Annual assessment of the implementation of stability and convergence programmes

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PURPOSE : to evaluate the Convergence Programme (non-euro zone) of Denmark for the period 2001-2005. CONTENT : the Council notes with satisfaction that Denmark has continued to fulfil the convergence criteria on inflation, long term interest rate and on the exchange rate. Regarding public finances, it is noted that while the outcome for the government surplus for 2001 was below expectations, mainly due to shortfall in revenue linked to the downturn in the stock market, a comfortable surplus was still achieved. The maintenance of the objective of keeping surpluses between 1.5%-2.5% of GDP over the programme period, during which the general government debt is expected to be reduced to 35% of GDP by 2005, has been welcomed. As a result, Denmark continues to fulfil, comfortably, the requirement of the Stability and Growth Pact of a budgetary position of "close to balance or in surplus" over the entire period covered by the Programme. Denmark is also expected to be able to withstand a normal cyclical downturn without breaching the 3% of GDP deficit reference value. The budgetary consolidation strategy including a declining primary expenditure to GDP ratio and tax burden over the programme period outlined in the previous update of the Programme is upheld. The strategy has been further strengthened by the government's commitment to freeze all taxes and excise duties in order to put a halt to the upward drift in the tax burden. Moreover, expenditure control has had a rather mixed record in recent years as the target of restraining real public consumption growth to 1% has frequently been overstepped. The need for expenditure control, especially in local government and counties is even more important now that the decision to freeze taxes has been taken, if high general government surpluses are to be assured. Therefore, all levels of general government are called upon to make efforts to control expenditure such that the real increase in public consumption fulfils the target of an average annual growth of 1%. The Danish government is invited 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 Council notes with satisfaction that the objective to substantially lower the ratio of gross debt to GDP enhances the sustainability of public finances, thereby rendering the Danish economy in a good position to handle the projected expenditure rises due to the ageing of the population and still continue to be in compliance with the Stability and Growth Pact. It notes that these results are conditional on the continued realisation of the high surpluses. The projections also assume a continued high tax ratio to GDP between 2005 and 2050. The Council notes that such a high tax ratio to GDP may be difficult to achieve in a framework of increased mobility of certain tax bases as a result of the globalisation. Increase in labour force participation rates in Denmark is an important assumption of the projections in the programme. A large part of this increase is likely to come from reforms already undertaken, where the full effect has not yet set in. Further structural reforms are needed on the functioning of the labour market, including reductions in taxes on labour which might help increase the labour supply.