

Budget Outlook 3, December 2013

The outlook for the Danish economy shows that the current recovery has gained more momentum during 2013. There are signs of growth in the second half of 2013 and growth is expected to continue in the coming years with GDP growth rates of 1.6 per cent in 2014 and 1.9 per cent in 2015.

General government finances

The estimates for general government finances in 2013-2015 are based on the short term projection for the Danish economy, *cf. Economic Survey, December 2013*.

Furthermore, the estimate for 2013 is based on the central government 2013 Budget, an updated status for central government spending in 2013, local government budgets for 2013, and the agreement between the government and Local Governments Denmark (January 2013) to increase investments by DKK 2bn in 2013 and at the same time lowering consumption expenditure accordingly. In addition, the effects of the wage bargaining in the public sector, *Agreement on temporary labor market benefit*, and those parts of *Agreements on Growth Plan DK* effecting 2013, have been taken into account.

For 2014, the estimate for the general government balance reflects the 2014 Budget and a preliminary status for the overall budgets in municipalities and regions for 2014. Furthermore, the impact of *Agreement on temporary labor market benefit* and *Agreements on Growth Plan DK* have been taken into account.

The estimate for the general government finances in 2015 is based on the short term projection of the Danish economy, the parts of the 2014 Budget that also effects 2015 and technical assumptions based on *Denmark's Convergence Programme 2013*.

The general government deficit is estimated to 0.2 per cent of GDP in 2013 (DKK 3bn) and thus close to balance. The public deficit is estimated to 1.2 per cent of GDP (DKK 22³/₄bn) in 2014 and 2.9 per cent of GDP (DKK 57¹/₂bn) in 2015, *cf. table 1*.

Table 1
General government budget balance, 2007-2014

	2009	2010	2011	2012	2013	2014	2015
General government budget balance, DKK bn current prices	-46.1	-47.9	-36.6	-71.2	-3.0	-22.8	-57.6
General government budget balance (per cent of GDP)	-2.8	-2.7	-2.0	-3.9	-0.2	-1.2	-2.9
General government budget balance excl. one-off measures (per cent of GDP)	-	-	-	-2.4	-1.9	-3.0	-2.8
Structural balance (per cent of GDP)	-0.8	-1.7	-0.9	-0.8	-0.2	-0.5	-0.4

Thus, public deficits in 2013-2015 are estimated to be below 3 per cent of GDP in line with the requirement in Denmark's EU-recommendation, *cf. figure 1*. According to the EU-recommendation, Denmark must bring the actual budget balance sustainably below 3 per cent of GDP by 2013. The recommendation could be repealed in the spring of 2014 if the actual public deficit in 2013 and EU-Commission estimates of the public deficit in 2014-2015 are below 3 per cent of GDP.

In the EU-Commission autumn forecast 2013, the Danish public deficit is estimated to 1.7 per cent of GDP in both 2013 and 2014 and 2.7 per cent of GDP in 2015, *cf. figure 2*.

Figure 1

Actual budget balance incl. and excl. special temporary measures in 2010-15

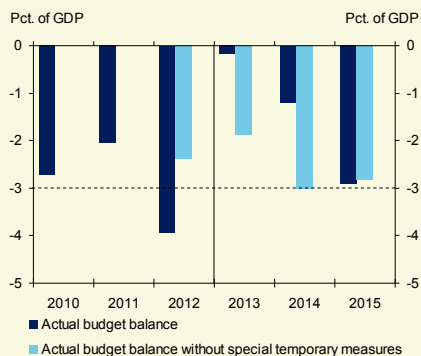
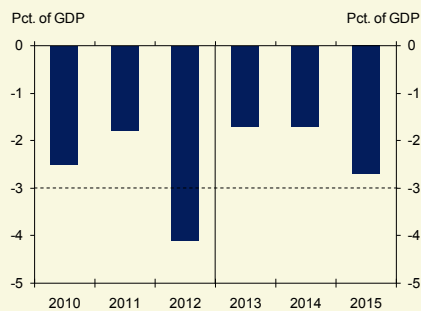


Figure 2

EU-Commission estimates for public deficits for 2010-15

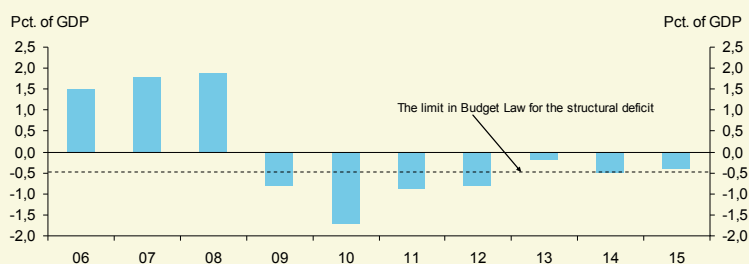


The budget balance is affected by temporary revenues in 2013-14 from the reallocation of capital pension schemes. The reallocation was launched in the tax reform of 2012 and prolonged to 2014 by the *Agreements of Growth Plan DK*. The temporary revenue from the reallocation is estimated to amount to DKK 25bn in 2013 and DKK 30bn in 2014. In addition, ordinary revenues from taxation of capital pension schemes are expected to increase temporarily by DKK 5bn in 2013 and DKK 3bn in 2014.

Excluding these temporary revenues the public deficit is estimated to 1.9 per cent of GDP in 2013 and 3.0 per cent in 2014. When corrected for temporarily lower ordinary revenues from capital pension taxation of DKK 1½bn, the deficit is estimated to 2.8 per cent of GDP in 2015, cf. figure 1.

The deficit on the structural budget balance is estimated to 0.5 per cent of GDP in 2014, cf. figure 3. Thus, it is in compliance with the limit for structural deficits in the Budget Law. According to the Budget Law, the yearly structural deficit cannot exceed ½ per cent of GDP.

Figure 3
Structural balance, 2006-15



The structural deficit in 2015 is estimated at 0.4 per cent of GDP, which is in line with the estimate in *Denmarks Convergence Programme 2013*. There is a relatively small margin in 2015 to the deficit limit in the Budget Law.

Estimates of the general government budget in 2013-14 compared to the estimates in *Budget Outlook 2, August 2013*

The estimated general government budget deficit has been reduced by approximately DKK 28½bn in 2013 and DKK 15¾bn in 2014 compared to the estimates in *Budget Outlook 2*, cf. table 2.

Table 2
Changes of the general government budget balance from *Budget Outlook 2* to *Budget Outlook 3*

Bn DKK	2012	2013	2014
Total revision of general government budget balance	5.5	28.2	15.7
- Reallocation of capital pension schemes	-	10.0	13.0
- Corporate taxes excl. North Sea oil and gas exploration activities	0.0	5.7	5.2
- Pension yield tax	1.4	5.0	-2.1
- North Sea oil and gas exploration activities	0.0	-0.1	-3.2
- Public consumption expenditures	2.2	5.0	0.6
- Public investment expenditures	1.1	-2.0	0.0
- Income transfers	0.7	4.0	3.0
- Other expenditures and revenue	0.2	0.5	-0.7

The lower public deficit primarily reflects an increase in expected revenues from the reallocation of capital pension schemes of DKK 10bn in 2013 and DKK 13bn in 2014 compared to the estimates in *Budget Outlook 2*. Further, corporate tax revenues (excl. North Sea activities)

are estimated to be approximately DKK 5bn higher each year. In 2013, lower expected public consumption expenditures and higher revenues from the pension yield taxation also contribute to a lower estimated public deficit compared to *Budget Outlook 2*.

Expenditure, tax and revenue burden

The expenditure burden was 58.1 per cent of GDP in 2012, *cf. table 3*. The extraordinarily high expenditure burden in 2012 reflects the repayment of early retirement contributions, which increased the public expenditures by almost 1½ per cent of GDP. In 2013-2015 the expenditure burden is expected to be gradually reduced.

Table 3
Expenditure, tax and revenue burden, 2009-2015

	2009	2010	2011	2012	2013	2014	2015
Per cent of GDP							
Expenditure burden	56.8	56.3	56.4	58.1	56.1	55.7	54.7
Tax burden	47.9	47.7	47.9	48.4	50.6	49.5	46.9
Revenue burden	54.1	53.6	54.3	54.2	56.0	54.5	51.8

The tax burden is approximately 48 per cent of GDP in 2009-2012, but is estimated to increase to about 50 per cent of GDP in 2013-2014. The increase primarily reflects an increase in personal income taxes due to the temporary revenues of DKK 55bn from the reallocation of capital pension schemes. The temporary nature of the increase in personal income taxes combined with an expected decrease in the pension yield taxation contribute to an expected reduction in the tax burden from 2013-2015.

Total public revenues amounts to 54.2 per cent of GDP in 2012 and are estimated to increase to 56 percent in 2013. In 2014 and 2015, the revenue burden is estimated to 54.5 per cent and 51.8 per cent of GDP, respectively. This mainly reflects the expected development in the tax burden and an estimated gradually reduction of the public interest rate revenue.

See annex 1 and 2 for more details on public finances.

Expenditure ceilings for central and local government

Fiscal policy in 2014 is planned in accordance with the Budget Law and the expenditure ceilings.

The Budget Law has introduced expenditure ceilings for central government, local government, and regions. The first expenditure ceilings, covering the period from 2014-2017, were adopted in June 2013 by a broad majority in the Danish Parliament. The 2014 Budget and the preliminary status for budgets in municipalities and regions for 2014 are in line with the expenditure ceilings, *cf. table 4*.

Table 4
Expenditure ceilings, 2014

DKK bn (2014-prices)	Central government sub ceiling for operating costs	Central government sub ceiling for income transfers	Local government expenditure ceiling	Regional sub ceiling for health expenditures	Regional sub ceiling for development expenditures
Ceiling	185.8	252.7	230.1	102.6	2.9
2014 Budget and preliminary local government budgets	185.8	250.4	230.0	102.6	2.9

Central government operating expenditures are in 2014 budgeted to be equivalent to the relevant sub ceiling. Higher expenditures covered by the sub ceiling will therefore have to be offset by lower costs or by the reserve for unforeseen expenditures on the 2014 Budget.

On the 2014 Budget expenditures covered by the central government sub ceiling for income transfers amount to DKK 250.4bn., which is approximately DKK 2¼bn below the sub ceiling. The lower expenditure on income transfers compared to the sub ceiling reflects among other things lower expenditures related to sickness benefit and disability pension and the buffer for unexpected expenditures that was included in the expenditure ceiling adopted by Parliament.

Fiscal stance

Fiscal policy and other economic policy initiatives from 2012 onwards are estimated to increase the GDP-level by 0.2 per cent in 2013 and 0.4 per cent in 2014. Thus, fiscal and other economic policy initiatives contribute to GDP-growth by 0.2 per cent in 2014.

The *fiscal effect* (an indicator of fiscal policy stance) measures the impact of fiscal policy changes on economic activity. The one-year fiscal effect contributes negatively by -0.4 per cent of GDP in 2013 and positively by 0.4 per cent in 2014, cf. table 5.

Table 5
Effect on activity of fiscal policy and other economic policy measures from 2012 onwards

Per cent of GDP	2012	2013	2014	2015
<i>GDP level</i>				
Fiscal policy and other economic policy measures	0,3	0,2	0,4	0,0
- hereof fiscal effect incl. multiannual effects	0,1	-0,4	-0,1	-0,3
- hereof other fiscal policy ¹⁾	0,1	0,3	0,1	-0,1
- hereof other investments ²⁾	0,1	0,3	0,4	0,4
<i>Growth contribution</i>				
Fiscal policy and other economic policy measures	0,3	0,0	0,2	-0,5
- hereof one-year fiscal effect	0,1	-0,4	0,4	-0,2

Note: Rounding of figures may cause the total to deviate from the sum of the separate effects on activity in the table.

- 1) In other fiscal policy, an extra effect beyond what is captured by direct budget impact included in the calculation of the fiscal effect is added for the investment window, the HousingJobs scheme and the corporate tax rate reduction in Growth Plan DK. Cf. Vækstplan DK – Teknisk baggrundsrapport for further information of the effects of the HousingJobs scheme and the corporate tax rate reduction.
- 2) Other investments cover investments following the energy agreement, the housing agreement, investments in social housing, climate-related investments in the wastewater sector (cf. agreement on local governments' economy for 2013) and advanced activities in Fehmarnbelt agreed upon in Growth Plan DK.

Source: Statistics Denmark and own calculations

The fiscal effect of -0.4 per cent of GDP in 2013 mainly reflects the discontinuation of the repayment of early retirement contributions in 2012.

In 2014 the fiscal effect is estimated to 0.4 per cent of GDP, reflecting the expected growth rate of public consumption and the effect of *Growth Plan DK*, including the effect of lower taxes and duties following the agreement on the 2014 Budget.

The planned fiscal policy is underpinned by a very expansionary monetary policy and very low interest rates. The responsible economic policy - that adheres to the requirements of the Denmark's EU-recommendation and the requirements of the Budget Law contributes to maintain confidence in economic policy and low interest rates for the benefit of growth and employment.

Central government finances

There is an expected surplus on central government finances (current, investment and lending account – the so-called CIL-account) of DKK 11.9bn or approximately 0.6 per cent of

GDP in 2013. In 2014 a deficit of DKK 12.9bn is expected on the CIL-account, equivalent to 0.7 per cent of GDP, cf. table 6.

Table 6
Central government finances

	2013			2014		
	Budget Outlook 2	Budget Outlook 3	Difference	Budget proposal	Budget bill	Difference
Bn DKK, current prices						
Revenue	666,7	687,4	20,7	666,1	681,6	15,5
Expenditures	684,0	675,6	-8,4	697,2	694,5	-2,7
CIL-account	-17,3	11,9	29,2	-31,2	-12,9	18,3
CIL-account (per cent of GDP)	-0,9	0,6	1,6	-1,6	-0,7	1,0

The significant improvements of the CIL-account since *Budget Outlook 2* are due to higher revenues, in particular from the reallocation of capital pension schemes. In addition, there is also a downward revision of the central government expenditures.

Central government financing requirement and debt

Central government debt measured as a percentage of GDP is estimated to decrease from 26¾ per cent of GDP in 2012 to 25¾ per cent in 2014, corresponding to a decrease of approximately 1 percentage point, cf. table 7. Measured in nominal terms, central government debt is estimated to increase from DKK 486.6bn in 2012 to DKK 492.9bn in 2014 corresponding to an increase of DKK 6bn over the two years.

Table 7
Central government debt, 2012-2014

	2012	2013	2014	Diff. 2012-14
End of year nominal value, DKK bn (current prices)				
Domestic debt	667.3	664.3	679.6	12.3
Foreign debt	90.0	76.5	58.2	-31.8
The central government's account in Danmarks Nationalbank	-160.3	-151.1	-154.9	5.4
Fund holding of bonds ¹⁾	-110.4	-99.4	-90.1	20.3
Central government debt, DKK bn	486.6	490.3	492.9	6.3
Central government debt, per cent of GDP	26.7	26.4	25.8	-0.9

1) The holdings 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, i.e. the effect on liquidity from the central government budget.

The total financing requirement of the central government is equivalent to the sum of the net financing requirement and repayments of short and long term debt. The financing requirement can be met through borrowing or by drawing on the central government's account.

The domestic financing requirement of the central government in 2013 is estimated at DKK 107bn, and thus reduced by DKK 29bn compared to *Budget Outlook 2*, cf. *table 8*.

In 2014 the net financing requirement is estimated at DKK 84bn. The reduction in the domestic financing requirement of DKK 23bn from 2013-2014 is due to a lower expected repayment of long term debt, in addition to a lower expected amount of outstanding treasury bills at the end of 2013.

Table 8
Domestic financing requirement 2013 and 2014

DKK bn	2013		2014	
	<i>Budget Outlook 2</i>	<i>Budget Outlook 3</i>	Budget proposal	Budget bill
Net domestic net financing requirement	32	1	24	4
Repayment of long term debt ¹⁾	59	62	48	48
Repayment of treasury bills ²⁾	45	45	30	32
Domestic financing requirement	136	107	102	84

- 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 estimated at DKK 25bn, which is unchanged compared to the estimate in *Budget Outlook 2*, cf. *table 9*. For 2014, the foreign financing requirement is increased by DKK 3bn, which is primarily due to larger repayments on the long-term debt of the central government.

Table 9
Foreign financing requirement 2013 and 2014

DKK bn	2013		2014	
	<i>Budget Outlook 2</i>	<i>Budget Outlook 3</i>	Budget proposal	Budget bill
Net foreign net financing requirement	0	0	-1	-1
Repayment of long term debt ¹⁾	22	22	27	27
Repayment of treasury bills ²⁾	2	2	2	2
Foreign financing requirement	25	25	28	28

- 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

Public finances, 2009-2015

	2009	2010	2011	2012	2013	2014	2015
DKK bn							
Current prices							
Public consumption	495.9	509.6	508.2	519.5	524.2	537.9	551.5
Income transfers	283.8	304.0	312.5	322.3	328.3	337.4	345.3
Investment	34.3	37.6	40.0	43.6	42.7	44.1	41.0
Interest expenditure	36.7	36.9	38.6	36.5	33.0	30.4	29.9
Subsidies	43.1	44.4	45.8	47.3	50.9	51.1	51.6
Other expenditures ¹⁾	52.1	58.7	64.9	91.7	63.5	63.9	63.8
Total expenditure	945.9	991.3	1010.0	1060.7	1042.7	1064.7	1083.0
<hr/>							
Personal income taxes ²⁾	371.7	358.9	367.7	377.7	423.9	437.6	414.4
Labour market contributions	79.6	80.9	80.4	81.7	83.0	85.2	87.7
Corporate taxes	38.8	49.1	49.9	55.6	61.6	61.1	59.2
Pension yield taxation	8.8	36.5	38.1	43.6	41.5	23.9	18.5
VAT	169.0	173.1	177.8	181.8	184.9	189.9	196.1
Vehicle registration tax	12.5	14.2	14.3	13.8	15.2	16.4	16.8
Other duties	98.2	105.3	108.6	109.1	111.6	113.0	116.3
Other taxes ³⁾	16.4	17.7	18.1	16.6	15.8	16.1	16.3
Interest revenues	31.3	27.9	28.9	28.3	26.1	20.9	19.4
Gross operating surplus	32.2	33.9	34.3	35.0	35.3	36.2	37.1
Other revenues ⁴⁾	41.3	45.8	55.3	45.7	40.8	41.7	43.6
Total revenue	899.8	943.5	973.4	988.8	1039.7	1042.0	1025.3

Table A.1 (continued)
Public finances, 2009-2015

	2009	2010	2011	2012	2013	2014	2015
DKK bn							
Current prices							
General government budget balance	-46.1	-47.9	-36.6	-71.9	-3.0	-22.8	-57.6
Net interest Expenditure	5.5	9.0	9.7	8.2	6.9	9.5	10.4
General government primary balance ⁵⁾	-40.6	-38.9	-26.9	-63.8	3.9	-13.3	-47.2

Note: The specification of total public expenditures and revenues deviates from Statistics Denmark's specification. 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 the 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, 2009-2015

	2009	2010	2011	2012	2013	2014	2015
Per cent of GDP							
Public consumption	29.8	29.0	28.4	28.5	28.2	28.1	27.9
Income transfers	17.0	17.3	17.4	17.7	17.7	17.6	17.4
Investment	2.1	2.1	2.2	2.4	2.3	2.3	2.1
Interest expenditure	2.2	2.1	2.2	2.0	1.8	1.6	1.5
Other expenditure	5.7	5.9	6.2	7.6	6.2	6.0	5.8
Expenditure burden¹⁾	56.8	56.3	56.4	58.1	56.1	55.7	54.7
Personal income taxes ²⁾	22.3	20.4	20.5	20.7	22.8	22.9	20.9
Labour market Contributions	4.8	4.6	4.5	4.5	4.5	4.5	4.4
Pension yield taxation	0.5	2.1	2.1	2.4	2.2	1.3	0.9
Corporate taxes	2.3	2.8	2.8	3.0	3.3	3.2	3.0
VAT	10.2	9.8	9.9	10.0	10.0	9.9	9.9
Other duties	6.8	7.0	7.0	6.9	7.0	6.9	6.9
Other taxes ³⁾	1.0	1.0	1.0	0.9	0.9	0.8	0.8
Tax burden	47.9	47.7	47.9	48.4	50.6	49.5	46.9
Interest revenue	1.9	1.6	1.6	1.6	1.4	1.1	1.0
Other non-tax revenue	4.4	4.5	5.0	4.4	4.1	4.1	4.1
Tariffs etc. to the EU ⁴⁾	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Revenue burden¹⁾	54.1	53.6	54.3	54.2	56.0	54.5	51.8

- 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.
- 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 are categorized and are not included in the tax burden.