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2020/0038 (NLE)

Proposal for a

**COUNCIL DECISION**

**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 (TFEU), and in particular Article 126(6) thereof,

Having regard to the proposal from the Commission,

Having regard to the observations made by Romania,

Whereas:

(1) According to Article 126 TFEU Member States shall avoid excessive government deficits.

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

(3) The excessive deficit procedure (EDP) under Article 126 TFEU, as clarified by Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure[1] (which is part of the SGP), provides for a decision on the existence of an excessive deficit. Protocol No 12 on the EDP, annexed to the Treaty on the 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) According to Article 126(5) TFEU, if the Commission considers that an excessive deficit in a Member State exists or may occur, it shall address an opinion to the Member State concerned and shall inform the Council accordingly. Having taken into account its report adopted pursuant to Article 126(3) TFEU and having 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 such an opinion to Romania and informed the Council accordingly.[3]

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1 OJ L 209, 2.8.1997, p. 6.

2 OJ L 145, 10.6.2009, p. 1.

3 All EDP-related documents for Romania can be found at: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/corrective-arm-excessive-deficit-procedure/closed-excessive-deficit-procedures/romania_en#ongoing-procedure

(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.

(6) According to the data notified by the Romanian authorities on 30 September 2019 and subsequently validated by Eurostat, the general government deficit in Romania reached 3.0% of GDP in 2018, while general government debt stood at 35.0% of GDP. Taking into account revised GDP figures announced by the 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 planned a general government deficit of 2.8% of GDP.

(7) On 10 December 2019, the government adopted the Fiscal-Budgetary Strategy for 2020-2022 (henceforth, the Fiscal Strategy), with a general government deficit target of 3.8% of GDP in 2019. This is above and not close to the Treaty reference value of 3% of GDP. The excess over the Treaty reference value in 2019 is also not exceptional, as it neither results from an unusual event nor from a severe economic downturn in the sense of the Treaty and the Stability and Growth Pact (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 environment stamp duty on cars. The planned excess over the 3%-of-GDP reference value is not temporary for the purposes of the Treaty and the SGP either. The Commission 2020 winter forecast, extended with fiscal variables, projects a general government deficit of 4.0% 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 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 Commission 2020 winter forecast, extended with fiscal variables, and the Fiscal Strategy project general government debt to increase until 2021, but to remain below the Treaty reference value. According to the Fiscal Strategy, general government debt is projected to increase up to 37.8% of GDP in 2021. The Commission projects a sharper increase, to 41.9% of GDP in 2021. Hence the debt criterion in the TFEU is fulfilled.

(9) In line 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 will 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 in response to Council recommendations under the significant deviation procedure since 2017, 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 compliance with the deficit criterion. They do not modify the conclusion that the deficit criterion in the TFEU is not fulfilled,

HAS ADOPTED THIS DECISION:

*Article 1*

From an overall assessment it follows that an excessive deficit exists in Romania due to non-compliance with the deficit criterion.

*Article 2*

This Decision is addressed to Romania.

Done at Brussels,

*For the Council*
*The President*