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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Romania

{SWD(2024) 600 final} - {SWD(2024) 623 final}

Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Romania

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to 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[1], and in particular Article 3(3) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investment, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it helps achieve the economic and social recovery and implement sustainable reforms and investment, in particular to promote the green and digital transitions and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights.

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1 OJ L 2024/1263, 30.4.2024. ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

2 OJ L 306, 23.11.2011, p. 25. ELI: http://data.europa.eu/eli/reg/2011/1176/oj.

3 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17). ELI: http://data.europa.eu/eli/reg/2021/241/oj

(2) The REPowerEU Regulation[4], adopted on 27 February 2023, aims to phase out the EU's dependency on Russian fossil fuel imports. This would help achieve energy security and diversify the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Romania added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

(3) On 16 March 2023, the Commission issued a Communication on the 'Long-term competitiveness of the EU: looking beyond 2030'[5], in order to inform policy decisions and create the framework conditions for increasing growth. The Communication frames competitiveness along nine mutually reinforcing drivers. Among these drivers, access to private capital, research and innovation, education and skills, and the single market emerge as paramount policy priorities for reform and investment to address current productivity challenges as well as to build up the long-term competitiveness of the EU and its Member States. On 14 February 2024, the Commission followed this Communication with the Annual Single Market and Competitiveness Report[6]. The report details the competitive strengths and challenges of Europe's Single Market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey[7], marking the start of the 2024 cycle of the European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 22 March 2024. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2024 Alert Mechanism Report, in which it identified Romania as one of the Member States that may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 12 April 2024, as well as the proposal for the 2024 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 11 March 2024.

(5) On 30 April 2024, the EU's new economic governance framework came into force. The framework includes the new Regulation of the European Parliament and of the Council (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also includes the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure and the amended Directive 2011/85/EU on the budgetary frameworks of Member States[8]. The objectives of the

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4 Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1). ELI: http://data.europa.eu/eli/reg/2023/435/oj.

5 COM(2023) 168 final.

6 COM(2024) 77 final.

7 COM(2023) 901 final.

8 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) and 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).

new framework are public debt sustainability and sustainable and inclusive growth through gradual fiscal consolidation as well as reforms and investments. It promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State should submit to the Council and to the Commission a national medium-term fiscal-structural plan. National medium-term fiscal-structural plans contain the fiscal, reform and investment commitments of a Member State, covering a planning horizon of 4 years or 5 years depending on the regular length of the national legislature. The net expenditure[9] path in the national medium-term fiscal-structural plans should comply with the requirements of Regulation (EU) 2024/1263, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period at the latest, or for it to remain at prudent levels below 60% of GDP, and to bring and/or maintain the government deficit below the 3% of GDP reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in Regulation (EU) 2024/1263, the adjustment period may be extended by 3 years at most. For the purpose of supporting the preparation of those plans, on [21 June] 2024, the Commission is set to provide Member States with guidance on the content of the plans and the subsequent annual progress reports that they will need to submit and, in accordance with Article 5 of Regulation (EU) 2024/1263, will transmit to them technical guidance on the fiscal adjustments (reference trajectories and technical information, where applicable). Member States should submit their medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. Member States should ensure the involvement of their national parliaments, and the consultation of independent fiscal institutions, of social partners and other national stakeholders, as appropriate.

(6) In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The 2019, 2020, 2022 and 2023 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(7) On 31 May 2021, Romania submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 29 October 2021, the Council adopted its Decision on the approval of the assessment of

[9] Net expenditure as defined in Article 2 of Council Regulation (EU) 2024/1263 of 29 April 2024 (OJ L 2024/1263, 30.4.2024. ELI: http://data.europa.eu/eli/reg/2024/1263/oj). Net expenditure means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by Union funds revenue, (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.

the recovery and resilience plan for Romania[10], which was amended on 8 December 2023 following Article 18(2) of Regulation (EU) 2021/241 to update the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[11]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Romania has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(8) On 13 May 2024, Romania submitted its 2024 National Reform Programme. In accordance with Article 27 of Regulation (EU) 2021/241, the 2024 National Reform Programme also reflects Romania's biannual reporting on the progress made in achieving its recovery and resilience plan.

(9) The Commission published the 2024 country report for Romania[12] on 19 June 2024. It assessed Romania's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 and took stock of Romania's implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Romania's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(10) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Romania. The main findings of the Commission staff's assessment of macroeconomic vulnerabilities for Romania for the purposes of that Regulation were published in March 2024[13]. 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, which remain, while significant price and cost pressures have increased and policy action has been weak. The current account deficit improved somewhat in 2023, mostly due to weaker private consumption and gains in terms of trade, but it remains clearly large and is not forecast to improve this year and next. As a result, the net international investment position is no longer improving as a share of GDP despite the high nominal GDP growth and the continuation of large current account deficits risks driving it further into negative territory. Headline inflation has declined but core inflation remains very high, just marginally off its recent peak and higher than a year ago. Wages and labour cost dynamics accelerated in 2023 and continued to be strong in 2024, partly reflecting large minimum and public wage increases, against the backdrop of a tight labour market. This has resulted in cost competitiveness concerns, while non-cost competitiveness continues to be impaired by structural bottlenecks. All these factors add to concerns about the entrenchment of

[10] Council Implementing Decision of 3 November 2021 on the approval of the assessment of the recovery and resilience plan for Romania (ST 12319/2021; ST 12319/2021 ADD 1).

[11] Council Implementing Decision of 8 December 2023 amending the Implementing Decision of 29 October 2021 on the approval of the assessment of the recovery and resilience plan for Romania (ST 15833/23; ST 15833/23 ADD 1).

[12] SWD(2024) 623 final.

[13] SWD(2024) 83 final.

competitiveness losses and delays in the necessary trade balance improvement. The fiscal situation, which is a main driver of the high current account deficit, has deteriorated over the past year. The large fiscal deficit is forecast to worsen somewhat further in 2024 and 2025. The government debt-to-GDP ratio edged up despite the high nominal GDP growth, remains moderate at 53%, but with a large share of it denominated in foreign currency. The persistence of high government deficits may push up external indebtedness and make Romania more reliant on external financing sources, leaving the country vulnerable to changes in investor sentiment and external shocks. The policy response to address the identified vulnerabilities has been weak. A credible fiscal consolidation path is key to dampen risks to the stability of the economy. This requires compliance with recommendations under the Excessive Deficit Procedure and full implementation of the fiscal-structural reforms included in the RRP, in particular those aiming at structurally increasing government revenue, and much stricter spending control than in the past years. Implementation of RRP reforms and investment beyond the fiscal-structural ones would also enhance competitiveness.

(11) Based on data validated by Eurostat[14], Romania's general government deficit increased from 6.3% of GDP in 2022 to 6.6% of GDP in 2023, while the general government debt rose from 47.5% of GDP at the end of 2022 to 48.8% of GDP at the end of 2023.

(12) Romania has been subject to an excessive deficit procedure since 2020. On 3 April 2020, the Council adopted Decision (EU) 2020/509 under Article 126(6) TFEU on the existence of an excessive deficit situation in Romania due to a planned non-compliance in 2019 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 excessive government deficit situation 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 with a view to bringing an end to the excessive deficit situation by 2024, at the latest.

(13) In its June 2021 Recommendation under Article 126(7) TFEU, the Council recommended Romania to reduce its headline deficit to 8.0% of GDP in 2021, 6.2% of GDP in 2022, 4.4% of GDP in 2023 and 2.9% of GDP in 2024. This was consistent with nominal growth rates of net primary government expenditure of 3.4% in 2021, 1.3% in 2022, 0.9% in 2023 and 0.0% in 2024. It corresponded to annual structural adjustments of 0.7% of GDP in 2021, 1.8% of GDP in 2022, 1.7% of GDP in 2023 and 1.5% of GDP in 2024. The Recommendation also specified that any windfall revenue gains should be used to reduce the general government deficit. Romania was also asked to report every six months on action taken to implement the recommendation, until the excessive deficit has been corrected.

(14) The headline deficit reached 6.6% of GDP in 2023 and missed the EDP headline deficit target of 4.4% of GDP by a wide margin. The main reason for this deviation was a continued high growth of government spending, mostly driven by social transfers, expenditure in goods and services, and capital spending. The 2023 headline deficit was also impacted by the recording of payments of public sector wages (worth 0.5% of GDP) following court decisions. Importantly, the macroeconomic context was favourable for fiscal consolidation. Romania's economic performance since the

[14] Eurostat-Euro Indicators, 22.4.2024.

adoption of the June 2021 recommendation has been broadly in line with expectations, despite economic shocks that have occurred since then. The increase in government revenue was much faster than projected, reflecting a tax-rich composition of economic growth and high inflation.

(15) The fiscal effort in 2023 was lower than recommended by the Council. Romania's structural fiscal balance remained broadly unchanged in 2023, against an improvement of 1.7% of GDP recommended by the Council. Net primary expenditure growth (adjusted for one-offs and fiscal policy measures on the revenue side) was higher than recommended in 2023, at 11.8% of GDP versus a target of 0.9% recommended by the Council. As in the previous years covered by the current Recommendation under Article 126(7) TFEU, most windfall gains on the revenue side were used to finance additional spending. Based on the above, the Commission is of the view that Romania did not take effective action in response to the June 2021 Council Recommendation under Article 126(7) TFEU.

(16) On 10 May 2024, the Romanian authorities reported on "actions taken to correct the excessive deficit". This report confirmed the 2024 government deficit target of 4.9% of GDP included in the budget but also stressed that budgetary execution in the first three months of the year resulted in a government budget deficit of 2.06% of GDP, 0.6 pps of GDP above the deficit recorded in the same period last year, when the full-year deficit was 6.6% of GDP. The higher deficit in the first three months of 2024 relative to the same period last year is mainly explained by a fast increase in government spending, mainly on account of higher investment expenditure.

(17) The Commission Spring 2024 Forecast projects real GDP to grow by 3.3% in 2024 and 3.1% in 2025, and HICP inflation to stand at 9.7% in 2024 and 5.9% in 2025. The Commission Spring 2024 Forecast projects a government deficit of 6.9% of GDP in 2024, while the general government debt-to-GDP ratio is set to increase to 50.9% by the end of 2024. The projected increase of the deficit in 2024 mainly reflects rapid growth in current government expenditure. Public wages are expected to accelerate strongly, reflecting recent discretionary increases in wages in education, health as well as defence sectors. The recalculation of pensions in the context of the pension reform will have a short-term cost in 2024 and 2025 – the reform will subsequently generate large savings over the medium and long run. In 2024, public investment as a share of GDP is expected to remain broadly stable at the high level reached in 2023, due to fast growing capital spending by local authorities and the deployment of funds from the Recovery and Resilience Funds.

(18) In 2024, government revenue growth is expected to outpace nominal GDP growth, reflecting a "tax rich" composition of economic growth, efforts to improve tax collection through digitalisation of the tax system, and the impact of a package of revenue increasing measures adopted in autumn 2023, which are expected to boost government revenue by around 1% of GDP. The package mostly consists of an increase in corporate taxation, in particular for micro-enterprises, an increase in taxation of individuals, coming from a partial removal of preferential tax facilities in the construction and agriculture sectors, the elimination of reduced VAT rates for selected goods and services, an increase in excise duties, and a special tax on the turnover of banks and multinationals. The package also includes measures on the expenditure side, including the rationalisation of public administration and tighter conditions for the eligibility of public servants to receive holiday vouchers and food allowances. Based on the Commission's estimates, the fiscal stance is projected to be broadly neutral in 2024, at 0.1% of GDP.

(19) Expenditure amounting to 1.0% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 0.1% of GDP in 2023, according to the Commission Spring 2024 Forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and public debt of Romania. Romania assumes expenditure backed by loans from the Recovery and Resilience Facility, amounting to 0.2% of GDP in 2024 and 1.2% of GDP in 2025, compared with 0.3% of GDP in 2023.

(20) On 14 July 2023[15], the Council recommended that Romania take action to wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Romania should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. According to the Commission Spring 2024 Forecast, the net budgetary cost[16] of emergency energy support measures is estimated at 0.3% of GDP in 2023 and projected at -0.1% of GDP in 2024 and 2025. Support schemes of an overall impact of 0.5% of GDP in 2024 and 0.4% of GDP in 2025 are set to remain in force, but their impact is projected to be offset by the windfall taxes from energy producing and distributing companies. The budgetary cost of support measures targeted at protecting vulnerable households and firms is estimated at 0.2% of GDP in 2024, of which less than 0.1% of GDP preserve the price signal to reduce energy demand and increase energy efficiency. If the related savings from the decrease of the net budgetary cost of the emergency energy support measures were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 0.4% of GDP in 2024, whereas net nationally financed primary expenditure is forecast to provide an expansionary contribution to the fiscal stance of 1.2% of GDP in that year. The emergency energy support measures are not projected to be wound down as soon as possible in 2023 and 2024. This is not in line with what was recommended by the Council. Moreover, the related savings are not projected to be fully used to reduce the government deficit. These risks are not in line with the Council recommendation.

(21) In addition, the Council also recommended that Romania preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to increase to 3.3% of GDP in 2024 from 2.3% of GDP in 2023. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to decrease to 2.3% of GDP in 2024 (from 3.3% of GDP in 2023). This decrease is driven by the end of the 2014-2 020 programming period of EU structural funds, for which funds are available until 2023.

(22) Based on policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission Spring 2024 Forecast projects a government deficit of 7.0% of GDP in 2025. The general government debt-to-GDP ratio is set to

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15 Council Recommendation on the 2023 National Reform Programme of Romania and delivering a Council opinion on the 2023 Convergence Programme of Romania, OJ C 312, 1.9.2023, p. 216.

16 The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

increase to 53.9% by the end of 2025. The increase of the deficit in 2025 mainly reflects the short-term cost of the pension reform, which is expected to add another 0.5% of GDP to the deficit in 2025 relative to a baseline without a reform. However, some moderation in capital spending is likely after the local elections, and growth in current expenditure excluding pensions is expected to slow down somewhat. The 2025 deficit forecast does not include the potential additional revenue stemming from the reform of the tax regime of microenterprises and the broad tax reform, which are part of the RRP and are currently being designed. These reforms have the potential to generate substantial revenue for the government and, if properly designed and implemented, to lower the 2025 deficit significantly relative to the forecast. Prudent fiscal policy should contribute to reducing core inflation, which is well above the EU average and could lead to competitiveness losses if persistent, and strengthening the external position too.

(23) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the plan, including the REPowerEU chapter, is essential to boost Romania's long-term competitiveness through the green and digital transition, while ensuring social fairness. To deliver on the commitments of the plan by August 2026, it is essential for Romania to significantly accelerate the implementation of reforms and investments by ensuring effective governance and strengthening administrative capacity. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(24) As part of the mid-term review of the cohesion policy funds, in accordance with Article 18 of Regulation (EU) 2021/1060, Romania is required to review each programme by March 2025, taking into account, among other things, the challenges identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. This review forms the basis for the definitive allocation of the EU funding included in each programme. Romania has made progress in implementing cohesion policy and the European Pillar of Social Rights, but challenges remain and significant territorial disparities in investment and employment persist between the capital region and the other regions, as well as between urban and non-urban areas. It is crucial to accelerate the implementation of cohesion policy programmes and strengthen administrative capacity at national and regional level. The priorities agreed in the programmes are still relevant. Particular attention should be paid to improving the management and sustainability of the water, wastewater and waste sectors. It is equally important to improve labour productivity and the capacity of businesses to innovate, by focusing on targeted business support, including public-private collaboration and participation in European research and innovation initiatives. Investment in the railway network and sustainable urban transport should continue to be prioritised, alongside biodiversity protection. In addition, developing administrative capacity at national and subnational levels is key, with a focus on strengthening regional and local authorities. Implementation of the territorial just transition plans should be ensured, including phasing out coal by 2032. Public employment services should continue to be improved. In this regard, it is particularly relevant to improve the effectiveness of labour market activation measures for women, young people not in

employment, education or training, people with disabilities and marginalised communities, such as Roma. Investment in education and training as well as in the upskilling and reskilling of the population is needed. The accessibility and quality of social and long-term care as well as health services across the country for vulnerable groups need improving, while deinstitutionalisation measures need accelerating. Energy poverty also remains a significant challenge. When carrying out the mid-term review, it is worth paying further attention to the provision of social housing and related social services, as well as the sustainable development of smaller urban areas, which face persistent administrative capacity deficits. Addressing these challenges would also contribute to supporting upward social convergence, in line with the Commission services' second-stage country analysis based on the features of the Social Convergence Framework[17]. Romania could also make use of the Strategic Technologies for Europe Platform initiative to support investments in biotechnology (such as investments in the use of artificial intelligence in the medical sector and in research and productive investments in critical medicines), in digital technologies and deep-tech innovation and in clean technologies; as well as to invest in capacities to address skills shortages such as the skills necessary to the development of these critical technologies.

(25) Despite recent improvements, poverty risk and inequality remain high with significant disparities across population groups and regions, while access to employment and education is still uneven in Romania. The social protection system still shows limited effectiveness in alleviating poverty risks and inequalities, due to insufficient access and low adequacy. In addition, the employment rate, remains one of the lowest in the EU, for under-represented groups in particular. Finally, difficulties in ensuring equal access to high-quality education and training have a negative impact on inclusive growth.

(26) The recovery and resilience plan includes measures related to the challenges referred to in recital 25. Such measures include a reform of the protection system for adults with disabilities, a reform to introduce work cards and formalisation of work of domestic workers, an investment for schemes to upskill/reskill employees in firms, a reform of the compulsory education system to prevent and reduce early school leaving and an investment for the development of a framework programme for the continuous training of professionals in early-childhood education services. The cohesion programmes also include related measures such as dedicated interventions targeting youth employment, activation and employment of disadvantaged groups in the labour market as well as the social inclusion of persons belonging to vulnerable groups. Proceeding with their swift implementation would contribute to addressing the challenges referred to in recital 25 and would support upward social convergence.

(27) In light of the Commission's in-depth review and its conclusion on the existence of excessive imbalances, recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1) and (2) below. Policies referred to in recommendation (1) help to address vulnerabilities linked to the large current account and government deficits, which make the economy potentially vulnerable to shocks and contribute to high inflation. Policies referred to in recommendation (2) help to address vulnerabilities linked to cost competitiveness due to wage increases in excess

[17] SWD(2024)132 final

of labour productivity growth and non-cost competitiveness due to structural bottlenecks.

HEREBY RECOMMENDS that Romania take action in 2024 and 2025 to:

1. Submit the medium-term fiscal-structural plan in a timely manner. Tighten fiscal policy in order to achieve a fiscal adjustment for 2024 as a whole. In 2025, in line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure[18] to a rate consistent with reducing the general government deficit towards the 3% of GDP Treaty reference value and keeping the general government debt at a prudent level over the medium term.

2. Significantly accelerate the implementation of cohesion policy programmes and the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026, by guaranteeing effective governance and strengthening administrative capacity. In the context of the mid-term review, continue focusing on the agreed priorities, taking action to better address the needs regarding social housing, the related social services and the development of smaller urban areas, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.

Done at Brussels,

For the Council
The President

[18] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.