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Commission assesses the updated Danish Convergence Programme (2000-2005)

The European Commission adopted today a recommendation to the Council of Ministers on the 2000 update of the Danish convergence programme (2000-2005). The Commission concludes that the updated programme is clearly in line with the requirements of the Stability and Growth Pact and the Broad Economic Policy Guidelines. GDP growth is projected to be 2.4 % in 2000 and thereafter to slow down to 1.7 % for the remainder of the period. The general government budget balance is expected to show strong surpluses of above 2.5 % of GDP for the entire period 2000-2005. Such surpluses would be clearly sufficient to provide a safety margin against breaching the deficit threshold of 3 % of GDP in normal cyclical fluctuations. The debt to GDP ratio is expected to fall substantially to some 34 % in 2005. On the basis of the Commission's recommendation, the Council is expected to adopt a formal opinion on the updated Danish convergence programme on [12 February 2001].

The Commission recommendation is adopted on the initiative of Pedro Solbes, EU Commissioner responsible for economic and monetary affairs, who commenting on the programme said: *"The Commission's assessment of the convergence programmes for the Member States is an important element in the multilateral surveillance process. Given the continuous strengthening of economic policy co-ordination in the Union, the Commission will put increasing emphasis in its analysis on the conduct of economic policies over the medium term. An assessment of how member states plan to implement structural reforms, on the appropriateness of the policy-mix given the current economic cycle, or on how to deal with sustainability issues like the consequences of ageing population are among the issues in our analysis."*

The Commission's main conclusions are the following:

- The macroeconomic scenario in the updated convergence programme projects real GDP growth, following an upward revised 2.4 % for 2000, to hover around 1.7 % annually for the period 2001-2005. In the Commission's view both the growth and the underlying productivity projections seem to be on the cautious side. Given the robust performance of the Danish economy in recent years, in particular the buoyant investment in equipment, and the structural reforms undertaken, a somewhat stronger growth and productivity performance could be anticipated.
- The updated convergence programme projects the inflation rate to gradually decline up to 2002 as externally induced price rises taper off and wage growth should turn slightly more moderate (in light of a weaker domestic demand). While this inflationary outlook seems plausible, an upward risk remains, given the continued tightness of the Danish labour market.

- The updated convergence programme projects continued general government budget surpluses of above 2.5 % of GDP over the entire period and the debt to GDP ratio to be reduced to 34 % in 2005. Denmark thus continues to clearly comply with the requirements of the Stability and Growth Pact.
- The budgetary consolidation strategy with a declining primary expenditure to GDP ratio and tax burden over the programme period is continued. However, in 2001 both the primary expenditure and the tax ratio are expected to increase slightly and it would have been preferable that the decline in both ratios was implemented without disruption. As lower levels of government frequently have exceeded the non-binding agreements with central government, aimed at limiting increases in public consumption and taxes, it would be desirable to strengthen the institutional framework to avoid further slippage in the future.
- The focus on longer-term sustainability issues in the programme is welcomed. The projections suggest that Danish general government finances have an apparent capacity to meet the budgetary consequences of the ageing population.
- Structural reforms have been important on the Danish policy agenda over recent years. The Danish authorities should continue their efforts in this regard and, in particular, continued measures to raise labour supply could prove necessary. Lowering taxes on labour income would constitute an appropriate instrument, although a tax cut in the short term would need to be compensated by offsetting budgetary measures in order not to add to the risk of overheating.

The Stability and Growth Pact, adopted by the Amsterdam European Council in June 1997, requires countries not adopting the single currency to present, annually, updated convergence programmes to the Council and the Commission. The aim of these updated programmes is to provide information on how Member States intend to meet the objectives of the Pact, in particular, the medium-term goal of a budget close to balance or in surplus.

Key figures from the Updated Danish Convergence Programme

2000-2005

	2000	**2001**	**2002**	**2003**	**2004**	**2005**
Real GDP growth (% increase)	2.4	1.8	1.7	1.7	1.6	1.7
General government balance (% of GDP)	2.7	2.8	2.6	2.6	2.7	2.9
General government debt (% of GDP)	48.3	44.7	41.8	39.2	36.8	33.7
Inflation (HICP) (% increase)	2.8	2.5	1.8	2.0	2.0	2.0
Unemployment (% of labour force)	5.3	5.3	5.2	5.2	5.1	5.0