Denmark

De Økonomiske Råd

Country note, July 2019

Key messages:

- **Budget balance has turned positive but the structural budget balance is slightly negative in the coming years**
- **The structural balance is expected to improve to a small surplus from 2022**
- **The Danish public finance is expected to be compliant with the European fiscal rules**

Macroeconomic outlook

The Danish economy remains strong with employment expected to be above the structural level in the short term. The structural employment is expected to increase in the coming years partly due to reforms which gradually increase the age of retirement. The actual employment is expected to slowdown from the recent large annual increases to a slower pace from 2020 towards 2025 (Chart 1).

The economy is forecasted to grow at a rate slightly below 2 percent towards 2025.

Short-term fiscal outlook

The Danish government budget balance had a surplus in 2018 for the second year in a row. The forecast for 2019 also indicate a surplus for the general government. The surplus is partly driven by the business cycle hence the budget balance is expected to turn negative in the following years. The deficit from 2020 to 2022 is partly driven by a forecasted revenue from the pension yield tax which is lower than the structural level and an a oneoff related to certain housing taxes which has been paid based on inaccurate valuations of a significant number of houses around Denmark.

Medium-term fiscal outlook

The Danish government budget balance is forecasted to improve from 2022 to close to balance and a small surplus is forecasted for 2025 which is the final year of the current medium term planning horizon of the government (Chart 2). The government balance is expected to improve despite of the business cycle is normalizing. The main drivers of the improvement is a low planed growth in government consumption, increases in retirement age in the coming years normalization of the revenue from the pension yield tax.

Despite the small deficit the gross government debt is expected to increase slightly as a percentage of GDP towards 2025. This is mainly caused by a new financing scheme for social housing which will increase the general government assets and liabilities equally and result in an increase in the gross debt. Despite this increase in government assets and liabilities the gross debt is forecasted to remain around 40 percent of GDP in 2025 (Chart 3).

Fiscal framework and national fiscal rules

The Danish Economic Councils concludes that the latest forecast of the Danish economy from June 2019 show the government finances to be in accordance with the national fiscal framework which is within the rules set out in the fiscal compact. The government balance is expected to return to a slight deficit in the coming years but is forecasted to have a large safety margin to the 3 percent deficit criteria. The structural balance is forecasted to have a small deficit but will remain above a deficit of 0.5 percent which is the maximum allowed structural deficit for Denmark. The gross Danish debt is expected to increase slight but is forecasted to remain significantly lower than 60 percent of GDP.

Chart 1: Employment

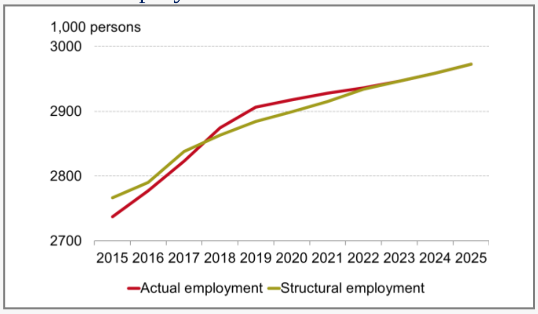


Chart 2: Actual and structural balance

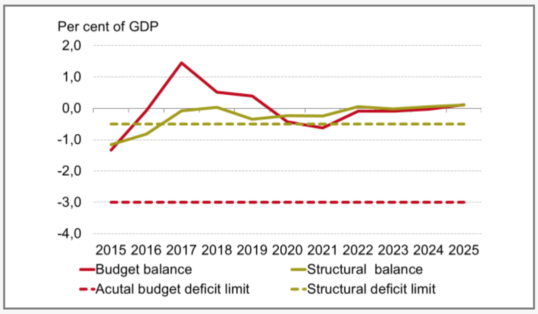
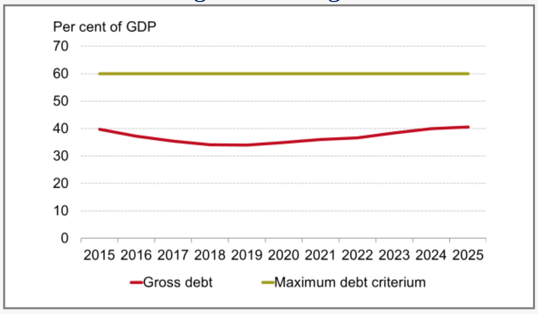


Chart 3: General government gross debt



Key indicator forecast

		2017	2018	2019 f	2020 f	2021 f	2025 f	Source
Real GDP growth rate	[% y-to-y]	2,3	1,4	2,0	1,7	1,9	1,8[1)]	1
Output Gap	[%]	0,4	-0,1	0,1	0,2	0,3	0,0	1
Employment Gap	[% of GDP]	-0,5	0,4	0,8	0,6	0,4	0,0	1
GG balance - DEC est.	[% of GDP]	1,4	0,5	0,4	-0,4	-0,6	0,1	1
GG balance - ME est.	[% of GDP]	1,2	0,2	-0,1	-0,1	-0,2	0,0	2
GG structural balance - DEC est.	[% of GDP]	-0,1	0,0	-0,3	-0,2	-0,2	0,1	1
GG structural balance - ME est.	[% of GDP]	0,3	0,0	-0,1	0,0	0,2	0,0	2
GG debt - DEC est.	[% y-to-y]	35	34	34	35	36	37	1

Sources:
1 – Danish Economy, spring 2019, Danish Economic Councils, June 2019;
2 – 'Danmarks Konvergensprogram 2019', Danish Ministry for economic affairs and the interior, April 2019

f – forecast
1) 2021-25 average