May 2021

Flagship reforms of the Romanian Recovery and Resilience Plan

CONCEPT PAPER

The current Romanian Government in place since December 2020 has a very reformist agenda. It aims to implement a wide range of reforms embedded in the political guidelines agreed within the coalition. It also plans to reverse some of the damaging public policies undertaken between 2016 and 2019. The government wants to put Romania back on a credible fiscal sustainability track, while ensuring a swift economic recovery following the pandemic and resume its fast convergence.

OBJECTIVES

By 2024, the Romanian Government aims to deliver on the following objectives:

a) Ensuring an annual economic growth significantly above the EU and Euro area averages, in order to speed up the economic convergence process that somewhat stalled during the pandemic.
b) Reducing significantly the twin deficits to allow a quick exit from the Excessive Deficit Procedure by 2024, while keeping the debt growth in check.
c) Bringing back the economy on a sustainable fiscal path in the medium and long term.
d) Reducing the bond yields more in line with the regional peers and improving Romania's credit ratings.
e) Ensuring social cohesion, by reducing poverty and social exclusion.
f) Ensuring a just territorial cohesion, by linking all historical regions to Bucharest and Western Europe.
g) Further reducing corruption and its impact on the business environment.
h) Improving the quality and efficiency of the public administration.
i) Ensuring a fair transition to carbon neutrality by gradually decarbonising the economy.

POLITICAL AIMS

All these objectives will bring Romania closer to the following political aims:

a) Bringing Romania closer to the admission into the Exchange Rate Mechanism (ERM II) and the Banking Union that would lead to an eventual admission into the Euro area around 2030, if the convergence process allows it.
b) Admitting Romania in the Schengen Area, a long-delayed process, with a positive impact on trade and the freedom of movement.
c) Advancing Romania's candidacy for OECD membership.

ENVISAGED REFORMS

The objectives will be backed by some very concrete reforms that will be included in the Recovery and Resilience Plan. Most of them will be implemented between 2021 and 2024, during the mandate of the current Parliament. These are structural reforms that Romania has delayed for too long.

a) **Pensions** - a major reform that ensures adequacy for the low earners but also medium- and long-term fiscal sustainability for the system.
b) **Fiscal policy** - adoption of measures to increase tax revenues, optimise expenditures and ensure the application of the fiscal framework.
c) **State-owned enterprises** - revision of the SOEs framework to improve the corporate governance and to ensure strict adherence to these rules, effective monitoring and control with a focus on accountability and performance.
d) **Public wages** - revision of the system to limit further hikes of the wage bill.
e) **National promotional bank** - creation and operationalisation of the bank, followed by a pillar assessment.
f) **Public administration** - a new system of admittance into the public service and an improved promotion system, including for the management positions.
g) **Justice** - modification of the justice laws and strengthening the anti-corruption framework.
h) **Decarbonisation of transport** - introduction of green taxation principles, a new system of road pricing and promotion of zero emissions transport.
i) **Renewable energy** - promotion of the coal phase-out, support for the production of hydrogen and batteries and a reform of the electricity market.
j) **Further sectoral reforms in various other fields:**
    i) Adoption of the minimum inclusion income reform
    ii) Promotion of primary care at the expense of hospital care.
    iii) Reduction of illegal logging in the Romanian forests.
    iv) Increase in recycling rates.
    v) Adoption of objective criteria for setting the minimum wage.
    vi) Increased social dialogue.
    vii) Improved quality and predictability of decision-making.
    viii) Improved local governance.
    ix) Improved public procurement framework.

PRIME MINISTER	**DEPUTY PM**	**MINISTER**
Florin CÎȚU	**Dan BARNA**	**Cristian GHINEA**

Proposed reform	*Revision of the pension system*
Location in RRP	Component III.1 Fiscal and pension reforms
Responsible institution(s)	Ministry of Labour and Social Protection, National House of Public Pensions, Ministry of Finance, Financial Supervisory Authority (only for the second pillar provisions)
Final milestone	Adoption of a new bill on public pensions to be submitted to the Parliament for approval to revise the current legislation and retract the provisions of the Law no. 127/2019
Year of adoption	The latest in 2021 to be submitted to the Parliament for approval
Details of the envisaged reform	● The provisions of Law no. 127/2019 are withdrawn, including those related to the change in the contributory period to a fixed value of 25 years ● Expenditure with pensions is kept at similar levels - no ad-hoc increase in pensions in the short- to medium-term are longer envisaged ● Increased equity adequacy for minimum pension recipients through targeted pension increases to allow them to go above the poverty line ● New fiscal incentives to extend the working life beyond the normal retirement age are introduced ● Special pensions are streamlined to the degree allowed by the Constitution ● A new system based on a stable pension benefit formula and an automatic indexation of pensions are introduced, while the correction index is eliminated ● Early exit pathways to retirement are eliminated ● Digitisation of all the pension files without increasing the average pension (apart from the changes generated by the increased equity adequacy for minimum pension recipients) ● Retirement age linked with the gains in life expectancy for both men and women by 2035 the latest ● Improved sustainability for the second pillar by reverting back to some of the earlier provisions, digitising the system and allowing for a more diversified asset allocation to increase investments in the local market
Attached costs	Approx. EUR 100 mil. (subject to adjustment) for hiring temporary staff, purchasing a new IT system to digitise the pension system and technical assistance to prepare the reform

Proposed reform	*Fiscal policy reforms*
Location in RRP	Component III.1 Fiscal and pension reforms
Responsible institution(s)	Ministry of Finance, National Agency for Fiscal Administration (NAFA), National Customs Authority (NCA)
Final milestone	Increase in tax revenues with 0.2 percentage points of GDP Reduction of the VAT gap with 5 percentage points of GDP
Year of adoption	All measures should be adopted by 2024
Details of the envisaged reform	● Adopting modern compliance risk management systems for tax administration ● Improving the administration of the large taxpayer office ● Introducing a more transparent and service-oriented model of revenue administration ● A comprehensive review of the tax system to identify distortions and areas for revenue gains, particularly for the profit tax, income tax and social security contributions (SSC) ● Freezing the number of goods and services subject to VAT reduced rates (9%) and super reduced rates (5%) ● Gradually withdrawing excessive tax incentives, particularly for the profit tax, income tax and SSC ● Revision of property taxation principles, particularly in respect to different taxation regimes of buildings depending on the status of the owner (legal or natural person) ● Introduction of incentives to discourage cash payments, particularly in B2B relations ● Improved cooperation between the fiscal administration and the labour inspectorates to fight the grey economy ● Prioritisation of large investment projects in terms of expenditures ● Implementation of spending reviews in healthcare and education (to be followed by other sectors) ● Promotion of centralised procurement to ensure efficiency gains and savings in terms of public expenditure ● Providing a strengthened role for the Fiscal Council in budgetary decisions ● Introduction of a real multi-annual budgetary process, at least on the expenditure side ● Introduction of green taxation principles in the state budget ● Revision of the fiscal decentralization principles
Attached costs	Approx. EUR 360 mil for investments in digital systems at the level of the Ministry of Finance National Agency for Fiscal Administration and the National Customs Authority

Proposed reform	*Reform of the state-owned enterprises and introduction of corporate governance principles*
Location in RRP	Component III.2 Business support, SOEs and R&D&I
Responsible institution(s)	General Secretariat of the Government (SGG), Ministry of Finance, Ministry of Economy and Entrepreneurship and Tourism, Ministry of Transport, Ministry of Energy, local governments
Final milestones	The new oversight department at the level of SGG becomes operational; all exceptions to Law no. 111/2016 are dropped; all SOEs are audited
Year of adoption	2022 for the legal and organisational changes; 2024 for the audit and restructuring processes
Details of the envisaged reform	● Law no. 111/2016 is fine-tuned and brought up to date to ensure a level-playing field ● All exemptions to Law no. 111/2016 are dropped, requiring all SOEs (including those at the local level) to comply. ● Interim boards can only be permitted in exceptional situations, that are clearly mentioned in the law ● The boards of the SOEs are depoliticised and professionalised accordingly ● A new single oversight task-force is created at the SGG level, under the control of the Prime Minister, by taking over the unit from the Ministry of Finance and being given additional monitoring and coordination responsibilities, as well as appropriate mechanisms to correct policy decisions along the way ● The new task force will be able to decide jointly with the line ministries on the restructuring, listing (including IPOs) or closing of SOEs, based on the economic condition of each one. ● The government will propose a new strategy for the management of SOEs and financial institutions. ● A new system of KPIs will be introduced for the SOE board members, which should also influence their remuneration ● Audit procedures launched for each SOE in a dire situation ● Launch of restructuring plans for certain audited SOEs
Attached costs	Approx. EUR 40 mil. for a de minimis scheme to finance technical assistance for SOEs that need restructuring

Proposed reform	*Reform of public sector wages*
Location in RRP	Component V.3 Public administration, social dialogue and justice
Responsible institution(s)	Ministry of Labour and Social Protection, Ministry of Finance
Final milestone	A new public wages bill is adopted and submitted to the Parliament for approval
Year of adoption	2022
Details of the envisaged reform	● Public expenditure with public wages as a share of GDP is frozen at the level of 2019 (as a maximum threshold) ● Bonuses and allowances are capped and exceptions are not granted ad-hoc ● Performance bonuses are granted on clearly objective criteria defined in the law
Attached costs	Approx. EUR 2 mil. for technical assistance to prepare the bill

Proposed reform	*Creation of the national promotional bank*
Location in RRP	Component III.1 Fiscal and pension reforms
Responsible institution(s)	Ministry of Finance
Final milestone	A fully operational bank ready for pillar assessment
Year of adoption	2023
Details of the envisaged reform	● Adopting all the necessary legislation for operationalisation and getting the approval from DG Competition and authorisation from the National Bank of Romania ● Integration of the other financial institutions of the system (FNGCIMM, FRC, EximBank, potentially others), at least for the guarantee part ● Submitting the dossier of the newly operational bank for pillar assessment to become an implementing partner under the InvestEU programme ● Providing technical assistance to bank, including from IFIs or other national promotional banks ● Launching the first financial instruments
Attached costs	Approx. EUR 10 mil for the IT system of the bank

Proposed reform	*Public administration reforms*
Location in RRP	Component V.3 Public administration, social dialogue and justice
Responsible institution(s)	National Agency of Civil Servants, Ministry of Development, Public Works and Public Administration
Final milestone	A new recruitment and promotion system becomes operational
Year of adoption	2023
Details of the envisaged reform	● Piloting an EPSO-style national recruitment system for the central government in 2022, followed by a national scale application based on lessons learnt, starting in 2023. ● Introduction of a new multi-year planning system for recruitment needs in the public sector ● Introduction of a new recruitment system for the senior civil servant that prohibits the politicisation of the positions ● Introduction of a new promotion system for civil servants ● Introduction of time-limited mandates for the management positions in the public service
Attached costs	Approx. EUR 50 mil (subject to revision) for the IT system

Proposed reform	*Improving justice efficiency*
Location in RRP	Component V.3 Public administration, social dialogue and justice
Responsible institution(s)	Ministry of Justice, Superior Council of Magistracy
Final milestone	Implementation of the measures included in the anti-corruption strategy, revision of the relevant legislation
Year of adoption	2023
Details of the envisaged reform	● A new anti-corruption strategy to increase prevention and provide the adequate tools and resources to the relevant entities ● A significant increase in the value of crime proceeds and confiscated illegal assets ● Revision of the Criminal Code and Criminal Procedure Code ● Improvement of the human resources management in the judicial and developing updated recruitment and promotion processes
Attached costs	Cost-free reforms

Proposed reform	*Decarbonation of transport*
Location in RRP	Component I.4 Transport
Responsible institution(s)	Ministry of Transport, Ministry of Finance, Environmental Fund Administration, Ministry of Energy
Final milestone	Reduction of GHG emissions in transport by 7% in 2026 compared to 2019
Year of adoption	2023
Details of the envisaged reform	● Modification of road pricing policies from a tonnage-based approach to a distance-based approach ● Implementation of green taxation principles ● Disincentivising the registration of cars older than 15 years ● Increase in scrappage schemes for polluting vehicles ● Prolonged fiscal incentives for zero emission vehicles ● Support for expanding the car charging infrastructure
Attached costs	RRP costs are mostly related to the charging infrastructure

Proposed reform	*Promotion of renewable energies*
Location in RRP	Component I.5 Renewable energies
Responsible institution(s)	Ministry of Energy
Final milestone	Reaching a share of 34% in renewable energy by 2030 Coal phase-out by 2032
Year of adoption	2023 (to adopt the targets above)
Details of the envisaged reform	● A large share of the operating mines will be put to safety by 2030 and all will be closed by 2032 ● A new hydrogen strategy will be released and implemented and regulatory barriers will be removed ● Gradual replacement of existing conventional power capacities ● Reform of the electricity market (introduction of CfDs, PPAs, CM; simplifying the licensing and permitting procedures, etc)
Attached costs	Provisional budget of EUR 1.8 bn for the whole component