Budget Outlook 1, May 2013

The slowdown of the international economy has weakened the outlook for the Danish economy in 2013, but growth is expected to gather pace in the second half of this year and into 2014. GDP-growth is estimated to 0.5 per cent in 2013 and 1.6 per cent in 2014.

Agreements on Growth Plan DK (April 2013) includes a number of initiatives that prepare the Danish economy to regain momentum. The aim is to improve productivity and competitiveness and making it more attractive to invest in Danish companies. The initiatives in *Agreements on Growth Plan DK* are described in more detail in *Denmark's Convergence Programme 2013 (April 2013)*.

The weak cyclical position contributes to public deficits these years. The general government deficit is estimated to 1.2 per cent of GDP in 2013 and 1.6 per cent of GDP in 2014.

The estimated general government deficits in 2013 and 2014 are 1.3 per cent of GDP and 1.2 per cent of GDP lower that projected in December. The lower general government deficits reflect i.a. that a technically assumed temporary revenue of DKK 5 bn (¼ per cent of GDP) in 2013 from reallocation of capital pension schemes has been upward adjusted to DKK 20 bn (approx. 1.1 per cent of GDP) in both 2013 and 2014 based on banks' and pension providers' announcements about intentions and advisory services of customers.

Excluding temporary revenue from reallocation of capital pension schemes the public deficits are estimated to 2.3 pct. of GDP in 2013 and 2.7 pct. of GDP in 2014.

The general government deficit is thus expected to be reduced to below 3 pct. of GDP in 2013, while the structural budget balance is strengthened by 1½ pct. of GDP from 2010 to 2013. This is consistent with the requirements in the EU-recommendation.

The overall fiscal framework for 2014 is determined by *Agreements on Growth Plan DK (April 2013)* – including the agreements on a cash benefit reform, a reform of study grants and a dampened growth in public consumption – and the requirements in the budget law (June 2012) including a new system of expenditure ceilings for central government, municipalities and regions. Fiscal policy in 2014 is definitively determined, when the fiscal bill for 2014 is finalized.

General government finances

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

Furthermore, the estimates for 2013 are based on the central government budget for 2013, an updated status for central government spending in 2013, local government budgets for 2013 and the agreement between the government and Local Government Denmark (January 2013) to increase investments by DKK 2bn in 2013 financed by lower consumption expenditure. In addition, the effects of the collective agreements in the public sector and *Agreements on Growth Plan DK* have been taken into account.

The estimates for 2014 are primarily based on the short term projections and *Agreements on Growth Plan DK*, including the dampened growth in public consumption, which is supported by expenditure ceilings for central government, municipalities and regions. The expenditure ceilings run for a continuous 4-year period and must be adopted in the Parliament. Fiscal policy in 2014 is definitively determined, when the fiscal bill for 2014 is finalized.

According to preliminary data on general government finances from Statistics Denmark, the general government deficit amounted to DKK 75½bn in 2012 or 4.1 per cent of GDP, *cf. table 1*.

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
DKK bn. current prices								
December 2012	81.4	57.6	-46.1	-47.4	-34.9	-71.7	-46.4	-54.0
May 2013	**81.4**	**57.6**	**-46.1**	**-47.4**	**-34.9**	**-75.4**	**-23.0**	**-31.1**
May 2013 (per cent of GDP)	**4.8**	**3.3**	**-2.8**	**-2.7**	**-2.0**	**-4.1**	**-1.2**	**-1.6**

Compared to the short term projection in December 2012 the general government budget deficit in 2012 is upward adjusted by 0.2 per cent of GDP (DKK 3¾bn). The revision primarily reflects lower revenues from taxes and duties and higher net interest expenditure, *cf. table 2*. The public deficit in 2012 is affected by the repayments of early retirement contributions, which increases public expenditures by 1½ per cent of GDP.

The deficit is downward adjusted by 1.3 per cent of GDP (DKK 23½bn) in 2013 and 1.2 per cent of GDP (DKK 23bn) in 2014 compared to the December projection. These adjustments primarily reflect the upward adjustment of the previously technically assumed temporary revenue from reallocation of capital pension schemes, *cf. before*. Moreover, the expected revenue from pension yield taxation has been upward adjusted, while revenues from personal taxes, the value added tax, and the vehicle registration tax has been downward adjusted due to the weaker business cycle.

The estimated general government deficits in 2013 and 2014 are subject to large uncertainty given the uncertainty associated with the temporary revenue of approx 1.1 per cent of GDP in 2013 and 2014.

The lower public deficits in 2013 and 2014 compared to 2012 thus reflect the repayment of early retirement contributions in 2012 and temporary revenue from the reallocation of capital pensions in 2013 and 2014.

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.

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

	2012	2013	2014
DKK bn, current prices			
North Sea oil and gas exploration activities	-1.0	-2.4	-1.3
Corporate taxes excluding North Sea oil and gas exploration activities	0.5	0.0	-0.3
Pension yield taxation	-0.6	21.5	9.7
Capital pension	0.0	15.0	20.0
Labour market contribution	0.0	-0.3	0.0
Personal taxes etc.	-0.8	-6.3	-1.5
Value Added Tax	0.0	-4.4	-4.3
Vehicle registration tax	-0.1	-2.0	-1.9
Other taxes and duties	-1.4	-2.8	-4.5
Public consumption expenditures	-0.5	4.6	6.6
Public investment expenditures	-0.1	-0.7	-2.6
Income transfers	1.0	1.9	3.1
Net interest expenditures and dividends	-2.6	-1.9	-1.1
Subsidies	2.4	0.7	0.6
Other expenditures and revenues	-0.5	0.5	0.4
Total revision of general government budget balance	**-3.7**	**23.4**	**23.0**

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.

The expenditure burden, i.e. the ratio of government expenditure to GDP, increased from 56¼ per cent of GDP in 2011 to 58¼ per cent of GDP in 2012, *cf. table 3* and *annex 2*. Public expenditures in 2012 are affected by the repayments of early retirement contributions, which increase public expenditures by 1½ per cent of GDP. The expenditure burden is estimated to 56¾ per cent of GDP in 2013 and 56 per cent of GDP in 2014.

Disregarding the effect from repayments of early retirement contributions in 2012, the expenditure burden is expected to be almost unchanged from 2012 to 2013, while the expenditure burden is reduced by around 1 per cent of GDP from 2013 to 2014.

From 2012 to 2014 public consumption is expected to be reduced from 28.6 per cent of GDP to 28.3 per cent of GDP, reflecting a moderate development in nominal public consumption expenditure due to the collective agreements in the public sector and the *Agreements on Growth Plan DK.*

Furthermore, public investments are expected to decrease from 2.4 per cent in 2012 to 2.2 per cent of GDP in 2014. This should be viewed in light of the fact that public investment was exceptionally high in 2012 due to frontloading of public investments in the *Kick-start.* However, public investment as a share of GDP in 2013 and 2014 is still higher than the historical average for 1990-2011.

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

	2007	2008	2009	2010	2011	2012	2013	2014
Per cent of GDP								
Expenditure burden	50.0	50.6	56.8	56.3	56.3	58.3	56.8	55.9
Tax burden	49.1	47.9	47.9	47.6	47.9	48.4	49.9	48.9
Revenue burden	54.8	53.9	54.1	53.6	54.4	54.2	55.5	54.2

The tax burden increased to 48½ per cent of GDP in 2012 and is estimated to 50 per cent of GDP in 2013 and 49 per cent of GDP in 2014. The temporary revenue from reallocation of capital pension schemes increases personal taxes (and thereby the tax burden) by approx. 1.1 per cent of GDP in 2013 and 2014.

The increase in the tax burden from 2012 to 2013 also reflects tax increases in *Spring Package 2.0*, the *Fiscal Consolidation Agreement* and in the central government budget for 2012.

From 2013 to 2014 the tax burden is reduced by approx. 1 per cent of GDP. The lower tax burden in 2014 is mainly a consequence of reduced revenue from pension yield taxation following a gradual normalisation of interest rates. The tax burden in 2014 is also affected by the gradual reduction of the corporate tax rate and lower duties etc. in *Agreements on Growth Plan DK.*

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 0.0 per cent of GDP in 2012, -0.3 per cent of GDP in 2013 and 0.1 per cent of GDP in 2014, *cf. table 4*.

Table 4
Fiscal effect, 2007-2014

	2007	2008	2009	2010	2011	2012	2013	2014
Per cent of GDP								
Expenditures	0.1	0.1	1.1	0.2	-0.4	-0.1	0.0	0.1
Revenues	0.0	0.0	0.2	0.3	-0.1	0.1[1)]	-0.3[1)]	0.0
Fiscal effect, incl. early retirement contributions	**0.1**	**0.1**	**1.2**	**0.5**	**-0.5**	**0.0**[1)]	**-0.3**[1)]	**0.1**
Special pension scheme (SP)			0.3	0.0	-0.2	-	-	-

Note: The fiscal effect has been recalculated on the basis of new definitions of a neutral fiscal stance, since productivity growth has been downward adjusted to 1¼ per cent per year in the medium term projection. This implies a technical upward adjustment of the fiscal effect of 0.04 per cent of GDP in each year.

1) Incl. early retirement contributions.

In 2012 fiscal policy has been neutral. The frontloading of public investments in the fiscal stimulus package *Kick-start* and the activity effects from repayments of the early retirement contributions contributed to an easing of fiscal policy in 2012. However, tax increases in the *Fiscal Consolidation Agreement* and the budget for 2012 and a decrease in public employment by 10.500 people in 2012 had a reversing effect.

In 2013 the fiscal effect is estimated to -0.3 per cent of GDP. This mainly reflects the discontinuation of the repayment of early retirement contributions in 2012. Apart from this fiscal policy is fairly neutral for activity in 2013. Increased public employment and investments in the railway network has a positive impact on growth, while the reduction in public investments from a historical high level in 2012 reduces activity.

In 2014 the fiscal effect is estimated to 0.1 per cent of GDP. The overall framework for fiscal policy in 2014 is determined by the budget law and *Agreements on Growth Plan DK*. Fiscal policy in 2014 is definitively determined when the fiscal bill for 2014 is finalized.

The investment window in the tax reform, investments in social housing associations etc. in the fiscal stimulus package *Kick-start* and other initiatives are estimated to increase the level of GDP in 2013 and 2014. These effects are consequences of political decisions, but are not included in the fiscal effect. The fiscal policy together with other economic-political initiatives from 2012 onwards is estimated to support the level of GDP by 0.5 percent of GDP in 2013 and 0.3 percent of GDP in 2014.

Structural budget balance

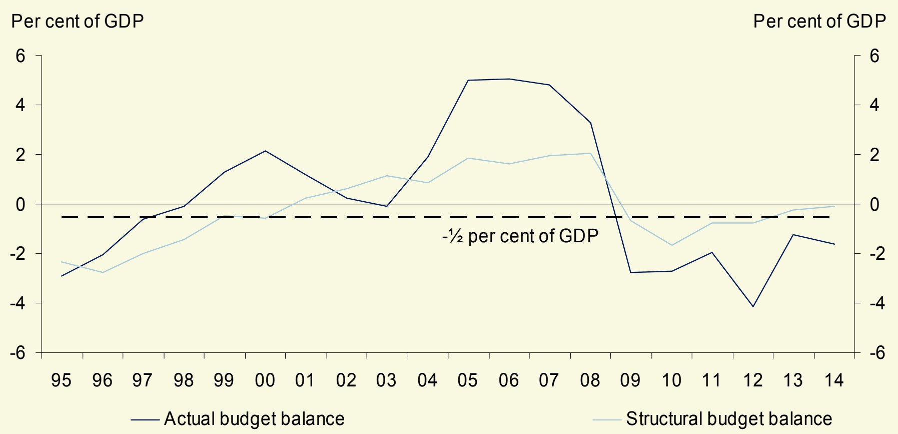
The structural budget balance is the actual general government budget balance adjusted for the estimated impact on the budget from the cyclical position of the economy and other temporary factors.

The structural budget balance is estimated to improve by 1½ percentage points from a deficit of 1.7 per cent of GDP in 2010 to a deficit of 0.2 per cent of GDP in 2013. Thereby Denmark will meet the requirements in the EU-recommendation to reduce the structural deficit by 1½ per cent of GDP in 2011-2013 and reduce the actual budget deficit below 3 per cent of GDP in 2013.

In 2014 the structural budget deficit is estimated to 0.1 per cent of GDP. The structural budget deficit is thus in line with the budget law, according to which the yearly structural budget deficit must not exceed 0.5 per cent of GDP.

From the middle of the 1990s and until 2008 the structural budget balance improved gradually, *cf. figure 1*. Among other things, the improvement reflects a significant fall in the estimated structural unemployment rate, partly derived from various labour market reforms. Furthermore, higher revenues from North Sea activities, and lower public net interest expenses contributed to the improvement. Fiscal policy was overall expansionary in the period from the middle of the 1990s and until 2008 and thereby in isolation fiscal policy thus 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.

Central government finances

According to preliminary data on general government finances from Statistics Denmark, the general government deficit amounted to DKK 75¾bn in 2012 on the current, investment, and lending account – the so-called CIL-account[1] – corresponding to 4.2 per cent of GDP*, cf. table 5*. The CIL-account deficit in 2013 is estimated to DKK 24½bn corresponding to 1.3 per cent of GDP.

[1] 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 5
CIL-account, 2012-2013

	2012			2013		
	December	**May**	**Diff.**	**FL13**	**May**	**Diff.**
DKK bn, current prices						
Total revenues	629.8	618.5	-11.4	672.9	662.0	-10.9
Total expenditures	697.5	694.2	-3.3	690.4	686.6	-3.8
CIL-account	**-67.7**	**-75.7**	**-8.0**	**-17.5**	**-24.6**	**-7.1**
CIL-account (per cent of GDP)	-3.7	-4.2	-0.4	-0.9	-1.3	-0.4

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 6*. Measured in nominal terms, central government debt is estimated to increase from DKK 414bn in 2011 to DKK 526bn in 2013 corresponding to an increase of DKK 112bn over the two years.

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

Table 6
Central government debt, 2011-2013

	2011	2012	2013	Diff. 2011-13
End of year nominal value, DKK bn (current prices)				
Domestic debt	645.9	667.3	658.2	12.3
Foreign debt	111.8	90.0	75.9	-35.9
The central government's account in Danmarks Nationalbank	-222.6	-160.3	-112.0	110.6
Fund holding of bonds[1)]	-121.2	-110.4	-96.2	25.1
Central government debt DKK bn	**413.9**	**486.6**	**525.9**	**112.0**
Central government debt per cent of GDP	**23.1**	**26.7**	**28.4**	**5.3**

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 amounted to DKK 82bn, *cf. table 7*. Compared to the estimate in December, this is an upward adjustment in the financing requirement of approx. DKK 3bn, reflecting primarily a higher deficit on the CIL-account.

In 2013 the net financing requirement is estimated to DKK 36bn, reflecting an expected deficit on the CIL-account of DKK 25bn.

Table 7
CIL-account and net financing requirement, 2012-2013

	2012		2013	
	Dec 12	**Final**	**FL13**	**May 13**
DKK bn (Current prices)				
CIL-account	-67.7	-75.7	-17.5	-24.6
Total relending	-10.3	-7.7	-17.8	-8.2
Differences between posted revenues and expenditures and cash flow	0.5	1.8	-2.6	-2.9
Net financing requirement (-net balance)	**75.8**	**72.7**	**36.0**	**39.4**

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 2013 is estimated to DKK 139bn, which is equivalent to the December estimate, *cf. table 8*.

Table 8
Domestic financing requirement 2013

	FL13	**May 13**
DKK bn		
Net domestic financing requirement	37	35
Repayment of long term debt[1)]	57	59
Repayment of treasury bills[2)]	44	45
Domestic financing requirement	**139**	**139**

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 foreign financing requirement for 2013 is likewise unchanged compared to the estimate in December, and the estimate remains DKK 25bn for 2013, *cf. table 9*.

Table 9
Foreign financing requirement 2012 and 2013

	FL13	May 13
DKK bn		
Net foreign net financing requirement	0	0
Repayment of long term debt[1)]	22	22
Repayment of treasury bills[2)]	2	2
Foreign financing requirement	**25**	**25**

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, 2012-2014

	2012			2013			2014		
	Dec.	**May**	**Diff.**	**Dec.**	**May**	**Diff.**	**Dec.**	**May**	**Diff.**
DKK bn. Current prices									
Public consumption	519.6	520.1	0.5	534.1	529.5	-4.6	545.9	539.3	-6.6
Income transfers	323.3	322.3	-1.0	334.5	332.7	-1.9	343.2	340.1	-3.1
Investment	43.3	43.4	0.1	40.0	40.7	0.7	39.2	41.8	2.6
Interest expenditure	35.2	36.4	1.2	34.2	34.3	0.2	34.9	31.7	-3.2
Subsidies	50.1	47.8	-2.4	50.6	49.9	-0.7	50.3	49.7	-0.6
Other expenditures[1)]	89.4	91.3	1.9	62.8	63.5	0.8	63.4	63.2	-0.3
Total expenditure	1061.0	1061.2	0.2	1056.2	1050.6	-5.6	1077.0	1065.8	-11.2
Personal income taxes[2)]	376.9	376.1	-0.8	406.3	414.9	8.7	410.1	428.6	18.5
Labour market Contributions	81.7	81.7	0.0	83.3	83.0	-0.3	85.1	85.1	0.0
Corporate taxes	55.5	55.5	0.0	57.3	55.2	-2.2	59.0	57.8	-1.2
Pension yield taxation	42.9	42.2	-0.6	20.8	42.3	21.5	16.2	25.9	9.7
VAT	181.6	181.6	0.0	188.1	183.7	-4.4	193.6	189.3	-4.3
Vehicle registration tax	13.9	13.8	-0.1	15.8	13.8	-2.0	16.1	14.2	-1.9
Other duties	110.4	109.3	-1.0	114.2	111.6	-2.6	117.2	112.9	-4.2
Other taxes[3)]	17.1	17.0	-0.2	16.6	16.3	-0.3	16.9	16.6	-0.3
Interest revenues	30.5	28.1	-2.4	31.7	29.8	-1.9	31.1	26.4	-4.7
Gross operating surplus	35.1	35.5	0.4	36.3	36.3	0.0	37.1	37.1	0.0
Other revenues[4)]	43.9	45.0	1.1	39.5	40.7	1.2	40.5	40.7	0.2
Total revenue	**989.3**	**985.8**	**-3.5**	**1009.9**	**1027.7**	**17.8**	**1023.0**	**1034.7**	**11.8**

Table A.1 (continued)
General government finances, 2012-2014

	2012			2013			2014		
	Dec.	**May**	**Diff.**	**Dec.**	**May**	**Diff.**	**Dec.**	**May**	**Diff.**
DKK bn. Current prices									
General government budget balance	**-71.7**	**-75.4**	**-3.7**	**-46.4**	**-23.0**	**23.4**	**-54.0**	**-31.1**	**23.0**
Net interest Expenditure	4.8	8.3	3.5	2.5	4.6	2.1	3.7	5.2	1.5
General government primary balance[5)]	-67.0	-67.1	-0.2	-43.8	-18.4	25.5	-50.3	-25.8	24.4

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, 2007-2014

	2007	2008	2009	2010	2011	2012	2013	2014
Per cent of GDP								
Public consumption	26.0	26.5	29.8	28.9	28.4	28.6	28.6	28.3
Income transfers	15.2	15.0	17.0	17.2	17.4	17.7	18.0	17.8
Investment	1.9	1.9	2.1	2.1	2.2	2.4	2.2	2.2
Interest expenditure	2.0	1.8	2.2	2.1	2.1	2.0	1.9	1.7
Other expenditure	4.9	5.4	5.7	5.8	6.2	7.6	6.1	5.9
Expenditure burden[1)]	**50.0**	**50.6**	**56.8**	**56.3**	**56.3**	**58.3**	**56.8**	**55.9**
Personal income taxes[2)]	21.5	21.3	22.3	20.4	20.5	20.7	22.4	22.5
Labour market Contributions	4.5	4.6	4.8	4.6	4.5	4.5	4.5	4.5
Pension yield taxation	0.3	0.5	0.5	2.1	2.1	2.3	2.3	1.4
Corporate taxes	3.8	3.3	2.3	2.8	2.8	3.0	3.0	3.0
Value added tax	10.4	10.1	10.2	9.8	9.9	10.0	9.9	9.9
Other duties	7.6	7.2	6.8	7.0	7.1	6.9	6.9	6.8
Other taxes[3)]	1.0	1.0	1.0	1.0	1.0	0.9	0.9	0.9
Tax burden	**49.1**	**47.9**	**47.9**	**47.6**	**47.9**	**48.4**	**49.9**	**48.9**
Interest revenue	1.6	1.7	1.9	1.6	1.6	1.5	1.6	1.4
Other non-tax revenue	4.4	4.5	4.4	4.5	5.0	4.4	4.2	4.1
Tariffs etc. to the EU[4)]	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Revenue burden[1)]	**54.8**	**53.9**	**54.1**	**53.6**	**54.4**	**54.2**	**55.5**	**54.2**

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.
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.