C/2024/6830

29.11.2024

COUNCIL RECOMMENDATION

of 21 October 2024

on economic, budgetary, employment and structural policies of Romania

(C/2024/6830)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121(2) and Article 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 ('the Facility'), entered into force on 19 February 2021. The Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the Union. In line with the priorities of the European Semester for economic policy coordination, the Facility helps achieve the economic and social recovery and implement sustainable reforms and investments, in particular reforms and investments to promote the green and digital transitions and to 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 Union and support the continued implementation of the European Pillar of Social Rights.

(2) Regulation (EU) 2023/435 of the European Parliament and of the Council ([4]) ('the REPowerEU Regulation'), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil-fuel imports. This would help achieve energy security and diversify the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Romania added a new REPowerEU chapter to its national

([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).
([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).

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 entitled 'Long-term competitiveness of the EU: looking beyond 2030', in order to inform policy decisions and create the framework conditions for increasing growth. The communication frames competitiveness in terms of nine mutually reinforcing drivers. Among those drivers, access to private capital, research and innovation, education and skills, and a functioning 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 Union and its Member States. On 14 February 2024, the Commission issued a communication entitled 'The 2024 Annual Single Market and Competitiveness Report'. That communication details the competitive strengths and challenges of the European 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, marking the start of the 2024 European Semester for economic policy coordination. On 22 March 2024, the European Council endorsed the priorities of the 2024 Annual Sustainable Growth Survey, which are centred around the four dimensions of competitive sustainability. 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 and a proposal for the 2024 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area ([5]) ('the 2024 Recommendation on the euro area') on 12 April 2024 and the Joint Employment Report on 11 March 2024.

(5) On 30 April 2024, the Union's new economic governance framework entered into force. The framework includes the new Regulation (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance, the amended Council Regulation (EC) No 1467/97 ([6]) on speeding up and clarifying the implementation of the excessive deficit procedure, and the amended Council Directive 2011/85/EU ([7]) on requirements for the budgetary frameworks of Member States. The objectives of the new economic governance framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, and prevent excessive government deficits. The new economic governance framework also promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State has to submit to the Council and to the Commission a national medium-term fiscal-structural plan. A national medium-term fiscal-structural plan contains the fiscal, reform and investment commitments of a Member State, covering a planning horizon of 4 or 5 years, depending on the regular length of the national legislative term. The net expenditure ([8]) path in the national medium-term fiscal-structural plans has to 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, or for it to remain at prudent levels below 60 % of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3 %-of-GDP Treaty 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 can be extended by up to 3 years. For the purpose of supporting the preparation of those national medium-term fiscal-structural plans, on 21 June 2024, the Commission published guidance on the information to be provided by Member States in their national medium-term fiscal-structural plans and in their annual progress reports. In accordance with Articles 5 and 36 of Regulation (EU) 2024/1263, the Commission transmitted to the Member States reference trajectories and technical information, where applicable. Member States have to submit their national 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. In accordance with their national legal

([5]) Council Recommendation of 12 April 2024 on the economic policy of the euro area (OJ C, C/2024/2807, 23.4.2024, ELI: http://data.europa.eu/eli/C/2024/2807/oj).

([6]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6, ELI: http://data.europa.eu/eli/reg/1997/1467/oj).

([7]) Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L 306, 23.11.2011, p. 41, ELI: http://data.europa.eu/eli/dir/2011/85/oj).

([8]) Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263: 'net expenditure' means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union 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.

frameworks, Member States may debate their draft medium-term plans with their national parliaments, may ask the independent fiscal institutions to issue an opinion, and may conduct a consultation of social partners and other national stakeholders.

(6) In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the 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 for the recovery and resilience plans which have been 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 set out in Annex V to that Regulation. On 29 October 2021, the Council adopted its Implementing Decision on the approval of the assessment of the recovery and resilience plan for Romania ([9]), which was amended on 8 December 2023 pursuant to Article 18(2) of Regulation (EU) 2021/241 to update the maximum financial contribution for non-repayable financial support and pursuant to Article 21 of Regulation (EU) 2021/241 to amend the recovery and resilience plan because of objective circumstances, as well as to include the REPowerEU chapter ([10]). The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5) of Regulation (EU) 2021/241, stating 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) On 19 June 2024, the Commission published the 2024 country report for Romania. 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. On the basis of that analysis, the country report identified gaps with regard 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 in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations 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. 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 a problem, 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 large and is forecast to stay constant this year and improve in 2025. As a result, the net international investment position is no longer improving as a share of GDP despite the high nominal GDP growth, and there is a risk that the continuation of large current account deficits will drive it further into negative territory. Headline and core inflation have declined but core inflation remains very high, modestly below the peak reached in 2023 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 those factors add to concerns about the entrenchment of 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 and remains moderate at 50,9 % but with a large share of it denominated in foreign currency. The persistence of high government deficits may push up external

([9]) ST 12319/21 and ST 12319/21 ADD 1.
([10]) 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 and ST 15833/23 ADD 1).

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 reducing risks to the stability of the economy. This requires compliance with recommendations under the excessive deficit procedure and a full implementation of the fiscal-structural reforms included in the recovery and resilience plan, in particular those aiming at structurally increasing government revenue, and much stricter spending controls than in the past years. The implementation of the recovery and resilience plan's reforms and investments beyond the fiscal-structural ones would also enhance competitiveness.

(11) According to data validated by Eurostat, 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 ([11]) under Article 126(6) of the Treaty on the existence of an excessive deficit situation in Romania due to a planned non-compliance in 2019 with the deficit criterion of the Treaty and issued a Recommendation ([12]) under Article 126(7) of the Treaty 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 ([13]) under Article 126(7) of the Treaty to Romania with a view to bringing an end to the excessive deficit situation by 2024 at the latest (the Recommendation of 18 June 2021').

(13) In the Recommendation of 18 June 2021, the Council recommended that Romania 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. That 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 of 18 June 2021 also specified that any windfall gains should be used to reduce the general government deficit and that Romania should report at least every six months on progress made in the implementation of the Recommendation until the excessive deficit has been corrected.

(14) The headline deficit reached 6,6 % of GDP in 2023 and missed the excessive deficit procedure's headline deficit target of 4,4 % of GDP by a wide margin. The main reason for that 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 to fiscal consolidation. Romania's economic performance since the 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 has been 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 Recommendation of 18 June 2021, most windfall gains on the revenue side were used to finance additional spending. On the basis of the above, the Commission is of the view that Romania did not take effective action in response to the Recommendation 18 June 2021.

(16) On 10 May 2024, the Romanian authorities reported on 'actions taken to correct the excessive deficit'. That 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 percentage points of GDP above the deficit recorded in the same period in 2023, when the full-year deficit was

([11]) Council Decision (EU) 2020/509 of 3 April 2020 on the existence of an excessive deficit in Romania (OJ L 110, 8.4.2020, p. 58, ELI: http://data.europa.eu/eli/dec/2020/509/oj).

([12]) Council Recommendation of 3 April 2020 with a view to bringing an end to the situation of an excessive government deficit in Romania (OJ C 116, 8.4.2020, p. 1).

([13]) Council Recommendation of 18 June 2021 with a view to bringing an end to the situation of an excessive government deficit in Romania (OJ C 304, 29.7.2021, p. 111).

6,6 % of GDP. The higher deficit in the first three months of 2024 relative to the same period in 2023 is mainly explained by a rapid increase in government spending, mainly on account of higher investment expenditure.

(17) The Commission's 2024 spring forecast projects real GDP to grow by 3,3 % in 2024 and 3,1 % in 2025, and inflation measured by the harmonised index of consumer prices (HICP) to stand at 5,9 % in 2024 and 4,0 % in 2025.

(18) The Commission's 2024 spring 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 the education, health and defence sectors. The recalculation of pensions in the context of the pension reform will have a short-term cost in 2024 and 2025, but 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 rapidly growing capital spending by local authorities and the deployment of funds from the Facility.

(19) In 2024, government revenue growth is expected to outpace nominal GDP growth, reflecting a 'tax rich' composition of the 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 value-added tax 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. According to the Commission's estimates, the fiscal stance is projected to be broadly neutral in 2024, at 0,1 % of GDP.

(20) Expenditure amounting to 1,0 % of GDP will be financed by non-repayable support ('grants') under the Facility in 2024, compared to 0,1 % of GDP in 2023, according to the Commission's 2024 spring forecast. Expenditure financed by grants under the Facility will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance or debt of Romania. Romania assumes that the expenditure backed by loans from the Facility will amount to 0,2 % of GDP in 2024 and 1,2 % of GDP in 2025, compared with 0,3 % of GDP in 2023.

(21) On 14 July 2023, the Council recommended ([14]) 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 recommended that, if renewed energy price increases necessitate new or continued support measures, Romania ensure that such support measures are targeted at protecting vulnerable households and firms, are fiscally affordable, and preserve incentives for energy savings. According to the Commission's 2024 spring forecast, the net budgetary cost ([15]) 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, those 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. There is a risk that this will not be 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. Those risks are not in line with the Council recommendation.

([14]) Council Recommendation of 14 July 2023 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).

([15]) 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.

(22) In addition, the Council also recommended that Romania preserve nationally financed public investment and ensure the effective absorption of grants under the Facility and of other Union funds, in particular to foster the green and digital transitions. According to the Commission's 2024 spring forecast, nationally financed public investment is projected to increase from 2,3 % of GDP in 2023 to 3,3 % of GDP in 2024. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from Union funds, including grants under the Facility, is expected to decrease from 3,3 % of GDP in 2023 to 2,3 % of GDP in 2024. That decrease is driven by the end of the 2014–2020 programming period of Union structural funds, for which funds are available until 2023.

(23) On the basis of the policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission's 2024 spring forecast projects a government deficit of 7,0 % of GDP in 2025. The general government debt-to-GDP ratio is set to increase to 53,9 % by the end of 2025. The increase in 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 recovery and resilience plan 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 Union average and could lead to competitiveness losses if persistent, and should contribute to strengthening the external position as well.

(24) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. Those reforms and investments 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 recovery and resilience plan, including the REPowerEU chapter, is essential to boost Romania's long-term competitiveness through the green and digital transitions, while ensuring social fairness. To deliver on the commitments of the recovery and resilience 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 in order to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(25) As part of the mid-term review of the cohesion policy programmes, in accordance with Article 18 of Regulation (EU) 2021/1060 of the European Parliament and of the Council ([16]), Romania is required to review each programme supported by the European Regional Development Fund (ERDF), the European Social Fund Plus (ESF+), the Cohesion Fund and the Just Transition Fund (JTF) 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. That review forms the basis for the definitive allocation of the Union funding included in each programme. Romania has made progress in implementing cohesion policy programmes 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 the 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.

([16]) Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (OJ L 231, 30.6.2021, p. 159, ELI: http://data.europa.eu/eli/reg/2021/1060/oj).

(26) 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 that 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 those 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, that was piloted in 2024. In line with Article 3(3), point (b), of Regulation (EU) 2024/1263, the European Semester shall include the surveillance of the implementation of the employment guidelines by the Commission, *inter alia* via a framework to identify risks to social convergence. Romania could also make use of the Strategic Technologies for Europe Platform, established by Regulation (EU) 2024/795 of the European Parliament and of the Council ([17]), 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 and resource efficient technologies; as well as to invest in capacities to address skills shortages such as the skills necessary to the development of those critical technologies.

(27) 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 its insufficient access and low adequacy. In addition, the employment rate remains one of the lowest in the Union, in particular for under-represented groups. Finally, difficulties in ensuring equal access to high-quality education and training have a negative impact on inclusive growth.

(28) The recovery and resilience plan includes measures related to the challenges referred to in recital 27. 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 or 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 27 and would support upward social convergence.

(29) In light of the Commission's in-depth review and conclusions on the existence of excessive imbalances, recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1) and (2). 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 of labour productivity growth and non-cost competitiveness due to structural bottlenecks,

([17]) Regulation (EU) 2024/795 of the European Parliament and of the Council of 29 February 2024 establishing the Strategic Technologies for Europe Platform (STEP), and amending Directive 2003/87/EC and Regulations (EU) 2021/1058, (EU) 2021/1056, (EU) 2021/1057, (EU) No 1303/2013, (EU) No 223/2014, (EU) 2021/1060, (EU) 2021/523, (EU) 2021/695, (EU) 2021/697 and (EU) 2021/241 (OJ L, 2024/795, 29.2.2024, ELI: http://data.europa.eu/eli/reg/2024/795/oj).

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, *inter alia*, reducing the general government deficit towards the 3 %-of-GDP Treaty reference value and maintaining 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 the completion of reforms and investments by August 2026, by ensuring effective governance and strengthening administrative capacity. In the context of the mid-term review of cohesion policy programmes, 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 Luxembourg, 21 October 2024.

For the Council

The President

NAGY I.

([18]) According to Article 2, point (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.