

Budget Outlook 2, August 2014

The Danish economy is improving even though the crisis is still present. The positive outlook of the Danish economy is partly driven by a strengthening of the global economy. GDP is expected to grow 1.4 per cent in 2014 and 2.0 per cent in 2015.

The government has taken a number of initiatives to boost demand, especially by maintaining a historical high level of public investments. The measures in the *Growth Agreement* from June 2014 furthermore contribute to strengthened competitiveness of the Danish companies and thus stimulate job creation in Denmark.

The central government budget proposal for 2015 supports job creation and improves public service within the framework of a sound and responsible economic policy. The central government budget proposal and the agreements with local governments for 2015 are in line with the Budget Law, according to which the structural deficit cannot exceed $\frac{1}{2}$ per cent of GDP.

General government finances

According to Statistics Denmark the general government finances show a public deficit in 2013 of DKK 15.8bn, corresponding to 0.9 per cent of GDP.

The Danish recommendation under the excessive deficit procedure was abrogated at the ECOFIN meeting in June 2014. The abrogation of the recommendation reflects that the Commission assesses the public deficit in 2013 to be sustainably below 3 per cent of GDP, in line with the recommendation received in July 2010.

The estimates for general government finances in 2014-2015 are based on the short term projection for the Danish economy, *cf. Economic Survey, August 2014*. Fiscal policy in 2015 is planned within the framework of the Budget Law and thus the expenditure ceilings covering the period 2014-2018.

The estimate for 2014 is based on central and local government budgets for 2014 and an updated status for central government spending in 2014. In addition, the parts of *Growth Agreement 2014* taking effect in 2014 are included.

For 2015, the estimate of the general government balance reflects the central government budget proposal for 2015 and the Government's agreements with local governments for 2015. It also includes the impact of *Growth Agreement 2014* and the *Labor Market Reform* regarding 2015.

The general government deficit is estimated to be 1.2 per cent of GDP in 2014 (DKK 22bn) and 3.0 per cent of GDP in 2015 (DKK 60bn), *cf. table 1*. The general government deficit in 2015 is thus at the limit of 3 per cent of GDP according to the Stability and Growth Pact.

Table 1
General government budget balance, 2010-2015

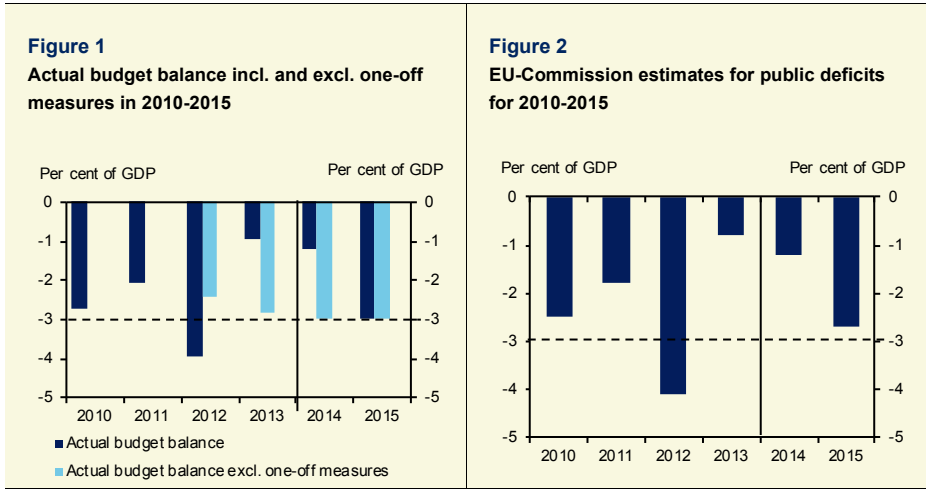
	2010	2011	2012	2013	2014	2015
General government budget balance, DKK bn current prices	-47.9	-36.6	-71.9	-15.8	-22.1	-59.9
General government budget balance (per cent of GDP)	-2.7	-2.0	-3.9	-0.9	-1.2	-3.0
General government budget balance excl. one-off measures (per cent of GDP)	-	-	-2.4	-2.8	-3.0	-3.0
Structural budget balance (per cent of GDP)	-1.6	-0.9	-1.0	-0.1	-0.8	-0.5

In 2013 and 2014 temporary revenue related to the reallocation of capital pension schemes improves the budget balance. 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 amounts to DKK 28½bn in 2013 and is estimated to be about 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 at 2.8 per cent of GDP in 2013 and 3.0 per cent in 2014, *cf. figure 1*.

In 2015, the budget balance will no longer be affected by the one-off measures from the reallocation of capital pension schemes. Furthermore, lower ordinary revenue from capital pension taxation of DKK 1½bn, implied by expedited capital pension scheme payouts in 2013 and 2014, contributes to an estimated deficit in 2015 of 3.0 per cent of GDP.

The public deficit is estimated to remain below 3 per cent of GDP in 2014 and 2015 according to the spring 2014 forecast from the European Commission, *cf. figure 2*.



The structural budget balance is the general government budget balance adjusted for cyclical impacts and other temporary factors.

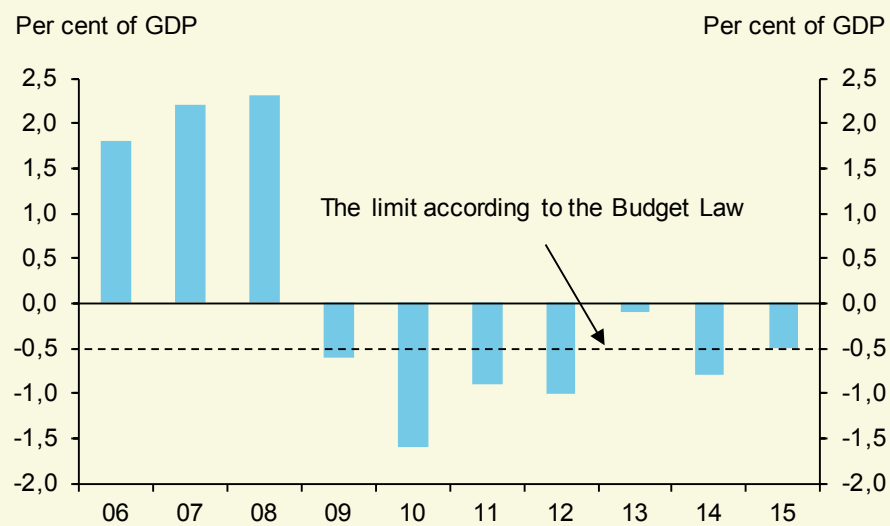
In 2014, the deficit of the structural budget balance is estimated to 0.8 percent of GDP, *cf. figure 3*. Fiscal policy is planned within the framework of the Budget Law, including the limit for structural deficits of ½ per cent of GDP. However, the limit is aimed at the estimated structural deficit based on the budget proposal for a given fiscal year.

The estimated structural deficit based on the 2014 budget proposal and the actual 2014 budget was within the limit. The increase in the estimate for 2014 of 0.1 percentage point compared to *Budget Outlook 1, May 2014*, primarily reflects a new projection on the revenue from North Sea gas and oil exploration activities.

The structural deficit in 2015 is estimated to be 0.5 per cent of GDP, and thus, it is at the limit of structural deficits in the Budget Law. Consequently, there is no room for expanding fiscal policy further within the limits of the Budget Law. The budget proposal for 2015 contains a number of reserves, including a reserve for unexpected expenditures, etc.

Figure 3

Structural balance, 2006-2015



Estimates of general government budget in 2014-2015 compared to estimates in *Budget Outlook 1, May 2014*

Compared to *Budget Outlook 1, May 2014* the expected general government budget for 2014 deficit is decreased by approximately DKK 4½bn in 2014 and increased by DKK 1½bn in 2015, cf. table 2.

Table 2

Changes to the general government budget balance from *Budget Outlook 1, 2014* to *Budget Outlook 2, 2014*

Bn DKK	2013	2014	2015
Total revision of general government budget balance	-1.4	4.6	-1.2
- Pension yield tax	0.0	8.1	-1.8
- Personal income taxes (incl. labour market contributions)	0.1	-0.5	3.8
- VAT	0.1	-0.6	-2.8
- Excise duty	-0.4	-0.5	-2.1
- Public consumption	0.6	0.0	0.9
- Public investment	0.5	0.0	-1.5
- Other expenditures and revenue	0.5	-1.9	2.3

Note: Negative numbers imply deteriorations of the budget balance while positive numbers imply improvements of the budget balance.

The lower expected public deficit in 2014 reflects higher expected revenue from the pension yield tax of approximately DKK 8bn. The revision primarily reflects higher expected stock prices than anticipated in *Budget Outlook 1, May 2014*. However, lower revenue from income taxes, VAT and excise duties partly offset the revenue increase from the pension yield tax by approximately DKK ½bn each, cf. *table 2*. The downward adjustment of the estimate of income taxes reflects increased tax deductions implied by higher expected pension scheme contributions. The lower revenue from VAT and excise duties is due to lower expected growth in private consumption and energy consumption.

In 2015, the pension yield tax is estimated to be DKK 1¼bn lower than expected in *Budget Outlook 1, May 2014*, mainly due to a larger share of bonds in the aggregated pension funds. In addition, a reduction in revenue from excise duties of DKK 2¼bn, a reduction in revenue from VAT of DKK 2¾bn, and an increase in personal income taxes of DKK 3¼bn - implied by the *Growth Plan 2014* - contribute to the revised estimate for the general government budget balance in 2015.

The public expenditure in 2015 are revised due to a reduction in public consumption of DKK 1bn and an increase in public investment of DKK 1½bn compared to *Budget Outlook 1, May 2014*. The decrease in public consumption is due to the financing of *Growth Plan 2014* that reduces the central government subceiling for operation expenditures in 2015. Moreover, lower military expenditures further reduce public consumption compared to 2014. The revision of public investment reflects a higher level of investment in Statistics Denmark's budget statistic for 2014, which is included in the budget proposal and the local government budgets for 2015.

Expenditure, Tax and Revenue Burden

The expenditure burden is 56 per cent of GDP in 2013 and is expected to be gradually reduced to approximately 55¾ per cent of GDP in 2014 and 54¾ per cent of GDP in 2015, *cf. table 3*.

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	56.0	55.7	54.7
Tax burden	47.9	47.7	47.9	48.4	49.7	49.6	46.8
Revenue burden	54.1	53.6	54.3	54.2	55.1	54.2	51.7

The tax burden is expected to decrease from 49¾ per cent of GDP in 2013 to about 46¾ per cent of GDP in 2015. The decline primarily reflects a decrease in income taxes as the reallocation of capital pension schemes only applies to 2013-14.

Total public revenues are expected to be reduced from around 55 per cent of GDP in 2013 to approximately 51¾ per cent of GDP in 2015, *cf. table 3*. The reduction mainly reflects a decrease in the tax burden and reduced public interest rate income.

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

Expenditure ceilings for central and local government

Fiscal policy in 2014 and 2015 is planned within the framework of the Budget law and the expenditure ceilings.

The current estimates of the expenditures of the central government budget and local government budgets remain below the expenditure ceilings in 2014.

Based on an updated status for central government spending in 2014 operating expenditures are estimated to be DKK 2¼bn lower than the relevant subceiling. Accordingly, central government spending on income transfers in 2014 is expected to remain approximately DKK 4½bn below the subceiling for income transfers.

The expenditure ceilings have been adjusted for 2015-2017 in connection with the budget proposal for 2015. These adjustments reflect administrative corrections including adjustments to 2015-price level, along with correction of the central government subceiling for operating expenditures due to the financing of *Growth Plan 2014*.

The central government budget proposal of 2015 and the central government's agreement with local governments for 2015 are in line with the agreed expenditure ceilings. According to the budget proposal for 2015 the central government subceiling for operating expenditures is DKK 191bn. in 2015. The government subceiling for income transfers amounts to DKK 258bn. However, the central government spending on income transfers in 2015 is estimated at approximately DKK 4¼bn below the relevant subceiling.

Table 4
Expenditure ceilings for 2015 according to the budget proposal for 2015

Bn DKK (2015-prices)	2015	2016	2017	2018
Central government subceiling for operating expenditures	191.0	192.5	196.4	199.9
Central government subceiling for income transfers	258.0	258.5	259.3	256.7
Local government ceiling for operating expenditures	234.7	234.7	234.7	234.7
Regional subceiling for health expenditures	104.7	104.7	104.7	104.7
Regional subceiling for development expenditures	3.0	3.0	3.0	3.0

Moreover, expenditure ceilings for 2018 have been determined according to the same principles as the previous expenditure ceilings for 2014-2017. The expenditure ceilings for 2018 follow the updated medium term projection for 2020 including the effects of *Growth Plan 2014* and *Labour Market Reform*.

Fiscal Stance

During the economic crisis fiscal policy supported economic growth and employment within the general fiscal framework. Expenditure policy has been expansionary during the crisis compared to the sustainable levels in the medium term projection towards 2020. Hence, it is important to reverse expansionary fiscal measures as the economy is gaining momentum.

To measure the impact of fiscal policy changes on economic activity the *fiscal effect* (an indicator of fiscal policy stance) is used. The one-year fiscal effect contributes positively by 0.4 per cent in 2014, cf. *table 5*. This is primarily due to growth in public consumption, but also lower taxes and duties in *Growth Plan DK*.

I 2015, as growth in GDP is expected to recover fiscal stance is estimated to contribute negatively to the GDP level (compared to the expansionary level in 2011). The one-year fiscal effect contributes negatively by -0.1 percent, primarily due to a reduction in public investments. This reflects an economic policy that accommodates expected continued growth in GDP through 2015.

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

Per cent of GDP	2013	2014	2015
GDP level			
Fiscal policy and other economic policy measures	0.0	0.1	-0.2
- hereof fiscal effects, incl. multiannual effects	-0.5	-0.3	-0.4
- hereof other fiscal policy ¹⁾	0.3	0.0	-0.1
- hereof other investments ²⁾	0.3	0.4	0.3
Growth contribution			
Fiscal policy and other economic policy measures	-0.2	0.1	-0.4
- hereof one-year fiscal effect	-0.6	0.4	-0.1

Note: Rounding of figure may cause the sum to deviate from single contributions to 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.
- 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.

Kilde: Own calculations.

Fiscal policy is underpinned by an expansionary monetary policy, including low interest rates. The responsible economic policy is a prerequisite for maintaining confidence in economic policy and the credibility of the Danish economy, thereby supporting low interest rates to the benefit of households, private companies and the public sector.

Central government finances

The central government deficit in 2014 on the current, investment, and lending account – the CIL-account¹ – is estimated to be DKK 34¼bn corresponding to 1.8 per cent of GDP. According to the budget proposal for 2015 a deficit on the CIL-account of DKK 45bn or 2.3 per cent of GDP is estimated, *cf. table 5*.

Tabel 6
Central government finances, 2014-2015

	2014			2015
	Budget Outlook 1, May	Budget Outlook 2, August	Difference	Budget proposal
Bn DKK, current prices				
Revenue	652.7	654.8	2.1	661.9
Expenditure	691.3	689.1	-2.2	706.9
CIL-account	-38.6	-34.3	4.3	-45.0
CIL-account (per cent of GDP)	-2.0	-1.8	0.2	-2.3

Mainly due to higher revenue from personal income taxes, corporate taxes and VAT, the deficit of the CIL-account in 2014 is expected to be lower than estimated in *Budget Outlook 1, May 2014*.

Central government financing requirement and debt

Central government debt measured as a percentage of GDP is estimated to increase slightly from 26¼ per cent of GDP in 2013 to 28¼ per cent of GDP in 2015, *cf. table 7*. Measured in nominal terms, central government debt is estimated to increase from about DKK 487bn in 2013 to DKK 566bn in 2015 corresponding to an increase of DKK 79¼bn over the two years.

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.

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 7
Central government debt, 2012-2014

	2013	2014	2015	Diff. 2013-2015
End of year nominal value, DKK bn (current prices)				
Domestic debt	667.8	702.5	718.0	50.2
Foreign debt	75.9	57.8	43.8	-32.1
The central government's account in Danmarks Nationalbank	-156.7	-161.8	-115.9	40.8
Fund holding of bonds ¹⁾	-100.1	-90.3	-79.7	20.4
Central government debt, DKK bn	486.9	508.1	566.1	79.3
Central government debt, per cent of GDP	26.2	26.7	28.8	2.5

- 1) The holdings of bonds by the funds, as well as their deposits in Danmarks Nationalbank, are included.

The domestic financing requirement of the central government in 2014 is estimated at DKK 109bn, and thus decreased by DKK 7bn compared to *Budget Outlook 1, May 2014*, cf. table 8. The lower domestic financing requirement primarily reflects the expected smaller deficit on the CIL-account in 2014. In the central government's budget proposal for 2015, the financing requirement is expected to increase to DKK 162bn in accordance with to the expected public deficit.

Table 8
Domestic financing requirement for 2014

Mia. kr.	2014		2015
	<i>Budget Outlook 1, May</i>	<i>Budget Outlook 2, August</i>	Budget proposal
Net domestic financing requirement	30	24	58
Repayment of long term debt ¹⁾	54	53	74
Repayment of Treasury bills ²⁾	32	32	30
Domestic financing requirement	116	109	162

- 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) Repayments of Treasury bills correspond to the outstanding amount in the program at the beginning of the year.

The foreign financing requirement is estimated to be DKK 27bn in 2014. That is DKK 1bn lower than estimated in *Budget Outlook 1, May 2014, cf. table 9*. In 2015 the foreign financing requirement is DKK 24bn, primarily reflecting a lower repayment of the government's long term debt.

Table 9
Foreign financing requirement for 2014

Bn DKK	2014		2015
	<i>Budget Outlook 1, May</i>	<i>Budget Outlook 2, August</i>	Budget proposal
Net foreign financing requirement	-1	-3	-1
Repayment of long term debt ¹⁾	27	27	23
Repayment of commercial paper (CP) ²⁾	2	2	2
Foreign financing requirement	28	27	24

- 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) Repayments of Commercial papers correspond to the outstanding amount 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	523.9	535.9	548.9
Income transfers	283.8	304.0	312.5	322.3	327.4	334.0	339.9
Investment	34.3	37.6	40.0	43.6	43.1	44.1	42.5
Interest expenditure	36.7	36.9	38.6	36.5	34.0	30.5	31.2
Subsidies	43.1	44.4	45.8	47.3	48.6	50.7	50.9
Other expenditures ¹⁾	52.1	58.7	64.9	91.7	62.2	65.3	63.7
Total expenditure	945.9	991.3	1010.0	1060.7	1039.2	1060.6	1077.1
Personal income taxes ²⁾	371.7	358.9	367.7	377.7	430.7	431.1	414.4
Labour market contributions	79.6	80.9	80.4	81.7	83.0	85.6	88.4
Corporate taxes	44.9	56.7	58.7	60.7	62.4	61.3	58.8
Pension yield taxation	8.8	36.5	38.1	43.6	19.5	32.1	16.3
VAT	169.0	173.1	177.8	181.8	182.1	188.6	192.5
Vehicle registration tax	12.5	14.2	14.3	13.8	16.0	16.8	17.7
Other duties	98.2	105.3	108.6	109.1	111.1	109.8	113.8
Other taxes ³⁾	16.4	17.7	18.1	16.6	15.0	15.5	15.8
Interest revenues	31.3	27.9	28.9	28.3	28.0	20.3	19.8
Gross operating surplus	32.2	33.9	34.3	35.0	36.0	37.1	38.1
Other revenues ⁴⁾	35.3	38.3	46.5	40.7	39.6	40.3	41.7
Total revenue	899.8	943.5	973.4	988.8	1023.4	1038.4	1017.3

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	-15.8	-22.1	-59.9
Net interest Expenditure	5.5	9.0	9.7	8.2	6.0	10.3	11.4
General government primary balance ⁵⁾	-40.6	-38.9	-26.9	-63.8	-9.8	-11.9	-48.5

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 imputed depreciation expenditure, and total revenues include imputed depreciation. The specification of public expenditure from Statistics Denmark does not include public sales, which are included in total revenues, and imputed 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 (imputed) 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	28.2	27.9
Income transfers	17.0	17.3	17.4	17.7	17.6	17.5	17.3
Investment	2.1	2.1	2.2	2.4	2.3	2.3	2.2
Interest expenditure	2.2	2.1	2.2	2.0	1.8	1.6	1.6
Other expenditure	5.7	5.9	6.2	7.6	6.0	6.1	5.8
Expenditure burden¹⁾	56.8	56.3	56.4	58.1	56.0	55.7	54.7
Personal income taxes ²⁾	22.3	20.4	20.5	20.7	23.2	22.7	21.0
Labour market Contributions	4.8	4.6	4.5	4.5	4.5	4.5	4.5
Pension yield taxation	0.5	2.1	2.1	2.4	1.0	1.7	0.8
Corporate taxes	2.3	2.8	2.8	3.0	3.4	3.2	3.0
VAT	10.2	9.8	9.9	10.0	9.8	9.9	9.8
Other duties	6.8	7.0	7.0	6.9	7.0	6.8	6.8
Other taxes ³⁾	1.0	1.0	1.0	0.9	0.8	0.8	0.8
Tax burden	47.9	47.7	47.9	48.4	49.7	49.6	46.8
Interest revenue	1.9	1.6	1.6	1.6	1.5	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	55.1	54.6	51.7

- 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 imputed 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 imputed 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 not included in the tax burden.