



Council of the
European Union

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LEGISLATIVE ACTS AND OTHER INSTRUMENTS

Subject: COUNCIL RECOMMENDATION with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Romania

COUNCIL RECOMMENDATION

of ...

**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 subparagraph, thereof,

Having regard to the recommendation of the European Commission,

¹ 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 (OJ L 209, 2.8.1997, p. 1).

Whereas:

- (1) In accordance with Article 121 of the Treaty on the Functioning of the European Union, Member States are to 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 that Romania 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 met with a lower fiscal effort¹.

¹ Council Recommendation of 12 July 2016 on the 2016 National Reform Programme of Romania and delivering a Council opinion on the 2016 Convergence Programme of Romania (OJ C 299, 18.8.2016, p. 73).

- (4) In 2016, based on the Commission 2017 spring forecast and the 2016 outturn data validated by Eurostat, the structural balance has deteriorated from a position of -0,6 % of GDP, namely, above the medium-term budgetary objective of -1 % of GDP, to -2,6 % of GDP, which indicates a significant deviation from the medium-term budgetary objective (namely, a deviation of 1,6 % of GDP). The growth of government expenditure, less discretionary revenue measures and one-offs, was well above the expenditure benchmark, which also indicates a significant deviation (namely a deviation of -2,0 % of GDP). The difference in the indicators is mainly due to 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 22 May 2017, following an overall assessment, the Commission considered that there is a significant observed deviation from the medium-term budgetary objective in Romania, and issued a warning to Romania in accordance with Article 121(4) of the Treaty and Article 10(2), first subparagraph, of Regulation (EC) No 1466/97.
- (6) According to Article 10(2), second subparagraph, of Regulation (EC) No 1466/97, within one month of the date of the adoption of the warning, the Council is to provide the Member State concerned with a recommendation to take the necessary policy measures. Regulation (EC) No 1466/97 provides 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 short of its medium-term budgetary objective. Based on the output gap projections of the Commission 2017 spring forecast, Romania is experiencing 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 2017 spring 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 adjustments in addition to the minimum 0,5 % of GDP requirements.
- (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 2017¹.

¹ Net government expenditure is comprised of total government expenditure excluding interest, 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 4-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.

- (9) The Commission's 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 also seems appropriate to ensure that Romania respects the 3 %-of-GDP general government deficit threshold in 2017.
- (10) It is appropriate that this Recommendation be made public.
- (11) In order to achieve the recommended budgetary targets, it is crucial that Romania adopt and strictly implement the necessary measures and monitors the development of current expenditure closely,

HEREBY RECOMMENDS:

THAT ROMANIA:

- (1) 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) 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) report to the Council by 15 October 2017 on action taken in response to this Recommendation.

This Recommendation is addressed to Romania.

Done at Luxembourg,

For the Council

The President
