REPORT FROM THE COMMISSION

Denmark

Report prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union

**1. Introduction**

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact. The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn. In its Communication, the Commission shared with the Council its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the current conditions permit activation of the clause. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission. The activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. For the corrective arm, the Council may also decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

Data notified by the Danish authorities on 5 May 2020 and subsequently validated by Eurostat[[1]](#footnote-2) show that the general government surplus in Denmark reached 3.7% of GDP in 2019, while general government gross debt stood at 33.2% of GDP. According to the 2020 Convergence Programme, Denmark plans a deficit of 8% of GDP in 2020, while debt is planned at 40¾% of GDP.

The planned deficit for 2020 provides *prima facie* evidence of the existence of an excessive deficit as defined by the Stability and Growth Pact.

Against this background, the Commission has therefore prepared this report, which analyses Denmark’s compliance with the deficit criterion of the Treaty The debt criterion can be considered to be met as the debt ratio in 2019 is below the Treaty reference value of 60% of GDP. It takes into account all relevant factors and gives due consideration to the major economic shock linked to the COVID-19 pandemic.

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | 2016 | 2017 | 2018 | 2019 | 2020COM | 2021COM |
| Deficit criterion | General government balance | 0.2 | 1.7 | 0.5 | 3.7 | -7.2 | -2.3 |
| Debt criterion | General government gross debt | 37.2 | 35.5 | 33.9 | 33.2 | 44.7 | 44.6 |

Source: Eurostat, Commission 2020 spring forecast

**2. Deficit criterion**

Based on the Convergence Programme, Denmark’s general government deficit in 2020 is planned to reach 8% of GDP, above and not close to the Treaty reference value of 3% of GDP.

The planned excess over the Treaty reference value in 2020 is exceptional, as it results from a severe economic downturn. Taking into account the impact of the COVID-19 pandemic, the Commission 2020 spring forecast projects a contraction of real GDP in 2020 by 5.9%.

The planned excess over the Treaty reference value would be temporary based on the Commission 2020 spring forecast, which projects the general government deficit to fall under 3% of GDP in 2021. However, those projections are surrounded by an exceptionally high degree of uncertainty.

In sum, the planned deficit for 2020 is above and not close to the 3% of GDP Treaty reference value. The planned excess is considered to be exceptional as defined by the Treaty and the Stability and Growth Pact while the nature of the excess is currently considered temporary. Hence, the analysis suggests that *prima facie* the deficit criterion as defined by the Treaty and Regulation (EC) No 1467/97 is not fulfilled.

**3. Relevant factors**

Article 126(3) of the Treaty provides that, if a Member State does not fulfil the requirements under one or both of those criteria, the Commission has to prepare a report. That report must also “take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State”.

Those factors are further clarified in Article 2(3) of Regulation (EC) No 1467/97, which also provides that “any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with the deficit and debt criteria and which the Member State has put forward to the Council and to the Commission” need to be given due consideration.

In the current situation, a key additional factor to take into consideration regarding 2020 is the economic impact of the COVID-19 pandemic, which has a very substantial impact on the budgetary situation and results in a highly uncertain outlook. The pandemic has also led to the activation of the general escape clause.

**3.1. COVID-19 pandemic**

The COVID-19 pandemic has led to a major economic shock that is having a significant negative impact throughout the European Union. The consequences for GDP growth will depend on the duration of both the pandemic and of the measures taken by national authorities and at European and global level to slow its spread, protect production capacities and support aggregate demand. Member States have already adopted or are adopting budgetary measures to increase the capacity of health systems and provide relief to those individuals and sectors that are particularly affected. Significant liquidity support measures and other guarantees have also been adopted. Subject to more detailed information, the competent statistical authorities are to examine whether those measures entail an immediate impact on the general government balance or not. Together with the fall in economic activity, those measures will contribute to substantially higher government deficit and debt positions.

**3.2 Medium-term economic position**

Denmark entered the COVID-19 crisis with strong economic fundamentals and without any major macroeconomic imbalances. Real GDP expanded by 2.4% in 2019, above its potential growth rate, with positive contributions from all demand components. These favourable trends continued into 2020 before coming to an abrupt halt in early March 2020. Due to the COVID-19 pandemic, the Commission 2020 spring forecast projects GDP to decline by 5.9% in 2020, reflecting the disruption in economic activity caused by the lockdown measures and an unprecedented fall in external demand. Private consumption is projected to be hard-hit due to an increase in unemployment, a drop in wage growth and weak consumer confidence. Investment is also set to fall strongly in 2020 as uncertainty mounts and many companies are postponing or cancelling investment decisions. Output is set to drop strongly in the first half of the year and then to gradually recover from the third quarter onwards. In 2021, GDP is forecast to grow driven by a strong recovery in household consumption and investment. Nonetheless, GDP is unlikely to return to 2019 levels. Moreover, this outlook is marked by an exceptional degree of uncertainty[[2]](#footnote-3). This a mitigating factor in the assessment of Denmarks’s compliance with the deficit criterion in 2020.

**3.3 Medium-term budgetary position**

Based on outturn data and the Commission 2020 spring forecast, Denmark was compliant with the medium-term budgetary objective (MTO) in 2019.

The Convergence Programme provides information on substantial new measures to contain the pandemic and to support the economy. It estimates these direct support measures with a budgetary impact at 4.9% of GDP in 2020.

The impact of the pandemic and the measures to contain it implies that the economic and budgetary situation in Denmark is subject to particularly high uncertainty.

**3.4 Other factors put forward by the Member State**

On 14 May 2020, the Danish authorities transmitted a letter with relevant factors in accordance with Article 2(3) of Regulation (EC) No 1467/97. The analysis presented in the previous sections already covers the key factors put forward by the authorities.

 **4. Conclusions**

According to the Convergence Programme, Denmark’s general government deficit in 2020 is planned to increase to 8% of GDP, above and not close to the 3% of GDP Treaty reference value. The planned excess over the reference value is considered to be exceptional and currently considered to be temporary.

In line with the Treaty and the Stability and Growth Pact, this report also examined relevant factors.

Overall, since the planned deficit is well above 3% of GDP and taking into account all relevant factors, the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled.

1. <https://ec.europa.eu/eurostat/documents/2995521/10294648/2-22042020-AP-EN.pdf/6c8f0ef4-6221-1094-fef7-a07764b0369f> [↑](#footnote-ref-2)
2. [↑](#footnote-ref-3)