



# Weekly Briefing

**Romania economy briefing:  
National Recovery and Resilience Plan in Romania**  
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## **National Recovery and Resilience Plan in Romania**

*The list of investment projects on Romania's National Recovery and Resilience Plan (NRRP) is built on six major pillars, targeting development in the energy, transport, public administration fields, improvements in health, tourism and culture sectors and having a large component of digital transformation. A series of important reforms are also envisaged, the most significant ones being that of pensions and fiscal policy. The Plan was not yet approved by the European Commission (EC), but despite the political crisis in Romania, it is envisaged to be endorsed by the end of September. The economic stimulus packages within the EU Recovery Fund would bring an additional boost to Romania's GDP of 2.9% by 2026, according to the Erste Group forecast.*

Romania has submitted, on May 31<sup>st</sup>, the plan of investments and spending designed to help Member States recover from the pandemic through the EU Next Generation Fund. Romania requests EUR 14.3 billion in grants and EUR 15 billion in loans, therefore a total of EUR 29.3 billion, meaning all the loans from the resilience mechanism. The general objective of Romania's NRRP is the development through essential programs and projects that support resilience, improve the level of preparedness for crisis situations, and the adaptability and growth potential, through major reforms and key investments with funds from the Recovery Mechanism and Resilience. Romania's NRRP is structured on 15 components covering 6 pillars: Green transition, Digital transformation, Smart, sustainable and inclusive growth, Social and territorial cohesion, Health, as well as economic, social and institutional resilience, and Policies for the new generation.

The first pillar, Green transition, includes reforms and investments in green technologies and capacities, such as biodiversity, energy efficiency, building renovation and the circular economy, while contributing to the Union's climate goals, promoting sustainable growth, creating jobs and maintaining energy security. There are six components here, each of them with its own series of reforms: water management system, reforestation and protection of biodiversity, waste management, sustainable transport, funds for the renovation of public, residential and heritage buildings, energy.

The second pillar is focused on digital transformation and aims at interventions that contribute to the development of specific digital skills for civil servants in particular and of the

workforce in general. One of the major reforms is the development and implementation of a unitary framework for defining the architecture of a government cloud system, the main services delivered by it, its infrastructure and governance components, including the design, implementation and operation of this type of system. The aim is to allow the interconnection of digital systems from public administration through a standardized approach and to deliver high quality digital services to citizens, companies and other public authorities.

The reforms and investments under the third pillar, Smart, sustainable and inclusive growth, are aimed at strengthening growth potential and enabling a sustainable recovery. They are also intended to promote entrepreneurship, the social economy, the development of sustainable infrastructure and transport, and to mitigate the effect of the crisis caused by COVID-19 on the economy. Romania's main challenges in a broad macroeconomic context are related to the tax administration system, especially its ability to manage the relationship with taxpayers; the pension system, which is closely linked to the issue of low budgetary resources and scarce labour; the relationship with the business environment and the need to increase the efficiency of the support that can come from public resources and European funds. Therefore, the two components under this pillar target, on one hand, fiscal reforms and pension reform and, on the other hand, providing support for the private sector, research, development and innovation.

The fourth pillar contributes to the fight against poverty and unemployment. Romania confronts major problems in terms of local development, since following the pandemic, local administrative units saw a significant decrease in their revenues. This situation leads to a major reduction in investment in areas such as education, health and local infrastructure. The reforms under this pillar target the construction of social housing, improvement in local transportation, development of green transportation. In addition, special measures were designed for enhancing tourism and the digital transition of the cultural and creative sectors.

The fifth pillar is focused on improving the health system, in what concerns raising the standards of care in hospital units, a better management of public health funds and the reform of health management and human resources in this domain. Moreover, another set of measures is dedicated to fighting against poverty, by creating a new legal framework to provide appropriate solutions to support families with children living in poverty, while providing more chances for employment or reforming the protection system for adults with disabilities. In this context, a significant reform of the system of recruitment and promotion of civil servants is also envisaged. In addition, the reform of state-owned companies will also be enforced, having a strategic importance.

The last pillar deals with the education system in Romania, which faces many difficulties related to quality, equity and infrastructure. Under the name „Policies for the new generation”, the reforms focused on education aim to: develop of a system of early education services for children from birth to 6 years that ensures high rates of access and participation, reform the compulsory education system by increasing the autonomy of educational units to prevent and reduce school dropout, establish a complete professional route and adopt the legislative framework for the digitalization of education.

The final draft of the Plan is based on several major reforms, the most important ones being those of the *pensions system*, which aims to provide an adequate level of revenues for those on low incomes and ensure the sustainability of the pension system in the medium and long term; *the fiscal policy reform*, targeting measures to increase budget revenues from taxes, optimize spending and sustainability of the fiscal framework; the revision of the legislative framework to improve corporate governance, effective monitoring and performance-focused control in *state-owned companies*; *the remuneration in public administration*, in order to avoid possible sudden increases in salary expenditures; *the public administration reform* that will build a new system for access to public office and an improved promotion system, including for management positions. In *Justice*, changing several laws for strengthening the anti-corruption framework is envisaged. In addition, *renewable energy* is enhanced by promoting the phasing out of coal from the energy mix, while supporting the production of hydrogen and batteries. The creation and operationalization of a *National Development Bank* is also on the list of the major projects.

However, although several countries in the EU have seen their plan approved, it was not the case yet for Romania. The EU gives priority to the post-pandemic green economic recovery, requiring countries to allocate at least 37% of spending to fight climate change. Although Romania’s program includes environmental issues, such as plans to improve transportation sustainability and building renovations, some have criticized them as they do not go far enough in terms of investing in renewable energy sources. Therefore, Romania has requested an extension of the evaluation period. Other officials also invoked additional information required by the EC experts to explain this postponement, other accused the fact that some projects missed the needed feasibility studies. In addition, there were negotiation on several topics that were considered essential for Romania, such as transport and gas infrastructure or tourism and culture, on the background of high reticence from the EC in supporting investments in these areas.

The final administrative steps are to be completed by 16 September, but no further interventions or postponements can be made on the current form of the document from

European officials. The only delay may be caused by possible changes required by Romania's representatives, more precisely, if the Romanian politicians will consider that they have something to add or modify. The actual political crisis in Romania, which led to the dismissal of the Minister of European Funds and of other ministers, raised concerns that such changes will be involved or that the schedule for the completion of NRRP legal documents will not be respected. However, it is not the case. Sources from the Ministry of European Funds indicate that the NRRP approval will be finalized by the end of this month, most likely before the visit of the President of the European Commission, Ursula von der Leyen, to Bucharest. The visit is scheduled for the 24<sup>th</sup> of September and was used in all EU countries on the occasion of the adoption of the NRRP. After the Plan is adopted by the European Council in October, a first tranche of EUR 1.82 billion is expected.

The funds allocated for Romania are seen as a real opportunity for development. Representatives from the Ministry of European Funds see it as an additional programming period to the one for 2021-2027, with large sums allocated to digitalization and digital transformation. The economic stimulus packages within the EU Recovery Fund would bring an additional boost to Romania's GDP of 2.9% by 2026, the most consistent in Central and Eastern Europe, according to the Erste Group forecast.