EUROPEAN COMMISSION

Brussels, 15.6.2010
SEC(2010) 744 final

Recommendation for a

COUNCIL RECOMMENDATION

with a view to bringing an end to the situation of an excessive government deficit in Denmark

Recommendation for a

COUNCIL RECOMMENDATION

with a view to bringing an end to the situation of an excessive government deficit in Denmark

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 126(7) thereof;

Having regard to the recommendation from the European Commission;

Whereas:

(1) According to Article 126 of the Treaty Member States shall avoid excessive government deficits.

(2) The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation.

(3) The 2005 reform of the Stability and Growth Pact sought to strengthen its effectiveness and economic underpinnings as well as to safeguard the sustainability of the public finances in the long run. It aimed at ensuring that in particular the economic and budgetary background was taken into account fully in all steps in the EDP. In this way, the Stability and Growth Pact provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation.

(4) The Council has decided on [13 July 2010], in accordance with Article 126(6) of the Treaty, that an excessive deficit exists in Denmark.

(5) In accordance with Article 126(7) of the Treaty and Article 3 of Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure[1] (which is part of the Stability and Growth Pact), the Council is also required to make recommendations to the Member State concerned with a view to bringing the situation of excessive deficit to an end within a given period. The recommendation has to establish a deadline of six months at the most for effective action to be taken by the Member State concerned to correct the excessive deficit as well as a deadline for the correction of the excessive deficit, which should be completed in the year following its identification unless there are special circumstances. In deciding whether special circumstances exist, "relevant factors" as clarified in Article 2(3) of Regulation (EC) No 1467/97 should be taken into account.

[1] OJ L 209, 2.8.1997, p. 6.

Furthermore, in a recommendation to correct an excessive deficit the Council should request the achievement of a minimum annual improvement in the structural balance, i.e. the cyclically-adjusted balance excluding one-off and other temporary measures, of 0.5% of GDP as a benchmark.

(6) Special circumstances, which are relevant for the greater flexibility in the application of the EDP introduced with the 2005 reform of the Stability and Growth Pact, are deemed to exist in the case of Denmark. In particular, the 2009 recession reflected the abrupt decline in private consumption, investment, and exports as a consequence of the financial crisis and the global recession, in particular the slump in demand from the main trading partners (Germany, United Kingdom, Sweden and Norway). The deficit in 2010 is a consequence of both the economic downturn and the stimulus measures taken in line with the EERP by the Danish authorities. The existence of special circumstances authorises the Council to allow the correction of the excessive deficit in a medium-term framework.

(7) According to the April 2010 EDP notification, the general government deficit in Denmark is planned to reach 5.4% of GDP in 2010 taking into account the economic downturn and the fiscal impact of the economic recovery plan fleshed out in the February 2010 update of the Convergence Programme. The Commission services' spring 2010 forecast projects the government deficit to widen from 2.7% of GDP in 2009 to 5.5% of GDP in 2010, declining to 4.9% of GDP in 2011 on a no-policy change basis. This assumption does not take into account consolidation measures for 2011 which were announced by the government on 25 May 2010 or measures which have not yet been sufficiently specified. Benefiting from budget surpluses prior to 2009, Denmark adopted fiscal stimulus measures in line with the EERP reaching 2.2% of GDP in 2009 and 1.3% in 2010. The recovery measures are split between permanent tax cuts and temporary public investment measures.

(8) Considering the special circumstances and the EERP framework, an average annual fiscal effort is recommended. The fiscal effort should take into account all factors relevant for achieving the fiscal policy objectives, starting with the level of the general government deficit and gross debt as well as other indicators, such as the current account position, the level of contingent liabilities of the financial sector, interest payments, risk premia and the expected change in age-related expenditure in the medium term. In calculating the average annual fiscal effort, the 2011 deficit in the Commission services' spring 2010 forecast is taken as the starting point. The total fiscal effort needed to reach the nominal deficit target of 3% by the deadline is then calculated by assuming a gradual closure of the output gap by 2015.

(9) Against this background, it is appropriate to consider the correction of the excessive deficit in a medium-term framework with a deadline for the correction of 2013. In particular, in view of the absence of major economic imbalances, a credible and sustainable adjustment path would require the Danish authorities to implement the fiscal measures in 2010 as envisaged and ensure an average annual structural adjustment of ½% of GDP over the period 2011-2013; to specify the measures that are necessary to achieve the correction of the excessive deficit by 2013, cyclical conditions permitting, and accelerate the reduction of the deficit if economic or budgetary conditions turn out better than currently expected.

(10) As reflected by its budgetary track record, Denmark has benefited from a relatively strong fiscal framework, notable for its wide coverage and the transparency and visibility of its fiscal rules. General government consumption expenditure has, however, been prone to exceeding targets. Recent initiatives involving economic sanctions could enhance incentives for municipalities to adhere to agreed targets. Since 2002 the Danish tax policy has been centred on the tax-freeze, whereby no indirect or direct taxes can be raised. The tax-freeze has not stood in the way of a major tax reform in 2009, but strict observance of the tax-freeze may render further adjustments difficult.

(11) According to data notified by the Danish authorities in April 2010, general government gross debt was 41.6% of GDP in 2009 and set to increase to 45.1% of GDP in 2010. According to the Commission services' 2010 spring forecast on a no-policy-change assumption, the debt level is expected to increase to 46% of GDP in 2010 and further to 49.5% of GDP in 2011, which is still below the 60% reference value.

(12) Enhanced surveillance under the EDP will require regular and timely monitoring of the progress made in the implementation of the fiscal consolidation strategy. In this context, a separate chapter in the forthcoming updates of the Danish convergence programme could usefully be devoted to this issue.

(13) In general, in the view of the Council, budgetary consolidation measures should secure a lasting improvement in the general government balance, while being geared towards enhancing the quality of the public finances and reinforcing the growth potential of the economy.

HAS ADOPTED THIS RECOMMENDATION:

(1) Recognising that Denmark's budgetary position in 2010 resulted from measures amounting to 2.2% of GDP in 2009 and 1.3% in 2010, which is an adequate response to the downturn and were in line with the European Economic Recovery Plan principles, as well as from the free play of automatic stabilisers, the Danish authorities should put an end to the present excessive deficit situation as rapidly as possible and at the latest by 2013.

(2) The Danish authorities should bring the general government deficit below 3% of GDP in a credible and sustainable manner by taking action in a medium-term framework. Specifically, to this end, the Danish authorities should:

   (a) implement the fiscal measures in 2010 as envisaged in the latest update of the convergence programme and start consolidation in 2011 in order to bring the deficit below the reference value by 2013;

   (b) ensure an average annual fiscal effort of at least ½% of GDP over the period 2011-2013;

   (c) specify and rigorously implement the measures that are necessary to achieve the correction of the excessive deficit by 2013, cyclical conditions permitting, and accelerate the reduction of the deficit if economic or budgetary conditions turn out better than currently expected.

(3) The Council establishes the deadline of [13 January 2011] for the Danish government to take effective action to and to specify the measures that will be necessary to progress towards the correction of the excessive deficit. The assessment of effective action will take into account economic developments compared with the economic outlook in the Commission services' spring 2010 forecast.

The Danish authorities should report on progress made in the implementation of these recommendations in a separate chapter in the forthcoming updates of the convergence programmes until the abrogation of the excessive deficit procedure.

In addition, the Council highlights the importance of achieving the medium-term objective (MTO) for appropriate budgetary management of economic downturns. It therefore invites the Danish authorities to ensure that budgetary consolidation towards the medium-term objective for the budgetary position – *structural balanced budget by 2015* – is sustained after the excessive deficit will have been corrected.

This recommendation is addressed to The Kingdom of Denmark

Done at Brussels, 15.6.2010

For the Council
The President