

**COUNCIL OPINION**  
**of 17 February 2005**  
**on the updated convergence programme of Denmark, 2004-2010**

(2005/C 136/02)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies <sup>(1)</sup>, and in particular Article 9(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

- (1) On 17 February 2005 the Council examined the updated convergence programme of Denmark, which covers the period 2004 to 2010. The programme fully complies with the data requirements of the 'code of conduct on the content and format of stability and convergence programmes'.
- (2) The macroeconomic scenario underlying the programme envisages real GDP growth firming from 2.2 % in 2004 to 2.5 % in 2005 and an average 1.7 % in 2006-10. On the basis of currently available information, this scenario seems to reflect relatively cautious growth assumptions. The programme's projections for inflation appear realistic.
- (3) The medium-term budgetary framework includes a target range of general government surpluses of 1½-2½ % of GDP on average up to 2010 and a limit on yearly real public consumption growth of 0.5 % from 2005 onwards; expenditure control is reinforced through the so-called tax freeze. Both the central government sub-sector and the pension funds are expected to show stable surpluses in the programme period. Local governments are projected to balance their budgets, as required by law. The updated programme foresees surpluses of 1.2 % in 2004, 2.0 % in 2005 and 1.6 % of GDP in 2006. The surplus reaches 2.0 % of GDP in 2010. Both expenditure and revenue ratios are on a gradually declining trend over the projection period. Adjusting for the estimated impact of the cycle using the common methodology, the cyclically-adjusted budget balance is in surplus throughout the projection period. The projected general government surplus targets are close to the 2003 update. Differences in the near term are due to revised assumptions about GDP growth as well as to the effects of recent policy measures, including the March 2004 fiscal package, which frontloaded the tax reform adopted in 2003. From 2007 the projected surpluses are slightly lower than in the previous update, due to revised demographic assumptions that have contributed to lowering the long-term fiscal requirements. Overall, the current update thus broadly confirms the strategy of the previous update against a similar macroeconomic scenario.

<sup>(1)</sup> OJ L 209, 2.8.1997, p. 1.

- (4) The risks to the budgetary projections are fairly balanced, though to some extent weighted towards an outcome better than projected in the first years of the programme. Over a number of years, Denmark has posted general government budget surpluses. This held also in 2003, when the surplus was 1.0 % of GDP in spite of a GDP growth of only 0.5 %. Higher oil prices than assumed in the update could also improve public finances as Denmark is a small net oil exporter. The composition of GDP growth in the coming years, largely based on domestic demand, should also cater for sustained revenues and thus support a favourable development of public finances. Over the medium term, downside risks to the projections include any failure to restrain public expenditure to targeted growth, in particular at local government level, or to reach the medium-term targets of higher employment.
- (5) In view of this risk assessment, the budgetary stance in the programmes is sufficient to maintain a medium-term budgetary position of 'close to balance or in surplus' as required by the Stability and Growth Pact throughout the programme period. It also provides a sufficient safety margin against breaching the 3 % of GDP deficit threshold with normal macroeconomic fluctuations.
- (6) The gross debt ratio stood at 44.7 % of GDP in 2003 and is projected in the update to reach 28¼ % of GDP in 2010. The main contributions to the fall in the debt ratio come from positive primary balances and the impact of nominal GDP growth.
- (7) Denmark appears to be in a favourable position with regard to the long-term sustainability of public finances, despite significant projected budgetary costs of an ageing population. The budgetary strategy outlined in the programme, mainly based on further debt consolidation through continued budgetary surpluses, should result in a sustainable position over time. However, achieving continued tight expenditure control and a considerable rise in employment on which the strategy also relies may prove challenging.
- (8) Overall, the economic policies outlined in the update are broadly consistent with the country-specific broad economic policy guidelines in the area of public finances.

#### Comparison of key macroeconomic and budgetary projections

		2004	2005	2006	2007	2010
Real GDP (% change)	<b>CP Nov 2004</b>	<b>2,2</b>	<b>2,5</b>	<b>1,3</b>	<b>1,9</b>	<b>1,8</b>
	COM Oct 2004	2,3	2,4	2,0	n.a.	n.a.
	CP Nov 2003	2,3	2,2	1,9	1,7	1,7
HICP inflation (%)	<b>CP Nov 2004</b>	<b>1,2</b>	<b>1,7</b>	<b>1,6</b>	<b>1,7</b>	<b>1,6</b>
	COM Oct 2004	1,1	1,9	1,6	n.a.	n.a.
	CP Nov 2003	1,8	1,7	1,7	1,7	1,7
General government balance (% of GDP)	<b>CP Nov 2004</b>	<b>1,2</b>	<b>2,0</b>	<b>1,6</b>	<b>1,7</b>	<b>2,0</b>
	COM Oct 2004 <sup>(2)</sup>	2,0	2,6	2,8	n.a.	n.a.
	CP Nov 2003	1,3	1,8	1,9	2,1	2,1

		2004	2005	2006	2007	2010
Primary balance (% of GDP)	<b>CP Nov 2004</b> <sup>(3)</sup>	<b>4,3</b>	<b>4,8</b>	<b>4,5</b>	<b>4,6</b>	<b>4,4</b>
	COM Oct 2004	4,4	4,9	4,9	n.a.	n.a.
	CP Nov 2003	2,3	2,7	2,6	2,3	2,3
Cyclically-adjusted balance (% of GDP)	<b>CP Nov 2004</b> <sup>(1)</sup>	<b>1,7</b>	<b>2,0</b>	<b>2,0</b>	<b>2,0</b>	<b>2,3</b>
	COM Oct 2004	2,6	2,9	3,0	n.a.	n.a.
	CP Nov 2003 <sup>(1)</sup>	1,1	1,5	1,7	1,9	2,1
Government gross debt (% of GDP)	<b>CP Nov 2004</b>	<b>42,3</b>	<b>39,4</b>	<b>37,4</b>	<b>35,3</b>	<b>28,8</b>
	COM Oct 2004	41,5	37,5	34,2	n.a.	n.a.
	CP Nov 2003	41,2	38,7	36,4	27,5	27,5

Notes:

<sup>(1)</sup> Commission services calculations on the basis of the information in the programme

<sup>(2)</sup> In the September 2004 EDP notification, Denmark presented figures for general government balance and gross debt where the ATP fund was reclassified outside of the government sector, which lowered the general government surplus by around 1 p. p. of GDP. On this basis, the Commission services' autumn 2004 forecast also excluded the ATP surplus. In this assessment, the Commission services' figures for general government balance and gross debt have been recalculated so as to include the ATP fund, as is the case in the programme update. The Commission services figures for general government balance and government debt are therefore not the same as in the autumn forecast.

<sup>(3)</sup> The updated programme presents primary balances excluding net interest expenditure and not gross interest expenditure which otherwise is conventional; this table presents primary balances excluding gross interest expenditure.

Sources:

Updated Convergence Programme, November 2003 and November 2004 (CP); Commission services autumn 2004 economic forecasts (COM; see note 2 above); Commission services calculations