Council of the European Union

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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2016 national reform programme of Romania and delivering a Council opinion on the 2016 convergence programme of Romania

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2016) 343 final.

COUNCIL RECOMMENDATION

of …

on the 2016 National Reform Programme of Romania

and delivering a Council opinion on the 2016 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 1997on 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 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,

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1 OJ L 209, 2.8.1997, p. 1.

Whereas:

(1) On 26 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[2], the Commission adopted the Alert Mechanism Report, in which it identified Romania as one of the Member States for which an in-depth review would be carried out.

(2) The 2016 country report for Romania was published on 26 February 2016. It assessed Romania's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Romania's progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review. The Commission's analysis leads it to conclude that Romania is experiencing no macroeconomic imbalances.

(3) On 28 April 2016, Romania submitted its 2016 National Reform Programme and its 2016 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

[2] 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 (OJ L 306, 23.11.2011, p. 25).

(4) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds for the 2014-2020 period. As foreseen in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council[3], where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of this provision in guidelines on the application of the measures linking effectiveness of the European Structural and Investment Funds to sound economic governance.

(5) The third balance-of-payments financial assistance programme (2013-2015) ended in September 2015 without any completed review. The third formal review mission (16-30 June 2015) to assess implementation of the programme's conditions has not been concluded. While some progress was achieved in several areas, current and former programme achievements were undermined in key policy areas. Post-programme surveillance started on 1 October 2015 and it will continue until at least 70 % of the loan granted under the first balance-of-payments programme has been repaid, i.e. at least until spring 2018.

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[3] Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

(6) Romania is currently in the preventive arm of the Stability and Growth Pact. In its 2016 Convergence Programme, the Government plans a deterioration of the headline balance from -0,7 % in 2015 to -2,9 % of GDP in 2016 and 2017. The structural balance is expected to deteriorate as well. The programme plans to depart from the medium-term budgetary objective - a structural deficit of 1 % of GDP - which had been achieved in 2014 and 2015 and does not plan to return to it within the programme period. According to the convergence programme, the government debt-to-GDP ratio is expected to remain below 40 % over the programme horizon. The macroeconomic scenario underpinning these budgetary projections is plausible for 2016 and slightly favourable for 2017. Based on the Commission 2016 spring forecast, there is a risk of a significant deviation both in 2016 and, under unchanged policies, 2017. In addition, the Commission 2016 spring forecast projects a general government deficit of 3,4 % of GDP for 2017, above the 3 %-of-GDP reference value of the Treaty. Based on its assessment of the Convergence Programme and taking into account the Commission 2016 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. Therefore further measures will be needed to ensure compliance in 2016 and 2017.

(7) The fiscal framework in Romania is sound as regards its provisions, but is not applied effectively in practice. None of the recent deficit-increasing fiscal measures was initiated and adopted as part of the standard budgetary process. In 2015, the requirement to include a Ministry of Finance-verified impact assessment for new legislative initiatives that increase public spending or reduce public revenues, to respect expenditure ceilings, and to propose compensatory measures for revenue reductions, was breached. In practice, the Fiscal Council is given very little time to react to budgetary proposals and its opinions and recommendations are not sufficiently taken into account. The 2016 Budget Law targets a fiscal deficit of 2,95 % of GDP, leading to a significant deviation from the medium-term objective. This is a departure from the national fiscal framework.

(8) A number of measures are being implemented to improve tax collection and increase tax compliance. These include mandatory cash registers, strengthened cash-payment rules, a new VAT registration procedure, intensified auditing by the tax authority (ANAF) and the authority's ongoing reorganisation. However, high tax evasion and a low level of tax compliance remain a challenge. Undeclared work and under-declared earnings continue to weigh on tax revenue and distort the economy. The effectiveness of measures, including those by the Labour Inspectorate, to curb undeclared work remains limited.

(9) The law on equalisation of the pensionable ages for men and women has been pending before the Parliament since 2013. Its adoption would increase the labour market participation of older women considerably, narrowing the pension gender gap and mitigating their risk of old-age poverty.

(10) Labour market conditions improved in 2015. Unemployment is low and the employment rate has been increasing. Long-term unemployment is below the EU average. However, significant challenges remain, especially in relation to the high rate of young people not in employment, education or training, and there is limited outreach to activate them effectively.

(11) The National Employment Agency is lagging behind in offering personalised services to jobseekers and has limited services for employers, despite mandatory referral of vacancies to the National Employment Agency. A procedure has been adopted to offer tailor-made support to the various categories of unemployed people, but has not yet been implemented. Cooperation between employment and social services is very limited, making the activation of social assistance beneficiaries even harder.

(12) The minimum wage, which is among the lowest in the Union, has increased substantially since 2013 and the lack of objective criteria for its setting creates uncertainty. A tripartite working group has been set up to work on the reform of minimum wage setting, but there continues to be no clear guidelines or criteria that would take into account its impact on job creation, social conditions and competitiveness. Overall, social dialogue remains weak.

(13) Romania has one of the highest risks of poverty or social exclusion in the Union. The labour market activation of people on social assistance is very limited, especially in rural areas. The social reference index, on which social benefit amounts are based, is not regularly updated in line with the economic context, which may affect the adequacy of benefits over time. The Minimum Inclusion Income Law, which is expected to improve the targeting and adequacy of benefits and the labour market activation of minimum inclusion income recipients, has been sent to the Parliament for adoption. However, several measures in the Government's 'anti-poverty package' aim at tackling this issue, using an integrative approach (education, health, housing, social protection, transport).

(14) Romania still faces education challenges. Several strategies cover lifelong learning, vocational education and training, tertiary education and early school leaving. However, the early school leaving rate remains well above the EU average, in part due to significant implementation delays of the strategy approved in 2015. Prevention and remedial programmes are limited. Vulnerable groups such as Roma and children from poor families continue to face obstacles in accessing and completing quality education, especially in rural areas. In early childhood education and care, Romania has taken action to support the participation of disadvantaged pupils in kindergarten (3-6 year-olds). Provision of early childhood services for 0-3 year-olds remains limited. Recent legislation to extend parental leave provisions, together with insufficient work incentives, may increase barriers for the participation of women in the labour market. Participation in upper secondary vocational education and training is above the EU average, but the dropout rates remain high. The tertiary attainment rate is increasing, but the quality and labour market relevance of higher education is limited. Participation in adult education is very low.

(15) Health outcomes in Romania are poor. Life expectancy at birth is well below the EU average for both men and women. Access to healthcare and over-reliance on hospital care remain major concerns. Widespread informal payments reduce access to healthcare for people with low incomes. Romania has adopted measures to improve access to healthcare for low-income pensioners and people in remote and isolated communities. A network of social and health mediators is being developed and a draft law on community services has been proposed. The deinstitutionalisation of people with disabilities remains a challenge.

(16) Romania has taken action to address the low funding of the healthcare system and its inefficient use of public resources. These reforms included clearing arrears in the health sector, increasing the sustainability of pharmaceutical spending, implementing e-health solutions, improving the funding of the health system, devising a strategy to shift resources from hospital-based care towards preventive and primary care, and centralised procurement procedures. However, the lack of administrative capacity is delaying implementation of the 2014-2020 national health strategy. In particular, the efficiency of the health system is constrained by delays in streamlining the hospital sector and switching from inpatient to more cost-effective outpatient healthcare.

(17) Romania's key development disparities are between urban and rural areas. Employment, social, health-care and educational outcomes are lower in rural areas and people face much lower access to education, medical services, basic utilities, and public services due to low and fragmented local administrative capacity. Meanwhile, the socio-economic development of rural areas is limited by under-developed transport infrastructure and limited public and private transport, coupled with high commuting costs and limited access to broadband infrastructure. Low added value in agriculture and a lack of economic diversification in rural areas constrain the development of a sustainable rural economy. A high proportion of the rural labour force works in subsistence or semi-subsistence agriculture associated with hidden unemployment or non-remunerated family work, low productivity and poverty. An anti-poverty package, to be financed mainly with EU funds, provides for an integrated approach to fighting poverty, including in rural areas. There are plans to set up integrated community teams, offering several integrated services to disadvantaged communities, but they have not been implemented yet.

(18) The strategic framework for public administration reform has been in place since 2014, but its implementation was slow in 2015. Some key initiatives have been adopted in 2016 to increase the transparency and effectiveness of the functioning of public administration. However, the delays in adopting a general and transparent human resources management approach, in particular on recruitment/appointment, appraisal, salaries, career progression across all staff categories and training, leaves room for an arbitrary approach to key procedures and decisions. This, alongside unstable organisational structures, has a negative impact on the civil service's independence and professionalism and, therefore, on its effectiveness and efficiency. Complicated administrative procedures, an inefficient public procurement system and widespread corruption constrain the delivery of services (including e-government services), both to the public and to businesses. Strategic planning, programme budgeting, consultation practices, and evidence-based policy-making remain under-used. These challenges hamper the implementation of important policies across many areas, including the effective uptake of available EU funds and other financing support.

(19) State-owned enterprises dominating key economic sectors tend to underperform. These are especially prevalent in key infrastructure industries, accounting for 44 % of turnover and 77 % of employment in the energy sector and 24 % and 28 % respectively in the transport sector. Government Emergency Ordinance 109/2011 on the corporate governance of state-owned enterprises was converted into a law on 10 May 2016 with amendments that better align it with international good practices. Romania has resumed hiring professional managers to replace the interim management in several state-owned enterprises but progress has been slower than initially announced. The transparency and accountability of state-owned enterprises would benefit from accelerating the adoption of annual budgets and the approval and publication of audited annual accounts. A new privatisation law is in preparation. However, it may include provisions that conflict with corporate governance legislation. Of particular concern are likely overlaps in the responsibilities of the privatisation's special administrator and the company's management.

(20) In spite of the efforts of the judicial institutions to address high-level corruption, corruption is still present in many economic sectors and involves appointed and elected officials at all levels of government as well as civil servants and employees of public institutions. Major judicial reforms are being implemented, but concerns remain about the high workload in courts, the predictability and proper enforcement of court decisions and external pressure on the judiciary. Under the Cooperation and Verification Mechanism, Romania receives recommendations in the areas of judicial reform and the fight against corruption. These areas are therefore not covered in the country-specific recommendations for Romania.

(21) The soundness of the financial sector has improved. However, the sector remains vulnerable to domestic legal intiatives. The recently adopted law on debt discharge with retroactive application on the existing stock of loans may constitute a challenge for several credit institutions and lead to weaker credit activity. The law may increase risks for financial sector stability with implications for the whole economy. Other developments that may have a negative impact on banks include the proposal to convert foreign currency loans into local currency loans and some court decisions on unfair contract terms in loan contracts.

(22) Insufficient or low-quality infrastructure is among the most problematic factors for doing business in Romania and represents a barrier to trade and economic development. In spite of a recent slight improvement, Romania still ranks last among its regional peers in the perceived quality of transport and communication infrastructure. Its roads and motorways network is small compared with that of its peers and the size of the country. Adoption of the transport master plan and the accompanying railway reform have been repeatedly delayed.

(23) Public investment has decreased since 2008 despite ample availability of financing, especially from EU funds. This trend was reversed in 2015 but public investment is expected to slow down from 2016 onwards, since the implementation of the 2014-2020 programme has not fully started and there are not enough mature projects in the pipeline. Romania has made recent and ongoing efforts to strengthen inter-ministerial cooperation, reorganise the public procurement system and improve the planning and implementation of investment projects. Nevertheless, the preparation of public investment projects is still insufficient and remains susceptible to external influence. Project selection remains hampered by the lack of medium- to long-term planning and strategic priorities, the need to achieve an agreement between numerous decision-makers, the limited enforcement power of the Public Investment Evaluation Unit in the Ministry of Public Finance, and the lack of selection criteria in the national programme for local development.

(24) In spite of significant improvements in cost competitiveness and trade performance, Romania's non-cost competitiveness remains a challenge. Structural barriers are hindering the transition to a higher value added economy and limiting Romania's ability to foster sustainable growth. The complexity of administrative procedures, the volatility of fiscal and tax policies, and the weak business environment continue to weigh on investment decisions. High tax evasion and undeclared work reduce tax revenue and distort the economy. Access to financing for small and medium-sized enterprises remains limited.

(25) 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 2016 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 socio-economic policy in Romania but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (4) below.

(26) In light of this assessment, the Council has examined the Convergence Programme, and its opinion[4] is reflected in particular in recommendation (1) below.

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

HEREBY RECOMMENDS that Romania take action in 2016 and 2017 to:

1. Limit the deviation from the medium-term budgetary objective in 2016 and achieve an annual fiscal adjustment of 0,5 % of GDP in 2017 unless the medium-term budgetary objective is respected with a lower effort. Ensure the application of the fiscal framework and strengthen further tax compliance and collection. Ensure that legislative initiatives do not undermine legal certainty and do not put at risk financial stability. If necessary, adopt measures that mitigate such risks.

2. Strengthen the National Employment Agency's services to employers and jobseekers, in particular by tailoring services to jobseeker profiles, better linking them with social assistance, including social services, and reaching out to unregistered young people. Establish, in consultation with social partners, objective criteria for setting the minimum wage. Take action to prevent early school leaving and increase the provision of quality education, in particular among Roma. Adopt the equalisation of the pension age for men and women.

3. Curb informal payments in the healthcare system and increase the availability of outpatient care. Strengthen the independence and transparency of human resources management in the public administration. Simplify administrative procedures for business and the public. Strengthen corporate governance of state-owned enterprises.

4. Improve access to integrated public services, extend basic infrastructure and foster economic diversification, in particular in rural areas. Adopt and implement the transport master plan. Strengthen public investment project prioritisation and preparation.

Done at Brussels,

For the Council
The President