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COMMISSION STAFF WORKING DOCUMENT
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Recommendation for a Council Decision establishing that no effective action has been taken by Romania in response to the Council Recommendation of 14 June 2019

Recommendation for a Council Recommendation with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Romania

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Recommendation for a Council Recommendation with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Romania

1. INTRODUCTION

Since 2013, Romania has been subject to the preventive arm of the Stability and Growth Pact, which requires sufficient progress towards the medium-term budgetary objective. The medium-term budgetary objective for Romania is a structural deficit of 1% of GDP. Romania is not subject to the debt rule as its general government debt remains below 60% of GDP.

In June 2017 and June 2018, the Council found in accordance with Article 121(4) of the Treaty on the Functioning of the European Union ("TFEU") that in 2016 and 2017, respectively, there had been a significant observed deviation from Romania's medium-term budgetary objective or from the adjustment path towards it. In view of those established significant deviations, the Council issued Recommendations on 16 June 2017[1] and 22 June 2018[2], recommending that Romania take the policy measures necessary to address those deviations. The Council subsequently found that Romania had not taken effective action in response to those Recommendations and issued revised Recommendations on 5 December 2017[3] and 4 December 2018[4]. The Council found that Romania had not taken effective action in response to those revised Recommendations either.

On 14 June 2019, the Council found in accordance with Article 121(4) TFEU that an observed significant deviation from the adjustment path toward the medium-term budgetary objective occurred in Romania in 2018. In view of the established significant deviation, the Council on 14 June 2019 issued a recommendation for Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 4.5% in 2019 and 5.1% in 2020, corresponding to an annual structural adjustment of 1.0% of GDP in 2019 and 0.75% in 2020[5], thereby putting Romania on an appropriate adjustment path toward the medium-term budgetary objective. It also recommended Romania to use any windfall gains for deficit reduction, while budgetary consolidation measures should

[1] 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] Council Recommendation of 22 June 2018 with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Romania (OJ C 223, 27.6.2018, p. 3).
[3] Council Recommendation of 5 December 2017 with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Romania (OJ C 439, 20.12.2017, p. 1).
[4] Council Recommendation of 4 December 2018 with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Romania (OJ C 460, 21.12.2018, p. 1).
[5] Council Recommendation of 14 June 2019 with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Romania (OJ C 210, 21.6.2019, p. 1).

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ensure a lasting improvement in the general government structural balance in a growth-friendly manner. The Council established a deadline of 15 October 2019 for Romania to report on action taken in response to this Recommendation.

On 9 July 2019, the Council addressed recommendations to Romania within the context of the European Semester[6]. In the area of public finances, the Council recommended that Romania ensure compliance with the Council Recommendation of 14 June 2019 with a view to correct the significant deviation from the adjustment path toward the medium-term budgetary objective.

The Romanian authorities delivered their report on action taken[7] in response to that Council Recommendation (hereafter: "the report") on 15 October 2019. Moreover, on 25 September 2019 the Commission undertook an enhanced surveillance mission in Romania for the purpose of on-site monitoring under the Article -11(2) of Regulation (EC) No 1466/97. The findings of the enhanced fiscal surveillance mission were subsequently made public.

Section 2 of this document presents macroeconomic developments and outlook in 2019-20. Sections 3 presents fiscal developments in 2019 and updated budgetary projections for 2020. Section 4 assesses compliance with the Council Recommendation of 14 June 2019, while Section 5 proposes a new adjustment path for 2020. Section 6 concludes.

2. MACROECONOMIC DEVELOPMENTS AND OUTLOOK IN 2019 AND 2020

The Commission 2019 autumn forecast projects real GDP growth of 4.1% in 2019, compared to 4% in 2018. Private consumption is expected to remain the main contributor to growth, with disposable income supported by minimum wage and public wage hikes. Investment is expected to recover in 2019, following a drop in 2018, and making a positive contribution to growth. Import and export growth, although lower than in 2018, remain positive but net exports continue to subtract from GDP growth.

In 2020, real GDP growth is projected to decelerate to 3.6%. Private consumption growth is forecast by the Commission to slightly decline compared to 2019 but still remain the main driver of GDP growth. Nominal wage growth is projected to moderate while pensions are set to increase significantly driven by the new pension law. Inflation is set to continue to weigh on real disposable income. Investment is forecast to contribute again positively to growth, supported by construction and the projected acceleration of spending on projects co-funded by the EU towards the end of the current programming period. Imports are projected to continue increasing at a higher pace than exports. However, the overall contribution of net exports, while still negative, is projected to improve.

The current account deficit is set to continue widening. It is forecast to reach 5.1% in 2019 and 5.3% in 2020, with the worsening trade balance being partially compensated by an improvement in the secondary balance.

Romania's labour market is projected to remain tight with new historical lows in unemployment of 3.9% and 4.2% for 2019 and 2020, respectively. The tight labour market is likely to exert further pressure on wages, albeit less than in previous years. Compensation per employee is forecast to grow by 14.5% in real terms in 2019, but is expected to slow down to 10.2% in 2020 as the effects of past increases in public and minimum wages fade away.

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[6] Council Recommendation of 9 July 2019 on the 2019 National Reform Programme of Romania and delivering a Council opinion on the 2019 Convergence Programme of Romania (OJ C 301, 5.9.2019, p. 135).

[7] Available at http://data.consilium.europa.eu/doc/document/ST-13279-2018-INIT/en/pdf

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Inflation increased in the first part of 2019, reaching 4.4% by May, but decelerated in September on account of a decline in energy and food prices. Inflation is forecast at 3.9% for 2019 as a whole, declining to 3.5% in 2020 as energy price inflation is expected to remain subdued.

The output gap, which turned positive in 2017, is projected to narrow in 2019 and turn slightly negative in 2020.

Risks to Romania's macroeconomic outlook are tilted to the downside. A slowdown in the economies of Romania's main trading partners could translate into weaker export growth. Moreover, a busy electoral calendar throughout 2019 and 2020 could limit the appetite for pursuing much needed structural reforms. The continued unpredictability of public policy together with recent political uncertainty could negatively affect the business environment and result in postponed investment decisions. The challenge of meeting the budgetary deficit targets in 2020 and 2021 could also hamper public investment in particular due to the strong growth of more rigid expenditure items in recent years. On the other hand, a faster acceleration of spending on projects co-funded by the EU represents a positive risk for GDP growth in 2020 and 2021.

Table 1. Macroeconomic developments and forecast

	2018	2019		2020	
	Outturn	**CP**	**COM**	**CP**	**COM**
Real GDP (% change)	4.0	5.5	4.1	5.7	3.6
Private consumption (% change)	5.2	6.4	5.8	6.2	5.2
Gross fixed capital formation (% change)	-3.3	6.9	8.0	7.9	3.4
Exports of goods and services (% change)	5.4	6.9	3.8	7.1	3.7
Imports of goods and services (% change)	9.1	7.8	7.3	7.9	5.6
Contributions to real GDP growth:					
- Final domestic demand	5.7	6.1	5.8	6.2	4.6
- Change in inventories	2.9	0.0	0.0	0.0	0.0
- Net exports	-1.7	-0.6	-1.7	-0.5	-1.0
Output gap[1]	0.4	0.1	0.1	0.7	-0.1
Employment (% change)	0.2	1.4	0.2	1.2	0.1
Unemployment rate (%)	4.2	4.1	3.9	4.0	4.2
Labour productivity (% change)	3.7	4.1	3.9	4.4	3.4
HICP inflation [2] (%)	4.1	3.5	3.9	2.6	3.5
GDP deflator (% change)	5.9	3.5	7.3	1.9	4.5
Comp. of employees (per head, % change)	16.3	8.1	13.0	6.1	9.2
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-3.2	-1.7	-3.7	-0.8	-3.9

Note:

[1] In % of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Sources :

Commission 2019 autumn forecast (COM); 2019 Convergence Programme (CP)

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3. FISCAL DEVELOPMENTS AND OUTLOOK IN 2019 AND 2020

On 25 September 2019, the Commission undertook an enhanced surveillance mission in Romania for the purpose of on-site monitoring under Article -11(2) of Regulation (EC) No 1466/97. After having transmitted its provisional findings to the Romanian authorities for comments, the Commission reported its findings to the Council on 20 November 2019 and made its findings public. The 2019 budget amendment, adopted in August, maintained the same target of a headline deficit of 2.8% of GDP mentioned in the original 2019 budget law and in the 2019 Convergence Programme. Going forward, the authorities target a headline deficit of 2.9% of GDP in 2020, which is higher than the 2020 target of 2.7% of GDP in the 2019 Convergence Programme. The authorities did not inform the mission of their structural deficit targets, but explained that these headline deficit targets imply that a structural adjustment would only start in 2022.

On 15 October 2019, the Romanian authorities submitted a report on action taken in response to the Council Recommendation of 14 June 2019. In their report, the authorities confirmed the headline deficit targets of 2.8% of GDP in 2019 and 2.9% of GDP in 2020 mentioned during the mission. According to the authorities, the corresponding structural balance would amount to 2.8% of GDP in 2019 and 3.1% of GDP in 2020. The report does not contain a comprehensive projection of individual budgetary categories as recommended by the Council on 14 June 2019. It therefore does not describe exactly how the authorities intend to reach the proposed targets, in particular in view of significant pension expenditure increases resulting from the new pension law adopted in summer 2019. Also, the report does not comment on the substantial overruns in the execution of the budget in the first nine months of 2019[8].

Table 2 below presents measures and policies listed in the report. The report does not include the budgetary impact of each mentioned measure as recommended by the Council on 14 June 2019. For 2019 the report mentions two new measures included in the August 2019 budget amendment: a tax amnesty and reimbursement from EU funds of spending on projects originally financed from the National Program for Local Development (PNDL). For 2020, the report relies on containing operating and investment expenses, without backing it with sufficiently detailed and adopted, or at least credibly announced, measures.

[8] According to cash budget execution data, the public deficit was 0.85 % of GDP higher in the first three quarters of 2019 than in the equivalent period of 2018.

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Table 2. Discretionary fiscal measures and policies listed in the report (fiscal impact in % of GDP, as reported by the authorities)

	Fiscal impact 2019	Fiscal impact 2020	Comments
Revenues			
Tax amnesty.	+0.2		
Maintaining VAT and excise duties revenues projection at the level programmed for the second semester and renewing the commitment to improve tax collection and reduce tax evasion.	+0.4		Not a new measure. The 2019 budget amendment maintained the overall projection of tax revenues at the same % of GDP as in the original 2019 budget. The impact of 0.4% of GDP stated in the report is compared to the updated revenue projection at the time of adoption of the budget amendment.
Tax on bank assets.	+0.03		Measure in force since the beginning of 2019 but not included in the original 2019 budget.
Maintaining the original targets for revenue from dividends.	n/a		Not a new measure compared to the original 2019 budget law.
Sale of 5G licences.	+0.2		Not a new measure. Already included in the original 2019 budget. According to the ESA-2010 accounting rules, the impact should be smoothed out over several years.
Reimbursement from EU funds of spending on projects originally financed from the National Program for Local Development (PNDL).	+0.2		
Increase of excise duty on tobacco.		+0.1	
Expenditures			
New pension law	n/a	n/a	The report does not quanitfy the fiscal impact of the law. According to the memorandum accompanying the law, it will increase government expenditures by 0.8% of GDP in 2019 and by additional 1.5% of GDP in 2020, compared to the nominal 2018 level.
Cancellation of some amounts that could not be committed in the first half of 2019 and reallocation of funds taking into account the low degree of execution in expenditure categories.	n/a		
Public wages: (i) increase of the basic salaries as stipulated by the existing law; (ii) continued restrictions on non-awarding of prizes, overtime payments, maintenance of the amount of bonuses; (iii) nominal freeze of holiday vouchers and of food allowances at their 2019 level.		n/a	
Nominal freeze of social benefits funded from the state budget, such as guaranteed minimum pension and child allowances at their 2019 levels.		n/a	
Maintaining the 2019 formula of assigning collected taxes to local administrative units.		0.0	No impact on general government balance.
Providing 2% of GDP on defense.		n/a	
Operating and investment expenses of the ministries kept at a “minimum level”.		n/a	

Note:
The budgetary impact in the table as estimated by the national authorities in the action report or - in their absence - in the submission for Discrectionary Tax Database or in the subsequent exchanges with the Commission, following the reception of the report. A positive sign implies that revenue/expenditure increases as a consequence of the measure.

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Table 3. Discretionary revenue measures included in the Commission 2019 autumn forecast (fiscal impact in % of GDP)

Measure	2019	2020
Construction sector: exemption from PIT and health contributions	-0.2	
Sectoral taxes: turnover tax on telecommunication and energy sectors and tax on bank assets	+0.2	
Increase of excise duty on tobacco	+0.1	+0.1
Remaining measures	+0.1	0.0
Total impact	**0.0**	**+0.1**

Note:
The budgetary impact in the table as included in the Commission 2019 autumn forecast. A positive/negative sign implies that revenue increases/decreases compared to the previous year.

Based on the Commission autumn 2019 forecast, the general government deficit is projected to increase to 3.6% of GDP in 2019, from 3.0% in 2018, driven by increased spending on compensation of employees and on goods and services. Public investment is set to rebound somewhat from the record low levels of the recent years.

The general government deficit is projected by the Commission to reach 4.4% of GDP in 2020, driven by the significant increases to old-age pensions resulting from the new pension law enacted in summer 2019[9]. In particular, the pension point (the main parameter used for pension indexation) was increased by 15% in September 2019[10] and is set to grow by an additional 40% in September 2020. As a consequence, public expenditures on social benefits are set to increase by 0.9 % of GDP in 2020. Moreover, public investment is set to continue increasing due to an acceleration of spending on projects co-funded by the EU towards the end of the current programming period.

Romania's structural deficit is forecast by the Commission to increase from 2.7% in 2018 to 3.5% in 2019 and 4.4% in 2020, driven by increased expenditures.

The composition of the budget and its adjustments in nominal and structural terms are presented in Table 4. The table compares the Commission 2019 autumn forecast to the 2019 Convergence Programme, which is the latest detailed fiscal projection published by the Romanian authorities.

[9] The general government deficit is projected by the Commission to increase even further, to 6.1% in 2021, driven by the pension increases.

[10] The 15% increase of September 2019 was already included in the original 2019 budget.

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Table 4. Composition of the budgetary adjustment

(% of GDP)	2018	2019		2020	
	Outturn	CP	COM	CP	COM
Revenue	**32.3**	**33.8**	**32.2**	**33.8**	**32.7**
of which:					
- Taxes on production and imports	10.6	10.7	10.6	10.5	10.6
- Current taxes on income, wealth, etc.	4.9	4.9	5.0	5.0	5.1
- Social contributions	11.5	12.3	11.6	12.5	11.7
- Other (residual)	5.2	5.9	5.0	5.8	5.3
Expenditure	**35.2**	**36.6**	**35.8**	**36.4**	**37.1**
of which:					
- Primary expenditure	34.0	35.4	34.6	35.1	35.9
of which:					
Compensation of employees	11.0	11.7	11.4	11.4	11.5
Intermediate consumption	5.1	5.0	5.3	4.9	5.3
Social payments	10.8	11.5	10.8	12.3	11.7
Subsidies	0.4	0.4	0.4	0.4	0.4
Gross fixed capital formation	2.7	3.5	3.0	3.3	3.4
Other (residual)	4.1	3.3	3.8	2.8	3.8
- Interest expenditure	1.2	1.2	1.2	1.3	1.2
General government balance (GGB)	**-3.0**	**-2.8**	**-3.6**	**-2.7**	**-4.4**
Primary balance	**-1.8**	**-1.6**	**-2.4**	**-1.4**	**-3.2**
One-off and other temporary measures	-0.3	-0.1	-0.1	0.0	0.0
GGB excl. one-offs	**-2.6**	**-2.7**	**-3.5**	**-2.7**	**-4.4**
Output gap[1]	0.4	0.1	0.1	0.7	-0.1
Cyclically-adjusted balance[1]	-3.1	-2.8	-3.7	-2.9	-4.4
Structural balance[2]	**-2.7**	**-2.7**	**-3.5**	**-2.9**	**-4.4**
Structural primary balance[2]	-1.6	-1.5	-2.3	-1.6	-3.1

Notes:

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary

Source :

2019 Convergence Programme (CP); Commission 2019 autumn forecast (COM); Commission calculations.

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Table 5. Debt developments

(% of GDP)	2018	2019		2020	
	Outturn	CP	COM	CP	COM
Gross debt ratio[1]	**35.0**	**35.4**	**35.5**	**35.4**	**37.2**
Change in the ratio	0.0	0.4	0.5	0.0	1.7
Contributions[2] *:*					
1. Primary balance	**1.8**	**1.6**	**2.4**	**1.4**	**3.2**
2. "Snow-ball" effect	**-1.7**	**-1.7**	**-2.5**	**-1.2**	**-1.4**
Of which:					
Interest expenditure	1.2	1.2	1.2	1.3	1.2
Growth effect	-1.1	-1.8	-1.4	-1.9	-1.2
Inflation effect	-1.9	-1.1	-2.3	-0.6	-1.5
3. Stock-flow adjustment	**0.1**	**0.6**	**0.5**	**-0.2**	**0.0**

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source :

Commission 2019 autumn forecast (COM); 2019 Convergence Programme (CP), Commission calculations.

The general government debt-to-GDP ratio is projected by the Commission to increase to 35.5% of GDP in 2019 and 37.2% in 2020, driven by high fiscal deficits.

4. COMPLIANCE WITH THE COUNCIL RECOMMENDATION OF 14 JUNE 2019

On 14 June 2019, the Council recommended Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 4.5% in 2019 and 5.1% in 2020, corresponding to an annual structural adjustment of 1.0% of GDP in 2019 and 0.75% in 2020.

In 2019, based on the Commission 2019 autumn forecast, the nominal growth rate of net primary government expenditure is set to amount to 12.8%, well above the expenditure benchmark of 4.5%. The structural balance is set to deteriorate by 0.8% of GDP, reaching a deficit of 3.5% of GDP in 2019. Therefore, both pillars point to a deviation from the recommended adjustment. The expenditure benchmark points to a deviation of 2.5% of GDP. The structural balance confirms that reading, indicating a smaller deviation of 1.8% of GDP. The structural balance is positively affected by a significantly higher GDP deflator and by a higher point estimate for potential GDP growth compared to the medium-term average underlying the expenditure benchmark. This impact is partially offset by the impact of a projected increase of public investment, which is smoothed out in the expenditure benchmark. Therefore, the overall assessment confirms the deviation from the requirements of the Council Recommendation of 14 June 2019.

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In 2020, based on the Commission 2019 autumn forecast, the nominal growth rate of primary government expenditure is set to amount to 11.1%, well above the expenditure benchmark of 5.1% (deviation of 1.8% of GDP from the recommended adjustment). The structural balance is set to deteriorate further by 0.8% of GDP, reaching a deficit of 4.4% (deviation of 1.6% of GDP). The structural balance is positively affected by a higher GDP deflator and by a projected revenue windfall. This impact is partially offset by the impact of a projected increase of public investment, which is smoothed out in the expenditure benchmark. Therefore, the overall assessment confirms the deviation in 2020 from the requirements of the Council Recommendation of 14 June 2019.

Table 6. Compliance with the medium-term budgetary objective or the required adjustment towards it

(% of GDP)	2018	2019	2020
Background budgetary indicators[1]			
Medium-term objective (MTO)	-1.0	-1.0	0.0
Structural balance[2] (COM)	-2.7	-3.5	-4.4
Setting the required adjustment to the MTO			
Structural balance based on freezing (COM)	-3.3	-3.5	-
Position vis-a -vis the MTO[3]	Not at MTO	Not at MTO	Not at MTO
Required adjustment[4]	0.8	1.0	0.75
Corresponding expenditure benchmark[5]	3.3	4.5	5.1
Compliance with the required adjustment to the MTO			
Structural balance pillar			
Change in structural balance[6]	0.0	-0.8	-0.8
One-year deviation from the required adjustment[7]	-0.8	-1.8	-1.6
Two-year average deviation from the required adjustment[7]	-1.3		
Expenditure benchmark pillar			
Net public expenditure annual growth corrected for one-offs[8]	11.8	12.8	11.1
One-year deviation adjusted for one-offs[9]	-2.4	-2.5	-1.8
Two-year deviation adjusted for one-offs[9]	-2.9		
Finding of the overall assessment	**Significant deviation**	**Deviation**	**Deviation**

Notes

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 38.). In case of a SDP, the requirement corresponds to the Council recommendation when available, otherwise it refers to the Commission recommendation to the Council.

[5] Reference rate for the growth of net government expenditure. It is expressed in real terms until 2017 and in nominal terms from 2018 onwards.

[6] Change in the structural balance compared to year t-1. Ex post assessment (for 2018) is carried out on the basis of Commission 2019 spring forecast.

[7] The difference of the change in the structural balance and the corrected required adjustment.

[8] Net public expenditure annual growth (in %) corrected for discretionary revenue measures, revenue measures mandated by law and one-offs (nominal)

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Commission 2019 autumn forecast; Commission calculations

5. PROPOSED ADJUSTMENT PATH TO THE MEDIUM-TERM BUDGETARY OBJECTIVE AND REQUIRED FISCAL EFFORT

Based on the Commission 2019 autumn forecast, Romania's structural balance is estimated to be at -4.4% in 2020, far from its medium-term budgetary objective of -1% of GDP and the adjustment path recommended by the Council on 14 June 2019.

An additional and persistent effort necessary to correct for the cumulated deviations and to bring Romania back on an appropriate consolidation path following the repeated slippages since 2016 should complement the adjustment recommended by the Council on 14 June 2019. Romania's structural deficit has increased by 2.5% of GDP between 2015 and 2018 and is projected to increase by a further 0.8% of GDP in 2019. Therefore, an additional effort of 0.25% of GDP in 2020 should complement the structural effort of 0.75% of GDP recommended by the Council on 14 June 2019. That additional effort seems appropriate given the magnitude of the cumulated deviations from the medium-term budgetary objective and the recommended adjustment path towards it. It will accelerate adjustment back towards the medium-term budgetary objective without putting economic growth at risk.

According to the Commission 2019 autumn forecast Romania is projected to breach the 3% of GDP deficit reference value of the Treaty. The required structural adjustment of 1.0% of GDP in 2020 would also ensure that Romania respects the 3% of GDP deficit reference value of the Treaty in 2020 with a margin. This is crucial in view of the existing risks and the projected breach.

Based on the Commission forecast, a 1.0% of GDP structural adjustment target in 2020 is consistent with a nominal growth rate of net primary government expenditure of 4.4% in 2020, compared to the growth rate of 11.1% projected by the Commission.

The Commission 2019 autumn forecast projects a deterioration of the structural balance by 0.8% of GDP in 2020. Therefore, a structural improvement of 1.0% of GDP translates into the need to adopt measures of a total structural yield of 1.8% of GDP in 2020 compared to the current baseline in the Commission 2019 autumn forecast.

6. Conclusions

On 14 June 2019 the Council recommended Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 4.5% in 2019 and 5.1% in 2020, corresponding to an annual structural adjustment of 1.0% of GDP in 2019 and 0.75% in 2020.

Romania has not taken the necessary measures to ensure the recommended improvement in the structural balance, nor has it contained the nominal growth rate of net primary government expenditure in 2019, nor is it projected to in 2020. Moreover, the Commission 2019 autumn forecast projects Romania's general government deficit to be above the 3% of GDP Treaty reference value in 2019 and beyond.

In light of an insufficient response to the Council Recommendation of 14 June 2019 and the cumulated high deviation from the required adjustment path toward the medium-term budgetary objective, it is appropriate to address a revised recommendation to Romania. An improvement in Romania's structural balance by 1.0% of GDP in 2020 relative to the 2019 outturn would put Romania on an appropriate adjustment path towards the medium-term budgetary objective. Such an improvement is consistent with the nominal growth rate of net primary government expenditure not exceeding 4.4% in 2020. Such an adjustment also seems appropriate to ensure that Romania respects the 3% of GDP general government deficit threshold with a margin.

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