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Recommendation for a

COUNCIL DECISION

establishing that no effective action has been taken by Romania in response to the Council Recommendation of 16 June 2017

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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[1], and in particular Article 10(2), 4th subparagraph, thereof,

Having regard to the recommendation from the European Commission,

Whereas:

(1) On 16 June 2017 the Council decided in accordance with Article 121(4) of the Treaty on the Functioning of the European Union ("TFEU") that a significant observed deviation from the adjustment path toward the medium-term budgetary objective existed in Romania

(2) In view of the established significant deviation, the Council on 16 June 2017 issued a recommendation for 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. It recommended Romania to use any windfall gains for deficit reduction, while budgetary consolidation measures should ensure a lasting improvement in the general government structural balance in a growth-friendly manner. The Council established a deadline of 15 October 2017 for Romania to report on action taken in response to the recommendation.

(3) On 26 and 27 September 2017 the Commission undertook an enhanced surveillance mission in Romania for the purpose of on-site monitoring under the Article -11(2) of Council 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 24 October 2017. These findings were subsequently made public. The Commission report finds that the Romanian authorities do not intend to act upon the Council Recommendation of 16 June 2017. The authorities stated that their target for 2017 remains a headline deficit of 3% of GDP. Given the positive and increasing

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

[2] Net 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.

output gap this would amount to a deterioration of the structural deficit in 2017, contrary to the Council Recommendation. This reflects a clearly expansionary fiscal policy.

(4) On 13 October 2017 the Romanian authorities submitted a report on action taken in response to the Council Recommendation of 16 June 2017. In the report, the authorities reiterated that their target for 2017 remains a headline deficit of 3% of GDP. The only measure listed in the report with a significant budgetary impact in 2017 is an increase of excise duties for energy products back to their 2016 level (i.e. a reversal of a previously adopted excise duties cut which entered into force in January 2017). Thus, the fiscal impact of the reported measures falls significantly short of the requirement stated in the Council Recommendation.

(5) Based on the Commission autumn 2017 forecast, the structural balance is set to deteriorate by 1.1 % of GDP, reaching a deficit of 3.3% in 2017. This is the opposite of the recommended structural improvement of 0.5% of GDP relative to 2016. The corresponding growth of net primary government expenditure amounted to 4.9%, well above the expenditure benchmark of 3.3%. This deterioration compared to 2016 was driven by cuts to indirect taxes, in particular to VAT and excise duties, which entered into force at the beginning of the year and increases to public wages and social benefits introduced through the year. Since the Council Recommendation of 16 June 2017, the increase of excise duties for energy products back to their 2016 level as well as a cut in public investment in the September's budget rectification had a positive impact on the public deficit, although their effect was largely offset by increases to public wages also contained in the budget rectification.

(6) This leads to the conclusion that the response of Romania to the Council Recommendation of 16 June 2017 has been insufficient. The fiscal effort falls short of the annual structural adjustment of 0.5% of GDP for 2017 which corresponds to a nominal growth rate of net primary government expenditure that does not exceed 3.3% in 2017,

HAS ADOPTED THIS DECISION:

Article 1

Romania has not taken effective action in response to the Council Recommendation of 16 June 2017.

Article 2

This Decision is addressed to Romania.

Done at Brussels,

For the Council
The President