Council Decision (EU) 2020/509 of 3 April 2020 on the existence of an excessive deficit in Romania

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union and in particular Article 126(6) thereof,

Having regard to the proposal from the European Commission,

Having regard to the observations made by Romania,

Whereas:

(1) According to Article 126 of the Treaty on the Functioning of the European Union (TFEU), Member States are to avoid excessive government deficits.

(2) The Stability and Growth Pact (SGP) is based on the objective of using sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth that is conducive to the creation of employment.

(3) The excessive deficit procedure (EDP) under Article 126 TFEU, as clarified by Council Regulation (EC) No 1467/97[(1)] (which is part of the SGP), provides for the taking of a decision finding the existence of an excessive deficit. Protocol No 12 on the excessive deficit procedure, annexed to the Treaty on European Union and the TFEU, sets out further provisions relating to the implementation of the excessive deficit procedure. Council Regulation (EC) No 479/2009[(2)] lays down detailed rules and definitions for the application of those provisions.

(4) Article 126(5) TFEU requires the Commission, if it considers that an excessive deficit in a Member State exists or may occur, to address an opinion to the Member State concerned and to inform the Council accordingly. Having taken into account its report adopted pursuant to Article 126(3) TFEU and having had regard to the opinion of the Economic and Financial Committee adopted pursuant to Article 126(4) TFEU, the Commission concluded that an excessive deficit exists in Romania. On 4 March 2020, the Commission therefore addressed an opinion to that effect to Romania and informed the Council accordingly[(3)].

(5) Article 126(6) TFEU states that the Council is to consider any observations which the Member State concerned may wish to make before deciding after an overall assessment whether an excessive deficit exists. In the case of Romania, that overall assessment leads to the following conclusions.

Changes to legislation: *There are currently no known outstanding effects for the Council Decision (EU) 2020/509. (See end of Document for details)*

(6) According to the data notified by the Romanian authorities on 30 September 2019 that were subsequently validated by Eurostat, the general government deficit in Romania reached 3 % of gross domestic product (GDP) in 2018, while general government debt stood at 35 % of GDP. Taking into account the revised GDP figures announced by the Romanian 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 indicated a planned general government deficit of 2,8 % of GDP.

(7) On 10 December 2019, the government adopted the Fiscal-Budgetary Strategy for 2020–2022 (the 'Fiscal Strategy'), with a general government deficit target of 3,8 % of GDP in 2019. This is above and not close to the TFEU reference value of 3 % of GDP. The excess over the TFEU reference value in 2019 is also not exceptional, as it results neither from an unusual event nor from a severe economic downturn in the sense of the TFEU and the SGP. 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 environmental stamp duty on cars. The planned excess over the TFEU reference value is not temporary for the purposes of the TFEU or the SGP. The Commission 2020 winter forecast, extended with fiscal variables, projects a general government deficit of 4 % 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 TFEU 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.

(8) Romania's general government debt amounted to 34,7 % of GDP in 2018. Both the the Fiscal Strategy and the Commission's 2020 winter forecast, extended with fiscal variables, project the general government debt to increase until 2021, but to remain below the TFEU 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 steeper increase, to 41,9 % of GDP in 2021. Therefore, the debt criterion in the TFEU is fulfilled.

(9) In accordance 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 are to 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 since 2017 in response to Council recommendations under the significant deviation procedure, the limited progress made by Romania with respect to structural reforms and the high fiscal sustainability risks facing Romania in the medium and long term, have been taken into account in the assessment of Romania's compliance with the deficit criterion. Those factors do not modify the conclusion that the deficit criterion in the TFEU is not fulfilled,

HAS ADOPTED THIS DECISION: