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#### COVER NOTE

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| From:            | Secretary-General of the European Commission,<br>signed by Mr Jordi AYET PUIGARNAU, Director                                                                                                                   |
| date of receipt: | 22 May 2017                                                                                                                                                                                                    |
| To:              | Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of<br>the European Union                                                                                                                         |
| No. Cion doc.:   | C(2017) 3518 final                                                                                                                                                                                             |
| Subject:         | COMMISSION RECOMMENDATION of 22.5.2017 with a view to giving<br>warning on the existence of a significant observed deviation from the<br>adjustment path toward the medium-term budgetary objective to Romania |

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Delegations will find attached document C(2017) 3518 final.

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Encl.: C(2017) 3518 final



Brussels, 22.5.2017  
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**COMMISSION RECOMMENDATION**

**of 22.5.2017**

**with a view to giving warning on the existence of a significant observed deviation from  
the adjustment path toward the medium-term budgetary objective**

**to Romania**

Only the Romanian text is authentic

## COMMISSION RECOMMENDATION

of 22.5.2017

**with a view to giving warning on the existence of a significant observed deviation from the adjustment path toward the medium-term budgetary objective**

**to Romania**

Only the Romanian text is authentic

THE EUROPEAN COMMISSION,

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 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies<sup>1</sup>, and in particular Article 10(2), first sub-paragraph, thereof,

Whereas :

- (1) Article 121 of the Treaty on the Functioning of the European Union (TFEU) sets the framework of the preventive arm of the Stability and Growth Pact (SGP) whose objective is to promote sound public finances over the medium term through the coordination of economic policies and multilateral surveillance. The operation of the preventive arm is further specified in Regulation (EC) No 1466/97 and in the Code of Conduct of the SGP<sup>2</sup>.
- (2) In order to ensure sustainable public finances and to avoid the occurrence of excessive budget deficits, Member States should achieve a country-specific medium-term budgetary objective for their budgetary position set in structural terms, and maintain it over the economic cycle. For Member States that are not at their medium-term budgetary objective, an appropriate adjustment path towards the medium-term budgetary objective is defined.
- (3) Within the framework of the European Semester, the Council annually addresses guidance to the Member States making full use of the legal instruments provided under Articles 121 and 148 TFEU, and under Regulations (EC) No 1466/97 and (EU) No 1176/2011<sup>3</sup>.

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<sup>1</sup> OJ L 209, 2.8.1997, p. 1.

<sup>2</sup> "Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes", 5 July 2016, [http://ec.europa.eu/economy\\_finance/economic\\_governance/sgp/pdf/coc/code\\_of\\_conduct\\_en.pdf](http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/code_of_conduct_en.pdf)

<sup>3</sup> Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

- (4) Based on Article 10 of Regulation (EC) No 1466/97, the Commission conducts an ex-post assessment of progress towards the medium-term budgetary objective for the previous year by comparing fiscal outturn data with the required pace of adjustment towards the medium-term budgetary objective with a view to identifying actual significant divergences of the budgetary position from the medium-term budgetary objective, or from the appropriate adjustment path towards it as recommended by the Council.
- (5) Based on Article 10 of Regulation (EC) No 1466/97, the Commission evaluates progress towards the medium-term budgetary objective on the basis of an overall assessment with the structural balance as the reference, including an analysis of expenditure net of discretionary revenue measures.
- (6) The overall assessment of whether a deviation from the medium-term budgetary objective or the adjustment path towards it is significant includes, in particular, whether there is a deviation in the structural balance of at least 0.5% of GDP in a single year or at least 0.25% of GDP on average per year in two consecutive years or a deviation in expenditure developments net of discretionary revenue measures having a total impact on the government balance of at least 0.5% of GDP in a single year or cumulatively in two consecutive years.
- (7) In the case of a significant observed deviation from the adequate adjustment path towards the medium-term budgetary objective, the Commission is to address a warning to the Member State concerned in accordance with Article 121(4) TFEU.
- (8) 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 effort.
- (9) Based on the Commission 2017 spring forecast and the 2016 outturn data validated by Eurostat, the observed deviation from the medium-term budgetary objective based on the structural balance in 2016 was above the threshold for significance of 0.5% of GDP. At the same time, expenditure growth net of discretionary revenue and one-off measures was above the rate which ensures compliance with the medium-term budgetary objective.
- (10) An overall assessment is required in line with Article 10(3) of Regulation (EC) No 1466/97. In 2016, from a position of -0.6% of GDP, i.e. above the medium-term budgetary objective of -1% of GDP, the structural balance 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 discretionary revenue measures and one-offs, was well above the expenditure benchmark, also pointing to a significant deviation from the medium-term budgetary objective (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. The overall assessment therefore leads to the conclusion that the observed deviation from the medium-term budgetary objective in 2016 is significant,

HAS ADOPTED THIS RECOMMENDATION:

The Commission hereby warns Romania that a significant deviation from the medium-term budgetary objective was observed in 2016.

Done at Brussels, 22.5.2017

*For the Commission  
Pierre MOSCOVICI  
Member of the Commission*