Parlamentul României
Senat

Bucharest, 19 June 2019

OPINION

of the ROMANIAN SENATE

regarding the Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank and the Eurogroup 2019 - European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011

COM (2019) 150 final

The Romanian Senate examined the Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank and the Eurogroup 2019 - European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011 - COM (2019) 150 final, according to the provisions of the Treaty of Lisbon (Protocol no.1).
Based on the report of June 6, 2019 of our permanent Committee on European Affairs, the plenum of the Senate, during its session of June, 2019, decided as follows:

(1) The Romanian Senate considers that:

a. this Communication supports the need for economic coordination, but it is estimated that its effectiveness in the Semester is relatively weak at European level, for reasons of diagnosis, capacity and political will implement the measures, visible aspects of the very different degree of application of the Country Specific Recommendations. On average, about half of the recommendations are taken into account, but not equally. The recommendations on tax consolidation and financial rules are taken almost entirely; At the same time, recommendations aimed at improving social conditions are largely ignored.
b. attention is drawn to the fact that the indicators used in the assessment of the situation are insufficient or inadequate. The Single European Market is an economic space without borders. Maintaining macroeconomic balances in the single market is based on national indicators (GDP, first) and national instruments. Maintaining macroeconomic equilibriums with national instruments could be achieved under conditions of equal economic development between Member States and the isolation of the single market from external influences. However, the economic gaps between and within Member States are great, and the European economy is only part of a global

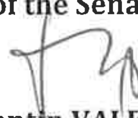
economy with which it interacts and on which it depends. The less realistic diagnosis leads to the recommendation of inappropriate reforms. To measure convergence, we use the Gross Domestic Product (per capita at purchasing power parity). But GDP shows what is recorded on a national market, not what remains in that country, it measures current results, neglecting stocks of assets, accumulation of wealth in a society, and resources, including human capital; the potential for future development depends on the latter, more than a very variable indicator such as the level of GDP.

c. It is underlined that the main macroeconomic imbalance is represented by the ratio of labour income to capital income, as well as the concentration of wealth. This imbalance leads to an inappropriate relationship between investment and consumption, an essential factor for long-term growth; the imbalance is a global one, and the export of negative effects is no longer possible, because there are no external markets that can absorb it, as they existed in the past. This indicator - the ratio between wages and interest, profits, rents - is not among the 14 indicators that measure macroeconomic imbalances.
d. it asks the European Commission to check the consistency of the assumptions underlying the examination of the realities and recommendations made during the European Semester. It is noted with concern that observations and recommendations contradict directly or through their effects. By way of example, in one chapter, salary increases are criticized as undermining the economic outlook, while in others the growth of those who, although on the labour market, are at risk of poverty or the low level of professional training to face the challenges of the digital revolution. Comparisons with relative indicators can be extremely deceptive as well. The minimum wage in Romania was at a low inhuman level; despite the significant percentage increase, it remains one of the lowest in the Union. This fact leads to a low quality of workforce (recovery, reproduction and improvement capacity is dependent on income levels) and forced mobility, for economic reasons, of labour that affects social tissue and economic prospects.
e. attention is drawn to the fact that the increase in unit labour costs has not damaged the competitiveness at national level. This development was based more on increasing wage incomes on the labour market, as salaries were at very low levels. Moreover, the nominal unit labour cost will enter a downward trajectory starting in 2019 and a forward-looking approach should consider these issues. According to internal estimates, from an estimated 14.0% increase in nominal unit labour cost by 2018, the indicator will increase to 3.9% in 2019 and 1.7% in 2020 respectively; the increase in the minimum wage in recent years did not affect the employment in the economy and the competitiveness of the companies. The increase in wages was all the more necessary as the share of employees' remuneration in GDP was and continues to be extremely low, as compared to the gross operating surplus of firms. Such a pattern of growth favours the persistence of income inequalities and social exclusion. Addressing social risks has become even more important in the European Semester since the integration of the European Pillar of Social Rights into this process by including it in Country Reports.
f. the results of the in-depth analysis carried out in the case of Romania proved to be unfavourable in a preventive manner; Romania is in the category of countries with imbalances, although only one indicator in the analysis scoreboard has exceeded its benchmark (net foreign investment position% of GDP - NIIP). It should be noted that the threshold of -35% of GDP for the

international investment position is not respected by 13 Member States. Moreover, out of 15 non-imbalances, there is no state that respects the thresholds specific to all indicators included in the scoreboard.

g. it is emphasized that in Romania, the indicator (NIIP) registered a favourable evolution, its position improving by 19.7 percentage points of GDP from 2012 to present, reaching -47.7% of GDP in 2017 However, the level of this indicator is all the less relevant as Romania is a state which is in the stage of recovering the development gaps from the other Member States, with foreign direct investment being essential.
h. it is proposed to improve structural reforms so as to streamline the allocation of resources. There is a need for a fiscal policy reform on both aspects, structure and level, more fair and efficient distribution and redistribution, especially robust measures to combat tax optimization, with particular emphasis on digital taxation. It is necessary to complete the Economic and Monetary Union, with a European budget worthy of this name, and to build a European social pillar. Also, it is a need to renounce austerity and encourage investment in the provision of public goods and services.

p. President of the Senate



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