

PARLIAMENTARY ELECTIONS IN ROMANIA

Analysis & policy implications

8 December 2020

On December 6, Romanian voters went to the polls to elect members of the country's two-chamber Parliament: the Senate (upper house) and the Chamber of Deputies (lower house). While the opposition Social Democratic Party (PSD) received the largest share of the vote, the ruling National Liberal Party (PNL) looks set to stay in power and form a new government coalition, joined by two other centre-right parties. With Romanian politics currently going through a deep transformation, which has already forced incumbent Prime Minister Ludovic Orban to resign, we take a more detailed look at the election results, the future governing coalition and its potential implications for international investors.

ELECTION RESULTS

According to preliminary data from Romania's Central Election Bureau, five national parties passed the 5% threshold to enter Parliament under the country's proportional election system. Beating all expectations, the centre-left and populist PSD came in first, receiving close to 30% of the vote and maintaining its position as the largest political group in Parliament. Although popular support for PSD is over 15% lower than four years ago, the result is being seen as a major victory, given most pre-election polls predicted their long-standing rivals, the incumbent PNL, would receive the largest share of votes.

The PNL vote did rise, but not as much as forecast: 25%, up 5% from the last election in 2016, and down from pre-pandemic levels of support reaching 40% at the turn of the year (PNL has led a one-party minority government with fringe support since last November). The result is being interpreted as a judgement on the Orban Government's handling of the coronavirus pandemic and its economic impact. In addition to the growing public disapproval, the deteriorating COVID-19 situation also significantly impacted voter turnout, resulting in a record low of just 33%, the lowest in the country's post-Soviet history.

Election Results Count (as of 08/12/20)

Party	Popular Vote – Chamber of Deputies (%)	Popular Vote – Senate (%)
Social Democratic Party – PSD (left-of-centre, populist-nationalist)	29.7	30.1
National Liberal Party – PNL (centre-right)	25.2	25.6
Save Romania Union – Freedom, Unity and Solidarity Party – USR-PLUS (technocratic-liberal, conservative)	14.7	15.2
Alliance for the Unity of Romanians – AUR (right-wing nationalist, Romania-Moldova unionist)	8.7	8.8
Democratic Alliance of Hungarians in Romania – UDMR (centrist-regionalist)	6	6.1
People’s Movement Party – PMP (conservative, Romania-Moldova unionist)	4.7	4.8
PRO Romania Social Liberal – PRO (social liberal, centre-left)	4.1	4.2

Source: Central Election Bureau of Romania. Turnout: 33%

Aside from the two great parties, whose rivalry is expected to dominate the political discourse for the next four years, three additional parties will be able to form political groups in the Parliament:

- the technocratic-liberal USR-PLUS, primarily known for its vast anti-corruption platform and strong opposition against PSD, garnered around 15% of the vote. Although their result is 6% higher than their previous (and first) election result, it is being seen as a poor performance in light of the 2019 European elections, where they received more than 22% of the vote. This suggests the USR-PLUS growth trajectory is limited.
- the Democratic Alliance of Hungarians in Romania (UDMR) received more than 6% , roughly the same result as four years ago. Taking the Romanian election system’s special rules for minority parties, UDMR was largely expected to enter Parliament and has traditionally played something of a kingmaker role between the Left and Right.
- A new addition to Romania’s parliamentary parties is AUR, a right-wing extremist party which has gained public attention for its anti-Hungarian and COVID-19-sceptic stances and received 9% of the vote.

Despite pre-election poll predictions to the contrary, neither the centre-right PMP party of former Romanian President Traian Basescu nor the centre-left and liberal Pro Romania party of former Prime Minister Victor Ponta passed the 5% threshold.

A NEW COALITION GOVERNMENT

While the opposition Social Democrats received the largest share of votes, Romanian President Klaus Iohannis, who is also the de facto leader of the ruling party, is expected to invite PNL to form the new Government. Under Romanian law, the next convocation of the country's parliament is set to be established on December 20 and will then appoint the next Cabinet of Ministers. Since both USR-PLUS and UDMR indicated their intention to join a coalition led by PNL, unofficial coalition talks seem already to have started.

Coalition governments in Romania have been relatively short-lived and turbulent in recent times, and we see no strong evidence that this trend will change in the short-term. The forthcoming period promises to be one of continued uncertainty and inter-party conflict, with the backdrop to the coalition likely to be both crucial to the new Government's future chances of survival, as well as subject to potential change given the competing interests of its three member parties:

Should a new centre-right government be installed, it is widely expected to face heavy political pressure from PSD, whose politicians believe that - instead of the PNL - the Social Democrats should be invited to form the next government. However, since no party received more than 50% of the total vote, the President is free to offer the possibility of forming the new Government to the party of his preference.

- › Assuming coalition talks between PNL, USR-PLUS and UDMR are successful and the three parties appoint a new Government in the coming weeks, the ruling parties will be challenged by a strong opposition from both PSD and AUR. To some degree, both parties are expected to be highly critical of the ethnic Hungarian UDMR party, in particular – although the latter's history of following its own interests exclusively means it cannot be ruled out as a potential future partner to PSD.
- › In the event of potential political disputes over nationality and ethnic communities, for example, UDMR could potentially withdraw from the future coalition, a move not without precedent: the ethnic Hungarian party has previously been in government with both the Social Democrats and the PNL and has removed itself from governing coalitions during the last two legislative periods. However, any tension with PNL must be balanced against HDML's staunch opposition to the nationalist party AUR, which could drive UDMR even closer to the centre-right alliance of PNL and USR-PLUS. The latter two parties are more natural political partners, but also have a sometimes-tense relationship.
- › Whatever the coalition make-up, investors should be prepared for an increased amount of political turbulence that could easily have an impact on government stability. The latter question demands particular attention in Romania: the country has had five consecutive governments during the last legislative term only - three appointed by the Social Democrats and two by the PNL. Orban's outgoing cabinet was also a minority government with support from USR-PLUS, the now non-parliamentary PMP and - for a brief period - UDMR.
- › **At present, the identity of the new PM is undetermined.** Prior to the election, both the PNL and Iohannis expected Ludovic Orban to stay on as PM. Following brief consultations with the PNL-allied President, however, Orban announced his resignation over the governing party's failure to defeat its rival PSD (he is expected to stay on as PNL's chairman and be appointed as the President of the Chamber of Deputies). On December 7, Defence Minister Nicolae Ciucă was put forward as caretaker Prime Minister with a limited mandate of 45 days, as well as restricted powers which mainly constitute the adoption of administrative governmental decrees. With Orban having resigned, it will now be up to the future coalition to propose the next Prime Minister for the next four years.

- › Alongside Ciucă, who is the favourite to head the next government, five additional PNL candidates are in the race for PM:
 - › Ilie Bolojan, the former mayor of Oradea and the incumbent leader of the County Council of Romania's Bihor County;
 - › Eduard Hellvig, the former Secretary General of PNL and current director of the SRI, Romania's main domestic intelligence service;
 - › Iulian Dumitrescu, a two-term Member of the Senate from PNL since 2012,
 - › Virgil-Daniel Popescu, the incumbent Minister of Economy, Energy and Business Environment;
 - › Florin Cîțu, Romania's incumbent Finance Minister who was already lined up to serve as Prime Minister in March following a brief political crisis.
- › **In addition, USR-PLUS has proposed its own candidate for PM:** Dacian Cioloș, the current leader of the European Parliament's liberal Renew Europe group, who served as Agriculture Minister between 2007 and 2008, Commissioner for Agriculture and Rural Development at the European Commission between 2010 and 2014, and the Prime Minister of a conservative-liberal cabinet between 2015 and 2017. Nonetheless, PNL is expected to provide the new head of government unless USR-PLUS (and UDMR) can mount a significant level of political pressure to accepting Cioloș as PM-designate.

POLICY PRIORITIES & MACROECONOMIC DIRECTION

- › Regardless of the future government, the economy and the health crisis will remain the top priorities – the impact and response to the crisis having dominated the run-up to the election. Romania is expected to suffer from a larger-than-expected economic contraction due to the COVID-19 crisis. While international projections foresee a GDP¹ drop between 4% and 5% for 2020 followed by a rebound of 4-5% in 2021, the latest forecast of the outgoing government, which was revised during mid-November, expects the country's economy to contract by 4.2% instead of the previously expected 3.8%.
- › GDP dropped by 11.9% during the second quarter and by 6% during the third quarter in comparison with the corresponding periods of 2019. Additionally, fiscal constraints also constitute a considerable challenge. Following the latest round of budgetary adjustments by the Orban Cabinet in November, the Government forecast that the budget deficit will spike to 9.1% of GDP² and reduce only to approximately 7% next year.
- › In this regard, one of the greatest challenges was posed by the PSD-led parliamentary majority which has continued to support a controversial 40% pension hike regardless of the economic downturn. In August, the Orban Government proposed a 14% increase to which the PSD-led parliament replied by confirming legislative support for the larger increase. Most international financial observers agree that such a move could have profoundly affected the country's general economic outlook and significantly increased the budget deficit in the short term.
- › Should PNL manage to form a coalition with USR-PLUS and UDMR as expected, the most immediate challenge will be to support the country's economic recovery by containing the coronavirus pandemic. Romania was among the Central and Eastern European countries most impacted by the outbreak: as of December 8, more than 517,000 cases were registered in a country of 19.5 million. Both PNL and PSD said that no full lockdown would be implemented following the elections. On December 14, the caretaker government is expected to prolong current COVID-19 restrictions and launch a vaccination programme from EU-approved vaccines in January.

¹ Source: <https://seenews.com/news/romania-economy-to-shrink-by-4-in-2020-fin-min-720270>

² Source: <https://seenews.com/news/romanian-economy-to-shrink-42-in-2020-deficit-to-rise-to-91gdp-analysts-721290>

An investment-friendly attitude from a PNL-led government. During a parliamentary session in June, the then-PSD-led majority - in a highly controversial move - approved draft legislation aimed at banning the privatization of any state-owned companies (SOEs) in the next two years, i.e. in the aftermath of the pandemic. Responding to the Bill, the outgoing Government attacked the draft legislation and took the issue to the Constitutional Court of Romania, however President Iohannis has already declared the law as effective.

- PSD MPs referred to the negative impacts of the COVID-19 crisis and the potential decline in SOE valuations as justification for approving the law, however the party is generally (and ideologically) against privatization. Critics from the PNL argued that the law could dissuade foreign businesses from investing in the country. Orban's outgoing cabinet was generally against taxes on businesses, as well as tax hikes in response to the crisis and the new government is likely to adopt a similar policy approach. Taking the future plans of PNL into account, the Government is likely to prioritize investment in TO transport infrastructure as it prepares to complete highways across the country, as well as in a redevelopment of the country's energy infrastructure. In addition, USR-PLUS, which has gradually moved towards supporting neoliberal economic policies, favours private investment in the healthcare sectors and in assistance to the government's efforts to modernize the public sector³.

CONCLUDING THOUGHTS

Resulting from high economic and social pressures, as well as the continuing public health crisis, we expect PNL to step up coalition talks with USR-PLUS and UDMR, and finalise a coalition agreement by the end of the year. While the three parties are expected to eventually appoint a tri-party government, a considerably high level of political pressure will be mounted by PSD and AUR. This has the potential to derail any future coalition in a country where multiple governments have failed to last their first term in recent times. For current and potential investors, the stability of the Government could even become a key concern as early as next year.

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About Kesarev

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³ See [here](https://www.en24news.com/2020/12/usr-plus-conditions-for-a-government-with-pnl-no-penalties-elimination-of-all-special-pensions-reduction-of-the-number-of-parliamentarians-to-300.html) for a full list (in English) of USR-Plus policy demands for partnering with a PNL government:
<https://www.en24news.com/2020/12/usr-plus-conditions-for-a-government-with-pnl-no-penalties-elimination-of-all-special-pensions-reduction-of-the-number-of-parliamentarians-to-300.html>