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REPORT FROM THE COMMISSION

Romania

Report prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union

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1. INTRODUCTION

Article 126 of the Treaty on the Functioning of the European Union (the Treaty) lays down the excessive deficit procedure (EDP). That procedure is further set out in Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure[1], which is part of the Stability and Growth Pact (SGP).

According to Article 126(2) of the Treaty, the Commission has to monitor compliance with budgetary discipline on the basis of two criteria, namely: (a) whether the ratio of the planned or actual government deficit to gross domestic product (GDP) exceeds the reference value of 3%, unless either the ratio has declined substantially and continuously and reached a level that comes close to the reference value, or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value; and (b) whether the ratio of government debt to GDP exceeds the reference value of 60%, unless it is sufficiently diminishing and approaching the reference value at a satisfactory pace.

Article 126(3) of the Treaty provides that, if a Member State does not fulfil the requirements under one or both of those criteria, the Commission has to prepare a report. That report shall also "*take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State*".

Romania has been under consecutive Significant Deviation Procedures (SDP) under the preventive arm of the SGP since spring 2017. As a consequence of the significant deviation by Romania from its medium-term budgetary objective (MTO) in 2016, the Council launched an SDP in spring 2017. Since then, the Council has issued bi-annual recommendations to which Romania has not responded with effective action, repeatedly significantly deviating from the recommended adjustment path.

Data notified by the Romanian authorities on 30 September 2019[2] and subsequently validated by Eurostat[3] show that the general government headline deficit in Romania reached 3.0% of GDP in 2018, while debt stood at 35.0% of GDP. For 2019, the notification planned a general

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[1] OJ L 209, 2.8.1997, p. 6. The report also takes into account the "Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", adopted by the Economic and Financial Committee on 5 July 2016, available at: http://ec.europa.eu/economy_finance/economic_governance/sgp/legal_texts/index_en.htm .

[2] According to Regulation (EC) No 479/2009, Member States have to report to the Commission, twice a year, their planned and actual government deficit and debt levels. The most recent notification of Romania can be found at: https://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-notification-tables

[3] Eurostat news release No 161/2019, https://ec.europa.eu/eurostat/documents/2995521/10064349/2-21102019-AP-EN.pdf/61ae39d7-6764-2a16-ede5-e6da00249c27

government headline deficit of 2.8% of GDP. Taking into account the revised GDP figures announced by the national statistical office after the publication of Eurostat's press release, the headline ratios slightly changed, with the deficit standing at 2.9% of GDP and debt at 34.7% of GDP in 2018.

On 10 December 2019 the government adopted and sent to the Parliament its Fiscal-Budgetary Strategy for 2020-22 (the Fiscal Strategy), with an accrual deficit target of 3.8% of GDP in 2019.

The planned figure for the 2019 deficit provides *prima facie* evidence of the existence of an excessive deficit in Romania as set by the Treaty before, however, considering all factors as set out below.

Table 1. General government deficit and debt (% of GDP)

	2015	2016	2017	2018	2019		2020		2021	
					COM	FS	COM	FS	COM	FS
General government balance	-0.6	-2.6	-2.6	-2.9	-4.0	-3.8	-4.9	-3.6	-6.9	-3.4
General government gross debt	37.8	37.3	35.1	34.7	35.7	36.4	37.8	37.1	41.9	37.8

Sources: Commission 2020 winter forecast, extended with fiscal variables (COM) and Fiscal Strategy 2020-22 (FS)

The Commission has therefore prepared the current report. Its purpose is to comprehensively assess the planned departure from the deficit criterion, with due regard to the economic background and all other relevant factors, in order to examine whether the launch of an excessive deficit procedure is warranted. Section 2 of the report examines the deficit criterion. Section 3 examines the debt criterion. Section 4 deals with public investment and other relevant factors, including the medium-term economic and budgetary position of Romania. The analysis in this report is based on the Commission 2020 winter interim forecast, which only includes GDP and inflation figures and has thus been complemented for the purpose of this report with projections for fiscal variables.

2. DEFICIT CRITERION

Romania registered a general government deficit of 2.9% of GDP in 2018. Based on the Fiscal Strategy, Romania's general government deficit is planned to have increased to 3.8% of GDP in 2019. This is well above and <u>not close</u> to the Treaty reference value of 3% of GDP.

The excess over the Treaty reference value in 2019 is also <u>not exceptional</u> for the purposes of the Treaty and the SGP, as it neither results from an unusual event nor from a severe economic downturn. The Commission 2020 winter forecast projects real GDP growth of 3.9% in 2019 and 3.8% in 2020 while the output gap is projected to be around zero. One-off items amounted to 0.1% of GDP in 2019, and were due to a refund of the environment stamp duty on cars.

Finally, the excess over the 3%-of-GDP reference value is <u>not temporary</u> for the purposes of the Treaty and the SGP. Indeed, the budgetary forecasts by the Commission, and by the government in the Fiscal Strategy, project the deficit to remain above the reference value in 2020 and 2021. The Commission 2020 winter forecast, extended for fiscal variables, projects a general government deficit of 4.0% of GDP in 2019, 4.9% in 2020 and 6.9% in 2021. The projected increase in the deficit is mostly driven by significant pension increases enacted in summer 2019, in particular an increase in pensions of 40% scheduled for September 2020 and a further upward recalculation of pensions scheduled for September 2021. Moreover, between December 2019 and January 2020 the authorities adopted new tax cuts (reductions of excise duties on fuel and of social security contributions on part-time workers and a removal of special taxes on banking and energy sectors) and doubled the child allowance (due to enter into force from August 2020). In the Fiscal Strategy, the government projects a general government deficit of 3.6% of GDP in 2020 and 3.4% in 2021. The lower deficit projection in the Fiscal Strategy, compared to the Commission's forecast, stems, in particular, from: (1) more optimistic underlying macroeconomic projections; (2) a moderation of projected spending on goods and services, which is not fully supported by enacted measures; (3) the fact that the Fiscal Strategy seems not to take into account the full budgetary impact of the enacted pension increases, in particular in 2021 and beyond; (4) the fact that the Fiscal Strategy does not take into account the impact of the tax cuts and of the doubling of the child allowance.

In sum, the planned deficit for 2019 is above and not close to the 3%-of-GDP Treaty reference value. The excess is considered to be neither exceptional nor temporary for the purposes of the Treaty and the SGP. The analysis thus suggests that *prima facie* the deficit criterion for the purpose of the Treaty and Regulation (EC) No 1467/97 is not fulfilled. However, due consideration is given to all relevant factors set out below.

3. DEBT CRITERION

Romania's general government debt amounted to 34.7% of GDP in 2018. Both the Fiscal Strategy and the Commission 2020 winter forecast project general government debt to increase until 2021 but to remain below the Treaty reference value. According to the Fiscal Strategy, the debt is projected to increase to 37.8% in 2021. The Commission 2020 winter forecast projects a sharper increase, to 41.9% in 2021. The difference between the two sets of projections stems mainly from lower planned general government deficits in the Fiscal Strategy.

Romania thus complies with the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/97.

4. RELEVANT FACTORS

Article 126(3) of the Treaty provides that the Commission report "*shall also take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State*". Those factors are further clarified in Article 2(3) of Regulation (EC) No 1467/97, which also provides that "*any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with the deficit and debt criteria and which the Member State has put forward to the Council and to the Commission*" need to be given due consideration.

According to Article 2(4) of Regulation (EC) No 1467/97, whenever the government debt-to GDP ratio does not exceed the reference value, relevant factors will be taken into account in the steps leading to the decision on the existence of an excessive deficit provided for in paragraphs 4, 5 and 6 of Article 126 of the Treaty.

In view of those provisions, the following subsections consider in turn (1) the medium-term economic position; (2) the medium-term budgetary position, including an assessment of compliance with the adjustment path towards the MTO, the development of public investment and the functioning of the national fiscal framework; (3) developments in the medium-term government debt position, its dynamics and sustainability; and (4) other factors put forward by the Member State.

4.1. Medium-term economic position

Real GDP has been growing robustly in recent years, driven by consumption. Potential GDP growth is high but projected to gradually decline, due to decelerating total factor productivity growth and negative demographic trends. Romania has made limited progress with respect to structural reforms.

Cyclical conditions and potential growth

Real GDP has been growing robustly in recent years, driven by consumption. Real GDP growth reached a peak of 7.1% in 2017 and moderated thereafter to 4.4 % in 2018 and is projected in the Commission 2020 winter forecast to stand at 3.9% in 2019. Private consumption remained the main growth driver, the result of a tight labour market and high wage increases, particularly in the public sector. Investment is expected to have made a significant contribution to growth in 2019, supported mainly by construction. The contribution of net exports to GDP growth has been negative since 2014 in a context of gradual cost competitiveness losses. It became even more negative in 2019 as growth in exports slowed down more than that of imports. More sluggish external demand was the main driver behind the weaker export growth and also led to a decline in industrial production. As a result, the current account deficit has steadily increased, reaching a projected 5.1% of GDP in 2019.

Real GDP growth is forecast by the Commission to moderate but remain robust at 3.8% in 2020 and 3.5% in 2021. The significant fiscal stimulus planned in 2020 and 2021 is expected to give a new boost to private consumption while also stimulating imports. Investment is expected to remain strong in 2020, supported by construction and planned greater use of EU investment funds. The contribution of net exports is expected to remain negative over the forecast horizon, contributing to the worsening of the already high current account deficit.

According to the Commission's estimates, based on the 2020 winter forecast, potential GDP growth is projected to gradually decline, from 4.7% in 2018 to 3.9% in 2021. Total factor productivity is set to decelerate, but remain the main contributor to potential GDP growth. The contribution of capital accumulation is projected to remain relatively stable. On the other hand, the (already modest) contribution of labour is forecast to turn negative, mainly due to the trend decrease in the working age population.

The output gap is projected to have decreased to 0.1% of potential GDP in 2019, from 0.6% in 2018. It is projected by the Commission to turn slightly negative afterwards, to -0.1% in 2020 and -0.5% in 2021.

Table 2: Macroeconomic and budgetary developments (% of GDP)

	2018	2019		2020		2021	
	COM	COM	FS	COM	FS	COM	FS
Real GDP (% change)	4.4	3.9	4.0	3.8	4.1	3.5	4.2
GDP deflator (% change)	6.3	6.9	6.0	4.6	4.2	4.4	3.5
Potential GDP (% change)	4.7	4.5	4.7	4.0	4.3	3.9	4.3
Output gap (% of potential GDP)	0.6	0.1	-0.4	-0.1	-0.6	-0.5	-0.6
General government gross debt	34.7	35.7	36.4	37.8	37.1	41.9	37.8
General government balance	-2.9	-4.0	-3.8	-4.9	-3.6	-6.9	-3.4
Primary balance	-1.8	-2.8	-	-3.7	-	-5.6	-
One-off and other temporary measures	-0.3	-0.1	-	0.0	-	0.0	-
Government gross fixed capital formation	2.7	3.2	-	3.1	-	3.5	-
Cyclically-adjusted balance	-3.1	-4.0	-	-4.9	-	-6.8	-
Cyclically-adjusted primary balance	-2.0	-2.8	-	-3.6	-	-5.4	-
Structural balance[b]	-2.8	-3.9	-3.7	-4.9	-3.4	-6.8	-3.2
Structural primary balance	-1.6	-2.7	-	-3.6	-	-5.4	-

Notes:

[a] In percent of GDP unless specified otherwise.

[b] Cyclically-adjusted balance excluding one-off and other temporary measures.

Sources: Commission 2020 winter forecast, extended with fiscal variables (COM), Fiscal Strategy 2020-2022 and the autumn projection of the National Commission for Strategy and Prognosis (FS)

Structural reforms

In February 2019, the Commission concluded that Romania was experiencing macroeconomic imbalances[4]. The Commission found that vulnerabilities are linked to cost competitiveness losses and a widening current account deficit in a context of an expansionary fiscal policy and an unpredictable business environment. In July 2019, the Council issued country–specific recommendations[5] calling for measures to address these imbalances, among other structural issues.

In particular, the Council recommended that Romania ensure the full application of the fiscal framework, strengthen tax compliance and collection, safeguard financial stability and the robustness of the banking sector, ensure the sustainability of the public pension system and the long-term viability of the second pillar pension funds, ensure minimum wage setting based on objective criteria, ensure that legislative initiatives do not undermine legal certainty and strengthen the corporate governance of state-owned enterprises.

The authorites continued to derogate from the rules contained in the national fiscal framework, thereby rendering them largely ineffective.

Compliance ratios for filing tax declarations have remained relatively stable. The VAT gap is estimated to have fallen in 2017 and 2018. However, it is still among the highest in the EU.

[4] See Commission Communication COM (2019) 150 final, 27.02.2019 " *2019 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011"*.

[5] Council Recommendation of 9 July 2019 on the 2019 National Reform Programme of Romania and delivering a Council opinion on the 2019 Convergence Programme of Romania, OJ C 301, 5.9.2019, p. 135–142.

Tax authorities did not meet their revenue collection targets for 2019, partially because of an over-optimistic prognosis of those targets.

Sustainability of the public pension system has worsened with the new pension law, adopted in summer 2019 which significantly increases public spending on pensions in a very short period. On the other hand, at the beginning of 2020 Romania repealed or amended part of the legal provisions that threatened the long-term viability of the second pillar pension funds.

At the beginning of 2020, Romania also removed the bank tax on total assets, adressing the concerns regarding financial stability and the robustness of the banking sector.

According to the authorities, the increase in the minimum wage as of 1 January 2020 was based on a formula taking several economic indicators into account. However, an objective mechanism is not in place.

Regarding the predictability of decision-making, the number of emergency ordinances is still very high, while ex-ante regulatory impact assessment continues to be lacking and the quality of public consultations is deteriorating. The State-owned enterprises corporate governance law is still only loosely applied.

4.2. Medium-term budgetary position

Since 2016, Romania has been pursuing an expansionary fiscal policy based on tax cuts and increases in current spending. The structural deficit is estimated by the Commission 2020 winter forecast (extended with fiscal variables) to have increased from 0.2% of GDP in 2015 to 3.9% in 2019. Since spring 2017, the Council has issued bi-annual recommendations under the SDP, to which Romania has not responded with effective action, repeatedly significantly deviating from the recommended adjustment path. The authorities have systematically derogated from national fiscal rules, thereby rendering them largely ineffective.

Structural balance and adjustment towards the MTO

MTO and structural balance

In its 2019 Convergence Programme, Romania confirmed its MTO for the budgetary position as a structural balance of -1.0% of GDP. This MTO takes into account the requirements of the Treaty on the Stability, Coordination and Governance in the Economic and Monetary Union.

Since 2016, Romania has been pursuing an expansionary fiscal policy, based on tax cuts and increases in current spending. As a consequence, Romania departed from its MTO in 2016. The structural balance amounted to -2.8% of GDP in 2018, well below Romania’s MTO. In the Fiscal Strategy, Romania targets a deterioration of the structural balance in 2019 and a gradual structural improvement in 2020-2022 but does not plan to achieve its MTO by 2022. According to the Commission 2020 winter forecast, extended with fiscal variables, the structural deficit is expected to steadily and significantly increase between 2018 and 2021, driven by the projected increase of the headline deficit.

Compliance with the recommended adjustment towards the MTO

Romania has been under consecutive SDPs since spring 2017. As a consequence of the significant deviation by Romania from its MTO in 2016, the Council launched an SDP in spring 2017. Since then, the Council has issued bi-annual recommendations to which

Romania has not responded with effective action, repeatedly significantly deviating from the recommended adjustment path. The latest Recommendation, adopted by the Council on 5 December 2019, asks Romania to ensure that the nominal growth rate of primary government expenditure, net of discretionary revenue measures and one-offs, does not exceed 4.4% in 2020, corresponding to an annual structural adjustment of 1.0% of GDP.

Calculations based on the Commission 2020 winter forecast, extended with fiscal variables, point to a risk of significant deviation from both benchmarks in 2020.

Table 3: Summary of SDP Recommendations to Romania

Council Recommendation	Recommended structural improvement (% of GDP)	Structural effort at the time of assessment (% of GDP)	Council conclusion
Autumn 2019	1.0 in 2020		
Spring 2019	1.0 in 2019, 0.75 in 2020	-0.8 in 2019, -0.8 in 2020	No action taken
Autumn 2018	1.0 in 2019	-0.7 in 2019	No action taken
Spring 2018	0.8 in 2018, 0.8 in 2019	0.0 in 2018, -0.1 in 2019	No action taken
Autumn 2017	0.8 in 2018	-0.4 in 2018	No action taken
Spring 2017	0.5 in 2017	-1.1 in 2017	No action taken

Public investment

Public investment hit a post-EU accession low of 2.6% of GDP in 2017, and increased only slightly, to 2.7% of GDP, in 2018. This is below the EU average and much below the average for neighbouring countries. The Commission 2020 winter forecast, extended with fiscal variables for the purposes of this report, projects public investment to have increased to 3.2% of GDP in 2019.

National fiscal framework

The Fiscal Responsibility Law sets national numerical fiscal rules in order to guide the budgetary process. It contains a structural deficit rule, which requires compliance with or convergence to the MTO of a structural balance of -1.0% of GDP. The national framework also contains several auxiliary rules concerning budget balance and expenditure and revenue items. Furthermore, the government is required to prepare an update of the fiscal strategy – which sets out the macroeconomic assumptions, medium-term budget planning and expenditure ceilings that should guide the annual budget process – and send it to Parliament by 15 August of the preceding year.

Since 2016, the government has systematically and repeatedly derogated from many fiscal rules, thereby rendering them largely ineffective. In particular, the original 2019 budget target of a headline deficit of 2.8% of GDP (in cash terms) was inconsistent with the structural deficit rule. Budget amendments adopted in August and November 2019 additionally derogated from a number of auxiliary fiscal rules, and, in the latter case, from the structural deficit rule, by increasing the 2019 deficit target to 4.4% of GDP (in cash terms). Moreover, in 2019, as in previous years, the authorities did not send an update of the medium-term fiscal strategy to Parliament by the statutory August deadline, thereby undermining the fiscal strategy's guiding role. The 2020 budget and the accompanying fiscal strategy also derogated from the structural balance rule and from several auxiliary fiscal rules.

4.3. Medium-term government debt position

Romania faces high fiscal sustainability risks in the medium and long term, driven by high fiscal deficits and costs of aging.

Debt dynamics and debt sustainability[6]

Romania's general government debt is currently well below the 60% of GDP Treaty reference value (34.7% of GDP in 2018). However, due to a high structural primary deficit, the debt-to-GDP ratio is set on a steep upward path. Assuming no-policy change, it is projected to breach 60% in 2025 and go beyond 90% of GDP by 2030. The debt path is sensitive to growth, fiscal and interest rate shocks. The maturity structure of government debt helps to mitigate vulnerabilities, with only about 3.3% of overall government debt having a maturity below 1 year. However, the high share of government debt denominated in foreign currency and the substantial holdings of debt by non-residents are sources of additional risk, as is the negative net international investment position.

The value of the early-detection indicator of fiscal stress ('S0'), developed by the European Commission to assess risks within one year, is below its critical threshold.

The medium-term sustainability gap indicator ('S1') shows high risks. It shows that Romania would require a fiscal adjustment of 5.7 pps of GDP to contain the debt within 60% of GDP by 2034. That value is among the highest among Member States.

The long-term fiscal sustainability gap indicator ('S2') also shows high risks. It points to a required fiscal adjustment of 8.8 pps of GDP to ensure that the public debt ratio stabilises over the long term. That value, the highest among Member States, is driven by the high initial budgetary position (a contribution of 5.1 percentage points) and by aging costs, in particular pensions and health care (a contribution of 3.7 percentage points).

Financial markets' perceptions of sovereign risk of Romania are at the lower limit of the investment grade, with a 'BBB-' or equivalent rating of the sovereign debt from the three major rating agencies. On 10 December 2019, S&P Global Ratings revised its outlook from stable to negative, due to Romania's budgetary stance.

New pension law

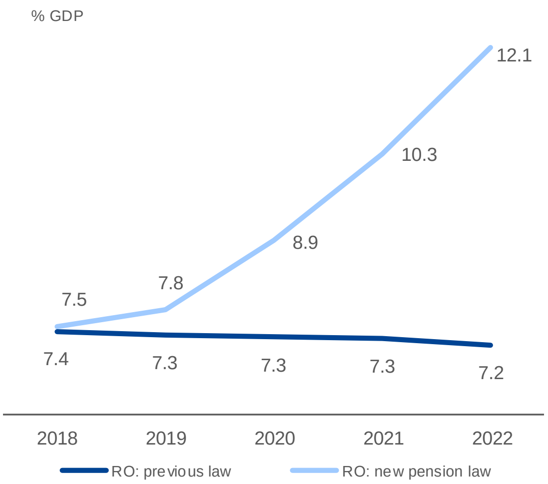
The pension law, enacted in summer 2019, significantly changed several parameters of the public pension scheme. It contains the following main changes: (i) ad hoc increases of pensions until 2021, instead of standard indexation: by 15% from September 2019 (already included in the 2019 budget law), 40% from September 2020 and 6% from September 2021; (ii) from 2022 onwards, the indexation of the pensions will be 100% of the inflation rate plus 50% of the real average gross wage growth; (iii) new pensions will be calculated using at the denominator a fixed contributory period of 25 years, instead of 25-35 years (depending on the

[6] This section is based on European Commission, Debt Sustainability Monitor 2019, available at: https://ec.europa.eu/info/sites/info/files/economy-finance/ip120_en.pdf

year of retirement) under the previous law; (iv) from September 2021, existing pensions will be recalculated upwards to match this new formula.

Due to its implementation schedule, the law is set to significantly increase public spending on pensions in a short period. It is the main driver of the projected rapid increase of the general government deficit and of high fiscal sustainability risks. Moreover, the law is not accompanied by measures aimed at increasing labour participation and duration of working lives beyond the statutory minimum, which are key to improve both pension adequacy and the sustainability of the pension system.

Graph 1: **Gross public pension expenditure in 2018-2022**



Source: European Commission, Country Fiche on public pensions for the Ageing Report 2018 – Romania (2019 update)

4.4. Other factors put forward by the Member State

On 6 February 2020, the Romanian authorities sent a letter presenting relevant factors for the Commission to consider in its assessment, in accordance with Article 2(3) of Regulation (EC) No 1467/97.

The authories argue that the deterioration of the budget deficit in 2019 is largely explained by the increase in personnel spending, social assistance and investment, whereas revenue remained mostly unchanged as a share of GDP. In addition, the authories argue that on the expenditure side, the 2019 budget outcome was adversely affected by several one-off items[7].

The authorities point out that the Fiscal Strategy shows a gradual adjustment of the budget deficit over the medium term while remaining above the reference value until 2021. The adjustment is planned after three years of continued budget deterioration. The authorities also explain that the pace of the envisaged fiscal consolidation is largely constrained by the legal framework in place, in particular the provisions of the new pension law approved by the Parliament in 2019.

[7] In the assessment of the Commission, one-off expenditures in accrual terms amounted to 0.1% of GDP in 2019, due to a refund of the environment stamp duty on cars.

Regarding macroeconomic conditions, the authorities explain that Romania's economy grew at a real rate of 4.1% in the first three quarters of 2019, mainly driven by investment and private consumption, amidst a slowdown in the latter. The authorities forecast real GDP to grow by 4.0% in 2019, slightly decelerating compared to 2018 and marginally below the potential level. Nominal growth accelerated starting 2016 and is expected by the authorities to remain robust over the medium term.

Finally, the authorities recall that Romania introduced a pension reform with the mandatory second pillar of private pension funds alongside the pay-as-you-go first pillar in 2008. They explain that the annual cost of the second pillar was on average close to 0.7% of GDP in the period 2014-15, and it is expected at 0.8% of GDP over 2016-2019. This is in line with Commission estimates of the annual costs of the second pillar. However, the planned 2019 budget deficit in Romania significantly exceeds a level that can be considered close to the 3% of GDP reference value and so, pursuant to Article 2(7) of Regulation (EC) No 1467/97, the budgetary implications of the pension reform cannot be taken into account in the assessment of the breach of the deficit criterion.

The authorities add that, at the beginning of 2020, they removed a provision that weakened the mandatory nature of the second pension pillar which was in force in 2019. Namely, they removed the possibility for employees to opt-out of the second pension pillar after five years of contributing to it, and to redirect their annual pension contributions to the first pillar (emergency ordinance 1/2020, amending the provisions of emergency ordinance 114/2018).

5. Conclusions

According to the Fiscal Strategy of the government, the headline general government deficit in 2019 is planned to have increased to 3.8% of GDP, above and not close to the 3% of GDP Treaty reference value. The planned excess over the reference value is considered to be neither exceptional nor temporary.

The general government gross debt remains well below the 60% of GDP reference value.

The analysis presented in this report includes the assessment of all relevant factors, which according to the Treaty and the SGP are to be taken into account in the steps leading to the decision on the existence an excessive deficit whenever the government debt-to GDP ratio does not exceed the reference value. The relevant factors in the current case do not provide mitigating elements and thus do not change the assessment.

Overall, the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 should be considered as not complied with, and that an EDP is thus warranted.