



Council of the
European Union

Brussels, 23 July 2024
(OR. en)

11663/24

LIMITE

ECOFIN 770
UEM 186

LEGISLATIVE ACTS AND OTHER INSTRUMENTS

Subject: COUNCIL DECISION establishing that no effective action has been taken by Romania in response to the Council Recommendation of 18 June 2021

COUNCIL DECISION (EU) 2024/...

of ...

**establishing that no effective action has been taken by Romania
in response to the Council Recommendation of 18 June 2021**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular
Article 126(8) thereof,

Having regard to the recommendation from the European Commission,

Whereas:

- (1) Article 126(1) of the Treaty on the Functioning of the European Union (TFEU) provides that Member States are to avoid excessive government deficits.
- (2) The Stability and Growth Pact is a set of rules based on the objective of pursuing sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation. The Stability and Growth Pact includes Council Regulation (EC) No 1467/97¹ on the excessive deficit procedure, which was adopted in order to further the prompt correction of excessive general government deficits.
- (3) On 3 April 2020, the Council adopted Decision (EU) 2020/509² under Article 126(6) TFEU on the existence of an excessive deficit situation in Romania due to a planned non-compliance in 2019 with the deficit criterion of the TFEU, and issued a Recommendation under Article 126(7) TFEU with a view to bringing an end to the situation of an excessive government deficit in Romania by 2022 at the latest.

¹ Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

² Council Decision (EU) 2020/509 of 3 April 2020 on the existence of an excessive deficit in Romania (OJ L 110, 8.4.2020, p. 58).

- (4) On 18 June 2021, in light of the deep contraction in economic activity linked to the COVID-19 pandemic, the Council adopted a revised Recommendation to Romania under Article 126(7) TFEU, thereby recommending that Romania put an end to the excessive deficit situation by 2024 at the latest. Specifically, the Council recommended that Romania reduce its headline deficit to 8,0 % of gross domestic product (GDP) in 2021, 6,2 % of GDP in 2022, 4,4 % of GDP in 2023 and 2,9 % of GDP in 2024. This was consistent with a nominal growth rate of net primary government expenditure of 3,4 % in 2021, 1,3 % in 2022, 0,9 % in 2023 and 0,0 % in 2024. Such reductions would correspond to an annual structural adjustment of 0,7 % of GDP in 2021, 1,8 % of GDP in 2022, 1,7 % of GDP in 2023 and 1,5 % of GDP in 2024. That Recommendation further stated that Romania should fully implement the measures already adopted for 2021, as well as establishing and taking additional measures necessary to achieve the correction of its excessive deficit by 2024. Any windfall gains were to be used to reduce the general government deficit. In its Recommendation, the Council established a deadline of 15 October 2021 for Romania to take effective action and, in accordance with Article 3(4a) of Regulation (EC) No 1467/97, to report on the consolidation strategy that was envisaged to achieve the targets. Moreover, it recommended that Romania report on progress made in the implementation of the Recommendation at least every six months until the excessive deficit has been corrected.

- (5) On 24 November 2021, the Commission concluded that Romania had taken effective action in response to the Council Recommendation of 18 June 2021 under Article 126(7) TFEU, and considered that no additional steps in the excessive deficit procedure were then necessary. Since then, the Commission has found that Romania complied with that Recommendation, due to the fact that the headline deficit targets for 2021 and 2022 were achieved. Based on budgetary outcome data validated by the Commission (Eurostat), Romania's general government deficit decreased from 7,2 % of GDP in 2021 to 6,3 % of GDP in 2022. The initial estimate for 2022, which was notified and validated in the context of the excessive deficit procedure notification of spring 2023, was 6,2 % of GDP, in line with the headline deficit target recommended by the Council. The excessive deficit procedure therefore remained in abeyance. However, the structural deficit fell by 1,2 percentage points (pps.) of GDP in 2021 and 0,4 pps. of GDP in 2022, which compares with recommended adjustments of 0,7 pps. and 1,8 pps. of GDP, respectively. The cumulative structural adjustment over 2021-2022 was, therefore, below that which had been recommended. Moreover, net primary expenditure growth reached 7,4 % in 2021 and 15,0 % in 2022, well above the targets set out in the Council Recommendation of 18 June 2021.

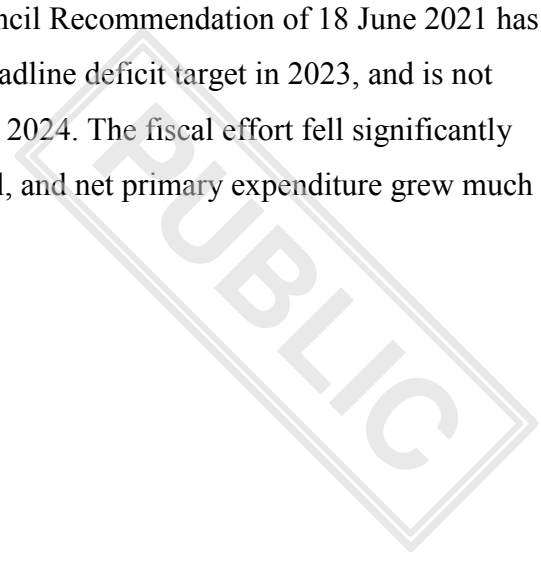
- (6) Since the adoption of the Council Recommendation of 18 June 2021, Romania's economic performance has been broadly in line with the Commission's forecasts. In 2021-2023, real GDP growth was broadly consistent with projections included in the analysis by the Commission services of the budgetary situation in Romania following the adoption of the Council Recommendation to Romania of 3 April 2020, laid down in a Commission Staff Working Document of 2 June 2021, despite macroeconomic shocks that occurred in the meantime, in particular Russia's war of aggression against Ukraine and the ensuing energy-supply shock. The 2023 output gap is estimated to have been less negative than had been projected in June 2021. Moreover, growth in government revenue has been much faster than projected, mostly due to high inflation, but also reflecting the impact of a tax-rich real GDP growth composition. Even if GDP growth would likely have been lower with a considerably tighter fiscal policy, overall, macroeconomic developments cannot justify the significantly worse fiscal outcomes relative to the Council Recommendation of 18 June 2021.
- (7) A new assessment of the action taken by Romania to correct the excessive deficit by 2024 in response to the Council Recommendation of 18 June 2021 leads to a number of conclusions listed hereafter.

- (8) Based on the budgetary outcome data notified by Romania and validated by the Commission (Eurostat), Romania's general government deficit increased to 6,6 % of GDP in 2023, much higher than the 4,4 % of GDP recommended by the Council and planned by Romania in its 2023 Convergence Programme. The main reason for this deviation was that government spending continued to grow at a very high rate, mostly driven by social transfers, interest payments, expenditure on goods and services, and capital spending. The 2023 headline deficit was also impacted by the statistical recording of payments of public sector wage increases, amounting to 0,5 % of GDP, following court decisions.
- (9) In 2023, the fiscal effort was much lower than recommended by the Council. Romania's structural balance remained broadly unchanged in 2023, deteriorating by 0,1 % of GDP, well below the target of an improvement by 1,7 % of GDP recommended by the Council. Net primary expenditure growth adjusted for fiscal policy measures on the revenue side was much higher than recommended in 2023, at close to 12 %, versus a target of 0,9 % recommended by the Council.
- (10) In 2022 and 2023, strong real and nominal GDP growth fuelled a very strong increase in government revenue, of 20,8 % in 2022 and 14,2 % in 2023, much larger than had been envisioned at the time of the Council Recommendation of 18 June 2021. However, in both years most of the windfall gains on the revenue side were used to finance additional spending, instead of reducing the budget deficit.

- (11) The Commission spring 2024 forecast projects the general government deficit to increase to 6,9 % of GDP in 2024. The general government debt-to-GDP ratio is set to increase to 50,9 % by the end of 2024, up from 48,8 % in 2023. As in previous years, the forecast increase of the general government deficit in 2024 reflects high growth in current government expenditure. Following a prudent wage policy in recent years, spending on public wages is projected to increase strongly at a double-digit rate (18,7 %) in 2024, reflecting recent discretionary increases in wages in the education, health and defence sectors. The recalculation of pensions in the context of the pension reform will have a short-term cost in 2024 and 2025 of 1,0 % of GDP over 2024 and 2025.
- (12) In 2024, government revenue growth is expected to outpace nominal GDP growth, reflecting efforts to improve tax collection through digitalisation of the tax system and the impact of a package of revenue-increasing measures adopted in autumn 2023, which is expected to boost government revenue by around 1 % of GDP. The package mostly consists of an increase in corporate taxation, in particular for micro-enterprises, an increase in taxation of individuals, coming from a partial removal of preferential tax facilities in the construction and agriculture sectors, the elimination of reduced value-added tax rates for selected goods and services, an increase in excise duties, and a special tax on the turnover of banks and multinational corporations.

- (13) Therefore, the response of Romania to the Council Recommendation of 18 June 2021 has been insufficient. Romania did not reach the headline deficit target in 2023, and is not forecast to put an end to its excessive deficit by 2024. The fiscal effort fell significantly short of what was recommended by the Council, and net primary expenditure grew much faster than recommended,

HAS ADOPTED THIS DECISION:



Article 1

Romania has not taken effective action in response to the Council Recommendation of 18 June 2021.

Article 2

This Decision is addressed to Romania.

Done at ..., ...

For the Council

The President
