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Recommendation for a

COUNCIL RECOMMENDATION

on the 2019 National Reform Programme of Romania and delivering a Council opinion on the 2019 Convergence Programme of Romania

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 9(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 21 November 2018, the Commission adopted the Annual Growth Survey, marking the start of the 2019 European Semester for economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The priorities of the Annual Growth Survey were endorsed by the European Council on 21 March 2019. On 21 November 2018, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it identified Romania as one of the Member States for which an in-depth review would be carried out.

(2) The 2019 country report for Romania[3] was published on 27 February 2019. It assessed Romania’s progress in addressing the country specific recommendations adopted by

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.
[3] SWD(2019) 1022 final.

the Council on 13 July 2018, the follow-up given to the recommendations adopted in previous years and Romania's progress towards its national Europe 2020 targets. It also included an in-depth review under Article 5 of Regulation (EU) No 1176/2011, the results of which were also published on 27 February 2019[4]. The Commission's analysis led it to conclude that Romania is experiencing macroeconomic imbalances. In particular, vulnerabilities are linked to diminishing cost competitiveness and a widening current account deficit in a context of an expansionary fiscal policy and an unpredictable business environment. Recent legislative initiatives create risks for the functioning of the financial sector and may harm private investment.

(3) On 9 May 2019, Romania submitted its 2019 National Reform Programme and, on 8 May 2019, its 2019 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(4) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds ('ESI Funds') for the 2014-2020 period. As provided for in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council[5], where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of that provision in guidelines on the application of the measures linking the effectiveness of the ESI Funds to sound economic governance[6].

(5) Romania is currently in the preventive arm of the Stability and Growth Pact. In its 2019 Convergence Programme, the government plans a headline deficit of 2.8% of GDP in 2019, and its gradual reduction thereafter, to 2.0% of GDP in 2022. Based on the recalculated structural balance[7], the medium-term budgetary objective, set at a structural deficit of 1% of GDP, is not planned to be achieved over the programme horizon. According to the Convergence Programme, the general government debt-to-GDP ratio is expected to remain below 40% by 2022. The macroeconomic scenario underpinning those budgetary projections is favourable. Moreover, the measures needed to support the planned deficit targets have not been sufficiently specified.

(6) On 22 June 2018, the Council decided in accordance with Article 121(4) of the Treaty on the Functioning of the European Union ('TFEU') that a significant observed deviation from the medium-term budgetary objective occurred in Romania in 2017. In view of the established significant deviation, on 22 June 2018 the Council recommended Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure[8] does not exceed 3.3% in 2018 and

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4 COM(2019) 150 final.

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

6 COM(2014) 494 final.

7 Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

8 Net primary government expenditure comprises total government expenditure excluding interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure. Nationally financed gross fixed capital formation is smoothed over a 4-year period. Discretionary revenue measures or revenue increases

5.1% in 2019, corresponding to an annual structural adjustment of 0.8% of GDP in each year. On 4 December 2018, the Council found that Romania had not taken effective action in response to the Council recommendation of 22 June 2018 and issued a revised recommendation. In the new recommendation the Council asked Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 4.5% in 2019, corresponding to an annual structural adjustment of 1.0% of GDP. On XX June 2019, the Council found that Romania had not taken effective action in response to the Council recommendation of 4 December 2018. Moreover, based on 2018 outturn data Romania was found to be in significant deviation from the recommended adjustment in 2018.In line with Article 121(4) TFEU and Article 10(2) of Regulation (EC) No 1466/97, the Commission issued a warning to Romania on 5 June 2019 that a significant deviation from the adjustment path toward the medium-term budgetary objective was observed in 2018. On XX June 2019, the Council adopted a subsequent Recommendation confirming the need for Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 4.5% in 2019, corresponding to an annual structural adjustment of 1.0% of GDP. Based on the Commission 2019 spring forecast, there is a risk of a deviation from that recommendation in 2019.

(7) For 2020, the Council on XX June 2019 recommended Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 5.1%, corresponding to an annual structural adjustment of 0.75% of GDP. Based on the Commission 2019 spring forecast under unchanged policies, there is a risk of a deviation from that requirement in 2020. In addition, the Commission 2019 spring forecast projected a general government deficit above the 3%-of-GDP Treaty reference value in 2019 and in 2020. Overall, the Council is of the opinion that significant further measures will be needed as of 2019 to comply with the provisions of the Stability and Growth Pact, in light of a strongly deteriorating fiscal outlook, in line with the recommendation addressed to Romania on XX June 2019 with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective.

(8) Romania's budgetary planning regularly ignores the provisions of the national fiscal framework. The national structural deficit rule requires compliance with or convergence to the medium-term budgetary objective of a structural deficit not exceeding 1% of GDP. In 2016 Romania departed from the medium-term budgetary objective and is on a divergent path since, in breach of the national deficit rule. The two 2018 budget amendments adopted in autumn 2018, departed once again from several auxiliary rules prohibiting increases in deficit and expenditure ceilings during the ongoing fiscal year. The 2019 budget, adopted by the government in February 2019 and approved by the Parliament in March, again departed from multiple fiscal rules, including the structural deficit rule. Moreover, as in previous years, the authorities did not send an update of the medium-term fiscal strategy to Parliament by the statutory August deadline, thereby undermining its guiding role. Also, as in previous years, the authorities did not comply with the requirement to sign a statement that the 2019 budget and the fiscal strategy respect the fiscal rules and principles of fiscal responsibility.

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mandated by law are factored in. One-off measures on both the revenue and expenditure sides are netted out.

(9) Tax compliance remains low. As regards Value Added Tax, the difference between theoretically expected and actually collected revenues remains very high. The large informal economy represents an additional challenge for tax compliance, while the high levels of undeclared work deprive the state budget of significant resources. Furthermore, the prevalence of cash payments facilitates tax evasion. In the past year, Romania achieved limited progress in addressing the repeated country-specific recommendation to strengthen tax compliance and collection. The introduction of electronic cash registers connected to the tax administration's IT system is progressing rather slowly. The tax administration is taking steps to set up a risk assessment system for auditing taxpayers.

(10) After several years of continued efforts to consolidate the financial sector, financial stability was again strained in 2018 by a set of government and parliamentary legislative initiatives. The tax on banks' assets adopted by the government via an emergency ordinance at the end of December 2018, without impact assessment or stakeholder consultation, raised a number of serious concerns related to its negative impact on banks' prudential situation, the conduct of monetary policy and ultimately investment and economic growth. The manner of its adoption and its provisions have had a significant adverse effect on the exchange rate, the government's ability to borrow on the market and ultimately on stakeholders' perception of operational risks. While some controversial aspects of the tax were amended in March 2019, the changes were again adopted via a government emergency ordinance and without an impact assessment. The most challenging aspects of the bank tax on total assets were removed. However, under the new formulation the tax may distort credit incentives, which could result in a misallocation of credit to the economy. The potential implications of these changes for monetary policy transmission should be assessed. Several legislative initiatives adopted by Parliament at the end of 2018, although declared unconstitutional by the Constitutional Court in March 2019, have put additional strain on the banking sector and reinforced the overall perception of an unpredictable legal framework. Past experience shows that such initiatives could be put forward again by the legislature.

(11) The new pension law, adopted by Parliament in December 2018, is likely to pose risks to the sustainability of public finances. The pension point, i.e. the main parameter used for pension indexation, is set to increase by 15% in September 2019 and by 40% in September 2020. The pension law would change several parameters used to calculate pension benefits. In particular, the pension point value is set to rise, as the indexation factor for existing pensions would no longer converge towards prices but would instead remain permanently composed of wages and prices. Moreover, the contributory period used to calculate a person's pension will be shortened, leading to higher pension expenditure for new pensions. On the other hand, the abolishment of the correction index for new pensions (which used to partly link the first pension to wages) will mitigate the overall pension expenditure increase caused by the other parameters. Some structural challenges that affect pension adequacy remain unaddressed. The effective average retirement age is close to the EU average, but is not equal between women and men. Coupled with shorter contributory periods for women, this results in a considerable pension gender gap.

(12) The reform of the pension system introduced in 2008 has been gradually rolled back. After repeated postponements of the scheduled increases in contributions to the second pillar pension funds, which should have reached 6% of gross wages by 2016, contributions were reduced to 3.75% of gross wages as of 2018. Second pillar pension

funds were further weakened by a set of measures adopted by the government via an emergency ordinance at the end of 2018. Contributions to these funds were made optional after a minimum contributory period of five years. The minimum capital requirements for second pension pillar fund management companies were increased significantly, triggering a risk of exits by fund management companies from the Romanian market. The administrative fees levied on gross contributions were also significantly cut, thus potentially affecting the financial results of fund management companies and increasing the likelihood of market exits. This could have negative implications for the development of the local capital market and the pool of institutional investors, as well as depriving the economy of a much needed source of long term investment. Furthermore, the weakening or undoing of the second pillar will result in less diversified retirement income and expose pensions to higher political and demographic risks. In March 2019, via an emergency ordinance, the government maintained the new minimum capital requirements for fund management companies, but postponed to December 2019 the deadline to pay the entire additional capital. Other provisions in the December 2018 emergency ordinance that endanger the viability of second pension pillar funds remain unchanged.

(13) Challenges linked to the quality and inclusiveness of the education and training system have a negative impact on Romania’s inclusive growth potential. Spending on education remains one of the lowest in the EU, particularly at levels of education that are key to preventing early school leaving (which remains high), ensuring equal opportunities and tackling inequalities later in life. Participation in quality early education and care remains below the EU average, including due to lack of facilities. This has implications for labour market participation of women as well as the early acquisition of skills. Modernisation of the school network and optimisation to address demographic trends is lagging behind, with 10 % of schools being overcrowded, while 58 % have excess capacities. The acquisition of basic and digital skills faces significant challenges. Teachers' abilities to apply a learner-centred approach are not sufficiently developed. Rural-urban disparities persist and vulnerable groups, including the Roma, continue to have limited access to high-quality, inclusive education.

(14) The labour market has been under increasing pressure, as the unemployment rate (4.2% in 2018) is very low, while the labour force is declining and skills shortages persist. Women's activity rate, particularly for the young and middle-aged, is low. This is mainly due to personal and family responsibilities and the low participation of children aged 0-3 in formal childcare. Active labour market policies provide a limited response to labour market needs, with measures focused mainly on financial incentives rather than on tailor-made and comprehensive approaches. The delay of the planned reform for the public employment service remains an important barrier for modernised service-delivery to employers and the unemployed. Upskilling and integrated services delivery is also weak. Skills are not evolving in line with the needs of expanding economic sectors, with 81% of employers having difficulties filling job vacancies. The ICT sector is growing, while the number of Romanians aged 20-29 holding a degree in science, technology, engineering or maths fell between 2014 and 2016. At present there is no a global or sector-level assessment of skills needs and the forecasting of skills remains unused, hampering the adaptation of the education and training system to labour market needs. The roll-out of dual vocational education and training to address skills shortages has started. However, vocational education and training is still considered a second-rate option by students and parents and the relatively low employment rate for recent vocational education and training graduates indicates that

labour market relevance is a challenge. Higher education is not sufficiently aligned with the labour market. Although tertiary educational attainment has doubled over the decade, it remains low.

(15) Despite recent improvements, poverty and income inequality remain high, and regional disparities are deepening. One in three Romanians is still at risk of poverty and social exclusion, with particular groups such as children, the Roma, people with disabilities and the elderly being more affected. Social services have insufficient quality and coverage, and uneven geographical distribution, not correlated with communities' specific needs. Only around 20% of administrative territorial units have licensed social services. Services are usually concentrated around richer or urban areas, while needs are more pressing in poorer, rural areas and regions. The limited integration of employment, education, health and social services does not allow for the sustainable inclusion of various disadvantaged groups. People with disabilities are given only limited support for independent living and accessing employment. The situation of the Roma community shows very little progress. Housing deprivation is the highest in the EU and is detrimental to social inclusion. Housing policies are being decentralised without a strategic framework, and poor communities often lack financial resources. The social reference index used as a basis for most social benefits has not been updated since 2008 and has also depreciated considerably in relation to the minimum wage. As a result, poverty rates for people with low and very low work intensity have increased by half since 2010. Furthermore, social security for atypical workers is inadequate. One in three atypical workers is at risk of severe material deprivation. Daily and seasonal workers do not have formal access to social security rights covering unemployment, maternity leave, accidents and occupational injuries. The implementation of the minimum inclusion income reform initiated in 2016, which would increase the coverage and adequacy of social assistance, was further postponed to 2021.

(16) Social dialogue is characterised by low collective agreement coverage, in particular at sectoral level, also due to the current definition of sectors. The authorities have initiated plans to revise the definitions of economic sectors but no agreement has yet been reached. Beyond the collective bargaining framework, the timely and meaningful involvement of social partners on policy issues and reforms is limited. Most social dialogue takes place formally, within the Economic and Social Council and the Social Dialogue Committees. However, despite the established framework of dialogue and consultations, the stability and the role of these institutions has weakened over the last year.

(17) After years of moderate wage growth, Romania is experiencing one of the fastest rates of wage growth in the EU. This is driven by government policies increasing public and minimum wages, record low unemployment rate and structural labour supply shortages. The minimum wage continues to be set in a non-systematic manner, without an objective mechanism. Consecutive increases over the years resulted in one in three employees earning the minimum wage in 2017, a rate almost four times higher than in 2011.

(18) The healthcare system faces many challenges. Low funding, inefficient use of public resources and the lack of reform limit the effectiveness of the health system. Continued emigration has resulted in a sizeable shortage of doctors and nurses. Health infrastructure and the prevalence of informal payments remain sources of concern. Access to healthcare services for those living in rural areas and vulnerable groups is limited. These factors in turn have a negative impact on the people's health which

remains below the EU average, despite recent improvements. Improvements in community care are much needed but are delayed. The pilot project for setting up community care centres has started with a delay, impacting the roll-out of integrated care services. The long-term care sector is not ready to deal with a rapidly ageing population. There are very few at-home and day-care services, mainly concentrated in areas with higher income. Coverage and public spending on long-term care are among the lowest in EU and access to long-term care, rehabilitation and palliative care is poor.

(19) The quality of infrastructure, including in the transport, energy, waste and wastewater sectors remains poor and limits Romania's growth prospects. Despite significant public investment after Romania joined the EU, its physical infrastructure remains underdeveloped. The general condition and reliability of the road and rail networks are very poor. The infrastructure is not keeping up with the traffic demand generated by an expanding economy. The road network is among the least developed in the EU and the reform of the railway sector is lagging behind. Greenhouse gas emissions from road transport have increased strongly over the last five years. Moreover, heavy underinvestment in maintenance has reduced train speed and affected delivery times of rail freight transport. Urban transport suffers from chronic under-financing, poor sector organisation and the weak administrative capacity of local providers. In addition, energy, waste, water and wastewater infrastructure and energy interconnections continue to show deficiencies. The waste management system continues to be characterised by very low recycling of municipal waste and very high landfill rates. Challenges remain to achieve the energy efficiency target, in particular there is still a wide margin to improve energy efficiency in buildings.

(20) Romania's overall innovative capacity remains low and its future competitiveness is challenged by the large productivity and innovation gap between foreign-owned and domestic firms. Romania's investment in research and development is the lowest in the EU (0.5% of GDP) and public research and development expenditure further declined from 0.32% of GDP in 2011 to 0.21% of GDP in 2017, impeding any capacity building. As a consequence, the quality of the public science base remains very low and science-business links underdeveloped. As the number of tertiary graduates in science, technology, engineering and mathematics has also further declined, skills shortages pose a great challenge to the innovative potential of the Romanian economy. Digitalisation is a key challenge if Romanian innovation and competitiveness are to improve. Romania scores poorly on many components of the Digital Economy and Social Index, including digital public services, digital skills of the overall population and digitalisation of businesses.

(21) Romania achieved limited progress in addressing a country specific recommendation to strengthen project prioritisation and preparation in public investment. The Ministry of Finance is in charge of preparing a priority list of public investment projects above RON 100 million (EUR 21 million) and monitoring their implementation but the projects are managed by the line ministries. The list of priority projects currently includes approximately 130 projects, mostly in the transport area. Most of these priority projects could be co-financed by the EU funds. The uptake of EU funds is held back by factors like limited administrative capacity to prepare, prioritise and implement large investment projects. Even though recently large infrastructure projects are being prepared and sent to the European Commission for approval, some important projects such as the Sibiu-Pitești motorway (ensuring the connectivity with the TEN-T Rhine-Danube and Orient-East Mediterranean corridors) are still missing

and implementation in general continues to lag behind. Moreover, EU funds absorption has so far been driven by projects prepared for the previous programming period whereas a pipeline of new projects for the current period is yet to be fully developed.

(22) Efficient public procurement is key to achieving important policy objectives in Romania, including efficient public spending, the modernisation of public administration and promoting innovation, sustainable and inclusive growth. Romania has made limited progress in addressing the country-specific recommendation to improve the transparency of public procurement. The efficiency of public procurement continues to be an issue, while the irreversibility of certain measures, notably the streamlining of the ex-ante control, is at stake. The national public procurement strategy stresses the importance of a unitary ex-ante control performed by the National Agency for Public Procurement. Recurrent legislative initiatives risk undermining the achievement of the objectives in the strategy. The predictability and stability of the public procurement legislation remain important challenges and the national public procurement strategy is not fully implemented.

(23) The conduct of public policy making has become increasingly unpredictable, weighing on the business environment. A recent example is the adoption through government emergency ordinance of a set of far-reaching measures affecting the functioning of the banking sector, the second pension pillar fund managers, energy and telecommunication companies, without stakeholder consultation or impact assessment. Regulatory impact assessments remain a formality, while their quality and actual use vary substantially across sectors. There is only limited quality control of regulatory impact assessments and policy design. There is no sustainable policy monitoring mechanism with a transparent reporting system and ex-post evaluations. Important legislative initiatives are often announced just before adoption. The involvement of stakeholders in designing and implementing reforms is weak, and genuine dialogue rarely exists, although the institutional structures for it are available. Cumbersome administrative procedures particularly affect small and medium-sized businesses. For example, burdensome administrative procedures for setting up businesses as well as regulatory requirements imposed on services providers, including regulated professions, impede further market development. The adoption of relevant legislation on human resource management in public administration is still delayed. High fragmentation of responsibilities and resources affects the consistency and availability of public services provided, especially at local level. National and regional strategies for different public services are not well translated into integrated measures at regional and local level. Funding of public services is uneven across the country and often does not correspond to local needs. Factors like a unified strategic approach per type of service, existing gaps and needs to develop new services are overlooked. Local authorities' revenues lack stability and predictability. Limited action has been taken to improve the balance between responsibilities to be decentralised and the allocation of financial resources to allow local authorities to deliver quality services. Additional actions are needed to increase administrative capacity at local level.

(24) State-owned enterprises have a key role in critical infrastructure sectors such as energy and rail transport. Their economic and financial performance has recently improved, on the back of a favourable macroeconomic environment. However, transparency and disclosure of financial and operational results have not improved and corporate governance rules continue to be only sparsely applied. Specific examples include the repeated appointment of interim boards, departing from the spirit of the law, and the

non-use of enforcement tools available under the legislation for non-compliant companies. Risks that the legislation on state-owned enterprises could be substantially weakened have not abated. This amounts to a reversal of progress made on country-specific recommendations from 2015 and 2016. As a result, key conditions for promoting the efficient use of public resources are being impaired, and space is allowed for distorted investment decisions. The transfer of the ownership of several of the larger state-owned enterprises to the new Sovereign Development and Investment Fund will require a thorough implementation of strong corporate governance rules both for the Fund and the companies in its portfolio.

(25) Developments throughout the past year have raised concerns with regard to the rule of law and strengthened previous serious concerns regarding the irreversibility and sustainability of Romania's earlier progress on reforming its judicial system and tackling high-level corruption. These issues are the subject of monitoring under the Cooperation and Verification Mechanism. Amendments to three justice laws are now in force and contain a number of measures weakening the legal guarantees for judicial independence. These are likely to undermine both the effectiveness of daily work by judges and prosecutors and public confidence in the judiciary. Pressure is being put on judicial institutions and on individual magistrates, including by setting up a specialised prosecution section for crimes allegedly committed by magistrates. Ongoing steps to amend the criminal code and the criminal procedure code would have a negative impact on the effectiveness of criminal investigations and trials and also reduce the scope of corruption as an offence. Further concerns relate to the processes for dismissing and appointing high-level magistrates. Recent announcements suggest that measures related to the reform of the justice system may be reconsidered.

(26) Under the Cooperation and Verification Mechanism, the Commission continues to monitor the judicial reform and the fight against corruption in Romania. These areas are therefore not covered in the country-specific recommendations for Romania, but are relevant for developing a positive socio-economic environment in the country.

(27) The programming of EU funds for the period 2021-2027 could help address some of the gaps identified in the recommendations, in particular in the areas covered by Annex D to the country report[9]. This would allow Romania to make the best use of those funds in respect of the identified sectors, taking into account regional disparities. Strengthening the country's administrative capacity for the management of these funds is an important factor for the success of this investment.

(28) In the context of the 2019 European Semester, the Commission has carried out a comprehensive analysis of Romania's economic policy and published it in the 2019 country report. It has also assessed the 2019 Convergence Programme and the 2019 National Reform Programme and the follow-up given to the recommendations addressed to Romania in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Romania, but also their compliance with Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.

(29) In the light of this assessment, the Council has examined the 2019 Convergence Programme and its opinion[10] is reflected in particular in recommendation (1) below.

[9] SWD(2019) 1022 final.

[10] Under Article 5(2) of Council Regulation (EC) No 1466/97.

(30) In the light of the Commission's in-depth review and this assessment, the Council has examined the 2019 National Reform Programme and the 2019 Convergence Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1), (2) and (4), (5) below. Fiscal policies referred to in recommendation (1) contribute inter-alia to address imbalances linked to competitiveness and the external position.

HEREBY RECOMMENDS that Romania take action in 2019 and 2020 to:

1. Ensure compliance with the Council recommendation of XX June 2019 with a view to correcting the significant deviation from the adjustment path toward the medium-term budgetary objective. Ensure the full application of the fiscal framework. Strengthen tax compliance and collection.

2. Safeguard financial stability and the robustness of the banking sector. Ensure the sustainability of the public pension system and the long-term viability of the second pillar pension funds.

3. Improve the quality and inclusiveness of education, in particular for Roma and other disadvantaged groups. Improve skills, including digital, notably by increasing the labour market relevance of vocational education and training and higher education. Increase the coverage and quality of social services and complete the minimum inclusion income reform. Improve the functioning of social dialogue. Ensure minimum wage setting based on objective criteria, consistent with job creation and competitiveness. Improve access to and cost-efficiency of healthcare, including through the shift to outpatient care.

4. Focus investment-related economic policy on transport, notably on its sustainability, low carbon energy and energy efficiency, environmental infrastructure as well as innovation, taking into account regional disparities. Improve preparation and prioritisation of large projects and accelerate their implementation. Improve the efficiency of public procurement and ensure full and sustainable implementation of the national public procurement strategy.

5. Ensure that legislative initiatives do not undermine legal certainty by improving the quality and predictability of decision-making, including by appropriate stakeholder consultations, effective impact assessments and streamlined administrative procedures. Strengthen the corporate governance of state-owned enterprises.

Done at Brussels,

For the Council
The President