

KEY TAKEAWAYS FROM ROMANIA'S GOVERNMENT RESTRUCTURING

PSD Leader Ciolacu's Government Enters Office as Third Ruling Party Leaves Grand Coalition

15 June 2023




Romania's parliament has voted the country's new government into office. Led by former lower house speaker Marcel Ciolacu, the leader of the major ruling Social Democratic Party (PSD), the new government is the result of a long-awaited government reshuffling, as agreed with the centre-right National Liberal Party (PNL) – the other party supporting the new cabinet – in 2021.

The government reshuffle has led to a number of changes at the helm of key ministries, with new figures now in charge of key portfolios, including finance, foreign affairs, justice, home affairs, EU funds, digitalization and energy, among others. Most importantly, the reshuffle has also resulted in the third ruling party – the Hungarian minority UDMR – leaving the coalition and going into opposition over recently emerged political disagreements.

The Ciolacu Government, which has put together an ambitious economic agenda, has a mandate to lead Romania until the next parliamentary elections, scheduled for the end of 2024. Next year will bring a crucial electoral cycle to Romania with European, presidential and local elections all scheduled.

Below, Aretera takes a deeper look at the government reshuffle and its implications for businesses.

This memo will cover:

-  the key takeaways from the government restructuring,
-  the new composition of the Romanian government,
-  short-term political and economic implications,
-  implications for international investors.

NEW GOVERNMENT ENTERS OFFICE IN LINE WITH 2021 COALITION DEAL

On 15th June, the Parliament of Romania voted the country's new government into office. Led by newly appointed Prime Minister Marcel Ciolacu, the former Speaker of the Chamber of Deputies, the new government is the result of a much-anticipated government reshuffle, as agreed by the centre-left Party of Social Democrats (PSD) and the centre-right National Liberal Party (PNL), the two parties supporting the new cabinet.

In 2021, Romania saw a major political crisis that resulted in the collapse of the country's previous, centre-right coalition government of former PM Florin Cîțu (2020-2021). Due to policy disagreements between the coalition partners at the time (the PNL, the centrist USR and the Hungarian minority UDMR), the crisis led to the removal of the Cîțu Cabinet in September 2021 after the USR, the centre-left opposition PSD and the far-right opposition Alliance for the Union of Romanians (AUR), all joined forces for a successful no-confidence vote in parliament.

Following a series of unsuccessful attempts to form a cabinet, the crisis was resolved in November 2021 when the PNL formed an alliance with the centre-left PSD. With the PNL and the PSD being the two largest parties in parliament, they brokered a coalition deal that led to the formation of the country's (recently resigned) grand coalition government, led by PNL leader Nicolae Ciucă as PM. In addition to the PNL and the PSD, the Ciucă Cabinet was also supported by the Hungarian minority UDMR.

Under the initial coalition agreement, Ciucă was to serve as PM until mid-2023 when the two major ruling parties would swap key seats in government, including that of the Prime Minister. In line with the agreement, Ciucă resigned from office on 12th June, paving the way for PSD leader Ciolacu to succeed him.

KEY TAKEAWAYS FROM THE GOVERNMENT RESHUFFLE

Ciucă's resignation was originally scheduled for 25th May. However, the government restructuring was briefly interrupted due to the ongoing teachers' strikes, with the grand coalition putting the reshuffle on hold until the issue of education workers is resolved. On 12th June, the government passed a decree endorsing pay rises in the sector. This agreement was then followed by the PM's resignation and the long-awaited restructuring, as agreed by the ruling parties. During the joint session of the Romanian parliament on 15th June, 290 of the 466 lawmakers voted in favour of the Ciolacu Cabinet, while 95 voted against. UDMR lawmakers were present but did not vote.

Simultaneously, changes were made to the grand coalition deal in comparison with the initial agreement. The PNL and the PSD originally agreed to swap the PM's seat and a number of ministerial portfolios, which eventually happened, albeit differently than previously planned as the political priorities of the two main parties have shifted since 2021.

Of the 19 new ministers, nine were part of the previous cabinet. Most importantly, former Finance Minister Adrian Căciu (PSD) and European Funds Minister Marcel Bolos (PNL) have swapped seats. PSD-affiliated ministers who have kept their jobs include Defense Minister Angel Tîlvăr, Transport Minister (and ex-PM) Sorin Grindeanu, Family and Youth Minister Gabriela Firea, Labour Minister Marius Budăi and Health Minister Alexandru Rafila. The PNL's Ligia Deca will also stay on as Education Minister, while former Digitalization Minister Sebastian Burduja will continue as Energy Minister. Two PNL ministers of the previous cabinet were left out of the new government: former Foreign Minister Bogdan Aurescu and Interior Minister Lucian Bode.

Among the most important takeaways from the government reshuffle is that the third member of the 2021 grand coalition, the Hungarian minority UDMR, has entered the opposition, due to disagreements with the two major ruling parties over who should lead the development and environment ministries, previously headed by UDMR politicians. Nonetheless, the PSD and the PNL still control more than half of the seats in the country's lower house (Chamber of Deputies) and upper house (Senate).

As confirmed by parliament, the Ciolacu Government has a mandate to lead the country until the next parliamentary elections, scheduled for the end of 2024. Next year will bring a crucial electoral cycle to Romania as the country will also hold European, presidential and local elections.

The restructuring will also bring changes to the Romanian parliament. Given Ciolacu's appointment as PM, the Chamber of Deputies will be led by former PSD parliamentary group leader Alfred Simonis as interim speaker, while former Prime Minister Ciucă will head the upper house of parliament, the Senate of Romania.

THE COMPOSITION OF THE CIOLACU GOVERNMENT

Composition of the Cabinet of Ministers			
Member	Position	Affiliation	Portfolio
Marian Neacsu	Deputy PM	PSD	-
Cătălin Predoiu	Deputy PM & Minister	PNL	Interior
Adrian Căciu	Minister	PSD	EU Funds
Adrian Veste	Minister	PNL	Development
Alexandru Rafila	Minister	PSD	Health
Alina Gorghiu	Minister	PNL	Justice
Angel Tîlvăr	Minister	PSD	Defense
Bogdan Ivan	Minister	PSD	Digitalization
Florin Barbu	Minister	PSD	Agriculture
Gabriela Firea	Minister	PSD	Family & Youth
Ligia Deca	Minister	PNL	Education
Luminița Odobescu	Minister	PNL	Foreign Affairs
Marius Budăi	Minister	PSD	Labour
Marcel Bolos	Minister	PNL	Finance
Mircea Fechet	Minister	PNL	Environment
Radu Oprea	Minister	PSD	Economy & Tourism
Raluca Turcan	Minister	PNL	Culture
Sebastian Burduja	Minister	PNL	Energy
Sorin Grindeanu	Minister	PSD	Transport

SHORT-TERM POLITICAL & POLICY IMPLICATIONS

Prime Minister Marcel Ciolacu enters office with extensive political experience. An MP since 2012 and a lawyer by profession, Ciolacu briefly served as Deputy Prime Minister in 2017-2018 in the Mihai Tudose Government (2017-2018). He became PSD leader after the fall of the Viorica Dăncilă Government in 2019, and later the President of the Chamber of Deputies, a position he held until becoming Prime Minister on 15th June.

As PM, Ciolacu has set ambitious economic goals. Building on the results of the Ciucă Cabinet, the new government will aim to inject an estimated €110 billion of extra revenues into the economy in the next two years by raising public investments and incentives for households. The new cabinet expects the country's GDP to grow by 4.2% this year and by 5.4% in 2024, with efforts to be made to support fiscal consolidation, decrease public debt, efficiently use EU cohesion and recovery funds, curb inflation and food prices, and achieve investment objectives in public-private partnerships.

Politically, the grand coalition will continue to aim for stability in the country's fragmented political life and ensure the continuity of government until the much-anticipated electoral cycle in 2024. Despite the UDMR's departure from government, the PSD-PNL alliance has so far ensured the stability of government, which is expected to stay in office until the next parliamentary elections. At the same time, political and policy differences in the two-party ruling bloc might cause fractures within the new ruling coalition.

THE COMPOSITION OF THE ROMANIAN PARLIAMENT

Party/Alliance	Affiliation	MPs	Senators
Social Democratic Party – PSD (centre-left)	Government	107	48
National Liberal Party – PNL (centre-right)	Government	81	38
Democratic Alliance of Hungarians – UDMR (centrist)	Opposition	20	9
Save Romania Union –USR (centrist)	Opposition	42	22
Alliance for the Unity of Romanians – AUR (far-right)	Opposition	27	13
National Minority Representatives	Support	17	-
Non-Affiliated	Opposition	36	5
Total		330	136

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