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COMMISSION OPINION

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THE APPLICATION OF THE STABILITY AND GROWTH PACT IN THE CURRENT CRISIS SITUATION

1. Many EU countries are presently facing general government deficits above the 3% of GDP reference value set in the Treaty. The often strong deterioration in the deficit as well as the debt positions must be seen in the context of the unprecedented global financial crisis and economic downturn in 2008/09. Several factors are at play. First, the economic downturn brings about declining tax revenue and rising social benefit expenditure (e.g. unemployment benefits). Second, recognising that budgetary policies have an important role to play in the current extraordinary economic situation, the Commission called for a fiscal stimulus in its November 2008 European Economic Recovery Plan (EERP), endorsed by the European Council in December. The Plan explicated that the stimulus should be timely, targeted and temporary and differentiated across Member States to reflect their different positions in terms of public finance sustainability and competitiveness and should be reversed when economic conditions improve. Finally, several countries have taken measures to stabilise the financial sector, some of which have impacted on the debt position or constitute a risk of higher deficits and debt in the future, although some of the costs of the government support could be recouped in the future.

2. The Stability and Growth Pact requires the Commission to initiate the excessive deficit procedure (EDP) whenever the deficit of a Member State exceeds the 3% of GDP reference value. The amendments to the Stability and Growth Pact in 2005 aimed at ensuring that in particular the economic and budgetary background was taken into account fully in all steps in the EDP. In this way, the Stability and Growth Pact provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation, and thereby ensuring long-term sustainability of public finances.

LEGAL BACKGROUND

3. Article 126 of the Treaty on the Functioning of the European Union lays down an excessive deficit procedure (EDP). This procedure is further specified in Council Regulation (EC) No 1467/97 "on speeding up and clarifying the implementation of the excessive deficit procedure"[1], which is part of the Stability and Growth Pact.

4. According to Article 126(2) of the Treaty, the Commission has to monitor compliance with budgetary discipline on the basis of two criteria, namely: (a) whether the ratio of the planned or actual government deficit to gross domestic product (GDP) exceeds the reference value of 3% (unless either the ratio has

[1] OJ L 209, 2.8.1997, p. 6. The report also takes into account the "Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", endorsed by the ECOFIN Council of 10 November 2009, available at http://ec.europa.eu/economy_finance/sgp/legal_texts/index_en.htm.

declined substantially and continuously and reached a level that comes close to the reference value; or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value); and (b) whether the ratio of government debt to GDP exceeds the reference value of 60% (unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace).

5. Article 126(3) of the Treaty stipulates that, if a Member State does not fulfil the requirements under one or both of these criteria, the Commission has to prepare a report. This report also has to "take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State".

6. On the basis of the data notified by the Danish authorities in April 2010[2] and taking into account the Commission services' spring 2010 forecast, the Commission adopted a report under Article 126(3) for Denmark on 12 May 2010[3].

7. Subsequently, and in accordance with Article 126(4) of the Treaty, the Economic and Financial Committee formulated an opinion on the Commission report on [27 May 2010].

8. Article 126(5) of the Treaty requires the Commission to address an opinion to the Council if the Commission considers that an excessive deficit in a Member State exists or may occur. In order to reach a conclusion on whether an excessive deficit exists or may occur, the Commission considers that account should be taken of: (i) the conclusions of its report under Article 126(3) and (ii) the opinion of the Economic and Financial Committee on this report. On the basis of these elements, the Commission has established a number of considerations for Denmark.

CONSIDERATIONS CONCERNING DENMARK

9. According to data notified by the Danish authorities in April 2010, the general government deficit in Denmark is planned to reach 5.4% of GDP in 2010, thus exceeding the 3% of GDP reference value. The Commission report under Article 126(3) considered that the planned deficit was not close to the 3% of GDP reference value, but that the planned excess over the reference value could be qualified as exceptional within the meaning of the Treaty and the Stability and Growth Pact. In particular, it resulted from a severe economic downturn in the sense of the Treaty and the Stability and Growth Pact. According to the Commission services' 2010 spring forecast, real GDP in Denmark is projected to recover at 1.6% in 2010 after the sharp contraction of 4.9% in 2009. The deficit in 2010 is a consequence of both the economic downturn and the stimulus measures taken in line with the EERP by the Danish authorities. However, the planned excess over the reference value cannot be

[2] According to Council Regulation (EC) No 479/2009, Member States have to report to the Commission, twice a year, their planned and actual government deficit and debt levels. The most recent notification of Denmark can be found at: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/excessive_deficit/edp_notification_tables.

[3] All EDP-related documents for Denmark can be found at the following website: http://ec.europa.eu/economy_finance/sgp/deficit/countries/index_en.htm.

considered temporary. According to the Commission services' spring 2010 forecast, the deficit would decline to 4.9% of GDP in 2011 on a no-policy change[4] basis. The deficit criterion in the Treaty is not fulfilled.

10. According to data notified by the Danish authorities in April 2010, the general government gross debt stands at 45.1% of GDP in 2010. The Commission services' spring 2010 forecast projects the debt ratio to increase over the 2010-2011 period from 46% to 49.5% of GDP, remaining below the 60% of GDP reference value. The debt criterion in the Treaty is fulfilled.

11. In line with the provisions in the Treaty and the Stability and Growth Pact, the Commission also analysed in its report "relevant factors". According to the Stability and Growth Pact, these can only be taken into account in the steps leading to the decision on the existence of an excessive deficit if the deficit satisfies the double condition of closeness and temporariness. In the case of Denmark, the double condition is not met. Considered on their own merit, the relevant factors in the current case seem to be relatively favourable.

12. The opinion of the Economic and Financial Committee in accordance with Article 126(4) of the Treaty is consistent with the assessment in the Commission report under Article 126(3).

CONCLUSION

The monitoring of the budgetary situation in Denmark and, in particular, the examination of the compliance with the criteria laid down in Article 126(2) has led the Commission to prepare a report in accordance with Article 126(3) of the Treaty. The Commission, having taken into account its report and the opinion of the Economic and Financial Committee, is of the opinion that an excessive deficit exists in Denmark.

[4] The no-policy change forecast takes into account the (partial) withdrawal of measures of extraordinary nature linked to the crisis.