

Country note, July 2018

Key messages:

- The cyclical stance of the Danish economy is broadly neutral after several years with excess capacity
- The General government balance is expected to improve in the coming years and public debt remains low
- The General government finances is expected to be over sustainable in the long run

Macroeconomic outlook

Based on the latest forecast by the Danish Economic Councils (DEC) the cyclical stance of the Danish economy is assessed to be broadly neutral, and the economy has to adapt to a situation with fewer available resources. Annual GDP growth is expected to be 1.8 per cent in 2018 and around 2 per cent towards 2025. Tightening of the labour market and rising house prices in major cities might pose a threat to the macroeconomic development in the short run.

Short- and medium-term fiscal outlook

The Danish actual government budget balance is highly volatile. As a consequence fiscal policy planning has focused on the structural budget balance since the late 1990s. Based on the 2018-budget DEC estimated the structural budget deficit to 0.9 per cent of GDP in 2018. DEC project the structural deficit will be reduced to 0.3 per cent of GDP in 2019.

The structural budget balance is expected to improve towards 2025 due to an increase in the retirement age, and relatively low planned expenditure growth in the short and medium run. Government gross debts relative to GDP is as a consequence expected to remain low in the medium-term.

Long term fiscal outlook

The long-term project of the Danish economy focus on the public finances and is used to evaluate if the Danish fiscal policy is sustainable taking into account the policy which is already agreed upon and the demographic development. From 2025 to 2040 the Danish public finances is forecasted to deteriorate due to an ageing population. The maximum deficit is expected to be about 0.4 per cent of GDP from 2034 to 2039.

After 2040 the Danish public finances is expected to permanently improve to a significant surplus. This is among other things the result of increases in the retirement age. It is currently the assessment of the DEC that fiscal policy is over sustainability and the target of at least balance on the budget in 2025 will be met.

Fiscal framework and national fiscal rules

In addition to the SGP the Danish fiscal framework is given by The Budget Law and the government's medium term plan. The national framework requires fiscal sustainability and at least structural balance in 2025. The Budget Law states that the structural budget balance should not exceed a deficit of 0.5 per cent of GDP at the time of the budget proposal for a given fiscal year unless extraordinary circumstances are present. The Ministry of Finance defines the method used for estimating the structural budget balance. Multi-annual expenditure ceilings support the compliance with overall targets. The legally binding ceilings cover a continuous forward looking period of 4 years.

According to The Budget Law DEC serves as a 'Fiscal watchdog'. This role implies regular evaluation of compliance with The Budget Law.

Chart 1: Output gap



Chart 2: General government budget balance

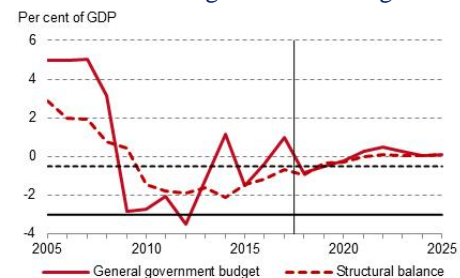
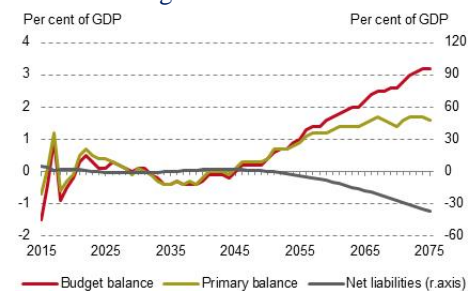


Chart 3: Budget balance and net liabilities



Key indicator forecast

		2015	2016	2017	2018 f	2019 f	2020 f	2025 ¹ f	Source
Real GDP growth rate	[% y-to-y]	1.6	2.0	2.2	1.8	2.2	2.0	2.0	1
Output Gap	[%]	-1.0	-0.5	0.0	-0.1	0.0	0.2	0.1	1
GG balance	[% of GDP]	-1.5	-0.4	1.0	-0.9	-0.5	-0.2	0.2	1
GG debt (EMU) - MoF est.	[% of GDP]	39.9	37.9	36.4	35.4	34.9	34.2	39.5	2,3
GG debt (EMU) - DEC est.	[% of GDP]	39.9	37.9	36.4	37.9	38.6	39.2	41.0	1
GG structural balance - MoF est.	[% of GDP]	-0.4	0.0	-0.1	-0.2	-0.1	-0.1	0.1	2,3
GG structural balance - DEC est.	[% of GDP]	-1.4	-1.2	-0.7	-0.9	-0.3	-0.3	0.1	1
GG expenditures net of interests	[% of GDP]	52.1	51.2	49.9	50.2	49.7	49.4	48.7	1

Sources:
 1 - Danish Economy, spring 2018, Danish Economic Councils, May 2018;
 2 - 'Danmarks Konvergensprogram 2018', Danish Ministry for economic affairs and the interior, April 2018
 3 - Økonomisk Redegørelse, Maj 2018, Danish Ministry for economic affairs and the interior

f - forecast
 1) 2021-25 average