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# COMMISSION STAFF WORKING DOCUMENT

## Assessment of the 2013 national reform programme and convergence programme for ROMANIA

*Accompanying the document*

**Recommendation for a COUNCIL RECOMMENDATION**

**on Romania's 2013 national reform programme and delivering a Council Opinion on Romania's 2013 convergence programme for 2012-2016**

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## EXECUTIVE SUMMARY

### Economic Outlook

**The Romanian economy expanded by 0.7 % in 2012 and the Commission forecasts a modest recovery for 2013, with growth picking up to around 1.6 %, driven primarily by domestic demand and investment.** Headline consumer price inflation, at 3.4 % in 2012, is projected to remain high, at around 4.3 % in 2013 on average. On the external side, the current account improved significantly from a deficit of 4.5% of GDP in 2011 to 4% of GDP in 2012, and is expected to remain below 4 % in 2013 and 2014.

**The labour market recovered somewhat in 2012 but challenges remain, in particular regarding high youth unemployment.** Unemployment fell from 7.4 % in 2011 to 7 % in 2012 but youth unemployment, currently at around 23%, is expected to remain high.

**As regards fiscal policies, Romania met the programme target for 2012 to reduce its headline government deficit to below 3% of GDP.** Romania's 2013 budget targets a headline deficit of 2.4% of GDP, although the Commission's spring forecast indicates a deficit of 2.6 % for 2013 and 2.4 % for 2014. To reach its target, Romania intends to improve its structural balance by 1.0 % of GDP in 2013, which is appropriate. Romania's medium-term objective is a structural deficit of 1 % of GDP, planned to be reached in 2014 which, when recalculated by Commission based on the commonly agreed methodology, corresponds to reaching the MTO by 2015. Romania's public debt is relatively low (37.8 % of GDP in 2012) and while it is expected to rise to 38.6 % in 2014, it is still well below the 60% of GDP limit.

### Key Issues

**Romania is currently completing the implementation of the second economic adjustment programme with the EU and the IMF**. The programme should be formally completed after a final review in the summer 2013.

- As regards fiscal policies, Romania has fulfilled its programme commitment to reduce its general government deficit to below 3 % of GDP in 2012. Fiscal governance reforms are being pursued, notably through closer monitoring of state-owned enterprises that are part of the general government sector and the prioritisation of public investment projects.
- **Important progress has also been made** in the areas of structural reforms such as taxation, the banking sector, and energy and transport.
- **However, the reform of key state-owned enterprises has been insufficient.** Arrears incurred by the key state-owned enterprises under review remained somewhat above the target in 2012. Progress in terms of introducing professional management and selling minority and majority stakes in SOEs has been inadequate.
- A number of corrective measures were agreed in January and are to be implemented before the final review in summer 2013. Progress needs to be made on reducing local government arrears, enacting a law on the winding-up of insurance undertakings and continuing the reforms in the gas, electricity, rail and healthcare.
- **Moreover, the overall absorption rate of EU funds remains very low** (at 20.2 % of the total available structural, cohesion and agricultural funding by end 2012), leading

to a significant risk that an important part of structural and cohesion funds will be no longer be available to Romania in 2013.

**In addition to short-term challenges identified under the programme, Romania faces a number of further, medium-term challenges in the bid to secure smart, sustainable and inclusive growth.** At 46 % of the EU average, Romania's GDP per capita is one of the most telling indicators of the country's developmental gap. Particular challenges include the need to increase labour market participation, improve overall competitiveness and reform the public administration. EU funds can provide an important source of public investment to support Romania in addressing these challenges.

- **Labour market/education/social**: Increasing the number of people in the labour market is the main challenge. Although unemployment is relatively low (7.0 % in 2012), the overall employment rate is only 63.8 %, which is amongst the lowest in the EU. Meanwhile, youth unemployment is high (reaching 22.8 % in 2012) and disadvantaged people, in particular Roma, face great difficulties, with unemployment for Roma people more than six times the average national rate (48.6 %). Poverty reduction continues to be a major challenge; Romanians are the second highest most likely to be at risk of poverty or social exclusion in the EU, and almost one in three Romanians is severely materially deprived. Romania faces a major challenge in raising the quality of education and training, with more than two out of five 15-year-olds with inadequate reading, mathematical and scientific literacy.
- **Competitiveness**: Romania has low general economic competitiveness. The major challenges are the underdeveloped transport and ICT infrastructure, a weak business environment and low support for research and development. Romania's underdeveloped basic transport and broadband infrastructure continue to present an obstacle to growth. The research and development intensity is extremely low while the research and innovation system is highly fragmented and there are few linkages between education, research and businesses. Rapidly changing governance arrangements and a heavy regulatory environment and the red tape impact negatively on the business climate. Increasing energy efficiency (Romania is the third most energy-intensive economy) will be crucial for industrial competitiveness.
- **Public administration**: Poor administrative capacity is a core concern for Romania. The public administration is characterised by an inconsistent legal framework, frequent recourse to emergency ordinances, low levels of inter-ministerial cooperation and excessive bureaucracy. It is also undermined by a lack of skills, a lack of transparency in staff recruitment and high management turnover rates. The poor administrative capacity contributes to a low absorption of EU funds. Romania has scope to improve tax collection by implementing a comprehensive tax compliance strategy. Preventing and combating corrupt practices, particularly in the area of public procurement, is a challenge, while Romania has the second worst rating in the EU when it comes to the perceived independence of the justice system.

## 1. INTRODUCTION

**Romania is currently completing the implementation of the second economic adjustment programme with the EU and the IMF.** Following a request by Romania on 17 February 2011, the European Commission and the IMF negotiated a precautionary economic adjustment programme with the Romanian authorities. A two-year programme was agreed by the European Council on 12 May 2011 and by the IMF board on 25 March 2011. Its financial package envisaged up to EUR 4.9 billion, comprising EUR 1.4 billion from the EU and around SDR[1] 3.1 billion from the IMF. Both the EU and the IMF programmes have been treated as precautionary and no disbursements have taken place. The programme seeks to facilitate a continued orderly adjustment of the fiscal and the external deficits by strengthening the credibility of the government's economic policy, including the ongoing fiscal adjustment, the consolidation of financial market reform, greater focus on product and labour market reforms and increased absorption of EU funds. The attainment of these objectives was expected to enhance Romania's growth potential, underpin monetary and financial stability, strengthen confidence in Romania's currency, and reduce the likelihood of negative balance sheet effects on companies and households. Since the programme could not be completed on time because of delays in reforms, the authorities requested and obtained a three-month extension of the IMF programme. While the possibility to draw on funds under the EU programme expired at the end of March 2013, the programme will not be completed until the final programme review that is scheduled to take place in summer[2]. The economic adjustment programme implementation is monitored by the Commission and the IMF on a quarterly basis by verifying compliance with the terms set out in the Memorandum of Understanding (MoU) and the Memorandum of Economic and Financial Policies (MEFP). Given the conditionality attached to the programme under the MoU and the regular reporting and monitoring requirements, programme countries have been exempted from the obligation to submit national reform programmes (NRP) and stability or convergence programmes.[3]

**This Staff Working Document (SWD) under the 2013 European Semester provides a synthesis of recent progress in implementing the programme and an assessment of further challenges.** Additional details on the implementation of the programme can be found in the Commission's quarterly reviews of programme implementation[4]. The SWD assesses policy measures in light of the findings of the Commission's 2013 Annual Growth Survey (2013 AGS)[5], published in November 2012, and Romania's Europe 2020 targets. The 2013 AGS sets out the Commission's proposals for building the necessary common understanding about the priorities for action at national and EU level in 2013. It identifies five priorities to guide Member States to renewed growth: pursuing differentiated, growth-friendly fiscal

[1] Special drawing rights, equivalent to around EUR 3.5 billion.

[2] As regards further support from international financial institutions, the World Bank's development policy loan with a deferred drawdown option of EUR 1 billion became effective on 11 January 2013. The World Bank also continues to provide EUR 500 million through results-based financing of social assistance and health reforms in Romania.

[3] As per the Secretariat General's letter to ambassadors of 13 September 2012 (Ares(2012)1063684).

[4] These reports, along with other information related to the financial assistance programme, can be found at http://ec.europa.eu/economy_finance/eu_borrower/balance_of_payments/romania/romania_en.htm.

[5] COM(2012) 750 final.

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. Against this background, and although Romania was formally exempted from the obligation, Romania presented an updated NRP and a convergence programme in April 2013. These programmes provide detailed information on progress made since early 2012 and on the government's future plans. The information contained in these programmes provides the basis for the assessment made in this Staff Working Document. The national reform programme confirms Romania's commitment to addressing shortcomings in the areas of public administration, the business environment, economic competitiveness and local development, the labour market and education, social inclusion and poverty reduction, research and development and climate change and energy. The convergence programme demonstrates Romania's commitment to improving its budgetary position towards the medium-term objective and ensuring the long-run sustainability of public finances in line with the Stability and Growth Pact. The programme submitted had gone through a limited consultation process: both programmes were approved by government via a memorandum.

## 2. ECONOMIC SITUATION AND OUTLOOK

**The Romanian economy expanded by 0.7 % in 2012 and a modest recovery is forecast for 2013.** Growth in 2012 was dragged down by a severe summer drought that affected agricultural output and by a weak external environment. In 2013, GDP growth is expected to pick up to around 1.6 % with domestic demand, in particular investment, being the main driver. Whilst exports are expected to grow somewhat, imports are expected to grow faster on the back of economic recovery. Headline consumer price inflation, at 3.4 % in 2012, is projected to remain high, at around 4.3 % in 2013 on average. On the external side, the current account improved significantly from a deficit of 4.5% of GDP in 2011 to 4 % of GDP in 2012; it is expected to remain below 4 % in 2013 and 2014.

**As regards fiscal policies, Romania met the programme's 2012 fiscal target of reducing its general government deficit to below 3 % of GDP in ESA[6] terms**. For 2013, fiscal adjustment is expected to continue. The budget adopted in February 2013 targets a headline deficit of 2.4 % of GDP which would allow for a further structural budgetary adjustment of at least 0.5 % of GDP.

**Financial market conditions have significantly improved since summer 2012, moving broadly in line with the regional peers.** The 5-year sovereign spreads dropped to below 200 basis points in early January 2013. Results in the banking sector have continued to suffer from the increase in impaired assets and the related provisioning. Despite the on-going pressures on asset quality, capital adequacy at system level remained at a re-assuring 14.7 % at the end of December 2012.

**The labour market recovered somewhat in 2012 but challenges remain, in particular regarding high youth unemployment.** In 2012, employment grew by 1.9 % in comparison

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[6] The European System of Integrated Economic Accounts (ESA) is the system of national accounts and regional accounts used in the EU.

to 2011, while unemployment was brought down from 7.4 % of the labour force (age group 15-74) in 2011 to 7 % in 2012. However, youth unemployment, currently at around 23 %, is expected to be somewhat reduced but is to remain high in 2013. In 2013, as in the previous year, public sector wage increases are expected to outstrip private sector wage growth due to the last part of the restoration of public wages following the earlier 25 % wage cut in 2010.

**The macroeconomic assumptions on which the national reform programme (submitted on 30 April 2013) and the convergence programme (submitted on 30 April 2013[7]) are based are plausible.** Both programmes reflect the objectives and actions required under the economic reform programme agreed under the EU/IMF financial assistance. Both programmes reflect the same macroeconomic scenario. The macroeconomic scenario set out in the convergence programme and in the national reform programme is close to Commission forecast.

## 3. PROGRAMME IMPLEMENTATION

**As regards fiscal policies, Romania has fulfilled its programme commitment to reduce its general government deficit to below 3% of GDP in ESA terms in 2012. Arrears continue to be an important issue, especially at local government level.** Romania has missed the end-December IMF arrears' targets at both the central and local government levels. Although specific measures were taken in the autumn of 2012 to reduce local government arrears, the reduction at the end of December 2012 was significantly less than expected. In January 2013, the authorities agreed to additional measures to bring local government arrears under control, including through accelerating the parliamentary approval of the insolvency law for local governments, containing commitments on local government investment projects co-financed by central government within the budgetary allocations and stricter measures for monitoring and enforcing the local government public finance law. The compliance with these additional commitments has yet to be verified. For 2013, Romania should be able to cover its gross financing needs (related to the budget shortfall, the rollover of government debt, and the government part of the repayment to the IMF) from the markets.

**The budget for 2013 targets a deficit of 2.1% of GDP in cash terms corresponding to an ESA deficit of 2.4 % of GDP.** It allows for a 4% increase in pensions, an allocation to implement the EU Late Payments Directive in the health sector, and a clear prioritisation of public investments. Revenue measures include reductions in tax-deductible items, improving the taxation of agriculture and making the turnover tax of 3 % on small enterprises mandatory. The property tax and excise rates will also be increased in an effort to keep up with inflation and a windfall tax will be introduced following the deregulation of gas prices. Moreover, the minimum wage was raised from RON 700 to RON 750 on 1 February 2013 and is expected to be further increased to RON 800 on 1 July 2013.

**Fiscal governance reforms are being pursued through closer monitoring of state-owned companies (SOEs) that are part of the general government sector and the prioritisation of public investment projects.** The latter has become a top priority for the authorities who pledged to ensure funding for projects that have at least an 80 % completion rate. Furthermore a decision was taken to reorient a number of projects from being fully financed through the

[7] A corrigendum was submitted on 9 May 2013.

national budget to being co-financed with EU funds and at the same time to cancel a number of further projects previously fully financed through the national budget. Further delays have been encountered in integrating the accounting reporting system with the Treasury payment system in the Ministry of Public Finance because of yet another appeal against the tendering process.

**Further progress was made in the banking sector.** These relate to bank resolution, the implementation of European Systemic Risk Board recommendations on foreign-exchange lending to unhedged SMEs, permanent arrangements for prudential filters on solvency, reserves and loan-loss provisions and the fiscal treatment of bank receivables sold to asset recovery companies incorporated in Romania. The outstanding commitment for the final review in summer 2013 is the enactment of the amended law on the winding-up of insurance undertakings, for which the authorities did not meet the end-October 2012 programme deadline.

**While the regulatory reform commitments in the energy sector have been largely honoured, a number of outstanding commitments need to be implemented before the end of June 2013.** A considerable part of the third energy package was transposed by legislation passed in 2012, but certain provisions still remain to be transposed. The first phases of electricity price deregulation have been implemented in accordance with the electricity roadmap that envisages complete deregulation of electricity prices for corporate customers by the end of 2013 and for households by the end of 2017. The gas roadmap (with gas prices converging to market prices by end-2014/2015 for corporates and by the end of 2018 for households) has so far been implemented but uncertainties regarding its future implementation remain. The authorities launched a new gas trading platform in December 2012 in testing mode. The outstanding commitments to be honoured before the final programme review mainly refer to: (i) allowing a better integration of Romania into the EU gas market[8] by lifting the implicit gas export restrictions and enabling reverse flows on the gas interconnectors on the Hungarian and Bulgarian borders; (ii) ensuring proper protection for energy consumers linked to energy price increases; and (iii) starting the certified unbundling of transmission networks in electricity and gas by issuing preliminary certification of the transport operators by the national energy regulator.

**Government regulatory reform commitments in the area of transport have also been largely honoured.** Policy steps to improve the regulatory framework under which the railway companies operate have been taken. The rail regulator gained in independence through the removal of ministry representatives from the regulator's board in October 2012. The regulatory framework was revised to allow the rail infrastructure company to determine access charges independently, while a study on competitive tendering of the public service obligation contract for the passenger rail was completed. With regard to the efficiency measures for the rail sector, in line with programme commitments, the passenger company took the intercity and international trains out of the public service obligation which allowed

[8] The gas interconnection with Hungary that opened in 2010 is not yet bi-directional. Two other interconnection projects with Bulgaria are currently ongoing. Besides the the lack of availability of export capacity (virtual as well as physical reverse flows) this is also due to the existence of legal provisions or equivalent measures that prevent gas exports.

for free price-setting on these lines and reformed the public service obligation subsidy by introducing a 20 % passenger-km factor into a previously purely line-km subsidy. Among the outstanding measures to be honoured before the final review are: (i) leasing out the last part of underperforming rail lines; (ii) introducing performance schemes related to delays between the infrastructure company and the passenger/freight companies; and (iii) signing performance-based contracts with the rail infrastructure company to reinforce accountability on meeting investment and maintenance targets.

**Regarding reforms in key state-owned enterprises (SOEs), progress has been insufficient.** This was one of the main reasons to postpone the completion of the programme review. The operational performance of the key SOEs under review worsened somewhat in 2012 in comparison to 2011 (losses of around 0.6 % of GDP by the end of 2012) but remained within the IMF's indicative programme ceiling. The arrears incurred by these companies declined over the course of 2012 and came down to 2% of GDP by the end of 2012 but still remained above the 1.5 % ceiling that was the indicative programme target for the end of 2012. While there was some progress on privatising and restructuring the SOEs, overall progress in terms of introducing professional management and selling minority and majority stakes in state-owned enterprises was clearly inadequate and fell behind programme commitments. A number of commitments regarding corrective measures were agreed in January and are to be implemented before the final review in summer 2013.

**Healthcare reforms have been initiated but progress so far has been slow**. Rather than introducing a comprehensive framework law, the government intends to implement the healthcare reforms via an action plan. This action plan aims to strengthen ambulatory and preventive care, re-evaluate hospital financing to lower the risk of building up arrears, revise the National Health Programmes, define the basic benefits package and improve the regulatory framework for healthcare services. To further increase the efficiency of healthcare spending, the government plans to prepare a medium-term financing strategy by September 2013. The government has established a monthly financial reporting tool for hospitals in order to monitor their budgets in a timely way. The introduction of the legal possibility to replace hospital managers, if a hospital has run arrears for three consecutive months, has been introduced in the framework contract between the National Health Insurance House and the hospitals. However, it needs further legislative approval, and did not meet the deadline of end-March 2013. Legislation on introducing a small co-payment for elective hospital inpatient services was approved in mid-March 2013, but the extent of implementation has yet to be evaluated. In line with the MoU conditionality, the Ministry of Health provides information on both local and central government-level hospital budgets to the Ministry of Public Finance, which checks for over-spending on the part of individual hospitals.

**The overall absorption rate of EU funds remains very low, leading to a significant risk that an important part of structural and cohesion funds will be de-committed in 2013[9].** The end-2012 absorption target was missed by a wide margin. Cumulative absorption as at the end of December 2012 stood at EUR 5.53 billion, some 20.2 % of the total available structural, cohesion and agricultural funds. It was thus EUR 2.47 billion short of the

[9] According to the Commission's current estimations (at end-March 2013), the de-commitment risk for the European Regional Development Fund and the Cohesion Fund for 2013 is at EUR 5.8 billion and EUR 1.16 billion for the European Social Fund.

programme's end-2012 target of EUR 8 billion. The absorption of EU structural and cohesion funds stalled for most of the second half of 2012, due to systemic deficiencies revealed in the management and control system. Certain operational programmes (parts of the transport and regional operational programmes, and all of the competitiveness, environment and human resource operational programmes) were pre-suspended. The proposed financial corrections have been accepted by the Romanian authorities. For parts of the regional and environmental programmes payments resumed in December 2012 and in March 2013, respectively, and in February 2013 for the human resources programme. For other programmes (competitiveness and transport) payments are expected to resume only in the first half of 2013, once the necessary checks by national and EU auditors have taken place and yielded satisfactory results. The rural development programme made good progress in 2012 with the cumulated expenditure by the end of 2012 amounting to around EUR 3.9 billion, some 48.6% of the total fund allocation for 2007-2013. However, this is substantially below the EU-27 average which is 62.7%. Financial uptake has accelerated in early 2013 with EUR 408 million in expenditure declared for the first quarter of 2013.

**As regards reforms of administrative capacity, the authorities continued to make some progress in implementing the action plans based on the recommendations from the functional reviews carried out in 2011**. Most of the contracts with the World Bank for implementing key medium- and long-term actions have been signed. Moreover, through the General Secretariat of the Government and in coordination with the Ministry of Public Finance, a monitoring and evaluation system for public policies is being developed with the support of the World Bank. Based on the outcomes of the functional reviews, the authorities committed to develop personnel norms for each ministry and to apply the 1-for-7[10] rule more flexibly while keeping the wage bill close to 7 % of GDP. The authorities have also committed to reviewing the Unified Public Wage Law in order to identify key bottlenecks and challenges in its implementation.

**There has been good progress in putting in place a fully functional Point of Single Contact required under the Services Directive but further steps to complete the reform are needed**. Not all administrative procedures are available online and the involvement of certain authorities (especially at local level) is not yet ensured. The usability of the portal needs to be greatly improved if it is to be useful for service providers. Moreover, Romania still needs to implement proper solutions for the e-identification of users from other Member States. Furthermore, the Romanian authorities could be more ambitious in setting up the Point of Single Contact by offering e-government services beyond the scope of the Services Directive and integrating various procedures that affect companies at different stages of their business cycle.

[10] The 1-for-7 rule implies that only one in seven public sector workers is replaced.

## 4. FURTHER CHALLENGES AND ASSESSMENT OF POLICY AGENDA

**In addition to short-term challenges identified under the programme, Romania faces a number of further, medium-term challenges identified in the AGS 2013 and through the Europe 2020 targets.** At 46 % of the EU average, Romania's GDP per capita is one of the most telling indicators of the country's developmental gap. There are specific challenges with regard to labour market participation (low employment rate), education (high early school leaving rate, skill mismatches), poverty and social exclusion (high number of people at risk of poverty or exclusion) and low general economic competitiveness, as reflected in a weak research and innovation system, underdeveloped infrastructure endowment, deficiencies in the business environment as well as low energy efficiency and poor waste management. There are further challenges in the area of the justice system (low level of independence and poor efficiency), and in the government's generally weak administrative capacity and in the wide regional disparities. These challenges are reflected in the country-specific recommendations. EU funds can help addressing these challenges, thereby fully supporting the policy priorities set out in the Europe 2020 agenda. They provide an important source of public investment to support Romania in tackling these challenges.

### 4.1. Fiscal policy and taxation

#### Budgetary developments and debt dynamics

**After having brought down the general government deficit to under 3 % in 2012, in line with the Council recommendation, the main goal of the 2013 convergence programme is to continue fiscal consolidation with a view to achieving the medium term objective (MTO) during the programme period.** The programme tables a medium-term objective of -1 % of GDP. The MTO was lowered from -0.7 % of GDP following a regular horizontal re-assessment of the sustainability of public finances in line with Regulation 1466/97. The updated medium-term objective reflects the objectives of the Stability and Growth Pact. The main goal of the budgetary strategy outlined in the programme is to reach the MTO by 2014 which, when recalculated by Commission based on the commonly agreed methodology, corresponds to reaching the MTO by 2015.

**The macroeconomic scenario underpinning the budgetary projections in the programme is plausible and in line with the assessment in the latest Commission forecast**. The programme provides for a reduction in the general government deficit to 2.4 % of GDP in 2013, from 2.9 % of GDP in 2012, which corresponds to a (recalculated)[11] structural deficit of 1.7 % of GDP. Revenue-enhancing measures include reductions in tax-deductible items, improvements in the taxation of agriculture, the introduction of a windfall levy following the deregulation of gas prices and the introduction of a special tax on the transmission of electricity and gas. The 2013 budget also allows for an increase in the minimum wage, a 4 %

[11] 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.

increase in pensions, and an allocation to implement the EU Late Payments Directive[12] in the health sector. The Commission's spring forecast indicates a general government deficit of 2.6 % of GDP in 2013, as it assumes fewer gains from the prioritisation of investment projects and a reduced impact from the package of revenue measures.

**In 2014, the general government deficit is set to decrease further to 2 % of GDP, according to the programme, which corresponds to a (recalculated) structural deficit of 1.3 % of GDP[13].** Based on the programme, the adjustment of the headline deficit in 2014 will be mainly drawn from higher revenues as a proportion of GDP, while expenditure to GDP will be broadly stable. The programme mentions the main elements of fiscal consolidation in a medium-term framework, without quantifying them. According to the programme, on the revenue side, the authorities intend to enlarge the tax base, increase tax collection, simplify the taxation system and reduce tax evasion. On the expenditure side, the authorities intend to ensure a sustainable level of wage and pension related-expenditure and to implement the law related to the restitution of properties seized during the communist regime. Based on the customary no-policy-change assumption, the Commission services forecast a higher headline deficit for 2014, of 2.4 % of GDP, which reflects increases in the revenue-to-GDP ratio in line with the expected acceleration in economic activity and a higher expenditure-to-GDP ratio. The main risks associated with the budget plans for 2013-2014 relate to: (i) further possible financial corrections linked to the absorption of EU funds or to the financing of priority projects from the national budget; (ii) a renewed accumulation of arrears in the second part of 2013 and possibly continuing in 2014, especially at local government level; and (iii) limited progress with restructuring state-owned enterprises which could result in renewed pressure on the budget.

**Based on the 2012 budget outcome of 2.9 % of GDP and given that the Commission services forecast deficits below 3 % in 2013-2014, Romania appears to have corrected the excessive deficit** (see box 1 for detals about the excessive deficit procedure)**.** For the coming years, in accordance with the preventive arm of the Stability and Growth Pact, Romania should make appropriate progress towards achieving the MTO. In structural terms, the programme's fiscal adjustment is front-loaded in 2013 with a (recalculated) structural adjustment of 1.0 % of GDP, higher than the 0.5 % benchmark. The adjustment in 2013 is therefore appropriate. Moreover, targeting a higher adjustment than the benchmark at the

[12] According to the EU late payments directive all new contracts signed after March 2013 will have to be paid by the public administration within 60 days in the healthcare sector and within 30 days in the other sectors. Currently payment delays in the healthcare sector stand at 210 days.

[13] Due to differences in methodology to estimate the potential output, the structural balance, as recalculated based on the commonly agreed methodology that uses the macroeconomic scenario from the programme, may depart from the structural balance as calculated by the national authorities. The structural deficit of 1.3% of GDP in 2014 is based on the commonly agreed methodology. If national authorities' methodology is used, structural deficit would be at the MTO of 1% of GDP already in 2014.

beginning of the year is a prudent approach, given the uncertainty of estimations. For 2014, the (recalculated) structural adjustment of 0.4 % can also be considered appropriate.

**Box 1. Excessive deficit procedure for Romania**

On 7 July 2009, the Council decided that an excessive deficit existed in Romania and addressed a recommendation to Romania with a view to bringing the excessive deficit situation to an end by 2011 at the latest.

The most recent Council Recommendation under Art. 126(7) TFEU was adopted on 12 February 2010. The Council, acknowledging that the Romanian authorities had taken effective action in compliance with the Council Recommendation of 7 July 2009 and that unexpected adverse economic events with major unfavourable consequences for government finances had occurred in Romania, addressed a revised recommendation to Romania with a view to bringing the excessive deficit situation to an end by 2012 at the latest. Specifically, in order to bring the general government deficit below 3% of GDP in a credible and sustainable manner, the Romanian authorities were recommended to (a) implement the fiscal measures in 2010 as planned in the budget law and continue consolidation in 2011 and 2012; (b) ensure an average annual fiscal effort of 1¾% of GDP over the period 2010-2012; and (c) specify the measures that are necessary to correct the excessive deficit by 2012, cyclical conditions permitting, and accelerate the reduction of the deficit if economic or budgetary conditions turned out better than expected at the time the EDP recommendations were issued.

An overview of the current state of excessive deficit procedures, including additional steps adopted after the finalisation of this Staff Working Document, is available on: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm (please refer to country sections at the bottom of the page).

**The expenditure benchmark is expected to be met.** According to the information provided in the convergence programme, the growth of government expenditure, net of discretionary revenue measures, over 2013-2014, is expected to contribute to the necessary annual structural adjustment towards the medium-term objective. This is because the growth rate of this expenditure is below 1.43 % in 2013 and 1.09 % in 2014, the lower rates under the expenditure benchmark. Following an overall assessment of the Member State's budgetary plans, with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures, the adjustment path towards the medium-term objective seems to be appropriate.

***Long-term sustainability***

**Romania does not seem to be at risk of fiscal stress in the short term or in medium term perspectives but is at medium risk in the long term.** Romania’s public debt remains relatively low, at 37.8 % of GDP in 2012. While it is expected to rise to 38.6 % in 2014, it will remain well below the 60% of GDP reference rate over the programme period. Since the debt-to-GDP ratio is below the reference rate, the debt reduction benchmark is not applicable. Medium-term debt projections (see Graph below Table V in annex) indicate that full implementation of the programme would allow for a slight reduction of the debt by 2020, thereby remaining well below the 60 % of GDP reference value. Containing age-related expenditure growth is warranted in order to contribute to the sustainability of public finances in the long term. In order to improve the adequacy of the pension system prolonging working and contributory careers would be necessary.

*Fiscal framework*

**The fiscal framework has remained largely unchanged since 2010, when it was significantly reformed following the adoption of the Fiscal Responsibility Law.** In particular, the framework provides for three-year rolling medium-term budget planning (the Fiscal and Budgetary Strategy), numerical ceilings for the overall and primary balance, personnel expenditure, total expenditure (excluding the impact of EU Funds) — and the establishment of the Fiscal Council. In addition, Romania ratified the Treaty on Stability, Coordination and Governance 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, thereby committing to putting in place a structural budget balance rule and the corresponding correction mechanism by the end of 2013.

**Although the national fiscal framework has contributed to stronger fiscal discipline, further fine-tuning is warranted to increase its effectiveness and ensure compliance with the European fiscal governance framework.** While the Fiscal Council started operating in 2010, restrictions on the hiring of public servants put in place to achieve the required fiscal consolidation have prevented the Council from hiring additional staff. However, at the beginning of 2013, a derogation from these restrictions was granted to the Fiscal Council, allowing it to complete the recruitment of its staff. Ensuring adequate resources is instrumental for its functioning and independence, especially considering the requirements stemming from the Council Directive 2011/85/EU on requirements for the budgetary frameworks of the Member States and from the Fiscal Compact[14] which was ratified by Romania. Regarding the budgetary process, while the management of capital budgeting and the reporting system for the state-owned enterprises (SOEs) that are part of general government have been enhanced in the context of the EU/IMF assistance programme, several aspects could be further improved. There is room for improvement in the context of the medium-term budgetary framework as well as in terms of compliance with the existing budget ceilings. Despite some steps taken to prioritise public investments, a strategy needs to be developed and implemented in this area and to be properly reflected in the medium-term budget planning.

*Tax system*

**At 27.2% in 2011, Romania's tax-to-GDP ratio is the second lowest in the EU. The composition of tax revenue is favourable to growth**. Romania has the EU's second-highest share of 'growth-friendly' taxes (mainly driven by consumption taxes). Indirect taxes accounted for 46.9 % of overall tax revenues in 2011 and direct taxation accounted for 21.2% (against an EU-27 average of 33.1 %), while social contributions accounted for 31.9 % (against an EU-27 average of 33.5 %).

**Low tax compliance and high tax evasion represent major challenges for Romania's tax system, in particular in the areas of VAT and labour taxation.** Tax evasion in these two

[14] Title III of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union

fields was estimated at 10.3 % of GDP in 2010.[15] In 2011, actual VAT receipts amounted to only 51.9 % of the theoretical revenues at standard rates despite the relatively limited application of the reduced rates. To tackle VAT fraud in particular, Romania is currently implementing recommendations agreed with the Commission. There has been an increase in revenues from indirect taxation compared to last years, mainly driven by the increase of the standard VAT rate in 2010. Additional measures to increase tax collection could be warranted. There is also scope to improve the efficiency of the tax administration: despite certain improvements, the use of electronic filing for tax-related information remains suboptimal for VAT and for corporate and personal income taxes. Furthermore, the high reliance on cash transactions — according to a recent Eurobarometer survey[16] only 27 % of residents have a bank current account, which is the lowest ratio in the EU — implies an elevated risk of tax non-compliance. In the field of labour taxation, the high amount of concealed earnings is reflected in the discrepancy between the relatively high tax wedge on labour (calculated on the basis of the theoretical tax obligation) and the low implicit tax rate on labour (calculated on the basis of actual tax receipts). The relative ease with which the self-employed can avoid taxes could also be a factor. The share of self-employment in total employment is particularly high, amounting to 20 % (ranking third in the EU).

**There is scope to further increase the reliance of the tax system on the taxes that are considered less detrimental to growth, in particular recurrent property taxes and environmental taxes.** Revenues from recurrent taxes on immovable property, which are considered among the least detrimental to growth only accounted for 0.7 % of GDP in 2011, while the EU average was 1.3%. The tax base currently does not reflect the actual market value of property. Romania’s environmental taxation is predominantly based on energy taxes: energy accounts for most of the revenue, namely 1.6 % of GDP, while taxation on transport only delivers 0.2 % of GDP and pollution taxes are a negligible share. While acknowledging the burden on companies and citizens, one may question whether these taxes serve Romania's environmental goals. The implicit tax rate on energy is among the lowest in the EU and tax on transport fuels is well below EU average rates (excise duties on both diesel and petrol are among the lowest).

**Several measures to increase the environmental taxes are being prepared.** The new pollution tax legislation for cars entered into force in mid-January 2012, but its application has been suspended. More recently a new ‘environmental stamp tax’ which differentiates car purchase taxation based on $CO_2$ emissions was introduced. This is consistent with efforts to tax environment-related negative externalities. In early 2013 Romania also adopted a tax on the exploitation of natural resources other than natural gas and a tax on the surplus revenues gained as a consequence of natural gas price deregulation. A landfill tax is expected to be introduced in 2013.

### 4.2. Labour market, social policies and education

Weak labour market participation continues to be a challenge for Romania. The insufficient institutional capacity and low quality and coverage of the national employment services, an

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[15] România — Consiliul Fiscal (2012) — Raport anual pe anul 2011 — Evoluții și perspective macroeconomice și bugetare: http://www.consiliulfiscal.ro/Raport2011.pdf

[16] Source: Special Eurobarometer 373: Retail Financial Services (2011).
http://ec.europa.eu/internal_market/finservices-retail/docs/policy/eb_special_373-report_en.pdf

inadequate level of basic skills acquired during compulsory education and a high early school leaving rate, the persistent mismatch between the qualifications offered by the education sector and the requirements of the labour market, difficult transitions from school to work, a low rate of participation in life-long learning and education for adults and the under-investment by businesses in continuous vocational training are all likely to have a negative impact on employment. Poverty reduction continues to present another major challenge, People in Romania are the second most likely to be at risk of poverty or social exclusion and suffer severe material deprivation rates that are almost twice the EU average. Access to healthcare for disadvantaged people continues to be an issue, as does the quality of services provided.

***Employment***

**Increasing labour market participation is one of the most crucial challenges for Romania**. As the unemployment rate stands at a fairly acceptable level (7.0 % in 2012), the low participation in the labour market is mainly driven by an activity rate that is the third-lowest in the EU. In 2012, the country continued to register a low employment rate among those aged 20-64 years (63.8 %), although a slight improvement was achieved compared to the year before (62.8 %). Yet it is still to be seen if this reverse of the previously negative trend is sustainable. Despite this recent improvement, the national Europe 2020 target of 70 % by 2020 remains difficult to reach. Moreover, labour productivity measured as a percentage of the EU27 total is still one of the lowest in the EU (at 49.4 %) despite having improved in the recent years.

**Employment challenges are particularly severe for a number of disadvantaged people.** The youth employment and activity rates (20-29 years) were among the lowest in the EU, whereas the youth unemployment rate increased reaching 22.8 % in 2012. Additionally, there is a high and increasing number of young people in Romania that are not in employment, education or training (17.4 % in 2011). Other employment challenges concern older workers and women. Moreover, Romania has the highest share of employment in agriculture in the EU (28.6 % in 2011), with a major part in low productive subsistence and semi-subsistence farming. Disadvantaged people, in particular Roma, face great difficulties in accessing the formal labour market. In 2011, the employment rate among Roma people was 36.3 %, about two thirds that of the overall population, while the unemployment rate among Roma people (48.6 %) was more than six times higher than the average national unemployment rate.[17]

**Close monitoring of the effectiveness of the recent labour market reforms is warranted.** In 2011, the Romanian government amended the Labour Code to address the limited flexibility of the Romanian labour market.[18] The main changes are related to the extension of the probation period for newly-hired employees, the conditions governing fixed-term individual employment contracts, new terms related to collective dismissals and individual redundancies, working-time flexibility and temporary agency contracts. In 2011, the government also changed the legislation on social dialogue in order to make collective

[17] 'Roma from Romania, Bulgaria, Italy and Spain between Social Inclusion and Migration: comparative study', 2012, http://www.soros.ro/en/publicatii.php#

**[18]**According to the Global Competitiveness Index Report 2012-2013, Romania ranks 104th out of 144 countries on labour market efficiency (with the rankings for cooperation in labour-employer relations 141/144 and for hiring and firing practices 97/144).

bargaining more flexible and continued the reform by adopting the Law on organising the Economic and Social Council in March 2013.

**At 0.02 % in 2012, spending on active labour market policies as a share of GDP in Romania is still very low compared to the EU27 average and it is decreasing.[19].** Moreover, most of the spending goes on various forms of employment subsidies, while training, guidance and counselling are underdeveloped. In addition, the quality of employment activation, job search and retraining services is still relatively low. Romania is currently modifying the legislation on the unemployment insurance system and on employment stimulation. In this context, it would be useful to reassess the current package of active employment measures. Beyond efforts to strengthen the administrative capacity of the National Employment Agency, it may be helpful to focus policy efforts on better integrating active and passive labour market policies, with improved targeting to the skill profiles and the needs of the unemployed. Increased attention should also be given to anticipating labour market needs.

**A number of measures have recently been undertaken to address the difficult labour market situation of young people.** While the law on apprenticeship in the workplace was amended, the results of its implementation are rather modest and could be further improved by providing incentives to employers to hire apprentices. Moreover, the Romanian authorities financed programmes dedicated to improving young people's entrepreneurial skills and helping young entrepreneurs to set up microenterprises. The government is currently preparing the National Plan for Youth Employment, which is a starting point for the introduction of the Youth Guarantee[20]. The measures focus on improving the entrepreneurial culture among youth and support the SMEs, as well as on adapting education and vocational training to the labour market needs. To facilitate youth transition from school to labour market, the plan proposes various measures, such as: granting mobility bonuses and job subsidies, offering professional guidance and entrepreneurship counselling, business simulation, supporting apprenticeships, higher graduates' traineeships, developing partnerships between schools, universities, companies and other organizations, and monitoring the labour market insertion of young graduates. The plan's effectiveness may benefit from improved coordination and partnership across policy fields for ensuring quality jobs, apprenticeships and traineeships. Better targeted employment measures and services to young people could help improving their labour market integration. The European Social Fund will remain the main source of funding for youth employment policies, in particular through the support of the EU Youth Employment Initiative, which should deliver measures targeted to young people not in employment, education or training.

**Further measures to promote longer working lives need to be undertaken, as older workers have a high potential for growth.** An entrenched culture of early retirement, notably for women, as also indicated by the employment rates for older workers and the duration of working lives, which are among the lowest in the EU, is a key reason for low benefits. Going beyond the 2011 pension reform, Romania is currently rolling out a number

[19] 0.04 % for Romania compared with 0.54 % for the EU27 in 2009.

[20] Council Recommendation of 22 April 2013 on establishing a Youth Guarantee (2013/C 120/01) to 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 four months of becoming unemployed or leaving formal education).

of fiscal incentives for the employment of older workers but labour market measures to promote longer working lives are too few and too isolated to deliver the necessary change in working and retirement practices. A comprehensive active ageing strategy to facilitate longer working lives could enhance synergies between the different current initiatives and would complement efforts on lifelong learning, career guidance policies and good age management in work places.

**In order to overcome women's low level of participation in the labour market, measures are being implemented to support the development of business infrastructure and help women start companies.** However, the provision of full-time childcare facilities is particularly low, as is availability of part-time childcare facilities for those under 3 years old[21]. Moreover, flexible working arrangements and the review of fiscal treatment for second earners could facilitate women's participation in the labour market.

**Some measures have been adopted to tackle low agricultural productivity and under-employment in agriculture but further efforts are needed.** The European Agricultural Fund for Rural Development continues to be the main EU source of funding to tackle these challenges. Using this fund, the government has taken measures aimed at diversifying of economic activities in rural areas such as by investing in non-agricultural activities and the tertiary sector. The fund is also used for the modernisation of the agricultural sector, including through investment support to increase competitiveness of farms and food processing businesses, and to help young farmers set up semi-subsistence holdings that offer the potential to develop into viable market-based farm businesses). However, underdeveloped services in rural areas and poor quality infrastructure are impeding other economic activities and the creation of alternative employment opportunities. Continued investments and upgrading of skills in agriculture as well as provision of new skills for ex-farmers are needed so as to turn semi-subsistence employment into steady-income employment, and to exploit agri-food sector's potential as a competitive and sustainable engine of growth.

**There need to be further reforms to allow for a better integration of disadvantaged people, including Roma, into the labour market.** To improve the skills and employability of disadvantaged people, including Roma, an integrated approach bringing together literacy improvement measures, personalised counselling services and tailored training could be considered. Gaps identified by the Commission when assessing the National Roma Integration Strategy 2012-2020[22] concern reducing unemployment among women, young people and those living in disadvantaged micro-regions and segregated neighbourhoods as well as to increasing skills and promoting the transition from undeclared to regular employment. A revised strategy and a new action plan to be prepared by the Romanian authorities in the summer of 2013 are expected to take on board the Commission's assessment.

### *Poverty reduction*

[21] In 2010, only 4 % of children less than three years old were in formal childcare up to 29 hours per week and a further 3 % were in formal childcare for 30 or more hours per week. Among those aged from 3 years to compulsory school age, 49 % were in formal childcare for up to 29 hours of care per week and 17 % were in services providing 30 hours of more of care per week.

[22] http://ec.europa.eu/justice/discrimination/files/com2012_226_en.pdf

**Poverty reduction continues to be a major challenge for Romania.** Romanians are the second highest most likely to be at risk of poverty or social exclusion in the EU, and almost one in three Romanians is severely materially deprived. In general, the impact of social transfers (excluding pensions) in reducing poverty remains significantly below the EU average, although values were on the rise in the years preceding the crisis. Romania also has an extremely high proportion of 'in-work poverty' (double the EU average), especially among men. The risk of poverty has a strong impact, especially on children, of whom 49.1 % were at risk of poverty or social exclusion in 2011. Poverty has also a strong territorial dimension, as it particularly affects people living in rural areas in the north-east, south-east and south-west of the country.

**The situation of people with disabilities and Roma continues to be a key issue.** Faced with low participation in the labour market, difficult access to public services, low skills, poor infrastructure and housing, and discrimination, these people have been among the worst affected by the crisis. In addition, the Roma's lack of identity cards and registration prevents them from accessing the health system, social benefits or education. Given the high proportion of Roma people in the country (8.3% of the overall population), making sufficient progress towards the Europe 2020 employment, social inclusion and education targets will require the Roma's situation to be addressed explicitly and quickly. The implementation of Romania's National Roma Integration strategy is stalling. Particular attention needs to be paid to involving all stakeholders in the process, ensuring an effective coordination of responsibilities and instruments between the different layers of governance, setting up a robust national monitoring system, and allocating adequate financial resources. Stronger, more integrated, efforts are needed to address Roma inclusion, including coordinated measures in the fields of education, employment, housing and health.

**There is also a high risk of poverty for the people older than 65 years.**[23] The 2011 pension reform brought significant improvements but pension benefits are low, contributing to a high at risk-of-poverty rate for this age group. In order to improve the adequacy of the pension system prolonging working and contributory careers would thus be necessary. Age-related expenditure growth needs to be contained, as pension adequacy can only be addressed if the sustainability of the pension system is guaranteed.

**To alleviate poverty, the effectiveness and efficiency of social transfers could be strengthened by improving adequacy, take-up and coverage.** In 2012, several pieces of legislation were adopted to follow up the 2011 social assistance reform. The adoption of the remaining subsequent legislation (social economy, minimum insertion income, social protection measures for vulnerable customers) would constitute an important step towards completing the reform. The link between social transfers and activation measures also needs to be strengthened.

***Education***

**Romania faces a major challenge in raising the quality of its education and training.** The quality of and access to upper secondary and tertiary education remain low. The level of basic skills is also very low. A particularly difficult challenge is low achievement: Romania is among the worst performers in the EU on basic skills (40.4 % in reading; 47 % in

[23] The rate of people at risk of poverty and social exclusion in old age (above 65) is 35.3 % in Romania compared to 20.5 % in the EU (2011).

mathematics and 41.4 % in science).[24] More than two out of five 15-year olds have inadequate reading literacy, mathematical and scientific literacy for adult life. Although the number of low achievers has declined since 2006, Romania is still one of the worst performing countries in the EU. A number of actions for primary and secondary education aimed at increasing access to quality education and raising school attainment rate are being prepared. These actions include initial assessment tests for students and a framework programme designed to improve the results of national evaluation exams. Early-school leaving is also a significant challenge as, despite a number of measures implemented, the early-school leaving rate was estimated at 17.4 % in 2012 which is well above the EU average of 12.8 %. Romania lacks an adequate mechanism to collect data on early school-leavers; a comprehensive strategy to be adopted in 2013 should help in this regard.

**The very low use of early childhood education and care services still present a challenge**. A high quality early childhood education and care can have a particularly positive impact on children's development and contribute to breaking the cycle of disadvantage. The underfinancing of the sector is one of the main reasons why Romania is underperforming in this area. In 2009, Romania allocated the lowest proportion of GDP to investment in education in the EU and the education budget has been cut even further over the last three years.

**There has been positive but slow progress in the implementation of the transition from institutional to alternative care for children deprived of parental care**. Current efforts should be maintained to strengthen prevention services, improve staff qualifications and quality of delivery and to improve the social and professional integration of young people leaving the child protection system. More efforts are needed to speed up the deinstitutionalisation of children deprived of parental care.

**The education law of 2011, a major reform that set a long-term agenda for upgrading the quality of education at all levels is not yet fully operational**. Once implemented, it will overhaul the management of higher education institutions and raise requirements for masters and doctoral programmes. A number of shortcomings remain. There is not enough differentiation between universities according to each one's mission which hampers their internationalisation. There is also a need to adjust the provisions for distribution of higher education funding by taking into account the cycle of studies in accordance with best international practices, and to develop performance indicators in universities' strategic and operational plans.

**Mismatches between skills and labour market demands are characteristic of a large proportion of vocational and tertiary education, with the poor level of vocational skills being a specific challenge.** There are a number of national programmes that aim to improve vocational training but the overall vocational training system remains largely embryonic. Completing upper-secondary general or vocational education is a prerequisite for skilled employment and access to higher education. The employment rate of recent graduates has declined further during the economic crisis and is well below the EU average. This situation reflects, at least in part, a significant mismatch between the education offered by universities and the needs of the labour market. The links between higher education and business could be

[24] PISA 2009 results

strengthened through the inclusion in the university curricula, in addition to core competencies, of critical skills needed for a knowledge-based economy, such as entrepreneurship as well as transversal skills like communication, marketing and management. For the 20-24 age group, 29.4 % of tertiary graduates were unemployed in 2011 compared to 22.9 % of secondary graduates. Attracting more students from lower-income families, particularly those from rural areas, to higher education remains an important challenge. While the legal framework on adult training has been reformed, adult participation in lifelong learning remains stagnant at very low levels (1.6 % in 2011), significantly lower than the EU average (8.9 %). Participation rates are particularly low among low-skilled adults. According to CEDEFOP skill forecasts, Romania will have a deficit of medium and high-level skills by 2020. Initiatives to strengthen the national qualification framework and to encourage the recognition of informal learning would facilitate labour mobility. Romania lacks an adequate skills forecasting system which could provide better guidance to individuals and to industry as to the future needs of the labour market but a lifelong learning strategy that has been long delayed is currently under preparation.

***Health***

**Healthcare reforms that aim to improve the efficiency of the sector have been initiated but continuous efforts are needed.** The Romanian population is increasingly ageing but the old-age dependency ratio is still below the European average.[25] Regarding the health status, Romania has one of the highest rates of infant mortality[26] in the EU and life expectancy at birth is one of the lowest in the EU.[27] Romania also has one of the highest instances of the population stating that they have unmet needs for medical examination because it is '*too expensive*'. The national health budget for 2010 represented 9.0 % of public government expenditure (far below the EU average of 14.9 %). Public expenditure on health accounted for 4.5 % of GDP in 2009 (far below the EU GDP-weighted average of 8 %).[28] This is against a backdrop of a cumulative annual increase of 15.5 % in public expenditure between 2003 and 2009..As described in Section 4, to better use existing resources some measures, such as claw-back tax and co-payments, have already been implemented, while other structural measures, such as hospital reform, e-health, health technology assessment and a new medium-term financing strategy are being developed. Health sector reforms need to be continued to increase the efficiency of the healthcare system. In particular, a hospital master plan should be developed to increase to increase cost-efficiency and reduce the excessive use of hospital inpatient care by strengthening primary care and referral systems and by improving the monitoring of the quality of health services provided. These investments in the health system can have a positive spill-over effect as any successful move toward the Europe 2020 employment target will also require an improvement in health outcomes. Romanians of working age are currently among the least healthy in the EU.

[25] Old-age-dependency ratio is 21.4 against 25.9 for the EU.

[26] 9.8 per 1000 live births against 4.2 in the EU.

[27] 77.4 for females and 69.8 for males, against 82.6 and 76.7 respectively in the EU.

[28] Romania provides to Eurostat two different figures regarding public expenditure on health. The first is based on national accounts, on the functional classification of government expenditure (statistics on general government expenditure by function). According to this statistic, public expenditure on health in Romania was 3.8 % of GDP in 2009 and 3.6 % of GDP in 2010. The second is based on the system of health accounts. According to this statistic, public expenditure on health was 4.5 % of GDP in 2009, the latest available data.

## 4.3. Structural measures promoting growth and competitiveness

Romania faces a number of challenges in economic competitiveness with productivity in industry and services remaining low. The major challenges here are the underdeveloped transport and ICT infrastructure, a weak business environment and low support for research and development (R&D).

***Research and Innovation***

**The R&D intensity is extremely low (0.48 % in 2011), making the achievement of the 2 % target by 2020 rather unrealistic.** The government and the private sector continue to underinvest, with a serious risk to fall below a critical mass needed to maintain a viable base for the knowledge economy. Considering national fiscal constraints, a sensible strategy would be to tap into European Structural and Investment Funds as much as possible, now and during the next programming period. If underpinned by adequate administrative capacity, this strategy would allow Romania, if not to achieve the Europe 2020 strategy targets, than at least to improve its position significantly.

**In parallel, the efficiency and effectiveness of the investment need to be substantially improved.** The system is highly fragmented, as reflected in the large number of research institutions (universities, national research institutes and institutes of the Romanian Academy) combined with a lack of critical mass of quality research results. Romania scores badly in terms of both high-impact scientific publications and patent applications. A process of certification of national R&D institutes was carried out during 2012 while the university reform of 2011 paved the way towards greater autonomy and differentiation between research universities and those more oriented towards teaching and local needs. However, these measures are not being implemented well. This is also the case both for the National Research and Innovation (R&I) Strategy 2007-2013 and for the Action Plan for R&I adopted in July 2011. The wider reform of the R&I system is hampered by a lack of long-term vision and a lack of awareness of the added value of research and innovation in terms of increasing competitiveness and securing high-quality jobs. The governance of the system could also be improved: while the research and innovation policies are developed mainly by the research part of the Ministry of National Education, the links to policy instruments that are under the responsibility of the other ministries are weak, as is the involvement of these ministries in the identification of priorities.

**There is a need to prioritise those research and development activities that have the potential to attract private investment and to strengthen the intellectual property rights framework with a view to increasing the marketability of research results.** Business R&D expenditure is extremely low (0.17 % of GDP in 2011, one of the lowest values in the EU) and there is almost no patenting activity. Furthermore, businesses do not exploit research results to any great extent and there are few linkages between education, research and businesses. Intellectual property rights are regulated by a variety of laws and ordinances, providing unclear and contradictory provisions. Also, the finalisation of the Patents Law (which has been under revision since 2010) would need to be accelerated and its provisions aligned to international best practices. The finalisation of the law is expected to contribute to an increase in foreign direct investments for innovative activities that would contribute to higher productivity. There is a need to explore to what extent the current Romanian intellectual property rights legislation hampers the development of knowledge-based activities in Romania.

**To improve its competitiveness, Romania needs to increase synergies between research, innovation and industry, in particular by prioritising research and development activities that have the potential to attract private investment**. Romania's economy is characterised by the prevalence of low- and medium-technology sectors, with a weak demand for knowledge and an underdeveloped innovation culture. Research, innovation and industrial policies are not sufficiently integrated, due to the lack of a national strategy for industrial policy and to insufficient cooperation between the institutions responsible for policy design and implementation. As a result, the current R&I Strategy for 2007-2013 is somewhat disconnected from the economic development of the country. To foster structural change, Romania should further examine how knowledge is transferred into industry. Currently there are two strategies under preparation: a *National Competitiveness Strategy* for the period 2014-2020, which aims to ensure a horizontal approach to industry, SMEs, and business environment policies, and a *Strategy for Research and Innovation for 2014-2020,* which focuses strongly on the smart specialisation required for the next programming period of the structural funds. It will be essential to align and coordinate the two strategies, in order to ensure closer links between research, innovation and industry.

***Transport infrastructure and ICT***

**Physical accessibility is a major driver in attracting investors and laying the foundations for development. This is particularly so in the regions with high growth potential but also in remote and landlocked regions, such as rural areas.** Romania's underdeveloped basic transport infrastructure continues to present an obstacle to growth and employment. The declining quality of the railway infrastructure and the very low motorway endowment mean that it is difficult to access Romania from abroad and to travel between regions, in particular between growth poles. The underdeveloped infrastructure is the result of underinvestment in new infrastructure and poor maintenance of the existing one. This is due both to the lack of a strategic vision for the development of the transport system (e.g. there is no comprehensive long-term transport plan for all modes of transport) and to the lack of matching identification and programming of financing sources. At the same time, the implementation of trans-European transport network projects is advancing slowly, due mainly to the low absorption of the EU funds.[29]

**There are still a number of policy challenges in the rail transport sector**. First, the length of the rail network is excessive with respect to the traffic and the capacity to finance it. Second, private railway undertakings perceive discrimination as regards the prices charged and conditions imposed to access tracks. Third, Romania often makes direct awards of infrastructure concessions and rail passenger services. This results in low value for money for the state and for the user, while contractors run the risk of incurring losses. Fourth, the link currently in place between the safety authority and the body responsible for procuring services contracts creates conflicts of interest. Moreover, the current administrative handling of railway undertakings' certification is unnecessarily laborious and costly both for the

[29] Long procedures for land acquisition, limited administrative capacity, inadequate project preparation and limited availability of national funding are the main factors underlying this low absorption capacity.

companies and for the safety authority. Underinvestment and poor maintenance of the railway network have led to increases in travel time due the introduction of speed restrictions and disruptions and also to reduced reliability and safety of the network. As a consequence, railway transport has witnessed a decline of freight and passenger demand.[30]

**There are also a number of policy challenges in the road transport sector.** The quality of road infrastructure, including motorway endowment, is particularly poor compared to that in other EU Member States.[31] Romania ranked highest in the EU in 2010 in terms of road fatalities. The cost recovery for road infrastructure is very low (about 10 % of total outlays on national roads, including construction). Furthermore, all revenues from road tolls have been committed by the Romania National Company for Motorways and National Roads to servicing debt on supplier credits from commercial banks loans until at least 2016, leaving the company with no own sources to finance maintenance. In addition, there is no differentiation of toll rates according to environmental standards. The Ministry of Transport and Infrastructure has not established a multimodal transport master plan that would map the future structural network based on realistic and politically endorsed budgetary assumptions.

**There are also some outstanding issues with regard to freight transport on inland waterways**. While freight transport on inland waterways has been growing steadily over the past two decades, it remains far below its actual potential, particularly on the Danube. There is no policy strategy in place to upgrade or develop the inland waterways infrastructure. Intermodal transport also remains underdeveloped.

**One ongoing challenge is that the take-up of broadband in Romania is the lowest in the EU**. This is linked to a lack of ICT skills, literacy and lack of investments. Both the proportion of ICT professionals and the share of the population that have advanced ICT skills are among lowest in the EU. Romania also has the highest proportion of the population having no or limited computer and internet skills among the EU Member States. The implementation of e-government is still a challenge for Romania. The country has the lowest levels of use of e-government services by both citizens and small businesses. Broadband infrastructures needs to be extended to areas where there are market failures to boost regional attractiveness and the economy. In parallel, the extension of New Generation Access needs to be promoted where there are market failures. Monitoring and mapping tools of ICT coverage and performance need to be developed. In parallel, the use of and demand for ICT should be fostered through developing products and services and e-commerce, but also through awareness-raising in areas where these is low take-up and supporting ICT training and certification.

***Energy and environment***

[30] Romania's railways services are considered by consumers as performing relatively poorly. According to the Commission's 8th Consumer Markets Scoreboard, it has the third lowest assessment in the EU and second lowest assessment among the 30 domestic services markets. (See: http://ec.europa.eu/consumers/consumer_research/editions/docs/8th_edition_scoreboard_en.pdf).

[31] According to the World Economic Forum Global Competitiveness Report 2011-2012, Romania ranks lowest in the EU on satisfaction with the quality of road infrastructure. See World Economic Forum, The Global Competitiveness Report 2011-2012, available at: http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf.

**Reforms to enhance competition and efficiency in network industries, as promoted by the IMF/EU financial assistance programme, need to continue.** In 2012, Romania made progress in transposing the third energy package directives. However, transposition of some provisions is still outstanding, including those relating to the protection of vulnerable consumers and certain duties of the energy regulator. To improve market efficiency, Romania has committed to a roadmap for the liberalisation of gas and electricity prices that is to be completed by the end of 2017 for gas and by the end of 2018 for electricity. The third energy package requires that the Romanian gas and electricity transmission system operators be certified. It is essential to continue with the unbundling of transmission system operators that should be able to perform all their core tasks. The corporate governance reform of state-owned enterprises which promotes a more transparent and merit-based appointment of the supervisory boards and management of these companies is currently in its early stage of implementation with only slow progress and regular delays. More appointments of professional board members and managers and less political interference are needed to show that the corporate governance legislation put in place in 2011 is effective.

**Increasing energy efficiency is a strategic issue for Romania's industrial competitiveness.** Romania is the third most energy-intensive economy in the EU whose energy intensity is 2.5 times higher than the EU average. It is also the third most carbon-intensive economy in the EU. While this partly reflects the high proportion of energy-intensive industries in the production structure in Romania, there are also strong indications of large energy inefficiencies. Residential buildings in Romania use eight times more energy than the EU-15 average due to an inefficient district heating system and the lack of appropriate thermal isolation of buildings. The reforms of recent years aimed to achieve more consistent use of high-efficiency cogeneration and to improve industrial efficiency. Large-scale programmes were set up to insulate buildings and to revamp district heating systems. These projects resulted in significant savings but some of them have been put on ice. Progress has been made in implementing the road maps on gas and electricity price deregulation but efforts need to continue in order to provide the right incentives to reduce energy consumption. Due to the rapid and steady rise of the transport sector's share in final energy consumption (from 15.8 % in 2000 to 24.1 % in 2010), the limited improvements in energy efficiency in road, rail and inland waterway transport need to be significantly stepped-up and specific attention needs to be paid to upgrading the urban transport infrastructure. In general, the housing, district heating, industry and transport sectors are in a need of comprehensive, decisive and effective action to improve energy efficiency.

**Waste management is another key challenge for Romania. The country's recycling rate (1.3 %) is well below the EU average.** Romania produces below-average volumes of municipal waste (365 kg of waste per capita in 2012 compared to the EU average of 502 kg), due for a large part to its below EU-average income per capita. However, it has the highest landfilling rate in the EU (98.7 %) and without further policy action it will most likely have difficulties in meeting the EU targets for waste management on time. There is currently no landfill tax but it is expected to be introduced in 2013. Private waste collection and cost-efficient recycling are made difficult by a lack of effective schemes for collecting reusable/recyclable waste separately, the limited implementation of the Extended Producer's Responsibility principle and the lack of a 'Pay As You Throw' system. Full implementation of the existing waste legislation and meeting the targets under the Resource Efficient Europe Roadmap has the potential to boost 'green growth' generating additional jobs in the waste sector while reducing pollution and greenhouse gas emissions.

**While Romania is well on track to meet its overall commitments regarding greenhouse gas emissions, the emissions have increased substantially in the transport sector.** The current projection is that Romania will increase its non-ETS greenhouse gas emissions by 9 %, thus staying within the target by a margin of 10 percentage points. While taxation of transport is low, newly registered vehicles are significantly less efficient in Romania than in many other Member States. Aside from existing taxes on fuels, a quota for biofuels, and a new one-off vehicle registration fee, no other significant policies are being implemented in order to address the increasing emissions from transport.

**Romania is also on track to meet its Europe 2020 renewable energy target.** Romania's use of renewable energy has increased steadily since 2005 to reach 21.4 % of total energy consumption in 2011, almost hitting the country's goal of 24 % by 2020, but back down below levels before 2008. In the electricity sector, the proportion of renewable energy dropped after 2005 but recovered in 2010 to hit 2005-levels of approximately 35 %. In 2012, Romania installed 1.58 GW of new renewable power capacity, now totalling 2.68 GW. Romania is revising its Green Certificate support scheme to avoid overcompensation and to reduce prices for customers. However, attention should be given to maintaining a stable investment climate and to avoiding changes that would affect the legitimate expectations of investors. To further improve the cost-effective use of renewables and ensure a level playing field with other power sources, Romania needs to also develop the electricity grid further and ensure that non-discriminatory rules are implemented so that a higher share of renewable energy sources can be integrated into the grid. A functioning and non-discriminatory balancing market for all power sources is necessary for further cost-effective market integration of renewable electricity. Romania also needs to make greater efforts with regard to transport in order to reach the 10 % target by 2020.

**Wholesale market trading in gas and electricity is underdeveloped in Romania and it is not yet fully integrated with the EU**. To achieve this for gas, there needs to be a proper gas balancing system and gas-grid rules that facilitate the trading of day-ahead products. With regard to electricity it is important that traded products reflect the demand from electricity market participants. Romania's participation in market coupling with the electricity markets of Hungary, the Czech Republic and Slovakia is still in its early stages. Similarly, pending full implementation of the interconnection projects with Bulgaria and Hungary, Romania's gas networks are integrated in the EU market only to a very limited degree. In line with the obligations under Regulation 994/2010 regarding the security of gas supplies, Romania still has to notify to the European Commission several pieces of information, in particular its preventive action and emergency plans if gas supplies are disrupted.

***SMEs and business environment***

**Manufacturing, a key factor for Romania's export performance, plays a bigger role in Romania than in the EU as a whole[32] but productivity is low due to a number of factors.** Productivity in industry and services remains at 60 % of the EU average as the economy is overwhelmingly composed of small and medium-size enterprises that are concentrated in low

[32] RO — 22 % vs. EU — 14.5 % of total value added in 2009.

value-added areas, with specialisation in labour-intensive industries. There is an overwhelming dominance of microenterprises that represent 90 % of all companies. There are persistent territorial imbalances in the location of SMEs, between regions and between urban and rural areas. Export performance is predominately driven by manufacturing[33] but productivity improvements are hampered by several obstacles: a shortage of a medium- and high-skilled labour force, access to finance, excessive bureaucratisation and a weak business environment, a fragmented and inconsistent institutional set up as well as weak entrepreneurship, in particular in rural and maritime areas.

**Romania faces important challenges in creating a business environment conducive to growth.** The fragmented institutional set-up and the rapidly changing governance arrangements for the business environment are major bottlenecks that are responsible for a lack of continuity and efficiency in the implementation of business-friendly policies. In addition, the heavy regulatory environment and the significant red tape in all sectors of public administration impact negatively on the business climate. According to the World Bank Doing Business report 2013, Romania ranked 72nd in the global ranking on ease of doing business. Despite some progress, for instance in business start-up procedures, fiscal reporting requirements and in the registration and transfer of property, there continue to be complex procedures that need to be improved in many areas that are important for doing business. These include obtaining an electricity connection, paying taxes, dealing with construction permits and resolving insolvency. Two strategies containing provisions for the business environment and SMEs sector have been elaborated — the *Strategy for the improvement and development of the business environment until 2014,* and the *Strategy for the development of the SME sector until 2013* — but neither of them has been adopted so far. Romania needs a comprehensive and effective strategy for improving the business environment, with clear principles, objectives, targets and monitoring indicators, to be applied to the whole government. In this regard, there is scope to improve the governance structure, as a functional institutional design is fundamental to ensuring the much-needed coordination, oversight and enforcement of policies for improving the business environment.

**Making legislation clearer, more accessible and easy to comply with is a major challenge.** In the area of regulatory tools and mechanisms to improve the business environment, no major advances have yet been made. The regulatory environment is still not stable with legislative acts often changing. The implementation of the *Strategy for Better Regulation* for 2008-2013 has been very slow. While some progress has been made with the monitoring of administrative costs, a key challenge is to improve the regulatory quality through adopting and implementing a comprehensive and coherent strategy, in line with the EU Smart Regulation Agenda. In this respect, it is essential to identify unnecessary costs and areas for performance improvement. At the same time, this requires the full implement and use of evidence-based tools such as quantified impact assessments, competitiveness proofing and fitness checks to reduce the overall costs of regulation for businesses.

**Greater reliance on electronic data exchange and online interfaces could significantly facilitate administrative procedures for businesses and citizens.** The *Strategy for the Broadband Communications Development in Romania* for the period 2009-2015 sets out ambitious objectives for e-government and e-business**.** However, the implementation of this strategy has been limited. According to the 2013 Digital Agenda Scoreboard report, e-

[33] In particular, in motor vehicles, electrical equipment, machinery and equipment and basic metals.

government take-up by Romanian citizens aged 24-54 years old is, at 37 %, the third lowest in the EU and e-government take-up by enterprises is, at 59 %, the lowest in the EU. The take-up of e-commerce is the lowest in the EU, with only 5.3% of the population buying online (the EU average is 44.8 %).[34] A *National Strategy on the Digital Agenda and a* Next Generation Access network plan are currently being developed. In order to improve the communication flow between public administrations and enterprises and to reduce administrative burdens, priority should be given to the application of the EU Small Business Act 'only once' principle in order to avoid requesting enterprises and citizens to provide the same information that has already been made available in the context of other procedures.

**Access to finance is one of the most pressing problems facing Romanian SMEs**. Romania ranks among the lowest performers in the EU in terms of total loan volumes granted to SMEs.[35] At the same time, Romania ranks second highest in terms of the average interest rates for loans up to EUR 1 million.[36] Alternative forms of financing and new financial products are underdeveloped, in particular in the venture capital market. The risk facility under the JEREMIE[37] programme became operational at the end of 2011 but its success has been rather limited mainly due to the lack of local expertise in using financial engineering instruments. Financial support to SMEs is being provided primarily through multi-annual national programmes and guarantee instruments. Recent initiatives of 2011 include *Mihail Kogalniceanu Programme*, which aimed to facilitate SMEs' access to guarantees and credit by granting a credit line with subsidised interest and, if need be, partially guaranteed by the state under certain conditions, and the *Programme for Young Entrepreneurs*, which aimed to stimulate young entrepreneurs (those under 35 years) to set up and develop small businesses. However, these measures should be made more accessible, in particular by providing assistance on the application procedures and cutting red tape.

**Often unclear land ownership rights represent a further challenge for Romania's business environment**. Currently, less than one third of the country is covered by the traditional land registry thus making investment in land or infrastructure difficult and hampering the development of the real estate market. Developing a digitalised systematic land registry covering the whole country is thus essential.

**More efforts are needed to help Romanian companies to access international markets, in order to offset the decline in domestic demand**. In this respect, further support for the internationalisation of SMEs could be important. Some services for SMEs, such as trade missions, co-financing participation in international trade fairs and developing market studies, are already provided through the annual SME export development programme but a number of challenges remain in supporting the internationalisation of the SMEs, in particular in

[34] As regards companies, in 2012, only 5.0 % sold online (EU average is 14 %), and only 4.8 % of SMEs sold on-line (EU average is 13.4 %).

[35] EUR 1.9 million per EUR 1 million GDP, well below the EU average of EUR 5.3 million loan volume per EUR 1 million GDP.

[36] European Central Bank's Statistical Data Warehouse, the Monetary Financial Institution (MFI) interest rate and Loan volumes sections — data for January-March 2012.

[37] JEREMIE (Joint European Resources for Micro to Medium Enterprises) is an initiative of the European Commission developed together with the European Investment Fund promoting the use of financial engineering instruments to improve access to finance for SMEs via Structural Funds interventions.

providing training and practical guidance on procedures and in enabling access to financing instruments. Furthermore, a *National Export Strategy* for the period 2012-2016 has not been adopted.

**The general lack of transparency in the regulatory process and the persisting high number of non-fiscal barriers continue to affect the retail sector.** Non-fiscal barriers, mostly the requirement to pay for authorisations, remain very high. While efforts have been made to render the retail supply chain more efficient by introducing legislation that strengthens the position of suppliers, a heavily fragmented retail market could indicate that competition could be further strengthened. Given the economic importance of the sector, which contributes around 4 % to the GDP and employs 7 % of the workforce, smooth functioning for the regulatory framework of the retail market is essential.

**Romania has been engaged in a process of reforms with the goal of improving the quality of justice and the independence of the judicial system but a number of deficiencies persist.** They include a decreasing efficiency in resolving cases and a lack of consistency between judgments. Romania's progress with judicial reform and the fight against corruption is monitored under the Cooperation and Verification Mechanism of the European Commission. Although the EU Justice Scoreboard[38] shows that the time needed to resolve non-criminal cases, administrative cases and litigious civil and commercial cases is within the EU average (but lags behind for insolvency cases) the case resolution rate for all categories has been falling continuously. The courts' low capacity to resolve cases will, if not improved, create backlogs and increase the time to resolve cases. The use of e-justice tools needs to be improved significantly. Furthermore, there are no regular evaluations of courts' activities or defined quality standards, although some steps have been taken recently.[39] The perceived independence of justice in Romania has the second worst rating in the EU.[40] The January 2013[41] report of the Cooperation and Verification Mechanism shows that Romania could not implement commitments aimed at enhancing the independence of the judiciary and that politically motivated attacks on the judiciary have not ended. Studies and polling evidence also reveal a perception that the level of corruption in Romania is particularly high by European standards. This has a direct bearing on the efficiency of economic activity and can act as a serious disincentive to inward investment. Implementing the National Anti-Corruption Strategy would have a positive impact on the confidence of economic operators that commercially significant decisions taken by the national and local government and by the judicial authorities are fully transparent.

### 4.4. Modernisation of public administration

**Poor administrative capacity is a core concern for Romania.** The ineffectiveness of the Romanian public administration with overregulation and cumbersome and inefficient procedures hampers the business environment and the capacity for public investment. The public administration is characterised by an inconsistent legal framework, frequent recourse to emergency ordinances, inadequate inter-ministerial cooperation and excessive bureaucracy. It

[38] The EU Justice Scoreboard: a tool to promote effective justice and growth, COM(2013) 160 final.

[39] A comprehensive evaluation of the Romanian judicial system http://courtoptimization.wix.com/ewmi#
[40] The EU Justice Scoreboard: a tool to promote effective justice and growth - COM(2013) 160 final, p. 21.
[41] COM(2013) 47 final.

is also undermined by a lack of skills, poor transparency in staff recruitment and management, and high turnover rates. This situation has contributed to a low rate of absorption of EU funds under the current programming period, with Romania in last place in the EU rankings for structural, cohesion and fishery funds. It will be essential to reinforce the effectiveness of the public administration. This will imply shifting to a streamlined, stable and more consistent legal framework, and ensuring that procedures are simpler and are proportionate. One way forward would be to improve the coordination and policy making-capacity of the government and to undertake comprehensive ministerial modernisation, relying whenever relevant on the action plans derived from the functional reviews. To give one example, Romania does not have a comprehensive system for impact assessment of policies and legislative proposals. A comprehensive and coherent e-government strategy would promote an administrative culture of transparency and certainty while, at the same time, improving the business environment. This should include in particular the completion of a fully functioning Point of Single Contact that allows for the electronic completion of procedures, including beyond the scope of the Services Directive, and integrating various procedures affecting companies at different stages of their business life cycle.

**Weak management and control systems and a poorly functioning public procurement system are the source of systemic irregularities leading to financial corrections and suspension of payments of EU funds**. While the legislation is appropriate, frequent amendments to the national public procurement legislation, together with a lack of uniform practice and guidance by the institutions concerned and inconsistent decisions by review bodies and courts are a source of uncertainty for stakeholders. Contracting authorities are not well equipped to prepare sound tender documents, define adequate selection and award criteria or to evaluate the offers, all of which creates inefficiency and lack of transparency. Similarly, there are problems with the frequent recourse to artificial shortcuts such as shortening deadlines or transferring unreasonable risks and obligations to contractors. No adequate solution for preventing of conflicts of interest has yet been found. Nor has the independent status of the Romanian review authority been fully secured. Reforms in this area need to continue, in line with the recommendations of the Commission inter-service group on public procurement.

**There are serious concerns that corruption that continues to be a systemic problem in Romania.** There are considerable difficulties with the ineffectiveness of policies to prevent and combat corrupt practices, notably in the area of public procurement. 96 % of Romanian respondents to the Eurobarometer survey agreed that corruption has been a major problem in Romania, 3 points higher than in 2009. Romania scores poorly on Transparency International's Corruption Perception Index for 2012 and on the World Bank's control of corruption ranking for 2011. Particularly vulnerable sectors appear to be healthcare and infrastructure projects. Romania's progress in preventing and sanctioning corruption related to public procurement, as evaluated on a regular basis by the Commission in the Cooperation and Verification Mechanism, has been limited. Few perpetrators of public procurement fraud have been handed down dissuasive sanctions by the courts. A more systematic approach to ex-ante checks that would ensure uniform and systemic implementation could offer a useful way forward.

## 5. OVERVIEW TABLE (CSR, TARGETS)

| 2012 commitments | Summary assessment |
|---|---|
| | |
| | |
| **Europe 2020 (national targets and progress)** | |
| Employment rate target: 70 % | In 2012 the employment rate rose to 63.8 %, 1 percentage point higher than in 2011 and 6.2 percentage points below the national employment target (20-64 age group). It remains to be seen if this reverse of the previously negative trend is sustainable. Despite the recent improvement, the national target of 70 % by 2020 under the Europe 2020 strategy remains ambitious. |
| R&D target: 2 % by 2020 | In the last decade, R&D intensity in Romania increased from 0.37 % in 2000 to 0.59 % in 2008, to drop back to 0.48% in 2011. Romania currently has one of the lowest R&D intensity scores in the EU, at less than a quarter of its 2 % target for 2020. Private R&D investments of 0.17% of GDP in 2011 are also among the lowest in the EU. It would be welcome if the new R&I Strategy 2014-2020, under preparation, was accompanied by a multi-annual funding framework and a monitoring system. |
| Greenhouse gas emissions target: maximum increase of greenhouse gas emissions not covered by the EU Emission Trading Scheme by 19 % in 2020, compared to 2005. | Change in non-Emission Trading Scheme greenhouse gas emissions between 2005 and 2011: decrease of 7 %. According to the latest national projections submitted to the Commission, when existing measures are taken into account, the target is expected to be achieved with an increase of 9 %, thus staying within the target. |
| Renewable energy target: 24 %<br><br>Share of renewable energy in the transport sector: 10 % | Share of total renewable energy in gross final energy consumption was 21.4 % in 2011 and 2.1 % in the transport sector. (Source: Eurostat. April 2013. For 2011, only formally reported biofuels compliant with Art. 17 and 18 of Directive 2009/28/EC are included). |
| National indicative energy efficiency target for 2020: Reduction of 10 Mtoe (19%) in the primary energy consumption | Romania has set an indicative national energy efficiency target in accordance with Articles 3 and 24 of the Energy Efficiency Directive (2012/27/EU). However, it has neither expressed it, as required, in terms of an absolute level of primary and final energy consumption in 2020, nor has provided information on the basis on which data this has been calculated. |
| Early-school leaving target: 11.3 % | The early school-leaving rate (17.4 % in 2012) is well above both the EU average (12.8 %) and the 10 % EU benchmark and is the same as in 2011 (17.5 %). Problems persist especially for rural |

| | |
|---|---|
| | areas and the Roma minority. |
| Tertiary education target: 26.7 % | The tertiary or equivalent attainment rate (21.8 % in 2012) is 14 percentage points below the EU average (35.8 %). However there has been constant progress over the past five years with a noteworthy increase from 2011 (20.4 %). There is still a significant mismatch between the education offered by universities and labour market requirements. |
| Risk of poverty or social exclusion target: reducing by 580 000 people (compared to 2008). | In order to monitor this target, Romania has opted to use one of the three sub-indicators of the headline indicator, more precisely the '*at risk of poverty rate*'. The latest Eurostat data show a slight improvement in this indicator to 22.2 % in 2011, from 23.4 % in 2008. In absolute terms, 240 000 people were lifted out of poverty between 2008 and 2011. |

## Table I. Macroeconomic indicators

| | 1995-1999 | 2000-2004 | 2005-2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|
| **Core indicators** | | | | | | | | |
| GDP growth rate | 0.6 | 5.4 | 3.8 | -1.1 | 2.2 | 0.7 | 1.6 | 2.2 |
| Output gap [1] | -4.1 | -1.2 | 4.7 | -1.8 | -1.1 | -2.1 | -2.6 | -3.0 |
| HICP (annual % change) | 74.6 | 26.0 | 6.8 | 6.1 | 5.8 | 3.4 | 4.3 | 3.1 |
| Domestic demand (annual % change) [2] | 2.0 | 7.5 | 6.1 | -1.1 | 2.5 | 1.4 | 2.3 | 2.7 |
| Unemployment rate (% of labour force) [3] | 5.6 | 7.1 | 6.7 | 7.3 | 7.4 | 7.0 | 6.9 | 6.8 |
| Gross fixed capital formation (% of GDP) | 20.1 | 20.8 | 27.2 | 24.7 | 26.0 | 26.7 | 27.0 | 27.7 |
| Gross national saving (% of GDP) | 14.0 | 17.6 | 17.7 | 21.2 | 22.4 | 23.0 | 23.5 | 24.1 |
| **General Government (% of GDP)** | | | | | | | | |
| **Net lending (+) or net borrowing (-)** | **-3.5** | **-2.6** | **-4.2** | **-6.8** | **-5.6** | **-2.9** | **-2.6** | **-2.4** |
| **Gross debt** | **14.1** | **22.7** | **15.6** | **30.5** | **34.7** | **37.8** | **38.6** | **38.5** |
| **Net financial assets** | **43.0** | **29.9** | **5.3** | **-12.1** | **-16.0** | **n.a** | **n.a** | **n.a** |
| Total revenue | 31.9 | 32.8 | 33.4 | 33.3 | 33.8 | 33.5 | 34.1 | 34.4 |
| Total expenditure | 35.4 | 35.4 | 37.6 | 40.1 | 39.4 | 36.4 | 36.6 | 36.8 |
| *of which: Interest* | 3.4 | 2.6 | 1.0 | 1.5 | 1.6 | 1.8 | 1.8 | 1.8 |
| **Corporations (% of GDP)** | | | | | | | | |
| **Net lending (+) or net borrowing (-)** | **-0.8** | **-5.4** | **-3.3** | **9.8** | **13.0** | **8.9** | **8.8** | **7.9** |
| **Net financial assets; non-financial corporations** | **-85.8** | **-85.1** | **-107.2** | **-102.6** | **-106.0** | **n.a** | **n.a** | **n.a** |
| **Net financial assets; financial corporations** | **-0.9** | **0.3** | **0.1** | **7.2** | **8.0** | **n.a** | **n.a** | **n.a** |
| Gross capital formation | 10.3 | 17.0 | 20.7 | 14.1 | 16.6 | 18.9 | 18.9 | 20.0 |
| Gross operating surplus | 26.7 | 23.3 | 27.2 | 29.8 | 31.8 | 30.0 | 30.1 | 30.3 |
| **Households and NPISH (% of GDP)** | | | | | | | | |
| **Net lending (+) or net borrowing (-)** | **-1.2** | **4.1** | **-1.9** | **-6.2** | **-12.5** | **n.a** | **n.a** | **n.a** |
| **Net financial assets** | **35.8** | **33.9** | **52.7** | **41.4** | **40.2** | **n.a** | **n.a** | **n.a** |
| Gross wages and salaries | 28.6 | 32.0 | 33.7 | 33.9 | 33.4 | 32.2 | 30.6 | 29.2 |
| Net property income | 5.0 | 3.5 | 1.0 | -0.1 | -1.1 | 7.5 | 7.2 | 6.8 |
| Current transfers received | 21.0 | 15.9 | 15.5 | 17.5 | 15.2 | n.a | n.a | n.a |
| Gross saving | 2.5 | -1.9 | -4.9 | -4.9 | -8.5 | n.a | n.a | n.a |
| **Rest of the world (% of GDP)** | | | | | | | | |
| **Net lending (+) or net borrowing (-)** | **-5.6** | **-3.8** | **-9.2** | **-4.2** | **-3.9** | **-2.6** | **-2.9** | **-3.0** |
| **Net financial assets** | **10.8** | **23.4** | **51.1** | **69.6** | **77.3** | **n.a** | **n.a** | **n.a** |
| Net exports of goods and services | -6.4 | -7.0 | -11.0 | -5.7 | -5.3 | -5.2 | -5.2 | -5.2 |
| Net primary income from the rest of the world | -1.1 | -1.8 | -2.8 | -1.2 | -1.3 | -0.9 | -1.1 | -1.1 |
| Net capital transactions | 0.3 | 0.4 | 0.6 | 0.2 | 0.5 | 1.4 | 1.0 | 0.9 |
| Tradable sector | n.a | n.a | 54.2 | 50.8 | 49.9 | 49.1 | n.a | n.a |
| Non tradable sector | n.a | n.a | 34.6 | 38.3 | 37.6 | 38.3 | n.a | n.a |
| *of which: Building and construction sector* | n.a | n.a | 9.1 | 9.1 | 8.5 | 8.6 | n.a | n.a |
| Real effective exchange rate (index, 2000=100) | 63.9 | 81.9 | 119.0 | 116.3 | 116.9 | 114.2 | 120.7 | 123.7 |
| Terms of trade goods and services (index, 2000=100) | 82.9 | 92.4 | 112.6 | 122.5 | 125.3 | 128.5 | 130.2 | 131.7 |
| Market performance of exports (index, 2000=100) | 63.8 | 85.2 | 105.6 | 119.5 | 125.8 | 123.3 | 125.0 | 123.8 |

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 services' 2013 spring forecasts (COM); Convergence programme (CP).*

## Table II. Comparison of macroeconomic developments and forecasts

| | 2012 | | 2013 | | 2014 | | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| | COM | CP | COM | CP | COM | CP | CP | CP |
| Real GDP (% change) | 0.7 | 0.7 | 1.6 | 1.6 | 2.2 | 2.2 | 2.4 | 3.0 |
| Private consumption (% change) | 1.1 | 1.1 | 1.9 | 1.5 | 2.0 | 2.0 | 1.7 | 1.8 |
| Gross fixed capital formation (% change) | 4.9 | 4.9 | 3.4 | 5.0 | 5.0 | 6.0 | 6.7 | 7.3 |
| Exports of goods and services (% change) | -3.0 | -3.0 | 2.5 | 1.2 | 4.0 | 3.4 | 5.1 | 6.3 |
| Imports of goods and services (% change) | -0.9 | -0.9 | 4.0 | 3.0 | 5.0 | 5.1 | 5.9 | 6.4 |
| *Contributions to real GDP growth:* | | | | | | | | |
| - Final domestic demand | 2.2 | 2.2 | 2.3 | 2.6 | 2.9 | 3.1 | 3.1 | 3.6 |
| - Change in inventories | -0.7 | -0.7 | 0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Net exports | -0.8 | -0.8 | -0.8 | -0.9 | -0.7 | -0.9 | -0.7 | -0.4 |
| Output gap[1] | -2.1 | -1.9 | -2.6 | -2.1 | -3.0 | -2.1 | -2.3 | -2.4 |
| Employment (% change) | 1.9 | 1.9 | 0.5 | 1.5 | 0.8 | 1.5 | 1.0 | 1.0 |
| Unemployment rate (%) | 7.0 | 7.0 | 6.9 | 6.9 | 6.8 | 6.8 | 6.6 | 6.5 |
| Labour productivity (% change) | -1.2 | -1.2 | 1.1 | 0.1 | 1.4 | 0.7 | 1.4 | 2.0 |
| HICP inflation (%) | 3.4 | 3.4 | 4.3 | 4.0 | 3.1 | 3.0 | 2.2 | 2.0 |
| GDP deflator (% change) | 4.8 | 4.8 | 4.4 | 4.4 | 3.6 | 3.7 | 2.9 | 2.4 |
| Comp. of employees (per head, % change) | 5.2 | 5.2 | 5.9 | 5.1 | 5.5 | 4.8 | 4.4 | 4.4 |
| Net lending/borrowing vis-à-vis the rest of the world (% of GDP) | -2.6 | -2.7 | -2.9 | -2.2 | -3.0 | -2.6 | -2.6 | -2.5 |

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 services' 2013 spring forecasts (COM); Convergence programme (CP).*

## Table III. Composition of the budgetary adjustment

| (% of GDP) | 2012 | 2013 | | 2014 | | 2015 | 2016 | Change: 2012-2016 |
|---|---|---|---|---|---|---|---|---|
| | COM | COM | CP | COM[1] | CP | CP | CP | CP |
| **Revenue** | **33.5** | **34.1** | **33.8** | **34.4** | **34.1** | **34.1** | **34.0** | **0.5** |
| *of which:* | | | | | | | | |
| - Taxes on production and imports | 13.2 | 13.3 | 13.2 | 13.4 | 13.1 | 13.1 | 13.1 | -0.1 |
| - Current taxes on income, wealth, etc. | 6.1 | 6.6 | 6.5 | 7.0 | 6.5 | 6.6 | 6.6 | 0.5 |
| - Social contributions | 8.8 | 8.7 | 8.7 | 8.7 | 8.8 | 8.8 | 8.7 | -0.1 |
| - Other (residual) | 5.4 | 5.4 | 5.4 | 5.4 | 5.7 | 5.6 | 5.6 | 0.2 |
| **Expenditure** | **36.4** | **36.6** | **36.2** | **36.8** | **36.1** | **36.0** | **35.8** | **-0.6** |
| *of which:* | | | | | | | | |
| - Primary expenditure | 34.6 | 34.9 | 34.3 | 35.0 | 34.2 | 34.2 | 34.1 | -0.5 |
| *of which:* | | | | | | | | |
| Compensation of employees | 7.8 | 8.2 | 8.2 | 8.2 | 8.2 | 8.0 | 7.7 | -0.1 |
| Intermediate consumption | 5.9 | 5.4 | 5.6 | 5.4 | 5.6 | 5.6 | 5.6 | -0.3 |
| Social payments | 12.7 | 12.3 | 12.2 | 12.4 | 12.2 | 12.0 | 11.8 | -0.9 |
| Subsidies | 0.4 | 0.3 | 0.4 | 0.3 | 0.4 | 0.4 | 0.4 | 0.0 |
| Gross fixed capital formation | 4.6 | 4.6 | 5.0 | 4.6 | 5.2 | 5.3 | 5.6 | 1.0 |
| Other (residual) | 3.2 | 4.1 | 2.9 | 4.1 | 2.7 | 2.8 | 3.0 | -0.2 |
| - Interest expenditure | 1.8 | 1.8 | 1.9 | 1.8 | 1.9 | 1.8 | 1.7 | -0.1 |
| **General government balance (GGB)** | **-2.9** | **-2.6** | **-2.4** | **-2.4** | **-2.0** | **-1.8** | **-1.8** | **1.1** |
| **Primary balance** | **-1.1** | **-0.8** | **-0.5** | **-0.6** | **-0.1** | **0.0** | **-0.1** | **1.0** |
| One-off and other temporary measures | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.5 |
| **GGB excl. one-offs** | **-3.4** | **-2.6** | **-2.4** | **-2.4** | **-2.0** | **-1.8** | **-1.8** | **1.6** |
| Output gap[2] | -2.1 | -2.6 | -2.1 | -3.0 | -2.1 | -2.3 | -2.4 | -0.3 |
| Cyclically-adjusted balance[2] | -2.2 | -1.7 | -1.7 | -1.4 | -1.3 | -1.1 | -1.0 | 1.2 |
| **Structural balance (SB)[3]** | **-2.7** | **-1.7** | **-1.7** | **-1.4** | **-1.3** | **-1.1** | **-1.0** | **1.7** |
| *Change in SB* | *1.4* | *1.0* | *1.0* | *0.3* | *0.4* | *0.3* | *0.0* | - |
| *Two year average change in SB* | *1.8* | *1.2* | *1.2* | *0.6* | *0.7* | *0.3* | *0.2* | - |
| Structural primary balance[3] | -0.9 | 0.1 | 0.2 | 0.4 | 0.6 | 0.7 | 0.7 | 1.6 |
| *Change in structural primary balance* | | *1.0* | *1.1* | *0.3* | *0.4* | *0.2* | *-0.1* | - |
| **Expenditure benchmark** | | | | | | | | |
| Applicable reference rate[4] | 1.43 | 1.43 | 1.43 | 1.09 | 1.09 | 1.09 | 2.51 | - |
| Deviation[5] (% GDP) | -3.1 | -0.2 | -1.3 | 0.3 | -0.3 | 0.0 | -0.1 | - |
| Two-year average deviation (% GDP) | -2.4 | -1.7 | -2.7 | 0.0 | -0.8 | -0.2 | 0.0 | - |

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 positive sign implies that expenditure growth exceeds the applicable reference rate.

Source:

*Convergence programme (CP); Commission services' 2013 spring forecasts (COM); Commission services' calculations.*

## Table IV. Debt dynamics

| (% of GDP) | Average 2007-2011 | 2012 | 2013 COM | 2013 CP | 2014 COM | 2014 CP | 2015 CP | 2016 CP |
|---|---|---|---|---|---|---|---|---|
| **Gross debt ratio[1]** | **23.0** | **37.8** | **38.6** | **38.6** | **38.5** | **38.5** | **38.6** | **38.9** |
| Change in the ratio | 4.5 | 3.1 | 0.8 | 0.8 | 0.0 | -0.1 | 0.1 | 0.3 |
| *Contributions[2] :* | | | | | | | | |
| **1. Primary balance** | **4.8** | **1.1** | **0.8** | **0.5** | **0.6** | **0.1** | **0.0** | **0.1** |
| **2. "Snow-ball" effect** | **-0.1** | **0.0** | **-0.4** | **-0.2** | **-0.4** | **-0.3** | **-0.1** | **-0.3** |
| *Of which:* | | | | | | | | |
| Interest expenditure | 1.2 | 1.8 | 1.8 | 1.9 | 1.8 | 1.9 | 1.8 | 1.7 |
| Growth effect | -0.2 | -0.2 | -0.6 | -0.6 | -0.8 | -0.8 | -0.9 | -1.1 |
| Inflation effect | -1.2 | -1.6 | -1.6 | -1.6 | -1.3 | -1.4 | -1.1 | -0.9 |
| **3. Stock-flow adjustment** | **-0.1** | **2.1** | **0.4** | **0.6** | **-0.3** | **0.1** | **0.3** | **0.5** |
| *Of which:* | | | | | | | | |
| Cash/accruals diff. | | | | 0.0 | | 0.0 | 0.0 | 0.0 |
| Acc. financial assets | | | | 0.0 | | 0.0 | 0.0 | 0.0 |
| *Privatisation* | | | | 0.0 | | 0.0 | 0.0 | 0.0 |
| Val. effect & residual | | | | -1.6 | | -2.1 | -1.7 | -1.5 |

| | 2012 | 2013 COM/CP[3] | 2013 CP[4] | 2014 COM/CP[3] | 2014 CP[4] | 2015 CP | 2016 CP |
|---|---|---|---|---|---|---|---|
| **Gap to the debt benchmark[5,6]** | n.r. | n.r. | n.r. | n.r. | n.r. | n.r. | n.r. |
| **Structural adjustment[7]** | n.r. | n.r. | n.r. | n.r. | n.r. | n.r. | n.r. |
| *To be compared to:* | | | | | | | |
| Required adjustment[8] | n.r. | n.r. | n.r. | n.r. | n.r. | n.r. | n.r. |

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] Assessment of the consolidation path set in CP assuming growth follows the COM forecasts.

[4]Assessment of the consolidation path set in the CP assuming growth follows the CP projections.

[5]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.

[6]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.

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

[8]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) budgetary projections for the previous years are achieved.

Source :

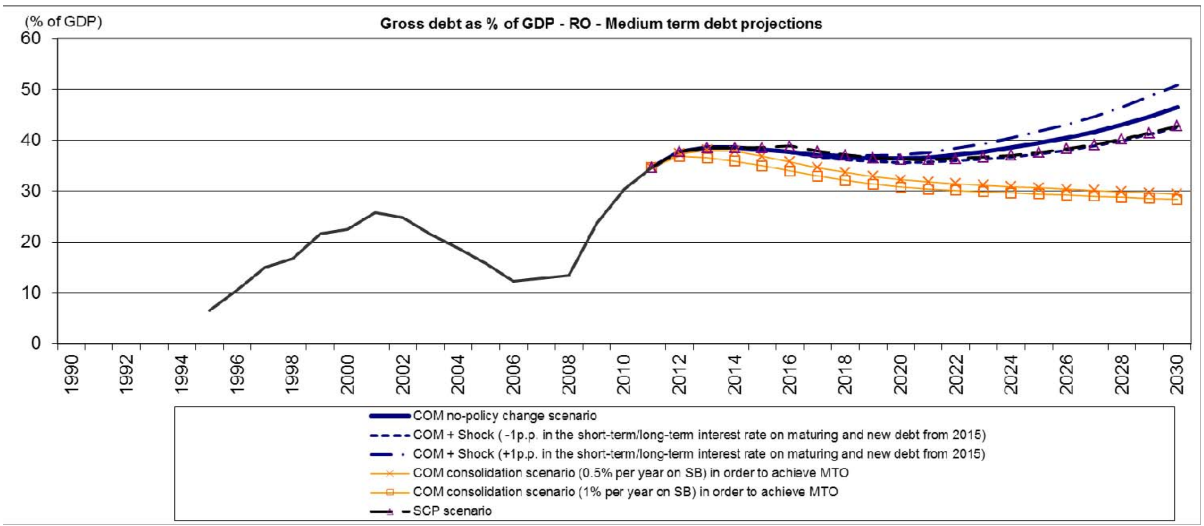
*Convergence programme (CP); Commission services' spring 2013 forecasts (COM); Commission services' calculations.*

## Table V. Sustainability indicators

| | RO | | EU27 | |
|---|---|---|---|---|
| | **No-policy change scenario** | **Programme (SCP) scenario** | **No-policy change scenario** | **Programme (SCP) scenario** |
| | | | | |
| S2 | 4.1 | 3.9 | 3.0 | 1.3 |
| *of which:* | | | | |
| Initial budgetary position (IBP) | 0.4 | 0.2 | 0.8 | -0.9 |
| Long-term cost of ageing (CoA) | 3.6 | 3.8 | 2.2 | 2.2 |
| *of which:* | | | | |
| Pensions | 2.4 | 2.5 | 1.0 | 1.1 |
| Health care | 0.7 | 0.7 | 0.9 | 0.8 |
| Long-term care | 0.6 | 0.6 | 0.6 | 0.6 |
| Others | -0.1 | 0.0 | -0.4 | -0.3 |
| S1 (required adjustment)* | -0.8 | -1.1 | 2.2 | 0.5 |
| *of which:* | | | | |
| Initial budgetary position (IBP) | 0.0 | -0.3 | 0.0 | -1.8 |
| Debt requirement (DR) | -1.2 | -1.3 | 1.9 | 1.9 |
| Long-term cost of ageing (CoA) | 0.4 | 0.4 | 0.3 | 0.4 |
| S0 (risk for fiscal stress)** | 0.32 | | : | |
| Debt, % of GDP (2012) | 37.8 | | 87.0 | |
| Age-related expenditure, % of GDP (2012) | 17.0 | | 25.8 | |

Note:
The 'No-policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the Commissions' spring 2013 forecast until 2014. The 'Programme (SCP)' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented.
* The required adjustment of the primary balance until 2020 to reach a public debt of 60% of GDP by 2030.
** The critical threshold for the S0 indicator is 0.44.

*Source :*
*Commission services; 2013 stability programme.*



## Table VI. Taxation indicators

| | 2002 | 2006 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|
| **Total tax revenues** (incl. actual compulsory social contributions, % of GDP) | 28.1 | 28.5 | 28.0 | 26.9 | 26.7 | 28.2 |
| **Breakdown by economic function** (% of GDP)[1] | | | | | | |
| Consumption | 10.9 | 12.1 | 11.2 | 10.3 | 11.3 | 12.6 |
| of which: | | | | | | |
| - VAT | 7.1 | 7.9 | 7.9 | 6.6 | 7.6 | 8.7 |
| - excise duties on tobacco and alcohol | 1.0 | 1.2 | 1.2 | 1.5 | 1.5 | 1.8 |
| - energy | 1.7 | 1.7 | 1.4 | 1.6 | 1.8 | 1.7 |
| - other (residual) | 1.1 | 1.2 | 0.7 | 0.5 | 0.4 | 0.4 |
| Labour employed | 12.3 | 11.5 | 11.5 | 11.6 | 10.9 | 11.0 |
| 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 | 3.8 | 3.2 | 3.4 |
| Stocks of capital/wealth | 1.1 | 1.0 | 1.0 | 1.0 | 1.1 | 1.0 |
| *p.m.* Environmental taxes[2] | 2.1 | 1.9 | 1.8 | 1.9 | 2.0 | 1.9 |
| **VAT efficiency**[3] | | | | | | |
| Actual VAT revenues as % of theoretical revenues at standard rate | 48.8 | 53.7 | 56.3 | 47.2 | 43.9 | 51.9 |

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 (2013) 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. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. 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'). See European Commission (2012), Tax reforms in EU Member States, European Economy 6/2012 and Taxation Papers 34/2012 for a more detailed explanation.

*Source: Commission*

## Table VII. Financial market indicators

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Total assets of the banking sector (% of GDP) | 60.5 | 73.1 | 73.4 | 69.9 | 69.5 |
| Share of assets of the five largest banks (% of total assets) | 54.0 | 52.4 | 52.7 | 54.6 | … |
| Foreign ownership of banking system (% of total assets) | 86.8 | 76.1 | … | … | … |
| Financial soundness indicators: | | | | | |
| - non-performing loans (% of total loans)[1), 2)] | 2.8 | 7.9 | 11.9 | 14.3 | 17.3 |
| - capital adequacy ratio (%) [1)] | 13.8 | 14.7 | 15.0 | 14.9 | 14.7 |
| - return on equity (%) [1), 3)] | 17.0 | 2.9 | -1.7 | -2.6 | -0.3 |
| Bank loans to the private sector (year-on-year % change) | 23.8 | -2.0 | 6.3 | 7.6 | -0.7 |
| Lending for house purchase (year-on-year % change) | 29.1 | 9.4 | 16.6 | 13.0 | 7.7 |
| Loan to deposit ratio | 129.7 | 118.3 | 120.0 | 118.6 | 113.9 |
| CB liquidity as % of liabilities | 0.5 | 2.9 | 1.0 | 2.1 | … |
| Banks' exposure to countries receiving official financial assistance (% of GDP) | … | … | … | … | … |
| Private debt (% of GDP) | … | … | 39.0 | 39.3 | … |
| Gross external debt (% of GDP)[4)] | | | | | |
| - Public | | | | | |
| - Private | | | | | |
| Long term interest rates spread versus Bund (basis points)* | | | | | |
| Credit default swap spreads for sovereign securities (5-year)* | | | | | |

Notes:

[1)] Latest data (September 2012).

[2)] 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

[3)] After extraordinary items and taxes.

[4)] Latest data 2012Q3.

* Measured in basis points.

*Source:*

*Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).*

## Table VIII. Labour market and social indicators

| Labour market indicators | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| Employment rate (% of population aged 20-64) | 64.4 | 64.4 | 63.5 | 63.3 | 62.8 | 63.8 |
| Employment growth (% change from previous year) | 0.0 | 0.0 | -2.0 | -0.3 | -1.1 | 1.9 |
| Employment rate of women (% of female population aged 20-64) | 57.9 | 57.3 | 56.3 | 55.9 | 55.7 | 56.3 |
| Employment rate of men (% of male population aged 20-64) | 71.0 | 71.6 | 70.7 | 70.8 | 69.9 | 71.4 |
| Employment rate of older workers (% of population aged 55-64) | 41.4 | 43.1 | 42.6 | 41.1 | 40.0 | 41.4 |
| Part-time employment (% of total employment, 15 years and more) | 9.7 | 9.9 | 9.8 | 11.0 | 10.5 | 10.2 |
| Part-time employment of women (% of women employment, 15 years and more) | 10.4 | 10.8 | 10.6 | 11.4 | 11.5 | 11.1 |
| Part-time employment of men (% of men employment, 15 years and more) | 9.2 | 9.1 | 9.1 | 10.6 | 9.6 | 9.5 |
| Fixed term employment (% of employees with a fixed term contract, 15 years and more) | 1.6 | 1.3 | 1.0 | 1.1 | 1.5 | 1.7 |
| Transitions from temporary to permanent employment | : | 1.1 | 1.0 | 0.8 | : | : |
| Unemployment rate1 (% of labour force, age group 15-74) | 6.4 | 5.8 | 6.9 | 7.3 | 7.4 | 7.1 |
| Long-term unemployment rate2 (% of labour force) | 3.2 | 2.4 | 2.2 | 2.5 | 3.1 | 3.2 |
| Youth unemployment rate (% of youth labour force aged 15-24) | 20.1 | 18.6 | 20.8 | 22.1 | 23.7 | 22.7 |
| Youth NEET rate (% of population aged 15-24) | 13.3 | 11.6 | 13.9 | 16.4 | 17.4 | 16.8 |
| Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training) | 17.3 | 15.9 | 16.6 | 18.4 | 17.5 | 17.4 |
| Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education) | 13.9 | 16.0 | 16.8 | 18.1 | 20.4 | 21.8 |
| Formal childcare (from 1 to 29 hours; % over the population less than 3 years) | 3.0 | 6.0 | 4.0 | 4.0 | 1.0 | : |
| Formal childcare (30 hours or over; % over the population less than 3 year) | 3.0 | 2.0 | 1.0 | 3.0 | 1.0 | : |
| Labour productivity per person employed (annual % change) | 5.9 | 7.3 | -4.7 | -0.9 | 3.3 | -1.5 |
| Hours worked per person employed (annual % change) | 0.5 | 0.0 | -0.6 | -0.4 | 0.7 | -2.1 |
| Labour productivity per hour worked (annual % change; constant prices) | 5.4 | 7.3 | -4.2 | -0.5 | 2.6 | 0.6 |
| Compensation per employee (annual % change; constant prices) | 7.5 | 14.5 | -5.9 | -8.5 | -2.7 | -2.1 |
| Nominal unit labour cost growth (annual % change) | 15.2 | 22.9 | 2.9 | -2.4 | 0.9 | 6.4 |
| Real unit labour cost growth (annual % change) | 1.5 | 6.6 | -1.2 | -7.7 | -3.1 | 1.5 |

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) | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Sickness/Health care | 3.25 | 3.53 | 3.54 | 4.15 | 4.44 |
| Invalidity | 1.09 | 1.27 | 1.38 | 1.62 | 1.59 |
| Old age and survivors | 5.73 | 6.02 | 7.12 | 8.78 | 8.82 |
| Family/Children | 1.76 | 1.67 | 1.49 | 1.70 | 1.68 |
| Unemployment | 0.33 | 0.27 | 0.20 | 0.40 | 0.56 |
| Housing and Social exclusion n.e.c. | 0.00 | 0.00 | 0.02 | 0.02 | 0.02 |
| **Total** | 12.45 | 13.19 | 14.07 | 16.88 | 17.39 |
| of which: means tested benefits | 0.80 | 0.84 | 0.68 | 0.91 | 1.22 |
| **Social inclusion indicators** | **2007** | **2008** | **2009** | **2010** | **2011** |
| At-risk-of-poverty or social exclusion[1] (% of total population) | 45.9 | 44.2 | 43.1 | 41.4 | 40.3 |
| At-risk-of-poverty or social exclusion of children (% of people aged 0-17) | 50.5 | 51.2 | 52.0 | 48.7 | 49.1 |
| At-risk-of-poverty or social exclusion of elderly (% of people aged 65+) | 57.7 | 49.2 | 43.1 | 39.9 | 35.3 |
| At-Risk-of-Poverty rate[2] (% of total population) | 24.8 | 23.4 | 22.4 | 21.1 | 22.2 |
| Severe Material Deprivation[3] (% of total population) | 36.5 | 32.9 | 32.2 | 31.0 | 29.4 |
| Share of people living in low work intensity households[4] (% of people aged 0-59) | 8.4 | 8.2 | 7.7 | 6.8 | 6.7 |
| In-work at-risk-of poverty rate (% of persons employed) | 18.5 | 17.7 | 17.9 | 17.3 | 19.0 |
| Impact of social transfers (excluding pensions) on reducing poverty | 19.7 | 23.8 | 23.0 | 23.3 | 23.7 |
| Poverty thresholds, expressed in national currency at constant prices[5] | 3507 | 3725 | 4218 | 4334 | 4218 |
| Gross disposable income (households) | 249556 | 330147 | 307384 | 308773 | 311133 |
| Relative median poverty risk gap (60% of median equivalised income, age: total) | 34.8 | 32.3 | 32.0 | 30.6 | 31.8 |

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 | 2003-2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| Labour productivity[1] total economy (annual growth in %) | 7.3 | 7.3 | -4.7 | -0.9 | 3.3 | -1.5 |
| Labour productivity[1] in manufacturing (annual growth in %) | 7.6 | 4.8 | n.a. | n.a. | n.a. | n.a. |
| Labour productivity[1] in electricity, gas, steam and air conditioning supply (annual growth in %) | 1.2 | 19.0 | n.a. | n.a. | n.a. | n.a. |
| Labour productivity[1] in the construction sector (annual growth in %) | 6.6 | 14.1 | n.a. | n.a. | n.a. | n.a. |
| Total number of patent[2] applications per million of labour force | 2.4 | 3.4 | 3.5 | 4.0 | n.a. | n.a. |
| **Policy indicators** | **2003-2007** | **2008** | **2009** | **2010** | **2011** | **2012** |
| Enforcing contracts[3] (days) | 537 | 512 | 512 | 512 | 512 | 512 |
| Time to start a business[3] (days) | 18 | 9 | 9 | 9 | 14 | 10 |
| R&D expenditure (% of GDP) | 0.4 | 0.6 | 0.5 | 0.5 | 0.5 | n.a. |
| Tertiary educational attainment (% of 30-34 years old population) | 11.4 | 16.0 | 16.8 | 18.1 | 20.4 | 21.8 |
| Total public expenditure on education (% of GDP) | 3.62 | n.a. | 4.24 | 3.53 | n.a. | n.a. |
| | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** |
| 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] Total number of patent applications to the European Patent Office (EPO) per million of labour force

[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. The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.

[5] Aggregate Energy, Transport and Communications Regulation (ETCR).

*figure for 2007.

*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

| | | 2002-2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|
| **Green Growth performance** | | | | | | | |
| ***Macroeconomic*** | | | | | | | |
| Energy intensity | kgoe / € | 0.78 | 0.66 | 0.61 | 0.58 | 0.58 | 0.58 |
| Carbon intensity | kg / € | 2.96 | 2.44 | 2.22 | 2.00 | 1.99 | n.a. |
| Resource intensity (reciprocal of resource productivity) | kg / € | 6.05 | 6.96 | 8.34 | 7.01 | n.a. | n.a. |
| Waste intensity | kg / € | n.a. | n.a. | 2.86 | n.a. | 3.59 | n.a. |
| Energy balance of trade | % GDP | -2.6% | -2.6% | -2.9% | -1.6% | -2.2% | -2.7% |
| Energy weight in HICP | % | n.a. | 19 | 18 | 17 | 17 | 18 |
| Difference between change energy price and inflation | % | n.a. | 2.8 | 1.3 | -0.5 | -2 | 1 |
| Environmental taxes over labour taxes | ratio | 19.1% | 17.8% | 15.5% | 16.1% | 18.6% | n.a. |
| Environmental taxes over total taxes | ratio | 7.8% | 7.2% | 6.4% | 7.1% | 7.7% | n.a. |
| ***Sectoral*** | | | | | | | |
| Industry energy intensity | kgoe / € | 0.54 | 0.42 | 0.40 | 0.29 | 0.29 | n.a. |
| Share of energy-intensive industries in the economy | % GDP | 10.9 | 10.3 | 9.8 | 27.2 | n.a. | n.a. |
| Electricity prices for medium-sized industrial users** | € / kWh | n.a. | 0.09 | 0.09 | 0.08 | 0.08 | 0.08 |
| Gas prices for medium-sized industrial users*** | € / kWh | n.a. | 0.03 | 0.03 | 0.02 | 0.02 | 0.02 |
| Public R&D for energy | % GDP | n.a. | 0.03% | 0.03% | 0.02% | 0.01% | 0.02% |
| Public R&D for the environment | % GDP | n.a. | 0.01% | 0.02% | 0.02% | 0.03% | 0.02% |
| Recycling rate of municipal waste | ratio | 1.1% | 0.4% | 0.9% | 1.1% | 1.1% | n.a. |
| Share of GHG emissions covered by ETS* | % | n.a. | 47.0% | 44.4% | 40.0% | 39.8% | 41.5% |
| Transport energy intensity | kgoe / € | n.a. | 0.51 | 0.55 | 0.62 | n.a. | n.a. |
| Transport carbon intensity | kg / € | n.a. | 1.49 | 1.62 | 1.81 | n.a. | n.a. |
| **Security of energy supply** | | | | | | | |
| Energy import dependency | % | n.a. | 31.5% | 27.7% | 20.2% | 21.7% | 21.3% |
| Diversification of oil import sources | HHI | n.a. | 0.30 | 0.36 | 0.34 | 0.27 | n.a. |
| Diversification of energy mix | HHI | n.a. | 0.25 | 0.24 | 0.23 | 0.23 | 0.23 |
| Share renewable energy in energy mix | % | n.a. | 11.7% | 13.2% | 14.8% | 16.4% | 13.9% |

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
*Provisional figures provided by DG CLIMA. Final figures will be available on 15/04.
** For 2007 average of S1 & S2 for DE, LU, NL, FI, SE & UK. Other countries only have S2.
*** For 2007 average of S1 & S2 for IT, NL, FI, SE & UK. Other countries only have S2.