

5. English Summary

Capacity utilization in the Danish economy is still high, and economic growth has dampened slightly, *cf. Economic Survey*, August 2007. The level of employment has reached a new record, and unemployment has dropped to the lowest level since 1974. The level of unemployment has been reduced by almost 90.000 persons since late 2003/early 2004. With low unemployment job opportunities for people on the margins of the labour market are particular favourable.

The public finances are strong. The large surpluses in recent years have led to a reduction in gross and net debt, and the net debt is expected to be gone in 2007.

Strong public finances are necessary to maintain and improve the Danish welfare system. The central governments new fiscal policy plan towards 2015 constitutes the main framework for the economic policy in the coming years. Within the plan there is room for growth in public consumption in line with the economy as a whole, a continuation of the tax freeze and a reduction in personal income taxes.

The central government budget proposal for 2008 and the agreements with local governments on the economy in 2008 are in accordance with the 2015-plan.

5.1 General government finances

The estimates for the general government finances in 2007 and 2008 are based on short term projections for the Danish economy.

Furthermore, the estimates are based on the central and local government budgets for 2007, the central government budget proposal for 2008 and the agreements with local governments on the economy in 2008.

The estimates include new quality reform initiatives, continued suspension of the Special Pension contributions and a reduction in the labour market contribution rate from 8.0 to 7.5 per cent. After completion of the budget proposal for 2008 the central government has put forward a proposal to ease taxation on labour income, *cf. the fiscal policy plan towards 2015*.

The estimated general government finances are reduced by DKK 4³/₄bn in 2007 and DKK 4bn in 2008 compared to the May projections.

The general government surplus is estimated at approx. DKK 66¹/₄bn in 2007 and DKK 55¹/₄bn in 2008, *cf. table 5.1*. The surpluses correspond to 3.9 per cent of GDP in 2007 and 3.1 per cent of GDP in 2008.

	2001	2002	2003	2004	2005	2006	2007	2008
DKK bn, current prices								
May 2007	15.8	3.2	-1.4	27.9	71.8	69.1	71.0	59.3
August 2007	15.8	3.2	-1.4	27.9	71.8	76.5	66.2	55.2
Central government, hereof	2.9	3.4	-1.7	29.0	76.6	83.1	-	-
Local governments, hereof	5.0	-0.1	0.1	-1.4	-5.2	-7.2	-	-
Social funds, hereof	7.9	-0.1	0.2	0.2	0.4	0.6	-	-
August 2007 (per cent of GDP)	1.2	0.2	-0.1	1.9	4.6	4.7	3.9	3.1

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 general government surplus has increased from -0.1 per cent of GDP in 2003 to 4.7 per cent of GDP in 2006. The increased surplus from 2003 to 2006 primarily reflects lower income transfers, from decreasing unemployment and increased employment. Lower net interest payments due to reduced public debt also contribute to the higher surplus together with higher oil revenues. The expected reduction in the general government surplus from 2006 to 2008 is primarily due to lower tax revenues.

Compared to the May projection, the general government surplus has been revised down by approx. DKK 4³/₄bn in 2007 and approx. DKK 4bn in 2008, *cf. table 5.2*.

	2007	2008
DKK bn, current prices		
Public consumption expenditure	-3.3	-6.7
Public investment expenditure	0.0	-1.2
Labour market contributions	1.1	-3.5
Personal taxes etc.	3.1	11.9
North Sea oil and gas exploration activities	3.3	2.3
Pension yield taxation	-5.5	-1.3
Compensation due to new tax on index-linked bonds	-1.2	-5.0
Other taxes	-2.7	-0.2
Other expenditures and revenues	0.4	-0.2
Total revision of general government budget balance	-4.8	-4.0

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.

Public consumption expenditures have been adjusted upwards by approx. DKK 3¼bn in 2007 and DKK 6¾bn in 2008. The adjustment in 2007 is due to an increase in expected health care spending by regional governments, and the increase is presumed to be carried over into 2008. The upward adjustment in 2008 is furthermore due to agreed increases in local and regional government consumption expenditures as part of the agreements with local governments in June 2007. The upward adjustment in 2008 is also due to new initiatives in the proposed public sector quality reform.

Public investment expenditures are expected to be approx. DKK 1¼bn higher in 2008 than estimated in May, mainly in light of the agreement with local governments on the economy in 2008.

The revenues from the labour market contributions have been upward adjusted by approx. DKK 1¼bn in 2007 and downward adjusted by DKK 3½bn in 2008. Increases in expected employment and estimated average working hours are contributing to higher revenues in both years, but due to the reduction in the labour market contribution rate from 8.0 to 7.5 per cent the revenue is reduced by approx. DKK 5bn in 2008.

Revenues from personal taxes etc. are adjusted upwards by approx. DKK 3bn in 2007 and 11¾bn in 2008. The adjustment in 2007 and part of the adjustment in 2008 reflects the increases in employment and estimated average working hours. The decreased labour market contribution rate and the continued suspension of the Special Pension contributions in 2008 will increase taxable income and thus increase the estimated personal tax revenue in 2008 compared to the May projection.

Revenues from the North Sea oil and gas exploration activities are adjusted upwards by approx. DKK 3¼bn in 2007 and approx. DKK 2¼bn in 2008 compared to the May projections. This is due to higher expected oil prices.

The revenues from the pension yield tax have been adjusted downward by approx. DKK 5½bn in 2007 and DKK 1¼bn in 2008. The downward adjustment in 2007 is mainly due to a reduction in estimated bond prices etc. due to an upward adjustment in interest rates. Among other things the adjustment in 2008 is due to a revised estimate of aggregate pension wealth.

Holders of indexed-linked bonds are compensated by the central government corresponding to approx. DKK 1¼bn in 2007 and DKK 5¼bn in 2008 to off set the effects of new pension tax rules that abolishes the tax exemption on index-linked bonds. The Danish pension tax rules will be altered due to a ruling from The Court of Justice of the European Communities.

Other tax revenues have been downward adjusted by approx. DKK 2¾bn in 2007 and approx. DKK ¼bn in 2008. The adjustment in 2007 is mainly due to a down-

ward adjustment in vehicle registration tax revenues which reflects decreased estimates for vehicle purchases compared to the May projection.

Detailed information about the general government finances including adjustments since the May 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 3.7 percentage points from 2001 to 2008, cf. *table 5.3*. The reduction is primarily due to a decrease in the interest expenditures ratio of 2.4 per cent of GDP in light of lower interest rates and reduced public debt. Lower income transfers also contribute to the expected reduction of the expenditure ratio.

Table 5.3
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	50.1	49.5	49.8	-3.7
Tax burden	48.6	48.0	48.1	49.4	50.4	48.9	48.0	47.7	-0.9
Revenue burden ¹⁾	54.7	54.0	54.1	55.8	56.3	54.7	53.4	52.9	-1.8

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 0.9 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 1.8 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*.

5.2 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 proposal and the agreement with regional and local governments on the economy in 2008 the fiscal effect is estimated at 0.3 per cent of GDP in 2008, cf. table 5.4.

	2001	2002	2003	2004	2005	2006	2007	2008
Per cent of GDP								
Expenditures	0.5	0.2	-0.4	0.3	-0.1	0.0	0.0	0.2
Revenues	-0.2	0.1	0.1	0.4	0.1	0.1	0.0	0.1
Fiscal effect	0.3	0.3	-0.3	0.8	0.1	0.3	0.0	0.3
Temporary suspension of SP ¹⁾	-	-	-	0.1	-	-	-	-
1) Special pension scheme.								

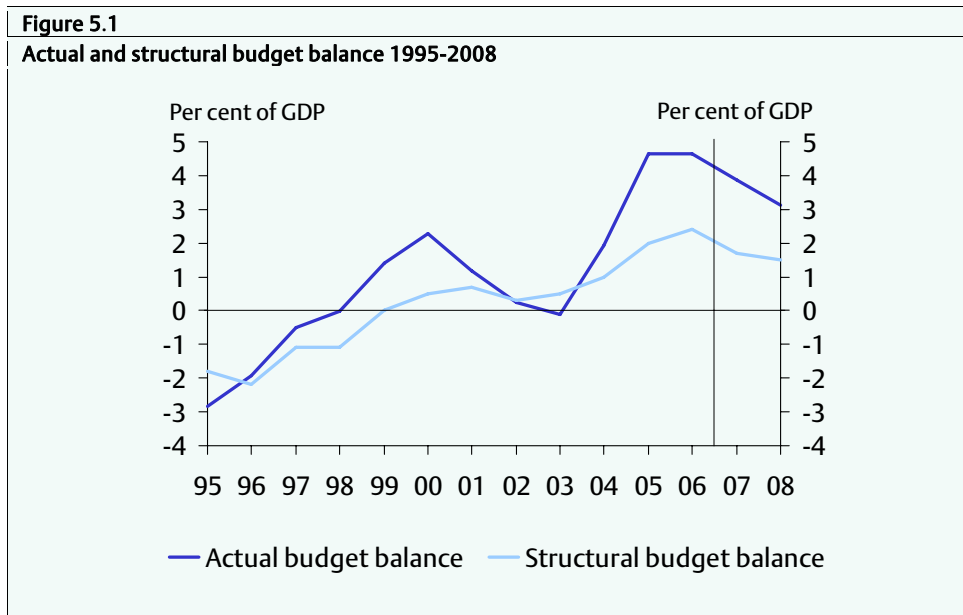
The fiscal easing is primarily due to the growth in real public consumption expenditures by 1.7 per cent and the decrease in the labour market contribution rate from 8.0 to 7.5 per cent.

As in the May projections fiscal policy is estimated to have an almost neutral effect on economic activity in 2007. Real public consumption expenditure growth in 2007 has been adjusted upwards from 1.3 per cent to 1.8 per cent, but the estimated fiscal effect is more than offset by a downward adjustment in real public investment expenditure growth in 2007 due to an upward revision of the investments in 2006.

5.3 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 1¼ per cent of GDP in 2007 and 1½ per cent of GDP in 2008, cf. figure 5.1. This is in line with the 2015-plan which presupposes structural surpluses between ¾ and 1¼ per cent of GDP in the 2007-2010 period.



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 1.0 per cent of GDP from 2003 to 2008 primarily due to lower net interest payments, *cf. table 5.5*.

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.

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	0.5								
2004	1.0	0.5	-0.9	-0.1	0.2	0.3	0.0	0.5	0.5
2005	2.0	1.0	-0.1	0.2	0.1	0.3	0.0	0.2	0.3
2006	2.4	0.4	-0.3	0.5	0.1	0.3	0.0	-0.1	-0.1
2007	1.7	-0.7	-0.1	0.1	0.1	0.3	0.0	0.1	-1.2
2008	1.5	-0.2	-0.4	-0.1	0.0	0.2	-0.1	0.1	0.1
Total	-	1.0	-1.8	0.6	0.5	1.4	-0.1	0.8	-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.

5.4 Central government finances

The central government budget proposal for 2008 implies a surplus on the current, investment and lending account, i.e. the CIL-account¹, of approx. DKK 61¼bn or 3.5 per cent of GDP in 2008, cf. table 5.6.

The CIL-account in 2007 is estimated at approx. DKK 74¾bn which corresponds to 4.4 per cent of GDP.

	2007			2008
	May	August	Diff.	Budget proposal
DKK bn, current prices				
Total revenues	636.4	629.4	-7.0	639.6
Total expenditures	554.1	554.6	0.5	578.3
CIL-account	82.3	74.8	-7.5	61.3
CIL-account (per cent of GDP)	4.8	4.4	-0.4	3.5

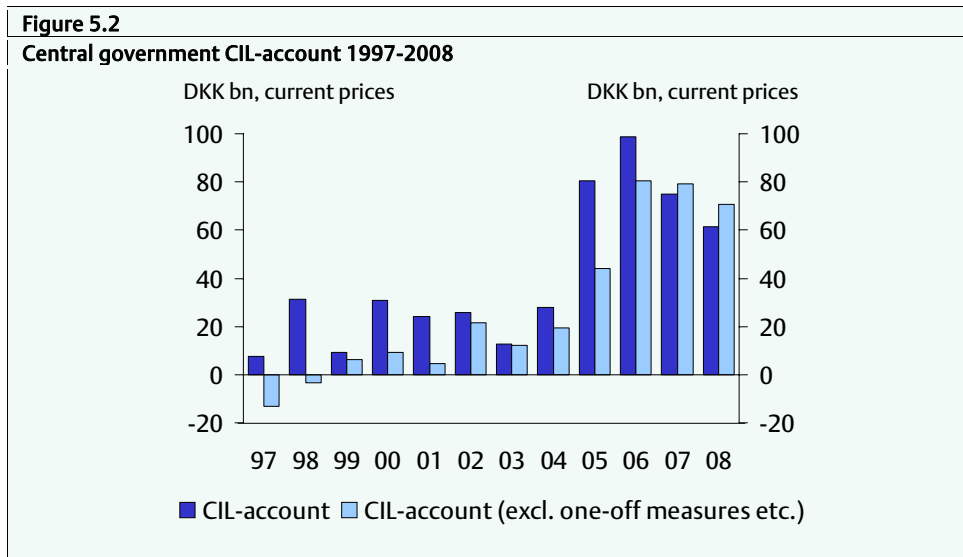
¹ The CIL-account differs from the central government balance in the national accounts with respect to the accruals concept (e.g. taxes), the treatment of financial transactions etc. In addition, some institutions that are part of the central government accounts are not considered part of the central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

The estimated surpluses in 2007 and 2008 are influenced by the cyclical position of the economy and extraordinary large revenues from the North Sea oil and gas activities. The CIL-account is also improved due to the suspension of Special Pension contributions in both 2007 and 2008 which increases tax revenues.

The CIL-surplus is sensitive to oil price changes and financial markets fluctuations. The pension yield tax is especially sensitive to interest rate and stock market fluctuations.

The CIL-surplus in 2007 has been downward adjusted by approx. DKK 7½bn compared to the May projections. The downward adjustment in 2007 is mainly due to a downward adjustment in revenues from the pension yield tax by approx. DKK 8¼bn and a downward adjustment in revenues from value added taxes and excise duties by almost DKK 3½bn compared to the May projection. An upward adjustment in revenues from personal taxes by DKK 2¼bn increases the CIL-surplus in 2007.

Excluding one-off measures the CIL-account surplus is estimated at approx. DKK 79¼bn in 2007 and approx. DKK 71bn in 2008, *cf. figure 5.2*. The correction of the CIL-account in both years is mainly due to extraordinary low revenues from the pension yield tax.



5.5 Central government financing requirement and debt

Central government debt measured as a percentage of GDP is estimated to decrease by approx. 4¼ percentage points from 2006 to 2007 and another 3½ percentage points from 2007 to 2008, *cf. table 5.7*.

Measured in nominal terms a decrease in central government debt is expected by DKK 110.6bn from DKK 328.1bn in 2006 to DKK 217.6bn in 2008.

The expected surplus on the CIL-account is higher 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.

	2006	2007	2008
End of year, nominal value			
Central government debt, DKK bn	328.1	269.8	217.6
Relending to infrastructure entities etc. ¹⁾	27.5	29.6	31.8
Central government debt, adjusted for relending	300.6	240.2	185.8
Central government debt, per cent of GDP	20.0	15.8	12.3
Central government debt, adjusted for relending, per cent of GDP	18.3	14.1	10.5

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

In 2007 the increase in liquidity, measured as net balance, is estimated at approx. DKK 60.9bn, *cf. table 5.8*. The estimate is revised downwards compared to the May projection in which a net balance of DKK 68.2bn was estimated. The net balance is estimated to DKK 54.3bn in 2008.

	2007	2008
	August	Budget Proposal
DKK bn		
CIL-account	74.8	61.3
Total relending ¹⁾	-9.6	-5.5
Differences between posted revenues and expenditures and cash flow	-4.4	-1.5
Net financing requirement (-net balance)	-60.9	-54.3

1) Including relending to infrastructure entities.

The central government gross financing requirement is expected to be DKK 25.9bn in 2007, *cf. table 5.9*. This will be covered by payments of DKK 30.5bn to the central government in currency swaps, and the central government account in the Danish Central Bank will be increased by DKK 4.6bn. In 2008 the gross financing requirement is expected to be DKK 38.1bn of which DKK 12.8bn is expected to be covered by borrowing.

Table 5.9		
Gross financing requirement and state borrowing, 2007-2008		
	2007	2008
	August	Budget Proposal
DKK bn		
Net financing requirement (-net balance)	-60.9	-54.3
Redemption of central government debt	86.7	92.4
Gross financing requirement	25.9	38.1
- Payments from/to the central government in currency swaps	30.5	25.3
- Drawing on the central government's account in Danmarks Nationalbank	-4.6	0.0
Borrowing requirement	0.0	12.8

Annex 1

Table 1									
General government finances, 2006-2008									
	2006			2007			2008		
	May	Aug.	Diff.	May	Aug.	Diff.	May	Aug.	Diff.
DKK bn, current prices									
Public consumption	418.3	419.6	1.3	434.6	437.9	3.3	451.0	457.7	6.7
Income transfers	254.6	255.0	0.4	260.4	259.2	-1.2	270.2	269.8	-0.4
Investment	30.2	31.8	1.6	28.4	28.4	0.0	29.3	30.5	1.2
Interest expenditure	35.8	36.2	0.4	32.8	32.1	-0.7	30.2	29.9	-0.2
Subsidies	36.7	35.8	-0.9	38.9	39.9	1.0	40.9	40.8	0.0
Other expenditures ¹⁾	45.7	43.7	-2.0	47.0	48.1	1.1	48.9	55.2	6.3
Total expenditure	821.4	822.3	0.9	842.0	845.6	3.6	870.4	884.0	13.5
Personal income taxes²⁾									
Labour market contributions	71.4	69.6	-1.7	75.0	76.2	1.1	77.7	74.2	-3.5
Corporate taxes	59.0	64.1	5.0	53.5	56.0	2.6	55.9	57.9	1.9
Pension yield taxation	13.7	13.7	0.0	13.8	8.3	-5.5	13.1	11.8	-1.3
VAT	167.6	167.9	0.3	176.0	175.4	-0.7	182.5	181.9	-0.6
Vehicle registration fee	24.3	24.5	0.1	24.9	22.7	-2.1	24.1	23.3	-0.8
Other duties	99.5	99.1	-0.4	99.7	99.7	0.1	99.5	100.3	0.8
Other taxes ³⁾	17.6	17.0	-0.6	17.8	17.8	0.0	18.3	18.5	0.2
Interest revenues	21.4	21.7	0.3	23.1	22.6	-0.5	22.8	23.3	0.5
Gross operating surplus	28.8	28.8	0.0	29.3	29.2	0.0	29.6	29.6	0.0
Other revenues ⁴⁾	45.1	48.1	3.1	43.0	43.7	0.7	43.3	43.7	0.4
Total revenue	890.4	898.8	8.4	913.0	911.8	-1.2	929.7	939.2	9.5
General government budget balance	69.1	76.5	7.4	71.0	66.2	-4.8	59.3	55.2	-4.0
Net interest expenditure	14.3	14.5	0.1	9.6	9.5	-0.2	7.4	6.6	-0.7
General government primary balance⁵⁾	83.4	91.0	7.6	80.7	75.7	-5.0	66.6	61.9	-4.8
<p>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.</p> <p>1) Other expenditures include capital transfers, transfers to the Faroe Islands and Greenland and Danish EU-contributions.</p> <p>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.</p> <p>3) Other taxes include social security contributions (labour market supplementary pension scheme contributions, unemployment insurance contributions and early retirement contributions).</p> <p>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.</p> <p>5) The general government primary balance states the balance of the general government finances before net interest expenditures.</p>									

Annex 2

	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	25.6	25.6	25.8	0.1
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	1.9	1.7	1.7	-0.2
Interest expenditure	4.0	3.8	3.4	3.1	2.6	2.2	1.9	1.7	-2.4
Other expenditure	5.3	5.3	5.2	5.2	5.0	4.8	5.2	5.4	0.1
Expenditure burden¹⁾	53.5	53.8	54.2	53.9	51.7	50.1	49.5	49.8	-3.7
Personal income taxes	22.2	21.9	21.8	21.3	20.9	21.0	21.1	21.1	-1.1
Labour market contributions	4.4	4.5	4.4	4.4	4.3	4.2	4.5	4.2	-0.3
Pension yield taxation	0.1	0.1	0.4	1.6	2.4	0.8	0.5	0.7	0.6
Corporate taxes	2.8	2.9	2.9	3.2	3.8	3.9	3.3	3.3	0.5
Value added tax	9.6	9.6	9.6	9.8	10.0	10.2	10.3	10.2	0.6
Other duties	7.8	7.9	7.8	7.9	7.9	7.7	7.4	7.2	-0.6
Other taxes	1.7	1.2	1.2	1.2	1.0	1.0	1.0	1.0	-0.7
Tax burden	48.6	48.0	48.1	49.4	50.4	48.9	48.0	47.7	-0.9
Interest revenue	1.8	1.5	1.5	1.5	1.3	1.3	1.3	1.3	-0.5
Other non-tax revenue	4.5	4.7	4.9	5.4	4.8	4.7	4.3	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	54.7	53.4	52.9	-1.8

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.