Parliament of Romania
Chamber of Deputies

Decision
on adopting the opinion regarding Commission Staff Working Document 'Country Report Romania 2016 - Including an In-Depth Review on the prevention and correction of macroeconomic imbalances' SWD(2016) 91

Pursuant to Articles 67 and 148 of the Romanian Constitution, republished, Law No 373/2013 on cooperation between Parliament and the Government in the area of European affairs, and Articles 160 to 185 of the Rules of Procedure of the Chamber of Deputies, republished,

The Chamber of Deputies hereby adopts this Decision.

Sole Article - Having regard to Opinion No 4c-19/398, adopted by the Committee for European Affairs at its meeting of 5 April 2016,

We welcome the fact that Romania is not affected by any economic imbalances and that it has balanced public finances, it enjoys investor confidence, and it is on the path of sustainable development, thus having good premises for an even better outlook in the next country report.

Given the omissions in the country report, we call on the Commission to work on significantly improving the information mechanism used to collect the necessary data for the report, to check and update such data, and to extend and diversify the information sources, including by consulting the national parliaments, so as to make the report a highly realistic and a more credible reference document.

We are dissatisfied to see that that the country report has omitted many positive aspects and trends in the Romanian economy, the analysis of which would have painted a more realistic picture of the state of Romanian society and would have led to more accurate forecasts and recommendations. We would draw the Commission's attention to the following positive aspects that have been omitted in the country report:

(a) potential GDP has increased from 1.0 % in 2011 to 2.8 % in 2015, and the expectation is that it will gradually increase to 3.8 % in 2017, given the adoption of fiscal relaxation measures;
(b) in most Member States of the European Union, the increase in potential GDP is greater than actual economic growth;
(c) in 2014 and 2015, imports of consumer goods fared worse than imports of capital goods, which shows that the main source of trade deficit is investment (mainly, foreign direct investment and EU funds), even though there have been successive measures of fiscal relaxation since 2014, including a reduced VAT rate on bakery products and food and a reduction in social security contributions;
(d) Romania has improved the structure of its exports, and the share of exports of high and medium technology has increased from 49 % in 2010 to almost 51 % in 2015;
(e) the competitiveness of Romanian exports has been supported by wages remaining under the level of labour productivity;
(f) in 2015, Romania was among the Member States of the EU with the highest levels of strongly negative unit labour costs in real terms.

We emphasize the positive impact that EU funds, the absorption of which is expected to increase by June 2016 as retrospective projects receive funding, have had on macroeconomic indicators, as indicated in the recent study conducted by the National Forecasting Commission.

We stress that Romania still needs investments in order to strengthen its economic and social situation, and that the macroeconomic indicators require a long-term interpretation so as to reach the necessary accuracy for well-founded recommendations and actions.

We would make the following more specific remarks:

1. We emphasize that investment in innovation by large companies, including those operating in Romania, is reflected in the operations carried out by such companies in all the Member States where they are present. This means that the analysis of private sector investment in innovation is meaningful only if it takes into account all Member States as a whole, not each individual Member State separately.

2. We share the European Commission's concerns about the long-term economic impact of the emigration of highly qualified workers. We point out that the phenomenon is part of a labour mobility that is accepted in the Union, and therefore it is necessary to examine all labour flows and extend the analysis horizon to the long term, in order to capture also any returns of highly qualified Romanian workers to Romania.

3. We point out that the 'post-programme surveillance' relating to the third consecutive balance-of-payments financial assistance programme for Romania (2013-2015) should also include measures aimed at supporting Romania's efforts, not just at monitoring it. We point out that there is no mention of the European Commission's involvement after spring 2018, when 70 % of the loan from the European Union is expected to be repaid.

4. We welcome the reference to the achievement of the national targets under the Europe 2020 Strategy in areas such as greenhouse gas emission, renewable energy, energy efficiency, tertiary education, and reduction of population at risk of poverty or social exclusion. We will continue the efforts to consolidate these achievements.

5. We share the European Commission's concerns regarding the rural areas facing particular challenges such as severe under-utilisation of human capital and deeply embedded 'pockets' of poverty and social exclusion, but we would point out that stimulating human capital utilisation and combating poverty are very long-term actions, and capturing the intermediate results of such processes in an annual analysis is extremely difficult.

6. We have reservations as to the forecasts regarding an increase in inflationary pressures in 2016, as a result of greater domestic demand and an increase in the minimum wage as from May, in combination with the reduced impact of VAT cuts.

7. We have reservations as to the estimation that public debt will gradually increase to over 40 % of GDP by 2017, and to over 60 % by 2026, considering the expectations that there will be more prudent public policies and more robust GDP growth.

8. We are concerned about the reference to a significant cumulative effect of financing under the new European Fund for Strategic Investments (EFSI), Horizon 2020, the Connecting Europe Facility and other directly managed EU funds combined with structural and investment funds, given that the former are competitive at EU level (there are no amounts that are earmarked for each Member States) and Romania would have to access competitive funding directly managed by the European Commission, which is much more difficult.

9. We welcome the significant improvement in Romania's net international investment position (NIIP) in 2015 compared to 2012, as a result of the reduction in the current account deficit and strong nominal GDP growth, but we consider that the positive trend will continue if the degree of cohesion at EU level increases.

10. We welcome the mention regarding the reduced dependence on imports of gas and petroleum products, which further contributed to the improvement in the cyclically adjusted current account in 2013-2015, and we hope that this dependence will decrease further thanks to the EU's energy policy.

11. We are concerned about the estimate that exports are set to moderate, in line with growth in the main trading partners, while imports are expected to accelerate, driven by domestic demand, but we consider that the impact of this situation will be limited.

12. We hope that, following the measures taken to support SMEs, they will form more partnerships with foreign companies that have a considerable contribution to Romania's exports, especially if the European Commission acts to support them.

13. We disagree with the European Commission's view that the lack of medium-term vision and poor implementation of the fiscal rules are key drivers of pro-cyclicality, given the high degree of integration of the national economy and the revival in investment in 2015.

14. We note with concern that business R&D investment in Romania is still insufficiently developed, in spite of new incentives, but we recommend that the analysis of such investment include a qualitative dimension and the transfer of the results of such activities between the Member States of the EU.

15. We note that the low degree of business sophistication and the overall low quality science base hamper Romania's capacity to attract business R&D investment and to foster public-private cooperation in research and innovation. We consider that the business environment is robust, with favourable tax arrangements in particular for SMEs, and we expect an increase in the results in the medium term.

16. We note the finding that credit growth to non-financial corporations is in negative territory, but we consider that the companies' preference to reinvest profits is not necessarily a barrier to development, but may also reflect an increased diversity of funding, with beneficial impact in the medium and long term.

17. We disagree with the Commission's view that difficulties in prioritisation are especially acute at the local level. The National Programme for Local Development may not contain detailed priorities, but it has been drawn up in the context of a very large infrastructure deficit and on the basis of demands from the local level. Therefore, it is normal for it not to have a very hierarchical structure with detailed quantification.

18. We point out that, although the liberalisation of household markets is scheduled to be concluded by 2018 and household prices remain at levels substantially below the EU average, this does not necessarily imply a negative effect or new risks for the absorption of Union funds for energy efficiency in buildings. We recall, in this context, the support granted to local small producers and off-grid individual systems (also known as 'island' systems), which suggests that the price of electricity distributed by large suppliers will play a smaller role than expected, judging only by the current types of supplier.

19. We stress that the under-development of e-government solutions to improve the efficiency of public administration is explained to a certain extent by the very large number of rural communities in Romania, where, traditionally, communication with the authorities takes place in person.

20. We stress that, although participation in adult education in Romania is among the lowest in the EU, there are plans to better link curricula with the needs of the employers, and that the current situation reflects the adults' lower interest in education, which is something to be addressed with

more insistence also at EU level, considering that the 'knowledge-based economy' is one of the EU's objectives.

21. We note with concern that severe material deprivation continues to be a challenge, that many people with disabilities cannot afford items considered to be desirable or necessary to lead an adequate life, and that many Romanian children live in severe material deprivation and are at risk of poverty or social exclusion. We will seek to improve the legislation on the protection of persons with disabilities, including in respect of employment, and we will strive to protect vulnerable families.

22. We note with concern the high gap between healthy life years at birth and life expectancy, showing that people spend a substantial period of life in morbidity and disability. We recommend that preventive medicine, occupational medicine, and ensuring a climate favourable to the elderly be addressed with more insistence also at Union level, considering that more and more people make use of the freedom of movement for workers.

23. We recommend that the European Commission take into account more vigorously the need to counter the demand deficit affecting the Union economy, especially given that international institutions or organisations such as the IMF, the OECD, and G20 have warned about the demand deficit and the need to reduce it through direct public investment, not just public guarantees for private investment, as envisaged in the European plan for strategic investments.

24. We regret that the references to the demand deficit, included in the Annual Growth Survey for 2015, have been removed from the Annual Growth Survey for 2016.

25. We recall that public divergences on the diagnosis of the crisis should have normally led to a more balanced analysis that would take into account, on the one hand, both demand and supply issues, and on the other hand both the states' and the markets' lack of discipline, especially that of the financial markets.

26. We are concerned that the report focuses on the supply deficit and the measures that Romania should adopt in order to reduce it, but this approach does not take into account the uncertainties relating to the diagnosis analysis of the Union economy.

27. We recall that potential GDP is not measurable directly, and the estimation thereof may vary significantly when using different calculation methods. More importantly, the same method can lead to estimates that are significantly different, depending on the year when the estimate is calculated. In this context, we recommend caution in drawing conclusions based on a quantity that is so volatile and ambiguous, especially in times of major economic fluctuations, and we suggest developing alternative scenarios.

28. We note the expectation that potential growth will gradually increase before stabilising just above 3 % in the medium term, but we stress that for a country like Romania, in the process of catching-up, growth of just 3 % is modest, even in the current European context. However, this is a scenario that requires a long time to reach convergence and therefore does not fit the overall EU objective on cohesion.

29. We point out that the macroeconomic picture presented by the European Commission does not take into account how national income is distributed, even though the ratio between wages and profits is critical in order to achieve sustainable growth.

30. We point out that Romania has the lowest share of total wages in national income in the Union, but this aspect has been ignored in the report. Therefore, we consider that the Commission’s concerns regarding wage growth is questionable, given that the wages in Romania are among the

lowest in the European Union, and the targets in the Europe 2020 Strategy are based on the social dimension, including reducing poverty and the risk of poverty.

31. We recommend that the European Commission examine the causes why a reasonable measure, i.e. an increase in wages, is linked to the risk of a higher budget deficit, which is a trend that causes legitimate concern.

32. We recommend that the European Commission examine and identify solutions aimed at eliminating the paradox that Romania is currently facing: it has the highest economic growth in the European Union but it is one of the poorest countries in the EU, even last in terms of inequality.

33. We recommend that the Commission analyse the structural weaknesses of the growth model that is not working for the citizens and propose alternative models for inclusive growth.

34. We recommend that the European Commission carry out a comprehensive analysis of the causes behind the productivity trends, which should examine not only the relationship between wages and productivity but also the one between profits and productivity, with a view to alleviating the concern regarding increases in wages, based on an ambiguous relationship between wages and productivity.

35. We note that, while the net international investment position (NIIP) has improved since 2012, its composition indicates a relatively high proportion of volatile financing sources, which amplifies the risks related to external shocks.

36. We point out that a negative net international investment tends to widen the gap between gross domestic product and gross national income, with adverse consequences for the process of catching-up.

37. We note the finding that Romania has made limited progress in implementing the specific recommendations, but we would point out that Romania nevertheless fits the general trend, which should be a wake-up call about making the country-specific recommendations more suitable in general and the timeframe in which they should be implemented.

38. We welcome the European Commission's intention to reduce the number of country-specific recommendations and to focus on a limited number of significant priorities for economic growth and social cohesion.

39. We recommend extending the timeframe, at least for some country-specific recommendations, to 2-3 years instead of 1 year.

40. We note the discrepancy between the large number of measures to be implemented and the capacity to finance them, in a context where one of the priorities of recent EU economic policy is fiscal responsibility, achieved mainly through expenditure cuts.

41. We recommend that the European Commission carry out an analysis of the funding needs for implementing the entire package of country-specific recommendations.

42. We note that some of the vulnerabilities and challenges identified are not within the reach of national governmental actions, but are related to external factors outside the scope of the national governments.

43. We point out that the proper financing of the healthcare system is limited by two external factors outside the control of the government, i.e. the high prices of medicines and medical procedures determined by the oligopolistic nature of the global pharmaceutical market and the budgetary constraints imposed by the reform of economic governance in the Union, in particular the

European Fiscal Compact. The alternative of private funding, towards which the healthcare system is currently being pushed because of the aforementioned external constraints, can resolve the issue only for part of the population, at the cost of sacrificing the basic healthcare package for people with low income, who are the majority in Romania.

44. We recommend improving cooperation at European level for investment in high technology, and exploring the utility of a European instrument for technology transfers, in public and private enterprises.

45. We point out that the European Commission’s proposal to distinguish between the European Semester and the national semester bears the risk that national parliaments may become involved mostly in monitoring the implementation of country-specific recommendations and less in drawing up the economic policy priorities shaping the economic model subsequently used as the basis for country-specific recommendations. This approach may cause a shift from parliamentary legitimacy, which is essential in liberal democracies, to a technocratic legitimacy, a dangerous trend in recent years, especially after the financial crisis of 2008-2009.

46. We recommend that the European Commission, the Council of the European Union and the European Parliament look for solutions to equip the European Union with European instruments that can compensate for the restriction of the use of national instruments, because implementing the country-specific recommendations requires both national and European instruments.

47. We disagree with the European Commission's estimate that Romania will deviate from its medium-term budgetary objective in 2016 and 2017, and that the budget deficit will reach 3.8 % of GDP in 2017, which would exceed the limit of 3 % of GDP under the Treaty on the Functioning of the European Union and would trigger the excessive deficit procedure, because the official data indicate an estimated structural budget deficit of 2.86 % of GDP in 2017, 0.13 % higher compared to 2016.

48. We note that the total budget revenue collected by the National Agency for Fiscal Administration in 2015 was 7.8 % more than in 2014, which contradicts the Commission’s assertion that tax collection continues to be unsatisfactory.

49. We point out that the reduction in the VAT for food was preceded by improvements in the monitoring system and accompanied by a large number of checks on transaction chains and the payment of applicable VAT, which have had remarkable results and have increased the degree of compliance in this area. These results contradict the Commission’s view that the reduced VAT rate for bakery products does not seem to have achieved the objective of reducing tax evasion.

50. We mention that undeclared work and under-declared earnings are currently the subject of tax inspections targeting income from salaries, carried out at taxpayers posing a fiscal risk. This should alleviate the European Commission's concern that such practices will continue to weigh on tax revenue and distort the economy.

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This Decision was adopted by the Chamber of Deputies at the session of 10 May 2016, in compliance with Article 76(2) of the Romanian Constitution, republished.

For the President of the Chamber of Deputies,
Florin Iordache

Bucharest, 10 May 2016
No 45