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Recommendation for a

COUNCIL RECOMMENDATION

with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective

in Romania

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THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular the second sub-paragraph 10(2), thereof,

Having regard to the recommendation of the Commission,

Whereas:

(1) In accordance with Article 121 of the Treaty Member States are to promote sound public finances over the medium term through the coordination of economic policies and multilateral surveillance in order to avoid the occurrence of excessive government deficits.

(2) The Stability and Growth Pact (SGP) is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation.

(3) In June 2017[2] and June 2018[3] the Council found in accordance with Article 121(4) of the Treaty that in, respectively, 2016 and 2017, there had been a significant observed deviation from Romania's medium-term budgetary objective or from the adjustment path towards it. In view of those established significant deviations the Council issued Recommendations for Romania to take the necessary policy measures to address them. The Council subsequently found that Romania had not taken effective action in response to those Recommendations. In its most recent Recommendation, adopted on 4 December 2018[4] the Council recommended that Romania take the necessary measures to ensure that the nominal growth rate of net primary government expenditure[5] does not exceed 4.5% in 2019, corresponding to an annual structural adjustment of 1.0% of GDP.

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1 OJ L 209, 2.8.1997, p. 1.
2 OJ C 216, 6.7.2017, p. 1
3 OJ C 223, 27.6.2018, p. 3.
4 OJ C 460, 21.12.2018, p. 1.
5 Net primary government expenditure is comprised of total government expenditure excluding interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-

(4) In 2018, based on the Commission 2019 spring forecast and the 2018 outturn data validated by Eurostat, the growth of net primary government expenditure was well above the expenditure benchmark, pointing to a significant deviation by a large margin (deviation of 2.4% of GDP). The structural deficit was not reduced, remaining broadly stable at around 3.0% of potential GDP, also pointing to a significant deviation from the recommended structural adjustment (a deviation of 0.8% of GDP). The size of the deviation indicated by the structural balance is negatively impacted by a revenue windfall, by a higher GDP deflator and by higher underlying estimate of potential GDP growth as compared to the medium-term average underlying the expenditure benchmark. On the other hand, the size of the deviation indicated by the structural balance is positively impacted by low public investment expenditures, which are smoothed out in the expenditure benchmark. Irrespective of that difference, both indicators confirm a significant deviation from the requirements of the preventive arm of the SGP in 2018.

(5) On 5 June 2019, following an overall assessment, the Commission considered that a significant observed deviation from the adjustment path toward the medium-term budgetary objective exists in Romania and issued a warning to Romania in accordance with Article 121(4) of the Treaty and the first subparagraph of Article 10(2) of Regulation (EC) No 1466/97.

(6) In accordance with the second subparagraph of Article 10(2) of Regulation (EC) No 1466/97 the Council is to address a recommendation to the Member State concerned to take the necessary policy measures. Regulation (EC) No 1466/97 provides that the recommendation will set a deadline of no more than five months for the Member State to address the deviation. On that basis a deadline of 15 October 2019 for Romania to address the deviation appears appropriate. Within that deadline, Romania should report on action taken in response to this Recommendation.

(7) Based on the output gap projections of the Commission 2019 spring forecast, Romania will remain in normal economic times in 2019 and 2020. Romania's general government debt ratio is below the 60% of GDP threshold. Henceforth, the minimum required structural effort prescribed by Regulation (EC) No 1466/97 and the commonly agreed adjusment matrix under the SGP, which factors in the prevailing economic circumstances and possible sustainability concerns, amounts to at least 0.5% of GDP for both 2019 and 2020.

(8) Romania's structural deficit has gradually increased, from 0.1% of GDP in 2015 to 1.7% of GDP in 2016, 2.9% of GDP in 2017 and 3.0% of GDP in 2018. An additional and persistent effort necessary to correct for the cumulated deviation and to bring Romania back on an appropriate adustment path following the persistent slippages accumulated since 2016 should complement the minimum adjustment requirement. An additional effort of 0.5% of GDP in 2019 and 0.25% of GDP in 2020 seems appropriate given the magnitude of the observed significant deviation from the recommended adjustment path towards the medium-term budgetary objective. Such an effort would be in line with the adjustment recommended for 2019 by the Council on 4

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discretionary changes in unemployment benefit expenditure. Nationally financed gross fixed capital formation is smoothed over a four-year period. Discretionary revenue measures or revenue increases mandated by law are factored in. One-off measures on both the revenue and expenditure sides are netted out.

December 2018. It will accelerate the adjustment back towards the medium-term budgetary objective.

(9) The required improvement of the structural balance by 1.0% of GDP in 2019 and 0.75% of GDP in 2020 is consistent with the nominal growth rate of net primary government expenditure not exceeding 4.5% in 2019 and 5.1% in 2020.

(10) The Commission 2019 spring forecast projects a further deterioration of the structural balance by 0.7% of GDP in 2019 and by a further 1.2% of GDP in 2020. Therefore, the required structural improvement translates into the need to adopt measures of a total structural yield of 1.7% of GDP in 2019 and additonal measures of a structural yield of 1.95% of GDP in 2020 compared to the current baseline in the Commission 2019 spring forecast.

(11) The Commission 2019 spring forecast projects a general government deficit of 3.5% of GDP in 2019 and 4.7% of GDP in 2020, which is above the 3% of GDP Treaty reference value. The required structural adjustment seems also appropriate to ensure that Romania respects the 3% of GDP Treaty reference value in 2019 and 2020 with a margin.

(12) The failure to act upon earlier recommendations to correct the observed significant deviations and the risk of exceeding the Treaty reference value of the corrective arm of the Stability and Growth Pact call for urgent action to put Romania's fiscal policy back on a prudent path.

(13) In order to achieve the recommended budgetary targets, it is crucial that Romania adopts and strictly implements the necessary measures and monitors the development of current expenditure closely.

(14) Romania should report to the Council on action taken in response to this Recommendation by 15 October 2019.

(15) It is appropriate that this Recommendation be made public,

HEREBY RECOMMENDS THAT ROMANIA:

(1) take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 4.5% in 2019 and 5.1% in 2020, corresponding to an annual structural adjustment of 1.0% of GDP in 2019 and 0.75% in 2020, thereby putting the Member State on an appropriate adjustment path toward the medium-term budgetary objective;

(2) use any windfall gains for deficit reduction; budgetary consolidation measures should secure a lasting improvement in the general government structural balance in a growth-friendly manner;

(3) report to the Council by 15 October 2019 on action taken in response to this Recommendation; the report should provide sufficiently specified and credibly announced measures with a view to complying with the required adjustment path, including budgetary impact of each of them, as well as updated and detailed budgetary projections for 2019-2020.

This recommendation is addressed to Romania.

Done at Brussels,

For the Council
The President