Council Decision (EU) 2019/1002 of 14 June 2019 establishing that no effective action has been taken by Romania in response to the Council Recommendation of 4 December 2018

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

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 policies[(1)], and in particular the fourth subparagraph of Article 10(2) thereof,

Having regard to the recommendation from the European Commission,

Whereas:

(1) In June 2017 and June 2018 the Council found in accordance with Article 121(4) of the Treaty 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 of 16 June 2017[(2)] and 22 June 2018[(3)], recommending that Romania take the policy measures necessary to address those deviations.

(2) On 4 December 2018 the Council, by means of Decision (EU) 2018/2020[(4)], concluded that Romania had not taken effective action in response to its Recommendation of 22 June 2018. On that basis, on 4 December 2018 the Council issued a revised Recommendation[(5)] 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, corresponding to an annual structural adjustment of 1 % of gross domestic product (GDP). It also recommended that Romania use any windfall gains for deficit reduction, and stated that budgetary consolidation measures should secure a lasting improvement in the general government structural balance in a growth-friendly manner. The Council established a deadline of 15 April 2019 for Romania to report on the action taken in response to the Recommendation of 4 December 2018.

(3) On 14 and 15 March 2019 the Commission undertook an enhanced surveillance mission to 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, on 5 June 2019 the Commission reported its findings to the Council. Those findings were subsequently made public. The Commission report finds that the Romanian authorities do not intend to act upon the Council Recommendation of 4 December 2018. The authorities confirmed to the Commission that the government

Changes to legislation: *There are currently no known outstanding effects for the Council Decision (EU) 2019/1002. (See end of Document for details)*

has no intention of complying with the recommended structural adjustment. They continue to focus on maintaining the headline deficit below the 3 %-of-GDP Treaty threshold, thus aiming to avoid the corrective arm of the Stability and Growth Pact. The 2019 budget includes an accrual deficit target of 2,8 % of GDP. According to the government's own estimates at the time of the mission, that headline would entail a structural adjustment of around 0,1 % compared to 2018, significantly short of the Council Recommendation.

(4) On 20 April 2018, after the deadline established by the Council, the Romanian authorities submitted a report on action taken in response to the Council Recommendation of 4 December 2018. In the report, the authorities reiterated that their targets for 2019 are a headline deficit of 2,8 % of GDP and only a marginal decrease in the structural deficit. The fiscal impact of the reported measures falls significantly short of the requirement stated in the Recommendation of 4 December 2018.

(5) In 2019, based on the Commission spring 2019 forecast, the growth of net primary government expenditure is set to amount to 11,6 %, well above the expenditure benchmark of 4,5 %. The structural balance is set to deteriorate by 0,7 % of GDP in 2019, reaching a deficit of 3,6 % of GDP. This is the opposite of the recommended structural improvement of 1 % of GDP relative to 2018. Therefore, both indicators point to a deviation from the recommended adjustment. The expenditure benchmark points to a deviation of 2,1 % of GDP. The structural balance confirms that reading, indicating a somewhat smaller deviation of 1,7 % of GDP. The size of the deviation indicated by the structural balance is smaller because of a revenue windfall and a higher GDP deflator. Taking those factors into account, the overall assessment confirms a deviation from the recommended adjustment.

(6) The projected increase in the deficit compared to 2018 is largely driven, as in previous years, by increasing expenditure on the compensation of public employees. Since the Commission autumn 2018 forecast, which was the basis for the Council Recommendation of 4 December 2018, the authorities have enacted new taxes on the telecommunication, energy and banking sectors. However, the authorites granted tax cuts in the construction sector and increased some social benefits.

(7) This leads to the conclusion that Romania's response to the Council Recommendation of 4 December 2018 has been insufficient. The fiscal effort falls significantly short of the annual structural adjustment of 1 % of GDP for 2019, corresponding to a nominal growth rate of net primary government expenditure that does not exceed 4,5 % in 2019,

HAS ADOPTED THIS DECISION:

Article 1

Romania has not taken effective action in response to the Council Recommendation of 4 December 2018.

Article 2

This Decision is addressed to Romania.