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COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
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Subject:	Recommendation for a COUNCIL RECOMMENDATION with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Romania

Delegations will find attached document COM(2017) 268 final.

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Brussels, 22.5.2017
COM(2017) 268 final

Recommendation for a

COUNCIL RECOMMENDATION

**with a view to correcting the significant observed deviation from the adjustment path
toward the medium-term budgetary objective**

in Romania

{SWD(2017) 174 final}

Recommendation for a

COUNCIL RECOMMENDATION

with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective

in Romania

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 policies¹, and in particular 10(2), second sub-paragraph, thereof,

Having regard to the recommendation of the Commission,

Whereas:

- (1) According to Article 121 of the Treaty on the Functioning of the European Union, Member States shall 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 (SGP) 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) On 12 July 2016, the Council recommended Romania to limit the deviation from the medium-term budgetary objective in 2016 and achieve an annual fiscal adjustment of 0.5% of GDP in 2017 unless the medium-term budgetary objective is respected with a lower effort².
- (4) In 2016, based on the Commission 2017 spring forecast and the 2016 outturn data validated by Eurostat, from a position of -0.6% of GDP, i.e. above the medium-term budgetary objective of -1% of GDP, the structural balance has deteriorated to -2.6% of GDP, pointing to a significant deviation from the medium-term budgetary objective (deviation of 1.6% of GDP). The growth of government expenditure, net of

¹ OJ L 209, 2.8.1997, p. 1.

² OJ C 299, 18.8.2016, p. 73.

discretionary revenue measures and one-offs, was well above the expenditure benchmark, also pointing to a significant deviation (deviation of -2.0% of GDP). The difference in the indicators is mainly explained by different annual nominal potential GDP growth rates used in their computation. Irrespective of that difference, both indicators confirm a significant deviation from the requirements of the preventive arm of the SGP in 2016.

- (5) On 16 May 2017, following an overall assessment, the Commission considered that a significant observed deviation from the medium-term budgetary objective exists in Romania and issued a warning to Romania in accordance with Article 121(4) TFEU and 10(2), first-sub-paragraph, of Regulation (EC) No 1466/97.
- (6) According to Article 10(2), second sub-paragraph, of Regulation (EC) No 1466/97, within one month of the date of the adoption of the warning, the Council should address a recommendation to the Member State concerned to take the necessary policy measures. The regulation foresees that the recommendation will set a deadline of no more than five months for the Member State to address the deviation. On that basis a deadline of 15 October 2017 for Romania to address the deviation appears appropriate. Within that deadline, Romania should report on action taken in response to this recommendation.
- (7) Romania's structural balance in 2016 is estimated to have been 1.6% of GDP away from its medium-term budgetary objective. Based on the output gap projections of the Commission 2017 spring forecast, Romania is in normal economic times in 2017. Romania's general government debt ratio is below the 60% of GDP threshold. The minimum required structural effort prescribed by Regulation (EC) No 1466/97 and the adjustment matrix, which factors in the prevailing economic circumstances and possible sustainability concerns, amounts to 0.5% of GDP. The Commission 2017 spring forecast projects a further deterioration of the structural balance by 1.3% of GDP in 2017. Therefore, a minimum structural improvement of 0.5% of GDP in 2017 translates into a need to adopt measures of a total yield of 1.8% of GDP compared to the current baseline from the Commission spring 2017 forecast. Given the significant size of the required structural consolidation effort resulting from the minimum SGP-required adjustment, it is appropriate not to require any additional required adjustment on top of the minimum 0.5% of GDP requirement.
- (8) The required improvement of the structural balance by 0.5% of GDP in 2017 is consistent with the nominal growth rate of net primary government expenditure not exceeding 3.3% in 2017.
- (9) The Commission 2017 spring forecast projects a general government deficit of 3.5% of GDP in 2017, 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 general government deficit threshold in 2017.
- (10) It is appropriate that this recommendation should be made public.
- (11) In order to achieve the recommended budgetary targets, it is crucial that Romania adopts and strictly implements the necessary measures and monitors the development of current expenditure closely,

HEREBY RECOMMENDS:

- (1) Romania should take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 3.3% in 2017, corresponding to an annual structural adjustment of 0.5% of GDP, thereby putting the country on an appropriate adjustment path toward the medium-term budgetary objective.
- (2) Romania should use any windfall gains for deficit reduction. Budgetary consolidation measures should secure a lasting improvement in the general government structural balance in a growth-friendly manner.
- (3) Romania should report to the Council by 15 October 2017 on action taken in response to this recommendation.

This recommendation is addressed to Romania.

Done at Brussels,

*For the Council
The President*