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Weekly Fiscal and Political Report

Report prepared by Ana-Maria Anghel & Cezar Petrescu



Political Updates

Fiscal and Economic Updates

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Internal Affairs

GOVERNMENT TO ASSUME RESPONSIBILITY FOR PUBLIC ADMINISTRATION REFORM.

The Romanian Government has decided to **assume its responsibility before Parliament on January 29, 2026, for the long-awaited public administration reform**, according to political sources. The draft bill, discussed in detail in our previous report, aims to increase efficiency and financial capacity across central and local administrations, including measures on decentralization, civil servant performance evaluations, temporary leadership appointments, and a 10% reduction in public sector personnel costs.

Under the constitutional procedure of assuming responsibility, the government can adopt the draft bill directly before a joint sitting of Parliament, bypassing the ordinary legislative process; the law becomes effective within three days unless a motion of censure is passed. We remind you that **this reform has been anticipated by citizens and civil society since the summer of 2025**, especially after the private sector has already shouldered significant tax increases to support deficit reduction. Public expectations are now focused on **a comparable contribution from the state**, with concerns that delays or dilution of the reform could shift voter support toward far-right and ultranationalist parties.

COALITION TENSIONS RAISE QUESTIONS FOR POLICY PREDICTABILITY.

At the same time, the PSD-PNL-USR-UDMR **Governing Coalition is experiencing visible internal frictions**. As Craiova Mayor and PSD member Olguța Vasilescu claimed, **PSD will soon be conducting party-wide consultations to decide whether to remain in government** amid disagreements over the implementation of electoral promises and management of key projects. Senior PSD leaders, including Claudiu Manda and Marius Budăi, signalled **potential scenarios ranging from replacing Prime Minister Ilie Bolojan to exiting the coalition entirely**. While Bolojan remains in office, these tensions reflect real divergences over adherence to the coalition's agreed "playlist" of policies and major decisions, such as the Mercosur trade agreement, which some coalition partners claim were not properly discussed. Other coalition members, including **UDMR, USR and PNL representatives**, **stress their commitment to pragmatic governance despite these disagreements**.

For the business environment and consumers, this **political uncertainty can affect predictability in areas such as fiscal planning, regulatory stability, and the pace of economic reforms**. Delays or shifts in coalition priorities could influence investment decisions, and

consumer confidence. While Romania's fiscal situation has stabilized compared with earlier months, **market actors are closely monitoring coalition cohesion as** an indicator of whether ongoing reform measures and budgetary policies will be consistently implemented.

GRECO: PROGRESS ON REFORMS, BUT KEY GOVERNANCE RISKS REMAIN.

GRECO's latest report shows that Romania has made progress on several anti-corruption commitments, but **important gaps remain** in areas that matter directly to the business environment, especially **legislative transparency, conflict-of-interest rules, and the regulation of gifts and benefits for MPs**. While eight of the thirteen recommendations have been satisfactorily implemented, others are still either partially implemented or not implemented at all, **raising concerns about predictability and integrity in the law-making process**.

On a positive note, GRECO highlights **substantial progress on lobbying regulation**, including the creation of a public register of meetings between MPs and third parties, which is expected to enter into force soon. However, the lack of clear and enforceable rules on conflicts of interest, gifts, and advisory mechanisms for lawmakers continues to pose **reputational and compliance risks for companies engaging with public institutions**. Romania is expected to report further progress by November 2026.

External Affairs

EU'S HESITATION ON THE TRANSATLANTIC 'PEACE COUNCIL'.

President Nicușor Dan highlighted Romania's strategic need for a strong transatlantic relationship, while noting that **the invitation for Romania to join Donald Trump's newly established "Peace Council" is far from straightforward**. He stressed that the proposed council involves binding commitments and must be carefully evaluated against Romania's existing international obligations, including the UN Charter. **EU leaders**, including António Costa, Pedro Sánchez, and Christian Stocker, **have expressed serious reservations about the initiative, questioning its legal status, scope, and compatibility with the UN**, while underscoring the importance of national sovereignty and multilateral coordination. In this context, the move illustrates the **growing fragility of EU - US alignment**: for the business environment, this signals potential unpredictability in transatlantic trade, regulatory frameworks, and security-related investments.

TRUMP'S GREENLAND GAMBIT AND THE FRAGILE TRANSATLANTIC ALLIANCE.

U.S. President Donald Trump announced that **Washington and its NATO allies had established the framework for a future agreement regarding Greenland and the broader Arctic region**, following productive discussions with NATO Secretary-General Mark

Rutte. As part of this development, Trump confirmed that **he would not impose the threatened tariffs on eight European nations, scheduled to take effect on 1 February**, signalling a temporary easing of tensions with Europe. The proposed framework, reportedly named “Golden Dome,” aims to **enhance NATO’s security presence in the Arctic, counter external influence from Russia and China, and expand U.S. strategic leverage**, all without transferring Greenland’s sovereignty from Denmark. While Trump characterized the deal as a long-term, “infinite” arrangement advantageous to both the U.S. and NATO allies, the negotiations remain ongoing, and the details are yet to be finalized.

European leaders, however, have voiced serious reservations about the process and implications of Trump’s initiative. **Dutch and Danish officials emphasized the need for diplomacy and respect for sovereignty**, while the EU warned against unilateral actions that could destabilize alliances or bypass the UN framework. French President Emmanuel Macron and European Commission President Ursula von der Leyen stressed **coordinated, proportionate responses to any coercive measures**. Observers note that Trump’s Greenland campaign has revealed one of the sharpest transatlantic rifts in decades, highlighting the fragility of U.S. – EU relations and the delicate balance NATO must maintain between strategic interests in the Arctic and alliance cohesion.

Fiscal and Economic Updates

Overview

"REFORM OF THE ECONOMIC ACTIVITIES AUTHORIZATION REGIME" REPORT

The Romanian Government launched the final report "Reform of the Economic Activities Authorization Regime", a strategic document that marks a major change in the relationship between the state and the business environment. The report promotes the introduction of the "once only" and "silence means approval" principles in the licensing process, with the **aim of simplifying the obtaining of authorizations, licenses and notices by reducing bureaucracy, clarifying rules and digitizing interaction with public administration**. Developed within the framework of the TSI23RO21 project, in partnership with the OECD and with the support of the European Commission, the document aims to reduce the administrative burden, increase transparency and improve the business environment, especially for small and medium-sized enterprises, by extending simplified authorization solutions to the trade and services sectors.

THE BUDGET DEFICIT TARGET FOR 2026 IS AROUND 6%

Finance Minister Alexandru Nazare said that **the budget deficit target for 2026 is estimated at "around 6%"**, to be definitively established during the budget preparation process, after the completion of discussions with the credit coordinators and the European Commission. The 2026 budget is built on an **economic growth forecast of approximately 1%** and a GDP estimated at approximately RON 2,045 billion, with a high level of investments supported mainly by European funds as a priority. According to the minister, total investments are expected to exceed RON 100 billion, including approximately EUR 20 billion from the NRRP, cohesion funds and European agricultural programs, resources considered essential for the economic recovery in 2026.

Meanwhile, Prime Minister Ilie Bolojan stated that the savings achieved in the second half of last year allowed Romania to reduce the budget deficit by more than 1% of GDP, bringing it below the previously assumed 8.4% target, without cutting investments, which totaled over RON 137 billion, or more than 7% of GDP. He emphasized that **fiscal discipline, spending restraint and higher budget revenues helped restore credibility with investors and financial markets**, although the adjustment measures also led to an economic contraction and **increased hardship for many citizens**. Looking ahead, the government is preparing a realistically grounded 2026 budget, targeting a deficit slightly above 6% and inflation around 4%, with a strong focus on economic recovery and investment supported by more than EUR 15 billion in European funds, while legislation aimed at curbing public spending and supporting the recovery is set to be adopted in early February, ahead of the budget approval.

Deputy Prime Minister Tanczos Barna said that, realistically, **Romania will not submit the draft state budget to Parliament before mid-February**, acknowledging that the process is already behind schedule. He stressed that finalizing the budget is a key priority for the governing coalition, as ministries need budgetary certainty, particularly in order to ensure the timely implementation of the NRRP, where any delay could negatively affect fund absorption. Barna emphasized that European funds are essential this year and that the focus must be on completing the NRRP by the end of August, achieving near-full absorption and delivering the associated reforms, while also noting public dissatisfaction with recent difficult decisions, which he hopes will be the last of their kind.

ON INTRODUCING PROGRESSIVE TAXATION

Labour Minister Florin Manole said that **introducing progressive taxation in Romania is a necessary measure to ensure a fairer distribution of the tax burden**, so that low-income earners are not taxed at the same rate as those with higher incomes. He argued that progressive taxation should go hand in hand with stronger enforcement of fiscal and labour rules, pointing to disparities in tax collection, including VAT, and to the need for a more active labour inspection to combat undeclared work and unfair competition. Manole noted that higher fines for illegal work are justified to protect law-abiding entrepreneurs and stressed that progressive taxation is backed by analyses and reports from the European Commission and the World Bank, which indicate that the measure could significantly increase budget revenues and strengthen fiscal sustainability.

ECONOMIC RECOVERY MEASURES ANNOUNCED BY PSD

PSD leader Sorin Grindeanu announced that **the party's economic recovery measures will be adopted by the government through an assumption of responsibility in Parliament**, together with the public administration reform, following a unanimous decision by the governing coalition after months of negotiations with Prime Minister Ilie Bolojan. He said the package, long awaited by the business community, prioritises support for Romanian companies and includes enhanced tax credits, investment incentives, guarantees for SMEs, accelerated depreciation and additional deductions for research and development. Grindeanu described the measures as both a necessary step for economic recovery and a form of “moral redress,” arguing that deficit reduction in 2025 was achieved mainly at the expense of citizens and firms, and stressing that budget deficits should be reduced through sustainable economic growth rather than cuts to investment or tax increases that undermine the business environment.

On the Recovery Plan

DRAGOȘ PÎSLARU: "WE MISSED THE DEADLINE, I CANNOT RAISE HOPES ABOUT RECOVERING THE MONEY"

According to Investment and European Projects Minister Dragoș Pîslaru, failing to complete the special pensions reform could cost Romania hundreds of millions of euros in EU recovery funds, as the country has missed the NRRP deadline linked to this milestone. He confirmed that **Romania did not meet the 28 November deadline and warned that there is no certainty the estimated EUR 231 million tied to the reform can be recovered**, as repeated delays, particularly regarding magistrates' pensions, have pushed the country off the agreed NRRP timetable. Pîslaru stressed that without finalising the reform, Romania cannot even reopen preliminary talks with the European Commission on regaining the funds, and that even after adoption there are no guarantees of reimbursement. While underlining the importance of completing the reform to restore credibility with both the public and external partners, he cautioned against creating false expectations, noting that the milestone required the law to be promulgated by the deadline, which did not happen.