EUROPEAN
COMMISSION

Brussels, 21.11.2018
COM(2018) 802 final

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

{SWD(2018) 503 final}

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

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 of Article 10(2) thereof,

Having regard to the recommendation from the European Commission,

Whereas:

(1) On 16 June 2017, 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 medium-term budgetary objective of -1% of GDP occurred in Romania in 2016. In view of the established significant deviation, on 16 June 2017 it issued a recommendation for Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure did not exceed 3.3% in 2017, corresponding to an annual structural adjustment of 0.5% of GDP. On 5 December 2017 the Council found that Romania had not taken effective action in response to the Recommendation of 16 June 2017 and issued a new recommendation. In the new recommendation the Council asked Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 3.3% in 2018, corresponding to an annual structural adjustment of 0.8% of GDP. On 22 June 2018 the Council found that Romania had not taken effective action in response to the revised recommendation of 5 December 2017.

(2) On 22 June 2018, the Council decided in accordance with Article 121(4) TFEU that a significant observed deviation from the adjustment path toward the medium-term budgetary objective had also occurred in Romania in 2017. In view of the established significant deviation, on 22 June 2018 the Council 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,

[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

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 this recommendation.

(3) On 13 July 2018, the Council recommended that Romania ensure that, in 2018 and in 2019, it comply with the Council Recommendation of 22 June 2018 with a view to correct the significant deviation from the adjustment path toward the medium-term bdgetary objective.[4]

(4) 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 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.

(5) On 16 October 2018, the Romanian authorities submitted the report on effective action in response to the Council Recommendation of 22 June 2018[5]. Given the information provided by the authorities in their report and the overall assessment based on the Commission autumn 2018 forecast, on 21 November 2018 the Council concluded that Romania has not taken effective action in response to the Council Recommendation of 22 June 2018.

(6) In light of the absence of effective action by Romania and the cumulated high deviation from the appropriate adjustment path toward the medium-term budgetary objective, it is appropriate to address to the Member State a revised recommendation on the appropriate measures to be taken.under Article 121(4) TFEU.

(7) Romania's structural deficit has increased by 2.1% of GDP in 2016 and by 1.2% of GDP in 2017. It reached 3.4% of GDP in 2017 and is projected in the Commission 2018 autumn forecast to broadly stabilize as of 2018. In order to correct for the cumulated deviation and to bring Romania back on an appropriate adjustment path following the past slippages, an additional effort should complement the structural effort of 0.8% of GDP recommended by the Council on 22 June 2018. An additional effort of 0.2% of GDP seems appropriate given the magnitude of the observed significant deviation from the recommended adjustment path towards the medium-term budgetary objective. It will accelerate the adjustment back towards the medium-term budgetary objective without putting economic growth at risk.

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

(9) The Commission 2018 autumn forecast projects a deterioration of the structural balance by 0.1% of GDP in 2019. Therefore, a structural improvement of 1.0% of GDP translates into the need to adopt measures of a total structural yield of 1.1% of

---

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.

[4] Council Recommendation of 13 July 2018 on the 2018 National Reform Programme of Romania and delivering a Council opinion on the 2018 Convergence Programme of Romania (OJ C 320, 10.9.2018, p. 98).

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

GDP in 2019 compared to the current baseline in the Commission 2018 autumn forecast.

(10) The Commission 2018 autumn forecast projects a general government deficit of 3.4% in 2019, 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 with a margin.

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

(12) 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.

(13) The requirements issued in this recommendation supersede the corresponding elements set out in the fiscal recommendation contained in the Council Recommendation addressed to Romania on 13 July 2018.

(14) Romania should report to the Council on action taken in response to this Recommendation by 15 April 2019, possibly as part of its Covergence Programme submitted pursuant to Article 7 of Regulation (EC) No 1466/97.

(15) It is appropriate that this recommendation should 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, corresponding to an annual structural adjustment of 1.0% of GDP, 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 April 2019 on action taken in response to this Recommendation; the report should provide sufficiently specified and credibly announced measures, including budgetary impact of each of them, as well as updated and detailed budgetary projections for 2019.

This recommendation is addressed to Romania.

Done at Brussels,

For the Council
The President