

Brussels, 25 November 1998

Commission assesses the Danish convergence programme

The European Commission today made a recommendation to the Council of Ministers on the Danish convergence programme. The recommendation was made in accordance with the new reinforced procedures of the Stability and Growth Pact for the monitoring of the economic and budgetary policies of the countries of the European Union (EU). The general government budgetary position of Denmark complies with the requirements of the Stability and Growth Pact. The primary objective of the Danish convergence programme is to continue budgetary consolidation, underpinned by structural reform. The Danish government aims to increase the budget surplus from 1.1% of GDP in 1998 to 2.6% of GDP in 2001 and further to 3.5% of GDP in 2005. The general government gross debt level, which is expected to fall below the 60% of GDP reference value in 1998, is targeted to decrease further, reaching 49% of GDP in 2001 and 37% of GDP in 2005. The programme is consistent with the Broad Economic Policy Guidelines agreed at the Cardiff European Council. On the basis of the Commission's recommendation, the Council is expected to adopt a formal opinion on the Danish programme on 1 December.

The Commission recommendation was adopted at the initiative of President Jacques Santer and Yves-Thibault de Silguy, the Commissioner responsible for economic, monetary and financial affairs.

Having exercised its opt-out under the Treaty on European Union (the Maastricht Treaty), Denmark will not adopt the single currency on 1 January 1999. The Stability and Growth Pact, adopted by the Amsterdam European Council in June 1997, requires countries not participating in the euro-zone (the "pre-ins") to present convergence programmes to the Council and the Commission. These programmes aim to demonstrate how countries intend to meet the objectives of the pact and, in particular, the medium-term goal of a budget close to balance or in surplus. The Danish programme, which covers the period 1998-2005, also shows the position of Denmark in relation to the convergence criteria (i.e. inflation, public finances, long-term interest rates and exchange rate stability).

The Commission's main conclusions are the following:

- Denmark complies with the requirements of the Stability and Growth Pact. The envisaged further improvement of the public finances of Denmark over the programme horizon will increase the safety margin for discretionary budgetary policy. The Danish convergence programme is also consistent with the Broad Economic Policy Guidelines.

- The budget surplus is expected to increase to 1.1% of GDP in 1998 and further to 2.6% of GDP in 2001 and to 3.5% of GDP in 2005. The government gross debt ratio will fall below the 60% of GDP reference value in 1998 and should decline further to 49% of GDP in 2001 and to 37% of GDP in 2005.
- The programme is based on a realistic real GDP growth scenario, which is broadly in line with the macroeconomic projections by the Commission services.
- Monetary stability will be assured by participation in the ERM2. The $\pm 2\frac{1}{4}\%$ bands of the former ERM will be applied in the case of Denmark. This will further contribute to the credibility of Danish monetary policy.
- The exchange-rate oriented monetary policy will play an important role in maintaining inflationary expectations low. Due to Denmark's advanced stage in the business cycle and a tightening labour market, Danish underlying inflation has accelerated during 1998. Continued labour market reform and an increase in labour supply are, therefore, essential to keep inflationary pressures at bay. Close monitoring and readiness to take any necessary corrective action are important to ensure that the programme's inflation targets are met.
- Emphasis on structural reform is a key feature of the Danish convergence programme. The Commission welcomes the proposed continued labour market reform, which will contribute to increasing the efficiency of the labour market and to increase labour supply. Furthermore, the recently agreed multi-annual tax reform, which aims diminish distortions of the present system, is expected to increase work incentives and to strengthen the savings propensity.

Key figures of the Danish convergence programme

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2005 |
|---|------|------|------|------|------|------|
| Real GDP growth rate (annual % change) | 3.3 | 2.6 | 1.7 | 2.0 | 2.0 | 2.2 |
| General government budget surplus (% of GDP) | 0.5 | 1.1 | 2.5 | 2.8 | 2.6 | 3.5 |
| Government debt (% of GDP) | 64 | 59 | 56 | 51 | 49 | 37 |
| Inflation (private consumption deflator, annual % change) | 2.2 | 1.6 | 2.7 | 2.2 | 2.2 | 2.1 |
| Unemployment rate (%) | 5.5 | 5.0 | 4.9 | 4.8 | 4.8 | 4.3 |

Note: As regards real GDP growth and inflation, estimates are presented as averages for 2000-2001 and 2002-2005 only.