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Recommendation for a

**COUNCIL RECOMMENDATION**

**on the National Reform Programme 2011 of Romania**

**and delivering a Council opinion**

**on the updated Convergence Programme of Romania 2011-2014**

{SEC(2011) 731 final}

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**COUNCIL RECOMMENDATION**

**on the National Reform Programme 2011 of Romania**

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**on the updated Convergence Programme of Romania 2011-2014**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148 (4) thereof,

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<sup>1</sup>, and in particular Article 9(3) thereof,

Having regard to the recommendation of the European Commission<sup>2</sup>,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

- (1) On 6 May 2009, the Council adopted a Decision (2009/459/EC) to make available to Romania medium-term financial assistance for a period of three years under the provisions of Article 143 of the Treaty. The accompanying Memorandum of Understanding signed on 23 June 2009 and its successive supplements lay down the economic policy conditions on the basis of which the financial assistance was disbursed. The Council Decision was amended on 16 March 2010 by Decision 2010/183. Following Romania's successful implementation of the programme, and given a partial adjustment of the current account because of remaining structural weaknesses in Romania's product and labour markets which make the country sensitive to international price shocks, on 12 May 2011 the Council adopted a Decision (2011/288/EU) to make precautionary medium-term financial assistance available to Romania for a period of three years under Article 143 of the Treaty. The accompanying Memorandum of Understanding will be signed in [June 2011].

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<sup>1</sup> OJ L 209, 2.8.1997, p. 1.

<sup>2</sup> OJ C , p. .

- (2) On 26 March 2010, the European Council agreed to the European Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.
- (3) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States<sup>3</sup>, which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.
- (4) On 12 January 2011, the Commission adopted the first Annual Growth Survey, marking the start of a new cycle of economic governance in the EU and the first European semester of ex-ante and integrated policy coordination, which is anchored in the Europe 2020 strategy.
- (5) On 25 March 2011, the European Council endorsed the priorities for fiscal consolidation and structural reform (in line with the Council's conclusions of 15 February and 7 March 2011 and further to the Commission's Annual Growth Survey). It underscored the need to give priority to restoring sound budgets and fiscal sustainability, reducing unemployment through labour market reforms and making new efforts to enhance growth. It requested Member States to translate these priorities into concrete measures to be included in their Stability or Convergence Programmes and National Reform Programmes.
- (6) On 25 March 2011, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time to be included in their Stability or Convergence Programmes and their National Reform Programmes.
- (7) On 2 May 2011, Romania submitted its 2011 Convergence Programme update covering the period 2011-2014 and its 2011 National Reform Programme. The two programmes have been assessed at the same time.
- (8) Between 2002 and 2008 the Romanian economy grew strongly, with real GDP growth averaging 6.3%, above its level of potential growth. Economic growth was primarily driven by domestic demand, as strong credit and wage developments boosted private consumption and investment. This boom was also fuelled by foreign capital inflows, led to overheating and unsustainable external and fiscal imbalances. The current account deficit peaked at 13.6% of GDP in 2007 and decreased only marginally to 11.4% of GDP in 2008. The high external borrowing was driven by a pro-cyclical fiscal policy, with headline deficits increasing from 1.2% of GDP in 2005 to 5.7% of GDP in 2008 as a result of recurrent budgetary slippages, notably with respect to current spending. The financial crisis and the ensuing global economic downturn increased risk-aversion amongst investors, leading to a significant tightening of capital flows to Romania. Labour market participation did not rise despite the favourable economic conditions; the employment rate changed very little during the boom years.

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<sup>3</sup> Maintained for 2011 by Council Decision 2011/308/EU of 19 May 2011.

The employment rate then fell to 63.3% by 2010 while the unemployment rate increased from 5.8% in 2008 to 7.3% in 2010 as a result of the economic downturn. Unemployment remains particularly high among the Roma population. Against this background and facing acute financing needs, the Romanian authorities requested international and EU financial assistance in May 2009.

- (9) Following the successful implementation of the EU-IMF adjustment programme, and in order to consolidate these positive achievements, a precautionary EU-IMF programme for 2011-2013 was negotiated with the authorities. The new programme continues the fiscal consolidation, fiscal governance reforms and preservation of financial stability started under the 2009-2011 programme. In addition, it puts a strong emphasis on the structural reforms in product (in the energy and transport sectors) and labour markets necessary to unleash Romania's growth potential, foster job creation and increase the absorption of EU funds. Romania remains on track to achieve the cash deficit target of 4.4% of GDP in 2011 (below 5% of GDP in ESA terms). This would also provide an adequate basis for achieving the deficit target of below 3% of GDP for 2012, although further measures would have to be taken according to the Commission Services' Spring 2011 Economic Forecast. The authorities have also taken steps to achieve the structural reform objectives of the new programme and continue to maintain financial stability.
- (10) Based on the assessment of the updated Convergence Programme pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic assumptions underpinning the projections in the programme are plausible. The Convergence Programme aims to correct the excessive deficit by the 2012 deadline set by the Council in its recommendation of 16 February 2010. The programme targets headline deficits of 2.6% of GDP in 2013 and of 2.1% of GDP in 2014, with the envisaged consolidation being mostly expenditure-based. According to the structural balance recalculated by Commission services, the medium-term objective (MTO) will not be achieved within the programme period. The consolidation strategy appears to be frontloaded with the structural improvement being concentrated in 2011 and 2012. In contrast, there is no improvement in the structural balance in 2013 and 2014. The deficit path foreseen is appropriate in 2011 and 2012, but not in 2013 and 2014. The main risks to the budgetary targets are implementation risks, the arrears of state-owned enterprises which represent a serious contingent liability for the budget, and the reservations expressed by the Commission (Eurostat) about Romania's excessive deficit procedure notification<sup>4</sup>.
- (11) Romania has made its commitments under the Euro Plus Pact<sup>5</sup> in its National Reform Programme and Convergence Programme, which were submitted on 2 May 2011. Most of these commitments have been or are being met as part of the medium-term financial assistance programme and are broadly appropriate to address existing challenges under the Pact.

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<sup>4</sup> Eurostat expressed reservations as to the quality of the Romanian EDP figures due to: (i) uncertainties about the impact of some public corporations on the government deficit, (ii) the reporting of ESA95 categories 'other accounts receivable and payable', (iii) the nature and impact of some financial transactions and (iv) the consolidation of intra-governmental flows.

<sup>5</sup> More details on the commitments made under the Euro Plus Pact can be found in SEC(2011) 731.

- (12) The Commission has assessed the Convergence Programme and National Reform Programme, including the Euro Plus Pact commitments<sup>6</sup>. It has taken into account not only their relevance to sustainable fiscal and socio-economic policy in Romania but also their conformity with EU rules and guidance, given the need to reinforce the overall economic governance of the European Union by providing EU level input into future national decisions.
- (13) In light of this assessment, also taking into account the Council Recommendation under Article 126(7) of the Treaty on the Functioning of the European Union of 16 February 2010, the Council has examined the 2011 update of the Convergence Programme of Romania and its opinion<sup>7</sup> is reflected in the recommendation set out below. Taking into account the European Council conclusions of 25 March 2011, the Council has examined the National Reform Programme of Romania,

HEREBY RECOMMENDS that Romania should:

Implement the measures laid down in Council Decision 2009/459/EC as amended by Council Decision 2010/183/EU, together with the measures laid down in Council Decision 2011/288/EU and further specified in the Memorandum of Understanding of 23 June 2009 and its subsequent supplements, and in the Memorandum of Understanding of [June 2011] and its subsequent supplements.

Done at Brussels,

*For the Council  
The President*

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<sup>6</sup> See SEC(2011) 731.

<sup>7</sup> Foreseen in Article 9(3) of Council Regulation (EC) No 1466/97.