EUROPEAN
COMMISSION

Brussels, 21.11.2018
SWD(2018) 503 final

COMMISSION STAFF WORKING DOCUMENT
Accompanying the documents

Recommendation for a Council decision establishing that no effective action has been taken by Romania in response to the Council recommendation of 22 June 2018

Recommendation for a Council Recommendation with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Romania

{COM(2018) 802 final} - {COM(2018) 803 final}

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1. INTRODUCTION

Since 2013 Romania has been subject to the preventive arm of the Stability and Growth Pact, which requires sufficient progress towards the medium-term budgetary objective (MTO) of -1% of GDP. Romania is not subject to the debt rule as its general government debt remains below 60% of GDP.

On 16 June 2017, the Council decided in accordance with Article 121(4) of the Treaty on the Functioning of the European Union ("TFEU") that an observed significant deviation from the MTO occurred in Romania in 2016. In view of the established significant deviation, on 16 June 2017 the Council issued a recommendation for Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure[1] does not exceed 3.3% in 2017, corresponding to an annual structural adjustment of 0.5% of GDP[2]. On 5 December 2017 the Council found that Romania had not taken effective action in response to the 16 June 2017 recommendation and issued another recommendation. In the new recommendation the Council asked Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 3.3% in 2018, corresponding to an annual structural adjustment of 0.8% of GDP[3]. On 22 June 2018 the Council found that Romania had not taken effective action in response to the recommendation of 5 December 2017.

Moreover, on 22 June 2018 the Council decided in accordance with Article 121(4) TFEU that an observed significant deviation from the adjusment path toward the MTO occurred in Romania in 2017. In view of the established significant deviation, the Council on 22 June 2018 issued a recommendation for Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 3.3% in 2018 and 5.1% in 2019, corresponding to an annual structural adjustment of 0.8% of GDP in each year[4]. It also recommended Romania to use any windfall gains for deficit reduction, while

[1] Net primary government expenditure is comprised of total government expenditure excluding interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure. Nationally financed gross fixed capital formation is smoothed over a four-year period. Discretionary revenue measures or revenue increases mandated by law are factored in. One-off measures on both the revenue and expenditure sides are netted out.

[2] Council Recommendation of 16 June 2017 with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Romania (OJ C 216, 6.7.2017, p. 1).

[3] Council Recommendation of 5 December 2017 with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Romania (OJ C 439, 20.12.2017, p. 1).

[4] Council Recommendation of 22 June 2018 with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Romania (OJ C 223, 27.6.2018, p. 3).

budgetary consolidation measures should ensure a lasting improvement in the general government structural balance in a growth-friendly manner. The Council established a deadline of 15 October 2018 for Romania to report on action taken in response to the recommendation.

On 13 July 2018, the Council addressed recommendations to Romania within the context of the European Semester. In the area of public finances, the Council recommended that Romania ensure compliance with the Council Recommendation of 22 June 2018 with a view to correct the significant deviation from the adjustment path toward the medium-term bdgetary objective.

The Romanian authorities delivered their report on action taken in response to Council Recommendation of 22 June 2018[5] (hereafter: "the report") shortly after the deadline. Moreover, on 27-28 September 2018 the Commission undertook an enhanced surveillance mission in Romania for the purpose of on-site monitoring under the Article -11(2) of Regulation (EC) No 1466/97. The findings of the enhanced fiscal surveillance mission were subsequently made public.

Section 2 of this document presents macroeconomic developments and outlook in 2018-19. Sections 3 presents fiscal developments in 2018 and updated budgetary projections for 2019. Section 4 assesses compliance with the Council Recommendation of 22 June 2018, while Section 5 proposes a new adjustment path for 2019. Section 6 concludes.

2. MACROECONOMIC DEVELOPMENTS AND OUTLOOK IN 2018 AND 2019

Romania's economic boom has started to cool down in 2018. The Commission autumn 2018 forecast projects real GDP growth at 3.6% in 2018, a strong deceleration compared to the previous year's growth of 7.3%. Private consumption is weakening, although it still remains the main contributor to growth. That development stems from persistently high inflation, mainly due to energy prices, and the fading-out of public policies directed at increasing disposable income. Investment is expected to remain subdued for the rest of 2018. Import growth, although lower than in 2017, remains dynamic. Export growth is also decelerating but at a higher pace than imports, increasing the drag of net exports on real GDP growth.

In 2019, private consumption growth is forecast by the Commission to remain at similar rates as in 2018 as nominal wage growth moderates and inflation continues to weigh on real disposable income. It is expected nonetheless to remain the main driver of growth. Investment is expected to increase its contribution to growth on the back of an improvement in non-residential construction. Overall, real GDP growth is projected to amount to 3.8% in 2019. Imports are projected to continue rising at a higher pace than exports in 2019. However, the overall contribution of net exports, while still negative, is projected to improve.

The current account deficit is set to continue widening. It is forecast to reach 3.7% in 2018 and 4.2% in 2019. The worsening trade balance is the main factor behind this development.

Romania's labour market is forecast by the Commission to remain tight with new historical lows in unemployment of 4.3% and 4.2% for 2018 and 2019, respectively. The tight labour market is likely to exert further pressure on wages. Compensation per employee continued to increase in 2018 and is forecast at 13% in real terms, before declining in 2019 to 6.7% as increases in public and minimum wages slow down.

[5] Available at http://data.consilium.europa.eu/doc/document/ST-13279-2018-INIT/en/pdf

Inflation further accelerated in early 2018 as the effect of the January 2017 tax cuts faded, reaching 4.7% by August. Inflation is forecast at 4.3% for 2018 as a whole, declining to 3.5% in 2019 as energy price inflation moderates.

The output gap, which turned positive in 2017, is projected in the Commission autumn 2018 forecast to narrow in 2018 and 2019. For 2018 it is due to the deceleration of real GDP growth, which is set to more than halve from the peak observed in 2017. At the same time, potential output is set to continue expanding, due to the continued improvement in the labour market, namely lower structural unemployment as measured by the NAWRU and a higher participation rate. In 2019 the projected slight recovery of GDP growth is insufficent to reverse the decreasing output gap trend.

Risks to Romania's macroeconomic outlook are tilted to the downside. A main risk is that wage growth could continue to outpace productivity growth, causing Romania’s competitiveness to decline and weakening export growth. Furthermore, volatile food prices and persistently high international commodity prices could cause the current account deficit to widen even further. Uncertainty regarding the government’s policies, with potential negative repercussions on the business environment, and the challenge of budgetary deficit targets could hamper investment decisions. On the other hand, an improved absorption of European Union funds represents a positive risk for GDP growth in 2019 and 2020.

Table 1. Macroeconomic developments and forecast

	2017	2018			2019		
	Outturn	**CP**	**PR**	**COM**	**CP**	**PR**	**COM**
Real GDP (% change)	7.3	6.1	4.5	3.6	5.7	5.5	3.8
Private consumption (% change)	10.1	6.5	5.4	4.6	6.1	6.0	4.6
Gross fixed capital formation (% change)	4.7	7.9	3.5	4.6	8.4	7.9	5.6
Exports of goods and services (% change)	9.7	7.4	7.2	6.3	6.9	6.9	6.5
Imports of goods and services (% change)	11.2	8.5	10.0	9.1	8.0	8.0	7.4
Contributions to real GDP growth:							
- Final domestic demand	7.3	6.7	5.7	4.2	6.2	6.0	4.3
- Change in inventories	0.7	0.0	1.0	0.7	0.0	0.0	0.0
- Net exports	-0.7	-0.6	-1.3	-1.3	-0.6	-0.6	-0.6
Output gap[1]	1.5	0.8	0.2	0.5	1.2	0.6	0.2
Employment (% change)	2.8	2.4	0.3	0.2	1.8	1.5	-0.3
Unemployment rate (%)	4.9	4.8	4.3	4.3	4.6	4.2	4.2
Labour productivity (% change)	4.3	3.6		3.3	3.8		4.0
HICP inflation[2] (%)	1.1	3.8	4.7	4.3	2.8	2.8	3.5
GDP deflator (% change)	4.6	2.1	5.9	6.5	1.9	2.1	3.8
Comp. of employees (per head, % change)	11.1	8.1		13.0	7.0		6.7
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-1.6	-1.4		-2.1	-0.9		-2.5

Notes:

[1] In % of potential GDP. For Convergence Programme, the potential GDP growth is recalculated by Commission services on the basis of the Programme scenario using the commonly agreed methodology.

[2] CPI for Prognosis Commission

Source :

Commission 2018 autumn forecast (COM); Romania's 2018 Convergence Programme (CP), Romanian Prognosis Commission's autumn forecast (PR)

3. FISCAL DEVELOPMENTS AND OUTLOOK IN 2018 AND 2019

On 27 and 28 September 2018 the Commission undertook an enhanced surveillance mission in Romania for the purpose of on-site monitoring under the Article -11(2) of Regulation (EC) No 1466/97. After having transmitted its provisional findings to the Romanian authorities for comments, the Commission reported its findings to the Council on 21 November 2018 and made its findings public. The mission found that the Romanian authorities continue to target a headline deficit of just below 3% of GDP in 2018 and thus do not intend to act upon the Recommendation of 22 June 2018. The 2018 budget amendment, published in early September, maintained the original 2018 target of a headline deficit of 2.97% of GDP in cash, which translates into 2.96% in ESA (accrual) terms. The mission also confirmed that the government's target for 2019 is a headline deficit of 2.38% in ESA (accrual) terms, the same as announced in the 2018 Convergence Programme. However, the measures remain to be specified. The draft 2019 budget, to be adopted by the government in mid- to end-November, will contain the details on how to achieve those targets.

In their report on action taken, the authorities confirmed the general government deficit target from the 2018 Convergence Programme of 2.96% of GDP in 2018, close to the outturn in 2017. For 2019 the authorities confirmed that they will target a headline deficit of 2.38% of GDP. The report does not contain a comprehensive projection of individual budgetary categories. According to the authorities, the corresponding structural balance would amount to 3.2% of GDP in 2018 and 2.7% of GDP in 2019.

Table 2 below presents new measures/policies listed in the report. The report does not mention new measures for 2018. For 2019, the report relies on containing expenditure on compensation of employees and goods and services, without backing it by sufficiently detailed and adopted, or at least credibly announced measures. On the revenue side the report mentions a prolongation of already existing measures and some actions aimed at increasing tax compliance. It mentions policies with a potential positive impact on the budget but without giving a complete list of estimates. New measures which are set to reduce revenues or increase expenditures (such as an enacted cut of the VAT rate on hotels and restaurants from January 2019) were not included in the report. Moreover, the report explicitly mentions that its estimates do not take into account the provisions of the draft pensions law adopted by the government which contains increases to the old age pensions in 2019 and beyond.

Table 2. Discretionary fiscal measures and policies listed in the report (fiscal impact in % of GDP)

	Reported fiscal impact in 2019	Comments
Revenues		
Dividends from SOEs at 90% of their net profits	+0.2	A prolongation of a measure already in force since 2017
Starting the procedure for selling 5G licences	+0.1	According to the ESA-2010 accounting rules, the impact of this measure shoud be smoothed out over several years
Maintainance of tax on natural resources	+0.1	A prolongation of a measure already in force since 2013
Measures aimed at improving tax collection: introduction of electronic cash registers, amendment of insolvency law, modernisation of border-crossing points.	n/a	
Expenditures		
Freeze of gross wages of public employees at the December 2018 levels and giving holiday vouchers at the same level as in 2018, keeping the average number of employees in the public sector at the 2018 level	-0.3	Subsequent public announcements questioned the introduction of the wage freeze
Freeze of maintenance and operating expenditures at the level of 2018	-0.3	

Note:
The budgetary impact in the table as estimated by the national authorities in their report or in the subsequent exchanges with the Commission, following the reception of the report. A positive sign implies that revenue/expenditure increases as a consequence of the measure.

Table 3. Discretionary revenue measures included in the Commission 2018 spring forecast (fiscal impact in % of GDP)

Measure	2018	2019
Social contributions shift almost entirely on the employees, from 22.75% for employers and 16.5% for employees to 2.25% and 35% respectively	+1.2	
Increasing excise duties for energy products as of October 2017	+0.3	
A decrease of the share of social contributions transferred to the second pension pillar from 5.1% to 3.75% of gross wages	+0.2	
Cut of flat Personal Income Tax rate from 16% to 10% and increase of tax allowances	-1.5	
Remaning measures	+0.1	-0.1
Total impact	+0.2	-0.1

Note:
The budgetary impact in the table as included in the Commission 2018 autumn forecast. A positive/negative sign implies that revenue increases/decreases compared to the previous year.

Based on the Commission autumn 2018 forecast, the general government deficit is projected to increase to 3.3% of GDP in 2018. The unified wage law, enacted in summer 2017, increased gross public wages by 25% as of January 2018 and contains additional wage increases in health and education sectors, leading to an increase of spending on compensation of employees relative to GDP by 1.0 percentage point. The fiscal cost of those increases of gross wages is set to be partially compensated by a shift of social security contributions from 22.75% for employers and 16.5% for employees to 2.25% and 35% respectively. Moreover, the government partially reversed the past systemic pension reform by lowering the proportion of social contributions transferred to the second pension pillar (which is classified outside of the general government) from 5.1% to 3.75% of gross wages. At the same time, the flat personal income tax (PIT) rate was cut from 16% to 10%. As a consequence, the revenue from social contributions is set to increase by 2.1 percentage points of GDP while the revenue from direct taxes is set to decrease by 1.4 percentage points.

The general government deficit is projected in the Commission autumn 2018 forecast to slightly increase to 3.4% of GDP in 2019, driven by public expenditure on compensation of employees.

Despite the projected increase of the headline deficit, Romania's structural deficit is forecast by the Commission to remain broadly stable, at 3.4% of GDP in 2017, 3.3% in 2018 and 3.4% in 2019, thanks to the decreasing output gap.

A positive risk to the 2018 budget balance forecast comes from possibly lower than budgeted public investment. A possible freeze in public wages and potential changes to the draft pension law represent a positive risk for 2019 and beyond. On the other hand, a potential rebound of public investment from its record-low levels represents a negative risk to the general government balance projection in 2019 and 2020 via increased expenditure.

The composition of the budget and its adjustments in nominal and structural terms are presented in Table 4.

Table 4. Composition of the budgetary adjustment

(% of GDP)	2017	2018		2019	
	Outturn	**CP**	**COM**	**CP**	**COM**
Revenue	**30.7**	**31.3**	**31.8**	**31.3**	**31.8**
of which:					
- Taxes on production and imports	10.3	10.8	10.1	10.8	10.1
- Current taxes on income, wealth, etc.	6.1	4.9	4.7	4.9	4.7
- Social contributions	9.3	10.9	11.4	10.9	11.3
- Other (residual)	5.1	4.7	5.6	4.7	5.6
Expenditure	**33.6**	**34.3**	**35.1**	**34.3**	**35.1**
of which:					
- Primary expenditure	32.3	32.9	33.7	32.9	33.7
of which:					
Compensation of employees	9.8	10.3	10.8	10.3	10.9
Intermediate consumption	5.1	4.7	5.1	4.7	5.1
Social payments	11.6	11.4	11.5	11.4	11.5
Subsidies	0.4	0.4	0.4	0.4	0.4
Gross fixed capital formation	2.6	2.9	2.8	2.9	2.8
Other (residual)	2.8	3.1	3.1	3.1	3.0
- Interest expenditure	1.3	1.4	1.4	1.4	1.4
General government balance (GGB)	**-2.9**	**-3.0**	**-3.3**	**-3.0**	**-3.4**
Primary balance	**-1.5**	**-1.5**	**-1.9**	**-1.5**	**-1.9**
One-off and other temporary measures	0.0	0.0	-0.1	0.0	0.0
GGB excl. one-offs	**-2.9**	**-3.0**	**-3.2**	**-3.0**	**-3.4**
Output gap[1]	1.5	0.8	0.5	0.8	0.2
Cyclically-adjusted balance[1]	-3.4	-3.3	-3.5	-3.3	-3.4
Structural balance[2]	**-3.4**	**-3.3**	**-3.3**	**-3.3**	**-3.4**
Structural primary balance[2]	-2.0	-1.9	-1.9	-1.9	-2.0

Notes:

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Convergence Programme (CP); Commission 2018 autumn forecast (COM); Commission calculations.

Table 5. Debt developments

(% of GDP)	2017	2018		2019	
	Outturn	**CP**	**COM**	**CP**	**COM**
Gross debt ratio[1]	**35.1**	**35.4**	**35.1**	**35.8**	**35.9**
Change in the ratio	-2.2	0.3	0.0	0.4	0.9
Contributions[2] *:*					
1. Primary balance	**1.5**	**1.5**	**1.9**	**1.0**	**1.9**
2. "Snow-ball" effect	**-2.6**	**-1.1**	**-1.8**	**-1.1**	**-1.0**
Of which:					
Interest expenditure	1.3	1.5	1.4	1.4	1.4
Growth effect	-2.4	-2.0	-1.1	-1.9	-1.2
Inflation effect	-1.5	-0.7	-2.1	-0.6	-1.2
3. Stock-flow adjustment	**-1.1**	**0.0**	**0.0**	**0.5**	**0.0**

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source :

Commission 2018 autumn forecast (COM); Convergence Programme (CP), Commission calculations.

The general government debt-to-GDP ratio is projected by the Commission to remain stable at 35.1% of GDP in 2018 thanks to high nominal GDP growth. It is projected by the Commission to increase to 35.9% of GDP in 2019.

4. COMPLIANCE WITH THE COUNCIL RECOMMENDATION OF 22 JUNE 2018

On 22 June 2018 the Council recommended Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 3.3% in 2018 and 5.1% in 2019, corresponding to an annual structural adjustment of 0.8% of GDP in each year.

In 2018, based on the Commission 2018 autumn forecast, the growth of net primary government expenditure is set to amount to 11.3%, well above the expenditure benchmark of 3.3%. The structural deficit is set to marginally decrease, by 0.04 % of GDP in 2018, reaching a deficit of 3.3% of GDP. Therefore, both pillars point to a deviation from the recommended adjustment. The expenditure benchmark points to a deviation of 2.3% of GDP. The structural balance confirms that reading, indicating a smaller deviation of 0.8% of GDP. The structural balance is positively affected by a significantly higher GDP deflator and by a higher point estimate for potential GDP growth compared to the medium-term average underlying the expenditure benchmark. This impact is partially offset by the impact of an increase of public investment, which is smoothed out in the expenditure benchmark. Therefore, the overall assessment confirms the deviation by a wide margin from the requirements of the Council Recommendation of 22 June 2018.

In 2019, based on the Commission 2018 autumn forecast, the growth of nominal government expenditure, net of discretionary revenue measures and one-offs is set to amount to 7.5%, well above the expenditure benchmark of 5.1% (deviation of 0.7% of GDP from the recommended adjustment). The structural balance is set to increase by 0.1 % of GDP, reaching a deficit of 3.4% (deviation of 0.9% of GDP). Therefore, as both pillars point to a deviation from the required adjustment by a similar magnitude, the overall assessment confirms the deviation in 2019 from the requirements of the Council Recommendation of 22 June 2018.

Table 6. Compliance with the MTO or the required adjustment towards it

(% of GDP)	2017	2018	2019
Initial position[1]			
Medium-term objective (MTO)	-1.0	-1.0	-1.0
Structural balance[2]	-3.4	-3.3	-3.4
Structural balance based on freezing	-3.3	-3.3	
Position vis-a -vis the MTO[3]	Not at MTO	Not at MTO	Not at MTO
(% of GDP)	**2017**	**2018**	**2019**
Structural balance pillar			
Required adjustment[4]	0.5	0.8	0.8
Required adjustment corrected[5]	0.5	0.8	0.8
Change in structural balance[6]	-1.2	0.0	-0.1
One-year deviation from the required adjustment [7]	-1.7	-0.8	-0.9
Two-year average deviation from the required adjustment [7]	-1.7	-1.3	-0.8
Expenditure benchmark pillar			
Applicable reference rate[8]	3.3	3.3	5.1
One-year deviation adjusted for one-offs[9]	-3.3	-2.3	-0.7
Two-year deviation adjusted for one-offs[9]	-2.7	-2.8	-1.5
Conclusion			
Conclusion over one year	Significant deviation	Significant deviation	Significant deviation
Conclusion over two years	Significant deviation	Significant deviation	Significant deviation

Notes

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission:

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Change in the structural balance compared to year t-1. Ex post assessment (for 2017) is carried out on the basis of Commission 2018 spring forecast.

[7] The difference of the change in the structural balance and the corrected required adjustment.

[8] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A

[9] Deviation of the growth rate of public expenditure (net of discretionary revenue measures, revenue increases mandated by law and one-offs) from the

[10] Deviation of the growth rate of public expenditure (net of discretionary revenue measures and revenue increases mandated by law) from the applicable

Source : Commission 2018 autumn forecast; Commission calculations.

5. PROPOSED ADJUSTMENT PATH TO THE MTO AND REQUIRED FISCAL EFFORT

Based on the Commission 2018 autumn forecast, Romania's structural balance is estimated to be at -3.4% in 2019, at a far distance from its MTO of -1% of GDP.

An additional and persistent effort necessary to correct for the cumulated deviations and to bring Romania back on an appropriate consolidation path following the repeated slippages since 2016 can complement the adjustment recommended by the Council on 22 June 2018. Romania's structural deficit has increased by 2.1% of GDP in 2016 and by 1.2% of GDP in 2017. It reached 3.4% of GDP in 2017 and is projected to stabilize in 2018. Therefore, an additional effort of 0.2% of GDP in 2019 should complement the structural effort of 0.8% of GDP recommended by the Council on 22 June 2018. The additional effort seems appropriate given the magnitude of the deviation from the MTO and the recommended adjustment path towards it. It would accelerate adjustment back towards the MTO without putting economic growth at risk.

Based on the Commission forecast, a 1.0% of GDP structural adjustment target in 2019 is consistent with a nominal growth rate of net primary government expenditure of 4.5% in 2019, compared to the growth rate of 7.5% projected by the Commission.

The Commission 2018 autumn forecast projects a deterioration of the structural balance by 0.1% of GDP in 2019. Therefore, a structural improvement of 1.0% of GDP translates into the need to adopt measures of a total structural yield of 1.1% of GDP in 2019 compared to the current baseline in the Commission 2018 autumn forecast.

According to the Commission 2018 autumn forecast Romania is projected to breach the 3% of GDP deficit reference value of the Treaty. The required structural adjustment of 1.0% of GDP in 2019 would also ensure that Romania respects the 3% of GDP deficit reference value of the Treaty in 2019 with a margin, which is crucial in view of the existing risks and the forecast breach.

6. CONCLUSIONS

On 22 June 2018 the Council recommended Romania to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 3.3% in 2018 and 5.1% in 2019, corresponding to an annual structural adjustment of 0.8% of GDP in each year.

Romania has not delivered the recommended improvement in the structural balance, nor has it contained net primary government expenditure in 2018, or in 2019. Moreover, the Commission 2018 autumn forecast projects Romania's general government deficit to be above the 3% of GDP Treaty reference value in 2018 and beyond.

In light of an insufficient response to the Council Recommendation of 22 June 2018 and the cumulated high deviation from the required adjustment path toward the MTO, it is appropriate to address to Romania a revised recommendation. An improvement in Romania's structural balance by 1.0% of GDP in 2019 relative to the 2018 outturn would put Romania on an adjustment path towards the MTO. Such an improvement is consistent with the nominal growth rate of net primary government expenditure not exceeding 4.5% in 2019. Such an adjustment also seems appropriate to ensure that Romania respects the 3% of GDP general government deficit threshold with a margin.