

Fitch: Election outcome in Romania does not diminish medium-term fiscal uncertainty

The outcome of the general elections in Romania indicates a continuation of political uncertainty and consequently a difficult environment for policy making, shows a report of Fitch Ratings, a financial rating agency, according to which the adoption of the 2021 budget will be an immediate test of the future administration's cohesion and an indication of the possible direction of the fiscal policy.

Managing a three- or four-party coalition could consume political energy, making it more difficult for the National Liberal Party (PNL) to implement its own agenda and limit its appetite and ability to take the necessary steps to halt the long-term deterioration of Romania's public finances, maintains Fitch.

Fitch analysts point out that discussions on the 2021 budget will be the first clear indication of the direction in which the new administration's fiscal policy will go. PNL and Save Romania Union - Liberty, Unity, Solidarity Party (USR PLUS) have promised to implement a gradual fiscal consolidation but there is no consensus on the scale and timing of short-term measures, given the high health and economic challenges of the pandemic.

The rating agency expects the government deficit to decrease slightly to 7.1% of GDP in 2021, from a record high of 9.8% of GDP in 2020, and shows that risks still remain directed downwards.

According to Fitch, the Social Democratic Party (PSD) will remain the largest party in Parliament and may be able to affect the policy-making process. However, Fitch does not expect the new Parliament to come up with initiatives with a negative fiscal impact, such as a 40% increase in pensions.

Fitch underscores that Romania's political volatility in recent years has increased uncertainty and undermined medium-term fiscal plans. The elaboration of credible medium-term fiscal consolidation plans remains an important factor in their assessment of the sovereign rating given Romania's past experience and high level of budgetary rigidity.

At the end of October, Fitch Ratings confirmed Romania's sovereign rating at "BBB minus" with a negative outlook, this being the last rating in the "investment-grade" category, recommended for investments.