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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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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 10(2), second sub-paragraph, thereof,

Having regard to the recommendation of the Commission,

Whereas:

(1) According to Article 121 of the Treaty on the Functioning of the European Union, Member States shall 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) On 16 June 2017, the Council recommended Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure[2] does not exceed 3.3% in 2017, corresponding to an annual structural adjustment of 0.5% of GDP, thereby putting the country on an appropriate adjustment path toward the medium-term budgetary objective. On 5 December 2017 the Council concluded that Romania has not taken effective action in response to the Council Recommendation of 16 June 2017. On that basis, on 5 December 2017 the Council issued a revised recommendation for 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.

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

[2] 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.

(4) In 2017, based on the Commission 2018 spring forecast and the 2017 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 3.3% of GDP). The structural balance deteriorated to -3.3% of GDP from a position of -2.1% of GDP in 2016, also pointing to a significant deviation from the recommended structural adjustment by a large margin (deviation of 1.7% of GDP). The size of the deviation indicated by the structural balance is negatively impacted by a higher point estimate for potential GDP growth compared to the medium-term average underlying the expenditure benchmark, as well as by a drop in public investment, which is 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 2017.

(5) On 23 May 2018, following an overall assessment, the Commission considered that a significant observed deviation from the medium-term budgetary objective exists in Romania and issued a warning to Romania in accordance with Article 121(4) TFEU and 10(2), first-sub-paragraph, of Regulation (EC) No 1466/97.

(6) According to Article 10(2), second sub-paragraph, of Regulation (EC) No 1466/97, within one month of the date of the adoption of the warning, the Council should address a recommendation to the Member State concerned to take the necessary policy measures. The regulation foresees 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 2018] 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 2017 spring forecast, Romania will remain in normal economic times in 2018 and 2019. 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 matrix of requirements, which factors in the prevailing economic circumstances and possible sustainability concerns, amounts to 0.5% of GDP for both 2018 and 2019.

(8) Romania's structural deficit has increased by 2.1% of GDP in 2016 and by 1.2% of GDP in 2017, to 3.3% of GDP in 2017. An additional and persistent effort necessary to correct for the cumulated deviation and to bring Romania back on an appropriate adustment path following the slippages in 2016 and 2017 should complement the minimum adjustment requirement. An additional effort of 0.3% of GDP seems appropriate given the magnitude of the observed significant deviation from the recommended adjustment path towards the medium-term budgetary objective and it will accelerate the adjustment back towards the medium-term budgetary objective.

(9) The required improvement of the structural balance by 0.8% of GDP in both 2018 and 2019 is consistent with the nominal growth rate of net primary government expenditure not exceeding 3.3% in 2018 and 5.1% in 2019.

(10) The Commission 2018 spring forecast projects a further deterioration of the structural balance by 0.5% of GDP in 2018 and by a further 0.4% of GDP in 2019. Therefore, a structural improvement of 0.8% of GDP in both 2018 and 2019 translates into the need to adopt measures of a total structural yield of 1.3% of GDP in 2018 and additonal measures of a structural yield of 1.2% of GDP in 2019 compared to the current baseline in the Commission 2018 spring forecast.

(11) The Commission 2018 spring forecast projects a general government deficit of 3.4% of GDP in 2018 and 3.8% of GDP 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 2018 and 2019 with a margin.

(12) 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.

(13) It is appropriate that this recommendation should be made public.

(14) 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,

HEREBY RECOMMENDS:

(1) Romania should take the necessary measures to ensure that the nominal growth rate of net primary government expenditure 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, thereby putting the country on an appropriate adjustment path toward the medium-term budgetary objective.

(2) Romania should 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) Romania should report to the Council by [15 October 2018] 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 2018-2019.

This recommendation is addressed to Romania.

Done at Brussels,

For the Council
The President