

# Budget Outlook 2, August 2012

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The international outlook has worsened since the May projection, and growth in GDP is estimated at 0.9 per cent this year, cf. *Economic Survey*, August 2012. However, the outlook for the Danish economy is better than in the euro area and in particular in relation to southern Europe. In 2013 the growth in GDP is estimated at 1.7 per cent.

The better growth prospect for the Danish economy mainly reflects Danish fiscal policy stimulation. The fiscal policy in 2012 and 2013 is designed to support growth and employment and at the same time improve the structural budget balance in line with the recommendation by the ECOFIN.

This should primarily be seen in the context of the political agreements in the early summer, which increase the economic activity significantly without weakening the structural budget balance. The tax reform from June 2012 supports GDP-growth in 2012 and especially in 2013, and an agreement from May 2012 boosts the renovation of social housing. Furthermore, there is a boost in investments in climate adaptation in the agreements with local governments for 2013. Moreover, the fiscal stimulus package *Kick-start* from November 2011 supports growth.

The central government budget proposal for 2013 and agreements for the local and regional economy for 2013 reflects a continuation of a responsible economic policy, where the structural budget is in balance, while growth and employment are supported.

## General government finances

The estimates for the general government finances in 2012 and 2013 are based on the short term projections for the Danish economy, cf. *Economic Survey*, August 2012.

The estimates for 2012 are derived from the central government budget for 2012. For 2013 the estimates are primarily based on the central government budget proposal for 2013, the agreements with local governments for 2013 and the tax reform from June 2012.

The general government deficit is estimated at DKK 73½bn in 2012 or 4.0 per cent of GDP, and DKK 36½bn corresponding to 1.9 per cent of GDP in 2013, cf. *table 1*. In 2012 it is possible to leave the early retirement scheme and cash the payments, which increases the government deficit by approx. 1½ per cent of GDP in 2012.

Detailed information about the general government finances can be found in annex 1.

**Table 1**  
General government budget balance, 2006-2013

	2006	2007	2008	2009	2010	2011	2012	2013
<b>DKK bn, current prices</b>								
May 2012	82.3	81.4	57.6	-45.9	-47.4	-34.7	-70.4	-32.6
<b>August 2012</b>	<b>82.3</b>	<b>81.4</b>	<b>57.6</b>	<b>-45.9</b>	<b>-47.4</b>	<b>-34.5</b>	<b>-73.4</b>	<b>-36.5</b>
<b>August 2012 (per cent of GDP)</b>	<b>5.0</b>	<b>4.8</b>	<b>3.3</b>	<b>-2.7</b>	<b>-2.7</b>	<b>-1.9</b>	<b>-4.0</b>	<b>-1.9</b>

The expenditure burden, i.e. the ratio of government expenditure to GDP, is estimated at 56¾ per cent of GDP in 2011, 58½ per cent of GDP in 2012 and 56¼ per cent of GDP in 2013, cf. table 2 and annex 2.

The expenditure burden rises from 2011 to 2012 by 2 percentage points. This is primarily due to repayments of early retirement contributions in 2012. Furthermore, public investment and consumption as a share of total GDP is larger in 2012 than in 2011 and 2013 partly because of public investments in the fiscal stimulus package (kick-start).

**Table 2**  
Expenditure, tax and revenue burden, 2006-2013

	2006	2007	2008	2009	2010	2011	2012	2013
<b>Per cent of GDP</b>								
Expenditure burden	50.6	50.0	50.6	56.7	56.4	56.7	58.6	56.3
Tax burden	49.8	49.1	47.9	47.8	47.7	48.3	48.8	48.7
Revenue burden	55.7	54.8	53.9	54.0	53.7	54.8	54.6	54.3

The tax burden is increased by ½ per cent of GDP from 2011 to 2012. This is among other things due to tax increases in the *Spring Package 2.0*, the *Fiscal Consolidation Agreement*, and the central government budget for 2012.

Detailed information about the expenditure, tax and revenue burden can be found in annex 2.

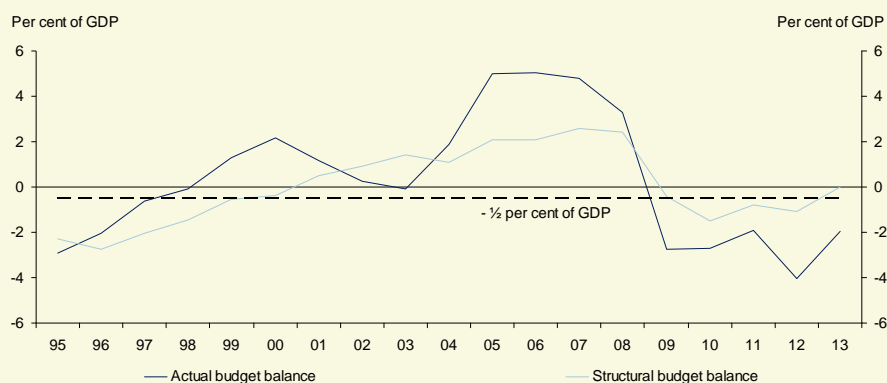
## Structural budget balance

The structural budget balance is the actual general government budget balance adjusted for the estimated impact on the budget from the cyclical position of the economy and other temporary factors.

In 2013 structural balance between expenditures and revenues is estimated. The structural budget balance is estimated to be improved by 1.5 per cent of GDP in 2010-2013. Thereby Denmark will meet the recommendation by the ECOFIN to reduce the structural deficit by 1.5 percent of GDP in 2011-2013 and reduce the deficit below 3 per cent of GDP in 2013.

From the middle of the 1990s and until 2008 the structural budget balance improved gradually, *cf. figure 1*. The improvement reflects among other things a significant fall in the estimated structural unemployment rate (partly derived from various labour market reforms), but also the tendency to higher revenue from North Sea activities and lower public net interest expenses. Fiscal policy was in the period from the middle of the 1990s and until 2008 overall expansionary and thereby in isolation implied a worsening of the structural budget balance.

**Figure 1**  
Actual and structural balance, 1995-2013



The significant easing of the fiscal policy following the financial crisis – to support the economic activity and employment – is the primary reason that the structural budget balance worsened noticeably in 2009 and 2010.

The following improvement of the structural budget balance towards 2013 reflects the consolidation of the general government finances – including tax increases in *Spring Package 2.0, The Fiscal Consolidation Agreement*. Furthermore there is a reduction in the public investment level and moderate growth in public consumption in 2013.

## Central government finances

The deficit on the central government budget is estimated at DKK 71½bn in 2012 on the current, investment and lending account – the so-called CIL-account<sup>1</sup> – corresponding to 3.9 per cent of GDP, *cf. table 3*. The CIL-account deficit in 2013 is estimated at DKK 5¼bn corresponding to 0.3 per cent of GDP.

**Table 3**  
CIL-account, 2012-2013

	2012		Diff.	2013
	May	August		FFL13
<b>DKK bn, current prices</b>				
Total revenues	647.9	630.7	-17.2	684.7
Total expenditures	702.1	702.1	0.0	689.9
<b>CIL-account</b>	-54.1	-71.5	-17.3	-5.2
CIL-account (per cent of GDP)	-2.9	-3.9	-1.0	-0.3

The lower CIL-account deficit in 2013 compared to 2012 reflects the responsible economic policy and compliance with the EU recommendation, but should also be seen in the light of the repayment of early retirement contributions in 2012.

## Central government financing requirement and debt

Central government debt measured as a percentage of GDP is estimated to increase from 23¼ per cent of GDP in 2011 to 28 per cent of GDP in 2013 corresponding to an increase of approx. 5 percentage points, *cf. table 4*. Measured in nominal terms central government debt is estimated to increase from DKK 414bn in 2011 to DKK 526½bn in 2013 corresponding to an increase of DKK 112¾bn over the two years.

The increase in debt from 2011 to 2013 primarily reflects the deficit on the CIL-account.

<sup>1</sup> The CIL-account differs from the national account based on the central government balance with respect to the accruals concept (e.g. taxes), the treatment of financial transactions etc. In addition, some institutions that are part of the central government accounts are not considered part of the central government sector in the national accounts, and some institutions that are not part of the central government accounts are considered part of the central government sector.

**Table 4**  
**Central government debt, 2011-2013**

	2011	2012	2013	Diff. 2011-13
<b>End of year nominal value, DKK bn (current prices)</b>				
Domestic debt	645.9	668.3	675.1	29.2
Foreign debt	111.8	89.6	88.4	-23.4
The central government's account in Danmarks Nationalbank	-222.6	-155.0	-136.7	86
Fund holding of bonds <sup>1)</sup>	-121.2	-110.7	-100.3	20.9
<b>Central government debt DKK bn</b>	<b>413.9</b>	<b>492.2</b>	<b>526.6</b>	<b>112.7</b>
<b>Central government debt per cent of GDP</b>	<b>23.2</b>	<b>27.0</b>	<b>28.0</b>	<b>4.8</b>

1) The holding of bonds by the funds, as well as their deposits in Danmarks Nationalbank, are included.

The annual change in central government debt (net of capital gains and borrowing) corresponds to the net balance. The difference between the net balance and the CIL-account reflects among other things cash flows and central government relending.

The net financing requirement in 2012 amounts to DKK 84bn, *cf. table 5*. Compared to the estimate in May this is an upward adjustment in the financing requirement of approx. DKK 35½bn primarily reflecting a larger deficit on the CIL-account.

In 2013 the net financing requirement is estimated at DKK 33¾bn reflecting an expected deficit on the CIL-account of DKK 5¼bn.

**Table 5**  
CIL-account and net financing requirement, 2011-2013

	2011	2012		2013
	Final	May	August	FFL13
<b>DKK bn (Current prices)</b>				
<b>CIL-account</b>	-33.1	-54.1	-71.5	-5.2
Total relending	2.8	-5.6	-12.9	-24.3
Differences between posted revenues and expenditures and cash flow	0.1	11.3	0.5	-4.1
<b>Net financing requirement (-net balance)</b>	<b>30.2</b>	<b>48.5</b>	<b>83.9</b>	<b>33.7</b>

The financing requirement is equivalent to the net financing requirement, which depends in particular on central government deficit, plus repayment of short and long term debt. The financing requirement can be met through borrowing or by drawing on the central government account.

The domestic financing requirement in 2012 is estimated at DKK 191bn. The upward adjustment of DKK 41bn compared to the May estimate reflects a larger financing requirement *cf. table 6*.

**Table 6**  
Domestic financing requirement, 2012 and 2013

DKK bn	2012		2013
	May	August	FFL13
<b>Net domestic financing requirement</b>	49	86	34
Repayment of long term debt <sup>1)</sup>	57	62	58
Repayment of treasury bills <sup>2)</sup>	44	44	44
<b>Domestic financing requirement</b>	<b>150</b>	<b>191</b>	<b>136</b>

1) Repayment of long term debt includes the net purchase of bonds by funds, net payments from currency swaps and acquisitions beyond the year.

2) Repayment of treasury bills corresponds to outstanding in the program at the beginning of the year.

The domestic financing requirement in 2013 is estimated at DKK 136bn. The lower domestic financing requirement in 2013 than in 2012 is primarily due to a low net financing requirement.

The foreign financing requirement for 2012 is estimated to DKK 33bn in 2012, *cf. table 7*. In 2013 the foreign financing requirement is estimated at DKK 25bn.

**Table 7**  
**Foreign financing requirement 2012 and 2013**

DKK bn	2012		2013
	May	August	FFL13
<b>Net foreign net financing requirement</b>	0	-2	0
Repayment of long term debt <sup>1)</sup>	32	32	22
Repayment of treasury bills <sup>2)</sup>	2	2	2
<b>Foreign financing requirement</b>	<b>34</b>	<b>33</b>	<b>25</b>

- 1) Repayment of long term debt includes the net purchase of bonds by funds, net payments from currency swaps and acquisitions beyond the year.
- 2) Repayment of treasury bills corresponds to outstanding in the program at the beginning of the year.

## Annex 1

Table A.1

## General government finances, 2011-2013

	2011			2012			2013		
	May	Aug.	Diff.	May	Aug.	Diff.	May	Aug.	Diff.
<b>DKK bn.</b>									
<b>Current prices</b>									
Public consumption	511.3	509.5	-1.8	527.6	527.6	0.0	536.4	535.4	-1.0
Income transfers	311.6	312.4	0.8	325.6	325.9	0.3	333.5	335.6	2.1
Investment	39.6	40.1	0.5	43.8	43.8	0.0	36.3	39.5	3.2
Interest expenditure	37.5	37.5	0.1	32.9	35.8	2.9	33.8	33.5	-0.3
Subsidies	46.5	46.4	-0.1	49.7	49.7	0.0	52.4	49.4	-2.9
Other expenditures <sup>1)</sup>	66.2	65.4	-0.7	79.2	85.8	6.6	60.9	63.3	2.3
<b>Total expenditure</b>	<b>1012.7</b>	<b>1011.4</b>	<b>-1.3</b>	<b>1058.8</b>	<b>1068.5</b>	<b>9.7</b>	<b>1053.3</b>	<b>1056.7</b>	<b>3.4</b>
Personal income taxes <sup>2)</sup>	371.1	371.1	0.0	385.1	380.9	-4.2	405.9	408.2	2.3
Labour market Contributions	80.7	80.4	-0.3	82.5	82.1	-0.4	84.1	83.9	-0.3
Corporate taxes	50.3	49.8	-0.5	56.6	52.9	-3.7	60.7	57.1	-3.6
Pension yield taxation	37.4	37.4	0.0	22.6	43.2	20.5	18.7	20.7	2.0
VAT	179.0	177.9	-1.1	186.1	184.6	-1.5	190.2	190.9	0.7
Vehicle registration tax	14.3	14.3	0.0	16.2	14.5	-1.7	17.7	16.1	-1.6
Other duties	108.3	109.0	0.7	112.4	110.9	-1.5	118.3	117.1	-1.2
Other taxes <sup>3)</sup>	18.2	18.1	-0.1	18.5	17.2	-1.3	17.6	16.6	-1.0
Interest revenues	29.0	29.1	0.1	29.0	29.2	0.1	31.9	32.8	0.9
Gross operating surplus	34.7	34.7	0.0	35.6	36.2	0.6	36.4	37.1	0.7
Other revenues <sup>4)</sup>	55.0	55.3	0.3	43.9	43.6	-0.3	39.1	39.7	0.7
<b>Total revenue</b>	<b>978.0</b>	<b>977.0</b>	<b>-1.0</b>	<b>988.4</b>	<b>995.2</b>	<b>6.7</b>	<b>1020.7</b>	<b>1020.1</b>	<b>-0.6</b>



**Table A.1 (continued)**  
**General government finances, 2011-2013**

	2011			2012			2013		
	May	Aug.	Diff.	May	Aug.	Diff.	May	Aug.	Diff.
<b>DKK bn.</b>									
<b>Current prices</b>									
<b>General government budget balance</b>	-34.7	-34.5	0.3	-70.4	-73.4	-3.0	-32.6	-36.5	-4.0
Net interest Expenditure	8.5	8.5	0.0	3.9	6.6	2.8	1.9	0.7	-1.2
General government primary balance <sup>5)</sup>	-26.2	-26.0	0.3	-66.5	-66.7	-0.2	-30.6	-35.8	-5.2

Note: The specification of total public expenditures and revenues deviates from the specification from Statistics Denmark. Total public expenditures reflect public consumption, which includes revenues from sales and calculated depreciation expenditure, and total revenues include calculated depreciation. The specification of public expenditure from Statistics Denmark does not include public sales, which are included in total revenues, and calculated depreciation is not included in public expenditures and revenues in the specification from Statistics Denmark.

- 1) Other expenditures include capital transfers, transfers to the Faroe Islands and Greenland and Danish EU-contributions.
- 2) Personal income taxes include withholding taxes, tax on imputed income from owner occupied dwellings, specific taxes from households, tax on estates of deceased persons and other personal taxes.
- 3) Other taxes include social security contributions (labour market supplementary pension scheme contributions, unemployment insurance contributions and early retirement contributions).
- 4) Other revenues include profits from public enterprises, current and capital transfers from other domestic sectors and EU, and imputed (calculated) revenues such as contributions to civil servants' earned pension.
- 5) The general government primary balance states the balance of the general government finances before net interest expenditures.

## Annex 2

**Table A.2**  
**Expenditure tax and revenue burden, 2006-2013**

	2006	2007	2008	2009	2010	2011	2012	2013
<b>Per cent of GDP</b>								
Public consumption	25.9	26.0	26.5	29.8	29.1	28.6	29.0	28.5
Income transfers	15.6	15.2	15.0	17.0	17.3	17.5	17.9	17.9
Investment	2.0	1.9	1.9	2.0	2.1	2.3	2.4	2.1
Interest expenditure	2.2	2.0	1.8	2.2	2.1	2.1	2.0	1.8
Other expenditure	4.9	4.9	5.4	5.7	5.8	6.3	7.4	6.0
<b>Expenditure burden<sup>1)</sup></b>	<b>50.6</b>	<b>50.0</b>	<b>50.6</b>	<b>56.7</b>	<b>56.4</b>	<b>56.7</b>	<b>58.6</b>	<b>56.3</b>
<b>Personal income taxes<sup>2)</sup></b>	<b>21.2</b>	<b>21.5</b>	<b>21.3</b>	<b>22.3</b>	<b>20.4</b>	<b>20.8</b>	<b>20.9</b>	<b>21.7</b>
Labour market Contributions	4.4	4.5	4.6	4.8	4.6	4.5	4.5	4.5
Pension yield taxation	0.8	0.3	0.5	0.5	2.1	2.1	2.4	1.1
Corporate taxes	4.4	3.8	3.3	2.3	2.7	2.8	2.9	3.0
Value added tax	10.3	10.4	10.1	10.1	9.9	10.0	10.1	10.2
Other duties	7.8	7.6	7.2	6.8	7.0	7.1	7.1	7.3
Other taxes <sup>3)</sup>	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.9
<b>Tax burden</b>	<b>49.8</b>	<b>49.1</b>	<b>47.9</b>	<b>47.8</b>	<b>47.7</b>	<b>48.3</b>	<b>48.8</b>	<b>48.7</b>
Interest revenue	1.5	1.6	1.7	1.9	1.6	1.6	1.6	1.7
Other non-tax revenue	4.6	4.4	4.5	4.5	4.6	5.0	4.4	4.1
Tariffs etc. to the EU <sup>4)</sup>	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
<b>Revenue burden<sup>1)</sup></b>	<b>55.7</b>	<b>54.8</b>	<b>53.9</b>	<b>54.0</b>	<b>53.7</b>	<b>54.8</b>	<b>54.6</b>	<b>54.3</b>

- 1) The specification of total public expenditures and revenues deviates from the specification from Statistics Denmark. Total public expenditures reflect public consumption which includes revenues from sales and calculated depreciation expenditure and total revenues include calculated depreciation. The specification of public expenditure from Statistics Denmark does not include public sales which are included in total revenues and calculated depreciation is not included in public expenditures and revenues in the specification from Statistics Denmark. Thus the expenditure and revenue burden differ from the ascertained burdens based on the specifications according to Statistics Denmark.
- 2) Personal income taxes include withholding taxes, tax on imputed income from owner occupied dwellings, specific taxes from households, tax on estates of deceased persons and other personal taxes.
- 3) Social contributions (unemployment insurance contributions, retirement contributions, etc...).
- 4) According to the national accounting principles these income taxes is categorized and are therefore included in the tax burden, but as the revenues accruing to EU, they are not included in the revenue ratio.