

Political upset in Romania

Today's successful no-confidence motion against the PNL government opens the way to early elections, but also to an extended period of political instability



Source: Shutterstock

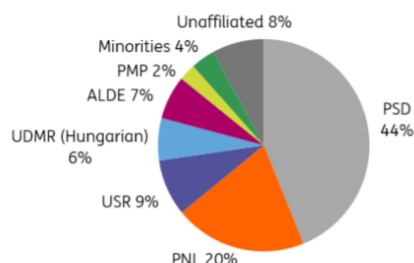
The PSD-led opposition toppled the PNL government today, following a no-confidence vote against the government over the new electoral law proposed by the PNL. The law would have resulted in mayors being elected under a two-round system instead of the current one-round-winner-takes-all system.

What the Constitution says: The procedure to call early elections might sound simple, but many unknowns could become apparent as this procedure has never actually been implemented before. In short, two consecutive proposals for a new Prime Minister need to be rejected by the Parliament within a 60-day period. If this were to happen, the President can dissolve the Parliament and early elections can be triggered.

The reality: Looking forward, a period of uncertainty is expected to follow. Under the usual timetable, general elections would be scheduled to take place in December 2020. However, with some opinion polls rating the PNL above 40% - with the added support of the newly re-elected

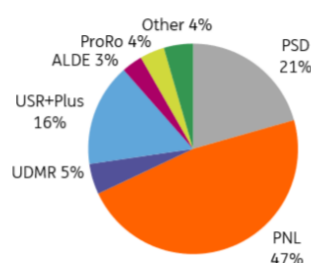
president Klaus Iohannis – the party has indicated many times that it favours early general elections before or at the same time as the local elections, which are scheduled for early June. Unless polls are not completely decoupled from reality, early general elections would place the PNL in a strong position when negotiating political alliances but also give more time to tackle this year's fiscal challenges – namely the 40% pension hike scheduled for September.

Current Parliament structure



Source: cdep.ro

Latest opinion polls



Source: IMAS

The PSD, on the other hand, scores historically low in the polls and is likely to try to extend the process leading to early elections by as much as possible. During this time, it might attempt to corner the interim-PNL government by trying to push through Parliament more fiscal-expansionary measures that the government would be unable to implement anyhow.

Although it is a very close call, we tend to believe that early elections will take place by mid-summer. The road to that will certainly be bumpy and markets will scrutinise closely the entire process. Of course, the sooner the country has a new government, the better it will be for the economy, especially when considering the serious fiscal adjustments needed this year. We expect the National Bank of Romania to remain in 'damage-control' mode throughout this period and continue to tightly manage the FX.

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