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2003 UPDATE
OF THE CONVERGENCE PROGRAMME OF DENMARK
(2003-2010)

AN ASSESSMENT

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SUMMARY AND CONCLUSIONS¹

The 2003 update of the Danish convergence programme (CP 2003) covers the period 2003 to 2010. The programme is rich in information especially with regard to the data provided for the analysis of medium and long-term challenges of the Danish public finances and it complies with the Code of Conduct². The strategy for public finances presented is largely unchanged and continues to focus on ensuring sustainable public finances in the medium and long term. The foundation for the strategy continues to be both the maintenance of general government surpluses of the order of 1½-2½% of GDP on average until 2010, and the tax freeze, which also is intended to help ensure public expenditure control. Tax reductions on labour income, to be implemented in 2004, aim at enhancing labour supply. Moreover, a series of labour market initiatives have been implemented.

Overall, the Danish economy is in good shape. However, as for the rest of the EU Member States, the economy has developed less favourably in 2003 than foreseen in the updated programme. Growth slowed markedly in 2002 and especially in 2003. In 2004 and 2005, GDP growth is estimated to be just above 2%. The growth picture of the programme forecast for the coming years is close to the Commission's. For 2003, however, the Commission services (and recently also the Danish authorities) forecast a markedly lower growth³.

Inflation has come down in Denmark in 2003, to around 2%. This development is mainly due to lower increases in energy prices. Price increases in the services sector is part of the reason why inflation has been slightly above the euro area average. Wage increases in Denmark have been higher than in the euro area, but due to higher productivity growth the effects on price inflation have been limited. The CP 2003 foresees inflation to decline further in the next years, due to slack in the labour market as well as to falling import prices and lower excise duties. Overall, the inflation forecast is similar to the Commission's.

Public finances in Denmark remain sound, showing surpluses in the general government balance since 1997. Central government and social security sector are currently in surplus. For the coming years, the updated programme foresees general government surpluses of between 1¼% and 1¾% until 2005. This is broadly in line with the Commission's estimates. For the rest of the projection period, surpluses of around 2% of GDP are projected. Both the Commission's and programme calculations of cyclically adjusted balances show continued surpluses over the period and confirm that public finances should remain sound. The government debt is expected to fall from 45.5% of GDP in 2002 to reach 27½ % in 2010.

Local authorities are under the obligation to balance revenue and expenditure. The tax freeze is a key mechanism for enforcing expenditure control, as local governments are severely restricted in access to raising capital via loans. In 2002, the tax freeze

¹ This assessment has been carried out on the basis of information available as of 22.12 2003.

² Revised Opinion of the Economic and Financial Committee on the content and format of stability and convergence programmes, endorsed by the ECOFIN Council on 10.7.2001.

³ On 11 December 2003, the Ministry of Finance released a revised forecast, with GDP growth in 2003 at 0.4%, which is closer to the Commission's forecast.

apparently did not fully constrain local government spending, as there were some spending overruns. As the largest share of public consumption is the responsibility of local governments, their adherence to the agreements with the central government, including the tax freeze, is therefore crucial for the achievement of the overall target for public consumption. The target for the growth of real public consumption is tightened in the updated programme. From 2005 onwards it is set at ½%, an ambitious target in the light of past trends. Overall, compliance with the tax freeze as well as with budget agreements between local and central government seems to have improved since 2002, but firm control needs to be assured further in order to deliver on the targets for public consumption growth in 2003 and thereafter. Historically, expenditure control in Danish public finances has had a mixed record. Reaching these targets is a recommendation to Denmark in the 2003 Broad Economic Policy Guidelines.

The achievement of the medium term public finance targets hinges to a large extent on the realisation of some ambitious labour market goals which include increasing the labour force participation rates beyond their already high level⁴. The already implemented measures, including the tax reform, should increase employment. It is acknowledged in the programme that in addition to realising the labour supply effect of already adopted reforms, additional measures need to be implemented. The direction of these reforms is, however, not spelled out in the programme. Moreover, the recent slowdown has been accompanied by deterioration on the labour market. This development does not necessarily pose a threat to reaching the medium-term targets for the labour market, but actual employment needs to increase additionally in order to also eliminate the cyclical part of the current unemployment.

The Danish authorities intend to reduce the tax ratio in the programme period, while ensuring the sustainability of public finances. However, the tax ratio in Denmark will remain high compared to other industrialised countries.

The programme presents calculations on long-term sustainability of public finances, including sensitivity analyses. The quantifications of the consequences for public finances of no further reforms are illustrative. Given the potential impact of such a shortfall on the sustainability of public finances, the programme would have benefited from more information about future direction of reform. The budgetary strategy outlined in the programme is compatible with maintaining the sustainability of public finances. The strategy is comprehensive and includes measures to run down debt, by maintaining a surplus over the programme period and use additional revenues induced by the North Sea agreement for faster debt reduction. If the medium term projection materialises as spelled out in the programme, low public debt and the large public pension funds projected would put Denmark's public finances in a good position to handle the impact of the ageing population.

The economic policies as reflected in the updated programme are broadly consistent with the 2003 Broad Economic Policy Guidelines, which recommended the Danish authorities to: continue to make work pay by increasing incentives to join the labour force; ensure expenditure control at all levels of government; step up efforts to enforce

⁴ The overall employment rate in Denmark was 76% in 2002. The employment rate for older workers (aged 55-64) in the same year was 58%.

competition in sectors where competition is inadequate; and continue efforts to increase the efficiency of the public sector.

1. INTRODUCTION

The 2003 update of the Danish convergence programme (CP 2003) was submitted to the European Commission on 28 November 2003. The update has been sent to the Danish Parliament for information. The present update, covering the period up to 2010, is the fifth update of the Convergence Programme, submitted in December 1998⁵.

The strategy presented in CP 2003 is by and large the same strategy as presented last year, which predominantly focuses on medium-term issues and long-term sustainability of public finances. The main elements of the strategy are to keep high surpluses on public finances in order to reduce the debt as a preparation for the impact of ageing on public finances and to continue the tax freeze, which is also intended as a mechanism of discipline to help curb the tendency of rising tax rates and local government expenditure.

One crucial assumption underlying the public finance projections continues to be the labour market developments. Age-specific labour force participation rates are projected to increase towards 2010, and given the already high participation rates in Denmark the assumed increase might prove to be a challenge. To this end, a tax reform was adopted in 2003, which lowers taxes on labour income from 2004. In addition, a labour market reform was implemented in 2003. However, it is acknowledged in the programme that achieving the assumed increases in labour supply will require additional measures.

CP 2003 contains a detailed section on long term sustainability of public finances. It presents projections on public consumption, public transfers and revenues up to 2070. According to these figures, a structural budget balance of around 2% of GDP should be maintained in order to ensure long term sustainability. These figures include the impact of structural reforms aimed at increasing employment to 2010.

The programme is in compliance with the Code of Conduct on the content and format of the Stability and Convergence programmes.

2. MACROECONOMIC DEVELOPMENT

2.1. External economic assumptions

The external assumptions underlying the macroeconomic projection in the updated programme are based mostly on Ministry of Finance calculations, but correspond quite closely to the assumptions in the Commission's autumn forecast. The recovery of the global economy is expected to gather momentum in 2004. The export market growth

⁵ Earlier updates and assessments can be found at the following web site
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

for Denmark is higher in 2004 than in the Commission's forecast, but somewhat lower in 2005. Overall, however, the external assumptions seem plausible.

2.2. Macroeconomic scenarios compared

The updated programme overestimates GDP growth in 2003. In CP 2002, economic growth in 2003 was expected to be 1.8%, subsequently lowered to 1.4% in CP 2003. The Commission's autumn forecast foresees a GDP growth of 0.8% in 2003. This difference reflects the incorporation in the autumn forecast of more recent data than in the August Budget bill, mainly the weakness of domestic demand in the first half of the year. Subsequent data for the third quarter showed continued weak economic activity and on 11 December the Danish Ministry of Finance revised GDP growth in 2003 to 0.4%. The main components of domestic demand, however, grew strongly in the last part of the year, while net exports contributed negatively to GDP growth. The conditions for the projected recovery in 2004 driven by domestic demand, as forecast by both the Commission and the Danish authorities, should therefore not necessarily be undermined.

For 2004 and 2005, GDP growth rates are estimated at 2.3% and 2.2%. These figures appear plausible as domestic demand, in particular private consumption, is forecast to rebound after the slowdown in 2003, and are similar to the Commission's estimations. Growth continues to be predominantly driven by domestic demand, with private consumption growing by some 3% and 2½%, respectively. This is in line with Commission forecasts and is based on a solid growth of real disposable income on the back of income tax cuts and lower inflation. Household savings are robust and compatible with an expansion of consumption. Investment growth should pick up in 2004 after the fall in 2003. Private sector savings rates are set to decline in the coming years, in line with the Commission's autumn forecast. Net exports are foreseen to have a neutral contribution to GDP growth in 2004 and a slightly positive contribution in 2005. As the output gap closes (see table 2), GDP growth settles at its estimated potential rate of some 1.7% from 2007 to 2010 as a technical projection.

Inflation is decelerating over the programme period. For 2003 an average rise in consumer prices of 2.3% is forecast in CP 2003, slowing to 1.8% in 2004 and 1.7% in 2005 and thereafter. The expected decline in consumer price inflation is overall similar to that of the Commission services, although the Commission foresees a slight rise in inflation in 2005 as the output gap closes. Wage growth has been higher in Denmark than in the euro area. This wage growth has to some extent been feeding into inflation, but the effects have hitherto been limited by a robust productivity growth.

The Danish labour market has experienced a deteriorating situation since 2002, with rising unemployment and falling employment. Preliminary data for the third quarter of 2003, however, seem to indicate a stabilisation. This would be in line with the forecasts in CP 2003 and the Commission's autumn forecast, which largely coincide. Looking up to 2005, the projected increase in employment and fall in unemployment is in line with Commission forecasts.

Table 1 – Forecasts compared 2003-2010

% change on previous year	2003		2004		2005		2006	2010
	COM*	CP 2003**	COM	CP 2003	COM	CP 2003	CP 2003	CP 2003
Real GDP growth	0.8	1.4	2.0	2.3	2.3	2.2	1.9	1.7
Contribution to change in GDP								
<i>Domestic demand</i>	0.2	0.8	2.1	2.3	2.4	1.9	1.9	1.8
<i>Stocks</i>	0.3	0.3	0.0	0.1	-0.1	0.0	0.0	0.0
<i>External balance of trade</i>	0.3	0.2	-0.1	-0.1	0.0	0.3	-0.0	-0.1
CPI	2.3	2.3	1.9	1.9	2.0	1.8	1.7	1.7
Employment	-0.6	-0.6	0.4	0.5	0.4	0.5	0.4	0.2
* Commission's Autumn 2003 Forecasts								
** 2003 updated Convergence Programme								

Information provided in the update does not allow a full assessment of the sectoral balances. However, there would not seem to be any inconsistencies between the financial positions of the general government, the private and the external sectors, as the projections draw fully on the complete macroeconomic scenario included in the Budget Bill for 2004. This scenario implies a recovery in domestic demand, vigorous for consumption and more gradual for investment, alongside with a fall in the household savings ratio (from a relatively high level) and a revival of exports coupled with stronger imports which leave the contribution from net exports to growth broadly constant. A fall in the savings ratio of households would appear plausible as the household wealth position is sound. In terms of the implied sectoral balances, this could correspond to some weakening of the private sector financial situation and a broadly stable financial position vis-à-vis the rest of the world, the latter supported by the programmes projection of a relatively stable positive current account balance. Overall, the macroeconomic assumptions in the programme seem credible.

2.2.1 Potential growth and output gaps

The Commission services has potential growth slightly above 2% up to 2005 and around 2% to 2008 (as a technical projection), which is slightly higher than the potential growth in the programme. Post 2005, the programme has output around potential to 2010, with GDP growth at 1¾ - 2%. This potential growth seems cautious, the reasoning behind the lower potential growth in relation to recorded GDP growth in recent years being that the substantial fall in unemployment cannot be repeated. Overall, the assessment of potential growth rates over the forecast horizon is not very different between the Commission and the Danish authorities.

The Commission forecast has a broadly zero output gap to 2005. The Danish authorities' own calculations of output gaps (left-hand panel of table 2) use a method that differs from the Commission's. The resulting output gap in 2003 is ½ percentage point more negative than that in the Commission's calculations. However, the differences between the calculations seem mainly to result from differences in initial level of output gap whereas the direction of changes to the output gap over the forecast horizon is similar, as both scenarios close the output gap around 2005/2006. However, when applied to the figures for GDP growth in CP 2003 (middle panel of table 2), the Commission's method for calculating output gaps produces increasingly positive

output gaps to 2005, with the gap closing only in 2008. This estimate seems to exaggerate the degree of resource utilisation in the economy when compared with the one entailed by the Commission's autumn forecast, which should mainly be explained by the marked difference in the forecast for GDP growth in 2003⁶. The analysis of the underlying budgetary position is made in section 4.5. below.

Table 2 – Potential growth and output gaps

	2003 updated convergence programme Danish authorities calculations			2003 updated convergence programme Commission calculations ¹			Commission's autumn 2003 forecast Commission calculations ²		
	GDP growth	Potential growth	Output gap	GDP growth	PF Potential growth	Output gap	GDP growth	PF Potential growth	Output gap
2003	1.4	2.4	-0.7	1.4	2.0	0.2	0.8	1.9	-0.1
2004	2.3	1.8	-0.2	2.3	2.2	0.3	2.0	2.1	-0.2
2005	2.2	2.1	-0.1	2.2	2.1	0.4	2.3	2.1	0.0
2006	1.9	1.8	0.0	1.9	2.1	0.2	2.1	2.1	0.0
2007	1.9	1.7	0.0	1.9	2.0	0.1	2.0	2.0	0.0
2008	1.7	1.7	0.0	1.7	1.9	0.0	1.9	1.9	0.0
2009	1.7	1.7	0.0	1.7	1.8	-0.1	-	-	-
2010	1.7	1.7	0.0	1.7	1.8	-0.2	-	-	-

¹ Commission's calculations using the agreed method on the basis of the information in the 2003 update.

² Calculated using the Commission's estimate of potential growth on the basis of the autumn 2003 forecast, including a technical extrapolation beyond 2005.

3. MONETARY POLICY

3.1 Inflation developments

In 2003 inflation has come down in Denmark, with an annual rise in consumer prices around 2%. The lower inflation is mainly due to lower increases in energy prices, which primarily can be attributed to decreasing oil prices after the war in Iraq. There has also been a fall in consumer price inflation in the service sector, where comparatively high price increases earlier contributed to slightly higher increases in consumer prices in Denmark than in euro area. Wage increases in Denmark have been higher than in the euro area. To a large extent the higher wage increases have been offset by higher productivity growth and the effects on inflation have therefore been limited.

In 2004, HICP inflation is expected to come down to 1.8%, due to lower price increases in the service sector and low energy and food prices. The effects on inflation of import prices are set to be negative in the wake of the appreciation of the euro vis-à-vis the dollar. The lower consumer price inflation foreseen can furthermore be attributed to tax changes. Lower excise duties on soft drinks, tobacco and alcohol will have a dampening effect on consumer prices. In addition, the nominal principle of the tax freeze implies that charges are fixed in *kroner*. In the Commission's autumn

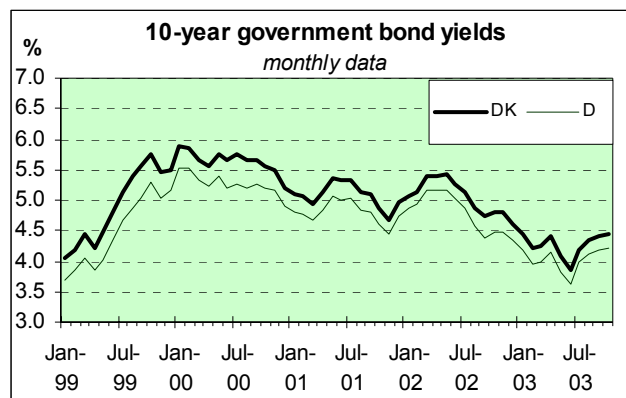
⁶ This perception could be reinforced by the December 11 Danish government forecast, where GDP growth in 2003 has been revised downwards by 1 percentage point to 0.4%, compared to CP 2003.

forecast, a marginal rise in inflation is foreseen in 2005, as the output gap is expected to close. Overall, the inflation forecast in CP 2003 is similar to the Commission's.

3.2 Exchange rate developments

Denmark participates in ERM II with a narrow fluctuation band of $\pm 2.25\%$ to the euro. Since the inception of the mechanism on 1 January 1999, there have not been any

Diagram 1 – 10 year government bond yields



severe tensions affecting the exchange rate of the *krone*. Deviations in the exchange rate from the central parity have been much smaller than the official band width and the short-term interest rate differential to the euro area has been low over the past year. These developments reflect the confidence in the fixed exchange rate policy, which remains a central element in Danish economic policy.

3.3 Interest rate developments

The macroeconomic policy framework in Denmark, with sound public finances and a fixed exchange rate policy, continue to provide for low long-term bond yields. Over the past year, developments in Danish bond yields have been in line with trends in international bond markets. For 2002, the average long-term interest rate in Denmark was 5.1%.

The interest rate differential between Danish and German long-term government bonds is a cost Denmark incurs by not having joined the euro area. In the programme update, the bond yield spread to Germany is projected to widen from around 25 basis points on average over the past two years to about 50 basis points by 2007-2010.

4. BUDGETARY TARGETS AND MEDIUM-TERM PATH OF PUBLIC FINANCES

4.1. Programme overview

The programme continues the strategy of previous years with a strong focus on maintaining high surpluses on public finances – of the order of 1½-2½% of GDP on average to 2010 - to reduce the debt as a preparation for the impact of ageing on public finances. The programme encompasses the tax reform, to be implemented in 2004, in which taxes on labour income are lowered by some ¾% of GDP when fully implemented in 2007. Fiscal leeway for the tax reductions is mainly created by lowering the targeted growth rate of real public consumption expenditure. On this basis, the general government surplus is revised downwards in 2003 and 2004 in relation to CP 2002, but the programme states that the actual surplus may deviate from the target range in individual years as a result of cyclical conditions or special factors.

A central element in the public finance strategy is the tax freeze which was introduced when the government took office in 2001. The tax freeze means that no direct or indirect tax may increase, irrespective of whether it is expressed and legislated in percentage- or *krone* value terms. Furthermore, a ceiling is put on nominal property value tax. Apart from preventing tax increases, the tax freeze is also intended as a mechanism of discipline to help achieving the objective of a modest growth in public consumption. As local governments are severely restricted in access to raising capital via borrowing, the tax freeze implies a stricter prioritisation of expenditures.

Local authorities are under the obligation to balance revenue and expenditure⁷. The largest share of public consumption spending is the responsibility of local governments, and their adherence to the budget agreements with the central government is therefore crucial for the achievement of the overall target for public consumption. In 2003 the tax freeze was implemented fully for all levels of government, within the context of the agreements with the associations of local governments and counties on the budgets for 2004, including the block grant from the central government. This agreement implies that local governments and counties respect the tax freeze or they could be penalised. Payments from the central government to local governments can be postponed in cases of non-compliance with agreements. Overall, compliance with the agreements seems to have improved since 2002. However, it remains to be established that the present instruments can deliver on the discipline needed for complying with the targets for public consumption growth.

With regard to the division into sub-sectors, both central government and social security sector are expected to generate surpluses in every year towards 2010. The surplus is expected to stabilise around 1¼% of GDP for central government and around ¾% of GDP in the social security sector.

The real growth rate of public consumption is a key target variable in the Danish fiscal strategy. Public consumption represents around a quarter of Denmark's GDP and its development therefore has a substantial impact on public finances. The average public consumption growth in real terms since 1990 is some 2%. In CP 2003, the commitment

⁷ In individual years there may be positive or negative changes in local governments' liquid funds. In 2002, the local government sub-sector posted a deficit of 0.4% of GDP.

to restraining real public consumption growth is sharpened. Up to 2003, the target is a growth of 1% a year on average. In 2004 a growth of 0.7% is foreseen and after 2005 the target becomes stricter at ½% a year on average to 2010.

Overall, the medium-term adjustments in public finances are thus composed of a marked reduction of the government debt through substantial primary surpluses, with total expenditure falling due to decreased interest payments. Primary expenditure, however, is lowered only marginally, mainly through a slower growth of public consumption. Revenues fall relative to GDP through tax reductions, mainly on income, lowering the tax burden moderately.

4.2. Public finances in 2003

A general government surplus of 1.4% of GDP⁸ is expected for 2003, (2.2% in CP 2002) due mainly to more adverse cyclical conditions. In the latest government forecast, released on 11 December 2003, a surplus for 2003 is 1.3% of GDP⁹ is forecast – in spite of the significant downward revision of GDP growth in the same year. This illustrates the importance for Denmark's public finances of special factors, not least the tax on pensions fund yields¹⁰. The difference between the CP 2003 forecast for the budget balance of GDP and the Commission's forecast of 0.9% of GDP is mainly due to a lower GDP growth forecast by the Commission, resulting in lower revenues and higher expenditure, but also a higher estimation of public consumption growth. As a result of the successive general government surpluses, the debt is expected to be reduced from 45.5% of GDP in 2002 to 42.7% in 2003, broadly in line with Commission estimations.

Public expenditure is set to decrease only slightly in 2003, from 54.4% of GDP to 54.0% of GDP, owing mainly to lower net interest payments but also the projected real decrease in public consumption. Total revenues are projected to decrease from 55.9% of GDP to 55.2% of GDP. The tax burden declines slightly from 48.8% of GDP to 48.5% of GDP, due i.e to a fall in corporate tax revenues¹¹.

For 2003, the target for the real growth of public consumption in CP03 is set at -0.2% for 2003, in order to meet the target of 1% real growth on average over two years (given the outturn of some 2% growth in 2002). The Commission in the autumn forecast foresees an increase of 0.8%. Preliminary national accounts data for the third

⁸ EDP definition. With the National accounts definition, the surplus would be 1.2% of GDP. Compared to the National accounts definition, the EDP definition includes interest income from swap operations.

⁹ National accounts definition.

¹⁰ The revenues from this tax are linked to stock market developments and thus highly volatile. Due to the downturn in the stock market this tax did not generate revenues in 2002 and it is estimated that the revenues in 2003 will be limited. The taxation of pension fund yields was changed in 2000. The tax rate on yields on equities was increased and the tax rate on yields on bonds was reduced to ensure the same tax rate. As equity prices are more volatile than bond prices, the volatility of the revenues from this tax has increased markedly. The estimation is that the revenues can fluctuate by more than 1 per cent of GDP on average, leading to a corresponding rise in volatility of the budget balance. By historical standards this is a large increase in the volatility, as the fluctuation on average since 1990 has been less than 1% of GDP. This tax might thus increase fluctuations in the general government budget balance, and changes are difficult to predict.

¹¹ The nominal principle of the tax freeze reduces the measured tax-to-GDP ratio by some ½% of GDP.

quarter of 2003 seems to indicate that the tax freeze and the agreements with local government are restraining the growth of public consumption to a larger extent than in 2002, but it is still too early to assess if the strict target will be met. In its first year of implementation, the tax freeze does not seem to have restrained local government spending and there was substantial budgetary slippage in relation to the agreements between the central and local governments. The outcome for 2003 can therefore be seen as a test for the mechanisms to strengthen discipline introduced by the government, mainly the tax freeze. Nevertheless, in the light of past trends, both the target for 2003 and the targets for the coming years are challenging.

4.3 Public finances in 2004

The foreseen cyclical upturn strengthens public finances in 2004. CP 2003 is based on the 2004 Budget bill, which for central government projects a surplus on the central government budget of DKK 5.3 billion (0.4% of GDP) in 2004. Together with the budget agreement reached with local governments, this provides for a general government surplus of 1.5% of GDP¹² in 2004, broadly in line with the Commission's autumn forecast.

The projected surplus is lower than in CP 2002 due to a deterioration of the situation on the labour market, with both lower employment and higher unemployment. The positive effects on the surplus of the improved cyclical situation are furthermore partly offset by the reduction in income taxes, of which 0.4% of GDP come in 2004¹³. On the other hand, the expected normalisation of revenues from taxes paid by pension companies raises the projected surplus in relation to 2003.

Compared to 2003, both revenue and expenditure to GDP ratios are set to fall. The share of expenditure is projected to fall markedly from 54.0% of GDP to 53.2% of GDP. The projected reduction is mainly due to lower interest payments.

4.4 Public finances in 2005 and beyond

In 2005 the surplus in the programme is estimated at 2.0% of GDP¹⁴. The increase in the surplus compared to 2004 stems mainly from increasing revenues due to continued healthy growth, improving labour market conditions and a lower real growth of public consumption. After 2005, the surplus is projected to stabilise at just above 2% of GDP.

The resulting developments in revenue and expenditure ratios from the strategy presented in the programme are falls in both ratios between 2002 and 2005, but slightly less so than in CP 2002. Looking to 2010 the ratios continue to fall marginally. For expenditure, the ratio declines to 51.8% of GDP. Mainly as a result of reduced interest

¹² EDP definition. With the National accounts definition, the surplus is 1.3% of GDP.

¹³ The tax agreement consists mainly of two elements. The threshold for the middle bracket will be raised successively between 2004 and 2007. In addition, an earned income tax credit of 2.5 percent of income up to the middle tax bracket is introduced as of 2004. The tax reductions are estimated to result in a revenue loss of DKK 5.7 billion (0.4% of GDP in 2004) rising to 0.7% of GDP in 2007. They have also been incorporated into the Commission's autumn forecast.

¹⁴ EDP definition. According to the National accounts definition the surplus is 1.8% of GDP.

expenditure, but also due to the projected slow growth of public consumption. As from 2005, the target is ½% on average up to 2010. Total revenues are set to decrease to 2010 by some 2½ percentage points to 54% of GDP, mainly as a result of the income tax reductions.

Table 3 – Composition of the adjustment in public finances

In % of GDP	2002	2003	2004	2005	2006	2010
Total revenues	55.9	55.2	54.5	54.4	54.2	53.9
<i>Tax burden</i>	48.8	48.5	48.1	47.9	47.6	47.4
Total expenditure	54.4	54.0	53.2	52.6	52.3	51.8
<i>Primary expenditure</i>	50.7	50.7	50.1	49.6	49.3	49.4
<i>Interest rates</i>	3.7	3.3	3.1	3.1	3.0	2.4
Government budget balance ¹⁾	1.6	1.2	1.3	1.8	1.9	2.1
Gov. primary budget balance ¹⁾	2.9	2.3	2.3	2.7	2.6	2.3
Government debt	45.5	42.7	41.2	38.7	36.4	27.5

¹⁾ ESA 95 definition.

4.5 Cyclically-adjusted balances

Table 4 shows the cyclically-adjusted balances calculated by the Commission services, using the agreed method for estimating potential output growth and output gaps based on the production function approach. The same method is applied to the general government balance figures in the Commission's autumn forecast and to the figures in CP 2003. A picture of increasing cyclically adjusted surpluses emerges in both cases. These increases probably exaggerate the rise in the surpluses as the cyclically-adjusted figures in 2002, and less so in 2003, are artificially depressed by some elements which reduce the surplus in these years¹⁵. In CP 2003, they are assumed to largely disappear from 2004 onwards, resulting in programme estimates of cyclically adjusted balances around 2% of GDP in the CP 2003 projections (see table 4 in annex 1). These transitory elements are excluded from the cyclically-adjusted balance as calculated by Danish authorities in the programme which therefore show a more constant cyclically-adjusted balance throughout these years. Regardless of the forecast or method, however, the cyclically-adjusted balance shows surpluses over the period covered by the projections.

¹⁵ See footnote 10.

Table 4 – Cyclically-adjusted public finances

	2003 updated convergence programme Commission calculations ¹⁾		Commission's autumn 2003 forecast Commission calculations	
	Actual balance	Cyclically-adjusted balance	Actual balance	Cyclically-adjusted balance
2002	1.7	1.1	1.6	0.8
2003	1.4	1.3	0.9	1.0
2004	1.5	1.3	1.3	1.4
2005	2.0	1.7	1.9	1.9
2006	2.0	1.8	-	-
2010	2.3	2.4	-	-
¹⁾ Commission calculations using the agreed method on the basis of the information in the 2003 update. EDP definition of general government balances				

4.6 The debt ratio

Reducing the debt ratio to 2010 is a key target for Denmark's medium-term fiscal strategy. In 2002, the debt stood at 45.5% of GDP. With the strategy of maintaining high surpluses the debt level is estimated to be reduced to 38.7% of GDP by 2005 and 27.5% of GDP by 2010¹⁶. The Commission's estimates (to 2005) in the autumn forecast show a similar continuous debt reduction. The government sector has substantial financial assets and the net debt is projected to turn into a net financial assets position in the projection period, amounting to 8.9% of GDP in 2010¹⁷.

Table 5 – Gross debt, previous and current update

% of GDP	2002	2003	2004	2005	2006	2010
2002 CP update	43.9	42.1	39.2	36.7	26.0	26.0
2003 CP update	45.5	42.7	41.2	38.7	36.4	27.5
Commission Autumn forecast	45.5	42.9	41.0	37.9	---	---

4.7 Sensitivity analysis

The sensitivity analysis presented in CP 2003 illustrates changes to the macroeconomic forecast and public finances with respect to changes in Danish GDP growth assumptions and interest rates. The sensitivity of public finances to short-term changes in growth is illustrated in two scenarios, one of lower growth and one of higher growth, with the programme's projection as baseline. In the *low-growth scenario*, GDP is reduced by 2 percent in 2004 compared to the baseline. In 2006, there would still be a

¹⁶ According to CP 2003, general government balances and - debt - will be affected by the recent agreement between the Government and the A.P Møller-Maersk company. This agreement increases revenues from the North Sea activities, revenues which will be used for faster debt reduction.

¹⁷ Excluding net assets in public pension funds, the net debt is estimated to fall to 12.4% of GDP in 2010.

negative output gap of 0.5%. In this scenario of a marked downturn, the general government balance weakens as the automatic stabilisers play, but stays above zero.

In the *high-growth scenario*, GDP growth is around 1 percentage point higher in 2004 than in the baseline, leading to a positive output gap of 1.2%. Public finances improve through the automatic stabilisers, thus stepping up debt reduction. Unemployment falls below its structural level which according to the programme could lead to overheating and labour market bottlenecks.

An analysis of the sensitivity of public finances to interest rates concludes that a 1 percent rise in interest rates along the yield curve would worsen the budget balance by 1 percent after four years. This effect would come mainly through lower economic activity as the impact on public finances net interest expenditure would be limited¹⁸.

The programme's sensitivity analysis is broadly confirmed by analysis made by the Commission services. It suggests that a weaker growth outlook in the years to 2006 (of 0.5 percentage points lower GDP growth per year using CP 2003 as a baseline) would result in lower cyclically adjusted balances over the programme period. However, the calculations suggest that even if economic growth is weaker than expected, a fiscal position close to balance or in surplus in the medium-term would still be achieved.

Overall the analysis shows that the Danish economy seems well equipped to handle changes in the macroeconomic projections with budget balances remaining close to balance or in surplus.

5. THE QUALITY OF PUBLIC FINANCES

Denmark's recent reform efforts include *structural measures with a budgetary impact*, to increase labour supply and lower unemployment, thus linking these measures to the strategy in CP 2003. The reform of the voluntary early retirement benefit is having a positive effect on the labour supply of persons aged 60-62 years. The "More people into employment" initiative includes a range of measures¹⁹. It is estimated by the authorities that these measures will increase employment by 10.000 persons, of whom 5.000 are estimated to come from increases in the labour force. Moreover, as stated above, the main objective of the 2004 tax reform is to stimulate labour supply through lower marginal rates and by introducing an earned income tax credit in the form of an employment allowance.

¹⁸ In addition, CP 2003 presents the calculated effects on fiscal sustainability of certain relevant factors, expressed in terms of changes in the sustainability indicator. These factors include the employment rate, working time, life expectancy, retirement age and changes in immigration. The largest effects on long-term public finances are seen as coming from changes in employment rate and hours worked.

¹⁹ In addition to simplifying the labour-market administration and introducing more results-oriented activation measures, this initiative addresses unemployment traps by strengthening economic incentives. The scope to keep earned income without losing means-tested benefits is increased and there is a reduction in the cash benefit after six months. Rules governing availability and willingness-to-work criteria have been tightened.

In the medium-term, the Danish fiscal strategy hinges on the realisation of a set of ambitious labour market goals. CP 2003 assumes structural employment to increase by some 52.000 persons from 2003 to 2010²⁰. To also eliminate the cyclical part of the current unemployment, actual employment needs to increase by some 65.000 persons.

It is acknowledged by the Danish authorities this cannot be reached without further labour market reforms. However, this expected increase in the labour supply of already implemented measures is largely offset by the effects of the demography up to 2010. Therefore, as mentioned above, an increase in structural employment is needed through additional reform. However, the direction of the needed reforms is not elaborated on in any detail in the programme. It is merely stated that possible contributions may come from better integration of immigrants in the labour market, a faster flow through the education system and efforts to improve labour market attachment of senior workers. The projections depend to a considerable extent on the realisation of these labour supply targets. Against the background of the already high participation rates in Denmark, increasing these rates constitutes an important challenge.

The programme is rich in information and analysis of how the public finance situation could look if the targets on the labour market are not achieved and calculations and analyses are presented. In the programme update, the requirements on the structural primary balance needed to cover future obligations are met in 2003 and the sustainability indicator is thus in balance. The calculations presented in table 6 illustrate the contributions to the sustainability indicator from the developments of tax revenues, public consumption and labour market reform. The table indicates that the labour market reforms already implemented according to CP 2003 should result in a fiscal leeway of 0.8% of GDP. Most of this fiscal leeway is used to implement the tax freeze (0.6% of GDP). The targeted increase in employment to 2010 thus implies that on the basis of the planned lower increases in real public consumption and the reduced income taxes, an additional fiscal leeway of 0.9% of GDP has to be created as a result of additional labour market reform.

Table 6 – Contributions to fiscal sustainability

	2003
	(% of GDP)
Sustainability indicator, demographic scenario	0.0
Fiscal leeway due to implemented employment requirements	0.8
Tax freeze	-0.6
Lower taxes on earned income etc.	-0.7
Real growth in public service standards	-0.5
Sustainability indicator, no additional reform scenario	-0.9
Fiscal leeway due to non-implemented employment requirements	0.9
Sustainability indicator in 2010 scenario	0.0

These estimates are naturally only indicative as these calculations are subject to substantial uncertainty. But given the importance attached to the labour market developments and the acknowledged need for further labour market reforms, the programme would have benefited from more information on the intended content of

²⁰ In the programme, this increase is technically assumed to be split between an increase of 32.000 of the labour force and a 21.000 decline in the structural unemployment.

the labour market reforms. In order for additional reforms to have the needed effect before 2010, they should be planned in a not so distant future, as structural reforms normally take time before delivering the required impact.

The Danish Growth strategy has been updated. The strategy includes benchmarking in areas that affect the growth prospects of the economy. Initiatives have targeted areas such as promoting entrepreneurial culture, enhancing competition and improving regulatory efficiency. The labour market reform measures implemented should have a positive effect on labour supply, but it is still early to assess these effects. The same holds for the impact of many of the initiatives aimed at enhancing productivity²¹.

6. THE SUSTAINABILITY OF PUBLIC FINANCES

6.1 Quantitative indicators

The assessment of the sustainability of Danish public finances is based on both quantitative and qualitative indicators. The quantitative indicators projects debt and budget balance development according to two different scenarios, to take into account uncertainties over the medium term. The “Stability and Growth Pact (SGP) compliance” scenario is calculated on the following basis:

- Macroeconomic assumptions on GDP growth, interest rates and inflation are based on the agreed assumptions used in the Economic Policy Committee (EPC);
- The projections for age-related expenditures come from the convergence programme, complemented with the EPC harmonised projections. However, the Commission did not take on board the projected changes in non-age-related expenditures items.
- The projections for government revenues come from the programme. They are kept constant at the (cyclically adjusted) level in 2010, except projected increase due to tax revenues from net pension payments.
- The starting point for gross debt is the 2010 levels reported in the programme. Primary balance is calculated in the standard way, i.e. netting out interest payments from the budget balance.
- The increase in employment foreseen in the programme is assumed to materialize.

A “2003 position” scenario is based on the budgetary data for 2003 in the programme. Debt levels are extrapolated from 2010 to 2050 assuming that no budgetary consolidation is achieved, i.e. the cyclically adjusted primary balance in 2010 remains the same as the 2003 level and no stock-flows operations take place.

²¹ As stated in CP 2003, productivity growth tends to be neutral for fiscal sustainability, as most public expenditure, such as public wages and transfers, on current rules rise in tandem with private sector wages.

The table below presents the debt and the budget balance development according to the two different scenarios. Projections are based on national projections on pensions, health care and other social security expenditures while education and unemployment benefits projections rely on the EPC common exercise. Overall, age-related expenditure is foreseen to increase by 5.5% of GDP between 2010 and 2050. Revenues increase slightly (+2.4% of GDP) to take into account only the future increase of direct taxation on pensions.

On this basis, it is possible to verify whether the projected level of debt respects the requirement to stay below 60% of GDP reference value for public debt at all times. Failure to do so would *a priori* indicate that there may be a risk of budgetary imbalances emerging in light of ageing population and that measures may be required to place public finances on a more sustainable footing. According to the quantitative indicators, Denmark is on a sustainable path. The accumulated surplus is estimated to be maintained over the projection period, repaying the existing debt in the next 10 years. This sustainable path will be reinforced if cyclically adjusted primary balance remains constant over the projection period. No sustainability gap therefore arises and the SGP requirements can be respected all times. This is illustrated in the table below. The sustainability indicators (S1 and S2, bottom of the table) express the degree to which projected revenues assure sustainability using different definitions (reaching the same debt-to-GDP ratio in 2050 as the close-to-balance position as holds for the whole projection period (S1), and respecting the inter-temporal budget constraint of the government (S2)). A zero or negative sustainability gap indicates that the policies are sustainable. This is the case for Denmark, with a slightly negative sustainability gap on both scores in the baseline programme scenario.

Long term sustainability: summary results

Denmark

Main assumptions - baseline scenario (as % GDP)	2011	2020	2030	2040	2050	changes
Total age-related spending	31,4	32,9	35,9	37,5	36,9	5,5
Pensions	5,5	6,3	7,1	7,6	6,9	1,4
Health care	8,0	8,6	9,9	10,5	10,4	2,4
Education'	8,7	8,5	8,3	8,4	8,4	-0,3
Unemployment benefits'	1,4	1,4	1,3	1,4	1,4	0,0
Others	7,9	8,1	9,3	9,7	9,8	1,9
Total primary non age-related spending*	18,1					
Total revenues	53,1	53,8	54,6	55,4	55,6	2,4

* Based on the EPC projections

* constant

Results (as % GDP)	2011	2020	2030	2040	2050	changes
Programme scenario						
Debt	24,6	-1,3	-19,5	-25,6	-34,8	-59,3
Net borrowing	1,9	2,6	1,6	1,1	2,4	0,4
2003 scenario						
Debt	6,9	-30,5	-65,5	-94,6	-131,9	-138,8
Net borrowing	3,7	4,9	4,7	5,6	8,4	4,6

Sustainability gap	S1*	S2**
Programme scenario	-0,6	-0,6
2003 situation scenario	-2,0	-1,3

* it expresses the constant difference between projected revenues and the revenues required to reach in 2050 the same debt to GDP ratio as the close to balance position holds for the whole projection period. P.m. debt to GDP at the end of the period: 8.0%

** It indicates the change in tax revenues as a share of GDP that guarantees the respect of the intertemporal budget constraint of the government, i.e., that equates the actualized flow of revenues and expenses over an infinite horizon.

6.2 Additional qualitative features

As underlined in the report from the Economic Policy Committee on “The impact of ageing populations on public finances: overview of analysis carried out at EU level and proposals for a future work programme”²² (October 2003), several qualitative factors should be taken on board to avoid a mechanistic interpretation of the quantitative indicators. The following aspects warrant attention. The Danish strategy implies an accumulation of pension funds assets that has already reached 100% of GDP and which is projected to double over the projection period. The programme projections hinge to a considerable extent on the realisation of an increase in labour supply, for which the concrete measures have yet to be put forward. Finally, debt projections rely on very high tax burden despite a fall in the tax ratio in the programme period. From 2010 onwards revenues are projected to increase and overall the tax burden in 2050 will be even higher than the current one²³. Each Member State decides on its optimal level of taxation. However, the expected Danish one will appear high relative to other

²² Available at http://europa.eu.int/comm/economy_finance/epc/documents/2003/pensionmaster_en.pdf

²³ It should be noted that the projected rise in the tax burden in the projections is mainly due to increased revenues from taxation of pension pay-outs. It is thus not a question of an increased tax pressure with potentially negative effects on labour supply and employment.

industrialised countries and pressures to reduce the level of taxation cannot be excluded in the future.

6.3 Overall assessment of sustainability

The budgetary strategy outlined in the programme is compatible with improving the sustainability of public finances. The strategy is comprehensive and includes measures to run down debt, by maintaining a surplus over the programme period and use additional revenues induced by the North Sea agreement for faster debt reduction. On the basis of the current policies, Denmark appears to be in a good position to meet the budgetary costs associated with ageing populations.

ANNEX 1

Summary tables derived from the 2003 updated convergence programme

Table 1. Growth and associated factors

		2002	2003	2004	2005	2006	2010
GDP growth at constant market prices (7+8+9)		2.1	1.4	2.3	2.2	1.9	1.7
GDP level at current market prices		1,365	1,413	1,471	1,536	1,598	1,863
GDP deflator		0.9	2.1	1.8	2.2	2.1	2.1
HICP change		2.4	2.2	1.8	1.7	1.7	1.7
Employment growth		-0.4	-0.6	0.5	0.5	0.4	0.2
Labour productivity growth		2.4	2.0	1.7	1.7	1.5	1.6
Sources of growth: percentage changes at constant prices							
1. Private consumption expenditure		1.9	1.3	3.0	2.4	2.5	2.3
2. Government consumption expenditure		2.1	-0.2	0.7	0.5	0.5	0.5
3. Gross fixed capital formation		-1.2	2.4	3.5	2.9	2.6	2.4
4. Changes in inventories and net acquisition of valuables as a % of GDP		-0.3	0.3	0.1	0.0	0.0	0.0
5. Exports of goods and services		5.8	2.9	4.5	4.4	3.5	3.5
6. Imports of goods and services		4.2	2.8	5.4	4.3	4.1	4.1
Contribution to GDP growth							
7. Final domestic demand (1+2+3)		1.5	0.8	2.3	1.9	1.9	1.8
8. Change in inventories and net acquisition of valuables (=4)		-0.3	0.3	0.1	0.0	0.0	0.0
9. External balance of goods and services (5-6)		0.9	0.2	-0.1	0.3	0.0	-0.1
Basic assumptions							
Short-term interest rate (annual average)		3.5	2.4	2.4	3.3	4.1	4.9
Long-term interest rate (annual average)		5.1	4.2	4.8	5.2	5.7	6.1
USD/€ exchange rate (annual average)		0.94	1.12	1.13	1.13	1.13	1.13
(for non-euro countries) exchange rate vis-à-vis the € (annual average)		7.43	7.43	7.44	7.44	7.44	7.44
World excluding EU, GDP growth		3.2	3.5	4.0	4.5	4.0	3.5
EU-15 GDP growth		1.0	0.8	2.2	2.4	2.4	2.4
Growth of relevant foreign markets		1.4	4.0	7.5	5.3	4.6	4.6
World import volumes, excluding EU		4.1	6.3	7.1	7.4	7.0	7.6
Oil prices		24.9	27.5	25.0	25.5	26.0	27.2

Table 2. General government budgetary developments

% of GDP		2002	2003	2004	2005	2006	2010
Net lending by sub-sectors							
1. General government		1.6	1.2	1.3	1.8	1.9	2.1
2. Central government		1.0	0.2	0.4	1.0	1.0	1.3
3. State government							
4. Local government		-0.4	0.0	0.0	0.0	0.0	0.0
5. Social security funds		1.0	1.0	0.9	0.8	0.8	0.8
General government							
6. Total receipts		55.9	55.2	54.5	54.4	54.2	53.9
7. Total expenditures		54.4	54.0	53.2	52.6	52.3	51.8
8. Budget balance		1.6	1.2	1.3	1.8	1.9	2.1
9. Net interest payments		1.4	1.1	1.0	0.9	0.8	0.2
10. Primary balance		2.9	2.3	2.3	2.7	2.6	2.3
Components of revenues							
11. Taxes		48.8	48.5	48.1	47.9	47.6	47.4
12. Social contributions		1.7	1.6	1.6	1.6	1.6	1.6
13. Interest income		2.3	2.2	2.1	2.2	2.3	2.3
14. Other		3.2	2.8	2.6	2.8	2.8	2.7
15. Total receipts		55.9	55.2	54.5	54.4	54.2	53.9
Components of expenditures							
16. Public consumption		26.3	26.1	26.0	25.8	25.7	25.5
17. Transfers to households		17.5	17.8	17.5	17.2	17.0	17.2
18. Transfers to private institutions and abroad		2.6	2.6	2.5	2.5	2.5	2.5
19. Interest payments		3.7	3.3	3.1	3.1	3.0	2.4
20. Subsidies		2.2	2.1	2.0	2.0	2.0	2.1
21. Gross fixed capital formation		1.8	1.7	1.7	1.7	1.7	1.7
22. Other		0.4	0.4	0.4	0.4	0.4	0.4
23. Total expenditures		54.4	54.0	53.2	52.6	52.3	51.8

Table 3. General government debt developments

% of GDP		2002	2003	2004	2005	2006	2010
Gross debt level		45.5	42.7	41.2	38.7	36.4	27.5
Change in gross debt		0.2	-2.8	-1.5	-2.5	-2.3	-8.9
Contributions to change in gross debt							
Primary balance		-2.7	-2.1	-2.2	-2.7	-2.7	-12.9
Interest payments		2.2	1.9	1.8	1.7	1.7	7.1
Nominal GDP growth		-1.4	-1.5	-1.7	-1.7	-1.5	-6.3
Other factors influencing the debt ratio ¹		2.5	-1.1	0.6	0.2	0.2	3.2
Of which: Privatisation receipts		0.0	0.0	0.0	0.0	0.0	0.0
p.m. implicit interest rate on debt		6.9	6.5	6.3	6.3	6.4	6.1
¹ Stock-flow adjustment							

Table 4. Cyclical developments

% of GDP		2002	2003	2004	2005	2006	2010
1. GDP growth at constant prices		2.1	1.4	2.3	2.2	1.9	1.7
2. Actual balance		1.6	1.2	1.3	1.8	1.9	2.1
3. Net Interest payments		1.4	1.1	1.0	0.9	0.8	0.2
4. Potential GDP growth		2.4	2.4	1.8	2.1	1.8	1.7
5. Output gap		0.3	-0.7	-0.2	-0.1	0.0	0.0
6. Cyclical budgetary component		0.1	0.0	0.0	0.3	0.2	0.0
-of which cyclical contributions		0.4	0.3	0.4	0.3	0.2	0.0
-contributions from special items		-0.3	-0.3	-0.4	0.0	0.0	0.0
7. Cyclically-adjusted balance (2-6)		1.6	2.0	1.7	1.8	1.9	2.1
8. Cyclically-adjusted primary balance (7-3)		2.6	3.2	2.8	2.7	2.6	2.4

Table 5. Divergence from previous update

% of GDP		2002	2003	2004	2005	2006	2010
GDP growth							
previous update ¹		1.5	2.2	1.8	1.7	1.8	1.8
latest update ²		2.1	1.4	2.3	2.2	1.9	1.7
Difference		0.6	-0.8	0.5	0.5	0.1	-0.1
Price Inflation (CPI)							
previous update ¹		2.4	2.0	1.8	1.6	1.7	1.7
latest update ²		2.5	2.3	1.9	1.8	1.7	1.7
Difference		0.1	0.3	0.1	0.2	0.0	0.0
Actual budget balance							
previous update ¹		2.1	2.2	2.5	2.4	2.2	2.2
latest update ²		1.7	1.2	1.3	1.8	1.9	2.1
Difference		-0.4	-1.0	-0.8	-0.6	-0.3	-0.1
Gross debt levels							
previous update ¹		43.9	42.1	39.2	36.7	34.5	26.0
latest update ²		45.5	42.7	41.2	38.7	36.4	27.5
Difference		1.6	0.6	2.0	2.0	1.9	1.5
Tax burden							
previous update ¹		48.2	47.7	47.9	47.4	47.0	46.5
latest update ²		48.8	48.5	48.1	47.9	47.6	47.4
Difference		0.6	0.8	0.2	0.5	0.6	0.9
¹ CP, November 2002							
² CP, November 2003							

Table 6. Long-term sustainability of public finances ¹

% of GDP	2003	2005	2010	2020	2030	2040	2050	2060	2070
Total expenditure	50.7	-0.3	-0.8	0.4	3.4	4.7	3.3	4.5	5.2
Old age pensions	4.4	0.2	1.0	1.9	2.7	3.2	2.5	2.6	2.9
Health care (including care for the elderly)	8.1	-0.1	-0.2	0.5	1.8	2.4	2.3	2.3	2.3
Transfers payments ²	17.2	-0.3	-0.4	0.7	1.8	1.7	0.8	1.2	1.4
Total revenues	55.2	-0.8	-1.5	-0.7	0.4	1.2	0.7	1.2	1.5
<i>Of which:</i> Tax on net pension payments	-	0.0	0.2	0.9	1.7	2.5	2.7	2.7	2.7
National pension fund assets ³	117	124	144	180	209	220	217	226	227
Assumptions ⁴									
Nominal GDP per person employed	4.1	3.9	3.6	3.9	3.8	3.8	3.8	3.7	3.8
Nominal GDP	3.5	4.4	3.9	3.6	3.3	3.8	3.8	3.6	4.0
Participation rate males (aged 20-64)	86.2	86.2	85.8	85.3	84.2	84.5	84.3	83.4	83.8
Participation rates females (aged 20-64)	76.3	76.3	76.6	75.8	74.3	75.0	74.7	73.5	74.3
Total participation rates (aged 20-64)	81.3	81.3	81.2	80.5	79.2	79.7	79.5	78.5	79.1
Unemployment rate	5.9	5.3	4.5	4.5	4.5	4.5	4.5	4.5	4.5
¹ Level for 2003, and per cent changes compared to 2003 thereafter ² Transfers from social security funds (ATP etc.) are not included. ³ Percentage of GDP ⁴ Percentage change									