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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 14 June 2019

{SWD(2019) 932 final}

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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 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular the fourth subparagraph of Article 10(2) thereof,

Having regard to the Recommendation from the European Commission,

Whereas:

(1) 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 policy measures necessary 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 Recommendations either.

(2) 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 and issued a Recommendation for Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure[6] does not exceed 4.5% in 2019 and 5.1% in 2020, corresponding to an annual structural adjustment of 1.0% of gross domestic product

1 OJ L 209, 2.8.1997, p. 1.
2 OJ C 216, 6.7.2017, p. 1.
3 OJ C 223, 27.6.2018, p. 3.
4 OJ C 439, 20.12.2017, p. 1.
5 OJ C 460, 21.12.2018, p. 1.
6 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.

(GDP) in 2019 and 0.75% of GDP in 2020.[7] It also recommended that Romania uses any windfall gains for deficit reduction, while 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 that Recommendation.

(3) 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. The Commission report finds that the Romanian authorities only plan to undertake structural adjustment from 2022 and thus do not intend to act upon the Council Recommendation of 14 June 2019.

(4) On 15 October 2019, the Romanian authorities submitted a report on action taken in response to the Council Recommendation of 14 June 2019. The report does not contain a comprehensive projection of individual budgetary categories nor does it include the budgetary impact of each mentioned measure. Thereby, the report does not comply with the reporting requirements recommended by the Council. In the report, the authorities reiterated that their target for 2019 remains a headline deficit of 2.8% of GDP, the same target as in the 2019 Convergence Programme. If this target headline deficit were to be achieved, it would represent only a marginal reduction in the general government deficit compared to 2018, despite Romania experiencing high economic growth. For 2020, the authorities target a headline deficit of 2.9% of GDP, which is higher than the target of 2.7% of GDP in the 2019 Convergence Programme. Overall, the fiscal impact of the reported measures falls short of the requirement stated in the Council Recommendation of 14 June 2019.

(5) In 2019, based on the Commission 2019 autumn forecast, the growth of net primary government expenditure is projected to be 12.8%, well above the recommended rate of 4.5% (deviation of 2.5% of GDP). The structural balance is set to deteriorate by 0.8% of GDP against the recommended improvement of 1.0% of GDP (deviation of 1.8% of GDP). Therefore, both pillars point to a deviation from the recommended adjustment. The overall assessment confirms a deviation from the recommended adjustment in 2019.

(6) In 2020, based on the Commission 2019 autumn forecast, the growth of net primary government expenditure is projected to be 11.1%, well above the recommended rate of 5.1% (deviation of 1.8% of GDP). The structural balance is set to deteriorate by 0.8% of GDP against the recommended improvement of 0.75% of GDP (deviation of 1.6% of GDP). Therefore, both pillars point to a risk of a deviation from the required adjustment of similar magnitude. The overall assessment confirms a deviation from the recommended adjustment in 2020.

(7) Moreover, the Commission 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.

(8) The above findings lead to the conclusion that Romania's response to the Council Recommendation of 14 June 2019 has been insufficient,

[7] OJ C 210, 21.6.2019, p. 1.

HAS ADOPTED THIS DECISION:

Article 1

Romania has not taken effective action in response to the Council Recommendation of 14 June 2019.

Article 2

This Decision is addressed to Romania.

Done at Brussels,

For the Council
The President