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EMU and Denmark

Prepared by the Directorate General for research
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*The opinions expressed are those of the author, and do not necessarily reflect
the opinions of the European Parliament*

Though Denmark meets all the Maastricht convergence criteria, it will not be participating in the Single Currency on 1st. January 1999. Eventual participation will require another national referendum.

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Author: Malin Andersson

Editor: Ben Patterson

Introduction

On the 25th March the Commission and the European Monetary Institute published their separate reports on progress towards meeting the convergence criteria for Economic and Monetary Union. In addition, the Commission published its Recommendation on which Member States had qualified to participate in the Single Currency on 1st January 1999. Its assessment was that eleven countries met the criteria: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. Denmark and the UK had met the criteria, but had exercised their right to "opt out" for the time being. This Recommendation now has to be confirmed by the Council of Economic and Finance Ministers (ECOFIN); by the European Parliament; and, for final decision, by the European Council of Heads of State and Government on 2nd May.

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In May 1993 a majority of Danish voters decided in favour of the Maastricht Treaty. However, the so-called "Edinburgh compromise" - negotiated as the result of the rejection of Maastricht in the referendum of the previous year - provided for a Danish exemption from certain provisions of the EC Treaty: defence policy; common European citizenship; cooperation in legal and home affairs; and the third stage of the Economic Monetary Union, including the adoption of a single currency.¹

Danish participation in the Single Currency is governed by Protocol 12 to the Treaty. This notes that

"..the Danish Constitution contains provisions which may imply a referendum in Denmark prior to Danish participation in the third stage of economic and monetary union."

The Protocol requires the Danish Government to notify its position concerning participation "*before the Council makes its assessment under Article 109j(2) of the Treaty*": i.e. before 2nd. May 1998. The Government has in fact already declared that it does not wish to participate. Theoretically, a change of government following the general election in March 1998 might have produced a last-minute reversal of this decision. In the event, the Social Democrat-led government was narrowly re-elected. Denmark will therefore have the status of a Member State with "an exemption". Protocol 12 states that:

"As for the abrogation of the exemption, the procedure referred to in Article 109k(2) shall only be initiated at the request of Denmark,

meaning that Denmark cannot be obliged to join EMU stage three at any future date, even if it continues to fulfil all the convergence criteria. Nevertheless, it continues to be the policy of the Danish Government to fulfil these criteria in any case, as a sound economic strategy.

¹ Europa Publications Ltd 1997 p. 1080.

Compliance with the criteria

The Commission and EMI statistics show that Denmark would have fully qualified for membership of EMU in 1999.

Table 1 Denmark and the convergence criteria

	Inflation (HCPI basis or equivalent)	Long-term interest rates	Budget deficit (% of GDP) - = budget <i>surplus</i>	Public debt (% of GDP)
1993	0.4	7.3	2.8	81.6
1994	2.6	7.8	2.8	78.1
1995	2.1	8.3	2.4	73.3
1996	2.1	7.2	0.7	70.6
1997	1.9 §	6.2 §	- 0.7	65.1
1998*	2.1	6.2	- 1.1	59.5
1999*	2.2	6.3	- 2.4	59.1

§ For reference period February 1997 to January 1998

* forecast

Sources: Commission and EMI reports, March 1998

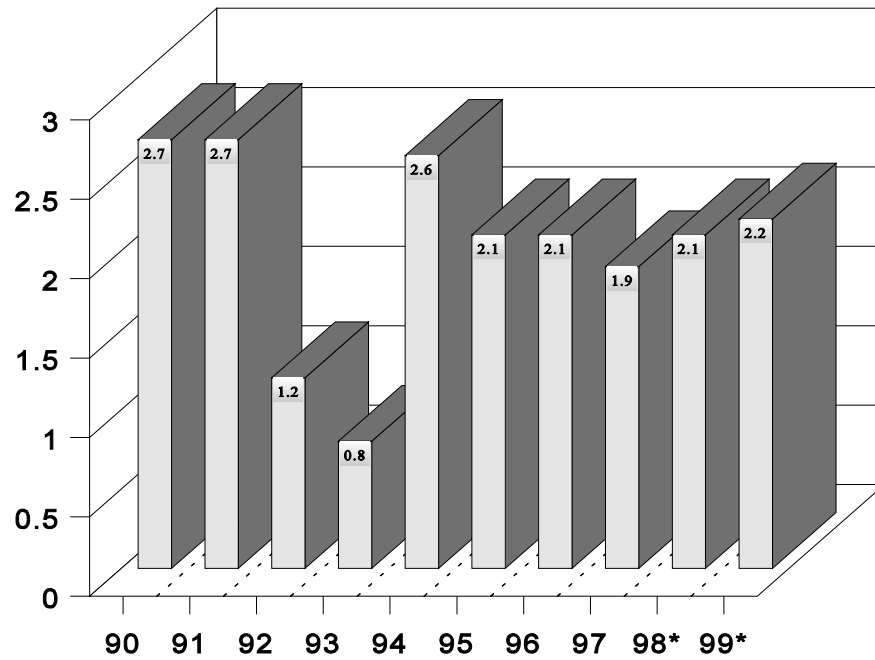
a) Inflation

Although the Danish rate of inflation has increased marginally since its very low level in 1993 - mainly due to tax changes and a weakened Danish krone- it has since stabilised at around 2%. In the period February 1997 to January 1998, on which the Commission's evaluation has been based, it was comfortably below the reference level of 2.7%

b) Long-term interest rates

Danish long-term interest rates have been comfortably below the reference level for some years. During the evaluation period of February 1997 to January 1998, they stood at 6.2%, as compared to the reference level of 7.8%.

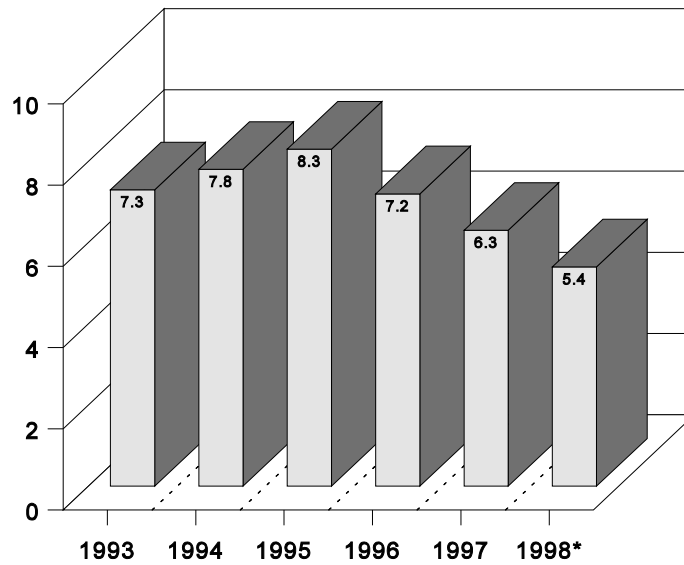
Figure 1 Rate of inflation (in %)



* Official Forecasts

Sources: Commission and EMI Reports, March 1998

Figure 2 Long-term interest rates (in %)



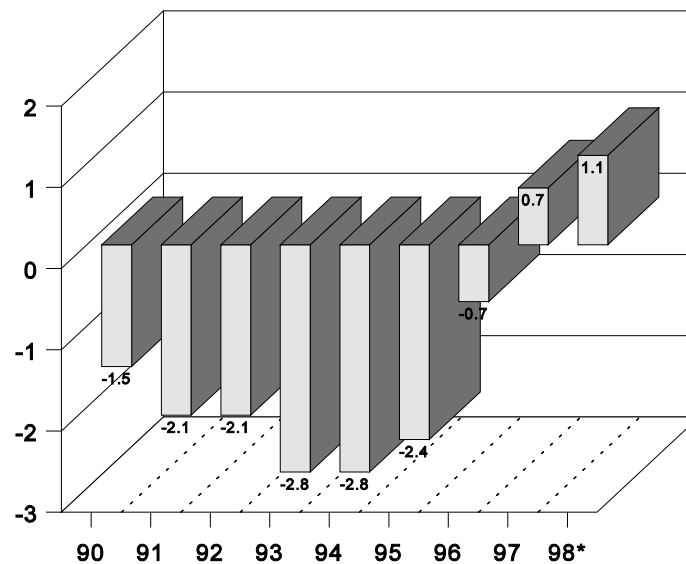
* January 1998 level

Sources: Commission and EMI Reports, March 1998

c) Budget deficits

Denmark complies fully with the budget deficit criterion - a deficit below 3% of GDP - and has done so for some years. In 1993 the deficit of 2.7% of GDP was already below the reference level. In 1996, together with Ireland and Luxembourg, Denmark was the only EU Member State not declared to have an "excessive deficit".² In 1997 the budget moved into surplus, and is forecast to remain so for at least the next few years.

Figure 3: Budget deficit (-)/surplus (+) as a percentage of GDP

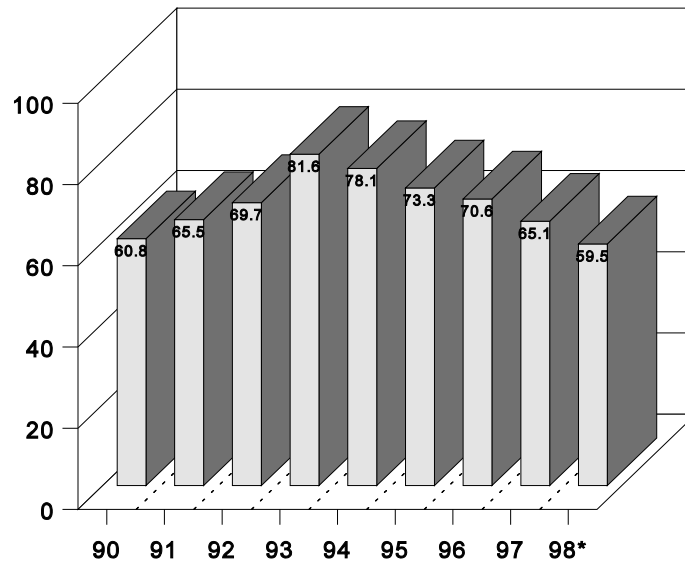


d) Public debt

Having risen to a peak of over 80% of GDP in 1993, Danish public debt has now fallen to a level of 65.1%, only slightly above the convergence reference level of 60%. Danish debt is forecast to fall below the reference level - to 59.5% - in 1998.

When adjusted for non-governmental bonds held by the Social Pension Fund and government deposits held within the central bank, the debt level is already below 60 per cent. About 92% of Danish debt has a maturity of over 1 year; and about 60% of it is in domestic ownership.

² Official Forecasts by the European Commission, October 1997. The existence of an excessive deficit is determined with reference to both the deficit and the debt positions.

Figure 4: Public debt as a percentage of GDP

* = forecast

Source: EMI Convergence Report, March 1998

e) *Normal ERM fluctuation margins*

During 1994 and the beginning of 1995 the Danish krone suffered from some market strains, and fluctuated in a band of ± 2 per cent. During the course of 1995, however, the krone returned to a stable central ERM parity *vis-à-vis* the strongest currencies.³ After some further instability in the beginning of 1996, followed by an appreciation of the currency in March, the Danish krone has once again been completely stable.

Those currencies not fully participating in EMU Stage Three after 1st, January 1999 will be expected to join a new and revised Exchange Rate Mechanism. Although membership will be voluntary - and both the UK and Sweden have so far stated that their currencies will not be within the new Mechanism - Denmark will almost certainly be participating, together with Greece. Indeed, the Danish krone will probably, in effect, have a more-or-less fixed exchange rate against the euro.

³ *European Monetary Institute, Annual Report 1995, Progress Towards Convergence, 1995.*

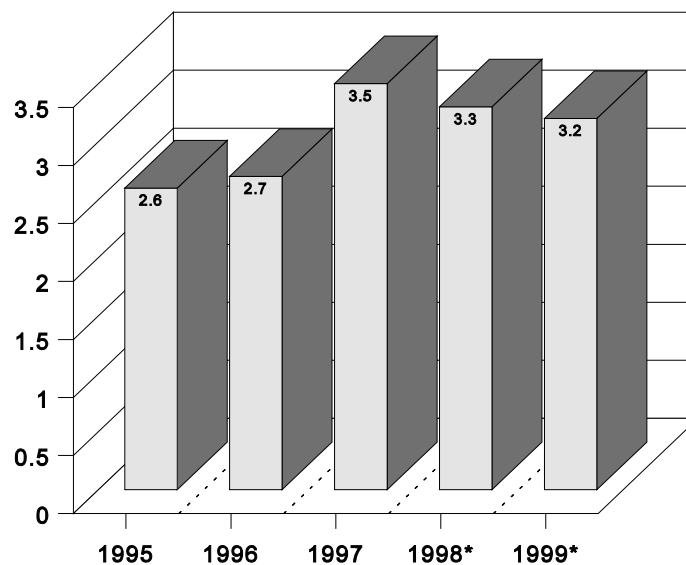
f) Independence of the Central Bank

The Danish Central Bank (*Nationalbank*) is a self-governing institution and its profits after allocation fall to the state. The statute of the Danish *Nationalbank* has remained the same since 1936, and no institutional changes are in prospect. The Bank's goal of maintaining a secure currency system does not correspond to the main objective of price stability laid out in the Maastricht Treaty. However, the Board of Governors has full freedom in formulating and implementing monetary policy.⁴ Denmark's derogation means that there is no need to adapt the Bank's Statutes. Likewise, Denmark will not be subject to the Treaty provisions concerning the issuing of banknotes and coins, nor those concerning compliance with regulations and decisions, laid down by the ECB.

g) Real convergence: growth and unemployment

The Danish economy has recently been growing at a steady rate around the 3% a year level. This pattern is expected to continue for at least the next two years.

Figure 5: Annual growth of GDP (in %)



* Forecasts

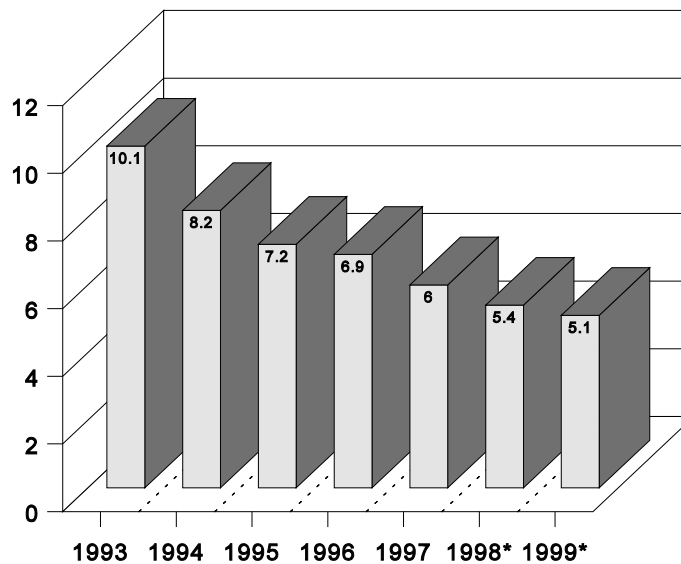
Source: Commission (COM(1998)103)

⁴ *European Monetary Institute, Annual Report 1995, Progress Towards Convergence, 1995.*

From a high point of over 10% in 1993, Danish unemployment has been steadily falling in recent years. A wide variety of innovative instruments have been used to promote training and re-training, together along actions to curb high marginal effective tax rates.⁵

By 1999 the Danish rate of unemployment will be at about only 5% percent, according to forecasts.

Figure 6: Unemployment (%)



* forecast

Source: Source: Commission (COM(1998)103)

h) Trade and the balance of payments

Trade between Denmark and the rest of the EU as a percentage of total Danish trade reached 64.8% in 1995, 65.7% in 1996, and 66.9% in 1997.⁶ In 1996 Germany was by far the largest trade partner in terms of exports, followed by Sweden, the UK and Norway. Denmark mainly imports from Germany, Sweden, the UK and the Netherlands.

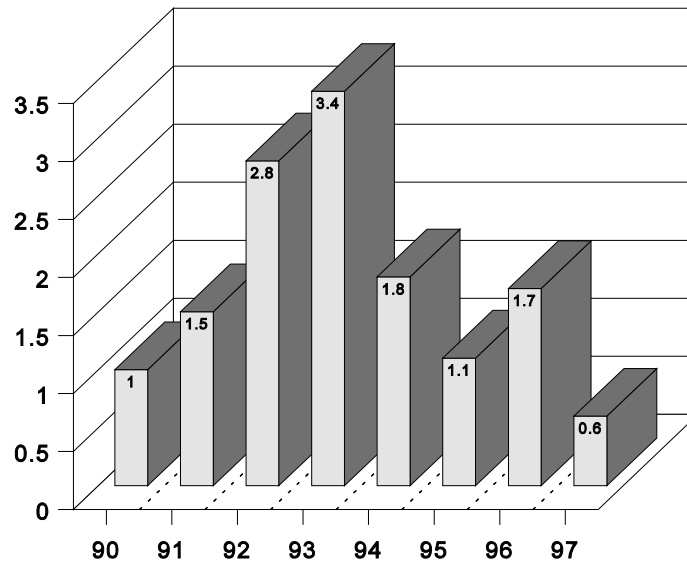
During the 1990s Denmark has run a surplus on current account, although the level in 1997, at **only**

⁵ Danmarks Statistik Nyt fra Danmarks Statistik No. 316 4.9.97

⁶ OECD Monthly Statistics of Foreign Trade, August 1997.

0.6% of GDP was lower than the high levels recorded in 1992 and 1993. Exports of goods and services are running at nearly 40% of GDP, with imports at about 35%.

Figure 7: Current account balance as a percentage of GDP



Source: Source: Commission (COM(1998)103)

The Political Background

a) The Government

In the Danish General Election of March 1998 the outgoing coalition government of *Socialdemokratiet* (Social Democrat) Prime Minister Poul Nyrup Rasmussen was narrowly re-elected. Together with the *Det Radikale Venstre* (the Radical Liberal Party) and certain left-wing parties, the coalition can count on the support of 90 Members in the 179-seat Parliament, and thus has an overall majority of one. The Social Democrats themselves obtained 36.0% of the vote (34.6% in the previous 1994 election) and increased their seats by one, whereas the Radicale Venstre fell from 4.6% in 1994 to 3.9% in 1998, losing a seat.

The government remains committed to the Danish decision not to participate in the third phase of EMU. However, it wishes to adhere to the EMU criteria as part of its economic policy. The Social Democrats favour the Amsterdam Treaty, which is the subject of a referendum on 28 May 1998; but admit that a new referendum on EMU entry is most unlikely in the near future.⁷

b) The Opposition

The main opposition party, *Venstre* (Liberal Party), gained 24.0% of the votes in the latest general election. The Party is in favour of Danish participation in the third phase of EMU and believes that full Danish participation will create increased Danish influence on European monetary policy, and also that it will make coordination of the employment issue easier. The Party is against the Danish exemptions from the Maastricht Treaty. The main political argument in favour of EMU which the Party highlights is the fact that EMU brings the Member States closer together, which in turn creates a more favourable environment for the Union as a whole. The Party is in favour of the Amsterdam Treaty.⁸

Recent changes in public political preferences have been reflected in the emergence of a new party, the *Dans Folkeparti* (Danish People's Party), created through a split in the Progress Party. Taking part in national elections for the first time in 1998, it gained 7.4% of the votes. Its success is closely linked to a general distrust in politics, and especially EU issues.

A first wave of disbelief arose in 1973, when *Fremskridspartiet* and *Centrum Demokraterna* entered *Folketinget* (Parliament), and has recently been accentuated during the debate on the Amsterdam Treaty. The success of *Dansk Folkeparti* may be explained by the two dominating issues in their political programme: a hostile attitude towards EU; and rejection of "the alien".

⁷ Telephone Interview with Mr O. Fich, Socialdemokratiet, 1.12.1997

⁸ Telephone Interview with Mr N. Kirkegaard, Venstre, 1.12.1997

Enhedslisten - de rød-grønne (Red-Green Alliance), which won 2.7% of the votes in the last elections, is also against monetary union. The Party's main argument is that EMU is intended to create more economic growth without taking into consideration the environmental and energy-supply aspects, as well as the social and regional problems it might create. Along with the third stage of EMU, the Party is also against the Amsterdam Treaty, the extension of majority voting and any handing over of power from the national level.⁹

Fremskridtspartiet (Progress Party) obtained only 2.4% of the votes in the March 1998 national elections (6.4% in September 1996). The Party is very much in favour of a highly independent Danish economy and does not want Denmark to be part of an Economic and Monetary Union, which it views as too closely linked to the other Member States and their sometimes "less solid" economies. The Party considers the Single Market to be a sufficient achievement. It is against the Amsterdam Treaty and gives priority to enlargement.¹⁰

The *Socialistisk Folkeparti* (Social Democratic Party) gained 7.5% of the votes cast in the latest election and 8.6% in the European Parliament poll (1 seat). The Party is against EMU, viewing it as economically unsound, and considering it to cover too large a geographical area. The Party believes that the convergence criteria focus too much on economic aspects, without taking social issues into account. It will also vote against the Amsterdam Treaty in the national referendum.¹¹

On the other hand, the *Konservative Folkeparti* (Conservative People's Party) is decidedly in favour of Economic and Monetary Union. However, it won only 8.9% of the votes in the latest elections after having won 17.7% of the votes in the 1994 European Elections). The Party fears that maintaining the Danish opt-out will lead to a weakening of Danish industrial competitiveness, and thus lead to a higher unemployment level, brought about by increased exchange rate risks, higher interest rates, more costs and possible currency speculation. The Party supports, however, the general stance taken by Denmark on the issue, but would like to see a referendum on the issue this year, although separate from the one on the Amsterdam Treaty.¹²

The *Centrum Demokraterne* (Centre Democrats), which had been in the governing coalition until December 1996, obtained 4.3% of the votes.

The *Christian People's Party*, which four years ago did not succeed in passing the 2% threshold necessary to obtain seats, won 2.5% of the vote in March 1998.

⁹ Telephone Interview with Mr L. Jensen, Enhedslisten, 28.11.1997

¹⁰ Telephone Interview with Mrs A. Just, Fremskridtspartiet, 2.12.1997

¹¹ Telephone Interview with Mr T. Thielgaard, Socialistisk Folkeparti, 2.12.1997

¹² Telephone Interview with J. Karoly, Konservative Folkeparti, 1.12.1997

c) *Employers and Business opinion*

Many of the Employers' Organisations, including the **Danish Employers' Confederation** (*Dansk Arbejdsgiverforening*) are in favour of EMU. So is the **Confederation of Danish Industry** (*Dansk Industri*).¹³ Danish Industry has taken the initiative in establishing a new movement, "Denmark in Europe" (*Denmark i Europa*), with the task of supporting and complementing the contribution by the individual parties.

d) *The Trade unions*

The **Danish Confederation of Trade Unions** (*Landsorganisationen i Danmark*) has 1.5 million members and numerous affiliated unions. The importance of taking a stance on the issue of EMU has been stressed and for the moment the issue has reached a stage of discussion. The trade unions have until now been loyal to the opinion of the Danish people as expressed by support for the Maastricht Treaty, as interpreted by the Edinburgh compromise voted on in May 1993.¹⁴ But the Danish Confederation of Trade Unions has chosen not to participate in the "Denmark in Europe" campaign (see above).

e) *Public Opinion*

Opinion polls showing some 55% of Danes in favour of staying out of EMU, with 31% in favour, and 14% with no opinion on the subject.¹⁵ A poll carried out by *Greens Analyseinstitut* shows 46% in favour of maintaining the official position on EMU, and 35% against.¹⁶

f) *The Press*

Today the country's leading dailies are in favour of EMU participation as a large part of the Danish press is linked to the political centre- and right wing.¹⁷

¹³ Telephone Interview with N Prambe 2.12.1997

¹⁴ Telephone Interview with Mr S Bøgh, The Danish Confederation of Trade Unions, 2.12.1997

¹⁵ *Greens Analyseinstitut*, Børsen, center for erhvervsinformation, June 1996.

¹⁶ *Greens Analyseinstitut*, Børsen, center for erhvervsinformation, January 1998..

¹⁷ Copenhagen papers: *Berlingske Tidende* (conservative) *Ekstra Bladet* (liberal independent) *BT* (conservative independent) *Politiken* (liberal independent) Evening paper: *Information* (independent) Provincial Papers: *Aalborg Stiftstidende* (liberal independent) *Århuus Stiftstidende* (liberal independent) *Morgenavisen Jyllands Posten* (liberal) *Jydske Vestkysten* (liberal) *Morgenposten Fyens stiftelse* (independent).