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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Romania

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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies 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 Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) 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:

General considerations

(1) Regulation (EU) 2024/1263, which entered into force on 30 April 2024, specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances and sustainable and inclusive growth and resilience through reforms and investments, and preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the TFEU. The European Semester includes, in particular, the formulation, and the surveillance of the implementation of country-specific recommendations. The Regulation also promotes national ownership of fiscal policy and emphasises its medium-term focus, combined with more effective and coherent enforcement. Each Member State must submit to the Council and the Commission a national medium-term fiscal-structural plan, containing its fiscal, reform and investment commitments, over 4 or 5 years, depending on the length of the national

[1] OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.
[2] OJ L 306, 23.11.2011, p. 25, ELI: http://data.europa.eu/eli/reg/2011/1176/oj.

legislative term. The net expenditure[3] path in these plans has to comply with the Regulation's requirements, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period, or for it to remain at prudent levels below 60% of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3%-of-GDP Treaty reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in the Regulation, the adjustment period may be extended by up to three years.

(2) Regulation (EU) 2021/241 of the European Parliament and of the Council[4], which established the Recovery and Resilience Facility (the 'RRF'), entered into force on 19 February 2021. The RRF provides financial support to Member States for implementing reforms and investments, delivering a fiscal impulse financed by the Union. In line with the priorities of the European Semester for economic policy coordination, the RRF fosters economic and social recovery while driving sustainable reforms and investments, in particular promoting the green and digital transitions and making 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.

(3) 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 phase out the Union's dependence on Russian fossil-fuel imports. This helps achieve energy security and diversify the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Romania added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

(4) 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 that Regulation, 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. On 29 October 2021, the Council adopted its Implementing Decision approving the assessment of the recovery and resilience plan for Romania[6], which was amended under Article 18(2) on 8 December 2023 to update the maximum financial contribution for non-repayable financial support, as

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3 Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263: 'net expenditure' means government expenditure net of (i) interest expenditure; (ii) discretionary revenue measures; (iii) expenditure on programmes of the Union fully matched by revenue from Union funds; (iv) national expenditure on co-financing of programmes funded by the Union; (v) cyclical elements of unemployment benefit expenditure; and (vi) one-offs and other temporary measures.

4 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, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

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, ELI: http://data.europa. eu/eli/reg/2023/435/oj).

6 Council Implementing Decision of 29 October 2021 on the approval of the assessment of the recovery and resilience plan for Romania (12319/21 + ADD1).

well as to include the REPowerEU chapter[7]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5), stating that Romania has satisfactorily achieved the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory achievement requires that the achievement of preceding milestones and targets for the same reform or investment has not been reversed.

(5) On 21 January 2025 the Council, upon the recommendation of the Commission, adopted a recommendation endorsing the national medium-term fiscal-structural plan of Romania[8]. The plan was submitted in accordance with Articles 11 and 36(1), point (a) of Regulation (EU) 2024/1263, covers the period from 2025 until 2028 and presents a fiscal adjustment spread over seven years.

(6) On 26 November 2024, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2025 Alert Mechanism Report, in which it identified Romania as one of the Member States 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 and a proposal for the 2025 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[9] on 13 May 2025 and the Joint Employment Report on 10 March 2025.

(7) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the EU's global competitiveness over the next five years. It identifies the three transformative imperatives of sustainable economic growth: (i) innovation; (ii) decarbonisation and competitiveness; and (iii) security. To close the innovation gap, the EU aims to foster industrial innovation, support the growth of start-ups through initiatives like the EU Start-up and Scale-up Strategy, and promote the adoption of advanced technologies like artificial intelligence and quantum computing. In pursuit of a greener economy, the Commission has outlined a comprehensive Affordable Energy Action Plan and a Clean Industrial Deal, ensuring that the shift to clean energy remains cost-effective, competitiveness-friendly, particularly for energy-intensive sectors, and is a driver for growth. To reduce excessive dependencies and increase security, the Union is committed to strengthening global trade partnerships, diversifying supply chains and securing access to critical raw materials and clean energy sources. These priorities are underpinned by horizontal enablers, namely regulatory simplification, deepening of the single market, financing competitiveness and a Savings and Investments Union, promotion of skills and quality jobs, and better coordination of EU policies. The Competitiveness Compass is aligned with the European Semester, ensuring that Member States' economic policies are consistent with the Commission's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

[7] Council Implementing Decision of 8 December 2023 amending the Implementing Decision of 29 October 2021 on the approval of the assessment of the recovery and resilience plan for Romania (15833/23 + ADD1).

[8] Council Recommendation of 21 January 2025 endorsing the medium-term fiscal-structural plan of Romania, OJ C/2025/647, 10.2.2025.

[9] Council Recommendation of 13 May 2025 on the economic policy of the euro area (OJ C, C/2025/2782, 22.5.2025, ELI: http:// data.europa.eu/eli/C/2025/2782/oj).)

(8) In 2025, the European Semester for economic policy coordination continues to develop alongside the implementation of the RRF. The full implementation of the recovery and resilience plans remains essential for delivering on the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. These country-specific recommendations remain equally relevant for the assessment of amended recovery and resilience plans in accordance with Article 21 of Regulation (EU) 2021/241.

(9) The 2025 country-specific recommendations cover the key economic policy challenges that are not sufficiently addressed by measures included in the recovery and resilience plans, taking into account the relevant challenges identified in the 2019-2024 country-specific recommendations.

(10) On 4 June 2025, the Commission published the 2025 country report for Romania. It assessed Romania's progress in addressing the relevant country-specific recommendations and took stock of Romania's implementation of the recovery and resilience plan. Based on this analysis, the country report identified the most pressing challenges Romania is facing. 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.

(11) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Romania. The main findings of the Commission's assessment of macroeconomic vulnerabilities for Romania for the purposes of that Regulation were published on 13 May 2025[10]. On 4 June 2025, the Commission concluded that Romania is experiencing excessive macroeconomic imbalances. In particular, vulnerabilities have increased as Romania's twin fiscal and current account deficits widened, and cost competitiveness deteriorated in 2024. The high government deficit increased in 2024. The continued growth in the government deficit, in particular the increases in public sector wages and pensions, increased private consumption and the already large current account deficit. Unit labour costs accelerated further in 2024 after already very high growth rates in earlier years, which eroded cost competitiveness. The soundness of the external financing mix, based on sizeable net FDI and EU funds that had contained the increase of external debt, weakened in 2024. Only marginal reductions are expected for the government and the current account deficits in 2025 and 2026. ULC growth and inflation are set to decelerate but to remain large. Policy progress was minimal in 2024 and macroeconomic stability risks widened. Political uncertainty increased towards the end of last year leaving the country vulnerable to changes in investor sentiment and higher borrowing costs. The bank-sovereign nexus is the largest in the EU and increased further in 2024. A significant fiscal consolidation package adopted at end-2024, including a freeze of pensions and government wages is yet to be complemented by further measures to ensure full compliance with the medium-term fiscal-structural plan targets. A reform of the minimum wage setting was adopted in early 2025. The implementation of the medium-term fiscal-structural plan and a tax reform in 2025, could significantly reduce fiscal vulnerabilities. In addition, structural reforms, and in particular those embedded in the RRP, are needed to strengthen competitiveness, export performance

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and attract further EU funding. However, additional measures are likely needed. Overall, without resolute action on both fiscal and structural reform levers, fiscal and external deficits are likely to remain too high, leaving Romania significantly exposed to changes in investor sentiment and exogenous shocks.

Assessment of the Annual Progress Report

(12) On 21 January 2025, the Council recommended the following maximum growth rates of net expenditure for Romania: 5.1% in 2025, 4.9% in 2026, 4.7% in 2027, and 4.3% in 2028, which corresponds to the maximum cumulative growth rates calculated by reference to 2023 of 20.2% in 2025, 26.0% in 2026, 31.9% in 2027, and 37.6% in 2028. In 2025-2030 these maximum growth rates of net expenditure coincide with the corrective path in accordance with Article 3(4) of Regulation 1467/97, as recommended by the Council on 21 January 2025 with a view to bringing an end to the situation of an excessive deficit[11]. Romania has not yet submitted an Annual Progress Report on action taken in response to the Council recommendation of 21 January 2025 with a view to bringing an end to the situation of an excessive deficit, the implementation of the set of reforms and investments underpinning the extension of the adjustment period and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations.

(13) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission recommended to activate the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending and this proposal was welcomed by the European Council of 6 March 2025.

(14) Based on data validated by Eurostat[12], Romania's general government deficit increased from 6.6% of GDP in 2023 to 9.3% in 2024, while the general government debt rose from 48.9% of GDP at the end of 2023 to 54.8% at the end of 2024. According to the Commission's calculations, these developments correspond to a net expenditure growth rate of 19.9% in 2024. Based on the Commission's estimates, the fiscal stance[13], which includes both nationally and EU financed expenditure, was expansionary, by 0.8% of GDP, in 2024.

(15) The Commission Spring 2025 Forecast projects real GDP to grow by 1.4% in 2025 and 2.2% in 2026, and HICP inflation to stand at 5.1% in 2025 and 3.9% in 2026.

(16) The Commission Spring 2025 Forecast projects a government deficit of 8.6% of GDP in 2025. The projected decline in the deficit in 2025 mainly reflects the implementation of a fiscal consolidation package at the end of 2024. This package included a nominal freeze in wages and pensions and some additional revenue-enhancing measures. According to the Commission's calculations, these developments

[11] Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Romania, C/2025/5038.

[12] Eurostat-Euro Indicators, 22.4.2025.

[13] The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

correspond to net expenditure growth of 5.4% in 2025. Based on the Commission forecast, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be contractionary, by 1.4% of GDP, in 2025.The general government debt-to-GDP ratio is set to increase to 59.4% by the end of 2025. The increase of the debt-to-GDP ratio in 2025 mainly reflects the very high primary deficit and, to a lesser extent, an increase in interest payments.

(17) General government expenditure amounting to 0.9% of GDP is expected to be financed by non-repayable support (“grants”) from the Recovery and Resilience Facility in 2025, compared to 0.6% of GDP in 2024, according to the Commission Spring 2025 Forecast. Expenditure financed by Recovery and Resilience Facility grants enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Romania.

(18) General government defence expenditure amounted to 1.9% of GDP in 2021, 1.8% of GDP in 2022 and 1.7% of GDP in 2023[14]. According to the Commission Spring 2025 Forecast, expenditure on defence is projected at 1.7% of GDP in both 2024 and 2025. This corresponds to a decrease of 0.2 percentage points of GDP compared to 2021.

(19) On 21 October 2024, the Council recommended[15] that Romania tighten fiscal policy in order to achieve a fiscal adjustment for 2024 as a whole. In 2024, the structural deficit in Romania increased by 2.4 percentage points of GDP to 8.8% of GDP. According to the Commission Spring 2025 Forecast, net expenditure in Romania is projected to grow by 5.4% in 2025 and 26.4% cumulatively in 2024 and 2025. Based on the Commission Spring 2025 Forecast, the net expenditure growth of Romania in 2025 is projected to be above the recommended maximum growth rate established by the corrective path, in annual and in cumulative terms, corresponding to a deviation[16] of 0.1% of GDP compared to the maximum recommended annual net expenditure growth in 2025, and a deviation of 1.7% of GDP compared to the maximum recommended cumulative net expenditure growth in 2024 and 2025. This high net expenditure growth is due to high growth in current expenditure in 2024 (+18.7% relative to 2023), in particular on the public sector wage bill (+21.5% relative to 2023) and social transfers including pensions (+19.5% relative to 2023). The projected deviations do not exceed the 0.3% of GDP threshold for annual deviations while they considerably exceed the 0.6% of GDP threshold for cumulative deviations. This means there is a high risk of a large deviation from the recommended maximum net expenditure growth and a strong presumption of no effective action.

(20) Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2025 Forecast projects a government deficit of 8.4% of GDP in 2026. These developments correspond to net expenditure growth of 8.1% in 2026. The decrease of the deficit in 2026 mainly reflects an improvement in government revenue growth, driven by the projected recovery in economic activity. Based on the Commission’s estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be broadly neutral in 2026. Fiscal consolidation could also

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14 Eurostat, government expenditure by classification of functions of government (COFOG).

15 Council Recommendation of 21 October 2024 on the economic, social, employment, structural and budgetary policies of Romania, OJ C/2024/6830x, 29.11.2024.

16 From 2026 these figures will appear in the control account that is established in Article 22 of the Regulation (EU) 2024/1263.

contribute to improving the external position. The general government debt-to-GDP ratio is projected by the Commission to increase to 63.3% by the end of 2026. The increase of the debt-to-GDP ratio in 2026 mainly reflects the persistence of a very high primary deficit.

(21) The recommendation endorsing the medium-term plan of Romania specifies the set of reforms and investments underpinning the extension of the adjustment period, together with a timeline for their implementation. They include existing and stepped-up measures from the recovery and resilience plan, such as a comprehensive review of the tax framework covering all areas of taxation, modernising the tax administration system, annual spending reviews, a reform of both general and special pensions, and a new minimum wage setting mechanism, as well as additional reforms and investments such as measures to improve business financing and a reform of the expenditure system of state-owned enterprises. Among the reforms and investments underpinning an extension that were due by the 30 April 2025, some were not implemented such as the key reform of the review of the tax system.

Key policy challenges

(22) 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. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, finalising the effective implementation of the recovery and resilience plan including the REPowerEU chapter, is essential to boost Romania's long-term competitiveness through the green and digital transitions, while ensuring social fairness. To deliver on the commitments of the recovery and resilience plan by August 2026, it is essential for Romania to urgently accelerate the implementation of reforms and investments by tackling procurement delays, ensuring effective governance and strengthening administrative capacity. To facilitate this process, Romania needs to amend the plan and remove investments no longer achievable due to objective circumstances, while safeguarding the grant component. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(23) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF), the European Social Fund Plus (ESF+) and the Cohesion Fund (CF), has accelerated in Romania. It is important to continue efforts to ensure the swift implementation of these programmes, while maximising their impact on the ground. Romania is already taking action under its cohesion policy programmes to boost competitiveness and growth. At the same time, Romania continues to face challenges, including those related to education, employment and social inclusion, as well as boosting regional competitiveness through research and innovation, including by developing or manufacturing critical technologies, increasing water resilience, especially in the east and south of the country and the affordability of housing. In accordance with Article 18 of Regulation (EU) 2021/1060, Romania is required – as part of the mid-term review of the cohesion policy funds – to review each programme taking into account, among other things, the challenges identified in the 2024 country-specific

recommendations. The Commission proposals adopted on 1 April 2025[17] extend the deadline for submitting an assessment – for each programme – of the outcome of the mid-term review beyond 31 March 2025. It also provides flexibilities to help speed up programme implementation and incentives for Member States to allocate cohesion policy resources to five strategic priority areas of the Union, namely competitiveness in strategic technologies, defence, housing, water resilience and energy transition.

(24) The Strategic Technologies for Europe Platform (STEP) provides the opportunity to invest in a key EU strategic priority by strengthening the EU's competitiveness. STEP is channelled through 11 existing EU funds. Member States can also contribute to the InvestEU programme supporting investments in priority areas. Romania could use these initiatives to support the development or manufacturing of critical technologies, including clean and resource-efficient technologies.

(25) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Romania faces several additional challenges related to the decarbonisation of the economy and energy production, preparation and prioritisation of large projects, quality and effectiveness of public administration, social protection and access to essential services, labour market participation and skills shortages, poverty and social exclusion.

(26) As set in the Competitiveness Compass, all the EU, national, and local institutions must make a major effort to produce simpler rules and to accelerate the speed of administrative procedures. The Commission has set ambitious goals for reducing administrative burden: by at least 25% and by at least 35% for SMEs; and has created new tools to achieve these goals, including systematic stress test of the stock of EU legislation and enhanced stakeholders' dialogue. To match this ambition, Romania also needs to take action. 82% of businesses consider the complexity of administrative procedures to be a problem for their company when doing business in Romania[18]. The predictability of decision-making remains a challenge, as it negatively affects the business environment. The number of emergency ordinances[19] issued remains high, generating uncertainty and likely hampering investment. Despite the established institutional framework for consultation, the involvement of relevant stakeholders in designing and implementing reforms is weak, and genuine dialogue rarely takes place, though some steps have recently been taken to improve the effectiveness of consultations. Regulatory impact assessments continue to be a formality, while their quality is questionable and their actual use is uncertain. Swiftly implementing the reforms in the recovery and resilience plan that aim to strengthen the capacity for policy coordination and impact analysis at all government levels, and increase the quality of public consultations would help improve economic and social outcomes.

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[17] Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review - COM(2025) 123 final.

[18] 'Businesses' attitudes towards corruption in the EU' Flash Report, Eurobarometer Report (April 2024).

[19] Government Emergency Ordinances are legislative acts having the legal force of a law. According to Article 115 of the Constitution of Romania, the Government can adopt emergency ordinances only in exceptional situations requiring their adoption without delay, having the obligation to motivate the urgency. The emergency ordinances enter into force after their submission for debate to the competent Chamber of the Parliament and after their publication in the Official Journal. Subsequently, they need to be approved by law in the Parliament, but they start producing legal effects on the date of their entry into force.

(27) Despite Romania making some progress, with RRF support, in increasing the share of renewables in its energy mix, the country's energy system still relies heavily on fossil fuels, which make up about 70% of its energy mix. Phasing out coal and limiting natural gas use by replacing them with cleaner alternatives, especially renewables, would improve Romania's air quality, cut CO_2 emissions, and shield its economy from fossil-fuel price shocks, as well as reduce its dependences and step up energy security. Given Romania's significant yet underused potential for renewable energy (wind and solar), accelerating their roll-out could support the country's commitment to increase the renewable energy share in total energy consumption to 38% by 2030, which is out of reach with current policies. Romania still faces multiple barriers to the roll-out of renewables – from price uncertainty to cumbersome permitting and unclear land-use rules. In particular, implementing the 2024 Offshore Wind Law could add 3-7 gigawatts of electricity by 2030, while additional regulatory reforms, also in the recovery and resilience plan, to simplify and speed up permitting procedures could remove the barriers to the roll-out of renewables. These efforts would allow Romania to meet its 2030 climate commitments, creating jobs and providing households and industry with more affordable energy.

(28) Increasing the share of renewables requires significant improvements to be made to Romania's power grids, which currently cannot accommodate a large expansion of wind and solar generation[20]. Insufficient transmission capacity and outdated infrastructure lead to congestion, curtailment of renewable output during peak production, and difficulties in connecting new projects. Romania's energy strategy intends to address these problems, calling for the electricity grid (both transmission and distribution) to be modernised and digitalised using smart technologies and energy storage. This would also improve energy security, as a robust grid can better handle demand spikes or supply shocks. A stronger national grid could be complemented by stronger links with neighbouring countries (such as Hungary, Bulgaria, Moldova, and Ukraine). Projects like the new Black Sea HVDC interconnector (linking Romania's Black Sea coast to Central Europe) could increase cross-border flow and enable future offshore wind exports. Improving cross-border electricity interconnections could better integrate Romania into the European energy market and increase the stability of its power system, while stepping up energy security.

(29) During the recent energy crisis, Romania introduced emergency measures, such as price caps and extensive subsidies to electricity and gas to shield households and businesses from soaring energy prices. While these interventions provided short-term relief and protected vulnerable consumers they came at a high fiscal cost and created market distortions. Blanket price caps send the wrong signals to the market, discouraging energy saving and investment in efficiency or new capacity. As energy prices have stabilised, it is crucial to phase out these emergency support schemes. Romania sizeable relevant fossil-fuel subsidies without a planned phase out before 2030. In particular, fossil-fuel subsidies that address neither energy poverty in a targeted way nor genuine energy security concerns, hinder electrification and are not crucial for industrial competitiveness could be considered a phase-out priority. In Romania, fossil-fuel subsidies such as support for heating supplied to households and to cover the losses incurred by fossil-fuel companies are economically inefficient and prolong reliance on fossil fuels. By contrast, Romania would benefit by using the savings to help address the unsustainably high general government deficit. Restoring

[20] See for example OECD Economic Surveys: Romania 2024.

undistorted energy prices could encourage investment in renewable energy and efficiency, stepping up Romania's clean energy transition.

(30) Investments in energy efficiency (renovating buildings for better insulation and upgrading heating systems), environmental infrastructure (modernising district heating networks, improving waste and water systems, and remediating industrial areas affected by pollution) and net zero technologies (developing new industries like solar panel components, battery assembly, or even hydrogen projects) are complementary measures to Romania's supply-side reforms. These aim to ensure that the energy transition is cost-effective and inclusive across regions, particularly coal-dependent regions, to enable a fair transition.

(31) Romania's infrastructure, particularly that related to sustainable transport, clean energy, and environmental and digital services, still requires significant investments despite the sizeable support provided by cohesion policy, the RRF and other EU funds. In many instances, even mature projects are facing delays and large projects are not always getting the required priority to advance on schedule. Addressing these shortcomings would step up planning security and enable projects to be carried out in a timely manner, which often help enable complementary private investments. Quality and effectiveness of public administration needs to be further improved. Applying and, if needed, further improving the framework for strategic and budgetary planning that was introduced with the recovery and resilience plan would support the country's long-term development, as well as the prioritisation of actions and policy coordination at central and local level. In particular, the sectoral strategic framework seems to be still fragmented, with overlaps across sectors and no clear setting of priorities.

(32) Women's participation in Romania's labour market remains below the EU average (60.3% vs 70.8% EU). In addition, young people face high levels of unemployment as Romania has the third-highest unemployment rate for young people in the EU (23.9% vs 14.9% EU) and the highest rate of young people not in education, employment or training in the EU (19.4% vs 11% EU). Improving their respective position and increasing their participation in the labour market could partially counteract adverse demographics, as well as provide women and young people with additional opportunities. Addressing challenges related to activation measures and access to early childhood education and care, especially in rural areas, would be important in that respect. In 2024, only 11.4% of children aged 0-3 were enrolled in formal childcare, well below the EU average of 39.2%, and only 75.7% (EU: 94.6%) of children aged 3 to compulsory primary education were taking part in early childhood education and care in 2022. Romania could consider a better targeting of labour market activation measures and redirecting support away from less effective employment subsidies towards training and outreach.

(33) While job vacancy rates remain low, Romania is among the Member States with the highest number of occupations with staff shortages. Employers identify the lack of appropriate skills within the workforce as one of their main business constraints. Tertiary educational attainment and the share of the adult population with at least basic digital skills remain stagnant at low levels, hampering competitiveness. Given the projected decline in Romania's working-age population, skills shortages may get worse without improved policies for helping people find work, upskilling and retaining talent. The effectiveness of upskilling and reskilling is hampered by the lack of basic skills, reflected by the poor results from the 2022 Programme for International Student Assessment (PISA). Romania has one of the highest rates of 15-year-olds in the EU that lack a basic level of proficiency in mathematics (48.6% vs EU: 29.5%),

reading (41.7% vs EU: 26.2%) and science (44% vs EU: 24.2%). Romania is modernising the vocational education and training system to meet the needs of the labour market, but only a minority of students benefit from work-based learning and employment rates of recent graduates are low. To make education, vocational training and lifelong learning more relevant to the labour market, it is important to better involve local firms in training provision and to better translate skills intelligence into evidence-based policymaking and adapted curricula and training offer.

(34) Despite recent progress, Romania continues to have one of the highest rates for adults and children at risk of poverty or social exclusion in the EU (27.9%, vs an EU average of 21.0%) and a social protection system with a low level of adequacy and coverage. Romania needs focused efforts to make progress in reducing the number of people at risk of poverty or social exclusion by 2030. This could be achieved through boosting the efficiency of the social protection system, ensuring stable funding, effective monitoring and impact evaluation and better access to essential and enabling services, including for Roma communities. Ensuring increased access to quality healthcare remains a challenge, particularly in rural areas and for vulnerable groups. Shortages of qualified staff limit the availability of healthcare and long-term care services. EU-funded programmes provide considerable support, including through the 2 000 integrated community services that will be established in rural areas and the strengthening of social, health educational and employment services. Addressing these challenges would also help support upward social convergence, consistent with the Commission’s second-stage country analysis in line with the Social Convergence Framework[21].

(35) In light of the Commission’s in-depth review and its conclusions on the existence of excessive imbalances, recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendation (1) and (2). Policies referred to in recommendation (1) and (2) help to address vulnerabilities linked to large external and fiscal deficits.

HEREBY RECOMMENDS that Romania take action in 2025 and 2026 to:

1. Reinforce overall defence spending and readiness in line with the European Council conclusions of 6 March 2025. Considerably tighten fiscal policy to ensure that net expenditure stays within the corrective path under the Excessive Deficit Procedure and to bolster the external position. Implement the set of reforms and investments underpinning the extended adjustment period as recommended by the Council on 21 January 2025.

2. In view of the applicable deadlines for the timely completion of reforms and investments under Regulation (EU) 2021/241, urgently accelerate the implementation of the recovery and resilience plan, including the REPowerEU chapter. Accelerate the implementation of the cohesion policy programmes (ERDF, JTF, ESF+, CF), building, where appropriate, on the opportunities offered by the mid-term review. Make optimal use of EU instruments, including the opportunities provided by the InvestEU and the Strategic Technologies for Europe Platform, to improve competitiveness.

[21] SWD(2025)95 – Second-stage country analysis on social convergence in line with the Social Convergence Framework (SCF), 2025.

3. Improve the quality and effectiveness of public administration and the predictability of decision-making, while ensuring that legislative initiatives do not undermine legal certainty through appropriate stakeholder consultations, effective impact assessments and streamlined administrative procedures. Better prepare and prioritise large infrastructure projects and accelerate their implementation, ensure mature public investment projects are carried out in a timely manner, and promote private investment to foster sustainable economic development.

4. Reduce the reliance on fossil fuels by speeding up the roll-out of renewable energy, improve grid capacity, strengthen cross-border electricity connections, advance regulatory reforms that de-risk clean energy projects, and improve transparency and efficiency in the permitting process. Reduce the reliance on fossil fuels, in particular by phasing out fossil-fuel subsidies in the heating sector and invest in energy efficiency, environmental infrastructure and innovation, taking into account regional disparities such as the impact on the coal regions. Wind down the emergency energy support measures in force, using the related savings to reduce the government deficit.

5. Strengthen labour market participation of women and young people through improving effectiveness of active labour market policies and participation in early childhood education and care. Tackle skills shortages by boosting basic skills and labour market relevant skills of the workforce, as well as improving stakeholder engagement and making best use of skills intelligence in education and skills policies.

6. Reduce poverty and social exclusion risks by extending social protection and improving its effectiveness, including through better access to quality essential and enabling services, focusing on integrated social, health, educational and employment services, in particular for Roma and other disadvantaged groups, while maintaining fiscal sustainability.

Done at Brussels,

For the Council
The President