EUROPEAN COMMISSION

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Dear President,

The Commission would like to thank the Senat for its Opinion on the Communication 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}.

This Communication is put forward in the context of the European semester as part of the publication of the semester's Winter Package 2019. The Communication reflects the findings of the 28 Country Reports that zoom in on the national dimension and provide a detailed analysis of country-specific economic and social challenges.

The European Union is part of the global economy and our economy interacts and depends highly on external factors. The Commission agrees with the Senat that this should play a central role in the analysis of the European semester, and the analysis of the Country Reports is therefore clearly rooted in this perspective. For the same reasons, the Commission finds it important for the European economy to stand strong in the global economy and to be resilient to external shocks. This calls for reforms that strengthen convergence within our Union as well as the Single European Market.

While the gross domestic product is very useful in describing economic activity, the Commission acknowledges that it does not capture all aspects important to an economy. The analysis in the European semester, including when it comes to convergence, rely on a number of different indicators that together form a broad and wide covering picture of the economic development in each Member State and in the Union as a whole.

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Regarding the ratio of labour to capital income and the concentration of wealth, the Commission ensures the Senat that distributional aspects are duly taken into account in the analysis and the European semester. Indicators capturing the distribution of income are not in the headline alert mechanism scoreboard of the macroeconomic imbalance procedure because the procedures focus on the build-up and implications of unsustainable debt positions. They, for example, sustain the Commission's recommendation to increase the coverage and quality of social services and complete the minimum inclusions income reform.

Regarding wage developments, the minimum wage has increased from very low levels over the past few years. A balance between the objectives of safeguarding labour income on one hand and supporting employment and competitiveness through structural reforms on the other would allow the country to address pressing social issues, such as the need to reduce poverty, without putting its future competitiveness at risk. The minimum wage continues to be set by the government without a comprehensive, predictable mechanism nor stakeholder consultation, despite repeated recommendations to set up such a mechanism. Moreover, the introduction of a minimum inclusion income has been repeatedly postponed.

The Commission shares the concerns of the Senat regarding social risks. It has been monitoring closely the evolution of the indicators in the social scoreboard supporting the European Pillar of Social Rights. Based on the analysis of indicators in this scoreboard the Commission has signalled a number of concerns such as the high number of people at risk of poverty and social exclusion, high income inequality and early school leaving or unmet medical needs or individuals' level of digital skills. The country-specific recommendations in the area of labour market and social issues were formulated with a view to address these challenges.

The Commission agrees with the Senat in that the growth path of unit labour cost will decelerate over 2019 and 2020, even if the Commission forecasts a smoother transition than that projected by the National Prognosis Commission. The crucial point is the extent to which productivity developments and improvement in non-cost competitiveness factors (such as better infrastructure) can counteract the cost effects of increasing wages. This, in turn, will depend on the pace of implementation of structural reforms. A higher degree of convergence and economic development will ideally build on a transition from cost to non-cost competitiveness, which requires progress in several structural areas.

The Commission's in-depth analysis made in February 2019 in the context of the macroeconomic imbalance procedure led it to identify an imbalance in Romania. This followed the selection of Romania for such an in-depth review in the Alert Mechanism Report presented back in November 2018. While the Alert Mechanism Report use the alert mechanism scoreboard as an anchor in the selection process, the Commission would like to emphasize that, in line with the legislation, there is no automaticity between the scoreboard values and the final selection for an in-depth review. Moreover, the in-depth review analysis rests on an overall assessment of risks using all available analytical tools and information where the scoreboard has no operational role as such.

The net international investment position (NIIP) was not identified by the Commission as one of the sources of imbalances in the in-depth review carried out in the last country report. Its current level, while exceeding the threshold of the Macroeconomic Imbalance Procedure scoreboard, is not abnormal for a catching-up economy like Romania. Moreover, the Commission acknowledged the recent improvement in NIIP in its 2019 country report. Nevertheless, the report also warns that such an improvement could stall or even be reversed if the current account continues to deteriorate at the current pace while nominal Gross Domestic Product growth decelerates.

The Commission agrees that work needs to be done to complete the Economic and Monetary Union, including the completion of the Capital Markets Union. In the context of the European semester, the Commission has continued the push for the "virtuous triangle" of boosting investments, pursuing effective reforms that foster sustainable and inclusive growth, and sound fiscal policies. The Commission has further presented guidance on how it will apply the existing rules of the Stability and Growth Pact to strengthen the link between structural reforms, investment and fiscal responsibility in support of jobs and growth. Accordingly, the fiscal adjustment requirement can be temporarily lowered when Member States undertake major structural reforms or investment projects that improve potential growth and the sustainability of public finances.

The Commission hopes that the clarifications provided in this reply address the issues raised by the Senat and looks forward to continuing the political dialogue in the future.

Yours faithfully,

Frans Timmermans
First Vice-President

Valdis Dombrovskis
Vice-President