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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:	COMMISSION RECOMMENDATION of 23.5.2018 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

Delegations will find attached document C(2018) 3181 final.

Encl.: C(2018) 3181 final



Brussels, 23.5.2018
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COMMISSION RECOMMENDATION

of 23.5.2018

**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

COMMISSION RECOMMENDATION

of 23.5.2018

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

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 policies¹, 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 SGP².
- (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 1176/2011³.
- (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.

¹ OJ L 209, 2.8.1997, p. 1.

² "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

³ 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).

- (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 16 June 2017, the Council recommended Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure⁴ 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. On 5 December 2017 the Council concluded that Romania has not taken effective action in response to the Council Recommendation of 16 June 2017. On that basis, on 5 December 2017 the Council issued a revised recommendation for Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 3.3% in 2018, corresponding to an annual structural adjustment of 0.8% of GDP.
- (9) Based on the Commission 2018 spring forecast and the 2017 outturn data validated by Eurostat, the observed deviation from the recommended path towards the medium-term budgetary objective based on the structural balance in 2017 was above the threshold for significance of 0.5% of potential 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 2017, the growth of net primary government expenditure was well above the expenditure benchmark, pointing to a significant deviation by a large margin (deviation of 3.3% of GDP). The structural balance deteriorated to -3.3% of GDP from a position of -2.1% of GDP in 2016, also pointing to a significant deviation from the recommended structural adjustment by a large margin (deviation of 1.7% of GDP). The size of the deviation indicated by the structural balance is negatively impacted by the higher underlying estimate of potential GDP growth as compared to the medium-term average underlying the expenditure benchmark, as well as by a drop in public investment, which is smoothed out in the expenditure benchmark.
- (11) Taking into account these factors, the overall assessment leads to the conclusion that the observed deviation from the requirements of the preventive arm of the SGP in 2017 is significant,

⁴ 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.

HAS ADOPTED THIS RECOMMENDATION:

The Commission hereby warns Romania that a significant deviation from the medium-term budgetary objective was observed in 2017.

Done at Brussels, 23.5.2018

For the Commission
Pierre MOSCOVICI
Member of the Commission

