EUROPEAN COMMISSION

Brussels, 30.5.2012
COM(2012) 325 final

Recommendation for a

COUNCIL RECOMMENDATION

on Romania’s 2012 national reform programme

and delivering a Council opinion on Romania’s convergence programme for 2012-2015

{SWD(2012) 325 final}

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Recommendation for a

COUNCIL RECOMMENDATION

on Romania's 2012 national reform programme

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(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 Article 5(2) thereof,

Having regard to the recommendation of the European Commission[2],

Having regard to the resolutions of the European Parliament[3],

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the European Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States[4], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

1 OJ L 209, 02.08.1997, p. 1
2 COM(2012)325 final
3 P7_TA(2012)0048 and P7_TA(2012)0047
4 Council Decision 2012/238/EU of 26 April 2012

(3) On 12 July 2011, the Council adopted a recommendation on Romania's national reform programme for 2011 and delivered a Council Opinion on Romania's updated convergence programme 2011-2014.

(4) On 23 November 2011, the Commission adopted the second Annual Growth Survey, marking the start of the second European semester of ex-ante and integrated policy coordination, which is anchored in the Europe 2020 strategy.

(5) On 2 March 2012, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(6) On 2 March 2012, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time for inclusion in their stability or convergence programmes and their national reform programmes.

(7) On 23 April 2012, Romania submitted its 2012 national reform programme and, on 11 May 2012, its convergence programme covering the period 2012-2015.

(8) On 6 May 2009, the Council adopted Decision 2009/459/EC[5] to make available to Romania medium-term financial assistance for a period of three years under the provisions of Article 143 of the Treaty. The accompanying Memorandum of Understanding signed on 23 June 2009 and its successive supplements lay down the economic policy conditions on the basis of which the financial assistance was disbursed. Decision 2009/459/EC was amended on 16 March 2010 by Decision 2010/183/EU[6]. Following Romania's successful implementation of the programme, and given a partial adjustment of the current account because of remaining structural weaknesses in Romania's product and labour markets which make the country sensitive to international price shocks, on 12 May 2011 the Council adopted Decision 2011/288/EU[7] to make precautionary medium-term financial assistance available to Romania for a period of three years under Article 143 of the Treaty. The accompanying Memorandum of Understanding was signed on 29 June 2011 and its first supplement to it on 27 December 2011.

(9) The second formal review of the medium-term financial assistance programme that took place in late April-early May 2012 established that Romania's implementation of the programme remains on track. The cash fiscal deficit target for 2011 was met, while the ESA[8] target would have been met had there not been a sizeable one-off measure linked to court decisions obliging the government to pay compensation to certain categories of employees. The 2012 budget remains on track to achieve a deficit below 3 % of GDP in ESA terms. The Romanian banking sector has remained resilient, in spite of the on-going deterioration in asset quality, which has continued weighing on banking sector profitability. The programme conditionality in the financial sector was

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5 OJ L 150, 13.6.2009, p. 8.
6 OJ L 83, 30.3.2010, p. 19.
7 OJ L 132, 19.5.2011, p. 15.
8 European System of Accounts

met, albeit with some delays in certain cases. Progress in key structural reform areas, such as energy and transport and EU funds absorption have been uneven.

(10) After two years of decline, real GDP of Romania grew in 2011 by 2½%. For 2012 growth is expected to decelerate to 1.4 %. Domestic demand is forecast to be the major driver of growth. Public investment, supported by improving EU funds absorption, is expected to play a key role in 2012.

(11) Based on the assessment of the 2012 convergence programme pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible. The objective of the budgetary strategy outlined in the programme is to reach a budget deficit below 3% of GDP in 2012, in line with the Council recommendations given to Romania under the Excessive Deficit Procedure. Thereafter, it aims at achieving a medium-term budgetary objective (MTO) defined as a deficit of 0.7% of GDP in structural terms. The MTO adequately reflects the requirements of the Stability and Growth Pact. Following the planned correction of the excessive deficit in 2012, the deficit is expected to decrease further to 2.2% of GDP in 2013, to 1.2% of GDP in 2014 and 0.9% of GDP in 2015. Based on the (recalculated) structural budget balance,[9] this implies an improvement in the deficit by 1.5% in 2012, 0.5% in 2013 and 0.7% in 2014, in line with the 0.5% of GDP benchmark of the Stability and Growth Pact. The growth rate of government expenditure is in line with the expenditure benchmark of the Stability and Growth Pact over the 2012-2015 period. The programme foresees the achievement of the MTO in 2014. The main risks to the budgetary targets are the arrears of state owned enterprises, as well as potential re-accumulation of arrears at local government level and in the health sector. As regards public debt, it was below 34% of GDP by end 2011 thus remaining substantially below 60% of GDP.

(12) Romania has made a number of commitments under the Euro Plus Pact. These commitments, and the implementation of the commitments presented in 2011, relate to fostering competitiveness and employment, to making public finances more sustainable and to reinforcing financial stability.

[9] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology.

HEREBY RECOMMENDS that Romania should take action within the period 2012-2013 to:

Implement the measures laid down in Decision 2009/459/EC, as amended by Decision 2010/183/EU, together with the measures laid down in Decision 2011/288/EU and further specified in the Memorandum of Understanding of 23 June 2009 and its subsequent supplements, and in the Memorandum of Understanding of 29 June 2011 and its subsequent supplements.

Done at Brussels,

For the Council
The President