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To:	Permanent Representatives Committee/Council
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Subject:	Recommendation for a 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 revised and agreed by various Council committees and finalized by the Economic and Financial Committee, based on the Commission Proposal COM(2023) 623 final.

Recommendation for a

COUNCIL RECOMMENDATION

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 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,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

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

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it contributes to economic and inclusive recovery and to the implementation of sustainable and growth-enhancing reforms and investments, in particular to promote the green and digital transition and 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 EU and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the Recovery and Resilience 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).

(2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey[4], marking the start of the 2023 European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 23 March 2023. 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, and for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 16 May 2023, as well as the proposal for the 2023 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 13 March 2023.

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

[4] COM(2022) 780 final.

(4) On 1 February 2023, the Commission issued the Communication *A Green Deal Industrial Plan for the Net-Zero Age*[5] to boost the competitiveness of the EU's net-zero industry and support the fast transition to climate neutrality. The plan complements ongoing efforts under the European Green Deal and REPowerEU. It aims to provide a more supportive environment for scaling up the EU's manufacturing capacity for the net-zero technologies and products required to meet the EU's ambitious climate targets as well as ensuring 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 plan is based on four pillars: a predictable and simplified regulatory environment, speeding up access to finance, enhancing skills, and open trade for resilient supply chains.
On 16 March 2023, the Commission also issued the Communication *Long-term competitiveness of the EU: looking beyond 2030*[6], structured along nine mutually reinforcing drivers with the objective to work 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 EU and its Member States. The recommendations below help address those priorities.

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5 COM(2023) 62 final.
6 COM(2023) 168 final.

(5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. Fully implementing 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 also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(6) The REPowerEU Regulation[7] adopted on 27 February 2023 aims to rapidly phase out the EU's dependence on Russian fossil fuel imports. This will contribute towards energy security and the diversification of the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The 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. They will also help boost the competitiveness of the EU's net-zero industry as outlined in the Green Deal Industrial Plan for the Net-Zero Age 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 to finance new energy-related reforms and investments under their recovery and resilience plans.

[7] 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).

(7) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024. It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination[8]. 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 as well as raise potential growth in a sustainable manner. Member States were invited to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the 3% of GDP deficit reference value is adhered to as well as plausible and continuous debt reduction, or for debt to be kept at prudent levels in the medium term. The Commission 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 target such measures much better than in the past towards vulnerable households and firms. The Commission proposed that the fiscal recommendations would be quantified and differentiated. Moreover, as proposed in its Communication on orientations for a reform of the EU economic governance framework[9], the fiscal recommendations would be formulated on the basis of net primary expenditure. It recommended that all Member States should continue to protect nationally financed investment and ensure the effective use of the Recovery and Resilience Facility and other EU funds, in particular in light of the green and digital transition 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.

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8 COM(2023) 141 final.

9 COM(2022) 583 final.

(8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the EU'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 at improving national ownership, simplifying the framework and moving towards a greater medium-term focus, combined with effective and more coherent enforcement. According to the Council Conclusions adopted on 14 March 2023, 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 of Annex V to that Regulation. On 3 November 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Romania[10]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, 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.

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[10] Council Implementing Decision of 3 November 2021 on the approval of the assessment of the recovery and resilience plan for Romania (ST 12319/2021; ST 12319/2021 ADD 1).

(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) The Commission published the 2023 country report for Romania[11] on 24 May 2023. 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. Based on this analysis, the country report identified gaps with respect 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 on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

[11] SWD(2023) 623 final.

(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[12]. It concluded that Romania is experiencing macroeconomic imbalances. In particular, vulnerabilities relate to external accounts, linked to large government deficits, while overheating pressures have increased. The large current account deficit worsened considerably after the pandemic-induced recession and makes the economy vulnerable to external funding shocks. The continuation of large current account deficit risks driving the NIIP 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 if improving, the government deficit is forecast to remain significant this year and next. 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. Full implementation of tax and pension reforms included in the RRP as well as adherence to fiscal targets under the excessive deficit procedure would go a long way in containing current dynamics.

[12] SWD(2023) 642 final.

(13) On 3 April 2020, the Council adopted Decision (EU) 2020/509[13] on the existence of an excessive deficit situation in Romania due to non-compliance with the deficit criterion in 2019. On 3 April 2020, the Council also issued a Recommendation[14] 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 to Romania[15] to put an end to the excessive deficit situation 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 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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[13] 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).

[14] 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).

[15] Council Recommendation of 18 June 2021 with a view to bringing an end to the situation of an excessive government deficit in Romania, COM (2021) 304, 29.7.2021

(14) Based on data validated by Eurostat,[16] 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.

[16] Eurostat-Euro Indicators, 47/2023, 21.4.2023.

(15) The general government balance has been impacted by fiscal policy measures adopted to mitigate the economic and social impact of the increase in energy prices. In 2022, such 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 these measures was partially offset by new taxes on the windfall profits of domestic energy-producing companies. The Commission estimates the net budgetary cost of these measures at 0.4% of GDP in 2022. The general government balance has also been marginally impacted by the budgetary cost of temporary protection to displaced persons from Ukraine, which is estimated at 0.0-0.1% of GDP in 2022.

(16) The macroeconomic scenario underpinning the budgetary projections in the Convergence Programme is relatively cautious in 2023 and more favourable than the Commission 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 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.

(17) In its 2023 Convergence Programme, the Romanian 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 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 government balance in 2023 is expected to continue to be impacted by the measures adopted to mitigate the economic and social impact of the increase in energy prices. These consist of measures extended from 2022 (price caps for electricity and natural gas tariffs, subsidies for low-income groups of the population, special payments to low-income pensioners). The cost of these measures continues to be largely offset by taxes on the windfall profits of domestic energy suppliers and on trading margins. Taking these 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 pps of GDP higher than the deficit projected in the 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 well slower than inflation in the Convergence Programme. The Commission also projects slightly higher tax revenue growth than the Convergence Programme, mostly reflecting higher GDP growth. The Commission 2023 spring forecast projects a slightly lower general government debt-to-GDP ratio (45.6% at the end of 2023) than in the Convergence Programme.

(20) The projected 2023 headline deficit in the Commission 2023 spring forecast is 0.3 pps 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 pps 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 established in the Council Recommendation of 18 June 2021.

(21) According to the Convergence Programme, the general government deficit is expected to decline to 2.9% of GDP in 2024, in line with the Council Recommendation 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. The Convergence Programme expects the general government debt-to-GDP ratio to decrease to 46.1% at the end of 2024. Based on policy measures known at the cut-off date of the forecast, the Commission 2023 spring forecast projects a government deficit of 4.4% of GDP in 2024. This is higher than the deficit projected in the 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 2023 spring forecast projects a higher general government debt-to-GDP ratio (46.1%) at the end of 2024.

(22) The projected 2024 headline deficit in the Commission 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 pps of GDP in 2024, compared to the recommended 1.5 pps 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 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 effort 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 RRP 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 in achieving the deficit target. Overall, based on a careful analysis, Romania is at risk of non-compliance with the fiscal targets for 2024 established 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 Convergence Programme refers to reforms and investments planned under the RRP, that are expected to contribute to fiscal sustainability and sustainable and inclusive growth. These 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. Full implementation of these reforms would help achieving the deficit targets set by the Council under the excessive deficit procedure.

(24) The 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 hinges upon the assumption of no renewed energy price increases.

(25) The Convergence Programme outlines a medium-term fiscal path until 2026. According to the 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 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.

(26) In accordance with Article 19(3), point (b) and Annex V, criterion 2.2 of Regulation (EU) 2021/241, 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 plan is underway, however with increasing risk of delays. Romania submitted two payment requests, corresponding to 72 milestones and targets in the 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 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 need 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 the plan, to ensure broad ownership of the overall policy agenda.

(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 transition, increasing economic and social resilience as well as 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 EU, 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 EU 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. Romania could pursue temporary gas demand reduction measures until 31 March 2024[17].

[17] Council Regulation (EU) 2022/1369 and Council Regulation (EU) 2023/706.

(30) Increasing grid capacity is essential to reduce the use of fossil fuels and accelerate 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 PV 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 finance and information for 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 what type of small renewable energy installations could be deployed in buildings and households.

(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, these 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 required specific skills or knowledge for the green transition, including insulation workers, civil engineers and construction managers.

(33) In light of the Commission's assessment, the Council has examined the 2023 Convergence Programme and its opinion[18] is reflected in recommendation (1) below.

(34) In light of the Commission's in-depth review and this 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) below. 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).

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[18] Under Articles 5(2) and 9(2) of Council Regulation (EC) No 1466/97.

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 strengthen 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 these are targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings.

   Preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU 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, to achieve a prudent medium-term fiscal position.

2. Ensure an effective governance and strengthen the administrative capacity 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 its implementation. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.

3. Reduce reliance on fossil fuels and accelerate the energy transition, in particular by deploying renewable energy faster and improving grid capacity 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