COUNCIL OPINION

of 27 February 2007

on the updated convergence programme of Denmark, 2006-2010

(2007/C 71/04)

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 [1], 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 27 February 2007 the Council examined the updated convergence programme of Denmark, which covers the period 2006 to 2010.

(2) The macroeconomic scenario underlying the programme envisages that real GDP growth will slow from 2,7 % in 2006 to 1,0 % on average over the rest of the programme period. Assessed against currently available information, this scenario appears to be based on markedly cautious growth assumptions, in particular for the period 2008-2010 due to the technical assumption in the update of the closing of a (positive) output gap in 2010. The programme's projections for inflation appear realistic.

(3) For 2006, the general government surplus is estimated at 3,2 % of GDP in the Commission services' autumn 2006 forecast, against a target of 2,1 % of GDP set in the previous update of the convergence programme. This reflects higher-than-expected growth as well as continued high energy prices given the importance of revenues linked to Denmark's oil and gas production.

(4) The budgetary strategy aims at maintaining structural surpluses (i.e. cyclically-adjusted surpluses net of one-off measures and other temporary factors, such as certain special volatile revenue items) of between ½ % and 1½ % of GDP on average over the programme period to 2010, implying a marked reduction in the general government debt ratio in order to ensure fiscal sustainability in the long term. The strategy is based on expenditure restraint (annual growth of real public consumption spending limited to approximately 1 % on average for the period 2007 to 2010, up from 0,5 % in the previous update) and on the maintenance of the tax freeze introduced in 2001 and on the agreed reforms to strengthen labour supply and employment. The update foresees the surplus to narrow slightly from 3,1 % of GDP in 2006 to 2,8 % in 2007, and to decline further to 1,2 % in 2010 (from 4,7 % in 2006 to 1,8 % in 2010 in primary terms). The decline as from 2008 reflects the markedly cautious assumptions about GDP growth. Compared with the previous update, the general government balance is higher in 2006 to 2008 but lower towards the end of the programme period.

[1] OJ L 209, 2.8.1997, p. 1. Regulation as amended by Regulation (EC) No 1055/2005 (OJ L 174, 7.7.2005, p. 1). The documents referred to in this text can be found at the following website:
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

(5) The structural balance calculated according to the commonly agreed methodology is projected to be around 2 % of GDP or better throughout the programme period, with a slight deterioration in 2007 and a somewhat stronger improvement in 2008. The medium-term objective (MTO) for the budgetary position presented in the programme is a structural balance of between ½ % and 1½ % of GDP towards 2010, which the programme plans to maintain by a large margin throughout the programme period. The MTO is set up to ensure fiscal sustainability and is unchanged from the previous update once account is taken of the exclusion in the new programme of the second pillar pension scheme (included in Denmark's previous programmes) in line with the Eurostat decision of 2 March 2004 ([1]). As the MTO is more demanding than the minimum benchmark (estimated at a deficit of around ½ % of GDP), achieving it should fulfil the aim of providing a safety margin against the occurrence of an excessive deficit. The MTO lies within the range indicated for euro-area and ERM II Member States in the Stability and Growth Pact and the code of conduct and is significantly more demanding than implied by the debt ratio and average potential output growth in the long term.

(6) The budgetary outcomes could be better than projected in the programme, in particular for the years 2008 to 2010. This is essentially because of the programme's markedly cautious macroeconomic scenario, which outweighs the risk that real public consumption expenditure growth could be higher than targeted.

(7) In view of this risk assessment, the budgetary stance in the programme seems sufficient to maintain the MTO throughout the programme period, as envisaged in the programme. In addition, it provides a sufficient safety margin against breaching the 3 % of GDP deficit threshold with normal macroeconomic fluctuations in each year. The fiscal policy stance implied by the programme is fully in line with the Stability and Growth Pact.

(8) Government gross debt is estimated to have declined below 30 % of GDP in 2006, well below the 60 % of GDP Treaty reference value. The programme projects the gross debt ratio to decline by around a further 11 percentage points over the programme period.

(9) The long-term budgetary impact of ageing in Denmark is projected to be higher than on average in the EU; influenced notably by a relatively high increase in pension expenditure as a share of GDP over the coming decades. However, the comprehensive reform package adopted in June 2006, the 'Agreement on Future Prosperity, Welfare and Investments in the Future' or simply Welfare Agreement, aims at delaying retirement. Both the general pension age and the early retirement age will be gradually increased by 2 years followed later by an indexation of the age thresholds to changes in life expectancy. Therefore, the Welfare Agreement contributes to curb the long-term expenditure trends and thus improves public finance sustainability. Moreover, the initial budgetary position with a large structural surplus contributes significantly to ease the long-term budgetary impact of ageing. Maintaining high primary surpluses over the medium-term will contribute to reducing risks to the sustainability of public finances. Taking into account these developments, Denmark appears to be at low risk with regard to the sustainability of public finances.

(10) The convergence programme contains a qualitative assessment of the overall impact of the October 2006 implementation report of the national reform programme within the medium-term fiscal strategy. In addition, it provides systematic information on the direct budgetary costs or savings of the main reforms envisaged in the national reform programme and its budgetary projections explicitly take into account the public finance implications of the actions outlined in the national reform programme. The measures in the area of public finances envisaged in the convergence programme seem consistent with those foreseen in the national reform programme. In particular, both programmes envisage the implementation of reforms aimed at increasing labour supply in the long term, in particular the agreement to raise statutory pension ages and thus promote longer effective working lives.

(11) The budgetary strategy in the programme is broadly consistent with the broad economic policy guidelines included in the integrated guidelines for the period 2005-2008.

([1]) See Eurostat News Releases No 30/2004 of 2 March 2004 and No 117/2004 of 23 September 2004.

(12) As regards the data requirements specified in the code of conduct for stability for stability and convergence programmes, the programme provides all required data and most optional data ([1]).

The Council considers that the medium-term budgetary position is sound and the budgetary strategy provides a good example of fiscal policies conducted in compliance with the Stability and Growth Pact.

Comparison of key macroeconomic and budgetary projections ([1])

		2005	2006	2007	2008	2009	2010
Real GDP (% change)	**CP Nov 2006** ([2])	**3,6**	**2,7**	**2,0**	**0,7**	**0,7**	**0,6**
	COM Nov 2006	3,0	3,0	2,3	2,2	n.a.	n.a.
	CP Nov 2005	*2,4*	*2,4*	*1,1*	*1,6*	*n.a.*	*2,1*
HICP inflation (%)	**CP Nov 2006**	**1,7**	**2**	**1,8**	**1,7**	**1,8**	**1,7**
	COM Nov 2006	1,7	2,0	2,0	1,9	n.a.	n.a.
	CP Nov 2005	*1,6*	*2*	*1,3*	*1,9*	*n.a.*	*1,8*
Output gap (% of potential GDP)	**CP Nov 2006** ([3])	**0,3**	**0,9**	**0,9**	**– 0,3**	**– 1,3**	**– 2,3**
	COM Nov 2006 ([4])	– 0,6	– 0,2	– 0,4	– 0,6	n.a.	n.a.
	CP Nov 2005 ([2])	*– 0,3*	*0,1*	*– 0,7*	*– 0,9*	*n.a.*	*– 0,6*
General government balance (% of GDP)	**CP Nov 2006**	**4,0**	**3,1**	**2,8**	**2,5**	**1,8**	**1,2**
	COM Nov 2006	4,0	3,2	3,3	3,2	n.a.	n.a.
	CP Nov 2005	*2,7*	*2,1*	*2,2*	*1,7*	*n.a.*	*1,9*
Primary balance (% of GDP)	**CP Nov 2006**	**5,8**	**4,7**	**4,3**	**3,4**	**2,5**	**1,8**
	COM Nov 2006	5,8	4,9	4,6	4,3	n.a.	n.a.
	CP Nov 2005	*4,7*	*3,7*	*3,1*	*2,5*	*n.a.*	*2,7*
Cyclically-adjusted balance (% of GDP)	**CP Nov 2006** ([3])	**3,8**	**2,5**	**2,2**	**2,7**	**2,6**	**2,7**
	COM Nov 2006	4,4	3,3	3,5	3,6	n.a.	n.a.
	CP Nov 2005 ([3])	*2,9*	*2*	*2,6*	*2,3*	*n.a.*	*2,3*
Structural balance ([5]) (% of GDP)	**CP Nov 2006** ([6])	**3,6**	**2,2**	**1,9**	**2,7**	**2,6**	**2,7**
	COM Nov 2006 ([7])	4,1	3,0	3,2	3,6	n.a.	n.a.
	CP Nov 2005	*2,7*	*1,7*	*2,3*	*2,3*	*n.a.*	*2,3*

([1]) In particular, specifications of the stock-flow adjustment are missing among the optional data.

		2005	2006	2007	2008	2009	2010
Government gross debt (% of GDP)	**CP Nov 2006**	**36,2**	**29,8**	**25,8**	**22,7**	**20,5**	**19,0**
	COM Nov 2006	36,2	29,7	25,7	23,2	n.a.	n.a.
	CP Nov 2005	*35,9*	*32,9*	*30,1*	*27,7*	*n.a.*	*22,7*

Notes:

([1]) The budgetary projections include the impact of the Eurostat decision of 2 March 2004 on the classification of funded pension schemes. Excluding this impact, the general government balance would be 4,9 % of GDP in 2005, 4,0 % in 2006, 3,8 % in 2007, 3,5 % in 2008, 2,8 % in 2009 and 2,2 % in 2010, while government gross debt would be 35,9 % of GDP in 2005, 28,6 % in 2006, 24,6 % in 2007, 21,5 % in 2008, 19,3 % in 2009 and 17,8 % in 2010.

([2]) The GDP growth projections in the update pertaining to 2008, 2009 and 2010 are based on a technical assumption of a closing output gap in 2010.

([3]) Commission services calculations on the basis of the information in the programme.

([4]) Based on estimated potential growth of 2,2 %, 2,6 %, 2,5 % and 2,5 % respectively in the period 2005-2008.

([5]) Cyclically-adjusted balance (as in the previous rows) excluding one-off and other temporary measures.

([6]) One-off and other temporary measures taken from the programme (0,3 % of GDP each year in 2005-2007, surplus increasing).

([7]) One-off and other temporary measures taken from the Commission services' autumn 2006 forecast are the effects of the suspension until 2007 of the contributions to the special pension (SP) scheme. As contributions are tax deductible, their suspension strengthens public finances by an estimated 0,3 % of GDP in 2005-2007.

Source:

Convergence programme (CP); Commission services' autumn 2006 economic forecasts (COM); Commission services' calculations