

# Budget Outlook 3, December 2012

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The international economy has been worse than expected this year. As a consequence recovery of the Danish economy has a longer prospect. GDP-growth is estimated at -0.4 per cent in 2012.

The actual budget balance is also weakened by the worsening of the economic outlook, and is estimated to show a deficit of 4 per cent of GDP in 2012, 2½ per cent of GDP in 2013 and 2¾ per cent of GDP in 2014

The structural budget balance is expected to improve by 1½ per cent of GDP from 2010 to 2013 in line with the EU recommendation. This is among other things due to the fact that the budget agreement for the central government in 2013 and the budget scheme for the municipalities and regions in 2013 are fully financed.

The agreement for the central government budget for 2013 contains an extraordinary effort on the labour market for the recipients on long term unemployment benefit. Moreover there is a strengthening of the environmental effort and creation of new green jobs. Furthermore the tax on fat together with the planned extension of the tax basis for the tax on chocolate is abolished.

## General government finances

The estimates for the general government finances in 2012, 2013 and 2014 are based on the short term projections for the Danish economy, cf. *Economic Survey*, December 2012.

In addition the estimates for 2012 are derived from the central government budget for 2012, an updated status for the central government spending in 2012, the local government budgets for 2012 and an updated status for the local governments spending until the 3<sup>rd</sup> quarter 2012. With respect to 2013 the estimates are based on the central and local government budgets for 2013. For 2014 the estimates are primarily based on the short term projections and some technical assumptions based on the Convergence Programme for 2012.

The general government deficit is estimated at DKK 71¾bn in 2012 or 3.9 per cent of GDP, and DKK 46½bn corresponding to 2½ per cent of GDP in 2013, cf. *table 1*. The first estimate for 2014 stands a deficit of 2¾ percent of GDP.

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

**Table 1**  
**General government budget balance, 2007-2014**

	2007	2008	2009	2010	2011	2012	2013	2014
<b>DKK bn. current prices</b>								
August 2012	81.4	57.6	-45.9	-47.4	-34.5	-73.4	-36.5	-
<b>December 2012</b>	<b>81.4</b>	<b>57.6</b>	<b>-46.1</b>	<b>-47.4</b>	<b>-34.9</b>	<b>-71.7</b>	<b>-46.4</b>	<b>-54.0</b>
<b>December 2012 (per cent of GDP)</b>	<b>4.8</b>	<b>3.3</b>	<b>-2.8</b>	<b>-2.7</b>	<b>-2.0</b>	<b>-3.9</b>	<b>-2.5</b>	<b>-2.8</b>

Compared to the projection in August the general public deficit is downward adjusted with 1¼bn in 2012 and upward adjusted with 9¼bn in 2013 cf. *table 2*. The revision covers among other things weaker cyclical conditions which decrease revenues from labour market contributions, personal taxes and the value added tax. Moreover the repayment of early retirement contributions in 2012 has been upward adjusted by 4¼ bn. in 2012.

On the contrary public consumption expenditures have been downward adjusted by 8 bn. in 2012. The adjustment reflects reduced expenditures in the municipalities, regions and central government compared to the budget.

The weakening of the general government budget balance since 2008 is primarily due to the international economic crisis and expansionary fiscal policy in 2009 and 2010. Moreover in 2012 it is possible to leave the early retirement scheme and cash the payments, which increases the government deficit temporarily by approx. 1¼ per cent of GDP in 2012.

**Table 2**  
Revision of the general government budget balance from August to December

	2011	2012	2013
<b>DKK bn, current prices</b>			
North Sea oil and gas exploration activities	-0.5	0.9	-1.0
Corporate taxes excluding North Sea oil and gas exploration activities	0.5	2.1	1.0
Pension yield taxation	0.7	-0.3	0.1
Labour market contribution	0.7	-0.4	-0.6
Personal taxes etc.	-4.1	-3.9	-1.9
Value Added Tax	0.0	-3.0	-2.8
Vehicle registration tax	0.0	-0.6	-0.3
Other taxes and duties	0.0	-0.6	-2.8
Public consumption expenditures	1.3	8.0	1.3
Public investment expenditures	0.2	0.5	-0.5
Income transfers	0.1	2.5	1.0
Net interest expenditures and dividends	0.0	1.6	-1.6
Subsidies	0.8	-0.5	-1.2
Repayment of early retirement contributions	0.0	-4.3	0.0
Other expenditures and revenues	-0.2	-0.3	-0.5
<b>Total revision of general government budget balance</b>	<b>-0.5</b>	<b>1.6</b>	<b>-9.8</b>

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.

The general government budget deficit has been revised upwards by the Statistics Denmark from DKK 34½bn to DKK 35bn in 2011. This revision reflects lower expenditures for public consumption and subsidies by DKK 2bn, but also lower revenue from personal taxes etc. of DKK 4bn which in total leads to a higher deficit.

The general government budget and the budget schemes for municipalities and regions for 2013 are together neutral for the general government finances. The tax revenues are downward adjusted in 2012 and 2013 as a consequence of the weakened cyclical situation. However in 2012 this is offset by a downward adjustment of public consumption by DKK 8bn.

The estimate for the general government finances in 2013 is subject to great uncertainty. This uncertainty is due to the fact that the *tax reform, June 2012*, allows existing capital pensions to be transferred to a new pension scheme if a tax is paid in 2013. It is technically assumed that the revenue from the tax is DKK 5bn, but it can be significantly larger.

The expenditure burden, i.e. the ratio of government expenditure to GDP, is estimated at 58¼ per cent of GDP in 2012, 56½ per cent of GDP in 2013 and 56 per cent of GDP in 2014, cf. *table 3* and *annex 2*.

The expenditure burden rises from 2011 to 2012 by 2 percentage points and decreases by 1¾ percent of GDP from 2012 to 2013. This is primarily due to repayments of early retirement contributions in 2012, which increases public expenditures by 1½ percent of GDP in 2012.

**Table 3**  
Expenditure, tax and revenue burden, 2007-2014

	2007	2008	2009	2010	2011	2012	2013	2014
<b>Per cent of GDP</b>								
Expenditure burden	50,0	50,6	56,8	56,3	56,3	58,3	56,6	56,0
Tax burden	49,1	47,9	47,9	47,6	47,9	48,5	48,5	47,7
Revenue burden	54,8	53,9	54,1	53,6	54,4	54,4	54,2	53,2

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. From 2012 to 2013 the tax burden is largely unchanged.

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

## Fiscal stance

The *fiscal effect* is an indicator of fiscal policy stance. The fiscal effect measures the impact of fiscal policy changes on economic activity.

The fiscal effect is estimated at 0.1 per cent of GDP in 2012, -0.3 per cent of GDP in 2013 and 0.0 per cent of GDP in 2014, cf. *table 4*.

**Table 4**  
**Fiscal effect, 2007-2014**

	2007	2008	2009	2010	2011	2012	2013	2014
<b>Per cent of GDP</b>								
Expenditures	0.1	0.0	1.0	0.2	-0.5	0.0	0.0	0.0
Revenues	0.0	0.0	0.2	0.3	-0.1	0.1 <sup>1)</sup>	-0.3 <sup>1)</sup>	0.0
<b>Fiscal effect, incl. early retirement contributions</b>	<b>0.1</b>	<b>0.0</b>	<b>1.2</b>	<b>0.5</b>	<b>-0.6</b>	<b>0.1</b>	<b>-0.3</b>	<b>0.0</b>
Special pension scheme (SP)			0.3	0.0	-0.2	-	-	-

1) Incl. early retirement contributions.

The fiscal tightening in 2011 primarily follows from the consolidation of the public economy, including a negative real growth in public consumption of 1.5 per cent and tax increases in *The Fiscal Consolidation Agreement* and *Spring Package 2.0*. The negative real growth in public consumption lowers the fiscal effect by -0.5 per cent of GDP.

In 2012 the fiscal effect is almost neutral. The ease of fiscal policy in 2012 reflects the fiscal stimulus package *Kick-start* and repayments of the early retirement contributions of DKK 28½bn. This increases the fiscal effect in 2012, while tax increases in *The Fiscal Consolidation Agreement*, the budget for 2012 and a decrease in the public employment by 7000 people reduces the fiscal effect.

In 2013 the fiscal effect is estimated at -0.3 per cent of GDP. This reflects the budget schemes for municipalities and regions for 2013, the central government budget, the tax reform, the *Spring Package 2.0*, *The Fiscal Consolidation Agreement* and the budget for 2012.

The investment window in the tax reform, the fiscal stimulus package *Kick-start* and other initiatives are estimated to increase the growth in GDP in 2012 and 2013. These effects are consequences of political decisions, but are not included in the fiscal effect. The overall fiscal policy and other economic-political initiatives for 2012 and 2013 are estimated to support growth with ¼ percent of GDP in 2012 and ½ percent of GDP in 2013.

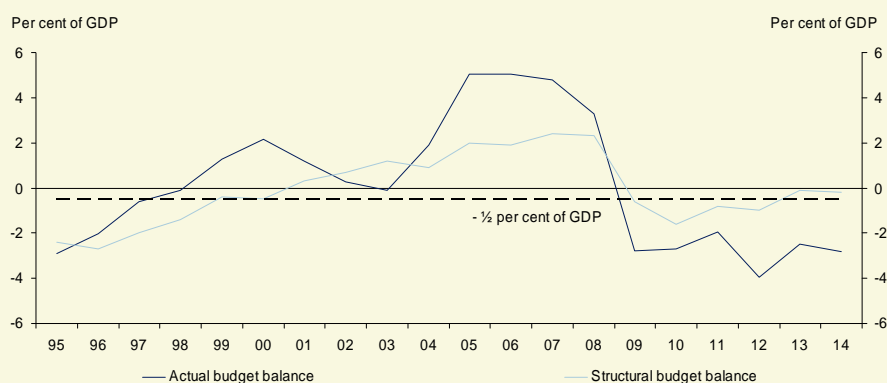
## Structural budget balance

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 and 2014 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 per cent 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, 1995-2014



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 67¼bn in 2012 on the current, investment and lending account – the so-called CIL-account<sup>1</sup> – corresponding to 3.7 per cent of GDP, *cf. table 5*. The CIL-account deficit in 2013 is estimated at DKK 17½bn corresponding to 0.9 per cent of GDP.

**Table 5**  
CIL-account, 2012-2013

	2012			FFL13	2013	
	August	December	Diff.		FL13	Diff.
<b>DKK bn, current prices</b>						
Total revenues	630.7	629.8	-0.9	684.7	672.9	-11.8
Total expenditures	702.1	697.5	-4.6	689.9	690.4	0.4
<b>CIL-account</b>	<b>-71.5</b>	<b>-67.7</b>	<b>3.8</b>	<b>-5.2</b>	<b>-17.5</b>	<b>-12.3</b>
CIL-account (per cent of GDP)	-3.9	-3.7	0.2	-0.3	-0.9	0.7

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 28¼ per cent of GDP in 2013 corresponding to an increase of approx. 5 percentage points, *cf. table 6*. Measured in nominal terms central government debt is estimated to increase from DKK 414bn in 2011 to DKK 525½bn in 2013 corresponding to an increase of DKK 111¼bn 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 6**  
**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	665.0	656.6	10.7
Foreign debt	111.8	89.6	77.5	-34.3
The central government's account in Danmarks Nationalbank	-222.6	-158.7	-112.4	110.2
Fund holding of bonds <sup>1)</sup>	-121.2	-106.2	-96.0	25.2
<b>Central government debt DKK bn</b>	<b>413.9</b>	<b>489.7</b>	<b>525.6</b>	<b>111.7</b>
<b>Central government debt per cent of GDP</b>	<b>23.1</b>	<b>27.0</b>	<b>28.2</b>	<b>5.1</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 78½bn, *cf. table 7*. Compared to the estimate in August this is a downward adjustment in the financing requirement of approx. DKK 5½bn primarily reflecting a lower deficit on the CIL-account.

In 2013 the net financing requirement is estimated at DKK 38bn reflecting an expected deficit on the CIL-account of DKK 17½bn.



**Table 7**  
**CIL-account and net financing requirement, 2011-2013**

	2011	2012		2013	
	Final	August	December	FFL13	FL13
<b>DKK bn (Current prices)</b>					
<b>CIL-account</b>	-33.1	-71.5	-67.7	-5.2	-17.5
Total relending	2.9	-12.9	-10.3	-24.3	-17.8
Differences between posted revenues and expenditures and cash flow	0.1	0.5	0.5	-4.1	-2.6
<b>Net financing requirement (-net balance)</b>	<b>30.2</b>	<b>83.9</b>	<b>78.5</b>	<b>33.7</b>	<b>38.0</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 188bn. The downward adjustment of DKK 3bn compared to the August estimate reflects a smaller financing requirement *cf. table 8*.

**Table 8**  
**Domestic financing requirement, 2012 and 2013**

DKK bn	2012		2013	
	August	December	FFL13	FL13
<b>Net domestic financing requirement</b>	86	80	34	37
Repayment of long term debt <sup>1)</sup>	62	63	58	57
Repayment of treasury bills <sup>2)</sup>	44	44	44	44
<b>Domestic financing requirement</b>	<b>191</b>	<b>188</b>	<b>136</b>	<b>139</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 139bn. The higher domestic financing requirement in 2013 than in 2012 is primarily due to a larger net financing requirement.

The foreign financing requirement for 2012 is estimated to DKK 33bn in 2012, *cf. table 9*. In 2013 the foreign financing requirement is estimated at DKK 25bn.

**Table 9**  
**Foreign financing requirement 2012 and 2013**

DKK bn	2012		2013	
	August	December	FFL13	FL13
<b>Net foreign net financing requirement</b>	-2	-2	0	0
Repayment of long term debt <sup>1)</sup>	32	32	22	22
Repayment of treasury bills <sup>2)</sup>	2	2	2	2
<b>Foreign financing requirement</b>	<b>33</b>	<b>33</b>	<b>25</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		
	Aug.	Dec.	Diff.	Aug.	Dec.	Diff.	Aug.	Dec.	Diff.
<b>DKK bn.</b>									
<b>Current prices</b>									
Public consumption	509.5	508.1	-1.3	527.6	519.6	-8.0	535.4	534.1	-1.3
Income transfers	312.4	312.3	-0.1	325.9	323.3	-2.5	335.6	334.5	-1.0
Investment	40.1	40.0	-0.2	43.8	43.3	-0.5	39.5	40.0	0.5
Interest expenditure	37.5	37.6	0.0	35.8	35.2	-0.6	33.5	34.2	0.7
Subsidies	46.4	45.7	-0.8	49.7	50.1	0.5	49.4	50.6	1.2
Other expenditures <sup>1)</sup>	65.4	65.2	-0.2	85.8	89.4	3.6	63.3	62.8	-0.5
<b>Total expenditure</b>	<b>1011.4</b>	<b>1008.8</b>	<b>-2.6</b>	<b>1068.5</b>	<b>1061.0</b>	<b>-7.5</b>	<b>1056.7</b>	<b>1056.2</b>	<b>-0.4</b>
Personal income taxes <sup>2)</sup>	371.1	367.1	-4.1	380.9	376.9	-3.9	408.2	406.3	-1.9
Labour market Contributions	80.4	81.1	0.7	82.1	81.7	-0.4	83.9	83.3	-0.6
Corporate taxes	49.8	49.8	0.0	52.9	55.5	2.6	57.1	57.3	0.3
Pension yield taxation	37.4	38.1	0.7	43.2	42.9	-0.3	20.7	20.8	0.1
VAT	177.9	177.8	0.0	184.6	181.6	-3.0	190.9	188.1	-2.8
Vehicle registration tax	14.3	14.3	0.0	14.5	13.9	-0.6	16.1	15.8	-0.3
Other duties	109.0	109.0	0.0	110.9	110.4	-0.6	117.1	114.2	-2.9
Other taxes <sup>3)</sup>	18.1	18.1	0.0	17.2	17.1	0.0	16.6	16.6	0.0
Interest revenues	29.1	29.1	0.0	29.2	30.5	1.3	32.8	31.7	-1.1
Gross operating surplus	34.7	34.3	-0.4	36.2	35.1	-1.1	37.1	36.3	-0.8
Other revenues <sup>4)</sup>	55.3	55.2	0.0	43.6	43.9	0.2	39.7	39.5	-0.2
<b>Total revenue</b>	<b>977.0</b>	<b>973.9</b>	<b>-3.1</b>	<b>995.2</b>	<b>989.3</b>	<b>-5.8</b>	<b>1020.1</b>	<b>1009.9</b>	<b>-10.3</b>

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

	2011			2012			2013		
	Aug.	Dec.	Diff.	Aug.	Dec.	Diff.	Aug.	Dec.	Diff.
<b>DKK bn.</b>									
<b>Current prices</b>									
<b>General government budget balance</b>	-34.5	-34.9	-0.5	-73.4	-71.7	1.6	-36.5	-46.4	-9.8
Net interest Expenditure	8.5	8.5	0.0	6.6	4.8	-1.9	0.7	2.5	1.8
General government primary balance <sup>5)</sup>	-26.0	-26.5	-0.5	-66.7	-67.0	-0.2	-35.8	-43.8	-8.1

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	28.9	28.4	28.6	28.6
Income transfers	15.6	15.2	15.0	17.0	17.2	17.4	17.8	17.9
Investment	2.0	1.9	1.9	2.1	2.1	2.2	2.4	2.1
Interest expenditure	2.2	2.0	1.8	2.2	2.1	2.1	1.9	1.8
Other expenditure	4.9	4.9	5.4	5.7	5.8	6.2	7.7	6.1
<b>Expenditure burden<sup>1)</sup></b>	<b>50.6</b>	<b>50.0</b>	<b>50.6</b>	<b>56.8</b>	<b>56.3</b>	<b>56.3</b>	<b>58.3</b>	<b>56.6</b>
<b>Personal income taxes<sup>2)</sup></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	2.8	2.8	3.0	3.1
Value added tax	10.3	10.4	10.1	10.2	9.8	9.9	10.0	10.1
Other duties	7.8	7.6	7.2	6.8	7.0	7.1	7.0	7.1
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>47.9</b>	<b>47.6</b>	<b>47.9</b>	<b>48.5</b>	<b>48.5</b>
<b>Revenue</b>								
Interest revenue	1.5	1.6	1.7	1.9	1.6	1.6	1.7	1.7
Other non-tax revenue	4.6	4.4	4.5	4.4	4.5	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>54.1</b>	<b>53.6</b>	<b>54.4</b>	<b>54.4</b>	<b>54.2</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.

