

January 5 – 16, 2026

Weekly Fiscal and Political Report

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GOVERNMENT PUSHES THROUGH MAJOR PUBLIC ADMINISTRATION REFORM.

The Romanian government has unveiled a **wide-ranging reform package targeting the public administration, aimed at cutting costs and improving efficiency**. The headline measure is a **10% reduction in personnel spending across central and local government**, without cutting base salaries, mainly through staff reductions, fewer bonuses, and institutional reorganizations. Prime Minister Ilie Bolojan announced that he is considering **assuming responsibility in Parliament for this bill**, a fast-track procedure that would allow the law to be adopted without a full parliamentary vote unless a no-confidence motion is filed.

Beyond cost-cutting, the reform changes how the state functions. It simplifies decentralization, introduces performance-based evaluations for civil servants, limits the number of advisers and local police, and tightens rules for temporary appointments in leadership roles. At the same time, the government is **strengthening tax enforcement, increasing transparency by publishing lists of tax debtors**, and improving cooperation between fiscal and urban planning authorities.

PROPERTY TAXES AND STATE COMPANIES IN THE REFORM SPOTLIGHT.

A politically sensitive part of the package concerns property taxation. Prime Minister Ilie Bolojan argued that **Romania's property taxes are far below the EU average and insufficient to finance local infrastructure**. The government plans to gradually adjust these taxes, **moving toward market-based valuations by 2027**. Illegal or undeclared buildings will face higher taxes and stricter controls, including inspections using drones and satellite images.

In parallel, the **Government is launching a clean-up of state-owned enterprises**. Around 185 inactive companies and many loss-making firms are under review, with possible closures, restructurings, or privatizations. Officials say **the goal is to stop long-term losses, improve governance, and ensure the state only remains owner where it serves a clear public interest**. This reform signals a push toward a leaner state, tighter fiscal discipline, and a more predictable public sector environment.

We reiterate that **this reform has long been expected by citizens and civil society**, particularly after the private sector has already borne substantial tax increases to help reduce the budget deficit. Public expectations are now firmly focused on **the state making a comparable**

contribution to fiscal consolidation, and there is a real risk that a significant segment of voters could shift their support toward far right and ultranationalist parties (AUR, POT, SOS) if the reform is weakened or fails to pass.

BUCHAREST MAJOR PROJECTS TO CONTINUE DESPITE BUDGET CRISIS.

Bucharest Mayor Ciprian Ciucu has reassured citizens that **ongoing infrastructure projects will continue and be completed**, despite the city's precarious finances. Key initiatives include the rehabilitation of 50 kilometers of tram tracks, with significant European funding secured, and urgent repairs at the Basarab overpass, which has been in a degraded state since its 2011 opening. Other projects in progress or planned for this year cover **major roadworks, energy networks, public lighting, seismic strengthening of buildings, and social infrastructure**, all aimed at modernizing the capital and addressing long-standing urban challenges. Ciucu has emphasized **the importance of co-financing with the European Investment Bank** to ensure that these works do not stall.

At the same time, Ciucu highlighted **the structural budgetary problems of Bucharest**, noting that the city has received only a fraction of its allocated funds for January. With just **RON 317 million**, the city faces tight cash flow, forcing urgent allocations to salaries, debt servicing, and public services. The mayor announced **plans for immediate reforms, including restructurings, consolidations, and spending cuts**, while **calling for a political pact to secure 70% of the city's budget in the following national budget law**. Ciucu stressed that these measures are essential to keep the capital functional, ensure public safety, and allow strategic investments, while warning that even with efficiency measures, central support is critical to avoid financial collapse.

External Affairs

ROMANIA BACKS EU – MERCOSUR TRADE DEAL AMID DOMESTIC DEBATE.

The European Union and Mercosur countries (Argentina, Brazil, Paraguay, and Uruguay) have reached a landmark trade agreement, marking the conclusion of negotiations that began in 1999. Approved by the EU Council on 9 January 2026, the deal will create **one of the world's largest free-trade zones**, covering over 700 million consumers and nearly a quarter of global GDP. **EU exports to Mercosur are expected to rise by up to EUR 49 billion annually**, while Mercosur exports to the EU could increase by around EUR 9 billion. The agreement **eliminates most tariffs on industrial goods, machinery, and vehicles**, while providing safeguards for sensitive agricultural products and recognizing more than 350 European geographical indications. European Commission President Ursula von der Leyen hailed the deal as a “win-win” for businesses, farmers, and citizens, emphasizing its strategic importance in diversifying trade and reducing dependency on other global markets.

In Romania, the agreement has sparked both support and controversy. PM Ilie Bolojan, President Nicușor Dan, and Economy Minister Irineu Darău highlight the economic benefits for industry and exports, with Romanian companies set to save millions in customs duties and gain better access to raw materials. Critics, including the Ministry of Agriculture, PSD officials, and farmers' associations, warn that cheaper South American imports could threaten local agriculture and jobs. Mechanisms to protect sensitive sectors and ensure compliance with EU standards are part of the agreement, but some remain skeptical. **Romania will vote on the deal in the European Parliament next week**, with final ratification contingent on MEP approval.

Fiscal and Economic Updates

Overview

THE IMPACT OF FISCAL ADJUSTMENT MEASURES WILL BE MORE PRONOUNCED THIS YEAR

The National Strategy and Forecasting Commission shows in its autumn forecast that **the effects of fiscal adjustment measures will be felt more intensely in the immediate period**, with a direct impact on the purchasing power of the population. Maintaining high inflation in the first part of the year, correlated with the decrease in household disposable income, will determine a significant reduction in private consumption. In this context, **the economic growth forecast for 2026 is only 1%, down from the previous estimate of 1.2%**, with construction remaining the main engine of the economy, supported by infrastructure projects financed from European funds. Although a slight recovery is anticipated in industry and services, their dynamics will remain modest, and the risks related to insufficient absorption of European funds may affect investments and the pace of economic growth.

In the medium term, CNSP estimates a gradual stabilization of the economy, amid the correction of internal and external imbalances, with an average annual GDP growth rate of just over 2% in the period 2027–2029. Gross investments will continue to be the main pillar of growth, while private consumption will gradually recover after the decline in 2026. The inflationary process is expected to ease, except for temporary pressures in the first part of 2026, generated by the reliberalization of the energy market and the elimination of price cap measures. Overall, CNSP estimates that, starting with 2027, inflation will return to the NBR's target range, and the economy will benefit from a more balanced evolution, supported by investments, fiscal consolidation and better external competitiveness.

THE GOVERNMENT CONSIDERS A SUBSTANTIAL INCREASE IN PROPERTY TAXES TO BE USEFUL

According to the Government, in a press release issued in recent days, the reform of property taxes and duties (on buildings, land, and motor vehicles) became necessary because Romania had one of the lowest shares of revenues from property taxation in the EU (0.55% of GDP, compared to the EU average of 1.85%). There were also major disparities between localities, taxes did not reflect the real economic value of assets, and the collection rate was low. These dysfunctions generated significant losses for local budgets, inequities among taxpayers, and an increased dependence on transfers from the state budget.

The application of the new rules will lead, in 2026, to an estimated **increase in local revenues of approximately 3.7 billion lei (+30% compared to 2025)**, coming from taxes on buildings, land, and motor vehicles. In the case of buildings and land, **the tax base was updated**

and recalibrated (on average +70% (really?)), unjustified reductions and exemptions were eliminated, and local authorities retain the competence to set tax rates within the limits of the law, which may amplify the impact in certain localities. For motor vehicles, the taxation structure remains based on engine capacity, but the values were differentiated according to the Euro emission standard and CO₂ emission levels, so that taxation more accurately reflects environmental impact. The amounts collected remain entirely with local budgets, in a context in which the state budget can no longer compensate for their deficits.

However, this is the Government's official position, while **the reality is somewhat different from what the Government presents**. There are numerous cases in which **property taxes did not increase by only 70%, but instead doubled or even more than tripled**. Moreover, the way these increased taxes were introduced, from one day to the next, without ensuring a smooth, gradual increase that would be bearable for the population, is problematic and sends a political signal that may further encourage citizens to turn toward extremist alternatives.

INFLATION REACHES 9.7% IN DECEMBER 2025

Romania continues to record, by far, the highest inflation rate at EU level, reaching 9.7% in December 2025 compared to December 2024. The largest price increases were recorded in **services, which rose by 11%**, followed by **non-food goods at 10.48%** and **food goods at 7.75%**. Over the course of 2025 compared to 2024, prices increased by 8.44% in the services category, followed by a 7.24% rise in non-food goods and a 6.76% increase in food goods.

Going forward, we expect inflation to remain at a high level, especially when considering current government measures, which do not appear to contribute to easing inflationary pressures toward lower values. The increase in taxes starting January 1, potential fiscal measures that may be adopted at any time at the Government's discretion, as well as the liberalization of the natural gas market beginning April 1, 2026, are factors that support the persistence of high inflation. This continued inflation erodes the incomes of ordinary citizens and may generate dangerous social effects.

On the Recovery Plan

THE CONSTITUTIONAL COURT BRINGS A NEW POSTPONEMENT TO FEBRUARY 11 FOR MAGISTRATES' PENSIONS

The Constitutional Court does not disappoint and, as it has accustomed us, once again postpones a decision, this time until **February 11, 2026**, on the law regarding magistrates' pensions, an important milestone under the PNRR, for which Romania risks losing 231 million euros. This comes in a context in which Romania reached the end of November as the deadline for implementing the reform of magistrates' pensions. According to the official statement of the Constitutional Court, the postponement was decided in view of the request to suspend

deliberations in order to allow a more thorough examination of the issues forming the object of the case, as well as of the documents submitted by the **High Court of Cassation and Justice following its referral dated January 15, 2026.**

What do these notes state? According to the High Court of Cassation and Justice, the application of the new law leads to the total elimination of the service pension. All calculations carried out indicate that the service pension would be lower than the contributory pension. As a result, it is highly likely that the issue of special pensions in the justice system will be prolonged over the coming months, in a context in which there appears to be no genuine will for resolution either from the political sphere or from the magistrates themselves.