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COMMISSION OPINION

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(Only the Romanian text is authentic)

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GENERAL CONSIDERATIONS

1. Article 126 of the Treaty on the Functioning of the European Union (TFEU) lays down the excessive deficit procedure (EDP). That procedure is further specified in Council Regulation (EC) No 1467/97 "on speeding up and clarifying the implementation of the excessive deficit procedure"[1], which is part of the Stability and Growth Pact (SGP).

2. According to Article 126(2) TFEU, the Commission has to monitor compliance with budgetary discipline on the basis of two criteria, namely: (a) whether the ratio of the planned or actual government deficit to gross domestic product (GDP) exceeds the reference value of 3% of GDP (unless either the ratio has declined substantially and continuously and reached a level that comes close to the reference value; or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value); and (b) whether the ratio of government debt to GDP exceeds the reference value of 60 % (unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace).

3. Article 126(3) TFEU provides that, if a Member State does not fulfil the requirements under one or both of the above criteria, the Commission has to prepare a report. That report also has to "take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State. The Commission may also prepare a report if, notwithstanding the fulfilment of the requirements under the criteria, it is of the opinion that there is a risk of an excessive deficit in a Member State".

4. Article 126(5) TFEU requires the Commission to address an opinion to the Member State concerned and inform the Council if the Commission considers that an excessive deficit in a Member State exists or may occur. In order to reach a conclusion on whether an excessive deficit exists or may occur, the Commission considers that account should be taken of: (i) the conclusions of its report under Article 126(3) TFEU; and (ii) the opinion of the Economic and Financial Committee on that report under Article 126(4) TFEU. On the basis of those elements, the Commission has established a number of considerations for Romania.

[1] OJ L 209, 2.8.1997, p. 6. The opinion also takes into account the "*Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes*", as agreed by the Economic and Financial Committee (EFC) on 15 May 2017 and available at: http://data.consilium.europa.eu/doc/document/ST-9344-2017-INIT/en/pdf.

CONSIDERATIONS CONCERNING ROMANIA

5. On the basis of the Fiscal-Budgetary Strategy for 2020-2022 (henceforth, the Fiscal Strategy), adopted by the government on 10 December 2019, and the Commission 2020 winter forecast, extended with fiscal variables, the Commission adopted a report under Article 126(3) TFEU for Romania on 14 February 2020[2].

6. According to the data notified by the Romanian authorities on 30 September 2019 and subsequently validated by Eurostat, the general government deficit in Romania reached 3.0% of GDP in 2018, while general government debt stood at 35.0% of GDP. Taking into account revised GDP figures announced by the national statistical office after the publication of Eurostat's press release, those ratios changed slightly, with the deficit standing at 2.9% of GDP and debt at 34.7% of GDP in 2018. For 2019, the notification planned a general government deficit of 2.8% of GDP.

7. On 10 December 2019, the government adopted the Fiscal Strategy, with a general government deficit target of 3.8% of GDP in 2019. This is above and not close to the Treaty reference value of 3% of GDP. The excess over the Treaty reference value in 2019 is also not exceptional, as it neither results from an unusual event nor from a severe economic downturn in the sense of the Treaty and the Stability and Growth Pact. The Commission 2020 winter forecast projects real GDP growth of 3.9% in 2019 and 3.8% in 2020 while the output gap is projected to be around zero. One-off items amounted to 0.1% of GDP in 2019 and were due to a refund of the environment stamp duty on cars. The planned excess over the 3%-of-GDP reference value is not temporary for the purposes of the Treaty and the SGP either. The Commission 2020 winter forecast, extended with fiscal variables, projects a general government deficit of 4.0% of GDP in 2019, 4.9% in 2020 and 6.9% in 2021. The projected increase in the deficit is mostly driven by significant pension increases. In the Fiscal Strategy, the government also projects that the general government deficit will remain above the reference value in 2020 and 2021, with a forecast deficit of 3.6% of GDP in 2020 and 3.4% in 2021. The deficit criterion in the TFEU is therefore *prima facie* not fulfilled.

9. Romania's general government debt amounted to 34.7% of GDP in 2018. Both the Commission 2020 winter forecast, extended with fiscal variables, and the Fiscal Strategy project general government debt to increase until 2021, but to remain below the Treaty reference value. According to the Fiscal Strategy, general government debt is projected to increase to 37.8% of GDP in 2021. The Commission projects a sharper increase, to 41.9% of GDP in 2021. The difference between the two sets of projections stems mainly from lower planned general government deficits in the Fiscal Strategy. Hence the debt criterion in the TFEU is fulfilled.

10. In line with the requirements of Article 126(3) TFEU, the Commission also analysed all the relevant factors in its report under Article 126(3) TFEU. As laid down in Article 2(4) of Regulation (EC) No 1467/97, whenever the government debt-to GDP ratio does not exceed the reference value, relevant factors will be taken into account in the steps leading to the decision on the existence of an excessive deficit. The relevant factors, in particular the lack of effective action in response to Council recommendations under the significant deviation procedure since 2017, limited

[2] All EDP-related documents for Romania can be found at: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/corrective-arm-excessive-deficit-procedure/closed-excessive-deficit-procedures/romania_en#ongoing-procedure

progress made by Romania with respect to structural reforms and high fiscal sustainability risks facing Romania in the medium and long term, have been taken into account in the assessment of compliance with the deficit criterion. They do not modify the conclusion that the deficit criterion in the TFEU is not fulfilled.

11. The Economic and Financial Committee issued its opinion in accordance with Article 126(4) TFEU on 24 February 2020. That opinion is consistent with the assessment in the Commission report under Article 126(3) TFEU.

CONCLUSION

The monitoring of the budgetary situation in Romania and, in particular, the examination of the compliance with the criteria laid down in Article 126(2) TFEU have led the Commission to prepare a report in accordance with Article 126(3) TFEU. The Commission, having taken into account its report and the opinion of the Economic and Financial Committee, is of the opinion that an excessive deficit exists in Romania due to non-compliance with the deficit criterion.

Done at Brussels, 4.3.2020

For the Commission
Paolo GENTILONI
Member of the Commission