COUNCIL RECOMMENDATION

of 18 June 2021

delivering a Council opinion on the 2021 Convergence Programme of Romania

(2021/C 304/23)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

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 9(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97 ([2]), facilitates the coordination of budgetary policies in times of severe economic downturn. In that communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for activating the general escape clause were met. On 23 March 2020, the ministers of finance of the Member States agreed with the assessment of the Commission. The general escape clause has granted Member States budgetary flexibility to deal with the COVID-19 crisis. It has facilitated the coordination of budgetary policies in times of severe economic downturn. Its activation allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided that this does not endanger fiscal sustainability in the medium term. On 17 September 2020, in its communication on the 2021 Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

(2) On 3 April 2020, the Council adopted Decision (EU) 2020/509 ([3]) on the existence of an excessive deficit situation in Romania due to non-compliance with the deficit criterion in 2019. This was based on the updated fiscal targets by the government, while the subsequent publication of the general government deficit outturn of 4,3 % of GDP confirmed the breach. The excess over the 3 %-of-GDP Treaty reference value was the result of a continuous build-up of fiscal imbalances due to an expansionary fiscal policy since 2016, in a period of strong economic growth. On 3 April 2020, the Council also issued a Recommendation ([4]) with a view to bringing an end to the situation of an excessive government deficit in Romania by 2022 at the latest.

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

([2]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

([3]) Council Decision (EU) 2020/509 of 3 April 2020 on the existence of an excessive deficit in Romania (OJ L 110, 8.4.2020, p. 58).

([4]) Council Recommendation of 3 April 2020 with a view to bringing an end to the situation of an excessive government deficit in Romania (OJ C 116, 8.4.2020, p. 1).

(3) On 20 July 2020, the Council adopted a Recommendation [5] ('the Council Recommendation of 20 July 2020'). It recommended Romania to pursue fiscal policies in line with the Council Recommendation of 3 April 2020, while taking all necessary measures to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery.

(4) Next Generation EU, including the Recovery and Resilience Facility, will ensure a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 of the European Parliament and of the Council [6], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility will provide financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It will contribute to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, and will strengthen the resilience and potential growth of the Member States' economies. It will also help public finances to return to more favourable positions in the near term and will contribute to strengthening sustainable public finances and to growth and job creation in the medium and long term.

(5) On 3 March 2021, the Commission adopted a communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes. That communication also stated the Commission's view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. On the basis of the Commission's 2021 spring forecast, on 2 June 2021 the Commission considered that the conditions for continuing to apply the general escape clause in 2022 and for deactivating it as of 2023 were met. Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

(6) On 5 May 2021, Romania submitted its 2021 Convergence Programme, beyond the deadline established in Article 8 of Regulation (EC) No 1466/97.

(7) In 2020, based on data validated by Eurostat, Romania's general government deficit was 9,2 % of gross domestic product (GDP), while general government debt increased to 47,3 % of GDP. The annual change in the primary budget balance amounted to - 3,6 % of GDP, including discretionary budgetary measures of 1,5 % in support of the economy and the operation of automatic stabilisers. Romania also provided liquidity support to companies and households (such as guarantees and tax deferrals, which do not have a direct and immediate budgetary impact) estimated at 4 % of GDP; the actual take-up of the public guarantees in 2020 is estimated by the Commission to be roughly equivalent to 1½ % of GDP.

(8) The macroeconomic scenario underpinning the budgetary projections is realistic in 2021 and 2022. According to the 2021 Convergence Programme, real GDP growth is projected at 5,0 % in 2021 and 4,8 % in 2022. In both years, domestic demand, with strong consumption and investment growth, is expected to be the main driver. The Commission's 2021 spring forecast of Romania's growth is slightly above that of the 2021 Convergence Programme, with 5,1 % in 2021 and 4,9 % in 2022, also driven by domestic demand.

(9) In its 2021 Convergence Programme, the government plans a decrease in the general government deficit from 9,2 % of GDP in 2020 to 8 % of GDP in 2021, while the debt ratio is planned to increase to 50,8 % of GDP in 2021. According to the 2021 Convergence Programme, the change in the primary budget balance in 2021 compared with the pre-crisis level (2019) is set to amount to 3,3 % of GDP, reflecting the discretionary budgetary measures of 1,5 % of GDP in support of the economy and the operation of automatic stabilisers. These projections are in line with the Commission's 2021 spring forecast.

(10) In response to the COVID-19 pandemic and related economic downturn, Romania has adopted budgetary measures to strengthen the capacity of its health system, contain the COVID-19 pandemic and provide relief to those individuals and sectors that have been particularly affected. This forceful policy response has cushioned the contraction in GDP, which, in turn, has curtailed the increase in government deficit and public debt. The measures taken by Romania in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary measures adopted by the government in 2020 and 2021 are temporary or matched by offsetting measures. At the same time, there has been a continuous fiscal impact of expansionary measures which were adopted before the COVID-19 pandemic. Those measures notably included increases in pensions and other social expenditure and tax cuts.

---

[5] Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Romania and delivering a Council opinion on the 2020 Convergence Programme of Romania (OJ C 282, 26.8.2020, p. 149).

[6] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(11) The 2021 Convergence Programme assumes investment and reforms financed by grants under the Recovery and Resilience Facility amounting to 0,1 % of GDP in 2021, 0,6 % of GDP in 2022, 1,2 % of GDP in 2023, 1,2 % of GDP in 2024, 0,9 % of GDP in 2025 and 0,9 % of GDP in 2026. The 2021 Convergence Programme also assumes loans under the Recovery and Resilience Facility amounting to 2,3 % of GDP in 2025 and 2,5 % of GDP in 2026. The Commission's 2021 spring forecast includes only the grants in its budgetary projections as the loans are assumed in the 2021 Convergence Programme to start after the Commission's 2021 spring forecast horizon.

(12) To assess the overall fiscal stance at the current juncture, the sizeable transfers from the Union budget (such as those from the Recovery and Resilience Facility) should be included in the relevant expenditure aggregate. The overall fiscal stance is therefore measured by the change in primary expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures) including expenditure financed by grants under the Recovery and Resilience Facility and other Union funds. Going beyond the overall fiscal stance, the analysis also aims to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions. For that reason, particular attention is paid to the evolution of nationally financed primary current expenditure and investment.

(13) In its 2021 Convergence Programme, Romania's general government deficit is planned to decrease to 6,2 % of GDP in 2022, mainly due to the discontinuation of the temporary support measures adopted in 2020 and 2021. The general government debt ratio is planned to increase to 52,9 % of GDP in 2022. These projections are more favourable than the Commission's 2021 spring forecast. Based on the Commission's 2021 spring forecast, and on the basis of the specific methodology that reflects the above-mentioned challenges, the overall fiscal stance — including the impact on aggregate demand in 2022 from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at - 0,5 % of GDP ([7]). The positive contribution of the expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,4 percentage point of GDP. Nationally financed investment is projected to provide an expansionary contribution of 0,1 percentage point of GDP ([8]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a neutral contribution.

(14) According to the 2021 Convergence Programme's medium-term budgetary plans, the general government deficit is planned to decrease from 4,4 % in 2023, to 2,9 % of GDP in 2024. The general government deficit is planned to no longer exceed the 3 %-of-GDP Treaty reference value in 2024. Based on the 2021 Convergence Programme, the overall fiscal stance — also including the impact on aggregate demand from investment financed by both the national and Union budgets, in particular the Recovery and Resilience Facility — is estimated at 0,6 % of GDP in 2023 and 2024 on average. The positive contribution of the expenditure financed by Recovery and Resilience Facility grants and other Union funds is projected to increase by 0,2 percentage point of GDP. Nationally financed investment is projected to provide a contractionary contribution of 0,1 percentage point of GDP ([9]). Nationally financed primary current expenditure (net of discretionary revenue measures) is projected to provide a contractionary contribution of 0,8 percentage point of GDP. The current estimate of the 10-year average nominal potential growth is 5¾ % ([10]). However, this estimate does not include the impact of the reforms that are part of the recovery and resilience plan and could therefore boost Romania's potential growth.

(15) The general government debt ratio is planned to increase to 53,3 % of GDP in 2023 and decrease to 52,4 % of GDP in 2024. In light of the particularly fast-increasing debt path in the medium term, mainly due to the large deficit forecasted for 2022 and unfavourable financing conditions compared with other Member States, Romania is considered to face high fiscal sustainability risks over the medium term, as per the latest debt sustainability analysis.

(16) On 2 June 2021, the Commission recommended a Council recommendation for the correction of Romania's excessive deficit by 2024. According to that recommendation, Romania should reach a headline general government deficit target of 8,0 % of GDP in 2021, 6,2 % of GDP in 2022, 4,4 % of GDP in 2023, and 2,9 % of GDP in 2024, which is consistent with a nominal growth rate of net primary government expenditure of 3,4 % in 2021, 1,3 % in 2022, 0,9 % in 2023 and 0,0 % in 2024. This corresponds to an annual structural adjustment of 0,7 % of GDP in 2021, 1,8 % of GDP in 2022, 1,7 % of GDP in 2023 and 1,5 % of GDP in 2024.

([7]) A negative sign of the indicator corresponds to an excess of the primary expenditure growth compared with medium-term economic growth, which indicates an expansionary fiscal policy.

([8]) Other nationally financed capital expenditure is projected to provide a neutral contribution.

([9]) Other nationally financed capital expenditure is projected to provide a neutral contribution.

([10]) Estimated by the Commission, in accordance with the commonly agreed methodology.

(17) The Council has assessed the 2021 Convergence Programme and the follow-up by Romania to the Council Recommendation of 20 July 2020,

HEREBY RECOMMENDS ROMANIA TO:

1. Pursue fiscal policies in line with the Council Recommendation of 18 June 2021 with a view to bringing an end to the situation of an excessive government deficit in Romania [11].

Done at Luxembourg, 18 June 2021.

For the Council

The President

J. LEÃO

([11]) See page XX of this Official Journal.