

COUNCIL RECOMMENDATION**of 5 December 2019****with a view to correcting the significant observed deviation from the adjustment path towards the medium-term budgetary objective in Romania**

(2019/C 420/02)

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 subparagraph of Article 10(2) thereof,

Having regard to the recommendation from the European Commission,

Whereas:

- (1) In accordance with Article 121 of the Treaty, Member States are to 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 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) In June 2017 and June 2018 the Council found in accordance with Article 121(4) of the Treaty that in 2016 and 2017, respectively, there had been a significant observed deviation from Romania's medium-term budgetary objective or from the adjustment path towards it. In view of those established significant deviations, the Council issued Recommendations on 16 June 2017 ⁽²⁾ and 22 June 2018 ⁽³⁾, recommending that Romania take the necessary measures to address those deviations. The Council subsequently found that Romania had not taken effective action in response to those Recommendations and issued revised Recommendations on 5 December 2017 ⁽⁴⁾ and 4 December 2018 ⁽⁵⁾ respectively. The Council subsequently found that Romania had not taken effective action in response to those revised Recommendations either.
- (4) On 14 June 2019 the Council found that in 2018 a significant observed deviation from the adjustment path toward the medium-term budgetary objective had again occurred in Romania. On that basis, the Council issued a Recommendation ⁽⁶⁾ for Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure ⁽⁷⁾ does not exceed 4,5 % in 2019 and 5,1 % in 2020, corresponding to an annual structural adjustment of 1 % of gross domestic product (GDP) in 2019 and 0,75 % of GDP in 2020. It also recommended that Romania use any windfall gains for deficit reduction, and that budgetary consolidation measures should secure a lasting improvement in the general government structural balance in a growth-friendly manner. The Council established a deadline of 15 October 2019 for Romania to report on the action taken in response to the Recommendation of 14 June 2019.

⁽¹⁾ OJ L 209, 2.8.1997, p. 1.

⁽²⁾ Council Recommendation of 16 June 2017 with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Romania (OJ C 216, 6.7.2017, p. 1).

⁽³⁾ Council Recommendation of 22 June 2018 with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Romania (OJ C 223, 27.6.2018, p. 3).

⁽⁴⁾ Council Recommendation of 5 December 2017 with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Romania (OJ C 439, 20.12.2017, p. 1).

⁽⁵⁾ Council Recommendation of 4 December 2018 with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Romania (OJ C 460, 21.12.2018, p. 1).

⁽⁶⁾ Council Recommendation of 14 June 2019 with a view to correcting the significant observed deviation from the adjustment path towards the medium-term budgetary objective in Romania (OJ C 210, 21.6.2019, p. 1).

⁽⁷⁾ 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.

- (5) On 9 July 2019 the Council issued a Recommendation (*) recommending that Romania ensure its compliance in 2019 and in 2020 with the Council Recommendation of 14 June 2019 with a view to correcting the significant deviation from the adjustment path toward the medium-term budgetary objective.
- (6) On 25 September 2019, 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 20 November 2019. Those findings were made public.
- (7) On 15 October 2019, the Romanian authorities submitted a report on effective action in response to the Council Recommendation of 14 June 2019. Given the information provided by the Romanian authorities in their report and the overall assessment based on the Commission's autumn 2019 forecast, on 5 December 2019 the Council concluded that Romania has not taken effective action in response to the Council Recommendation of 14 June 2019.
- (8) In light of the absence of effective action by Romania and the cumulated high deviation from the recommended adjustment path toward its medium-term budgetary objective, it is appropriate to address to Romania a revised Recommendation on the appropriate measures to be taken under Article 121(4) of the Treaty.
- (9) Based on the Commission's 2019 autumn forecast, Romania's structural balance is set to deteriorate by 0,8 % of GDP in 2019 and by a further 0,8 % of GDP in 2020. As a result, the structural deficit is estimated to be 2,5 % of GDP and 3,4 % of GDP away from the medium-term budgetary objective of a structural deficit of 1,0 % of GDP in 2019 and in 2020, respectively.
- (10) In order to correct for the cumulated deviations and to bring Romania back on an appropriate adjustment path following past slippages, an additional effort should complement the recommended annual structural adjustment of 0,75 % of GDP for 2020 recommended by the Council on 14 June 2019. An additional effort of 0,25 % of GDP seems appropriate given the magnitude of the cumulated deviations from the recommended adjustment path toward the medium-term objective. This additional effort will accelerate the adjustment back towards the medium-term budgetary objective without putting economic growth at risk.
- (11) The Commission's 2019 autumn forecast projects a general government deficit of 3,6 % in 2019 and 4,4 % in 2020, 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 2020.
- (12) Based on the Commission's 2019 autumn forecast, the required improvement of the structural balance by 1,0 % of GDP in 2020 is consistent with the nominal growth rate of net primary government expenditure not exceeding 4,4 %.
- (13) The Commission's 2019 autumn forecast projects a deterioration of Romania's structural balance by 0,8 % of GDP in 2020. Therefore, a structural improvement of 1,0 % of GDP translates into a need to adopt measures of a total yield of 1,8 % of GDP in structural terms as compared to the current baseline of the Commission's 2019 autumn forecast.
- (14) The failure to act upon earlier recommendations to correct the observed significant deviation and the risk of exceeding the Treaty reference value calls for urgent action to put Romania's fiscal policy back on a prudent path.
- (15) In order to achieve the recommended budgetary targets, it is crucial that Romania adopt and strictly implement the necessary measures and monitor the development of current expenditure closely.
- (16) The requirements issued in this Recommendation supersede the corresponding elements set out in the Council Recommendation of 14 June 2019.

(*) 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).

- (17) Romania should report to the Council on action taken in response to this Recommendation by 15 April 2020, possibly as part of its Convergence Programme submitted pursuant to Article 7 of Regulation (EC) No 1466/97.
- (18) It is appropriate for this Recommendation to be made public,

HEREBY RECOMMENDS THAT ROMANIA:

- (1) take the measures necessary to ensure that the nominal growth rate of net primary government expenditure does not exceed 4,4 % in 2020, corresponding to an annual structural adjustment of 1,0 % of GDP, thereby putting Romania on an appropriate adjustment path toward the medium-term budgetary objective;
- (2) use any windfall gains for deficit reduction; ensure that budgetary consolidation measures secure a lasting improvement in the general government structural balance in a growth-friendly manner;
- (3) report to the Council by 15 April 2020 on action taken in response to this Recommendation; ensure that the report includes sufficiently specified and credibly announced measures, including the budgetary impact of each of them, with a view to complying with the required adjustment path, as well as updated and detailed budgetary projections for 2020.

This Recommendation is addressed to Romania.

Done at Brussels, 5 December 2019.

For the Council
The President
M. LINTILÄ
