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Recommendation for a

COUNCIL RECOMMENDATION

endorsing the national medium-term fiscal-structural plan of Romania

Recommendation for a

COUNCIL RECOMMENDATION

endorsing the national medium-term fiscal-structural plan of Romania

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121 thereof,

Having regard to Regulation (EU) 2024/1263, and in particular Article 17 thereof,

Having regard to the recommendation from the Commission,

Whereas:

GENERAL CONSIDERATIONS

(1) A reformed EU economic governance framework entered into force on 30 April 2024. Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance,[1] together with the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure,[2] and the amended Council Directive 2011/85/EU on the budgetary frameworks of Member States[3] are the core elements of the reformed EU economic governance framework. The framework aims at ensuring public debt sustainability and sustainable and inclusive growth through reforms and investments. It promotes national ownership and has a medium-term focus, combined with an effective and coherent enforcement of the rules.

(2) The national medium-term fiscal-structural plans that Member States submit to the Council and to the Commission, are at the centre of the new economic governance framework. The plans are to deliver on two objectives: i) ensuring that, by the end of the adjustment period, general government debt is on a plausibly downward trajectory, or stays at prudent levels, and that the government deficit is brought and maintained below the reference value of 3% of GDP over the medium term, and ii) ensuring the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the EU. To that end, each plan is to present a medium-term commitment

[1] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj).

[2] Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj).

[3] Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

to a net expenditure[4] path, which effectively establishes a budgetary constraint for the duration of the plan, covering four or five years (depending on the regular term of legislature in a Member State). In addition, the plan is to explain how the Member State will ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations (including those pertaining to the macroeconomic imbalances procedure (MIP), if applicable), and how the plan will address the common priorities of the Union. The period for fiscal adjustment covers a period of four years, which may be extended by up to three years if the Member State commits to delivering a set of relevant reforms and investments that satisfies the criteria set out in Regulation (EU) 2024/1263.

(3) Following the submission of the plan, the Commission shall assess whether it complies with the requirements of Regulation (EU) 2024/1263

(4) Upon a recommendation from the Commission, the Council is to then adopt a recommendation to set the net expenditure path of the Member State concerned and, where applicable, endorses the set of reform and investment commitments underpinning an extension of the fiscal adjustment period.

CONSIDERATIONS CONCERNING THE NATIONAL MEDIUM-TERM FISCAL-STRUCTURAL PLAN OF ROMANIA

(5) On 25 October 2024, Romania submitted its national medium-term fiscal-structural plan to the Council and to the Commission. The submission took place following an extension of the deadline set out in Article 36 of Regulation (EU) 2024/1263, as agreed with the Commission. The submission deadline was extended as agreed with the Commission in view of the reasons provided by Romania.

Process prior to the submission of the plan

(6) On 21 June 2024 the Commission sent, according to Article 9 of Regulation (EU) 2024/1263, the reference trajectory[5] to Romania. The Commission published the reference trajectory on 25 October[6]. The reference trajectory is risk-based and ensures that, by the end of the fiscal adjustment period and in the absence of further

[4] Net expenditure as defined in Article 2 of Regulation (EU) 2024/1263, namely government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on Union programmes fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure and (vi) one-offs and other temporary measures.

[5] Prior guidance transmitted to the Member States and Economic and Financial Committee includes trajectories without and with an extension of the adjustment period (covering 4 and 7 years, respectively). It also includes the main initial conditions and underlying assumptions used in the Commission's medium-term government debt projection framework. The reference trajectory was calculated on the basis of the methodology described in the Commission's *Debt Sustainability Monitor 2023* (https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2023_en). It is based on the Commission 2024 spring forecast and its medium-term extension up to 2033, and long-term GDP growth and ageing costs are in line with the joint Commission-Council *2024 Ageing Report* (https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en).

[6] https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/national-medium-term-fiscal-structural-plans_en#romania

budgetary measures beyond the adjustment period, general government debt is on a plausibly downward trajectory or stays at prudent levels over the medium term, and that the general government deficit is brought below 3% of GDP over the adjustment period and is maintained below that reference value over the medium term. The medium term is defined as the ten-year period after the end of the adjustment period. In accordance with Articles 6 point (d), 7 and 8 of Regulation (EU) 2024/1263, the reference trajectory is also consistent with the deficit benchmark, the debt sustainability safeguard and the deficit resilience safeguard. The reference trajectory of Romania sets out that, based on the Commission's assumptions and assuming a 7-year adjustment period, net expenditure should not grow by more than the values provided in Table 1. This corresponds to average net expenditure growth of 5.2% over the adjustment period (2025-2031) and of 5.5% over the period 2025-2028.

Table 1: Reference trajectory provided by the Commission to Romania on 21 June 2024

	2025	2026	2027	2028	2029	2030	2031	Average 2025-2028	Average 2025-2031
Maximum net expenditure growth (annual, %)	6.1	5.7	5.3	5.0	4.8	4.7	4.5	5.5	5.2

Source: Commission's calculations.

(7) In line with Article 12 of Regulation (EU) 2024/1263, Romania and the Commission engaged in a technical dialogue between July and October 2024. The dialogue focused on the net expenditure path envisaged by Romania and its underlying assumptions, and on the envisaged set of reform and investment commitments underpinning Romania's request for an extended adjustment period. Discussions focused on the tax reform, the tax administration reform, the reform of the microenterprises tax regime, and spending reviews. It also touched upon the envisaged delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and the common priorities of the Union regarding a fair and green digital transition, social and economic resilience, energy security and the build-up of defence capabilities.

(8) In October 2024, in line with Article 11(3) and 36(1), point (c) of Regulation (EU) 2024/1263, according to the information provided by Romania in its plan, Romania engaged in a consultation process with civil society and social partners. According to the information provided by Romania in its plan, on 16 October 2024, the plan was put into public debate with business representatives and the civil society.

Other related processes

(9) Romania is currently subject to an excessive deficit procedure[7]. On 3 April 2020, the Council, acting upon a recommendation by the Commission, adopted Decision (EU)

[7] All documents related to the excessive deficit procedure of Romania can be found at:

2020/509 under Article 126(6) TFEU on the existence of an excessive deficit situation in Romania due to a planned non-compliance with the deficit criterion of the TFEU, and issued a Recommendation under Article 126(7) TFEU with a view to bringing an end to the situation of an excessive government deficit by 2022 at the latest. In light of the deep contraction in economic activity linked to the COVID-19 pandemic, on 18 June 2021 the Council adopted a revised Recommendation under Article 126(7) TFEU to Romania, extending the deadline for the correction to 2024. On 24 November 2021, the Commission concluded that Romania had taken effective action in response to the Council Recommendation of 18 June 2021 under Article 126(7) TFEU and considered that no additional steps in the excessive deficit procedure were then necessary. However, in 2023 all sub-components of the Council Recommendation addressed to Romania in 2021 were missed by a significant margin. The headline deficit was significantly higher (6.5% of GDP vs 4.4% of GDP in the Council Recommendation), the structural effort was much lower than recommended, and growth in net expenditure much higher than recommended.

(10) Therefore, on 26 July 2024, the Council established that no effective action had been taken by Romania in response to the Council Recommendation of 18 June 2021[8]. The present Recommendation coincides with the revised Council Recommendation under Article 126(7) TFEU with a view to bringing an end to the situation of an excessive government deficit in Romania[9]. The simultaneous adoption of those recommendations, which is tailored to and justified by the transition to the new economic governance framework, ensures consistency between the recommended adjustment paths.

(11) On 19 June 2024, the Commission concluded that Romania is experiencing excessive macroeconomic imbalances. In particular, Romania faces vulnerabilities related to external accounts, mainly linked to large and increasing government deficits, while significant price and cost pressures have intensified and policy action has been weak[10].

(12) On 21 October 2024, the Council addressed to Romania a series of country-specific recommendations (CSRs) in the context of the European Semester[11].

SUMMARY OF THE PLAN AND THE COMMISSION'S ASSESSMENT OF THEREOF

(13) In line with Article 16 of Regulation (EU) 2024/1263, the Commission assessed the plan as follows:

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https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/corrective-arm-excessive-deficit-procedure/excessive-deficit-procedures-overview/romania_en.

8 OJ L, 1.8.2024, ELI: https://eur-lex.europa.eu/eli/dec/2024/2130/oj

9 Recommendation for a Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Romania, 26.11.2024, COM(2024)957 final.

10 'Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank', COM (2024) 600 final, Appendix 4

11 Council Recommendation on economic, budgetary, employment and structural policies of Romania, not yet published.

Context: macroeconomic and fiscal situation and outlook

(14) Economic activity in Romania grew by 2.4% in 2023, driven by domestic demand. According to the European Commission Autumn 2024 Forecast, the economy is expected to grow by 1.4% in 2024, the deceleration reflecting softer developments in industrial production, residential construction, information technology and transport services. In 2025, real GDP is set to increase by 2.5%, supported by resilient private consumption and an acceleration of private investment, both helped by more accommodative financial conditions. In 2026, real GDP is expected to increase by 2.9% as EU-funded investment in public infrastructure should provide a strong stimulus to growth as the RRF programme enters its final stage. Over the forecast horizon (i.e., 2024-2026), potential GDP growth in Romania is expected to average 2.2%, driven by capital deepening and growth in total factor productivity. The unemployment rate stood at 5.6% in 2023 and is projected by the Commission to amount to 5.5% in 2024, 5.5% in 2025 and 5.4% in 2026. Inflation (GDP deflator) is projected to decrease from 12.8% in 2023 to 9.0% in 2024, and to reach 5.9% in 2025 and 5.3% in 2026.

(15) Regarding fiscal developments, in 2023 Romania's general government deficit amounted to 6.5% of GDP. According to the European Commission Autumn 2024 Forecast, it is set to reach 8.0% of GDP in 2024, 7.9% of GDP in 2025 and, on a no-policy change basis, 7.9% of GDP in 2026. The Commission forecast does not reflect Romania's draft budget for 2025, which has yet to be designed. General government debt was 48.9% of GDP at end-2023. According to the Commission forecast, the debt ratio is expected to increase to 52.2% of GDP at end-2024. It is projected to increase to 56.1% of GDP at end-2025 and 59.7% at end-2026. The fiscal forecast by the Commission does not consider the policy commitments in the medium-term plans as such until they are underpinned by credibly announced and sufficiently specified concrete policy measures.

Net expenditure path and main macroeconomic assumptions in the plan

(16) Romania's national medium-term fiscal-structural plan covers the period 2025-2028 and presents a fiscal adjustment over seven years.

(17) The plan contains all information required by Article 13 of Regulation (EU) 2024/1263.

(18) The plan commits to the net expenditure path indicated in Table 2, corresponding to average net expenditure growth of 4.8% over the years 2025-2028. In addition, Romania commits to a set of reforms and investments with the view to extending the adjustment period to 7 years (2025-2031), over which the average net expenditure growth is planned to be 4.4%. The average net expenditure growth reported in the plan over the adjustment period (2025-2031) is lower than the average net expenditure growth in the reference trajectory transmitted by the Commission on 21 June 2024 (5.2%). The plan assumes potential real GDP growth to decrease gradually from 2.7% in 2024 to 2.0% in 2031. In addition, the plan expects the growth rate of the GDP deflator to decrease from 7.2% in 2024 to 5.0% in 2025 and to gradually slow further to 4.4% in 2031.

Table 2: Net expenditure path and main assumptions in Romania's plan

						Extension of the adjustment period				
	2024	2025	2026	2027	2028	2029	2030	2031	Average over the period of validity of the plan 2025-2028	Average over the adjustment period 2025-2031
Net expenditure growth (annual, %)	14.3	5.1	4.9	4.7	4.3	4.2	3.9	3.8	4.8	4.4
Net expenditure growth (cumulative, from base year 2023, %)	14.3	20.2	26.0	31.9	37.6	43.3	49.0	54.7	n.a.	n.a.
Potential GDP growth (%)	2.7	2.7	2.5	2.4	2.2	2.1	2.0	2.0	2.4	2.3
Inflation (GDP deflator growth) (%)	7.2	5.0	4.9	4.8	4.7	4.6	4.5	4.4	4.8	4.7

Source: Medium-term fiscal-structural plan of Romania and Commission calculations.

Implications of the plan's net expenditure commitments for general government debt

(19) If the net expenditure path committed to in the plan and the underlying assumptions materialise, general government debt would, according to the plan, increase from 52.2% of GDP in 2024 to 62.6% of GDP in 2029, before declining to 61.4% of GDP in 2031, as per the following table. It is then projected to continuously decline to levels well below 60% of GDP during the 10 years following the end of the period covered by the plan.

Table 3: General government debt and balance developments in Romania's plan

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2041
Government debt (% of GDP)	48.8	52.2	55.7	58.5	60.6	62.0	62.6	62.4	61.4	47.9
Government balance (% of GDP)	-6.5	-7.9	-7.0	-6.4	-5.7	-5.0	-4.2	-3.4	-2.5	-1.6

Source: Medium-term fiscal-structural plan of Romania.

Thus, according to the plan, the general government debt ratio would be brought below the Treaty reference value of 60% of GDP over the medium term. This is

plausible, as, based on the plan's assumptions, debt would be projected to stand below 60% of GDP by 2041 under all deterministic stress tests of the Commission's Debt Sustainability Analysis. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for debt as set out in Articles 6(a) and 16(2) of Regulation (EU) 2024/1263.

Implications of the plan's net expenditure commitments for the general government balance

(20) Based on the plan's net expenditure path and assumptions, the general government deficit would decline from 7.9% of GDP in 2024 to 2.5% of GDP in 2031, the first year when it would be below 3% of GDP. Thus, according to the plan, the general government balance would not exceed the 3% of GDP reference value at the end of the adjustment period (2031). In addition, in the ten years following the adjustment period (i.e. until 2041), the government deficit would not exceed 3% of GDP. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for the deficit as set out in Articles 6(b) and 16(2) of Regulation (EU) 2024/1263.

Time profile of the fiscal adjustment

(21) The time profile of the fiscal adjustment, measured as the change in the structural primary balance, as described in the plan, is linear, as required by Article 6, point (c) of Regulation (EU) 2024/1263. As a result, the fiscal adjustment over the first four years of the plan is proportional to the total adjustment effort. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the no-backloading safeguard clause set out in Article 6, point (c), and the transitional provision in Article 36(1), point (e), of Regulation (EU) 2024/1263.

Table 4: Structural primary balance developments in Romania's plan

	2023	2024	2025	2026	2027	2028	2029	2030	2031
Structural primary balance (% of GDP)	-4.1	-5.3	-4.3	-3.3	-2.3	-1.3	-0.3	0.7	1.7
Change in structural primary balance (pps.)	n.a.	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Source: Medium-term fiscal-structural plan of Romania.

Consistency of the plan with the excessive deficit procedure

(22) The net expenditure path set out in the plan is in line with the requirements under the excessive deficit procedure (in particular with the minimum annual structural

adjustment established in Article 3(4), third subparagraph of Council Regulation (EC) 1467/97).

Consistency of the plan with the deficit resilience safeguard

(23) The requirement of the preventive arm set out in Article 8 of Regulation (EU) 2024/1263 regarding the deficit resilience safeguard, which aims to provide a common margin relative to the deficit reference value of 3% of GDP, does not apply to Romania, as the deficit is planned to be brought below 3% of GDP only in the last year of the adjustment period.

Consistency of the plan with the debt sustainability safeguard

(24) According to the plan, government debt will be between 60% and 90% of GDP between 2027 and 2031. However, as according to the plan the government deficit would go below 3% of GDP in 2031, which would result in an abrogation of the decision establishing the existence of an excessive deficit in the year after the end of the adjustment period, the debt sustainability safeguard does not apply during the period covered by the plan.

Macroeconomic assumptions of the plan

(25) The plan is based on a set of assumptions which differs from the Commission's assumptions transmitted to Romania on 21 June. In particular, the plan uses different assumptions for five variables, namely the starting point (structural primary balance in 2024), potential and real GDP growth, GDP deflator growth and it takes into account the assumed depreciation of the national currency. An assessment of these differences in assumptions is provided below. The differences in assumptions with the most significant impact on average net expenditure growth are listed below, together with an assessment of each difference considered in isolation.

- The plan assumes a worse initial position compared to the Commission's assumption. The structural primary balance was -4.4% of GDP in the prior guidance transmitted to Romania in June 2024 and is -5.3% of GDP in the plan. The lower structural primary balance in the plan reflects higher government spending in the first three quarters of the year, driven by fast increases in public wages, capital expenditure and social transfers. The 2024 primary balance projection in the plan is very close to that of the Commission autumn forecast and is realistic. Consequently, this assumption is deemed to be duly justified. It contributes to a lower average net expenditure growth over the adjustment period in the plan than according to the Commission's assumptions.
- The plan assumes potential GDP growth to be lower in 2024 and higher in 2026-2028 compared to the prior guidance of June 2024. Overall, the series are similarly stable as the ones in the prior guidance. This contributes to higher average net expenditure growth over the adjustment period in the plan than according to the Commission's assumptions. The possibility to use alternative potential growth assumptions is in line with Article 36(1)(f) of Regulation (EU) 2024/1263, provided that cumulative growth over the projection horizon (i.e. up to 2041) is broadly in line with the Commission's assumptions, which

is the case in the plan. Consequently, this assumption is deemed to be duly justified.

- The plan assumes a lower GDP deflator growth for 2025 compared to the prior guidance of Spring 2024, which results in lower growth rates of the GDP deflator throughout the adjustment period using the medium-term linear convergence rule starting from that lower level. This contributes to lower average net expenditure growth over the adjustment period in the plan than according to the Commission's assumptions. This assumption is cautious and therefore duly justified.
- The Plan takes adequately into account its assumption of a depreciating RON exchange rate vis-à-vis the EUR in the debt trajectory. This assumption is deemed to be duly justified and contributes to a lower average net expenditure growth over the adjustment period in the plan than according to the Commission's assumptions.

The remaining difference in assumptions does not have a significant impact on average net expenditure growth compared to the Commission's assumptions. Overall, all the differences in assumptions taken together lead to an average net expenditure growth in the plan that is lower than the reference trajectory. The Commission will take into account the above assessment of the plan's assumptions in future assessments of compliance with this recommendation.

Fiscal strategy in the plan

(26) According to the indicative fiscal strategy in the plan, the commitments on net expenditure will be delivered mainly through expenditure restraint. The ratio of government primary expenditure to GDP is projected to decline from 40.6% in 2024 to 34.6% in 2031, i.e., 6 pps. over 7 years. All expenditure categories are projected to decline as a share of GDP. This commitment is supported to some extent by the expenditure reforms presented in the plan (spending reviews, pension reforms, reform of state-owned enterprises governance) but rigorous implementation, and additional measures relative to those included in the plan, will be necessary to achieve the targets. The specification of the policy measures is to be confirmed or adjusted and quantified in the annual budgets.

(27) At the same time, there are risks to the implementation of the indicative fiscal strategy in the plan. Most of these commitments will have to be implemented by a new government. Moreover, on 20 November 2024, the Minister of Labor and Social Solidarity announced an increase of 12.1% in the reference point value for pensions. This announcement implies a much larger (about 1% of GDP) increase in pensions than seems to be assumed in the plan, i.e. a nominal freeze in pensions in 2025.

Set of reform and investment commitments in the plan to underpin an extension of the fiscal adjustment period

(28) In the plan, Romania commits to a set of reforms and investments aiming to improve potential growth and fiscal sustainability, to underpin an extension of the fiscal adjustment period from 4 to 7 years. The set of reforms and investments underpinning an extension of the adjustment period is composed of several commitments from the recovery and resilience plan (RRP); some commitments from

the RRP with additional specifications; as well as some new reforms. This includes the following measures (see also Annex II):

- Pension reform and reform of special pensions. These two reforms are existing RRP measures and correspond to milestones 213, 214, and 215 on the reform of the public pension system of Romania's RRP that have already been adopted. Full implementation of these reforms would significantly contribute to fiscal sustainability, but most of the impact will materialise over the long run. The reform of special pensions foresees a gradual alignment of replacement ratios of special pensioners with that prevailing in the general system. The pension reform involves a complete overhaul of the system, with recalculation of all pensions in a way that better reflects the contributory principle. The reform also includes provisions that encourage longer working lives: it provides bonus points for long contribution periods and links the statutory retirement age with developments in life expectancy. The fiscal impact of these reforms has been quantified by the World Bank.
- Minimum wage reform. This reform commitment is additional to milestone 392 of the RRP ensuring minimum wage setting and introduces a new system for setting the gross minimum wage, based on the projected inflation and productivity growth rates by an independent institution, while ensuring that the minimum wage remains within a certain range relative to the average wage. The reform aims to improve predictability of minimum wage updates, supporting the avoidance of ad hoc increases with potential negative impact on cost competitiveness. The reform will be implemented in 2025 and is expected to generate extra revenue worth 0.1% of GDP.
- Reform of the public sector remuneration system. The reform commitment is additional to milestone 420 of Romania's RRP on developing a fair unitary pay system in the public sector. The objective of the reform is to ensure a fair and fiscally sustainable wage policy by revising ranking coefficients for each occupational family, salary scales for local government officials, and capping bonuses at 20% of the basic salary. The plan stresses the need for the reform to be compatible with fiscal sustainability, to be implemented while respecting the envelope for total public sector compensation included in the plan, and the provisions of the fiscal responsibility law. The reform will only be implemented when the government deficit has been reduced to below 5.0% of GDP.
- Reform of the taxation of micro-enterprises. The plan refers to milestone 206 of the Romanian RRP on the review of the tax framework. It summarises the measures already taken, which are under review in the context of the third payment request. The main objective of the reform is to reduce the scope of the micro-enterprises regime by tightening the eligibility conditions, while keeping the system as simple as possible. Some measures have already been taken in 2022 and 2023, and the plan says the remaining steps will be phased in starting from 2025. The plan estimates this reform will generate 0.1% of GDP extra revenue for the government. Additional revenue could be generated if the reform consisted in a decisive reduction of the eligibility threshold to the micro-enterprises tax regime, and alignment with the VAT threshold. This would keep the system simple and make its administration easier.

- Tax reform. This is an existing RRP measure and concerns milestones 205, 207, 208 on the review of the tax framework, as well as milestone 237 on developing an automatic property valuation model. The description of the main objectives of the reform is in line with that of the RRP (greater fairness, simplicity and predictability of the tax system, better incentives). The reform targets an increase in government revenue of 1.1% of GDP in 2025, net of the impact of the increase in the tax-free portion of pensions (which is equivalent to a tax cut worth 0.2% of GDP). To achieve this target, new measures will need to be implemented by the end of Q1 2025, resulting in a full-year increase in government revenue by 1.7% of GDP. These measures are not yet specified but the plan outlines a process leading to implementation of the reform and mentions that all areas of taxation can be subject for reform.
- Reform of the tax administration. This reform builds on commitments in milestones 225 and 226 on improving tax and tax administration processes. The main objective of the reform is to increase the efficiency and administrative capacity of ANAF, the tax administration agency, by leveraging digital tools and implementing stricter monitoring mechanisms. It includes several measures, in particular: introduction of a VAT fraud early detection mechanism; introduction of analytical tools to address the VAT gap; greater digital compliance monitoring; introduction of tax planning control mechanism for large and medium-sized taxpayers; integrating and consolidating internal databases; and amending the insolvency legislation to ensure greater control over the situations of companies that declare themselves insolvent. The impact of this reform is estimated in the plan at 0.5% of GDP over the 7-year period, which seems plausible.
- Reform of the public expenditure system. This reform is additional to commitments in milestone 202 on improving the budgetary programming mechanism, milestone 234 on improving the budgetary programming mechanism, and milestone 392 on ensuring minimum wage setting, as well as target 403 on enhancing the predictability and efficiency of decision-making processes in government. The reform aims to increase efficiency, transparency, and fiscal responsibility in the use of public funds. It includes measures to control unjustified cost overruns, implement systematic expenditure assessments (spending reviews) and expand centralised procurement. The RRP and the plan, taken together, include several measures to align spending reviews with international best practice: improve government ownership and political commitment to the process, hire competent staff to conduct the reviews, include quantified savings targets, improve the governance structure, and better integrate reviews with the budget process. According to the plan, this reform is estimated to generate permanent savings amounting to 0.35% of GDP, which seems plausible.
- Reform of the financing system for businesses. This is a new measure beyond those in the Romanian RRP and it aims to support the business environment, in particular the manufacturing industry and SMEs, and to creating private equity financing mechanisms “that are oriented towards economic performance”. The reform foresees, in particular, the establishment of an Investment Fund for the support of the private equity business for SMEs, a new legal framework to support strategic investments in the economy for the manufacturing industry, and a new legal framework for granting special purpose grants for the

manufacturing industry. The impact of the reform is not quantified, but it can be expected to contribute positively, albeit marginally, to potential growth.

- Reform of the expenditure system of state/local economic operators (state-owned enterprises, SOEs). This reform is a new measure beyond those outlined in the RRP. The goal of this reform is to generate savings across SOEs, through efficiency gains and greater responsibility in spending decisions. This reform includes several measures, such as the introduction of spending rules and new practices to better manage capital spending, going in the right direction. Potential additional revenues are estimated in the plan at 0.25% of GDP for the entire period of the plan, which according to the Commission seems ambitious.

(29) In line with Article 14 (3) of Regulation (EU) 2024/1263, each reform and investment underpinning an extension of the adjustment period is sufficiently detailed, front-loaded, time-bound and verifiable.

(30) The RRP commitments underpinning the extension contain significant reforms and investments aimed at improving fiscal sustainability and enhancing the growth potential of the economy. In addition, Romania commits to continuing the reform effort over the period covered by the medium-term fiscal-structural plan and maintaining the nationally financed investment levels realised over the period covered by the RRP (see below, Table 5). The commitment will be monitored throughout the implementation phase of the plan. Accordingly, commitments under the RRP can be taken into account for the extension of the adjustment period as provided by Article 36 (1), point (d) of Regulation (EU) 2024/1263.

(31) The set of reforms and investments underpinning the extension is expected to improve the growth and resilience potential of Romania's economy in a sustainable manner as required by Article 14(2), point (a) of Regulation (EU) 2024/1263. The plan does not provide quantified estimates of the impact of reforms and investments on potential growth. However, pension reforms (general system and special pensions) should over time contribute to a larger labour force relative to the non-reform scenario and therefore increase potential GDP. Moreover, the plan foresees a large increase in public investment, especially in the early years of the period covered by the plan, from 5.4% of GDP in 2023 to 7.1% in 2025 and 7.3% in 2026. These investments, in all areas including key infrastructure, will help increasing the growth potential and resilience of the economy. Spending reviews should also help reallocation of resources within the budget towards growth enhancing priorities.

(32) The set of reforms and investments underpinning the extension is expected to support fiscal sustainability as required by Article 14(2), point (b) of Regulation (EU) 2024/1263. Reforms related to the revenue side of the budget will generate significant additional revenue for the government. The cumulative effect of the tax reform, the reform of tax administration, and the reform of the tax regime for microenterprises should, when fully implemented, yield additional revenue of the order of 2.0% to 2.5% of GDP. On the expenditure side, reforms aimed at strengthening spending reviews and the management of state/local economic operators (SOEs) are expected to generate savings worth 0.5% to 1.0% of GDP, even if some of the estimates in the plan seem on the high side. Also, the unitary pay law for public sector employees should, if implemented within the envelope foreseen in the plan, allow for a meaningful reduction of the public wage bill as a share of GDP by 1.5% of GDP between 2024 and 2031 according to the plan. Finally, the pension

reforms (general system and special pensions) will already generate savings by the end of the 7-year period covered by the plan, but the bulk of the savings will materialise over the longer term.

(33) The set of reforms and investments underpinning the extension contributes to the common priorities of the EU as required by Article 14(2), point (c) of Regulation (EU) 2024/1263. Most of the reforms underpinning the extension request contribute to social and economic resilience, by ensuring fiscal stability, improving the efficiency of the public sector and promoting sustainable economic growth. Commitments in the area of improving tax administration and implementing thorough spending reviews should over time allow to reallocate resources towards priorities favouring economic performance and social improvements. The reform of the minimum wage setting mechanism should secure an appropriate level for the minimum wage that respects social and economic priorities. Pension reforms (general system and special pensions) will secure the sustainability of the system and increase equity and fairness in the level of pensions. Finally, improvements in the digitalisation of the tax administration should contribute to the digital transition. The other common priorities of the EU, namely ensuring energy security and the build-up of defence capabilities, are not directly addressed by the set of reforms and investments underpinning an extension, though the former is addressed in Romania's RRP.

(34) The set of reforms and investments underpinning the extension addresses some of the relevant[12] CSRs issued as part of the European Semester as required by Article 14(2), point (d) of Regulation (EU) 2024/1263. In particular, reforms are expected to contribute to the CSR issued in 2023 on addressing the fiscal recommendation requesting Romania to correct its excessive deficit and addressing excessive imbalances. In the macroeconomic scenario underpinning the plan, the current account deficit is projected to narrow from 7.7% of GDP in 2024 to 4.1% of GDP in 2031. Most of the impact comes from the reduction in the government deficit, supported by the reforms underpinning the request for an extended adjustment path. Slower growth in government spending and prudent income policies (moderate increases in pensions and public wages, minimum wage reform) are expected to support competitiveness.

(35) The minimum wage reform and the pension reform are expected to help address CSR recommendations from 2019 on the need to ensure minimum wage setting based on objective criteria, consistent with job creation and competitiveness. Reforms on restructuring of the public expenditure system (spending reviews) and the reform of the public sector wage system are expected to help address CSR recommendations from 2019 and 2020 on the need to improve the efficiency of public procurement and the quality and effectiveness of public administration. Moreover, the pension reform and the reform of special pensions will help address the CSR issued in 2019 on ensuring the sustainability of the public pension system and the long-term viability of the second pillar pension funds, while the tax reform and the reform of the tax administration will contribute to addressing CSRs from 2019, and 2020 on ensuring

[12] CSRs considered 'relevant' are recommendations: i) adopted by the Council from 2019 onwards, ii) for which the Member State has not yet made 'full' or 'substantial' progress in addressing them and are not outdated (assessed as 'Not Assessed / No Input to Add '), as assessed in the latest European Semester surveillance exercise (available in CeSaR (europa.eu)), iii) not linked to purely fiscal SGP-related and iv) not covering the same challenge but in a rephrased manner.

fiscal sustainability and strengthening tax compliance and collection. Most measures underpinning the extension of the adjustment period should also help address CSR recommendations from 2022 and 2023 on pursuing fiscal policies with a view to bringing an end to the situation of an excessive government deficit.

(36) The plan ensures that the planned overall level of nationally financed public investment realised on average over the period covered by the RRP is maintained, as required by Article 14(4) of Regulation (EU) 2024/1263.

Table 5: Nationally financed public investment in the plan (% of GDP)

Average level over period covered by the RRP (2021 to 2026)	2025	2026	2027	2028	2029	2030	2031	Average over the duration of the plan (2025-2028)
4.1	5.3	5.6	4.8	4.3	4.1	3.6	3.2	5.0

Source: Medium-term fiscal-structural plan of Romania

(37) Finally, the set of reform and investment commitments underpinning an extension can be regarded as consistent with the commitments in the RRP and the Partnership Agreement agreed under the Multiannual Financial Framework as required by Article 14(2), point (d) of Regulation (EU) 2024/1263. Namely, in accordance with the requirements of Regulation (EU) 2024/1263, each commitment is expected to operate in continuity and complementarity with the RRP or the Partnership Agreement of Romania's European cohesion policy, and to respond to the CSRs, and to one or more common EU priorities.

(38) In conclusion, the set of reforms and investments underpinning the extension of the adjustment period is assessed as fulfilling, taken altogether, the criteria in Article 14 of Regulation (EU) 2024/1263. As a result, the adjustment period can be extended from 4 to 7 years, as put forward in the plan.

Other reform and investment intentions in the plan responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the Union

(39) Besides the set of reforms and investments underpinning an extension of the adjustment period, the plan describes policy intentions concerning other investments to respond to some of the challenges identified in the context of the European Semester, especially the CSRs, including those pertaining to the MIP, and to address the common priorities of the EU.

(40) Concerning the common priority of a fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119, the plan includes reforms and investment to support the decarbonisation of large industries (steel and chemicals), through electrification of production processes and switching to the use of renewable hydrogen or renewable hydrogen fuels. The total budget of the scheme is EUR 1 bn, with payments to be made in the period 2025-2031. The financing of this scheme is to be achieved through the sale of greenhouse gas emission allowances

(CO2 allowances). The plan also includes an investment programme for the rehabilitation of main irrigation infrastructure (EUR 2.3 bn) and drainage infrastructure (EUR 34 mn). These measures will help addressing CSRs issued in 2022 and 2023 related to the need to reduce reliance on fossil fuels and accelerate the energy transition, by deploying renewable energy faster and improving grid capacity to allow new capacity to operate in the market. Aspects related to the fairness of the green and digital transition are not described in the plan.

(41) Concerning the common priority of social and economic resilience, including the European Pillar of Social Rights, the plan includes a new State Support scheme for investments to support regional development, through large scale investment projects targeting high-end sectors and supporting the diversification of economic activities in the least favoured regions. The total allocated budget is EUR 450 mn. The plan also includes a State aid scheme for strategic investments, with grants, tax breaks and administrative simplification measures (shortening of deadlines for permits, direct award of land for the implementation of investments in the public or private domain owned by the state/local public authorities, provision of transport infrastructure and utilities necessary for the investments). The total budget of the scheme is EUR 1 bn, with payments to be made in the period 2025-2031. The sectors that will be able to benefit from this scheme are: the food industry, the chemical industry, the pharmaceutical industry, the metallurgical industry, the defence industry, the metal construction industry, construction of machinery and installations, manufacture of machinery and equipment, and electrical equipment. These measures will help address the CSR on the provision of liquidity support to the economy for businesses issued in 2020.

(42) However, the plan does not address other important CSRs in the area of social and economic resilience, including CSR recommendations from 2019 and 2020 on increasing the coverage and quality of social services, extending social protection measures,, completing the minimum inclusion income reform, improving access to and cost-efficiency of healthcare (including the shift to outpatient care), strengthening the resilience of the health system (including in the areas of health workers and medical products), and improving access to health services. CSR recommendations issued in 2019 and 2020 on the need to improve the functioning of social dialogue and the predictability of decision-making, including through an adequate involvement of social partners, are not fully addressed, even if the minimum wage reform goes in the right direction. The CSR recommendations from 2019 and 2020 on improving the quality and inclusiveness of education (in particular for Roma and other disadvantaged groups), on improving skills, including digital (by increasing the labour market relevance of vocational education and training and higher education), on strengthening skills and digital learning, and on ensuring equal access to education are not addressed. Additionally, the 2023 CSR on stepping up policy efforts aimed at the provision and acquisition of the skills needed for the green transition is not addressed. Overall, the investments listed in the Plan do not sufficiently address CSRs in the employment, skills and social domain.

(43) Concerning the common priority of energy security, the plan mentions Romania's participation in trans-national energy transport infrastructure initiatives aimed at increasing Europe's energy security, including the Southern Corridor, the BRUA Corridor (Bulgaria-Romania-Hungary-Austria) and the Trans-Balkan Corridor.

(44) Concerning the common priority of defence capabilities, the plan refers to new initiatives to regulate the general legal framework for granting facilities to

investments with a significant impact in the field of manufacturing. One of these facilities is a state aid scheme aiming at covering, inter alia, the defence industry.

(45) The plan provides some information on the consistency and, where appropriate, complementarity, with the cohesion policy funds and Romania's RRP. cohesion policy funds and their benefits for Romania, and stresses the complementarity between national and European funds, especially regarding major infrastructure and rural development projects, and that the success of the use of European funds depends on the efficient management of European funds and funds allocated through Romania's consolidated general budget.

(46) The plan provides an overview of the public investment needs of Romania related to the common priorities of the EU. Concerning a fair, green and digital transition, the plan refers to the aid scheme for the decarbonisation of industrial production processes by electrification of production processes and switching to the use of renewable hydrogen or renewable hydrogen fuels. In relation to social and economic resilience, including the European Pillar of Social Rights, the plan reports in particular the need to implement an investment programme for the rehabilitation of the main irrigation infrastructure, the state aid scheme to support investment projects in the manufacturing sector, and investments to ensure the regional development including large scale investment projects. On the build-up of defence capabilities, the plan reports the need to fully implementation the state aid scheme for strategic investments, with grants, tax breaks and other forms of support, which will support the defence sector, among others.

Conclusion of the Commission's assessment

(47) Overall, the Commission is of the view that Romania's plan fulfils the requirements of Regulation (EU) 2024/1263.

OVERALL CONCLUSION

(48) In accordance with Article 17 of Regulation (EU) 2024/1263, the net expenditure path as set in the plan should be recommended by the Council to Romania and the set of reforms and investments underpinning the extension of the adjustment period to 7 years should be endorsed.

HEREBY RECOMMENDS that Romania

1. Ensure that net expenditure growth does not exceed the maxima established in Annex I to this Recommendation.
2. Implement the set of reforms and investments that underpins the extension of the fiscal adjustment period to 7 years, as established in Annex II to this Recommendation, by the indicated deadlines.

In addition, the Council invites Romania to ensure the delivery of other reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations, and addressing the common priorities of the Union.

ANNEX I

Maximum nominal growth rates of net expenditure
(annual and cumulative growth rates, in nominal terms)
Romania

Years		2025	2026	2027	2028
Growth rates (%)	Annual	5.1	4.9	4.7	4.3
	Cumulative (*)	20.2	26.0	31.9	37.6

(*) The cumulative growth rates are calculated by reference to the base year 2023.

ANNEX II

Set of reforms and investments that underpins an extension of the adjustment period to 7 years for Romania

	Main objectives	Description and timing of key steps[13]	Monitoring indicator(s)
Pension Reform (Existing RRP measure: C8.R6.0.M214)	The key objective of the reform is to ensure the sustainability of the general pension system. The reform includes the following elements: new calculation formula for pensions, new pension indexation rule and a mechanism to prevent ad-hoc increases in pensions, reduced early retirement opportunities, incentives to extend working life, automatic increase in the standard retirement age in line with life expectancy, alignment of the legal retirement age for men and women at 65 years by 2035.	The normative act reforming the general pension system entered into force on 1st September 2024.	Relevant RRP milestone C8.R6.0.M214 satisfactorily fulfilled Implement the law in accordance with the Plan.
Special Pension Reform (Existing RRP measure: C8.R6.0.M215)	The new legislative framework revises special pensions to better align them with the contributory principle. No new categories of special pensions are created, and the existing categories are streamlined. Special pensions are calculated based on the contributory principle, length of service, and adjustment of the percentage linked to earnings. The minimum contribution period is similar to that applied in the general pension system. No special pension is allowed to exceed the income earned during the contribution period.	The normative act revising special pensions to align them with the contributory principle entered into force on 1st January 2024.	Relevant RRP milestone C8.R6.0.M215 satisfactorily fulfilled
Minimum Wage Reform [Adding to RRP milestone C13.R5.0.M392]	Establishing a minimum wage setting mechanism based on objective criteria that supports job creation and national competitiveness, involving the adjustment of the gross minimum wage in line with the forecasted inflation rate and productivity growth rate. If the new ratio between the adjusted gross minimum wage and the forecasted average gross wage for the following year is below 45%, the gross minimum wage may also be additionally adjusted by 0% - 50% of the forecasted productivity growth rate, but the ratio should never exceed 50%.	**By Q1-2025:** Entry into force of the act regulating the new minimum wage setting system.	Entry into force of the normative act
Public Sector Wage Reform [Adding to RRP milestone C14.R4.0.M420]	Ensure a fair and sustainable wage policy by revising the hierarchy coefficients for each occupational family of the public sector, reintroducing salary grids for local administration officials, revising the allowance system and capping the monetary amount of allowances at 20% of the basic salary. Ensuring the fiscal sustainability of the remuneration system of public sector officials. To this end, the reform will come into effect only after the budget deficit, in ESA terms, falls below 5% of GDP (including if that implies amending the timing of this reform under the RRP). The new	**When the government deficit is below 5% of GDP:** **Step 1:** Adoption and entry into force of the new legal framework for the remuneration of public officials, ensuring the public wage bill remains, as a share of GDP, in line or below that included in the projections of the medium-term fiscal plan. **Step 2:** Rigorous adherence to the projections of the MTFSP regarding the public wage bill as a share of GDP, for all the years covered by	Entry-into-force of the new legislative framework, after the government deficit has been reduced to below 5% of GDP. Reduction in the public wage bill, as a share of GDP, by 1.5 pps between 2024 and

[13] The timing of RRP measures is indicative and corresponds to commitments in the relevant Council Implementing Decision.

	system will be implemented fully respecting provisions of the Fiscal-Budgetary Responsibility Law. The reform will ensure the public wage bill will remain contained within the envelope in the medium-term structural budget plan.	the plan.	2031, in line with the projections of the medium-term fiscal plan.
Microenterprise Tax Reform [Adding to RRP milestone and target C8.R4.0.M206]	Gradual reduction of the scope of the tax regime for micro-enterprises. Ensure full compliance with the objectives of milestone 206 of the RRP, including by reviewing the eligibility threshold to the regime (and possibly aligning it with the VAT threshold over the medium term), and updating the tax rate for micro-enterprises. Relative to the system currently in place, the reform generates additional revenue of at least 0.1% of GDP in 2025 and beyond.	**By Q1-2025:** Preparation and entry into force by the end of Q1-2025 of a law amending the taxation regime of microenterprises, to bring it in line with milestone 206 of the RRP.	Entry into force of a normative act amending the eligibility conditions to the tax regime for microenterprises, to bring it in line with milestone 206 of the RRP and generating 0.1% of GDP in additional revenue.
Review of the Tax Framework [Adding to RRP milestones and targets C8.R4.0.M207, C8.R4.0.M208, C8.I7.0.M237]	Implementing a tax reform that contributes to fiscal consolidation and promotes better economic incentives. The budgetary impact of the reform in 2025 should be at least 1.1% of GDP, net of the impact of raising the non-taxable threshold for pension income (0.2% of GDP). The new measures therefore have a total impact of 1.3% of GDP in 2025. Since measures will be implemented by the end of Q1-2025, the full-year permanent impact of the new measures should be 1.7% of GDP. Operationalising the information system for assessing properties subject to property taxes, with the following characteristics: • Interoperability of databases containing information about properties held by various institutions. • Operationalisation of a dedicated department within the Ministry of Finance. • Creation of a Property Sales Price Registry for residential properties, development of a mass valuation model for residential properties. • Establishment of a mechanism for determining the taxable value of real estate using market value assessment mechanisms.	**By Q1-2025:** **Step 1:** Preparation of a Report, building on the World Bank report on taxation (prepared under RRP milestone 205) establishing two scenarios for the tax reform, with fully specified measures. Measures should cover all areas of taxation and social contributions. **Step 2:** Government adoption of a memorandum including specific tax measures based on the above-mentioned report. Measures should be in line with milestones 207, 208, and 237 of the RRP, and objective 1 of the tax reform. **Step 3:** Government organises a public debate on the amendments to the Fiscal Code. **Step 4:** Implementation and entry into force of the measures on 1 April 2025 at the latest. **By Q4-2025:** **Step 5:** As referenced in milestone 237 of the RRP, developing an IT system to implement the automated property assessment model for real estate taxation, supporting the new market value-based approach, and operationalising a specialized department with responsibilities in the field of property taxation.	Step 1: Report by the authorities Step 2: Adoption of a memorandum by the government, in line with the main objectives of the reform, Step 3: Public debate with the private sector. Step 4: Entry into force of the measures in line with Objective 1 of the reform. Step 5: Report by the authorities.
Tax Administration Reform [Adding to RRP milestones and targets C8.I2.0.M225 C8.I2.0.M226	The main objective is to improve tax administration and generate additional government revenue amounting to at least 0.5% of GDP in 2026. In particular, the reform aims to: Enhance ANAF's Anti-Fraud Unit with a real-time monitoring tool for detecting high-	**By Q1-2025 (Q4-2026 for APIC):** **Step 1:** Implementation of an early detection mechanism for VAT fraud associated with intra-community purchases, transits, and domestic transactions.	Steps 1-7: Reports by the authorities.

C8.I2.0 M226a C8.I3.0 M227]	risk taxable purchases related to intra-community, transit, and domestic transactions. Implement analytical tools and a dedicated anti-fraud module to address and analyse the VAT gap. Increase capacity to detect irregularities within systems such as e-Invoice, SAF-T, e-AMEF, e-DU, e-VAT, DAC-7, and CESOP. Expand the "Predictive Analysis" program to cover a broader range of taxpayers, enhancing tax inspection efficiency for VAT and corporate income tax. Establish a taxpayer risk-ranking system and develop an IT tool to manage and analyse large volumes of data for determining taxpayer risk categories. Modernise and ensure interoperability of taxpayer administration systems with those of other state institutions to improve tax information management and real-time asset and transaction access. Redesign the information system to reduce delays in audits and tax inspections. Amend insolvency legislation to gain better control over companies declaring insolvency and reduce the VAT gap. Implement an automatic payment mechanism to increase voluntary compliance and introduce flexible mechanisms for the sale of movable goods through retail centres. Establish a specialised department to conduct risk analyses using models, operationalize anti-fraud modules, quantify the VAT gap, and strengthen ANAF's anti-evasion capacity.	**By Q2-2025:** **Step 2:** Implementation of anti-fraud modules for analysing and identifying transactions suspected of carousel fraud (CARUSEL, INDFISC, TRANSPRISC, COMRISC, and RORISC). **By Q2-2025:** **Step 3:** Completion of 7 digitalisation projects, including e-Invoice, SAF-T, e-AMEF, e-DU, e-VAT, DAC-7, and CESOP. **By Q1-2025:** **Step 4:** Strengthen oversight of the tax planning mechanism for large taxpayers and the extension of this mechanism to medium-sized taxpayers after the implementation of APIC. **By Q4-2025:** **Step 5:** Integrating and consolidating internal databases; developing a new system based on the 360-degree profiling concept of taxpayers; ensuring interoperability with the information systems of state institutions. **By Q4-2026:** **Step 6:** Implementation of a modern collection mechanism that provides taxpayers with the option to choose recurring payment of declared tax liabilities. **By Q4-2025:** **Step 7:** Establishment and operationalisation of a specialised structure comprised of experts in IT, econometrics, and financial analysis to quantification risks and tax gaps.	The revenue to GDP ratio should increase by at least 0.5% of GDP in 2026 relative to 2024, net of the impact of new measures influencing tax bases and tax rates taken in 2025 and 2026. This will be assessed in April 2027 based on national accounts.
Restructuring the Public Spending System / Spending reviews [Adding to RRP milestones C8.R3.M202, C8.I5.0.M234, C13.R5.0.M392, and C14.R1.0.T403]	Create a database on average costs of purchases and establish a control mechanism to monitor and address unjustified expenditure increases. This database also serves to centralise procurement of specific goods and services, reducing costs and introducing spending norms for public institutions. Conduct public expenditure reviews annually, setting mandatory savings targets and identifying measures to achieve them, in line with the spending reviews strategy timeline. Enhance the efficiency of public spending on standardised goods and services within the	**By Q4-2025:** **Step 1:** Create a database and establish a control mechanism for increases exceeding 20% compared to the average costs of public institutions. **Every year covered by the plan (2025-2031):** **Step 2:** Conduct yearly thematic expenditure reviews and apply conclusions and recommendations in the budget planning process, in line with the established annual	Step 1: Report by the authorities Step 2: Publication of two spending reviews per year on specific sectors or activities. Reviews include mandatory savings targets.

	central public administration. In the healthcare system, implement centralised procurement of medical devices and consumables for the emergency system. Update and modernise the IT system used to develop and manage the national budget to achieve better management of budgetary data, increased budgetary transparency, improved monitoring and reporting. Additionally, increase the number of specialised staff involved in spending reviews. Review the legal framework to strengthen responsibilities of the Ministry of Finance and central and local public authorities to monitor the implementation of spending reviews.	schedule. **<u>Gradually, from Q4-2024 to Q2-2030:</u>** **Step 3:** Expand the categories of goods and services that will be procured centrally, focusing on priority sectors with high expenditure levels. Increase the share of procurement procedures awarded by ONAC, relative to all procurement procedures awarded by all contracting authorities in Romania, by an average of 0.25% per year over the next seven years. **<u>By Q4-2025:</u>** **Step 4:** Operationalise the specialised structure within the Ministry of Finance to monitor public expenditure systems using performance indicators and participate in specialised training courses organised with the support of the World Bank. **<u>By Q4-2025:</u>** **Step 5:** Establish a legal framework for implementing performance indicators at the level of central and local public authorities.	Step 3: Report by the authorities, demonstrating the increase the share of procurement procedures awarded by ONAC. Step 4: Report by the authorities Step 5: Entry into force of the normative act by Q4-2025.
Business Financing Reform (new measure)	Strengthen the administrative capacity of the Ministry of Investments and European Projects to allocate funds to support SMEs in the form of private equity, to foster long-term economic development, attract investors, and create jobs.	**<u>By Q2-2026:</u>** Reform of the Institutional Framework for Allocating Funds to Support the Business Environment - Private Equity Investment Fund for SME Support.	Entry into force of the law operationalising the fund, along with specific legislation on grants, tax credits, and investment credits for the manufacturing industry.
Reform of the Expenditure System for state-owned enterprises (new measure)	Conducting diagnostic analyses of economic operators aimed at: • Reducing losses and overdue payments. • Updating fees charged for services performed and reducing operational expenses, leading to a decrease in subsidies/transfers from the state budget, an increase in net profits, and an increase in state budget revenues. • Identify non-productive/non-functional assets, proposing measures for their use and/or disposal. • Introducing expenditure rules, especially for categories of expenses not directly related to the production process or service delivery. The reform should fully respect the principle of independence of state-owned enterprises and with the requirement for them to pursue profitability.	**<u>By Q3-2025:</u>** **Step 1:** Conducting a diagnostic analysis of the operational expenditure system, the revenue system, and the mechanisms for updating fees, as well as the subsidy system for economic operators. **<u>By Q4-2025:</u>** **Step 2:** Establishing the regulatory framework to enhance the operational expenditure system, improve the management of public assets, introduce expenditure rules, and reduce dependence on the general government budget by Q4 2025.	Step 1: Report by the authorities. Step 2: Entry into force of the regulatory framework. The reform should result in lower transfers from central and local governments to SoEs amounting to 0.25% of GDP for the entire

	Taken together, these measures should result in lower transfers / subsidies from central and local governments to SOEs amounting to 0.25% of GDP for the entire period of the plan.		period of the plan (relative to the level in 2023).

Done at Strasbourg,

For the Council
The President