

Brussels, 15 February 2000

## **Commission assesses the updated Convergence Programme of Denmark**

***The European Commission today adopted a Recommendation to the Council of Ministers on the updated Convergence Programme of Denmark (1999-2005). The Commission concludes that the updated programme is in line with the requirements of the Stability and Growth Pact and the Broad Economic Policy Guidelines. The updated programme foresees that, following a slowdown in 1999-2000, the Danish economy will grow at an average rate of about 2 % per year between 2001 and 2005. The general government budget balance is expected to remain above 2 % of GDP throughout the entire programme period and the debt to GDP ratio is projected to fall to 36 % in 2005. On the basis of the Commission Recommendation, the Council is expected to adopt a formal opinion on the updated Danish convergence programme on [28 February 2000].***

The Commission Recommendation was adopted on the initiative of Pedro Solbes, EU Commissioner for economic and monetary affairs, as part of the procedures set in the Stability and Growth Pact for surveillance and co-ordination of national economic and budgetary policies at the level of the European Union. European Union.

The Stability and Growth Pact, adopted by the European Council at its meeting in Amsterdam in June 1997, requires countries not adopting the single currency to present, annually, updated convergence programmes to the Council and the Commission. The programmes provide information on how Member States intend to meet the objectives of the Pact, in particular, the medium-term budgetary target of a general government budget close to balance or in surplus which will enable their finances to withstand normal cyclical fluctuations without exceeding the reference value of a deficit of 3 % of GDP. The Danish updated programme was submitted on 20 December 1999.

The Commission's Recommendation highlights the following:

- the updated convergence programme foresees continued general government budget surpluses of above 2 % of GDP over the entire programme period and the debt to GDP ratio is expected to be further reduced by almost 17 percentage points to 36 % in 2005. Denmark should thus - with a comfortable margin - continue to comply with the requirements of the Stability and Growth Pact.
- the macroeconomic scenario in the programme assumes that, following a slowdown in 1999-2000, the Danish economy will grow at an average rate of about 2 % per year between 2001 and 2005.

- regarding inflation, the updated convergence programme notes that there is a risk that inflation temporarily exceeds the reference value by a small margin in the first half of 2000. Although inflationary pressures should ease in the course of 2000 as the slowdown in domestic demand feeds through, it is important that the Danish government monitors inflation closely and takes further actions, if needed. In addition, inflation and wage moderation would be instrumental in maintaining Danish cost competitiveness.
- the Danish participation in the ERM II has contributed to a further strengthening of the credibility of Danish monetary policy. Since the inception of the ERM II on 1 January 1999, there has not been any tensions on the exchange rate of the Danish krone.
- structural reforms remain at the core of the Danish government's strategy. The most recent reforms regarding the labour market and the tax system are important steps in this regard and in line with the Broad Economic Policy Guidelines. Nevertheless, given that Denmark currently experiences its lowest level of unemployment since the 1970s, the reforms already undertaken in the labour market may need to be complemented by further measures to reach the ambitious target on employment growth set in the programme.

### Key figures from the updated Danish Convergence Programme

	1999	2000	2001	2002	2003-2005
<b>Real GDP growth</b> (% increase)	1.3	1.6	2.0	2.3	2.1
<b>General government balance</b> (% of GDP)	2.9	2.1	2.2	2.3	2.8 <sup>1</sup>
<b>General government debt</b> (% of GDP)	52.8	50.1	47.5	44.6	35.9 <sup>1</sup>
<b>Inflation (CPI)</b> (% increase)	2.5	2.3 <sup>2</sup>	1.9	1.6	1.9
<b>Unemployment</b> (% of labour force)	5.6	5.7	5.9	5.6	5.1

<sup>1</sup> End of 2000 value.

<sup>2</sup> A revised method of calculating CPI was introduced by Statistics Denmark in January 2000.