Council of the European Union

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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	COUNCIL RECOMMENDATION with a view to bringing an end to the situation of an excessive deficit in Romania

COUNCIL RECOMMENDATION

with a view to bringing an end to the situation of an excessive deficit in Romania

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union (TFEU), and in particular Article 126(7) thereof,

Having regard to the recommendation from the Commission, Whereas:

(1) According to Article 126 of the TFEU, Member States shall avoid excessive government deficits.

(2) The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong, sustainable and inclusive growth underpinned by financial stability, thereby supporting the achievement of the Union's objectives for sustainable growth and employment.

(3) On 30 April 2024, the EU's reformed economic governance framework entered into force. The framework includes Regulation (EU) 2024/1263[1] of 29 April 2024 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also includes Council Regulation (EU) 2024/1264 amending Council Regulation (EC) No 1467/97[2] on speeding up and clarifying the implementation of the excessive deficit procedure, as well as Council Directive (EU) 2024/1265[3] of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States.

1 OJ L, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.
2 OJ L 209, 2.8.1997, ELI: http://data.europa.eu/eli/reg/1997/1467/2024-04-30.
3 OJ L, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj.

(4) Romania has been subject to an excessive deficit procedure since April 2020.
On 3 April 2020, the Council, acting upon a recommendation by the Commission, adopted Decision (EU) 2020/509 under Article 126(6) TFEU on the existence of an excessive deficit situation in Romania due to a planned non-compliance with the deficit criterion of the TFEU, and issued a Recommendation under Article 126(7) TFEU with a view to bringing an end to the situation of an excessive government deficit by 2022 at the latest[4]. In light of the deep contraction in economic activity linked to the COVID-19 pandemic, on 18 June 2021 the Council adopted a revised Recommendation under Article 126(7) TFEU to Romania, extending the deadline for the correction until 2024.
On 24 November 2021, the Commission concluded that Romania had taken effective action in response to the Council Recommendation of 18 June 2021 under Article 126(7) TFEU and considered that no additional steps in the excessive deficit procedure were then necessary. However, in 2023 all sub-components of the Council Recommendation addressed to Romania in 2021 were missed by a significant margin. The headline deficit was significantly higher (6.5% of GDP vs 4.4% of GDP in the Council Recommendation), the structural effort was much lower than recommended, and growth in net expenditure much higher than recommended. Therefore, on 26 July 2024 the Council adopted a Decision under Article 126(8) TFEU on the absence of effective action[5].

[4] All documents related to the excessive deficit procedure of Romania can be found at: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/corrective-arm-excessive-deficit-procedure/excessive-deficit-procedures-overview/romania_en.

[5] OJ L, 1.8.2024, ELI: https://eur-lex.europa.eu/eli/dec/2024/2130/oj.

(5) In case of non-effective action by a Member State, Article 126 TFEU requires the Council to adopt a revised recommendation addressed to the Member State concerned with a view to bringing the situation of excessive deficit to an end within a given period. In line with Article 3(4) of Council Regulation (EC) 1467/97, that recommendation is also to establish a maximum deadline of six months for effective action to be taken by the Member State concerned to correct the excessive deficit, which can be reduced to three months when warranted by the seriousness of the situation. Furthermore, in its recommendation, the Council is to request that the Member State implements a corrective net expenditure[6] path, which ensures that the general government deficit is brought and maintained below the 3% of GDP reference value within the deadline set in that recommendation. Where the excessive deficit procedure was opened on the basis of the deficit criterion, the corrective net expenditure path is to be consistent with a minimum annual structural adjustment of at least 0.5% GDP as a benchmark for the years when the general government deficit is expected to exceed the reference value. The Commission may, during a transition period in 2025, 2026, and 2027, adjust the benchmark to take into account the increase in interest payments when setting the proposed corrective path for those years, taking into account recital 23 of Council Regulation (EU) 2024/1264.

(6) The Council Decision of 26 July 2024 took into account that the next step in the excessive deficit procedure, namely a revised Commission recommendation for a Council recommendation under Article 126(7) TFEU on the correction of the excessive deficit, would take place after the submission of the national medium-term fiscal-structural plan in accordance with Articles 11 and 36(1), point (a) of Regulation (EU) 2024/1263. This approach allows to ensure consistency between the budgetary requirements under the excessive deficit procedure and the adjustment path set out in the medium-term fiscal-structural plan. This timeline and the splitting of the decisions under Article 126(6) and Article 126(7) is exceptional and linked to the transition to the new framework, therefore not setting a precedent.

[6] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

(7) Real GDP in Romania expanded by 2.4% in 2023. According to the European Commission Autumn 2024 Forecast, the economy is expected to grow by 1.4% in 2024, with strong domestic demand offset by a negative contribution from net exports. In 2025, real GDP is expected to increase by 2.5%, driven by a gradual pick-up in external demand and exports, further easing of financial conditions, resilient private consumption, an acceleration in private investment, and support from EU-funded investment in public infrastructure. The unemployment rate is projected to remain stable at 5.5% in 2024 and 2025. Inflation is set to decrease from 9.7% in 2023 to 5.5% in 2024, and then to 3.9% in 2025.

(8) According to the data validated by Eurostat on 22 October 2024[7], the general government deficit in Romania stood at 6.5% of GDP in 2023. The European Commission Autumn 2024 Forecast projects a general government deficit of 8.0% of GDP in 2024 and 7.9% of GDP in 2025, thus above the reference value in both years. The structural deficit is projected at 7.4% of GDP in 2024 and is expected to remain roughly unchanged in 2025.

(9) General government debt stood at 48.9% of GDP at end-2023. According to the European Commission Autumn 2024 Forecast, it is projected to increase to 52.2% of GDP at end-2024 and 56.1% of GDP at end-2025, thus remaining below the 60% of GDP reference value.

(10) On 25 October 2024, Romania submitted its first national medium-term fiscal-structural plan, in accordance with Articles 11 and 36(1), point (a) of Regulation (EU) 2024/1263. The plan covers the period 2025-2031 and presents a fiscal adjustment spread over seven years. The Council Recommendation endorsing the national medium-term fiscal-structural plan of Romania for the years 2025 to 2031 and endorsing a set of reforms and investment commitments in the plan underpinning an extension of the adjustment period recommends a net expenditure path that factors in all the necessary requirements of a corrective path and should be recommended as the corrective net expenditure path under the excessive deficit procedure. The corrective net expenditure path is thus consistent with a minimum annual structural adjustment of at least 0.5% GDP as a benchmark for the years when the general government deficit is expected to exceed the reference value, in line with Council Regulation (EC) 1467/97.

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7 Eurostat Euro Indicators published on 22 October 2024. See: https://ec.europa.eu/eurostat/en/web/products-euro-indicators/w/2-22102024-ap.

(11) Based on the net expenditure path, as the sole operational reference for monitoring compliance, which is set out in the Council Recommendation endorsing the plan of Romania, and in this recommendation, and based on the European Commission medium-term government debt projection framework and the European Commission Autumn 2024 Forecast, the general government deficit is expected to decrease from 8.0% of GDP in 2024 to 2.9% by 2030. However, based on the assumptions of the plan, the deficit would go below the 3% deficit reference value only in 2031.

(12) Based on the corrective net expenditure path to be recommended, the European Commission medium-term government debt projection framework, and the European Commission Autumn 2024 Forecast, the general government debt would increase from 52.2% of GDP at end-2024 to 59.4% in 2030.

(13) Budgetary consolidation measures should secure a lasting correction of the excessive deficit, while being geared towards enhancing the quality and composition of the public finances, preserving investment and reinforcing the growth potential of the economy. Reforms of a fiscal and broader economic nature (including the reforms underpinning the extension of the adjustment period, as specified in Annex II of the Commission Recommendation for a Council Recommendation endorsing the medium-term plan of Romania[8]) should improve the growth and resilience potential of the economy in a sustainable manner and support fiscal sustainability.

(14) The Council takes note that the precise methodology for the assessment of effective action in the context of the new fiscal framework has not yet been fully elaborated and therefore considers that a timely discussion on the methodology is warranted.

(15) In line with Article 8(3) of Regulation 1467/97, a Council decision to abrogate the excessive deficit procedure shall only be taken pursuant to Article 126(12) TFEU where the deficit has been brought below the reference value and is projected by the Commission to remain so in the current and following year.

[8] Commission Recommendation for a Council Recommendation endorsing the national medium-term fiscal-structural plan of Romania, 26.11.2024, COM(2024) 725 final.

HEREBY RECOMMENDS:

1. Romania should ensure that the nominal growth rate of net expenditure does not exceed the maxima established in Annex I.

2. Romania should thus put an end to the excessive deficit situation by 2030.

3. The Council establishes the deadline of 30 April 2025 for Romania to take effective action and present the necessary measures together with its 2025 annual progress report, to be submitted to the Commission in accordance with Article 21 of Regulation (EU) 2024/1263. Thereafter, Romania should report on progress made in the implementation of this recommendation at least every six months until the excessive deficit has been corrected.

This Recommendation is addressed to Romania.

Done at Brussels,

For the Council
The President

ANNEX I

Maximum growth rates of net expenditure

(annual and cumulative growth rates, in nominal terms)

Romania

Years		2025	2026	2027	2028	2029	2030
Growth rates (%)	Annual	5.1	4.9	4.7	4.3	4.2	3.9
	Cumulative*	20.2	26.0	31.9	37.6	43.3	49.0

* The cumulative growth rates are calculated by reference to the base year of 2023.