

## Budget Outlook, August 2002

### 1. General government finances

In 2002 the general government surplus is estimated at DKK 29.7bn or 2.1 per cent of GDP, *cf. table 1*. In 2003 the surplus is expected to reach DKK 32.2bn corresponding to 2.2 per cent of GDP.

**Table 1. General government budget balance, 1998-2003**

DKK bn, current prices	1998	1999	2000	2001	2002	2003
May 2002	13.1	38.2	32.7	37.0	31.3	41.2
August 2002	13.1	38.2	32.7	38.1	29.7	32.2
August 2002 (per cent of GDP)	1.1	3.2	2.5	2.8	2.1	2.2

As from 2002 the level of public revenues is technically reduced by approximately DKK 7bn or ½ per cent of GDP due to an adjustment of the special pension-scheme savings. The pension-scheme is changed into a private/individual scheme, i.e. the previous re-distributive element is cancelled. Savings are referred to individual accounts on an actuarial basis as from 2001, but the national account is expected to reflect the adjustment of the scheme as from 2002.

Fiscal policy changes since May have an almost neutral impact on the estimated surplus in 2002 and 2003. Also the fiscal stance is unchanged compared to the May projection, *cf. below*.

Compared to the May projection the surpluses have been adjusted downwards by DKK 1¾bn in 2002 and by DKK 9bn in 2003, *cf. table 2*.

**Table 2. Revisions of budget balance, 2002 and 2003**

DKK bn, current prices	2002	2003
Total revision of budget balance	-1.7	-9.0
Of which revenues:		
- Pension yield tax	-3.1	-10.8
- Personal income taxes etc.	-1.8	-1.4
- VAT and excise duties	3.7	3.7
- Other taxes and revenues	-0.4	-0.5
Of which expenditures:		
- Total public expenditures	-0.1	0.0

In particular lower revenues from pension yield taxation contribute to the downward adjustment of the surpluses in 2002 and 2003. In light of the adverse development in the Danish stock prices in 2001 and 2002 negative investment returns on stocks have been accumulated. These can be deducted in pension yield taxes for 2002 and 2003.

The downward adjustment of the surpluses in 2002 and 2003 can also be referred to a downward revision of personal income taxes etc. This is, among other things, due to a historical revision of the 2001-level of revenues.

Revenues from VAT and excise duties have been revised upwards with approximately DDK 3¾bn in 2002 and 2003. Based on a historical revision of revenues in 2001 higher revenues from VAT and excise duties are expected in 2002 and 2003. Furthermore, higher revenues from car registration fees are expected in both years in light of an estimated increase in the sale of new vehicles.

The estimated total public expenditures in 2002 and 2003 are more or less unchanged compared to the May projection.

## 2. Fiscal stance

The *fiscal effect* is an indicator of fiscal policy stance. It measures the impact of discretionary fiscal policy changes on economic growth – measured by the effect on GDP in the year discretionary measures are implemented. As in the May projection the fiscal effect is estimated at 0.2 per cent of GDP in 2002, *cf. table 3*.

Per cent of GDP	1998	1999	2000	2001	2002	2003
Expenditures	0.5	0.4	0.0	0.2	0.1	-0.1
Revenues	-0.4	-0.2	-0.1	-0.2	0.1	0.1
Total fiscal effect	0.1	0.2	-0.1	0.1	0.2	0.0

Measured by the fiscal effect the central government draft budget bill for 2003 and the agreement with local governments from June 2002 are expected to have a neutral impact on economic activity in 2003.

Lower public expenditures contribute about -0.1 to the fiscal effect in 2003. The tightening primarily stems from an expected reduction of public subsidies and non-taxable income transfers.

On the revenue side the contribution to the fiscal effect is 0.1 per cent of GDP in 2003. Part of the easing stems from new tax initiatives in pursuance of the central government budget bill for 2002 and the draft budget

bill for 2003. The initiatives include, among other things, reductions of motor vehicle taxes and the annulment of excise duties related to labour environment. Furthermore, there is a positive contribution to the fiscal effect from the tax freeze of nominal excise duties.

In 2002 growth in public consumption constitutes the most significant contribution to the fiscal effect stemming from the expenditure side. On the revenue side the contribution to the fiscal effect is 0.1 per cent of GDP in 2002. This easing stems primarily from the adjustment of income taxation adopted in the *Whitsun package* from 1998.

### 3. Structural budget balance

The structural budget balance is defined as the general government budget balance adjusted for the estimated positive or negative impact on the budget from the cyclical position of the economy. Thus, the development in the structural budget balance is mainly determined by fiscal policy, differences between the actual and structural rate of unemployment and the underlying growth in the labour force.

In 2002 and 2003 the structural budget balance surplus is estimated at approximately 2 per cent of GDP, *cf. table 4*.

Table 4. Structural budget balance, 1995-2003							
Per cent of GDP	Structural balance		----- Change due to -----				
	Level	Yearly change	Fiscal policy <sup>1)</sup>	Structural rate of unempl.	Labour force <sup>2)</sup>	Special budget items <sup>3)</sup>	Other/residual
1995	-2.1	-	-	-	-	-	-
1996	-1.8	0.3	-0.5	0.6	-0.0	-0.1	0.3
1997	-0.2	1.6	1.2	0.5	-0.2	0.1	-0.1
1998	0.3	0.5	0.4	0.6	-0.1	-0.3	-0.1
1999	1.8	1.5	0.4	0.5	-0.0	0.5	0.1
2000	2.2	0.4	0.2	0.3	-0.0	0.3	-0.4
2001	2.5	0.3	0.1	0.2	0.1	0.3	-0.3
2002	2.1	-0.3	-0.2	0.1	-0.1	-0.4	0.3
2003	2.2	0.1	-0.0	0.0	0.1	0.2	-0.2
Total	-	4.3	1.7	2.8	-0.3	0.6	-0.4

- 1) Fiscal policy is – except for some adjustments including adjustments for tax income on income transfers – measured by the direct revenue effects used in the calculation of the fiscal effect.
- 2) Measured in hours of working.
- 3) Special budget items include net interest expenditures, capital transfers etc.

The estimated structural budget balance is more or less in line with the expected actual budget balance in 2002 and 2003. This, however, is to be seen in light of a positive impact on the actual budget balance from the cyclical position of the economy and a negative impact on the actual

budget balance from the extraordinarily low revenues from pension yield taxation.

The reduction of the structural budget balance from 2001 to 2002 can be referred to the adjustment of the special pension-scheme savings. Both the actual and the structural budget balance are reduced by approximately ½ per cent of GDP from 2001 to 2002 due to the adjustment of the scheme.

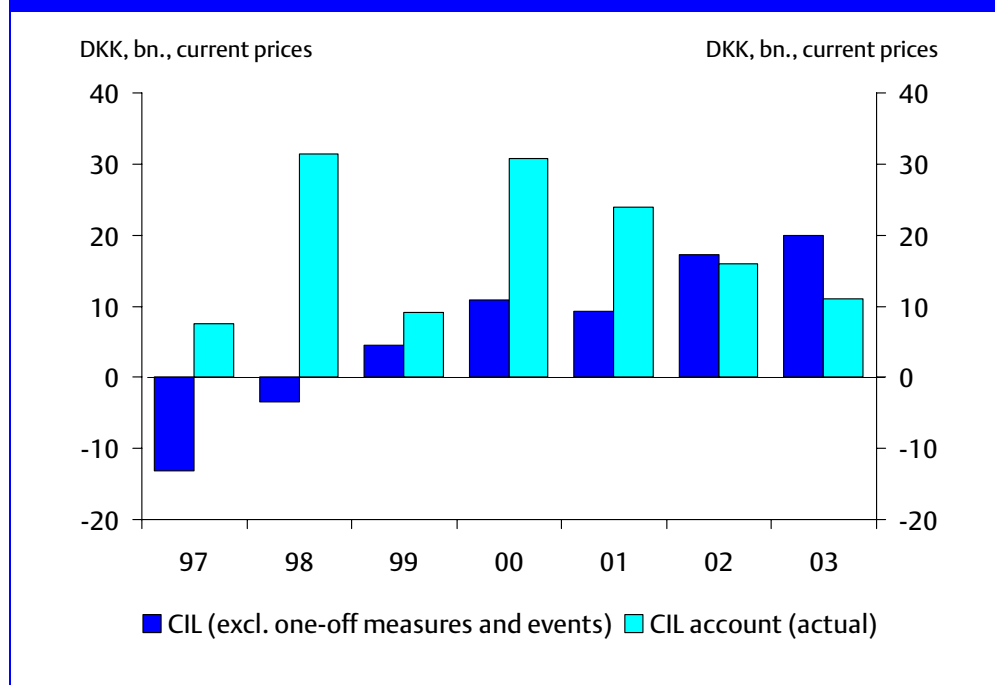
#### **4. Central government finances**

The new central government budget proposal for 2003 shows a surplus on the so-called CIL-account of DKK 11.0bn or 0.8 per cent of GDP. Central government expenditures are estimated at DKK 429.1bn, while total revenues are expected to be DKK 440.1bn.

The latest estimate for the CIL-account in 2002 shows a surplus of DKK 16.0bn or 1.2 per cent of GDP. Thus the central government budget surplus is expected to be somewhat bigger in 2002 compared to 2003.

It should be noted, that the CIL-account is affected by one-off measures and extraordinary events of rather varying size from year to year. E.g. the very large surplus in 1998 reflects the central government sale of shares in TeleDanmark. Likewise the CIL-surpluses in both 2000 and 2001 among other things are affected by a shortening of the fixed time of credit with respect to the VAT payments.

In 2002 the sum of one-off measures and extraordinary events are of relatively limited magnitude. In 2003 the sum of one-off measures and extraordinary events is perceptibly negative because of extraordinary low expected revenue from the pension yield tax. Thus corrected for one-off measures and extraordinary events the CIL-account exhibits an improvement from 2002 to 2003, *cf. figure 1*.

**Figure 1. Central government CIL-account, 1997-2003**

The underlying improvement of the CIL-account in recent years is especially attributable to falling interest expenditures on central government debt and a positive economic development, e.g. increasing employment and decreasing unemployment.

### 5. Central government capital account

In 2003 central government debt is expected to continue the decrease of recent years as per cent of GDP, *cf. table 5*.

**Table 5. Central government debt, 2000-2003**

End of year, nominal value	2000	2001	2002	2003
Central government debt, per cent of GDP	41.5	38.2	38.1	37.0
Central government debt, DKK bn	538.3	513.5	529.4	537.0
Re-lending to infrastructure entities <sup>1)</sup>	3.6	5.8	15.5	24.4
Central government debt, adjust for re-lending	534.7	507.7	513.9	512.6

1) Ørestadsselskabet, A/S Storebælt og Øresundsforbindelsen A/S

In nominal terms, however, central government debt is expected to increase by approximately DKK 7½bn due to a net financing requirement of almost DKK 2.1bn and a loss related to the issuing of bonds. The net financing requirement is anticipated in spite of a surplus on the CIL-account. This is primarily due to factors such as re-lending to government owned infrastructure entities – approximately DKK 9bn – and negative effects of periodized interests and a shift in government balance. Adjusted

for re-lending the central government debt is expected to fall almost DKK 1½bn to a total of DKK 512.6bn in 2003.

In 2002 central government debt is forecasted to remain stable around 38 per cent of GDP. In absolute numbers debt is expected to increase to DKK 529.4bn. This is regardless of a foreseen surplus of DKK 16bn on the CIL-account. The increase in debt can mainly be attributed to negative effects of periodized interests and a shift in government balance – more than DKK 15bn – and re-lending amounting to approximately DKK 10bn.

**Table 6. Central government borrowing, 2002-2003**

DKK bn	2002	2003
Net financing requirement (-net balance)	11.2	2.1
Redemption of central government debt	109.0	113.4
Gross financing requirement	120.2	115.5
Gross financing <sup>1)</sup>		
- Domestic borrowing	97.5	98.3
- Foreign borrowing	22.4	17.2
- Drawing from Danmark's Nationalbank	0.2	0.0

Note: The numbers are rounded. Consequently, the sum of components does not necessarily equal the total.

1) Market value.

The domestic gross borrowing requirement in 2003 is estimated to reach DKK 98.3bn with redemption of domestic debt equal to DKK 96.2bn and a net placing requirement of DKK 2.1bn. The central government's foreign borrowing requirement is expected to match the amount of redemption of foreign debt, i.e. DKK 17.2bn.

Gross financing requirement in 2002 is expected to be DKK 120.2bn. This is financed by domestic borrowing equal to 97.5bn, foreign borrowing of DKK 22.4bn, and finally DKK 0.2bn in drawings from Danmarks Nationalbank.