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European Commission
Directorate-General for Economic and Financial Affairs

In-Depth Review 2024

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This in-depth review presents the main findings of the Commission's staff assessment of macroeconomic vulnerabilities for Romania for the purposes of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances. It provides technical input to the Commission for the Communication "European Semester – 2024 Spring Package" that will set out the Commission's assessment as to the existence of imbalances or excessive imbalances in Romania. That Communication will be published in June 2024. The current version has been presented and discussed with the Member States in the Economic and Political Committee of the Council.

This publication reproduces staff working document SWD(2024) 83 final, that was discussed with Member States in the Economic and Political Committee of the Council on 20 March 2024.

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1. INTRODUCTION

This in-depth review (IDR) analyses the evolution of Romania's vulnerabilities related to large government and external deficits, and possibly newly emerging risks. This year's IDR, which follows the 2024 Alert Mechanism Report (AMR)published in November 2023, assesses the persistence or unwinding of the vulnerabilities identified last year, potential emerging risks, and relevant policy progress and policy options that could be considered for the future ([1]).

Romania's economy slowed in 2023, but is expected to accelerate in 2024, although downside risks remain significant ([2]). Real GDP continued to grow in 2023 at around 2%, significantly below the 4.1% recorded in 2022 and 5.7% in 2021. The slowdown reflected the impact of high inflation on real disposable incomes, tighter monetary and financial conditions, and the weakening of global demand. Gross fixed capital formation, supported by EU-funded investment in public infrastructure, was the main contributor to growth in 2023. With weaker economic activity and a fall in energy prices, headline inflation declined to 7% in December 2023, from a peak of over 14% in November 2022. However, the decline in core inflation was much less pronounced. It partly reflected rapid wage increases, especially in the private sector, also fuelled by large minimum wage hikes, and remained just above 10% at the end of 2023. Although tensions on the labour market are easing, real wage increases remain above productivity growth and risk undermining external competitiveness. The current account deficit is set to have declined from 9.3% of GDP in 2022 to 7.0% of GDP in 2023 due to weaker domestic demand growth and lower energy prices. The general government deficit remained at a high level in 2023 (6.3% in terms of the European system of national and regional accounts (ESA) according to the Commission Autumn 2023 Forecast, which is about the same level as in 2022), feeding into the large current account deficit. According to the Commission Winter 2024 Interim Forecast, economic growth is projected to gradually pick up to around 3% in 2024 and 2025, supported by robust growth in households' real disposable incomes as inflation continues to decline and financial conditions improve. The balance of risks to the economic outlook is tilted to the downside as lower than expected growth in Romania's trading partners, slower disinflation or a more protracted recovery of private consumption, together with delays in the absorption of EU funds, could negatively impact growth.

High integration with Germany and Italy makes Romania prone to spillovers resulting from economic developments in these economies ([3]). The Romanian economy is highly dependent on imports of German and Italian goods and services, while Germany and Italy are major destinations for Romanian exports ([4]). When it comes to external demand, the largest shares

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([1]) European Commission (2023), Alert Mechanism Report 2024, COM(2023) 902 final; and European Commission (2023), Alert Mechanism Report 2024, SWD(2023) 901 final.

([2]) Forecast figures for GDP growth and inflation come from the Commission Winter 2024 Interim Forecast (European Economy, Institutional Paper 268). All other forecast data used in the IDR come from the Commission Autumn 2023 Forecast (European Economy, Institutional Paper 258), unless stated otherwise, and all calculations are carried out using these data to ensure the coherence of their various components. The cut-off date for the data for the preparation of this IDR was 20 February 2024. Actual outturn data that have become available after the Autumn and Winter Interim forecasts, and before the cut-off date for the IDR, are used and supersede figures from those forecasts.

([3]) In the context of themultiple disrupting shocks that affected the world economy and the EU in the past few years, Commission Services have run an exercise to estimate the spillovers and the degree of exposure of Member States' economies to various partners and industries in terms of nominal trade, value added trade, inflation and financial assets. See European Commission Institutional Paper 2024 (forthcoming) - Economic spillovers and exposures in the EU.

of total value added in the Romanian economy are generated to satisfy domestic demand in Germany and France, while Romanian domestic demand is mostly satisfied by value added generated in Germany and Italy. As Romania's direct exposure to non-EU partners is low, geopolitical and trade tensions do not appear to pose a risk to its economy.

2. ASSESSMENT OF MACROECONOMIC VULNERABILITIES

In recent years, Romania's current account deficit has remained high, in parallel with persistently large government deficits. The external deficit increased gradually over the last decade, becoming substantial in recent years as the government deficit also grew. With strong price dynamics, concerns grew about high growth in wages that could undermine cost competitiveness. As of 2023, there has been some positive development as external accounts have been improving and price dynamics moderating. The current account deficit has been partly financed by sizeable EU funds and foreign direct investment (FDI), strengthening Romania's productivity and output growth. Policy action has been forthcoming in the monetary and financial supervision areas but has not sufficiently tackled the large fiscal deficit.

Assessment of the gravity, evolution and prospects of macroeconomic vulnerabilities

Romania's macroeconomic vulnerabilities have widened in the aftermath of the pandemic against a backdrop of very strong growth. The strong post-pandemic rebound in economic activity, helped by easy monetary and financial conditions and a supportive fiscal stance, pushed real GDP growth above 4% in both 2021 and 2022, which is higher than Romania's potential growth rate. The expansion was driven by robust domestic demand growth – fuelled by rapid credit growth, which accelerated to almost 18% year-on-year in mid-2022 – and very rapid nominal wage increases (11.7% in 2022) in a tight labour market. This led to a build-up of domestic and external vulnerabilities: Harmonised Index of Consumer Prices (HICP) inflation reached 12% on average in 2022 (Graph 2.1) and the current account deficit continued to widen to above 9% of GDP, also reflecting the energy price shock (Graph 2.3, panel a). Despite very strong nominal GDP and government revenue growth, the general government deficit remained large at 6.3% of GDP in 2022, down only slightly from 7.2% of GDP in 2021, due to rapid growth in government spending.

External and fiscal balances

Although inflation has moderated and the current account strengthened in 2023, vulnerabilities remain. In December 2023, inflation returned to single digit territory at 7%. Tensions in the labour market started to ease somewhat and a significant deceleration of private consumption and lower energy prices led to a decline in the current account deficit to around 7% of GDP. These developments reflect the slowdown in economic activity since the beginning of 2023, also driven by the impact of past interest rate increases by the National Bank of Romania –

(4) Germany and Italy account for 18% and 8.4% of Romania's imports, and for 20% and 10.4% of Romanian exports, respectively.

domestic private credit growth slowed to 5% year-on-year in September 2023 (Graph 2.3, panel b). However, Romania still has a large current account deficit, and core inflation has decelerated only slowly. The labour market remains tight and, although domestic demand pressures have abated, real wages are increasing faster than productivity, which will slow disinflation and could erode cost competitiveness over time.

The current account deficit declined in 2023 due to private sector net saving dynamics and a large reduction in the trade deficit, but remained sizeable. The decline in the current account reflects primarily an improvement in corporate savings, while private sector investment decelerated on account of weak residential construction. In 2023, the current account deficit decreased by more than 2 percentage points of GDP, mostly due to a significant reduction in the trade balance. A strong deceleration of private consumption and a shrinking deficit of the energy trade balance kept the imports of goods and services almost flat. At the same time, exports continued growing, in particular services, and the trade deficit shrunk by around a quarter. The deficit of the primary income balance recorded a slight improvement, while the secondary income balance surplus declined slightly. The 12-month moving average of the current account balance, however, hides a marginal deterioration in the second half of the year due to a lower services balance and a more negative income balance. For 2023 as a whole, the current account deficit of 7.0% of GDP was below the benchmark required to stabilise the net international investment position (NIIP) at a prudential level (-1.7% of GDP for 2023).

The wide current account deficit primarily reflects largely unaddressed fiscal deficits. Fiscal consolidation came to a halt in 2023. The deficit target of 4.4% of GDP set in the 2023 convergence programme (which was also the target set by the Council as part of the excessive deficit procedure) is estimated to have been missed by a wide margin. Last year, the Commission estimated the general government deficit to have reached 6.3% of GDP in ESA terms, which is about the same level as in 2022. This was mainly due to high government spending, particularly on social transfers, partly due to measures to deal with the consequences of the energy crisis (although the cost was partly offset by exceptional revenue from energy producing companies). In addition, government revenue was lower than expected due to weaker economic activity. Overall, in 2022 and 2023 the fiscal stance was only marginally restrictive, with the structural balance improving cumulatively by only ½ percentage point of GDP, much less than recommended by the Council as part of the excessive deficit procedure. Risks to fiscal sustainability are low in the short term, but medium in the medium and long term ([5]).

The current account deficit is expected to stabilise at around 7% of GDP in the near future. According to the Commission's 2023 Autumn Forecast, the current account deficit will not change significantly in 2024 and 2025. The projected uptick in external demand should contribute positively, but this is expected to be offset by an acceleration of imports driven by the recovery in domestic demand. Moreover, the government deficit, which is forecast at 5.3% of GDP in 2024 and 5.1% of GDP in 2025 (excluding the short-term cost of the pension reform, see below), will remain large and prevent a further adjustment of the current account deficit. The main factor behind the persistence of large government deficits in the next 2 years is developments in income policies, in particular increases in pensions and public sector wages, which will also support domestic demand.

([5]) These results are based on the debt sustainability analysis published in the 2023 Country Report, which follows the multi-dimensional approach of the Commission's 2022 Debt Sustainability Monitor, updated based on the Commission 2023 Spring Forecast. See 2023 Country Report, Commission staff working document SWD(2023) 623 final.

Romania's external indebtedness remains moderate. Romania's NIIP improved from -45% of GDP in 2021 to -38% of GDP in September 2023 (Graph 2.3, panel c), but is still marginally higher than the estimated prudential benchmark of -35% of GDP. This decline reflects strong nominal GDP growth and valuation changes, and also the fact that a large fraction of Romania's external financing needs is covered by non-debt-creating instruments, including sizeable EU grants. The NIIP excluding non-defaultable instruments (NENDI), which takes into account Romania's large stock of net FDI – a salient feature of catching-up economies – remained low at -5% of GDP in mid-2023. The NIIP is projected to deteriorate in the medium term, but risks to the country's external position are partly mitigated by the favourable NIIP structure, as non-defaultable instruments account for the bulk of net liabilities (see Box 1).

The relatively favourable external debt position is underpinned by low private and government debt levels (Graph 2.3, panel d). Between 2021 and 2023, Romania's private debt level declined from about 50% of GDP to just above 40% of GDP, while government debt increased slightly from 48.5% of GDP to 49.3% of GDP in 2023. Overall, Romania has moderate public, private and external debt levels, with household and corporate debt among the lowest in the EU.

So far, Romania has not experienced difficulties in covering its financing needs. Its solid economic fundamentals, including robust medium-term growth prospects driven by income convergence with the EU and low debt levels, continue to underpin its ability to cover its financing needs. More than 60% of the current account financing needs was covered by non-debt creating instruments in 2023, such as EU funds and FDI, which contribute to higher productivity growth and economic catching-up. Romania's foreign reserves seem broadly adequate, covering about 4.7 months of imports and more than 100% of short-term external debt at the end of 2023 ([6]). However, net inflows for portfolio investment more than doubled in the first three quarters of 2023 relative to the same period of 2022, amounting to more than EUR 13 billion or about 4% of GDP, as the large government deficit was increasingly financed from external sources. This surge in portfolio flows led to an almost equivalent increase in foreign reserves, but risks to shift the financing mix towards less stable instruments. Yields on government bonds edged marginally down in 2023, but this seems to have largely followed the fall in benchmark government bonds. Although global financing conditions have eased somewhat recently, they remain tight and subject to uncertainty, and Romania may be vulnerable if investor sentiment changes and external shocks occur.

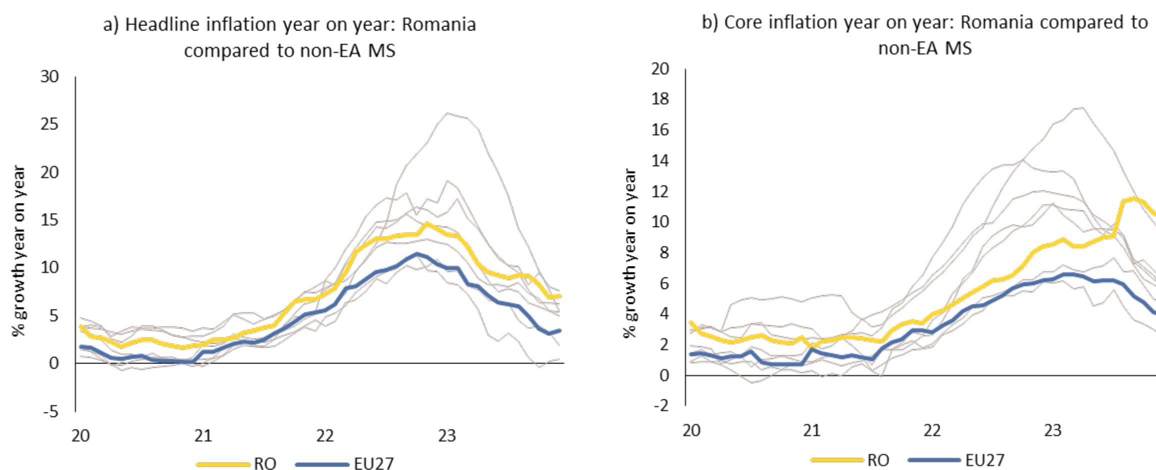
Competitiveness

Recent wage and price developments may impact negatively on cost competitiveness and need to be monitored carefully. In 2021 and 2022, the growth of real unit labour costs (ULCs) was broadly in line with that in the EU, and Romania did not lose ground in terms of cost competitiveness (Graph 2.3, panel e). The real effective exchange rate (REER) deflated by ULCs depreciated slightly in 2021 and was broadly flat in 2022, while export market shares were largely preserved. This changed in 2023, when nominal wages grew by about 15% and real wages by almost 5%, well above labour productivity. In 2023, the REER deflated by the HICP is estimated to have increased by around 10%, but the ULC-based REER appreciated by about 4.5%, showing a more modest deterioration compared to international trade partners (Graph 2.3, panel f). HICP

([6]) See International Monetary Fund. 2023. 'Romania: 2023 Article IV Consultation.' IMF Country Report No. 23/395. Washington D.C. Romania: 2023 Article IV Consultation-Press Release; and Staff Report; IMF Country Report No. 23/395.

inflation slowed to 7% in December 2023, but the decline in core inflation was much more modest to above 10% (Graph 2.1). The persistence of core inflation is driven by strong price growth in services and non-food prices ([7]), and partly reflects rapid wage increases also fuelled by large minimum wage hikes (43% in the 2 years to December 2023, see Thematic section below).

Graph 2.1: **Headline and core inflation year-on-year growth**



Source: Eurostat

Monetary policy rates were kept high, leading to a marked deceleration in private domestic credit, but liquidity conditions eased in 2023. In response to the surge in inflation, the National Bank of Romania raised its key policy rate from 1.75% in early 2022 to 7% in January 2023 and has left it unchanged since then. However, liquidity tightening was reversed towards the end of 2022 and an ample liquidity surplus built up on the money market in the first 9 months of 2023. The latter was, however, placed at the National Bank's deposit facility and did not generate new lending. Nominal lending rates were on a slight downward trend in the first 9 months of 2023, but rose in real terms with the decline in inflation. This contributed to a significant deceleration in credit growth to households and non-financial corporations. The increase of the countercyclical capital buffer to 1% in October 2023 and the lowering of the loan-to-value limit for second homes should help contain credit growth in the months ahead.

The leu has continued to evolve within a narrow range against the euro. Despite the turbulences caused by Russia's war of aggression against Ukraine and the energy price shock, the leu has remained remarkably stable over the past 2 years. Exchange rate stability is perceived by the National Bank of Romania as an important mechanism to ensure financial stability and anchor inflation expectations. In 2023, strong inflows of EU funds and accelerating non-resident capital inflows to finance the government deficit exerted appreciation pressures on the leu. In a longer-term perspective, according to the IMF's External Balance Assessment current account model, the REER (deflated by the consumer price index) is estimated to be overvalued relative to fundamentals

([7]) See Banca Națională a României. 2023. 'Inflation Report November 2023,' Year XIX, no. 74. Banca Națională a României - Inflation Report (bnro.ro).

(Table 2.2) ([8]). But the ULC-based REER estimate has been rather flat over the last 5 years due to productivity increases.

Banking sector

The banking sector is well capitalised, liquid and profitable. The Romanian banking sector's capitalisation has been relatively stable for several years. The capital adequacy ratio was 21.6% in Q3-2023, well above the minimum recommended threshold and the EU average. Profitability reached the highest level in the last 7 years, with a return on equity at 18.3% in Q3-2023, almost double than the EU average. Non-performing loans declined steadily, and the system-wide non-performing loan ratio was 2.7% in Q3-2023. The non-financial corporate debt-to-GDP ratio decreased to 27.5% in 2023. The share of domestic corporate loans denominated in foreign currency is high, at 45% of the total. It constitutes a risk in the event of a large depreciation of the exchange rate, but this is mitigated by the relatively low indebtedness level and high profitability. The household debt-to-GDP ratio was 12.5% in 2023, the lowest in the EU. At the same time, the share of claims on the government sector (securities and loans) in total bank assets grew further to around 23% by March 2023, one of the highest in the EU.

Non-cost competitiveness

Despite progress with structural reforms, non-cost competitiveness continues to be affected by structural bottlenecks, weighing on investment and exports. According to the Worldwide Governance Indicators ([9]), Romania performs worse than its EU peers on government effectiveness, regulatory quality, control of corruption and rule of law, including the functioning of the judiciary and enforcement of property rights. In its latest Economic Survey on Romania ([10]), the OECD notes that the business environment is still burdened by a complex licence and permit system, while entry barriers to professional services remain high. An efficient allocation of resources and labour productivity growth are hampered by the significant presence of low-performing state-owned enterprises. The volatile tax and regulatory environment and an inefficient insolvency regime hold back investment. Other bottlenecks to foreign and domestic investment include large gaps in transport infrastructure (despite a recent acceleration in civil engineering works), a shortage of skilled workers (driven by the low rate of labour force participation and poor educational attainment ([11]), a low level of digitisation and poor IT skills, and difficult access to financing for small and medium enterprises (SMEs)and young innovative companies.

Overall, Romania's vulnerabilities persist and leave the country exposed to shocks, unless policy action is taken soon. The recent improvement in external accounts and moderation in price dynamics are positive developments. However, these trends remain fragile. To

([8]) See International Monetary Fund. 2023. 'Romania: 2023 Article IV Consultation.' IMF Country Report No. 23/395. Washington D.C. Romania: 2023 Article IV Consultation-Press Release; and Staff Report; IMF Country Report No. 23/395.

([9]) See Daniel Kaufmann and Aart Kraay (2023). Worldwide Governance Indicators, 2023 Home | Worldwide Governance Indicators (worldbank.org).

([10]) See OECD. 2022. 'Romania', in OECD Economic Surveys, January 2022. OECD Publishing, Paris. Romania Economic Snapshot - OECD.

([11]) See OECD. 2023. PISA 2022 Results (Volume I): The State of Learning and Equity in Education, PISA, OECD Publishing, Paris, Summary | PISA 2022 results (oecd.org).

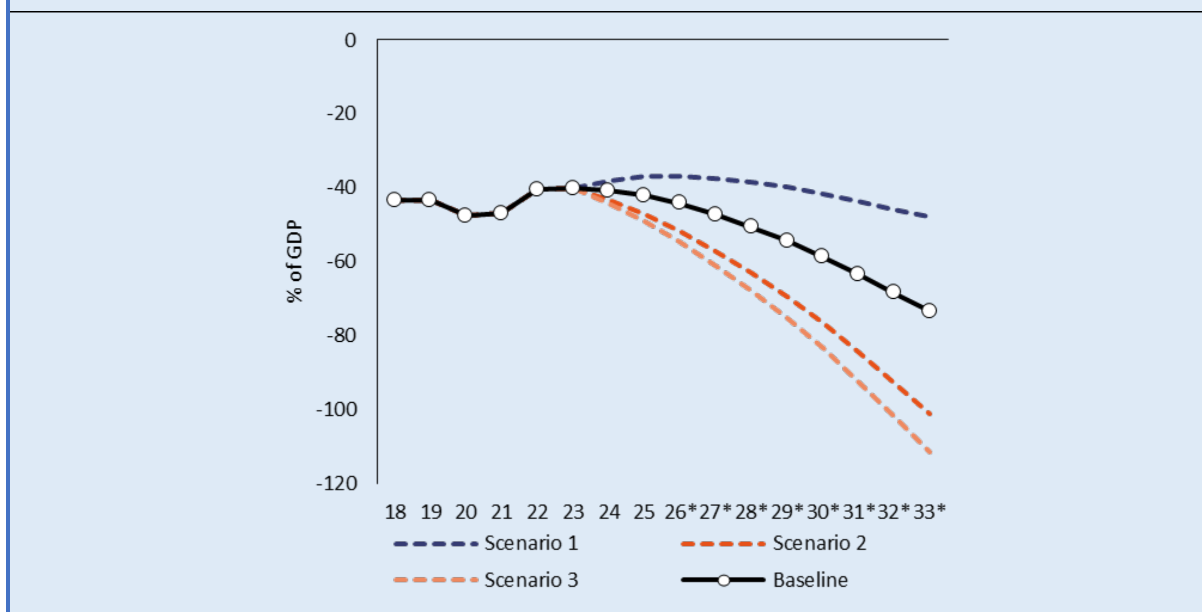
avoid a further build-up of vulnerabilities, appropriate policies are needed, especially considering the persistently high government deficit. Another concern is related to the recent large increases in the minimum wage and the increased wage claims in the public sector. These could fuel further increases in real ULCs over time and weigh on Romania's cost competitiveness and external accounts. The impact of high government deficits on the current account deficit is likely to remain large this year and next. This may push up external indebtedness, leaving Romania vulnerable to changes in investor sentiment and exogenous shocks.

Box 1: Romania — medium-term external debt projections

This box summarises external debt to GDP projections for Romania over the next decade, based on scenario analyses conducted by the Commission to take into account different underlying assumptions.

Romania's net international investment position (NIIP) is projected to substantially deteriorate in a range of scenarios, based on different underlying assumptions. In the baseline projections, which take the 2025 forecasts as a starting point, the NIIP falls below the estimated prudential benchmark to reach nearly -70% of GDP at the end of the forecast period. A large trade balance deficit and a worsening income balance owing to a growing interest rate spread are key contributors (Graph 2.2). In an upside scenario (Scenario 1), a 2 percentage point (pp.) improvement in the trade balance and a 1 pp. decrease in the interest rate on liabilities in each year compared to the baseline assumptions still imply a mild worsening in the NIIP at the end of the forecast period. If the trade balance worsens further and the interest rate on liabilities increases compared to the baseline assumptions, the NIIP would deteriorate and reach -100% of GDP in 2033 under the assumptions of a downside scenario (Scenario 2). If the assumptions in Scenario 2 are further compounded by a lower capital account balance, as in Scenario 3, the NIIP may fall by a further 10 percentage points by 2033. Risks to the country's external position are partly mitigated by the favourable NIIP structure, as non-defaultable instruments account for the bulk of net liabilities and are composed mostly of foreign direct investments. The NENDI (NIIP net of non-defaultable instruments) in Romania was around -4% of GDP in 2022.

Graph 2.2: **NIIP projections ([1])**



(1) The baseline NIIP projections are based on the Commission's medium-term forecasts for GDP and interest rates. In addition, assumptions are made about the drawdown of NextGenerationEU and multiannual financial framework funds, and the median value of the last 3 years is used for non-investment income. Scenario 1 assumes higher GDP growth (+1 pp.) and a higher trade balance (+1 pp.) than in the baseline beyond 2023. Compared to the baseline scenario, Scenario 2 assumes lower GDP growth (-1 pp.) and a lower trade balance (-1 pp.), while the interest spread between liabilities and assets is higher by 0.3 pps in each year after 2023. A lower capital account balance (-1 pp.) in each year after 2023 on top of the assumptions of Scenario 2 are assumed in Scenario 3.
Source: Eurostat, Ameco, Commission calculations.

Assessment of MIP-relevant policies

Substantial progress with fiscal consolidation would alleviate vulnerabilities and should be complemented by continued implementation of the recovery and resilience plan (RRP). Romania has some of the highest inflation rates and government and current account deficits in the EU. The most efficient way to tackle these domestic and external vulnerabilities would be to follow a credible and sustained multiannual fiscal consolidation path. This would avoid putting excessive burden on other macro policy instruments, including monetary policy, and would considerably reduce risks associated with competitiveness, external accounts and market financing. Romania's RRP also includes measures that are conducive to higher productivity and improving cost and non-cost competitiveness.

The recently adopted fiscal consolidation package will help, but more is needed. In October 2023, Romania adopted a fiscal consolidation package worth around 1.2% of GDP, to be implemented in 2024. The package includes spending cuts worth 0.4% of GDP, generated through measures to streamline public administration and tighter eligibility conditions for public servants to benefit from holiday vouchers and food allowances. On the revenue side, new measures are expected to yield additional revenue amounting to 0.8% of GDP. They include an increase in corporate taxation (introduction of a minimum turnover tax of 1% for non-financial companies with a turnover of more than EUR 50 million and a turnover tax for credit institutions), a phasing-out of preferential tax regimes for the construction and agriculture sectors, and the elimination of reduced VAT rates for selected goods and services. While this package is a step in the right direction, it appears insufficient. According to the Commission 2023 Autumn Forecast, it would leave Romania's government deficit at 5.3% of GDP in 2024, compared to 4.9% of GDP according to the draft budget for 2024. Both are well above the 3% of GDP target set by the Council as part of the excessive deficit procedure. The Commission projects that the government deficit will decline to 5.1% of GDP in 2025. These projections do not include the short-term impact of the pension reform which, together with the impact of indexation rules, will increase the pension expenditure to GDP ratio by one percentage point of GDP between 2023 and 2025, before leading to lower expenditure in the medium term.

Implementing ambitious tax reforms as envisaged in the RRP would go a long way towards tackling fiscal vulnerabilities. Romania's government revenue-to-GDP ratio is one of the lowest in the EU and remains below the average of some other countries at a similar stage of development. Romania's RRP includes key reforms to strengthen the tax system, make it more supportive of growth and easier to administrate, with a view to increasing the revenue collected by the tax administration by at least 3% of GDP by 2026. These reforms aim to amend, among others, the highly concessionary tax regime of microenterprises and achieve a broad-based overhaul of Romania's tax system. The RRP also includes a reform of the National Agency for Fiscal Administration, which aims to address the urgent need to modernise and digitalise it. Full implementation of these reforms (planned in the context of the third and fourth payment request of the RRP) would support a sustainable correction of Romania's excessive government deficit and allow it to create some fiscal space to absorb potential shocks and stimulate growth when needed.

Romania adopted ambitious reforms of special pensions and the general pension system. In September 2023, it adopted a reform of special pensions aimed at correcting inequities between beneficiaries of these pension categories and beneficiaries of the public pension system. In November 2023, a broad reform of the general pension system was adopted. With this reform, Romania intends to recalculate pensions through a new formula that aims to significantly increase incentives to work longer, introduce a new pension indexation rule (a mechanism against ad hoc increases in pensions), align the retirement age between men and women, tighten eligibility rules

on 'special working conditions' status and associated benefits, and introduce a link between future changes in life expectancy and system parameters. Moreover, Romania has established a 'brake mechanism', which entails the adoption of corrective measures if pension expenditure were to deviate from the reference path agreed at the time of the reform. Based on calculations by the World Bank acting as technical adviser, the reform, if successfully implemented, will generate large savings in the medium to long term, with general pension expenditure projected to peak at slightly above 9% of GDP in the reform scenario, compared to 12% of GDP in the baseline scenario without the reform.

Macroeconomic adjustment will also require more prudent income policies. The pension reform adopted in October 2023 should help limit ad hoc increases in pensions and make the implementation of pension indexation rules more robust to political preferences. Additional measures and reforms are needed to improve the predictability of minimum wage increases. In 2023, the minimum wage increased by 32% (December to December), contributing to an increase in the average nominal wage by about 15%. Compared with the annual inflation rate, this translates into real wage appreciation of close to 5%. These developments are above productivity increases. The RRP includes a reform of the minimum wage setting mechanism towards a system that is based on objective criteria and consistent with job creation and competitiveness (see special thematic chapter below).

The cautious approach to monetary policy needs to be maintained. Monetary policy tightening in 2023 helped moderate private credit growth and domestic demand. It also played an important role in containing the current account deficit. Any easing of monetary policy should be gradual, factoring in the potential demand-reducing impact of additional fiscal consolidation measures. This would help support growth, while limiting inflation persistence. It will be important for the National Bank of Romania to remain cautious and adapt to circumstances, including by allowing further exchange rate flexibility if deemed useful to deal with speculative portfolio inflows.

Further fiscal measures, the implementation of existing commitments in the RRP and, where possible, additional structural reforms could help reduce long-standing vulnerabilities. The reduction in the external deficit requires an increase in savings, in particular on the government side, while preserving investment to further bolster Romania's economic convergence. Appropriate fiscal policy measures could reduce the high fiscal deficit, which to a large extent supported domestic consumption and translated into high demand for imports and large current account deficits. A broad-based approach is needed, combining much stricter budget execution compared to recent years, and reforms to strengthen tax revenues by making the tax system more effective and improving tax administration. Additional measures, such as spending reviews and improved practices for public procurement and the planning, budgeting and monitoring of public investment, can increase the efficiency of public spending in the face of very limited resources. In this context, increasing the EU support rate for infrastructure investments, in particular in the field of transport and health, and limiting and targeting over-contracting, could be envisaged. The implementation of reforms aimed at higher quality education, the effective functioning of state-owned enterprises, efficient public administration and a better functioning of the judiciary and control of corruption would strengthen the business environment, foreign investment and potential growth. Where possible, additional steps could help reduce vulnerabilities. All these measures are to a large extent contained in Romania's RRP.

Table 2.1: **MIP-relevant policy progress in Romania**

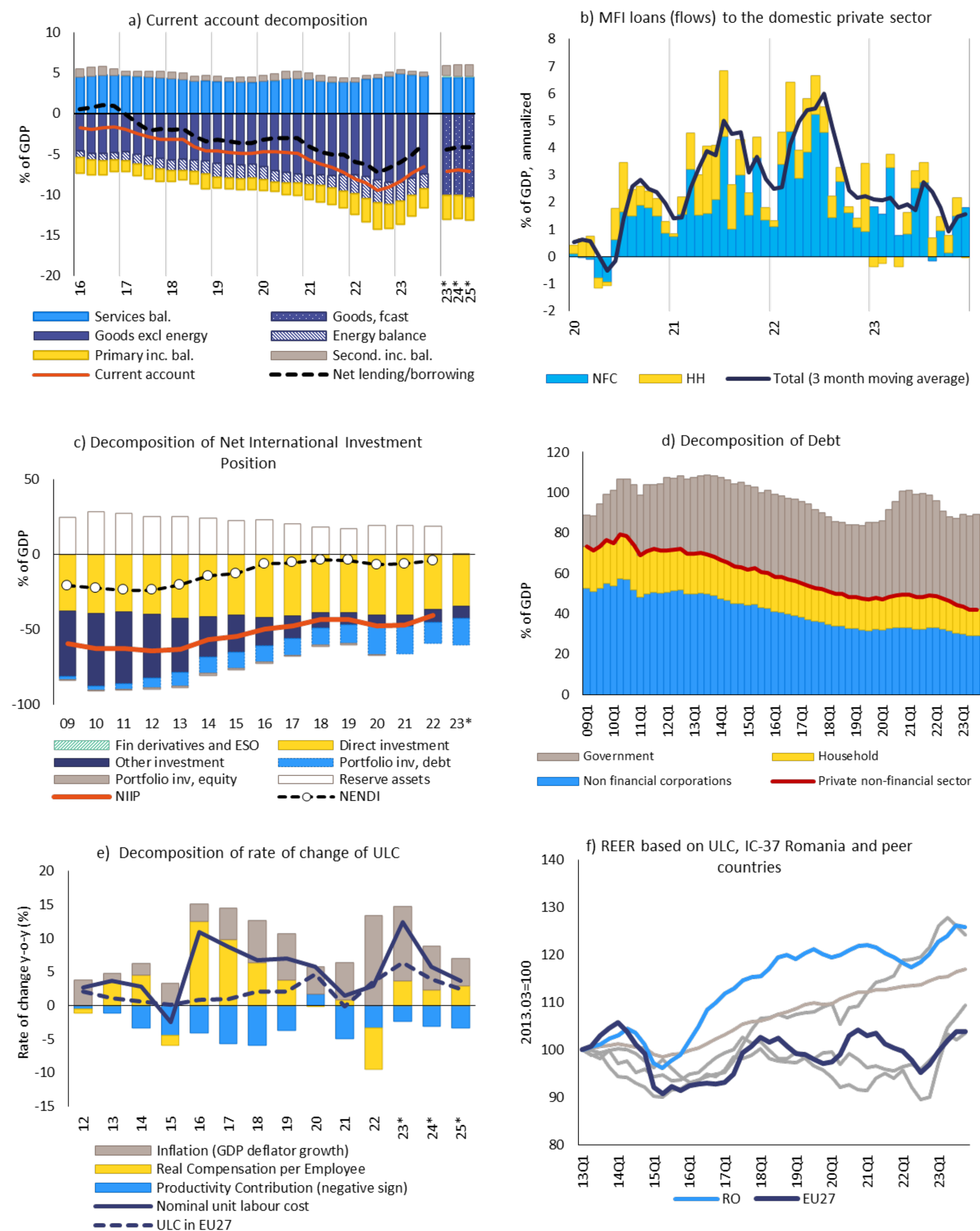
Vulnerability	Policies enacted since January 2023	Policies in progress since January 2023
External balances	The Central Bank raised the key policy rate to 7% in January 2023, ending a robust tightening cycle that started in late 2021. As of January 2024, it remains at 7%. The countercyclical capital buffer of banks was raised to 1% and the loan-to-value limit for second homes was lowered.	Under the RRP, Romania initiated reforms in digitalisation, education, the green transition and energy efficiency, improving transport infrastructure and strengthening the rule of law.
Fiscal	In October 2023, Romania adopted a fiscal consolidation package worth around 1.2% of GDP, to be implemented in 2024. The package includes spending cuts worth 0.4% of GDP, generated through measures to streamline public administration and reduce costs. On the revenue side, new measures are expected to yield additional revenue amounting to 0.8% of GDP. They include an increase in corporate taxation, a phasing-out of preferential tax regimes for the construction and agriculture sectors, and the elimination of reduced VAT rates for selected goods and services. In September 2023, Romania adopted a reform of special pensions aimed at correcting inequities between beneficiaries of these pension categories and beneficiaries of the public pension system. In November 2023, a broad reform of the general pension system was adopted. With this reform, Romania intends to recalculate pensions through a new formula that aims to significantly increase incentives for working longer, introduce a new pension indexation rule (a mechanism against ad hoc increases in pensions), align the retirement age between men and women, tighten eligibility rules on 'special working conditions' status and associated benefits, and introduce a link between future changes in life expectancy and system parameters. Moreover, Romania has established a 'brake mechanism', which entails the adoption of corrective measures if pension expenditure were to deviate from the reference path agreed at the time of the reform.	RRP measures that are currently implemented include key reforms to strengthen the tax system, make it more supportive of growth and easier to administrate, with a view to increasing the revenue collected by the tax administration by at least 3% of GDP by 2026. These reforms aim to amend among others the highly concessionary tax regime of microenterprises and achieve a broad-based overhaul of Romania's tax system and revenue collection. RRP measures that are currently implemented also include a reform of the National Agency for Fiscal Administration, which aims to address the urgent need to modernise and digitalise it. Full implementation of these reforms would support adherence to excessive deficit procedure targets and allow it to create some fiscal space.

CONCLUSION

Despite some improvement, Romania still faces vulnerabilities relating to its external and fiscal accounts. The large current account, large government deficits and high inflation rate, which are all above pre-pandemic levels, make the economy potentially vulnerable to shocks. Some progress was made in reducing the current account deficit in 2023, mostly due to monetary policy tightening and weaker private consumption. However, under unchanged policies, risks related to the external position are expected to remain elevated in the coming years. A main driver of the elevated current account deficit is the large underlying fiscal deficit, which has not corrected sufficiently in recent years. Under current policies, the persistence of high government deficits may push up external indebtedness and make Romania more reliant on external financing sources, leaving the country vulnerable to changes in investor sentiment and external shocks.

Following a credible fiscal consolidation path is the key policy priority to dampen risks to the stability of the economy. This will require full implementation of the fiscal-structural reforms included in the RRP, in particular those aimed at structurally increasing government revenue, and much stricter budget execution than in the past few years. Decisive progress with fiscal consolidation would safeguard macroeconomic stability and possibly allow a gradual easing of monetary policy, and therefore come at a limited cost for growth. In parallel, efforts are needed to preserve cost competitiveness, including by keeping minimum and public sector wage adjustments in line with productivity developments. In addition, efforts to accelerate much needed structural reforms, overcome bottlenecks to non-cost competitiveness and increase the absorption of cohesion and RRP funds should continue.

Graph 2.3: **Selected graphs, Romania**



Source: Eurostat, Ameco, ECB and Commission calculations.

Table 2.2: **Selected economic and financial indicators (Part 1), Romania**

all variables y-o-y % change, unless otherwise stated	2003-07	2008-12	2013-19	2020	2021	2022	2023	forecast 2024	2025
Real GDP	6.5	1.1	4.7	-3.7	5.7	4.1	2.2	3.1	3.4
p.m.: Real GDP (Winter 2024 interim Forecast)							*1.8*	*2.9*	*3.2*
Contribution to GDP growth:									
Domestic demand	13.3	-0.6	5.7	-2.0	5.4	4.4	3.5	3.9	4.2
Inventories	-1.2	-0.1	0.1	-0.2	1.8	0.2	-0.9	-0.1	0.1
Net exports	-5.8	1.3	-1.2	-1.5	-1.5	-0.5	-0.4	-0.7	-0.8
Output gap (2)	3.9	-0.7	-0.2	-5.7	-2.9	-1.0	-1.7	-1.5	-1.0
Unemployment rate	8.8	8.5	6.8	6.1	5.6	5.6	5.4	5.2	5.3
Harmonised index of consumer prices (HICP)	9.5	5.7	1.5	2.3	4.1	12.0	9.7	5.9	3.4
p.m.: HICP (Winter 2024 interim Forecast)								*5.8*	*3.6*
HICP excluding energy and unprocessed food (y-o-y)	8.9	5.8	1.6	3.3	3.1	8.8	10.9	6.9	4.1
GDP deflator	15.3	6.7	5.6	4.1	5.4	13.2	11.0	6.5	4.0
External position									
Current account balance (% of GDP), balance of payments	-9.5	-6.2	-2.5	-4.9	-7.2	-9.2	-7.0	-6.9	-7.1
Trade balance (% of GDP), balance of payments	-10.7	-7.3	-2.0	-4.3	-5.7	-6.7	.	.	.
Primary income balance (% of GDP)	-3.2	-1.5	-1.3	-1.5	-2.0	-3.0	.	.	.
Secondary income balance (% of GDP)	4.4	2.7	0.8	0.9	0.4	0.5	.	.	.
Current account explained by fundamentals (CA norm, % of GDP) (3)	-1.7	-0.9	-0.4	0.2	0.1	0.1	0.3	0.2	0.3
Required current account to stabilise NIIP above -35% of GDP over 20Y (% of GDP) (4)	-3.3	-3.8	-5.6	-5.4	-5.2	-4.5	-4.1	-3.8	0.0
Capital account balance (% of GDP)	0.5	0.6	1.9	1.9	2.2	2.5	.	.	.
Net international investment position (% of GDP)	-37.4	-60.2	-49.4	-47.6	-47.0	-40.8	.	.	.
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (5)	-5.0	-21.6	-7.9	-7.0	-6.5	-4.3	.	.	.
Net FDI flows (% of GDP)	-6.4	-2.8	-2.3	-1.3	-3.7	-3.1	.	.	.
Competitiveness									
Unit labour costs (ULC, whole economy)	10.6	4.6	7.7	5.8	1.4	8.6	12.4	5.7	3.7
Nominal compensation per employee	18.0	7.8	10.3	4.0	6.4	11.7	15.1	8.9	7.1
Labour productivity (real, hours worked)	7.0	3.3	4.6	1.0	1.1	3.8	2.1	2.8	3.2
Real effective exchange rate (ULC)	7.4	-3.4	3.6	-0.3	-0.6	4.3	4.6	0.8	0.9
Real effective exchange rate (HICP)	6.2	-2.6	0.2	0.8	0.0	2.2	.	.	.
Export performance vs. advanced countries (% change over 5 years)	.	58.3	24.2	19.9	14.3	10.7	.	.	.
Private sector debt									
Private sector debt, consolidated (% of GDP)	41.8	69.0	53.3	48.0	47.8	43.6	40.1	.	.
Household debt, consolidated (% of GDP)	10.6	20.9	16.6	16.1	15.8	14.0	12.5	.	.
Household debt, fundamental benchmark (% of GDP) (6)	-1.8	0.1	4.8	10.0	11.5	12.8	14.1	.	.
Household debt, prudential threshold (% of GDP) (6)	88.6	78.8	90.0	68.3	57.7	55.2	52.6	.	.
Non-financial corporate debt, consolidated (% of GDP)	31.1	48.1	36.6	32.0	32.0	29.6	27.5	.	.
Corporate debt, fundamental benchmark (% of GDP) (6)	8.2	8.6	13.2	18.5	20.7	22.0	23.6	.	.
Corporate debt, prudential threshold (% of GDP) (6)	104.8	97.0	104.4	78.1	70.7	68.4	66.4	.	.
Private credit flow, consolidated (% of GDP)	12.8	3.0	0.7	1.3	3.8	3.3	1.9e	.	.
Household credit flow, consolidated (% of credit stock)	47.9	4.1	4.9	3.4	8.2	.	.	.	.
Non-financial corporate credit flow, consolidated (% of credit stock)	-440.9	-53.1	-11.7	7.3	22.1	21.2	.	.	.
Net savings rate of households (% of net disposable income)	.	.	.	.	.	.	.	.	.

(e) Estimate based on ECB quarterly data.
(1) Potential output is the highest level of production that an economy can achieve without generating inflationary pressures. The methodology to compute the potential output is based on K. Havik, K. Mc Morrow, F. Orlandi, C. Planas, R. Raciborski, W. Roeger, A. Rossi, A. Thum-Thysen, V. Vandermeulen, The Production Function Methodology for Calculating Potential Growth Rates & Output Gaps, COM, European Economy, Economic Papers 535, November 2014.
(2) Deviation of actual output from potential output as % of potential GDP.
(3) Current accounts in line with fundamentals ('current account norms') are derived from reduced-form regressions capturing the main determinants of the saving-investment balance, including fundamental determinants, policy factors and global financial conditions. See L. Coutinho et al. (2018), 'Methodologies for the assessment of current account benchmarks', European Economy, Discussion Paper 86/2018.
(4) This benchmark is defined as the average current account required to reach and stabilise the NIIP at -35% of GDP over the next 20 years. Calculations make use of the Commission's T+10 projections.
(5) NENDI is a subset of the NIIP that abstracts from its pure equity-related components, i.e. foreign direct investment (FDI) equity and equity shares, and from intracompany cross-border FDI debt, and represents the NIIP excluding instruments that cannot be subject to default.
(6) Fundamental benchmarks are derived from regressions capturing the main determinants of credit growth and taking into account a given initial stock of debt. Prudential thresholds identify a threshold above which banking crises become more likely. The fundamentals-based benchmarks and the prudential benchmarks are calculated following Bricongne, J. C., Coutinho, L., Turrini, A., Zeugner, S. (2019), 'Is Private Debt Excessive?', Open Economies Review, pp. 1- 42.

Source: Eurostat and ECB as at 20 February 2024, where available; European Commission for forecast figures (2023 Autumn Forecast).

Table 2.2: **Selected economic and financial indicators (Part 2), Romania**

all variables y-o-y % change, unless otherwise stated	2003-07	2008-12	2013-19	2020	2021	2022	2023	forecast 2024	2025
Housing market									
House price index, nominal	.	-12.5	3.6	4.7	4.4	7.2	.	.	.
House price index, deflated	.	-16.9	1.1	2.3	-0.2	-6.2	.	.	.
Overvaluation gap (%) (7)	.	23.9	-10.4	-11.2	-13.2	-14.4	-15.1	.	.
Price-to-income overvaluation gap (%) (8)	.	47.6	-16.9	-31.3	-33.7	-31.7	-39.0	.	.
Residential investment (% of GDP)	1.9	2.9	2.4	2.4	3.1	3.2	.	.	.
Government debt									
General government balance (% of GDP)	-1.6	-6.3	-2.3	-9.3	-7.2	-6.3	-6.3	-5.3	-5.1
General government gross debt (% of GDP)	16.3	26.2	36.6	46.8	48.5	47.2	47.9	48.9	50.5
Banking sector									
Return on equity (%)	23.0	6.0	6.2	12.5	15.0	19.4	.	.	.
Common Equity Tier 1 ratio	10.9	17.1	18.8	20.1	20.0	18.6	.	.	.
Gross non-performing debt (% of total debt instruments and total loans and advances) (9)	1.4	6.8	7.8	3.0	2.6	2.1	.	.	.
Gross non-performing loans (% of gross loans) (9)	.	.	10.0	3.9	3.4	2.8	2.7	.	.
Cost of borrowing for corporations (%)	.	.	5.4	.	4.6	9.9	.	.	.
Cost of borrowing for households for house purchase (%)	.	.	5.2	4.8	3.7	7.1	6.8	.	.

(7) Unweighted average of price-to-income, price-to-rent and model valuation gaps. The model valuation gap is estimated in a cointegration framework using a system of five fundamental variables: total population, real housing stock, real disposable income per capita, real long-term interest rate and price deflator of final consumption expenditure, based on Philiponnet, N., Turrini, A. (2017), 'Assessing House Price Developments in the EU', European Economy - Discussion Papers 2015 - 048, Directorate General Economic and Financial Affairs (DG ECFIN), European Commission. Price-to-income and price-to-rent gaps are measured as the deviation from the long-term average (from 1995 to the latest available year).
(8) Price-to-income overvaluation gap measured as the deviation from the long-term average (from 1995 to the latest available year).
(9) Domestic banking groups and stand-alone banks, EU and non-EU foreign-controlled subsidiaries and EU and non-EU foreign-controlled branches.

Source: Eurostat and ECB as at 20 February 2024, where available; European Commission for forecast figures (2023 Autumn Forecast).

3. THEMATIC CHAPTER: MINIMUM WAGE AND INCOME POLICIES IN ROMANIA

This chapter focuses on the minimum wage and other income policies in Romania and their potential impact on domestic demand and external imbalances. It first describes recent developments in the minimum wage, putting the large nominal increases of the last few years into an historical perspective and placing it in the broader context of other income policies. It then discusses the delicate balancing act in setting the minimum wage at a level that also ensures adequate remuneration of workers and preserves a good functioning of the labour market. Furthermore, it recalls the broad principles included in the recently adopted Directive on adequate minimum wages in the EU. These should guide the reform of the minimum wage setting mechanism in Romania envisaged in the RRP.

Recent developments in the minimum wage

Several minimum wages coexist in Romania. Minimum wage protection exists in all EU Member States, either through the existence of statutory minimum wages or through collective agreements. Most countries with statutory minimum wages fix a universal minimum that applies to all sectors of the economy, while some others differentiate between sectors or types of workers. Romania falls into the latter category. While a unique statutory minimum wage was established long ago and was applicable until January 2019, two different minimum wage levels have since been in force: a higher minimum wage applicable to construction sector workers, which was extended to agriculture and food industry sectors in January 2022, and the main minimum wage covering other sectors of the economy ([12]). Between January 2019 and December 2021, a specific minimum wage existed for workers with a higher degree and at least a year of professional experience, but it has since been aligned with the main minimum wage. Part-time workers are also covered and receive a minimum wage proportional to their working time.

Romania's minimum wage updates are decided by the government on a discretionary basis. In Romania, the legally mandated minimum wage is set by the government after non-binding consultation with trade unions and employer organisations ([13]). The minimum wage level is typically revised every year in January, but ad hoc intra-year adjustments are possible (for instance, it was increased by 10% in October 2023). When deciding on annual increases, in practice the government uses a range of macroeconomic indicators (inflation, wages, productivity developments and overall state of the labour market), but no clear formula is followed.

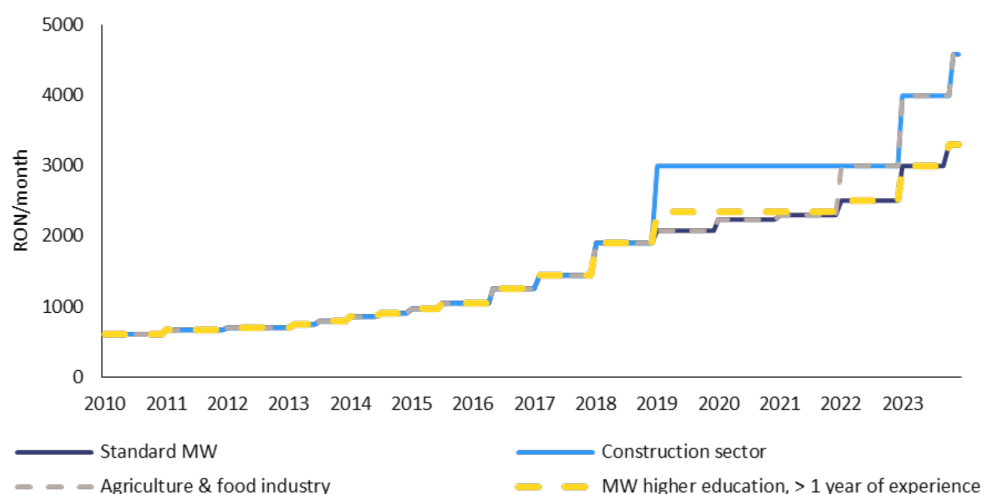
Minimum wages in Romania have increased rapidly over the last few years, above inflation and productivity developments. Between December 2021 and December 2023, the

([12]) Workers in sectors with specific minimum wages (construction, agriculture, food industry) were, until recently, granted additional benefits such as lower taxation and lower social security contributions. As of January 2024, health contributions and personal income tax above Lei 10 000 have been reintroduced.

([13]) See Forthcoming paper: Simulating Aggregate and Distributional Effects of Minimum Wage Increases in Romania: Evidence from Survey and Administrative Data, Monica Robayo-Abril (World Bank), Madalina Avram (Ministry of Finance of Romania), Marcin Wronski (World Bank).

main minimum wage increased by 43.5%, and the one for construction sector workers by 52.7% (Graph 3.1). In January 2022, conditions granted to the construction sector were extended to workers in agriculture and the food industry, leading to an almost doubling of the minimum wage for this category of workers over the period. Minimum wage increases therefore led to strong purchasing power increases for workers receiving the minimum wage, contributing to a reduction in social inequalities and stimulating domestic demand. Minimum wage increases fuelled overall wage growth, with potential adverse consequences for inflation persistence and external competitiveness.

Graph 3.1: **Minimum wages in Romania**



Source: Romanian Ministry of Labour

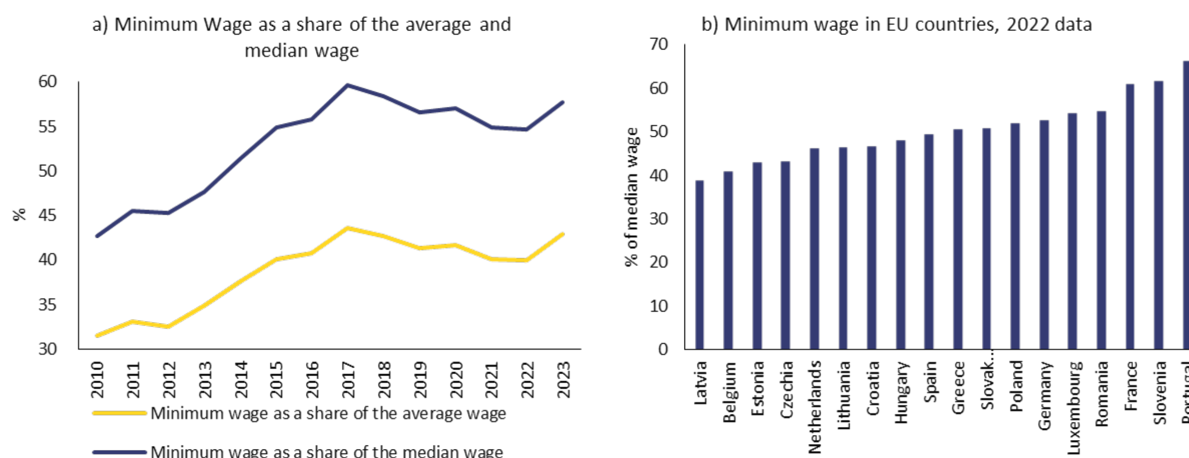
Note: The significant increase in 2018 is partly attributed to the shift in social contributions to employees. In 2023, the minimum wage hike in October for the construction, agriculture and food sectors only compensates for the reintroduction of health contributions in these sectors, resulting in no net impact on wages.

The ratio of the minimum wage to the average wage and median wage has reached high levels relative to other EU countries. The minimum-to-median wage ratio rose from 42.6% in 2010 to around 58% at the end of 2023 (Graph 3.2; Commission estimate). This ratio is broadly in line with one of the main examples of indicative reference values underlined by the Directive on adequate minimum wages in the EU to guide the assessment of adequacy of minimum wages, i.e., 60% of the median wage. However, over the past 13 years Romania has moved from close to the bottom to close to the top in the ranking of EU Member States according to this variable. It is widely used in economic literature to gauge potential distortive effects of the minimum wage on the labour market ([14]). According to data from the Ministry of Labour, about 28% of employees were earning the minimum wage in 2020. However, this has to be considered in a context of very high undeclared work and earnings. While minimum wage updates should be calibrated taking into account a range of variables (including the cost of living, productivity, the overall wage level in the economy), too big minimum wage increases may have adverse consequences for employment of

([14]) See Statutory Minimum Wages in the EU: Institutional Settings and Macroeconomic Implications, Institute of Labor Economics. https://docs.iza.org/pp124.pdf.

the least educated and skilled workers, women, older men, and younger cohorts ([15]). Romania's overall unemployment rate remains low, but the youth unemployment rate is 22.8% versus 15.1% on average in the EU.

Graph 3.2: **Minimum wage as share of median wage**



Source: OECD.

Other income policies have so far played a moderating role on labour income. The discussion on the minimum wage should be seen in the context of other income policies. The term 'income policy' is understood here as policies that encompass both established policies and discretionary government decisions that impact incomes. These policies can be seen as an adjunct to fiscal and monetary policies as they can materially influence developments in aggregate demand, costs and prices. In the recent past, the two other main components of income policy have acted more as moderating factors, but this is likely to change in the near future:

- **Public wage growth is accelerating.** On average over the 2 years ending in November 2023, the average public sector wage increased by 21%, less than the 26% recorded in the private sector over the same period. However, a recent agreement between the government and trade unions stipulates a large increase in salaries in the education sector (it makes up about 30% of the public sector), which should lead to a double-digit increase in the average public wage in 2024. Moreover, there is a risk that the upcoming reform of the unitary pay system in public administration may result in requests for large increases in average public sector wages, which may be very difficult to implement given the lack of fiscal space.

- **Pensions will increase much faster in the coming years.** Total pension expenditure declined from 9.1% of GDP in 2021 to 8.3% of GDP in 2023. This is mainly the result of strong nominal GDP growth and long-time lags in indexation – pensions in Romania are indexed to inflation (and partially to wages) with a 2-year lag. This effect is however temporary: the high inflation rates of 2022 and 2023 will lead to an increase in the average pension of about 14% in 2024 and 10% in 2025. Moreover, the recently adopted pension reform is expected to generate significant additional pension increases in 2024-25, reflecting the cost of

([15]) See NBER Working Paper Series. Minimum wages and employment: a review of evidence from the new minimum wage research. David Neumark, William Wascher. Working Paper 12663, 2006. Minimum Wages and Employment: A Review of Evidence from the New Minimum Wage Research (nber.org).

recalculating pensions. This will only partially be offset (in the near term) by savings generated by the reform.

Risks and benefits of large increases in the minimum wage

Setting the minimum wage is a balancing act in the pursuit of sometimes potentially conflicting objectives:

- **Minimum wages protect workers with weak bargaining power and may reduce in-work poverty**. Their objective is to boost incomes and work productivity, and improve the welfare of workers at the low end of the income distribution, while also reducing inequalities. At the same time, the minimum wage may not be the most effective tool to reduce inequality and poverty. It tends to be a poorly targeted instrument for this purpose as it supports individuals rather than households and only covers employed workers.

- **Excessive minimum wage increases may have negative employment effects.** In some situations, employers may respond to higher minimum wages by laying off the least productive workers to keep costs at a level consistent with desired profitability. There is also the risk that too large increases in the minimum wage may lead to excessive wage compression, lowering incentives for workers to improve their skills. A large gap between minimum wages and worker productivity may discourage investment over time, reducing future employment opportunities. At macroeconomic level, large increases in the minimum wage may contribute to a worsening of external imbalances – immediately through increased absorption, and over time through losses of cost competitiveness.

Reliance on experts' advice can help policymakers in the sensitive task of minimum wage setting. For policymakers, the calibration of minimum wage adjustments at a rate that supports a decent standard of living and is aligned with employment creation may conflict with short-term political objectives. This may introduce an upward bias in minimum wage adjustments, with potential long-term costs for the economy and for the most vulnerable groups such as the low-skilled and young workers. This is especially the case in countries with weak collective bargaining like Romania. In these situations, some economists ([16]) argue for taking the minimum wage-setting process, at least partially, out of the hands of politicians and either delegating it to independent experts or relying on a mathematical formula, as is currently the case in France and the Netherlands ([17]) ([18]).

([16]) See International Monetary Fund, 2019. Piyaporn Sodsriwiboon and Gabriel Srour, Does a Minimum Wage Help Workers? – IMF Finance & Development Magazine | March 2019.

([17]) See the report 'Labour Market and Wage Developments in Europe', 2016.

([18]) In France, annual minimum wage adjustments are linked to the evolution of the consumer price index, as well as to the increase in the purchasing power of blue-collar workers' basic hourly wage. In addition to this mathematical determination of minimum wage adjustments, France also has a discretionary component that can introduce an additional percentage to the final increase. Since 2009, a commission of independent experts recommends if there is space for an additional increase ('coup de pouce'), taking into account the economic context. The Netherlands adjusts its minimum wage twice a year (1 January and 1 July) in line with changes in the weighted average of collectively agreed wages. In 1993, a condition for minimum wage updates established that if the 'inactives to actives ratio' exceeds a threshold of 82.6% there would be no increase. Inactives are defined as those receiving benefits, including a public old-age pension, while actives are those employed, including self-employed and part-time workers. In addition, the law provides for an assessment every 4 years. For more details: https://www.ilo.org/global/topics/wages/minimum-wages/setting-adjusting/WCMS_439264/lang--en/index.htm.

Romania's RRP envisages a reform of the minimum wage setting mechanism.

The 2022 EU Directive includes key principles for setting the minimum wage. On 7 June 2022, the Council adopted a Directive on adequate minimum wages ([19]). It establishes an EU framework to ensure adequate minimum wage protection, while full respecting national traditions as well as the autonomy of social partners. The Directive puts forward a combination of policy measures to improve minimum wage adequacy and increase access to minimum wage protection. Some measures apply only to those countries with statutory minimum wage setting systems, and others apply to all Member States. For Member States with statutory minimum wages, the Directive calls for the introduction of a sound governance framework for setting and updating minimum wages. This includes clearly defined criteria for minimum wage setting and adjustments (the purchasing power of minimum wages and cost of living, the general level of wages and their distribution, the growth of wages, and long-term levels and developments of national productivity), regular and timely updates using indicative reference values to guide the assessment of adequacy (such as 50% of the average wage or 60% of the median wage), and establishing consultative bodies. The Directive also requests Member States where collective bargaining is below 80% to provide for a framework of enabling conditions and an action plan to promote collective bargaining.

Romania's RRP ([20]) includes a reform of the minimum wage setting mechanism. Recent developments in the minimum wage in Romania confirm the need for an ambitious reform that ensures minimum wage updates are more predictable and calibrated in a way that is equitable and aligns with the fundamental needs of the economy, keeping its growth in real terms in line with productivity gains. This reform should be designed in consultation with social partners and in a way that fully complies with the requirements of the 2022 EU Directive on adequate minimum wages.

([19]) Directive (EU) 2022/2041 on adequate minimum wages in the European Union.

([20]) European Commission, 2021. 'Analysis of the recovery and resilience plan of Romania'. Staff working document. September 2021. [EUR-Lex - 52021SC0276 - EN - EUR-Lex (europa.eu).]()

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