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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 Article 10(2), second subparagraph, thereof,

Having regard to the recommendation of the European Commission,

¹ OJ L 209, 2.8.1997, p. 1.

Whereas:

- (1) On 16 June 2017, the Council decided in accordance with Article 121(4) of the Treaty on the Functioning of the European Union ('TFEU') that a significant observed deviation from the adjustment path toward the medium-term budgetary objective existed in Romania and issued a recommendation for Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure¹ does not exceed 3,3 % in 2017, corresponding to an annual structural adjustment of 0,5 % of GDP.² Romania was recommended to use any windfall gains for deficit reduction, while budgetary consolidation measures should ensure a lasting improvement in the general government structural balance in a growth-friendly manner. The Council established a deadline of 15 October 2017 for Romania to report on action taken in response to the Recommendation.

¹ Net 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.

² Council Recommendation of 16 June 2017 with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Romania (OJ C 216, 6.7.2017, p. 1).

- (2) On 11 July 2017, the Council recommended that Romania ensure that, in 2017, it comply with the Council Recommendation¹ of 16 June 2017 with a view to correcting the significant deviation from the adjustment path toward the medium-term budgetary objective. For 2018, Romania was recommended to pursue a substantial fiscal effort in line with the requirements of the preventive arm of the Stability and Growth Pact, in order to further adjust towards its medium-term budgetary objective of a structural deficit of 1 % of GDP. According to the commonly agreed adjustment matrix under the Stability and Growth Pact, that adjustment translated into a requirement of a nominal growth rate of net primary government expenditure not exceeding 4,3 % in 2018. It would correspond to a structural adjustment of 0,5 % of GDP.
- (3) On 26 and 27 September 2017, the Commission undertook an enhanced surveillance mission in Romania for the purpose of on-site monitoring under Article -11(2) of Council Regulation (EC) No 1466/97. The Commission reported its findings to the Council on 24 October 2017 and made them public, after having transmitted its provisional findings to the Romanian authorities.
- (4) On 13 October 2017, the Romanian authorities submitted the report on effective action in response to the Council Recommendation of 16 June 2017. Given the information provided by the Romanian authorities in their report on action taken and the overall assessment based on the 2017 autumn forecast, the Council on ...⁺ concluded that Romania has not taken effective action in response to the Council Recommendation of 16 June 2017.

¹ Council Recommendation of 11 July 2017 on the 2017 National Reform Programme of Romania and delivering a Council opinion on the 2017 Convergence Programme of Romania (OJ C 261, 9.8.2017, p. 98).

⁺ OJ: insert date for st14854/17.

- (5) Romania is pursuing a pro-cyclical fiscal policy in the presence of high economic growth and a positive output gap. In 2017 the structural balance is estimated to be 2,3 % of GDP away from its medium-term budgetary objective. Therefore, and in light of the absence of effective action by Romania it is appropriate to address to that Member State a revised recommendation under Article 121(4) TFEU on the appropriate measures to be taken.
- (6) Based on the output gap projections of the Commission 2017 autumn forecast, Romania is in normal economic times in 2017 and 2018. 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 commonly agreed adjustment matrix under the Stability and Growth Pact, which factors in the prevailing economic circumstances and possible sustainability concerns, amounts to 0,5 % of GDP.
- (7) Romania's structural deficit is projected by the Commission to increase by 1,1 % of GDP in 2017, while the Council Recommendation of 16 June 2017 asked for a structural decrease of at least 0,5 % of GDP. Additionally, Romania is projected to remain at the 3 % of GDP deficit reference value of the Treaty in 2017 and is forecast to breach it by a significant margin in 2018 based on the Commission autumn 2017 forecast.

- (8) An additional effort necessary to bring Romania back on an appropriate adjustment path following the slippages in 2016 and 2017 should complement the adjustment of 0,5 % of GDP recommended by the Council on 11 July 2017. An additional effort of 0,3 % of GDP seems appropriate given the magnitude of the observed significant deviation from the recommended adjustment path towards the medium-term budgetary objective and it will accelerate adjustment back towards the medium-term budgetary objective. The required improvement of the structural balance by 0,8 % of GDP in 2018 is consistent with the nominal growth rate of net primary government expenditure not exceeding 3,3 % in 2018.
- (9) The Commission 2017 autumn forecast projects a further deterioration of the structural balance by 1 % in 2018. Therefore, a structural improvement of 0,8 % of GDP in 2018 translates into a need to adopt measures of a total structural yield of 1,8 % of GDP compared to the current 2018 baseline from the Commission 2017 autumn forecast.
- (10) The Commission 2017 autumn forecast projects a general government deficit of 3,9 % of GDP in 2018, which is above the 3 %-of-GDP Treaty reference value. The required structural adjustment of 0,8 % of GDP compared to the projected outcome for 2017 would also ensure that Romania respects the 3 % of GDP general government deficit threshold in 2018 with a margin.

- (11) The requirements for 2018, issued in this recommendation, supersede the corresponding elements set out in the fiscal recommendation contained in the Council Recommendation addressed to Romania on 11 July 2017.
- (12) Romania should report to the Council on action taken in response to this Recommendation by 15 April 2018, possibly as part of its Convergence Programme submitted pursuant to Article 7 of Regulation (EC) No 1466/97.
- (13) It is appropriate that this Recommendation be made public,

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 2018, corresponding to an annual structural adjustment of at least 0,8 % of GDP in 2018, thereby putting the Member State 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 April 2018 on action taken in response to this Recommendation.

This Recommendation is addressed to Romania.

Done at Brussels,

For the Council

The President
