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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

Fiscal situation in Romania

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1. INTRODUCTION

Based on a recommendation from the Commission of 4 March 2020[1], the Council adopted on 3 April 2020 a Recommendation under Article 126(7) of the Treaty on the Functioning of the European Union ('TFEU'). The Council recommended Romania to bring an end to the situation of an excessive government deficit ('the Recommendation') by 2022.[2] That Recommendation was adopted on the basis of a planned deficit of 3.8% of gross domestic product (GDP) in 2019. Such deficit is above and not close to the 3% of GDP deficit reference value established by Article 1 of the protocol No 12 on excessive deficit procedure. The excess over that reference value in 2019 was also not exceptional. According to subsequently published Eurostat-validated data, the deficit in 2019 amounted to 4.4% of GDP.

At the time the Council adopted that Recommendation, the COVID-19 pandemic was already severely affecting Europe. However, the Recommendation noted that the excessive deficit position was the result of policy decisions adopted by Romania before the COVID-19 outbreak. Those decisions included in particular major pension increases forecast to lead to a very large and persistent deterioration in the budget balance.

According to the Recommendation, which was reiterated in the 2020 country-specific recommendation No 1 addressed to Romania[3], Romania should reach a headline general government deficit target of 2.8% of GDP by 2022.[4] That target was largely consistent with Romania's Fiscal Strategy 2020-2022, adopted by Parliament and promulgated into law on 18 December 2019. The Recommendation was based on the Commission 2020 winter forecast, published on 13 February 2020, extended with fiscal variables until 2022. That forecast did not include the impact of the COVID-19 outbreak.

On 20 March 2020, the Commission published a Communication on the activation of the general escape clause of the Stability and Growth Pact.[5] In that Communication, the Commission stated that the conditions to activate the general escape clause had been met. That view was endorsed by the EU Ministers of Finance on 23 March 2020. The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of a severe economic downturn in the EU or the euro area as a whole, by allowing Member

[1] Recommendation for a Council Recommendation with a view to bringing an end to the situation of an excessive government deficit in Romania (COM/2020/91 final).

[2] Council Recommendation of 3 April 2020 with a view to bringing an end to the situation of an excessive government deficit in Romania (OJ C 116, 8.4.2020).

[3] Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Romania and delivering a Council opinion on the 2020 Convergence Programme of Romania (OJ C 282, 26.8.2020, p. 149–156) .

[4] According to the recommended adjustment path, Romania should reach a headline general government deficit target of 3.6% of GDP in 2020, 3.4% of GDP in 2021 and 2.8% of GDP in 2022, consistent with a nominal growth rate of net primary government expenditure of 8.2% in 2020, 5.5% in 2021 and 5.5% in 2022, corresponding to an annual structural adjustment of 0.5% of GDP in 2020, 0.8% of GDP in 2021 and 0.8% of GDP in 2022.

[5] Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact (COM/2020/123 final).

States to undertake budgetary measures to deal adequately with such a situation, within the preventive and corrective procedures of the Stability and Growth Pact.

On 20 May 2020, the Commission adopted a Communication on the European Semester: Country-specific recommendations.[6] In that Communication, the Commission provided an update on fiscal surveillance under the Stability and Growth Pact in the context of the activation of the general escape clause. The Commission highlighted the gravity of the economic downturn resulting from the COVID-19 outbreak, which had resulted in exceptional uncertainty, making it particularly difficult to design a credible path for fiscal policy. The Commission considered that at that juncture a decision on whether to place additional Member States under excessive deficit procedure (EDP) pursuant to Article 126 TFEU should not be taken.

On 15 September 2020, Romania submitted its report on action taken in response to the Recommendation. That report points to a major deterioration of public finances during 2020, mainly due to the COVID-19 pandemic (see Section 3 and 4).

In a letter by Executive Vice-President Dombrovskis and Commissioner Gentiloni to the Romanian Minister of Public Finance Cîtu on 19 September 2020, the Commission highlighted the prevailing high uncertainty about both the development of the pandemic and its socio-economic consequences. Therefore, it concluded that the general escape clause should remain active in 2021, as also indicated in the Annual Sustainable Growth Strategy 2021.[7] In spring 2021, taking into account updated macroeconomic projections, the Commission would reassess the situation.

The general escape clause does not suspend the procedures of the Stability and Growth Pact. However, its activation has consequences for the corrective arm of the Pact. Article 5(1) of Regulation (EC) 1477/97 states:

> *"In the case of a severe economic downturn in the euro area or in the Union as a whole, the Council may also decide, on a recommendation from the Commission, to adopt a revised recommendation under Article 126(7) TFEU provided that this does not endanger fiscal sustainability in the medium term."*

The continued activation of the general escape clause, therefore, allows the Commission to propose a revised Article 126(7) recommendation, provided that fiscal sustainability in the medium term is not endangered, even in the absence of effective action by the Member State in response to an Article 126(7) recommendation.

In the light of the continued exceptional uncertainty created by the COVID-19 pandemic and its extraordinary macroeconomic and fiscal impact, the Commission considers that no decision on further steps in the Romania's EDP can be taken at this juncture.

This exceptional uncertainty, including for designing a credible path for fiscal policy, does not allow the Commission to put forward a Recommendation for a Council recommendation under article 126(7) at this stage.

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[6] Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank 2020 European Semester: Country-specific recommendations (COM/2020/500 final).
[7] Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank: Annual Sustainable Growth Strategy 2021 (COM/2020/575 final).

The Commission will reassess Romania's budgetary situation based on the 2020 outturn data, 2021 budget and the Commission 2021 spring forecast in spring 2021. If appropriate, the Commission will propose new steps under the excessive deficit procedure, taking into account the continued application of the general escape clause of the Stability and Growth Pact in 2021.

Sound economic governance, such as effective action in the context of an EDP, and overall sound macroeconomic policies are a prerequisite for ensuring an environment conducive to productive public investment and effective use of the EU Funds, including in the context of the Recovery and Resilience Facility (RRF). Based on the proposals made by the Commission (currently in the legislative process), sound economic governance is necessary for the seamless provision of EU funds. It is also recalled that the assessment criteria set out in the draft RRF Regulation require the recovery and resilience plan of Romania to contribute to effectively address the relevant challenges identified in the relevant country-specific recommendations.

2. MACROECONOMIC DEVELOPMENTS AND OUTLOOK

Romania's economy grew on average by 5% per year in 2016-2019, with private consumption as the main growth driver. Investment was volatile during this period, while net exports contributed negatively to GDP growth as imports grew faster than exports. This robust economic growth was, however, accompanied by emerging macroeconomic imbalances, notably in the form of high and growing current account and budgetary deficits, fuelled mainly by large wage increases and several tax cuts. The budget deficit increased from 2.6% of GDP in 2016 to 4.4% of GDP in 2019 and was forecast to rise steeply during the following years (see Table 1) due to a number of expansionary fiscal policy decisions adopted in recent years (see Section 3). The current account moved gradually from a nearly balanced position in 2014 to a deficit of 4.7% of GDP in 2019. Romania's Net International Investment Position (NIIP) as a percentage of GDP has been declining steadily since 2013, supported by strong economic growth, and stabilised at around -44% of GDP at the end of 2019.

In the first half of 2020, Romania's GDP contracted by 4.5% year-on-year, driven mainly by a sharp fall in output in the second quarter due to the country-wide lockdown following the COVID-19 outbreak. Restrictive measures adopted to fight the pandemic had a negative impact on consumer spending while the disruption of international supply chains and weak external demand slowed production and exports. Investment proved more resilient, as construction activity was largely unaffected by containment measures. Activity rebounded in the third quarter but the resurgence of COVID-19 cases that began accelerating in end-September, as well as the reintroduction of associated restrictions, cloud the near-term economic outlook.

In the Commission 2020 autumn forecast, real GDP is projected to contract by around 5¼% in 2020 and to rebound by around 3¼% in 2021 and 3¾% in 2022, when it will recoup its pre-crisis level. Private consumption is expected to recover gradually, in line with the eventual easing of social distancing measures, in 2021 and 2022. Investment is also projected to rebound, albeit in a somewhat muted manner due to persistent uncertainty. At the same time, net exports are expected to contribute negatively to growth over the forecast horizon, leading to a slight increase in the current account deficit.

The crisis also has a strong impact on potential growth, although estimates are subject to a significant level of uncertainty. The Commission estimates potential GDP growth to decline sharply from 4.1% in 2018 to 2¼% in 2022. The output gap, estimated based on the commonly agreed methodology, had increased to 2.4% of potential GDP in 2019 from 2% in 2018. It is projected to turn strongly negative in 2020, before diminishing gradually as of 2021, but remaining negative throughout the forecast horizon.

Table 1: Comparison of macroeconomic developments and forecasts

	2019	2020		2021	2022
	Outturn	COM	RO	COM	COM
Real GDP (% change)	4.2	-5.2	-3.8	3.3	3.8
Contributions to real GDP growth:					
- Final domestic demand	8.3	-4.0	-3.8	4.0	5.0
- Change in inventories	-2.8	-0.6	-1.5	0.3	0.0
- Net exports	-1.3	-0.6	-0.8	-1.0	-1.2
Output gap (% of potential GDP)	2.4	-5.3	n/a	-4.4	-3.0
Employment (% change)	0.1	-2.8	-1.8	0.4	1.4
Unemployment rate (%)	3.9	5.9	5.1	6.2	5.1
Labour productivity (% change)	3.7	-2.2	n/a	3.1	2.5
HICP inflation (%)	3.9	2.5	n/a	2.5	2.4
GDP deflator (% change)	6.9	2.8	3.7	2.9	2.9
Comp. of employees (per head, % change)	9.5	8.2	n/a	4.6	4.0
General government balance (% of GDP)	-4.4	-10.3	-8.6	-11.3	-12.5
General government debt (% of GDP)	35.3	46.7	43.6	54.6	63.6

Source: Commission 2020 autumn forecast (COM), 2020 Budget (August amendment) and the autumn projection of the National Commission for Strategy and Prognosis (RO)

The growth outlook is subject to a very high degree of uncertainty. The shape of the recovery will depend to a large extent on the duration of the COVID-19 crisis, on the speed of the recovery in Romania's main trading partners and on the relative normalisation of global and regional supply chains. Prolonged uncertainty related to the future direction of public policies, in particular to the impact of some expansionary fiscal policy decisions could reduce confidence and hamper credit flows, negatively affecting investment and growth. At the same time, the potentially large future inflows of grants and loans from the RRF, which should be used to finance productive investments and stimulate reforms, represent an upside risk to the forecast.

3. BUDGETARY DEVELOPMENTS AND OUTLOOK

According to the notification of 14 October 2020[8], validated by Eurostat, the general government deficit in Romania was 4.4% of GDP in 2019, while debt stood at 35.3% of GDP. The Commission 2020 autumn forecast projects a general government deficit of around 10¼% in 2020, 11¼% in 2021 and 12½% in 2022 under a no-policy change assumption. The structural deficit, which was around 5% of GDP in 2019, is expected to deteriorate by 3.6 pps. of GDP in 2020, 1.4 pps. of GDP in 2021, and 1.6 pps. of GDP in 2022.

These large and growing budget deficits partly result from the combined effect of the severe economic downturn, and the measures to combat the COVID-19 pandemic and its economic and social consequences. These include additional spending on employment support schemes and support to the health sector, as well as some tax incentives. The total cost of COVID-19 related support measures is 1.3% of GDP, out of which 0.4 pps. is financed by EU funds (see Table 2 below). In the absence of a budget for 2021 (given also the forthcoming general elections, expected on 6 December), the Commission 2020 autumn forecast assumes the expiry of the employment support measures and wages bonuses in 2021.

However, the large and growing projected deficits are mainly driven by pre-existing expansionary measures, as evidenced by the sizeable structural deficit in 2019. This notably includes significant increases in social and other expenditure that were adopted before the pandemic and are thus unrelated to it. More precisely, expenditure on old-age pensions is set to rise considerably, driven by the full-year effect of a 15% pension increase that came into effect in September 2019 and a further increase of 40% from September 2020. Consequently, expenditure on old-age pensions is projected by the Commission to increase by 1.9 pps. of GDP in 2020. Pension increases alone will also contribute to a deterioration in the budget deficit by 2.2 pps. of GDP in 2021 and a further 1.1 pps. of GDP in 2022. The parliament also doubled the child allowance from February 2020, with an annualised budgetary cost of 0.6% of GDP. The reason for this budgetary impact is that, in both cases, the legislators did not provided for a source of financing of the measures.

On the revenue side, the authorities enacted in December 2019 some tax changes, including the reduction of excise duties on fuel and a lowering of social security contributions on part-time workers with an overall estimated revenue loss of 0.3% of GDP in 2020. Tax revenues are also set to be negatively affected by the recession and some tax incentives as part of the COVID-19 support measures (0.1% of GDP).

The general government deficit for 2021 and 2022 could turn out lower than expected in the Commission 2020 autumn forecast as the government has proposed to reduce the planned increases in pensions and child allowances. The related amendments, however, have been rejected by the Parliament, and the government has challenged the parliamentary decisions at the Constitutional Court, whose final decisions are pending (see also Section 4). The Commission 2020 autumn forecast, in line with the standard no-policy-change assumption, takes account of the parliamentary vote. For 2020 and for 2021 onwards, therefore, it incorporates the increases mandated by the pension law currently in force. The forecast does not include any expenditure related to the RRF, as the government has not yet indicated expenditure to be financed under the RRF in 2021. The evolution of the deficit in 2021 could

[8] Pursuant to Regulation (EC) No 479/2009 as amended by Council Regulation (EU) No 679/2010 and by Commission Regulation (EU) No 220/2014, Member States have to report to the Commission, twice a year, their planned and actual government deficit and debt levels. The most recent notification of Romania can be found at: https://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-notification-tables

also turn out to be more favourable than forecast as a result of higher economic growth from the swift implementation of measures financed by the RRF.

Table 2: Measures to address COVID-19 pandemic

Measure	Law	Budgetary impact (% of GDP)		
		2020	2021	2022
Revenue[9]				
Additional EU funds for COVID measures		0,4		
CIT: bonus for payment in time and HORECA exemption		-0,1		
Expenditure				
Bonuses to health workers	several laws	0,1		
Emergency health spending and medical equipment		0,3	0,1	
Technical unemployment benefits for employees and other categories	OUG 30/2020	0,5		
Subsidy for employees returning from technical unemployment (41.5%)	OUG 92/2020	0,2		
Short-term work scheme and other employment support measures	OUG 132/2020	0,1		
Subsidised interest for SMEs (IMM INVEST)		0,02	0,03	
Total impact		**1,05**	**0,1**	**0,0**

Note: budgetary impact as included in the Commission 2020 autumn forecast

In order to assess medium-term sustainability risks, the Commission has conducted an ad-hoc debt sustainability assessment based on its standard approach. Due to a high primary deficit and relatively high interest rates compared to other sovereigns, the debt-to-GDP ratio is set on a steep upward path. Under a no-policy-change scenario, debt is projected by the Commission to exceed 60% in 2022 and go beyond 100% of GDP in 2027, remaining above that level until the end of the projection period in 2031.[10] Based on the Commission's assessment, overall risks to debt sustainability appear high over the medium term.[11] This risk level indicates that there are significant fiscal vulnerabilities that need to be addressed by appropriate policy measures. This risk assessment will be updated and further complemented, when the Commission reassesses Romania's budgetary situation in spring 2021. At this stage, the debt projections are also subject to a much greater level of uncertainty than usual. If the lower increases in pensions and child allowance proposed by the government for 2020 were adopted, this would mitigate expenditure in the short term but would not fundamentally affect the longer term risks to debt sustainability in the absence of further measures for 2021 and beyond.

[9] The authorities also adopted several tax measures (tax deferrals) that have an impact on cash budget execution but which are projected not to have an impact on general government deficit in accrual terms.

[10] In this scenario, it is assumed that the structural primary balance would be progressively adjusted over the projection period to converge back to its pre-crisis forecasted level (i.e. the level forecasted by the Commission services in the autumn forecast 2019 for the year 2021), hence presupposing a progressive unwinding of the extraordinary negative impact of the COVID-19 crisis on public finances. Other assumptions are in line with the Commission standard DSA approach (see Debt Sustainability Monitor 2019).

[11] This assessment includes the consideration of additional stress test scenarios, as defined in the Commission standard DSA approach (see Debt Sustainability Monitor 2019).

4. MEASURES TAKEN SINCE THE EDP RECOMMENDATION

On 15 September 2020, the Romanian authorities sent a report on action taken in response to the Article 126(7) Recommendation. That report presents the fiscal targets and measures from the draft 2020 budget amendment of August 2020. The new targets incorporate the measures that the government has taken in order to address the consequences of the COVID-19 outbreak on the health system and the economy, at a total cost of around 1% of GDP (Table 2). The report does not provide any details on the medium-term fiscal targets and measures of the government, as the Romanian authorities have not yet presented the 2021 draft budget or the 2021-2023 fiscal strategy.

For 2020, the authorities target a general government headline deficit of 8.6% of GDP and debt of 43.6% of GDP, which is consistent with the latest budget amendment adopted on 14 August 2020, which revised the 2020 deficit target upwards from 3.6% of GDP in the original 2020 budget. The planned structural deficit, based on the authorities' own calculations, is 5.8% of potential GDP. Those budgetary targets are based on an expected fall in real GDP of -3.8% in 2020, significantly smaller than the -5.2% fall expected in the Commission 2020 autumn forecast; they also incorporate the impact of the emergency measures against the impact of COVID-19 pandemic taken until October 2020.

Through its August budget amendment, the government attempted to limit the fiscal deterioration in 2020 by limiting the planned increases in social expenditures and in public wage. More precisely, the government proposed an increase in old-age pensions of 14% from September 2020, instead of the originally planned increase of 40%. Given that the amendment refers only to 2020, based on the existing legislation, pensions would still increase by at least 30% from September 2021. The government also proposed to increase the child allowance by 19% as of August 2020, instead of an immediate doubling in February 2020, followed by increases twice a year until it doubles by July 2022. The government has also attempted to postpone the wage increases of education staff from September 2020 to September 2021.[12] If implemented, these revisions would have reduced the 2020 expenditures by 1.3 pps. of GDP compared to the Commission 2020 autumn forecast. The Parliament, however, rejected the government proposals and the government has challenged the parliamentary decisions at the Constitutional Court, whose final decisions are pending.

An assessment of Romania's budgetary decisions since April 2020 in response to the Recommendation will have to take into account the deterioration of the macroeconomic outlook and the impact of the emergency fiscal measures to deal with the pandemic and its economic and social consequences, as well as any other measures or actions by the authorities. According to the Commission 2020 autumn forecast, real GDP growth in 2020 is now expected to be 9 pps. lower than in the baseline scenario underlying the Article 126(7) Recommendation of April 2020, which was based on the Commission 2020 winter forecast extended with fiscal variables until 2022. The headline deficit for 2020 is now expected to be around -10¼% of GDP, compared to -4.9% of GDP in the baseline scenario (Table 3).

In the Commission 2020 winter forecast extended with fiscal variables until 2022 (baseline scenario), the impact of the COVID-19 pandemic was not taken into account and the structural balance was expected to deteriorate by 1 pp. of (potential) GDP in the absence of

[12] According to a previous decision of the Romanian authorities, wages of educational staff would increase as of 1 September 2021 in order to reach the level provided for in the unified wage grade for 2022. The impact of this increase was estimated at 0.05% of GDP in 2020.

any adjustment effort in 2020 (Table 3). In the Commission 2020 autumn forecast, the expected deterioration of the structural balance is 3.6 pps. of GDP in 2020, i.e. by 2.6 pp more than in the winter forecast. Around 1 pp. of GDP of the structural deficit deterioration in 2020 is due to COVID-19 emergency measures, enacted after the cut-off date of the winter forecast. Moreover, the 2020 autumn forecast assumes an additional 0.4 pps. of GDP higher spending on child allowance compared to the winter forecast, as it assumes the doubling of the allowance coming into force retroactively from February 2020 (following the parliamentary vote which confirmed the original schedule of the doubling), while the winter forecast assumed the increase to take place in August 2020 (following the plans of the government at that time). The remaining difference is due to updated information on the execution of the 2020 budget, in particular higher spending on public investment than the one projected by the Commission in winter. The combined impact of the government's attempts to moderate pension and child allowance increases and postpone some wage increases could improve the 2020 headline and structural balance by close to 1.3 pps. of GDP, compared to the Commission 2020 autumn forecast. Even in this case, however, budgetary developments, in structural and nominal terms, would still not be in line with a correction of the excessive deficit in the foreseeable future.

Overall, even correcting for the effect of the COVID-19 crisis, the projected budget deficit deviates from the adjustment that would have been expected according to the Recommendation, though the size of the deviation cannot be precisely assessed at this stage. The exceptional uncertainty surrounding the macroeconomic forecasts related to the evolution of the pandemic and its socio-economic consequences would not allow to credibly establish a new robust adjustment path at this point in time. However, it is clear that the correction of the excessive deficit will require a substantial and continued structural fiscal effort in the coming years. The measures proposed by the government in August 2020 and rejected by the Parliament would not be sufficient in that regard.

Table 3: Comparison of key macroeconomic and budgetary variables under the Commission's forecasts and the recommended adjustment path

Commission 2020 winter forecast (extended) – baseline scenario		**2019**	**2020**	**2021**	**2022**
Real GDP growth	%	3,9	3,8	3,5	3,5
Headline general government balance	% of GDP	-4,0	-4,9	-6,9	-7,7
Structural balance	% of GDP	-3,9	-4,9	-6,8	-7,6
Change in structural balance	% of GDP	-1,1	-1,0	-1,9	-0,8
Net expenditure growth corrected for one-offs (nominal)	%	13,2	12,9	13,7	10,3
Output gap	%	0,1	0,0	-0,3	-0,5

April 2020 Article 126(7) Recommendation		**2019**	**2020**	**2021**	**2022**
Real GDP growth	%	3,9	3,3	2,4	2,7
Headline general government balance	% of GDP	-4,0	-3,6	-3,4	-2,8
Structural balance	% of GDP	-3,9	-3,4	-2,7	-1,8
Change in structural balance	% of GDP	-1,1	0,5	0,8	0,8
Net expenditure growth corrected for one-offs (nominal)	%	13,2	8,2	5,5	5,5
Output gap	%	0,1	-0,6	-1,9	-2,8

Commission 2020 autumn forecast		2019	2020	2021	2022
Real GDP growth	%	4,2	-5,2	3,3	3,8
Headline general government balance	% of GDP	-4,4	-10,3	-11,3	-12,5
Structural balance	% of GDP	-5.0	-8,6	-9,9	-11,5
Change in structural balance	% of GDP	-1,7	-3,6	-1,3	-1,6
Net expenditure growth corrected for one-offs (nominal)	%	13.6	15.9	9.8	9.3
Output gap	%	2.4	-5.3	-4.4	-3.0

5. FISCAL POLICY CONCLUSIONS

Based on the Commission 2020 autumn forecast and the analysis of recent macroeconomic and budgetary developments, Romania is not set to make the adjustments that would be necessary in order to ensure that the excessive deficit identified in the Recommendation is corrected in the foreseeable future. The deterioration of the economic outlook and the introduction of emergency measures to combat the COVID-19 pandemic and its economic and social consequences can only partly explain the projected rise in the deficit. Important underlying drivers of the fiscal situation that were already present before the pandemic struck in 2020, have not been modified. These include unfunded large pension increases, a higher child allowance, reductions in indirect taxes and cuts in social security contributions for some categories of workers.

The attempts by the government to moderate the impact of some of these measures have been rejected by the Parliament and the outcome is unknown. However, even if the proposals to moderate the increases in pension expenditures and the child allowance are ultimately adopted, the fiscal outlook will remain very unfavourable as expenditure on those items would still increase and there is no provision for financing the higher expenditure from additional resources or cost savings. The authorities would thus need to consider substantial further structural actions on both the revenue and expenditure sides in order to set the deficit on a declining path and prevent a steep increase in the debt-to-GDP ratio. Due to the current high uncertainty, fiscal sustainability risks will be reassessed in spring 2021.

Given the high prevailing uncertainty regarding the development of the pandemic and its socio-economic consequences, the general escape clause will remain active in 2021. Depending on the evolution of the pandemic, emergency measures might need to be adjusted and combined with measures to support the recovery. The measures to support the recovery throughout 2021, as suggested in the letter sent by Executive Vice-President Dombrovskis and Commissioner Gentiloni to the Romanian Minister of Public Finance Cîtu on 19 September 2020, should be tailored to the country's specific situation and should be well-targeted and temporary. Member States should, therefore, avoid introducing measures with a permanent negative impact on budget balances. Indeed, it is important to note that the general escape clause is subject to the preservation of fiscal sustainability in the medium term.

Moreover, as recalled in Section 1, sound macroeconomic policies, including sustainable public finances, are a prerequisite for ensuring an environment conducive to productive public investment and effective use of the EU Funds, including substantial grants and loans available in the context of the Recovery and Resilience Facility.