



EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

The Director General

Brussels,
D(2012)

Dear Mr Hellemann,

The Danish authorities requested clarification concerning the methodology to be used to estimate the structural budget balance in the context of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union and, in particular, in the context of the implementation of the fiscal compact which requires the implementation at national level of a balanced budget rule.

The present letter confirms the Commission Services understanding but does not represent an official position of the Commission and is without prejudice to any current or future provisions of European Union law.

The above mentioned Treaty does not provide for a specific method to be used by the Contracting Parties for calculating the structural budget balance, even though the medium term objectives should be updated regularly on the basis of a commonly agreed method. Hence, the Contracting Parties could use their national estimates and methods for the assessment of the national budget law.

At the same time, it should be recalled that in the context of the preventive arm of the revised Stability and Growth Pact (SGP), the Union surveillance framework already provides agreed operational modalities and concepts as to how calculating structural budget balance. In particular, it defines what constitutes a “significant deviation” from the country-specific medium-term budgetary objective (MTO) or the adjustment path towards it on the basis of an “overall assessment with the structural balance as the reference, including an analysis of expenditure net of discretionary measures” will be done (cf. *Regulation (EC) No 1175/2011 amending Regulation 1466/97*).

It should be noted that while the Treaty is fully aligned to the language of the Stability and Growth Pact and refers to the very same concepts of significant deviations and overall assessment (Title III (Fiscal Compact) of the Treaty), the Contracting Parties are not bound to use the common Union methodology for the calculation of structural balances. Therefore, there could theoretically be divergences of methodologies used and thus diverging conclusions.

Mr David Hellemann
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However, since in both cases assessing significant deviations will rely on an overall assessment of the situation, it should go a long way to reconcile possible different outcomes from different methodologies implemented. In particular, in accordance with the provisions of the reformed SGP, the Commission will also consider in its assessment information on country-specific factors supplied by Member States. For Denmark, this could relate to fluctuating North Sea revenues, pension yield tax, etc. Still, in the absence of a shared methodology, there is no guarantee that the Commission assessment will necessary arrive at the same conclusions as the national authorities.

Finally, the main features of the automatic correction mechanism to be triggered in the event of significant observed deviation (Treaty article 3(1) e) shall be established in national law on the basis of common principles to be proposed by the European Commission, concerning in particular the nature, the size and the time-frame of the corrective action to be undertaken, also in the case of exceptional circumstances, and the role and independence of the institutions responsible at national level for monitoring the observance of the rules. This mechanism shall fully respect the prerogatives of national Parliaments. In particular, the Treaty does not require the Contracting Parties to pre-specify the concrete adjustment measures to be taken under the national budget law.

Under the Treaty, the European Court of Justice has the competence to verify whether Contracting Parties have correctly adopted provisions in compliance with Article 3(2) of the Treaty. The Contracting Party itself is responsible for implementing the national budget law, including the automatic correction mechanism.

Yours sincerely,



Marco Buti

Copy:

- Mr Steen Lohmann Poulsen, EFC Member/Danish Ministry of Economic Affairs and the Interior
- Mr Servaas Deroose, DG Ecfm