EUROPEAN COMMISSION

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Dear President,

The Commission would like to thank the Senat for its Opinion on the European Semester 2021 Autumn package {COM(2020) 750 final}, {COM(2020) 746 final}, {COM(2020) 745 final}, {COM(2020) 744 final} and {COM(2020) 752 final}.

As the Senat rightly notes, this annual cycle of economic policy coordination is carried out in a context of exceptionally high uncertainty caused by the economic shock triggered by the COVID-19 pandemic and the public health measures taken to address it. In parallel, as the Senat observes, the public health crisis has raised major challenges to the health sector and to social services amid unprecedented demands for both.

The Commission has taken into account that the context of this year's assessment differs from last year's analysis, which was carried out before the COVID-19 crisis. As the Senat suggests, it would be risky to draw conclusions on the basis of only outcome statistics, as 2019 was a pre-crisis year and 2020 was an exceptional year due to the pandemic. Those limitations have been duly taken into account by the Commission in its 2021 Autumn package. In fact, as usual also in earlier annual cycles of the Semester, the data have not been read mechanically and have always been subject to an informed assessment. In addition, given the rapid and marked change in economic conditions brought about by the COVID-19 crisis, the assessment included a reinforced forward-looking assessment of the risks and prospects for the economic and social situation. For instance, this year's Alert Mechanism Report, compared with previous years, made a greater use of forecasts and high-frequency data to better capture the potential implications of the COVID-19 crisis. The forward-looking perspective is

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thereby key in the assessment but uncertainty remains high and it is still difficult to assess the full consequences of the crisis.

The Commission believes that the policy messages conveyed as part of the 2021 Autumn package are fully consistent and coherent with each other. They are framed under the European Green Deal, the new Union´s growth strategy, which is based on the concept of competitive sustainability, bringing together four dimensions: environment, productivity, stability, and fairness. In particular, economic policy should take into account economic, social and environmental sustainability goals, which are complementary and not competing objectives. For example, the recovery plan for Europe, including the grants and loans provided under the Recovery and Resilience Facility, should be used to repair the economic and social damage brought by the pandemic and to kick-start the recovery in the Member States in line with the twin green and digital transition goals.

The assessments carried out in the Autumn package have also taken into account the impact of policy actions to address and cushion the pandemic as well as to support a sustainable recovery once the public health conditions allow economic activity to resume in full. In the case of the Alert Mechanism Report, the Commission stressed that, as per the legal provisions, the report aims at a first screening of risks to macroeconomic stability and at selecting Member States in need of a closer analysis of risks of macroeconomic imbalances by means of an in-depth review. A detailed analysis of country-specific circumstances is to be done in that subsequent in-depth review.

Regarding the evolution of unit labour costs, the 2021 Alert Mechanism Report notably acknowledged that the increase expected for 2020 would be of a temporary nature, owing to labour hoarding reflecting the impact of measures adopted to preserve employment, which mechanically reduced productivity measured per person while output dropped significantly and by more than headcount employment. The measures adopted by the Romanian authorities for 2021, such as the freezing of wages in the public sector and the limited increase in the minimum wage, are indeed expected to limit the growth of unit labour costs.

The Commission agrees with the Senat's view that the adjustment of Romania's current account deficit will only take place gradually, in line with the message contained in the Alert Mechanism Report. The increase of gross fixed capital formation could indeed translate into higher imports and contribute to the protraction of the sizeable trade and current account deficit, but also the revival of consumer spending is contributing to that. The Commission nevertheless finds it important that the current account balance is brought progressively closer to levels suggested by fundamentals.

The Commission shares the view that the non-performing loans of the Romanian banking system remained at comfortable levels throughout 2020. The mitigating measures taken by the Romanian Government and the National Bank of Romania may have been pivotal in helping reducing the risks that liquidity shortages evolved into solvability problems, which would have left the economic and labour market fabric weaker to benefit from the recovery. Yet, there are risks that following the rollback of temporary support measures, *non-performing loans may increase as debt assets quality worsen, especially for those debtors more affected by the crisis.*

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,

Maroš Šefčovič
Vice-President