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Assessment of the 2014 national reform programme and convergence programme for ROMANIA

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

on Romania's 2014 national reform programme and delivering a Council opinion on Romania's 2014 convergence programme

{COM(2014) 424 final}

CONTENTS

EXECUTIVE SUMMARY

With the support of two successive EU/IMF programmes, Romania has succeeded in restoring macroeconomic stability, re-establishing market access for the government, and safeguarding financial stability. According the Commission 2014 spring forecast, real GDP growth in Romania reached 3.5 % in 2013 thanks to a strong export performance. Real GDP growth is forecast to slow down somewhat in 2014 and 2015. External imbalances have substantially diminished, but Romania's current account deficit is expected to widen slightly in 2014-15. The public finances situation has improved and the excessive deficit procedure was abrogated in July 2013. Youth unemployment is high while overall employment rate remains low.

Overall, Romania has made some progress in addressing the 2013 country-specific recommendations. The 2011-13 EU/IMF financial assistance programme was completed, public finance situation has further improved and some progress has been recorded in key structural areas: energy price deregulation has kept up pace, the absorption of EU funds has significantly improved, health care reform has continued, while business environment has been strengthened. However, progress in addressing many of the other recommendations has been limited.

Despite recent improvements, Romania still needs to act on a number of structural reforms and to fully implement the current EU/IMF financial assistance programme. Attention should be paid to the country's administrative capacity, tax compliance, health sector, business environment, labour market performance, poverty and social inclusion, education as well as to efficiency in transport and energy sectors.

- **Public finances:** The general government deficit, which fell to 2.3 % of GDP in 2013, is forecast to improve somewhat in 2014 and 2015. Achieving the medium-term objective of a deficit of 1 % of GDP in structural terms in 2015 will be challenging.
- **Taxation:** Low tax compliance and high tax evasion remain a drag on public finances, while the tax wedge on labour for low- and-middle income earners does not incentivise job creation. Greater reliance on energy and environmental taxation, other than transport fuel taxes, could also be considered.
- **Labour markets, education and poverty:** Labour-market participation has seen only limited progress and the skills and productivity of the labour force remain a challenge. Youth unemployment and the integration of the most vulnerable groups of the society both in the education system and in the labour force must continue to be addressed. Education and training need to improve and be better correlated with the requirements of the labour market. The system of social transfers remains highly inefficient in tackling the persistently high poverty and income inequalities, including among the Roma people..
- **Health sector:** The overall health status of the population is still worrying, with very high rates of infant mortality and low life expectancy at birth. Recent progresses in health care reform have not yet been consolidated. Informal payments are widespread and hinder the efficiency, quality and accessibility of the system.
- **Modernisation of public administration:** Weak administrative capacity remains a core challenge for Romania. The legal framework is unstable, inter-ministerial coordination is insufficient, bureaucracy is excessive and the human resource framework is inconsistent. Recent improvements in the absorption of EU funds and in management and control systems need to be consolidated. Efforts to tackle shortcomings in public procurement are to be stepped up.

- **Business environment and competitiveness:** Low quality of regulations and insufficient assessment of their potential impact are a source of uncertainty and a risk for business. Research and innovation performance should be improved as it is hindered by limited and dispersed resources and by an inappropriate legal framework.
- **Energy, transport and environment:** The removal of regulated prices for gas and electricity needs to continue in line with the announced plans and integration with the EU energy market must accelerate. In transport and energy sectors, efficiency gains and quality improvements as well as reforms to corporate governance in state-owned companies has been insufficient. More concrete actions are needed to implement energy efficiency measures. Waste management requires decisive action.

1. INTRODUCTION

In May 2013, the Commission proposed a set of country-specific recommendations (CSRs) for economic and structural reform policies for Romania. On the basis of these recommendations, the Council of the European Union adopted eight CSRs in the form of a Council Recommendation on 9 July 2013. These CSRs concerned the EU/IMF financial assistance programme, public finances, health, the labour market, education, poverty and social exclusion, administrative capacity, the justice system and fight against corruption, the business environment, state-owned enterprises, energy and infrastructure. This staff working document assesses the state of implementation of these recommendations in Romania.

The staff working document assesses policy measures in light of the findings of the Commission's Annual Growth Survey 2014 (AGS)[1] and the third annual Alert Mechanism Report (AMR)[2], which were published in November 2013. The Annual Growth Survey (AGS) sets out the Commission's proposals for building the necessary common understanding about the priorities for action at national and EU level in 2014. It identifies five priorities to guide Member States towards renewed growth: pursuing differentiated, growth-friendly fiscal consolidation; restoring normal lending to the economy; promoting growth and competitiveness for today and tomorrow; tackling unemployment and the social consequences of the crisis; and modernising public administration. The AMR serves as an initial screening device to determine whether macroeconomic imbalances exist or risk emerging in Member States. The AMR found positive signs that macroeconomic imbalances in Europe are being corrected. To ensure that a complete and durable rebalancing is achieved, 16 Member States were selected for a review of developments in the accumulation and unwinding of imbalances. These in-depth reviews were published on 5 March 2014 along with a Commission communication.[3] Romania was not covered by an in-depth study.

In July 2013 Romania applied for a third EU/IMF financial assistance programme. The new 2-year programme was approved by the Council on 22 October. It provides precautionary support of up to EUR 4 billion until end-September 2015, equally split between the EU and the IMF. The new programme aims at consolidating macroeconomic, fiscal and financial stability, and at enhancing structural reforms that should increase the resilience and the growth potential of the Romanian economy. There is a clear complementarity with some of the CSRs.

Against the background of the 2013 Council Recommendations, the AGS and the AMR, Romania presented updates of its national reform programme on 6 May 2014 and its convergence programme on 5 May 2014. These programmes provide detailed information on progress made since July 2013 and on the plans of the government. The information contained in these programmes provides the basis for the assessment made in this staff working document.

These programmes provide detailed information on progress made since July 2013, though future plans are indicative. The information contained in these programmes provides the basis for the assessment made in this staff working document. The programmes submitted went

[1] COM(2013) 800 final.
[2] COM(2013) 790 final.
[3] Aside from the 16 Member States identified in the AMR, Ireland was also covered by an in-depth review, following the conclusion by the Council that it should be fully integrated into the normal surveillance framework after the successful completion of its financial assistance programme.

through a limited consultation process involving the national parliament, local authorities and other stakeholders.[4]

2. ECONOMIC SITUATION AND OUTLOOK

Economic Situation

In 2013, Romania continued to reduce its internal and external imbalances, progressively closing the output gap and significantly reducing the current account deficit. Growth was in 2013 above expectations reaching a 5-year high of 3.5 % driven by a strong export performance on the back of a robust industrial output and an abundant harvest. Unemployment increased somewhat, to 7.3 %, while employment rate remained low but broadly unchanged, just under 64 %. Inflation sharply declined in the second half of 2013, with the HICP annual average reaching 3.2 %.

Successful fiscal consolidation under two joint EU/IMF financial assistance programmes allowed the abrogation of the Excessive Deficit Procedure in July 2013. After falling to 3 % of GDP in 2012 and the exit from the excessive deficit procedure in July 2013, the general government deficit has further decreased to 2.3 % of GDP in ESA terms by the end of 2013.

External balances and financial markets conditions have significantly improved in 2013. The current account deficit declined significantly in 2013, to around 1 % of GDP, largely due to a much lower trade deficit. Exports were driven by transport equipment, machinery and agricultural goods, while imports remained subdued mainly due to a weak domestic demand. An improvement in financial markets through 2013 and in early 2014 eased sovereign financing conditions and permitted large issuances, longer maturities and lower average yields.

Economic Outlook

Growth is forecast to decelerate in 2014 and 2015 as the main growth drivers are expected to rebalance towards domestic demand. According to the Commission 2014 spring forecast, growth is expected to be around 2.4 % in 2014 and 2.5 % in 2015 while inflation is projected to decelerate further to an annual average of 2.5 % in 2014 as falling food prices are set to generate historical lows in the first half of 2014. It is expected to pick up somewhat in 2015 to an annual average of 3.3 %. On the external side, the current account is projected to stabilise at 1.2 % of GDP in 2014 and to widen gradually in 2015, to around 1.6 % of GDP, on the back of a strengthening domestic demand.

The labour market is expected to recover only slowly in 2014 and 2015. The employment rate for the 20-64 age group stagnated in 2013, 63.9 % of total employment and it is expected to increase only slowly but it will nevertheless remain significantly below the EU-28 average of 68.4 %. Unemployment rate increased in 2013 to 7.3 % but it is expected to decrease somewhat to 7.2 % and 7.1 % in 2014 and 2015, respectively. Youth unemployment remains high, at 23.7 % in 2013.

The convergence programme and the national reform programme share the same economic outlook. Growth is expected to average 2.9 % over the period 2014-2017, reducing unemployment to 6.7 % by 2017. The macroeconomic scenario underpinning the budgetary

[4] The programme was prepared on the basis of the contributions of line ministries and the Working Group on Europe 2020 strategy. It is based on seven national reform programmes that were prepared in sectoral working groups coordinated by the Ministry of Foreign Affairs. Two committees in the parliament have been informed about the content of the national reform programme.

projections in the programme is plausible. This scenario is broadly in line with the Commission' 2014 spring forecast. However, the projected reduction in unemployment seems somewhat optimistic. The growth estimates do not include any impact from structural reforms as the measures presented in the national reform programme are not quantified.

3. CHALLENGES AND ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

The objective of the programme is to achieve the medium-term objective in 2015 and remain at the medium-term objective thereafter. The medium-term objective is unchanged and the underlying path is more back-loaded than previously. The medium-term objective chosen by Romania, of -1 % of GDP in structural terms, the same as in the previous convergence programme, reflects the objectives of the Stability and Growth Pact. The programme also confirms the previous target date for achieving the medium-term objective, but the underlying trajectory is now back-loaded, while it was frontloaded in the previous (2013) programme.[5]

The 2013 general government deficit was 2.3 % of GDP in ESA terms, which is somewhat lower than expected. The 2013 budget deficit outcome of 2.3 % of GDP was lower than the authorities' target of 2.6 % of GDP. The previous (2013) version of the programme envisaged a deficit of 2.4 % of GDP. However, in late 2013, the authorities revised the deficit target upwards to 2.6 % of GDP to allow for more co-financing of EU Funds towards the end of the year, which was agreed under the BoP program. The outturn was, in the end, 2.3 % of GDP, due to a positive surprise in net lending/ borrowing of the state-owned companies included in general government definition. This corresponds to a (recalculated) structural effort[6] of 0.7 % of GDP relative to the previous year.

For 2014, the program projection of a general government deficit of 2.2 % of GDP is in line with the Commission 2014 spring forecast, but is higher than foreseen in the previous programme. The deficit target was loosened compared to the previous (2013) version of the convergence programme by 0.2 % of GDP, mainly on account of higher expenditure for co-financing EU Funds, which are implemented in the budget in the form of an adjustor,[7] as mentioned in the programme. This is consistent with the investment clause granted to Romania for 2014[8] and is in line with the framework of the current BoP programme. The convergence programme mentions the main measures strengthening

[5] In relation to the 2015 budgetary year the authorities mention in a footnote in the convergence programme that the fiscal path to reach the medium-term objective "*does not include the adjustor for financing EU funds projects with positive long-term effects on the growth potential and does not include situations foreseen in the TSCG Art 3, paragraph 1(c) and 3(b)*".

[6] Cyclically - adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology.

[7] The "adjustor" ensures that the resources can only be used for co-financing EU Funds and not for other type of spending. In the event of a slower implementation of EU-funded projects and therefore of a smaller need for co-financing, the deficit target should be adjusted downwards accordingly.

[8] According to the Commission note to the EFC "The investment clause in the preventive arm of the Stability and Growth pact: preliminary assessment of eligibility", Romania was considered eligible, as follows: "*Romania is eligible in principle to the clause. Within the framework of the current financial assistance programme, it was agreed with the Romanian authorities to lower the adjustment foreseen in 2014 by 0.2% of GDP and to maintain the medium-term objective achievement in 2015.*"

revenues and some expenditure-side measures which are not fully quantified (see box 1). The headline projection in the convergence programme entails a structural effort of zero (as recalculated) and an effort of -0.1 % of GDP according to the Commission 2014 spring forecast. The structural balance position is the same (-1.8 % of GDP); the difference in the estimated effort originates from slight differences in structural balances before rounding.

The programme projects a deficit of -1.4 % of GDP in ESA terms in 2015 which relies on unspecified measures, while the Commission 2014 spring forecast a deficit of -1.9 % of GDP using the customary no-policy-change assumption. With a largely similar macroeconomic forecast, the differences stem mostly from the assumptions used, as well as from the composition of the fiscal adjustment. The consolidation foreseen by the programme is expenditure-driven in 2015, with an adjustment of 0.6 % of GDP in total expenditures compared to the previous year, mostly in social assistance and capital, and an increase in revenues of 0.2 % of GDP compared to the previous year. The programme does not specify the measures to reach the projected deficit. Using the no-policy-change assumption, the Commission 2014 spring forecast largely constant expenditures as a percentage of GDP in 2015 compared to the previous year and 0.2 % of GDP higher revenues than the previous year, in line with the gradual shift towards domestic demand-driven growth. The structural effort foreseen by the Commission is 0.2 % of GDP, while the budgetary plans outlined in the programme foresee a (recalculated) structural effort of 0.8 % of GDP.

The programme envisages achieving the medium-term objective **in 2015 and maintaining it thereafter.** Based on the (recalculated) structural balance, the programme envisages achieving the medium-term objective in 2015 by reaching a structural balance of -1.0 % of GDP in 2015. The programme projects a further reduction in the nominal government balance, from -1.4 % of GDP in 2015 to -1.1 % of GDP in 2017, which is mainly revenue-driven. The revenue is forecast to increase from 33.6 % of GDP in 2015 to 34 % of GDP in 2017**.** In structural terms, based on the (recalculated) structural effort, this entails the preservation of the medium-term objective.

The programme debt projections are broadly in line with the Commission 2014 spring forecast and well below 60 % of GDP. Debt is forecast to increase temporarily from 38.5 % of GDP in 2013 to 40.1 % of GDP in 2015 in the Commission 2014 spring forecast and to 39.9 % of GDP in the programme. Thereafter, the programme foresees a reduction in the debt-to-GDP ratio to 38.5 % in 2017, mostly due to a decrease in the primary balance.

Box 1. Main budgetary measures

This box provides an overview of the main discretionary measures with a significant budgetary impact (of at least 0.1 % of GDP) mentioned in the programme. The so-called "investment clause" is also indirectly referred to in the programmme as "the adjustor" and quantified. The programme does not specify the measures underlying the proposed fiscal path for 2015-2017.

Main budgetary measures

Revenue	**Expenditure**
2014	
• Measure increasing social contributions (0.1 % of GDP) • Measure increasing property tax on constructions, other than builduings (0.1 % of GDP) • Measures increasing excise and other special taxes (0.4 % of GDP)	• Expenditure increase for co-finanicing EU Funds corresponding to the "investment clause" (0.2 % of GDP) • Payment of part of court decisions related to public sector wages (0.3 % of GDP) • Maintaining most public sector wages unchanged; increase salaries only for some categories of teachers (impact not quantified) • Increasing the minimum guaranteed income by 4.5 % (impact not quantified) • Pension indexation with 3.75 % (impact not quantified)
2015	
• Not specified	• Not specified

Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure. Please note that the impact reported by the authorities is in cash terms, not in ESA.

Romania is compliant with the Pact in 2013. The 2014 budgetary plans announced in the programme are broadly in line with the Pact, as the investment clause allows for a temporary deviation, but downside risks remain. Based on the structural effort as well as the growth in expenditures in line with the expenditure benchmark, Romania complies with the Pact in 2013. For 2014, the Commission 2014 spring forecasts an increase in the structural deficit by 0.1 % of GDP, while the required adjustment is at least 0.1 % of GDP in 2014. However, the investment clause allows for a temporary deviation from the path towards the medium-term objective, which should be recovered in the following year. Therefore, for 2014, Romania is considered to be broadly in line with the Pact. Expenditure growth in 2014 is in line with the expenditure benchmark, as recalculated based on the programme scenario and as forecast by the Commission. The programme projects no change in the structural balance for 2014. Nevertheless, several measures announced publicly, although not with sufficient detail, point to the risk of fiscal slippages as compared with the approved budget. In particular, the government's intentions to reduce social security contributions by 5 percentage points in mid-2014 also risks to have a negative impact on the 2014 budget, if not fully compensated by another structural measure. Moreover, tax collection is below expectations for the first quarter of 2014. As the structural balance is deteriorating slightly compared to the previous year, further deterioration should be avoided to ensure that Romania remains compliant with the Pact by the end of 2014.

Box 2. Romania's status vis-à-vis the Stability and Growth Pact

Romania is subject to the preventive arm of the Pact since 2013 and has not yet reached its Medium-Term Objective. It is expected to reach its medium-term objective in 2015 and maintain it thereafter. Therefore, it should ensure sufficient progress towards its medium-term objective by 2015.

In 2015, based on the Commission 2014 spring forecast and given the implementation of the investment clause, Romania is at risk of a significant deviation from the requirements of the Pact. The investment clause allows for a temporary deviation from the path towards the medium-term objective in 2014, which should be recovered in the following year. The structural effort of 0.2% of GDP in 2015, as projected by the Commission, falls short of both the minimum required effort in 2015 (0.5% of GDP) and of the 0.2% of GDP deviation due to the investment clause to be recovered in 2015. Expenditures are projected to grow at a rate above the applicable expenditure benchmark rate for Romania in 2015. The programme projects a (recalculated) structural effort of 0.8% of GDP in 2015, thereby reaching the medium-term objective, but does not specify the corresponding measures. Following an overall assessment of the Member State’s budgetary developments, with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures, a significant deviation from the adjustment path towards the medium-term objective is to be expected in 2015.

Fiscal framework

The Fiscal Responsibility Law was amended in order to implement the Fiscal Compact. Romania ratified the Treaty on Stability, Coordination and Governance (TSCG) in the Economic and Monetary Union and declared its intention to be bound by the provisions of Title III (Fiscal Compact) as of 1 January 2013. The Fiscal Responsibility Law was therefore amended in December 2013 to implement Fiscal Compact provisions, in particular to introduce a structural balance rule and an automatic correction mechanism. This adds to the already existing three-year rolling medium-term budgetary framework and existing numerical fiscal rules related with overall and primary balance, personnel expenditure and total expenditure. The role of the independent fiscal council, which was set up in 2010, was strengthened.

Proper enforcement of existing rules is needed to ensure their effectiveness and overall fiscal discipline. In the past, fiscal rules were breached at several occasions, which the Fiscal Council has duly pointed out. Improving compliance is thus crucial with a view to establishing a culture of fiscal stability. In this respect, it is advisable to assess the causes for the past breaches and to take necessary measures to ensure compliance in the future. In line with EU/IMF program conditionality, the authorities should continue the work towards improving the content of the Fiscal Strategy, in particular in relation to assumptions and analysis of fiscal risks, as well as towards improving the quality of fiscal impact assessments. The institutional setting to prioritise public investments and guiding technical principles were significantly improved over the past year. This has yet to translate into medium-term investment planning to be fully in line with medium-term budgetary planning.

Long-term sustainability

Romania faces low fiscal sustainability risks in the medium-term and medium fiscal sustainability risks in the long-term. Government debt (38.4 % of GDP in 2013 and slightly to rise to 40.1 % in 2015) is currently below the 60 % of GDP Treaty threshold, and projected to remain at around 40% until 2020. It is then projected to slowly rise by 2030 but remain below the reference value. The convergence programme, if fully implemented, would confirm debt to be on an increasing path until 2030 yet remaining below the 60 % of GDP reference value in 2030. According to the methodology used for the EC Fiscal Sustainability report,[9] Romania faces low fiscal sustainability risks in the medium-term.[10] In the long-term, Romania faces medium fiscal sustainability risks that are primarily explained by the projected ageing (mainly pension-related) costs contributing with 3.7 pp. of GDP over the very long run. The long-term sustainability gap[11] showing the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path is at 4.5 % of GDP. This highlights the importance of a sustainable pension system overall, including of the need to safeguard the achievements of the 2010 pension reform and the need to retain the second pillar and the existing schedule for the transfer of contributions from pillar one to pillar two. Overall, risks would be higher in the event of the structural primary balance reverting to lower values observed in the past, such as the average for 2004-2013. It is therefore appropriate for Romania to contain age-related expenditure[12] growth to contribute to the sustainability of public finances in the long term. In particular, in order to improve the sustainability and adequacy of the pension system, prolonging working and contributory careers would be necessary as ratio of employed contributors to people drawing pensions is currently very low. [13]

Tax system

Low tax compliance and high tax evasion remain major challenges, especially in VAT and labour taxation areas. The tax-to-GDP ratio is the second lowest in the EU-28, at 28.9 % in 2013.[14] Tax fraud and tax avoidance in the areas of VAT, excises, social security contributions and income taxation remain a major challenge.[15] At 42 % on average between 2000 and 2011, the value-added tax (VAT) compliance gap was higher than in any other member state.[16] The tax compliance time for businesses is moderately high in Romania in EU comparison, reaching around 200 hours for a standard medium-sized company[17].

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[9] http://ec.europa.eu/economy_finance/publications/european_economy/2012/pdf/ee-2012-8_en.pdf

[10] For definition and explanation see Table V. The medium-term sustainability gap (S1) indicator that is -0.5% of GDP for Romania shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance to be introduced until 2020, and then sustained for a decade, to bring debt ratios to 60% of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population.

[11] See Table V.

[12] Ageing costs comprise long-term projections of public age-related expenditure on pension, health care, long-term care, education and unemployment benefits. See the 2012 EC Ageing Report for details.

[13] There are 1.2 pensioners per salaried worker.

[14] Source: Ameco database.

[15] 13.8% of the GDP, according to the Fiscal Council's Annual Report 2012.

[16]. Source: VAT-gap study produced for the European Commission; 2011 data, the most recent available. For details see http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/vat-gap.pdf.

[17] PwC – Paying Taxes 2014: http://www.pwc.com/gx/en/paying-taxes/assets/pwc-paying-taxes-2014.pdf.

While the tax compliance strategy is being implemented, tangible progress has been limited. Despite the implementation of the tax compliance strategy 2013-2017, tangible progress in voluntary tax compliance and in fighting undeclared work is limited. Within the strategy, only medium-term indicators are set and there are no intermediate indicators or concrete targets for the individual measures. The restructuring of the National Agency for Fiscal Administration (ANAF) led to the creation of a new anti-fraud department, but not all staff has yet been recruited and trained. A risk analysis aiming at identifying regions and business sectors with higher risk of non-compliance is yet to be undertaken.

Romania could further improve the efficiency of its VAT collection system[18] and step up administrative cooperation with other Member States' revenue authorities to tackle cross-border VAT fraud. The legislation to streamline VAT-reimbursement procedures is still being drafted. The impact on revenue of a reduced VAT rate for bakery products introduced in September 2013 in order to reduce non-compliance in the sector and of the reverse-charge mechanism introduced in certain areas is still to be assessed. According to a recent report on VAT administrative cooperation,[19] Romania tends to reply late to requests for information from other EU Member States' tax administrations and makes a limited use of multilateral control in VAT, a useful tool to tackle cross-border VAT fraud, especially in cooperation with neighbouring countries. It is furthermore crucial to improve compliance, in particular with respect to VAT and excise duties, of small, often locally operating companies in order to ensure a level playing field for all competitors.

About 25 % of employees in Romania worked without formal arrangements in 2012, yet progress in addressing the country-specific recommendation to better fight undeclared work is limited. The number of undeclared workers rose by more than 20 % between 2009 and 2012, to 1.445 million.[20] Although controls at the national level identify every week, on average, more than 300 non-declared employees,[21] the follow-up could be improved.[22] While several measures were adopted in the past years to tackle undeclared work, but no new measure was adopted in response to the 2013 country-specific recommendation. A pilot compliance project targeting undeclared labour and tax evasion is planned for 2014.

Romania's tax revenue composition is generally favourable to growth but further fine-tuning can be beneficial. Romania has one of the most 'growth-friendly' tax compositions in the EU, with one of the lowest an implicit tax rates on labour, at 30.4 %, and the second highest share of consumption taxes. Indirect taxes have been substantially above the EU average[23] while direct taxation has been substantially below the EU average.[24] While for those earning the average wage, tax wedge on labour[25] has been below the EU-average, the tax wedge on labour for low- and middle-income earners is well above the EU average.[26] The

[18] European Commission (2014) Report from the Commission to the Council and the European Parliament Seventh report under Article 12 of Regulation (EEC, Euratom) No 1553/89 on VAT collection and control procedures, COM(2014) 69 final

[19] European Commission (2014) Commission staff working document accompanying the document Report from the Commission to the Council and the European Parliament on the application of Council Regulation (EU) No 904/2010 concerning administrative cooperation and combating fraud in the field of VAT, SWD(2014)39 final.

[20] Fiscal Council, Annual Report 2012.

[21] http://www.inspectmun.ro/site/RELATII%20DE%20MUNCA/Relatii%20de%20Munca.html.

[22] After almost 97 000 inspections, around 5 000 new employment contracts have been concluded in 2013 and additional salary incomes and social contributions of RON 1.4 million have been registered.

[23] Accounting for 47.2 % of overall tax revenues in 2012 (against an EU-28 average of 34.5 %).

[24] Representing 21.6 % (against an EU-28 average of 33.4 %).

[25] Defined as overall tax burden (both employee's and employer's contributions or taxes) of a legally employed person.

[26] For singles earning 67 % of the average wage it was 43.4 % in 2012, well above the EU-27 average of 39.9 %; for singles at 50 % of the average wage, it was 42.4 % against the EU-27 average of 34.1 %.

discrepancy between the relatively high tax wedge on labour (calculated on the basis of the legal tax obligation) and the low implicit tax rate on labour (calculated on the basis of actual tax receipts) could reflect a high amount of concealed earnings. Reducing the tax wedge on low- and middle-income wage earners could help reducing disincentives to employment, help fighting undeclared work and under-declared earnings. Plans announced by the government go in the right direction, but suggest an untargeted reduction of social contributions. Any reduction of the tax wedge would need to be implemented in a budgetary-neutral way. So far, no specific proposal in that direction has been made.

Energy and environmental taxation, other than transport fuel taxes, could be strengthened. Both environmental taxation and non-fuel taxation on transport have been below the EU average.[27] There has been some progress regarding the recommendation on environmental taxation but there is scope for improvement. The vehicle taxation system was improved but the impact of the new "environmental stamp" tax (linked to CO2 emissions, payable once) introduced in March 2013 is still to be assessed. Excise duties on fuel have been increased in April 2014 and have been indexed to consumer prices in order to account for inflation. Yet, the share of energy and environmental taxes other than transport fuel taxes in total tax revenue in Romania remains low. To increase reliance on environmental taxation, it is advisable not to delay the introduction of the landfill tax (see Section 3.4 for further details).

3.2. Financial sector

The capitalisation of Romania's banking sector remains stable and liquidity conditions have continued to improve, even if the increase in impaired assets has put pressure on profitability. Non-performing loans (90 days overdue) further increased to 21.9 % at the end-2013 compared to 18.2 % at the end-2012. This has continued to be mitigated by the prudent loan-loss provisioning policy of the banking sector supervisor, but had an impact on profitability. The banking sector recorded in 2013 a return on equity of just 1.28%. On the positive side, the capital adequacy ratio was about 15 % at end-2013 and liquidity conditions benefitted from to the on-going deleveraging process and an increase in retail deposits.

The authorities have made some progress as regards the bank resolution framework and the assessment of asset quality in the banking sector, including restructured loans. The banking law was amended and the authorities have committed to complete by September 2014, ahead of the deadline, the transposition of the EU bank resolution and recovery directive. Albeit with some delays, the National Bank of Romania has completed the analysis on the asset quality in the banking sector and the banks' write-off policies were clarified. Further solutions to allow banks to write-off fully provisioned loans without forgoing the legal rights to recover these loans are also being explored. On-site inspections of the restructured loans portfolios and IT systems of 20 banks resulted in additional loan-loss provisions. The setting up of a specialised court for dealing with abusive clauses in loan contracts, decided in December 2013, is also positive.

The functioning of the Authority for Financial Supervision could be further strengthened. Some, very limited progress was made with assessing the Authority for Financial Supervision staff and staffing levels as an external consultancy company evaluated staff in middle management positions. However, the decision by the Authority for Financial Supervision not to assess the entire staff is not in line with the conditionality in the financial assistance programme's MoU.

Access to finance is a key challenge for small and medium-size enterprises (SMEs) in Romania. Problems are due both to supply and to demand. Credit growth was negative in

[27] Environmental taxation represented 1.9% of GDP in 2012 (EU-28 average: 2.4%), while non-fuel taxation on transport was 0.2 % of GDP (EU-28 average: 0.5%).

2013 and it is expected to remain constrained by the deleveraging process of the banking sector after a long period of deteriorating asset quality.[28] The average interest rate for loans up to 1 million euros is the second highest in the EU while the cost of credit is about 17 % higher for SMEs than for larger enterprises. Funding conditions for SMEs are estimated to have tightened in the first half of 2014.[29]

Some progress was made in addressing the recommendation to ease and diversify access to finance for SMEs. The scheme of state guarantees for bank lending to SMEs[30] was re-launched in 2014 under more favourable conditions. Its take-up is yet to be seen. Other measures include the *de minimis* scheme and support to young entrepreneurs. A formal evaluation of these measures is advisable to increase their efficiency. However, alternative forms of financing remain largely unavailable.

There is scope to continue to ease access to finance for SMEs and to substantially diversify the sources of financing. Risk capital remains underdeveloped and venture capital investment declined 74 % between 2007 and 2012, making Romania one of the worst performers in the EU. The country needs to introduce appropriate incentives and a regulatory framework to promote the development of early-stage venture capital, including investor and entrepreneur protection legislation. Appropriate training schemes and advice could also increase the investment-readiness of entrepreneurs.

3.3. Labour market[31], education and social policies

Despite recent economic recovery, labour market and education systems continue to under-perform, with low labour market activity rate and weak labour productivity. Progress in education and social inclusion remains limited, with Roma integration remaining one of the most challenging issues. In 2013, Romania received country-specific recommendations concerning labour market participation, education and vocational training, health care and alleviation of poverty. The analysis in this staff working document leads to the conclusion that Romania has made limited progress on overall labour market participation, education reform, early school leaving, increasing efficiency and effectiveness of social transfers, and Roma integration, some progress related to youth unemployment and health (for the full CSR assessment see the overview table in Section 4).

Labour market participation, employability and productivity

High inactivity, insufficient utilisation of the labour potential and the need to increase the quality and productivity of the workforce remain key challenges in Romania. Despite a strong pick-up in economic growth in 2013, the labour market has not recovered.[32] Employment and activity rates continue to be among the lowest in the EU. Women, the young and older people and people from rural and disadvantaged areas are especially affected by inactivity. The rate of young people not in education, employment, or training (NEET) is

[28] Romania ranks 22nd out of the 28 member states in the 2013 access to finance index.

[29] According to the last CESEE Bank Lending Survey, conducted in H2 2013, banks expected to decrease supply of SME loans by 30 % in the subsequent six months, while SMEs demand for loans was expected to increase by 20% over the same period. Banks' terms and conditions, such as the size of loans and collateral requirements, were expected to tighten further.

[30] Guarantees for lending to SMEs are relatively important in Romania. Outstanding guarantees in the banks' portfolio represent 1.3 % of GDP, the 4th highest in the EU according to 2012 data by the European Association of Mutual Guarantee Societies (data available only for 19 Member States).

[31] For further details, see the 2014 Joint Employment Report, COM(2013)801, which includes a scoreboard of key employment and social indicators.

[32] The unemployment rate increased to 7.3 % while employment decreased somewhat – see section 2.

significantly above the EU average and is increasing.[33] On the back of very low spending, participation in lifelong learning and the take-up of active labour market policies remain among the lowest in the EU. [34] There are no quality personalised public employment services, no integration of active and passive labour market policies, nor support services for employers. Female employment is hindered by the low provision and access to affordable quality childcare facilities (particularly for children under 3 years) while the duration of working lives is hampered by low employment among seniors and limited active ageing measures. The Roma and the disabled face even greater difficulties in accessing the formal labour market. Despite progress registered in recent years, labour productivity[35] is still one of the lowest in the EU.

Progress has been limited in addressing the recommendation to improve labour market participation by strengthening active labour-market policies (ALMPs) and promoting lifelong learning. A National Employment Strategy 2013-2020 aims to improve skills and adaptability across disadvantaged target groups, but it is too early to be assessed. The amended Law on unemployment insurance and employment stimulation has put renewed emphasis on ALMPs, in particular vocational education and training, recognition of prior learning, and mobility incentives yet these efforts are insufficient while the national lifelong learning strategy is delayed. As regards attracting older workers to the labour market, beside existing schemes exist but the National Strategy for Active Ageing is still under preparation. Facilitating access to affordable quality childcare services would help women to participate in the labour market.

There has also been limited progress in addressing the recommendation to improve the capacity of the National Employment Agency. While some measures, of a limited scale, aimed at delivering self-services, reinforcing local employment agencies, developing IT systems and a professional card have been taken with support of EU funds, the Public Employment Services need to be strengthened by reducing caseloads, diversifying services and integrating them in a coherent offer for jobseekers and employers and through the introduction of transparent performance management system. The provisions of active labour market measures needs to be more flexible moving towards an integrated offer that corresponds to the labour market needs.

There are currently no clear guidelines for a transparent minimum wage setting that would take into account the economic, labour market and labour income factors. Minimum wage increases have been significant (around 12 % on average per year) since 2011, while overall minimum wage remains relatively low in comparison to the average wage.[36] The minimum wage is established through national law but there is a need for reduced discretion and increased transparency in the process of minimum wage setting, with the objectives of reducing uncertainty and of striking a right balance between supporting employment and competitiveness on one hand, and safeguarding labour income on the other. In particular, establishing clear guidelines, in effective consultation with social partners, should contribute to the evolution of the minimum wage in line with the underlying cyclical conditions.

Romania has made some progress in addressing the recommendation to fight youth unemployment. The authorities adopted a National Plan for Youth Employment in April 2013 that was followed-up by legislative improvements in the area of apprenticeships and a

[33] NEET rate was 16.8 % in 2012.
[34]The take-up of active labour market policies was the third-lowest in the EU in 2011. This is also reflected in the correspondent budgetary allocation which stood in 2011 at 0.03% of GDP vs. 0.54 % in the EU-27 in 2012.
[35] Measured as a percentage of the EU total in purchasing power parity
[36] In 2012, Romania's minimum wage was 34% of the average monthly earnings, the third lowest in the EU.

new law on traineeships.[37] As a result, by end-2013, around 30 000 young people received an employment offer and over 44 000 students benefitted from career orientation programmes. In addition, two Youth Guarantee-type pilot schemes were introduced to cater for 10 000 young people without high-school diploma. Proper monitoring and careful evaluation of the outcomes, as well as of existing measures for youth would be warranted for further developing the Youth Guarantee Implementation Plan for 2014-2015.

Box 3. The delivery of the Youth Guarantee (YG) in Romania[38]

The most important challenges to deliver a Youth Guarantee (YG)[39] in Romania are:

- Insufficient administrative capacity of the PES, foreseen as the main YG service provider, to offer individualised services to all young unemployed and those NEETs not registered;[40]

- Rigid service provision and insufficiently diversified offer of activation measures and of training and education to young people;

- Lack of sufficient outreach activities to non-registered young NEETs and in particular to the young Roma;

- Lack of a genuine involvement of the private sector in apprenticeship and dual training initiatives, as well as traineeships for university graduates.

Education and skills

Raising the quality of education, addressing the high early-school-leaving rate, improving the labour-market relevance of tertiary education and increasing participation remain a major challenge in Romania. In the 2012 PISA results, Romania was the second worst performer in reading and science and the third worst performer in maths out of the EU-28 Member States. Digital skills are the lowest in the EU.[41] Learning outcomes at the end of upper-secondary education are low, especially in the case of vocational education and training (VET). The low attractiveness of the teaching profession and insufficient initial training of teachers are further factors that have negative impact on education quality.

Limited progress was made in speeding up the education reform, including the building up of administrative capacity at both central and local level, and the evaluation of the impact of the reforms. The Framework Curriculum Plan on primary education and the implementing methodology were approved. The Education Act was amended in December 2013 addressing access to high school and vocational education and training, skill testing, financing of pre-university schools and funding of higher education and provision of general facilities for pupils. Plans to finalise pending methodologies necessary to implement the education law adopted in 2011 and to decentralise remain unfulfilled. Overall, reforms have been limited. Despite some initiatives, progress in strengthening administrative capacity,

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[37] Amended Apprenticeship Law (Law no.179/2013) and the new Traineeships Law (Law no. 335/2013).

[38] Romania presented a Youth Guarantee Implementation Plan, entitled "Romanian Youth Guarantee Implementation Plans (RYGIP) 2014 - 2015" in December 2013 and a revised version in April 2014.

[39] Pursuant to the Council Recommendation of 22 April 2013 on establishing a Youth Guarantee (2013/C 120/01): "ensure that all young people under the age of 25 years receive a good-quality offer of employment, continued education, an apprenticeship or a traineeship within a period of four months of becoming unemployed or leaving formal education".

[40] Young unemployed amounted in February 2014 to 72 300 (PES), while non-registered NEET were estimated at 450 000 in Q4 2012 (Romanian National Institute of Statistics).

[41] 85 % of the population have no or low digital skills. Romania has also the lowest share of ICT specialists.

including management skills at regional and schools level, remains low. Evidence-based policymaking continues to be a challenge. Basic-skills programmes are still needed, particularly for Roma children who experience high illiteracy rates and low skilled adults from rural areas.

Limited progress was made in addressing the recommendation to implement the national strategy on early school leaving (ESL) focusing on better access to quality early childhood education. At 17.4 % in 2013, the rate of early school leavers continues to be one of the highest in the EU. The existing social support programmes remained in place in 2013 but an overarching strategy on ESL is significantly delayed. The uneven availability of early childhood education and care services remains problematic and childcare services do not sufficiently support child development.[42] Developing a data collection system to monitor and evaluate the effectiveness of measures set to increase participation in secondary education is a challenge.

Romania has made limited progress in addressing the recommendation to step up reforms in vocational education and training (VET). Reforms implemented as pilot initiatives are yet to be mainstreamed. Job counselling and validation of informal and non-formal training remain underdeveloped while VET pathways are not flexible and there are no post-secondary specialised VET programmes. In recent years several projects were implemented aiming at revising the curriculum and strengthening social and school partnerships but the scope is limited. Furthermore, proper resourcing of the counselling and guidance system, as well as greater involvement of businesses in work-based learning and apprenticeships remain a challenge.

Limited progress was made in addressing the recommendation to further align tertiary education with the needs of the labour market and to improve access for disadvantaged people. The relevance of higher education to the labour market remains a challenge. Important skills mismatches persist between universities' offer and the labour market and the link between business and the academia remains weak. Most university graduates are employed either in professions not corresponding to their training or in jobs requiring lower levels of qualification. A strategy on tertiary education is being prepared and should address the relevance of higher education for the labour market and the inclusiveness of tertiary education. The current merit-based state support to university fees largely fails to reach students from the most disadvantaged groups. A database with information on 50 000 graduates from 50 universities and an update of the National Register of Qualifications in Higher Education are being prepared. A better association of private sector in teaching activities remains a challenge.

School segregation of Roma is still a major issue, despite clear prohibition. The estimated ESL rate among Roma remains alarmingly high at 93 %.[43] The existing programmes for inclusion of Roma in the education system that comprise the inclusion of Roma in pre-school, the use of the Romani language in schools and training of Roma school mediators[44] have continued. Improving access to inclusive quality education, and scaling up and reinforcing educational support measures to increase Roma school attendance and performance remains a challenge.

[42] In 2011, only 41% of children between the age of 3 and the mandatory school age were in formal childcare, making Romania the country with the lowest childcare coverage in the EU. For 0-3 year old, this figure is 2%. (European Commission: "Barcelona Objectives: the development of childcare facilities for young children in Europe", 2013, p. 9).

[43] FRA (2014), Education: The situation of Roma in 11 EU Member States. Roma Survey - Data in Focus (forthcoming).

[44] The employed trained mediators remain nevertheless low in numbers in comparison with the total number of trained mediators and the needs.

Poverty and social inclusion

Poverty reduction remains a major challenge with a worrying situation regarding the in-work poor. In 2012, the rate of people at risk of poverty or social exclusion continued to be the second-highest in the EU. Nearly 30 % of Romanian population suffers from severe material deprivation. Gross household incomes have been declining and the inequality remains at very high levels as job creation is weak, self-employment in subsistence agriculture is significant, and there is a high share of unpaid family workers.[45] Families with children are particularly exposed. The in-work poverty rate continued to increase.[46] The impact of social transfers (excluding pensions) in reducing poverty significantly decreased in 2012, remaining far below the EU average and being particularly low in the case of children.

There has been limited progress in addressing the recommendation to improve the effectiveness and efficiency of social transfers and to strengthen their link with activation measures. The unemployment and social assistance benefit system is characterised by low coverage especially with regard to some of the poorest segments of the population[47] and low adequacy, as recent increases in social transfers mainly compensated for the increases in gas and electricity prices. A national strategy on poverty reduction and social inclusion is still under preparation. The introduction of the Minimum Insertion Income which would simplify social assistance by combining three existing social transfers (the Guaranteed Minimum Income, the family allowance and the heating benefits) was expected to be implemented in 2015 but is being delayed now to 2016. The link between social benefits and activation is still weak. The social economy law that is supposed to foster social inclusion of disadvantaged groups is still not adopted. Romania needs to advance the social assistance reform and develop and implement a comprehensive national strategy for social inclusion and poverty reduction.

There was only limited progress in speeding up the transition from institutional to alternative care for children deprived of parental care. The number of children in public and private placement centres was reduced by more than half[48] since 2000 by developing family type services. In 2013, 18 community services were set up and other 109 have been contracted. However, there is still a large share of old-style, un-refurbished institutions. Many of these children are still not enrolled in any form of education and their integration in society is very difficult. There is still a high number of persons with disabilities in large residential institutions, while community services and personal assistance for the disabled are not sufficiently developed, also in terms of funding and quality control. A national strategy on protecting and promoting the child's rights 2014-20 is planned for adoption by end-2014. It includes measures on the transition from institutional to alternative care for children and on the prevention of abandonment and abuse.

There has been limited progress in addressing the recommendation to equalise pensionable age for men and women. The adequacy of women's pensions is low. Women's working and contributory careers are much shorter than those of men so that their retirement

[45] Out of around 8.4m jobs only over 4m jobs are salaried. The very high level of self-employment (2.1m, 25% of all jobs) is associated with subsistence agriculture and a lack of alternatives rather than entrepreneurship. A further 1.4m (20% of all jobs) is unremunerated family labour.

[46] 18.9% in 2012, more than double the EU average and the highest in the EU.

[47] Non-coverage rate of the jobless poor (by social benefits other than childcare) is the 6th highest (at 39.1%), while the net income of people on social assistance relative to the median income is the 3rd lowest (at 23.3%) (Source ESDE, 2013).

[48] From 57 181 in December 2000 to 22 124 in September 2013

incomes are lower and women aged 65+ register an at-risk-of-poverty rate that is double that of men. The amendments to the pension law to equalise the pensionable age between men and women as of 2035 have been adopted by the government and are still under debate in the Parliament. The legal amendment could improve pension adequacy,[49] if underpinned by measures to encourage older workers to remain in the labour market and thus prolong their working and contributory careers.

Health care

The Romanian health care system faces several major challenges, including poor health outcomes, low funding and an inefficient use of resources. Life expectancy is considerably below the EU average, the rate of infant mortality is the highest in the EU and life expectancy at birth among the lowest. There is a mismatch between spending commitments and available funding. In the past, this led to the accumulation of arrears, particularly in the hospital sector and to large budget overruns. Yet, Romanians are the second highest in the EU likely to have unmet needs for medical examination because of the cost.

Romania made some progress in addressing the recommendation to pursue health sector reforms to increase its efficiency, quality and accessibility. Health care reforms continued throughout 2013. The Ministry of Health's strategic Action Plan 2013-2014 includes a wide variety of reform and efficiency measures.[50] Further elements of the reform are strengthening of the financial and quality controls and improvements in the procurement system of medicines and medical devices in hospitals. Some of the measures are incurring delays and suffer from a lack of resources and the services' low capacity. In 2013, the government presented a National Health Strategy 2014-2020 aimed at improving health outcomes by, amongst others, moving towards a more equitable access to quality health services. Strengthening outpatient care is being addressed through a hospital care reform and the implementation of the basic and minimum benefits package.

Informal payments are widespread in the Romanian public health care system[51] and hinder accessibility, efficiency and the quality of the system. The extent of informal payments in health care is estimated to be at around 280 million euros annually. According to the 2013 Special Eurobarometer on corruption, 28 % of Romanian respondents who visited public medical facilities in the preceding year had to make an extra payment, or offer a gift or donation besides the official fee. This is the highest percentage in the EU, far above the EU average of 5 %. Half of the respondents felt they had to make an extra payment or offer a gift before care was given. Several plans to address informal payments have been considered by the Ministry of Health, but without concrete results. The system of co-payments that is being implemented since March 2013 uses coupons to reduce the risk of informal payments, but only small fixed amounts are involved.

Roma integration

Roma people are still faced with low labour-market participation, an overwhelming incidence of informal employment and underemployment, a high in-work poverty rate associated with low qualifications and a low educational attainment. Many Roma are not covered for health insurance, have difficulties in accessing social services, face poor housing

[49] As of 2013, the pension point value is annually indexed so as to ensure better adequacy.
[50] It includes a new basket of benefits, an updated list of reimbursed medicines, the development of health-technology assessment and reform of the hospital sector.
[51] European Commission, EU anti-corruption report, 2014.

conditions and are victims of discrimination. The rate of Roma households in severe material deprivation is alarmingly high: 84% report lack of water, sewage or electricity.[52]

Romania has made limited progress in addressing the recommendation to ensure a concrete delivery of the National Roma integration strategy (NRIS). Budgeted NRIS measures are, in general, long-running interventions aimed at Roma which have been in place for years (such as positive discrimination programmes in education and the mediators programme). Roma are also targeted through the mainstream programmes and several specific projects have been implemented in 2013, yet available funds have been insufficient, and there is no system for monitoring progress of policy measures. Furthermore, no effective coordination between stakeholders and between different layers of government is in place while scope of interventions has been limited. It is essential to continue programmes for integrating Roma into the labour market with focus on personalised activation services as well as to scale up and reinforce educational support measures. The revision of NRIS has not been yet finalised and the implementation of the revised action plans has been delayed. Implementation and mainstreaming of policies and programs in the field of social inclusion have been delayed, due to a lack of implementation capacity and funding.

3.4. Structural measures promoting sustainable growth and competitiveness

Romania belongs to the catching-up group of EU countries in terms of competitiveness performance.[53] As discussed earlier, competitiveness remains weak due to low labour productivity. Yet productivity of other production factors also remains low. At around 52.8 % of the EU-28 average (in purchasing power parity), Romania's GDP per capita is one of the most telling indicators of the country's catching-up needs. SME sector is particularly weak: Romania's SMEs are hampered by their low profitability and the lack of business sophistication[54] and they lag considerably behind other EU Member States in terms of the contribution of SMEs to exports.[55] The reasons are manigfold: administrative burden on businesses remains high; public and private investment in research and innovation remains low and is discouraged by the regulatory framework; infrastructure, in particular rail, is underdeveloped and is dominated by under-performing state-owned companies; over-regulation and inefficiency are still high in the energy sector. In 2013, Romania received country-specific recommendations on strengthening business environment, improving research and innovation and promoting competition and efficiency in network industries. The analysis in this staff working document leads to the conclusion that Romania has made some progress in energy reform, in particular in areas of energy price liberalisation and cross-border integration of energy networks, while the country has made limited progress in improving business environment, strengthening research and innovation, improving transport infrastructure and broadband (for the full CSR assessment see the overview table in Section 4).

Research and innovation

Competitiveness is strongly affected by a weak research and innovation capacity. Manufacturing plays a stronger role in Romania than in most other EU countries (24.8 % of total value added, compared to the EU average of 15.5 %), but the country is a modest

[52] Only 29 % of Roma declared to be in paid employment (including full-time, part-time, ad-hoc jobs, self-employment), while 46 % of declared Roma with no medical insurance are in paid work FRA (2014), Poverty and Employment: The situation of Roma in 11 EU Member States, Roma Survey - Data in Focus (forthcoming).

[53] Industrial Performance Scoreboard 2013: http://ec.europa.eu/enterprise/policies/industrial-competitiveness/monitoring-member-states/files/scoreboard-2013_en.pdf

[54] In terms of business sophistication, Romania ranks 101 out of 148 countries in the 2014 Global Competitiveness Report (World Economic Forum).

[55] According to 2010 data, 1 % of SMEs in Romania export outside the EU, compared to the EU average of 4 %.

innovator.[56] Integration of research, innovation and industrial policies is limited and cooperation between institutions responsible for policy design and those responsible for implementation is insufficient. The low quality of the science and unclear and contradictory provisions on intellectual property rights are a deterrent for private investors. Low and scattered public funding, the absence of a multi-annual funding framework and a lack of coordination within the government undermines the effectiveness of the public research system. Support to knowledge-based start-ups, funding for product development or incentives to cooperation between large firms, innovative SMEs and universities is missing.

Romania has shown limited progress in addressing the recommendation to ensure a better link between research, innovation and industry, in particular by prioritising research and development activities that have the potential to attract private investment. The new 2014-2020 National Strategy for Research and Innovation which includes an important component of smart specialisation is a welcomed step, but its implementation is still uncertain. The 2014-20 National Research, Technological Development and Innovation Strategy, and a National Strategy for Competitiveness 2014-20 are currently under public debate, but coordination between the different strategies remains weak. The on-going evaluation of the research institutions has produced some improvements of the institutional mid-term strategies, but a comprehensive approach aiming at a possible concentration of institutional resources is still lacking.[57] Some public-private cooperation initiatives, associated with the development of clusters,[58] succeeded in gathering together policy makers, public research institutions, large companies and SMEs. Well-targeted support measures would be instrumental to support their further development. The increase in 2013 in the tax deductibility of the R&D investment from 20 % to 50 % and the draft law on employee innovation sent to the parliament are welcomed efforts to increase private investment in research and innovation.

Reform of state-owned companies

Network industries, in particular the energy and rail sectors, are dominated by the state-owned enterprises. Arrears and operational losses that remain the norm in many of these state-owned enterprises are a risk for the government budget and a limit to the growth potential.

Limited progress was made in addressing the recommendation to continue the corporate governance reform of the state-owned energy and transport companies. There was also some progress in reinforcing performance incentives in state-owned rail enterprises. Yet overall, restructuring of state-owned enterprises has been slow and the privatisation deadlines agreed under the financial assistance programme might not materialise. Only a limited number of SOEs have boards selected on the basis of competitive and merit-oriented procedures. An independent assessment of the implementation of the government emergency ordinance[59] on corporate governance has been delayed and a recent government ordinance on remuneration of board members[60] departs from international best practices.

The Romanian economy would benefit from greater efforts in restructuring of state-owned enterprises, including privatisation, and better corporate governance practices. A

[56] Romania ranks 25th in the EU-28 Innovation Union Scoreboard 2014 and is close to the bottom in all ranks of innovation by SMEs.

[57] Romania's overall R&D intensity, at 0.42 % in 2012, is the lowest in the EU. The public R&D intensity in 2012 was 0.3 % GDP (27th out of 28 EU member states) while the EU average was 0.74 %. The national public budget for R&I is low (0.22 % of GDP in 2012). The private investment in R&D is also very low (0.12 % of GDP in 2012) and remains one of the lowest in the EU.

[58] The scientific driven cluster European Light Infrastructure in Magurele; the strategic driven cluster the Danube-Danube Delta-Black Sea Institute or the business driven cluster Cluj Innovation City.

[59] GEO 109/2011

[60] GO 26/2013

study on the implementation of the current corporate governance law for state-owned companies can no longer be postponed. New legislation on the remuneration of civil servants participating in SOEs boards, general shareholders meetings and privatisation commissions is to be prepared by end-June 2014, as agreed under the financial assistance programme. Plans to increase transparency and public disclosure by publishing the composition of the different boards on the SOEs' and government's website would also be steps in the right direction. This could be usefully complemented by the public disclosure of the remuneration of the board members.

Transport infrastructure and ICT

The underdeveloped basic transport infrastructure continues to be a bottleneck to growth in Romania[61]. High growth of the vehicle fleet and the low quality of the road infrastructure hamper businesses and the economy and contribute to the highest level of road fatalities in the EU[62]. The cost recovery for road infrastructure continues to be very low and there is no differentiation of road charges according to environmental standards[63]. Poor maintenance of the railway network and insufficient incentives hamper the development of a customer orientated approach in the state owned railway enterprises. Safety and reliability have been affected and travel times have been increasing. As a consequence, railway transport has witnessed a declining in freight and passenger demand. Consumers' assessment of train services is fifth lowest in the EU, with the lowest EU trust that the operators would comply with consumer protection rules.[64] There is no policy strategy in place to upgrade the inland waterways infrastructure. Intermodal transport remains underdeveloped.

Some progress has been made in addressing the recommendations to strengthen independence of the regulatory authorities yet competition remains limited. The independence of the rail regulatory authority has been strengthened, as the ministry representatives have been removed from the regulator's board. Its secretariat has been established on a permanent basis within the Competition Council. However, the independence of the rail accident investigation body from the rail safety authority remains limited.[65] The completion of a study on competitive tendering of the public service obligation contract for the passenger rail can be viewed as a first step to improve the situation. Yet, overall, competition in rail services remains limited, as the state still relies exclusively on direct award of infrastructure concessions and rail passenger services contracts.

Limited progress was made in addressing the recommendation to adopt a comprehensive transport master plan. The lack of a comprehensive long-term transport plan for all modes of transport hinders the possibility for a coordinated transport investment policy. The 2014-18 motorway strategy adopted in December 2013 pre-judges the transport master plan. The government's commitment to allocate 2 % of GDP to the transport sector is a positive development but has not yet been operationalized.

[61] Romania ranks lowest in the EU on satisfaction with the quality of road infrastructure according to the World Economic Forum, The Global Competitiveness Report 2013-2014.
[62] With a reported 98 dead per million inhabitants according to the first preliminary figures for 2013, Romania has almost twice the average EU road fatality rate of 51 dead per million inhabitants in the same year
[63] An electronic vignette (time based) system is currently in place. There is no differentiation of vignette rates according to environmental standards.
[64] 10th Consumer Markets Scoreboard, to be published in mid-June 2014, http://ec.europa.eu/consumers/consumer_research. Romania also ranked fifth lowest EU-wide in an aggregate index of satisfaction with railway stations and travels (Flash Eurobarometer 382a, http://ec.europa.eu/public_opinion/flash/fl_382a_en.pdf).
[65] The functions of both institutions are subordinated to the AFER (Autoritatea Feroviara Romana) board which is composed, among others, of officials from the Ministry of Transport and Infrastructure.

Progress in addressing the recommendation on improving broadband infrastructure remains limited contributing together with other factors[66] to a lowest take-up of internet in the EU. Fixed broadband coverage is significantly lower than the EU average, especially in non-urban areas affected by market failure thus requiring substantial investment. The new Electronic Communication Infrastructure law adopted in 2013 was helpful in empowering the National Regulatory Authority to monitor and map the existing and planned telecom infrastructures yet the secondary legislation is still outstanding. The deployment of broadband networks is hindered by the lengthy and cumbersome process for obtaining authorisations for construction works. Additional uncertainty was introduced by the fact that a recent amendment to the fiscal code imposing a new tax for special constructions (including telecom infrastructure) has not yet been followed up by clear methodology to calculate the exact amount of the tax. The Digital Agenda Strategy and Next Generation Networks Broadband plan, key documents that are expected to outline the strategic vision for broadband development are being delayed and need to be finalised as a matter of priority.

Energy markets

Energy market functioning as regards competition and efficiency is still not fully effective. The gas wholesale market continues to be highly illiquid so that the benefits of competition have not yet materialised**.** Overall energy efficiency remains low. Although required by the EU law, there is still no full unbundling of Transmission System Operators in electricity and gas. Romania's integration with the EU energy market remains weak despite some progress in improving cross-border integration. Finally, the phasing out of electricity and gas price, while so far being successfully implemented, is under constant pressure.

As to the recommendation to promote competition and efficiency in the energy markets, limited progress has been achieved as energy market functioning is still weak, in particular with regard to gas. Whereas the electricity wholesale market has become more liquid, in particular by corporates, the gas wholesale market continues to be highly illiquid, with the benefits of competition still to be realised**.** Some measures to improve market functioning were adopted, such as enabling very small quantities of gas exports on the Romania – Hungary link yet these volumes are insufficient for a full market integration. Unbundling of the Transmission System Operators saw limited progress with conditional certification decisions being issued so that full unbundling remains a challenge. The attribution of the Transmission System Operators and energy production and supply to separate public entities and assuring independent dispatching are still outstanding and suffered a setback with the adoption of an emergency decree in February 2014 that undid some of the progress made in 2013. A significant number of regulatory measures such as gas codes that are crucial to foster gas trading liquidity are still to be implemented; they may have to be complemented by other liquidity fostering measures.

Substantial progress has been achieved in addressing the recommendation to remove regulated gas and electricity prices. Price regulation in the electricity market for corporate customers ended in 2013 while for gas it is expected to happen in July 2014, ahead of the agreed timetable. The liberalisation of household electricity and gas retail prices has been following the agreed roadmaps. It is important that the subsequent phasing-out of gas and electricity price regulation continues in line with agreed roadmaps thus creating incentives for investments in domestic production, improved services and delivery systems and a more efficient use of energy.

Romania's integration with the EU energy market remains weak despite some progress in improving cross-border integration. There was limited progress as regards Romania's

[66] Other factors are a low affordability (the share of family income spent on broadband access is one of the highest in the EU) and low level of digital skills

participation in market coupling with the electricity markets of Hungary, the Czech Republic and Slovakia. Upgrading of internal lines and aged network assets is slow due to the limited financial capacities of the transmission system operators, but of particular importance in view of the need to accommodate the large deployment of wind and photovoltaic sources. Projects with the Republic of Moldova and Bulgaria, both enabling reverse flows, have progressed but are not yet operational. A second project with Bulgaria is foreseen to be finalised by the end of 2014. Another project in Romania to connect the transmission system with transit pipelines is delayed. More efforts are needed to complete these projects and enable physical reverse flows as the existing network limitations currently prevent the integration of not just Romania but also Bulgaria and Greece into the internal gas market. Integration would allow the diversification of gas supplies in the region. This will alleviate the high dependence on a single supplier and potentially contribute to lower import gas prices, which are currently the highest within the EU. Gas network development would enable Romania to take advantage of these benefits and to obtain access to the Caspian gas coming to Greece through the foreseen Trans-Adriatic pipeline. Moreover, in view of the development of gas resources in the Black Sea, export capacity will need to be in place in order for Romania to make full use of the opportunity to become a gas exporting country. Therefore, as infrastructure development is a lengthy process, pursuing network development now will not only bring economic benefits to Romania, but will increase security of supply and gas source diversification in the EU's South Eastern region.

Greenhouse gas emissions and energy efficiency

Romania remains one of the most energy and carbon-intensive economies in the EU, due to industry and residential buildings. Romania's energy intensity is more than twice the EU average,[67] largely due to the high share of energy-intensive industries and the significant share of solid fuels in the energy mix. Energy consumption in manufacturing grew by an annual rate of 3 % in 2005-11 and represents 25 % of the country's total energy consumption. The energy intensity of the residential buildings is also high compared to the EU average, significantly due to inefficiencies in the district heating system and in thermal insulation of buildings. Romanian households spend more than 13 % of their available income on energy, one of the highest rates in the EU. The energy infrastructure of Romania is poorly maintained and transmission losses are high.

Greenhouse gas emissions in the transport sector may become a risk. Romania decreased greenhouse gas (GHG) emissions by 7 % between 2005 and 2012[68] and is expected to meet its 2020 non-ETS GHG emissions by a large margin. This notwithstanding, Romania's emissions from the transport sector have increased steadily since 1990, reaching a share of total emissions of 12 %.[69] This increase has been driven mainly by the increase in the motorisation rate that can still be expected to increase.[70]

Progress in implementing the 2013 recommendation to improve energy efficiency remains limited. Various programmes focused on improving the efficiency of energy production and in particular in promoting the use of high-efficiency cogeneration. Large-scale programs that have been set up for the thermal insulation of buildings and the rehabilitation of district heating systems yielded some improvements. In 2013, the government adopted legislation making energy certification for a real estate that is sold or let mandatory and there has been some progress in improving energy efficiency in the industrial sector. The

[67] European Commission "Member States' energy dependence: an indicator-based assessment", April 2013. http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp145_en.pdf
[68] Based on GHG emission inventory for 2012 from 15 April 2014 submission to the UNFCCC.
[69] Data from the European Environment Agency – Trends and Projections in Europe 2013 http://www.eea.europa.eu/publications/trends-and-projections-2013.
[70] At 203 passenger cars per 1 000 inhabitants, the motorisation rate in Romania is still the lowest in EU-28.

government also contemplates various measures to promote energy efficiency, ranging from the establishment of an Energy Efficiency Investments Fund to stepping up the use of energy audits in all sectors, from expanding training programs for energy auditors to implementing awareness-raising and advice campaigns to consumers. However, these plans are still to be translated into practice. Energy price deregulation is expected to bring incentives to enhance energy efficiency. Yet concrete action and commitment of necessary administrative and financial resources are needed to further improve energy efficiency in the housing, district heating, industry and urban transport sectors. It is necessary to swiftly implement the related EU legislation (particularly Energy Efficiency and Energy Performance of Buildings Directives) and to promote the energy services market, including energy performance contracting.

Waste management and environment

Romania is the worst performing EU member state as concerns the municipal waste management. Waste treatment is characterised by low recycling[71] and high landfilling rates, even if Romania produces below-average volumes of municipal waste.[72] The relevant strategies and instruments to divert the waste from landfills are not in place and there is no comprehensive enforcement action against illegal landfilling. Romania is late in adopting the waste management plans and the waste prevention programmes required by the EU *acquis*. More decisive action is needed on the landfill tax, expected to be enforced in 2014 but postponed to 2017. Economic instruments in place are too limited to prompt and cover the costs of separate collection and recycling (e.g. limited Extended Producer's Responsibility, lack of 'Pay as You Throw' schemes).

Poor air quality and flood prevention continue to be a problem in Romania. The main sources of air pollution remain domestic solid fuel use by households and the energy sector. A restructuring of the energy and domestic heating system (switching to gas, district heating and pollution controls) and other pollution and prevention control measures could significantly contribute to address the problem. Flood prevention should be stepped up, and alternatives to dikes and other traditional protection measures should be exploited.

Business environment and SMEs

Poor quality of regulations and the lack of transparency and predictability of the regulatory framework hinder businesses and citizens. The management of the regulatory stock has not been a priority. Complex procedures are still in place when it comes to obtaining electricity, dealing with construction permits, paying taxes or dealing with insolvencies.[73]

Romania made limited progress in addressing the recommendation to reduce the administrative burden and improve the quality of regulations. A Strategy for SMEs and Business Environment and the Action Plan for 2014-16 are being prepared and a law on enhancing SMEs was adopted in April 2014. The Better Regulation strategy is under revision and a common methodology for impact assessments including the SME test is being prepared, although the original timing could not be respected. A project to quantify information obligations stemming from legislation, initiated in 2011, will be completed in 2014 and is to be accompanied by a Simplification Action Plan. Yet there is scope for further progress as tangible outcomes are yet to materialise. Tailored support services for SMEs need to be developed. A comprehensive codification would ensure the rationalisation and consolidation

[71] The country's recycling rate is 1 %, well below the EU average.
[72] EUROSTAT 2012 data.
[73] World Bank, Doing Business 2014. Romania performs poorly on the ease of doing business, even compared with its regional peers: 174th position out of 189 countries in obtaining electricity, 136th in construction permits, 134th in paying taxes, or 99th in settling insolvency.

of the regulatory stock, while systematic evaluations by policy areas would permit to assess whether regulations remain fit for purpose. Stakeholders' consultation needs to be more consistent between ministries.

Additional effort has to be put in building up the export capacity of SMEs. A National Export Strategy for 2014-20 has been prepared, but has not yet been adopted. To facilitate access to international markets, the SME export support services include trade missions, co-financing for participation in international trade fairs, a trade portal and market studies. But their scope remains very limited. The export promotion project establishing a 'passport-to-export' scheme will set up pilot export centres in early 2015. The electronic trade portal registered a 44 % increase in visitors in 2013 compared to 2012. The trade councillor scheme that assisted 3100 SMEs in 2012 might not be enhanced due to the lack of funding.

Despite some reform efforts undertaken in early 2014, unclear land ownership rights continue to represent a challenge for Romania's business environment. The lack of reliable information on real estate rights has negative impact on the development of both rural and urban areas, with investments in infrastructure, housing and land markets and environmental actions being affected. In terms of land registry coverage, Romania lags seriously behind its neighbouring countries. Less than 50 % of real estate (and real estate rights) are registered in the land book system and only around 15 % of real estate records are verified and registered digitally. The digital coverage is particularly low in rural areas. To speed up digital registration significant funding has been allocated in 2014 and a number of legal amendments have been drafted but their adoption by the government remains uncertain. The status of the land registration agency has been upgraded in March 2014 allowing for a higher degree of autonomy and improved funding as of September 2014. An improved digital registry would be highly beneficial for Romania's business environment.

The regulatory framework on insolvency has recently been strengthened to help better deal with companies in difficulties, to allow early rescue of viable companies and speedy exit of non-viable ones. Until very recently, the regulatory framework on insolvency was suffering from a number of shortcomings leading insolvency procedures being among the lengthiest in the EU (3.3 years on average, twice the OECD average). These shortcomings have negative implications for the recovery rates of creditors[74] and implicitly for investment in the country. The amendments to the insolvency code adopted by the Parliament in April 2014 address most of these shortcomings and bring the code more in line with international best practices. The procedures were made more effective through the introduction of provisions on pre-insolvency, creditor differentiation, the 'second chance' provisions and ensured automatic stay mechanism while preserving the equal treatment of all creditors within the procedure and a reasonable time for the reorganization plan to be implemented.

3.5. Modernisation of public administration

Overall weak administrative capacity, low EU funds' absorption and still weak justice system represent a continuous challenge for Romania. In 2013, Romania received country-specific recommendations on strengthening administrative capacity, fighting corruption and strengthening the judicial system. The analysis in this staff working document leads to the conclusion that Romania has made significant progress in EU funds' absorption, some progress in justice system reform while the country has made limited progress in improving governance and quality of public administration, public procurement and e-government (for the full CSR assessment see the overview table in Section 4).

[74] The current average is 30 cents on the dollar, as opposed to 70.6 cents on the dollar in the OECD countries.

Administrative capacity

The weak capacity of the public administration to develop and implement policies remains a core challenge for Romania, affecting decision-making and ultimately not allowing for the provision of public services of sufficient quality. The mechanisms for coordination within and between different levels of government remain weak. The public governance is characterised by an unstable legal framework and excessive bureaucracy. The public administration is undermined by an inconsistent human resources framework covering staff recruitment, stability, career development, training and independence of the civil service.

Romania has made limited progress in addressing the recommendation to strengthen governance and the quality of public administration. The structural causes that led to a low administrative capacity were analysed by an inter-ministerial working group in 2013. Based on this evaluation,[75] a strategy on strengthening public administration 2014-20 is being prepared. The strategy needs to be accompanied by an action plan with concrete short- and medium-term measures. A central delivery unit to improve the policy prioritisation, implementation and coordination with particular reference to the implementation of the EU country-specific recommendations has been created yet it is not fully functional. To better prioritise government policies an annual working plan of the government was approved for the first time in 2014. To strengthen the link between decision-making and budget allocations a Strategic Planning Council was revived, yet it is not yet fully operational.

In order to effectively implement a coherent and coordinated vision for the public administration there is a need for stronger political leadership and commitment in support of the reforms. A proper functioning public administration requires an institutional structure to take ownership and coordination of the public administration reform and strong civil society involvement. The public administration reform would need to include a strategic approach regarding management in public administration, including human resources management, an appropriate strategic planning system and an adequate substantiation of the decision-making process, the availability of relevant information and data to support the formulation and evaluation of public policies, more use of IT&C tools, and strengthening administrative capacity at local level in the context of decentralization.[76]

EU funds' absorption

Despite significant progress in addressing the country-specific recommendation, EU funds' absorption remains the lowest in the EU. Since June 2013, when the absorption rate was 18.4 %, it almost doubled between until December 2013 but Romania still has the lowest absorption rate in the EU.[77] The loss of EU funds could be avoided in 2013, but significant risks in this regard remain for 2014 and 2015. The funds' absorption remains constrained by an insufficient administrative capacity to manage programmes and projects and a poor co-ordination between line ministries, those responsible for sector policies and institutions responsible for funds management. Continuously weak management and control systems and public procurement practices may negatively impact the preparations for and implementation of the next generation of programmes.

[75] According to this evaluation, the root cause of the weaknesses may be found in the politicisation of public administration facing constant reorganizations and reshuffling of institutions, personalization of decision making, instability of the civil service, absence of a coherent and shared strategic vision for the development of the country, excessive bureaucracy and overregulated environment, conservative attitude and resistance to change, de-professionalization, insufficient accountability and transparency.

[76] In 2013, the Romanian Government proposed a Decentralisation law through a Government Emergency Ordinance, which was ruled unconstitutional in January 2014.

[77] 35 % of structural and cohesion funds have been claimed as of end-January 2014.

Public procurement

Shortcomings in public procurement lie mostly in the quality of the legal framework, the lack of coherence and efficiency of the institutional system and an insufficient administrative capacity. The legal framework, although overall acceptable, suffers from instability and a lack of coherence. Frequent changes of legislation aimed at solving individual problems and sectorial legislation incompatible with general legislation and the European legal framework are a source of uncertainty for stakeholders. The institutional set-up, with multiple actors and frequently overlapping responsibilities is not equipped to tackle the shortcomings. Guidance as well as decisions of review bodies is often inconsistent. Cooperation among institutions could be improved; clearly defined and sustainably assigned responsibilities and means to ensure their consistency need to be put in place. Contracting authorities lack the necessary human resources and expertise to prepare sound tender documents, define adequate selection and award criteria, evaluate the offers, and ensure correct execution of the contracts. Similarly, there is frequent recourse to artificial shortcuts such as shortening deadlines or transferring unreasonable risks and obligations to contractors. Efforts have been undertaken to improve guidance by central authorities to contracting authorities and to draft standard tender specifications, however this guidance remains insufficient. Fraud, corruption and conflicts of interests continue to be concerns for contracting authorities. Tailor-made specifications often lead to a low number of candidates while inadequate selection criteria lead to a high number of disqualifications.

Limited progress has been achieved in addressing the recommendation to improve public procurement. In 2013, the codification of the public procurement code was completed, and guidelines were developed for contracting authorities to align their public procurement practices. The national Strategy for Public Procurement 2014-2020 has been adopted and in 2014, an action plan has been prepared that should help, once implemented, further simplify and make more flexible public procurement procedures. Efforts to prevent conflict of interests have not yet delivered sufficient results. The National Integrity Agency (ANI) signed in February 2014 a Memorandum of Understanding with the aim to ensuring an effective ex-ante verification of conflict of interest in the award process of public procurement contracts. In the first phase, this would be applicable only to the EU funds, but it should be later enlarged to include all domestic public procurement. The system should be operational by end-2014. The transposition of the new public procurement directives represents an ideal opportunity for a strategic, systemic and in-depth review of the Romanian public procurement system aimed at fostering transparent, smart and efficient public procurement. A faster transition to e-procurement is encouraged.

E-government

The take-up of e-government in Romania is the lowest in the EU.[78] A greater reliance on electronic data exchange, online interfaces and interoperability could significantly facilitate administrative procedures for businesses and citizens. E-government take-up by Romanian citizens aged 24-54 is 37 %, the third-lowest in the EU while take-up by enterprises is the lowest, at 59 %.[79]

Romania has made little progress regarding recommendation to improve e-government. An e-government strategy was adopted in December 2013 but implementation of reforms related to data sharing and interoperability is slow. A National Strategy on the Digital Agenda and a Next Generation Access network plan are currently being developed. The usability of the Point of Single Contact is poor and a significant number of administrative procedures are

[78] According to the 2013 Digital Agenda Scoreboard Report, e-government take-up by Romanian citizens aged 24-54 is 37 %, the third-lowest in the EU, while take-up by enterprises is the lowest, at 59 %.
[79] 2013 Digital Agenda Scoreboard Report.

not available online or cannot always be completed online. Streamlining of two electronic platforms that currently provide different services to SMEs in the areas of 'business-to-government' and 'business–to-business' is still outstanding. The application of the EU Small Business Act ‘only once’ principle and a fully functioning Point of Single Contact should be pursued as priorities.

Justice system and fight against corruption

The quality, independence and efficiency of the Romanian justice system remain a concern. In 2013, the independence of justice continued to be challenged through politically motivated attacks, political interference in key appointments and non-respect for court decisions. Inconsistency of court decisions and lack of predictability in the interpretation of the law remain major irritants for the business community. Furthermore, courts and prosecution continue to struggle with very high workloads. Corruption, both petty and political, remains a systemic problem in Romania.

Romania has made some progress in addressing the recommendation to improve the quality, independence and efficiency of the judicial system. As to improving quality and efficiency, some measures were taken in 2013. Thus, the Civil Code and the Code of Civil Procedures entered into force in February 2013, and the Criminal Code and the Code of Criminal Procedure on 1st February 2014. The new Commercial Code is now applied for all new cases since February 2013. The capacity to resolve administrative cases at 1st instance courts increased, even if a large influx of cases[80] led to an important increase in the backlogs by end-2012.[81] Backlogs also increased in litigious civil and commercial cases and in enforcement cases.[82] Solutions to diminish the number of cases treated by the courts, such as mediation, have been recently introduced and a number of family matters (e.g. divorces) can now be dealt with by notaries, but their take-up is so far limited. A Strategy for Justice 2014-18 aiming at further improving the functioning of the judicial system is being prepared and there is an on-going project to redesign the judicial map, but the support of parliament remains uncertain. The availability of ICT tools for the registration and management of cases and for electronic communication between courts and parties has improved but the use of e-justice tools remains low. Efficiency can be further improved, in particular through introduction of regular evaluations of courts’ activities and quality standards.[83] As to independence, Romania has the second worst rating in the EU as to the perceived independence of justice. The January 2014[84] report of the Cooperation and Verification Mechanism shows that the independence of the judiciary continues to be threatened through politically motivated attacks, political interference in key appointments and non-respect for court decisions.

Corruption, both petty and political, remains a systemic problem in Romania. Corruption scandals and convictions of political figures at national and local level continue to be revealed. Corruption cases from all public services are reported on a regular basis, including police, health, and education. In 2013, important corruption cases were also revealed in the justice system.[85] The national Integrity Agency has drawn up about 450

[80] From 100 663 in 2010 to 229 619 in 2012. *Source:* Council of Europe (CEPEJ), *Study on the functioning of judicial systems in the EU Member States: Facts and figures from the CEPEJ 2012-2014 evaluation exercise*, study prepared for the European Commission (DG Justice)
[81] *Source:* European Commission, *The 2014 EU Justice Scoreboard*
[82] *Source:* European Commission, *The 2014 EU Justice Scoreboard*
[83] A comprehensive evaluation of the Romanian judicial system http://courtoptimization.wix.com/ewmi#
[84] CVM report 2014, COM(2014) 37
[85] According to Romanian authorities, as regards DNA indictments, 1 496 defendants were sentenced by final judgment; almost half of them had political functions, including a former Prime Minister, a Minister, eight

reports last year on conflicts of interests and incompatibilities. Studies and polling evidence also reveal a perception that the level of corruption in Romania is particularly high by European standards.[86]

Romania has made some progress in addressing the recommendation to fight corruption. Key anti-corruption institutions have continued to build a track record with a series of significant convictions.[87] A number of important cases have advanced through the legal system. The fight against petty corruption in all sectors such as health, education, public procurement has become more a priority, both at the prevention and prosecution side, but the national anti-corruption strategy needs further developing and the track record of bringing cases to trial and ensuring final sentences are effectively applied has not yet improved. In 2013, there were many examples of resistance to integrity and anti-corruption measures at political and administrative levels and the effective enforcement of court decisions, including confiscation of criminal assets, remains problematic.

Box 4: Potential impact of structural reforms on growth – a benchmarking exercise

Structural reforms are crucial for boosting growth. It is therefore important to know the potential benefits of these reforms. Benefits of structural reforms can be assessed with the help of economic models. The Commission uses its QUEST model to determine how structural reforms in a given Member State would affect growth if the Member State narrowed its gap vis-à-vis the average of the three best EU performers on key indicators such as the degree of competition or labour market participation. Improvements on these indicators could raise GDP by about 11 % in a 10-year period. Some reforms could have an effect even within a relatively short time horizon. The model simulations corroborate the analysis of Section 3.3, according to which the largest gains would likely stem from lower goods sector mark-ups and higher participation rates among women. In addition, the simulations expect important gains from improving active labour market policies and better integration of elderly in the labour market.

members of the Parliament, one State Secretary, 26 Mayors, Vice-mayors and County Prefects, 50 directors from state companies and public bodies, 60 officials of the supervisory authorities.

[86] EU anti-corruption report, COM (2014) 38 final. Annex 23. Special Eurobarometer survey on Corruption 397/2013, published in February 2014.

[87] According to Romanian authorities, in the last seven years, the indictments of the National Anticorruption Directorate/ DNA (prosecution level) were confirmed by final conviction decisions in 90.25%. More than 80% of National Agency of Integrity (ANI) decisions on incompatibilities as well as of the administrative decisions regarding the conflict of interests were confirmed.

Table: Structural indicators, targets, and potential GDP effects[88]

Reform areas		RO	Average 3 best EU performers	GDP % relative to baseline	
				5 years	10 years
Market competition	Final goods sector markups (price-cost margin)	0.30	0.13	3.9	7.5
Market regulation	Entry costs	3.00	0.13	0.0	0.1
Tax reform	Implicit consumption tax rate	21.6	28.6	0.3	0.4
Skill enhancing reforms*	Share of high-skilled	4.8	10.7	0.1	0.2
	Share of low-skilled	24.1	7.5	0.1	0.2
Labour market reforms	Female non-participation rate (25-54ys):			0.5	1.1
	- low-skilled	46.1	26.4		
	- medium-skilled	27.6	10.5		
	- high-skilled	8.3	4.3		
	Low-skilled male non-participation rate (25-54ys)	23.6	7.7	0.1	0.1
	Elderly non-participation rate (55-64ys):			0.4	1.0
	- low-skilled	19.7	13.4		
	- medium-skilled	11.8	4.8		
	- high-skilled	5.6	3.3		
	ALMP (% of GDP over unemployment share)	0.6	37.4	0.4	0.4
	Benefit replacement rate**	25.6	52.6	0.0	0.0
Total				5.8	11.0

Source: Commission services. Note: Simulations assume that all Member States undertake reforms which close their structural gaps by half. The table shows the contribution of each reform to total GDP after five and ten years. If the country is above the benchmark for a given indicator, we do not simulate the impact of reform measures in that area; however, the Member State in question can still benefit from measures taken by other Member States. *The long-run effect of increasing the share of high-skilled labour in the population could be 3.6 % of GDP and of decreasing the share of low-skilled labour could be 2.8 %. **EU average is set as the benchmark.

4. CONCLUSIONS

Romania made substantial progress towards restoring macroeconomic stability, consolidating its public finances, re-establishing market access for the sovereign, and safeguarding financial stability. However, the record in terms of structural reforms has been far less substantial, leading Romania to potentially face substantial challenges in the future. To sustain economic growth and to consolidate recent gains in terms of internal and external imbalances, it is advisable that Romania continues its fiscal consolidation and accelerates the implementation of structural reforms. This requires addressing a vast agenda of policy areas: administrative capacity, taxation, labour market participation, education, health, poverty and social inclusion, business environment, energy and transport, and the management of the state-owned companies. It is a challenge that can only bet met with strong political ownership and determination.

The analysis in this staff working document leads to the conclusion that Romania has made some progress in addressing the country-specific recommendations issued in 2013. There was substantial progress in completing the 2011-13 EU/IMF financial assistance programme and in pursuing fiscal consolidation, as well as energy price deregulation. Some progress has been registered in some key economic areas, including fiscal governance, tax administration, the absorption of EU funds, cross-border integration of energy networks, and improving the business environment. Health care reform and youth unemployment are also areas where some progress was registered. For the remaining recommendations the assessment is less positive, as progress was deemed limited. This includes labour market participation and poverty reduction, Roma integration, education and training, public

[88] Final goods sector mark-ups is the difference between the selling price of a good/service and its cost. Entry cost refers to the cost of starting a business in the intermediate sector. The implicit consumption tax rate is a proxy for shifting taxation away from labour to indirect taxes. The benefit replacement rate is the % of a worker's pre-unemployment income that is paid out by the unemployment scheme. For a detailed explanation of indicators see Annex.

administration, e-government, research and innovation, and transport. If properly addressed, these reform areas can greatly contribute to increase growth and job creation, and to reduce inequalities and poverty.

The submitted national reform programme and convergence programme contain a detailed assessment of reform measures as well as macroeconomic and fiscal projections. The national reform programme and convergence programme submitted by Romania set out policy measures that address most of the challenges identified in last year's staff working document and Europe 2020 priorities, and a broad coherence between the two documents has been ensured. The programme confirms Romania's commitment to address shortcomings in the areas of fiscal consolidation, EU funds' absorption, public administration, energy price reform, health care and education. Yet, while the documents give a thorough account of previous reform efforts, they do not provide sufficient details on future reform plans. Also, in some areas, in particular as regards fighting poverty and social inclusion of Roma the programmes lack ambition to address the challenges in a comprehensive way. The objective of the convergence programme is to achieve the medium-term objective in 2015 and remain at the medium-term objective thereafter yet it relies on unspecified measures and the underlying path is more back-loaded than previously. On the basis of the recalculated structural balance, a significant deviation from the adjustment path towards the medium-term objective can be expected.

As such, challenges identified in July 2013 and reiterated in the Annual Growth Survey remain valid. To promote sustainable growth and job creation, Romania needs to continue the implementation of the EU/IMF financial assistance programme, to improve tax collection and reduce fiscal disincentives for low- and middle-income earners, continue pension and health care reforms, increase employability and revamp the education and training system, increase the integration of disadvantaged groups of the population, improve administrative capacity, strengthen business environment and state-owned enterprises management, and continue reforms in energy and transport sectors.

OVERVIEW TABLE[89]

2013 commitments	Summary assessment
Country-specific recommendations (CSRs)	
CSR 1: Complete the EU/IMF financial assistance programme.	Romania has made **substantial progress** in addressing CSR 1. • The 2011-13 EU/IMF programme has been completed. A new balance of payments programme was agreed in autumn 2013.
CSR 2: Ensure growth-friendly fiscal consolidation and implement the budgetary strategy for the year 2013 and beyond as envisaged, thus ensuring achieving the medium-term objective by 2015. Improve tax collection by implementing a comprehensive tax compliance strategy and fight undeclared work. In parallel, explore ways to increase reliance on environmental taxes. Continue the pension reform started in 2010 by equalising the pensionable age for men and women and by promoting the employability of older workers.	Romania has made **some progress** in addressing CSR 2. • Substantial progress: Romania's excessive deficit procedure was abrogated. Fiscal consolidation continues with the aim to reach the medium-term objective by 2015 but risks remain. • Some progress: Some measures have been taken, including increasing the capacity of the anti-fraud administration. Yet tangible progress in voluntary tax compliance and fighting undeclared work is limited. • Some progress: There has been an increase of transport fuel excises; however there has been not progress regarding increasing reliance on energy and environmental taxes other than transport fuel taxes. • Limited progress: The amendments to the pension law to equalise pensionable age between men and women have been adopted by the government and are in the Parliament. The National Strategy for Active Ageing to promote the employability of older workers is delayed.
CSR 3: Pursue health sector reforms to increase its efficiency, quality and accessibility, in particular for disadvantaged people and remote and isolated communities. Reduce the excessive use of hospital care, including by strengthening outpatient care.	Romania has made **some progress** in addressing CSR 3. • Some progress: A comprehensive reform of the health care system is on-going. The basic benefits package was re-designed and is being implemented. The implementation of the minimum package is being delayed to 2015. • Limited progress: The Ministry of Health has developed a plan to reduce hospital beds by

89 The following categories are used to assess progress in implementing the 2013 country specific recommendation: No progress: The Member State has neither announced nor adopted any measures to address the CSR. This category also applies if a Member State has commissioned a study group to evaluate possible measures. Limited progress: The Member State has announced some measures to address the CSR, but these measures appear insufficient and/or their adoption/implementation is at risk. Some progress: The Member State has announced or adopted measures to address the CSR. These measures are promising, but not all of them have been implemented yet and implementation is not certain in all cases. Substantial progress: The Member State has adopted measures, most of which have been implemented. These measures go a long way in addressing the CSR. Fully addressed: The Member State has adopted and implemented measures that address the CSR appropriately.

	6 000 beds over the period 2014-2016 by strengthening ambulatory care, but implementation is still outstanding.
CSR 4:	Romania has made **limited progress** in addressing CSR 4.
Improve labour-market participation, as well as employability and productivity of the labour force, by reviewing and strengthening active labour-market policies, providing training and individualised services, and promoting lifelong learning.	• Limited progress: The laws on unemployment insurance and employment stimulation were amended to support active labour market measures. The National Employment Strategy 2013-2020 was adopted in December 2013. There was very limited progress on promoting lifelong learning.
Enhance the capacity of the National Employment Agency to increase the quality and coverage of its services.	• Limited progress: Despite some measures taken the capacity of National Employment Agency remains limited.
In order to fight youth unemployment, implement rapidly the National Plan for Youth Employment, including for example through a Youth Guarantee.	• Some progress: The 2013 National Plan for Youth Employment was partially implemented, including through the amendments of the Apprenticeship Law and a new traineeship law adopted in December 2013. The Youth Guarantee initiative is being implemented.
To alleviate poverty, improve the effectiveness and efficiency of social transfers with a particular focus on children. Complete the social assistance reform by adopting the relevant legislation and strengthening its link with activation measures.	• Limited progress: There was a revision of the minimum guaranteed income and the law on family allowance was amended. Measures were taken to protect vulnerable consumers against the increase of energy and gas prices. The minimum insertion income program that was expected to be implemented starting with 2015 is being delayed. The social economy law is under debate in Parliament. The strategy for social inclusion and combating poverty is in preparation.
Ensure concrete delivery of the National Roma Integration Strategy.	• Limited progress: The revision of the National Roma Integration Strategy and its Action Plans, announced at the beginning of 2013 is still not completed.
CSR 5:	Romania has made **limited progress** in addressing CSR 5.
Speed up the education reform including the building up of administrative capacity at both central and local levels and evaluate the impact of the reforms.	• Limited progress in building up of administrative capacity at both central and local level and evaluating the impact of the reforms.
Step up reforms in vocational education and training.	• Limited progress in stepping up reforms in vocational education and training. A vocational education and training scheme introduced in 2013 was somewhat expanded and improved in scope but its coverage is insufficient.
Further align tertiary education with the needs of the labour market and improve access for disadvantaged people.	• Limited progress in further aligning tertiary education with the needs of the labour market and improving access for disadvantaged people. The finalisation of the strategy on tertiary education addressing the issues of access and labour market transition is delayed. Some progress has been achieved in updating qualifications for higher education.
Implement a national strategy on early school leaving	• Limited progress in implementing a national strategy on early school leaving focusing on

focusing on better access to quality early childhood education, including for Roma children. Speed up the transition from institutional to alternative care for children deprived of parental care.	better access to quality early childhood education, including for Roma children. The strategy on early school leaving is delayed. • Limited progress: A national strategy for protecting and promoting the rights of the child is under preparation and is planned for adoption by end-2014.
CSR 6: Strengthen governance and the quality of institutions and the public administration, in particular by improving the capacity for strategic and budgetary planning, by increasing the professionalism of the public service through improved human resource management and by strengthening the mechanisms for coordination between the different levels of government. Significantly improve the quality of regulations through the use of impact assessments, and systematic evaluations. Step up efforts to accelerate the absorption of EU funds in particular by strengthening management and control systems and improving public procurement.	Romania has made limited progress in addressing CSR 6. • Limited progress on budgetary planning; limited progress on improved human resource management; some progress on coordination within the government though the establishment of the Delivery Unit and drafting of the national administrative capacity strategy. • Limited progress on improving quality of regulation. The national Better Regulation strategy for 2008-2013 is under revision. The common methodology for impact assessments, including the SME test will be ready only by end-2015. The legislation on impact assessment will be codified in 2014. • Some progress on better absorption of EU funds (as the structural and cohesion funds absorption rate increased from 11.5 % at end-2012 to 33.7 % at end-2013). Limited progress with respect to improving public procurement, Efforts to prevent conflict of interests and transparency issues in public procurement have not delivered sufficient results so far.
CSR 7: Improve and simplify the business environment in particular through reducing administrative burdens on SMEs and implementing a coherent e-government strategy. Ease and diversify access to finance for SMEs. Ensure closer links between research, innovation and industry, in particular by prioritising research and development activities that have the potential to attract private investment.	Romania has made **limited progress** in addressing CSR 7. • Some progress in reducing the administrative burden and simplify the business environment. The quantification of the information obligations is on-going and new simplification Action Plan is to be prepared in 2014. • No progress: no coherent e-government strategy and limited interoperability. • Some progress: The scheme for state guarantees for bank lending has been improved and re-launched in 2014. No progress has been achieved as regards the development of alternative forms of financing for companies. Access to finance for SMEs remains difficult and costly and the funding conditions to SMEs are expected to tighten during next months. • No progress: There is a lack of formal coordination between the Innovation Strategy, Competitiveness Strategy, Industrial Policy Strategy and SMEs Strategy. A National Strategy for Competitiveness and the National Strategy for Research and Innovation for 2014-2020 including a component on smart specialisation are in drafting stage, with multi-

Step up efforts to improve the quality, independence and efficiency of the judicial system in resolving cases and fight corruption more effectively.	annual financing not secured. • Some progress in improving the quality, independence and efficiency of the judicial system.
CSR 8: Promote competition and efficiency in network industries, by ensuring the independence and capacity of national regulatory authorities, and by continuing the corporate governance reform of state-owned enterprises in the energy and transport sectors. Adopt a comprehensive long-term transport plan and improve broadband infrastructure. Continue to remove regulated gas and electricity prices and improve energy efficiency. Improve the cross-border integration of energy networks and speed up implementation of the gas interconnection projects.	Romania has made **limited progress** in addressing CSR 8. • Fully addressed: the independence of the rail regulatory authority has been sufficiently strengthened. • Limited progress in corporate governance reform of SOEs in transport and energy. • Limited progress has been made in the adoption of a comprehensive long-term transport plan. • Limited progress on improving broadband infrastructure. • Fully addressed: Romania follows the agreed roadmap on liberalisation of retail energy prices. • Limited progress: More concrete actions and clear commitment of necessary resources are needed to implement energy efficiency programmes and relevant EU legislation. • Some progress with improving cross-border integration: gas exports are possible; some gas interconnections have been established; no progress in electricity interconnections.
Europe 2020 (national targets and progress)	
Policy field target	**Progress achieved**
Employment rate target (age group 20-64): 70 %	The national target of 70 % by 2020 remains very ambitious and difficult to reach. At 63.9 %, the employment rate remained practically unchanged in 2013 in comparison to 2012.
R&D target: 2 % by 2020	The R&D target is very ambitious and is difficult to reach. To attain the 2020 target, an average annual growth rate of 21.5 % in R&D intensity over the period 2012-20 is required (the average annual growth rate for 2007-2010 was of -4.2 %). In 2012, both the business R&D and the public R&D intensity have decreased compared to 2011: business R&D was only 0.12 % of GDP (ranked 27th in EU) and the public R&D was 0.3 % (ranked 27th in EU).
Early school leaving target: 11.3 %	No progress towards meeting the target. The early school leaving rate stagnates at 17.3 % in 2013. A strategy on early school leaving is being delayed.
Tertiary education target: 26.7%	Some progress towards meeting the target. The

	tertiary attainment rate has improved from 21.8 % in 2012 to 22.8 % in 2013. A decrease in enrolment and graduation rates has been registered in the last three years and this may put at risk the attainment of the target. A strategy on higher education is being delayed.
Greenhouse gas (GHG) emissions target: +19 % (compared to 2005 emissions, ETS emissions are not covered by the national target)	Inventory data shows that in 2012 Romania has decreased non-ETS emissions by 7 %[90] as compared to 2005. According to the latest projections submitted to the Commission and taking into account existing measures Romania is expected to increase its non-ETS GHG emissions by 7 % in 2020,[91] thus remaining below its target by a margin of 12pp.
2020 Renewable energy target: 24 % Share of renewable energy in all modes of transport: 10 %	Romania is on track for meeting its 2020 renewable energy (RES) target. The share of RES in 2012 reached 22.92 % of total gross energy consumption in 2012 (preliminary Eurostat data), well above the benchmark set by the indicative trajectory in the Renewable Energy Directive for 2011/2012 of 19 % and close to the 2020 objective. In order to remain on track to achieve its 2020 objective, it is beneficial to pay attention to preserving the regulatory stability and investors' confidence. Preliminary figures stand at 4.15 % for the transport sector.
Energy Efficiency target: 10 Mtoe or a 19 % reduction in primary energy consumption (compared to the PRIMES 2007 projection) By 2020: level of 42.99 Mtoe primary consumption and 30.32 Mtoes final energy consumption	Romania has important potential to improve energy efficiency. Swift actions will be paramount to implement the Energy Efficiency Directive and the Energy Performance of Buildings Directive. The housing, district heating, industry and transport sectors remain should be the focus of multi-prone action. In addition, efforts for capacity building, awareness raising and information dissemination would need to be stepped up.
Risk of poverty or social exclusion target: reducing the number of people at risk of poverty by 580 000 people (compared to 2008).	In order to monitor this target, Romania opted for using one of the three sub-indicators of the headline indicator, the 'at-risk-of-poverty rate' that showed a slight improvement from 23.4 % in 2008 to 22.6 % in 2012. In absolute terms, 164 000 people were lifted out of the risk of poverty between 2008 and 2012.

[90] Based on updated GHG emission inventory for 2012 from 15 April 2014 - submission to UNFCCC.
[91] Data from the European Environment Agency – Trends and Projections in Europe 2013 http://www.eea.europa.eu/publications/trends-and-projections-2013.

Annex

Standard Tables

Table I. Macro-economic indicators

	1996-2000	2001-2005	2006-2010	2011	2012	2013	2014	2015
Core indicators								
GDP growth rate	-0.3	5.7	2.8	2.3	0.6	3.5	2.5	2.6
Output gap [1]	n.a	1.7	3.7	-1.8	-3.2	-1.6	-1.2	-0.8
HICP (annual % change)	68.8	18.6	6.2	5.8	3.4	3.2	2.5	3.3
Domestic demand (annual % change) [2]	0.8	8.1	4.3	2.4	1.0	-0.8	2.2	3.1
Unemployment rate (% of labour force) [3]	5.5	7.2	6.7	7.4	7.0	7.3	7.2	7.1
Gross fixed capital formation (% of GDP)	19.7	21.8	27.4	26.1	26.3	23.6	23.7	23.9
Gross national saving (% of GDP)	13.4	17.4	19.1	22.4	21.5	21.9	22.0	21.9
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-4.1**	**-1.9**	**-5.3**	**-5.5**	**-3.0**	**-2.3**	**-2.2**	**-1.9**
Gross debt	**17.3**	**21.3**	**18.5**	**34.7**	**38.0**	**38.4**	**39.9**	**40.1**
Net financial assets	**44.2**	**23.6**	**-0.1**	**-15.3**	**-19.1**	**n.a**	**n.a**	**n.a**
Total revenue	32.2	32.5	33.5	33.9	33.7	32.7	32.6	32.8
Total expenditure	36.3	34.4	38.9	39.4	36.7	35.0	34.8	34.7
of which: Interest	3.8	2.0	1.1	1.6	1.8	1.8	1.8	1.8
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**-0.2**	**-5.6**	**-1.3**	**9.6**	**7.6**	**13.8**	**13.6**	**13.6**
Net financial assets; non-financial corporations	**-88.3**	**-83.2**	**-110.4**	**-106.2**	**-114.4**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-0.2**	**-0.4**	**1.9**	**7.5**	**8.5**	**n.a**	**n.a**	**n.a**
Gross capital formation	10.3	18.0	19.7	14.7	16.7	14.8	15.2	15.4
Gross operating surplus	26.0	23.6	27.7	25.4	25.4	29.8	29.9	30.3
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**-1.3**	**2.9**	**-2.1**	**-7.8**	**-6.5**	**-6.4**	**-6.5**	**-7.5**
Net financial assets	**36.3**	**34.8**	**52.0**	**38.0**	**46.7**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	28.9	32.3	33.2	30.6	30.3	29.9	29.9	29.8
Net property income	6.3	2.1	0.9	-1.0	-0.5	-0.5	-0.4	-0.3
Current transfers received	21.1	16.0	15.7	15.8	14.9	14.2	13.9	13.8
Gross saving	2.5	-3.5	-3.8	-4.1	-5.0	-5.6	-5.5	-6.4
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-5.5**	**-4.6**	**-8.4**	**-3.9**	**-3.0**	**1.2**	**0.9**	**0.4**
Net financial assets	**11.0**	**27.4**	**58.8**	**79.6**	**81.6**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-6.5	-8.0	-10.1	-5.3	-4.7	-0.6	-0.6	-1.1
Net primary income from the rest of the world	-1.1	-2.3	-2.5	-1.3	-1.8	-2.5	-2.5	-2.3
Net capital transactions	0.2	0.6	0.4	0.5	1.4	2.3	2.0	2.0
Tradable sector	63.7	58.5	53.2	50.1	48.4	50.0	n.a	n.a
Non tradable sector	27.4	30.9	35.8	37.5	38.9	37.7	n.a	n.a
of which: Building and construction sector	5.6	6.2	9.6	8.1	8.6	8.1	n.a	n.a
Real effective exchange rate (index, 2000=100)	67.5	84.8	122.2	107.7	103.6	106.7	109.3	110.6
Terms of trade goods and services (index, 2000=100)	84.3	94.4	117.1	124.4	127.9	127.1	126.2	126.3
Market performance of exports (index, 2000=100)	64.6	91.4	109.5	126.7	126.1	141.6	145.6	146.1

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source :

Commission 2014 spring forecast (COM); Convergence programme (CP).

Table II. Comparison of macroeconomic developments and forecasts

	2013		2014		2015		2016	2017
	COM	CP	COM	CP	COM	CP	CP	CP
Real GDP (% change)	3.5	3.5	2.5	2.5	2.6	2.6	3.0	3.3
Private consumption (% change)	1.3	1.3	2.0	2.0	3.0	2.9	3.2	3.3
Gross fixed capital formation (% change)	-3.3	-3.3	2.7	2.7	4.3	4.0	5.2	6.1
Exports of goods and services (% change)	13.5	13.5	6.5	6.6	5.6	4.7	4.5	5.0
Imports of goods and services (% change)	2.4	2.4	5.9	5.6	6.8	5.5	5.8	6.1
Contributions to real GDP growth:								
- Final domestic demand	-0.3	-0.3	2.2	2.1	3.1	3.0	3.6	3.9
- Change in inventories	-0.6	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	4.4	4.4	0.3	0.4	-0.5	-0.4	-0.6	-0.6
Output gap[1]	-1.6	-1.6	-1.2	-1.4	-0.8	-1.2	-0.9	-0.6
Employment (% change)	-0.3	-0.1	0.4	0.2	0.7	0.3	0.3	0.3
Unemployment rate (%)	7.3	7.3	7.2	7.1	7.1	6.9	6.8	6.7
Labour productivity (% change)	3.9	3.7	2.1	2.3	1.9	2.3	2.7	2.9
HICP inflation (%)	3.2	3.2	2.5	2.5	3.3	3.3	3.0	2.7
GDP deflator (% change)	3.5	3.5	2.8	2.8	2.8	2.8	2.4	2.3
Comp. of employees (per head, % change)	5.9	5.7	5.4	5.6	4.5	4.9	5.0	5.0
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	1.2	1.1	0.9	1.2	0.4	0.7	0.9	0.8

Note:

[1] In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source :

Commission 2014 spring forecast (COM); Convergence programme (CP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2013	2014		2015		2016	2017	Change: 2013-2017
	COM	COM	CP	COM[1]	CP	CP	CP	CP
Revenue	**32.7**	**32.6**	**33.4**	**32.8**	**33.6**	**33.9**	**34.0**	**1.3**
of which:								
- Taxes on production and imports	12.7	12.7	13.0	12.8	13.1	13.1	13.2	0.5
- Current taxes on income, wealth, etc.	6.0	5.9	6.2	6.0	6.3	6.5	6.6	0.6
- Social contributions	8.8	8.8	8.8	8.8	8.8	8.8	8.8	0.0
- Other (residual)	5.2	5.2	5.4	5.3	5.4	5.5	5.4	0.2
Expenditure	**35.0**	**34.8**	**35.6**	**34.7**	**35.0**	**35.2**	**35.1**	**0.1**
of which:								
- Primary expenditure	33.2	33.1	33.8	32.9	33.2	33.4	33.4	0.2
of which:								
Compensation of employees	8.1	8.1	8.0	8.0	8.0	7.9	7.6	-0.5
Intermediate consumption	5.3	5.3	6.0	5.3	5.9	5.8	5.7	0.4
Social payments	12.3	12.3	12.0	12.3	11.7	11.5	11.4	-0.9
Subsidies	0.3	0.3	0.4	0.3	0.4	0.4	0.4	0.1
Gross fixed capital formation	4.5	4.3	4.8	4.4	4.6	5.1	5.6	1.1
Other (residual)	2.7	2.7	2.7	2.6	2.6	2.7	2.7	0.0
- Interest expenditure	1.8	1.8	1.8	1.8	1.8	1.8	1.7	-0.1
General government balance (GGB)	**-2.3**	**-2.2**	**-2.2**	**-1.9**	**-1.4**	**-1.3**	**-1.1**	**1.2**
Primary balance	**-0.5**	**-0.5**	**-0.4**	**-0.2**	**0.4**	**0.5**	**0.6**	**1.1**
One-off and other temporary measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GGB excl. one-offs	**-2.3**	**-2.2**	**-2.2**	**-1.9**	**-1.4**	**-1.3**	**-1.1**	**1.2**
Output gap[2]	-1.6	-1.2	-1.4	-0.8	-1.2	-0.9	-0.6	1.0
Cyclically-adjusted balance[2]	-1.7	-1.8	-1.8	-1.7	-1.0	-1.0	-0.9	0.8
Structural balance (SB)[3]	**-1.7**	**-1.8**	**-1.8**	**-1.7**	**-1.0**	**-1.0**	**-0.9**	**0.8**
Change in SB	*0.7*	*-0.1*	*0.0*	*0.2*	*0.8*	*0.0*	*0.1*	-
Two year average change in SB	*1.0*	*0.3*	*0.4*	*0.0*	*0.4*	*0.4*	*0.0*	-
Structural primary balance[3]	0.0	-0.1	0.0	0.1	0.8	0.8	0.8	0.8
Change in structural primary balance		*-0.1*	*0.0*	*0.2*	*0.8*	*0.0*	*0.0*	-
Expenditure benchmark								
Applicable reference rate[4]	2.5	2.2	2.2	1.1	1.1	n.a.	n.a.	-
Deviation[5] (% GDP)	2.7	0.3	1.3	-0.2	0.3	n.a.	n.a.	-
Two-year average deviation (% GDP)	n.a.	1.5	1.7	0.1	0.8	n.a.	n.a.	-

Notes:

[1] On a no-policy-change basis.

[2] Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

[3] Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

[4] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t.The reference rates applicable to 2014 onwards have been updated in 2013.

[5] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Convergence programme (CP); Commission 2014 spring forecast (COM); Commission calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2008-2012	2013	2014		2015		2016	2017
			COM	CP	COM	CP	CP	CP
Gross debt ratio[1]	**28.0**	**38.4**	**39.9**	**39.9**	**40.1**	**39.6**	**39.1**	**38.5**
Change in the ratio	5.0	0.4	1.5	1.5	0.2	-0.3	-0.5	-0.6
Contributions[2] *:*								
1. Primary balance	**4.6**	**0.5**	**0.5**	**0.4**	**0.2**	**-0.4**	**-0.5**	**-0.6**
2. "Snow-ball" effect	**0.1**	**-0.7**	**-0.2**	**-0.1**	**-0.3**	**-0.3**	**-0.2**	**-0.3**
Of which:								
Interest expenditure	1.4	1.8	1.8	1.8	1.8	1.8	1.8	1.7
Growth effect	-0.1	-1.2	-0.9	-0.9	-1.0	-1.0	-1.1	-1.2
Inflation effect	-1.2	-1.2	-1.0	-1.0	-1.1	-1.1	-0.9	-0.8
3. Stock-flow	**0.4**	**0.7**	**1.2**	**1.3**	**0.3**	**0.4**	**0.3**	**0.4**
Of which:								
Cash/accruals diff.				-0.1		-0.1	-0.1	-0.1
Acc. financial assets				0.8		0.0	0.0	0.1
Privatisation				0.0		0.0	0.0	0.0
Val. effect & residual				-1.5		-1.7	-1.7	-1.7

	2013	2014		2015		2016	2017
		COM	CP	COM	CP	CP	CP
Gap to the debt benchmark[3,4]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Structural adjustment[5]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
To be compared to:							
Required adjustment[6]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Notes:

[1]End of period.

[2]The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

[3]Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[4]Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[5]Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[6]Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP/CP) budgetary projections for the previous years are achieved.

Source :

Convergence programme (CP); Commission 2014 spring forecast (COM); Commission calculations.

Table V. Sustainability indicators

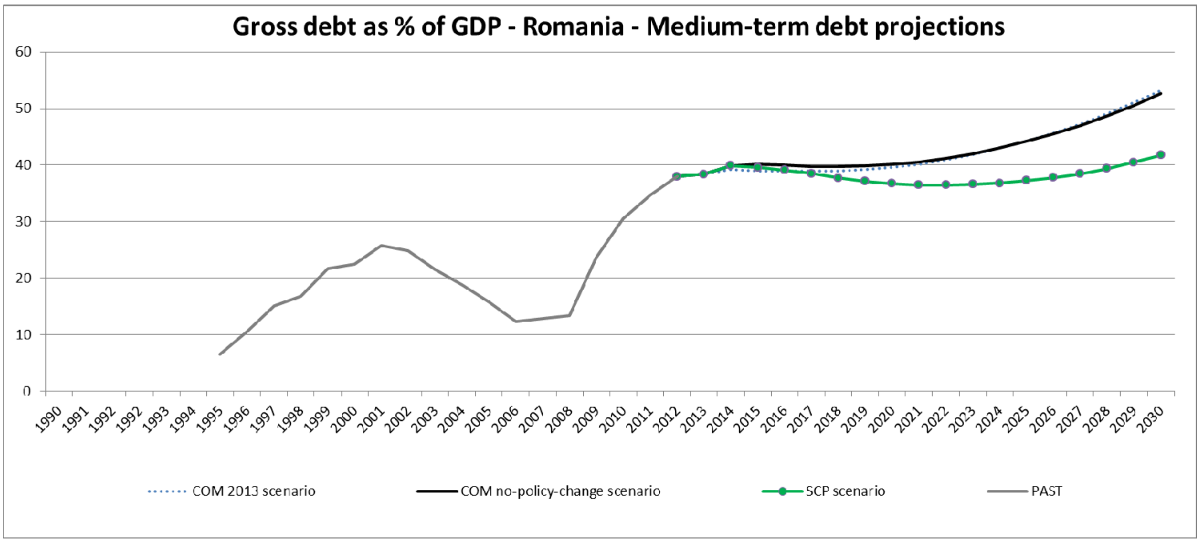
	Romania			European Union		
	2013 scenario	**No-policy-change scenario**	**Convergence programme scenario**	**2013 scenario**	**No-policy-change scenario**	**Convergence programme scenario**
S2*	4.3	4.4	3.9	2.4	2.4	0.7
of which:						
Initial budgetary position (IBP)	0.8	0.8	0.0	0.5	0.4	-1.3
Long-term cost of ageing (CoA)	3.6	3.7	3.9	1.9	2.0	2.0
of which:						
pensions	2.3	2.5	2.7	0.7	0.8	0.9
healthcare	0.7	0.7	0.7	0.9	0.9	0.8
long-term care	0.6	0.6	0.6	0.6	0.6	0.6
others	-0.1	-0.1	0.0	-0.4	-0.4	-0.3
S1**	-0.4	-0.5	-1.4	1.5	1.7	-0.2
of which:						
Initial budgetary position (IBP)	0.3	0.3	-0.5	-0.2	-0.4	-2.0
Debt requirement (DR)	-1.1	-1.2	-1.5	1.5	1.8	1.5
Long-term cost of ageing (CoA)	0.4	0.4	0.5	0.2	0.3	0.3
S0 (risk for fiscal stress)***	0.29	:		:		
Debt as % of GDP (2013)	38.4			88.9		
Age-related expenditure as % of GDP (2013)	17.0			25.8		

Source: *Commission; 2014 convergence programme.*
Note: The 2013 scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2013 in line with the Commission's 2014 spring forecast. The 'no-policy-change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2015 in line with the Commission's 2014 spring forecast. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented. Age-related expenditure as given in the 2012 Ageing Report.

* The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: (i) the initial budgetary position (IBP), which gives the gap vis-à-vis the debt-stabilising primary balance and (ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that, in an infinite horizon, the growth in the debt ratio is bound by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60 % debt threshold. The following thresholds were used for the S2 indicator: (i) if the value of S2 is lower than 2, the country is classed as low risk; (ii) if it is between 2 and 6, it is classed as medium risk; and (iii) if it is greater than 6, it is classed as high risk.

** The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance in the period to 2020 and then sustained for a decade, to bring debt ratios back to 60% of GDP in 2030, including financing for any additional expenditure by the target date, arising from population ageing. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is classed as low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 pp of GDP per year until 2020 after the last year covered by the 2014 spring forecast (2015) is required (indicating a cumulated adjustment of 2.5 pp), it is classed as medium risk; and (iii) if the S1 value is greater than 2.5 (i.e. a structural adjustment of more than 0.5 pp of GDP per year is necessary), it is classed as high risk.

*** The S0 indicator reflects up-to-date evidence on the role played by fiscal and financial competitiveness variables in creating potential fiscal risks. The methodology for the S0 indicator differs fundamentally from that for the S1 and S2 indicators. Unlike S1 and S2, S0 is not a quantification of the required fiscal adjustment effort, but a composite indicator which estimates the extent to which there might be a risk of fiscal stress in the short term. The critical threshold for the S0 indicator is 0.43.



Gross debt as % of GDP - Romania - Medium-term debt projections
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2030
COM 2013 scenario
COM no-policy-change scenario
SCP scenario
PAST

Table VI. Taxation indicators

	2002	2006	2008	2010	2011	2012
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	28.1	28.5	28.0	26.8	28.4	28.3
Breakdown by economic function (% of GDP)[1]						
Consumption	10.9	12.1	11.2	11.3	12.6	12.8
of which:						
- VAT	7.1	7.9	7.9	7.6	8.7	8.5
- excise duties on tobacco and alcohol	1.0	1.2	1.2	1.5	1.8	1.8
- energy	1.7	1.7	1.4	1.8	1.7	1.7
- other (residual)	1.1	1.2	0.7	0.4	0.4	0.8
Labour employed	12.3	11.5	11.5	10.9	11.0	11.1
Labour non-employed	0.0	0.0	0.1	0.2	0.2	0.2
Capital and business income	3.8	3.9	4.2	3.2	3.6	3.3
Stocks of capital/wealth	1.1	1.0	1.0	1.1	1.0	1.0
p.m. Environmental taxes[2]	2.1	1.9	1.8	2.0	1.9	1.9
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	48.8	53.7	56.3	43.9	51.8	50.6

Note:

1. Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2014), Taxation trends in the European Union, for a more detailed explanation.

2. This category comprises taxes on energy, transport and pollution, and resources included in taxes on consumption and capital.

3. The VAT efficiency is measured via the VAT revenue ratio. It is defined as the ratio between the actual VAT revenue collected and the revenue that would be raised if VAT was applied at the standard rate to all final (domestic) consumption expenditures, which is an imperfect measure of the theoretical pure VAT base. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). It should be noted that the relative size of cross-border shopping compared to domestic consumption also influences the value of the ratio, notably for smaller economies. See European Commission (2012), Tax Reforms in EU Member States and OECD (2012), Consumption tax trends for a more detailed discussion.

Source: Commission

Table VII. Financial market indicators

	2009	2010	2011	2012	2013
Total assets of the banking sector (% of GDP)	73.1	73.3	69.8	69.3	64.0
Share of assets of the five largest banks (% of total assets)	52.4	52.7	54.6	54.7	-
Foreign ownership of banking system (% of total assets)[1]	76.4	72.4	71.2	69.9	-
Financial soundness indicators:					
- non-performing loans (% of total loans)[2), 3)]	7.9	11.9	14.3	18.2	21.6
- capital adequacy ratio (%) [2)]	14.7	15.0	14.9	14.9	13.9
- return on equity (%) [2), 4)]	2.9	-1.7	-2.6	-5.9	5.0
Bank loans to the private sector (year-on-year % change)	-2.0	6.3	7.6	-0.7	-3.5
Lending for house purchase (year-on-year % change)	9.4	16.6	13.0	7.7	9.7
Loan to deposit ratio	118.4	117.3	118.6	113.9	100.8
CB liquidity as % of liabilities	3.1	1.1	2.0	3.9	0.3
Banks' exposure to countries receiving official financial assistance (% of GDP)	-	-	-	-	-
Private debt (% of GDP)	73.3	75.3	73.9	73.0	-
Gross external debt (% of GDP)[5)]					
- Public	11.5	14.8	16.9	19.4	-
- Private	34.3	33.8	32.9	34.0	-
Long term interest rates spread versus Bund (basis points)*	647.2	459.3	468.4	518.4	384.4
Credit default swap spreads for sovereign securities (5-year)*	400.8	298.0	279.8	310.5	180.4

Notes:

[1)] Due to methodological differences, the data on foreign ownership differs from the data published by national authorities.

[2)] Latest data 2013Q3.

[3)] Non-performing loans are defined as loans and interest past due for over 90 days and/or for which legal proceeding were initiated against the loan or debtor.

[4)] After extraordinary items and taxes.

[5)] Latest data 2013Q3.

* Measured in basis points.

Source :

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness

Table VIII. Labour market and social indicators

Labour market indicators	2008	2009	2010	2011	2012	2013
Employment rate (% of population aged 20-64)	64.4	63.5	63.3	62.8	63.8	63.9
Employment growth (% change from previous year)	0.0	-2.0	-0.3	-0.8	1.3	-0.1
Employment rate of women (% of female population aged 20-64)	57.3	56.3	55.9	55.7	56.3	56.2
Employment rate of men (% of male population aged 20-64)	71.6	70.7	70.8	69.9	71.4	71.6
Employment rate of older workers (% of population aged 55-64)	43.1	42.6	41.1	40.0	41.4	41.5
Part-time employment (% of total employment, 15 years and more)	9.9	9.8	11.0	10.5	10.2	9.9
Part-time employment of women (% of women employment, 15 years and more)	10.8	10.6	11.4	11.5	11.1	10.8
Part-time employment of men (% of men employment, 15 years and more)	9.1	9.1	10.6	9.6	9.5	9.3
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	1.3	1.0	1.1	1.5	1.7	1.5
Transitions from temporary to permanent employment	54.6	54.5	61.0	58.5	:	:
Unemployment rate[1] (% of labour force, age group 15-74)	5.8	6.9	7.3	7.4	7.0	7.3
Long-term unemployment rate[2] (% of labour force)	2.4	2.2	2.5	3.1	3.2	3.4
Youth unemployment rate (% of youth labour force aged 15-24)	18.6	20.8	22.1	23.7	22.7	23.6
Youth NEET rate (% of population aged 15-24)	11.6	13.9	16.4	17.4	16.8	17.2
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	15.9	16.6	18.4	17.5	17.4	17.3
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	16.0	16.8	18.1	20.4	21.8	22.8
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	6.0	4.0	4.0	1.0	11.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	2.0	1.0	3.0	1.0	4.0	:
Labour productivity per person employed (annual % change)	7.3	-4.7	-0.9	3.2	-0.8	3.7
Hours worked per person employed (annual % change)	0.0	-0.6	-0.4	1.8	-0.4	-0.4
Labour productivity per hour worked (annual % change; constant prices)	7.3	-4.2	-0.5	1.4	-0.3	4.0
Compensation per employee (annual % change; constant prices)	14.5	-5.9	-8.5	-7.8	-1.0	2.7
Nominal unit labour cost growth (annual % change)	22.9	2.9	-2.4	-7.0	4.4	2.5
Real unit labour cost growth (annual % change)	6.6	-1.2	-7.7	-10.6	-0.2	-1.0

Notes:

[1] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed.

[2] Long-term unemployed are unemployed persons for at least 12 months.

Sources:
Commission (EU Labour Force Survey and European National Accounts)

Expenditure on social protection benefits (% of GDP)	**2007**	**2008**	**2009**	**2010**	**2011**
Sickness/Health care	3.5	3.5	4.1	4.4	4.0
Invalidity	1.3	1.4	1.6	1.6	1.5
Old age and survivors	6.0	7.1	8.8	8.8	8.6
Family/Children	1.7	1.5	1.7	1.7	1.4
Unemployment	0.3	0.2	0.4	0.6	0.3
Housing and Social exclusion n.e.c.	0.0	0.0	0.0	0.0	0.0
Total	13.2	14.1	16.9	17.4	16.1
of which: means tested benefits	0.8	0.7	1.0	1.3	0.8
Social inclusion indicators	**2008**	**2009**	**2010**	**2011**	**2012**
At-risk-of-poverty or social exclusion[1] (% of total population)	44.2	43.1	41.4	40.3	41.7
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	51.2	52.0	48.7	49.1	52.2
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	49.2	43.1	39.9	35.3	35.7
At-Risk-of-Poverty rate[2] (% of total population)	23.4	22.4	21.1	22.2	22.6
Severe Material Deprivation[3] (% of total population)	32.9	32.2	31.0	29.4	29.9
Share of people living in low work intensity households[4] (% of people aged 0-59)	8.3	7.7	6.9	6.7	7.4
In-work at-risk-of poverty rate (% of persons employed)	17.5	17.6	17.2	18.9	19.1
Impact of social transfers (excluding pensions) on reducing poverty	23.8	23.0	23.3	23.7	19.3
Poverty thresholds, expressed in national currency at constant prices[5]	3 725	4 218	4 334	4 218	4 011
Gross disponsable income (households)	330 147	307 384	321 980	329 713	:
Relative median poverty risk gap (60% of median equivalised income, age: total)	32.3	32.0	30.6	31.8	30.9

Notes:

[1] People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate (AROP): share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone.

[4] People living in households with very low work intensity: share of people aged 0-59 living in households where the adults (excluding dependent children) work less than 20% of their total work-time potential during the previous 12 months.

[5] For EE, CY, MT, SI, SK, thresholds in nominal values in Euros; HICP - index 100 in 2006 (2007 survey refers to 2006 incomes)

Sources:
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.

Table IX. Product market performance and policy indicators

Performance indicators	2004-2008	2009	2010	2011	2012	2013
Labour productivity[1] total economy (annual growth in %)	6.6	-3.9	-1.5	2.7	-1.0	n.a.
Labour productivity[1] in manufacturing (annual growth in %)	8.5	6.7	10.2	-3.8	-1.1	n.a.
Labour productivity[1] in electricity, gas, water (annual growth in %)	0.5	23.1	-6.0	22.7	n.a.	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	18.1	-8.8	-1.4	-15.7	2.4	n.a.
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	2.8	3.0	3.3	3.3	n.a.	n.a.
Policy indicators	**2004-2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Enforcing contracts[3] (days)	532.0	512	512	512	512	512
Time to start a business[3] (days)	13.6	9	9	14	10	9
R&D expenditure (% of GDP)	0.5	0.5	0.5	0.5	0.4	n.a.
Tertiary educational attainment (% of 30-34 years old population)	12.8	16.8	18.1	20.4	21.8	22.8
Total public expenditure on education (% of GDP)	3.7	4.2	3.5	3.1	n.a.	n.a.
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Notes:

[1] Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2] Patent data refer to applications to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.

[3] The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.

[4] The methodologies of the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html.

[5] Aggregate ETCR.

Source :

Commission, World Bank - *Doing Business* (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).

Table X. Green Growth

		2003-2007	2008	2009	2010	2011	2012
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.74	0.61	0.58	0.59	0.59	0.56
Carbon intensity	kg / €	2.66	2.13	1.95	1.91	1.97	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	6.28	8.34	7.01	6.55	7.11	n.a.
Waste intensity	kg / €	n.a.	2.86	n.a.	3.59	n.a.	n.a.
Energy balance of trade	% GDP	-2.8%	-3.0%	-1.7%	-2.3%	-2.8%	-3%
Energy weight in HICP	%	19	18	17	17	18	13
Difference between change energy price and inflation	%	6.52	1.3	-0.5	-2	1.0	1.3
Environmental taxes over labour taxes	ratio	19.2%	15.4%	15.9%	18.2%	16.9%	n.a.
Environmental taxes over total taxes	ratio	7.7%	6.3%	7.0%	7.5%	6.7%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.50	0.40	0.29	0.29	n.a.	n.a.
Share of energy-intensive industries in the economy	% GDP	10.5	9.8	27.2	n.a.	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.09	0.08	0.08	0.08	0.08
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	0.02	0.02	0.01	0.02	0.02
Public R&D for energy	% GDP	n.a.	0.03%	0.02%	0.01%	0.02%	0.01%
Public R&D for the environment	% GDP	n.a.	0.02%	0.02%	0.03%	0.02%	0.02%
Recycling rate of municipal waste	ratio	0.8%	0.9%	1.1%	1.1%	1.1%	1.1%
Share of GHG emissions covered by ETS*	%	n.a.	45.6%	41.0%	40.9%	42.3%	40.3%
Transport energy intensity	kgoe / €	0.56	0.55	0.62	n.a.	n.a.	n.a.
Transport carbon intensity	kg / €	1.66	1.62	1.81	n.a.	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	28.9%	28.0%	20.3%	21.9%	21.6%	22.7%
Diversification of oil import sources	HHI	n.a.	0.36	0.34	0.27	0.30	n.a.
Diversification of energy mix	HHI	0.26	0.24	0.23	0.23	0.23	0.23
Share renewable energy in energy mix	%	11.5%	13.3%	14.8%	16.4%	13.9%	14.7%

Country-specific notes:

The year 2012 is not included in the table due to lack of data.

General explanation of the table items:

Source: Eurostat unless indicated otherwise; ECFIN elaborations indicated below

All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)

Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)

Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)

Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)

Waste intensity: waste (in kg) divided by GDP (in EUR)

Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP

Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP

Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)

Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"

Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2005 EUR)

Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP

Electricity and gas prices medium industrial users: consumption band 500 - 2000MWh and 10000 - 100000 GJ; figures excl. VAT.

Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste

Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP

Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)

Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transp industry gross value added (2005 EUR)

Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport sector

Energy import dependency: net energy imports divided by gross inland energy consumption incl. energy consumption international bunkers

Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin

Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels

Share renewable energy in energy mix: %-share in gross inland energy consumption, expressed in tonne oil equivalents

* Commission and EEA.

** For 2007 average of S1 & S2 for DE, HR, LU, NL, FI, SE & UK. Other countries only have S2.

*** For 2007 average of S1 & S2 for HR, IT, NL, FI, SE & UK. Other countries only have S2.

List of indicators used in Box 4 on the potential impact on growth of structural reforms.

Final goods sector mark-ups: Price-cost margin, i.e. the difference between the selling price of a good or service and its cost. Final goods mark-ups are proxied by the mark-ups in selected services sectors (transport and storage, post and telecommunications, electricity, gas and water supply, hotels and restaurants and financial intermediation but excluding real estate and renting of machinery and equipment and other business activities[92]).
Source: Commission services estimation using the methodology of Roeger, W. (1995). "Can imperfect Competition explain the Difference between primal and dual Productivity?" *Journal of Political Economy* Vol. 103(2) pp. 316-30, based on EUKLEMS 1996-2007 data.

Entry costs: Cost of starting a business in the intermediate sector as a share of income per capita. The intermediate sector is proxied by the manufacturing sector in the model.
Source: World Bank, Doing Business Database. www.doingbusiness.org. 2012 data.

Implicit consumption tax rate: Defined as total taxes on consumption over the value of private consumption. In the simulations it is used as a proxy for shifting taxation away from labour to indirect taxes. The implicit consumption tax-rates are increased (halving the gap vis-à-vis the best performers) while labour tax-rates are reduced so that the combined impact is ex-ante budgetary neutral.
Source: European Commission, Taxation trends in the European Union, 2013 edition, Luxembourg, 2013. 2011 data.

Shares of high-skilled and low-skilled: The share of high skilled workers is increased, the share of low-skilled workers is reduced (halving the gap vis-à-vis the best performers). Low-skilled correspond to ISCED 0-2 categories; high-skilled correspond to scientists (in mathematics and computing, engineering, manufacturing and construction). The remainder is medium-skilled.
Source: EUROSTAT. 2012 data or latest available.

Female non-participation rate: Share of women of working age not in paid work and not looking for paid work in total female working-age population
Source: EUROSTAT. 2012 data or latest available.

Low-skilled male non-participation rates: Share of low-skilled men of working age not in paid work and not looking for paid work in total male working-age population
Source: EUROSTAT. 2012 data or latest available.

Elderly non-participation rates (55-64 years): Share of the population aged 55-64 years not in paid work and not looking for paid work in total population aged 55-64 years.
Source: EUROSTAT. 2012 data or latest available.

ALMP: Active Labour Market Policy expenditures as a share of GDP over the share of unemployed in the population.
Source: EUROSTAT. 2011 data or latest available.

[92] The real estate sector is excluded because of statistical difficulties of estimating a mark-up in this sector. The sector renting of machinery and equipment and other business activities is conceptually part of intermediate goods sector.

Benefit replacement rate: Share of a worker's pre-unemployment income that is paid out by the unemployment insurance scheme. Average of net replacement rates over 60 months of unemployment.
Source: OECD, Benefits and Wages Statistics.
www.oecd.org/els/benefitsandwagesstatistics.htm. 2012 data.