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# The new perspective of modernization and profound changes, for Romania, offered through the National Recovery and Resilience Plan (PNRR)

Florin DIACONESCU,<sup>1</sup>

**Abstract:** *The National Recovery and Resilience Plan* (the so-called *PNRR*) is a strategic document, structured on two priorities: reforms and investments, which brings to Romania the perspective of modernization and profound changes, expected by civil society, the business environment and the public sector in Romania. In other words, *The National Recovery and Resilience Plan*, through which it establishes its investment priority areas for exiting the crisis, economic recovery and increasing resilience capacity, is Romania's financial chance to overcome the current crisis generated by the COVID-19 pandemic. The almost €30 billion, provided by the European Union, through *The National Recovery and Resilience Plan*, will go on large projects of reforms and public investment, which must be implemented by 2026. For the reconstruction, after the coronavirus pandemic, *The National Recovery and Resilience Plan* is based on 6 main pillars: *Transition to a green economy; Digital transformation; Smart, sustainable and inclusive growth; Social and territorial cohesion; Health and institutional resilience; Children, young people, education and skills*. In total, Romania would receive 14.248 billion in the form of a grant and about 14.935 billion in loans for a total of 29.2 billion euros.

**Keywords:** *National Recovery and Resilience Plan (PNRR); Reforms; Investments; European Projects; Sustainable Development.*

**JEL classification:** H12; I38; Z18.

The COVID-19 outbreak has had a disruptive impact on the economy of Romania. In 2019, the gross domestic product (GDP per capita) of Romania was 36,8 % of the Union average. According to the Commission's summer 2021 forecast, the real GDP of Romania declined only by 3,9 % in 2020 and is expected to increase by 3,3 % cumulatively in 2020 and 2021. Long standing issues with an impact on medium-term economic performance include risks arising from the deterioration of the current account and from the loss of competitiveness which

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could negatively feed back into the former and an accelerating government debt. Red tape and the insufficient capacity of public authorities to deliver quality services, including digital services, negatively affect citizens and businesses, especially small and medium-sized enterprises (SMEs), while the delivery of major reforms and public investments is strongly linked to improving governance. At the same time, potential output and sustainable and inclusive growth are negatively affected by high rates of risk of poverty and social exclusion, which are some of the highest in the EU.

On 9 July 2019 and on 20 July 2020, the Council addressed recommendations to Romania in the context of the European Semester. In particular, the Council recommended Romania to take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery and pursue fiscal policies to put an end to the excessive deficit situation. Also in relation to public finances, the Council recommended strengthening tax compliance and tax collection, ensuring the sustainability of the public pension system and the long-term viability of the second pillar pension funds with comprehensive structural reforms and to avoid the implementation of permanent measures that would endanger fiscal sustainability. Moreover, the Council recommended to strengthen the resilience of the health system, including in the areas of health workers and medical products, and improve access and cost-efficiency of healthcare, including through the shift to outpatient care. Particularly relevant to social challenges were the recommendations to improve the quality and inclusiveness of education, in particular for Roma and other disadvantaged groups, improve skills 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, as well as ensure objective minimum wage setting that is consistent with job creation and competitiveness. In addition, the Council recommended Romania to provide adequate income replacement and extend social protection measures and access to essential services for all. To tackle the COVID-19 crisis, Romania was recommended to mitigate the employment impact of the crisis by developing flexible working arrangements and activation measures and to strengthen skills and digital learning and ensure equal access to education. Furthermore, Romania was recommended to safeguard financial stability and the robustness of the banking sector, to ensure liquidity support to the economy benefitting businesses and households, particularly small and medium-sized enterprises and the self-employed and to front-load mature public investment projects and promote private investment to foster the economic recovery. It was recommended to focus the investments on the green and digital transition, in particular on sustainable transport, digital service infrastructure, clean and efficient production and use of energy and environmental infrastructure, taking into account regional disparities, including in the coal regions. The Council also recommended to improve the quality and effectiveness of public administration and the predictability of decision-

making, including through an adequate involvement of social partners, as well as to strengthen the corporate governance of state-owned enterprises. Having assessed progress in the implementation of those country-specific recommendations at the time of submission of the recovery and resilience plan (RRP), the Commission finds that substantial progress has been achieved with respect to the country-specific recommendation to safeguard financial stability and the robustness of the banking sector and the recommendation on immediate fiscal policy response to effectively address the pandemic, sustain the economy and support the ensuing recovery. In addition, the recommendation to maintain adequate liquidity for SMEs and self-employed has been fully implemented.

On 2 June 2021, the Commission published an in-depth review under *Article 5 of Regulation (EU) No 1176/2011 of the European Parliament and of the Council for Romania*. The Commission's analysis led it to conclude that Romania is experiencing macroeconomic imbalances, related in particular to risks of cost competitiveness losses, a deteriorating external position and a widening current account deficit, in a context of expansionary fiscal policy and an unpredictable business environment.

On 31 May 2021, Romania submitted its national RRP to the Commission, in accordance with *Article 18 (1) of Regulation (EU) 2021/241*. The submission followed a consultation process, conducted in accordance with the national legal framework, involving local and regional authorities, social partners, civil society organisations, youth organisations and other relevant stakeholders. National ownership of the RRP underpins their successful implementation and lasting impact at national level and credibility at European level. Pursuant to *Article 19 of Regulation (EU) 2021/241*, the Commission has assessed the relevance, effectiveness, efficiency and coherence of the RRP, in accordance with the assessment guidelines offset out in *Annex V* to that *Regulation*.

The RRP should pursue the general objectives of the Recovery and Resilience Facility, established by Regulation (EU) 2021/241 (the Facility) and of the European Union Recovery Instrument set up by Council Regulation (EU) 2020/20943 in order to support the recovery in the aftermath of the COVID-19 crisis. They should promote the Union's economic, social and territorial cohesion by contributing to the six pillars referred to in Article 3 of Regulation (EU) 2021/241.

The implementation of the Member States' RRP will constitute a coordinated effort involving reforms and investments across the Union. Through coordinated and simultaneous implementation and the implementation of *cross-border and multi-country projects*, such *reforms* and *investments* will mutually reinforce each other and generate positive spillovers across the Union. Therefore, about one third of the impact of the *Facility on Member States' growth and job creation* will come from spillovers from other Member States.

In accordance with *Article 19 (3), point (a) of Annex V, criterion 2.1. to Regulation (EU) 2021/241*, the RRP represents to a large extent a comprehensive and adequately balanced response to the economic and social situation, thereby contributing appropriately to all of the six pillars referred to in *Article 3 of that Regulation*, considering the specific challenges faced by Romania and taking into account the financial contribution and the requested loan support.

The plan follows a holistic approach to achieve recovery and increase potential growth, while enhancing socio-economic and institutional resilience. The plan contains mutually reinforcing and coherent reforms and investments that refer to policy areas of European relevance structured around the six pillars.

The plan has a strong focus on the green transition pillar with energy and climate related measures, with flagship reforms on the phasing-out of coal and the decarbonisation of road transport. The reforms and investments are expected to significantly decarbonise the energy sector and unlock the potential for renewables deployment. The strong focus on energy efficiency of private and public buildings, digitalisation of road and rail transport and the deployment of electric charging infrastructures, climate change adaptation and circular economy, will also facilitate the green transition in all sectors of the economy. The plan also contributes to the digital transition. Measures contributing to digital objectives are present throughout the plan, across the different components and focus on the digitalisation of the public administration (including health, justice, environment, employment and social protection) and businesses, connectivity, cybersecurity and digital skills.

Several components in the plan have the potential to foster smart and sustainable growth. The plan contains a series of measures, including through the use of new financial instruments and the creation of a National Development Bank that are expected to directly or indirectly support private investments, including for small and medium-sized enterprises (SMEs), increase the capacity of the country to attract investment and create new businesses and jobs. The plan also aims to reinforce fiscal sustainability through important reforms of the tax administration, tax framework, fiscal management and the pension system. The plan envisages to strengthen social and territorial cohesion through structural measures on the labour market and important reforms and investments targeting both urban and rural development, which are expected to reduce territorial disparities at regional, intra-regional and intra-county level.

The proposed reforms and investments are expected to strengthen the overall resilience of the health system, including its digitalisation. Finally, measures in the plan aim to help the next generations mainly by addressing challenges in terms of quality, equity and infrastructure in the educational system. The upgrade of school and university infrastructure in urban and rural areas, the digitalisation of education and a system of grants to reduce the drop-out rate are the main measures to address these challenges.

In accordance with *Article 19 (3), point (b) of Annex V, criterion 2.2. to Regulation (EU) 2021/241*, the RRP is expected to contribute to effectively addressing all or a significant subset of challenges, identified in the relevant country-specific recommendations addressed to Romania, including fiscal aspects thereof and recommendations made pursuant to *Article 6 of Regulation (EU) No 1176/2011*, or challenges identified in other relevant documents officially adopted by the Commission in the context of the European Semester. The recommendations related to the immediate fiscal policy response to the pandemic can be considered to fall outside the scope of Romania's RRP, notwithstanding the fact that Romania has generally responded adequately and sufficiently to the immediate need to support the economy through fiscal means in 2020 and 2021, in line with the general escape clause of the *Stability and Growth Pact*. The recommendations also referred to the need for Romania to pursue fiscal policies in line with the Council's recommendation under *Article 126 (7) of the Treaty* to end the excessive deficit situation. On 18 June 2021, the Council recommended to Romania to put an end to the excessive deficit situation by 2024 at the latest, with a deadline of 15 October 2021 for Romania to take effective action and to report on its consolidation strategy.

The plan includes an extensive set of mutually reinforcing reforms and investments that contribute to effectively addressing all or a significant subset of the economic and social challenges outlined in the country-specific recommendations addressed to Romania by the Council in the European Semester in 2019 and in 2020. Notably, reforms and investments included in the plan are expected to contribute in the areas of sustainability of public finances and pension system, healthcare, public administration, business environment, education, and green and digital transition.

The full digitalisation of the tax administration and gradual phase out of excessive tax incentives, as well as an improved fiscal framework, will contribute to the sustainability of public finances. The plan also aims at ensuring the sustainability and fairness of the public pension system. Healthcare reforms, accompanied by digitalisation investments, are expected to improve access, cost-efficiency and resilience of healthcare.

Evidence-based decision making, long-term planning and public consultations and measures aimed at improving the public procurement process, reinforcing the effectiveness and independence of the judicial system and fighting corruption will contribute to improving the quality and effectiveness of the public administration. Reforms of minimum wage setting, strengthening corporate governance of state-owned enterprises and social dialogue also address long-standing country-specific recommendations. The plan also aims to develop a unitary, inclusive and quality early-childhood education and care system accompanied by investments in childcare.

This decision is without prejudice to the *Commission Decision 6569 of 13 December 2006* establishing a mechanism for cooperation and verification of



progress in Romania to address specific benchmarks in the areas of judicial reform and the fight against corruption. The benchmarks in the Annex to that Decision are intended to ensure that Romania complies with the value of the rule of law, as set out in *Article 2 TEU*, and are binding on it. Romania is required to take the appropriate measures for the purposes of addressing those benchmarks, taking due account, under the principle of sincere cooperation laid down in *Article 4 (3) TEU*, of the reports drawn up by the Commission on the basis of that Decision and in particular the recommendations made in those reports.

The plan promotes sustainable and digital investments and supports research and development activities. Reforms related to the coal phase-out, the establishment of a government cloud and the deployment of the electronic identity card contribute to supporting the twin green and digital transition.

By addressing the aforementioned challenges, the plan is expected to also contribute to correcting the imbalances, as identified in recommendations made pursuant to *Article 6 of Regulation (EU) No 1176/2011* in 2020, that Romania is experiencing, in particular with regard to risks of cost competitiveness losses, a deteriorating external position and a widening current account deficit, in a context of expansionary fiscal policy and an unpredictable business environment.

In accordance with *Article 19 (3), point (c) of Annex V, criterion 2.3. to Regulation (EU) 2021/241*, the RRP is expected to have a high impact on strengthening the growth potential, job creation and economic, social and institutional resilience of Romania, contributing to the implementation of the *European Pillar of Social Rights*, including through the promotion of policies for children and youth and on mitigating the economic and social impact of the COVID-19 crisis, thereby enhancing the economic, social and territorial cohesion and convergence within the Union.

Simulations by the Commission services show that the RRP, together with the rest of measures of the *European Union Recovery Instrument*, has the potential to increase the GDP of Romania by 1,8 % to 2,9 % by 2026, not including the possible positive impact of structural reforms, which can be substantial.

The implementation of social and educational reforms and investments are expected to tackle some of the long-standing vulnerabilities and structural deficiencies, stimulating growth. The plan includes measures to strengthen the public administration, support private investments, particularly for SMEs and strengthen the business environment, including through reducing the administrative burden for firms.

The plan's reforms in the areas of education and the labour market are expected to support a stronger labour market, favouring growth. The flagship reforms on the coal phase-out and the decarbonisation of transport and investments promoting the green and digital transition are expected to boost competitiveness and make the economy overall more sustainable.

A series of measures are expected to contribute to social cohesion and to the European Pillar of Social Rights. Those include the expansion of the availability of good quality early childhood education and care, the delivery of the minimum inclusion income reform, health reforms and the introduction of voucher system, which has the potential to increase the labour market participation of inactive people and access to social services for newly employed workers.

Social resilience is expected to improve as a result of the educational reforms and investments included in the plan. Having a well-skilled labour force and reducing early school leaving should make the economy better placed to withstand future shocks and the population more adaptable to changing economic patterns.

Poverty and income inequality deepened during the pandemic outbreak and regional disparities persist, with vulnerable groups being more affected. The plan aims to contribute to the implementation of the European Pillar of Social Rights, through the promotion of policies for children and youth. Reforms and investments are expected to respond to structural problems in areas where the pandemic crisis has taken its toll, with a focus on health, education and the business environment. In addition, investments in basic transport infrastructure in currently poorly connected regions of the country and digital connectivity in rural areas will be key to bringing the country closer together.

In accordance with the technical guidance, provided in the Commission Notice, entitled Technical guidance on the application of do no significant harm under the Recovery and Resilience Facility Regulation's Romania has provided evidence and assurances that the measures for the implementation of reforms and investment projects included in the plan are expected not lead to significant harm to any of the six environmental objectives, namely climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems. Where needed, Romania has proposed the implementation of mitigating measures to avoid significant harm, which should be ensured through relevant milestones.

The RRP includes long-lasting reforms and investments contributing to the green transition. The plan includes a reform on the phase out of coal and lignite power production by 2032, which is crucial for the decarbonisation of the energy sector and to unlock the potential for renewables deployment. Reforms promoting sustainable transport include the decarbonisation of road transport, green taxation, incentives for zero-emission vehicles, modal shift to railways and water transport and measures to promote road safety. The plan has also a strong focus on energy efficiency of private and public buildings. The introduction of green budgetary planning, digitalisation of road and rail transport and the deployment of electric charging infrastructures, climate change adaptation and circular economy, is expected to also facilitate the green transition in all sectors of the economy.

With several reforms and investments in the forestry sector, such as the adoption of the *National Forest Strategy* and the ecological reconstruction of habitats and the conservation of species, the plan is also expected to contribute to biodiversity conservation and restoration. The implementation of reforms and investments on resource efficiency, material reuse and reducing waste aim to ensure Romania's transition to a circular economy by 2030.

In accordance with *Article 19 (3), point (f) of Annex V, criterion 2.6. to Regulation (EU) 2021/241*, the RRP contains measures that contribute to a large extent to the digital transition or to addressing the challenges resulting from it. The measures supporting digital objectives account for an amount which represents 20,5 % of the RRP's total allocation calculated in accordance with the methodology set out in the *Annex VII to Regulation (EU) 2021/241*.

The plan is expected to address digitalisation challenges related to the public administration, proposing a comprehensive package of reforms and investments in order to provide secure, interoperable, cost-efficient and fast user-centred services for citizens and businesses. The plan includes a new *Information Systems Interoperability Law* which is expected to detail the uniform set of standards and rules that public entities are supposed to apply for the development of applications in a secure and sustainable environment, a *Government Cloud Act* setting out the responsibilities and tasks regarding the design, implementation, development and management of the cloud infrastructure, technologies and services, a cybersecurity strategy and a reform implementing the recommendations of the *Common Union Toolbox for Connectivity* as well as the 5G security law, laying the ground for the 5G deployment. Reforms are underpinned by a broad range of key investments, such as the development of the governmental cloud, the digitalisation of health, judiciary, environment, employment and social protection, public procurement, non-governmental organisations, connectivity for white areas, ensuring cybersecurity for different structures and increasing digital skills both for civil servants and the population at large. The deployment of the electronic identity card is expected to facilitate the digital interaction between public/private entities and citizens. Moreover, with the inclusion of the definition of new digital occupations in the *Classifications of Occupations Code*, the labour market is expected to align to the latest developments in the digital sector.

The plan also supports the digitalisation of road and rail transport and facilitates taxpayers' compliance through the development of digital services, updating systems and applications of the tax and customs authorities. The business sector is expected to benefit from significant investments aiming to accelerate the digitalisation of both SMEs and large companies with a focus on the development and adoption of advanced technologies (such as blockchain, quantum, cloud computing, artificial intelligence). An underpinning reform is expected to streamline, simplify and fully digitalise business related regulatory requirements (such as setting up a company, exit from the market/closure of a

business as well as for regulatory requirements for reporting of labour market obligations for companies). As regards education, reforms include standards for ensuring the quality of online educational activities and the alignment of the educational system to the *DigComp European framework for digital competences for students*. The corresponding investments tackle the development of thematic training courses, for digital literacy and digital pedagogy competences in particular for teachers in rural areas and other disadvantaged environment, grants for informatics laboratories and smart hubs, development of open educational resources and schemes for digitalisation of universities.

All the plan's components include measures with direct contribution to the digital transformation or addressing related challenges. The key components are the digital transformation, followed by education, sustainable transport and business support and R&D&I. The measures contributing to the digital transformation are expected to improve the effectiveness of the public administration, lowering the administrative burdens, increasing the competitiveness of the businesses and equip parts of the population (notably students, teachers and civil servants with basic and advanced digital skills), enabling a synergetic effect for the economy as a whole. The digital dimension is strengthened with a cross-border dimension, as Romania is expected to participate in a multi-country project on low power processors and semiconductor chips planned as an *Important Project of Common European Interest*.

In accordance with *Article 19 (3), point (g) of Annex V, criterion 2.7. to Regulation (EU) 2021/241*, the RRP is expected to have a lasting impact on Romania to a large extent.

The reforms proposed in the plan are expected to contribute to Romania's capacity to deliver long-term results and structural change. The reform on recruitment, wages and career progression in the public sector is expected to attract skilled and professional human resources. An independent review and the adoption of the recommendations that follow should make the tax system fairer and more efficient. The pension system reform should make the system fairer and more sustainable. The reform of the energy sector should contribute to decarbonisation of energy production. A broader use of green taxation is expected to incentivise citizens and companies to adopt a more environmentally sustainable behaviour, while making the taxation system fairer towards non-pollutants. The establishment of metropolitan areas and rural consortia is expected to broaden the policy tools that neighbouring municipalities have at their disposal to face cross-border issues – such as traffic congestion, air pollution, water management and housing policy. Similarly, legal provisions will encourage the voluntary merging of research institutions, thus enhancing the research and innovation capacity of the country.

The plan contains investments expected to have a lasting impact, supporting the green and digital transition of the economy. The digital-related measures in the plan are designed to increase the level of digitalisation of relevant

institutions, which is expected to have a lasting impact on the quality of services, the business environment and the optimal use of government data. This concerns essential areas such as the judicial system, social security, the health system, the cybersecurity framework or platforms to improve interactions between public administrations and citizens or businesses. The plan further contributes to the good functioning of the public administration in Romania. Positive labour market outcomes are expected to occur as a result of complementarities between the introduction of the voucher scheme for domestic workers, the improvement of the digital services provided by the employment services, and the deployment of programs for the development of digital skills. Public healthcare quality and access to healthcare is expected to increase as a result of the implementation of a performance-based disbursement system for healthcare providers, improved health workforce management and investments in healthcare infrastructure. With the establishment of the task-force to implement and monitor digital transformation reforms and investments, civil servants should develop specific digital skills, thus enabling continuous improvements in the delivery of quality public services.

The lasting impact of the plan can also be enhanced through synergies between the plan and other programmes, including those financed by cohesion policy funds, in particular by addressing in a substantive manner the deeply rooted territorial challenges and promoting a balanced development.

In accordance with *Article 19 (3), point (h) of Annex V, criterion 2.8. to Regulation (EU) 2021/241*, the arrangements proposed in the RRP are adequate to ensure effective monitoring and implementation of the RRP, including the envisaged timetable, milestones and targets and the related indicators.

A multi-level governance is envisaged for the implementation and monitoring of the RRP. At central level, the coordination is ensured by the Inter-ministerial Committee for the Coordination of the recovery and resilience plan, responsible for examining progress in the implementation of the plan, in close cooperation with the Ministry of Investment and European Projects (MIPE). MIPE is appointed as the national coordinator for the preparation, negotiation and approval of the plan, assisted by the Ministry of Public Finances (for tasks related to signing the loan agreement and the financing agreement). A specialised structured within the MIPE shall be established for this task. The implementation of the RRP shall be ensured by line ministries and their subordinated structures, through the conclusion of financing agreements with MIPE. The contracts shall comprise provisions related to the monitoring of the investments and reforms, financial planning execution as well as reporting obligations. The plan also envisages that an independent audit body will be responsible for the implementation of audit and control. This body is the same audit authority as the one used for the European Structural and Investment Funds and is independent from the coordination body and institutions responsible for the implementation of the reforms and investments. The strengthening of administrative capacity, including through the recruitment of additional human resources shall be

enshrined in a legal act, with the aim to ensure a timely and effective implementation of the plan's measures. The governance model provides for the assignment of clear responsibilities for the implementation of the plan, the monitoring of progress and reporting. The milestones and targets of the Romanian plan are clear and realistic, and adequately reflect the investments and reforms envisaged in the plan. The indicators are relevant, acceptable and sufficiently robust. Milestones and targets are also relevant for measures already completed which are eligible under *Article 17 (2) of Regulation (EU) 2021/241*. The satisfactory fulfilment of these milestones and targets over time is required to justify a disbursement request.

Member States should ensure that financial support under the Facility is communicated and acknowledged in line with *Article 34 of Regulation (EU) 2021/241*.

In accordance with *Article 19 (3), point (i) of Annex V, criterion 2.9. to Regulation (EU) 2021/241*, the justification provided in the RRP on the amount of the estimated total costs of the RRP is to a medium extent, reasonable and plausible, is in line with the principle of cost efficiency and is commensurate to the expected national economic and social impact.

The information and evidence on estimated total costs presented is, for the most part, detailed and clear for a majority of measures. In most cases, Romania provided information either on actual or similar past investment projects or on comparative cost data for the main costs drivers that allow substantiating most cost estimates. For most measures, the information on estimated total costs includes clear supporting evidence or relevant references justifying the reference unit costs applied. For certain measures, further information presenting more detailed estimations and justifications could have increased the level of assurance that costs are reasonable and plausible. Since, for those cost estimates, the methodology used is not sufficiently well explained and the link between the justification and the cost itself is at times not fully clear the rating for the costing assessment criterion is medium. Romania provided sufficient information and evidence that the amount of the estimated total costs of the recovery and resilience plan to be financed under the Facility is not covered by existing or planned Union financing. Finally, the estimated total costs of the RRP is in line with the principle of cost-efficiency and is commensurate to the expected national economic and social impact.

In conclusion, PNRR is currently the subject that should interest any Romanian, any organization (public or private), any project manager, practically anyone, because this program can produce social, economic, political, ecological and legislative changes that will majorly impact the life of all Romanians, because almost 30 billion euros, European money, can reach our country. This money is to be used to modernize roads, schools and hospitals, to digitize public and local administration, but also to produce green energy. *The National Recovery and Resilience Plan* (PNRR) is structured on two major lines of action, reforms and

investments, which bring Romania the perspective of modernization and profound changes expected by civil society, business environment and the public sector in Romania. The PNRR could be Romania's chance to recover (being about recovery and resilience) and to use that resource to build hospitals, schools or roads.