

Country note, January 2018

Key messages:

- The cyclical stance of the Danish economy is broadly neutral after several years with excess capacity
- Planned fiscal policy complies with rules
- The General government balance is expected to improve in the coming years and public debt remains low

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 above 2 per cent in 2017 and around 2 per cent towards 2025. Private domestic demands are currently at relative low levels. This contributes to an expected current account surplus above 9 per cent of GDP in 2017. Increases in private consumption and business investment are expected to reduce the current account surplus to 4.5 per cent of GDP 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 proposal DEC estimated the structural budget deficit to 0.6 per cent of GDP in 2018. This is above the threshold of 0.5 per cent stated in the Danish Budget Law, cf. below. The Ministry of Finance estimates the structural budget deficit in 2018 to 0.3 per cent of GDP.

The structural budget balance is expected to improve towards 2025 due to retirement reforms, which postpone retirement and increase the labour force, 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. It is currently the assessment of the Danish Economic Councils that both the requirement of fiscal sustainability and the target of at least structural balance in 2025, cf. below, will be met with considerable margins.

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. Compliance is evaluated based on The Ministry of Finance's assessment of public finances. 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. The Minister of Finance is subject to a 'comply or explain' clause in case DEC estimates the structural deficit to exceed 1 per cent of GDP at the time of the budget proposal.

Chart 1: Output gap

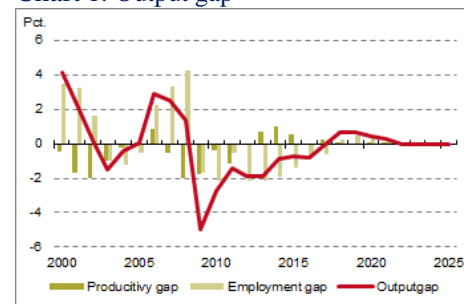


Chart 2: General government budget balance

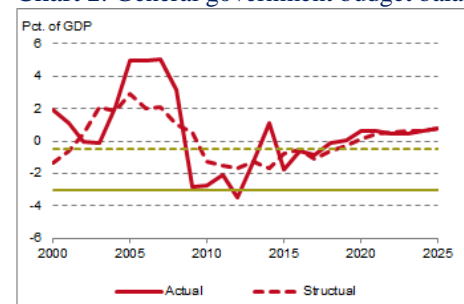
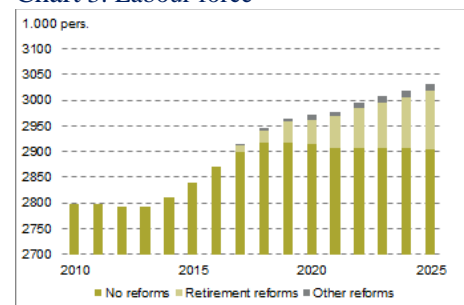


Chart 3: Labour force



Key indicator forecast

		2015	2016	2017 f	2018 f	2019 f	2020 f	2025 ¹ f	Source
Real GDP growth rate	[% y-to-y]	1.6	1.7	2.3	2.3	2.0	1.7	2.2	1
Output Gap	[%]	-0.9	-0.7	0.0	0.6	0.6	0.4	0.1	1
GG balance	[% of GDP]	-1.8	-0.6	-0.9	-0.1	0.0	0.6	0.6	1
GG debt (EMU) - MoF est.	[% of GDP]	39.6	37.7	36.3	35.4	37.8	38.7	43.0	2
GG debt (EMU) - DEC est.	[% of GDP]	39.6	37.7	37.1	37.8	37.7	37.3	37.1	1
GG structural balance - MoF est.	[% of GDP]	-	-0.2	-0.5	-0.3	-0.2	-0.1	0.1	2
GG structural balance - DEC est.	[% of GDP]	-0.8	-0.6	-1.1	-0.6	-0.3	0.1	0.6	1
GG expenditures net of interests	[% of GDP]	52.2	51.1	50.0	49.6	49.5	49.3	48.9	1

Sources:

1 - Danish Economy, autumn 2017, Danish Economic Councils, October 2017;

2 - 'Opdateret 2025-forløb', Danish Ministry of Finance, August 2017

f - forecast

1) 2021-25 average