

SURPRISE GRAND COALITION FORMS ROMANIA'S NEXT GOVERNMENT

Analysis & implications of Romania's coalition crisis & the Government of Nicolae Ciucă

26th November 2021

Issues & Sectors	Government Crisis, Grand Coalition, Coalition Government, Romanian General Elections 2024
Stakeholders	Presidential Administration, Parliament, Klaus Iohannis, Florin Cîțu, Marcel Ciolacu, Nicolae Ciucă

Following months of uncertainty and two failed attempts to form a new government after the country's three-party government collapsed in a no-confidence vote in October, Romania's political crisis has come to an unlikely end, at least for the time being. The ruling National Liberal Party (PNL) and the opposition Social Democratic Party (PSD), the two longtime electoral rivals of Romanian politics, this week formalised an unlikely alliance and agreed on a surprise, three-party grand coalition, including the ethnic Hungarian UDMR party. While this seems to have eased the current crisis, however, political instability remains a key risk in Romania, as it is yet to be seen how long this experimental coalition will last.

As the Parliament of Romania voted (on 25th November) to install the country's new Government, led by former Defence Minister Nicolae Ciucă, Kesarev takes a deeper look at the likely repercussions of the new grand coalition agreement, the new government's pressing priorities and potential political scenarios moving forward.

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A POLITICAL CRISIS WITH AN UNEXPECTED OUTCOME

Political stability in Romania took a strong hit after the country's three-party ruling coalition collapsed in September over serious disagreements between the senior ruling National Liberal Party (PNL) and the centrist-liberal USR-PLUS, one of the two junior coalition partners. At the time, Florin Cîțu, Romania's (now former) Prime Minister and a PNL politician, dismissed¹ Stelian Ion, the country's USR-PLUS-affiliated Justice Minister after he refused to endorse the Anghel Saligny Program, a €10 billion-strong national development and investment plan, also known as PNDL-3, over alleged corruption concerns. Ion's dismissal was followed by his party's withdrawal from the governing coalition, demoting the Cîțu Cabinet to minority government status. USR-PLUS demanded a new PM in exchange for remaining in the coalition and initiated a no-confidence vote in the Romanian parliament that was supported by the two opposition parties – the centre-left and longtime PNL rival Social Democratic Party (PSD) and the far-right Alliance for the Union of Romanians (AUR). As the PNL and USR-PLUS failed to resolve their differences, the motion of no confidence against the Cîțu and his Government was adopted² on 5th October, supported by an unlikely majority from the PSD, USR-PLUS and AUR. Consequently, the Cîțu Cabinet was demoted to interim status until a new government was formed. The subsequent two months have been characterized by uneasy negotiations between various parliamentary parties aimed at resolving what started as a coalition turmoil but turned into a major political crisis.

- › Following consultations with the parliamentary parties, Romanian President Klaus Iohannis, a key ally of the PNL, tasked Dacian Cioloș, former Prime Minister and the newly elected leader of USR-PLUS, to form a government on 11th October. All three former governing parties, including the third ex-coalition partner, the ethnic Hungarian UDMR, originally aimed to restore the ruling coalition, however Cioloș failed to secure the PNL's support after disagreements over the cabinet's members. Lacking support from the original coalition parties, the USR-PLUS leader later proposed a quasi-technocratic minority government that was rejected by parliament.
- › After it became clear that the restoration of the three-party coalition around interim PM and PNL President Cîțu was virtually impossible, President Iohannis tasked interim Defence Minister Nicolae Ciucă to form the country's government. With only two parties – the PNL and UDMR – expressing an intention to join the new cabinet, Ciucă proposed a PNL-UDMR minority government that was similarly unsuccessful in securing a governing majority. Ciucă subsequently returned his mandate, marking the second failed attempt of forming a government, after which the Romanian President became constitutionally free to dissolve parliament and call for snap parliamentary elections. In parallel, the PNL's negotiating position was weakened when Ludovic Orban, the party's former leader who lost a crucial leadership contest against Cîțu in September, left the PNL parliamentary group (and later the party itself) with other Romanian MPs and senators.
- › Given its ideological rivalry and long-standing power struggle with PNL, the social democratic PSD, which holds the largest number of seats in the country's legislature, initially ruled out supporting any of the previous initiatives. As the political crisis deepened, however, Romania found itself facing a desperate combination of public health and energy crises over the fourth wave of the COVID-19 pandemic and increased prices on the energy market – to which the interim Cabinet reacted by cutting VAT on gas and electricity and offering compensation for consumers. This triggered a highly unexpected turn of events when PNL and PSD, the longtime rivals of Romanian politics, started negotiations to form a grand coalition government on 4th November that would also include UDMR and receive support from the representatives of national minorities in the lower house of the Romania parliament (simultaneously, USR-PLUS announced that it will step into opposition). Although the talks initially resulted in a deadlock, the three parties have finally managed to formalise a coalition deal and agreed on forming a new three-party government headed by the interim Defence Minister, Nicolae Ciucă.

¹ See [here](#) for our overview of the coalition crisis in September

² See [here](#) for our overview of the collapse of the Cîțu Government in October

THE NEW COMPOSITION OF THE ROMANIAN PARLIAMENT

Political Party	Number of MPs (lower house)	Number of Senators (upper house)	Affiliation
National Liberal Party – PNL <i>(centre-right)</i>	79	38	government
Social Democratic Party – PSD <i>(left-of-centre)</i>	110	47	government
Save Romania Union – USR-PLUS <i>(liberal, centrist)</i>	55	25	opposition
Alliance for the Union of Romanians – AUR <i>(right-wing nationalist)</i>	30	13	opposition
Democratic Alliance of Hungarians in Romania – UDMR <i>(centrist-regionalist)</i>	20	9	government
Representatives of national minorities	18	-	confidence and supply
Unaffiliated/Independents	18	4	opposition
Total	330	136	

IMPLICATIONS FOR INVESTORS

Following weeks of uncertainty over the failed attempts to form a governing coalition, the new parliamentary majority provided by the PNL, PSD and UDMR voted to approve and install the Ciucă Government on 25th November, finally bringing Romania's latest political crisis to an end – at least for the time being. However, while the new coalition has a comfortable majority, it now faces a series of severe challenges likely to be exacerbated by the political tensions arising from the coalition's very existence. Below we outline a number of implications from this ground-breaking coalition agreement, as well as some of the immediate policy priorities and potential forward scenarios:

- **According to the coalition deal, the new ruling parties have agreed on a rotational system of governance** in which a senior PSD politician – foreseeably PSD President Marcel Ciolacu, the Speaker of the Chamber of Deputies (lower house) – will take over the position of Prime Minister from Nicolae Ciucă after 18 months. A retired general with a decades-long career in the Romanian military, Ciucă served as Chief of Staff of the Armed Forces of Romania between 2015 and 2019. During his brief time in politics, he served as Defence Minister in the first and second PNL-led governments of former Prime Minister Ludovic Orban. He briefly held the position of acting Prime Minister after Orban resigned from his position following the PNL's defeat against PSD in the 2020 parliamentary elections.

- › Under the three-party agreement, the structure of the new government consists of 20 ministries with two of them newly-established: the Ministry of Digitization – led by PNL MP Florin Roman – and the Ministry of Youth and Families, headed by Gabriela Fiera, the former PSD mayor of Bucharest. While the former represents the increased emphasis on digitization (connected to development priorities for the next decade), the latter arose from a request from PSD to pursue its social policies. Consequently, it will take time for the Ciucă Cabinet to build up a new set of institutions operating under the Government's umbrella.
- › Altogether, PSD will control nine ministries, including the portfolios of finance, defence, economy, transport, agriculture, health, labour, culture, as well as youth and family. PNL will control the justice, interior, foreign affairs, investments and EU projects, energy, education, digitization, as well as tourism and SMEs ministries. Similarly to the composition of the previous government, UDMR will be in charge of the regional development, environment and sports ministries.
- › The deal also provides that the ministries with the largest budgets – finance, transport and economy – will be assumed by the PNL if the party hands over the position of PM to the PSD in May, 2023. In addition to the increased number of ministries, the Ciucă Government will include two deputy Prime Ministers: UDMR leader Kelemen Hunor and former Prime Minister Sorin Grindeanu, a senior PSD politician and the new Transport Minister.
- › **Tackling the coronavirus pandemic is the immediate priority.** Coinciding with the domestic political crisis, Romania registered a record-high number of COVID-19 cases and hospitalizations in October. Although the fourth wave appeared to have peaked last month, Romania remains the second most unvaccinated country in the European Union after Bulgaria, with only 43% of its population fully vaccinated. The new Government aims to increase the number of fully vaccinated to 10 million in the next 90 days and is stepping up testing capacities and making testing free in essential sectors.
- › **Social welfare promises are at the centre of the agenda for the legislative term.** The grand coalition program has outlined a number of social spending promises, including a 10% increase in pensions, raising the minimum social allowance and raising child support and the net minimum wage by 14% and 10% respectively, alongside a number of social benefits planned for Romanian families. While the ultimate focus appears to be on social policies (most likely resulting from such demands from the PSD), PM Ciucă has pledged to allocate 7% of the country's GDP for investments in government-managed or -funded schemes, including the aforementioned Anghel Saligny Program. The new PM also aims to implement reforms in corporate governance, decarbonization, transport and digitization, all required to utilize €30 billion of EU funds allocated to Romania under the European Union's Recovery and Resilience Facility. The new PM has announced that changes to the Romanian constitution are necessary to achieve the objectives of his Government, although the proposed amendments are yet to be seen.
- › **Incorporating a key demand from PNL, the Government has promised not to raise any taxes in 2022 or make any changes to the country's flat tax principle.** The grand coalition program has also promised to modernize Romania's infrastructure system (including 40% of all country and local roads), create industrial centres and increase state spending. At the same time, critics point out that the program, which was prepared in a matter of weeks, consists of diverging targets and policies that are likely to undergo significant revision. Accordingly, fiscal stability could become a key concern for the Romanian economy. The European Commission expects the country's headline deficit target to reach 8% of the GDP in 2021. The Romanian parliament is yet to approve the country's budget for next year, posing further fiscal concerns.

- **Political instability remains the primary risk to our forecast in the long run.** The recent political crisis produced a highly unlikely outcome, as the PSD was widely anticipated not to enter a coalition with its longtime electoral rival. However, the multiple crises hitting the country, combined with the rivalry between the PNL and USR-PLUS for the leading role on the centre-right of the political aisle, changed the status quo. The result is a highly experimental alliance, the long-time stability of which is difficult to predict. Taking Romania's history of short-lived ruling coalitions into account, another coalition break-up and/or government collapse remains a distinct possibility for the current legislative term. Coalition fractures could very well emerge along ideological lines of the grand coalition agreement that includes a number of diverging priorities between the socio-populist PSD and the liberal conservative PNL. The departure of UDMR, which has previously governed with both parties, also remains a possibility, primarily along minority-related issues, however this would still leave the grand coalition with a majority in parliament.

CONCLUSION

The long-awaited installation of the new government marks the likely end of Romania's most recent political crisis. Receiving a broad mandate based on the grand coalition agreement, the Ciucă Government will likely prioritize measures related to public health, the economy and the welfare system, whilst focusing on infrastructure modernization and investments. While the constitutional majority provided by the PNL, PSD and UDMR alliance potentially provides a smooth legislative process to turn Ciucă's promises into reality, it remains a question how long the unlikely PNL-PSD alliance will last. The public health and economic crises will likely keep the coalition together in the short-term, however we anticipate that fractures will become more likely as Romania heads towards 2024, when the country is set to hold a complete electoral cycle, including European, parliamentary, presidential and local elections, in which the PNL and the PSD will stand as competitors.

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