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Weekly Fiscal and Political Report

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COALITION TENSIONS ESCALATE AS PM FLOATS MINORITY GOVERNMENT SCENARIO.

Romania's governing coalition (PSD-PNL-USR-UDMR) has entered a new phase of tension after Prime Minister Ilie Bolojan publicly raised, for the first time, **the possibility of a minority government, probably in response to PSD's refusal to support public administration cuts** unless they are paired with an economic stimulus package. While Bolojan stressed that political stability remains his preferred outcome, his remarks marked a clear warning that the current deadlock over reform sequencing is testing the coalition's functionality. The dispute centers on whether administrative downsizing and fiscal consolidation should proceed independently or only alongside growth-oriented measures, a linkage PSD now treats as non-negotiable.

PSD leaders reacted sharply, reiterating that **no cuts in public administration will pass Parliament without simultaneous economic relaunch measures**, and even raising the prospect of a no-confidence motion should the government attempt to move forward unilaterally. Although President Nicușor Dan and coalition partners continue to signal that the coalition remains intact, the episode underscores **growing policy friction and divergent messaging within the governing alliance**. For the business community, this signals **heightened short-term political risk**, with potential implications for the timing, coherence, and predictability of fiscal and structural reforms, which are critical to Romania's 2026 budget framework and broader investment climate.

GOVERNMENT ADMITS DIGITALIZATION FAILURES, PROMISES RESET.

Romanian officials have openly acknowledged that **digitalization has failed to deliver at scale**, with Economy Minister Irineu Darău calling the lack of a functional electronic signature and digital identity a governance and implementation failure. He announced that **unblocking these systems is his top priority**, linking digitalization directly to red tape reduction, productivity, and competitiveness. Vice Prime Minister Oana Gheorghiu added that Romania's progress has been fragmented, with databases that do not communicate, but said **the government cloud will become fully operational this summer**, focusing on interoperability rather than forcing institutions to abandon existing platforms. She also confirmed that **the electronic ID card will be upgraded by end-2026 into a full digital wallet**, integrating health cards, diplomas, and other documents, and usable for electronic signatures. Additionally, Minister Darău has now announced a concrete 1 - 2-month timeline to make electronic signatures function properly, including issuing implementing rules for Law 214/2024, amending the law to align with EU eIDAS 2.0 standards, and simplifying secondary legislation.

If implemented credibly, these measures could significantly reduce administrative burdens for companies (especially for SMEs), while giving citizens faster, paperless access to public services. For now, however, the gap between political commitments and real-world functionality remains a key risk to trust, predictability, and operational efficiency.

PARLIAMENT RECONVENES WITH REFORM AND FISCAL MEASURES HIGH ON THE AGENDA.

Romania's **Parliament will start its first ordinary session of the year on Monday, February 2**, with both the Senate and Chamber of Deputies meeting to **elect their permanent bureaus and set legislative priorities**. Among the most important items expected to move forward are the public administration reform package, the ordinance eliminating payment for the first day of sick leave, and the so-called "2025 Train Ordinance," which includes fiscal and administrative changes affecting taxes, IMCA, e-Factura, e-TVA, and taxpayer facilities, placing both structural reform and fiscal consolidation at the center of the parliamentary agenda for the coming weeks.

External Affairs

ROMANIA ACHIEVES ASSOCIATED MEMBER STATUS IN OECD DEVELOPMENT COMMITTEE.

Romania has become the first country to obtain associated member status in the OECD's Development Assistance Committee (DAC), a milestone marking the nation's growing role as a credible, predictable, and consistent international donor. The formal flag-raising ceremony at OECD headquarters in Paris, captured by Secretary of State Luca Niculescu, celebrates Romania's contributions to development assistance, which reached a record USD 539.1 million in 2024, representing 0.16% of gross national income. The DAC, responsible for coordinating official development aid globally, acknowledged Romania's progress through evaluations from 24 of 25 sectoral committees, recognizing achievements in areas from budgetary policy to education, digital policy, and anti-corruption measures.

This recognition strengthens Romania's voice in shaping global development standards and promotes its image as a reliable partner in sustainable development. For Romanian institutions and businesses engaged in international projects, the membership offers enhanced credibility, access to best practices, and potential collaboration opportunities in multilateral development initiatives.

PM BOLOJAN VISITS GERMANY TO STRENGTHEN STRATEGIC AND ECONOMIC PARTNERSHIPS.

Prime Minister **Ilie Bolojan's official two-day visit to Berlin** focused on **deepening Romania's bilateral relations with Germany** amid economic uncertainty, global competition, and the ongoing conflict in Ukraine. Speaking alongside Chancellor Friedrich Merz, Bolojan highlighted **Germany as Romania's main economic partner**, noting bilateral trade of over €42 billion in 2024 and more than

10,000 German-owned companies operating in Romania. Key discussions centered on **expanding cooperation in strategic sectors such as energy, industry, and defense**, including the signing of a defence memorandum to modernize Romania's military, improve joint exercises, and strengthen security along the Black Sea flank. The visit also emphasized support for Moldova, Romania's OECD accession, and enhanced EU-level collaboration to boost regional competitiveness and security.

The visit reinforced Germany's role as a key investor and partner, with opportunities for technology transfer, workforce development, and expanded trade. For Romania, the agreements and discussions signal potential growth in high-value sectors, stronger regional defence capabilities, and greater integration into European production and investment networks, benefits that extend to both the private sector and citizens through job creation, skills development, and enhanced security.

Fiscal and Economic Updates

Overview

THE EU-INDIA TRADE AGREEMENT - THE WORLD'S BIGGEST FREE TRADE ZONE

We begin the economic section of this report with the most important economic news of the moment, which has gone almost unnoticed in Romanian politics. The EU has signed one of its most important trade agreements with India, which will facilitate mutual trade between the European bloc and the most populous country on the globe.

The EU-India trade deal brings massive tariff cuts that open up one of the world's most protectionist major markets to European exporters. **India will eliminate or reduce customs duties on 96.6% of EU goods**, drastically reducing some of the highest industrial tariffs globally and generating savings of up to €4 billion a year for European companies. The biggest benefits will be for the **machinery, chemicals, pharmaceuticals, aircraft and automotive sectors, where duties will be significantly reduced or completely eliminated over the next decade**. For the first time, European agri-food products such as **wine, spirits, beer, olive oil and confectionery** gain real access to the booming Indian market, while sensitive sectors (beef, rice and sugar) remain protected and EU food safety standards are fully upheld.

Beyond trade in goods, the agreement marks India's most ambitious opening up in the area of services, offering European companies **more predictable and legally secure access in sectors such as financial services, transport and professional services, as well as dedicated tools to ensure that SMEs can effectively benefit from the agreement**. With EU exports of services to India already reaching €26 billion and goods exports to €49 billion in 2024, **the European Commission estimates that the agreement will double European exports of goods to India by 2032**.

Overall, the agreement strengthens Europe's economic ties with a rapidly growing economy of 1.45 billion people, strengthening economic resilience and sending a clear signal in favour of open trade in a global context marked by rising protectionism.

PRIME MINISTER ILIE BOLOJAN SAYS ROMANIA IS NOT READY FOR PROGRESSIVE TAXATION

The prime minister says that Romania is not ready for progressive taxation, despite recommendations from international financial institutions. **The introduction of progressive income taxation has not been discussed within the coalition, and Romania is not currently**

ready for this measure, according to Prime Minister Bolojan, who points out that it would take about a year and a half worth of changes to the financial system before it could be implemented. In his opinion, it is difficult for the government to take many measures that would mean, on the one hand, fiscal consolidation, combating tax evasion, and everything that the adopted fiscal packages entail, and at the same time to do other things that would disrupt the systems, which shows us that there is still no political will to implement progressive taxation in Romania, even though the PSD brings this up every few months in public, which is most likely just for political reasons.

MF: CASH DEFICIT OF 7.65% IN 2026 AND PUBLIC INVESTMENT OF 7.2% OF GDP

According to the Minister of Finance, **the execution of the consolidated general budget in 2025 ended with a cash deficit of RON 146.03 billion, equivalent to 7.65% of GDP**, down by 1% compared to the level in 2024 (8.67% of GDP). General budget revenues reached RON 662.70 billion, up 15.3% from the previous year, which led to a 2.05% increase in their share of GDP, supported by both current revenue dynamics and a historic level of European funds.

Budget expenditures totaled RON 808.73 billion and were managed prudently, especially in the second half of the year, through the control of rigid expenditures and the acceleration of development expenditures. VAT revenues amounted to RON 133.90 billion, up 10.7% from the previous year, with strong growth in the second half of the year, driven by digitization (e-invoicing) and VAT rate adjustments. In addition, corporate income tax revenues increased by 14% to RON 41.01 billion, and excise tax revenues reached RON 48.32 billion (+4.3%), developments supported by domestic consumption and the update of the excise tax calendar.

PRESIDENT NICUȘOR DAN: THE GOVERNMENT WILL NOT INTRODUCE NEW TAX INCREASES IN THE NEAR FUTURE

According to President Nicușor Dan, the government will refrain from introducing new tax increases in the near future. He believes that the decline in purchasing power remains the main effect felt by the population, but public perception of tax levels is often more negative than the economic reality. A relevant example is property taxes, which 60-70% of Romanians consider to be higher than the EU average, although in fact they are significantly lower. This discrepancy reflects an accumulation of social tensions and discontent, which amplifies perceptions of taxation and the functioning of government. At the same time, he emphasize that **there is no prospect of further tax increases, as the fiscal measures adopted previously were announced in advance and have begun to take effect**, with the commitment to fiscal stability being respected to date.

The president believes that a significant part of the deficit adjustment has been achieved through VAT and increases in local taxes, alongside a reduction in the turnover tax for large companies, a measure designed to stimulate investment and Romania's economic attractiveness. Although these changes are not reflected in individual incomes, they contribute to the stabilization of public finances and Romania's alignment with OECD standards, an organization that the President believes we will join this summer. But won't these measures come with too high a social cost in the medium and long term, directly affecting the poorest Romanians, who are most prone to political

radicalization?

On the Recovery Plan

THE LAUNCH AND OPERATIONALISATION OF THE E-CONSULTARE AND INFO-TRANSPARENȚĂ PLATFORMS

The General Secretariat of the Government has launched and made operational the E-consultare and Info-Transparență platforms as part of the implementation of **Milestone No. 407 (Reform 1, Component 14) under the NRRP**, with the aim of strengthening decision-making transparency and facilitating public access to information of public interest. This initiative represents an important step in the digitalisation of the relationship between public authorities and citizens, by creating unified tools that support the effective application of transparency and open government legislation.

The E-consultare platform serves as a single government-wide access point for public consultation, integrating the publication of official documents, the submission of annual reports, and direct interaction between authorities and citizens, including a dedicated module for public funding. Complementarily, **the Info-Transparență platform** plays an analytical role, transforming the data generated through E-consultare into comparable indicators that assess the level of compliance of public institutions with transparency requirements.