potential in critical sectors.

EU LAUNCHES SKILLS GUARANTEE PILOT TO BOOST WORKFORCE. The European Commission has unveiled the new **Skills Guarantee**, a flagship initiative under the Union of Skills aimed at **helping workers transition into strategic and fast-growing sectors** while **addressing structural labour shortages** across the EU. As part of this effort, the Commission has launched a **EUR 14.5 million pilot project** targeting workers from the automotive sector and its supply chain who face a heightened risk of unemployment. The pilot will test

job-to-job transition schemes by offering tailored upskilling and reskilling programmes, including on-the-job training, to help workers move into emerging industries. In parallel, companies in sectors with rising labour demand will be able to more quickly access the skilled talent they need to remain competitive.

The pilot is designed to shape the future, fully fledged Skills Guarantee scheme, planned for implementation under the EU's long-term budget for 2028–2034. A call for proposals is now open until **January 29, 2026**, with grant agreements to be signed in June 2026 and projects running until summer 2028. Member States are encouraged to begin scaling up use of the Skills Guarantee using available EU funding.

Fiscal and Economic Updates

Overview

BUDGET REVISION AND FUTURE DIRECTIONS. The Ministry of Finance released the draft Government Emergency Ordinance on the 2025 state budget revision. According to the document, **the general consolidated deficit on a cash basis remains at 8.4% of GDP**, almost 1% lower than last year. The improvement comes, however, in a context where taxes were increased in the second half of this year. Finance Minister Alexandru Nazare noted that, unlike last year, Romania's budget deficit had fallen to 5.7% of GDP by October 2025, down from 6.2% in the same month of the previous year. This trend offers a glimmer of hope that the deficit problem may be gradually corrected in the coming years.

Nazare also anticipates an economic rebound in 2026 but emphasizes that it will depend on maintaining a prudent fiscal stance, with disciplined spending and well-constructed budgets. In his view, if Romania succeeds in improving its rating outlook, interest rates should come down, making it easier for the private sector to invest. He also pointed out that, for the first time this year, interest rates have dropped below seven percent. As for next year's state budget, Minister Nazare stated that its main focus will be maximizing the absorption of EU funds through the NRRP.

IMCA: MOUNTING PRESSURE TO SCRAP THE TURNOVER TAX. Pressure from **business associations to eliminate the minimum turnover tax (IMCA)** is growing steadily, and the government, at least rhetorically, appears increasingly open to the idea. Florin Jianu, President of the National SME Confederation (and until October a PSD vice-president and member of Parliament), argues that small and medium-sized enterprises are being suffocated by the current fiscal packages. At the same time, some entrepreneurs complain that NAFA has begun freezing accounts at the end of the month rather than waiting until the 10th of the following month, when tax payments are due. **The employers' confederation Concordia has also urged the government to abolish the turnover tax as a matter of urgency**, calling it harmful to investment and economic stability. Their concerns are echoed by CONAF and AmCham Romania, both of which warn that maintaining IMCA could seriously undermine Romania's competitiveness and dampen investor appetite.

On the government side, many voices seem aligned with the business community. Prime Minister Ilie Bolojan stated that every major Romanian and foreign investor he has spoken to has complained that the turnover tax discourages investment. He added that **the government will make a decision on the matter by December at the latest.**

It is worth recalling that IMCA is included in the second legislative package for which the Bolojan government assumed responsibility in

Parliament. The legislation stipulates the application of a minimum **turnover tax for companies with revenues above €50 million, in the absence of a mechanism to cap affiliated-party expenses**. After having been declared unconstitutional by the Constitutional Court on its first attempt, the law has now been passed by Parliament a second time and resubmitted to the Court for a new constitutionality ruling.

VAT, THE APPLE OF DISCORD. The debate over VAT has become one of the most contentious issues in the fiscal discussions of recent months, this time with Ilie Bolojan pointing out that **Romania is still among the EU countries with the lowest tax levels**. He explained that all available data on state budget revenues showed that Romania collects some of the lowest public revenues in the Union. In his view, this is the result of reduced taxation, numerous exemptions introduced over the years, and persistent tax evasion. He added that **Romania cannot expect to maintain Anglo-Saxon-style low taxes, enjoy Nordic-style social assistance**, and continue with what he described as **Balkan habits in the management of public money**. According to him, this combination has become an economic Molotov cocktail whose effects are already visible.

Official figures from the Ministry of Finance offer further insight. When comparing January to September 2025 with the same period of 2024, more than **two thirds of the additional VAT revenues were generated between July and September**. The growth rate of VAT collections reached 14.8% during those three months, while the first half of the year, from January to June, had shown an increase of only 3.8%, measured against the same periods of the previous year.

What followed politically was equally notable. Although PSD was part of the coalition that approved the VAT increase, the party's president, **Sorin Grindeanu, stated that at first glance the VAT hike seemed to have been a mistake**. He said he had requested an internal analysis within the party on the impact of the fiscal measures adopted by the government, arguing that revenues had not grown in line with the higher rate. These statements once again illustrate how leaders from PNL and PSD often speak as if they were not part of the same governing coalition that introduced these policies. And, as has become familiar in Romanian politics, PSD continues, at least in its public messaging, to give the impression that it is governing from the opposition.

EUROPEAN COMMISSION FREEZES THE PROCEDURE TO SUSPEND EU FUNDS. The European Commission has announced that Romania's excessive deficit procedure, in place since April 2020, will remain open, but the potential suspension of EU funds has been frozen. According to the Commission, the substantial fiscal consolidation measures adopted in recent months are beginning to show results. For 2025, the net increase in public spending is estimated at only 0.1% of GDP above the ceiling recommended by the Council, and by 2026 it is expected to fall fully within the established limits.

The Commission also estimates that Romania's budget deficit will decrease to 8.4% of GDP in 2025 and to roughly 6% in 2026. Even so, it stresses that implementing reforms and meeting fiscal targets remains essential. Romania is encouraged to further strengthen its tax administration and budget planning in order to avoid overspending relative to approved plans. In short, the Commission believes that

continuous efforts will be needed to reduce both public debt and the deficit. Romania's progress will next be examined by the ECOFIN Council on December 12, 2025, where the Commission will present the documents published on November 25, together with any updates related to the ongoing excessive deficit procedures under the Stability and Growth Pact. Romania will also continue its semiannual reporting on deficit-reduction measures, with the next deadline set for spring 2026, at the end of April.

On the Recovery Plan

PAYMENT REQUEST NUMBER 4, READY BY MID-DECEMBER. The Minister of Investments and European Projects, Dragoș Pîslaru, announced that Romania will submit, most likely in mid-December (around the 15th), the payment request number 4 within the NRRP, this being the one submitted in the shortest time. The minister specifies that the grant of EUR 2.62 billion is expected to be transferred in February. Regarding payment request number 3, in which payments of hundreds of millions of euros are suspended due to Romania's failure to meet certain milestones, including the reform of magistrates' service pensions, the minister admits that there is "a significant risk" regarding some of the related amounts.

MIPE LAUNCHED THE NRRP DASHBOARD. MIPE has launched the Dashboard showing the status of projects financed through the NRRP. This is an interactive platform, published on the Ministry's website, which allows all interested parties, e.g. citizens, local authorities, journalists, the business environment or European partners, to see real-time information about the implementation of the Program. Also, an important element is the interactive map of projects, which provides a detailed geographical image of investments at county and locality level. Through it, any visitor can find out the number of projects financed in each county and the value of the investments, identify specific projects in their locality, respectively filter projects by component, type of beneficiary or type of investment (national/local) or follow the physical and financial progress of each project.

A NEW LEADERSHIP AT AMEPIP. The government has finalized, at the very last moment, the new leadership of the Agency for Monitoring and Evaluating the Performance of State-Owned Enterprises (AMEPIP). The previous appointments had failed to meet European requirements, and the delay brought Romania to the brink of losing more than 300 million euros from the NRRP. The decision was made just one day before the deadline. **Anișoara Ulcelușe will take over as president of the agency**, having won the official selection process. She will be joined by **Bogdan-Codruț Stănescu and Oana-Mihaela Petrescu**, who have been appointed as **the two vice presidents**.