**COUNCIL OF
THE EUROPEAN UNION**

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Subject:	COUNCIL RECOMMENDATION on the National Reform Programme 2013 of Romania and delivering a Council opinion on the Convergence Programme of Romania, 2012-2016

COUNCIL RECOMMENDATION

of …

on the National Reform Programme 2013 of Romania
and delivering a Council opinion
on the Convergence Programme of Romania, 2012-2016

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 Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 9(2) thereof,

Having regard to the recommendation of the European Commission,

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,

1 OJ L 209, 2.8.1997, p. 1.

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States[1], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a recommendation[2] on Romania's National Reform Programme for 2012 and delivered its opinion on Romania's Convergence Programme for 2012-2015.

[1] Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).

[2] OJ C 219, 24.7.2012, p. 72.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester of economic policy coordination. Also on 28 November 2012, the Commission, on the basis of 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[1], adopted the Alert Mechanism Report, in which Romania was not identified as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2012, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 30 April 2013, Romania submitted its 2013 National Reform Programme and its Convergence Programme for the period 2012-2016. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

[1] OJ L 306, 23.11.2011, p. 25.

(9) Based on the assessment of the Convergence Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the Programme is plausible and in line with the assessment in the Commission services 2013 spring forecast. Due to its substantial consolidation efforts, and in line with the Council Recommendation, Romania reduced its general government deficit to below 3 % in 2012. The Convergence Programme aims at a medium-term budgetary objective (MTO) of -1 % of GDP (previously -0,7 % of GDP), which is in line with the requirements of the Stability and Growth Pact. The Programme outlines a budgetary strategy aimed at reaching the MTO by 2014 which, when recalculated by the Commission on the basis of the commonly agreed methodology, corresponds to reaching the MTO by 2015. The progress in structural terms towards the MTO is higher than 0,5 % of GDP in 2013 and stands at about 0,4 % in 2014. The expenditure benchmark of the Stability and Growth Pact over the Programme period was met. Adjustment is front-loaded in 2013, with revenue-enhancing measures including reductions in tax-deductible items, an improvement in the taxation of agriculture, the introduction of a windfall levy following the deregulation of gas prices and the introduction of a special tax on the transmission of electricity and gas. The main risks to the Convergence Programme relate to further possible financial corrections linked to the absorption of EU funds, or the financing from the national budget of priority projects, renewed accumulation of arrears, especially at local government level, and limited progress in the restructuring of state-owned enterprises. Romania's public debt remains relatively low, at 37,8 % of GDP in 2012. It is expected to rise to 38,6 % in 2014 but will remain well below the 60% of GDP threshold over the Programme period.

(10) Following a request by Romania on 17 February 2011, the Commission and the IMF negotiated a precautionary economic adjustment programme with the Romanian authorities. In the context of the Union's precautionary assistance, Romania undertook to implement a comprehensive economic-policy programme with a particular focus on structural reform measures to improve the functioning of labour and product markets and increase the resilience and growth potential of the Romanian economy. In parallel, that programme has ensured that fiscal consolidation continues, that management and control of public finances improve, and that reforms are implemented in its external, monetary, financial stability, and financial market policies. In March 2013, Romania formally requested a three-month extension of the IMF programme. While the possibility to draw on funds under the EU programme expired at the end of March 2013, the final programme review will take place by the end of June 2013.

(11) Romania's fiscal position has been improving with the budget deficit decreasing below 3% in 2012 and a further fiscal consolidation expected for 2013. Low tax compliance represents a major challenge for Romania's tax system, in particular in the areas of VAT and labour taxation. Environmental taxes are below the EU average. While Romania does not face a risk of fiscal stress in the short or medium-term, it is at medium risk in the long-term due to age-related expenditure. There are concerns as regards the sustainability and adequacy of the pension system due to the low ratio of employed contributors to people drawing pensions. Romania is now one of the two Member States that have not yet decided to equalise the pensionable age for women and men, and the employment rate of older workers (41,4 % in 2012) is substantially below the EU average. The Romanian Government has decided to continue the pension reform and associate the social partners in designing the reform and enhance its ownership.

(12) The health sector in Romania features major inequities in terms of access to services provided and their quality. This is due, *inter alia*, to the inefficient use of resources and to poor management. Reforms to improve the efficiency of the healthcare sector have begun but continuous efforts are needed. The cost-effectiveness of the system could be increased by reducing the excessive use of hospital in-patient care and by strengthening primary care and referral systems.

(13) Romania continued to have a low employment rate of 63,8 % in 2012 although a slight improvement was registered from 62,8 % in the year before. The country's Europe 2020 target of 70 % by 2020 remains a challenge. Romanian labour productivity is still one of the lowest in the Union. The quality of public employment activation, job search and retraining services is still relatively low. Limited administrative capacity does not allow for the efficient delivery of active labour-market policies through quality personalised services, nor for the better integration of active and passive labour-market policies. Adult participation in lifelong learning remains stagnant at very low levels, which at 1,6 % in 2011, is significantly lower than the EU average of 8,9 %. The youth employment and activity rates were among the lowest in the Union in 2012, at 23,9 % and 30,9 % respectively, whereas the youth unemployment rate was high at 22,7 % in 2012. Romania's share of young people who are neither in employment nor in education and training, which stood at 16,8 % in 2012, is high and increasing.

(14) Poverty reduction continues to be a major challenge. In 2011, 40,3 % of the population were at risk of poverty and social exclusion, about two thirds more than the EU average of 24,2 %. Children are particularly affected (49,1 %). The impact of social transfers, excluding pensions, in reducing poverty remains significantly below the average efficiency of transfers in the Union, both for the population as a whole (23,7 % in Romania as against 37,5 % for the EU in 2011) and for children (22 % compared to 42,8 % for the Union). The low take-up, coverage and adequacy of social benefits remain a challenge for the efficiency of social benefits in reducing poverty. In the field of social assistance, several pieces of legislation were adopted in 2012 as follow-up to the reform of 2011. The adoption of the remaining legislation would be an important step towards completing the reform. However the link with activation measures could be further strengthened. The implementation of the National Roma Integration Strategy started in 2012, but the results are modest. Better coordination between different stakeholders is needed for an effective implementation of the strategy, including the allocation of financing.

(15) The education law of 2011, a major reform that set a long-term agenda for upgrading the quality of education at all levels, is not yet fully operational. For a successful implementation of the education reform, the necessary financial and human resources will have to be devoted to building up administrative capacity and policy making. Romania faces a major challenge in raising the quality of its education and training system. Early school leaving is a significant challenge. At 17,4 % in 2012, the Romanian early school leaving rate is well above both the EU average of 13,5 % and the national target of 11,3 %. Problems persist especially in rural and remote areas and for the Roma. Romania also lacks an adequate data collection mechanism regarding early school leavers; a comprehensive strategy, to be adopted this year, should help in this regard. Access to quality affordable early childhood education and care remains problematic. Mismatches between skills and labour-market demand are characteristic of a large proportion of vocational and tertiary education programmes, with the poor level of vocational skills being a specific challenge. The high unemployment rate among tertiary graduates and the rate of over-qualification make a further alignment of tertiary education with the labour market a high priority. Positive but slow progress was registered in the transition from institutional to alternative care for children deprived of parental care, but further efforts are needed.

(16) Poor administrative capacity is a core concern for Romania. Public administration is characterised by an inconsistent legal framework, frequent recourse to emergency ordinances, low levels of inter-ministerial cooperation and excessive bureaucracy. It is also undermined by a lack of skills, a lack of transparency in staff recruitment and high management turnover rates. Poor administrative capacity contributes to low absorption of EU funds. The end-2012 absorption target agreed under the EU Financial Assistance Programme was missed by a wide margin. Cumulative absorption by the end of 2012 stood at EUR 5,53 billion or 20,2 % of the total available structural, cohesion and agricultural funds. This was EUR 2,47 billion short of the Programme's end-2012 target of EUR 8 billion. The absorption rate of structural and cohesion funds improved from 7,5 % at the end of April 2012 to 15,2 % at the end of May 2013.To further improve absorption and reduce the risk of de-commitment in 2013, the Romanian authorities have to focus, *inter alia*, on measures that would make the EU funds' managing and control systems more efficient and that would strengthen the administrative capacity of the public procurement system.

(17) Romania faces a number of challenges in economic competitiveness with productivity in industry and services remaining low. Major challenges are a weak business environment and low support for research and development (R&D). Improvements to the business environment should be integrated into a wider, coherent e-government strategy to promote an administrative culture of transparency and legal certainty and provide for better public online services. Romania should also undertake efforts to ease access to finance and to reduce the administrative burden on small and medium-sized enterprises (SMEs). R&D intensity is extremely low, at 0,48 % in 2011, and the efficiency and effectiveness of investment need to be substantially improved. Investors in R&D need to prioritise activities that have the potential to attract private investment. Romania should also strengthen the intellectual property rights framework with a view to increasing the commercialisation of research results.

(18) Romania has a low degree of competition and efficiency in the energy and transport industries. Inefficiency and lack of transparency in the governance of state-owned enterprises in these sectors represent a major challenge. Increasing energy efficiency in buildings, district heating, industry and transport is a further key challenge. Romania is the third most energy-intensive economy in the Union whose energy intensity is 2,5 times higher than the EU average. It is also the third most carbon-intensive economy in the Union. Residential buildings in Romania use eight times more energy than the EU-15 average due to an inefficient district heating system and the fact that buildings are not insulated appropriately. The integration of Romania's electricity and gas markets in the EU markets remains incomplete and cross-border connections for gas still have to be implemented.

(19) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Romania's economic policy. It has assessed the National Reform Programme and Convergence Programme. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Romania but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (8) below.

(20) In the light of this assessment, the Council has examined the Convergence Programme, and its opinion[1] is reflected in particular in recommendation (1) below,

HEREBY RECOMMENDS that Romania take action within the period 2013-2014 to:

[1] Under Article 9(2) of Regulation (EC) No 1466/97.

1. Complete the EU/IMF financial assistance programme.

2. Ensure growth-friendly fiscal consolidation and implement the budgetary strategy for the year 2013 and beyond as envisaged, thus ensuring achieving the MTO by 2015. Improve tax collection by implementing a comprehensive tax compliance strategy and fight undeclared work. In parallel, explore ways to increase reliance on environmental taxes. Continue the pension reform started in 2010 by equalising the pensionable age for men and women and by promoting the employability of older workers.

3. Pursue health sector reforms to increase its efficiency, quality and accessibility, in particular for disadvantaged people and remote and isolated communities. Reduce the excessive use of hospital care, including by strengthening outpatient care.

4. Improve labour-market participation, as well as employability and productivity of the labour force, by reviewing and strengthening active labour-market policies, providing training and individualised services, and promoting lifelong learning. Enhance the capacity of the National Employment Agency to increase the quality and coverage of its services. In order to fight youth unemployment, implement rapidly the National Plan for Youth Employment, including for example through a Youth Guarantee. To alleviate poverty, improve the effectiveness and efficiency of social transfers with a particular focus on children. Complete the social assistance reform by adopting the relevant legislation and strengthening its link with activation measures. Ensure concrete delivery of the National Roma Integration Strategy.

5. Speed up the education reform including the building up of administrative capacity at both central and local levels and evaluate the impact of the reforms. Step up reforms in vocational education and training. Further align tertiary education with the needs of the labour market and improve access for disadvantaged people. Implement a national strategy on early school leaving focusing on better access to quality early childhood education, including for Roma children. Speed up the transition from institutional to alternative care for children deprived of parental care.

6. Strengthen governance and the quality of institutions and public administration, in particular by improving the capacity for strategic and budgetary planning, by increasing the professionalism of the public service through improved human resource management and by strengthening the mechanisms for coordination between the different levels of government. Significantly improve the quality of regulations through the use of impact assessments, and systematic evaluations. Step up efforts to accelerate the absorption of EU funds in particular by strengthening management and control systems and improving public procurement.

7. Improve and simplify the business environment in particular through reducing administrative burdens on SMEs and implementing a coherent e-government strategy. Ease and diversify access to finance for SMEs. Ensure closer links between research, innovation and industry, in particular by prioritising research and development activities that have the potential to attract private investment. Step up efforts to improve the quality, independence and efficiency of the judicial system in resolving cases, and fight corruption more effectively.

8. Promote competition and efficiency in network industries by ensuring the independence and capacity of national regulatory authorities, and by continuing the corporate governance reform of state-owned enterprises in the energy and transport sectors. Adopt a comprehensive long-term transport plan and improve broadband infrastructure. Continue to remove regulated gas and electricity prices and improve energy efficiency. Improve the cross-border integration of energy networks and speed up implementation of the gas interconnection projects.

Done at Brussels,

For the Council
The President