

August 21 - 28, 2026

Weekly Political & Economic Outlook

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This Week at a Glance

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This Week at a Glance

Government Talks Resume: President Nicușor Dan is preparing a new prime ministerial nomination, potentially for a PSD-led cabinet headed by an independent, while disputes over integrity legislation, local administration and security-sector accountability continue to test institutional credibility.

Black Sea Cooperation Deepens: Romania strengthened cooperation with Moldova and Ukraine on European integration, energy and defence while accelerating NATO–US coordination, although Russian drone activity, hybrid threats and uncertainty over the regional security environment continue to require stronger deterrence.

Investment Amid Persistent Inflation: SAFE prefinancing and targeted VAT relief support investment and business liquidity, but weak industrial activity, rising construction and retail prices and a delayed return of inflation to target continue to constrain Romania’s recovery.

High Absorption, Costly Reform Failure: Romania still expects to absorb more than 90% of its NRRP grants and accelerated project completion, but the failed wage reform eliminates €770 million in funding and shifts unfinished investment costs to local budgets.

Political Landscape

Domestic Political Dynamics

Government Formation Returns to the Political Agenda.

President Nicușor Dan will resume consultations with parliamentary parties on September 1 and is expected to nominate a new prime minister by the end of next week, after postponing a third attempt during the parliamentary recess to avoid another failed investiture vote and additional concerns from rating agencies. The emerging scenario is a PSD-led cabinet headed by an independent prime minister, potentially supported by UDMR, while the President would seek influence over appointments at the Foreign Affairs and Defence ministries. Dan considers a politically staffed cabinet more viable than a technocratic government and expects the negotiations to produce a stable parliamentary majority. The appointment of a new SRI director will be discussed only after the government is formed. Overall, the renewed talks offer a route out of the political deadlock, but the cabinet's stability will depend on securing cross-party support for a formula acceptable to both PSD and the Presidency.

Integrity Reform Advances Amid Political and Administrative Disputes.

Parliament readopted the Integrity Law after adjusting it to Constitutional Court rulings, but retained the provision that could terminate Dominic Fritz's mayoral mandate and further reduced the information disclosed through elected officials' asset declarations. PNL supported the law alongside PSD despite describing the disputed amendment as unfair, arguing that adoption was necessary to meet an NRRP milestone and avoid risks to European funding and Romania's sovereign rating; the party nevertheless pledged to support a subsequent correction. Separately, an initially reported extension of incompatibility rules to thousands of local and county councillors employed by public institutions raised concerns over resignations, lost majorities and possible administrative disruption. Development Minister Cseke Attila subsequently rejected this interpretation, stating that the legislation currently in force creates no such incompatibility and that erroneous information had already prompted resignations. Taken together, the disputes illustrate how deadline-driven reforms and unclear implementation can weaken legal certainty even when formal milestones are delivered.

Party Regulation Reform Would Strengthen AEP Oversight.

The Permanent Electoral Authority placed a comprehensive draft political parties law under public consultation, proposing that party registration and records be transferred to the AEP and that the minimum number of founding members increase from three to 100. The proposal was prepared by reference to Constitutional Court decisions, recent court judgments and legislation from other EU member states and would replace the current judicially centred registration framework with a more administrative model. By raising the entry threshold and centralising supervision, the reform could improve the

traceability and institutional oversight of political organisations. However, the higher membership requirement may also make it more difficult for small or locally organised political movements to obtain legal recognition. The consultation will therefore test whether stronger governance and transparency safeguards can be balanced against political pluralism and access to electoral competition.

SPP Leadership Controversy Renews Institutional Accountability Debate.

A media investigation reported that SPP director Lucian Pahonțu served in the former Securitate Troops and was present as a platoon commander near Bucharest's Intercontinental Hotel during the violent repression of protesters on December 21, 1989; Pahonțu stated in the Revolution case file that he had not come into contact with demonstrators. The disclosures triggered demands for clarification regarding both his role and the institutions that may have known about or concealed this background, with USR leader Dominic Fritz describing the limited public response as a “cartel of silence”. President Dan stated that individuals involved in repression should not hold senior public office but maintained that Pahonțu did not fall into that category and did not indicate that his dismissal was being considered. The controversy is therefore shifting from an individual historical allegation toward a broader debate over transparency, civilian scrutiny and accountability within Romania's security institutions.

Impact: *The expected resumption of government formation talks may reduce short-term political uncertainty, but a PSD-led cabinet headed by an independent would require durable parliamentary compromises to ensure predictable policymaking. At the same time, the integrity and local-government controversies expose weaknesses in legislative preparation, institutional communication and the reconciliation of NRRP deadlines with legal certainty. For businesses and investors, the immediate priority remains the rapid formation of a stable government capable of approving fiscal, regulatory and EU-funded measures. More broadly, the political parties reform and the SPP controversy place institutional transparency and accountability higher on the domestic agenda, but their impact will depend on credible implementation and effective parliamentary oversight.*

International & Geopolitical Affairs

Romania Deepens Regional Cooperation With Moldova and Ukraine.

President Nicușor Dan's visit to Chișinău reinforced Romania's support for the European integration of both the Republic of Moldova and Ukraine and elevated the Odesa Triangle as a framework for cooperation on regional security, energy interconnections, infrastructure and EU accession. During talks with Maia Sandu, the Romanian President addressed energy security, cross-border interconnections, disinformation, hybrid threats, Russian pressure and repeated airspace violations, while pledging continued diplomatic support and technical expertise for Moldova's EU-related reforms. Bilateral integration is also extending to government personnel, as Romanian MP and former Economy Minister Claudiu Năsui accepted the economic portfolio in Vasile Tofan's Moldovan cabinet after consultations between Tofan and Ilie Bolojan. Taken together, the developments position Romania as both a security partner and a

direct contributor to Moldova's administrative, economic and European transformation.

Black Sea Security Drives Closer NATO–US Coordination.

Romania is intensifying consultations with the United States and NATO over Black Sea security and Washington's ongoing force-posture review, while accepting the principle that European allies must assume a larger share of collective defence responsibilities. President Dan separately argued that Romania would strengthen military infrastructure and invest in US defence equipment rather than wait for Russia to test NATO's resolve, citing repeated Russian drone incursions into Romanian airspace. Although European leaders have discussed the possibility of a limited Russian provocation against NATO, Dan said that neither Romanian intelligence nor allied partners currently have information substantiating such a scenario. Romania and Moldova have nevertheless established permanent radar-data exchanges, while Romania has allocated €200 million under SAFE for joint drone-related cooperation with Ukraine. Overall, Romania's strategy combines reassurance regarding immediate escalation with accelerated investment in deterrence and regional defence capacity.

Ukraine Support Expands From Diplomacy to Air Defence.

The Coalition of the Willing focused its latest meeting on strengthening Ukraine's air defences amid a shortage of interceptor missiles and increasing vulnerability to Russian attacks. Following the meeting, President Dan reaffirmed Romania's commitment to maintaining pressure on Russia until a just and durable peace is achieved and said discussions also covered a security-guarantee framework, the rising number of drone incidents near NATO borders, Russian hybrid activities and the protection of Black Sea navigation and trade routes. The subsequent trilateral meeting in Chişinău connected this broader European effort with practical cooperation among Romania, Moldova and Ukraine on regional resilience and reconstruction, while Romania reiterated support for Ukraine's sovereignty and EU path. The cumulative approach shows Romania moving beyond political declarations toward a more operational role in air defence, military-industrial cooperation and Black Sea security.

Impact: Romania's stronger engagement with Moldova and Ukraine consolidates its position as a political, security and infrastructure bridge between the EU, NATO and the wider Black Sea region. Closer energy, transport and defence cooperation may generate opportunities for companies involved in interconnections, logistics, military equipment, cybersecurity and reconstruction. However, repeated drone incursions, hybrid threats and uncertainty surrounding the future US military posture maintain a high-risk regional environment. Romania's capacity to benefit strategically will depend on converting diplomatic commitments into funded projects, strengthening national defence capabilities and sustaining coordination with Washington and European allies while supporting Moldova's reforms and Ukraine's resilience.

Economic & Fiscal Outlook

Business Environment Developments

Inflation Eases Slowly as Energy Risks Persist.

The BNR raised its year-end inflation forecast from 5.5% to 6.1% and now expects inflation to return within the target band only at the end of 2027, two quarters later than previously projected; inflation is forecast at 3.4% in December 2027 and 2.8% in June 2028. A substantial decline is expected in the third quarter as the effects of earlier electricity-market, VAT and excise-duty changes fade, but energy, food prices, drought and the Middle East conflict maintain upside risks. The IMF similarly assessed that the global economy has absorbed the Iran-related energy shock better than expected, although oil prices remain above pre-war levels and renewed increases could prolong restrictive monetary policy and raise debt-servicing costs. Overall, disinflation is advancing, but its slower trajectory will continue to constrain household demand, financing conditions and corporate cost planning.

Weak Industrial Activity Limits the Economic Recovery.

The BNR expects Romania's economic recovery in the second and third quarters of 2026 to be more modest than previously anticipated, as fiscal consolidation and the global energy crisis deepen the negative output gap and place greater pressure on private consumption. First-half indicators confirm an uneven business environment: wholesale turnover increased by only 0.8%, while industrial turnover declined by 0.5% in nominal terms. Managers expect broadly stable activity between August and October, but anticipate pronounced price increases in construction and retail, with conjunctural balances of +41% and +40%, respectively. Taken together, the data point to near-stagnant volumes accompanied by persistent cost pressures, increasing the risk that Romania's recovery remains both weak and inflation-intensive.

Tax Relief Improves Predictability for Affected Companies.

President Nicușor Dan promulgated legislation cancelling retroactively assessed VAT liabilities, interest and penalties for taxpayers whose VAT registration had been annulled but who had neither separately invoiced nor collected the tax from customers. The cancellation applies to obligations already assessed, decisions not yet communicated and periods for which no assessment decision has been issued, while companies that have already paid may request reimbursement; ANAF must approve the implementation procedure within 30 days of the law entering into force. At the same time, interim Labour Minister Dragoș Pîslaru warned that broader tax increases on private companies would undermine the objective of restoring economic growth, arguing instead for growth supported by EU-funded projects. The VAT correction brings targeted relief, but the wider fiscal-policy debate continues to create uncertainty over the future burden placed on businesses.

European Financing Supports Investment but Raises Delivery Pressure.

The European Commission made approximately €2.5 billion in SAFE prefinancing available to Romania from a total €16.68 billion loan supporting 35 defence and infrastructure projects. Around 75% of the plan covers military equipment, public order and civil defence, while approximately 25%, or €4.2 billion, supports strategic road infrastructure; subsequent tranches depend on meeting project and procurement milestones. These resources can sustain investment during weak domestic growth, but their economic impact depends on timely procurement, local implementation capacity and the retention of contracts and production within Romania.

Impact: *Companies continue to face a difficult combination of weak demand, elevated operating costs and a slower-than-expected decline in inflation. Targeted VAT relief improves liquidity and fiscal fairness for affected taxpayers, while SAFE and NRRP investments may support construction, defence, transport and related supply chains. However, pronounced price expectations in construction and retail, subdued industrial activity and uncertainty over future taxation limit the strength of the recovery. European financing offers the clearest source of investment growth, but businesses will benefit fully only if authorities meet implementation milestones, complete procurement rapidly and generate domestic contracts, production capacity and employment.*

Recovery & Resilience Plan

Wage Reform Failure Cuts Funding and Exposes Political Fragmentation.

President Dan announced that PSD, PNL, USR and UDMR failed to reach agreement on the new public-sector wage law, leading Romania to forfeit €770 million in NRRP grants, although the parties committed to adopting the reform by year-end within the wage-envelope parameters agreed with the European Commission. The dispute centred on the reform's budgetary impact, distribution of salary increases and acceptance among public-sector employees and trade unions, with Dragoş Pîslaru claiming the proposed framework would have increased salaries for almost 80% of public employees. Government representatives and PSD subsequently exchanged responsibility for the failure, while President Dan said the technical preparation had been insufficient and warned that the continued absence of a predictable wage framework could affect Romania's sovereign rating. The immediate funding loss is substantial, but the deeper risk is that the unresolved reform will preserve wage inequities, litigation exposure and uncertainty over future personnel spending.

Project Completion Accelerates as the NRRP Enters Closure.

Despite the wage-law setback, the Government expects Romania to absorb more than 90% of its NRRP grant allocation, compared with an estimated 97% had the reform been adopted. More than 2,000 investments were accepted in August, after over 4,500 of the approximately 15,000 contracted projects remained pending at the beginning of the month; payment requests for completed investments can be submitted in September, while projects not completed

by the deadline must continue from local-authority budgets. The Senate also approved legislation establishing an unified framework for the operational and financial closure of the plan after the August 31 implementation deadline, covering transfer and payment requests, project-list adjustments, changes in financing sources and specific rules for renovation, education and urban-planning contracts. Overall, implementation has accelerated, but the remaining burden is shifting toward administrative closure and local budgets where projects missed the final eligibility deadline.

Impact: *The loss of €770 million reduces Romania's final NRRP proceeds and removes fiscal space that could otherwise have supported investment or limited borrowing needs. For beneficiaries and contractors, the completion of more than 2,000 investments and the new closure framework improve short-term visibility over payment and settlement procedures. However, unfinished projects may create additional pressure on local budgets, while the unresolved wage reform maintains uncertainty over public spending, personnel costs and litigation. Romania can still achieve a high grant-absorption rate, but the final outcome will depend on rapid documentation, payment processing and the capacity of local authorities to finance residual works.*