

# Economic Survey – August 2015

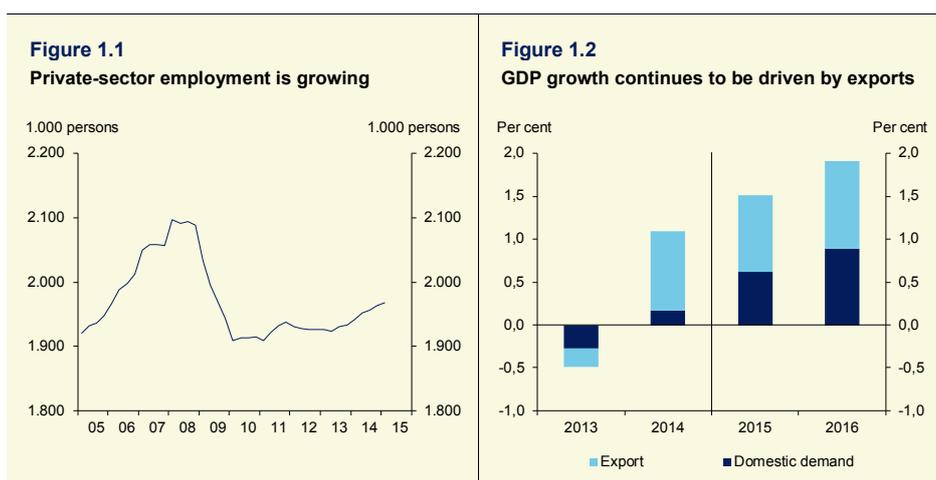
## 1.1 The current economic outlook

The recovery in the Danish economy has continued into 2015, and in the first quarter GDP was 1.7 per cent above the level in the same quarter in the previous year. The recovery is visible in the labour market, where private sector employment has risen by about 45,000 persons from mid-2013, *cf. figure 1.1*.

The economic recovery is well underway in the closest trading partner countries of Denmark, and in particular growth in the euro area is expected to benefit Danish exports. At the same time, conditions are conducive for increasing domestic demand, with increasing employment and income as well as progress in the housing market. Despite the increases in recent months, interest rates continue to be at a low level, which also supports increasing activity.

A number of indicators point towards households having been reluctant to spend in the early summer. Thus, the increase in domestic demand appears to be more modest than expected in the May survey. GDP growth is expected to increase from 1.1 per cent in 2014 to 1.5 per cent in 2015 and 1.9 per cent in 2016. Compared with the assessment in the *Economic Survey*, May 2015 this corresponds to a lowering of growth expectations of 0.2 percentage points for this year and 0.1 percentage points for 2016.

While the economic recovery is on track, the public finances are weaker than expected in the May survey, and the fiscal room for manoeuvre for the 2016 budget bill is DKK 3 bn. lower than previously expected. Denmark is on the cusp of a period in which fiscal policy will be considerably tighter, along with a general economic upturn.



Note: Employment includes leave. Exports are adjusted for import content and domestic demand.  
Source: Statistics Denmark and own calculations.

## Summary

Exports continue to be a strong driver of growth, *cf. figure 1.2*. Demand from export markets is therefore essential in determining the development of the Danish economy. Currently, Danish companies benefit from increasing foreign economic activity, where especially the euro area recovery looks to be more robust. This creates a basis for increasing Danish exports, which is also supported by improved competitiveness. The improvement in competitiveness is due to moderate wage increases and stronger productivity. Furthermore, the significant weakening of the krone exchange rate since the beginning of the year also contributes to making Danish goods and services more competitive.

The moderate level of growth in domestic demand reflects soft investment growth, in combination with moderate growth in household consumption since the beginning of 2014. Increasing employment and progress in the housing market should stimulate the propensity to consume of Danish households. Furthermore, many families have come a long way in consolidating their financial balances following the strong run-up in debt in the noughts. On that basis, the expected moderate growth in income should be converted into higher consumption over the forecast horizon.

The consolidation of household financial balances is supported by housing prices which are increasing across the country. Sharp increases in the price of owner-occupied apartments in the Copenhagen area calls for increased vigilance, however, as it increases the risk of a housing bubble. Higher interest rates will dampen price developments over the coming years.

Higher housing prices enhance the incentives for new construction. Hence, the outlook is for more investment in new residential construction. Furthermore, increasing demand from both the domestic market and from abroad should lead companies to increase investment in production equipment and structures over the forecast horizon.

The demand for labour is expected to grow over the forecast horizon, in line with increasing expenditure from both companies and consumers. This entails increasing employment and decreasing unemployment. The upturn in the labour market is generally not expected to lead to bottlenecks, as idle resources remain in the economy. This should also be seen in the light of several reforms which increase the structural level of employment and thereby create room for growth.

In recent years, fiscal policy has been accommodative to support growth and employment. In view of the recovery of the Danish economy there is a need to gradually withdraw this stimulus, and adjust fiscal policy to the economic situation. This is especially relevant given the continued support from very accommodative monetary policy. All else equal, this underlines the need for fiscal-policy tightening over the coming years, in order to ensure that economic policy overall supports stable economic growth.

Fiscal policy is planned within the sound framework which is set by the Budget Law and the medium-term targets for the Danish economy. Statistical information which has become available since the May survey imply a weaker outlook for public finances than previously expected. In order to comply with the deficit limit of the Budget Law, the fiscal room for manoeuvre in 2016 has been reduced by DKK 3 bn. In the following years, fiscal policy should be gradually adjusted, reducing the deficit and achieving balance in 2020.

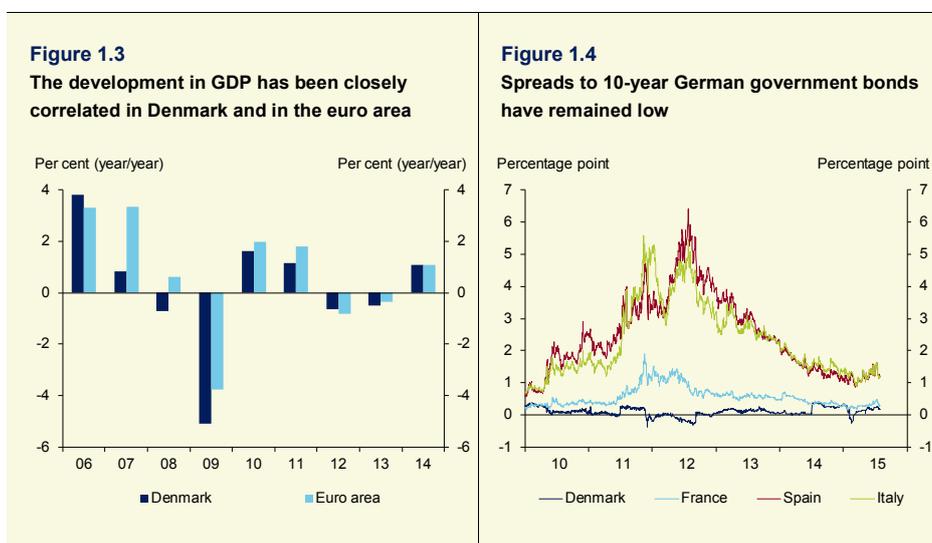
## 1.2 The Forecast

### Exports remain the main driver of growth

The recovery in our main trading partner countries is intact and is expected to continue over the forecast horizon. Hence, exports will continue to be the most significant driver of Danish growth.

The euro area is especially important for Danish growth, *cf. figure 1.3*. Euro-area economic growth picked up speed in the first half of 2015, and labour markets are improving in most countries. Moreover, there has been increasing demand for credit across the euro area. This suggests that many euro-area countries have now come a long way in the adjustment after the crisis and the ensuing consolidation in both the public and private sectors. Germany, the largest export market of Denmark, is experiencing a boom with increasing demand and the lowest level of unemployment since the reunification.

In the early summer uncertainty about the economy of Greece flared up again. However, there has been no indication of any significant contagion to the rest of Europe. Hence, the interest rates on government debt in countries such as Spain and Italy only rose marginally in comparison with the interest rates of Germany, and returned quickly to the level before the uncertainty began, *cf. figure 1.4*. This was in sharp contrast to the years 2011-12, where uncertainty about the Greek economy to a large extent propagated to the financial markets in other south-European countries, in the form of significant rises in bond interest rates. This suggests that the European economy has generally become more robust.



Source: Reuters EcoWin and own calculations.

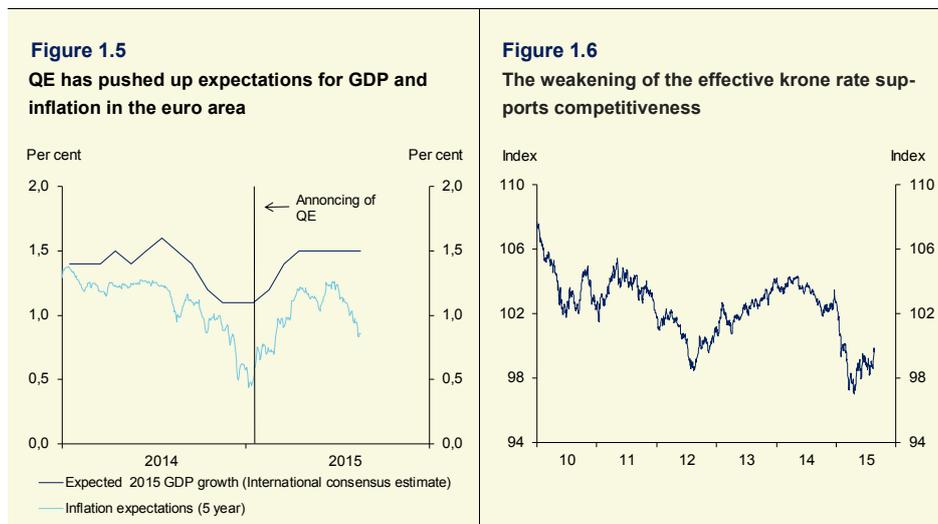
Furthermore, euro-area economic growth is supported by the announcement of the European Central Bank, ECB, in January of a quantitative easing (QE) program in the form of a program for purchases of government bonds. The QE announcement has not only contributed to

Summary

lifting growth expectations for the euro area, but also to restore inflation expectations following the significant decline toward the end of 2014, *cf. figure 1.5*. Thus, QE has contributed to lower real interest rates and a general improvement of financial conditions in the euro area. Falling bank lending rates confirm that the easy monetary policy is now benefitting both companies and households – also in southern Europe.

Whereas European monetary policy has been eased further in 2015, the US central bank, Federal Reserve, is poised to increase interest rates before the end of the year. This should be seen in the light of the fact that the recovery of the US economy is more advanced than the euro-area recovery. The growing monetary-policy gap between the US and the euro area has contributed to a weakening of the euro, and consequently the krone, vis-à-vis the dollar since the beginning of last spring, *cf. figure 1.6*. This contributes to strengthening Danish competitiveness and thereby exports.

While the recovery has gained foothold in Europe and the US, the outlook for a number of emerging market economies has become cloudier. In particular the Russian and Brazilian economies have lost momentum, with negative growth in the first half of the year. Economic growth remains quite high in both India and China, even though growth in China has dropped from a high level. In August, China changed exchange-rate policy, to allow the exchange rate to be more market determined, in order for the exchange rate to reflect economic fundamentals to a greater extent.



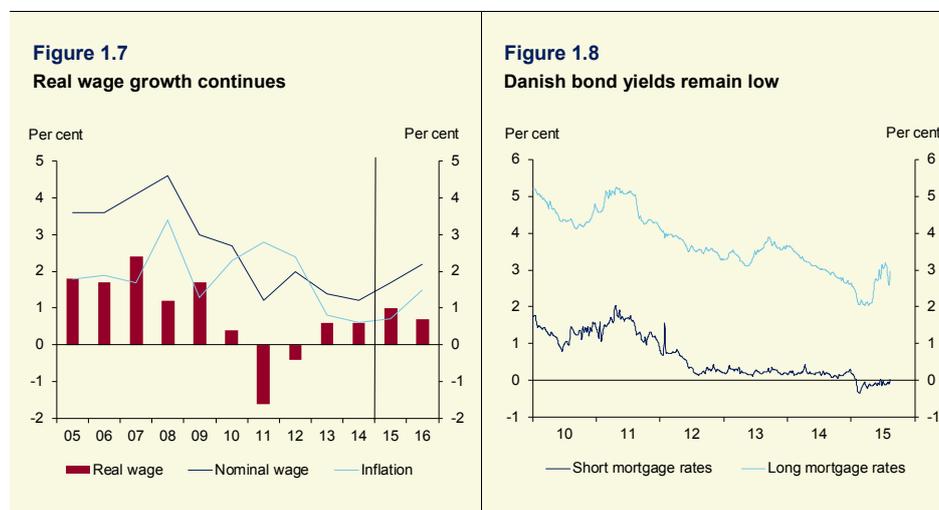
Note: Figure 1.5 is based on Consensus Economics average GDP estimates for 2015 from a number of forecasters. Inflation expectations are the so-called break-even inflation.

Source: Reuters EcoWin, Consensus Economics, Bloomberg and own calculations.

### Moderate growth in domestic demand

Conditions are in place for increasing growth in domestic demand. Rising housing prices and reduced unemployment risk contributes to greater confidence among households, which combined with real wage growth forms a sound basis for increasing consumption.

Despite modest nominal wage increases, real wages are projected to continue increasing, aided by a very low level of inflation, *cf. figure 1.7*. In combination with increasing employment wage growth contributes to rising real incomes. The rise in interest rates seen over the past months will dampen household real disposable income. However, many households will benefit from the fact that their adjustable-rate mortgages can be refinanced at a lower rate than three or five years ago. This reflects the fact that interest rates are still at a lower level than in the period leading up to the summer of last year, *cf. figure 1.8*.



Note: Figure 1.7 is based on Danish Employers Federation statistics. In figure 1.8 the short-term and long-term mortgage interest rates are based on the yield on newly issued bonds for respectively very short-term adjustable rate mortgages and 30-year fixed rate mortgages.

Source: Association of Danish Mortgage Banks, Statistics Denmark and EcoWin Reuters.

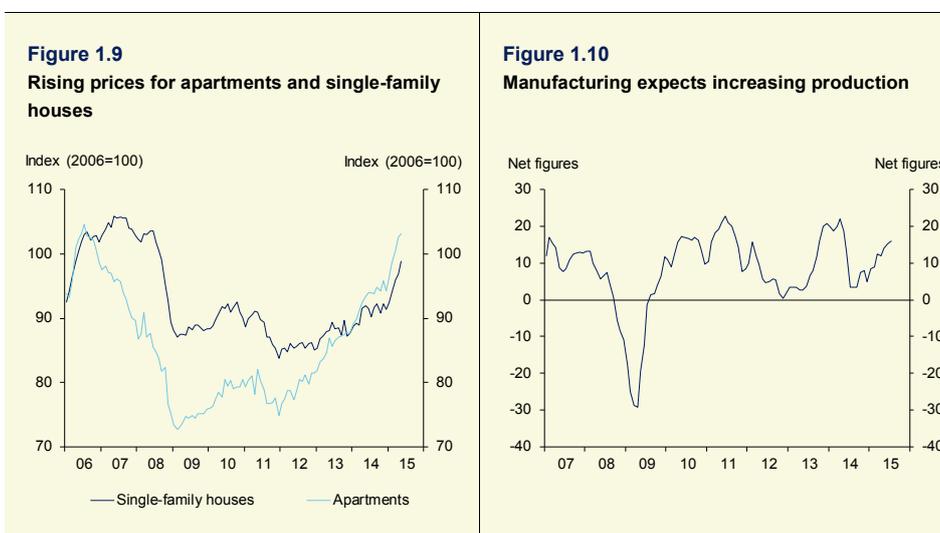
The housing market in Denmark has gained momentum, with significant increases in the prices of both houses and apartments – especially in the first months of this year, *cf. figure 1.9*. Both housing prices and the level of turnover have increased across the country, which supports the view that progress in the housing market has become more broadly based.

Nevertheless, it has been the prices of apartments in the major cities, especially Copenhagen, which have risen strongly over the past year. This creates a need for increased vigilance concerning price developments, as a sustained period of large increases in prices increases the risk of a housing bubble. However, residential prices in Copenhagen are judged to be in line with fundamental conditions, including high and increasing income, population growth, low interest rates and a limited supply of new housing, even though the price increases have been quite strong, especially since the turn of the year.

## Summary

Gradually increasing interest rates are expected to dampen the increases in housing prices over the coming years. However, interest rates continue to be at a level which stimulates housing prices and thereby the gradual build-up of housing equity, which in the end could be converted to higher consumption. Furthermore, rising housing prices are also expected to influence consumption by leading to greater household optimism.

Danish companies are expected to benefit from increasing demand from Danish consumers and from abroad. As demand and production increases, capacity utilization should rise, creating a need for investment in order to expand capacity. This is reflected in increased demand for loans from Danish companies and rising expectations of the level of production in manufacturing, *cf. figure 1.10*.



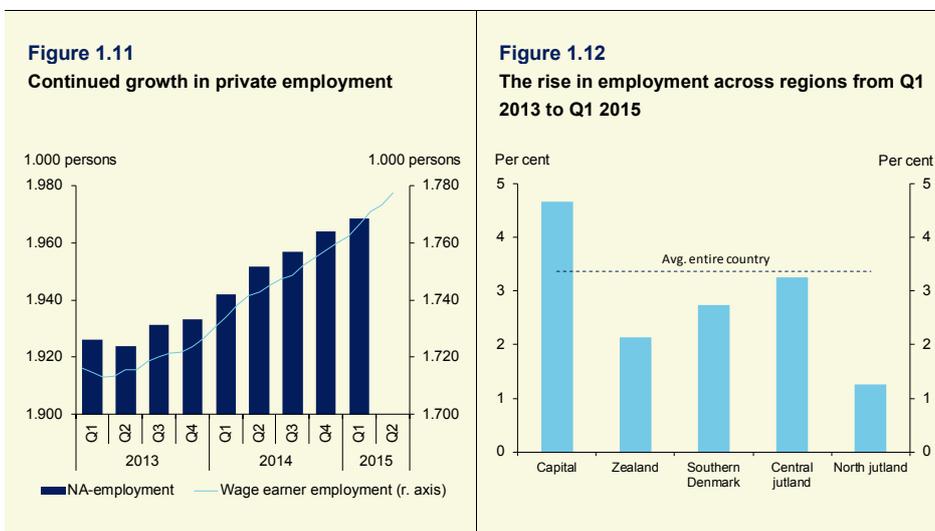
Note: In Figure 1.9 the figures used are from Statistics Denmark's cash-price index. Figure 1.10 is based on industrial confidence.

Source: Statistics Denmark and own calculations.

## Progress in the labour market

There has been stable progress in the labour market in recent years with increasing employment and decreasing unemployment. It is the private sector which has created employment growth, with almost 45,000 more persons gaining employment since the spring of 2013. The register of wage earners indicates that employment has continued to rise with undiminished force through the second quarter, *cf. figure 1.11*.

The improvement in the labour market is broadly based, and employment has risen in all regions since 2013, *cf. figure 1.12*. The largest gains have taken place in the Capital Region of Denmark, which also reflects the net inflow to the region. The increase in employment is also broadly based across types of industry.



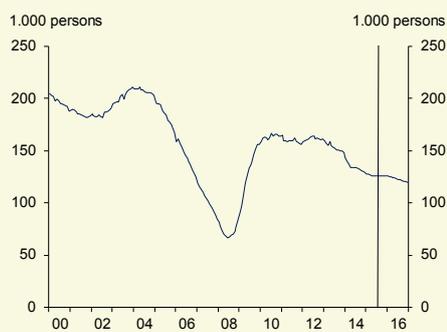
Note: Wage earner employment for the 18-64-year-olds. The difference between the levels of the two measures of employment is mainly that the national accounts employment (excl. leave) also includes self-employed and an estimate for undeclared work. Regions are where the person's workplace is located.

Source: Statistics Denmark and own calculations.

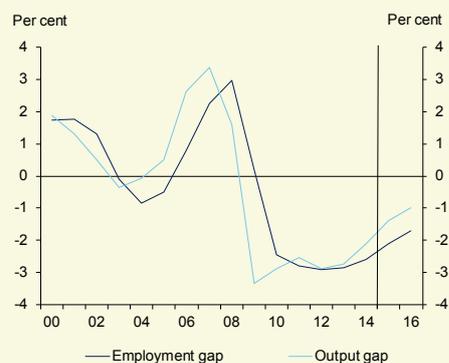
Generally, unemployment has been decreasing since mid-2012, *cf. figure 1.13*. This reflects an increase in employment as well as more technical factors, such as the phasing-in of the Cash Pay benefit reform in January 2014. At the same time, a low level of both long-term unemployment and youth unemployment confirms that the structures of the Danish labour market are generally sound. Unemployment is expected to gradually fall over the forecast horizon, in line with rising demand for employment.

However, idle resources remain in the Danish economy, and both the output gap and the employment gap are negative, *cf. figure 1.14*. The progress in the labour market is therefore not seen as giving rise to bottlenecks and ensuing unsustainable wage increases. A majority of Danish companies are not experiencing labour shortages and continue to have few problems in recruiting.

**Figure 1.13**  
Unemployment is falling



**Figure 1.14**  
Output and employment gap is gradually closing



Note: The assessment of output and employment gap is subject to uncertainty and may be revised, for example due to new estimates or historical statements of GDP etc.  
Source: Statistics Denmark and own calculations.

#### Uncertainty surrounding the economic outlook

The projection of increasing growth in the Danish economy should be seen in light of the return to growth in the euro area, and the expectation of continued increases in domestic demand.

The expected economic progress will not be without hiccups along the way. Households may have a greater desire to decrease debt in the short term than envisaged in the forecast. This could lead to weaker-than-expected private consumption. Conversely, increasing housing prices could also lead to increased opportunities for households to increase consumption in 2016, and the European economic recovery could prove to be stronger than expected. In a business-cycle upturn private investment will begin to increase in line with capacity utilization. However, there is uncertainty in the timing of the increase in investment, and consequently uncertainty for GDP growth.

Selected key figures for the outlook are found in table 1.1, while the annex tables contain a comparison with the projections in the *Economic Survey*, May 2015.

**Table 1.1**  
**Key figures**

	2013	2014	2015	2016
<b>Real growth. per cent</b>				
Private consumption	0.0	0.7	1.4	1.5
Public consumption	-0.5	0.2	1.4	0.1
Public investment	0.3	7.8	-0.7	-1.7
Residential construction	-5.0	6.8	1.0	7.0
Fixed business investments	3.8	1.7	3.1	6.9
Stock building (per cent of GDP)	-0.2	0.4	0.0	0.2
Exports of goods and services	0.8	2.6	4.0	5.0
Imports of goods and services	1.5	3.8	4.1	5.5
<b>GDP</b>	-0.5	1.1	1.5	1.9
<b>Level (per cent of GDP)</b>				
General government fiscal balance	-1.1	1.8	-2.7	-2.8
Current account	7.2	6.3	7.1	7.5
<b>Level. 1.000 persons</b>				
Gross unemployment (annual average)	153	135	128	123
Employment (incl. leave)	2,749	2,770	2,792	2,819
Labour force	2,887	2,893	2,909	2,931
<b>Rate of change. per cent</b>				
House prices (single-family house)	2.7	3.4	6.5	4.0
Consumer prices	0.8	0.6	0.7	1.5
Hourly earnings, private sector (Danish Employers Federation statistics)	1.4	1.2	1.7	2.2

## 1.3 Fiscal policy and public finances

Fiscal policy is planned in accordance with the Danish Budget Law. Thus the structural budget deficit must not exceed 0.5 per cent of GDP when the budget proposal for a given fiscal year is put forward<sup>1</sup>. The structural budget deficit is to be reduced gradually towards 2020 where the target of least balance between general government revenue and expenditure should be reached.

Due to the general election to the Danish Parliament (Folketinget) in June 2015 and the subsequent change of government a technical budget proposal for 2016 is submitted in August. The budget proposal only includes a technical budgeting of public expenditure and revenue and no new political priorities. Towards the opening of Folketinget in October the government will present a real political budget proposal for 2016. In continuation of this the budget proposal will be resubmitted based on the government's fiscal policy priorities, among others the agreement on the so-called BoligJob scheme, which was concluded in July.

For 2016 the assumptions concerning public finances used in this Economic Survey are based on the technical budget proposal. Furthermore, it is technically assumed that the room for manoeuvre vis-à-vis the central government sub-ceiling for operating costs is used to an extent, so that the Budget Law structural deficit limit is complied with.

New statistical information since the May Survey imply that the outlook for public finances are weaker than previously expected. This includes information concerning personal income taxes and a revised assessment of the underlying structures the labour market, *cf. table 1.2*, while the North Sea revenues by and large do not affect the structural balance in 2016 compared to the May estimate. Overall, to comply with the Budget Law deficit limit, it has been necessary to reduce the room for manoeuvre concerning public expenditure by DKK 3 bn in 2016 (approx. 0.2 per cent of GDP). This reduction is included in the Survey, which thus reflects the maximum real fiscal room for manoeuvre given the Budget Law deficit limit.

Fundamentally the Budget Law ensures, that public finances will continue to be healthy in Denmark, which contributes to a high level of confidence in the Danish economy. Denmark is one of only nine countries in the world with the highest credit rating (AAA) from all the major credit ratings agencies.

Alongside the August Survey an updated medium-term projection towards 2020 has been prepared, and which forms the basis for the submitted draft law on expenditure ceilings for the new fourth expenditure ceiling year 2019. The medium-term projection is technical in the sense that changes in the fiscal policy priorities towards 2020 have not yet been considered. Thus, the fiscal room for manoeuvre has technically been incorporated in the projected public consumption. When taking into account the reduced fiscal room for manoeuvre in 2016 and

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<sup>1</sup> Basically the Budget Law's structural budget deficit limit of 0.5 per cent of GDP applies when the budget proposal for a given fiscal year is put forward. However, this does not imply, that fiscal measures weakening the structural balance beyond the deficit limit can be decided upon after the budget proposal.

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other updates of the projection, the average growth in public consumption and research and development expenditure corresponds to approx. 0.6 per cent per annum in 2016-20. The technically calculated growth in public consumption towards 2020 will be adjusted to the government's priorities.

**Table 1.2**  
Structural budget balance estimates for 2014-16 – compared to Economic Survey – May 2015

	2014	2015	2016
<b>Per cent of GDP</b>			
Structural balance – May	-0.7	-0.6	-0.5
Structural balance – August (full use of techn. calculated room for manoeuvre)	-0.9	-0.9	-0.7
<b>Change compared to May</b>	<b>-0.2</b>	<b>-0.3</b>	<b>-0.2</b>
Hereof due to lower public revenue etc.	-0.1	-0.2	-0.1
Hereof due to new estimates for structural labour supply etc.	-0.1	-0.1	-0.1
<b>Structural balance – August (when room for manoeuvre reduced by DKK 3 bn)</b>			<b>-0.5</b>

Source: Economic Survey – May 2015 and own calculations.

In particular, the fiscal room for manoeuvre towards 2020 reflects that the implemented reforms both increase employment and strengthen the general economic framework conditions for the private sector. The underlying weakening of the structural balance in 2016 – including due to lower structural employment – also affects the subsequent years. Basically, this implies that the room for manoeuvre concerning public expenditure also is reduced by DKK 3 bn in the years after 2016 in order to meet the structural balance target in 2020.

The updated medium-term projection and the expenditure ceilings for 2019 are described in more detail in *Opdateret 2020-forløb, august 2015 and Dokumentation for fastsættelse af udgiftslofter for 2019* (only available in Danish) at [www.fm.dk](http://www.fm.dk).

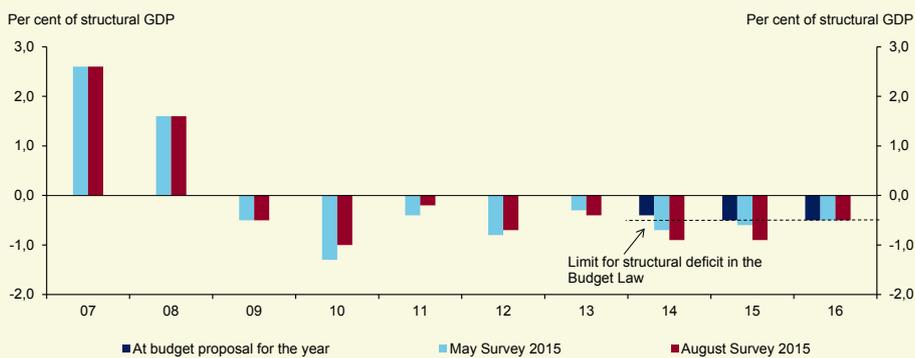
#### **New information reduces fiscal room for manoeuvre in 2016**

In *Economic Survey – May 2015* the structural budget balance was estimated at -0.7 per cent of GDP in 2014 and -0.6 per cent of GDP in 2015, respectively. Concerning both years fiscal policy was planned in accordance with the Budget Law structural deficit limit of 0.5 per cent of GDP given the estimates and assumptions, which formed the basis for the budget proposals, cf. *figure 1.15*. The subsequent fiscal weakening towards the May Survey partly reflects lower structural North Sea revenues as a result of lower oil prices and lower personal income taxes among other due to larger deductible pension contributions and lower pension payouts than expected.

In addition, with respect to the current Economic Survey new statistical information on public revenue in 2014 og 2015 and the development in the structural labour force implies a further weakening of the structural budget balance. Thus, the structural deficit is estimated at 0.9 per

cent of GDP in both 2014 and 2015 based on the available data and information for the August Survey.

**Figure 1.15**  
Structural budget balance estimates in different Economic Surveys



Note: The budget proposals which have been submitted since the Budget Law entered into force, have all complied with the structural deficit limit of 0.5 per cent of GDP. The subsequent weakening of the structural balance in 2014 and 2015 reflects the uncertainty surrounding estimates not least associated with public revenue.

Source: Economic Survey, August 2013, August 2014 and May 2015 and own calculations.

The weakening of the structural budget balance in 2014 and 2015 compared to the May Survey also affects the structural finances in 2016. However, there are also developments pulling in the opposite direction e.g. lower estimated income transfer expenditure. Overall, the new information has called for an adjustment of the expenditure policy space in 2016 in order to comply with the Budget Law deficit limit. This adjustment has been incorporated in the August Survey, and thus the structural budget balance is estimated at -0.5 per cent of GDP in 2016. Given full utilization of the technically calculated room for manoeuvre vis-à-vis the sub-ceiling for operating costs the structural deficit is estimated at approx. 0.7 per cent of GDP and thereby not complying with the Budget Law limit, *cf. box 1.1*. The fact that the technically calculated room for manoeuvre can not be fully utilized reflects that the structural deficit in 2016 has increased compared to the projection on which the expenditure ceilings for 2014-17 were fixed. Furthermore, this also implies that the adjustment towards structural balance in 2020 is steeper than assumed at the time when expenditure ceilings were set.

Thus the August Survey reflects the maximal room for manoeuvre towards the resubmission of the budget proposal for 2016 where the Budget Law deficit limit is to be complied with. Overall, compliance with the Budget Law deficit limit in 2016 requires that fiscal policy is adjusted as assumed. Among other this applies to the assumed adjustment of public investment from 2015 to 2016 given the high levels in previous years, *cf. details below*.

**Box 1.1****Weakened public finances reduces the fiscal room for manoeuvre**

According to the Danish Budget Law fiscal policy has to be planned so that the structural deficit does not exceed 0.5 per cent of GDP at the presentation of the budget proposal for a given year. In May 2015 the structural budget deficit was estimated at 0.5 per cent of GDP. Thus, basically there was no margin against the Budget Law's deficit limit in the period up to the submission of the budget proposal for 2016. Due to the general election to Parliament (Folketinget) in June the new government submits a technical budget proposal for 2016 in August not including new political priorities. Therefore, the budgeted expenditures on the technical budget proposal are lower than the ceilings for operating costs for central government, municipalities and regions. However, new information concerning public finances since the May Economic Survey implies an underlying weakening of the budget balance, *cf. below*. If by assumptions the technically calculated room for manoeuvre with respect to ceilings for operating costs was fully utilized, the structural deficit is estimated at approx. 0.7 per cent of GDP, *cf. table a*<sup>1</sup>. When the budget proposal for 2016 is resubmitted in connection with the opening of Folketinget in October the Budget Law deficit limit will constitute a binding condition for fiscal policy. In order to comply with the Budget Law only a part of the calculated room for manoeuvre is included in the August Survey such that the structural deficit does not exceed 0.5 per cent of GDP. Thus, in the present August Survey operating costs in 2016 are approx. DKK 3 bn. lower than previously assumed. Basically, the downward adjustment of the structural balance implies that operating costs will have to be budgeted lower than the established expenditure ceilings also in subsequent years in order to comply the Budget Law and the target of structural budget balance in 2020.

*New information since May Survey*

The weakening of the structural balance since May (given unchanged fiscal policy) especially reflects new information concerning public revenue and the development in the labour force. The preliminary personal income tax data for 2014 are lower than expected in May and aggregate payroll is also lower in 2014. Furthermore, excise duty revenues for 2015 are revised downward based on the development in the first two quarters of the year. These weakening factors also affect the subsequent years. Based on the latest information from the Register-based Labour Statistic (in Danish Registerbaseret Arbejdsstyrkestatistik) the estimated structural labour force is also revised downward. This implies a slightly lower level of structural employment and GDP, which weakens the structural balance in 2014-16 compared with the May Economic Survey. The calculation of structural levels for employment and public finances etc. is associated with uncertainty. However, the structural balance constitutes a substantially more robust measure for the underlying position of public finances than the actual budget balance. The new estimates for structural balance is based on unchanged calculation principles and methods.

**Tabel a****Estimates for central items in 2016 depending on assumption wrt. technically calculated room for manoeuvre**

	<b>Full utilization of technical room for manoeuvre wrt. operating costs</b>	<b>Room for manoeuvre – compliance with Budget Law deficit limit</b>
Structural balance, per cent of GDP	-0.7	-0.5
Real growth in public consumption <sup>2</sup> , per cent.	0.7	0.1

- 1) The technical budget proposal, where operating costs are lower than the fixed expenditure ceilings, comply with the Budget Law deficit limit.
- 2) In the August Economic Survey the lower expenditure vis-à-vis the central government sub-ceiling for operating costs has technically been attributed to public consumption. At the time when the real budget proposal is resubmitted in October an update on the state of public finances will be prepared based on the political priorities in 2016 including a new estimate for public consumption.

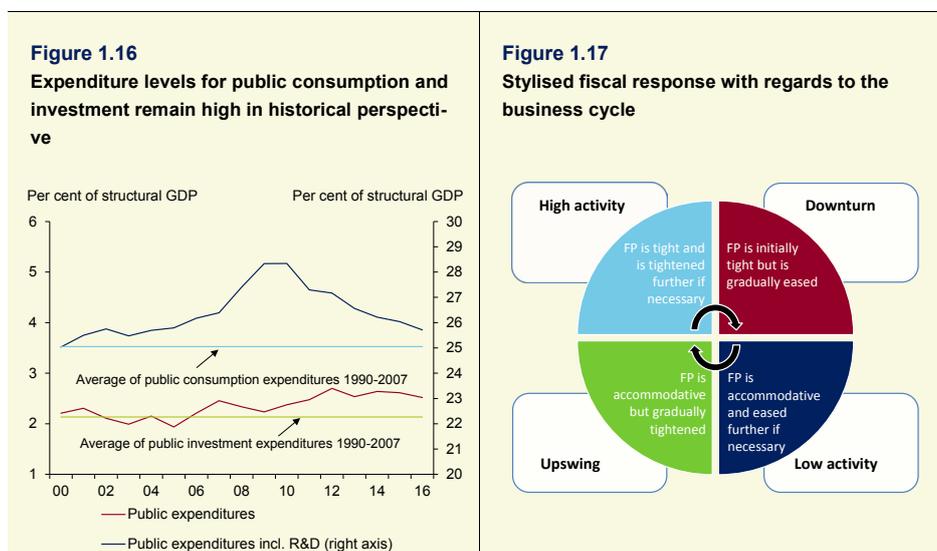
Source: Own calculations.

**In coming years fiscal policy must adjust to improved business cycle**

The current structural budget deficits reflect that fiscal policy remains accommodative in particular with a high level of public investment, cf. figure 1.16. This is due to the fact that fiscal policy in later years has been planned in order to support the Danish economy as much as possible during the crisis. After a prolonged downturn in the wake of the global economic crises, the Danish economy is now experiencing an upswing. The basis for a further growth in both GDP and employment is solid. Therefore, it is key that fiscal policy in the coming years adjusts to the new cyclical situation.

As the economic recovery is picking up it is appropriate that fiscal policy is gradually tightened relative to the accommodative starting point, cf. figure 1.17. This is essential in terms of ensuring that at stabilization policy is symmetrically over the economic cycle – i.e. the fiscal stimulus during downturns are matched by tightening when the economic situation improves. At the same time a normalisation of fiscal policy is key in order to ensure credible progress towards the target of at least structural balance in 2020, which is consistent with fiscal sustainability. This includes the assumed adjustment of public investment compared to the current high level.

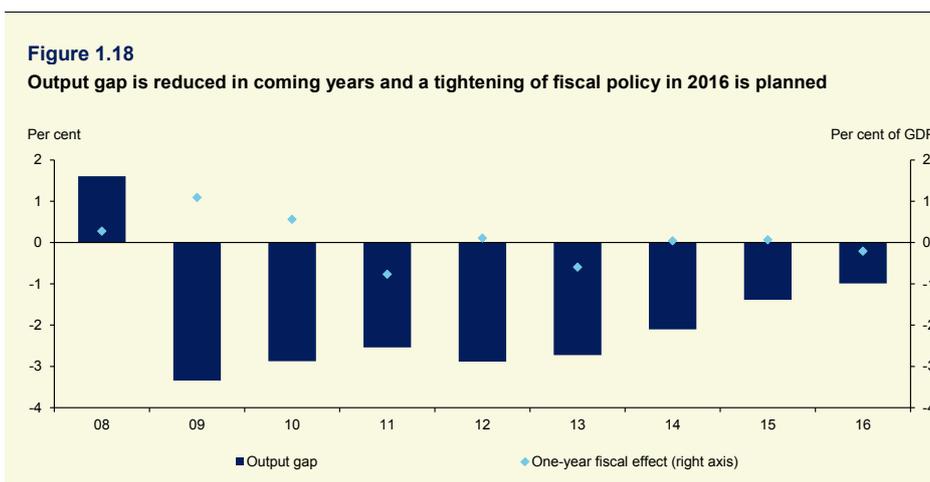
Moreover, monetary policy remains very accommodative supporting domestic demand. Ceteris paribus this reinforces the need for a gradual tightening of fiscal policy in the coming years in order to ensure that overall economic policy is aligned with the business cycle and thus reduce the risk of overheating of the economy.



Note: In figure 1.16 public consumption includes research and development expenditures which are correspondingly not included in the shown development for public investment. The average levels for public consumption and investment are shown for the period before the global recession in 2008. Source: Statistics Denmark and own calculations.

The one-year fiscal effect – a calculated measure of whether fiscal policy is loosened or tightened compared to the year before – is estimated at -0,2 per cent of GDP in 2016 given the

technical assumption concerning fiscal policy, cf. figure 1.18. A tightening of fiscal policy is aligned with the forecasted economic outlook, where fewer unemployed resources are expected in 2016. Thus, both employment and production are expected to increase in coming years thereby approaching the estimated structural levels.



Note: The so-called one-year fiscal effect is sensitive to changes in the estimated public expenditures etc. in the previous year, since it measures the isolated activity effect of fiscal policy from one year and to the next.

Source: Own calculations.

#### Less distance to EU deficit limit mainly due to lower pension yield tax revenue

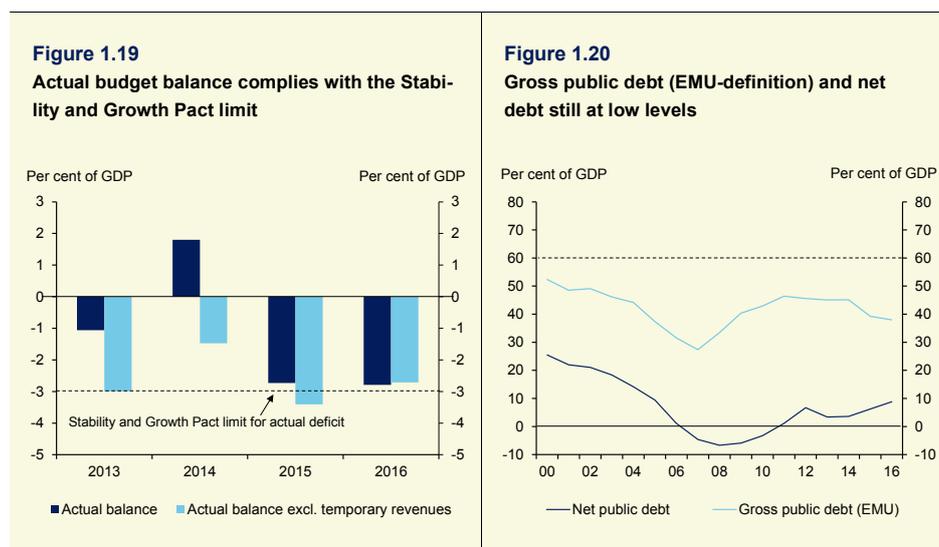
The actual budget deficit is currently estimated at 2.7 per cent of GDP in 2015 compared to an estimated deficit of 1.3 per cent of GDP in May. The weakening of the actual budget balance primarily reflects a downwards adjustment of pension yield tax revenues by almost DKK 22bn (corresponding to approx. 1.1 per cent of GDP) due to financial markets developments.

Even though GDP and employment is expected to increase, an actual budget deficit of 2.8 per cent of BNP is estimated for 2016. The larger actual budget deficit in 2016 compared to 2015 namely reflects that the actual balance in 2015 is affected by temporary revenue stemming from the so-called Pension Package (autumn 2014), cf. figure 1.19.

The significant revision of the estimated actual budget deficit in 2015 reflects that the actual balance is highly sensitive to cyclical conditions and can be affected relatively strongly by temporary fluctuations in pension yield tax revenue etc. Due to this, fiscal policy primarily is planned on the basis of the structural budget balance which is exactly adjusted for such temporary factors.

However, in the current situation compliance with the Stability and Growth Pact limit with respect to the actual budget deficit has to be taken specifically into account. Non-compliance with the actual deficit limit of 3 per cent of GDP will lead to a new recommendation to bring the deficit below 3 per cent of GDP within a given time frame unless the excessive deficits

are considered to be limited or temporary. Here it should be noted that the Budget Law structural budget deficit limit of 0.5 per cent of GDP basically is determined to ensure that the actual budget deficit in a normal recession with high probability complies with the 3 per cent of GDP limit.<sup>2</sup>



Note: In figure 1.19 the actual balance excl. temporary revenues is corrected for one-off revenues from the restructuring of existing capital pensions, pay out and restructuring of saving in *Lønmodtagerne Dyrtdsfond*, revenues from a reallocation in the pension sector from schemes with a guaranteed yield each year to schemes in which each year's yield reflect market return, and advanced ordinary revenues from the taxation of capital pensions.

Source: Statistics Denmark and own calculations.

Given the estimated budget deficits for 2015 and 2016, net public debt is expected to remain at a moderate level of almost 9 per cent of GDP by the end of 2016, *cf. figure 1.20*. The public gross debt (EMU-definition) is estimated at approx. 39¼ and 38 per cent of GDP in 2015 and 2016, respectively, compared to approx. 45 per cent of GDP in 2014, thus maintaining a broad safety margin against the debt limit of 60 per cent of GDP according to the Stability and Growth Pact. Among other the decline in gross debt (EMU-definition) from 2014 to 2015-16 reflects the decision taken on 31 January 2015 to stop the issuance of central government bonds until further notice and reducing central government holdings in Danmarks Nationalbank instead.

<sup>2</sup> Concretely the EU Commission's method for calculating the minimum requirement with respect to the medium term objective (MTO) based on the so-called minimum benchmark condition implies, that the lower limit for the structural balance should be fixed at a level where the probability of non-compliance with the 3 per cent of GDP deficit limit (wrt. actual balance) does not exceed 5 per cent a normal recession, *cf. Finansredogørelse 2014* (only available in Danish) at [www.fm.dk](http://www.fm.dk).

## 1.4 Appendix

**Table 1.3**  
Key figures compared to the May Survey

	2014	2015		2016	
		May	Aug.	May	Aug.
<b>Real growth, per cent</b>					
Private consumption	0.7	1.6	1.4	1.7	1.5
Total public demand	1.1	0.4	1.1	0.1	-0.1
- public consumption	0.2	0.8	1.4	0.4	0.1
- public investments	7.8	-1.9	-0.7	-2.3	-1.7
Residential investment	6.8	4.0	1.0	7.0	7.0
Fixed business investment	1.7	3.5	3.1	7.1	6.9
<b>Final domestic demand</b>	1.3	1.5	1.4	2.1	1.9
Stock building (per cent of GDP)	0.4	0.1	0.0	0.2	0.2
<b>Total domestic demand</b>	1.6	1.6	1.4	2.2	2.0
Exports of goods and services	2.6	4.2	4.0	4.9	5.0
- of which manufactures	2.6	4.8	5.0	5.5	5.5
<b>Total demand</b>	2.0	2.5	2.4	3.2	3.1
Imports of goods and services	3.8	4.1	4.1	5.6	5.5
- of which goods	2.1	3.3	3.2	5.4	5.2
<b>GDP</b>	1.1	1.7	1.5	2.0	1.9
Gross value added	1.1	1.8	1.6	2.0	1.9
- of which private non-agricultural sector	1.8	2.6	2.4	2.8	2.7
<b>Change in 1,000 persons</b>					
Labour force	6	19	17	23	22
Employment	22	23	22	29	27
- of which private sector	25	20	19	28	27
- of which public sector	-4	3	3	1	0
Gross unemployment	-18	-6	-6	-7	-6
Net unemployment	-11	-6	-6	-8	-6

**Table 1.3 (continued)**  
**Key figures compared to the May Survey**

	2014	2015		2016	
		May	Aug.	May	Aug.
<b>Growth, per cent</b>					
Merchandise export prices	-0.2	-0.2	-0.3	2.2	2.0
Merchandise import prices	-0.6	-1.3	-1.3	2.6	2.1
Merchandise terms of trade	0.4	1.1	1.0	-0.4	-0.1
House prices, single-family houses	3.4	4.5	6.5	4.5	4.0
Consumer prices	0.6	0.8	0.7	1.5	1.5
Hourly compensation in the private sector	1.2	1.9	1.7	2.3	2.2
Real disposable income, private sector	-3.7	7.6	9.8	4.6	3.1
Real disposable income, households <sup>1)</sup>	2.5	2.2	3.0	1.5	1.5
Productivity in private non-agricultural sector	0.6	1.2	0.9	1.4	1.4
<b>Per cent per year</b>					
Interest rate 1-year rate loan	0.2	-0.1	-0.1	0.0	0.1
10-year government bonds	1.4	0.5	0.8	0.7	1.4
30-year mortgage credit bonds	3.1	2.2	2.7	2.4	3.3
<b>Balances</b>					
Current account (bn. DKK)	120.9	139.3	139.4	147.7	153.4
General government fiscal balance (bn. DKK)	34.6	-26.3	-53.9	-50.3	-56.9
Gross unemployment (thousands)	135	128	128	121	123
Gross unemployment (per cent)	4.8	4.6	4.6	4.3	4.3
Net unemployment (thousands)	107	101	101	93	94
Net unemployment (per cent)	3.8	3.6	3.6	3.3	3.3
<b>External assumptions</b>					
Trade-weighted GDP abroad, per cent	2.0	2.2	2.2	2.4	2.4
Export markets for Danish manufactures, per cent	3.7	5.4	5.2	5.9	5.9
Exchange rate, DKK per \$	5.6	6.8	6.8	6.9	6.8
Oil price, \$ per barrel	99.0	62.9	57.0	74.1	63.5
Oil price, DKK per barrel	556.3	428.8	385.0	509.1	433.1

1) The adjusted income.  
Source: Statistics Denmark and own calculations.