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To:	Permanent Representatives Committee/Council
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Subject:	COUNCIL RECOMMENDATION on the 2023 National Reform Programme of Romania and delivering a Council opinion on the 2023 Convergence Programme of Romania

Delegations will find attached the above-mentioned draft Council Recommendation, as discussed by the Council and European Council, based on the Commission Recommendation COM(2023) 623 final.

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COUNCIL RECOMMENDATION

of …

on the 2023 National Reform Programme of Romania and delivering a Council opinion on the 2023 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 Article 121(2) and Article 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,

Having regard to the resolutions of the European Parliament,

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.

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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:

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(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, the Facility contributes to economic and inclusive recovery and to the implementation of sustainable and growth-enhancing 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. The maximum financial contribution per Member State under the Facility was updated on 30 June 2022, in accordance with Article 11(2) of Regulation (EU) 2021/241.

[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).

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(2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey, marking the start of the 2023 European Semester for economic policy coordination. On 23 March 2023, the European Council endorsed the priorities of the 2023 Annual Sustainable Growth Survey, which are centred around the four dimensions of competitive sustainability. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2023 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. As such, 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 2023 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[4] ('2023 Recommendation on the euro area') on 16 May 2023 and the Joint Employment Report on 13 March 2023.

(3) While the Union's economies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the Union stands firmly with Ukraine, the Union's economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and firms in the short term, and on keeping up efforts to deliver on the green and digital transitions, support sustainable and inclusive growth, safeguard macroeconomic stability, and increase resilience in the medium term. It also focuses heavily on increasing the Union's competitiveness and productivity.

[4] Council Recommendation of 16 May 2023 on the economic policy of the euro area (OJ C 180, 23.5.2023, p. 1).

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(4) On 1 February 2023, the Commission issued a communication entitled 'A Green Deal Industrial Plan for the Net-Zero Age' ('the Green Deal Industrial Plan'). The aim of the Green Deal Industrial Plan is to boost the competitiveness of the Union's net-zero industry and support the fast transition to climate neutrality. It complements ongoing efforts under the European Green Deal and REPowerEU. It also aims to provide a more supportive environment for scaling up the Union's manufacturing capacity for the net-zero technologies and products required to meet the Union's ambitious climate targets, and to ensure access to relevant critical raw materials, including by diversifying sourcing, properly exploiting geological resources in Member States and maximising the recycling of raw materials. The Green Deal Industrial Plan is based on four pillars: a predictable and simplified regulatory environment, faster access to finance, the enhancement of skills, and open trade for resilient supply chains. On 16 March 2023, the Commission issued a further communication entitled 'Long-term competitiveness of the EU: looking beyond 2030', structured along nine mutually reinforcing drivers with the objective of working towards a growth-enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well-focused investment and regulatory measures for the long-term competitiveness of the Union and its Member States. The recommendations below help address those priorities.

(5) In 2023, 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 address all or a significant subset of the relevant country-specific recommendations issued in recent years. The 2019, 2020 and 2022 country-specific recommendations remain equally relevant for the recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(6) Regulation (EU) 2023/435 of the European Parliament and of the Council[5] (the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to rapidly phase out the Union's dependence on Russian fossil-fuel imports. This will contribute to energy security and the diversification of the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The REPowerEU Regulation enables Member States to add a new REPowerEU chapter to their national recovery and resilience plans in order to finance key reforms and investments that will help achieve the REPowerEU objectives. Those reforms and investments will also help boost the competitiveness of the Union's net-zero industry as outlined in the Green Deal Industrial Plan and address the energy-related country-specific recommendations issued to the Member States in 2022 and, where applicable, in 2023. The REPowerEU Regulation introduces a new category of non-repayable financial support, made available to Member States in order to finance new energy-related reforms and investments under their recovery and resilience plans.

[5] 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).

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(7) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024 ('the communication of 8 March 2023'). It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination. The Commission recalled that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023. It called for fiscal policies in 2023–2024 that ensure medium-term debt sustainability and raise potential growth in a sustainable manner and invited Member States to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the Treaty reference value of 3 % of gross domestic product (GDP) is adhered to and ensure plausible and continuous debt reduction, or for debt to be kept at prudent levels in the medium term. The Commission also invited Member States to phase out national fiscal measures introduced to protect households and firms from the energy price shock, starting with the least targeted ones. It indicated that, if support measures needed to be extended because of renewed energy price pressures, Member States should better target such measures at vulnerable households and firms. The Commission stated that the fiscal recommendations would be quantified and differentiated. Moreover, as proposed in its communication of 9 November 2022 on orientations for a reform of the EU economic governance framework, the fiscal recommendations would be formulated on the basis of net primary expenditure. It recommended that all Member States continue to protect nationally financed investment and ensure the effective use of the Facility and other Union funds, in particular in light of the green and digital transitions and resilience objectives. The Commission indicated that it will propose to the Council to open deficit-based excessive-deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions.

(8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the Union's economic governance rules. The central objective of the proposals is to strengthen public debt sustainability and promote sustainable and inclusive growth in all Member States through reforms and investments. In its proposals, the Commission aims to improve national ownership, simplify the framework and move towards a greater medium-term focus, in combination with effective and more coherent enforcement. According to the Council conclusions of 14 March 2023 on orientations for a reform of the EU economic governance framework, the objective is to conclude the legislative work in 2023.

(9) 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 3 November 2021, the Council adopted its Implementing Decision on the approval of the assessment of the recovery and resilience plan for Romania[6]. 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.

[6] ST 12319/2021; ST 12319/2021 ADD 1.

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(10) On 11 May 2023, Romania submitted its 2023 National Reform Programme and, on 10 May 2023, its 2023 Convergence Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2023 National Reform Programme also reflects Romania's biannual reporting on the progress made in achieving its recovery and resilience plan.

(11) On 24 May 2023, the Commission published the 2023 country report for Romania. It assessed Romania's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022, 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.

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(12) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Romania and published its results on 24 May 2023. The Commission concluded that Romania is experiencing macroeconomic imbalances. In particular, its vulnerabilities relate to external accounts linked to large government deficits, while overheating pressures have increased. The large current account deficit worsened considerably after the recession caused by the COVID-19 pandemic and made the economy vulnerable to external funding shocks. The continuation of large current account deficit risks driving the net international investment position further into negative territory. Signs of overheating are clearly visible, with core inflation uncomfortably high, wage growth well in double digit territory and a relatively low unemployment rate. Cost competitiveness indicators are expected to stabilise, but structural issues persist. The exchange rate appears to be above the level suggested by fundamentals and remains heavily managed. The government deficit has been large for several years and has accounted for much of the excess of demand and of the subsequent external deficits; even though the government deficit is improving, it is still forecast to remain significant in 2023 and 2024. The narrowing of the government deficit in 2022 was mainly driven by marked nominal GDP growth, which in turn rests much on overheating domestic demand. Risk premia and sovereign borrowing costs are significantly higher than in the pre-pandemic years. Given the ongoing tightening in global liquidity conditions, it will be important to reverse ongoing trends. Going forward, fiscal adjustment should be the preferred way to bring demand more in line with supply and to contain domestic and external deficits. The full implementation of tax and pension reforms included in the recovery and resilience plan as well as adherence to fiscal targets under the excessive deficit procedure would go a long way in containing current dynamics.

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(13) On 3 April 2020, the Council adopted Decision (EU) 2020/509[7] on the existence of an excessive deficit in Romania due to the country's non-compliance with the deficit criterion in 2019. On 3 April 2020, the Council also issued a Recommendation[8] with a view to bringing an end to the situation of an excessive government deficit in Romania by 2022 at the latest. Considering the deep contraction in economic activity linked to the COVID-19 pandemic and the related need for fiscal policies to support the recovery, on 18 June 2021 the Council issued a new Recommendation[9] to put an end to the situation of an excessive deficit in Romania by 2024 at the latest. In its Recommendation of 18 June 2021, the Council recommended Romania to reduce its general government 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 a nominal growth rate 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 an annual structural adjustment 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 ensure the full and effective application of its national fiscal framework. Finally, the Council also stated that to ensure the success of the medium-term fiscal strategy, it will be important to support the fiscal consolidation with comprehensive reforms.

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7 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).

8 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).

9 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).

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(14) According to data validated by Eurostat, Romania's general government deficit decreased from 7,1 % of GDP in 2021 to 6,2 % of GDP in 2022, while general government debt fell from 48,6 % of GDP at the end of 2021 to 47,3 % at the end of 2022. This is in line with the 2022 headline deficit target recommended by the Council. The adjustment in the structural balance for 2022 was 0,4 percentage points of GDP, well below the recommended 1,8 percentage points of GDP. This calls for careful analysis based on the expenditure benchmark. In 2022, net primary expenditure growth (adjusted for one-offs and for the fiscal policy measures on the revenue side) was 14,1 %, above the recommended 1,3 %. The improvement in the structural balance almost stalled in 2022, even though government revenues were materially higher than expected, boosted by strong real GDP growth, high inflation, and a favourable composition of economic growth. On the expenditure side, public wages and purchases of goods and services fell as a share of nominal GDP due to partial indexation and a self-imposed ceiling on purchases. However, most other expenditure items grew much faster than planned, in part due to large inflation surprises, implying that part of revenue windfall gains was used to finance additional expenditure relative to plans.

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(15) The general government balance has been impacted by fiscal policy measures taken to mitigate the economic and social impact of the increase in energy prices. In 2022, such fiscal policy measures included price caps for electricity and natural gas tariffs for both household and non-household consumers. It also included special payments to low-income pensioners, food vouchers for low-income households (including pensioners and students) and fuel subsidies. The cost of those measures was partially offset by new taxes on the windfall profits of domestic energy-producing companies. The Commission estimates the net budgetary cost of those measures at 0,4 % of GDP in 2022. The general government balance has also been marginally impacted by the budgetary cost of offering temporary protection to displaced persons from Ukraine, which is estimated at 0,0 to 0,1 % of GDP in 2022.

(16) The macroeconomic scenario underpinning the budgetary projections in the 2023 Convergence Programme is relatively cautious and more favourable than the Commission's 2023 spring forecast thereafter. The government projects real GDP to grow by 2,8 % in 2023 and 4,8 % in 2024. By comparison, the Commission's 2023 spring forecast projects real GDP growth of 3,2 % in 2023 and 3,5 % in 2024. The Commission's significantly lower growth forecast for 2024 reflects the Commission's view on the delayed impact of monetary tightening on the economy. It also reflects the Commission's view that the Romanian economy is currently operating close to its potential level, which seems reasonable given high and sticky core inflation rates and relatively low unemployment rate. This limits the potential for non-inflationary growth.

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(17) In its 2023 Convergence Programme, the government expects that the general government deficit will decrease from 6,2 % of GDP in 2022 to 4,4 % in 2023, as recommended by the Council. The large decrease reflects planned expenditure restraint, including significant declines in the real wages of public workers, and some revenue-enhancing measures, including an increase in the dividend tax rate, a reduction in the threshold to benefit from the low tax rate under the micro-enterprise regime, and increases in VAT rates on selected products. According to the 2023 Convergence Programme, the general government debt-to-GDP ratio is expected to decrease from 47,3 % at the end of 2022 to 47,1 % at the end of 2023.

(18) The general government balance in 2023 is expected to continue to be impacted by the measures taken to mitigate the economic and social impact of the increase in energy prices. They consist of measures extended from 2022, namely price caps for electricity and natural gas tariffs, subsidies for low-income groups of the population and special payments to low-income pensioners. The cost of those measures continues to be largely offset by taxes on the windfall profits of domestic energy suppliers and on trading margins. Taking those revenues into account, the net budgetary cost of the support measures in 2023 is estimated at 0,3 % of GDP. Most of the measures in 2023 are targeted at the most vulnerable households, although they do not fully preserve the price signal to reduce energy demand and increase energy efficiency.

(19) The Commission 2023 spring forecast projects a government deficit of 4,7 % of GDP for 2023. This is 0,3 percentage point of GDP higher than the deficit projected in the 2023 Convergence Programme, mainly due to higher projected expenditure, particularly in goods and services, social transfers and other current expenditure, which are all expected to increase much more slowly than inflation in the 2023 Convergence Programme. The Commission also projects slightly higher tax revenue growth than the 2023 Convergence Programme, mostly reflecting higher GDP growth. The Commission's 2023 spring forecast projects a slightly lower general government debt-to-GDP ratio (45,6 % at the end of 2023) than in the 2023 Convergence Programme.

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(20) The projected 2023 headline deficit in the Commission's 2023 spring forecast is 0,3 percentage points of GDP above the headline deficit target recommended by the Council. The structural adjustment is estimated at around 1,5 % of GDP, reflecting declines in real wages in the public sector and a freeze in new hirings of public employees, as well as the revenue measures described above. However, the adjustment is slightly lower than the recommended 1,7 percentage points of GDP. This calls for a careful analysis based on the expenditure benchmark. In 2023, net primary expenditure growth (adjusted for one-offs and for the fiscal policy measures on the revenue side) is projected at 8,3 % in the Commission's 2023 spring forecast, above the recommended 0,9 %. Thus, all three indicators point to a risk of deviation from the recommended adjustment. In a context of high inflation, government expenditure will continue to increase faster than recommended by the Council on 18 June 2021. Based on a careful analysis, Romania is at risk of non-compliance with the fiscal targets for 2023 set out in the Council Recommendation of 18 June 2021.

(21) According to the 2023 Convergence Programme, the general government deficit is expected to decline to 2,9 % of GDP in 2024, in line with the Council Recommendation of 18 June 2021, under the excessive deficit procedure. The decrease planned in 2024 mainly reflects continued expenditure restraint, with a projected decline in government expenditure from 38,4 % of GDP to 36,9 % of GDP. According to the 2023 Convergence Programme, the general government debt-to-GDP ratio is expected to decrease to 46,1 % at the end of 2024. On the basis of the policy measures known at the cut-off date of the forecast, the Commission's 2023 spring forecast projects a government deficit of 4,4 % of GDP in 2024. This is higher than the deficit projected in the 2023 Convergence Programme, since announced measures do not seem sufficient to reach the fiscal effort recommended by the Council in the excessive deficit procedure. The Commission's 2023 spring forecast projects a higher general government debt-to-GDP ratio (46,1 %) at the end of 2024.

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(22) The projected 2024 headline deficit in the Commission's 2023 spring forecast is 1,5 percentage points of GDP above the headline deficit target recommended by the Council, while the adjustment in the structural balance is forecast to be only 0,3 percentage point of GDP in 2024, compared to the recommended 1,5 percentage points of GDP. This calls for a careful analysis based on the expenditure benchmark. In 2024, net primary expenditure growth (adjusted for one-offs and for the fiscal policy measures on the revenue side) is projected at 9,5 % in the Commission's 2023 spring forecast, above the recommended 0,0 %. Thus, all three indicators point to a risk of deviation from the recommended adjustment. The absence of significant fiscal efforts projected for 2024 partly reflects the impact of indexation rules in Romania (the 2024 indexation round for pensions and the minimum wage will reflect the high inflation rates recorded in 2022). It should be noted, however, that the recovery and resilience plan includes several measures and reforms that, if adopted and implemented in time, could deliver a significant increase in government revenue as soon as 2024 and help achieve the deficit target. Overall, based on a careful analysis, Romania is at risk of non-compliance with the fiscal targets for 2024 set out in the Council Recommendation of 18 June 2021. Considering the risks of not meeting the recommended fiscal targets in 2023 and 2024, additional budgetary measures appear to be needed to comply with the adjustment path and achieve the correction of the excessive deficit by 2024, and to strengthen the external position.

(23) The 2023 Convergence Programme refers to reforms and investments planned under the recovery and resilience plan that are expected to contribute to fiscal sustainability and sustainable and inclusive growth. Those reforms and investments include significant reforms of the pension system (both special pensions and general systems), an ambitious tax reform, efforts to strengthen tax administration, and reforms of State-owned enterprises. The full implementation of these reforms would help achieve the deficit targets set by the Council under the excessive deficit procedure.

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(24) The 2023 Convergence Programme envisages the phasing-out of most of the energy support measures in 2025. The Commission also assumes the phasing-out of almost all energy support measures (net revenue of 0,1 % of GDP in 2024). This is based on the assumption of no renewed energy price increase.

(25) The 2023 Convergence Programme outlines a medium-term fiscal path until 2026. According to the 2023 Convergence Programme, the general government deficit is targeted to remain at 2,9 % of GDP in 2025 and 2026, based on real GDP growing by 5,0 % in 2025 and 4,6 % in 2026, well above potential. Following a large reduction from 39,8 % in 2021 to 36,9 % in 2024, the expenditure-to-GDP ratio would remain roughly unchanged in 2025 and 2026. According to the 2023 Convergence Programme, the general government debt-to-GDP ratio is expected to decrease from 46,1 % at the end of 2024 to 45,4 % by the end of 2026.

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(26) 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. The implementation of Romania's recovery and resilience plan is underway, albeit with increasing risk of delays. Romania submitted two payment requests, corresponding to 72 milestones and targets in the recovery and resilience plan and resulting in a disbursement of EUR 2,6 billion net of pre-financing for the first payment request, while the assessment of the second one is ongoing. Increasing risks of delays with the implementation of the recovery and resilience plan are due to the weak governance and limited capacity of the public administration. Tackling these issues, including through securing adequate human resources, is key for a better coordination of the plan and a timely implementation of investments. Moreover, the completion of important structural reforms will require continued political commitment and ownership. Given the considerable macroeconomic and fiscal relevance of the plan, a timely and full implementation of the measures would be crucial to contain external and fiscal vulnerabilities. The plan is expected to be revised in 2023, to include among others a REPowerEU chapter, while taking into account the reduction of non-repayable support due to Romania's strong economic recovery. Discussions to this end are ongoing. The swift inclusion of the new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of Romania's strategic objectives in the field of energy and the green transition. The systematic and effective involvement of local and regional authorities, social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond that plan, in order to ensure broad ownership of the overall policy agenda.

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(27) The Commission approved all of Romania's cohesion policy programming documents in 2022. Proceeding with the swift implementation of the cohesion policy programmes in complementarity and synergy with the recovery and resilience plan, including the REPowerEU chapter, is key to achieving the green and digital transitions, increasing economic and social resilience, and achieving balanced territorial development in Romania.

(28) Beyond the economic and social challenges addressed by the recovery and resilience plan and cohesion policy programmes, Romania faces a number of additional challenges related to energy policy and the green transition.

(29) Romania faces decarbonisation-related challenges as the country still relies heavily on fossil fuels. The share of fossil fuels (coal, oil and gas) slightly increased in 2021 compared to 2020. It stood at 72 % in 2021, while renewable sources represented only about 20 %. Romania is the second largest gas producer in the Union, serving mostly the domestic market. A focus on the effective roll-out of renewables, a significantly more energy-efficient residential sector and the use of new technologies in industry would help Romania meet the Union and national energy and climate targets for 2030 set out in the 'Fit for 55' package. Romania's consumption of natural gas dropped by 20 % between August 2022 and March 2023, compared with the average gas consumption over the same period in the preceding 5 years, beyond the 15 % reduction target laid down in Council Regulation (EU) 2022/1369[10]. Romania could pursue temporary gas demand reduction measures until 31 March 2024 pursuant to Council Regulation (EU) 2023/706[11].

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10 Council Regulation (EU) 2022/1369 of 5 August 2022 on coordinated demand-reduction measures for gas (OJ L 206, 8.8.2022, p. 1).

11 Council Regulation (EU) 2023/706 of 30 March 2023 amending Regulation (EU) 2022/1369 as regards prolonging the demand-reduction period for demand-reduction measures for gas and reinforcing the reporting and monitoring of their implementation (OJ L 93, 31.3.2023, p. 1).

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(30) Increasing grid capacity is essential for reducing the use of fossil fuels and accelerating the energy transition. Decommissioned coal and lignite-fired power capacity, expected to be completed by 2032 as laid down in Romania's recovery and resilience plan, should be replaced by renewable energy sources. However, the existing transmission and distribution electricity grids limit the absorption of new renewables' capacity. Bottlenecks in the grid hinder the deployment of renewable energy. Investment is needed to upgrade and digitalise the existing grids in order to integrate new production from renewable sources and increase the interconnection capacity with neighbouring Member States, consistent with the climate objectives. Sufficient and advanced integrated system planning would be needed for grid upgrades and expansion (both at transmission and distribution level) to respond to demand and flexibility needs. Additionally, simplifying the designation of go-to areas and further streamlining related procedures, including simplifying the deployment of small-capacity renewables installations (such as solar panels) in buildings would improve the current situation, where obtaining permits for installing renewable power plants is relatively easy, but obtaining the necessary permits to connect them to the grid is more challenging.

(31) In the building sector, higher national targets for 2030 would require additional financing for the country's building stock. The Romanian recovery and resilience plan envisages the renovation of 2,4 million m^2 of public buildings and 4,4 million m^2 of residential ones, while cohesion policy has earmarked funds for 1,6 million m^2 of renovation in both sectors. However, poor access to information and finance in respect of energy renovations and renewable energy installations seriously hampers further improvements. In particular, better access to finance for households and small businesses to increase energy efficiency would significantly help reduce Romania's dependence on fossil fuels, while also addressing energy poverty. Additionally, regional and local authorities could provide more information on how to access energy renovation funds and on what type of small renewable energy installations could be deployed in buildings and households.

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(32) Labour and skills shortages in sectors and occupations key for the green transition, including manufacturing, deployment and maintenance of net-zero technologies, are creating bottlenecks in the transition to a net-zero economy. High-quality education and training systems that respond to changing labour market needs and targeted upskilling and reskilling measures, with the support of effective active labour market policies, are key to reducing skills shortages and promoting labour inclusion and reallocation. To unlock untapped labour supply, those measures need to be accessible, in particular for individuals and in sectors and regions most affected by the green transition. In 2022, labour shortages were reported in Romania for several occupations that require specific skills or knowledge for the green transition, including insulation workers, civil engineers and construction managers.

(33) In the light of the Commission's assessment, the Council has examined the 2023 Convergence Programme and its opinion[12] is reflected in recommendation (1).

(34) In the light of the Commission's in-depth review and its assessment, the Council has examined the 2023 National Reform Programme and the 2023 Convergence Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendation (1). Policies referred to in recommendation (1) help address vulnerabilities linked to external accounts, fuelled by large fiscal deficits and to re-emerging competitiveness issues. Recommendations (2) and (3) contribute to addressing recommendation (1),

12 Under Article 9(2) of Regulation (EC) No 1466/97.

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HEREBY RECOMMENDS that Romania takes action in 2023 and 2024 to:

1. Pursue fiscal policies in line with the Council Recommendation of 18 June 2021 with a view to bringing an end to the situation of an excessive government deficit in Romania by 2024, and to strengthening Romania's external position.

   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. Should renewed energy price increases necessitate new or continued support measures, ensure that such support measures are targeted at protecting vulnerable households and firms, are fiscally affordable and preserve incentives for energy savings.

   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.

   For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, in order to achieve a prudent medium-term fiscal position.

2. Ensure effective governance and strengthen the administrative capacity in order to allow for a continued swift and steady implementation of the recovery and resilience plan. Swiftly finalise the REPowerEU chapter with a view to rapidly starting the implementation thereof. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.

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3. Reduce reliance on fossil fuels and accelerate the energy transition, in particular by deploying renewable energy faster and improving grid capacity in order to allow new capacity to operate in the market. Increase energy efficiency and the ambition of building renovation efforts, including by providing better access to information and sustainable finance options. Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.

Done at Brussels,

For the Council
The President

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