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Recommendation for a

COUNCIL DECISION

establishing that no effective action has been taken by Romania in response to the Council Recommendation of 22 June 2018

{SWD(2018) 503 final}

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97[1], and in particular Article 10(2), fourth subparagraph, thereof,

Having regard to the recommendation from the European Commission,

Whereas:

(1) On 22 June 2018, the Council decided in accordance with Article 121(4) of the Treaty on the Functioning of the European Union ('TFEU') that a significant observed deviation from the adjustment path toward the medium-term budgetary objective of -1% of GDP existed in Romania.

(2) In view of the established significant deviation, the Council on 22 June 2018 issued a recommendation[2] for Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure[3] does not exceed 3.3% in 2018 and 5.1% in 2019, corresponding to an annual structural adjustment of 0.8% of GDP in each year. It also recommended that Romania use any windfall gains for deficit reduction, while budgetary consolidation measures should ensure a lasting improvement in the general government structural balance in a growth-friendly manner. The Council established a deadline of 15 October 2018 for Romania to report on the action taken in response to the recommendation.

(3) On 27 and 28 September 2018, the Commission undertook an enhanced surveillance mission in Romania for the purpose of on-site monitoring under Article -11(2) of Council Regulation (EC) No 1466/97. After having transmitted its provisional findings to the Romanian authorities for comments, the Commission reported its findings to the Council on 21 November 2018. Those findings were subsequently made public. The Commission report finds that the Romanian authorities maintain the 2018 headline deficit target of just below 3% of GDP and thus do not intend to

[1] OJ L 209, 2.8.1997, p. 1.

[2] OJ C 223, 27.6.2018, p. 3.

[3] 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-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.

act upon the Council recommendation of 22 June 2018. In 2019, the government plans to lower the headline deficit to 2.38% of GDP, but the measures remain to be specified.

(4) On 16 October 2018 the Romanian authorities submitted a report on action taken in response to the Council Recommendation of 22 June 2018[4]. In the report, the authorities reiterated that their target for 2018 remains a headline deficit of 2.96% of GDP. For 2019, the authorities target a deficit of 2.38% of GDP. The report does not mention new measures for 2018. For 2019, the report relies on containing expenditures on compensation of employees and goods and services, without backing it by sufficiently detailed and adopted or at least credibly announced measures. On the revenue side the report mentions a prolongation of already existing measures and some actions aimed at increasing tax compliance. Overall, the fiscal impact of the reported measures falls short of the requirement stated in the Council Recommendation of 22 June 2018.

(5) In 2018, based on the Commission 2018 autumn forecast, the growth of net primary government expenditure is set to amount to 11.3%, well above the expenditure benchmark of 3.3%. The structural balance is set to remain broadly stable in 2018, at 3.3% of GDP. Therefore, both pillars point to a risk of a deviation from the recommended adjustment. The expenditure benchmark points to a deviation of 2.3% of GDP. The structural balance confirms this reading, indicating a smaller deviation of 0.8% of GDP. The structural balance is positively impacted by a significantly higher GDP deflator and by a higher point estimate for potential GDP growth compared to the medium-term average underlying the expenditure benchmark. This impact is partially offset by the impact of an increase of public investment, which is smoothed out in the expenditure benchmark. Therefore, the overall assessment confirms the deviation by a wide margin from the adjustment recommended by the Council.

(6) In 2019, based on the Commission 2018 autumn forecast, the growth of nominal government expenditure, net of discretionary revenue measures and one-offs is set to amount to 7.5%, well above the expenditure benchmark of 5.1% (deviation of 0.7% of GDP from the recommended adjustment). The structural balance is set to increase by 0.1 % of GDP, reaching a deficit of 3.4% (deviation of 0.9% of GDP). Therefore, as both pillars point to a deviation from the required adjustment by a similar margin in 2019, the overall assessment confirms the deviation from the adjustment recommended by the Council.

(7) Moreover, the Commission 2018 autumn forecast projects a general government deficit of 3.3% in 2018 and 3.4% in 2019, which is above the 3% of GDP Treaty reference value.

(8) The above findings lead to the conclusion that Romania's response to the Council Recommendation of 22 June 2018 has been insufficient. The fiscal effort falls short of ensuring that the nominal growth rate of net primary government expenditure does not exceed 3.3% in 2018 and 5.1% in 2019, which corresponds to an annual structural adjustment of 0.8% of GDP in each year,

[4] Available at http://data.consilium.europa.eu/doc/document/ST-13279-2018-INIT/en/pdf

HAS ADOPTED THIS DECISION:

Article 1

Romania has not taken effective action in response to the Council Recommendation of 22 June 2018.

Article 2

This Decision is addressed to Romania.

Done at Brussels,

For the Council
The President