

4. English Summary

After three years of strong growth, the Danish economy has now achieved high levels of capacity utilization and employment. The strong business cycle is strengthening the general government finances temporarily in light of the reduced income transfers and increased tax revenues etc. Also high tax revenues from the North Sea oil and gas activities have a positive impact on the general government finances.

Fiscal policy is estimated to have a neutral impact on economic activity in 2007, while the fiscal policy stance in 2008 relies on technical assumptions, since fiscal priorities have not yet been determined.

4.1 General government finances

The estimates for the general government finances in 2007 and 2008 are based on short term projections for the Danish economy, *cf. Economic Survey, May 2007*.

Furthermore, the estimates are based on a status for central government spending in 2007, the central government budget for 2007 and the local government budgets for 2007. In 2008, the estimates for general government finances are mainly based on technical fiscal policy assumptions.

According to preliminary data from Statistics Denmark the general government surplus in 2006 amounted to DKK 69.1bn, which corresponds to 4.2 per cent of GDP, *cf. table 4.1*.

	2001	2002	2003	2004	2005	2006	2007	2008
DKK bn, current prices								
December 2006	15.8	3.2	-1.4	27.9	71.8	56.2	56.0	56.2
May 2007	15.8	3.2	-1.4	27.9	71.8	69.1	71.0	59.3
Central government, hereof	2.9	3.4	-1.7	29.0	76.6	77.9	-	-
Local governments, hereof	5.0	-0.1	0.1	-1.4	-5.2	-10.0	-	-
Social funds, hereof	7.9	-0.1	0.2	0.2	0.4	1.2	-	-
May 2007 (per cent of GDP)	1.2	0.2	-0.1	1.9	4.6	4.2	4.2	3.3
Note: The specification of the central and local government budget balances do not fully reflect that the central government through transfers to local governments bears the risk of fluctuations in expenditures and revenues due to the business cycles.								

The surplus in 2006 has been revised upwards by about DKK 13bn compared to the December estimate. In particular, this is due to higher revenues from the pension yield taxation. Furthermore, the continued strong business cycle with larger revenues

from personal taxes and lower income transfers adds to the government surplus, *cf. Annex 1.*

The general government surplus is expected to increase from -0.1 per cent of GDP in 2003 to 4.2 per cent. of GDP in 2007. The surplus is very volatile and sensitive to both business cycle development and changes in financial markets and oil prices. The increased surplus from 2003 to 2007 primarily reflects lower income transfers, resulting from low unemployment and increased employment. Lower net interest payments from reduced public debt also contribute to the higher surplus together with higher oil revenues. The expected reduction of the general government surplus from 2007 to 2008 is primarily due to lower tax revenues, reflecting a gradual normalisation of the business cycle.

Compared to the December projection, the general government surplus has been revised up by approx. DKK 15bn in 2007 and approx. DKK 3bn in 2008, *cf. table 4.2.*

The revenues from the pension yield tax have been adjusted upwards by DKK 6.5bn in 2007 and downwards by approx. DKK 3bn in 2008. The adjustment in 2007 is mainly due to a more favourable trend in the stock market than expected in December, and the downward adjustment in 2008 reflects lower expected pension asset returns related to bonds and swap agreements due to higher interest rates.

	2007	2008
DKK bn, current prices		
Pension yield taxation	6.5	-2.9
Personal taxes etc. and labour market contributions	5.9	3.8
Income transfers	3.5	3.6
VAT	1.2	1.8
North Sea oil and gas exploration activities	-3.3	-4.5
Corporate taxes, not hydrocarbon taxable	-2.4	0.5
Net interests and dividends	2.8	0.6
Other expenditures and revenues	0.8	0.3
Total revision of general government budget balance	15.1	3.1
Note: Negative numbers imply reductions of the surplus due to reduced revenues or increased expenditures, and positive numbers imply increases in the surplus due to increased revenues or decreased expenditures.		

Personal taxes etc. and labour market contributions are adjusted upwards by approx. DKK 6bn in 2007 and 3¾bn in 2008. This is primarily due to an upward adjustment of employment. Lower expected tax allowances on net interest payments also contribute to the estimated higher revenues.

The income transfers have been downward adjusted by approx. DKK 3½bn in 2007 and 2008 primarily due to lower unemployment.

Revenues from VAT are expected to be DKK 1¼bn higher in 2007 and DKK 1¾bn higher in 2008 compared to the projections in December, which is mainly due to higher expected growth in residential investment in 2007 and 2008 compared to the December estimate.

Revenues from the North Sea oil and gas exploration activities are adjusted downwards by approx. DKK 3¼bn in 2007 and almost DKK 4½bn in 2008, since the estimated oil production and oil prices in DKK have been reduced.

Non hydrocarbon corporate tax revenues have been revised downwards by approx. DKK 2½bn in 2007 and upwards by approx. DKK ½bn in 2008. This is mainly due to the proposed changes of the corporate tax code¹.

Net interest payments and dividends are downward adjusted by DKK 2¾bn in 2007 and approx. DKK ½bn in 2008 due to continued reductions of the public debt, larger dividends than expected from government owned companies and new estimates for swap corrections.

Other expenditures and revenues increase the estimated budget balance by DKK ¾bn in 2007 and DKK ¼bn in 2008 compared to the December estimate. This reflects various minor adjustments of both expenditures and revenues.

Detailed information about the general government finances including adjustments since the December projection can be found in *Annex 1*.

The expenditure burden, i.e. the ratio of general government expenditures to GDP, is expected to decrease by 4.4 percentage points from 2001 to 2008, *cf. table 4.3*. The reduction is primarily due to a decrease in the interest expenditures ratio of 2.3 per cent of GDP in light of reduced public debt, *cf. Annex 2*. Lower income transfers also contribute to reduce the expenditure ratio.

¹ The corporate tax rate is cut from 28 to 25 per cent, a ceiling on tax-deductible net financial expenditures by non-financial companies is introduced, while certain tax depreciation provisions are tightened.

Table 4.3
Expenditure, tax and revenue burden, 2001-2008

	2001	2002	2003	2004	2005	2006	2007	2008	Diff. 2001- 2008
Per cent of GDP									
Expenditure burden ¹⁾	53.5	53.8	54.2	53.9	51.7	50.2	49.2	49.1	-4.4
Tax burden	48.6	48.0	47.9	49.1	50.4	48.8	48.0	47.2	-1.4
Revenue burden ¹⁾	54.7	54.0	54.1	55.8	56.3	54.4	53.4	52.4	-2.2

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.

The decrease in the tax burden, i.e. the ratio of aggregate tax revenues to GDP, by 1.4 percentage points over the period 2001-2008 reflects among other things a reduction of the personal income tax to GDP ratio due to the tax cuts in 2004 and the tax freeze.

The revenue burden, i.e. the ratio of general government revenues to GDP, is expected to decrease by 2.2 percentage points from 2001 to 2008. Apart from the estimated reduction in the tax burden this is mainly due to lower interest revenues.

Detailed information about the expenditure, tax and revenue burdens can be found in *Annex 2*.

4.2 Fiscal stance

The *fiscal effect* is an indicator of the fiscal policy stance. The fiscal effect measures the impact of fiscal policy changes on economic activity – measured by the estimated impact on GDP.

Based on the central government budget for 2007 and the local government budgets for 2007, the fiscal effect is estimated at 0.0 per cent of GDP in 2007, *cf. table 4.4*.

	2001	2002	2003	2004	2005	2006	2007
Per cent of GDP							
Expenditures	0.5	0.2	-0.4	0.3	-0.1	0.0	0.0
Revenues	-0.2	0.1	0.1	0.4	0.1	0.1	0.0
Fiscal effect	0.3	0.3	-0.3	0.7	0.0	0.1	0.0
Temporary suspension of SP ¹⁾	-	-	-	0.1	-	-	-

1) Special pension scheme.

Hence, fiscal policy is estimated to have a neutral impact on economic activity in 2007, measured by the *fiscal effect*. The impact from real growth in public consumption of 1.3 per cent in 2007 is expected to be offset by the estimated reduction in real growth in public investments of 7.8 per cent.

Fiscal policy for 2008 has not yet been determined, and the priorities for 2008 will be presented in relation to the central government budget proposal for 2008 in August 2007.

4.3 Structural budget balance

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

The structural budget balance is estimated at approx. 1½ per cent of GDP on average in the period 2004-2008 after correcting for the impact of the temporary suspension of Special Pension (SP) contributions.

In the period 2004-2008, the estimated structural budget balance surplus is lower than the actual general government budget surplus. This reflects exceptionally large revenues from pension yield taxation in 2004 and 2005 together with the strong cyclical position of the economy. The high revenues from North Sea oil and gas activities in the period 2005-2007 are also expected to have a positive impact on the actual general government budget balance compared to the structural level.

The structural budget balance is expected to increase by 1.3 per cent of GDP from 2003 to 2008 primarily due to lower net interest payments, *cf. table 4.5*.

Structural balance		Change due to							
Level	Yearly change	Fiscal policy ¹⁾	Structural rate of empl.	North Sea oil and gas	Net interest	Special items ²⁾	Demand	Other	
2003	0.4								
2004	0.7	0.3	-0.9	-0.1	0.1	0.3	0.1	0.5	0.3
2005	1.9	1.2	0.0	0.3	0.1	0.3	0.1	0.2	0.2
2006	2.1	0.2	-0.3	0.3	0.1	0.3	0.0	0.0	-0.2
2007	1.7	-0.4	0.0	-0.2	0.1	0.2	-0.1	0.0	-0.4
2008	1.7	0.0	0.0	0.1	0.0	0.3	-0.1	0.0	-0.3
Total	-	1.3	-1.2	0.4	0.4	1.4	0.0	0.7	-0.4

Note: The structural budget balance is not adjusted for the impact of the temporary suspension of Special Pension contributions.

1) Due to different methods of calculation the fiscal policy effects differ from the effects used in the calculation of the fiscal effect.

2) Special items include among other things various net current and capital transfers.

Changes in the composition of aggregate demand since 2003 have also contributed to the improved structural budget balance mainly due to strong growth in private consumption. The share of excise duties in private consumption is relatively high compared to other components of GDP, and strong growth in private consumption, therefore, tends to improve the structural budget balance.

4.4 Central government finances

The final account for the central government for 2006 reflects a surplus on the current, investment and lending account, i.e. the CIL-account², of approx. DKK 98½bn or 6 per cent of GDP, *cf. table 4.6*. The surplus is almost DKK 15bn higher than estimated in December.

² The CIL-account differs from the central government balance in the national accounts 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.

	2006			2007		
	Dec.	Final	Diff.	Budget	May	Diff.
DKK bn, current prices						
Total revenues	550.8	563.0	12.2	626.2	636.4	10.2
Total expenditures	467.1	464.4	-2.7	557.7	554.1	-3.6
CIL-account	83.7	98.6	14.9	68.5	82.3	13.9
CIL-account (per cent of GDP)	5.1	6.0	0.9	4.0	4.8	0.8

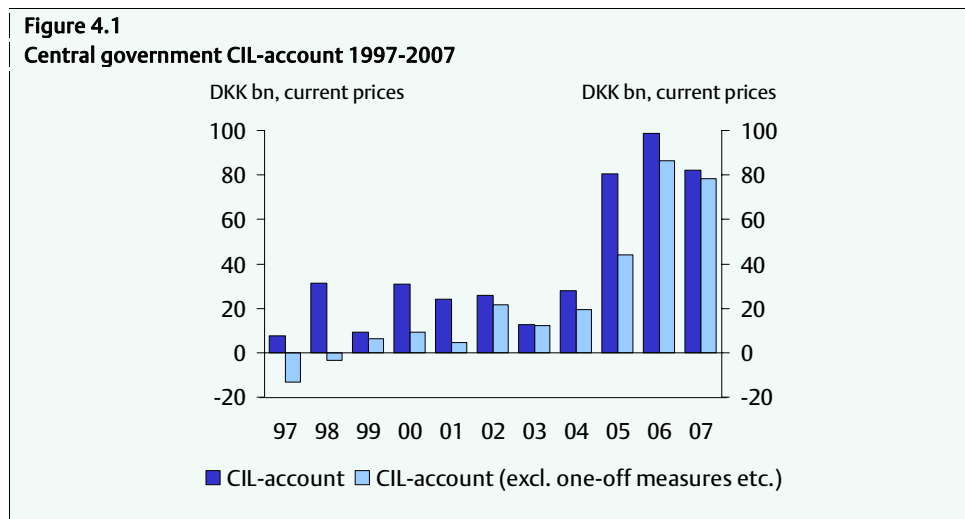
The higher CIL-surplus than expected in December is mainly due to increased tax revenues especially from the pension yield taxation, together with corporate taxes and personal income taxes. Lower unemployment expenditures etc. have also contributed to the higher CIL-surplus in 2006.

The CIL-account for 2007 is estimated at approx. DKK 82¼bn, which corresponds to approx. 4¾ per cent of GDP.

The large surpluses in 2006 and 2007 are expected to be temporary and are primarily due to high revenues from the North Sea oil and gas activities and the strong business cycle.

The CIL-account surplus is upward adjusted by approx. DKK 14bn in 2007 compared to the budget assessment. Lower unemployment expenditures and higher revenues from VAT etc. in light of the strong business cycle contribute to the improved CIL-account in 2007. Furthermore, the revenues from the pension yield taxation have been adjusted upwards by approx. DKK 6bn in 2007.

Excluding one-off measures the CIL-account surplus is estimated at approx. DKK 86¼bn in 2006 and approx. DKK 78¼bn in 2007, *cf. figure 4.1*. The correction of the CIL-account in both years is mainly due to extraordinary large revenues from the North Sea activities. In 2007 this is partly off set by a correction for relatively low revenues from the pension yield taxation.



4.5 Central government financing requirement and debt

Central government debt measured as a percentage of GDP is estimated to decrease by almost 4¾ percentage points from 2006 to 2007, *cf. table 4.7*. From 2004 to 2007 the total decrease in central government debt is estimated at approx. 18½ percentage points.

Measured in nominal terms a decrease in central government debt is expected by approx. DKK 66bn from DKK 328.1bn in 2006 to approx. DKK 261.9bn in 2007.

The expected surplus on the CIL-account is lower than the debt reductions, and the difference is due to cash flows, relending to government guaranteed infrastructure entities, bond price fluctuations and other technical issues.

	2004	2005	2006	2007
End of year, nominal value				
Central government debt, DKK bn	494.1	417.9	328.1	261.9
Relending to infrastructure entities etc. ¹⁾	18.5	20.3	27.5	30.1
Central government debt, adjusted for relending	475.5	397.7	300.6	231.7
Central government debt, per cent of GDP	33.9	26.9	20.0	15.3
Central government debt, adjusted for relending, per cent of GDP	32.6	25.6	18.4	13.5

1) Primarily Ørestadsselskabet I/S, A/S Storebælt and Øresundsforbindelsen A/S.

In 2006 the increase in liquidity, measured as net balance, is estimated at approx. DKK 90.2bn, *cf. table 4.8*. The estimate is revised upwards compared to the Decem-

ber projection in which a net balance of DKK 66.7bn was estimated. The adjustment is primarily due to the increased CIL-account surplus. The net balance is estimated to DKK 68.2bn in 2007.

	2006	2007
	Final	May
DKK bn		
CIL-account	98.6	82.3
Total relending ¹⁾	-12.4	-9.4
Differences between posted revenues and expenditures and cash flow	4.1	-4.7
Net financing requirement (-net balance)	-90.2	-68.2
1) Including relending to infrastructure entities.		

The central government gross financing requirement is expected to be DKK 12.4bn in 2007, cf. table 4.9. DKK 28.3bn will be covered by payments to the central government in currency swaps and approx. DKK 15.8bn will be drawn from the central government account in the Danish Central Bank. In 2007, the central government is not expected to have borrowing requirements.

	2007
	May
DKK bn	
Net financing requirement (-net balance)	-68.2
Redemption of central government debt	80.6
Gross financing requirement	12.4
- Payments from/to the central government in currency swaps	28.3
- Drawing on the central government's account in Danmarks Nationalbank	-15.8
Borrowing requirement	0.0

Annex 1

Table 1									
General government finances, 2006-2008									
	2006			2007			2008		
	Dec.	May	Diff.	Dec.	May	Diff.	Dec.	May	Diff.
DKK bn, current prices									
Public consumption	418.0	418.3	0.3	434.7	434.6	-0.2	450.5	451.0	0.5
Income transfers	257.6	254.6	-3.0	263.9	260.4	-3.5	273.7	270.2	-3.6
Investment	30.4	30.2	-0.2	27.9	28.4	0.5	28.8	29.3	0.5
Interest expenditure	38.0	35.8	-2.2	34.8	32.8	-2.0	30.4	30.2	-0.3
Subsidies	36.0	36.7	0.6	38.6	38.9	0.3	40.8	40.9	0.0
Other expenditures ¹⁾	43.6	45.7	2.2	46.1	47.0	0.9	48.8	48.9	0.1
Total expenditure	823.7	821.4	-2.3	846.0	842.0	-4.0	873.1	870.4	-2.6
Personal income taxes ²⁾	339.4	342.0	2.6	351.9	356.9	5.1	359.7	362.8	3.1
Labour market contributions	71.1	71.4	0.3	74.2	75.0	0.8	77.0	77.7	0.7
Corporate taxes	59.0	59.0	0.0	58.2	53.5	-4.7	58.6	55.9	-2.7
Pension yield taxation	8.0	13.7	5.7	7.3	13.8	6.5	16.0	13.1	-2.9
VAT	167.3	167.6	0.3	174.8	176.0	1.2	180.7	182.5	1.8
Vehicle registration fee	24.7	24.3	-0.4	24.9	24.9	0.0	24.7	24.1	-0.6
Other duties	98.8	99.5	0.7	99.1	99.7	0.6	99.3	99.5	0.2
Other taxes ³⁾	17.5	17.6	0.0	18.0	17.8	-0.2	18.5	18.3	-0.2
Interest revenues	21.4	21.4	0.0	22.4	23.1	0.8	22.4	22.8	0.4
Gross operating surplus	28.9	28.8	-0.1	29.2	29.3	0.1	29.8	29.6	-0.2
Other revenues ⁴⁾	43.7	45.1	1.4	42.1	43.0	0.9	42.3	43.3	1.0
Total revenue	879.8	890.4	10.6	902.0	913.0	11.0	929.2	929.7	0.5
General government budget balance	56.2	69.1	12.9	56.0	71.0	15.1	56.2	59.3	3.1
Net interest expenditure	16.6	14.3	-2.2	12.4	9.6	-2.8	8.0	7.4	-0.6
General government primary balance ⁵⁾	72.8	83.4	10.7	68.4	80.7	12.3	64.2	66.6	2.5

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 2									
Expenditure, tax and revenue burden, 2001-2008									
	2001	2002	2003	2004	2005	2006	2007	2008	Diff. 2001- 2008
Per cent of GDP									
Public consumption	25.7	26.2	26.5	26.6	25.9	25.5	25.4	25.4	-0.3
Income transfers	16.5	16.7	17.4	17.2	16.4	15.5	15.2	15.2	-1.3
Investment	1.9	1.8	1.6	1.8	1.7	1.8	1.7	1.7	-0.3
Interest expenditure	4.0	3.8	3.4	3.1	2.6	2.2	1.9	1.7	-2.3
Other expenditure	5.3	5.3	5.2	5.2	5.0	5.0	5.0	5.1	-0.2
Expenditure burden¹⁾	53.5	53.8	54.2	53.9	51.7	50.2	49.2	49.1	-4.4
Personal income taxes	22.2	21.9	21.8	21.3	20.9	20.9	20.9	20.5	-1.7
Labour market contributions	4.4	4.5	4.4	4.4	4.3	4.4	4.4	4.4	-0.1
Pension yield taxation	0.1	0.1	0.4	1.6	2.4	0.8	0.8	0.7	0.7
Corporate taxes	2.8	2.9	2.9	3.2	3.8	3.6	3.1	3.2	0.4
Value added tax	9.6	9.6	9.6	9.8	10.0	10.2	10.3	10.3	0.7
Other duties	7.8	7.9	7.8	7.9	7.9	7.8	7.5	7.2	-0.6
Other taxes	1.7	1.2	0.9	0.9	1.0	1.1	1.0	1.0	-0.7
Tax burden	48.6	48.0	47.9	49.1	50.4	48.8	48.0	47.2	-1.4
Interest revenue	1.8	1.5	1.5	1.5	1.3	1.3	1.4	1.3	-0.5
Other non-tax revenue	4.5	4.7	4.9	5.4	4.8	4.5	4.2	4.1	-0.4
Tariffs etc. to the EU	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	0.0
Revenue burden¹⁾	54.7	54.0	54.1	55.8	56.3	54.4	53.4	52.4	-2.2

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.