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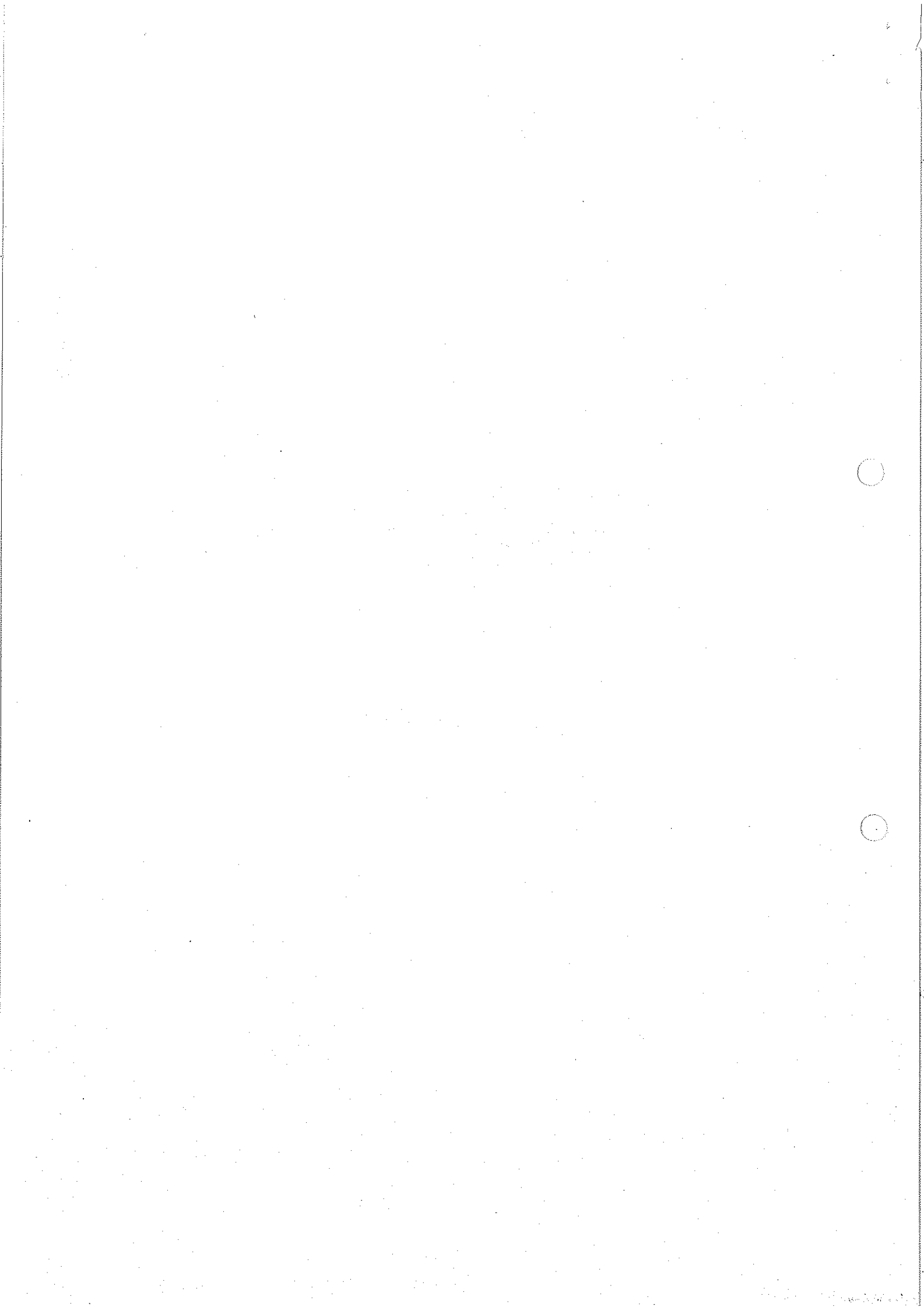
Journal nr.
400.C.2-0

Dato
29. maj 1996

Med henblik på mødet i Folketingets Europaudvalg den 31. maj 1996 - dagsordenspunkt rådsmøde (økonomi- og finansministre) den 3. juni 1996 - fremsendes vedlagt Kommissionens forslag om, at Danmark ikke medtages på listen over lande med uforholdsmæssigt store budgetunderskud.

Paul Nyrup Rasmussen







Kommissionens forslag om at Danmark ikke medtages på listen over lande med uforholdsmæssigt store budgetunderskud

I opfølgning af faktisk notat af 21. maj 1996 fremsendes hermed Kommissionens forslag (på engelsk) om, at Danmark ikke medtages på listen over lande med uforholdsmæssigt store budgetunderskud.



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 15.05.1996
SEC(96) 895 final

Recommendation for a
COUNCIL DECISION

abrogating the decision on the existence of an excessive deficit in
Denmark

- Application of Article 104c(12)
of the Treaty establishing the European Community -

(presented by the Commission)

Explanatory memorandum on the situation of the public finances in Denmark

1. Introduction

In September 1994, the Council decided, in accordance with Article 104c(6) of the Treaty on European Union, that there existed an excessive government deficit in Denmark¹. Subsequently, in November 1994, the Council made a recommendation to Denmark with a view to bringing to an end the situation of an excessive deficit². The Council recommended to the Danish government to accelerate the foreseen reductions in deficit and debt in the light of stronger than expected economic growth. In 1995, the Council made a renewed recommendation³ to Denmark, in particular urging "...the Danish government to seize all opportunities to put the debt ratio on a declining path."

After having increased to 3.9% of GDP in 1993, the government deficit has been reduced steadily. In 1995, general government net borrowing fell to 1.4% of GDP, thus well below the Treaty reference value of 3% of GDP. For 1996, net borrowing is expected to decline further.

The government gross debt ratio, which peaked at 80.1% of GDP in 1993, has subsequently followed a clear downward trend; in 1995 it stood at 71.9% of GDP, i.e. about 8 percentage points less than two years before.

These budgetary developments justify a new assessment of the budgetary position of Denmark and with this in view, this explanatory memorandum has been prepared. It is based on Commission data, taking due account of the data submitted by Denmark in March 1996 in accordance with regulation (EC) 3605/93. National and Commission data differ only marginally regarding general government net borrowing and general government gross debt.

Table 1. General government deficit and debt ratios (% of GDP)

	1990	1991	1992	1993	1994	1995	1996
Net borrowing	1.5	2.1	2.9	3.9	3.5	1.4	0.90
Consolidated gross debt	59.6	64.6	68.7	80.1	76.0	71.9	71.0

Source: Commission Services. Economic Forecasts Spring 1996.

- 1 Council Decision of 26 September 1994.
- 2 Council Recommendation of 7 November 1994.
- 3 Council Recommendation of 24 July 1995.

2. The public finance situation

2.1 General government net borrowing

In 1995, general government net borrowing dropped from 3.5% of GDP in the previous year to 1.4% of GDP and thus well below the 3% of GDP reference value, in line with the convergence programme.

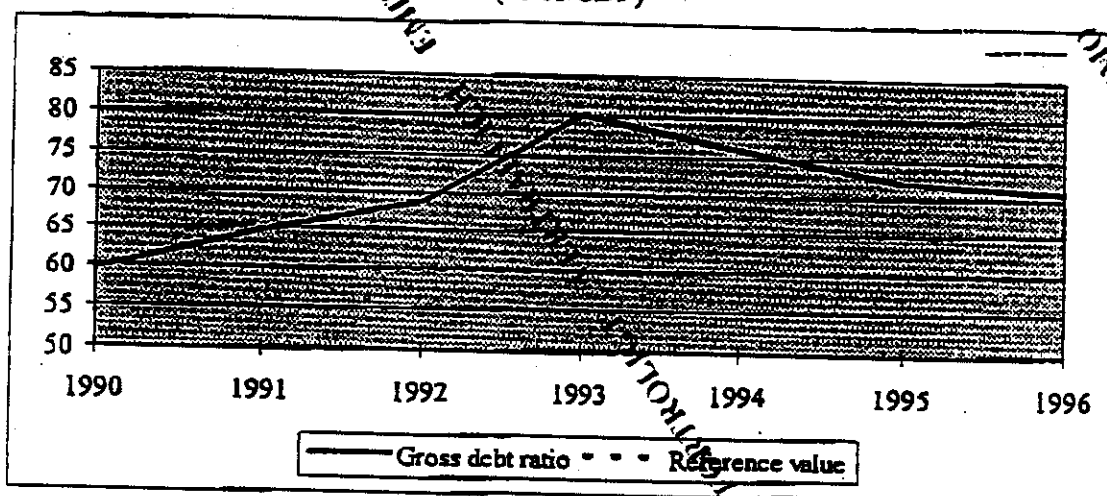
The 1995 tightening measures mainly consisted of increased environmental taxes and a real decline in government investment. Structural measures in the labour market (*inter alia* tighter rules for unemployment benefit eligibility) may have contributed to budgetary consolidation by reducing transfers to households. Increased indirect taxes from 1994 onwards formed part of a multiannual tax reform aimed at strengthening the Danish economy in the medium term.

The decline in net borrowing in 1995 in Denmark results not only from the discretionary fiscal tightening but also from strong automatic stabilisers. Stabilisers, in particular transfers to households, are strong as income replacement ratios of transfers are high (up to 90% of former income for unemployment benefits). Furthermore, direct and indirect taxes relative to GDP are high on an international comparison (the VAT rate, for example, is 25%).

2.2 General government gross consolidated debt

The general government gross consolidated debt ratio increased sharply from 1990 to 1993, when it peaked at a level of 80.1% of GDP. Since then the gross debt ratio has declined, reaching a level of 71.9% of GDP in 1995. The outlook is for continued decline in the gross debt ratio in 1996. Developments in the debt ratio since 1990 are shown in chart 1 below.

Chart 1. Gross debt ratio 1990-1996 (% of GDP)



Source: Commission services, Economic Forecasts Spring 1996.

2.2.1. Main factors contributing to developments in the debt to GDP ratio

Developments may be reviewed with reference to contributions to the variation in the debt to GDP ratio as formalised in the budgetary constraint. More precisely, the debt ratio is influenced both by the combination of deficits and GDP growth, and by the stock-flow adjustment. Table 2 shows the relative importance of these factors.

Table 2. Contributions to change in the general government gross debt ratio (% of GDP)

	1990	1991	1992	1993	1994	1995	1996
1. Net borrowing	1.5	2.2	2.9	3.9	3.5	1.4	0.9
2. GDP growth contribution	-2.4	-2.1	-2.1	-1.5	-4.6	-3.2	-2.5
3. =1.+2. Deficit and growth dynamics	-0.9	0.0	0.8	2.4	-1.1	-1.8	-1.4
4. Stock-flow adjustment	1.0	4.9	3.3	9.1	-3.0	-2.3	0.5
5. Change in debt ratio	0.1	5.0	4.1	1.1	-4.1	-4.1	-0.9
6. Gross debt ratio	59.6	64.6	68.7	80.1	76.0	71.9	71.0

Source: Commission services, *Economic Forecasts Spring 1996*.

Developments in general government net borrowing as reviewed in section 2.1. can be combined with the GDP growth contributions during the corresponding years to show the impact of the deficit and GDP growth dynamics on the debt ratio variation. This combined effect, which was negative in 1990 (-0.9% points of GDP) and neutral in 1991 gave a positive contribution to the debt ratio in 1992 (+0.8% points of GDP) and more significantly in 1993 (+2.4% points of GDP), because of a simultaneous increase in the deficit and a slowdown in non-fiscal GDP growth.

1994 and 1995 show a significant turnaround towards a dampening effect on the debt ratio by 1.1% points of GDP in 1994 and 1.8% points in 1995. According to the Commission forecasts, this dampening effect is expected to continue in 1996.

The stock-flow adjustment reconciles the general government deficit, defined as net borrowing, with the change in consolidated gross debt as defined in Regulation (EC) No 3605/93. It captures the effect on gross debt of the accumulation or decumulation of financial assets, of changes in the value of debt denominated in foreign currency and of residual statistical adjustments.

The stock-flow adjustment figures in Table 2 show that this item has been influencing the evolution of the debt ratio significantly since 1990. From 1990 to 1993, the stock-flow adjustment added to the debt ratio. In 1993, its influence was considerable, as it was responsible for an increase in the ratio by 9% of GDP. A sharp reversal took place in 1994 and 1995, as the stock-flow adjustment was negative by respectively 3% and 2.3% of GDP.

The total effect of the deficit and growth dynamics on one hand, and of the stock-flow adjustment on the other hand, led to an impressive turnaround in the debt-to-GDP ratio trend in the last two years as compared to the 1991-1993 period. The Commission expects a continuation in the reduction of the debt ratio in 1996.

2.2.2 Specific Danish institutional features

Government deposits in relation with the management of foreign currency reserves, assets held by the Social Pension Fund, and amounts outstanding in the government debt from the financing of public undertakings, were acknowledged by the Council in the statements related to Regulation (EC) 3605/93. It was agreed that they should be specified in the presentation of the stock of government debt. The amounts involved are shown in Table 6. The total of these special features peaked at 27.8% of GDP in 1993, driven by the surge in deposits with the Central Bank. Since then, the combined decrease in the three categories has triggered a significant lowering of the total by nearly 10% points of GDP to 18.7% of GDP in 1995. The outlook is for a continuation of the decline in the size of these three elements.

Table 3. Specific features

	1990	1991	1992	1993	1994	1995
Government deposits with the Central Bank	5.6	1.4	3.6	10.1	5.9	3.7
SPF holdings of non-government bonds	10.3	10.5	10.3	10.6	10.4	8.5
Financing of public undertakings	7.3	7.2	7.0	7.1	6.8	
Total	23.3	19.2	21.0	27.8	23.1	18.7

Source: Data reported by national authorities

3. Outlook

Danish budgetary policy is set to remain focused on budgetary consolidation in the medium term, in line with the overall economic policy of the recent years, and with the strategy pursued in the recent fiscal acts and in the submitted convergence programmes.

As government net borrowing is forecast to remain close to 1% of GDP in 1996 and 1997 respectively and as nominal GDP could grow by about 8% over the coming two years, the combined effect of net borrowing and nominal GDP growth is likely to decrease the gross debt ratio further.

Further decline in the debt ratio is a central feature of the Danish updated convergence programme of March 1996, describing a scenario for the debt ratio to decline to 60% of GDP by the year 2000. Table 4 below shows the main budgetary targets of the Danish government as presented in the updated convergence programme of March 1996.

Table 4. Main budgetary targets 1996-2000 (% of GDP)

	1996	1997	1998	1999	2000
Net borrowing	1.0	0.6	-0.1	-0.9	-1.5
Government gross debt ratio	71	69	66	63	60

Source: Danish updated convergence programme, March 1996.

Note: A minus sign indicates net lending.

4. Conclusion

The temporary widening of the government deficit in 1993 has been reversed since then. The Danish general government net borrowing decreased in 1994 and 1995, reaching 1.4% of GDP in 1995, a level well below the Treaty reference value. It is expected to decline further this year. The updated Danish convergence programme aims at a balanced budget by 1998.

A reduction in the gross debt ratio has been achieved in 1994 and 1995, when the ratio was reduced from 80.1% of GDP to 71.9% of GDP. The evolution of the gross debt ratio, in particular its earlier increase, has been heavily influenced by special institutional features, which accounted for some 19 percent of GDP in 1995.

As the deficit is now well below the Treaty reference value and should remain so in the medium-term and as the gross debt ratio has declined sharply for two consecutive years and is expected to decline markedly further, it can be concluded that the excessive deficit has been corrected and that an excessive deficit no longer exists in Denmark.

Recommendation for a

COUNCIL DECISION

of [...]

abrogating the decision on the existence of an excessive deficit in Denmark

THE COUNCIL OF THE EUROPEAN UNION

Having regard to the Treaty establishing the European Community, and in particular Article 104c (12) thereof,

Having regard to the recommendation from the Commission,

Whereas the second stage for achieving economic and monetary union started on 1 January 1994; whereas Article 109e (4) of the Treaty lays down that, during the second stage, Member States shall endeavour to avoid excessive government deficits;

Whereas there is an excessive deficit procedure which provides for a decision on the existence of an excessive deficit and, after the excessive deficit has been corrected, for the abrogation of that decision; whereas, during the second stage, the excessive deficit procedure is determined by Article 104c excluding paragraphs 1, 9 and 11; whereas the Protocol on the excessive deficit procedure annexed to the Treaty sets out further provisions relating to the implementation of the excessive deficit procedure; whereas Council Regulation (EC) 3605/93⁽¹⁾ lays down detailed rules and definitions for the application of the provisions of the said Protocol;

Whereas following a recommendation from the Commission in accordance with Article 104c(6) the Council decided that an excessive deficit existed in Denmark⁽²⁾; whereas in accordance with Article 104c(7) the Council made recommendations to Denmark with a view to bringing the excessive situation to an end⁽³⁾;

Whereas a Council Decision on the existence of an excessive deficit shall be abrogated, in accordance with the provisions of Article 104c(12) of the Treaty, when the excessive deficit in the Member State concerned has, in the view of the Council, been corrected;

(1) OJ No L332, 31. 12. 93, p. 7.

(2) Council Decision of 26 September 1994.

(3) Council Recommendations of 7 November 1994 and of 24 July 1995.

Whereas when abrogating the decision the Council shall act on a recommendation from the Commission; whereas, based on the data provided by the Commission after reporting by Denmark in March 1996 in accordance with Council Regulation (EC) 3605/93, the following conclusions are warranted:

The temporary widening of the government deficit in 1993 has been reversed since then. The Danish general government net borrowing decreased in 1994 and 1995, reaching 1.4% of GDP in 1995, a level well below the Treaty reference value. It is expected to decline further this year. The updated Danish convergence programme aims at a balanced budget by 1998.

A reduction in the gross debt ratio has been achieved in 1994 and 1995, when the ratio was reduced from 80.1% of GDP to 71.9% of GDP. The evolution of the gross debt ratio, in particular its earlier increase, has been heavily influenced by special institutional features, which accounted for some 19 percent of GDP in 1995.

The deficit is now well below the Treaty reference value and should remain so in the medium term and the gross debt ratio has declined sharply for two consecutive years and is expected to decline markedly further.

HAS DECIDED AS FOLLOWS:

Article 1

From an overall assessment it follows that the excessive deficit situation in Denmark has been corrected.

Article 2

The Council Decision of 26 September 1994 on the existence of an excessive deficit in Denmark is hereby abrogated.

This Decision is addressed to the Kingdom of Denmark.

Done at Brussels, 1996.

For the Council

