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Weekly Fiscal and Political Report

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ROMANIA'S RULING COALITION NEARS BREAKING POINT AS PSD WEIGHS EXIT.

Romania's governing coalition (PSD-PNL-USR-UDMR) is facing a critical moment, with the Social Democratic Party (**PSD**) **openly considering withdrawal or a major reconfiguration of power** following weeks of internal consultations. Party leader Sorin Grindeanu has confirmed that, across multiple regional meetings, **nearly all local leaders favour exiting the current arrangement or reshaping it fundamentally**, potentially including a change of prime minister and the removal of certain coalition partners. A **final decision is expected around April 20**, but the direction is already clear: maintaining the status quo appears to have little internal support within PSD. Scenarios under discussion include (1) moving into opposition, (2) taking over the premiership earlier than agreed (2027, as the protocol provides for), or (3) continuing in a restructured coalition.

Tensions have escalated alongside these consultations, with PSD leaders criticizing the current functioning of the coalition and signalling dissatisfaction with decision-making dynamics at the top of government. At the same time, **Prime Minister Ilie Bolojan (PNL) has rejected the idea of resignation**, stressing the need for stability and warning that political actors triggering a crisis should assume responsibility. He acknowledged that minority governments are possible but not desirable, particularly given Romania's current economic and fiscal challenges. As sources claim, **President Nicușor Dan has also entered consultations with key leaders**, cautioning that a minority government would not be an optimal solution, while expressing hope that parties will ultimately reach a compromise.

POLITICAL CRISIS AFTER APRIL 20?

The coming weeks could therefore bring a decisive shift in Romania's political landscape. The risk of a government collapse is amplified by the **opposition's (AUR) plans to table a vote of no confidence and by PSD's refusal to support a minority cabinet**. While early elections remain a less likely scenario due to constitutional constraints, they are still being discussed as a fallback option if negotiations fail. Overall, the situation points to a high probability of either coalition breakdown or significant restructuring by the end of April.

A political crisis, whether through a minority government, the dismissal of the current cabinet, or even early elections, would likely **deepen uncertainty for both society and the business environment**. In an already fragile economic context marked by budgetary pressures and external shocks, **instability could delay reforms, slow public investment, and complicate access to EU funds**.

For businesses, this translates into **policy unpredictability, potential fiscal adjustments, and reduced confidence**. At the same time, for the broader economy, it risks amplifying volatility at a time when coherence and continuity are most needed.

External Affairs

ROMANIAN PM BACKS ENDING EU UNANIMITY TO SPEED UP DECISION-MAKING.

In an interview for Le Figaro, **PM Ilie Bolojan** has aligned himself with a growing camp of European leaders advocating for faster and more flexible decision-making within the EU, arguing in a recent interview with Le Figaro that **unanimity voting should no longer be maintained**. He framed this position in the broader context of global competition and security risks, stressing that a more economically integrated and decisive European Union is essential, especially given the ongoing war in Ukraine and the unpredictability of Russia. Bolojan's stance echoes wider debates across the EU since 2022, where figures such as Ursula von der Leyen and Mario Draghi have called for reforms ranging from qualified majority voting to “coalitions of the willing” when consensus cannot be reached. In recent years, **discussions have intensified around limiting unanimity**, largely due to **repeated blockages by Hungary and Slovakia on measures targeting Russia** or supporting Ukraine, highlighting the tension between unity and efficiency in EU governance.

EUROPEAN COMMISSION TARGETS ROMANIA OVER DELAYED EU LAW TRANSPOSITION.

At the end of last week, the European Commission launched infringement procedures against Romania, alongside multiple Member States, for failing to fully and on time transpose key EU directives into national legislation, particularly **in the financial and capital markets area**. Bucharest received formal notice regarding delays in implementing the European Single Access Point (ESAP) Omnibus Directive, designed to improve investor access to standardized corporate data, as well as the Sixth Capital Requirements Directive (CRD6), which strengthens banking supervision, risk management and financial stability rules. Authorities now have **two months to respond and complete the legislative process or** risk escalation to a reasoned opinion. For Romania, the developments highlight ongoing administrative and legislative bottlenecks in aligning with EU frameworks, with potential implications for investor confidence, capital market development and broader financial sector stability.

Fiscal and Economic Updates

Overview

IMPROVED OUTLOOK FOR ROMANIA'S ECONOMY

Japan Credit Rating Agency (JCR) has maintained **Romania's investment-grade rating and improved its outlook to stable**, highlighting positive economic adjustments. The agency notes that fiscal measures adopted in 2025 have started to reduce the budget deficit, with further improvements expected in 2026 due to tighter spending and new taxation policies. Although public debt increased, it is projected to stabilize and remain relatively moderate compared to similar countries. Economic growth slowed in 2025, but a gradual recovery is expected, supported by EU-funded investments and improved trade dynamics.

EURO ADOPTION AS ROMANIA'S NEXT STRATEGIC GOAL

Romania is close to completing its OECD accession, which is currently its main national project, while **the next major objective will be adopting the euro**, according to central bank governor **Mugur Isărescu**. He stressed that this transition cannot happen prematurely and requires first achieving macroeconomic stability, particularly by reducing the significant fiscal deficit and restoring economic balance. The process is complex because it must reflect the realities of the entire country, not only the more developed regions, ensuring that all areas can sustainably meet the economic and financial requirements of the eurozone.

At the same time, Isărescu highlighted that meeting the euro adoption criteria must be done in a durable and consistent manner, as past efforts showed that temporary compliance can quickly reverse under economic and social pressures. Regional inequalities, public demand for better living standards, and the need for infrastructure investments add further challenges to this objective. In this context, careful preparation is essential, while the long-term strength of Romania's financial system will depend on sustained investments in education, performance, and strong institutional partnerships.

WORLD BANK LOAN TO SUPPORT FISCAL STABILITY AND GROWTH

Romania has secured a **\$650 million loan from the World Bank to support fiscal consolidation and boost economic growth**. The financing, approved as a Development Policy Loan, is designed to assist the government in strengthening public finances while fostering private sector development and job creation. A key objective is to address structural weaknesses in fiscal policy and public spending, with

the aim of gradually reducing the budget deficit to 3% of GDP by 2030 and ensuring long-term fiscal sustainability. The program is built around two main pillars. The first focuses on restoring fiscal balance by improving the efficiency and discipline of public finances, while the second targets economic growth driven by the private sector. This includes measures to improve access to financing, encourage innovation and digitalization, and ensure reliable and affordable energy, all aimed at enhancing competitiveness and supporting sustainable job creation in the economy.

FISCAL DISCIPLINE AS ROMANIA'S KEY CHALLENGE

Romania's main test in the coming period is its ability to **maintain fiscal discipline and meet deficit targets**, according to Finance Minister Alexandru Nazare. He emphasized that the country is currently facing both a budgetary and an energy crisis, making fiscal stability even more critical. Despite these challenges, the government has managed to increase investment spending significantly, showing that fiscal consolidation efforts have not come at the expense of development, with investments reaching higher levels and continuing to grow in the upcoming budget. Looking ahead, maintaining a stable fiscal trajectory is essential for Romania's broader strategic goals, including joining the eurozone. Nazare pointed out that exiting the excessive deficit procedure is a necessary step, which requires consistent commitment over several years, not just short-term measures. This involves sustained political responsibility and long-term planning to ensure that fiscal targets are met while continuing to support economic growth and investment.

On the Recovery Plan

REFORM OF THE PUBLIC SECTOR WAGE SYSTEM

Romania is preparing a **new public sector wage law** aimed at modernizing how salaries are calculated and improving predictability in the system, according to Labour Minister Florin Manole. A key proposed change is replacing the direct link between public salaries and the minimum wage with a separate reference index, which would allow wages to evolve more independently while still remaining comparable in value. One scenario under discussion introduces a salary scale from 1 to 8, structuring pay levels across the public sector while maintaining a clear hierarchy.

The reform is part of Romania's commitments under the National Recovery and Resilience Plan and is currently in an advanced stage of development, with **potential adoption in 2026**. Authorities aim to decouple wage adjustments from automatic minimum wage increases while ensuring that no public employee earns below the legal minimum. The project is being developed with support from the World Bank and is expected to bring greater consistency, transparency, and sustainability to public sector pay.