

European Semester

2012/2677(RSP) - 30/05/2012 - Follow-up document

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Romania's 2012 national reform programme and delivering a Council opinion on Romania's convergence programme for 2012-2015.

BACKGROUND: the European Commission has adopted a **package of recommendations for budgetary measures and economic reforms** to enhance financial stability, boost growth and create employment across the EU.

The recommendations are **country-specific**, taking account of the individual situation of each Member State. The Commission has also issued recommendations for the euro area as a whole. The country-specific recommendations put forward by the Commission give operational guidance for Member States while preparing their budgetary policies and for economic reforms that should be enacted over the coming twelve months to boost competitiveness and facilitate job creation.

The adoption of the recommendations marks the **concluding of the second phase of the European Semester** of economic policy coordination, which was launched with the Commission's [Annual Growth Survey](#) on 23 November 2011.

The basis for these recommendations is a thorough assessment of the implementation of those adopted in 2011, combined with a detailed analysis of the national reform programmes and stability or convergence programmes that Member States submitted by 30 April 2012. The analysis underpinning the recommendations is presented in 28 Commission staff working documents.

CONTENT: on 23 April 2012, **Romania** submitted its 2012 national reform programme and, on 11 May 2012, its convergence programme covering the period 2012-2015.

Financial support programme: on 6 May 2009, the Council adopted 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. Decision 2009/459/EC was amended on 16 March 2010 by Decision 2010/183/EU.

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 Decision 2011/288/EU to make precautionary medium-term financial assistance available to Romania for a period of three years.

Progress and challenges: the second formal review of the medium-term financial assistance programme that took place in late April-early May 2012 established that **Romania's implementation of the programme remains on track**. The cash fiscal deficit target for 2011 was met. The 2012 budget remains on track to achieve a deficit below 3 % of GDP in ESA terms.

The Romanian banking sector has remained resilient, in spite of the on-going deterioration in asset quality, which has continued weighing on banking sector profitability. Progress in key structural reform areas, such as energy and transport and EU funds absorption have been uneven.

After two years of decline, **real GDP of Romania grew in 2011 by 2½%**. For 2012 growth is expected to decelerate to 1.4 %. Domestic demand is forecast to be the major driver of growth. Public investment, supported by improving EU funds absorption, is expected to play a key role in 2012.

Assessment of the convergence programme: based on the assessment of the 2012 convergence programme, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible.

The objective of the budgetary strategy outlined in the programme is to reach a budget deficit below 3% of GDP in 2012. It aims at achieving a medium-term budgetary objective (MTO) defined as a deficit of 0.7% of GDP in structural terms. Following the planned correction of the excessive deficit in 2012, the deficit is expected to decrease further to 2.2% of GDP in 2013, to 1.2% of GDP in 2014 and 0.9% of GDP in 2015. The programme foresees the achievement of the MTO in 2014.

The main risks to the budgetary targets are the arrears of state owned enterprises, as well as potential reaccumulation of arrears at local government level and in the health sector. As regards public debt, it was below 34% of GDP by end 2011 thus remaining substantially below 60% of GDP.

Recommendations proposed for Romania for the period 2012-2013: implement the measures laid down in Decision 2009/459/EC, as amended by Decision 2010/183/EU, together with the measures laid down in 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 29 June 2011 and its subsequent supplements.

These recommendations should be endorsed by the European Council on 28-29 June 2012 and formally adopted by the Council in July 2012.