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To:	Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union
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Recommendation for a

COUNCIL RECOMMENDATION

on the 2015 National Reform Programme of Romania

and delivering a Council opinion on the 2015 Convergence Programme of Romania

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Recommendation for a

COUNCIL RECOMMENDATION

on the 2015 National Reform Programme of Romania

and delivering a Council opinion on the 2015 Convergence Programme 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 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 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[3],

Having regard to the resolutions of the European Parliament[4],

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) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, Europe 2020, based on enhanced coordination of economic policies. The strategy focuses on the key areas where

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.
3 COM(2015) 272.
4 P8_TA(2015)0067, P8_TA(2015)0068, P8_TA(2015)0069.

action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council, on the basis of the Commission's proposals, 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. Together these form the 'integrated guidelines' which Member States were invited to take into account in their national economic and employment policies.

(3) On 8 July 2014, the Council adopted a recommendation on Romania's National Reform Programme for 2014 and delivered its opinion on Romania's updated Convergence Programme for 2014.

(4) On 28 November 2014, the Commission adopted the Annual Growth Survey[5], marking the start of the 2015 European Semester of economic policy coordination. On the same day, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report[6], in which it identified Romania as one of the Member States for which an in-depth review would be carried out.

(5) On 18 December 2014, the European Council endorsed the priorities for boosting investment, accelerating structural reforms and pursuing responsible growth-friendly fiscal consolidation.

(6) On 26 February 2015, the Commission published its 2015 country report for Romania[7]. This assessed Romania's progress in addressing the country-specific recommendations adopted on 8 July 2014. The country report also includes the results of the in-depth review under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Romania is experiencing macroeconomic imbalances, which require policy action and monitoring. In the three consecutive EU-IMF programmes, external and internal imbalances have been significantly reduced. However, risks from Romania's relatively large negative net international investment position and a weak medium-term export capacity merit attention. External and internal vulnerabilities persist in the banking sector.

(7) On 30 April 2015, Romania submitted its 2015 National Reform Programme and its 2015 Convergence Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.

(8) On 22 October 2013, the Council adopted Decision 2013/531/EU[8], in which it committed to provide medium-term financial assistance of up to EUR 2 billion to Romania, over the period until September 2015. This assistance is conditional upon the implementation of a comprehensive economic policy. While, under present market conditions, Romania does not intend to request the disbursement of any instalment, the precautionary assistance is expected to help consolidate macroeconomic, budgetary and financial stability and, through the implementation of

5 COM(2014) 902.

6 COM(2014) 904.

7 SWD(2015) 42 final.

8 Council Decision 2013/531/EU of 22 October 2013 providing precautionary Union medium-term financial assistance to Romania (OJ L 286, 29.10.2013, p. 1).

structural reforms, to increase the economy's resilience and potential for growth. Once Romania has exited the programme, it will be fully re-integrated into the European Semester framework.

(9) Romania is currently in the preventive arm of the Stability and Growth Pact. In its Convergence Programme Romania has requested a temporary deviation of 0.5% of GDP from the required adjustment path towards the medium-term objective because of planned structural reforms. As the Programme did not provide sufficiently detailed information on the planned structural reforms, the Council is not in a position to assess their plausibility. Romania also requested the application of the pension reform clause. The eligibility of the reform is subject to confirmation by Eurostat. Based on the Commission's 2015 spring forecast, the projected structural deficit of 3.4% of GDP in 2016 would not ensure an appropriate safety margin with respect to the 3% of GDP reference value of the Treaty. Therefore, the Council is of the opinion that Romania does not fulfil the requirements to benefit from the requested temporary deviation in 2016.

(10) In its 2015 Convergence Programme, the government plans to keep the headline deficit at 1.5% of GDP in 2015 and to reduce it to 0.8% of GDP in 2018. The government plans to meet the medium-term objective – a structural deficit of 1.0% of GDP – from 2016 onwards. According to the Convergence Programme, the government debt-to-GDP ratio is expected to peak at 40.1% in 2015 and to gradually decline thereafter, reaching 37.1% in 2018. The macroeconomic scenario underpinning these budgetary projections is markedly favourable.Important deficit-increasing measures approved by the government on 25 March and the senate on 27 April[9] which have been taken into account in the Commission's 2015 spring forecast, are not included in the Convergence Programme, while this is required by the Conduct of Conduct. Measures needed to support the planned deficit targets from 2016 onwards have not been sufficiently specified. Based on the Commission's 2015 spring forecast, in 2015 the structural balance is forecast to deviate by 0.3% of GDP from the medium-term objective. This slightly exceeds the 0.25% of GDP deviation granted under the Balance-of-Payments programme under the condition that the co-financing of EU funded projects is in line with what was foreseen in the budget. The deviation is set to become significant in 2016 at 2.4% of GDP, whereas an adjustment of 0.3% of GDP is required. Therefore, further measures will be needed in 2015 and 2016. Based on its assessment of the Convergence Programme and taking into account the Commission's 2015 spring forecast, the Council is of the opinion that there is a risk that Romania will not comply with the provisions of the Stability and Growth Pact.

(11) Romania's fiscal framework is broadly sound but not effectively applied. The medium- and long-term demographic trends and low level of development of the labour market may jeopardise the long-term sustainability of the pension system. The pension reform launched in 2010 has already brought some improvements, but the law equalising the statutory retirement age for men and women as of 2035, proposed by the government in December 2013, has not yet been adopted by the lower chamber of Parliament.

[9] tax cuts embodied in the new draft fiscal code

(12) The recent cut in employers' social security contributions has reduced the labour tax wedge, but in an untargeted way. The tax wedge for lower income earners remains high (40 %) relative to other European countries. Tax fraud and tax avoidance remain a major challenge and eat into tax revenue. The first steps have been taken in what is set to be an ongoing reorganisation of the Romanian tax administration. A pilot compliance project targeting undeclared labour, under-declared wages and tax evasion was implemented in two regions in 2014, and is to be rolled out further in 2015. The level of environmental taxation was increased in 2014, bringing it close to the EU average.

(13) While some improvements were seen in 2014, employment and activity rates continue to be especially low among women, young people, older workers and Roma. Active labour market policies have been revised, but the overall participation in and financing for active labour market measures remain low, particularly for vocational training, schemes leading to the recognition of prior learning, mobility incentives, and measures targeting the long-term unemployed. Romania has taken steps to address youth unemployment, in particular through the Youth Guarantee, but there have been delays in implementation. No progress has been made in setting transparent guidelines for setting the minimum wage. In order to allow for personalised services and more coherent delivery across target groups, the Public Employment Service would need increased capacity, in particular in terms of staffing, and an integrated delivery framework for measures co-financed through European Structural and Investment funds.

(14) Romania faces several challenges in the area of education: the early school leaving rate remains well above the EU average; the availability and access of early childhood education and care services is limited, especially in rural areas and for the Roma community; participation in lifelong learning remains far below the EU average; the quality and labour market relevance of higher education is inadequate; and the tertiary attainment rate remains the second lowest in the EU. Romania has started addressing these challenges, with varying degrees of progress being made in the different areas, and, to date, little visible end-effect. There have been significant delays in adopting the national strategy for reducing early school leaving. A national programme for early childhood education and care was designed for the period 2014-2019, and will come into effect in the new school year, 2015-2016. The national lifelong learning strategy has been delayed. A strategy on tertiary education has been drafted, the aim of which is to increase the relevance of higher education by aligning it more closely with labour market needs and to improve the accessibility of higher education for disadvantaged groups. Measures have been implemented to improve vocational education and training and apprenticeships schemes.

(15) The Romanian healthcare system is characterised by poor results of treatment, poor financial and geographical accessibility, low funding and inefficient use of resources. There is high reliance on in-patient services and the system suffers from the extensive inefficient hospital network, the weak and fragmented referral networks, and the low proportion of spending directed to primary healthcare. In addition, the widespread use of informal payments in the public healthcare system further reduces the accessibility, efficiency and quality of the system. Various measures and healthcare reforms that have been introduced have narrowed the funding gap and improved the standard and efficiency of services. The National Health Strategy 2014-2020, which sets the strategic base for health sector reforms, was approved in

December 2014 and is now to be implemented. The Ministry of Health and the National Health Insurance House are considering various measures to improve the system for financing healthcare.

(16) Reducing poverty and social exclusion remains a major challenge for Romania. Although decreasing, the rate of people at risk of poverty or social exclusion remains high at 40 % in 2013, far above the EU average. The effectiveness of social transfers (excluding pensions) in reducing poverty appears limited, and is particularly low in the case of children. Social transfers are not adequately linked to activation measures. The implementation of the 2011 social assistance reform is still behind schedule. The adoption of the strategy for social inclusion and combating poverty and the associated action plans was put back. Limited progress was made in introducing the minimum insertion income, which would simplify social assistance by combining three existing social transfers. A social economy law designed to strengthen the link between social transfers and activation measures was adopted by the government in 2013, but is still under debate in the Parliament. Few effective measures were taken to integrate the Roma population. A revised strategy for the integration of Roma was, however, adopted with some delay in January 2015, but implementation is behind schedule.

(17) [Romania's administrative capacity is low, fragmented, and characterised by an unclear delegation of responsibilities, as a result of which it acts as a drag on the competitiveness of the economy. The root causes of the structural weaknesses have been identified, and a strategy to tackle the challenges in public administration and in policy prioritisation and coordination was adopted in October 2014, together with an action plan for its implementation over the period 2014-2020. Implementation has, however, been considerably delayed. Irregularities in public procurement procedures have resulted in significant delays in implementing EU fund programmes. They have a negative impact on the business environment and hold back much needed investment in infrastructure.]

(18) Some progress has been made in increasing the independence, quality and efficiency of the judicial system, fighting corruption at all levels, and ensuring the effective implementation of court decisions. Nonetheless, the implementation of court decisions remains weak in many cases and more limited progress was made in preventing and fighting low-level corruption. These important policy areas will be covered by the Cooperation and Verification Mechanism.

(19) State-owned companies suffer from sub-standard productivity, contribute to the illiquidity in the economy, place a burden on the general government budget — as contingent liabilities —, and account for 50 % of the tax arrears of all companies combined. Corporate governance is a critical factor determining the performance of state-owned companies. Their current governance setup does not prevent political interference in the day-to-day management of the companies, or guarantee a separation between the authorities' ownership and policy-making functions. Specific rules for state-owned companies were not systematically introduced until the emergency government ordinance 109/2011 was passed. Various areas remain uncovered and in practice the rules are not always respected. No progress has been made regarding reform of the corporate governance of state-owned companies in the energy and transport sectors.

(20) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Romania's economic policy and published it in the 2015 country report. It has also assessed the Convergence Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Romania in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Romania but also their compliance with EU rules and guidance, given the need to strengthen the overall economic governance of the European Union by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations 1 to 4 below.

(21) In the light of this assessment, the Council has examined Romania's Convergence Programme, and its opinion[10] is reflected in particular in recommendation 1 below.

(22) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Convergence Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations 1 to 4 below.

HEREBY RECOMMENDS that Romania take action in 2015 and 2016 to:

1. Take all the necessary measures to complete the financial assistance programme.

2. Limit the deviation from the fiscal medium-term objective in 2015 to a maximum of 0.25% of GDP as specified under the 2013-15 balance-of-payments programme and return to the medium-term objective in 2016. Implement the comprehensive tax compliance strategy, strengthen verification control systems in order to tackle undeclared work, and push ahead with the equalisation of the pensionable age for men and women.

3. Strengthen the provision of labour market measures, in particular for unregistered young people and the long-term unemployed. Ensure that the national employment agency is adequately staffed. Establish, in consultation with the social partners and in accordance with national practices, clear guidelines for setting the minimum wage transparently. Introduce the minimum insertion income. Increase the provision and quality of early childhood education and care, in particular for Roma. Adopt the national strategy to reduce early school leaving. Pursue the national health strategy 2014-2020 to remedy issues of poor accessibility, low funding and inefficient resources.

4. Adopt the law on reforming corporate governance of state-owned enterprises.

Done at Brussels,

For the Council
The President

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