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International

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## **Economic Alert: Political instability in Romania weigh on Market Outlook**

- A fresh political crisis in Romania will exacerbate the ruling capacity of the leftist Social Democratic Party (PSD) and centre-right Alliance of Liberals and Democrats (ALDE) coalition, while damaging its already weak credibility.
- After less than six months in office, PSD Premier Sorin Grindeanu and his cabinet were ousted by parliament on June 21 in a no confidence vote. The Government survived a no-confidence motion earlier in February, less than a month after starting its activity.
- While BMI believes that a snap election remains unlikely at this stage, this raises questions over the coalition's ability to govern successfully in the next three years.
- A prolonged period of instability is possible as the nomination of a new prime minister and the formation of a new cabinet could be delayed by the incompatible relationship between the ruling party and centre-right President Klaus Iohannis.
- The president has the authority to reject any candidate, a power that he has already used in December to reject PSD leader Liviu Dragnea's original choice of prime minister.
- Political turmoil raises risks to the country's short-term growth outlook as it increases the likelihood that PSD election pledges such as tax cuts and higher salaries for public workers, are delayed or scrapped. Also a prolonged period without a cabinet could weigh on Romania's already inefficient EU structural funding absorption capability, posing risks to the infrastructure investment outlook.
- Political turmoil, amid already broad uncertainty surrounding fiscal policy and a widening of the current account deficit to meet expanding domestic demand, will weigh on investor confidence and remain a headwind to the currency.
- At the time of writing, the Romanian currency (RON) depreciated by 0.47% to RON \$4.5761/EUR.

## Movement of the Romanian leu (RON) against the Euro



Source: Bloomberg

### Credit Rating

S&P: BBB- Stable

Moody's: Baa3 Stable

Fitch: BBB- Stable



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